Florida:
Long-Range Financial Outlook

September 12, 2013

Presented by:

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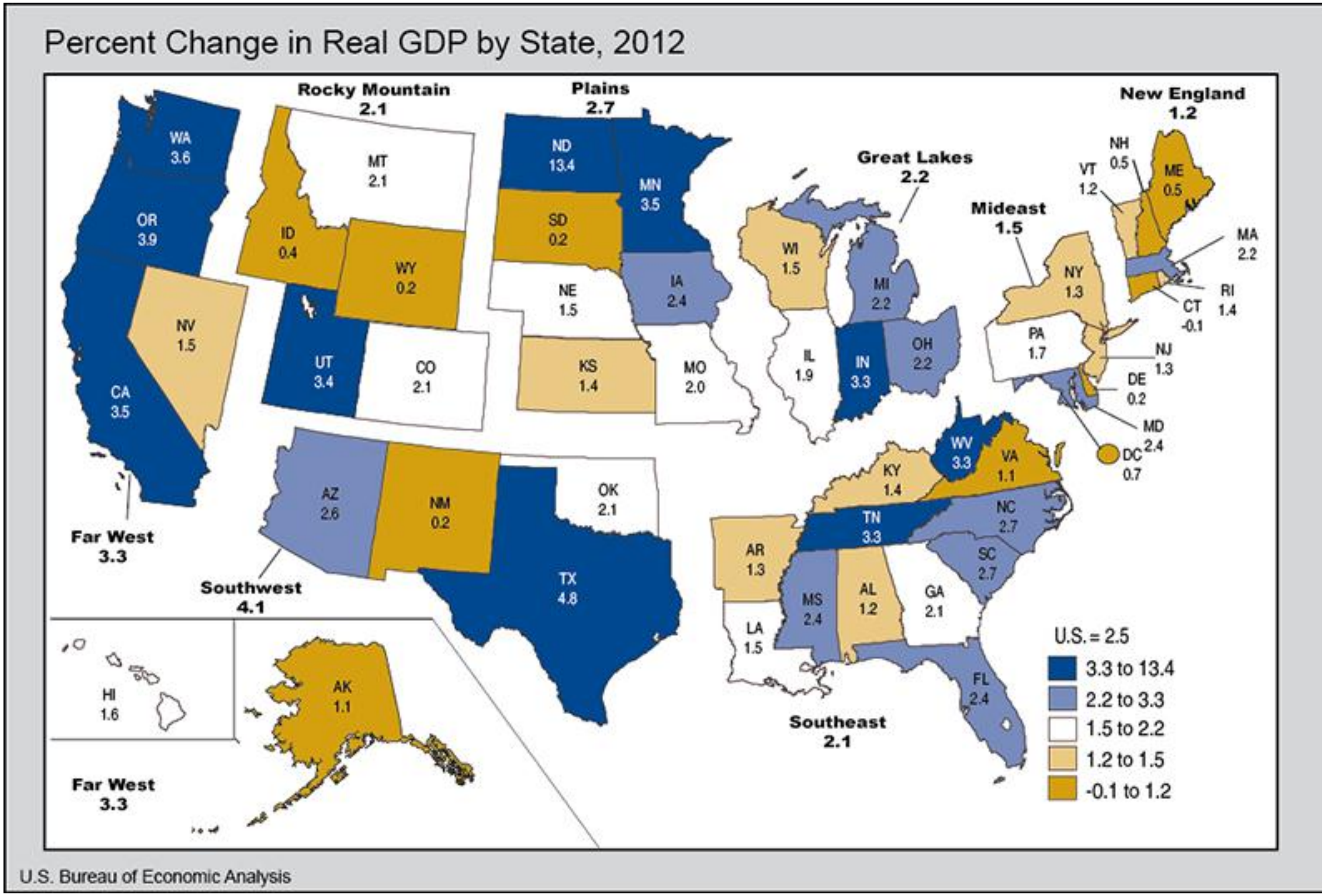
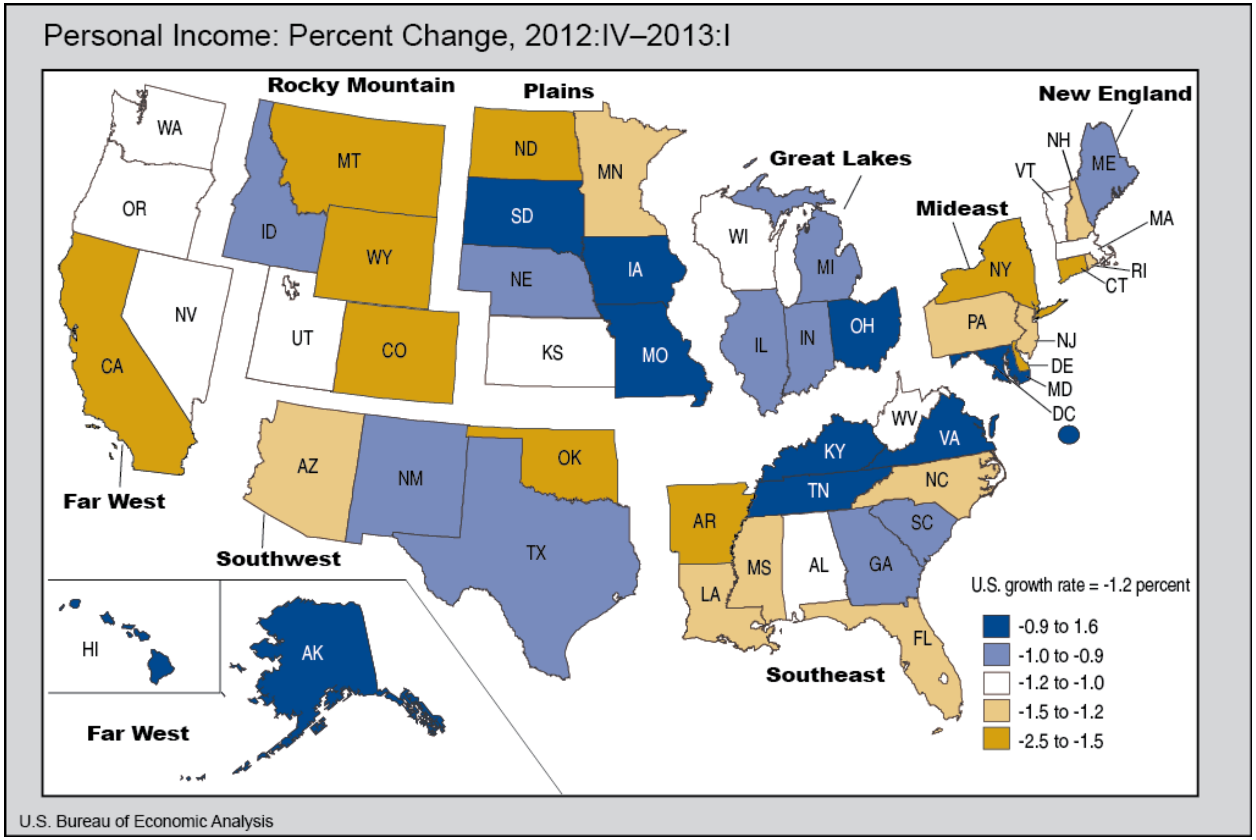
Economy Strongly Improved in 2012



In 2012, Florida's economic growth was in positive territory for the third year after declining two years in a row. State Gross Domestic Product (GDP) ranked us 14th in the nation in real growth with a gain of 2.4%, just slightly below the national average of 2.5%.

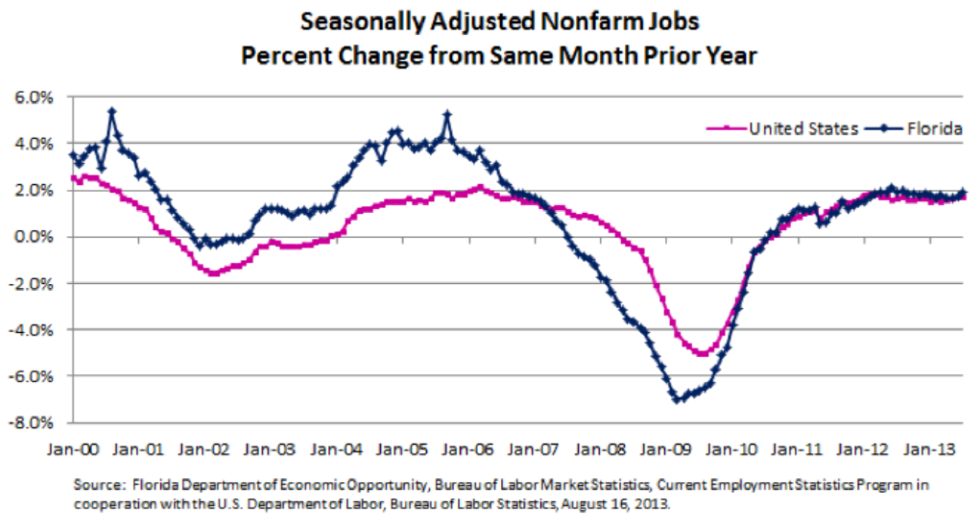
After 2012 Growth, FL Personal Income Falls in 2013:Q1



Florida finished the 2012 calendar year with **3.2%** growth over 2011, putting the state only slightly below the national growth rate of 3.5%. Losing some ground in the first quarter of 2013, Florida saw a **-1.5%** change from the last quarter of 2012 and dropped in rank to 39th in the nation.

In Florida, losses in both net earnings and property income led to the slow-down. They reflected the expiration of the payroll tax holiday and the acceleration of dividends and salary bonuses into 2012:Q4. First-quarter property income (dividends, interest, and rent) fell the most in California (-$10.9 billion), but Florida closely followed (-$9.3 billion) with a decline in this category greater than in earnings.

Current Employment Conditions



<u>July Nonfarm Jobs (YOY)</u>

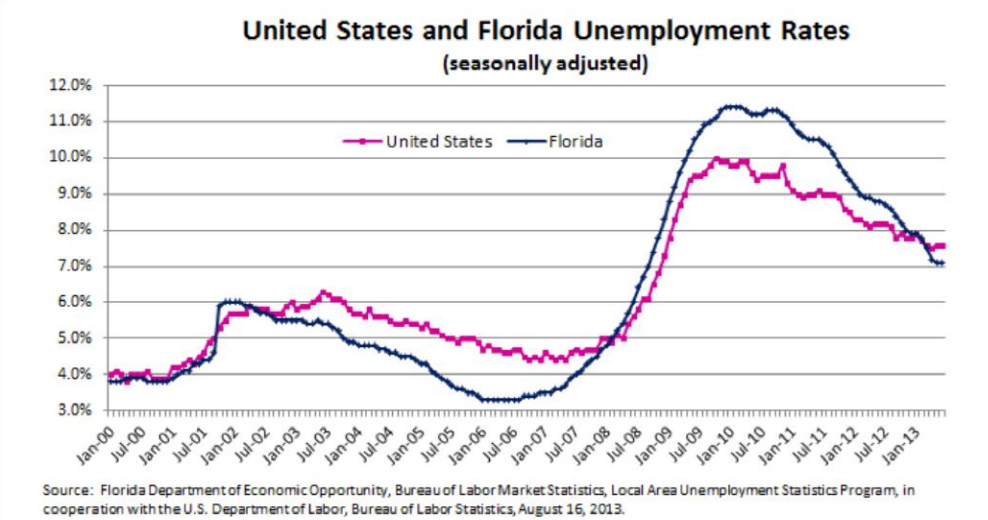
US	1.7%
FL	1.9%
YR:	143,700 jobs
Peak:	-515,100 jobs

<u>July Unemployment Rate</u>

US 7.4%
FL 7.1%
(665,000 people)

<u>Highest Monthly Rate</u>

11.4%
December 2009 through March 2010



Additional Job Market Indicators

- A distinguishing characteristic of the Great Recession has been national labor market conditions that continue to disappoint even though other economic indicators have shown clear signs of recovery.

- Consistent with national trends, the job market will take a long time to recover – Florida is still about 515,100 jobs below the most recent peak. Rehiring, while necessary, will not be enough.

  - Florida's prime working-age population (aged 25-54) is forecast to add about 2,900 people per month, so the hole is deeper than it looks.

  - It would take the creation of about 900,000 jobs for the same percentage of the total population to be working as was the case at the peak.

- Florida's labor force participation rate in July was 60.0%, the lowest level since February 1986. Like the nation as a whole, the drop in the labor force participation rate is continuing to impact the unemployment rate.

- Florida's average annual wage has typically been below the US average. The preliminary data for the 2012 calendar year showed that it further declined to 87.7% of the US. Although Florida's wage level actually increased over the prior year, the US average annual wage increased more.

Population Growth Recovering

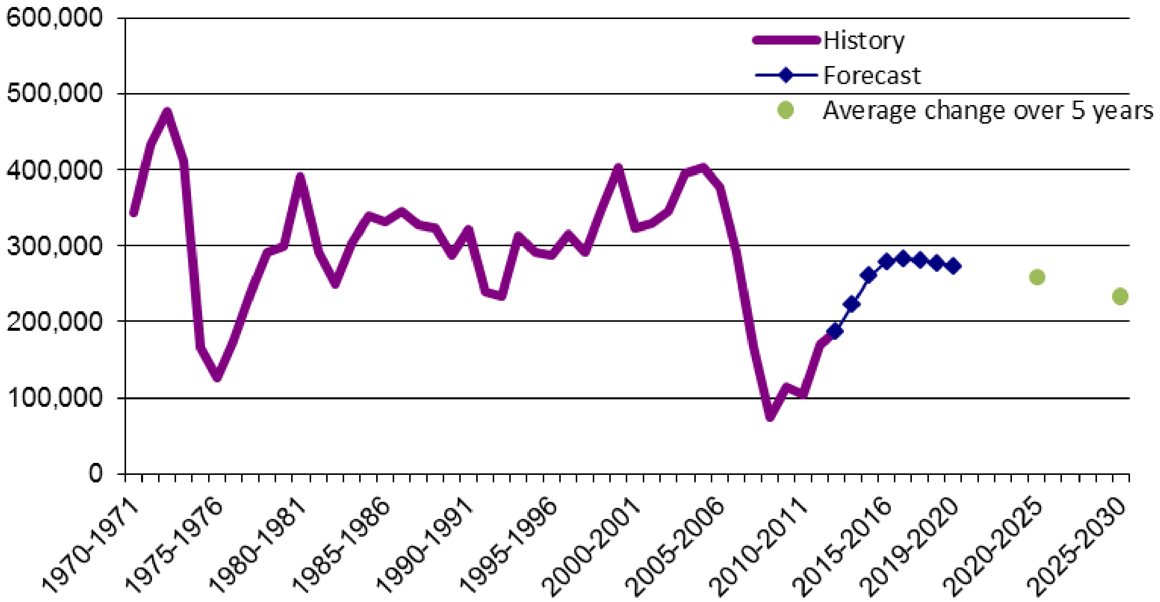
- Population growth is the state's primary engine of economic growth, fueling both employment and income growth.

- Population growth is forecast to continue strengthening, showing increasing rates of growth over the next few years. In the near-term, growth is expected to average 1.2% between 2012 and 2015 – and then continue its recovery in the future, averaging 1.4% between 2015 and 2020. Most of Florida's population growth through 2030 will be from net migration (89.6%). Nationally, average annual growth will be about 0.74% between 2012 and 2030.

- The future will be different than the past; Florida's long-term growth rate between 1970 and 1995 was over 3%.

- Florida is on track to break the 20 million mark during 2016, becoming the third most populous state sometime before then – surpassing New York.

Florida’s Population Growth



Population:

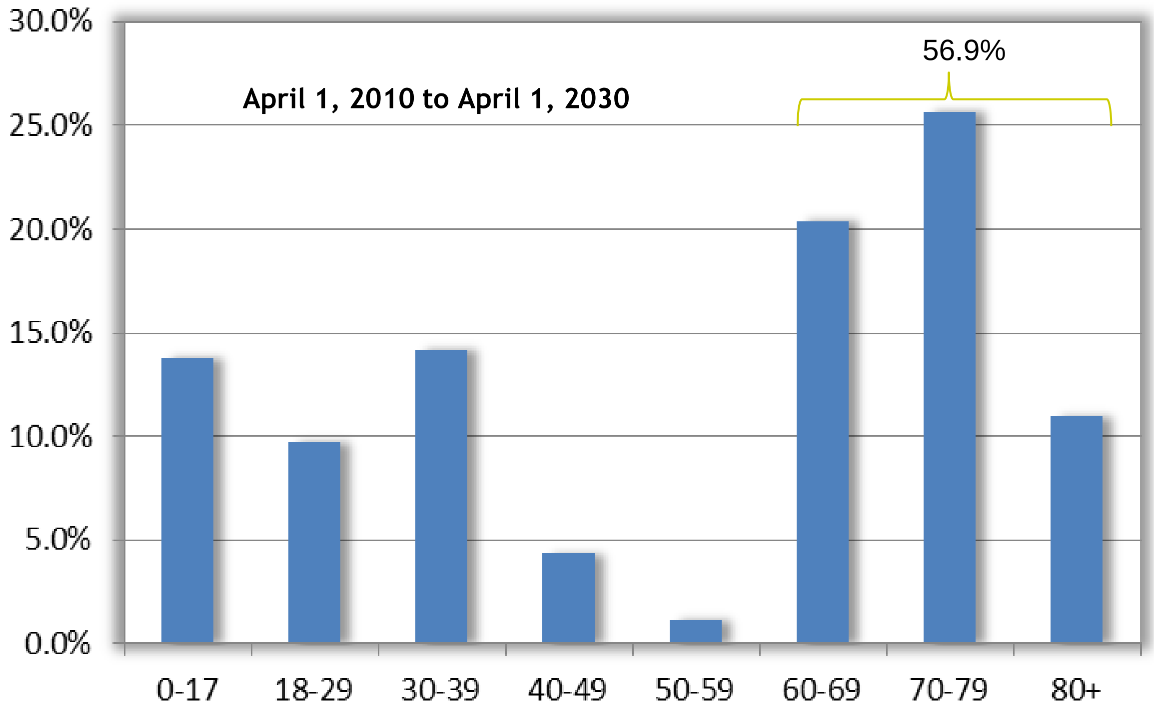
- Average annual increase between 2000 and 2006 was: 361,942
- Average annual increase between 2007 and 2012 was: 125,533

Population is forecast to increase on average by:

- 223,647 between 2012 and 2015—a gain of 613 per day
- 278,360 between 2015 and 2020—a gain of 763 per day
- 258,837 between 2020 and 2025—a gain of 709 per day
- 233,380 between 2025 and 2030—a gain of 639 per day

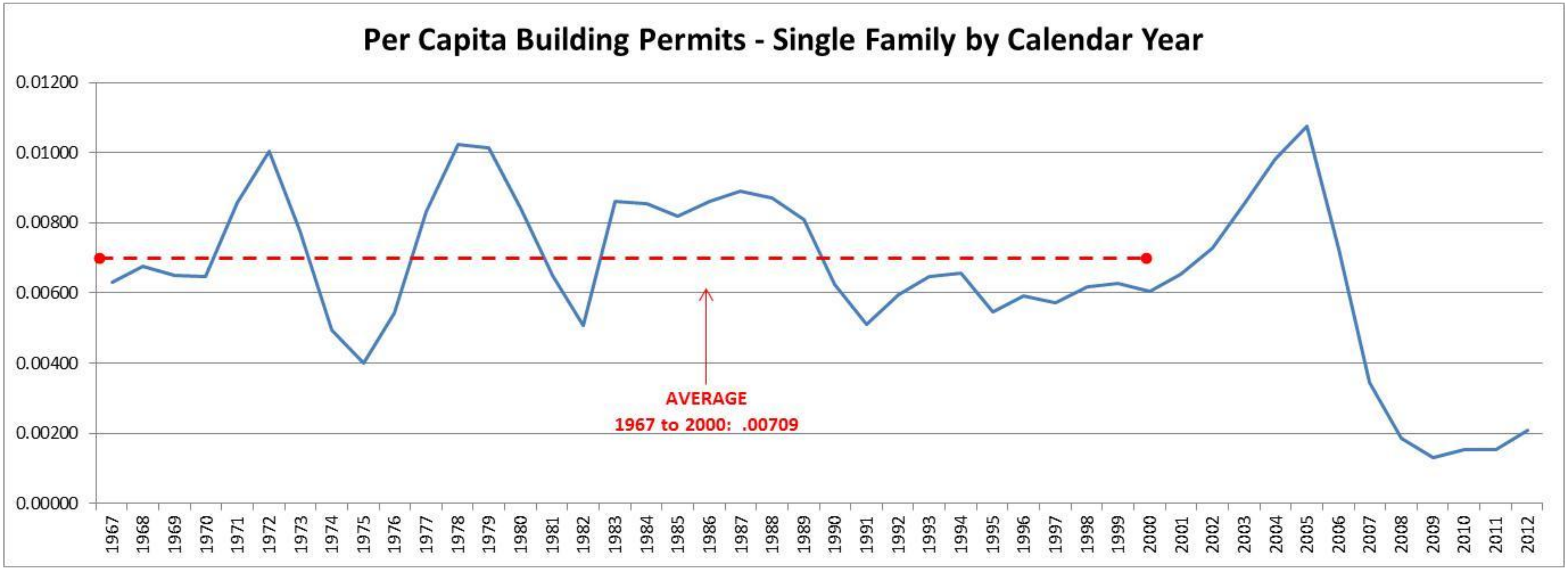
2012:
Hialeah...227,395
Orlando...245,402
St. Petersburg...247,673

Population Growth by Age Group



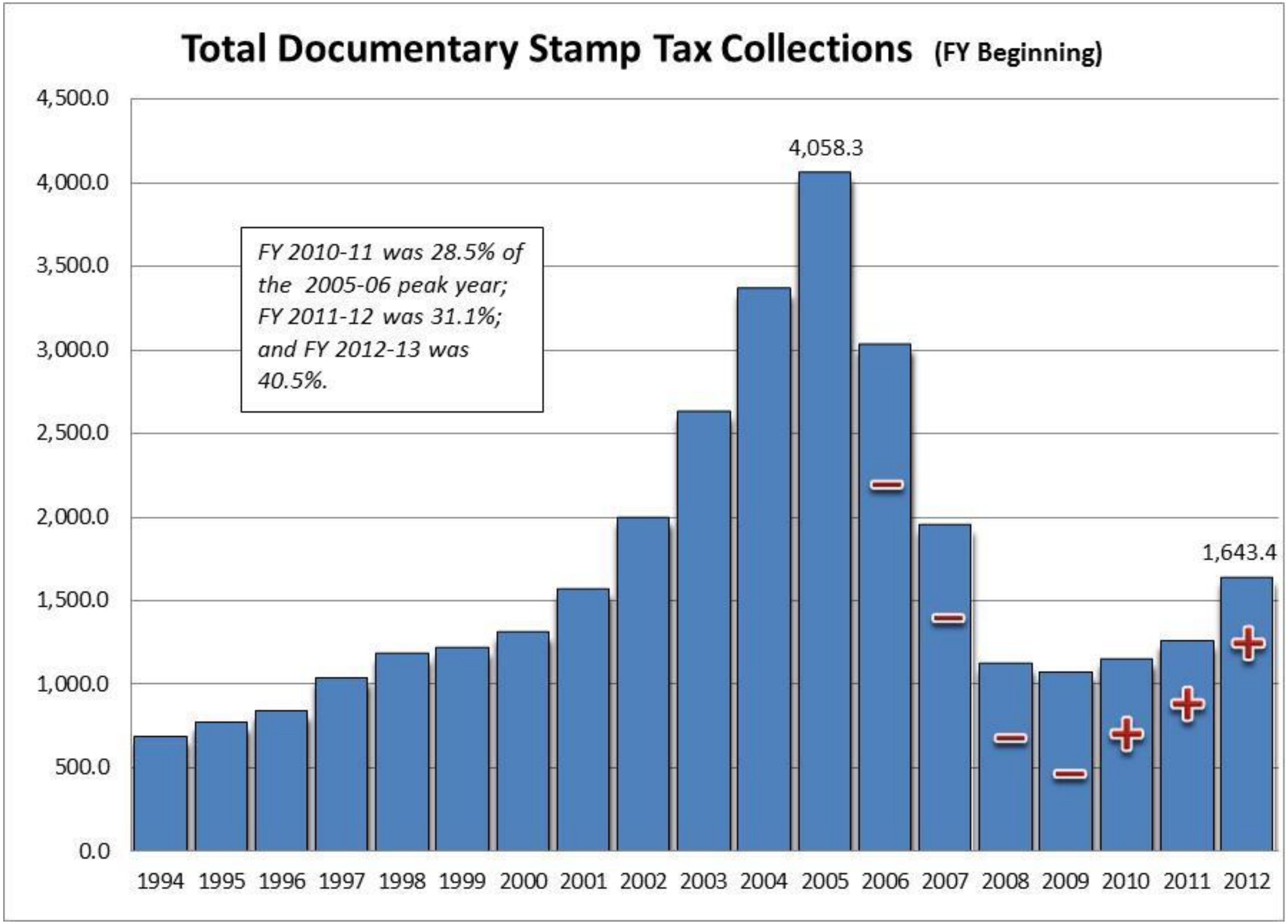
- Between 2010 and 2030, Florida's population is forecast to grow by almost 4.8 million.
- Florida's older population (age 60 and older) will account for most of Florida's population growth, representing 56.9 percent of the gains.
- Florida's younger population (age 0-17) will account for 13.8 percent of the gains.

Florida Housing is Generally Improving



Building permit activity, an indicator of new construction, is back in positive territory, showing strong (32.4%) calendar year growth in 2012. For the first six months of the 2013 calendar year, permits were running 46.2% above the same timeframe in the prior year, but the level is still low by historic standards.

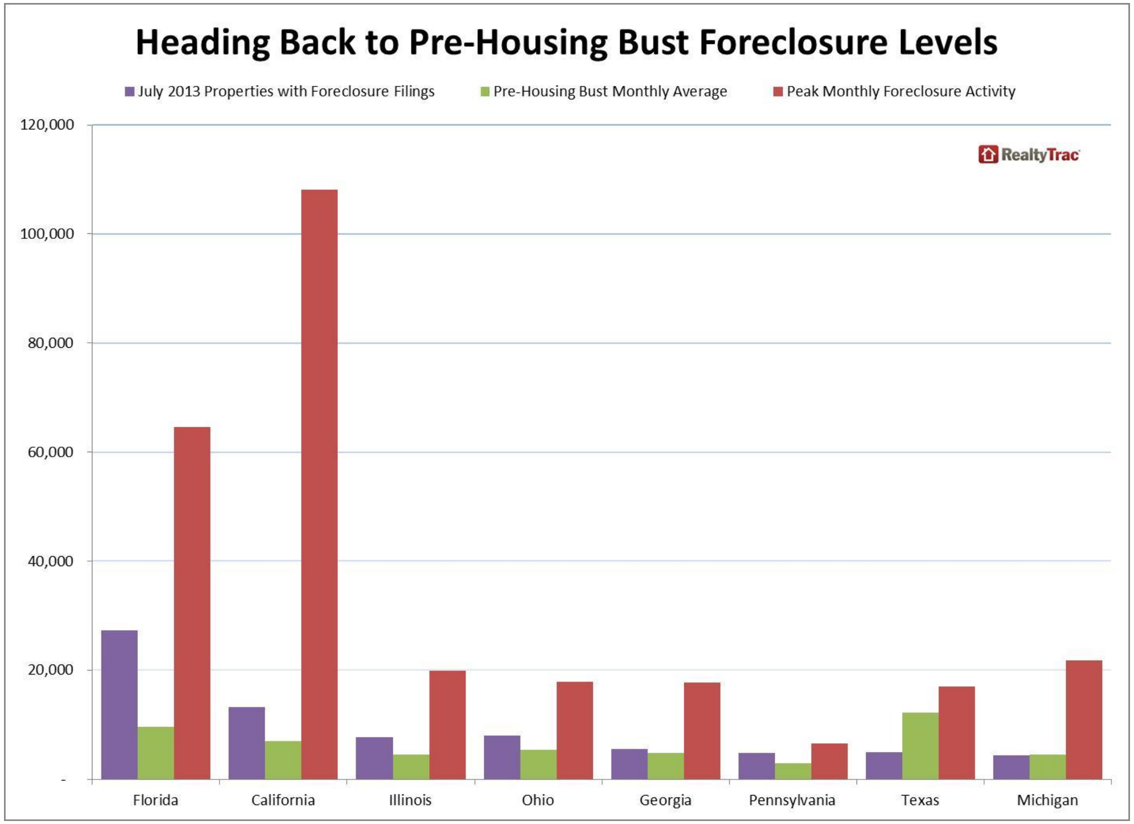
Documentary Stamp Collections
(Reflecting All Activity)



Foreclosure Activity Remains Daunting

2012 Calendar Year…

Florida had the highest Foreclosure Rate in the US for the first time since the housing crisis began. (3.11% of housing units received at least 1 filing)



July 2013, compared to US:

- *Highest State for # of Filings*
- *Highest State for Foreclosure Rate*
- *Among US Metro Area rates: 9 of the top 10 highest metro rates in the nation were in Florida.*

Jacksonville #1
Miami-Fort Lauderdale #2
Port St. Lucie #3
Ocala #4
Palm Bay-Melbourne #5

"Florida posted the nation's highest state foreclosure rate for the third consecutive month in July: one in every 328 housing units with a foreclosure filing during the month—more than three times the national average. Florida foreclosure activity increased 8 percent from the previous month and was up 7 percent from a year ago. Florida foreclosure activity has increased on an annual basis in 16 of the last 19 months...scheduled foreclosure auctions increased 74 percent from a year ago and bank repossessions increased 13 percent from a year ago." *RealtyTrac*

Data from RealtyTrac

Foreclosures & Shadow Inventory

State	Del %	FC %	Non-Curr %	Yr/Yr Change in NC%
National	6.7%	2.9%	9.6%	-14.5%
FL *	7.0%	9.5%	16.6%	-21.7%
MS	13.1%	2.4%	15.4%	-9.1%
NJ *	8.2%	7.1%	15.3%	-4.1%
NY *	7.4%	5.8%	13.1%	-1.4%
ME *	7.1%	5.3%	12.4%	-3.1%
NV	7.7%	4.6%	12.4%	-23.0%
RI	9.1%	3.2%	12.3%	-2.7%
MD *	8.0%	3.8%	11.8%	-9.2%
LA *	9.4%	2.4%	11.8%	-7.9%
CT *	6.8%	4.8%	11.7%	-5.6%
IL *	7.0%	4.3%	11.3%	-17.7%
IN *	8.1%	2.9%	11.0%	-10.6%
AL	9.5%	1.4%	10.9%	-4.0%
DE *	8.0%	2.9%	10.8%	-4.9%
OH *	7.7%	3.1%	10.8%	-11.7%
PA *	7.6%	3.1%	10.7%	-5.2%
AR	8.3%	2.2%	10.5%	-8.1%

State	Del %	FC %	Non-Curr %	Yr/Yr Change in NC%
National	6.7%	2.9%	9.6%	-14.5%
HI *	4.7%	5.7%	10.5%	-10.6%
GA	8.7%	1.7%	10.4%	-15.5%
SC *	7.1%	3.1%	10.2%	-13.7%
TN	8.8%	1.3%	10.2%	-8.8%
WV	8.6%	1.4%	10.0%	-7.1%
MA	7.5%	2.3%	9.8%	-2.6%
OK *	6.9%	2.6%	9.5%	-5.6%
NC	7.3%	1.8%	9.0%	-13.8%
VT *	5.4%	3.5%	8.9%	-1.3%
KY *	6.6%			
DC	6.1%			
NM *	5.4%			
WI *	6.2%			
TX	7.2%			
MI	6.9%			
MO	7.0%			
NH	6.5%			

State	Del %	FC %	Non-Curr %	Yr/Yr Change in NC%
National	6.7%	2.9%	9.6%	-14.5%
KS *	6.1%	1.5%	7.6%	-9.3%
WA	5.2%	2.4%	7.6%	-21.6%
IA *	5.1%	2.2%	7.3%	-8.0%
OR	4.1%	3.1%	7.2%	-12.1%
UT	5.7%	1.4%	7.1%	-15.8%
ID	4.4%	2.3%	6.7%	-14.4%
CA	5.2%	1.2%	6.4%	-28.9%
VA	5.5%	0.9%	6.4%	-12.6%
NE *	5.1%	1.0%	6.0%	-5.4%
				-33.0%
				-17.9%
				-18.7%
				-1.7%
				-15.5%
				-9.6%
				-10.9%
				-9.7%

** - Indicates Judicial State*

State	Del %	FC %	Non-Curr %
National	6.7%	2.9%	9.6%
FL *	7.0%	9.5%	16.6%

LPS Data: July Mortgage Monitor

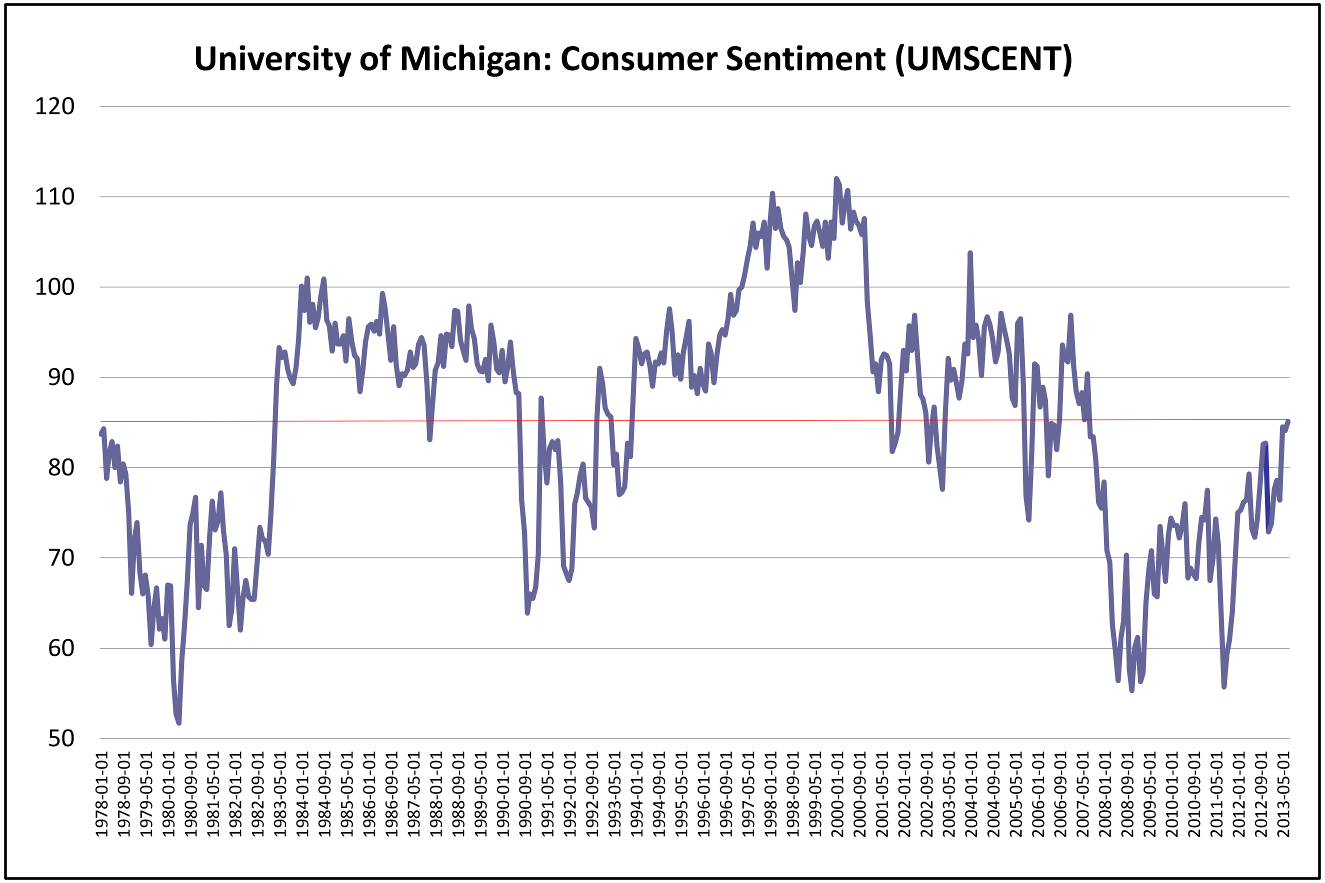
With the exception of the June data shown above, the front end of the foreclosure stream—comprised of mortgages newly falling into delinquency—has steadily declined over the course of the 2013 calendar year. There are several reasons for this, but one is the federal homeowner assistance program activity. Florida's "underwater" homes declined from a high of 50% of all residential mortgages to about 26% in the most recent data.

Upside Risk for Construction

- 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 distressed beyond realistic use, in that they have not been physically maintained or are located in distressed pockets that will not come back in a reasonable timeframe. This means that the 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 quicker than expected.

Consumer Perceptions Recover



Nationally, consumer sentiment had been improving, but fell in August 2011 to near the lowest level of the Great Recession and not far from the lowest level ever posted. The index reading dropped again in December 2012 as concerns about the Fiscal Cliff took hold and is now recovering, with a surge in May to the highest level in nearly 6 years. The preliminary numbers for August indicate a sharp drop in that level to 80.0—but otherwise, the series is nearly back to its average since inception (84.1 for June; 85.1 in July; 85.2 average).

Economy Recovering

Florida growth rates are gradually returning to more typical levels. But, drags are more persistent than past events, and it will take a few more years to climb completely out of the hole left by the recession. In the various forecasts, normalcy has been largely achieved by FY 2016-17. Overall...

- The recovery in the national economy is well underway. While most areas of commercial and consumer credit are strengthening – residential credit still remains sluggish and difficult for consumers to access but has shown recent improvement.

- The subsequent turnaround in Florida housing will be led by:
  - Low home prices that begin to attract buyers and clear the inventory.
  - Long-run sustainable demand caused by continued population growth and household formation that has been pent-up.
  - Florida's unique demographics and the aging of the baby-boom generation (2011 marked the first wave of boomers hitting retirement).

Debt Analysis

- In Fitch's August 2013 rating of the state, they highlighted the state's strong financial management practices saying "The state employs sound financial management practices, including the use of consensus revenue estimating, and has a history of prompt action to maintain fiscal balances and reserves." Further, "The Florida legislature consistently and promptly addressed numerous large negative revenue estimate revisions during the downturn, maintaining budget balance and an adequate reserve position."

  - Highest Level Credit Ratings: Fitch "AAA" with stable outlook (improved from negative outlook); Moody's "Aa1" with stable outlook (unchanged); Standard and Poor's "AAA" with stable outlook (unchanged).

  - Total state debt outstanding at June 30, 2012, was $26.2 billion. Of this, net tax-supported debt totaled $21.6 billion for programs supported by state tax revenues or tax-like revenues. Based on existing borrowing plans, total state debt outstanding is expected to continue to slowly decline as annual debt retirement increases and new debt issuance decreases. (Total state direct debt outstanding for June 30, 2013, is projected to have declined another $1.5 billion to $24.6 billion).

  - During the Outlook period, debt service payments will total about $1.9 billion per year, a decrease from previous years due to the retirement of the Preservation 2000 bonds.

Budget Gaps Identified in Previous Outlooks

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

Each Long-Range Financial Outlook provides the first look at the likely scenario facing the Legislature in its preparation of the budget for the following fiscal year. Four of the seven constitutionally required Outlooks showed substantial budget gaps, or potential shortfalls between revenues and expenditures, at the time of adoption. The gaps indicated that a structural imbalance—where budget growth outpaces expenditure growth—was plaguing the state. The most recent three years have presented a different story.

Impact of Prior Year's Actions...

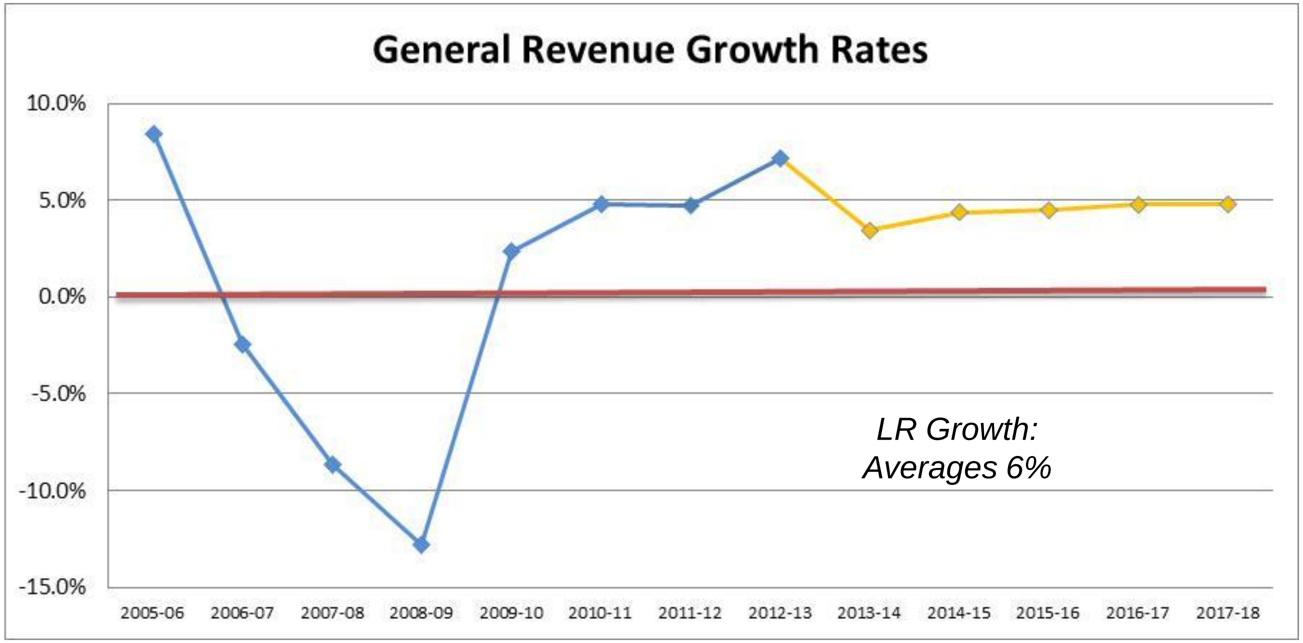
- Legislative actions, particularly during the 2011 and 2012 Sessions, to close the projected budget gap through ***recurring*** means positively impacted the state's bottom line in subsequent years.

- In this regard, total estimated expenditures for future years were constrained by the amount of recurring expenditure reductions taken in prior fiscal years.

- Along with the improving economy, this has greatly improved the Long-Range Financial Outlook's bottom line.

- The results shown in the 2013 Outlook are the most encouraging in the seven-year history of the document's production.

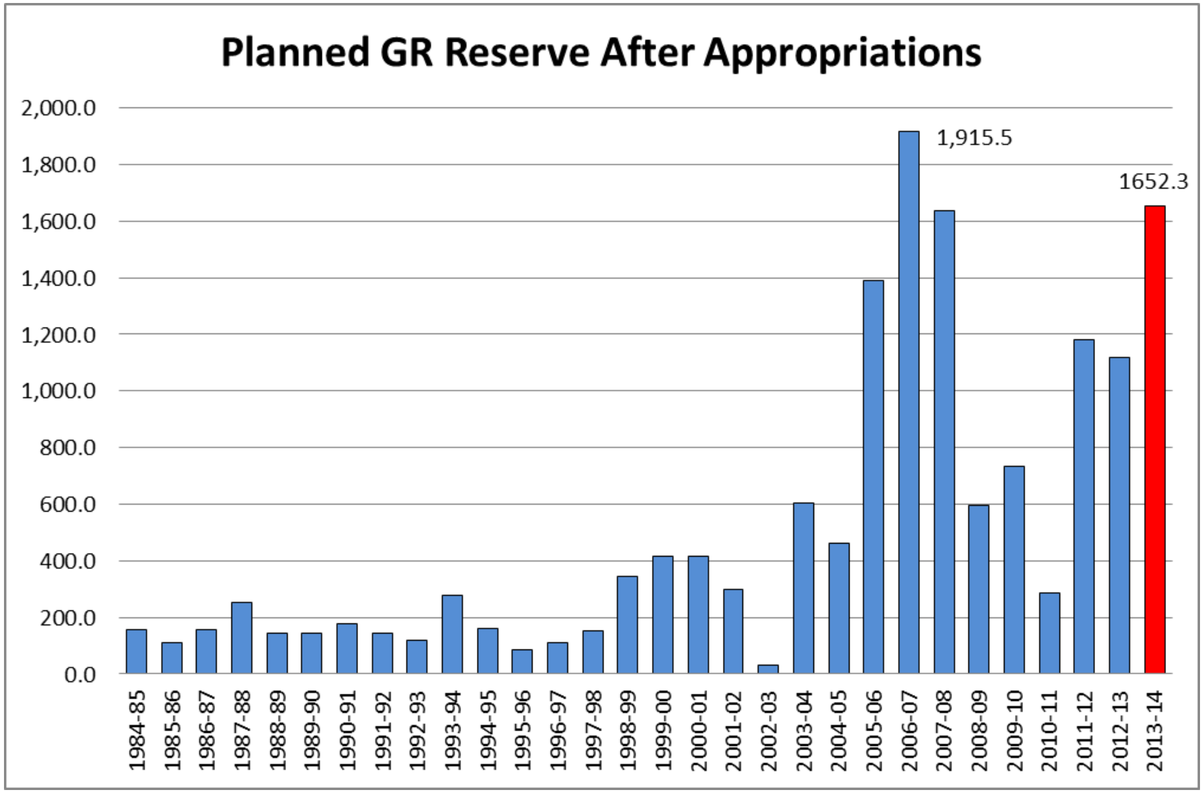
General Revenue Forecast



Fiscal Year	Post-Session Forecast	August Forecast	Difference	Incremental Growth	Growth
2005-06	27074.8	[redacted]	[redacted]	[redacted]	8.4%
2006-07	26404.1	[redacted]	[redacted]	[redacted]	-2.5%
2007-08	24112.1	[redacted]	[redacted]	[redacted]	-8.7%
2008-09	21025.6	[redacted]	[redacted]	[redacted]	-12.8%
2009-10	21523.1	[redacted]	[redacted]	[redacted]	2.4%
2010-11	22551.6	[redacted]	[redacted]	[redacted]	4.8%
2011-12	23618.8	[redacted]	[redacted]	[redacted]	4.7%
2012-13	25020.6	25314.6	294.0	1695.8	7.2%
2013-14	26006.4	26184.2	177.8	869.6	3.4%
2014-15	27075.6	27333.2	257.6	1149.0	4.4%
2015-16	28144.6	28560.9	416.3	1227.7	4.5%
2016-17	29401.1	29920.8	519.7	1359.9	4.8%
2017-18	30942.6	31354.9	412.3	1434.1	4.8%

The growth rates for FY 2012-13 and FY 2013-14 are slightly distorted by the receipt of the $200.1 million deposit from the National Mortgage Settlement Agreement. After adjusting for this deposit, the underlying growth rates are 6.3% and 4.3%, respectively.

GR Unallocated & Other Reserves



The final General Revenue reserve balance has since increased by $241.2 million, as a result of greater than expected 2012-13 revenue collections and the new revenue forecast for 2013-14. The balance is now projected to be $1,893.5 million for the fiscal year. Combined with the $924.8 million expected in the Budget Stabilization Fund and approximately $536.3 million that is available in the Lawton Chiles Endowment Fund, the total across all sources that are traditionally mentioned as reserves is $3,354.6 million or 12.8 percent of General Revenue collections for FY 2013-14.

GR Outlook Balance for FY 2013-14

REVENUES	REC	N/R	TOTAL
2013-14 Ending Balance on Post-Session Outlook	**-469.1**	**2121.4**	**1652.3**
-PLUS- Revenue Surplus from 2012-13	0.0	93.9	93.9
-PLUS- End of Year Adj & Forecast Changes	214.0	-66.7	147.3
BALANCE ON CURRENT OFFICIAL OUTLOOK	-255.1	2148.6	1893.5

ADJUSTMENTS			
-MINUS- Reserve for Projected DOC Deficit	0.0	-24.0	-24.0
-MINUS- Reserve for Projected DJJ Deficit	0.0	-18.4	-18.4
ADJUSTMENTS TOTAL	**0.0**	**-42.4**	**-42.4**

BALANCE FOR LONG-RANGE FINANCIAL OUTLOOK **1851.1**

A projected remaining balance of $1.85 billion in nonrecurring dollars is assumed to be available for use in FY 2014-15.

Budget Drivers

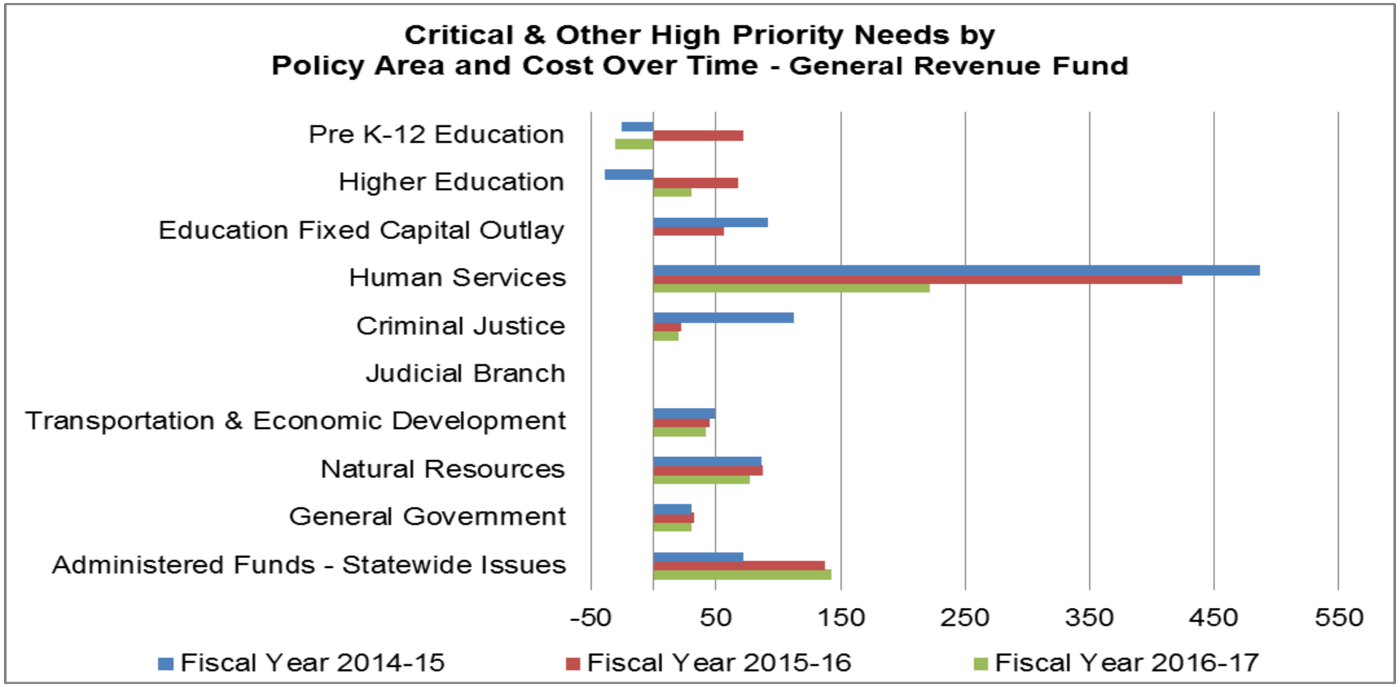
- Critical Needs are mandatory increases based on estimating conferences and other essential items. The **eighteen** Critical Needs drivers represent the minimum cost to fund the budget without significant programmatic changes. For the General Revenue Fund, the greatest burden occurs in FY 2015-16.

- The **twenty-five** Other High Priority Needs drivers represent a conservative approach to issues that have been funded in most of the recent budget years. Unlike the Critical Needs, the greatest General Revenue burden occurs in the first year.

DOLLAR VALUE OF
CRITICAL AND OTHER HIGH PRIORITY NEEDS

GENERAL REVENUE FUND	Fiscal Year 2014-15	Fiscal Year 2015-16	Fiscal Year 2016-17
Total Tier 1 - Critical Needs	408.2	623.3	283.8
Total - Other High Priority Needs	455.7	321.7	248.3
Total Tier 2 - Critical and Other High Priority Needs	863.9	945.0	532.1

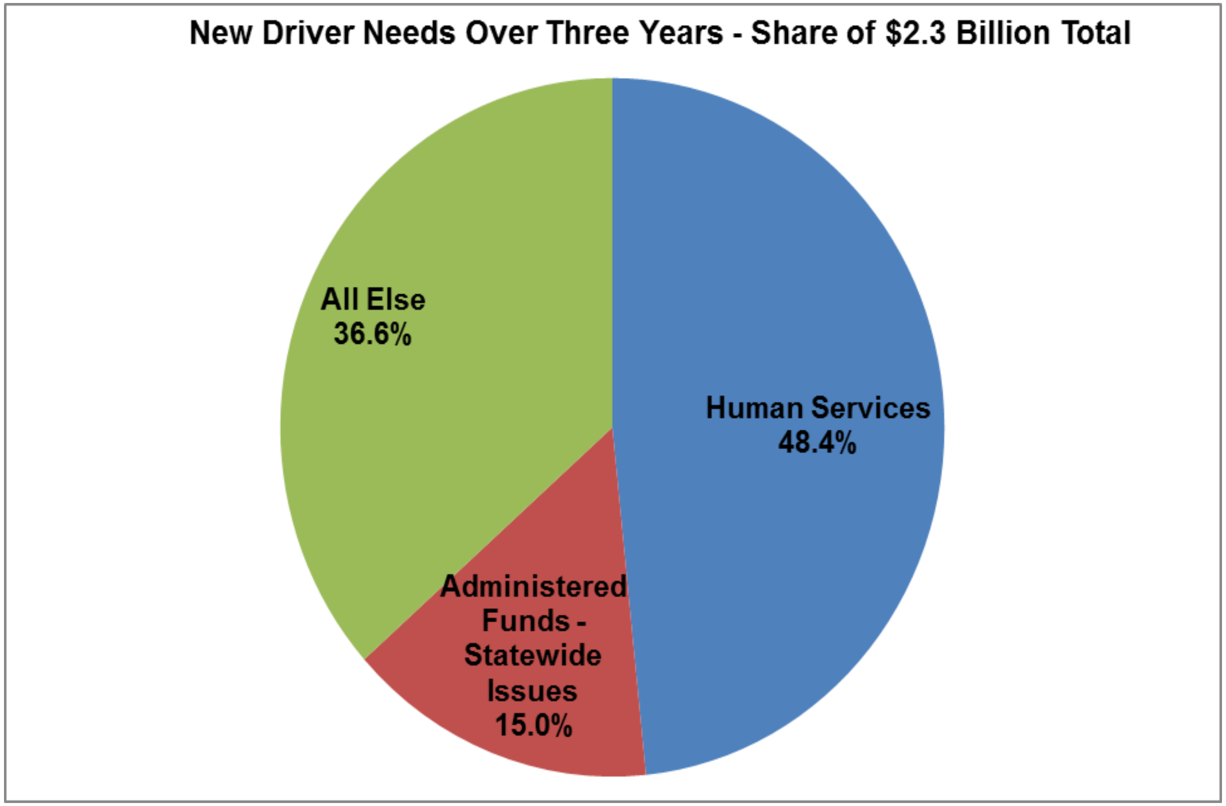
GR Drivers by Policy Area



POLICY AREAS	Fiscal Year 2014-15	Fiscal Year 2015-16	Fiscal Year 2016-17
Pre K-12 Education	(25.8)	72.0	(30.7)
Higher Education	(39.4)	67.8	30.7
Education Fixed Capital Outlay	92.2	56.2	0.0
Human Services	486.8	424.6	221.3
Criminal Justice	112.2	22.5	19.5
Judicial Branch	0.0	0.0	0.0
Transportation & Economic Development	49.2	44.6	41.3
Natural Resources	86.3	87.7	76.9
General Government	30.0	32.1	30.7
Administered Funds - Statewide Issues	72.4	137.5	142.4
Total New Issues	863.9	945.0	532.1

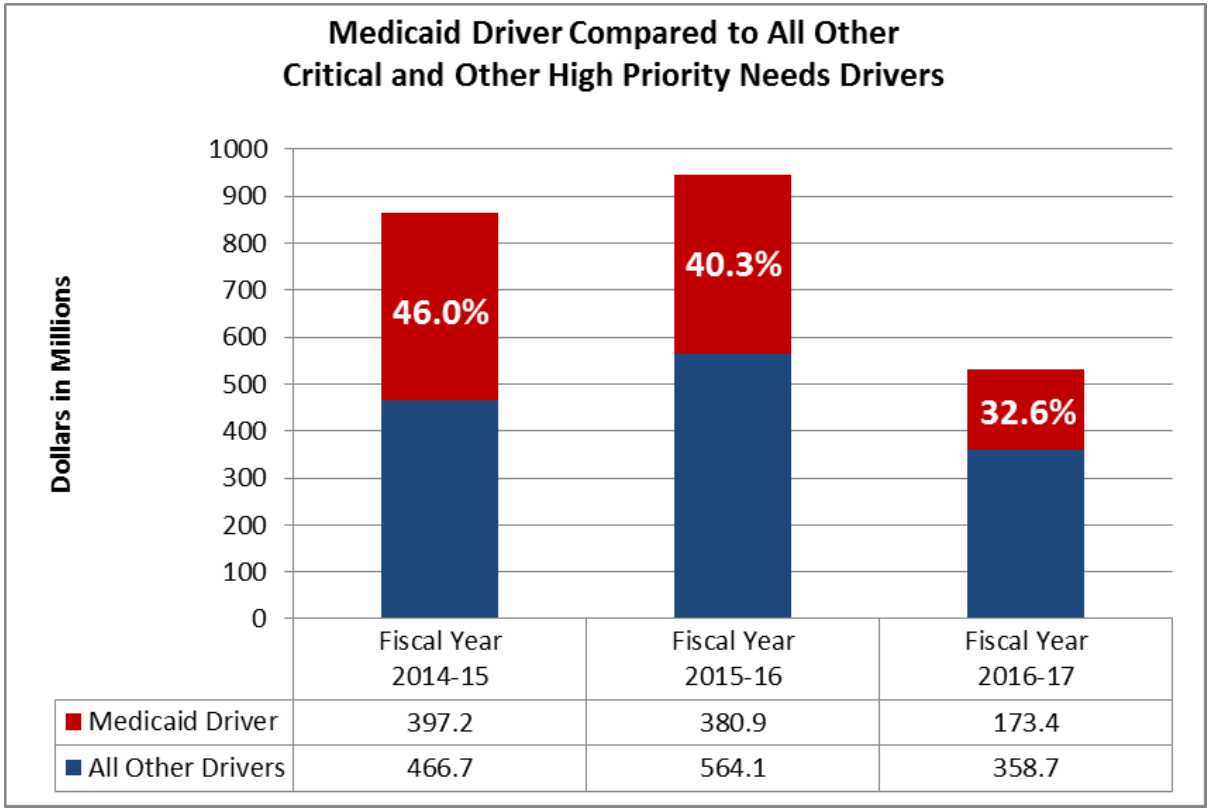
Negative adjustments to the Pre K-12 and Higher Education policy areas reflect the use of state trust funds to fund workload, thus reducing the need for GR. The use of trust funds rather than GR does not affect the calculated need for dollars to maintain funding levels for core education programs.

Three-Year Outlook Period



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. This year, Human Services is the only policy area that has double-digit percentages of the total in all three years of the Outlook.

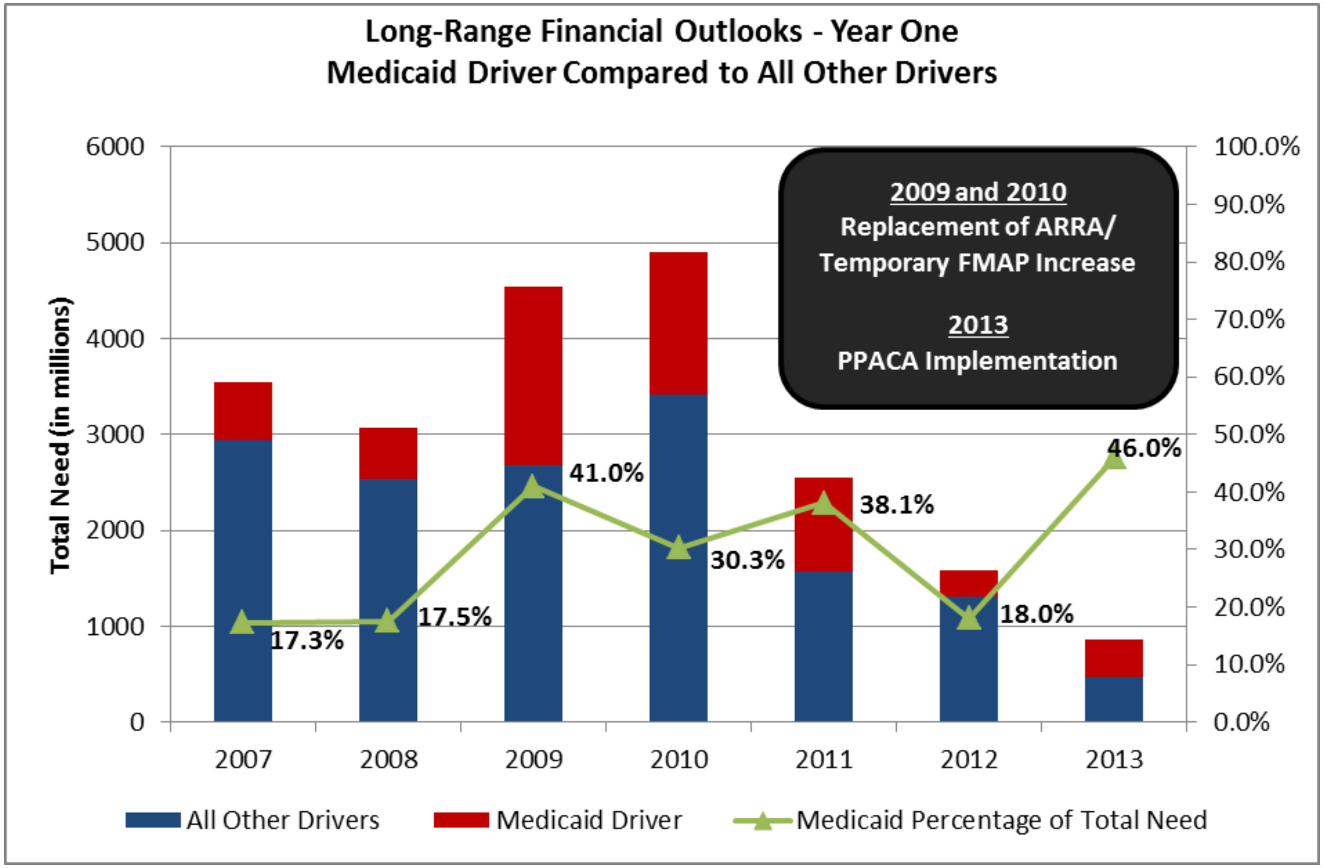
Medicaid is the Largest Driver



	Fiscal Year 2014-15	Fiscal Year 2015-16	Fiscal Year 2016-17
Medicaid Driver	397.2	380.9	173.4
All Other Drivers	466.7	564.1	358.7

The Medicaid Program driver is the single largest Critical Needs driver in all three years of the Outlook. Broadening the scope to look across all drivers, it represents 46.0 percent, 40.3 percent, and 32.6 percent of total Critical and Other High Priority Needs. This is driven in part by (1) introduction of PPACA woodworking effect; (2) transition of certain CHIP kids to Medicaid; (3) still elevated TANF population; (4) reduction in Health Care Trust Fund; and (5) managed care savings yet to be incorporated in the estimate.

Medicaid as Share of Total Need



Although the Medicaid Program driver represents almost half of the total need in Year One of the 2013 Outlook, the overall amount of Critical and Other High Priority Needs has declined in recent years due to constrained budget growth and the improving economy.

Putting It Together for the First Year

OUTLOOK PROJECTION – FISCAL YEAR 2014-15 *(in millions)*			
	RECURRING	NON RECURRING	TOTAL
AVAILABLE GENERAL REVENUE	**$27,310.0**	**$1,967.2**	**$29,277.2**
Base Budget	$26,353.1	$0.0	$26,353.1
Transfer to Budget Stabilization Fund	$0.0	$214.5	$214.5
Critical Needs	$370.9	$37.3	$408.2
Other High Priority Needs	$189.3	$266.4	$455.7
Reserve	$0.0	$1,000.0	$1,000.0
TOTAL	**$26,913.3**	**$1,518.2**	**$28,431.5**
BALANCE	**$396.7**	**$449.0**	**$845.7**

Combined, recurring and nonrecurring General Revenue program needs – with a minimum reserve of $1 billion – are less than the available General Revenue dollars, meaning there is no budget gap for FY 2014-15. Anticipated expenditures (including the reserve) can be fully funded. The budget will be in balance as constitutionally required.

The Bottom Line...

- Fiscal Years 2014-15, 2015-16, and 2016-17 all show projected budget needs within the available revenue for Critical and Other High Priority Needs, including the set-aside of a $1 billion GR reserve in each year.

- **No Fiscal Strategies are required for any year** in the Outlook period, since there is no budget gap during the period, the anticipated reserve is fully funded, and the budget is growing more slowly than available revenues.

- For the third 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.

Risk

The positive budget outlook is heavily reliant on the projected balance forward levels being available, the $1 billion reserve not being used, and future growth levels for General Revenue being achieved. Assuming the $1 billion reserve is strictly adhered to each year:

- An additional $845.7 million in **nonrecurring** expenditures or tax reductions could be undertaken in 2014-15 without causing a budget gap in 2015-16.
- An additional $845.7 million in **recurring** expenditures or tax reductions in 2014-15 would create a budget gap of ($264.7) million in 2015-16.
- Additional recurring expenditures or tax reductions of no more than $713.3 million could be undertaken in 2014-15 without creating a budget gap in the following year.

As part of the decision-making process regarding whether to increase spending, replace lost federal funding, or reduce tax revenues, two factors should be considered by the Legislature:

1. The impact of recurring versus nonrecurring expenditures or tax reductions on future budget years—53 percent, or $449 million, of the $845.7 million is nonrecurring.
2. The sections of the Outlook entitled “Significant Risks to the Forecast” and “Florida Economic Outlook” which describe 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. Key among these are Sequester effects and a fragile housing market still vulnerable to increasing mortgage rates and the pace of foreclosures.

A New “Fiscal Cliff” in Fall 2013

- **Automatic Sequester** – Many of the Sequester’s expected early effects were muted through the use of federal reserves, targeted congressional fixes, and contracting delays. These solutions will be largely unavailable if the Sequester continues into future fiscal years, meaning that the cumulative effects will come closer to the original predictions. While it is clear that there is no meaningful support for the current Sequester provisions, agreement has not been reached on a long-term replacement. It is likely that any of the proposed alternatives will attempt to generate a similar amount of savings and have an equal or greater detrimental impact on Florida’s economy.

PROJECTED SEQUESTER IMPACTS FOR FLORIDA DEVELOPED PRIOR TO JANUARY 1, 2013
Range from Initial Impact (FFIS) to Total Florida Economic Shock (George Mason)

Defense	**Impact ($)**	**Defense-Related Jobs**
FFIS: Direct Impact of Full Sequester (Federal Grants and Contracts)	1.877 billion	
George Mason: Direct, Indirect & Induced Impact of Full Sequester (Economy)	3.632 billion	41,905
Domestic Discretionary Spending	**Impact ($)**	**Non-Defense Jobs**
FFIS: Direct Impact of Full Sequester (Federal Grants and Contracts)	0.362 billion	
George Mason: Direct, Indirect & Induced Impact of Full Sequester (Economy)	4.366 billion	37,554
TOTAL	**Impact ($)**	**All Jobs in Florida Economy**
FFIS: Direct Impact of Full Sequester (Federal Grants and Contracts)	2.239 billion	
George Mason: Direct, Indirect & Induced Impact of Full Sequester (Economy)	7.998 billion	79,459

- **Statutory Debt Ceiling Reached** – The House and Senate passed and the President signed “The No Budget, No Pay Act” to waive the statutory debt limit through May 18, 2013, allowing the Treasury to borrow above the current $16.4 trillion limit until then. Due to technical adjustments available to the Treasury, continued borrowing is available for a limited time. It is likely those measures will be exhausted sometime in mid-October.

Black Swans

"Black Swans" are low probability, high impact events:

- A severe natural disaster that stresses the state's reserves.
  - 2004 and 2005 Hurricane Seasons
  - Budget Stabilization Fund balance is \$708.8 million; at the end of FY 2013-14, it will be \$924.8 million.

- Congressional inability to reach an agreement that heads off the new "Fiscal Cliff," leading to a protracted period of uncertainty, negative repercussions for consumer sentiment, and significant headwinds for the economy.