

STORAGE NAME: h3447s1.ft

DATE: April 9, 1998

**HOUSE OF REPRESENTATIVES
AS FURTHER REVISED BY THE COMMITTEE ON
FINANCE AND TAXATION
BILL RESEARCH & ECONOMIC IMPACT STATEMENT**

BILL #: CS/HB 3447

RELATING TO: Limitation on State Revenues

SPONSOR(S): Representative Wallace

COMPANION BILL(S): SB 1892

ORIGINATING COMMITTEE(S)/COMMITTEE(S) OF REFERENCE:

- (1) CIVIL JUSTICE & CLAIMS YEAS 4 NAYS 3
 - (2) GOVERNMENTAL RULES AND REGULATIONS YEAS 3 NAYS 1
 - (3) FINANCE AND TAXATION
 - (4) GENERAL GOVERNMENT APPROPRIATIONS
 - (5)
-

I. SUMMARY:

In 1994, Florida voters approved a constitutional amendment intended to limit the growth of state revenues. Article VII, section 1 (e) was added to the Florida Constitution and provides for a limitation on state revenue collection. Subsection (e) of this constitutional provision limits state revenues collected for any fiscal year to those revenues constitutionally permitted plus an adjustment for growth. "Growth" is defined as the "amount equal to the average rate of growth in Florida personal income over the most recent twenty quarters times the state revenues allowed under this subsection for the prior fiscal year."

HJR 3447 proposes an amendment to Article VII, section 1 (e) of the Florida Constitution which would change the basis of calculation of the growth adjustment to the constitutional limitation on state revenue collections. Specifically, the proposal would provide that Florida median household income rather than Florida personal income would be used for the revenue limitation calculation.

The proposal also changes the method of calculating the revenue cap. Under the bill as currently written, the growth factor will be calculated using the growth in the median household income times the amount of revenue actually collected. This growth factor is then added to the previous years revenue cap. This provision further lowers the state revenue collection limitation.

The proposal would have a significant fiscal effect.

II. SUBSTANTIVE RESEARCH:

A. PRESENT SITUATION:

In 1994, Florida voters approved a constitutional amendment designed to limit the growth of state revenues. Article VII, section 1 (e) was added to the Florida Constitution and provides for a limitation on state revenue collection. Subsection (e) of this constitutional provision limits state revenues collected for any fiscal year to those revenues constitutionally permitted plus an adjustment for growth. "Growth", as used for the purpose of this provision is defined as the "amount equal to the average rate of growth in Florida personal income over the most recent twenty quarters times the state revenues allowed under this subsection for the prior fiscal year."

Additionally, for the purpose of this constitutional limit, "state revenue" is defined as "taxes, fees, licenses, and charges for services imposed by the legislature on individuals, businesses, or agencies outside state government." Article VII, section 1(e) of the Florida Constitution further stipulates that "state revenue" does **not** include the following:

- revenues necessary to meet the requirements in documents authorizing the state to issue bonds;
- revenues used to provide matching funds for the federal Medicaid program (except revenues used to support the Public Medical Assistance Trust Fund or its successor program and with the exception of state matching funds used to fund elective expansions made after July 1, 1994);
- lottery prize payouts;
- receipts of the Florida Hurricane Catastrophe Fund;
- balances carried forward from prior fiscal years;
- taxes, licenses, fees, and charges for services imposed by local, regional, or school district governing bodies; or
- taxes, licenses, fees, and charges for services required to be imposed by any amendment or revision to the constitution after July 1, 1994.

Future limits in state revenue growth are based upon the 1994-1995 fiscal year, in which \$38.6 billion was appropriated. However, revenues fitting the constitutional definition for the same fiscal year were only \$18.99 billion - less than one-half of total state revenue. In effect, only half of the state's revenues are subject to the constitutional limit.

The current revenue limit based on personal income growth reflects three factors: 1) inflation; 2) improvements in labor productivity; and, 3) population growth. Florida personal income is a more generous economic indicator than is Florida family of four income and Florida household income. From 1990 - 1995, Florida personal income grew at a rate of 6.3 percent per year. In comparison, growth in Florida family of four income averaged 3.2 percent per year and Florida household income grew only 2.3 percent per year. When inflation is taken into account, Florida household income

actually declined 0.9 percent per year in real dollars from 1990 - 1995. The following chart illustrates the differences among the various economic indicators:

Comparison of Economic Indicators

(Source: US Department of Commerce)

	1990	1991	1992	1993	1994	1995	5 Year Average Annual Growth
Florida Total Personal Income							
(in millions)	248,746	259,049	269,049	290,074	304,114	326,668	77,922
Percentage Change	N/A	4.1	4.1	7.6	4.8	7.4	6.3
Florida Gross State Product							
(in millions)	224,570	225,164	268,611	291,553	315,965	339,428	94,858
Percentage Change	N/A	4.3	5.3	8.5	8.4	7.4	7.8
Florida Family of Four Income							
(median)	35,247	37,280	37,399	38,438	40,484	40,925	5,678
Percentage Change	N/A	5.8	0.3	2.8	5.3	1.1	3.2
Florida Household Income							
(median adjusted)	26,685	27,252	27,349	28,550	29,294	29,745	3,060
Percentage Change	N/A	2.1	0.4	4.4	2.6	1.5	2.3
Florida Household Income CPI							
(median adjusted)	31,115	30,493	29,708	30,111	30,124	29,745	-1,370
Percentage Change	N/A	-1.9	-2.6	1.4	0	-1.3	-0.9

The growth rate permitted under the current constitutional provision is applied to the previous year's revenue limit, without respect to whether the limit was reached by actual revenue collections. This means that the unused capacity under the cap accumulates from one year to the next year, in a manner similar to compound interest. Each year the accrued growth of past fiscal years allows for a higher rate of revenue expansion than would occur if a simple annual growth factor was used. Consequently, in the three years since the amendment went into effect, the revenue limit has increased by \$3.6 billion.

B. EFFECT OF PROPOSED CHANGES:

CS/HJR 3447 provides that the state revenue limitation be based upon Florida median household income rather than Florida personal income. Median household income grows because of two factors: 1) inflation; and, 2) improvements in labor productivity. Utilization of Florida median household income will impose a tighter restriction on the growth of state revenues.

CS/HJR 3447 will also change the method of calculating the revenue cap. Under the bill as currently written, the growth factor will be calculated using the growth in the median household income times the amount of revenue actually collected. This growth factor is then added to the previous years revenue cap. This provision further lowers the state revenue collection limitation. The Legislature's Office of Economic and Demographic Research provided the following comparative projections of the amount of additional money that could be raised without encountering the revised revenue limit, applicable for fiscal years 1999-2000 through 2002-2003:

Space under the Cap

If the alternatives are implemented beginning with the FY 99-00 budget based on the trend forecast of revenues:

Fiscal Year	Current Law	CS/HJR 3447
99-00	1,460.04	(262.7)
00-01	1,953.2	(527.5)
01-02	2,532.2	(486.8)
02-03	3,049.6	(564.0)

C. APPLICATION OF PRINCIPLES:

1. Less Government:

a. Does the bill create, increase or reduce, either directly or indirectly:

(1) any authority to make rules or adjudicate disputes?

N/A

(2) any new responsibilities, obligations or work for other governmental or private organizations or individuals?

N/A

(3) any entitlement to a government service or benefit?

N/A

b. If an agency or program is eliminated or reduced:

- (1) what responsibilities, costs and powers are passed on to another program, agency, level of government, or private entity?

N/A

- (2) what is the cost of such responsibility at the new level/agency?

N/A

- (3) how is the new agency accountable to the people governed?

N/A

2. Lower Taxes:

- a. Does the bill increase anyone's taxes?

No

- b. Does the bill require or authorize an increase in any fees?

No

- c. Does the bill reduce total taxes, both rates and revenues?

If approved by the electorate the bill would have an effect of lowering the constitutional revenue limit.

- d. Does the bill reduce total fees, both rates and revenues?

Yes.

- e. Does the bill authorize any fee or tax increase by any local government?

No

3. Personal Responsibility:

- a. Does the bill reduce or eliminate an entitlement to government services or subsidy?

N/A

- b. Do the beneficiaries of the legislation directly pay any portion of the cost of implementation and operation?

N/A

4. Individual Freedom:

- a. Does the bill increase the allowable options of individuals or private organizations/associations to conduct their own affairs?

N/A

- b. Does the bill prohibit, or create new government interference with, any presently lawful activity?

N/A

5. Family Empowerment:

- a. If the bill purports to provide services to families or children:

- (1) Who evaluates the family's needs?

N/A

- (2) Who makes the decisions?

N/A

- (3) Are private alternatives permitted?

N/A

- (4) Are families required to participate in a program?

N/A

- (5) Are families penalized for not participating in a program?

N/A

- b. Does the bill directly affect the legal rights and obligations between family members?

N/A

- c. If the bill creates or changes a program providing services to families or children, in which of the following does the bill vest control of the program, either through direct participation or appointment authority:

(1) parents and guardians?

N/A

(2) service providers?

N/A

(3) government employees/agencies?

N/A

D. STATUTE(S) AFFECTED:

Article VII, section 1, Florida Constitution.

E. SECTION-BY-SECTION RESEARCH:

See Section II, B, above.

III. FISCAL RESEARCH & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE AGENCIES/STATE FUNDS:

1. Non-recurring Effects:

N/A

2. Recurring Effects:

If approved by the electorate, the proposal would have a continuing effect of lowering the limitation on state revenue collections.

3. Long Run Effects Other Than Normal Growth:

N/A

4. Total Revenues and Expenditures:

N/A

B. FISCAL IMPACT ON LOCAL GOVERNMENTS AS A WHOLE:

1. Non-recurring Effects:

N/A

2. Recurring Effects:

N/A

3. Long Run Effects Other Than Normal Growth:

N/A

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

1. Direct Private Sector Costs:

N/A

2. Direct Private Sector Benefits:

N/A

3. Effects on Competition, Private Enterprise and Employment Markets:

N/A

D. FISCAL COMMENTS:

See section II, B, above.

IV. CONSEQUENCES OF ARTICLE VII, SECTION 18 OF THE FLORIDA CONSTITUTION:

A. APPLICABILITY OF THE MANDATES PROVISION:

N/A

B. REDUCTION OF REVENUE RAISING AUTHORITY:

N/A

C. REDUCTION OF STATE TAX SHARED WITH COUNTIES AND MUNICIPALITIES:

N/A

V. COMMENTS:

None.

AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

On March 19, 1998, the Committee on Civil Justice and Claims adopted one amendment and made the bill a committee substitute. Current law calls for the calculation of growth "over the most recent twenty quarters." According to the Office of Economic and Demographic Research this was done because quarterly data exist for Florida personal income and provides the most up-to-date calculation. Quarterly data are unavailable for median household income. Such data are prepared exclusively on an annual basis so that data do not exist, even in unpublished form. The language: "over the most recent twenty quarters" was amended to read "over the most recent five years."

VI. SIGNATURES:

COMMITTEE ON : CIVIL JUSTICE AND CLAIMS

Prepared by:

Legislative Research Director:

Richard Hixson

Richard Hixson

AS REVISED BY THE COMMITTEE ON GOVERNMENTAL RULES AND REGULATIONS:

Prepared by:

Legislative Research Director:

Angela Price

David M. Greenbaum

AS FURTHER REVISED BY THE COMMITTEE ON FINANCE AND TAXATION:

Prepared by:

Legislative Research Director:

Kama D.S. Monroe, Esq.

Keith G. Baker, Ph.D.