Florida:
Long-Range Financial Outlook As Adjusted by Hurricane Irma

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Full Plan can be found at: http://edr.state.fl.us/Content/long-range-financial-outlook/3-Year-Plan_Fall-2017_1819-2021.pdf

Economy Recovering

Florida growth rates are returning to more typical levels and continue to show healthy progress. The drags—particularly construction—are more persistent than past events, but the strength in tourism is compensating for this. In the various forecasts, normalcy was largely achieved by the end of FY 2016-17. Overall...

- The recovery in the national economy is near completion on all fronts.

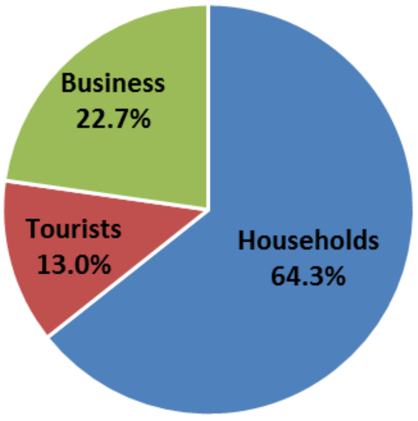
- By the close of the 2016-17 fiscal year, most measures of the Florida economy had returned to or surpassed their prior peaks.
  - All personal income metrics and about half of the employment sectors had exceeded their prior peaks. Still other measures were posting solid year-over-year improvements, even if they were not yet back to peak performance levels.
  - Florida's tourism industry set a new record of 114.25 million visitors in FY 2016-17 and is likely to see 119.02 million visitors in FY 2017-18. This strong tourism growth continues throughout the years covered by the Outlook. The Economic Estimating Conference projects that the number of tourists will grow by 4.5 percent per year during the 2018-19, 2019-20, and 2020-21 fiscal years.
  - The key construction metrics do not show a return to their peak levels until FY 2020-21 (total construction expenditures) and FY 2023-24 (private residential construction expenditures). The rest either do not return to their peak at all during the forecast horizon (single and multi-family starts) or very late in the period (construction employment in FY 2025-26).

Florida-Based Downside Risk

- The most recent sales tax forecast relies heavily on strong tourism growth. It makes no adjustments for the occurrence of adverse events having significant repercussions on tourism—such as natural disasters—during the forecast window.
    - Currently, tourism-related revenue losses pose the greatest potential risk to the economic outlook.
    - Previous economic studies of disease outbreaks and natural or manmade disasters have shown that tourism demand is very sensitive to such events.

The Legislative Office of Economic and Demographic Research has updated and refined an empirical analysis of the various sources of the state's sales tax collections. In FY 2015-16, sales tax collections provided $22.0 billion or 76.4% of Florida's total General Revenue collections. Of this amount, an estimated 13.0% (nearly $2.86 billion) was attributable to purchases made by tourists.

Contributions to General Revenue from Sales Tax (with CST) Collections in FY 2015-16, By Source



External Risk to the Economy

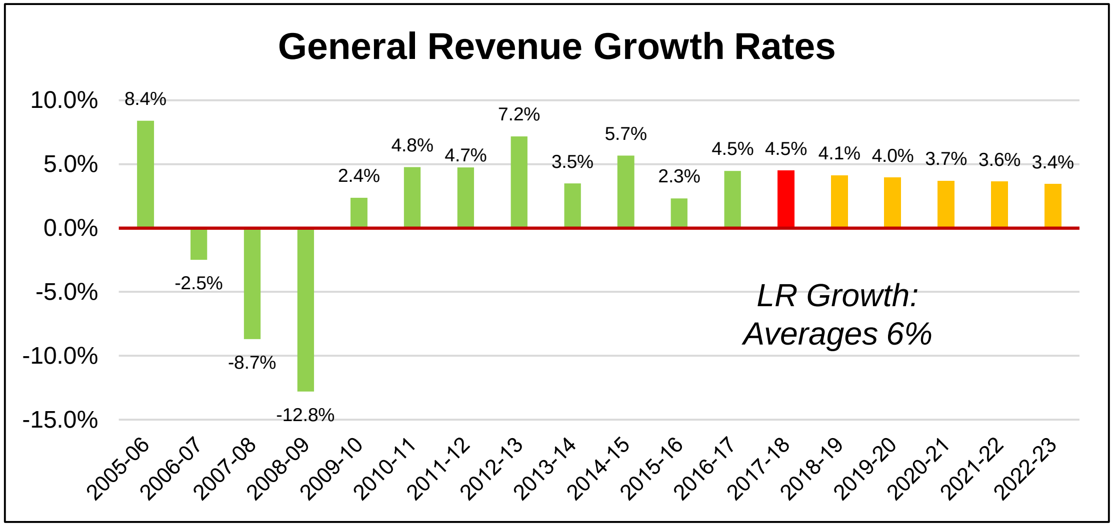
- The national baseline forecast that underpins the Florida economic forecast heavily relies on the assumption that the pace of recovery will pick up in 2018 as fiscal stimulus from personal income and corporate income tax cuts, along with a boost in infrastructure spending, kick in. As of the release of this Outlook, no action has occurred on any of these fronts.

- Further, critical deadlines are looming for the omnibus budget bill and debt ceiling extension in September and early October. Among other things, the budget agreement is assumed to include a change to the automatic sequester provisions that are scheduled to kick back in at the start of the 2018 federal fiscal year.

  UPDATE: Agreement is now in place to fund the US government at current spending levels through December 8, 2017, as well as a short-term (3 months) increase in the debt ceiling.

- If any of these deadlines are missed by an extended period of time or the anticipated fiscal stimulus fails to materialize, there will be negative repercussions to consumer, business, and investor confidence that would adversely impact expected economic performance in the nation and in Florida.

General Revenue Forecast



Growth from the beginning to the end of the Outlook Period is $3.79 billion for a combined total of an additional $7.61 billion available for expenditure over the Outlook period as one year stacks on the next.

Fiscal Year	Post-Session Forecast	August Forecast	Difference (Aug - PS)	Incremental Growth	Growth
2005-06	27,074.8				8.4%
2006-07	26,404.1				-2.5%
2007-08	24,112.1				-8.7%
2008-09	21,025.6				-12.8%
2009-10	21,523.1				2.4%
2010-11	22,551.6				4.8%
2011-12	23,618.8				4.7%
2012-13	25,314.6				7.2%
2013-14	26,198.0				3.5%
2014-15	27,681.1				5.7%
2015-16	28,325.4				2.3%
2016-17	29,558.9	29,594.5	35.6	1,269.1	4.5%
2017-18	30,793.8	30,926.0	132.2	1,331.5	4.5%
2018-19	32,013.3	32,201.4	188.1	1,275.4	4.1%
2019-20	33,278.9	33,474.9	196.0	1,273.5	4.0%
2020-21	34,461.7	34,714.5	252.8	1,239.6	3.7%
2021-22	35,667.1	35,977.9	310.8	1,263.4	3.6%
2022-23	n/a	37,214.0	n/a	1,236.1	3.4%

The August forecast would have essentially matched the old forecast in the short-term; however, recognition of Indian Gaming revenue share payments associated with banked card games resulted in a net increase in the estimate.

Budget Drivers

- Tier 1 – Includes only Critical Needs, which are mandatory increases based on estimating conferences and other essential items. The **18** Critical Needs drivers represent the minimum cost to fund the budget without significant programmatic changes. For the General Revenue Fund, the greatest burden occurs in FY 2019-20 when projected expenditures jump sharply from FY 2018-19, largely due to the depletion of one-time trust fund balances that reduced the General Revenue need in FY 2018-19. The jump is also caused by the scheduled reduction in the federal match rate for the Kidcare program beginning October 1, 2019.

- Tier 2 – Other High Priority Needs are added to the Critical Needs. Other High Priority Needs reflect issues that have been funded in most, if not all, of the recent budget years. Both types of drivers are combined to represent a more complete, yet still conservative, approach to estimating future expenditures. In contrast to Critical Needs, the General Revenue burden for the **35** Other High Priority Needs is spread fairly evenly across the fiscal years but declines slightly over time.

DOLLAR VALUE OF CRITICAL AND OTHER HIGH PRIORITY NEEDS

GENERAL REVENUE FUND	Fiscal Year 2018-19	Fiscal Year 2019-20	Fiscal Year 2020-21
Total Tier 1 - Critical Needs	17.8	753.4	317.4
Total - Other High Priority Needs	2,042.8	1,925.1	1,911.3
Total Tier 2 - Critical and Other High Priority Needs	2,060.6	2,678.5	2,228.7

PERCENTAGE OF TOTAL CRITICAL AND OTHER HIGH PRIORITY NEEDS

GENERAL REVENUE FUND	Fiscal Year 2018-19	Fiscal Year 2019-20	Fiscal Year 2020-21
Total Tier 1 - Critical Needs	0.9%	28.1%	14.2%
Total - Other High Priority Needs	99.1%	71.9%	85.8%
Total Tier 2 - Critical and Other High Priority Needs	100.0%	100.0%	100.0%

Combined FEFP Drivers Dominate

Florida Education Finance Program Drivers		NET STATE FUNDS ($ in millions)		
Driver #	**Critical Needs**	**2018-19**	**2019-20**	**2020-21**
1	Maintain Current Budget	154.0	0	0
2	Workload and Enrollment	197.0	156.8	198.7
3	Adjustment to Allow Required Local Effort to Increase with Tax Roll Growth	-509.1	-514.5	-535.5
	TOTAL COST	**-158.2**	**-357.8**	**-336.8**
Driver #	**Other High Priority Needs**	**2018-19**	**2019-20**	**2020-21**
19	Educational Enhancement Trust Fund Adjustment - Bright Futures Scholarship Increase	0.0	0.0	0.0
20	Increase Total Funds per FTE Student	357.5	365.9	380.0
21	Maintain Fiscal Year 2017-18 Total Amount of the Required Local Effort	425.8	429.2	446.3
22	Additional Cost Required to Implement Both Increase Total Funds per Student and Maintain the Fiscal Year 2017-18 Required Local Effort	16.1	21.1	21.7
	TOTAL COST	**799.4**	**816.2**	**848.0**
	NET STATE COST	**641.2**	**458.4**	**511.2**

- The Critical Needs drivers for the FEFP assume that the Required Local Effort (RLE) and Discretionary Taxes from the 0.748 levy are allowed to increase with tax roll growth (i.e., maintain the FY 2017-18 certified millage rate) throughout the three-year period of the Outlook—and provides sufficient state funding to maintain the FY 2017-18 total funds per FTE after taking account of enrollment growth.
- The Other High Priority Needs drivers provide sufficient state funding to increase the total funds per FTE by 1.79% and also maintain the FY 2017-18 level of the RLE at $7.6 billion (i.e., lower the millage rates to the levels necessary to keep the total RLE flat) throughout the three-year forecast period.

Revenue Adjustments

- Revenue Adjustments to the General Revenue Fund are again included in the Outlook to reflect legislative actions that alter the revenue-side of the state's fiscal picture. These adjustments are based on three-year averages and include:

  - *Tax and Significant Fee Changes*...These changes fall into two categories, each with a different effect. The continuing tax and fee changes reflect adjustments to the funds otherwise available and build over time since the impact of each year's change is added to the recurring impacts from prior years. Conversely, the time-limited tax and fee changes are confined to each year and are held constant throughout the Outlook.

  - *Trust Fund Transfers (GAA)*...The nonrecurring transfers are positive adjustments to the funds otherwise available and are held constant each year. Fiscal Year 2017-18 had a particularly large number of qualifying transfers ($465.3 million) that collectively increased the average by $81.1 million from last year's Outlook.

	2018-19			2019-20			2020-21		
	Rec	**NR**	**Total**	**Rec**	**NR**	**Total**	**Rec**	**NR**	**Total**
Continuing Tax and Fee Changes	(141.1)	51.6	(89.5)	(141.1)	51.6	(89.5)	(141.1)	51.6	(89.5)
Recurring Impact of Prior Years' Tax and Fee Changes	0.0	0.0	0.0	(141.1)	0.0	(141.1)	(282.3)	0.0	(282.3)
Time-Limited Tax and Fee Changes	0.0	(63.9)	(63.9)	0.0	(63.9)	(63.9)	0.0	(63.9)	(63.9)
Trust Fund Transfers (GAA)	0.0	323.6	323.6	0.0	323.6	323.6	0.0	323.6	323.6
Total	**(141.1)**	**311.3**	**170.2**	**(282.3)**	**311.3**	**29.0**	**(423.4)**	**311.3**	**(112.1)**

Putting It Together for the First Year

OUTLOOK PROJECTION – FISCAL YEAR 2018-19 *(in millions)*	RECURRING	NON RECURRING	TOTAL
AVAILABLE GENERAL REVENUE	**$31,951.5**	**$1,803.4**	**$33,754.9**
Base Budget	$30,744.3	$0.0	$30,744.3
Transfer to Budget Stabilization Fund	$0.0	$68.2	$68.2
Critical Needs	($77.9)	$95.7	$17.8
Other High Priority Needs	$1,409.0	$633.8	$2,042.8
Reserve	$0.0	$1,000.0	$1,000.0
TOTAL EXPENDITURES	**$32,075.4**	**$1,797.7**	**$33,873.1**
Revenue Adjustments	($141.1)	$311.3	$170.2
ENDING BALANCE	**($265.0)**	**$317.0**	**$52.0**

- Combined, recurring and nonrecurring General Revenue Critical Needs—plus a minimum reserve of $1.0 billion—are significantly less than the available General Revenue, leaving a surplus of more than $1.9 billion. However, when Other Priority Needs are added, the available General Revenue falls short of the projected total need by $118.2 million.
- After accounting for the revenue adjustments included in Tier 3 of the Outlook, there is enough General Revenue to cover the Critical and Other High Priority Needs; however, there is essentially no remaining General Revenue for discretionary issues—the projected surplus of $52.0 million equates to just 0.16 percent of the General Revenue estimate for Fiscal Year 2018-19.
- Further, the projected recurring expenditures and revenue adjustments, in combination, outstrip the available recurring resources by $265.0 million.

The Bottom Line

2017 Outlook	For the Period Beginning Fiscal Year 2018-19	Year 1 ($ Millions)	Year 2 ($ Millions)	Year 3 ($ Millions)	Level of Reserves
Tier 1	***Critical Needs***	$1,924.6	$4,031.4	$7,140.1	$1,000.0
Tier 2	***Critical Needs & Other High Priority Needs***	($118.2)	($1,227.3)	($1,527.5)	$1,000.0
Tier 3	***Critical Needs, Other High Priority Needs & Revenue Adjustments***	$52.0	($1,146.2)	($1,639.6)	$1,000.0

- The overall net improvement to Year 1 came from a much higher than expected nonrecurring ending balance, explained in part by the Indian Gaming changes, but also by the much higher than expected trust fund transfers (+$242.5 million in the 2016 Outlook compared to +$456.3 million authorized in the GAA).

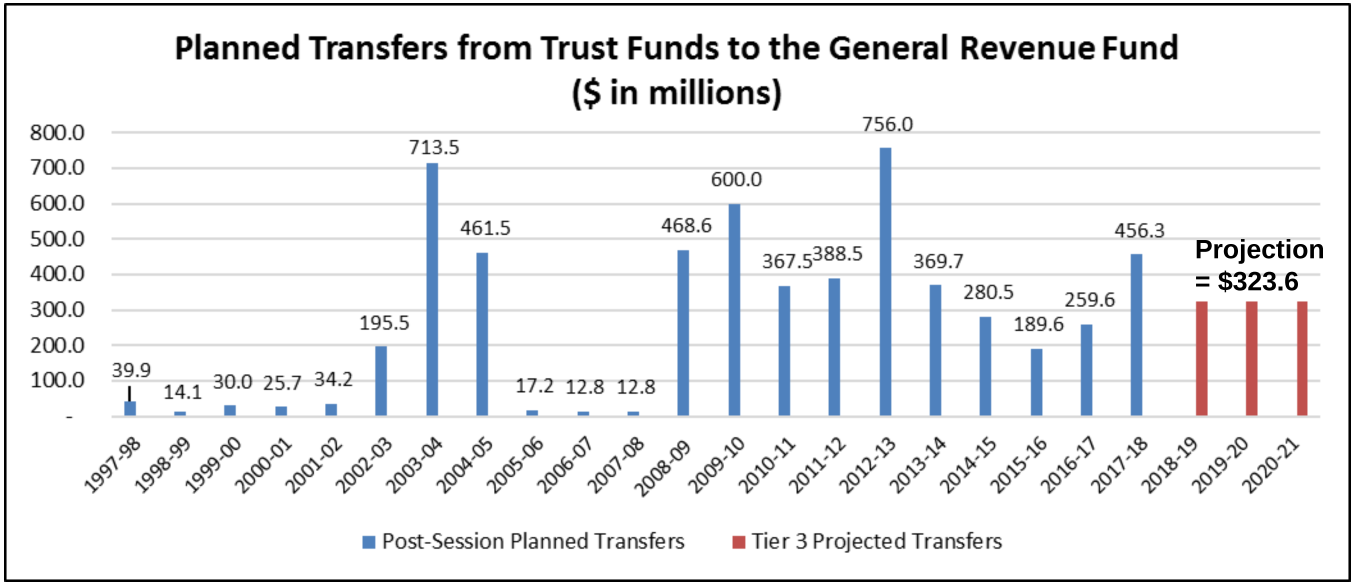
- The actions taken during the 2017 Session also had a modestly positive impact on the projected shortfalls identified in the 2016 Outlook. Even so, the large negative ending balances for Fiscal Year 2019-20 and Fiscal Year 2020-21 in both Tiers 2 and 3 indicate a looming problem remains.

- Particularly problematic is the fact that the recurring General Revenue demands exceed the amount of recurring General Revenue available all three years for both Tier 2 and Tier 3. This indicates that **a structural imbalance is occurring** between expenditures and revenues.

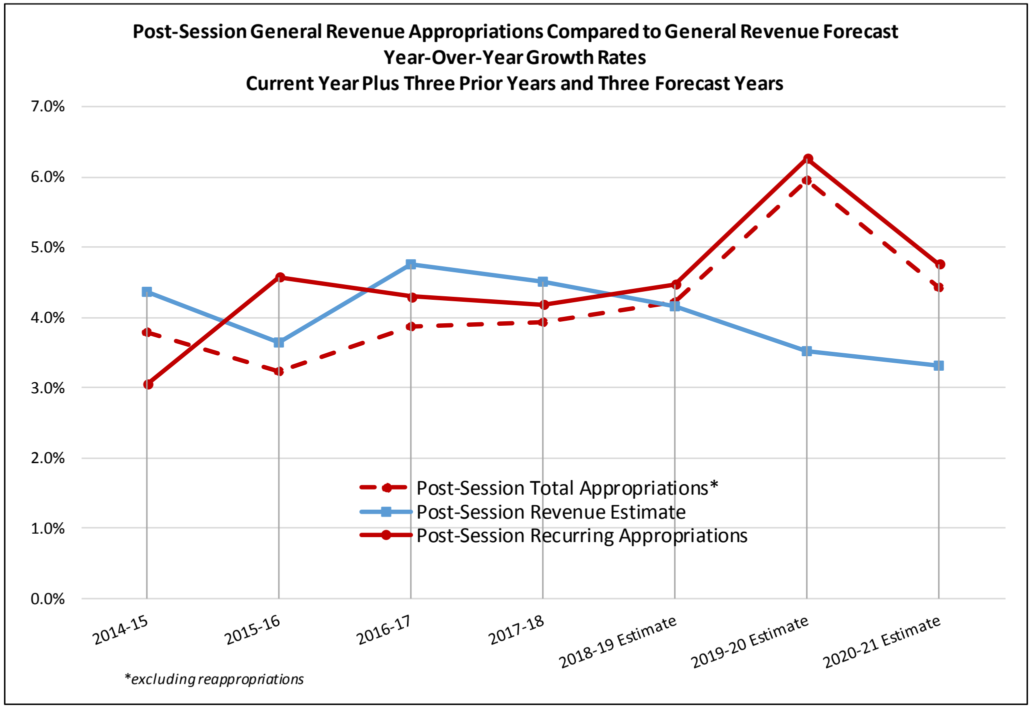
- Since the increase in projected recurring expenditures (and negative revenue adjustments in Tier 3) in FY 2018-19 clearly contributes to and worsens the problems in FY 2019-20 and FY 2020-21, **Fiscal Strategies are advisable for all three years of the Outlook** in order to manage the problems in the out-years.

Shoring Up Current Projections is Critical

- The Outlook's results for all three years depend greatly on the Indian Gaming revenue changes and the heightened level of future trust fund transfers. If either of these assumptions fails to come to pass, the current results will significantly deteriorate.
  - The Settlement Agreement and Stipulation entered into between the Seminole Tribe of Florida and the State of Florida in July 2017 requires that "...the state takes aggressive enforcement action against the continued operation of banked card games, including Designated Player Games that are operated in a banked game manner..." Assuming that this happens, the Revenue Estimating Conference recognized all revenue share payments associated with banked card game activity. However, the Conference lacked sufficient certainty to make any of the payments recurring and converted the entire future stream of annual payments to nonrecurring dollars.
  - The heightened level of expected trust fund transfers may necessitate future budget reductions in the affected trust-funded programs in order to achieve this result. The Outlook includes a projected $323.6 million of trust fund transfers compared to the long-range average of $271.1 million.



Timing of Corrective Action



The revenue estimates used here include the assumptions made in the Outlook regarding tax and significant fee changes.

Similar to the 2016 Outlook, this year's Outlook reveals actual shortfalls only in the two outer years. Among the many variables that should be considered is the timing of the corrective action.

While a fiscal strategy is required no later than FY 2019-20 to address the projected gap between revenues and expenditures, less disruptive courses of action would argue for at least some level of deployment beginning in FY 2018-19. Otherwise, there is the potential to increase funding for programs in Year 1 that would not survive Year 2.

Fiscal Strategies

- Conceptually, there are five options to eliminate a proposed budget gap in any given year of the Outlook.
  - Budget Reductions and Reduced Program Growth
  - Reduction or Elimination of Revenue Adjustments Affecting Taxes and Fees in Tier 3
  - Revenue Enhancements and Redirections
  - Trust Fund Transfers or Sweeps
  - Reserve Reductions
- With the exception of trust fund transfers or sweeps and reserve reductions, these options can be deployed on either a recurring or nonrecurring basis. When they are used to bring about a recurring change, they also have an impact on the following fiscal years.
- The magnitude of the ***recurring*** shortfall cannot be fixed by nonrecurring solutions alone. A simple reduction in the level of reserves or trust fund transfers or sweeps (in excess of those included in Tier 3) will close the gap in a particular year; however, these strategies do not solve the recurring problem.
- The other three options will become the basis of more meaningful strategies.

Benefit of Time

Tier 3 Projected Ending Balances

Year 1

FY 2018-19 Adjustment and Revised Ending Balance	Recurring	Nonrecurring	Total
Adj	0.0	0.0	0.0
End Bal	(265.0)	317.0	52.0

Year 2

FY 2019-20 Adjustment and Revised Ending Balance	Recurring	Nonrecurring	Total
Adj	0.0	0.0	0.0
End Bal	(1,146.3)	0.1	(1,146.2)

Year 3

FY 2020-21 Adjustment and Revised Ending Balance	Recurring	Nonrecurring	Total
Adj	0.0	0.0	0.0
End Bal	(1,677.4)	37.8	(1,639.6)

Timing Scenario A

FY 2018-19 Adjustment and Revised Ending Balance	Recurring	Nonrecurring	Total
Adj	(559.1)	189.6	(369.5)
End Bal	294.1	127.4	421.5

FY 2019-20 Adjustment and Revised Ending Balance	Recurring	Nonrecurring	Total
Adj	(559.1)	189.6	(369.5)
End Bal	(28.1)	180.0	151.9

FY 2020-21 Adjustment and Revised Ending Balance	Recurring	Nonrecurring	Total
Adj	(559.2)	189.7	(369.5)
End Bal	0.0	0.0	0.0

- Timing Scenario “A” takes full advantage of the upcoming Session to improve the outlook for the two subsequent years.
- Other scenarios that focus more on the second year are also feasible, but to the extent the corrective actions are delayed, they will result in a more intense and concentrated effort to produce the required savings in FY 2019-20.
- At the extreme edge of this subset of options would be a total delay of corrective actions until Year 2 (FY 2019-20). This will result in the need to clear the projected shortfalls of $1.23 billion (Tier 2) or $1.15 billion (Tier 3).

Black Swans

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

- A severe natural disaster that stresses the state's reserves.
  - 2004 and 2005 Hurricane Seasons cost more than they generated in revenue.
  - Budget Stabilization Fund balance will be nearly $1.42 billion in FY 2017-18, and General Revenue Reserve is nearly $1.46 billion.

Year	Florida Landfall Strength	Nominal State $'s
2004		
Jeanne	3	*$790.7 million in*
Charley	4	*added cost vs.*
Frances	2	*$751.9 million in*
Ivan	3	*added revenue*
2005		
Dennis	3	*$625.4 million in*
Wilma	3	*added cost vs.*
Katrina	1	*$422.1 million in*
Rita	2	*added revenue*
2016		
Hermine	1	
Matthew	*No Landfall*	

<u>Andrew, 1992</u>
Category 5 – Miami, Miami-Dade County
$26.5 billion in Florida damages (ranked as the 4th most costliest in the US)
In 2017 dollars: $45.91 billion in damages

<u>Charley, 2004</u>
Category 4 – Ft. Myers, Lee County
$13.5 billion in Florida damages
In 2017 dollars: $17.4 billion in damages

<u>Wilma, 2005</u>
Category 3 – Naples, Collier County & Key West, Monroe County
$20.6 billion in Florida damages
In 2017 dollars: $25.37 billion in damages

Hurricanes: Economic Phases

Phase	Defining Characteristics	Statewide Economic Consequences

Preparatory Phase
(approximately 72 hours in advance of the hurricane to landfall)
	• Purchase of Emergency Supplies (canned food, batteries, radios, candles, flashlights, charcoal, gas, propane, water, ice, shutters, boards / plywood, etc.)
	• Evacuation Expenses
	  ○ In-State...hotels and lodging, transport costs like rental cars and gas
	  ○ Out-of-State...leakage
		Demand...Localized increase in demand for specific items, and potential non-affected area increase in lodging demand, but largely undetectable
		
		State Budget...Shifting of costs from normally provided services to emergency management, as well as unanticipated overtime and shelter costs
		
		State Revenues...Slight uptick, but largely undetectable

Crisis Phase *(landfall to several weeks after landfall)*	• Rescue and relief efforts (largely public, charitable, or free) • Roads closed due to debris • Private structures and public infrastructure damaged • Utility disruptions • Businesses and non-essential parts of government closed • Temporary homelessness • Violence and looting	**Demand**...Localized decrease in overall demand; significance depends on the event **State Budget**...Government agencies provide goods and services and incur new expenditures that may or may not be matched at a later time by the federal government **State Revenues**...Detectable downtick; significance depends on the event

Recovery Phase
(subsequent to the Crisis Phase and generally lasting up to two or three years)
	• Increased spending related to deductibles, repair, and replacement
	  ○ Private Savings / Loans
	  ○ State Spending
	  ○ FEMA and Federal Spending
	  ○ Insurance Payments
	• Competition for scarce resources (contractors, roofers, supplies, construction workers, building materials, debris removal, etc.)
		Demand...Localized increase in overall demand, and prices likely increase for some items
		
		Employment...Will temporarily see gains as relief and recovery workers move into the area
		
		State Budget...Reallocation of state and local government spending to the affected area
		
		State Revenues...Discernible and significant uptick

Displacement Phase *(subsequent to the Recovery Phase and lasting from two to six years)*	• Reduction in normal purchasing behavior for items that were bought or replaced ahead of schedule • Demographic and labor shifts related to dislocated households and economic centers	**Demand**...Localized decrease in overall demand, but largely undetectable at the state level **State Revenues**...Slight downtick, but largely undetectable

State Recovery Costs

	HURRICANE RECOVERY EXPENDITURES	Final 2004	Final 2005	YTD Irma	
Match	State Match for FEMA Funds	403.0	401.3		
		403.0	**401.3**		
Budget Amendments	BA - Emergency Food Stamp Services	1.3	3.3		
	BA - Grants to Public Schools	12.1			
	BA - Visit Florida for Tourism	4.8			
	BA - National Guard Expenditures		14.5	25.1	
	BA - Military Affairs		2.8		
	BA - Food, Ice, Water, Transportation			12.0	
	BA - DEM / State Ops			27.6	*(pending)*
	BA - DEP / Debris Removal			36.0	*(pending)*
	BA - DACS Mosquito Spraying			6.0	
		18.2	**20.6**	**106.7**	
Legislative Action	Property Tax / Mobile Homes	35.1			
	Beaches and Dunes	64.6	50.0		
	Agricultural Programs	7.1			
	Affordable Housing	250.0	108.0		
	Grants to Schools	12.7			
	DCA Funding for non-fed reimbursed items		1.2		
	Hurricane Relief Funding / Repairs		35.1		
	Community College Risk Mgmt Fund		1.3		
	Mental Health		5.3		
	Hurricane Damaged Marinas		2.5		
	Roof Repairs to 4th DCA (WPB)		0.2		
		369.5	**203.6**		
	Total State Expenditures	**790.7**	**625.5**	**106.7**	

Adjusted Budget Amendments for Loan Programs:			
Citrus Loan Program	0.0	0.0	25.0
General Bridge Loans	45.0	24.0	10.0
General Revenue Impact	**63.2**	**44.6**	**141.7**

Adjusted Bottom Line for Year 1

Known Adjustments (10/12/2017):

Projected bottom line for FY 2018-19 as adopted by the LBC	**52.0**	
Processed YTD Budget Amendments for Hurricane Irma	-141.7	(lowers carry forward)
Additional FRS GR Impact from Conference	-55.4	(increases recurring cost all years)
	-145.1	

Over the next few months, the *Long-Range Financial Outlook* bottom line will be further adjusted by:

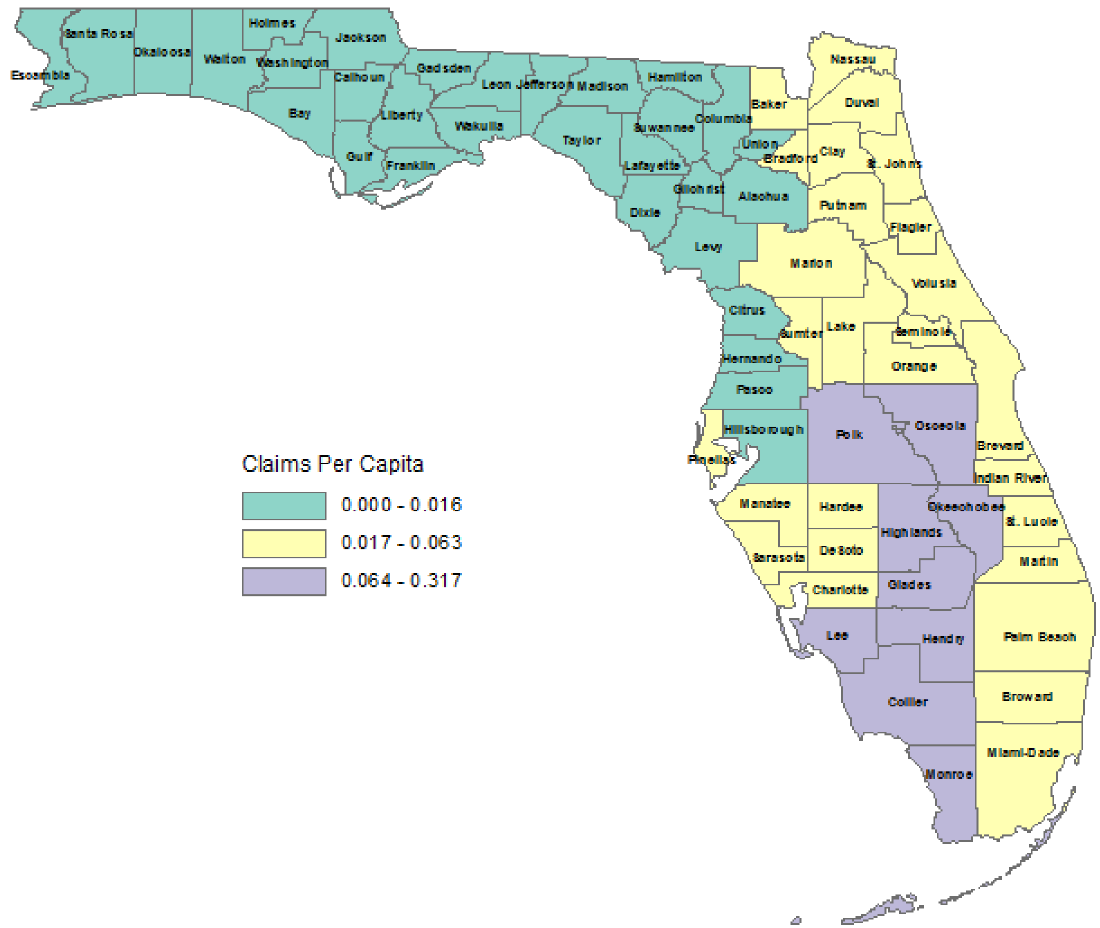
- Additional response and recovery costs from budget amendments and legislative actions that are likely nonrecurring, but affect multiple years.
- Nonrecurring revenue losses in FY 2017-18 from Preparatory and Crisis Phases.
- Nonrecurring revenue gains likely occurring in the latter part of FY 2017-18, FY 2018-19 and FY 2019-20 from rebuilding during the Recovery Phase.

Hurricane Irma:
Indexed Insured Claims (YTD)

- On a per capita basis, the largest number of claims is in Monroe County
- In absolute number, Miami-Dade has the largest number of claims

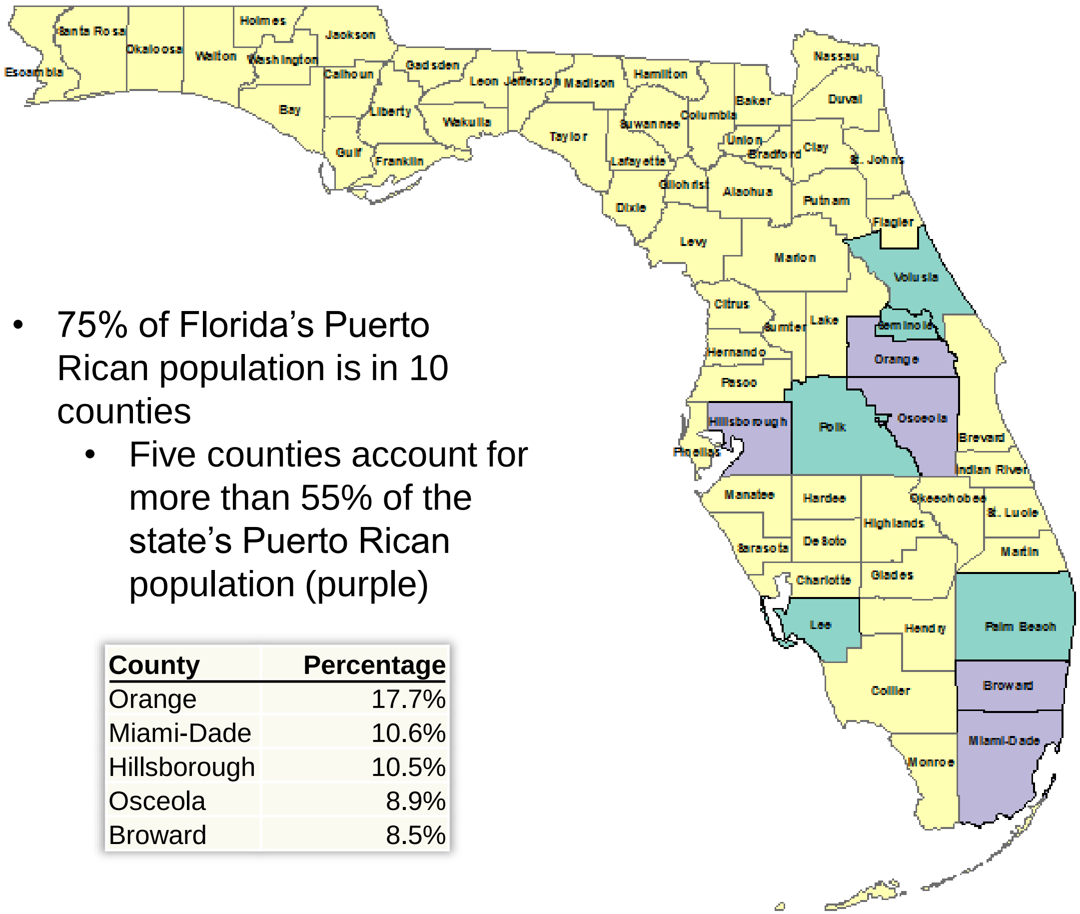
Counties with Over 20,000 Claims

COUNTY	CLAIMS
MIAMI-DADE	87,334
ORANGE	57,670
BROWARD	56,977
LEE	52,821
COLLIER	48,094
POLK	42,763
BREVARD	32,535
DUVAL	29,185
PALM BEACH	28,486
MONROE	24,407
OSCEOLA	22,945



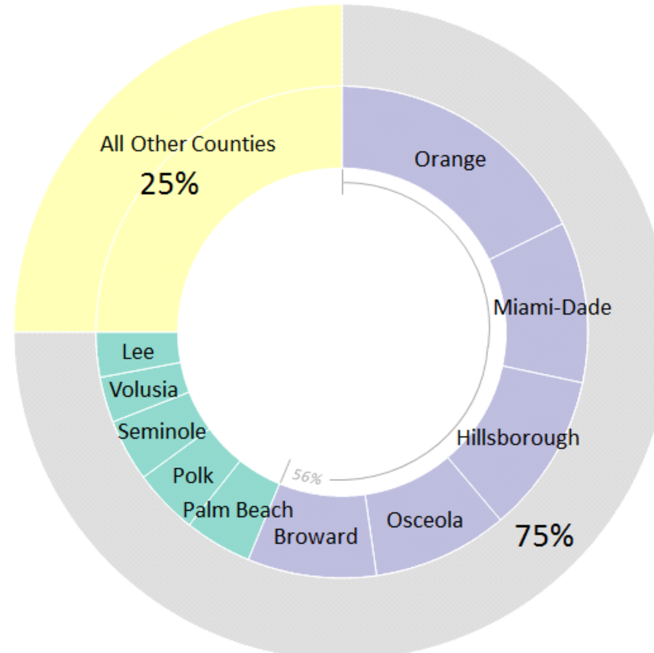
Source: Florida Office of Insurance Regulation, Claims filed as of October 6, 2017

Florida's Puerto Rican* Population



- 75% of Florida's Puerto Rican population is in 10 counties
  - Five counties account for more than 55% of the state's Puerto Rican population (purple)

County	Percentage
Orange	17.7%
Miami-Dade	10.6%
Hillsborough	10.5%
Osceola	8.9%
Broward	8.5%



Statewide: 977,995

* Population that identifies themselves as Hispanic or Latino Origin by Specific Origin (Puerto Rican)
Source: US Census Bureau, 2011-2015 American Community Survey 5-year estimates.