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Memorandum

To: Distribution

From: Fausto B. Gomez

CC: Manny Reyes and Evan Power

Date: December 1, 2008

Re: Florida's Budget

As you may have already read, the Consensus Estimating Conference met last Friday to revise its forecast of Florida's general revenue collections. As expected, state economists reduced their revenue estimates for FY 2008-09 by \$1.4 billion (6.0%) and the FY 2009-10 estimate by \$2.2 billion (9.5%). 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 Governor will now use these numbers to develop his budget recommendations for the FY 2009-10 budget while legislators will write that budget based on an additional estimate to be conducted next March.

The estimators cited three main causes of the deterioration of state revenues. "We've had essentially three economic shocks," said Amy Baker, coordinator of the Legislature's Office of Economic and Demographic Research. "The first one was a complete freeze in the credit market," Baker said. "The second one was the spread of the national recession to the global recession. And then the third one is an additional loss of wealth for people as stock values, investment portfolios, IRAs, savings all took a dive in value."

The immediate result is a \$2.14 billion general revenue shortfall in the current budget year. It is now estimated that the state will have \$21.978 billion in general revenue to spend in FY 2008-09 which is \$3 billion less than the March 2008 estimate upon which the legislature built the current budget. This will have to be addressed and state leaders are discussing a Special Legislative Session (the weeks of January 5th or 12th are a strong possibility) as well as allowing the Governor to continue drawing more dollars from reserves and some targeted tax increases. The latter would be in the form of a \$1.00 cigarette tax that is estimated to generate about \$1 billion.

For the FY 2009-10 budget, the new estimate of revenues is \$22.322 billion. That is \$2.6 billion less than the \$24.9 billion in general revenue spending in the current budget. Based on data from the Office of Economic and Demographic Research, this means Florida will be

from \$3.8 billion to \$5.7 billion short of what is required to fund a to fund a "continuation budget."

Last Friday's estimate continues an unprecedented series of reduced revenue estimates and corresponding budget cuts. This is the third year in a row that the state has less general revenue to spend in the current year than it did in the prior. For illustrative purposes, the revenue forecasted for 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. And revenue collections are not expected to exceed the FY 2005-06 level until after FY 2011-12!

As a result of the above, the Senate President and House Speaker have put a hold on the submittal of "Community Based Issue Requests" and announced that none will be considered this year. Nevertheless, it is widely anticipated that construction ready infrastructure projects will be funded primarily in areas such as water, parks, or for transportation improvements and that an economic development program will be crafted. State leaders have said that they intend to generate economic activity and, in fact, the Governor has already enacted his "Accelerate Florida" program by which construction ready projects already in the pipeline were speed up.

Obviously, our goal is to ameliorate any budgetary impact on your city as well as to make certain that your policy requirements are positively considered. We will be working to ensure that whatever dollars we secured on your behalf this year remain in the budget and will also be identifying opportunities to get hold of state support, either through traditional channels or through new grant or program vehicles developed in response to these economic times.

I trust you will not hesitate to contact me if you have any questions or desire additional information. We are confident of again securing the legislatively generated benefits that you have come to expect from our work on your behalf.