Florida: Long-Range Financial Outlook

September 12, 2019
Long-Range Financial Outlook

Thirteenth document prepared since the constitutional requirement passed ~ nearly 100 Analysts were involved in the process over the Summer months.

Revenue Drivers
Based on National and Florida Economic Forecasts; Population Growth

Budget Drivers
Based on Estimating Conferences; Past Legislative Actions; and Three-Year Averages

Fiscal Years Addressed
2020-21
2021-22
2022-23
Population Growth Slowing Slightly...

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

- Florida’s population grew by 1.74% between April 1, 2017 and April 1, 2018 to 20,840,568, adding 356,426 residents. This growth was bolstered by the in-migration of Puerto Ricans and US Virgin Islanders as a result of the 2017 hurricane season.

- Over the next four years, Florida’s population growth is expected to remain at or above 1.45%, averaging 1.6% between 2018 and 2022. Most of Florida’s population growth through 2030 will be from net migration (99.4%).

- Nationally, average annual growth will be about 0.67% between 2018 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 currently the third most populous state, behind California and Texas.
Economy Has Continued Growth...

For the first quarter of the 2019 calendar year, Florida posted growth of 2.9%, falling below the national average of 3.1% and ranking the state 23rd in the country for real growth.

In the 2018 calendar year, the state’s growth strengthened and remained above the national average (3.5% versus 2.9%). The Estimating Conference projects that Florida’s Real Gross Domestic Product (GDP) will slow to growth of 2.5% in Fiscal Year 2019-20 and continue slowing in the near term to 1.8% in Fiscal Year 2023-24. In the longer term, growth is expected to average 2.0% per year.
The first quarter results for the 2019 calendar year indicated that Florida ranked 4th in the country with 5.1% growth over the prior quarter. The state was well above the United States as a whole, which had 3.4% growth. Healthcare and social assistance was the leading contributor to the earnings increase, and the increase in transfer receipts was greater than the overall net earnings change.

In the latest revised data for State Personal Income for the 2017 calendar year, Florida’s personal income growth increased to 5.0% over the prior year, compared to national growth of 4.4%. For 2018, Florida’s growth increased again to 5.2% compared to the national average of 4.5%. In the near term, the annual growth rates for the state are expected to drift from 5.2% (FY 2019-20) down to 4.2% (FY 2022-23), and then straddle 4.2% for the remainder of the forecast horizon.

In spite of the robust year-over-year growth, Florida’s per capita personal income growth trailed the nation in performance in 2017 and 2018, growing only 3.6% in 2018 compared to the national average of 3.8%.
Florida’s average annual wage has typically been below the US average. The most recent data for the 2018 calendar year showed that Florida’s average wage, relative to the US average, continued to fall from 2016 when it was 87.7% to 87.4% in 2018. The ratio in 2014 (87.2%) was Florida’s lowest percentage since 2001.

In part, the lower than average wage gains has to do with the mix of jobs that have been growing the fastest in Florida and their average wages. For example, the Accommodation & Food Services employment sector is large, has the lowest average annual wage and had until recently been growing faster than overall employment in the state. This industry sector is closely related to the health of Florida’s tourism industry that had a record 128.5 million visitors in FY 2018-19, an increase of 5.8% over FY 2017-18. Effectively, these visitors were equivalent to 2.2 million additional people being added to Florida’s resident population.
Current Employment Conditions Strong…

July Nonfarm Jobs (YOO)

<table>
<thead>
<tr>
<th>Country</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>1.5%</td>
</tr>
<tr>
<td>FL</td>
<td>2.6%</td>
</tr>
</tbody>
</table>

YR: 227,200 jobs
Peak: +956,400 jobs
[Prior Employment Peak passed in May 2015]

July Unemployment Rate

- US 3.7%
- FL 3.3% (343,900 jobless persons)

The Revenue Estimating Conference assumes Florida has fallen below the “full employment” unemployment rate (about 4 percent).

Highest Monthly Rate

11.3% (January 2010)

Lowest Monthly Rate

3.1% (March 2006)
Only Part of Housing Market is Back to Normal...

- Existing Home market is back to normal for both volume and sales.
  - Existing home sales volume in each of the last five calendar years (2014, 2015, 2016, 2017 and 2018) exceeded the 2005 peak year. This year (2019) is on course to do the same. While Florida’s existing home price gains have roughly tracked national gains over the last four years, the state’s median home price for single family homes has generally stayed upwardly steady as the national median peaks and dips. As Florida’s median price has been increasing, the national median has increased even more; the state’s median price in July was only 94.4% of the national median price. It exceeded Florida’s prior peak (June 2006) in June 2018 for the first time and has hovered close to that level since.

- Homeownership rate is below normal.
  - Since 2013, Florida has been below its long-run average homeownership rate. Final data for 2018 shows a small improvement from 64.1% in 2017 (the lowest recorded point) to 65.5%. However, preliminary data for the second quarter of the 2019 calendar year has drifted back to 64.5%.

- While most areas of commercial and consumer credit have significantly strengthened – residential credit for home purchases still remains somewhat difficult for consumers to access with a weighted average credit score of 731 and a LTV of 79% on all closed loans in July (virtually identical to one year earlier). Almost 89% of all conventional home purchase lending in July had credit scores that were 700 or above. Even so, the percent of all home sales that are financed is almost 61% in Florida (April 2019), up from 59% in July 2018.

- Challenging housing costs and shifting preferences among Millennials have caused residential rental vacancies to tighten strongly over the last four years (2015 through 2018) as price pressure continues to build.
Permits Are Still Well Below Historic Norms…

Single-Family building permit activity, an indicator of new construction, remains in positive territory, beginning with strong back-to-back growth in both the 2012 and 2013 calendar years (over 30% in each year). The final data for the 2014 calendar year revealed significantly slowing (but still positive) activity—posting only 1.6% growth over the prior year. However, annual activity for the past four calendar years ran well above their individual periods a year prior; single family data was higher than the prior year by 20.3% in 2015, 11.1% in 2016, 13.5% in 2017, and 13.8% in 2018.

Despite the strong percentage growth rates in six of the last seven calendar years, the level is still low by historic standards – just over 63% of the long-run per capita level. The year-to-date data for the 2019 calendar year is running only slightly positive.
Economy Largely Recovered...

Florida growth rates are generally returning to more typical levels and continue to show progress. The drags—particularly construction—are more persistent than past events, but the strength in tourism is compensating for this. In the various forecasts, normalcy was largely achieved by the end of FY 2016-17. Overall...

- The national economy has been back to normal on nearly all measures; however, financial conditions are increasingly volatile as uncertainty over tariffs and concerns regarding growth abroad buffet expectations.

- By the close of the 2018-19 fiscal year, most measures of the Florida economy had returned to or surpassed their prior peaks.
  - All personal income metrics, nearly 60% of the employment measures, and the total tourism and domestic visitor counts had exceeded their prior peaks.
  - Other measures were posting solid year-over-year improvements, even if they were not yet back to peak performance levels.
  - Private nonresidential construction expenditures first passed their prior peak in FY 2016-17, but none of the key residential construction measures passed their prior peaks in the forecast horizon, a significant slowdown from the forecasts adopted last year.

- As July ended, the economy had been in expansion for more than a decade, marking the longest economic expansion in U.S. history. The current forecast does not anticipate a recession, but turning points are notoriously difficult to project. IHS Markit places the risk of a recession at 35% in 2020 and the New York Fed’s recession probability model identifies a similar percentage; however, the National Association for Business Economics’ June survey of economists indicate that the risk of recession rises to 60% by the end of 2020. Speaking more recently, Mark Zandi of Moody’s places the odds “very high”.


General Revenue Forecast

LR Growth: Averages 6%
Forecast Growth: Drops from 4.3% to 3.2%, after the decline in FY 2019-20

The past had tax increases associated with key revenue sources and stronger population growth.

The August forecast reduces the March 2019 estimate by $451.6 million for FY 2019-20 and by $416.1 million in FY 2020-21, for a two-year reduction of $867.7 million. However, the prior General Revenue Financial Outlook Statement already took into account some of the adjustments, leaving a net positive change on the Outlook of $201.2 million. These numbers affect the revenues available for the budget being crafted for FY 2020-21. The Conference recognized that there is an elevated level of risk to the forecast due to the mature stage of the current economic expansion.
Florida-Based Downside Risk

The most recent sales tax forecast relies heavily on strong tourism growth. It assumes no events that have significant repercussions affecting tourism occur during the forecast window.

- Currently, tourism-related revenue losses pose the greatest potential risk to the economic outlook.
- Previous economic studies of disease outbreaks and natural or manmade disasters have shown that tourism demand is very sensitive to such events.
- A strong and strengthening dollar tends to have a chilling effect on international travel. The broad dollar is expected to remain elevated throughout the near-term forecast and is susceptible to trade tensions.

The Legislative Office of Economic and Demographic Research has just updated its empirical analysis of the various sources of the state’s sales tax collections. In Fiscal Year 2017-18, sales tax collections provided over $24.1 billion or 77.3% of Florida’s total General Revenue collections. Of this amount, an estimated 13.4% (over $3.22 billion) was attributable to purchases made by tourists.
### GR Outlook Balance for FY 2019-20

A projected remaining balance of $1.45 billion in nonrecurring dollars is assumed to be available for use in FY 2020-21.

<table>
<thead>
<tr>
<th>Description</th>
<th>REC</th>
<th>N/R</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2019-20 Ending Balance on Post-Session Outlook</strong></td>
<td>437.3</td>
<td>617.4</td>
<td>1,054.7</td>
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<tr>
<td><strong>PLUS- 2018-19 Additional Revenues Above Forecast</strong></td>
<td>0.0</td>
<td>573.8</td>
<td>573.8</td>
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<td><strong>PLUS- 2018-19 Miscellaneous Revenue Adjustments</strong></td>
<td>0.0</td>
<td>53.7</td>
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<tr>
<td><strong>MINUS- 2018-19 Miscellaneous Expenditure Adjustments</strong></td>
<td>0.0</td>
<td>-0.3</td>
<td>-0.3</td>
</tr>
<tr>
<td><em>Sub-Total Adjustments Related to 2018-19</em></td>
<td>0.0</td>
<td>627.8</td>
<td>627.8</td>
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<tr>
<td><strong>PLUS- 2019-20 Forecast Changes</strong></td>
<td>0.0</td>
<td>-104.9</td>
<td>-104.9</td>
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<tr>
<td><strong>PLUS- 2019-20 Miscellaneous Revenue Adjustments</strong></td>
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<td>-8.1</td>
<td>-8.1</td>
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<tr>
<td><strong>MINUS- 2019-20 Impact from Reappropriations</strong></td>
<td>0.0</td>
<td>85.7</td>
<td>85.7</td>
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<tr>
<td><strong>MINUS- 2019-20 Budget Amendments -- Bridge Loans</strong></td>
<td>0.0</td>
<td>9.0</td>
<td>9.0</td>
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<td><strong>MINUS- 2019-20 Budget Amendments -- Hurricane Michael</strong></td>
<td>0.0</td>
<td>21.9</td>
<td>21.9</td>
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<tr>
<td><em>Sub-Total Adjustments Related to 2019-20</em></td>
<td>0.0</td>
<td>-229.6</td>
<td>-229.6</td>
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<tr>
<td><strong>Subtotal of Combined Adjustments</strong></td>
<td>-</td>
<td>398.2</td>
<td>398.2</td>
</tr>
<tr>
<td><strong>ADJUSTED BALANCE</strong></td>
<td>437.3</td>
<td>1015.6</td>
<td>1452.9</td>
</tr>
</tbody>
</table>
Total State Reserves Are Solid...

Unallocated General Revenue, the Budget Stabilization Fund, and the Lawton Chiles Endowment Fund are generally considered to compose the state’s reserves.

At the time of adoption for each of the previous seven Outlooks, total state reserves have ranged from 10.7% to 12.9% of the General Revenue estimate.

For the current year, total state reserves are $3,800.7 million or 11.5% of the General Revenue estimate for FY 2019-20. This amount is the highest it has been in the past ten years.

*The Lawton Chiles Endowment Fund for Fiscal Year 2019-20 is the estimated market value as of August 27, 2019. The Summer Revenue Estimate reflects the General Revenue for Fiscal Year 2019-20 includes the official estimated revenues for General Revenue and the annual payment from the BP Settlement Agreement.
Tier 1 Drivers...

Tier 1 – Includes only Critical Needs, which can generally be thought of as the absolute minimum the state must do absent significant law or structural changes. In some instances, they also present the lowest cost, within current policy parameters, of continuing essential government functions. In this Outlook, there are 15 Critical Needs drivers. Two types of funding strategies were deployed that significantly reduced the need for General Revenue in Tier 1 for Fiscal Year 2020-21.

- Because the Legislature has had an evolving policy regarding the appropriate split between state and local funds for the public school system, Driver #2 includes the impact of using the Legislature’s Fiscal Years 2018-19 and 2019-20 policy of increasing the Required Local Effort (RLE) each year by the value of additional new construction and maintaining the current year nonvoted discretionary millage. This allows RLE to increase with property tax revenue in a controlled manner. Permitting the increases in RLE and discretionary millage funding in Driver #2 decreases the need for state funding (as shown in the Critical Needs drivers) by $246.2 million in Fiscal Year 2020-21, $248.0 million in Fiscal Year 2021-22, and $254.1 million in Fiscal Year 2022-23.

- For the programs in the education and human services policy areas, the Outlook also maximizes the use of all available state trust funds prior to using General Revenue. To accomplish this, adjustments are made to General Revenue based on the projected balances forward and growth in the trust funds. This shifting of funds alters the need for General Revenue from year to year, but does not affect the overall level of dollars estimated to be required for core education and human services programs. Across both education policy areas, the effect of these fund shifts can be seen in two discrete drivers (#1 and #5) that together total $309.3 million in Fiscal Year 2020-21, $51.0 million in Fiscal Year 2021-22, and $51.5 million in Fiscal Year 2022-23.
Tier 2 Drivers...

- Because of the RLE assumption and the use of trust fund balances, the projected General Revenue cost of the Critical Needs drivers in Fiscal Year 2020-21 is significantly less than the cost for the Other High Priority Needs drivers in the first year of the Outlook. Had these funding strategies not been available, the General Revenue cost would have been $555.5 million ($309.3 million plus $246.2 million) higher in the first year of the Outlook, bringing the total for Critical Needs to $1,252.1 million. Reversing these adjustments makes it clear that the underlying Critical Needs (regardless of fund source) are the largest expenditure component in the plan.

- In Tier 2, Other High Priority Needs are added to the Critical Needs. The 29 Other High Priority Needs reflect issues that have been funded in most, if not all, of the recent budget years. Both types of drivers are combined to represent a more complete, yet still conservative, approach to estimating future expenditures. Essentially, the total projected cost for the Critical Needs and Other High Priority Needs shows the impact of continuing the programs and priorities funded in recent years into the three years included in the Outlook.
GR Drivers by Policy Area...

Four policy areas (Transportation & Economic Development, Human Services, Natural Resources and Administered Funds – Statewide Issues) have the greatest need for General Revenue in the first year of the Outlook. Combined, they generate 71.1% of the total need.

By the second year of the Outlook, Human Services increases significantly to represent the largest share of the total need at 28.5%, while the other three areas decline in relative shares. However, the Pre K-12 Education policy area joins the list of policy areas with double-digit shares of the total.
Total New GR Infusion = $6.18 Billion

The total need for new infusions of General Revenue over the three years is $6.18 billion. Together, the Human Services and Transportation & Economic Development issues represent more than 42% of the total.

The total three-year driver need of $6.18 billion is slightly higher than the $6.09 billion identified last year, but the composition is different. Six of the ten policy areas either stayed at approximately the same level or went down in need. Four were higher.
Total GR Expenditures = $9.63 Billion

| Recurring and Nonrecurring Driver Impact | Fiscal Year 2020-21 | Fiscal Year 2021-22 | Fiscal Year 2022-23 | TOTAL | Share of Grand Total
<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>New Recurring Drivers for Each Year</td>
<td>985.0</td>
<td>1,484.2</td>
<td>1,253.6</td>
<td>3,722.8</td>
<td></td>
</tr>
<tr>
<td>Continuation of Year 1 Recurring Drivers</td>
<td>985.0</td>
<td>985.0</td>
<td>985.0</td>
<td>1,970.0</td>
<td></td>
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<tr>
<td>Continuation of Year 2 Recurring Drivers</td>
<td></td>
<td>1,484.2</td>
<td>1,484.2</td>
<td></td>
<td></td>
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<tr>
<td>Cumulative Impact of Recurring Drivers</td>
<td>985.0</td>
<td>2,469.2</td>
<td>3,722.8</td>
<td>7,177.0</td>
<td>74.5%</td>
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<tr>
<td>Nonrecurring Drivers by Year</td>
<td>767.0</td>
<td>930.5</td>
<td>757.2</td>
<td>2,454.6</td>
<td>25.5%</td>
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<tr>
<td>Grand Total</td>
<td>1,751.9</td>
<td>3,399.7</td>
<td>4,480.0</td>
<td>9,631.6</td>
<td></td>
</tr>
</tbody>
</table>

Simply looking at the new infusions of General Revenue needed each year does not present a complete picture. Over the entire three-year period, 74.5% of the General Revenue infused each year has to be recurring to match the ongoing nature of the budget investment. Those expenditures cumulate and stack on top of each other in the subsequent years. Of the $1.75 billion needed for drivers in FY 2020-21, $985.0 million will be needed in FY 2021-22 (and again in FY 2022-23) to continue those programs.

This makes the actual dollar impact of the drivers identified in the Outlook larger than the displayed drivers alone suggest. In effect, the $6.18 billion in new infusions over the Outlook period cause $9.63 billion in additional costs over the period. Both effects are accounted for in the Outlook.
Revenue Adjustments

- Revenue Adjustments to the General Revenue Fund are again included in the Outlook to reflect legislative actions that alter the revenue-side of the state’s fiscal picture. These adjustments are based on historic averages and include:

  - *Tax and Significant Fee Changes*...These changes fall into two categories with different effects. The continuing tax and fee changes reflect adjustments to the funds otherwise available and build over time since the impact of each year’s change is added to the recurring impacts from prior years. Conversely, the time-limited tax and fee changes are confined to each year and are held constant throughout the Outlook.

  - *Trust Fund Transfers (GAA)*...The nonrecurring transfers to the General Revenue Fund are positive adjustments to the dollars otherwise available and are held constant each year.

- Unlike the budget drivers which are linked to identifiable issue areas, the revenue adjustments make no assumptions regarding the nature of the change (e.g., the specific amount by tax, fee, or trust fund source).

<table>
<thead>
<tr>
<th></th>
<th>2020-21</th>
<th>2021-22</th>
<th>2022-23</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rec</td>
<td>NR</td>
<td>Total</td>
</tr>
<tr>
<td>Continuing Tax and Fee Changes</td>
<td>(105.8)</td>
<td>51.3</td>
<td>(54.5)</td>
</tr>
<tr>
<td>Recurring Impact of Prior Years’ Tax and Fee Changes</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Time-Limited Tax and Fee Changes</td>
<td>0.0</td>
<td>(43.8)</td>
<td>(43.8)</td>
</tr>
<tr>
<td>Trust Fund Transfers (GAA)</td>
<td>0.0</td>
<td>213.4</td>
<td>213.4</td>
</tr>
<tr>
<td>Total</td>
<td>(105.8)</td>
<td>220.9</td>
<td>115.1</td>
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</table>
Putting It Together for the First Year

Combined, recurring and nonrecurring Critical Needs for General Revenue—plus a minimum reserve of $1.0 billion—are significantly less than the available General Revenue, leaving a total surplus of $1.2 billion in Tier 1. When Other High Priority Needs are added, the available General Revenue surplus drops to $174.2 million in Tier 2.

After accounting for the revenue adjustments included in Tier 3 of the Outlook, there is still enough General Revenue to cover the recurring Critical and Other High Priority Needs. However, as in Tiers 1 and 2, the nonrecurring budget needs are projected to be in excess of available nonrecurring revenue. Overall there is a small projected surplus of $289.3 million—this projected surplus equates to just 0.8% of the General Revenue estimate for Fiscal Year 2020-21.
Outlook Projection Compared to Last Year

For this year’s Outlook, the net result is better for Fiscal Year 2020-21 than anticipated by the 2017 and 2018 Outlooks, but Fiscal Year 2021-22 has slightly worsened (from a shortfall of $456.7 million to a revised shortfall of $486.0 million). The improvement in the first year comes primarily from a lower cost for the entire set of new drivers for Fiscal Year 2020-21, even though the incoming base budget is higher.

For revenue adjustments, the tax and fee changes are assumed to be slightly higher in this year’s Outlook than in the 2018 Outlook. The assumed trust fund transfers, however, are significantly lower. These negative adjustments are largely offset by the greater than anticipated balance forward from Fiscal Year 2019-20, such that funds available are only 0.1% lower than anticipated.
The Bottom Line...

- While Tier 3 has improved in Fiscal Year 2020-21, the negative ending balances for Fiscal Year 2021-22 and Fiscal Year 2022-23 indicate a looming problem remains. However, the nature of the problem has changed. In last year’s Outlook, the recurring General Revenue demands exceeded the amount of recurring General Revenue available in the two outer years for Tier 3. This indicated that a structural imbalance was still occurring. This year, there is no visible recurring issue, but the out-year deficits remain.

- Most important is the need to clear the negative ending balances that exist in the two outer years in both Tiers 2 and Tier 3. Because the root causes driving these negatives differ between the two Tiers, the selection of the most appropriate fiscal strategy will depend on a series of policy decisions starting with which Tier to use as the base.

<table>
<thead>
<tr>
<th>Multi-Tier Comparison</th>
<th>GENERAL REVENUE FUNDS AVAILABLE PROJECTION ($ MILLIONS)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fiscal Year 2020-21</strong></td>
<td><strong>Fiscal Year 2021-22</strong></td>
</tr>
<tr>
<td><strong>Ending Balance Tier 1...Critical Needs</strong></td>
<td><strong>Ending Balance Tier 2...Critical Needs &amp; Other High Priorities</strong></td>
</tr>
<tr>
<td><strong>Non-Recurring</strong></td>
<td><strong>Recurring</strong></td>
</tr>
<tr>
<td>$1,612.6</td>
<td>($383.1)</td>
</tr>
<tr>
<td>$1,193.6</td>
<td>($1,019.5)</td>
</tr>
<tr>
<td>$1,087.8</td>
<td>($798.5)</td>
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</table>
The Underlying Issue...

- The negatives in Tier 2 are solely related to the high level of projected nonrecurring expenditures. While the recurring portion of the balance in Fiscal Year 2021-22 is positive at +$825.1 million, the nonrecurring expenditure growth cannot be addressed within the dollars forecasted for the Outlook period. Furthermore, there are insufficient recurring dollars to completely offset the nonrecurring need. Initially, this combination appears to suggest that viable fiscal strategies can be limited to closing the budget gap on a year-by-year basis.

- However, a recurring problem is clearly lurking behind the scenes in Tier 3. This can be seen in the precipitous drop in the recurring balance (43.6% in Fiscal Year 2021-22 and 57.7% in Fiscal Year 2022-23) over the fiscal years in the immediate planning horizon. Although the projected bottom line total for Fiscal Year 2020-21 is positive in all Tiers, the projections show expenditures in the two outer years that outstrip the available funds, indicating that while the structural imbalance has been forestalled, it hasn’t been totally removed. The difference between Tiers is caused by the introduction of the recurring portion of the revenue adjustments contained in Tier 3.

- This suggests that the most practicable fiscal strategies should consider the recurring issues. Since the increase in negative revenue adjustments in Fiscal Year 2020-21 clearly contributes to and worsens the problems in Fiscal Year 2021-22 and Fiscal Year 2022-23, fiscal strategies are advisable for all three years of the Outlook to manage the problems in the out-years.
Fiscal Strategies...

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

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

- A reduction in the level of total reserves is not the best course of action given the size of the projected deficits, the slowing economy, and hurricane experience over the past several years. Further, since Tier 3 already contemplates $213.4 million in transfers or sweeps each year, ongoing transfers above this heightened level would have to be identified to have any effect on the bottom line budget gaps. Based on the analysis used to develop this Outlook, it is unlikely that surpluses of this magnitude currently exist. There is reason to believe that the level already identified in the Outlook is approaching the maximum without underlying program cuts.

- In the sense that one-time cash is not automatically replenished once it has been spent, trust fund transfers or sweeps and reserve reductions can only be used on a nonrecurring basis. The remaining options can be deployed on either a recurring or nonrecurring basis. When they are used to bring about a recurring change, they also have an impact on the following fiscal years.
Fiscal Strategies (continued)...

- While permanent redirects, recurring budget reductions, or reduced program growth would ease or eliminate the looming structural imbalance currently suggested by Tier 3 (as would the reduction or elimination of the recurring portion of the revenue adjustments affecting taxes and fees), the true size and immediacy of the structural imbalance is dependent on a number of factors and decisions that could differ from the assumptions made in this Outlook.

- Over the past two years, $1 billion of expenditures for Hurricanes Irma and Michael have been authorized through budget amendments from the General Revenue Fund. Various funding options could be considered in the event of other disasters. A segregated fund for the deposit of reimbursements from Federal Emergency Management Agency (FEMA) could be established for subsequent disasters. Alternatively a loan from the Budget Stabilization Fund could be used to align disaster funding with FEMA reimbursement practices.
Black Swans are Transforming...

“Black Swans” are typically low probability, high impact events, but the term also refers to ideas that are perceived impossibilities that may later be disproven.

- A severe natural disaster that stresses the state’s reserves (risk is internal to Florida).
  - Final Financial Impacts of Hurricanes Irma and Michael remain unknown, and the 2019 Hurricane Season is still ongoing.
  - Budget Stabilization Fund balance will be $1.574 billion in FY 2019-20, and the General Revenue Reserve is $1.453 billion.

- Escalating trade policy tensions worsen (risk is external to Florida).
  - Recent developments are already worse than anticipated in the adopted forecast.

- Economic downturn or recession materializes in the near term that is not anticipated in the current forecast (risk is external to Florida).
  - The current forecast does not anticipate a recession, but turning points are notoriously difficult to project.