

Florida: Long-Range Financial Outlook

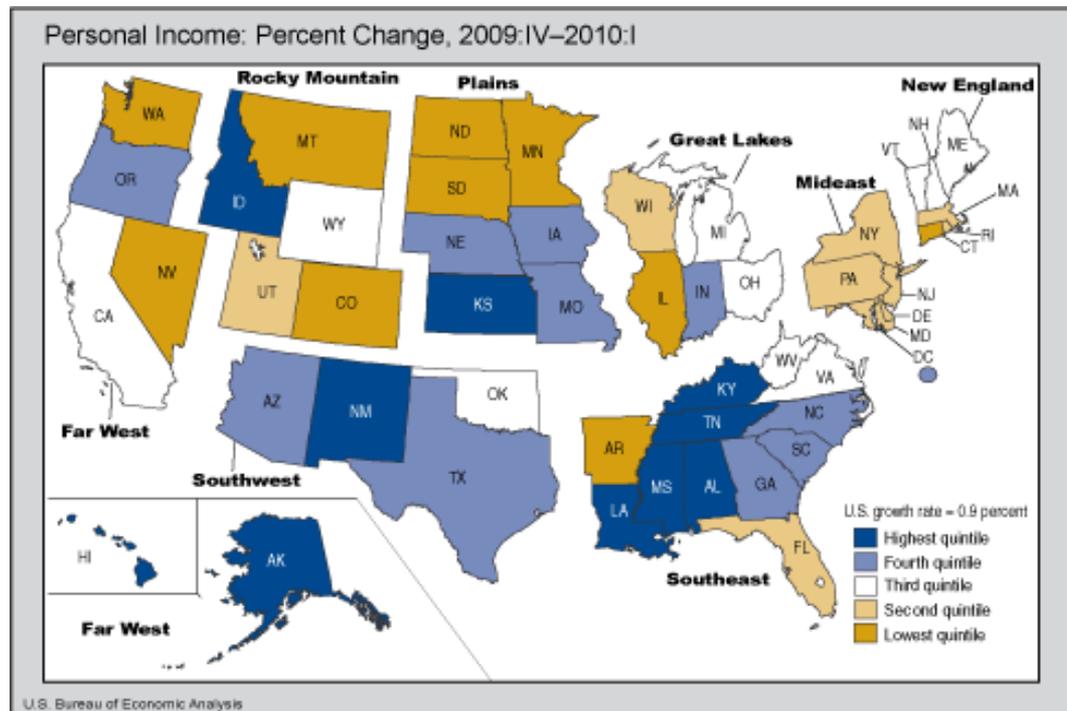
September 14, 2010

Presented by:



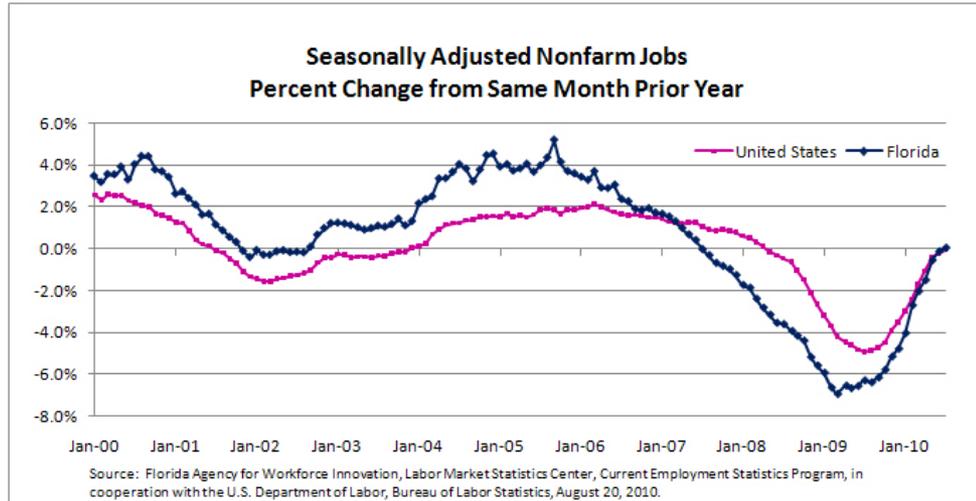
The Florida Legislature
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FL Personal Income Steadying



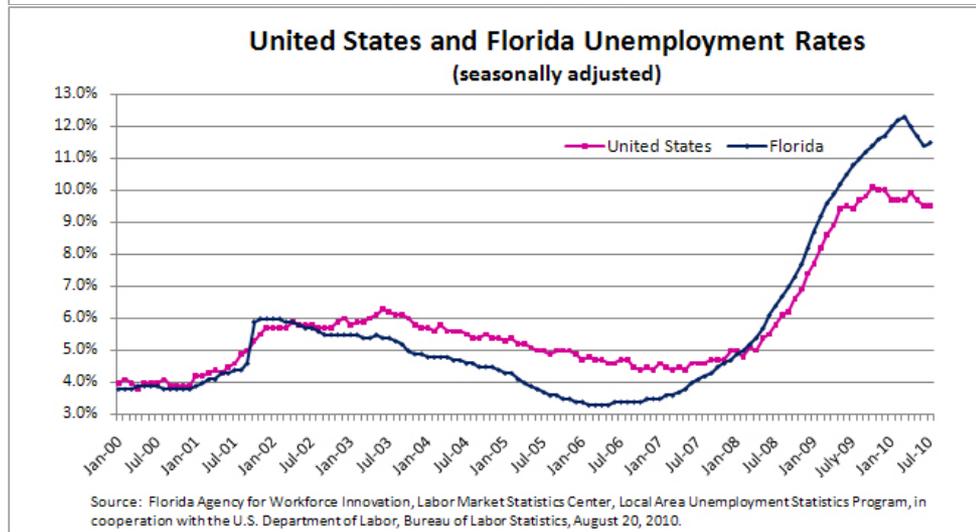
- Since the beginning of the 2009 calendar year, Florida has had a mixed record: in total, two quarters of negative growth interspersed with three weakly positive.
- The increase of 0.8% in the most recent quarter (Q1 of the 2010 calendar year) ranked Florida 35th in the country. This is noticeably better than last year's ranking at this time – 43rd.

Employment Conditions Retreating From Highest Levels of Distress



July Nonfarm Jobs (YOY)

US	-0.04%
FL	0.04%
YR:	2,700 jobs
Peak:	-831,600 jobs



July Unemployment Rate

US	9.5% (9.6%, August)
FL	11.5%
IMPACT:	1.1 million people
RANK:	5 th State in the country

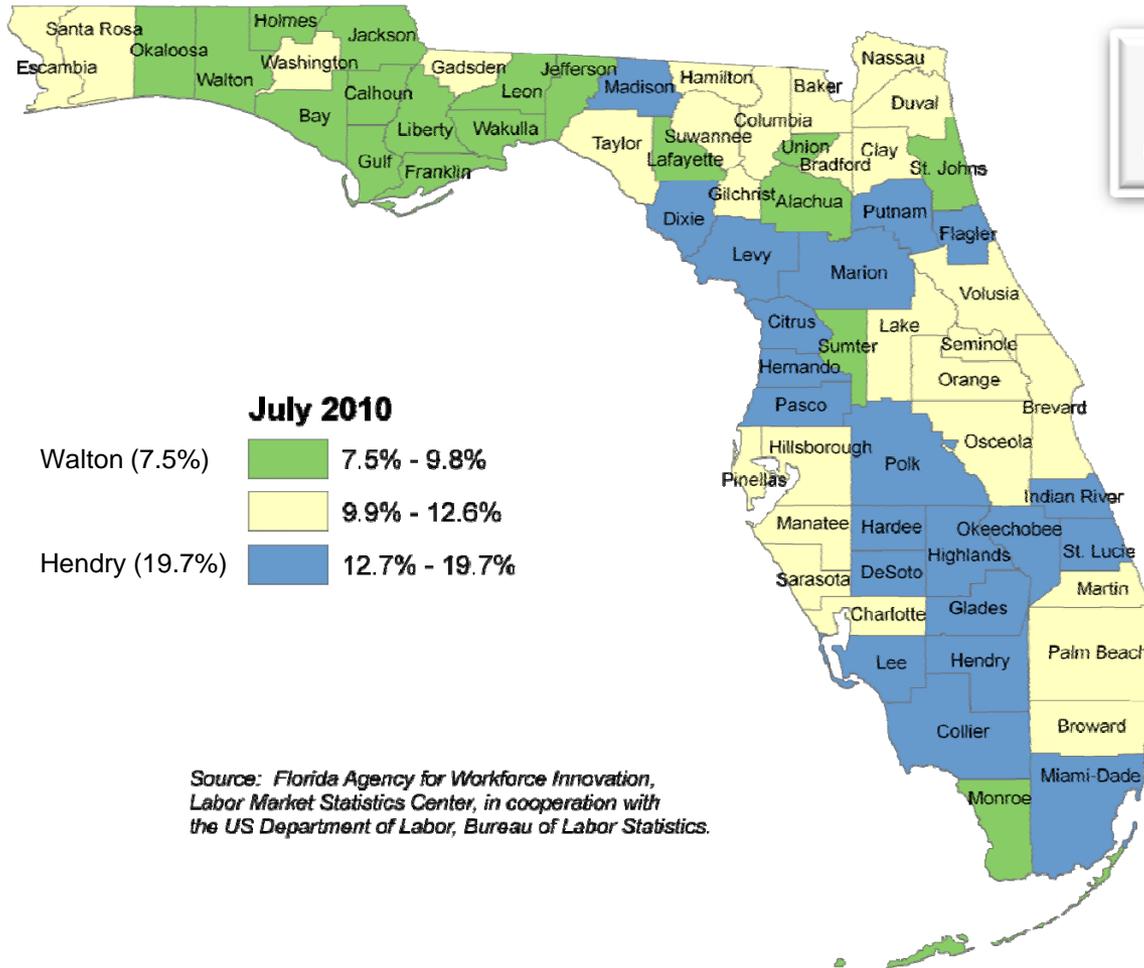
Official Projection

FL 11.8%
Summer/Fall, 2010

Highest Rate

FL 12.3%
March 2010

Unemployment Rates Still High



49 of 67 counties with double-digit unemployment rates

Source: Florida Agency for Workforce Innovation, Labor Market Statistics Center, in cooperation with the US Department of Labor, Bureau of Labor Statistics.



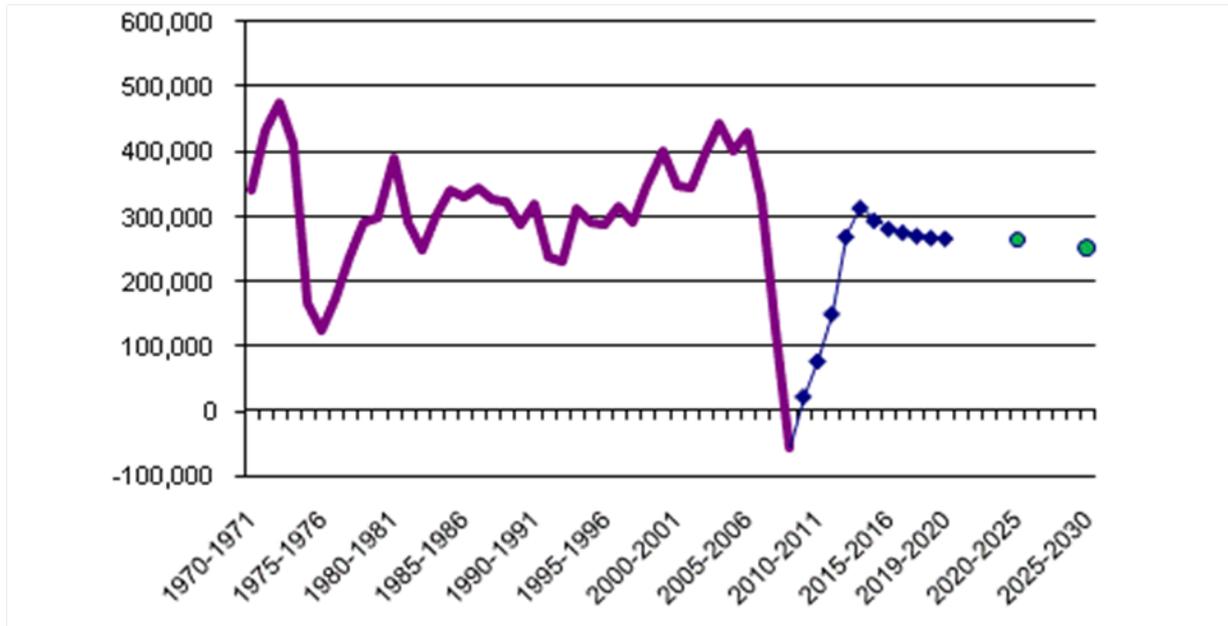
Florida's Job Market

- The job market will take a long time to recover – about 831,600 jobs have been lost since the most recent peak. Rehiring, while necessary, will not be enough. At the current pace, a full recovery to the previous peak will not occur until 2014.
- Florida's prime working-age population (aged 25-54) is forecast to add about 1,200 people per month, so the hole is deeper than it looks.
- Today, it would take the creation of almost 878,000 jobs for the same percentage of the total population to be working as was the case at the peak.

Population Growth Recovering

- Population growth is the state's primary engine of economic growth, fueling both employment and income growth.
- Population growth hovered between 2.0% and 2.6% from the mid 1990's to 2006, then began to slow – only reaching 0.7% in 2008 and declining by 0.3% in 2009. In the short term, population growth is forecast to remain relatively flat – averaging 0.4% between 2009 and 2012. Population growth is expected to recover in the future – averaging 1.1% between 2025 and 2030.
- The future will be different from the past; the long-term growth rate between 1970 and 1995 was over 3%.
- Florida is still on track to break the 20 million mark by the end of 2015, becoming the third most populous state sometime before then – surpassing New York.

Florida's Population Growth



Population:

- Increased by: 445,224 between 2003 and 2004
- Declined by: -56,736 between 2008 and 2009

Population is forecast to increase by:

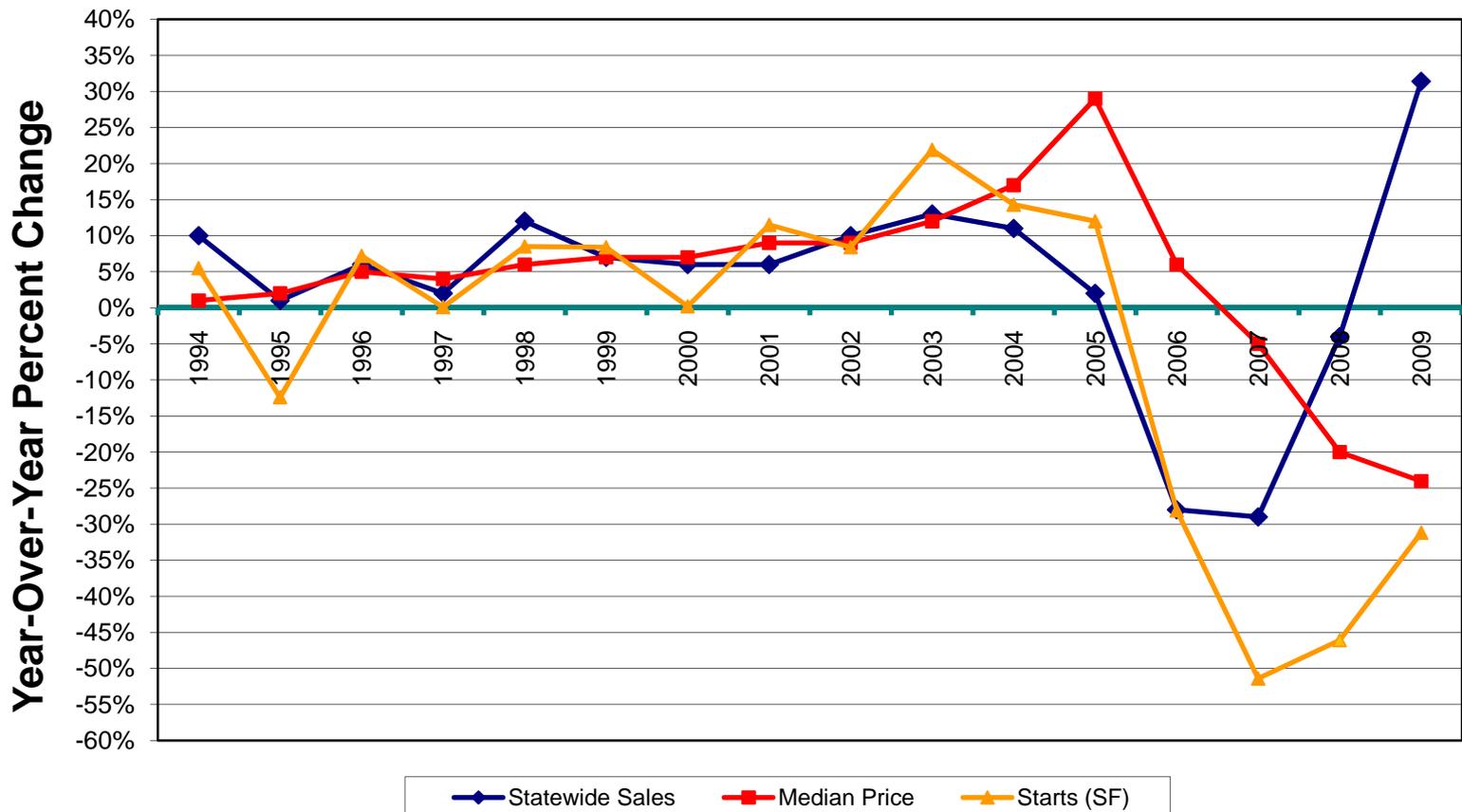
- 22,873 between 2009 and 2010

Population is forecast to increase on average by:

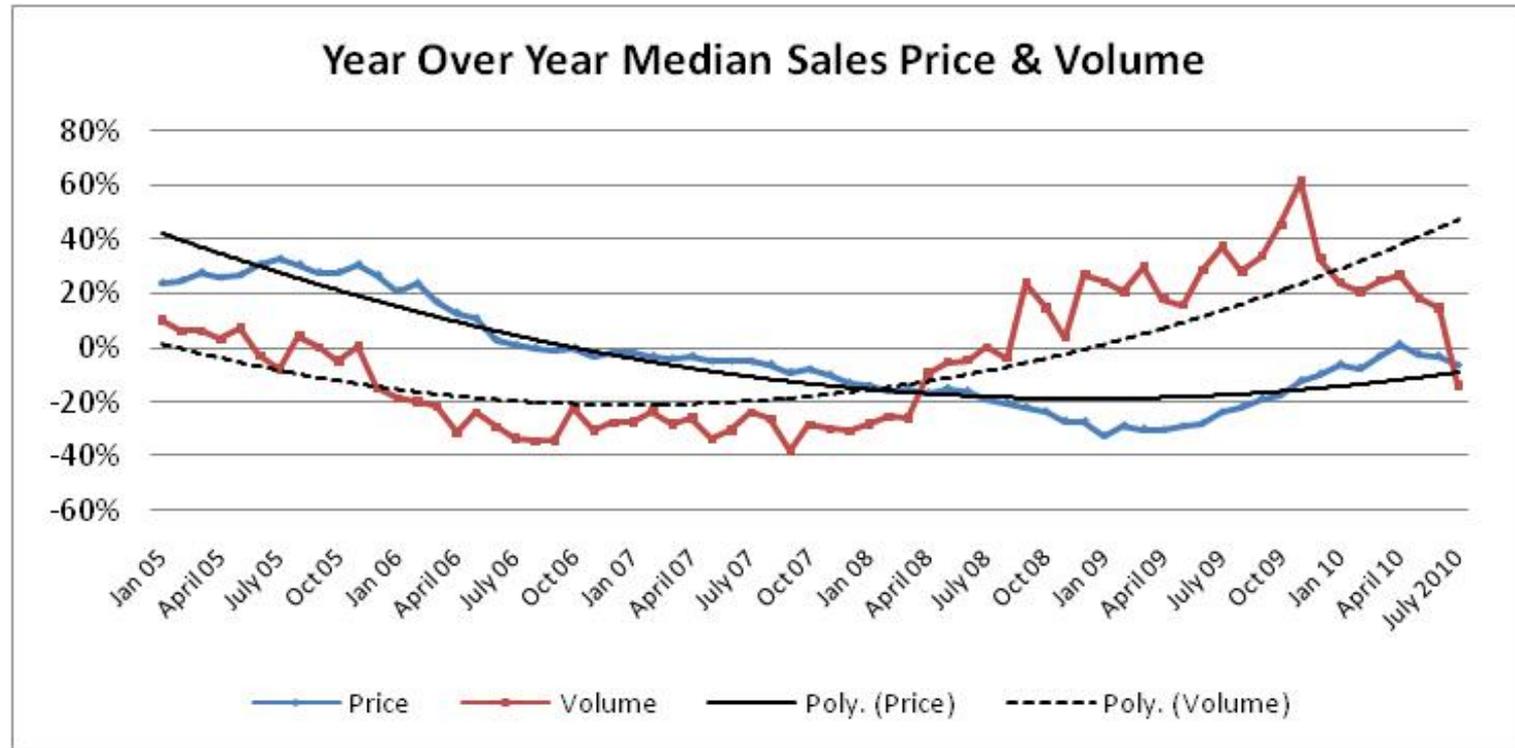
- 221,564 between 2010 and 2015 (Hialeah)
- 273,150 between 2015 and 2020
- 265,326 between 2020 and 2025
- 249,539 between 2025 and 2030

Florida Housing is Improving

Statewide Existing Home Sales & Starts



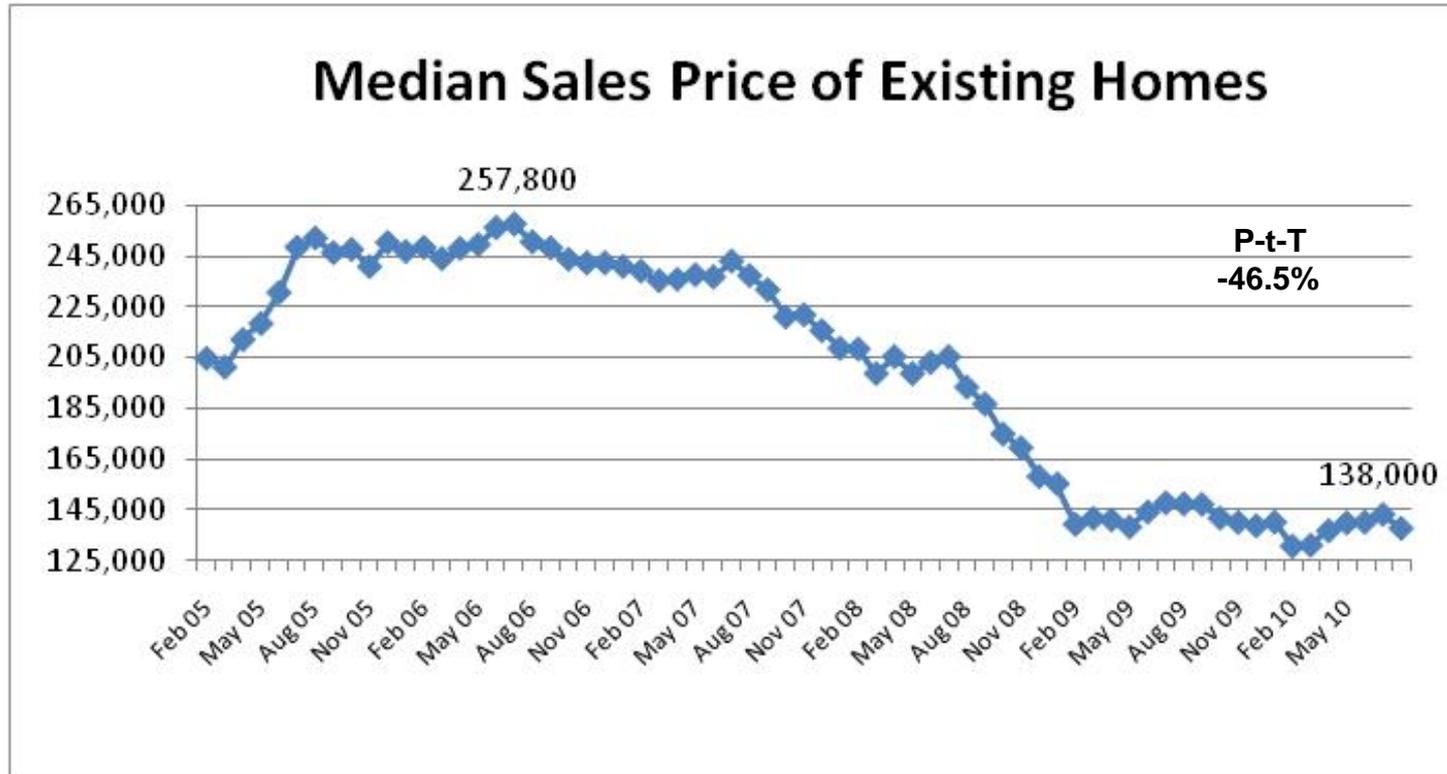
But, Existing Homes Sales Slowing Again



Data through July 2010



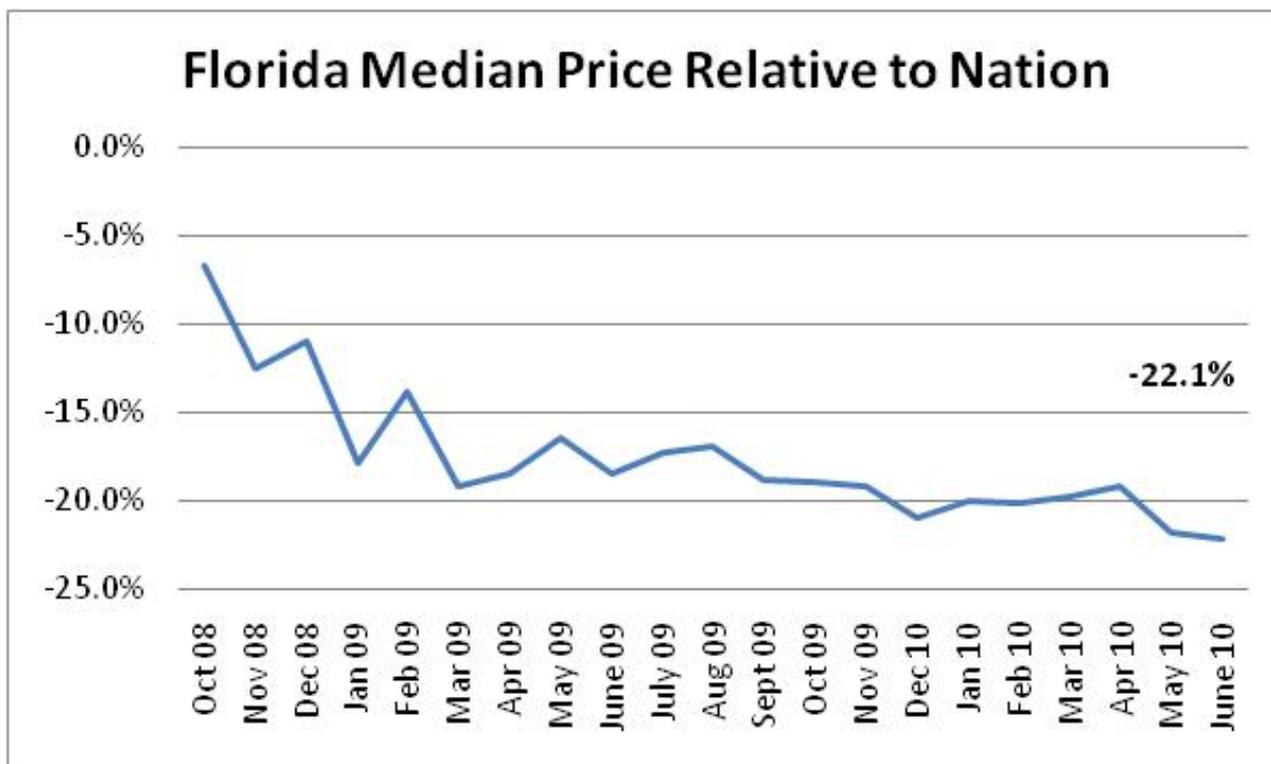
Existing Home Prices Are Flat



Data through July 2010



Price Holding Below National Level



	June
National	184,200
Florida	143,400
Diff	-22.1%

The chart above is for single-family residences. Data from the American Community Surveys suggests that Florida was above the national median price for owner-occupied housing units from 2005 through most of 2008.

Foreclosure Filings Bottoming?

2009...

*2nd Highest # of Filings
(516,711 properties)*

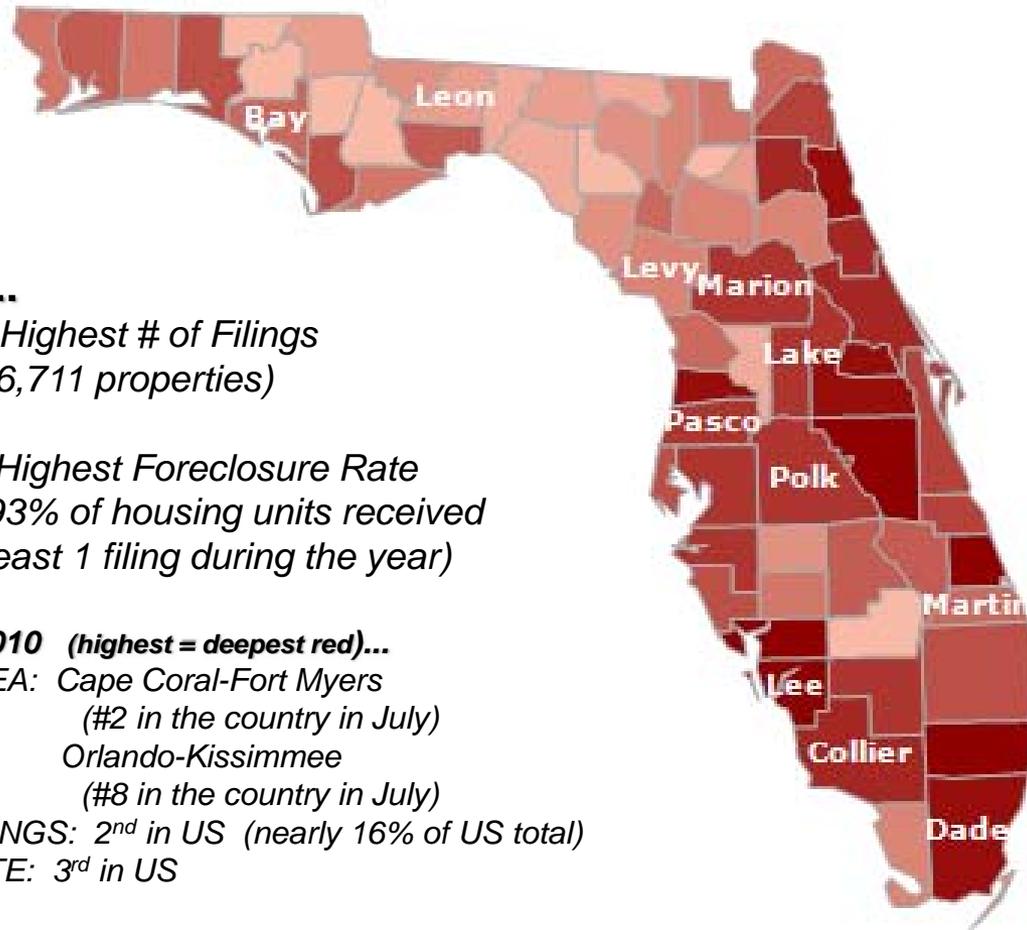
*3rd Highest Foreclosure Rate
(5.93% of housing units received
at least 1 filing during the year)*

July, 2010 (highest = deepest red)...

*AREA: Cape Coral-Fort Myers
(#2 in the country in July)
Orlando-Kissimmee
(#8 in the country in July)*

FILINGS: 2nd in US (nearly 16% of US total)

RATE: 3rd in US



Foreclosures & Shadow Inventory

State	Delinquency %	Foreclosure Inventory %	Non-Current %	6 Month Change in Non-Current %
National	9.33%	3.75%	13.08%	-11.75%
FL	10.8%	12.8%	23.6%	-8.3%
NV	13.0%	8.6%	21.6%	-8.0%
MS	15.6%	2.8%	18.4%	-12.4%
GA	12.7%	2.9%	15.6%	-11.7%
AZ	10.4%	4.1%	14.6%	-15.5%
IL	9.4%	5.4%	14.5%	-8.1%
OH	10.1%	5.1%	14.5%	-9.4%
IN	10.1%	5.1%	14.5%	-11.0%
LA	11.1%	5.1%	14.5%	-10.9%
MI	11.1%	5.1%	14.5%	-11.9%
NI	8.4%	5.1%	14.5%	-13.9%
RI	10.1%	5.1%	14.5%	-4.3%
CA	10.1%	5.1%	14.5%	-11.1%
TN	11.1%	5.1%	14.5%	-15.7%
WV	11.1%	5.1%	14.5%	-11.8%
MD	10.1%	5.1%	14.5%	-7.2%
SC	9.1%	5.1%	14.5%	-14.6%
AL	11.1%	5.1%	14.5%	-11.2%
NY	8.6%	4.0%	12.7%	-8.5%
HI	7.2%	4.7%	11.9%	-9.3%
DE	8.2%	3.5%	11.8%	-10.0%
NC	9.8%	1.9%	11.7%	-12.0%
CT	8.0%	3.6%	11.7%	-12.6%
ME	7.8%	3.9%	11.7%	-10.2%
KY	8.7%	2.8%	11.5%	9.4%

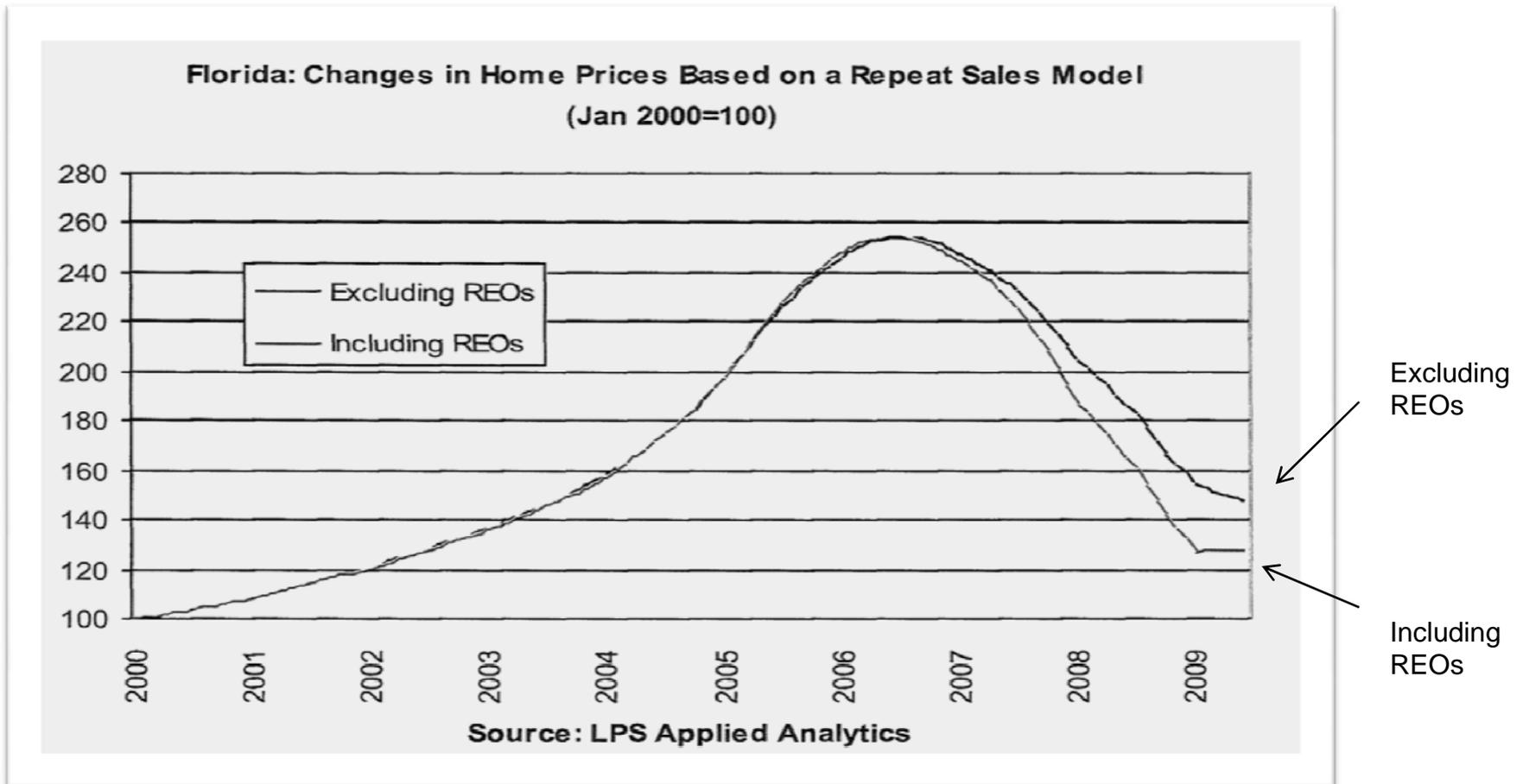
State	Delinquency %	Foreclosure Inventory %	Non-Current %	6 Month Change in Non-Current %
PA	8.7%	2.6%	11.3%	-12.1%
WI	7.8%	3.4%	11.2%	-9.0%
AR	9.1%	1.7%	10.7%	-13.4%
TX	9.2%	1.5%	10.7%	-14.3%
MA	8.1%	2.5%	10.6%	-14.5%
MO	9.0%	1.6%	10.6%	-13.6%
OK	7.8%	2.5%	10.3%	-11.7%
IA	10.1%	5.1%	14.5%	0%
KS	10.1%	5.1%	14.5%	-9.4%
NE	10.1%	5.1%	14.5%	-11.0%
ND	10.1%	5.1%	14.5%	-10.9%
SD	10.1%	5.1%	14.5%	-11.9%
WY	10.1%	5.1%	14.5%	-13.9%
CO	10.1%	5.1%	14.5%	-2%
MT	10.1%	5.1%	14.5%	-4.3%
WY	10.1%	5.1%	14.5%	-11.1%
AK	10.1%	5.1%	14.5%	-15.7%
SD	10.1%	5.1%	14.5%	-11.8%
ND	10.1%	5.1%	14.5%	-7.2%
WY	10.1%	5.1%	14.5%	-14.6%
CO	10.1%	5.1%	14.5%	-11.2%
NE	10.1%	5.1%	14.5%	-12.0%
MT	10.1%	5.1%	14.5%	-13.9%
WY	10.1%	5.1%	14.5%	-9.9%
AK	10.1%	5.1%	14.5%	-11.6%
SD	10.1%	5.1%	14.5%	-9.4%
ND	10.1%	5.1%	14.5%	-11.0%
WY	10.1%	5.1%	14.5%	12.8%

State	Delinquency %	Foreclosure Inventory %	Non-Current %
National	9.33%	3.75%	13.08%
FL	10.8%	12.8%	23.6%

Foreclosures adding more to inventory than Sales are subtracting.

(LPS Data for July)

Sales Mix Points to Lower Prices



REO (Bank) and Short Sales were 50% of all Florida sales in May.

LPS: Lender Processing Services

Credit Conditions Still Tight

Question to Senior Loan Officers:

Over the past three months, how have your bank's credit standards for approving applications from individuals for prime residential mortgage loans to purchase homes changed?

	All Respondents		Large Banks		Other Banks	
	Banks	Percent	Banks	Percent	Banks	Percent
Tightened considerably	0	0.0	0	0.0	0	0.0
Tightened somewhat	2	3.6	0	0.0	2	7.7
Remained basically unchanged	48	87.3	24	82.8	24	92.3
Eased somewhat	5	9.1	5	17.2	0	0.0
Eased considerably	0	0.0	0	0.0	0	0.0
Total	55	100.0	29	100.0	26	100.0

July 2010 Senior Loan Officer Opinion Survey on Bank Lending Practices (Federal Reserve Board)

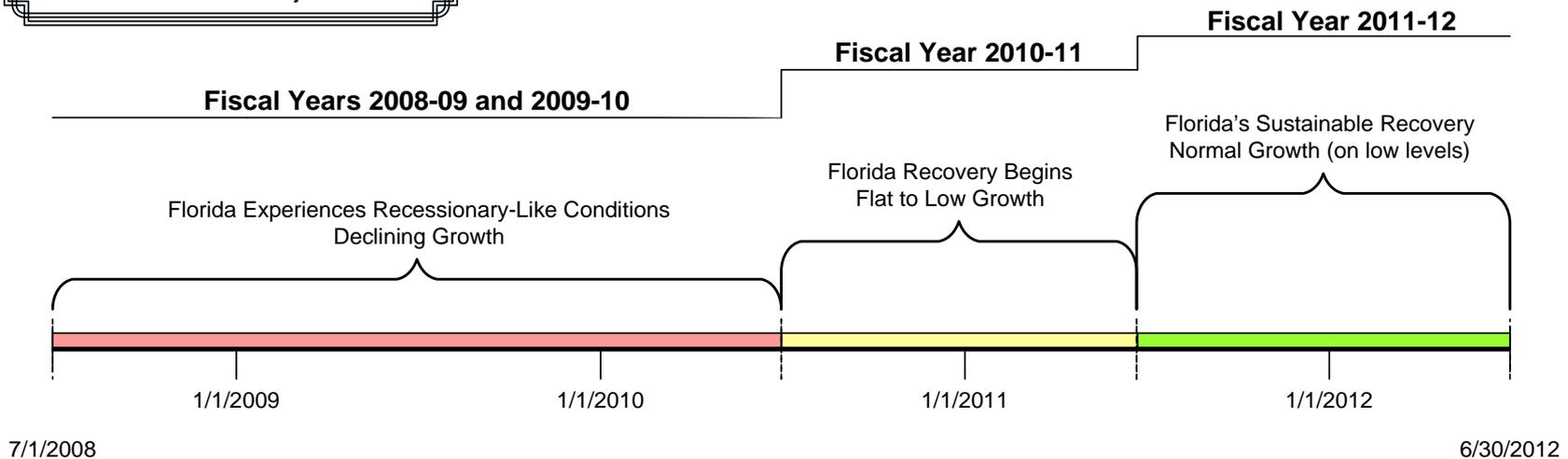
Economy Was Set To Rebound

Florida growth rates were beginning an expected slow return to more typical levels. But, drags are more persistent than past events, and it will take years to climb out of the hole left by the recession. Overall...

- The national economic recovery is running its course and, more importantly, the financial markets are recovering stability – although they are still sluggish and difficult to access.
- 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.
 - Florida's unique demographics and the aging of the baby-boom generation.

Florida Recovery Timeline

Summer 2010 Projections



Fiscal Year 2009-10

National GDP has negative growth in 2008-09 and less than 1% growth in 2009-10.

National consumer spending has negative growth in 2008-09 and turns weakly positive in 2009-10.

National job growth sees decreases in both years.

National Wages & Salaries declines in both years.

Florida has negative population growth in both years.

Florida personal income declines in both years

Florida employment declines in both years

Florida unemployment rate moves into double-digits.

Florida housing starts decline in both years.

Florida Visitors decline in 2008-09 and turns weakly positive in 2009-10.

Fiscal Year 2010-11

National GDP has 3% growth.

Florida population has very low growth.

Florida personal income has weak growth.

Florida employment has weak growth.

Florida unemployment rate is only slightly off the peak.

Florida private housing starts enter positive territory.

Florida Visitors has weak growth.

Fiscal Year 2011-12

Most Florida measures return to normal or accelerated growth rates.

Florida population growth is still weak, but begins to slowly accelerate.

Florida unemployment rate improves slowly.

Florida Risks to the Forecast

- Florida is on a different recovery path than the nation as a whole --- Deepwater Horizon Oil Spill exacerbates the differences.
- Recovery will be uneven, and there will be many ups and downs over the next twelve months.
- Most of these events have already been built into the prior forecasts --- but not the Oil Spill.
- Some of the improvement we're talking about is actually a lessening of the decline. The economy will be better, but still fragile in the short-term.
- Florida is a diverse state, and areas will differ in their recovery timelines. Oil spill-impacted areas will have new challenges.

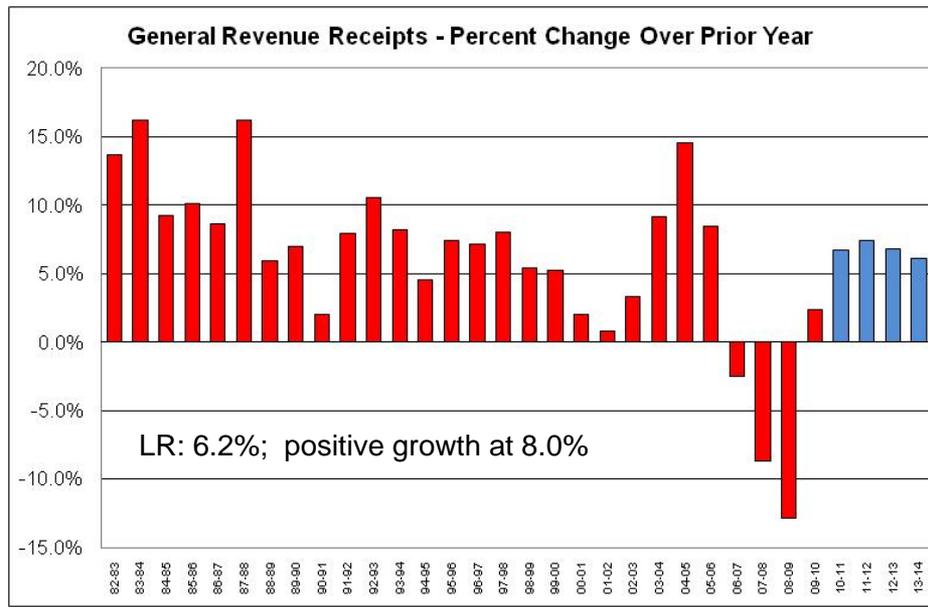
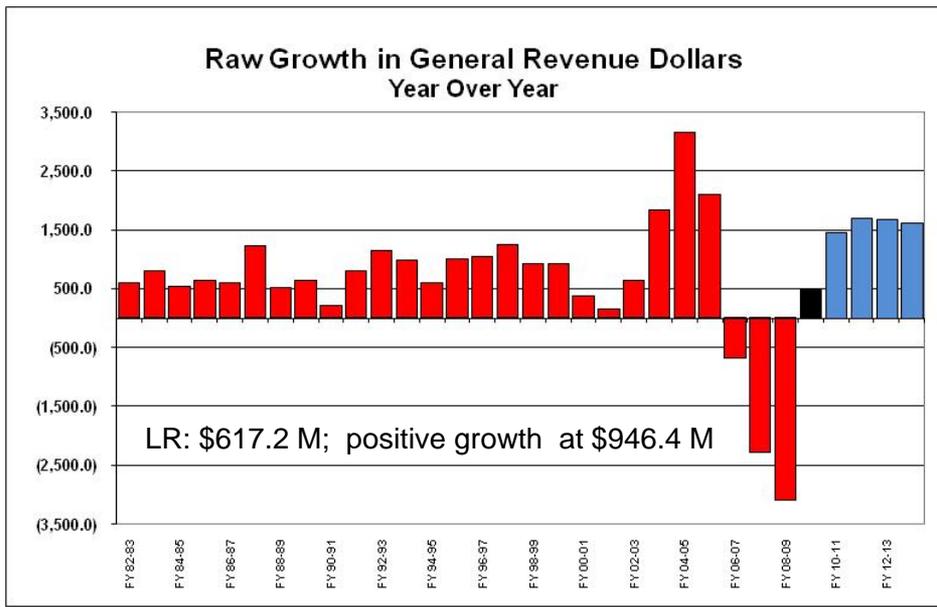
Known Threat & Black Swans

Known Threat: Deepwater Horizon Oil Spill impacts

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

- Significant commercial real estate defaults that lead to a round of small and mid-size bank failures.
 - Forty-two Florida banks have failed since January 2002 – fourteen of which occurred in the 2009 calendar year, and another twenty-three so far this year.
- Severe Natural Disasters
 - 2004 and 2005 Hurricane Seasons
 - Budget Stabilization Fund balance is \$274 million.
- Double-Dip Recession (Moody’s Analytics at 33%; Nouriel Roubini at 40%)

Expected Growth in General Revenue



Fiscal Year	March Forecast	Post-Session Forecast	DIFF	New Forecast	Difference (New - Rev)	Incremental Growth	Growth
2005-06	27074.8						8.4%
2006-07	26404.1						-2.5%
2007-08	24112.1						-8.7%
2008-09	21025.6						-12.8%
2009-10	21056.9	21294.3	237.4	21523.1	228.8	497.5	2.4%
2010-11	22465.7	22706.1	240.4	22967.0	260.9	1443.9	6.7%
2011-12	24275.4	24338.3	62.9	24672.7	334.4	1705.7	7.4%
2012-13	25988.8	26121.7	132.9	26341.6	219.9	1668.9	6.8%
2013-14	27739.6	27877.7	138.1	27955.7	78.0	1614.1	6.1%

Revenue Sources Mostly Up

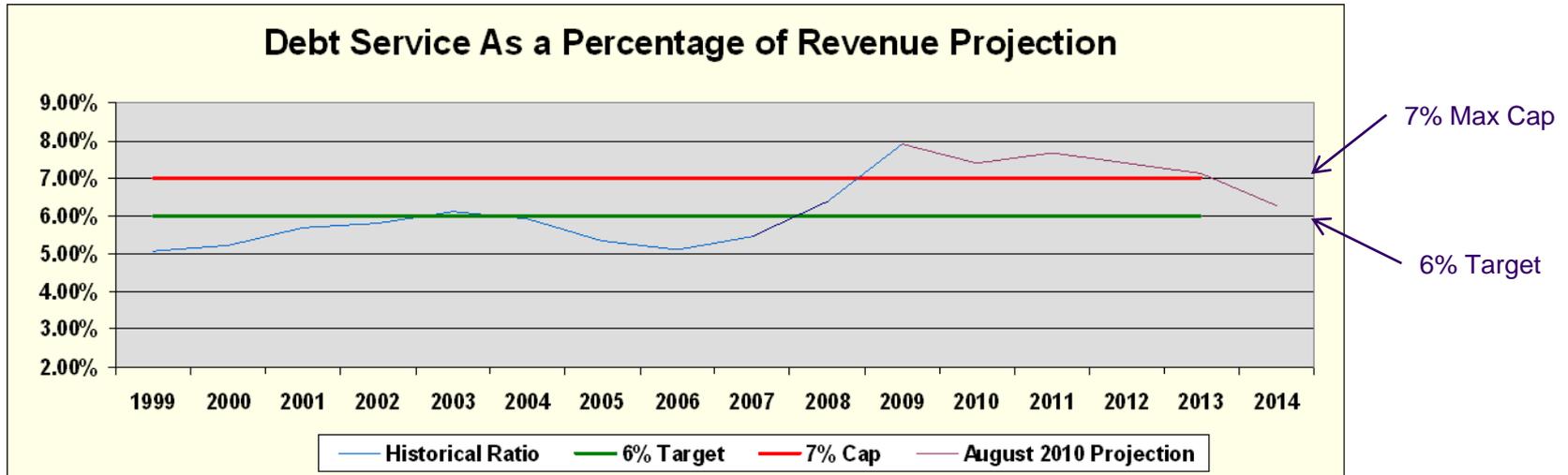
Change in Estimate Compared to Previous Estimate (\$ millions) (Summer 2010)

	2010-11	2011-12	2012-13	2013-14
Abandoned Property/Principal State School Trust Fund	23.4	7.1	18.7	19.2
Ad Valorem (July 1 certified school taxable value) (\$ billions)	(23.5)	(28.9)	(38.8)	(36.0)
Article V Fees & Transfers	(83.9)	27.1	(26.3)	NEW
Documentary Stamp Tax	(60.6)	(2.9)	15.9	22.3
General Revenue	260.9	334.4	219.9	78.0
Gross Receipts Tax/CST	8.3	6.1	(2.9)	1.7
Highway Safety Fees	15.9	28.5	48.7	NEW
Lottery	17.8	40.7	41.2	42.1
Slot Machines Tax *	0.0	0.0	0.0	0.0
Tobacco Settlement Trust Fund *	0.0	0.0	0.0	0.0
Tobacco Tax and Surcharge	(14.7)	(15.8)	(15.7)	(15.1)
Transportation Revenue	12.2	(1.5)	(4.4)	5.7

* No conference held because the prior estimate was on track.

- Most revenue sources are showing annual growth over the prior year, but some forecasts lowered the amount of increase.

Debt Analysis



Fiscal Year	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
Debt Service as % of Revenue	7.40%	7.68%	7.40%	7.12%	6.26%

- Total state debt outstanding at June 30, 2009 was \$26.4 billion.
- During the Outlook period, debt service payments will total about \$2.1 billion per year until FY 2013-14 when they reduce to \$1.8 billion.
- High Credit Ratings: Fitch “AAA” with negative outlook; Moody’s “Aa1” with stable outlook; Standard and Poor’s “AAA” with negative outlook.

GR Outlook for FY 2010-11

	REC	N/R	TOTAL
2010-11 Ending Balance on Post-Session Outlook	-241.5	525.8	284.3
-PLUS- Revenue Surplus from 2009-10	0	227.5	227.5
-PLUS- New Revenue Estimate - August 2010	260.9	0	260.9
SUBTOTAL	19.4	753.3	772.7
-MINUS- Transfer to Campaign Financing TF	0	-5.2	-5.2
-MINUS- Indian Gaming County Revenue Sharing	0	-1.1	-1.1
ADJUSTED BALANCE	19.4	747.0	766.4
-MINUS- Contingent Appropriations	0	-210.0	-210.0
-MINUS- Preliminary Reserve for Medicaid Deficit	0	-94.4	-94.4
BALANCE FOR LONG-RANGE FINANCIAL OUTLOOK	19.4	442.6	462.0

Budget Drivers

- Critical Needs are annualizations of current year activities, mandatory increases based on estimating conferences and other essential items. The **twenty-six** Critical Needs drivers represent the minimum cost to fund the budget without significant programmatic changes.
- The **twenty-nine** Other High Priority Needs drivers are historically funded issues that are typically viewed as “must funds” in normal budget years. Like the Critical Needs, the greatest general revenue shortfall occurs in the first year.

DOLLAR VALUE OF
CRITICAL AND OTHER HIGH PRIORITY NEEDS

General Revenue Fund	FY 2011-12	FY 2012-13	FY 2013-14
Total Tier 1 - Critical Needs	3,221.6	1,560.7	718.0
Total - Other High Priority Needs	1,682.3	895.4	862.1
Total Tier 2 - Critical Needs Plus Other High Priority Needs	4,903.9	2,456.1	1,580.1

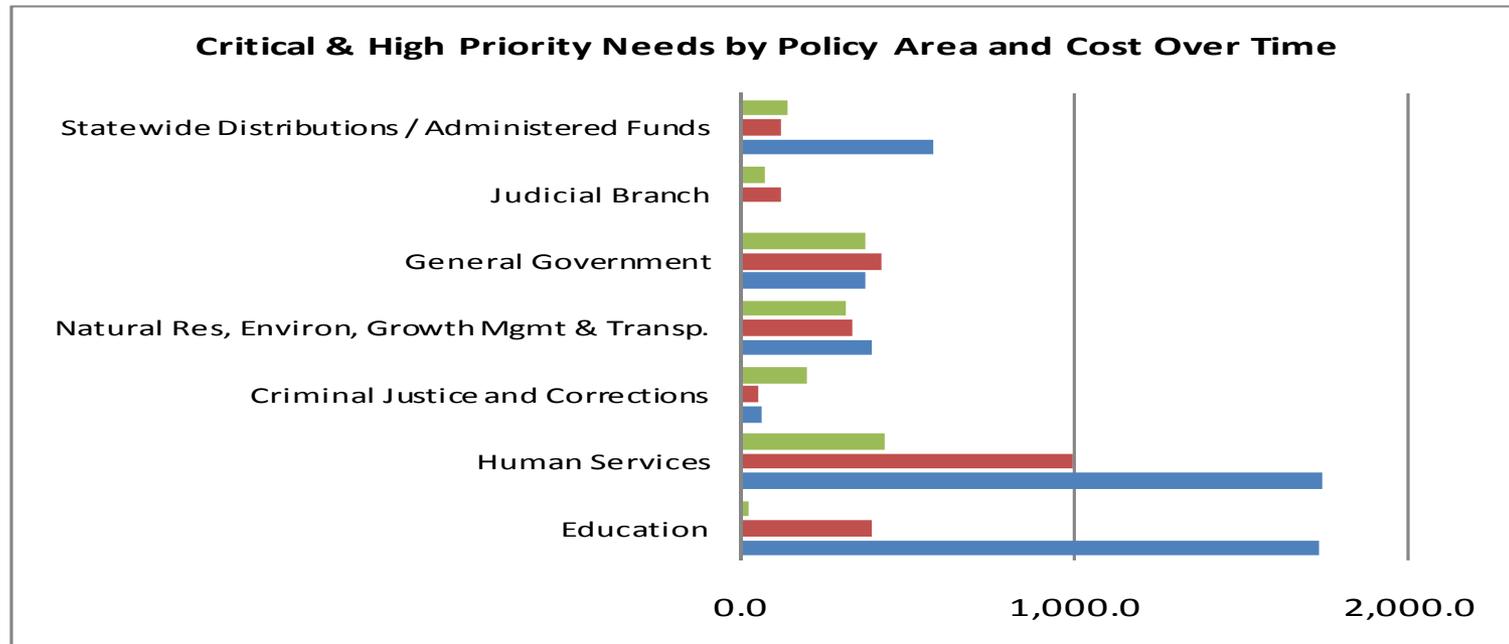
Drivers by Policy Area

LEGEND

BLUE: FY 2011-12

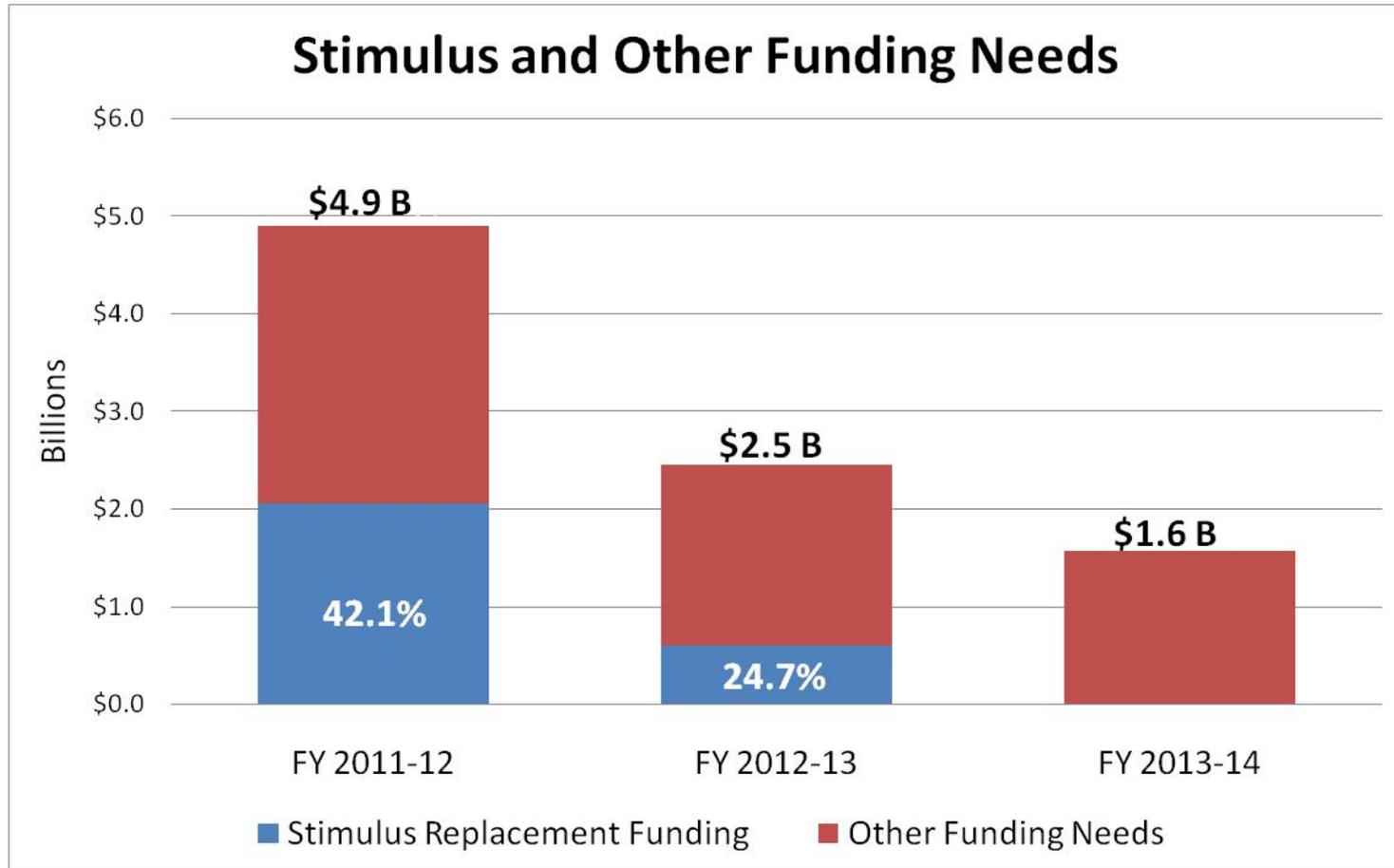
RED: FY 2012-13

GREEN: FY 2013-14

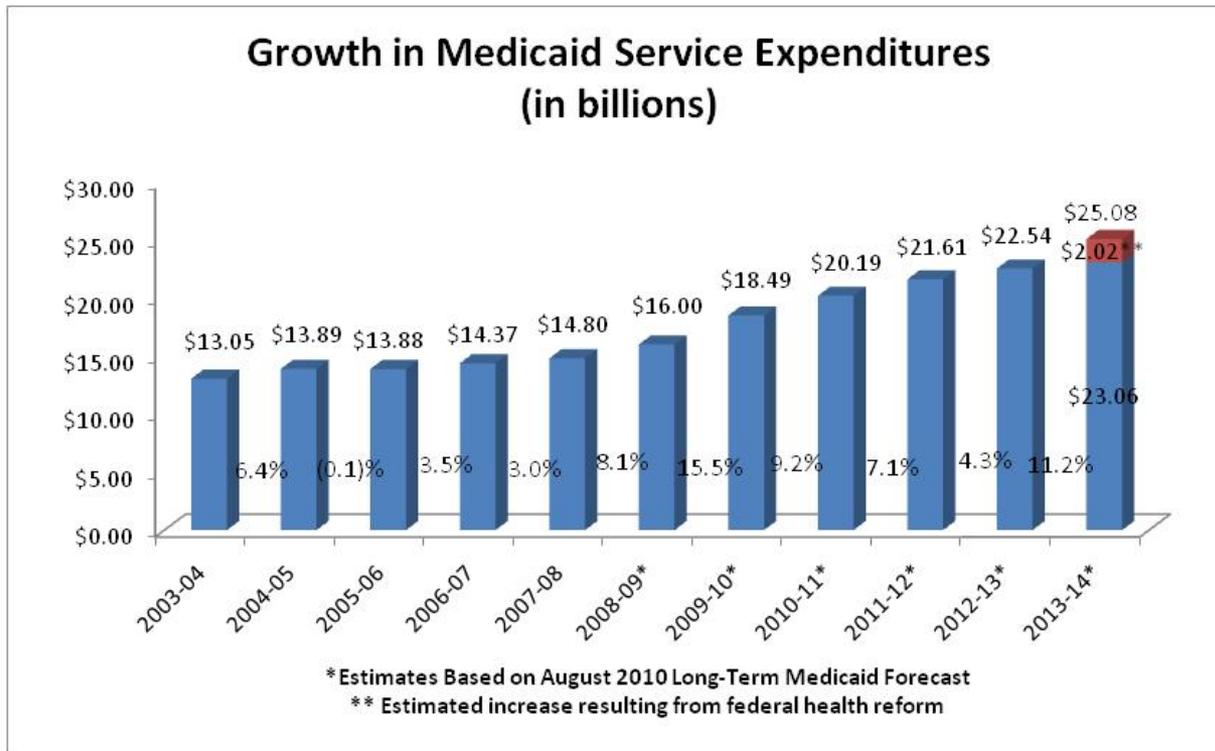


Policy Areas	FY 2011-12	FY 2012-13	FY 2013-14
Education	1,742.1	396.8	28.4
Human Services	1,745.9	995.4	435.8
Criminal Justice and Corrections	63.9	55.1	199.5
Natural Res, Environ, Growth Mgmt & Transp.	393.9	335.7	317.8
General Government	377.9	424.4	382.9
Judicial Branch	1.6	123.5	73.7
Statewide Distributions / Administered Funds	578.7	125.1	141.9
	4,903.9	2,456.1	1,580.1

Federal Stimulus Replacement



Medicaid Driver Dominates



- By itself, the Medicaid Program driver represents 30.3 percent of the 2011-12 projected expenditures for Critical and Other High Priority Needs. In 2012-13 and 2013-14, the shares are 36.5 percent and 13.4 percent. It is the single biggest driver in the first two years of the Outlook forecast.

Putting It Together

OUTLOOK PROJECTION – FISCAL YEAR 2011-12 <i>(in millions)</i>			
	RECURRING	NON-RECURRING	TOTAL
AVAIL GR	\$24,565.7	\$ 650.3	\$25,216.0
<i>Base Budget</i>	\$22,608.4	\$ 0.0	\$22,608.4
<i>Transfer to BSF</i>	\$ 0.0	\$ 214.5	\$ 214.5
<i>Critical Needs</i>	\$ 3,054.3	\$ 167.3	\$ 3,221.6
<i>High Priority</i>	\$ 936.0	\$ 746.3	\$ 1,682.3
TOTAL	\$26,598.7	\$ 1,128.0	\$27,726.7
BALANCE	\$ -2,033.0	\$ -477.7	\$ -2,510.7

Combined, recurring and non-recurring general revenue program needs – even without a minimum reserve – are greater than the available general revenue dollars, thereby creating a shortfall. The anticipated expenditures (excluding the reserve) outstrip available dollars by \$828.4 million for Critical Needs, thereby creating a budget gap. When Other High Priority Needs are included, the gap grows to \$2,510.7 million.

The Change...

While a persistent budget gap still exists, the outlook has improved from last year's Long-Range Financial Outlook in several important respects.

Comparison of This Year to Last Year's Estimates for Critical Needs & Other High Priorities:

2011-12 Budget Gap	(2,510.7)	This Year's Projection for 2011-12
	<u>(5,473.2)</u>	Last Year's Projection for 2011-12
	2,962.5	To the Good

1. Improved General Revenue Picture

2011-12 BENEFIT:	25,216.0	This Year's Projection for 2011-12
	<u>(23,956.6)</u>	Last Year's Projection for 2011-12
	1,259.4	
	43%	% of Difference

- Increases in the Forecast, including higher balance forward from last year
- Legislative changes from 2010 Session (primarily Indian Gaming Revenues & Tax Amnesty)

2. Reduced Expenditures

2011-12 BENEFIT:	(27,726.7)	This Year's Projection for 2011-12
	<u>29,429.8</u>	Last Year's Projection for 2011-12
	1,703.1	
	57%	% of Difference

- Significant reduction in the size of the base budget carried from 2010-11 (- \$1.5 billion)
 - * Final decisions regarding the 2010-11 Drivers
 - * Recurring reductions (almost \$800 million in General Revenue)
- Decrease in the cost of new Drivers (-\$159 million)
 - * FMAP Extension created a Medicaid Trust Fund Reserve for 2011-12

The Bottom Line...

<u>Without Reserve Balance</u>	
FY 2011-12	-2,510.7
FY 2012-13	-2,846.3
FY 2013-14	-1,930.3

- Projected general revenue growth is insufficient to support anticipated spending for **Critical and Other High Priority Needs** in Fiscal Years 2011-12, 2012-13 and 2013-14. Corrective actions will be required to bring the budget into balance.
- Furthermore, RECURRING general revenue demands exceed the amount of RECURRING general revenue available in each year of the forecast. This indicates that a structural imbalance is occurring.
- To fund all **Critical and Other High Priority Needs**, the combined total of needed non-recurring funds would be \$7,287.3 million prior to taking into account a reserve balance. Reserves of this magnitude are currently not available.
- A minimum reserve balance of \$500 million is recommended.