

Florida Must Continue to Be Open for Business *Recommendations to Stimulate Florida's Economy to Increase State Revenue*

The terrible events of September 11 have created many challenges for the nation. In addition to thousands of profound personal tragedies and the threat to our national security, the economy was also dealt a serious blow. For a state like Florida, which relies so heavily on tourism and transaction taxes to fund government operations, the fiscal impact is even more pronounced.

It is now certain that Florida will have less money than anticipated, both for the current budget year and the next. What is not certain is what will happen next. The state must take steps to deal with the current shortfall and mitigate the effects of potential future setbacks. The state cannot afford to go into its shell, both the public and private sectors must strive to keep the economy moving. And the key to that is to keep Florida's 16 million residents and its tens of millions of visitors back in the business and hospitality of Florida

Revenue Projections Lowered

The recent meeting of the Florida's Consensus Estimating Conference produced the bad news that Florida's General Revenue Receipts for the current budget year are expected to be \$673.2 (3.4%) million less than was anticipated and appropriated back when the Legislature crafted the budget. The revenue estimate for next year (fiscal year 2002-03) was also reduced by \$800.8 (3.8%) million.

Further reductions are likely to be required. With the economy already slowed considerably, the effect of the terrorist attacks on one of the basic foundations of our economy-- tourism--could be devastating. Tourism is a \$50 billion industry that makes up 20% of the Florida economy and brings more than 70 million people to the state annually. They spend a considerable sum of money and generate thousands of jobs.

It is estimated that visitors to our state directly pay approximately \$3 billion annually in Florida sales and use taxes. Their contribution in other revenue sources, both directly and indirectly, is even more significant. According to information received from two econometric models published by Florida TaxWatch (*The Benefits and Costs of Tourism to Florida*, August, 2000) in collaboration with the Center

for Economic Forecasting and Analysis at Florida State University, the direct and indirect spending attributable to travel and tourism in Florida generated between \$5.6 and \$6.9 billion in general revenues in 1999. It is easy to see that a moderate to large reduction in tourism and hospitality has a major impact on the state's fiscal condition.

Transactions are what fuel Florida government. The state sales and use tax provides roughly three-fourths of Florida's general revenue collections. The state sales and use tax together with all transaction taxes (sales, motor fuel, alcoholic beverage, tobacco, etc.) comprise 77% of all state taxation.

Governor Bush has indicated that he will call a special session of the Legislature (likely to be in late October 2001) to deal with the state economy and state revenue shortfall. He stated that the special session would address:

- ▶ Florida's obligation by law and to the people to balance the budget;
- ▶ The pursuit of various strategies to stimulate our economy;
- ▶ Addressing any costs associated with increased security in Florida; and
- ▶ An outline of a series of possible spending cuts.

Restoring Tourism is Essential

The terrorists attacks shook citizens' confidence in flying, and, since more than half of our visitors come here by air, the effect was quickly felt. As airlines announced layoffs, Florida hotels, attractions and convention bureaus reported significant declines in business.

Although little can be done, at least in the short-term, to change some peoples' minds about flying to Florida for a vacation, promotion can still be effective in increasing tourism. Encouraging Floridians to get out and see their own state and promoting Florida to people who might drive here can help. But eventually, bringing back those tourists who fly from greater distances--particularly overseas--will be necessary. These visitors stay longer and spend more while here.

The State of Florida currently spends \$21.6 million annually on tourism promotion, and that amount was not changed much in recent years.

The state spent \$20 million in 1998 and 1999 and has been spending \$21.6 in each of the three years since FY 2000 (An additional \$2 million in 1999 and \$300,000 in 2000 was appropriated for an emergency fund.).

State Governments Spending the Most on Tourism Promotion* (in millions)

Illinois	\$61.1
Hawaii	\$61.0
Pennsylvania	\$45.9
Texas	\$32.2
Massachusetts	\$24.5
Florida	\$21.6
Virginia	\$21.6

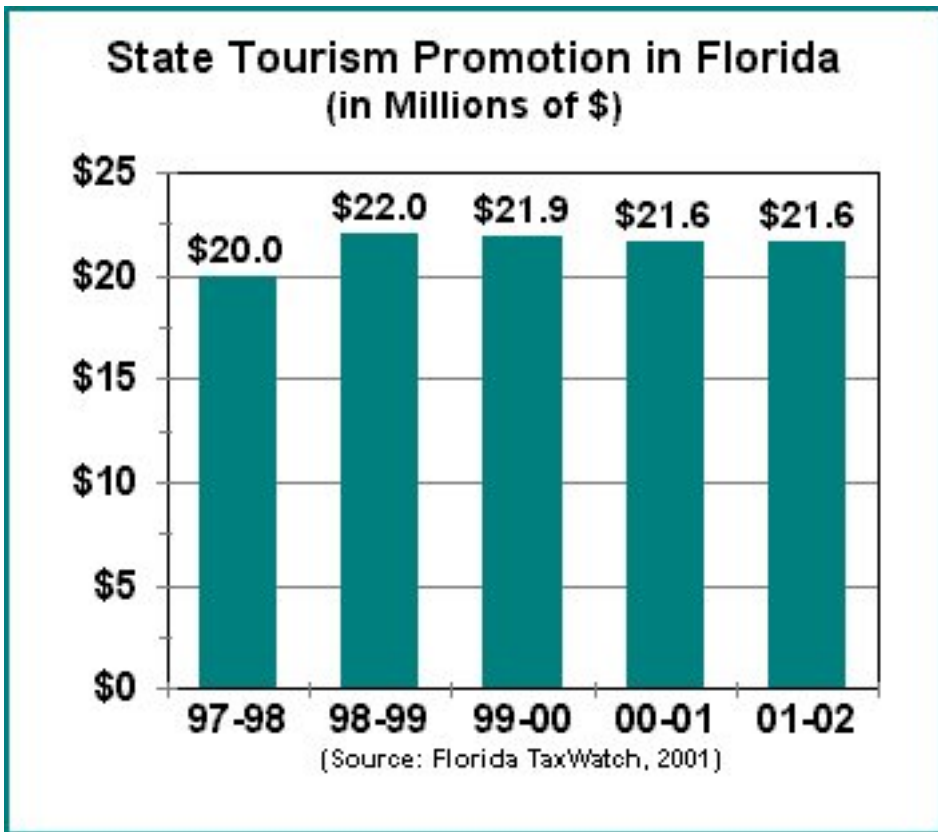
Source: Visit Florida and the Travel Industry
* Florida and other states co-market.

Despite the state's size and importance of the industry, Florida ranks sixth among all states in public spending for tourism promotion. Due in part to some very large tourism companies, Florida is the leading state in private spending on promotion, both in terms of total dollars and as a percent of public/private spending (according to the Travel Industry Association of America.)

Florida is using its \$2 million tourism emergency fund to begin a promotional campaign that will target both people in state and others that will drive to Florida. That campaign should kickoff in October. Governor Bush has also pledged his efforts to get the state to match that amount.

That may not go far enough. Promotion will be very important in the coming months. Florida TaxWatch recommends that the Legislature increase funding for tourism promotion by at least \$5 to \$10 million.

Keep the Money Flowing Through the Economy



The Governor has stated that a special session would include consideration of an economic stimulus package. Focusing on the economy will be the best way to produce a sound fiscal outlook for the state in the coming years. Tax increases would not be a prudent way to address the immediate shortfall facing the state as they could be counterproductive to stimulating the economy.

There are two ways out of this revenue shortfall. We can grow our way out, or we can cut our way out. While we have to cut in the short term to balance the budget, the long-term solution lies in growth.

While budget cuts may be part of the solution, government spending can also help to keep the economy active. Public works projects, such as public buildings, roads and other infrastructure, can shore up the construction industry, another important sector of our economy.

The State and local governments should take steps to accelerate the undertaking of planned public works projects and perhaps find ways to fund projects that are currently planned for later years.

The private sector can also use their considerable talent and expertise in getting the economy back on track. Particularly helpful to the state's current--and hopefully short-term situation--retailers know how to

use tools such as promotions and sales to spike sales.

When Mayor Rudolph Giuliani was asked what the rest of the country could do to help New York City recover from the tragedy, he said something to the effect of "come visit our city, see a show, spend some money." Although Florida's troubles pale in comparison to those of New York, that same attitude can help Florida weather it's storm as well.

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