Florida: Long-Range Financial Outlook

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Presented by:

The Florida Legislature
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http://edr.state.fl.us
Economy Lost Ground in 2008

- Florida’s growth is now declining. State Gross Domestic Product (GDP) ranked us 48th in the nation in real growth with a decline of (-1.6%) in 2008. In 2005, we were ranked 2nd in the nation.
Employment Worsens

Seasonally Adjusted Nonfarm Jobs
Percent Change from Same Month Prior Year

July (YOY)
US -4.2%
FL -5.2%
(-401,100 jobs)

July (YOY)
US 9.4%
FL 10.7%
(987,000 people)

Projected
FL 11.0%
Spring, 2010

Unemployment Rates

41 of 67 counties with double-digit unemployment rates

July 2009

Liberty
- 5.9% - 9.0%
- 9.1% - 11.9%

Hendry, Flagler
- 12.0% - 16.4%

Population Growth Slowing

- 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. In the short term, population growth is forecast to remain relatively flat – averaging 0.4% between 2008 and 2012. Population growth is expected to rebound in the future – averaging 1.1% between 2025 and 2030.

- Florida is still on track to break the 20 million mark in 2015, becoming the third most populous state sometime before then – surpassing New York.
Florida’s April 1 Population

Florida’s population:
- was 15,982,824 in 2000
- was 18,807,219 in 2008
- is forecast to grow to 23,979,030 by 2030
Florida's Population Growth

Population increased by:
- 445,224 between 2003 and 2004
- 126,852 between 2007 and 2008

Population is forecast to increase on average by:
- 0 between 2008 and 2009 (likely revised to -58,000)
- 74,226 between 2009 and 2010
- 71,705 between 2010 and 2011
- 156,825 between 2011 and 2012
- 283,580 between 2012 and 2013
Population Components

- Typically, most of Florida's population growth is from net migration. However, between 2007 and 2008, net migration represented only 10.5 percent of Florida's population growth.

- In 2030, net migration is forecast to represent 89.2 percent of Florida's population growth.
Recession – A Little Longer

- United States economy has officially been in a recession since December 2007.
- The longest recession now on record – and projected to last until the Spring of 2010.

<table>
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<th>Recession</th>
<th>Duration</th>
<th>Recession</th>
<th>Duration</th>
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<tbody>
<tr>
<td>2001</td>
<td>8 mos</td>
<td>1960-1961</td>
<td>10 mos</td>
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<tr>
<td>1990-1991</td>
<td>8 mos</td>
<td>1957-1958</td>
<td>8 mos</td>
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<tr>
<td>1980</td>
<td>6 mos</td>
<td>1948-1949</td>
<td>11 mos</td>
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<tr>
<td>1973-1975</td>
<td>16 mos</td>
<td>1945</td>
<td>8 mos</td>
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</table>
Florida Housing is Improving

Statewide Existing Home Sales & Starts

Year-Over-Year Percent Change

-60% -55% -50% -45% -40% -35% -30% -25% -20% -15% -10% -5% 0% 5% 10% 15% 20% 25% 30% 35% 40% 45% 50%


Statewide Sales  Median Price  Starts (SF)
Existing Homes Sales Growing

Year Over Year Median Sales Price & Volume

- Price
- Volume
- Poly. (Price)
- Poly. (Volume)
Existing Home Prices Flattening

Median Sales Price of Existing Homes

- February 2005: $245,500
- May 2005: $257,800
- August 2005: $247,300
- November 2005: $233,500
- February 2006: $234,600
- May 2006: $231,100
- August 2006: $230,700
- November 2006: $229,900
- February 2007: $228,700
- May 2007: $223,700
- August 2007: $220,600
- November 2007: $217,500
- February 2008: $215,700
- May 2008: $206,000
- August 2008: $197,500
- November 2008: $190,000
- February 2009: $185,400
- May 2009: $175,600

Year-over-year change: -44.0%
Foreclosure Filings Bottoming?

2008...
2nd Highest # of Filings
(385,309 properties)

2nd Highest Foreclosure Rate
(4.52% of housing units received at least 1 filing during the year)

July Highest (deepest red)...
Lee, Orange, Miami-Dade, and Broward
If the 2008 rate dropped immediately back to the long-run average, 359,990 homeowners would be affected and over $74 billion of value.
Sentiment is Stabilizing

- Consumer sentiment can be a leading indicator of recession: nationally, it is improving from near the lowest levels ever obtained (66.0 in July versus 51.7 in May 1980), but still fluctuating.
- Florida's consumer confidence (July: 67 versus record low 59 thirteen months ago) is following the national trend.
Credit Market

Net Percentage of Domestic Respondents Tightening Standards for Residential Mortgage Loans

Note: For data starting in 2007:Q2, changes in standards for prime, nontraditional, and subprime mortgage loans are reported separately.
Revenue: Bringing It Together

- Drags are more persistent relative to some past events, and strength will be slow to return.

- Credit Market, while much improved, remains sluggish and still difficult to access.

- Global recessionary conditions affect international migration, tourism and spending decisions, as well as exports.

- U.S. Consumers are responding to massive wealth destruction and tighter credit conditions.

- Recovery in the Florida housing market is not anticipated to begin until the latter half of Fiscal Year 2010-11.
The Economy Will Rebound

By Summer 2010, growth rates will begin a slow return to more typical levels. In the meanwhile...

- The national economic contraction will run its course and, more importantly, the financial markets will recover stability.
- The subsequent turnaround in Florida housing will be led by:
  - Falling home prices that begin to attract buyers and clear the inventory (FL below the national average in June: $181,600 nationally vs. $148,000 in Florida...18.5% below)
  - Long-run sustainable demand caused by continued population growth and household formation.
  - Florida’s unique demographics and the aging of the baby-boom generation.
Florida Recovery Timeline
Summer 2009 Projections

Fiscal Years 2008-09 and 2009-10
National Recession – Declining Activity
28 months: Dec 2007 – March 2010

Fiscal Year 2010-11
Florida Recovery Begins
Flat to Low Growth

Fiscal Year 2011-12
Florida Recovery Begins
Normal Growth (on low levels)


Fiscal Years 2008-09 and 2009-10
- National GDP has negative growth of -1.7%.
- National consumer price index is flat.
- National consumer spending is flat.
- Standard & Poor’s Index is negative.
- Florida has virtually zero population growth.
- Florida personal income declines.
- Florida employment declines.
- Florida unemployment rate peaks at 10.9%.
- Florida housing starts decline.
- Florida registration of new light vehicles declines.
- Florida visitors decline.

Fiscal Year 2010-11
- National GDP has weak growth.
- Florida population still has virtually no 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.

Fiscal Year 2011-12
- Most Florida measures return to normal or accelerated growth rates.
- Florida population growth is still weak.
- Florida unemployment rate improves slowly.
Lower General Revenue Estimate

![Graph showing raw growth in general revenue dollars year over year]

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Original Forecast</th>
<th>Revised for Session</th>
<th>New Forecast</th>
<th>Difference (New - Rev)</th>
<th>Incremental Growth</th>
<th>Growth</th>
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<tr>
<td>2005-06</td>
<td>27074.8</td>
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<td>2006-07</td>
<td>26404.1</td>
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<td>2007-08</td>
<td>24112.1</td>
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<td>-8.7%</td>
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<tr>
<td>2008-09</td>
<td>20944.6</td>
<td>20944.6</td>
<td>21025.6</td>
<td>81.0</td>
<td>-3086.5</td>
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<td>2009-10</td>
<td>19998.4</td>
<td>20840.3</td>
<td>20693.2</td>
<td>-147.1</td>
<td>-332.4</td>
<td>-1.6%</td>
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<td>2010-11</td>
<td>21091.2</td>
<td>22141.2</td>
<td>22097.0</td>
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<td>2011-12</td>
<td>23007.9</td>
<td>24038.2</td>
<td>23914.8</td>
<td>-123.4</td>
<td>1817.8</td>
<td>8.2%</td>
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<td>2012-13</td>
<td>24950.6</td>
<td>25991.2</td>
<td>25879.4</td>
<td>-111.8</td>
<td>1964.6</td>
<td>8.2%</td>
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</table>
Other Revenues

- The Educational Enhancement and Tobacco Settlement Trust Funds will have little or no long-term growth. Each fund begins the last year of the Outlook period with fewer total dollars for expenditure than were available in Fiscal Year 2009-10.

- Senate Bill 788 authorizes the ratification of an Indian Gaming Compact by the Florida Legislature after execution by the Governor. Revenue from the ratification that would be available for appropriation from the Educational Enhancement Trust Fund (EETF) is not included in the EETF projection of funds available.

- The Principal State School Trust Fund has a projected deficit in the current year that must be resolved prior to the end of the fiscal year (-$38.1 million).
Debt Financing

Debt Service As a Percentage of Revenue Projection

Benchmark Ratio Estimated August 2009

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
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<tbody>
<tr>
<td>August 2009 Debt Service as % of Revenue</td>
<td>7.46%</td>
<td>8.48%</td>
<td>8.32%</td>
<td>8.08%</td>
<td>7.83%</td>
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</tbody>
</table>
Current Year Deficits & Balance

Unallocated General Revenue (Current Outlook)  +$667.1 million

- Medicaid
  - FY 2008-09 & 2009-10  -$224.8 million

- Principal State School Trust Fund
  - FY 2009-10  -$ 38.1 million

- Risk Management Trust Fund
  - FY 2009-10  -$ 5.3 million

- Voluntary Pre-Kindergarten
  - FY 2009-10  -$ 17.5 million

+ $381.4 million
Presentation Framework

- The General Revenue Fund is solvent for Fiscal Year 2009-10, but has projected shortfalls in each of the three planning years despite the significant revenue growth projected for those years.
- The Long-Range Financial Outlook assumes that non-recurring solutions are used to address the budget gaps, meaning that each year stands alone, and:
  - *that the beginning balances for the subsequent years are zero;*
  - *there are no fiscal strategies deployed that cause permanent changes to revenues or expenditures; and,*
  - *there is no required repayment of funds in future years.*
### Key Budget Drivers...

**Critical Needs**

<table>
<thead>
<tr>
<th>Critical Needs</th>
<th>FY 2010-11</th>
<th></th>
<th>FY 2011-12</th>
<th></th>
<th>FY 2012-13</th>
<th></th>
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<tr>
<td></td>
<td>Total GR</td>
<td>Total Major TF</td>
<td>Total GR</td>
<td>Total Major TF</td>
<td>Total GR</td>
<td>Total Major TF</td>
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<tr>
<td>Education - Stimulus Restoration</td>
<td>0.0</td>
<td>0.0</td>
<td>1,216.9</td>
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<td>FEFP - Workload / Class Size Red</td>
<td>515.8</td>
<td>(18.8)</td>
<td>(7.9)</td>
<td>7.2</td>
<td>23.3</td>
<td>7.8</td>
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<tr>
<td>Education - Misc</td>
<td>39.0</td>
<td>(2.6)</td>
<td>18.3</td>
<td>(1.6)</td>
<td>2.8</td>
<td>22.9</td>
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<td>State Government Operations</td>
<td>317.7</td>
<td>81.6</td>
<td>132.6</td>
<td>63.4</td>
<td>151.8</td>
<td>72.5</td>
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<td>Medicaid</td>
<td>1,608.7</td>
<td>191.5</td>
<td>1,130.7</td>
<td>(324.7)</td>
<td>285.6</td>
<td>285.3</td>
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<td>Health &amp; Human Services</td>
<td>80.0</td>
<td>32.5</td>
<td>31.2</td>
<td>50.8</td>
<td>28.8</td>
<td>46.6</td>
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<tr>
<td>Judiciary</td>
<td>62.0</td>
<td>(62.0)</td>
<td>27.0</td>
<td>(27.0)</td>
<td>9.7</td>
<td>(9.7)</td>
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<tr>
<td>Criminal Justice &amp; Corrections</td>
<td>154.7</td>
<td>0.0</td>
<td>234.2</td>
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<td>State Disasters</td>
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<td>9.1</td>
<td>0.0</td>
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<td>Unemployment Compensation</td>
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<td>0.0</td>
<td>126.9</td>
<td>0.0</td>
<td>199.4</td>
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<td>General Government</td>
<td>39.7</td>
<td>3.9</td>
<td>22.7</td>
<td>1.3</td>
<td>20.9</td>
<td>1.3</td>
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<td><strong>Subtotal Critical Needs</strong></td>
<td>2,827.4</td>
<td>226.1</td>
<td>2,941.7</td>
<td>(230.6)</td>
<td>1,028.6</td>
<td>426.6</td>
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</tbody>
</table>
## Outlook for Critical Needs

### General Revenue Outlook - Comparison of Estimated Revenues to Estimated Expenditures

#### Tier 1 Issues - Critical Needs

<table>
<thead>
<tr>
<th></th>
<th>FY 2009-10</th>
<th></th>
<th></th>
<th>FY 2010-11</th>
<th></th>
<th></th>
<th>FY 2011-12</th>
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<th></th>
<th>FY 2012-13</th>
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<tr>
<td><strong>Funds Available:</strong></td>
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<tr>
<td>Balance Forward</td>
<td>0.0</td>
<td>300.7</td>
<td>300.7</td>
<td>0.0</td>
<td>381.4</td>
<td>381.4</td>
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<td>0.0</td>
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<td>0.0</td>
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<td>Revenue Estimate</td>
<td>20,863.9</td>
<td>-190.7</td>
<td>20,673.2</td>
<td>22,072.3</td>
<td>24.7</td>
<td>22,097.0</td>
<td>23,910.9</td>
<td>3.9</td>
<td>23,914.8</td>
<td>25,879.6</td>
<td>-0.2</td>
<td>25,879.4</td>
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<td>Non-operating Funds</td>
<td>-4.3</td>
<td>272.8</td>
<td>268.5</td>
<td>-4.3</td>
<td>99.9</td>
<td>95.6</td>
<td>-4.3</td>
<td>99.9</td>
<td>95.6</td>
<td>-4.3</td>
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<td>95.6</td>
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<td>New Issues - Environmental Land Acquisition</td>
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<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
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<td>0.0</td>
<td>0.0</td>
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<td>Transfer From Trust Funds</td>
<td>0.0</td>
<td>600.0</td>
<td>600.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
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<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
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<td><strong>Total Funds Available</strong></td>
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<td>982.8</td>
<td>21,862.4</td>
<td>22,968.0</td>
<td>506.0</td>
<td>22,584.0</td>
<td>23,906.6</td>
<td>103.8</td>
<td>24,010.4</td>
<td>25,875.3</td>
<td>99.7</td>
<td>25,975.6</td>
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<td><strong>Estimated Expenditures:</strong></td>
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<td>Base Budget</td>
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<td>23,189.9</td>
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<td>New Issues by GAA Section:</td>
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<td>Section 2 - Education</td>
<td>11,327.0</td>
<td>59.1</td>
<td>11,386.1</td>
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<td>554.8</td>
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<td>1,227.4</td>
<td>26.1</td>
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<td>Section 3 - Human Services</td>
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<td>5,201.6</td>
<td>1,438.5</td>
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<td>1,161.8</td>
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<td>Section 4 - Criminal Justice and Corrections</td>
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<td>3,545.1</td>
<td>132.8</td>
<td>22.0</td>
<td>154.8</td>
<td>131.1</td>
<td>103.0</td>
<td>234.2</td>
<td>145.5</td>
<td>153.6</td>
<td>299.1</td>
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<td>Section 5 - Natural Resources/Environment/Growth</td>
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<td>9.8</td>
<td>9.8</td>
<td>0.0</td>
<td>9.1</td>
<td>9.1</td>
<td>0.0</td>
<td>7.1</td>
<td>7.1</td>
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<td>Management/Transportation</td>
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<td>149.6</td>
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<td>27.0</td>
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<td>27.0</td>
<td>9.7</td>
<td>0.0</td>
<td>9.7</td>
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<td>Administered Funds - Statewide Issues</td>
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<td>22.1</td>
<td>30.0</td>
<td>317.7</td>
<td>0.0</td>
<td>317.7</td>
<td>132.6</td>
<td>0.0</td>
<td>132.6</td>
<td>151.8</td>
<td>0.0</td>
<td>151.8</td>
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<td><strong>Total New Issues</strong></td>
<td>2,519.1</td>
<td>308.3</td>
<td>2,827.4</td>
<td>2,684.0</td>
<td>257.7</td>
<td>2,941.7</td>
<td>649.1</td>
<td>379.5</td>
<td>1,028.6</td>
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<td>Medicaid Deficit (FY 2009-09 &amp; FY 2009-10)</td>
<td>224.8</td>
<td>224.8</td>
<td>224.8</td>
<td>224.8</td>
<td>224.8</td>
<td>224.8</td>
<td>224.8</td>
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<td>224.8</td>
<td>224.8</td>
<td>224.8</td>
<td>224.8</td>
</tr>
<tr>
<td>Other Deficits (SSSTF, RMTF and VPK)*</td>
<td>0.0</td>
<td>60.9</td>
<td>60.9</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
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<td>0.0</td>
<td>0.0</td>
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<td>0.0</td>
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<tr>
<td>Transfer to Budget Stabilization Fund</td>
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<td>0.0</td>
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<td>-1,966.2</td>
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<td>-646.7</td>
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<td>-1,140.9</td>
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*Note: Negative balances are not allowed to carry-forward to subsequent years; the assumption is that each year is addressed with a nonrecurring solution.*

* State School Trust Fund (SSSTF), Risk Management Trust Fund and Voluntary Pre-Kindergarten (VPK)
# Key Budget Drivers...

## Other High Priorities

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<thead>
<tr>
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<th>FY 2010-11</th>
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<th>FY 2011-12</th>
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<th>FY 2012-13</th>
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<td>Total Major TF</td>
<td>Total GR</td>
<td>Total Major TF</td>
<td>Total GR</td>
<td>Total Major TF</td>
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<td><strong>Other High Priority Needs</strong> (Includes Other Historically Funded Issues)</td>
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<td>Health &amp; Human Services</td>
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<td><strong>Subtotal Other High Priority Needs</strong></td>
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<td><strong>7,050.0</strong></td>
<td><strong>1,980.8</strong></td>
<td><strong>7,165.3</strong></td>
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## Outlook for Critical & High Priority Needs

**GENERAL REVENUE OUTLOOK - COMPARISON OF ESTIMATED REVENUES TO ESTIMATED EXPENDITURES**

**TIER 2 ISSUES - CRITICAL NEEDS AND OTHER HIGH PRIORITY NEEDS**

**NO FISCAL STRATEGIES -- NO RESERVE**

($ MILLIONS)

<table>
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<tr>
<th></th>
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</thead>
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<tr>
<td>Recurring</td>
<td>Non-recurring</td>
<td>Total</td>
<td>Recurring</td>
<td>Non-recurring</td>
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**Estimated Expenditures:**

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<th>Recurring</th>
<th>Non-recurring</th>
<th>Total</th>
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</thead>
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<td>Base Budget</td>
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<td>24,152.0</td>
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<tr>
<td>27,895.4</td>
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<td>27,895.4</td>
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</tbody>
</table>

**New Issues by GAA Section:**

- **Section 2 - Education:** 11,327.0
- **Section 3 - Human Services:** 4,910.1
- **Section 4 - Criminal Justice and Corrections:** 3,512.7
- **Section 5 - Natural Resources:** 158.9
- **Section 6 - General Government:** 618.4
- **Section 7 - Judicial Branch:** 134.8
- **Administered Funds - Statewide Issues:** 7.8

**Total New Issues:** 3,482.3

**Medicaid Deficit (FY 2008-09 & FY 2009-10):** 224.8

**Other Deficits (SSTF, RMTF and VPK):** 60.0

**Transfer to Budget Stabilization Fund:** 0.0

**Total Estimated Expenditures:** 20,669.7

**Ending Balance:** 209.9

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*Note: Negative balances are not allowed to carry-forward to subsequent years; the assumption is that each year is addressed with a non-recurring solution.

* State School Trust Fund (SSTF), Risk Management Trust Fund (RMTF) and Voluntary Pre-Kindergarten (VPK)