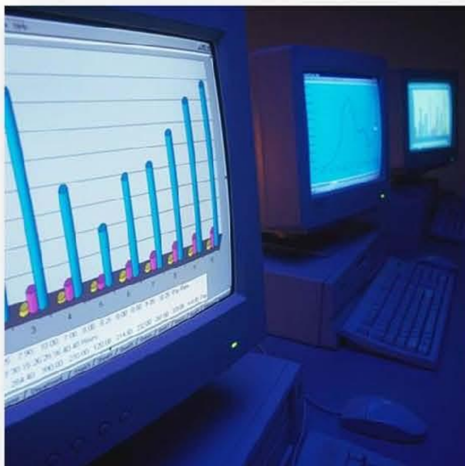


State of Florida

Long-Range Financial Outlook

Fiscal Years 2015-16 through 2017-18

Fall 2014 Report

As Adopted by the Legislative Budget Commission

Jointly prepared by the following:

The Senate Committee on Appropriations

The House Appropriations Committee

The Legislative Office of Economic and Demographic Research

Table of Contents

Long-Range Financial Outlook

The Outlook: Production and Development

What is the Outlook?

In 2006, Florida voters adopted a constitutional amendment that requires the development of a Long-Range Financial Outlook, setting out recommended fiscal strategies for the state and its departments in order to assist the Legislature in making budget decisions. The Legislative Budget Commission is required to issue the Outlook by September 15th of each year. The 2014 Outlook is the eighth document developed in accordance with the provisions of Article III, Section 19(c)(1) of the Florida Constitution.

Ultimately, the Outlook is a tool that provides an opportunity to both avoid future budget problems and maintain financial stability between state fiscal years. The Outlook accomplishes this by providing a longer-range picture of the state's fiscal position that integrates projections of the major programs driving Florida's annual budget requirements with the revenue estimates. In this regard, the projections primarily reflect current-law spending requirements and tax provisions. The Outlook also includes budgetary, economic, demographic, and debt analyses to provide a framework for the financial projections and covers the upcoming three fiscal years: in this version, 2015-16, 2016-17, and 2017-18. It does this by using anticipated revenues and expenditures in the current year (2014-15) as the starting point.

THE OUTLOOK DOES NOT PURPORT TO PREDICT THE OVERALL FUNDING LEVELS OF FUTURE STATE BUDGETS OR THE FINAL AMOUNT OF FUNDS TO BE ALLOCATED TO THE RESPECTIVE BUDGET AREAS. THIS IS BECAUSE VERY FEW ASSUMPTIONS ARE MADE REGARDING FUTURE LEGISLATIVE POLICY DECISIONS OR DISCRETIONARY SPENDING, MAKING THIS DOCUMENT SIMPLY A REASONABLE BASELINE. IN THIS REGARD, ALL FUNDS REMAINING AFTER THE BUDGET DRIVERS AND OTHER KEY ISSUES ARE FULLY FUNDED FOR THAT YEAR ARE CARRIED FORWARD INTO THE FOLLOWING FISCAL YEAR.

Who produced it?

The Outlook was developed jointly by the Senate Committee on Appropriations, the House Appropriations Committee, and the Legislative Office of Economic and Demographic Research.

How was the Outlook developed?

- All major programs that have historically driven significant increases in the state's budget like Medicaid and the Florida Education Finance Program, as well as constitutional requirements such as Class Size Reduction, were reviewed and individually analyzed.

- Forecasts of future workload increases were developed for each of the major cost drivers using a variety of methods including projections from Consensus Estimating Conferences and historical funding averages. An additional round of Summer Estimating Conferences was established specifically to facilitate the availability of up-to-date information.

- Costs were applied to the projected workload requirements based on recent legislative budget decisions.

- Exceptional funding needs—the fiscal impact of special issues outside of normal workload and caseload requirements—were identified and addressed when necessary for state operations.

- The various cost requirements were then aggregated by major fund type and compared to revenue estimates for those funds.

How is the Outlook structured?

- The Outlook contains budget drivers that are grouped by policy areas that roughly correspond to the appropriations bill format required by the state constitution. Also included are separate sections for Potential Constitutional Issues, Significant Risks to the Forecast, Revenue Projections, Florida's Economic Outlook, Florida's Demographic Projections and the Census, Debt Analysis, and a comparison of costs versus revenues.

- The descriptions for the various budget drivers contain projections for the applicable major state-supported programs, an identification of the assumptions behind the projections, and a description of any significant policy issues associated with the projections.

- Emphasis is placed on recurring programs, those programs that the state is expected or required to continue from year to year.

- Estimates for several ongoing programs historically funded with nonrecurring funds are also included in the Outlook. Even though funded with nonrecurring funds, these programs are viewed as annual "must funds" by most legislators and are therefore identified as major cost drivers.

- Revenue projections specifically cover the General Revenue Fund, the Educational Enhancement Trust Fund (Lottery and Slot Machine proceeds devoted to education), the State School Trust Fund, and the Tobacco Settlement Trust Fund. Other trust funds have been estimated and discussed in the areas where they are relevant to the expenditure forecast.

- All revenue projections include recurring and nonrecurring amounts.

- The tables used to project fund balances (General Revenue, Educational Enhancement, State School, and Tobacco Settlement) include estimates for both anticipated revenue collections and expenditures. They summarize the information contained in and discussed throughout the document.

- Budget drivers have been categorized as either "*Critical Needs*" (mandatory increases based on estimating conferences, and other essential needs) or "*Other High Priority Needs*" (historically funded issues). *Critical Needs* can be thought of as the absolute minimum the state must do absent significant law or structural changes, and *Other High Priority Needs* in combination with the *Critical Needs* form a highly conservative continuation budget. The budget drivers do not include any assumptions regarding funding for new programs, expansion of current programs, tax breaks, or community-based initiatives.

- For the purposes of this Outlook, prior expenditures from depleted trust funds have been redirected to the General Revenue Fund when the underlying activities are ongoing in nature.

- Fiscal strategies are discussed when necessary to close a projected budget gap. They demonstrate the impact of varying policy decisions on the baseline projections. When deployed, the unique assumptions used for these scenarios are not built into the remainder of the Outlook.

What have previous Outlooks shown?

Each of the Outlooks provided the first look at the likely scenario facing the Legislature in its preparation of the budget for the following fiscal year. Because the initial projections are updated and refined through subsequent estimating conferences, the final projections used by the Legislature have differed from the initial results. Starting with the first constitutionally required Outlook adopted in September 2007, the results at the time of adoption were as follows:

Outlook	For the Period Beginning	Year 1 ($ Millions)	Year 2 ($ Millions)	Year 3 ($ Millions)	Level of Reserves
2007	Fiscal Year 2008-09	(2,334.5)	(2,860.7)	(3,066.0)	0.0
2008	Fiscal Year 2009-10	(3,306.3)	(2,482.5)	(1,816.8)	0.0
2009	Fiscal Year 2010-11	(2,654.4)	(5,473.2)	(5,228.6)	0.0
2010	Fiscal Year 2011-12	(2,510.7)	(2,846.3)	(1,930.3)	0.0
2011	Fiscal Year 2012-13	273.8	692.1	840.6	1,000.0
2012	Fiscal Year 2013-14	71.3	53.5	594.0	1,000.0
2013	Fiscal Year 2014-15	845.7	1,426.7	3,295.3	1,000.0

Summary and Findings

A. Key Aspects of the Revenue Estimates

- Following the March 2014 General Revenue Estimating Conference, underlying collections ran below estimate, ending the 2013-14 fiscal year with a loss against the forecast of $106.7 million, or about 0.4 percent below the estimate for the year.

- The Revenue Estimating Conference met on August 7, 2014, to revise the General Revenue forecast. Expected revenues were essentially unchanged from the previous forecast, increasing by only $49.2 million for Fiscal Year 2014-15, and revised slightly downward by $84.1 million for Fiscal Year 2015-16, an adjustment of less than one-third of one percent in both cases. The revised Fiscal Year 2014-15 estimate exceeds the prior year's collections by approximately $1.0 billion (3.8 percent). The revised forecast for Fiscal Year 2015-16 has projected growth of nearly $1.1 billion (3.9 percent) over the revised Fiscal Year 2014-15 estimate. The growth rates for Fiscal Years 2016-17 and 2017-18 were slightly increased to 5.0 from 4.6 percent and to 4.7 from 4.5 percent, respectively.

Fiscal Year	Post-Session Forecast	August Forecast	Difference (Aug - PS)	Incremental Growth	Growth
2005-06	27,074.8				8.4%
2006-07	26,404.1				-2.5%
2007-08	24,112.1				-8.7%
2008-09	21,025.6				-12.8%
2009-10	21,523.1				2.4%
2010-11	22,551.6				4.8%
2011-12	23,618.8				4.7%
2012-13	25,314.6				7.2%
2013-14	26,304.7	26,198.0	(106.7)	883.4	3.5%
2014-15	27,140.2	27,189.4	49.2	991.4	3.8%
2015-16	28,330.7	28,246.6	(84.1)	1,057.2	3.9%
2016-17	29,636.8	29,655.0	18.2	1,408.4	5.0%
2017-18	30,963.4	31,041.6	78.2	1,386.6	4.7%
2018-19	31,976.2	32,118.9	142.7	1,077.3	3.5%

- The growth in the General Revenue estimate also affects the Fiscal Year 2016-17 and Fiscal Year 2017-18 transfers to the Budget Stabilization Fund (BSF). The Outlook assumes the fifth and final payment of $214.5 million required by section 215.32, Florida Statutes, will be made in Fiscal Year 2015-16. The following year, the constitutional transfers required to bring the BSF up to five percent of net revenue collections for the last completed fiscal year would restart. Based on the August 2014 forecast, transfers of

$5.8 million and $52.8 million would be required for Fiscal Years 2016-17 and 2017-18, respectively.

- The last official Financial Outlook Statement for the General Revenue Fund was adopted August 7, 2014, by the Revenue Estimating Conference. There were several changes that altered the bottom line from the post-session outlook results.

    - The *Funds Available for Fiscal Year 2013-14* were decreased to account for slightly lower than anticipated revenue collections.

    - The *Funds Available for Fiscal Years 2014-15, 2016-17, and 2017-18* were adjusted upward while the *Funds Available for Fiscal Year 2015-16* were adjusted slightly downward to account for the results of the revenue estimating conferences that were held during the Summer Conference Season.

- The Long-Range Financial Outlook contains two additional adjustments for issues identified since the release of the last official Financial Outlook Statement for the General Revenue Fund: (1) funds have been set aside in Fiscal Year 2014-15 to address current-year operating deficits; and (2) Fiscal Year 2014-15 expenditures have been updated to include all approved budget amendments as of August 15, 2014, that affect the General Revenue Fund. In total, the impact of the adjustments is $124.9 million including:

    - $15.7 million to offset a projected revenue shortfall in the State Courts Revenue Trust Fund relating to the reduced forecast for Article V fees;

    - $107.9 million to offset a projected deficit in the State School Trust Fund resulting from lower than expected transfers of unclaimed property in the 2013-14 fiscal year which reduced the balance forward into Fiscal Year 2014-15; and

    - $1.3 million for budget amendments distributing campaign finance matching funds for Governor and Cabinet offices during the 2014 election cycle pursuant to section 106.32, Florida Statutes. The included amount reflects processed amendments as of August 15, 2014. The amendments are anticipated to continue until the 2014 General Election, but the exact amount of funding that will be required is unknown at this time.

- For the fourth time since the adoption of the constitutional amendment requiring the development of Long-Range Financial Outlooks, sufficient funds exist to meet all Critical and Other High Priority Needs identified for the three years contained in the Outlook.

- The revenue sources for the Educational Enhancement Trust Fund will have modest growth for all three fiscal years contained in the Outlook. However, because of a significant one-time balance forward of unspent funds from Fiscal Year 2013-14 into Fiscal Year 2014-15 ($224.4 million), the trust fund will have fewer funds available in Fiscal Year 2015-16 than were appropriated in Fiscal Year 2014-15. This is particularly important because some nonrecurring funds were spent on recurring purposes in the current year.

- The State School Trust Fund is projected to have an ending deficit of $107.9 million in Fiscal Year 2014-15 because of lower than expected transfers from the Unclaimed Property Trust Fund in the 2013-14 fiscal year, which reduced the balance forward into Fiscal Year 2014-15. Beginning in Fiscal Year 2015-16, the revenues supporting the fund are expected to have modest growth for all three fiscal years contained in the Outlook.

- The Tobacco Settlement Trust Fund will have little long-term growth. Because of a projected one-time balance forward of unspent funds from Fiscal Year 2014-15 ($22.9 million), the trust fund will have more funds available for expenditure in Fiscal Year 2015-16 than in Fiscal Years 2016-17 and 2017-18.

- Reserves have been created for each of the aforementioned major trust funds. The amounts have been calculated by applying a percentage to each fund's revenue estimate that is roughly equal to the $1.0 billion retained for the General Revenue Fund as a percentage of its revenue estimate for Fiscal Year 2015-16.

B. Key Aspects of the Expenditure Demands

- Critical Needs are mandatory increases based on estimating conferences and other essential items. The seventeen Critical Needs drivers represent the minimum cost to fund the budget without significant programmatic changes. For the General Revenue Fund, the greatest burden occurs in Fiscal Year 2017-18.

- The twenty-eight Other High Priority Needs drivers represent a conservative approach to issues that have been funded in most of the recent budget years. Unlike Critical Needs, the greatest General Revenue burden for Other High Priority Needs occurs in Fiscal Year 2015-16.

DOLLAR VALUE OF
CRITICAL AND OTHER HIGH PRIORITY NEEDS

GENERAL REVENUE FUND	Fiscal Year 2015-16	Fiscal Year 2016-17	Fiscal Year 2017-18
Total Tier 1 - Critical Needs	473.1	453.0	551.6
Total - Other High Priority Needs	746.1	712.7	653.0
Total Tier 2 - Critical and Other High Priority Needs	1,219.2	1,165.7	1,204.6

- For each year of the Outlook, the Other High Priority Needs represent a greater percentage of the total needs than do the Critical Needs as displayed in the table on the following page.

PERCENTAGE OF TOTAL CRITICAL AND OTHER HIGH PRIORITY NEEDS

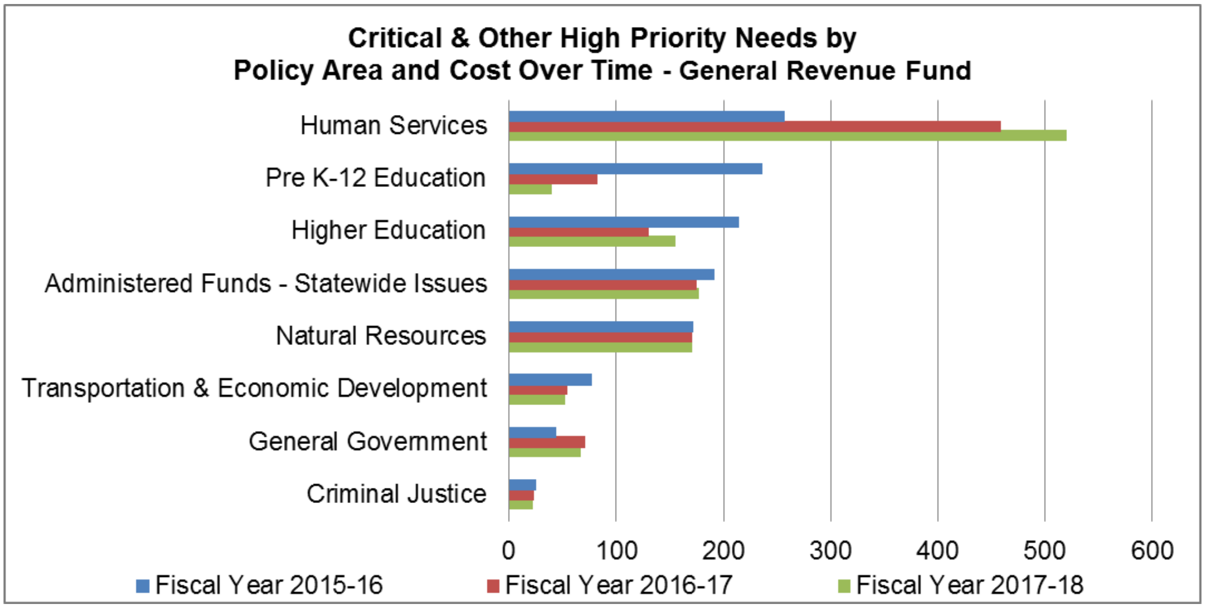
GENERAL REVENUE FUND	Fiscal Year 2015-16	Fiscal Year 2016-17	Fiscal Year 2017-18
Total Tier 1 - Critical Needs	38.8%	38.9%	45.8%
Total - Other High Priority Needs	61.2%	61.1%	54.2%
Total Tier 2 - Critical and Other High Priority Needs	100.0%	100.0%	100.0%

- Not only are the projected expenditures for Critical and Other High Priority Needs different over time, but the various policy areas also differ in their resource demands by year. Most areas have their largest needs in the first year, with a detectable drop-off in the subsequent years, but the Human Services policy area has a reverse pattern with the greatest need in the final year of the Outlook. Still other areas have relatively balanced needs throughout the three years. In any case, the recurring effects of the first year's drivers continue throughout the three years contained in the Outlook, with the subsequent years adding to the prior year's recurring appropriations.

- For education and human services programs, the Outlook maximizes the use of estimated available state trust funds. Adjustments are made to General Revenue funds, 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. The shifting of funds alters the need for General Revenue funds from year-to-year but does not affect the overall level of dollars estimated to be the need for core education and human services programs.

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

POLICY AREAS	Fiscal Year 2015-16	Fiscal Year 2016-17	Fiscal Year 2017-18
Pre K-12 Education	236.3	82.6	40.2
Higher Education	214.5	130.7	155.7
Human Services	257.4	458.6	520.2
Criminal Justice	25.6	22.7	21.9
Transportation & Economic Development	77.5	54.3	52.1
Natural Resources	172.0	170.8	171.3
General Government	44.4	71.2	66.6
Administered Funds - Statewide Issues	191.5	174.8	176.6
Total New Issues	1,219.2	1,165.7	1,204.6



- Another method of analyzing the projected expenditures for Critical and Other High Priority Needs is to look at the percentage of the total represented by each policy area. Human Services has the largest share of the total needs in each of the three years of the Outlook, as well as across the three years. Overall, it comprises 34.4 percent of the total $3.6 billion need over the three-year period.

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

POLICY AREAS	Fiscal Year 2015-16	Fiscal Year 2016-17	Fiscal Year 2017-18
Pre K-12 Education	19.4%	7.1%	3.3%
Higher Education	17.6%	11.2%	12.9%
Human Services	21.1%	39.3%	43.2%
Criminal Justice	2.1%	1.9%	1.8%
Transportation & Economic Development	6.4%	4.7%	4.3%
Natural Resources	14.1%	14.7%	14.2%
General Government	3.6%	6.1%	5.5%
Administered Funds - Statewide Issues	15.7%	15.0%	14.7%
Total New Issues	100.0%	100.0%	100.0%

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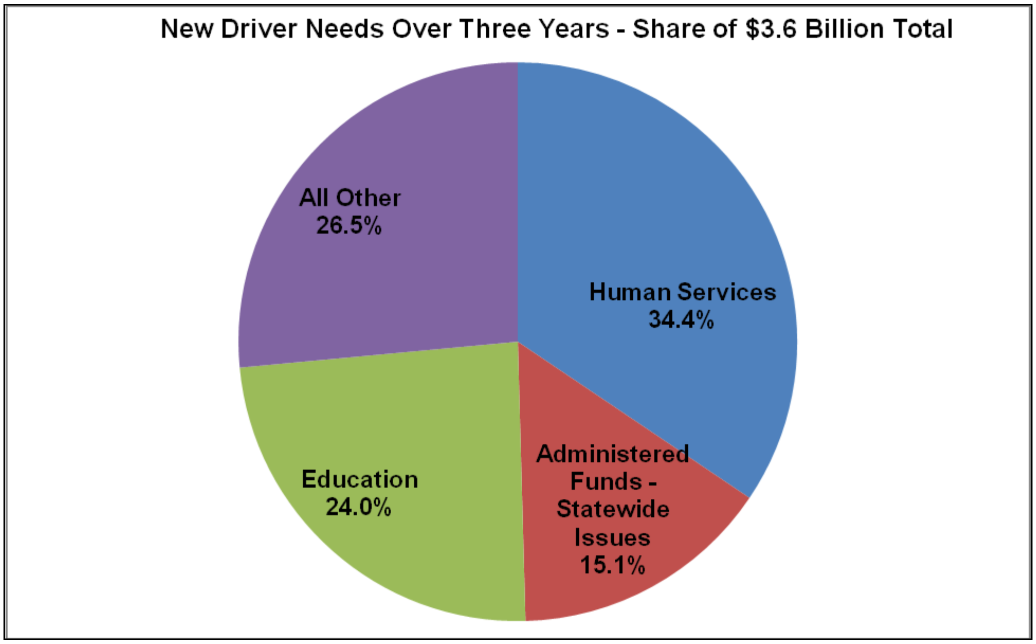


- Although the single largest Critical Needs driver is Workload and Enrollment for the Florida Education Finance Program, the structure of education funding requires an evaluation across multiple drivers; focus on any one driver in isolation may be misleading. The Medicaid program driver is the next largest driver, representing 38.4 percent of total Critical Needs in Fiscal Year 2015-16, 86.4 percent in Fiscal Year 2016-17, and 77.6 percent in Fiscal Year 2017-18. Broadening the scope to include Other High Priority Needs drivers, the Medicaid program driver remains the largest driver, representing 15.7 percent, 34.5 percent, and 36.4 percent, respectively, of total needs.

- When historical funding averages are used for drivers, the Outlook relies on three-year pre-veto appropriations averages, unless otherwise noted. If the three-year average was negative, no change in funding was made.

C. Putting the Revenues and Expenditure Demands Together – Key Findings

- Fiscal Year 2015-16

    - Total General Revenue available for appropriation is $29,806.6 million.

    - The base budget, repayment of the Budget Stabilization Fund, and Critical Needs funded with General Revenue are estimated to cost $27,724.3 million. Including a holdback for a reserve balance of $1.0 billion increases the total expenditure need to $28,724.3 million. This figure grows to a total of $29,470.4 million when Other High Priority Needs are included.

    - Combined, recurring and nonrecurring General Revenue program needs—with a minimum reserve of $1.0 billion—are less than the available General

Revenue dollars, meaning there is no budget gap for Fiscal Year 2015-16. The anticipated expenditures (including the reserve) can be fully funded.

  - Fiscal strategies will not be required; the budget is in balance as constitutionally required and is growing more slowly than available revenues.

  - An available ending balance of $336.2 million, or about 1.1 percent of the 2015-16 projected revenues, would be available to roll over to the next fiscal year. This is less than half of the $845.7 million that was available for expenditure in Fiscal Year 2014-15, as reflected in the 2013 Long-Range Financial Outlook. In the alternative, the Legislature could choose to use some or all of the balance for new discretionary spending or tax reductions. In making this decision, it is important to consider the section of the Outlook entitled "Significant Risks to the Forecast," which describes a number of issues that have the potential to alter key assumptions and, therefore, the level of revenues and/or expenditures used to build the Outlook.

OUTLOOK PROJECTION – FISCAL YEAR 2015-16 ***(in millions)***			
	RECURRING	**NON RECURRING**	**TOTAL**
AVAILABLE GENERAL REVENUE	**28,336.7**	**1,469.9**	**29,806.6**
Base Budget	27,036.7	0.0	27,036.7
Transfer to Budget Stabilization Fund	0.0	214.5	214.5
Critical Needs	437.4	35.7	473.1
Other High Priority Needs	434.9	311.2	746.1
Reserve	0.0	1,000.0	1,000.0
TOTAL	**27,909.0**	**1,561.4**	**29,470.4**
BALANCE	**427.7**	**(91.5)**	**336.2**

- Fiscal Years 2016-17 and 2017-18

  - Fiscal Years 2016-17 and 2017-18 both show projected budget needs within the available revenue for Critical and Other High Priority Needs, including the set-aside of a $1.0 billion reserve in each year.

D. Analyzing the Result for Critical and Other High Priority Needs

Legislative actions during the 2011 and 2012 Sessions to close the projected budget gaps through *recurring* means positively impacted the state's bottom line in subsequent years. In this regard, total estimated expenditures for future years were limited by the amount of recurring expenditure reductions taken in Fiscal Year 2011-12 and Fiscal Year 2012-13. This has greatly improved the Long-Range Financial Outlook's bottom line.

No fiscal strategies are needed since there is no budget gap, and the reserve is fully funded for all years of the Outlook. However, the positive budget outlook is heavily reliant on the projected balance forward levels being available and the $1.0 billion reserve not being used. Assuming the $1.0 billion reserve is strictly adhered to each fiscal year, the entire $336.2 million can be invested in *recurring* expenditures in Fiscal Year 2015-16 without causing a budget gap in Fiscal Years 2016-17 or 2017-18. However, the expenditure of recurring funds in Year 1 of the Outlook has a compounding effect over time and would reduce future ending balances as shown in the following table:

Compounding Effect of Year 1 Expenditure of Ending Balance

	Outlook Ending Balance	Ending Balance if Year 1 Balance Spent on Recurring Issues	Difference
2015-16	336.2	0	-336.2
2016-17	1,004.5	332.1	-672.4
2017-18	2,156.1	1,147.5	-1,008.6

Summary Charts

LONG-RANGE FINANCIAL OUTLOOK

TIER 1 ISSUES - CRITICAL NEEDS

GENERAL REVENUE FUNDS AVAILABLE PROJECTION

($ MILLIONS)

		Fiscal Year 2014-15			Fiscal Year 2015-16			Fiscal Year 2016-17			Fiscal Year 2017-18		
		Recurring	Non-recurring	Total	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
1	**Funds Available:**												
2	Balance Forward	0.0	2,323.0	2,323.0	0.0	1,464.2	1,464.2	0.0	1,082.3	1,082.3	0.0	2,898.2	2,898.2
3	Unused Reserve from Prior Year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,000.0	1,000.0	0.0	1,000.0	1,000.0
4	Revenue Estimate	27,076.2	113.2	27,189.4	28,337.9	(91.3)	28,246.6	29,753.8	(98.8)	29,655.0	31,035.2	6.4	31,041.6
5	Non-operating Funds	(0.1)	95.6	95.5	(1.2)	97.0	95.8	(3.2)	97.0	93.8	(4.1)	97.0	92.9
6	Transfer from Trust Funds	0.0	280.5	280.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
7	**Total Funds Available**	**27,076.1**	**2,812.3**	**29,888.4**	**28,336.7**	**1,469.9**	**29,806.6**	**29,750.6**	**2,080.5**	**31,831.1**	**31,031.1**	**4,001.6**	**35,032.7**
8													
9	**Estimated Expenditures:**												
10	Recurring Base Budget				27,017.1	0.0	27,017.1	27,474.1	0.0	27,474.1	27,891.7	0.0	27,891.7
11	Annualizations				19.6	0.0	19.6	0.0	0.0	0.0	0.0	0.0	0.0
12													
13	**New Issues by GAA Section:**												
14	Section 2 - Pre K-12 Education	10,678.4	50.3	10,728.7	159.5	0.0	159.5	15.0	0.0	15.0	16.2	0.0	16.2
15	Section 2 - Higher Education	3,650.2	85.2	3,735.4	25.2	0.0	25.2	(55.7)	0.0	(55.7)	(27.0)	0.0	(27.0)
16	Section 2 - Education Fixed Capital Outlay	0.0	2.0	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
17	Section 3 - Human Services	8,090.5	180.1	8,270.6	165.3	(9.4)	155.9	368.7	(0.3)	368.4	430.0	0.0	430.0
18	Section 4 - Criminal Justice	3,451.3	29.2	3,480.5	0.0	0.0	0.0	9.7	0.0	9.7	9.8	0.0	9.8
19	Section 7 - Judicial Branch	365.4	23.6	389.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
20	Section 5 & 6 - Transportation & Economic Development	74.0	153.1	227.1	0.0	19.9	19.9	0.0	8.3	8.3	0.0	7.0	7.0
21	Section 5 - Natural Resources	203.7	301.7	505.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
22	Section 6 - General Government	236.6	54.5	291.1	0.5	25.2	25.7	0.5	27.4	27.9	0.5	29.5	30.0
23	Section 2 & 6 - Administered Funds - Statewide Issues	267.0	17.0	284.0	86.9	0.0	86.9	79.4	0.0	79.4	85.6	0.0	85.6
24	**Total New Issues**				437.4	35.7	473.1	417.6	35.4	453.0	515.1	36.5	551.6
25													
26	Approved Budget Amendments	0.0	2.4	2.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
27	Transfer to PECO Trust Fund	0.0	169.9	169.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
28	Current Year Estimating Conference Operating Deficits	0.0	123.6	123.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
29	Transfer to Budget Stabilization Fund	0.0	214.5	214.5	0.0	214.5	214.5	0.0	5.8	5.8	0.0	52.8	52.8
30													
31	**Total Estimated Expenditures**	**27,017.1**	**1,407.1**	**28,424.2**	**27,474.1**	**250.2**	**27,724.3**	**27,891.7**	**41.2**	**27,932.9**	**28,406.8**	**89.3**	**28,496.1**
32	Reserves				0.0	1,000.0	1,000.0	0.0	1,000.0	1,000.0	0.0	1,000.0	1,000.0
33	**Ending Balance**	**59.0**	**1,405.2**	**1,464.2**	**862.6**	**219.7**	**1,082.3**	**1,858.9**	**1,039.3**	**2,898.2**	**2,624.3**	**2,912.3**	**5,536.6**

LONG-RANGE FINANCIAL OUTLOOK

TIER 2 ISSUES - CRITICAL NEEDS AND OTHER HIGH PRIORITY NEEDS

GENERAL REVENUE FUNDS AVAILABLE PROJECTION

($ MILLIONS)

	Fiscal Year 2014-15			Fiscal Year 2015-16			Fiscal Year 2016-17			Fiscal Year 2017-18		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
1 **Funds Available:**												
2 Balance Forward	0.0	2,323.0	2,323.0	0.0	1,464.2	1,464.2	0.0	336.2	336.2	0.0	1,004.5	1,004.5
3 Unused Reserve from Prior Year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,000.0	1,000.0	0.0	1,000.0	1,000.0
4 Revenue Estimate	27,076.2	113.2	27,189.4	28,337.9	(91.3)	28,246.6	29,753.8	(98.8)	29,655.0	31,035.2	6.4	31,041.6
5 Non-operating Funds	(0.1)	95.6	95.5	(1.2)	97.0	95.8	(3.2)	97.0	93.8	(4.1)	97.0	92.9
6 Transfer from Trust Funds	0.0	280.5	280.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
7 **Total Funds Available**	**27,076.1**	**2,812.3**	**29,888.4**	**28,336.7**	**1,469.9**	**29,806.6**	**29,750.6**	**1,334.4**	**31,085.0**	**31,031.1**	**2,107.9**	**33,139.0**
8												
9 **Estimated Expenditures:**												
10 Recurring Base Budget				27,017.1	0.0	27,017.1	27,909.0	0.0	27,909.0	28,725.5	0.0	28,725.5
11 Annualizations				19.6	0.0	19.6	0.0	0.0	0.0	0.0	0.0	0.0
12												
13 **New Issues by GAA Section:**												
14 Section 2 - Pre K-12 Education	10,678.4	50.3	10,728.7	236.3	0.0	236.3	82.6	0.0	82.6	40.2	0.0	40.2
15 Section 2 - Higher Education	3,650.2	85.2	3,735.4	210.5	4.0	214.5	126.7	4.0	130.7	155.7	0.0	155.7
16 Section 2 - Education Fixed Capital Outlay	0.0	2.0	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
17 Section 3 - Human Services	8,090.5	180.1	8,270.6	250.3	7.1	257.4	442.4	16.2	458.6	503.7	16.5	520.2
18 Section 4 - Criminal Justice	3,451.3	29.2	3,480.5	21.5	4.1	25.6	18.6	4.1	22.7	17.8	4.1	21.9
19 Section 7 - Judicial Branch	365.4	23.6	389.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
20 Section 5 & 6 - Transportation & Economic Development	74.0	153.1	227.1	0.0	77.5	77.5	0.0	54.3	54.3	0.0	52.1	52.1
21 Section 5 - Natural Resources	203.7	301.7	505.4	9.6	162.4	172.0	9.6	161.2	170.8	9.6	161.7	171.3
22 Section 6 - General Government	236.6	54.5	291.1	0.5	43.9	44.4	0.5	70.7	71.2	1.1	65.5	66.6
23 Section 2 & 6 - Administered Funds - Statewide Issues	267.0	17.0	284.0	143.6	47.9	191.5	136.1	38.7	174.8	142.3	34.3	176.6
24 **Total New Issues**				872.3	346.9	1,219.2	816.5	349.2	1,165.7	870.4	334.2	1,204.6
25												
26 Approved Budget Amendments	0.0	2.4	2.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
27 Transfer to PECO Trust Fund	0.0	169.9	169.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
28 Current Year Estimating Conference Operating Deficits	0.0	123.6	123.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
29 Transfer to Budget Stabilization Fund	0.0	214.5	214.5	0.0	214.5	214.5	0.0	5.8	5.8	0.0	52.8	52.8
30												
31 **Total Estimated Expenditures**	**27,017.1**	**1,407.1**	**28,424.2**	**27,909.0**	**561.4**	**28,470.4**	**28,725.5**	**355.0**	**29,080.5**	**29,595.9**	**387.0**	**29,982.9**
32 Reserves				0.0	1,000.0	1,000.0	0.0	1,000.0	1,000.0	0.0	1,000.0	1,000.0
33 **Ending Balance**	**59.0**	**1,405.2**	**1,464.2**	**427.7**	**(91.5)**	**336.2**	**1,025.1**	**(20.6)**	**1,004.5**	**1,435.2**	**720.9**	**2,156.1**

EDUCATIONAL ENHANCEMENT TRUST FUND ($ MILLIONS)

	Fiscal Year 2014-15			Fiscal Year 2015-16			Fiscal Year 2016-17			Fiscal Year 2017-18		
Funds Available:	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Balance Forward	0.0	224.4	224.4	0.0	24.1	24.1	0.0	57.8	57.8	0.0	58.0	58.0
Revenue Estimate	1,671.9	0.0	1,671.9	1,699.1	0.0	1,699.1	1,728.2	0.0	1,728.2	1,749.5	0.0	1,749.5
Non-operating Funds	3.2	5.6	8.8	4.6	0.0	4.6	8.4	0.0	8.4	10.1	0.0	10.1
Total Funds Available	**1,675.1**	**230.0**	**1,905.1**	**1,703.7**	**24.1**	**1,727.8**	**1,736.6**	**57.8**	**1,794.4**	**1,759.6**	**58.0**	**1,817.6**
Estimated Expenditures:												
Base Budget				1,744.8	0.0	1,744.8	1,670.0	0.0	1,670.0	1,736.4	0.0	1,736.4
Increase/Decrease				(74.8)	0.0	(74.8)	66.4	0.0	66.4	22.9	0.0	22.9
Total Estimated Expenditures	**1,744.8**	**136.2**	**1,881.0**	**1,670.0**	**0.0**	**1,670.0**	**1,736.4**	**0.0**	**1,736.4**	**1,759.3**	**0.0**	**1,759.3**
Ending Balance	**(69.7)**	**93.8**	**24.1**	**33.7**	**24.1**	**57.8**	**0.2**	**57.8**	**58.0**	**0.3**	**58.0**	**58.3**

STATE SCHOOL TRUST FUND ($ MILLIONS)

	Fiscal Year 2014-15			Fiscal Year 2015-16			Fiscal Year 2016-17			Fiscal Year 2017-18		
Funds Available:	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Balance Forward	0.0	7.9	7.9	0.0	0.0	0.0	0.0	5.7	5.7	0.0	5.6	5.6
Transfers from Abandoned Property TF	137.1	1.0	138.1	172.1	0.0	172.1	181.0	0.0	181.0	190.5	0.0	190.5
Non-operating Funds	2.5	0.0	2.5	2.8	0.0	2.8	3.6	0.0	3.6	4.0	0.0	4.0
Total Funds Available	**139.6**	**8.9**	**148.5**	**174.9**	**0.0**	**174.9**	**184.6**	**5.7**	**190.3**	**194.5**	**5.6**	**200.1**
Estimated Expenditures:												
Base Budget				182.4	0.0	182.4	169.2	0.0	169.2	184.7	0.0	184.7
Increase/Decrease				(13.2)	0.0	(13.2)	15.5	0.0	15.5	9.9	0.0	9.9
Total Estimated Expenditures	**182.4**	**74.0**	**256.4**	**169.2**	**0.0**	**169.2**	**184.7**	**0.0**	**184.7**	**194.6**	**0.0**	**194.6**
Ending Balance*	**(42.8)**	**(65.1)**	**(107.9)**	**5.7**	**0.0**	**5.7**	**(0.1)**	**5.7**	**5.6**	**(0.1)**	**5.6**	**5.5**

**Note: The projected deficit is not carried forward to the 2015-16 fiscal year because it is assumed to be addressed with nonrecurring General Revenue in the current year (see Summary Charts).*

TOBACCO SETTLEMENT TRUST FUND ($ MILLIONS)

	Fiscal Year 2014-15			Fiscal Year 2015-16			Fiscal Year 2016-17			Fiscal Year 2017-18		
Funds Available:	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Balance Forward	0.0	14.4	14.4	0.0	22.9	22.9	0.0	13.5	13.5	0.0	13.2	13.2
Revenue Estimate	375.7	0.0	375.7	377.3	0.0	377.3	378.0	0.0	378.0	379.3	0.0	379.3
Non-operating Funds	5.0	1.4	6.4	5.0	0.0	5.0	5.3	0.0	5.3	5.6	0.0	5.6
Total Funds Available	**380.7**	**15.8**	**396.5**	**382.3**	**22.9**	**405.2**	**383.3**	**13.5**	**396.8**	**384.9**	**13.2**	**398.1**
Estimated Expenditures:												
Base Budget				373.6	0.0	373.6	382.3	0.0	382.3	383.3	0.0	383.3
Increase/Decrease				8.7	9.4	18.1	1.0	0.3	1.3	1.6	0.0	1.6
Total Estimated Expenditures	**373.6**	**0.0**	**373.6**	**382.3**	**9.4**	**391.7**	**383.3**	**0.3**	**383.6**	**384.9**	**0.0**	**384.9**
Ending Balance	**7.1**	**15.8**	**22.9**	**0.0**	**13.5**	**13.5**	**0.0**	**13.2**	**13.2**	**0.0**	**13.2**	**13.2**

Significant Risks to the Forecast

While the Long-Range Financial Outlook uses the most current estimates and data available, there are risks that have the potential of altering key assumptions (both positively and negatively) were they to come to pass. Some of the more significant issues are described below; however, they are not included in the official projections used throughout the Outlook.

State Costs for Hurricanes, the Florida Hurricane Catastrophe Fund, and Citizen's Property Insurance

Florida's financial stability is vulnerable to the potential impacts of natural disasters, especially major hurricanes. This vulnerability can take several different forms, but one of the most immediate is to the state's long-term financial health.

After the 2004 and 2005 hurricanes, the Legislative Office of Economic and Demographic Research undertook an in-depth analysis of the revenue and budgetary impact on state government from weather events of this magnitude. Popular belief has spread the misconception that hurricanes are somehow beneficial to the state from an economic perspective. However, the reality is much more complicated. From past events, there appear to be four distinct phases of activity related to hurricanes—each of which has unique economic responses. The table on the following page details the unique effect of each phase.

Contrary to the oft-repeated myth that government makes money during hurricanes, state government typically has expenditures greater than the incremental increase in the revenue estimate and becomes a net loser when all expenditures are taken into account. In reviewing the final impact of the 2004 and 2005 hurricanes, after the state's hurricane-related expenditures are subtracted from the estimated additional revenues, the bottom line for both years was clearly negative. This means that the state had to spend more than the generated revenues.

In addition to the budgetary and revenue impacts, there is an impact on state debt. Besides the direct tax-supported or self-supported debt normally undertaken by the state, Florida also has indirect debt. Indirect debt is that which is not secured by traditional state revenues or is the primary obligation of a legal entity other than the state. A major component of the state's current indirect debt is associated with the Florida Hurricane Catastrophe Fund (FHCF) and the Citizen's Property Insurance Corporation's (Citizen's) ability to pay possible future hurricane losses. According to the *2013 Debt Affordability Report* prepared by the Division of Bond Finance, these special purpose insurance entities represented $7.9 billion or 57 percent of total indirect debt.

[SEE TABLE ON FOLLOWING PAGE]

Hurricanes: Economic Phases

Phase	Defining Characteristics	Statewide Economic Consequences

Preparatory Phase *(approximately 72 hours in advance of the hurricane to landfall)*	• Purchase of Emergency Supplies (canned food, batteries, radios, candles, flashlights, charcoal, gas, propane, water, ice, shutters, boards / plywood, etc.)
	• Evacuation Expenses
	  ○ In-State...hotels and lodging, transport costs like rental cars and gas
	  ○ Out-of-State...leakage
		Demand...Localized increase in demand for specific items, and potential non-affected area increase in lodging demand, but largely undetectable
		
		State Budget...Shifting of costs from normally provided services to emergency management, as well as unanticipated overtime and shelter costs
		
		State Revenues...Slight uptick, but largely undetectable

Crisis Phase *(landfall to several weeks after landfall)*	• Rescue and relief efforts (largely public, charitable, or free) • Roads closed due to debris • Private structures and public infrastructure damaged • Utility disruptions • Businesses and non-essential parts of government closed • Temporary homelessness • Violence and looting	**Demand**...Localized decrease in overall demand; significance depends on the event **State Budget**...Government agencies provide goods and services and incur new expenditures that may or may not be matched at a later time by the federal government **State Revenues**...Detectable downtick; significance depends on the event

Recovery Phase *(subsequent to the Crisis Phase and generally lasting up to two or three years)*	• Increased spending related to deductibles, repair, and replacement
	  ○ Private Savings / Loans
	  ○ State Spending
	  ○ FEMA and Federal Spending
	  ○ Insurance Payments
	• Competition for scarce resources (contractors, roofers, supplies, construction workers, building materials, debris removal, etc.)
		Demand...Localized increase in overall demand, and prices likely increase for some items
		
		Employment...Will temporarily see gains as relief and recovery workers move into the area
		
		State Budget...Reallocation of state and local government spending to the affected area
		
		State Revenues...Discernible and significant uptick

Displacement Phase *(subsequent to the Recovery Phase and lasting from two to six years)*	• Reduction in normal purchasing behavior for items that were bought or replaced ahead of schedule • Demographic and labor shifts related to dislocated households and economic centers	**Demand**...Localized decrease in overall demand, but largely undetectable at the state level **State Revenues**...Slight downtick, but largely undetectable

For the 2014 storm season, the FHCF's maximum statutory obligation comprised of mandatory coverage is up to $17.0 billion. However, the FHCF's obligation by law is limited to the actual claims paying capacity. The FHCF currently projects liquidity of $12.95 billion, consisting of $10.95 billion in projected cash by December 2014 and $2.0 billion in pre-event bonds. Given recent financial market conditions, it is estimated the FHCF would be able to borrow approximately $8.3 billion during the next 12 months if a large event occurs during the contract year. This is $4.25 billion above the total potential statutory maximum claims-paying obligation of $17.0 billion.

The maximum statutory limit of coverage that could have been purchased by insurers for the 2014 contract year was approximately $17.0 billion. Additional optional coverage is no longer available. The $17.0 billion in capacity selected translates to an approximate 1-in-34.6 year event (2.9 percent probability) or an event that causes $25.1 billion in insurance industry residential losses. Because of the differences in the levels of coverage and where those FHCF coverages begin, the FHCF's probability of exhausting its $17.0 billion maximum limit would be much smaller. In order for all insurance companies to exhaust the $17.0 billion maximum limit, the aggregate loss would more than likely exceed $61 billion and have a return time exceeding 150 years with a resulting probability of less than 0.6 percent.

For the 2014 storm season, Citizen's probable maximum loss for a 100-year storm event is $17.2 billion. Citizen's currently has claims paying ability of approximately $14.9 billion consisting of a cash surplus of $7.6 billion, as well as funds from private market reinsurance and FHCF reimbursements. In addition, Citizen's has the ability to levy broad-based assessments to support its financing, supplying the additional $2.3 billion needed to cover a 1-in-100 year storm.

With the current economic environment, the ability of these quasi-governmental insurance entities to fulfill their financial responsibilities in the event of major hurricanes is highly dependent upon market conditions at the time that bonds would need to be issued. Though the FHCF and Citizen's serve significant roles in Florida's property insurance market, their ultimate dependence on public assessments and access to credit markets may expose the state to much greater potential financial liability for hurricane-related costs.

Administrative Liabilities

The State of Florida has an ongoing liability associated with the underlying cost of compensated absences. As of June 30, 2013, the state had 161,405 established positions in various personnel systems.[1] These state employment systems include the State Personnel System, the State University System, the Justice Administration System, the State Courts System, the Legislature, the Florida Lottery, and other pay plans such as the Governor's Office, the School for the Deaf and the Blind, and the Florida National Guard.

The state's financial statements prepared by the Chief Financial Officer report a liability for compensated absences that describe paid time off made available to employees in connection with regular leave, sick leave, and similar benefits. For financial reporting purposes,

[1] Fiscal Year 2012-13 Annual Workforce Report, Department of Management Services, page 13.

compensated absences are limited to leave that is attributable to services already rendered and is not contingent on a specific event outside the control of the employer and employee. The state's liability for such compensated absences is reported in Note 10, Changes in Long-Term Liabilities, in the state's financial statements, which are commonly referred to as the Comprehensive Annual Financial Report (CAFR).[2] The CAFR separately distinguishes liabilities for governmental activities (all governmental funds and internal service funds), business-type activities (or enterprise funds which include the Florida Turnpike Enterprise, the Lottery, the Florida Hurricane Catastrophe Fund, the Florida Prepaid College program, and the Unemployment Compensation Fund), and discretely presented component units (e.g., state universities and Florida colleges).

In accordance with Governmental Accounting Standards Board Statements 16 and 34, the liability for compensated absences is calculated on both a short-term and long-term basis. The long-term calculation reflects the compensated absences liability that would result if all employees were to separate from the state. The short-term calculation (due within one year) is calculated using the current and two previous fiscal years actual compensated absences that were used by current employees or were paid out as employees separated from the state. The three-year average of the annual percentage of actual used and paid compensated absences to the total amount calculated for the long-term liability is used to determine the short-term liability. The short-term and long-term liabilities for compensated absences, as reported in the CAFR, as of June 30, 2013, are:

Compensated Absences	Balance 6/30/2013 ($ Thousands)	Due Within One Year - Current ($ Thousands)
Governmental Activities	$763,727	$198,649[3]
Business-type Activities	$21,370	$5,090
Component Units	$612,003	$84,487
Total:	$1,397,100	$288,226

No separate appropriation is made for payment of compensated leave. Currently, these obligations are paid out of existing agency appropriations on an annual basis. Therefore, this liability is not included as a specific driver in the Outlook.

Low Income Pool and Intergovernmental Transfers

The Low Income Pool was established by the state effective July 1, 2006, as part of the five-year Medicaid Reform pilot project authorized by federal waiver and section 409.91211, Florida Statutes. The purpose of the Low Income Pool (LIP) is to provide additional financial support for providers serving the uninsured, underinsured, and Medicaid populations. Through State Fiscal Year 2013-14, the LIP consisted of a capped annual allotment of $1.0 billion, which was used for

[2] Note 10, 2013 Florida Comprehensive Annual Financial Report, Fiscal Year ended June 30, 2013 (http://www.myfloridacfo.com/Division/AA/Reports/2013CAFR.pdf).
[3] Actual cash payouts for employees separating from state employment for Fiscal Year 2012-13 totaled $57.6 million based on data provided by the Department of Financial Services, July 2014.

supplemental payments to hospitals, clinics, or other provider types for uncompensated medical care, as well as financial support for specific local programs offering coverage to the uninsured or innovative service delivery models.

Intergovernmental transfers (IGTs) consist of qualified donations from local governments, such as counties, hospital taxing districts, and other state agencies (e.g., Florida Department of Health). These sources have provided the majority of the funding for the nonfederal share of the $1.0 billion in LIP distributions.

The Medicaid Reform pilot project waiver was originally set to expire on July 1, 2011, but was extended by the federal government until July 31, 2014, at the request of the state. Part IV of chapter 409, Florida Statutes, directed the Agency for Health Care Administration (AHCA) to seek additional federal waiver authority to maintain a LIP beyond the extension of the original waiver and provide for continued LIP funding based on IGTs from various state and local public sources, along with federal matching funds. Medicaid providers eligible for LIP funding under the new waiver authority may include hospitals, primary care providers, and primary care access systems for the purpose of supporting enhanced access to health care services by offsetting shortfalls in Medicaid reimbursement, paying for otherwise uncompensated care, and financing coverage for the uninsured.

During the 2013-14 state fiscal year, the AHCA applied to the federal Centers for Medicare and Medicaid Services (CMS) to extend federal waiver authority for statewide Medicaid managed care and the LIP. On July 31, 2014, the CMS granted waiver authority for three years for statewide Medicaid managed care and for one year for the LIP, including the following guidance and stipulations specific to the LIP:

- Waiver authority for the LIP is extended for one year, from July 1, 2014, through June 30, 2015.
- LIP expenditures are authorized to provide stability for providers for a limited time during Florida's transition to statewide Medicaid managed care and a significantly reformed Medicaid payment system.
- Total LIP funding would not exceed $2.167 billion (including both state share and federal match). This sum would equal the prior-year LIP funding ($1 billion) increased by funds representing certain enhanced Medicaid payments made to providers in the prior year, to the extent those enhanced payments are discontinued.[4]
- During the one-year extension of the LIP, Florida must review Medicaid provider payments and funding mechanisms with the goal of developing sustainable, transparent, equitable, appropriate, accountable, and actuarially sound Medicaid payment systems and

[4] The supplemental Medicaid payments referenced by CMS include approximately $200 million in Physician Upper Payment Limit funding for medical schools and approximately $960 million in supplemental Medicaid payments for hospitals, funded through IGTs and federal match, previously paid through Medicaid fee-for-service reimbursement. As indicated by CMS, those funding streams must be discontinued and may be transferred into the LIP during the 2014-15 state fiscal year. The Fiscal Year 2014-15 General Appropriations Act reflects that transfer.

funding mechanisms to ensure quality health care services to Medicaid recipients without the need for LIP funding.

- Florida must use a portion of the LIP funds to commission a report from an independent entity on Medicaid provider payment in the state that reviews the adequacy of payment levels and the adequacy, equity, accountability, and sustainability of the state's funding mechanisms for these payments. The report must recommend reforms that can allow the state, beginning in the 2015-16 state fiscal year, to move toward a payment system that ensures access to providers without payments through the LIP. The report must be due no later than March 1, 2015.[5]

In addition to the limits on LIP expressed in direct communication with Florida, the CMS issued nationwide guidance on May 9, 2014, related to the use of provider-related donations and certain types of public-private arrangements. The guidance discusses what agreements or relationships may constitute allowable provider-related donations and indicates that some types of arrangements and donations that were previously approved and used by Florida to finance hospital-specific rate enhancements and supplemental payments under LIP might no longer be allowed.

Based on the guidance from CMS regarding the LIP's one-year extension, this Outlook assumes the LIP will not be authorized beyond the 2014-15 state fiscal year and that the $2.167 billion paid to providers through the LIP will not continue. In addition, Florida may also experience a reduction in the remaining IGTs and federal matching funds for the Medicaid program due to changes in policies and may encounter more limited options for providing financial assistance to providers. The forecast assumes some level of IGTs and federal matching funds will continue within the statewide Medicaid managed care environment, even in the absence of the LIP. The IGTs are donated voluntarily by counties, municipalities, and special taxing districts, and the transition to an as-yet-unknown reimbursement mechanism for those funds creates uncertainty as to whether the Medicaid program will continue to receive those IGTs and under what conditions.

In summary, it is currently unknown how future CMS policy will impact Medicaid reimbursements or IGT contributions, which creates a risk for Florida Medicaid's reimbursement structure.

Disproportionate Share Hospital Program

The Patient Protection and Affordable Care Act of 2010 (PPACA) addressed Disproportionate Share Hospital (DSH) allotments, requiring the secretary of the Department of Health and Human Services to develop a methodology to reduce the state allotments. The reductions were originally to have begun taking effect October 1, 2013, but were delayed by CMS after the U.S. Supreme Court ruled in June 2012 that the federal government could not require states to expand Medicaid eligibility to include persons up to 138 percent of the federal poverty level, as was

[5] Although CMS indicates a March 1, 2015 due date, proviso language included in the Fiscal Year 2014-15 General Appropriations Act requires the report to be submitted to the Governor, the President of the Senate, and the Speaker of the House of Representatives no later than January 15, 2015.

required in the PPACA. On May 15, 2013, the CMS published a proposed rule that provided a methodology for the first two federal fiscal years only. The CMS expects states that do not implement the Medicaid expansion to have higher rates of uninsured and uncompensated care. As such, the DSH reductions in those states may be smaller compared to states that implement the Medicaid expansion. In December 2013, a change to federal law officially delayed the reductions to DSH payments for two years; the reductions are now scheduled to begin October 1, 2015. CMS intends to publish updated DSH allotments early next year. No adjustments have been included in the Outlook to amend the amount of DSH funding allocated to Florida because there are certain unknowns: the risk of reduction of DSH funding depending upon the methodology to be announced by CMS; Florida's decision on whether to expand Medicaid; and whether the new CMS methodology penalizes states that do not expand Medicaid.

U.S Department of Labor Rules for the Fair Labor Standards Act

A new rule by the U.S. Department of Labor (USDOL) that will take effect January 1, 2015, regarding the Fair Labor Standards Act creates a risk of increased funding needed to provide certain services for clients of the Florida Agency for Persons with Disabilities (APD).

The Fair Labor Standards Act (FLSA) is federal law containing requirements for minimum wage and overtime pay. Historically, the FLSA's minimum wage and overtime requirements have not applied to domestic service employees who provide "companionship services," and the overtime requirement has not applied to employees who are live-in domestic service employees.

As of January 1, 2015, the new USDOL rule will eliminate those exemptions to the extent that individuals, families, and households will still be able to apply the exemptions, but the exemptions will no longer apply to third-party employers and their employees. Additionally, the definitions of "companionship services" will be narrowed, which could have the effect of limiting the application of that exemption in cases involving individuals, families, and households.

The new rule is expected to result in higher costs of care provided to APD clients to an indeterminate extent. The Fiscal Year 2014-15 General Appropriations Act contains $400,000 for the APD to procure actuarial services to review the agency's current provider rates and recommend adjustments if necessary. The APD will also have the actuary analyze the potential financial impact of the rule change on the agency itself, in order to help gauge the risk.

Litigation Against the State

Numerous lawsuits against the state exist at any point in time and some have the capacity to disrupt specific programs and services and to force changes and adjustments to any financial outlook. These lawsuits relate to a broad cross-section of the state's activities including, but not limited to, education funding, environmental matters, Medicaid, agricultural programs and state revenue sources. The state's CAFR (Note 16) contains a list of those legal matters which have significant associated loss contingencies.

In addition, a summary of the claimed fiscal impact of significant litigation filed against the state is annually reported by the agencies in their legislative budget requests. Significant litigation includes cases where the amount claimed is more than $1.0 million and cases challenging significant statutory policies. In some cases, those summaries are based on the amount claimed by the plaintiffs, which is typically higher than the amount to which the plaintiffs would actually be entitled if they won.

Potential Constitutional Issues

In 2004, a constitutional amendment passed that requires initiative petitions be filed with the Secretary of State by February 1 of each general election year in order to be eligible for ballot consideration. This has been interpreted to mean that all signatures have been certified by the local supervisors of election and that the other requirements for geographic distribution have been met by this date. For the 2014 ballot, the required number of valid signatures was 683,149.

Section 15.21, Florida Statutes, further requires the Secretary of State to "immediately submit an initiative petition to the Attorney General and to the Financial Impact Estimating Conference" once the certified forms "equal...10 percent of the number of electors statewide and in at least one-fourth of the congressional districts required by section 3, Article XI of the State Constitution." For the 2014 ballot, this means that there were at least 68,314 valid and qualifying signatures. Once an initiative petition is received, the Financial Impact Estimating Conference (FIEC) has 45 days to complete an analysis and financial impact statement to be placed on the ballot (section 100.371, Florida Statutes).

In addition to the petition initiative process, the Legislature may directly place proposals on the ballot for consideration through a joint resolution agreed to by three-fifths of the membership of each house of the Legislature. Formal financial impact statements are not required for legislative proposals.

The following legislative proposal and two petition initiatives are on the ballot for the 2014 General Election.

Proposed Amendments for 2014 Ballot

Initiative Name	Ballot # and Description
PETITION INITIATIVE . . . WATER & LAND CONSERVATION	**Ballot #1**: Funds the Land Acquisition Trust Fund to acquire, restore, improve, and manage conservation lands including wetlands and forests; fish and wildlife habitat; lands protecting water resources and drinking water sources, including the Everglades, and the water quality of rivers, lakes, and streams; beaches and shores; outdoor recreational lands; working farms and ranches; and historic or geologic sites, by dedicating 33 percent of net revenues from the existing excise tax on documents for 20 years. **FIEC Impact (5/23/13)**: This amendment does not increase or decrease state revenues. The state revenue restricted to the purposes specified in the amendment is estimated to be $648.0 million in Fiscal Year 2015-16 and grows to $1.268 billion by the twentieth year.

Initiative Name	Ballot # and Description
Water & Land Conservation, continued	Whether this results in any additional state expenditures depends upon future legislative actions and cannot be determined. Similarly, the impact on local government revenues, if any, cannot be determined. No additional local government costs are expected.
PETITION INITIATIVE . . . USE OF MARIJUANA FOR CERTAIN MEDICAL CONDITIONS	**Ballot #2**: Allows the medical use of marijuana for individuals with debilitating diseases as determined by a licensed Florida physician. Allows caregivers to assist patients' medical use of marijuana. The Department of Health shall register and regulate centers that produce and distribute marijuana for medical purposes and shall issue identification cards to patients and caregivers. Applies only to Florida law. Does not authorize violations of federal law or any non-medical use, possession or production of marijuana. **FIEC Impact (11/4/13)**: Increased costs from this amendment to state and local governments cannot be determined. There will be additional regulatory and enforcement activities associated with the production and sale of medical marijuana. Fees will offset at least a portion of the regulatory costs. While sales tax may apply to purchases, changes in revenue cannot reasonably be determined since the extent to which medical marijuana will be exempt from taxation is unclear without legislative or state administrative action.
LEGISLATIVE . . . PROSPECTIVE APPOINTMENT OF CERTAIN JUDICIAL VACANCIES	**Ballot #3**: Proposing an amendment to the State Constitution requiring the Governor to prospectively fill vacancies in a judicial office to which election for retention applies resulting from the justice's or judge's reaching the mandatory retirement age or failure to qualify for a retention election; and allowing prospective appointments if a justice or judge is not retained at an election. Currently, the Governor may not fill an expected vacancy until the current justice's or judge's term expires.

The estimates for the petition initiatives were adopted in 2013 and were based on the most recent information available at that time. If the constitutional amendments are adopted, the Legislature may have different information available to it at the time of implementation.

Florida Economic Outlook

> *The Florida Economic Estimating Conference met in July 2014 to revise the forecast for the state's economy. As further updated by the Legislative Office of Economic and Demographic Research, the latest baseline forecast provides clear signs of progress towards full recovery. Underlying the forecast is the assumption that the recovery has been underway since the late spring of 2010, but still has a few years to go to regain normalcy across-the-board. In the forecast, normalcy has been largely achieved by Fiscal Year 2016-17 with construction and real estate still presenting notable exceptions. In this regard, a recent slowing in the housing market has given some pause for concern.*

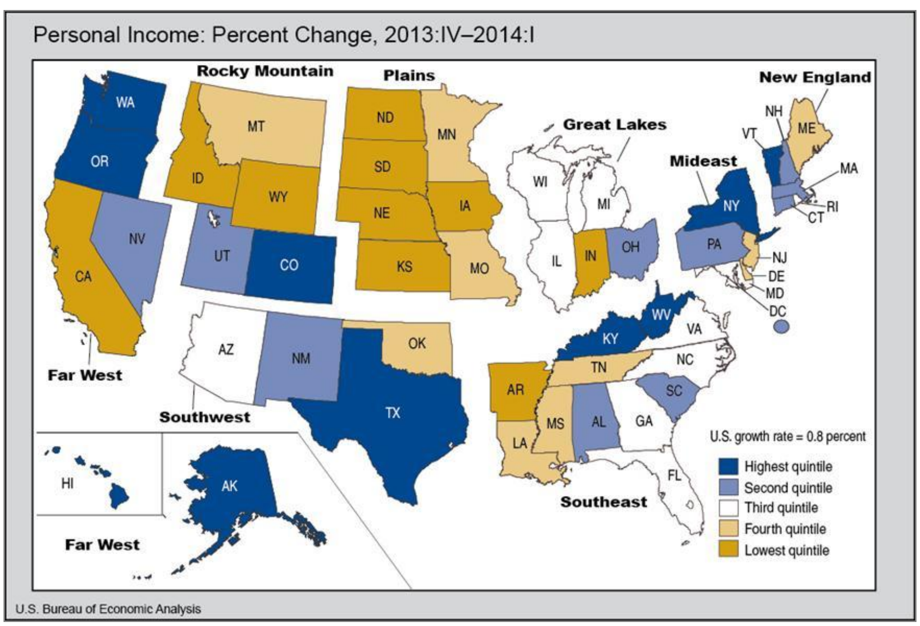
By the close of the 2013-14 fiscal year, several key measures of the Florida economy had returned to or surpassed their prior peaks. Most of the personal income metrics (real per capita income being a notable exception) and all of the tourism counts exceeded their prior peaks. Still other measures were posting solid year-over-year improvements, even if they were not yet back to peak performance levels. Looking across the 50 states, the three most-widely used indicators of government financial health illustrate the economic extremes the state faced to get to this point.

One economic measure for *comparing states* is the year-to-year change in real **State Gross Domestic Product** (that is, all goods and services produced or exchanged within a state). Using the latest data revisions of this measure, Florida was one of the nation's faster growing states from 2000 to 2006, outperforming the nation during that entire period and reaching its peak growth in 2005. With the end of the housing boom and the beginning of the real estate market correction in 2006 and 2007, the state slipped into four years of negative growth (2008 through 2011). While Florida was not the only state to experience a significant deceleration in economic growth prior to the Great Recession (California, Nevada, and Arizona showed similar housing market trends), it was one of the hardest hit.

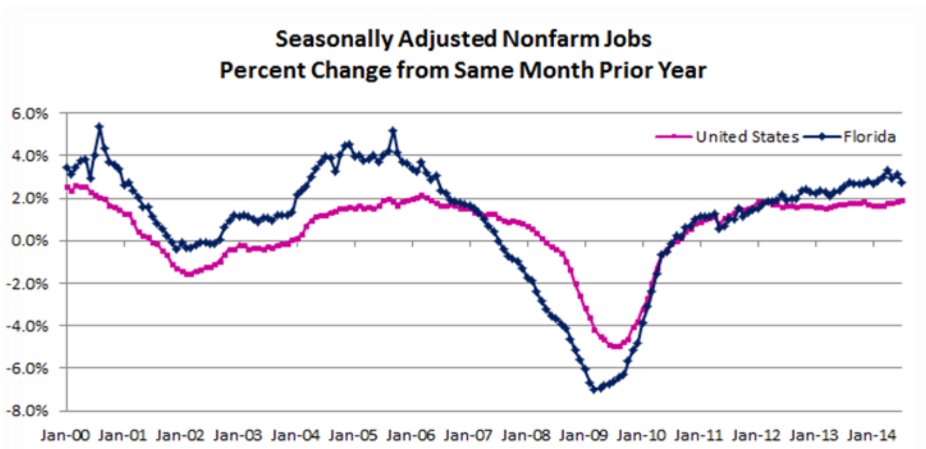
Florida's economy regained its positive footing in 2012, registering 2.2 percent growth over the prior year. The state built on those gains in 2013 with growth that equaled its prior year (2.2 percent), but was high enough to move Florida above the nation as a whole (calculations in real dollars). In terms of current dollars, Florida's gross domestic product reached $800.5 billion in 2013, moving ahead of its prior peak in 2007.

[SEE GRAPH ON FOLLOWING PAGE]

Other factors are frequently used to gauge the health of an *individual state*. The first of these measures is **personal income growth**—primarily related to changes in salaries and wages. Quarterly personal income growth is particularly good for measuring short-term movements in the economy. Using the latest revised series, Florida finished the 2013 calendar year with 2.9 percent growth over 2012, ranking Florida 13th in the country among all states with a growth rate higher than the national average of 2.6 percent. Losing some ground in the first quarter of 2014, Florida saw only a 0.8 percent gain over the last quarter of 2013 and dropped in rank to 23rd in the nation.

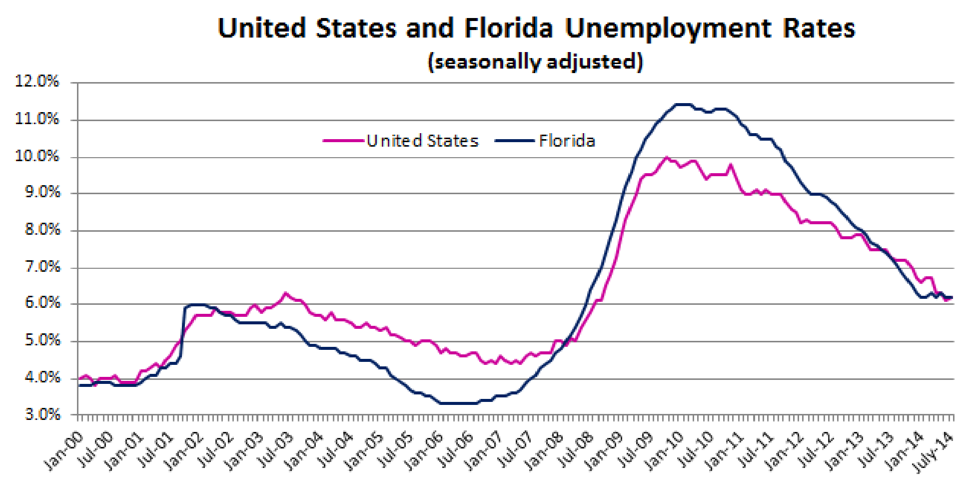


The key measures of **employment** are typically *job growth* and the *unemployment rate*. While Florida led the nation on the good-side of these measures during the boom, the state was worse than the national averages on both measures until August 2010 when Florida experienced its first over-the-year increase in jobs since July 2007. Four years later (July 2014), Florida's annual job growth rate has been positive for the past 48 months. However, Florida is still 257,400 jobs below its peak during the boom. This indicates that simple rehiring, while necessary, will not be sufficient to trigger a robust recovery. At the current pace, a full recovery to the previous peak non-farm employment level will be reached sometime during Fiscal Year 2015-16. However, since population has continued to grow, the data milestone will not match the conditions in March 2007; it would take the creation of about 750,000 jobs for the same percentage of the total population to be working as was the case at the peak.



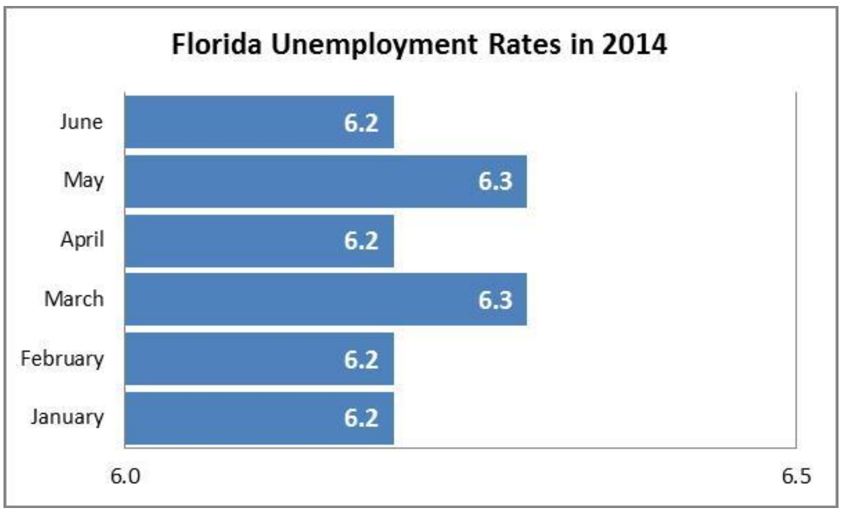
Source: Florida Department of Economic Opportunity, Bureau of Labor Market Statistics, Current Employment Statistics Program in cooperation with the U.S. Department of Labor, Bureau of Labor Statistics, August 15, 2014.

The state's unemployment rate in July matched the nation as a whole at 6.2 percent, with 597,000 jobless persons. The rate had been as low as 3.3 percent from January through August 2006 (the lowest unemployment rate in more than thirty years), before peaking at 11.4 percent from December 2009 through March 2010.



Source: Florida Department of Economic Opportunity, Bureau of Labor Market Statistics, Local Area Unemployment Statistics Program, in cooperation with the U.S. Department of Labor, Bureau of Labor Statistics, August 15, 2014.

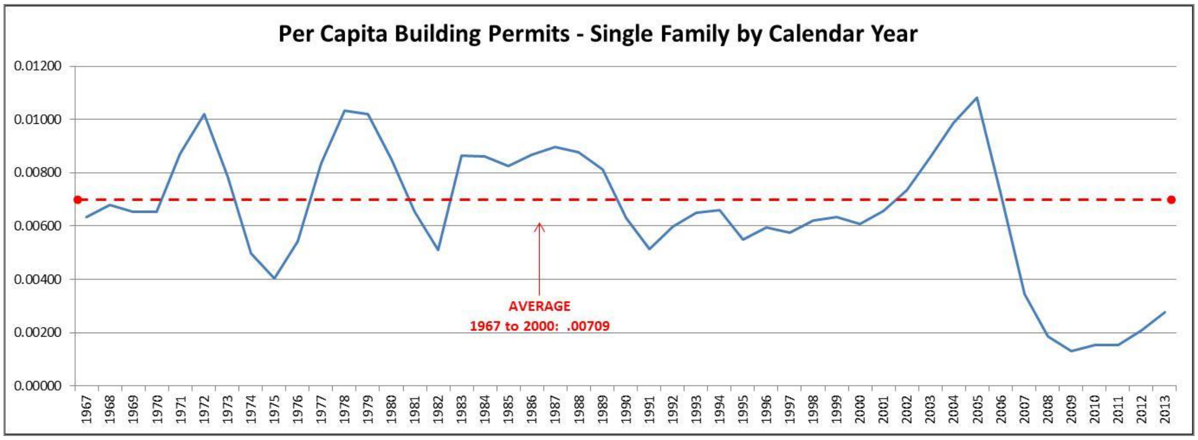
Several years ago, a conundrum appeared after reviewing this data: if job creation had been relatively stable, why had Florida seen a marked decline in its unemployment rate? The answer was in the *labor force participation rate*. The reported unemployment rate dropped from 9.5 percent to 6.3 percent from December 2011 to December 2013, a change of 3.2 percentage points. During that time, the participation rate had declined from 60.7 percent in December 2011 to 59.7 percent in December 2013. This decline suppressed the unemployment rate as people dropped out of the labor force or delayed entrance, excluding them from the unemployment rate calculation. Beginning in January 2014, the participation rate displayed detectable improvement as improving job prospects likely began to encourage people to rejoin or enter the labor force. May marked the fifth consecutive month of increases in the participation rate, and June was not statistically different at 60.7 percent, a return to the December 2011 level. This positive shift has caused the unemployment rate to flatten over the first six months of 2014 (bouncing between 6.2 and 6.3 percent), but this is an economic anomaly and actually is a positive indicator of an improving economy.



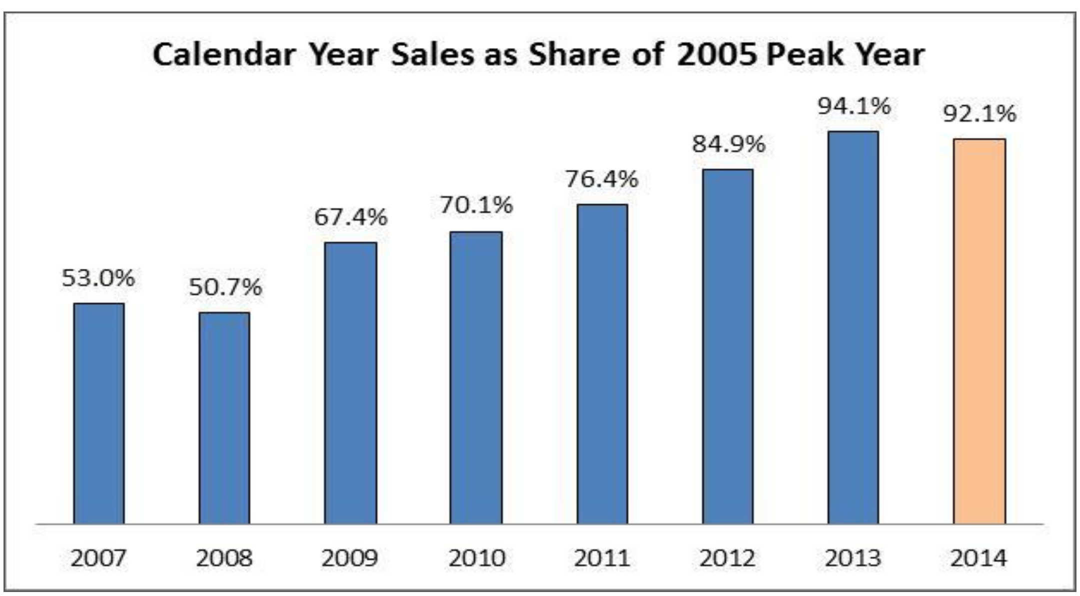
In July 2014, the unemployment rate stayed at 6.2 percent, but the labor force participation rate declined to 60.5 percent and the employment count dropped. The drop in employment appears to be technical in nature, related to the application of the seasonal adjustment factor rather than a signal of an economic change. This has a spillover effect on the participation rate, likely making July an anomalous month.

Florida's average annual wage has typically been below the national average. The preliminary data for the 2013 calendar year showed that it further declined to 87.6 percent of the average for the United States as a whole, but this was just a slight change from the 87.7 percent posted in 2012. Although Florida's wage level actually increased over the prior year, the national average annual wage increased more.

To a great extent, the relatively slow recovery in the jobs sector is related to the outlook for Florida's housing market. Construction has lost more jobs in this economic downturn than any other sector. It peaked in June 2006 with 691,900 jobs and at the end of July 2014 was still down 284,400 jobs (-41.1 percent) from that level. The persistently large inventory of unsold houses coupled with the stubbornly sluggish credit market for residential loans continue to dampen residential construction activity and sales. In Fiscal Year 2013-14, single-family private housing starts were 53,400 or 29.4 percent of their peak level. And, Documentary Stamp Taxes, a strong indicator of housing market activity, were only 44.7 percent of their prior peak as the fiscal year ended.



Overall, the housing market continues to trudge forward, but at an uneven pace. Building permit activity, an indicator of new construction, returned to positive territory in 2012, showing strong (36.6 percent) calendar year growth even though the level was extremely low relative to the series' history. While still robust, data for the 2013 calendar year indicated that the growth in permits (33.4 percent) was slightly below the prior year. However, data for the first five calendar months of 2014 indicate some weakening. Year-to-date activity for single-family residences is running below last year for the same period. Similarly, existing home sales in 2013 showed marked improvement from the prior calendar year, coming in at 94.1 percent of the 2005 banner year sales, but they are falling below that level in the first six months of 2014.



NOTE: 2014 percentage is projected based on six months of data.

FORECAST ~ Long-Term Trends

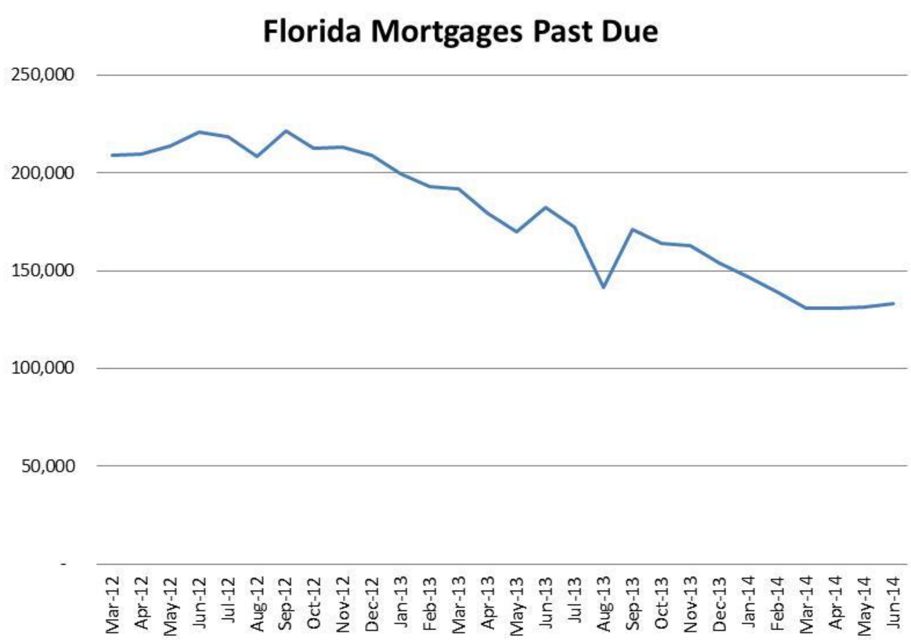
It is easy to see the improvement that is occurring across Florida's economy, but those achievements should be put in perspective. First, the end of the housing boom brought lower activity and employment in the construction and financial fields, as well as spillover consumption effects in closely related industries: appliances, carpeting, and other durable goods used to equip houses. This began in the summer of 2005 when the volume of existing home sales started to decline in response to extraordinarily high prices and increasing mortgage rates. Closely linked to the housing industry, Florida's nonagricultural employment annual growth rate peaked in fall of 2005. By the summer of 2006, the collapse was well underway, and existing home prices began to fall. Owners started to experience negative wealth effects from the price deceleration and accompanying losses in property value. Mortgage delinquencies and foreclosures became commonplace as property prices further tanked in 2007, and the unemployment rate began to climb as part of the slow slide into a national recession that was ultimately declared in December 2007. By the fall of 2008, Florida's homegrown problems with the housing market were giving way to several worldwide phenomena: a national recession that was spreading globally and a credit crisis that was threatening to bring down the world's largest financial institutions. As the subprime mortgage difficulties spread to the larger financial market, it became clear that any past projections of a relatively quick adjustment in the housing market were overly optimistic. Forecasts were dampened through the end of the fiscal year, and then again as the excess inventory of unsold homes was further swelled by foreclosures and slowing population growth arising from the national economic contraction. After the recession officially ended in June 2009, initial improvements on both the state and national fronts sputtered as the recovery struggled to take hold.

For Florida, it appears that the extreme financial and economic stress experienced over the last few years reached its bottom sometime during the spring of 2010. An extremely protracted recovery period began, which still continues today. In the forecast, months of modest growth are expected before normalcy is largely achieved by Fiscal Year 2016-17 with construction and real estate still presenting notable exceptions. The remaining questions focus on the actual pace of Florida's recovery.

Pace of Recovery

The pace of Florida's recovery will be driven in large measure by the time it takes the ***construction industry*** to revive. Vigorous home price appreciation that outstripped gains in income and the use of speculative financing arrangements made Florida particularly vulnerable to the decelerating housing market and interest rate risks. In 2006, almost 47 percent of all mortgages in the state were considered "innovative" (interest only and pay option adjustable-rate mortgages). With the ease of gaining access to credit, long-term homeownership rates were inflated to historic levels, moving Florida from a long-term average of 66.3 percent to a high of over 72 percent. Essentially, easy, cheap, and innovative credit arrangements enabled people to buy homes who previously would have been denied. This is borne out by the steady decline in the homeownership rates since the peak—the latest data (Quarter 2 of the 2014 calendar year) placed the annual rate at 65.3 percent, actually below the long-run average of 66.3 percent. If this becomes the final percentage for the year, it will be the lowest level seen since 1990.

During the boom, the surging demand for housing led many builders to undertake massive construction projects that were left empty when the market turned. While the national inventory of unsold homes had improved to a more normal 5.5 months in June 2014, the situation is more complicated in Florida. Foreclosures have further swelled the state's unsold inventory of homes and will continue to do so in the near-term. Originally related to mortgage resets and changes in financing terms that placed owners in default, delinquencies were further boosted by persistently high levels of unemployed persons in financial distress. Private sector data for July 2014 shows that Florida was the highest state in the country for both the number of foreclosure filings and the rate of foreclosure. While many of the legal issues regarding the processing of foreclosure documents were largely resolved by the National Mortgage Settlement Agreement finalized in early 2012, actual foreclosure starts have lagged behind expected levels. Prior to the increase of foreclosures in 2007, the average foreclosure took 169 days, or slightly less than six months, to process. Today, a foreclosure takes 925 days to process (about 2.5 years), the third longest period in the nation. The abnormally long time to complete the foreclosure process slows the placement of these properties on the market, and, in the interim, the actual backlog continues to build. However, there is some promising news. After being ranked first for many months, Florida has now moved to third place among states for non-current mortgages (a measure of delinquencies and foreclosures). A major part of this shift is a reduction in the number of delinquent mortgages which reduces the incoming pipeline. Florida's "underwater" homes declined from a high of 50 percent of all residential mortgages to below 20 percent in the most recent data. Absent some intervention, these homeowners were the most likely to move into (or already be in) foreclosure status, so a decline in these numbers is a good sign.



Perversely, properties that have been in the foreclosure process for a long time pose a potential upside risk for the new construction forecast. The "shadow inventory" of homes that are in foreclosure or carry delinquent or defaulted mortgages may contain a significant number of "ghost" homes that are now distressed beyond realistic use, in that they have not been physically maintained or are located in distressed pockets that will not come back within a reasonable timeframe. This means that the existing housing supply has become two-tiered—viable homes and seriously distressed homes. To the extent that the number of viable homes is limited, new construction may come back at a faster rate than anticipated, leading to activity spikes in the near future which will disappear later in the forecast period.

In April 2014, over 32 percent of all sales were either REO (bank-owned after an unsuccessful sale at a foreclosure) or short sales, and most of these sales were heavily discounted. Even more remarkable, the number of cash sales still remains high—nearly 35 percent of total sales. This leaves only 33 percent of sales using financing arrangements. In part, these statistics are influenced by low housing prices that attract investors willing to wait for the market to improve, but they are also influenced by the persistently tight credit conditions. Demand for credit has increased; however, it is still difficult for homeowners without pristine credit to get mortgages. The Federal Reserve Board conducts a Senior Loan Officer Survey of bank lending practices once each quarter. While conditions had been holding steady (albeit at elevated levels), the July 2014 results showed mixed results, with some tightening of standards for approving applications from individuals for prime residential mortgage loans and some easing.

July 2014 Senior Loan Officer Opinion Survey on Bank Lending Practices
Federal Reserve Board

	All Respondents								
	July '14 %	Apr '14 %	Jan'14 %	Oct '13 %	July '13 %	Apr '13 %	Jan '13 %	Oct '12 %	July '12 %
Tightened considerably	2.8%	0.0	1.4	1.4	0.0	0.0	0.0	0.0	1.6
Tightened somewhat	2.8%	14.3	8.5	4.3	3.0	1.6	1.5	3.1	1.6
Remained basically unchanged	**70.4**	**72.9**	**81.7**	79.7	86.6	89.1	92.3	92.2	93.4
Eased somewhat	23.9%	12.9	8.5	14.5	10.4	9.4	4.6	4.7	3.3
Eased considerably	0.0%	0.0	0.0	0.0	0.0	0.0	1.5	0.0	0.0
Total	100%	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Currently, none of the key construction metrics show a return to peak levels until 2022-23 (residential construction expenditures and total construction expenditures). The rest do not return to their peak at all during the forecast horizon (construction employment, single and multi-family starts, and nonresidential construction expenditures). Looking at the broader housing market, existing home sales reach their prior fiscal year peak in 2017-18, but median sales prices never regain their peak during the ten-year forecast.

Florida Demographic Projections and the Census

> *Understanding the underlying components of Florida's population growth and demographic composition helps shed light on the state's primary economic driver by providing insight into the needs and pressures that face the state. The Florida Demographic Estimating Conference is expecting population growth to continue to strengthen but—relative to Florida's past trends—at lower levels and rates of growth.*

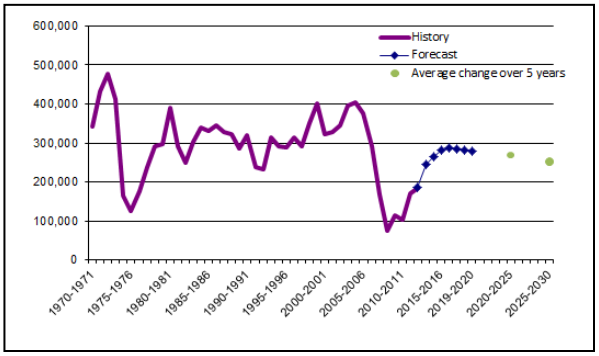
Overall Population Growth

During the 1990's, the number of people in the state rose by three million—only California and Texas grew by more during the decade. This represented a 23.5 percent increase in Florida's population. Even with slower growth during the first decade of the 21st century, Florida continued to rank third in the number of net new residents with a 17.6 percent increase over 2000. Today, Florida remains the fourth largest state behind California with 38.3 million residents, Texas with 26.4 million residents, and New York with 19.7 million residents. However, in the near future, Florida is on track to become the third most populous state.

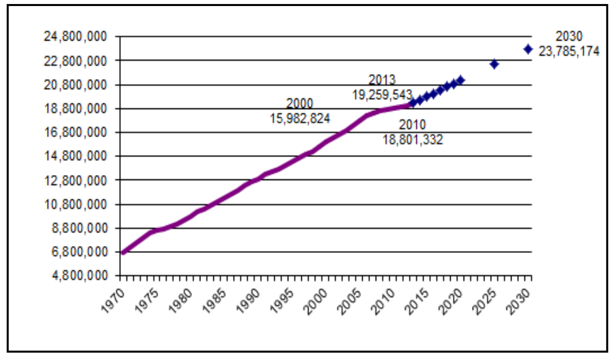
As of April 1, 2013, Florida's official population was estimated to be 19,259,543 by the Demographic Estimating Conference. Currently, the official population estimates show that the Sunshine State is growing faster than New York and will likely surpass it in total population sometime during the 2015 calendar year. Conversely, the U.S. Census Bureau's July 1, 2014, population estimates for both Florida and New York, to be released in December 2014, may show that Florida has already surpassed New York in 2014. Between 2010 and 2013, the U.S. Census Bureau population estimates for Florida exhibited stronger population growth than Florida's official population estimates adopted by the Conference. As a result, the difference between Florida's estimates and the Census' estimates has been increasing each year between 2011 and 2013. This difference is mainly due to the higher estimated domestic net migration to Florida expected by the Census Bureau and different estimation methodologies.

As suspected, Florida's population grew faster in the early 2000's than in the latter part of the decade. Between April 1, 2007, and April 1, 2010, Florida's population growth slowed to less than 1.0 percent per year. This slow growth continued into the next decade. The state's population growth was estimated to be 0.55 percent between April 1, 2010, and April 1, 2011 (103,738 net new residents) and 0.90 percent between April 1, 2011, and April 1, 2012 (169,364 net new residents). Regaining some strength, Florida's population grew by 185,109 (0.97 percent) between April 1, 2012 and April 1, 2013, the strongest increase seen since 2007. Annual population change is expected to reach 244,298 net new residents (1.27 percent) in 2014 and is expected to range between 260,000 and 287,000 net new residents per year between 2015 and 2025. Annual population change is projected to exceed 200,000 net new residents per year over the entire forecast horizon.

Florida's Incremental Population Growth



Florida's April 1 Population



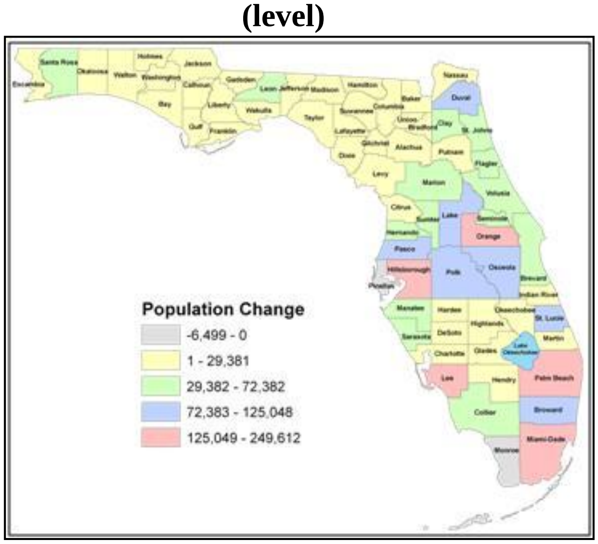
Local Population Growth

Between 2000 and 2010, three Florida counties expanded by adding population equivalent to a city about the size of Orlando: Orange, Miami-Dade, and Hillsborough. During this time, only two counties lost population: Monroe and Pinellas. In contrast, four counties (Flagler, Sumter, Osceola, and St. Johns) experienced population growth rates above 50 percent. They were closely followed by St. Lucie, Lake, and Lee, each of which posted growth rates between 40.3 percent and 44.2 percent. Flagler and Sumter counties were among the fastest-growing counties in the United States, ranking third and eighth, respectively (based on counties with a population of at least 10,000 in 2000).

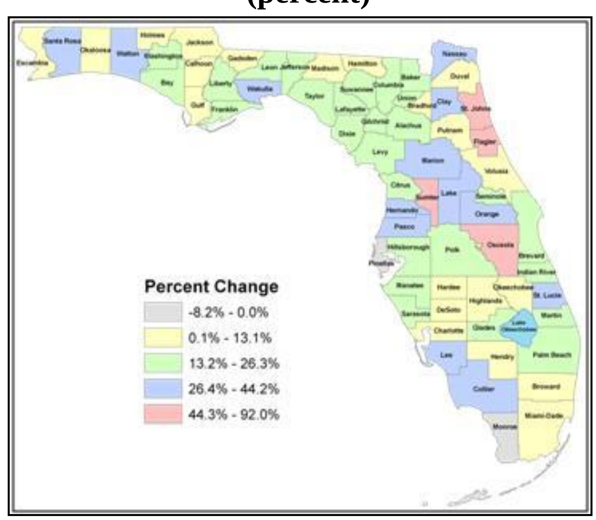
Today, Miami-Dade County is one of the most populous counties in the country, ranking eighth nationally after the 2010 Census was completed. In 2013, 50.3 percent of Florida's residents lived in one of its 410 municipalities, while in 2000, 49.5 percent lived in an incorporated place. Florida's most densely populated county is Pinellas, while Liberty County has the fewest number of residents per square mile. In terms of total population, Liberty is also the smallest county in the state—Miami-Dade holds about 300 times Liberty's population.

April 1, 2000 to April 1, 2010

Population Change (level)



Population Growth (percent)

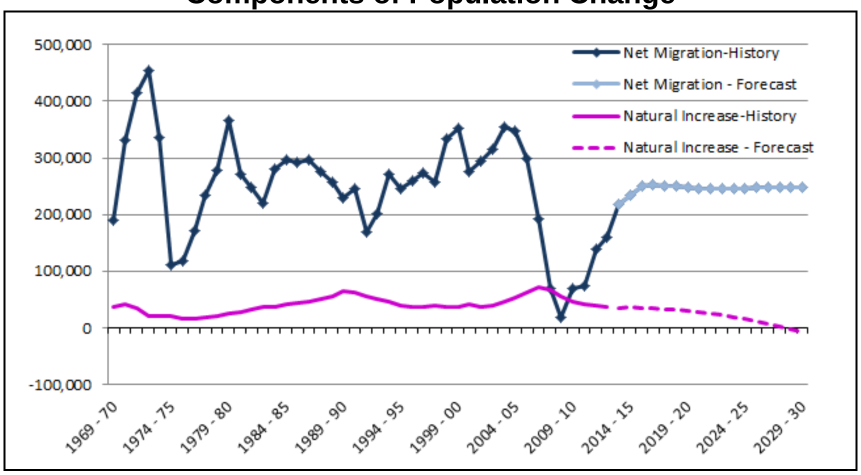


With the slow growth between April 1, 2010, and April 1, 2013, 19 of Florida's counties experienced a net loss in population. On the other end of the extreme, Miami-Dade County gained the most population between those years, followed by Orange and Hillsborough counties. In percentage terms, Sumter County grew the fastest followed by Osceola and St. Johns counties.

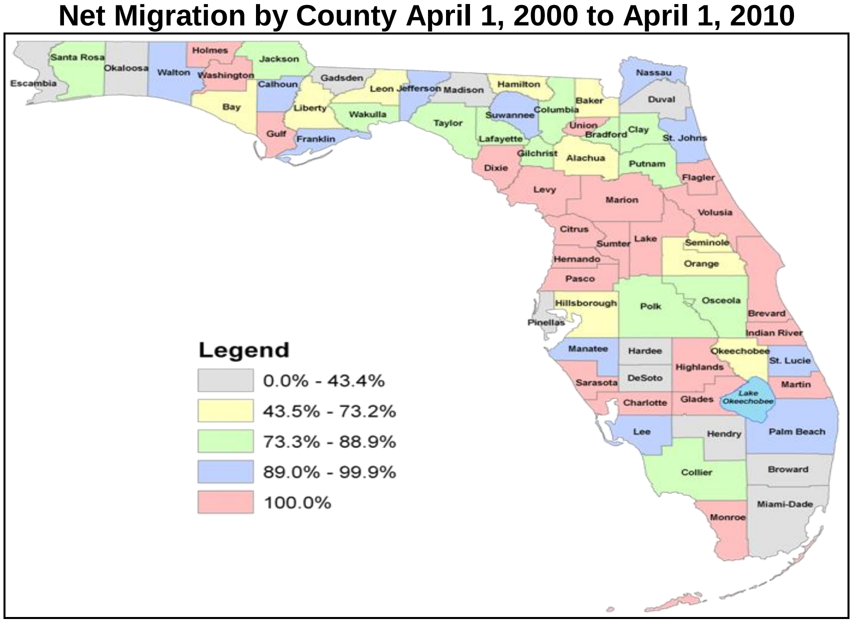
Growth Sources

Population growth depends on two components: natural increase, which is the difference between births and deaths, and migration, both domestic and international. During the 1990's, natural increase accounted for 14.7 percent of the growth and net migration accounted for 85.3 percent. From April 1, 2000, to April 1, 2010, natural increase accounted for 18.4 percent of Florida's growth while net migration accounted for 81.6 percent. With population expanding by 458,211 between April 1, 2010, and April 1, 2013, natural increase accounted for 26.1 percent, while net migration accounted for 73.9 percent of the growth.

Components of Population Change

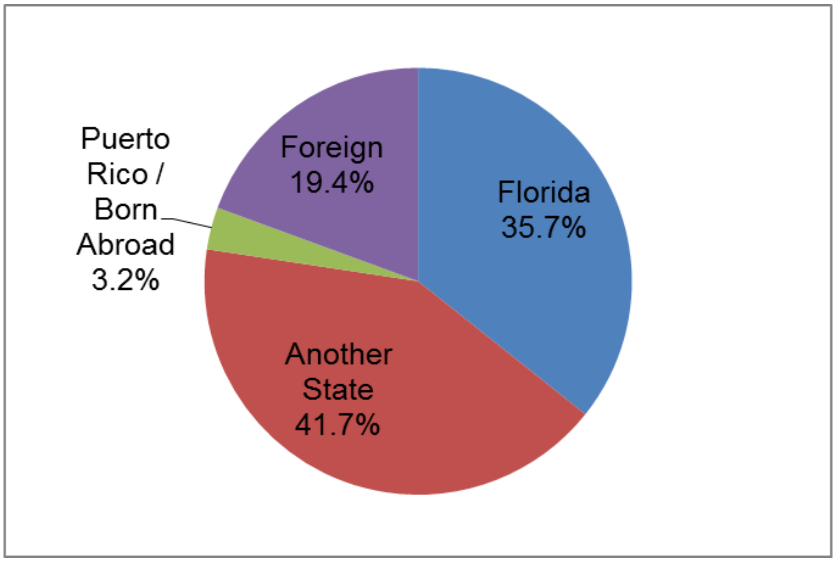


Net Migration by County April 1, 2000 to April 1, 2010



Florida's population growth depends upon in-migration, as just over one-third (35.7 percent) of Floridians were born in the state. Between April 1, 2000, and April 1, 2010, there were 22 counties in the state where all of the population growth was due to net migration. Between April 1, 2010, and April 1, 2013, this number rose to 31 counties.

Florida Residents: Place of Birth



During the recent recession, net migration to the state slowed significantly. The low levels were largely due to national economic conditions, including weakened housing markets and other effects from the Great Recession that made it difficult for people to relocate. Net migration has returned as a decisive factor, and in 2030 it is forecast to represent all of Florida's population growth.

Florida continues to be one of the top three states where most U.S. adults would choose to live if they did not live in their own states. According to the *Harris Poll*, September 2013, Florida ranked third behind California and Hawaii.[6] Baby Boomers (ages 49-67), Generation X (ages 37-48), and Echo Boomers (ages 18-36) all ranked Florida second, while Matures (ages 68+) had Florida tied with California at fifth. It is clear from these results that Florida remains an attractive migration state, which will likely fuel population growth in the future.

Demographic Composition and Long-Term Trends

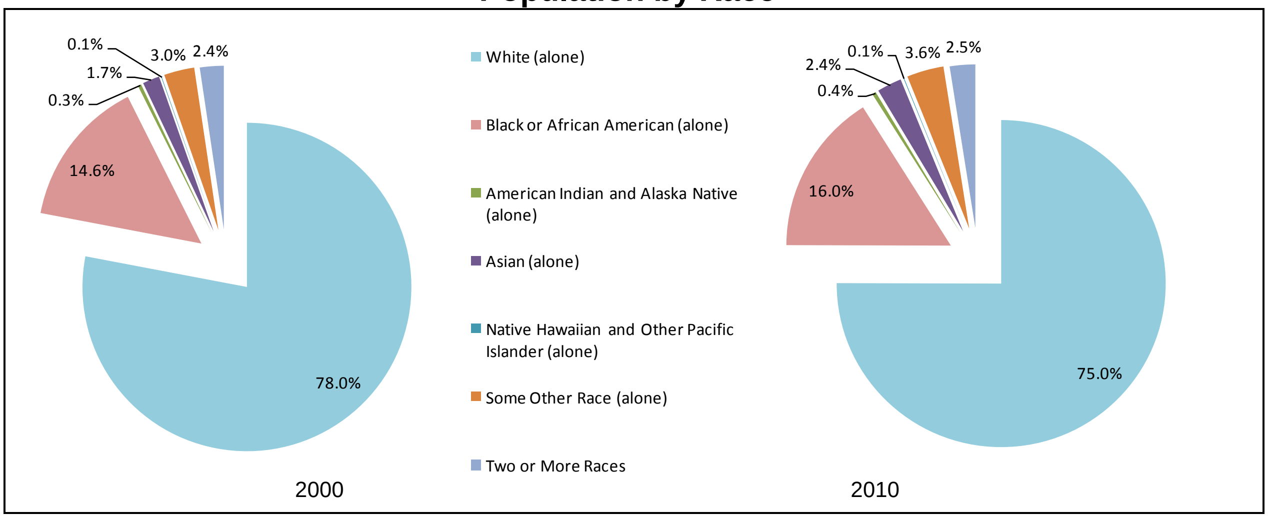
Florida's unique demographics will present challenging issues for the state's policy makers over the next three decades. The state is already seeing an increasingly diverse population relative to race, ethnicity, and age.

In terms of race, Florida's population has become increasingly nonwhite. In the 1980 Census, 14.7 percent of the population was nonwhite; in 1990, 15.2 percent was nonwhite; and in 2000, 17.8 percent was nonwhite.

[6] From 1997 through 2001, Florida had actually topped the list of states to which people would like to move.

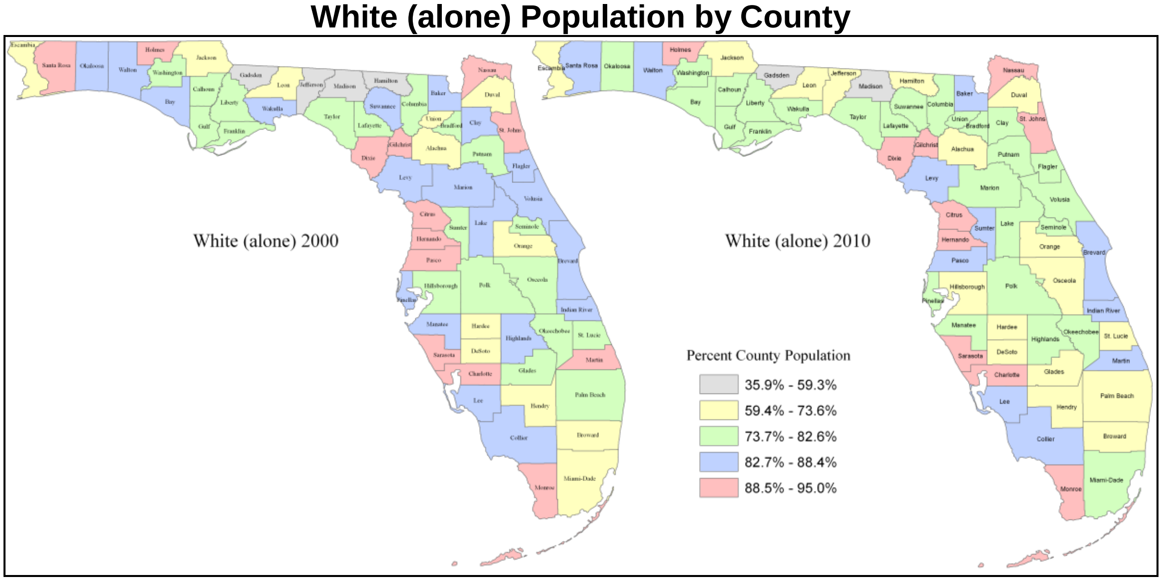
Beginning with Census 2000, respondents were given the option of selecting more than one racial category. The percentage of white (alone) fell slightly from 78.0 percent to 75.0 percent between 2000 and 2010. During this time period, the percentages of black or African American (alone) increased from 14.6 percent to 16.0 percent, while the percentage of Asian (alone) increased from 1.7 percent to 2.4 percent.

Population by Race



The following maps show changes in the percentage of white (alone) by county from 2000 to 2010. In 53 of Florida's 67 counties, the percentage of white (alone) declined over the decade. The county with the greatest percentage of white (alone) was Citrus, while the county with the smallest percentage was Gadsden.

White (alone) Population by County



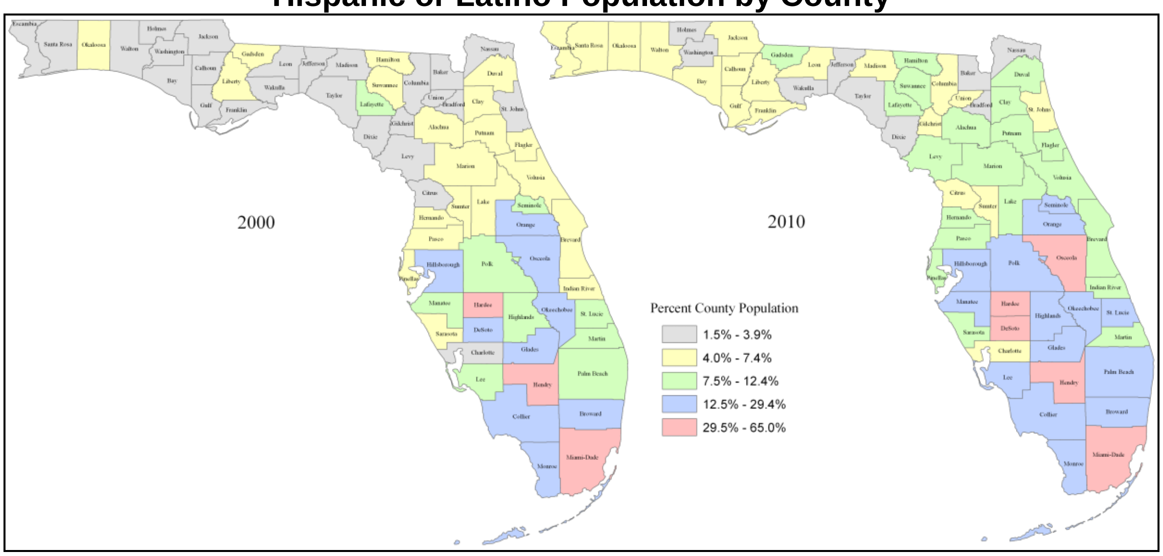
In contrast, only five of Florida's counties reported a decline in the percentage of Asian (alone) between 2000 and 2010. The largest increases in the percentage of Asian (alone) occurred in Alachua, Orange, Duval, Hillsborough, and Seminole counties.

According to federal standards from the Office of Management and Budget and the Census Bureau, Hispanic origin refers to an ethnicity, not a race such as white or black. In this regard, someone of Hispanic origin can be of any race. Nationally, Hispanic or Latinos represented 16.3 percent of the population in 2010, up from 12.5 percent in 2000. Relative to the top three most populous states, Hispanic or Latinos represented a larger percentage of the total population (37.6 percent) in both California and Texas than in Florida (22.5 percent) while in New York they represented only 17.6 percent.

In Florida, the Hispanic or Latino population continues to grow, increasing from 16.8 percent in 2000 to 22.5 percent in 2010. By 2030, 28.3 percent of Florida's population will be Hispanic. Between 2000 and 2010, the percentage of Hispanic or Latinos grew by 57.4 percent in Florida, faster than the United States (43.0 percent), Texas (41.8 percent), California (27.8 percent), and New York (19.2 percent). According to the 2010 Census, 28.7 percent of Florida's Hispanic population indicated that they were of Cuban origin, with 70.5 percent of this population group residing in Miami-Dade County.

The distribution of Florida's Hispanic or Latino population is shown in the map below. In 2010, the county with the greatest percentage of Hispanic or Latino population was Miami-Dade (65.0 percent) while Baker had the smallest percentage (1.9 percent). The percent of Hispanic or Latino population increased in all but one (Sumter) of Florida's 67 counties between 2000 and 2010. Osceola County posted the largest gain in percentage, moving from 29.4 percent to 45.5 percent.

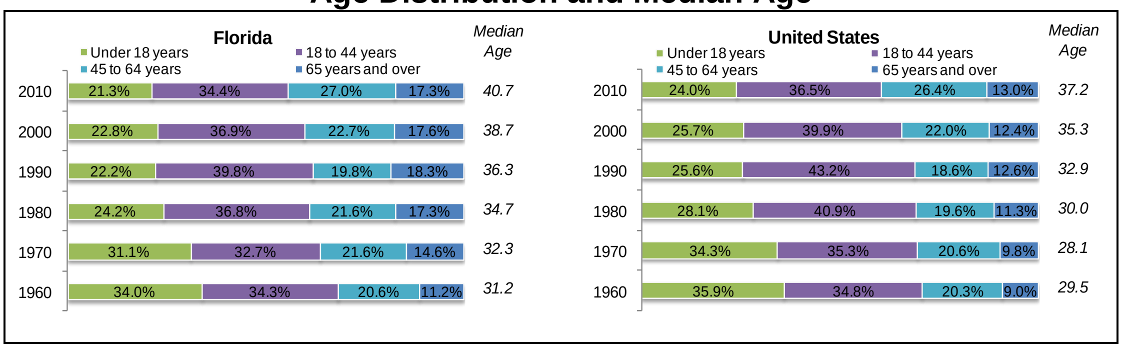
Hispanic or Latino Population by County



Florida's diverse racial and ethnic population is also evident by the number of Floridians (age 5 or older) that speak a language other than English at home (slightly over 5 million). Of these Floridians, about 2.1 million spoke English less than "very well." In addition, in 2012, it was estimated that 19.4 percent of Florida's population was foreign born.

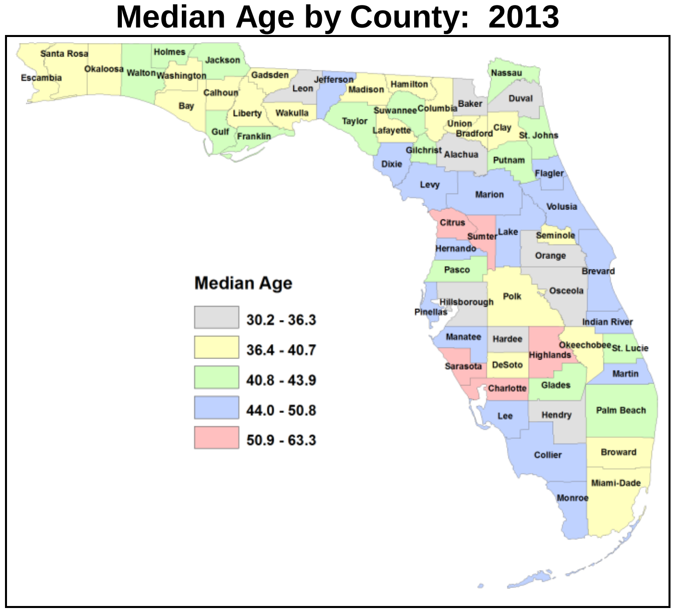
Florida's population has continued to age; among other statistics, the median age of the state increased steadily from 31.2 in 1960 and 38.7 in 2000, to 40.7 in 2010. Nationally, in 2010, the median age increased to a new high of 37.2, up from 35.3 in 2000. As the Baby Boom population continues to age, the median age in both the United States and Florida will increase. However, aging of the population has been more intense here than elsewhere. The percentage of population aged 65 and older in Florida (17.3 percent) in 2010 was greater than in any other state, handily surpassing the overall percentage in the nation (13.0 percent). West Virginia and Maine rank second and third in the percentage of population aged 65 and older (16.0 percent and 15.9 percent, respectively). In 2010, there were four states where the median age was higher than Florida: Maine (42.7), Vermont (41.5), West Virginia (41.3), and New Hampshire (41.1).

Age Distribution and Median Age



The 2010 Census indicated that median ages varied across the state from a low of 29.6 in Leon County to a high of 62.7 in Sumter County. In 2013, it was estimated that there were six Florida counties with a median age of 50 or older and that Leon and Sumter counties still had the lowest and highest median ages at 30.2 and 63.3, respectively. Florida's median age is estimated to have risen slightly in 2013 to 41.1.

Median Age by County: 2013



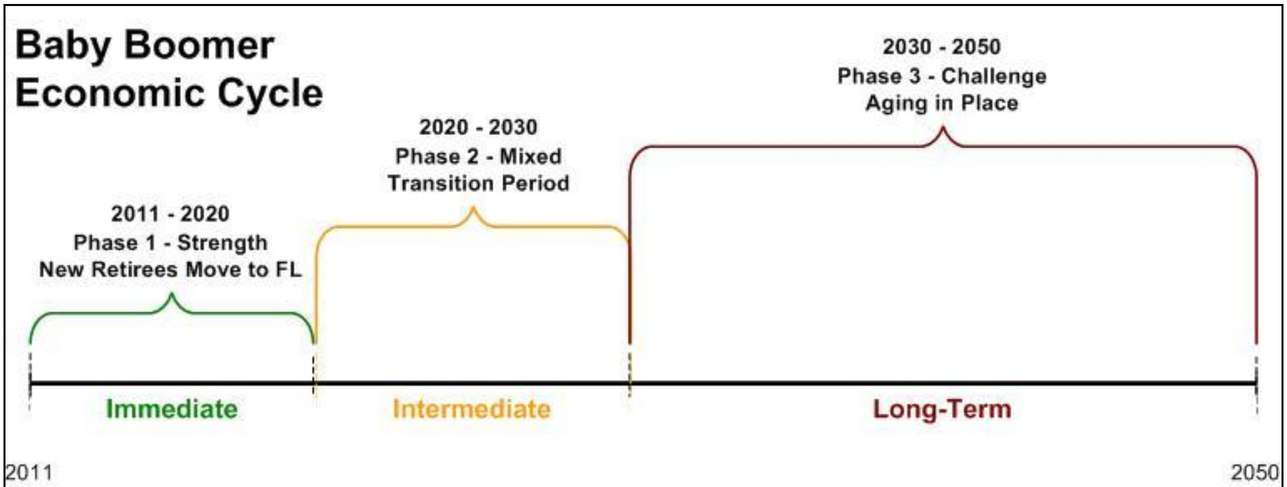
In 2010, five of Florida's cities were among the locations with the highest median ages in the country: Clearwater (43.8), Cape Coral (42.4), Fort Lauderdale (42.2), Hialeah (42.2), and St. Petersburg (41.6). These cities were ranked as having the second through sixth highest median ages. At the other end of the spectrum, two of Florida's cities [Gainesville (24.9) and Tallahassee (26.1)] were ranked as places with the lowest median ages in the country (second and fourth lowest, respectively). These rankings reflected the university population that is included in the 2010 Census count.

In 2000, Florida's working age population (ages 25-54) represented 41.5 percent of the total population. With the aging Baby Boom generation, this population is projected to represent 38.5 percent of Florida's total population in 2014 and is expected to represent 36.2 percent by 2030. Population aged 65 and over is forecast to represent 24.0 percent in 2030, compared to 18.3 percent in 2014. Most of the growth in the state will come from Florida's older population. As the ratio of workers to retirees tilts to fewer workers per retiree, labor force issues will become increasingly challenging. The ratio of the working-age population (ages 25-54) relative to the retiree population (age 65 and over) is expected to drop from 2.1 in 2014 to 1.5 by 2030.

Summary

Florida's population growth slowed substantially as a result of the economic recession, mostly related to the recession's impact on job creation and the ability of people to migrate into the state. Population growth appears to have strengthened over the past year and is anticipated to continue to rebound with more moderate levels of growth relative to historic levels over the forecast horizon. Several demographic factors will present future challenges for the state's policy makers as the Baby Boom population enters retirement age. Most importantly, Florida will need to prepare for a more diverse and aging population with its corresponding demands on services. These changes will have vastly different effects over time.

[SEE GRAPH ON FOLLOWING PAGE]



OVER THE SHORTER-TERM ... (between now and 2020)
The Baby Boomers retiring to Florida will generally be financially better off than the average retiree; most will come with assets (at least from the sale of their homes).

Many will buy new homes in Florida and then outfit them --- generating additional tax revenues, largely as a result new money coming in to Florida from outside the state (earned elsewhere). New infusion of dollars has the greatest multiplier effect.

They will also tend to be younger retirees, and therefore healthier and more active --- meaning their demand for consumer services will be higher, strengthening the economy, while their demand for government services will be at its minimum.

OVER THE LONGER-TERM ... (between now and 2030)
As the Baby Boomers retire, they will be leaving vacant more jobs than there are workers to fill them.

The ability to create new jobs will be constrained by the numbers of qualified workers available to fill those jobs.

Both of these factors will lead to increased demand for workers and upward pressure on wages as the skilled supply of workers fails to keep pace with the demand.

Inflated wages will hurt economic growth, as well as make government services more costly to provide—just as the Boomers increase their need for government-supported services.

The increased cost of government services (due to higher prices and larger caseloads) and suppressed economic growth will make budget gaps worsen (diminished revenues and higher costs for the same services and more services being demanded). This situation will be exacerbated by the fact that retirees tend to spend more on services and less on taxable goods.

Revenue Projections

Throughout the summer, the Revenue Estimating Conference met to finalize numbers for Fiscal Year 2013-14 and to develop new forecasts for the upcoming years. Overall revenue projections were remarkably similar to prior forecasts, indicating that predictive patterns have continued. The current outlook for General Revenue expects that there will be an unexpended balance of nearly $1.6 billion in the General Revenue Fund at the end of Fiscal Year 2014-15.

General Revenue Fund

Forecast Overview:

From the March forecast through the end of June 2014 total collections ran below estimate, ending the 2013-14 fiscal year with a loss against the forecast of $106.7 million. This loss was within the plus or minus one percent range that the Conference usually attributes to random variations.

For Fiscal Year 2014-15, expected revenues were essentially unchanged from the previous forecast, increasing by only $49.2 million to $27.19 billion. For Fiscal Year 2015-16, anticipated revenues were revised slightly downward by $84.1 million to $28.25 billion. In both cases, the adjustment was less than one-third of one percent.

The revised Fiscal Year 2014-15 estimate exceeds the prior year's collections by about $1.0 billion (or 3.8 percent). The revised forecast for Fiscal Year 2015-16 has projected growth of nearly $1.1 billion (or 3.9 percent) over the revised Fiscal Year 2014-15 estimate. The growth rates for Fiscal Years 2016-17 and 2017-18 were slightly increased to 5.0 from 4.6 percent and to 4.7 from 4.5 percent, respectively, resulting in estimated revenues of $29.66 billion for Fiscal Year 2016-17 and $31.04 billion for Fiscal Year 2017-18.

The forecast has been primarily affected in the following ways:

- **Sales Tax...** In Fiscal Year 2013-14, taxable sales finally exceeded the previous peak seen in Fiscal Year 2006-07. The forecast increases of $228.9 million in Fiscal Year 2014-15 and $137.4 million in Fiscal Year 2015-16 primarily reflect the experience since the last forecast and future strength in taxable sales related to tourism, motor vehicles, business purchases, and household goods.

- **Corporate Income Tax…** Final Fiscal Year 2013-14 receipts were lower than Fiscal Year 2012-13 collections, leading the Conference to reduce the estimate by $151.0 million in Fiscal Year 2014-15 and $218.9 million in Fiscal Year 2015-16. This downward adjustment also reflects the belief that corporate entities are investing historic cash reserves in ways that reduce taxable income, rather than any underlying economic weakness.

- **Real Estate Taxes (Documentary Stamp Tax and Intangibles Tax)...** The combined estimate was adjusted downward. Together, the decreases to General Revenue collections are $36.9 million in Fiscal Year 2014-15 and $39.3 million in Fiscal Year 2015-16. While earlier revenue gains were bolstered by increased refinancing activity, including activity induced by the federal Home Affordable Refinance Program (HARP), this activity has continued to slow. However, both sources still show healthy growth over the entire forecast.

Summaries of Selected General Revenue Sources (in alphabetical order):

Article V Fees & Transfers:

Revenue collections for Article V Fees and Transfers during the 2013-14 fiscal year were close to the estimates adopted on February 13, 2014, with the exception of revenues related to foreclosure case filings and clerks' fines, fees, and charges, which are sensitive to foreclosure filings. The number of foreclosure case filings was approximately 14,900 fewer than forecast in February; therefore, revenues relating to this activity fell short of forecast.

Actual Fiscal Year 2013-14 revenues were used to adjust the forecast base. As a result, the forecast did not change for four revenue categories and only slightly for six revenue categories, with four going up and the other two down over the forecast period. The most significant changes were to foreclosure filings and clerks' fines, fees, and charges. Those estimates were adjusted downward in Fiscal Years 2014-15 and 2015-16, with Fiscal Years 2016-17 and Fiscal Year 2017-18 increasing significantly. The forecast assumes foreclosure filings will not return to a normal level until Fiscal Year 2019-20. The change to the forecast occurs primarily because of an embedded delay in the timing of filings. The Conference believes the current shortfall is due to a decrease in the number of new entries into the inventory of homes primed for foreclosure, while those cases that do remain are the most time and labor intensive to file resulting in increased estimates for Fiscal Years 2016-17 through 2018-19.

Foreclosure filings were both reduced in total over the five-year period and realigned between fiscal years while adding a new year to the forecast period. The following table depicts the changes:

Foreclosure Filings	February 2014 REC	July 2014 REC	Difference
2014-15	169,200	102,500	(66,700)
2015-16	144,103	113,750	(30,353)
2016-17	70,600	111,000	40,400
2017-18	70,000	111,000	40,000
2018-19	70,000	73,750	3,750
2019-20	N/A	70,000	N/A

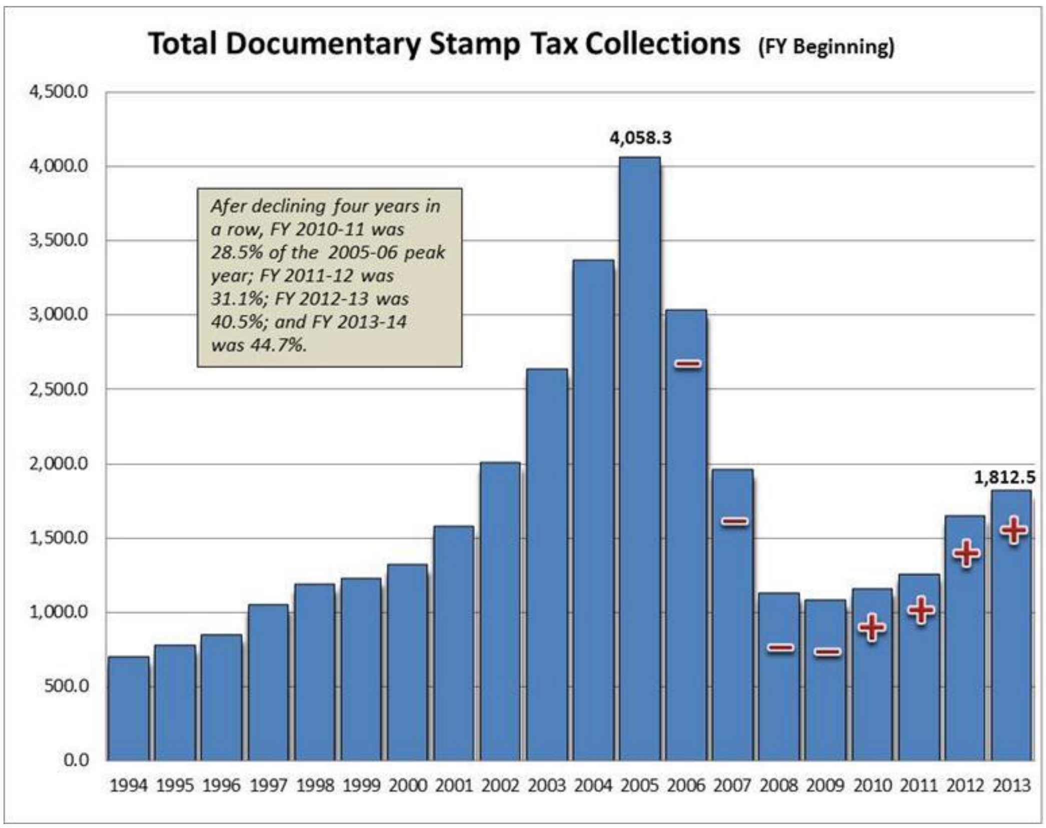
After incorporating the foreclosure adjustments, the Conference made only modest changes to the remaining parts of the forecast.

The new forecast contains the following changes: the General Revenue Fund was reduced by $55.3 million in Fiscal Year 2014-15 and $28.9 million in Fiscal Year 2015-16; the State Courts Revenue Trust Fund was reduced by $11.8 million in Fiscal Year 2014-15 and by $5.8 million in Fiscal Year 2015-16; the Clerks of Court Trust Fund was increased by $3 million in Fiscal Years 2014-15 and 2015-16; and the clerks' local Fine and Forfeiture Funds were decreased by $19 million in Fiscal Year 2014-15 and by $5 million in Fiscal Year 2015-16.

Documentary Stamp Tax:

Driven largely by housing market conditions, the new forecast confirms that Florida is continuing its return to normal patterns of construction and real estate activity. Fundamentals are improving, and they are expected to follow a positive growth path throughout the forecast period. Major drivers of the source—construction activity, real estate prices, and transaction volume—are all expected to grow at a moderately strong pace.

Total Documentary Stamp Tax receipts for Fiscal Year 2014-15 ($1.98 billion) are expected to grow 9.4 percent from Fiscal Year 2013-14 final receipts ($1.81 billion), allowing total expected receipts to achieve 48.9 percent of the collection level at the source's height—the 2005-06 fiscal year.



The Conference remains concerned that the foreclosure rate and inventory of unsold residential properties in Florida (including those foreclosures) are still high. In this regard, foreclosures are expected to add more units to the supply of housing, dampening the average sales price of homes on the market. In addition, the relatively low average sales prices for foreclosed homes depress values for neighboring property, hampering the maximum value of other sales. Median sales prices for existing homes remain substantially below the nation as a whole, and the still relatively high shares of distressed sales (both REO and short) and cash sales of total sales continue to suppress sales prices.

On the flip side, suppressed housing price gains also incubate improvement. Ultimately, the Conference expects the turnaround in Florida housing will be led by low home prices that attract buyers and clear the inventory, coupled with the long-run sustainable demand caused by continued population growth and household formation that has been pent-up.

Taking all of this information into account, the Documentary Stamp Tax estimate was adjusted slightly downward relative to the March 2014 forecast. While earlier revenue gains were bolstered by increased refinancing activity, including activity induced by the federal Home Affordable Refinance Program (HARP), this activity has slowed significantly over the past year. Also, rising interest rates will cause slightly lower revenues than expected at the March 2014 conference.

Documentary Stamp Tax collections are still expected to show healthy growth over the entire forecast period. The expected 9.4 percent increase this year over last year, will be followed by 9.0 percent growth in Fiscal Year 2015-16 and moderating growth in Fiscal Years 2016-17 through 2024-25.

Highway Safety Licenses and Fees:

Revenue collections from Highway Safety Licenses and Fees (HSMV) during the 2013-14 fiscal year were 1.2 percent ($29.7 million) above the estimates adopted on February 26, 2014. Sixteen of the twenty categories came in at or above estimate with Private Driver's Licenses the largest contributor at 7.1 percent ($10.9 million) over estimate. The other four categories came in below estimate with Red Light Cameras contributing the greatest shortfall at 5.6 percent ($3.9 million) under estimate.

The new HSMV forecast reflects adjustments made for actual Fiscal Year 2013-14 revenue collections and actual Fiscal Year 2014-15 biennial collections. The bulk of the changes to the new HSMV forecast came from legislative changes enacted during the 2014 Session, for which the previous estimates have been adjusted. These legislative changes include:

1. Approximately $300 million in Fiscal Year 2014-15 and $400 million each year thereafter in fee reductions related to CS/SB 156: Motor Vehicle and Mobile Home Taxes, Fees, and Surcharges, affecting the Motor Vehicle Licenses and Fees, Initial Registrations, Other Vehicles, Private Vehicles and Surcharges categories.

2. Approximately $100,000 in Fiscal Year 2014-15 and $300,000 each year thereafter in decreased revenue related to CS/SB 274: Inmate Reentry, affecting the ID Cards category.

3. Approximately $1.2 million in decreased revenue related to CS/HB 7005: Transportation, affecting the ID Cards category.
4. Approximately $100,000 in increased revenue related to CS/SB 274: Certificates of Title, affecting the Titles category.

The revised estimates by category resulted in increased revenues over the measures-adjusted forecast for the General Revenue Fund and State Transportation Trust Fund and lower estimates for the Highway Safety Operating Trust Fund. The revisions are shown in the table below:

Changes to the Forecast by Fund	Fiscal Year 2014-15	Fiscal Year 2015-16
General Revenue Fund	$1.2 million	$11.3 million
Highway Safety Operating Trust Fund	($8.8) million	($3.8) million
State Transportation Trust Fund	$18.0 million	$16.1 million

<u>Indian Gaming Revenues:</u>

The Revenue Estimating Conference met on July 18, 2014, and adopted estimates for Indian Gaming revenues for Fiscal Years 2014-15 through 2022-23. Fiscal Year 2013-14 was the first time the state received a true-up payment, which was generated from Fiscal Year 2012-13 activity. Pursuant to the Indian Gaming Compact, the Seminole Tribe is required to make a minimum guaranteed payment for each of the first five years of the Compact unless 12 percent of the specified Net Win produces a larger amount. The Net Win is projected to continue to increase in the new forecast, remaining above the minimum guarantee threshold. As a result, larger true-up payments are expected to be generated in Fiscal Years 2013-14 and 2014-15; those dollars will be received in Fiscal Years 2014-15 and 2015-16. Net Win was expected to exceed $2 billion for the first time in Fiscal Year 2013-14, which will trigger a higher revenue sharing rate of 15 percent for the amount between $2 billion and $3 billion.

Based on recent quarterly financial reports, the Conference adopted slightly lower growth rates than the February forecast for Fiscal Years 2013-14 and 2014-15. The growth rates for Fiscal Years 2015-16 through 2018-19 match the February forecast, and the remaining years flatten out at 2 percent.

Indian Gaming Revenues (Millions of $)									
	Receipts			Local Distribution			Net General Revenue		
	Feb 2014	July 2014	Difference	Feb 2014	July 2014	Difference	Feb 2014	July 2014	Difference
2011-12	150.0	150.0	0.0	3.8	3.8	0.0	146.2	146.2	0.0
2012-13	226.1	226.1	0.0	4.5	4.5	0.0	221.6	221.6	0.0
2013-14	237.3	237.3	0.0	7.1	7.0	-0.1	230.2	230.3	0.1
2014-15	259.8	257.7	-2.1	7.8	7.1	-0.6	252.0	250.6	-1.4
2015-16	172.4	169.8	-2.6	8.1	7.7	-0.4	164.3	162.0	-2.3
2016-17	117.6	119.3	1.6	3.8	4.8	1.0	113.8	114.4	0.6
2017-18	118.9	120.7	1.8	3.5	3.6	0.0	115.4	117.2	1.8
2018-19	121.3	123.2	1.9	3.6	3.6	0.1	117.7	119.6	1.9
2019-20	---------	125.6	---------	---------	3.7	---------	---------	121.9	---------

Tobacco Tax and Surcharge:

The Revenue Estimating Conference reviewed Tobacco Tax and Surcharge revenues on July 8, 2014. The forecasts for Cigarette revenues and Other Tobacco Products revenues were both decreased from the February 2014 conference results.

Cigarette Tax and Surcharge revenues were $15.5 million under estimate for March through June 2014. There has been a steady downward trend in Cigarette Tax and Surcharge revenues recently, with declines averaging four percent annually over the past four fiscal years. People appear to be reducing consumption or substituting other products such as smoke-less tobacco and electronic cigarettes. The Conference reduced the Cigarette Tax estimate for Fiscal Year 2014-15 by $9.5 million and projected stronger declines than were previously projected in each fiscal year thereafter. The changes to Cigarette Surcharge collections followed a similar pattern, beginning with a $27.6 million downward adjustment in Fiscal Year 2014-15.

The Conference also decreased projections for Other Tobacco Products Tax and Surcharge revenues compared to the prior forecast. These revenues grew steadily between fiscal years 2009-10 and 2012-13; however, between the two sources, revenues were $5.7 million under the estimate for Fiscal Year 2013-14. This is partly due to refunds related to litigation regarding the tax treatment of these products, and may also include a negative impact associated with behavioral changes related to the litigation. The Conference adopted a lower revenue projection for Fiscal Year 2014-15, anticipating additional behavioral changes by these businesses. Revenues in subsequent years are expected to grow at the rate of population growth.

The Fiscal Year 2013-14 revenues are shown net of refunds that were issued related to litigation regarding the tax treatment of other tobacco products. Refunds in the amount of $1.48 million were granted by the Department of Business and Professional Regulation from the Cigarette Tax Collection Trust Fund, which includes revenues generated from the Cigarette Tax, the Cigarette Surcharge, and the Other Tobacco Products Surcharge. The $1.48 million was applied proportionately to the revenue sources in the trust fund.

[SEE TABLE ON FOLLOWING PAGE]

Tobacco Tax and Surcharge Conference
Comparison of the February and July 2014 Forecasts

COLLECTIONS							
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Cigarette Tax							
February 2014	274.9	269.4	264.7	260.7	256.8	252.9	
July 2014	271.3	259.9	253.4	247.6	242.6	237.8	233.0
Difference	-3.6	-9.5	-11.3	-13.1	-14.2	-15.1	
Cigarette Surcharge							
February 2014	821.5	805.2	791.1	779.2	767.5	755.9	
July 2014	810.3	777.6	758.2	740.8	725.9	711.4	697.2
Difference	-11.2	-27.6	-32.9	-38.4	-41.6	-44.5	
OTP Tax							
February 2014	28.6	29.2	29.7	30.2	30.6	31.0	
July 2014	27.6	26.7	27.0	27.4	27.8	28.2	28.5
Difference	-1.0	-2.5	-2.7	-2.8	-2.8	-2.8	
OTP Surcharge							
February 2014	68.7	70.0	71.3	72.4	73.5	74.5	
July 2014	64.0	63.9	64.9	65.8	66.7	67.6	68.5
Difference	-4.7	-6.1	-6.4	-6.6	-6.8	-6.9	

DISTRIBUTIONS							
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Health Care Trust Fund							
February 2014	819.0	805.2	793.4	783.5	773.7	764.0	
July 2014	811.6	773.5	756.6	741.4	728.6	716.1	640.8
Difference	-7.4	-31.7	-36.8	-42.1	-45.1	-47.9	
General Revenue Service Charge							
February 2014	93.2	91.5	90.1	89.0	87.8	86.6	
July 2014	91.8	88.1	86.1	84.3	82.8	81.3	79.9
Difference	-1.4	-3.4	-4.0	-4.7	-5.0	-5.3	
General Revenue Excise Tax							
February 2014	156.2	153.1	150.2	147.8	145.4	143.1	
July 2014	150.6	142.3	138.4	134.8	131.8	128.9	126.0
Difference	-5.6	-10.8	-11.8	-13.0	-13.6	-14.2	
OTP General Revenue Tax							
February 2014	28.6	29.2	29.7	30.2	30.6	31.0	
July 2014	27.6	26.7	27.0	27.4	27.8	28.2	28.5
Difference	-1.0	-2.5	-2.7	-2.8	-2.8	-2.8	
Total GR Distributions							
February 2014	278.0	273.8	270.1	267.0	263.8	260.8	
July 2014	269.9	257.1	251.5	246.5	242.4	238.4	234.4
Difference	-8.1	-16.7	-18.6	-20.5	-21.4	-22.4	
All Other Funds							
February 2014	96.1	94.5	93.0	91.8	90.5	89.3	
July 2014	93.2	96.5	94.5	92.7	91.1	89.6	88.1
Difference	-2.9	2.0	1.5	0.9	0.6	0.3	

Note: Adjustments were made to the FY 2013-14 revenues for Cigarette Tax, Cigarette Surcharge, and OTP Surcharge to reflect the impact of $1.48 million in refunds granted associated with a court decision in MICJO, Inc v. DBPR Division of Alcoholic Beverages and Tobacco.

Transportation Revenue and the State Transportation Trust Fund:

The Revenue Estimating Conference met on July 31, 2014, to consider the forecast for revenues flowing into the State Transportation Trust Fund (STTF). Including the final adjustments for Fiscal Year 2013-14, overall revenues to the STTF were increased by $177.6 million or about 0.88 percent during the work program period ending Fiscal Year 2019-20.

For revenues from fuel taxes, the overall forecast was impacted by recent changes in consumption of motor fuel and other fuels (diesel, aviation, and off-highway fuel) for Fiscal Year 2013-14 and forward. The projection for revenues from all types of fuel was increased by $70.3 million or 0.5 percent over the entire work program. While revenue is up across all types of fuel, revenues from Aviation fuel are down by $12.4 million or -0.5 percent, the only downward revenue adjustment in the overall forecast. Projected tax rates are relatively stable.

The Local Option Distribution was increased by $3.1 million over the prior forecast period. These changes primarily reflect the new motor fuel and diesel fuel forecasts. However, the local option tax rate was raised slightly from 5.9 to 6.0 beginning in Fiscal Year 2014-15. The Rental Car Surcharge projection was increased by $2.9 million or 0.3 percent over the entire work program period.

For motor vehicle license and registration related fees, the forecasts were previously adopted by the Highway Safety Licenses and Fees Conference held July 24, 2014. In this work program period, all receipts to the STTF from motor vehicle license and fees were increased by $101.2 million or 1.7 percent over the entire work program. Motor Vehicle Licenses are up by $57.6 million, Initial Registrations are up $23.6 million, Title Fees are up $9.2 million, and Motor Carrier Compliance Penalties are up $10.8 million over the work program period.

Major Trust Funds

Educational Enhancement Trust Fund, Lottery, and Slots:

Dedicated to educational programs, the Educational Enhancement Trust Fund (EETF) contains revenue primarily derived from Florida Lottery ticket sales and taxes on Slot Machine revenues. Because these sources are so different, they are typically estimated separately.

The Revenue Estimating Conference reviewed **Lottery** revenues on July 14, 2014, and decreased the overall forecast from the one adopted in February. Expected distributions to the Educational Enhancement Trust Fund (EETF) were $22.2 million less than expected for Fiscal Year 2013-14 and are projected to be $25.6 million to $50.5 million less than previously forecasted in subsequent fiscal years. The forecast for total ticket sales was decreased from the February estimate by approximately $65.6 million to $144.4 million for Fiscal Years 2014-15 through 2018-19. The growth rates vary across games based on historical sales data and trends, but most of the decline in the estimate is due to lower projections for Powerball and Lotto ticket sales.

Scratch-off ticket sales have seen very strong and consistent growth in recent years, with growth rates of 15.3 percent, 18.0 percent, and 12.8 percent in Fiscal Years 2011-12, 2012-13, and 2013-14, respectively. Scratch-off ticket sales were right on estimate for Fiscal Year 2013-14, but sales appeared to weaken slightly in May and June. As a result, scratch-off sales are projected to continue to grow, but at slightly lower rates than in the previous forecast. The growth in scratch-off ticket sales is largely the result of introducing both new games and full service vending machines at many retail locations throughout the state.

The forecast for Mega Millions was decreased by about $7 million each fiscal year, reflecting the relatively stable weekly sales levels that have been experienced since there was a major game change implemented in October 2013. The projections for Powerball were decreased substantially from the prior forecast; the new estimates are approximately $45 million lower than the February estimates in each fiscal year. It appears that Powerball has been adversely affected by the increased competition from Mega Millions, as Mega Millions currently generates much larger jackpots than when it was introduced in May 2013. In addition, there seems to be an emerging trend in that ticket purchasers are less responsive to jackpot size. This results in relatively stable sales from week to week, as very large jackpot amounts are needed to generate substantial excess ticket sales.

Mega Money was renamed Lucky Money effective July 2, 2014, and along with the name change received advertising support and an EZ Match game enhancement. As a result, the conference increased the estimate for this game by $8.4 million for Fiscal Year 2014-15, as these changes are expected to boost sales and differentiate the game from the similarly named Mega Millions. Mega Money ticket sales are expected to grow slowly at around half a percent each year thereafter.

The forecast for Lotto ticket sales was decreased by $15 million for Fiscal Year 2014-15 to reflect the recent activity level. Lotto ticket sales have been trending downward for many years, and the new forecast expects continued declines through Fiscal Year 2019-20. Fantasy Five and Cash 3 ticket sales were revised upward slightly, based on positive performance for the last fiscal year and relatively stable historical trends. The Play 4 estimate was increased by approximately $10 million each fiscal year as ticket sales are expected to increase as a result of a new game enhancement.

The projections for non-ticket income were decreased from $12.6 million to $11.0 million each fiscal year. The forecast for unclaimed prizes available for transfer to EETF was decreased slightly by about half a million each fiscal year from the previous forecast due to the lower level of projected ticket sales. The details of the forecast and changes are shown in the table on the following page.

[SEE TABLE ON FOLLOWING PAGE]

Summary of Lottery Revenues to the EETF (Millions of $)				
		Feb 2014	July 2014	Difference
EETF Receipts from Ticket Sales	**2013-14**	1,433.1	1,420.0	-13.0
	2014-15	1,461.5	1,438.1	-23.5
	2015-16	1,489.7	1,460.5	-29.2
	2016-17	1,522.8	1,486.2	-36.6
	2017-18	1,547.7	1,504.1	-43.7
	2018-19	1,599.7	1,551.8	-47.9
	2019-20		1,572.8	
Other Income	**2013-14**	12.4	9.8	-2.6
	2014-15	12.6	11.0	-1.6
	2015-16	12.6	11.0	-1.6
	2016-17	12.6	11.0	-1.6
	2017-18	12.6	11.0	-1.6
	2018-19	12.6	11.0	-1.6
	2019-20		11.0	
80% unclaimed prizes	**2013-14**	40.0	33.5	-6.5
	2014-15	41.7	41.1	-0.5
	2015-16	42.7	42.2	-0.5
	2016-17	43.6	42.9	-0.7
	2017-18	44.4	43.4	-0.9
	2018-19	45.0	44.0	-1.0
	2019-20		44.5	
Distribution to EETF from Lottery Receipts	**2013-14**	1,485.5	1,463.3	-22.2
	2014-15	1,515.8	1,490.2	-25.6
	2015-16	1,545.0	1,513.7	-31.3
	2016-17	1,579.0	1,540.1	-38.9
	2017-18	1,604.7	1,558.5	-46.2
	2018-19	1,657.3	1,606.8	-50.5
	2019-20		1,628.3	

The Revenue Estimating Conference reviewed **Slot Machine** revenues on July 18, 2014, and decreased projections from the February 2014 conference by $5 to $10 million each fiscal year. The details of the forecast and changes are shown in the table on the following page.

Slot Machine Tax revenues were $1.3 million under estimate for February through June 2014, but total revenue for Fiscal Year 2013-14 was substantially higher than it was in Fiscal Year 2012-13. This revenue growth is primarily due to the opening of the new Hialeah facility, with some growth also coming from increased revenue at three facilities (Pompano, Magic City/ Flagler, and Calder) and some revenue generated from the first few months of activity at the new Dania facility.

Slot Machines Tax Collections			
Millions of $			
	February 2014	July 2014	Difference
2006-07	48.2	48.2	0.0
2007-08	122.3	122.3	0.0
2008-09	104.1	104.1	0.0
2009-10	136.4	136.4	0.0
2010-11	127.7	127.7	0.0
2011-12	142.7	142.7	0.0
2012-13	142.2	142.2	0.0
2013-14	174.4	173.1	-1.3
2014-15	186.9	181.7	-5.2
2015-16	192.0	185.4	-6.6
2016-17	196.0	188.1	-7.8
2017-18	200.2	191.0	-9.1
2018-19	204.2	194.0	-10.3
2019-20		196.9	

NOTE: This estimate is based on the operation of slot machines in eight pari-mutuel facilities located in Miami-Dade and Broward counties. If additional slot machine operations are authorized by legislative or administrative actions in other locations, revenues from slot machine operations will likely increase.

Dania opened on February 20, 2014, with about 540 machines; it was originally expected to open on April 1, 2014, with 500 machines. The February forecast estimated that the income per machine per day would be $152, which was consistent with neighboring facilities, but actual activity to date has only been $68 per machine per day. As a result, the new facility generated less revenue than projected, despite opening 40 days early. The new forecast assumes that Dania will continue to operate near the same level, at $62 income per machine each fiscal year. This level of income per machine is less than half that of all of the other facilities, and would generate $4.25 million in tax revenue each fiscal year, rather than the $10 million that was previously projected. Based on activity to date, most of the negative impact on other facilities that was previously built in to the forecast in Fiscal Year 2014-15 due to the opening of Dania has been removed. The growth rates in tax revenues for Fiscal Years 2015-16 through 2019-20 at all other facilities are expected to be similar to the February forecast.

Update: Dania is expected to cease slots activity no later than November 24, 2014, for at least one year, presenting a risk to the official Slot Machine Tax forecast.

The Fiscal Year 2012-13 revenue of $142.2 million is based on actual collections received during Fiscal Year 2012-13. Because the state switched from weekly to monthly collections at the end of Fiscal Year 2011-12, the July 2013 collections are made up of only one week of June 2013 revenue. This resulted in a one-time impact lowering the Fiscal Year 2012-13 revenues by approximately three weeks of collections.

For Fiscal Year 2014-15, the **EETF** has a projected positive balance of $24.1 million after accounting for all available funds and anticipated expenditures. This amount does not include any revenues associated with the Indian Gaming Compact, which are deposited in the General

Revenue Fund. Excluding the $24.1 million that will be carried forward into Fiscal Year 2015-16, all other revenues in the EETF are expected to increase modestly each year of the forecast period.

State School Trust Fund and Unclaimed Property:

Used exclusively to meet public school needs, the State School Trust Fund (SSTF) contains revenue primarily derived from unclaimed property (sometimes referred to as abandoned property). The projection of receipts from unclaimed property and the subsequent distribution into the State School Trust Fund were revised July 29, 2014, by the Revenue Estimating Conference.

State receipts from abandoned property for Fiscal Year 2013-14 were $383.1 million, which is $75.6 million less than the estimate of $458.7 million. Of the shortfall, $28.8 million may be attributed to the implementation of Chapter 2013-172, L.O.F. (SB 492), which reduced the dormancy period for unclaimed property held by a fiduciary under a trust instrument. The impact of this legislation was calculated initially based on a broader classification of trust property than was included when the department implemented the shorter dormancy period. It is not yet known what caused the balance of shortfall ($46.8 million); detailed data on types of property received will be available later in the fall. For the forecast, the Conference used the Fiscal Year 2013-14 actual receipts as a baseline and applied an annual growth rate of 5 percent. For refunds to owners, the Conference increased the proportion of property returned to owners from 60 percent to 62 percent in recognition of higher claims rates in recent years.

The Conference adopted a new financial outlook statement that incorporated the actual Fiscal Year 2013-14 transfers to the State School Trust Fund, which were $70.9 million below the estimate and decreased the balance forward into the 2014-15 fiscal year. For Fiscal Year 2014-15, the estimated transfer to the State School Trust Fund was decreased by $44.2 million. The shortfall from Fiscal Year 2013-14 combined with the reduction to the 2014-15 forecast results in a projected ending deficit of $107.9 million for the current fiscal year. Assuming the deficit is resolved by the end of the 2014-15 fiscal year, the funds available for Fiscal Year 2015-16 are estimated to be $174.9 million.

Tobacco Settlement Trust Fund:

On August 25, 1997, the State of Florida and several major American tobacco companies (Philip Morris Incorporated; R. J. Reynolds Tobacco Company; Brown & Williamson Tobacco Corporation; and Lorillard Tobacco Company) entered into a *Settlement Agreement* that included both non-monetary and monetary provisions related to Florida's financial losses as a result of smokers in the state's Medicaid program. In the Agreement, the tobacco companies agreed to discontinue certain forms of advertising and to support certain legislative initiatives. These included prohibiting the sale of cigarettes in vending machines and strengthening civil penalties related to the sale of tobacco products to children and possession of tobacco products by children. The tobacco companies also agreed to make annual payments in perpetuity, with the payments structured to be about $11.3 billion over the first 25 years, subject to certain annual adjustments, primarily for shipment volume and the Consumer Price Index.

The Tobacco Settlement Trust Fund receives the settlement payments; funds are currently used for programs in the Health and Human Services area. The current year (2014-15) funds available estimate for the trust fund is $396.5 million. In Fiscal Year 2015-16, $377.3 million is expected from all payments and profit adjustments, and $4.4 million is expected in transfers from the Lawton Chiles Endowment Fund. Including unspent (nonrecurring) funds from Fiscal Year 2014-15 of $22.9 million and $0.6 million in interest earnings, a total of $405.2 million will be available for expenditure in Fiscal Year 2015-16. These figures make no adjustment for the constitutionally required funding for tobacco education and prevention. That financial obligation will be deducted from the trust fund as an expenditure and is estimated to be $68.3 million for Fiscal Year 2015-16.

Settlement payments are expected to grow slowly in the future, but will be negatively affected if nationwide consumption of cigarettes falls more rapidly than expected. Conversely, settlement payments will be positively affected if general price inflation is stronger than currently projected.

Other Revenue Sources that Primarily Support Education

Ad Valorem Assessments (Property Tax Roll):

Estimates of the statewide property tax roll are primarily used in the appropriations process to approximate the Required Local Effort (RLE) millage rate. This is the rate local school districts must levy in order to participate in the Florida Education Finance Program. The 2015 certified school taxable value is now estimated to be $1,591.92 billion. This represents an addition of $26.88 billion or a 1.72 percent increase from the April 2014 forecast of $1,565.04 billion. At 96 percent, the value of one mil is projected to be $1,528.2 million.

Florida’s housing market continues to drive the shape of the overall forecast. Recent residential data from the Federal Housing Finance Agency price index shows signs of progress in all parts of the state. The new forecast is premised on the belief this growth will continue, but at a slower pace than seen during the 2013 calendar year. In this regard, the Conference was particularly concerned that new construction activity in the residential sector has showed recent signs of weakening, possibly indicating that the recent spike in new construction activities may not be sustained throughout the forecast horizon. Underlying this concern, homeownership rates are continuing to decline, while the bulk of foreclosed homes are yet to come on the market. In addition, the Conference took a cautious approach to predicting future price appreciation in both the residential and nonresidential housing sectors. While a small component, the Conference also expects to see relatively moderate tangible personal property growth during the forecast horizon.

County (non-school) taxable value is lower than school taxable value due to the greater number of exemptions available to property owners. In recent years, the Revenue Estimating Conference has been forecasting county taxable value separately from school taxable value. County taxable value on January 1, 2015, is projected to be $1,464.26 billion. On an annual basis, this represents an increase of $22.82 billion or a 1.58 percent increase from the April 2014 forecast of $1,441.44 billion.

July 1, 2015 Certified School Taxable Value

(billions of dollars)	Actual July 1, 2014 Certified School Taxable Value	April 2014 Estimate of July 1, 2015 Certified School Taxable Value	August 2014 Estimate of July 1, 2015 Certified School Taxable Value	Change in Estimates (Apr 14 vs Aug 14)	$ Change from Actual	% Change from Actual
School Taxable Value	1,519.44	1,565.04	1,591.92	26.88	72.48	4.77%
Real Property	1,414.14	1,457.37	1,484.73	27.36	70.59	4.99%
Personal Property	103.92	106.30	105.76	-0.54	1.84	1.77%
Centrally Assessed Property	1.38	1.37	1.43	0.06	0.05	3.62%
Value of one mill at 96 percent	1.46	1.50	1.53	0.03	0.07	4.77%

**Total school taxable value includes Value Adjustment Board changes and other tax roll adjustments. Components do not add up to the total.*

January 1, 2015 County Taxable Value

(billions of dollars)	Actual 2014 Taxable Value	April 2014 Estimate of January 1, 2015 County Taxable Value	August 2014 Estimate of January 1, 2015 County Taxable Value	Change in Estimates (Apr 14 vs Aug 14)	$ Change from Actual	% Change from Actual
County Taxable Value	1,391.44	1,441.44	1,464.26	22.82	72.82	5.23%
Real Property	1,286.14	1,333.77	1,357.07	23.30	70.93	5.51%
Personal Property	103.92	106.30	105.76	-0.54	1.84	1.77%
Centrally Assessed Property	1.38	1.37	1.43	0.06	0.05	3.62%

**Total county taxable value includes Value Adjustment Board changes and other tax roll adjustments. Components do not add up to the total.*

Gross Receipts Tax and Communications Services Tax

The Revenue Estimating Conference met on August 1, 2014, to adopt a new forecast for the Gross Receipts Tax and the State Sales Tax on Communications Services. Fiscal Year 2013-14 ended with actual collections for the Gross Receipts Tax (derived from the tax on electricity, gas and communications) exceeding the estimate by $10.5 million while collections of the State Sales Tax on Communications Services came in below the estimate by $3.3 million. After adjusting for measures affecting revenue that were passed during the 2014 Regular Session, the new forecast for the Gross Receipts Tax is higher than the previous forecast for Fiscal Year

2014-15 through Fiscal Year 2023-24, and the new forecast for the State Sales Tax on Communications Services was lower for each year.

The new forecast does not contain the cash impact of pending refund requests related to the settlement reached in *re: AT&T Mobility Wireless Data 265 Services Sales Litigation*, 270 F.R.D. 330, (Aug. 11, 2010). These refunds were previously estimated to total as much as $158.2 million. If approved by the Department of Revenue, the refunds will affect the Gross Receipts Tax, the State Sales Tax on Communications Services, and the Local Communications Services Tax; however, the timing and final amounts of the refund payments are currently unknown and could vary substantially from previous estimates.

The changes to the Gross Receipts Tax feed directly into the dollars available for appropriations from the Public Education Capital Outlay and Debt Service (PECO) Trust Fund. The State Sales Tax on Communications Services is a component of the General Revenue Fund. The new forecasts are detailed in the table below.

	Gross Receipts Tax – All Sources			Communications Services Tax – State Sales Tax Component*		
Fiscal Year	***August Estimate***	***Diff from Post-Session Forecast***	***% Change from Post-Session Forecast***	***August Estimate***	***Diff from Post-Session Forecast***	***% Change from Post-Session Forecast***
2014-15	1,162.92	5.20	0.45%	906.74	-14.80	-1.61%
2015-16	1,192.13	0.46	0.04%	901.95	-24.87	-2.68%
2016-17	1,211.73	2.15	0.18%	904.72	-28.21	-3.02%
2017-18	1,231.50	4.87	0.40%	908.56	-30.94	-3.29%
2018-19	1,253.52	6.03	0.48%	912.74	-33.59	-3.55%
2019-20	1,273.54	5.55	0.44%	917.74	-36.30	-3.81%
2020-21	1,292.26	5.24	0.41%	923.65	-38.61	-4.01%
2021-22	1,311.53	5.20	0.40%	930.42	-40.65	-4.19%
2022-23	1,332.30	6.29	0.47%	938.20	-42.32	-4.32%
2023-24	1,353.45	N/A	N/A	947.01	N/A	N/A

*The CST State Tax Component includes Direct-to-Home Satellite

Gross Receipts Tax on Electric and Gas Utilities... Gross Receipts Tax collections on electric and gas utilities for Fiscal Year 2013-14 came in $11.1 million above estimate, the driving force being collections on electricity. In that same year, electricity consumption for both commercial and residential sectors grew at an annual rate of 3.1 percent. For both residential and commercial natural gas sectors, consumption is up for the year by 1.4 percent. The gas portion of the forecast was reduced by $0.2 million. For the electricity portion of the forecast, collections coming from the 2.5 percent tax rate were increased by $8.7 million in Fiscal Year 2014-15. Fiscal Year 2015-16 follows a similar pattern for both portions of the forecast (i.e., electricity forecast for the 2.5 percent tax rate was increased $8.1 million, and the gas forecast was reduced by $1.9 million). House Bill 5601, which passed in the 2014 Session, reduced the Sales Tax rate for electrical power by 2.65 percent and increased the Gross Receipts Tax rate on a component of electricity by 2.6 percent, resulting in additional PECO funds ranging from $152.4 million to $184.1 million for Fiscal Years 2014-15 through 2018-19—this change was previously incorporated into the post-session estimate and was not further addressed.

State Communications Services Tax, Including Direct-to-Home Satellite Service (CST)... The Revenue Estimating Conference has made a number of adjustments to the conference package to more closely align the different services with the process used to develop the forecast. The estimates for Gross Receipts CST and Sales CST are produced by examining the major CST tax bases. Essentially, the overall forecast relies on generating separate growth rates for the cable, wireless, landline (residential and commercial), miscellaneous services, and direct-to-home satellite tax bases.

The cable base, given its relative size and projected growth averaging between 1.4 percent and 2.5 percent, is the primary positive driver of CST growth. Conversely, wireless growth rates are expected to be negative in accordance with the current trend data. The weakest base is landline, which is forecasted to decline at 5 percent per annum. The tax base for miscellaneous services is expected to experience growth of around 3.4 percent, slightly higher than the cable base. The base for direct-to-home satellite services is forecasted to grow moderately, moving in a narrow band between 1.9 percent and 2.5 percent throughout the forecast period.

Gross Receipts CST is derived from two different tax rates plus a portion of direct-to-home satellite collections. First, a tax rate of 2.37 percent is applied to the cable, wireless, landline, and miscellaneous services tax bases. Second, an additional tax rate of 0.15 percent is applied to the same tax bases with the exclusion of landlines in residential households. The dollars generated by both of these tax rates, plus 18 percent of total direct-to-home satellite collections, comprise total Gross Receipts CST collections.

Collections of Sales CST are generated by applying a tax rate of 6.65 percent against the cable, wireless, landline, and miscellaneous services tax bases, coupled with 51.63 percent of total direct-to-home satellite collections. The landline tax base is reduced by the residential household telephone exemption for Sales Tax CST. Because the weakening landline base impacts Gross Receipts CST to a greater degree than Sales CST, Sales CST has stronger growth rates. Direct-to-home satellite service is taxed at a 13.17 percent rate. The tax revenue is distributed between Gross Receipts CST, Sales CST, and local governments.

Local Communications Service Tax... The local CST forecast applies an average local CST tax rate of 5 percent to the four major bases (cable, wireless, landline, and miscellaneous services). Like the CST forecasts for Gross Receipts and Sales, the local forecast is expected to decline because of the reduction in the wireless base.

<u>Public Education Capital Outlay and Debt Service (PECO) Trust Fund:</u>

The PECO program provides funding for educational facilities construction and fixed capital outlay needs for school districts, the Florida College System, the State University System, and other public education programs. The table on the following page shows the estimated maximum amount available for appropriation to the PECO program using either cash appropriations only or using maximum bonding capacity. These amounts reflect the results of the August 8, 2014, Revenue Estimating Conference.

Fiscal Year	**Maximum PECO Appropriations $Millions**	
	No Bonding	**Maximum Bonding**
2014-15 (Appropriated Level)	537.1	537.1
2015-16	351.0	2,442.8
2016-17	347.1	350.4
2017-18	387.9	454.6
2018-19	401.5	476.5
2019-20	423.3	474.4

During the 2014 Session, in addition to HB 5601 referenced in the previous section, the Legislature passed another bill related to PECO, and the budget also transferred funds from other sources to the PECO Trust Fund. House Bill 5101 requires the Department of Education to make monthly deposits into a Sinking Fund sub-account within the PECO Trust Fund to ensure sufficient funds are set aside for the payment of debt service in advance of the payment due dates. This policy resulted in a one-time negative impact of $150.1 million to the PECO Trust Fund. The Fiscal Year 2014-15 General Appropriations Act transferred $169.9 million from the General Revenue Fund and $136.2 million from the EETF to the PECO Trust Fund. The post-session PECO estimate incorporated all actions taken during the 2014 Session, including line item vetoes in the amount of $2.5 million. The August PECO estimates were further updated to include actual revenues and expenditures through June 2014, the new Gross Receipts Tax forecast, and expected project disbursements.

Update: In the 2013 Long-Range Financial Outlook, a General Revenue driver was included to supplement the cash available in the PECO Trust Fund. This year's Outlook makes no assumption regarding the Legislature's decision to bond available revenues or spend cash for future PECO appropriations; therefore, no driver is included.

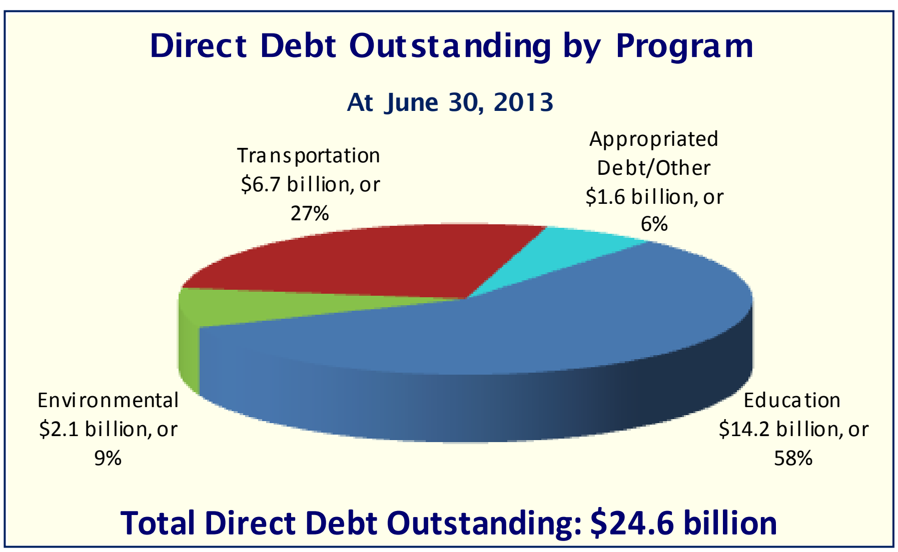
Florida Debt Analysis

Florida law requires an ongoing analysis of the state's debt position. This requirement enables lawmakers to consider the impact of future bond issuances on the state's debt position during the decision-making process. If the state's debt service payment is too high relative to its expected revenues, any additional debt financings could impact the state's credit rating and its borrowing cost. As a component of this analysis, Florida law designates a benchmark debt ratio, calculated as the annual debt service as a percentage of available revenues, and establishes a 6 percent target as well as a 7 percent maximum cap. To exceed the target, the Legislature must determine that additional debt is in the best interest of the state. To exceed the cap, the Legislature must make a declaration of critical state emergency.

The discussion below reflects the key points of the *2013 Debt Affordability Report* prepared by the Division of Bond Finance, covering the period June 30, 2012, to June 30, 2013. Florida's peer group and national median comparisons have been updated to reflect more current information. The Division of Bond Finance will release the *2014 Debt Affordability Report* in December 2014.

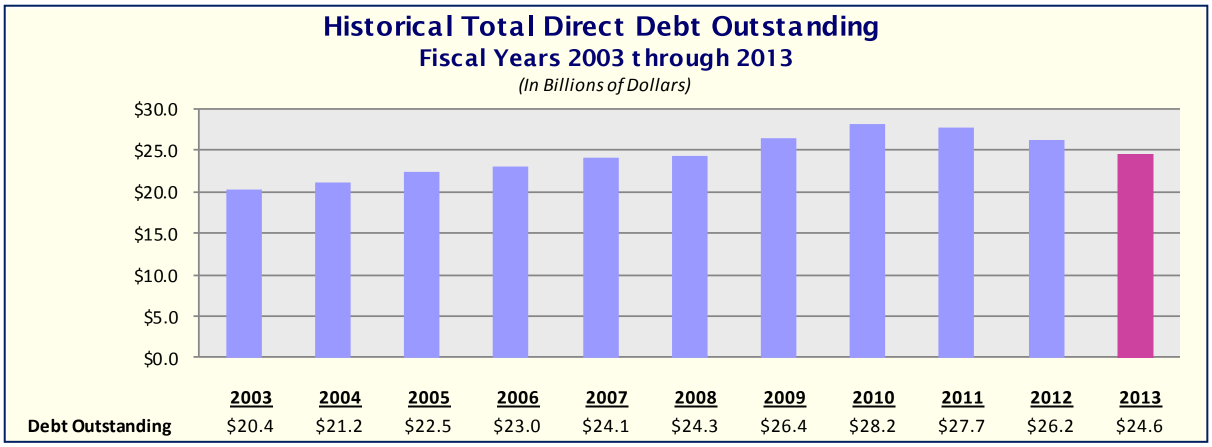
<u>Debt Outstanding</u>

Total state direct debt outstanding was $24.6 billion at June 30, 2013, approximately $1.6 billion less than the prior fiscal year. Net tax-supported debt for programs supported by state tax revenues or tax-like revenues totaled $20.3 billion, and self-supporting debt, representing debt secured by revenues generated from operating bond-financed facilities, totaled $4.3 billion. Additionally, indirect state debt at June 30, 2013, was approximately $13.8 billion, $3.6 billion less than the previous year-end. Indirect debt is either not secured by traditional state revenues or is an obligation of a legal entity other than the state. Indirect debt has become a more significant part of the state's overall debt profile due to borrowings by insurance-related entities such as Citizens Property Insurance Corporation and the Florida Hurricane Catastrophe Fund Finance Corporation; however, indirect debt is not included in state debt ratios or the debt affordability analysis.



Decrease in Debt

Total state debt increased from $20.4 billion in Fiscal Year 2002-03 to $28.2 billion in Fiscal Year 2009-10. Reversing the long-term trend of increases, total state debt declined by approximately $3.6 billion over the last three completed fiscal years ($500 million in Fiscal Year 2010-11, $1.5 billion in Fiscal Year 2011-12 and $1.6 billion in Fiscal Year 2012-13) to $24.6 billion. Total state direct debt outstanding at June 30, 2014, is expected to continue this declining trend.



Estimated Debt Issuance

Approximately $4.9 billion of debt is projected to be issued over the next ten years for all of the state's currently authorized financing programs. This estimate is approximately $865.5 million less than future debt issuance projected at June 30, 2012. The decrease is primarily due to the reduction in planned debt issuance for the PECO program due to lower Gross Receipts Tax collections that limits debt capacity for this program.

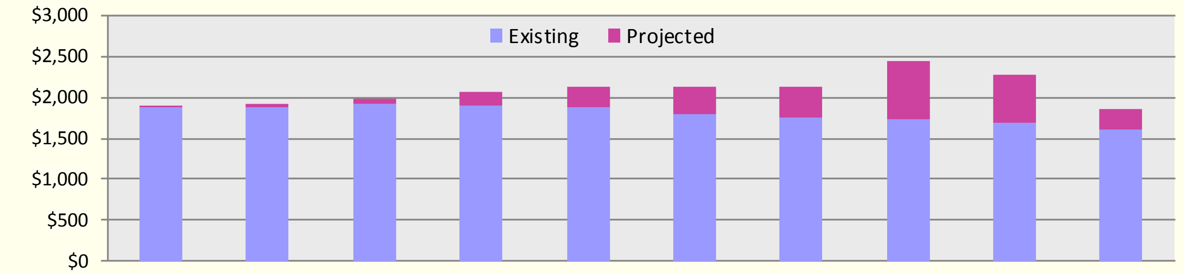
> *Update: During the 2014 Session, the Legislature passed HB 5601, which reduces the sales tax rate for electrical power by 2.65 percent and increases the gross receipts tax rate on electricity by 2.6 percent. This change increases PECO bonding capacity. See the PECO discussion in the Revenue Projections section of the Outlook for additional detail.*

Estimated Annual Debt Service Requirements

Annual debt service is expected to remain at approximately $1.9 billion in Fiscal Year 2013-14 through Fiscal Year 2015-16 and increase in Fiscal Year 2016-17 to approximately $2.1 billion reflecting an increase in mandatory payments on the Department of Transportation's existing long-term P3 contracts and the planned execution of the I-4 Ultimate contract.

Projected Annual Debt Service Next Ten Years

(In Millions of Dollars)

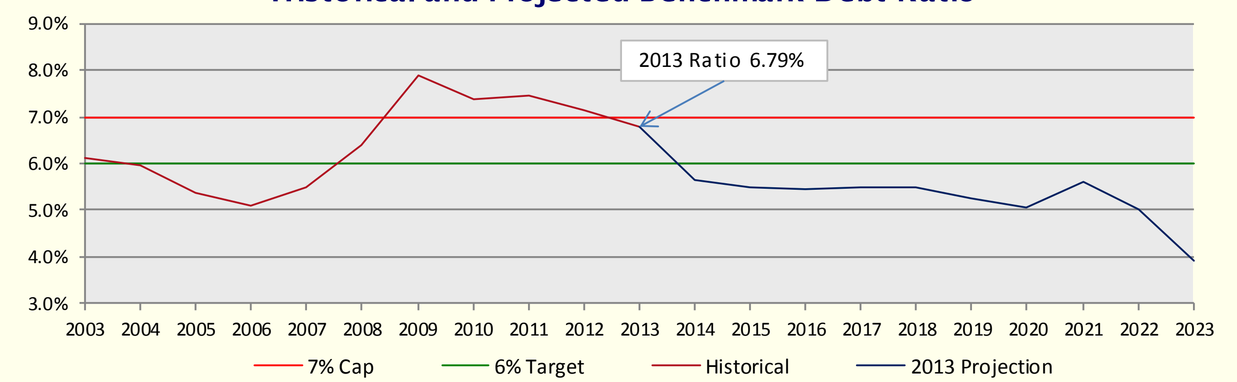


	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Existing	$ 1,877.0	$ 1,877.1	$ 1,919.6	$ 1,898.2	$ 1,874.5	$ 1,801.8	$ 1,754.2	$ 1,730.0	$ 1,698.5	$ 1,596.5
Projected	28.7	51.1	68.9	166.5	260.0	324.6	371.2	718.5	585.0	260.3
Total	$ 1,905.7	$ 1,928.2	$ 1,988.5	$ 2,064.7	$ 2,134.5	$ 2,126.5	$ 2,125.4	$ 2,448.5	$ 2,283.5	$ 1,856.8

Debt Ratios

The state's benchmark debt ratio of debt service to revenues available to pay debt service has improved from 7.14 percent for Fiscal Year 2011-12 to 6.79 percent for Fiscal Year 2012-13. The slight decrease in the benchmark debt ratio reflects the cumulative effects of increases in revenues and decreases in debt service, i.e., increased revenues and decreased annual debt service. The benchmark debt ratio is projected to drop below the 6 percent target in Fiscal Year 2013-14 due to a significant reduction in annual debt service resulting from retirement of the Preservation 2000 bonds. The benchmark ratio is expected to remain flat and below the 6 percent policy target through Fiscal Year 2017-18. The projected benchmark debt ratio could increase if revenues do not grow as anticipated or additional debt is authorized.

Historical and Projected Benchmark Debt Ratio



Benchmark Debt Ratio Projection

	Actual 2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Debt Service as % of Revenue	6.79%	5.57%	5.52%	5.39%	5.36%	5.40%	5.25%	5.08%	5.67%	5.13%	4.03%

A comparison of debt ratios to national and peer group averages indicates that Florida's debt ratios are generally higher than the national average but lower than the peer group averages for all but the benchmark debt ratio. Despite improvement in the state's ranking in the ten-state peer group over the last ten years, it remains in the middle of the peer group. The state remained fifth highest for the ratio of debt service to revenues within the peer group; moved from fifth to sixth highest in debt per capita; and remained sixth highest for debt as a percentage of personal income. The state ranked fifth highest for the ratio of net tax-supported debt as a percentage of State Gross Domestic Product (GDP), an additional metric for comparison.

2012 Comparison of Florida to Peer Group and National Medians

	Net Tax-Supported Debt as a % of Revenues	Net Tax-Supported Debt per Capita	Net Tax-Supported Debt as a % of Personal Income	Net Tax-Supported Debt as a % of GDP
Florida	7.14%	$1,135	2.84%	2.78%
Peer Group Mean	6.62%	$1,725	3.90%	3.46%
National Median	4.90%	$1,074	2.80%	2.47%

Source: *Moody's 2013 State Medians Report* for all states except Florida which is from the 2012 Debt Affordability Study analysis.

Overview of the State's Credit Ratings

The state maintained its credit ratings during the past year: Standard and Poor's affirmed the state's General Obligation rating at AAA, Fitch Ratings affirmed the state's rating at AAA, and Moody's Investors Service affirmed the state's rating of Aa1, all with stable outlooks. Rating agencies continue to recognize the state's conservative financial and budgeting practices and adequate reserves as credit strengths. Over the near term, rating agencies will continue to monitor how Florida's economic recovery affects revenue estimates and the state's ability to maintain adequate reserves, structural budget balance, and the state's ability to responsibly fund the pension system.

In recent years, the rating agencies and investors have placed increasing awareness on the financial challenges presented by defined benefit retirement systems. The status of pension funding is an important aspect of credit rating analysis and assigning credit ratings. The metrics used by the rating agencies to evaluate pension liabilities are similar to the traditional metrics used to evaluate debt obligations. Moody's Investors Service recently published a report on adjusted pension liabilities for states. Florida compared favorably to other states in all Moody's metrics as one of the lowest for the adjusted net pension liability (ANPL). One of Moody's most important points was that the states with the largest unfunded liabilities historically did not fund annual contributions to the pension plan at actuarially indicated levels. In addition, Moody's indicates that six of the ten states with the largest pension liabilities have been downgraded due to the magnitude of the ANPL and lack of management to contain future pension costs.

In a recently released publication, Fitch Ratings also notes that only 40 percent of major statewide pension plans received the full actuarially required contribution in Fiscal Year 2012-13. Although Florida also did not fully fund the actuarially required contribution in Fiscal Year 2012-13, it restored full funding for Fiscal Years 2013-14 and 2014-15. In the same article, Fitch reports that the median calculation for states' long-term liabilities (when combining net tax-supported debt and the unfunded pension liability) is 6.1 percent of each state's personal income. This metric for Florida is 3.3 percent, well below the national median.

Planned Expenditures from Estimated Funds

Recurring ($ millions)	2014-15	2015-16	2016-17	2017-18
General Revenue	27,017.1	27,909.0	28,725.5	29,595.9
annualization		*19.6*	*0.0*	*0.0*
change from drivers		*872.3*	*816.5*	*870.4*
Educational Enhancement TF	1,744.8	1,670.0	1,736.4	1,759.3
change from drivers		*(74.8)*	*66.4*	*22.9*
State School TF	182.4	169.2	184.7	194.6
change from drivers		*(13.2)*	*15.5*	*9.9*
Tobacco Settlement TF	373.6	382.3	383.3	384.9
change from drivers		*8.7*	*1.0*	*1.6*
TOTAL	29,317.9	30,150.1	31,029.9	31,934.7
change from drivers & ann.		*832.2*	*879.8*	*904.8*

Nonrecurring ($ millions)	2014-15	2015-16	2016-17	2017-18
General Revenue	1,407.1	561.4	355.0	387.0
Educational Enhancement TF	136.2	0.0	0.0	0.0
State School TF	74.0	0.0	0.0	0.0
Tobacco Settlement TF	0.0	9.4	0.3	0.0
TOTAL	1,617.3	570.8	355.3	387.0

TOTAL ($ millions)	2014-15	2015-16	2016-17	2017-18
General Revenue	28,424.2	28,470.4	29,080.5	29,982.9
minus nonrecurring		*(1,407.1)*	*(561.4)*	*(355.0)*
plus annualization		*19.6*	*0.0*	*0.0*
plus driver impact		*1,219.2*	*1,165.7*	*1,204.6*
plus BSF impact		*214.5*	*5.8*	*52.8*
net budget impact		46.2	610.1	902.4
Educational Enhancement TF	1,881.0	1,670.0	1,736.4	1,759.3
minus nonrecurring		*(136.2)*	*0.0*	*0.0*
plus annualization		*0.0*	*0.0*	*0.0*
plus driver impact		*(74.8)*	*66.4*	*22.9*
budget impact		(211.0)	66.4	22.9
State School TF	256.4	169.2	184.7	194.6
minus nonrecurring		*(74.0)*	*0.0*	*0.0*
plus annualization		*0.0*	*0.0*	*0.0*
plus driver impact		*(13.2)*	*15.5*	*9.9*
budget impact		(87.2)	15.5	9.9
Tobacco Settlement TF	373.6	391.7	383.6	384.9
minus nonrecurring		*0.0*	*0.0*	*0.0*
plus annualization		*0.0*	*0.0*	*0.0*
plus driver impact		*18.1*	*1.3*	*1.6*
budget impact		18.1	(8.1)	1.3
TOTAL	30,935.2	30,701.3	31,385.2	32,321.7
budget impact		(233.9)	683.9	936.5

Key Budget Driver Worksheet

Long-Range Financial Outlook Issues Summary
Fiscal Year 2015-16 through Fiscal Year 2017-18

	Fiscal Year 2015-16		Fiscal Year 2016-17		Fiscal Year 2017-18	
	Total GR	Total Major TF	Total GR	Total Major TF	Total GR	Total Major TF
Critical Needs (Includes Mandatory Increases Based on Estimating Conferences and Other Essential Needs)						
PRE K - 12 EDUCATION						
1 Maintain Current Budget - Florida Education Finance Program	104.9	(30.8)	(54.9)	54.9	(29.1)	29.1
2 Workload and Enrollment - Florida Education Finance Program	418.6	0.0	464.7	0.0	475.7	0.0
3 Adjustment to Offset Tax Roll Changes - Florida Education Finance Program	(366.9)	0.0	(398.8)	0.0	(434.4)	0.0
4 Workload and Enrollment - Voluntary Prekindergarten Program	2.9	0.0	4.0	0.0	4.0	0.0
HIGHER EDUCATION						
5 Workload and Enrollment - Bright Futures and Children and Spouses of Deceased / Disabled Veterans	0.1	(32.1)	0.2	(28.8)	0.2	(23.4)
6 Educational Enhancement Trust Fund Adjustment	25.1	(25.1)	(55.9)	55.9	(27.2)	27.2
HUMAN SERVICES						
7 Medicaid Program	181.7	(2,053.7)	391.5	769.4	428.0	757.7
8 Kidcare Program	(3.3)	86.1	(23.4)	66.9	2.2	34.6
9 Temporary Assistance for Needy Families Cash Assistance	(5.7)	0.0	0.6	0.0	0.4	0.0
10 Tobacco Settlement Trust Fund Adjustment	(16.8)	16.8	(0.3)	0.3	(0.6)	0.6
11 Tobacco Awareness Constitutional Amendment	0.0	1.3	0.0	1.0	0.0	1.0
CRIMINAL JUSTICE						
12 Criminal Justice Estimating Conference Adjustment	0.0	0.0	9.7	0.0	9.8	0.0
TRANSPORTATION AND ECONOMIC DEVELOPMENT						
13 State Match for Federal Emergency Management Agency Funding - State Disaster Funding (Declared Disasters)	19.9	0.0	8.3	0.0	7.0	0.0
GENERAL GOVERNMENT						
14 Non Florida Retirement System Pensions and Benefits	0.5	0.0	0.5	0.0	0.5	0.0
15 Fiscally Constrained Counties - Property Tax	25.2	0.0	27.4	0.0	29.5	0.0
ADMINISTERED FUNDS AND STATEWIDE ISSUES						
16 Increases in Employer-Paid Benefits for State Employees	38.2	26.6	79.4	55.2	85.6	59.5
17 Increase to Health Insurance Subsidy Contribution Rate	48.7	6.3	0.0	0.0	0.0	0.0
Subtotal Critical Needs	**473.1**	**(2,004.6)**	**453.0**	**974.8**	**551.6**	**886.3**

Long-Range Financial Outlook Issues Summary Fiscal Year 2015-16 through Fiscal Year 2017-18	Fiscal Year 2015-16		Fiscal Year 2016-17		Fiscal Year 2017-18	
	Total GR	Total Major TF	Total GR	Total Major TF	Total GR	Total Major TF
Other High Priority Needs (Includes Other Historically Funded Issues)						
PRE K - 12 EDUCATION						
18 Workload and Enrollment - Florida Education Finance Program	72.3	0.0	63.1	0.0	19.5	0.0
19 Workload and Enrollment - Other Pre K-12 Programs	4.5	0.0	4.5	0.0	4.5	0.0
HIGHER EDUCATION						
20 Maintain Current Budget	9.1	0.0	4.0	0.0	0.0	0.0
21 Workload - Florida Colleges	18.4	0.0	18.4	0.0	18.4	0.0
22 Workload - State Universities	126.9	0.0	126.9	0.0	126.9	0.0
23 Workload - Other Higher Education Programs	21.6	0.0	22.0	0.0	22.3	0.0
24 Anticipated New Space Costs for Colleges and Universities	13.3	0.0	15.1	0.0	15.1	0.0
HUMAN SERVICES						
25 Medicaid Waivers	10.2	0.0	10.2	0.0	10.2	0.0
26 Children and Family Services	54.3	0.0	49.5	0.0	49.5	0.0
27 Health Services	17.1	4.2	17.1	4.2	17.1	4.2
28 Developmental Disabilities	8.4	0.0	8.4	0.0	8.4	0.0
29 Elderly Services	5.0	0.0	5.0	0.0	5.0	0.0
30 Human Services Information Technology/Infrastructure	6.5	4.4	0.0	0.0	0.0	0.0
CRIMINAL JUSTICE						
31 State Attorney, Public Defender, and Regional Conflict Counsel Workload Increases	1.4	0.0	1.4	0.0	1.4	0.0
32 Department of Juvenile Justice - Prevention and Intervention Programs	6.6	0.0	6.6	0.0	6.6	0.0
33 State Courts Trust Fund Revenue Shortfall	13.5	0.0	0.9	0.0	0.0	0.0
34 Small County Courthouses	4.1	0.0	4.1	0.0	4.1	0.0
TRANSPORTATION AND ECONOMIC DEVELOPMENT						
35 Department of Transportation Adopted Work Program (Fiscal Years 2015-2018)	0.0	7,309.7	0.0	6,584.4	0.0	6,252.3
36 Economic Development and Workforce Programs	2.8	101.6	2.8	101.6	2.8	101.6
37 National Guard Armories and Military Affairs Priorities	16.6	0.0	4.1	0.0	4.1	0.0
38 Library, Cultural, Historical, and Election Priorities	38.2	0.0	39.1	0.0	38.2	0.0
NATURAL RESOURCES						
39 Environmental Programs Funded with Documentary Stamp Tax	18.1	59.1	18.1	49.4	18.1	51.3
40 Environmental Land Acquisition and Restoration	46.3	37.9	46.3	39.1	46.3	39.0
41 Other Agriculture and Environmental Programs	107.6	0.2	106.4	0.2	106.9	0.2
GENERAL GOVERNMENT						
42 Other General Government Priorities	5.5	9.8	30.1	19.8	23.4	20.2
43 State Building Pool - General Repairs and Maintenance	13.2	7.6	13.2	7.6	13.2	7.6
ADMINISTERED FUNDS AND STATEWIDE ISSUES						
44 State Employee Pay Issues	63.8	36.1	63.8	36.1	63.8	36.1
45 Maintenance, Repairs, and Capital Improvements - Statewide Buildings - Critical	40.8	4.3	31.6	4.3	27.2	4.3
Subtotal Other High Priority Needs	**746.1**	**7,574.9**	**712.7**	**6,846.7**	**653.0**	**6,516.8**
Total Tier 1 - Critical Needs	473.1	(2,004.6)	453.0	974.8	551.6	886.3
Total - Other High Priority Needs	746.1	7,574.9	712.7	6,846.7	653.0	6,516.8
Total Tier 2 - Critical Needs Plus Other High Priority Needs	1,219.2	5,570.3	1,165.7	7,821.5	1,204.6	7,403.1

Key Budget Drivers

Beginning with the Fiscal Year 2012-13 volume of the Long-Range Financial Outlook, the narrative sections were changed from a general discussion of each policy area found in the budget to a specific analysis linked to each of the key budget drivers. The numbering convention used below matches the numbers applied to each of the drivers on the Key Budget Driver Worksheet. As on the Worksheet, Critical Needs are discussed first. They are followed by the Other High Priority Needs.

Critical Needs

Pre K-12 Education (Drivers #1 - #4)

NOTE: The Fiscal Year 2014-15 General Appropriations Act provides funding through the Florida Education Finance Program (FEFP) in the amount of $6,944 in total funds per unweighted full-time equivalent (FTE) student. Key Budget Drivers #1 through #3 reflect the total state funding necessary to maintain the Fiscal Year 2014-15 level of funding throughout the forecast period.

1. Maintain Current Budget – Florida Education Finance Program

The FEFP is the funding formula used by the Legislature to allocate funds appropriated to school districts for K-12 public school operations. The FEFP implements the constitutional requirement for a uniform system of free public education and is an allocation model based on student enrollment in educational programs. In order to ensure equalized funding per student, the FEFP is composed of state and local funds and takes into account the individual educational needs of students; the local property tax base; the costs of educational programs; district cost differentials; and sparsity of student population.

The Outlook provides a total of $104.9 million in recurring General Revenue funds as Critical Needs funding in Fiscal Year 2015-16 in order to maintain the Fiscal Year 2014-15 FEFP budget. First, $74.0 million is provided to restore nonrecurring funds appropriated for the FEFP in Fiscal Year 2014-15. Second, account had to be taken of the available revenues in trust funds used to support education. The revenue estimating conferences held in July and August 2014 reduced the estimated revenues in both the Educational Enhancement Trust Fund (EETF) and the State School Trust Fund (SSTF). The SSTF is appropriated exclusively in the K-12 system; EETF funds are distributed across both the K-12 and higher education systems. The reduction in estimated revenue as compared to recurring appropriations results in an increased need for General Revenue funds in the K-12 system in Fiscal Year 2015-16 of approximately $30.8 million to offset adjustments made to the EETF appropriations of $17.6 million and the SSTF appropriations of $13.2 million.

The combined reduction in estimated EETF revenue as compared to recurring appropriations from the EETF (after maintaining a reserve of $57.8 million, as has been done in prior fiscal periods) between Fiscal Years 2014-15 and 2015-16 is $74.8 million. The $32.1 million decrease in estimated EETF appropriations for the Bright Futures program (Driver #5) in Fiscal Year 2015-16, reduces the overall fund shift from EETF to General Revenue to $42.7 million for

Fiscal Year 2015-16. This fund shift is split between K-12 and higher education programs based on the proportionate share of appropriated EETF funds in Fiscal Year 2014-15, and an equivalent amount of General Revenue funds is provided for Fiscal Year 2015-16. In the K-12 system, $17.6 million is shifted from the EETF to General Revenue with the remaining balance of $25.1 million shifted to General Revenue in the higher education system (Driver #6).

2. Workload and Enrollment – Florida Education Finance Program

Local ad valorem funds and state funds, including General Revenue and available EETF and SSTF revenues, are provided as Critical Needs funding for projected enrollment growth in the FEFP.

Enrollment growth for the three forecast years is based on estimates from the July 2014 Education Estimating Conference. Enrollment growth is estimated to cost $51.7 million for the additional 13,224 FTE in Fiscal Year 2015-16, $65.9 million for the additional 16,855 FTE in Fiscal Year 2016-17, and $41.3 million for the additional 10,566 FTE in Fiscal Year 2017-18. Enrollment over the three-year forecast period is estimated to increase in total by 40,645 FTE.

In addition to funding enrollment growth, increases of $366.9 million, $398.8 million, and $434.4 million from recurring General Revenue are provided in Fiscal Years 2015-16, 2016-17, and 2017-18, respectively, to offset the reduction in state funding shown in Driver #3, which results from the growth in ad valorem revenues.

As a result, the Outlook includes a total of $418.6 million, $464.7 million, and $475.7 million for 2015-16, 2016-17, and 2017-18, respectively, to maintain the total state funds per student compared to the prior year, including forecasted enrollment growth, as shown in the table below.

	Fiscal Year 2015-16	Fiscal Year 2016-17	Fiscal Year 2017-18
Workload and Enrollment – FEFP	$418.6 million	$464.7 million	$475.7 million

3. Adjustment to Offset Tax Roll Changes – Florida Education Finance Program

The FEFP allocates funding to school districts for K-12 public school operations based on shares of state funds and local funds generated from ad valorem revenues. In order to ensure equalized funding, the FEFP takes into account the local property tax base while adjusting state funding to each district based on the district's ability to generate local ad valorem revenues. Each school district participating in the state allocation of funds for the current operation of schools must levy the millage set for its Required Local Effort (RLE) from property taxes. The Legislature establishes the total statewide amount for the RLE annually in the General Appropriations Act. Each district's millage rate is subsequently determined by the Commissioner of Education based on the statewide average following certification of the school taxable value by the Department of Revenue.

Funding projections for the FEFP are based on maintaining the Fiscal Year 2014-15 certified millage rates (i.e., 5.089 RLE and .748 potential discretionary) throughout the three-year forecast period. The tax rolls for Fiscal Years 2015-16 through 2017-18, as projected by the August 2014 Revenue Estimating Conference, provide increased taxable value. As a result, over the three-year forecast period, there is an increase in ad valorem revenue for public schools with a commensurate reduction in state funds. However, because Workload and Enrollment (Driver #2) provides funding to maintain state funds per FTE in the forecast Fiscal Years, the reduction in state funding is offset.

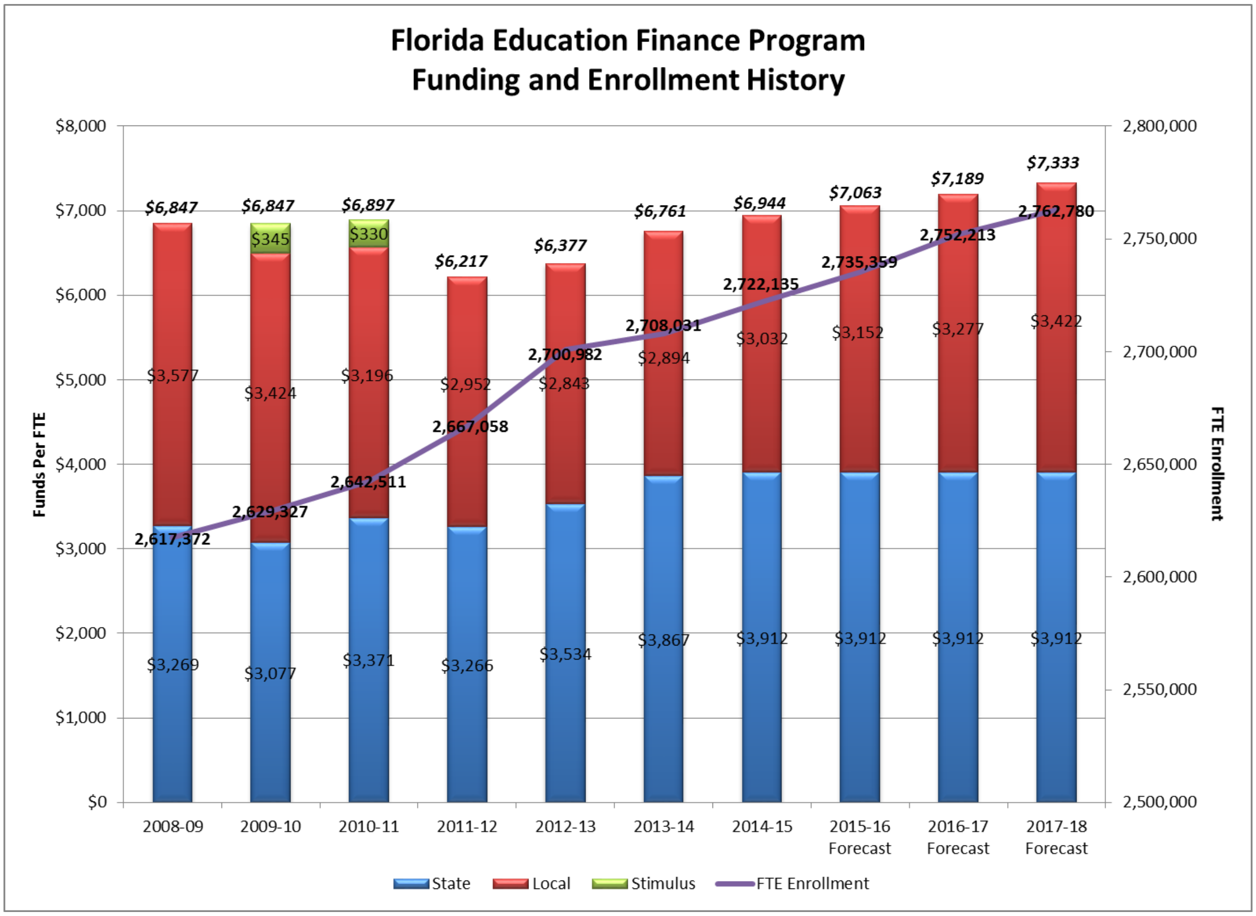
Ad Valorem Revenue	**Fiscal Year 2014-15***	**Fiscal Year 2015-16**	**Fiscal Year 2016-17**	**Fiscal Year 2017-18**
School Taxable Value Growth		4.77%	4.89%	5.11%
FEFP Local Revenue	$8,254 million	$8,621 million	$9,020 million	$9,454 million
Increase in Ad Valorem Revenue		$366.9 million	$398.8 million	$434.4 million
Adjustment to Offset Tax Roll Changes		($366.9) million	($398.8) million	($434.4) million

* 2014-15 is based on the FEFP 2nd calculation using the certified school taxable value and millage rate.

The combination of Key Budget Drivers #1 through #3 maintains the level of total state funds per student for Fiscal Years 2015-16 through 2017-18.

Key Budget Drivers #1 - #3 Results	**Fiscal Year 2015-16**	**Fiscal Year 2016-17**	**Fiscal Year 2017-18**
Maintain Current Budget	$74.0 million	$0	$0
Workload and Enrollment	$418.6 million	$464.7 million	$475.7 million
Adjustment to Offset Tax Roll Changes	($366.9) million	($398.8) million	($434.4) million
FEFP State Funds Needed in the Outlook	**$125.8 million**	**$65.9 million**	**$41.3 million**

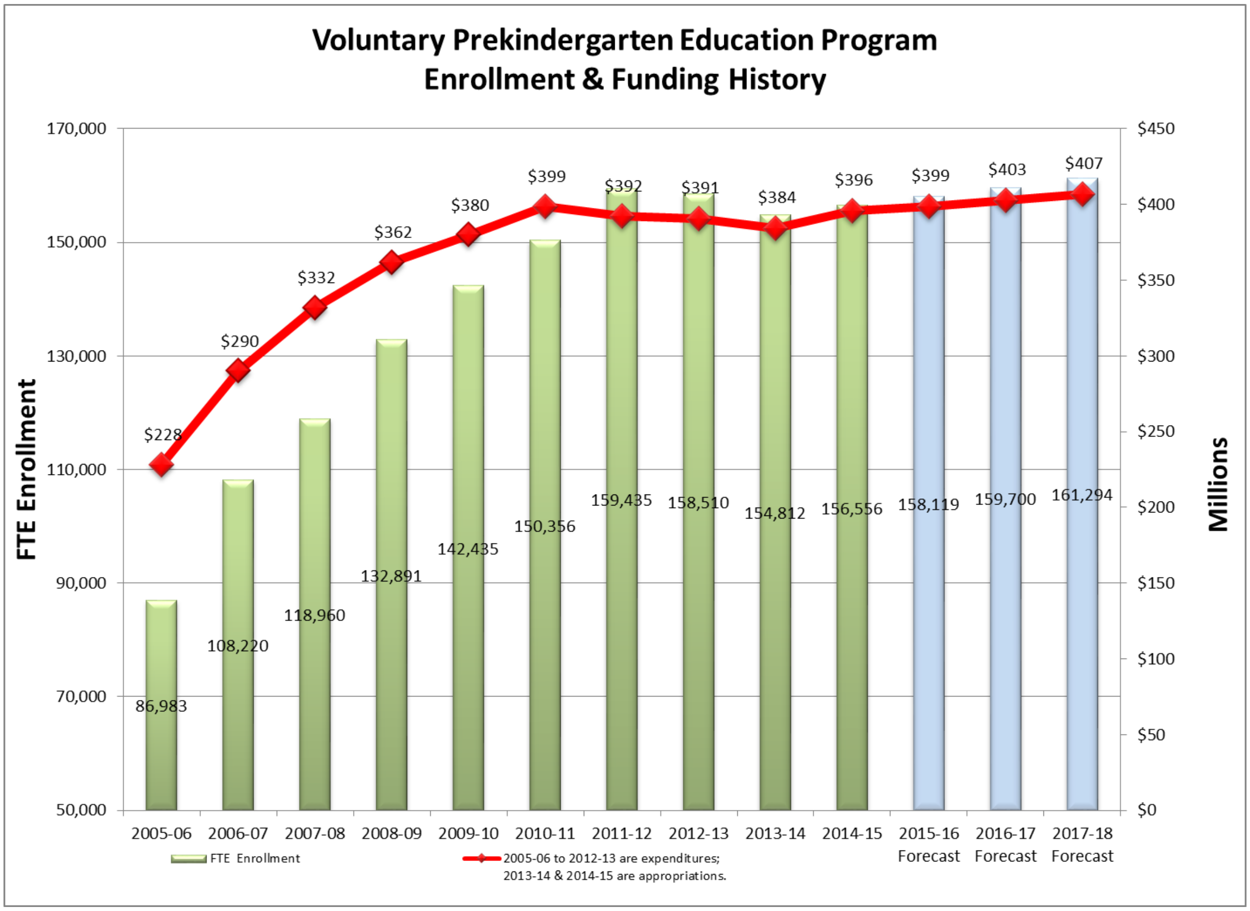
[SEE GRAPH ON FOLLOWING PAGE]



4. Workload and Enrollment – Voluntary Prekindergarten Education Program

The Voluntary Prekindergarten Education (VPK) program is a free prekindergarten education program established by the Legislature in 2004 pursuant to an amendment to the state constitution. Enrollment is voluntary, and the program is offered to eligible Florida resident four-year-old children by either public schools or private providers. Effectiveness of the program is determined by a kindergarten screening that assesses the readiness of each child upon entry to kindergarten. Each readiness coalition receives appropriated funds for the VPK program by assigning either a summer or regular school year base student allocation to the number of FTE students forecasted to be served in each region which is then adjusted by a cost differential and a four percent administrative factor.

Critical Needs funding from state sources is projected for enrollment increases in the VPK program as determined by the July 2014 Early Learning Programs Estimating Conference. Enrollment changes are estimated to cost $2.9 million based on a projected increase of 1,563 FTE in Fiscal Year 2015-16, $4.0 million for an additional 1,581 FTE in Fiscal Year 2016-17, and $4.0 million for an additional 1,594 FTE in Fiscal Year 2017-18. Total enrollment growth over the three-year forecast period is estimated to be 4,738 FTE. Funding per student is maintained at the Fiscal Year 2014-15 base student allocation (BSA) amount of $2,437 for the school year program and $2,080 for the summer program for each of the forecast years.

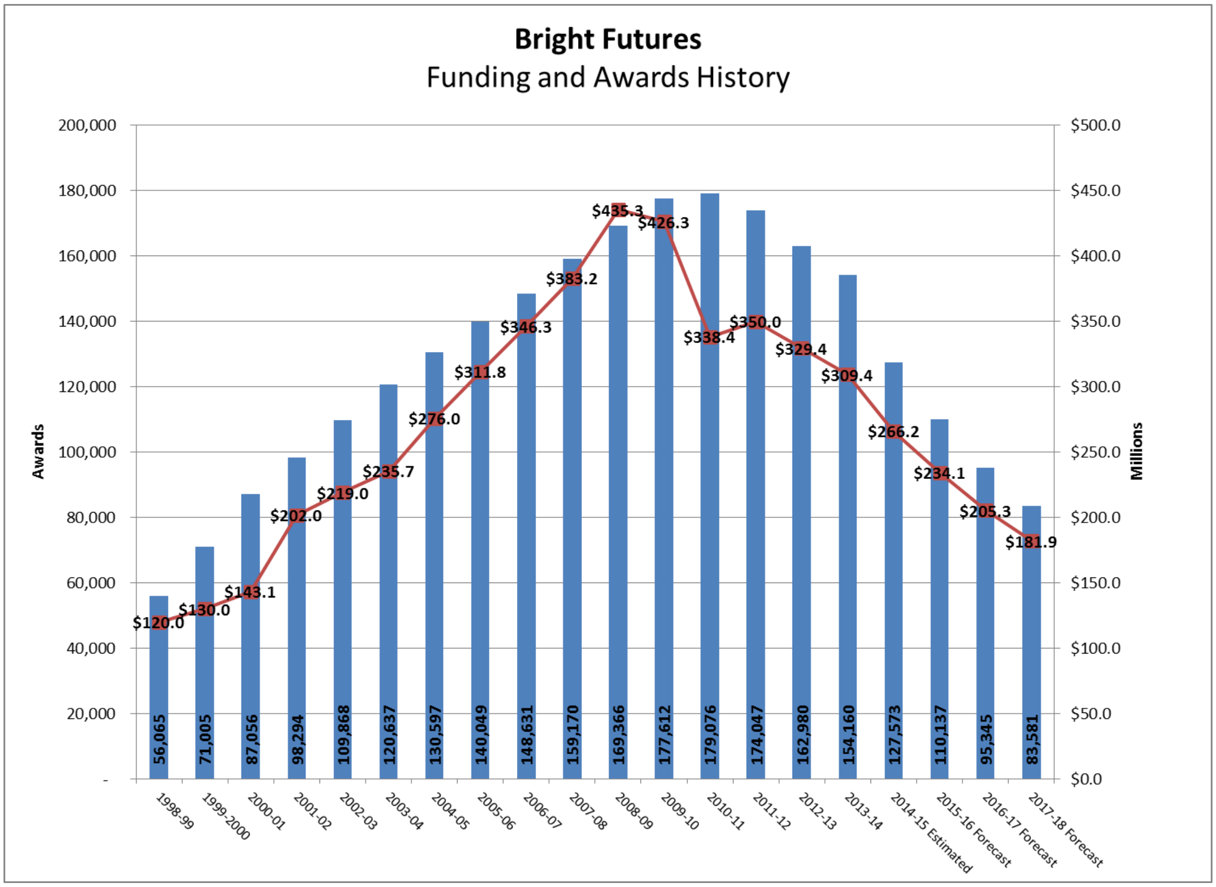


Higher Education (Drivers #5 & #6)

5. Workload and Enrollment – Bright Futures and Children and Spouses of Deceased/ Disabled Veterans

The Bright Futures Scholarship program is a merit-based scholarship program that provides college scholarships to students who achieve certain academic levels in high school. Critical Needs funding is projected for the Bright Futures program based on the number of eligible recipients projected by the March 2014 Student Financial Aid Education Estimating Conference through Fiscal Year 2017-18. The forecast projects 43,992 fewer eligible students for Bright Futures over the three-year period due to increased eligibility requirements for the awards. The decline in eligible enrollment results in a decrease of EETF funding needed for the program of $32.1 million in Fiscal Year 2015-16, $28.8 million in Fiscal Year 2016-17, and $23.4 million in Fiscal Year 2017-18.

[SEE GRAPH ON FOLLOWING PAGE]



The Children and Spouses of Deceased/Disabled Veterans (CSDDV) Scholarship program provides scholarships for dependent children or unremarried spouses of Florida veterans or service members who died as a result of service-connected injuries, diseases, or disabilities sustained while on active duty or who have been certified by the Florida Department of Veterans Affairs as having service-connected 100 percent permanent and total disabilities. Increased recurring General Revenue funding of $145,469 in Fiscal Year 2015-16, $151,864 in Fiscal Year 2016-17, and $158,432 in Fiscal Year 2017-18 is provided for CSDDV eligible recipients. Increased funding is based on a three-year average growth rate reflecting increased participation in the program of 2.9 percent for each year of the Outlook. To comply with statutory requirements, additional funding is included to account for the three-year average tuition rate increases.

6. Educational Enhancement Trust Fund Adjustment

The combined reduction in estimated EETF revenue as compared to recurring appropriations from the EETF (after maintaining a reserve of $57.8 million, as has been done in prior fiscal periods) between Fiscal Years 2014-15 and 2015-16 is $74.8 million. The $32.1 million decrease in estimated EETF appropriations for the Bright Futures program (Driver #5) in Fiscal Year 2015-16, reduces the overall fund shift from EETF to General Revenue to $42.7 million for Fiscal Year 2015-16. This fund shift is split between K-12 and higher education programs based on the proportionate share of appropriated EETF funds in Fiscal Year 2014-15, and an equivalent amount of General Revenue funds is provided for Fiscal Year 2015-16. In the higher education system, $25.1 million is shifted from the EETF to General Revenue with the remaining balance of $17.6 million shifted to General Revenue in the K-12 system (Driver #1).

Human Services (Drivers #7 - #11)

7. Medicaid Program

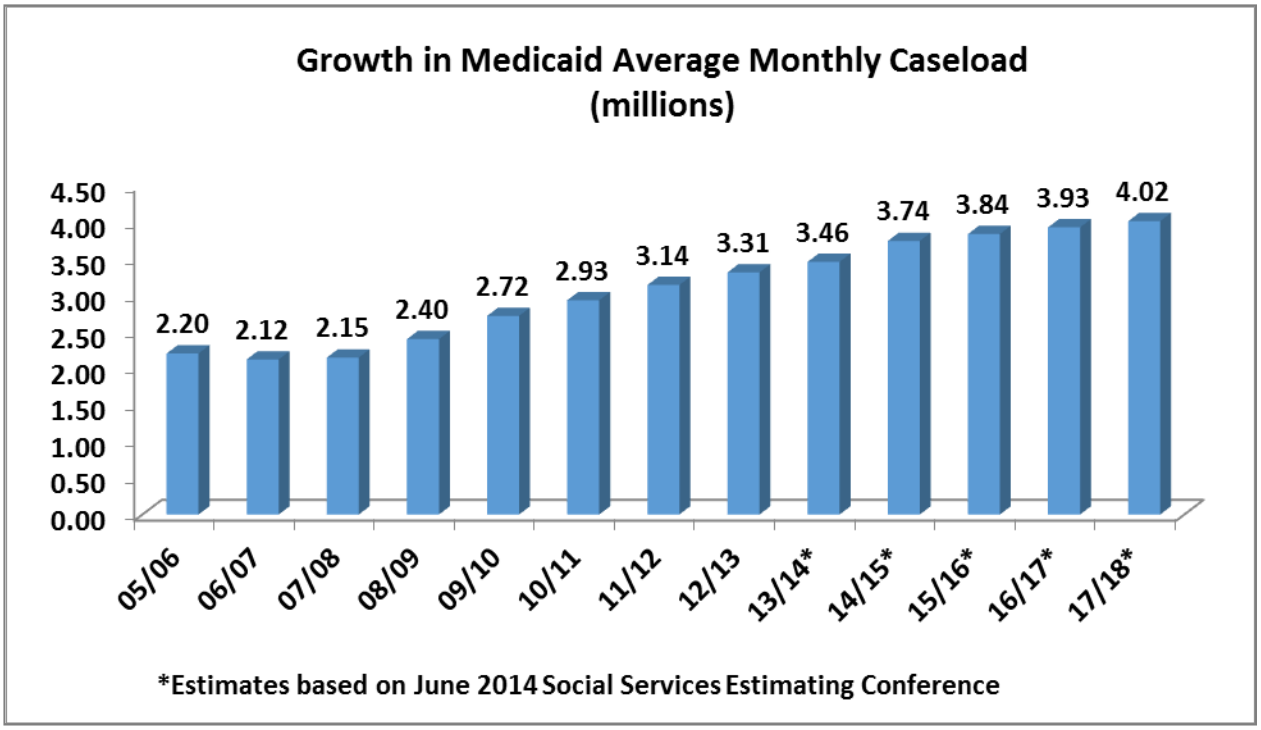
The Medicaid program (Title XIX of the Social Security Act) provides health care coverage to certain persons who qualify as low-income children, elderly, disabled, or families with dependent children. Medicaid is a federal and state matching program. It is the largest single program in the state budget, representing 30.6 percent of the total state budget and is also the largest source of federal funding for the state.

Caseload - In Fiscal Year 2014-15, Medicaid caseloads enrollment is expected to grow to 3.74 million beneficiaries, an 8.2 percent increase from Fiscal Year 2013-14. This increase includes approximately 45,527 additional enrollees who will be required to transition from the Children's Health Insurance Program (CHIP) into Medicaid, under the federal Patient Protection and Affordable Care Act (PPACA). Existing enrollees began transitioning into Medicaid in June 2014.

Currently, children in low-income families may be eligible for Kidcare without also qualifying for Medicaid. Children under 138 percent Federal Poverty Level (FPL) will be required to move from the Kidcare program to the Medicaid program, resulting in the estimated 45,527 children transitioning to Medicaid in Fiscal Year 2014-15. Included in the Outlook for Fiscal Year 2015-16 is an increase of 4,043 children, for a total of 49,570 children who will be eligible for Medicaid instead of CHIP.

Enrollment is expected to continue increasing in the forecast years, but at slower rates than in the 2014-15 fiscal year. The Fiscal Year 2014-15 projection was atypically impacted – not only by the changes related to CHIP discussed earlier, but also by the coding modifications to the FLORIDA system, the impact of woodworking (i.e., those eligible but not enrolled) and new entrants through the federal health insurance exchange, as well as the yet-to-be-quantified impact of the transition to the use of the Modified Adjusted Gross Income (MAGI) as the basis for the Medicaid eligibility determination. Enrollment in Fiscal Year 2015-16 is forecast to rise to 3.84 million beneficiaries, an increase of 2.5 percent from the previous year. Enrollment is forecast to increase to 3.93 million beneficiaries in Fiscal Year 2016-17, a 2.4 percent increase over the previous year. Medicaid enrollment is expected to increase again in Fiscal Year 2017-18 to 4.02 million beneficiaries, a 2.2 percent increase over the previous year.

[SEE GRAPH AND TABLE ON FOLLOWING PAGE]

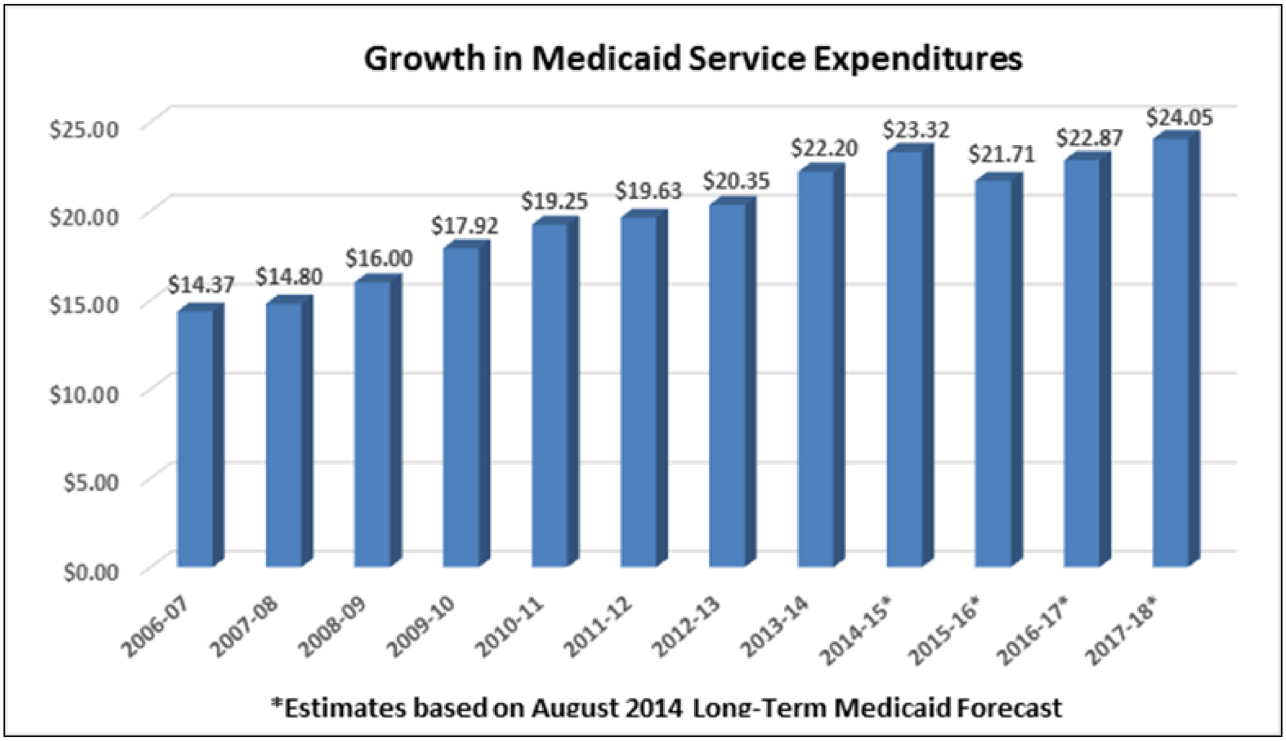


Medicaid Caseload Estimates

	Fiscal Year 2014-15	Fiscal Year 2015-16	Fiscal Year 2016-17	Fiscal Year 2017-18
Caseload	3,743,770	3,839,027	3,929,738	4,015,254
Increase		95,257	90,711	85,516
Percent		2.54%	2.36%	2.18%

Expenditures - In Fiscal Year 2014-15, Medicaid expenditures are expected to increase to $23.32 billion. Total Medicaid expenditures are expected to decrease to $21.71 billion in Fiscal Year 2015-16, a 6.9 percent decrease from the previous fiscal year. The overall decrease in Fiscal Year 2015-16 is primarily attributable to a reduction related to the LIP program. The federal CMS extended the LIP waiver for one year only, from July 1, 2014, through June 30, 2015. It is unknown if CMS will reauthorize this program; therefore, continuation funding has not been included in the forecast for Fiscal Years 2015-16 through 2017-18. In Fiscal Year 2016-17, expenditures are expected to increase to $22.87 billion, a 5.3 percent increase, and expenditures of $24.05 billion are expected for Fiscal Year 2017-18, an increase of 5.2 percent over Fiscal Year 2016-17.

Included within the PPACA provisions is a requirement for states to increase Medicaid reimbursement rates for primary care services provided by primary care practitioners to 100 percent of the Medicare reimbursement rate during calendar years 2013 and 2014. This increase is 100 percent federally funded for those two calendar years. That is, the federal government is funding 100 percent of the difference between Medicare rates and the state's preexisting rates during 2013 and 2014. Included within the Fiscal Year 2014-15 budget is $308.1 million in federal funding authority to address this requirement for six months of the fiscal year, through December 31, 2014.



Medicaid Expenditure Estimates for General Revenue*
(dollars in millions)

	Appropriation Base**	Fiscal Year 2015-16	Fiscal Year 2016-17	Fiscal Year 2017-18
FMAP Rate	59.56%	59.53%	59.53%	59.56%
Expenditures				
General Revenue	$5,292.7 **	$5,474.1	$5,865.6	$6,293.9
Increase		$181.4	$391.5	$428.4
Percent		3.43%	7.15%	7.30%

* Estimate based on August 2014 Social Services Estimating Conference and does not include $356,423 in state matching funds in other departments for Fiscal Year 2015-16; no adjustment for Fiscal Year 2016-17; and ($356,422) in Fiscal Year 2017-18.

** Reflects the Fiscal Year 2014-15 recurring appropriation plus annualizations.

The Outlook includes an increase in recurring General Revenue funds for Medicaid expenditures of $181.7 million in Fiscal Year 2015-16, $391.5 million in Fiscal Year 2016-17, and $428.0 million in Fiscal Year 2017-18. This includes Medicaid state matching funds that are budgeted in other health and human services departments. The Outlook also includes an increase in recurring General Revenue funds for these agencies in the amounts of $356,423 in Fiscal Year 2015-16, no funding adjustment for Fiscal Year 2016-17, and a reduction of $356,422 in Fiscal Year 2017-18 due to changes in the Federal Medical Assistance Percentage (FMAP) rate, which is the federal financial participation rate.

Major policy assumptions and projections for Critical Needs related to Medicaid expenditures for the forecast period are described below:

> **Social Services Estimating Conference** – The estimated costs for caseload growth, utilization, FMAP, and inflation were projected based on historical trends and methodologies used by the August 2014 SSEC.
>
> **Medicaid Managed Care** – Chapter 2011-134, Laws of Florida, directed the AHCA to implement a Medicaid managed care program as a statewide, integrated managed care program for all covered medical assistance services and long-term care services. Full implementation is required by October 2014. For the long-term care component, the agency submitted a 1915 (b)/(c) combination waiver request and received federal approval in February 2013. The agency selected seven managed care plans with contract execution beginning in May 2013. The long-term care component has been fully implemented statewide.
>
> For the statewide managed medical assistance component, the agency submitted an amendment to the 1115 Medicaid Reform Demonstration Waiver that operated in Baker, Broward, Clay, Duval, and Nassau counties, beginning in 2006, and received approval from federal CMS to expand statewide in June 2013. The waiver was subsequently renewed on July 31, 2014 for a three year period. The agency has contracted with 20 managed care plans (including specialty plans) for the managed medical assistance component, began enrollments in May 2014, and completed statewide implementation in August 2014.

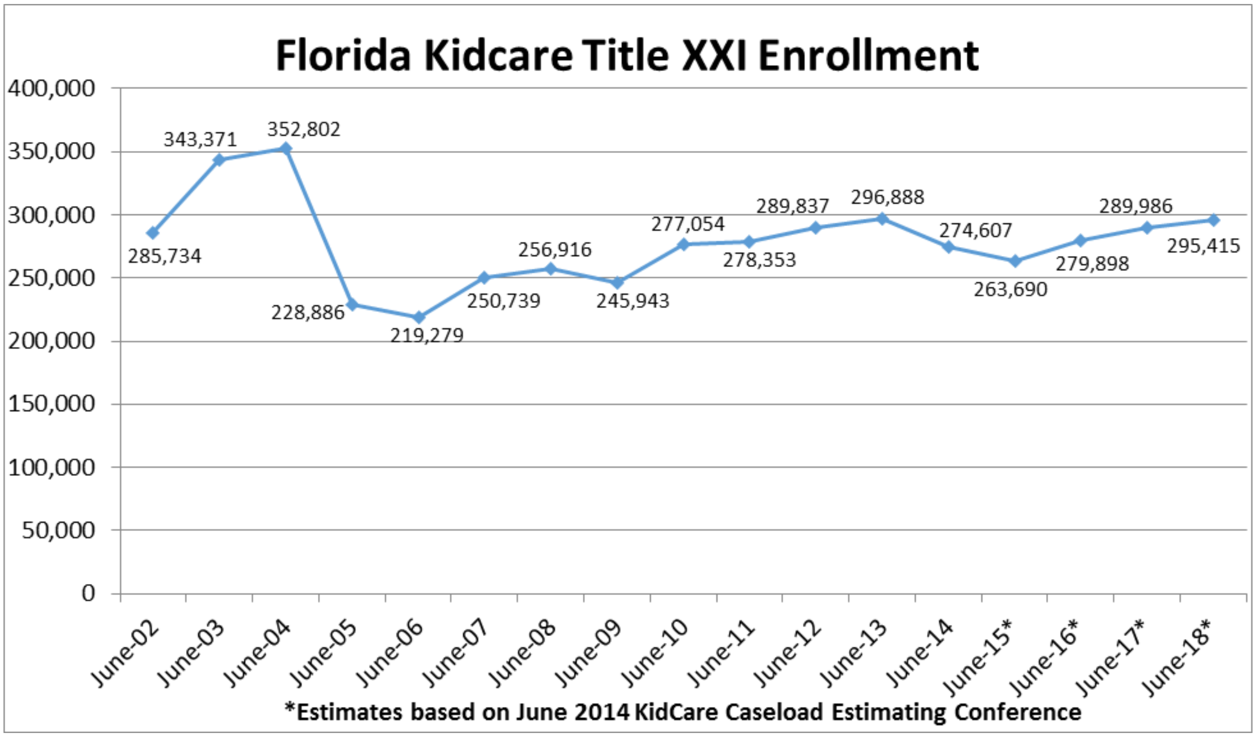
8. Kidcare Program

Kidcare is the state's children's health insurance program provided under the federal CHIP (Title XXI of the Social Security Act). The Kidcare program provides health insurance primarily targeted to uninsured, low-income children under age 19 whose family income is at or below 200 percent of the FPL ($47,700 for a family of four in 2014). The CHIP is a federal and state matching program. The state participation for Florida is 28.36 percent and the federal participation is 71.64 percent for Fiscal Year 2014-15. The Title XXI caseload as of June 2014 was 241,559. There were 33,048 additional children enrolled in the program who are non-Title XXI eligible, for a total program enrollment of 274,607.

Children under 138 percent FPL who were formerly enrolled in Kidcare will be required to move from the Kidcare program to the Medicaid program. As a result, approximately 45,527 children will become Medicaid eligible and will transfer to Medicaid in State Fiscal Year 2014-15. Caseload estimates for Kidcare include decreases in future years for this mandatory transfer of children from Kidcare to Medicaid. Beginning in Fiscal Year 2015-16, an additional 4,043 children will transition from Kidcare to Medicaid, for a total of 49,570.

The PPACA provides that, effective October 1, 2015, through September 30, 2019, the FMAP for children enrolled in the Kidcare program will rise by 23 percentage points but will not exceed 100 percent. This will cause Florida's weighted Kidcare FMAP to increase to an estimated 88.92

percent in Fiscal Year 2015-16, 94.57 percent in Fiscal Year 2016-17, and 94.52 percent in Fiscal Year 2017-18. These increases in the Kidcare FMAP will be accompanied by significant reductions in the state funds required for the Kidcare program during the forecast years. The charts below reflect caseload numbers as of June 30 of each year, while the expenditures reflect estimates adopted by the Social Services Estimating Conference.



Kidcare Program Estimates
(dollars in millions)

	Fiscal Year 2014-15	Fiscal Year 2015-16	Fiscal Year 2016-17	Fiscal Year 2017-18
Caseload	263,690	279,898	289,986	295,415
Increase		16,208	10,088	5,429
Percent		6.15%	3.60%	1.87%

	Appropriation Base*	Fiscal Year 2015-16	Fiscal Year 2016-17	Fiscal Year 2017-18
Expenditures				
FMAP Rate**	71.64%	88.92%	94.57%	94.52%
General Revenue	$55.1	$51.8	$28.4	$30.6
Increase/(Decrease)		($3.3)	($23.4)	$2.2
Percent		(6.0%)	(45.17%)	7.75%

* Reflects the Fiscal Year 2014-15 recurring appropriation plus annualizations.
** Weighted FMAP

The Outlook includes a decrease in recurring General Revenue funds for Kidcare expenditures of $3.3 million in Fiscal Year 2015-16, a decrease of $23.4 million in Fiscal Year 2016-17, and an increase of $2.2 million in Fiscal Year 2017-18.

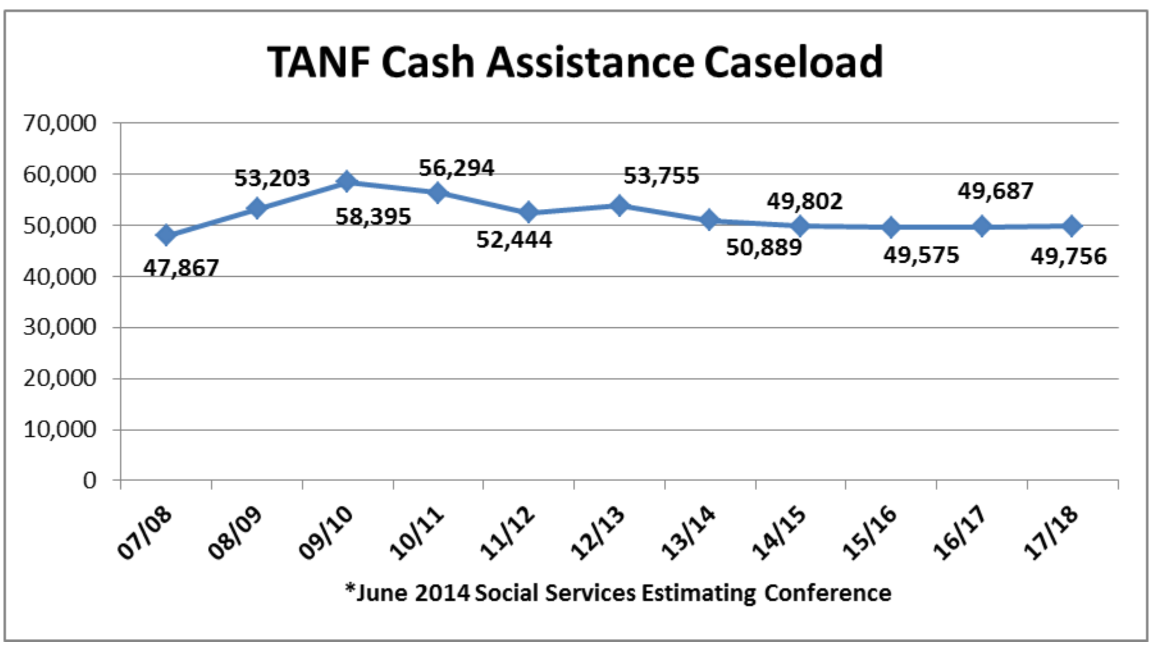
Major policy assumptions and projections for Critical Needs related to Kidcare expenditures for the forecast period are described below:

- **Social Services Estimating Conference** – The estimated costs for caseload growth, utilization, FMAP, and inflation were projected based on historical trends and methodologies used by the June 2014 SSEC.

9. Temporary Assistance for Needy Families Cash Assistance

The welfare reform legislation of 1996 ended the federal entitlement to assistance and created the Temporary Assistance for Needy Families (TANF) block grant that provides assistance and work opportunities to needy families. Florida's federal block grant allotment is $562.3 million for Fiscal Year 2014-15.

The Outlook includes a decrease in recurring General Revenue funds for TANF expenditures of $5.7 million in Fiscal Year 2015-16 primarily due to a projected decline in caseload. The Outlook includes an increase of $0.6 million and $0.4 million in recurring General Revenue funds in Fiscal Year 2016-17 and Fiscal Year 2017-18, respectively.



Cash Assistance Estimates
(dollars in millions)

	Fiscal Year 2014-15	Fiscal Year 2015-16	Fiscal Year 2016-17	Fiscal Year 2017-18
Caseload	49,802	49,575	49,687	49,756
Increase/(Decrease)		(227)	112	69
Percent		(0.4%)	(0.2%)	0.1%

	Appropriation Base*	Fiscal Year 2015-16	Fiscal Year 2016-17	Fiscal Year 2017-18
Total Program Expenditures	$164.1	$158.4	$159.0	$159.4
Increase/(Decrease)		($5.7)	$0.6	$0.4
Percent		(3.47%)	0.38%	0.25%

*Reflects the Fiscal Year 2014-15 recurring appropriation plus annualizations.
Source: June 2014 Social Services Estimating Conference

Major policy assumptions and projections for TANF cash assistance for the forecast period are described below:

- **Social Services Estimating Conference** – Estimates for cash assistance were projected based on historical trends and methodologies used by the June 2014 SSEC.

10. Tobacco Settlement Trust Fund Adjustment

The Outlook maximizes the use of estimated available state trust funds. Adjustments are made to General Revenue funds based on projected funds available in the Tobacco Settlement Trust Fund over the three-year forecast period. The Outlook also maintains a reserve of $13.5 million for Fiscal Year 2015-16 and $13.2 million in Fiscal Years 2016-17 and 2017-18. This adjustment is distributed within the Health and Human Service program area.

11. Tobacco Awareness Constitutional Amendment

A constitutional amendment passed on the November 2006 ballot that required the Florida Legislature to annually fund a comprehensive, statewide tobacco education and prevention program. The program uses tobacco settlement money primarily to target youth and other at-risk Floridians. The annual funding requirement is 15 percent of the 2005 Tobacco Settlement payments to Florida, adjusted annually for inflation using the Consumer Price Index. The 2007 Legislature enacted Chapter 2007-65, Laws of Florida, which required the Department of Health to operate the tobacco program.

Tobacco Education and Use Prevention Program Estimates (dollars in millions)

	Fiscal Year 2014-15	Fiscal Year 2015-16	Fiscal Year 2016-17	Fiscal Year 2017-18
Expenditures	$66.9	$68.3	$69.3	$70.3
Increase/(Decrease)		$1.3	$1.0	$1.0
Percent		2.1%	1.5%	1.4%

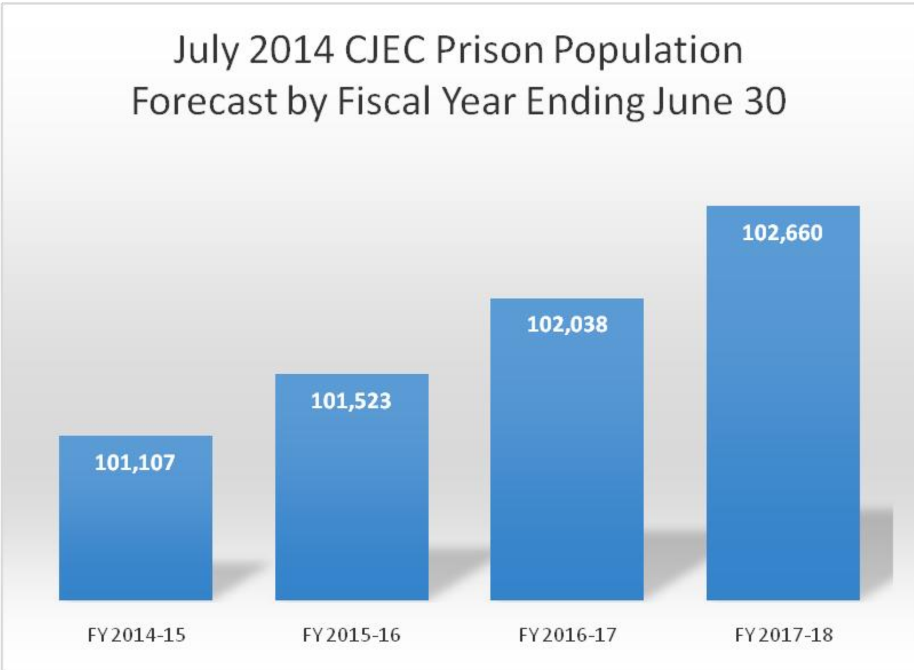
Major policy assumptions and projections for the forecast period are described below:

- **National Economic Estimating Conference** – The estimated tobacco expenditures from the July 2014 Revenue Estimating Conference were adjusted by applying the Consumer Price Index from the July 2014 National Economic Estimating Conference.

Criminal Justice (Driver #12)

12. Criminal Justice Estimating Conference Adjustment

The Criminal Justice Estimating Conference (CJEC) projects that Florida's prison population will increase by approximately 1.1 percent over the next three fiscal years. Major cost drivers for the Department of Corrections (DOC) typically include operational costs to care for the additional inmate population and construction for the projected increased capacity. However, while the prison population is projected to be 2,313 higher in Fiscal Year 2018-19 than in 2014-15, construction of new facilities will not be required during that time period due to the current surplus of prison beds.



Source: Criminal Justice Estimating Conference (July 23, 2014)

Operational cost drivers include prison security and institutional operations, food service, inmate health services, and educational and substance abuse programming for inmates. To calculate projected costs, a baseline average annual rate was calculated by dividing DOC's Fiscal Year 2014-15 approved budget for Security and Institutional Operations, Health Services, and Education and Programs by the projected Fiscal Year 2014-15 population as funded in the General Appropriations Act. This resulted in an average rate of $48.39 per inmate per day (General Revenue only). This per-diem does not include administrative costs which, for Fiscal Year 2014-15, the average is $3.44 per inmate per day.

Consequently, the Outlook includes no recurring General Revenue in Fiscal Year 2015-16, but provides increased funding of $9.7 million in Fiscal Year 2016-17 and $9.8 million in Fiscal Year 2017-18.

Transportation and Economic Development (Driver #13)

13. State Match for Federal Emergency Management Agency Funding - State Disaster Funding (Declared Disasters)

When a federally declared disaster occurs, the federal government provides grant funds to repair damage and protect areas from future potential disasters. Depending on the disaster, Florida is required to provide up to 25 percent of the total cost of the grant as state match. State matching funds for federally declared disasters vary tremendously from one year to the next. The amount of General Revenue funds required in any given year is dependent on the number and severity of disasters, as well as the federally required percentage of state participation. Based on the most recent quarterly estimate from the Division of Emergency Management, the Outlook includes $19.9 million of nonrecurring General Revenue in Fiscal Year 2015-16, $8.3 million in Fiscal Year 2016-17, and $7.0 million in Fiscal Year 2017-18 to meet the outstanding state obligation for all open federally declared disasters.

Not included in the Outlook calculations are estimates for natural disasters yet to occur, or for which damage assessments have not been conducted as of the date this Outlook was written. Damage assessments and claims processing through the Division of Emergency Management can span several fiscal years. Due to the volatility of natural disasters, in terms of both frequency and severity, it is not possible to estimate the costs to the state for these future events.

General Government (Drivers #14 & #15)

14. Non-Florida Retirement System Pensions and Benefits

In addition to the Florida Retirement System (FRS), the Department of Management Services (DMS) is responsible for administering non-FRS pension and benefit programs, such as those for the Florida National Guard, disabled justices and judges, and retired teachers. The funding increase included in the Outlook is related to the Florida National Guard and is based upon changes to the federal military pay scales, cost-of-living adjustments on federal retirement benefits, and growth in the number of participants. Based on estimates provided by the DMS, Division of Retirement, utilizing information from the Department of Military Affairs, an additional $0.5 million in recurring General Revenue is included in the Outlook for the 2015-16, 2016-17, and 2017-18 fiscal years.

15. Fiscally Constrained Counties – Property Tax

Section 218.12, Florida Statutes, directs the Legislature to provide funds to fiscally constrained counties to offset the reductions in ad valorem tax revenue as a result of the constitutional amendment approved in the Special Election held in January 2008. In addition, section 218.125, Florida Statutes, provides a distribution to fiscally constrained counties to offset the constitutional amendment approved in November 2008 authorizing an ad valorem tax exemption for real property dedicated in perpetuity for conservation purposes.

The Outlook includes funds for the fiscally constrained counties based on the August 2014 Revenue Estimating Conference: $25.2 million in nonrecurring General Revenue for Fiscal Year 2015-16; $27.4 million for Fiscal Year 2016-17; and $29.5 million for Fiscal Year 2017-18.

Administered Funds and Statewide Issues (Drivers #16 & #17)

16. Increases in Employer-Paid Benefits for State Employees

<u>Health Insurance</u> - Total expenses associated with the state employee health insurance program are expected to increase by $178.1 million in Fiscal Year 2015-16, $200.9 million in Fiscal Year 2016-17, and $218.6 million in Fiscal Year 2017-18. When the Legislature appropriates additional funds to maintain the solvency of the program, approximately 59 percent of employer-funded premium increases are funded with General Revenue funds and 41 percent with trust funds.

The increases in expenses are based on assumptions that the plan will experience a 7.5 percent annual increase in Health Maintenance Organization (HMO) premium payments, 7.5 percent average annual growth in HMO medical claims, 10.1 percent average annual growth in HMO pharmacy claims, 7.0 percent average annual growth in Preferred Provider Organization (PPO) medical claims, and 9.9 percent average annual growth in PPO pharmacy claims.

On the revenue side of the state employee health insurance program, the Outlook assumes the additional medical and pharmacy costs will be covered via premium increases paid by the state. Generally, these costs have been funded through this mechanism.

In order to meet expenses and maintain a small working balance in the Trust Fund, the Outlook assumes 7 percent annual increases in employer paid premium contributions effective on January 1, 2016, January 1, 2017, and January 1, 2018. Under these assumptions, state contributions are expected to increase by $38.2 million in General Revenue and $26.6 million in trust funds in Fiscal Year 2015-16, $79.4 million General Revenue and $55.2 million in trust funds in Fiscal Year 2016-17, and $85.6 million in General Revenue and $59.5 million in trust funds in Fiscal

Year 2017-18. No changes to the insurance program or to employee paid premium contributions are assumed in the Outlook.[7]

Florida Retirement System - The 2014 Legislature provided full funding for the Normal Costs and Unfunded Actuarial Liability of the FRS as known at that time. Consequently, no additional expenditures are included during the Outlook period. However, the Actuarial Assumption Conference will reconvene in late September to adopt new assumptions that will drive the 2014 Actuarial Valuation, due December 31, 2014. The new forecast may result in an adjustment to this projection.

In this regard, an experience study is prepared for the Florida Retirement System (FRS) to compare the FRS Pension Plan's actual experience with the Pension Plan's long-term demographic assumptions after every five years. These assumptions include, but are not limited to: mortality, early and normal retirement rates, Deferred Retirement Option Program (DROP), disability and salary experience, inflation and payroll growth. The last experience study was completed in 2009 for the 2003-2008 period. The study for the 2008-2013 period is currently being prepared. The study will include comparisons of actual experience to current plan assumptions. Preliminary results have been made available to the Florida Retirement System Actuarial Assumption Conference. Final results and the impacts of any adopted changes will not be available until after the Outlook is approved by the Legislative Budget Commission.

Any significant changes to the major demographic assumptions, actuarial assumptions or actuarial methods used for the FRS could potentially have a significant impact on the FRS contribution rates proposed by the Actuary, and thus the projected monetary needs for the FRS as included in the Outlook.

17. Increase to Health Insurance Subsidy Contribution Rate

The Retiree Health Insurance Subsidy (HIS) provides a monthly payment to persons who retired under a state administered retirement system (State, University, State Colleges and School Boards) or who are the spouse or financial dependent of those persons and are entitled to receive benefits under a state retirement system. The benefit amount is based upon the number of years of service of the retiree and is funded through employer-paid contributions based on the gross compensation of the current employees. The Retiree Health Insurance Trust Fund experienced a

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[7] Beginning January 1, 2018, PPACA imposes an excise tax of 40 percent on the cost of health care coverage (the "Cadillac" tax) that exceeds a certain annual limit ($10,200 for individual coverage and $27,500 for family coverage). The Outlook does not include an estimate of any liability for the "Cadillac" tax. The Division of State Group Insurance does not know whether the state employee health insurance program will be subject to the tax and is retaining a consultant to review it and its implications, but does not expect, if any tax is due, that it will be due before the 2018-19 fiscal year (i.e., outside the three-year period). Nevertheless, federal health care reform policy can and does shift without legislation. Further federal clarification regarding the implementation of this tax could cause the state employee health insurance program to incur costs earlier than expected, absent changes to the insurance program. The magnitude of the potential cost, if any, beginning in Fiscal Year 2018-19 is not specifically known at this time, but preliminary staff work indicates that it would not exceed $10 million.

surplus from its inception in 1987; however, since 2011, that surplus has been declining primarily due to increases in the number of HIS participants. In 2013 and 2014, the employer-paid contribution rate was increased to provide adequate funding to pay benefits to the approximately 331,000 HIS beneficiaries; the most recent increase prior to that was in 1998. From 1998 until 2013, the contribution rate was 1.11 percent of gross compensation; effective July 1, 2013, the rate increased to 1.20 percent and effective July 1, 2014, the rate increased to 1.26 percent.

At the current contribution rate and using the existing economic and demographic assumptions adopted by the Florida Retirement Actuarial Assumption Conference for the HIS, the trust fund balance is expected to be depleted during the month of August 2015. To maintain a small working balance in the trust fund and to continue to pay the existing HIS benefit, the Outlook assumes that the contribution rate will be increased to 1.52 percent effective July 1, 2015. The additional annual state contributions associated with HIS (for the entities listed above) is $48.7 million in recurring General Revenue and $6.3 million in recurring funds from trust funds, beginning in Fiscal Year 2015-16. Changes to the existing economic and demographic assumptions adopted by the conference could potentially have a significant impact on those projections. These assumptions will be revisited by the Actuarial Assumption Conference in late September.

Other High Priority Needs

Pre K-12 Education (Drivers #18 & #19)

18. Workload and Enrollment – Florida Education Finance Program

Other High Priority Needs funding is provided for the FEFP based on the appropriated three-year average percent increase in funds per FTE, which is equivalent to 2.11 percent. A 2.11 percent increase per FTE requires $72.3 million, $63.1 million, and $19.5 million of recurring General Revenue funds for the FEFP for Fiscal Years 2015-16, 2016-17, and 2017-18, respectively. This funding supplements the Critical Needs funding for the FEFP in Drivers #1 through #3 (see Results table in Driver #3).

19. Workload and Enrollment – Other Pre K-12 Programs

Other High Priority Needs funding is provided for the VPK program based on the three-year average percent increase in the summer and regular school year base student allocations, which is equivalent to 0.82 percent. The resulting base student allocations of $2,097 for the summer program and $2,457 for the school year program are then applied to the forecast years to produce a $3.3 million increase in recurring General Revenue funds for each year of the Outlook. This funding supplements the Critical Needs funding for VPK provided in Driver #4.

Other High Priority Needs funding is also provided for the Florida School for the Deaf and the Blind (FSDB). The school is a fully accredited state public school located in St. Augustine for approximately 1,000 Pre-K and K-12 deaf/hard of hearing, blind/visually impaired, and special needs students who are either residential, day, or out-reach students. Funds are provided based on the three-year average increase of appropriations for school operations in the amount of $1.2 million of recurring General Revenue funds for each of the three forecast years.

Higher Education (Drivers #20 - #24)

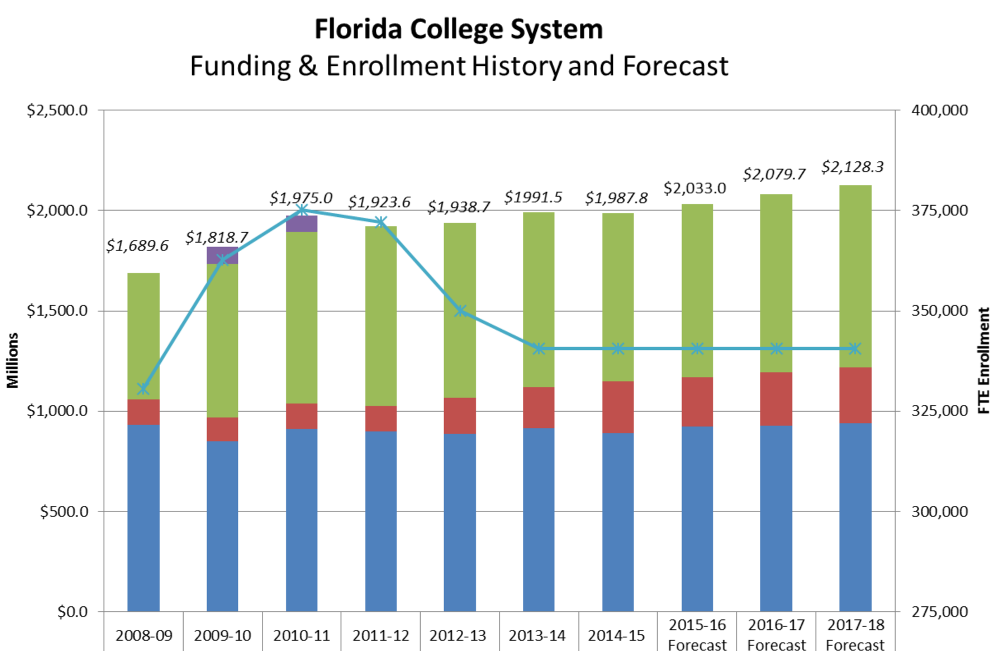
20. Maintain Current Budget

Other High Priority Needs includes funding for public postsecondary institutions equivalent to the standard tuition rate per credit hour for each dual enrollment course taken by a secondary student during the summer term. Recurring General Revenue funding is provided in Fiscal Year 2015-16 to restore nonrecurring funding of $4,790,125 provided to the Florida College System and $305,333 provided to the State University System for this purpose in Fiscal Year 2014-15.

In addition, $4.0 million of nonrecurring General Revenue funding is provided in Fiscal Years 2015-16 and 2016-17 to restore nonrecurring funding for the continuing development of the Workforce Education Student Information System that school districts will use to support their postsecondary workforce education programs. The $4.0 million is provided for the second and third years of a planned three-year system development.

21. Workload – Florida Colleges

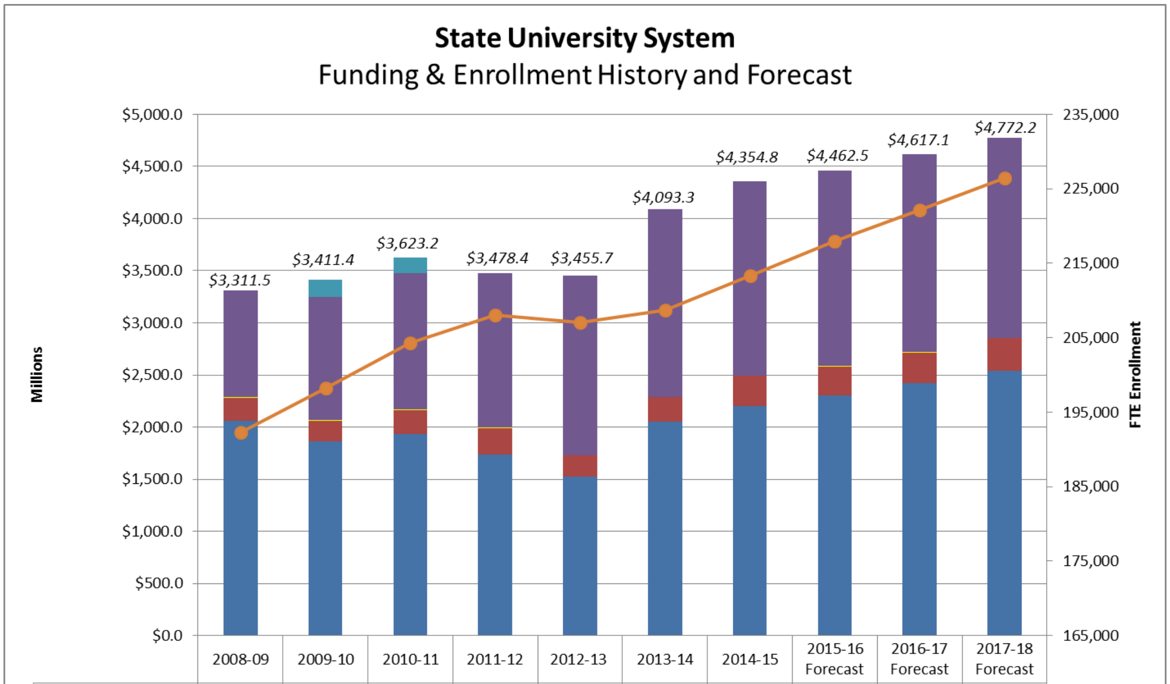
Other High Priority Needs funding includes increases for Florida colleges based on the three-year average appropriation increase of $18.4 million for each year of the Outlook. The three-year average appropriation does not include FRS adjustments or costs pertaining to the operation of new facilities expected to come on-line between Fiscal Years 2015-16 and 2017-18. These issues are accounted for as separate drivers in the Outlook. Based on the methodology for calculating three-year averages, level enrollment is assumed in Florida colleges over the three-year period. Total funding for the Florida College System, as reflected in the chart below, anticipates increased tuition revenue based on the three-year average legislative decision for tuition increases of 2.67 percent.



	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16 Forecast	2016-17 Forecast	2017-18 Forecast
Stimulus		$83.3	$83.0							
Tuition	$632.3	$767.1	$855.0	$896.0	$872.5	$872.5	$840.7	$863.1	$886.2	$911.1
EETF	$124.8	$117.0	$127.0	$130.4	$180.8	$204.9	$255.0	$245.6	$266.5	$276.7
General Revenue	$932.5	$851.3	$910.0	$897.2	$885.4	$914.1	$892.1	$924.3	$927.0	$940.3
FTE Enrollment	330,556	362,630	375,292	372,050	350,109	340,556	340,556	340,556	340,556	340,556

22. Workload – State Universities

Other High Priority Needs funding includes workload increases for the State University System (SUS) based on the three-year average appropriation increase of $126.9 million for each year of the Outlook. This average increase consists of a $120.3 million workload increase for Education and General activities and a $6.6 million workload increase for the Institute of Food and Agricultural Sciences (IFAS) at the University of Florida. The calculated average appropriation does not include FRS adjustments or costs pertaining to the operation of new facilities expected to come on-line between Fiscal Years 2015-16 and 2017-18. These issues are accounted for as separate drivers in the Outlook. Based on enrollment estimates from the Board of Governors, 13,188 new FTE students are anticipated in the SUS over the three-year period. Total funding for the SUS, as reflected in the chart below, anticipates increased tuition revenue based on the three-year average legislative decision for tuition increases of 1.0 percent.



	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16 Forecast	2016-17 Forecast	2017-18 Forecast
Stimulus		$161.3	$146.9							
Tuition	$1,022.1	$1,180.1	$1,303.7	$1,480.4	$1,724.4	$1,802.6	$1,861.2	$1,878.8	$1,896.6	$1,914.9
Phosphate TF	$7.3	$7.3	$7.3	$7.3	$5.0	$5.1	$5.1	$5.1	$5.1	$5.1
EETF	$219.4	$201.2	$230.7	$253.9	$199.9	$234.8	$284.8	$274.3	$297.7	$309.0
General Revenue	$2,062.7	$1,861.5	$1,934.6	$1,736.8	$1,526.4	$2,050.8	$2,203.7	$2,304.2	$2,417.7	$2,543.2
FTE Enrollment	192,329	198,255	204,310	208,089	207,023	208,680	213,312	218,015	222,117	226,500

23. Workload – Other Higher Education Programs

Other High Priority Needs funding includes General Revenue increases of $6.1 million for need-based Florida Student Financial Assistance Grants (FSAG) and $11.6 million for the Florida Resident Access Grants (FRAG) and Access to Better Learning and Education (ABLE) Grants in each year of the Outlook. The increased funding estimates are based on the three-year average appropriation increases for these programs.

Other High Priority Needs funding also includes General Revenue increases for the newly established Florida National Merit Scholar Incentive Program of $3.9 million in Fiscal Year 2015-16, $4.3 million in Fiscal Year 2016-17, and $4.6 million in Fiscal Year 2017-18. This new award is equal to the cost of attendance (including tuition and fees, room and board, and other expenses) at a public postsecondary educational institution, minus the amount of the student's Bright Futures Scholarship and National Merit Scholarship or National Achievement Scholarship. The increased funding estimates were developed by the Education Estimating Conference based on 50 percent of the eligible Scholars enrolling in Florida postsecondary institutions in Fiscal Year 2015-16, 55 percent enrolling in Fiscal Year 2016-17, and 60 percent enrolling in Fiscal Year 2017-18.

24. Anticipated New Space Costs for Colleges and Universities

General Revenue funds are provided in Other High Priority Needs for operational costs associated with the phase-in of new physical space operations, which include costs related to utilities and janitorial services. Facility construction projects approved by the Legislature through the education capital outlay process are anticipated to come on-line during the Outlook period. The Outlook includes $13.3 million for Fiscal Year 2015-16 based on a three-year appropriations average minus annualized costs from Fiscal Year 2014-15, which are included in another section of the Outlook. Fiscal Years 2016-17 and 2017-18 estimates are based on a three-year appropriations average of $15.1 million.

Human Services (Drivers #25 - #30)

25. Medicaid Waivers

The Outlook includes additional funding for Medicaid Waivers slots for the elderly and for individuals with brain and spinal cord injuries based on three-year averages. These Other High Priority Needs provide the Agency for Health Care Administration, the Department of Health, and the Department of Elder Affairs with $10.2 million in recurring General Revenue funds for Fiscal Years 2015-16, 2016-17, and 2017-18.

26. Children and Family Services

The Outlook restores nonrecurring funds in Fiscal Year 2015-16 for mental health reinvestment grants, administrative funds due to the loss of federal indirect earnings, a claims bill, and Children's Action Teams for mental health. In addition, three-year averages were used for additional funds for maintenance adoption subsidies, community based care, the Healthy Families program, child protection and abuse investigations, sheriff's grants, sex trafficking and sexual exploitation prevention, and homeless coalitions. These Other High Priority Needs increase General Revenue funds for the Department of Children and Families by $54.3 million ($9.8 million nonrecurring) for Fiscal Year 2015-16 and $49.5 million ($9.8 million nonrecurring) for Fiscal Years 2016-17 and 2017-18.

27. Health Services

The Outlook includes additional funding for the Early Steps program, Biomedical and Cancer Research, and child protection teams based on three-year averages. These Other High Priority Needs increase General Revenue funds for the Department of Health by $17.1 million ($6.1 million nonrecurring) for Fiscal Years 2015-16, 2016-17, and 2017-18.

28. Developmental Disabilities

The Outlook includes funding for reducing the wait list for Developmental Disabilities Waiver services provided by the Agency for Persons with Disabilities, the agency's supported employment and internship programs, and a rate increase for adult day training providers based on three-year averages. These Other High Priority Needs increase recurring General Revenue funds for the Agency for Persons with Disabilities by $8.4 million for Fiscal Years 2015-16, 2016-17 and 2017-18.

29. Elderly Services

The Outlook includes funding for reducing the wait list for the Community Care for the Elderly program within the Department of Elder Affairs and for the department's Alzheimer's disease respite services based on three-year averages. These Other High Priority Needs increase General Revenue funds for the Department of Elder Affairs by $5 million ($0.6 million nonrecurring) for Fiscal Years 2015-16, 2016-17, and 2017-18.

30. Human Services Information Technology/Infrastructure

The Outlook restores nonrecurring funds for the data center deficit within the Department of Children and Families (DCF) and includes funding for Other High Priority Needs for human services information technology and infrastructure. Included are re-engineering costs for the Department of Health's Medical Quality Assurance Information Technology System and the Agency for Persons with Disabilities' Client Management System. Funds are also included for the DCF's Statewide Automated Child Welfare Information System, the Automated Community Connection to Economic Self Sufficiency (ACCESS), and the asset/identity verification system based on three-year averages. The Outlook provides $6.5 million from recurring General Revenue funds and $4.4 million from the Medical Quality Assurance Trust Fund for Fiscal Year 2015-16 to fund these issues.

Criminal Justice (Drivers #31 - #34)

31. State Attorney, Public Defender and Regional Conflict Counsel Workload Increases

The majority of workload for State Attorneys and Public Defenders is based upon caseload ratios, which have increased in recent years. The 2013 Legislature appropriated an additional $3.5 million in recurring General Revenue to the State Attorneys, Public Defenders, and Regional Conflict Counsel (RCC) for workload needs. The 2014 Legislature appropriated $10 million in recurring General Revenue and $1.8 million in trust fund authority to the State Attorneys, Public Defenders, and RCC for salary adjustments, but did not fund workload increases for these entities. The Outlook includes $1.4 million recurring General Revenue each year for State Attorneys, Public Defenders, and RCC workload funding based on the three-year appropriation average.

32. Department of Juvenile Justice Prevention and Intervention Programs

The Prevention and Intervention programs in the Department of Juvenile Justice (DJJ) are considered "front-end" services that aim to divert juveniles from institutional or "deep-end" services. The majority of these programs are implemented by local community providers that normally have a better understanding of which programs are the most effective in diverting juveniles from residential programs. The Legislature has increased funding for front-end (community-based) services to reduce the need for more costly deep-end (residential) services over the past few years. The Outlook includes $6.6 million recurring General Revenue each year for these programs based on the three-year appropriation average.

33. State Courts Trust Fund Revenue Shortfall

The judicial branch's core mission is to resolve civil disputes and criminal charges. Most of the cost of the judicial budget is expenditures related to judges, associated staff, and expenses. Under the Florida Constitution, the counties are responsible for providing facilities, security, communications and information technology to the trial courts. The state is responsible for the remaining costs of the trial courts and all costs of the Supreme Court and five district courts of appeal.

The Legislature changed the funding sources for the state courts system in 2009 and 2010 by adjusting filing fees for real property or mortgage foreclosure cases, increasing the use of court fees from the State Courts Revenue Trust Fund and decreasing the amount of General Revenue. However, since 2010, court fee revenues have been lower than the Revenue Estimating Conference estimates and insufficient to support appropriations from the State Courts Revenue Trust Fund. To address trust fund deficits, the 2012 Legislature appropriated $274 million in recurring General Revenue for Fiscal Year 2012-13. Based on the Revenue Estimating Conference held on July 18, 2014, the State Courts Revenue Trust Fund will be short $15.7 million in Fiscal Year 2014-15, $13.5 million in Fiscal Year 2015-16, and $900,000 in Fiscal Year 2016-17, if appropriations remain at current levels. The current year deficit has been addressed with nonrecurring funds as reflected on the Summary Charts, and the subsequent years have been funded with recurring General Revenue.

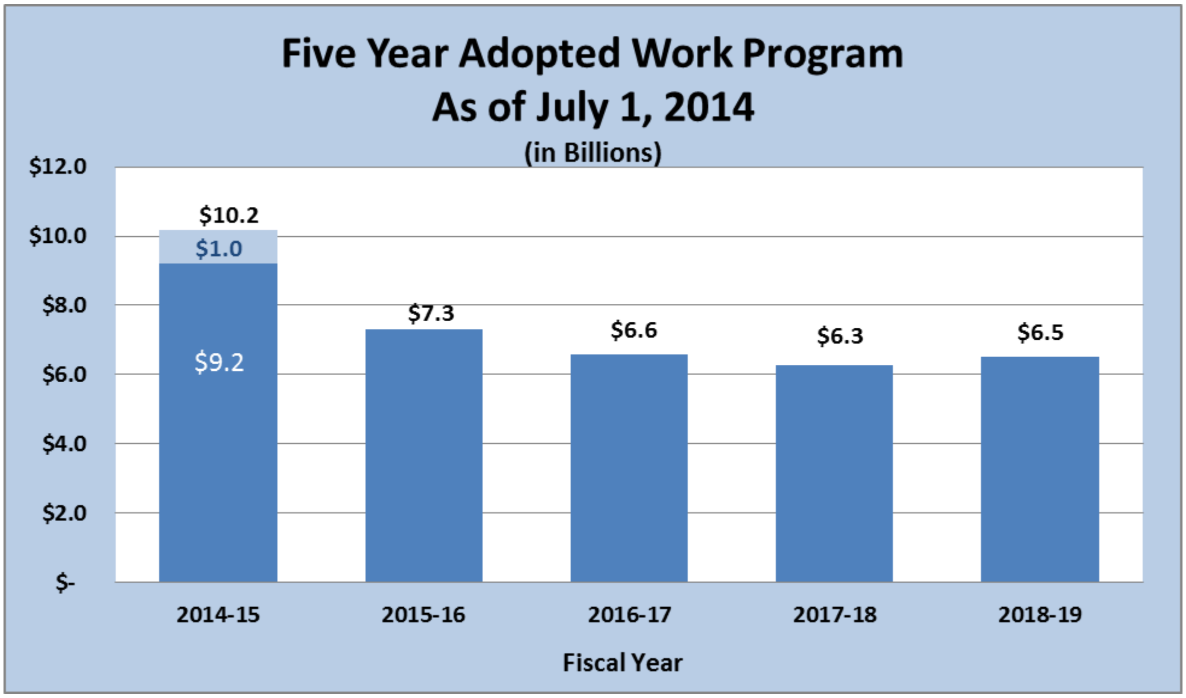
34. Small County Courthouses

While the counties are responsible for the facility needs of the trial courts, the Legislature has historically provided additional funding to counties with populations of less than 75,000 to renovate and repair trial court buildings. The Outlook includes $4.1 million recurring General Revenue each year based on a three-year appropriation average.

Transportation and Economic Development (Drivers #35 - #38)

35. Department of Transportation Adopted Work Program (Fiscal Years 2015-2018)

The Department of Transportation develops a Work Program, which is the department's list of transportation projects planned for the following five years. It is supported by a balanced five-year financial outlook with a three-year cash forecast of receipts and expenditures. Funding to support the Work Program comes from a variety of trust fund sources, including federal, state, local, bond proceeds, toll collections, and miscellaneous other receipts. Funding projections for each year of the Adopted Five Year Work Program are currently based on estimates from the Revenue Estimating Conferences held in March 2014 for Transportation Revenue and Documentary Stamp Tax Collections. Changes in project commitments and revenue estimates after July 1, 2014, will be programmed into the Tentative Work Program in February 2015 for legislative consideration.



******Fiscal Year 2014-15 includes $1.0 billion in anticipated roll forward budget from Fiscal Year 2013-14. Each year there is an expected portion of the prior year's budget which rolls forward and is added to the current year appropriation. This amount averages approximately $1.3 billion annually.*

Based on the July 1, 2014, Adopted Work Program, the Outlook assumes funding of $7.3 billion in Fiscal Year 2015-16, $6.6 billion in Fiscal Year 2016-17, and $6.3 billion in Fiscal Year 2017-18 from trust fund revenues.

36. Economic Development and Workforce Programs

The Department of Economic Opportunity is the state's single economic development agency whose purpose is to develop and implement economic development policy. Enterprise Florida, a not-for-profit corporation created by Florida law to promote economic diversification and improvements in Florida's business climate and infrastructure, works closely with the department. Economic development activities include: marketing the state as business friendly, providing financial incentives to attract and grow business, offering grants and loans for low-income and rural areas, and providing funding for innovation and research activities. In addition, the state has structured some incentive programs to promote specific industries that have a large impact on Florida's economy such as the tourism, space and defense industries. These focused efforts include funding for tourism marketing provided to VISIT FLORIDA, operational and business development funding for Space Florida, and military base protection funding to protect and expand the defense industry. Since the amount of future nonrecurring appropriations cannot be predicted, the Outlook mostly relies on three-year historical averages. The Outlook includes a total projection of $2.8 million of General Revenue funds and $101.6 million of trust funds for economic development and workforce programs for each year of the Outlook.

Chapter 2011-138, Laws of Florida, created the State Economic Enhancement and Development (SEED) Trust Fund to fund: strategic transportation facility investments; affordable housing programs and projects; economic development incentives for job creation and capital investment; workforce training associated with attracting new businesses to the state and retaining existing businesses; and tourism promotion and marketing. The SEED Trust Fund was appropriated for the first time in Fiscal Year 2012-13 to fund a variety of economic development activities in place of General Revenue. Using three years of history with the trust fund, the Outlook funds the needs for economic development programs based upon the three-year average of the total funding provided for these programs from the SEED Trust Fund.

Key Economic Development Programs:

> Qualified Targeted Industry *and* Qualified Defense Contractor and Space Flight Business Programs - Provides cash awards equivalent to certain paid taxes for approved businesses based on the number of new jobs created.
>
> High-Impact Performance Incentives - Provides cash grants to business projects in designated high-impact industries that make large capital investments within Florida.
>
> Quick Action Closing Fund - Provides cash grants to business projects to help Florida compete effectively for high-impact businesses that can provide widespread economic benefits in the state.
>
> Innovation Incentive Program - Provides cash grants to research and development entities and large-scale business projects locating in Florida.
>
> Rural Community Development Grants and Loans - Provides grants and low-interest loans to designated rural communities in Florida to assist them with economic development efforts.
>
> Military Base Protection - Provides grants and technical assistance to support Florida's Defense Industry and defense-dependent communities.

37. National Guard Armories and Military Affairs Priorities

The Florida Armory Revitalization Plan is intended to renovate Florida's aging Readiness Centers (armories) in accordance with the Capital Improvement Plan. The program concept is to assess, design, and renovate as many facilities per year as possible using a prioritized list contingent on the availability of state funding. The Legislature has provided over $96.4 million of funding since Fiscal Year 2005-06 in support of the National Guard Armory Renovations. To date, 48 of Florida's 55 armories have received funding to begin the planned repairs and construction has been completed on 42 armories. No funding was provided for armory renovations in Fiscal Years 2009-10 and 2010-11; however, the Legislature appropriated $15.0 million in Fiscal Year 2011-12, $13.5 million in Fiscal Year 2012-13, $15.0 million in Fiscal Year 2013-14, and $12.5 million in Fiscal Year 2014-15. With the Armory Renovation Priority

List nearing completion, the Legislature recognized the need for ongoing maintenance and repair for the renovated facilities and provided $1.7 million in Fiscal Year 2014-15. The Outlook includes $14.2 million nonrecurring General Revenue in Fiscal Year 2015-16 based on a three-year funding average for armory renovations. This funding will complete renovations for the remaining four armories, which is estimated to be $12.5 million, with the remaining funds available to ensure Florida's armories are properly maintained. Fiscal Year 2016-17 and Fiscal Year 2017-18 estimates of $1.7 million nonrecurring General Revenue are for maintenance and repair based on the funding level for Fiscal Year 2014-15.

The Department of Military Affairs receives funding for two Florida National Guard community support programs that target at-risk youth and young adults, and the Outlook includes $2.2 million nonrecurring General Revenue each year based on a three-year funding average. The About Face program began in 1997 and is held at local National Guard Armories throughout the state. This program provides life skills and drug awareness training, including mentoring assistance to youth between the ages of 13 and 17. The Forward March program began in 1999 and provides job readiness services for Florida Work and Gain Economic Self-Sufficiency (WAGES) program participants. This is a life skills training program in which clients participate in an activity-based curriculum designed for participants to practice life skills in a real life setting. Participants must meet eligibility requirements for both programs.

Section 250.34, Florida Statutes, provides for medical attention, necessary hospitalization, and pay for troops who become injured while on state active duty, and specifies that the Department of Financial Services, Division of Risk Management process benefits to certain severely injured or disabled troops who have claims past one year from the date of injury or disability. In January each year, the Division of Risk Management provides the Department of Military Affairs an invoice of payments and associated legal costs made during the prior calendar year. The Outlook includes $0.2 million based on a three-year funding average for these claims.

38. Library, Cultural, Historical, and Election Priorities

The Outlook includes nonrecurring General Revenue funding for the following Department of State programs based on three-year historical averages. Collectively, the Outlook includes $38.2 million of nonrecurring General Revenue funds for these programs in Fiscal Years 2015-16 and 2017-18, and $39.1 million in Fiscal Year 2016-17.

The Division of Library and Information Services administers grant programs to support the establishment, expansion, and improvement of library service in Florida. Historically, the program obtaining the most additional funding from the Legislature is State Aid to Libraries, which encourages local governments to establish and continue development of free library service to all residents of Florida. Funding for State Aid to Libraries reflected in previous Outlooks as nonrecurring funds is no longer included because the Legislature has provided recurring General Revenue funds of $22.3 million for the last two fiscal years. However, the Outlook includes $1.4 million for State Aid to Libraries based on a three-year average of nonrecurring General Revenue funds supplementing this program. In addition, the Outlook includes $1.7 million of nonrecurring General Revenue funds based on the three-year average for Library Cooperative Grants which provide funding for the maintenance of the statewide database of library materials for multi-type library cooperatives. The Outlook also includes $1.0 million based on the three-year average for Public Library Construction Grants to encourage the growth of public libraries. The Legislature provided $3.0 million of nonrecurring General Revenue funds in Fiscal Year 2014-15, the first time since Fiscal Year 2007-08 that Public Library Construction Grants have received funding.

The Division of Cultural Affairs administers four types of grant programs. These include Cultural and Museum Grants, Specific Cultural Project Grants, Cultural Endowment Grants, and Cultural Facility Grants supporting the arts and culture in Florida. Cultural and Museum and Cultural Project grant programs provide funding for science museums, youth and children's museums, historical museums, local arts agencies, state service organizations, and organizations that have cultural program activities. In addition, facility grants provide state support for the acquisition, renovation, and construction of cultural facilities such as performing art centers and museums. Cultural Endowment grants create an endowment matching fund program to provide operating resources to not-for-profit Florida corporations in good standing with the Florida Division of Corporations. The three-year average historical funding for cultural/museum and facility grants is $22.5 million.

The Division of Historical Resources administers two grant programs that assist in the identification, excavation, protection, and rehabilitation of historic and archaeological sites; provide public information and museum exhibits on the history of Florida; and encourage preservation in smaller cities and rural areas. The three-year average historical funding for historical grants is $8.9 million.

Finally, the Division of Elections administers the Florida Election Code, chapters 97 through 106, Florida Statutes, which regulates all state and county elections. Portions of the election code also pertain to municipalities and special districts in the state and to federal elections. Elections are conducted in Florida almost every week of the year by county supervisors of elections or city clerks. Major state and county elections are held in even-numbered years. The division is required by law to pay for the costs of special elections; the costs of statewide litigation relating to elections lawsuits; and the cost to advertise constitutional amendments. These costs are considered in developing the Outlook.

Natural Resources (Drivers #39 - #41)

39. Environmental Programs Funded with Documentary Stamp Tax

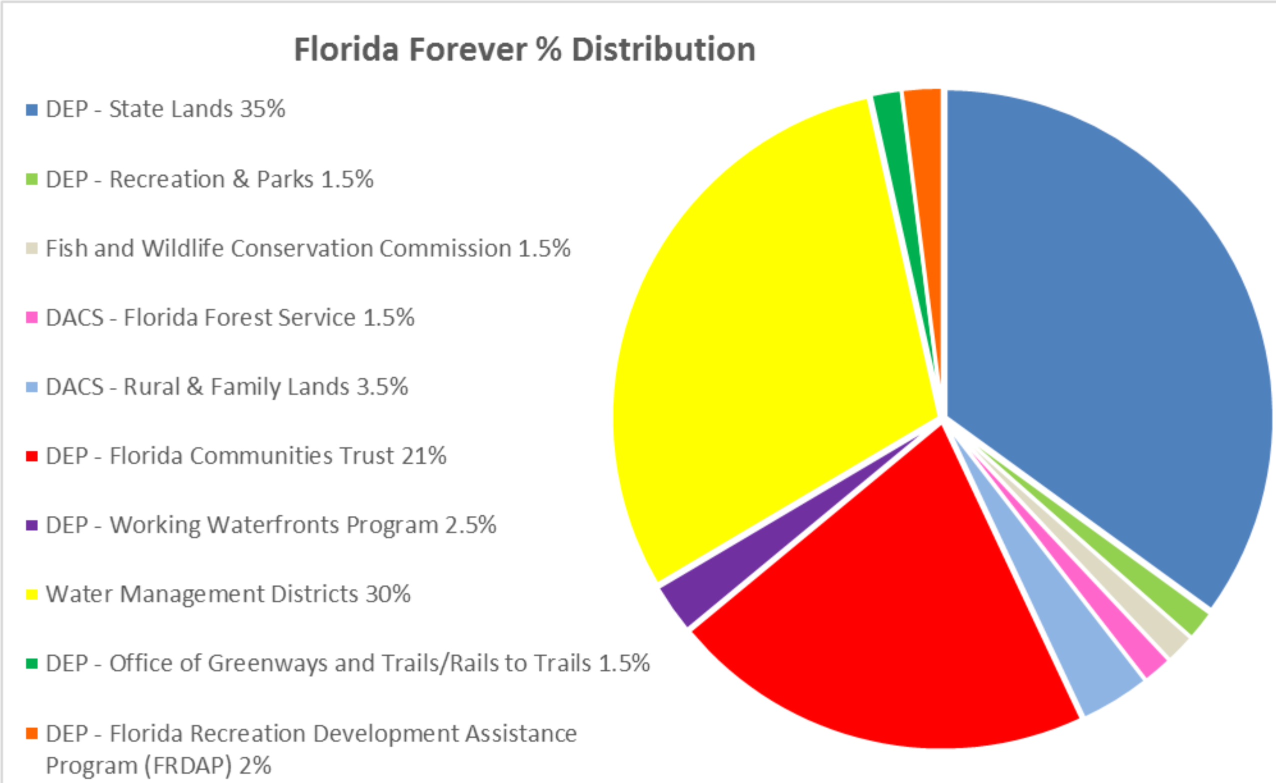
The Outlook assumes continued funding for programs with Documentary Stamp Tax revenues within the Department of Agriculture and Consumer Services, the Department of Environmental Protection, and the Fish and Wildlife Conservation Commission. The majority of funds are directed toward land acquisition and management of recreation, conservation, and water areas and related resources, including construction, improvement, enlargement, extension, operation, and maintenance of capital improvements and facilities. Funds are also used for developing best management practices for water quantity and water quality issues involving agricultural and non-agricultural activities, which includes water conservation, nonpoint source pollution prevention in priority watersheds and ground water protection, and public education programs on nonpoint source management. In addition, funds are used for invasive plant control, which eliminates or reduces aquatic or non-native plants destructive to the state's natural ecosystems, and lake restoration, which includes freshwater aquatic habitat enhancement. Funds are also used for beach restoration, which serves to repair and restore the state's critically eroded beaches. Finally, a small portion of the distribution is used to fund oyster management and restoration programs in Apalachicola Bay and other oyster harvest areas in the state, including the relaying and transplanting of live oysters and shell planting to construct or rehabilitate oyster bars. The funding level is based on the current statutory distribution levels projected by the August 2014 Revenue Estimating Conference: $59.1 million for Fiscal Year 2015-16, $49.4 million for Fiscal Year 2016-17, and $51.3 million for Fiscal Year 2017-18.

As a result of the decline in Documentary Stamp Tax revenues and the targeted redirects from trust funds to the General Revenue Fund in prior years, the Outlook provides nonrecurring General Revenue for a portion of beach restoration and total maximum daily loads. The Outlook assumes funding of $16.8 million each year from nonrecurring General Revenue for Fiscal Years 2015-16 through 2017-18 using a three-year historical funding average methodology. However, the Outlook does not specifically address beach restoration for future tropical storms, hurricanes, or other natural disaster damages yet to occur. In addition, the Outlook provides General Revenue for a portion of the development and implementation of total maximum daily loads – threshold limits on pollutants in surface waters. Using a three-year historical funding average, the Outlook assumes additional recurring General Revenue of $0.6 million and nonrecurring General Revenue of $0.7 million for Fiscal Years 2015-16 through 2017-18.

40. Environmental Land Acquisition and Restoration

<u>Florida Forever Program</u> - In 1998, Florida voters amended the state constitution by ratifying a constitutional amendment that re-authorized bonds for land acquisition. The 1999 Legislature responded with the 10-year $3.0 billion Florida Forever program to acquire and manage land for conservation. This was extended another ten years in 2008 for a total of $6.0 billion. Funds appropriated to the Florida Forever Program are distributed as authorized in section 259.105, Florida Statutes, to various agencies and programs. The statutory distribution is illustrated in the graph on the following page.

[SEE GRAPH ON FOLLOWING PAGE]



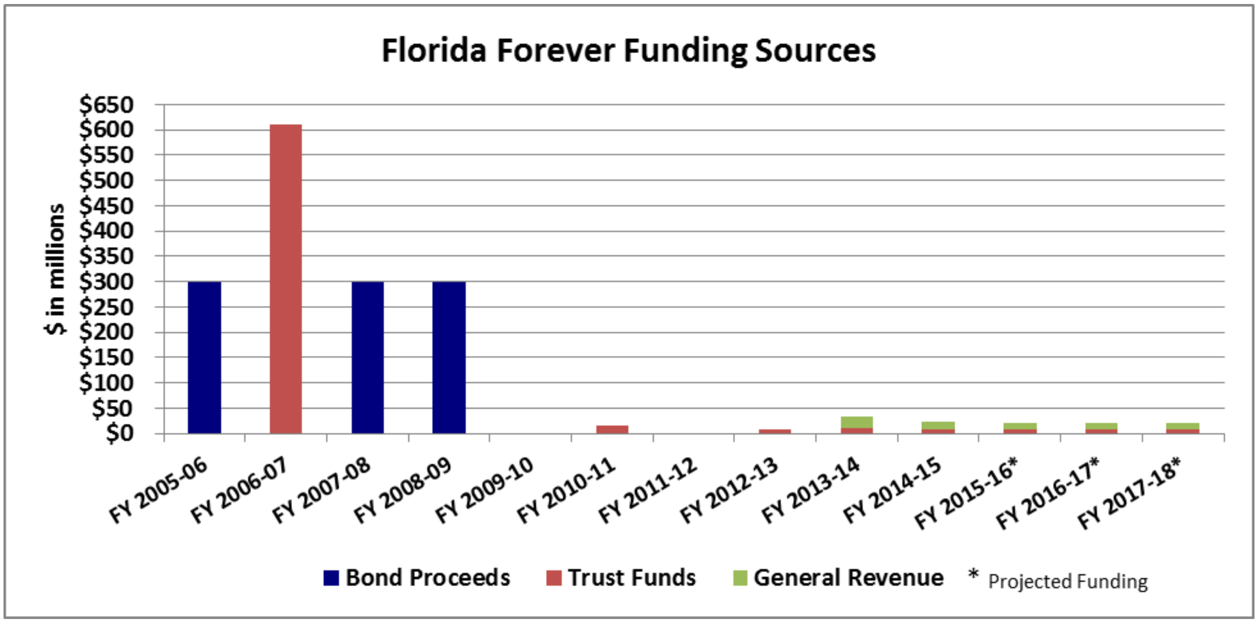
Originally, the Legislature authorized bonds for the state's land acquisition programs secured by a pledge of Documentary Stamp Tax revenue. As revenues declined, however, the Legislature appropriated nonrecurring General Revenue and trust fund balances to fund the program in lieu of authorizing the full \$300.0 million annual debt. The debt service for environmental bonds decreased by \$230.6 million in Fiscal Year 2013-14 as the Preservation 2000 bonds were retired. The bonding capacity for the Florida Forever program is statutorily limited to debt service increases of no more than \$30.0 million in any fiscal year, and total annual debt service of no more than \$300.0 million. The annual debt service for outstanding Florida Forever bonds is approximately \$151.0 million in Fiscal Years 2014-15 through 2020-21 and declines thereafter.

The graph on the following page represents the historical funding level for Florida Forever. As revenues declined, the Legislature limited the distribution of funds to conservation lands within State Lands, Rural and Family Lands, and local parks funding assistance programs. Based on a three-year funding average, the Outlook includes funding based on the historical distributions to State Lands for acquisition of conservation lands and the following programs:

> <u>Rural and Family Lands</u> – This program was created in 2001 as an agricultural land preservation program. Section 259.105(3), Florida Statutes, provides a distribution of Florida Forever bond proceeds or cash of 3.5 percent for the program. Rural and Family Lands is designed to protect agricultural lands through the acquisition of permanent land conservation easements while allowing the economic viability of agricultural operations to continue.

Florida Recreational Development Assistant Program (FRDAP) – The Florida Recreation Development Assistance Program is a competitive grant program that receives a Florida Forever distribution of 2 percent. The FRDAP provides grants to local governments for the acquisition or development of land for public outdoor recreation use or to construct or renovate recreation trails. Applications are reviewed and ranked by the Department of Environmental Protection on an annual basis.

Because it is unknown whether the Legislature will authorize additional bonding, the Outlook assumes a three-year historical funding average of $12.2 million each year from nonrecurring General Revenue and $9.3 million from trust funds for Fiscal Years 2015-16 through 2017-18.



Everglades Restoration – The Florida Everglades, the "River of Grass," is a mosaic of sawgrass marshes, freshwater ponds, prairies, and forested uplands that supports a rich plant and wildlife community. The Everglades once covered almost 11,000 square miles of South Florida. Because of efforts to drain the marshland for flood control, agriculture, and development, the Everglades today is half the size it was a century ago.

In order to restore and protect the greater Everglades ecosystem, the Florida Legislature established the State of Florida's responsibilities in a series of statutes under the Florida Water Resources Act (Chapter 373, Florida Statutes). In addition to authorizing the South Florida Water Management District (SFWMD) to serve as local sponsor for the majority of restoration efforts, the Legislature directed the roles and responsibilities of both the Department of Environmental Protection and the SFWMD for plans authorized through the Everglades Forever Act, the Comprehensive Everglades Restoration Plan, the Northern Everglades and Estuaries Protection Program, and the Everglades Restoration Investment Act.

The Comprehensive Everglades Restoration Program (CERP) is a large, comprehensive, long-term 50-50 partnership with the federal government to restore the Everglades. The plan originally approved in the 2000 federal Water Resources Development Act includes more than

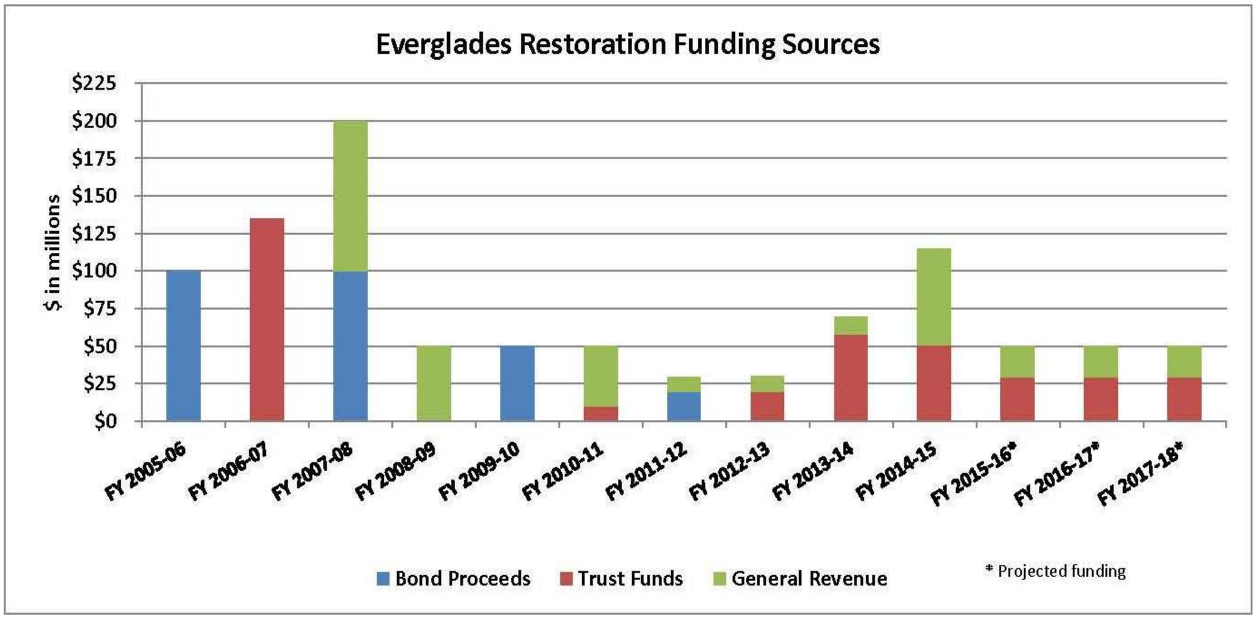
60 projects that will take more than 30 years to complete and will cost an estimated $13.5 billion. In 2000, the Legislature passed the Everglades Restoration Investment Act, which provided the framework for the state to fund its share of the partnership – bonds to finance or refinance the cost of acquisition and improvement of land and water areas necessary for implementing CERP. In 2007 and 2008, the Legislature expanded the use of the Save Our Everglades Trust Fund and bonds issued for Everglades Restoration to include the Lake Okeechobee Watershed Protection Plan, the River Watershed Protection Plans, and the Keys Wastewater Plan.

In 2007, the Legislature enacted the Northern Everglades and Estuaries Protection Act (NEEPA) to restore and protect Lake Okeechobee and its downstream estuaries, the Caloosahatchee and St. Lucie River watersheds. The Outlook includes funding for nutrient reduction and water retention projects at the basin, sub-basin, and farm levels in the Lake Okeechobee watershed.

In 2012, the Department of Environmental Protection and the SFWMD, in consultation with U.S. Environmental Protection Agency, developed a technical plan to meet water quality standards, which includes additional stormwater treatment areas and storage reservoirs at a cost of $880 million over a 13-year period. A total of $500.7 million in funds will be provided by the SFWMD with the balance to be provided by the state. The 2013 Legislature appropriated $32 million on a recurring basis ($12 million recurring General Revenue and $20 million recurring Water Management Lands Trust Fund) to support the implementation of the technical water quality plan.

Excluding the recurring funding for the technical water quality plan, the Legislature has authorized bond proceeds and appropriated nonrecurring General Revenue and trust funds (see graph on the following page) for Everglades Restoration projects. Bonds may be issued in an amount not to exceed $100.0 million per fiscal year, unless specifically approved by the Legislature. The annual debt service for outstanding bonds is $26.3 million for Fiscal Years 2014-15 through 2024-25 and declines thereafter. Because it is unknown whether the Legislature will authorize additional bonding, the Outlook assumes funding of $20.7 million from nonrecurring General Revenue and $29.6 million from trust funds each year for Everglades Restoration using a three-year historical funding average methodology.

[SEE GRAPH ON FOLLOWING PAGE]



Springs Protection – Florida is home to one of the largest concentrations of freshwater springs in the world. The Florida Springs Initiative is a comprehensive, coordinated program to improve spring water quality and flow through improved research, monitoring, education, landowner assistance, and conservation. The Outlook assumes a three-year historical funding level of $6.7 million recurring and $6.7 million nonrecurring General Revenue for Fiscal Years 2015-16 through 2017-18.

41. Other Agriculture and Environmental Programs

The Outlook includes funding for major programs within the Departments of Environmental Protection and Agriculture and Consumer Services based on three-year historical funding levels. These programs include:

Water Projects - The Outlook includes funding for traditional water projects. These projects were historically funded by the statutory Sales Tax distribution based on estimates from the Revenue Estimating Conference. In Fiscal Year 2009-10, this funding was redirected to the General Revenue Fund. The Outlook assumes a three-year historical funding level of $57.5 million funded from nonrecurring General Revenue for each fiscal year for the duration of the three-year period.

Drinking Water and Wastewater Revolving Loan Programs - The Outlook provides a state match to all estimated federal dollars available to maximize low interest loans to the state's local governments for needed infrastructure. For the three-year forecast period, the Outlook includes nonrecurring General Revenue as the fund source. For the 2015-16 fiscal year, $7.4 million is provided for the drinking water program, and $9.9 million is provided for the wastewater program. For the 2016-17 and 2017-18 fiscal years, $6.5 million is provided for the drinking water program, and $9.5 million is provided for the wastewater program.

Other Agricultural Programs - Agriculture continues to be an important industry in Florida. Based on historical funding averages, $19.4 million in nonrecurring and $2.3 million in recurring General Revenue are included for each fiscal year in the Outlook. This includes funding for hybrid wetland treatment technology projects for agricultural nutrient management, water quality improvement initiatives, and water conservation and supply planning. The Outlook also includes aquaculture research grants to develop and implement innovative production techniques, including ornamental fish and aquatic plant production and biotechnology. Funds are also included for the replacement of critical wildfire suppression equipment, promotional campaigns for agricultural commodities, citrus greening research and citrus health management areas, agricultural promotional and educational facilities, and the distribution of food to needy families through food pantries, soup kitchens, and shelters. Finally, the Outlook assumes the use of General Revenue funds to support the Agricultural Emergency Eradication Trust Fund. Section 570.1912, Florida Statutes, requires an appropriation from the General Revenue Fund to the Agriculture Emergency Eradication Trust Fund in an amount equal to the previous year's transfer into the trust fund from motor fuel tax collections. Based on the July 2014 Revenue Estimating Conference on Transportation, the Outlook provides nonrecurring General Revenue of $11.0 million in Fiscal Year 2015-16, $11.3 million in Fiscal Year 2016-17, and $11.8 million in Fiscal Year 2017-18.

General Government (Drivers #42 & #43)

42. Other General Government Priorities

Child Support Enforcement Annual Fee - The federal government requires an annual $25 fee from each non-public assistance parent utilizing the services of the Department of Revenue's Child Support Enforcement program. Historically, the Legislature has provided General Revenue funds to cover the cost of the annual $25 fee for parents utilizing child support enforcement services. The Department of Revenue will use existing trust fund cash to supplement base budget funding for Fiscal Years 2015-16 and 2016-17 to pay the annual fee. The Outlook includes $569,904 in recurring General Revenue for Fiscal Year 2017-18.

Aerial Photography - The Department of Revenue assists small county property appraisers by providing aerial photographs for counties with a population of 25,000 or less. Over the last several years, the Legislature has directed the department to provide aerial photographs for counties with a population of 50,000 or less. The Outlook continues this policy and provides nonrecurring General Revenue of $1,119,200 in Fiscal Year 2015-16, $249,253 in Fiscal Year 2016-17, and $162,371 in Fiscal Year 2017-18.

One-Stop Business Registration Portal - Section 288.109, Florida Statutes, directs the Department of Revenue to establish a business registration portal through an internet website to provide individuals and businesses with a single point of entry for transacting business in the state. Phase I funding for the project was provided in the 2012-13 fiscal year. The 2014 Legislature directed an assessment of the project to determine its functionality, analysis of data gaps, and cost. The Outlook does not include additional resources for the portal for the duration of three years. The project study is to be complete by November 2014.

Florida Interoperability Network and Mutual Aid - The state has developed and implemented the Florida Interoperability Network (FIN) and Mutual Aid (MA) channels. These systems provide local public safety emergency responders the ability to communicate on the Statewide Law Enforcement Radio Network, both in and outside of their respective jurisdictions. Network construction is complete, and the Outlook provides funding for continued operations. Historically, funding for the development and maintenance of the FIN and MA systems has been provided from federal domestic security grants; however, this funding source is no longer available. For the duration of the three-year forecast, the Outlook includes $1.6 million for the FIN in nonrecurring General Revenue. The Outlook also includes $2.7 million for MA in nonrecurring General Revenue for the 2015-16 through 2017-18 fiscal years.

Florida Accounting Information Resource (FLAIR) Overlap Positions - The Department of Financial Services maintains the FLAIR system, the state's accounting system, and processes over 52 million transactions per year. The number of warrants and electronic fund transfers produced annually exceeds 16 million. The FLAIR system was implemented in 1980, and each year there are fewer employees within the department with the knowledge of the system's technology and infrastructure. Many of the current staff are at or close to retirement age. For Fiscal Year 2015-16, $87,455 in nonrecurring General Revenue is included in the Outlook to provide resources for three employees and overlap them with current employees for training purposes. This is the last year the overlap positions and funding will be needed.

Florida Accounting Information Resource (FLAIR) Replacement - The Department of Financial Services has begun the planning and design for the next generation accounting system to replace FLAIR. This is a multi-year project, and $9 million nonrecurring from trust fund resources was provided in Fiscal Year 2014-15 to begin project development. Based upon the department's business case to replace the system, the Outlook includes nonrecurring trust fund resources of $9.8 million in Fiscal Year 2015-16, $25.5 million nonrecurring General Revenue and $19.8 million trust in the Fiscal Year 2016-17, and $18.3 million nonrecurring General Revenue and $20.2 million trust for Fiscal Year 2017-18.

43. State Building Pool – General Repairs and Maintenance

The Outlook assumes funding for repairs of facilities in the Florida Facilities Pool (state-owned facilities located throughout Florida). The Department of Management Services is responsible for maintaining these facilities. The current list of deficiencies totals approximately $100 million and includes life safety, Americans with Disabilities Act (ADA), and general building repair needs. The state facilities must be maintained in order to preserve the state's assets and for bond coverage purposes. The Outlook includes a three-year average of funding of $13.2 million in nonrecurring General Revenue and $7.6 million in nonrecurring trust fund for Fiscal Years 2015-16 through 2017-18 for general building repairs (see related driver #45 that funds critical life safety deficiency repairs).

Administered Funds and Statewide Issues (Drivers #44 & #45)

44. State Employee Pay Issues

The Outlook includes funding for state employees pay issues of $56.7 million in recurring General Revenue, $7.1 million of nonrecurring General Revenue and $36.1 million of recurring trust fund expenditures, based upon the three-year historical funding levels for competitive pay adjustments, merit and retention pay adjustments and one-time lump sum bonuses, including adjustments for groups of employees.

45. Maintenance, Repairs, and Capital Improvements – Statewide Buildings – Critical

Human Services – Maintenance and repair projects are based on critical life safety issues for state-owned facilities which include state laboratories and state institutions. These Other High Priority Needs provide the Department of Health, the Department of Children and Families and the Agency for Persons with Disabilities with nonrecurring General Revenue of $15.7 million for Fiscal Year 2015-16, $7.7 million for Fiscal Year 2016-17, and $3.2 million for Fiscal Year 2017-18.

Criminal Justice **-** With a surplus capacity of prison beds, the Department of Corrections shuttered prisons and closed work camps during Fiscal Years 2010-11 and 2011-12 and transferred the inmates to more efficient and less costly correctional facilities. Although new construction is not needed, additional funds are necessary to maintain the state's correctional facilities. The Outlook includes $6.8 million nonrecurring General Revenue each year based on the department's current repair and maintenance needs, rather than the average funding over the last three years.

The Department of Juvenile Justice is responsible for the upkeep and care of 94 residential and detention facilities. The Legislature recognizes the importance of keeping these facilities safe and functional. The Outlook includes $7.1 million nonrecurring General Revenue each year based on the department's current critical repair and maintenance needs, rather than the average funding over the last three years.

Judicial Branch - The state is responsible for the facility needs of the Supreme Court and district courts of appeal. The Outlook includes $5.5 million nonrecurring General Revenue each year based on the average funding over the last three years.

Department of Transportation - The Outlook assumes funding for environmental site restoration and capital renewal projects affecting critical life, health, and safety issues at various Department of Transportation (DOT) facilities located throughout the state. The environmental site restoration is a remediation effort to restore facilities to an environmentally uncontaminated, clean, and safe condition based on the Federal Resource Conservation and Recovery Act. Capital renewal projects include repairs, replacement, renovation, and improvements to DOT statewide facilities for code compliance and improving health and welfare concerns. Based on a projection of code correction issues for the coming year, and a three-year average of historical funding of environmental site restoration, the Outlook includes $4.3 million per year in State Transportation Trust Fund revenues.

Natural Resources - The Outlook assumes funding for life and safety repairs for agricultural infrastructure located throughout the state. These improvements include state offices, forestry wildfire prevention facilities, and state farmers markets. The Outlook includes nonrecurring General Revenue of $1.3 million for Fiscal Year 2015-16, $160,000 for Fiscal Year 2016-17, and $260,000 for Fiscal Year 2017-18.

General Government - The Outlook assumes funding for repairs of facilities in the Florida Facilities Pool (state-owned facilities located throughout Florida). The Department of Management Services is responsible for maintaining these facilities. The current list of deficiencies totals approximately $100 million and includes life safety, Americans with Disabilities Act (ADA), and general building repair needs. The state facilities must be maintained in order to preserve the state's assets and for bond coverage purposes. The Outlook includes a three-year average of funding of $4.3 million in nonrecurring General Revenue for Fiscal Years 2015-16 through 2017-18 for life safety and ADA deficiencies.