

BUDGET WATCH



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State Financial Outlook - Revenues Cut By \$545 million

The Revenue Estimating Conference, the group responsible for generating the official revenue estimates on which the state budget is based, met on September 10, 1990 and reduced its estimate of General Revenue Fund tax sources by \$502.8 million (detail by tax source on page 3). Total revenues available – general revenue plus the Working Capital Fund (WCF) – was revised downward by \$545 million from \$11.449 billion to \$10.904 billion, a drop of 4.8 percent. The budget adopted by the Legislature in the 1990 session appropriated total spending of \$11.274 billion, \$369.4 million greater than the revised estimate of total funds available, including the WCF.

The revised estimate for the WCF is \$222.2 million, up \$46.6 million as a result of higher than expected unused appropriations from last fiscal year. If the \$222.2 million is kept in the fund to protect against a further worsening of the economy, **required budget cuts could approach \$592 million.**

On September 11, 1990, the Governor and Cabinet adopted the Governor's budget office's recommendation to cut \$544.4 million from recurring general appropriations for 1990-91. This amounts to a 4.89% across-the-board cut of agency budgets. The agencies must respond to the Governor's Office with specific recommendations on where the cuts will be made by September 25. The Governor and Cabinet (acting as the Administration Commission) will address these recommendations at their October 9 meeting.

Financial Outlook 1990-91: Appropriations Act Estimate vs. September 10 Revision

	GENERAL REVENUE			WORKING CAPITAL FUND			NET TOTAL
	7/12/90	9/10/90	CHANGE	7/12/90	9/10/90	CHANGE	9/10/90
Balance Forward from 1989-90	\$0.0	\$0.0	\$0.0	\$179.3	\$239.8	\$60.5	\$239.8
Estimated Revenues	11,149.8	10,647.0	(502.8)	0.0	0.0	0.0	10,647.0
SIF Veto Transfer	0.0	0.0	0.0	2.0	2.0	0.0	2.0
WCF/GR Transfer	26.9	26.9	0.0	(26.9)	(26.9)	0.0	0.0
Unused Appropriations	91.8	3.0	(88.8)	7.8	0.0	(7.8)	3.0
Loan Repayment - Dept. of B&F	0.4	0.4	0.0	0.0	0.0	0.0	0.4
Working Capital Fund Interest	0.0	0.0	0.0	18.3	12.2	(6.1)	12.2
TOTAL FUNDS AVAILABLE	\$11,268.9	\$10,677.3	(\$591.6)	\$180.5	\$227.1	\$46.6	\$10,904.4
1990-91 APPROPRIATIONS		(\$11,268.9)			(4.9)		(\$11,273.8)
SURPLUS (DEFICIT)		(\$591.6)			\$222.2		(\$369.4)

U. S. and Florida Economic Outlook

When it was realized that revenue estimates were too high, the state's economic assumptions that underly them had to be revisited. The results of Florida's Economic Estimating Conferences for the state and the nation, held August 31 and September 4, respectively, do not paint a pretty picture.

U.S. Forecast

Nationally, 1992 certainly looks better than 1991. Growth in GNP, revised down to .9% this year, shows a healthy 2.4% increase the next. Inflation jumps to 5.4% in 1991, but comes back down to 3.9% in 1992. Unemployment projections were adjusted upward, reaching 6.0% in 1992, but they still run below those for Florida. Real investment is expected to fall 2.6% in 1991 (including a 8.6% drop in residential investment) but jump back up to 6.8% growth in 1992.

State Forecast

In Florida, growth in personal income and employment is slowing. Florida's unemployment rate is expected to reach 6.2% this year and 6.3% next year. This is the highest rate since 1985. Construction is especially hard hit. Construction employment will fall 4.8% this year and 1.2% next year. Construction expenditure will fall 2.3% this year but rebound with 7.4% growth in 1992. Estimated housing starts were also scaled back considerably. The strength of Florida's service sector is again evident. Although many of these jobs are low-paying, service employment projections were increased each year. Tourism is a mixed bag. Florida entertained many more tourists than first thought in 1990. Growth in tourism is expected to slow somewhat this year but is expected to bounce back in 1992.

Results of the Florida and United States Economic Estimating Conference

FY 1990 - FY 1992

Percent Change Unless Otherwise Indicated

U.S. Economic Indicators	1989-90		1990-91		1991-92	
	Old	Revised	Old	Revised	Old	Revised
Real Gross National Product	2.3	1.7	2.3	0.9	2.5	2.4
Unemployment Rate (%)	5.3	5.3	5.4	5.9	5.3	6.0
Consumer Price Index	4.6	4.8	4.2	5.4	4.4	3.9
Real Consumption	2.7	1.6	2.2	0.7	1.5	1.6
Real Investment	-0.4	-0.7	4.1	-2.6	5.3	6.8
Real Personal Income	3.4	1.9	1.8	0.9	1.8	1.6
Federal Deficit (billion \$)	-151.1	-153.0	-121.2	-174.1	-101.3	-143.9

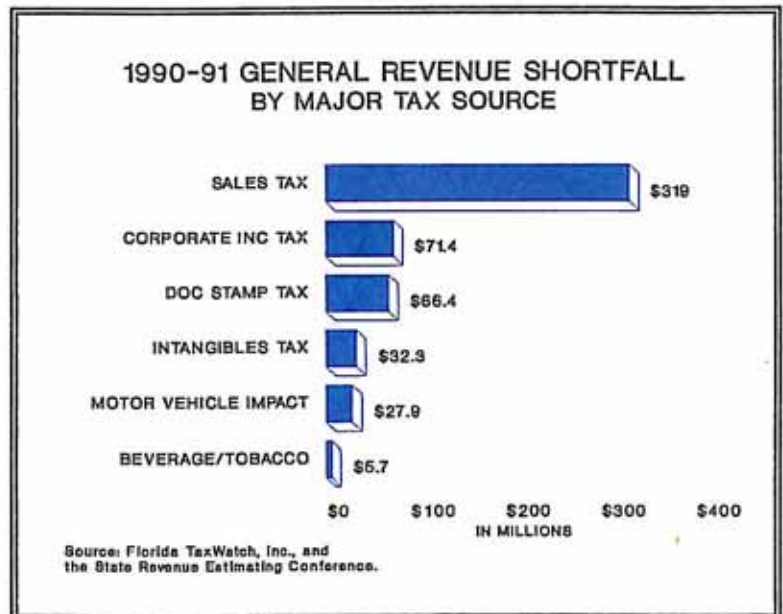
Florida Economic Indicators	1989-90		1990-91		1991-92	
	Old	Revised	Old	Revised	Old	Revised
Personal Income Growth	9.7	8.4	7.0	7.3	7.6	7.0
Real Per Capita Income	2.4	0.9	0.1	-0.3	0.4	0.5
Total Non-Farm Employment	4.0	4.2	3.2	3.1	3.1	3.0
Construction Employment	-1.0	-1.2	0.5	-4.8	0.9	-1.2
Service Employment	6.9	7.3	5.2	5.8	5.1	5.5
Unemployment Rate (%)	5.7	5.7	5.7	6.2	5.6	6.3
Total Construction Expenditures	0.3	0.2	6.1	-2.3	6.1	7.4
Total Tourists	2.6	4.8	4.2	2.5	4.9	4.5
Housing Starts (thousands)	150.3	148.5	151.6	133.7	151.6	148.1

The Shortfall by Source

Source by source, the \$502.8 million (4.5%) decline in general revenue was almost universal, and the big-money categories were especially hard hit. A 4.3% decrease in sales tax collections (the states biggest money-maker) translates into a general revenue loss of \$319 million (for detail of sales tax loss by economic sector, see table on page 4). Other large losses occurred in corporate income taxes (\$71.4 million - 8.0%), documentary stamp taxes (\$66.4 million - 15.6%), intangible taxes (\$32.3 million - 9.3%) and motor vehicle impact fees (\$27.9 million - 33.9%).

A little relief was provided by \$24.1 million more than expected in general revenue service charges, \$10.2 million more in estate taxes and \$5.3 million in hospital fees. The extra service charges, as well as the reduced doc stamp taxes, are partially due to an accounting glitch. Service charges are the 3%-6% the general revenue fund receives from state trust funds. Most of the added service charge estimate is money that was moved from the doc stamp category.

The huge reduction in the motor vehicle impact fee estimate from \$82.3 million to \$54.4 million is a result of a few bugs in a new law. As part of the \$1.3 billion tax package, the Legislature enacted a new \$295 impact fee on cars purchased out-of-state and then registered in Florida. However, it appears that the fee is only being applied to 75% of the transactions originally thought. The reasons for this will be addressed at the October estimating conference.



Because of the considerable uncertainty involved in forecasting the economy when a recession may be looming on the horizon, the Revenue Estimating Conference will be holding monthly estimating conferences.

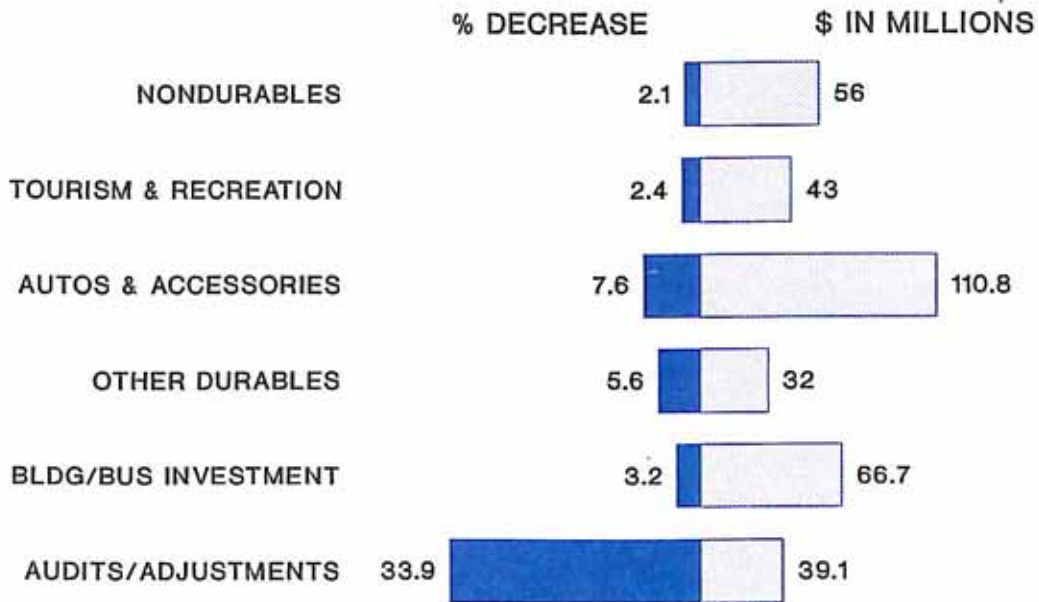
The revised economic and revenue forecast, reported herein, cannot be considered as pessimistic. Therefore there may be a considerable downside risk to the revised revenue estimate. In other words, things could get worse. The Governor and Cabinet would be prudent to leave untouched the Working Capital Fund balance of \$222.2 million as a hedge against further decline in the national and Florida economies.

Florida TaxWatch calls upon the Governor to ensure that agencies respond in a responsible manner to the revenue shortfall. Agencies, in the past, have addressed potential budget cut scenarios by offering up high profile, high priority programs that they know have little chance of feeling the budget ax. This allows them to protect lower priority pet projects that should top the list of cuts. First in line should be the \$55 million worth of legislative turkeys from the General Revenue, State Infrastructure and Educational Enhancement Trust (Lottery) Funds that survived the Governor's veto pen.

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1990-91 SALES TAX COLLECTIONS SHORTFALL BY ECONOMIC SECTOR



Florida TaxWatch, Inc., and the State Revenue Estimating Conference.

Note: The Sales Tax Collections Shortfall is \$347.8 million \$319 million of which comes from General Revenue.



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