Florida:
Long-Range Financial Outlook

September 10, 2014

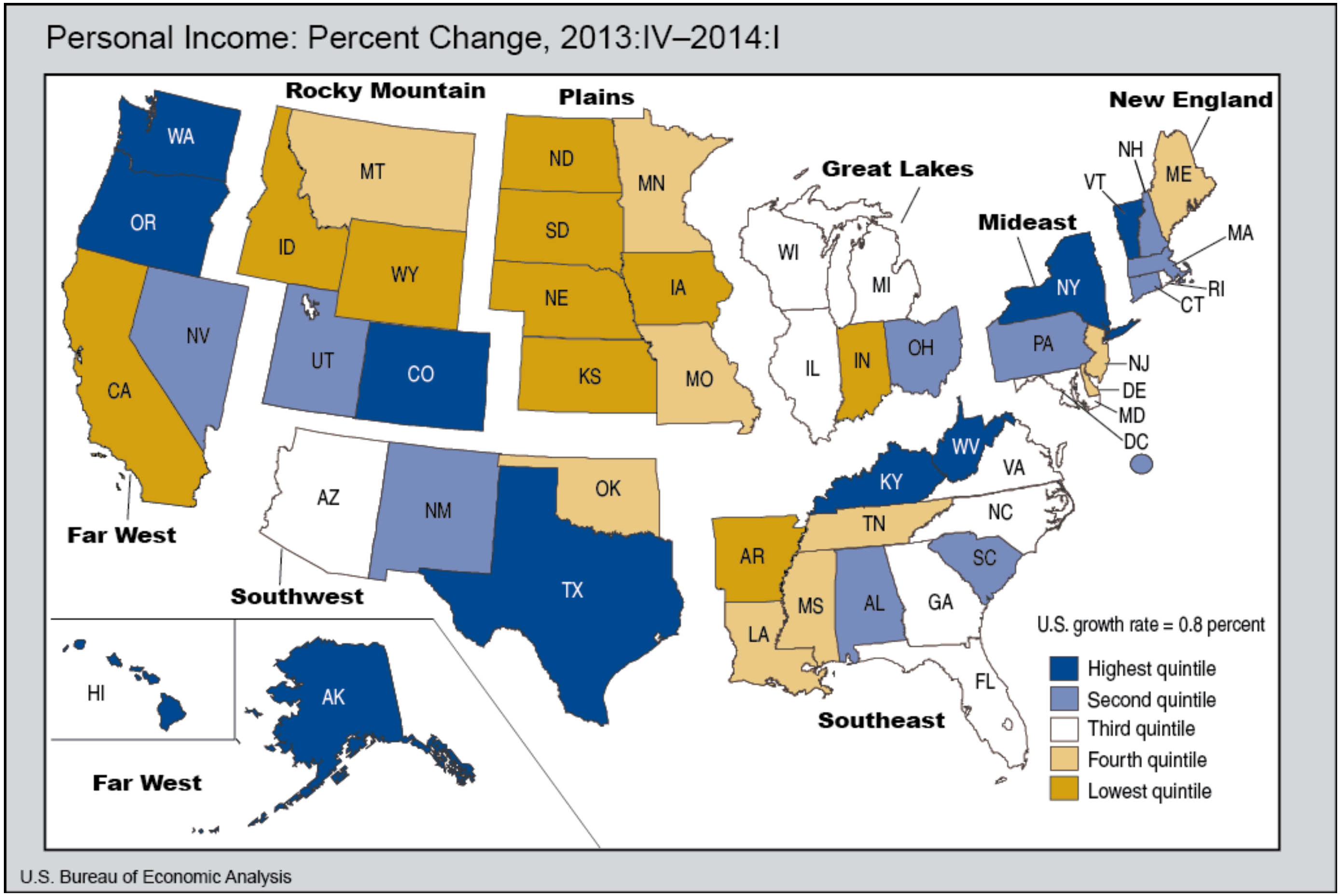
Presented by:

The Florida Legislature
Office of Economic and
Demographic Research
850.487.1402
http://edr.state.fl.us

Economy Had Continued Growth in 2013

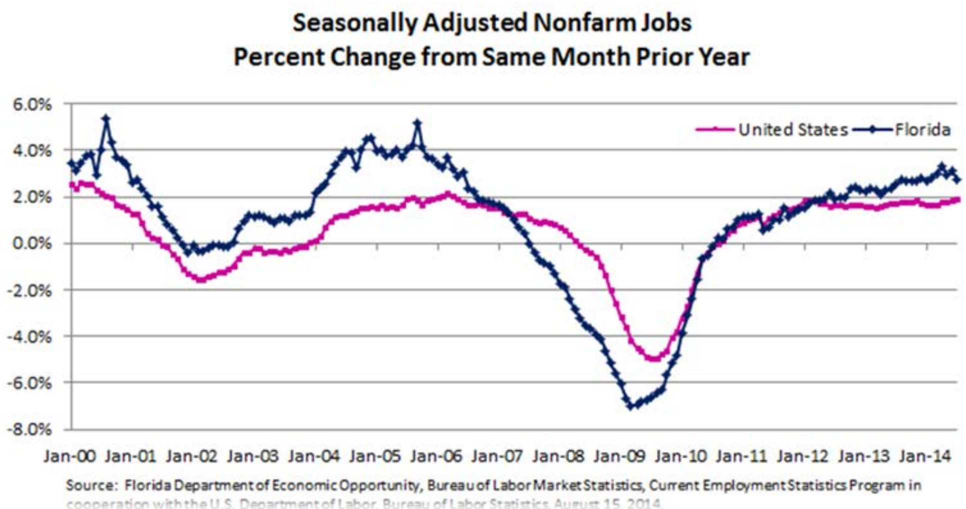
In 2013, Florida's economic growth remained in positive territory, matching the state's revised 2012 growth rate. State Gross Domestic Product (GDP) showed Florida with a ranking of 18th in the nation with a real growth gain of 2.2%, moving Florida above the slowing national average of 1.8% for the first time since 2006.

FL Personal Income Growth Slows in 2014:Q1



In the latest data, Florida finished the first quarter of the 2014 calendar year with 0.8% growth over the preceding quarter, equaling the national growth rate and ranking 23rd among all states. In contrast, the results for the entire 2013 calendar year had shown that Florida was ranked 13th in the country with personal income growth of 2.9% which was higher than the national average of 2.6%.

Current Employment Conditions



July Nonfarm Jobs (YOY)

US	1.9%
FL	2.7%
YR:	208,500 jobs
Peak:	-257,400 jobs

July Unemployment Rate

US 6.2%

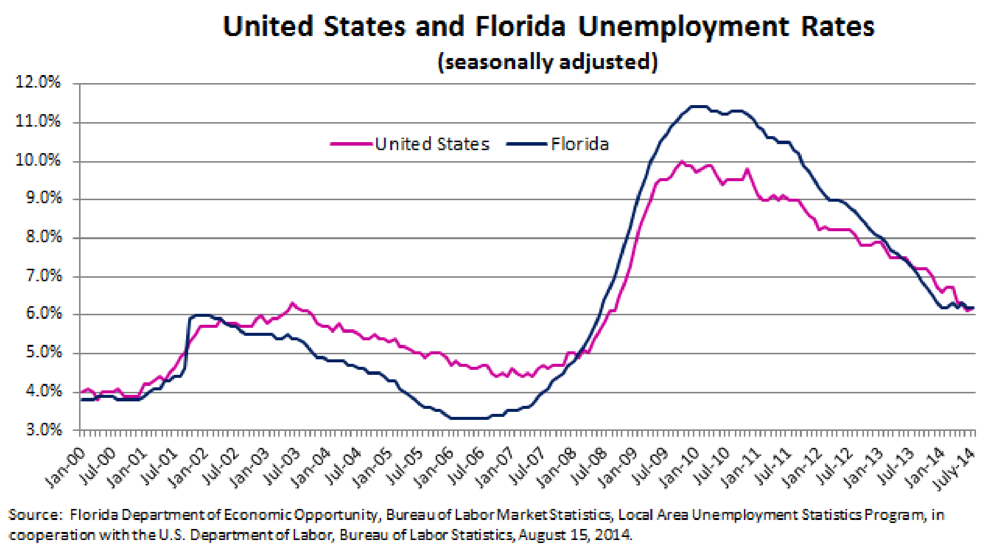
FL 6.2% (597,000 people)

Highest Monthly Rate

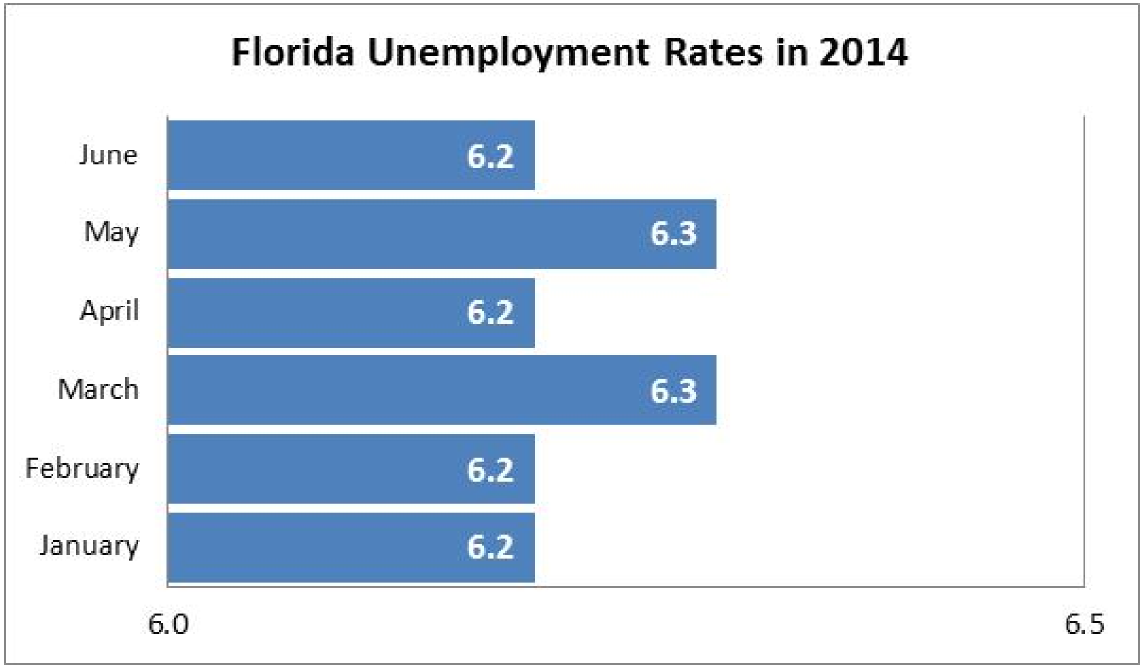
11.4% (December 2009 through March 2010)

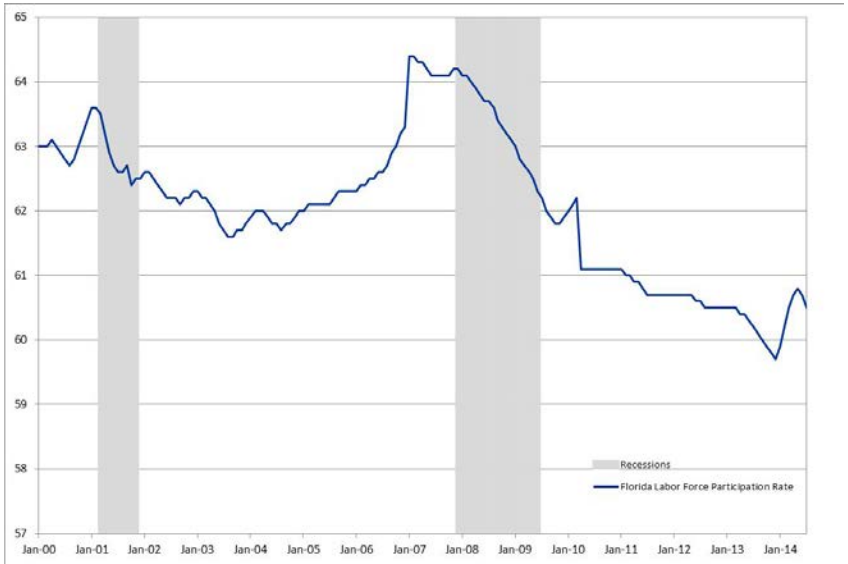
Lowest Monthly Rate

3.3% (January through August 2006)



Good News: Recent Flattening in the Unemployment Rate Caused By FL Gains in the Participation Rate





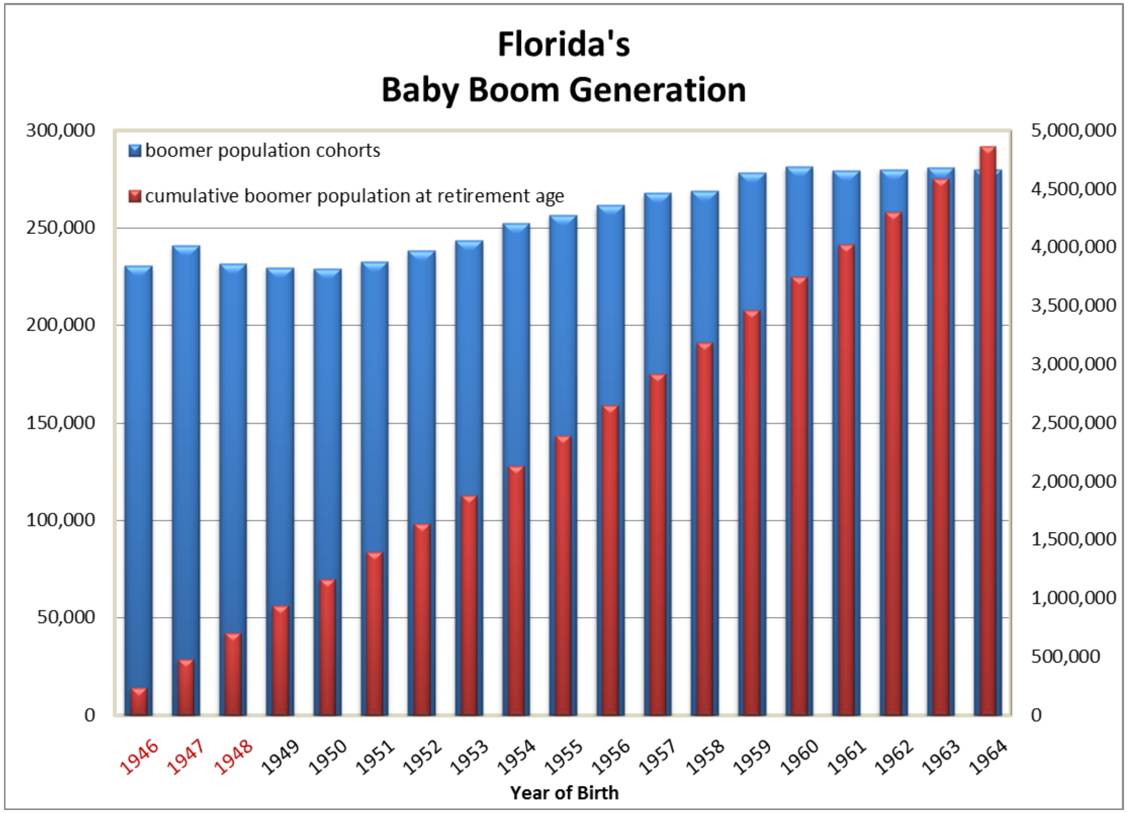
Source: U.S. Department of Labor, Bureau of Labor Statistics, Local Area Unemployment Statistics, Civilian Noninstitutional Population and Associated Rate and Ratio Measures for Model-Based Areas, released August 18, 2014.

Beginning in January 2014, the participation rate displayed detectable improvement as improving job prospects began to encourage people to rejoin or enter the labor force. May marked the fifth consecutive month of increases in the participation rate, and June was not statistically different at 60.7 percent, a return to the December 2011 level. This positive shift has caused the unemployment rate to flatten over the first six months of 2014 (bouncing between 6.2 and 6.3 percent), but the reason is actually a signal of a strongly improving economy.

Florida’s Job Market

- The job market is still recovering – Florida is 257,400 jobs short of the most recent peak. Rehiring, while necessary, will not be enough.
- Florida’s prime working-age population (aged 25-54) is forecast to add about 4,100 people per month, so the hole is deeper than it looks.
- It would take the creation of about 750,000 jobs for the same percentage of the total population to be working as was the case at the peak.

Baby Boomers in FL Today



- The first cohort of Baby Boomers became eligible for retirement (turned age 65) in 2011. Only three cohorts have entered the retirement phase: 2011, 2012 and 2013. This is a small percentage (14.5%) of all boomers in Florida today.

- In 2000, Florida's working age population (ages 25-54) represented 41.5 percent of the total population. With the aging Baby Boom generation, this population now represents 38.8 percent of Florida's total population and is expected to represent 36.2 percent by 2030.

Population Growth Recovering

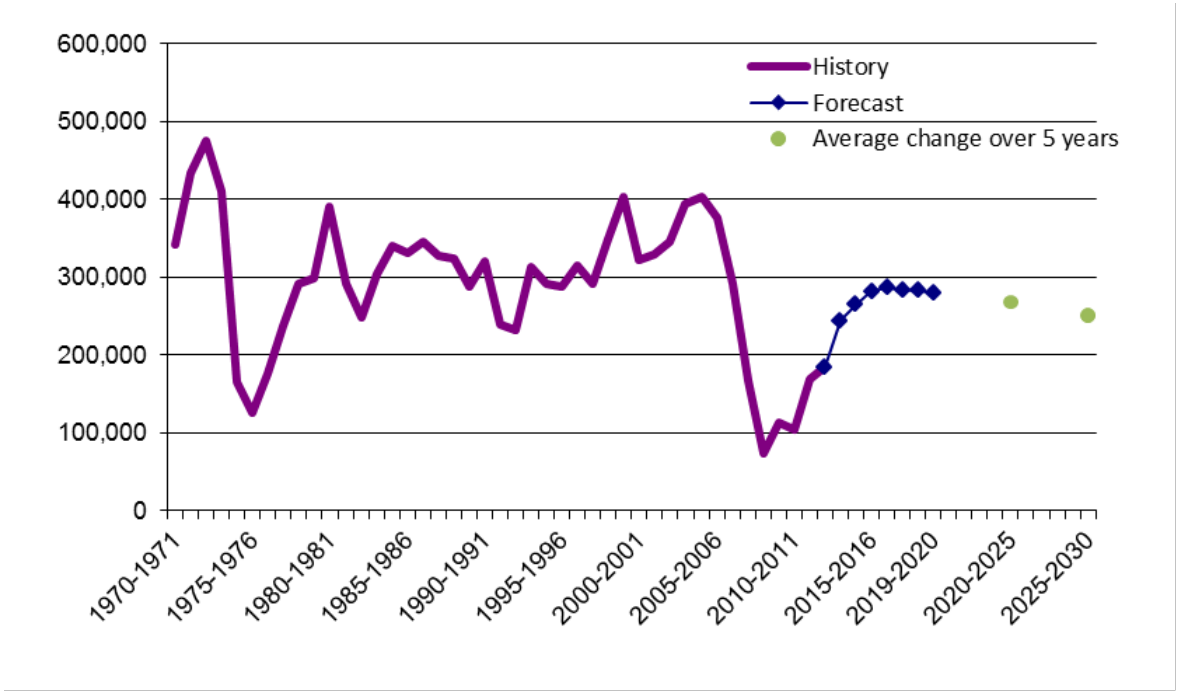
- Population growth is the state's primary engine of economic growth, fueling both employment and income growth.

- Population growth is expected to continue its recovery, showing increasing rates of growth over the next few years. In the near-term, growth is expected to average 1.3% between 2013 and 2015 – and then strengthen to a slightly higher 1.4% between 2015 and 2020. Most of Florida's population growth through 2030 will be from net migration (92.1%). Nationally, average annual growth will be about 0.74% between 2013 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 on track to break the 20 million mark prior to April 1, 2016, becoming the third most populous state sometime before then – surpassing New York.

Florida's Population Growth



Population:

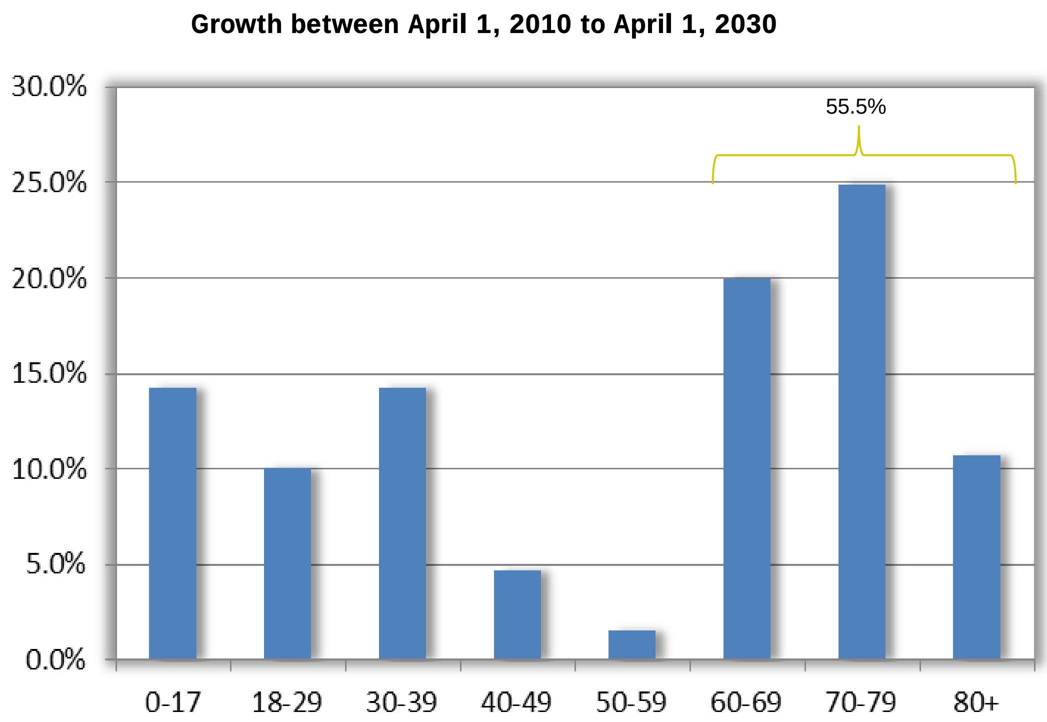
- Average annual increase between 2000 and 2006 was: 361,942
- Average annual increase between 2007 and 2013 was: 135,463

Population is forecast to increase on average by:

- 254,734 between 2013 and 2015 --- a gain of 698 per day
- 283,293 between 2015 and 2020 --- a gain of 776 per day
- 268,637 between 2020 and 2025 --- a gain of 736 per day
- 251,302 between 2025 and 2030 --- a gain of 688 per day

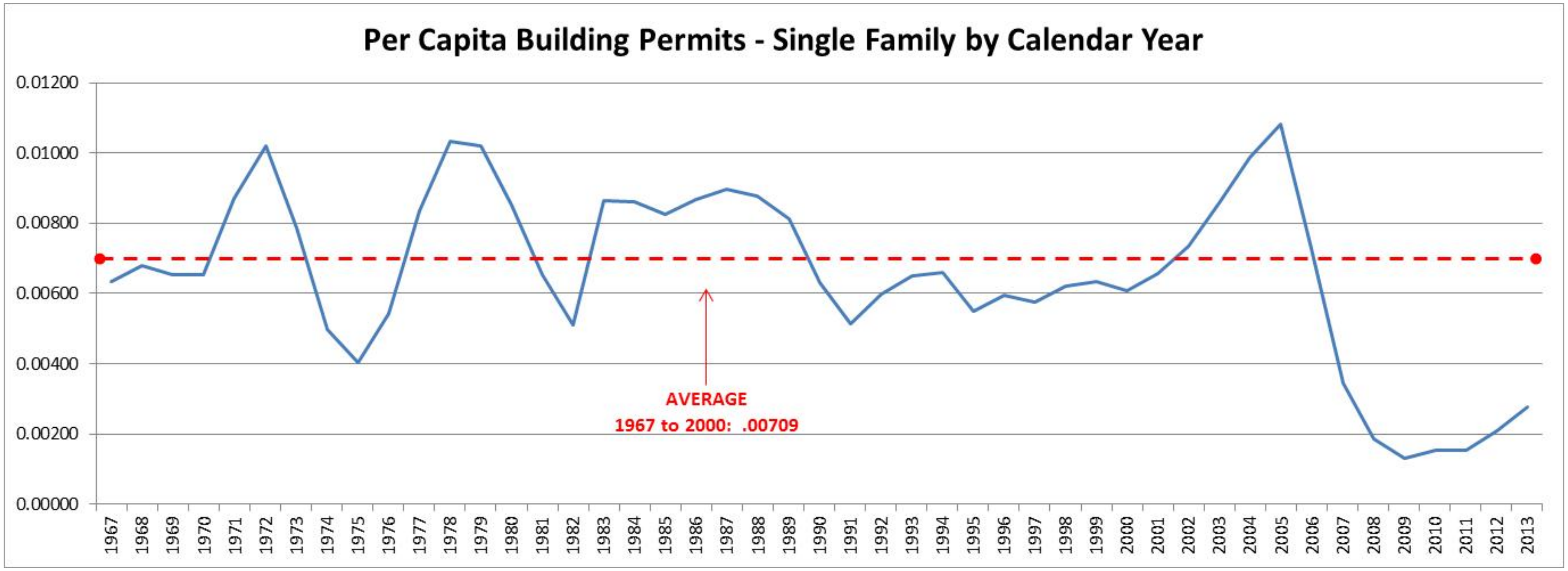
2013	
Orlando	**250,415**
St. Petersburg	**249,704**
Hialeah	**229,766**

Population Growth by Age Group



- Between 2010 and 2030, Florida’s population is forecast to grow by almost 5 million persons.
- Florida’s older population (age 60 and older) will account for most of Florida’s population growth, representing 55.5 percent of the gains.
- Florida’s younger population (age 0-17) will account for 14.2 percent of the gains.

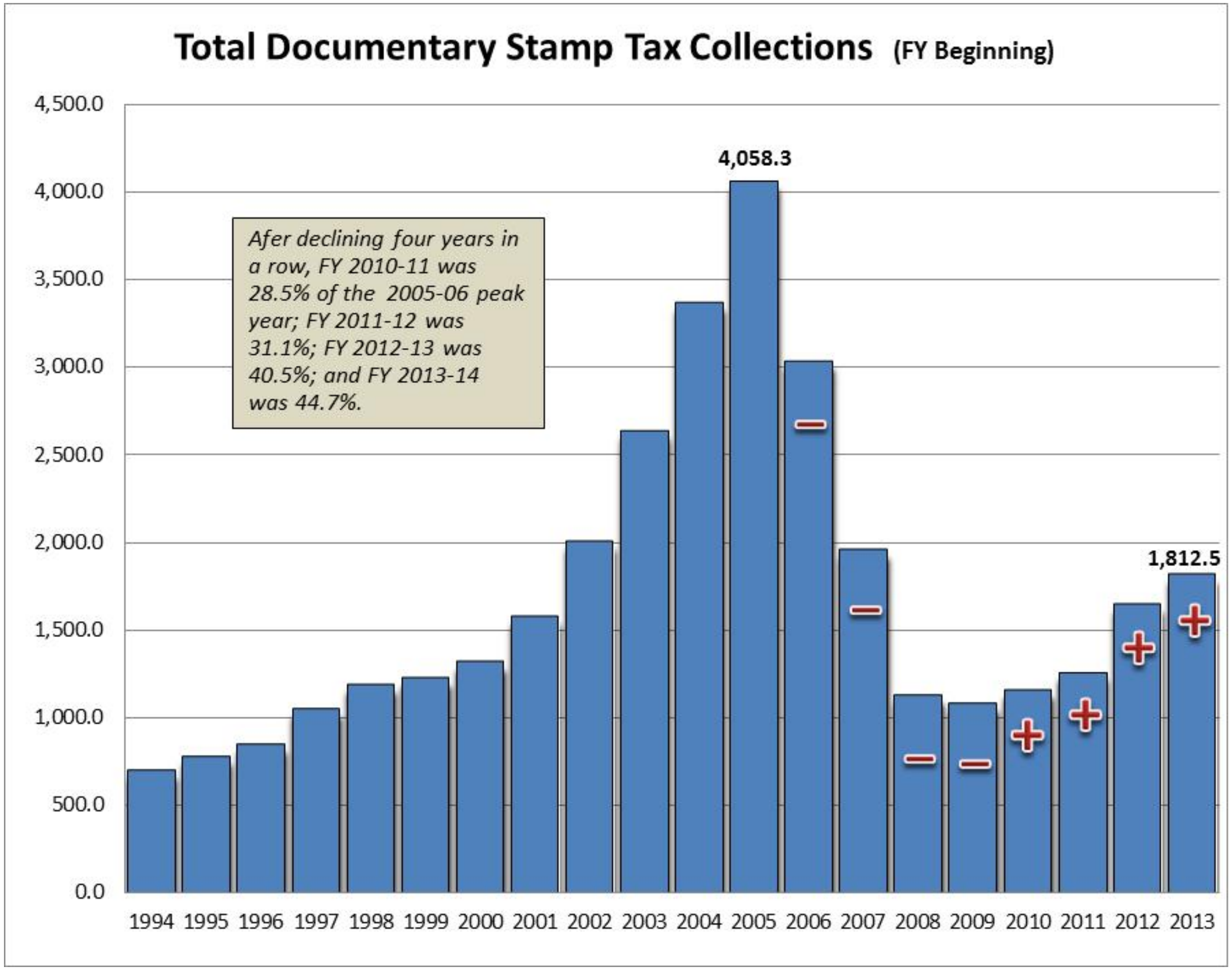
Florida Housing is Generally Improving



Building permit activity, an indicator of new construction, is back in positive territory, showing strong (36.6%) calendar year growth in 2012. While still robust, data for the 2013 calendar year indicates that the increase in permits (33.4%) was slightly below the prior year. Despite the strong percentage growth in both years, the level is still low by historic standards. Data for the first five calendar months of 2014 indicate significant slowing in activity; year-to-date activity through June is running below last year for the same period.

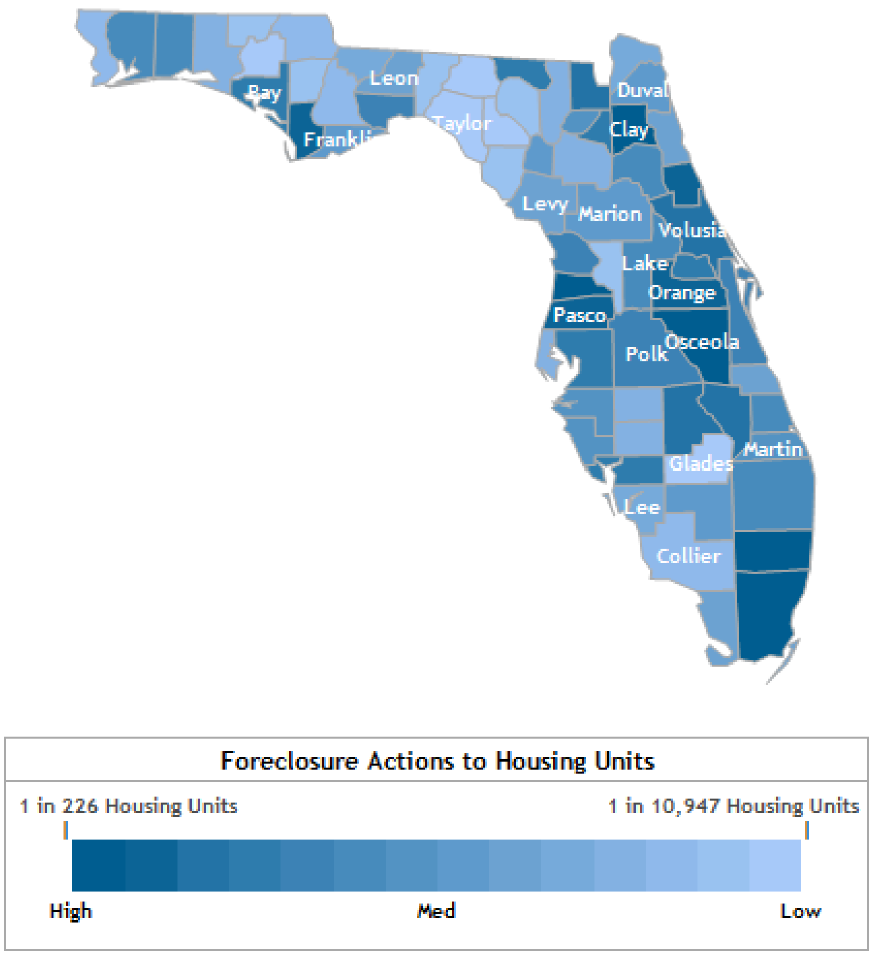
Documentary Stamp Collections

(Reflecting All Activity)



Documentary Stamp Tax collections have fallen below the 2013 level for the first six months of the 2014 calendar year.

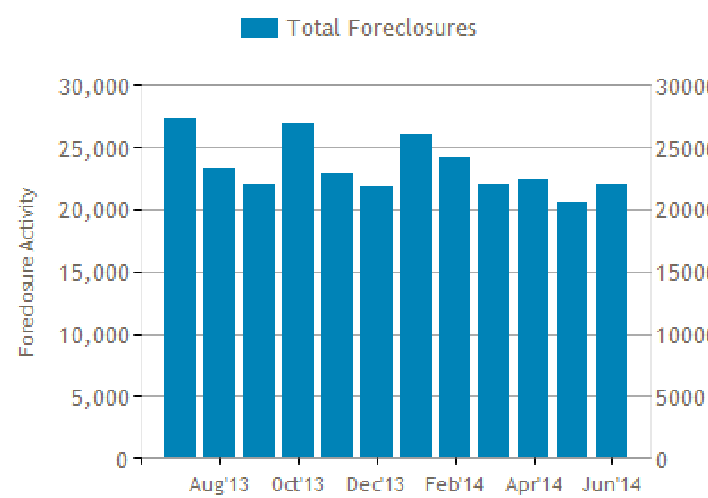
Foreclosures Are Still A Florida Issue



First Six Months of 2014...

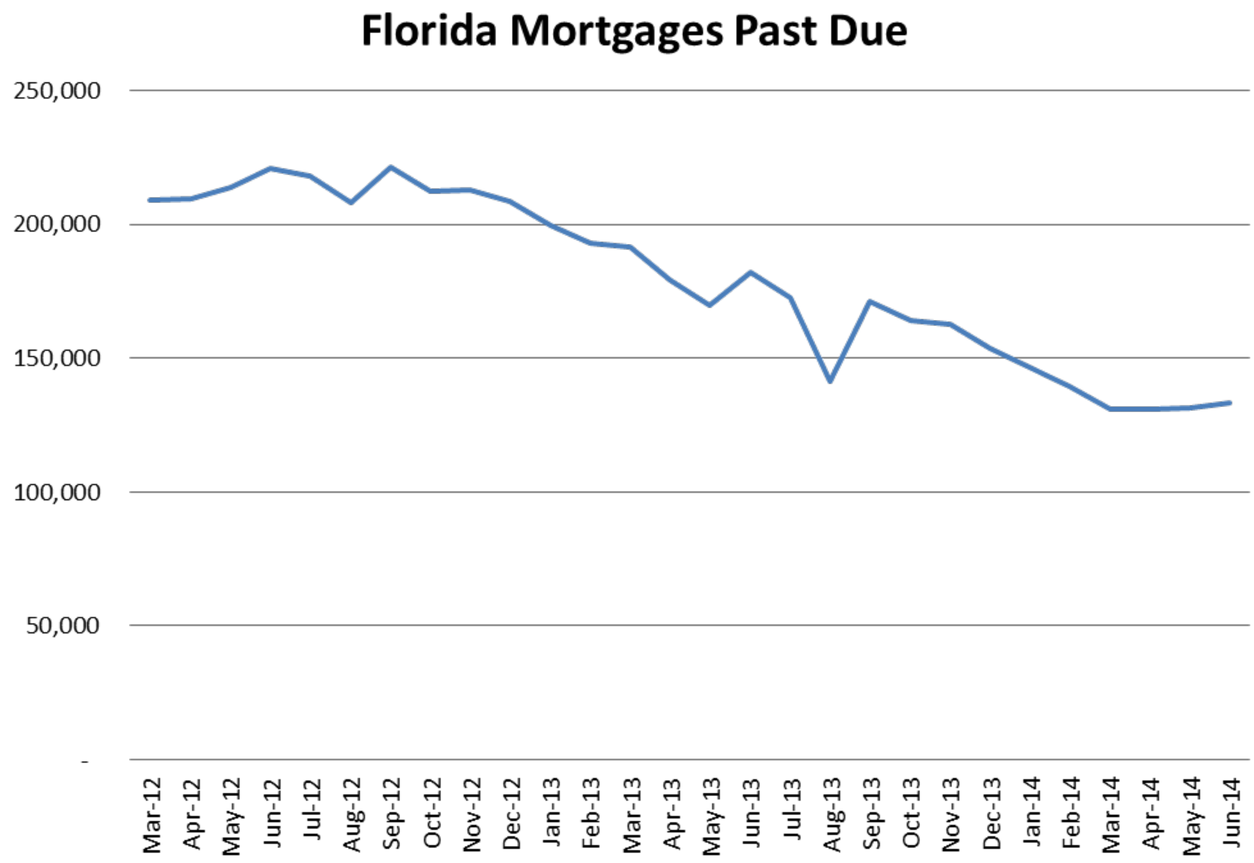
- *Highest State for # of Filings*
- *Highest State for Foreclosure Rate*
- *Among US Metro Area rates: 9 of the top 10 highest metro rates in the nation were in Florida.*

Miami-Fort Lauderdale-Pompano Beach #1
Orlando-Kissimmee #2
Port St. Lucie #3
Palm Bay-Melbourne-Titusville #4
Tampa-St. Petersburg-Clearwater #5
Lakeland #6
Deltona-Daytona Beach-Ormond Beach #7
Ocala #8
Jacksonville #9



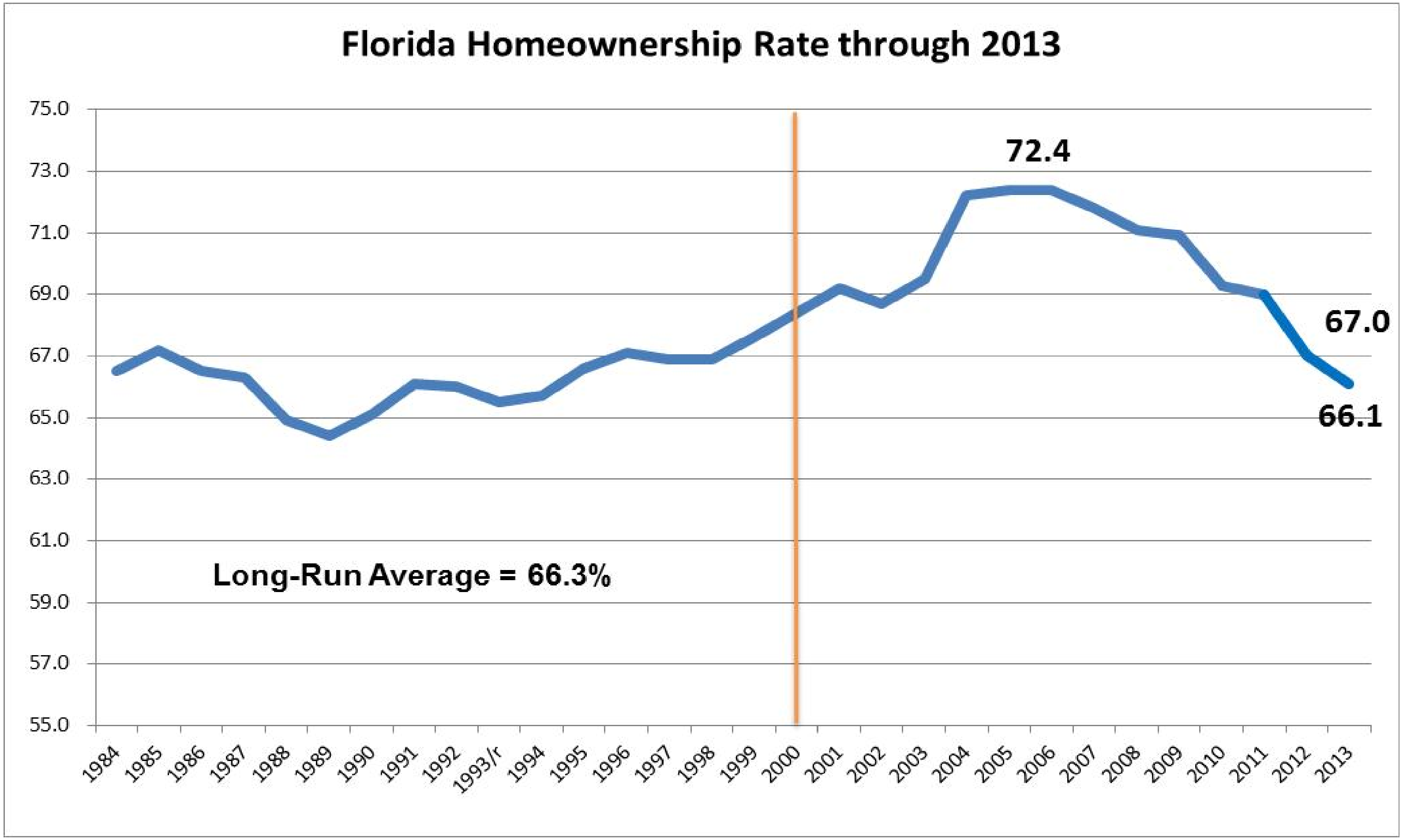
Data from RealtyTrac

Foreclosures & Shadow Inventory



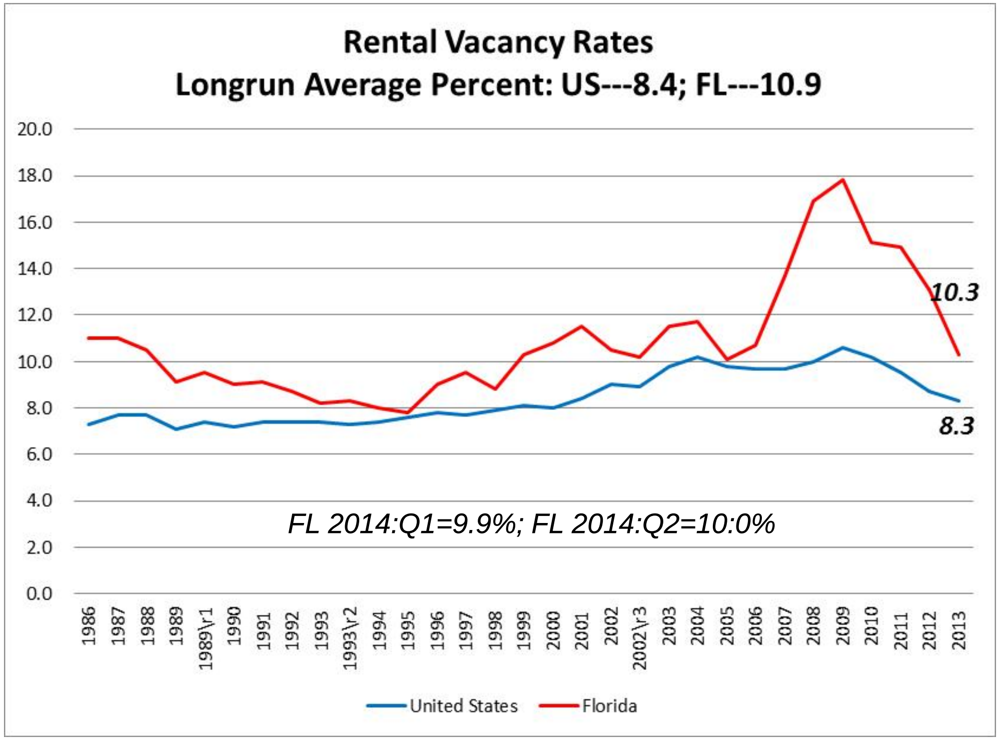
After being ranked first for many months, Florida has now moved to third place among states for non-current mortgages (a measure of delinquencies and foreclosures). A major part of this shift is a reduction in the number of delinquent mortgages which reduces the incoming pipeline. Florida's "underwater" homes declined from a high of 50% of all residential mortgages to below 20% in the most recent data.

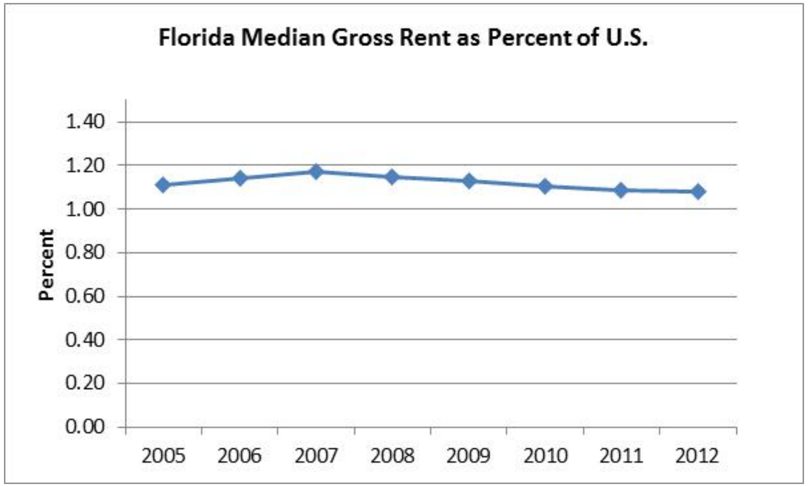
Homeownership Rate Below Normal



The 2013 percentage of 66.1 is the lowest since 1994, and it's below the long-term average. The second quarter of the 2014 calendar year has dropped to 65.3%. If this becomes the final percentage for the year, it will be the lowest level seen since 1990.

Residential Rental Vacancies Still Tightening; Price Pressure Yet to Appear





Florida and U.S. Median Gross Rent (in Current Dollars)

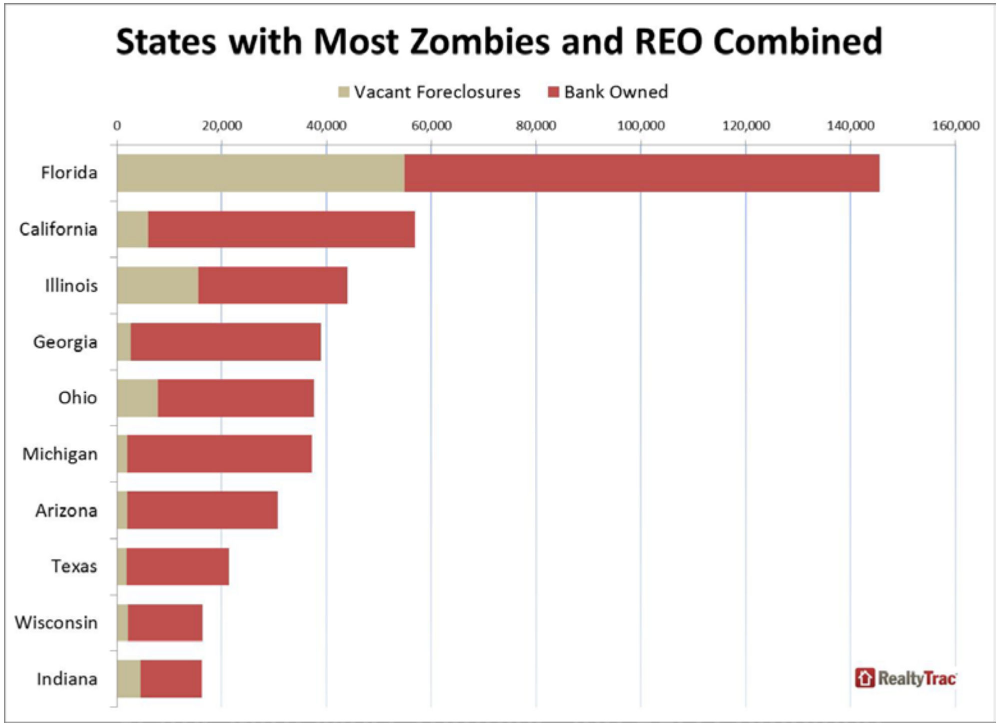
Year	Median Gross Rent			Average Gross Rent		
	U.S.	FL	FL as % of U.S.	U.S.	FL	FL Relative To US
2005	728	809	1.11	755	819	1.09
2006	763	872	1.14	793	884	1.11
2007	789	925	1.17	826	942	1.14
2008	824	947	1.15	868	966	1.11
2009	842	952	1.13	886	971	1.10
2010	855	947	1.11	902	963	1.07
2011	871	949	1.09	920	974	1.06
2012	884	954	1.08	937	986	1.05

Upside Risk for Construction

- The “shadow inventory” of homes that are in foreclosure or carry delinquent or defaulted mortgages may contain a significant number of “ghost” homes that are distressed beyond realistic use, in that they have not been physically maintained or are located in distressed pockets that will not come back in a reasonable timeframe. This means that the available housing supply has become two-tiered – viable homes and seriously distressed homes.

- In addition, RealtyTrac has begun tracking “zombie” foreclosures (“owner-vacated properties in the foreclosure process”). Their estimate is that Florida has 54,908 owner-vacated properties (or 36% of the national total), the most by far of any state.

- To the extent that the number of viable homes is limited, new construction may come back quicker than expected.



Economy Recovering

Florida growth rates are generally returning to more typical levels and continue to show progress. However, the drags are more persistent than past events, and it will take a few more years to climb completely out of the hole left by the recession. In the various forecasts, normalcy has been largely achieved by FY 2016-17. Overall...

- The recovery in the national economy is well underway. While most areas of commercial and consumer credit have strengthened – residential credit still remains somewhat sluggish and difficult for consumers to access.

- By the close of the 2013-14 fiscal year, several key measures of the Florida economy had returned to or surpassed their prior peaks.
  - Most of the personal income metrics (real per capita income being a notable exception) and all of the tourism counts exceeded their prior peaks.
  - Still other measures were posting solid year-over-year improvements, even if they were not yet back to peak performance levels.
  - In the current forecast, none of the key construction metrics show a return to peak levels until 2022-23.

Debt Analysis

- In Fitch's July 2014 rating of the state, they highlighted the state's strong financial management practices saying "The state employs sound financial management practices, including the use of consensus revenue estimating, and has a history of prompt action to maintain fiscal balances and reserves." Further, "The Florida legislature consistently and promptly addressed numerous large negative revenue estimate revisions during the downturn, maintaining budget balance and an adequate reserve position."

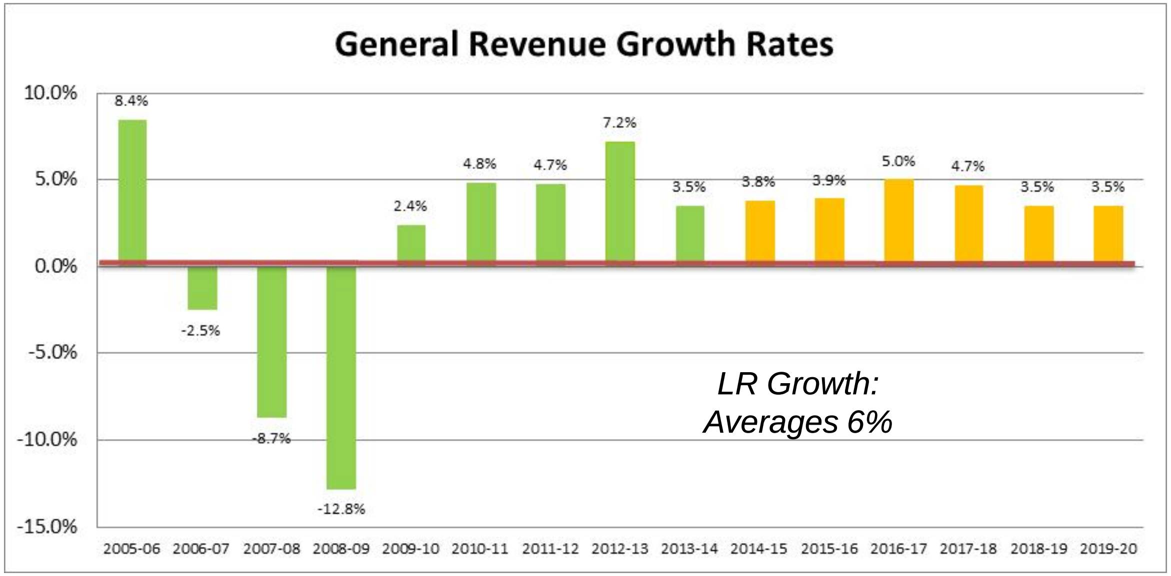
  - Highest Level Credit Ratings: Fitch "AAA" with stable outlook (unchanged); Moody's "Aa1" with stable outlook (unchanged); Standard and Poor's "AAA" with stable outlook (unchanged).

  - Total state debt outstanding at June 30, 2013, was $24.6 billion, approximately $1.6 billion less than the prior fiscal year. Of this, net tax-supported debt totaled $20.3 billion for programs supported by state tax revenues or tax-like revenues. Total state direct debt outstanding at June 30, 2014, is expected to continue this declining trend.

  - During the Outlook period, debt service payments are expected to range from about $1.9 billion in Fiscal Year 2015-16 to $2.1 billion in Fiscal Years 2016-17 and 2017-18, with the increase associated with mandatory payments for DOT contracts.

General Revenue Forecast

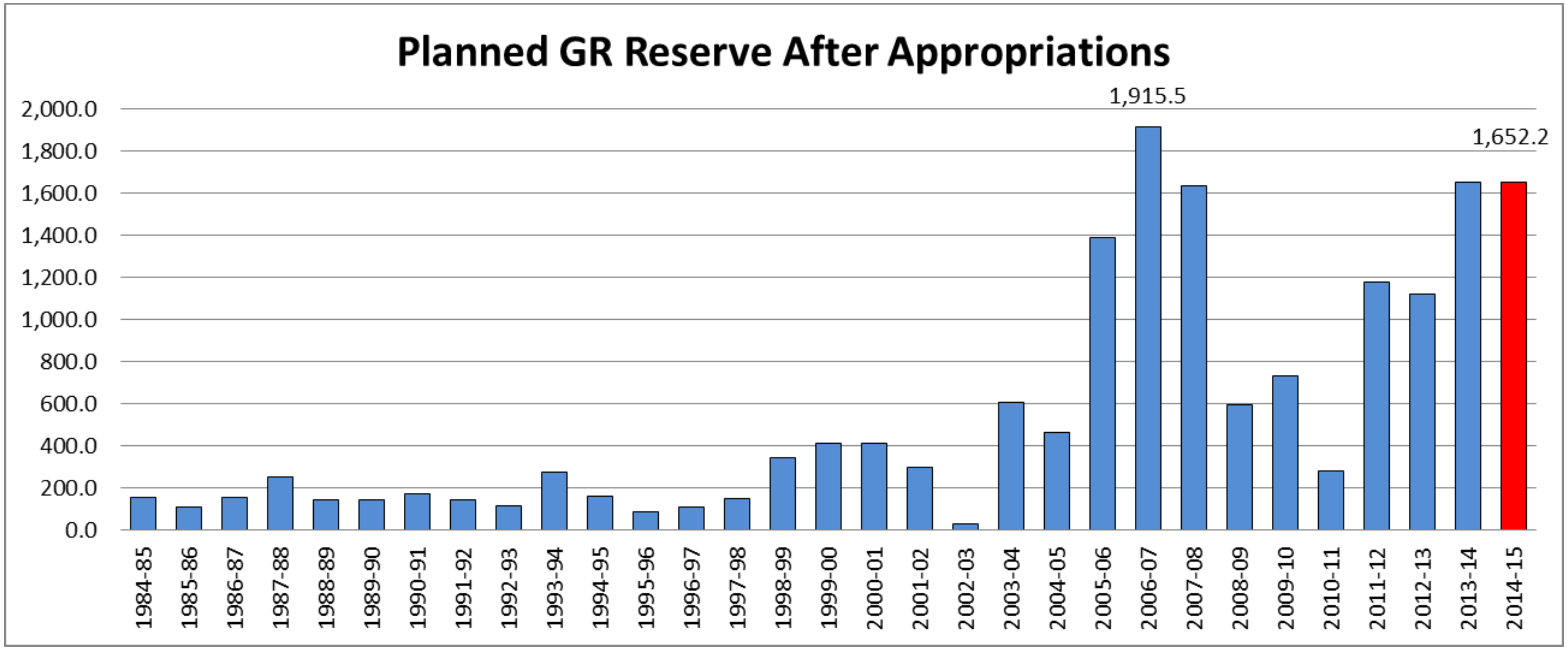
The growth rates for FY 2012-13 and FY 2013-14 are slightly distorted by the receipt of the $200.1 million deposit from the National Mortgage Settlement Agreement. After adjusting for this deposit, the underlying growth rates are 6.3% and 4.7%, respectively.



Fiscal Year	Post-Session Forecast	August 2014 Forecast	Difference	Incremental Growth	Growth
2005-06	*27074.8*	27074.8	0		8.4%
2006-07	*26404.1*	26404.1	0	-670.7	-2.5%
2007-08	*24112.1*	24112.1	0	-2292.0	-8.7%
2008-09	*21025.6*	21025.6	0.0	-3086.5	-12.8%
2009-10	*21523.1*	21523.1	0.0	497.5	2.4%
2010-11	*22551.6*	22551.6	0.0	1028.5	4.8%
2011-12	*23618.8*	23618.8	0.0	1067.2	4.7%
2012-13	*25314.6*	25314.6	0.0	1695.8	7.2%
2013-14	*26198.0*	26198.0	0.0	883.4	3.5%
2014-15	27140.2	**27,189.4**	49.2	991.4	3.8%
2015-16	28330.7	**28,246.6**	(84.1)	1057.2	3.9%
2016-17	29636.8	**29,655.0**	18.2	1408.4	5.0%
2017-18	30963.4	**31,041.6**	78.2	1386.6	4.7%
2018-19	31976.2	**32,118.9**	142.7	1077.3	3.5%
2019-20	*new*	**33,237.3**	*new*	1118.4	3.5%

In FY 2014-15, projected General Revenue collections are expected to surpass the prior peak in 2005-06.

GR Unallocated & Other Reserves



Primarily resulting from lower than expected 2013-14 revenue collections and the new revenue forecast for 2014-15, the planned General Revenue reserve balance has decreased by $63.2 million since Session. The balance is now projected to be $1,589.0 million for the fiscal year. Combined with the $1,139.2 million expected in the Budget Stabilization Fund and approximately $629.3 million that is available in the Lawton Chiles Endowment Fund, the total across all sources that are traditionally mentioned as reserves is $3,357.5 million or 12.3% of estimated General Revenue collections for FY 2014-15.

Outlooks Over Time...

The Constitution requires:

"The long-range financial outlook ***must include major workload and revenue estimates.*** In order to implement this paragraph, the joint legislative budget commission shall use current official consensus estimates and may request the development of additional official estimates."

Outlook	For the Period Beginning	YEAR 1 ($ Millions)	YEAR 2 ($ Millions)	YEAR 3 ($ Millions)	Level of Reserves
2007	Fiscal Year 2008-09	($2,334.5)	($2,860.7)	($3,066.0)	$0.0
2008	Fiscal Year 2009-10	($3,306.3)	($2,482.5)	($1,816.8)	$0.0
2009	Fiscal Year 2010-11	($2,654.4)	($5,473.2)	($5,228.6)	$0.0
2010	Fiscal Year 2011-12	($2,510.7)	($2,846.3)	($1,930.3)	$0.0
2011	Fiscal Year 2012-13	$273.8	$692.1	$840.6	$1,000.0
2012	Fiscal Year 2013-14	$71.3	$53.5	$594.0	$1,000.0
2013	Fiscal Year 2014-15	$845.7	$1,426.7	$3,295.3	$1,000.0
2014	Fiscal Year 2015-16	$336.2	$1,004.5	$2,156.1	$1,000.0

Each Long-Range Financial Outlook provides the first look at the likely scenario facing the Legislature in its preparation of the budget for the following fiscal year. Half of the eight constitutionally required Outlooks showed substantial budget gaps, or potential shortfalls between revenues and expenditures, at the time of adoption. Over the past four years, growth in revenues and adjustments to recurring appropriations have brought the budget back in balance and improved the state's bottom line.

Starting Point: FY 2014-15 GR Outlook Balance...

REVENUES	REC	N/R	TOTAL
2014-15 Ending Balance on Post-Session Outlook	**7.8**	**1,644.4**	**1,652.2**
-MINUS- Revenue Shortfall from 2013-14	0.0	-106.7	-106.7
-PLUS- End of Year Adj & Forecast Changes	51.2	-7.7	43.5
BALANCE ON CURRENT OFFICIAL OUTLOOK	59.0	1,530.0	1,589.0

ADJUSTMENTS			
-MINUS- Reserve for State Courts TF Revenue Shortfall	0.0	-15.7	-15.7
-MINUS- Reserve for State School TF Projected Deficit	0.0	-107.9	-107.9
-MINUS- Budget Amendments Approved by 8/15/14	0.0	-1.3	-1.3
ADJUSTMENTS TOTAL	**0.0**	**-124.9**	**-124.9**

BALANCE FOR LONG-RANGE FINANCIAL OUTLOOK **1,464.2**

A projected remaining balance of $1.46 billion in nonrecurring dollars is assumed to be available for use in FY 2015-16.

Budget Drivers...

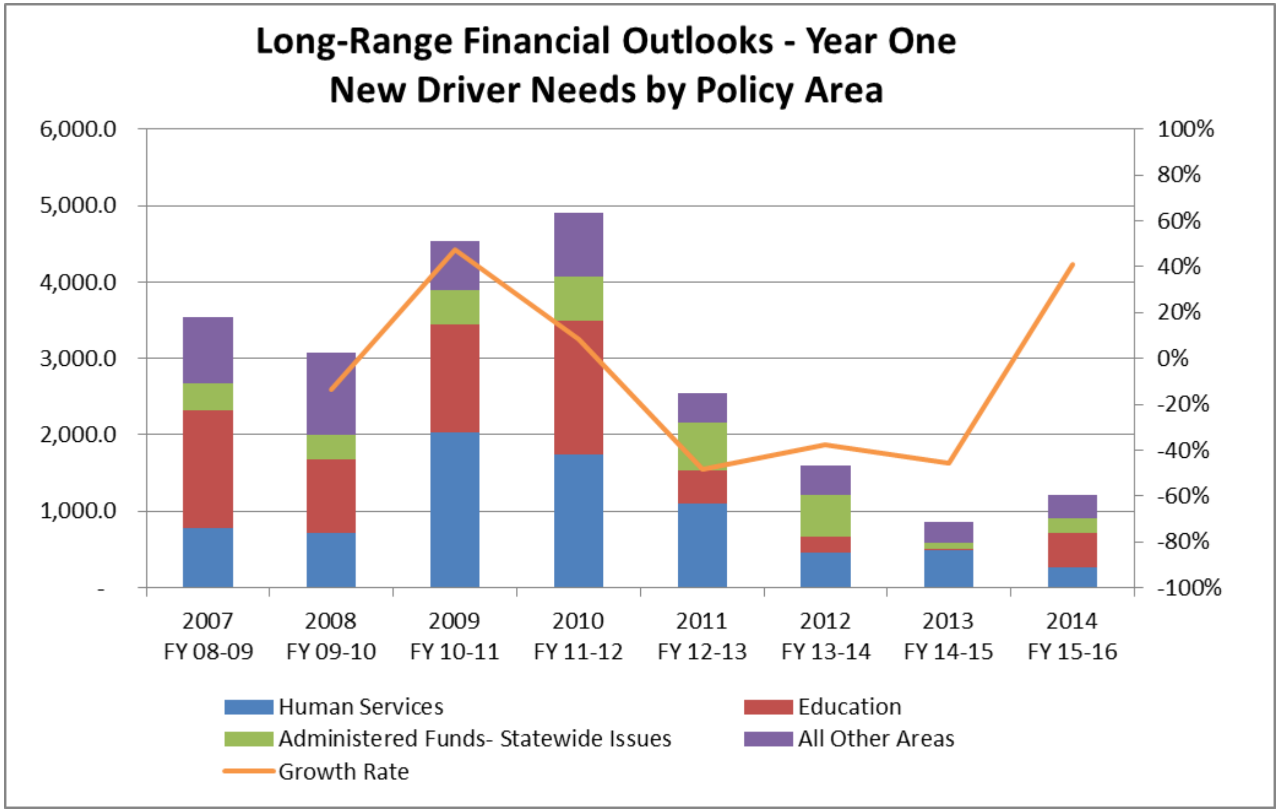
- Critical Needs are mandatory increases based on estimating conferences and other essential items. The **seventeen** Critical Needs drivers represent the minimum cost to fund the budget without significant programmatic changes. For General Revenue, these drivers represent between 38.8% through 45.8% of all needs throughout the plan, with the greatest dollar burden occurring in FY 2017-18.

- The **twenty-eight** Other High Priority Needs drivers represent a conservative approach to the major issues that have been funded in most of the recent budget years. Unlike the Critical Needs, the greatest General Revenue burden occurs in the first year.

DOLLAR VALUE OF
CRITICAL AND OTHER HIGH PRIORITY NEEDS

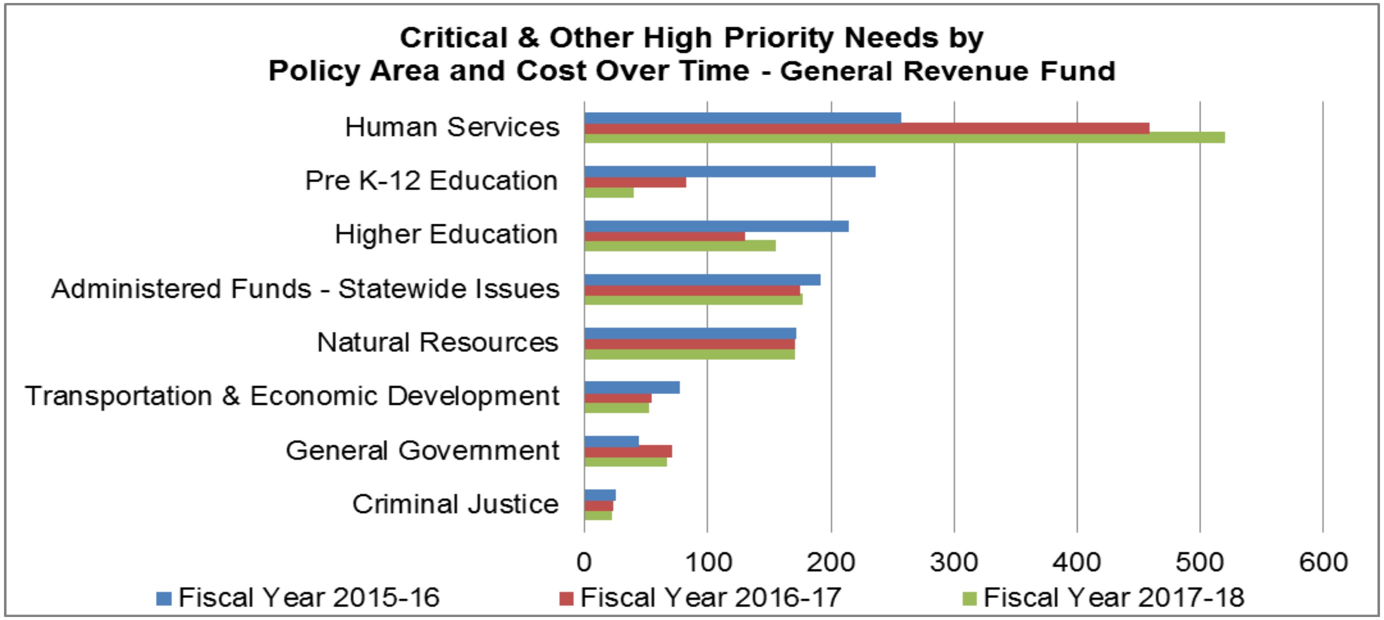
GENERAL REVENUE FUND	Fiscal Year 2015-16	Fiscal Year 2016-17	Fiscal Year 2017-18
Total Tier 1 - Critical Needs	473.1	453.0	551.6
Total - Other High Priority Needs	746.1	712.7	653.0
Total Tier 2 - Critical and Other High Priority Needs	1,219.2	1,165.7	1,204.6

Total Need by Policy Area



In recent years, the total amount for all drivers had been declining due to constrained budget growth and the improving economy; however, the 2014 Outlook marks a change. As expected, the positive balance on the 2013 Outlook enabled the Legislature to initiate new investments which grew the base budget and future needs, as well as reduce General Revenue. Beyond identifying the available dollars, the initial Outlooks make no assumptions regarding new investments.

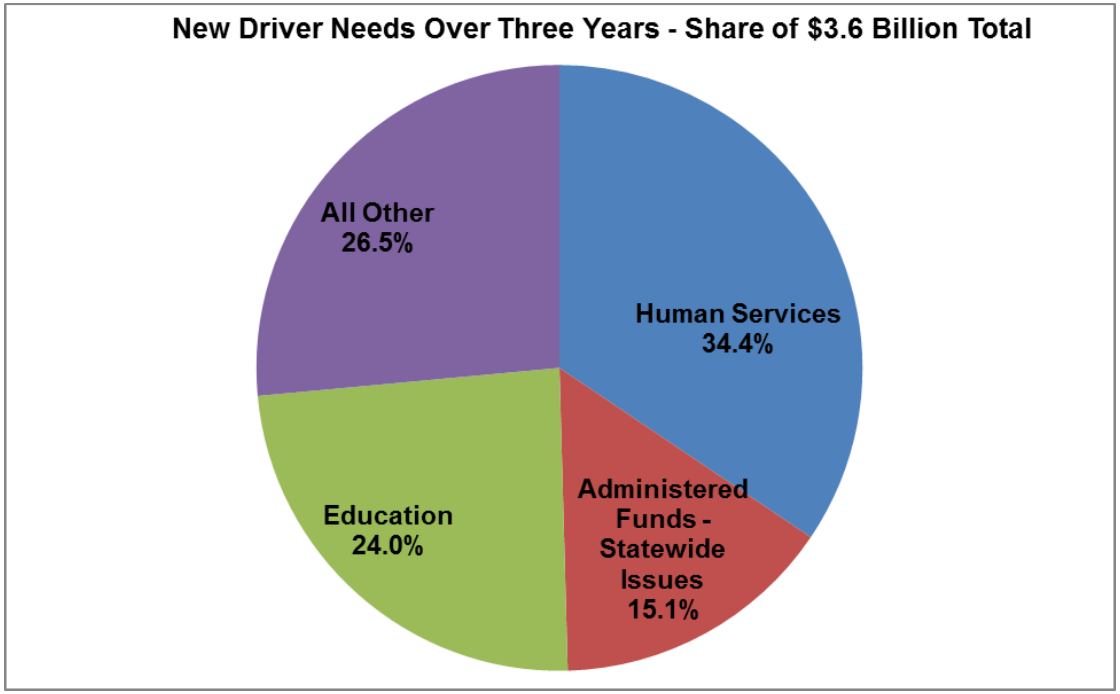
GR Drivers by Policy Area



POLICY AREAS	Fiscal Year 2015-16	Fiscal Year 2016-17	Fiscal Year 2017-18
Pre K-12 Education	236.3	82.6	40.2
Higher Education	214.5	130.7	155.7
Human Services	257.4	458.6	520.2
Criminal Justice	25.6	22.7	21.9
Transportation & Economic Development	77.5	54.3	52.1
Natural Resources	172.0	170.8	171.3
General Government	44.4	71.2	66.6
Administered Funds - Statewide Issues	191.5	174.8	176.6
Total New Issues	1,219.2	1,165.7	1,204.6

Most policy areas have the largest needs in the first year with a detectable drop-off in the subsequent years. The Human Services policy area has a reverse pattern with the greatest need in the final year of the Outlook.

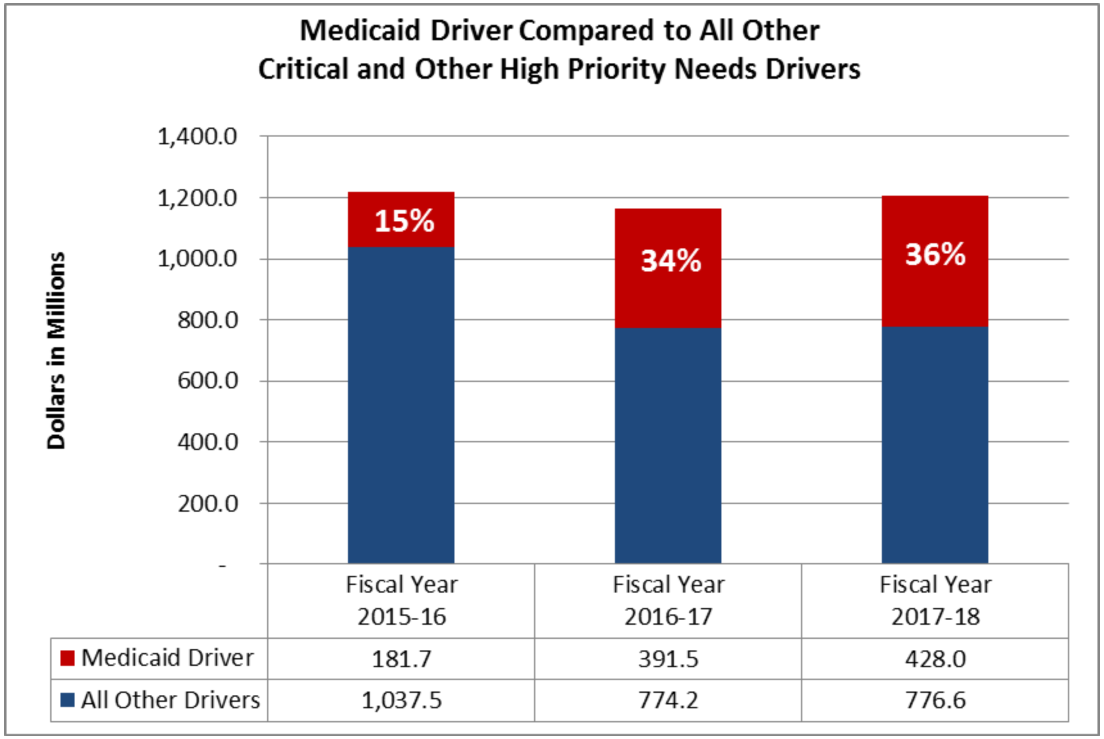
Three-Year Outlook Period



Another method of analyzing the projected expenditures for Critical and Other High Priority Needs is to look at the percentage of the total represented by each policy area. Human Services has the largest share of the total needs in each year of the Outlook, as well as across the three years.

Overall, the recurring portion of the budget is expected to grow about 3% per year.

Medicaid is the Largest Driver



	Fiscal Year 2015-16	Fiscal Year 2016-17	Fiscal Year 2017-18
Medicaid Driver	181.7	391.5	428.0
All Other Drivers	1,037.5	774.2	776.6

The Medicaid Program is the largest driver in all three years of the Outlook, representing 14.9 percent, 33.6 percent, and 35.5 percent of total Critical and Other High Priority Needs. Although still the largest driver, the Medicaid need included in the 2014 Outlook is smaller in proportion to the other drivers than it was in the 2013 Outlook which had 46.0 percent, 40.3 percent, and 32.6 percent. The lower total need can be attributed to the following: (1) required removal of the Low Income Pool; (2) anticipated savings from implementation of statewide managed care; and (3) lower overall health care inflation.

Putting It Together for the First Year

OUTLOOK PROJECTION – FISCAL YEAR 2015-16 *(in millions)*			
	RECURRING	NON RECURRING	TOTAL
AVAILABLE GENERAL REVENUE	**$28,336.7**	**$1,469.9**	**$29,806.6**
Base Budget	$27,036.7	$0.0	$27,036.7
Transfer to Lawton Chiles Endowment Fund	$0.0	$0.0	$0.0
Transfer to Budget Stabilization Fund	$0.0	$214.5	$214.5
Critical Needs	$437.4	$35.7	$473.1
Other High Priority Needs	$434.9	$311.2	$746.1
Reserve	$0.0	$1,000.0	$1,000.0
TOTAL	**$27,909.0**	**$1,561.4**	**$29,470.4**
BALANCE	**$427.7**	**($91.5)**	**$336.2**

Combined, recurring and nonrecurring General Revenue program needs—with a minimum reserve of $1 billion—are less than the available General Revenue dollars, meaning there is no budget gap for FY 2015-16. Anticipated expenditures (including the reserve) can be fully funded and the budget will be in balance as constitutionally required.

The Bottom Line...

- Fiscal Years 2015-16, 2016-17, and 2017-18 all show projected budget needs within the available revenue for Critical and Other High Priority Needs, including the set-aside of a $1 billion GR reserve in each year.

- **No Fiscal Strategies are required for any year** in the Outlook period, since there is no budget gap during the period, the anticipated reserve is fully funded, and the budget is growing more slowly than available revenues.

- For the 4th time since the adoption of the constitutional amendment requiring the development of Long-Range Financial Outlooks, **sufficient funds exist to meet all Critical and Other High Priority Needs** identified for the three years contained in the Outlook.

Risk

The positive budget outlook is heavily reliant on the projected balance forward levels being available, the $1 billion reserve not being used, and future growth levels for General Revenue being achieved. Assuming the $1 billion reserve is strictly adhered to each year, the entire $336.2 million can be invested in *recurring* expenditures in Fiscal Year 2015-16 without causing a budget gap in Fiscal Years 2016-17 or 2017-18. However, the expenditure of *recurring* funds in Year 1 of the Outlook has a compounding effect over time and would reduce future ending balances.

	Outlook Ending Balance	Ending Balance if Year 1 Balance Spent on Recurring Issues	Difference
2015-16	$336.2 million	--0--	-$336.2 million
2016-17	$1,004.5 million	$332.1 million	-$672.4 million
2017-18	$2,156.1 million	$1,147.5 million	-$1,008.6 million

As part of the decision-making process regarding whether to increase spending or reduce tax revenues, the Legislature should consider the sections of the Outlook entitled *Significant Risks to the Forecast*, *Florida Economic Outlook*, and *Potential Constitutional Issues*, which describe a number of issues that have the potential to alter key assumptions and, therefore, the level of revenues and/or expenditures used to build the Outlook.

Black Swans

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

- A severe natural disaster that stresses the state's reserves.
  - 2004 and 2005 Hurricane Seasons
  - Budget Stabilization Fund balance will be $1,139.2 million at the end of FY 2014-15.

- Global economic malaise and international strife that spill over to the U.S. economy and then to Florida.
  - Intensifying and spreading global weakness

    In the 2nd Quarter of 2014, Germany's economy contracted; France's economy stagnated; and Italy remained in recession.
  - Severe Interruptions in exports and/or higher energy prices

    Russia's ongoing territorial dispute with the Ukraine and geopolitical risks in the Middle East pose threats.