Florida:
Long-Range Financial Outlook

September 10, 2020

Presented by:

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The National and Florida Economic forecasts had greater weight than normal for the following forecasts.

What has changed since Session...

- Near the end of Florida's 2020 Regular Session, the World Health Organization declared a Global Pandemic (March 11, 2020). The global incidence rate has significantly increased since then.

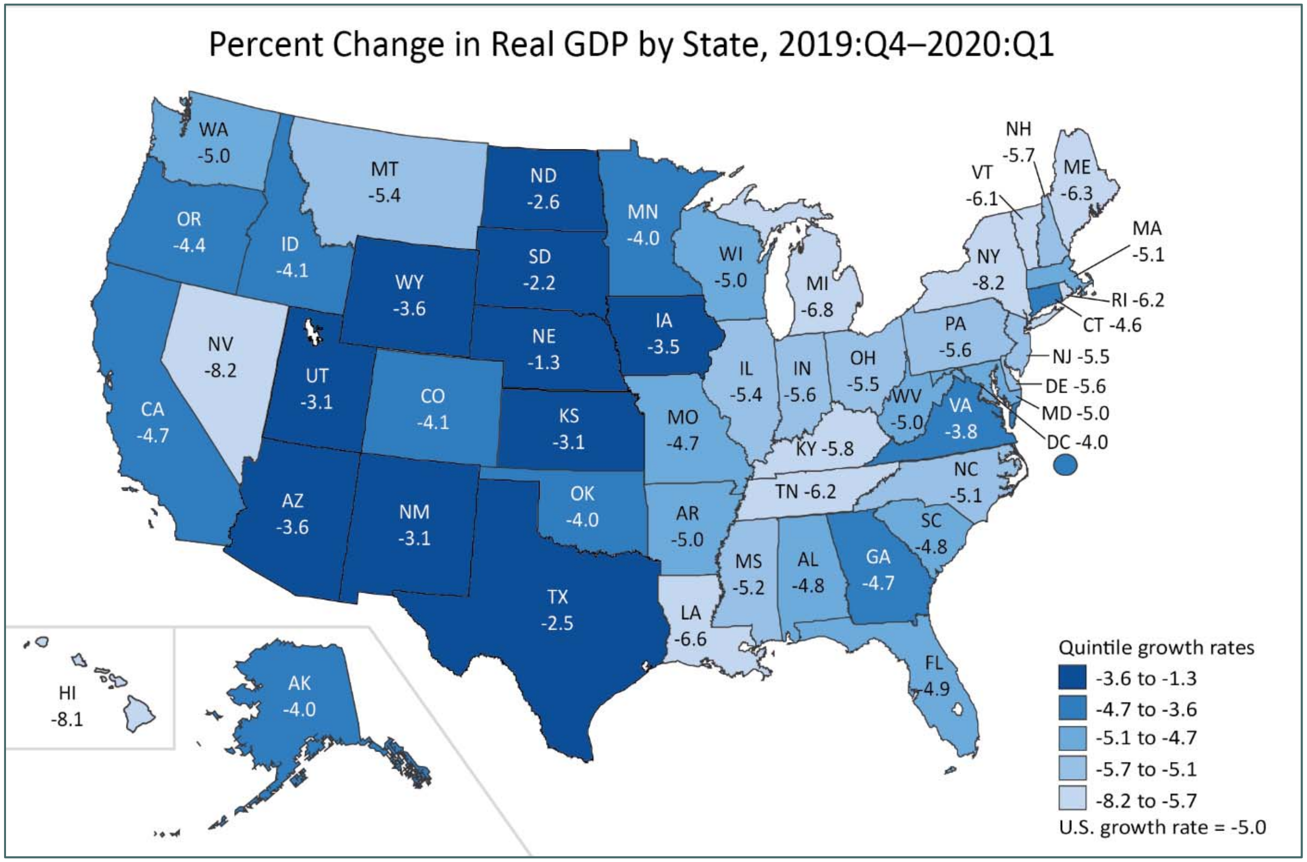
- The near shut-down of many businesses became the primary global response to Coronavirus. Undertaken as an effort to preserve the health care system's capacity, it came with a serious economic consequence. However, when successful, it also has the capability of producing a lower incidence rate than otherwise would have occurred. Florida's timeline shows:
  - Statewide Safer at Home order regarding essential services ran from 4/3/2020 to 4/30/2019 (Executive Order 20-91).
  - Phase 1 Recovery initial guidance in Executive Order Number 20-112 became effective May 4, 2020.
  - The extension of Phase 1 to include Broward and Miami-Dade counties became effective May 18, 2020 (Executive Order 20-122), as well as the extension to Full Phase 1 for everyone else (Executive Order 20-123).
  - Phase 2 Recovery was entered on June 5, 2020, for all counties other than Palm Beach, Broward and Miami-Dade (Executive Order 20-139).
  - The Department of Business and Professional Regulation issued a notice banning alcohol consumption at bars on June 26, 2020, unless they were also licensed to offer food service.
  - Palm Beach County entered Phase 2 on September 4, 2020 (Executive Order 20-214).

- Global and national recessions.
  - The US economy declined in the first quarter (January, February and March) by its fastest rate since the Great Recession. According to the third estimate from the US Commerce Department, Bureau of Economic Analysis, GDP shrank at a 5.0 percent annualized rate.
  - As expected, the US economy contracted at its greatest rate in postwar history during the second quarter (April, May and June) as unprecedented shutdowns closed businesses and left millions of Americans out of work during the pandemic. According to the "second" estimate from the US Commerce Department, Bureau of Economic Analysis, GDP shrank at an annualized rate of 31.7 percent, slightly better than their expected fall of 32.9 percent from the "advance" estimate or the 36.4 percent adopted as part the National Economic Outlook on July 10, 2020.
  - The National Bureau of Economic Research (NBER) had previously dated the business cycle peak to February 2020 after 128 months of expansion, marking that month as the official turning point which begins the recession.

Ongoing Federal Response…

- The Federal Reserve has aggressively instituted rate cuts to near-zero percent, offered massive injections of liquidity, and provided guidance to banks for exceptional forbearance. The actions served as a important firewall between the turmoil in the economy at-large and the financial system.
    - From the minutes of the Federal Open Market Committee meeting on July 28-29: "The path of the economy will depend significantly on the course of the virus. The ongoing public health crisis will weigh heavily on economic activity, employment, and inflation in the near term, and poses considerable risks to the economic outlook over the medium term."
- In March, Congress passed three major pieces of legislation:
    - The Coronavirus Preparedness and Response Supplemental Appropriations Act; Phase 1. This legislation provided $8.3 billion in emergency funding for federal agencies to respond to the coronavirus outbreak. [Public Law No: 116-123; enacted 03/06/2020] Florida directly benefitted from some of this funding for crisis response.
    - The Families First Coronavirus Response Act; Phase 2. This legislation responded to the COVID-19 outbreak by providing paid sick leave, tax credits, and free COVID-19 testing; expanding food assistance and unemployment benefits; and increasing Medicaid funding. [Public Law No: 116-127; enacted 03/18/2020] Florida benefitted financially from the temporary 6.2 percentage point increase in FMAP (the federal government increased its matching rate, resulting in a lesser need for General Revenue).
    - The Coronavirus Aid, Relief, and Economic Security [CARES] Act; Phase 3. This legislation provided substantial federal government support ($2.2 trillion, the largest-economic stimulus package in U.S. history) to individuals, businesses, hospitals, and specific industries dealing with the COVID-19 pandemic and its associated economic consequences. [Public Law No: 116-136; enacted 03/27/2020] This bill provided the greatest direct budgetary relief to Florida.
- A fourth stimulus bill was signed by the President in April. Referred to as an interim spending bill, it provided an additional $484 billion for small businesses ($320 billion for PPP and $60 billion in economic injury loans and grants), for hospitals ($75 billion) and for testing ($25 billion).
- Discussion for CARES 2 (Phase 4) is also underway. The outcome—and its magnitude—is unknown.
    - The House passed a $3 trillion package dubbed the Health and Economic Recovery Omnibus Emergency Solutions (HEROES) Act on May 15th. Among other things, it included $540 billion in additional fiscal relief for states, territories and tribal governments through the Relief Fund, with a special provision indicating that these dollars can be used to replace foregone revenues.
    - The Senate's initial response, dubbed the HEALS Act (Health, Economic Assistance, Liability Protection and Schools), included limited flexibility on state use of previous funding, but no new dollars for state and local governments in the $1 trillion package. Initial negotiations failed to produce an agreement, with Senate leadership indicating that they may attempt a test vote on a "skinny" $500 billion version of the bill this week that extends the deadline for state and local governments to use Coronavirus Relief Fund dollars from December 30, 2020, to September 30, 2021.
    - Pundits are predicting that an agreement—if it comes to pass—will wait until the end of September, when overall budget negotiations on a Continuing Resolution (to fund the government past the election) take center-stage.

Coronavirus Impact on Florida GDP...



For the 2018 calendar year, Florida had 3.2 percent growth in Real Gross Domestic Product (GDP). In the newly released data for 2019, Florida's growth slowed slightly from the prior year, but remained above the national average (2.8 percent growth in Florida versus 2.3 percent in the US). Translating the data into the state's fiscal year, Florida experienced 3.0 percent growth in Fiscal Year 2018-19 and was expected to have 2.5 percent growth in Fiscal Year 2019-20. Through the first half of the state's fiscal year, the data showed that the state was on track to match the Conference projection.

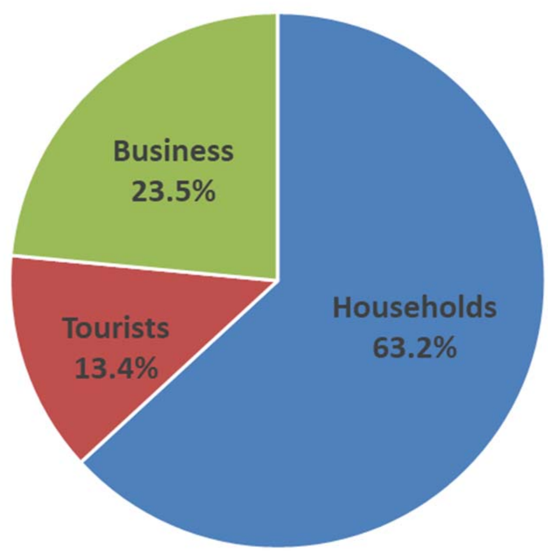
On July 7, 2020, the US Department of Commerce, Bureau of Economic Analysis released GDP data by State for the first quarter of 2020 (January, February and March); outright declines were seen in all 50 states. Florida was ranked 24th in the country for its real growth at a seasonally adjusted annual rate. Coming in at -4.9 percent, it nearly matched the US as a whole which was reported at -5.0 percent. The Accommodation and Food Services industry was the state's most significant drag relative to the US as a whole. The Conference projections are now -1.3 percent for Fiscal Year 2019-20, and -4.3 percent for Fiscal Year 2020-21.

Florida-Based Downside Risk…

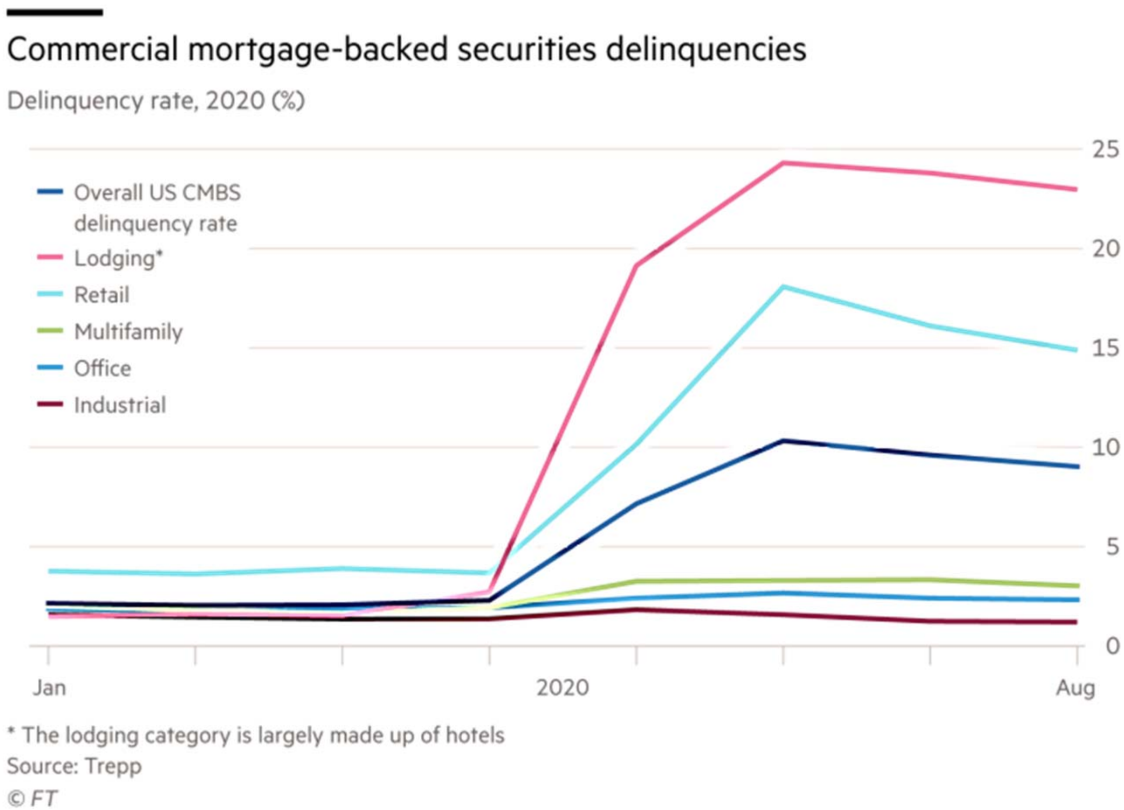
Florida's tourism-sensitive economy is particularly vulnerable to the longer-term effects of the pandemic. Previous economic studies of disease outbreaks have shown that it can take as much as twelve to fifteen months after the outbreak ends for tourism to return to pre-disease levels. The magnitude of this event is greater. The total number of tourists declined -68.1 percent from the prior year in the second quarter of 2020. Coupled with the losses from the first quarter, the projected annual loss for Fiscal Year 2019-20 was -18.0 percent. Several industry groups have already predicted that it will take at least two years to reach recovery from this pandemic. Current expectations are that leisure driving vacations will recover first, and then—in order—business travel, domestic air travel, and international travel. The persistence of the disruption to the tourism industry is currently unknown since it is tied to the widespread distribution of a vaccine. Furthermore, it is unclear how long it will take the industry to recover from that point or even if it will have the same composition.

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 2017-18, sales tax collections provided over $24.1 billion dollars or 76.4% of Florida's total General Revenue collections. Of this amount, an estimated 13.4% (over $3.2 billion) was directly attributable to purchases made by tourists. Preliminary data for FY 2018-19 indicates that the visitor share rose to 14.5% for nearly $3.7 billion dollars.

Contributions to General Revenue from Sales Tax (with CST) Collections in FY 2017-18, By Source



Commercial Real Estate…



In addition to Sales Tax, worsening commercial real estate conditions materially affected the new forecasts for Corporate Income Tax and Ad Valorem. Reduced profitability, involuntary structural changes, business failures and delayed business formations are all factors.

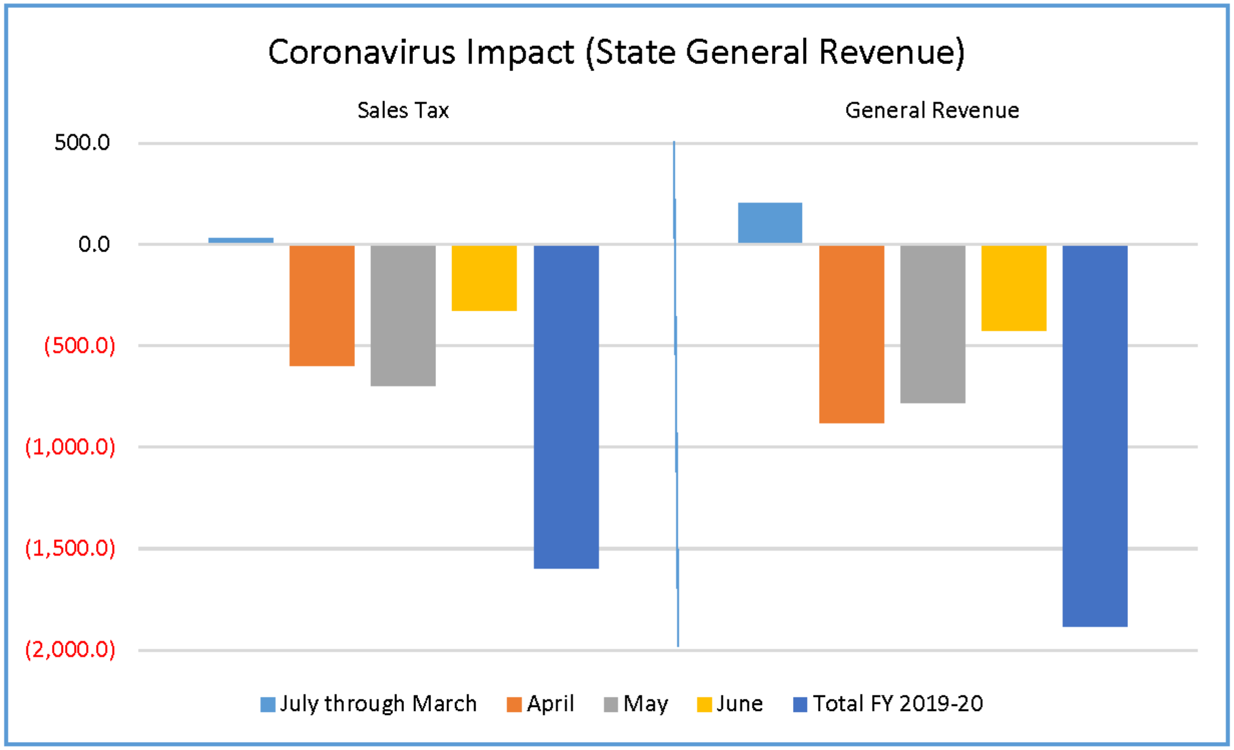
Federal Open Market Committee Minutes from late July:

- Bank lending standards for commercial real estate (CRE) loans have tightened, according to the July SLOOS, and CRE loan growth at banks slowed. The credit quality of existing CRE loans continued to deteriorate as further signs of repayment difficulties emerged, most notably in the lodging and retail sectors.

- Financing conditions for small businesses remained tight. Banks reported in the July SLOOS that the level of standards for small businesses was at the tighter end of the range since 2005. At the same time, the credit needs of small businesses remained high, as the prospect arose of many businesses having to shut down operations again in response to rising coronavirus cases. Small business loan performance deteriorated significantly; short-term delinquencies were comparable with levels seen in early 2008.

FY 2019-20 General Revenue Collections…

Gains / (Losses)	**Sales Tax**	**General Revenue**
July through March	27.3	202.4
April	(598.2)	(878.1)
May	(695.4)	(779.6)
June	(328.0)	(427.8)
Total FY 2019-20	(1,594.3)	(1,883.1)
Percent of Total Annual Loss	84.7%	100.0%
Loss from the Annual Estimate	*-6.1%*	*-5.7%*



General Revenue Forecast Comparison…

Fiscal Year	January 2020 Forecast	Growth	Sales Tax GR	Growth	Share of GR
2004-05	24,969.4		*17,628.9*		*70.6%*
2005-06	*27,074.8*	*8.4%*	*19,367.4*	*9.9%*	*71.5%*
2006-07	*26,404.1*	*-2.5%*	*19,435.2*	*0.4%*	*73.6%*
2007-08	*24,112.1*	*-8.7%*	*18,428.9*	*-5.2%*	*76.4%*
2008-09	*21,025.6*	*-12.8%*	*16,531.4*	*-10.3%*	*78.6%*
2009-10	*21,523.1*	*2.4%*	*16,014.7*	*-3.1%*	*74.4%*
2010-11	*22,551.6*	*4.8%*	*16,638.3*	*3.9%*	*73.8%*
2011-12	*23,618.8*	*4.7%*	*17,422.0*	*4.7%*	*73.8%*
2012-13	*25,314.6*	*7.2%*	*18,417.6*	*5.7%*	*72.8%*
2013-14	*26,198.0*	*3.5%*	*19,707.7*	*7.0%*	*75.2%*
2014-15	*27,681.1*	*5.7%*	*21,062.7*	*6.9%*	*76.1%*
2015-16	*28,325.4*	*2.3%*	*21,998.0*	*4.4%*	*77.7%*
2016-17	*29,594.5*	*4.5%*	*22,987.4*	*4.5%*	*77.7%*
2017-18	*31,218.2*	*5.5%*	*24,138.7*	*5.0%*	*77.3%*
2018-19	*33,413.8*	*7.0%*	*25,385.3*	*5.2%*	*76.0%*
2019-20	33,249.3	-0.5%	26,185.6	3.2%	78.8%
2020-21	34,449.3	3.6%	27,022.9	3.2%	78.4%
2021-22	35,686.8	3.6%	27,849.6	3.1%	78.0%
2022-23	37,141.1	4.1%	28,756.3	3.3%	77.4%
2023-24	38,372.6	3.3%	29,705.9	3.3%	77.4%
2024-25	39,702.6	3.5%	30,709.1	3.4%	77.3%

Fiscal Year	August 2020 Forecast	Growth	Sales Tax GR	Growth	Share of GR
2019-20	31,366.2	-6.1%	24,591.3	-3.1%	78.4%
2020-21	30,990.1	-1.2%	24,142.3	-1.8%	77.9%
2021-22	33,691.2	8.7%	26,598.3	10.2%	78.9%
2022-23	35,279.3	4.7%	27,569.2	3.7%	78.1%
2023-24	36,800.7	4.3%	28,692.8	4.1%	78.0%
2024-25	38,089.7	3.5%	29,623.2	3.2%	77.8%
2025-26	39,413.6	3.5%	30,558.8	3.2%	77.5%

Recognizing the heightened risk to the forecast due to the pandemic-induced economic effects on Florida's tourism-sensitive economy, the Revenue Estimating Conference made substantial adjustments to the forecast adopted in January. Anticipated revenues were revised downward by $3.4 billion in FY 2020-21 and by $2.0 billion in FY 2021-22, for a two-year combined decrease of $5.4 billion. This change reflects an overall 9.9 percent loss in FY 2020-21 and a 5.6 percent loss in FY 2021-22 from the *prior estimates*. Year-over-year growth is shown to the left.

By far the largest adjustment in the new forecast relates to Sales Tax. The anticipated loss to General Revenue is $2.84 billion in FY 2020-21 and $1.25 billion in FY 2021-22, with about one-half of the loss each year attributed to severely dampened sales in the Tourism & Recreation sector. Even though a significant part of the loss arises from a reduction in the number of out-of-state tourists, this category also includes sales to Florida residents at restaurants, local attractions and other leisure-based activities which have also been negatively affected by the pandemic. The record-breaking increase in the savings rate that has developed since the beginning of the outbreak is also a factor since it comes at the expense of consumption.

GR Outlook Balance…

FY 2019-20…

Beginning Balance	2,489.8
Estimated Revenues	33,249.3
Revenue Loss as June 30, 2020	(1,883.1)
CARES Relief Act Funds	5,855.8
Net Misc Receipts	529.8
Total Revenues	40,241.5
Total Appropriations, GAA Actions & Substantive Appropr	34,051.7
Transfer to BSF	91.2
June 30 Unbudgeted Reserve Reversions	(96.8)
Budget Amendments through June 30, 2020	965.3
Reversion/Medicaid FMAP	(592.4)
	34,419.0
Unallocated General Revenue	**5,822.5**

FY 2020-21 …

Beginning Balance	5,822.5
Estimated Revenues	30,990.1
Net Misc Receipts through 8/14/2020	346.1
Total Revenues	37,158.7
Total Appropriations, GAA Actions & Substantive Appropr	34,795.9
Transfer to BSF	100.0
Budget Amendments through 8/14/2020	896.2
	35,792.1
Unallocated General Revenue	**1,366.6**

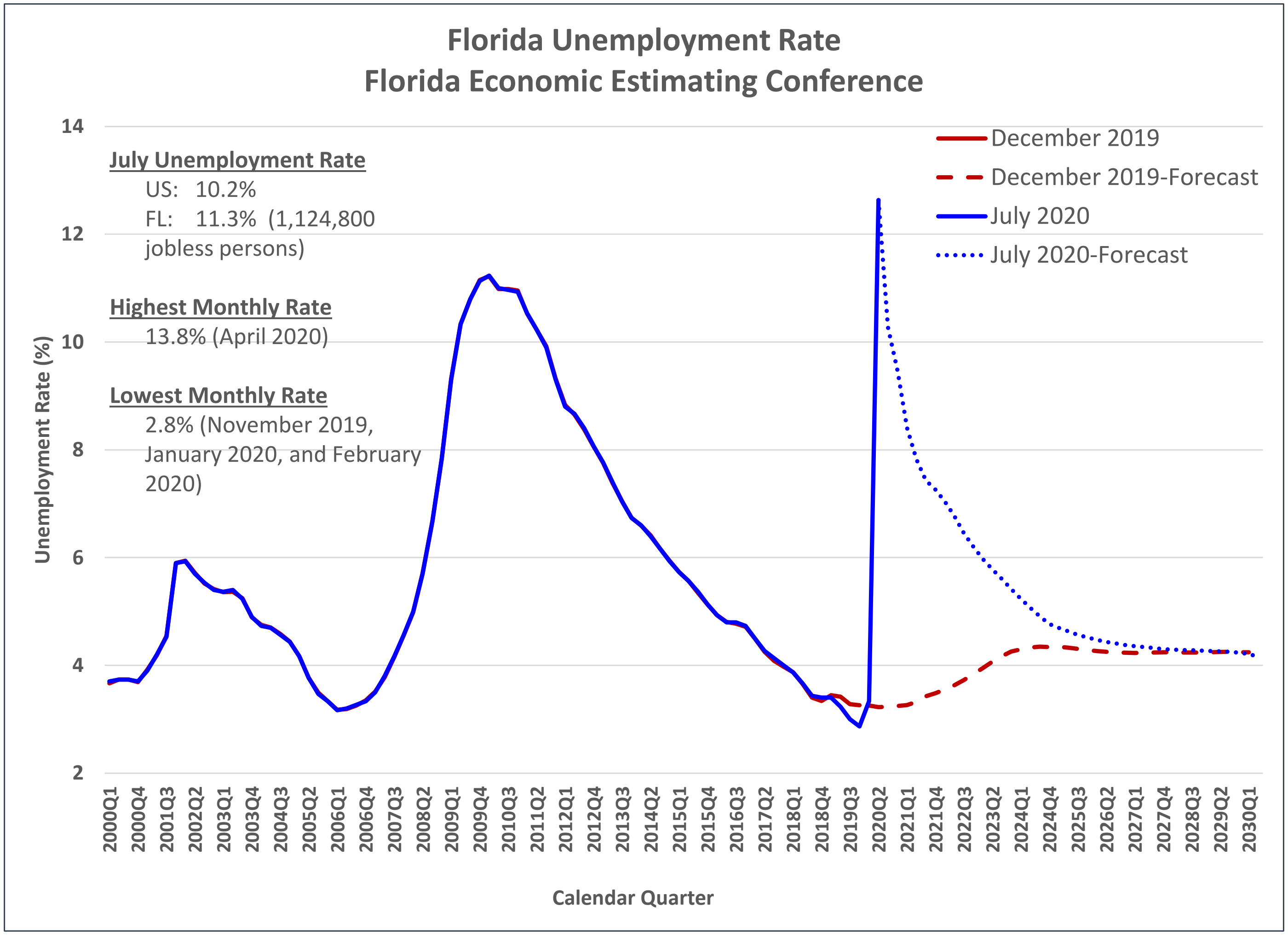
Official Outlook adopted 8/14/2020.

Total State Reserves...

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%
2019	2019-20	1,452.9	1,574.2	773.6	3,800.7	32,970.0	11.5%
2020	2020-21	1,366.6	1,674.2	867.2	3,908.0	31,016.8	12.6%

*The Lawton Chiles Endowment Fund for Fiscal Year 2020-21 is the estimated market value as of August 17, 2020. The Summer Revenue Estimate for Fiscal Year 2020-21 includes the official estimated revenues for General Revenue and the annual payment from the BP Settlement Agreement.

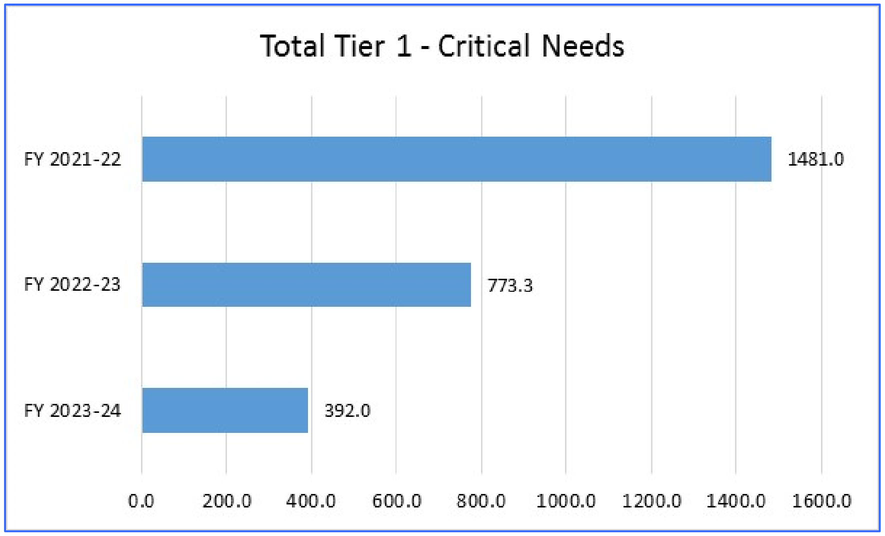
- Unallocated General Revenue, the Budget Stabilization Fund, and the Lawton Chiles Endowment Fund are generally considered to compose the state's reserves.
- At the time of adoption for each of the previous nine Outlooks, total state reserves have ranged from 10.7% to 12.9% of the General Revenue estimate.
- For the current year, total state reserves are $3,908.0 million or 12.6% of the General Revenue estimate for FY 2020-21, but this result comes with a caution related to the Coronavirus Relief Fund dollars.



Over the space of two months, the unemployment rate shifted from a near 50-year low to a near 50-year high. By July, the state's actual unemployment rate had dropped back to 11.3 percent, matching the high for the Great Recession and markedly higher than the 10.2 percent for the nation as a whole. The Conference expects the unemployment rate to peak in early Fiscal Year 2020-21 and then gradually drop to 7.8 percent by the last quarter of the state's fiscal year. Thereafter, the rate continues its slow downward drift until it gets close to 4 percent, near the full-employment level, by Fiscal Year 2029-30.

Employment dropped by nearly 1.2 million jobs in March and April, a decline of -13.0 percent over the two months. Protected by the federal stimulus programs and a partial recovery in consumer demand, some—but not all—of these jobs have returned. While total non-farm payroll employment expanded over the entire period covering May, June and July, the gains in those three months offset less than one-half (48.6 percent) of the jobs lost in March and April.

Tier 1 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. In some instances, they also present the lowest cost, within current policy parameters, of continuing essential government functions. In this Outlook, there are **14** Critical Needs drivers. In total, the Critical Needs are 65.1 percent more costly in Year 1 this year than last year, but lower in each of the subsequent years. Two types of funding strategies were deployed that significantly reduced the need for General Revenue in Tier 1.

- Because the Legislature has had an evolving policy regarding the appropriate split between state and local funds for the public school system, Driver #2 includes the impact of using the Legislature's Fiscal Years 2018-19 through 2020-21 policy of **increasing the Required Local Effort (RLE) by the value of new construction only** and maintaining the current year nonvoted discretionary millage. This allows RLE to increase with property tax revenue in a controlled manner. Permitting the increases in RLE and discretionary millage funding in Driver #2 decreases the need for state funding (as shown in the Critical Needs drivers) by $189.6 million in Fiscal Year 2021-22, $214.3 million in Fiscal Year 2022-23, and $232.4 million in Fiscal Year 2023-24.

- For the programs in the education and human services policy areas, the Outlook **maximizes the use of all available state trust funds prior to using General Revenue**. To accomplish this, adjustments are made to the General Revenue Fund, the Educational Enhancement Trust Fund, the State School Trust Fund, and the Tobacco Settlement Trust Fund based on projected balances forward and revenue changes in the trust funds over the three-year forecast period. This shifting of funds alters the need for General Revenue from year to year, but does not affect the overall level of dollars estimated to be required for core education and human services programs. Across both education policy areas, the effect of these fund shifts can be seen in two discrete drivers (#1 and #5) that together total $192.3 million in Fiscal Year 2021-22, $49.5 million in Fiscal Year 2022-23, and $72.8 million in Fiscal Year 2023-24.

Tier 2 Drivers...

- Because of the RLE assumption and the use of trust fund balances, the projected General Revenue cost of the Critical Needs drivers in Fiscal Year 2021-22 is significantly less than it would have been. Had these funding strategies not been available, the General Revenue cost would have been $381.9 million ($192.3 million plus $189.6 million) higher in the first year of the Outlook, bringing the total for Critical Needs to $1,862.9 million. Reversing these adjustments makes it clear that the less flexible Critical Needs (regardless of fund source) are the largest expenditure component in the plan, by far.

- In part, this is because the Critical Needs funding for the Medicaid program is significantly greater in the first year of the Outlook as a result of the pandemic-induced economic contraction—even though caseloads are expected to decline in the out years as the unemployment rate improves. The projected decline in caseloads assists in decreasing the need for General Revenue by $124.2 million in Fiscal Year 2022-23 and by $332.3 million in Fiscal Year 2023-24.

DOLLAR VALUE OF CRITICAL AND OTHER HIGH PRIORITY NEEDS

GENERAL REVENUE FUND	Fiscal Year 2021-22	Fiscal Year 2022-23	Fiscal Year 2023-24
Total Tier 1 - Critical Needs	1,481.0	773.3	392.0
Total - Other High Priority Needs	1,171.8	1,001.5	991.0
Total Tier 2 - Critical and Other High Priority Needs	2,652.9	1,774.7	1,383.0

- In Tier 2, Other High Priority Needs are added to the Critical Needs. The **29** 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 Fiscal Year 2021-22, four policy areas (Pre K-12 Education, Transportation & Economic Development, Human Services, and Natural Resources) compose almost 81 percent of the total need for General Revenue.

By the second year of the Outlook, the Pre K-12 Education needs increase, while other areas decline. As a result, Pre K-12 Education represents the largest share of the total need in that year at 32.4 percent, while Human Services drops to less than 5 percent. The other two areas also increase in relative shares, even though the dollar value of their needs decline.

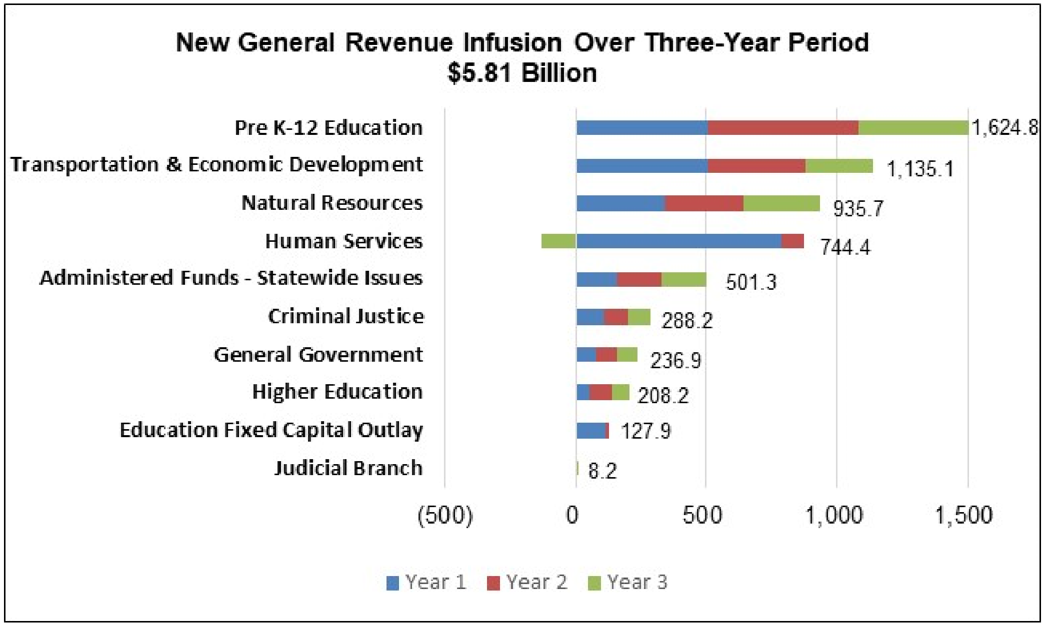
GENERAL REVENUE FUND
DOLLAR VALUE OF CRITICAL AND
OTHER HIGH PRIORITY NEEDS BY POLICY AREA

POLICY AREAS	Fiscal Year 2021-22	Fiscal Year 2022-23	Fiscal Year 2023-24
Pre K-12 Education	507.6	574.1	543.1
Higher Education	50.5	86.9	70.7
Education Fixed Capital Outlay	116.8	11.0	0.0
Human Services	788.4	87.6	(131.5)
Criminal Justice	105.8	91.2	91.2
Judicial Branch	2.7	2.7	2.7
Transportation & Economic Development	503.4	373.9	257.8
Natural Resources	342.7	296.1	296.8
General Government	79.0	78.9	79.0
Administered Funds - Statewide Issues	155.9	172.2	173.2
Total New Issues	2,652.9	1,774.7	1,383.0

GENERAL REVENUE FUND
POLICY AREA PERCENTAGE OF TOTAL
CRITICAL AND OTHER HIGH PRIORITY NEEDS

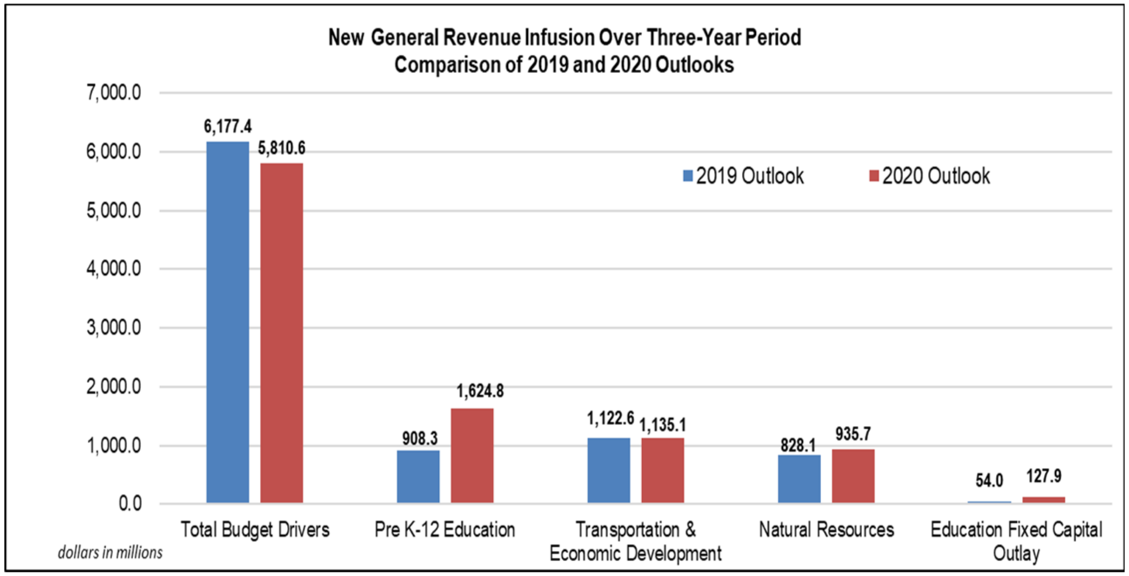
POLICY AREAS	Fiscal Year 2021-22	Fiscal Year 2022-23	Fiscal Year 2023-24
Pre K-12 Education	19.1%	32.4%	39.3%
Higher Education	1.9%	4.9%	5.1%
Education Fixed Capital Outlay	4.4%	0.6%	0.0%
Human Services	29.7%	4.9%	-9.5%
Criminal Justice	4.0%	5.1%	6.6%
Judicial Branch	0.1%	0.2%	0.2%
Transportation & Economic Development	19.0%	21.1%	18.6%
Natural Resources	12.9%	16.7%	21.5%
General Government	3.0%	4.4%	5.7%
Administered Funds - Statewide Issues	5.9%	9.7%	12.5%
Total New Issues	100.0%	100.0%	100.0%

Total New GR Infusion = $5.81 Billion



The total need for new infusions of General Revenue over the three years is $5.81 billion. Together, Pre K-12 Education and Transportation & Economic Development issues represent 47.5 percent of the total.

The total three-year driver need of $5.81 billion is lower than the $6.18 billion identified last year, but the composition is different. Six of ten policy areas either stayed at approximately the same level or went down in need; four went up.



Total GR Expenditures = $9.73 Billion

Recurring and Nonrecurring Driver Impact	Fiscal Year 2021-22	Fiscal Year 2022-23	Fiscal Year 2023-24	TOTAL	Share of Grand Total
New Recurring Drivers for Each Year	1,528.5	860.2	594.0	2,982.8	
Continuation of Year 1 Recurring Drivers		1,528.5	1,528.5	3,057.0	
Continuation of Year 2 Recurring Drivers			860.2	860.2	
Cumulative Impact of Recurring Drivers	1,528.5	2,388.7	2,982.8	6,900.0	70.9%
Nonrecurring Drivers by Year	1,124.4	914.5	789.0	2,827.8	29.1%
Grand Total	**2,652.9**	**3,303.2**	**3,771.7**	**9,727.8**	

Simply looking at the new infusions of General Revenue needed each year does not present a complete picture. Over the entire three-year period, 70.9 percent of the General Revenue infused each year must 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. As the table shows, of the $2.65 billion needed for drivers in Fiscal Year 2021-22, $1.53 billion will be needed in Fiscal Year 2022-23 (and again in Fiscal Year 2023-24) 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 $5.81 billion in new infusions over the Outlook period support $9.73 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 historic 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).

	2021-22			2022-23			2023-24		
	Rec	**NR**	**Total**	**Rec**	**NR**	**Total**	**Rec**	**NR**	**Total**
Continuing Tax and Fee Changes	(68.5)	27.0	(41.5)	(68.5)	27.0	(41.5)	(68.5)	27.0	(41.5)
Recurring Impact of Prior Years' Tax and Fee Changes	0.0	0.0	0.0	(68.5)	0.0	(68.5)	(137.0)	0.0	(137.0)
Time-Limited Tax and Fee Changes	0.0	(43.4)	(43.4)	0.0	(43.4)	(43.4)	0.0	(43.4)	(43.4)
Trust Fund Transfers (GAA)	0.0	312.4	312.4	0.0	312.4	312.4	0.0	312.4	312.4
Total	**(68.5)**	**296.0**	**227.5**	**(137.0)**	**296.0**	**159.0**	**(205.5)**	**296.0**	**90.5**

Putting It Together for the First Year

OUTLOOK PROJECTION – FISCAL YEAR 2021-22 *(in millions)*	RECURRING	NON RECURRING	TOTAL
AVAILABLE GENERAL REVENUE	**$34,103.8**	**$1,034.9**	**$35,138.7**
Base Budget	$34,158.5	$0.0	$34,158.5
Transfer to Lawton Chiles Endowment Fund	$0.0	$304.7	$304.7
Transfer to Budget Stabilization Fund	$0.0	$0.0	$0.0
Critical Needs	$1,149.8	$331.3	$1,481.0
Other High Priority Needs	$378.7	$793.1	$1,171.8
Reserve	$0.0	$1,000.0	$1,000.0
TOTAL EXPENDITURES	**$35,687.0**	**$2,429.1**	**$38,116.1**
TIER 2 ENDING BALANCE	**($1,583.2)**	**($1,394.2)**	**($2,977.4)**
Revenue Adjustments	($68.5)	$296.0	$227.5
TIER 3 ENDING BALANCE	**($1,651.7)**	**($1,098.2)**	**($2,749.9)**

Combined, the costs of recurring and nonrecurring General Revenue Critical Needs—plus a minimum reserve of $1.0 billion—are significantly more than the available General Revenue dollars, leaving a shortfall of $1.8 billion. When Other High Priority Needs are added, the General Revenue shortfall is almost $3.0 billion.

After accounting for the revenue adjustments included in Tier 3 of the Outlook, there is still a General Revenue shortfall of more than $2.7 billion.

Outlook Projection Compared to Last Year

Fiscal Year 2021-22	2019 Outlook	2020 Outlook	Difference	Effect on Bottom Line
Funds Available in Tier 3				
Balance Forward from 2020-21	1,289.3	1,322.5	33.2	Positive
Available General Revenue Adjusted by Measures	35,728.7	33,816.2	(1,912.5)	Negative
Trust Fund Transfers	213.4	312.4	99.0	Positive
Continuing Tax and Fee Changes	(54.5)	(41.5)	13.0	Positive
Time-Limited Tax and Fee Changes	(43.8)	(43.4)	0.4	Positive
Total Funds Available	37,133.1	35,366.2	(1,766.9)	Negative
			-4.8%	
Projected Expenditures				
Base Budget for 2021-22	33,899.7	34,158.5	258.80	Negative
Total New Budget Drivers for 2021-22	2,414.7	2,652.9	238.17	Negative
Total Projected Expenditures	36,314.4	36,811.4	496.97	Negative
			1.4%	
Additional Adjustments for Reserves				
BSF Transfer	-	-	-	
Transfer to Lawton Chiles Endowment Fund	304.7	304.7	-	
Reserve	1,000.0	1,000.0	-	
Bottom Line	**(486.0)**	**(2,749.9)**	**(2,263.9)**	

As well as showing the second largest first year shortfall in the history of the Outlooks, the net result is significantly worse for Fiscal Year 2021-22 than anticipated by the 2018 and 2019 Outlooks. This outcome results from the pandemic-induced economic contraction, coupled with the use of historical funding averages for budget drivers (using the prior year's base as the starting point). Driven by both effects, expenditures are 1.4 percent higher than anticipated in 2019.

The greatest difference is in revenues. For revenue adjustments, the continuing tax and fee changes are lower in this year's Outlook than in the 2019 Outlook, a positive effect. Although the assumed trust fund transfers are moderately higher and also positive, overall funds available are 4.8 percent lower than anticipated due to the new forecast.

The Bottom Line...

- Overall, the projected General Revenue growth (recurring and nonrecurring) is insufficient to support anticipated spending and minimal reserve requirements for Fiscal Years 2021-22 and 2022-23. With the exception of Tier 1, this is also true for Fiscal Year 2023-24.

- By itself, this is not a sufficient condition to determine that a structural imbalance is occurring since the recurring problem lessens each year in all Tiers.

- Rather, the immediate problem is associated with the extraordinarily high expenses caused by the pandemic-induced economic contraction, accompanied by the magnitude of the decline in revenues in Fiscal Years 2019-20 and 2020-21. While revenue growth improves thereafter, it is not expected to be strong enough to restore General Revenue to the prior forecast levels, making the annual shortfalls span the three years covered by the Outlook.

General Revenue Funds Available

($ millions)

	Fiscal Year 2021-22			Fiscal Year 2022-23			Fiscal Year 2023-24		
	Rec	Nonrec	Total	Rec	Nonrec	Total	Rec	Nonrec	Total
Ending Balance Tier 1...Critical Needs	(1,204.5)	(601.1)	(1,805.6)	(395.2)	(282.7)	(677.9)	796.8	(83.1)	713.7
Ending Balance Tier 2...Critical Needs & Other High Priorities	(1,583.2)	(1,394.2)	(2,977.4)	(1,135.2)	(922.9)	(2,058.1)	(307.4)	(710.0)	(1,017.3)
Ending Balance Tier 3...All Needs Plus Revenue Adjustments	(1,651.7)	(1,098.2)	(2,749.9)	(1,272.2)	(626.9)	(1,899.1)	(512.9)	(414.0)	(926.8)

Fiscal Strategies...

- Conceptually, there are five options to eliminate a proposed budget gap in any given year of the Outlook.

    1) Budget Reductions and Reduced Program Growth
    2) Reduction or Elimination of Revenue Adjustments Affecting Taxes and Fees (Tier 3)
    3) Revenue Enhancements and Redirections
    4) Trust Fund Transfers or Sweeps
    5) Reserve Reductions

- Beginning from the bottom of the list, the Budget Stabilization Fund (BSF), by law, cannot be used to address a budget gap prospectively and, therefore, is not available at the time the budget is developed and adopted. Funds can be withdrawn "...only for the purpose of covering revenue shortfalls of the General Revenue fund or for the purpose of providing funding for an emergency, as defined by general law" (article III, section 19(g) of the Florida Constitution).

- That leaves only the remaining two components of the state's reserve system for potential reduction: the unallocated General Revenue reserve and the Lawton Chiles Endowment Fund. Given the heightened level of downside risk associated with the current revenue forecast, the unallocated General Revenue reserve may prove to be of greater than normal importance, making this a less likely candidate.

- On the other hand, the freezing or drawdown of some or all of the Lawton Chiles Endowment Fund reserve could have potential fiscal benefits: removal of the need to repay $304.7 million in Fiscal Year 2021-22, and immediate access to as much as $867.2 million in nonrecurring funds.

Fiscal Strategies (continued)...

- Trust fund transfers or sweeps operate similarly to a drawdown of reserves. Once the money has been spent, it is not automatically replenished. Since Tier 3 already contemplates $312.4 million in transfers each year, ongoing transfers above this heightened level would have to be identified to have any effect on the bottom line budget gaps. Based on the analysis used for this Outlook, it is unlikely that surpluses of this magnitude currently exist. There is reason to believe that the level already identified in the Outlook is approaching the maximum without underlying program cuts which would fall under one of the other options.

- It is more likely that the three remaining options will become the basis of the more meaningful strategies: (1) budget reductions and reduced program growth; (2) reduction or elimination of the revenue adjustments affecting taxes and fees in Tier 3; and (3) revenue enhancements and redirections. For the purpose of this discussion, (1) and (2) are assumed to produce the same bottom-line results, although (1) achieves this effect through expenditures and (2) achieves it through revenues. The third option either grows the size of the overall budget (revenue enhancement) or changes its composition (revenue redirection).

- Since the Legislature has undertaken no significant revenue enhancements and only limited redirections over the recent past, the likely path of this option is not clear. Enhancements and redirections both affect revenues and the ability to make expenditures, but the consequences are different. At a minimum, revenue redirections require foregone expenditures elsewhere in the budget. As there is a continued reliance on significant one-time trust fund transfers, it is notable that a time-limited (with a sunset placed more than five years into the future) or permanent redirect of some of the state's trust funded-sources to the General Revenue Fund would likely not increase available General Revenue, but it would address the recurring problem.

Black Swans seem closer...

"Black Swans" are typically low probability, high impact events, but the term also refers to ideas that are perceived impossibilities that may later be disproven. The events below are relative to the current estimating conference forecasts.

- A severe natural disaster(s) that completely exhausts the state's reserves (risk is internal to Florida).
  - Final financial impacts of Hurricanes Irma and Michael remain unknown, and the active 2020 Hurricane Season is still ongoing.
  - For Fiscal Year 2020-21, the Budget Stabilization Fund will have a balance of $1,674.2 billion, but the General Revenue Reserve has a caveat.
- A significant second recession ("double dip" or "W") materializes in the near term that is not anticipated in the current forecast (risk is external to Florida).
  - The economic forecast adopted in July assumes that the trough of the recession was reached in April, thereby ending the shortest and deepest recession in U.S. history. While the recovery is projected to be muted through the end of this fiscal year, it is expected to occur relatively quickly after that with the assumption that an effective vaccine is in place by early in the 2021-22 fiscal year. Some economic forecasters are less sanguine. A few have differing assumptions on the discovery and deployment of a vaccine, while others point to the unlikelihood of getting the additional stimulus package that they believe is still necessary to keep the economy out of recession territory. Still others incorporate the risk of a bad "second wave" in the fall or generally disagree on the likely recovery shape itself in the presence of continuing resurgences and outbreaks.
- Least probable of all, a quicker and stronger recovery ("V") materializes in the next few months that includes a sudden and robust return to tourism (risk is external to Florida).