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HOUSE OF REPRESENTATIVES
COMMITTEE ON
COMMUNITY AFFAIRS
TRUST FUND RE-CREATION ANALYSIS

BILL #: HB 1873

RELATING TO: Trust Fund (Supplemental Revenue Sharing Trust Fund for Municipalities)

SPONSOR(S): Representative Spratt

COMPANION BILL(S): SB 1720 (i)

ORIGINATING COMMITTEE(S)/COMMITTEE(S) OF REFERENCE:
(1) COMMUNITY AFFAIRS (PRC)
(2) FINANCE & TAXATION (FRC)
(3) GENERAL APPROPRIATIONS (FRC)
(4)
(5)

I. SUMMARY:

This bill creates the Supplemental Revenue Sharing Trust Fund for Municipalities and specifies its uses. The bill provides for annual appropriations. The bill authorizes supplemental revenue sharing distributions to municipalities. The bill provides for future repeal of the trust fund and related provisions on July 1, 2004.

II. SUBSTANTIVE ANALYSIS:

A. PRESENT SITUATION:

Background:

The major revenues shared by the state with municipal governments totaled approximately $640 million in fiscal year 1996-97 of which approximately $126 million or 20 percent was derived from cigarette taxes. When controlling for inflation and population growth in the incorporated area, state-shared revenue distributions to municipal governments decreased nearly 37 percent or 1.5 percent annually between fiscal years 1972-73 and 1996-97. Much of that decrease can be explained by the decline in Municipal Revenue Sharing (MRS) distributions.

Approximately 64 percent of MRS monies are derived from net cigarette tax collections with the balance comprised of municipal fuel tax collections and 12.5 percent of the state alternative fuel user decal fee collections. When adjusted for inflation and population growth in the incorporated area, MRS distributions decreased 76 percent or 3.2 percent between fiscal years 1972-73 and 1996-97. In per capita real terms, the cigarette tax component of MRS monies declined 79 percent or 3.3 percent annually during the same period.

The Florida Revenue Sharing Act of 1972:

In 1972, the Legislature established two programs for the purpose of sharing state revenues with counties and municipalities - the Revenue Sharing Trust Fund for Counties and the Revenue Sharing Trust Fund for Municipalities. The Department of Revenue administers these trust funds and the revenue sharing distribution functions.

Presently, portions of several different revenue sources are allocated to these trust funds. The Revenue Sharing Trust Fund for Counties receives 35.3 percent of net intangible tax collections pursuant to s. 199.292(3), F.S., and 2.9 percent of net cigarette tax collections pursuant to s. 210.20(2), F.S. The net intangible tax collections represent approximately 97 percent of total trust fund monies allocated to county governments.

The Revenue Sharing Trust Fund for Municipalities receives 32.4 percent of net cigarette tax collections pursuant to s. 210.20(2), F.S.; the net collections of the one-cent municipal fuel tax pursuant to s. 206.605(1), F.S.; and 12.5 percent of the state alternative fuel user decal fee collections pursuant to s. 206.879(1), F.S. The net cigarette tax collections represent approximately 64 percent of total trust fund monies allocated to municipal governments.

LCIR Review of Local Government Revenue Derived from Cigarette Taxes

In June 1998, the Florida League of Cities sent a request to Senate President Toni Jennings asking for a comprehensive review and reform of those revenues comprising the state's Municipal Revenue Sharing Program. The issue has been raised by the Florida Urban Partnership of Mayors to underscore the relationship between the state's initiative against the tobacco industry and the continuing decline of municipal revenue sharing monies which are in large part derived from cigarette taxes. The Legislative Committee on Intergovernmental Relations (LCIR) was requested to conduct an interim project review of the issue during the 1998-99 interim.

Historically, local governments have had to absorb many of the costs associated with a variety of state-required programs and regulations. To address the implications of those fiscal demands and fund local government operations generally, state government utilizes several mechanisms to provide financial resources to local governments. One of those mechanisms involves the sharing of funds from designated state revenues with local governments.

The major revenues shared by the state with municipal governments totaled approximately $640 million in fiscal year 1996-97 of which approximately $126 million or 20 percent was derived from cigarette taxes. When controlling for inflation and population growth in the incorporated area, state-shared revenue distributions to municipal governments decreased nearly 37 percent or 1.5 percent annually between fiscal years 1972-73 and 1996-97. Much of that decrease can be explained by the decline in Municipal Revenue Sharing (MRS) distributions.

As previously mentioned, approximately 64 percent of MRS monies are derived from net cigarette tax collections with the balance comprised of municipal fuel tax collections and 12.5 percent of the state alternative fuel user decal fee collections. When adjusted for inflation and population growth in the incorporated area, MRS distributions decreased 76 percent or 3.2 percent between fiscal years 1972-73 and 1996-97. In per capita real terms, the cigarette tax component of MRS monies declined 79 percent or 3.3 percent annually during the same period.

Sharing of Cigarette Tax Revenues:

Florida began taxing cigarettes in 1943. From the initial rate of 3 cents, the tax rate was increased to 5 cents in 1949, 8 cents in 1963, 15 cents in 1968, 17 cents in 1971, 21 cents in 1977, 24 cents in 1986, and the current rate of 33.9 cents in 1990.

Pursuant to s. 210.20(2), F.S.(1998 Supplement), state cigarette tax distributions are made as follows: 5.8 percent to the Municipal Financial Assistance Trust Fund, 32.4 percent to the Revenue Sharing Trust Fund for Municipalities, 2.9 percent to the Revenue Sharing Trust Fund for Counties, and 29.3 percent to the Public Medical Assistance Trust Fund for a total of 70.4 percent.

Prior to depositing the balance of revenues into the General Revenue Fund, two additional distributions are made. First, net proceeds derived from the sale of cigarettes sold at retail on any property of the Inter-American Center Authority shall be paid to the Authority. Second, effective January 1, 1999, and continuing for ten years thereafter, 2.59 percent of net proceeds shall be paid to the H. Lee Moffitt Cancer Center and Research Institute's Board of Directors for the purpose of constructing, furnishing, and equipping a cancer research facility at the University of South Florida. Pursuant to the enacting legislation, the cigarette tax dollars pledged to this facility will be replaced annually by the Legislature from the tobacco litigation settlement proceeds.

Cigarette Tax Collections and Distributions:

According to the LCIR, actual cigarette tax collections increased 164 percent between fiscal years 1972-73 and 1996-97. However, cigarette tax distributions to municipal and county governments increased only 20 percent and 23 percent, respectively, during the same period.

In percentage terms, the state's funding of local governments via the cigarette tax has decreased significantly since 1972. In 1972, 14 cents of the 17 cents imposed by the state was allocated to local governments. In other words, 82 percent of net cigarette tax collections was shared with local governments. Currently, 41 percent of net cigarette tax collections is allocated to municipal and county governments in Florida.

Actual cigarette tax distributions to state trust funds increased 836 percent between fiscal years 1972-73 and 1996-97. During the same period, actual distributions from the Municipal Financial Assistance Trust Fund and the Municipal Revenue Sharing Program which are derived in whole or large part from cigarette taxes increased only 14 percent and 39 percent, respectively. For the County Revenue Sharing Program which derives 4 percent of its total revenues from cigarette taxes, the situation was dramatically different. Actual distributions from the County Revenue Sharing Program increased 509 percent during that period.

Even after controlling for inflation and statewide population growth, the amounts allocated to state trust funds increased 34 percent or, on average, 1.4 percent annually between fiscal years 1972-73 and 1996-97. Conversely, the Municipal Financial Assistance Trust Fund distributions decreased 80 percent or, on average, 3.3 percent annually when controlling for inflation and population growth in the incorporated area. Likewise, Municipal Revenue Sharing Program distributions decreased 76 percent or, on average, 3.2 percent annually during that period. County Revenue Sharing Program distributions decreased 13 percent or, on average, 0.5 percent annually when controlling for inflation and statewide population growth.

Historical Trends:

In its draft interim project report, the LCIR staff documented four trends based on an examination of the data reviewed:

First, net cigarette tax collections have not kept pace with inflation and population growth. Per capita real dollar collections decreased, on average, 2.6 percent annually between fiscal years 1972-73 and 1996-97.

Second, state revenue sharing distributions to municipal and county governments that are derived in whole or in part from cigarette taxes have not kept pace with inflation and population growth. Average annual growth rates for all three revenue sharing programs were negative between fiscal years 1972-73 and 1996-97.

Third, the state's funding of municipal and county governments, via the cigarette tax, decreased substantially during this period when compared to those distributions directed to state trust funds. Per capita real dollar distributions to state trust funds increased, on average, 1.4 percent annually. By comparison, the adjusted cigarette tax distributions to local governments decreased at an average annual rate exceeding 3 percent.

Fourth, revenue sharing distributions to municipal governments which are derived to a greater extent from cigarette taxes decreased at a greater rate than those distributions to county governments. When adjusted for inflation and population growth, county revenue sharing distributions decreased, on average, 0.5 percent annually while municipal revenue sharing distributions decreased, on average, 3.2 percent annually.

Although revenue sharing distributions to counties exhibited a decline in per capita real dollars, counties have fared better than municipalities due to the nature of the revenue base itself. County revenue sharing is based almost entirely on the intangibles tax - a value-based tax on stocks, bonds, and accounts receivable. Conversely, the declining trend in municipal revenue sharing distributions can be traced to the revenue base as well as the effects of inflation and population growth. Unlike the value-based tax comprising nearly all of county revenue sharing, the municipal programs are funded by unit-based taxes. Unit-based taxes only generate additional revenues when consumption increases, assuming the tax rate remains constant.

1. MAJOR STATUTES THAT CONTROL THE TRUST FUND:

   Newly created subsection (3) of section 218.215, Florida Statutes. This subsection authorizes an allocation from the trust fund to municipal governments if estimated cigarette tax revenues are less than the cigarette tax revenues allocated to municipal governments in state fiscal year 1997-1998.

   Newly created section 218.2455: This section creates a process for supplemental revenue sharing; providing for apportionment, authorized uses, and administration by the Department of Revenue.

2. BRIEF DESCRIPTION OF THE FUND'S USES OR PURPOSES:

   The funds distributed by the trust fund are considered general revenues of the municipality and are subject to expenditure for any public purpose.

3. MAJOR SOURCES OF REVENUE FOR THE FUND:

   An allocation from the General Revenue is the revenue source for this fund.

B. EFFECT OF PROPOSED CHANGES:

The bill creates the Supplemental Revenue Sharing Trust Fund for Municipalities and provides for an annual appropriation if the estimated cigarette tax revenues to be allocated to municipal governments for the prior state fiscal year are less than the cigarette tax revenues allocated to municipal governments in fiscal year 1997-98. This bill provides that the Consensus Estimating Conference is responsible for estimating annually the amount of such difference.

The bill provides that each municipality which is eligible to participate in revenue sharing beyond the minimum entitlement in any fiscal year must receive a distribution from the trust fund. In addition, the bill provides an equity-based formula for the distribution of proceeds to eligible municipalities. The bill provides an additional calculation step for metropolitan or consolidated local governments.

The bill specifies that the proceeds must be considered general revenue of the municipality and shall be used for any public purpose.

Due to a bill drafting error, this bill does not provide for the repeal of the trust fund and related provisions on July 1, 2004, rather, it reals section 3 of the bill only.

C. STATUTE(S) AFFECTED:

Newly created subsection 218.215(3), F.S.
Newly created section 218.2455, F.S.

III. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT:

Based on the results of the March 8, 1999 General Revenue Estimating Conference, this bill does have a fiscal impact. In fiscal year 1999-00, municipal governments would receive approximately $8.2 million with those monies being appropriated from state funds. In fiscal years 2000-01 and 2001-02, municipal governments would receive approximately $14.8 and $13.2 million, respectively.

IV. COMMENTS:

Department of Revenue (DOR): According to DOR, it is important to note that the effective date of July 1, 1999, **does not** provide DOR sufficient time to implement the necessary procedures. The bill should be amended to provide that the distributions to municipalities for July, August, and September of 1999, will occur in October 1999. Also, the new revenue sharing program established by this legislation will require DOR to expend additional fiscal resources to implement the program.

V. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

The following amendments correct the noted deficiencies in the bill:

Amendment #1: A technical amendment providing a repealer date, as follows: Pursuant to the provisions of s. 19(f)(2), Art. III of the State Constitution, subsection 218.215(3) and section 218.2455, Florida Statutes, shall, unless terminated sooner, be terminated on July 1, 2004.

Amendment #2: Authorizing the Department of Revenue to make the first distribution of funds authorized on October 1, 1999, to include amounts due for July, August, September, and October 1999.

VI. SIGNATURES:

COMMITTEE ON:

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