

## NEW ESTIMATES ADD \$150 MILLION TO GENERAL REVENUE AVAILABLE FOR THE NEXT BUDGET

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Florida's Consensus Estimating Conference—which includes revenue, economic, workload and caseload conferences—finished its most recent cycle this week. The results give the Legislature more information on revenues and costs to be used in the appropriations process.

Already looking at a budget “surplus” of over \$1 billion (more on that later), the most important revenue conference—the General Revenue (GR) Estimating Conference—gave legislators some more good news.

The state economists that make up the GR conference met this week and increased the revenue estimate for the current year (FY 2013-14) by \$26.0 million and the FY 2014-15 estimate was increased by \$124.0 million. These new estimates provide the Florida Legislature with another \$150.0 million for the FY 2014-15 budget they will be crafting this session. GR provides more than half of the state funds in the budget (56 percent) and is the major state source for education, health and human services, public safety and the courts. Transportation, the environment and general government operations receive most of their funding from trust funds.

The new forecast projects total GR collections of \$27.7 billion next year, which represents

growth in total GR during the current fiscal year (FY 2013-14) of \$991.3 million (3.9 percent) and growth of \$1.4 billion (5.2 percent) in FY 2014-15. Collections in the next year will finally exceed the previous high water mark of \$26.8 billion in FY 2005-06, which was followed by three years of decreasing collections (see chart). Without the revenue increases enacted by the 2009 Legislature, it would have been four years of decline.

With the unspent funds from the current year carried forward, the 2014 Legislature will have \$30.0 billion in GR to spend next year, which is \$2.6 billion more than the current year's GR appropriations.

The economists said that the economy is behaving in a fairly predictable way and the economic forecasts they adopted largely mirrored the ones they produced last fall. However, the economists were not overly optimistic, saying that while the economic outlook predicts a continued slow recovery, “newer data has raised some cautionary flags.”

Looking at individual tax sources, the results were mixed (see table on next page). The state's largest revenue source—the sales tax—performed better than anticipated, with estimates increased by \$400 million over

the two-year period of FY 2013-14 and FY 2014-15. All sales tax categories (durables, non-durables, tourism, etc.) were revised upward. However, the estimates for most other GR sources were reduced. The estimates for real estate taxes (documentary stamp and intangibles taxes) fell by \$66 million in both years, due to slowing refinancing activity. Insurance premium tax revenues were also—somewhat surprisingly – decreased by \$44 million over the two year period. The estimates for the state’s earning on investments were decreased by \$29 million, reflecting the current interest rate environment and a lower than expected effective earnings rate.

In addition to General Revenue, there are estimating conferences to forecast collections of other revenue sources. Some of these are included in the GR estimates, but others are

trust fund revenues for specific budget areas and programs. The following is a summary of four important conferences that, while dealing mostly with trust funds, can have an impact on the need for general revenue spending.

## LOTTERY AND SLOT MACHINE ESTIMATING CONFERENCES

Net revenues from the lottery (after prizes, retailer commissions and administrative costs), along with slot machine revenues, go into the Educational Enhancement Trust Fund (EETF) for the sole purpose of funding education. This has implications for the projected budget shortfalls/surpluses because if revenues are not sufficient to continue funding of the EETF programs that are in the current budget, GR would have to be used to maintain them. Conversely, growing EETF revenues can take some of the pressure off GR to fund the Legislature’s education program.

## CHANGE IN GENERAL REVENUE ESTIMATES BY SOURCE \$ MILLIONS

Revenue Source	FY 2013-14	FY 2014-15	Total
<i><u>Increased Estimates</u></i>			
Sales Tax	\$170.7	\$229.1	\$399.8
Corporate Income Tax	0.0	32.0	32.0
<i><u>Decreased Estimates</u></i>			
Intangibles Tax	(45.4)	(47.7)	(93.1)
Documentary Stamp Tax	(21.0)	(18.4)	(39.4)
Insurance Premium Tax	(18.1)	(25.5)	(43.6)
Court Fees	(12.1)	(11.1)	(23.2)
Vehicle Licenses & Fees	(6.6)	(8.4)	(15.0)
Earnings Investments	(11.5)	(17.2)	(28.7)
Other Sources and Refunds	(30.0)	(8.8)	(38.8)
<b>Total</b>	<b>\$26.00</b>	<b>\$124.00</b>	<b>\$150.00</b>

Stronger than expected sales in the Florida Lottery's games led to the latest Lottery Estimating Conference increasing its forecasted distributions into the EETF by \$30.9 million over the two year period from FY 2013-14 to FY 2014-15. The Lottery is expected to bring in \$1.516 billion for education in the next budget year, \$30.3 million more than the current year.

Revenue from ticket sales and slot machines in the current budget year also exceeded expectations from when the current budget was passed. The 2013 Legislature had left EETF reserves of \$25.0 million. There is now expected to be year-end reserves of \$235.9 million. Rolling those reserves forward and adding the increased estimates for next year means the 2014 Legislature will have \$1.941 billion in educational enhancement funds to spend. This is \$332 million (26 percent) more than the \$1.609 billion appropriated in the current budget.

## TRANSPORTATION REVENUE ESTIMATING CONFERENCE

This conference adopted a small decrease in its forecast of dollars flowing into the State Transportation Trust Fund (STTF) – which funds the Department of Transportation's Work Program. Estimated revenues to the STTF were decreased by \$25.4 million over the five year Work Program period ending in FY 2018-19. Annual revenues are still expected to increase. Total STTF revenues are expected to grow by \$86 million—to \$3.1 billion--in FY 2014-15.

All sources of STTF revenues – fuel taxes, motor vehicle licenses and fees –are expected to show steady but modest growth over the work program period. While important for transportation and Florida's economy, these revenues have no direct impact on GR or the size of a potential budget surplus for next year.

However, the legislature often "sweeps" revenue from the STTF to shore up GR.

## AD VALOREM ESTIMATING CONFERENCE

While property taxes are a local revenue source, the tax roll has major implications for the state budget. Each year, the Legislature sets Required Local Effort (RLE) – which is the millage rate local school districts must levy in order to participate in the Florida Education Finance Program (FEFP). If taxable value across the state falls, the Legislature must either mandate a property tax rate increase or make up the difference with GR. If values increase, the same millage rate will bring in additional local dollars for the FEFP, or the legislature could roll-back the RLE millage rate.

The tax roll (school taxable value) for next year is estimated at \$1.497 trillion dollars. This is an increase of 5.3% and marks the second straight year of positive growth following five straight years of decline. The housing industry shows signs of progress but the state forecasters are concerned that the foreclosure rate and inventory of unsold residential properties in Florida are still sizeable.

This growth rate in property values is expected to slow slightly—staying under 5 percent the following two years.

For RLE, the value of one mill in FY 2014-15 is \$1.437 billion, up by \$72 million from this year. The new estimate is \$8.4 million more than the one made last December. This means if the Legislature keeps the same millage rate as the current year, more than \$400 million in additional revenue will be raised than in the current year. The new estimate also adds approximately \$50 million to the amount on which the Governor based his FY 2014-15 education funding recommendation.

## TOBACCO TAX AND SURCHARGE ESTIMATING CONFERENCE

Tobacco taxes have been a declining revenue source for eight years, as cigarette consumption is down. The latest conference reduced these estimates even more. Some of these revenues go to GR, but most go to the Health Care Trust Fund (HCTF) which helps fund Medicaid. The last two conferences have reduce estimated revenues going into the HCTF by a total of nearly \$60 million in FY 2013-14 and FY 2104-15.

## HOW BIG IS THE SURPLUS?

Even before the latest GR conference, it has often been cited in the media that the Legislature would be enjoying a \$1 billion budget surplus this year. This is based on the constitutionally-required Long-Range

Financial Outlook produced annually by the Legislature. The last Outlook—released in September 2013--projected the state would have \$845.7 million more in GR than would be needed to fund a continuation budget for next year. The GR conference in December added \$321.4 million in revenue, bringing the surplus to more than \$1.1 billion.

The Outlook estimates budget surpluses/shortfalls by comparing expected available revenue to the expected cost of a continuation budget. This is estimated by taking the current year's recurring expenditures and increasing it by two categories of new spending. *Critical Needs* are mandatory increases (based on estimating conferences and other essential items), representing the minimum cost to fund the budget without significant programmatic changes. Expected increases in Medicaid funding make up 74 percent of these new "critical needs." *High Priority Needs* are historically funded issues that are typically viewed as "must fund" in normal budget years. Adding these two categories to the recurring expenditures in the current budget comprises what can be thought of as a continuation budget. New initiatives and funding increases above what is required are not included. For example, the cost of funding additional students is included but an increase to per student funding is not.

The Outlook used a recurring base budget of \$26.353 billion. Add to this the forecasted growth in expenditures of \$863.9 million, a

required repayment of \$214.5 million to the Budget Stabilization Fund and \$1 billion to be left in reserve, and \$28.431 billion would be needed to fund a continuation budget. At the time, available GR for FY 2104-15 was expected to total \$29.277 billion, leaving the \$845.7 billion.

After two rounds of estimating conferences and \$300 million more than anticipated being carried forward into FY 2014-15, it is now forecast that \$29.986 billion in GR will be available. Assuming the Outlook’s estimated funding needs, a surplus of \$1.5 billion exists.

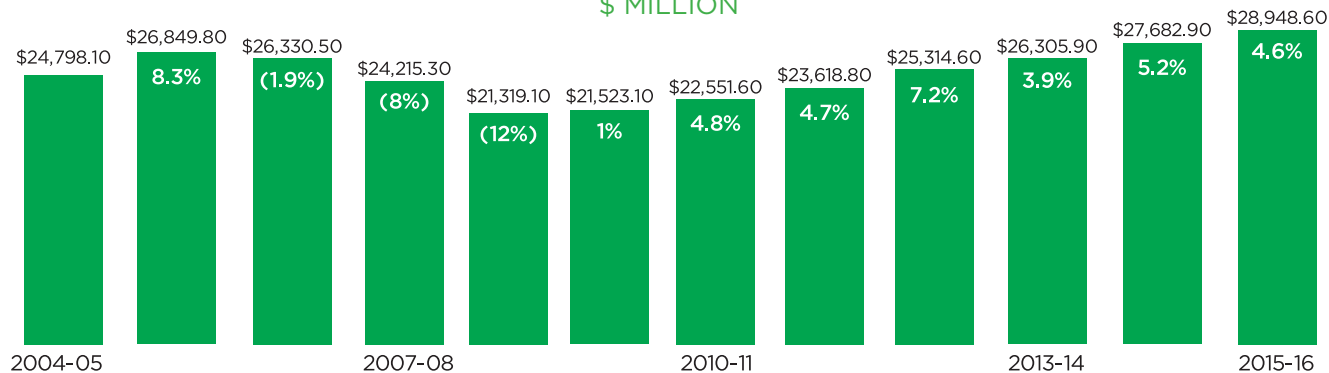
However, that estimate of funding needs has surely changed. It is now estimated that there will be almost 22,000 more students in Florida’s public schools than was projected in the Outlook. Conversely, although the latest Medicaid estimates are not yet official, the previous conference slightly reduced caseloads and expenditures.

One major caveat is the fact that the Outlook assumes cash reserves of \$1 billion. Legislative leadership has repeatedly expressed a desire to have reserves closer to \$2 billion. This would significantly reduce the funds available for tax cuts or new spending.

The Long-Range Financial Outlook is a very valuable planning tool, but any projected shortfall or surplus should not be treated as a hard number. Many factors impact that estimate and most of them have changed—for better or worse—since it was produced.

The budget outlook may be rosier than it has been in some time, but the Legislature should continue to exercise prudent budgeting. The Governor has proposed reducing taxes by \$500 million, and the legislators have indicated that will be a minimum level. Lawmakers will also surely attempt to provide an increase in per-student funding and other program enhancements. The talk of a budget “surplus” is also likely to increase requests for member projects. Florida TaxWatch recommends that the Legislature consider this another tight budget year and continue to look for ways to reduce the cost of the current budget, such as the cost-savings recommendations published by Florida TaxWatch and our Center for Government Efficiency throughout the year. We also encourage the Legislature to continue to scrutinize the base budget to ensure that every item deserves to be there.

GROWTH IN GENERAL REVENUE  
\$ MILLION



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