Florida:
Updated Long-Range Financial Outlook
(Adjusted by Fall Conference Series and Recent Events)

December 12, 2018

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Revenue Drivers
National and Florida Economic Forecasts
Population Growth

Budget Drivers
Estimating Conferences
Past Legislative Actions & 3-YR Averages

Long-Range Financial Outlook

Twelfth document prepared since the constitutional requirement passed ~ nearly 100 Analysts were involved in the process over the Summer months

Fiscal Years Addressed
2019-20
2020-21
2021-22

Fall 2018 Update:
Little change from Summer Conferences, with some slowing of economic growth by 2020. This is largely due to national events: fading stimulus from federal tax cuts and spending increases, accumulating impact from already enacted tariffs, and more restrictive federal reserve policy.

Fall 2018 Update:
Key Conferences Still Underway

Economy Largely Recovered...

Florida growth rates are generally returning to more typical levels and continue to show progress. The drags—particularly construction—are more persistent than past events, but the strength in tourism is compensating for this. In the various forecasts, normalcy was largely achieved by the end of FY 2016-17. Overall...

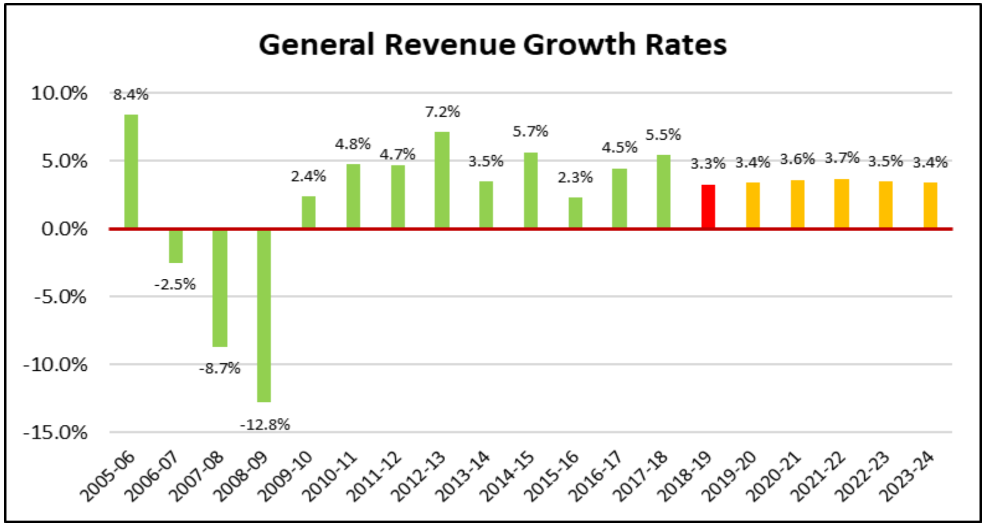
- The national economy is back to normal on nearly all measures. While most areas of commercial and consumer credit have significantly strengthened – residential credit for home purchases still remains somewhat difficult for consumers to access with a weighted average credit score of 727 and a LTV of 79 percent on all closed loans in October (virtually identical to June). Seventy-one percent of all home purchase lending in October had credit scores that were 700 or above. Student loans and auto debts appear to be affecting the ability to qualify for residential credit. Even so, the percent of all home sales that are financed is approaching 63 percent in Florida (July 2018), up from 60 percent in May.

- By the close of the 2017-18 fiscal year, most measures of the Florida economy had returned to or surpassed their prior peaks.
  - All personal income metrics, over one-half of the employment measures, and the total tourism and domestic visitor counts had exceeded their prior peaks.
  - Other measures were posting solid year-over-year improvements, even if they were not yet back to peak performance levels.
  - Private nonresidential construction expenditures first passed their prior peak in FY 2016-17, but none of the key residential construction measures pass their prior peaks until FY 2026-27, a significant slowdown from the forecast adopted in the Summer.

General Revenue Forecast

LR Growth: Averages 6%
Forecast Growth: Averages 3.5%

The past had tax increases associated with key revenue sources and stronger population growth.



Next General Revenue Forecast:
December 18, 2018

Fiscal Year	Post-Session Forecast	August Forecast	Difference (Aug - PS)	Incremental Growth	Growth
2005-06	27,074.8				8.4%
2006-07	26,404.1				-2.5%
2007-08	24,112.1				-8.7%
2008-09	21,025.6				-12.8%
2009-10	21,523.1				2.4%
2010-11	22,551.6				4.8%
2011-12	23,618.8				4.7%
2012-13	25,314.6				7.2%
2013-14	26,198.0				3.5%
2014-15	27,681.1				5.7%
2015-16	28,325.4				2.3%
2016-17	29,594.5				4.5%
2017-18	31,013.0	31,218.2	205.2	1,623.7	5.5%
2018-19	32,256.9	32,243.8	(13.1)	1,025.6	3.3%
2019-20	33,354.2	33,334.7	(19.5)	1,090.9	3.4%
2020-21	34,568.1	34,544.2	(23.9)	1,209.5	3.6%
2021-22	35,806.5	35,827.4	20.9	1,283.2	3.7%
2022-23	37,031.6	37,086.9	55.3	1,259.5	3.5%
2023-24	n/a	38,349.1	n/a	1,262.2	3.4%

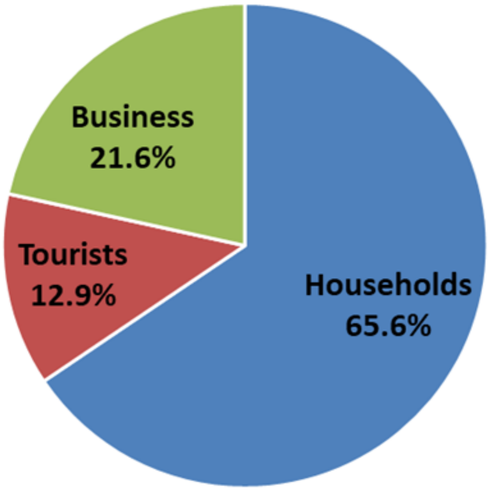
Final collections for FY 2017-18 came in $205.2 million above the estimate for the year, a gain of 0.7 percent and well within the plus or minus one percent range the Conference usually attributes to statistical noise. Of this amount, approximately $120.7 million, or nearly 59 percent, was associated with one-time events. The relatively large nonrecurring portion of the FY 2017-18 surplus, combined with the slightly weaker near-term National and Florida economic forecasts, resulted in a new forecast for General Revenue that was virtually unchanged overall.

Florida-Based Downside Risk

- The most recent sales tax forecast relies heavily on strong tourism growth. It assumes no events that have significant repercussions affecting tourism occur during the forecast window.
  - Currently, tourism-related revenue losses pose the greatest potential risk to the economic outlook.
  - Previous economic studies of disease outbreaks and natural or manmade disasters have shown that tourism demand is very sensitive to such events.
  - A strong and strengthening dollar tends to have a chilling effect on international travel. Since mid-April, the broad dollar has appreciated nearly 9 percent and is expected to remain elevated in the near-term forecast.

The Legislative Office of Economic and Demographic Research has updated and refined an empirical analysis of the various sources of the state's sales tax collections. In FY 2016-17, sales tax collections provided nearly $23.0 billion dollars or 76.8% of Florida's total General Revenue collections. Of this amount, an estimated 12.9% (nearly $2.97 billion) was attributable to purchases made by tourists.

Contributions to General Revenue from Sales Tax (with CST) Collections in FY 2016-17, By Source



GR Outlook Balance for FY 2018-19

	REC	N/R	TOTAL
2018-19 Ending Balance on Post-Session Outlook	**22.2**	**1,003.6**	**1,025.8**
-PLUS- 2017-18 Additional Revenues Above Forecast	0.0	205.2	205.2
-PLUS- 2017 Miscellaneous Outlook Adjustments	0.0	-6.8	-6.8
Sub-Total Adjustments Related to 2017-18	*0.0*	*198.4*	*198.4*
-PLUS- 2018-19 FEMA Reimbursements for Irma	0.0	69.6	69.6
-MINUS- 2018-19 Back of Bill s. 99 Contingent Appropriations	0.0	-44.6	-44.6
-MINUS- 2018-19 Forecast Changes	14.3	-27.4	-13.1
-MINUS- 2018-19 Budget Amendments	0.0	-9.8	-9.8
-MINUS- 2018-19 Miscellaneous Outlook Adjustments	0.1	-0.3	-0.2
Sub-Total Adjustments Related to 2018-19	*14.4*	*-12.5*	*1.9*
BALANCE ON CURRENT OFFICIAL OUTLOOK	36.6	1,189.5	1,226.1

A projected remaining balance of $1.2 billion in nonrecurring dollars was assumed to be available for use in FY 2019-20.

Update: After the final closeout of FY 2017-18 and accounting for all budget amendments through November 15th, the Outlook balance improved by $48.3 million to $1.274 billion.

Total State Reserves Are Solid...

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	1,357.5	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%
2017	2017-18	1,458.5	1,416.5	713.4	3,588.4	31,152.8	11.5%
2018	2018-19	1,226.1	1,483.0	763.1	3,472.2	32,270.5	10.8%

**The Summer Revenue Estimate for FY 2018-19 includes the official estimated revenues for General Revenue and the annual payment from 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 seven Outlooks, total state reserves have ranged from 10.7% to 12.9% of the General Revenue estimate.
- For the current year, total state reserves are $3,472.2 million or 10.8% of the General Revenue estimate for FY 2018-19. The slightly improved Outlook balance increases this percentage to 10.9%.

Budget Drivers...

- Tier 1 – Includes only Critical Needs, which can generally be thought of as the absolute minimum the state must do absent significant law or structural changes; they present the lowest cost of continuing core government functions within the current policy framework. While the **17** Critical Needs drivers for this year's Outlook primarily reflect the first purpose (i.e., mandatory increases and adjustments originating from estimating conferences and constitutional or statutory requirements), a separate driver is included that more directly addresses the second purpose of identifying the lowest state cost of providing essential government services. Because the Legislature has had an evolving policy regarding the appropriate split between state and local funds for the public school system, Critical Needs Driver #3 has been included to show the impact of using the Legislature's longer-term policy of maintaining the millage rate derived from the most recent certified roll for school purposes—in this case July 2018. This allows the Required Local Effort to increase with tax roll growth. However, this assumption is relaxed in the Other High Priority Needs to reflect the specific policy adopted for FY 2018-19.

DOLLAR VALUE OF CRITICAL AND OTHER HIGH PRIORITY NEEDS

GENERAL REVENUE FUND	Fiscal Year 2019-20	Fiscal Year 2020-21	Fiscal Year 2021-22
Total Tier 1 - Critical Needs	35.5	609.9	283.3
Total - Other High Priority Needs	1,829.7	1,701.5	1,630.9
Total Tier 2 - Critical and Other High Priority Needs	1,865.2	2,311.4	1,914.2

- Tier 2 – Other High Priority Needs are added to the Critical Needs. The **30** 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. Essentially, the total projected cost for the Critical Needs and Other High Priority Needs shows the impact of continuing the programs and priorities funded in recent years into the three years included in the Outlook.

GR Drivers by Policy Area...

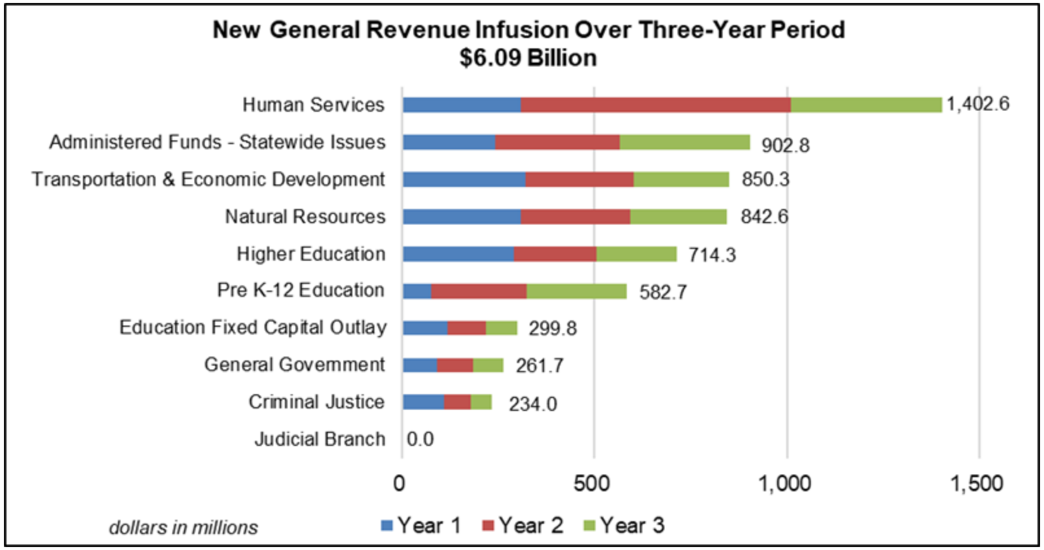
In FY 2019-20, four policy areas (Transportation & Economic Development, Natural Resources, Human Services, and Higher Education) comprise nearly equal shares of two-thirds (65.9%) of the total need for General Revenue.

By the second year of the Outlook, Human Services increases significantly to represent the largest share of the total need at 30.3%, while the other three areas decline to a combined one-third of the total need from nearly one-half of the total.

POLICY AREAS	Fiscal Year 2019-20	Fiscal Year 2020-21	Fiscal Year 2021-22
Pre K-12 Education	76.9	247.4	258.4
Higher Education	289.4	214.1	210.8
Education Fixed Capital Outlay	118.0	98.9	82.9
Human Services	309.1	700.6	392.9
Criminal Justice	110.3	68.2	55.5
Judicial Branch	0.0	0.0	0.0
Transportation & Economic Development	320.7	280.7	248.9
Natural Resources	309.1	282.8	250.7
General Government	90.6	94.0	77.1
Administered Funds - Statewide Issues	241.1	324.7	337.0
Total New Issues	1,865.2	2,311.4	1,914.2

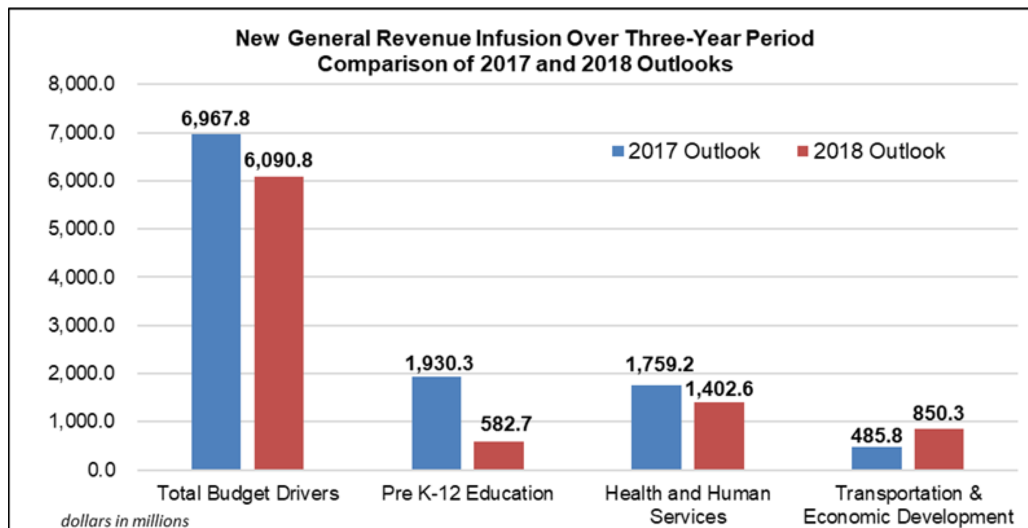
POLICY AREAS	Fiscal Year 2019-20	Fiscal Year 2020-21	Fiscal Year 2021-22
Pre K-12 Education	4.1%	10.7%	13.5%
Higher Education	15.5%	9.3%	11.0%
Education Fixed Capital Outlay	6.3%	4.3%	4.3%
Human Services	16.6%	30.3%	20.5%
Criminal Justice	5.9%	3.0%	2.9%
Judicial Branch	0.0%	0.0%	0.0%
Transportation & Economic Development	17.2%	12.1%	13.0%
Natural Resources	16.6%	12.2%	13.1%
General Government	4.9%	4.1%	4.0%
Administered Funds - Statewide Issues	12.9%	14.0%	17.6%
Total New Issues	100.0%	100.0%	100.0%

Total New GR Infusion = $6.09 Billion



The total need for new infusions of General Revenue over the three years is $6.09 billion. Together, Human Services and Administered Funds – Statewide Issues represent almost 38% of the total.

The total three-year driver need of $6.09 billion is lower than the $6.97 billion identified in last year's Outlook. The difference can be roughly attributed to three policy areas: Pre K-12 Education, Human Services, and Transportation & Economic Development.



Total GR Expenditures = $9.49 Billion

Recurring and Nonrecurring Driver Impact	Fiscal Year 2019-20	Fiscal Year 2020-21	Fiscal Year 2021-22	TOTAL	Share of Grand Total
New Recurring Drivers for Each Year	976.9	1,442.9	1,157.5	3,577.3	
Continuation of Year 1 Recurring Drivers		976.9	976.9	1,953.8	
Continuation of Year 2 Recurring Drivers			1,442.9	1,442.9	
Cumulative Impact of Recurring Drivers	976.9	2,419.8	3,577.3	6,974.0	73.5%
Nonrecurring Drivers by Year	888.3	868.5	756.7	2,513.5	26.5%
Grand Total	**1,865.2**	**3,288.3**	**4,334.0**	**9,487.5**	

Simply looking at the new infusions of General Revenue needed each year does not present a complete picture. Over the entire three-year period, 73.5% of the General Revenue infused each year has to be recurring to match the ongoing nature of the budget investment. Those expenditures cumulate and stack on top of each other in the subsequent years. Of the $1.87 billion needed for drivers in FY 2019-20, $976.9 million will be needed in FY 2020-21 (and again in FY 2021-22) to continue those programs.

This makes the actual dollar impact of the drivers identified in the Outlook larger than the displayed drivers alone suggest. In effect, the $6.09 billion in new infusions over the Outlook period cause $9.49 billion in additional costs over the period. Both effects are accounted for in the Outlook.

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 to the General Revenue Fund are positive adjustments to the dollars otherwise available and are held constant each year.

- Unlike the budget drivers which are linked to identifiable issue areas, the revenue adjustments make no assumptions regarding the nature of the change (e.g., the specific amount by tax, fee, or trust fund source).

	2019-20			2020-21			2021-22		
	Rec	NR	Total	Rec	NR	Total	Rec	NR	Total
Continuing Tax and Fee Changes	(104.8)	58.5	(46.3)	(104.8)	58.5	(46.3)	(104.8)	58.5	(46.3)
Recurring Impact of Prior Years' Tax and Fee Changes	0.0	0.0	0.0	(104.8)	0.0	(104.8)	(209.6)	0.0	(209.6)
Time-Limited Tax and Fee Changes	0.0	(43.9)	(43.9)	0.0	(43.9)	(43.9)	0.0	(43.9)	(43.9)
Trust Fund Transfers (GAA)	0.0	392.5	392.5	0.0	392.5	392.5	0.0	392.5	392.5
Total	**(104.8)**	**407.1**	**302.3**	**(209.6)**	**407.1**	**197.5**	**(314.4)**	**407.1**	**92.7**

The Bottom Line

Multi-Tier Comparison

GENERAL REVENUE FUNDS AVAILABLE PROJECTION

($ MILLIONS)

	Fiscal Year 2019-20			Fiscal Year 2020-21			Fiscal Year 2021-22		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Ending Balance Tier 1...Critical Needs	$1,309.0	$441.8	$1,750.8	$2,049.2	$1,998.6	$4,047.8	$3,165.3	$4,013.6	$7,178.9
Ending Balance Tier 2...Critical Needs & Other High Priorities	$244.8	($323.7)	($78.9)	($0.4)	($468.3)	($468.7)	$116.0	($665.4)	($549.4)
Ending Balance Tier 3...All Needs Plus Revenue Adjustments	$140.0	$83.4	$223.4	($210.0)	$162.2	($47.8)	($198.4)	($258.3)	($456.7)

- The Outlook results show negative ending balances in all three years in Tier 2 and in the two outer years in Tier 3.
- While the negatives in Tier 2 are related to the high level of projected nonrecurring expenditures, a recurring problem is clearly present in Tier 3.
- The projected bottom line for FY 2019-20 is positive in all respects; however, the projections show recurring expenditures in the two outer years that outstrip the available recurring funds, indicating that **a structural imbalance is still occurring**—albeit improved since last year's Outlook.
- This difference between Tiers is caused by the introduction of the recurring portion of the revenue adjustments contained in Tier 3. On the other hand, the switch to a positive result in the first year (FY 2019-20) is brought about by the use of one-time trust fund transfers that are also only allowed in Tier 3 (assumed to be $392.5 million each year).

The Underlying Issue...

- Although the problem in Tier 2 appears to be the size of the nonrecurring expenditures, many of these investments are considered to be must-funds and essential by most legislators. While the negative revenue adjustments in Tier 3 cause the specific recurring problem in the Outlook, introduction of any new or enhanced recurring programs in FY 2019-20 totaling more than **$116 million** would cause a similar structural imbalance in Tier 2. Both of these factors indicate that a recurring issue exists in Tier 2—it is just masked.

- To maintain all of the assumptions in Tier 3, a recurring reduction of **$199 million** would be needed to eliminate the structural imbalance in all years.

- Clearly the margin between the two Tiers—and the small variation in results—is tight. The difference in outcomes ranges between plus $116 million recurring (added to Tier 2) to negative $199 million recurring (subtracted from Tier 3).

- This suggests that viable fiscal strategies should consider the recurring issues. Since the increase in negative revenue adjustments in FY 2019-20 clearly contributes to and worsens the problems in FY 2020-21 and FY 2021-22, **fiscal strategies are advisable for all three years of the Outlook** to manage the problems in the out-years.

Black Swans...

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

- A severe natural disaster that stresses the state's reserves.
  - Final Financial Impact of Hurricane Irma Remains Unknown
    - The ultimate levels of required state matches for federal funds and FEMA reimbursements is still preliminary and incomplete. Early estimates of the state match for FEMA funds total $313.0 million from the **General Revenue Fund**. And, as of August 16, 2018, the General Revenue Fund had only received $69.6 million of FEMA reimbursements against expenditures through budget amendments of $350.9 million. This is still true today, almost 15 months after landfall. However, the federal government provided an additional $47.6 million in late-September 2018 for displaced students caused by Harvey, Irma, or Maria.
    - An additional $424.7 million in budget amendments (excluding double-budget and the expenditure of federal funds) approved expenditures from **Trust Funds**, bringing the combined total to $775.6 million.
    - On top of the expenditures related to amendments, the Legislature authorized another $269.1 million in recovery-related appropriations and provided $16.9 million in directed tax relief from state funds.
    - Offsetting all of these expenditures is only $353.5 million in additional sales taxes generated by rebuilding and other recovery activities through the end of this fiscal year (FY 2018-19). This figure is net of the direct revenue losses experienced in September 2017 and the likely spending displacement caused by deductibles and uninsured expenses that come out of pocket.
    - At this point, it appears clear that the state will spend far more on the preparations for and recovery from Irma than it generates in revenues, easily topping the $203.3 million net loss seen in 2005.
  - Hurricane Michael made landfall on October 10th...

Hurricane Michael Data...

Most affected counties are low population and mostly rural, with higher than average poverty rates and lower than average annual wages.

Florida Disaster Counties

	April 1, 2018 Population	% of State Total	Insurance Claims (Paid+Open)	% of State Total	Per Capita (Paid+Open)	% of Residential Parcels Mortgaged	Rural / Urban (Census: Population & Density)	Poverty Rate	Average Annual Wages
Public Assistance	**93,706**	**0.4%**	**163**	**0.1%**	**0.0017**	**7.7%**		22.0%	$34,555
Hamilton	14,621	0.1%	5	0.0%	0.0003	6.8%	Mostly Rural	24.0%	$42,886
Jefferson	14,733	0.1%	116	0.1%	0.0079	9.6%	Rural	17.7%	$33,246
Madison	19,473	0.1%	30	0.0%	0.0015	8.1%	Mostly Rural	28.3%	$32,067
Suwannee	44,879	0.2%	12	0.0%	0.0003	7.2%	Mostly Rural	20.3%	$33,592
Individual Assistance and Public Assistance (Categories A&B)	**403,829**	**1.9%**	**11,594**	**10.2%**	**0.0287**	**18.0%**		18.4%	$42,961
Franklin	12,009	0.1%	1,449	1.3%	0.1207	7.4%	Mostly Rural	21.3%	$30,667
Holmes	20,133	0.1%	0	0.0%	0.0000	8.7%	Mostly Rural	21.2%	$31,061
Leon	292,332	1.4%	6,633	5.8%	0.0227	28.3%	Urban	18.0%	$44,297
Taylor	22,283	0.1%	36	0.0%	0.0016	6.4%	Mostly Rural	23.8%	$39,208
Wakulla	31,943	0.2%	768	0.7%	0.0240	16.4%	Mostly Rural	12.9%	$35,143
Washington	25,129	0.1%	2,708	2.4%	0.1078	3.0%	Mostly Rural	21.1%	$34,625
Individual Assistance and Public Assistance (Categories A-G)	**319,969**	**1.5%**	**98,031**	**86.0%**	**0.3064**	**13.6%**		17.2%	$37,893
Bay	181,199	0.9%	70,656	62.0%	0.3899	16.4%	Urban	14.9%	$39,321
Calhoun	15,093	0.1%	3,581	3.1%	0.2373	7.0%	Mostly Rural	21.1%	$32,057
Gadsden	47,828	0.2%	4,511	4.0%	0.0943	13.6%	Mostly Rural	23.1%	$35,395
Gulf	16,499	0.1%	6,481	5.7%	0.3928	10.5%	Mostly Rural	21.6%	$35,146
Jackson	50,435	0.2%	11,826	10.4%	0.2345	7.6%	Mostly Rural	18.0%	$34,473
Liberty	8,915	0.0%	976	0.9%	0.1095	8.4%	Rural	23.0%	$36,395
Total of Above Counties	**817,504**	3.9%	**109,788**	96.3%	**0.1343**	**14.8%**		18.3%	$40,512
Total Statewide	**20,840,568**		**113,963**		**0.0055**	**23.1%**	**91.2% Urban**	14.1%	$48,452

After Hurricane Irma, only Monroe (0.2664) and Collier (0.2107) had comparable claims per capita to Michael's most affected counties.

Fiscal Impact of Hurricane Michael...

- Preliminary estimates indicate that the combined cost for emergency relief and targeted recovery related to Michael will surpass the Irma level.

- This is because much of the disaster area was severely impacted, and it was largely economically challenged even before the storm (poverty rate and average annual wage).

- Moreover, the people living in this area are less likely to be fully compensated for their losses, given the low percentage of mortgaged homes that require property insurance.

- In addition, Risk Management damage and cost estimates for insured state property have already reached $48.0 million (Irma: $34.1 million).

- And, unlike Irma, the Revenue Estimating Conference is currently not projecting a discrete rebuilding add-on to the sales tax estimates—which means that any expenditure will be a dollar-for-dollar redirection from the total funds available for the budget with no offset. In large part, the inability to project a positive sales tax add-on is caused by the greater number of damaged homes that are uninsured—requiring more out-of-pocket expenditures over a long period of time.

- The Legislative Office of Economic and Demographic Research is currently working on a budget stress test of the affected local governments to assess their ability to manage the revenue losses and increased costs in the current year.

Fall Conference Season Update...

- **Risk Management Insurance...** Relative to the Long-Range Financial Outlook, the Risk Management Insurance Trust Fund has a current year deficit of $39.3 million as a result of Hurricane Irma. In addition, the Outlook for FY 2019-20 has worsened by $3.9 million. ($43.2 million cost)

- **Florida Retirement System (FRS)...** Relative to the Long-Range Financial Outlook adopted in September, the new Conference results will likely prove to have a higher cost when the final valuation is released in December. Based on a different methodology, $81.7 million (largely General Revenue) was included in Driver #17 of the Long-Range Financial Outlook. The new Conference results indicate a total need of $110 million to $115 million in General Revenue; however, the final valuation should be slightly more favorable than the preliminary results reviewed at the Conference. (+$30 to $35 million cost)

- **Unclaimed Property / State School Trust Fund...** Relative to the Long-Range Financial Outlook, a loss of $7 million to the Trust Fund in FY 2018-19. ($7 million revenue loss)

- **Criminal Justice / Prison Population...** The Conference essentially flattened out the prison population forecast for the entire period. This is an increase relative to the prior forecast which had assumed continuing declines through the end of next year. At a minimum, the reduction contemplated in the Long-Range Financial Outlook is no longer likely. (+$13.4 million cost)

- **Public Education Capital Outlay (PECO)...** Relative to the Long-Range Financial Outlook, the trust fund forecast is $75 million lower than the cash assumptions previously used. (potentially, a +$75 million added cost)

- **Student Financial Aid / Bright Futures...** Enrollment in the Bright Futures program was significantly higher than anticipated. For FY 2018-19, the impact is an increase of $31.1 million to the Long-Range Financial Outlook ($25.4 million above the appropriation); for FY 2019-20, the impact is an increase of $53.4 million. Typically, Bright Futures is funded from the Educational Enhancement Trust Fund (EETF); however, those dollars were fully spent in the Long-Range Financial Outlook, so this impact will essentially hit General Revenue. (+$84.5 million cost)

Caveats...

1. Discretionary balance of $223.4 million has likely disappeared

   The projected discretionary balance identified in September has gone to zero (in the best case scenario) or is negative by as much as $250 million (in the more realistic scenario), as a result of Hurricane Michael and the conferences held to date. However, several large conferences have yet to be held, and those results will alter this projection.

2. Shoring up current projections is critical

   For example, the Outlook's results for all three years depend greatly on meeting the Indian Gaming revenue estimates, which average slightly less than $343 million per year over the Outlook period. If this assumption fails, the current results in both Tier 2 and Tier 3 will significantly deteriorate. This is also true for the anticipated annual trust fund transfers of $392.5 million.

3. There are a variety of options available to clear the negative ending balances that exist in all three years in Tier 2 and in the two outer years in Tier 3, but they need to be deployed carefully.

   Because the root causes driving the negatives differ between the two Tiers, the selection of the most appropriate fiscal strategy will depend on a series of policy decisions starting with which Tier to use as the base. Among the many variables that need to be considered is the timing of the corrective action. While a fiscal strategy is required no later than FY 2020-21 to address the projected gap between revenues and expenditures in Tier 3, less disruptive courses of action—as well as the results in Tier 2—argue for at least some level of deployment beginning in FY 2019-20. Otherwise, there is the potential to increase funding for programs in Year 1 that would not survive Year 2.

4. The true size of the structural imbalance is dependent on a number of factors and decisions that could differ from the assumptions made in the Outlook.

   For example, the magnitude of the structural imbalance will depend on the specific policy the Legislature adopts for Required Local Effort (RLE) over the next three years. As demonstrated by the difference in results between the 2017 Outlook and this year, the future recurring needs for Pre K-12 Education are very sensitive to the assumptions made regarding RLE. Further, funding for this policy area is a significant component of Florida's overall General Revenue budget. Large swings between Outlooks may continue until a consistent policy on the funding split between state and local dollars is in place.

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 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 first three options will become the basis of more meaningful strategies.