BUDGET WATCH

GENERAL REVENUE ESTIMATES FOR THE CURRENT BUDGET YEAR REDUCED BY $3.4 BILLION

So far, a budget deficit has been avoided–at least on paper

After 128 months of economic expansion through February 2020, the global coronavirus pandemic brought on the largest post-war contraction in U.S. history. With the resulting closure or slowdown of businesses, record unemployment, and a loss of tourism, Florida's economy is suffering. The impact on government revenue has been and will continue to be profound. The General Revenue Estimating Conference met on August 14 and reduced the revenue projections by $3.420 billion in the current budget year and $1.994 billion in FY2021-22.[1] This follows news that actual collections in FY2019-20 fell $1.9 billion short of the estimate.

1 Office of Economic and Demographic Research, results of the General Revenue Estimating Conference, August 14, 2020. http://www.edr.state.fl.us/Content/conferences/generalrevenue/index.cfm

Losses in sales taxes account for most of the decreased estimates. The sales tax estimate was reduced by $2.844 billion in FY2020-21 and $1.251 billion next year. Decreased tourism, falling sales for restaurants, attractions and other leisure services, and a record savings rate all contributed to the loss. While all sales tax sectors were revised downward, tourism and recreation accounted for most of the revenue loss. The sector's estimate was reduced by $1.731 billion (26.0 percent) in FY2020-21 and by $711 million (10.3 percent) next year.[2]

The second biggest loss in the forecast is in corporate income taxes. Reduced profitability, business failures, and delayed business

2 Ibid.

Table 1. Change in Estimates - January 2020–August 2020 ($ millions)

FY	January 2020 Estimate	August 2020 Estimate	Change in Estimate	% Change	August Estimates Change from Prior Year	
2019-20	$33,249.3	$31,366.2	$(1,883.1)	-5.7%	$(2,047.6)	-6.1%
2020-21	$34,449.3	$30,990.1	$(3,459.2)	-10.0%	$(376.1)	-1.2%
2021-22	$35,686.8	$33,691.2	$(1,995.6)	-5.6%	$2,701.1	8.7%
2022-23	$37,141.1	$35,279.3	$(1,861.8)	-5.0%	$1,588.1	4.7%
2023-24	$38,372.6	$36,800.7	$(1,571.9)	-4.1%	$1,521.4	4.3%
2024-25	$39,701.0	$38,089.7	$(1,611.3)	-4.1%	$1,289.0	3.5%
2025-26	NA	$39,413.6	NA	NA	$1,323.9	3.5%

formations led to projections being reduced by a total of $1.156 billion over the two years.

The new sales tax 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 in the current year were reduced by $354.1 million and by $169.1 million next year. Local governments will also see significant losses in local option sales tax collections.

Only three sources had their estimates increased, two of them related to real estate activity (see table 2). Documentary stamp taxes were increased by $56.8 million and intangibles taxes by $56.7 over two year. Tobacco taxes saw a small increase of $3.9 million.

Despite these dismal projections, Florida is not facing a deficit in the current budget year—at least on paper. The state has deposited $5.856 billion in federal money from the CARES Act into the General Revenue Fund. The result in an estimated surplus in this budget year of $1.367 billion; however, the CARES act funds included $1.275 billion in funds for local governments. The state has only disbursed $318.8 billion, meaning approximately $950 million still needs to be distributed to cities and counties. This would reduce the surplus to just over $400 million. Florida is going to have to be able to use all the CARES money to replace GR spending (highly uncertain) and not incur significant new virus-related expenses to avoid a deficit, without taking additional budgetary measures.

Table 2. Change in Estimates & Annual Growth by GR Source

$ millions // change from January 2020 to August 2020 estimates

Revenue Source	Change FY20-21	Change FY21-22	2-Year Change	Growth from Prior Year	
				FY20-21	FY21-22
Decreased Estimates					
Sales Tax	$(2,844.0)	$(1,251.3)	$(4,095.3)	-1.8%	10.2%
Corporate Income Tax	$(492.7)	$(662.7)	$(1,155.4)	-5.0%	1.8%
Insurance Premium Tax	$(42.4)	$(86.1)	$(128.5)	-2.5%	1.0%
Highway Safety Licenses & Fees	$(58.3)	$(31.9)	$(90.2)	-7.6%	-6.9%
Corporate Filing Fees	$(36.7)	$(33.7)	$(70.4)	6.9%	4.0%
Beverage Tax & License	$(29.0)	$(22.3)	$(51.3)	-4.5%	6.6%
Other Sources*	$(30.9)	$(7.7)	$(38.6)	-2.3%	4.3%
Earnings on Investments	$12.0	$(45.9)	$(33.9)	-29.8%	-18.4%
Court Fees	$(4.5)	$(4.3)	$(8.8)	-1.7%	-0.5%
Increased Estimates					
Documentary Stamp Tax	$3.4	$53.4	$56.8	2.1%	7.3%
Intangibles Tax	$41.4	$15.3	$56.7	-3.0%	-4.6%
Tobacco Taxes	$2.3	$1.6	$3.9	2.4%	-1.6%
Refunds**	$59.0	$82.0	$141.0	-40.3%	-26.2%
Total	**$(3,420.4)**	**$(1,993.6)**	**$(5,414.0)**	**-1.2%**	**8.7%**

* Severance Taxes, Pari-mutuel Taxes, County Medicaid Share, GR Service Charges, Other Taxes, Non-operating Revenue.

** Estimates of refunds were decreased. Decreased refunds increase net revenue.

OTHER ESTIMATING CONFERENCES

The General Revenue Conference in the culmination of the summer cycle of estimating conferences. This includes forecasts on several trust fund (TF) revenue sources, as well as estimates of cost drivers (school enrollment, caseloads, prison population, etc). Several of these TF estimates have implications for GR spending. Below is a summary of the most significant conferences.[3]

REVENUE CONFERENCES

Lottery/Slots/Education Enhancement Trust Fund – The Lottery and slot machine taxes provide approximately $2.0 billion annually for the Educational Enhancement Trust Fund (EETF). Lottery sales exceeded estimates in 2019-20, and actual deposits to the EETF ended the year $26.8 (1.5 percent) million above forecast. This was due to sales of scratch-off tickets increasing significantly during the COVID-19 months. Several games experienced reduced sales, including Powerball, Fantasy 5, and Mega Millions. The estimate for FY 2020-21 was decreased by $25.6 million (1.3 percent), nearly offsetting the previous year's gain. Estimates for the other four years of the forecast were reduced by more than $60 million annually.

Slots machine taxes are a different story, with the pandemic hitting collections hard. Slots revenue came in $46.8 million (23.0 percent) under estimate in FY 2019-20, and a bigger drop of $55.1 million (26.7 percent) is expected this year.

3 The results of all the estimating conferences summarized here can be found at http://www.edr.state.fl.us/Content/conferences/index.cfm

The EETF appears to be in fair shape—at least in the short-term. The fund finished FY2019-20 with $132.4 million unspent. The new estimates also predict the EETF will avoid a deficit this year, ending with a $87.0 million surplus, due to the Governor's veto of the $134.6 million Lottery School Recognition Program. As a result, there is expected to be enough recurring funds available in FY 2021-22 and FY 2022-23 to cover the current level of recurring spending.

Gross Receipts/Public Education Capital Outlay (PECO) – The gross receipts tax on utilities pays for the PECO program, which provides funding for educational facilities construction and fixed capital outlay needs for school districts, colleges, universities, and other public education programs. The reduction in commercial and industrial utility consumption due to the pandemic resulted in decreased estimates for the tax. Because people who would have normally been in these businesses were instead at home, residential consumption increased, mitigating the revenue loss. The estimate for FY2020-21 was reduced by $48.3 million and by $33.3 million next year. This reduction in gross receipts tax revenues resulted in $333.6 million in available cash for non-debt service PECO funding in the current year, $20.0 million less than was appropriated. It is now estimated there will be only $242.3 million available for the next budget (FY2021-22), $96.1 million less than previously estimated. PECO funds may be bonded and under the new estimates, $2.9 million in bond funds would be available next year for educational facilities, but the Legislature has only used bonding once since FY 2010-11.

Unclaimed Property/State School Trust Fund (SSTF) – Unclaimed property is financial assets that are lost, unclaimed, or abandoned by the owner. This includes dormant bank accounts, insurance proceeds, stocks, dividends, uncashed checks, deposits, credit balances, safe deposit boxes, and refunds. If unclaimed after five years, the proceeds are transferred to the SSTF to help fund the Florida Education Finance program (FEFP) and class size reduction; however, the owner or heirs can claim it at any time. The estimate of unclaimed property revenue available for the next budget was increased by $33.0 million. The SSTF is projected to end this current budget year with a surplus of $51.6 million and there will be more than enough recurring revenue in the fund next year to cover this budget's recurring appropriations.

Tobacco Taxes – In addition to General Revenue, tobacco taxes provide money for the Health Care Trust Fund (HCTF), which helps fund the state's Medicaid program. Although this tax source is expected to continue declining year-to-year, the new estimates are a little better than the last forecast. This will provide a small boost to Medicaid funding—a total of an additional $38.2 million in last year and the current year.

Tobacco Settlement – Revenue from tobacco companies to settle Florida's lawsuit is deposited into the Tobacco Settlement Trust Fund (TSTF) and is used to help pay Medicaid costs ($331.9 million in the current budget) and tobacco education and prevention ($73.4 million). Actual FY 2019-20 payments to the TSTF fell $20.9 million short of the estimate and the current year estimate was decreased by $11.0 million. The result is that the TSTF is facing a projected $16.0 million deficit in FY2020-21—meaning there is not enough money in the fund to cover appropriations made by the 2020 Legislature.

Transportation Revenues - Less driving during the pandemic means less fuel consumption and less funding for transportation in Florida. The estimates were lowered for all State Transportation Trust Fund (STTF) revenue sources: fuel taxes, rental car surcharges, and motor vehicle license and registration taxes and fees. It is now predicted the state will collect nearly $1.5 billion (5.7%) less than expected in state transportation revenues through the DOT five-year work program (FY2025-26). The estimate for the current year (FY2020-21) was reduced by $432.2 million, dropping total SSTF collections from the previous estimate of $4.064 billion to $3.632 billion (10.6 percent). In addition, actual collections for the fiscal year just ended (June 30, 2020) were $198.1 million below estimate.

Ad Valorem (Property Taxes) – The Great Recession—which followed a bursting housing bubble—resulted in significant decreases in Florida property values. In contrast, the estimators project that total property values will continue to grow through and after the coronavirus pandemic, albeit at a lower rate than previously expected. The non-residential sector will see values fall in 2021 and 2022, as commercial property becomes vacant, idle, or lower income-producing due to COVID-19; however, this will be more than offset by growth in the residential sector. Certified school taxable value in 2020 was $2.302 trillion (0.3 percent higher than forecast). The new projection for 2021 is $2.338 trillion. Although this is a downward revision of $84.8 billion (3.5 percent) from the previous estimate, it is still growth of

$36.2 billion (1.6 percent) from 2020. The new forecast projects growth of 3.2 percent in 2022, and then increases ranging from 4.1 percent to 4.7 percent through 2026. The growth rates are consistently lower than the previous estimates, which ranged from 5.2 percent to 5.8 percent. The new estimate of school taxable value for 2021 would provide approximately $394 million in more in property taxes for schools than in the current budget (at the same millage rate).

CASELOAD CONFERENCES

Medicaid Caseloads/Expenditures – In the two years before the pandemic, Medicaid enrollment was declining, dropping from 4.0 million (nearly 20 percent of the state's population) to 3.8 million (18 percent of population). The number of Floridians unemployed by the economic slowdown that followed the virus is going to swell the number of Medicaid recipients. Caseloads are now expected to climb to 4.360 million people in the current year, at increase of 544,000 (14.3 percent). A small decrease is expected in FY 2021-22 and annual decreases of under 2.0 percent annually will continue after that. Still, by the last year in the forecast (FY 2025-26), the number of recipients will be 222,000 greater than last year.

This increase in Medicaid recipients means higher costs. Expenditures for the current year are now estimated at $31.3 billion, an increase of 10.7 percent. The expenditures for FY2021-22 are expected to grow (from this year) by only 0.2 percent but are considerably higher than previously anticipated. The results in deficits (estimated expenditures compared to the base budget) are $1.622 billion and $1.877 billion, for the current year and next year, respectively; however, the federal government increased the Federal Medical Assistance Percentage (FMAP), which means Washington will pay more of Florida's Medicaid bill. The increased federal share results in Florida having an estimated GR Medicaid surplus of $141.0 million this year. There is expected to be a GR deficit next year of $553.7 million due to the end of the additional federal funding. There will also deficits next year in state Medicaid trust funds: the Public Medical Assistance Trust Fund ($52.5 million) and the Health Care Trust Fund ($26.3 million). Two caveats to the new forecast: the expenditures for FY 2019-20 are not final yet (the forecast still uses the January 2020 estimate); and there is expected to be a decrease in federal funding for the hospital disproportionate share program in December of 2020, absent future federal action.

Temporary Assistance to Needy Families (TANF) – TANF is funded through a federal block grant and state "maintenance of effort" payments. While both actual caseloads and expenditures were lower than expected in FY 2019-20, the effects of COVID-19—especially unemployment—resulted in increased estimates in each year of the forecast. There are currently 38,115 recipients enrolled in the program and this is expected to increase by 8,805 (24.9 percent) in FY2020-21, raising expenditures by $44.1 million. Caseloads and expenditures are expected to decrease each year after that highwater mark but will still be higher than previously estimated.

Public School Enrollment – The state's estimators ultimately decided that the previous estimate of enrollment for the current year (FY2020-21) was still reasonable and the estimate was unchanged, keeping it at the 2,890,177 students that were funded in the budget. They cautioned that while the statewide estimate was still viable, impacts from COVID-19 could lead to variations at the district level. The enrollment estimates for the other years in the forecast were all increased slightly, each less than one-tenth of one percent. Enrollment is now projected to grow by 30,481 (1.0 percent) in the next budget year. At current per-student funding, this growth would cost $233.4 million, including $133.0 million in state funds.

Voluntary Pre-Kindergarten (VPK) – Enrollment during the last fiscal year was 965 FTEs less than expected. Kids staying home due to the pandemic significantly reduced summer enrollment. This impact is expected to continue until summer 2021, leading to estimated enrollment for the current fiscal year being reduced by 15,746 students. At current per-student funding, these fewer students could save approximately $40 million.

Criminal Justice – Florida's prison populations has been falling steadily since FY 2013-14, dropping from 100,942 to 95,626 (5.3 percent) in FY2019-20. The estimate for the current year was reduced by 7,006 (8.3 percent). This huge drop is also a result of the pandemic, with the closures of courts and reception centers. As they reopen, admissions are expected to recover next year, but the year-end populations will still be below the earlier estimates throughout the new forecast. Such a significant decrease in prisoners should result in budget savings going forward, although rapidly rising healthcare costs will be magnified by the current health crisis.

State Employee Health-Insurance Trust Fund – A previously anticipated deficit in the state employee health insurance trust fund in FY2021-22 has been delayed at least a couple of years. The fund had a $649.3 million cash balance at end of the 2019-2020 fiscal year, $145.3 million more than the last estimate. The surplus is now projected to grow to $712.2 million by the end of this fiscal year, $400.9 million more than anticipated. This significant cash balance turned a previously projected $103.2 million deficit next year into a $657.8 million surplus, but the fund is now projected to be in deficit by FY 2023-24. Reduced claims due to fewer doctor visits and elective procedures during the beginning of pandemic led to the improved outlook, but forecasters warn the long-term impact of the virus on claims is unknown.

FLORIDA'S BUDGET OUTLOOK

FEDERAL AID ALLOWS THE STATE TO AVOID A BUDGET DEFICIT IN FY2020-21, BUT THAT COULD CHANGE

It is now projected that Florida's General Revenue tax sources will bring in $5.3 billion less (FY2019-20 and FY2020-21) than the Legislature anticipated when it put together the new state budget during the 2020 session. Normally, this would have decimated that budget, creating a significant deficit. Since Florida's budget must be balanced, the Legislature may have had to come back to Tallahassee by now to address the deficit. But the new Financial Outlook Statement (also adopted by the General Revenue Estimating Conference) project Florida will have a budget *surplus* of $1.367 billion at the end of the current budget year (June 30, 2021).[4]

The table below shows how this was possible. At the end of the 2020 Session, based on the pre- pandemic revenue estimates and before

4 Office of Economic and Demographic Research, General Revenue Fund Financial Outlook Statement, August 14, 2020

any COVID-19 federal aid, the state had projected GR surpluses (available GR revenues minus all GR appropriations) of $1,868.0 billion in FY 2019-20 and $1.283 billion for FY2020-21 (before the Governor's vetoes). This cash reserves certainly wouldn't have covered the coming revenue reductions.

But in addition to the reduced GR estimates, many things have happened since the session that impact the financial outlook. First and foremost is the federal aid provided by the Coronavirus Aid, Relief, and Economic Security (CARES) Act, passed by Congress in March 2020. While still in FY 2019-20, the state deposited $5.856 billion in federal aid into the General Revenue Fund. Of this amount, $1.275 billion is to be distributed to local governments.[5] The state has only distributed one-fourth of the local money ($318.8 million), leaving $956 million still to be distributed. Putting that money into GR at least postponed any budget deficit.

So far, there have been two budget amendments specifically for spending CARES money—the local government distribution noted above and $250.0 million for housing assistance. There have been other budget amendments for COVID response totaling $1.1 billion.

Additional federal aid arrived in the form of an increased Federal Medical Assistance Percentage (FMAP), which means the federal government will pay a higher share of Florida's Medicaid costs. In addition to paying for some of the increased cost of rising Medicaid enrollment this year and next, the FMAP reduced the need for GR spending in FY2019-20 by $592.4 million, allowing that money to be added to GR reserves.

Governor DeSantis also vetoed $447.5 in GR spending from the FY2020-21 budget (in addition to $512.6 million in trust vetoes and $42.2 million in vetoed re-appropriations.) This also boosted reserves. There were also some unspent appropriations that reverted to the GR fund and some additional federal reimbursement.

All these pluses and minuses to the state's GR balance result in an estimated surplus of $1.367 billion. Since almost all of the surplus is due to non-recurring revenue, there is a deficit in recurring GR of $2.513 billion, meaning that there is not enough recurring revenue to cover the current year's recurring appropriations. The $3.879 billion non-recurring surplus can cover this this year, but the recurring deficit spells trouble for next year.

LOOKING AHEAD

The newly estimated surplus for the current budget year is not as large as it seems and carries with it a lot of risk. There is still approximately $950 million in CARES Act funds counted in the GR balance that the state still must distribute to local governments. This would reduce the surplus to just over $400 million.

Further, as Florida TaxWatch has been pointing out,[6] there are no assurances Florida will be able to use all the CARES Act relief funding that we now have in the bank. The Act limits funding to "necessary state and local government expenditures incurred due to the COVID-19

5 Another $2,472 billion was distributed by the U.S. Department of the Treasury directly to Florida local governments with populations greater than 500,000. The $5.856 billion sent to the State of Florida includes $1.275 billion for the other local governments.

6 Florida TaxWatch, Budget Watch, COVID-19 Impact, July 29, 2020.

Table 3. How Florida Has Avoided a Budget Deficit So Far

$ million

OLD ESTIMATE (POST-SESSION)	Recurring	Non-recurring	Total
GR Available for 2019-20	**$34,350.4**	**$1,875.5**	**$36,225.8**
GR Appropriations by 2019 Legislature	**$(32,890.3)**	**$(1,297.3)**	**$(34,187.6)**
Budget Amendments - Hurricane Response		$(120.7)	$(120.7)
Budget Amendments - COVID-19 Response		$(59.5)	$(59.5)
Ending Balance 2019-20	**$1,460.1**	**$398.0**	**$1,858.0**
GR Available for 2020-21	$35,186.6	$1,393.6	$36,580.2
GR Appropriations by 2020 Legislature	$(34,200.4)	$(1,096.5)	$(35,296.9)
Ending Balance 2020-21 (Post-Session Estimate)	**$986.2**	**$297.1**	**$1,283.3**
CHANGES AFTER THE 2020 SESSION			
Actual Revenues Below Estimates 2019-20		$(1,883.1)	$(1,883.1)
New Revenue Estimate 2020-21	$(3,619.5)	$199.1	$(3,420.4)
Governor's Vetoes (2020-21 Budget)	$118.5	$327.2	$445.7
CARES Act Relief - COVID-19		$5,855.8	$5,855.8
CARES Act Funds to Local Governments (COVID-19)		$(318.8)	$(318.8)
CARES Act - Disbursement for Housing Assistance		$(250.0)	$(250.0)
Budget Amendment - COVID-19 Response (2019-20)		$(451.3)	$(451.3)
Budget Amendment - COVID-19 Response (2020-21)		$(646.2)	$(646.2)
Federal COVID-19 Reimbursement		$11.1	$11.1
Increased Federal Medicaid Match (FMAP)		$592.4	$592.4
Additional FEMA Reimbursement		$25.1	$25.1
Reversions		$162.5	$162.5
Reappropriations		$(44.7)	$(44.7)
Other Budget Amendments		$(15.0)	$(15.0)
Other Adjustments	$1.8	$18.4	$20.2
New Estimated Ending Balance 2020-21	**$(2,512.9)**	**$3,879.5**	**$1,366.6**

public health emergency." The costs can't be in the state's budget most recently approved as of March 27, 2020. Florida's budget was not signed until June 29 so its expenses could qualify; however, the budget was developed largely without COVID-19 in mind.

CARES Act funds may not be used directly for revenue replacement or to cover shortfalls. In addition to direct virus response expenditures, funds may be used for second-order effects of the emergency, such as economic support to those suffering from employment or business interruptions.[7] Florida will

7 U.S. Department of the Treasury, Coronavirus Relief Fund Guidance for State, Territorial, Local, and Tribal Governments, Updated June 30, 2020.

be able to find appropriations in the budget that, while not originally envisioned to respond to COVID-19, would qualify for CARES Act fund. For example, payroll expenses for public safety, health care, human services, and similar government employees whose services are substantially dedicated to mitigating or responding to the COVID-19 public health emergency.

The GR Estimating Conference qualified its estimate of a surplus with the following note: "However, there is a very high degree of uncertainty surrounding the future allowable uses of these dollars by states and local governments. To the extent that the funds cannot be used to fill revenue shortfalls or offset current appropriations when they are used for pandemic-related purposes, or if additional COVID-19 expenditures are required, the Fiscal Year 2020-21 ending balance shown in this outlook will be lower, potentially becoming negative."[8]

The estimated surplus assumes all the CARES Act money is already dedicated to existing appropriations. Any new virus response expenses that may arise and cannot be tied to current appropriations will reduce the surplus.

Even if the state can make it through this fiscal year without a deficit, next year will certainly require legislative actions to ease the budget squeeze. The current estimate of available GR in FY2021-22 is $34.104 billion, barely enough to cover the current recurring (base budget) appropriations, let alone any cost increases or enhancements or providing for adequate reserves. For example, the increased FMAP should cover added Medicaid expenses this year, but a state funding deficit of $553.7 million exists next year. More than 30,000 new public-school students will cost $233.4 million just to keep current per-student funding levels. Additional TANF recipients will cost an estimated $44.1 million.

The state's fiscal condition is very much in flux and considerable downside risks exist. Using these new revenue estimates, the Florida Legislature will be producing the constitutionally required Long Range Financial Outlook next month. This valuable planning tool takes an in-depth look at estimated expenditures compared to available revenue over the next three years. There will also be another round of estimating conferences before the 2021 legislative session.

The Legislature has been able to postpone addressing the fiscal impacts of the global pandemic until after the November elections. Next session will be even more budget-centric than usual. 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."[9] This was one of the recommendations in the Florida TaxWatch report *Bringing Florida's Budget Back from COVID-19*.[10]

Florida TaxWatch encourages 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.

8 Office of Economic and Demographic Research, General Revenue Fund Financial Outlook Statement, August 14, 2020.

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

10 Florida TaxWatch, "Roadmap for Recovery," June 2020