Briefings

March 2002

Florida is Not Alone in 9/11 Revenue Shortfalls

The revenue shortfalls Florida has been experiencing is being used by some to decry the "instability" of Florida's state revenue structure and point to the need for tax reform. However, the economic downturn of the last year and the impact of 9/11 has hurt state revenue coffers all across the nation.

State tax systems are complex and difficult to assess because tax structure is just one of the many factors of a state's tax system that affects an economy. Fiscal spending patterns, population density factors, demographics and unforeseen circumstances, such as 9/11, also bear greatly on a state's economic and fiscal well being. As the raging debate over tax reform and the standoff between the House and Senate of the Florida Legislature continues, Florida TaxWatch again urges all parties involved to dispassionately and more comprehensively evaluate the multiple pieces of information lawmakers need to consider to make an informed decision on this issue. It is a matter of vital importance to Florida, its citizens and businesses across the state and deserves an objective and thorough review.

Revenue Shortfall Occur Nationwide

A recent study by the National Conference of State Legislature (NCSL) reveals that similar economic woes are occurring across the country and that many states are in financial straits as bad or worse than that faced by Florida. The NCSL reports that 45 states are having revenue collection shortfalls and 28 report spending above their budgets. At least 30 states have cut their budgets, put holds on spending or responded by implementing other measures, and nine more are considering doing the same. Fifteen states have dipped into their reserve funds. No less than 37 states face possible budget shortfalls in FY 2003, mostly due to weak revenues and increased program costs, particularly in areas like Medicaid and K-12 education.

The Table below looks at the nation's five largest states. It shows that California, New York, Florida and Illinois have all experienced budget revenue collection shortfalls during FY 2001-02. In sharp contrast, Texas has had no reported shortfalls, no over-expenditures, and no current need to cut their budget. That is not to say that the Lone Star State may not face shortfalls later on, but, even as recent as January 2002, officials maintained that no shortfalls existed and expressed optimism.

The recession hit the national and state economies before the terrorist attacks. California was fiscally strapped long before; the energy problem alone put a stranglehold on the state. Of course the terrorist attacks hit New York harder than any other state, but with Florida's economy largely based on tourism and transactions, traveler (particularly international tourists) fears of flying and recessed consumption initially clamped down on revenue collections. At this writing, though, it appears that this initial trend is reversing itself. As for Texas, the oil and defense industries clearly bolster the state's economy, perhaps buffering the slump within the airlines industries, a good number of which are headquartered in Texas.

Post-9/11 11 Budget and Revenue Profiles as of December 31, 2001

State	Revenue Status @ 12/31/2002	Any General fund spending over budget?	Any new measures implemented or announced to balance current budget?	Budget Outlook for FY 2003 & Tax Initiatives
Florida	Two revisions reduced revenue projections for FY 2001-02 downward by $1.3 billion. (6.6%.)	K-12 spending due to higher than expected enrollment.	Second of two special sessions closed $1.3 billion FY 2002 budget gap. Cuts made across all program areas. Intangible tax cut suspended to save $128 million.	More optimistic outlook; current year cuts reduced base budget, and revenues are picking up. K-12 and Medicaid will still pose a challenge. Senate president pushing tax reform via constitutional amendment to roll back sales tax rate and to tax services. Passed Senate, not House.
Calif.	12/31 GF tax collections down $940 million. FY 2002 collections projected to end $5.5 billion (7%) below budget estimate due to under-performing revenues.	GF expenditures on target with budgeted estimate.	See first column.	Projected $8 billion (10%) budget gap. No general tax increases on the table. Tax accelerations, expected federal disbursements for terrorism preparedness, special fund taps, borrowing, tobacco securitization and pension fund actions are being considered to address the budget gap.

Illinois	Revenues through first six months of FY 2002 down $474 mil. (2%) -- $85 million less in revenue than same period last year.	State group health insurance and Medicaid over budget. Drug assistance for elderly an issue, but aided by more federal funds. Governor boosted security by $17 million.	Budget not officially cut; state agencies asked to hold back 2% of their General Revenue (GR) allocations. Prison construction delayed. State workers asked to take 1-day furlough ($8 mil. in savings.) $226 mil. from rainy day fund tapped for cash flow, but state plans to repay this FY.	Forecasters project $300 mil. to $500 mil. in revenue growth. Twice, governor has attempted to increase his authority over the budget, but Legislature has not approved this increase. There is some talk of state employee layoffs.
New York	GF tax collections are improving. Projected shortfall now at $1.1 billion (2.6%).	GF expenditures on target with budgeted estimates.	Shortfall will be alleviated with a $1.1 billion transfer from rainy day fund.	Governor projects $5.7 billion (6.5%) budget gap and recommending all fund spending to increase by 4.7%. Legislature approved a cigarette excise tax increase to raise $150 mil in GF. Approx. $60 mil in fee increases being considered.
Texas	GF tax collections on target. Sales tax collections up 1%.	GF expenditures on target.	Budget on target; state agencies asked to review spending plans.	Potential problems if Medicaid caseloads and prescription drug costs increase.

Sources: National Council of State Legislatures, State Fiscal Outlook for FY 2002 by State Updated January 2002; Taxpayers Federation of Illinois, "TFI Report from the Capitol," December 4, 2001.

Despite the perception by some that Florida's revenue collections fluctuate up and down from year to year, the truth is that FY 2002 marks the first time since 1975 that either sales tax or total general revenue collections have fallen from the previous year. October's revenue estimates project that FY 2003 general revenue collections will increase by more than $800 million from this year. And this month's Revenue Estimating Conference is expected to increase those estimates further.

Virtually all states felt the pinch of the recession and 9/11, no matter what their tax structure. This occurrence should not be used as a rush to change Florida's tax structure without a thorough review of what the long-term impact will be.

Florida TaxWatch's Center for a Competitive Florida is enlisting the best coalition of minds, professional expertise and experience from senior TaxWatch staff and the public and private sectors to study the modernization of Florida's tax system. The coalition plans to comprehensively study how to best promote, through fair, efficient, stable and accountable tax policy, Florida's ability to adapt competitively to the dynamics of the new economy and the needs of the people and of Florida businesses.

The Center for a Competitive Florida will present a first-rate research product for tax system modernization to the Florida Legislative and Executive Branches. It will include initiatives to create in Florida the best environment for capital formation and job creation, one that will make more reliable the tax base and produce the vibrant, broad and diverse economy that is so critical to our state's long-term fiscal soundness. Dynamic modeling will be done to address the many issues, which are the subject of Legislative rhetoric today, but which are not grounded in fact or tested appropriately in the context of the economic challenges that Florida shall be facing in this new millennium.

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