

FLORIDA GENERAL REVENUE COLLECTIONS HAVE OUTPACED ESTIMATES FOR 14 CONSECUTIVE MONTHS

The Florida TaxWatch Budget Watch series¹ has been detailing the rapid recovery of the state government's revenue collections from the initial precipitous drop in the early months of the COVID-19 pandemic. We have highlighted how current General Revenue (GR) estimates are back above the last pre-pandemic estimates (January 2020). Coupled with billions of dollars in federal aid, Florida is in enviable fiscal shape as the Legislature heads into the 2022 Regular Session.

And now there is additional good fiscal news. Actual GR collections for August and September exceeded the estimate made just a couple of months ago (August 2021) by \$331.9 million and \$442.2 million, respectively. Actual GR collections are now \$789.4 million above the current estimate just three months into FY2021-22.² This comes after the August 2021 General Revenue Estimating Conference added \$1.409 billion to the estimate for FY2021-22--plus \$317.6 million from the new Seminole Gaming Compact and \$309.1 million from revenue changes passed by the 2021 Legislature.³ This means that it is now estimated that the state will collect at least \$2.825 billion more⁴ in FY2021-22 than was anticipated when the 2021 Legislature developed the current budget, which already totaled a record \$101.654 billion.

Most of the GR sources outperformed expectations, with only a handful of sources coming in below estimate. These were relatively minor losses, totaling \$14.3 million over the two months. While the positive revenue performance was fairly widespread among sources, two of them--sales taxes and corporate income taxes--accounted for the vast majority of the gain--\$675.3 million, or 87.2 percent. (See Table 1).

All six sales tax categories beat the estimates over the two months, with only Business Investment falling short in one month. (See Table 2). This sector lost \$12.0 million against the estimate in August, but more than made up for it in September, gaining \$54.1 million. Consumer Nondurables and Tourism and Recreation were the top performers, topping estimates by \$201.1 million and \$180.9 million, respectively. Sales tax collections in a particular month largely reflect the sales activity of the previous month. The Office of Economic and Demographic Research credits the increased activity to the benefit from the most recent round of stimulus checks to households, redirected spending from the hard-hit (non-sales taxed) service sector and consumers' ability to draw down large savings that they built up during the pandemic.⁵

1 Budget Watch can be found at <https://floridataxwatch.org/Research/Budget-Hub>

2 Includes \$15.3 million in July 2021.

3 Office of Economic and Demographic Research, Measures Affecting Revenue and Tax Administration-2021 Regular Session, July 23, 2021.

4 Assuming collections do not fall short of estimates through the rest of FY2021-22.

5 Office of Economic and Demographic Research, Monthly Revenue Report, Volume 42, Number 3, September 2021.

TABLE 1. GENERAL REVENUE - ACTUAL COLLECTIONS VS. CURRENT ESTIMATE BY SOURCE
 \$ MILLIONS - ACTUAL COLLECTIONS IN AUGUST AND SEPTEMBER COMPARED TO AUGUST 2021 ESTIMATE

Revenue Source	Over/Under August 2021	Over/Under September 2021	Over/Under Two-Month Total	Growth From Prior Year	
				Amount	Percent
Above Estimate (two months)					
Sales Tax	\$248.2	\$200.6	\$448.8	\$1,320.3	22.0%
Corporate Income Tax	\$16.8	\$209.7	\$226.5	\$169.1	24.0%
Documentary Stamp Tax	\$23.6	\$16.9	\$40.5	\$44.7	13.7%
Earnings On Investments	\$15.2	\$2.4	\$17.6	\$(45.7)	-46.3%
Intangibles Taxes	\$3.1	\$10.3	\$13.4	\$56.1	36.6%
Corporate Filing Fees	\$(1.4)	\$8.7	\$7.3	\$(46.4)	-46.5%
Service Charges	\$4.0	\$2.2	\$6.2	\$38.1	32.9%
Beverage Taxes	\$4.5	\$1.0	\$5.5	\$18.6	23.6%
Parimutuel Taxes	\$0.0	\$5.0	\$5.0	\$0.9	13.8%
Insurance Taxes	\$(0.6)	\$1.3	\$0.7	\$25.7	24.1%
Tobacco Tax	\$1.5	\$(1.1)	\$0.4	\$(1.6)	-4.6%
Other Sources*	\$4.8	\$(3.2)	\$1.6	\$(6.1)	-4.6%
Below Estimate (two months)					
Court Fees	\$(0.7)	\$(0.9)	\$(1.6)	\$4.3	26.1%
Highway Safety Fees	\$3.8	\$(6.1)	\$(2.3)	\$13.8	13.2%
Total Revenue					
	\$322.9	\$446.8	\$769.7	\$1,590.9	20.0%
Less Refunds					
	\$(9.0)	\$4.6	\$(4.4)	\$(25.6)	-19.2%
Total Net General Revenue					
	\$331.9	\$442.2	\$774.1	\$1,616.6	20.6%
Growth from Prior Year is actual collections in August/September 2021 compared to same months in 2020.					
* Includes severance taxes, parimutuel taxes, county Medicaid share, non-operating revenues, and miscellaneous taxes and fees. Source: Office of Economic and Demographic Research Monthly Revenue Reports.					

TABLE 2. SALES TAX COLLECTIONS* OVER/UNDER ESTIMATE BY CATEGORY

Category	August		September		Two Month Total	
	Amount	Percent	Amount	Percent	Amount	Percent
Consumer Nondurables	\$108.0	14.2%	\$93.1	13.5%	\$201.1	13.9%
Tourism & Recreation	\$128.4	24.8%	\$52.5	11.0%	\$180.9	18.2%
Automobiles & Accessories	\$16.1	3.1%	\$23.3	4.6%	\$39.4	3.8%
Other Durables	\$4.9	3.2%	\$15.6	11.4%	\$20.5	7.1%
Building Investment	\$21.6	4.2%	\$54.1	38.1%	\$75.7	11.5%
Business Investment	-\$12.0	-7.2%	\$46.1	9.4%	\$34.1	5.2%
Total	\$267.0	10.1%	\$284.7	11.7%	\$551.7	10.9%

*This is total sales tax collections, not just the General Revenue distribution. Source: Office of Economic and Demographic Research Monthly Revenue Reports.

NON-GR SOURCES ALSO SURPASSING ESTIMATES

The new revenue report also details collections of some revenue that goes into various trust funds. Net lottery and slot machine revenue—which is deposited into the Education Enhancement Trust Fund—beat estimates by \$53.9 million in August and September.

In addition to the roughly one-third of documentary stamp tax revenues that goes to GR, the rest is used for several other spending areas, including the Land Acquisition Trust Fund, transportation, affordable housing, water projects, and the new Resilient Florida program. The non-GR portion of doc stamp collections exceeded the estimate by \$92.1 billion.

Local governments also benefit from increased sales tax collections. In addition to the likely increases in their local option tax collections, an additional \$65.3 million from the state 6 percent sales tax, will go to cities and counties through the Local Government Half-Cent Sales Tax Clearing Trust Fund and revenue sharing.⁶

While the EDR revenue report does not compare fuel tax collections to the estimate, collections in the first two months of FY2021-22 (July and August) surpassed collections during the same two months in the prior year by \$83.8 million (13.8 percent).⁷ This should mean a boost to the State Transportation Trust Fund.

On the negative side, the tobacco surcharge—which helps fund Medicaid—has produced \$10.4 million less than estimated. Although a drop in the bucket for the \$32 billion Medicaid program, it will not help with increasing Medicaid enrollment and the associated costs, especially if the increased FMAP (federal share) expires as scheduled at the end of the year.

6 8.9744 percent of collections from the state 6 percent sales tax is distributed to this trust fund. Another 2.0810 percent is shared with counties and 1.3653 percent with municipalities.

7 Florida Department of Revenue, Revenue Collection Report, July 2021 and August 2021.

THE 2022 LEGISLATURE MUST DECIDE HOW TO HANDLE A SIGNIFICANT BUDGET SURPLUS

With record GR reserves, collections back above pre-pandemic levels, and an additional \$4.4 billion in federal aid headed to Florida's GR Fund some time in 2022⁸, the budget outlook for FY2021-22 was already quite bright. Now, with collections further exceeding the increased estimates, it looks like the 2022 Legislature will have even more available to spend.

GR collections have now surpassed the current estimate for 14 consecutive months, even after the estimate has been significantly increased three times since the low-water mark of August 2020. But the \$789.4 million in collections above the estimate so far in FY2021-22 does not necessarily mean the next estimate (January 2022)--which will be used for upcoming budget--will be increased. In December 2020, the GR Estimating Conference "banked" the overage but assumed the rest of the year would follow the prior forecast. In the April 2021 conference, the overage was banked and the estimate for the rest of the year (and future years) was increased as well.

There is some evidence that collections through the rest of this year will not exceed the estimate by the magnitude of the first three months. As mentioned earlier, the robust collections so far this year are a result of the federal stimulus, the shift of spending from non-taxable services to taxable goods, and the spending of historically high savings. Prior to the pandemic, the savings rate for FY2018-19 was 7.9 percent. The rate spiked to a record peak of 33.7 percent in April 2020. However, newly released data shows the savings rate dropped to 7.5 percent in September 2021⁹. In addition, as the service sector recovers, consumer spending will return to a more normal mix of goods and services. In addition, COVID-19, supply chain problems and increased inflation pose threats to the economy and the revenue it produces.

Still, even if only the current GR overage of \$789.4 million is added to the current estimate, the 2022 Legislature will have approximately \$46.6 billion in GR available for the FY2022-23 budget. Add the \$3.5 billion from the American Rescue Plan and available GR tops \$50.0 billion. This is \$13.5 billion (37.0 percent) more than was appropriated by the 2021 Legislature. While most of this is non-recurring funds, coming from the current \$7.3 billion in current cash reserves and the ARP funding, the state would have more than \$39.5 billion in recurring funds available—at least \$4.5 billion (12.8 percent) more than current recurring expenses.¹⁰

The 2022 Legislature will have more general revenue at its disposal than at any time in the state's history. There are also billions of restricted use federal funds available for non-GR appropriations, and more is on the way, including the new federal infrastructure bill.

There will be some fiscal challenges for lawmakers to face. The increased Federal Medical Assistance Percentage (FMAP) is slated to end at the end of 2021. If it does, Florida will be facing significant Medicaid cost increases.

8 Florida has received half of its \$8.8 billion allocation from the American Rescue Plan's Coronavirus State Fiscal Recovery Fund, with \$4.4 billion still to come, approximately \$0.9 billion of which is already appropriated contingent on receipt. The 2021 Legislature appropriated \$5.3 billion from the Recovery Fund (after the Governor's vetoes), meaning there is still \$3.5 billion in federal funds available to the 2022 Legislature. For more information, see Florida TaxWatch's "Navigating Federal Pandemic Relief: Following billions in stimulus dollars, where do we go from here?," October 2021.

9 Office of Economic and Demographic Research, Monthly Revenue Report, Volume 42, Number 3, September 2021.

10 Calculations by Florida TaxWatch based on the General Revenue Fund Financial Outlook Statement (August 17, 2021) produced by the Revenue Estimating Conference

The state's share of Medicaid will jump \$2.2 billion (20.9 percent) in FY2021-22 and \$1.4 billion (10.9 percent) in FY2022-23, even with caseloads beginning to decrease. It is possible that the increased FMAP could be extended, but President Biden has also proposed withholding some funding from states that have not expanded Medicaid under the Affordable Care Act—such as Florida.

In addition, a recent Florida TaxWatch report highlighted the need for the Legislature to address a huge looming corporate income tax (CIT) increase.¹¹ In response to the tax base expansion brought on by federal tax reform, the Legislature created a refund and rate reduction mechanism to try to keep those federal changes revenue neutral for Florida companies. This helped, but companies are still paying more in CIT than they would have without tax reform. Now, the state tax rate is scheduled to return to its original 5.5 percent in 2022, which would represent an additional tax increase of more than 50 percent. The current revenue estimates include the higher tax rate.

Although most of the federal assistance for education in Florida has not yet been spent by school districts, much of what has been spent has been on recurring expenses. This would pose a significant future problem when the billions in federal education aid runs out.

Florida TaxWatch reiterates its recommendations from our Federal Pandemic Relief report¹², including: maximize receipt of federal funds but don't be in a hurry to spend it all, maintain higher than normal GR reserves, and avoid spending non-recurring revenue on recurring expenses.

Since so much non-recurring GR is available, there could also be a heightened appetite for lawmakers' appropriations (member) projects, which by rule can only be funded on a non-recurring basis. Florida TaxWatch urges restraint on local appropriations projects.

This year's budget process is going to be a very interesting one. Numerous, significant spending issues will be debated. Florida TaxWatch is confident legislative leadership will be deliberate while looking to the future. The years following the housing bubble (the Great Recession) showed what can happen when Florida state and local governments spend most of windfall revenues.

¹¹ Florida TaxWatch, "Corporate Income Tax Issues for the 2022 Legislature," October 2021.

¹² Florida TaxWatch, "Navigating Federal Pandemic Relief: Following billions in stimulus dollars, where do we go from here?," October 2021.

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