[Bond Case Briefs]

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[Fitch: Florida Ballot Measure to Limit Tax Increases Could Reduce Future Flexibility.]

Fitch Ratings-New York-16 March 2018: A proposed amendment to the Florida Constitution that would raise legislative voting requirements to increase state taxes and fees could reduce the state's flexibility to address future economic volatility, says Fitch Ratings. The amendment, which has been approved by both the state Senate and House in joint resolution HJR 7001, would require future legislatures to reach a two-thirds vote to increase state taxes and fees. There is currently a simple majority requirement for such increases. The amendment would apply to broad based taxes such as the sales tax as well as to the various fees and charges by the state for services, including highway user fees and university tuition and fees. Voters will decide the question on Nov. 6, 2018, with a 60% vote necessary to amend the state constitution.

This amendment would not have an immediate impact on state credit quality (Florida's Issuer Default Rating [IDR] is AAA), although over time, the more stringent requirement for raising revenues could lead to erosion in the state's financial resilience. Fitch assesses the state's revenue framework at the 'aa' level, reflecting in part the economic sensitivity of its largest revenue source, the sales tax. Fitch expects Florida's revenues to grow on a real basis with continued economic expansion, but notes that revenues are likely to exhibit greater weakness during economic downturns. The rating also incorporates the virtually unlimited legal ability the state maintains to raise revenues, despite constitutional restrictions on levying a personal income tax or a state-wide property tax.

The addition of a super-majority requirement to raise taxes would not in and of itself imply a weakened legal ability to raise taxes since the power to do so would remain within the legislature. However, the higher bar for raising taxes would make it more difficult to utilize one of the key tools that states have to manage financial operations during periods of economic and revenue weakness, potentially lowering the state's resiliency through the economic cycle. Fitch's expectations related to financial resilience through a moderate downturn is a key rating driver, one that has been a credit strength for Florida. While the state has typically first turned to expenditure reductions when faced with budget gaps, it did ultimately raise various fees during the Great Recession when other measures proved insufficient to maintain fiscal balance.

Other states have seen financial operations narrow and credit quality decline at least in part because super-majority voting requirements limited the practical use of revenue-raising as a budget balancing tool. For example, the state of Oklahoma, which has a 75% voting requirement, has struggled to close recent structural budget gaps, relying on deep spending cuts, one-time actions and reserve draws. While it is Fitch's expectation that Florida will continue to exhibit the strong financial management that is one of the underpinnings of its 'AAA' IDR, we will assess the extent to which obstacles to revenue raising affect longer term fiscal balance for the state and the various entities that rely on legislative control over revenues to support credit quality. This would include, for example, transportation infrastructure projects that are supported by gas taxes and tuition and fees charged by public universities. Any impact on fiscal operations would likely only become apparent over time, potentially as the state addresses a future downturn.

The language of the amendment indicates that the super-majority voting requirement would apply to new taxes and fees, as well as to raising existing taxes and fees, but only when there is a requirement for a vote of the legislature. Increases that are incorporated into existing legislation would not be subject to further vote. For example, emergency assessments that can be levied by the Florida Hurricane Catastrophe Fund and Florida Citizens Property Insurance Corp. are incorporated in existing legislation and would not require an additional vote. Further, the amendment specifically does not apply to any tax or fee imposed by a county, municipality, school board or special district.

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