

## REVENUE ESTIMATES INCREASED SLIGHTLY, BUDGET SHORTFALLS STILL LOOM

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Lawmakers received a small measure of positive fiscal news from state economists this week. The General Revenue (GR) Estimating Conference met on December 12, 2016 and increased its revenue forecast by \$119.3 million in the current year (FY2016-17) and by \$22.6 million for the next budget year (FY2017-18). This \$141.9 million increase recovers a little of the \$655 million in GR reductions made in the last two conferences (August and January).

The state is now expected to collect \$29.452 billion this year and \$30.709 billion next year. These amounts represent growth over the prior year of \$1.127 billion (4.0 percent) and \$1.257 billion (4.3 percent), respectively. For the rest of the years in the forecast horizon (though FY2021-22), growth ranging from 3.5 percent to 4.1 percent is expected.

Even though actual revenue collections have been significantly over estimate so far this fiscal year, the estimators believe most of that is due to timing and technical issues. Moreover, the Conference had already adopted slightly weaker National and Florida Economic Forecasts last month. They took all of this into account, and only adjusted the estimates slightly upward.

In terms of specific revenue sources, results were mixed. Nine sources had their estimates reduced and six were increased (see table on next page). The estimate for tax refunds was reduced, which boosts net collections. Thankfully, the estimate for the state's big money-maker—the sales tax—was increased, adding \$124.6 million over two years. Five of the six sales tax categories were right on target, but greater than expected motor vehicle sales led to the increased estimate.

Higher-than-expected corporate profits increased the corporate income tax estimate by \$26.1 million, although the Conference warns the good first quarter may not hold for the entire year. Weaker forecasts for construction and existing home sales were tempered by the continued strength of refinancing activity, but it was not enough to avoid a reduction in the documentary stamp tax estimate of \$35.8 million.

### Changes in General Revenue Estimates (*\$ millions*)

FISCAL YEAR	AUG. 2016 ESTIMATE	DEC. 2016 ESTIMATE	CHANGE
2015-16	\$28,325.4	\$28,325.4**	0.0
2016-17	\$29,332.8	\$29,452.1	\$119.3
2017-18	\$30,686.9	\$30,709.5	\$22.6
2018-19	\$31,948.2	\$31,978.9	\$30.7
2019-20	\$33,223.9	\$33,253.0	\$29.1

\*\*actual

## Change in General Revenue Estimates by Source

(\$ millions)

REVENUE SOURCE	FY2016-17	FY2017-18	TOTAL
<i>Increased Estimates</i>			
Sales Tax	\$71.7	\$52.9	\$124.6
Corporate Income Tax	\$23.0	\$3.1	\$26.1
Earnings on Investments	\$24.3	\$0.3	\$24.6
Intangibles Tax	\$10.3	\$11.5	\$21.8
Beverage Tax and Licenses	\$16.9	\$4.4	\$21.3
Corporate Filing Fees	\$3.5	\$1.9	\$5.4
<i>Decreased Estimates</i>			
Documentary Stamp Tax	-\$12.3	-\$23.5	-\$35.8
Insurance Premium Tax	-\$10.9	-\$3.6	-\$14.5
Highway Safety Licenses/Fees	-\$5.2	-\$8.0	-\$13.2
Tobacco Taxes	-\$2.9	-\$3.0	-\$5.9
Court Fees	-\$3.4	-\$4.4	-\$7.8
Indian Gaming Revenues	-\$1.6	-\$1.2	-\$2.8
Other Sources* and Refunds	\$5.9	-\$7.8	-\$1.9
<b>TOTAL</b>	<b>\$119.3</b>	<b>\$22.6</b>	<b>\$141.9</b>

\* *Parimutuels Tax, Counties' Medicaid Share, Severance Tax, Service Charges*

## GENERAL REVENUE BUDGET OUTLOOK

The *Long-Range Financial Outlook*,<sup>1</sup> adopted by the Legislative Budget Commission in September, predicted a very tight budget year for the 2017 Legislature. It was estimated that after funding a continuation budget, the Legislature would have only \$7.5 million left over for new initiatives. In addition, if the Legislature spent continued with business as usual, budget shortfalls of more than \$1 billion would result in the next two years. The *Outlook* further estimated it will take some combination of revenue increases or spending decreases worth \$483 million in each year, starting with the upcoming budget, to erase the shortfall in FY2019-20. If the Legislature waits until FY2018-19 to address this, it will take \$1.3 billion in adjustments to clear the shortfall. Even if all those adjustments are recurring, another \$600 million will be needed the following year. This means there is no money for new initiatives without additional budget cuts or revenue hikes.

While the latest revenue forecast will help a little, it will still be a tough budget year. As the state's economist said following the release of the new revenue forecast, "The story didn't change. The big picture is pretty much where we were in September."<sup>2</sup>

<sup>1</sup> Florida Legislature, Long-Range Financial Outlook, September 2016. For more information, see Florida TaxWatch Budget Watch – Projected Shortfall Requires Action, September 2016.

<sup>2</sup> Amy Baker, Coordinator, Legislative Office of Economic and Demographic Research, quoted in "State Revenue Numbers Get Slight Increase," News Service of Florida, December 12, 2016.

## General Revenue Budget Outlook

(\$ millions)

GR AVAILABLE FOR 2016-17	RECURRING	NON-RECURRING	TOTAL
Reserve (carried forward)		\$1,891.8	\$1,891.8
Estimated Revenues	\$29,481.5	(\$29.4)	\$29,452.1
BP Settlement Payment	\$106.7	\$293.3	\$400.0
Trust Fund Sweeps		\$259.6	\$259.6
Other Adjustments	(\$0.2)	\$2.0	\$1.8
<i>Total funds Available for 2016-17</i>	<i>\$29,588.0</i>	<i>\$2,417.3</i>	<i>\$32,005.3</i>
<b>GR APPROPRIATIONS BY 2016 LEGISLATURE</b>			
2016-17 Appropriations	\$29,467.6	\$922.7	\$30,390.3
Transfer to Budget Stabilization Fund		\$30.7	\$30.7
Budget Amendments - Zika Virus Response		\$61.2	\$61.2
Budget Amendments - Bridge Loans		\$5.0	\$5.0
Budget Amendments - Hurricane Response		\$33.5	\$33.5
<i>Total Effective Appropriations</i>	<i>\$29,467.6</i>	<i>\$1,053.1</i>	<i>\$30,520.7</i>
<b>Ending Balance</b>	<b>\$120.4</b>	<b>\$1,364.2</b>	<b>\$1,484.6</b>
<b>GR AVAILABLE FOR NEXT BUDGET 2017-18</b>			
Reserve (carried forward)		\$1,484.6	\$1,484.6
Estimated Revenues	\$30,724.1	(\$14.6)	\$30,709.5
BP Settlement Payment	\$106.7	(\$106.7)	-
Unused Appropriations		\$98.3	\$98.3
Federal Funds Interest Rebate	(\$0.2)		(\$0.2)
<b>GENERAL REVENUE AVAILABLE FOR NEXT BUDGET</b>	<b>\$30,830.6</b>	<b>\$1,461.6</b>	<b>\$32,292.2</b>

In addition to the new estimates, other factors affect how much GR will be available for the next budget. Response to the Zika virus and two hurricanes has already required emergency spending of \$99.7 million. Some budget reversion and other adjustments has offset some of that spending. When these and other factors are included, there will be \$130.9 million more GR than was estimated in the *Outlook*.

The results from two other estimating conferences will also help a little. The Social Services Estimating Conference predicted that Florida's Medicaid program will cost \$108 million less than previously anticipated next year. The estimate of the number of public school students was reduced by approximately 10,000 children.

But there is bad news, as well. Estimates of revenue going into two non-GR sources of education funding, the Educational Enhancement Trust Fund (Lottery) and the State School Trust Fund (unclaimed property), was reduced by a total of \$56.9 million. There will likely be more spending needed for Zika and hurricane response, and Zika may have a negative impact on sales tax revenue from tourists.

Recently adopted changes in the actuarial assumptions for the Florida Retirement System will increase its unfunded liability and therefore increase employer (state agency) contributions by an estimated \$90 million next year. Further reductions in the assumed rate of return for the pension fund are expected.

Another GR estimate will be made in March to determine the final amount of GR available to the Legislature next session. An uptick in the forecast is always possible, but the uncertainty of the current global economy carries considerable downside risk.

This session, the Governor is going to seek \$85 million economic development incentives and will be recommending some new tax relief. The Senate President wants to increase university funding by \$1 billion over the next two years. The House Speaker has pledged not to increase school property taxes, meaning more state dollars will be needed to maintain or enhance per-student funding.

Money will be tight next session and the budget process will likely involve some redirection of current spending to the Governor and lawmakers' new initiatives. The predicted \$1 billion-plus shortfalls in future years still loom. This makes it even more important for the Legislature to implement cost savings and government efficiencies, such as recent recommendations by the Government Efficiency Task Force.<sup>3</sup>

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<sup>3</sup> Florida Government Efficiency Task Force 2016 Final Report. Accessed at [floridataxwatch.org/library/2016getf.aspx](http://floridataxwatch.org/library/2016getf.aspx)

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The findings in this Report are based on the data and sources referenced. Florida TaxWatch research is conducted with every reasonable attempt to verify the accuracy and reliability of the data, and the calculations and assumptions made herein. Please feel free to contact us if you feel that this paper is factually inaccurate.

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