$1.5-billion shortfall seen in state budget

State government has its worst fiscal outlook since the aftermath of 9/11.

By STEVE BOUSQUET, Tallahassee Bureau Chief
Published August 2, 2007

TALLAHASSEE — As a depressed housing market saps Florida's economy, revenue experts Wednesday adjusted the state budget shortfall to $1.5-billion, the worst fiscal outlook since the period following the Sept. 11 attacks six years ago.

That means deep cuts in state services and programs will be needed this fall to assure that expenses match the shrinking revenue pool.

More ominously, the revised picture of the state's finances for the next four years is so bleak it may force future cuts in each of those years, casting a fiscal shadow over Gov. Charlie Crist's term.

The Legislature will hold a special session on budget cuts beginning Sept. 18, and state agencies face a deadline Wednesday to specify how they plan to trim the $71-billion budget.

Crist said the shortfall "is an opportunity to continue to tighten our belt," and again cited his vetoes of $459-million in lawmakers' projects that he cut out of the budget in May.

Wednesday's revenue conference was filled with talk of the ripple effects of a surprisingly long slump in housing sales in a state that relies chiefly on a sales tax to run government.
More than half of all state tax revenue comes from the statewide 6 percent sales tax.

"We see people not buying houses," said Amy Baker, an economist with the state who chaired the Revenue Estimating Conference. "We think people are kind of hunkering down. They're not selling. They're not buying. They're just kind of staying in place right now."

When consumers believe the housing market is in a slump, Baker said, they postpone other purchases such as furniture or computers, crimping the state treasury even more.

"They don't feel as wealthy," Baker said. "That's the big change you saw today, the spillover of the housing market coming into other kinds of purchases."

Using words like "anemic" and "tanking," the usually circumspect forecasters cited case after case of a sputtering economy, from a downturn in car sales to slumping attendance at restaurants and movie theaters.

People are even gambling less than expected. The state's take from the new slot machines in Broward, which is used to support public education, is below projections.

Because Florida is one of seven states with no personal income tax, the revenue gap underscores how the state is vulnerable to fluctuations in the flow of sales tax revenue.

"The prosperity of Florida's real estate markets plays a huge role in financing state spending," said Rep. Ray Sansom, R-Destin, chairman of the House Policy and Budget Council, who will play a key role in the cuts. "This slow growth period will eventually end, and normal growth will resume."

"Tough times are ahead," said Sen. Lisa Carlton, R-Osprey, the Senate's lead budget negotiator. But she noted: "We have worked through budget shortfalls before."

The last major shortfall was in 2001, in the period following the Sept. 11 attacks, when lawmakers were forced to cut about $1-billion in spending after a severe drop in tourism.
That year, lawmakers agreed to postpone a scheduled cut in the intangibles tax for 18 months, which made it possible to balance the budget with fewer program cuts, though many cuts still needed to be made.

This year, lawmakers have no such option available.

As a sign of how quickly the state's fiscal fortunes have dipped, less than two years ago a giddy Legislature was sitting on a $2.2-billion surplus of cash.

Much of that increase came from documentary stamp taxes from home sales, which had been hot. At the same time, a posthurricane building boom after two summers of heavy storm activity kept cash registers humming with sales of taxable items such as construction materials.

Not so today. A so-far quiet storm season is good for Floridians' safety and sanity, but not especially good for its economy.

The new consensus forecast over the next three years is no brighter, either.

"It looks very much like a recession," said Frank Williams, a state economist. "Going forward, we have a much weaker economic forecast."

*Steve Bousquet can be reached at bousquet@sptimes.com or 850 224-7263.*

**FAST FACTS: What's next**

On Wednesday, state agencies must specify how they will cut their budgets in a submission to Gov. Charlie Crist.

On Sept. 18, lawmakers meet in a special session that could last until October with the primary goal of finalizing spending cuts to balance the state budget.

[Last modified August 1, 2007, 23:08:59]