



State of Florida Three Year Revenue and Expenditure Outlook Fiscal Year 2006-07 through 2008-09

January 2006 Update

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

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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 financial stability between state fiscal years. The Outlook 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 financial projections and covers the upcoming three fiscal years: 2006-07, 2007-08, and 2008-09.

THE OUTLOOK DOES NOT PURPORT TO SHOW THE AMOUNT OF THE STATE BUDGET IN ITS ENTIRETY OR THE FINAL AMOUNT OF FUNDS TO BE ALLOCATED TO THE RESPECTIVE BUDGET AREAS. THIS IS BECAUSE VERY FEW ASSUMPTIONS ARE MADE REGARDING FUTURE LEGISLATIVE POLICY DECISIONS ON DISCRETIONARY SPENDING. THE ASSUMPTIONS THAT ARE MADE ARE CONFINED TO SCENARIO "A" AND SCENARIO "B." IN EITHER SCENARIO, ALL UNSPENT FUNDS ARE STILL CARRIED FORWARD INTO THE NEXT FISCAL YEAR.

Who produced it?

The Outlook was jointly developed by the Senate Ways and Means Committee, Senate Appropriations Committees 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 sections generally corresponding to the jurisdictions of the Senate Appropriations Committees. Also included are separate sections for Infrastructure, Potential Constitutional Issues, Salaries and Benefits, Revenue Projections, Florida's Economic Outlook (including a special update on the impact of Hurricanes Katrina and Rita), 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 specifically cover the General Revenue Fund, the Educational Enhancement Trust Fund (lottery proceeds devoted to Education), and the Tobacco Settlement Trust Fund. Other trust funds have been estimated and discussed in the sections where they are relevant to the expenditure forecast.
- All revenue projections include recurring and non-recurring amounts.
- The Fund Projection Tables (General Revenue, Educational Enhancement, and Tobacco Settlement) include estimates for both anticipated revenue collections and expenditures. They summarize the information contained and discussed in the rest of the document.
- The Policy Scenarios section demonstrates the impact of varying policy decisions on the baseline projection. The unique assumptions used for these scenarios are not built into the rest of the Outlook.

Summary and Findings

A. Key Aspects of the Revenue Estimates

- The new forecast for general revenue contains 5.8% growth in the current year over the prior year and an additional 1.2% growth in Fiscal Year 2006-07. Over the two year period, an additional \$3.2 billion has been added to the forecast.
- General revenue collections are expected to grow by 7.0% in Fiscal Year 2007-08 and 5.5% in Fiscal Year 2008-09.
- Nearly \$3.5 billion of non-recurring general revenue funds will be available for expenditure in Fiscal Year 2006-07.
- After the expenditure outlook has been funded for each of the next three years, approximately \$3.4 billion of non-recurring general revenue remains available after the last year of the Outlook period.
- Lottery and Tobacco Settlement Trust Funds will have little or no long-term growth.

B. Key Aspects of the Expenditure Demands

Education Requirements

- Overall expenditures on education, including the local share, are projected to increase by an average of approximately 7.7% per year, or over \$1.7 billion annually, for each of the next three fiscal years.
- The total revenue from ad valorem sources, at current millage rates, will increase by approximately \$2.7 billion over the next 3 years to support public schools.
- Of the projected general revenue increase for Education, a total expenditure of \$1.8 billion over the next 3 fiscal years is provided 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 are projected to increase by nearly \$622 million in Fiscal Year 2006-07, \$569 million in Fiscal Year 2007-08 and \$639 million in Fiscal Year 2008-09.
- Medicaid services are the primary driver of these increases, requiring additional spending of \$596.3 million of general revenue in Fiscal Year 2006-07, \$511.2 million in Fiscal Year 2007-08, and \$580.1 million in Fiscal Year 2008-09.

Justice (Criminal Justice and Article V)

- General revenue requirements for the Justice area are projected to increase by over \$136 million in Fiscal Year 2006-07, \$117 million in Fiscal Year 2007-08, and \$118 million in Fiscal Year 2008-09.
- The projected 4% increase in recurring expenditures for criminal justice programs in each of the next three fiscal years is based primarily on the need to fund increased operational costs, including new prison beds, at the Department of Corrections.
- The projected budget requirements for the judicial branch are based largely on projected changes in the Consumer Price Index.

General Government Requirements

- Recurring requirements for the General Government area are projected to increase by 2.3% in Fiscal Year 2006-07, 1.5% in Fiscal Year 2007-08, and 1.3% in the following fiscal year.
- Because of the unique nature of many of the programs in the General Government area, general revenue requirements are minimized. The Outlook assumes that available trust fund balances are fully utilized for each program before estimating the need for additional general revenue. As a result, recurring general revenue growth only reaches \$5.3 million at the end of the forecast period.

Transportation and Economic Development Requirements

- The most significant 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.

- Overall, the recurring requirements for the Transportation and Economic Development area modestly increase (1.3%, 2.4% and 1.7% respectively over the next three fiscal years), while the total requirements decrease throughout the forecast period.

State Employee Salaries and Benefits Requirements

- Increases to state employee salaries, based on the funds appropriated in FY 2005-06 and assuming an annual 2.5% cost-of-living increase thereafter, are projected to cost approximately \$605.3 million over the next 3 fiscal years. (The 2.5% is roughly equivalent to expected changes in the Consumer Price Index over the same period of time.)

C. Putting the Revenues and Expenditure Demands Together – Key Findings

- Fiscal Year 2006-2007:
 - o Total general revenue available for appropriation is \$30,196.7 million.
 - o General revenue funded costs are estimated to be \$26,715.6 million.
 - o Recurring general revenue program needs are less than the available recurring general revenue dollars. In other words, no non-recurring dollars are needed to fund recurring programs.
 - o Of the total funds available, nearly \$3.5 billion is non-recurring general revenue. This can be used for spending (particularly on one-time costs), reserves or emergencies.
 - o After the projected expenditures have been addressed, nearly \$2.9 billion of non-recurring dollars still remain. See the chart below.

OUTLOOK PROJECTION – FISCAL YEAR 2006-07 <i>(in millions)</i>			
	RECURRING	NON-RECURRING	TOTAL
GR AVAILABLE	\$26,706.4	\$3,490.3	\$30,196.7
EXPENDITURES	\$26,109.3	\$ 606.3	\$26,715.6
BALANCE	\$ 597.1	\$2,884.0	\$ 3,481.1

- o With limited growth in revenues for the Educational Enhancement Trust Fund and the Tobacco Settlement Trust Fund, the demand for general

revenue dollars to support projected increases in recurring programs is heightened.

- Fiscal Years 2007-08 and 2008-09:
 - o Cumulatively, the revenue growth in the General Revenue Fund, the Educational Enhancement Trust Fund and the Tobacco Settlement Trust Fund are sufficient to support budget demands, reserve requirements and historical non-recurring expenditure levels.
 - o The level of non-recurring money available in the General Revenue Fund for expenditure exceeds \$3.5 billion at the beginning of Fiscal Year 2007-08, and \$3.7 billion at the beginning of Fiscal Year 2008-09.
 - o At the end of the three-year planning horizon, nearly \$3.4 billion is left unexpended.

D. Analyzing the Result

Overall, projected general revenue growth (recurring plus non-recurring) is sufficient to support anticipated spending and reserve requirements for Fiscal Years 2006-07, 2007-08 and 2008-09.

RECURRING general revenue demands in this period never exceed the amount of RECURRING general revenue available. However, this assumes that significant recurring revenues are left on the table in each of the first two fiscal years. If this is not the case, the \$233.6 million in recurring revenue left at the end of Fiscal Year 2008-09 would quickly evaporate.

If the Legislature were to fully spend the maximum amount of available recurring general revenue in Fiscal Years 2006-07 and 2007-08, the final year of the plan would again reveal a structural imbalance in which recurring expenditures outstrip recurring revenue.

GENERAL REVENUE FUNDS AVAILABLE PROJECTION
(\$ MILLIONS)

[This outlook contains no reserve and no limitation on recurring dollars spent on recurring needs.]

	<u>RECURRING</u>	<u>NONRECURRING</u>	<u>TOTAL</u>
FY 2005-06			
Balance Forward	0.0	3,570.6	3,570.6
Revenue Estimate	25,859.5	546.2	26,405.7
Nonoperating funds	<u>(4.3)</u>	<u>329.9</u>	<u>325.6</u>
Total Funds Available	25,855.2	4,446.7	30,301.9
Estimated Expenditures	24,819.1	1,859.3	26,678.4
Anticipated disaster related spending	0.0	112.0	112.0
Transfer to Budget Stabilization Fund	0.0	92.0	92.0
Ending Balance	<u>1,036.1</u>	<u>2,383.4</u>	<u>3,419.5</u>
FY 2006-07			
Balance Forward	0.0	3,419.5	3,419.5
Revenue Estimate	26,710.7	6.4	26,717.1
Transfer to Budget Stabilization Fund	0.0	(157.3)	(157.3)
Nonoperating funds	<u>(4.3)</u>	<u>221.7</u>	<u>217.4</u>
Total Funds Available	26,706.4	3,490.3	30,196.7
Estimated Expenditures	26,109.3	606.3	26,715.6
Ending Balance	<u>597.1</u>	<u>2,884.0</u>	<u>3,481.1</u>
FY 2007-08			
Balance Forward	0.0	3,481.1	3,481.1
Revenue Estimate	28,598.1	0.0	28,598.1
Transfer to Budget Stabilization Fund	0.0	(71.8)	(71.8)
Nonoperating funds	<u>(4.3)</u>	<u>117.2</u>	<u>112.9</u>
Total Funds Available	28,593.8	3,526.5	32,120.3
Estimated Expenditures	27,931.0	579.2	28,510.2
Ending Balance	<u>662.8</u>	<u>2,947.3</u>	<u>3,610.1</u>
FY 2008-09			
Balance Forward	0.0	3,610.1	3,610.1
Revenue Estimate	30,174.4	0.0	30,174.4
Transfer to Budget Stabilization Fund	0.0	(15.6)	(15.6)
Nonoperating funds	<u>(4.3)</u>	<u>117.2</u>	<u>112.9</u>
Total Funds Available	30,170.1	3,711.7	33,881.8
Estimated Expenditures	29,936.5	563.7	30,500.2
Ending Balance	<u>233.6</u>	<u>3,148.0</u>	<u>3,381.6</u>

EDUCATIONAL ENHANCEMENT TRUST FUND PROJECTION
(\$ MILLIONS)

	<u>RECURRING</u>	<u>NONRECURRING</u>	<u>TOTAL</u>
FY 2005-06			
Balance Forward	0.0	49.4	49.4
Revenue Estimate/Oct '05	1,214.4	(15.9)	1,198.5
Nonoperating funds	<u>1.5</u>	<u>75.1</u>	<u>76.6</u>
Total Funds Available	1,215.9	108.6	1,324.5
Estimated Expenditures	839.8	85.5	925.3
Debt Service/FCO	<u>212.9</u>	<u>0.0</u>	<u>212.9</u>
Ending Balance	163.2	23.1	186.3
FY 2006-07			
Balance Forward	0.0	186.3	186.3
Revenue Estimate/Oct '05	1,243.2	0.0	1,243.2
Nonoperating funds	<u>1.5</u>	<u>0.0</u>	<u>1.5</u>
Total Funds Available	1,244.7	186.3	1,431.0
Estimated Expenditures	1,031.8	0.0	1,031.8
Debt Service/FCO	<u>212.9</u>	<u>0.0</u>	<u>212.9</u>
Ending Balance	0.0	186.3	186.3
FY 2007-08			
Balance Forward	0.0	186.3	186.3
Revenue Estimate/Nov '05	1,255.4	0.0	1,255.4
Nonoperating funds	<u>1.5</u>	<u>0.0</u>	<u>1.5</u>
Total Funds Available	1,256.9	186.3	1,443.2
Estimated Expenditures	1,037.4	0.0	1,037.4
Debt Service/FCO	<u>218.0</u>	<u>0.0</u>	<u>218.0</u>
Ending Balance	1.5	186.3	187.8
FY 2008-09			
Balance Forward	0.0	187.8	187.8
Revenue Estimate/Nov '05	1,267.1	0.0	1,267.1
Nonoperating funds	<u>1.5</u>	<u>0.0</u>	<u>1.5</u>
Total Funds Available	1,268.6	187.8	1,456.4
Estimated Expenditures	1,049.1	0.0	1,049.1
Debt Service/FCO	<u>218.0</u>	<u>0.0</u>	<u>218.0</u>
Ending Balance	1.5	187.8	189.3

TOBACCO SETTLEMENT TRUST FUND PROJECTION
(\$ MILLIONS)

	<u>RECURRING</u>	<u>NONRECURRING</u>	<u>TOTAL</u>
FY 2005-06			
Balance Forward	0.0	15.4	15.4
Revenue Estimate	377.1	0.0	377.1
Transfer from Chiles Endowment Fund	35.0	0.0	35.0
Nonoperating funds	<u>1.0</u>	<u>0.0</u>	<u>1.0</u>
Total Funds Available	413.1	15.4	428.5
Estimated Expenditures	412.3	10.9	423.2
Ending Balance	<u>0.8</u>	<u>4.5</u>	<u>5.3</u>
FY 2006-07			
Balance Forward	0.0	5.3	5.3
Revenue Estimate	384.7	0.0	384.7
Transfer from Chiles Endowment Fund	34.5	0.0	34.5
Nonoperating funds	<u>1.0</u>	<u>0.0</u>	<u>1.0</u>
Total Funds Available	420.2	5.3	425.5
Estimated Expenditures	412.3	0.0	412.3
Ending Balance	<u>7.9</u>	<u>5.3</u>	<u>13.2</u>
FY 2007-08			
Balance Forward	0.0	13.2	13.2
Revenue Estimate	390.4	0.0	390.4
Transfer from Chiles Endowment Fund	34.5	0.0	34.5
Nonoperating funds	<u>1.0</u>	<u>0.0</u>	<u>1.0</u>
Total Funds Available	425.9	13.2	439.1
Estimated Expenditures	412.3	0.0	412.3
Ending Balance	<u>13.6</u>	<u>13.2</u>	<u>26.8</u>
FY 2008-09			
Balance Forward	0.0	26.8	26.8
Revenue Estimate	396.3	0.0	396.3
Transfer from Chiles Endowment Fund	34.5	0.0	34.5
Nonoperating funds	<u>1.0</u>	<u>0.0</u>	<u>1.0</u>
Total Funds Available	431.8	26.8	458.6
Estimated Expenditures	412.3	0.0	412.3
Ending Balance	<u>19.5</u>	<u>26.8</u>	<u>46.3</u>

Other Considerations

The Three Year Revenue and Expenditure Outlook is based on events that are known or likely to occur. However, there are some risks that would significantly alter key assumptions were they to come to pass. This section describes some of those risks and their potential ramifications to the Outlook.

A. Education Appropriations

- There are no provisions in the Outlook to build additional classrooms for Class Size Reduction (CSR). The need for new classrooms is dependent upon legislative policy regarding the utilization of existing public school facilities. For example, if school districts are required to redraw attendance zones and implement double sessions, few if any additional classrooms may be needed. On the other hand, if current facility utilization practices are not changed, \$6 to \$15 billion in additional funding may be required. This need varies, based on whether or not the Legislature maintains an equity-based formula for distributing future appropriations for CSR construction costs.
- Public school operating cost projections in the plan are based on current state constitutional CSR requirements. If this constitutional provision is amended as some are advocating, the Outlook may need to be altered as well.
- Five school districts recently lost a lawsuit challenging the Florida Price Level Index (FPLI) which is used to calculate the District Cost Differential (DCD) for the Florida Education Finance Plan (FEFP). Five districts have since appealed the decision and expanded their suit to challenge the adequacy of public school funding relative to the requirements of Article IX, Section 1 of the State Constitution. If the court accepts the adequacy challenge and Florida loses, the expenditure projections for public schools in the Outlook may need to be revised.
- The Outlook is based on a limited number of major cost drivers. Historically, the Legislature has funded many other issues in addition to these major cost drivers. Consequently, the expenditure projections in the Outlook may be conservative.

B. General Government Appropriations

- Environmental claims against the state are estimated to be \$25 to \$38 million. Several issues identified by the Department of Environmental Protection

include \$2-\$10 million for the hazardous waste site at Tallavast, and \$15 to \$20 million for a Coral Bay property rights issue.

- Clean-up of contaminated sites identified by the Department of Agriculture and Consumer Services include Zellwood Contamination Site (groundwater cleanup) estimated not to exceed \$10 million and underground storage tank cleanup site compliance issues estimated at \$5 to \$10 million.
- In the citrus canker compensation case, Patchen vs. Department of Agriculture, SC02-1291, the Supreme Court ruled the trial court should hold a hearing on the value of a residential citrus tree. The trial is scheduled in January of 2006 and a final judgment may be several years in coming. The potential liability can range from the amount already paid under section 581.1845, F.S., to an indeterminate higher amount.
- The Department of Revenue estimates \$47 million in potential litigation costs involving sales and use tax, insurance premium retaliatory tax, corporate income tax and doc stamp tax assessments. In total, an estimated \$53 million in potential litigation costs will carry over from the previous year. These figures are the aggregate of numerous disputes and the total potential of \$100 million is the worst case scenario.

C. Ways and Means

- Infrastructure deficits that have not been identified or fully captured by state agencies may exist. Examples include needs related to water, transportation, disadvantaged communities, and growth management. Many of these needs are still under review by various federal and state agencies, and only a portion of the total costs should be attributed to state government. While the numbers are not definitive, several organizations have developed their own estimates, regardless of who should bear the ultimate cost. In a few cases, the estimates may overlap since they were prepared for different purposes.
 - Clean Water – The Department of Environmental Protection conducts needs assessments to determine the cost of fully complying with the federal Clean Water Act. Based on the most recent information available, they have identified a need over the next 20-years as follows:
 - Wastewater = \$10,716,973,000
 - Municipal stormwater = \$6,115,715,000
 - Nonpoint source = \$5,352,042,000
 - Estuary management = \$63,073,000
 - TOTAL = \$22,247,803,000
- On an annualized basis, this translates to \$1.1 billion per year, of which \$240 to \$340 million is likely to be appropriated by the state.

- o Drinking Water – Needs assessments are also conducted to determine the cost to comply with the federal Safe Drinking Water Act. In a report just released that relied on 2003 data, the U.S. Environmental Protection Agency estimated that Florida’s total 20-year need for public water systems exceeded \$15 billion. State investments are typically made from the Drinking Water State Revolving Fund loan program.
- o Wastewater Management – The legislature annually provides special funding for the installation or renovation of sewer systems, wastewater treatment plants, effluent disposal systems and water reuse facilities for disadvantaged small communities on a priority listing maintained by the Department of Environmental Protection. The 2006 priority list contains \$235.4 million in projects that will likely be funded over the next decade. Of the total amount, 87.5% will be covered by the state, and the rest by local match. The annual state investment will be approximately \$20 million per year.
- o Transportation – A 1995 report originally prepared by the University of South Florida’s Center for Urban Transportation Research was updated for the Florida Transportation Commission in 2003. Referred to as the *2020 Needs Report*, it attempted to quantify overall transportation needs through the year 2020. Although the report has never been adopted officially, the authors believed that needs of the levels shown below could ultimately exceed available revenues from all sources by \$136.4 billion. Of this amount, the State’s share was \$23 billion to maintain the conditions existing in 2003, and \$42 billion to improve conditions.

Summary of Needs		
(Estimates in Billions of 2002 Dollars)		
	Needs Scenario	
	Maintain Conditions	Improve Conditions
State-owned Roads and Bridges	\$81.8	\$101.8
Locally-owned Roads and Bridges	44.6	53.8
Transit/Urban, Regional Passenger Rail	21.5	30.2
Paratransit	5.6	9.4
High Speed Rail (State Share)	-	2.4
Other Rail (State Share)	1.0	1.0
Aviation (State Share)	2.5	2.5
Seaports (State Share)	<u>0.6</u>	<u>0.6</u>
Total	\$157.4	\$201.6

- o Growth Management – Local government comprehensive planning requirements stipulate that the Department of Community Affairs must deny a plan or plan amendment that makes inadequate provision for roads, water and wastewater. Schools were added to this list in 2005. In practice, the local government must also adopt level of service standards for parks and recreation; however, no plans or plan amendments have been ruled out of compliance for the inadequacy of this element. Moreover, the plan must include policies related to the provision of affordable housing, but there are no minimal standards for this requirement. Given these complexities, there is no credible estimate that shows the total costs associated with the aggregate unmet need for growth management.
- Numerous lawsuits against the state exist at any point in time, only a few of which are reflected above. While the Chief Financial Officer has noted that such lawsuits are not expected to materially affect the state's overall financial position, they do have the capacity to disrupt specific programs and services and to force changes and adjustments to any fiscal outlook.

A summary of the claimed fiscal impact of significant litigation filed against the state, as reported by the agencies in Fall 2005, follows. Significant litigation includes only cases where the amount claimed is more than \$1 million and cases challenging significant statutory policies. This summary is also based on the amount claimed by the plaintiffs, which is typically higher than the amount to which the plaintiffs would actually be entitled if they won. Not included in this summary are the fiscal impacts that might result in cases in which no specific amount is claimed by the plaintiffs, or in cases in which the plaintiffs are not asking for monetary award but in which a judgment against the state would place a new responsibility on a state agency.

Justice Agencies Total - \$16 Million

- Department of Corrections - \$1 Million
- Department of Juvenile Justice – \$15 Million

General Government Agencies Total - \$925 Million

- Department of Agriculture and Consumer Services - \$190 Million
- Department of Citrus - \$135 Million
- Department of Financial Services - \$48 Million
- Department of Management Services - \$73 Million
- Department of Business and Professional Regulation - \$2 Million
- Department of Environmental Protection - \$121 Million
- Department of Revenue - \$256 Million
- Office of Financial Regulation - \$100 Million

Health and Human Services Agencies Total - \$223 Million

- Department of Children and Families - \$18 Million
- Agency for Health Care Administration - \$191 Million
- Agency for Persons with Disabilities - \$14 Million

Transportation & Economic Development Agencies Total - \$533 Million

- Department of State - \$21 Million
- Agency for Workforce Innovation - \$11 Million
- Department of Highway Safety and Motor Vehicles - \$139 Million
- Department of Transportation - \$362 Million

Education Agencies Total - \$44 Million

Total amount claimed:

\$1.741 Billion

POTENTIAL CONSTITUTIONAL ISSUES

In 2004, a constitutional amendment passed that requires initiative petitions be filed with the Secretary of State by February 1st of each general election year in order to be eligible for ballot consideration. This has been interpreted to mean that all signatures have been certified by the local supervisors of election and that the other requirements for geographic distribution have been met by this date. For 2006, the required number of valid signatures is 611,009.

Section 15.21, Florida Statutes, further requires the Secretary of State to “immediately submit an initiative petition to the Attorney General and to the Financial Impact Estimating Conference” once the certified forms “equal...10 percent of the number of electors statewide and in at least one-fourth of the congressional districts required by s. 3, Art XI of the State Constitution.” For 2006, this means that there are at least 61,113 valid and qualifying signatures. Upon receipt, the Financial Impact Estimating Conference (FIEC) has 45 days to complete an analysis and financial impact statement to be placed on the ballot (s.100.371, Florida Statutes).

The initiatives on the following page have met that threshold and triggered FIEC Review. The respective Conferences have adopted the associated statements; however, all of these are still undergoing review by the Supreme Court.

At this time, only two of the petition initiatives have the required number of valid signatures to be actually placed on the ballot:

- *Independent Nonpartisan Commission to Apportion Legislative and Congressional Districts Which Replaces Apportionment by Legislature*
- *Protect People, Especially Youth, From Addiction, Disease, and Other Health Hazards of Using Tobacco*

Initiative Name	FIEC IMPACT STATEMENT
<i>Extending Existing Sales Tax to Non-Taxed Services Where Exclusion Fails to Serve Public Purpose</i>	<i>Although state and local governments could potentially receive substantial revenue from non-taxed services subject to legislative review, the probable impact of the amendment is dependent upon future action of the legislature and cannot be determined. If the legislature exempts all services that are currently non-taxed, state and local government revenues will not be affected. If the legislature fails to exempt one or more services that are currently non-taxed, state and local government revenues will increase.</i>
<i>Florida Marriage Protection Amendment</i>	<i>The direct financial impact this amendment will have on state and local government revenues and expenditures cannot be determined, but is expected to be minor.</i>
<i>Implementation of Apportionment and Districting Commission 2007</i>	<i>If the constitutional amendment creating the commission is adopted, the one-time costs for the 2007 redistricting that will result from adoption of this amendment are estimated to range from \$6.7 million to \$13.4 million for state government and \$6.5 million to \$7.5 million for local governments. These estimates include the state costs of the commission and associated staff, data, technology and legal expenses, and the local government costs to the supervisors of elections.</i>
<i>Independent Nonpartisan Commission to Apportion Legislative and Congressional Districts Which Replaces Apportionment by Legislature</i>	<i>As a result of the adoption of this amendment, the state fiscal savings are estimated to range from zero to \$6.7 million for each ten-year redistricting cycle. The costs of the commission and associated staff, data, technology, and legal expenses are estimated to be \$6.7 million to \$13.4 million, which probably will be offset by savings to the Legislature of \$13.4 million (based on expenditures of the last two redistricting cycles).</i>
<i>Initiative Directing Manner by which Sales Tax Exemptions Are Granted by the Legislature</i>	<i>The amendment will not have an impact on state and local government revenues or expenses.</i>
<i>Initiative Requiring Legislative Determination that Sales Tax Exemptions Serve a Public Purpose</i>	<i>Although the value of sales tax exemptions subject to legislative review is substantial, the probable impact of the amendment on state and local government revenues is dependent upon future actions of the legislature and cannot be determined. If the legislature reenacts and continues all existing exemptions, state and local government revenues will not be affected. If the legislature does not reenact and continue one or more exemptions, state and local government revenues will increase.</i>
<i>Protect People, Especially Youth, From Addiction, Disease, and Other Health Hazards of Using Tobacco</i>	<i>This amendment requires state government to appropriate approximately \$57 million in 2007 for the Comprehensive Statewide Tobacco Education and Prevention Program. Thereafter, this amount will increase annually with inflation. This spending is expected to reduce tobacco consumption. As a result, some long-term savings to state and local government health and insurance programs are probable, but indeterminate. Also, minor revenue loss to state government is probable, but indeterminate.</i>

Policy Scenarios

As explained previously, the chart entitled “General Revenue Funds Available Projection” simply summarizes the information contained and discussed within the Outlook. In essence, it is a baseline forecast of the State’s most pressing needs. As such, it does not purport to show the final budget that the Legislature will ultimately pass in any given year.

*The Other Considerations and Potential Constitutional Issues present inherent risks to the forecasted budget. In addition, the Legislature may choose to make any number of policy decisions which could alter the forecast as well. To extend the usefulness of the document, **SCENARIO “A”** and **SCENARIO “B”** are included to demonstrate the potential impact of the known risks and likely policy discussions. The unique assumptions used for these scenarios are not built into the rest of the Outlook.*

- I -

SCENARIO “A” assumes that the Legislature either must or chooses to fund a number of non-recurring issues beyond those identified in the Outlook. This could occur because one or more of the items listed under Other Considerations comes to pass or because the Legislature decides to reach a non-recurring level more in keeping with prior years. The average funding level for non-recurring appropriations over the past five years has been \$876.1 million. The baseline forecast is altered to achieve this level of spending.

A. Key Findings

- Fiscal Year 2006-2007:
 - o Another \$269.8 million of non-recurring spending is added in SCENARIO “A” to reach the 5-year historical average of total non-recurring spending.
 - o After all of the projected expenditures have been addressed, over \$2.6 billion of non-recurring dollars still remain. See the chart below.

SCENARIO “A” – FISCAL YEAR 2006-07 <i>(in millions)</i>			
	RECURRING	NON-RECURRING	TOTAL
GR AVAILABLE	\$26,706.4	\$3,490.3	\$30,196.7
EXPENDITURES	\$26,109.3	\$ 876.1	\$26,985.4
BALANCE	\$ 597.1	\$2,614.2	\$ 3,211.3

- Fiscal Years 2007-08 and 2008-09:
 - o The level of non-recurring money available in the General Revenue Fund for expenditure is over \$3.2 billion at the beginning of Fiscal Year 2007-08, and over \$3.1 billion at the beginning of Fiscal Year 2008-09.
 - o At the end of the three-year planning horizon, \$2.5 billion is left, of which \$233.6 million is recurring.

B. Analyzing the Result

The Legislature can appropriate the historic level of non-recurring funding on non-recurring programs without significantly changing the Outlook. However, this result is dependent on the Legislature spending no non-recurring dollars on recurring programs in each of the first two fiscal years. To the extent this is not the case, non-recurring dollars would be claimed for that purpose, leaving fewer total dollars available for actual non-recurring expenditures.

- II -

SCENARIO “B” assumes that the Legislature appropriates both the five-year average non-recurring expenditure level and *all* of the recurring revenues that are available each year. Given recent history, the latter assumption is entirely plausible. The Legislature has not left a substantial balance of recurring revenues since Fiscal Year 1999-00, six years ago. This could occur for all of the reasons given in the previous scenario or because the Legislature chooses to spend funds on a new program or an enhancement of an existing one. It could even occur because of an error in one of the population or caseload estimates. A “supply” shock (fewer available revenues due to an error in the forecast or a planned tax reduction) would produce similar results.

A. Key Findings

- Fiscal Year 2006-2007:
 - o Another \$269.8 million of non-recurring spending is added in SCENARIO “B” to reach the 5-year historical average of total non-recurring spending. In addition, the recurring dollars remaining after all projected expenditures have been addressed (\$597.1 million) are spent on new recurring items.
 - o After all expenditures have been addressed, \$2.6 billion of non-recurring dollars still remain. See the chart below.

SCENARIO “B” – FISCAL YEAR 2006-07 <i>(in millions)</i>			
	RECURRING	NON-RECURRING	TOTAL
GR AVAILABLE	\$26,706.4	\$3,490.3	\$30,196.7
EXPENDITURES	\$26,706.4	\$ 876.1	\$27,582.5
BALANCE	\$ 0.0	\$2,614.2	\$ 2,614.2

- Fiscal Years 2007-08 and 2008-09:
 - o The level of non-recurring money available in the General Revenue Fund for expenditure is over \$2.6 billion at the beginning of Fiscal Year 2007-08, and nearly \$1.9 billion at the beginning of Fiscal Year 2008-09.
 - o At the end of the three-year planning horizon, only \$579.8 million is left under **SCENARIO “B.”** And, that result assumes that \$429.2 million of non-recurring dollars are spent on recurring programs.

B. Analyzing the Result

If the Legislature were to fully spend the maximum amount of available recurring general revenue in Fiscal Years 2006-07 and 2007-08, the final year of the plan would again reveal a structural imbalance caused by recurring expenditures that outstrip recurring revenue.

In the presented scenario, there are sufficient non-recurring dollars to balance the budget overall. However, this result is dependent on the Legislature carrying forward significant balances of non-recurring funds in each of the prior fiscal years. To the extent this is not the case, fewer dollars would be available to offset the recurring shortfall in the third year, and actual budget reductions become a possibility.

SCENARIO "A"
General Revenue Fund Cost/Revenue Comparison
Maximum NR Expenditures Spent on Rec Appropriations are 3% of Total GR Revenues
Plus Minimum \$200 million Unallocated GR Reserve and 5-YR Historical N/R Expenditure Level

FY 2005-2006

FUNDS AVAILABLE 2005-06	Rec	Non-Rec	Total
Estimated Revenues	25,855.2	4,446.7	30,301.9
APPROPRIATIONS	Rec	Non-Rec	Total
Total 2005-06 Budget (after Vetoes)	24,819.1	1,859.3	26,678.4
Anticipated Disaster-Related Spending	0.0	112.0	112.0
Budget Stabilization Fund (Transfer)	0.0	92.0	92.0
ENDING BALANCE/Unallocated GR Reserve	1,036.1	2,383.4	3,419.5

FY 2006-2007

FUNDS AVAILABLE 2006-07	Rec	Non-Rec	Total
Balance forward from 05-06	0.0	3,419.5	3,419.5
Transfers from TF	0.0	0.0	0.0
Estimated Revenues	26,710.7	6.4	26,717.1
Budget Stabilization Fund Requirements	0.0	(157.3)	(157.3)
Non-Operating Revenues	(4.3)	221.7	217.4
Total 2006-07 funds available	26,706.4	3,490.3	30,196.7
APPROPRIATIONS	Rec	Non-Rec	Total
2005-06 Recurring Base	24,819.1	0.0	24,819.1
Projected Additional Requirements	1,290.2	606.3	1,896.5
Add'l NR Expenditures to Reach 5-YR Average	0.0	269.8	269.8
Cuts to Meet Max 3% NR Spent on Rec	0.0	0.0	0.0
Cuts to Balance	0.0	0.0	0.0
Cuts to Retain \$200 m Unallocated GR Reserve	0.0	0.0	0.0
Total 2006-07 Budget	26,109.3	876.1	26,985.4
ENDING BALANCE/Unallocated GR Reserve	597.1	2,614.2	3,211.3

FY 2007-2008

FUNDS AVAILABLE 2007-08	Rec	Non-Rec	Total
Balance forward from 06-07	0.0	3,211.3	3,211.3
Transfers from TF	0.0	0.0	0.0
Estimated Revenues	28,598.1	0.0	28,598.1
Budget Stabilization Fund Requirements	0.0	(71.8)	(71.8)
Non-Operating Revenues	(4.3)	117.2	112.9
Total 2007-08 funds available	28,593.8	3,256.7	31,850.5
APPROPRIATIONS	Rec	Non-Rec	Total
2006-07 Recurring Base	26,109.3	0.0	26,109.3
Projected Additional Requirements	1,821.7	579.2	2,400.9
Add'l NR Expenditures to Reach 5-YR Average	0.0	296.9	296.9
Cuts to Meet Max 3% NR Spent on Rec	0.0	0.0	0.0
Cuts to Balance	0.0	0.0	0.0
Cuts to Retain \$200 m Unallocated GR Reserve	0.0	0.0	0.0
Total Budget	27,931.0	876.1	28,807.1
ENDING BALANCE/Unallocated GR Reserve	662.8	2,380.6	3,043.4

FY 2008-2009

FUNDS AVAILABLE 2008-09	Rec	Non-Rec	Total
Balance forward from 07-08	0.0	3,043.4	3,043.4
Transfers from TF	0.0	0.0	0.0
Estimated Revenues	30,174.4	0.0	30,174.4
Budget Stabilization Fund Requirements	0.0	(15.6)	(15.6)
Non-Operating Revenues	(4.3)	117.2	112.9
Total 2008-09 funds available	30,170.1	3,145.0	33,315.1
APPROPRIATIONS	Rec	Non-Rec	Total
2007-08 Recurring Base	27,931.0	0.0	27,931.0
Projected Additional Requirements	2,005.5	563.7	2,569.2
Add'l NR Expenditures to Reach 5-YR Average	0.0	312.4	312.4
Cuts to Meet Max 3% NR Spent on Rec	0.0	0.0	0.0
Cuts to Balance	0.0	0.0	0.0
Cuts to Retain \$200 m Unallocated GR Reserve	0.0	0.0	0.0
Total Budget	29,936.5	876.1	30,812.6
ENDING BALANCE/Unallocated GR Reserve	233.6	2,268.9	2,502.5

SCENARIO "B"
General Revenue Fund Cost/Revenue Comparison
Maximum NR Expenditures Spent on Rec Appropriations are 3% of Total GR Revenues
Plus Minimum \$200 million Unallocated GR Reserve and 5-YR Historical N/R Expenditure Level

Assuming All 2006-07 and 2007-08 Recurring GR is Expended

FY 2005-2006

FUNDS AVAILABLE 2005-06	Rec	Non-Rec	Total
Estimated Revenues	25,855.2	4,446.7	30,301.9
APPROPRIATIONS	Rec	Non-Rec	Total
Total 2005-06 Budget (after Vetoes)	24,819.1	1,859.3	26,678.4
Anticipated Disaster-Related Spending	0.0	112.0	112.0
Budget Stabilization Fund (Transfer)	0.0	92.0	92.0
ENDING BALANCE/Unallocated GR Reserve	1,036.1	2,383.4	3,419.5

FY 2006-2007

FUNDS AVAILABLE 2006-07	Rec	Non-Rec	Total
Balance forward from 05-06	0.0	3,419.5	3,419.5
Transfers from TF	0.0	0.0	0.0
Estimated Revenues	26,710.7	6.4	26,717.1
Budget Stabilization Fund Requirements	0.0	(157.3)	(157.3)
Non-Operating Revenues	(4.3)	221.7	217.4
Total 2006-07 funds available	26,706.4	3,490.3	30,196.7
APPROPRIATIONS	Rec	Non-Rec	Total
2005-06 Recurring Base	24,819.1	0.0	24,819.1
Projected Additional Requirements	1,290.2	606.3	1,896.5
Add'l NR Expenditures to Reach 5-YR Average	0.0	269.8	269.8
Add'l Rec Expenditures to Deplete Rec GR	597.1		597.1
Cuts to Meet Max 3% NR Spent on Rec	0.0	0.0	0.0
Cuts to Balance	0.0	0.0	0.0
Cuts to Retain \$200 m Unallocated GR Reserve	0.0	0.0	0.0
Total 2006-07 Budget	26,706.4	876.1	27,582.5
ENDING BALANCE/Unallocated GR Reserve	0.0	2,614.2	2,614.2

FY 2007-2008

FUNDS AVAILABLE 2007-08	Rec	Non-Rec	Total
Balance forward from 06-07	0.0	2,614.2	2,614.2
Transfers from TF	0.0	0.0	0.0
Estimated Revenues	28,598.1	0.0	28,598.1
Budget Stabilization Fund Requirements	0.0	(71.8)	(71.8)
Non-Operating Revenues	(4.3)	117.2	112.9
Total 2007-08 funds available	28,593.8	2,659.6	31,253.4
APPROPRIATIONS	Rec	Non-Rec	Total
2006-07 Recurring Base	26,706.4	0.0	26,706.4
Projected Additional Requirements	1,821.7	579.2	2,400.9
Add'l NR Expenditures to Reach 5-YR Average	0.0	296.9	296.9
Add'l Rec Expenditures to Deplete Rec GR	65.7		65.7
Cuts to Meet Max 3% NR Spent on Rec	0.0	0.0	0.0
Cuts to Balance	0.0	0.0	0.0
Cuts to Retain \$200 m Unallocated GR Reserve	0.0	0.0	0.0
Total Budget	28,593.8	876.1	29,469.9
ENDING BALANCE/Unallocated GR Reserve	0.0	1,783.5	1,783.5

FY 2008-2009

FUNDS AVAILABLE 2008-09	Rec	Non-Rec	Total
Balance forward from 07-08	0.0	1,783.5	1,783.5
Transfers from TF	0.0	0.0	0.0
Estimated Revenues	30,174.4	0.0	30,174.4
Budget Stabilization Fund Requirements	0.0	(15.6)	(15.6)
Non-Operating Revenues	(4.3)	117.2	112.9
Total 2008-09 funds available	30,170.1	1,885.1	32,055.2
APPROPRIATIONS	Rec	Non-Rec	Total
2007-08 Recurring Base	28,593.8	0.0	28,593.8
Projected Additional Requirements	2,005.5	563.7	2,569.2
Add'l NR Expenditures to Reach 5-YR Average	0.0	312.4	312.4
Cuts to Meet Max 3% NR Spent on Rec	0.0	0.0	0.0
Cuts to Balance	0.0	0.0	0.0
Cuts to Retain \$200 m Unallocated GR Reserve	0.0	0.0	0.0
Total Budget	30,599.3	876.1	31,475.4
ENDING BALANCE/Unallocated GR Reserve	(429.2)	1,009.0	579.8

FLORIDA ECONOMIC OUTLOOK

The Florida Economic Estimating Conference met in the Fall of 2005 to revise the forecast for the state's economy. As further updated by EDR, the latest forecast shows the economy expanding at a more modest pace, slower than the 2004-05 banner year. Population growth continues to be the state's primary engine of economic growth, fueling both employment and income growth.

RECAP ~ Fiscal Year 2004-05

Typically, the two principal economic measures for states are income and employment growth. These measures and others revealed that Florida grew at a faster pace than originally thought a year ago. Personal income growth, initially estimated at 6.6%, ultimately reached 7.8% for the last fiscal year. Similarly, employment achieved 3.5% growth, even though the forecast only called for 2.6%.

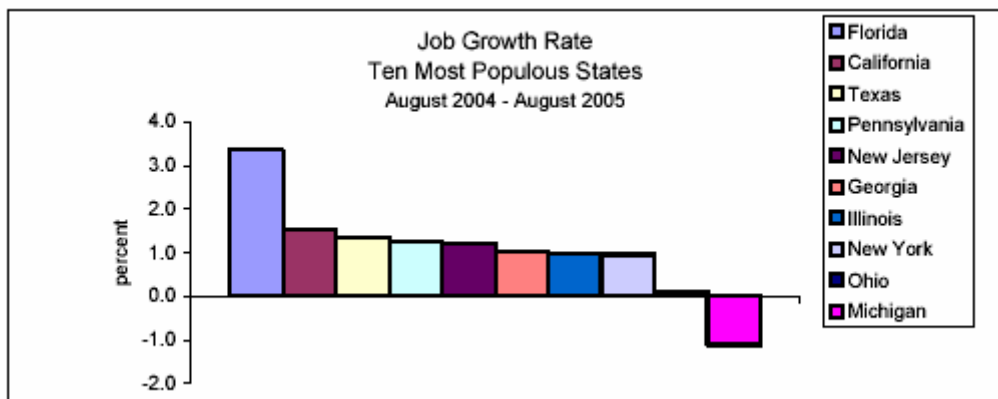
While a few near-term projections were slightly lowered in the Spring forecast for 2004-05, the final results were somewhat rosier. For example, both population growth and residential construction surpassed the forecast for last year. The Federal Deposit Insurance Corporation reported that Florida “remains among the nation’s fastest growing states as population growth, tourism, and real estate-related industries propel the economy forward.” The population growth, along with mortgage rates that hovered well below 6.0%—much lower than the National Economic Estimating Conference (NEEC) had originally projected—amplified residential construction activity. The Florida Economic Estimating Conference (FEEC) was expecting private housing starts to begin a gradual decline last spring. In fact new activity continued to accelerate. For Fiscal Year 2004-05, there were 266,500 starts, a 13.3% increase over the prior year which had the fastest pace of new starts since Fiscal Year 1972-73. Much of this activity was in single family starts which were up 11.6% over the prior year to a level of 182,100 units—the highest level ever.

FORECAST ~ Fiscal Years 2005-06 through 2008-09

Nominal personal income is projected to grow 7.1% in Fiscal Year 2005-06. While healthier than the national forecast, Florida’s income growth is expected to slow again next year to 6.8% before beginning a gradual rebound. Per capita income as adjusted for inflation does not exhibit the same pattern—in real terms, income is expected to grow only 1.5% this year and then increase over the rest of the planning period to 2.7%. Much of the continued strength in personal income can be attributed to faster growth in proprietors’ and property income. After several years of declines and suppressed activity arising from low interest rates and a stock market that has been moving sideways, growth in property income is projected to move into positive territory, averaging 5.1% this year.

It is projected to reach 6.5% in Fiscal Year 2006-07, 8.2% in Fiscal Year 2007-08, and 9.1% in Fiscal Year 2008-09.

According to the latest nationwide data, Florida had the fastest job growth rate (3.4%) of the 10 most populous states and the highest number of new jobs (252,600) of all the states in the nation. Overall employment is projected to grow 3.6% in Fiscal Year 2005-06, followed by a decline to 2.3% in Fiscal Year 2007-08.



Agency for Workforce Innovation

Over a quarter of the job growth in Fiscal Year 2005-06 is concentrated in professional and business services. After growing 6.1% last year, this sector is projected to expand another 5.9% in Fiscal Year 2005-06. Next year, growth decelerates to 5.0% and then returns to 5.8% in Fiscal Year 2008-09. 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. In part, this is a data collection problem. Many companies providing temporary help and leasing services are actually benefiting the other employment sectors.

The fastest growing Florida industry in terms of percentage growth is the Construction sector. Employment in this industry area is expected to grow another 6.8% this year after achieving 8.2% last year. This strength will not continue in future years. After two years of phenomenal growth, construction-related employment is anticipated to soften with the decline in the housing market.

With the exception of the Natural Resources and Mining sector which continues to shed jobs, all employment sectors are expected to expand this fiscal year. While the information services sector has lost jobs since Fiscal Year 2001-02, the forecast calls for employment to increase 0.6% this year and then further expand 2.6% in 2006-07. However, employment growth in manufacturing is expected to remain weak over the

entire forecast period. The overall unemployment rate is expected to reach a low of 3.69% this year. From there it gradually rises to just over 3.8% as the labor force expands faster than the economy can absorb the new entrants.

As previously discussed, while construction currently remains robust within the state, there are signs that this environment will not continue. Vigorous home price appreciation that is outstripping gains in income and the use of speculative financing arrangements are making Floridians particularly vulnerable to interest rate risks. In 2004, over 30% of all mortgages in the state were interest-only. With the federal funds rate reaching 4.25% by the end of the calendar year, housing starts are projected to begin a gradual decline that continues throughout the forecast horizon. Single-family starts are expected to contract as well, but over a slightly longer period of time. However, total construction expenditures are expected to increase in 2005-06 as inputs become relatively more expensive, before moderating in the out-years. Growth in private nonresidential construction is projected to accelerate to 19.3% this year, continuing its strength into the next year. It then slows to 4.1% in 2007-08. Meanwhile, after posting a small increase last year, public construction activity is projected to expand 5.9% this fiscal year and 7.5% next year, before returning to a lower growth rate.

Finally, the population growth rates of 2.2% for this year and next reflects the highest rate that will be achieved over the forecast period. Even so, the annual growth rate is expected to stay above 2% throughout the planning horizon. This allows Florida to stay on track to become the third largest state in the nation sometime between 2015 and 2020, surpassing New York. And by 2007, 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.

Florida Economic Outlook – Addendum

Hurricanes Katrina and Rita's Impact on Florida

GENERAL DISCUSSION: Hurricanes Katrina and Rita weakened the national economy in several ways. Whenever reconstruction begins in earnest, these effects will be largely offset. However, this scenario assumes that energy costs stabilize and that gas prices remain no higher than \$2.50 per gallon. Prices over \$3.00 per gallon would seriously erode the economy and increase inflationary pressures. The federal response to the hurricanes, such as increased public spending and directional changes in various policy areas, may have more subtle long-run implications. An example is the growing debate over the extension of several existing tax breaks. Some are saying that no additional tax cuts should be made, given Katrina's cost and impact on the national debt.

Over the long run, the Sunbelt states, and Texas in particular, may see some economic benefits. Within this grouping, it appears that Florida will not be *uniquely* affected, positively or negatively.

SPECIFIC DISCUSSION: The specific impact on Florida predominantly takes the form of temporary shocks rather than long-term drivers. They translate to gains and losses in the following major areas:

Revenues –

- Sales Tax collections have likely been increased by two primary factors:
 - Expenditures made by evacuees while in the state.
 - Higher prices for taxable items caused by input shortages, higher energy costs, and disrupted transportation systems. However, energy costs that *continue* to be elevated pose a significant downside risk since this slows consumer consumption, thereby eroding tax collections.
- Gross Receipts Tax collections have likely been increased by two factors:
 - Natural gas disruptions and permanent inventory losses sending prices up 40 – 50% over last year.
 - Overall higher energy costs that are passed onto consumers.
- Future Documentary Stamp Tax collections will likely decrease as higher prices deflate the housing bubble (see Construction observations below).
- Future Corporate Income Tax collections will likely be decreased by two factors:
 - Insurance companies that experience eroding profits from hurricane-related payouts. In 2003, \$186.4 million or nearly 14% of corporate income tax receipts came from insurance companies.
 - A squeeze on corporate profits in other business areas as the increasing costs of raw materials and intermediate goods drive up the expense of finished goods at wholesale in ways that cannot easily be passed on to consumers.

Diverted Trade – *{This effect may be temporary}*

- While Houston was the big shipping winner, Florida's ports (and possibly airports) experienced some marginal benefit as well.

Construction –

- Now in a serious competition with Louisiana, Mississippi and Alabama for skilled labor and construction materials, higher overall prices will dampen the Florida residential market. According to the Federal Reserve, the margin of unutilized resources in the economy was already thin. Now, there is even greater demand.
 - Commercial building should not be impacted as strongly given the current (high) levels of business reserves and ready assets; business investments since the recession have been below average by historical standards.
- In addition, some building materials such as steel and cement are more expensive due to higher transportation costs arising from supply disruptions and escalating energy costs.

Demographics –

- While the most recent Demographic Estimating Conference chose to make no formal adjustment to the new forecast, several scenarios could impact Florida's population:
 - Some evacuees may choose to stay in Florida permanently, yielding additional population growth.
 - Some retirees may choose not to move to the southern coastal areas, softening population growth in parts of the state.

Education –

- K-12 Public Schools saw Katrina-related enrollment increases of nearly 5,700 students as of early October. This was well within the overall system's ability to absorb since many districts were otherwise coming in under forecast.
- The State University System saw Katrina-related enrollment increases of 633 students as of early October, most of which were paying resident tuitions.
- Community Colleges saw Katrina-related enrollment increases of 123 students as of late September.
- Financial Aid – Although Bright Futures could have been affected by an unknown number of the enrollment increases in the State University System and private institutions, it appears that only four students applied. They were Florida residents previously attending out-of-state schools impacted by Katrina.

Health & Human Services – *{While increased demand for services is expected, the combined impact from last year's four storms was not detectable.}*

- Future TANF participants will likely increase as some evacuees choose to stay in Florida.
 - At the most recent TANF Estimating Conference, a consensus was reached that the influx of Hurricane evacuees would have little measurable effect on the regular TANF program. This is largely because the federal government has provided contingency TANF funding that is available to

eligible persons for up to four months. This will alleviate most of the direct impact on the state.

- Medicaid participants are likely to increase because there is no residency requirement.
 - At the most recent Medicaid Caseload Conference, no adjustments were deemed necessary to the official Medicaid forecast since Florida will be reimbursed (at least temporarily) for the costs of these additional clients.
- Federal Medical Assistance Percentages (FMAP) for Medicaid will likely change in future years as a result of federal hurricane assistance being counted as personal income.
- Food Stamp participants are likely to increase, but the cost is largely borne by the Federal government.

REVENUE PROJECTIONS

Throughout the fall, the Revenue Estimating Conference met to revise estimates for Fiscal Year 2005-06 and to develop new forecasts for the upcoming years. Revenue projections were considerably strengthened relative to the prior forecasts, especially in the early years. 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:

The Revenue Estimating Conference added \$3.2 billion dollars to its forecast of General Revenue collections for this year and the next. Estimated collections for Fiscal Year 2005-06 were raised by \$1.7 billion, 7% above the Spring forecast. In Fiscal Year 2006-07, expected revenues were increased by \$1.5 billion or nearly 6% over the previous forecast.

The new forecast reflects the belief that the current real estate boom is cresting and will slowly return to a more sustainable growth pattern. The boom, characterized by double-digit growth in sales and home price appreciation, has played a central role in Florida's recent economic performance. In turn, the state has benefited from heightened revenue collections flowing from Documentary Stamp, Intangibles C and Sales taxes. Collections of Documentary Stamp Tax and Intangibles C in the first four months of the fiscal year were up 47% and 58.3% respectively over the same period last year.

The new revenue forecast contains 5.8% growth in the current year (2005-06) over the prior year and another 1.2% growth on top of this for the next year (2006-07). The slow-down in revenue growth between fiscal years is largely attributable to the dampened real-estate activity projected for Florida. Continued strength in the Florida economy, along with population-driven revenue increases and a higher inflation forecast bolster the rest of the forecast. These economic factors influence the estimate in the following ways:

- Documentary Stamp Tax collections remain high until the adjustment to higher interest rates and increased housing costs begins to take hold in the spring.
- Sales Tax collections are strengthened in four ways:
 - Florida population growth of 2.3% both this year and in Fiscal Year 2006-07 boosts taxable sales.
 - Reconstruction activities from Hurricanes Dennis, Katrina and Wilma add to taxable sales. Expenditures made by evacuees from Hurricanes Katrina and Rita while they remain in the state also bolster sales.

- Business investments are expected to increase as firms which have previously held back on spending return to more normal expenditure patterns.
 - Higher prices for taxable items caused by inflation, input shortages, higher energy costs, and disrupted transportation systems elevate revenues.
 - There is a downside risk that higher energy costs may slow consumer consumption, thereby eroding anticipated tax collections.
- Corporate Income Tax collections reflect both strong growth in profits over the past year and Florida's economic strength compared to the rest of the nation. After estimated growth of 26.7% in Fiscal Year 2005-06, receipts are expected to return to a more normal growth rate (2.9%) in Fiscal Year 2006-07. The lower growth rate is due in part to:
 - Insurance companies may experience eroding profits from hurricane-related payouts. In 2003, \$186.4 million or nearly 14% of corporate income tax receipts came from insurance companies.
 - Corporate profits may also be squeezed in some other areas as the increasing costs of raw materials and intermediate goods drive up the expense of finished goods at wholesale in ways that cannot easily be passed on to consumers.

These changes largely reflect the underlying strength of Florida's economy, which continues to outperform the rest of the nation. However, there are reasons to believe that overall economic activity will begin to moderate over the coming months. Record-high oil and gas prices will divert spending away from taxable transactions, as will rising interest rates. After the 8.3% growth in the sales tax forecast for Fiscal Year 2005-06, sales tax growth is expected to slow to 3.7% in Fiscal Year 2006-07.

Lottery & Educational Enhancement Trust Fund:

Dedicated to educational programs, lottery dollars are used to fund the Educational Enhancement Trust Fund (EETF). The Revenue Estimating Conference for Lottery revenues raised expected distributions to the Educational Enhancement Trust Fund (EETF) from current projections by \$79.0 million in 2005-06 and by \$76.8 million in 2006-07. These figures translate into growth rates of 16.5% in 2005-06, and 3.7% in 2006-07.

The increases in transfers to EETF are in spite of reductions in projected sales. The conference reduced its forecast of total income by \$89.9 million in 2005-06, and by \$112.9 million in 2006-07. The largest impact on revenue is a result of a change in the forecasted revenues from HB 841 (which allowed variable prize payouts for on-line games). The Department of the Lottery is anticipating a slower increase in the prize payout percentages than was forecast previously, resulting in a reduction from the previous forecast in projected sales revenues of \$78.5 million in 2005-06 and \$158.0 million in 2006-07. Offsetting that decline are increases in sales projections (not including the HB841 impact) for Scratch-Off games (\$90.4 million in 2005-06 and

\$124.3 million in 2006-07), Fantasy Five (\$4.5 million in 2005-06 and \$28.7 million in 2006-07) and Play Four (\$4.3 million in 2005-06 and \$6.9 million in 2006-07). The other games are projected to be lower than in the previous forecast as follows (again without the change in HB841 revenues): Lotto is lower by \$77.8 million in 2005-06 and \$69.4 million in 2006-07, Cash Three (\$19.0 million in 2005-06 and \$22.5 million in 2006-07), and Mega Money (\$13.8 million in 2005-06 and \$18.9 million in 2006-07). Interest Earnings were also reduced by \$4.0 million in 2006-07.

In spite of the decline in projected sales, transfers to EETF are projected to be higher than in the old forecast. This is due to a change in the way that the Lottery is transferring proceeds to the EETF. Previously, a specified percentage of sales were transferred each month, based on the prize payout percentage for the games. At the end of each fiscal year, any remaining balance was transferred to EETF in the subsequent fiscal year. Beginning in 2005-06, the Lottery is now transferring each month any amount above its appropriated expenses, resulting in substantially more revenue being transferred within the fiscal year, instead of being transferred in the subsequent fiscal year. The revised EETF forecast reflects this change in administration. The total amount transferred under this procedure will not change, but the funds will show up as a direct monthly transfer to EETF instead of being transferred subsequent to the end of the fiscal year.

These forecasts do not include any impact associated with the passage of Amendment 4, the 2004 constitutional amendment authorizing local votes on the use of slot machines in Broward and Dade Counties. The conference will address that issue at its next meeting.

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) level. Essentially, this level translates to the millage rate local school districts must levy in order to participate in the Florida Education Finance Program, the state's funding mechanism for public schools.

For these purposes, the 2006 property tax roll is estimated to be \$1,567 billion. This represents an 18.9% increase over 2005. After deducting the statutorily required discount rate of 5%, the value of one mill is slightly less than \$1.5 billion.

The growth in the value of real property continues to astound estimators. The projected taxable growth in real property is estimated to be \$1,466 billion, or an increase of 20.1% over 2005. Recent growth outpaces predictions derived from fundamental, economic variables, traditionally used to forecast the growth in home-price appreciation. Estimators are cautiously optimistic about the short-run period, basing much of the forecast on the current market conditions. It is widely believed that this excessive activity will not continue in the long-run.

The Save-Our-Homes differential continues to grow at a healthy pace as a result of the strong housing market. Projected growth for the 2006 calendar year is expected to be 39.8% or \$344 billion. The differential represents the difference between the

homesteaded property's just value and its capped assessed value. The differential is subtracted from the real property tax base.

Key Components of Taxable Value
(billions of dollars)

	Actual 2004 Tax Roll	Preliminary 2005 Tax Roll	Estimated 2006 Tax Roll	Dollar Change (06 over 05)	Percent Change (06 over 05)
School Taxable Value*	1,115.20	1,317.74	1,567.32	249.58	18.9%
Real Property	1,019.07	1,220.71	1,466.30	245.59	20.1%
Personal Property	93.19	96.44	99.99	3.55	3.7%
Centrally Assessed	1.05	1.05	1.07	0.02	2.0%
Sub Components of Real Property**					
New Construction	34.99	43.44	51.77	8.33	19.2%
Save-Our-Homes Differential	165.06	246.17	344.20	98.03	39.8%

*School taxable value includes Value Adjustment Board changes and other appraiser adjustments.

**New Construction is an addition to the tax base, and the Save-Our-Homes differential is a subtraction from the tax base.

Gross Receipts Tax and Communications Services:

The Revenue Estimating Conference convened on November 1, 2005 to adopt the forecasts for the Gross Receipts and Communications Services taxes. While the sales tax estimate for communications services was reduced from the original forecast after the first year, gross receipts tax collections were raised significantly throughout the forecast period.

- **Gross Receipts Tax on Electricity-** The Conference discussed the recent tax collection pattern since the last estimate was adopted in the March 2005 meeting. Collections for FY 2004-05 were \$9.4 million below estimate. Most of this error was due to a revenue forecast that was premature in recognizing higher costs for fuels to generate electricity that would be passed on to customers. Also, hurricane cost recovery surcharges were not implemented as quickly as had been expected last March.

In the new forecast, recent disruptions in oil and natural gas markets resulting from Hurricanes Katrina and Rita are resulting in much higher fuel costs to Florida's electric utilities. The fuel adjustment components of electric rates were insufficient to cover the actual fuel costs during 2005. These costs will be recovered in 2006. Furthermore, higher fuel costs through 2006 are anticipated. The revised forecast for FY 2005-06 reflects an increase of \$16 million in tax collections, on the basis of higher fuel cost adjustments in electric rates beginning in January 2006. A 9.9% increase in tax collections is projected for FY 2006-07, as the fuel adjustment charges are fully felt in tax collections. Reductions in demand due to higher prices were also taken into account in this forecast.

- **Gross Receipts Tax on Gas Fuels-** Tax collections on gas fuels were over estimate for FY2004-05 by \$2.7 million. For FY 2005-06, the new forecast is an increase of \$9.9 million over the old estimate, and is 40% higher than the prior year. The influence of market prices is much stronger in this tax source than in electricity, but the increase in the forecast is being driven by the same factors. After the current fiscal year, collections are expected to decline as gas prices moderate.
- **Communications Services Tax-** Tax collections on the Communications Services Tax (CST) have also been higher than expected. Much of the strength is coming from strong demand for cellular phone services. In addition, the expected negative impact from the passage of the federal Internet Tax Nondiscrimination Act (ITNA), has not materialized as quickly as anticipated at the March 2005 estimating conference. For FY 2004-05, the Gross Receipts Tax component of the CST was over estimate by \$16.1 million (+4.1%) while the State tax component was over by \$7.1 million (+0.8%). For FY 2005-06, the Gross Receipts Tax component was increased by \$36.2 million, partly due to delaying the effect of ITNA from July 2005 to January 2006 as well as strong demand for cellular phone services in the near term. With respect to the State Tax portion of the CST, an increase in the forecast of \$45.4 million for next year is nearly all due to the delay in the impact of ITNA.
- **Background on the Internet Tax Nondiscrimination Act-** "Internet access" as amended by the ITNA now includes telecommunications services "purchased, used, or sold by a provider of Internet access to provide Internet access." Additionally, the Internet Tax Freedom Act allows communications companies to exclude from taxation charges for Internet access bundled for a single price with taxable services. Under Florida's Communications Services Tax, when charges for Internet access are not separately stated on a customer's bill, the entire charge is taxed, regardless of whether the charge includes Internet access or telecommunications used to provide Internet access. The Conference expects that competitive pressures will result in changes in how telecommunications providers bill for services, in order to reduce their Communications Services Tax liability. The estimates of the impact of the Federal legislation are based upon the best information currently available to the conference, but it should be noted that as of this date, tax collections have not been materially affected by this law change, and the ITNA estimates may be subject to substantial revision when the actual effect of the law change becomes evident in the Communications Services Tax collections. Additionally, it should also be noted that although the ITNA itself is scheduled to expire in 2007, the policy of exempting internet access from taxation is presumed to continue throughout the forecast horizon.

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.

Public Education Capital Outlay and Debt Service Trust Fund:

The Public Education Capital Outlay Program addresses educational facilities construction and fixed capital outlay needs for school districts, community colleges, and universities. The Revenue Estimating Conference met on November 4, 2005 to project the maximum dollars available for appropriation from the Public Education Capital Outlay (PECO) and Debt Service Trust Fund. At the meeting, the Conference more than doubled the previous forecast for PECO in the upcoming fiscal year, bringing the total to \$1399.3 million. Of this amount, \$1097.3 million is from the sale of bonds, up from \$666.4 million in the old forecast, and \$302.0 million will be available as cash.

Several factors have led to the change in the forecast:

- Almost all of the increase in the bond sale is due to the new Gross Receipts Tax forecast, which was increased by \$62.2 million this year, a 7% increase. This large increase is generating an even larger increase in bonding capacity.
- Moreover, the favorable interest rate environment has allowed two bond refinancings to take place since the last estimating conference. The lower debt service achieved through these refinancings is generating an additional \$55 million of bonding capacity. Over the last eight years, refinancing activity has generated over \$400 million in additional bonding capacity.
- In addition, the 2005 Legislature did not appropriate the maximum amount available from the March estimating conference. As a result, unused bonding capacity from the current fiscal year has been included in the 2006-07 fiscal year estimates.

Senate Bill 360, which passed last session, required that a portion of Documentary Stamp Tax collections be redirected to the PECO Trust Fund. These distributions were to be available as cash for the specific purposes named in the bill. The estimates provided here do not include these cash distributions to the trust fund.

	PECO Appropriations	Estimated PECO Bonding
FY 2005-06	844.4	616.3
FY 2006-07	1399.3	1097.3
FY 2007-08	659.8	471.0
FY 2008-09	386.4	193.4
FY 2009-10	481.9	317.0
FY 2010-11	420.0	263.0

FY 2011-12	425.0	256.2
FY 2012-13	454.6	279.4
FY 2013-14	813.8	617.8
FY 2013-14	675.5	469.2

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. While the original estimate for Fiscal Year 2005-06 was \$84.7 million, funds available now total \$193.6 million. The additional funds are a result of legislation passed during the 2005 Session that reduced the dormancy period and are nonrecurring in nature. The total amount available for Fiscal Year 2006-07 (including unspent funds from 2005-06) is \$225.9 million. Very little growth is projected for future years.

Tobacco Settlement Trust Fund:

On August 25, 1997, the State of Florida and several major American tobacco companies (Philip Morris Incorporated; R. J. Reynolds Tobacco Company; Brown & Williamson Tobacco Corporation; and Lorillard Tobacco Company) entered into a *Settlement Agreement* that included both non-monetary and monetary provisions related to Florida's financial losses as a result of smokers in the state's Medicaid program. In the Agreement, the tobacco companies agreed to discontinue certain forms of advertising and to support legislative initiatives. These included prohibiting the sale of cigarettes in vending machines and strengthening civil penalties related to the sale of tobacco products to children and possession of tobacco products by children. The tobacco companies also agreed to make annual payments in perpetuity, with the payments structured to be about \$11.3 billion over the first 25 years, subject to certain annual adjustments, primarily for shipment volume and the Consumer Price Index.

The Tobacco Settlement Trust Fund (TSTF) receives the settlement payments. The funds are currently used for programs in the Health and Human Services area.

The current year estimate for the TSTF is \$428.5 million, with an additional \$3.3 million going directly to the Biomedical Research Trust Fund. In Fiscal Year 2006-07, \$384.7 million is expected from payments and \$34.5 million is expected in transfers from the Lawton Chiles Endowment Fund. Settlement payments are expected to grow slowly in the future, but will be negatively affected if nationwide consumption of cigarettes falls more rapidly than expected. Conversely, settlement payments will be positively affected if general price inflation is more rapid than currently projected.

Transportation Revenue and the State Transportation Trust Fund:

The Transportation Revenue Estimating Conference met on November 4, 2005, to adopt the forecast for revenues flowing into the State Transportation Trust Fund. The conference raised the revenue estimate for the work program period (2005-06 through 2010-11) by \$449.9 million, or 2.5%. At the conclusion of the conference, the forecast for every revenue source, with the exception of Fuel Use Tax and Fees, was increased. (Changes in the forecast discussed below all refer to the work program period.)

- The projection for revenues from Highway Fuel consumption, which includes the Highway Fuel Sales Tax and the SCETS Tax, was increased by \$314.7 million, or 2.8%. A significant part of this change is attributable to the statutorily required indexing of the tax rate to the Consumer Price Index (CPI). As inflation expectations increase, so do the revenues from these sources. Rebuilding due to the hurricane damage occurring in 2004 and 2005 also contributed to the increase, particularly in the early years of the forecast.
- The Aviation Fuel Tax forecast was increased by a minimal \$1.1 million, or .3%. This source is continuing to show some rebounding from the weak period following the terrorist attack on the World Trade Center.
- A similar story can be told for the Rental Car Surcharge, which is predicted to be \$29.3 million, or 4.6%, higher than in the old forecast.
- Off-Highway Fuel Sales Tax was increased by \$22.0 million, or 70.3%. It is likely that this source has been highly influenced by the post-hurricane rebuilding.

The STTF outlook is improved in the license and registration area also. The majority of the increase is coming from Motor Vehicle License revenues, which are forecast to be higher by \$38.6 million or 1.1%. Strength in heavy truck/tractor revenues contributed largely to the change. Initial Registration Fees and Title Fees were increased by \$44.3 million, or 2.6%.

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 2005 Debt Affordability Report prepared by the Division of Bond Finance.

Debt Outstanding

Total State debt outstanding at June 30, 2005 was \$22.5 billion, \$1.3 billion more than at June 30, 2004. Net tax-supported debt totaled \$17.5 billion for programs supported by State tax revenues or tax-like revenues. The self-supporting debt totaled \$5.0 billion, representing debt secured by revenues generated from operating facilities financed with bonds. In addition to the \$22.5 billion in state debt, indirect State debt at June 30, 2004 was \$6.5 billion. Indirect debt is debt that is not secured by traditional State revenues or is the primary obligation of a legal entity other than the State of Florida, such as the Florida Housing Finance Corporation, Citizens Property Insurance Corporation and University Direct Support Organizations.

Debt Capacity

The debt capacity available within the 6% target is \$16.7 billion over the next ten years. However, only \$1.6 billion is available over the next three years.

The debt capacity available within the 7% cap is approximately \$23.6 billion over the next ten years. However, only \$6.4 billion is available over the next three years. The Division of Bond Finance 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 \$9.6 billion of debt is expected to be issued over the next ten years for all of the State's financing programs which are currently authorized. This estimate is approximately the same as the previous projection of expected debt issuance. An increase in expected PECO borrowing of \$765 million is offset by decreases in expected issuance for bonds that were issued during the year, such as Lottery and Right-of-Way. 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 \$1.6 billion to \$2.2 billion by Fiscal Year 2012-13, assuming projected bond issuance of \$9.6 billion. The increase in annual debt service requirements was less than historical increases because less tax-supported debt was issued and significant refinancing activity to lower interest rates reduced future debt service payments.

Overview of the State's Credit Ratings

The State earned an upgrade in its credit rating from all three nationally recognized rating agencies during the past year. The State also attained its first "AAA" rating, the highest rating category available. The rating upgrades were due to several factors including the State's conservative financial management and budgetary practices coupled with strong reserves and a robust economy. Higher ratings mean that future borrowing will be cheaper.

Strong reserves were one of the factors cited by the rating agencies in upgrading the State's credit ratings. The combined balance of the Budget Stabilization and General Funds was \$4.6 billion or 18.3% of general revenues at June 30, 2005. This level of reserves is unprecedented, and an important indicator of financial strength.

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 improved from 5.94% for Fiscal Year 2003-04 to 5.36% for Fiscal Year 2004-05. The improvement is due to higher than expected revenues. The ratio is projected to remain well within the 6% target during the foreseeable future, based on expected debt issuance and the current revenue forecast. However, it does not include the impact of any additional bonding to provide funding for class size reduction beyond the \$600 million of Lottery Bonds authorized in Fiscal Year 2002-03.

A comparison of 2004 ratios shows that Florida's debt ratios are generally higher than the national and Ten State Peer Group averages. However, the State ranking has seen improvement. Florida moved from the second to the third highest ratio for the benchmark debt ratio of debt service to revenues within the peer group. Florida also moved from fourth to fifth in rank of the highest net tax-supported debt as a percentage of personal income and debt per capita within the peer group.

2004 Comparison of Florida to Peer Group and National Medians			
	Net Tax-Supported Debt as a % of Revenues	Net Tax-Supported Debt as a % of Personal Income	Net Tax-Supported Debt Per Capita
Florida	5.94%	3.22%	\$971
Peer Group Mean	4.75%	3.99%	\$1,340
National Median	Not Available	2.40%	\$703

FLORIDA INFRASTRUCTURE ANALYSIS

State Infrastructure

At any given time, the inventory of the state's infrastructure is in flux. For the state fiscal year ending June 30, 2004¹, the state reported an aggregate of \$51.1 billion in total capital assets (e.g. land, facilities, buildings, roadways, bridges, equipment, etc.). However, this figure does not include the value of projects appropriated in the current fiscal year that are currently in the design, construction or acquisition phase. Moreover, based on the most recently submitted state agency budget requests, the aggregate fixed capital outlay requests for each of the next three fiscal years are as follows: 2006-07 - \$ 11.5 billion; 2007-08 - \$ 6.5 billion; and, 2008-09 - \$ 5.9 billion. These amounts include funding for infrastructure that will be directly owned by the state, as well as state investments in infrastructure that will be owned by political subdivisions, regional and local agencies, and units of government.

Current transportation infrastructure includes 41,295 lane miles of roadway and 6,407 bridges. Nearly 43 percent of the roadway lane miles are located in just 11 counties, while nearly 57 percent of the bridges are located in 11 counties. Miami-Dade County has both the most miles of roadway with almost 2,600 lane miles and the most bridges with 649. Union County has the least lane miles at approximately 115, and Gilchrist has the least number of bridges with 6.

Current items listed on the State Facilities Inventory as infrastructure include 3,789 buildings² with a total of 54,762,009 square feet of space. Slightly over 56 percent of the square footage of space is located in just 11 counties. Leon County has the greatest square footage of space with 10,030,267 square feet, while Glades County actually has no square footage listed on the inventory.

Current land infrastructure includes 28,746 parcels representing a total of 5,280,319 acres of land. Nearly 68 percent of the acreage is located in just 16 counties. Broward County has the most acres of land at almost 380,468 acres. Lafayette County has the least number with approximately 303 acres.

¹ The value of these assets for the state fiscal year ending June 30, 2005 is presently not available. Financial data for inclusion in the Consolidated Annual Financial Report (CAFR) for the state fiscal year ending June 30, 2005 is currently being compiled by the Department of Financial Services for submission to the Auditor in late December 2005. The Auditor's report is scheduled for late January 2006 and the 2005 CAFR will be published and distributed in late February or early March 2006.

² Facilities of the State Board of Administration, Board of Regents, the Community College System, Water Management Districts, local school districts, and private correctional facilities are not included. In addition, roadways, bridges, and like structures are not included. Facilities with less than three thousand square feet in gross area are not included unless they are part of a larger facility campus. A total of 21 parking garages are included.

The state funds fixed capital³ projects via fixed capital outlay⁴ budget issues. Three state agencies have primary responsibility for maintaining an inventory of state infrastructure. The agencies are the Departments of Transportation, Environmental Protection, and Management Services. The following table provides each agency and a summary of the respective infrastructure inventory maintained by that particular agency:

Agency	Infrastructure Inventory	Examples
1. Department of Transportation	Transportation	▪ State, Federal, Interstate Highways ▪ Interchanges ▪ Traffic Signals ▪ Rest Areas ▪ Turnpike Facilities and Roadway
2. Department of Management Services	State Buildings and Facilities ⁵	▪ Office Building Space ▪ Special Use Space ▪ Warehouse and Storage Space ▪ Related Infrastructure
3. Department of Environmental Protection	Land	▪ Conservation Lands ▪ Non-Conservation Lands ▪ Surplus Lands

The following tables provide: existing infrastructure inventory; funded projects in planning, under construction or in acquisition; and, proposed projects planned for the next three state fiscal years. Many of items shown in the out-years are subject to legislative appropriation and are simply drawn from agency requests.

³ Fixed capital assets are capital assets less equipment, e.g. land, facilities, buildings, roadways, and bridges.

⁴ “**Fixed capital outlay**” means the appropriation category used to fund real property (land, buildings, including appurtenances, fixtures and **fixed** equipment, structures, etc.), including additions, replacements, major repairs, and renovations to real property which materially extend its useful life or materially improve or change its functional use and including furniture and equipment necessary to furnish and operate a new or improved facility, when appropriated by the Legislature in the **fixed capital outlay** appropriation category.

⁵ Excluding State University System and Community College buildings and facilities.

Transportation Infrastructure

- **Inventory**
 - Roadway - 41,295 lane miles, Bridges - 6,407
 - Other Infrastructure
 - Tri-Rail Corridor - \$276,000,000⁶, Rail Track - \$44,000,000
 - Bus Fleet Maintenance and Training Center (Tallahassee) - Value Unknown
 - Belle Glade State Municipal Airport⁷, Palm Beach County - Value Unknown
- **Funded Projects in Planning/Construction/Acquisition Process (SFY 2005-06)**
 - New Roadway - 222 lane miles - \$712,800,000
 - Other Infrastructure
 - Bridge Replacement - 24 Bridges - \$28,100,000
 - Roadway Rehabilitation - 3,433 lane miles - \$1,379,600,000
 - Public Transportation Projects - 390 Projects - \$298,500,000
 - Other Capital - \$4,994,200,000
- **Planned Projects**
 - **FY 2006-07**
 - New Roadway - 156 lane miles - \$337,900,000
 - Other Infrastructure
 - Bridge Replacement - 9 Bridges - \$61,000,000
 - Roadway Rehabilitation - 3,420 lane miles - \$1,093,000,000
 - Public Transportation Projects - 198 Projects - \$240,000,000
 - Other Capital - \$3,937,100,000
 - **FY 2007-08**
 - New Roadway - 239 lane miles - \$574,400,000
 - Other Infrastructure
 - Bridge Replacement - 11 Bridges - \$27,500,000
 - Roadway Rehabilitation - 3,405 lane miles - \$1,312,200,000
 - Public Transportation Projects - 182 Projects - \$94,600,000
 - Other Capital - \$3,396,000,000
 - **FY 2008-09**
 - New Roadway - 215 lane miles - \$476,400,000
 - Other Infrastructure
 - Bridge Replacement - 14 Bridges - \$103,900,000
 - Roadway Rehabilitation - 3,307 lane miles - \$1,007,600,000
 - Public Transportation Projects - 135 Projects - \$79,300,000
 - Other Capital - \$3,358,400,000

⁶ Values represent historical costs.

⁷ The airport is owned by the State of Florida versus FDOT.

Buildings and Facilities Infrastructure

- **Inventory**
 - **Buildings/Facilities**
 - Department of Corrections - 1,747 buildings/facilities - 17,164,118 square feet
 - Other Agencies - 2,042 buildings/facilities - 37,597,611 square feet
- **Funded Projects in Planning/Construction/Acquisition Process**
 - **Buildings/Facilities**
 - 270 Active Projects⁸, total budget \$57,932,661⁹
- **Other Planned Projects**
 - **FY 2006-07**
 - **Fixed Capital Outlay**¹⁰
 - Department of Corrections Facilities - \$117,215,784
 - Other Agencies¹¹ - \$1,004,724,093
 - **FY 2007-08**
 - **Fixed Capital Outlay**
 - Department of Corrections Facilities - \$17,442,867
 - Other Agencies - \$1,052,641,877
 - **FY 2008-09**
 - **Fixed Capital Outlay**
 - Department of Corrections Facilities - \$17,201,895
 - Other Agencies - \$884,818,899

Land Infrastructure

- **Inventory**
 - Conservation Lands - 26,004 Parcels¹², 987,808.85 Acres, \$3,553,567,194 Costs¹³
 - Non-Conservation Lands¹⁴ - 2,742 Parcels, 1,051,039 Acres, \$575,693,734 Costs

⁸ The bulk of these projects are for renovation, repair, replacement or upgrades. According to an analysis performed by the Department of Management Services, excluding renovation projects that will result in the same square footage serving an increased number of people, there are sixteen projects totaling \$16,271,910, that provide additional capacity.

⁹ Source: Fixed Capital Outlay Management System report run on November 23, 2005, 3:40 PM

¹⁰ Schedule B, Agency Legislative Budget Request for SFY 2006-07, includes all fixed capital outlay items, e.g., buildings and facilities renovation/repair, buildings and facilities planning, design or construction, major equipment acquisition, funding to regional and local units of government for capital projects, etc.

¹¹ Other Agencies does not include DOT, DOE, and DEP's State Lands Land Administration FCO requests, which are reflected elsewhere in this document.

¹² The number of parcels represents the number of instruments/deeds.

¹³ Cost data must be considered unreliable as some of the costs of aged acquisitions are based on the amount depicted on the face of the final deed (e.g., "\$10 and other valuable consideration") and may not represent the true costs to the state of acquiring the parcel.

¹⁴ The non-conservation category includes surplus lands.

- **Funded Projects in Planning/Construction/Acquisition Process**
 - o Conservation Lands - 669 Parcels, 13,846 Acres, \$33,700,754 Costs
 - o Non-Conservation - 1 Parcel, 24 Acres, \$350,000 Costs
- **Planned Projects**
 - o **FY 2006-07**
 - The Department of Environmental Protection has included \$864,881,520 in Fixed Capital Outlay funds in its agency budget request for state lands administration. Of that amount, \$381,450,000¹⁵ is identified for debt service for new issues.
 - There are currently 2,062,949¹⁶ acres of land included on the department's list of prioritized conservation lands for potential acquisition.
 - o **FY 2007-08 and FY 2008-09**
 - The Department of Environmental Protection did not reflect any amounts in Fixed Capital Outlay request for state fiscal years beyond FY 2006-07 in its agency budget request for state lands land administration.
 - There are currently 2,062,949¹⁷ acres of land included on the department's list of prioritized conservation lands for potential acquisition.

State Investment in Regional and Local Infrastructure

State government, very much like the federal government, participates in the provision of infrastructure to its subdivisions, regional and local units of government¹⁸. The state participates through direct appropriation¹⁹ or the provision of authority for the issuance of debt through a variety of general obligation or revenue bonding mechanisms, such as the Public Education Capital Outlay (PECO) bonding process.

The following tables provide the amount of funds appropriated or authorized via bonding for investment in regional and local infrastructure projects for the existing state fiscal year (FY 2005-06) and those projected for the upcoming state fiscal year (FY 2006-07):

¹⁵ \$10,130,000 of this amount is identified for Save Our Everglades debt service.

¹⁶ Very recent acquisitions may not be reflected in this amount.

¹⁷ Very recent acquisitions may not be reflected in this amount.

¹⁸ For the purposes of this section, the individual universities that make up the State University System and Community Colleges are considered regional or local entities.

¹⁹ Direct appropriations can be either a direct appropriation for a particular project or appropriations to a state administered program that provides grant or loan funding for various projects.

Infrastructure Investments

- **Public Education Infrastructure²⁰**
 - **State Universities**
 - FY 2005-06 - \$272,376,039
 - FY 2006-07²¹ - \$344,599,578
 - **Community Colleges**
 - FY 2005-06 - \$240,084,048
 - FY 2006-07 - \$170,618,036
 - **Public School Districts**
 - FY 2005-06 - \$ 262,235,375
 - FY 2006-07 - \$ 173,423,008
 - **Other²²**
 - FY 2005-06 - \$ 111,352,677
 - FY 2006-07 - \$42,398,074
 - **Debt Service²³**
 - FY 2005-06 - \$ 756,520,000
 - FY 2006-07 - \$ 797,864,019
- **Land²⁴**
 - **FY 2005-06** - Florida Forever - \$105,000,000, Florida Communities Trust - \$66,000,000, Florida Recreation Development Assistance Program - \$6,000,000
 - **FY 2006-07** - Florida Forever - \$105,000,000, Florida Communities Trust - \$66,000,000, Florida Recreation Development Assistance Program - \$6,000,000
- **Water**
 - **FY 2005-06** - \$40,488,904
 - **FY 2006-07** - \$22,792,728

²⁰ The funding listed is from the Public Education Capital Outlay and Debt Service Trust Fund and General Revenue Fund. In addition, \$1,528,902,715 has been requested from General Revenue, \$51,000,000 from the Educational Enhancement Trust Fund for Fiscal Year FY 2006-07, as well as the issuance of \$200,000,000 in prior year authorized lottery bonds for capital expenditures to meet classroom size reduction goals. An additional \$146,100,000 is requested for FY 2006-07 for debt service and other purposes from other education trust funds.

²¹ The maintenance and repair lump sum request was apportioned among State Universities, Community Colleges and Public School Districts in the same proportion as the 2005-06 appropriation for this category.

²² Other includes: Special Facilities; School for the Deaf & Blind; Vocational-Technical; Grants & Aid and Other.

²³ Debt Service is the amount appropriated to meet the annual debt service requirements on Public Education Capital Outlay bonds issued in the past.

²⁴ Expenditures for land in this category are primarily for conservation purposes via the Florida Forever Program.

- **Wastewater**
 - o **FY 2005-06** - \$252,369,644
 - o **FY 2006-07** - \$203,678,522
- **Stormwater**
 - o **FY 2005-06** - \$45,389,185
 - o **FY 2005-06** - \$40,500,000
- **Other**²⁵
 - o **FY 2005-06** - \$82,948,000
 - o **FY 2006-07** - Unknown

²⁵ Other means other environmental capital outlay projects not classified as water, wastewater or stormwater.

Total State Appropriations
Expenditure Projections (millions)

<u>Recurring</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
General Revenue	24,818.5	26,109.3	27,931.0	29,936.5
change		1,290.8	1,821.7	2,005.5
% change		5.2%	7.0%	7.2%
Educational Enhancement TF	839.8	1,031.8	1,037.4	1,049.1
change		192.0	5.6	11.7
% change		22.9%	0.5%	1.1%
Tobacco Settlement TF	412.3	412.3	412.3	412.3
change		0.0	0.0	0.0
% change		0.0%	0.0%	0.0%
Other Trust	21,048.8	21,564.2	22,690.0	23,856.0
change		515.4	1,125.8	1,166.0
% change		2.4%	5.2%	5.1%
TOTAL	47,119.4	49,117.6	52,070.7	55,253.9
change		1,998.2	2,953.1	3,183.2
% change		4.2%	6.0%	6.1%
<u>Nonrecurring</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
General Revenue	1,789.4	606.3	579.2	563.7
change		-1,183.1	-27.1	-15.6
Educational Enhancement TF	85.5	0.0	0.0	0.0
change		-85.5	0.0	0.0
Tobacco Settlement TF	10.9	0.0	0.0	0.0
change		-10.9	0.0	0.0
Other Trust	10,645.3	8,522.7	8,201.1	7,812.0
change		-2,122.6	-321.6	-389.1
TOTAL	12,531.1	9,129.1	8,780.4	8,375.7
change		-3,402.0	-348.7	-404.6
<u>TOTAL</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
General Revenue	26,607.9	26,715.6	28,510.2	30,500.2
change		107.7	1,794.6	1,990.0
% change		0.4%	6.7%	7.0%
Educational Enhancement TF	925.3	1,031.8	1,037.4	1,049.1
change		106.5	5.6	11.7
% change		11.5%	0.5%	1.1%
Tobacco Settlement TF	423.2	412.3	412.3	412.3
change		-10.9	0.0	0.0
% change		-2.6%	0.0%	0.0%
Other Trust	31,694.1	30,087.0	30,891.2	31,668.0
change		-1,607.1	804.2	776.9
% change		-5.1%	2.7%	2.5%
TOTAL	59,650.5	58,246.6	60,851.1	63,629.6
change		-1403.8	2604.4	2778.6
% change		-2.4%	4.5%	4.6%

Health & Human Services

Expenditure projections (\$ millions)

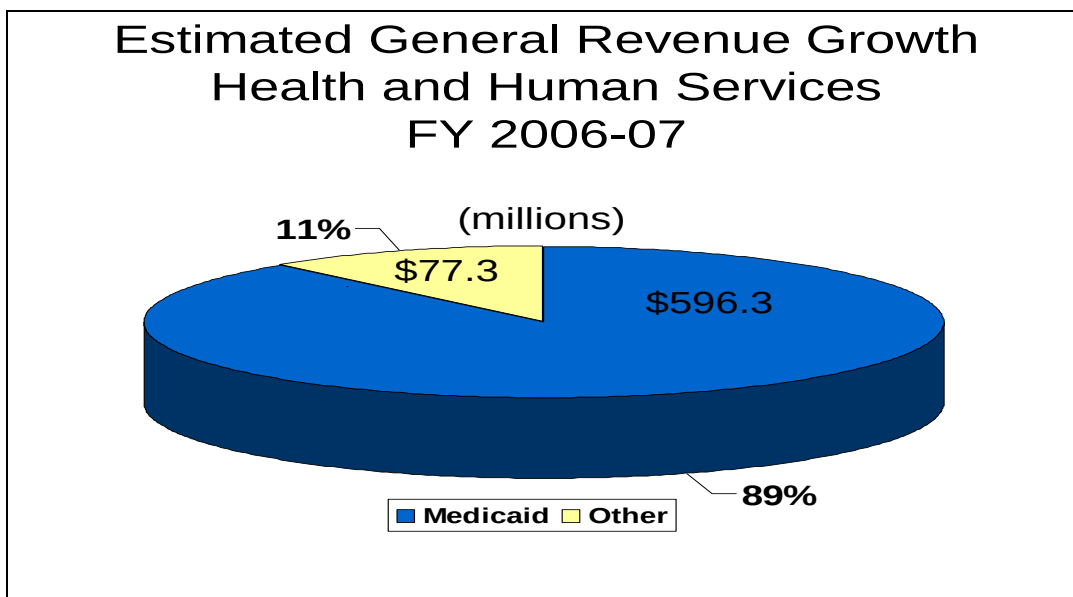
<u>Recurring</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
General Revenue	6,972.9	7,646.5	8,215.4	8,854.3
change		673.6	568.9	638.9
% change		9.7%	7.4%	7.8%
Tobacco Settlement TF	412.3	412.3	412.3	412.3
change		0.0	0.0	0.0
% change		0.0%	0.0%	0.0%
Other Trust	14,956.4	15,225.9	16,083.4	16,974.3
change		269.5	857.5	890.9
% change		1.8%	5.6%	5.5%
TOTAL	22,341.6	23,284.7	24,711.1	26,240.9
change		943.1	1,426.4	1,529.9
% change		4.2%	6.1%	6.2%
 <u>Nonrecurring</u>	 <u>2005-06</u>	 <u>2006-07</u>	 <u>2007-08</u>	 <u>2008-09</u>
General Revenue	62.6	10.6	10.6	10.6
change		-52.0	0.0	0.0
Tobacco Settlement TF	10.9	0.0	0.0	0.0
change		-10.9	0.0	0.0
Other Trust	143.6	2.1	2.1	2.1
change		-141.5	0.0	0.0
TOTAL	217.1	12.7	12.7	12.7
change		-204.4	0.0	0.0
 <u>TOTAL</u>	 <u>2005-06</u>	 <u>2006-07</u>	 <u>2007-08</u>	 <u>2008-09</u>
General Revenue	7,035.5	7,657.1	8,226.0	8,864.9
change		621.6	568.9	638.9
% change		8.8%	7.4%	7.8%
Tobacco Settlement TF	423.2	412.3	412.3	412.3
change		-10.9	0.0	0.0
% change		-2.6%	0.0%	0.0%
Other Trust	15,100.0	15,228.0	16,085.5	16,976.4
change		128.0	857.5	890.9
% change		0.8%	5.6%	5.5%
TOTAL	22,558.7	23,297.4	24,723.8	26,253.6
change		738.7	1,426.4	1,529.9
% change		3.3%	6.1%	6.2%

Health and Human Services Budget Projections

SUMMARY

The budgets under the purview of Health and Human Services Appropriations comprise a combination of state general revenue, 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 \$22.6 billion total budget for this committee for Fiscal Year 2005-06, \$7.0 billion was funded from state general revenue, \$423.2 million was from the Tobacco Settlement Trust Fund, \$3.7 billion was from other state trust funds and \$11.5 billion was from federal trust funds.

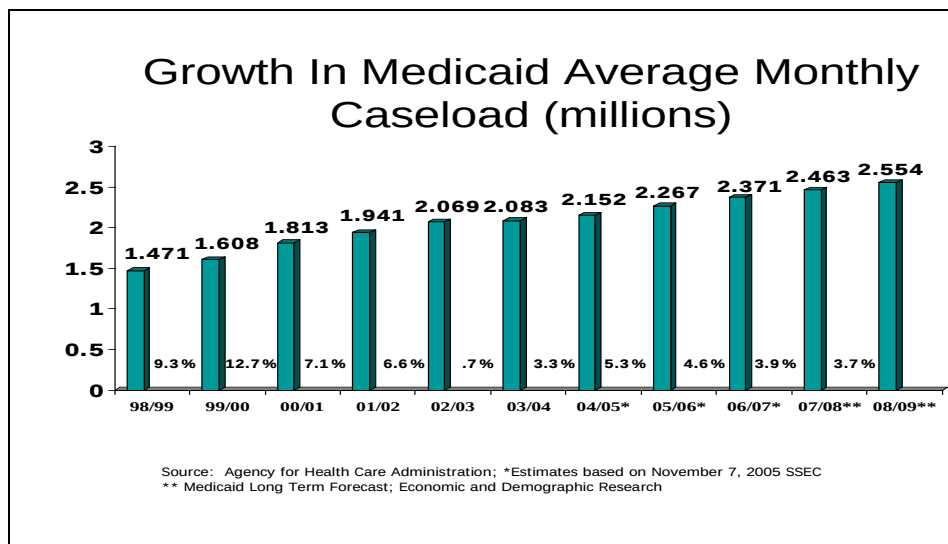
Health and human services recurring general revenue budget requirements are estimated to grow by \$673.6 million in Fiscal Year 2006-07, \$568.9 million in Fiscal Year 2007-08 and \$638.9 million in Fiscal Year 2008-09. The majority of this increase is directly related to the Medicaid program. The estimated increase required for Medicaid services is \$596.3 million in Fiscal Year 2006-07 (89% of total increased need), \$511.2 million in Fiscal Year 2007-08 (90% of total increased need) and \$580.1 million in Fiscal Year 2008-09 (91% of total increased need).



ASSUMPTIONS AND DISCUSSION

General – Projected health and human services budget requirements from general revenue and other state and federal trust funds have been developed for the 2006-07, 2007-08 and 2008-09 fiscal years by adjusting the Fiscal Year 2005-06 funding levels based on workload assumptions and other factors. Issues funded from non-recurring funds in Fiscal Year 2005-06 have not been continued unless specifically added back as new issues. Budgetary requirements for the Medicaid, KidCare, and public assistance programs are determined annually through formal estimating conferences, which project caseloads and program costs.

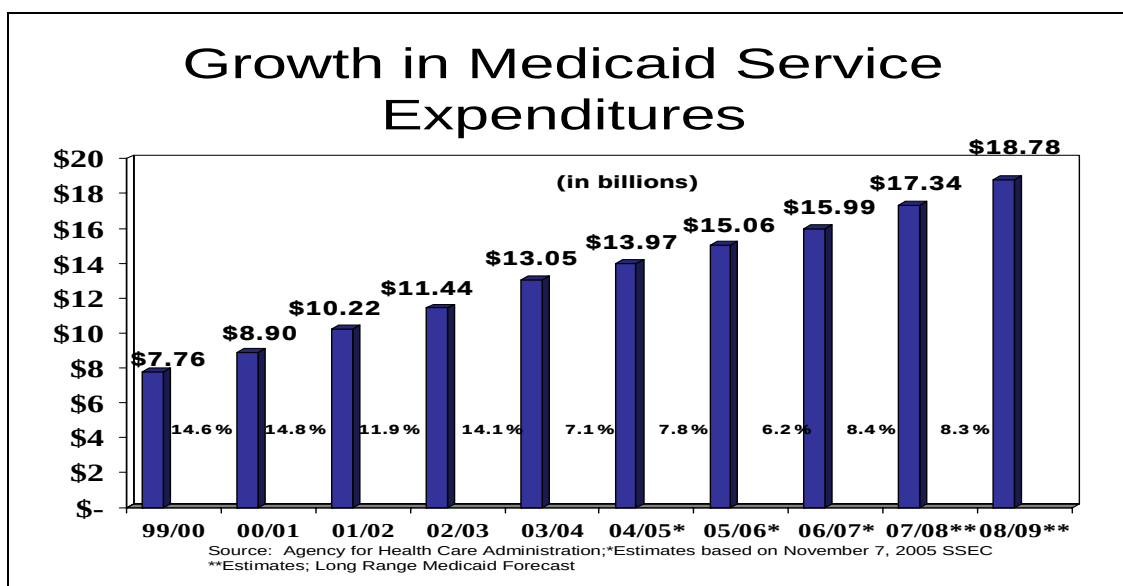
Medicaid Program – Medicaid is the second largest single program in the state budget behind public education, requiring about 17% of state general revenue funds annually, and is the largest source of federal funding for the state. Since Fiscal Year 1999-00, the number of clients receiving Medicaid services has grown from 1.6 million to an estimated 2.2 million in Fiscal Year 2005-06, a 6% 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. The Medicaid caseload is estimated to be 2.3 million in Fiscal Year 2006-07 (a 4.6% increase over the prior year), 2.4 million in Fiscal Year 2007-08 (a 3.9% increase over the prior year) and 2.5 million in Fiscal Year 2008-09 (a 3.7% increase over the prior year).



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. An estimated 30% of the beneficiaries are elderly and disabled yet they account for 72% of Medicaid spending. This reflects the intensive use of acute and long-term care services by this eligibility group. The majority of nursing home residents end up relying on Medicaid once their

care exhausts their savings and they qualify for assistance. In an effort to control long-term care spending, the Medicaid program has promoted less costly alternatives such as home and community-based services, nursing home diversion, and assistive care services.

In Fiscal Year 2005-06, the Medicaid program is expected to spend \$15.1 billion, representing a 7.8% increase over prior year total estimated expenditures (10% increase in general revenue). Over the forecast period, the program is expected to grow as follows: \$16.0 billion in Fiscal Year 2006-07 representing a 6.2% increase (14% increase in general revenue); \$17.3 billion in Fiscal Year 2007-08 representing a 8.4% increase (10% increase in general revenue); and, \$18.8 billion in Fiscal Year 2008-09 representing a 8.3% increase (10% increase in general revenue).



The increasing growth in the Medicaid budget created the need for reforms aimed at developing a sustainable program that is predictable in growth and provides greater flexibility for program participants. To accomplish this, the 2005 Legislature enacted Chapter 2005-133, Laws of Florida, which contains both short and long-term Medicaid reform strategies:

- **Managed Long-Term Care Pilot** – requires implementation of a managed, integrated long-term care capitated payment delivery system for persons age 60 or older in two pilot sites during Fiscal Year 2005-06. The pilots include the full range of health care services, as well as long-term care services built around a managed care model emphasizing home and community-based care. A voluntary pilot will be implemented in Area 1 (Escambia, Okaloosa, Santa Rosa and Ft. Walton) and a mandatory pilot will be implemented in Area 7 (Orange, Osceola, Seminole, and Brevard).
- **Managed Care Pilot** – authorizes the development of a federal waiver to provide risk-based capitation payments to health plans in Duval and Broward counties to provide for a more efficient and effective delivery system that enhances quality of care and client outcomes.

- **Utilization Management** – requires development of a real time, web-based utilization management program to provide Medicaid providers with information to better manage their patients, thereby resulting in lower utilization of services.

In addition to these efforts to contain expenditures, the 2005 Legislature enacted Chapter 2005-60, Laws of Florida, that required modifications to the Medicaid preferred drug list to include mental health drugs on the formulary, step therapy processes, and a more stringent prior authorization process with estimated savings of \$292 million (\$90 million in General Revenue) in Fiscal Year 2005-06.

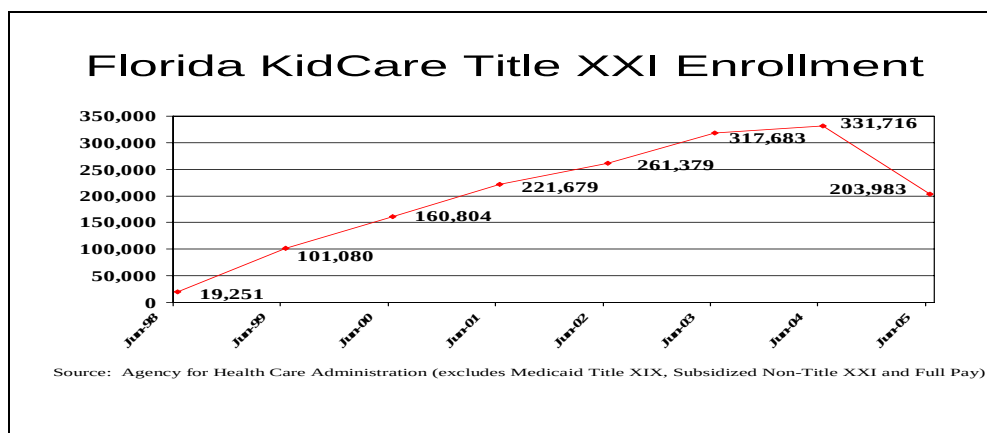
Major policy assumptions and projections for the forecast period are described below:

- **Medicaid Workload/Price Level** – The estimated costs for caseload growth, utilization and inflation were projected based on historical trends and methodologies used by the Medicaid Social Services Estimating Conference held in November, 2005. The Federal Medical Assistance Percentage (FMAP) is 58.90% for Fiscal Year 2005-06, and is assumed to be 58.80% in Fiscal Years 2006-07, 2007-08 and 2008-09. The FMAP may decrease as a result of counting hurricane assistance as personal income.
- **Medicare Prescription Drug Program** – This estimate includes the impact related to the Medicare/Medicaid dually eligibles receiving prescription drug benefits under the Medicare Part D program effective January 1, 2006. States are required to make monthly general revenue payments to the Medicare program under the “clawback” provision. The following assumptions were made at the Social Services Estimating Conference held in November of 2005: no prescriptions covered by Part D would be paid by Medicaid for all full-dual eligibles; Medicaid coverage will be provided for some non-covered Part D drugs for all full-dual eligibles (such as barbiturates and cough and cold therapies for children); 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. The state would pay \$201.1 million in general revenue funds for the first six months of implementation in Fiscal Year 2005-06 (\$112.05 per full-dual eligible per month - PMPM), \$432 million in Fiscal Year 2006-07 (\$117.41 PMPM), \$458 million in Fiscal Year 2007-08 (\$124.46 PMPM) and \$485.5 million in Fiscal Year 2008-09 (\$131.93 PMPM).
- **Medically Needy Program** – The Medically Needy program was restored effective July 1, 2005 in accordance with Chapter 2005-60, L.O.F. The amount of \$393.3 million (\$161.4 million general revenue) was provided in the Fiscal Year 2005-06 General Appropriations Act to fund the non-pharmacy services. Normal growth and utilization has been included in the workload/price level amount.
- **Pregnant Women 150% to 185% of FPL** – Eligibility for pregnant women from 150% to 185% of the federal poverty level (FPL) was restored effective July 1, 2005 in accordance with Chapter 2005-60, L.O.F. The amount of \$60.8 million

(\$24.6 million general revenue) was provided in the Fiscal Year 2005-06 General Appropriations Act. Normal growth and utilization has been included in the workload/price level amount.

- **Adult Denture Program** – The Adult Denture program was restored effective July 1, 2005 in accordance with Chapter 2005-60, L.O.F. The amount of \$20.7 million (\$8.4 million general revenue) was provided in the Fiscal Year 2005-06 General Appropriations Act. Normal growth and utilization has been included in the workload/price level amount.
- **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, 2006 in accordance with Chapter 2005-60, L.O.F. The additional amount of \$69.6 million (\$28.9 million general revenue) was included in the workload/price level amount.

KidCare Program - The KidCare program provides health insurance to low-income children and is funded at \$531.3 million (\$160.1 million in state funds) in Fiscal Year 2005-06. The 2004 Legislature passed legislation that limited enrollment to open enrollment periods and required additional documentation of family income. As a result of these changes, enrollment in the program has steadily declined. The 2005 Legislature passed legislation that restored continuous enrollment; therefore, enrollment may now occur throughout the year. The Title XXI caseload as of October 2005 is 203,533 (there are an additional 25,276 children enrolled in the program who are non-Title XXI eligible). The current appropriation will fund an estimated 388,862 Title XXI children which leaves about 185,329 open enrollment slots. It is anticipated that enrollment will increase during the remainder of the year as the decline in enrollment has slowed from an average decrease of 3.5% per month from April 2004 to May 2005 to an average decline of 0.5% from June 2005 to October 2005. Until the Legislature readdresses the program, the estimates continue the appropriation at the same level for Fiscal Year 2006-07, Fiscal Year 2007-08 and Fiscal Year 2008-09.



Public Health Needs – The number of persons requiring public health services in Florida continues to rise each year. These projections provide the minimal amounts necessary to assure that services will be available and the federal matching requirements will be met. The number of medically complex children who need services in the Children’s Medical Services program continues to increase and costs have been estimated based on historical trends. Minimal amounts have been included for information technology infrastructure and health education centers.

Department of Children and Families Programs – Projected costs assume growth rates based on historical trends for child welfare, substance abuse, and mental health programs. Estimates also assume continuation of legislative policies to replace non-recurring trust funds with recurring general revenue. In this regard, \$35 million of trust funds in Fiscal Year 2006-07 are replaced, as well as another \$15 million in Temporary Assistance for Needy Families (TANF) funding. In Fiscal Years 2007-08 through 2008-09, the policy is continued, replacing an additional \$15 million of TANF in each year with general revenue.

Agency for Persons With Disabilities – The number of persons requesting developmental services in Florida continues to rise each year and the demand for additional services from those currently receiving services is also rising. The Legislature appropriated additional funds in Fiscal Year 2005-06 to serve approximately 2,400 additional clients in the Home and Community-Based waiver and Family and Supported Living waiver. Because of the phase in of enrollment, surpluses will materialize in the current year. As a result, the projections for Fiscal Year 2006-07 continue the appropriation at the same level. Estimates for Fiscal Year 2007-08 and Fiscal Year 2008-09 provide for a 5% workload increase.

Department of Elder Affairs – The number of elders needing home and community-based services continues to rise each year. Medicaid waiver programs are a cost-effective alternative to nursing home care. These projections provide the minimal amounts necessary to allow for program expansion in the Aged and Disabled Adult home and community-based Medicaid waiver and local services programs.

Department of Veterans’ Affairs – The estimated costs assume a nursing home staffing level of **2.9 hours** of direct care per resident per day effective July 1, 2006 in accordance with Chapter 2005-60, L.O.F.

Education

Expenditure projections (\$ millions)

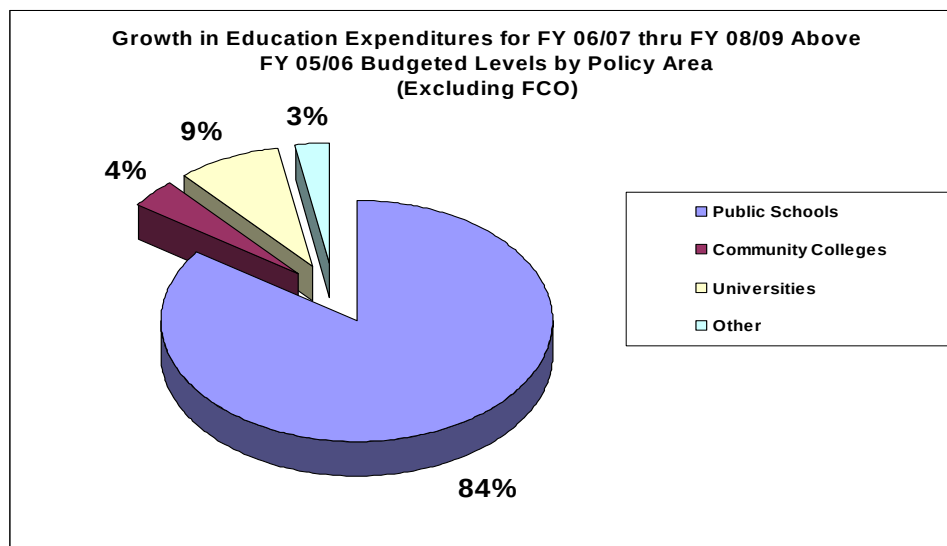
<u>Recurring</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
General Revenue	12,975.5	13,632.8	14,436.2	15,260.3
change		657.3	803.4	824.1
% change		5.1%	5.9%	5.7%
Educational Enhancement TF	839.8	1,031.8	1,037.4	1,049.1
change		192.0	5.6	11.7
% change		22.9%	0.5%	1.1%
Other Trust	76.5	109.5	112.2	114.9
change		33.0	2.7	2.7
% change		43.1%	2.5%	2.4%
TOTAL	13,891.8	14,774.1	15,585.8	16,424.3
change		882.3	811.7	838.5
% change		6.4%	5.5%	5.4%
<u>Nonrecurring</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
General Revenue	263.3	0.0	0.0	0.0
change		-263.3	0.0	0.0
Educational Enhancement TF	85.5	0.0	0.0	0.0
change		-85.5	0.0	0.0
Other Trust	8.2	0.0	0.0	0.0
change		-8.2	0.0	0.0
TOTAL	357.0	0.0	0.0	0.0
change		-357.0	0.0	0.0
<u>TOTAL</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
General Revenue	13,238.8	13,632.8	14,436.2	15,260.3
change		394.0	803.4	824.1
% change		3.0%	5.9%	5.7%
Educational Enhancement TF	925.3	1,031.8	1,037.4	1,049.1
change		106.5	5.6	11.7
% change		11.5%	0.5%	1.1%
Other Trust	84.7	109.5	112.2	114.9
change		24.8	2.7	2.7
% change		29.3%	2.5%	2.4%
TOTAL	14,248.8	14,774.1	15,585.8	16,424.3
change		525.3	811.7	838.5
% change		3.7%	5.5%	5.4%

							Update: Fall 05
EDUCATION - 3 YEAR PROJECTIONS							
Updates: PSEC Conf March 05 / Ad Valorem Conf November 05 / Principal State School TF September 2005 / Lottery Long-Run October 05 / Bright Futures Conf February 05 with EDR model projections / Tuition Policy 7.5% U / 6.0% CC Summary of Annual Appropriations - FY 04/05 thru FY 08/09							
	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	451,730,879	1,469,930,879
	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		626,516,552		626,516,552
	Total - DOE	12,108,145,123	967,259,387	90,900,000	13,166,304,510	7,500,232,118	20,666,536,628
2	2005/06						
	Public Schools	9,519,050,753	343,874,599	84,700,000	9,947,625,352	7,108,205,988	17,055,831,340
	Community Colleges	972,143,946	106,800,000		1,078,943,946	470,563,848	1,549,507,794
	Universities	1,994,765,269	144,700,000		2,139,465,269	884,123,451	3,023,588,720
	Education - Other	752,812,651	329,900,000		1,082,712,651		1,082,712,651
	Total - DOE	13,238,772,619	925,274,599	84,700,000	14,248,747,218	8,462,893,287	22,711,640,505
3	2006/07						
	Public Schools	9,835,451,134	414,457,923	109,500,000	10,359,409,057	8,350,089,761	18,709,498,818
	Community Colleges	940,993,825	134,430,000		1,075,423,825	508,773,632	1,584,197,457
	Universities	2,086,207,760	134,430,000		2,220,637,760	947,064,002	3,167,701,762
	Education - Other	770,165,668	348,500,000		1,118,665,668		1,118,665,668
	Total - DOE	13,632,818,387	1,031,817,923	109,500,000	14,774,136,310	9,805,927,395	24,580,063,705
4	2007/08						
	Public Schools	10,480,325,440	379,870,000	112,200,000	10,972,395,440	9,129,010,664	20,101,406,104
	Community Colleges	987,357,033	128,120,000		1,115,477,033	549,007,450	1,664,484,483
	Universities	2,190,972,530	128,120,000		2,319,092,530	1,012,526,040	3,331,618,570
	Education - Other	777,500,041	401,300,000		1,178,800,041		1,178,800,041
	Total - DOE	14,436,155,044	1,037,410,000	112,200,000	15,585,765,044	10,690,544,154	26,276,309,198
5	2008/09						
	Public Schools	11,154,117,954	351,160,000	114,900,000	11,620,177,954	9,834,438,326	21,454,616,280
	Community Colleges	1,024,139,153	121,970,000		1,146,109,153	591,841,012	1,737,950,165
	Universities	2,297,708,915	121,970,000		2,419,678,915	1,085,035,994	3,504,714,909
	Education - Other	784,363,286	454,000,000		1,238,363,286		1,238,363,286
	Total - DOE	15,260,329,308	1,049,100,000	114,900,000	16,424,329,308	11,511,315,332	27,935,644,640
Major Assumptions:							
- Bright Futures was increased pursuant to the estimate of eligible recipients projected by EDR, working from the November 05 Financial Aid Estimating Conference. Annual tuition increases for the forecast years were estimated at 7.5% for Universities and 6.0% for Community Colleges. - No FRAG increase was provided, keeping the program level. - Recurring 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 05 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 enrollment projections were developed by EDR, based on demographics. University enrollments were based on the 5 Year Enrollment Plan and the BOG funding model. - Not reflected in the above totals is debt service for Lottery-backed bonds used for school construction for Classrooms First and Class Size Reduction. Sufficient projected Lottery revenues have been held back in these projections to fully fund debt service requirements on outstanding bonds and additional debt service to support the issuance of \$200 million of CSR bonds in 2007-08 which have been legislatively authorized but not yet sold. - In Public Schools, Class Size Reduction operating funds are increased each year to meet the constitutional mandate. - In Public Schools, a long-run FTE forecast from EDR and the December 05 Public Schools Enrollment Estimating Conference, were used together with the November 05 Ad Valorem Estimating Conference forecast. - Funding is provided for Voluntary Pre-K in these projections, using February 21 conference figures and January 21 School Readiness data revised to reflect the March population update. - Fixed Capital Outlay is not included in these projections.							

Education Budget Projections

Summary

Recurring expenditures from all funds above the Fiscal Year 2005-06 level for education, exclusive of fixed capital outlay, are projected to increase by \$5.2 billion, or 23%, by Fiscal Year 2008-09. Eighty-four percent of this amount will be for costs associated with public schools, nine percent for state universities, four percent for community colleges, and three percent for other education which includes funding for voluntary pre-kindergarten services.

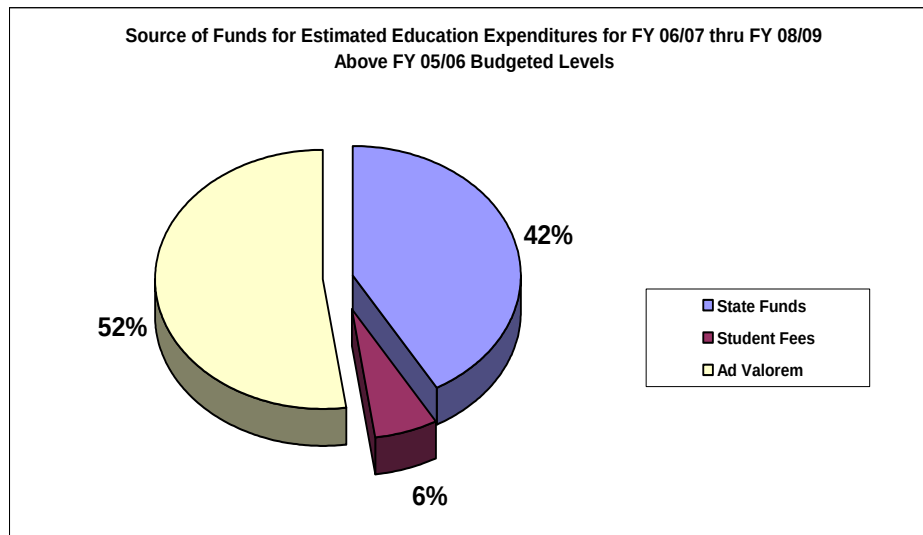


Assumptions and Discussion

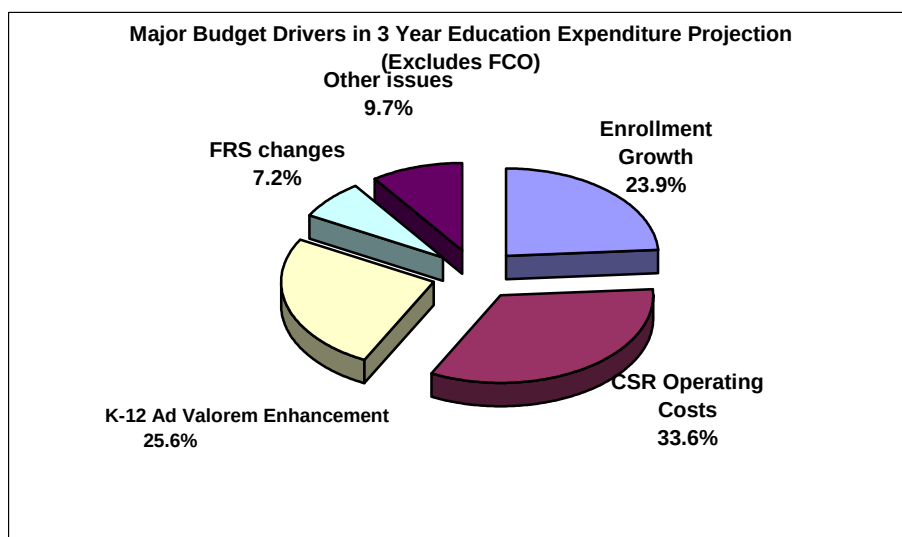
Projected education budget requirements from the General Revenue Fund, Lottery funds, the Principal State School Trust Fund, postsecondary student fees, and ad valorem revenues for public school operations have been developed for the 2006-07, 2007-08, and 2008-09 fiscal years by making adjustments to Fiscal Year 2005-06 education funding levels based on workload assumptions and other factors. Items designated as non-recurring in 2005-06 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 recurring 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 \$2.7 billion, or 38.4%, by Fiscal Year 2008-09. The dollars generated by the projected growth in the ad valorem tax roll are used to support public schools. 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 \$322.2 million by Fiscal Year

2008-09. The balance of the projected growth in recurring expenditures over the three year forecast period is assumed to come from state funds.



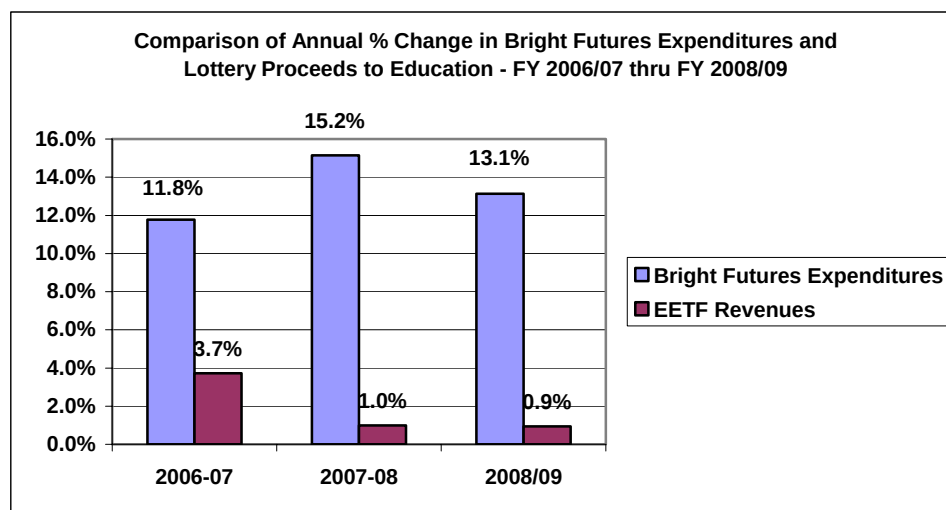
The growth in projected expenditures over the three year period is primarily attributable to four issues: increased student enrollment in public schools (148,132 students), community colleges (16,382 students), and state universities (29,236 students); continued phase-in of constitutionally mandated class size reduction requirements in public schools; increased requirements for employer contribution rates to the Florida Retirement System; and growth in ad valorem funding to support public school operations based on current millage rates.



Additional recurring general revenue of \$1.8 billion by Fiscal Year 2008-09 is provided to reduce the statewide average public school class size by two students annually until the constitutionally mandated maximum class sizes are achieved (the deadline for full

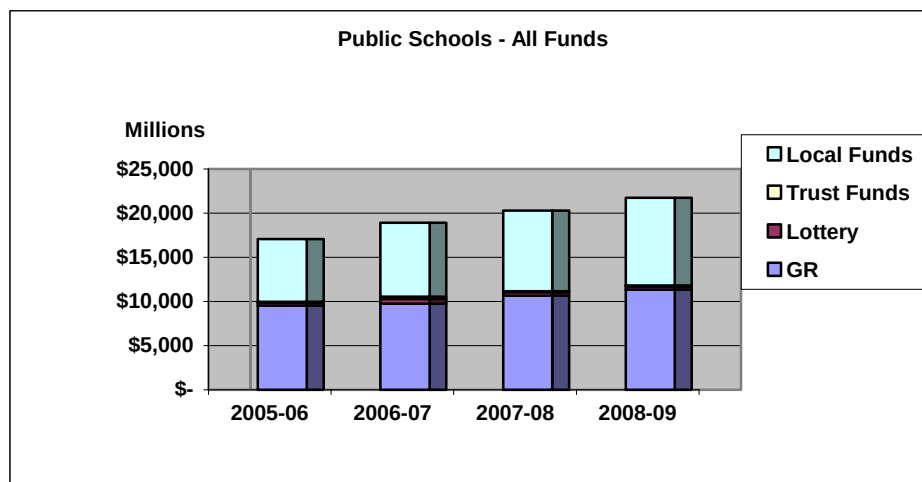
compliance is Fiscal Year 2010-11). This is 33.6% of the total increase forecast for all education budgets for this 3-year projection. General revenue funds are included in the forecast to replace Lottery funds which must be pulled from existing K-20 operating budgets to fund Bright Futures Scholarships. 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 recurring Lottery revenues available to support education for the forecast period are based on the Revenue Estimating Conference projections of October 2005, including law changes from the 2005 session. First, sufficient Lottery revenues were budgeted to fund Bright Futures Scholarship payments based on the number of eligible recipients projected by the Office of Economic and Demographic Research, working from the November 2005 Financial Aid Estimating Conference, using **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.

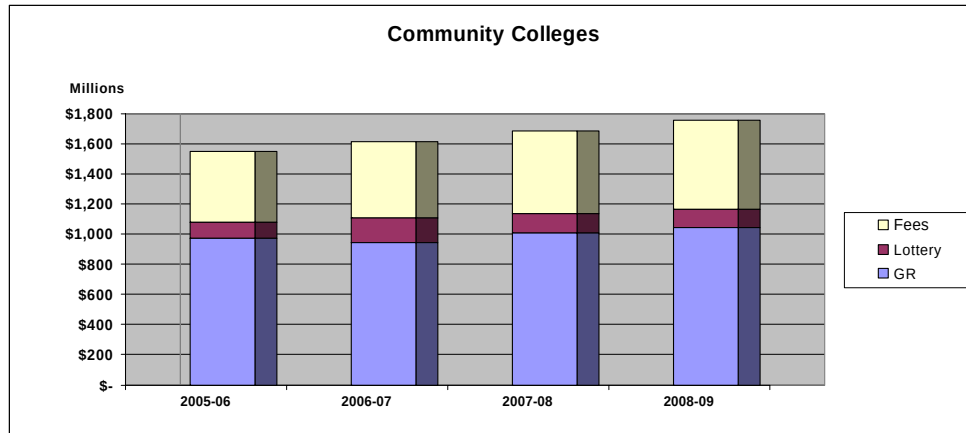


Public School Operating Costs – Ad valorem revenues projected to be available to support public schools were forecasted by applying the **current required local effort (RLE) millage rate** to the projected tax roll for each of the forecast years. The tax rolls for 2006 through 2008 were projected by the Ad Valorem Estimating Conference of

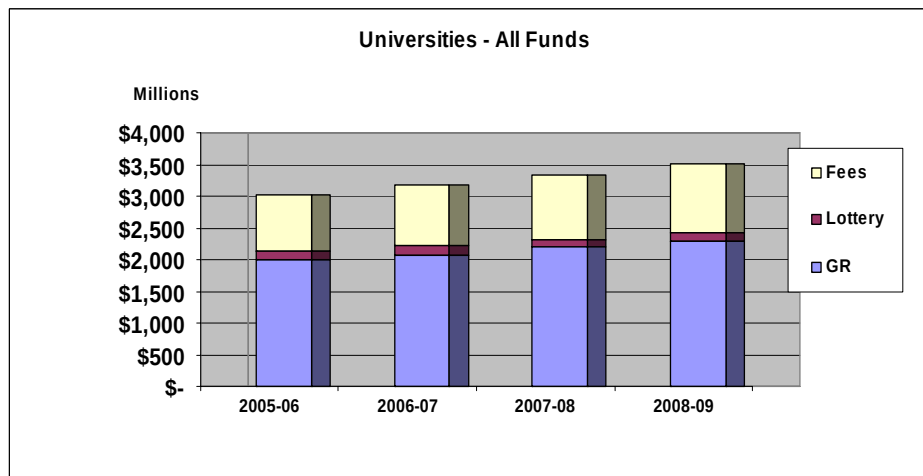
November 2005. The education budget projections fully fund projected student enrollment growth and class size reduction phase-in requirements based on the December 2005 Public School Enrollment Estimating Conference and an Office of Economic and Demographic Research long term forecast. Sufficient new state revenues are provided to continue to fund the phase-in of Class Size Reduction requirements. Based on current millage rates and projected growth in the ad valorem tax roll, increased local revenues will be sufficient to fund enrollment growth and to provide for additional enhancements. 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 2005-06 (such as 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 projected 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 projected 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 2005-06 budget were not continued. Other than the funds available from the tuition increase for general enrollment, no funding is specifically provided for salary increases, or increased employee health insurance requirements.



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 funding model which was adopted by the BOG in FY 2004-05. **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 \$51 million is projected annually to match private donations through the challenge grant program. Items identified as non-recurring in the Fiscal Year 2005-06 budget were not continued. Other than the funds available from the tuition increase for general enrollment, 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.



Other Education – Funding was provided for Bright Futures growth incorporating projected 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 2005-06 appropriation. The lottery for need-based financial aid (primarily non-recurring) was replaced with general revenue, keeping the program level with the Fiscal Year 2005-06 appropriation. The budget projections contemplate that two-thirds of all four-year olds will participate annually in the Voluntary Pre-Kindergarten Program. The average annual funding is maintained at a rate of \$2,500 per participant, and an additional 5% per participant is included for administrative costs of the Early Learning Coalitions. Based on these assumptions, \$387.1 million from general revenue was appropriated for Fiscal Year 2005-06. Due to the projected increase in the number of four-year olds, this amount increases to \$403.3 million in Fiscal Year 2008-09.

Fixed Capital Outlay – FCO funding for the projection includes only the Lottery funding currently authorized for the debt service requirements for the Classrooms First and Classrooms for Kids programs, plus funding for additional debt service to support the issuance of \$200 million for class size reduction bonds in 2007-08 which have been legislatively authorized but not yet sold. There is no additional FCO funding provided for class size reduction in this forecast, because it is currently 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 in the out-years of the forecast.

Criminal Justice/Judiciary

Expenditure projections (\$ millions)

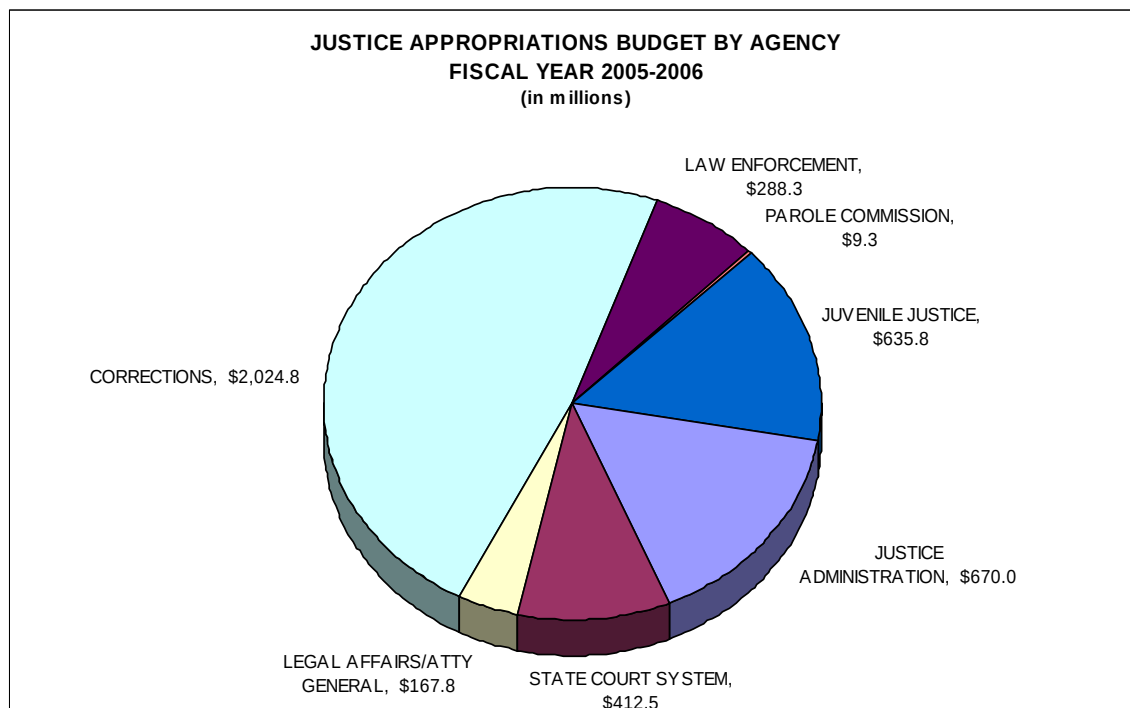
<u>Recurring</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
General Revenue	3,585.3	3,727.7	3,846.2	3,971.9
change		142.4	118.5	125.7
% change		4.0%	3.2%	3.3%
Other Trust	632.9	651.4	666.4	682.2
change		18.5	15.0	15.8
% change		2.9%	2.3%	2.4%
TOTAL	4,218.2	4,379.0	4,512.5	4,654.1
change		160.9	133.5	141.6
% change		3.8%	3.0%	3.1%
<u>Nonrecurring</u>				
General Revenue	63.9	58.0	56.7	49.6
change		-5.8	-1.3	-7.2
Other Trust	7.8	0.0	0.0	0.0
change		-7.8	0.0	0.0
TOTAL	71.6	58.0	56.7	49.6
change		-13.6	-1.3	-7.2
<u>TOTAL</u>				
General Revenue	3,649.1	3,785.7	3,902.9	4,021.5
change		136.6	117.2	118.6
% change		3.7%	3.1%	3.0%
Other Trust	640.7	651.4	666.4	682.2
change		10.7	15.0	15.8
% change		1.7%	2.3%	2.4%
TOTAL	4,289.8	4,437.1	4,569.3	4,703.7
change		147.3	132.2	134.4
% change		3.4%	3.0%	2.9%

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 Appropriations 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, Justice Administration, and the State Court System. The total budget for these agencies is approximately \$4.3 billion dollars. The following chart displays the total appropriations for each agency for Fiscal Year 2005-06.



ASSUMPTIONS AND DISCUSSION

General - Projected justice budget requirements from general revenue for public safety operations have been developed for Fiscal Years 2006-07, 2007-08, and 2008-09 by making adjustments to Fiscal Year 2005-06 criminal justice funding levels. Workload assumptions and other factors were considered in the projections. Items designated as non-recurring in Fiscal Year 2005-06 have not been continued in the projections unless specifically added back as new issues, which are identified in the Committee on Justice Appropriations budget worksheet. The projected four percent increase in recurring expenditures in each of the next three fiscal years in criminal justice programs is based primarily 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. As a result, DOC will need additional budget to staff and operate new prisons.

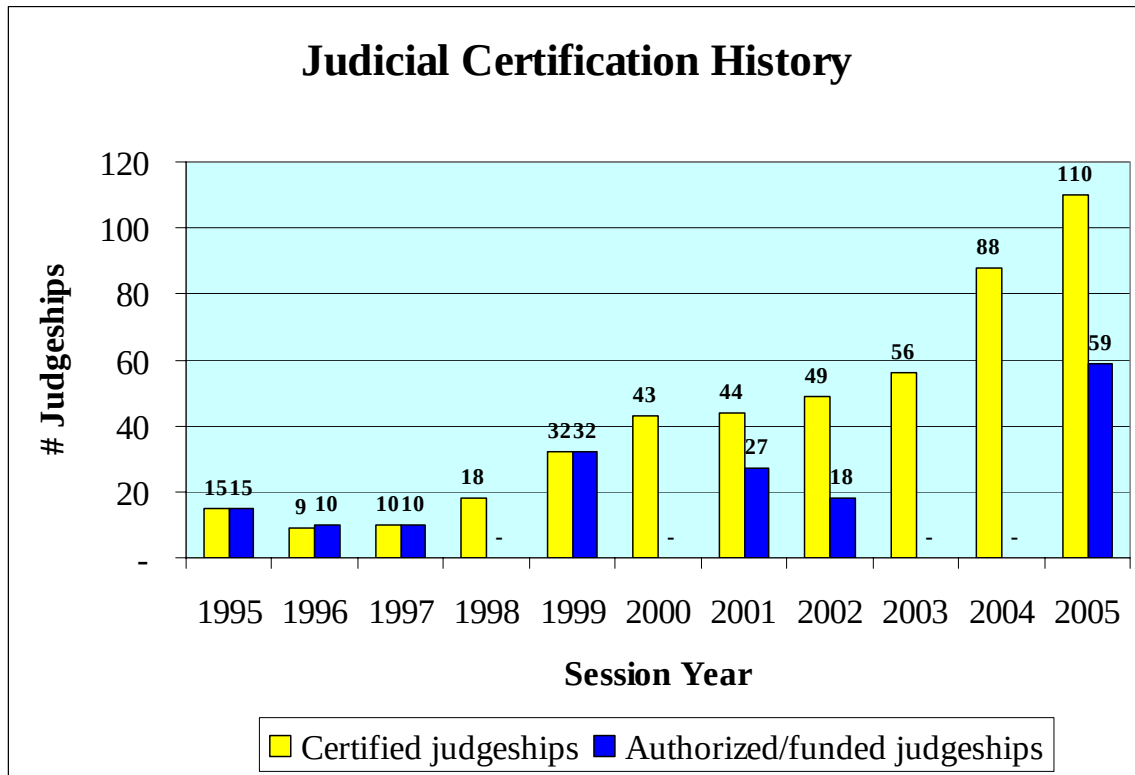
The projected budget requirements for the judicial branch shown in this document are based largely on projected changes in the Consumer Price Index and reflect increases related to workload growth but not general salary increases. Most of the judicial branch budget is comprised of state employee salaries (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.

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 to provide 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 in deep-end services 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 also include \$1 million, based on previous funding levels, for each of the forecasted fiscal years to address general facility repairs and maintenance.

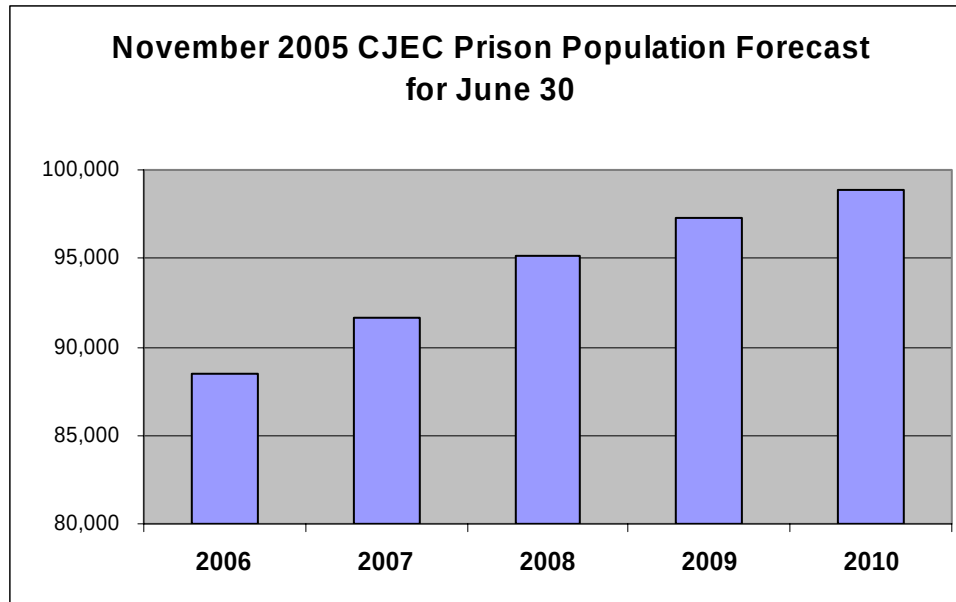
New Judgeships - Estimates of additional judgeship costs are based on judicial certification projections developed by the Office of the State Courts Administrator, adjusted to reflect the historical average percent of the certification actually funded by the Legislature. Although the law requires the 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 the need for new judges. 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 eleven years, new judgeships were

certified/requested in each year, but funded only in seven of the past eleven 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. In recent years, this has been one of the highest priorities for the state attorneys and public defenders. Moreover, 188 new FTEs were funded in a workload issue for state attorneys and public defenders during the last session. 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 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.

Fixed Capital Outlay (FCO) – The three year FCO funding projections for the Department of Corrections include funding for one new prison, one annex, debt service payments, repair and maintenance of existing facilities and prison bed requirements in the Jessica Lunsford Act (Chapter 2005-28).



The FCO funding projection for Fiscal Year 2006-07 includes \$2 million to renovate Desoto Correctional Institution, a 1,213 bed facility to come on line by June 30, 2008. It also includes \$17.2 million for debt service, \$3 million for general repairs and maintenance, and \$1.2 million for beds appropriated for the Jessica Lunsford Act.

The FCO funding projection for Fiscal Year 2007-08 includes \$34.5 million for partial funding of a 2,022 prison bed annex at the Wakulla Correctional Institution. The 2005 Legislature provided \$9.5 million for site development and fencing for the new facility. In addition, the projection includes \$2 million in planning funds for an additional prison **A** to come on line by June 30, 2010. It also includes \$17.2 million for debt service, \$3 million for general repairs and maintenance, and \$.4 million for beds appropriated for the Jessica Lunsford Act.

The FCO funding projection for Fiscal Year 2008-09 includes the final appropriation of \$34.5 million to complete the construction of the Wakulla Annex. The projection also includes 50% of funding for Prison **A** that will come on line in Fiscal Year 2009-10. In addition, it includes \$17.2 million for debt service, and \$3 million for general repairs and maintenance.

General Government

Expenditure projections (\$ millions)

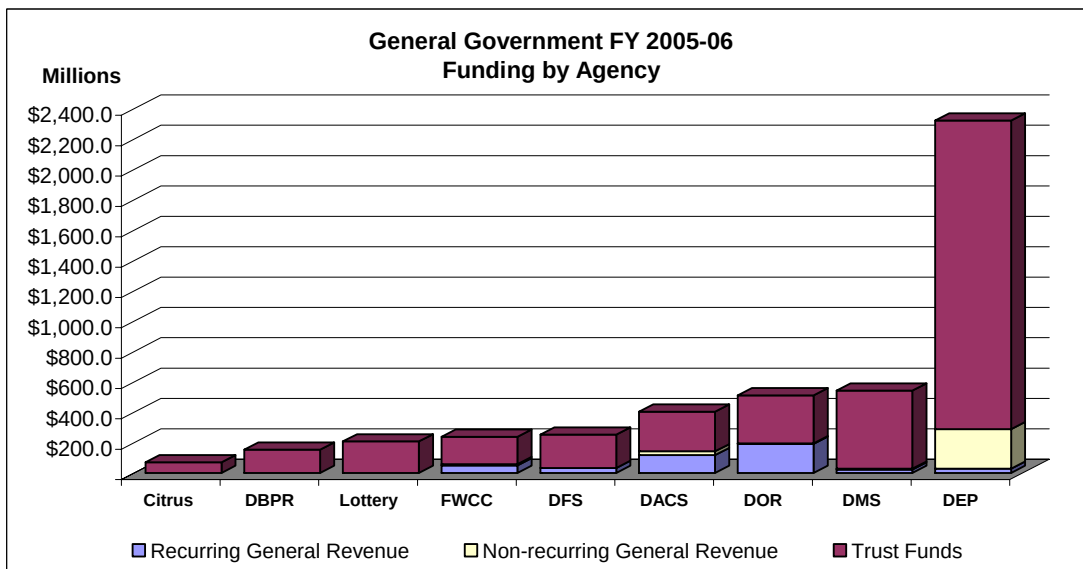
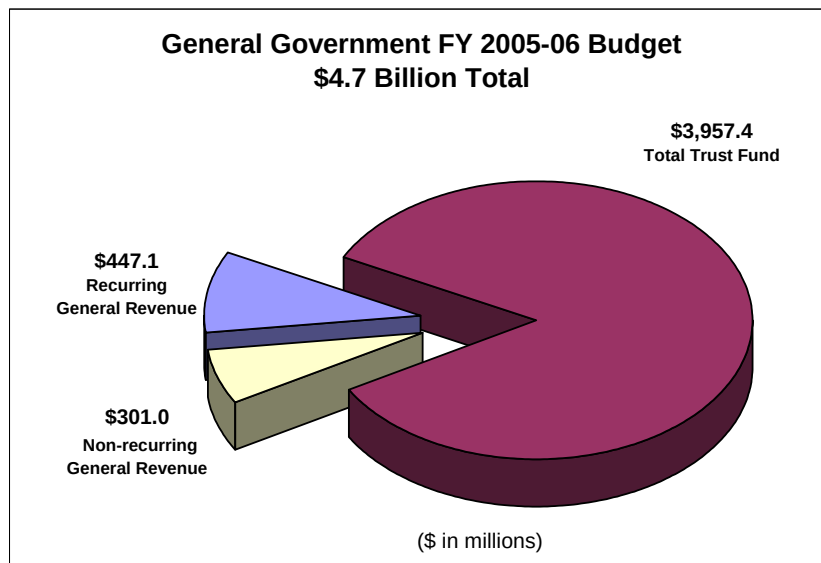
<u>Recurring</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
General Revenue	447.2	448.4	450.2	455.5
change		1.2	1.8	5.3
% change		0.3%	0.4%	1.2%
Other Trust	2,574.8	2,642.7	2,687.6	2,724.4
change		67.9	44.9	36.8
% change		2.6%	1.7%	1.4%
TOTAL	3,022.0	3,091.1	3,137.8	3,179.9
change		69.1	46.7	42.1
% change		2.3%	1.5%	1.3%
<u>Nonrecurring</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
General Revenue	301.0	138.3	109.0	100.6
change		-162.7	-29.3	-8.4
Other Trust	1,387.9	1,186.8	1,171.5	1,178.1
change		-201.1	-15.3	6.6
TOTAL	1,688.9	1,325.1	1,280.5	1,278.7
change		-363.8	-44.6	-1.8
<u>TOTAL</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
General Revenue	748.2	586.7	559.2	556.1
change		-161.5	-27.5	-3.1
% change		-21.6%	-4.7%	-0.6%
Other Trust	3,962.7	3,829.5	3,859.1	3,902.5
change		-133.2	29.6	43.4
% change		-3.4%	0.8%	1.1%
TOTAL	4,710.9	4,416.2	4,418.3	4,458.6
change		-294.7	2.1	40.4
% change		-6.3%	0.0%	0.9%

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. Of the \$4.7 billion total budget for Fiscal Year 2005-06, over 84 percent or \$4.0 billion is funded from trust fund revenues and only 16 percent or \$748.1 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. The funding level for the Land Reclamation program is based on historical two-year funding averages since the program was not funded for several years when the Mulberry/Piney Point cleanup efforts became the focus.

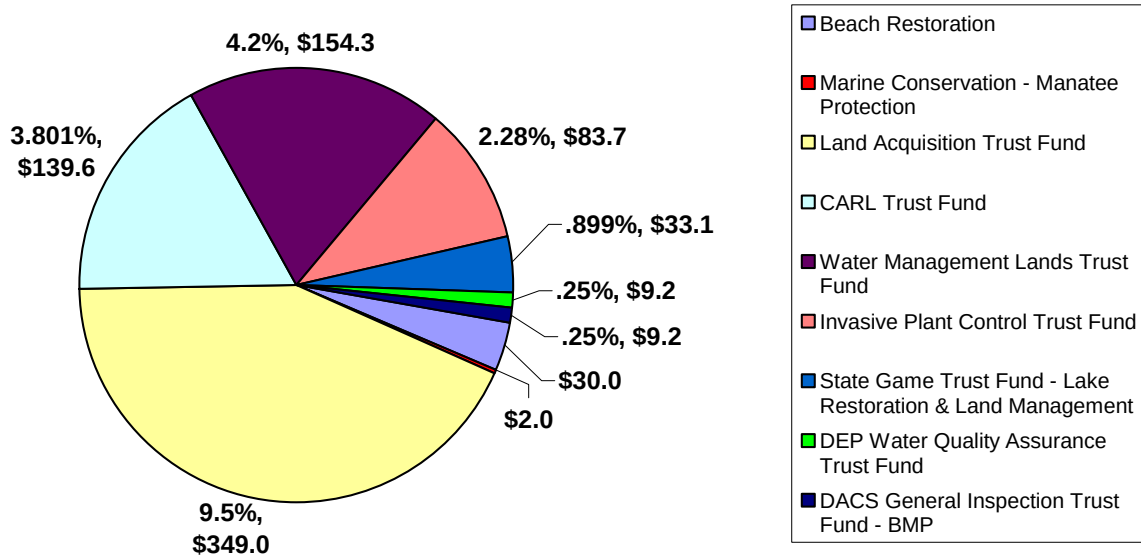
Federal funds were maximized with state general revenue as match for the Drinking and Wastewater Revolving Loan programs and the Citrus Canker Eradication and Citrus Tree Replacement programs.

The major policy assumptions are described below.

Documentary Stamp Tax Revenues - Estimated documentary stamp tax revenues are based on the November 2005 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 the General Revenue Fund. The financial outlook is based on the current statutory distribution 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 our state's park operations and maintenance, exotic and aquatic plant control, and lake restoration efforts.

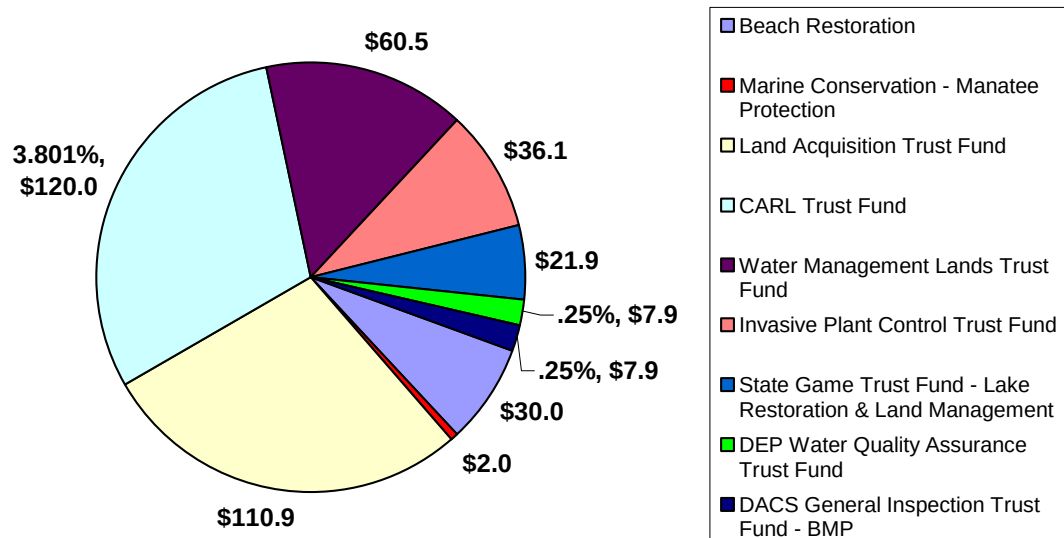
House Bill 1889, Chapter 2005-92, Laws of Florida, capped the amount of documentary stamp tax revenues for several funds beginning in Fiscal Year 2007-08. The cap amounts for the General Government funds are \$110.9 million for the Land Acquisition Trust Fund; \$60.5 million for the Water Management Lands Trust Fund; \$36.1 million for the Invasive Plant Control Trust Fund; and \$12.7 million for the State Game Trust Fund for lake restoration. The financial outlook includes these caps beginning in Fiscal Year 2007-08.

**FY 2005-06 Statutory Distribution of Documentary Stamp Revenues
to General Government Agencies**



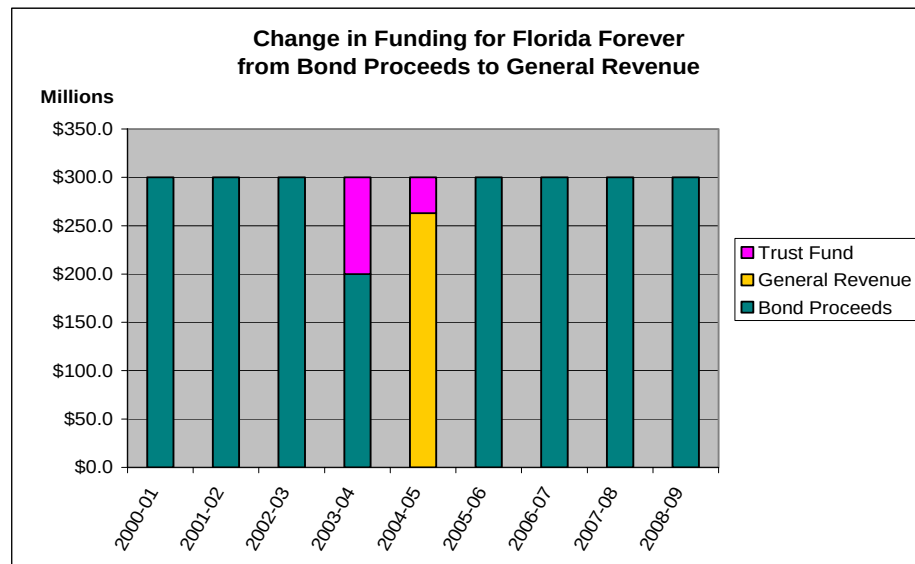
November 15, 2005 Revenue Estimating Conference

**FY 2007-08 Documentary Stamp Tax Revenues with Caps
to General Government Agencies**



November 15, 2005 Revenue Estimating Conference

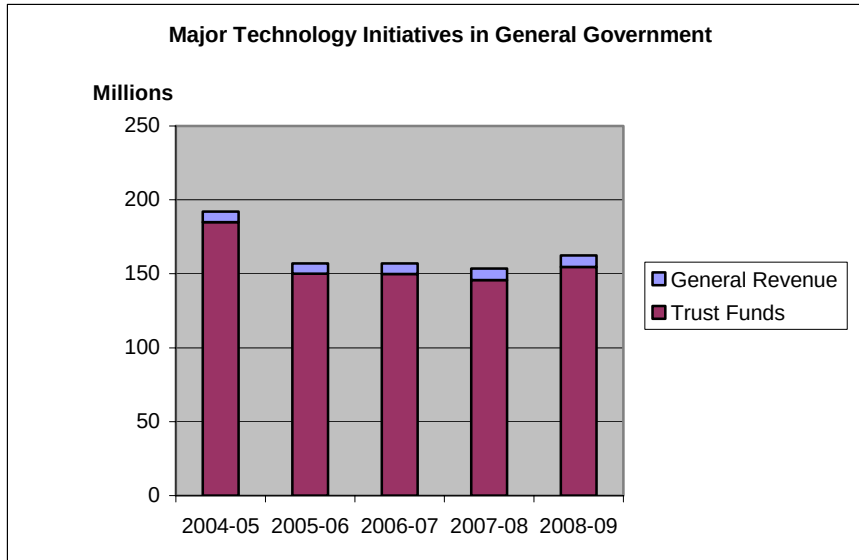
Debt Service - The financial outlook assumes annual bond authorizations of \$300 million each for Fiscal Year 2006-07 through Fiscal Year 2008-09 for the Florida Forever land acquisition program. The Florida Forever program authorizes bond issues in an amount not to exceed \$3 billion over a ten-year period. Historically, bonds have been authorized for the state's land acquisition programs; however, in Fiscal Year 2003-04 and Fiscal Year 2004-05, the General Appropriations Act provided non-recurring general revenue and trust fund balances to fund the program in lieu of authorizing the full \$300 million annual debt. Non-recurring general revenue has also been provided for the Everglades. The 2005-06 General Appropriations Act authorized bonds for both Florida Forever and the first Everglades debt authorization. The financial outlook continues these bond programs for Fiscal Year 2006-07 through Fiscal Year 2007-08. The debt obligations for Florida Forever and the Everglades are funded from documentary stamp tax revenues allocated to the General Revenue Fund.



The financial outlook also continues to authorize debt as the funding mechanism for the ASPIRE project. The fund source for the debt repayment is revenue in the Insurance Regulatory Trust Fund. The ASPIRE project will replace the state's current accounting system.

Technology - Several major technology projects are continued in the financial outlook for General Government section. 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; the Statewide Law Enforcement Radio System (SLERS), 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.



Major Initiatives

- LicenseEase
- CAMS
- SUNTAX
- ASPIRE
- 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 groves, as well as 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 also 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 direct general revenue funds for the program. Federal matching funds have ranged as high as 54% because in some years these include matching state funds appropriated for tree compensation. Eradication funds are used for statewide surveying, tree removal, 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 2005-06, the state has appropriated \$221.8 million state funds and \$287.3 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 \$70 million in funds have reverted. It appears that these 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 343,200 exposed trees and 19,000 commercial acres 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. The cost for the commercial trees is \$250 per acre based on the current contract.

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. In June of 2005, the Florida Supreme Court ruled that the trial court should hold a hearing to determine the value of a residential citrus tree. The trial court hearing is scheduled in January of 2006.

Until this issue is resolved by the court, the financial outlook continues to assume the \$100 federal Shade Florida voucher for the first tree and \$55 compensation from state general revenue for each additional tree for the estimated 343,200 trees remaining to be removed over the next three 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.

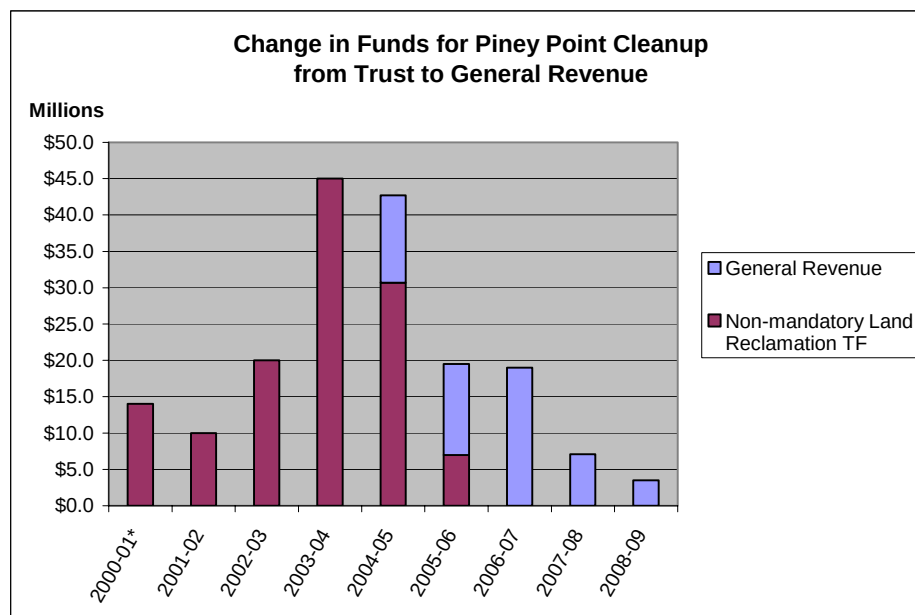
Workers’ Compensation Joint Underwriting Association Deficit – Section 627.311, Florida Statutes, requires the Department of Financial Services to create a contingency reserve not to exceed \$15 million in the Worker’s Compensation Administration Trust Fund for the purpose of funding deficits within sub-plan “D” of the Florida’s Workers’ Compensation Joint Underwriting Association (FWCJUA). The law allows the FWCJUA to request cash sufficient to cover three months of projected cash needs, with the release of contingency reserve funds contingent upon approval by the Legislative Budget Commission. As of August 2005, the LBC has approved the transfer of \$7.9 million from the contingency reserve to the FWCJUA, leaving a balance of \$7.1 million in the contingency reserve. Access to the \$15 million reserve expires on July 1, 2007. The Three Year Outlook assumes release of \$5.2 million in FY 2005-06 and \$3.1 million in FY 2006-07, which will exhaust the \$15 million reserve. The FWCJUA projects that the deficit will exceed the \$15 million contingency reserve by \$4.77 million for a total of \$19.7 million, and the reserve will expire before the FWCJUA can access the money held in reserve. In addition, section 627.311, F.S., provides that a deficit assessment can be levied

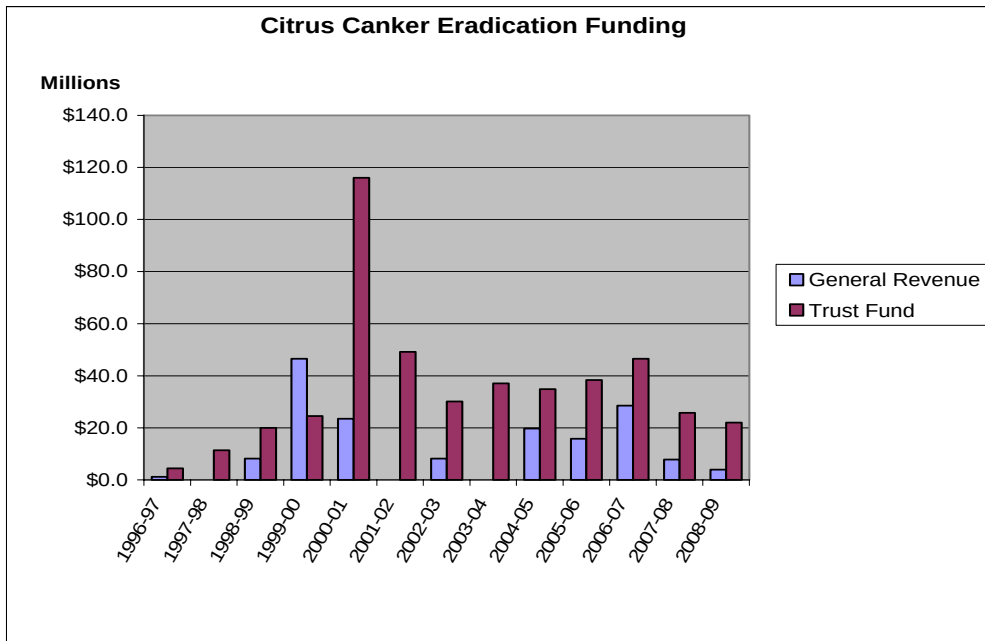
against all Florida workers' compensation insurance policy holders to fund the sub-plan D deficit. The Outlook assumes current law and therefore no additional appropriation is added to cover the estimated \$4.77 million deficit.

ANNUAL HIGHLIGHTS

FISCAL YEAR 2006-07 – Minimal increases are included for recurring general revenue for the 2006-07 Fiscal Year. The general revenue increase of \$1.2 million or .3% is for pensions and benefits. The recurring trust fund increase, \$67.9 million or 2.6%, is attributed to continued authorization of debt for the Florida Forever and Everglades programs. The major change in the financial outlook compared to FY 2005-06 is a decrease in nonrecurring funds. As part of Senate Bills 360 and 444 related to the growth management initiative, \$100 million in recurring documentary stamp tax revenue was transferred to fund water quality infrastructure and environmental restoration projects. In addition, \$100 million in nonrecurring general revenue was provided. The recurring transfer from the documentary stamp tax was continued in FY 2006-07. The nonrecurring general revenue was not continued. In addition, general revenue was not continued for beach restoration projects and funding for water projects was based on a five-year average.

FISCAL YEAR 2007-08 - For the 2007-08 Fiscal Year, minimal increases are included for recurring general revenue. The (\$29.3) million decrease in non-recurring general revenue is attributed to the phase-out of the Citrus Canker Eradication program, and a reduction in the amount needed for the Mulberry/Piney Point cleanup. The (\$15.3) million decrease in non-recurring trust is also attributed to the phase-out of the Citrus Canker Eradication program.





FISCAL YEAR 2008 – 09 - For the 2008-09 Fiscal Year, the financial outlook includes a \$5.3 million or 1.2% increase in recurring general revenue. The major factor contributing to this increase is projected deficits in the Air Pollution Control, Minerals and Permit Fee trust funds. These funds support regulatory programs in the Department of Environmental Protection. The decrease in non-recurring general revenue funds, (\$8.4) million, is the result of the continued phase-out of the Citrus Canker Eradication program and a reduced amount needed for the Mulberry/Piney Point hazardous site cleanup. The increase in nonrecurring trust, \$6.6 million, is related to the estimated increase in revenues in the Inland Protection Trust Fund. This fund supports petroleum site cleanups throughout the state.

Transportation and Economic Development

Expenditure projections (\$ millions)

<u>Recurring</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
General Revenue	433.7	433.7	433.7	433.7
change		0.0	0.0	0.0
% change		0.0%	0.0%	0.0%
Other Trust	2,808.2	2,851.5	2,929.2	2,987.0
change		43.3	77.7	57.8
% change		1.5%	2.7%	2.0%
TOTAL	3,241.9	3,285.2	3,362.9	3,420.7
change		43.3	77.7	57.8
% change		1.3%	2.4%	1.7%
<u>Nonrecurring</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
General Revenue ¹	991.6	399.4	402.9	402.9
change		-592.2	3.5	0.0
Other Trust ²	9,097.8	7,333.8	7,027.6	6,631.8
change		-1,764.0	-306.3	-395.7
TOTAL	10,089.4	7,733.2	7,430.5	7,034.7
change		-2,356.2	-302.8	-395.7
<u>TOTAL</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
General Revenue	1,425.2	833.1	836.6	836.6
change		-592.2	3.5	0.0
% change		-41.5%	0.4%	0.0%
Other Trust	11,906.0	10,185.3	9,956.8	9,618.8
change		-1,720.7	-228.6	-337.9
% change		-14.5%	-2.2%	-3.4%
TOTAL	13,331.3	11,018.4	10,793.4	10,455.4
change		-2,312.8	-225.1	-337.9
% change		-17.3%	-2.0%	-3.1%

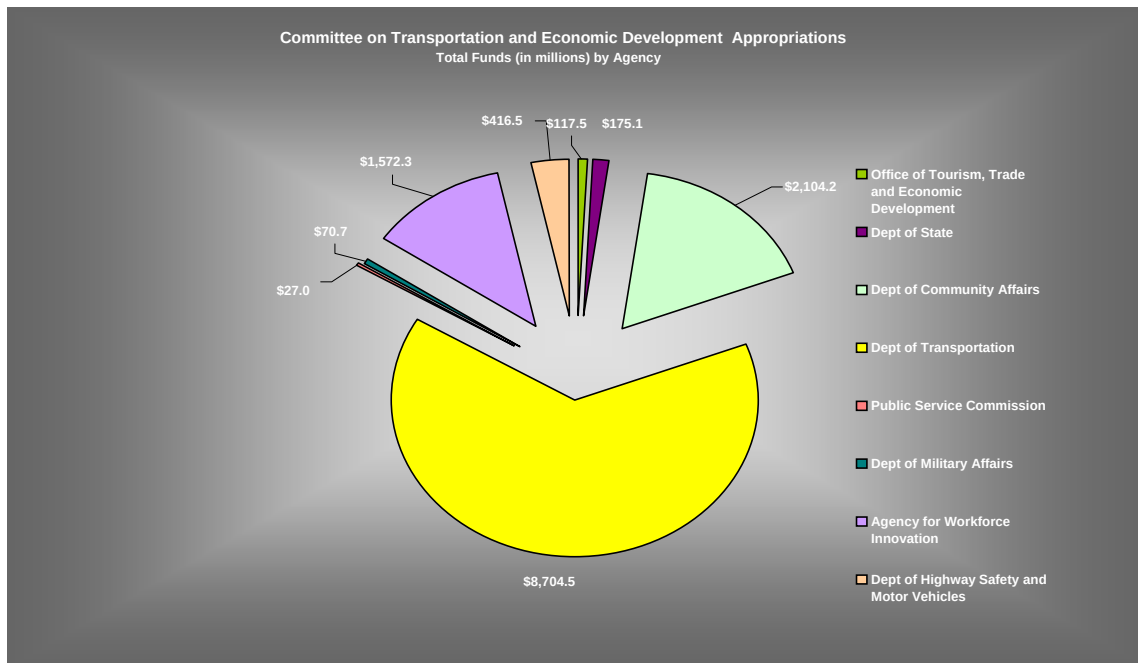
¹Nonrecurring GR for 2005-06 includes the DOT Growth Management funds that are double budgeted/also reflected in the DOT trust funds.

²Nonrecurring Trust includes appropriations of transportation projects funded from the sale of bonds.

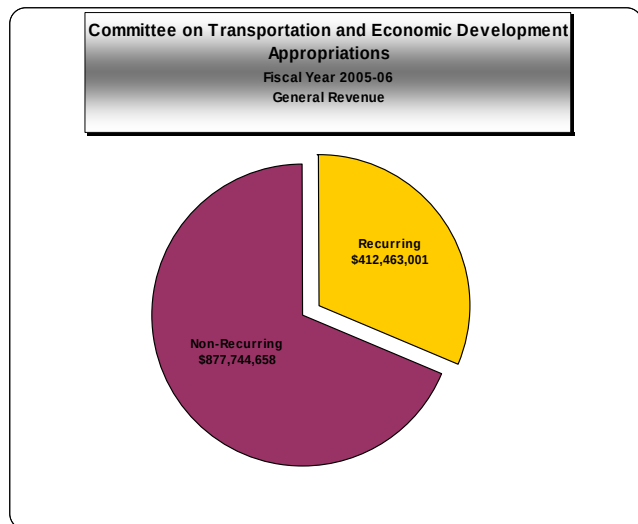
Transportation & Economic Development Budget Projections

SUMMARY

The Committee on Transportation & Economic Development Appropriations (TED) 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 \$13.2 billion, 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 2005-06.



The TED agencies were appropriated \$1.3 billion in general revenue funds for the current fiscal year. Of this amount, \$412 million is recurring, which represents less than 2 percent of the state's total recurring general revenue budget. [Although technically not under TED's purview, another \$21 million is used to support the Executive Office of the Governor and is included in the totals on the prior page.] As a result, the only significant increases to recurring general revenue



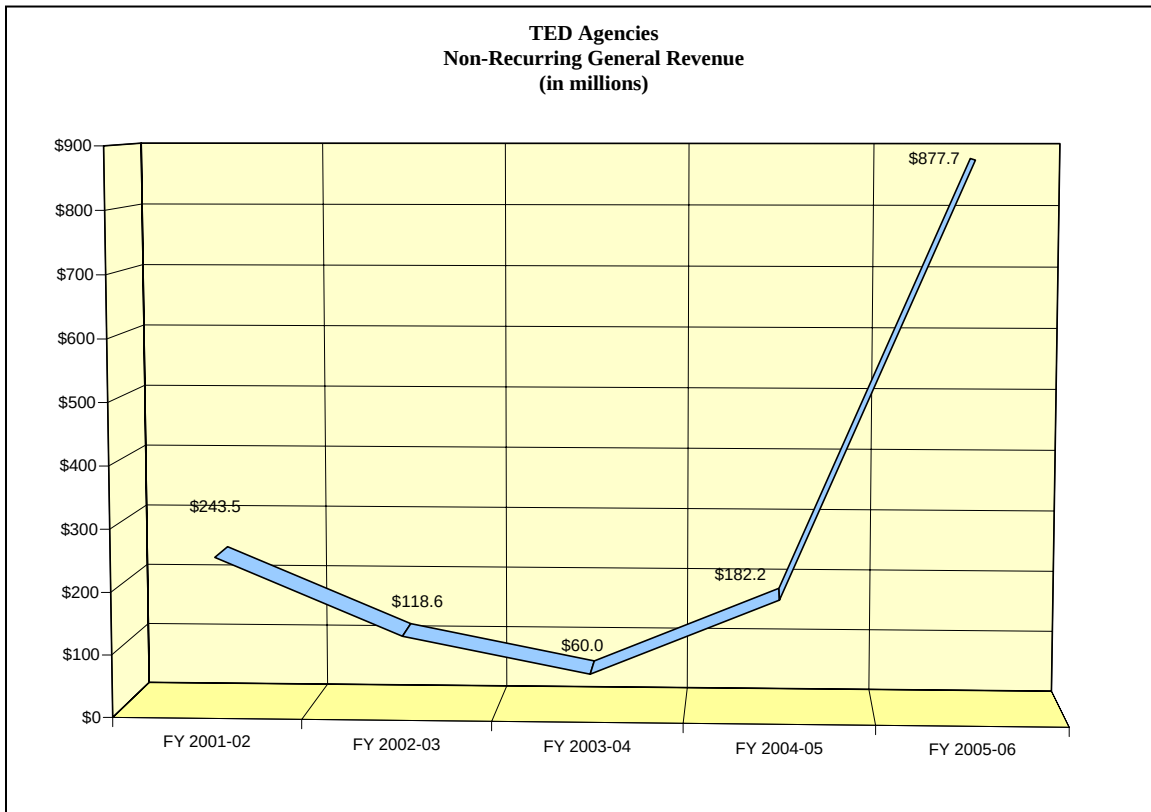
funding are currently provided through statewide issues such as pay package, health insurance and retirement contribution increases. Any other increases have typically been offset by budget reductions in other areas of the TED budget. Therefore, this financial outlook includes no increases in recurring general revenue.

ASSUMPTIONS AND DISCUSSION

General – Calculations are based on the following assumptions:

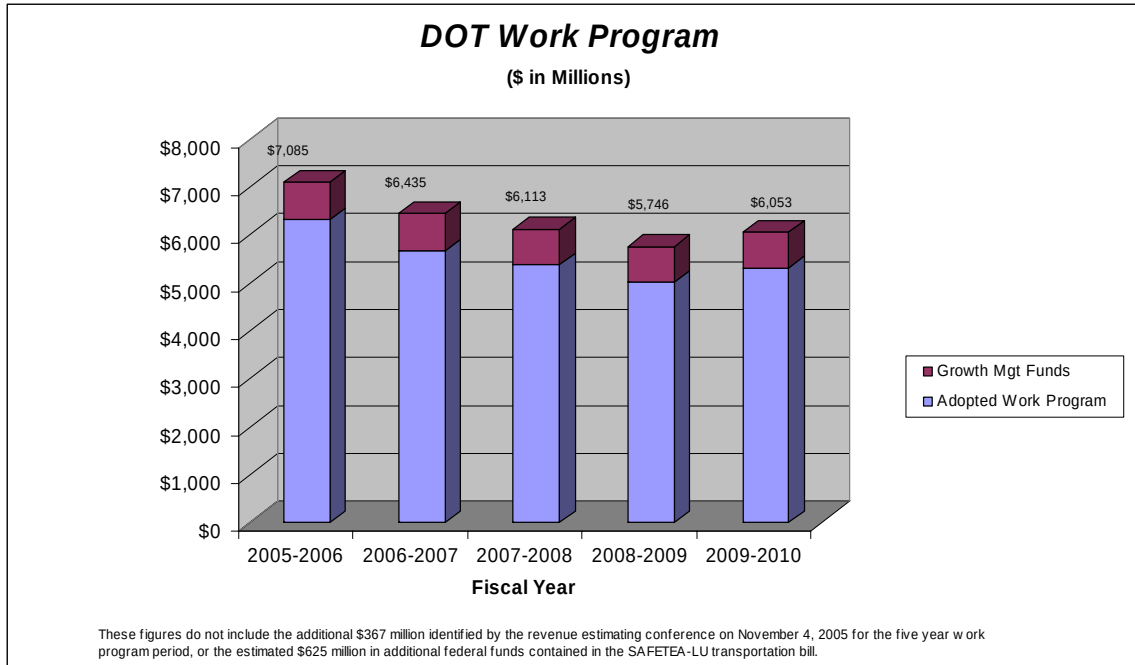
- 1) General Revenue for Implementation of Universal Pre-Kindergarten services will continue to be funded in the Department of Education's budget, except for administrative costs.
- 2) Five year average of state match requirements for federal disasters is based on calendar years 2000 through 2005. The state match for FEMA disaster assistance which was initially appropriated in Administered Funds has been included in the Department of Community Affairs.
- 3) The Outlook provides funds for the affordable housing programs at the Fiscal Year 2005-06 appropriation level. Estimates for fiscal years beyond 2005-06, are based on revenue estimates for documentary stamp collections and the provisions in HB 1889 (2005).
- 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 includes DOT's adopted work program, adjusted for DOT's proposed allocation of growth management funds appropriated in Senate Bill 360. It does not include an additional \$367 million in projected transportation revenue identified by the Revenue Estimating Conference in November of 2005 for the five year period ending in Fiscal Year 2009-10, or the \$625 million in additional federal funds contained in the SAFETEA-LU transportation bill. The additional state and federal funds will be programmed into the work program in February 2006 for legislative consideration.

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. In the chart below, the significant spike for Fiscal Year 2005-06 is the result of a \$575 million appropriation for transportation infrastructure that was included in the growth management legislation (CS/CS/CS/SB360), and \$141 million appropriated in administered funds for the State match associated with the 2004 hurricanes. Neither of these appropriations was used in developing the projections.



Affordable Housing – Funding to the Department of Community Affairs for affordable housing programs continues at the level appropriated for the last three fiscal years and incorporates changes adopted by the 2005 Legislature to the statutory distribution of documentary stamp tax revenues which takes effect in July 2007.

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, adjusted for the DOT's proposed allocation of funds appropriated in the growth management legislation (CS/CS/CS/SB360). These projections do not include an additional \$367 million in transportation revenue identified by the Revenue Estimating Conference in November of 2005 for the five year period ending in Fiscal Year 2009-10 or the \$625 million in additional federal funds contained in the SAFETEA-LU transportation bill. These additional state and federal funds will be programmed into the Work Program in February 2006 for legislative consideration.



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)

<u>Recurring</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
General Revenue change	0.0	220.2 220.2	549.3 329.1	960.8 411.5
Other Trust change	0.0	83.2 83.2	211.3 128.1	373.2 161.9
TOTAL change	0.0	303.4 303.4	760.6 457.2	1,334.0 573.4
 <u>Nonrecurring</u>	 <u>2005-06</u>	 <u>2006-07</u>	 <u>2007-08</u>	 <u>2008-09</u>
General Revenue change	0.0	0.0 0.0	0.0 0.0	0.0 0.0
Other Trust change	0.0	0.0 0.0	0.0 0.0	0.0 0.0
TOTAL change	0.0	0.0 0.0	0.0 0.0	0.0 0.0
 <u>TOTAL</u>	 <u>2005-06</u>	 <u>2006-07</u>	 <u>2007-08</u>	 <u>2008-09</u>
General Revenue change	0.0	220.2 220.2	549.3 329.1	960.8 411.5
Other Trust change	0.0	83.2 83.2	211.3 128.1	373.2 161.9
TOTAL change	0.0	303.4 303.4	760.6 457.2	1,334.0 573.4

State Employee Salaries and Benefits

Salaries

State employee salary increases are estimated to cost \$196.8 million in Fiscal Year 2006-07, \$201.7 million in Fiscal Year 2007-08, and \$206.8 million in Fiscal Year 2008-09. Roughly 70% of the increased costs are funded with general revenue. These estimates are premised upon an assumption that the Legislature will authorize increases based on actual and projected consumer price indices, beginning July 1st of each year.

STATEWIDE ACROSS THE BOARD PAY INCREASES

FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06
2.5%	2.0%	\$1000 <i>One time bonus</i>	3.6%
<i>Note that Specific Employee Groups have received increases in excess of across the board levels.</i>			

Health Insurance

Costs associated with the state employee health insurance program are expected to increase by \$143.6 million in Fiscal Year 2006-07, \$160.1 million in Fiscal Year 2007-08, and \$178.2 million in Fiscal Year 2008-09. These increased costs are based on assumptions that the state's self insured plan will experience 11% annual growth in medical claims and an average of 12.5% 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 and the forecasts used by the industry in the coming years.

On the revenue side of the health insurance program, the 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 \$9.6 billion as of June 2005. 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 9.53% of the class payroll while the actual contribution rate for Fiscal Year 2005-06 is 6.67%.

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 6.67% in Fiscal Year 2005-06 to 7.62% in Fiscal Year 2006-07; 8.58% in Fiscal Year 2007-08; and 9.53% in Fiscal Year 2008-09. 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.)