

EXECUTIVE SUMMARY

Revenue Estimating Conference for the General Revenue Fund

March 11, 2008

Since the General Revenue Estimating Conference held in mid-November, there has been continued tightening of credit market conditions, escalating energy prices, falling employment and further deterioration in the housing market as the nation faces an economic contraction. In response, the Revenue Estimating Conference has reduced its General Revenue outlook by over \$2.9 billion for Fiscal Years 2007-08 and 2008-09, combined. Collections for Fiscal Year 2007-08 are expected to be \$1.0 billion or 3.9% below the estimate from November. For Fiscal Year 2008-09, expected revenues were reduced by \$1.9 billion or about 7.3% from the earlier forecast.

Estimated revenue collections in Fiscal Year 2007-08 are less than Fiscal Year 2006-07 receipts by \$1.9 billion or 7.3%, adding to the decline over the prior year's level. The Fiscal Year 2008-09 forecast has growth of less than 1% above the Fiscal Year 2007-08 estimate.

The revisions to the forecast are attributable to several factors. First, the previously adopted national economic forecast calls for an economic contraction that is dampening consumer expenditures and business investment, as well as employment and population growth. This situation is exacerbated by further tightening of credit and lending practices amidst increasing inflationary pressures and higher energy costs. These factors will prolong the downturn in the state's housing market and influence revenue collections in the following ways:

- **Sales Tax** collections are weaker as Floridians curtail purchases of big-ticket items like automobiles and expenditures on other non-essential items. This retrenchment in consumer spending is caused by the diminishing wealth effect from housing price appreciation, coupled with flagging consumer confidence. Business and tourist-related purchases have also been sluggish and are expected to remain lower than previous estimates. These adjustments persist throughout Fiscal Year 2008-09.
- **Documentary Stamp and Intangibles** tax collections are expected to further decline as the adjustments to tightened credit conditions and stricter lending standards take hold. Home prices are weakening and downward pressure on collections will continue until the housing market stabilizes. Because of recent statutory changes, the General Revenue Fund will experience the bulk of the documentary stamp tax losses.
- **Corporate Income Tax** collections further weaken in Fiscal Year 2008-09 with a projected loss of 4.5%. This weakness is largely due to: (1) lower profits in companies previously benefiting from the overheated real estate market, (2) adjustments to subprime and other credit-related losses, and (3) compressed profit margins caused by the economic downturn and higher energy prices.

While the economic and demographic outlooks have worsened in the short run, growth rates are expected to improve by late Fiscal Year 2008-09. However, revenue collections are not anticipated to exceed the Fiscal Year 2005-06 level until Fiscal Year 2010-11.