

NEW GENERAL REVENUE ESTIMATES ADD \$627 MILLION TO THE STATE'S COFFERS FOR THE NEXT BUDGET YEAR

The latest Florida General Revenue Estimating Conference produced some good news for the Governor and the legislators that will be putting together the next state budget. Increased estimates of revenue to be collected in the current year (FY2014-15) and the next year (FY2015-16) mean that there will be \$627.9 million more general revenue (GR) for the Legislature to work with than the previous estimate.

At its meeting December 15, the conference adopted a new forecast that shows that Florida's economy is recovering and people are spending more. Lower gas prices are helping to free up some discretionary income and consumers are responding. Taxable sales relating to tourism and business purchases are also increasing.

Since the last GR forecast in August, actual collections have exceeded expectations. At the end of November, total collections for the year (five months) were \$158.6 million (1.55 percent) over estimate. Since this overage was stronger and more consistent than normal variations, the Conference upped the new estimates.

The Conference increased its estimates by \$296.0 million for FY2014-15 and by \$331.9 million for FY2015-16. GR collections are now estimated to total \$27.485 billion this year and \$28.578 next year, showing annual growth of 4.9 percent and 4.0 percent, respectively.

CHANGES IN GR ESTIMATES

(\$ BILLIONS)

FISCAL YEAR	AUGUST ESTIMATE	DECEMBER ESTIMATE	CHANGE
2013-14 (actual)	\$26,198.0	\$26,198.0	0
2014-15	\$27,189.4	\$27,485.4	\$296.0
2015-16	\$28,246.6	\$28,578.5	\$331.9

The sales tax, by far the state's largest revenue source, accounts for most of the additional money in the estimate, and was increased by \$384.2 million over the two-year period. Spurred by greater activity than expected in the housing market, estimates for documentary stamp taxes were increased by \$138.3 million, and for intangibles taxes by \$32.6 million. The estimate for beverage tax and license revenue was increased by \$81.0, corporate income taxes were increased by \$29.9 million, and the estimated earnings on investment was increased by \$31.3 million. Sources of reduced revenue estimates were Article 5 court fees (\$29.9 million), Indian gaming revenues (\$7.6 million), severance taxes (\$2.7 million), and corporate filing fees (\$0.7 million).

REVENUE ESTIMATING CONFERENCES

In addition to General Revenue, there are estimating conferences to forecast collections of other revenue sources. Some of these are included in the GR estimates, but others are trust fund revenues for specific budget areas and programs. Some taxes fund both GR and trust funds. The following is a summary of several important conferences that, while dealing mostly with trust funds, can have an impact on the need for general revenue spending.

Lottery and Slot Machine Estimating Conferences - Net revenues from the lottery (after prizes, retailer commissions and administrative costs), along with slot machine revenues, go into the Educational

Enhancement Trust Fund (EETF) for the sole purpose of funding education. This can have implications for GR spending, because if revenues are not sufficient to continue funding of the EETF programs that are in the current budget, GR would have to be used to maintain them. Conversely, growing EETF revenues can take some of the pressure off GR to fund education. The Lottery brings in approximately \$1.5 billion annually for education.

Despite an increased estimate of total ticket sales, the latest lottery conference reduced the estimate of revenues going into the EETF by \$5.1 million in FY2014-15 and by \$22 million in each of the next five years. This is because scratch-off tickets, which have a larger prize payout percentage than terminal games, are

making up a bigger percentage of total lottery sales. The growth rates vary across games, but most of the decline in the estimate is due to lower projections for Powerball and Lotto ticket sales.

Estimates of slot machines revenues were also reduced in every year of the forecast, although annual revenues should still increase slightly year-to-year. The estimates were decreased by \$4.7 million in FY2014-15 and by \$5.9 million in FY2015-16. Slot machine tax collections are estimated at \$189.5 million for the next budget year.

Examining the outlook for the EETF, the 2015 Legislature will have less revenue available in the fund than it spent this year. Available revenues of \$1.698 billion for next year are \$185.3 million less than the amount being spent this year. This includes the \$136.2 million the 2014 Legislature shifted from the EETF to the Public Education Capital Outlay (PECO) Trust Fund.

Ad Valorem Estimating Conference - While property taxes are a local revenue source, the tax roll has major implications for the state budget. Each year, the Legislature sets Required Local Effort (RLE) – which is the millage rate local school districts must levy in order to participate in the Florida Education Finance Program (FEFP). If taxable value across the state falls, the Legislature must either mandate a property tax rate increase or make up the difference with GR. If values increase, the same millage rate will bring in additional local dollars for the FEFP, or the legislature could roll back the RLE millage rate.

2015 will be the third straight year of positive growth in statewide taxable value, following four straight years of decline. The tax roll (school taxable value) for next year is estimated at \$1.604 trillion, an increase of 0.8 percent from the last estimate, resulting in annual growth of 5.6 percent.

For RLE, the value of one mill in 2015 is \$1.540 billion, up by \$81.1 million from this year. The new estimate is \$11.5 million more than the one made last August. This means if the Legislature keeps the same millage rate as the current year, \$459 million more local revenue for schools will be raised than in the current year. The Legislature could decide to roll back the millage rate, but the desire of the Governor and legislators to significantly increase education funding next year makes this less likely.

Tobacco Tax and Surcharge Estimating Conference – Tobacco taxes have been a declining revenue source for several years, as cigarette consumption is down. However, the latest conference increased these estimates, lessening the year-to-year decline. Compared to the last estimates, this means the 2015 Legislature will have an additional \$18.0 million in General Revenue and an additional \$48.2 million for the Health Care Trust Fund (HCTF), which helps fund Medicaid.

Transportation Revenue Estimating Conference – The new forecast of revenue flowing into the State Transportation Trust Fund (STTF) did not change much, increasing by only \$660,000 (0.003 percent) over the five-year Department of Transportation Work Program period ending in FY2019-20. Total STTF revenues are expected to reach \$3.237 billion in FY2015-16.

While important for transportation and Florida's economy, these revenues have no direct impact on GR or the size of a potential budget surplus for next year. However, the legislature often "sweeps" revenue from the STTF to shore up GR.

LOOKING TOWARD THE 2015 SESSION: HOW BIG IS THE BUDGET SURPLUS?

These new estimates mean that lawmakers will have \$30.6 billion in GR available for the next state budget (including unspent reserves carried forward), which is more than \$2.2 billion more (7.9 percent) than is being spent this year. However, it must be remembered that the 2014 Legislature left more than \$1.6 billion in GR reserves and a similar amount can be expected next session. It is now projected there will be almost \$2 billion in unspent GR at the end of this year, and this will carry forward into the next fiscal year.

The *Long-Range Financial Outlook*, released in September, forecast a budget "surplus" of \$336.2 million for FY2015-16. The *Outlook*, which is produced annually by the Legislature, compares the amount of GR available with the projected cost of funding a "continuation budget" and leaving \$1 billion in reserves. The difference in projected revenues and expenditures is the projected surplus or shortfall. (For more information see the Florida TaxWatch October 2014 *Budget Watch - Small Surplus Projected for Next Florida State Budget.*)

It has been reported that the additional \$627 million from the new estimate puts the expected budget surplus for next year at close to \$1 billion. But a closer look at the data shows that, based on the expenditure estimates in the *Outlook*, the surplus will be closer to \$1.2 billion. Due to higher than expected year end reserves in FY2013-14, slightly lower estimated expenditures for FY2014-15 and these new GR estimates, the state will actually have \$850 million more GR available than was anticipated when the *Outlook* was produced.

This is good news for Governor Scott, who has stated that he will recommend increasing per student spending to \$7,176, \$50 more than the previous highest level, which is estimated to cost more than \$700 million. The *Outlook* includes \$490 million to increase spending by 2.1 percent. The Governor's recommendation would take at least an additional \$200 million, and since the *Outlook* already allocates school property tax growth revenues to the critical needs, the additional cost would all be borne by the state. The Governor has also stated he will work with the Legislature to reduce taxes by \$1 billion over the next two years.

The Legislature will most likely leave more in reserves than the \$1 billion assumed in the *Outlook*. Still, there may be room for the Governor's initiatives without having to cut spending in other areas, and the possibilities are certainly more promising in light of the new estimates.

The Governor will release his FY2015-16 budget recommendations next month. The next *Budget Watch* will analyze that proposal.

CHANGE IN GENERAL REVENUE ESTIMATES BY SOURCE

(\$ MILLIONS)

REVENUE SOURCE	FY2014-15	FY2015-16	TOTAL
<i>Increased Estimates</i>			
Sales Tax	\$207.9	\$176.3	\$384.2
Documentary Stamp Tax	64.4	73.9	138.3
Alcoholic Beverage Tax	21.0	60.0	81.0
Intangibles Tax	15.3	17.3	32.6
Earnings on Investments	13.2	18.1	31.3
Corporate Income Tax	22.0	7.9	29.9
Highway Safety Licenses/Fees	5.5	8.4	13.9
Tobacco Tax	6.1	6.7	12.8
Insurance Premium Tax	8.7	(6.8)	1.9
<i>Decreased Estimates</i>			
Corporate Filing Fees	(0.1)	(0.6)	(0.7)
Severance Tax	(1.6)	(1.1)	(2.7)
Pari-mutuels Tax	(2.8)	(2.6)	(5.4)
Indian Gaming Revenue	(2.1)	(5.5)	(7.6)
Court Fees	(14.5)	(15.4)	(29.9)
Other Sources and Refunds	(47.0)	(4.7)	(51.7)
Total	\$296.0	\$331.9	\$627.9

ACTUAL AND PROJECTED GENERAL REVENUE GROWTH

(\$ BILLIONS)

FISCAL YEAR	GENERAL REVENUE	PERCENTAGE GROWTH	\$ GROWTH
2004-05	\$24.798	N/A	N/A
2005-06	\$26.849	8.3%	\$2.051
2006-07	\$26.330	-1.9%	(\$0.519)
2007-08	\$24.215	-8.0%	(\$2.115)
2008-09	\$21.319	-12.0%	(\$2.896)
2009-10	\$21.523	1.0%	\$0.204
2010-11	\$22.551	4.8%	\$1.028
2011-12	\$23.618	4.7%	\$1.067
2012-13	\$25.314	7.2%	\$1.695
2013-14	\$26.198	3.5%	\$0.883
2014-15	\$27.485	4.9%	\$1.287
2015-16	\$28.578	4.0%	\$1.093
2016-17	\$30.000	5.0%	\$1.422
2017-18	\$31.357	4.5%	\$1.356

Source: Florida TaxWatch, using data from the Office of Economic and Demographic Research, December 2014

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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. 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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