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E-Communiqué

Already Unprecedented Bad Budget Outlook Gets Even Worse; Revenue Estimates Cut By Another \$1.4 Billion This Year, \$2.3 Billion Next Year

Legislators learned on Friday, November 21, 2008, that even before they start putting together another reduced budget for FY 2009-10, they are going to have to do some more work on the current one. On Friday, the state's Consensus Estimating Conference reduced state revenue estimates for FY 2008-09 by \$1.4 billion (6.0%); the FY 2009-10 estimate was cut by \$2.2 billion (9.5%).

The result is a \$2.14 billion general revenue shortfall in the current budget year (FY 2008-09, which began July 1) that will have to be addressed. The last estimates, made in August 2008, left us with a \$1.5 billion shortfall. Since then, \$672 million in reserves from the Budget Stabilization Fund have been used; meaning the Legislature already faced an \$800 million shortfall going into today's conference.

"Now is a time for great statesmanship," said Dominic M. Calabro, President and CEO of Florida TaxWatch. "This time of great fiscal challenge also holds great opportunity for the government and citizens of Florida. We must not try to tax our way out of this economic downturn, which would only make matters worse. Instead, we must work aggressively to help the economy, eliminate duplicative government functions, streamline government activities to improve efficiency, and examine every area of state spending to determine what is essential and what is not."

The estimators cited three main causes of the further deterioration of state revenues. The credit crunch will continue to hurt housing, consumer spending, and business investment. The recession is now global, which will hurt tourism and exports. And increased job losses, home value depreciation, and asset value declines will reduce discretionary spending. Nearly every revenue source was reduced, with the largest reduction coming in sales taxes (\$693 million), corporate income taxes (\$212 million), earnings on investments (\$135 million), documentary stamp taxes (\$80 million), and intangibles taxes (\$79 million).

The Current Budget (FY 2008-09)

It is now estimated that the state will have \$21.978 billion to spend in FY 2008-09. This is more than \$7.2 billion (25%) less than the estimate made in March 2007 (see table below). It is more than \$3 billion less than the March 2008 estimate upon which the Legislature built the current budget.

The Next Budget (2009-10)

For the next budget, which legislators will begin debating next March, the new estimate of revenues is \$22.322 billion. Florida is now expected to have \$2.6 billion less in general revenue (GR) than the \$24.9 billion in recurring GR spending in the current budget. Based on data from the Office of Economic and Demographic Research, this means Florida will be \$3.8 billion to \$5.7 billion short of what will be needed to fund a "conservative continuation budget." If the Legislature balances the current budget with

non-recurring money (reserves, trust fund sweeps, etc.) instead of budget cuts, this entire shortfall will have to be addressed in the next budget.

Changes to the General Revenue Estimate for FY 2008-09
\$ in millions

Forecast Date	General Revenue	Annual Change	Annual % Change	Cumulative Change	Cumulative % Change
3/07	\$29,217.0				
8/07	27,920.9	-\$1,296.1	-4.4%	-\$1,296.1	-4.4%
11/07	26,519.9	-1,401.0	-5.0%	-2,697.1	-9.2%
3/08*	24,578.4	-1,941.5	-7.3%	-4,638.6	-15.9%
8/08	23,371.8	-1,765.8	-7.2%	-5,845.2	-20.0%
11/08	21,978.1	-1,393.7	-6.0%	-7,238.9	-24.8%

* this estimate was increased by \$559.2 million after the 2008 Session to reflect actions taken by the Legislature

This continues an unprecedented series of reduced revenue estimates and resulting budget cuts. FY 2008-09 is the third year in a row that the state has less general revenue to spend in the current year than it did last year. Prior to this period, it had never happened before. It is only because the current year estimate was reduced that FY 2009-10 is not expected to be the fourth year in a row. It is forecasted that FY 2009-10 will see minimal growth of \$344 million (1.6%).

The revenue forecasted in FY 2008-09 is now \$5 billion less than the amount of general revenue collected in FY 2005-06, the year before the declines began. Collections are not expected to exceed that FY 2005-06 level during the forecast horizon (FY 2011-12).

The state will first need to balance the current budget, which is already \$6 billion less than the budget for 2007-08 (both general revenue and trust funds). The 2008 Legislature gave Governor Crist the authority to tap reserves—one-half (\$672 million) of the Budget Stabilization Fund and \$1 billion from the Lawton Chiles Endowment. As mentioned earlier, the Budget Stabilization Fund has already been used.

“While reserves may be employed, their use has its drawbacks,” explained Kurt Wenner, Director of Tax Research at Florida TaxWatch. “Reserves are one-time revenues. Using them to fund recurring expenses really only postpones the problem. The withdrawals from these reserves funds will also need to be paid back. Moreover, while the Chiles Endowment contained \$2.1 billion when the authority to use it was granted, it now is worth only \$1.1 billion due to the recent stock market conditions.”

Governor Crist has already asked agencies to hold back 4% of their budgets. This will help, but the state is still far short of a constitutionally required balanced budget.

“Florida must continue to protect our state’s citizens – especially the most vulnerable – by preserving core functions, the rule of law, public safety, and public health,” Calabro added. “Yet nothing – no program or government function – should remain immune from efficiency and productivity improvements, which will save money and help deliver the services better to those who need them most. We must scrutinize and review of all areas of government spending to devise an actionable plan to wisely cut and consolidate to help the economy, provide for the citizens, and balance the budget.”

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Florida TaxWatch is a statewide, non-profit, non-partisan research institute that over its 29 year history has become widely recognized as the watchdog of citizens' hard-earned tax dollars. Its mission is to provide the citizens of Florida and public officials with high quality, independent research and education on government revenues, expenditures, taxation, public policies and programs and to increase the productivity and accountability of Florida state and local government. Its support comes from homeowners and retirees, small and large businesses, philanthropic foundations, and professional associations. On the web at www.FloridaTaxWatch.org.