

BUDGETWATCH

COVID-19 IMPACT: GENERAL REVENUE COLLECTIONS FOR FY19-20 WERE \$1.9 BILLION BELOW ESTIMATE

As Florida continues its battle with the COVID-19 pandemic, the state has released General Revenue (GR) collections data for June (the last month of the FY19-20 fiscal year).¹ Collections came in \$427.8 million (13.4 percent) below estimate, following losses of \$878.1 million (29.4 percent) in April and \$779.6 million (26.4) percent in May. Because collections were running a bit above estimate before the pandemic hit, the \$2.1 billion loss in the last quarter puts Florida down \$1.9 billion (5.7 percent) for the year.

As would be expected in Florida, where the Sales & Use Tax comprises such a large percentage of the state's revenue, collection

of said tax had the largest impact, accounting for 84.7 percent (\$1.6 billion) of the yearly loss. Most of this was due to the virtual shutdown of the tourism and hospitality sector, resulting in sales tax collections coming in \$937.9 million (52.8 percent) under estimate in the last quarter of FY2019-20—less than half of what was anticipated. Tourism-related collections were \$43.1 million above estimate through March, so final collections were \$894.8 million (14.0 percent) under estimate for the year. Collections in FY2019-20 were \$686.1 million less than the prior year's collections. Sales tax collections from tourism and hospitality accounted for almost half of the loss in total GR for the year (see below).

¹ Office of Economic and Demographic Research, Monthly Revenue Report, June 2020, and Detailed Revenue Report, both released July 27, 2020. Available at <http://www.edr.state.fl.us/Content/>

Table 1. Difference in Actual and Estimated GR Collections—FY2019-20 (\$ millions)

	Amount Above/(Below) Estimate			% of Total GR (Loss)/Gain	
	Total GR	Sales Tax	Tourism Sales Tax	Sales Tax	Tourism
July-March	\$202.4	\$27.3	\$43.1	13.5%	21.3%
April	(\$878.1)	(\$598.2)	(\$283.9)	68.1%	32.3%
May	(\$779.6)	(\$695.4)	(\$378.1)	89.2%	48.5%
June	(\$427.8)	(\$328.0)	(\$275.9)	76.7%	64.5%
Total	(\$1,883.1)	(\$1,594.3)	(\$894.8)	84.7%	47.5%

Almost all sales tax sectors underperformed in the last quarter, with consumer non-durables (-18.4 percent), automobiles (-18.6 percent), durables (-16.7 percent), and business investment (-14.1 percent) all below forecast. Only building-related industries exceeded expectations (+12.4 percent).

Other large losses occurred in corporate income tax collections (\$356.9 million), highway safety taxes and fees (\$66.1 million), and corporate filing fees (\$43.5 million). See table 2 for more detail on individual GR sources.

Several GR sources actually exceeded expectations for the year, including earnings on investments (\$72.5 million), intangibles taxes (\$56.2 million), and insurance taxes (\$4.1 million). There was \$72.2 million less in tax refunds issued during the year than was expected, which increases net collections, with most of the difference (\$54.9 million) due to smaller corporate income tax refunds.

FALLING SALES TAX REVENUE HURTS LOCAL GOVERNMENTS TOO

The new revenue data also has direct implications for local governments, because Florida shares part of the 6 percent state sales tax with cities and counties. Local distributions from the Local Government Half-Cent program were \$168.5 million below estimate for the year and another \$56.5 million was lost from Revenue Sharing. Final data on local option sales tax collections are not available, but if they experience the same percentage decrease as

the state sales tax, local governments will have lost \$840 million in the last quarter of FY19-20.²

Tourist development taxes (levied on hotel rooms and other transient rental accommodations) are being hit even harder, as counties reported reductions of well over 50 percent in both April and May. Orange County reported that collections fell by an astonishing 97 percent and 95 percent in those months, compared to the same months a year ago.³

Other local revenue sources, such as gas taxes, will also experience losses. Property taxes, by far the largest local tax source, could take a very large hit when commercial property owners (rightly) express a desire for their 2021 assessment to consider the lost value resulting from government-mandate shutdowns, stay-at-home orders, and social distancing requirements.

FLORIDA AVOIDS A DEFICIT IN FY2019-20, ATTENTION NOW TURNS TO THE NEW BUDGET YEAR

Even though the last quarter's revenue loss was historic, it was perhaps not as bad as it could have been. That is especially true for June, which had a GR loss of 13.4 percent, roughly half of what losses were in each of the previous two months.

² 24 percent of total local discretionary sales surtax revenue. Calculated by Florida TaxWatch.

³ Scott Powers, Florida Politics, "Another bad month for tourism: Orange County's tax receipts down 95% in May", July 1, 2020. <https://floridapolitics.com/archives/345592-another-bad-month-for-tourism-orange-countys-tax-receipts-down-95-in-may>, last accessed July 28, 2020.

THE STATE'S RESERVES

The state's last forecast estimated there would be \$1.933 billion in unobligated cash reserves at the end of FY2019-20,⁴ which is just enough to cover the \$1.883 billion shortfall in revenue for the year. In addition, the Governor's office estimates that \$782 million in appropriated GR was not spent in FY2019-20 and this money will be added to the state's reserves, which means Florida will be in the black as we start the new fiscal year. Most of the unspent GR is likely from an estimated \$590 million reduction in Medicaid expenditures due to Congress reducing the states' matching requirement through the Federal Medical Assistance Percentages (FMAP).

The Legislature appropriated more than \$150 million in GR for FY 2019-20 in the 2020-21 budget. This spending is not counted in the General Appropriations Act's total but will reduce reserves. The state has also spent additional unbudgeted dollars combating COVID-19, but much of that has been reimbursed by the federal government. The state avoided a deficit in FY 2019-20 even before accounting for the \$4.6 billion in federal funds received by the Florida from the CARES Act. This should cover any future pandemic-related expenses but exactly how this money can be used and whether more federal aid is coming remains to be seen.

4 Office of Economic and Demographic Research, General Revenue Fund Financial Outlook Statement, January 15, 2020. http://www.edr.state.fl.us/Content/revenues/outlook-statements/general-revenue/200115_GRoutl.pdf

CURRENT BUDGET YEAR

Now, the focus turns to the new budget year (FY2020-21) and the Legislature's \$92.3 billion (\$34.8 billion in GR) spending plan.⁵ This is net of the Governor's \$1.0 billion in line-item vetoes, almost half of which (\$487.8 million) was GR spending.

Even counting the Governor's vetoes, the GR budget is \$800 million more than last year, which on the surface looks unsustainable with further revenue reductions expected. The Governor has already instituted a 6 percent holdback of agency operational spending (1.5 percent per quarter) to "curtail state agency spending during the upcoming fiscal year to allow for a review and potential reduction of non-essential state services and programs."⁶ This was one of the recommendations in the Florida TaxWatch report *Bringing Florida's Budget Back from COVID-19*.⁷

We encourage the Governor and the Legislature to consider more recommendations from that report, including implementing E-Fairness legislation and negotiating a new gaming compact with the Seminole Tribe. These two actions could provide \$1 billion to \$1.5 billion in new revenue without raising taxes.

5 Florida TaxWatch, The Taxpayers' Guide To Florida's FY2020-21 State Budget, July 2020. <https://floridataxwatch.org/Research/Budget-Hub>

6 Governor Ron DeSantis, HB 5001 Transmittal Letter to Florida Secretary of State, June 29, 2020.

7 Available at <https://floridataxwatch.org/Research/Full-Library/ArtMID/34407/ArticleID/18892/Bringing-Floridas-Budget-Back-From-COVID-19>, June 2020.

CONCLUSION

The state's Consensus Estimating Conference has begun its summer cycle of conferences, where they forecast economic conditions, revenues (both GR and trust fund), and cost drivers such as school enrollment, prison populations, and Medicaid and Kidcare caseloads and expenditures. This will culminate on August 14 with the General Revenue Estimating Conference, which will adopt a revenue forecast through FY2025-26. It will also produce a Financial Outlook Statement which

will give the first clear picture of how available GR in FY2020-21 stacks up against the appropriations made by the 2020 Legislature. The next Florida TaxWatch Budget Watch (August) will examine the results from these conferences.

No one knows for sure how long the pandemic will last or how long or deep the economic downturn will be. As FY2019-20 closed, Florida was in better fiscal shape than many predicted. But we are certainly not out of the woods yet.

Table 2. General Revenue Collections - Actual vs. Estimate

June 2020 // \$ in millions

GR SOURCE	JUNE				YEAR-TO-DATE	
	Actual	Estimate	Over/(Under)	Percent	Over/(Under)	Percent
Sales Tax	\$1,822.2	\$2,150.2	\$(328.0)	-15.3%	\$(1,594.3)	-6.1%
Corporate Income Tax	\$415.1	\$501.3	\$(86.2)	-17.2%	\$(356.9)	-12.6%
Doc Stamp Tax	\$82.1	\$98.9	\$(16.9)	-17.1%	\$(0.4)	0.0%
Insurance Premium Tax	\$159.1	\$171.7	\$(12.6)	-7.3%	\$4.1	0.4%
Highway Safety Fees	\$43.3	\$60.8	\$(17.5)	-28.8%	\$(66.1)	-13.1%
GR Service Charges	\$29.7	\$40.2	\$(10.6)	-26.4%	\$(6.5)	-1.3%
Corporate Filing Fees	\$55.4	\$17.7	\$37.7	213.0%	\$(43.5)	-10.6%
Intangibles Tax	\$46.0	\$38.2	\$7.7	20.2%	\$56.2	12.9%
Counties' Medicaid Share	\$25.3	\$25.2	\$0.2	0.8%	\$(0.4)	-0.1%
Beverage Taxes	\$35.3	\$46.3	\$(11.0)	-23.8%	\$(3.6)	-1.2%
Earnings on Investments	\$23.2	\$19.3	\$4.0	20.7%	\$72.5	24.3%
Tobacco Tax	\$21.2	\$26.1	\$(5.0)	-19.2%	\$(4.3)	-2.5%
Non-Operating Revenues	\$6.5	\$11.5	\$(4.9)	-42.6%	\$2.1	1.3%
Court Fees	\$4.0	\$9.0	\$(5.0)	-55.6%	\$(10.2)	-8.9%
Other Taxes and Licenses	\$2.8	\$3.5	\$(0.7)	-20.0%	\$(2.1)	-5.4%
Parimutuel Tax	\$4.8	\$1.4	\$3.4	242.9%	\$(2.5)	-11.3%
Severance Tax	\$-	\$0.2	\$(0.2)	-100.0%	\$0.6	6.1%
Total General Revenue	\$2,775.9	\$3,221.5	\$(445.7)	-13.8%	\$(1,955.3)	-5.7%
Less Refunds	\$12.9	\$30.7	\$(17.8)	-58.0%	\$(72.2)	-7.3%
Net General Revenue	\$2,763.0	\$3,190.8	\$(427.8)	-13.4%	\$(1,883.1)	-5.7%

Source: Florida Legislature, Office of Economic and Demographic Research, July 2020.