# Florida:
# Long-Range Financial Outlook

September 12, 2016

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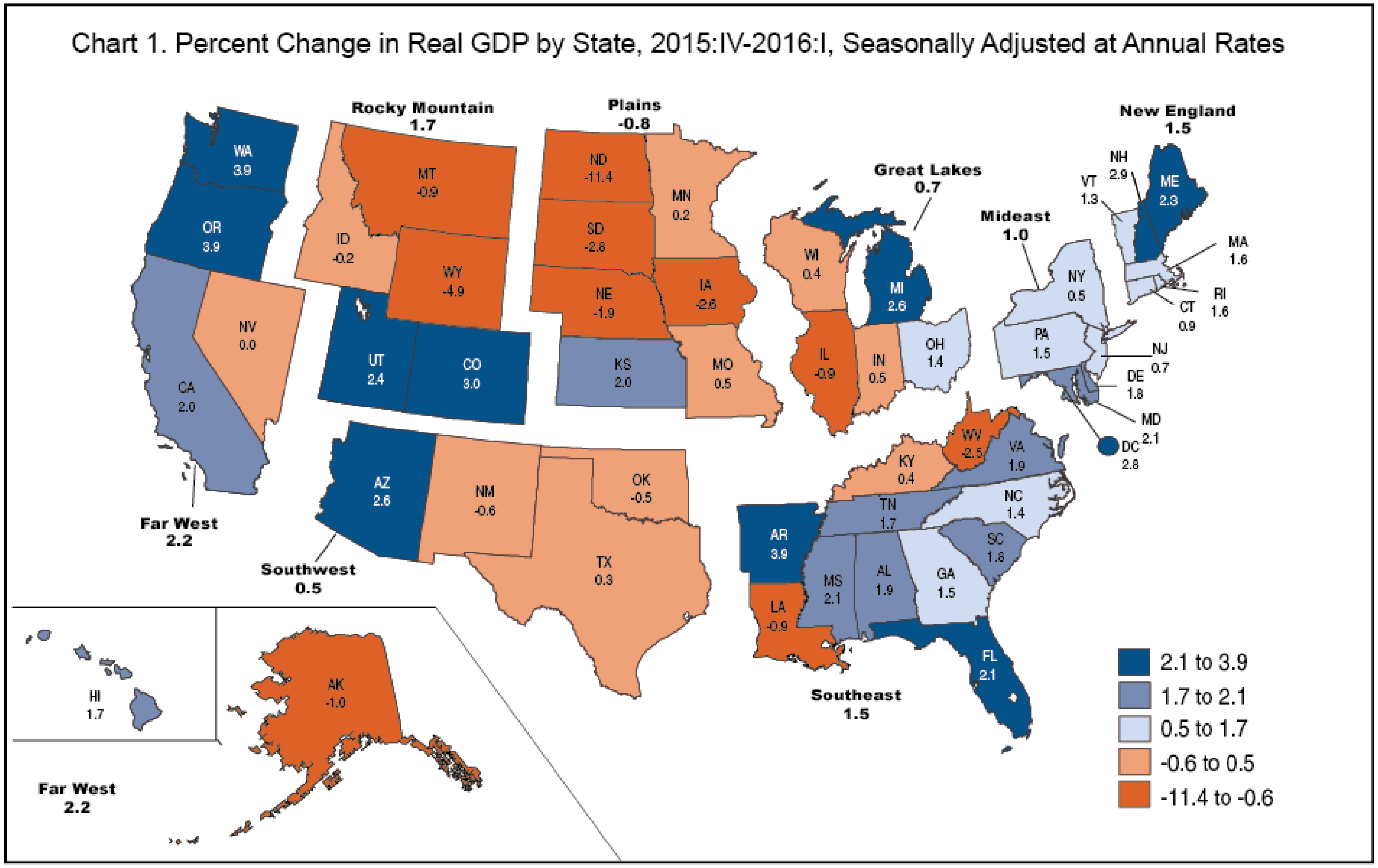
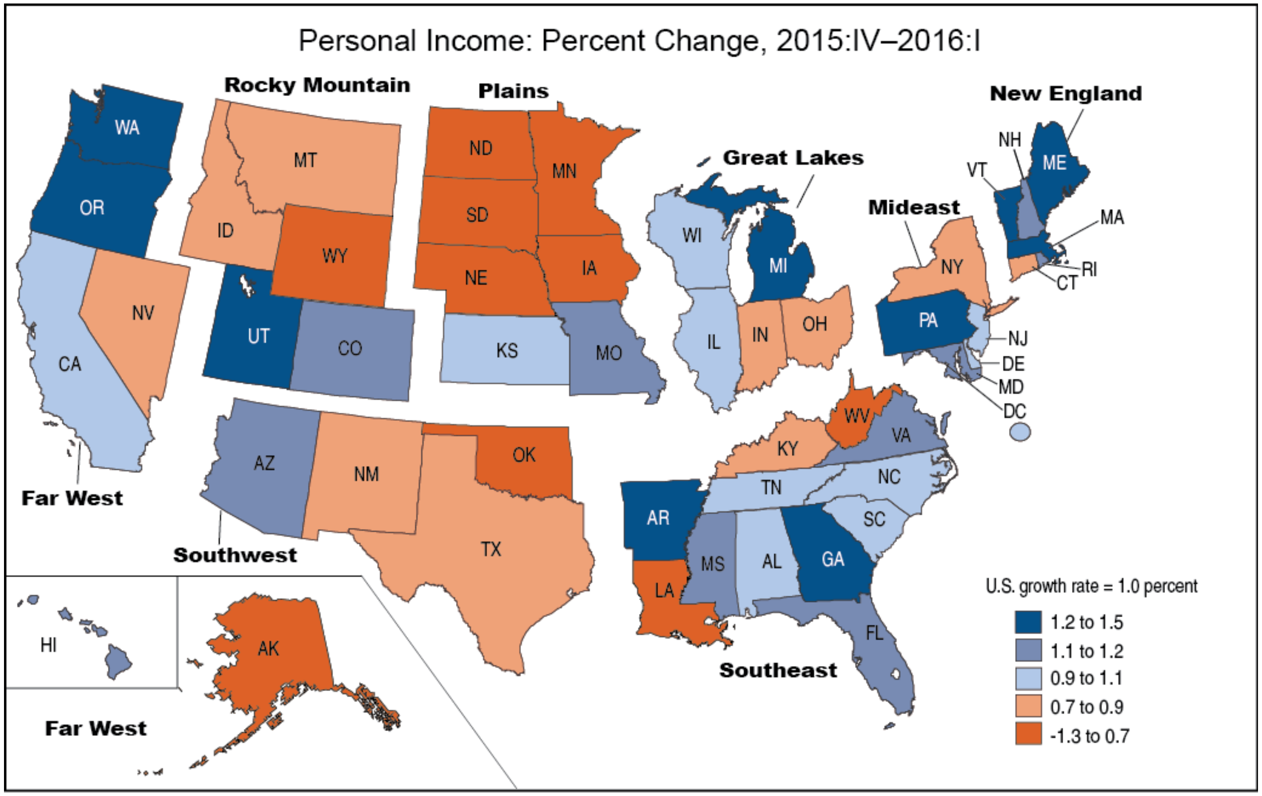
# Economy Has Continued Growth...




U.S. Bureau of Economic Analysis

In the final quarter of 2015, the pace of Florida's economic growth increased relative to other states, ranking Florida 5th in the country. For the entirety of the 2015 calendar year, State Gross Domestic Product (GDP) showed Florida with real growth of 3.1%, moving Florida above the national average (indicating 2.4% in 2015) for the third year in a row. In the first quarter of 2016, Florida grew 2.1% at an annual rate, ranking it 10th in the country.

# FL Personal Income Growth Has Similar Story...

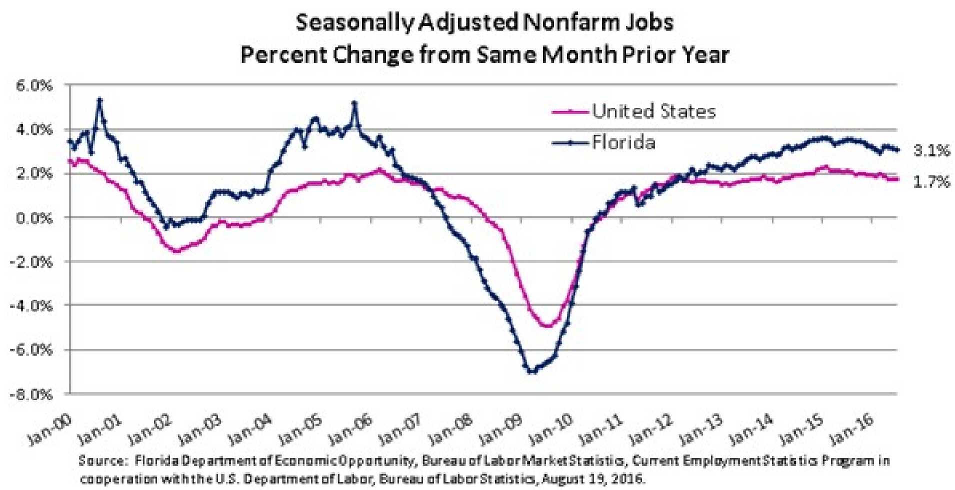



U.S. Bureau of Economic Analysis

Florida's pace for the 2015 calendar year was stronger than 2014, even though personal income for all states grew at the same rate as in 2014. Florida grew above the national average of 4.4%, recording growth of 5.2% and ranking 6th in the country for the percent change from the prior year.  However, the state's per capita income was below the nation as a whole and ranked Florida 28th in the United States.

Newly released data for the first quarter of 2016 indicated some slowing in Florida relative to other states, dropping Florida to a ranking of 16th in the country.

# Current Employment Conditions…




**July Nonfarm Jobs (YOY)**

US 1.7%
FL 3.1%
YR: 250,200 jobs
Peak: +306,000 jobs over Prior Peak
[Prior Employment Peak passed in May 2015]

**July Unemployment Rate**

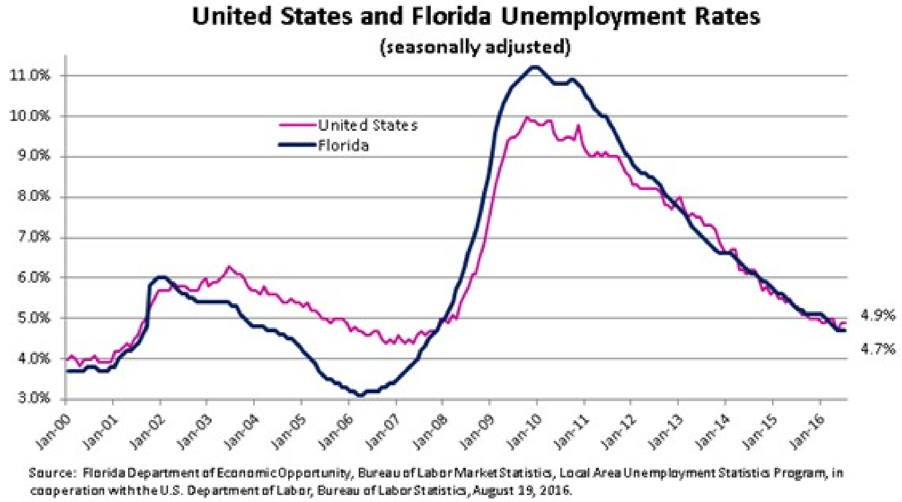
US 4.9%
FL 4.7% (456,000 people—35% are long-term)

**Highest Monthly Rate**

11.2% (November 2009 through January 2010)

**Lowest Monthly Rate**

3.1% (March through April 2006)



# Florida's Job Market…

- Florida's job market is still recovering, but—after 8 years—it finally passed its most recent peak.  However, passing the previous peak does not mean the same thing today as it did then.

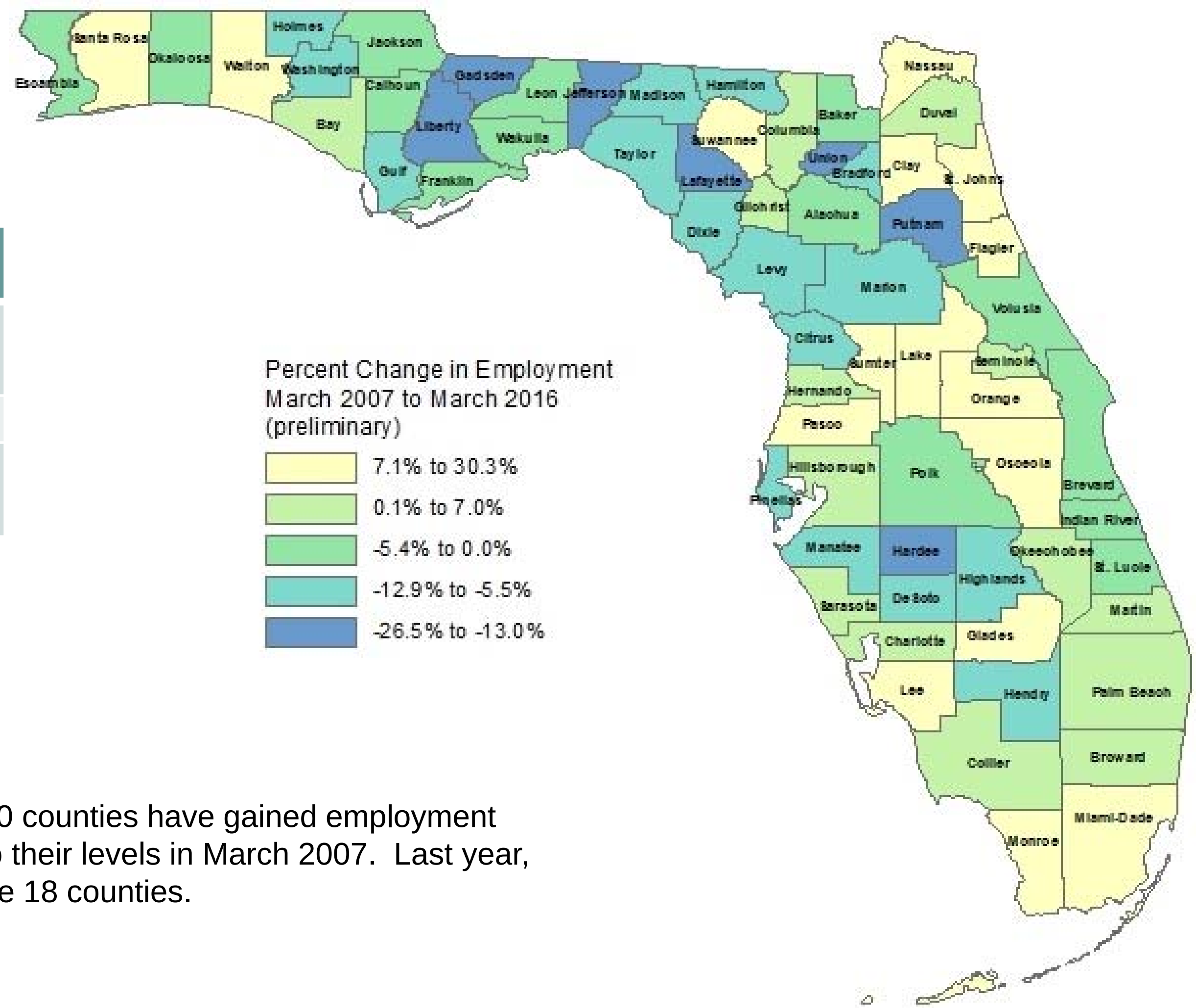
- Florida's prime working-age population (aged 25-54) has been adding people each month, so even more jobs need to be created to address the population increase since 2007.

- It would take the creation of an additional 920,000 jobs for the same percentage of the total population 16 years and over to be working as was the case at the peak.  However, a significant number of older Floridians who are currently out of the labor force may never return to work because they are on disability and / or they are now nearing retirement age.

- If the universe is limited to the prime working-age population (aged 25-54), then 370,000 jobs would need to be created for the same percentage of that age group to be working as was the case at the peak.

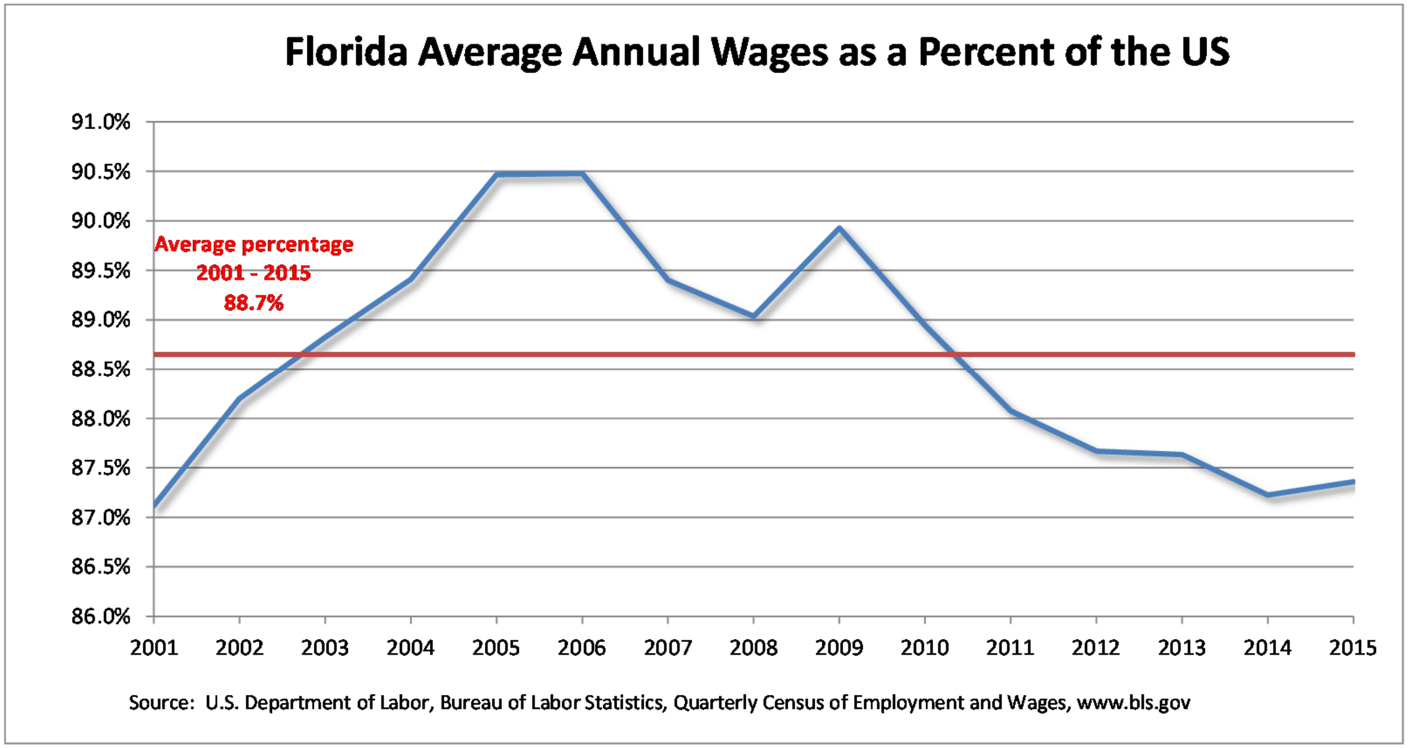
# Across the State, Employment Picture Improving but Still Mixed…

| Area | March 2007 to March 2016 | |
|---|---|---|
| Sumter County | 30.3% | Greatest Percentage Increase |
| **Florida** | **2.6%** | |
| Liberty County | -26.5% | Greatest Percentage Decline |




In total, 30 counties have gained employment relative to their levels in March 2007. Last year, there were 18 counties.

# Wage Gap Stopped its Decline in 2015...




- Florida's average annual wage has typically been below the US average. The preliminary data for the 2015 calendar year showed that it improved very slightly to 87.4% of the US average. The posting in 2014 was 87.2%, Florida's lowest percentage since 2001.

- In part, the lower than average wage gains has to do with the mix of jobs that are growing the fastest in Florida. Not only is the Leisure & Hospitality employment sector large, it has seen some of the fastest growth. This sector is closely related to the health of Florida's tourism industry. Final estimates for FY 2015-16 indicate that a record 109 million visitors came to Florida for an increase of 6.6 percent over FY 2014-15.

# Population Growth Strengthening...

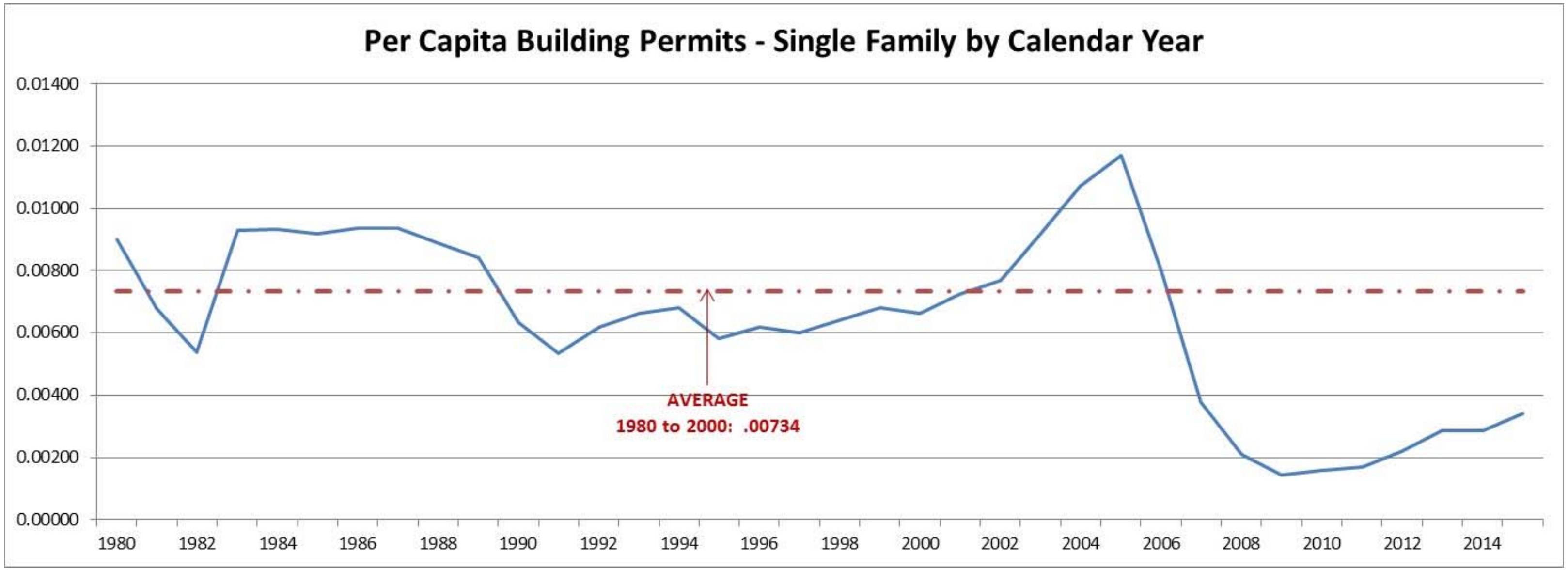
- Population growth is the state’s primary engine of economic growth, fueling both employment and income growth.

- Florida’s population growth is expected to remain above 1.5% over the next few years. In the near-term, Florida is expected to grow by 1.58% between 2015 and 2016 – and average 1.52% annually between 2015 and 2020. Most of Florida’s population growth through 2030 will be from net migration (92.9%). Nationally, average annual growth will be about 0.75% between 2015 and 2030.

- The future will be different than the past; Florida’s long-term growth rate between 1970 and 1995 was over 3%.

- By the end of 2015, Florida broke the 20 million mark. It had surpassed New York earlier in the year to become the third most populous state.

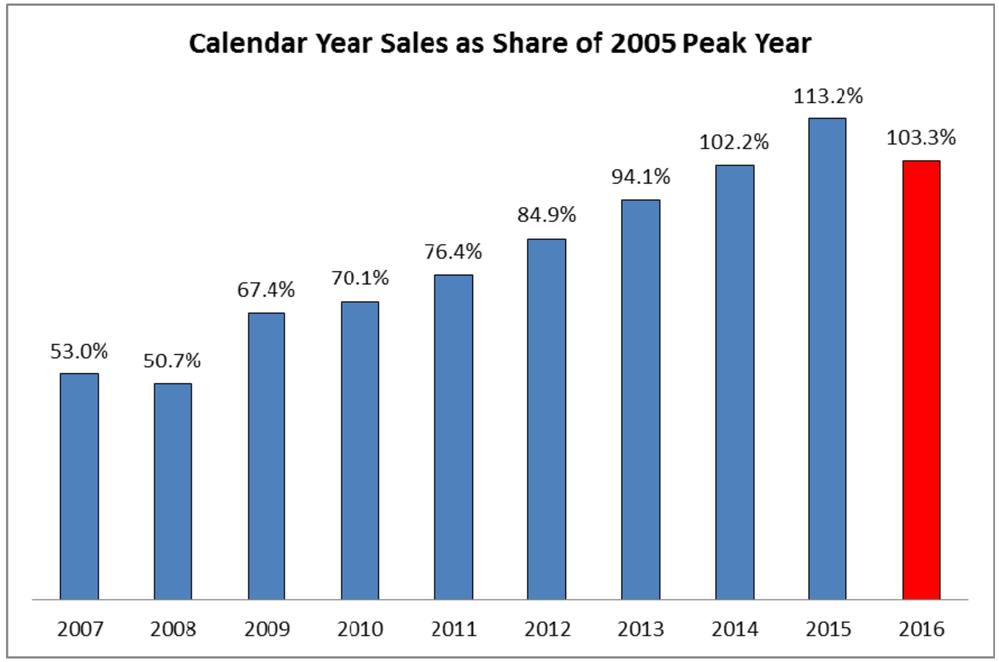
# Florida Housing is Generally Improving…

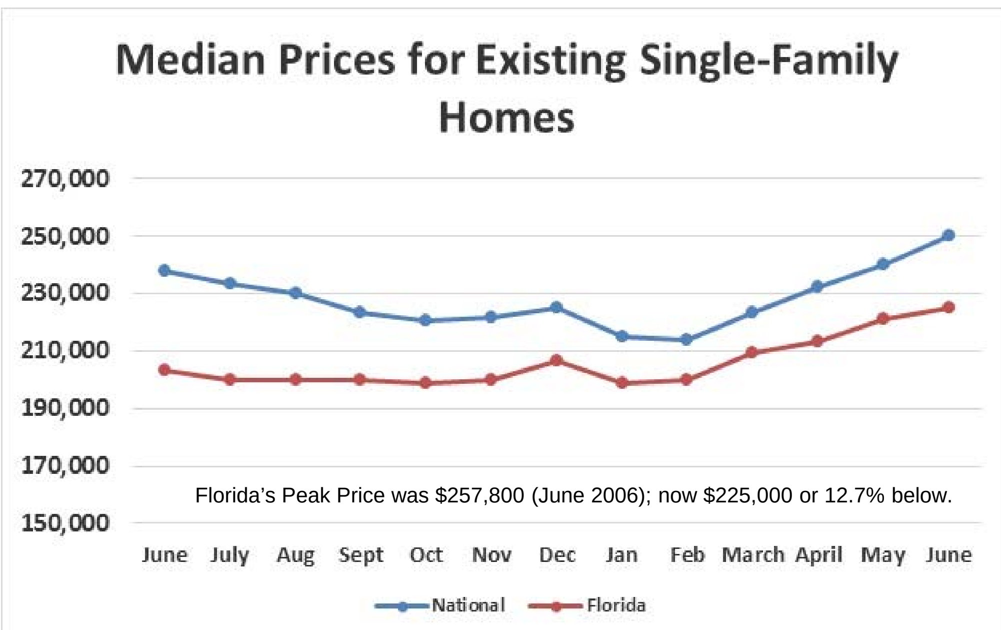



Single-Family building permit activity, an indicator of new construction, remains in positive territory, showing strong back-to-back growth in both the 2012 and 2013 calendar years (over 30% in each year). The final data for the 2014 calendar year revealed significantly slowing (but still positive) activity—posting only 1.6% growth over the prior year. However, calendar year activity for 2015 ran well above the same period in 2014; single family data was higher than the prior year by 20.3%. Despite the strong percentage growth rates in three of the last four calendar years, the level is still low by historic standards—not quite half of the long-run per capita level.

For the first seven months of the 2016 calendar year, single-family building permit activity was running 14.5% over the same period in the prior year, continuing to fall below the 2015 annual growth rate.

**Existing home sales volume in both 2014 and 2015 exceeded the 2005 peak year; however, the sales activity in the first six months of 2016 has been sluggish relative to last year. For this period, Florida is running well below its 2015 pace.**



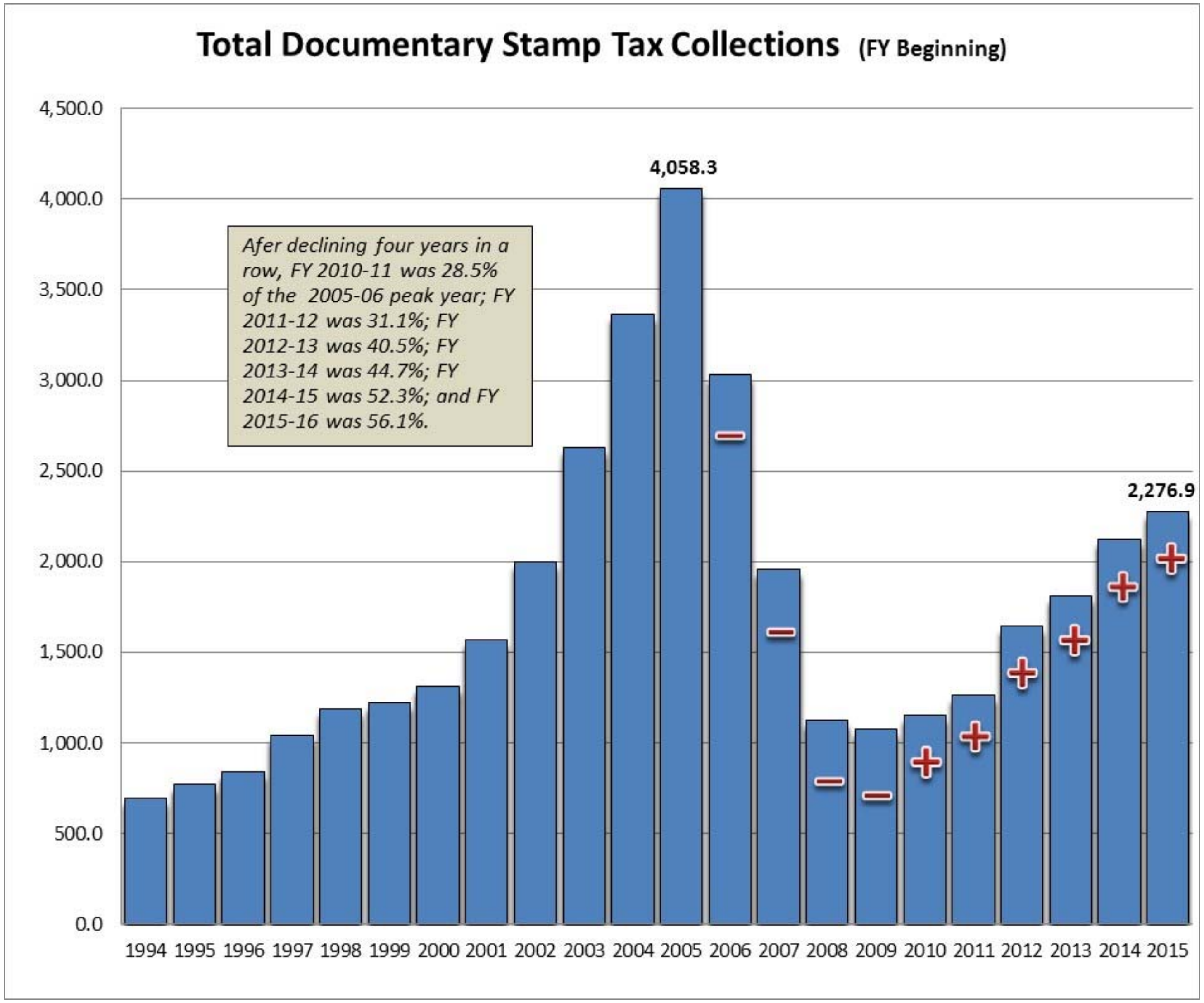




**Florida's existing home price gains have roughly tracked national gains over the first six months of 2016, with the state's improvements relative to the US as a whole staying at about the same ratio. The state's median price in June was 90.1% of the national median price.**

Data through June 2016

# Documentary Stamp Collections

**(Preliminary: Reflecting All Activity)**




Documentary Stamp Tax collections saw 7.4% growth in FY 2015-16 over FY 2014-15.

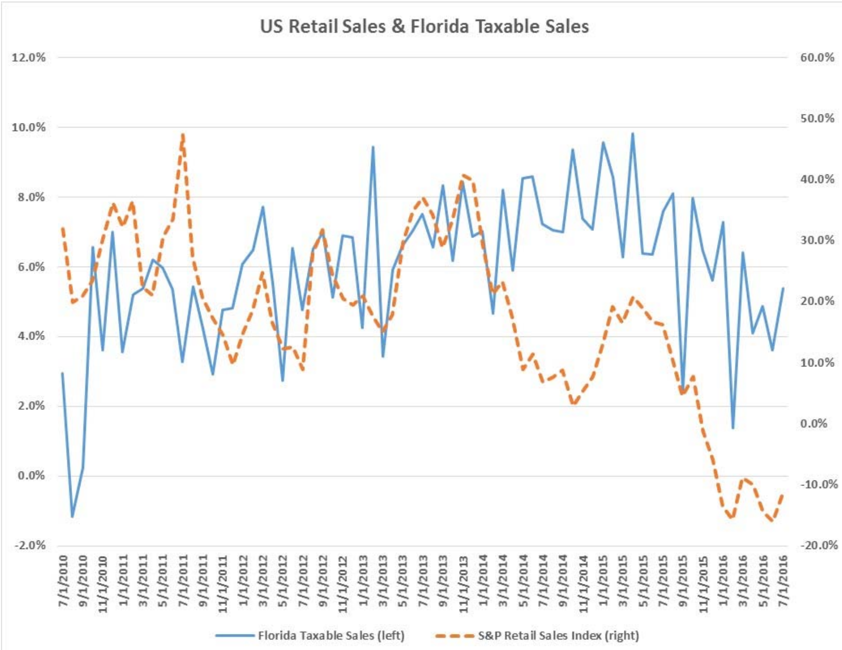
# Economy Is Solid; Tourism Strength Compensates for Construction Weakness

Florida growth rates are generally returning to more typical levels and continue to show progress. However, the construction drags are more persistent than past events. Largely because of strength in other economic areas, normalcy has been largely achieved by the end of FY 2016-17 in the various forecasts. Overall...

- The recovery in the national economy is near completion. While most areas of commercial and consumer credit have significantly strengthened – residential credit for purchases still remains somewhat difficult for consumers to access with a weighted average credit score of 727 (the highest score since June 2015) and LTV of 80 percent on closed loans.  Student loans and recently undertaken auto debts appear to be affecting the ability to qualify for residential credit.

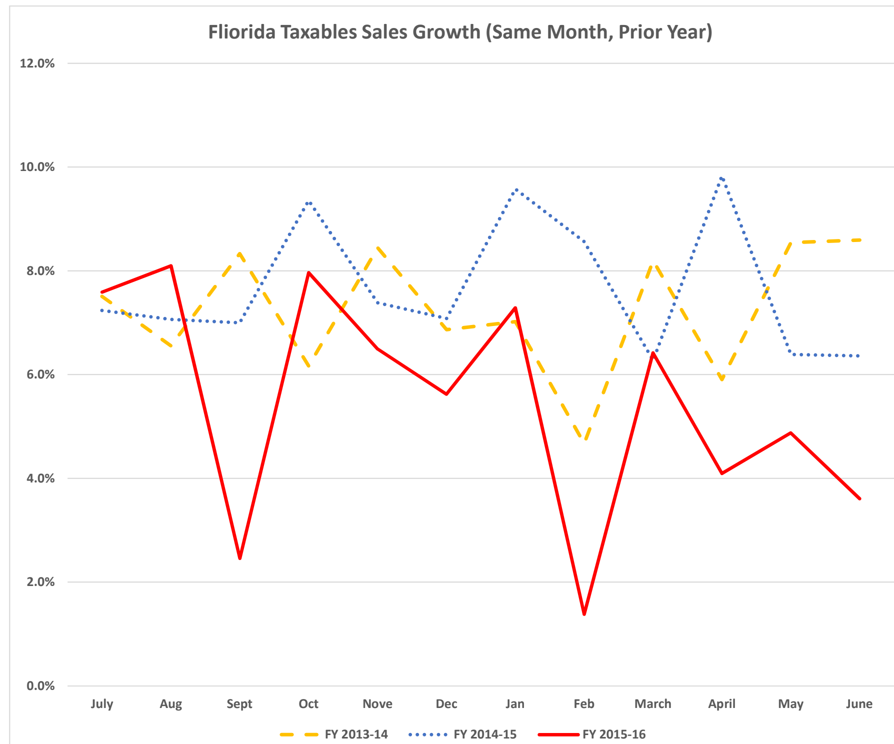
- By the close of the 2015-16 fiscal year, most measures of the Florida economy had returned to or surpassed their prior peaks.
  - All personal income metrics, about half of the employment sectors and all of the tourism counts had exceeded their prior peaks.
  - Still other measures were posting solid year-over-year improvements, even if they were not yet back to peak performance levels.
  - In the current forecast, none of the key construction metrics show a return to peak levels until 2020-21.

# US Retail Sales & Florida Taxable Sales



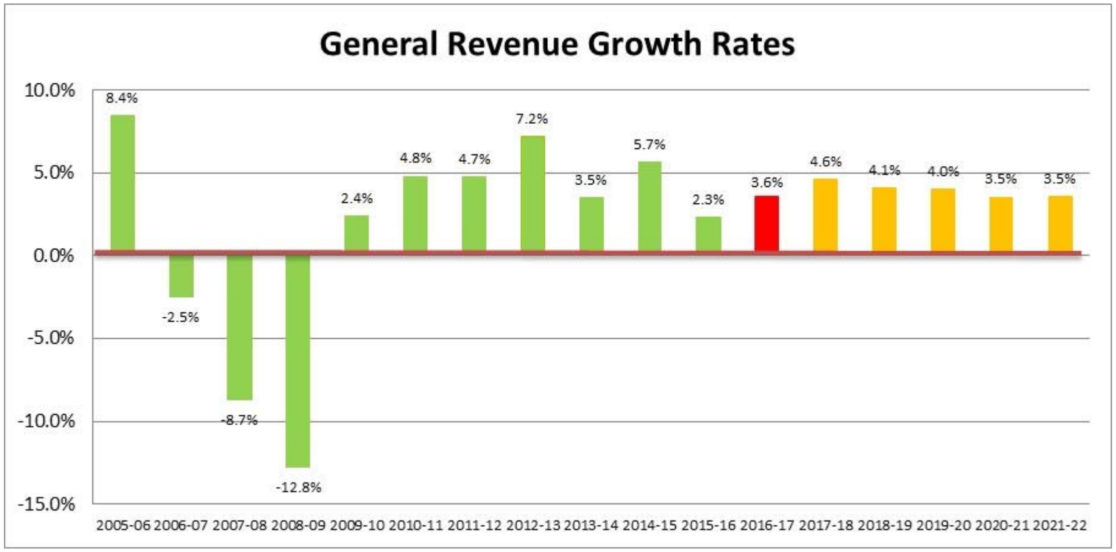

- The change over the same month in the prior year has run consistently negative in the national S&P Retail Select Industry Index since November 2015.

- Throughout the 2015-16 fiscal year, Florida's taxable sales remained positive for the same month over the prior year, even though they have exhibited a pattern similar to the national Index. The Florida monthly fluctuations were much greater than the prior two fiscal years.



# General Revenue Forecast

*The growth rates for FY 2012-13 and FY 2013-14 are slightly distorted by the receipt of the $200.1 million deposit from the National Mortgage Settlement Agreement. After adjusting for this deposit, the underlying growth rates are 6.3% and 4.7%, respectively.*




| Fiscal Year | Post-Session Forecast | Aug 2016 Forecast | Difference | Incremental Growth | Growth |
|---|---|---|---|---|---|
| *2005-06* | *27074.8* | *27074.8* | *0* | | *8.4%* |
| *2006-07* | *26404.1* | *26404.1* | *0* | *-670.7* | *-2.5%* |
| *2007-08* | *24112.1* | *24112.1* | *0* | *-2292.0* | *-8.7%* |
| *2008-09* | *21025.6* | *21025.6* | *0.0* | *-3086.5* | *-12.8%* |
| *2009-10* | *21523.1* | *21523.1* | *0.0* | *497.5* | *2.4%* |
| *2010-11* | *22551.6* | *22551.6* | *0.0* | *1028.5* | *4.8%* |
| *2011-12* | *23618.8* | *23618.8* | *0.0* | *1067.2* | *4.7%* |
| *2012-13* | *25314.6* | *25314.6* | *0.0* | *1695.8* | *7.2%* |
| *2013-14* | *26198.0* | *26198.0* | *0.0* | *883.4* | *3.5%* |
| *2014-15* | *27681.1* | *27485.9* | *(195.2)* | *1287.9* | *5.7%* |
| 2015-16 | 28,274.8 | **28,325.4** | 50.6 | 644.3 | 2.3% |
| 2016-17 | 29,464.7 | **29,332.8** | (131.9) | 1007.4 | 3.6% |
| 2017-18 | 30,822.0 | **30,686.9** | (135.1) | 1354.1 | 4.6% |
| 2018-19 | 31,974.0 | **31,948.2** | (25.8) | 1261.3 | 4.1% |
| 2019-20 | 33,150.2 | **33,223.9** | 73.7 | 1275.7 | 4.0% |
| 2020-21 | 34,390.7 | **34,395.1** | 4.4 | 1171.2 | 3.5% |
| 2021-22 | n/a | **35,614.9** | n/a | 1219.8 | 3.5% |

*In FY 2014-15, General Revenue collections surpassed the prior peak in 2005-06 for the first time since then. After slowing in FY 2015-16, steady growth is expected to continue through 2016-17, pick up slightly during the 2017-18 through 2019-20 time period, and then shift down to long-run growth of 3.5%.*

# Upside Risks To Go With Downside...

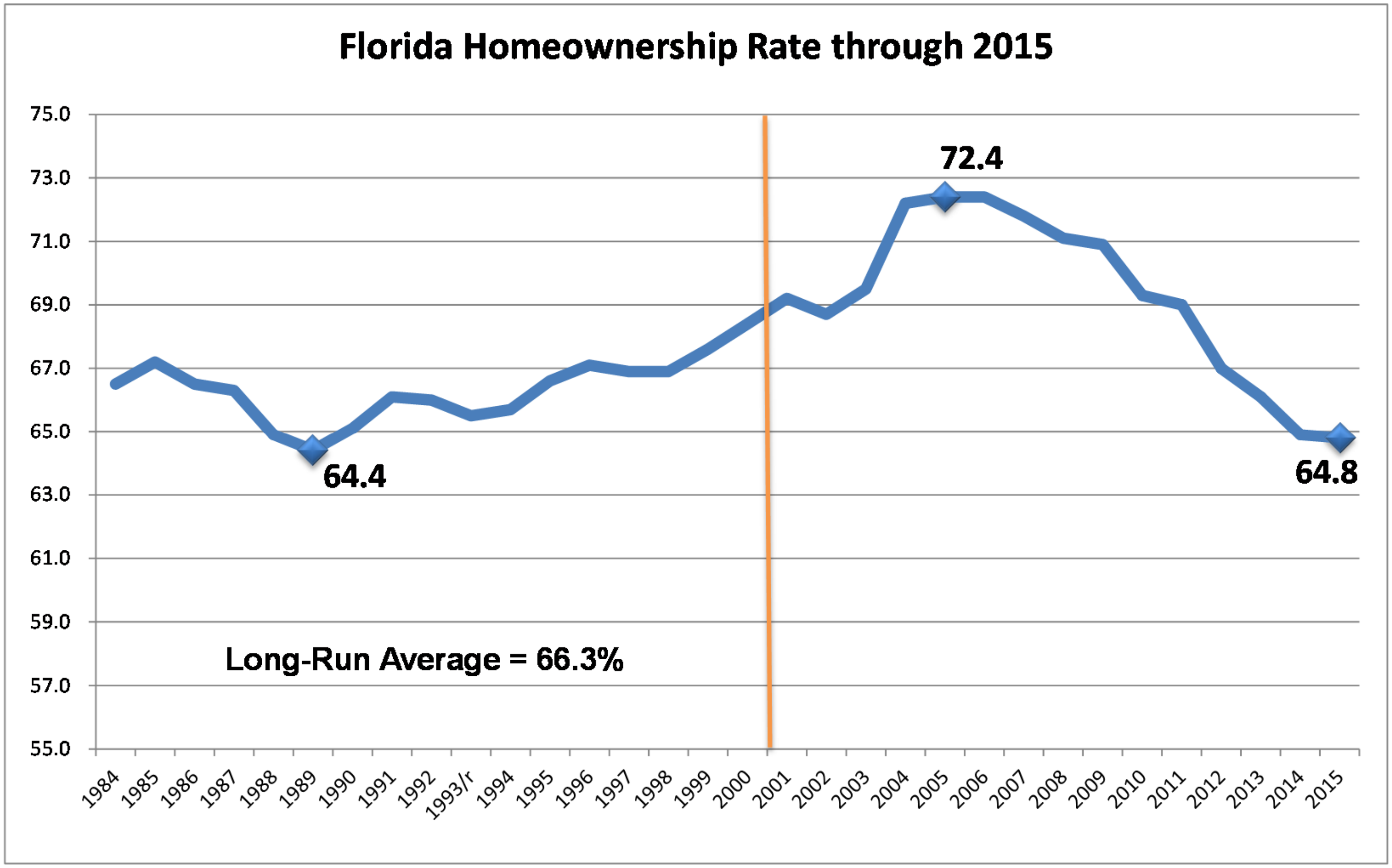
**Construction...**

- The "shadow inventory" of homes that are in foreclosure or carry delinquent or defaulted mortgages may contain a significant number of "ghost" homes that are distressed beyond realistic use, in that they have not been physically maintained or are located in distressed pockets that will not come back in a reasonable timeframe. This means that the supply has become two-tiered – viable homes and seriously distressed homes.
- To the extent that the number of viable homes is limited, new construction may come back quicker than expected.

**More Buyers...**

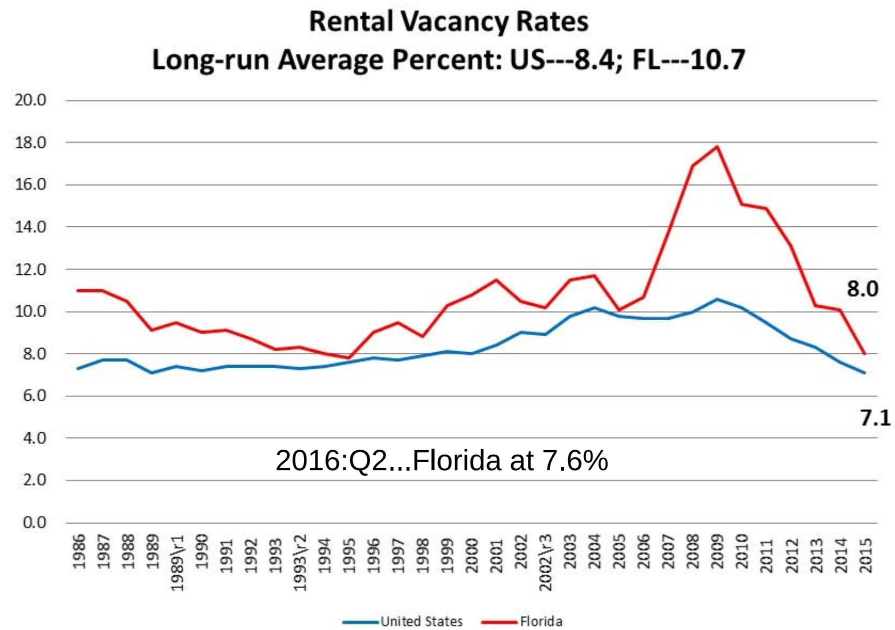
- In 2015, the first wave of homeowners affected by foreclosures and short sales went past the seven-year window generally needed to repair credit.
- While there is no evidence yet, atypical household formation will ultimately unwind—driving up the demand for housing.

# Downside: Homeownership Rate Below Normal and Still Dropping...



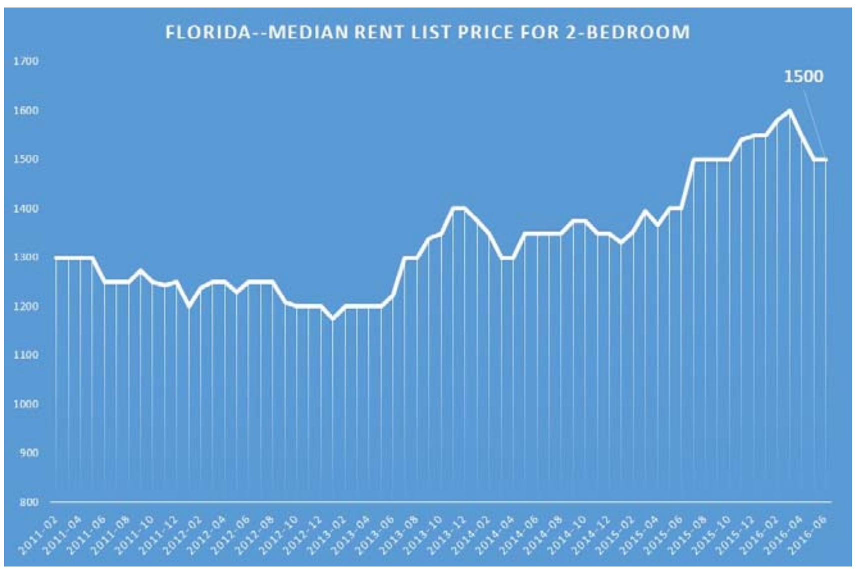

The 2015 percentage of 64.8 is the lowest since 1989, and it's below the long-term average for Florida. Second-quarter data for 2016 shows a further decline to 63.8%. If this level holds for the year, it will be the lowest level for Florida in the 32-year history of the series.

**Diverted homeowners and shifting preferences among Millennials have caused residential rental vacancies to tighten strongly in 2015 and early 2016; price pressure is now starting to build.**




| Year | Median Gross Rent: United States | Median Gross Rent: Florida | Median Gross Rent: Florida relative to United States | Average Gross Rent: United States | Average Gross Rent: Florida | Average Gross Rent: Florida relative to United States |
|---|---|---|---|---|---|---|
| 2005 | 728 | 809 | 111% | 803 | 863 | 107% |
| 2006 | 763 | 872 | 114% | 844 | 932 | 110% |
| 2007 | 789 | 925 | 117% | 878 | 991 | 113% |
| 2008 | 824 | 947 | 115% | 919 | 1,015 | 110% |
| 2009 | 842 | 952 | 113% | 938 | 1,024 | 109% |
| 2010 | 855 | 947 | 111% | 954 | 1,017 | 107% |
| 2011 | 871 | 949 | 109% | 973 | 1,027 | 106% |
| 2012 | 884 | 954 | 108% | 990 | 1,037 | 105% |
| 2013 | 905 | 972 | 107% | 1,016 | 1,050 | 103% |
| 2014 | 934 | 1,003 | 107% | 1,047 | 1,087 | 104% |

Source: U.S. Census Bureau, American Community Survey, 1-Year, 2005-2014.




Zillow Rental Data: Median Rent List Price, 2-bedroom

# GR Outlook Balance for FY 2016-17

| | REC | N/R | TOTAL |
|---|---|---|---|
| **2016-17 Ending Balance on Post-Session Outlook** | **45.6** | **1,071.0** | **1,116.6** |
| -PLUS- Revenue Surplus from 2015-16 | 0.0 | 50.6 | 50.6 |
| -PLUS- BP Settlement Agreement Payment | 106.7 | 293.3 | 400.0 |
| -PLUS- Miscellaneous Outlook Adjustments | 0.0 | 5.1 | 5.1 |
| -MINUS- Forecast Changes | -151.2 | 19.3 | -131.9 |
| -MINUS- Budget Amendment for Zika Virus Response | 0.0 | -26.2 | -26.2 |
| BALANCE ON CURRENT OFFICIAL OUTLOOK | 1.1 | 1,413.1 | 1,414.2 |
| | | | |
| -MINUS- Current Year Deficits | 0.0 | -1.0 | -1.0 |
| **ADJUSTED BALANCE** | 1.1 | 1,412.1 | 1,413.2 |

**BALANCE FOR LONG-RANGE FINANCIAL OUTLOOK** **1,413.2**

A projected remaining balance of $1.4 billion in nonrecurring dollars is assumed to be available for use in FY 2017-18.

# Total State Reserves Are Strong...

| Outlook Year | Baseline Fiscal Year | Unallocated General Revenue | Budget Stabilization Fund | Lawton Chiles Endowment Fund | Total Reserves | GR Summer Revenue Estimate* | % of GR Estimate |
|---|---|---|---|---|---|---|---|
| 2011 | 2011-12 | 1,357.6 | 493.6 | 696.2 | 2,547.3 | 23,795.1 | 10.7% |
| 2012 | 2012-13 | 1,577.7 | 708.1 | 426.1 | 2,711.9 | 24,631.6 | 11.0% |
| 2013 | 2013-14 | 1,893.5 | 924.8 | 536.3 | 3,354.6 | 26,184.2 | 12.8% |
| 2014 | 2014-15 | 1,589.0 | 1,139.2 | 629.3 | 3,357.5 | 27,189.4 | 12.3% |
| 2015 | 2015-16 | 1,709.1 | 1,353.7 | 590.2 | 3,653.0 | 28,414.1 | 12.9% |
| 2016 | 2016-17 | 1,414.2 | 1,384.4 | 637.5 | 3,436.1 | 29,732.8 | 11.6% |

**Reflects the General Revenue forecast adopted by the Revenue Estimating Conference in the summer preceding the adoption of each Long-Range Financial Outlook. The Fiscal Year 2016-17 amount includes the $400 million payment associated with the BP Settlement Agreement.*

- Unallocated General Revenue, the Budget Stabilization Fund, and the Lawton Chiles Endowment Fund are generally considered to comprise the state's reserves.
- At the time of adoption for each of the previous five Outlooks, total state reserves have ranged from 10.7% up to 12.9% of the General Revenue estimate.
- For the current year, total state reserves are $3,436.1 million or 11.6% of the General Revenue estimate for FY 2016-17.

# Budget Drivers...

- Tier 1 – Includes only Critical Needs, which are mandatory increases based on estimating conferences and other essential items. The **18** Critical Needs drivers represent the minimum cost to fund the budget without significant programmatic changes. For the General Revenue Fund, the greatest burden occurs in FY 2018-19 when projected expenditures jump sharply from FY 2017-18, largely due to the depletion of one-time trust fund balances that reduced the General Revenue need in FY 2017-18.

- Tier 2 – Other High Priority Needs are added to the Critical Needs. Other High Priority Needs reflect issues that have been funded in most, if not all, of the recent budget years. Both types of drivers are combined to represent a more complete, yet still conservative, approach to estimating future expenditures. In contrast to Critical Needs, the General Revenue burden for the **30** Other High Priority Needs is spread fairly evenly across the fiscal years but declines slightly over time.

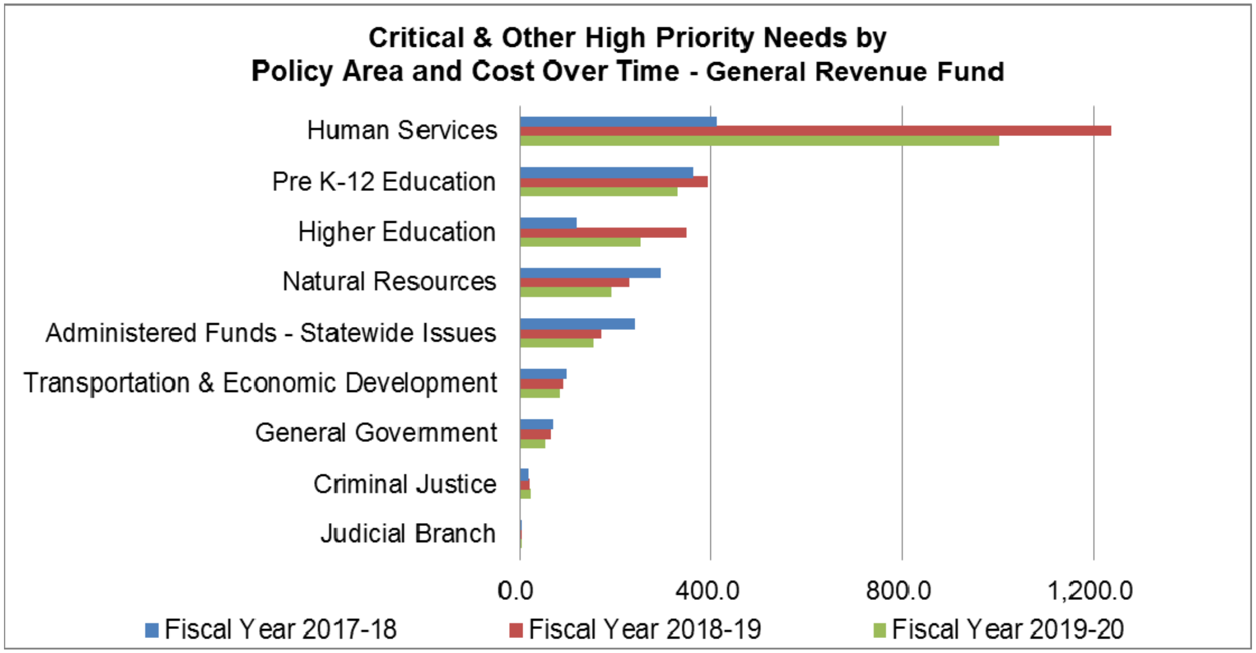
**DOLLAR VALUE OF CRITICAL AND OTHER HIGH PRIORITY NEEDS**

| GENERAL REVENUE FUND | Fiscal Year 2017-18 | Fiscal Year 2018-19 | Fiscal Year 2019-20 |
|---|---|---|---|
| Total Tier 1 - Critical Needs | 484.9 | 1,493.0 | 1,087.1 |
| Total - Other High Priority Needs | 1,145.1 | 1,064.1 | 1,009.6 |
| Total Tier 2 - Critical and Other High Priority Needs | 1,630.0 | 2,557.1 | 2,096.7 |

**PERCENTAGE OF TOTAL CRITICAL AND OTHER HIGH PRIORITY NEEDS**

| GENERAL REVENUE FUND | Fiscal Year 2017-18 | Fiscal Year 2018-19 | Fiscal Year 2019-20 |
|---|---|---|---|
| Total Tier 1 - Critical Needs | 29.7% | 58.4% | 51.8% |
| Total - Other High Priority Needs | 70.3% | 41.6% | 48.2% |
| Total Tier 2 - Critical and Other High Priority Needs | 100.0% | 100.0% | 100.0% |

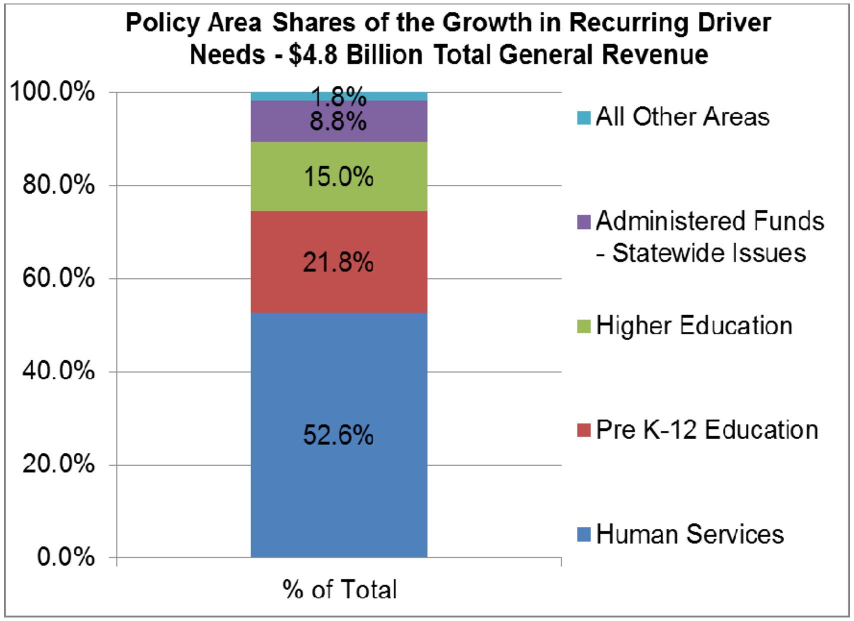
# GR Drivers by Policy Area..

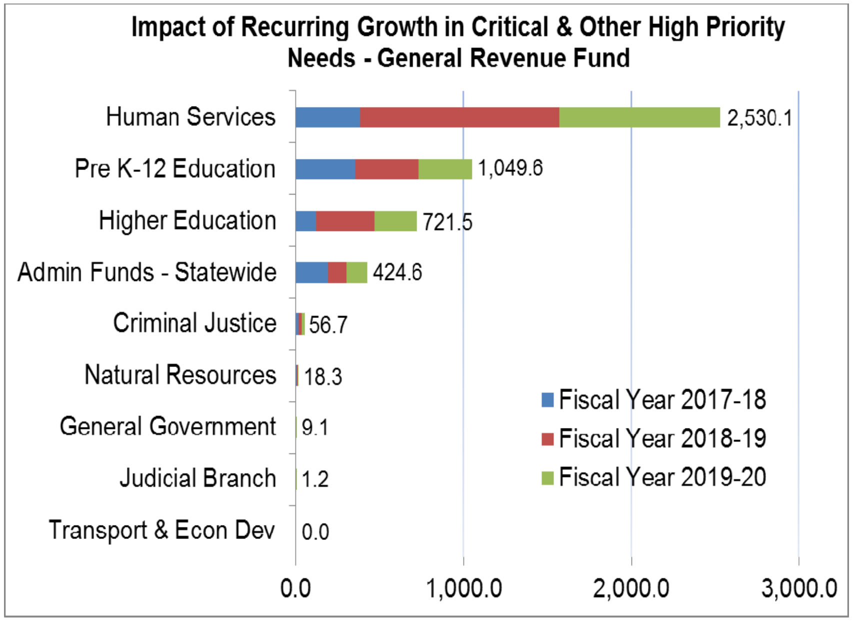



| POLICY AREAS | Fiscal Year 2017-18 | Fiscal Year 2018-19 | Fiscal Year 2019-20 |
|---|---|---|---|
| Pre K-12 Education | 362.7 | 393.1 | 328.9 |
| Higher Education | 121.1 | 347.5 | 252.9 |
| Human Services | 412.6 | 1,235.6 | 1,000.9 |
| Criminal Justice | 19.1 | 19.5 | 24.1 |
| Judicial Branch | 5.0 | 4.7 | 5.0 |
| Transportation & Economic Development | 100.1 | 91.4 | 85.0 |
| Natural Resources | 297.0 | 229.8 | 191.8 |
| General Government | 70.1 | 66.4 | 53.7 |
| Administered Funds - Statewide Issues | 242.3 | 169.1 | 154.4 |
| **Total New Issues** | 1,630.0 | 2,557.1 | 2,096.7 |

About ½ of the policy areas, in particular Administered Funds/ Statewide Issues and Natural Resources, have the largest needs in the 1st year with a detectable drop off in the subsequent years. Human Services and Education have a different pattern with greater needs in the 2nd year of the Outlook, prior to stabilizing in the 3rd year. These two areas are most affected by the depletion of available trust fund balances in FY 2017-18.

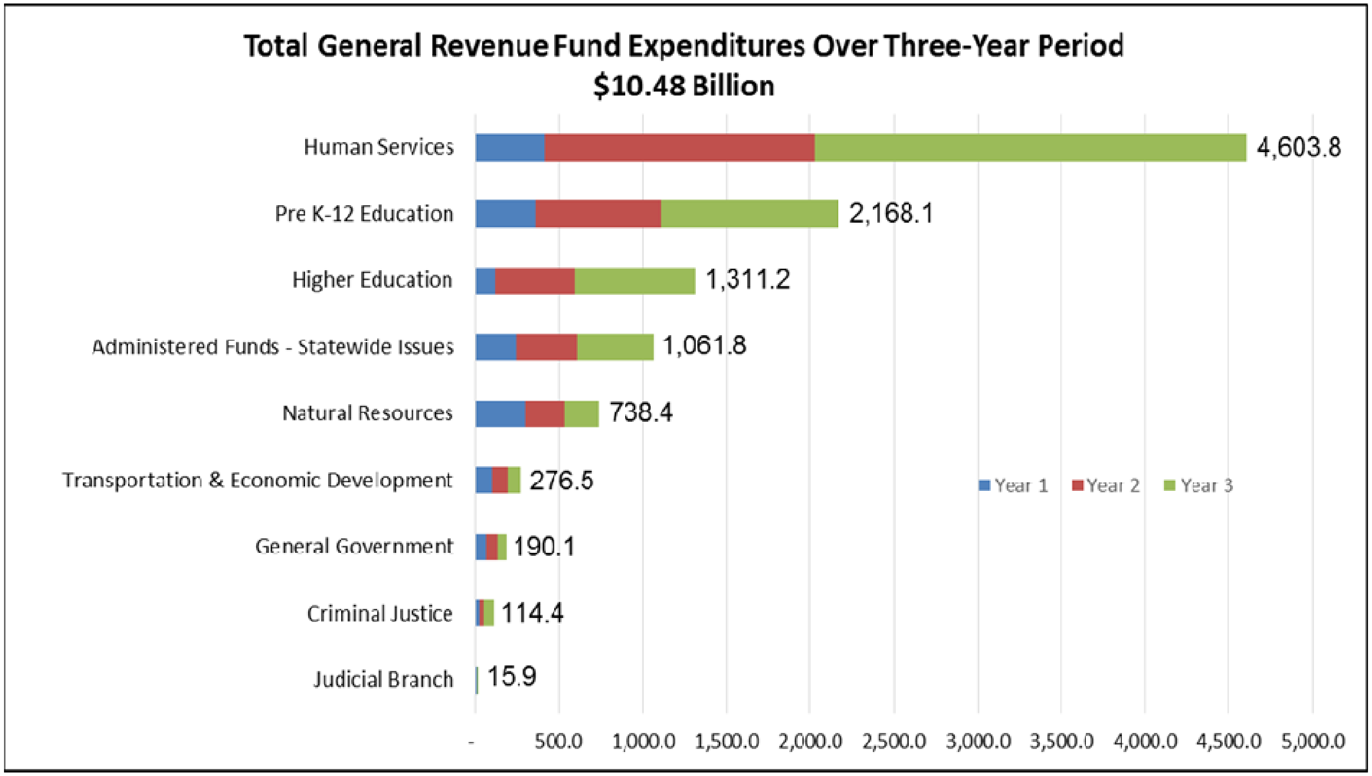
# From Start to End of Three-Year Outlook Period: Recurring Growth = $4.8 Billion or 76% of Total



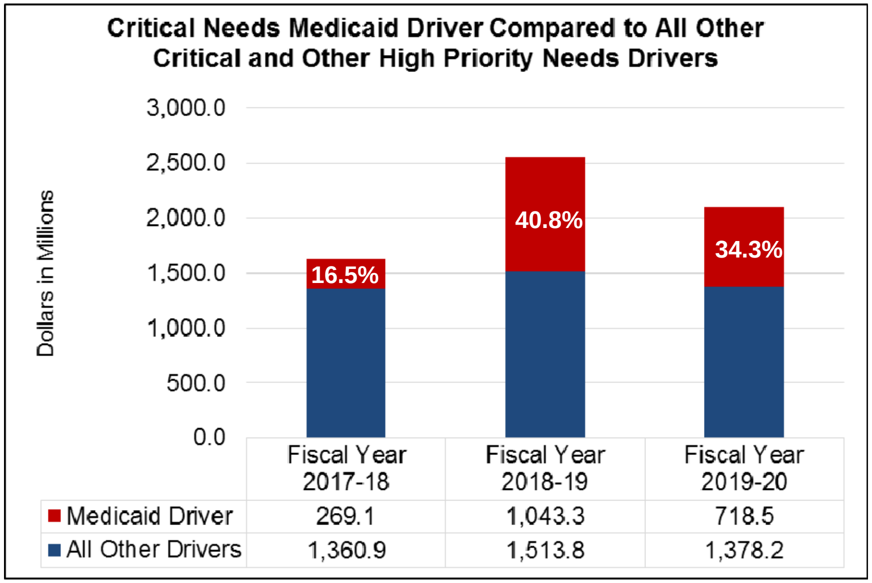

- The recurring effects of each year's drivers continue throughout the remaining years contained in the Outlook, with each new year adding to the prior year's recurring appropriations.
- The Human Services policy area, primarily driven by Medicaid expenditures, has the largest need for new recurring dollars, increasing by more than $2.5 billion from the beginning of the period to the end. By itself, this area generates 52.6% of the total $4.8 billion recurring increase.
- The next largest area is Pre K-12 Education, which is projected to increase its need for recurring dollars by slightly more than $1.0 billion over the three-year period, or 21.8% of the total.

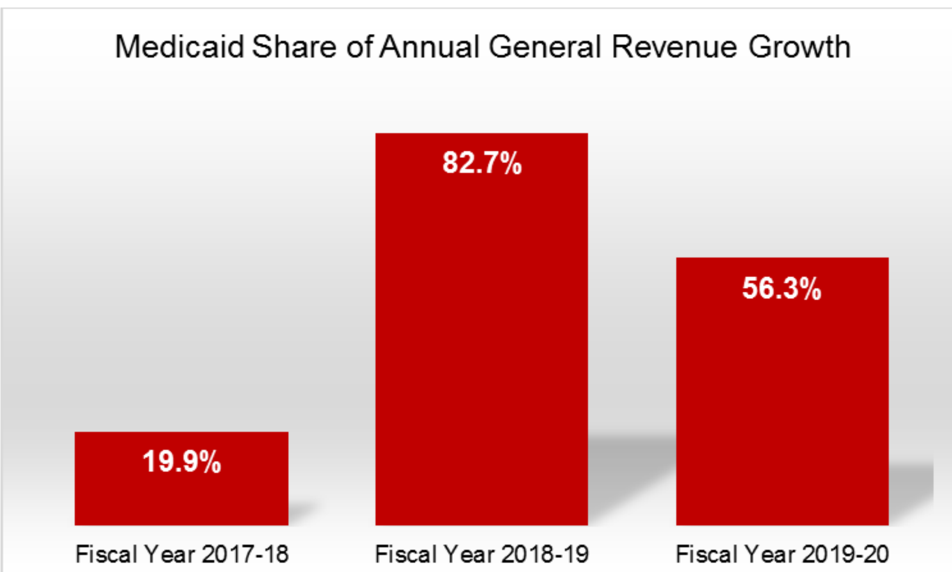
# Total GR Expenditures - $10.5 Billion




Over the entire Outlook period, the combined recurring and nonrecurring drivers result in nearly $10.5 billion of actual General Revenue expenditures on Critical and Other High Priority Needs. Of the $10.5 billion total, nearly $1.5 billion will be spent on nonrecurring issues, or approximately 14% of the total. The remaining $9.0 billion results from a 16.3% increase in recurring expenditures from the starting point in FY 2017-18 to the end of the three-year period.

# Medicaid Driver Dominates...




Although the Critical Needs driver for the Medicaid Program is the second largest driver in the 1st year of the Outlook, it is the largest driver in subsequent years, representing 69.9% of the total Critical Needs in FY 2018-19 and 66.1% in FY 2019-20. When including all Critical Needs and Other High Priority Needs, the Medicaid program driver represents 16.5%, 40.8%, and 34.3%, respectively, of total needs for each year of the Outlook.

Over the three-year period covered by the Outlook, the additional Medicaid need each year consumes an average of 53.0% of the expected General Revenue growth for that year.

# Revenue Adjustments...

- Revenue Adjustments to the General Revenue Fund are again included in the Outlook to reflect legislative actions that alter the revenue-side of the state's fiscal picture. These adjustments are based on three-year averages and include:
  - *Tax and Significant Fee Changes*...These changes fall into two categories with different effects. The continuing tax and fee changes reflect adjustments to the funds otherwise available and build over time since the impact of each year's change is added to the recurring impacts from prior years. Conversely, the time-limited tax and fee changes are confined to each year and are held constant throughout the Outlook.
  - *Trust Fund Transfers (GAA)*...The nonrecurring transfers are positive adjustments to the funds otherwise available and are held constant each year.

| | 2017-18 | | | 2018-19 | | | 2019-20 | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Rec** | **NR** | **Total** | **Rec** | **NR** | **Total** | **Rec** | **NR** | **Total** |
| Continuing Tax and Fee Changes | (254.0) | 59.9 | (194.1) | (254.0) | 59.9 | (194.1) | (254.0) | 59.9 | (194.1) |
| Recurring Impact of Prior Years' Tax and Fee Changes | 0.0 | 0.0 | 0.0 | (254.0) | 0.0 | (254.0) | (508.0) | 0.0 | (508.0) |
| Time-Limited Tax and Fee Changes | 0.0 | (67.5) | (67.5) | 0.0 | (67.5) | (67.5) | 0.0 | (67.5) | (67.5) |
| Trust Fund Transfers (GAA) | 0.0 | 242.5 | 242.5 | 0.0 | 242.5 | 242.5 | 0.0 | 242.5 | 242.5 |
| **Total** | **(254.0)** | **234.9** | **(19.1)** | **(508.0)** | **234.9** | **(273.1)** | **(762.0)** | **234.9** | **(527.1)** |

- The continuing tax and fee changes do not include any impact associated with the lower Required Local Effort (RLE) level adopted by the Legislature as part of the FY 2016-17 appropriations for the Florida Education Finance Program (FEFP). For purposes of the Outlook, this issue has only budgetary implications for the General Revenue Fund and is addressed in the Critical Needs drivers for Pre K-12 Education. As has been the practice in previous Outlooks, the FEFP budget drivers are based on the assumption that the current year's certified millage rate is the starting point for projected expenditures in all subsequent years.

# Putting It Together for the First Year

| OUTLOOK PROJECTION – FISCAL YEAR 2017-18 *(in millions)* | | | |
|---|---|---|---|
| | RECURRING | NON RECURRING | TOTAL |
| **AVAILABLE GENERAL REVENUE** | **$30,808.0** | **$1,387.7** | **$32,195.7** |
| | | | |
| *Base Budget* | $29,507.2 | $0.0 | $29,507.2 |
| *Transfer to Budget Stabilization Fund* | $0.0 | $31.9 | $31.9 |
| *Critical Needs* | $439.9 | $45.0 | $484.9 |
| *Other High Priority Needs* | $631.3 | $513.8 | $1,145.1 |
| *Reserve* | $0.0 | $1,000.0 | $1,000.0 |
| **TOTAL EXPENDITURES** | **$30,578.4** | **$1,590.7** | **$32,169.1** |
| | | | |
| *Revenue Adjustments* | ($254.0) | $234.9 | ($19.1) |
| | | | |
| **ENDING BALANCE** | **($24.4)** | **$31.9** | **$7.5** |

- Combined, recurring and nonrecurring General Revenue program needs—with a minimum reserve of $1 billion—are less than the available General Revenue dollars, meaning there is no budget gap for FY 2017-18. Anticipated expenditures, potential revenue adjustments, and the reserve can be fully funded and the budget will be in balance as constitutionally required.
- Although there is no budget gap in the first year, there is essentially no remaining General Revenue for discretionary issues—the projected surplus of $7.5 million equates to just 0.02% of the General Revenue estimate for FY 2017-18.
- Further, the projected recurring expenditures and revenue adjustments, in combination, outstrip the available recurring resources by $24.4 million.

# Outlook Projections Over Time

| Outlook | For the Period Beginning | Year 1 ($ Millions) | Year 2 ($ Millions) | Year 3 ($ Millions) | Level of Reserves |
|---|---|---|---|---|---|
| 2007 | Fiscal Year 2008-09 | (2,334.5) | (2,860.7) | (3,066.0) | 0.0 |
| 2008 | Fiscal Year 2009-10 | (3,306.3) | (2,482.5) | (1,816.8) | 0.0 |
| 2009 | Fiscal Year 2010-11 | (2,654.4) | (5,473.2) | (5,228.6) | 0.0 |
| 2010 | Fiscal Year 2011-12 | (2,510.7) | (2,846.3) | (1,930.3) | 0.0 |
| 2011 | Fiscal Year 2012-13 | 273.8 | 692.1 | 840.6 | 1,000.0 |
| 2012 | Fiscal Year 2013-14 | 71.3 | 53.5 | 594.0 | 1,000.0 |
| 2013 | Fiscal Year 2014-15 | 845.7 | 1,426.7 | 3,295.3 | 1,000.0 |
| 2014 | Fiscal Year 2015-16 | 336.2 | 1,004.5 | 2,156.1 | 1,000.0 |
| 2015 | Fiscal Year 2016-17 | 635.4 | 583.7 | 222.2 | 1,000.0 |
| 2016 | Fiscal Year 2017-18 | 7.5 | (1,300.9) | (1,897.7) | 1,000.0 |

- For the first time since the 2010 Outlook, there is a projected budget gap, or potential shortfall between revenues and expenditures during the three-year period.

- FY 2018-19 and FY 2019-20 (Years 2 and 3 of the Outlook) both show projected budget needs significantly in excess of available revenue for Critical and Other High Priority Needs. The shortfalls are even greater when factoring in the potential revenue adjustments.

# The Bottom Line...

| 2016 Outlook | For the Period Beginning Fiscal Year 2017-18 | Year 1 ($ Millions) | Year 2 ($ Millions) | Year 3 ($ Millions) | Level of Reserves |
|---|---|---|---|---|---|
| Tier 1 | ***Critical Needs*** | $1,171.7 | $1,831.8 | $2,706.2 | $1,000.0 |
| Tier 2 | ***Critical Needs & Other High Priority Needs*** | $26.6 | ($1,008.7) | ($1,370.6) | $1,000.0 |
| Tier 3 | ***Critical Needs, Other High Priority Needs & Revenue Adjustments*** | $7.5 | ($1,300.9) | ($1,897.7) | $1,000.0 |

- While revenues are sufficient to cover the Critical Needs in Tier 1 for all three years of the Outlook, the large negative ending balances for FY 2018-19 and FY 2019-20 in both Tiers 2 and 3 indicate a looming problem—notwithstanding the small positive ending balances projected in both scenarios for FY 2017-18.
- Particularly problematic is the fact that the recurring General Revenue demands exceed the amount of recurring General Revenue available in two of the three years for Tier 2 and in all three years for Tier 3. This indicates that a structural imbalance is occurring between expenditures and revenues.
- Since the increase in projected recurring expenditures (and negative revenue adjustments in Tier 3) in FY 2017-18 clearly contributes to and worsens the problems in FY 2018-19 and FY 2019-20, Fiscal Strategies are advisable for all three years of the Outlook in order to manage the problems in the out-years.

# Timing of Corrective Action...

- When budget gaps between revenues and expenditures occurred in the past, each of the three years of the Outlook was affected, and they displayed negatives of similar magnitude.
  - This had the practical effect of limiting the number of potential strategies because any strategy deployed to cure the problem in the first year had ripple effects throughout the remaining years of the plan.
  - In those instances, the strategies were discretely identified and laid out.
- In this year's Outlook, only the two outer years reveal actual shortfalls.
  - This necessitates a different treatment because the number of possible permutations is too great to allow specific identification of each one. Among the many variables that should be considered is the timing of the corrective action.
  - While a fiscal strategy is required no later than FY 2018-19 to address the projected gap between revenues and expenditures, less disruptive courses of action would argue for at least some level of deployment beginning in FY 2017-18. Otherwise, there is the potential to increase funding for programs in Year 1 that would not survive Year 2. Further, 61.2% of the recurring growth comes from Tier 1—Critical Needs, which are the most difficult for the Legislature to tackle without significant redesign and substantive legislation.

# Fiscal Strategies...

- Conceptually, there are five options to eliminate a proposed budget gap in any given year of the Outlook.
  - Budget Reductions and Reduced Program Growth
  - Reduction or Elimination of Revenue Adjustments Affecting Taxes and Fees in Tier 3
  - Revenue Enhancements and Redirections
  - Trust Fund Transfers or Sweeps
  - Reserve Reductions
- With the exception of trust fund transfers or sweeps and reserve reductions, these options can be deployed on either a recurring or nonrecurring basis. When they are used to bring about a recurring change, they also have an impact on the following fiscal years.
- The magnitude of the recurring shortfall cannot be fixed by nonrecurring solutions alone. A simple reduction in the level of reserves or added trust fund transfers or sweeps (in excess of those included in Tier 3) will close the gap in a particular year; however, these strategies do not solve the recurring problem.
- The other three options will become the basis of more meaningful strategies.

# Benefit of Time…

| | *Tier 3 Projected Ending Balances* | | | | *Timing Scenario A* | | | | *Timing Scenario B* | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Year 1** | **FY 2017-18 Adjustment and Revised Ending Balance** | | | | **FY 2017-18 Adjustment and Revised Ending Balance** | | | | **FY 2017-18 Adjustment and Revised Ending Balance** | | | |
| | | *Recurring* | *Nonrecurring* | *Total* | | *Recurring* | *Nonrecurring* | *Total* | | *Recurring* | *Nonrecurring* | *Total* |
| | **Adj.** | **0.0** | **0.0** | **0.0** | **Adj.** | **(582.9)** | **99.6** | **(483.3)** | **Adj.** | **(543.1)** | **0.0** | **(543.1)** |
| | **End Bal** | (24.4) | 31.9 | 7.5 | **End Bal** | 558.5 | (67.7) | 490.8 | **End Bal** | 518.7 | 31.9 | 550.6 |
| **Year 2** | **FY 2018-19 Adjustment and Revised Ending Balance** | | | | **FY 2018-19 Adjustment and Revised Ending Balance** | | | | **FY 2018-19 Adjustment and Revised Ending Balance** | | | |
| | | *Recurring* | *Nonrecurring* | *Total* | | *Recurring* | *Nonrecurring* | *Total* | | *Recurring* | *Nonrecurring* | *Total* |
| | **Adj.** | **0.0** | **0.0** | **0.0** | **Adj.** | **(582.9)** | **99.6** | **(483.3)** | **Adj.** | **(543.0)** | **0.0** | **(543.0)** |
| | **End Bal** | (1,086.1) | (214.8) | (1,300.9) | **End Bal** | 79.7 | 168.9 | 248.6 | **End Bal** | 0.0 | 328.3 | 328.3 |
| **Year 3** | **FY 2019-20 Adjustment and Revised Ending Balance** | | | | **FY 2019-20 Adjustment and Revised Ending Balance** | | | | **FY 2019-20 Adjustment and Revised Ending Balance** | | | |
| | | *Recurring* | *Nonrecurring* | *Total* | | *Recurring* | *Nonrecurring* | *Total* | | *Recurring* | *Nonrecurring* | *Total* |
| | **Adj.** | **0.0** | **0.0** | **0.0** | **Adj.** | **(582.8)** | **99.5** | **(483.3)** | **Adj.** | **0.0** | **0.0** | **0.0** |
| | **End Bal** | (1,748.6) | (149.1) | (1,897.7) | **End Bal** | 0.0 | 0.0 | 0.0 | **End Bal** | (662.5) | 179.2 | (483.3) |

- Two basic scenarios ("A" and "B") take advantage of the upcoming Session to improve the outlook for the two subsequent years.
- Other scenarios that focus more on the second year are also feasible, but to the extent the corrective actions are delayed, they will result in a more intense and concentrated effort to produce the required savings in FY 2018-19.
- A total delay of corrective actions until Year 2 (FY 2018-19) will result in the need to clear the projected shortfalls of $1.0 billion (Tier 2) or $1.3 billion (Tier 3).

| Timing Scenario “A” | Timing Scenario “B” |
|---|---|
| Assumes that the Legislature chooses to clear the projected budget shortfalls in both FY 2018-19 and FY 2019-20 by beginning action in the first year and using an equal adjustment level in each of the three years to smooth the transition between years. | Assumes that the Legislature chooses to clear the projected recurring budget shortfall in FY 2018-19 by beginning action in the first year and using an equal adjustment level in each of the first two years to smooth the transition. As a result, the projections for the third year are significantly improved. |
| Equal annual adjustments are made to completely eliminate the projected *recurring* and *nonrecurring* shortfalls by the end of the plan’s third year (FY 2019-20). These annual adjustments are equal to approximately $483 million per year (a reduction of $582.9 million recurring with a conversion of nearly $100 million to nonrecurring). | Equal annual adjustments are made in the first two years to completely eliminate the projected *recurring* shortfall in the plan’s second year (FY 2018-19). These annual recurring adjustments are equal to approximately $543 million per year in FY 2017-18 and FY 2018-19. |
| The adjustments could be the form of (1) budget reductions and reduced program growth or (2) reduction or elimination of the revenue adjustments affecting taxes and fees in Tier 3, or (3) a combination of both. | Same |
| This scenario implies that only Critical Needs issues could be fully funded, thereby eliminating most of the available funds for the identified Other High Priority Needs. An alternative would be to fund some or all of the additional Other High Priority Needs by reducing the existing expenditure base by commensurate amounts. | Same |
| The smoothed approach in this scenario produces the least disruptive pattern of all likely options to clear all identified problems during the three-year period. | Essentially, this scenario spreads the burden of the second year corrective action (FY 2018-19) over the first two years of the plan in order to minimize the disruption. However, both a structural imbalance and a negative ending balance are still visible in the third year (FY 2019-20). |

# Black Swans...

*"Black Swans" are low probability, high impact events:*

- A severe natural disaster that stresses the state's reserves.
  - 2004 and 2005 Hurricane Seasons
  - Budget Stabilization Fund balance is currently $1,353.7 million and will be $1,384.4 million after the FY 2016-17 transfer of $30.7 million.
- A shock to the revenue forecast used by the Outlook. This one makes no adjustments for Zika-related impacts and assumes no other events that have significant repercussions affecting tourism occur during the three-year period.
  - Currently, tourism-related revenue losses pose the greatest potential risk to the economic outlook from Zika.
  - Previous economic studies of disease outbreaks and natural or manmade disasters have shown that tourism demand is very sensitive to such events.

*In an unrelated study, the Legislative Office of Economic and Demographic Research performed an empirical analysis of the source of the state's sales tax collections. In FY 2013-14, sales tax collections provided $19.7 billion dollars or 75% Florida's total General Revenue collections. Of this amount, an estimated 12.5% (nearly $2.5 billion) was attributable to purchases made by tourists.*