

# BUDGETWATCH

## NEW ESTIMATES ADD MORE THAN \$2 BILLION TO AVAILABLE GR FOR THE BUDGET NOW BEING DEVELOPED BY THE LEGISLATURE

**The General Revenue Estimating Conference (REC) met on April 6 and increased Florida’s general revenue (GR) projections by \$1.476 billion in the current budget year and \$551 million in FY2021-22.**<sup>1</sup> This two-year total increase of \$2.027 billion, coupled with the \$2.109 billion increase from the December 2020 REC, restores more than three-fourths of the \$5.4 billion two-year reduction in the estimates adopted in August 2020 – the first REC after COVID-19 hit Florida.

The new GR estimate for FY2020-21 of \$33.952 billion is \$2.586 billion (8.2%) over 2019-20’s pandemic-reduced collections. Collections are expected to grow another 2.7 percent next year.

Estimated GR collections in the current budget year (FY2020-21) are now 98.6 percent of the amount forecast during the last REC before the pandemic. After paying for all current appropriations, including COVID-19 response and CARES Act budget amendments, there will be \$3.5 billion in unobligated GR leftover at the end of this fiscal year, money that will carry forward into the next budget year.

This Legislature will now have \$38.5 billion in GR available for the next budget, almost \$1 billion more than anticipated back in March 2020 when it passed the current budget.

TABLE 1. NEW GR ESTIMATES

FY	December 2020 Estimate	April 2021 Estimate	Change in Estimate		April Estimates	
			\$ million	Percentage	Change from Prior Year	
2019-20*	\$31,366.2	\$31,366.2	–	–	(\$2,047.6)	-6.1%
2020-21	\$32,476.0	\$33,951.8	\$1,475.8	4.5%	\$2,585.6	8.2%
2021-22	\$34,314.1	\$34,864.9	\$550.8	1.6%	\$913.1	2.7%
2022-23	\$36,064.5	\$36,654.7	\$590.2	1.6%	\$1,789.8	5.1%
2023-24	\$37,566.7	\$38,073.2	\$506.5	1.3%	\$1,418.5	3.9%
2024-25	\$39,012.5	\$39,492.2	\$479.7	1.2%	\$1,419.0	3.7%
2025-26	\$40,386.7	\$40,821.5	\$434.8	1.1%	\$1,329.3	3.4%

\* 2019-20 is actual collections

<sup>1</sup> Office of Economic and Demographic Research, results of the General Revenue Estimating Conference, April 6, 2021. <http://www.edr.state.fl.us/Content/conferences/generalrevenue/index.cfm>

## COMPONENTS OF THE NEW FORECAST

During the first three months after the last GR estimate was made (December through February), actual collections have exceeded the estimate by \$882 million, an average of nearly \$300 million a month. In arriving at its new forecast, the REC added this additional new money to the old estimate and projected approximately half that gain (\$150 million a month) for the remaining four months of this fiscal year.

**TABLE 2. CHANGE IN ESTIMATES AND ANNUAL GROWTH BY GENERAL REVENUE SOURCE**  
(CHANGE FROM DECEMBER 2020 TO APRIL 2021 - \$ MILLION)

Revenue Source	Change FY2020-21	Change FY2021-22	Two-Year Change	Growth From Prior Year	
				FY2020-21	FY2021-22
<b>Increased Estimates</b>					
Sales Tax	\$875.50	\$331.00	\$1,206.50	5.0%	5.1%
Corporate Income Tax	\$242.10	\$208.10	\$450.20	15.0%	1.1%
Documentary Stamp Tax	\$162.10	\$49.00	\$211.10	28.4%	-6.1%
Insurance Premium Tax	\$73.60	\$53.20	\$126.80	10.6%	-3.6%
Intangibles Tax	\$60.20	\$-	\$60.20	27.1%	-21.3%
Corporate Filing Fees	\$52.50	\$(7.10)	\$45.40	30.6%	-14.7%
Earnings on Investments	\$55.00	\$(9.90)	\$45.10	-13.0%	-25.0%
GR Services Charges	\$26.00	\$8.80	\$34.80	7.2%	0.2%
Other*	\$29.10	\$4.10	\$33.20	12.3%	-22.8%
Highway Safety Licenses & Fees	\$4.10	\$11.30	\$15.40	-1.8%	-6.4%
Severance Tax	\$1.60	\$1.60	\$3.20	4.8%	1.8%
Tobacco Taxes	\$0.30	\$0.40	\$0.70	-1.5%	-1.6%
<b>Decreased Estimates</b>					
Refunds**	\$(90.80)	\$(104.00)	\$(194.80)	-40.1%	-2.6%
Beverage Tax & License	\$(3.20)	\$(1.10)	\$(4.30)	-0.7%	3.3%
Court Fees	\$(11.10)	\$7.30	\$(3.80)	-25.1%	56.3%
Pari-mutuels Tax	\$(1.20)	\$(1.90)	\$(3.10)	-5.6%	5.9%
<b>Total</b>	<b>\$1,475.8</b>	<b>\$550.8</b>	<b>\$2,026.6</b>	<b>8.2%</b>	<b>2.7%</b>
* Includes other taxes, non-operating revenue, and county Medicaid Share. ** Estimates of refunds were increased. Increased refunds decrease net revenue.					

Nearly all GR sources were revised upward, with only three sources having their estimates reduced, and those reductions were minor, totaling \$11.2 million (see Table 2). The sales tax provided more than half of the revenue gains. The sales tax is by far the largest GR source in Florida, accounting for more than three-fourths of total collections. In the early stage of the pandemic, Florida's savings rate experienced historic growth, as many curtailed spending due to uncertain times ahead. That pent-up

consumption demand started to be released in Fall 2020. Consumers also changed their spending mix away from non-taxable services to taxable goods. The sales tax estimates were increased by \$875.5 million in FY2020-21 and \$331.0 million in FY2021-22. All six sales tax categories were increased in FY2020-21, including the vulnerable Tourism & Recreation sector (for the first time since the pandemic began.) Sales tax collections are now expected to grow by 5.1 percent next year, but the estimators cautioned there is risk to the forecast “associated with people returning to a normal purchasing mix of goods and services, as well as a more typical savings rate.”

Corporate income taxes (CIT), the second largest GR source, also saw significantly increased estimates. For the second consecutive GR estimating conference, the economists noted that despite reduced profitability, business failures and delayed business formations, actual CIT collections have been beating the estimate. The CIT forecast was increased by \$242.1 million in FY2020-21 and by \$208.1 million in FY2021-22.

Florida’s existing housing market has now fully recovered, and as a result, documentary stamp and intangible taxes are booming. The estimate of these two taxes’ contribution to GR was increased by a total of \$273.1 million over the two-year period. The glut of homes on the market due to foreclosures is gone, and increased home prices due to a record low inventory, along with record low interest rates, boosted total documentary stamp tax collections by 29.3% in FY2020-21<sup>2</sup>. These collections are well above pre-pandemic levels and are approaching the all-time high of FY2006-06 during the housing bubble.

For the rest of the new forecast horizon (through FY2025-26), the REC believes full economic recovery will come in FY2022-23 when all elements of the state’s tourism sector are fully restored. GR growth of 5.1 percent is expected in that year. It is estimated the next three years will see growth of 3.9 percent, 3.7 percent, and 3.4 percent, respectively.

## **BUDGET OUTLOOK IS VASTLY IMPROVED**

As the 2021 Legislature develops the next state budget, the fiscal position the state finds itself in is remarkable when it appeared, just a little more than a year ago, that we were heading towards a fiscal disaster.

The COVID-19 virus came to Florida just as the 2020 Session was wrapping up. The fiscal impact was immediate and severe. In only of last three months of FY2019-20, actual collections came in \$1.9 billion below estimate. Then, the first Revenue Estimating Conference during the pandemic reduced its estimates by \$5.4 billion in FY2020-21 and FY2021-22.

<sup>2</sup> Documentary stamp tax revenue is distributed to multiple funds and programs. The General Revenue Fund receives approximately one-third of the revenue.

The state received \$5.8 billion in federal aid from the CARES Act, allowing Florida to avoid a deficit in FY2019-20 and carry approximately the same amount forward into the current budget year. Then the large reduction in the revenue estimates came and the state’s *Long-Range Financial Outlook*,<sup>3</sup> released last September, predicted that Florida would be facing a revenue shortfall of \$2.75 billion in order for the 2021 Legislature to pass only a conservative continuation budget.

The next estimating conference (December 2020) increased revenue projections by \$2.1 billion, allowing everyone to breathe a little easier. But a more than \$1 billion shortfall in recurring revenue in the current budget year still existed and the outlook for the next budget was tight.

This new estimate has wiped out the current year shortfall in recurring revenue and it is now expected there will be \$3.5 billion in GR left over at the end of the current fiscal year.

There is \$2.1 billion more GR available for the next budget than previously anticipated. In addition to the \$2.0 billion increase in the revenue estimates, additional FEMA reimbursements and savings have more than offset increased costs related to COVID-19 and hurricane response and reemployment assistance operations (see Table 3).

This Legislature will now have \$38.5 billion in GR available for the next budget, almost \$1 billion more than anticipated back in March 2020 when it passed the current budget and before pandemic-related costs and revenue losses were considered.

It is uncommon that the in-session REC takes place after the House and Senate have fully developed their respective budgets, especially one that gives an additional \$2.1 billion to lawmakers to spend. This new money arrives after the chambers have already proposed budgets

**TABLE 3. CHANGES TO GR AVAILABLE FOR THE NEXT BUDGET**  
(SINCE DECEMBER 2020 ESTIMATE. \$ BILLIONS)

Additions to GR	
Increased Revenue Estimates	\$2,026.6
Medicaid Managed Care Savings Rebate	\$129.3
Unspent CARES Housing Funds	\$99.0
Increased COVID-19 Reimbursement	\$60.2
Increased FEMA Hurricane Reimbursement	\$13.8
Other Adjustments	\$7.5
<b>Total Additions to GR</b>	<b>\$2,336.4</b>
Increased GR Appropriations	
Added COVID-19 Response Costs	\$194.3
CARES Act payment to Local Govs	\$8.2
Added Hurricane Response Cost	\$16.8
Added CARES Reemployment Assistance Costs	\$18.7
<b>Total Increased Appropriations</b>	<b>\$238.0</b>
<b>Net Additions to Available GR for 2021-22</b>	<b>\$2,098.4</b>

<sup>3</sup> Florida Legislature, Long-Range Financial Outlook, Fiscal Years 2021-22 through FY2023-24, September 10, 2020. Available at [http://www.edr.state.fl.us/Content/long-range-financial-outlook/3-Year-Plan\\_Fall-2020\\_2022-2224.pdf](http://www.edr.state.fl.us/Content/long-range-financial-outlook/3-Year-Plan_Fall-2020_2022-2224.pdf)

that are balanced and leave more than \$2 billion in cash reserves. Both the House and Senate budgets also take steps to further increase the amount of General Revenue that they have at their disposal. The Senate adds more than \$1 billion through trust fund sweeps and reversions from the current budget. The House adds \$732 million through the same methods and additionally uses federal Elementary and Secondary School Emergency Relief (ESSER) funding to replace \$1 billion in education funding and return it to the General Revenue Fund.

Then there is the \$10 billion Florida will be receiving from the federal American Rescue Plan (ARP) stimulus package. The funds are not included in either chamber's budget total but the House does appropriate almost \$8 billion in the "back of the bill" for a variety of programs, including \$3.5 billion for deferred maintenance of state buildings and schools and \$2.0 billion for transportation projects. The Senate budget does not address the federal funding. This will be a major issue for the budget conference.

It should be noted that the ARP allows state to use the money "for the provision of government services to the extent of the reduction in revenue...relative to revenues collected in the most recent full fiscal year prior to the emergency."<sup>4</sup> This means Florida has great flexibility in how it can spend approximately \$2 billion.

The budget will get bigger in the conference. Lawmakers need to remember all the ARP funding and most of the excess GR is non-recurring and it should generally not be spent on recurring appropriations. Thankfully, President Simpson and Speaker Sprowls have acknowledged this frequently.

The Speaker also gave a reassuring statement when asked about member projects and the increased GR estimates. He said "I can tell you this, nobody is looking at \$2 billion and asking themselves 'how much of that can we spend on projects?'"<sup>5</sup> But it will be tough to show restraint when this much money is available.

Florida TaxWatch would also like to remind lawmakers that they have until 2024 to spend the ARP funds and may not get it all this year. Spending options need to be thoroughly vetted and prioritized. New issue arise every year and the ARP gives Florida a chance to be deliberate in deciding how to use this federal largesse.

<sup>4</sup> American Rescue Plan Act of 2021, Section 602(c)(2)(A)

<sup>5</sup> Speaker Chris Sprowls press availability following floor vote on the budget, April 8, 2021.

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