The recent economic downturn and its effect on the Florida state budget have highlighted for many legislators the need to constrain state and local spending. One way to limit governmental growth is through what has been termed a “Taxpayer Bill of Rights” or TABOR. While many states have some type of tax or expenditure limitation, a TABOR is a constitutional amendment restricting revenues or expenditure growth, with growth usually measured as the sum of inflation and population change. Most TABOR legislation requires voter approval to override the revenue or spending limits. Although the measures considered by the Florida legislature in 2009 and 2010 did not explicitly state the TABOR concept, the bills became known as TABORs. The explicit statement in the bills was to place limits on all Florida governments’ abilities to raise revenues.

There are persuasive arguments for and against TABOR. The LeRoy Collins Institute does not take sides in the debate or advocate for or against TABOR. Rather, our purpose is to analyze the fiscal impact of a proposed TABOR on county governments and a sample of city governments. This report is part of our ongoing analysis on state-local relationships in Florida.

March 2011
Synopsis of the Bills

The two legislative bills, Senate Joint Resolutions (SJR) 1906 and 2420, introduced in 2009 and 2010 respectively, placed revenue limits on all state and local governments, including school districts. Both bills defined local governments to include all forms of governments excluding only independent special districts meeting specific requirements. The term local government includes any county, city, school district, or special district that has the authority to impose ad valorem taxes.

What revenues are limited?

Both bills define revenue sources for the state, local governments, and school districts as taxes, fees, assessments, licenses, fines, and charges for services that are compulsory on individuals, businesses, or other local governments. Excluded from the revenue definition for local governments and school districts are funds from the proceeds of bonds, gifts, federal funds, collections for other governments, pension contributions by employees and pension fund earnings, emergency reserve transfers, damage awards, and property sales. The revenues excluded from state revenues are proceeds from the issuance of bonds, proceeds from the state lottery returned as prizes, receipts of the Florida Hurricane Catastrophe Fund and Citizens Property Insurance Corporation or their successor entities, tuition and fees charged to students by public universities and community colleges, gifts, federal funds, collections for other governments, pension contributions by employees and pension fund earnings, budget stabilization fund transfers, damage awards, and property sales.

Although bond proceeds are excluded from the revenue limits for all Florida governments, the accrued annual debt service is included in the revenue limits. Both bills exclude federal funds from the revenue limit; however, all other forms of intergovernmental revenue (IGR) appear to be included within the revenue limits since all non-federal IGR is not distinguished independently within the revenue sources definition.

How is growth measured?

Although the bills are focused on limiting revenues for Florida’s governments, both bills provide a revenue growth factor based on state or local population growth and the Bureau of Labor Statistics Consumer Price Index for Urban and Clerical (CPI-UC) workers in the south region. The bills set the base year revenues collected by Florida governments to the 2010-2011 fiscal year (FY2011) actual collections. For each subsequent year following FY2011, Florida governments’ revenues are “limited” to FY2011 revenues plus the index adjustment for growth. For example, in FY2012, Florida governments’ revenues would be limited to actual revenues in FY2011 plus FY2011 CPI-UC and FY2011 population growth in the state or local government. This leads to the following scenario for each dollar collected in FY2012; if FY 2011 CPI-UC is three percent and state or local population growth in FY2011 is 0.5 percent, all governments in Florida would face a revenue limit in FY2012 of $1.035 for every $1 raised in revenue in FY2011. This limit allows for the changing value of a dollar over time, time value of money concept, and provides for an adjustment for population change, allowing revenue expansion or contraction to accommodate changing demand in services due to population expansion or contraction.

Where does any excess revenue go?

Both bills allow for revenue collection to exceed the revenue limit in any fiscal year, but require this excess to be transferred to a budget stabilization fund. The stabilization fund is limited to a maximum of three percent of the last completed fiscal year’s revenue collection. Revenue collection exceeding the three percent accrual in the stabilization fund, or revenue collected in excess of the revenue limit by a local government that does not create a budget stabilization fund, is required to be held in a separate cash reserve. The cash reserve and its associated investment income is treated as part of collected revenue in the first or second fiscal year after the establishment of the cash reserve. Both bills allow for a series of revenue limit enhancements including voter based increases in revenues, legislative changes in revenues, and emergency situations to override the revenue limit.

Summary: Both bills place a limit on revenues based on an index and place a set of constraints on Florida governments.

Both bills set a revenue limit, but not a collection goal. This is an important difference. These bills limit Florida governments’ revenues to an economic ceiling amount, based on prior year actual collections and an index. The bills
do not infer or state that the revenue limit is to be the goal for revenue collections, the bills focus on limiting the annual change in revenues. Florida governments are not required to set their revenue projections or collections to the limit, the limit is provided as a “cap” or “ceiling” on revenues.

**Estimating the Impact of the Revenue Limit**

To begin the analyses, three important assumptions must be stated. First, the language in the bills “… shall be based on a comparison of the average of the Census Bureau estimates for the most recent two consecutive calendar years” is considered to indicate a comparison and not a biennial average. This is consistent with the analysis provided by the professional staff of the Community Affairs Committee. Second, the language in the bills under property taxes stating “… government’s property tax revenue may not exceed property tax revenue in the prior calendar year plus annual local growth …” is assumed to apply across all revenue categories as defined within the bills. This indicates that the “limiting” of revenue is perpetual and compounding. This assumption indicates that FY2013 uses FY2012 as the base revenue year and applies the index. Third, although neither bill specifies the issue surrounding non-federal intergovernmental revenue, the lack of specification is considered as an indicator that this revenue source is included within the intent of the bills.

There are two steps in estimating the impact of the proposed revenue limitation. Since the baseline for the limitation is 2010-2011 (FY 2011), the first step is to forecast revenues for counties and cities in FY2011. Once that baseline is established, an estimate of the expected impact of the limit is computed.

**Estimating FY2011 Revenues**

The first step in estimating FY2011 revenue is to compile prior year revenues from FY1979 through FY2008 for the 67 Florida counties5 and a stratified sample of 50 cities.6 The revenues from FY1979 – FY2008 use data collected from the Florida Department of Financial Services’ Bureau of Local Government (DFS) and the Florida Legislative Committee on Intergovernmental Relations (LCIR). All revenue over the time period is reconciled into the Uniform Accounting System (UAS) as described by the LCIR. After reconciling all revenue accounts into the UAS, all current year dollar amounts are converted into 2007 constant dollars.

Next, the two measures used in the proposed revenue limit index, population change and inflation, were compared to see how well they predicted revenues in the FY1979-FY2008 period. To measure inflation, data from the Bureau of Labor Statistics (BLS) and the Bureau of Economic Analysis (BEA) were used. These two federal agencies provide the consumer price index information and state income change. Population change data are from the Florida Office of Economic and Demographic Research (EDR). Although both bills refer to US Census for population data, EDR data are based on the US Census. The benefit of EDR data is that it appears to be more accurate at the local level for estimated population change and has a more modest estimated population change outcome. This would allow for a more fiscally conservative estimate for the county population data. State population data, when comparing EDR and the US Census, are statistically identical. To assess the accuracy of the forecasted revenues, actual data from FY2009 are compared to the FY2009 forecast. To assess the accuracy of the CPI-UC 2010 forecast, data from CPI-UC from January 2010-June 2010 are used as the comparison.

The results indicate that both CPI-UC and state or county population change are linearly related to county revenue over the FY 1979-FY2008 time period. Some differential impacts for counties appear to be based on a county’s dependence on IGR. The results indicate that for 83 percent of counties (55 of the 66), more than 90 percent of the variation in revenue can be explained by CPI-UC and state or county population change. The remaining 17 percent (11) of counties show that CPI-UC and state or county population change explains between 85 percent and 89 percent of the variation in revenue for the time period. The estimation results indicate that we are confident that using CPI-UC and population change provides an accurate prediction of FY2011 revenue.

As noted in Figure 1, forecasting FY2011 revenue for the 66 counties using state population change yielded an average 8.76 percent increase in forecasted FY2011 revenues for counties over FY2008 actual revenues. Using county population change yields an almost identical outcome to the model using state population change. This leads to a forecast of average county revenue for FY2011 of $375,639,341 compared to average actual FY2008 revenue of $345,383,727. This forecast represents the county-level base for the analysis of the revenue limit model.
The same forecast model was used for the sample cities as shown in Figure 2. The results indicate that for 77 percent of the sampled cities (36 of the 47), over 90 percent of the variation in revenue can be explained by CPI-UC and state population change. The remaining 11 cities, which represent 23 percent of the sample, show that CPI-UC and state population change explains less than 85 percent of the variation in revenue for the time period. This leads to a poor model fit for forecasting these 11 cities revenues. Forecasting FY2011 revenue for the 36 cities yields an average 2.30 percent increase in forecasted FY2011 revenues when compared to FY2008 actual revenues. This leads to a forecast of average city revenue for FY2011 of $23,330,045 compared to average actual FY2008 revenue of $22,805,518. Changes from actual FY2008 revenues to the forecasted FY2011 revenue for the sampled cities are shown below. This is the baseline FY2011 revenue for the analysis of the legislative revenue limits on city revenues.
Why is the model a poor fit for cities?

The problem of whether or not population growth is a historical predictor of local government growth is confounded by the observation that local government services are offered regardless of either state or local population change. A change in population does not necessarily correspond to an equal change in required revenues. It may be that revenues are a function of income change or the change in the industrial/commercial/residential development mix and not changes in state or local population. To address the issue of income, the FY2011 revenue was forecasted replacing population growth with an alternative measure, state income growth. No improvements in the model fit were noted; however, the state income growth per capita yielded a reduction in the FY2011 revenue growth rate for counties from 8.76 percent to 2.27 percent when compared to the analysis using state or county population growth. Nearly identical results for cities’ revenue were forecasted with state income change. This outcome for the state income growth forecasts indicates substitutability between the two measures, population growth and state income growth. Data limits precluded an analysis using changes in the industrial/commercial/residential development mix as an alternative to population growth. Actual and estimated percentages for CPI-UC, state and county population change, and state per capita income change are offered in Appendix A.

Forecasting Revenue 2012-2015

The second step is to forecast the effects of this indexed revenue limit into the future using estimates of both CPI-UC and population growth. One complication is that the revenue limit bills allow use of either statewide or county population growth. We are showing the growth in revenue collection using county population change in the following figures; estimated statewide data are in Appendix A. The results using either county or state population growth are virtually identical. Table 1 shows the forecasted revenue growth for the period FY2012-FY2015. The estimates show an increase of 1.2 percent between FY2012 and FY2013, then a fall for FY2014 and FY2015.

Figure 3 offers a comparison of the projected average growth for FY2012-FY2015 and actual average revenue growth in FY1996-FY1999, FY2000-FY2004 and FY2005-FY2008. This forecast indicates that average growth over the four-year period (FY2012-FY2015) is 3.2 percent – a much lower average revenue growth rate than any of the actual prior periods. Figure 3 shows average growth; however, average growth can be misleading since it does not take into account the compounding effect.

<table>
<thead>
<tr>
<th>Table 1: County Population Change Estimated Revenue Growth Index (CPI-UC+ Average County Population Change)</th>
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</thead>
<tbody>
<tr>
<td>FY2012</td>
</tr>
<tr>
<td>County Population Growth Index</td>
</tr>
</tbody>
</table>

Source: Author’s estimates based on BLS and Florida Office of Economic and Demographic Research data
What happens if the compounding effect is included?

To put this into perspective, use the example of a US dollar of revenue, which should allow insight into the effects of the revenue limit legislation for local governments. Using a dollar of actual revenue from FY2004 that dollar of actual revenue became $1.292 of actual revenue by FY2008. To place this outcome into a comparative that is related to the taxpayer, a dollar of earnings per capita in FY2004 in Florida had actually grown to $1.1647 of earnings by FY2008 for the average taxpayer. Using the revenue limit as proposed, a dollar of FY2011 revenue is estimated to grow to $1.134, as shown in Table 2, by FY2015. For each dollar of actual revenue in FY2011, Florida governments would be limited, under the revenue limit, to collect estimated revenues that are very similar to estimated state per capita income growth as shown in Table 3. Local governments would collect revenues of about $1.134 while taxpayer’s projected per capita income would be about $1.102, using FY2011 as the base year. This outcome suggests an alignment of revenue collection change with Florida taxpayer per capita income change.

### Table 2: County Population Estimated Revenue Growth for $1 of FY2011 Revenue

<table>
<thead>
<tr>
<th>FY2012</th>
<th>FY2013</th>
<th>FY2014</th>
<th>FY2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.024</td>
<td>1.061</td>
<td>1.098</td>
<td>1.134</td>
</tr>
</tbody>
</table>

Source: Author’s estimates based on BLS and Florida Office of Economic and Demographic Research data

### Table 3: State Per Capita Income Estimated Revenue Growth for $1 of FY2011 Revenue

<table>
<thead>
<tr>
<th>FY2012</th>
<th>FY2013</th>
<th>FY2014</th>
<th>FY2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.020</td>
<td>1.044</td>
<td>1.069</td>
<td>1.102</td>
</tr>
</tbody>
</table>

Source: Author’s estimates based on BLS and Florida Office of Economic and Demographic Research data

### Discussion

The forecasts presented in these analyses indicate that the proposed bills’ revenue limit will have an important effect on limiting revenue in counties and cities when compared to prior years’ actual revenue collection. Assuming the goal of the bills is as stated, to limit the growth of Florida governments’ revenue, the analyses of the forecasts indicate that these bills will accomplish that task. To put the forecasts into perspective, compounding growth for the forecasted four-year period is 13.4 percent. Comparing this with the actual revenue growth of the four-year period spanning FY2005-FY2008 of 29.2 percent, the bills would limit growth to between 35 percent and 46 percent of the FY2005-FY2008 actual revenue growth. To place this outcome into a comparative that is related to the taxpayer, a dollar of earnings per capita in FY2004 had actually grown to $1.1647 by FY2008. This indicates a per capita income compounding growth rate of 16.47 percent during the same period that governments’ compounding revenue growth rate was 29.2 percent.

Given the potential impact of these bills, important assumptions were made in the forecasts. The first assumption was that the revenue limiting bills are concerned with operating revenue only; therefore, all capital revenue was excluded. Second, all the forecasts presented are measured with error. The forecasts are assumed to represent the future although the future has not occurred. Third, the forecasts include state and local intergovernmental revenues. These revenues have a very large variation between both counties and cities. It was unclear if the intent of the revenue limiting bills was to include state and local IGR or not. Removal of the state and local IGR would affect the forecasts and the analytical outcomes.

### Policy Suggestions

The analysis and forecasting procedures are an opportunity to evaluate specific and unclear aspects of the revenue limiting bills which allow for further discussion and suggestions. The forecast of FY2011 revenues initially leads to potential policy suggestions. These are not formal recommendations from the LeRoy Collins Institute board, but do flow from the analysis.
- Local revenue data are not consistent across the time periods. This lack of consistency leads to measurement error. This could be addressed through a policy that would ask local governments to provide an explanation of large annual variations within any of the major revenue accounts.

- Not all local governments report every year. Although Florida has a requirement for both counties and cities to report by Sept. 30 of the year following the close of the fiscal year, revenue data for some counties and cities are not available. A potential policy change would be a policy that incentivizes all Florida governments to report in a timely manner.

- Given the variation in state and local IGR and the differing policy intent of state and local IGR for each recipient government, the revenue limiting bills may need to account for the underpinning of state and local IGR by excluding IGR from the revenue limitations.

- The issue of the excluded capital and the revenue limiting bills’ inclusion of debt service as a revenue reduction expense could be addressed by exempting debt service expenses from revenue for capital debt such as infrastructure debt and other debt that is focused on capital improvements. This exemption would encourage capital improvement by removing the revenue limit penalty currently defined within the bills. Capital debt issuance is localized, leading to large variations over any time period. This inconsistency of capital expenditures or debt issuance precludes any financial forecasts from obtaining explanatory power in the analyses.

- Using EDR data instead of US Census data might provide the most accurate forecasts. The EDR has a favorable reputation and has historically been very accurate with population forecasts. Therefore, a policy suggestion would be to allow EDR population information to be included as a data source of information within the bill.

A final policy suggestion is focused on the understood intent of the revenue limiting bills. The assumed goals of the bills are to limit revenue growth; however limiting revenue growth may have a countercyclical outcome. During times of economic growth revenue limitation restricts local governments from expanding based on their constituents needs. Although the bills do provide for voter approved revenue limit modifications, little is addressed within the bills about alternative uses for surpluses during economic growth outside of a budget stabilization fund. An additional outlet for revenue surplus that could be considered is an employment/business development fund. This fund could be earmarked for job creation, business recruitment, or other employment/business development goals of Florida governments. This would allow for the revenue limits concepts of the bills to enhance employment opportunities during times of both revenue growth and revenue contraction since this “fund” would be available.

### Appendix A

#### Table A1: State Population Change

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>0.680%</td>
<td>-0.302%</td>
<td>0.122%</td>
<td>0.413%</td>
<td>0.800%</td>
<td>1.422%</td>
</tr>
<tr>
<td>Annual Population Change</td>
<td>0.680%</td>
<td>-0.302%</td>
<td>0.122%</td>
<td>0.413%</td>
<td>0.800%</td>
<td>1.422%</td>
<td>1.632%</td>
<td>1.506%</td>
</tr>
</tbody>
</table>

Source: Author’s estimates based on Florida Office of Economic and Demographic Research data

#### Table A2: Average County Population Change Estimates

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>1.343%</td>
<td>0.084%</td>
<td>0.600%</td>
<td>0.732%</td>
<td>0.969%</td>
<td>1.498%</td>
</tr>
<tr>
<td>Annual Population Change</td>
<td>1.343%</td>
<td>0.084%</td>
<td>0.600%</td>
<td>0.732%</td>
<td>0.969%</td>
<td>1.498%</td>
<td>1.645%</td>
<td>1.489%</td>
</tr>
</tbody>
</table>

Source: Author’s estimates based on Florida Office of Economic and Demographic Research data
Table A3: CPI-UC Estimates

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual 2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimate</td>
<td>-0.90%</td>
<td>2.90%</td>
<td>2.10%</td>
<td>1.40%</td>
<td>2.10%</td>
<td>1.90%</td>
<td>1.80%</td>
</tr>
</tbody>
</table>

Source: Author's estimates based on BLS data

Table A4: Per Capita Income Change Estimates

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual 2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimate</td>
<td>-3.30%</td>
<td>-0.30%</td>
<td>-0.10%</td>
<td>0.60%</td>
<td>0.30%</td>
<td>0.40%</td>
<td>1.30%</td>
</tr>
</tbody>
</table>

Source: Author’s estimates based on BEA data Table CA1-3.

2 Examples of the two sides are Center for Budget and Policy Priorities 2011 and the Bell Policy Center, Colorado’s Tabor. 2011. http://bellpolicy.org/content/colorados-tabor
3 Excluded are special districts established at the request of or with the consent of all landowners in the special district for the purpose of providing infrastructure or services to land located within the special district.
4 Included in the local government definition are taxing or benefit units of a county or city and dependent special districts of a county or city.
5 Duval County was dropped from the analyses due to inconsistent data over the time period.
6 In the sample of the 50 Florida cities, 47 of the 50 cities provided useable data during the period. For cities with incorporation dates after 1979, data collection begins the fiscal year after incorporation. During the 1979-2008 time period some counties and cities did not submit data or appear to have invalid data. Data clean-up and anomaly investigation was assessed and addressed through direct contact with the county or city. Data anomalies included an investigation of the underlying change in policy, and/or change in revenue sources, and/or error. If data clean-up was not possible, that city or county’s revenues were not used for the specific irregular time period in the forecast.
Established in 1988, the LeRoy Collins Institute is an independent, nonpartisan, non-profit organization which studies and promotes creative solutions to key private and public issues facing the people of Florida and the nation. The Institute, located in Tallahassee at Florida State University, is affiliated and works in collaboration with the State University System of Florida.

Named in honor of former Florida Governor LeRoy Collins, the Institute is governed by a distinguished board of directors, chaired by Allison DeFoor, D.Min. Other board members include executives, local elected officials, and senior professionals from throughout the state.

Beginning in 2005, the Institute published several reports in a series called, Tough Choices: Shaping Florida’s Future. These publications provided an in-depth analysis of Florida tax and spending policy including Medicaid, PreK-12 education, higher education, and children’s health and welfare. The research concluded Florida’s pattern of low spending and low taxes conflicted with the growing demands of the state’s residents, predicting trouble may be ahead.

In the newest research series, Tough Choices: Facing Florida’s Governments, the Institute takes an objective look at the often tumultuous relationship between state and local governments in Florida. This report TABOR: Measuring the Fiscal Impact of Florida’s Proposed Revenue Limits is the second release in this research series. This report was written by Robert J. Eger III, Ph.D., professor in the Askew School of Public Administration and Policy at Florida State University and lead researcher on TABOR for the LeRoy Collins Institute.

The Tough Choices research series is funded by the Jessie Ball duPont Fund. Future reports in the Tough Choices research series will examine trends in city and county spending and revenue, the effects of state mandates on Florida’s local governments, state proposals to limit local revenues, and differential effects of the economy and state mandates on fiscally distressed communities.

All publications from the Institute can be found at the Institute’s website: http://CollinsInstitute.fsu.edu.

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