

## APRIL'S GENERAL REVENUE COLLECTIONS COME IN \$878 MILLION BELOW ESTIMATE FOR THE MONTH; BIGGER LOSSES TO COME

*What Does this Mean for the Budget?*

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**Net General Revenue (GR) collections for the month of April came in \$878.1 million (29.4 percent) below estimate.** This news comes from new Monthly Revenue Report just released by the Office of Economic and Demographic Research.<sup>1</sup> This is the first month of data to show a significant decrease in revenues due to the impact of COVID-19 on the state's economy. April GR collections generally reflect March sales tax activity, so the decline in May collections (reflecting April sales) will be much larger.

The sales tax, by far the state's largest revenue producer, saw April collections fall \$598.1 million (\$24.1 percent) below estimate. This decline was largely due to losses in the tourism and hospitality sectors, as well as automobile sales. Tourist and recreation-related sales taxes were 42.7 percent below estimates.<sup>2</sup>

Coming into April, GR collections were running \$202.4 million above the estimate made in

January 2020. This is the revenue estimate on which the FY2020-21 state budget was built. The decline in April collections mean that GR is \$676.7 million below estimate year-to-date.

While these are startling (but expected) revenue numbers, they are tempered somewhat by the fact that a significant portion of the decline is due to state orders delaying payment of some taxes or fees until June or later. These revenue sources (corporate income tax, corporate filing fees, and highway safety fees) were \$323.1 million below estimate, accounting for 36.8 percent of the decline. Most of those losses are expected to be recouped in June, the last month of the current fiscal year.

Besides those three sources and the sales tax, only a couple of other revenue sources had significant dollar losses. Insurance premium taxes were \$9.9 million (5.2 percent) below estimate, and GR service charges<sup>3</sup> were \$15.7 million (25.2 percent) below estimates (see table). Two sources that were significantly impacted by closures or limitations—pari-mutuels taxes and court fees—had large

<sup>1</sup> Office of Economic and Demographic Research, Monthly Revenue Report, Volume 40, Number 10, April 2020, released May 26, 2020. <http://www.edr.state.fl.us/Content/revenues/reports/monthly-revenue-report/newsletters/nlapr20.pdf>

<sup>2</sup> Office of Economic and Demographic Research, Detailed Monthly Revenue Report. [http://www.edr.state.fl.us/Content/revenues/reports/detailed-revenue-report/detailrpt\\_apr20.pdf](http://www.edr.state.fl.us/Content/revenues/reports/detailed-revenue-report/detailrpt_apr20.pdf)

<sup>3</sup> A service charge—usually 8 percent—is levied on most state trust funds in Florida. These service charges are deposited into General Revenue.

percentage losses but are relatively minor GR sources. Pari-mutuel taxes nearly dried up all together, with actual collections of \$300,000 compared to the estimate of \$2.5 million.

Several GR sources actually beat the estimates in April. Alcoholic beverage and tobacco taxes,

documentary stamp taxes,<sup>4</sup> and intangibles taxes all appeared to not yet be impacted by the COVID-19 economy. Collections for these taxes came in \$30.0 million above estimates. The state economists believe the impact is delayed and expect some of these sources to decline in the coming months.

<sup>4</sup> Collections on realty deeds fell, but collections on loans and other obligations increased. Florida Department of Revenue, Monthly Documentary Stamp Tax Collections, April 2020.

**Table 1. General Revenue Collections - Actual vs. Estimated**

April 2020 – (\$ millions)

GR SOURCE	APRIL				YEAR-TO-DATE	
	Actual	Estimate	over/(under)	Percent	over/(under)	Percent
Sales Tax	\$1,886.2	\$2,484.4	(\$598.2)	-24.1%	(\$570.9)	-2.6%
Corporate Income Tax*	\$216.1	\$462.1	(\$246.0)	-53.2%	(\$215.5)	-10.2%
Documentary Stamp Tax	\$77.5	\$76.2	\$1.3	1.7%	33.4	4.1%
Insurance Premium Tax	\$181.1	\$191.0	(\$9.9)	-5.2%	(\$4.6)	-0.8%
Highway Safety Fees*	\$22.4	\$42.5	(\$20.2)	-47.5%	(\$14.5)	-3.8%
GR Service Changes	\$46.5	\$62.2	(\$15.7)	-25.2%	(\$9.2)	-2.2%
Corporate Filing Fees*	\$35.4	\$92.3	(\$56.9)	-61.6%	(\$45.9)	-14.2%
Intangibles Tax	\$44.1	\$30.8	\$13.3	43.2%	39.7	10.8%
Counties' Medicaid Share	\$23.9	\$25.2	(\$1.3)	-5.2%	(\$0.4)	-0.2%
Beverage Taxes	\$34.4	\$28.1	\$6.3	22.4%	10.4	4.7%
Earnings on Investments	\$37.2	\$18.2	\$19.0	104.4%	65.3	25.1%
Tobacco Tax	\$15.7	\$15.1	\$0.6	4.0%	0.6	0.5%
Non-Operating Revenues	\$12.5	\$16.6	(\$4.1)	-24.7%	10.4	7.4%
Court Fees	\$8.7	\$9.8	(\$1.1)	-11.2%	(\$0.7)	-0.7%
Other Taxes and Licenses	\$2.5	\$3.0	(\$0.5)	-16.7%	(\$0.1)	-0.3%
Pari-mutuel Tax	\$0.3	\$2.5	(\$2.2)	-88.0%	(\$3.6)	-19.7%
Severance Tax	\$1.7	\$1.3	\$0.4	30.8%	0.9	12.2%
<b>Total General Revenue</b>	<b>\$2,646.2</b>	<b>\$3,561.3</b>	<b>(\$915.1)</b>	<b>-25.7%</b>	<b>(\$704.6)</b>	<b>-2.5%</b>
<b>Less Refunds</b>	<b>\$540.0</b>	<b>\$577.0</b>	<b>(\$37.0)</b>	<b>-6.4%</b>	<b>(\$28.9)</b>	<b>-3.2%</b>
<b>Net General Revenue</b>	<b>\$2,106.2</b>	<b>\$2,984.3</b>	<b>(\$878.1)</b>	<b>-29.4%</b>	<b>(\$675.7)</b>	<b>-2.5%</b>

Note: April revenue collections largely reflect March sales tax activity. \* The collection decline in these three sources is largely due to state orders that delayed payments until June or longer. Most of this revenue is expected to be recouped.  
Source: Florida Legislature, Office of Economic and Demographic Research, May 2020.

Earnings on investments also helped the bottom line, bettering projections by \$19.0 million, more than double the estimate.

## NON-GENERAL REVENUE AND LOCAL GOVERNMENT SOURCES

The loss in sales taxes due to the economic slowdown affects local governments as well. The state shares a portion of the 6 percent sales tax with cities and counties. The Local Government Half-Cent distribution was off by \$56.8 million and the sales tax contribution to the revenue sharing program was \$20.9 million below estimate. Add in reduced collections from local option sales surtaxes, assuming the same percentage decline as the state sales tax (24.1 percent), and total local government sales tax losses for April likely exceeded \$150 million.

The EDR report also includes collections data for some non-GR sources.<sup>5</sup> Net revenue from the lottery and slot machines was off by \$21.5 million, with slots losing more than half of its expected revenue. These two revenue sources are deposited into the Educational Enhancement Trust Fund (EETF). Losses in EETF revenue puts even more pressure on GR to fund Florida's education system.

The gross receipts tax on utilities and communications services was \$4.9 million below estimate in April, bringing its year-to-date shortfall to \$29.4 million. Gross receipts taxes go into the Public Education Capital Outlay Fund (PECO) to fund the construction,

maintenance and repair of educational facilities; however, the tobacco surcharge exceeded expectations by \$11.0 million, which is a boost for Medicaid funding and GR (through the GR service charge).

The EDR report does not include collections data for two important transportation revenue sources: motor fuel taxes and the rental car surcharge. These two sources are expected to hit hard by the economic slowdown, with less driving and fewer tourists to rent cars. These data should be available soon when the Florida Department of Revenue releases its Monthly Collections Report,<sup>6</sup> but a preview was provided when the Florida Turnpike reported that a reduction in traffic resulted in \$28 million in reduced tolls during March.<sup>7</sup> This decline started with a slight drop in the second week of March and doubled from the third week to the fourth. By the end of March there were less than half the vehicles on the Turnpike as a year ago. This does not bode well for the \$3 billion state gas tax and transportation funding.

## WHAT DOES THIS MEAN FOR THE BUDGET?

The General Revenue needed for the current budget is now \$676.7 million below the last estimate (January 2020) with two months to go in the fiscal year (ending June 30, 2020). Collections in April (reflecting March sales tax activity) were \$878.1 million below estimate. This is the first month to significantly reflect how COVID-19 has impacted Florida state revenues

5 Office of Economic and Demographic Research, Detailed Monthly Revenue Report. [http://www.edr.state.fl.us/Content/revenues/reports/detailed-revenue-report/detailrpt\\_apr20.pdf](http://www.edr.state.fl.us/Content/revenues/reports/detailed-revenue-report/detailrpt_apr20.pdf)

6 Will be available at <https://floridarevenue.com/taxes/Pages/distributions.aspx>

7 Florida Department of Transportation, Voluntary Notice Regarding Potential Effects of Covid-19 Pandemic, April 2, 2020. <https://www.sbafla.com/bond/Bond-Programs/Toll-Facilities-Turnpike>

because the revenue impacts did not really begin until the second week of March and grew as the month progressed. The statewide safer-at-home order did not take effect until April 3 so the revenue drop in May (reflecting April) and June (reflecting May) will be larger than April.

As the revenue lost in April due to the extension of some payment deadlines (as discussed earlier) begins to be recouped, losses in May and June will look a little bit better than they actually are, just as the delay makes April collections look worse than they are.

Florida has a balanced budget requirement, so if available GR drops below the roughly \$34 billion appropriated for the current year's budget, action must be taken to address the deficit. The state still has a bit of a cushion since the 2020 Legislature left approximately \$1.3 billion in cash reserves (GR unallocated in the FY2020-21 budget).

The year-to-date reduction in GR collections (below the estimate) would cut those cash reserves by more than half, leaving just over \$600 million. That surely would not be enough to cover losses through the rest of year. But the state's current fiscal condition is as uncertain, complex, and fluid as it is precarious and there are many other factors affecting the bottom line.

First, the Governor has yet to sign the FY2020-21 budget. He is rightly postponing action until more is known about state revenues and potential federal aid. The budget must be signed before July 1, the first day of the next fiscal year. The Governor has line-item veto authority and is expected to cut a considerable amount from the budget. Any GR that is vetoed

adds to the state's cash reserves. Florida TaxWatch trusts the Governor will use the annual TaxWatch Budget Turkey Watch report and close scrutiny of the more than \$500 million in member projects to help guide his veto actions.

As of April 10, the budget amendments related to COVID-19 have spent an additional \$526 million, \$297 million of which is GR. This spending reduces reserves, but most of this spending will be reimbursed by the federal government.

The federal government also increased the Federal Medical Assistance Percentage (FMAP) reimbursement rate to the state by 6.2 percentage points (to 67.7 percent), effective January 1, 2020. This increase in the federal share of Florida's Medicaid spending will result in an estimated \$590 million reduction in general revenue needed for Medicaid funding in the current fiscal year budget. This money will also flow into reserves at the end of the current fiscal year; however, Florida's swelling unemployment will increase the Medicaid rolls significantly, eating up at least some of those savings this year and resulting in a large net increase in spending next year.

The biggest unknown is federal aid. What we do know is the state has already received \$4.6 billion from the CARES Act. More money is available from the Act and a second round of federal aid is expected; however, unlike the broad bipartisan support and quick action on the CARES Act, there is considerable disagreement in Washington over what form the next stimulus package should take.

Another unknown is the extent to which Florida can use federal aid to directly offset state revenue losses. The CARES Act is fairly explicit in stating that the money can only be used for new costs directly related to COVID-19 but state leaders had said they had received indications from Washington that it could be used to replace lost revenues.

Senate President Bill Galvano issued an update to Senators soon after the EDR report was released saying that further clarification is still needed as to how the federal money may be used and recognized the possibility that it might not be able to directly offset revenue losses.<sup>8</sup> The memo did say that the state continues to receive direction from the U.S. Treasury that funds deposited into GR may be used for “day-to-day cash management.”

When all is considered, the state may well be able to avoid a budget deficit in the current fiscal year, even without using federal money to directly restore revenue losses. In addition, the Budget Stabilization Fund (BSF) also had \$1.574 billion in it and another \$100.0 million will be transferred to meet the BSF’s required balance

for FY2020-21 of \$1.674 billion.<sup>9</sup> The BSF can only be used to close a budget deficit and fund an emergency, and it should be tapped only as a last resort in this fiscal year as that money must be restored, putting further pressure on future budgets.

A budget deficit may be avoidable in the current budget year, but next year is a different story. The economy is slowly waking from its COVID-19-induced slumber but it will likely take an extended period of time to fully recover, especially with more than 1.2 million Floridians currently unemployed. Depleted reserves, increased Medicaid and health care spending, and additional revenue losses paint a bleak budget picture for next year.

Florida TaxWatch reiterates its recommendations to adopt E-Fairness legislation and agree on a new gaming compact with the Seminole Tribe. The changes could bring in between \$1.0-\$1.5 billion annually in tax revenue that is currently legally owed and restored (and enhanced) gaming revenue that stopped coming in a year ago. With the COVID-19 pandemic costing hundreds of millions (soon to be billions) in lost revenues, these changes are no longer just desirable, they are essential.

<sup>8</sup> The Florida Senate, President Bill Galvano, Memorandum, General Revenue Collection Report for April, May 26, 2020. [https://flsenate.gov/PublishedContent/Offices/2018-2020/President/Documents/5\\_26\\_20\\_MEMO\\_April\\_General\\_Revenue\\_Collection\\_Report.pdf](https://flsenate.gov/PublishedContent/Offices/2018-2020/President/Documents/5_26_20_MEMO_April_General_Revenue_Collection_Report.pdf)

<sup>9</sup> Article III, Section 19(g), Florida Constitution and Section 215.32, Florida Statutes.

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