

Florida: Long-Range Financial Outlook

September 10, 2008

Presented by:



The Florida Legislature
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Key Budget Drivers...

Critical Needs

	FY 2009-10		FY 2010-2011		FY 2011-2012	
	Total GR	Total Major TF	Total GR	Total Major TF	Total GR	Total Major TF
Critical Needs (Includes Annualizations, Mandatory Increases Based on Estimating Conferences, and Other Essential Needs)						
<i>Criminal Justice</i>	492.6	0.0	486.3	0.0	471.3	0.0
<i>Medicaid</i>	221.6	132.9	167.2	168.1	404.1	480.9
<i>State Government Operations</i>	163.7	30.0	137.8	66.7	155.2	70.4
<i>K-12 Education</i>	45.8	130.1	89.3	(75.1)	97.3	8.3
<i>Post-Secondary Education</i>	61.2	0.0	0.0	87.9	1.4	35.5
<i>General Education</i>	45.9	(45.9)	0.0	30.2	0.0	0.0
<i>Judiciary</i>	39.9	0.0	39.9	0.0	39.9	0.0
<i>Local Assistance</i>	32.8	0.0	32.9	0.0	33.1	0.0
<i>Voluntary Pre-Kindergarten</i>	26.1	0.0	7.0	0.0	6.2	0.0
<i>State Disasters</i>	22.9	0.0	17.3	0.0	10.1	0.0
<i>KidCare</i>	19.9	42.4	30.8	72.5	36.7	87.1
<i>Environment</i>	0.0	(5.2)	0.0	(3.9)	0.0	(1.5)
<i>Health and Human Services</i>	(4.2)	6.5	0.0	(4.6)	0.0	2.6
Subtotal Critical Needs	1,168.2	290.7	1,008.4	341.8	1,255.3	683.4



Outlook for Critical Needs

GENERAL REVENUE OUTLOOK- COMPARISON OF ESTIMATED REVENUES TO ESTIMATED EXPENDITURES

TIER 1 ISSUES - CRITICAL NEEDS

NO FISCAL STRATEGIES --- NO RESERVE

(\$ MILLIONS)

	FY 2008-09			FY 2009-10			FY 2010-11			FY 2011-12		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Funds Available:												
August 15 REC Balance Forward	0.0	326.2	326.2	0*	0.0	0.0	0.0	0.0	0.0	0.0	112.7	112.7
August 15 REC Revenue Estimate	23,291.6	80.2	23,371.8	24,658.8	3.9	24,662.7	26,687.5	0.5	26,688.0	28,799.7	0.5	28,800.2
August 15 REC Non-operating Funds	-4.3	613.5	609.2	-4.3	105.5	101.2	-4.3	105.5	101.2	-4.3	105.5	101.2
New Issues - Florida Forever/Everglades Bonds			0.0	-34.3	12.0	-22.2	-68.6	12.0	-56.5	-102.8	12.0	-90.8
Transfer From Trust Funds			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Funds Available	23,287.3	1,019.9	24,307.2	24,620.2	121.4	24,741.7	26,614.6	118.0	26,732.7	28,692.6	230.7	28,923.3
Estimated Expenditures:												
Base Budget				24,973.8	0.0	24,973.8	25,611.6	0.0	25,611.6	26,190.5	0.0	26,190.5
New Issues by GAA Section:												
Section 2 - Education	12,902.5	141.7	13,044.2	98.3	80.7	179.1	96.4	0.0	96.4	104.9	0.0	104.9
Section 3 - Human Services	7,109.5	48.0	7,157.5	237.3	0.0	237.3	198.0	0.0	198.0	440.8	0.0	440.8
Section 4 - Criminal Justice and Corrections	3,536.4	335.4	3,871.9	146.0	393.0	539.1	149.4	383.4	532.9	154.0	364.1	518.1
Section 5 - Natural Resources /Environment/Growth Management/Transportation	191.5	89.1	280.6	0.0	22.9	22.9	0.0	17.3	17.3	0.0	10.1	10.1
Section 6 - General Government	817.5	166.8	984.3	1.3	33.8	35.1	1.6	28.8	30.4	1.7	26.2	27.9
Section 7 - Judicial Branch	404.0	0.2	404.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Administered Funds - Statewide Issues	12.4	20.0	32.4	154.8	0.0	154.8	133.6	0.0	133.6	153.5	0.0	153.5
Total New Issues				637.8	530.4	1,168.2	579.0	429.5	1,008.5	854.9	400.4	1,255.3
Transfer to Budget Stabilization Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Estimated Expenditures	24,973.8	801.1	25,774.9	25,611.6	530.4	26,142.0	26,190.5	429.5	26,620.0	27,045.4	400.4	27,445.8
Ending Balance	-1,686.5	218.8	-1,467.7	-991.3	-409.0	-1,400.3	424.1	-311.5	112.7	1,647.2	-169.7	1,477.4

*Note: Fiscal Year 2009-10 contains no carry forward balance from Fiscal Year 2008-09 since the deficit shown in Fiscal Year 2008-2009 must be addressed prior to the end of the fiscal year. A non-recurring solution is assumed that has no impact on subsequent years.

**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.



Analyzing the Result

- If the Legislature chooses to fund only the State's Critical Needs throughout the planning horizon, there would not be sufficient revenues to fund other high priority items until Fiscal Year 2011-12 when a surplus begins to accumulate.
- Fiscal Strategies will be required to address the projected gap between revenues and expenditures no later than Fiscal Year 2008-09 to cure the current year deficit and Fiscal Year 2009-10 to address the projected budget shortfall.



Key Budget Drivers...

Other High Priorities

	FY 2009-10		FY 2010-2011		FY 2011-2012	
	Total GR	Total Major TF	Total GR	Total Major TF	Total GR	Total Major TF
Other High Priority Needs (Includes Other Historically Funded Issues)						
<i>Criminal Justice</i>	3.5	0.0	3.5	0.0	3.5	0.0
<i>Medicaid</i>	317.8	422.6	25.0	30.7	25.0	30.7
<i>State Government Operations</i>	221.6	125.0	225.6	53.1	227.0	95.9
<i>K-12 Education</i>	491.5	0.0	372.3	0.0	275.0	0.0
<i>Post-Secondary Education</i>	302.4	0.0	258.0	0.0	239.2	0.0
<i>Judiciary</i>	18.0	0.0	18.3	0.0	18.6	0.0
<i>Local Assistance</i>	214.6	8.0	204.2	8.0	204.2	8.0
<i>Environment</i>	194.4	363.9	190.9	379.7	187.3	403.6
<i>Health and Human Services</i>	126.9	51.2	76.1	37.2	65.6	23.4
<i>Transportation and Growth Management</i>	5.1	6,434.3	5.1	6,365.4	5.1	7,101.7
<i>Juvenile Justice</i>	10.1	0.0	10.1	0.0	10.1	0.0
Subtotal Other High Priority Needs	1,905.9	7,405.1	1,389.0	6,874.2	1,260.5	7,663.3



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)

	FY 2008-09			FY 2009-10			FY 2010-11			FY 2011-12		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Funds Available:												
August 15 REC Balance Forward	0.0	326.2	326.2	0*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
August 15 REC Revenue Estimate	23,291.6	80.2	23,371.8	24,658.8	3.9	24,662.7	26,687.5	0.5	26,688.0	28,799.7	0.5	28,800.2
August 15 REC Non-operating Funds	-4.3	613.5	609.2	-4.3	105.5	101.2	-4.3	105.5	101.2	-4.3	105.5	101.2
New Issues - Florida Forever/Everglades Bonds	0.0	0.0	0.0	-34.3	12.0	-22.2	-68.6	12.0	-56.5	-102.8	12.0	-90.8
Transfer From Trust Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Funds Available	23,287.3	1,019.9	24,307.2	24,620.2	121.4	24,741.7	26,614.6	118.0	26,732.7	28,692.6	118.0	28,810.6
Estimated Expenditures:												
Base Budget				24,973.8	0.0	24,973.8	26,817.7	0.0	26,817.7	28,111.6	0.0	28,111.6
New Issues by GAA Section:												
Section 2 - Education	12,902.5	141.7	13,044.2	750.3	222.7	973.0	583.9	142.7	726.6	477.1	142.0	619.1
Section 3 - Human Services	7,109.5	48.0	7,157.5	604.6	108.0	712.6	234.1	95.5	329.6	476.4	85.5	561.9
Section 4 - Criminal Justice and Corrections	3,536.4	335.4	3,871.9	167.7	407.1	574.8	171.4	397.5	568.9	176.2	378.2	554.4
Section 5 - Natural Resources /Environment/Growth Management/Transportation	191.5	89.1	280.6	0.0	168.2	168.2	0.0	159.0	159.0	0.0	148.3	148.3
Section 6 - General Government	817.5	166.8	984.3	1.3	316.4	317.6	1.6	301.0	302.6	1.7	294.7	296.4
Section 7 - Judicial Branch	404.0	0.2	404.2	5.0	7.9	12.9	5.0	7.9	12.9	6.0	7.9	13.9
Administered Funds - Statewide Issues	12.4	20.0	32.4	<u>315.1</u>	<u>0.0</u>	<u>315.1</u>	<u>297.9</u>	<u>0.0</u>	<u>297.9</u>	<u>321.9</u>	<u>0.0</u>	<u>321.9</u>
Total New Issues				1,843.9	1,230.2	3,074.2	1,293.9	1,103.6	2,397.5	1,459.3	1,056.6	2,515.8
Transfer to Budget Stabilization Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Estimated Expenditures	24,973.8	801.1	25,774.9	26,817.7	1,230.2	28,048.0	28,111.6	1,103.6	29,215.2	29,570.9	1,056.6	30,627.4
Ending Balance	-1,686.5	218.8	-1,467.7	-2,197.5	-1,108.8	-3,306.3	-1,496.9	-985.6	-2,482.5	-878.3	-938.5	-1,816.8

*Note: Fiscal Year 2009-10 contains no carry forward balance from Fiscal Year 2008-09 since the deficit shown in Fiscal Year 2008-2009 must be addressed prior to the end of the fiscal year. A non-recurring solution is assumed that has no impact on subsequent years.

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



Analyzing the Result

- Overall, projected general revenue growth is insufficient to support anticipated spending and minimal reserve requirements for Fiscal Years 2009-10, 2010-11 and 2011-12.
- 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 between expenditures and revenues.
- Fiscal Strategies will be required to address the projected gap between revenues and expenditures no later than Fiscal Year 2008-09 to cure the current year deficit and beginning in Fiscal Year 2009-10 to address the projected annual budget shortfalls.



Fiscal Strategies

- Essentially, there are five types of strategies:
 - Budget Reductions and Reduced Growth
 - Trust Fund Transfers or Sweeps
 - Revenue Enhancements
 - Funding Redirections
 - Any Combination of the Above
- With the exception of trust fund transfers or sweeps that are reevaluated each year, these strategies can be deployed on a recurring or non-recurring basis. When they are used to bring about a recurring change, they also have an impact on the following fiscal years.



Use of Non-Recurring Dollars

- The entire general revenue shortfall cannot be addressed within the parameters of the constitutional amendment limiting the amount of non-recurring general revenues that can be spent on recurring programs unless an extraordinary vote of the legislature is taken or historical practice is changed.
- Assuming sufficient non-recurring revenues were available, the extraordinary vote would have to be taken in every year of the plan. The combined total of needed non-recurring funds would be \$7,605.6 million prior to taking into account future reserve balances or the actions to balance Fiscal Year 2008-09. It is highly unlikely that reserves of this magnitude are available.



Scenario “A”

- Assumes that the Legislature chooses to fully clear the Fiscal Year 2008-09 deficit with a combination of a transfer from the Budget Stabilization Fund (BSF: \$672.4 M) and recurring reductions to the budget (GR: -\$795.3 million).
- Takes account of the restoration that must be made by making five equal annual transfers from the General Revenue Fund, beginning in the third fiscal year following that in which the expenditure is made (Fiscal Year 2011-12).
- Assumes that all future recurring shortfalls are fully addressed by recurring solutions.
- And finally, a minimum reserve requirement of \$200 million is in place throughout the three years of the forecast.



Scenario "A" Outlook

SCENARIO "A"

GENERAL REVENUE OUTLOOK- COMPARISON OF ESTIMATED REVENUES TO ESTIMATED EXPENDITURES

TIER 2 ISSUES - CRITICAL NEEDS AND OTHER HIGH PRIORITY NEEDS

FISCAL STRATEGY #1 - FULLY CLEAR FY 2008-09 DEFICIT WITH A COMBINATION OF BSF TRANSFER AND RECURRING REDUCTIONS

(\$ MILLIONS)

	FY 2008-09			FY 2009-10			FY 2010-11			FY 2011-12		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Funds Available:												
August 15 REC Balance Forward	0.0	326.2	326.2	0.0	0.0	0.0	0.0	200.0	200.0	0.0	200.0	200.0
August 15 REC Revenue Estimate	23,291.6	80.2	23,371.8	24,658.8	3.9	24,662.7	26,687.5	0.5	26,688.0	28,799.7	0.5	28,800.2
August 15 REC Non-operating Funds	-4.3	613.5	609.2	-4.3	105.5	101.2	-4.3	105.5	101.2	-4.3	105.5	101.2
New Issues - Florida Forever/Everglades Bonds	0.0	0.0	0.0	-34.3	12.0	-22.2	-68.6	12.0	-56.5	-102.8	12.0	-90.8
Transfer From Trust Funds - BSF	0.0	672.4	672.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Funds Available	<u>23,287.3</u>	<u>1,692.3</u>	<u>24,979.6</u>	<u>24,620.2</u>	<u>121.4</u>	<u>24,741.7</u>	<u>26,614.6</u>	<u>318.1</u>	<u>26,932.7</u>	<u>28,692.6</u>	<u>318.0</u>	<u>29,010.6</u>
Estimated Expenditures:												
Base Budget				24,178.5	0.0	24,178.5	24,541.7	0.0	24,541.7	25,835.6	0.0	25,835.6
New Issues by GAA Section:												
Section 2 - Education	12,902.5	141.7	13,044.2	750.3	222.7	973.0	583.9	142.7	726.6	477.1	142.0	619.1
Section 3 - Human Services	7,109.5	48.0	7,157.5	604.6	108.0	712.6	234.1	95.5	329.6	476.4	85.5	561.9
Section 4 - Criminal Justice and Corrections	3,536.4	335.4	3,871.9	167.7	407.1	574.8	171.4	397.5	568.9	176.2	378.2	554.4
Section 5 - Natural Resources /Environment/Growth Management/Transportation	191.5	89.1	280.6	0.0	168.2	168.2	0.0	159.0	159.0	0.0	148.3	148.3
Section 6 - General Government	817.5	166.8	984.3	1.3	316.4	317.6	1.6	301.0	302.6	1.7	294.7	296.4
Section 7 - Judicial Branch	404.0	0.2	404.2	5.0	7.9	12.9	5.0	7.9	12.9	6.0	7.9	13.9
Administered Funds - Statewide Issues	12.4	20.0	32.4	<u>315.1</u>	<u>0.0</u>	<u>315.1</u>	<u>297.9</u>	<u>0.0</u>	<u>297.9</u>	<u>321.9</u>	<u>0.0</u>	<u>321.9</u>
Total New Issues				1,843.9	1,230.2	3,074.2	1,293.9	1,103.6	2,397.5	1,459.3	1,056.6	2,515.8
Recurring Reductions to Budget	-795.3	0.0	-795.3									
Transfer to Budget Stabilization Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	134.5	134.5
Adjustment Needed to Balance with \$200 Million Reserve			0.0	-1,480.7	-1,230.3	-2,711.0		-206.5	-206.5			0.0
Total Estimated Expenditures	<u>24,178.5</u>	<u>801.1</u>	<u>24,979.6</u>	<u>24,541.7</u>	<u>-0.1</u>	<u>24,541.7</u>	<u>25,835.6</u>	<u>897.1</u>	<u>26,732.7</u>	<u>27,294.9</u>	<u>1,191.0</u>	<u>28,485.9</u>
Ending Balance	-891.2	891.2	0.0	78.5	121.5	200.0	779.1	-579.1	200.0	1,397.7	-873.0	524.7



Scenario A's Outcome

- Adjustments are made to completely eliminate the projected recurring and non-recurring shortfalls. As shown in the worksheet, the adjustments are in the form of budget reductions and reduced growth, the first of the five fiscal strategies previously discussed.
- An alternative to budget reductions and reduced growth would be the deployment of revenue enhancements and funding redirections. The ending balance would be the same; however, the amount of revenue in funds available would increase, offsetting the need for budget adjustments. Similarly, trust fund transfers could be substituted for the non-recurring portion of the shortfall.



Scenario “B”

- Assumes that the Legislature chooses to fully clear the Fiscal Year 2008-09 deficit with a combination of a transfer from the Budget Stabilization Fund (BSF: \$672.4 M) and non-recurring trust fund sweeps (GR: \$795.3 million).
- Takes account of the BSF restoration that must be made by making five equal annual transfers from the General Revenue Fund, beginning in the third fiscal year following that in which the expenditure is made (Fiscal Year 2011-12).
- Assumes that all future recurring shortfalls are fully addressed by recurring solutions.
- And finally, a minimum reserve requirement of \$200 million is in place throughout the three years of the forecast.



Scenario "B" Outlook

SCENARIO "B"

GENERAL REVENUE OUTLOOK- COMPARISON OF ESTIMATED REVENUES TO ESTIMATED EXPENDITURES

TIER 2 ISSUES - CRITICAL NEEDS AND OTHER HIGH PRIORITY NEEDS

FISCAL STRATEGY #2- FULLY CLEAR FY 2008-09 DEFICIT WITH A COMBINATION OF BSF TRANSFER AND TRUST FUND SWEEPS (\$ MILLIONS)

	FY 2008-09			FY 2009-10			FY 2010-11			FY 2011-12		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Funds Available:												
August 15 REC Balance Forward	0.0	326.2	326.2	0.0	0.0	0.0	0.0	200.0	200.0	0.0	200.0	200.0
August 15 REC Revenue Estimate	23,291.6	80.2	23,371.8	24,658.8	3.9	24,662.7	26,687.5	0.5	26,688.0	28,799.7	0.5	28,800.2
August 15 REC Non-operating Funds	-4.3	613.5	609.2	-4.3	105.5	101.2	-4.3	105.5	101.2	-4.3	105.5	101.2
New Issues - Florida Forever/Everglades Bonds	0.0	0.0	0.0	-34.3	12.0	-22.2	-68.6	12.0	-56.5	-102.8	12.0	-90.8
Transfer From Trust Funds - BSF & TF SWEEPS*	0.0	1,467.7	1,467.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Funds Available	23,287.3	2,487.6	25,774.9	24,620.2	121.4	24,741.7	26,614.6	318.1	26,932.7	28,692.6	318.0	29,010.6
Estimated Expenditures:												
Base Budget				24,973.8	0.0	24,973.8	24,541.7	0.0	24,541.7	25,835.6	0.0	25,835.6
New Issues by GAA Section:												
Section 2 - Education	12,902.5	141.7	13,044.2	750.3	222.7	973.0	583.9	142.7	726.6	477.1	142.0	619.1
Section 3 - Human Services	7,109.5	48.0	7,157.5	604.6	108.0	712.6	234.1	95.5	329.6	476.4	85.5	561.9
Section 4 - Criminal Justice and Corrections	3,536.4	335.4	3,871.9	167.7	407.1	574.8	171.4	397.5	568.9	176.2	378.2	554.4
Section 5 - Natural Resources/Environment /Growth Management/Transportation	191.5	89.1	280.6	0.0	168.2	168.2	0.0	159.0	159.0	0.0	148.3	148.3
Section 6 - General Government	817.5	166.8	984.3	1.3	316.4	317.6	1.6	301.0	302.6	1.7	294.7	296.4
Section 7 - Judicial Branch	404.0	0.2	404.2	5.0	7.9	12.9	5.0	7.9	12.9	6.0	7.9	13.9
Administered Funds - Statewide Issues	12.4	20.0	32.4	315.1	0.0	315.1	297.9	0.0	297.9	321.9	0.0	321.9
Total New Issues				1,843.9	1,230.2	3,074.2	1,293.9	1,103.6	2,397.5	1,459.3	1,056.6	2,515.8
Recurring Reductions to Budget	0.0	0.0	0.0									
Transfer to Budget Stabilization Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	134.5	134.5
Adjustment Needed to Balance with \$200 Million Reserve			0.0	-2,276.0	-1,230.3	-3,506.3		-206.5	-206.5			0.0
Total Estimated Expenditures	24,973.8	801.1	25,774.9	24,541.7	-0.1	24,541.7	25,835.6	897.1	26,732.7	27,294.9	1,191.0	28,485.9
Ending Balance	-1,686.5	1,686.5	0.0	78.5	121.5	200.0	779.1	-579.1	200.0	1,397.7	-873.0	524.7

*NOTE: The Trust Fund Sweeps are assumed to not include the Lawton Chiles Endowment Fund. If the Endowment Fund were part of the mix, the payback would begin in 2011-12 with an initial payment of \$159.1 million.



Scenario B's Outcome

Same as Scenario A, except:

- The size of the 2009-10 adjustment is much larger in Scenario B than in Scenario A.
- Under Scenario A, the Legislature spread the size of the adjustment over two years (2008-09 and 2009-10). In Scenario B, the Legislature increases the need for significant budget reductions in a single year, Fiscal Year 2009-10.

