Taxation and Budget Reform Commission
Economic Impact Analysis of
CS/CS/CP 45

Description

- CP45 limits the growth in state and local government (counties, municipalities, special taxing districts and school districts) revenues to no more than population growth + CPI inflation + one percentage point. The growth caps begin in FY2009-10 and FY2007-08 is used as the base from which future revenue caps are to be set.

Background and Assumptions

- The Florida House of Representatives Policy and Budget Council (PBC) prepared estimates of the growth caps under CP45 for state revenues, and they also prepared estimates of growth in state revenues (subject to CP45 limits) in the absence of any revenue caps. We used those estimates in our impact analysis. These are shown in Table 1.

- The PBC did not make estimates of growth caps for local government revenues subject to CP45 limits or for local government revenue growth in the absence of CP45. We are using the same "growth limit factors" as the BPC for consistency.

- We used the U.S. Census of Governments data to estimate the local government revenues subject CP45 limits – this is a rough estimate because the data is not presented in the detail necessary to calculate precisely the local revenues subject to CP45 limits and the language in the amendment is not clear with regard to charges at County hospitals or health facilities.

- The Census of Governments indicates that in FY2004-05 Florida's local government tax revenues and charges for services (other than for utility services, hospitals and other direct cost of services) were 77 percent of the comparable state revenue figures. We use this ratio and PBC estimate of state revenues subject to growth limits to estimate local government revenues in FY2007-08.

- CP45 requires that the revenue limits for FY2009-10 and in subsequent years be calculated as if the revenue growth formula had been in effect in FY2008-09.

- Estimating the local government revenues that would occur in the absence of CP45 were made by considering the likely growth in property tax revenues and own revenues other than property taxes separately. The own revenues not including property taxes are mainly comprised of charges for services.

- Likely growth in local property taxes was based on projected CPI inflation (from the Congressional Budget Office's latest Outlook), the Florida Economic Estimating Conference (EEC, Feb-2008) growth in Florida households (a proxy for new residential construction), and a (judgment) on the differential between CPI inflation and taxable real estate property values (a real property appreciation factor). The growth rates for each year are shown in Table 1.

- Likely growth in local government revenues excluding property taxes (mainly charges for municipal services) is based on EEC projected growth in per capita personal income plus projected population growth.

- The projected growth rate in local government revenues in the absence of CP45 is the weighted average of the growth rates in each of the two revenue components described above. The weights are determined by the share of each component in the total local government revenues subject to the proposed caps in CP45.

Estimated Economic Impacts

- The projected state and local government revenues in the baseline and under CP45 are shown in Table 1 *"Simulation Parameters: CP045 Economic Impact Analysis"* These are the basis for the inputs to the simulations. When the "revenue cap less baseline revenues" values are positive, the expected revenues are below the revenue cap and no impact occurs. Note that this is the case in 2009-10 for both State and local governments, but only for local governments in 2010-11.

- In 2010-11, the revenue caps are less than under the baseline at the state level. When this occurs the state must reduce revenues (and spending) – for simulation purposes we assumed that the State reduces sales taxes on those items that are currently taxed, although it could chose to lower taxes somewhere else such as the Required Local Effort (RLE). The bigger economic stimulus effect, however, most likely comes from reducing sales taxes rather than RLE.

- In 2011-12 and beyond the revenue caps restrain spending at both state and local levels. When local revenue and spending is restrained we assumed that property taxes (millage rates) are reduced.

- The economic impacts occur via two direct paths – the tax cuts provide positive stimulus, particularly to the private sector; but the spending reductions reduce public administration employment and income. The indirect effects of each carry along through the general equilibrium model.

- While total employment and real GDP are reduced from the baseline, private sector employment (and output) rises higher than the baseline – but only moderately. Real Disposable Income increases because of the tax cuts, but total labor compensation in real terms, and before income taxes declines, as do real labor income per worker before taxes.

- This proposal has the smallest negative aggregate impacts of the ones analyzed so far because the revenue cap formula is close to, or higher, than the economic outlook projections from the EEC.

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