

# Budget Watch



## 2014 LEGISLATION AFFECTING REVENUES

JULY 2014

Following each legislative session, Florida's Revenue Estimating Conference (REC) analyzes of each piece of legislation passed during the previous legislative session that has the potential to impact state and local coffers, and estimates ("scores") the revenue impact of that legislation. These estimates are important, as they will be incorporated in the current round of Revenue Estimating Conferences to determine how much money is available for the next state budget.

The REC has now scored all of the legislation affecting state and local revenue passed by the 2014 Florida Legislature. In total, state revenue will be decreased by \$557.6 million in the current fiscal year, which began on July 1, 2014, and will end June 30, 2015. Of the decrease, \$542.7 million is in General Revenue (GR) and \$14.9 million is in trust funds (TF). The total state impact for next year (FY2015-16) is \$458.5 million, comprised of a \$617.9 million reduction in GR, and a \$159.4 million *increase* in TF at the state level. At the local level, revenues (including changes in tuition) are anticipated to decrease by \$41.5 million this year and \$37.0 million next year.

These numbers include more than just measures that affect the amount of money that is collected by the state, so this does not mean that taxes and fees were cut by \$557.6 million this year. Included are changes to the statutory distribution of revenue sources, such as shifting money from GR to TF, and measures that are more like appropriations, where individual bills distribute state revenue directly to specific projects, such as an additional \$5 million for the Moffitt Cancer Center and \$4.7 million for baseball spring training facilities. Such funding does not have to be appropriated by the Legislature in the state budget.

One of the largest impacts this year is a bill that directs the Department of Education to make monthly deposits to a sinking fund for debt service requirements on Public Education Capital Outlay (PECO) bonds. While this will reduce the amount available for appropriation in the PECO fund by \$150.8 million in FY2014-15, the money would have been spent on debt service on PECO bonds eventually. The \$150.8 million hit to the PECO fund is included in the totals noted below.

### Fiscal Impact of All Passed 2014 Legislation

	GENERAL REVENUE		TRUST FUND		LOCAL		TOTAL	
	CASH	RECURRING	CASH	RECURRING	CASH	RECURRING	CASH	RECURRING
FY2014-15	(542.7)	(612.7)	(14.9)	148.2	(41.5)	(42.2)	(599.1)	(506.7)
FY2015-16	(617.9)	(627.5)	159.4	154.9	(37.0)	(42.6)	(495.5)	(515.2)

## INDETERMINATE ESTIMATES

Sometimes, legislation can be given an “indeterminate” revenue impact estimate. An example of this is legislation creating a new process for approving state funding for professional sports stadiums. This measure could cost \$13 million a year; however, each stadium project must be approved by the Legislature and since the Estimating Conference does not assume future legislative action, this impact is not included in the total and therefore does not affect the estimates of available revenue. For this reason, an “indeterminate” impact estimate is often prized by supporters of a specific bill.

Additionally, impacts of less than \$50,000 are given an “insignificant” price tag and are not included in the totals.

## Tax Cuts

Reducing taxes was a priority of the 2014 Legislature, and much was made about its \$500 million tax cut package, but there are different ways to measure the value of tax cuts. Throughout the session, the first-year fiscal impact of the one-time cuts (sales tax holidays) and the annualized impact of the recurring cuts were combined to reach its \$500 million target. However, the actual first-year impact of the cuts is estimated by the REC to be smaller than the annualized impact.

As shown in the table on the next page, the tax cut package (SB 156 and HB 5601) reduced tax revenues by \$398.8 million in FY2014-15, \$469.4 million in FY2015-16, and \$490.7 million in FY2017-18. Combing through other legislation uncovers additional measures that could be considered tax/fee cuts. These could add another \$18.2 million this year and \$7.4 million next year, but \$500 million in actual tax savings in a single fiscal year is not achieved.

## Other Bills Affecting Taxes & Fees

The following is a summary of legislation not in the tax package that reduced taxes or fees and may not have received much attention during session:

*Tax Credit Scholarships* – expansion of a program that gives businesses a credit against various taxes for funding private school scholarships for low income students (\$15.2 million this year, \$3.8 million next year).

*ID Cards* – exempts homeless and very low income persons from the \$25 fee for an ID card (\$1.2 million).

*Pugilistic Exhibitions* - deregulates concessionaires and booking agents, and lowers event tax payments (\$1.0 million).

## Impact of the 2014 Legislative Tax Cut Package

	STATE REVENUE		LOCAL REVENUE		TOTAL REVENUE	
	2014-15	2015-16	2014-15	2015-16	2014-15	2015-16
Rollback Motor Vehicle Fees	(307.2)	(400.4)	0.0	0.0	(307.2)	(400.4)
Sales Tax Holidays						
<i>Back to School</i>	(32.2)	0.0	(7.1)	0.0	(39.3)	0.0
<i>Hurricane Preparedness</i>	(2.2)	0.0	(0.5)	0.0	(2.7)	0.0
<i>Energy Efficiency</i>	(1.4)	0.0	(0.3)	0.0	(1.7)	0.0
Sales Tax Exemptions						
<i>College Meal Plans</i>	(11.6)	(11.9)	(2.6)	(2.6)	(14.2)	(14.5)
<i>Car Seats &amp; Bike Helmets</i>	(2.2)	(2.5)	(0.5)	(0.5)	(2.7)	(3.0)
<i>Cement Mixers</i>	(3.3)	(3.6)	(0.4)	(0.5)	(3.7)	(4.1)
<i>Therapeutic Pet Foods</i>	(2.3)	(2.6)	(0.5)	(0.6)	(2.8)	(3.2)
Electricity Tax Swap	(4.3)	(3.3)	0.0	0.5	(4.3)	(2.8)
Private Credit Cards (Sales Tax Refund)	(7.4)	(7.1)	(1.6)	(1.6)	(9.0)	(8.7)
New Markets Tax Credit*	0.0	0.0	0.0	0.0	0.0	0.0
Prepaid Calling Cards	0.0	(1.3)	0.0	(2.0)	0.0	(3.3)
Community Contribution Tax Credits	(7.1)	(19.8)	(1.3)	(3.6)	(8.4)	(23.4)
Bail Bonds Premiums	(0.4)	(0.7)	0.0	0.0	(0.4)	(0.7)
Title Insurance Premiums	(2.4)	(5.3)	0.0	0.0	(2.4)	(5.3)
<b>Total</b>	<b>(\$384.0)</b>	<b>(\$458.5)</b>	<b>(\$14.8)</b>	<b>(\$10.9)</b>	<b>(\$398.8)</b>	<b>(\$469.4)</b>

\* \$7.7 million recurring impact begins in FY2016-17

*Rental Car Surcharge* – reduces the surcharge on car service vehicles used for less than 24 hours from \$2 to \$1 (\$0.2 million, \$0.5 million recurring).

*Inmate reentry* – waiver of ID card and birth certificate fees for inmates reentering society (\$0.2 million, \$0.5 million recurring).

*Rural Electricity Exemption* – business that currently qualify for the Rural Jobs Tax Credit may now also get a refund of 50 percent of the sales taxes they paid on electricity (\$0.1 million).

*Dance Studios* – completely deregulates this industry in Florida, eliminating the \$300 registration fee (\$0.1 million).

*Coastal Construction/Excavation Permits* – reduces fees for swimming pools, dune restoration and coastal armoring (\$0.1 million).

*Professional Licenses for Veterans* - extends the time to obtain a professional or health care practitioner license fee waiver for military veterans to 60 months of discharge and allows spouses to obtain the waiver (\$0.1 million).

*Dispersed Water Storage Program* - agricultural lands with a contract with the state or a water management district which requires flooding of land will now be assessed as nonproductive agricultural lands (\$0.1 million).

These bills were scored as indeterminate negative or insignificant negative:

***NBA and MLS All-Star Games*** – adds the MLS All-Star game and events related to the NBA All-Star game to the list of events for which tickets are exempt for sales taxes. This could be worth \$200,000 but since no games are currently scheduled in Florida, the bill was scored as indeterminate.

***Insurance Agent Licenses*** - provides an exemption from the \$50 application filing fee for members of the military and their spouses, as well as honorably discharged veterans who have retired within 24 months before application.

***Commercial Fishing*** – repeals a \$100 license fee for the use of haul seines (nets pulled behind boats). There are currently only 11 active licenses.

***ATVs and ROVs*** – changes the definitions of all-terrain vehicle and recreational off-highway vehicles which may result in more being able to qualify for a \$29—instead of \$70—title fee.

***Drivers Licenses for Military Families*** – exempts the spouse and dependents of an active duty member of the military that have an out-of-state license from the requirement to get a Florida license.

***Seed Dealer Registration Fees*** – creates two new lower fee tiers: \$10 and \$25. The previous low was \$100.

***International Banking*** – repeals a \$2,000 annual assessment on each international representative office, international administrative office and international trust company. There are currently only nine assessments paid.

## Other Measures

***Revenue Increases*** – There was also legislation passed last session that will increase state revenues, although the measures are unlikely to be called tax increases. One bill will increase collections of the Emergency 911 (E911) fee levied on phone services to fund costs incurred by local governments and providers for 911 systems. When the fee was established, prepaid cards were subject to the fee, but collection of the fee was not consistent or equitable. The fee on prepaid cards was suspended in 2007 and was scheduled to begin again on July 1, 2013. Under the new law, the maximum fee is reduced from 50 cents to 40 cents and a point of sale process is established to collect the fee. After a loss of \$1 million in FY2014-15, it is estimated the combination of the reduced rate and the collection on prepaid cards will result in \$3.2 million in additional fees being collected annually.

Legislation authorizing the medical use of low-THC cannabis is expected to increase sales taxes by \$7.8 million annually. There are other bills that are expected to result in minor revenue increases, including: a new license fee for family trust companies; a fee for persons who lobby water management districts (local); and a new fee of up to \$1,000 per submission for publishers who participate in the school instructional materials approval process.

***Tuition*** - The Legislature created a new out-of-state fee waiver for undocumented immigrants who attend a Florida high school for three consecutive years before graduating, and meet other conditions. There is a new waiver of out-of-state tuition fees for honorably discharged veterans who reside in Florida while enrolled.

There is also a new exemption from tuition and fees at a state university for child protection and child welfare personnel in an accredited graduate-level social work program or a certificate program related to child welfare. The person must be employed by the Department of Children and Families, community-based care (CBC) lead agencies, or CBC subcontractors and must not possess a master's degree in social work. These waivers are worth a total of \$27.1 million. The tuition differential was also eliminated, except for preeminent universities Florida State University and the University of Florida, and their differential was reduced from 15 percent to 6 percent.

**PECO** – The legislative tax package contained a measure that changed the make-up of the tax on electricity paid by businesses: the current 7 percent state sales tax on electricity was reduced by 2.65 percent and the current 2.5 percent gross receipts tax was increased by 2.6 percent. The effect is to shift revenue from GR to the PECO Trust Fund, which is used to construct educational facilities, including through bonding. Recently, PECO revenue has been tight and there has been no bonding capacity. This will put \$151.4 million into PECO in FY2014-15 and \$171.7 million in FY2015-16. However, the sinking fund for debt service discussed earlier in the report will offset almost all of this increase in FY2014-15. The sales tax decrease and gross receipts increase had originally been equal and this measure was portrayed on the floor as revenue neutral. However, the slightly smaller gross receipts increase results in a \$4.3 million tax cut for businesses (see Tax Package table on page 3).

**Tax Administration** – The interest rate on delinquent Reemployment Taxes (Unemployment Compensation) was 1 percent per month. It is now the same as other taxes: prime plus 4 percent, not to exceed 1% per month, 12% annum. This will reduce revenue by an estimated \$0.6 million annually.

## Conclusion

Legislation passed by the 2014 Legislature reduces revenues by \$542.7 million in FY2014-15 and \$617.9 million in FY2015-16. Depending on how much of the FY2014-15 impact would have been spent in the current budget if it had been available, the 2014 legislation reduces the GR available for the next state budget by as much as \$1.16 million.

Even with the revenue reductions, the state is expected to have \$1.65 billion in cash reserves for FY 2014-15. Factor in next year's \$617.9 million revenue reduction, and the state will have an estimated \$30.08 billion in GR available for FY2015-16, which is only \$128 million more than was available for FY2014-15. These numbers will change following the current round of Revenue Estimating Conferences, and a future *Budget Watch* will analyze these new revenue estimates.

Florida TaxWatch commends the Legislature for focusing on cutting Floridians' taxes during last session and for shoring up the PECO Trust Fund. We hope the Legislature will continue to look for ways to smartly reduce costs, increase the effectiveness and efficiency of government services and improve Florida's tax structure.

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## ABOUT THE AUTHOR



Kurt Wenner, Vice President for Tax Research, is a mainstay on the Tallahassee state budget watchdog scene and is the second-longest serving staff member of Florida TaxWatch (32 years).

Kurt has authored all of the major tax publications produced by Florida TaxWatch, including pieces on Florida's Intangibles Tax, and general sales, property, and business tax issues.

Kurt is the author of TaxWatch staples "How Florida Compares," the annual "Taxpayer Independence Day" report on tax burdens, and the annual "Budget Turkey Watch."

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Steve Evans	Senior Advisor

### RESEARCH PROJECT TEAM

Robert E. Weissert	Chief Research Officer	
Kurt Wenner	VP for Tax Research	<i>Lead Author</i>
Chris Barry	Director of Publications	<i>Design, Layout, Publication</i>

All Florida TaxWatch research done under the direction of Dominic M. Calabro, President, CEO, Publisher & Editor.

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106 N. Bronough St., Tallahassee, FL 32301      o: 850.222.5052 f: 850.222.7476

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