

Update: Long-Range Financial Outlook

October 20, 2011

Presented by:



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

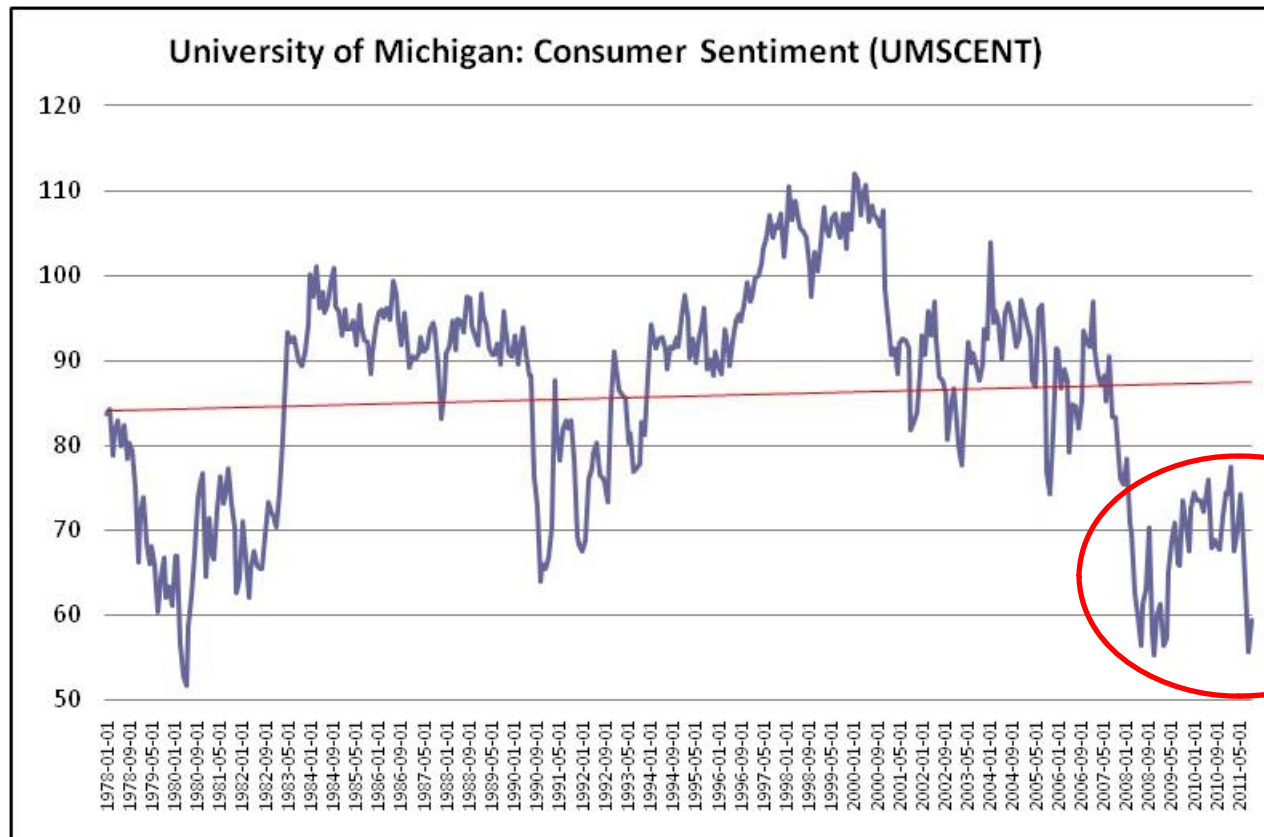
Eurozone Problems Escalated

- The sovereign debt crisis in the Eurozone has led to banking instability with spillover effects on the global credit market.
 - Greek default likely within the next six months.
 - Ireland and Portugal have already been assisted.
 - Spain and Italy continue to have serious problems.
 - Belgium needs potential rescue.
 - Other countries, like France, face credit downgrades / outlook changes.
 - The region's banks need to be recapitalized.
- It now expected that the Eurozone will experience at least a mild recession.
- These conditions have led to an increased risk of a second recession in the United States if no improvement is made.
 - Tighter credit conditions.
 - Reduced exports and corporate earnings.

National Situation Darkened

- GDP Revised Downward
 - Second-quarter real GDP growth came in at only 1.3%, and revisions to previous quarters showed a deeper recession and a weaker recovery than previously thought.
- Debt Ceiling Crisis, S&P Downgrade, and Federal Budget Deficit Discussion & Sequester
 - Federal legislation immediately enacted 10-year discretionary spending caps generating approximately \$917 billion in deficit reduction in defense and non-defense spending.
 - Bipartisan committee process charged with identifying an additional \$1.5 trillion in deficit reduction over the next 10 years. If this outcome comes to pass, there would be a total of \$2.4 trillion in deficit reduction over 10 years from the two components acting in concert.
 - If the committee or Congress fails to adopt at least \$1.2 trillion in a deficit reduction package (including an allowance for interest savings), an enforcement mechanism scaled to ensure an additional \$1.2 trillion in spending reductions kicks in—falling equally on defense and non-defense spending.

Perceptions Plummeted in August

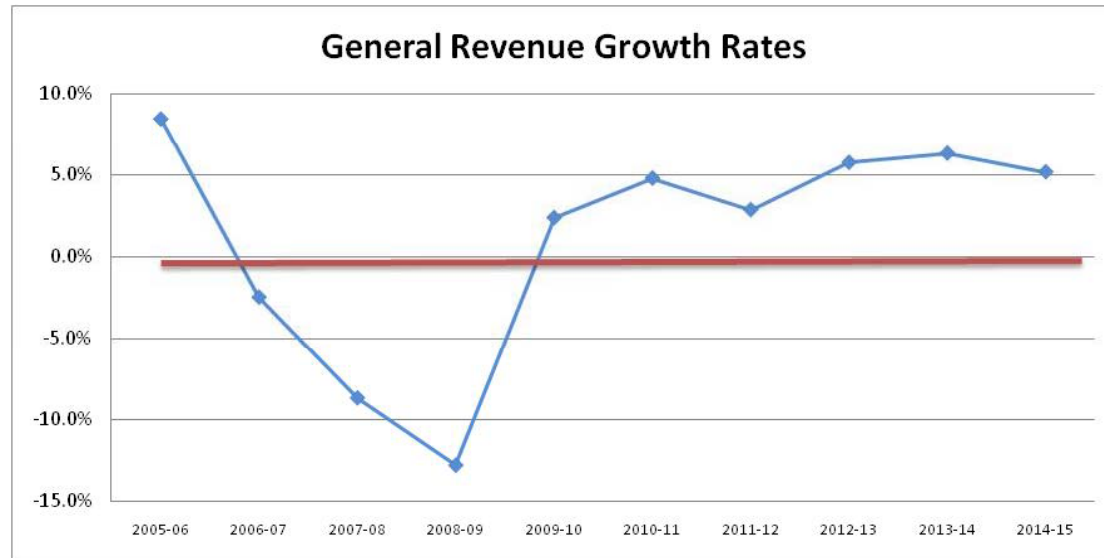


- Consumer sentiment can be a leading indicator of recession: it had been improving, but fell in August to near the lowest level of the Great Recession and not far from the lowest level ever posted. September was still weak, but better. (59.4 in September versus 51.7 in May 1980)
- Spending is holding up better than sentiment would suggest, judging by better September vehicle and chain-store sales on the national level.

Impact on Florida's Economy

- Population growth slowed.
- Housing recovery delayed.
- Employment growth suppressed.
- Revenue sources displayed mixed results with August as a significant turning point—especially for Sales Tax collections.
 - At the end of the 2010-11 fiscal year, overall collections were \$139.1 million above estimate.
 - In contrast, preliminary results for the first quarter of the current fiscal year indicate a loss from the overall estimate of approximately \$106 million.

General Revenue Forecast



Fiscal Year	July* Forecast	October Forecast	Difference (Oct - July)	Incremental Growth	Growth
2005-06	27074.8				8.4%
2006-07	26404.1				-2.5%
2007-08	24112.1				-8.7%
2008-09	21025.6				-12.8%
2009-10	21523.1				2.4%
2010-11	22551.6	22551.6	0.0	1028.5	4.8%
2011-12	23795.1	23195.5	(599.6)	643.9	2.9%
2012-13	25495.1	24526.8	(968.3)	1331.3	5.7%
2013-14	27063.6	26071.8	(991.8)	1545.0	6.3%
2014-15	28340.9	27417.9	(923.0)	1346.1	5.2%

GR Revenue Adjustments (2011-12)

	FY 2011-12
	Shade = Adj
Funds Available:	
Balance Forward	433.0
BALANCE FORWARD RETROSPECT ADJUSTMENT	313.4
Unused Reserve From Prior Year	0.0
Revenue Estimate	23,795.1
FALL CONFERENCE ADJUSTMENT TO ESTIMATE	-599.6
Non-operating Funds	125.2
Transfer From Trust Funds	388.5
MISCELLANEOUS OUTLOOK ADJUSTMENTS	-120.4
Total Funds Available	<u>24,335.2</u>

General Revenue Receipts	Total
Original Plan	24741.8
Fall Revision	24335.2
Difference	-406.6

GR Outlook Balance for FY 2011-12

REVENUES	REC	N/R	TOTAL
BALANCE ON OFFICIAL OUTLOOK: July 27, 1011	811.7	545.9	1357.5
-MINUS- Loss to Funds Available	-495.6	89.0	-406.6
-PLUS- Net Adjustments to Appropriations	0.0	-3.1	-3.1
BALANCE ON CURRENT OFFICIAL OUTLOOK	316.1	631.8	947.8

ADJUSTMENTS			
-MINUS- Reserve for Projected Medicaid Shortfall	0.0	-66.8	-66.8
-MINUS- Reserve for Projected Courts Shortfall	0.0	-110.1	-110.1
ADJUSTMENTS TOTAL	0.0	-176.9	-176.9

BALANCE FOR LONG-RANGE FINANCIAL OUTLOOK 770.9

A projected remaining balance of \$770.9 million in nonrecurring dollars is assumed to be available for use in FY 2012-13.

GR Revenue Adjustments (2012-13)

	FY 2012-13
	Shade = Adj
Funds Available:	
Balance Forward	770.9
BALANCE FORWARD RETROSPECT ADJUSTMENT	0.0
Unused Reserve From Prior Year	0.0
Revenue Estimate	25,495.1
FALL CONFERENCE ADJUSTMENT TO ESTIMATE	-968.3
Non-operating Funds	81.3
Transfer From Trust Funds	0.0
MISCELLANEOUS OUTLOOK ADJUSTMENTS	13.5
Total Funds Available	<u>25,392.5</u>

General Revenue Receipts	Total
Original Plan	26817.0
Fall Revision	25392.5
	<hr/>
	-1424.5

GR Expenditure Adjustments (2012-13)

FALL CONFERENCES ('+' = Savings; '-' = Cost)	2012-13
ADD'L DEFICIT: Courts from Article V Conference (\$62.5 LRFO)	0.0
ADD'L DEFICIT: Medicaid for 2010-11 and 2011-12 (\$54.4 LRFO)	0.0
CHANGE TO DRIVER: Temporary Assistance for Needy Families	9.6
CHANGE TO DRIVER: GR Impact from State Courts Rev TF	17.6
CHANGE TO DRIVER: Criminal Justice Estimating Conference	0.0
CHANGE TO DRIVER: FEFP & VPK (Ad Val Conf + Enrollment)	-322.9
CHANGE TO DRIVER: Kidcare Conference	8.0
CHANGE TO DRIVER: Florida Retirement System--UAL	-39.5
CHANGE TO DRIVER: Risk Management Trust Fund	-9.3
CHANGE TO DRIVER: State Employees' Health Insurance	152.1
CHANGE TO DRIVER: Higher Ed & Student Financial Aid	76.2
NEW DRIVER: Higher Ed-Annualize Prior Year New Space	-1.1
CHANGE TO DRIVER: FMAP Savings in Other HHS Agencies	19.1
CHANGE TO DRIVER: Traditional Medicaid Program	44.9
TOTAL ADDITIONAL COST (NET)	-45.3

General Revenue Expenditures	Total
Original Plan	25,543.1
Reserve	1,000.0
Fall Conference Revision	45.3
TOTAL	26,588.4

Putting It Together for the First Year

OUTLOOK PROJECTION – FISCAL YEAR 2012-13 <i>(in millions)</i>			
	RECURRING	NON-RECURRING	TOTAL
AVAIL GR	\$24,307.3	\$ 1,085.2	\$25,392.5
<i>Base Budget</i>	\$22,784.3	\$ 0.0	\$22,784.3
<i>Transfer to BSF</i>	\$ 0.0	\$ 214.5	\$ 214.5
<i>Previous Needs</i>	\$ 2,249.0	\$ 295.3	\$ 2,544.3
<i>Fall Conference Adj</i>	\$ 45.3	\$ 0.0	\$ 45.3
<i>Reserve</i>	\$ 0.0	\$ 1,000.0	\$ 1,000.0
TOTAL	\$25,078.6	\$ 1,509.8	\$26,588.4
BALANCE	\$ -771.3	\$ -424.6	\$ -1,195.9

Combined, recurring and nonrecurring General Revenue program needs – with a minimum reserve of \$1 billion – are more than the available General Revenue dollars, meaning there is now a budget gap for Fiscal Year 2012-13. Anticipated expenditures (including the reserve) cannot be fully funded.

The Bottom Line Across Years...

	FY 2012-13	FY 2013-14	FY 2014-15
New Ending Balance	-1,195.9	-274.8	-166.4
<u>Original Ending Balance in Long-Range Financial Outlook</u>	<u>273.8</u>	<u>692.1</u>	<u>840.6</u>
Difference	-1,469.7	-966.9	-1,007.0

- Fiscal Years 2012-13, 2013-14 and 2014-15 all show projected budget needs greater than the available revenue for Critical and Other High Priority Needs, plus the set-aside of a \$1 billion reserve in each year.
- Fiscal Strategies are required for all years in the Outlook period; the budget gaps are persistent indicating a systemic imbalance.
- Negative balances are not allowed to carry-forward to subsequent years; the assumption is that each year is addressed with a nonrecurring solution leaving the base budget intact for the following year.

Add'l Issues Discussed in the Senate

	FY 2011-12	FY 2012-13
ADD'L ISSUES---SENATE ('+' = Savings; '-' = Cost)		
ADD'L DEFICIT: Agency for Persons with Disabilities	-10.5	0.0
ADD'L DEFICIT: Clerks from Article V Conference	-54.3	-52.1
CHANGE TO DRIVER: Higher Ed - New Space Operations	0.0	10.5
NEW DRIVER: Impact of Gross Receipts Revenue Decline	-100.0	0.0
NEW DRIVER: Education Jobs Allocation - Restore NR	0.0	-554.8
TOTAL ADDITIONAL COST (NET)	-164.8	-596.4

General Revenue Expenditures	Total
Original Plan	25,543.1
Reserve	1,000.0
Fall Conference Revision	45.3
Additional Issues---Senate	596.4
TOTAL	27,184.8

Revised Bottom Line...

	FY 2012-13	FY 2013-14	FY 2014-15
New Ending Balance	-1,957.1	-888.7	-787.2
<u>Original Ending Balance in Long-Range Financial Outlook</u>	<u>273.8</u>	<u>692.1</u>	<u>840.6</u>
Difference	-2,230.9	-1,580.8	-1,627.8

Note that the ending balance beginning in FY 2012-13 was affected by the lower balances forward caused by nonrecurring expenditures of \$164.8 million in FY 2011-12.

Impact of Prior Year's Actions...

- The analysis uses *nonrecurring* means to resolve each shortfall, which leaves the following year's base budget intact and shown as originally projected.
- If the Legislature closes the projected budget gaps through *recurring* means, they positively impact the state's bottom line in subsequent years.
- In this regard, total estimated expenditures for future years will be constrained by the amount of recurring expenditure reductions taken in Fiscal Year 2012-13.

LONG-RANGE FINANCIAL OUTLOOK FOR GENERAL REVENUE UPDATED FOR FALL CONFERENCES

TIER 2 ISSUES - CRITICAL NEEDS AND OTHER HIGH PRIORITY NEEDS

\$1 BILLION RESERVE - NO FISCAL STRATEGIES

(\$ MILLIONS)

	FY 2011-12			FY 2012-13			FY 2013-14			FY 2014-15		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
Funds Available:												
Balance Forward	0.0	433.0	433.0	0.0	606.1	606.1	0.0	0.0	0.0	0.0	0.0	0.0
BALANCE FORWARD RETROSPECT ADJUSTMENT	0.0	313.4	313.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unused Reserve From Prior Year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,000.0	1,000.0	0.0	1,000.0	1,000.0
Revenue Estimate	23,615.3	179.8	23,795.1	25,275.8	219.3	25,495.1	26,871.9	191.7	27,063.6	28,261.1	79.8	28,340.9
FALL CONFERENCE ADJUSTMENT TO ESTIMATE	-499.6	-100.0	-599.6	-968.3	0.0	-968.3	-1,091.8	100.0	-991.8	-923.0	0.0	-923.0
Non-operating Funds	-4.3	129.5	125.2	-4.3	85.6	81.3	-4.3	85.6	81.3	-4.3	85.6	81.3
Transfer From Trust Funds	0.0	388.5	388.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
MISCELLANEOUS OUTLOOK ADJUSTMENTS	4.0	-124.4	-120.4	4.1	9.4	13.5	4.1	9.4	13.5	3.1	9.4	12.5
Total Funds Available	23,115.4	1,219.8	24,335.2	24,307.3	920.4	25,227.7	25,779.9	1,386.7	27,166.6	27,336.9	1,174.8	28,511.7
Estimated Expenditures:												
Base Budget				22,799.3	0.0	22,799.3	25,033.3	0.0	25,033.3	26,855.7	0.0	26,855.7
Annualization of Cost Savings From Prior Year				-15.0	0.0	-15.0	0.0	0.0	0.0	0.0	0.0	0.0
RECURRING CHANGES FROM PRIOR YR FORECAST ADJ				0.0	0.0	0.0	641.7	0.0	641.7	-313.0	0.0	-313.0
New Issues by GAA Section:												
Section 2 - Pre K-12 Education	8,635.1	0.9	8,636.0	270.0	0.0	270.0	134.0	5.2	139.2	66.4	0.0	66.4
Section 2 - Higher Education	3,219.3	20.4	3,239.8	149.0	3.4	152.4	160.1	3.4	163.5	138.4	3.4	141.8
Section 3 - Human Services	6,925.0	32.4	6,957.5	1,095.1	11.8	1,106.9	252.0	21.3	273.3	693.7	21.3	715.0
Section 4 Criminal Justice	3,209.3	7.1	3,216.3	0.9	4.4	5.3	5.1	4.4	9.5	14.8	4.5	19.3
Section 7 - Judicial Branch	44.6	0.0	44.6	96.2	0.4	96.6	82.3	0.4	82.7	35.0	0.4	35.4
Section 5 & 6 - Transportation & Economic Development	203.7	178.4	382.1	3.8	158.6	162.4	0.0	155.7	155.7	0.0	154.4	154.4
Section 5 - Natural Resources	134.0	52.7	186.8	0.0	87.7	87.7	0.0	80.7	80.7	0.0	79.5	79.5
Section 6 - General Government	218.9	33.5	252.4	2.4	29.0	31.4	0.8	26.9	27.7	0.9	26.9	27.8
Section 2 & 6 - Administered Funds - Statewide Issues	209.5	45.5	255.1	631.6	0.0	631.6	546.3	0.0	546.3	605.7	0.0	605.7
Total New Issues				2,249.0	295.3	2,544.3	1,180.7	298.1	1,478.8	1,554.8	290.4	1,845.2
Outlook Adjustments --- Expenditures		2.5	2.5									
Current Year Operating Deficits (Medicaid, State Courts)		116.9	116.9									
Transfer to Budget Stabilization Fund		214.5	214.5		214.5	214.5		214.5	214.5		214.5	214.5
Total Estimated Expenditures	22,799.3	704.9	23,504.3	25,033.3	509.8	25,543.1	26,855.7	512.6	27,368.3	28,097.6	504.9	28,602.4
FALL CONFERENCES (*+ = Savings; * = Cost)												
ADD'L DEFICIT: Courts from Article V Conference (\$62.5 LRFO)	0.0	-47.6	-47.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ADD'L DEFICIT: Medicaid for 2010-11 and 2011-12 (\$54.4 LRFO)	0.0	-12.4	-12.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CHANGE TO DRIVER: Temporary Assistance for Needy Families	0.0	0.0	0.0	9.6	0.0	9.6	5.4	0.0	5.4	3.6	0.0	3.6
CHANGE TO DRIVER: GR Impact from State Courts Rev TF	0.0	0.0	0.0	17.6	0.0	17.6	31.6	0.0	31.6	-19.8	0.0	-19.8
CHANGE TO DRIVER: Criminal Justice Estimating Conference	0.0	0.0	0.0	0.0	0.0	0.0	4.2	0.0	4.2	11.2	0.0	11.2
CHANGE TO DRIVER: FEFP & VPK (Ad Val Conf + Enrollment)	0.0	0.0	0.0	-322.9	0.0	-322.9	-40.8	0.0	-40.8	9.0	0.0	9.0
CHANGE TO DRIVER: Kidcare Conference	0.0	0.0	0.0	8.0	0.0	8.0	-8.8	0.0	-8.8	-12.9	0.0	-12.9
CHANGE TO DRIVER: Florida Retirement System--UAL	0.0	0.0	0.0	-39.5	0.0	-39.5	362.2	0.0	362.2	396.4	0.0	396.4
CHANGE TO DRIVER: Risk Management Trust Fund	0.0	0.0	0.0	-9.3	0.0	-9.3	2.5	0.0	2.5	1.8	0.0	1.8
CHANGE TO DRIVER: State Employees' Health Insurance	0.0	0.0	0.0	152.1	0.0	152.1	55.9	0.0	55.9	38.2	0.0	38.2
CHANGE TO DRIVER: Higher Ed & Student Financial Aid	0.0	0.0	0.0	76.2	0.0	76.2	-42.3	0.0	-42.3	0.5	0.0	0.5
NEW DRIVER: Higher Ed-Annualize Prior Year New Space	0.0	0.0	0.0	-1.1	0.0	-1.1	0.0	0.0	0.0	0.0	0.0	0.0
CHANGE TO DRIVER: FMAP Savings in Other HHS Agencies	0.0	0.0	0.0	19.1	0.0	19.1	0.0	0.0	0.0	0.0	0.0	0.0
CHANGE TO DRIVER: Traditional Medicaid Program	0.0	0.0	0.0	44.9	0.0	44.9	-39.4	0.0	-39.4	-117.6	0.0	-117.6
ADD'L ISSUES--SENATE (*+ = Savings; * = Cost)												
ADD'L DEFICIT: Agency for Persons with Disabilities	0.0	-10.5	-10.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ADD'L DEFICIT: Clerks from Article V Conference	0.0	-54.3	-54.3	-52.1	0.0	-52.1	-17.5	0.0	-17.5	-6.9	0.0	-6.9
CHANGE TO DRIVER: Higher Ed - New Space Operations	0.0	0.0	0.0	10.5	0.0	10.5	0.0	0.0	0.0	0.0	0.0	0.0
NEW DRIVER: Impact of Gross Receipts Revenue Decline	0.0	-100.0	-100.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NEW DRIVER: Education Jobs Allocation - Restore NR	0.0	0.0	0.0	-554.8	0.0	-554.8	0.0	0.0	0.0	0.0	0.0	0.0
Reserves					1,000.0	1,000.0		1,000.0	1,000.0		1,000.0	1,000.0
Ending Balance	316.1	290.1	606.1	-1,367.7	-589.4	-1,957.1	-762.8	-125.9	-888.7	-457.2	-330.1	-787.2

NOTE: Negative balances are not allowed to carry-forward to subsequent years; the assumption is that each year is addressed with a nonrecurring solution leaving the base budget intact for the following year.