

## **Analysis of Proposed “Legacy” Mandatory Environmental Spending Constitutional Amendment**

### **What does the amendment do?**

The amendment mandates that 33% of all doc stamp revenues be spent on environmental and land purchase programs for a 20 year period beginning in Fiscal Year 2015-2016. The amendment will be on the ballot in November 2014.

### **If the amendment passes, will it hurt housing and other programs funded from doc stamps or general revenue?**

Yes. The amendment will put a \$3.8 billion hole in general revenue over the next 10 years alone.

### **Do amendment supporters claim the amendment won't hurt other programs?**

Yes, they do claim that. In an Op Ed piece authored by Eric Draper on August 14, 2012, he claims that half of the doc stamps generated that fiscal year were dedicated to environmental programs—so only requiring 33% going forward “hardly seems greedy”. He goes on to say, “No one gets hurt, no taxes go up and no programs get cut”.

Well, taxes don't go up, at least directly because of the amendment. But certainly someone gets hurt and someone gets cut when you create a \$3.8 billion hole in general revenue.

### **Don't amendment supporters claim that the Revenue Estimating Conference concluded that the amendment would not hurt other programs? Is that true?**

Yes it is true that amendment supporters have claimed this. No, it is absolutely not true that the Revenue Estimating Conference said the amendment would not hurt other programs. In fact, the Revenue Estimating Conference's analysis entitled Summary of Initiative Financial Information Statement says:

*Because the tax proceeds are currently fully committed, this requirement [the Amendment] may result in reductions to existing programs currently funded by the tax, or in the replacement of those dollars with other state funds at a loss to other programs; however, these outcomes are not certain.*

### **Why would amendment supporters claim the amendment won't hurt other programs?**

To put it simply, they choose to ignore the facts in an attempt to mislead the public as to the impact of the amendment. Supporters of the amendment invited housing advocates to a November 28, 2012 meeting in an attempt to gain the support of the Sadowski Housing Coalition for their amendment.

At that time, and after the meeting, housing advocates pointed out significant errors in their numbers, and that as a result, their advocacy pieces contain statements which are demonstrably false. They have not changed their numbers, even though they were provided with undeniable facts showing that they are massively understating the fiscal impact of the amendment—understating the cost by \$3.1 billion in the first 10 years and \$10 billion over the amendments 20 year life.

### **Does it take high level mathematics to make the calculations on the cost of the amendment?**

No. This is simple arithmetic, plain and basic. The Revenue Estimating Conference periodically (usually three times per year) publishes a revenue estimate for doc stamps. For each year, one simply takes the “net available for distribution” number and multiplies it by 33%. This is what the amendment would cost each year. To get the cost over time, one simply adds up the year-by-year numbers.

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### **Does any official body have a position on the cost?**

Yes, the Revenue Estimating Conference says the estimated cost will be \$648 million in FY 15-16 (first year amendment would take effect), growing to an annual cost of \$1.268 billion by FY34-35. Using the REC analysis, the amendment’s cost is \$8 billion in the first ten years and nearly \$20 billion over 20 years. The REC analysis was performed prior to the December 2013 doc stamp estimates—therefore, the cost of the amendment is even higher than their analysis.

### **What do amendment supporters claim the cost is? What do they claim the impact on other programs will be?**

- Cost of \$5 billion over 10 years.
- Other “vital services” will not be cut because “the amount of funds that would be set aside in the future by this amendment is almost the same as what the Legislature currently appropriates every year to pay off the bonds that were used in the past to buy conservations and recreation land”.
- Supporters go on to say, “The amendment would have very little real impact on existing state funds for other services”.

### **What does the amendment actually cost?**

Cost is \$8.1 billion over 10 years and over \$20 billion over its 20 year life (Hendrickson analysis using latest Revenue Estimates, supported by Revenue Estimating Conference analysis).

### **What amount of money is currently shown in the revenue estimate as “earmarked” for environmental bond payments and programs?**

The revenue estimate currently projects \$1.6 billion of bond payments on old environmental debt over next 10 years, plus another \$2.7 billion from trust funds, for total of \$4.3 billion.

### **What happens if the amendment passes? What will its real impact be on other programs?**

\$3.8 billion that would have gone to general revenue over the next 10 years would be diverted to environmental spending. This would leave \$3.8 billion shortfall in general revenue. Other programs WILL BE CUT because the amendment creates a \$3.8 billion hole in general revenue.

### **How do amendment supporter manipulate their numbers?**

- Documentary Stamp Tax Revenues have been very low compared to past and future years, due to the massive decline in both real estate values and sales (low point of only \$850 million, back up to \$1.9 billion this fiscal year and projections of \$2.97 billion by FY 23-24, the last year of the revenue estimate).
- By taking 33% of net Doc Stamps in a low collection year, the resulting amount of money that the amendment costs seems relatively small. All of the claims related to costs use only that first year, and do not adjust for the increasing amount of doc stamp revenue.
- This is compounded by not updating the numbers when new revenue estimates are released which have higher projections—the supporters just keep using the lower projections from the Fall of 2012.

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### What are the specifics of the numbers?

- The August 2012 Doc Stamp Revenue Estimate projected net revenues of \$1.59 billion for FY 15-16 (first year amendment is in effect).
- 33% of that amount is \$525 million.
- Therefore, the amendment supporters simply used the \$525 million as a fixed amount—and they continue to use that number in their literature. However, even using the August 2012 revenue estimate, the 33% number grew to \$668 million within six years (last year of that revenue estimate).
- **At the time of the November 2012 meeting between housing advocates and amendment supporter, housing advocates informed the amendment supporters that they were understating the cost of the amendment by \$1.05 billion in its first six years alone.**
- Using the latest (December 2013) revenue estimate, the ten year cost of the amendment is at least \$8.1 billion (average of \$810 million per year, growing each year)—not the \$5 billion claimed by amendment supporters

### Are amendment advocates simply bad at arithmetic?

What immediately became clear in the November 2012 meeting is that the advocates for this amendment with which we met did not fully understand the fiscal impact of their amendment. However, having been informed as to its real impact, the advocates continue to utilize the same incorrect numbers. This must be characterized as an intentional effort to mislead the public through disingenuous advocacy pieces.

### Have environmental programs really been cut out of the budget in recent years?

What advocates for the amendment either did know, or certainly should have known, is that FY12-13 was the last year of massive bond debt service payments on one of the earlier land acquisition bond issues. Beginning in FY 13-14 (the budget for that year was enacted by the legislature months before the Op Ed piece), the debt service on old land acquisition bond programs was dropping from \$431 million to \$174 million.

Therefore, what is proved is not that environmental programs were cut “more deeply than any other part of government”—but instead continued to receive massive funding even in the lean years (where the state had problems balancing the budget) because of the mandatory spending to pay for old bond issues.

### Appendix: Numbers and History

#### Use of Bonds for Land Purchases

The land acquisition advocates chose another funding alternative than housing advocates did. Rather than increase the doc stamp, dedicate those monies to trust funds, and live off the annual revenues generated by that increase, the land acquisition advocates wanted large sums of money up front. As a result, their approach was to have the state sell bonds and then pay those off over extended periods of time. For example, a \$300 million bond issue to buy land in 1992 has to be paid for by principal and interest on bonds until 2012-- and the sum of the payments significantly exceeded \$300 million. This analysis is not judging this approach—it is simply saying it was a conscious decision. So when advocates for this amendment complain that the legislature isn't funding their programs, it really means they aren't funding new bond issues/land acquisition-- **while the legislature was still having to appropriate \$430.5 million of general revenue in FY 12-13 to pay the debt service on the old bond issues.** Note: \$3 billion of P2000 bonds were sold, \$1.4 billion of Florida Forever bonds have been sold, and \$300 million of land acquisition was funded directly from GR in lieu of a bond issue in FY 04-05.

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### **Where Does Money to Pay Debt Service on Land Purchase Bonds Come From?**

The land acquisition programs are largely funded with doc stamp revenues that would be general revenue if not paying the bond debt service, rather than being funded from environmental trust funds that receive doc stamp revenues related to tax increases for that purpose.

So, a significant portion of the land acquisition (P2000) bonds were paid off in FY 12-13. Starting in FY 13-14, the debt service on bonds that has to be paid from GR drops from \$430.5 million to \$173.7 million (Florida Forever bonds). This fact has been known for some time, and the general revenue estimates for next year and the known horizon include that cost savings as GR. It is important to note that this isn't GR that was created by raiding a trust fund-- it is GR that earlier legislatures decided to use to pay for environmental bonds. Once those bonds are paid off, this is pure GR, not trust fund money. **THE COST SAVINGS OF \$256.8 MILLION PER YEAR HAS BEEN SHOWN AS AVAILABLE GENERAL REVENUE IN ALL REVENUE PROJECTIONS.**

The proposed amendment would mandate that 33% of doc stamp revenues be used for environmental programs. The 33% is equal to \$685.5 in FY 15-16 (first year amendment would take effect), growing to \$933.4 million by FY 23-24 (the last year of the revenue projections). The current revenue estimate for environmental programs for that same time period begins at \$432 million in FY 14-15, dropping to \$402 million in FY 23-24.

In its first 10 years, the amendment would create a GR shortfall of \$3.8 billion-- and this shortfall grows each year (not flat), so that by FY 23-24, it would be \$531.4 million per year and growing.

### **Where will the General Revenue shortfall be made up?**

Documentary Stamp tax revenues fund General Revenue, debt service on environmental land purchase bonds, other environmental TF's, and the transportation, housing and SEED trust funds. To make up a \$3.8 billion shortfall, it is likely that the both Housing and Transportation trust funds would be swept for this purpose. If not from these programs, other GR funded activities would have to be cut-- possibly those small but vital appropriations for the homeless and others of highest need/vulnerability.

### **Doesn't the amendment simply lock in the historical level of environmental spending going forward?**

The essential problem with this amendment is that it doesn't lock in their trust funds, it locks in the trust funds PLUS general revenue that past legislatures decided to use for land acquisition, PLUS several billion more dollars. The 33% isn't the amount of doc stamp increases that were passed to fund their programs, it is much more. Therefore, by locking in 33%, someone else takes a hit.

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