State of Florida
Three Year Revenue and Expenditure Outlook

Winter 2005

Jointly Prepared by
The Senate Ways and Means Committee and
The Office of Economic and Demographic Research

Table of Contents

Three Year Revenue and Expenditure Outlook

What is the Outlook?

Ultimately, it is a tool that provides an opportunity to both avoid future budget problems and maintain more stability between fiscal years. It accomplishes this by providing a picture of the state's fiscal position that integrates projections of the major programs driving Florida's annual budget requirements with the revenue estimates. It includes budgetary, economic and debt analyses to provide a framework for the projections and covers three Fiscal Years beyond the current year: 2005-06, 2006-07, and 2007-08.

THE OUTLOOK IS <u>NOT</u> THE TOTAL AMOUNT OF THE STATE BUDGET OR THE AMOUNT OF FUNDS TO BE ALLOCATED TO THE RESPECTIVE BUDGET AREAS. NO ASSUMPTIONS ARE MADE REGARDING LEGISLATIVE POLICY DECISIONS ON DISCRETIONARY SPENDING; THEREFORE, UNSPENT FUNDS FALL TO THE FOLLOWING YEAR.

Who produced it?

It was jointly developed by the Senate Ways and Means Committee and the Joint Legislative Office of Economic and Demographic Research.

How was the Outlook developed?

- All major programs that have historically driven significant increases in the State's budget such as Medicaid and the Florida Education Finance Program (public school funding), as well as new constitutional requirements such as Class Size Reduction and Article V impacts on the Judicial Branch, were inventoried.

- Projections of future workload and enrollment increases were developed for each of these major cost drivers using a variety of methods including projections from Consensus Estimating Conferences.

- Costs were applied to the projected workload requirements based on recent legislative budget decisions.

- Cost requirements were aggregated by major fund type and compared to revenue estimates for those funds.

Understanding the Outlook

- The Outlook is structured into separate sections generally corresponding to the jurisdictions of the Senate Appropriations Committees except that Article V/Judicial costs are identified separately from the Justice Appropriations area. Also included are separate sections for Salaries and Benefits, Revenue

Projections, Florida's Economic Outlook, Debt Analysis and a comparison of costs versus revenues.

- Each policy section contains projections of the applicable major state supported programs, a listing of the assumptions behind the projections and a description of significant policy issues associated with the projections.

- Emphasis is placed on recurring programs, those programs that the state is expected or required to continue from year to year.

- Estimates for several programs historically considered non-recurring, and funded with non-recurring funds, are included in the Outlook. Even though non-recurring, these programs are viewed as "must funds" by most legislators and are therefore identified as major cost drivers.

- Revenue projections cover the General Revenue Fund, the Educational Enhancement Trust Fund (lottery proceeds devoted to Education), the Tobacco Settlement Trust Fund, and Other Trust Funds (an aggregation of major trust funds that support significant programs).

- All revenue projections include recurring and non-recurring amounts.

- No estimates are included for potential infrastructure deficits in the transportation and education policy sections.

Summary

A. Revenue Estimates

- General revenue collections are expected to grow by 3.6% in Fiscal Year 2005-06, 2.8% for Fiscal Year 2006-07 and 5.1% for Fiscal Year 2007-08.

- Over $2.6 billion of non-recurring general revenue funds will be available in Fiscal Year 2005-06.

- Once the expenditure outlook has been funded, the amount of non-recurring general revenue available will decrease to $994 million in Fiscal Year 2006-07 and in Fiscal Year 2007-08 will further drop to just over $74 million, an amount in line with historic levels.

- Lottery and Tobacco Settlement Trust Funds will have little or no growth.

B. Expenditure Demands

Education Requirements

- Overall Education expenditures, including the local share, are projected to increase by an average of approximately 6.5%, or over $1.4 billion annually, during the next three fiscal years.

- The growth in local **public school** revenues from ad valorem sources, at current millage rates, will increase by approximately $1.7 billion over the next 3 years to help pay for public school enrollment increases.

- Of the projected general revenue increase for Education, 75% or $1.72 billion over the next 3 fiscal years is needed to meet the operating costs of the Constitutional Class Size Reduction mandate.

- Because The Bright Futures Program is growing faster than Lottery revenues, the Education projections draw existing Lottery funds from the K-20 operating budgets to finance the Bright Futures Scholarship needs. These Lottery funds are replaced with general revenue funds.

Health and Human Services Requirements

- General revenue requirements for the Health and Human Services area will increase by over $1 billion in FISCAL YEAR 2005-06, $591.3 million in Fiscal Year 2006-07 and $717 million in Fiscal Year 2007-08.

- Medicaid is the primary driver of these increases, requiring spending of $945.1 million of general revenue in the 2005 Legislative Session to eliminate a current year deficit of $164 million and provide for increased costs of $781.1 million in Fiscal Year 2005-06.

Article V and Judicial Requirements

- The initial impact of state assumption of court costs mandated by Revision 7 to the state's constitution is evident in the current fiscal year (Fiscal Year 2004-05) budget increase of 32%.

- Costs are estimated to increase in Fiscal Year 2005-06 by approximately 2.5% and in the out-years by 1.6% per year.

Justice Requirements

- Recurring operating requirements for the Department of Corrections, along with operating new prison beds, drive expenditure increases of 3.0% in Fiscal

Year 2005-06 and approximately 4.6% and 3.9% respectively in each of the following two fiscal years.

- Projections of capital requirements indicate a lesser amount than current appropriations.

General Government Requirements

- Recurring requirements for the General Government area are projected to increase by 2.1% in Fiscal Year 2005-06, 1.5% in Fiscal Year 2006-07, and 1.3% in the following fiscal year.

- In Fiscal Year 2005-2006, the need for non-recurring general revenue funds in the General Government area will be reduced by almost $292 million, assuming the Legislature will return to funding the Florida Forever environmental land acquisition program from bond proceeds.

Transportation and Economic Development Requirements

- The primary annual general revenue budget requirement in the Transportation and Economic Development area is for non-recurring funds used primarily for economic development programs and cultural and historical grants. Continuing demand is anticipated for these non-recurring funds to fund ongoing programs. Since appropriation of these funds varies significantly from year to year, this document assumes the average of the past several years for the projections.

- One significant change reflected in the Fiscal Year 2005-06 projections is the elimination of non-recurring general revenue provided to the State Transportation Trust Fund to replace revenues reduced by the gas tax holiday in Fiscal Year 2004-05 ($58 million of non-recurring general revenue).

State Employee Salaries and Benefits Requirements

- Increases to state employee salaries, based upon an annual 2% cost-of of living increase, are projected to cost approximately $456 million over the next 3 fiscal years.

- Health insurance costs for state employees are projected to increase $155.4 million in Fiscal Year 2005-06, $161 million in Fiscal Year 2006-07 and $183.9 million in Fiscal Year 2007-08 for a total increase of $500.3 million.

FINDINGS

- Fiscal Year 2005-2006:
  - Total general revenue available for appropriations will be $26,586.8 million.
  - General revenue funded program costs are projected to be $25,620.6 million.
  - $966.2 million of non-recurring general revenue would be available for spending, reserve and emergencies (a Working Capital Fund).
  - Recurring general revenue program needs are projected to be $24,720.4 million, while recurring general revenue funds available will only be $23,977.5 million.
  - Without legislative intervention, the shortage of recurring general revenue funds will require that $742.9 million of non-recurring general revenue be used to support recurring programs.
  - Little to no growth in revenues for the Educational Enhancement Trust Fund and the Tobacco Settlement Trust Fund exacerbate the demand on the General Revenue Fund to support projected increases in recurring programs.

FISCAL YEAR 2005-06 *(in millions)*			
	RECURRING	NON-RECURRING	TOTAL
GR AVAILABLE	$23,977.5	$2,609.3	$26,586.8
EXPENDITURES	$24,720.4	$ 900.2	$25,620.6
BALANCE	$ (742.9)	$1,709.1	$ 966.2

- Fiscal Years 2006-07 and 2007-08:
  - Revenue growth in the General Revenue Fund, the Educational Enhancement Trust Fund and the Tobacco Settlement Trust Fund will not be sufficient to support budget demands.
  - Assuming no Working Capital Fund reserve or limitation on using non-recurring general revenue funds on recurring programs, in Fiscal Year 2006-07 over $634 million in budget cuts will be required and in Fiscal Year 2007-08 an additional $2 billion in cuts must be taken.
  - If it is assumed that the Legislature elects to maintain a $200 million Working Capital Fund reserve and limit non-recurring general revenue

funds spent on recurring programs to 3% of total general revenue funds available, then:

- In Fiscal Year 2006-07, over $834 million of general revenue funded budget reductions would be required to balance the budget and maintain a reserve for emergencies (a Working Capital Fund).

- In Fiscal Year 2007-08, over $1.4 billion in general revenue reductions, in addition to the reductions taken in Fiscal Year 2006-07, will be required in order to balance and provide a minimal Working Capital Fund.

o The level of non-recurring money available in the General Revenue Fund will be substantially less in Fiscal Year 2007-08.

C. ANALYSIS

Overall, projected general revenue growth (recurring plus non-recurring) is sufficient to support anticipated spending and reserve requirements for Fiscal Year 2005-06. However, the RECURRING general revenue demands in this period will exceed the amount of RECURRING general revenue available.

In Fiscal Years 2006-07 and 2007-08, general revenue spending and reserve requirements are projected to EXCEED the projected general revenue funds available.

Unless there is significant new growth in revenues, expenditure reductions will be required in recurring operating expenditures in order to balance the budget.

D. CONCLUSIONS/RECOMMENDATIONS

- Without substantial new growth in revenues or reductions to projected expenditures, funding for existing state operations will fall short beginning in Fiscal Year 2006-07.

- Given the revenue estimates, in order to soften the impact of the massive budget reductions that will be otherwise necessitated by the constitutional requirement to produce a balanced budget in Fiscal Year 2007-08, substantial recurring program reductions should be considered in Fiscal Years 2005-06 and 2006-07. Options include, but are not limited to, the following:

    - Medicaid reform,
    - Changes to class size requirements,
    - Converting recurring trust funds to recurring general revenue, and
    - Slowing return to the normal cost of the retirement system.

- A substantial amount of non-recurring revenue should be carried forward unspent into at least Fiscal Year 2006-07 to cover anticipated expenditures and avoid a revenue shortfall.

General Revenue Fund Cost/Revenue Comparison

No Reserve for the Working Capital Fund &
No Limitation on Nonrecurring $'s Spent on Recurring Needs

Current Year - FY 2004-2005

FUNDS AVAILABLE 2004-05	**Rec**	**Non-Rec**	**Total**
Balance forward from 03-04	0.0	2,457.2	2,457.2
Estimated Revenues	23,097.8	519.7	23,617.5
Non-Operating Revenues	(4.3)	586.4	582.1
Total 2004-05 funds available	**23,093.5**	**3,563.3**	**26,656.8**
	Rec	**Non-Rec**	**Total**
APPROPRIATIONS 2004-05	22,575.9	1,477.7	24,053.6
Hurricane Related Amds & Special Appro	5.4	610.3	615.7
Total 2004-05 appropriations	**22,581.3**	**2,088.0**	**24,669.3**
ENDING BALANCE/Working Capital Fund	**512.2**	**1,475.3**	**1,987.5**

FY 2005-2006

FUNDS AVAILABLE 2005-06	**Rec**	**Non-Rec**	**Total**
Balance forward from 04-05	0.0	1,987.5	1,987.5
Transfers from TF	0.0	0.0	0.0
Estimated Revenues	23,981.8	496.6	24,478.4
Budget Stabilization Fund Requirements		(92.0)	(92.0)
Repayment of Hurricane Loans	0.0	100.0	100.0
Non-Operating Revenues	(4.3)	117.2	112.9
Total 2005-06 funds available	**23,977.5**	**2,609.3**	**26,586.8**
APPROPRIATIONS	**Rec**	**Non-Rec**	**Total**
2004-05 Recurring Base	22,581.3	0.0	22,581.3
Hurricane Expenditures from Hurricane Rev's		432.1	432.1
Projected Additional Requirements	2,139.1	468.1	2,607.2
Total 2005-06 Budget	**24,720.4**	**900.2**	**25,620.6**
ENDING BALANCE/Working Capital Fund	**(742.9)**	**1,709.1**	**966.2**

FY 2006-2007

FUNDS AVAILABLE 2006-07	**Rec**	**Non-Rec**	**Total**
Balance forward from 05-06	0.0	966.2	966.2
Transfers from TF	0.0	0.0	0.0
Estimated Revenues (2.8% growth)	25,154.8	0.0	25,154.8
Budget Stabilization Fund Requirements		(89.7)	(89.7)
Non-Operating Revenues	(4.3)	117.2	112.9
Total 2006-07 funds available	**25,150.5**	**993.7**	**26,144.2**
APPROPRIATIONS	**Rec**	**Non-Rec**	**Total**
2005-06 Recurring Base	24,720.4	0.0	24,720.4
Projected Additional Requirements	1,732.5	325.8	2,058.3
Total 2006-07 Budget	**26,452.9**	**325.8**	**26,778.7**
ENDING BALANCE/Working Capital Fund	**(1,302.4)**	**667.9**	**(634.5)**

FY 2007-2008

FUNDS AVAILABLE 2007-08	**Rec**	**Non-Rec**	**Total**
Balance forward from 06-07	0.0	0.0	0.0
Transfers from TF	0.0	0.0	0.0
Estimated Revenues (5.1% growth)	26,442.4	0.0	26,442.4
Budget Stabilization Fund Requirements		(43.0)	(43.0)
Non-Operating Revenues	(4.3)	117.2	112.9
Total 2007-09 funds available	**26,438.1**	**74.2**	**26,512.3**
APPROPRIATIONS	**Rec**	**Non-Rec**	**Total**
2006-07 Recurring Base	26,452.9	0.0	26,452.9
Projected Additional Requirements	1,801.1	310.0	2,111.1
Total Budget	**28,254.0**	**310.0**	**28,564.0**
ENDING BALANCE/Working Capital Fund	**(1,815.9)**	**(235.8)**	**(2,051.7)**

General Revenue Fund Cost/Revenue Comparison
Maximum NR Expenditures Spent on Rec Appropriations are 3% of Total GR Revenues
and Minimum $200 million Working Capital Fund Reserve

Current Year - FY 2004-2005

FUNDS AVAILABLE 2004-05	**Rec**	**Non-Rec**	**Total**
Balance forward from 03-04	0.0	2,457.2	2,457.2
Estimated Revenues	23,097.8	519.7	23,617.5
Non-Operating Revenues	(4.3)	586.4	582.1
Total 2004-05 funds available	**23,093.5**	**3,563.3**	**26,656.8**
	Rec	**Non-Rec**	**Total**
APPROPRIATIONS 2004-05	22,575.9	1,477.7	24,053.6
Hurricane Related Amds & Special Appro	5.4	610.3	615.7
Total 2004-05 appropriations	**22,581.3**	**2,088.0**	**24,669.3**
ENDING BALANCE/Working Capital Fund	**512.2**	**1,475.3**	**1,987.5**

FY 2005-2006

FUNDS AVAILABLE 2005-06	**Rec**	**Non-Rec**	**Total**
Balance forward from 04-05	0.0	1,987.5	1,987.5
Transfers from TF	0.0	0.0	0.0
Estimated Revenues	23,981.8	496.6	24,478.4
Budget Stabilization Fund Requirements		(92.0)	(92.0)
Repayment of Hurricane Loans		100.0	100.0
Non-Operating Revenues	**(4.3)**	117.2	112.9
Total 2005-06 funds available	**23,977.5**	**2,609.3**	**26,586.8**
APPROPRIATIONS	**Rec**	**Non-Rec**	**Total**
2004-05 Recurring Base	22,581.3	0.0	22,581.3
Hurricane Expenditures from Hurricane Rev's		432.1	432.1
Projected Additional Requirements	2,139.1	468.1	2,607.2
Cuts to Meet Max 3% NR Spent on Rec	**0.0**	0.0	**0.0**
Total 2005-06 Budget	**24,720.4**	**900.2**	**25,620.6**
ENDING BALANCE/Working Capital Fund	**(742.9)**	**1,709.1**	**966.2**

FY 2006-2007

FUNDS AVAILABLE 2006-07	**Rec**	**Non-Rec**	**Total**
Balance forward from 05-06	0.0	966.2	966.2
Transfers from TF	0.0	0.0	0.0
Estimated Revenues (4.6% growth)	25,154.8	0.0	25,154.8
Budget Stabilization Fund Requirements		(89.7)	(89.7)
Non-Operating Revenues	**(4.3)**	117.2	112.9
Total 2006-07 funds available	**25,150.5**	**993.7**	**26,144.2**
APPROPRIATIONS	**Rec**	**Non-Rec**	**Total**
2005-06 Recurring Base	24,720.4	0.0	24,720.4
Projected Additional Requirements	1,732.5	325.8	2,058.3
Cuts to Meet Max 3% NR Spent on Rec	**(518.1)**		**(518.1)**
Cuts to Balance	**(116.4)**		**(116.4)**
Cuts to Retain $200 m Working Capital Fund	**0.0**	**(200.0)**	**(200.0)**
Total 2006-07 Budget	**25,818.4**	**125.8**	**25,944.2**
ENDING BALANCE/Working Capital Fund	**(667.9)**	**867.9**	**200.0**

FY 2007-2008

FUNDS AVAILABLE 2007-08	**Rec**	**Non-Rec**	**Total**
Balance forward from 06-07	0.0	200.0	200.0
Transfers from TF	0.0	0.0	0.0
Estimated Revenues (5.1% growth)	26,442.4	0.0	26,442.4
Budget Stabilization Fund Requirements		(43.0)	(43.0)
Non-Operating Revenues	**(4.3)**	117.2	112.9
Total 2007-09 funds available	**26,438.1**	**274.2**	**26,712.3**
APPROPRIATIONS	**Rec**	**Non-Rec**	**Total**
2006-07 Recurring Base	25,818.4	0.0	25,818.4
Projected Additional Requirements	1,801.1	310.0	2,111.1
Cuts to Meet Max 3% NR Spent on Rec	**0.0**	**0.0**	**0.0**
Cuts to Balance	**(1,181.4)**	**(35.8)**	**(1,217.2)**
Cuts to Retain $200 m Working Capital Fund	**0.0**	**(200.0)**	**(200.0)**
Total Budget	**26,438.1**	**74.2**	**26,512.3**
ENDING BALANCE/Working Capital Fund	**0.0**	**200.0**	**200.0**

EDUCATIONAL ENHANCEMENT TRUST FUND PROJECTION
($ MILLIONS)

	RECURRING	NONRECURRING	TOTAL
FY 2005-06			
Balance Forward	0.0	32.6	32.6
Revenue Estimate/Nov '04	1,072.1	0.0	1,072.1
Nonoperating funds	1.5	0.0	1.5
Total Funds Available	1,073.6	32.6	1,106.2
Estimated Expenditures	869.3	0.0	869.3
Debt Service/FCO	229.0	0.0	229.0
Ending Balance	(24.7)	32.6	7.9
FY 2006-07			
Balance Forward	0.0	7.9	7.9
Revenue Estimate/Nov '04	1,082.9	0.0	1,082.9
Nonoperating funds	1.5	0.0	1.5
Total Funds Available	1,084.4	7.9	1,092.3
Estimated Expenditures	853.9	0.0	853.9
Debt Service/FCO	229.0	0.0	229.0
Ending Balance	1.5	7.9	9.4
FY 2007-08			
Balance Forward	0.0	9.4	9.4
Revenue Estimate/Nov '04	1,093.5	0.0	1,093.5
Nonoperating funds	1.5	0.0	1.5
Total Funds Available	1,095.0	9.4	1,104.4
Estimated Expenditures	864.5	0.0	864.5
Debt Service/FCO	229.0	0.0	229.0
Ending Balance	1.5	9.4	10.9

TOBACCO SETTLEMENT TRUST FUND PROJECTION
($ MILLIONS)

	RECURRING	NONRECURRING	TOTAL
FY 2005-06			
Balance Forward	0.0	8.1	8.1
Revenue Estimate	370.6	0.0	370.6
Transfer from Chiles Endowment Fund	38.3	0.0	38.3
Nonoperating funds	1.0	0.0	1.0
Total Funds Available	409.9	8.1	418.0
Estimated Expenditures	411.5	0.0	411.5
Ending Balance	(1.6)	8.1	6.5
FY 2006-07			
Balance Forward	0.0	6.5	6.5
Revenue Estimate	374.2	0.0	374.2
Transfer from Chiles Endowment Fund	37.8	0.0	37.8
Nonoperating funds	1.0	0.0	1.0
Total Funds Available	413.0	6.5	419.5
Estimated Expenditures	411.5	0.0	411.5
Ending Balance	1.5	6.5	8.0
FY 2007-08			
Balance Forward	0.0	8.0	8.0
Revenue Estimate	379.7	0.0	379.7
Transfer from Chiles Endowment Fund	37.8	0.0	37.8
Nonoperating funds	1.0	0.0	1.0
Total Funds Available	418.5	8.0	426.5
Estimated Expenditures	411.5	0.0	411.5
Ending Balance	7.0	8.0	15.0

FLORIDA ECONOMIC OUTLOOK

The Florida Economic Estimating Conference (FEEC) met in the fall of 2004 to revise the forecast for the state's economy. The latest forecast expects the economy to expand at a modest pace—faster than the past few years, albeit slower than the 1990s. Population growth continues to be the state's primary engine of economic growth.

RECAP

Typically, the two principal economic measures for states are income and employment growth. Since the Spring 2004 forecast, there have been employment and income revisions that showed Florida growing at a slower pace than first thought. In Fiscal Year 2002-03, personal income grew just 2.8%, down from the originally reported 4.0%, and non-farm payroll growth was revised downward from 1.1% to 0.8%. Starting from this lower level, while income and employment grew faster in Fiscal Year 2003-04 than projected last Spring (4.9% and 1.9% for income and jobs, respectively), neither grew fast enough to reach the levels projected for the year. Income was $3.2 billion, or 0.6%, below the forecast, while employment was 9,500 jobs, or 0.1%, below the forecast. Similarly, Florida continued to trail slightly behind the national per capita personal income ($31,632 in 2003), coming in at only $30,446.

There are reasons to be somewhat more optimistic than these measures would indicate. For example, both population growth and residential construction surpassed the forecast for last fiscal year. In Fiscal Year 2003-04 the state's population grew by 2.6% compared to a projected 2.2%. By the end of the fiscal year, the state had almost 100,000 more residents than the FEEC projected last Spring. This population growth, along with mortgage rates that continue to hover near 6.0%—well below where the National Economic Estimating Conference (NEEC) expected them to be in the Spring—have continued to fuel new residential construction activity. The FEEC was expecting private housing starts to begin a gradual decline last spring. In fact new activity began to accelerate. For Fiscal Year 2003-04 there were 230,800 starts, a 19.7% increase over the prior year—the fastest pace of new starts since Fiscal Year 1972-73. Much of this activity was in single family starts which were up 22.9% over the prior year to a level of 163,100 units—the highest level ever.

FORECAST

Nominal personal income is projected to grow 6.6% this fiscal year, revised up from the 5.5% forecast in the spring. While healthier than the national forecast, Florida income growth is expected to slow next year to 5.6% before beginning a gradual rebound. This pattern is also reflected in per capita income as adjusted for inflation—it is expected to grow 2.3% this year and dip to1.9% next year before returning to the current growth level. However, this is still remarkable since this year's growth is projected to be the fastest since Fiscal Year 1998-99 when real per capita income grew 3.4%. Much of the faster growth in personal income can be attributed to faster growth in labor income (both earnings and proprietors' income). However, property income (dividends, interest payments, rental income) also contributes to the faster pace of growth. After two years of declines in property income associated with low interest rates and a stock market that has been moving sideways, growth in property income moved into positive territory, reaching 1.3% in Fiscal Year 2003-04. It is projected to grow 6.7% this fiscal year, and then it slows to 2.7% in Fiscal Year 2005-06 prior to beginning a strong growth spurt.

Employment is projected to grow 2.6% this fiscal year, followed by an even healthier 2.7% next year before beginning to moderate. About a quarter of the job growth is concentrated in professional and business services. After growing 4.8% last year, this sector is projected to expand another 4.6% this year. Next year, growth accelerates to 5.6% and slightly tapers off thereafter. Over fifty percent of the growth in this sector is concentrated in employment agencies, temporary help and leasing services, janitorial and cleaning services, exterminating and pest control services, and landscaping. In this regard, Florida is part of a national trend. According to the U.S. Department of Labor, employment services ranks among the fastest growing industries in the nation and is expected to be among those that provide the most new jobs. However, Florida differs from the nation in that our single fastest growing sector is **not** education and health services.

The second fastest growing Florida industry in percentage growth terms is construction. Employment growth in the industry is expected to slow to 3.9% from its heated rate of 5.1% last fiscal year. Absent the hurricanes, residential construction was expected to slow even more later in the year as interest rates continue to rise. For 2005-06, construction-related job growth was projected at just 0.3%. Given the new need for reconstruction services, that low level will not be reached, and Florida will likely continue its strong construction employment levels for the next several years.

Almost all employment sectors are expected to expand this fiscal year. The lone two exceptions are mining and information services. The mining industry has been shedding jobs since 1996-97, and it is projected to continue that trend through the end of the forecast period. The information services sector has lost jobs since Fiscal Year 2001-02. The forecast calls for employment to drop 0.1% this year and then expand 2.2% in 2005-06. Employment growth in retail trade is expected to remain relatively weak through the forecast period with business payrolls expanding 1.6% this fiscal year and 1.3% next year. The overall unemployment rate is expected to have reached a low of 4.5% at the end of the 2004 calendar year. From there it gradually rises to 4.7% as the labor force expands faster than the economy can absorb the new entrants.

As previously discussed, construction remains robust within the state. This fiscal year was projected to be another banner year for residential construction, even before the advent of hurricane rebuilding. Housing starts are projected to grow 1.4% to 234,000 units. Single-family starts are expected to reach 163,600 units, surpassing last year's historical high. As mortgage rates begin to rise at a faster pace, residential starts are expected to fall. Starts are projected to decline 10.7% in 2005-06 to 146,200 units. Total construction expenditures fall 4.4% in 2005-06 after growing 9.1% in the prior year. Growth in private nonresidential construction is projected to accelerate to 13.9% this fiscal year after growing 6.1% last year. It then slows slightly to 9.5% in 2005-06. Meanwhile, after contracting 6.7% last year, public construction activity is projected to expand 1.3% this fiscal year and then accelerate to 5.2% growth next year.

Estimating conference participants dampened various growth rates related to the leisure and hospitality sector to reflect the softness that persists in this industry area. According to a late November report released by the Sixth District of the Federal Reserve, disappointing travel activity continued to plague the south Florida economy. In Miami, hotel and motel bookings for the Thanksgiving and Christmas period were lower than expected. Business travel remains at reduced levels, and business travel expenditures are not expected to improve substantially in the near term.

Finally, this year's population growth reflects the highest rate that will be achieved over the forecast period. By April 1, 2008, year-to-year growth drops below 2%--the lowest rate since 1998. And by 2010, the state's age mix will shift for the first time to produce a higher percentage of persons aged 45-64 than persons aged 25-44, a phenomenon arising from the aging baby boom population.

REVENUE PROJECTIONS

Throughout the fall, the Revenue Estimating Conference met to revise estimates for the current year and to develop new forecasts for the upcoming years. Overall, revenue projections were considerably strengthened relative to the prior forecasts. In some instances, the increases produced significant amounts of both recurring *and* non-recurring dollars. The creation of non-recurring dollars generally occurs when the estimate is increased for the current year, producing a one-time windfall from the unanticipated collections. Several major revenue sources are discussed below.

General Revenue Fund:

Without adjusting for hurricane impacts, significant increases in general revenue receipts are expected for both this year and virtually every year of the forecast period. For the current year, estimates for practically every revenue source were increased, reflecting a more robust economic recovery than originally anticipated. The thriving Florida real estate market accounts for much of the increase, pushing documentary stamp tax and intangibles tax revenues to record highs. By the end of the current fiscal year, total collections are projected to be nearly $1.3 billion above estimate, most of which are recurring in nature.

Next year's forecast furthers the gains from the current year by adding over $1 billion to the prior 2005-06 estimate. Led largely by increases in business investment, Florida's sales tax growth follows national expectations of an uptick in overall economic activity. This is evidence that Floridians can expect to see continued economic growth. While documentary stamp and intangibles tax collections remain strong, rising interest rates are ultimately expected to dampen the dramatic increases experienced over the past few years. This will have the practical effect of stabilizing revenue growth as Florida moves forward into future fiscal years. As a result of the changes to the forecast, Fiscal Year 2004-05 revenue collections are expected to be 6.8% above Fiscal Year 2003-04, followed by an increase of 3.2% in Fiscal Year 2005-06.

Spending on repair and replacement of property destroyed by the four hurricanes in the Fall of 2004 will add to the pace of Florida's economic expansion. This activity, in turn, will add to state revenue collections. Even using a cautious approach because of limited data, additional revenues of $752 million are expected through June of 2006. This raises the current year revenue estimate to $23.6 billion and the 2005-06 estimate to $24.5 billion.

The state's financial outlook is further bolstered by several types of events which yield an additional $919 million in non-recurring revenue. These include prior year unanticipated tax collections and unused appropriations (whether caused by vetoes or end-of-the-year reversions of state funds). This large build-up of non-recurring revenue is unusual and circumstantial, and it will be exhausted as the state begins to make expenditures.

Lottery & Educational Enhancement Trust Fund:
Dedicated to educational programs, lottery dollars are used to fund the Educational Enhancement Trust Fund (EETF). Expected distributions to the EETF were raised from the prior forecast by $31.6 million in Fiscal Year 2004-05 and by $67.5 million in Fiscal Year 2005-06. After that year, growth is expected to moderate.

There are several major components of the change in the forecast. The first is a result of a new vendor contract that goes into effect on January 31, 2005. At that time, approximately 2,000 retailers who currently sell only scratch-off tickets will be able to sell all on-line products as well. Given that fact, and other enhancements provided by the new system, projected ticket sales were increased by $38.7 million in Fiscal Year 2004-05 and by $91.5 million in Fiscal Year 2005-06, with corresponding increases of $13.8 million and $32.5 million in transfers to the EETF.

Additionally, scratch-off game sales have been running much higher than expected, ending last year $43.9 million above estimate and exceeding the estimate by almost $100 million during the current fiscal year. That trend is expected to continue for the remainder of this fiscal year and into Fiscal Year 2005-06, although at a declining rate. As a result, the forecast for scratch-off game sales was increased by $320.1 million (not including an additional $7.4 million due to the new contract) in Fiscal Year 2004-05, and by $324.3 million (not including an additional $17.6 million due to the new contract) in Fiscal Year 2005-06. Dampening the effect of the increase on education funding is a decline in the expected transfer rate to the EETF because the sales are concentrated in higher prize payout games. In spite of the lower expected transfer rates, transfers to the EETF from scratch-off game sales (in addition to those resulting from the new contract) are still expected to be higher than previously projected by $46.4 million in Fiscal Year 2004-05 and $46.9 million in Fiscal Year 2005-06.

Ad Valorem Assessments (Property Tax Roll):
Estimates of the statewide property tax roll are primarily used in the appropriations process to determine the Required Local Effort (RLE) millage rate. This is the rate local school districts must levy in order to participate in the Florida Education Finance Program, the state’s funding mechanism for public schools. The 2005 property tax roll is estimated to be $1,243.5 billion, an increase of 11.8% or $131 billion over the 2004 tax roll. Following 12.4% growth in 2004, this continued high rate of growth is particularly noteworthy since the models used to develop the forecast were adjusted to account for the impact of this year’s four back-to-back hurricanes. Much of the strength in the forecast comes from Florida’s strong housing market and high levels of new construction. The only weakness appears to be associated with classified use property (agriculture), primarily due to falling timber and citrus prices which lower the value of income-producing property. In future years, the growth rate from year to year is expected to hover around 7.4%.

Gross Receipts Tax and PECO:
Estimates of collections from the Gross Receipts Tax on utilities, including the Gross Receipts Tax portion of the Communications Services Tax, are used to project the amount available for appropriation from the Public Education Capital Outlay (PECO) program.

- Gross Receipts Tax- While the overall estimate was raised, the largest increases occur over the next several years. The new forecast anticipates that natural gas and residual oil prices (fuels used to generate electricity) will move higher than previously thought and stay high for a longer period. Since higher fuel costs are passed through to the consumer in electric rates, they generate higher tax collections. This effect is compounded by an increase in electric usage. In the current and upcoming fiscal years, this increase in receipts from electricity more than offsets a decrease in the telecommunications part of the tax. Several factors lead to the falling telecommunications share – the number of land lines continues to decline and anticipated industry innovations effectively reduce costs or shift telecommunications activity to arenas outside the current tax base.

- PECO- The PECO forecast for the upcoming fiscal year was increased by $169.1 million, bringing the total amount available for appropriation to $677.8 million. Of this total, $499.0 million is related to the sale of bonds, and $178.8 million is available as cash. More than half of the increase in the bond sale is due to expectations that bonds will be sold at lower interest rates than previously thought. For Fiscal Year 2006-07, the estimate is increased by $209.9 million, mostly attributable to the stronger Gross Receipts Tax forecast.

	PECO Appropriations	Gross Receipt Tax Collections
FY 2004-05	761.9	856.6
FY 2005-06	**677.8**	**879.4**
FY 2006-07	458.3	895.1
FY 2007-08	392.7	914.3
FY 2008-09	395.0	936.2
FY 2009-10	466.7	960.5
FY 2010-11	531.4	985.5
FY 2011-12	605.4	1011.0
FY 2012-13	510.8	1035.9
FY 2013-14	797.9	1062.4

Principal State School Trust Fund:

Used exclusively to meet public school needs, the Principal State School Trust Fund contains revenue primarily derived from unclaimed property. A new estimate of $84.7 million was adopted for next year. While this level is not significantly different than the estimate used during session for the current year ($90.9 million), the mix of funds between recurring and non-recurring has altered. In the end, there will only be $76.5 million of recurring revenue to meet a recurring expenditure base of $90.9 million. Very little growth is projected for future years.

Tobacco Settlement Trust Fund:

Dedicated to fund specified types of programs in the Health and Human Services area, the Tobacco Settlement Trust Fund receives settlement payments from several major American tobacco companies. Since these payments typically arrive in late December, an estimating conference for this source will not be held until next spring. At this time, there is no known reason why the current year estimate and forecast will not be met. This means that the recurring base will continue to be funded. The current year total estimate is $416.7 million, of which $4.1 million goes directly to the Biomedical Research Trust Fund. Next year, $370.6 million is expected from payments and $38.3 million is expected from the Lawton Chiles Endowment Fund. While the transfer is smaller than originally anticipated, the balance forward from this year offsets that loss. No significant growth is foreseen in the future, and there is some reason to expect further erosion in this source.

Transportation Revenue and the State Transportation Trust Fund:

Assorted revenues flow into the State Transportation Trust Fund. The overall estimate for the work program period (Fiscal Year 2004-05 through Fiscal Year 2009-10) was raised by $433.5 million, or 2.7%. At the conclusion of the conference, the work program forecast for every revenue source was increased, but the relatively weak previous forecast somewhat dampens the enthusiasm this should generate. Over the course of the work program, the leading drivers are:

- The revenue estimate from Highway Fuel consumption, which includes the Highway Fuel Sales Tax and the SCETS Tax, was increased by $290.3 million, or 2.9%. Continued strength in consumption, as well as a sound economic outlook, contributed to the change. Additionally, rebuilding due to the recent hurricanes provided some strength, particularly in Fiscal Year 2004-05.

- The Aviation Fuel Tax forecast was increased by $24.4 million, or 7.7%. Prior to the hurricanes, this source showed some rebounding from the long weak period following the terrorist attack on the World Trade Center (WTC). Even so, this year’s collection level only approaches that seen in Fiscal Year 1999-00. Collections aren’t expected to return to the pre-WTC level until Fiscal Year 2007-08.

- Similar to the Aviation Fuel Tax forecast, the Rental Car Surcharge is expected to generate $24.5 million, 1.4%, higher than in the old forecast. Collections are not expected to return to the pre-WTC level until Fiscal Year 2010-11.

- The STTF outlook is also improved in the license and registration area. The majority of the increase is coming from Motor Vehicle License revenues, which are forecast to be higher by $47.6 million, or 1.5%. Recent trends toward larger vehicles, as well as strength in collections over the last two years, contribute largely toward the change. Initial Registration Fees and Title Fees were increased by $25.6 million, or 1.6%.

FLORIDA DEBT ANALYSIS

Florida law requires an ongoing analysis of the state's actual debt position. This requirement enables lawmakers to consider the impact of future bond issuances on the state's credit rating during the decision-making process. If the state has too much debt relative to its expected revenues, any additional debt financings become very costly. In this regard, the statutes set up a 6% target, as well as a 7% maximum cap. To exceed the target, the Legislature must determine that the additional debt is in the best interests of the state. To exceed the cap, a declaration of critical state emergency must be made. The discussion below reflects the key points of the 2004 Debt Affordability Report prepared by the Division of Bond Finance.

Debt Outstanding:

Total state debt outstanding on June 30, 2004 was $21.2 billion, $817 million more than at June 30, 2003. Net tax-supported debt totaled $16.9 billion for programs supported by state tax revenues or tax-like revenues. The self-supporting debt totaled $4.3 billion representing debt secured by revenues generated from operating facilities financed with bonds. In addition to the $21.2 billion in state debt, indirect state debt on June 30, 2003 was $6.3 billion. Indirect debt is debt that is not secured by traditional state revenues or debt that is the primary obligation of a legal entity other than the State of Florida, such as the Florida Housing Finance Corporation and Citizens Property Insurance Corporation.

Debt Capacity:

The debt capacity available within the 6% target is $11.9 billion over the next ten years. However, very little of the debt capacity is actually available until 2009.

The debt capacity available within the 7% cap is approximately $18 billion over the next ten years. However, only $5.35 billion is available over the next five years. The Division believes that the debt capacity available within the 7% cap should be preserved and used as a cushion against downturns in the economy.

Estimated Debt Issuance:

Approximately $9.5 billion of debt is expected to be issued over the next ten years for all of the State's financing programs currently authorized. This estimated issuance decreased $1 billion compared to the previous projection of expected debt issuance. The decrease in expected debt issuance is due in large part to using cash in lieu of bonding for environmental programs and class size reduction in Fiscal Year 2004-05. The expected debt issuance does not include any additional bonding to implement the constitutional amendment for class size reduction because the final funding level is unknown at this time.

Estimated Annual Debt Service Requirements:

Annual debt service payments are estimated to grow from the existing $1.5 billion to $2.2 billion by Fiscal Year 2012-13, assuming projected bond issuance of $9.5 billion.

Overview of the State's Credit Ratings:
The State's credit ratings have been maintained and may be enhanced by conservative financial management and the maintenance of reserves. Florida's ratings have remained strong and did not suffer due to the reduction in revenue growth and the weak economic environment experienced during the 2001-2003 economic recession. Additionally, Moody's Investors Service recently announced that they upgraded the State's general obligation bond rating from the previous Aa2 to Aa1, making future borrowing cheaper.

Estimated Revenues:
The current long-run revenue forecast is significantly higher than last year's forecast. The adjusted November 2004 revenue forecasts used in the debt analyses reflect an increase of $2.3 billion or 8.9% more than last year's forecast for Fiscal Year 2004-05 and $2.2 billion or a 7.5% increase for Fiscal Year 2005-06. The higher revenue forecast reflecting a strengthening economy has caused an improvement in the benchmark debt ratio.

Debt Ratios:
The State's benchmark debt ratio of debt service to revenues available to pay debt service has improved over the past year. The benchmark debt ratio dropped from 6.12% for Fiscal Year 2002-03 to 5.94% for Fiscal Year 2003-04. The improvement in the benchmark debt ratio is due to higher than expected revenues during Fiscal Year 2003-04. The benchmark debt ratio is projected to remain reasonably consistent with the 6% target during the foreseeable future, based on expected debt issuance and the current revenue forecast. At this time, the expected debt issuance does not include any additional bonding to provide funding for class size reduction beyond the $600 million authorized in 2003.

A comparison of 2003 ratios shows that Florida's debt ratios are generally higher than the national and Ten State Peer Group averages. Within the Peer Group, Florida has the second highest ratio for the benchmark ratio of debt service to revenues.

2003 Comparison of Florida to Peer Group and National Medians

	Net Tax Supported Debt as a % of Revenues	Net Tax Supported Debt Per Capita	Net Tax Supported Debt as a % of Personal Income
Florida	6.12%	$954	3.21%
Peer Group Mean	4.53%	$1194	3.56%
National Median	Not Available	$701	2.40%

Peer Group: New York, Ohio, Illinois, New Jersey, Pennsylvania, California, Georgia, Michigan, and Texas

Total State Appropriations

Expenditure projections (millions)

Recurring	2004-05	2005-06	2006-07	2007-08
General Revenue	22,573.6	24,720.4	26,452.9	28,254.0
change		2,146.8	1,732.5	1,801.1
% change		9.5%	7.0%	6.8%
Educational Enhancement TF	967.3	869.3	853.9	864.5
change		-98.0	-15.4	10.6
% change		-10.1%	-1.8%	1.2%
Tobacco Settlement TF	411.5	411.5	411.5	411.5
change		0.0	0.0	0.0
% change		0.0%	0.0%	0.0%
Other Trust	19,561.2	21,062.8	22,653.5	24,074.6
change		1,501.6	1,590.7	1,421.1
% change		7.7%	7.6%	6.3%
TOTAL	43,513.6	47,064.0	50,371.8	53,604.6
change		3,550.4	3,307.8	3,232.7
% change		8.2%	7.0%	6.4%

Nonrecurring	2004-05	2005-06	2006-07	2007-08
General Revenue	902.5	468.1	325.8	310.0
change		-434.4	-142.3	-15.8
Educational Enhancement TF	0.0	0.0	0.0	0.0
change		0.0	0.0	0.0
Tobacco Settlement TF	0.0	0.0	0.0	0.0
change		0.0	0.0	0.0
Other Trust	7,589.0	7,353.5	6,240.4	6,081.6
change		-235.5	-1,113.1	-158.8
TOTAL	8,491.5	7,821.6	6,566.2	6,391.6
change		-669.9	-1,255.4	-174.6

TOTAL	2004-05	2005-06	2006-07	2007-08
General Revenue	23,476.1	25,188.5	26,778.7	28,564.0
change		1,712.4	1,590.2	1,785.3
% change		7.3%	6.3%	6.7%
Educational Enhancement TF	967.3	869.3	853.9	864.5
change		-98.0	-15.4	10.6
% change		-10.1%	-1.8%	1.2%
Tobacco Settlement TF	411.5	411.5	411.5	411.5
change		0.0	0.0	0.0
% change		0.0%	0.0%	0.0%
Other Trust	27,150.2	28,416.3	28,894.0	30,156.2
change		1,266.1	477.6	1,262.3
% change		4.7%	1.7%	4.4%
TOTAL	52005.1	54885.6	56938.1	59996.2
change		2880.5	2052.5	3058.1
% change		5.5%	3.7%	5.4%

Health & Human Services

Expenditure projections ($ millions)

Recurring	2004-05	2005-06	2006-07	2007-08
General Revenue	6,197.6	7,077.1	7,665.1	8,378.8
change		879.5	588.0	713.7
% change		14.2%	8.3%	9.3%
Tobacco Settlement TF	411.5	411.5	411.5	411.5
change		0.0	0.0	0.0
% change		0.0%	0.0%	0.0%
Other Trust	14,028.4	15,128.6	16,531.6	17,762.9
change		1,100.2	1,403.0	1,231.3
% change		7.8%	9.3%	7.4%
TOTAL	20,637.5	22,617.2	24,608.2	26,553.2
change		1,979.7	1,991.0	1,945.0
% change		9.6%	8.8%	7.9%

Nonrecurring	2004-05	2005-06	2006-07	2007-08
General Revenue	201.8	167.3	3.3	3.3
change		-34.5	-164.0	0.0
Tobacco Settlement TF	0.0	0.0	0.0	0.0
change		0.0	0.0	0.0
Other Trust	378.5	255.2	0.0	0.0
change		-123.3	-255.2	0.0
TOTAL	580.3	422.5	3.3	3.3
change		-157.8	-419.2	0.0

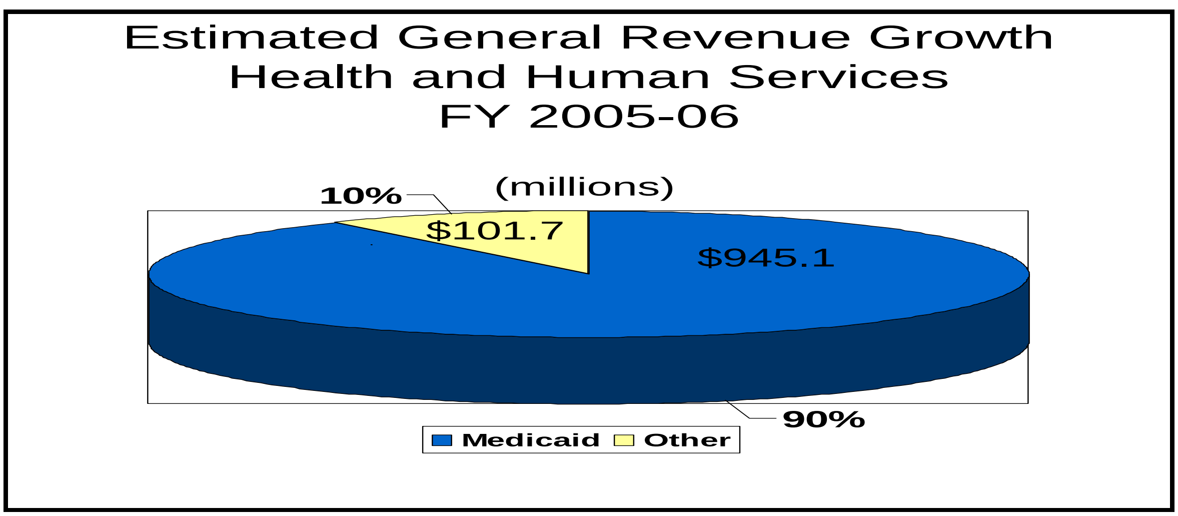
TOTAL	2004-05	2005-06	2006-07	2007-08
General Revenue	6,399.4	7,244.4	7,668.4	8,382.1
change		845.0	424.0	713.7
% change		13.2%	5.9%	9.3%
Tobacco Settlement TF	411.5	411.5	411.5	411.5
change		0.0	0.0	0.0
% change		0.0%	0.0%	0.0%
Other Trust	14,406.9	15,383.8	16,531.6	17,762.9
change		976.9	1,147.8	1,231.3
% change		6.8%	7.5%	7.4%
TOTAL	21,217.8	23,039.7	24,611.5	26,556.5
change		1,821.9	1,571.8	1,945.0
% change		8.6%	6.8%	7.9%

Health and Human Services Budget Projections

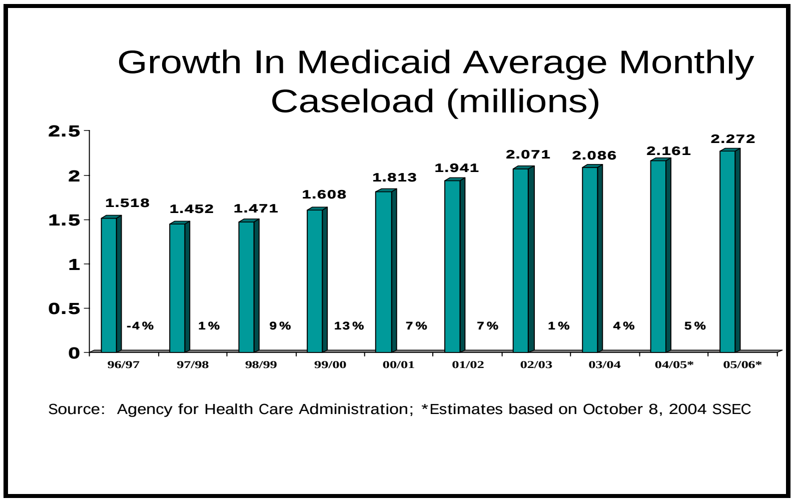
SUMMARY

The budgets under the purview of Health and Human Services Appropriations are comprised of a combination of state general revenue and tobacco funds, federal funds, private grants, and state trust funds. Many health and human services programs are eligible to earn federal matching funds. Maximization of federal funds has been a state priority for many years, however, it is important to note that most federal funding requires state matching funds and therefore, total federal receipts vary based on the availability of state match. Of the $21.2 billion total budget for this committee for Fiscal Year 2004-05, $6.4 billion is funded from state general revenue, $411.5 million is from the Tobacco Settlement Trust Fund, $2.8 billion is from other state trust funds and $11.6 billion is from federal trust funds. Budgetary requirements for the Medicaid Program, the KidCare Program and public assistance programs are determined annually through formal estimating conferences, which project caseloads and program costs.

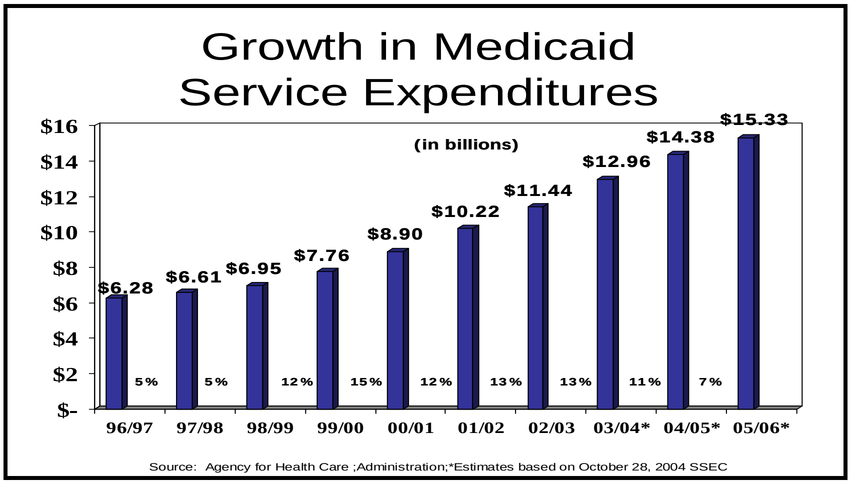
Health and human services general revenue budget requirements above the base are projected to grow by $1,046.8 million in Fiscal Year 2005-06, $591.3 million in Fiscal Year 2006-07 and $717.0 million in Fiscal Year 2007-08. The majority of this increase is directly related to Medicaid workload and price level increases required to continue the current program. The increase required for the Medicaid program is: $945.1 million in Fiscal Year 2005-06 (90% of total increased need) of which $781.1 million is for Fiscal Year 2005-06 and $164 million is to fund a current year deficit in Fiscal Year 2004-05; $477.2 million in Fiscal Year 2006-07 (81% of total increased need); and $575.4 million in Fiscal Year 2007-08 (82% of total increased need).



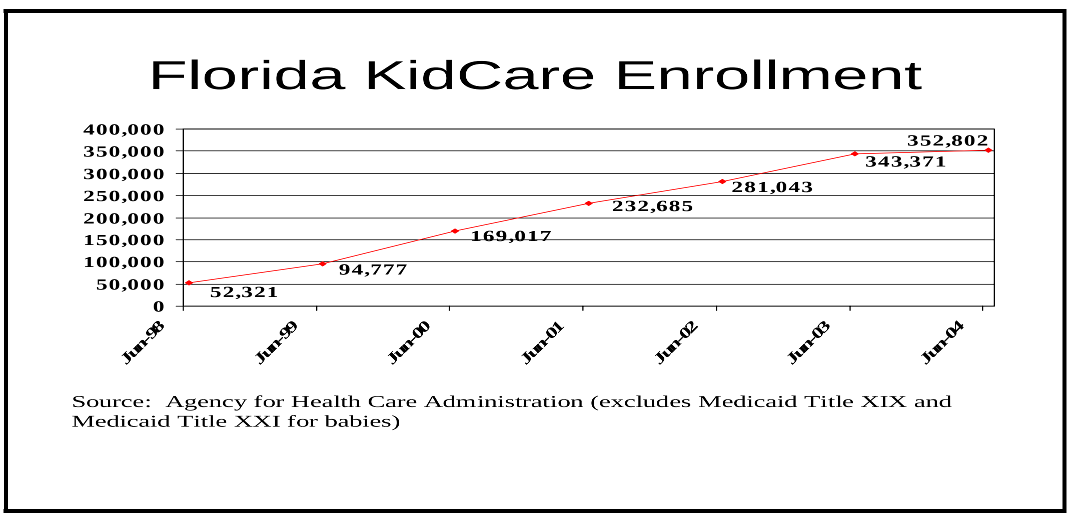
Medicaid - Medicaid is the second largest single program in the state budget behind public education, requiring about 16% of state general revenue funds annually, and is the largest source of federal funding for the state. Since Fiscal Year 1999-00, the number of clients receiving Medicaid services has grown from 1.6 million to an estimated 2.2 million in Fiscal Year 2004-05, a 7% average annual increase. The current enrollment growth can be attributed to an increase in the number of low-income persons newly eligible for Medicaid, especially children and elders, resulting partially from the most recent economic downturn.



Expenditures in the Medicaid program grew at an average annual rate of 13% between Fiscal Year 1999-00 and Fiscal Year 2004-05. The primary factors contributing to expenditure growth are prescription drug costs, increasing costs of medical services, long term care, and enrollment growth. This growth has persisted despite legislative efforts to implement new Medicaid cost control measures. In Fiscal Year 2005-06, the Medicaid program is estimated to spend about $15.3 billion representing a 7% increase over prior year estimated expenditures. These projections do not include costs associated with continuing the Medically Needy program (except for prescribed drugs), the expansion coverage for pregnant women from 150% to 185% of the federal poverty level, or adult dentures.



KidCare - The KidCare program provides health insurance to low-income children and is funded at $531.3 million ($160.1 million in state funds). The Legislature appropriated an additional $131.3 million ($36.9 million general revenue) in Fiscal Year 2004-05 to annualize costs and to fund the 90,000 wait list. The program is estimated to need additional general revenue of $7.4 million in Fiscal Year 2005-06, $14.0 million in Fiscal Year 2006-07, and $14.5 million in Fiscal Year 2007-08. This projected expenditure growth is related to increases in average health insurance premiums. A maximum Title XXI caseload of 389,515 was established at the November 2004 estimating conference in order to remain within federal funding allocations through Federal Fiscal Year 2007. The current Title XXI caseload as of November 2004 is 317,070. Open enrollments may occur to the extent that slots are available up to the maximum caseload.



Other Public Assistance - The Department of Children and Family Services is projected to need an additional $82.0 million in Fiscal Year 2005-06, $88.8 million in Fiscal Year 2006-07, and $100.7 million in Fiscal Year 2007-08 to fund child welfare, mental health and substance abuse programs. The Department of Health is projected to need an additional $3 million related to AIDS insurance and drug assistance programs, as well as the pharmacy assistance program because of projected caseload increases. The

Department of Elder Affairs is projected to need an additional $5 million for the aged/adult home and community-based waiver and $3.3 million for local services programs due to increased enrollment in these programs. The Department of Veteran's Affairs is projected to need $1 million in Fiscal Year 2005-06 to comply with increased nursing home staffing ratios.

ASSUMPTIONS AND DISCUSSION

Projected health and human services budget requirements from general revenue and other state and federal trust funds have been developed for the 2005-06, 2006-07, and 2007-08 fiscal years by adjusting the Fiscal Year 2004-05 funding levels based on workload assumptions and other factors. Issues funded from non-recurring funds in Fiscal Year 2004-05 have not been continued unless specifically added back as new issues. The projections and major policy assumptions are described below:

Medicaid Workload/Price Level - The estimated costs for caseload growth, utilization, inflation, and the consumer price index for medical services were projected based on historical trends and methodologies used by the October 28, 2004 Medicaid Social Services Estimating Conference. The Federal Medical Assistance Percentage (FMAP) is 58.90% for Fiscal Year 2004-05 and 58.89% for Fiscal Year 2005-06, and is assumed to be 58.89% in Fiscal Year 2006-07 and Fiscal Year 2007-08.

Medicare Prescription Drug Program – This estimate includes the impact related to the Medicare/Medicaid dually eligibles receiving prescription drug benefits under the recently enacted Medicare Part D program effective January 1, 2006. The following assumptions were made at the October 28, 2004 Social Services Estimating Conference: the state would pay $258 million for the first six months of implementation; no prescriptions covered by Part D would be paid by Medicaid for all full-dual eligibles; non-covered Part D drugs will be denied by Medicaid for all full-dual eligibles; the Silver Saver program will be discontinued as of December 31, 2005; and dual eligibles in the Medically Needy program will receive benefits through Medicare Part D.

Medically Needy Program – The estimated costs assume a **prescribed drug program only** for medically needy eligibles effective July 1, 2005 in accordance with Chapter 2004-344, Laws of Florida. Non-recurring funds in the amount of $292.8 million ($120.2 million general revenue) were provided in Fiscal Year 2004-05 to fund the non-pharmacy services. The cost to continue the non-pharmacy services in Fiscal Year 2005-06 would be $366.5 million ($154.1 million general revenue) based on the October 28, 2004 Social Services Estimating Conference.

Pregnant Women 150% to 185% of FPL – The estimated costs assume **no funding** for pregnant women from 150% to 185% of the federal poverty level (FPL) effective July 1, 2005 in accordance with Chapter 2004-344, Laws of Florida. Non-recurring funds in the amount of $51.2 million ($20.8 million general revenue) were used to fund this program in Fiscal Year 2004-05. The cost to continue this program in Fiscal Year 2005-06 would be $57.4 million ($23.2 million general revenue) based on the October 28, 2004 Social Services Estimating Conference.

Adult Denture Program - The estimated costs assume **no funding** for the Medicaid Adult Denture program effective July 1, 2005 in accordance with Chapter 2004-344, L.O.F. Non-recurring funds in the amount of $9.5 million ($3.8 million general revenue) were restored in Fiscal Year 2004-05 for six months from January 1, 2005 through June 30, 2005. The cost to continue this program in Fiscal Year 2005-06 would be $19.4 million ($7.9 million general revenue) based on the October 28, 2004 Social Services Estimating Conference.

Nursing Home Staffing Ratio – The estimated costs assume a **nursing home staffing level of 2.9 hours of direct care per resident** per day effective July 1, 2005. Chapter 2004-344, L.O.F., delayed the effective date of the increase from 2.6 to 2.9 hours from May 1, 2005 to July 1, 2005. The amount of $64.6 million ($26.5 million general revenue) is included in the Medicaid workload estimate based on the October 28, 2004 Social Services Estimating Conference.

KidCare Program – The estimated costs are based on the November 10, 2004 KidCare estimating conference. Estimated expenditures assume the Fiscal Year 2004-05 health insurance premium costs inflated by a price level increase. Administrative costs are based on current caseload and inflated by a price level increase. The estimates assume the current mix of eligibility groups remains constant over all years and there is **no caseload growth**. Caseload has not been increased in order to preserve the federal funds through federal fiscal year 2007 (the year Congress must reauthorize the program). Open enrollments may occur to the extent that slots are available up to the maximum cap resulting from natural attrition and closures due to noncompliance with renewal requirements.

Public Health Needs – The number of HIV/AIDS patients in Florida continues to rise each year and the demand for treatment services is increasing. These projections are minimal amounts to provide assurance that services will be available and that federal matching requirements will be met.

Department of Children and Families Programs – Projected costs assume an increase to achieve equity to community-based care providers for child protection. Projected costs assume caseload growth rates are based on historical trends for mental health and substance abuse programs.

Agency for Persons With Disabilities – The number of persons requesting developmental services for the first time in Florida continues to rise each year. The demand for additional services from those currently receiving services is also rising. These projections reflect the minimal amount necessary to prevent the waitlist for services from increasing and is based on historical trends.

Department of Elder Affairs – The number of elders needing home and community-based services continues to rise each year. This is a cost effective alternative to nursing home care. These projections provide the minimal amounts necessary to allow for program expansion of $12.2 million ($5 million general revenue) in the Aged and Disabled Adult home and community-based Medicaid waiver.

Department of Veterans' Affairs – Projected cost increases in the department are minimal. Costs have been increased due to the nursing home staffing ratio change to 2.9 hours of direct care per resident per day effective July 1, 2005.

Education

Expenditure projections ($ millions)

Recurring	2004-05	2005-06	2006-07	2007-08
General Revenue	12,108.1	12,982.1	13,730.8	14,402.4
change		874.0	748.7	671.6
% change		7.2%	5.8%	4.9%
Educational Enhancement TF	967.3	869.3	853.9	864.5
change		-98.0	-15.4	10.6
% change		-10.1%	-1.8%	1.2%
Other Trust	90.9	84.7	75.7	77.6
change		-6.2	-9.0	1.9
% change		-6.8%	-10.6%	2.5%
TOTAL	13,166.3	13,936.1	14,660.4	15,344.5
change		769.8	724.3	684.1
% change		5.8%	5.2%	4.7%
Nonrecurring	2004-05	2005-06	2006-07	2007-08
General Revenue	0.0	0.0	0.0	0.0
change		0.0	0.0	0.0
Educational Enhancement TF	0.0	0.0	0.0	0.0
change		0.0	0.0	0.0
Other Trust	0.0	0.0	0.0	0.0
change		0.0	0.0	0.0
TOTAL	0.0	0.0	0.0	0.0
change		0.0	0.0	0.0
TOTAL	2004-05	2005-06	2006-07	2007-08
General Revenue	12,108.1	12,982.1	13,730.8	14,402.4
change		874.0	748.7	671.6
% change		7.2%	5.8%	4.9%
Educational Enhancement TF	967.3	869.3	853.9	864.5
change		-98.0	-15.4	10.6
% change		-10.1%	-1.8%	1.2%
Other Trust	90.9	84.7	75.7	77.6
change		-6.2	-9.0	1.9
% change		-6.8%	-10.6%	2.5%
TOTAL	13,166.3	13,936.1	14,660.4	15,344.5
change		769.8	724.3	684.1
% change		5.8%	5.2%	4.7%

EDUCATION - 3 YEAR PROJECTIONS

Updated January 2005 - PSEC Conf [December 10] / Ad Valorem Conf October 2004 / Principal State School TF November 2004 / Lottery Long-Run October 2004 / Bright Futures Conf November 04 with EDR model projections / Tuition Policy 7.5% U / 6.0% CC

Summary of Annual Appropriations - FY 04/05 thru FY 07/08

	FY	*GR*	*LOTTERY*	*OTHER TRUST FUNDS*	*SUBTOTAL: STATE FUNDING*	*STUDENT FEES/LOCAL FUNDS*	*Total*
1	**2004/05**						
	Public Schools	8,918,529,724	437,136,968	90,900,000	9,446,566,692	6,268,097,451	15,714,664,143
	Community Colleges	919,300,000	98,900,000		1,018,200,000	458,012,034	1,476,212,034
	Universities	1,945,250,000	129,771,266		2,075,021,266	780,403,788	2,855,425,054
	Education -Other	325,065,399	301,451,153	0	626,516,552		626,516,552
	Total - DOE	12,108,145,123	967,259,387	90,900,000	13,166,304,510	7,506,513,273	20,672,817,783
2	**2005/06**						
	Public Schools	9,389,394,723	320,140,000	84,700,000	9,794,234,723	6,921,321,648	16,715,556,371
	Community Colleges	911,744,063	117,680,000		1,029,424,063	498,050,671	1,527,474,734
	Universities	1,932,921,106	117,680,000		2,050,601,106	870,535,146	2,921,136,252
	Education -Other	748,080,784	313,800,000	0	1,061,880,784		1,061,880,784
	Total - DOE	12,982,140,676	869,300,000	84,700,000	13,936,140,676	8,289,907,465	22,226,048,141
3	**2006/07**						
	Public Schools	10,016,843,354	282,290,000	75,700,000	10,374,833,354	7,412,979,651	17,787,813,005
	Community Colleges	957,286,163	109,550,000		1,066,836,163	540,900,247	1,607,736,410
	Universities	2,000,826,322	109,550,000		2,110,376,322	965,307,154	3,075,683,476
	Education -Other	755,813,925	352,500,000	0	1,108,313,925		1,108,313,925
	Total - DOE	13,730,769,764	853,890,000	75,700,000	14,660,359,764	8,919,187,052	23,579,546,816
4	**2007/08**						
	Public Schools	10,600,328,362	265,340,000	77,600,000	10,943,268,362	7,963,701,033	18,906,969,395
	Community Colleges	984,084,413	105,930,000		1,090,014,413	578,974,531	1,668,988,944
	Universities	2,054,996,379	105,930,000		2,160,926,379	1,071,930,819	3,232,857,198
	Education -Other	763,032,730	387,300,000	0	1,150,332,730		1,150,332,730
	Total - DOE	14,402,441,884	864,500,000	77,600,000	15,344,541,884	9,614,606,383	24,959,148,267

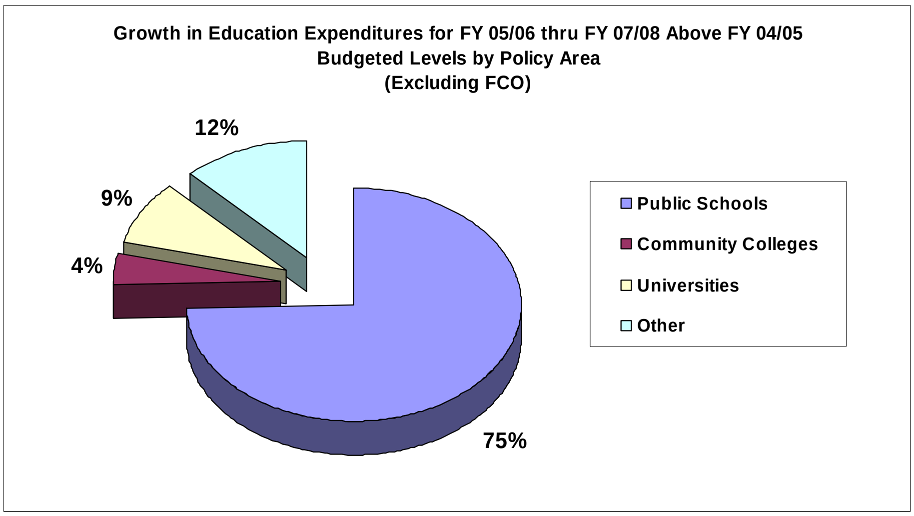
Major Assumptions:

- Bright Futures was increased pursuant to the estimate based on the November 04 Financial Aid Estimating Conference. Tuition increases for the 3 forecast years were estimated at 7.5% for Universites and 6.0% for Community Colleges.
- No FRAG increase was provided, keeping the program level.
- Lottery proceeds, after Bright Futures, were distributed on a 70/15/15 basis to public schools/cc's/universities. Lottery funds to EETF are based on the October 2004 Long-run Lottery forecast.
- No funds specifically provided for employee pay adjustments, and increased Health insurance costs. FRS contribution increases were reflected in public schools and community colleges.
- Community college and adult education enrollment projections were developed by EDR, based on demographics. University enrollments were based on the 5 Year Enrollment Plan.
- Not reflected in the above totals is Debt Service for Lottery-backed bonds used for school construction for Classrooms First ($169,000,000) and Class Size Reduction ($60,000,000). Sufficient projected Lottery revenues have been held back in these projections to fully fund these Debt Service requirements.
- In Public Schools, Class Size Reduction funds are increased each year to meet the constitutional mandate.
- In Public Schools, long-run forecast from EDR, based on the December 10, 2004 Public Schools Enrollment Estimating Conference, was used, together with the October 2004 Ad Valorem Estimating Conference forecast.
- Funding is provided for Voluntary Pre-K in these projections.
- Fixed Capital Outlay is not included in these projections.

Education Budget Projections

Summary

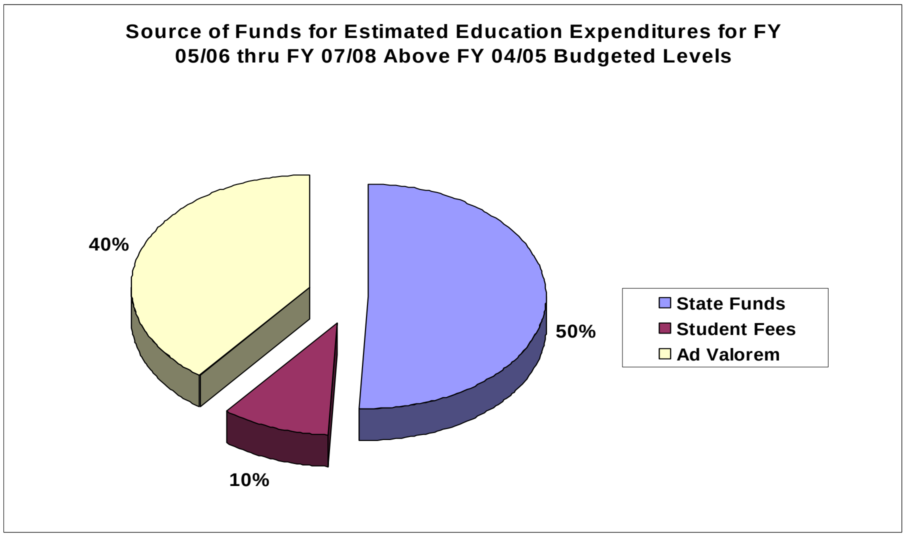
Recurring expenditures from all funds above the current (Fiscal Year 2004-05) level for education, exclusive of fixed capital outlay, are projected to increase by $4.3 billion, or 21%, by Fiscal Year 2007-08. Seventy five percent of this amount will be for costs associated with public schools, nine percent for state universities, four percent for community colleges, and twelve percent for other education which includes $415 million for voluntary pre-kindergarten.



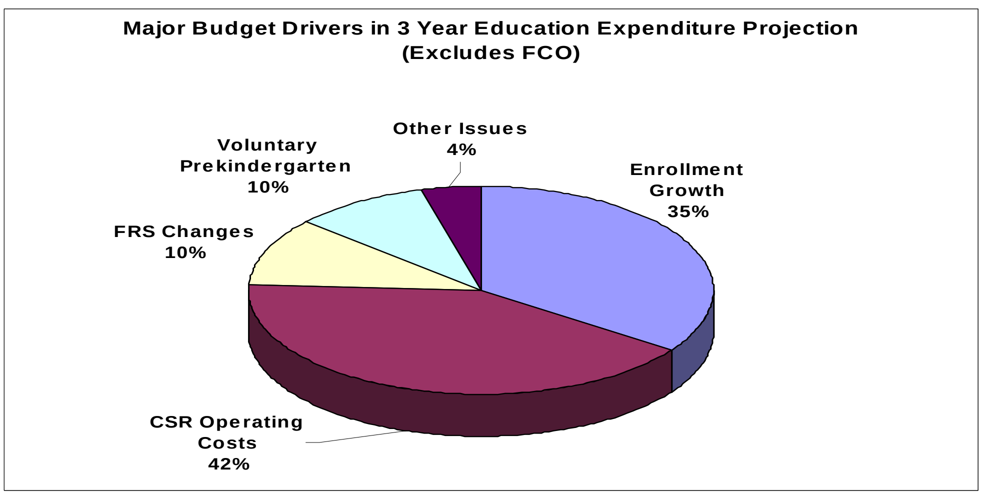
Assumptions and Discussion

Projected education budget requirements from the General Revenue Fund, Lottery funds, the Principal State School Trust Fund, postsecondary student fees, and ad valorem revenues for public school operations have been developed for the 2005-06, 2006-07, and 2007-08 fiscal years by making adjustments to Fiscal Year 2004-05 education funding levels based on workload assumptions and other factors. Items designated as non-recurring in Fiscal Year 2004-05 have not been continued in the projections unless specifically added back as new issues (these are identified in the detail work papers developed for this document). The projections assume available trust funds will be fully utilized before budgeting additional general revenue funds. The projections and major policy assumptions are described below.

Assuming that the legislatively authorized millage rates remain unchanged throughout the 3 year forecast period, recurring ad valorem revenues are expected to increase by $1.7 billion, or 27%, by Fiscal Year 2007-08 to support public school costs based on projected growth in the ad valorem tax roll. Assumed annual tuition increases of 6 percent for community colleges and 7.5 percent for state universities will produce an estimated increase in recurring fee revenues of $412 million by Fiscal Year 2007-08. The balance of the projected growth in recurring expenditures over the three year forecast period is projected to come from state funds.

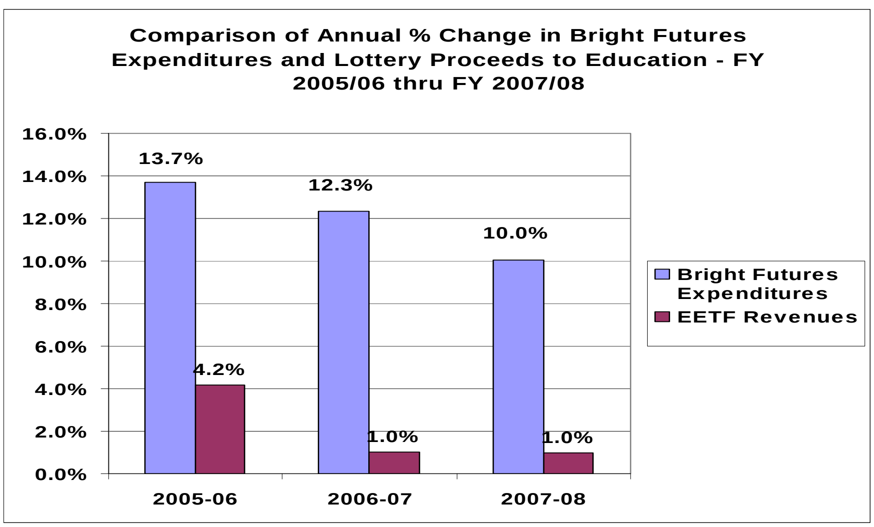


The growth in projected expenditures over the three year period is primarily attributable to four issues: increased student enrollment in public schools (167,810 students), community colleges (18,798 students), and state universities (27,896 students); continued phase-in of constitutionally mandated class size reduction requirements in public schools; increased requirements for employer contribution rates to the Florida Retirement System; and phase-in of the constitutionally mandated Voluntary Prekindergarten Program.



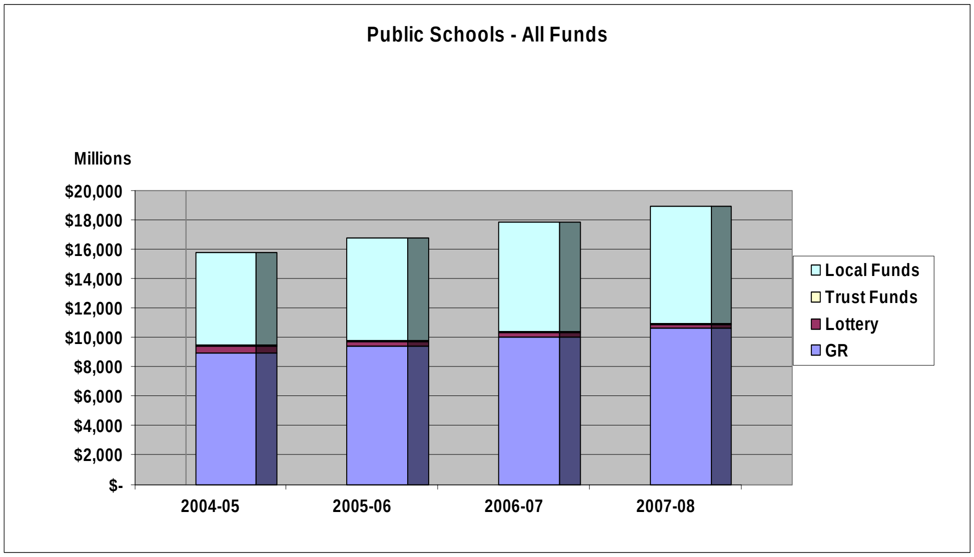
Additional recurring general revenue of $1.72 billion by Fiscal Year 2007-08 is provided to reduce the statewide average public school class size by two students annually until the constitutionally mandated maximum class size allowances are achieved (the deadline for full compliance is Fiscal Year 2010-11). This is 75% of the total general revenue increase forecast for all education budgets for this 3-year projection. General revenue funds are also included in the forecast to replace Lottery funds which must be pulled from existing K-20 operating budgets to fund Bright Futures Scholarships. The replacement is necessary because Lottery proceeds available for education are not projected to increase during the forecast period sufficiently to address the growing cost of the Bright Futures program.

Lottery Revenues – Estimated total Lottery revenues available to support education for the forecast period are based on the Consensus Revenue Estimating Conference projections of October 2004. First, sufficient Lottery revenues were budgeted to fund Bright Futures Scholarship payments based on the number of eligible recipients projected by the November 2004 Financial Aid Estimating Conference and **annual tuition increases of 6% for community colleges and 7.5% for state universities**. These tuition increases are in line with past legislative actions, are within the actuarial assumptions for the Florida Prepaid Tuition Program, and will maintain Florida's tuition rates at levels below national and regional averages. After covering these requirements, remaining Lottery revenues were allocated to public schools (70%), community colleges (15%), and state universities (15%). Due to the increasing costs of the Bright Futures Program over the projected time period, future Lottery funds available to public schools, community colleges and state universities are expected to decline from current levels. The cost of the Bright Futures Program is projected to increase based on the growing number of eligible students and rising tuition rates. For the purpose of these projections, general revenue funds have been used to replace the projected decline in Lottery appropriations to public schools, community colleges, and state universities.

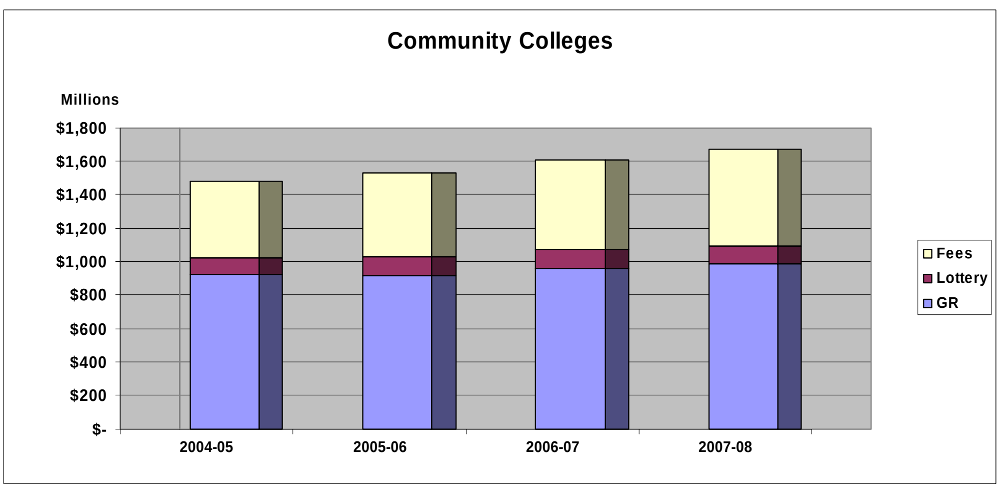


Public School Operating Costs – Ad valorem revenues projected to be available to support public schools were forecasted by applying the **current required local effort (RLE) millage rate** to the projected tax roll for each of the forecast years. The tax rolls for 2005 through 2007 were projected by the Revenue Estimating Conference of October 2004. The education budget projections fully fund projected student enrollment growth and class size reduction phase-in requirements based on the December 2004 Public School Enrollment Estimating Conference. In addition, funds are included in the budget projections to continue a number of recurring programs which were funded from non-recurring revenues in Fiscal Year 2004-05 (such as the Governor's Reading Initiative and

Public School Mentoring programs). The forecast also includes funding for the projected increase in the required employer contribution rate to the Florida Retirement System. (A discussion of the Florida Retirement System issue is provided in the State Employee Salaries and Benefits section of this document.)

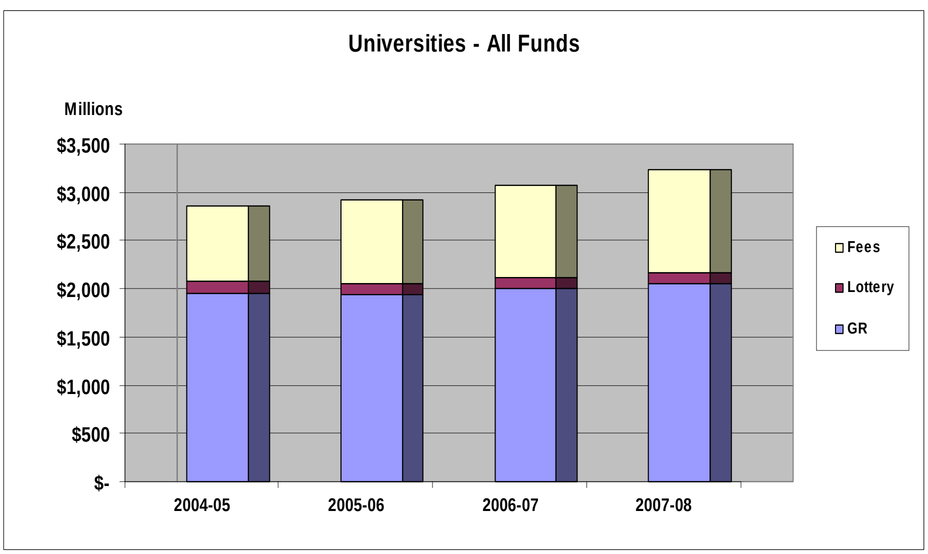


Community Colleges – Funds were provided to fund enrollment projections based on the Office of Economic and Demographic Research's demographic forecast. **The projection contemplates a 6.0% annual increase in student tuition.** Tuition associated with new students is used to fund costs associated with enrollment growth. Amounts are also provided for the phase-in of new physical space (approximately $3.5 million annually), phase-in of baccalaureate programs, and funding for the projected increase in the required employer contribution rate to the Florida Retirement System. The amount of $24 million is provided annually to match private donations through the challenge grant program, based on estimates provided by the Department of Education. Items identified as non-recurring in the Fiscal Year 2004-05 budget were not continued. No funding is specifically provided for salary increases, increased employee health insurance requirements, or other community college enhancements.



Other Education – Funding was provided for Bright Futures growth incorporating tuition increases of 6.0% for Community Colleges and 7.5% for Universities. No FRAG increase was projected, keeping the program level with the Fiscal Year 2004-05 appropriation. The lottery within need-based financial aid (primarily non-recurring) was replaced with general revenue, keeping the program level with the Fiscal Year 2004-05 appropriation. The DOE Assessment and Evaluation category was kept level with the Fiscal Year 2004-05 appropriation.

State Universities – Funds were provided to fund the first three years of the updated 5 Year Enrollment Plan for State Universities adopted by the Board of Governors (BOG). The funding for this enrollment growth is based on the marginal cost enrollment funding model which has been used by the Legislature for the past 4 years. This model is more conservative than the new funding model which has been proposed by the BOG. **The projection contemplates a 7.5% annual increase in student tuition.** Tuition associated with new students is used to reduce the general revenue costs associated with funding enrollment growth. Tuition associated with current enrollment levels is not earmarked for any specific issue. New funding is provided to continue the phase-in of the FAMU law school, the FSU medical school, and new university construction. The amount of $30 million is provided annually to match private donations through the challenge grant program (this is less than one third of the level of funding provided for the Major Gifts program in Fiscal Year 2004-05). Items identified as non-recurring in the Fiscal Year 2004-05 budget were not continued. No funding is specifically provided for salary increases, increased employee health insurance requirements, increased costs for FRS contributions (see State Employee Salaries and Benefits), or other university enhancements.



Fixed Capital Outlay – FCO funding for the projection includes only the $229 million in Lottery funding currently authorized for the Classrooms First and Classrooms for Kids programs. There is no additional FCO funding provided for class size reduction in this forecast, because it is unclear whether the Legislature will choose to fund the construction of new classrooms or require districts to use existing facilities more efficiently to meet the constitutionally mandated class size levels. In addition, the projection includes no provision to mitigate the impact of declining Public Education Capital Outlay and Debt Service Trust Fund revenues available to support education capital outlay requirements.

Universal Pre-Kindergarten for Four Year Olds – Article IX, Section 1 of the State Constitution requires that "…every four-year old child in Florida shall be provided by the State a high quality pre-kindergarten learning opportunity in the form of an early childhood development and education program which shall be voluntary, high quality, free, and delivered according to professionally accepted standards…". The constitution requires that the program be implemented no later than the beginning of the 2005 school year.

During a Special Session in December, 2004, the Legislature passed implementing legislation for this new program, which the Governor signed into law on January 2, 2005 (Chapter 2004-484, Laws of Florida). These budget projections contemplate that 70% of all four-year olds will participate in this new program annually. The average annual funding is established at a rate of $2,464 per participant, and an additional 5% per participant is included for administrative costs of the Early Learning Coalitions. Based on these assumptions, $400 million from general revenue is included in this projection for Fiscal Year 2005-06. Due to the projected increase in the number of four-year olds, this amount increases to $415 million in Fiscal Year 2007-08.

Judiciary and Article V Implementation

Expenditure projections ($ millions)

Recurring	2004-05	2005-06	2006-07	2007-08
General Revenue	960.5	985.7	1,002.2	1,019.5
change		25.2	16.5	17.3
% change		2.6%	1.7%	1.7%
Other Trust	75.8	76.9	77.4	77.8
change		1.1	0.5	0.4
% change		1.5%	0.7%	0.5%
TOTAL	1,036.3	1,062.6	1,079.6	1,097.3
change		26.3	17.0	17.7
% change		2.5%	1.6%	1.6%

Nonrecurring	2004-05	2005-06	2006-07	2007-08
General Revenue	0.0	0.0	0.0	0.0
change		0.0	0.0	0.0
Other Trust	0.0	0.0	0.0	0.0
change		0.0	0.0	0.0
TOTAL	0.0	0.0	0.0	0.0
change		0.0	0.0	0.0

TOTAL	2004-05	2005-06	2006-07	2007-08
General Revenue	960.5	985.7	1,002.2	1,019.5
change		25.2	16.5	17.3
% change		2.6%	1.7%	1.7%
Other Trust	75.8	76.9	77.4	77.8
change		1.1	0.5	0.4
% change		1.5%	0.7%	0.5%
TOTAL	1,036.3	1,062.6	1,079.6	1,097.3
change		26.3	17.0	17.7
% change		2.5%	1.6%	1.6%

Article V Implementation and Judiciary Budget Projections

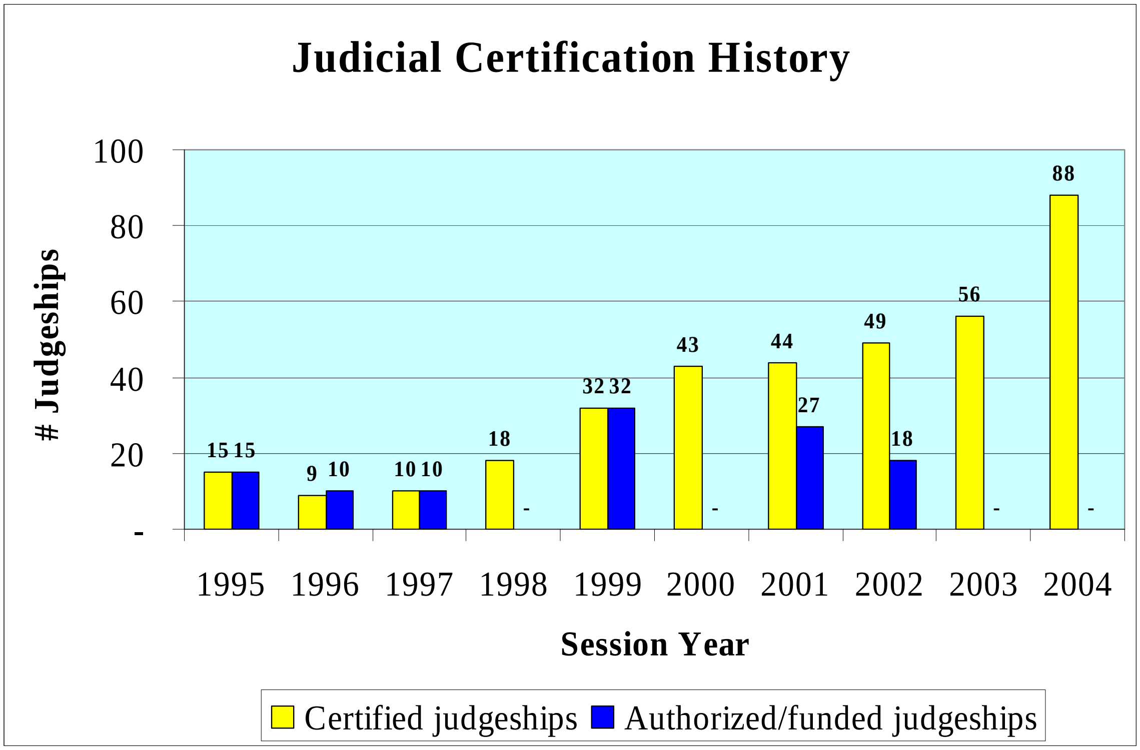
SUMMARY

The funding history shown in the tables that follow demonstrate two points relating to judicial branch funding. First, the increases in funding from one year to the next have historically been very unsteady and variable, making projections of funding increases in the short term more speculative than many other budgets. Since it is difficult to project the next three years increases with any degree of precision, the estimates shown in this document reflect relatively modest and similar growth in each of the three years. Second, the 32 percent increase in Fiscal Year 2004-05 demonstrates the magnitude of impact of implementing Revision 7 to Article V of the Florida Constitution. Since this is the first year for Revision 7 funding, the next three years growth is shown as small, steady increases but is in fact indeterminate until sufficient current year expenditure data becomes available for analysis.

ASSUMPTIONS AND DISCUSSION

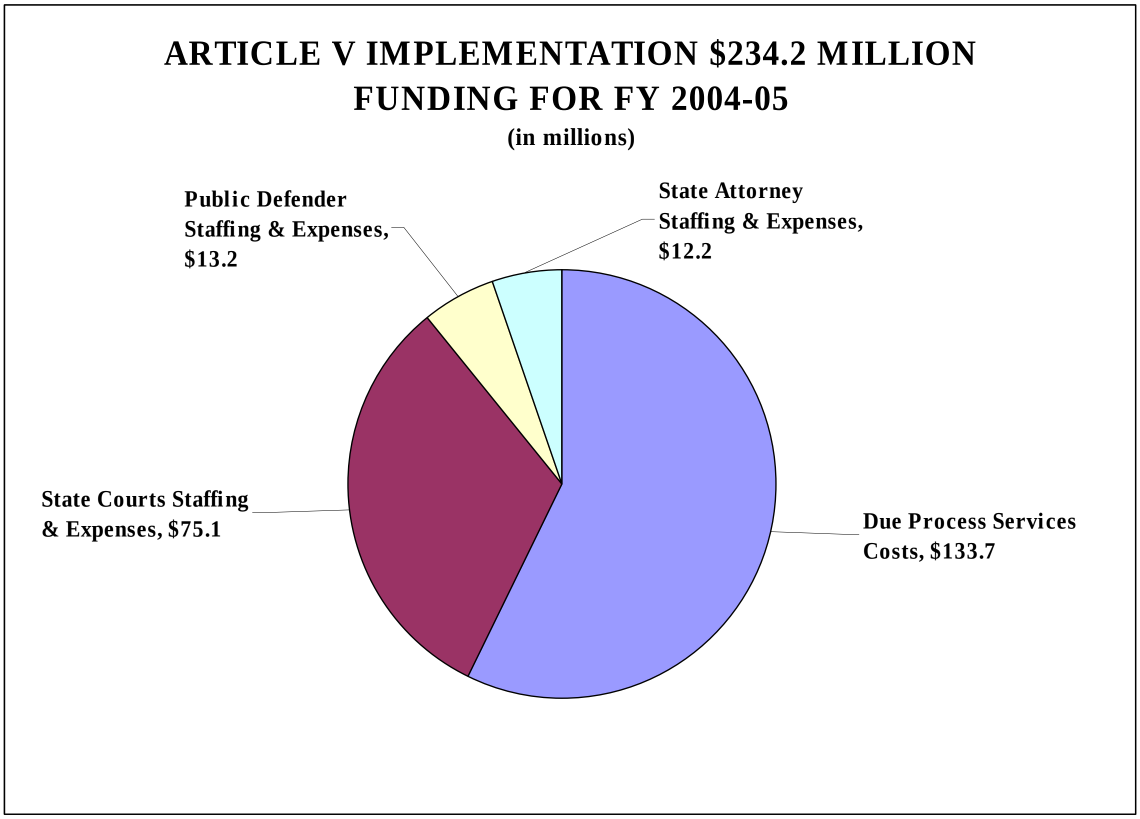
General - The projected budget requirements for the judicial branch shown in this document are based largely on projected changes in the Consumer Price Index and reflect increases related to workload growth but not general salary increases. (Most of the judicial branch budget is comprised of state employee salaries (78 percent), and projections of future salary funding are reflected in the State Employee Salaries and Benefits section of this document.) This method has been chosen in lieu of estimating funding increases based on projected workload indices because historical appropriations have not been correlated with the various workload measures and formulas proposed by the courts, state attorneys and public defenders. In addition, a review of the annual rates of increase for the judicial branch show great variability from year to year, ranging from a 9.7 percent increase from Fiscal Year 1998-99 to Fiscal Year 1999-00 to a mere 0.5 percent increase from Fiscal Year 2000-01 to Fiscal Year 2001-02.

New Judgeships - Estimates of additional judgeship costs are based on judicial certification projections developed by the Office of the State Courts Administrator, adjusted to reflect the historical average percent of the certification actually funded by the Legislature. Although the law requires the Florida Supreme Court to employ specific models and follow certain procedures in recommending the need for new judgeships, the Legislature historically has authorized and funded only a portion of the court's certification of new judges needed. Since there has been significant variation from year to year in the percentage of the judicial certification actually funded, the additional judgeships that may be funded over the next three years could be significantly different from the estimates shown. During the past ten years, new judgeships were certified/requested in each year, but funded in part only in six of the past ten legislative sessions.



State Attorneys and Public Defenders - Workload growth for State Attorneys and Public Defenders is based on the historical average annual growth in recent years, but FTE's are not increased because increased salary funding for existing staff has been requested to improve retention of employees. This has been one of the highest priorities in recent years for the state attorneys and public defenders. In any case, while the FTE's may or may not increase each year, the projected total funds shown are likely to be the same whether pay equity or workload issues are funded. Actual funding in the projected years could vary significantly from what is shown in this document depending on both political pressures and budgetary constraints. Workload funding for State Attorneys and Public Defenders is typically minimal in tight budget years and will sometimes "catch up" when state revenues are more plentiful. In addition, workload funding for state attorneys and public defenders is often tied to whether or not new judgeships are funded, since every new judgeship requires more staffing by state attorneys and public defenders as more courtroom sessions are held.

Article V - The Fiscal Year 2004-05 budget is the first year of funding for Revision 7 to Article V (shown as a separate category in this document). The total $234.2 million authorized for Fiscal Year 2004-05 was based on the best available prior year expenditure data reported by counties for court-related activities, and on projected caseload increases for due process services costs. However, these appropriations were made with the expectation that, due to the limitations of the data used, the actual funding requirements for the first year could vary significantly from the appropriated amounts. (In fact, special authorization to tap into the Working Capital Fund to meet shortfalls during the first year was provided in the law. See Section 72 of Chapter 2004-269, Laws of Florida.) Hence, the actual funding decisions for Article V related issues to be made in the next three years could also be significantly different from the projections shown.   The Article V funding in the budget is spread across all judicial branch entities in the General Appropriations Act (courts, state attorneys, public defenders, Justice Administrative Commission, etc.) but is shown as a unique section in this document so that the impact of Article V implementation can be understood apart from the funding history of each entity.



ARTICLE V IMPLEMENTATION FUNDING FOR FY 2004-05

Due Process Services Costs	
State Courts - Court Reporting, Expert Witnesses, Interpreters	$39,204,633
State Attorneys - Court Reporting, Expert Witnesses, Interpreters	$11,204,072
Public Defenders - Criminal Conflict Counsel and Expenses	$37,436,867
Public Defenders - Court Reporting, Expert Witnesses, Interpreters	$18,500,000
Child Dependency Court Appointed Counsel and Expenses	$23,271,856

Justice Administrative Commission Staffing for Due Process Services Invoice Processing	$3,087,525
Contingency Fund for Due Process Services Costs	$1,000,000
Subtotal	*$133,704,953*

State Courts Staffing & Expenses	
Trial Court Administration Staffing	$18,569,847
Masters and Hearing Officers Staffing	$17,240,944
Case Management Staffing	$11,254,402
Mediation and Arbitration Costs	$9,860,981
Judge and Judicial Assistant Expenses	$9,553,784
Child Support Hearing Officers	$3,624,376
Contingency Fund	$3,412,200
Office of the State Courts Administrator Staffing	$1,570,943
Subtotal	*$75,087,477*

Public Defender Staffing & Expenses	
Workload Funding for Excessive Caseload Conflict Cases	$5,722,488
Witness Management Coordination & Operations Expenses	$7,436,028
Subtotal	*$13,158,516*

State Attorney Staffing & Expenses	
Witness Management Coordination & Operations Expenses	$12,197,203

Other Costs	
Article V Indigent Services Advisory Board Expenses	$10,000

TOTAL ARTICLE V IMPLEMENTATION FUNDING $234,158,149

Criminal Justice

Expenditure projections ($ millions)

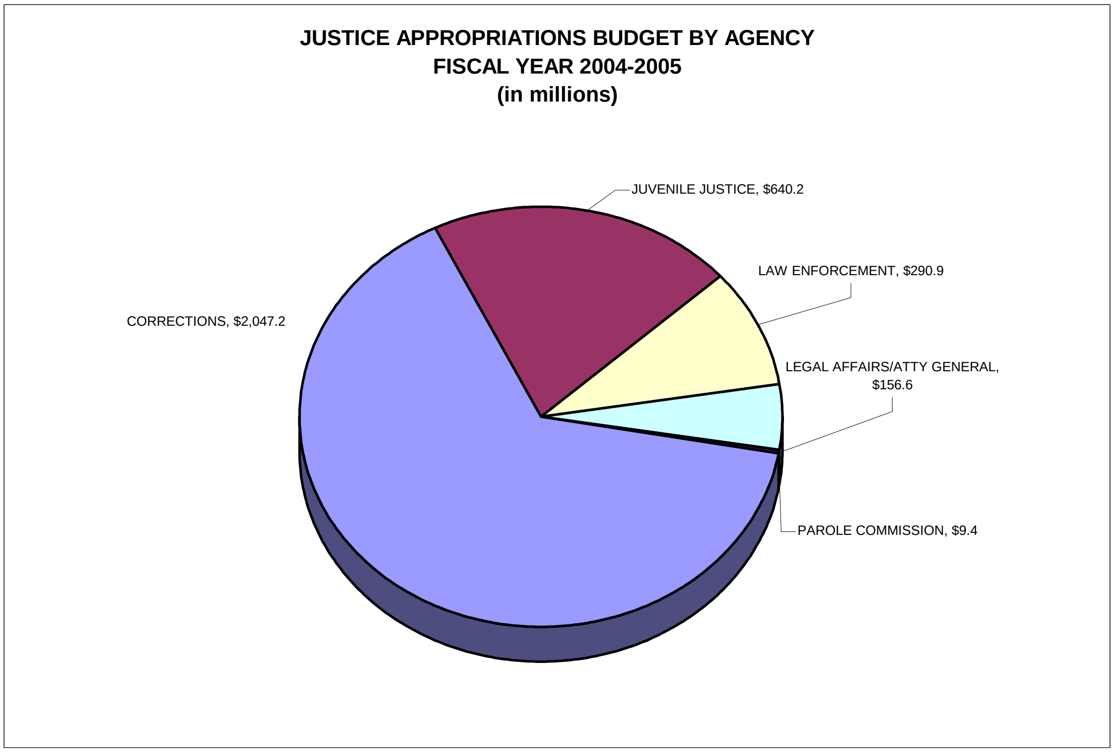
Recurring	2004-05	2005-06	2006-07	2007-08
General Revenue	2,455.0	2,582.1	2,680.7	2,785.5
change		127.1	98.5	104.9
% change		5.2%	3.8%	3.9%
Other Trust	524.7	560.3	584.4	609.7
change		35.6	24.1	25.3
% change		6.8%	4.3%	4.3%
TOTAL	2,979.7	3,142.4	3,265.1	3,395.2
change		162.7	122.6	130.1
% change		5.5%	3.9%	4.0%
Nonrecurring				
General Revenue	107.0	47.9	72.9	72.9
change		-59.1	25.0	0.0
Other Trust	12.1	0.0	0.0	0.0
change		-12.1	0.0	0.0
TOTAL	119.1	47.9	72.9	72.9
change		-71.2	25.0	0.0
TOTAL				
General Revenue	2,562.0	2,630.0	2,753.6	2,858.4
change		68.0	123.5	104.9
% change		2.7%	4.7%	3.8%
Other Trust	536.8	560.3	584.4	609.7
change		23.5	24.1	25.3
% change		4.4%	4.3%	4.3%
TOTAL	3,098.8	3,190.3	3,338.0	3,468.1
change		91.5	147.6	130.1
% change		3.0%	4.6%	3.9%

Fixed capital outlay projections assume the completion of projects already authorized and any new construction that would be required to maintain sufficient bedspace to prevent early release.

Justice Budget Projections

SUMMARY

The Justice Committee has jurisdiction over the Department of Corrections, the Department of Legal Affairs, the Department of Law Enforcement, the Department of Juvenile Justice, the Parole Commission, and now the State Courts System. The total budget for these agencies (excluding the State Courts System) is approximately $3.1 billion dollars. The following chart displays the total appropriations for each agency for Fiscal Year 2004-05.



ASSUMPTIONS AND DISCUSSION

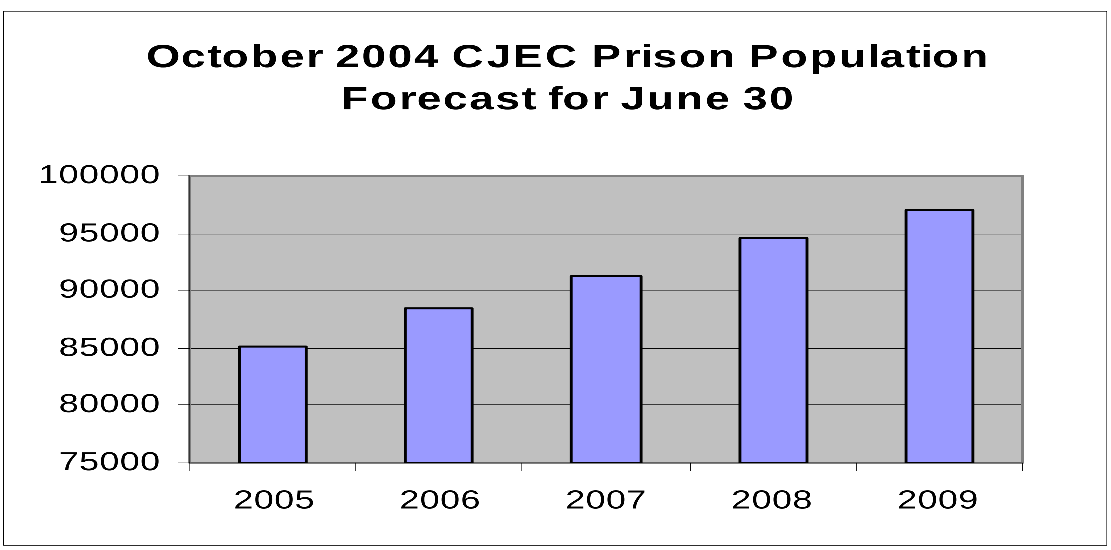
General - Projected criminal justice budget requirements from general revenue for public safety operations have been developed for Fiscal Years 2005-06, 2006-07, and 2007-08 by making adjustments to Fiscal Year 2004-05 criminal justice funding levels. Workload assumptions and other factors were considered in the projections. Items designated as non-recurring in Fiscal Year 2004-05 have not been continued in the projections unless specifically added back as new issues, which will be identified in the Committee on Justice Appropriations budget spreadsheet. The projected four percent increase in recurring expenditures in each of the next three fiscal years in criminal justice programs is based on the need to fund increased operational costs in the Department of Corrections

(DOC). The increase is associated with the construction of new prison beds around the state to accommodate the projected increase in prison population. DOC will need additional budget to staff and operate new prisons. The projections and major policy assumptions are described below.

Corrections – Funds were provided for institutional operational increases based on the Criminal Justice Estimating Conference (CJEC) projected prison population increase over the next three years. The Community Corrections Programs forecast was increased each year by the projected Consumer Price Index (CPI), because this 3 year forecast does not anticipate any major policy changes. The CPI was used because it provides for a small cost-of-living inflationary increase each year.

Juvenile Justice – Funds provided for the Department of Juvenile Justice (DJJ) assume that the appropriations for the Juvenile Detention Program, Probation / Community Control Programs, and Residential Corrections will increase in each of the forecasted years by 50% of the CPI. These programs were only increased by 50% of the CPI, because the forecast only projected a small increase over the next three years. It also assumes that the appropriations for Prevention / Victim Services will increase at a rate equal to the CPI increase. The Prevention / Victim Services in DJJ are considered front-end services that are used to divert juveniles from deep-end services. There has been a push over the past several years, both inside and outside of DJJ, to increase these services, in order to reduce the need for more costly deep-end services in the future. The funds include $1 million based on previous funding levels, for each of the forecasted fiscal years for general facility repairs and maintenance.

Fixed Capital Outlay (FCO) – The three year FCO funding projections for the Department of Corrections would include funding for four new prisons, debt service payments, and repair and maintenance of existing facilities.



FCO funding projection for Fiscal Year 2005-06 includes $25 million to fund 50% of a 1,373-bed prison (Prison **A**) that will come on line Fiscal Year 2006-07. It includes $2 million in planning funds for a 1,373-bed prison (Prison **B**) that will come on line in Fiscal Year 2007-08. It also includes $14 million for debt service, and $3 million for general repairs and maintenance.

FCO funding projection for Fiscal Year 2006-07 includes $25 million for the remaining 50% of the funding for Prison **A** started the previous year; $25 million funding for 50% of Prison **B**; and $2 million in planning funds for Prison **C** that will come on line in Fiscal Year 2008-09. In addition, it includes $14 million for debt service, and $3 million for general repairs and maintenance.

FCO funding projection for Fiscal Year 2007-08 includes $25 million for the remaining 50% of funding for Prison **B** started the previous year; $25 million to fund 50% of Prison **C**; and $2 million in planning funds for Prison **D** that will come on line in Fiscal Year 2009-10. In addition, it includes $14 million for debt service, and $3 million for general repairs and maintenance.

General Government

Expenditure projections ($ millions)

Recurring	2004-05	2005-06	2006-07	2007-08
General Revenue	434.0	447.5	485.4	522.7
change		13.5	37.9	37.3
% change		3.1%	8.5%	7.7%
Other Trust	2,488.9	2,535.8	2,542.5	2,544.2
change		46.9	6.7	1.7
% change		1.9%	0.3%	0.1%
TOTAL	2,922.9	2,983.3	3,027.9	3,066.9
change		60.4	44.6	39.0
% change		2.1%	1.5%	1.3%

Nonrecurring	2004-05	2005-06	2006-07	2007-08
General Revenue	406.1	114.6	111.3	95.5
change		-291.5	-3.3	-15.8
Other Trust	1,141.8	1,498.4	1,400.0	1,388.1
change		356.7	-98.4	-11.9
TOTAL	1,547.9	1,613.0	1,511.3	1,483.6
change		65.1	-101.8	-27.7

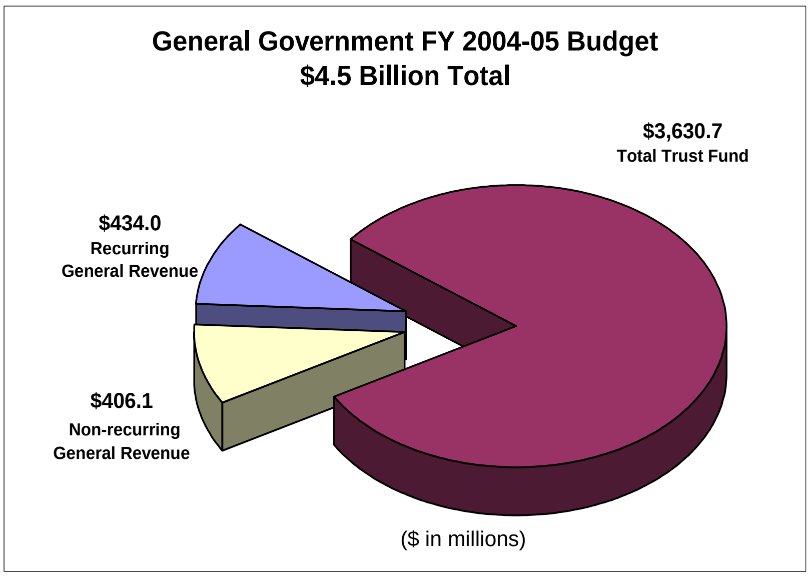
TOTAL	2004-05	2005-06	2006-07	2007-08
General Revenue	840.1	562.1	596.7	618.2
change		-278.0	34.6	21.5
% change		-33.1%	6.2%	3.6%
Other Trust	3,630.7	4,034.2	3,942.5	3,932.3
change		403.5	-91.7	-10.2
% change		11.1%	-2.3%	-0.3%
TOTAL	4,470.8	4,596.3	4,539.2	4,550.5
change		125.5	-57.1	11.3
% change		2.8%	-1.2%	0.2%

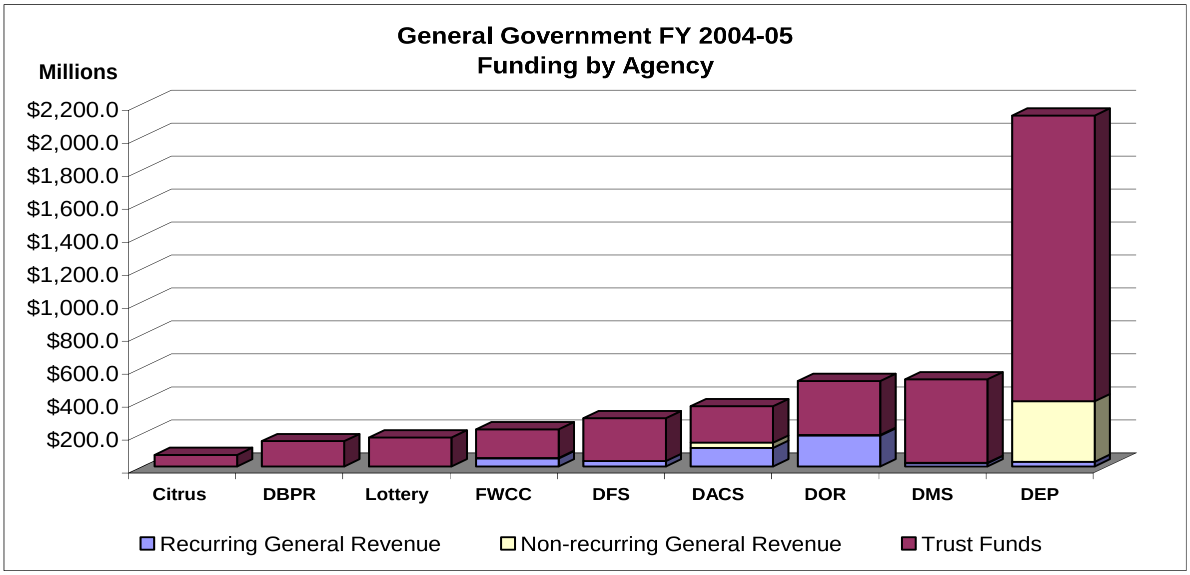
Nonrecurring Trust includes purchases of environmentally sensitive lands funded from the sale of bonds.

GENERAL GOVERNMENT BUDGET PROJECTIONS

SUMMARY

The agency budgets under the purview of the Committee on General Government Appropriations rely heavily on state trust fund dollars. For Fiscal Year 2004-05, of the $4.5 billion total budget, over 81 percent or $3.6 billion is funded from trust fund revenues and only 19 percent or $840.1 million is from general revenue funds. The financial outlook budget projections fully utilize available trust fund balances before estimating the need for additional general revenue.





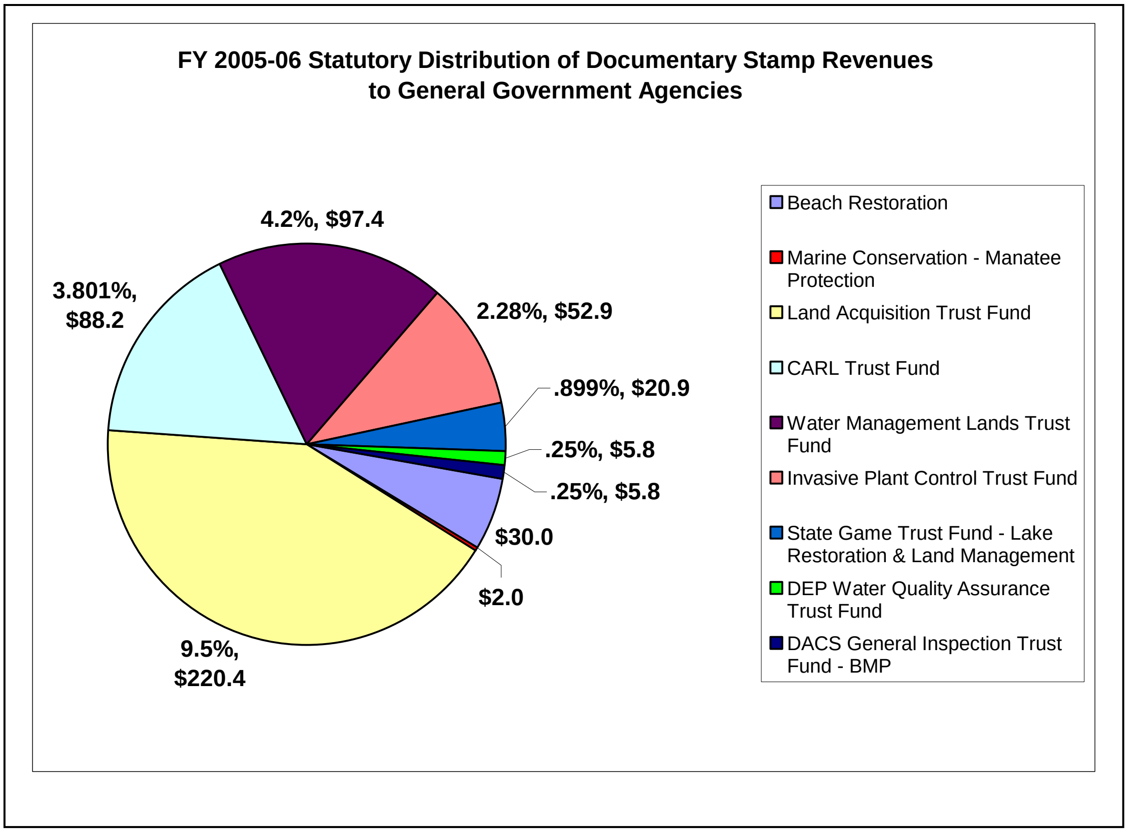
ASSUMPTIONS AND DISCUSSION

A number of general government programs such as the Florida Recreational Development Assistance Program (FRDAP) and water projects are grant and aid to local governments and are funded with non-recurring sources. The costs for programs including FRDAP, Solid Waste Management Grants to Counties, state parks maintenance, water projects, and replacement of law enforcement and forestry equipment are based on historical five-year funding averages. The most recent financial data from agencies was used for estimating costs of unique issues which include Citrus Canker Eradication and the Mulberry/Piney Point Phosphate Cleanup. Land Reclamation costs are projected at the historical level of funding prior to the Piney Point Cleanup.

Federal funds were maximized with state general revenue as match for the Drinking and Wastewater Revolving Loan programs, Citrus Canker Eradication and the Citrus Tree Replacement programs.

The major policy assumptions are described below:

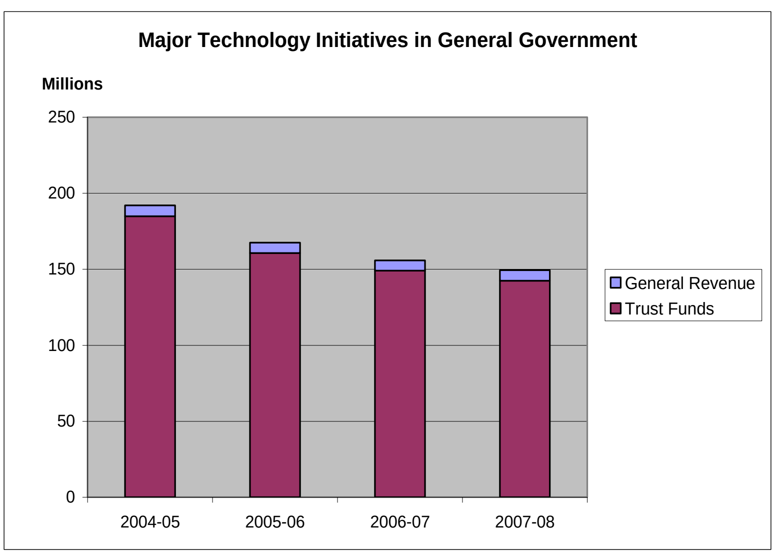
Documentary Stamp Tax Revenues - Estimated documentary stamp tax revenues are based on the November 2004 Consensus Revenue Estimating Conference projections. Over the past few years, the various methodologies for appropriating program budgets supported by documentary stamp revenue have included using five year averages, current year level of funding, and the statutory distribution. Generally during this period, any balances of documentary stamp revenues remaining after funding the programs were transferred to general revenue. In contrast to the 2004-05 appropriations, the financial outlook is based on the current statutory distribution of this revenue to all programs supported by documentary stamp revenue, which include the Conservation and Recreation Lands (CARL), Ecosystems Management and Restoration and Water Quality Assurance, Land Acquisition, Water Management Lands, and Invasive Plant Control trust funds in the Department of Environmental Protection; the Marine Resources Conservation and State Game trust funds in the Fish and Wildlife Conservation Commission; and the General Inspection Trust Fund in the Department of Agriculture and Consumer Services. These revenues provide resources for land management and acquisition, beach restoration, manatee protection and environmental protection efforts, including non-point source pollution prevention in our state's water bodies. The revenues also provide resources for state park operations and maintenance, exotic and aquatic plant control, and lake restoration efforts.



Debt Service - The financial outlook assumes annual bond authorizations of $300 million each for Fiscal Year 2005-06 through Fiscal Year 2007-08 for the Florida Forever land acquisition program. The Florida Forever program authorizes bond issues in an amount not to exceed $3 billion over a 10-year period. In addition, the financial outlook assumes annual bond authorizations of $100 million each for Fiscal Year 2005-06 through Fiscal Year 2007-08 in order to implement the Comprehensive Everglades Restoration Plan. The financial outlook assumes additional debt obligations for Florida Forever and Everglades for Fiscal Year 2005-06 through Fiscal Year 2007-08 are funded from documentary stamp tax revenues allocated to general revenue.

The financial outlook assumes debt service to continue the ASPIRE project to replace the state's accounting system is funded from the Insurance Regulatory Trust Fund.

Technology - Several major technology projects are continued in the financial outlook for General Government. These initiatives include the LicenseEase system at the Department of Business and Professional Regulation; Child Support Automated Management System (CAMS) and SUNTAX projects at the Department of Revenue; the ASPIRE project at the Department of Financial Services; Data Center Outsourcing and the Statewide Law Enforcement Radio System (SLERS) in the State Technology Office; Human Resources Outsourcing and MyFloridaMarketPlace projects at the Department of Management Services; and Integrated Management System (IMS) at the Department of Environmental Protection. The projected costs for several of these projects including LicenseEase, CAMS, SUNTAX, and ASPIRE are based on the project's feasibility study and annual updates submitted to the Technology Review Workgroup. Trust fund resources are maximized for these initiatives before projecting general revenue needs.



<u>Major Initiatives</u>

- LicenseEase
- CAMS
- SUNTAX
- ASPIRE
- Data Center Outsourcing
- SLERS
- Human Resources Outsourcing
- MyFloridaMarketPlace
- IMS

Citrus Canker Eradication – The Department of Agriculture and Consumer Services' Citrus Canker Eradication Program covers eradication efforts for an estimated 832,000 acres of commercial and residential citrus trees in residential areas. The state receives dollar for dollar federal matching funds for eradication efforts based on the amount of state funds appropriated. The department receives 0.65 percent of state sales tax proceeds on motor fuels which averages $9 million annually and is deposited into the Agricultural Emergency Eradication Trust Fund. In addition, the Legislature has provided general revenue funds for the program. The federal funds range as a percentage to as high as 54% because in some years these include matching funds appropriated for tree compensation. Eradication funds are used for statewide surveying, tree removal, and continued inspections of quarantined areas, enforcement of regulations in decontaminating equipment, and personnel in an effort to prevent and eradicate the further spread of the disease.

From fiscal year 1996-97 through 2003-04, the state has appropriated $152.8 million state funds and $226.9 million federal funds for the eradication program. During this period, there have been slow downs in cutting trees due to lawsuits and, as a result, over $60 million in funds have reverted. It appears the court cases have been resolved and the agency does not anticipate any future lawsuits relating to eradication.

The financial outlook assumes the state will need to remove an additional 225,800 exposed trees over the next three fiscal years. The costs include removal of trees, surveying, inspection, and administration. The cost per tree for Fiscal Year 2005-06 is $153 based on the current contract. The estimated cost per tree for Fiscal Year 2006-07 and 2007-08 is estimated to be $175 and may vary based on contract negotiations.

Citrus Canker Compensation - This program was established to replace the lost tree canopy due to the eradication of citrus trees. Historically, the state has provided eligible homeowners with a $100 voucher through the federal Shade Florida program for the first tree cut and $55 from general revenue for each additional tree as compensation for their loss. There is a case pending (since January 2003) relating to compensation in the Florida Supreme Court. In this case, a property owner is seeking "Fair Market Value" payment for exposed trees that were removed from the owner's property.

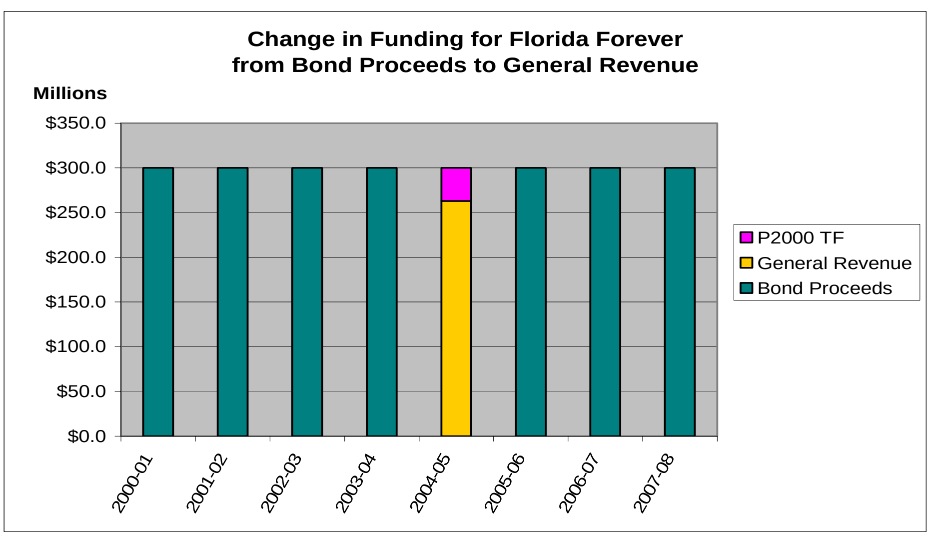
The financial outlook assumes using the $100 federal Shade Florida voucher for the first tree and $55 compensation from state general revenue for each additional tree for the estimated 225,800 trees remaining to be removed over the next 3 years.

Agriculture Interdiction Station Ramp & Building Renovations– A number of ramps at the 22 interdiction stations for commercial truck traffic pose a threat to the motoring public and free flow of traffic. The agency has developed a five year plan for restructuring the interstate ramps. The financial outlook assumes the agency's renovation schedule and estimated costs based on targeting the highest levels of traffic on the major highways and correcting three of the most hazardous ramps over the next three years. The Department of Transportation estimates the cost on a per mile basis to be $1.6 million per ramp.

Workers' Compensation Joint Underwriting Association Deficit – House Bill 1251, Chapter 2004-266, L.O.F., revised the plan structure of the Workers' Compensation Joint Underwriting Plan (plan) from subplans to tiers. This bill also provided a direct appropriation of $10 million from the Workers' Compensation Administration Trust Fund for transfer to the plan as a capital contribution to fund any deficit in the plan. This direct appropriation was vetoed. Additionally, the bill directed the establishment of a $15 million contingency reserve in the Worker's Compensation Administration Trust Fund for deficits existing in the former structure's subplan "D" prior to July 1, 2004. Release of contingency reserve funds is contingent upon approval by the Legislative Budget Commission. The actuarial report produced August 11, 2004, projects a $3.4 million cash deficit in subplan "D" for Fiscal Year 2004-2005. Additionally, the JUA has requested a $2.5 million contingency reserve to settle claims in lieu of litigation. The financial outlook assumes release of $5.9 million for Fiscal Year 2004-05 and a total of $18.2 million being released through Fiscal Year 2007-08.

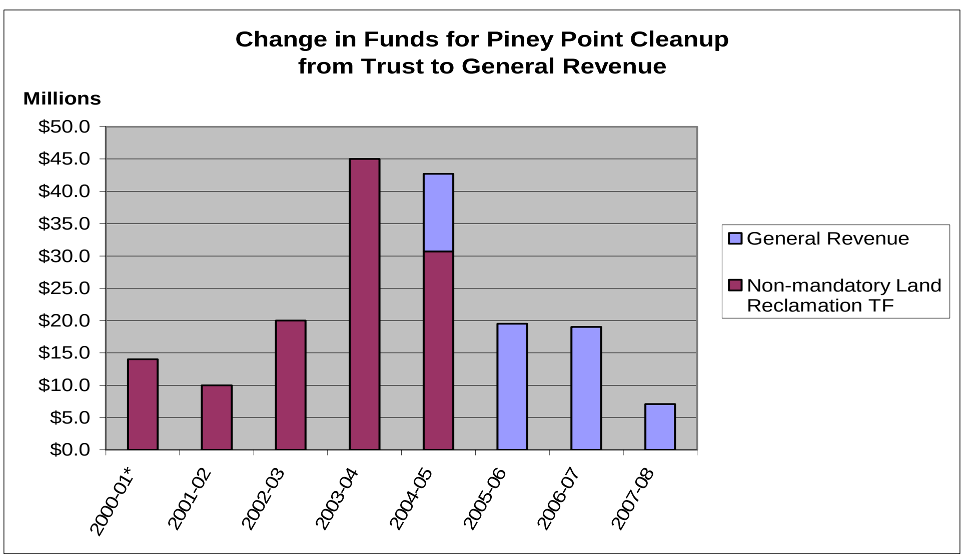
ANNUAL HIGHLIGHTS

FISCAL YEAR 2005-06 - The major change in general revenue for Fiscal Year 2005-06 is an overall decrease of 33.1% or $278 million from Fiscal Year 2004-05. This decrease is due to the change in funding for the Florida Forever land acquisition program. Historically, bonds have been authorized for the Florida Forever program. In Fiscal Year 2004-05, the General Appropriations Act provided non-recurring general revenue and funds from a P2000 trust fund balance to fund the program in lieu of issuing additional debt. The financial outlook for Fiscal Year 2005-06 through Fiscal Year 2007-08 assumes the authorization of debt for the Florida Forever and Everglades Restoration programs. The 3.1% or $13.5 million increase in recurring general revenue is attributed to these bond authorizations.



The total trust fund increase of 11.1% or $403.5 million is driven by the 5-year funding averages for state parks and agriculture building maintenance, funding the Florida Forever and Everglades Restoration programs from bond proceeds, and providing the statutory percentage of the documentary stamp tax revenue funding for the Water Management Districts, lake restoration, non-point source pollution prevention and the development of best management practices in the Department of Agriculture. A $20 million increase is provided for the Petroleum Underground Storage Tank program based on revenue estimates for the Inland Protection Trust Fund. The $46.9 million increase in recurring trust is related to land management funding from the CARL Trust Fund and the Invasive Plant Control Trust Fund based on the statutory percentage of the documentary stamp tax revenue.

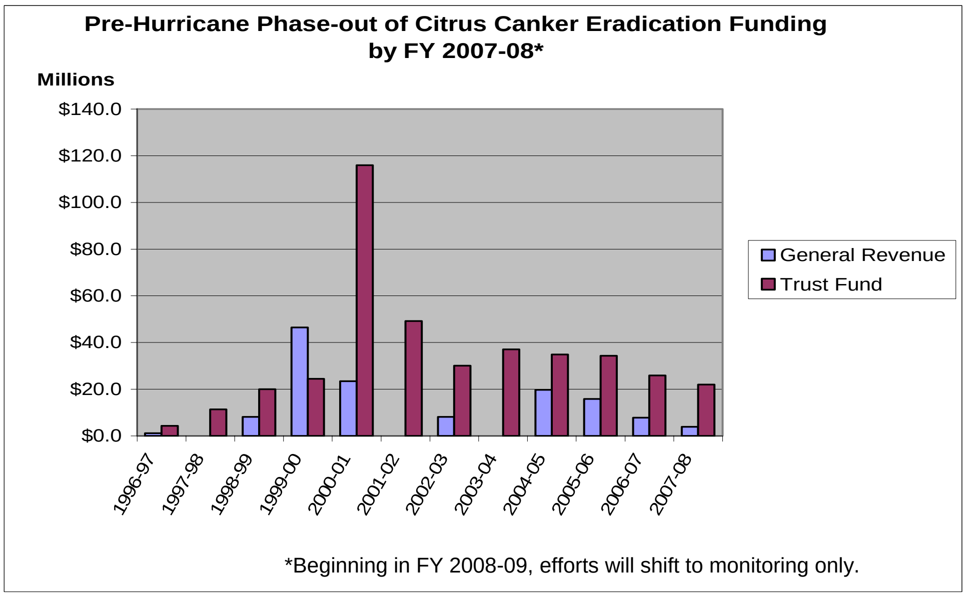
FISCAL YEAR 2006-07 - For the 2006-07 Fiscal Year, the increase in total general revenue of 6.2% or $34.6 million includes authorization of bonds for the Florida Forever and Everglades Restoration programs and the annualization of the prior year's bonds, and $19 million to continue the cleanup of the Piney Point hazardous waste site. Over the three years, a total of $45.6 million from general revenue is included in the financial outlook for this cleanup. Historically, resources available in the Non-mandatory Land Reclamation Trust Fund have been appropriated for the cleanup of this site. With on-going land reclamation, cash in the trust fund to support on-going cleanup will not be available.



The total trust fund decrease of 2.3% or $91.7 million relates to a decrease in the Citrus Canker Eradication program based on the estimated remaining number of trees exposed to canker and the phase-out of the program, and adjustments to programs funded from documentary stamp taxes. Revenue estimates from this source decline from the Fiscal Year 2006-07 funding level. In addition, trust fund revenues are no longer available to support the phosphate mined land reclamation program. The financial outlook provides $10 million general revenue for this program for Fiscal Year 2006-07 and for Fiscal Year

2007-08 which is based on the historical level of funding prior to the Piney Point Cleanup.

FISCAL YEAR 2007-08 – For the 2007-08 Fiscal Year, the increase in recurring general revenue of 7.7% or $37.3 million reflects the authorization of bonds for the Florida Forever and Everglades Restoration programs and the annualization of the prior year's bonds. Decreases in non-recurring general revenue and trust are attributed to the phase-out of the citrus canker eradication program, a decrease in the level of funding needed for the Mulberry/Piney Point Cleanup, and a decrease in the Workers' Compensation JUA deficit.



Transportation and Economic Development

Expenditure projections ($ millions)

Recurring	2004-05	2005-06	2006-07	2007-08
General Revenue	418.4	420.0	420.0	420.0
change		1.6	0.0	0.0
% change		0.4%	0.0%	0.0%
Other Trust	2,352.5	2,580.2	2,641.6	2,692.3
change		227.7	61.4	50.7
% change		9.7%	2.4%	1.9%
TOTAL	2,770.9	3,000.3	3,061.7	3,112.4
change		229.4	61.4	50.7
% change		8.3%	2.0%	1.7%

Nonrecurring	2004-05	2005-06	2006-07	2007-08
General Revenue	187.6	138.3	138.3	138.3
change		-49.3	0.0	0.0
Other Trust	6,056.7	5,599.9	4,840.5	4,693.6
change		-456.8	-759.4	-146.9
TOTAL	6,244.3	5,738.2	4,978.8	4,831.9
change		-506.1	-759.4	-146.9

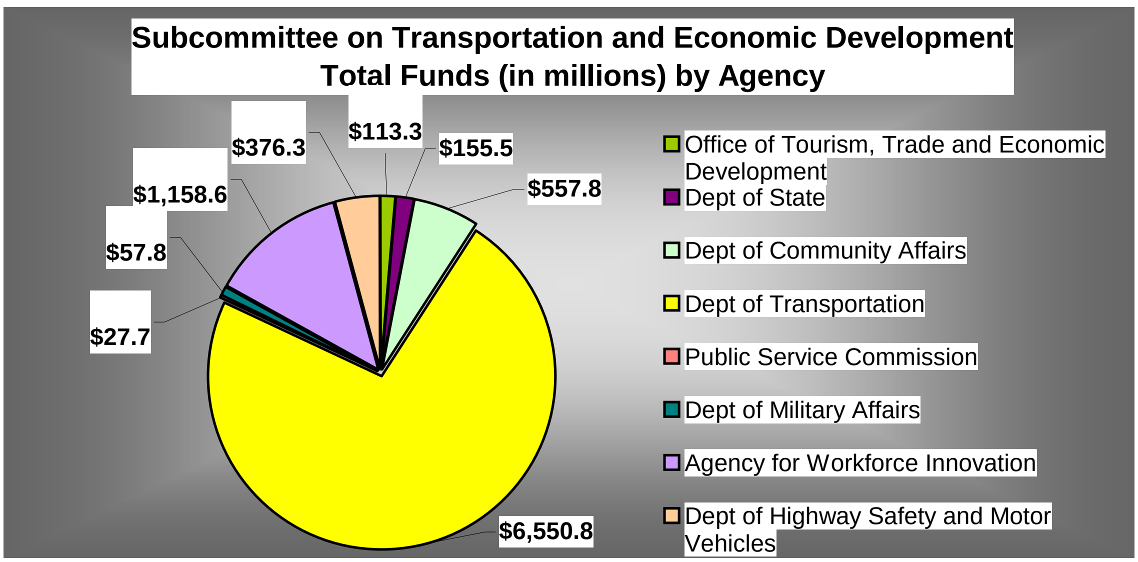
TOTAL	2004-05	2005-06	2006-07	2007-08
General Revenue	606.0	558.3	558.3	558.3
change		-47.6	0.0	0.0
% change		-7.9%	0.0%	0.0%
Other Trust	8,409.2	8,180.1	7,482.1	7,385.9
change		-229.1	-698.0	-96.2
% change		-2.7%	-8.5%	-1.3%
TOTAL	9,015.2	8,738.5	8,040.4	7,944.2
change		-276.7	-698.0	-96.2
% change		-3.1%	-8.0%	-1.2%

Nonrecurring Trust includes appropriations of transportation projects funded from the sale of bonds.

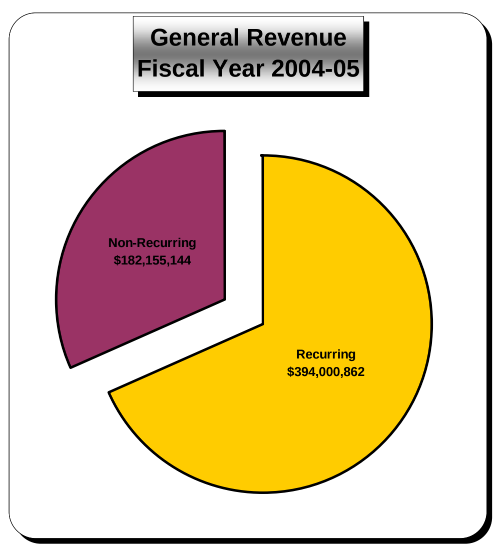
Transportation & Economic Development Budget Projections

SUMMARY

The Committee on Transportation & Economic Development Appropriations has jurisdiction over the Agency for Workforce Innovation, the Governor's Office of Tourism, Trade and Economic Development, the Department of State, the Department of Community Affairs, the Department of Highway Safety & Motor Vehicles, the Department of Transportation, the Department of Military Affairs and the Public Service Commission. The total budget for these eight entities is approximately $9 billion dollars, the majority of which is supported by various state and federal trust funds. The following chart displays the total appropriations for each agency for Fiscal Year 2004-05.



The TED agencies were appropriated $576 million in general revenue funds for the current fiscal year. Of this amount, $394 million is recurring, which represents less than 2 percent of the state's total recurring general revenue budget. As a result, the only significant increases to recurring general revenue funding are currently provided through statewide issues such as pay package, health insurance and retirement contribution increases. Any other increases have typically been offset by budget reductions in other areas of the TED budget. Therefore, this financial outlook includes no increases in recurring general revenue.



ASSUMPTIONS AND DISCUSSION

General – Calculations are based on the following assumptions:

1) Funds for implementation of Pre-K were added to the Agency for Workforce Innovation in Fiscal Year 2004-05 for administrative costs only, as appropriated in Special Session 2004 A. Program fund estimates for Fiscal Year 2005-06 are included in the Department of Education's budget

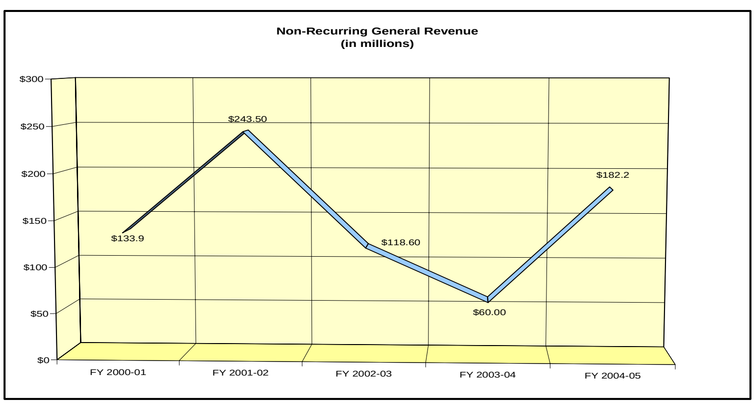
2) The five year average of state match requirements for Federal Disasters does not include the 2004 hurricanes.

3) The Outlook assumes that the full statutory distribution of the documentary stamp tax will be available for affordable housing programs. (However, it should be noted that excess revenues above the recurring Fiscal Year 2003-04 funding level were transferred to the Working Capital Fund in Fiscal Year 2003-04 and Fiscal Year 2004-05.)

4) No specific resources are allocated for high speed rail. Any funding to implement the system would be allocated from existing resources in the 5-year work plan.

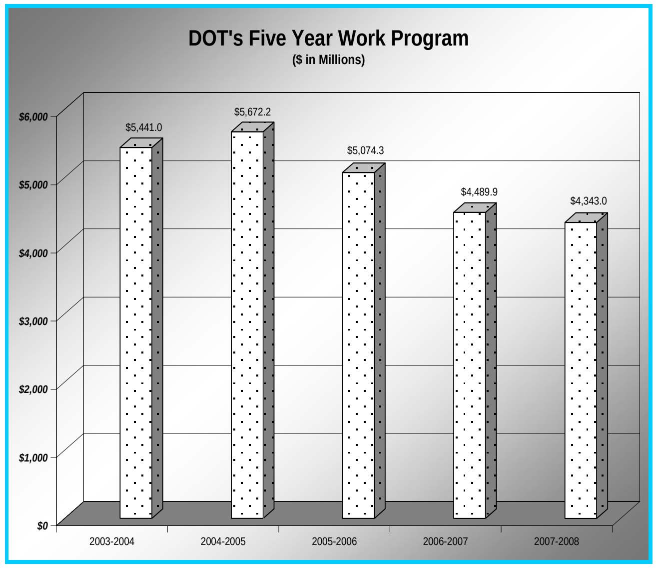
5) The Outlook assumes that the current level of Federal Transportation Funding is continued (i.e. re-authorization of TEA 21).

Non-recurring General Revenue – TED agencies typically receive significant amounts of non-recurring general revenue for ongoing programs, especially for economic development initiatives, arts, cultural and historic preservation grants, and disaster match requirements. These projections include estimates for such programs based on a 5-year historical funding average.



Affordable Housing – Funding to the Department of Community Affairs for affordable housing programs was estimated based on the latest Revenue Estimating Conference projections for the current statutory distribution of documentary stamp tax revenues. However, as mentioned above, for the last two fiscal years, excess revenues above the recurring Fiscal Year 2003-04 funding level have been transferred to the Working Capital Fund.

Department of Transportation Work Program – DOT develops a Work Program, which is the department's production plan for the following five years. It is a balanced five year financial plan with a three-year cash forecast of receipts and expenditures. Funding to support the Work Program comes from a variety of sources including federal, state, local, bond proceeds, toll collections, and miscellaneous other receipts. Funding projections are based on the latest adopted Work Program. The higher levels of funding in the initial years of the Work Program reflect economic stimulus funds which were appropriated in prior years and rolled forward.



Fixed Capital Outlay – These projections include estimates for agency fixed capital outlay requirements based on a 5-year historical funding average.

Salaries & Benefits/Administered Funds

Expenditure projections ($ millions)

Recurring	2004-05	2005-06	2006-07	2007-08
General Revenue	0.0	225.8	468.7	725.0
change		225.8	242.9	256.3
Other Trust	0.0	96.3	200.3	310.1
change		96.3	104.0	109.8
TOTAL	0.0	322.1	669.0	1,035.1
change		322.1	346.9	366.1

Nonrecurring	2004-05	2005-06	2006-07	2007-08
General Revenue	0.0	0.0	0.0	0.0
change		0.0	0.0	0.0
Other Trust	0.0	0.0	0.0	0.0
change		0.0	0.0	0.0
TOTAL	0.0	0.0	0.0	0.0
change		0.0	0.0	0.0

TOTAL	2004-05	2005-06	2006-07	2007-08
General Revenue	0.0	225.8	468.7	725.0
change		225.8	242.9	256.3
Other Trust	0.0	96.3	200.3	310.1
change		96.3	104.0	109.8
TOTAL	0.0	322.1	669.0	1,035.1
change		322.1	346.9	366.1

State Employee Salaries And Benefits

Salaries

State employee salary increases are estimated to cost $149 million in Fiscal Year 2005-06, $152 million in Fiscal Year 2006-07, and $155 million in Fiscal Year 2007-08. Roughly 70% of the increased costs are funded by the General Revenue Fund. These estimates are based upon an assumption that the Legislature will authorize increases equal to an average of 2% across the board on total payroll. This assumption is based on such increases covering rises in the cost of living as well as providing some additional purchasing power.

STATEWIDE ACROSS THE BOARD PAY INCREASES

FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05
2.5%	2.5%	2.0%	$1000 *one time bonus*
Note that Specific Employee Groups have received increases in excess of across the board levels.			

Health Insurance

Costs associated with the state employee health insurance program are expected to increase by $155.4 million in Fiscal Year 2005-06, $161 million in Fiscal Year 2006-07, and $183.9 million in Fiscal Year 2007-08. These increased costs are based on assumptions that the state's self insured plan will experience 12% annual growth in medical claims and an average of 15.5% annual growth in pharmacy claims, and that the health maintenance contract costs will increase an average of 12% annually. These assumptions are consistent with the growth patterns experienced during recent years. However, it should be noted that the third party administrator services, the pharmacy benefit manager services, and the HMO contracts will be rebid during the next 18 months. This may impact the overall cost of the state employee health insurance program.

On the revenue side of the health insurance program, this financial outlook assumes that additional medical and pharmacy costs will be covered via premium increases paid by the state and employees. Generally, these costs have been funded through this mechanism. In recent years, however, a portion of the anticipated costs have been funded by increases in out-of-pocket expenditures (co-payments, deductibles, and coinsurance) by the employees and retirees and by transfers of trust fund balances to the program.

Florida Retirement System

The Florida Retirement System (System) enjoys an actuarial surplus of $12.6 billion as of June 2004. This surplus can be used to reduce the contribution rates paid by participating employers or to increase benefits paid to members of the System. Even with this surplus, the Florida Retirement System must be funded on an actuarially sound basis. As a result, the Legislature has set the statutory contribution rates at the “normal cost” (the actuarially determined cost of the system over the long term) of the system and has enacted a series of one-year reductions in contribution rates to reduce the level of the surplus and relieve the financial burdens placed upon the employers participating in the System. For example, the normal cost of the Regular Class is 9.92% of the class payroll while the actual contribution rate for Fiscal Year 2004-05 is 6.20%.

This financial outlook assumes that the Legislature will enact a series of rate increases that will move the actual contribution rate to the normal cost level over a three year period. The rates are projected to increase from 6.20% in Fiscal Year 2004-05 to 7.45% in Fiscal Year 2005-06; 8.70% in Fiscal Year 2006-07; and 9.92% in Fiscal Year 2007-08. Under this assumption, roughly $1 billion will be used during the first two years to offset contribution rates for employers. It should be noted that this is a conservative approach to utilizing the available surplus due to the unpredictability of the market value of the System portfolio and the expected rise in actuarial liabilities as the state’s aging workforce hits retirement age. (These projected increases also are reflected in the Education section of this document.)