Florida:

Updated Long-Range Financial Outlook

(Adjusted by Fall Conference Series and Recent Events)

January 8, 2019

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Partial Update: 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:
Completed

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...

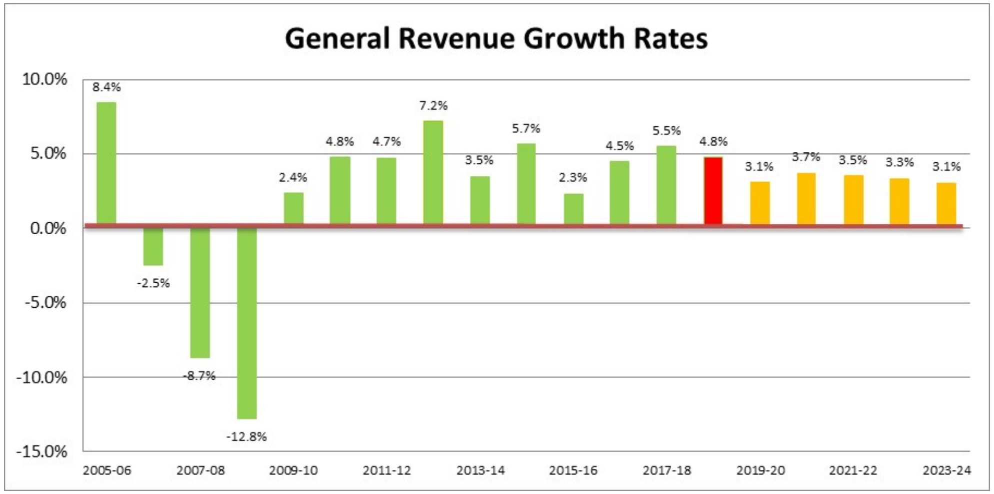
- The national economy is back to normal on nearly all measures. While most areas of commercial and consumer credit have significantly strengthened – residential credit for home purchases still remains somewhat difficult for consumers to access with a weighted average credit score of 727 and a LTV of 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.

Updated 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.



Fiscal Year	August 2018	December 2018 Forecast	Difference	Incremental Growth	Growth
2005-06	*27074.8*				*8.4%*
2006-07	*26404.1*				*-2.5%*
2007-08	*24112.1*				*-8.7%*
2008-09	*21025.6*				*-12.8%*
2009-10	*21523.1*				*2.4%*
2010-11	*22551.6*				*4.8%*
2011-12	*23618.8*				*4.7%*
2012-13	*25314.6*				*7.2%*
2013-14	*26198.0*				*3.5%*
2014-15	*27681.1*				*5.7%*
2015-16	*28325.4*				2.3%
2016-17	*29594.5*				4.5%
2017-18	*31218.2*				5.5%
2018-19	32,243.8	**32,705.3**	461.5	1,487.1	4.8%
2019-20	33,334.7	**33,715.2**	380.5	1,009.9	3.1%
2020-21	34,544.2	**34,976.1**	431.9	1,260.9	3.7%
2021-22	35,827.4	**36,209.6**	382.2	1,233.5	3.5%
2022-23	37,086.9	**37,418.0**	331.1	1,208.4	3.3%
2023-24	38,349.1	**38,559.5**	210.4	1,141.5	3.1%

Revenue collections ran above monthly estimates by a combined $365.2 million since the last conference in August. Focusing on the year-to-date gains to the forecast, anticipated revenues were revised upward despite the slightly weaker near-term National and Florida Economic Forecasts. While this is the largest combined increase since April 2006, during the peak of the housing boom, the Conference recognized that there is an elevated level of risk due to the mature stage of the current economic expansion.

Recession Risk Metrics

		Duration in Months	
		Contraction	**Expansion**
Peak month	*Trough month*	*Duration, peak to trough*	*Duration, trough to peak*
February 1945	October 1945	8	80
November 1948	October 1949	11	37
July 1953	May 1954	10	45
August 1957	April 1958	8	39
April 1960	February 1961	10	24
December 1969	November 1970	11	106
November 1973	March 1975	16	36
January 1980	July 1980	6	58
July 1981	November 1982	16	12
July 1990	March 1991	8	92
March 2001	November 2001	8	120
December 2007	June 2009	18	73
1854-2009 (33 cycles)		*17.5*	*38.7*
1854-1919 (16 cycles)		*21.6*	*26.6*
1919-1945 (6 cycles)		*18.2*	*35.0*
1945-2009 (11 cycles)		*11.1*	*58.4*

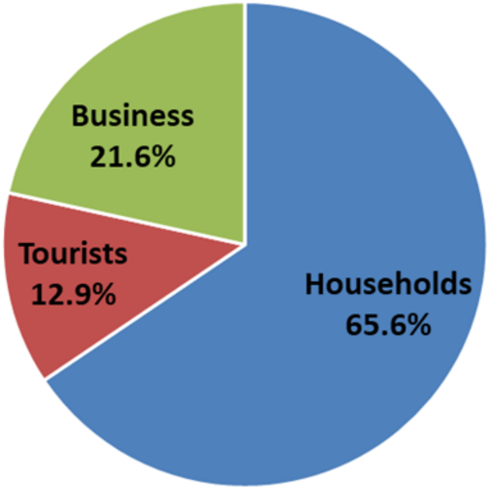
- The current economic expansion will turn 10 years old in June. In July (10 years and 1 month or 121 months), the time since the previous recession will be the longest recorded period in history.
- According to Moody's Analytics, the probability of recession within the next 12 months is between 20% and 43%.
- The New York Times recently surveyed 134 business leaders at the Yale CEO Summit and found that almost half expected a recession to strike by the end of 2019.
- Eight-two percent of chief financial officers surveyed in the recent Duke CFO Global Business Outlook saw a recession beginning by the end of 2020, while nearly half saw it occurring by the end of 2019.

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 the beginning of February 2018, the broad dollar has appreciated more than 11 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 including the new forecast for General Revenue and accounting for all budget amendments through December 18th, the projected Outlook balance improved to $1.72 billion (+494.1 million).

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 improved General Revenue Outlook balance increases this percentage to 12.1%.

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...

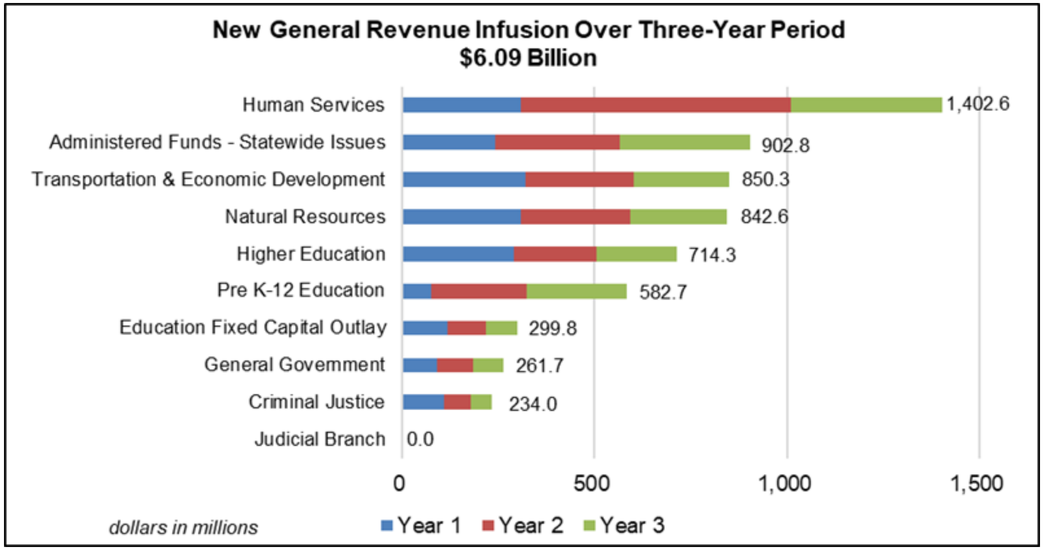
In FY 2019-20, four policy areas (Transportation & Economic Development, Natural Resources, Human Services, and Higher Education) comprise nearly equal shares of two-thirds (65.9%) of the total need for General Revenue.

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

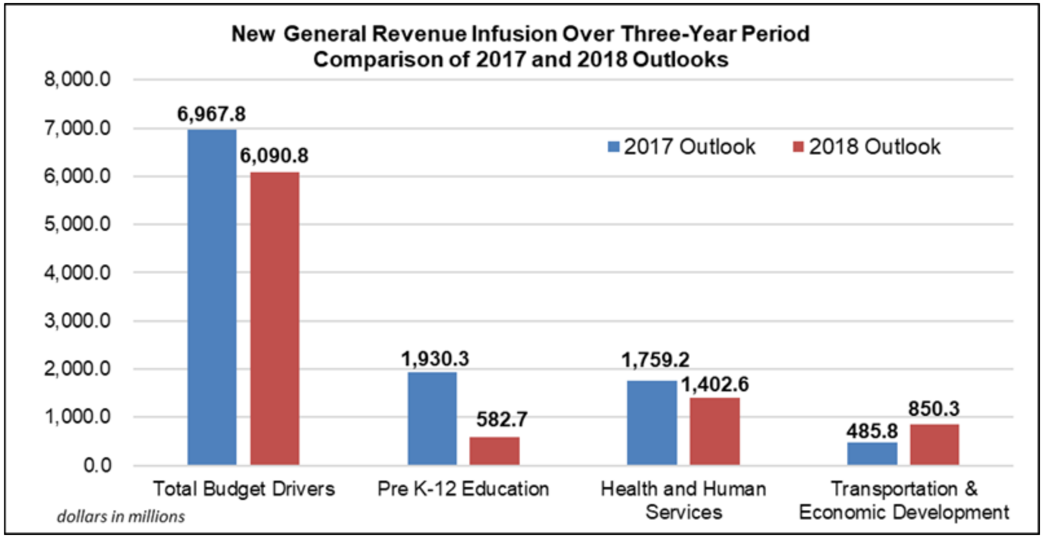
POLICY AREAS	Fiscal Year 2019-20	Fiscal Year 2020-21	Fiscal Year 2021-22
Pre K-12 Education	4.1%	10.7%	13.5%
Higher Education	15.5%	9.3%	11.0%
Education Fixed Capital Outlay	6.3%	4.3%	4.3%
Human Services	16.6%	30.3%	20.5%
Criminal Justice	5.9%	3.0%	2.9%
Judicial Branch	0.0%	0.0%	0.0%
Transportation & 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).

Hurricane Michael adds a New Challenge...

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%**	**172**	**0.1%**	**0.0018**	**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%	117	0.1%	0.0079	9.6%	Rural	17.7%	$33,246
Madison	19,473	0.1%	36	0.0%	0.0018	8.1%	Mostly Rural	28.3%	$32,067
Suwannee	44,879	0.2%	14	0.0%	0.0003	7.2%	Mostly Rural	20.3%	$33,592
Individual Assistance and Public Assistance (Categories A&B)	**403,829**	**1.9%**	**12,655**	**10.6%**	**0.0313**	**18.0%**		18.4%	$42,961
Franklin	12,009	0.1%	1,366	1.1%	0.1137	7.4%	Mostly Rural	21.3%	$30,667
Holmes	20,133	0.1%	748	0.6%	0.0372	8.7%	Mostly Rural	21.2%	$31,061
Leon	292,332	1.4%	6,831	5.7%	0.0234	28.3%	Urban	18.0%	$44,297
Taylor	22,283	0.1%	37	0.0%	0.0017	6.4%	Mostly Rural	23.8%	$39,208
Wakulla	31,943	0.2%	804	0.7%	0.0252	16.4%	Mostly Rural	12.9%	$35,143
Washington	25,129	0.1%	2,869	2.4%	0.1142	3.0%	Mostly Rural	21.1%	$34,625
Individual Assistance and Public Assistance (Categories A-G)	**319,969**	**1.5%**	**102,850**	**86.1%**	**0.3214**	**13.6%**		17.2%	$37,893
Bay	181,199	0.9%	74,480	62.4%	0.4110	16.4%	Urban	14.9%	$39,321
Calhoun	15,093	0.1%	3,693	3.1%	0.2447	7.0%	Mostly Rural	21.1%	$32,057
Gadsden	47,828	0.2%	4,767	4.0%	0.0997	13.6%	Mostly Rural	23.1%	$35,395
Gulf	16,499	0.1%	6,604	5.5%	0.4003	10.5%	Mostly Rural	21.6%	$35,146
Jackson	50,435	0.2%	12,295	10.3%	0.2438	7.6%	Mostly Rural	18.0%	$34,473
Liberty	8,915	0.0%	1,011	0.8%	0.1134	8.4%	Rural	23.0%	$36,395
Total of Above Counties	**817,504**	3.9%	**115,677**	96.8%	**0.1415**	**14.8%**		18.3%	$40,512
Total Statewide	**20,840,568**		**119,454**		**0.0057**	**23.1%**	**91.2% Urban**	14.1%	$48,452

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 economically challenged before the storm. Further, the people living in this area are less likely to be fully compensated for their losses. In addition, Risk Management damage estimates for insured state property have already reached $45.4 million (Irma: $32.4 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 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.

Fall Conference Season Update...

- **Florida Retirement System (FRS)...** After receipt of the Final Valuation in December 2018, the projected overall cost for the Florida Retirement System is lower than anticipated in the Long-Range Financial Outlook adopted in September. Based on a different methodology, $81.7 million (largely General Revenue) was included in Driver #17 of the Long-Range Financial Outlook. The Final Valuation was much more favorable to the State than indicated by the preliminary results at the Actuarial Assumptions Conference, ultimately producing a savings relative to the original Outlook assumption. (+$13.5 million savings)

- **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)

- **Tobacco Tax and Surcharge / Health Care Trust Fund...** The underlying estimate was increased; however, the Department of Business and Professional Regulation has indicated that it will submit a budget amendment to the Executive Office of the Governor requesting approval to pay a single large refund of approximately $41.0 million that was not included in the estimate. (+$41 million cost)

- **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)

Additional Updates...

- **Medicaid Forecast...** For FY 2018-19, program expenditures are estimated to increase to $27,679.9 million (9.8% above FY 2017-18). This level is lower than the appropriated level, but higher than forecasted in August. The net increase in the estimate since the last Conference is primarily driven by the higher caseload and the higher than anticipated costs for Prepaid Health Plan–Managed Medical Assistance Program and Community Mental Health Services. Overall, the new forecast anticipates a surplus in General Revenue funds for the current year relative to the appropriation of $146.2 million, but this is $23.8 million less than forecast in August. For FY 2019-20, program expenditures are expected to increase to $28,166.4 million (1.8% above the fiscal year 2018-19 estimates). The General Revenue requirement for FY 2019-20 is $164.2 million above the FY 2019-20 base budget level and $24.2 million more than anticipated in August. (+$48 million cost)

- **State Employees Health Insurance...** Overall, the changes improve the driver included in the Long-Range Financial Outlook for the State Employee's Health Insurance program. As before, the fund is expected to remain solvent through FY 2019-20, with increases in ending cash balances for all years of the forecast when compared to the August 2018 Outlook. For FY 2018-19, the ending cash balance increased from $473.7 million to $553.0 million; for FY 2019-20, the ending cash balance increased from $175.2 million to $361.9 million; and for FY 2020-21, the negative ending cash balance improved from -$424.8 million to -$59.6 million. The substantial improvement (ranging from $79.3 million in FY 2018-19 to $328.8 million in FY 2022-23) is primarily due to a new methodology for projecting medical claims and a revised trend for pharmacy claims. Approximately 61% of the costs are funded with General Revenue.

- **Ad Valorem Forecast...** In terms of the Long-Range Financial Outlook, the significance of the changed forecast (while overall higher) is somewhat ambiguous because the value of new construction for FY 2019-20 is close to the old forecast. Tier 1 would show a greater savings since the overall roll went up—but given that most of the change was due to higher appreciation rates, the buyback in Tier 2 would also be greater, bringing the net result essentially back to the same place.

- **PreK-12 Enrollment Forecast**... Overall, the enrollment forecast is lower than expected in July, reducing the projected expenditures identified in the Long-Range Financial Outlook. This is attributable to a lower than expected 2018-19 forecast base, combined with lower FTE growth assumptions. Projected enrollment for FY 2019-20 is now expected to be modestly lower (by 5,296.31 FTE) than the appropriated level for FY 2018-19; however, preliminary indications are that Third Calc may come in higher than assumed in the new forecast and alter this result.

Caveats...

1. The remainder of this fiscal year looks strong, but this may be masking future headwinds.

2. Once all of the conferences were completed, the discretionary balance of $223.4 million has been restored and increased; however, of the combined $842.0 million added to the General Revenue forecast over two years, only $380.5 million of it is recurring—and this amount carries greater than normal risk given the late stage of the economic expansion.

   This is the largest combined increase since the conference held in April 2006, during the peak of the housing boom; however, less than one year later, the estimate was reduced by a like amount as the housing market collapsed. If a downward turn occurs in the economy, it is currently more likely to happen after the next fiscal year begins rather than this year. This suggests a cautious approach to spending the increase.

3. 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.

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.