

NEW GENERAL REVENUE ESTIMATES REDUCED SLIGHTLY

HURRICANE MICHAEL BUDGET AMENDMENTS NOW TOTAL \$443 MILLION;
MORE THAN \$200 MILLION IN CORPORATE INCOME TAXES COULD BE REFUNDED

The eagerly awaited final General Revenue (GR) estimates to be used for the next state budget are out. Legislators and appropriations lobbyists were hoping for an infusion of cash to ease a tight budget year, made even tighter by hurricane-related costs and the competing costly priorities of the Governor and legislative leaders. Well, that did not happen. The estimates did not change much, decreasing by a total of \$7.4 million. This follows the December 2018 GR Conference which had adopted the largest estimate increase in more than 10 years: \$842 million.

In a rather uncommon result, a significant increase in the current year was offset by a similar decrease in the next year. The General Revenue Estimating Conference increased the revenue projections by \$201.3 million in in FY2018-19 but decreased the estimate for FY2019-20 by \$208.7 million. Any unspent revenue from the current year will be carried forward, making it available for new budget. This means the 2019 Legislature will have an \$7.4 million less in GR collections for the next state budget than was previously expected (December 2018 estimates). In addition, another nearly \$300 million in hurricane-related budget amendments have been spent since the last estimates. Meaning total available GR is \$300.6 million less than estimated in December.

Total GR collections for FY2018-19 are now estimated \$32.907 billion, \$1.7 billion (5.4 percent) more than actual FY2017-18 collections. FY2019-20 revenues are now expected to grow by modest \$599.9 million (1.8 percent), which would be the smallest annual growth in 11 years. Longer-term, annual growth of 4.3 percent, 3.6 percent, and 3.1 percent is now expected during the following three years (through FY2023-24). All of these long-term estimates were reduced by the new conference.

Change in Estimated General Revenue Collections Available for 2019-20 State Budget

Increase in 2018-19 Estimated Revenues	\$201.3 million
Decrease in 2019-20 Estimated Revenues	-\$208.7 million
Total Decreased Revenue	-\$7.4 million

Change in General Revenue Estimates by Source (*\$ millions*)

REVENUE SOURCE	FY2018-19	FY2019-20	TOTAL
<i>Increased Estimates</i>			
Corporate Income Tax	\$136.7	\$37.5	\$174.2
Earnings on Investments	\$11.0	\$11.2	\$22.2
Non-Operating Revenue	\$24.0	0.0	\$24.0
Beverage Tax & License	\$18.3	0.0	\$18.3
Corporate Filing Fees	0.0	\$5.9	\$5.9
<i>Decreased Estimates</i>			
Sales Tax	(\$8.0)	(\$119.1)	(\$127.1)
Refunds*	\$34.4	(\$112.5)	(\$78.1)
Indian Gaming Revenues	(\$11.6)	\$1.4	(\$10.2)
Documentary Stamp Tax	(\$4.2)	(\$4.6)	(\$8.8)
Tobacco Taxes	(\$3.5)	(\$4.3)	(\$7.8)
Insurance Premium Tax	\$10.2	(\$16.5)	(\$6.3)
GR Service Charge**	(\$3.4)	(\$2.9)	(\$6.3)
Highway Safety Licenses & Fees	(\$2.5)	(\$2.2)	(\$4.7)
Other Sources***	(\$0.1)	(\$2.6)	(\$2.7)
TOTAL	\$201.3	(\$208.7)	(\$7.4)

* Increased refund estimate decreases net revenue

** Percentage (typically 8%) of trust fund revenues that go to GR

*** Intangibles, Severance, and Pari-mutuel taxes, County Medicaid Share, and Court Fees

Slightly weaker Florida and National Economic Forecasts adopted earlier contributed to estimates for most GR sources being reduced (see table above). Only two tax sources had estimate increases: corporate income taxes and alcoholic beverage taxes (interest on earnings, non-operating revenues, and corporate filing fees also increase). The increase in beverage taxes was due to lower-than-expected business participation in the Florida Tax Credit Scholarship (FTCS) program. In fact, participation in the FTCS and two new scholarships—the Florida Sales Tax Scholarship and the Hope Scholarship—were all lower, resulting in \$67 million in unused tax credits in several tax sources reverting to GR. The state’s largest revenue source—the sales tax—had its estimate reduced by \$127.1 million, despite the unused tax credits.

Change in General Revenue Estimates (*\$ millions*)

FY	DEC 2018 ESTIMATE	MAR 2019 ESTIMATE	CHANGE IN ESTIMATE	ANNUAL CHANGE BASED ON MAR. 2019 ESTIMATE	
2017-18*	\$31,218.2	\$31,218.2	\$205.2	\$1,623.7	5.5%
2018-19	\$32,243.8	\$32,906.6	\$201.3	\$1,688.4	5.4%
2019-20	\$33,334.7	\$33,506.5	(\$208.7)	\$599.9	1.8%
2020-21	\$34,544.2	\$34,938.0	(\$38.1)	\$1,431.5	4.3%
2021-22	\$35,827.4	\$36,194.0	(\$15.6)	\$1,256.0	3.6%
2022-23	\$37,086.9	\$37,330.8	(\$87.2)	\$1,136.8	3.1%
2023-24	\$38,349.1	\$38,472.8	(\$86.7)	\$1,142.0	3.1%

* FY2017-18 are actual collections

CORPORATE INCOME TAXPAYERS NOW EXPECTED TO GET \$205.7 MILLION IN REFUNDS, TAX RATE REDUCTION ALSO ON THE WAY

The main reason the increased GR estimate for the current year was offset by a reduction in the next year is a law passed by the 2018 Legislature concerning the corporate income tax (CIT). In effect, most of the increased CIT collections in FY2018-19 will be refunded in FY2019-20. Florida, like most states, piggybacks in corporate income tax code with the federal code. With some exceptions, Florida annually adopts any changes made at the federal level. The significant changes contained in the tax reform passed by Congress is expected to increase the state's CIT base due to the elimination/reduction of deductions that were adopted by Congress to partially offset the federal rate cuts.

The 2018 Legislature, concerned about the impact of the federal changes, passed a bill to require any actual net collections for FY2018-19 that exceed the revenue estimate made in February 2018 by seven percent to be refunded to all corporate taxpayers that had a final tax liability. The bill further requires that the tax rate be reduced by the same percentage that actual collection exceeded that limit.

It already appeared the revenue limit would be exceeded, and the new estimates make that a virtual certainty. If the new corporate income tax estimate is realized, the automatic refund and rate reduction will be triggered, resulting in \$166.3 million being refunded in FY2019-20 and taxpayers saving another \$182.3 million from the rate reduction (which includes \$39.4 million in refunds in FY2020-21).

The Legislature also created a workgroup to study the impact of the federal tax changes. Their report has been released and this issue will be examined this session.

General Revenue Budget Outlook

(\$ Million)

	RECURRING	NON-RECURRING	TOTAL
GR AVAILABLE FOR 2018-19			
Reserve (ending balance carried forward)		\$1,645.9	\$1,645.9
Estimated Revenues	\$32,536.0	\$370.6	\$32,906.6
Trust Fund Sweeps by the 2018 Leg. (net of vetoes)		\$398.6	\$398.6
BP Settlement Payment	\$26.7	\$-	\$26.7
FEMA Reimbursements		\$137.3	\$137.3
Unused Appropriations/Other Adjustments	\$(1.5)	\$9.0	\$7.5
Total funds Available for 2018-19	\$32,561.2	\$2,561.4	\$35,122.6
GR APPROPRIATIONS BY 2018 LEGISLATURE			\$-
2017-18 Appropriations	\$31,774.1	\$1,074.5	\$32,848.6
Transfer to Budget Stabilization Fund		\$66.5	\$66.5
Reappropriations		\$77.0	\$77.0
Budget Amendments - Campaign Finance Match		\$9.9	\$9.9
Budget Amendments - Bridge Loans		\$28.0	\$28.0
Budget Amendments - Red Tide		\$17.2	\$17.2
Budget Amendments - Hurricane Michael Response		\$444.3	\$444.3
Total Effective Appropriations	\$31,774.1	\$1,717.4	\$33,491.5
Ending Balance	\$787.1	\$844.0	\$1,631.1
GR AVAILABLE FOR NEXT BUDGET 2019-20			
Reserve (ending balance carried forward)		\$1,631.1	\$1,631.1
Estimated Revenues	\$33,499.5	\$7.0	\$33,506.5
BP Settlement Payment	\$26.7		\$26.7
Unused Appropriations/Reversions		\$96.9	\$96.9
Federal Funds Interest Earnings Rebate	\$(3.3)		\$(3.3)
GENERAL REVENUE AVAILABLE FOR NEXT BUDGET	\$33,522.9	\$1,735.0	\$35,257.9
PREV. ESTIMATE - LONG-RANGE FINANCIAL OUTLOOK (September 2018)	\$32,926.3	\$2,061.0	\$34,987.3
PREV. ESTIMATE - LAST GR CONFERENCE (December 2018)	\$33,450.0	\$2,108.5	\$35,558.5
DIFFERENCE FROM LONG-RANGE FINANCIAL OUTLOOK	\$596.6	\$(326.0)	\$270.6
DIFFERENCE FROM DECEMBER GR CONFERENCE	\$72.9	\$(373.5)	\$(300.6)

The Bottom Line: What Do the Estimates Mean for the FY2019-20 Budget

Back in September 2018, the Joint Legislative Budget Commission adopted a new *Long-Range Financial Outlook*. This constitutionally required annual report gives the Legislature a sense of the state's budget position going into session and whether lawmakers can expect a budget shortfall or surplus. The *Outlook* estimated that the 2019 Legislature would have a \$223.4 million budget surplus¹ when it put together the state's new spending plan for FY2019-20. The Outlook further estimated the state will be facing shortfalls of \$47.8 million in FY2020-21 and \$456.7 million in FY2021-22. Due largely to Hurricane Michael, in December 2018 the Appropriations Committees were told that the surplus had turned into a \$250 million shortfall.

Shortly thereafter, another GR estimate was adopted, adding \$842 million in new GR and wiping out any shortfall for the next budget. The new estimates temper that a bit and more hurricane spending threatens any surplus. The Budget Outlook table on the next page shows how the new estimate of available GR compares to the estimate in the *Outlook* and the estimate made in December. When all the adjustments are made, the 2019 Legislature will have an estimated \$300.6 million less than anticipated in December, but still \$270.6 million more than was anticipated when the *Outlook* was adopted back in September.

¹ This assumes the Legislature will transfer nearly \$400 million from trust funds—money earmarked by law for specific uses—into the General Revenue (GR) Fund. Without the trust fund sweeps, an estimated shortfall of \$78.9 million exists, climbing to \$169.1 million if the Legislature passes tax cuts

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