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# WHY FLORIDA'S TAX REVENUES GO BOOM OR BUST, AND WHY WE CAN'T AFFORD IT ANYMORE

JAMES A. ZINGALE\* AND THOMAS R. DAVIES\*\*

*Florida has always been a boom-or-bust state, but its antiquated tax structure has exacerbated the harmful effects of economic downturns on state government. With Florida undergoing myriad population changes, future recessions will undermine the state's ability to provide high-quality services. In this Article, Doctors Zingale and Davies present the case for tax reform in Florida. They analyze demographic changes, the nature of the state's tax structure, and its reaction to the national business cycle. The authors conclude that thorough tax reform is essential if Florida is to experience orderly growth.*

**I**N 1985, the Florida Legislature adopted a comprehensive growth management plan which included goals, objectives, and forecasts to guide the state's development.<sup>1</sup> The Act was intended to "provide long-range policy guidance for the orderly social, economic, and physical growth of the state."<sup>2</sup> Its passage was an historic event, a testament to Florida's desire to balance economic prosperity with a high quality of life. Effective implementation of the Act is a separate issue, however, given the Act's frank acknowledgment of a truism: the State Comprehensive Plan will be implemented only to the extent that its policies can be paid for.<sup>3</sup> Raising the money necessary to provide public services at a high level of quality is steadily becoming more difficult. Florida is chafing under an outmoded tax structure that will not generate enough revenue to meet the state's needs, and that does not provide fiscal stability.

Two forces, neither of which can be controlled from Tallahassee, endanger implementation of any long-term plan. The first force is the national business cycle and its effect on the state. The eco-

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1. Ch. 85-57, 1985 Fla. Laws 295.
2. *Id.* § 1 (codified at FLA. STAT. § 187.101 (1985)).
3. *Id.* (codified at FLA. STAT. § 187.101(2) (1985)).

nomic swings inherent in the business cycle produce sudden state revenue shortfalls yet, at the same time, increase the demand for state services. Although less sudden and dramatic, the second factor—demographic changes in the state's population—is equally significant. A growing population and changes in the nature of that population create demands the state is not able to meet under its restrictive tax structure. Understanding these two factors, and minimizing their disruptive effects on the delivery of public services, is fundamental to the success of any strategic planning process.

This Article focuses on these two forces—major economic and demographic trends—and their influence on Florida's revenue and service delivery systems. Its purpose is to assist lawmakers and the public in understanding these forces and their effects on state planning and budgeting. The authors explore historical information to demonstrate how these forces have shaped Florida's past and, when considered along with the official ten-year economic forecasts, to provide an insight into their likely impact on Florida's future. The Article concludes with a recommendation that the state craft a better-balanced tax structure.

## I. FLORIDA DEMOGRAPHIC TRENDS

Perhaps more than any other single factor, the changing size and composition of Florida's population will determine the state's public policy agenda for the next decade. Just as the financial needs of a single family are intimately linked to its demographic characteristics, so are the state's future expenditure requirements affected by the changing characteristics of its population. Thus, understanding Florida's changing demographics is essential for effective long-term planning and budgeting.

### A. *Population Increase*

Florida's population is increasing faster than that of the nation as a whole. The state's population is expected to grow by 29.3% between 1980 and 1990,<sup>4</sup> compared to only 10.2% for the nation.<sup>5</sup>

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4. Fla. Legis., Jt. Legis. Mgt. Comm., Div. of Econ. & Demographic Research, computer printout (July 21, 1986) (actual and projected population and percentage change 1960-2000 for Florida) (printout on file, *Florida State University Law Review*) [hereinafter cited as Florida demographic data].

5. Fla. Legis., Jt. Legis. Mgt. Comm., Div. of Econ. & Demographic Research, computer printout (July 21, 1986) (actual and projected population and percentage change 1960-2000

TABLE I  
POPULATION GROWTH 1980-1990  
FLORIDA AND U.S. COMPARISONS BY AGE GROUP

Age Group	Florida	U.S.
0-4	38.7%	17.4%
5-19	7.5%	(6.7%)
20-29	14.3%	(1.8%)
30-59	39.4%	23.3%
60 and over	43.0%	18.7%
TOTAL	29.3%	10.2%

Source: Joint Legislative Management Committee, Division of Economic and Demographic Research.

The increase in Florida's population during the 1980's will represent 12% of the overall increase in the national population.<sup>6</sup> As shown by Table I, some age groups—notably the very youngest and oldest residents—will increase at a much faster rate than others.

### *B. The Baby Boom Generation*

The largest age group in the United States is the “baby boom” generation, those born between 1945 and 1965.<sup>7</sup> During the 1970 Census, this generation was in the school-age group, causing the five to nineteen age cohort to peak at 59.8 million, an increase of 22.9% over the 1960 Census.<sup>8</sup> By the 1980 Census, the baby boomers had flooded high schools, community colleges, and universities, significantly increasing demands on state education services. Between 1990 and 2000, the baby boomers will move out of the age class that traditionally depends on state services and into the prime wage-earning age group. This change will reduce the pressure on traditional higher education and criminal justice services, but increase demand on such services as adult education.

Another effect of the baby boom generation is its “echo”—the baby boomers' children. As the baby boomers have reached child-

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for the United States) (printout on file, *Florida State University Law Review*) [hereinafter cited as U.S. demographic data].

6. Florida's population is expected to grow by 2,851,076 between 1980 and 1990. Florida demographic data, *supra* note 4. The total United States population is expected to increase by 23,110,195. U.S. demographic data, *supra* note 5.

7. U.S. demographic data, *supra* note 5.

8. *Id.*

bearing years, there has been a significant increase in births.<sup>9</sup> Over the next ten years this echo effect will increase demand for elementary and preschool services, neonatal care, day care, child support, foster care, and other child-related services. The impact on state services will be similar to that of the baby boomers in the 1970's and 1980's.

### C. *Sixty-five and Older*

Those age eighty and older will be the fastest-growing age group in the United States over the next fifteen years.<sup>10</sup> Florida is the leading destination for older migrants. Between 1975 and 1980, the state gained nearly 500,000 new residents aged sixty-five and older through in-migration.<sup>11</sup> Twenty-two percent of the net migrants to Florida between 1975 and 1980 were sixty-five or older.<sup>12</sup> Another twenty-one percent were between the ages of fifty-five and sixty-four.<sup>13</sup> The eighty-and-over age group will continue to show rapid growth over the next decade,<sup>14</sup> causing continued service demands for the elderly. The entire sixty-and-over population will grow steadily and then accelerate as the baby boomers reach retirement age.

The number and characteristics of the older migrants have a direct impact on state government. For example, many older migrants with incomes below the poverty level move to Florida.<sup>15</sup> This phenomenon creates needs for the low-income elderly—housing, nursing homes, adult living facilities, and increased Medicaid services. Although inbound migrants typically have a higher socioeconomic status than those leaving the state, Florida will have to address the needs of those who do come.

### D. *State Impact*

These demographic forces will increase demand for state services in many areas: education, correctional services, and aging and adult services. The impact of these trends on state services is best

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9. Linden, *The Age of Growth*, AM. DEMOGRAPHICS, June 1984, at 4.

10. U.S. demographic data, *supra* note 5.

11. Longino, *Migration Winners & Losers*, AM. DEMOGRAPHICS, Dec. 1984, at 27.

12. Smith, *Florida*, AM. DEMOGRAPHICS, July 1985, at 46.

13. *Id.*

14. U.S. demographic data, *supra* note 5.

15. Longino, *supra* note 11, at 29.

revealed by examining projected rates of increase in demand for state services.

Although the rest of the nation will experience some relief from growing student enrollments over the next several years,<sup>16</sup> Florida will not. Between fiscal years 1982-83 and 1986-87, Florida public school enrollments are expected to increase six percent<sup>17</sup> and continue to grow through the 1990's.<sup>18</sup>

In addition, the aging of Florida's population will place increased demands on state funds. The impact on state health programs is evident in growing Medicaid caseloads and expenditures. Between fiscal years 1981-82 and 1985-86, state expenditures for Medicaid services nearly doubled, increasing from \$581.5 million to \$1.1 billion.<sup>19</sup> Expenditures and caseloads for the Aid to Families with Dependent Children (AFDC) program illustrate a similar growth pattern. Between fiscal years 1981-82 and 1985-86, caseloads increased 12.6%, resulting in an overall budget increase of \$86.7 million.<sup>20</sup>

Changes in Florida's population also will place increased demands on correctional services. In fiscal year 1984-85, 28,310 inmates were incarcerated in state prisons.<sup>21</sup> This number is expected to increase every year for the next decade, reaching 33,397 by 1995, an increase of 17.9%.<sup>22</sup> Unless prison capacity is increased significantly, Florida will be faced with a recurring prison overcrowding problem for the rest of the decade.<sup>23</sup>

Furthermore, the prison population is affected by the number of individuals between the ages of sixteen and thirty-five. In fiscal year 1984-85, this age group accounted for 80.5% of those admitted into the state prison system and 77% of the total Florida prison population.<sup>24</sup> The size of this cohort will continue to grow in

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16. The national population of the 5-19 age group is anticipated to decline by 6.7% between 1980 and 1990. U. S. demographic data, *supra* note 5.

17. Memorandum from Martha Chang, Florida Department of Education, to Tom Davies, Assistant Executive Administrator, Florida Information Resource Commission (May 21, 1986) (Florida FTE enrollments for 1974-75 through 2000-01) (on file, *Florida State University Law Review*).

18. *Id.*

19. FLORIDA CONSENSUS ESTIMATING CONFERENCE, STATE OF FLORIDA BUDGET CASELOAD FORECAST, Bk. 4, VOL. 1, No. 2, at 60-61 (Spr. 1985) (on file with Jt. Legis. Mgt. Comm., Div. of Econ. & Demographic Research).

20. *Id.* at 64, 66.

21. Fla. Legis., Jt. Legis. Mgt. Comm., Div. of Econ. & Demographic Research, *Criminal Justice News*, Mar. 27, 1986 [hereinafter cited as *Criminal Justice News*].

22. *Id.*

23. *Id.*

24. FLORIDA DEP'T OF CORRECTIONS, ANNUAL REPORT 1984-85, at 87.

Florida during the next decade, contributing to increased demand for prisons and correctional services. This pressure is in part attributable to the expected increase in the segment of the population most likely to be incarcerated—males between the ages of eighteen and twenty-eight. After the last members of the baby boom generation pass through the period in their lives when they are most prone to commit crimes, some of the pressure may abate. However, this change is not expected to occur in Florida before 1995.<sup>25</sup>

### *E. Strategic Implications*

These demographic trends have important implications for long-term planning. The subtle but critical changes in the state's population will result in increased demands for state services and pressure to raise additional revenues to meet increasing expenses. Pressures resulting from these demands must be accommodated in a planned, orderly, and flexible manner. Deviations from the existing comprehensive plan must be expected and approved if they are justified. In implementing its long-term plan, the state must establish priorities that reflect the most pressing concerns and requirements of state government.

## II. ECONOMIC TRENDS

The strength and stability of the state's economy and its response to national business cycles is a second fundamental aspect of the planning process. Failure to anticipate and evaluate accurately the significance of business cycles historically has played havoc with state plans. Recessions typically occur without warning, and the ensuing contractions create hardships and crises which divert lawmakers from long-term goals to short-term crisis management. Historically, national recessions have been followed at the state level by revenue shortfalls,<sup>26</sup> difficult budget decisions,<sup>27</sup> rising demand for state services,<sup>28</sup> and political problems illustrated by extended or special sessions.<sup>29</sup> Recoveries, on the other hand, offer a time for stability and improvement. Unfortunately, the

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25. *Criminal Justice News*, *supra* note 21.

26. *See infra* notes 124-28 and accompanying text. *See also* Table IV.

27. *See infra* notes 130-36 and accompanying text.

28. *See* Table V.

29. *See* Fla. H.R., Office of the Clerk, History of Legislative Sessions Since Statehood (June 1985) (on file with Clerk).

length of recoveries is usually short, making it difficult to re-establish long-term objectives.

### A. *National Business Cycles*

Since 1854 there have been thirty-one national business cycles which encompassed recession and recovery.<sup>30</sup> Within these cycles, the average recovery has been surprisingly short—less than three years—while the average recession has lasted eighteen months.<sup>31</sup> Innovations in econometric tools, computerization, and econometric modeling have caused only a small improvement in the duration and shape of national business cycles. The average post-World War II recovery has lasted forty-two months, an eleven-month improvement, while recessions during this modern period have averaged a little less than one year.<sup>32</sup>

In addition to the surprising brevity of business cycles, analysis shows that sustained recoveries are rare. Only two of the thirty-one recoveries have lasted longer than five years.<sup>33</sup> Both of these recoveries were associated with wars: World War II (six years and eight months) and Vietnam (eight years and ten months). Only three peacetime recoveries have lasted longer than four years—those in 1933-37 (four years and two months), 1975-80 (four years and ten months), and the current recovery, which is now in its fourth year.<sup>34</sup>

While the recurring business cycle is an historic fact, most strategic planning is based on the assumption that there will be no future recessions. Under this premise, long-term plans can be achieved without agonizing disruptions. History, however, counsels otherwise. Periodic economic recessions are the norm, not the exception. Historically, the business cycle has averaged forty-five months.<sup>35</sup> Thus, planners should anticipate a major recession approximately every four years.

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30. DEPARTMENT OF COMMERCE, BUREAU OF ECON. ANALYSIS, BUS. CONDITIONS DIG., July 1986, at 104 [hereinafter cited as BUS. CONDITIONS DIG.].

31. *Id.*

32. *Id.*

33. *Id.*

34. *Id.*

35. *Id.*



TABLE II  
 SELECTED FLORIDA ECONOMIC VARIABLES  
 FISCAL YEAR 1970-71 THROUGH 1984-85

Fiscal Year	(1) Florida Pop. Change (in 000's)	(2) Florida Pop. % Change	(3) Florida Real Income % Change	(4) Florida Housing Starts	(5) Florida Unemploy. % Rate	(6) Sales Tax Liability % Change
1970-71	349.0	3.7	6.3	115,337	4.9	7.7
1971-72	474.6	6.3	8.6	195,056	4.9	13.7
1972-73	475.0	6.4	12.2	275,472	4.7	18.1
1973-74	399.7	5.6	6.4	219,257	4.8	15.1
1974-75*	131.0	2.6	(.5)	69,705	8.9	.3
1975-76	129.4	1.4	.8	58,135	9.9	4.4
1976-77	182.7	1.9	4.0	84,259	8.9	11.4
1977-78	244.7	2.5	7.8	138,835	7.0	17.5
1978-79	297.8	3.1	7.6	185,024	6.3	18.4
1979-80	298.0	3.1	5.5	171,554	5.7	15.9
1980-81	368.2	3.6	5.6	178,312	6.3	12.8
1981-82**	252.7	3.0	4.8	105,388	7.5	6.3
1982-83	213.9	2.0	3.0	136,443	8.8	4.3
1983-84	358.3	2.9	6.7	206,467	7.2	17.0
1984-85	354.2	3.4	6.7	186,745	6.2	10.5

\* The recession of 1973-75 began in November 1973 and officially ended in March 1975.

\*\* The recession of 1981-82 began in July 1981 and officially ended in November 1982.  
 Source: Florida Consensus Economic and Demographic Estimating Conference.

### *B. Description of Two Modern Recessions*

Because periodic national recessions and recoveries are a permanent fixture on the horizon, planners must assess Florida's economic response to these cycles. Table II illustrates Florida's response to national business cycles through a range of economic, demographic, and tax variables.

Florida's reaction to the recessions of 1973-75 (1973) and 1981-82 (1981) is particularly revealing. The recessions were similar in length and severity, yet each had a significantly different effect on Florida's economy. The two recessions each lasted approximately eighteen months, making them the longest in post-World War II history.<sup>36</sup> Both were marked by relatively high interest rates for

their periods.<sup>37</sup> After initial sharp declines in gross national product (GNP) in the early stages of the downturn, each recession appeared to be ending but then plunged deeper, producing the "W" shape unique to post-World War II recessions.<sup>38</sup>

The 1973 recession was the most severe of the post-World War II recessions<sup>39</sup> and, at sixteen months, one of the longest.<sup>40</sup> Beginning in late 1973, real GNP declined 6.6%, well over twice the decline of the previous worst post-World War II recession.<sup>41</sup> The fundamental cause of this recession was worldwide inflation brought on in part by easy monetary and fiscal policies prior to 1973, poor crops in many parts of the world, and oil price increases by the OPEC countries.<sup>42</sup> With rising prices came an increase in interest rates; they reached unprecedented levels in 1974.<sup>43</sup> High inflation coupled with high interest rates had a dramatic impact on the stock market and the real estate sectors, which had experienced a speculative surge prior to the recession.<sup>44</sup> Construction was one of the sectors hardest hit, with housing starts falling sixty-three percent from 1973 to 1974.<sup>45</sup>

As shown by Table II, the 1973 recession produced the worst economic conditions in modern times in Florida. The severity of the effect in Florida was due in part to high interest rates. Contributing factors were the speculative surges in the stock and real estate markets and the resulting increase in economic growth immediately before the recession. For example, in fiscal years 1971 and 1972, Florida's population increased by 475,000, an extremely high annual rate of more than 6%. Single and multi-family housing starts peaked at 275,000 in 1972, a level not since replicated. Unemployment rates, at 4.7%, were well below the national average of 5.9%. Real personal income was exploding at 12.2%.<sup>46</sup>

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37. FLORIDA CONSENSUS ESTIMATING CONFERENCE, UNITED STATES & FLORIDA ECONOMIC FORECAST, BK. 1, VOL. 2, at 26 (Spr. 1986) (Table 5) (on file with Jt. Legis. Mgt. Comm., Div. of Econ. & Demographic Research) [hereinafter cited as U.S. & FLA. ECONOMIC FORECAST].

38. Fla. Legis., Jt. Legis. Mgt. Comm., Div. of Econ. & Demographic Research, official state data base (on file, *Florida State University Law Review*).

39. L. VALENTINE & C. DAUTEN, BUSINESS CYCLES & FORECASTING 44 (6th ed. 1983).

40. *Id.* at 71.

41. *Id.* at 44-45.

42. *Id.* at 46-47.

43. *Id.* at 45.

44. *Id.* at 45, 47.

45. *Id.* at 45.

46. Fla. Legis., Jt. Legis. Mgt. Comm., Div. of Econ. & Demographic Research, computer printout (July 21, 1986) (U.S. quarterly unemployment figures, 1948-1986) (printout on file, *Florida State University Law Review*) [hereinafter cited as U.S. unemployment figures].

When the recession hit Florida, the downturn was severe. Population increases slowed to 1.4% by fiscal year 1975. Real personal income declined by .5% in 1974. Housing starts declined 300% from previous peaks. In the second quarter of 1975, the state unemployment rate rose to 11.3%, far higher than the national rate of 8.8%.<sup>47</sup> The recovery from this recession was long and slow. Florida lagged behind the national upturn by almost eighteen months as the housing inventory was slowly eaten away.<sup>48</sup>

The 1973 recession devastated the state's budget. For fiscal year 1974-75, the national inflation rate was 11%.<sup>49</sup> Although Florida personal income grew by 9.2% and population by 2.6%, total sales tax liability did not grow at all. For fiscal year 1975-76, with inflation increasing by 7%,<sup>50</sup> state personal income by 7.8%, and population by 1.4%, total sales tax liability increased by 4.4% and general revenue funds increased by only 2.2%.<sup>51</sup>

The 1981 recession was the longest post-war recession, beginning in July 1981 and lasting through November 1982.<sup>52</sup> The immediate cause of the recession and its duration are explained to a great extent by changes in monetary and fiscal policies.<sup>53</sup> Using monetary policy to attack the double-digit inflation that had ravaged the national economy, the Federal Reserve Board adopted a policy of consistent restrictive control of the growth of the domestic money supply.<sup>54</sup> By 1981, the Federal Reserve Board was attempting to control monetary growth at the lower limit of its target ranges.<sup>55</sup> This policy, as economist Otto Eckstein noted, represented the first commitment in American history to "defeat inflation by limiting the growth of aggregate demand through high interest rates."<sup>56</sup>

Restrictive monetary policy, which gradually brought inflation down, also led to high interest rates which by the summer of 1981 caused the collapse of the housing and automobile sectors and

47. *Id.*

48. U.S. & FLA. ECONOMIC FORECAST, *supra* note 37, at 42-43 (Table 9).

49. *Id.* at 18 (Table 3) (reporting Consumer Price Index).

50. *Id.*

51. FLORIDA CONSENSUS ESTIMATING CONFERENCE, REVENUE ANALYSIS, FY 1970-71 THROUGH FY 1994-95, Bk. 6, at 9 (Spr. 1986) (Table 1.1) (on file with Jt. Legis. Mgt. Comm., Div. of Econ. & Demographic Research) [hereinafter cited as REVENUE ANALYSIS].

52. BUS. CONDITIONS DIG., *supra* note 30, at 104.

53. Eckstein, *Two Revolutions in Economic Policy*, in DATA RESOURCES, INC., REVIEW OF THE U.S. ECONOMY, at 1.1 (Sept. 1981).

54. *Id.*

55. *Id.*

56. *Id.*

helped to lengthen the recession.<sup>57</sup> Federal deficits, which required financing in capital markets, sustained these high interest rates and thus prolonged the recession.<sup>58</sup>

For Florida, the effect of the 1981 recession was significantly different than that of the 1973 recession. As Table II indicates, Florida was in the midst of a short recovery. Population growth preceding the recession was good (3.6%), but not spectacular. Real personal income was growing at 5.6%. Housing starts were running at 178,000 units. Unemployment rates were high at 6.3%, but well below the national average.<sup>59</sup>

When the recession hit, Florida did not lag behind the national downturn as it had in 1973. As shown by Table II, population growth slowed to 3%, housing starts were reduced to 105,000 units, and Florida real personal income continued to increase at a fair 3%. Unemployment rose to 8.8%, high but well below the national average of 10%.<sup>60</sup> Instead of lagging behind the national upturn, Florida led the recovery.<sup>61</sup>

The more moderate response of the Florida economy to the 1981-82 cycle was also reflected in the behavior of the General Revenue Fund. Although inflation increased by 8.7%,<sup>62</sup> Florida personal income by 12.5%, and population by 3%, general revenue grew by only 4.7%.<sup>63</sup> Although this rate of growth marked a significant decline from the 13.6% increase for fiscal year 1980-81, it was not nearly as drastic as the decline following the 1973 recession.<sup>64</sup>

### C. Strategic Implications

Strategic planning based on the naive assumption that economic growth will continue unabated can only result in long-term strategies destined to fail. Straight-line forecasts foster the illusion that goals can be achieved without agonizing disruptions. Unfortunately, periodic recessions are a fact of life. The question is not whether a recession will occur, but when.

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57. U.S. & FLA. ECONOMIC FORECAST, *supra* note 37, at 26 (Table 5). Housing starts fell from 1.36 million in 1980-81 to 92,000 in 1982-83. New car sales fell by 880,000 during the same period.

58. Eckstein, *supra* note 53, at 1.1.

59. U.S. unemployment figures, *supra* note 46.

60. *Id.*

61. U.S. & FLA. ECONOMIC FORECAST, *supra* note 37, at 16, 42.

62. *Id.* at 18.

63. REVENUE ANALYSIS, *supra* note 51, at 9 (Table 1.1).

64. *Id.*

As part of Florida's long-term plan, the legislature in 1985 enacted the consensus forecasting law which provides for ten-year economic forecasts using trend and business cycle assumptions.<sup>65</sup> The law also requires that all state agencies use the forecasts in planning and budgeting.<sup>66</sup> The current forecasts anticipate two recessions during the next ten years.<sup>67</sup> The first is anticipated to begin in 1990 and the second in 1994.<sup>68</sup> The 1994 recession is predicted to be more severe with real GNP showing almost no growth for fiscal years 1993-94 and 1994-95. Fortunately, neither the length nor the severity of these two recessions is expected to match that of the 1973 or 1981 recessions.

Florida's economic response to the 1973 and 1981 recessions points out problems which must be addressed in the long-term planning process. Stereotypes of the strengths and weaknesses of the Florida economy simply do not hold. Each business cycle is unique. A sound long-term plan must anticipate the business cycle and plan for its effect on the economy and state revenues.

### III. TAX BASE ALTERNATIVES

Successful implementation of any long-term plan requires an understanding of the state's tax structure. While state tax codes are admittedly complex, there are only three widely used and generally accepted tax bases upon which a tax structure can be created: income, wealth, and sales.<sup>69</sup> All fifty states derive most of their tax revenues from a combination of these three tax bases.<sup>70</sup> Taxes on these three bases respond differently to economic growth and national business cycles. Thus, the mixture of these bases in a state tax structure determines to a large extent how the structure will respond to economic forces. An overview of the general characteristics of these three bases will serve as a foundation for classifying and analyzing Florida's current tax structure.

65. Ch. 85-26, 1985 Fla. Laws 91 (codified at FLA. STAT. §§ 216.133-.137 (1985)).

66. FLA. STAT. § 216.135 (1985).

67. U.S. & FLA. ECONOMIC FORECAST, *supra* note 37, at 35-36.

68. *Id.* at 19 (Table 4).

69. R. MUSGRAVE & P. MUSGRAVE, PUBLIC FINANCE IN THEORY AND PRACTICE 224 (2d ed. 1976) [hereinafter cited as MUSGRAVE].

70. ADVISORY COMM'N ON INTERGOVERNMENTAL RELATIONS, SIGNIFICANT FEATURES OF FISCAL FEDERALISM 171-222 (1984 ed.) (comparing general revenue sources for the states) [hereinafter cited as SIGNIFICANT FEATURES OF FISCAL FEDERALISM].

### A. *Income Taxes*

Income taxes are typically levied on personal income in the form of wages, salaries, dividends, interest, rents, or transfer payments, or on corporate income in the form of corporate profits. According to traditional circular flow analysis of income and expenditures, which posits that a tax on income is equivalent to a tax on expenditures, the income tax reaches almost all economic activity.<sup>71</sup> Therefore, the income tax base will parallel the movements of general economic activity over the business cycle. Swings in personal income will match swings in economic activity. Thus, during a recession, the income tax base slows its growth or contracts; during a recovery it rebounds.

The corporate income tax base is a small portion of total income. In Florida, for example, corporate income represents only 7% to 12% of total income.<sup>72</sup> Corporate profits are volatile in nature, fluctuating according to the national business cycle. During the 1981 recession, Florida corporate profits declined 25% for calendar year 1982.<sup>73</sup> During the recovery, profits increased by 20.8%.<sup>74</sup> The fluctuation of corporate profits historically exceeds that of personal income.<sup>75</sup>

### B. *Wealth Taxes*

Wealth taxes are levied on individual or corporate assets or on the transfer of those assets.<sup>76</sup> Common wealth taxes include those on real and tangible personal property<sup>77</sup> and intangible personal property,<sup>78</sup> and estate and inheritance taxes.<sup>79</sup> Taxes on real and tangible personal property are typically assessed at market value on a specified date by a local property appraiser. Taxes are then levied against the assessed value or, in the case of the other wealth bases, on the determined value of the estate, inheritance, or gift.

The largest component of the wealth tax base is real and tangible personal property, better known as the local property tax

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71. MUSGRAVE, *supra* note 69, at 224-25.

72. Fla. Legis., Jt. Legis. Mgt. Comm., Div. of Econ. & Demographic Research, computer printout (July 21, 1986) (printout on file, *Florida State University Law Review*).

73. *Id.*

74. *Id.*

75. See U.S. & FLA. ECONOMIC FORECAST, *supra* note 37, at 16, 25.

76. MUSGRAVE, *supra* note 69, at 342-43.

77. See, e.g., FLA. STAT. § 195.073 (1985).

78. See, e.g., *id.* ch. 199.

79. See, e.g., *id.* ch. 198.

base.<sup>80</sup> Because of the institutional characteristics of the assessment process, the market value of the property tax base typically fluctuates less radically than the economy as a whole.<sup>81</sup>

### C. Sales or Transactions Taxes

Sales taxes are levied on the sale or use of goods and services.<sup>82</sup> In circular flow analysis of income and expenditures, a tax on income (wages, salaries, dividends, and rents, for example) equals a tax on the uses of income (generally consumption and investment).<sup>83</sup> Therefore, a general sales tax on all uses of income will equal a tax on income. However, most states do not levy a general sales tax on all uses of income. Instead, taxes are applied to broad classes of consumption<sup>84</sup> or selective sales taxes are imposed on individual consumptive items, such as cigarettes,<sup>85</sup> liquor,<sup>86</sup> beer,<sup>87</sup> or wine.<sup>88</sup>

There are two basic types of general sales taxes. Broad-based sales taxes are applied to total consumption and investment with few exemptions.<sup>89</sup> Narrow-based sales taxes are applied to only selected transactions but reduce the regressivity of the tax by exempting food, medicine, and household utilities.<sup>90</sup>

A broad sales tax base will approximate an income tax base and therefore respond to growth and business cycles in the same manner as an income tax.<sup>91</sup> Narrow-based sales taxes will experience much sharper downturns during recessions and larger increases during recovery.<sup>92</sup> Narrow-based sales taxes do not grow in response to the general economy but instead respond to demand for the components of consumption and investment that are in the

80. MUSGRAVE, *supra* note 69, at 349. Between 1902 and 1972, the property tax provided more than 80% of local revenue. *Id.* at 207 (Table 9-1), 209.

81. *See id.* The level of local taxation (total revenue as a percent of GNP) ranged between 3% and 5% from 1902 through the end of World War II. The ratio declined during the 1940's, then rose to 4% during the 1950's. The percentage continued to increase during the 1960's, but far less than other tax bases increased. *Id.*

82. *See, e.g.,* FLA. STAT. ch. 212 (1985).

83. MUSGRAVE, *supra* note 69, at 224.

84. *Id.* at 327.

85. *See, e.g.,* FLA. STAT. ch. 210 (1985).

86. *See, e.g., id.* § 565.12.

87. *See, e.g., id.* § 563.05.

88. *See, e.g., id.* § 564.06.

89. MUSGRAVE, *supra* note 69, at 327.

90. *Id.* at 327-28.

91. *Id.* at 225.

92. *See* Table II (illustrating the behavior of Florida's narrow-based sales tax).

base. By exempting necessities and services, which are stable and do not decline dramatically during recessions, narrow-based sales taxes must rely on the more volatile components of consumption and investment for revenues. In addition, because national consumptive patterns have shifted to services and away from durable and nondurable goods, these bases do not keep pace with the overall growth in the economy.

A variant of the narrow-based sales tax, the selective sales tax, is applied to an even more restricted component of consumption. Selective sales taxes are applied to particular products such as cigarettes, beverages, and gasoline.<sup>93</sup> These taxes are typically unit-based, in that the tax rate is applied to the number of units sold rather than the value of the product sold. Unit-based taxes grow as consumption of the unit increases but do not grow with inflation or increased economic productivity.

#### D. Tax Bases Compared

Table III compares the growth rates of the three major tax bases using Florida data. The first two columns present two versions of the sales tax base: column (1) shows the rate of increase in total sales tax liability while column (2) presents the growth rate of the cigarette tax base, a typical unit-based selective sales tax. Column (3) lists the growth rate in the county taxable property base, and column (4) the growth rate in Florida personal income.

The income tax base exhibits the properties expected of such a base over the business cycle. Growth rates slowed during recession and increased during expansion. Due to inflation and population growth, the state's income tax base grew steadily. Total personal income increased at an annual average rate of 12.7% between 1971 and 1985.

The unit-based, selective sales tax also grew as expected. Major growth in unit-based sales tax bases occurs with significant increases in population or when tax law changes shift consumptive patterns between two fiscal years. Average annual growth for the fifteen-year period equaled 3.8%, approximately the same as the overall increase in state population.

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93. MUSGRAVE, *supra* note 69, at 328.



TABLE III

SELECTED FLORIDA ECONOMIC AND TAX VARIABLES  
FISCAL YEARS 1970-71 THROUGH 1982-83

Fiscal Year	(1) General Sales Taxes	(2) Selective Sales Tax	(3) Florida Property Tax	(4) Florida Personal Income
1970-71	7.8%	7.4%	15.5%	11.1%
1971-72	13.7	5.4	13.5	13.5
1972-73	18.0	8.5	8.5	17.0
1973-74	14.9	8.5	29.2	15.5
1974-75*	.3	2.3	37.3	9.2
1975-76	4.5	1.9	13.0	7.8
1976-77	11.5	3.0	7.3	10.0
1977-78	17.6	.6	9.4	15.1
1978-79	18.6	1.7	9.2	16.4
1979-80	15.4	7.0	8.4	16.5
1980-81	13.0	5.2	27.2	16.5
1981-82**	6.3	2.4	23.5	12.5
1982-83	4.5	(1.1)	13.1	7.8
1983-84	16.8	1.3	7.5	10.8
1984-85	10.6	3.4	9.4	10.7
Growth Rate	11.4%	3.8%	15.1%	12.7%

\* The recession of 1973-75 began in November 1973 and officially ended in March 1975.

\*\* The recession of 1981-82 began in July 1981 and officially ended in November 1982.  
Source: Florida Consensus Revenue and Economic Estimating Conference.

The property tax base responds erratically to major changes in administration. Substantial growth in this base occurred during periods of significant assessment practice reform.<sup>94</sup> This tax base produced an annual growth rate of 15.1%.

The general sales tax base demonstrates the widest fluctuations. It showed almost no growth during the mid-1970's recession but increased 18.6% later in the decade during the period of double-

94. See Table IV. In Florida, significant assessment practice changes were made in 1973, ch. 73-172, 1973 Fla. Laws 331, and in 1980, ch. 80-274, 1980 Fla. Laws 1143.

digit inflation. The general sales tax base grew by an average of only 11.4%, less than the growth in Florida personal income.

### *E. Strategic Implications*

In summary, a tax structure which relies heavily on an income tax base will experience growth paralleling the general growth of the state's economy. Such a tax structure will contract during recessions and rebound during expansions. Throughout the business cycle, revenue growth will match that of the overall economy. States which tax personal income at a progressive rate typically will experience revenue growth faster than the growth of the general economy, particularly during periods of rapid inflation.

Broad-based sales taxes will exhibit the same general properties as a personal income tax. Narrow-based sales taxes, on the other hand, will respond more radically to the business cycle, and revenue will not keep pace with economic growth. Selective sales-based taxes, particularly unit-based taxes levied on such items as cigarettes, beverages, and legalized forms of gambling, likewise will not keep pace with economic growth. In general, these taxes will grow only in response to changes in population or changes in consumer tastes and preferences for those items.

Wealth tax bases will respond to the business cycle less violently than the narrow-based sales tax. However, substantial changes in the wealth tax bases can occur with major changes in institutionalized assessment practices.

## IV. FLORIDA'S TAX STRUCTURE

The state's taxing structure is the focal point of any long-term strategic planning process. The tax structure determines whether the state's obligations to match federal funds, assist local governments, and fund the operating and infrastructure needs of state government can be met. The Florida Constitution reserves to the state the general authority to levy taxes.<sup>95</sup> However, it imposes several important limitations on the legislature's ability to raise revenues. The state may not impose an ad valorem tax on real or tangible personal property.<sup>96</sup> Thus, state use of the major wealth-based

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95. FLA. CONST. art. VII, § 1(a).

96. *Id.* Ad valorem taxes, except for intangibles taxes, are reserved to local government. *Id.* § 9. However, local governments are restricted in their use of ad valorem taxes. *Id.* (imposing millage limitations on cities, counties, school districts, and water management districts).

tax is prohibited. Moreover, the state may not impose a personal income tax.<sup>97</sup> Although it may impose a limited tax on corporate income,<sup>98</sup> the state is effectively precluded from imposing the second of the three basic kinds of taxes, leaving only the sales tax base to raise revenues for government services.

While restricting the legislature's ability to raise taxes, the constitution allows the legislature to delegate some taxing authority to local governments.<sup>99</sup> In addition, local governments may benefit indirectly from taxes levied and collected by the state and then shared with local governments.<sup>100</sup>

### A. State Funds

The state's current tax structure is maintained through three funds—the General Revenue Fund, trust funds, and the Working Capital Fund.<sup>101</sup> For fiscal year 1984-85, direct receipts to the state totaled \$12.2 billion.<sup>102</sup> Of that amount, general revenue totaled \$6.3 billion and state trust funds amounted to \$5.9 billion.<sup>103</sup> The Working Capital Fund receives revenues only by transfers of surpluses from the General Revenue Fund.<sup>104</sup>

#### 1. General Revenue Fund

Because of its pivotal nature, the General Revenue Fund will be the focus of this analysis. General revenue funds support many programs, including operating and capital outlay needs for universities, criminal justice programs, environmental and natural resources programs, and general government services.<sup>105</sup> The General Revenue Fund is also used to supplement shortages in state regulatory trust funds and thus to support state agencies such as the Departments of Agriculture,<sup>106</sup> Banking and Finance,<sup>107</sup> and Insurance.<sup>108</sup> The General Revenue Fund provides state matching funds

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97. *Id.* § 5(a).

98. *Id.* § 5(b).

99. *Id.* § 9.

100. *Id.* § 8.

101. FLA. STAT. § 215.32 (1985).

102. REVENUE ANALYSIS, *supra* note 51, at 3.

103. *Id.*

104. FLA. STAT. § 215.32(2)(c) (1985).

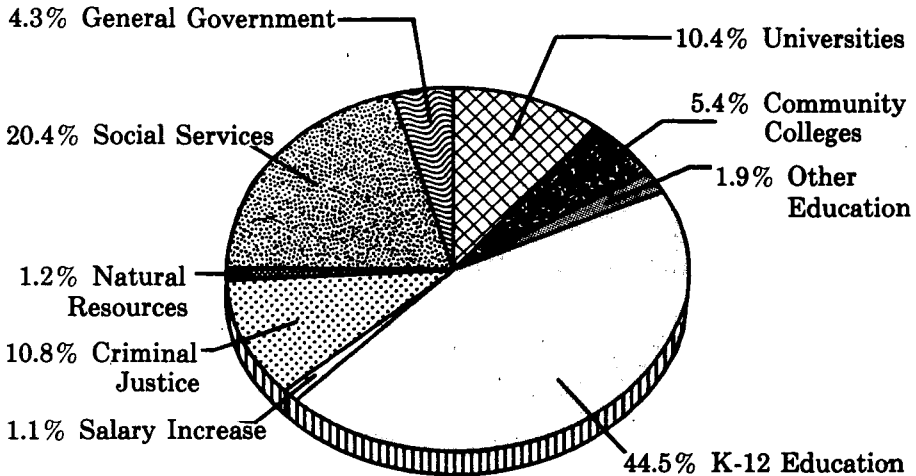
105. STAFF OF FLA. H.R. & S. COMMS. ON APPROP., FLORIDA'S FISCAL ANALYSIS IN BRIEF 1986, at 1 (on file with committees).

106. *Id.* at 84.

107. *Id.* at 87.

108. *Id.* at 103-04.

**FIGURE I**  
**FISCAL YEAR 1984-85 LEGISLATIVE APPROPRIATIONS**  
**GENERAL REVENUE FUND**



Source: Florida House and Senate Committees on Appropriations.

for federal programs, particularly those providing indigent care and education.<sup>109</sup> At the local level, general revenue funds are used to help finance public schools and community colleges.<sup>110</sup> The Fund has even been used periodically to provide local property tax relief.<sup>111</sup> Figure I shows the apportionment of the General Revenue Fund for fiscal year 1984-85.

Although the General Revenue Fund serves as the cornerstone of the state budgeting process, limitations on the use of wealth and income tax bases and statutory limitations on the use of the sales tax base mean the Fund relies primarily on the general sales tax for revenues. Figure II shows the composition of Florida's General Revenue Fund for fiscal year 1984-85. Because necessities such as food, medicine, and household utilities, as well as personal and professional services and economic development incentives, are exempted from taxation,<sup>112</sup> the general sales tax necessarily depends on a narrow and volatile subset of economic activity. Figure III illustrates the composition of Florida's general sales tax in fiscal year 1984-85. The taxes attributable to durable goods expenditures originate from sales of consumptive items such as automobiles,

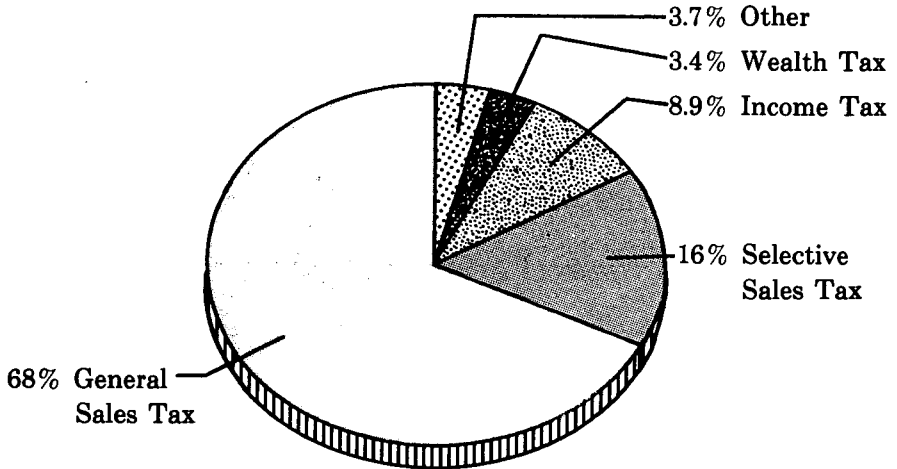
109. *Id.* at 56-69.

110. *Id.* at 37, 40.

111. *See, e.g.*, ch. 77-476, 1977 Fla. Laws 2100; ch. 74-264, 1974 Fla. Laws 711.

112. *See* FLA. STAT. § 212.07-.084 (1985).

**FIGURE II**  
**COMPOSITION OF THE GENERAL REVENUE FUND**  
**FISCAL YEAR 1984-85**



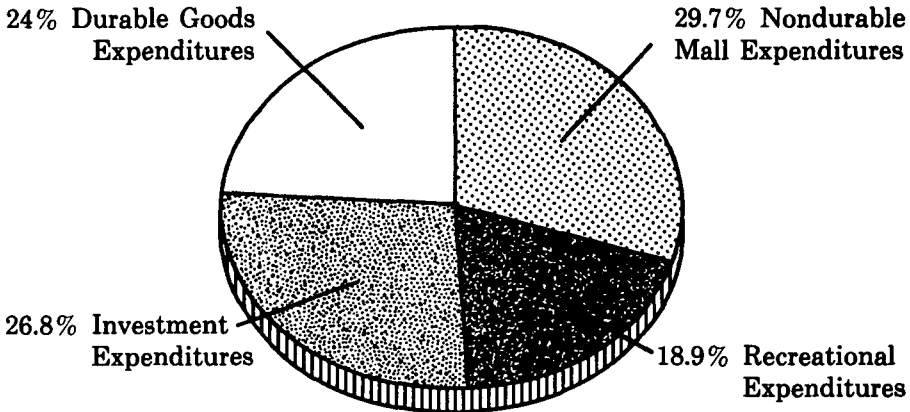
Source: Florida Consensus Revenue Estimating Conference.

washers, dryers, and television sets. Items such as residential housing, commercial construction, and business investments make up the investment expenditures category while recreational expenditures include discretionary items such as hotel accommodations, restaurants, and attractions. Nondurable mall expenditures include general merchandising activity.

These components of the General Revenue Fund are highly recession-prone. During recessions, consumers postpone purchases of durable goods. New house purchases are delayed and extensive vacations postponed. Shopping centers and malls attract less business; restaurant-dining and movie-going are curtailed. Additionally, during recessions, particularly recessions with high interest rates, business investment is reduced, housing construction slows, and the stock market declines.

The highly volatile nature of these components of the general revenue tax structure affects the growth pattern of the General Revenue Fund across the business cycle. Figure IV illustrates the vulnerability of the Fund to business cycles. The graph shows that growth in the General Revenue Fund has been one of periodic booms and busts. Most importantly, the long-term direction of the Fund has been one of continuous decline over the past fifteen years, indicating that the booms do not offset the busts. This ever-declining peak growth rate is a result of the tax structure's exces-

**FIGURE III**  
**COMPOSITION OF FLORIDA'S GENERAL SALES TAX**  
**FISCAL YEAR 1984-85**



Source: Florida Consensus Revenue Estimating Conference.

sive dependence on hard goods consumption at a time when a growing proportion of income is being devoted to necessities and personal and professional services, all of which are exempt.

The fact that the General Revenue Fund does not keep pace with growth is also reflected in the share of personal income which supports the Fund. In 1970, Floridians paid 4.4% of their personal income to state general revenue taxes.<sup>113</sup> This proportion increased to 5% in 1971 after enactment of the corporate income tax.<sup>114</sup> It declined steadily to 4% by 1981-82 and then increased to 4.3% by 1984-85<sup>115</sup> after major changes in the tax laws.<sup>116</sup> As Figure V indicates, for the fifteen-year period from 1970 to 1985, the tax burden as measured by tax paid as a percentage of personal income declined.

Unfortunately, tax law changes mask the severity of this trend and the instability it creates. Total general revenue increase result-

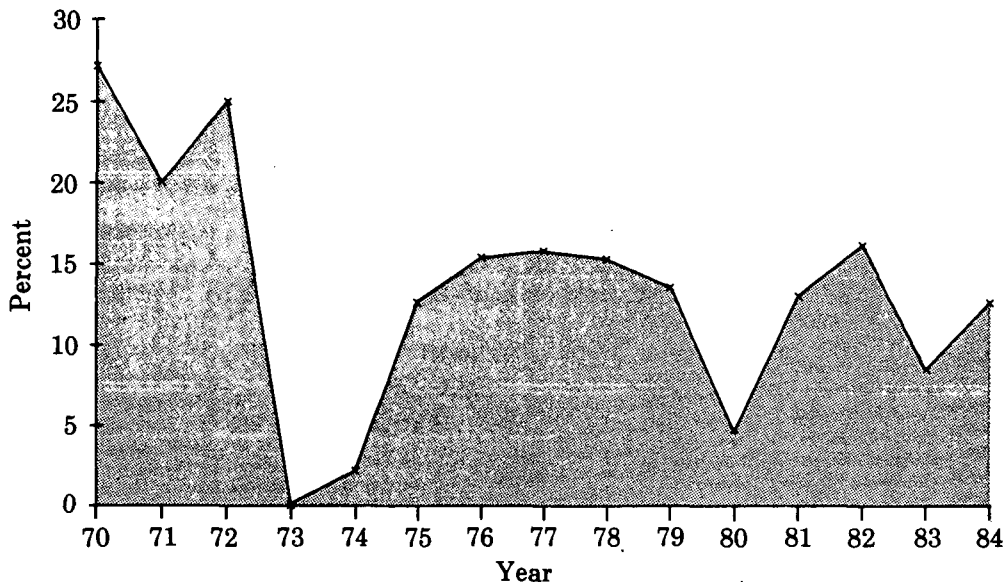
113. REVENUE ANALYSIS, *supra* note 51, at 6 (Table 1.2).

114. Ch. 71-984, 1972 Fla. Laws 57 (codified at FLA. STAT. § 232.01 (1985)).

115. REVENUE ANALYSIS, *supra* note 51, at 6 (Table 1.2).

116. Major tax law changes during this period include a general sales tax increase, ch. 82-154, 1982 Fla. Laws 450 (½ to state government, ½ to local governments); increased beverage taxes in 1983, ch. 83-348, 1983 Fla. Laws 2323; in 1977, ch. 77-407, 1977 Fla. Laws 1711; in 1971, ch. 71-361, 1971 Fla. Laws 1877; and imposition of the corporate income tax, ch. 71-984, 1972 Fla. Laws 57.

FIGURE IV  
GROWTH RATE OF THE GENERAL REVENUE FUND  
FISCAL YEARS 1970-71 TO 1984-85



Source: Florida Consensus Revenue Estimating Conference.

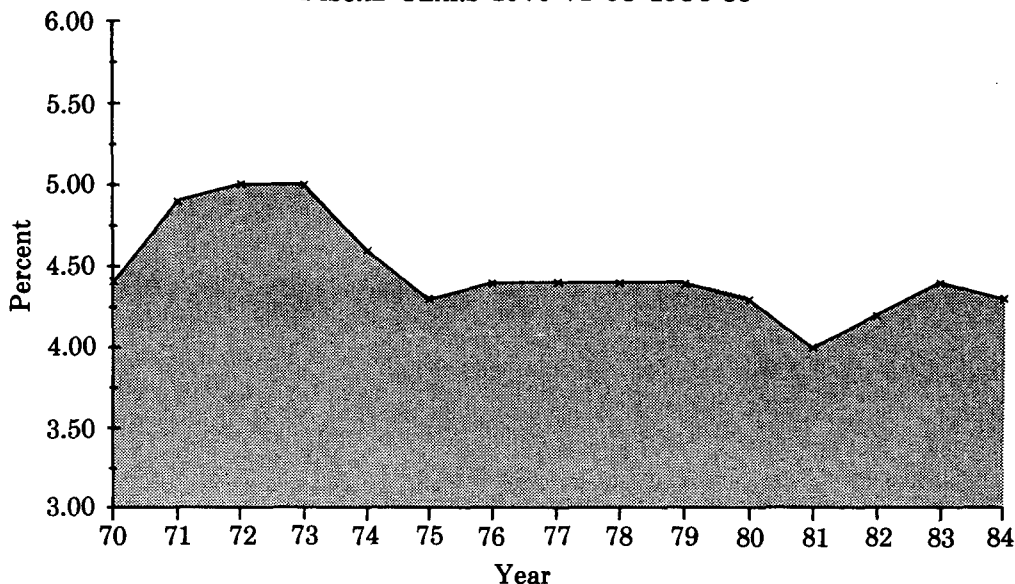
ing from major tax law changes from 1970-71 to 1984-85 had the effect of increasing general revenue by \$1.3 billion for fiscal year 1984-85.<sup>117</sup> In other words, had there been no change in the tax laws since 1970, the percentage of personal income going to the General Revenue Fund would have been reduced to 3.4%.<sup>118</sup> Clearly, Florida's narrow-based sales tax structure if left alone would not have kept pace with growth.

In summary, Florida's General Revenue Fund, the major source of money for state services, has been extremely cyclical, more volatile than the economy as a whole, and has declined as a share of personal income over the past fifteen years. By such measures, the

117. Memorandum from Alan Johansen, Legislative Economist, House Committee on Finance and Taxation, Florida Legislature, to James Zingale, Staff Director, House Committee on Appropriations, Florida Legislature (Sept. 12, 1986) (major tax increases since 1970) (on file, *Florida State University Law Review*).

118. In fiscal year 1984-85, general revenue collections totaled \$6,270.8 billion. REVENUE ANALYSIS, *supra* note 51, at 7. Real personal income for the same fiscal year totaled \$133.297 billion. *Id.* at 83. General revenue as a percent of Florida income thus equaled 4.3%. Subtracting the \$1,318.8 billion realized from these tax increases results in the 3.4% figure.

**FIGURE V**  
**SHARE OF FLORIDA PERSONAL INCOME WHICH SUPPORTS**  
**THE STATE GENERAL REVENUE FUND**  
**FISCAL YEARS 1970-71 TO 1984-85**



Source: Florida Consensus Revenue Estimating Conference.

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tax burden has been declining since 1970, leaving Florida with a 1984 national tax burden ranking forty-fourth.<sup>119</sup>

## 2. General Revenue Forecast

According to the ten-year Florida revenue forecasts prepared by the Florida Consensus Estimating Conference, the behavior of the General Revenue Fund will exhibit the same properties over the next decade as it has in the past. The forecasts are based on two assumptions: there will be two moderate recessions over the next ten years, and there will be no change in current state tax laws or tax administration throughout the forecast period.<sup>120</sup>

The two predicted recessions will cause growth rates to slow significantly—to 3.1% in response to the 1989 recession and to 2.1%

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119. STATE POL'Y REP., Jan. 10, 1986, at 5.

120. REVENUE ANALYSIS, *supra* note 51, at 33.



in the 1993 recession.<sup>121</sup> According to the trend forecast, the 1989 recession will cause a loss in general revenue of \$484.1 million for fiscal year 1991-92, while the 1994 recession will cause a loss of \$354.2 million.<sup>122</sup>

Additionally, the trend forecast shows a continued decline in the General Revenue Fund as a share of personal income—from 4.4% in 1986 to 4.1% in 1995.<sup>123</sup> The cycle forecast predicts a similar decline.<sup>124</sup> General revenue in fiscal year 1994-95 will be approximately \$1.6 billion less than if the relative share of personal income paid into the Fund had remained at 4.5%.<sup>125</sup>

### 3. *Errors in the General Revenue Fund Estimate*

The inherent volatility of a narrow-based sales tax structure not only creates instability in terms of funds available but also makes exact revenue forecasting difficult. Table IV highlights the problem of forecasting the highly recession-sensitive General Revenue Fund. The table shows errors in General Revenue Fund estimates and reveals the difficult task that forecasters have had in accurately anticipating recessions. National recessions typically produce revenue shortfalls. For fiscal years 1974-75 and 1975-76, the general revenue error was 10% and 3.1%, respectively. The 1980 and 1981 recessions caused shortfalls in the revenue forecast of 5.2% and 4.7%, respectively, for fiscal years 1981-82 and 1982-83.

The shortfalls of 1974 and 1975 caused midyear holdbacks—that is, mandatory spending reductions imposed on state agencies by the Administration Commission—of 5.5% in 1974<sup>126</sup> and 2.0% in 1975.<sup>127</sup> The revenue shortfalls of 1981 required a \$195.9 million transfer from the Working Capital Fund reserve to general revenue appropriations.<sup>128</sup> The 1982 revenue shortfall of \$203.8 million<sup>129</sup> in

121. *Id.* at 63 (Table 3.1).

122. *Id.*

123. *Id.* at 35 (Table 2.2).

124. *Id.* at 61 (Table 3.2).

125. *Id.*

126. STAFF OF FLA. H.R. & S. COMMS. ON APPROP., FISCAL ANALYSIS IN BRIEF 1975, at 2 (June 1975) (on file with committee).

127. STAFF OF FLA. H.R. & S. COMMS. ON APPROP., FISCAL ANALYSIS IN BRIEF 1976, at 2 (July 1976) (on file with committees).

128. STAFF OF FLA. H.R. & S. COMMS. ON APPROP., FISCAL ANALYSIS IN BRIEF 1982, at 6 (May 1982) (on file with committees).

129. STAFF OF FLA. H.R. & S. COMMS. ON APPROP., FISCAL ANALYSIS IN BRIEF 1983, at 6 (Aug. 1983) (on file with committees).

TABLE IV

HISTORY OF CONSENSUS REVENUE ESTIMATING CONFERENCE  
 ERRORS IN THE GENERAL REVENUE FUND ESTIMATE

Fiscal Year	Dollar Error	Percentage Error
1973-74	\$159.9	8.2%
1974-75	(232.5)	(10.0)
1975-76	(67.8)	(3.1)
1976-77	18.0	.8
1977-78	205.7	8.0
1978-79	367.5	12.9
1979-80	223.4	6.4
1980-81	198.4	5.0
1981-82	(240.7)	(5.2)
1982-83	(244.2)	(4.7)
1983-84	25.8	.4
1984-85	(28.5)	(.4)

Source: Joint Legislative Management Committee, Division of Economic and Demographic Research.

the working capital transfer necessitated holdbacks totaling \$325.8 million in order to balance general revenue appropriations for fiscal year 1982-83.<sup>130</sup>

### B. Strategic Implications

Florida's tax base is one of the most restrictive in the nation.<sup>131</sup> The constitutional and statutory limitations on the use of property and personal income taxes leave the state with only one major tax base—the sales tax. Thus, the current tax structure relies almost exclusively on this tax base. Florida's narrow-based sales tax structure is highly cyclical. It has not and will not keep pace with growth in the state's personal income. Unless it is changed, state revenues will continue to decline as a percentage of personal income. The volatile nature of the general sales tax base and the

130. *Id.* at 7.

131. See SIGNIFICANT FEATURES OF FISCAL FEDERALISM, *supra* note 70, at 171-222 (comparing tax bases of the states).

unit-based selective sales tax, which provide no growth to offset inflation, will continue to exert fiscal drag on the tax structure.

## V. ANATOMY OF A FISCAL CRISIS

The sequence of events which historically causes budgeting and planning problems begins with an unanticipated downturn in national economic activity signaling the beginning of a recession. The sensitivity of the taxing structure to these downturns causes sharp declines in revenues which historically have not been accurately anticipated. Falling revenues thus create budget shortfalls which, because of constitutional provisions,<sup>132</sup> must be offset by spending reductions. These reductions typically take the form of layoffs, program reductions, cancellation of capital outlay projects, travel restrictions, and hiring freezes,<sup>133</sup> all of which usually occur mid-way through the state's fiscal year.

The initial phase of a recession is followed by rising demand for recession-sensitive services. These service demands increase rapidly at a time when appropriations are reduced and growth in revenues is slowing dramatically. Table V illustrates the effect of two recent recessions, 1981-82 and 1982-83, on state services.

In 1981, the number of unemployment claims filed by Floridians increased by 15.3%. But it increased by 25.5% and 23.4%, respectively, in the following two recession years. Rising unemployment also causes increased crime which puts pressure on the criminal justice system. This rise is initially felt by local law enforcement agencies, and subsequently is reflected in the increased caseload for courts, state attorneys, and public defenders. Finally, increases in the prison population result in prison overcrowding crises. For example, the 1980 recession was a major contributor to a 9.4% increase in the prison population in 1981-82 over the previous fiscal year. In the two following fiscal years, the prison population increased by 21.2% and 5.6%, respectively.

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132. FLA. CONST. art. VII, § 1(d).

133. See, e.g., Memorandum from John T. Herndon, Director, Office of Planning and Budgeting, to Governor Graham and Members of the Cabinet (Nov. 1981) (Revised Financial Plan 1981-82) (on file, *Florida State University Law Review*); memorandum from Lieutenant Governor J.H. Williams, Secretary of Administration, to Governor Askew and Members of the Cabinet (Dec. 8, 1975) (Revised Financial Plan 1975-76) (on file, *Florida State University Law Review*).

TABLE V  
EFFECTS OF A RECESSION ON DEMAND FOR SELECTED STATE  
SERVICES

	(1)	(2)	(3)	(5)
	Unemployment Compensation Claims % Change	Prison Pop. % Change	AFDC Caseload % Change	Com. College Enrollment Change
1979-80*	(7.1)	1.0	8.9	
1980-81	15.3	(1.8)	9.0	7,230.9
1981-82**	25.5	9.4	(3.2)	8,611.0
1982-83	23.4	21.2	5.4	3,586.4
1983-84	(14.9)	5.6	5.8	(2,535.0)
1984-85	(10.1)	(4.5)	0.2	(6,460.8)

\* The recession of 1980 began in January 1980 and officially ended in June 1980.

\*\* The recession of 1981-82 began in July 1981 and officially ended in November 1982.

Source: Florida Consensus Estimating Conference.

Deteriorating economic conditions also significantly affect federal indigent care programs for which the state provides a mandatory match. For example, the AFDC program tends to increase during a recession. AFDC caseload increased by 9% following the 1980 recession and by 5.4% and 5.8%, respectively, in the two years following the 1982 recession.

Rising unemployment increases demand for higher education, particularly vocational education available through the community college system. The three fiscal years following the 1980 recession saw community college enrollments increase by 19,428 students.

These recession-related factors—falling revenues, errors in the revenue estimate, mandatory holdbacks, and increasing demand for a variety of state services—create a syndrome of fiscal crisis that can radically disrupt long-term planning and budgeting. The effect of the 1973 recession on Florida's annual budget exemplifies this phenomenon. When the recession was fully felt in Florida, general sales tax revenues did not grow.<sup>134</sup> This unanticipated slowdown produced budget shortfalls of 10% in fiscal year 1974-75 and 3.1% the following year.<sup>135</sup> To meet constitutional balanced budget requirements, the Administration Commission imposed a

134. See Table III.

135. See Table IV.

5.5% holdback on state appropriations for fiscal year 1974 and a 2% holdback for fiscal year 1975.<sup>136</sup> The 1974 holdback was particularly harsh because the shortfall was not fully recognized until late in the fiscal year.

The effect of the recession on the political leadership was even more dramatic. Governor Reubin Askew began his tenure on a platform ardently opposed to a sales tax increase. In his Fair Share tax reform program, Governor Askew called for imposition of a corporate income tax, and stated that "this Administration cannot, and will not, accept another penny increase in the sales tax."<sup>137</sup> By 1977, the effects of the recession on the state had caused Governor Askew to reverse his position. Noting that recession and inflation had dramatically depressed state tax collections, and that growing demands on state services could not be met otherwise, Governor Askew proposed a twenty-five percent increase in the sales tax, from four to five cents on the dollar.<sup>138</sup> Although that increase was forestalled in favor of other tax increases, Governor Askew's experience shows that unanticipated recessions can devastate the best-laid plans of Florida's political leadership. Any state plan that does not take into account the likelihood of future economic reverses will be short sighted and destined to fail.

## VI. CONCLUSION

Recessions historically have reduced state revenues at the same time that economic adversity has increased the demand for state services. The outcome has been a fiscal crisis for Florida government that has been "solved" only by increases in existing taxes. While these increases have given the appearance of enlarging the revenue base, in fact the result has been that the expanded tax base merely offsets the continuing revenue declines caused by the peculiar nature of the tax base. When comparable downturns occur in the future, aggravated by explosive population growth, the legislature's ability to implement the State Comprehensive Plan will be all but destroyed. Instead of focusing on execution of the state plan, policy-making will degenerate into an annual exercise in crisis management.

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136. STAFF OF FLA. H.R. & S. COMMS. ON APPROP., FISCAL ANALYSIS IN BRIEF 1975, at 2 (June 1975); FISCAL ANALYSIS IN BRIEF 1976, at 2 (July 1976) (on file with committees).

137. FLA. H.R. JOUR. 58 (Reg. Sess. 1971).

138. FLA. H.R. JOUR. 14 (Reg. Sess. 1977).

To prevent this occurrence, state policymakers should consider reforming Florida's tax structure to eliminate the economic vagaries caused by over-reliance on a narrow-based sales tax. Broadening the sales tax base through repeal of the exemptions for nonessential items would be an important first step, but only that. It would provide needed revenues at a critical time. Unfortunately, the 7.9% increase in available revenues that would result from repeal of all the exemptions currently under review would address only partially the state's urgent needs.

Over the long term, Florida's tax base must be reformed so it will generate sufficient revenue for high-quality services and provide stability over the course of national business cycles. This goal can be attained only by systematically expanding the state's reliance on all three tax bases—sales, income, and wealth. Tax reform will allow state government to smooth out the boom-or-bust cycles that now bedevil state planning and budgeting. Otherwise, the future will look much like the past, with erratic delivery of public services. In the absence of tax reform the growth management policies adopted by the Florida Legislature in 1985 run the risk of increasing expectations beyond what can realistically be achieved.

