Florida:
Long-Range Financial Outlook

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Presented by:

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Revenue Drivers
National and Florida Economic Forecasts
Population Growth

Budget Drivers
Estimating Conferences
Past Legislative Actions & 3-YR Averages

Long-Range Financial Outlook

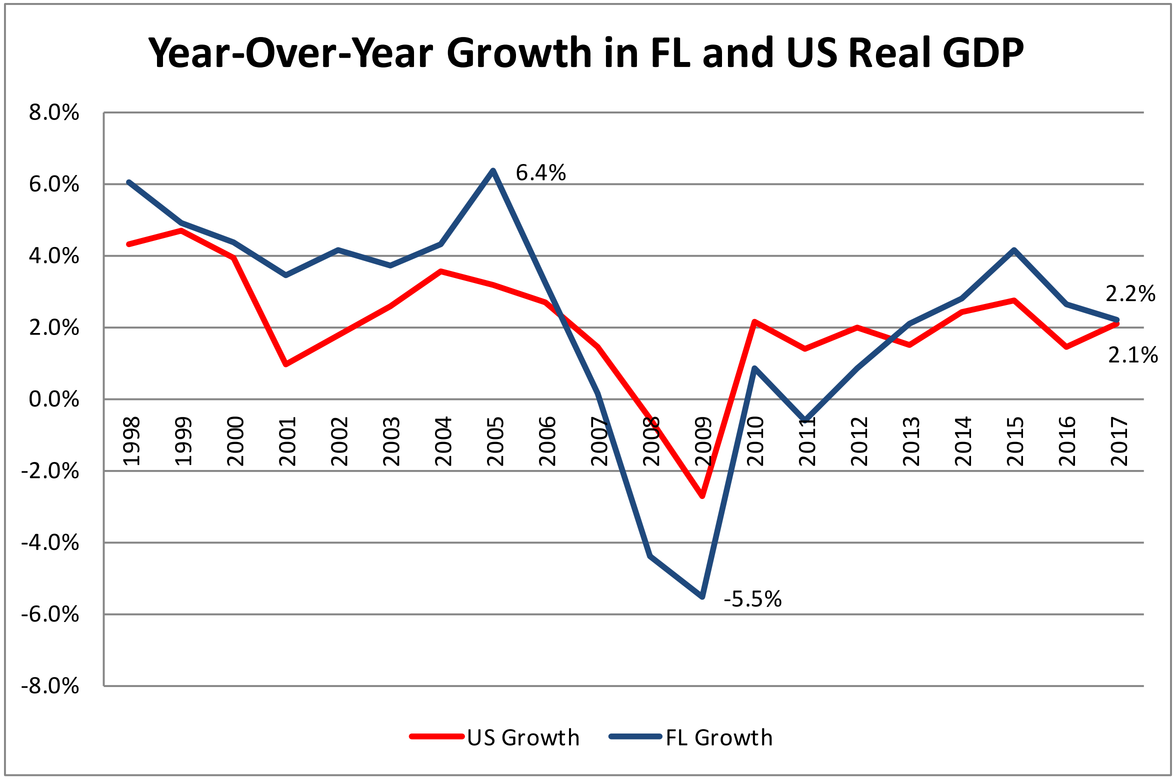
Twelfth document prepared since the constitutional requirement passed ~ nearly 100 Analysts were involved in the process over the Summer months

Fiscal Years Addressed
2019-20
2020-21
2021-22

Population Growth Slowing Slightly...

- Population growth is the state's primary engine of economic growth, fueling both employment and income growth.
- Between 2010 and 2030, Florida's population is forecast to grow by over 5.4 million persons, about 54% of them will be aged 60 or older.
- Over the next four years, Florida's population growth is expected to remain at or above 1.4%, averaging 1.45% between 2018 and 2022. Most of Florida's population growth through 2030 will be from net migration (98.0%).
- Nationally, average annual growth will be about 0.67% between 2017 and 2030.
- The future will be different than the past; Florida's long-term annual 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...

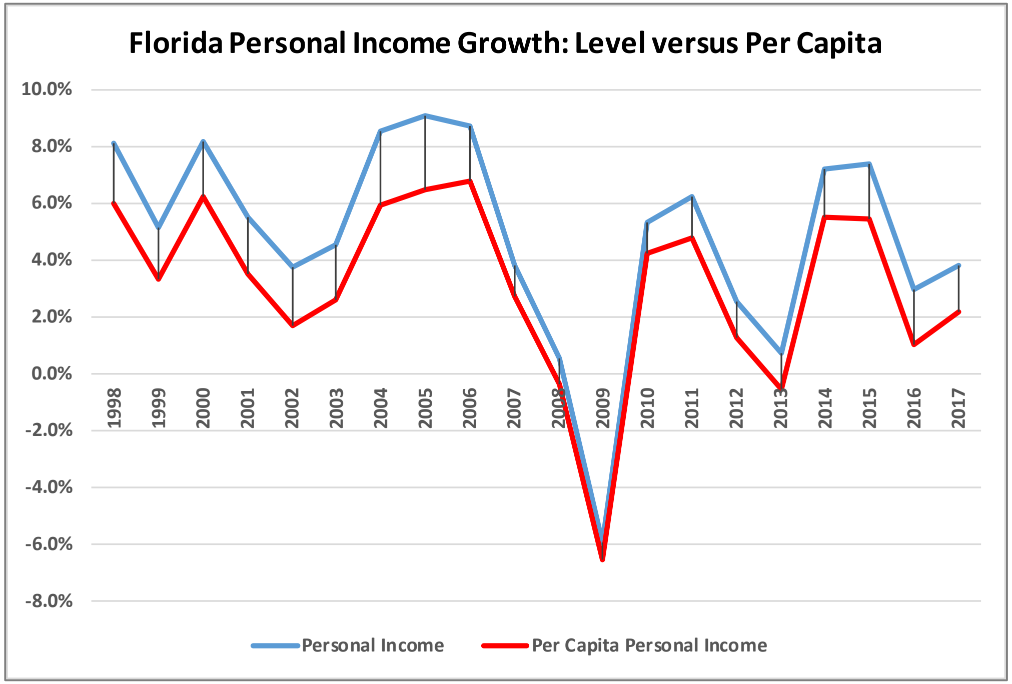


For the first quarter of the 2018 calendar year, Florida posted growth of 2.5%, surpassing the national average of 1.8% and ranking the state 11th in the country for real growth.

In the latest revised data for State Gross Domestic Product (GDP), Florida had real growth of 4.2% in 2015, placing it above the national average of 2.7%. For the 2016 calendar year, Florida's growth slowed to 2.6%; however, this was still well above the national average of 1.5%.

For the 2017 calendar year, Florida's real growth further slowed to 2.2% over the prior year—coming in only slightly above the national average of 2.1% and ranking Florida 17th among states for growth.

FL Personal Income Growth Is Strong Overall, Driven in Part by Population Growth...

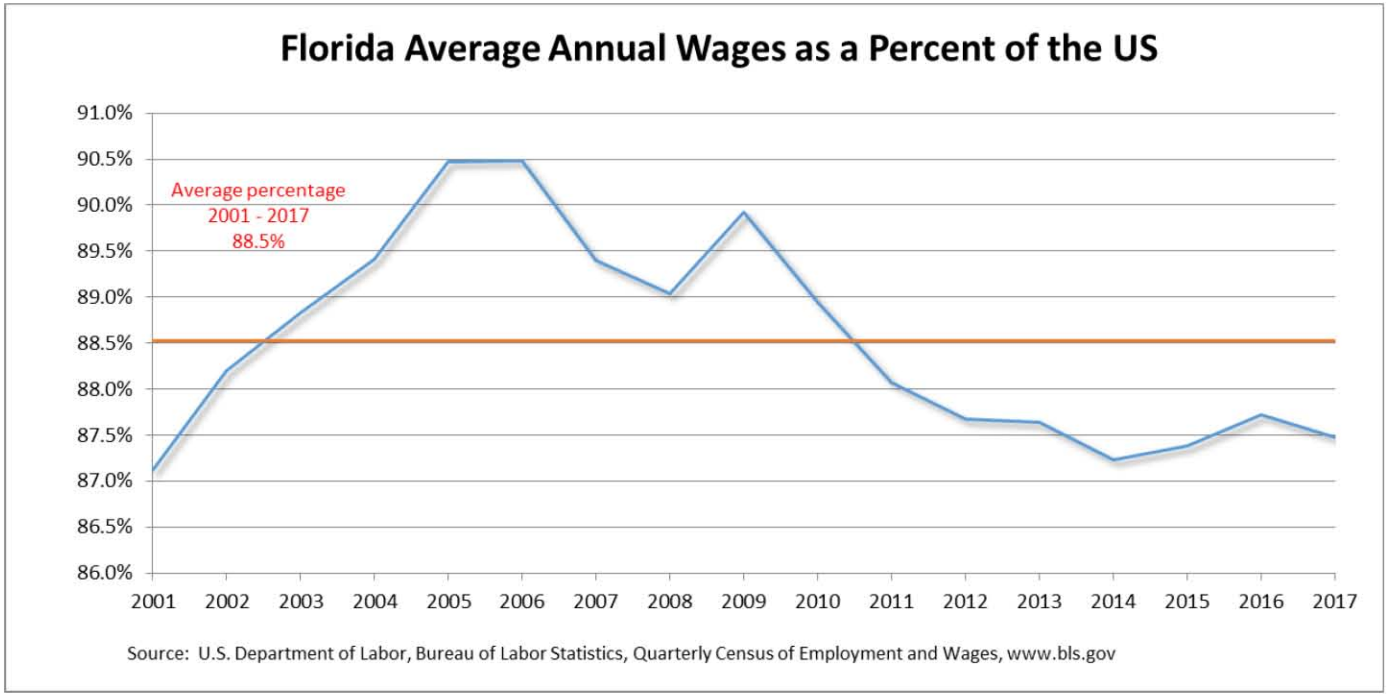


The first quarter results for the 2018 calendar year indicated that Florida ranked 13th in the country with 5.0 percent growth over the prior quarter. The United States as a whole had 4.3 percent growth.

In the latest revised data for State Personal Income, Florida had growth of 7.4% in 2015, placing it well above the national average of 5.0%. For the 2016 calendar year, Florida's growth slowed to 3.0%; however, this was still above the national average of 2.3%. For 2017, the preliminary numbers show that Florida's growth increased to 3.8% over the prior year—roughly maintaining the same relationship to the national average of 3.1%.

Florida's per capita personal income growth continued to trail in performance in 2017, growing only 2.2 percent compared to the national average of 2.4 percent. This is the second consecutive year where the state lagged the nation in per capita growth.

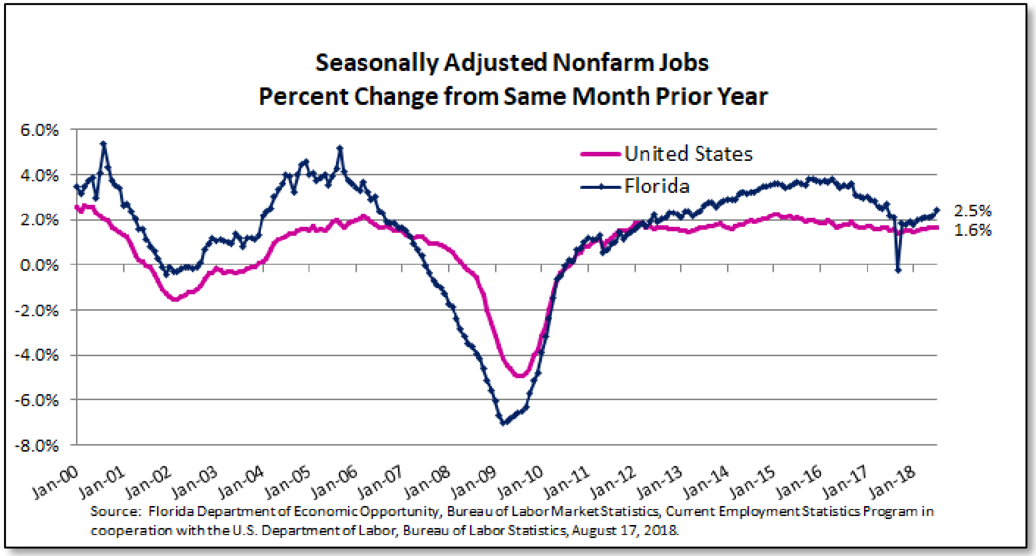
Wage Gap Increased Slightly in 2017…



Florida's average annual wage has typically been below the US average. Preliminary data for the 2017 calendar year showed that Florida's average wage, relative to the US average, fell slightly from 87.7% in 2016 to 87.5%. 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 up until this past year 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 120.5 million visitors in FY 2017-18, an increase of 5.5% over FY 2016-17.

Current Employment Conditions…



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

US 1.6%
FL 2.5%
YR: 210,600 jobs
Above Peak: 749,400 jobs
[Prior Employment Peak passed in May 2015]

<u>July Unemployment Rate</u>

US 3.9%
FL 3.7%
(382,500 people)

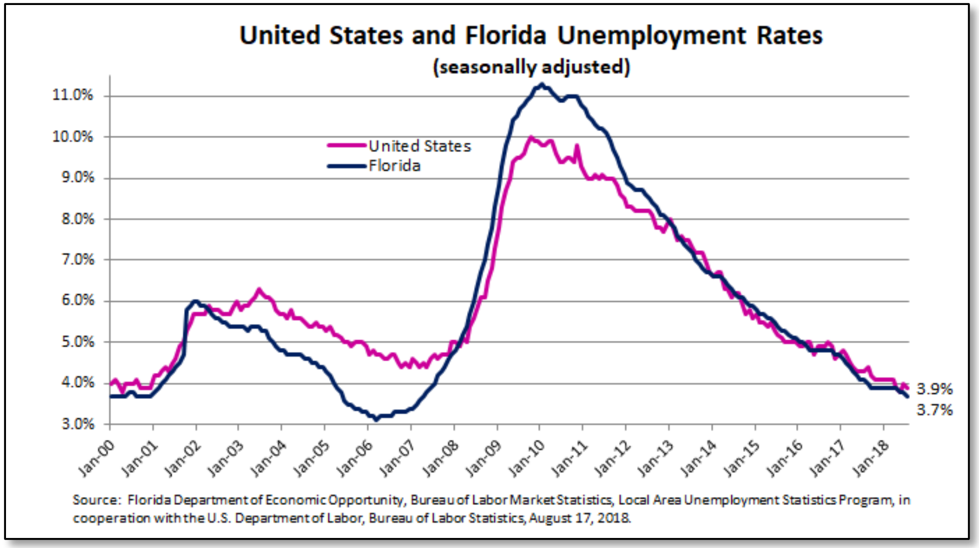
The Revenue Estimating Conference now assumes Florida is below the "full employment" unemployment rate (about 4 percent).

<u>Highest Monthly Rate</u>

11.3% (January 2010)

<u>Lowest Monthly Rate</u>

3.1% (March 2006)



Only One Part of the Housing Market is Back to Normal...

- Existing Home market is back to normal for both volume and sales.

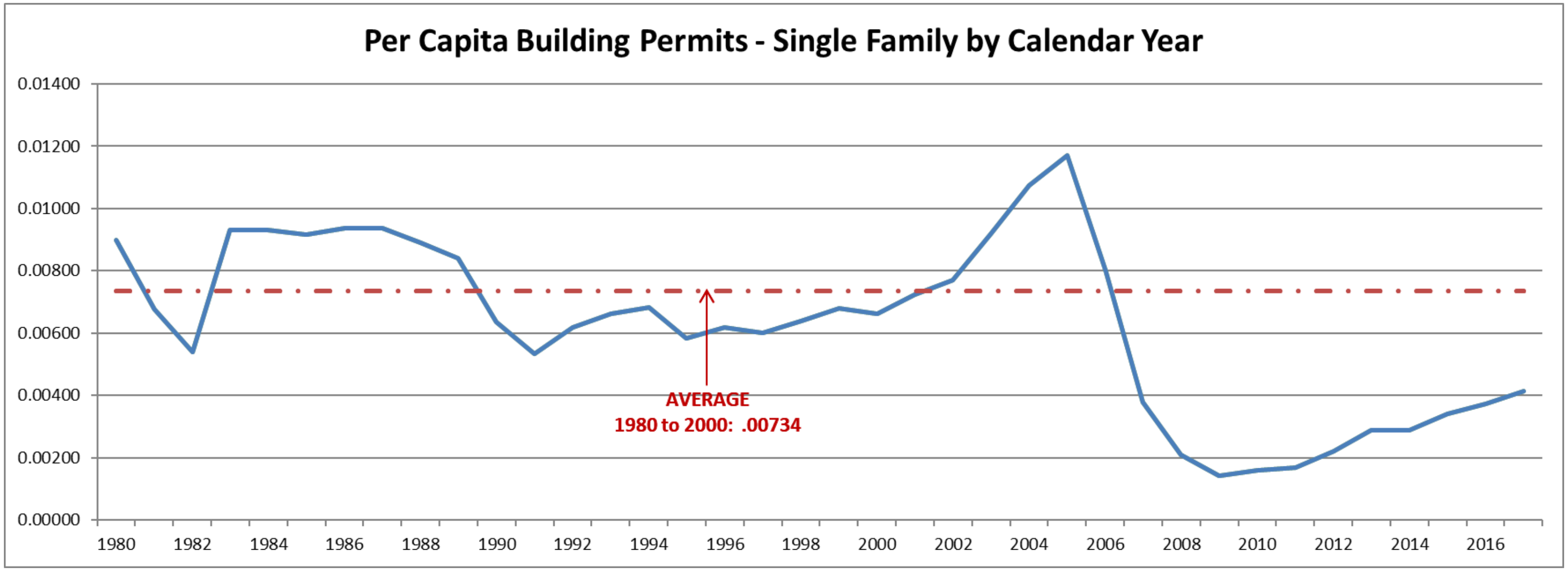
  - Existing home sales volume in the 2014, 2015, 2016 and 2017 calendar years exceeded the 2005 peak year. This year (2018) looks on course to do the same. While Florida's existing home price gains have roughly tracked national gains over the last three years, the state's median home price for single family homes has generally stayed upwardly steady as the national median peaks and dips. The state's median price in June was 93.1% of the national median price, but exceeded the state's prior peak (June 2006) for the first time.

- Homeownership rate is below normal.

  - The 2016 percentage of 64.3 was well below the long-term average for Florida (66.3%). Final data for 2017 shows a further decline to 64.1%. This rate is below the lowest homeownership rate previously recorded in Florida (64.4 in 1989) during the 34-year history of the series. However, preliminary data for the first half of the 2018 calendar year is showing improvement.

- Diverted homeowners and shifting preferences among Millennials have caused residential rental vacancies to tighten strongly in Florida, beginning in the 2015 calendar year and running through the second quarter of 2018; rental 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, activity for the past three calendar years picked up again: by 20.3% in 2015, 11.1% in 2016, and 13.5% in 2017 for single family homes.

Despite the strong percentage growth rates in five of the last six calendar years, the level is still low by historic standards – about half of the long-run per capita level.

Economy Recovering...

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...

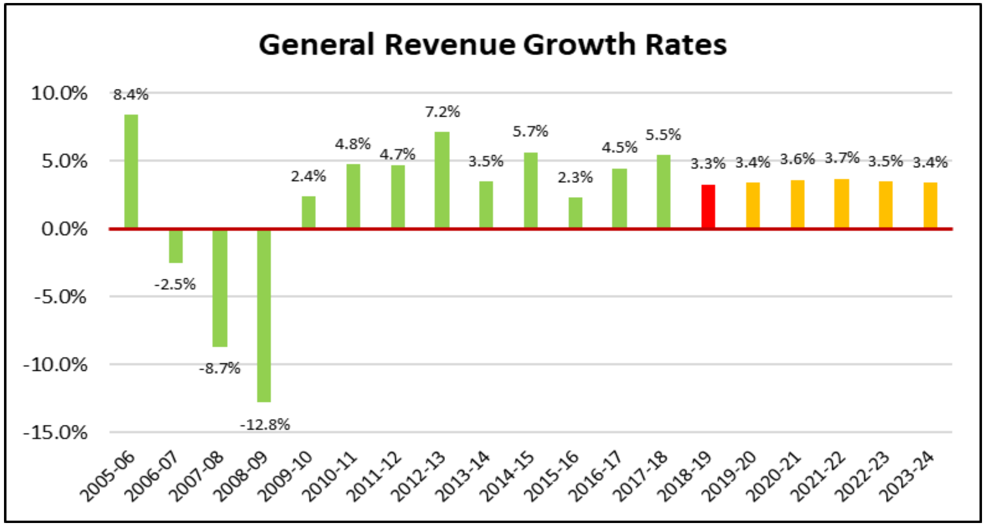
- The recovery in the national economy is near completion on all fronts. While most areas of commercial and consumer credit have significantly strengthened – residential credit for home purchases still remains somewhat difficult for consumers to access with a weighted average credit score of 726 and a LTV of 80 percent on all closed loans in June. Seventy percent of all home purchase lending in June had credit scores that were 700 or above. Student loans and auto debts appear to be affecting the ability to qualify for residential credit. Even so, the percent of all home sales that are financed is approaching 60 percent in Florida (May 2018).

- By the close of the 2017-18 fiscal year, most measures of the Florida economy had returned to or surpassed their prior peaks.
  - All personal income metrics, over one-half 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 pass their prior peaks until FY 2023-24.

General Revenue Forecast

LR Growth: Averages 6%
Forecast Growth: Averages 3.5%

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



Fiscal Year	Post-Session Forecast	August Forecast	Difference (Aug - PS)	Incremental Growth	Growth
2005-06	27,074.8				8.4%
2006-07	26,404.1				-2.5%
2007-08	24,112.1				-8.7%
2008-09	21,025.6				-12.8%
2009-10	21,523.1				2.4%
2010-11	22,551.6				4.8%
2011-12	23,618.8				4.7%
2012-13	25,314.6				7.2%
2013-14	26,198.0				3.5%
2014-15	27,681.1				5.7%
2015-16	28,325.4				2.3%
2016-17	29,594.5				4.5%
2017-18	31,013.0	31,218.2	205.2	1,623.7	5.5%
2018-19	32,256.9	32,243.8	(13.1)	1,025.6	3.3%
2019-20	33,354.2	33,334.7	(19.5)	1,090.9	3.4%
2020-21	34,568.1	34,544.2	(23.9)	1,209.5	3.6%
2021-22	35,806.5	35,827.4	20.9	1,283.2	3.7%
2022-23	37,031.6	37,086.9	55.3	1,259.5	3.5%
2023-24	n/a	38,349.1	n/a	1,262.2	3.4%

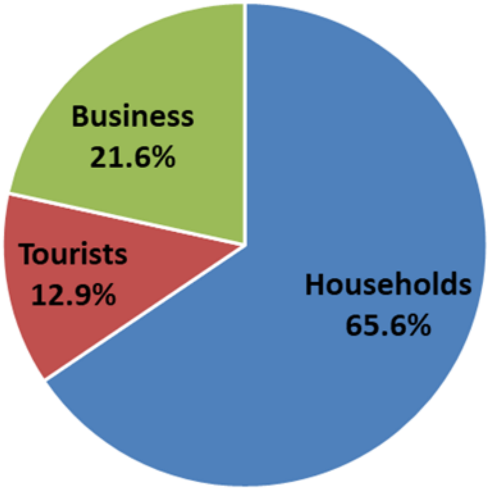
Final collections for FY 2017-18 came in $205.2 million above the estimate for the year, a gain of 0.7 percent and well within the plus or minus one percent range the Conference usually attributes to statistical noise. Of this amount, approximately $120.7 million, or nearly 59 percent, is associated with one-time events. The relatively large nonrecurring portion of the FY 2017-18 surplus, combined with the slightly weaker near-term National and Florida economic forecasts, results in a new forecast for General Revenue that is virtually unchanged overall.

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.

The Legislative Office of Economic and Demographic Research has updated and refined an empirical analysis of the various sources of the state's sales tax collections. In FY 2016-17, sales tax collections provided nearly $23.0 billion dollars or 76.8% of Florida's total General Revenue collections. Of this amount, an estimated 12.9% (nearly $2.97 billion) was attributable to purchases made by tourists.

Contributions to General Revenue from Sales Tax (with CST) Collections in FY 2016-17, By Source



External Uncertainty...

Imposed
As of June 1, 2018
On all Countries with exceptions for South Korea, Argentina, Brazil, and Australia

Additional 25% on Imported Steel

Additional 10% on imported Aluminum

[50% ad valorem duty rate on steel articles from Turkey]

Announced
TBD
Autos and Automotive Parts

Imposed
July 6, 2018
$34 billion of imports from China at 25%

Imposed
August 23, 2018
$16 billion of imports from China at 25%

Announced
TBD
$200 billion of imports from China at 25%

Threatened
Tariffs on the remaining $267 billion of imports from China

In National Economic Forecast Adopted 7/12/18

Announced and/or Imposed Retaliatory Actions by:
Canada, EU, Mexico, China, India, Japan, Russia, Turkey

The Florida Economic forecast is underpinned by the National Economic forecast. The new baseline forecast was adopted with caution due to increasing trade tensions and ongoing developments.

To the extent that they materialize, tariffs act like a tax increase, weakening the purchasing power of households and creating greater business uncertainty regarding the future demand for exports, the effects of increased cost pressures, and the continued operation of global supply chains. Rising trade tensions have also contributed to a sharp appreciation in the dollar, which has already appreciated nearly 8 percent since April 2018.

According to Moody's Analytics and Economy.com, a global trade war is among the biggest downside risks for U.S. growth this year and next. The Federal Open Market Committee also noted in their minutes from the July 31 - August 1 meeting that "all participants pointed to ongoing trade disagreements and proposed trade measures as an important source of uncertainty and risks."

GR Outlook Balance for FY 2018-19

	REC	N/R	TOTAL
2018-19 Ending Balance on Post-Session Outlook	**22.2**	**1,003.6**	**1,025.8**
-PLUS- 2017-18 Additional Revenues Above Forecast	0.0	205.2	205.2
-PLUS- 2017 Miscellaneous Outlook Adjustments	0.0	-6.8	-6.8
Sub-Total Adjustments Related to 2017-18	*0.0*	*198.4*	*198.4*
-PLUS- 2018-19 FEMA Reimbursements for Irma	0.0	69.6	69.6
-MINUS- 2018-19 Back of Bill s. 99 Contingent Appropriations	0.0	-44.6	-44.6
-MINUS- 2018-19 Forecast Changes	14.3	-27.4	-13.1
-MINUS- 2018-19 Budget Amendments	0.0	-9.8	-9.8
-MINUS- 2018-19 Miscellaneous Outlook Adjustments	0.1	-0.3	-0.2
Sub-Total Adjustments Related to 2018-19	*14.4*	*-12.5*	*1.9*
BALANCE ON CURRENT OFFICIAL OUTLOOK	36.6	1,189.5	1,226.1

A projected remaining balance of $1.2 billion in nonrecurring dollars is assumed to be available for use in FY 2019-20.

Total State Reserves Are Solid...

Outlook Year	Baseline Fiscal Year	Unallocated General Revenue	Budget Stabilization Fund	Lawton Chiles Endowment Fund	Total Reserves	GR Summer Revenue Estimate*	% of GR Estimate
2011	2011-12	1,357.5	493.6	696.2	2,547.3	23,795.1	10.7%
2012	2012-13	1,577.7	708.1	426.1	2,711.9	24,631.6	11.0%
2013	2013-14	1,893.5	924.8	536.3	3,354.6	26,184.2	12.8%
2014	2014-15	1,589.0	1,139.2	629.3	3,357.5	27,189.4	12.3%
2015	2015-16	1,709.1	1,353.7	590.2	3,653.0	28,414.1	12.9%
2016	2016-17	1,414.2	1,384.4	637.5	3,436.1	29,732.8	11.6%
2017	2017-18	1,458.5	1,416.5	713.4	3,588.4	31,152.8	11.5%
2018	2018-19	1,226.1	1,483.0	763.1	3,472.2	32,270.5	10.8%

**The Summer Revenue Estimate for FY 2018-19 includes the official estimated revenues for General Revenue and the annual payment from the BP Settlement Agreement.*

- Unallocated General Revenue, the Budget Stabilization Fund, and the Lawton Chiles Endowment Fund are generally considered to comprise 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 $3,472.2 million or 10.8% of the General Revenue estimate for FY 2018-19.

Budget 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; they present the lowest cost of continuing core government functions within the current policy framework. While the **17** Critical Needs drivers for this year's Outlook primarily reflect the first purpose (i.e., mandatory increases and adjustments originating from estimating conferences and constitutional or statutory requirements), a separate driver is included that more directly addresses the second purpose of identifying the lowest state cost of providing essential government services. Because the Legislature has had an evolving policy regarding the appropriate split between state and local funds for the public school system, Critical Needs Driver #3 has been included to show the impact of using the Legislature's longer-term policy of maintaining the millage rate derived from the most recent certified roll for school purposes—in this case July 2018. This allows the Required Local Effort to increase with tax roll growth. However, this assumption is relaxed in the Other High Priority Needs to reflect the specific policy adopted for FY 2018-19.

DOLLAR VALUE OF CRITICAL AND OTHER HIGH PRIORITY NEEDS

GENERAL REVENUE FUND	Fiscal Year 2019-20	Fiscal Year 2020-21	Fiscal Year 2021-22
Total Tier 1 - Critical Needs	35.5	609.9	283.3
Total - Other High Priority Needs	1,829.7	1,701.5	1,630.9
Total Tier 2 - Critical and Other High Priority Needs	1,865.2	2,311.4	1,914.2

- Tier 2 – Other High Priority Needs are added to the Critical Needs. The **30** 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...

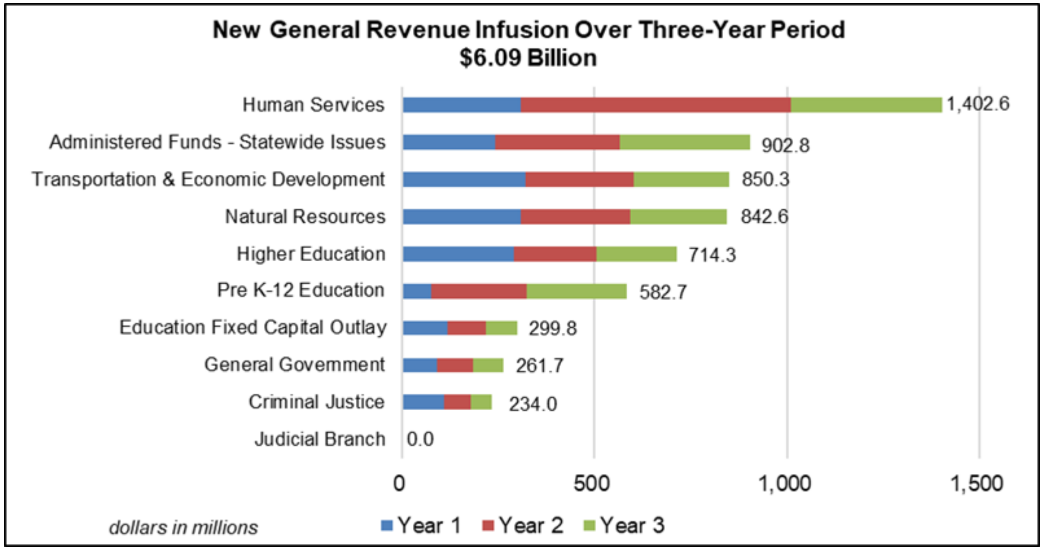
In FY 2019-20, four policy areas (Transportation & Economic Development, Natural Resources, Human Services, and Higher Education) comprise nearly equal shares of two-thirds (65.9%) of the total need for General Revenue.

By the second year of the Outlook, Human Services increases significantly to represent the largest share of the total need at 30.3%, while the other three areas decline to a combined one-third of the total need from nearly one-half of the total.

POLICY AREAS	Fiscal Year 2019-20	Fiscal Year 2020-21	Fiscal Year 2021-22
Pre K-12 Education	76.9	247.4	258.4
Higher Education	289.4	214.1	210.8
Education Fixed Capital Outlay	118.0	98.9	82.9
Human Services	309.1	700.6	392.9
Criminal Justice	110.3	68.2	55.5
Judicial Branch	0.0	0.0	0.0
Transportation & Economic Development	320.7	280.7	248.9
Natural Resources	309.1	282.8	250.7
General Government	90.6	94.0	77.1
Administered Funds - Statewide Issues	241.1	324.7	337.0
Total New Issues	1,865.2	2,311.4	1,914.2

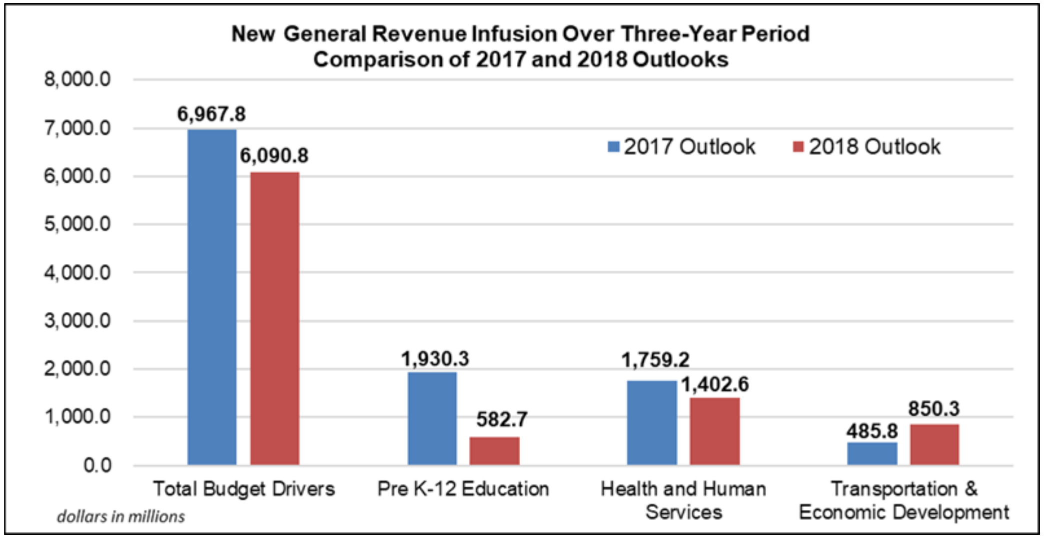
POLICY AREAS	Fiscal Year 2019-20	Fiscal Year 2020-21	Fiscal Year 2021-22
Pre K-12 Education	4.1%	10.7%	13.5%
Higher Education	15.5%	9.3%	11.0%
Education Fixed Capital Outlay	6.3%	4.3%	4.3%
Human Services	16.6%	30.3%	20.5%
Criminal Justice	5.9%	3.0%	2.9%
Judicial Branch	0.0%	0.0%	0.0%
Transportation & Economic Development	17.2%	12.1%	13.0%
Natural Resources	16.6%	12.2%	13.1%
General Government	4.9%	4.1%	4.0%
Administered Funds - Statewide Issues	12.9%	14.0%	17.6%
Total New Issues	100.0%	100.0%	100.0%

Total New GR Infusion = $6.09 Billion



The total need for new infusions of General Revenue over the three years is $6.09 billion. Together, Human Services and Administered Funds – Statewide Issues represent almost 38% of the total.

The total three-year driver need of $6.09 billion is lower than the $6.97 billion identified in last year's Outlook. The difference can be roughly attributed to three policy areas: Pre K-12 Education, Human Services, and Transportation & Economic Development.



Total GR Expenditures = $9.49 Billion

Recurring and Nonrecurring Driver Impact	Fiscal Year 2019-20	Fiscal Year 2020-21	Fiscal Year 2021-22	TOTAL	Share of Grand Total
New Recurring Drivers for Each Year	976.9	1,442.9	1,157.5	3,577.3	
Continuation of Year 1 Recurring Drivers		976.9	976.9	1,953.8	
Continuation of Year 2 Recurring Drivers			1,442.9	1,442.9	
Cumulative Impact of Recurring Drivers	976.9	2,419.8	3,577.3	6,974.0	73.5%
Nonrecurring Drivers by Year	888.3	868.5	756.7	2,513.5	26.5%
Grand Total	**1,865.2**	**3,288.3**	**4,334.0**	**9,487.5**	

Simply looking at the new infusions of General Revenue needed each year does not present a complete picture. Over the entire three-year period, 73.5% 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 $1.87 billion needed for drivers in FY 2019-20, $976.9 million will be needed in FY 2020-21 (and again in FY 2021-22) 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 $6.09 billion in new infusions over the Outlook period cause $9.49 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 three-year 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).

	2019-20			2020-21			2021-22		
	Rec	NR	Total	Rec	NR	Total	Rec	NR	Total
Continuing Tax and Fee Changes	(104.8)	58.5	(46.3)	(104.8)	58.5	(46.3)	(104.8)	58.5	(46.3)
Recurring Impact of Prior Years' Tax and Fee Changes	0.0	0.0	0.0	(104.8)	0.0	(104.8)	(209.6)	0.0	(209.6)
Time-Limited Tax and Fee Changes	0.0	(43.9)	(43.9)	0.0	(43.9)	(43.9)	0.0	(43.9)	(43.9)
Trust Fund Transfers (GAA)	0.0	392.5	392.5	0.0	392.5	392.5	0.0	392.5	392.5
Total	**(104.8)**	**407.1**	**302.3**	**(209.6)**	**407.1**	**197.5**	**(314.4)**	**407.1**	**92.7**

Putting It Together for the First Year

OUTLOOK PROJECTION – FISCAL YEAR 2019-20 *(in millions)*	RECURRING	NON RECURRING	TOTAL
AVAILABLE GENERAL REVENUE	**$33,031.1**	**$1,653.9**	**$34,685.0**
Base Budget	$31,809.4	$0.0	$31,809.4
Transfer to Lawton Chiles Endowment Fund	$0.0	$0.0	$0.0
Transfer to Budget Stabilization Fund	$0.0	$89.3	$89.3
Critical Needs	($87.3)	$122.8	$35.5
Other High Priority Needs	$1,064.2	$765.5	$1,829.7
Reserve	$0.0	$1,000.0	$1,000.0
TOTAL EXPENDITURES	**$32,786.3**	**$1,977.6**	**$34,763.9**
TIER 2 ENDING BALANCE	**$244.8**	**($323.7)**	**($78.9)**
Revenue Adjustments	($104.8)	$407.1	$302.3
TIER 3 ENDING BALANCE	**$140.0**	**$83.4**	**$223.4**

Combined, recurring and nonrecurring General Revenue Critical Needs—plus a minimum reserve of $1.0 billion—are significantly less than the available General Revenue, leaving a surplus of nearly $1.8 billion. However, when Other High Priority Needs are added, the available General Revenue falls short of the projected total need by $78.9 million in Tier 2.

After accounting for the revenue adjustments included in Tier 3 of the Outlook, there is enough General Revenue to cover the Critical and Other High Priority Needs, leaving a small projected surplus of $223.4 million for discretionary and new issues—the projected surplus equates to just 0.6 percent of the General Revenue estimate for FY 2019-20.

Outlook Projections Over Time

Outlook	For the Period Beginning	Year 1 ($ Millions)	Year 2 ($ Millions)	Year 3 ($ Millions)	Level of Reserves
2007	FY 2008-09	(2,334.5)	(2,860.7)	(3,066.0)	0.0
2008	FY 2009-10	(3,306.3)	(2,482.5)	(1,816.8)	0.0
2009	FY 2010-11	(2,654.4)	(5,473.2)	(5,228.6)	0.0
2010	FY 2011-12	(2,510.7)	(2,846.3)	(1,930.3)	0.0
2011	FY 2012-13	273.8	692.1	840.6	1,000.0
2012	FY 2013-14	71.3	53.5	594.0	1,000.0
2013	FY 2014-15	845.7	1,426.7	**3,295.3**	1,000.0
2014	FY 2015-16	336.2	**1,004.5**	**2,156.1**	1,000.0
2015	FY 2016-17	**635.4**	**583.7**	**222.2**	1,000.0
2016	FY 2017-18	**7.5**	**(1,300.9)**	**(1,897.7)**	1,000.0
2017	FY 2018-19	**52.0**	**(1,146.2)**	(1,639.6)	1,000.0
2018	FY 2019-20	**223.4**	(47.8)	(456.7)	1,000.0

Fiscal Year 2019-20	2017 Outlook	2018 Outlook	Difference	Effect on Bottom Line
Funds Available in Tier 3				
Balance Forward from 2018-19	1,052.0	1,224.3	172.30	Positive
Available General Revenue Adjusted by Measures	33,458.4	33,460.7	2.30	Positive
Trust Fund Transfers	323.6	392.5	68.90	Positive
Continuing Tax and Fee Changes	(89.5)	(46.3)	43.20	Positive
Time-Limited Tax and Fee Changes	(63.9)	(43.9)	20.00	Positive
Total Funds Available	34,680.6	34,987.3	306.70	Positive
			0.9%	
Projected Expenditures				
Base Budget for 2019-20	32,075.4	31,809.4	(266.00)	Positive
Total New Budget Drivers for 2019-20	2,678.5	1,865.2	(813.30)	Positive
Total Projected Expenditures	34,753.9	33,674.6	(1,079.30)	Positive
			-3.1%	
Additional Adjustments for Reserves				
BSF Transfer	72.9	89.3	16.40	
Reserve	1,000.0	1,000.0	-	
Bottom Line	**(1,146.2)**	**223.4**	**1,369.60**	

For this year's Outlook, the net result is better than anticipated by the 2016 and 2017 Outlooks. The improvement comes primarily from the combined effect of a lower appropriations base coming into FY 2019-20 and a lower cost for the entire set of new drivers for FY 2019-20.

For revenue adjustments, the tax and fee changes are assumed to be modestly lower in this year's Outlook than in the 2017 Outlook, but the trust fund transfers are higher. In addition, the balance forward from FY 2018-19 is greater than anticipated, largely due to unanticipated one-time events that occurred after the forecast used by the Legislature for budgeting FY 2018-19.

The Bottom Line

Multi-Tier Comparison
GENERAL REVENUE FUNDS AVAILABLE PROJECTION
($ MILLIONS)

	Fiscal Year 2019-20			Fiscal Year 2020-21			Fiscal Year 2021-22		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Ending Balance Tier 1...Critical Needs	$1,309.0	$441.8	$1,750.8	$2,049.2	$1,998.6	$4,047.8	$3,165.3	$4,013.6	$7,178.9
Ending Balance Tier 2...Critical Needs & Other High Priorities	$244.8	($323.7)	($78.9)	($0.4)	($468.3)	($468.7)	$116.0	($665.4)	($549.4)
Ending Balance Tier 3...All Needs Plus Revenue Adjustments	$140.0	$83.4	$223.4	($210.0)	$162.2	($47.8)	($198.4)	($258.3)	($456.7)

- The Outlook results show negative ending balances in all three years in Tier 2 and in the two outer years in Tier 3.
- While the negatives in Tier 2 are related to the high level of projected nonrecurring expenditures, a recurring problem is clearly present in Tier 3.
- The projected bottom line for FY 2019-20 is positive in all respects; however, the projections show recurring expenditures in the two outer years that outstrip the available recurring funds, indicating that **a structural imbalance is still occurring**—albeit improved since last year’s Outlook.
- This difference between Tiers is caused by the introduction of the recurring portion of the revenue adjustments contained in Tier 3. On the other hand, the switch to a positive result in the first year (FY 2019-20) is brought about by the use of one-time trust fund transfers that are also only allowed in Tier 3 (assumed to be $392.5 million each year).

The Underlying Issue...

- Although the problem in Tier 2 appears to be the size of the nonrecurring expenditures, many of these investments are considered to be must-funds and essential by most legislators. While the negative revenue adjustments in Tier 3 cause the specific recurring problem in the Outlook, introduction of any new or enhanced recurring programs in FY 2019-20 totaling more than **$116 million** would cause a similar structural imbalance in Tier 2. Both of these factors indicate that a recurring issue exists in Tier 2—it is just masked.

- To maintain all of the assumptions in Tier 3, a recurring reduction of **$199 million** would be needed to eliminate the structural imbalance in all years.

- Clearly the margin between the two Tiers—and the small variation in results—is tight. The difference in outcomes ranges between plus $116 million recurring (added to Tier 2) to negative $199 million recurring (subtracted from Tier 3).

- This suggests that viable fiscal strategies should consider the recurring issues. Since the increase in negative revenue adjustments in FY 2019-20 clearly contributes to and worsens the problems in FY 2020-21 and FY 2021-22, **fiscal strategies are advisable for all three years of the Outlook** to manage the problems in the out-years.

Cautions...

1. Shoring Up Current Projections is Critical

    For example, the Outlook's results for all three years depend greatly on meeting the Indian Gaming revenue estimates, which average slightly less than $343 million per year over the Outlook period. If this assumption fails, the current results in both Tier 2 and Tier 3 will significantly deteriorate.

2. There are a variety of options available to clear the negative ending balances that exist in all three years in Tier 2 and in the two outer years in Tier 3, but they need to be deployed carefully.

    Because the root causes driving the 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. Among the many variables that need to be considered is the timing of the corrective action. While a fiscal strategy is required no later than FY 2020-21 to address the projected gap between revenues and expenditures in Tier 3, less disruptive courses of action—as well as the results in Tier 2—argue for at least some level of deployment beginning in FY 2019-20. Otherwise, there is the potential to increase funding for programs in Year 1 that would not survive Year 2.

3. The true size of the structural imbalance is dependent on a number of factors and decisions that could differ from the assumptions made in the Outlook.

    For example, the magnitude of the structural imbalance will be dependent on the specific policy the Legislature adopts for Required Local Effort (RLE) over the next three years. As demonstrated by the difference in results between the 2017 Outlook and this year, the future recurring needs for Pre K-12 Education are very sensitive to the assumptions made regarding RLE. Further, funding for this policy area is a significant component of Florida's overall General Revenue budget. Large swings between Outlooks may continue until a consistent policy on the funding split between state and local dollars is in place.

Fiscal Strategies...

- Conceptually, there are five options to eliminate a proposed budget gap in any given year of the Outlook.
  - Budget Reductions and Reduced Program Growth
  - Reduction or Elimination of Revenue Adjustments Affecting Taxes and Fees in Tier 3
  - Revenue Enhancements and Redirections
  - Trust Fund Transfers or Sweeps
  - Reserve Reductions
- With the exception of trust fund transfers or sweeps and reserve reductions, these 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.
- The magnitude of the ***recurring*** shortfall cannot be fixed by nonrecurring solutions alone. A simple reduction in the level of reserves or trust fund transfers or sweeps (in excess of those included in Tier 3) will close the gap in a particular year; however, these strategies do not solve the recurring problem.
- The other three options will become the basis of more meaningful strategies.

Impact of Fiscal Strategies...

Fiscal Strategy	Non-Recurring Budget Gaps	Recurring Budget Gaps
Budget Reductions and Reduced Program Growth	Possible Solution but Not Essential on a Recurring Basis	**Appropriate Solution for Structural Imbalance**
Reduction or Elimination of the Revenue Adjustments Affecting Taxes and Fees in Tier 3	Not Available in Tier 2	**Appropriate Solution for Structural Imbalance**
Revenue Enhancements and Redirections	Possible Solution but Not Essential on a Recurring Basis	**Appropriate Solution for Structural Imbalance**
Trust Fund Transfers or Sweeps	Possible Solution in Tier 2	Not Appropriate Solution for Structural Imbalance
Reserve Reductions	Possible Solution but Limited Opportunity	Not Appropriate Solution for Structural Imbalance

Black Swans...

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

- A severe natural disaster that stresses the state's reserves.
  - Final Financial Impact of Hurricane Irma Remains Unknown
    - The ultimate levels of required state matches for federal funds and FEMA reimbursements is still preliminary and incomplete. Early estimates of the state match for FEMA funds total $313.0 million from the **General Revenue Fund**. And, as of August 16, 2018, the General Revenue Fund had only received $69.6 million of FEMA reimbursements against expenditures through budget amendments of $350.9 million.
    - An additional $424.7 million in budget amendments (excluding double-budget and the expenditure of federal funds) approved expenditures from **Trust Funds**, bringing the combined total to $775.6 million.
    - On top of the expenditures related to amendments, the Legislature authorized another $269.1 million in recovery-related appropriations and provided $16.9 million in directed tax relief from state funds.
    - Offsetting all of these expenditures is only $353.5 million in additional sales taxes generated by rebuilding and other recovery activities through the end of this fiscal year (FY 2018-19). This figure is net of the direct revenue losses experienced in September 2017 and the likely spending displacement caused by deductibles and uninsured expenses that come out of pocket.
    - At this point, it appears clear that the state will spend far more on the preparations for and recovery from Irma than it generates in revenues, easily topping the $203.3 million net loss seen in 2005.
  - Budget Stabilization Fund balance will be $1.48 billion in FY 2018-19, and General Revenue Reserve is $1.22 billion.