

Long-Range Financial Outlook

Legislative Budget Commission
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Scenario “A” Assumptions

- Assumes that the Legislature chooses to address the shortfall in the first year that constitutional or statutory requirements are breached.
 - Since the only problem within Fiscal Year 2007-08 is the need to use non-recurring revenues to fund recurring expenditures, this threshold is first reached in Fiscal Year 2008-09.
- Assumes all recurring shortfalls are fully addressed by recurring solutions. In this regard, the use of non-recurring revenues to offset recurring problems is not allowed.
- And finally, assumes a minimum reserve requirement of \$200 million is in place throughout the three years of the forecast.

Scenario “A” – Bottom Line

SCENARIO “A” – FISCAL YEAR 2008-09 <i>(in millions)</i>			
	RECURRING	NON-RECURRING	TOTAL
GR AVAILABLE	\$27,867.1	\$ 836.2	\$28,703.3
EXPENDITURES	\$29,881.4	\$1,156.4	\$31,037.8
ADJUSTMENT	\$ -2,014.3	\$ -520.2	\$ -2,534.5
BALANCE	\$ 0.0	\$ 200.0	\$ 200.0

- The recurring budget adjustments taken in Fiscal Year 2008-09 mean that no further recurring adjustments have to be taken in Fiscal Year 2009-10. However, the structural imbalance returns in Fiscal Year 2010-11 with a \$164.8 million recurring shortfall that has to be addressed by further reductions.
- In order to retain the \$200 million minimum reserve and address the non-recurring shortfalls, additional non-recurring budget adjustments are needed in Fiscal Years 2009-10 and 2010-11. The affected amounts are \$846.4 and \$886.9 million, respectively.

Scenario “A” Results

- Deploying this scenario, the Legislature faces recurring budget adjustments in two of the three years in the planning horizon.
- In the first year (2008-09), the adjustments would be significant and historic, amounting to 6.7% of the projected recurring budget need.
- Further actions would be needed in all three years to address the non-recurring problems.

Scenario “B” Assumptions

- Assumes that the Legislature chooses to address the shortfall in the first year that a shortfall appears in recurring funds.
 - This threshold is first reached in Fiscal Year 2007-08 when non-recurring funds are used to pay for recurring expenditures.
- Assumes that all recurring shortfalls are fully addressed by recurring solutions. In this regard, the use of non-recurring revenues to offset recurring problems is not allowed.
- And finally, a minimum reserve requirement of \$200 million is in place throughout the three years of the forecast.

Scenario “B” – Bottom Line

SCENARIO “B” – FISCAL YEAR 2007-08 <i>(in millions)</i>			
	RECURRING	NON-RECURRING	TOTAL
GR AVAILABLE	\$26,462.4	\$3,540.1	\$30,002.5
EXPENDITURES	\$27,490.1	\$1,877.5	\$29,367.6
ADJUSTMENT	\$ -1,027.7	\$ 0.0	\$ -1,027.7
BALANCE	\$ 0.0	\$1,662.6	\$ 1,662.6

SCENARIO “B” – FISCAL YEAR 2008-09 <i>(in millions)</i>			
	RECURRING	NON-RECURRING	TOTAL
GR AVAILABLE	\$27,867.1	\$1,863.9	\$29,731.0
EXPENDITURES	\$28,853.7	\$1,156.4	\$30,010.1
ADJUSTMENT	\$ -986.6	\$ 0.0	\$ -986.6
BALANCE	\$ 0.0	\$ 707.5	\$ 707.5

Scenario “B” – Continued

- The recurring budget adjustments made in Fiscal Years 2007-08 and 2008-09 mean that no further recurring adjustments have to be taken in Fiscal Year 2009-10. However, the structural imbalance returns in Fiscal Year 2010-11 with a \$164.8 million recurring shortfall that has to be addressed by further reductions.
- In order to retain the \$200 million minimum reserve and address the non-recurring shortfalls, additional non-recurring budget adjustments are needed in Fiscal Years 2009-10 and 2010-11. The affected amounts are \$338.9 and \$886.9 million, respectively.

Scenario “B” Results

- Deploying this scenario, the Legislature faces recurring budget adjustments in two of the three years in the planning horizon.
- By spreading the initial round of recurring budget adjustments over two years (2007-08 and 2008-09), the Legislature avoids the need for significant and historic budget reductions in Fiscal Year 2008-09.
- Further actions would be needed in only two of three years to address the non-recurring problems.

Scenario “C” Assumptions

- Assumes that the Legislature begins to address the shortfall in the first year that a shortfall appears in recurring funds, but relaxes the assumption that all recurring shortfalls are fully addressed by immediate recurring solutions.
 - This threshold is first reached in Fiscal Year 2007-08 when non-recurring funds are used to pay for recurring expenditures.
- To ease the transition, Scenario “C” further assumes that only 75% of the recurring shortfall in Fiscal Year 2007-08 is eliminated immediately, and that an amount equal to the other 25% will be achieved in savings through annualizations in the subsequent year.
- And finally, a minimum reserve requirement of \$200 million is in place throughout the three years of the forecast.

Scenario “C” – Bottom Line

SCENARIO “C” – FISCAL YEAR 2007-08 <i>(in millions)</i>			
	RECURRING	NON-RECURRING	TOTAL
GR AVAILABLE	\$26,462.4	\$3,540.1	\$30,002.5
EXPENDITURES	\$27,490.1	\$1,877.5	\$29,367.6
ADJUSTMENT	\$ -770.8	\$ 0.0	\$ -770.8
BALANCE	\$ -256.9	\$1,662.6	\$ 1,405.7

SCENARIO “C” – FISCAL YEAR 2008-09 <i>(in millions)</i>			
	RECURRING	NON-RECURRING	TOTAL
GR AVAILABLE	\$27,867.1	\$1,607.0	\$29,474.1
EXPENDITURES	\$28,853.7	\$1,156.4	\$30,010.1
ADJUSTMENT	\$ -986.6	\$ 0.0	\$ -986.6
BALANCE	\$ 0.0	\$ 450.6	\$ 450.6

Scenario “C” – Continued

- The recurring budget adjustments made in Fiscal Years 2007-08 and 2008-09 mean that no further recurring adjustments have to be taken in Fiscal Year 2009-10. However, the structural imbalance returns in Fiscal Year 2010-11 with a \$164.8 million recurring shortfall that has to be addressed by further adjustments.
- In order to retain the \$200 million minimum reserve and address the non-recurring shortfalls, additional non-recurring budget adjustments are needed in Fiscal Years 2009-10 and 2010-11. The affected amounts are \$595.8 and \$886.9 million, respectively.

Scenario "C" Results

- Deploying this scenario, the Legislature faces recurring budget adjustments in two of the three years in the planning horizon.
- By spreading the initial round of recurring budget adjustments over two years (2007-08 and 2008-09), the Legislature avoids the need for significant and historic budget adjustments in Fiscal Year 2008-09.
- The impact in Fiscal Year 2007-08 is softened by the use of reduced future growth to achieve the full benefit of the reduction.
- Further actions would be needed in only two of the three years to address the non-recurring problems. The deficits in Scenario "C" are less than the deficits in Scenario "A", but are slightly greater than the deficits in Scenario "B".

Action Matrix

	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
Baseline with No Adjustments	No Constitutional or Statutory Ramifications	Unconstitutional Failure to Balance the Budget	Unconstitutional Failure to Balance the Budget	Unconstitutional Failure to Balance the Budget
Scenario “A”	Take No Action	Reduce: <ul style="list-style-type: none"> • \$2,014.3 Rec • \$520.2 N/R 	Reduce: <ul style="list-style-type: none"> • \$0 Rec • \$846.4 N/R 	Reduce: <ul style="list-style-type: none"> • \$164.8 Rec • \$886.9 N/R
Scenario “B”	Reduce: <ul style="list-style-type: none"> • \$1,027.7 Rec • \$0 N/R 	Reduce: <ul style="list-style-type: none"> • \$986.6 Rec • \$0 N/R 	Reduce: <ul style="list-style-type: none"> • \$0 Rec • \$338.9 N/R 	Same As Above
Scenario “C”	Reduce: <ul style="list-style-type: none"> • N/A • \$770.8 Rec • \$0 N/R 	Reduce: <ul style="list-style-type: none"> • \$256.9 ANN • \$986.6 Rec • \$0 N/R 	Reduce: <ul style="list-style-type: none"> • N/A • \$0 Rec • \$595.8 N/R 	Same As Above

NOTE: Depending on the specific adjustment made, there may be a greater than one-to-one impact on subsequent years.