

Florida: Long-Range Financial Outlook

August 27, 2008

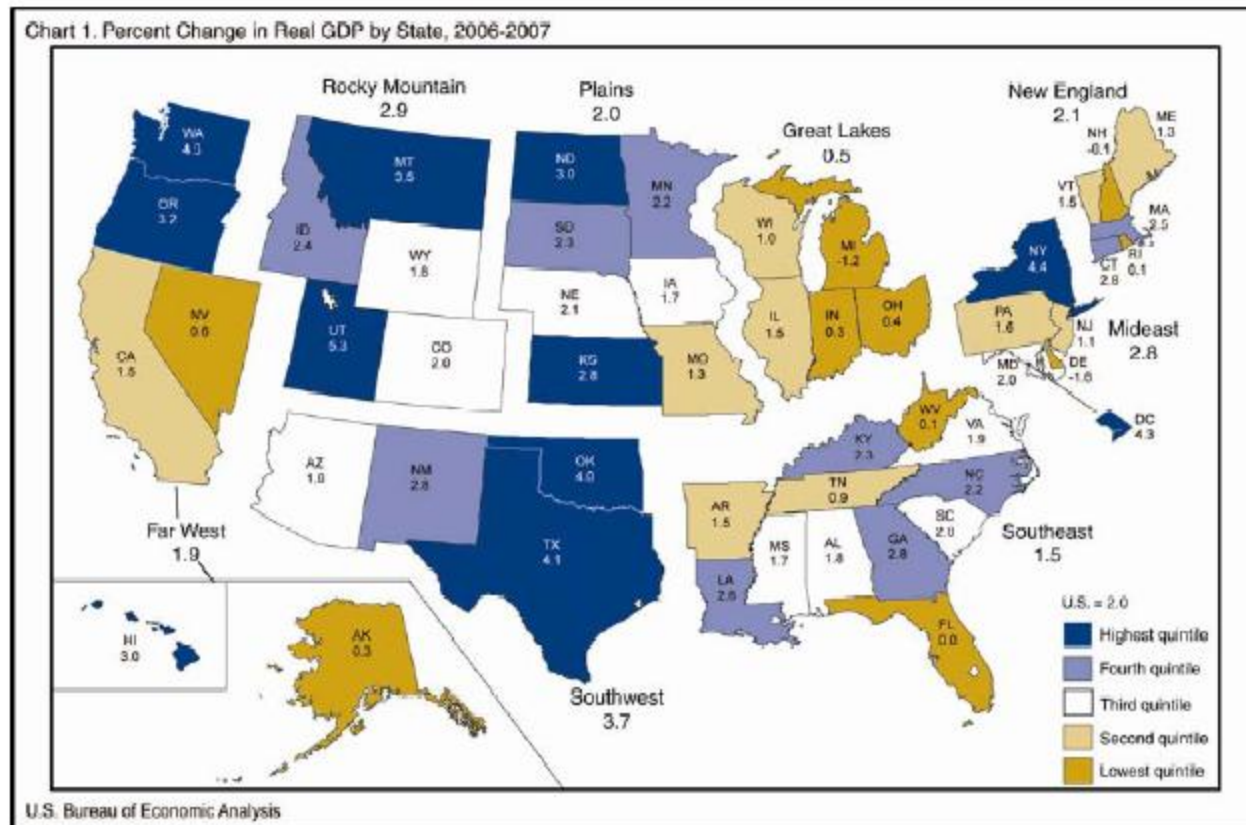
Presented by:



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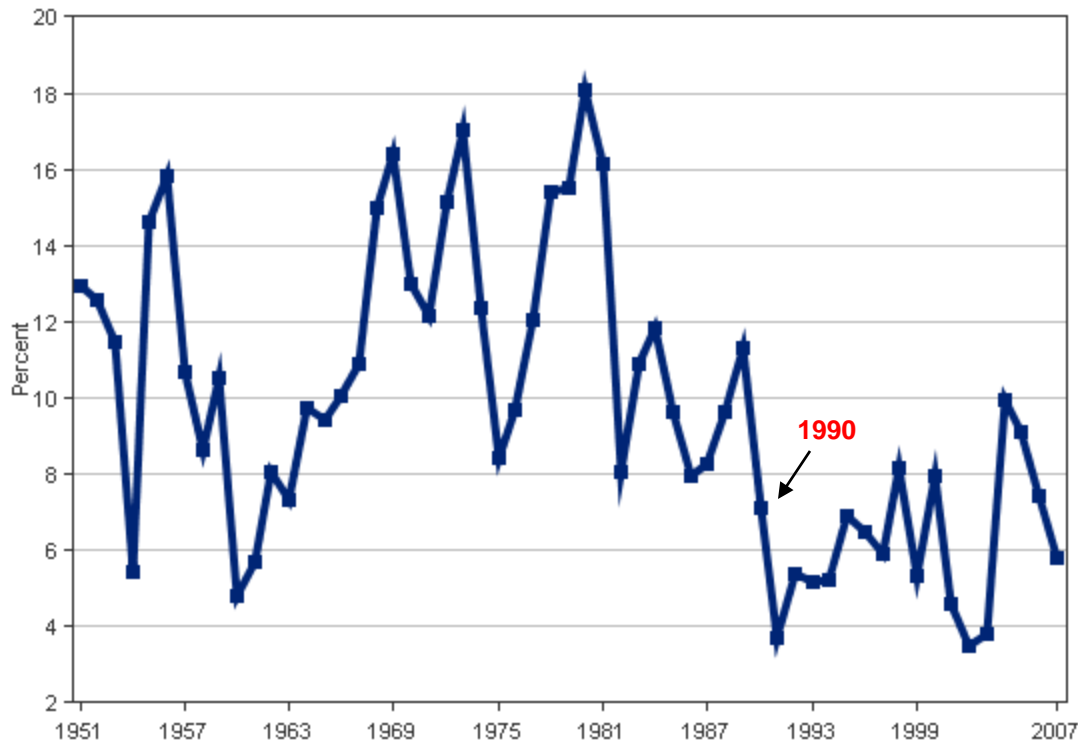
More Measured Economy

- Florida's growth is now decelerating. State Gross Domestic Product (GDP) ranks us 47th in the nation in real growth (12th in 2006 and 2nd in 2005) and 35th in per capita level.



Personal Income Moderating

Florida, Personal income, Percent change from preceding period



Personal Income

	(1000's)	Growth
2000	457,539,355	
2001	478,637,023	4.6%
2002	495,489,345	3.5%
2003	514,377,645	3.8%
2004	565,680,690	10.0%
2005	617,179,386	9.1%
2006	663,077,399	7.4%
2007	701,646,787	5.8%

Per Capita Income

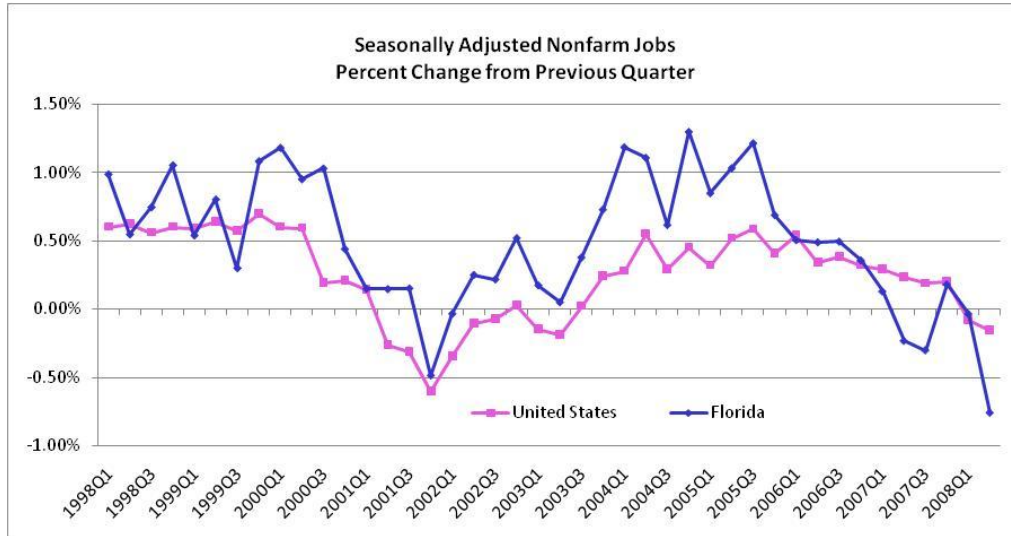
	Actual	Growth
2000	\$ 28,508	
2001	\$ 29,277	2.7%
2002	\$ 29,727	1.5%
2003	\$ 30,330	2.0%
2004	\$ 32,618	7.5%
2005	\$ 34,798	6.7%
2006	\$ 36,720	5.5%
2007	\$ 38,444	4.7%

Average Annual Growth Rate
(1950 to 2007)

9.64%

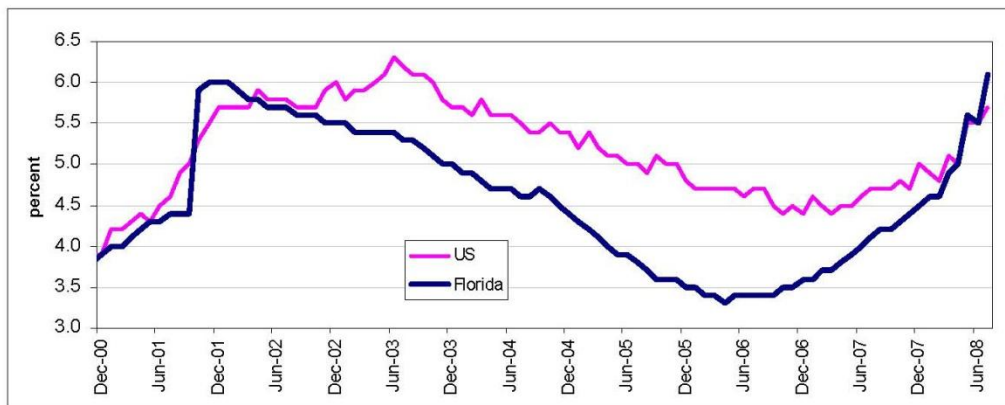


Employment Softens



July (YOY)
 US -0.05%
 FL -1.2%
 (-96,800 jobs)

**United States and Florida Unemployment Rates
Seasonally Adjusted**



July
 US 6.1
 FL 5.7

Source: Florida Agency for Workforce Innovation, Labor Market Statistics Center, Local Area Unemployment Statistics Program in cooperation with the U.S. Department of Labor, Bureau of Labor Statistics.



Employment Ranking

NONAGRICULTURAL EMPLOYMENT BY STATE

July 2007 - July 2008

Seasonally Adjusted (in thousands)

Boom-Affected States (highlight)	July 2007	July 2008	Size of WF* Rank	Over-the-Year Change			
				Job Losses Level	Losses Rank	WF Affected* Percent	% of WF* Rank
Florida	8,020.8	7,924.0	4	-96.8	1	-1.21%	3
California	15,192.7	15,116.8	1	-75.9	2	-0.50%	9
Michigan	4,261.2	4,212.5	8	-48.7	3	-1.14%	4
Arizona	2,666.3	2,625.0	21	-41.3	4	-1.55%	2
Indiana	2,986.5	2,970.0	14	-16.5	5	-0.55%	7
Missouri	2,796.8	2,782.1	18	-14.7	6	-0.53%	8
Georgia	4,146.6	4,132.6	10	-14.0	7	-0.34%	12
Tennessee	2,801.7	2,788.2	17	-13.5	8	-0.48%	10
Ohio	5,421.6	5,408.3	7	-13.3	9	-0.25%	13
Rhode Island	493.6	480.6	44	-13.0	10	-2.63%	1
Wisconsin	2,881.7	2,871.2	16	-10.5	11	-0.36%	11
Nevada	1,289.9	1,281.8	32	-8.1	12	-0.63%	5
Idaho	656.5	652.7	41	-3.8	15	-0.58%	6

*NOTE: Workforce = WF

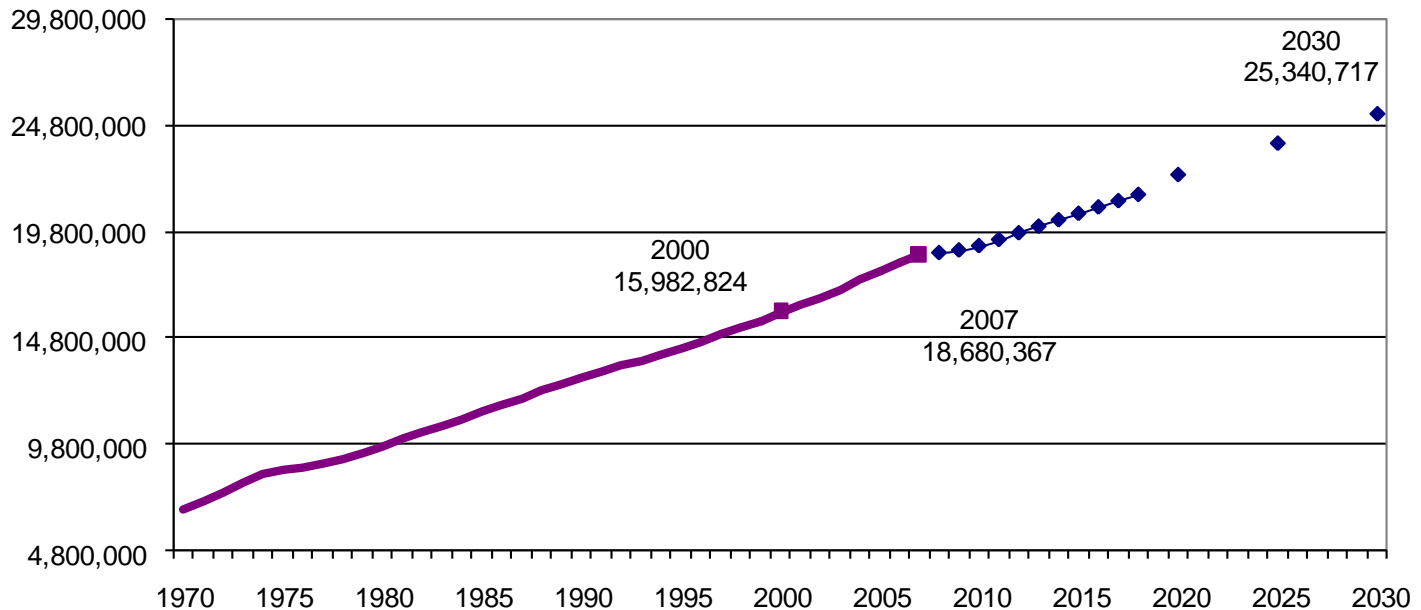


Population Growth Slowing

- Population growth continues to be the state's primary engine of economic growth, fueling both employment and income growth.
- Population growth hovered between 2.0% and 2.6% from the mid 1990's to 2006, then began to slow – only reaching 0.7% in 2008. Over the forecast horizon, population growth will rebound slightly – averaging 1.1% between 2025 and 2030.
- Florida is on track to break the 20 million mark in 2013, becoming the third most populous state sometime before then – surpassing New York.



Florida's April 1 Population

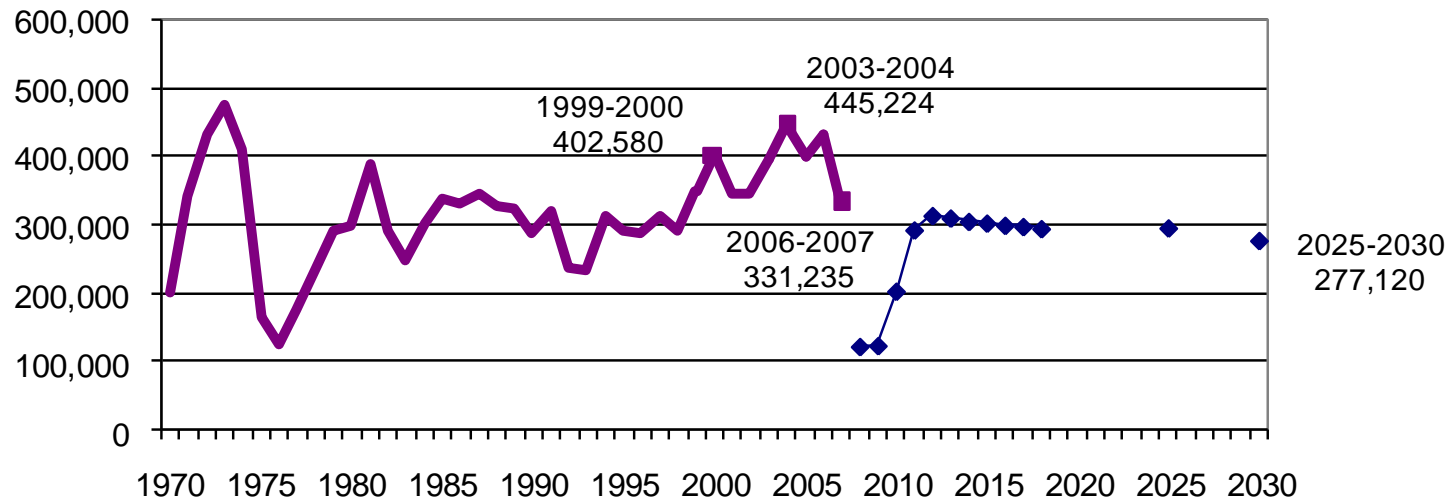


Florida's population:

- was 15,982,824 in 2000
- was 18,680,367 in 2007
- is forecast to grow to 25,340,717 by 2030



Florida's Population Growth



Population increased by:

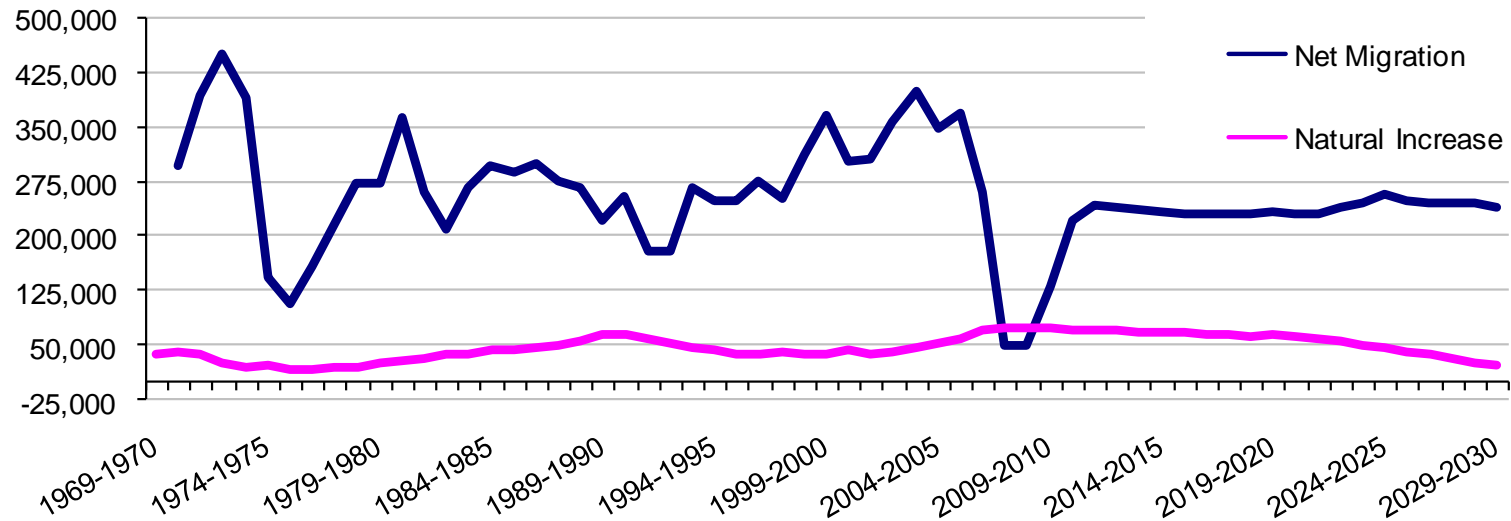
- 402,580 between 1999 and 2000
- 445,224 between 2003 and 2004
- 331,235 between 2006 and 2007
- 122,456 between 2007 and 2008 (estimated)

Population is forecast to increase on average by:

- 295,447 between 2020 and 2025
- 277,120 between 2025 and 2030



Population Components



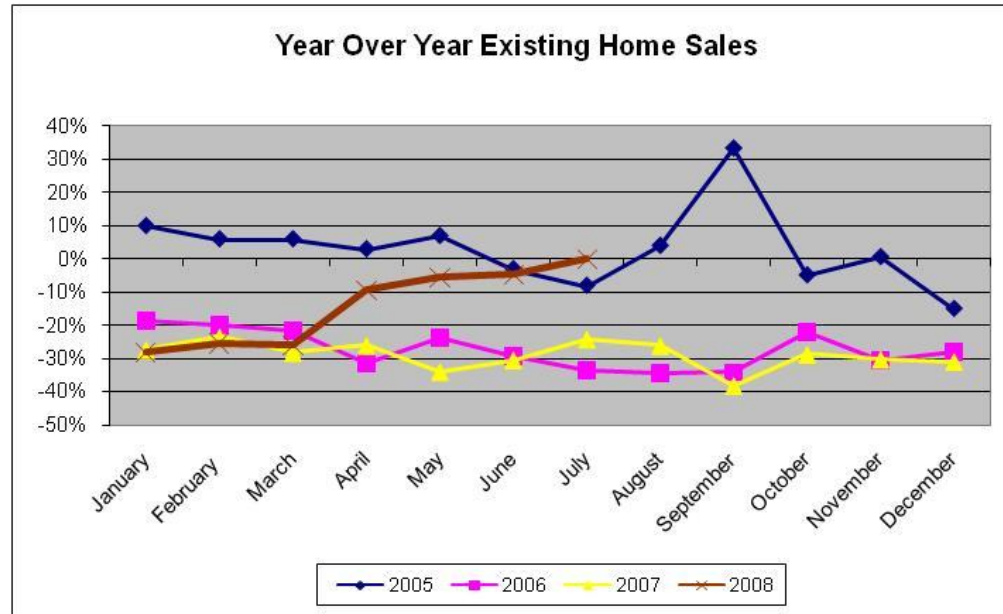
- Most of Florida's population growth is from net migration, representing about 79 percent of Florida's population growth between 2006 and 2007.
- In 2030, net migration is forecast to represent 92.1 percent of Florida's population growth.



Florida Housing



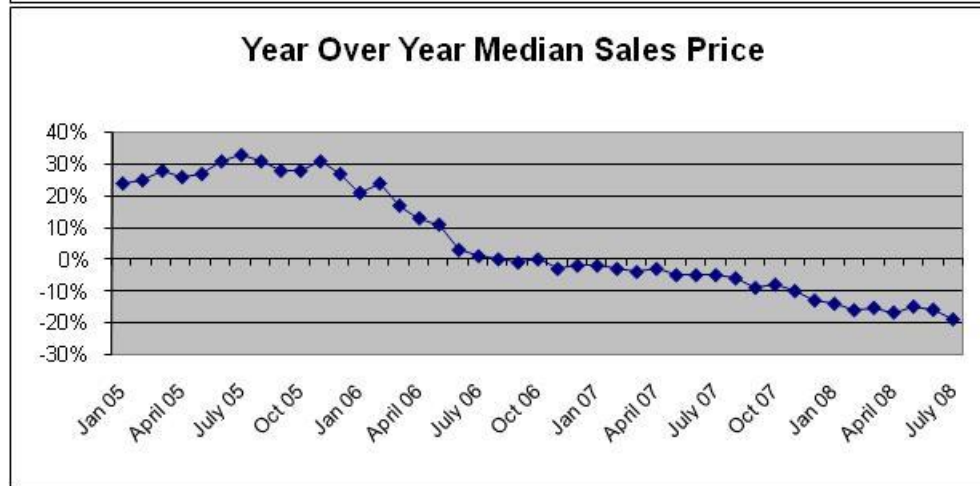
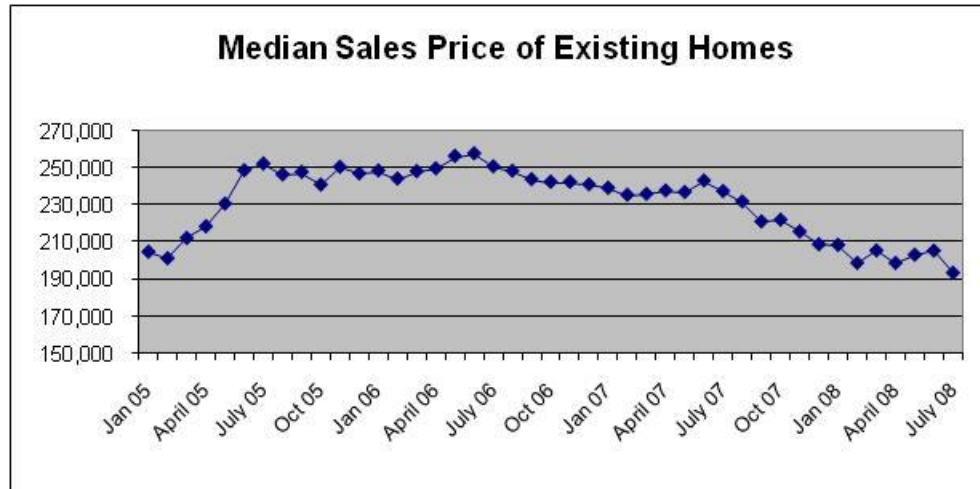
Existing Home Sales



	2005	2006	2007	2008
January	10%	-19%	-27%	-28%
February	6%	-20%	-23%	-25%
March	6%	-22%	-28%	-26%
April	3%	-31%	-26%	-9%
May	7%	-24%	-34%	-5%
June	-3%	-29%	-30%	-5%
July	-8%	-33%	-24%	0%
August	4%	-34%	-26%	
September	33%	-34%	-38%	
October	-5%	-22%	-29%	
November	1%	-30%	-30%	
December	-15%	-28%	-31%	



Volume Changed Before Price



Overhang

- The national inventory of homes is above 11 months.
- In Florida, the excess supply of homes is likely greater than 300,000.
- Subtracting the “normal” inventory and using the most recent sales experience, Florida would need significant time to work off the current excess:
 - 3rd Quarter, FY 2009-10...Optimistic
 - 1st Quarter, FY 2010-11...Pessimistic

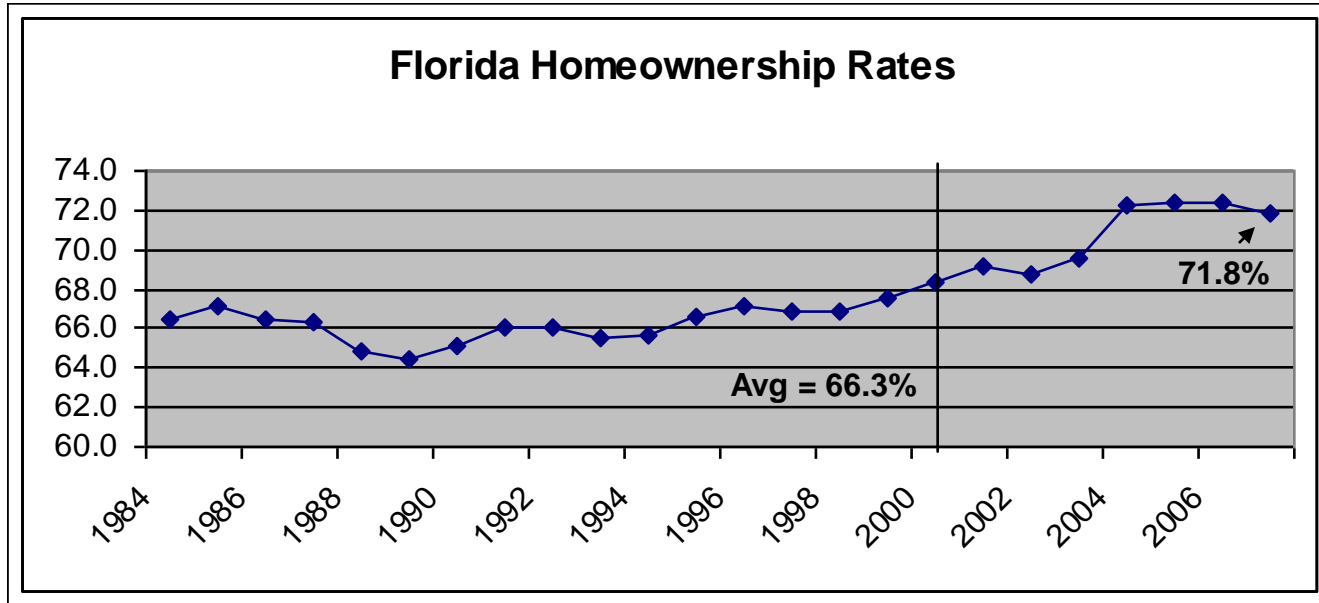


Overhang Drives Prices

- Nation as a whole has experienced an actual drop in home prices, defying pundits.
- Historic relationships are out of balance - to rents and to starts and sales.
 - Foreclosures and delinquencies are on the rise (July: 7.6 foreclosures per 1000 Florida homes...20.4% of those with outstanding mortgages.)
- Inventories of unsold homes suggest that prices will continue to fall through much of 2009, bringing the total reduction in house prices nationally to around 25 percent - more in Florida (June '06 to July '08 – 25% down in median price for existing homes in FL).



Vulnerability



If the 2007 rate dropped immediately back to the long-run average, 409,418 homeowners would be affected and over \$80 billion of value.

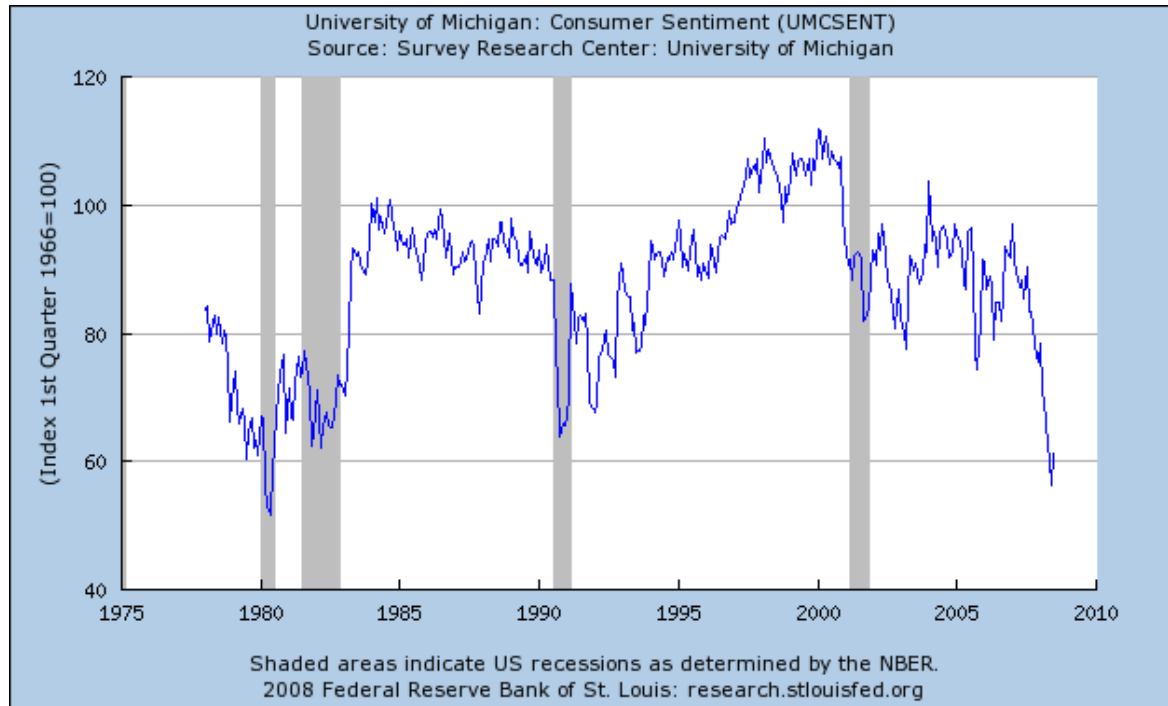


Recession Risk

- A recession is a significant decline in economic activity spread across the economy, lasting more than a few months, **normally** visible in real GDP, real income, employment, industrial production, and wholesale-retail sales.
- Uncertainties about values of mortgage-related assets and related losses, and consequently strains in financial markets, could persist for quite some time.
- Credit problems (liquidity and solvency) have spread far beyond the subprime arena to include even commercial paper and business investment.
- The downside risks to the economy, resulting particularly from the weakening of the housing sector and the deterioration in credit market conditions, continue to rise.



Sentiment is Eroding



- Consumer sentiment can be a leading indicator of recession: nationally, it is approaching the lowest point ever obtained (61.2 versus 51.7 in May 1980). Since January 1978, only 8 months have been lower than July 2008.
- Florida consumer confidence has risen slightly (July: 61) from a record low (59) in June, but it is still significantly below the previous record (63).



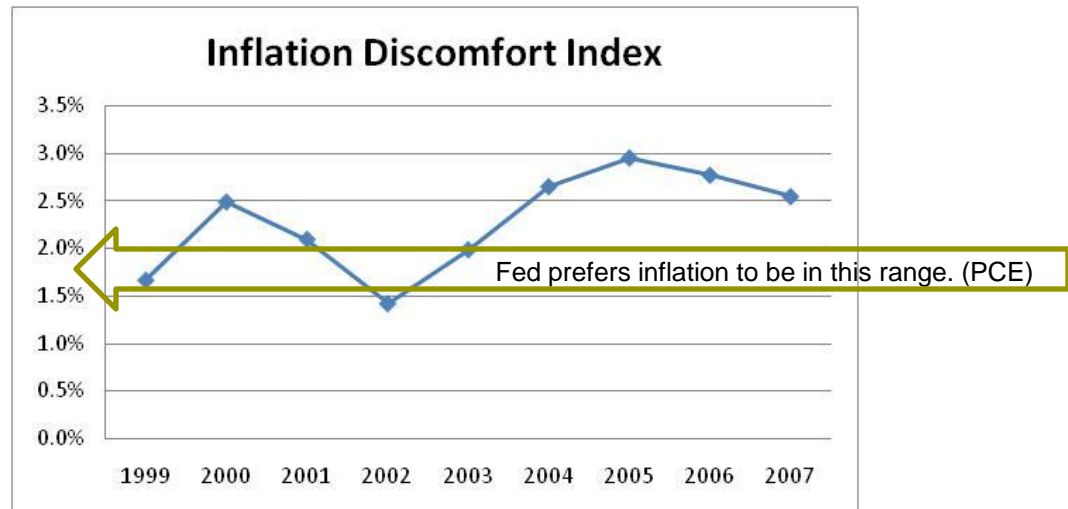
Energy Price Threat

- Oil prices have risen about tenfold in a decade, persisting above a record \$110 a barrel
- Elevated prices are likely to continue
 - Supply Constraints and Disruptions
 - Increased OPEC Discipline
 - Demand Growth
 - Speculators (especially Hedge Funds)



Fed Dilemma

- Fed has to be cautious in its actions; rate cuts can lead to inflation.
- Stagflation is a period of out-of-control price inflation combined with slow-to-no output growth, rising unemployment, and potentially recession if it continues long enough.



The Economy Will Rebound

In the second half of FY 2009-10, growth rates will return to more typical levels. In the meanwhile...

- The national economic contraction will run its course and, more importantly, the financial markets will recover stability.
- The subsequent turnaround in Florida housing will be led by:
 - Falling home prices that begin to attract buyers and clear the inventory (FL below the national average in June: \$210,900 vs. \$193,600...8.2% below)
 - Long-run sustainable demand caused by continued population growth and household formation.
 - Florida's unique demographics and the aging of the baby-boom generation.



Revenue: Bringing It Together

- Drags are more persistent relative to some past events.
- Downside risks are strong and still growing.
- Recovery in the Housing Market is not anticipated until January 2010.
- Decreased levels of consumer spending affect:
 - Sales Tax
 - Documentary Stamp / Intangibles Taxes
 - Corporate Income Tax



Six Drags on Estimates

- Slower Population Growth (**partial** 11/07, **partial** 8/08)
- Loss of Wealth Effect from Declining Home Prices (8/07)
- Growing Home Inventory (**partial** 11/07, **partial** 8/08)
- Spreading Credit Crunch (**partial** 3/08, **partial** 8/08)
- Elevated Energy and Food Prices (**partial** 3/08, **partial** 8/08)
- Likelihood of National Recession (3/08)



Revenue Estimates Are Lower

Fiscal Year	March 2008 Forecast	August 2008 Forecast	Forecast Difference	Percentage Reduction	Incremental Growth	Growth
2005-06	27082.2	27082.2				8.5%
2006-07	26404.1	26404.1				-2.5%
2007-08	24468.5	24112.1	-356.4	-1.5%	-2292.0	-8.7%
2008-09	25137.6	23371.8	-1765.8	-7.0%	-740.3	-3.1%
2009-10	26817.2	24662.7	-2154.5	-8.0%	1290.9	5.5%
2010-11	28829.9	26688.0	-2141.9	-7.4%	2025.3	8.2%
2011-12	30949.9	28800.2	-2149.7	-6.9%	2112.2	7.9%



Key Budget Drivers...

Critical Needs

	FY 2009-10		FY 2010-2011		FY 2011-2012	
	Total GR	Total Major TF	Total GR	Total Major TF	Total GR	Total Major TF
Critical Needs (Includes Annualizations, Mandatory Increases Based on Estimating Conferences, and Other Essential Needs)						
<i>Criminal Justice</i>	492.6	0.0	486.3	0.0	471.3	0.0
<i>Medicaid</i>	221.6	132.9	167.2	168.1	404.1	480.9
<i>State Government Operations</i>	163.7	30.0	137.8	66.7	155.2	70.4
<i>K-12 Education</i>	45.8	130.1	89.3	(75.1)	97.3	8.3
<i>Post-Secondary Education</i>	61.2	0.0	0.0	87.9	1.4	35.5
<i>General Education</i>	45.9	(45.9)	0.0	30.2	0.0	0.0
<i>Judiciary</i>	39.9	0.0	39.9	0.0	39.9	0.0
<i>Local Assistance</i>	32.8	0.0	32.9	0.0	33.1	0.0
<i>Voluntary Pre-Kindergarten</i>	26.1	0.0	7.0	0.0	6.2	0.0
<i>State Disasters</i>	22.9	0.0	17.3	0.0	10.1	0.0
<i>KidCare</i>	19.9	42.4	30.8	72.5	36.7	87.1
<i>Environment</i>	0.0	(5.2)	0.0	(3.9)	0.0	(1.5)
<i>Health and Human Services</i>	(4.2)	6.5	0.0	(4.6)	0.0	2.6
Subtotal Critical Needs	1,168.2	290.7	1,008.4	341.8	1,255.3	683.4



Outlook for Critical Needs

LONG RANGE FINANCIAL OUTLOOK - DRAFT - AUGUST 27 LEGISLATIVE BUDGET COMMISSION

TIER 1 ISSUES - CRITICAL NEEDS

GENERAL REVENUE FUNDS AVAILABLE PROJECTION

(\$ MILLIONS)

	FY 2008-09			FY 2009-10			FY 2010-11			FY 2011-12		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Funds Available:												
August 15 REC Balance Forward	0.0	326.2	326.2	0**	0.0	0.0	0.0	200.0	200.0	0.0	1,382.6	1,382.6
August 15 REC Revenue Estimate	23,291.6	80.2	23,371.8	24,658.8	3.9	24,662.7	26,687.5	0.5	26,688.0	28,799.7	0.5	28,800.2
August 15 REC Non-operating Funds	-4.3	613.5	609.2	-4.3	105.5	101.2	-4.3	105.5	101.2	-4.3	105.5	101.2
New Issues - Florida Forever/Everglades Bonds			0.0	-34.3	12.0	-22.2	-68.6	12.0	-56.5	-102.8	12.0	-90.8
Transfer From Trust Funds			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Funds Available	<u>23,287.3</u>	<u>1,019.9</u>	<u>24,307.2</u>	<u>24,620.2</u>	<u>121.4</u>	<u>24,741.7</u>	<u>26,614.6</u>	<u>318.0</u>	<u>26,932.7</u>	<u>28,692.6</u>	<u>1,500.6</u>	<u>30,193.2</u>
Estimated Expenditures:												
Base Budget				24,973.8	0.0	24,973.8	24,541.7	0.0	24,541.7	25,120.6	0.0	25,120.6
New Issues by GAA Section:												
Section 2 - Education	12,902.5	141.7	13,044.2	98.3	80.7	179.1	96.4	0.0	96.4	104.9	0.0	104.9
Section 3 - Human Services	7,109.5	48.0	7,157.5	237.3	0.0	237.3	198.0	0.0	198.0	440.8	0.0	440.8
Section 4 - Criminal Justice and Corrections*	3,536.4	335.4	3,871.9	146.0	353.1	499.2	149.4	343.5	493.0	154.0	324.2	478.2
Section 5 - Natural Resources /Environment/Growth Management/Transportation	191.5	89.1	280.6	0.0	22.9	22.9	0.0	17.3	17.3	0.0	10.1	10.1
Section 6 - General Government*	817.5	166.8	984.3	1.3	33.8	35.1	1.6	28.8	30.4	1.7	26.2	27.9
Section 7 - Judicial Branch	404.0	0.2	404.2	0.0	39.9	39.9	0.0	39.9	39.9	0.0	39.9	39.9
Administered Funds - Statewide Issues	<u>12.4</u>	<u>20.0</u>	<u>32.4</u>	<u>154.8</u>	<u>0.0</u>	<u>154.8</u>	<u>133.6</u>	<u>0.0</u>	<u>133.6</u>	<u>153.5</u>	<u>0.0</u>	<u>153.5</u>
Total New Issues				637.8	530.4	1,168.2	579.0	429.5	1,008.4	854.9	400.4	1,255.3
Transfer to Budget Stabilization Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adjustment to Balance with \$200 Million Reserve			0.0	-1,069.9	-530.4	-1,600.3			0.0			0.0
Total Estimated Expenditures	<u>24,973.8</u>	<u>801.1</u>	<u>25,774.9</u>	<u>24,541.7</u>	<u>0.0</u>	<u>24,541.7</u>	<u>25,120.6</u>	<u>429.5</u>	<u>25,550.1</u>	<u>25,975.5</u>	<u>400.4</u>	<u>26,375.9</u>
Ending Balance	-1,686.5	218.8	-1,467.7	78.6	121.4	200.0	1,494.0	-111.5	1,382.6	2,717.1	1,100.2	3,817.2



Key Budget Drivers...

Other High Priorities

	FY 2009-10		FY 2010-2011		FY 2011-2012	
	Total GR	Total Major TF	Total GR	Total Major TF	Total GR	Total Major TF
Other High Priority Needs (Includes Other Historically Funded Issues)						
<i>Criminal Justice</i>	3.5	0.0	3.5	0.0	3.5	0.0
<i>Medicaid</i>	317.8	422.6	25.0	30.7	25.0	30.7
<i>State Government Operations</i>	221.6	125.0	225.6	53.1	227.0	95.9
<i>K-12 Education</i>	491.5	0.0	372.3	0.0	275.0	0.0
<i>Post-Secondary Education</i>	302.4	0.0	258.0	0.0	239.2	0.0
<i>Judiciary</i>	18.0	0.0	18.3	0.0	18.6	0.0
<i>Local Assistance</i>	214.6	8.0	204.2	8.0	204.2	8.0
<i>Environment</i>	194.4	363.9	190.9	379.7	187.3	403.6
<i>Health and Human Services</i>	126.9	51.2	76.1	37.2	65.6	23.4
<i>Transportation and Growth Management</i>	5.1	6,434.3	5.1	6,365.4	5.1	7,101.7
<i>Juvenile Justice</i>	10.1	0.0	10.1	0.0	10.1	0.0
Subtotal Other High Priority Needs	1,905.9	7,405.1	1,389.0	6,874.2	1,260.5	7,663.3



Outlook for Critical & High Priority Needs

LONG RANGE FINANCIAL OUTLOOK - DRAFT - AUGUST 27 LEGISLATIVE BUDGET COMMISSION

TIER 2 ISSUES - CRITICAL NEEDS AND OTHER HIGH PRIORITY NEEDS

GENERAL REVENUE FUNDS AVAILABLE PROJECTION

(\$ MILLIONS)

	FY 2008-09			FY 2009-10			FY 2010-11			FY 2011-12		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Funds Available:												
August 15 REC Balance Forward	0.0	326.2	326.2	0**	0.0	0.0	0.0	200.0	200.0	0.0	200.0	200.0
August 15 REC Revenue Estimate	23,291.6	80.2	23,371.8	24,658.8	3.9	24,662.7	26,687.5	0.5	26,688.0	28,799.7	0.5	28,800.2
August 15 REC Non-operating Funds	-4.3	613.5	609.2	-4.3	105.5	101.2	-4.3	105.5	101.2	-4.3	105.5	101.2
New Issues - Florida Forever/Everglades Bonds	0.0	0.0	0.0	-34.3	12.0	-22.2	-68.6	12.0	-56.5	-102.8	12.0	-90.8
Transfer From Trust Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Funds Available	23,287.3	1,019.9	24,307.2	24,620.2	121.4	24,741.7	26,614.6	318.1	26,932.7	28,692.6	318.0	29,010.6
Estimated Expenditures:												
Base Budget				24,973.8	0.0	24,973.8	24,541.7	0.0	24,541.7	25,835.5	0.0	25,835.5
New Issues by GAA Section:												
Section 2 - Education	12,902.5	141.7	13,044.2	750.3	222.7	973.0	583.9	142.7	726.6	477.1	142.0	619.1
Section 3 - Human Services	7,109.5	48.0	7,157.5	604.6	108.0	712.6	234.1	95.5	329.6	476.4	85.5	561.9
Section 4 - Criminal Justice and Corrections*	3,536.4	335.4	3,871.9	159.7	367.2	526.9	163.1	357.6	520.7	167.6	338.3	505.9
Section 5 - Natural Resources /Environment/Growth Management/Transportation	191.5	89.1	280.6	0.0	168.2	168.2	0.0	159.0	159.0	0.0	148.3	148.3
Section 6 - General Government*	817.5	166.8	984.3	1.3	316.4	317.6	1.6	301.0	302.6	1.7	294.7	296.4
Section 7 - Judicial Branch	404.0	0.2	404.2	13.0	47.8	60.8	13.3	47.8	61.1	14.5	47.8	62.3
Administered Funds - Statewide Issues	12.4	20.0	32.4	315.1	0.0	315.1	297.9	0.0	297.9	321.9	0.0	321.9
Total New Issues				1,843.9	1,230.3	3,074.1	1,293.8	1,103.6	2,397.5	1,459.3	1,056.6	2,515.8
Transfer to Budget Stabilization Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adjustment to Balance with \$200 Million Reserve			0.0	-2,276.0	-1,230.3	-3,506.3		-206.4	-206.4			0.0
Total Estimated Expenditures	24,973.8	801.1	25,774.9	24,541.7	0.0	24,541.6	25,835.5	897.2	26,732.7	27,294.8	1,056.6	28,351.3
Ending Balance	-1,686.5	218.8	-1,467.7	78.5	121.5	200.0	779.1	-579.2	200.0	1,397.8	-738.5	659.3

