

Budget Watch



Volume 7, Issue 3 March 23, 2001

Revenue Estimates Cut by \$228 Million Setting Stage for House and Senate Budget Battle

The stage is set for a battle royale between House and Senate over increasingly scarce budget resources. This third in Florida TaxWatch's *BudgetWatch* series examines the budgetary implications of slower revenue growth, the resulting budget squeeze and the battle being waged in the Florida Legislature. Also explored are possible sources of funding that could be used to fund high priority initiatives that otherwise may go begging.

With mounting evidence of a slowing economy, the Consensus Estimating Conference reconvened on March 9, and, the more recent data provided compelling evidence of a downward shifting of Florida's economy. The results are significantly lower estimates of real per capita income growth for the 2000-01 fiscal year--from 3.4% to 1.5%--and for the 2001-02 fiscal year--from 2.9% to 2.5% (see Table 1).

**TABLE 1
FORECAST COMPARISON**

Selected Variables	Old Forecast		New Forecast	
	FY 2000-2001	FY 2001-2002	FY 2000-2001	FY 2001-2002
Total Personal Income Growth	7.6%	6.4%	6.2%	6.2%
Real Per Capita Income Growth	3.4%	2.9%	1.5%	2.5%
Corporate Taxes (millions)	\$1,506.0	\$1,583.0	\$1,420.6	\$1,474.0
Intangible Taxes (millions)	\$697.4	\$716.1	\$656.7	\$675.6
Total General Revenue (millions)	\$19,361.7	\$20,350.4	\$19,307.9	\$20,157.1
Recurring	\$19,248.5	\$20,272.0	\$19,194.7	\$20,075.7
Nonrecurring	\$113.2	\$78.4	\$113.2	\$81.4
Recurring General Revenue Growth				4.6%

The slower economic growth outlook caused the Conference to reduce its December estimate of General

Revenue collections for the current fiscal year by \$53.8 million (-0.25%) and for fiscal year 2001-02 by \$193.3 million (approximately 1.0%). Most of the decline comes from reduced estimates for the corporate income tax and the intangibles tax. The declining revenue estimates result in an estimated ending balance for the current fiscal year of \$529.7 million (2.6% of current year appropriations). The Budget Stabilization Fund has a balance of \$894 million. The Florida Constitution requires that the balance in the Budget Stabilization fund be at least 5% of net general revenue collections for the last completed fiscal year. This protects the state from further revenue shortfalls during the upcoming budget year. The required 2002 fiscal year balance is estimated at \$940.9 million, therefore, requiring a transfer of \$47 million to meet the constitutional balance requirement of 5%.

Recurring General Revenues for the 2001-02 budget year are projected to be \$20.076 billion, an \$881 million increase. However, nonrecurring funds are significantly reduced, from \$1.485 billion in the 2001 fiscal year to \$706.5 million in 2002, a reduction of \$779 million. Sound budget policy requires that such nonrecurring funds be used, if used at all, for one-time spending projects. Estimates now project a **net decrease of \$228 million in general revenues** to fund next year's budget (after taking into account minor adjustments to items such as midyear reversions and unused appropriations).

Following Senate President John Mackay's lead, the Senate has produced a proposed budget which does not provide for several of Governor Bush's tax initiatives: the \$222 million intangibles tax cut, the \$43.5 million nine-day sales tax holiday on clothing purchases less than \$100, and a \$34 million proposed cut in the tax on outpatient services paid by hospitals and clinics.

Declining revenues also may jeopardize a variety of other tax initiatives. The elimination of the tax on alcoholic drinks in bars and restaurants (\$40 million) does not appear in the Governor's or the Senate's budget but is included in the House budget proposal.

Poised for a face-off on the other side of the Capitol, the House includes much of Governor Bush's tax package in its budget. By a vote of 80 to 38, the House passed legislation which supports the Governor's commitment to continue for a third year the phasing out the intangibles tax. It would reduce the tax rate from 1.0 mill to .75 mills, increase the exemptions to \$250,000/\$500,000 for the single/married taxpayer and create a new \$250,000 for businesses.

The Senate Budget Committee began holding committee hearings on its spending plan on Thursday, March 22 and passed out its budget bill (SB 2000). The House Budget Committee began its hearings the following day. Total General Revenue spending in the Senate budget proposal is \$20.410 billion--\$424 million more than the House's \$19.986 billion. The House budget proposal provides for 120,146 full-time state employees, or 2,319 (1.9%) less than that proposed by the Senate. Both chambers' budgets would spend the majority of the state's general revenues for health and human services programs and education.

The House and Senate proposals dedicate more than \$16 billion to health and human services, including money for medical programs for the poor, quality improvements in nursing homes, and improvements in the state's child protection programs and elder care. Election reform would get \$20 million from each

side. In the end, the battle will focus over the more than \$350 million that Senate budget writers would spend on public programs which the House sets aside for tax cuts.

Anticipating lagging state revenues and the pending budget squeeze, Senate budget leaders early-on cut \$935 million from the Governor's proposed budget, by reducing edicaid by 10 percent and finding 4 percent in other areas, including \$418 million from education. By rejecting tax cuts, the Senate was able to replace a quarter of the \$935 million. The House budget, by contrast, includes spending cuts, in part, to make room for priorities such as road-building and increased higher education funding.

Where might additional funds be found for other high priority initiatives? Despite the cooling economy and lower revenue growth than last year, Florida lawmakers already are lining up to request billions of dollars in special member projects. This year's Senate member project list adds up to \$2.3-billion and the House list \$5.2-billion (somewhat overstated because a number of projects have been proposed by more than one member). If the past is prologue, a number of member projects will circumvent normal budgetary planning and, failing to undergo the scrutiny required by a *bona fide* executive/legislative due process review, become **Budget Turkeys**.

Over the last two years, Florida TaxWatch identified \$457 million worth of Budget Turkeys of which the Governor, to his credit, vetoed more than 70% (\$315 million). Governor Bush declares that he will do the same, if necessary, this year. Members should pause in the fray of the "Battle for the Budget" to consider that monies appropriated for member projects, if declared Budget Turkeys and subsequently vetoed by the Governor, cannot be applied to other erstwhile and worthy initiatives. Potentially at risk is the commitment to Florida taxpayers to continue phasing out of the intangibles tax begun under the Lawton Chiles administration and continued by Governor Bush.

Florida TaxWatch in January offered up \$669 million cost-saving and productivity improvement recommendations some of which could be used to lessen the budget squeeze this year and add millions of dollars worth of value for Florida taxpayers over the next three years. Next week, **TaxWatch will be announcing additional cost savers** for the Legislature's consideration as a means toward funding high priority initiatives that otherwise may go begging.

Florida's multi-billion dollar budget is the lone bill that must be approved by the lawmakers when the Legislative Session concludes on May 4. As this third BudgetWatch in the series goes to press in the third week of the Legislative Session, the battle over the attendant budget is in its early stages. The respective appropriation bills enacting the budgets are expected to be heard on the floor of the House and Senate late next week. Final budget negotiations likely will not take place until late April when the two houses fire final legislative shots across their bows in the proverbial joint House-Senate conference committee setting.

Florida TaxWatch gratefully acknowledges the counsel and guidance of John Andrew Smith,

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