Florida:
Long-Range Financial Outlook

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Presented by:

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For the full December Economic Update, visit the EDR website or use the following link:
http://edr.state.fl.us/Content/presentations/economic/FlEconomicOverview_12-3-12.pdf

Updated Long-Range Financial Outlook

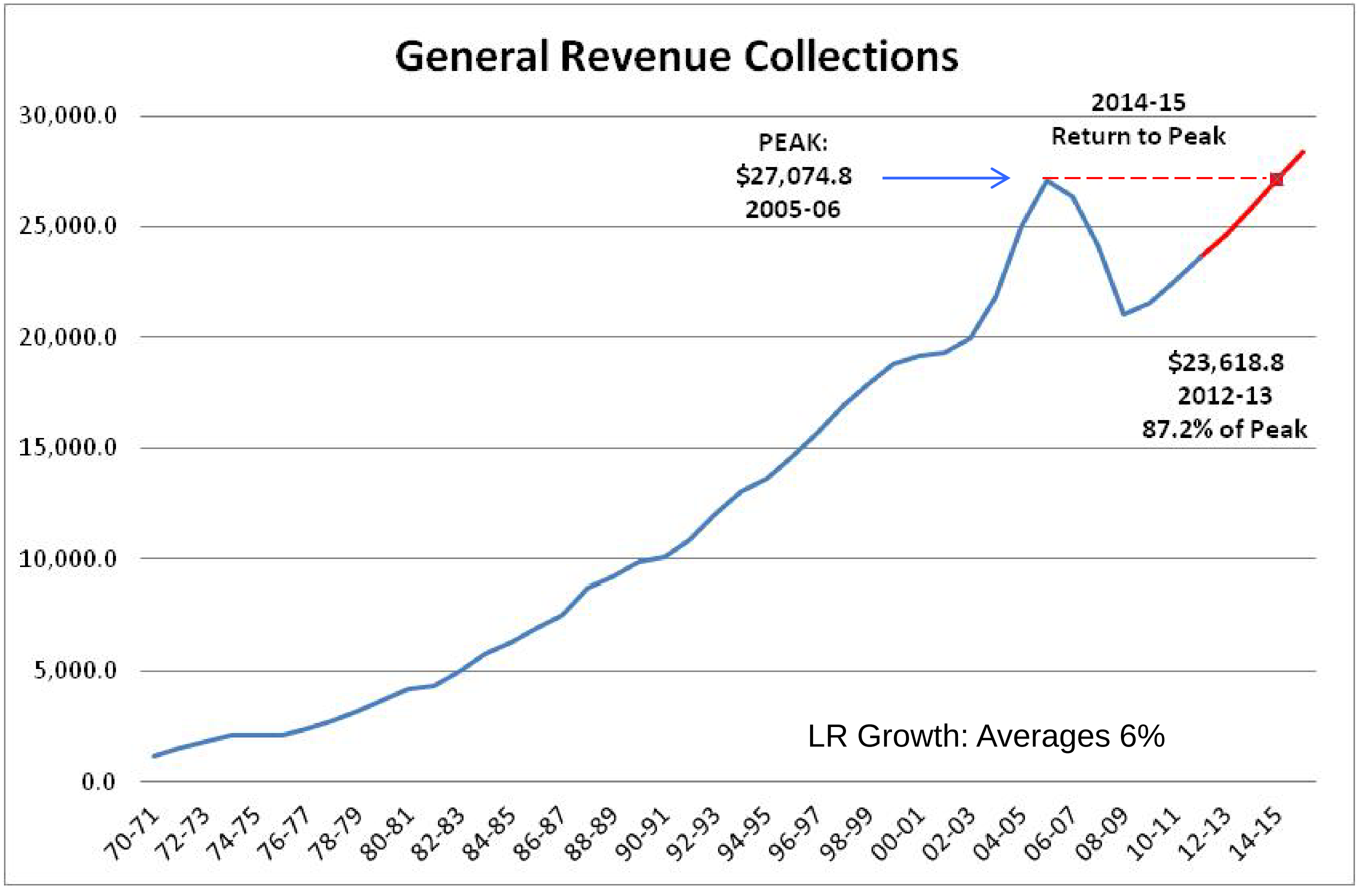
Revised OUTLOOK PROJECTION – FISCAL YEAR 2013-14 *(in millions)*			
	RECURRING	NON-RECURRING	TOTAL
Available GR at LBC Meeting in Sept	25,563.8	1,953.9	27,517.7
Change to Balance from Prior Year	0.0	336.0	336.0
TOTAL REVENUES	**25,563.8**	**2,289.9**	**27,853.7**
Base Budget	24,623.2	0.0	24,623.2
Adjustment to Base Budget	(15.8)	0.0	(15.8)
Transfer to Lawton Chiles Endowment	0.0	18.2	18.2
Transfer to Budget Stabilization Fund	0.0	214.5	214.5
Critical Needs	484.6	89.1	573.7
Change to Critical Needs	(1.9)	17.0	15.1
High Priority Needs	696.5	320.3	1,016.8
Change to High Priority Needs	(28.8)	0.0	(28.8)
Reserve	0.0	1,000.0	1,000.0
TOTAL	**25,757.8**	**1,659.1**	**27,416.9**
BALANCE	**(194.0)**	**630.8**	**436.8**

Original Balance	71.3
Difference	365.5

Items Not Included...

- Results from Conferences that are yet to occur (several of them major).
    - Affordable Care Act
    - Ad Valorem
    - PreK-12 Enrollment
    - General Revenue
- Updated Medicaid results which aren't available yet.
- Updated Unfunded Actuarial Liability numbers which aren't available yet.
- Tax relief, even fairly standard breaks like the Sales Tax Holiday (since 1998, skipped the Holiday in 2002, 2003, 2008 and 2009)
- Atypical increases for current programs or many of the enhanced funding requests in the Agency Legislative Budget Requests
- New programs or spending initiatives

General Revenue Status



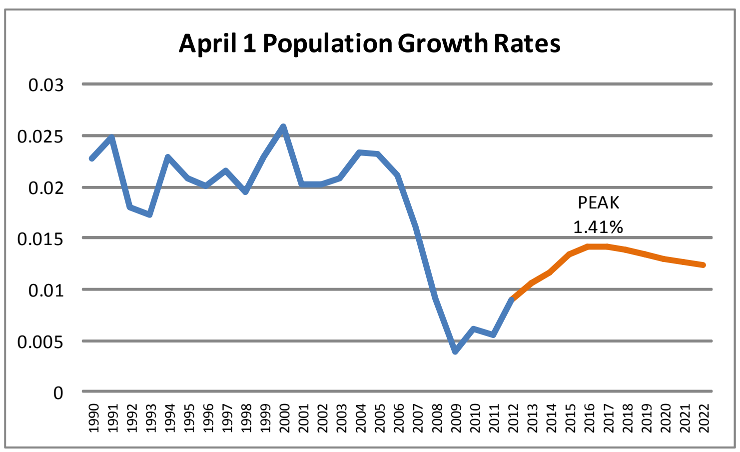
Fiscal Year	Post-Session Forecast	August Forecast	Difference (Aug - PS)	Incremental Growth	Growth
2011-12	23211.7	23618.8	407.1	1067.2	4.7%
2012-13	24600.1	24631.6	31.5	1012.8	4.3%
2013-14	25878.0	25872.7	(5.3)	1241.1	5.0%
2014-15	27328.2	27141.4	(186.8)	1268.7	4.9%
2015-16	28601.0	28394.0	(207.0)	1252.6	4.6%

Economic Timeline

Forecast Relative to the Peak and Key Statistics from Other Conferences (November 2012)

Already Achieved	2012-13	2013-14	2014-15	2015-16	2016-17
Personal Income	*Unemploy Rate: 8.6%*	*Unemploy Rate: 8.4%*	*Unemploy Rate: 7.9%*	*Unemploy Rate: 7.2%*	*Unemploy Rate: 6.6%*
Other Labor Income	*Foreclosure Starts: 219,961*	*Foreclosure Starts: 238,987*	*Foreclosure Starts: 151,681*	*Foreclosure Starts: 92,905*	*Foreclosure Starts: 70,000*
Proprietors' Income	*Foreclosure To Market: 163,894*	*Foreclosure To Market: 181,330*	*Foreclosure To Market: 219,961*	*Foreclosure To Market: 238,987*	*Foreclosure To Market: 151,681*
Transfer Payments	*April Pop Growth: 1.05%*	*April Pop Growth: 1.16%*	*April Pop Growth: 1.34%*	*April Pop Growth: 1.41%*	*April Pop Growth: 1.41%*
Average Annual Wage	*Incr Pop Change: 200,818*	*Incr Pop Change: 223,461*	*Incr Pop Change: 260,625*	*Incr Pop Change: 278,875*	*Incr Pop Chg: 283,008 PEAK*
Employ: Educ & Health Serv	Wage & Salary	Real Personal Income	Real Per Capita	Employ: Trans & Utilities	Non-Farm Employment
Civilian Labor Force		Employ: Leisure & Hospitality	Property Income	Civilian Employment	
Total Visitors			Employ: Prof & Busi Serv		
Total Domestic Visitors					
Total Canadian Visitors					
Total Overseas Visitors					

2017-18	2018-19	2019-20	2020-21	2021-22	Not At All
Unemploy Rate: 6.2%	*Unemploy Rate: 5.9%*	*Unemploy Rate: 5.7%*	*Unemploy Rate: 5.5%*	*Unemploy Rate: 5.4%*	Employ: Nat-Resources
April Pop Growth: 1.38%	*April Pop Growth: 1.34%*	*April Pop Growth: 1.30%*	*April Pop Growth: 1.27%*	*April Pop Growth: 1.23%*	Employ: Construction
Incr Pop Change: 280,752	*Incr Pop Change: 275,228*	*Incr Pop Change: 271,722*	*Incr Pop Change: 268,122*	*Incr Pop Change: 264,355*	Employ: Manufacturing
Employ: Wholesale & Retail				Total Const Expenditures	Employ: Information
				Residential Const Expend.	Employ: Financial Activities
					Employ: Other Services
					Employ: Government
					Private Housing Starts
					Single-Family Starts
					Multi-Family Starts
					Nonresidential Const Exp
					Public Const Expenditures
					Single-Family Home Sales
					Single-Family Median Price
					Total New Light Veh Reg
					New Automobile Reg
					New Light Truck Reg



Risk

The positive budget outlook is heavily reliant on the projected balance forward levels being available, the $1 billion reserve not being used, **and** future growth levels for General Revenue being retained. A budget gap in Year 1 will occur if there is any negative change of more than **$436.8** million to the:

1. 2012-13 projected balance of $1,886.2 (from an emergency or a forecast reduction), or
2. Revenue forecast for 2013-14 by 1.7% or more.

Recently, reductions of more than $436.8 million happened in October 2011, December 2010, March 2009 and November 2008.

“Black Swans” are low probability, high impact events:

- Severe Natural Disasters
  - 2004 and 2005 Hurricane Seasons
  - Budget Stabilization Fund balance is $493.8 million; at the end of FY 2012-13, it will be $708.1 million.
- A complete financial collapse in the Eurozone, leading to a further slowing of the US economy.
- Congressional inability to reach an agreement that heads off the “Fiscal Cliff,” triggering a new recession in the United States with no subsequent modifications.

Risk to the Budget Outlook

- If the Florida Supreme Court affirms all or part of the circuit court decision in the *SCOTT V. WILLIAMS* retirement litigation, the impact to the state budget will be substantial.
    - The **recurring** General Revenue impact of the two challenged provisions is **$861.2 million**. (The recurring General Revenue impact of the 3% employee contribution is $456.4 million; the recurring General Revenue impact of the repeal of the 3% COLA is $404.8 million.)
    - The **nonrecurring** General Revenue impact is approximately **$1.114 billion**:
        - Repayment of the 3% employee retirement contributions made from July 1, 2011, through December 31, 2012, is approximately $684 million, plus interest.
        - Paying the FRS normal costs associated with the 3% employee contribution and the COLA for the balance of FY 2012-13 (January 1, 2013 through June 30, 2013) is approximately $430 million.
- The court's decision is expected prior to the 2013 Regular Session.

Eurozone Problems Still Persist

- The sovereign debt crisis in the Eurozone has led to banking instability with spillover effects on the global credit market: liquidity threats have diminished, but solvency issues still exist.
  - Spain, Portugal and Italy all still face major challenges and contracting economies.
  - Moody's has systematically lowered rankings in the Eurozone. They cut Italy's bond rating by two notches to Baa2, leaving it just two grades above junk status, citing increased risks of higher borrowing costs in part due to contagion from Spain and a possible Greek exit from the euro. Moody's also joined Standard & Poor's in dropping France from its triple A status in late November. They compare economic conditions in Greece to the Great Depression in the US during the 1930s.
  - International leaders have agreed to alter the terms of Greece's bailout terms to ease the pain of the pending austerity measures. Global Insight is still predicting a Greece exit from the Eurozone (65% probability) by the middle of next year.
  - Efforts to bailout Spain and to begin recapitalizing Spain's banks are underway with other Eurozone leaders, the International Monetary Fund, and the European Central Bank. These steps are being taken to head off a potential liquidity squeeze arising from recent credit downgrades.

- The latest data for the third quarter of 2012 shows that the Eurozone is officially back in a recession. The economies of Greece, Italy, Spain, Portugal, Austria and the Netherlands are contracting sharply. It now looks likely that even Germany will experience a decline in the current quarter.

- These conditions are negatively affecting the United States:
  - Tighter credit conditions already exist, especially for businesses with foreign interests.
  - Reduced exports and corporate earnings already exist. The Greater Miami area is experiencing a significant reduction in exports to Spain (Florida exports to Spain fell nearly 30% last year).

“Fiscal Cliff” in January 2013

- Given the strong public—and economic—reaction to the turmoil in August 2011, it is unlikely that the looming US “fiscal cliff” in January will pass unnoticed. Caused by the intersection of three major deadlines and a potential debt showdown, the final impact of the “fiscal cliff” is still largely unknown. The Congressional Budget Office, the Federal Reserve Board and the International Monetary Fund all project that, if left intact, the collective impact of these events would be to throw the United States back into a recession.
  - **Automatic Sequester provisions will kick in January 1, 2013**—George Mason University estimated that Florida would lose 41,905 jobs and sustain $3.6 billion in economic losses from the defense cuts.
  - **Key stimulus provisions will expire**—This cluster (including the 2% cut in the employee’s portion of payroll taxes, emergency unemployment insurance benefits, and the 50% bonus depreciation) expires at the end of the 2012 calendar year.
  - **Bush-era tax cuts started in 2001 and 2003 will expire at the end of the 2012 calendar year**—This cluster includes the estate and gift tax provisions (a return to the 2001 parameters of a $1 million exemption and a 55 percent top rate), changes to the child tax credit (cut in half and no longer refundable), and the end of the current schedule for marginal tax rates (elimination of the 10% tax bracket, plus the top rate will rise from 35 percent to 39.6 percent and other rates will rise in a similar manner).
  - **Statutory debt ceiling reached**—The debt ceiling, currently set at $16.4 trillion with the ability to create an additional $200 billion in capacity under the limit, will be hit and need to be raised sometime in January or February.

POTENTIAL FISCAL CLIFF IMPACT ON FLORIDA

Sequester...

George Mason Analysis: Economy; Full Sequester

	DOD	Non-DOD	TOTAL	
Economy	3.632	4.366	7.998	(billions)
Jobs	41,905	37,554	79,459	

Direct, Indirect and Induced Impact (FFY 2012 and 2013)

FFIS Analysis (range): Federal Grants and Contracts; Full Sequester

Direct Non-DOD:	361.7	453.5	(millions)
Direct DOD:	1.877	1.877	(billions)
Total	2.2387	2.3305	(billions)

Senator Harkin Report (limited): Federal Grants; Full Sequester

Direct Non-DOD:		(millions)
	HHS	68.4
	DOE	159.8
	Labor	21.6
		249.8

EDR: Potential State Impact from a Protracted Agreement Delay

	(millions)
Consumer Sentiment (N/R)	$374.8

Revenue & Tax Provisions with Immediate Effect (absent intervention)...

2% FICA Reduction	Witholding beginning on 1/1/2013
Emergency Unemployment Benefits	EUC Payments due after 1/2/2013
AMT Patch	Final 2012 individual tax return (Apr - August 2013)
State and Local Sales Tax Deduction	Final 2012 individual tax return (Apr - August 2013)
Educational Expenses Deduction	Final 2012 individual tax return (Apr - August 2013)
Elimination of 10% Bracket	Wage withholding beginning 1/1/2013
Brackets from 25/28/33/35 to 28/31/36/39.6	Wage withholding beginning 1/1/2013
Estate Tax	September 2013 (add'l revenues to State)