State of Florida
Long-Range Financial Outlook
Fiscal Year 2008-09 through 2010-11

Fall 2007 Report

Jointly prepared by the following:
The Senate Fiscal Policy and Calendar Committee
The House Policy & Budget Council
The Legislative Office of Economic and Demographic Research

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Long-Range Financial Outlook

What is the Outlook?

In 2006, Florida voters adopted a constitutional amendment that requires the development of a Long Range Financial Outlook, setting out recommended fiscal strategies for the state and its departments in order to assist the legislature in making budget decisions. The Legislative Budget Commission is required to issue the Outlook by September 15th of each year. The 2007 Outlook is the first developed in accordance with the provisions of Article III, Section 19(c)(1) of the Florida Constitution.

Ultimately, the Outlook is a tool that provides an opportunity to both avoid future budget problems and maintain more financial stability between state fiscal years. The Outlook accomplishes this by providing a longer-range picture of the state's fiscal position that integrates projections of the major programs driving Florida's annual budget requirements with the revenue estimates. In this regard, the projections primarily reflect current-law spending requirements and tax provisions. It also includes budgetary, economic, demographic, and debt analyses to provide a framework for the financial projections and covers the upcoming three fiscal years: 2008-09, 2009-10, and 2010-11.

THE OUTLOOK DOES <u>NOT</u> PURPORT TO PREDICT THE FUNDING LEVELS OF FUTURE STATE BUDGETS OR THE FINAL AMOUNT OF FUNDS TO BE ALLOCATED TO THE RESPECTIVE BUDGET AREAS. THIS IS BECAUSE VERY FEW ASSUMPTIONS ARE MADE REGARDING FUTURE LEGISLATIVE POLICY DECISIONS ON DISCRETIONARY SPENDING, MAKING THIS DOCUMENT SIMPLY A REASONABLE BASELINE OR A STARTING POINT. THE ASSUMPTIONS THAT ARE MADE ARE CONFINED TO SPECIFICALLY DESIGNATED SCENARIOS. IN EACH SCENARIO, ALL UNSPENT FUNDS ARE STILL CARRIED FORWARD INTO THE FOLLOWING FISCAL YEAR.

Who produced it?

The Outlook was jointly developed by the Senate Fiscal Policy and Calendar Committee, the House Policy & Budget Council, and the Legislative Office of Economic and Demographic Research.

How was the Outlook developed?

- All major programs that have historically driven significant increases in the State's budget such as Medicaid and the Florida Education Finance Program (public school funding), as well as recent constitutional requirements such as Class Size Reduction, were reviewed and analyzed.

- Forecasts of future workload and enrollment increases were developed for each of the major cost drivers using a variety of methods including projections from Consensus Estimating Conferences and historical funding averages. A new round of Summer Estimating Conferences was established specifically to facilitate the availability of up-to-date information.

- Costs were applied to the projected workload requirements based on recent legislative budget decisions.

- Cost requirements were then aggregated by major fund type and compared to revenue estimates for those funds.

Understanding the Outlook

- The Outlook is structured into policy sections that correspond to the Appropriations Bill format required by the constitution. Also included are separate sections for Potential Constitutional Issues, Statewide Distributions / Administered Funds, Revenue Projections, Florida's Economic Outlook, Florida's Demographic Projections and Composition, Debt Analysis and a comparison of costs versus revenues.

- Each policy section contains projections of the applicable major state-supported programs, a listing of the assumptions behind the projections and a description of significant policy issues associated with the projections.

- Emphasis is placed on recurring programs, those programs that the state is expected or required to continue from year to year.

- Estimates for several programs historically considered non-recurring, and funded with non-recurring funds, are also included in the Outlook. Even though non-recurring, these programs are viewed as "must funds" by most legislators and are therefore identified as major cost drivers.

- Revenue projections specifically cover the General Revenue Fund, the Educational Enhancement Trust Fund (lottery and slots proceeds devoted to Education), the Principal State School Trust Fund and the Tobacco Settlement Trust Fund. Other trust funds have been estimated and discussed in the sections where they are relevant to the expenditure forecast.

- All revenue projections include recurring and non-recurring amounts.

- The Fund Projection Tables (General Revenue, Educational Enhancement, Principal State School, and Tobacco Settlement) include estimates for both anticipated revenue collections and expenditures. They summarize the information contained and discussed in the rest of the document.

- The Fiscal Strategies section demonstrates the impact of varying policy decisions on the baseline projection. The unique assumptions used for these scenarios are not built into the rest of the Outlook.

Summary and Findings

A. Key Aspects of the Revenue Estimates

- In August, the Revenue Estimating Conference for general revenue removed $380.5 million from the previous estimate for Fiscal Year 2006-07 based on actual revenue collections. For the current year (Fiscal Year 2007-08), an additional $1.1 billion was removed. The forecast for general revenue contains virtually no growth in the current year over the prior year (less than $72 million) before returning to a modest 5.5% growth rate in Fiscal Year 2008-09.

- General revenue collections are expected to grow by 7.2% in Fiscal Year 2009-10 and another 6.2% in Fiscal Year 2010-11.

- Nearly $635 million of non-recurring general revenue funds will be available for expenditure in Fiscal Year 2008-09.

- These non-recurring general revenue funds are insufficient to meet the needs identified in the expenditure outlook for each of the next three years. This means that no non-recurring general revenue remains available after the last year of the Outlook period.

- The Educational Enhancement, Principal State School and Tobacco Settlement Trust Funds will have little or no long-term growth. During the Outlook period, none of the three recapture the same level of funds available that existed in Fiscal Year 2007-08.

- Slot machine tax revenues are now being generated and are included in the dollars available from the Educational Enhancement Trust Fund. They are expected to reach $123.6 million in Fiscal Year 2008-09, $151.6 million in Fiscal Year 2009-10 and $172.9 million in Fiscal Year 2010-11.

Fiscal Year	March 2007 Forecast	August 2007 Forecast	Forecast Difference	Percentage Reduction	Incremental Growth	Growth
2004-05	24969.4	24969.4				
2005-06	27082.2	27082.2				8.5%
2006-07	26784.6	26404.1	-380.5	-1.4%	-678.1	-2.5%
2007-08	27590.9	26475.6	-1115.3	-4.0%	71.5	0.3%
2008-09	29324.7	27920.9	-1403.8	-4.8%	1445.3	5.5%
2009-10	31342.5	29930.8	-1411.7	-4.5%	2009.9	7.2%
2010-11	33374.1	31801.1	-1573.0	-4.7%	1870.3	6.2%

B. Key Aspects of the Expenditure Demands

Education Requirements

- Overall expenditures on education from general revenue, the Educational Enhancement Trust Fund (EETF) and the Principal State School Trust Fund are projected to increase by over 5% annually (ranging from $848.3 million to $956.6 million per year) for each of the next three fiscal years.

- Assuming that the legislatively authorized millage rates (i.e., 4.843 required, .51 discretionary, and .25 equalized discretionary) remain unchanged, recurring ad valorem revenues to support public school costs are expected to increase by $1.7 billion, or 18.8%, by Fiscal Year 2010-11 due to the projected growth in the ad valorem tax roll.

- Total Florida Education Finance Program (FEFP) funds are increased by a historical average of 5.86% per FTE for each of the three forecast years.

- Additional recurring general revenue of $1.4 billion is provided to reduce the statewide average public school class size by two students annually until the constitutionally mandated maximum class sizes are achieved.

- Requirements for K-12 FEFP workload, Class Size Reduction, and enrollment will cost nearly $2.4 billion of general revenue over the next three years, making this the budget's top projected expenditure.

- Because the current EETF recurring budget exceeds EETF revenue projections and the Bright Futures Program is projected to continue to grow faster than the growth in EETF revenues, the Education projections draw existing EETF funds from the K-20 operating budgets to finance the Bright Futures Scholarship needs. These EETF funds are replaced with general revenue funds.

- Matching funds for Challenge Grants for state universities and community colleges (both operational and fixed capital outlay) will cost nearly $550 million of general revenue over the next three years. This is the fifth largest driver of the budget.

Human Services Requirements

- Recurring general revenue requirements for the Human Services area are projected to increase by $674.6 million in Fiscal Year 2008-09, $582.3 million in Fiscal Year 2009-10 and $622.9 million in Fiscal Year 2010-11.

- Medicaid services are the primary driver of these increases, requiring additional spending of $563.4 million of general revenue in Fiscal Year 2008-09,

$489.3 million in Fiscal Year 2009-10, and $525.1 million in Fiscal Year 2010-11. Some of the increase is related to the declining federal share.

- While the federal government has yet to reauthorize the SCHIP program which is scheduled to expire in federal fiscal year 2007, the Outlook assumes that federal allotments will continue at the federal fiscal year 2007 level. However, absent an increase in the federal allotment, sufficient federal funds **are not** available to fund estimated expenditures in Fiscal Year 2010-11.

- Additional funds are provided to fully replace the Tobacco Settlement Trust Fund dollars (ranging from $58.8 million to $61.4 million, annually) that are constitutionally required to be spent on a comprehensive, statewide tobacco education and prevention program.

Criminal Justice and Corrections Requirements

- Recurring general revenue requirements for the Criminal Justice and Corrections area are projected to increase by over $158.0 million in Fiscal Year 2008-09, $125.7 million in Fiscal Year 2009-10, and $119.1 million in Fiscal Year 2010-11.

- The projected increases in recurring expenditures for criminal justice and corrections programs in each of the next three fiscal years is based primarily on the need to fund increased operational costs, including new prison beds, at the Department of Corrections.

- Combined, prison bed construction and operation will require over $800 million of general revenue over the next three years, making this area the fourth largest budget driver.

Natural Resources, Environment, Growth Management and Transportation Requirements

- The recurring requirements for the Natural Resources, Environment, Growth Management and Transportation area do not increase during the Outlook period. The non-recurring requirements in each of the next three fiscal years are less than the Fiscal Year 2007-08 level.

- The most significant annual general revenue budget requirement in the Natural Resources, Environment, Growth Management and Transportation area is for non-recurring funds used primarily for economic development programs and cultural and historical grants.

General Government Requirements

- Recurring general revenue requirements for the General Government area are projected to increase by just 0.2% in each of the next three fiscal years (Fiscal Years 2008-09, 2009-10, and 2010-11).

- Because of the unique nature of many of the programs in the General Government area, general revenue requirements are minimized and comprise only a small portion of the total budget. The Outlook assumes that available trust fund balances are fully utilized for each program before estimating the need for additional general revenue.

Judicial Requirements

- Recurring general revenue requirements for the Judicial area are projected to increase by just 1.1% in each of the next three fiscal years (Fiscal Years 2008-09, 2009-10, and 2010-11).

Statewide Distributions / Administered Funds

- State employee benefits and salaries, including pay package, health insurance and retirement, will cost nearly $1 billion of general revenue over the next three years. This is the third largest driver of the budget.

- State employee salary increases are estimated to cost $227.3 million in Fiscal Year 2008-09, $233 million in Fiscal Year 2009-10, and $238.8 million in Fiscal Year 2010-11. Roughly 70% of the increased costs are funded through the General Revenue Fund.

C. Putting the Revenues and Expenditure Demands Together – Key Findings

- Fiscal Year 2008-2009:
  - Total general revenue available for appropriation is $28,703.3 million.
  - General revenue funded costs are estimated to be $31,037.8 million.
  - Both recurring and non-recurring general revenue program needs are greater than the available general revenue dollars, thereby creating a shortfall. Recurring needs outstrip recurring dollars by $2,014.3 million, and non-recurring needs are $320.2 million greater than the projected revenue, creating a total budget gap of over $2.3 billion.

- Fiscal Strategies will be required to keep the budget in balance as constitutionally required. The current reserve of unallocated general revenue is inadequate to address this shortfall – an amount that exceeds 7.5% of the projected budget need – and other actions will be needed.

- Unless there is a three-fifths vote by each chamber of the Legislature, recurring adjustments will be needed because the shortfall exceeds the 3% constitutional limitation on the use of non-recurring revenue. This limitation was adopted by voters in the same constitutional amendment that requires the development of the Long Range Financial Outlook.

OUTLOOK PROJECTION – FISCAL YEAR 2008-09 *(in millions)*			
	RECURRING	NON-RECURRING	TOTAL
GR AVAILABLE	$27,867.1	$ 836.2	$28,703.3
EXPENDITURES	$29,881.4	$1,156.4	$31,037.8
BALANCE	**$ -2,014.3**	**$ -320.2**	**$ -2,334.5**

- With limited growth in revenues for the Educational Enhancement Trust Fund, the Principal State School Trust Fund and the Tobacco Settlement Trust Fund, the demand for general revenue dollars to support projected increases in recurring programs is heightened.

- Fiscal Years 2009-10 and 2010-11:
  - In each year, projected expenditures are growing faster than revenues.
  - The available general revenue is insufficient to meet budget demands in Fiscal Years 2009-10 and 2010-11 unless prior actions are taken to reduce the recurring and non-recurring budget needs in subsequent years.
  - At the end of the three-year planning horizon, expenditures funded by general revenue have fully exceeded revenues, and no balance remains.

D. Analyzing the Result

Overall, projected general revenue growth (recurring plus non-recurring) is insufficient to support anticipated spending and minimal reserve requirements for Fiscal Years 2008-09, 2009-10 and 2010-11. Corrective actions will be required to bring the budget into balance. Furthermore, <u>RECURRING</u> general revenue demands exceed the amount of <u>RECURRING</u> general revenue available in each year of the forecast. This indicates that a structural imbalance is occurring. This situation cannot be addressed within the parameters of the constitutional amendment limiting the amount of non-recurring revenues that can be spent on recurring programs unless an extraordinary vote of the legislature is taken.

GENERAL REVENUE FUND - COMPARISON OF ESTIMATED REVENUES TO ESTIMATED EXPENDITURES
NO FISCAL STRATEGIES ($ MILLIONS)

	FY 2007-08			FY 2008-09			FY 2009-10			FY 2010-11		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Funds Available:												
Balance Forward	0.0	2,251.7	2,251.7	0.0	634.9	634.9	0.0	0.0	0.0	0.0	0.0	0.0
August REC Revenue Estimate	26,466.7	1.0	26,467.7	27,906.3	6.1	27,912.4	29,918.9	1.5	29,920.4	31,788.7	0.5	31,789.2
August REC Non-operating Funds	-4.3	1,287.4	1,283.1	-4.3	172.0	167.7	-4.3	137.6	133.3	-4.3	137.6	133.3
New Issues - Florida Forever/Everglades Bonds				-34.9	23.2	-11.7	-69.7	23.2	-46.6	-104.6	23.2	-81.5
Total Funds Available	**26,462.4**	**3,540.1**	**30,002.5**	**27,867.1**	**836.2**	**28,703.3**	**29,844.9**	**162.3**	**30,007.1**	**31,679.8**	**161.3**	**31,841.0**
Estimated Expenditures:												
Prior Year Budget				27,490.1	0.0	27,490.1	29,881.4	0.0	29,881.4	31,830.6	0.0	31,830.6
Additional Requirements by GAA Section:												
Section 2 - Education	14,506.1	384.0	14,890.1	1,202.7	342.0	1,544.7	905.6	288.1	1,193.6	921.0	276.2	1,197.2
Section 3 - Human Services	7,737.8	130.0	7,867.8	674.6	104.1	778.7	582.3	45.6	627.9	622.9	42.2	665.1
Section 4 - Criminal Justice and Corrections*	3,631.7	264.8	3,896.4	158.0	235.1	393.0	125.7	252.1	377.8	119.1	158.2	277.3
Section 5 - Natural Resources /Environment/Growth Management/Transportation	234.3	349.5	583.9	0.0	254.5	254.5	0.0	242.1	242.1	0.0	316.9	316.9
Section 6 - General Government*	926.3	492.5	1,418.8	1.8	211.7	213.5	2.0	200.2	202.2	2.1	203.3	205.4
Section 7 - Judicial Branch	445.5	23.6	469.1	5.0	9.1	14.1	5.0	9.1	14.1	5.0	9.1	14.1
Administered Funds - Statewide Issues	8.4	127.9	136.3	349.2	0.0	349.2	328.7	0.0	328.7	358.1	0.0	358.1
Total New Issues				2,391.3	1,156.4	3,547.7	1,949.2	1,037.2	2,986.4	2,028.3	1,005.9	3,034.2
Transfer to Budget Stabilization Fund	0.0	105.2	105.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	42.3	42.3
Total Estimated Expenditures	**27,490.1**	**1,877.5**	**29,367.6**	**29,881.4**	**1,156.4**	**31,037.8**	**31,830.6**	**1,037.2**	**32,867.8**	**33,858.9**	**1,048.2**	**34,907.1**
Projected Shortfall/Surplus**	**-1,027.7**	**1,662.6**	**634.9**	**-2,014.3**	**-320.2**	**-2,334.5**	**-1,985.8**	**-874.9**	**-2,860.7**	**-2,179.1**	**-886.9**	**-3,066.0**

* Fiscal Year 2007-08 estimated expenditures have been adjusted for Sections 23 and 38 of Ch. 2007-72, Laws of Florida.

** Florida is constitutionally required to have a balanced budget; therefore, fiscal strategies that are not addressed here must be undertaken to clear the shortfall within each fiscal year. The calculation of the subsequent year's figure for the prior year budget will be impacted by the specific strategies chosen.

EDUCATIONAL ENHANCEMENT TRUST FUND - FUNDS AVAILABLE PROJECTION ($ MILLIONS)

	FY 2007-08			FY 2008-09			FY 2009-10			FY 2010-11		
Funds Available:	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Balance Forward	0.0	125.7	125.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Revenue Estimate	1,419.6	3.0	1,422.6	1,429.8	-46.0	1,383.8	1,455.7	-20.1	1,435.6	1,481.1	0.0	1,481.1
Non-operating Funds	3.0	0.6	3.6	3.0	0.0	3.0	3.0	0.0	3.0	3.0	0.0	3.0
Total Funds Available	**1,422.6**	**129.3**	**1,551.9**	**1,432.8**	**-46.0**	**1,386.8**	**1,458.7**	**-20.1**	**1,438.6**	**1,484.1**	**0.0**	**1,484.1**
Estimated Expenditures:												
Base Budget				1,458.5	0.0	1,458.5	1,386.8	0.0	1,386.8	1,438.6	0.0	1,438.6
Increase/Decrease				-71.7	0.0	-71.7	51.8	0.0	51.8	45.5	0.0	45.5
Total Estimated Expenditures	**1,454.6**	**142.5**	**1,597.1**	**1,386.8**	**0.0**	**1,386.8**	**1,438.6**	**0.0**	**1,438.6**	**1,484.1**	**0.0**	**1,484.1**
Ending Balance	**-32.0**	**-13.2**	**-45.2**	**46.0**	**-46.0**	**0.0**	**20.1**	**-20.1**	**0.0**	**0.0**	**0.0**	**0.0**

STATE SCHOOL TRUST FUND - FUNDS AVAILABLE PROJECTION ($MILLIONS)

	FY 2007-08			FY 2008-09			FY 2009-10			FY 2010-11		
Funds Available:	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Balance Forward	0.0	121.2	121.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfers from Abandoned Property TF	105.9	-28.9	77.0	112.6	-9.0	103.6	115.3	0.0	115.3	117.3	0.0	117.3
Other Funds	4.5	0.0	4.5	3.8	0.0	3.8	3.8	0.0	3.8	3.8	0.0	3.8
Total Funds Available	**110.4**	**92.3**	**202.7**	**116.4**	**-9.0**	**107.4**	**119.1**	**0.0**	**119.1**	**121.1**	**0.0**	**121.1**
Estimated Expenditures:												
Base Budget				123.7	0.0	123.7	107.4	0.0	107.4	119.1	0.0	119.1
Increase/Decrease				-16.3	0.0	-16.3	11.7	0.0	11.7	2.0	0.0	2.0
Total Estimated Expenditures	**123.7**	**85.8**	**209.5**	**107.4**	**0.0**	**107.4**	**119.1**	**0.0**	**119.1**	**121.1**	**0.0**	**121.1**
Ending Balance	**-13.3**	**6.5**	**-6.8**	**9.0**	**-9.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**

TOBACCO SETTLEMENT TRUST FUND - FUNDS AVAILABLE PROJECTION ($ MILLIONS)

	FY 2007-08			FY 2008-09			FY 2009-10			FY 2010-11		
Funds Available:	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Balance Forward	0.0	62.9	62.9	0.0	8.3	8.3	0.0	8.3	8.3	0.0	8.3	8.3
Revenue Estimate	405.4	0.0	405.4	412.5	0.0	412.5	418.7	0.0	418.7	425.3	0.0	425.3
Non-operating Funds	42.4	0.0	42.4	46.6	0.0	46.6	46.6	0.0	46.6	46.6	0.0	46.6
Total Funds Available	**447.8**	**62.9**	**510.7**	**459.1**	**8.3**	**467.4**	**465.3**	**8.3**	**473.6**	**471.9**	**8.3**	**480.2**
Estimated Expenditures:												
Base Budget				447.8	0.0	447.8	459.1	0.0	459.1	465.3	0.0	465.3
Increase/Decrease Education & Prevention				0.9	0.0	0.9	1.3	0.0	1.3	1.3	1.0	2.3
Increase/Decrease Other				10.4	0.0	10.4	4.9	0.0	4.9	5.3	0.0	5.3
Total Estimated Expenditures	**447.8**	**54.6**	**502.4**	**459.1**	**0.0**	**459.1**	**465.3**	**0.0**	**465.3**	**471.9**	**0.0**	**471.9**
Ending Balance	**0.0**	**8.3**	**8.3**	**0.0**	**8.3**	**8.3**	**0.0**	**8.3**	**8.3**	**0.0**	**8.3**	**8.3**

POTENTIAL CONSTITUTIONAL ISSUES

In 2004, a constitutional amendment passed that requires initiative petitions be filed with the Secretary of State by February 1st of each general election year in order to be eligible for ballot consideration. This has been interpreted to mean that all signatures have been certified by the local supervisors of election and that the other requirements for geographic distribution have been met by this date. For 2008, the required number of valid signatures was 611,009.

Section 15.21, Florida Statutes, further requires the Secretary of State to "immediately submit an initiative petition to the Attorney General and to the Financial Impact Estimating Conference" once the certified forms "equal...10 percent of the number of electors statewide and in at least one-fourth of the congressional districts required by s. 3, Art XI of the State Constitution." For 2008, this means that there are at least 61,113 valid and qualifying signatures. Upon receipt, the Financial Impact Estimating Conference (FIEC) has 45 days to complete an analysis and financial impact statement to be placed on the ballot (s.100.371, Florida Statutes).

The initiatives on the chart below have met the threshold and triggered FIEC Review. The respective Conferences adopted the associated statements; however, these statements are in varying stages of completion. Accordingly, the amendments are grouped by these stages: (1) passed on the 2006 ballot and addressed by the Outlook; (2) approved for inclusion on the 2008 ballot (assuming the requisite signatures are received); and, (3) still undergoing review by the Supreme Court for inclusion in 2008.

Amendment Passed on the 2006 Ballot	
Protect People, Especially Youth, From Addiction, Disease, and Other Health Hazards of Using Tobacco	*This amendment requires state government to appropriate approximately $57 million in 2007 for the Comprehensive Statewide Tobacco Education and Prevention Program. Thereafter, this amount will increase annually with inflation. This spending is expected to reduce tobacco consumption. As a result, some long-term savings to state and local government health and insurance programs are probable, but indeterminate. Also, minor revenue loss to state government is probable, but indeterminate.*
Statement Approved for 2008 Ballot	
Florida Marriage Protection Amendment	*The direct financial impact this amendment will have on state and local government revenues and expenditures cannot be determined, but is expected to be minor.*

Funding of Embryonic Stem Cell Research	*This amendment requires the state to spend $20 million a year for ten years.*
Initiative Directing Manner by which Sales Tax Exemptions Are Granted by the Legislature	*The amendment will not have an impact on state and local government revenues or expenses.*
Prohibiting State Spending for Experimentation that Involves the Destruction of a Live Human Embryo	*The amendment is not expected to have an impact on state or local government expenses.*
Statement Pending Approval for 2008 Ballot	
Referenda Required for Adoption and Amendment of Local Government Comprehensive Land Use Plans	*The direct impact of this amendment on local government expenditures cannot be determined precisely. It is probable that local governments will incur significant costs (millions of dollars statewide) with actual costs dependent upon the frequency and method of the referenda. Costs will include those for ballot preparation and additional administrative costs and expenses for the referenda. The direct impact on state government expenditures will be insignificant. There will be no direct impact on government revenues.*

Fiscal Strategies

As explained previously, the chart entitled "General Revenue Fund – Comparison of Estimated Revenues to Estimated Expenditures" simply summarizes the information contained and discussed within the Outlook. In essence, it is a baseline forecast of the State's most pressing needs. As such, it does not purport to show the final budget that the Legislature will ultimately pass in any given year.

The "Potential Constitutional Issues" and other considerations included at the end of each expenditure section present inherent risks to the forecasted budget. In addition, the Legislature will need to choose among a number of fiscal strategies to balance the budget which will alter the forecast as well. To meet the constitutional requirements for this document, ***SCENARIO "A", SCENARIO "B" and SCENARIO "C"*** *are included to demonstrate the potential impact of the most likely choices. The unique assumptions used for these scenarios are not built into the rest of the Outlook.*

Fiscal Strategies will be required to address the projected gap between revenues and expenditures no later than Fiscal Year 2008-09. The current reserve is inadequate to address next year's shortfall – over 7.5% of the projected budget need – and other actions will be needed to keep the budget in balance as constitutionally required.

Essentially, there are four types of strategies:

- Budget Reductions and Reduced Growth
- Trust Fund Transfers
- Revenue Enhancements and Funding Redirections
- Any Combination of the Above

Depending on the specific strategy selected, there may be a greater than one-to-one impact on subsequent years. For example, a budget reduction in year one that affects a single item in the budget that has been growing faster than the budget as a whole will further reduce the base budget growth beyond the initial impact of the reduction. Similarly recurring revenue enhancements and funding redirections will likely have different impacts in subsequent years. Because this document does not address specific details of strategies, the scenarios do not attempt to treat these vagaries. This means that actual legislative actions may have slightly different results than those shown here.

Within the Outlook window, at least some recurring adjustments are likely needed because the projected gap exceeds the 3% constitutional limitation on the use of non-recurring revenue to fund recurring expenditures. To use more than an amount of non-recurring funds equal to 3% of the total general revenue funds estimated to be available requires a three-fifths vote of the membership of each house.

- I -

SCENARIO "A" assumes that the Legislature chooses to address the shortfall in the first year that constitutional or statutory requirements are breached. Since the only problem within Fiscal Year 2007-08 is the need to use non-recurring revenues to fund recurring expenditures, this threshold is first reached in Fiscal Year 2008-09. Scenario "A" further assumes that all recurring shortfalls are fully addressed by recurring solutions. In this regard, the use of non-recurring revenues to offset recurring problems is not allowed. And finally, a minimum reserve requirement of $200 million is in place throughout the three years of the forecast.

A. Key Findings

- Fiscal Year 2008-2009:
    - o No actions are taken within the 2007-08 fiscal year.
    - o To maintain the minimum $200 million reserve, the shortfall increases from the $2,334.5 million shown in the baseline scenario to $2,534.5 million in Fiscal Year 2008-09. Of this amount, $2,014.3 is recurring.
    - o Adjustments are made to completely eliminate the projected recurring and non-recurring shortfalls. As shown in the worksheet, the adjustments are in the form of budget reductions and reduced growth, the first of the four fiscal strategies shown above.
    - o An alternative to budget reductions and reduced growth would be the deployment of revenue enhancements and funding redirections. The bottom line would be the same; however, the funds available would increase by the amount of the shortfall and no budget adjustments would be made. Similarly, trust fund transfers could be substituted for the non-recurring portion of the shortfall.

SCENARIO "A" – FISCAL YEAR 2008-09 *(in millions)*			
	RECURRING	NON-RECURRING	TOTAL
GR AVAILABLE	$27,867.1	$ 836.2	$28,703.3
EXPENDITURES	$29,881.4	$1,156.4	$31,037.8
ADJUSTMENT	**$ -2,014.3**	**$ -520.2**	**$ -2,534.5**
BALANCE	$ 0.0	$ 200.0	$ 200.0

- Fiscal Years 2009-10 and 2010-11:

    - o The recurring budget adjustments taken in Fiscal Year 2008-09 means that no further recurring adjustments have to be taken in Fiscal Year 2009-10. However, the structural imbalance returns in Fiscal Year 2010-11 with a $164.8 million recurring shortfall that has to be addressed by further reductions.

    - o In order to retain the $200 million minimum reserve and address the non-recurring shortfalls, additional non-recurring budget adjustments are needed in Fiscal Years 2009-10 and 2010-11. The affected amounts are $846.4 and $886.9 million, respectively.

    - o At the end of the three-year planning horizon, only the forced reserve of $200 million is left.

B. Analyzing the Result

Deploying this scenario, the Legislature faces recurring budget adjustments in two of the three years in the planning horizon. In the first year (2008-09), the adjustments would be significant and historic, amounting to 6.7% of the projected recurring budget need. Further actions would be needed in all three years to address the non-recurring problems.

- II -

SCENARIO "B" assumes that the Legislature chooses to address the shortfall in the first year that a shortfall appears in recurring funds. This threshold is first reached in Fiscal Year 2007-08 when non-recurring funds are used to pay for recurring expenditures. Scenario "B" further assumes that all recurring shortfalls are fully addressed by recurring solutions. In this regard, the use of non-recurring revenues to offset recurring problems is not allowed. And finally, a minimum reserve requirement of $200 million is in place throughout the three years of the forecast.

A. Key Findings

- Fiscal Years 2007-08 and 2008-2009:

    - o In Fiscal Year 2007-08, $1,027.7 million of non-recurring funds support recurring expenditures. This action is reversed by undertaking budget reductions and other strategies to reduce growth.

SCENARIO "B" – FISCAL YEAR 2007-08 *(in millions)*			
	RECURRING	NON-RECURRING	TOTAL
GR AVAILABLE	$26,462.4	$3,540.1	$30,002.5
EXPENDITURES	$27,490.1	$1,877.5	$29,367.6
ADJUSTMENT	**$ -1,027.7**	$ 0.0	**$ -1,027.7**
BALANCE	$ 0.0	$1,662.6	$ 1,662.6

- While the recurring budget adjustments in the prior year reduced the base budget requirements, a $986.6 million recurring shortfall still remains in Fiscal Year 2008-09.

- No adjustments are needed to maintain the minimum $200 million reserve.

- Adjustments are made to completely eliminate the projected recurring and non-recurring shortfalls. As shown in the worksheet, the adjustments are in the form of budget reductions and reduced growth, the first of the four fiscal strategies shown above.

SCENARIO "B" – FISCAL YEAR 2008-09 *(in millions)*			
	RECURRING	NON-RECURRING	TOTAL
GR AVAILABLE	$27,867.1	$1,863.9	$29,731.0
EXPENDITURES	$28,853.7	$1,156.4	$30,010.1
ADJUSTMENT	**$ -986.6**	$ 0.0	**$ -986.6**
BALANCE	$ 0.0	$ 707.5	$ 707.5

- Fiscal Years 2009-10 and 2010-11:

  - The recurring budget adjustments made in Fiscal Years 2007-08 and 2008-09 mean that no further recurring adjustments have to be taken in Fiscal Year 2009-10. However, the structural imbalance returns in Fiscal Year 2010-11 with a $164.8 million recurring shortfall that has to be addressed by further reductions.

  - In order to retain the $200 million minimum reserve and address the non-recurring shortfalls, additional non-recurring budget adjustments are needed in Fiscal Years 2009-10 and 2010-11. The affected amounts are $338.9 and $886.9 million, respectively.

  - At the end of the three-year planning horizon, only the forced reserve of $200 million is left.

B. Analyzing the Result

Deploying this scenario, the Legislature faces recurring budget adjustments in two of the three years in the planning horizon. By spreading the initial round of recurring budget adjustments over two years (2007-08 and 2008-09), the Legislature avoids the need for significant and historic budget reductions in Fiscal Year 2008-09. Further actions would be needed in only two of three years to address the non-recurring problems.

- III -

SCENARIO "C" assumes that the Legislature begins to address the shortfall in the first year that a shortfall appears in recurring funds, but relaxes the assumption that all recurring shortfalls are fully addressed by immediate recurring solutions. This threshold is first reached in Fiscal Year 2007-08 when non-recurring funds are used to pay for recurring expenditures. To ease the transition, Scenario "C" further assumes that only 75% of the recurring shortfall in Fiscal Year 2007-08 is eliminated immediately, and that an amount equal to the other 25% will be achieved in savings to annualizations in the subsequent year. And finally, a minimum reserve requirement of $200 million is in place throughout the three years of the forecast.

A. Key Findings

- Fiscal Years 2007-08 and 2008-2009:
  - In Fiscal Year 2007-08, $1,027.7 million of non-recurring funds support recurring expenditures. This action is partially reversed by undertaking budget reductions and other strategies to reduce recurring expenditures by a figure equal to 75% of that amount ($770.8 million).
  - The annualization of the reductions taken in Fiscal Year 2007-08 equals $256.9 million in the subsequent year. This adjustment reduces the estimated expenditures for Fiscal Year 2008-09.

SCENARIO "C" – FISCAL YEAR 2007-08 *(in millions)*			
	RECURRING	NON-RECURRING	TOTAL
GR AVAILABLE	$26,462.4	$3,540.1	$30,002.5
EXPENDITURES	$27,490.1	$1,877.5	$29,367.6
ADJUSTMENT	**$ -770.8**	$ 0.0	**$ -770.8**
BALANCE	$ -256.9	$1,662.6	$ 1,405.7

  - While the recurring budget adjustments in the prior year reduced the base budget requirements, a $986.6 million recurring shortfall still remains in Fiscal Year 2008-09.

- No adjustments are needed to maintain the minimum $200 million reserve.

- Adjustments are made to completely eliminate the projected recurring shortfall. As shown in the worksheet, the adjustments are in the form of budget reductions and reduced growth, the first of the four fiscal strategies shown above.

SCENARIO "C" – FISCAL YEAR 2008-09 *(in millions)*			
	RECURRING	NON-RECURRING	TOTAL
GR AVAILABLE	$27,867.1	$1,607.0	$29,474.1
EXPENDITURES	$28,853.7	$1,156.4	$30,010.1
ADJUSTMENT	**$ -986.6**	$ 0.0	**$ -986.6**
BALANCE	$ 0.0	$ 450.6	$ 450.6

- Fiscal Years 2009-10 and 2010-11:

  - The recurring budget adjustments made in Fiscal Years 2007-08 and 2008-09 mean that no further recurring adjustments have to be taken in Fiscal Year 2009-10. However, the structural imbalance returns in Fiscal Year 2010-11 with a $164.8 million recurring shortfall that has to be addressed by further adjustments.

  - In order to retain the $200 million minimum reserve and address the non-recurring shortfalls, additional non-recurring budget adjustments are needed in Fiscal Years 2009-10 and 2010-11. The affected amounts are $595.8 and $886.9 million, respectively.

  - At the end of the three-year planning horizon, only the forced reserve of $200 million is left.

B. Analyzing the Result

Deploying this scenario, the Legislature faces recurring budget adjustments in two of the three years in the planning horizon. By spreading the initial round of recurring budget adjustments over two years (2007-08 and 2008-09), the Legislature avoids the need for significant and historic budget adjustments in Fiscal Year 2008-09. The impact in Fiscal Year 2007-08 is softened by the use of reduced future growth to achieve the full benefit of the reduction. Further actions would be needed in only two of the three years to address the non-recurring problems. The deficits in Scenario "C" are less than the deficits in Scenario "A", but are slightly greater than the deficits in Scenario "B".

Fiscal Strategies ~ Worksheets

SCENARIO "A"

GENERAL REVENUE FUND - COMPARISON OF ESTIMATED REVENUES TO ESTIMATED EXPENDITURES

FISCAL STRATEGY #1 - FULLY CLEAR RECURRING SHORTFALLS WITH RECURRING DOLLARS BEGINNING 2008-09 & MAINTAIN $200 MILLION IN RESERVES*

	FY 2007-08			FY 2008-09			FY 2009-10			FY 2010-11		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Funds Available:												
Balance Forward	0.0	2,251.7	2,251.7	0.0	634.9	634.9	0.0	200.0	200.0	0.0	200.0	200.0
August REC Revenue Estimate	26,466.7	1.0	26,467.7	27,906.3	6.1	27,912.4	29,918.9	1.5	29,920.4	31,788.7	0.5	31,789.2
August REC Non-operating Funds	-4.3	1,287.4	1,283.1	-4.3	172.0	167.7	-4.3	137.6	133.3	-4.3	137.6	133.3
New Issues - Florida Forever/Everglades Bonds				-34.9	23.2	-11.7	-69.7	23.2	-46.6	-104.6	23.2	-81.5
Total Funds Available	**26,462.4**	**3,540.1**	**30,002.5**	**27,867.1**	**836.2**	**28,703.3**	**29,844.9**	**362.3**	**30,207.1**	**31,679.8**	**361.3**	**32,041.0**
Estimated Expenditures:												
Prior Year Budget				27,490.1	0.0	27,490.1	27,867.1	0.0	27,867.1	29,816.3	0.0	29,816.3
Additional Requirements by GAA Section:												
Section 2 - Education	14,506.1	384.0	14,890.1	1,202.7	342.0	1,544.7	905.6	288.1	1,193.6	921.0	276.2	1,197.2
Section 3 - Human Services	7,737.8	130.0	7,867.8	674.6	104.1	778.7	582.3	45.6	627.9	622.9	42.2	665.1
Section 4 - Criminal Justice and Corrections*	3,631.7	264.8	3,896.4	158.0	235.1	393.0	125.7	252.1	377.8	119.1	158.2	277.3
Section 5 - Natural Resources /Environment/Growth Management/Transportation	234.3	349.5	583.9	0.0	254.5	254.5	0.0	242.1	242.1	0.0	316.9	316.9
Section 6 - General Government*	926.3	492.5	1,418.8	1.8	211.7	213.5	2.0	200.2	202.2	2.1	203.3	205.4
Section 7 - Judicial Branch	445.5	23.6	469.1	5.0	9.1	14.1	5.0	9.1	14.1	5.0	9.1	14.1
Administered Funds - Statewide Issues	8.4	127.9	136.3	349.2	0.0	349.2	328.7	0.0	328.7	358.1	0.0	358.1
Total New Issues				2,391.3	1,156.4	3,547.7	1,949.2	1,037.2	2,986.4	2,028.3	1,005.9	3,034.2
Transfer to Budget Stabilization Fund	0.0	105.2	105.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	42.3	42.3
Adjustments to Balance	**0.0**	**0.0**	**0.0**	**-2,014.3**	**-520.2**	**-2,534.5**	**0.0**	**-846.4**	**-846.4**	**-164.8**	**-886.9**	**-1,051.8**
Total Estimated Expenditures	**27,490.1**	**1,877.5**	**29,367.6**	**27,867.1**	**636.2**	**28,503.3**	**29,816.3**	**190.8**	**30,007.1**	**31,679.8**	**161.3**	**31,841.0**
Ending Balance	**-1,027.7**	**1,662.6**	**634.9**	**0.0**	**200.0**	**200.0**	**28.5**	**171.5**	**200.0**	**0.0**	**200.0**	**200.0**

* No non-recurring dollars are used to cover recurring shortfalls.

SCENARIO "B"

GENERAL REVENUE FUND - COMPARISON OF ESTIMATED REVENUES TO ESTIMATED EXPENDITURES

FISCAL STRATEGY #2 - FULLY CLEAR RECURRING SHORTFALLS WITH RECURRING DOLLARS BEGINNING 2007-08 & MAINTAIN MINIMUM $200 MILLION IN RESERVES

	FY 2007-08			FY 2008-09			FY 2009-10			FY 2010-11		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Funds Available:												
Balance Forward	0.0	2,251.7	2,251.7	0.0	1,662.6	1,662.6	0.0	707.5	707.5	0.0	200.0	200.0
August REC Revenue Estimate	26,466.7	1.0	26,467.7	27,906.3	6.1	27,912.4	29,918.9	1.5	29,920.4	31,788.7	0.5	31,789.2
August REC Non-operating Funds	-4.3	1,287.4	1,283.1	-4.3	172.0	167.7	-4.3	137.6	133.3	-4.3	137.6	133.3
New Issues - Florida Forever/Everglades Bonds				-34.9	23.2	-11.7	-69.7	23.2	-46.6	-104.6	23.2	-81.5
Total Funds Available	**26,462.4**	**3,540.1**	**30,002.5**	**27,867.1**	**1,863.9**	**29,731.0**	**29,844.9**	**869.7**	**30,714.6**	**31,679.8**	**361.3**	**32,041.0**
Estimated Expenditures:												
Prior Year Budget				26,462.4	0.0	26,462.4	27,867.1	0.0	27,867.1	29,816.3	0.0	29,816.3
Additional Requirements by GAA Section:												
Section 2 - Education	14,506.1	384.0	14,890.1	1,202.7	342.0	1,544.7	905.6	288.1	1,193.6	921.0	276.2	1,197.2
Section 3 - Human Services	7,737.8	130.0	7,867.8	674.6	104.1	778.7	582.3	45.6	627.9	622.9	42.2	665.1
Section 4 - Criminal Justice and Corrections*	3,631.7	264.8	3,896.4	158.0	235.1	393.0	125.7	252.1	377.8	119.1	158.2	277.3
Section 5 - Natural Resources /Environment/Growth Management/Transportation	234.3	349.5	583.9	0.0	254.5	254.5	0.0	242.1	242.1	0.0	316.9	316.9
Section 6 - General Government*	926.3	492.5	1,418.8	1.8	211.7	213.5	2.0	200.2	202.2	2.1	203.3	205.4
Section 7 - Judicial Branch	445.5	23.6	469.1	5.0	9.1	14.1	5.0	9.1	14.1	5.0	9.1	14.1
Administered Funds - Statewide Issues	8.4	127.9	136.3	349.2	0.0	349.2	328.7	0.0	328.7	358.1	0.0	358.1
Total New Issues				2,391.3	1,156.4	3,547.7	1,949.2	1,037.2	2,986.4	2,028.3	1,005.9	3,034.2
Transfer to Budget Stabilization Fund	0.0	105.2	105.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	42.3	42.3
Adjustments to Balance	**-1,027.7**	**0.0**	**-1,027.7**	**-986.6**	**0.0**	**-986.6**	**0.0**	**-338.9**	**-338.9**	**-164.8**	**-886.9**	**-1,051.8**
Total Estimated Expenditures	**26,462.4**	**1,877.5**	**28,339.9**	**27,867.1**	**1,156.4**	**29,023.5**	**29,816.3**	**698.2**	**30,514.6**	**31,679.8**	**161.3**	**31,841.0**
Ending Balance	**0.0**	**1,662.6**	**1,662.6**	**0.0**	**707.5**	**707.5**	**28.5**	**171.5**	**200.0**	**0.0**	**200.0**	**200.0**

* No non-recurring dollars are used to cover recurring shortfalls.

SCENARIO "C"
GENERAL REVENUE FUND - COMPARISON OF ESTIMATED REVENUES TO ESTIMATED EXPENDITURES
REDUCE 2007-08 RECURRING SHORTFALL WITH RECURRING ACTIONS PLUS FUTURE ANNUALIZATION IMPACT & MAINTAIN $200 MILLION IN RESERVES

	FY 2007-08			FY 2008-09			FY 2009-10			FY 2010-11		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Funds Available:												
Balance Forward	0.0	2,251.7	2,251.7	0.0	1,405.7	1,405.7	0.0	450.6	450.6	0.0	200.0	200.0
August REC Revenue Estimate	26,466.7	1.0	26,467.7	27,906.3	6.1	27,912.4	29,918.9	1.5	29,920.4	31,788.7	0.5	31,789.2
August REC Non-operating Funds	-4.3	1,287.4	1,283.1	-4.3	172.0	167.7	-4.3	137.6	133.3	-4.3	137.6	133.3
New Issues - Florida Forever/Everglades Bonds				-34.9	23.2	-11.7	-69.7	23.2	-46.6	-104.6	23.2	-81.5
Total Funds Available	**26,462.4**	**3,540.1**	**30,002.5**	**27,867.1**	**1,607.0**	**29,474.1**	**29,844.9**	**612.8**	**30,457.7**	**31,679.8**	**361.3**	**32,041.0**
Estimated Expenditures:												
Prior Year Budget				26,719.3	0.0	26,719.3	27,867.1	0.0	27,867.1	29,816.3	0.0	29,816.3
Annualization Impact of Prior YR Action				**-256.9**	**0.0**	**-256.9**	0.0	0.0	0.0	0.0	0.0	0.0
Additional Requirements by GAA Section:												
Section 2 - Education	14,506.1	384.0	14,890.1	1,202.7	342.0	1,544.7	905.6	288.1	1,193.6	921.0	276.2	1,197.2
Section 3 - Human Services	7,737.8	130.0	7,867.8	674.6	104.1	778.7	582.3	45.6	627.9	622.9	42.2	665.1
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Section 5 - Natural Resources /Environment/Growth Management/Transportation	234.3	349.5	583.9	0.0	254.5	254.5	0.0	242.1	242.1	0.0	316.9	316.9
Section 6 - General Government*	926.3	492.5	1,418.8	1.8	211.7	213.5	2.0	200.2	202.2	2.1	203.3	205.4
Section 7 - Judicial Branch	445.5	23.6	469.1	5.0	9.1	14.1	5.0	9.1	14.1	5.0	9.1	14.1
Administered Funds - Statewide Issues	8.4	127.9	136.3	349.2	0.0	349.2	328.7	0.0	328.7	358.1	0.0	358.1
Total New Issues				2,391.3	1,156.4	3,547.7	1,949.2	1,037.2	2,986.4	2,028.3	1,005.9	3,034.2
Transfer to Budget Stabilization Fund	0.0	105.2	105.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	42.3	42.3
Adjustments to Balance	**-770.8**	**0.0**	**-770.8**	**-986.6**	**0.0**	**-986.6**	**0.0**	**-595.8**	**-595.8**	**-164.8**	**-886.9**	**-1,051.8**
Total Estimated Expenditures	**26,719.3**	**1,877.5**	**28,596.8**	**27,867.1**	**1,156.4**	**29,023.5**	**29,816.3**	**441.3**	**30,257.7**	**31,679.8**	**161.3**	**31,841.0**
Ending Balance	**-256.9**	**1,662.6**	**1,405.7**	**0.0**	**450.6**	**450.6**	**28.5**	**171.5**	**200.0**	**0.0**	**200.0**	**200.0**

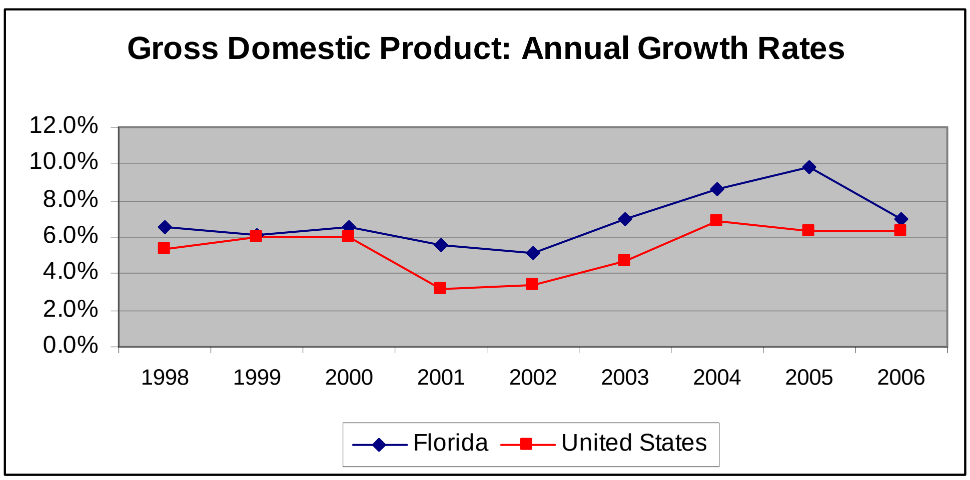
* An amount equal to 25% of the recurring shortfall in 2007-08 is offset with non recurring actions.

FLORIDA ECONOMIC OUTLOOK

The Florida Economic Estimating Conference met in July of 2007 to revise the forecast for the state's economy. As further updated by EDR, the latest forecast shows the economy expanding at a much more modest pace, significantly slower than the 2004-05 banner year. Population growth continues to be the state's primary engine of economic growth, fueling both employment and income growth. All of the comments below are directed to the immediate planning horizon extending through Fiscal Year 2010-11.

RECAP ~ Fiscal Year 2006-07 History

The change in Gross Domestic Product (GDP) is frequently used to compare states. While Florida has significantly outperformed the nation in five of the past six years, two of these years (2004 and 2005) have been greatly influenced by the activity sparked by the 2004 and 2005 storms (primarily enabled by insurance payments). More recently, Florida returned to the national growth level.



Other factors are used to gauge the health of an *individual state*. Typically, the two principal economic measures are income and employment growth. Compared to the October 2006 Estimating Conference, these measures have shown that Florida grew at a slower pace than originally thought. Personal income growth, initially estimated at 7.5%, ultimately reached only 7.3% for Fiscal Year 2005-06 and dropped to 6.5% in Fiscal Year 2006-07. Similarly, employment achieved only 3.7% growth in Fiscal Year 2005-06, even though the forecast called for 3.8%, and further declined to a modest 1.8% rate in Fiscal Year 2006-07.

While many near-term projections were revised downward in the February 2007 forecast for 2006-07, the final results proved to be generally worse than anticipated – particularly in the housing-related areas. For example, the number of private housing starts was reduced by 6.6% in February and then by another 3.3% in the following July. Other sectors were also affected: the number of new light vehicle registrations dropped 3.6% in February and another 2.1% at the latest conference.

Throughout the 2006-07 fiscal year, the end of the housing boom coupled with increasing mortgage rates caused residential construction activity to dramatically lose steam. The Florida Economic Estimating Conference (FEEC) was expecting private housing starts to begin a slow decline in the early summer. In fact new activity plummeted below the anticipated levels through the end of the fiscal year. For Fiscal Year 2006-07, there were only 157,200 starts, a 42.2% decrease over the prior year. Much of this loss was attributable to single family starts which ended up falling 51% from the prior year to a level of 88,200 units. Adding to the housing woes, existing single family home sales ended the year 30% down from the prior year, with a 5% decline in median sales price.

<u>FORECAST ~ Fiscal Years 2007-08 (base) through 2010-11</u>

Income...Nominal personal income is projected to grow a modest 5.6% in Fiscal Year 2007-08, equaling the projection for the national forecast. However Florida's income growth is expected to rebound slightly next year to 6.6%, ending the Outlook period at 6.7%. Per capita income as adjusted for inflation exhibits the same pattern—in real terms, income is expected to increase only 1.3% this year, grow 2.3% in Fiscal Year 2008-09, and end the planning period at 2.7%. Much of the future strength in personal income can be attributed to accelerating wage gains due to upward pressure from the tightening labor market. Given lower productivity gains, this assumption may prove to be overly optimistic. However, property income and transfer payments will also contribute strength. After several years of declines and suppressed activity arising from low interest rates and a stock market that was moving sideways, growth in property income is projected to average 8.2% this year, nearly matching last year's level. It is expected to reach 10.7% in Fiscal Year 2008-09, 10.8% in Fiscal Year 2009-10, and 8.5% in Fiscal Year 2010-11.

Employment...According to the latest nationwide data, Florida had a job growth rate (1.6% in July) just above the national average. This ranks Florida third in job growth among the ten most populous states, behind Texas and California. The state's job growth has been slowing since reaching a peak of 5.2% in September 2005. The current slowdown is primarily attributable to declines in the construction industry. Future years will likely see stronger levels of growth than the current year, but still significantly below the 2004-05 banner year. Overall employment is projected to grow just 0.9% in Fiscal Year 2007-08, increase to 1.8% in Fiscal Year 2008-09, 2.6% in Fiscal Year 2009-10 and then return to 2.4% in 2010-11.

Conversely, Florida's latest unemployment rate (3.9% in July) was the lowest among the 10 most populous states, although higher than it was a year ago. The national average was 4.6%. The July number is higher than expected for Florida – the estimate anticipates future levels of 3.74%, 3.52% and 3.48% over the next three years.

Florida Industry	Percent of Total Average Annual Employment, 2006 (preliminary)	Average Annual Wage, 2006 (preliminary)
Total		$38,498
Natural Resource and Mining	1.2%	$24,185
Construction	8.0%	$40,744
Manufacturing	5.1%	$45,732
Trade, Transportation and Utilities	20.0%	$35,305
Information	2.1%	$55,016
Financial Activities	6.8%	$54,488
Professional and Business Services	16.9%	$41,676
Education and Health Services	11.8%	$39,804
Leisure and Hospitality	11.4%	$20,037
Other services	3.1%	$26,983
Government	13.4%	$42,980

Currently, the fastest growing industry in Florida is Education and Health Services, with most of the growth attributable to gains in Health Services. Beginning in Fiscal Year 2008-09 and continuing throughout the forecast period, the growth industry will shift to the professional and business services sector. This employment sector is expected to add nearly one-half of the new jobs forecast for Fiscal Year 2008-09. After growing 2.1% this year, it is projected to expand another 4.9% in Fiscal Year 2008-09 and 5.2% in 2009-10 before decelerating to 4.5% in 2010-11. Slightly over half of the growth in this industry is concentrated in employment agencies, temporary help and leasing services, janitorial and cleaning services, exterminating and pest control services, and landscaping. In this respect, Florida is part of a national trend. According to the U.S. Department of Labor, the employment services sector is expected to be among those that provide the most new jobs. However, Florida differs from the nation in that our single fastest growing industry does **not** continue to be education and health services. In part, this is a data collection problem. Many companies providing temporary help and leasing services are actually benefiting the other sectors.

Three industry sectors are expected to shed jobs this year: natural resources and mining, manufacturing, and construction. Altogether 62,300 jobs will be adversely affected, with

95% of them coming from the construction sector. After three years of phenomenal growth, this is consistent with the much weaker housing market forecast. Strength will not return to this industry during the forecast period, although growth returns in Fiscal Year 2009-10.

All other sectors are expected to expand, albeit somewhat modestly. While the information services industry is expected to gain jobs in Fiscal Year 2007-08 after losing jobs during most of the prior four years, the forecast calls for employment to increase an additional 0.7% in each of the next two years and then further expand by 1.1% in 2010-11.

The overall unemployment rate is expected to reach 3.71% this year, higher than the 2006-07 banner year. From there it gradually rises to 3.74% in Fiscal Year 2008-09 as the labor force expands faster than the economy can absorb the new entrants and then drops back to 3.48%. Each of these levels is significantly less than the projected national averages. In July 2007, unemployment reached 4.6% nationally. A noteworthy twenty-two Florida counties (fully one-third of the total) had unemployment rates higher than that (although the data has not been seasonally adjusted).

Construction...Vigorous home price appreciation that outstripped gains in income and the use of speculative financing arrangements made Floridians particularly vulnerable to the decelerating housing market and interest rate risks. In 2006, almost 47% of all mortgages in the state were considered to be innovative (interest only and pay option ARM). With the federal funds rate standing at 5.25%, the meltdown in the subprime mortgage market and the subsequent credit crunch, housing starts are well into a significant decline that continues through Fiscal Year 2007-08 before beginning a modest rebound. Single-family starts are the primary driver. Total construction expenditures follow a similar pattern, never returning to the 2005-06 level during the forecast. Growth in private nonresidential construction is projected to decelerate to 7.9% this year from a high of 16.7% in Fiscal Year 2006-07, and then moderate more in the out-years. Meanwhile, after posting an 18.3% gain last year, public construction activity is projected to expand 10.9% this fiscal year and then decline 6.7% next year, before returning to modest growth.

Population & Other...Population growth has hovered between 2.0% and 2.6% since the mid 1990's; however, the population growth rate of 2.25% for next year reflects the highest rate that will be achieved over the immediate forecast period. This number will likely be reduced at the next Estimating Conference, but even so, the annual growth rate is expected to stay around 2% throughout the planning horizon. This allows Florida to stay on track to become the third largest state in the nation sometime shortly after 2010, surpassing New York. And in 2007, the state's age mix will shift for the first time to produce a higher percentage of persons aged 45-64 than persons aged 25-44, a phenomenon arising from the aging baby boom population. For more information on Florida's population, please see the section entitled *Demographic Projections and Composition* in this report.

FLORIDA DEMOGRAPHIC PROJECTIONS AND COMPOSITION

The Florida Demographic Estimating Conference met in February 2007 to revise the forecast for the state's resident population growth. The short-term forecast shows population growth slowing slightly in the next few years, in response to a slowing housing and job market. Population growth expanded at a compound growth rate of 2.3 percent since July 1, 2000, and is forecast to slow slightly to 2.1 percent in the period between Fiscal Year 2007-08 and Fiscal Year 2010-11.

Florida's Resident Population

Florida's population growth drives the state's economy, primarily through employment, housing, income, and sales tax revenue. The state's past population growth has helped establish Florida as a leader in new jobs, creating more net new jobs than any other state between July 1, 2000 and July 1, 2007.

Even the devastating 2004 hurricane season did not keep Florida from continuing to grow at record numbers. Florida expanded at a historic level during Fiscal Year 2003-04, with 439,279 new residents, exceeded only by the expansion in two fiscal years in the early 1970s (Fiscal Year 1971-72 and Fiscal Year 1972-73). Growth remained above the 400,000 mark in each of the next two fiscal years, even though it slowed slightly during Fiscal Year 2004-05 to 407,284. During Fiscal Year 2005-06 Florida's population growth was 417,524.

Florida's population growth is expected to have slowed during Fiscal Year 2006-07, adding 378,914 residents in response to Florida's sluggish housing market and weaker over-the-year job growth.

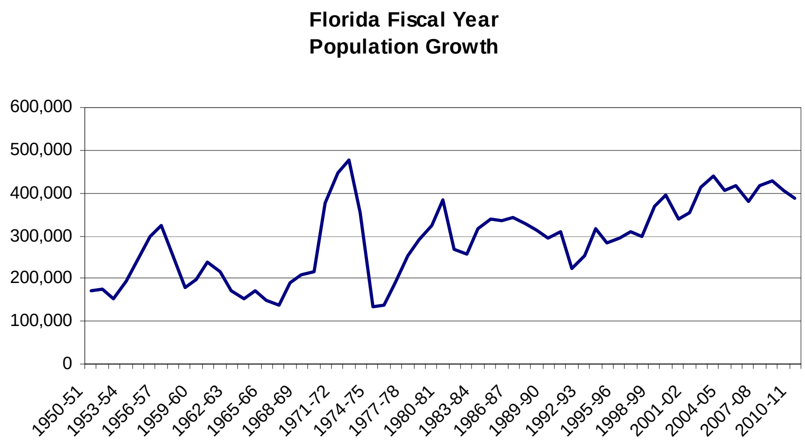
According to *The Harris Poll* (August 2006), Florida ranked third (after California and Hawaii) as the state that U.S. adults would choose to live in if they could live in any state outside of their own. In the future, Florida is expected to continue to be a magnet for residents from other states and countries.

Population Growth for Fiscal Year 2007-08

Florida's resident population is forecast to grow by 416,136 residents during Fiscal Year 2007-08. Population growth is due mostly to net migration (more people moving into than out of the state). Net migration is expected to represent 85.7 percent of the gains in population, adding about 977 residents per day during Fiscal Year 2007-08. The remainder of the population growth is due to natural increase (more births than deaths).

Forecast ~ Fiscal Years 2008-09 through 2010-11

Florida is forecast to break the 20 million mark during the forecast horizon, gaining 1,220,709 residents over the next three fiscal years. Florida is also expected to become the third most populous state, surpassing New York shortly after 2010. Eighty six percent of the growth will be due to net migration, while the remaining 14 percent will be due to natural increase. Net migration has been the key to Florida's population growth, representing between 75.2 and 95.5 percent of Florida's population growth since Fiscal Year 1970-71. The graph below shows the strong population growth currently projected through the end of Fiscal Year 2010-11.



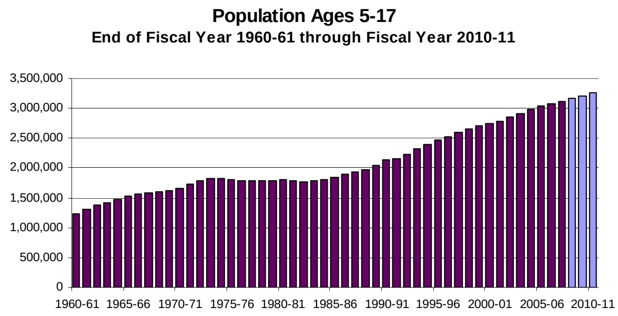
Source: Demographic Estimating Conference, February 2007.

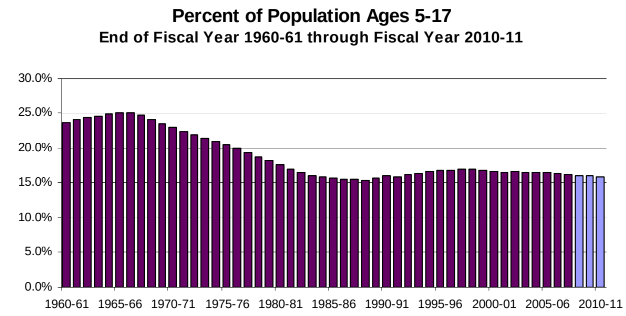
Demographic Composition

There are slightly more women than men in Florida, 51 percent versus 49 percent, respectively. The relationship of women to men in Florida is similar to the United States as a whole, where women represent 50.7 percent of the population.

Based on the latest household survey data for 2005 from the U.S. Department of Commerce, Bureau of the Census, Florida's median age was 39.5 years. This ranked Florida sixth in the nation in terms of median age; with higher median ages recorded only in Maine, Vermont, West Virginia, Montana, and Pennsylvania.

By the end of Fiscal Year 2007-08, the number of school age children in Florida (ages 5-17) is projected to be 3,117,912, representing 16.2 percent of total population. This percentage peaked in the mid 1960's (end of Fiscal Year 1965-66) reflecting the end of the baby boom generation's birth cycle. Since then, school age population has declined as a percentage of total population, reaching a low of 15.5 percent at the end of Fiscal Year 1988-89; while the number of children age 5-17 plateaued between end of Fiscal Years 1972-73 and 1984-85, ranging between 1,773,598 and 1,830,821 per year. Even though the number of school age children is forecast to continue to increase over the 3-year forecast horizon, the percent of total population aged 5-17 is expected to slow slightly to 15.9 percent by the end of Fiscal Year 2010-11 from 16.2 percent at the end of Fiscal Year 2007-08.

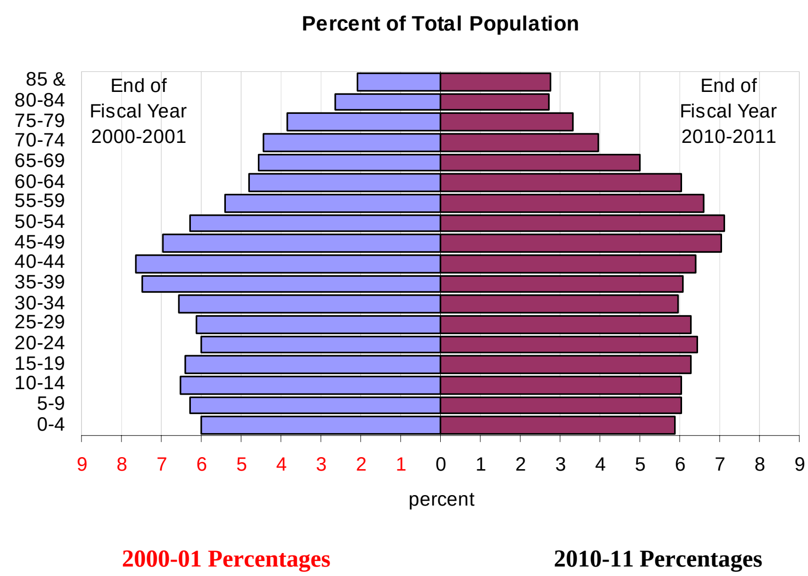




Source: Demographic Estimating Conference, February 2007.

Over the decade, the share of prime working age residents (ages 25-54) is forecast to decline from 41.0 percent of the total population at the end of Fiscal Year 2000-01 to 38.9 percent at the end of Fiscal Year 2010-11. Even though the percent of prime working age population is expected to decline over the decade, most age groups will continue to increase in actual numbers, with the exception of those in the 40 to 44 age group which has already started declining in number and the 45 to 49 age group that is forecast to decline by over 5,000 during Fiscal Year 2010-11.

The number of residents aged 50-64 is expected to grow by almost 50 percent over the ten year horizon, reflecting the aging baby boom generation. The population aged 55 and older is expected to account for just over 30 percent of Florida's total population by the end of Fiscal Year 2010-11. Over the decade, large percentage gains are also expected in the number of residents aged 80 and over (over 45 percent).



Source: Demographic Estimating Conference, February 2007.

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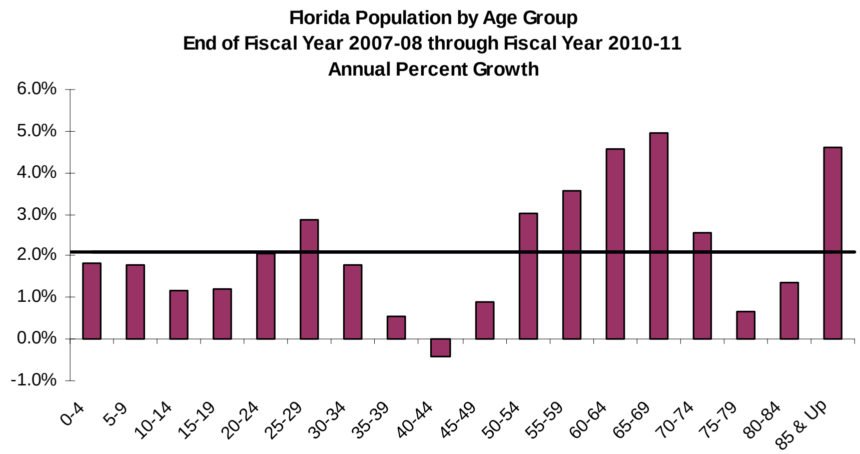
Over the 3-year forecast horizon, the age groups (categorized by five-year increments) that will expand at a faster annual growth rate than the state are: 25-29; the age groups between 50-74; and 85 and older. The baby boomer and retiree age groups (age 45 and older) are projected to represent 43.5 percent of Florida's population by July 2008 and are forecast to expand at a compound annual growth rate of 2.9 percent (faster than the overall population rate of 2.1 percent), representing 44.6 percent of the total population by the end of Fiscal Year 2010-2011.



Source: Demographic Estimating Conference, February 2007.

Florida's population is also becoming more diverse. The 2000 Census showed that 16.8 percent of Florida's population was Hispanic or Latino. By the end of Fiscal Year 2010-11 this percentage is expected to increase to 22.5 percent. Whites comprised 82.2 percent of Florida's population in 2000, while blacks accounted for 15.4 percent. By the end of Fiscal Year 2010-11 these percentages are expected to be 80.1 percent for whites and 16.9 percent blacks.

Florida is a high migration state, with only one-third of its residents born here. Almost one-fifth of Florida's population is foreign born, and about one-fourth of Floridians aged 5 and over indicated that they speak a language other than English at home. Most of Florida's foreign born population is from Latin America, with the greatest number from the country of Cuba. However, Miami-Dade is currently the only county in Florida where the majority of the households (62.9 percent in 2005) speak Spanish. The Census Bureau has estimated that in 39.2 percent of these Spanish speaking households, all household members aged 14 years old and over have at least some difficulty with English.

Summary

Over the forecast horizon, several demographic factors will present challenges for the state's policy makers as the baby boom population begins to enter retirement age. Most importantly, Florida will need to prepare for a more diverse and aging population with its corresponding demands on services.

REVENUE PROJECTIONS

Throughout the spring and summer, the Revenue Estimating Conference met to revise estimates for Fiscal Year 2006-07 and to develop new forecasts for the upcoming years. Revenue projections were generally weakened relative to the prior forecasts, especially in the early years. Even so, significant amounts of non-recurring dollars still exist in the near-term from the windfalls arising from unanticipated tax collections in prior years. Several major revenue sources are discussed below.

General Revenue Fund:
Since the General Revenue Estimating Conference held in March, the housing market has further deteriorated – finally beginning to spill over into business and consumer spending. Altogether, the Revenue Estimating Conference has reduced its General Revenue outlook by nearly $1.5 billion for Fiscal Year 2006-07 and 2007-08. Final collections for Fiscal Year 2006-07 were below estimate by $380.5 million or slightly more than 1.4%. For Fiscal Year 2007-08, expected revenues were decreased by approximately $1.1 billion or about 4% from the earlier forecast.

Final revenue collections for Fiscal Year 2006-07 were 2.5% lower than the prior fiscal year. However, positive revenue growth is expected to resume in Fiscal Year 2007-08, ending just slightly above the Fiscal Year 2006-07 level but still below the 2005-06 level. The revisions to the forecast are primarily attributable to the deeper than expected downturn in the housing market and the resulting impacts on other sectors of the economy. While the state's forecast mirrors the national outlook in significant ways, the heightened level of speculative activity and second-home buying in Florida made it particularly vulnerable to the widely anticipated real-estate market slowdown. The underlying Florida economy remains sound, and continuing overall job growth bolsters the rest of the estimate. These economic conditions influence the forecast in the following ways:

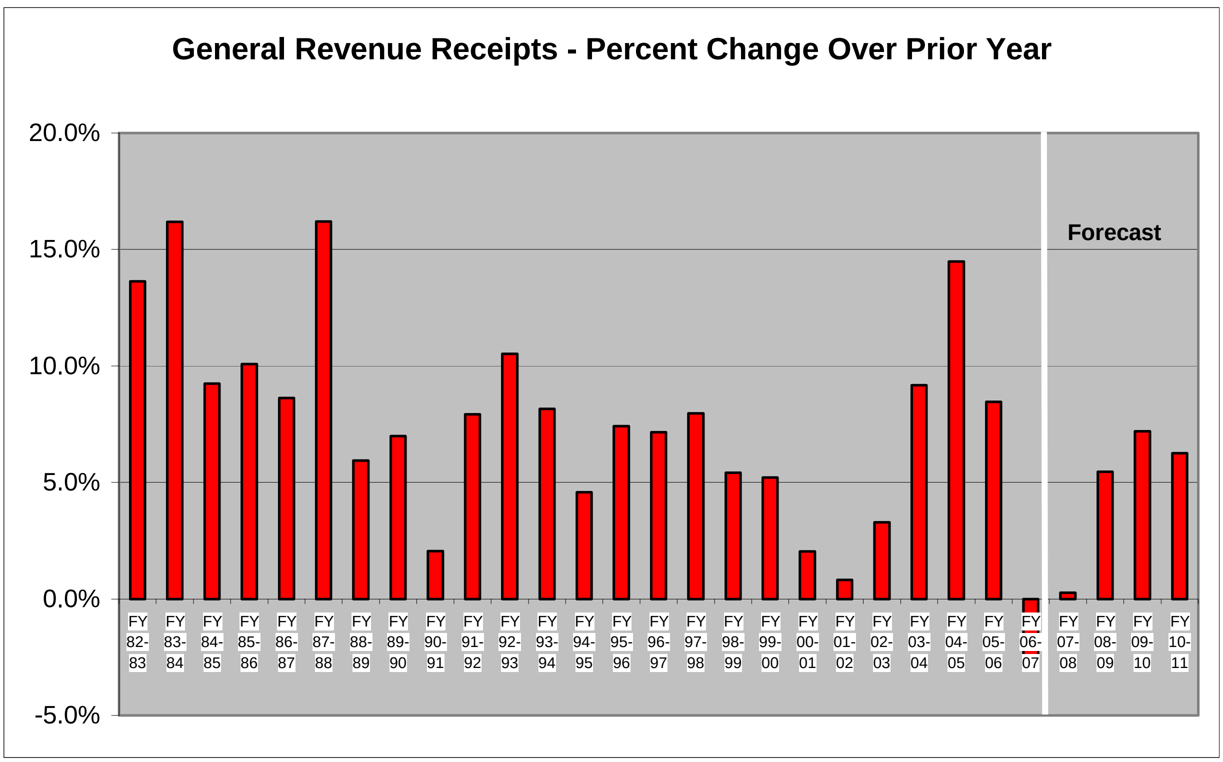
- **Sales Tax** collections which had been bolstered by record-level housing construction are significantly weaker. Related spending for items like furniture and appliances has also slowed as existing home sales dropped to monthly levels last seen in 1997. Further, Floridians have begun to curtail other purchases like automobiles as the wealth effect from housing price appreciation diminishes. Business-related purchases have also slowed and are expected to remain lower than previous estimates. These adjustments are likely to persist throughout the forecast period.

- **Documentary Stamp Tax and Intangibles Tax** collections are expected to continue declining as the adjustment to higher interest rates, stricter lending standards and high housing prices take hold. Prices and sales will further weaken

– exerting downward pressure on collections until the current housing inventory clears.

- After experiencing unprecedented growth over the last several years**, Corporate Income Tax** collections are expected to maintain previous gains, while beginning to stabilize. After reaching an historic growth rate of 39.1% in Fiscal Year 2005-06, receipts returned to a more modest growth rate of 1.6% in Fiscal Year 2006-07 and a small projected gain (1%) in Fiscal Year 2007-08. The lower growth rates are largely due to: (1) weaker profits in companies previously benefiting from the overheated real estate market, and (2) compressed profit margins caused by rising labor costs.

While the housing outlook has worsened in the short run causing a further downward revision to the estimates, normal growth rates are anticipated to return by Fiscal Year 2008-09.



Note: Several years had tax increases which distort year-over-year changes.

Documentary Stamp Taxes:

(a portion of these dollars fund general revenue and the rest is associated with various trust funds)

The new forecast reflects conditions that prove Florida to be beyond the end of the real estate boom and even dipping below normal patterns of construction and real-estate activity. These conditions are generally expected to last throughout calendar year 2008, with a slow return to a more sustainable growth pattern in 2009. As the primary driver of the five-year run-up in total documentary stamp tax collections, the state of Florida's housing market is inextricably linked to this revenue source.

The boom, characterized by double-digit growth in home sales and price appreciation, played a significant role in Florida's past economic performance. Among other things, recent data has indicated year-over-year sales of existing homes dropped for the third consecutive July, with 2007 sales comprising only 54% of the 2005 level. Levels this low have not been seen since 1997. Similarly, median sales prices have declined by 5% since last July, affecting nearly every one of the state's metropolitan statistical areas.

According to the latest Florida Economic Conference, housing starts will continue falling through Fiscal Year 2007-08 before beginning a modest rebound in 2008-09. Total construction expenditures follow a similar pattern, never returning to the 2005-06 level during the immediate forecast (Fiscal Year 2010-11). On the other hand, growth in private nonresidential construction is projected to decelerate to a still healthy 7.9% this year, and then moderate in the out-years. Meanwhile, after posting an 18.3% increase last year, public construction activity is projected to expand another 10.9% this fiscal year before dipping into negative territory next year.

Documentary Stamp tax collections are expected to continue declining as the adjustment to higher interest rates, stricter lending standards and high housing prices take hold. Prices and sales will further weaken – exerting downward pressure on collections until the current housing inventory clears.

Total annual collections were greatest in Fiscal Year 2005-06 at $4.1 billion. In comparison, the forecast for this year is only $2.8 billion, a 13.6% decline over last year. Modest growth is expected in 2008-09 (2.9%) before growth returns to more normal levels for the remainder of the forecast.

Lottery, Slots & the Educational Enhancement Trust Fund:
Dedicated to educational programs, **lottery** and slots dollars are used to fund the Educational Enhancement Trust Fund (EETF). The Revenue Estimating Conference for lottery revenues increased expected distributions to the EETF from current projections by $3.1 million in 2006-07 and by $5.2 million in 2007-08. These amounts represent relatively small increases to the lottery-based transfers: receipts over the next few years range from $1.26 billion in Fiscal Year 2007-08 to $1.32 billion in Fiscal Year 2010-11. These figures translate into modest growth rates of 0.6% in 2006-07, 1.8% in 2007-08, 0.8% in 2008-08 and 2% in both 2009-10 and 2010-11. Flagging scratch-off sales and a mature on-line game are the primary causes of the slow growth.

The Conference addresses the impact of the **slot machine** tax as a separate issue. In July, the Conference adopted revised estimates for tax revenues from slot machine operations for fiscal years 2007-08 through 2010-11. The anticipated EETF transfers were reduced as follows: in 2007-08 from $196.2 million to $113.5 million, in 2008-09 from $275.3 million to $123.6 million, in 2009-10 from $333.7 million to $151.6 million, and for 2010-11 from $354.0 million to $172.9 million.

Several factors influenced the adjustment to the estimate. First, updated information about when Dania Jai-Alai will open and about how many terminals the facilities will have operating at different points in time caused a softening of the estimate. The addition of new terminals has been greatly reduced from the prior forecast. Second, the new forecast expects lower per terminal income as a result of recent activity and information about the response in per machine income to the addition of new terminals. Finally, the new forecast takes into account collections that were lower than anticipated for 2006-07.

Primarily as a result of the lower slots estimate, EETF revenues are insufficient to keep the trust fund in balance. The latest estimate reveals a $45.2 million projected deficit in the current year that must be addressed - $32.0 million of this amount is recurring.

Ad Valorem Assessments (Property Tax Roll):
Estimates of the statewide property tax roll are primarily used in the appropriations process to approximate the Required Local Effort (RLE) millage rate. This is the rate local school districts must levy in order to participate in the Florida Education Finance Program. The January 1, 2007 certified school taxable value is projected to be $1,791.5 billion. This represents an 8.7 percent increase over the January 1, 2006 tax roll. After deducting the statutorily required discount rate of 5 percent, the value of one mill applied to school taxable value is approximately $1,701.9 million. On a per mill basis, this represents nearly a $135.9 million increase over the spring 2006 estimate. The actual RLE millage rate was set after the legislative session. The statewide average millage rate decreased from 5.010 to 4.843, the actual amount required to generate $7.9 billion.

The key components of the estimate are based on the assumption that the growth in the value of real property is expected to slow as a result of Florida's weakening real estate market. Since late 2005, the statewide volume of sales in single family homes has dramatically decreased. This has created a surge in the immediate inventory of homes and has put slight, downward pressure on sales prices. The increase in inventory has also reduced demand on newly constructed homes. As a result, the taxable value of new construction as a percent of the prior year's base has been revised downward from 2.7 percent to 2.5 percent. Also of concern is the recent increase in the default rate on sub-prime loans (*i.e., sub-prime loans made during the height of Florida's real estate boom*). It is suspected that banks have taken notice and have begun to tighten their lending practices. Although it is not clear how changes in sub-prime lending will affect the housing market in the long-run, this contraction does not help reduce high inventory levels today.

The Save-Our-Homes differential represents the difference between the homesteaded property's just value and its assessed value. The differential is projected to be $406.3 billion this year, a mere 0.5 percent increase over the prior year. This represents the smallest percent increase since the inception of the Save-Our-Homes initiative in 1995. Positive growth in the differential represents a subtraction from total school taxable value.

Key Components of School Taxable Value
(billions of dollars)

	Actual 2006 Tax Roll*	Fall 2006 Tax Roll Forecast of January 1, 2007	Spring 2007 Tax Roll Forecast of January 1, 2007*	Dollar Change (Spring vs. Fall)	Dollar Change (07 minus 06)	Percent Change (07 over 06)
School Taxable Value	1,648.4	1,795.4	1,791.5	-4.0	143.0	8.7%
Real Property	1,543.8	1,685.8	1,680.9	-5.0	137.1	8.9%
Personal Property	104.3	105.3	107.5	2.2	3.1	3.0%
Centrally Assessed	1.1	1.1	1.1	0.0	0.0	3.0%
Sub Components of Real Property**						
New Construction	57.5	56.1	53.2	-2.9	-4.3	-7.5%
Save-Our-Homes Differential	404.4	401.8	406.3	4.5	1.9	0.5%
Value of one mill at 95 percent *(millions of dollars)*	1,566.0	1,705.7	1,701.9	-3.8	135.9	8.7%

**School taxable value includes Value Adjustment Board changes and other tax roll adjustments; components do not add to the total.*

The actual 2005 school taxable value is the value that was certified by the Department of Revenue to the Department of Education.

***New Construction is an addition to the real property tax base and the Save-Our-Homes differential is a subtraction from the real property tax base.*

Gross Receipts Tax and Communications Services:

[NOTE: Since there were no significant changes from the previous estimates, there was no need to update the forecast in the summer.]

The Revenue Estimating Conference last met on February 28, 2007 to adopt a new forecast for the Gross Receipts Tax and the State Sales Tax on Communication Services. Overall, the forecast was increased for Fiscal Year 2006-07 and for each of the following two fiscal years. For the Gross Receipts Tax, overall collections have been increased by $18.9 million in Fiscal Year 2006-07, $22.8 million in Fiscal Year 2007-08, and $7.2 million in Fiscal Year 2008-09. These changes feed directly into the dollars available for PECO appropriations. For the State Sales Tax on Communication Services, collections have been increased by $5.5 million in Fiscal Year 2006-07, $11.8 million in Fiscal Year 2007-08 and $11 million in Fiscal Year 2008-09. The highlights are detailed below.

Gross Receipts Tax on Electricity... The Conference discussed the tax collection pattern since the last estimate was adopted at the November 2006 meeting. Collections were running $18.8 million above the prior forecast. Most of this error was due to a previous underestimate of the impact associated with energy price changes. In the new forecast, the higher electricity price seen in the early spring was maintained for the rest of Fiscal Year 2006-07, resulting in a stronger forecast for the year (a 14.4% increase). However, due to fuel costs leveling off and a flat future fuel cost index, the growth rate on electric collections was reduced to 1.0% in Fiscal Year 2007-08. This level still generates a $16.1 million increase over the November conference estimate.

Gross Receipts Tax on Gas... For Fiscal Year 2006-07, the new forecast nearly matched the old estimate. Moving into future years, collections are expected to stabilize at that level ($28.4 million) as gas prices moderate.

Communications Services Tax... Tax collections from the Communications Services Tax (CST) were also running higher than expected. Much of the strength came from strong demand for cellular phone services. However, for the last four months of the prior estimate, the Gross Receipts Tax component of the CST was under the old estimate by $2.0 million, and the State Sales Tax component was under the old estimate by $3.8 million. In part this was a technical adjustment – current year receipts were used to cover a major refund. Had this refund not occurred, the current collection level would have beaten the old estimate. Adjusting for this anomaly, the Gross Receipts Tax component was increased by $1.5 million in Fiscal Year 2006-07 and the State Sales Tax portion was increased by $5.5 million.

Additional State Tax on Direct-to-Home Satellite Service and Local Communications Service Tax... The new forecasts for the additional state tax on Direct-to-Home Satellite Service (DHSS) and the local communications service tax were also addressed. The state tax on DHSS is distributed to local governments through the Local Government Half-Cent Clearing Trust Fund. The higher forecast was $55.9 million and $62.2 million for Fiscal Year 2006-07 and Fiscal Year 2007-08, respectively. The forecast for the local communications service tax was virtually unchanged at $863.1 million for Fiscal Year 2006-07 and $899.8 million for Fiscal Year 2007-08.

The table below summarizes the results of the latest estimating conference.

	Gross Receipts Tax All Sources	Gross Receipts Tax on Electricity	Gross Receipts Tax on Gas	Communications Services Tax-Gross Receipts Component	Communications Services Tax-State Tax Component	Additional State Tax on Direct-to-Home Satellite	Local Communications Service Tax
FY 05-06	975.79	524.33	28.55	422.91	1007.20	52.19	843.31
FY 06-07	1069.64	599.84	28.40	441.40	1050.70	55.90	863.07
FY 07-08	1096.93	605.84	28.60	462.49	1111.88	62.20	899.76
FY 08-09	1133.75	625.66	29.30	478.79	1160.42	68.40	926.45
FY 09-10	1165.45	643.43	28.60	493.42	1204.68	74.60	949.61
FY 10-11	1196.33	660.89	28.50	506.93	1242.78	80.50	970.79
FY 11-12	1227.84	680.38	28.50	518.96	1278.78	86.20	989.08
FY 12-13	1254.05	694.00	28.70	531.35	1312.25	91.30	1008.87
FY 13-14	1296.57	723.78	29.20	543.58	1347.26	95.90	1028.98
FY 14-15	1321.51	736.00	30.00	555.51	1380.89	100.70	1048.19
FY 15-16	1356.20	757.40	31.20	567.60	1413.03	105.70	1067.48
FY 16-17	1389.09	777.29	32.00	579.81	1444.85	110.00	1087.89

Public Education Capital Outlay and Debt Service Trust Fund:

[NOTE: Since there were no significant changes from the previous estimates, there was no need to update the forecast in the summer.]

The Public Education Capital Outlay Program addresses educational facilities construction and fixed capital outlay needs for school districts, community colleges, and universities. The Revenue Estimating Conference met on March 5, 2007 to project the maximum dollars available for appropriation from the Public Education Capital Outlay (PECO) and Debt Service Trust Fund. The Conference increased the forecast of the maximum amount available for the PECO program for Fiscal Year 2007-08 by $252.9 million, to $1841.0 million in total. Of this total amount, $1418.3 million is from the sale of bonds, up from $1247.0 million in the old forecast, and $422.7 million will be available as cash. Almost the entire increase in the bond sale is due to the new Gross Receipts Tax forecast, which was increased by $18.9 million in Fiscal Year 2006-07 and $22.8 million in Fiscal Year 2007-08.

2007 legislative session action... The 2007 General Appropriations Act fully allocated the amount estimated to be available from the March conference. However, vetoes reduced the effective appropriation by $41.7 million, to $1799.3 million. Of this amount, cash funds will be used for projects totaling $482.1 million, leaving $1317.2 million required from bond sales to fully fund the effective appropriation. Two bills were also enacted into law that changed the results of the March conference. CS/SB 1328 transferred $4.6 million of unallocated funds from an expired trust fund to the PECO trust fund. CS/SB 1060 changed the due date for the Gross Receipts Tax from the last day of a month to the 20th day of the same month. This date change will have the effect of accelerating tax collections, effectively creating a month with double tax payments. Under the PECO bonding formula, this will create additional bonding capacity in Fiscal Year 2008-09, as bonding capacity is pulled forward into that year from Fiscal Year 2009-10 and Fiscal Year 2010-11. This change has been reflected in the figures below.

Senate Bill 360... Senate Bill 360 (2005) provided that $105 million annually from Documentary Stamp Tax collections be redirected to the PECO trust fund. This redirection was removed from law during the 2007 session by CS/SB 1060. As a result, the trust fund will no longer receive distributions from the Documentary Stamp Tax. However, $168.25 million in previous distributions remain in the trust fund, and are <u>not</u> included in the figures below.

	Maximum PECO Appropriations	Estimated PECO Bonding
FY 2006-07	1853.8	1436.6
FY 2007-08	**1799.3**	**1317.2**
FY 2008-09	1251.5	998.9
FY 2009-10	467.9	241.5
FY 2010-11	593.9	381.8
FY 2011-12	706.8	495.1
FY 2012-13	588.4	380.7
FY 2013-14	896.4	663.3
FY 2014-15	776.1	534.8
FY 2015-16	647.5	405.0

Principal State School Trust Fund:
Used exclusively to meet public school needs, the Principal State School Trust Fund contains revenue primarily derived from unclaimed property. Transfers of abandoned property to the State were slightly above estimate for Fiscal Year 2006-07 at $271.9 million. Property returned to owners, however, was significantly higher than estimated and reduces the amount available for transfer. Property returned to owners totaled $168.8 million, or $30.0 million greater than forecasted. As a result, transfers to the Principal State School Trust Fund were $22.2 million below the expected amount.

In July 2007, the Conference adopted a new forecast of abandoned property receipts. For the current fiscal year, $224.4 million in receipts are projected. Of this amount, $141.7 million is projected to be returned to property owners. A total of $77.0 million is forecasted to be available for transfer to the Principal State School Trust Fund. This amount is insufficient to keep the trust fund in balance. The latest estimate reveals a $6.8 million projected deficit in Fiscal Year 2007-08 that must be addressed. Very little growth is projected for future years.

Tobacco Settlement Trust Fund:
On August 25, 1997, the State of Florida and several major American tobacco companies (Philip Morris Incorporated; R. J. Reynolds Tobacco Company; Brown & Williamson Tobacco Corporation; and Lorillard Tobacco Company) entered into a *Settlement Agreement* that included both non-monetary and monetary provisions related to Florida's financial losses as a result of smokers in the state's Medicaid program. In the Agreement, the tobacco companies agreed to discontinue certain forms of advertising and to support certain legislative initiatives. These included prohibiting the sale of cigarettes in vending machines and strengthening civil penalties related to the sale of tobacco products to children and possession of tobacco products by children. The tobacco companies also agreed to make annual payments in perpetuity, with the payments

structured to be about $11.3 billion over the first 25 years, subject to certain annual adjustments, primarily for shipment volume and the Consumer Price Index.

The Tobacco Settlement Trust Fund (TSTF) receives the settlement payments. The funds are currently used for programs in the Health and Human Services area. The current year funds available estimate for the TSTF is $510.7 million, with an additional $3.9 million going directly to the Biomedical Research Trust Fund. In Fiscal Year 2008-09, $412.5 million is expected from payments and $45.1 million is expected in transfers from the Lawton Chiles Endowment Fund. Including unspent (non-recurring) funds from this year of $8.3 million and $1.5 million in interest earnings, a total of $467.4 will be available for expenditure. These figures make no adjustment for the constitutionally required funding for tobacco education and prevention. The amount of the financial obligation for Fiscal Year 2008-09 will be deducted from the trust fund as an expenditure and is estimated to be $58.8 million.

Settlement payments are expected to grow slowly in the future, but will be negatively affected if nationwide consumption of cigarettes falls more rapidly than expected. Conversely, settlement payments will be positively affected if general price inflation is more rapid than currently projected.

Transportation Revenue and the State Transportation Trust Fund:
The Revenue Estimating Conference for the State Transportation Trust Fund last met on March 6, 2007, to adopt the forecast for revenues flowing into the State Transportation Trust Fund (STTF). The conference made significant adjustments to the overall forecast through the work program period, which ends in 2011-12. Over the work program period, revenues to the trust fund were cut by $232.1 million, or 1.3%. The changes in the forecast discussed below all refer to the work program period:

- The projection for revenues from Highway Fuel consumption, which includes the Highway Fuel Sales Tax and the State Comprehensive Enhanced Transportation System (SCETS) Tax, was reduced by $137.8 million or 1.2%. Projected tax rates remained relatively stable, with the impact due to reduced consumption of both gasoline and diesel fuel.
- The Aviation Fuel Tax forecast was reduced only by $3.6 million, or 1.0%, due to recent weakness relative to the forecast.
- Off-Highway Fuel Sales Tax was slightly increased by $0.8 million, or 0.9%.
- Revenues from Special Fuel use taxes and fees were increased by $1.7 million, or 1.2%.
- The projection for the Rental Car Surcharge was reduced considerably by $21.6 million, or 3.1%, due to recent weakness in this source and the expectation for a weaker overall economy.
- The distribution from Local Option Tax Service Charge was reduced by $73.5 million, or 23.7%, due to an error in the method used to create the previous forecast.

- Overall, the STTF outlook is almost unchanged in the license and registration area. While the projection for Motor Vehicle License revenues has been increased by $23.3 million, or .7%, expected revenues from the Initial Registration Fees and Title fees have been reduced by $18.8 million (2.1%) and $2.6 million (.4%), respectively.

FLORIDA DEBT ANALYSIS

Florida law requires an ongoing analysis of the state's actual debt position. This requirement enables lawmakers to consider the impact of future bond issuances on the state's credit rating during the decision-making process. If the state has too much debt relative to its expected revenues, any additional debt financings become very costly. In this regard, the statute establishes a 6% target, as well as a 7% maximum cap. To exceed the target, the Legislature must determine that the additional debt is in the best interests of the state. To exceed the cap, a declaration of critical state emergency must be made. The discussion below reflects the key points of the *2006 Debt Affordability Report* prepared by the Division of Bond Finance. It covers the period June 30, 2005 to June 30, 2006. The next report will be released in December.

Debt Outstanding

Total state debt outstanding at June 30, 2006 was $23.0 billion, $564 million more than at June 30, 2005. Net tax-supported debt totaled $17.9 billion for programs supported by state tax revenues or tax-like revenues. The self-supporting debt totaled $5.1 billion, representing debt secured by revenues generated from operating facilities financed with bonds. In addition to the $23.0 billion in state debt, indirect state debt at June 30, 2005[1] was $6.5 billion – the same amount as the prior year-end. Indirect debt is debt that is not secured by traditional state revenues or is the primary obligation of a legal entity other than the State, such as the Florida Housing Finance Corporation, Citizens Property Insurance Corporation and University Direct Support Organizations. Not included in the total for indirect debt is the recent significant increase in borrowing by the insurance-related entities, the Florida Hurricane Catastrophe Fund Finance Corporation and Citizens Property Insurance Corporation. So far, they total another $7.2 billion with additional debt issuances expected in the future.

Debt Capacity

The debt capacity available within the 6% target is $16.3 billion over the next ten years for all of the state's financing programs that are currently authorized. However, only $2.4 billion of this amount is available over the next three years.

The debt capacity available within the 7% cap is approximately $23.4 billion over the next ten years, with $7.7 billion in capacity available over the next three years. The Division of Bond Finance believes that the debt capacity available within the 7% cap should be preserved for critical needs and used as a cushion against downturns in the economy.

Estimated Debt Issuance

Approximately $11.2 billion of debt is expected to be issued over the next ten years for all of the State's financing programs that are currently authorized. This estimate is

[1] The information presented is for 2005 rather than 2006 because more current information is not available.

approximately $1.6 billion or 17% more than the previous projection of expected debt issuance. An increase in expected educational borrowing of $2.3 billion for PECO and Lottery is offset by a $0.9 billion decrease due to cash funding in lieu of borrowing for Florida Forever and Everglades, as well as decreases in the levels of expected issuance for other bonds issued during the reporting period. However, the expected debt issuance does not include any additional bonding for further funding of the constitutional amendment for class size reduction beyond the level authorized by the Legislature in 2006.

Estimated Annual Debt Service Requirements

Annual debt service payments are estimated to grow from the existing $1.7 billion to $2.4 billion by Fiscal Year 2013-14, assuming projected bond issuance of $11.2 billion. During the reporting period, annual debt service requirements increased by $96 million over the prior year which approximates the historical average annual increase over the last ten years.

Overview of the State's Credit Ratings

The State maintained its upgraded credit ratings during the past year, and the rating outlook is stable. Florida's conservative financial and budgeting practices creating substantial reserves are the reasons cited for its high ratings. According to the Division of Bond Finance, future challenges to the State's outlook include the constitutional amendment on class-size reduction and budgetary pressures from growth-related service demands.

Debt Ratios

The State's benchmark debt ratio of debt service to revenues available to pay debt service has improved over the past year. The benchmark debt ratio improved from 5.36% on June 30, 2005 to 5.10% on June 30, 2006. This improvement is related to higher than expected revenues during the early part of the period and favorable interest rates. The benchmark debt ratio is projected to remain well within the 6% target during the foreseeable future based on expected debt issuance and the current revenue forecast. However, it does not include any additional bonding to provide funding for class size reduction beyond the level authorized through June, 2006 (note that the legislature authorized an additional increment in 2007).

2005 Comparison of Florida to Peer Group and National Medians

	Net Tax Supported Debt as a % of Revenues	Net Tax Supported Debt Per Capita	Net Tax Supported Debt as a % of Personal Income
Florida	**5.36%**	**$980**	**3.07%**
Peer Group Median	**3.79%**	**$923**	**2.99%**
National Median	**Not Available**	**$754**	**2.50%**

A comparison of 2005 debt ratios shows that Florida's debt ratios are generally higher than the national and the ten most populous state peer group averages. However, the State ranking has seen improvement. Florida moved from the third to the fourth highest ratio for the benchmark debt ratio of debt service to revenues within the peer group while remaining fifth in debt per capita and debt as a percent of personal income.

General Appropriations Act - All Sections

Expenditure projections ($ millions)

Recurring	2007-08	2008-09	2009-10	2010-11
General Revenue	27,490.1	29,881.4	31,830.6	33,858.9
change		2,391.3	1,949.2	2,028.3
% change		8.7%	6.5%	6.4%
Educational Enhancement TF	1,454.6	1,386.8	1,438.6	1,484.1
change		-67.8	51.8	45.5
% change		-4.7%	3.7%	3.2%
State School TF	123.7	107.4	119.1	121.1
change		-16.3	11.7	2.0
% change		-13.2%	10.9%	1.7%
Tobacco Settlement TF	447.8	459.1	465.3	471.9
change		11.3	6.2	6.6
% change		2.5%	1.4%	1.4%
TOTAL	29,516.2	31,834.7	33,853.6	35,936.0
change		2,318.5	2,018.9	2,082.4
% change		7.9%	6.3%	6.2%

Nonrecurring	2007-08	2008-09	2009-10	2010-11
General Revenue	1,772.3	1,156.4	1,037.2	1,005.9
change		-615.9	-119.3	-31.3
Educational Enhancement TF	142.5	0.0	0.0	0.0
change		-142.5	0.0	0.0
State School TF	85.8	0.0	0.0	0.0
change		-85.8	0.0	0.0
Tobacco Settlement TF	54.6	0.0	0.0	0.0
change		-54.6	0.0	0.0
TOTAL	2,055.2	1,156.4	1,037.2	1,005.9
change		-898.8	-119.3	-31.3

TOTAL	2007-08	2008-09	2009-10	2010-11
General Revenue	29,262.4	31,037.8	32,867.8	34,864.8
change		1,775.5	1,830.0	1,997.0
% change		6.1%	5.9%	6.1%
Educational Enhancement TF	1,597.1	1,386.8	1,438.6	1,484.1
change		-210.3	51.8	45.5
% change		-13.2%	3.7%	3.2%
State School TF	209.5	107.4	119.1	121.1
change		-102.1	11.7	2.0
% change		-48.7%	10.9%	1.7%
Tobacco Settlement TF	502.4	459.1	465.3	471.9
change		-43.3	6.2	6.6
% change		-8.6%	1.4%	1.4%
TOTAL	31,571.4	32,991.1	34,890.8	36,941.9
change		1,419.8	1,899.7	2,051.1
% change		4.5%	5.8%	5.9%

Long Range Financial Outlook - Key Budget Drivers and Assumptions

Method of Calculation	GENERAL REVENUE		
Specific Budget Driver	FY 2008-09	FY 2009-10	FY 2010-11
	Total	Total	Total
Consensus Estimating Expenditure Conferences:			
Medicaid	613.4	489.3	525.0
TANF	1.2	-2.5	-2.5
KidCare	25.5	29.1	34.0
Projections Based on Consensus and Economic and Demographic Research Estimates:			
FEFP Workload/Class Size/Enrollment	900.5	733.0	761.0
University System Workload/Enrollment	61.6	61.8	59.9
Community College Workload/Enrollment	39.7	37.8	36.6
Voluntary Pre-Kindergarten Workload/Enrollment	22.1	34.2	30.9
Prison bed construction and operation	308.5	316.9	215.9
Retirement	44.4	57.5	82.2
Health Insurance	95.6	90.6	100.6
Risk Management Insurance	3.2	14.2	5.4
Projections Based on Historical Funding Averages:			
Developmentally Disabled Services	32.9	23.7	23.7
Children and Family Services	45.8	38.6	36.9
Health Services	8.7	5.8	5.8
Capital Improvement/Maintenance and Repairs	73.6	67.9	63.8
Economic Development Programs	110.4	110.4	110.4
New Judges	5.0	5.0	5.0
Juvenile Justice Prevention and Intervention Programs	13.4	13.4	13.4
State Attorney, Public Defender, and Regional Counsel Workload	6.9	7.2	7.6
Other DOC & DJJ Workload and Services	25.0	23.7	23.8
Energy Grant Programs	20.0	20.0	20.0
Water Projects	78.0	78.0	78.0
Northern Everglades	30.2	30.2	30.2
Environmental Programs	22.2	22.1	22.1
Health and Human Services - Information Technology/Infrastructure and Other Programs	27.5	21.1	21.1
Public Schools - Other Issues	210.7	91.2	82.2
Challenge Grants (Operating and FCO) - Community Colleges and State Universities	180.3	180.3	180.3
Other Education - Adjustments	46.8	3.8	3.8
State Universities - Other Issues	59.5	40.6	33.0
Community Colleges - Other Issues	23.4	11.1	9.6
Other Specific General Revenue Costs:			
Highway Safety - Replace PIP-related Trust Fund Revenue Loss	28.5	28.5	28.5
Hurricanes and Other Declared Disasters	68.1	62.9	134.0
Cultural Grants	42.0	42.0	42.0
Growth Management	6.8	6.8	6.8
Environmental Program - Mulberry Piney Point	18.2	11.0	14.7
General Government - Other	19.4	13.0	18.6
Due process liability	22.7		
Payroll Increase	204.5	164.3	168.4
Rental Rate Increase	1.5	2.1	1.5
Total New Issues	3547.7	2986.4	3034.2

	TRUST FUNDS		
	FY 2008-09	FY 2009-10	FY 2010-11
Key Trust Fund Assumptions:	Total	Total	Total
Florida Forever/Everglades - Funded from Bond Proceeds	400.0	400.0	400.0
Tobacco Constitutional Amendment	5.9	1.3	1.3
Statutory Distributions of Documentary Stamp Tax Revenues - Housing/Environmental	465.8	468.2	471.3
Department of Transportation Work Program	7739.9	7069.2	6611.0

General Appropriations Act Sections 1 & 2 - Education

Expenditure projections ($ millions)

Recurring	2007-08	2008-09	2009-10	2010-11
General Revenue	14,506.1	15,708.8	16,614.4	17,535.4
change		1,202.7	905.6	921.0
% change		8.3%	5.8%	5.5%
Educational Enhancement TF	1,454.6	1,386.8	1,438.6	1,484.1
change		-67.8	51.8	45.5
% change		-4.7%	3.7%	3.2%
State School TF	123.7	107.4	119.1	121.1
change		-16.3	11.7	2.0
% change		-13.2%	10.9%	1.7%
TOTAL	16,084.4	17,203.0	18,172.1	19,140.6
change		1,118.6	969.1	968.5
% change		7.0%	5.6%	5.3%

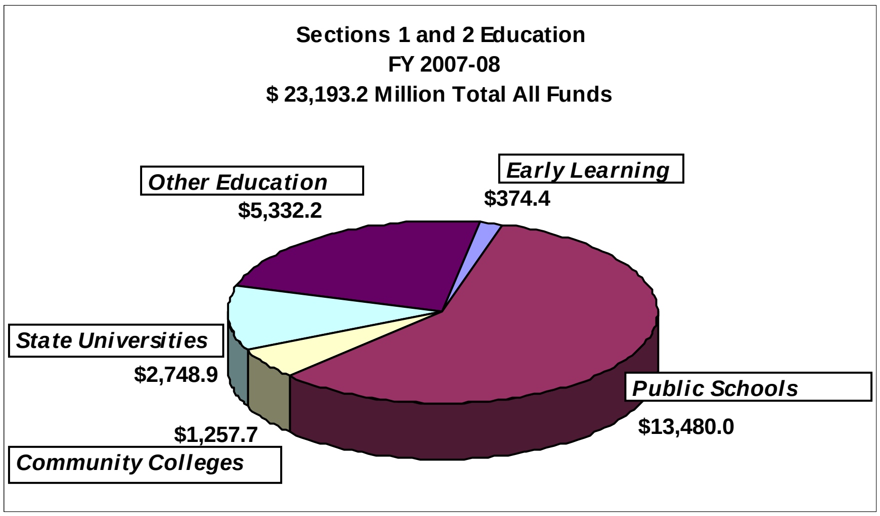
Nonrecurring	2007-08	2008-09	2009-10	2010-11
General Revenue	384.0	342.0	288.1	276.2
change		-42.1	-53.9	-11.9
Educational Enhancement TF	142.5	0.0	0.0	0.0
change		-142.5	0.0	0.0
State School TF	85.8	0.0	0.0	0.0
change		-85.8	0.0	0.0
TOTAL	612.3	342.0	288.1	276.2
change		-270.4	-53.9	-11.9

TOTAL	2007-08	2008-09	2009-10	2010-11
General Revenue	14,890.1	16,050.7	16,902.4	17,811.5
change		1,160.7	851.7	909.1
% change		7.8%	5.3%	5.4%
Educational Enhancement TF	1,597.1	1,386.8	1,438.6	1,484.1
change		-210.3	51.8	45.5
% change		-13.2%	3.7%	3.2%
State School TF	209.5	107.4	119.1	121.1
change		-102.1	11.7	2.0
% change		-48.7%	10.9%	1.7%
TOTAL	16,696.7	17,544.9	18,460.1	19,416.7
change		848.3	915.2	956.6
% change		5.1%	5.2%	5.2%

SECTIONS 1 AND 2 - EDUCATION

SUMMARY

Funding for Florida's education budget is provided in sections 1 and 2 of the General Appropriations Act and includes programs for Early Learning (Voluntary Prekindergarten), K-12 Public Schools, Workforce Training, Community Colleges, and State Universities, as well as financial assistance to students and private colleges. For Fiscal Year 2007-08, the Legislature appropriated a total of $23.2 billion for the operation of these programs and related facility costs (excluding local revenue and student fees).



Source: Actual Appropriations for Fiscal Year 2007-2008 excluding university fees and adjusted for Supplementals and Vetoes

The three year plan projects increases in recurring general revenue spending for Education of $1202.7 million (+8.3%) in Fiscal Year 2008-09; $905.6 million (5.8%) in Fiscal Year 2009-10; and $921.0 million (+5.5%) in Fiscal Year 2010-11.

In addition to these recurring increases, nonrecurring General Revenue of $342.0 million is projected to be needed in FY 2008-09; $288.1 million in FY 2009-10; and $276.2 million in FY 2010-11.

ASSUMPTIONS AND DISCUSSION OF MAJOR BUDGET DRIVERS

General - Projected education budget requirements from the General Revenue Fund, the Educational Enhancement Trust Fund (EETF), the Principal State School Trust Fund, postsecondary student fees, and public school ad valorem revenues have been developed for the 2008-09, 2009-10, and 2010-11 fiscal years by making adjustments to Fiscal Year 2007-08 education funding levels based on workload assumptions and other factors. The projections and major policy assumptions are described below.

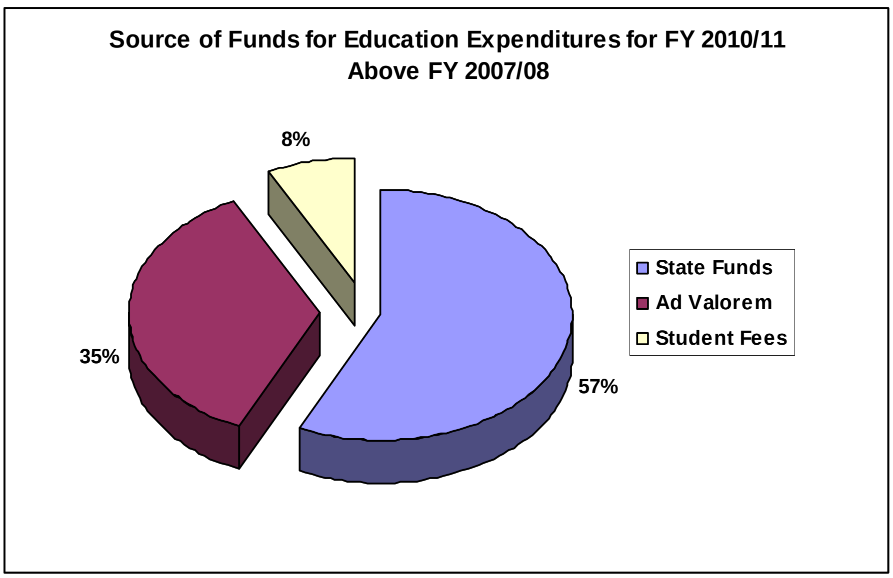
1) The projections assume that available recurring trust funds will be fully utilized before budgeting additional general revenue funds.

2) Assuming that the legislatively authorized millage rates (i.e., 4.843 required, .51 discretionary, and .25 equalized discretionary) remain unchanged throughout the three year forecast period, recurring ad valorem revenues to support public school costs are expected to increase by $1.7 billion, or 18.8%, by Fiscal Year 2010-11 due to the projected growth in the ad valorem tax roll.

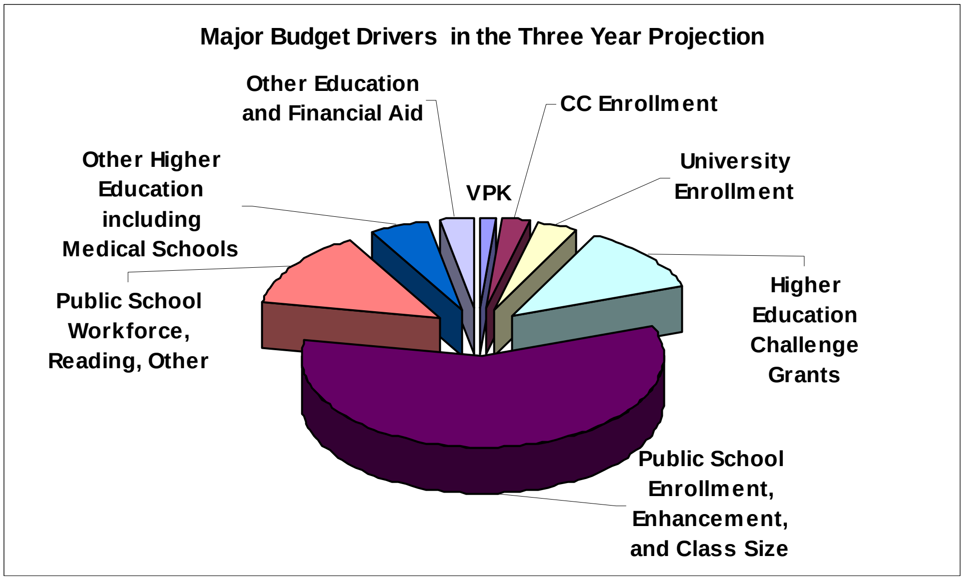
3) These estimates are based on current law and would change if ad valorem processes are changed by adoption of a proposed constitutional amendment in January 2008.

4) Assumed annual tuition increases of five percent for public school workforce programs, community colleges, and state universities will produce an estimated increase in recurring fee revenues of $362.5 million by Fiscal Year 2010-11.

5) The balance of the projected growth in recurring expenditures over the three year forecast period is projected to come from state funds.



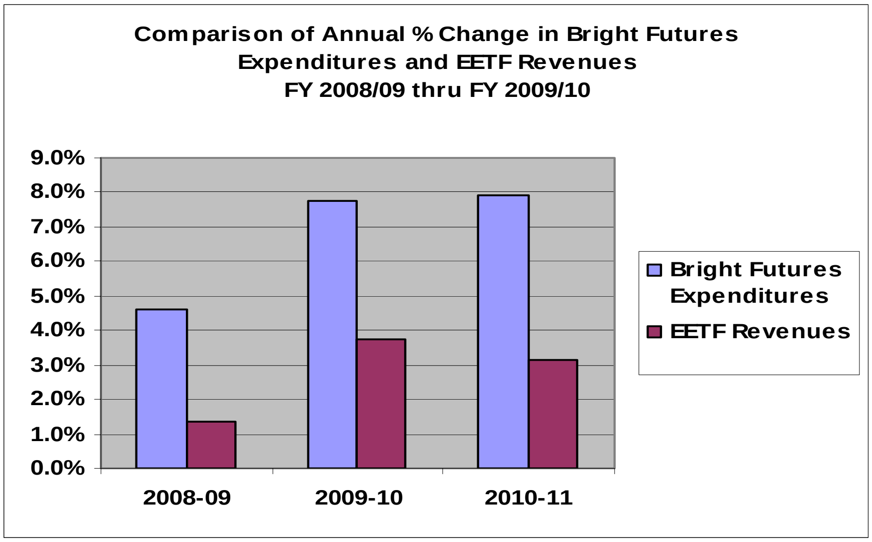
6) The growth in projected expenditures over the three year period is primarily attributable to three issues: increased student enrollment in public schools (57,373 students), community colleges (14,157 students), and state universities (16,085 students); continued phase-in of constitutionally mandated class size reduction requirements in public schools; and enhancements for public school operations.



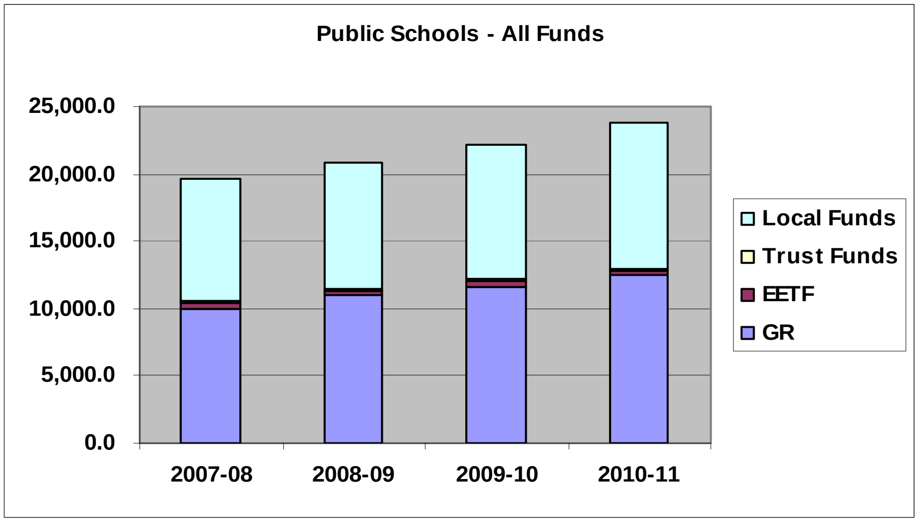
7) Additional recurring general revenue of $1.4 billion by Fiscal Year 2010-11 is provided to reduce the statewide average public school class size by two students annually until the constitutionally mandated maximum class sizes are achieved (the deadline for full compliance is Fiscal Year 2010-11). This is 17.7% of the total increase forecast for all education budgets for this three year projection.

8) General revenue funds are also included in the forecast to replace Educational Enhancement Trust Funds which must be pulled from existing K-20 operating budgets to fund Bright Futures Scholarships. The replacement is necessary because EETF proceeds available for education are not projected to increase during the forecast period sufficiently to address the growing cost of the Bright Futures Program.

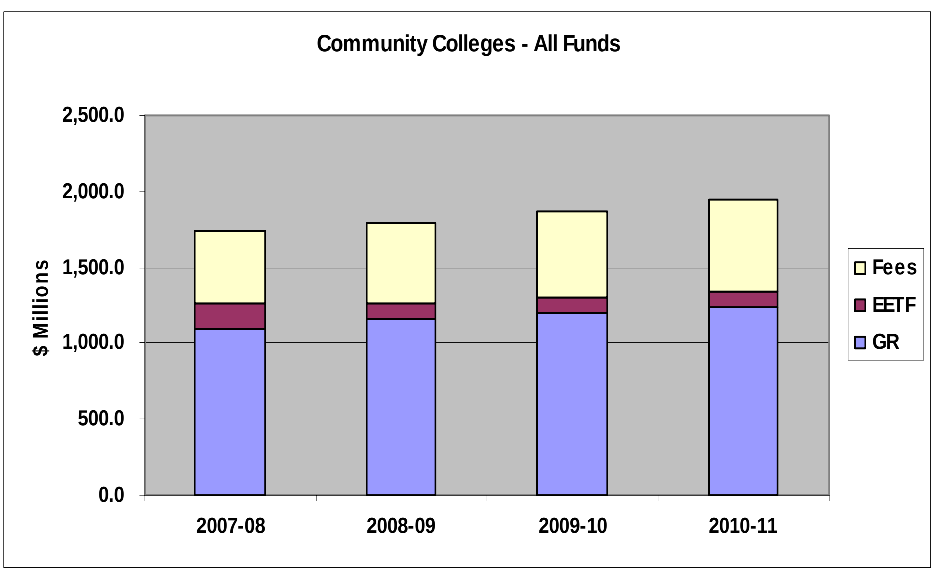
Educational Enhancement Trust Fund (EETF) Revenues – Estimated total recurring EETF revenues, comprised of Lottery and slot machine revenue, which are available to support education for the forecast period are based on the Revenue Estimating Conference projections of July 2007, including any law changes from the 2007 session. First, sufficient revenues are budgeted to fund Bright Futures Scholarship payments based on the number of eligible recipients projected by the March 2007 Financial Aid Estimating Conference, using **annual tuition increases of five percent for community colleges and state universities**. These tuition increases are in line with past legislative actions, are within the actuarial assumptions for the Florida Prepaid Tuition Program, and will maintain Florida's tuition rates at levels below national and regional averages. After covering these requirements, remaining revenues are allocated to public schools (70%), community colleges (15%), and state universities (15%). Due to the increasing costs of the Bright Futures Program over the projected time period, future funds available to public schools, community colleges, and state universities are expected to decline from current levels. The cost of the Bright Futures Program is projected to increase based on the growing number of eligible students and rising tuition rates. For the purpose of these projections, general revenue funds are provided to replace the projected decline in EETF appropriations to public schools, community colleges, and state universities.



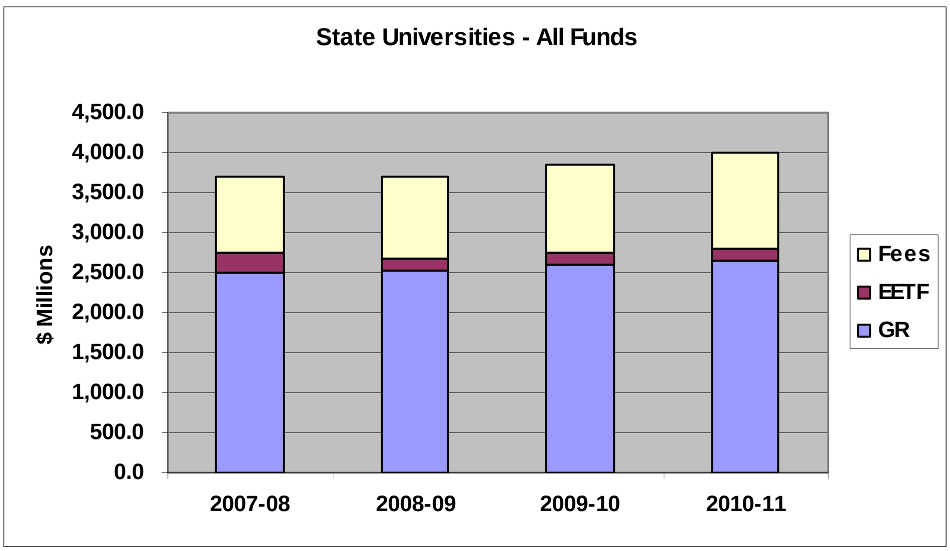
Public School Operating Costs – Ad valorem revenues projected to be available to support public schools are forecasted by applying the **current certified required local effort (RLE) millage rate of 4.843** to the projected tax roll for each of the forecast years. The tax rolls for 2008 through 2010 were projected by the Ad Valorem Estimating Conference in March 2007. The tax rolls have not been adjusted for any estimated impacts resulting from the constitutional amendment proposed by the Florida Legislature for consideration in January. The education budget projections fully fund projected student enrollment growth, and sufficient new state revenues are provided to fund class size reduction phase-in requirements which is assumed to be completed at the beginning of FY 2010-11. Long term enrollment growth for the three forecast years was agreed to by the July 2007 Public School Enrollment Estimating Conference. Total Florida Education Finance Program (FEFP) funds are increased by a historical average of 5.86% per FTE for each of the three forecast years. In addition, funds are included in the budget projections for workload for the Excellent Teaching program, Workforce Education, and an average historical increase for the Florida School for the Deaf and the Blind. Nonrecurring funds are provided to continue Reading Initiatives, the Ready to Work program, and for 2008-09 only, the DCD Transition. For public school workforce programs, the projection contemplates a five percent annual increase in student fees. A restoration of non-recurring funds is provided in each year for grant programs and special projects, based on 33% of a four year historical average of appropriations.



Community Colleges – Funds are provided to fund enrollment growth based on the Office of Economic and Demographic Research's demographic forecast plus one percent (per student funds for new enrollment are based on the current average funding amount per student). **The projection contemplates a projected five percent annual increase in student tuition.** Amounts are also provided for the phase-in of new physical space (approximately $6.7 million annually), and phase-in of baccalaureate programs at twice the demographic forecast. In addition, the amount of $41.8 million is projected annually to match private donations through the operating challenge grant program, based on historical averages. A restoration of non-recurring funds is provided in each year for grant programs and special projects, based on 33% of a four year historical average of appropriations. Aside from the listed funding estimates and tuition increases, no additional funds are provided for other operating enhancements.



State Universities – Funds are provided to fund enrollment growth based on the Office of Economic and Demographic Research's demographic forecast plus one percent (per student funds for new enrollment are based on the current average funding amount per student). **The projection contemplates a five percent annual increase in student tuition.** New funding is also provided to continue the phase-in of the FIU and UCF medical schools, and the FAU-UM Medical Partnership. The amount of $63.2 million is projected annually to match private donations through the operating challenge grant program, based on historical averages. A restoration of non-recurring funds is provided in each year for grant programs and special projects, based on 33% of a four year historical average of appropriations. Aside from the listed funding estimates and tuition increases, no additional funds are provided for other operating enhancements.



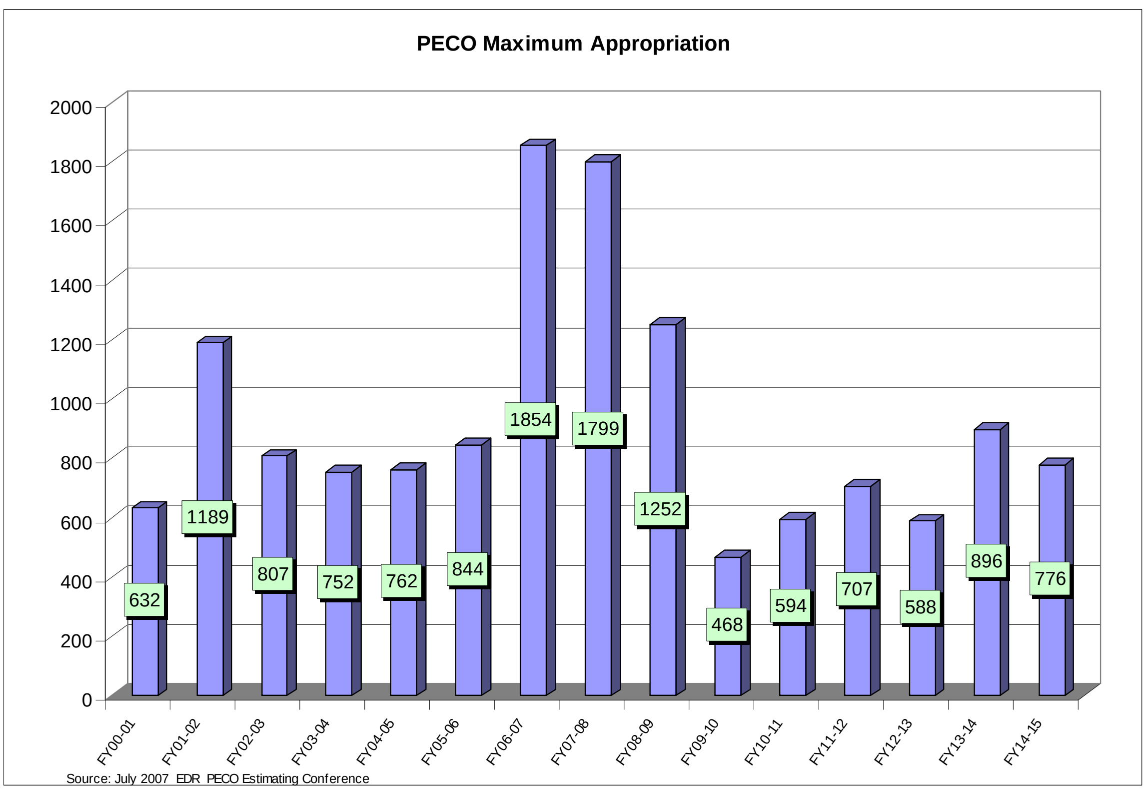
Early Learning (Voluntary Prekindergarten Program) – For the Voluntary Prekindergarten Program, the budget projections provide an additional $87 million for the three year period. This increase is a result of the following adjustments: 1) use of a 90% payout rate which is based on 2006-07 experience (87.5%), (2) an annual base student allocation increase based on the CPI, and (3) enrollment increases determined by the July 2007 Early Learning Programs Estimating Conference. Enrollment over the three year period is estimated to increase by 31,676 students. The participation rate for 4-year olds is expected to reach 71.1% by 2010-11.

Other Education – Funding is provided for Bright Futures growth incorporating projected tuition increases of five percent for Community Colleges and State Universities. No increase in the Florida Resident Access Grants or Access to Better Learning and Education Grant Program is projected although non-recurring funds are replaced, keeping the program level with the Fiscal Year 2007-08 appropriation. The EETF dollars for need-based financial aid are replaced with general revenue, also keeping the program level with the Fiscal Year 2007-08 appropriation.

Fixed Capital Outlay (FCO)

University and Community College Challenge Grants: The three year plan assumes general revenue will be needed to fund challenge grants in Fiscal Years 2008-2009 through 2010-2011. Annual funding is based on historical averages for the past three years for both the Community College Facilities Challenge Grant Program ($36.4 million) and the State University Facility Challenge Grant Program ($38.8 million).

Public Education and Capital Outlay (PECO): The maximum appropriation available for Public Education and Capital Outlay (PECO) is officially estimated from bond proceeds and cash available from a 2.5% tax on gross receipts from the sale of electricity, gas, and co-generated electrical power transmission, and a 2.3% tax on the sale of communication services established in s. 203.01, Florida Statutes. These revenues have been earmarked by constitutional amendment for fixed capital outlay needs of public schools, community colleges and universities. The State Constitution also authorizes the issuance of bonds for public education and capital outlay construction. Funding for PECO appropriations for Fiscal Years 2008-2009 through 2010-2011 is assumed to be at the level projected by the PECO estimating conference held on July 26, 2007 (see chart below). There is no additional FCO funding provided for class size reduction in this forecast because it is unclear what policy decisions the Legislature will make, including various options to fund the construction of new classrooms or to require districts to use existing facilities more efficiently to meet the constitutionally mandated class size levels.



OTHER CONSIDERATIONS

The Long-Range Financial Outlook is based on events that are known or likely to occur. However, there are some risks that would significantly alter key assumptions were they to come to pass. Some of those risks and their potential ramifications are as follows:

- Other than the amount currently authorized, there are no additional funds in the Outlook to build added classrooms for Class Size Reduction (CSR). The need for new classrooms is partly dependent upon legislative policy regarding the utilization of existing public school facilities. For example, if school districts are required to redraw attendance zones or institute other facility utilization strategies, few if any additional classrooms may be needed. On the other hand, if current facility utilization practices are not changed, additional funding may be required. This need varies based on whether the Legislature maintains an equity-based formula for the distribution of appropriations related to CSR construction costs, unexpected fluctuations in student enrollment, and the amount of local funds used to pay for growth.

- Both the Educational Enhancement Trust Fund and the Principal State School Trust Fund face projected deficits for the 2007-08 fiscal year. The Outlook assumes that the deficits will be resolved in the upcoming special session in accordance with constitutional and statutory requirements. Depending on the specific solutions chosen, the Outlook for these funds may be altered in the subsequent years.

- Following “current-law, current-administration” guidelines for the development of this document, the Outlook makes no assumptions regarding the passage of the Florida Legislature’s proposed constitutional amendment entitled “Ad Valorem Property Taxation: Assessments, Exemptions, Limitations, and Homesteads.”

- The Outlook is based on a limited number of major cost drivers. Historically, the Legislature has funded many other issues in addition to these drivers. Consequently, the expenditure projections in the Outlook may be conservative.

General Appropriations Act Section 3 - Human Services

Expenditure projections ($ millions)

Recurring	2007-08	2008-09	2009-10	2010-11
General Revenue	7,737.8	8,412.4	8,994.6	9,617.6
change		674.6	582.3	622.9
% change		8.7%	6.9%	6.9%
Tobacco Settlement TF	447.8	459.1	465.3	471.9
change		11.3	6.2	6.6
% change		2.5%	1.4%	1.4%

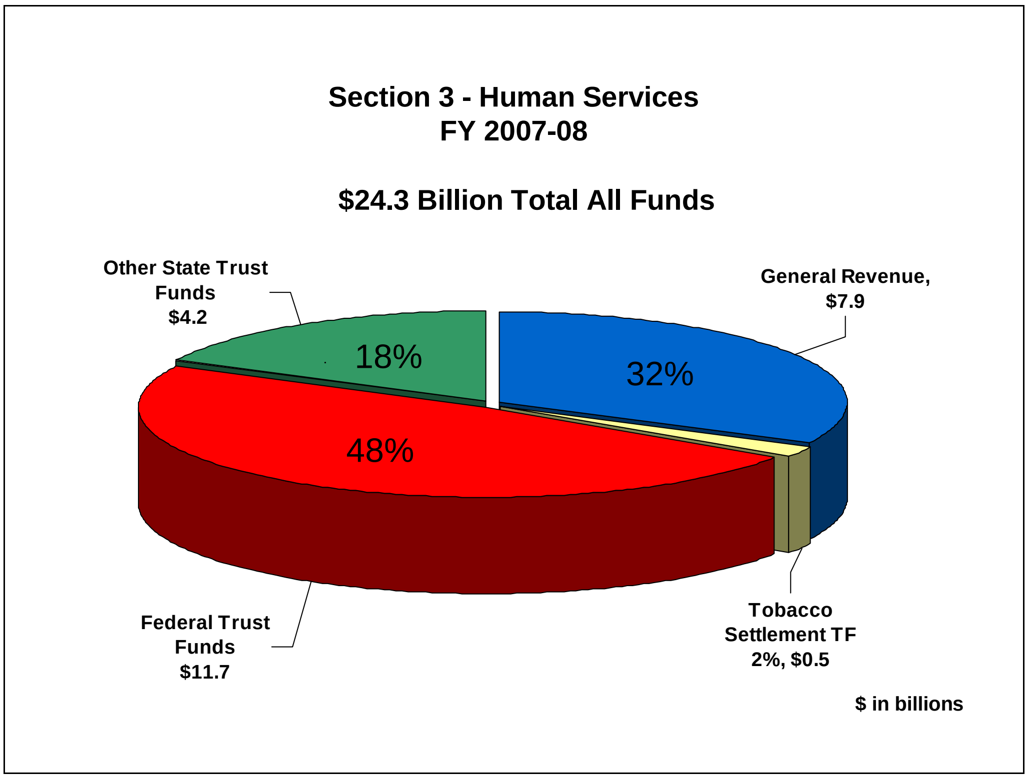
Nonrecurring	2007-08	2008-09	2009-10	2010-11
General Revenue	130.0	104.1	45.6	42.2
change		-25.9	-58.5	-3.4
Tobacco Settlement TF	54.6	0.0	0.0	0.0
change		-54.6	0.0	0.0

TOTAL	2007-08	2008-09	2009-10	2010-11
General Revenue	7,867.8	8,516.5	9,040.2	9,659.8
change		648.7	523.8	619.5
% change		8.2%	6.1%	6.9%
Tobacco Settlement TF	502.4	459.1	465.3	471.9
change		-43.3	6.2	6.6
% change		-8.6%	1.4%	1.4%

SECTION 3 – HUMAN SERVICES

<u>SUMMARY</u>

The Human Services section of the General Appropriations Act includes the following agencies: Agency for Health Care Administration; Agency for Persons with Disabilities; Department of Children and Family Services; Department of Elder Affairs; Department of Health; and Department of Veterans' Affairs. These agencies are funded with a combination of state general revenue, tobacco trust funds, federal funds, private grants and state trust funds. Many health and human services programs are eligible to earn federal matching funds. Maximization of federal funds has been a state priority for many years; however, it is important to note that most federal funding requires state matching funds, and therefore, total federal receipts vary based on the availability of state match. Of the $24.3 billion total budget for Fiscal Year 2007-08, $7.9 billion is funded from state general revenue, $502.5 million is funded from the Tobacco Settlement Trust Fund, $4.2 billion is funded from other state trust funds and $11.7 billion is funded from federal trust funds.



Source: Actual Appropriations for Fiscal Year 2007-2008 Adjusted for Supplementals and Vetoes

The three year plan projects increases in recurring general revenue spending for Human Services of $674.6 million (+8.7%) in Fiscal Year 2008-09; $582.3 million (6.9%) in Fiscal Year 2009-10; and $622.9 million (+6.9%) in Fiscal Year 2010-11.

In addition to these recurring increases, nonrecurring General Revenue of $104.1 million is projected to be needed in FY 2008-09; $45.6 million in FY 2009-10; and $42.2 million in FY 2010-11.

ASSUMPTIONS AND DISCUSSION OF MAJOR BUDGET DRIVERS

General – Projected health and human services budget requirements from general revenue and other state and federal trust funds have been developed for the 2008-09, 2009-10 and 2010-11 fiscal years by adjusting the Fiscal Year 2007-08 funding levels based on workload assumptions and other factors. The financial outlook includes additional funding based on the following assumptions.

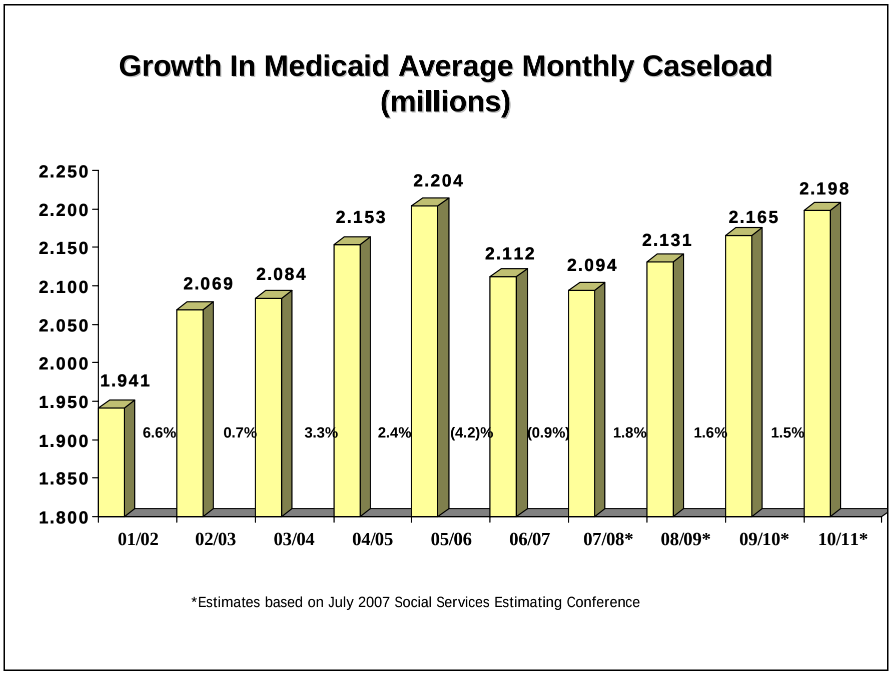
1) The projections for Medicaid, KidCare, and Temporary Assistance for Needy Families (TANF) cash assistance are determined annually through formal estimating conferences, which project caseloads and program costs.

2) Historical funding averages were used to project future appropriations for Fiscal Years 2008-09 through 2010-11 for all other health and human services programs.

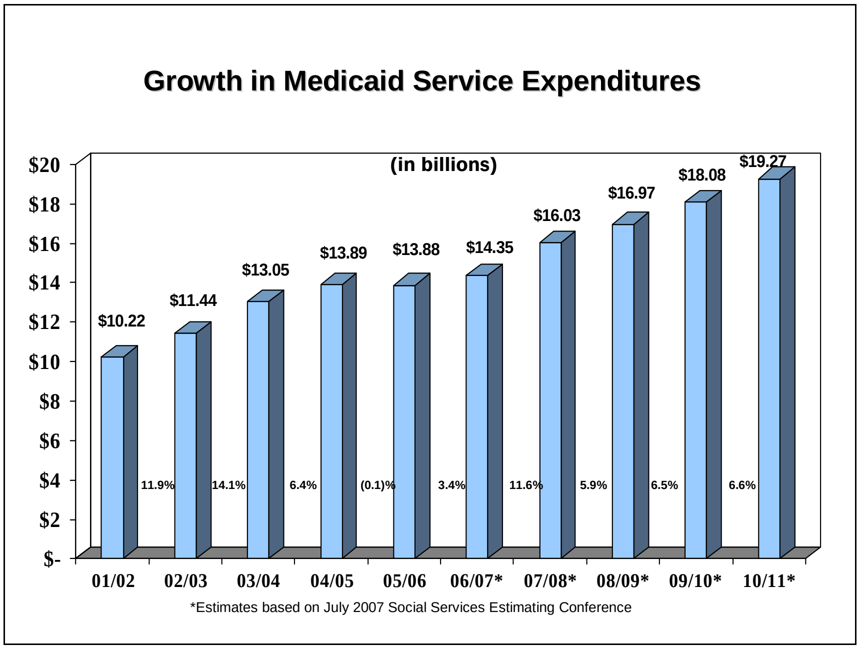
3) The projections fully obligate the recurring Tobacco Settlement funds determined through the estimating conference before budgeting additional general revenue funds.

Medicaid Program – The Medicaid program (Title XIX of the Social Security Act) provides health care coverage to certain persons who qualify as low-income elderly, disabled, or families with dependent children. Medicaid is a federal and state matching program. The state participation for Florida is 43.09% and the federal participation is 56.91% for Fiscal Year 2007-08. Medicaid is the second largest single program in the state budget behind public education, representing 22.2% of the total budget, and is the largest source of federal funding for the state. Medicaid recurring general revenue expenditures are consuming a growing share of recurring general revenue funds appropriated, increasing to 17.6% in Fiscal Year 2007-08.

Medicaid caseload has grown from 1.941 million in Fiscal Year 2001-02 to 2.204 million in Fiscal Year 2005-06, a 3.2% average annual increase. The enrollment growth was attributed to an increase in the number of low-income persons newly eligible for Medicaid, especially children and elders, resulting partially from the impact of a recession beginning in March 2001 and ending in November of that same year. Fiscal Year 2005-06 marked a slowing in Medicaid program enrollment growth to just 2.4%. Slower enrollment was mostly attributable to the improving economy resulting in fewer individuals becoming eligible for the program**.** Enrollment declined by 4.2% to 2.112 million recipients in Fiscal Year 2006-07 and is projected to decline by 0.9% to 2.094 million recipients in Fiscal Year 2007-08. The last time the program experienced a decline in enrollment was in the mid to late nineties. Over the three year forecast period, caseload growth is projected to be fairly stable with growth rates of 1.8% for Fiscal Year 2008-09, 1.6% for Fiscal Year 2009-10 and 1.5% for Fiscal Year 2010-11.



Medicaid expenditures grew at an average annual rate of 10.8% between Fiscal Year 2001-02 and Fiscal Year 2004-05. The primary factors contributing to expenditure growth were prescription drug costs, increasing costs of medical services, long-term care and enrollment growth. This growth persisted despite legislative efforts in implementing new Medicaid cost control measures primarily related to prescription drugs, freezing or reducing provider payment rates, and eliminating optional services. Medicaid expenditure growth declined in Fiscal Year 2005-06 and then increased in Fiscal Year 2006-07. The decline in expenditures in Fiscal Year 2005-06 was primarily due to slowing enrollment growth, savings attributable to the inclusion of mental health drugs on the Medicaid preferred drug list and implementation of Medicare Part D effective January 1, 2006. States are required to make monthly general revenue payments to the Medicare program under the maintenance of previous effort or "clawback" provision for Medicare/Medicaid dual eligibles. These payments are not matched with federal funds but are included in the total expenditures for the Medicaid program. Elderly and disabled Medicaid recipients account for an estimated 23% of the total caseload yet they account for almost 70% of Medicaid spending. This reflects the intensive use of acute and long-term care services by this eligibility group. The majority of nursing home residents rely on Medicaid support after the cost of their care exhausts their savings and they qualify for assistance. With a growing elderly population, it is critical to control long-term care spending. Over the three year forecast period, expenditure growth is projected to be fairly constant at 5.9% for Fiscal Year 2008-09, 6.5% for Fiscal Year 2009-10 and 6.6% for Fiscal Year 2010-11.



The 2005 Legislature enacted Chapters 2005-133 and 2005-358, Laws of Florida, which authorized implementation of a managed care pilot through approval of a federal Medicaid Reform waiver. The reform is aimed at developing a sustainable program that is predictable and provides greater flexibility for program participants. In September 2006, Florida implemented managed care pilots in Duval and Broward counties to provide risk-based capitation payments to health plans allowing for a more efficient and effective delivery system that enhances quality of care and client outcomes. The pilots expand to Baker, Clay and Nassau Counties in Fiscal Year 2007-08. The 2007 Legislature enacted Chapter 2007-82, Laws of Florida, requiring implementation of Senior Care, an integrated fixed-payment delivery program for Medicaid recipients 60 years of age or older and persons dually eligible for Medicare and Medicaid. The pilot program is to be implemented in Area 7 (Orange, Osceola, Seminole and Brevard counties) and Area 11 (Dade and Monroe counties) on a voluntary basis.

Major policy assumptions and projections for the forecast period are described below:

- The estimated costs for caseload growth, utilization and inflation were projected based on historical trends and methodologies used by the July 2007 Social Services Estimating Conference. The federal matching rate for Fiscal Year 2007-08 is 56.91% (down from 58.77% in FY 2006-07). The outlook uses the federal matching rate of 56.31% (a reduction of 0.6%) for state Fiscal Years 2008-09, 2009-10 and 2010-11. This reduction of federal support increases the need for general revenue funds and this impact is included in the estimates. The Fiscal

Year 2007-08 base budget has been adjusted to reduce $54.3 million of non-recurring general revenue funds related to the Low Income Pool and special payments to hospitals.

	FY 07-08	FY 08-09	FY 09-10	FY 10-11
Caseload	2,093,842	2,131,101	2,165,042	2,198,280
Increase		37,259	33,941	33,238
Percent		1.78%	1.59%	1.54%

	FY 07-08*	FY 08-09	FY 09-10	FY 10-11
Expenditures				
General Revenue	$4,847.6	$5,411.0	$5,900.3	$6,425.4
Increase		$563.4	$489.3	$525.1
Percent		11.62%	9.04%	8.90%

*Base budget adjusted for non-recurring funds.

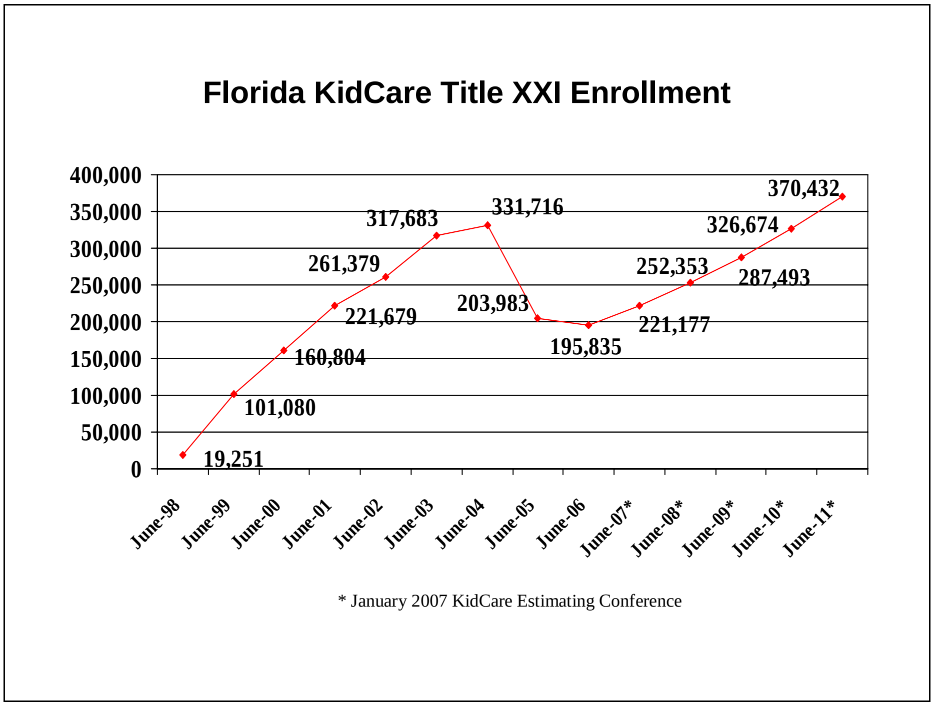
- The estimated costs also include an additional $50.0 million in non-recurring general revenue funds for Fiscal Year 2008-09 to continue funding the state match for the Low Income Pool program.

- Additional Medicaid state matching funds are budgeted in other health and human services departments. Estimates for these departments include an increase in general revenue funds for Fiscal Year 2008-09 to fund the reduction in the federal matching rate.

KidCare Program – KidCare is the state's children's health insurance program provided under the federal State Children's Health Insurance Program (SCHIP) - Title XXI of the Social Security Act. SCHIP is a federal and state matching program. The state participation for Florida is 29.88% and the federal participation is 70.12% for Fiscal Year 2007-08. Unlike Medicaid, KidCare is not an entitlement program and the federal allotment is capped. Florida's federal allotment for federal fiscal year 2007 is $296 million.

The KidCare program provides health insurance primarily targeted to uninsured low-income children under age 19 whose family income is at or below 200% of the federal poverty level ($41,300 for a family of four). The program consists of Medicaid for babies (birth to age 1); Medikids, a Medicaid look-alike program for pre-school children (ages 1 to 5); Florida Healthy Kids for school aged children (ages 5 to 19); and Children's Medical Services for children with special medical or behavioral health needs (from birth to age 19). The program is funded at $417.8 million in Fiscal Year 2007-08, of which $122.2 million is state matching funds ($34.7 million of general revenue and $87.5 million of tobacco settlement funds). The KidCare program also provides services to a limited number of non-Title XXI eligibles that includes legal non-citizens and families that pay the full premium.

KidCare enrollment increased steadily through Fiscal Year 2003-04. The 2004 Legislature passed legislation limiting enrollment to open enrollment periods and required additional documentation of family income. As a result of these changes, enrollment in the program declined. The 2005 Legislature restored authority for enrollment to occur throughout the year. The Title XXI caseload as of August 2007 is 225,598 (there are 27,308 additional children enrolled in the program who are non-Title XXI eligible).



Major policy assumptions and projections for the forecast period are described below:

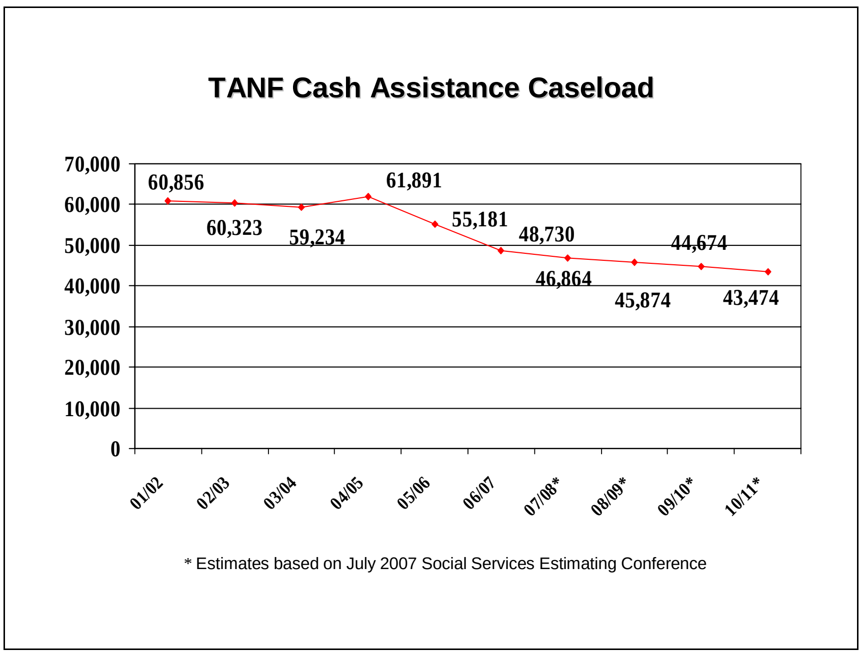
- The estimated costs for caseload growth, utilization and inflation were projected based on historical trends and methodologies used by the January 2007 Social Services Estimating Conference. Caseloads reflect enrollment for the month of June for each fiscal year. The federal matching rate for Fiscal Year 2007-08 is 70.12% (down from 71.13% in FY 2006-07). The outlook uses a federal matching rate of 69.78% (a reduction of 0.34%) for state fiscal years 2008-09, 2009-10 and 2010-11. The impact of this reduction increased the need for general revenue funds and has been included in the workload estimates.

	FY 07-08	FY 08-09	FY 09-10	FY 10-11
Caseload	252,353	287,493	326,674	370,432
Increase		35,140	39,181	43,758
Percent		13.92%	13.63%	13.40%

	FY 07-08	FY 08-09	FY 09-10	FY 10-11
Expenditures				
State Funds	$122.2	$153.1	$187.1	$226.4
Increase		$30.9	$34.0	$39.3
Percent		25.29%	22.21%	21.00%

- Reauthorization – The estimates assume that the federal government will reauthorize the SCHIP program beyond federal fiscal year 2007. Future federal allotments have been estimated at the federal fiscal year 2007 allotment level. Sufficient carry forward funds are available from the 2007 and 2008 federal allotments to fund the program through federal fiscal years 2008-09 and 2009-10. Absent an increase in the federal allotment, sufficient federal funds **are not** available to fund estimated expenditures in Fiscal Year 2010-11.

Temporary Assistance for Needy Families - The welfare reform legislation of 1996 ended the federal entitlement to assistance and created the Temporary Assistance for Needy Families (TANF) block grant that provides assistance and work opportunities to needy families. Florida's federal block grant allotment is $622.7 million for FY 2007-08. The TANF block grant has an annual cost-sharing requirement referred to as maintenance of effort or MOE. Florida is required annually to spend a minimum of $368.4 million of state funds to help eligible families in ways consistent with the TANF program. Florida's cash assistance caseload has declined from 184,554 in Fiscal Year 1996-97 to an estimated 46,864 in Fiscal Year 2007-08.



Major policy assumptions and projections for the forecast period are described below:

- Estimates for cash assistance were projected based on historical trends and methodologies used by the July 2007 Social Services Estimating Conference.

	FY 07-08	FY 08-09	FY 09-10	FY 10-11
Caseload	46,864	45,874	44,674	43,474
Increase/Decrease		(990)	(1,200)	(1,200)
Percent		-2.11%	-2.62%	-2.69%

	FY 07-08	FY 08-09	FY 09-10	FY 10-11
Expenditures				
Total Funds	$152.8	$154.0	$151.4	$148.9
Increase/Decrease		$1.2	($2.5)	($2.5)
Percent		0.79%	-1.62%	-1.65%

Tobacco Constitutional Amendment - A constitutional amendment passed on the November, 2006 ballot requiring the Florida Legislature to annually fund a comprehensive, statewide tobacco education and prevention program, using tobacco settlement money to primarily target youth and other at-risk Floridians. Annual funding is required to be 15% of the 2005 Tobacco Settlement payments to Florida, adjusted annually for inflation. The amount required to be appropriated was $57.9 million for Fiscal Year 2007-08. The 2007 Legislature enacted 2007-65, Laws of Florida (SB 1126), that implements s. 27, Art. X of the State Constitution. The bill requires the Department of Health to implement the tobacco program, creates the Tobacco Education and Use Prevention Advisory Council, requires the competitive award of contracts or grants and requires the Area Health Education Center (AHEC) network to expand the current smoking cessation initiative to each county.

Major policy assumptions and projections for the forecast period are described below:

- The estimated expenditures were increased by applying the Consumer Price index from the February 2007 National Economic Estimating Conference.

	FY 07-08	FY 08-09	FY 09-10	FY 10-11
Expenditures	$57.9	$58.8	$60.1	$61.4
Increase		$0.9	$1.3	$1.3
Percent		1.55%	2.21%	2.16%

Tobacco Settlement Trust Fund – The revenue estimates were projected based on historical trends and methodologies used by the February 2007 Revenue Estimating Conference. The estimates fully obligate the recurring tobacco settlement funds.

	FY 07-08	FY 08-09	FY 09-10	FY 10-11
Revenue (Recurring)	$447.8	$459.1	$465.3	$471.9
Expenditures	$447.8	$459.1	$465.3	$471.9
Increase	$0.0	$11.3	$6.2	$6.6

Developmentally Disabled Services – Projections for developmentally disabled services are based on a four year historical funding average (FY 2004-05 through FY 2007-08) of increased recurring funds provided for the Home and Community-Based Waiver.

Children and Families Services –Projections for child welfare, substance abuse, mental health and adult protection services are based on historical funding averages.

Health Services – Projections for health services, including the elderly, are based on historical funding averages.

Capital Improvement/Maintenance and Repairs – Projections are based on a four year historical funding average (FY 2004-05 through FY 2007-08) of maintenance and repair costs for state-owned facilities, county health departments and rural hospitals. Operational costs for the Veterans' Nursing Home in St. Johns County were based on start-up costs for the Bay County Nursing Home.

Other – Projections are based on historical averages and include costs for information technology and infrastructure, re-engineering costs for certain information systems and community projects.

OTHER CONSIDERATIONS

The Long-Range Financial Outlook is based on events that are known or likely to occur. However, there are some risks that would significantly alter key assumptions were they to come to pass. One of those risks and its potential ramifications is as follows:

- The Outlook assumes that the federal government will reauthorize the SCHIP program at its current funding levels. If the federal government does not reauthorize the program or reduces the level of funding, significant state funds may have to be used to continue the program. Absent an increase in the federal allotment, sufficient federal funds **are not** available to fund estimated expenditures in Fiscal Year 2010-11.

General Appropriations Act Section 4 - Criminal Justice/Corrections

Expenditure projections ($ millions)

Recurring	2007-08	2008-09	2009-10	2010-11
General Revenue	3,631.7	3,789.6	3,915.3	4,034.4
change		158.0	125.7	119.1
% change		4.3%	3.3%	3.0%

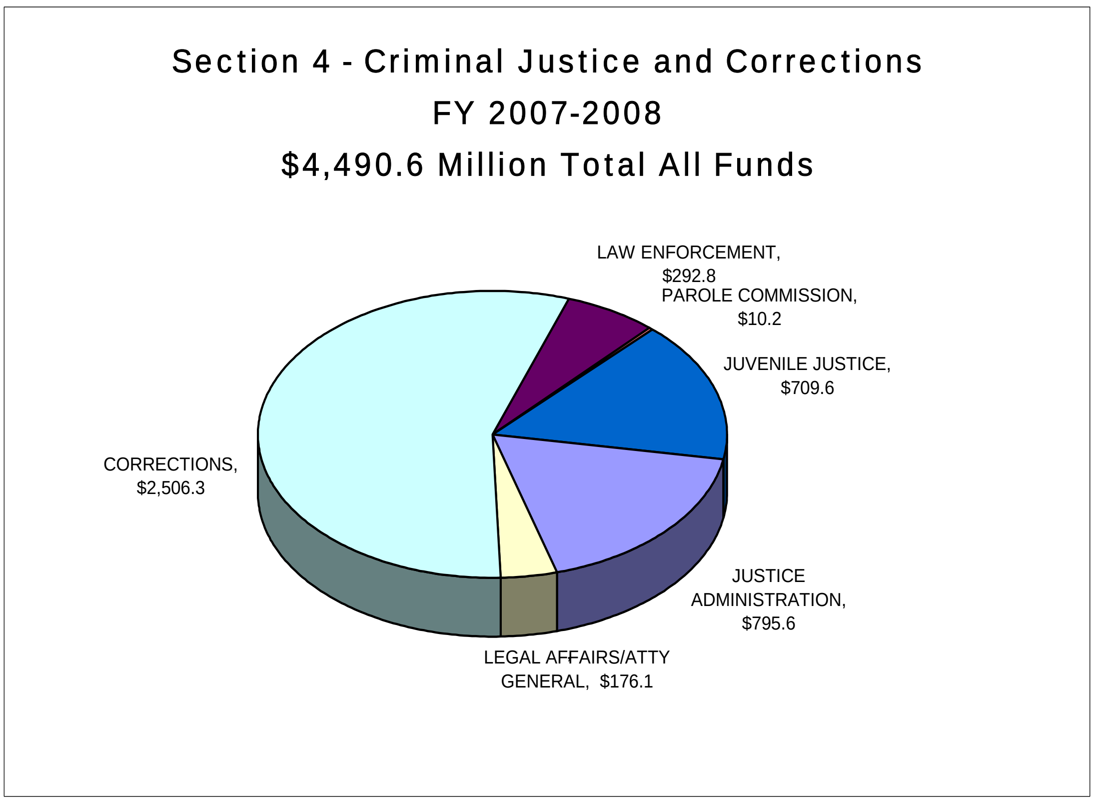
Nonrecurring	2007-08	2008-09	2009-10	2010-11
General Revenue	264.8	235.1	252.1	158.2
change		-29.7	17.0	-93.9

TOTAL	2007-08	2008-09	2009-10	2010-11
General Revenue	3,896.4	4,024.7	4,167.4	4,192.7
change		128.3	142.7	25.2
% change		3.3%	3.5%	0.6%

SECTION 4 –CRIMINAL JUSTICE AND CORRECTIONS

SUMMARY

Section 4 of the General Appropriations Act (GAA) includes funding for the Department of Corrections, the Department of Legal Affairs, the Department of Law Enforcement, the Department of Juvenile Justice, the Parole Commission, and Justice Administration. For Fiscal Year 2007-08, the Legislature appropriated a total of $4.5 billion in general revenue and trust funds to these agencies. The following chart displays the appropriations by agency.



Source: Actual Appropriations for Fiscal Year 2007-2008 Adjusted for Supplementals and Vetoes

The three year plan projects increases in recurring general revenue spending for Criminal Justice and Corrections of $158.0 million (+4.3%) in Fiscal Year 2008-09; $125.7 million (3.3%) in Fiscal Year 2009-10; and $119.1 million (+3.0%) in Fiscal Year 2010-11.

In addition to these recurring increases, nonrecurring General Revenue of $235.1 million is projected to be needed in FY 2008-09; $252.1 million in FY 2009-10; and $158.2 million in FY 2010-11.

ASSUMPTIONS AND DISCUSSION OF MAJOR BUDGET DRIVERS

General - The financial outlook includes additional funding based on the following assumptions:

1) Increases in the Department of Corrections are based on the projected increase in the prison population as estimated by the Criminal Justice Estimating Conference. These increases include both recurring general revenue for operational costs and non-recurring general revenue for building new prison beds.

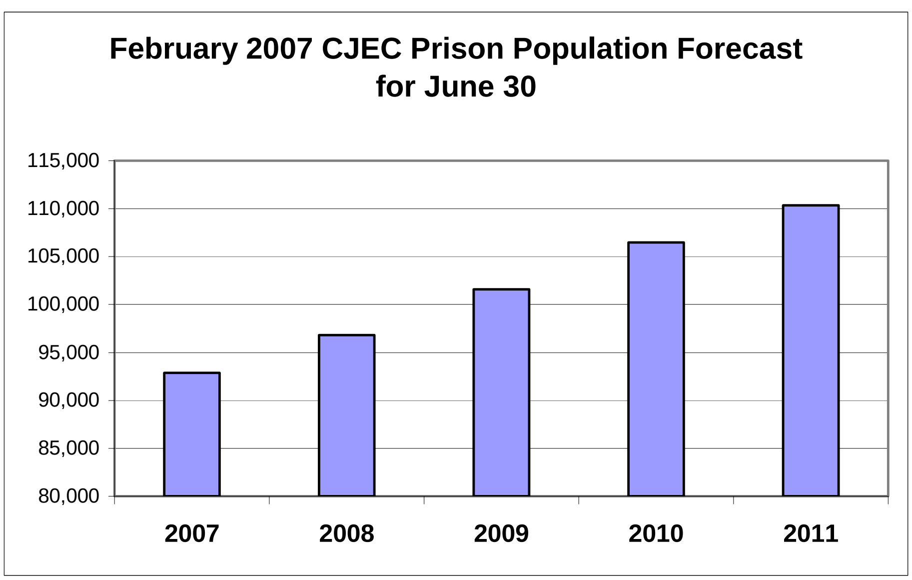
2) Funding increases for maintenance and repair of Department of Corrections and the Department of Juvenile Justice facilities are based on the average increase in appropriations over the past 10 years.

3) Funding increases in the state attorney and public defender areas to account for increased caseloads are based on the average appropriations over the past 10 years and grow each year based on the average caseload growth in the court system over the past 10 years.

4) Increases to the prevention and intervention programs as well as increases in private provider rates in the Department of Juvenile Justice are based on the average increase in appropriations over the past 10 years.

5) Increases to the cost of assisting fiscally constrained counties pay juvenile detention costs are based on the consumer price index.

Corrections – The Criminal Justice Estimating Conference estimates an increase of approximately 13,851 inmates in Florida's prison population by the end of Fiscal Year 2010-2011. Major cost drivers for the Department of Corrections (DOC) include operational costs for care of the projected additional inmate population and construction for the projected increased capacity.



Increase in Criminal Justice Estimating Conference Population - Operational cost drivers include security and institutional operations, health services, and educational and substance abuse programs for incarcerated inmates. Eighty-four percent of the department's Fiscal Year 2007-2008 total operating budget provided for the operational costs associated with providing secure housing and care of inmates. To calculate projected costs, a baseline average daily per-diem rate was calculated using Fiscal Year 2007-08 appropriations for Security/Institutional Operations, Health Services, Education and Programs, and then divided by the average end of month populations for the year. The average daily per-diem rate was then applied to the projected increase in inmates anticipated over the next three fiscal years. These three-year projections include a price level adjustment based on the national average of the consumer price index (CPI). The national CPI is estimated at nearly two percent for each of the next three years.

Fixed Capital Outlay (FCO) – Increased Capacity – Three-year FCO funding projections for the Department of Corrections include funding for construction of new facilities to meet an increased capacity of approximately 13,851 inmates, as estimated by the Criminal Justice Estimating Conference. These projections also include funding for debt service payments, as well as planning, development and permitting for future facilities.

The FCO funding projection of $188.9 million for Fiscal Year 2008-09 includes:

- $63.3 million as a final appropriation to complete construction of the 1,335 bed annex begun the previous year;
- $2.0 million for renovation of Desoto Correctional Institution, a 1,213 bed facility to open by January 2010;
- $34.0 million to replace existing secure housing units and dorms at Mayo and Lancaster;
- $30.0 million to construct 1,008 work camp dorm beds at 3 existing institutions;
- $8.0 million for debt service of work camps and work release center construction from previous fiscal year; and
- $51.6 million for planning, development and permitting for new annexes to come on line January 2011, April 2011, and January 2012.

The FCO funding projection of $215.6 million for Fiscal Year 2009-10 includes:

- $183.0 million for 3 new 1,335 bed annexes to come on line January 2011, April 2011, and January 2012;
- $11.0 million for 3 work camp dorms; and
- $21.6 million for land acquisition, planning development and permitting for a new institution which should open by March 2012.

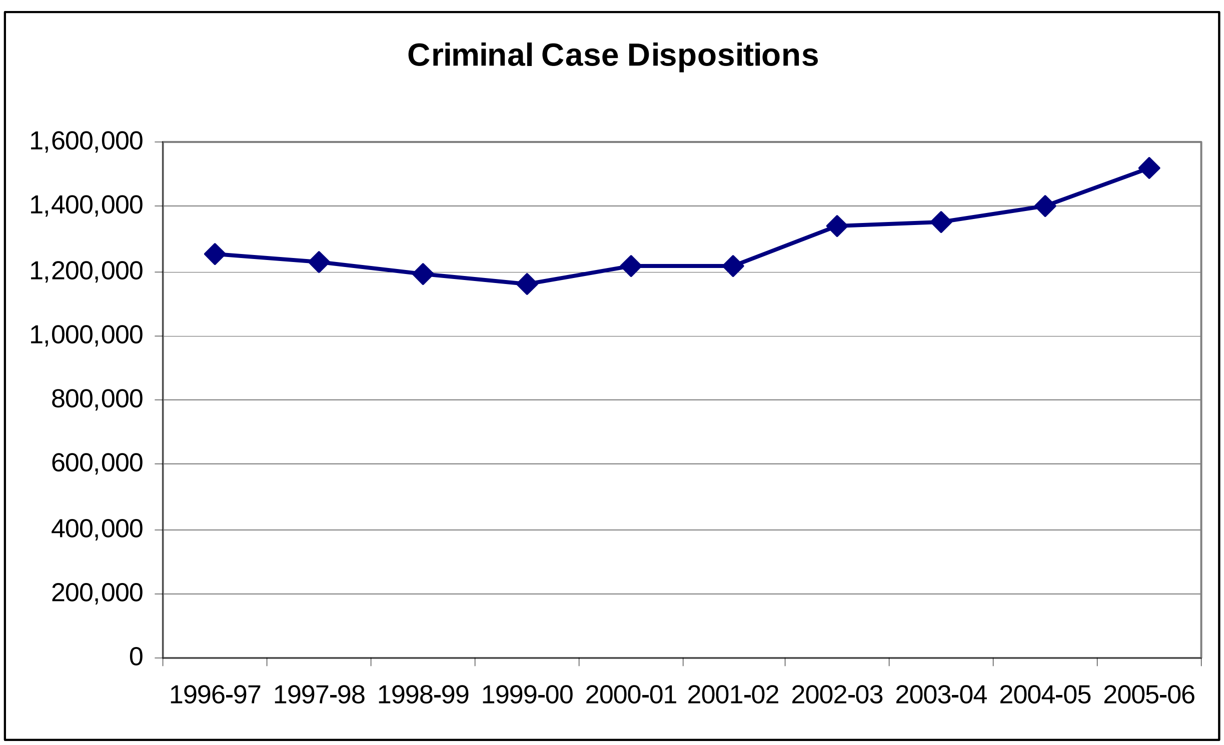
The FCO funding projection of $121.6 million for Fiscal Year 2010-11 includes:

- $100.0 million for a new 1,335 bed correctional institution to come on line March 2012; and
- $21.6 million for planning, development and permitting for new annexes or institutions.

DOC Workload and Services - When resources have been available in past years, the Legislature provided additional funding for Department of Corrections (DOC) to increase educational, transitional, and substance abuse programs as well as provide price level increases for food services and other needs. Further, because the health services program is particularly vulnerable to escalating costs due to increased utilization of community hospital and ambulatory care in emergency situations, as well as increased drug costs, the Legislature has traditionally provided additional funding for the health services program. Future funding projections for DOC workload and services have been based on a 10-year appropriations average.

Other FCO – Maintenance and Repair - The Department of Corrections (DOC) is responsible for the upkeep and care of over 135 facilities statewide, which include correctional institutions, work camps, work release centers and road prisons. Approximately 30 percent of DOC's facilities are 30 years or more old. The Legislature recognizes the importance of keeping its facilities safe and functional by funding repair and maintenance needs. Future funding projections for the repair and maintenance of these facilities have been based on a 10-year appropriations average.

Justice Administrative Commission - While the total number of criminal and civil case dispositions has increased steadily, the criminal case dispositions dropped slightly in the 1990's before increasing since fiscal year 2001-02. The growth of criminal cases as well as the establishment of new judges and court rooms creates a need for new staff for the state attorney and public defender offices and increases the cost of processing cases.



Due Process Costs - Due process costs are defined here as attorney fees, court reporting costs, the cost of expert witnesses and the travel cost of regular witnesses for indigent persons involved in the state court system. Under Revision 7 to Article V of the Florida Constitution, the cost of these services became the responsibility of the state beginning in Fiscal Year 2004-05. The most costly service involves the payment of attorney fees for private court appointed counsel for criminal defendants when the public defender cannot represent them due to an ethical conflict and for indigent parents involved in state instituted dependency proceedings. Since fiscal year 2004-05, the state continued the existing system of using private attorneys appointed locally from a registry. Starting October 1, 2007, five new regional conflict counsel offices made up of attorneys will provide legal representation in the majority of these cases.

The due process costs in the plan are primarily made up of the liability of old cases that were started before July 1, 2007, but yet to be paid. The amount of the liability is unknown, but was estimated to be $64 million for the purposes of this plan and is expected to be paid out as follows: $32 million for 2007-08, $22 million in 2008-09, and $10 million in 2009-10. These costs have been difficult to predict and actual expenditures could vary considerably from these estimates. Also included in the due process costs is a growth of $500,000 per year for the cases under the new system that will continue to go to the private attorneys after implementation of the new regional conflict counsel offices.

State attorney, public defender, and regional conflict counsel workload - With increased caseloads, additional staff are needed in the state attorney offices, public defender offices, and the new regional conflict counsel offices. Over the last ten years, the Legislature has provided an average of $6.4 million per year increase for the increased state attorney and public defender workload. An additional $200,000 was added for the new regional conflict counsel offices. To account for increased caseload growth, the resulting $6.6 million per year was increased by the average growth in dispositions of criminal and civil cases (4.75 percent).

Juvenile Justice – The Prevention and Intervention Programs in the Department of Juvenile Justice (DJJ) are considered “front-end” services that aim to divert juveniles from institutional or “deep-end” services. The majority of these programs are implemented by local community providers that normally have a better understanding of which programs are the most effective in diverting youths from residential programs. The Legislature has increased front-end services to reduce the need for more costly deep-end services over the past few years. Future funding projections for these programs have been based on a 10-year appropriation average.

Currently, DJJ contracts with approximately 165 different private providers, which deliver over $300 million in program services statewide. In order to ensure that these private providers are delivering efficient and effective programs and services, the Legislature in the past has funded price-level increases for these providers. Future funding projections for a private provider per-diem increases have been based on a 10-year appropriation average.

DJJ is responsible for the upkeep and care of a large number of facilities statewide. A majority of these facilities operate residential programs that house youths twenty-four hours for seven-days a week. With this demand, the Legislature recognizes the importance of keeping these facilities safe and functional for the youths who receive services by funding the repair and maintenance needs for DJJ's facilities. Future funding projections for repair and maintenance for these facilities have been based on a 10-year appropriation average.

The 2004 Legislature passed Senate Bill 2564 (Chapter 2004-263, Laws of Florida) that requires joint financial participation of the state and counties in the provision of juvenile detention. Costs allocated to counties are associated with the time juveniles from those counties spend in detention before being adjudicated. Costs allocated to the state are associated with the time spent in detention by any juvenile who has no known residence, whose residence is out of state, or who has been adjudicated. The bill also recognized that this will be a burden on counties that are designated as a "fiscally constrained county" as defined as a rural area of critical economic concern under s. 288.0656, F.S. Therefore, under these economic conditions, and subject to appropriation, the state provides grants funds to the thirty counties identified as fiscally constrained. Due to the limited number of fiscal years for which data is available, future funding projections for juvenile detention costs for fiscally constrained counties are increased by the consumer price index (CPI) for the next three years based on the appropriations for fiscal year 2007-08.

OTHER CONSIDERATIONS

The Long-Range Financial Outlook is based on events that are known or likely to occur. However, there are some risks that would significantly alter key assumptions were they to come to pass. One of those risks and its potential ramifications is as follows:

- The end-of-month prison population counts for February through June 2007 were extremely close (or below) the February 2007 projections; however, both admissions and the end-of-month prison population for July and August 2007 exceeded projections. Should this trend continue, the prison population forecast will be increased, requiring funding for additional beds.

General Appropriations Act Section 5 - Natural Resources /Environment/Growth Management/Transportation

Expenditure projections ($ millions)

Recurring	2007-08	2008-09	2009-10	2010-11
General Revenue	234.3	234.3	234.3	234.3
change		0.0	0.0	0.0
% change		0.0%	0.0%	0.0%

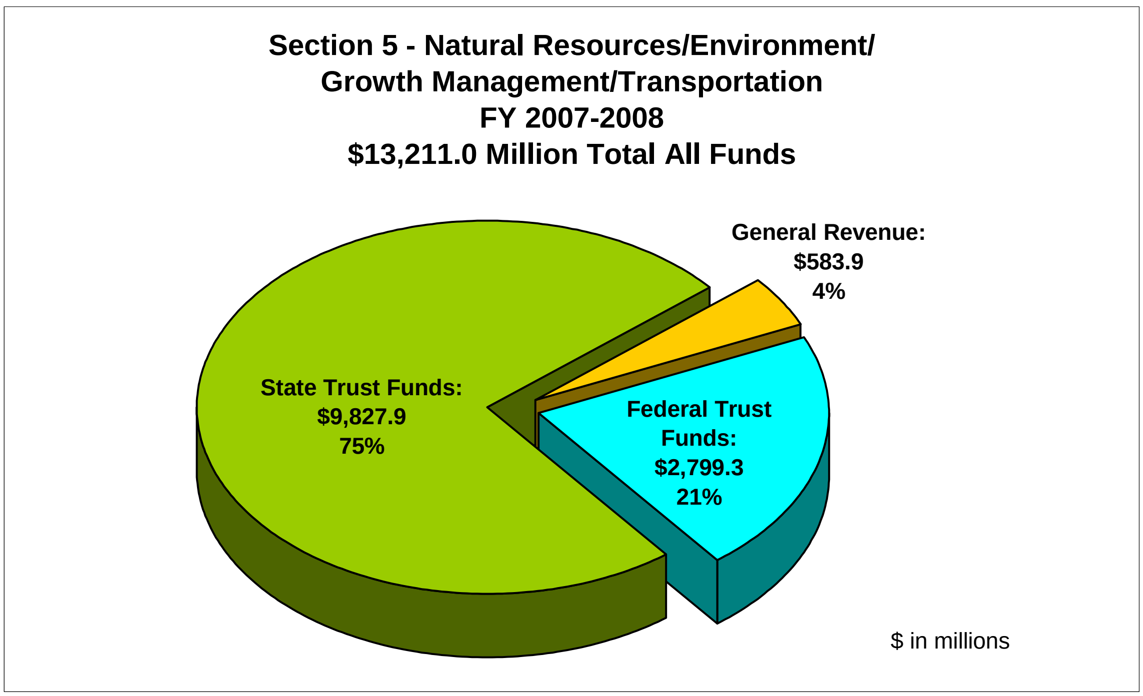
Nonrecurring	2007-08	2008-09	2009-10	2010-11
General Revenue	349.5	254.5	242.1	316.9
change		-95.0	-12.4	74.8

TOTAL	2007-08	2008-09	2009-10	2010-11
General Revenue	583.9	488.9	476.5	551.3
change		-95.0	-12.4	74.8
% change		-16.3%	-2.5%	15.7%

SECTION 5 – NATURAL RESOURCES, ENVIRONMENT, GROWTH MANAGEMENT, AND TRANSPORTATION

SUMMARY

The Natural Resources, Environment, Growth Management and Transportation section of the General Appropriation Act includes the following agencies: Department of Agriculture and Consumer Services, Department of Community Affairs, Department of Environmental Protection, Fish and Wildlife Conservation Commission, and Department of Transportation. These agencies are funded with a combination of state general revenue, federal funds, and state trust funds. Of the $13.2 billion total budget for the 2007-2008 fiscal year, only four percent or $584 million is funded from state general revenue. The majority of funds are derived from state trust fund sources. Seventy-five percent or $9.8 billion is from state trust fund sources and $2.8 billion or 21 percent is from federal funds.



Source: Actual Appropriations for Fiscal Year 2007-2008 Adjusted for Supplementals and Vetoes

The three year plan projects no increases in recurring general revenue spending for Natural Resources, Environment, Growth Management and Transportation. Fiscal Years 2008-09, 2009-10, and 2010-11 are projected to continue at the Fiscal Year 2007-08 levels of $234.3 million.

However, nonrecurring General Revenue of $254.5 million is projected to be needed in FY 2008-09; $242.1 million in FY 2009-10; and $316.9 million in FY 2010-11.

ASSUMPTIONS AND DISCUSSION OF MAJOR BUDGET DRIVERS

General – The financial outlook includes additional funding based on the following assumptions:

1) Historical funding averages were used to project future non-recurring appropriations for Fiscal Years 2008-09 through 2010-11.

2) Trust fund resources were maximized in lieu of providing additional general revenue to support ongoing programs.

3) Programs supported from the documentary stamp tax revenues are based on the distribution of funds provided in Section 201.15, Florida Statutes.

4) The most recent financial data from the Department of Environmental Protection was used to estimate the costs of the ongoing cleanup of the Mulberry/Piney Point phosphate sites.

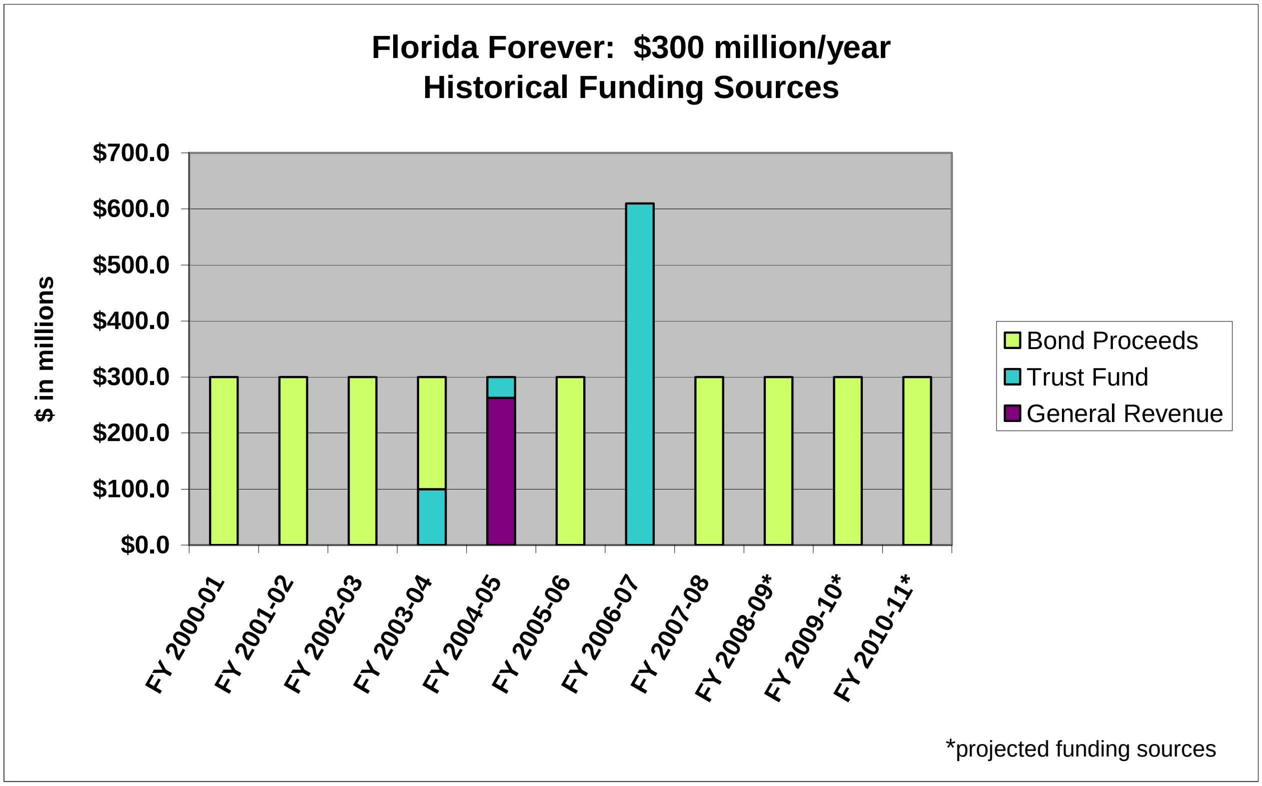
5) Federal funds were maximized with state general revenue or trust fund resources as match for the Drinking and Wastewater Revolving Loan programs.

6) The Department of Transportation's (DOT) Tentative Five-Year Work Program, adopted by the 2007 Legislature was used for Fiscal Years 2008-2009 through 2010-2011. It does not include changes in work program commitments subsequent to the adoption of the Tentative Work Program by the 2007 Legislature. These changes will be programmed into the work program in February 2008 for legislative consideration.

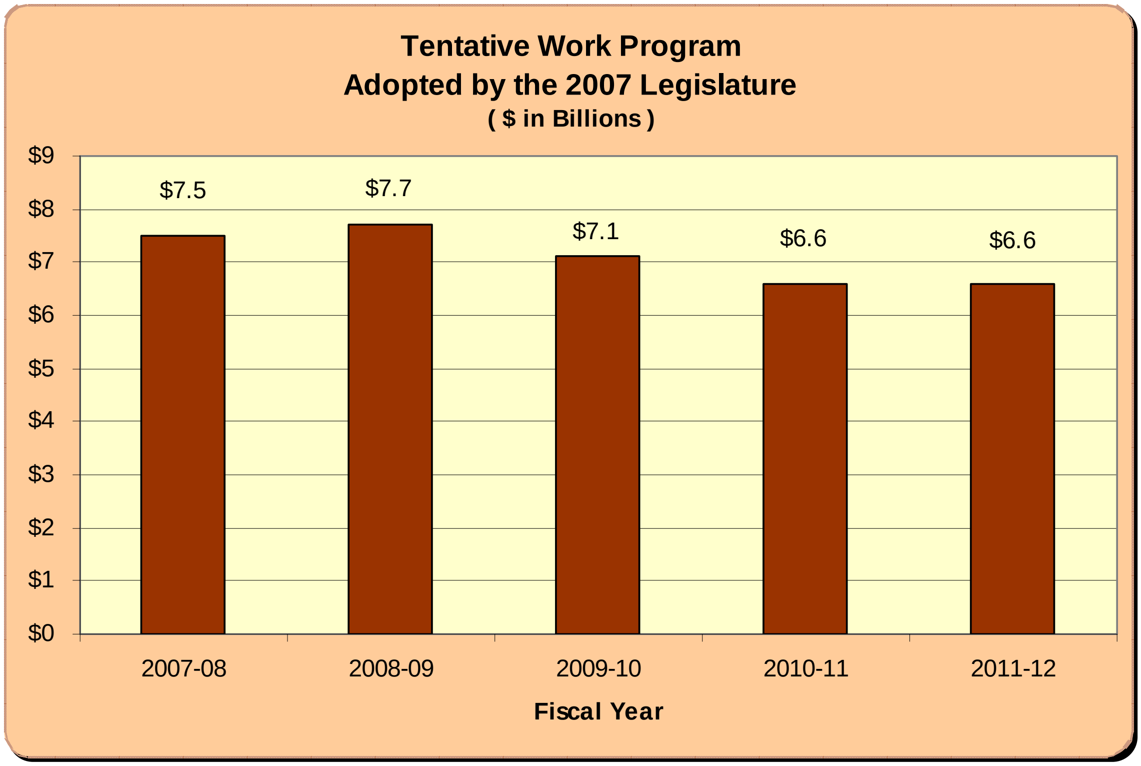
Affordable Housing – Projected funding for affordable housing programs within the Department of Community Affairs is based on the statutory distribution of documentary stamp revenue that is deposited into the State Housing Trust funds in accordance with current law. These amounts are based on the Revenue Estimating Conference's official projections made August 1, 2007.

Florida Forever and Everglades Debt Service - The financial outlook assumes annual bond authorizations of $300 million each for Fiscal Year 2008-09 through Fiscal Year 2010-11 for the Florida Forever land acquisition program and $100 million each year for the Comprehensive Everglades Restoration Plan. The Florida Forever Program authorizes bond issues, the total of which may not exceed $3 billion over the life of the program. Historically, bonds have been authorized for the state's land acquisition programs; however, in Fiscal Years 2003-04, 2004-05 and 2006-07, the General Appropriations Act provided non-recurring general revenue and trust fund balances to fund the program in lieu of authorizing the full $300 million annual debt (see chart below). Bond proceeds, non-recurring general revenue, and trust fund sources have also been provided to support the Everglades appropriation. The financial outlook provides bond proceeds as the revenue source for these programs in Fiscal Year 2008-09 through

Fiscal Year 2010-11. The debt obligations for Florida Forever and the Everglades are funded from documentary stamp tax revenues allocated to the General Revenue Fund.



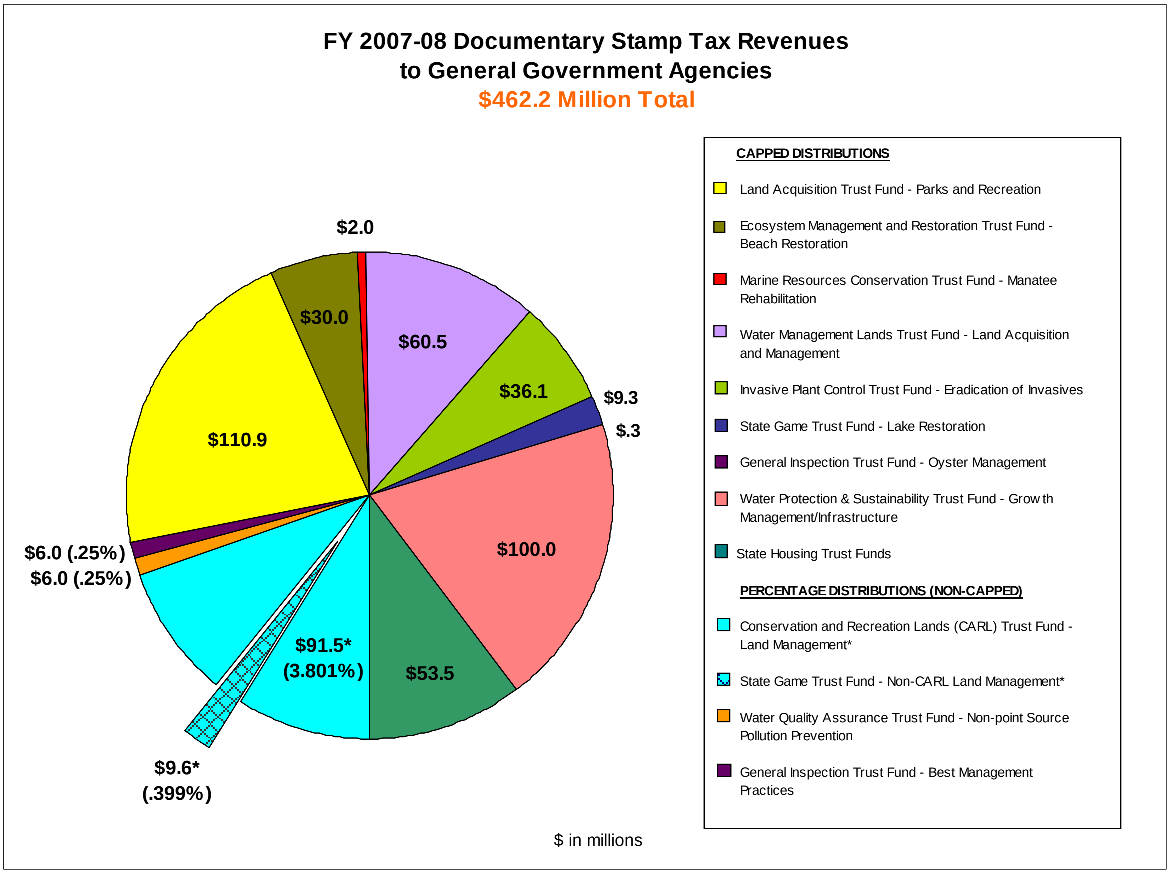
Department of Transportation Work Program – The DOT develops a Work Program, which is the department's production plan for the following five years. It is a balanced five-year financial plan with a three-year cash forecast of receipts and expenditures. Funding to support the Work Program comes from a variety of trust fund sources, including federal, state, local, bond proceeds, toll collections, and miscellaneous other receipts. For Fiscal Year 2007-08, the Legislature appropriated an additional $85 million in nonrecurring general revenue funds. Funding projections are based on the Tentative Work Program adopted by the 2007 Legislature (see following chart). These projections do not include changes in work program commitments subsequent to the adoption of the Tentative Work Program by the 2007 Legislature. Changes in project commitments and revenues will be programmed into the Work Program in February 2008 for legislative consideration.



Disaster Assistance – State matching funds for federally declared disasters varies tremendously from one year to the next. The amount of general revenue funds required in any given year is dependent on the number and severity of disasters, as well as the federally required percentage of state participation. The financial outlook contains an estimate for general revenue required for the state match portion for federally declared disasters that includes the outstanding state obligation for all open federally declared disasters, and incorporates a ten-year expenditure average to represent match required for future disasters.

Documentary Stamp Tax Revenues - Estimated documentary stamp tax revenues are based on the August 2007 consensus Revenue Estimating Conference projections. Over the past few years, the various methodologies for appropriating program budgets supported by documentary stamp tax revenues have included the use of historical funding averages, current-year level of funding, and the statutory distribution. The trust fund balances from documentary stamp tax revenues that remained after funding the programs have been either transferred to the General Revenue Fund or kept in the respective trust funds for future appropriations. The financial outlook is based on the current statutory distribution to all programs supported by documentary stamp tax revenue, which include: the Conservation and Recreation Lands (CARL), Ecosystems Management and Restoration, Water Quality Assurance, Land Acquisition, Water Management Lands, Water Sustainability and Protection, and Invasive Plant Control trust funds in the Department of Environmental Protection; the Marine Resources Conservation and State Game trust funds in the Fish and Wildlife Conservation Commission; the General

Inspection Trust Fund in the Department of Agriculture and Consumer Services; and the State Housing Trust Funds in the Department of Community Affairs. These revenues provide funding for land management and acquisition; beach restoration; manatee protection; oyster relaying; environmental protection efforts, including non-point source pollution prevention in Florida's water bodies, surface water restoration, and disadvantaged wastewater treatment grants; and a variety of affordable housing initiatives. The revenue source also provides funding for the state's park operations and maintenance, exotic and aquatic plant control, and lake restoration efforts. The documentary stamp tax revenue distributions in this section of the budget are provided on the following chart.



July 2007 Revenue Estimating Conference

**9.5% of the 4.2% statutory distribution to the CARL Trust Fund is transferred to the State Game Trust Fund for land management activities on non-CARL lands.*

Nonrecurring General Revenue – The Natural Resources, Environment, Growth Management, and Transportation section of the budget typically receives significant amounts of nonrecurring general revenue to support ongoing programs after available trust fund resources have been maximized. These programs include wastewater, drinking water, and surface water projects; energy technology grants; agriculture promotion and education facilities; capital improvements, maintenance, and repairs; the Mulberry/Piney Point hazardous site cleanup, and the phosphate mined reclamation program. The financial plan continues this source of funds for these programs based on historical funding averages or the most recent contract provisions. Also included are FEMA disaster match requirements, which assume outstanding obligations only for all open declared disasters, plus a ten-year average of actual expenditures for new disasters.

OTHER CONSIDERATIONS

The Long-Range Financial Outlook is based on events that are known or likely to occur. However, there are some risks that would significantly alter key assumptions were they to come to pass. Some of those risks and their potential ramifications are as follows:

- Current environmental claims against the state are estimated at $21.8 million. Several issues identified by the Department of Environmental Protection include $2.4 million for the Coronet Industries, Inc., hazardous waste site, $8 million for a Wekiva Springs State Park concession contract dispute, and $10 million for a beach nourishment property rights issue.

- Class action lawsuits for damages due to the state's removal of trees exposed to citrus canker have been filed in five counties. The plaintiffs seek additional compensation over and above the amount already paid under section 581.1845, Florida Statutes. Trials have been scheduled in two of the cases, Palm Beach County and Broward County for October 15th and December 3rd respectively. The potential liability can range from zero to an indeterminate higher amount.

- Clean Water – The Department of Environmental Protection conducts needs assessments[2] to determine the cost of fully complying with the federal Clean Water Act. Based on the most recent information available, they have identified a need over the next twenty years as follows:
    - Wastewater = $10,716,973,000
    - Municipal stormwater = $2,182,750,000
    - Nonpoint source = $9,285,007,000
    - Estuary management = $63,073,000 TOTAL = $22,247,803,000

- Drinking Water – Needs assessments are also conducted to determine the cost to comply with the federal Safe Drinking Water Act. In the most recent report released, which relied on 2003 data[3], the U.S. Environmental Protection Agency estimated that Florida's total 20-year need for public water systems exceeded $15 billion. State investments are typically made from the Drinking Water State Revolving Fund loan program.

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[2] The most recently published needs assessment was released in June 2005.
[3] EPA Report to Congress, "Drinking Water Infrastructure Needs Survey and Assessment," June 2005.

- Water Infrastructure - The legislature annually provides funding for the installation or renovation of drinking water treatment and distribution systems, stormwater management systems, and wastewater treatment and management systems, including water reuse facilities, based on priority listings maintained by the Department of Environmental Protection. The 2007 funding priority lists include more than $300 million in projects that will be funded over the next decade, primarily through low-interest loans as part of DEP's State Revolving Fund loan programs. In addition, about $20 million in wastewater grants for small, financially disadvantaged municipalities is provided annually.

- Transportation – According the Florida Department of Transportation's 2030 Revenue Forecast[4] and Strategic Intermodal System (SIS) Multi-Modal Unfunded Needs Plan, there are $187 billion in transportation needs of which $129 billion are funded. This results in approximately $58 billion in unfunded transportation needs statewide or approximately $2.4 billion per year.

State Transportation Needs
2006-2030
(2006 Dollars)

	Billions
Funded Needs	
Safety, Preservation, Support	$66
Capacity	63
Subtotal	$129
Unfunded Needs	
SIS Highways	45
Other Modes	8
Transit to Support SIS	5
Subtotal	58
Total Needs	**$187**

- Growth Management – Local government comprehensive planning requirements stipulate that the Department of Community Affairs must deny a plan or plan amendment that makes inadequate provision for roads, water and wastewater. Schools were added to this list in 2005; however, school currency is not required until 2008. In practice, the local government must also adopt level of service standards for parks and recreation; however, no plans or plan amendments have been ruled out of compliance for the inadequacy of this element. Moreover, the plan must include policies related to the provision of affordable housing, but there are no minimal standards for this requirement. Given these complexities, there is no credible estimate that shows the total costs associated with the aggregate unmet need for growth management.

[4] This forecast is based on the results of the March 2006 Revenue Estimating Conference and, therefore, does not reflect subsequent reductions in estimates.

General Appropriations Act Section 6 - General Government

Expenditure projections ($ millions)

Recurring	2007-08	2008-09	2009-10	2010-11
General Revenue	926.3	928.1	930.1	932.2
change		1.8	2.0	2.1
% change		0.2%	0.2%	0.2%

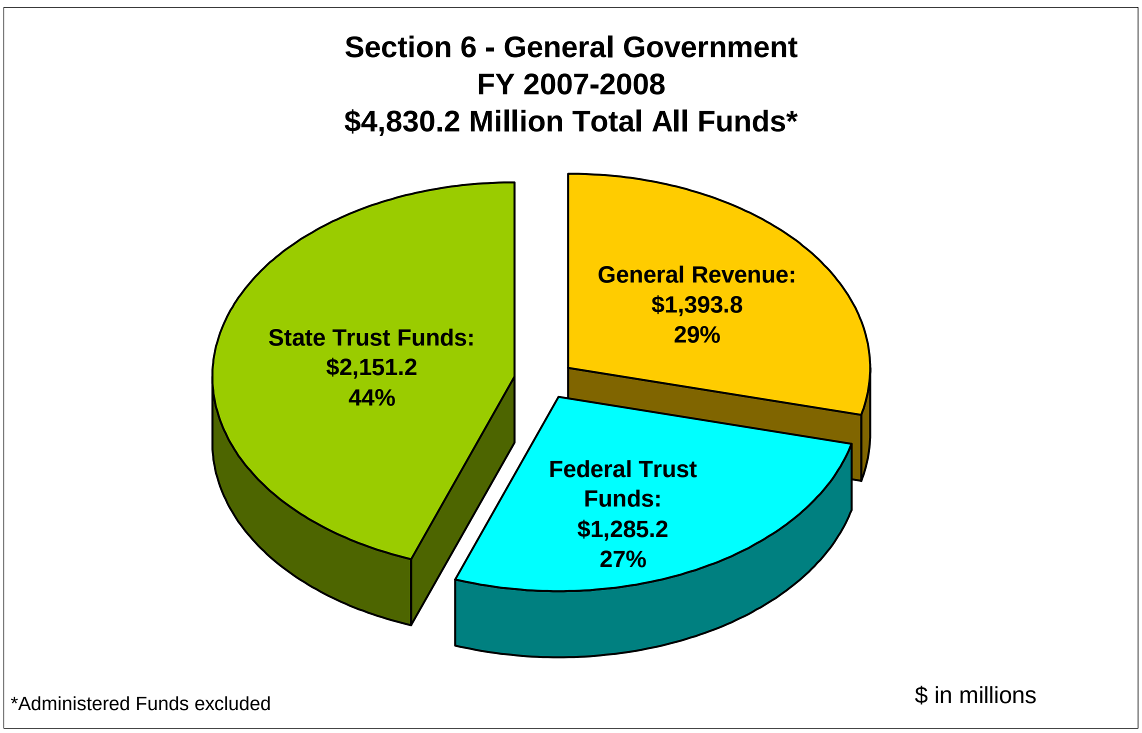
Nonrecurring	2007-08	2008-09	2009-10	2010-11
General Revenue	492.5	211.7	200.2	203.3
change		-280.8	-11.5	3.1

TOTAL	2007-08	2008-09	2009-10	2010-11
General Revenue	1,418.8	1,139.7	1,130.3	1,135.5
change		-279.0	-9.5	5.2
% change		-19.7%	-0.8%	0.5%

SECTION 6 – GENERAL GOVERNMENT

SUMMARY

The General Government section of the General Appropriations Act includes the following budgets: Agency for Workforce Innovation, Department of Business and Professional Regulation, Department of Citrus, Department of Financial Services, Executive Office of the Governor, Department of Highway Safety and Motor Vehicles, Legislative Branch, Department of Lottery, Department of Management Services, Department of Military Affairs, Public Service Commission, Department of Revenue, and Department of State.[5] These agencies are funded with a combination of state general revenue, federal funds, and state trust funds. Of the $4.8 billion total budget for the 2007-2008 fiscal year, 29 percent or $1.4 billion is funded from state general revenue. The majority of funds are derived from state trust fund sources. Forty-four percent, or $2.2 billion, is from state trust fund revenues, and $1.3 billion, or 27 percent, is from federal trust funds.



Source: Actual Appropriations for Fiscal Year 2007-2008 Adjusted for Supplementals and Vetoes

The three year plan projects minimal increases in recurring general revenue spending for General Government of $1.8 million (+0.2%) in Fiscal Year 2008-09; $2.0 million (0.2%) in Fiscal Year 2009-10; and $2.1 million (+.02) in Fiscal Year 2010-11.

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[5] Administered Funds excluded.

In addition to these recurring increases, nonrecurring General Revenue of $211.7 million is projected to be needed in FY 2008-09; $200.2 million in FY 2009-10; and $203.3 million in FY 2010-11.

ASSUMPTIONS AND DISCUSSION OF MAJOR BUDGET DRIVERS

General – The financial outlook includes additional funding based on the following assumptions:

1) The continuation of the current year level for most economic development programs, with the exception of: Film and Entertainment which is based on a five-year average; Quick Action Closing which is based on historical levels of funding in Fiscal Years 2004-2005 and 2005-06 of $10 million annually; and Innovation Incentive Funds which is based on a percentage (10 percent) of cumulative funding levels.

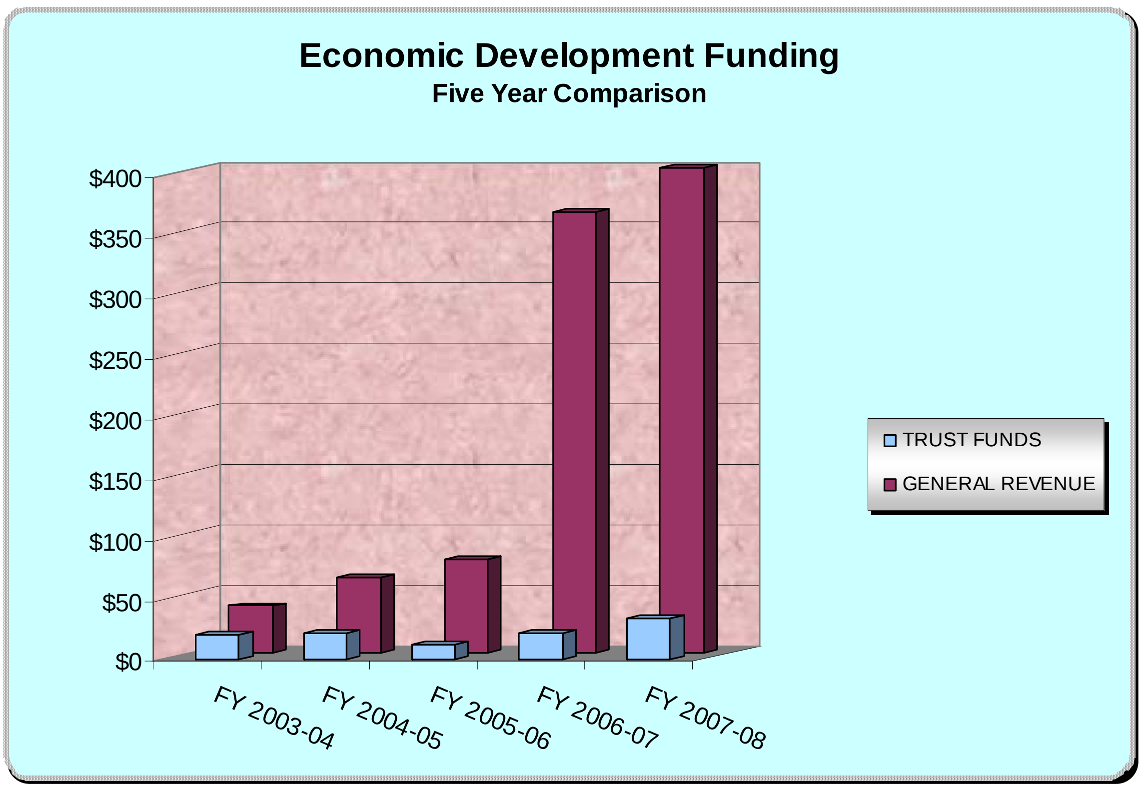
2) Current law related to the sunset of Personal Injury Protection (PIP) will result in a recurring annual revenue loss of $28.5 million in the Department of Highway Safety and Motor Vehicles Highway Safety Operating Trust Fund.

3) Funding for armory repairs in the Department of Military Affairs is based on a ten-year average of needs.

4) Federal Funds were maximized with state general revenue or trust fund resources.

Debt Service for Florida Facilities - The Florida Facilities Pool (pool) is administered by the Department of Management Services to provide both existing office space and construction of new office space for state personnel. Agencies are charged a uniform rental rate to cover the operational costs of the pool and to satisfy bond covenant requirements. The department is currently working on the design and development of three new office buildings to be located at the Capital Circle Office Complex in Tallahassee. Two of the buildings will be occupied by the Department of Revenue and one will be occupied by the First District Court of Appeals. Historically, the Legislature has provided general revenue funds to cover the cost of bond payments or debt service during the construction phase. Once the buildings are complete and occupied by the tenants, general revenue funding is no longer required. The financial outlook includes $7.3 million in general revenue to fund debt service payments for all three buildings for the 2008-2009 fiscal year. In Fiscal Year 2009-10, it is anticipated that the Department of Revenue will occupy two buildings, thus reducing the general revenue need to $2.4 million. In Fiscal Year 2010-11, no general revenue funding will be required due to the anticipated completion and occupancy of the First District Court of Appeals building.

Economic Development - Significantly greater non-recurring general revenue funds were provided for economic development in Fiscal Years (FY) 2006-07 and 2007-08 than in the years previous. The Innovation Incentive Fund, created in Fiscal Year 2006-07, was appropriated $200 million in Fiscal Year 2006-07 and $250 million in Fiscal Year 2007-08. The Quick Action Closing Fund was increased from $10 million to $45 million for these two fiscal years. In addition, $20 million and $25 million, respectively, were provided for incentives to promote and develop the film and entertainment industry. Since the level of future non-recurring funding for these major programs cannot be predicted, the financial outlook relies on projections based on Fiscal Year 2007-08 appropriations levels for most economic development programs. The financial outlook factors in historical levels, prior to Fiscal Year 2006-07, of $10 million annually for the Quick Action Closing Fund and includes amounts equal to ten percent of the total cumulative funding over a ten-year period for the Innovation Incentive Fund.



Federal Deficit Reduction Act - The Department of Revenue's Child Support Enforcement program is supported with state and federal dollars. For every one dollar that the state spends for child support services, the federal government provides two dollars in matching funds. In addition to the federal matching dollars, the federal government also provides states the opportunity to earn federal incentive dollars based on performance. In the past, these federal incentive dollars could also be matched two dollars federal to one dollar state. The Federal Deficit Reduction Act of 2005, signed into law in February 2006, eliminated the match provision for federal incentive dollars, effective October 1, 2007. The impact of this change was a phased-out reduction of $43.7 million in federal funds, beginning in the 2007-2008 fiscal year, to the Child Support Enforcement program. The financial outlook assumes the agency's plan to manage the impacts of the Federal Deficit Reduction Act of 2005, which includes continuing to replace the loss of federal dollars with non-recurring state resources in Fiscal Year 2008-2009 and subsequent years. This is achieved by providing state general revenue and trust fund resources, as well as anticipated future reductions that can be achieved through technology enhancements. The financial plan includes non-recurring general revenue in the following amounts: $4.3 million in FY 2008-09; $5.6 million in Fiscal Year 2009-10; and $3.6 million in Fiscal Year 2010-11. In addition, the financial outlook provides non-recurring general revenue to continue the Child Support Enforcement Automated Management System (CAMS) Phase II technology project to increase efficiencies in the Child Support Enforcement program.

National Guard Armories - Over the last several fiscal years, non-recurring general revenue funds have been appropriated to the Department of Military Affairs to support their Capital Improvement Plan, which provides a priority schedule of maintenance and repair for 55 National Guard Armories around the state. The outlook includes $5.9 million annually based on a ten-year average of funding.

Personal Injury Protection Sunset - The Department of Highway Safety and Motor Vehicles currently collects revenues derived from section 627.733(7), F.S., relating to Florida's Motor Vehicles No-Fault Law. Under current law, this provision is repealed on October 1, 2007, and a projected revenue deficit between $25 and $28 million in the Highway Safety Operating Trust Fund is expected beginning in Fiscal Year 2007-2008. The financial outlook assumes non-recurring general revenue funds will be needed to supplant this loss.

OTHER CONSIDERATIONS

The Long-Range Financial Outlook is based on events that are known or likely to occur. However, there are some risks that would significantly alter key assumptions were they to come to pass. One of those risks and its potential ramifications is as follows:

- The Department of Revenue estimates $168 million in potential litigation involving sales and use tax, insurance premium retaliatory tax, corporate income tax and doc stamp tax assessments. These figures are the aggregate of numerous disputes and represent the worst case scenario.

General Appropriations Act Section 7 - Judical

Expenditure projections ($ millions)

Recurring	2007-08	2008-09	2009-10	2010-11
General Revenue	445.5	450.5	455.5	460.5
change		5.0	5.0	5.0
% change		1.1%	1.1%	1.1%

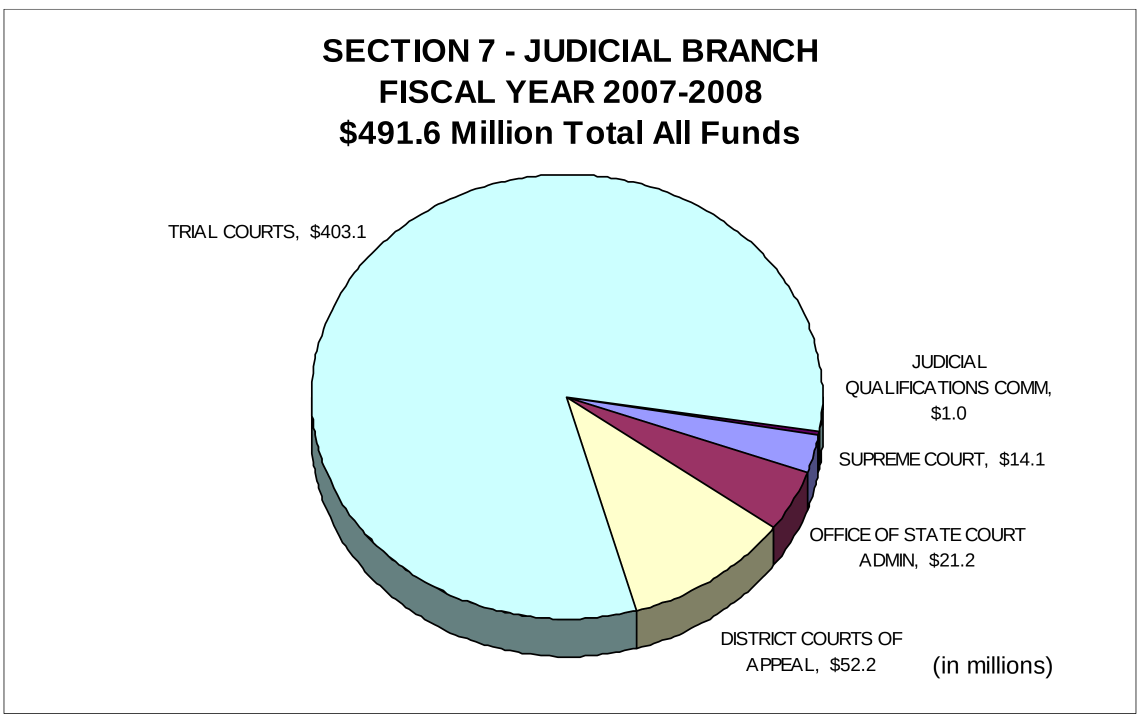
Nonrecurring	2007-08	2008-09	2009-10	2010-11
General Revenue	23.6	9.1	9.1	9.1
change		-14.5	0.0	0.0

TOTAL	2007-08	2008-09	2009-10	2010-11
General Revenue	469.1	459.6	464.6	469.6
change		-9.5	5.0	5.0
% change		-2.0%	1.1%	1.1%

SECTION 7 – JUDICIAL BRANCH

SUMMARY

Section 7 of the General Appropriations Act addresses the Judicial branch, including funding and positions for the Supreme Court, the Office of State Courts Administrator, the District Courts of Appeal, and the trial courts which consist of circuit and county courts. Other court system entities, such as the state attorney and public defender which are officers of the court, are funded in Section 4 - Criminal Justice and Corrections of the General Appropriations Act. The judicial branch's core mission is to resolve civil disputes and criminal charges. Most of the cost of the judicial budget is made up of the judges, associated staff, and expenses. The state is responsible for funding nearly the entire judicial branch. Under Revision 7 to Article V of the Florida Constitution, the state became responsible for additional court-associated costs. Prior to 2004, these costs had been the responsibility of the county governments. New costs included the cost of due process services, such as court reporting and expert witnesses. The total amount appropriated in state general revenue and trust funds for the judicial branch is $491.6 million for Fiscal Year 2007-08. The county retained the responsibility of providing facilities, security, communications and information technology to the court system.



Source: Actual Appropriations for Fiscal Year 2007-2008 Adjusted for Supplementals and Vetoes

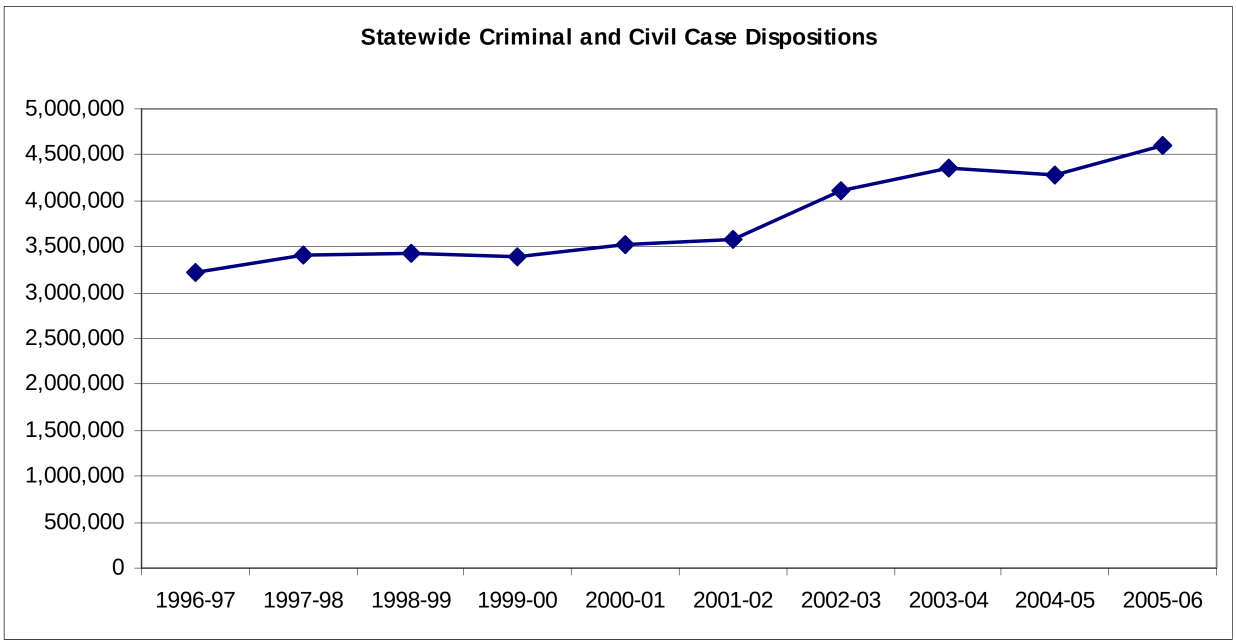
The three year plan projects minimal increases in recurring general revenue spending for General Government of $5.0 million (+1.1%) in each of Fiscal Years 2008-09, 2009-10, and 2010-11.

In addition to these recurring increases, nonrecurring General Revenue of $9.1 million is projected to be needed in each of the three fiscal years.

ASSUMPTIONS AND DISCUSSION OF MAJOR BUDGET DRIVERS

General – The financial outlook includes additional funding based on historical funding increases in the Judicial branch.

Courts System Workload – New Judges and Support Positions - The state court system has experienced growth in the number of cases closed, or disposed over the last 10 years.



Source: Office of State Court Administrator

The increase in cases has been recognized by the Legislature in the form of budget increases and increases in the number of judges, which is specified in the Florida Statutes. The Florida Constitution requires the Supreme Court to certify to the Legislature the number of judges needed. The Legislature has historically funded only a portion of the court's certification order. The average number of new judges established per year (20) over the ten years from 1997 to 2006 was used to estimate the number of additional judges for the plan. The cost to establish a new judgeship, along with the associated staff and expenses is approximately $250,000 per year, or $5 million per year for the 20 judgeships.

Supreme Court and District Courts of Appeal Fixed Capital Outlay - The state is responsible for the facility needs of the appellate courts, including the Supreme Court and District Courts of Appeal. The Legislature has invested considerable funding for the Supreme Court Building. The 2007 Legislature funded some, but not all of the requested projects. The amount of the remaining renovations and repairs for the Supreme Court equals $6.3 million. This total was spread over 3 years in the plan and totals $2.1 million per year. Based on average expenditures for the District Courts of Appeal projects over the last three years, the plan estimates that an additional $2 million will be needed each year. Funding for these projects is non-recurring.

Small County Courthouses - While the counties are responsible for the facility needs of the trial courts, the Legislature has historically provided additional funding to counties with populations of less that 75,000 to renovate and repair trial court buildings. Over the last five years, such expenditures have averaged $5 million per year and this is the basis for the costs in the plan.

General Appropriations Act - Statewide Distributions / Administered Funds

Expenditure projections ($ millions)

Recurring	2007-08	2008-09	2009-10	2010-11
General Revenue	8.4	357.7	686.4	1,044.5
change		349.2	328.7	358.1
% change		4148.5%	91.9%	52.2%

Nonrecurring	2007-08	2008-09	2009-10	2010-11
General Revenue	127.9	0.0	0.0	0.0
change		-127.9	0.0	0.0

TOTAL	2007-08	2008-09	2009-10	2010-11
General Revenue	136.3	357.7	686.4	1,044.5
change		221.3	328.7	358.1
% change		162.3%	91.9%	52.2%

Statewide Distributions / Administered Funds

SUMMARY

In addition to the legislative budget, the Statewide Distributions / Administered Funds section of the financial outlook addresses two different types of issues discussed as follows:

- PART 1: Salaries and benefits including salary increases and additional state contributions for employee insurance and Florida Retirement System benefits.

- PART 2: Lump sum appropriations of funds for future distribution to agencies for statewide issues that are formula driven including the state's Risk Management Insurance Program and the Florida Facilities Pool rental rate.

The three year plan projects increases in recurring general revenue spending of $357.7 million in Fiscal Year 2008-09; $328.7 million in Fiscal Year 2009-10; and $358.1 million in Fiscal Year 2010-11.

PART I – Salaries and Benefits

Salaries

State employee salary increases are estimated to cost $227.3 million in Fiscal Year 2008-09, $233 million in Fiscal Year 2009-10, and $238.8 million in Fiscal Year 2010-11. Roughly 70% of the increased costs are funded through the General Revenue Fund. These estimates are based on historical experience and equal a 2.5 percent annual increase to base salaries for all state employees.

STATEWIDE ACROSS THE BOARD SALARY INCREASES				
FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08
2.0%	$1000 *One time bonus*	3.6%	3.0%	$1000 *One time bonus*
Note that Specific Employee Groups have received increases in excess of across the board levels.				

Health Insurance

Costs associated with the state employee health insurance program are expected to increase by $169.4 million in Fiscal Year 2008-09, $177.4 million in Fiscal Year 2009-10, and $192.6 million in Fiscal Year 2010-11. These increased costs are based on assumptions that the state's self insured plan will experience 11% annual growth in medical claims and an average of 12.5% annual growth in pharmacy claims, and that the health maintenance contract costs will increase an average of 11.5% annually. These assumptions are consistent with the growth patterns experienced during recent years and the forecasts used by the industry in the coming years.

On the revenue side of the health insurance program, the financial outlook assumes that additional medical and pharmacy costs will be covered via premium increases paid by the state and employees. Generally, these costs have been funded through this mechanism. In recent years, however, a portion of the anticipated costs have been funded by increases in out-of-pocket expenditures (co-payments, deductibles, and coinsurance) by the employees and retirees and by transfers of trust fund balances to the program.

Florida Retirement System

The Florida Retirement System (System) enjoys an actuarial surplus of $7.6 billion as of June 2006. This surplus can be used to reduce the contribution rates paid by participating employers or to increase benefits paid to members of the System. Even with this surplus, the Florida Retirement System must be funded on an actuarially sound basis. As a result, the Legislature has set the statutory contribution rates at the "normal cost" (the actuarially determined cost of the system over the long term) of the System and has enacted a series of one-year reductions in contribution rates to reduce the level of the surplus and relieve the financial burdens placed upon the employers participating in the System. For example, the normal cost of the Regular Class is 9.59% of the class payroll while the actual contribution rate for Fiscal Year 2007-08 is 8.69%.

This financial outlook assumes that the Legislature will enact a series of rate increases that will move the actual contribution rate to the normal cost level over a three year period. The rates are projected to increase from 8.69% in Fiscal Year 2007-08 to 8.92% in Fiscal Year 2008-09; 9.21% in Fiscal Year 2009-10; and 9.59% in Fiscal Year 2010-11. Under this assumption, roughly $350 million of the actuarial surplus will be used during the first two years to offset contribution rates for employers. It should be noted that this is a conservative approach to utilizing the available surplus due to the unpredictability of the market value of the System portfolio and the expected rise in actuarial liabilities as the state's aging workforce hits retirement age.

PART II – Lump Sum Formula Driven Distributions

The financial outlook includes funds for the state's Risk Management Insurance Program and the Florida Facilities Pool rental rate. Both require detailed distributions to state agencies. The general revenue and trust fund allocations to the agencies for these issues are based on historical fund-split percentages.

Risk Management Insurance

The state's Risk Management Program administered by the Department of Financial Services provides workers' compensation, general liability, federal civil rights, auto liability, off-duty law enforcement vehicle property damage, and property insurance coverage to state agencies. The state is self-insured for these coverage types, and agencies are assessed premiums on an annual basis. The financial outlook uses data available from the March 2007 Risk Management Estimating Conference to estimate costs. These estimated costs include $3.2 million in recurring general revenue and $1.3 million in trust funds for the 2008-09 fiscal year; $14.2 million in recurring general revenue and $5.8 million in trust funds for the 2009-10 fiscal year; and $5.4 million in recurring general revenue and $2.2 million in trust funds for the 2010-11 fiscal year.

Florida Facilities Pool

The Florida Facilities Pool (pool) is administered by the Department of Management Services to provide office space for state agency personnel. Operational costs and bond requirements are met by applying a uniform rental rate. State agencies which occupy various types of space within the pool are charged accordingly. Over the past several years, operational costs of the pool have increased primarily due to rising utility payments and other factors such as salaries, security, and maintenance. Costs are estimated to continue to increase in the financial plan for the pool. In order to recover these costs, increases to the uniform rental rate occurs to avoid deficits within the pool. When the rental rate is increased, agencies which occupy space within the pool are provided additional funding to pay for the space they occupy. The financial outlook relies upon the most recent financial data available from the Department of Management Services (August 2007). A rental rate increase of $1.5 million recurring general revenue and $1.5 million in trust funds is projected to cover operational costs of the facilities pool and the bond covenants for the 2008-09 fiscal year; $2.1 million recurring general revenue and $2.1 million in trust funds for the 2009-10 fiscal year; and $1.5 million in recurring general revenue and $1.5 million in trust funds for the 2010-11 fiscal year.

OTHER CONSIDERATIONS

The Long-Range Financial Outlook is based on events that are known or likely to occur. However, there are some risks that would significantly alter key assumptions were they to come to pass. One of those risks and its potential ramifications is as follows:

- Numerous lawsuits against the state exist at any point in time, only a few of which are reflected in this document. While the Chief Financial Officer has noted that such lawsuits are not expected to materially affect the state's overall financial position, they do have the capacity to disrupt specific programs and services and to force changes and adjustments to any fiscal outlook.

A summary of the claimed fiscal impact of significant litigation filed against the state are annually reported by the agencies in their legislative budget requests. Significant litigation includes only cases where the amount claimed is more than $1 million and cases challenging significant statutory policies. In some cases, those summaries are based on the amount claimed by the plaintiffs, which is typically higher than the amount to which the plaintiffs would actually be entitled if they won.