

Florida: Long-Range Financial Outlook

September 7, 2011

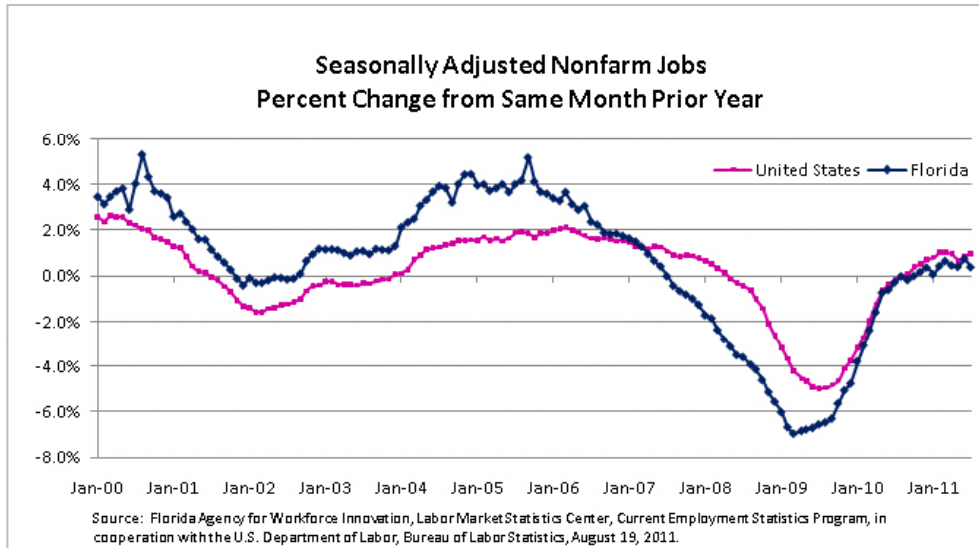
Presented by:



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Current Employment Conditions

44 of 67 counties
with double-digit
unemployment rates



July Nonfarm Jobs (YOY)

US	1.0%
FL	0.4%
YR:	28,100 jobs
Peak:	-845,400 jobs

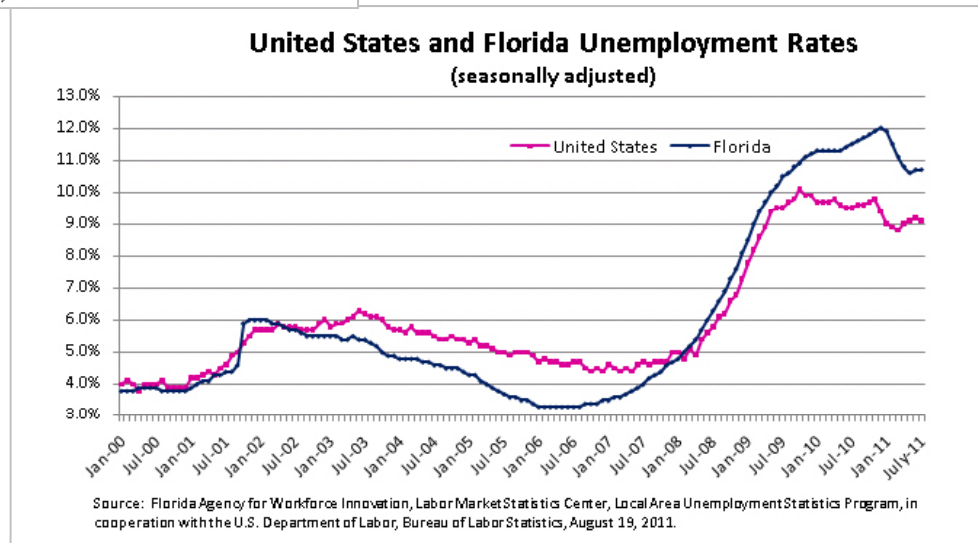
July Unemployment Rate

US	9.1%
FL	10.7%

(987,000 people)
6th highest state in the country

Highest Monthly Rate

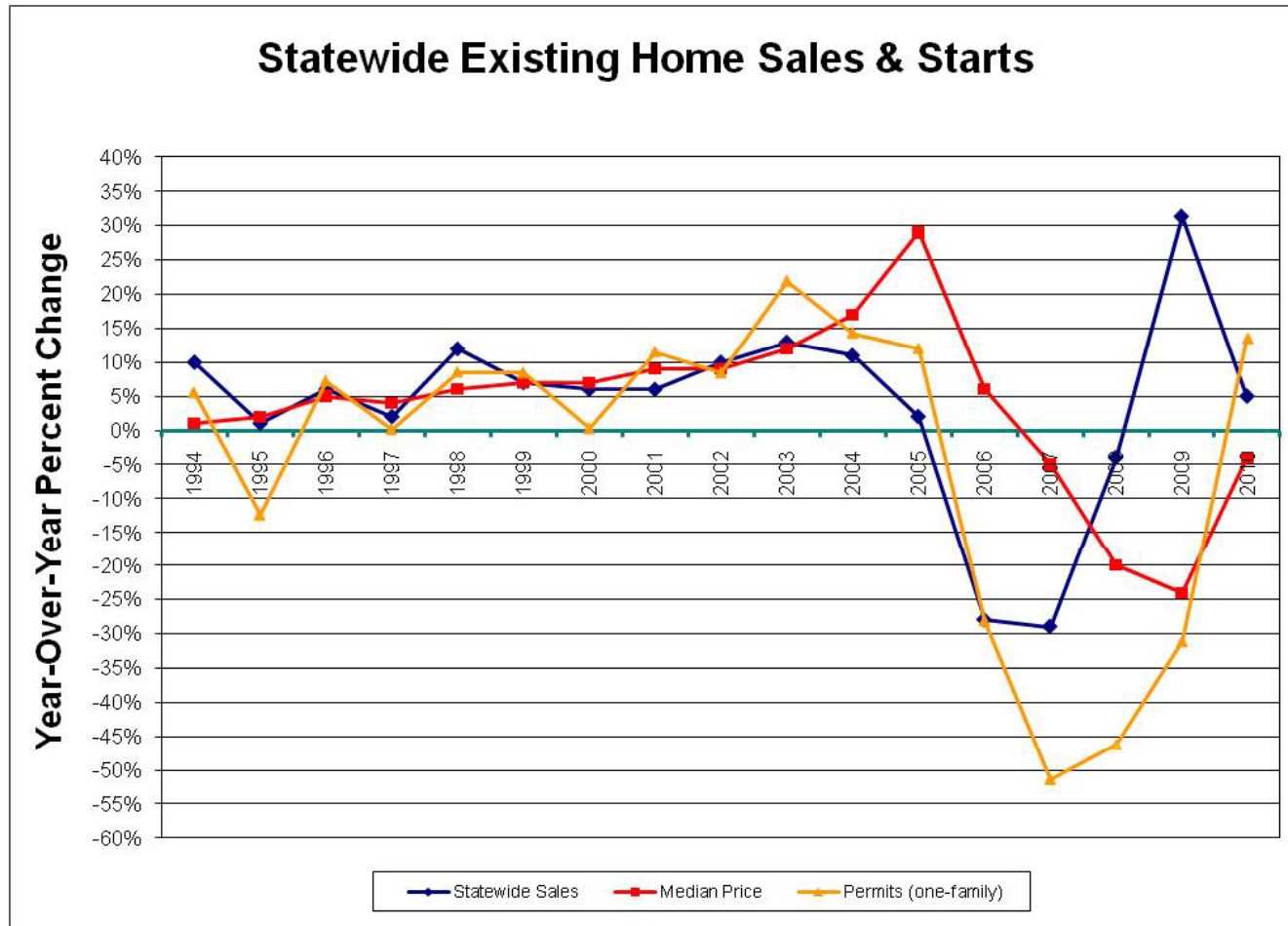
December 2010
12.0%



Population Growth Recovering

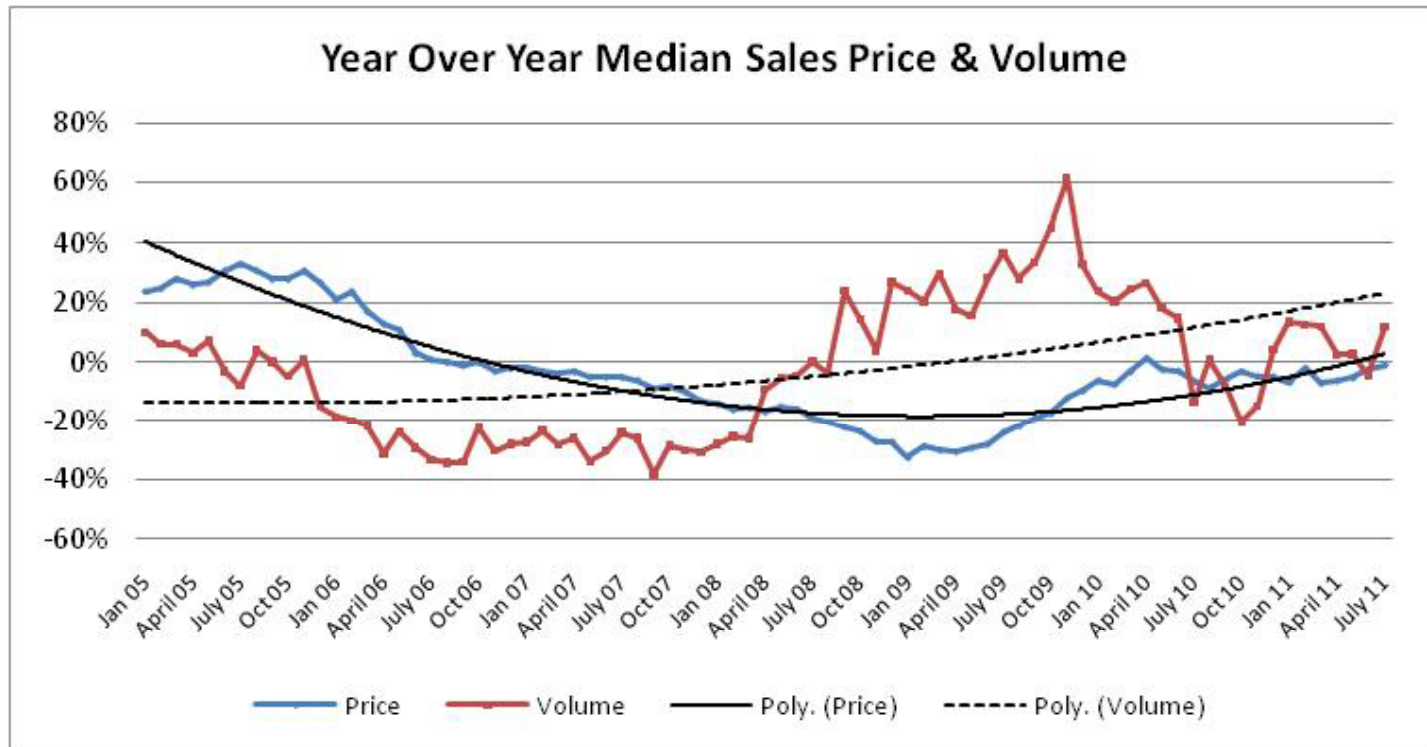
- Population growth is the state's primary engine of economic growth, fueling both employment and income growth.
- Population growth is forecast to remain relatively flat – averaging 0.85% between 2011 and 2014. However, growth is expected to recover in the future – averaging 1.1% between 2025 and 2030 with 86% of the growth coming from net migration. Nationally, average annual growth will be about 0.9%.
- The future will be different than the past; Florida's long-term growth rate between 1970 and 1995 was over 3%.
- Florida is on track to break the 20 million mark during 2016, becoming the third most populous state sometime before then – surpassing New York.

Florida Housing is Generally Improving



Sales volume and building permits are both back in positive territory, showing year-over-year growth (CY 2010 over 2009); however, building permits are now running 5.5% below last year at the same time (January – July 2011 compared to January – July 2010, Houses).

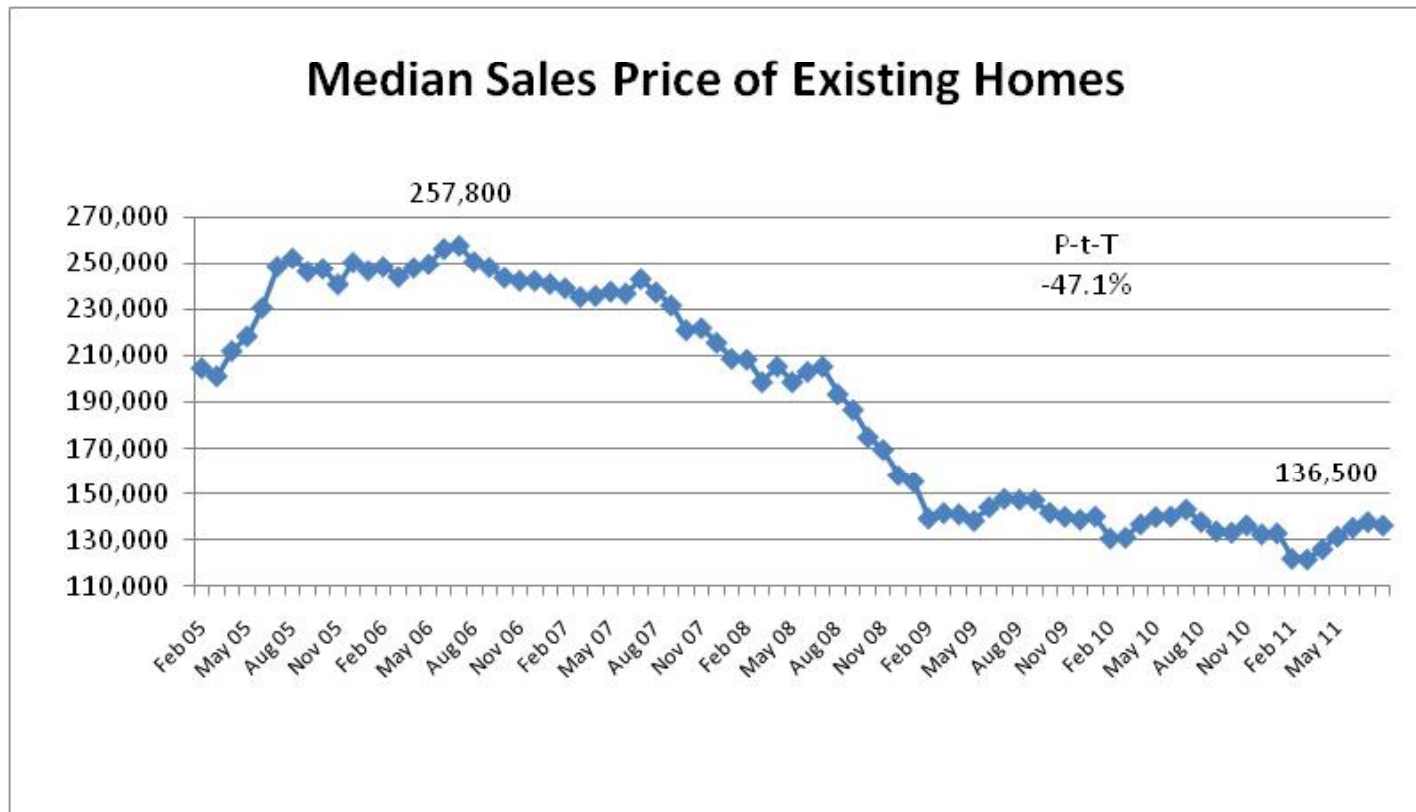
But, Existing Homes Sales Are Sputtering



Data through July 2011

Sales Level in CY 2010 was 70.1% of 2005 boom level.

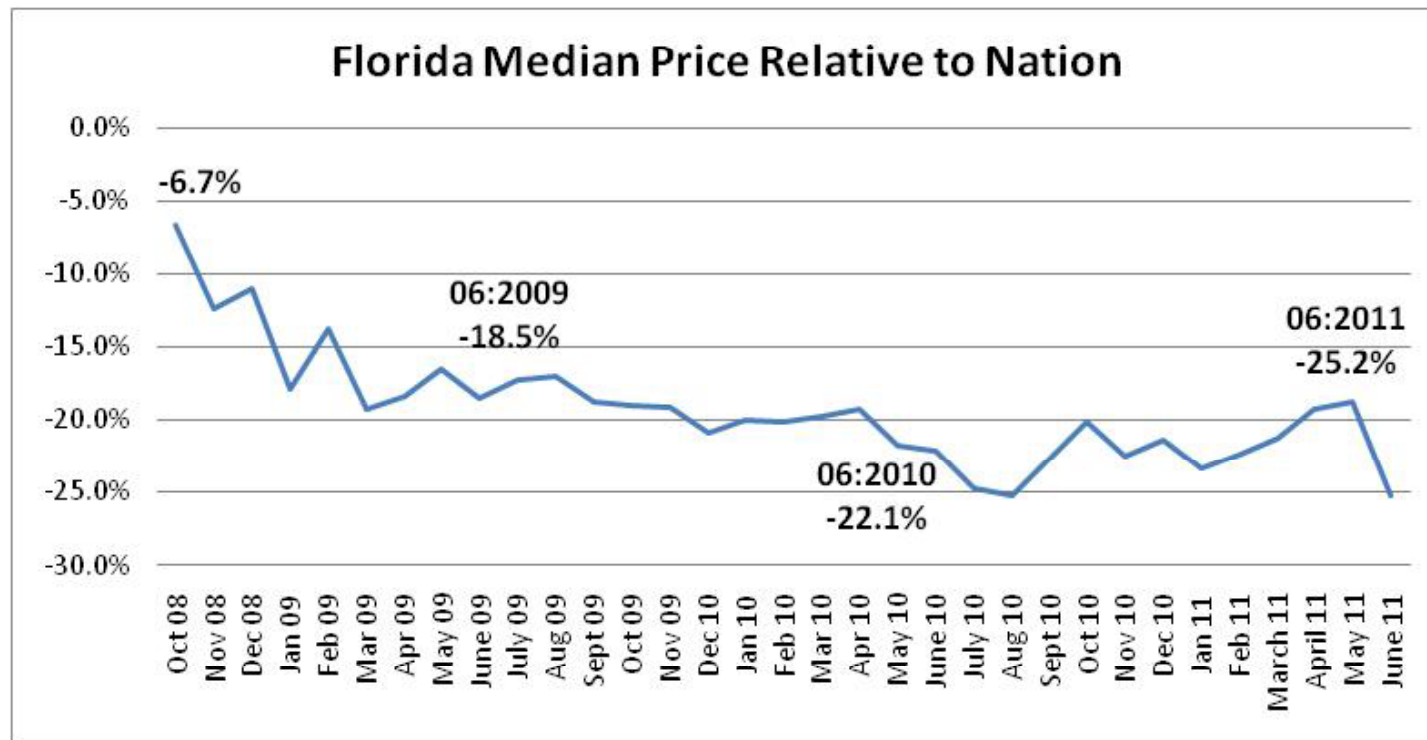
And, Existing Home Prices Are Flat



Data through July 2011

Median Sales Prices for Existing Homes have been essentially flat since February 2009 --- 28 months --- with a slight downward drift.

Price Holding Below National Level



The chart above is for single-family residences. Data from the American Community Surveys suggests that Florida was above the national median price for owner-occupied housing units from 2005 through most of 2008.

Foreclosure Filings Remain Daunting

2010...2nd Year in a Row

2nd Highest # of Filings
(485,286 properties)

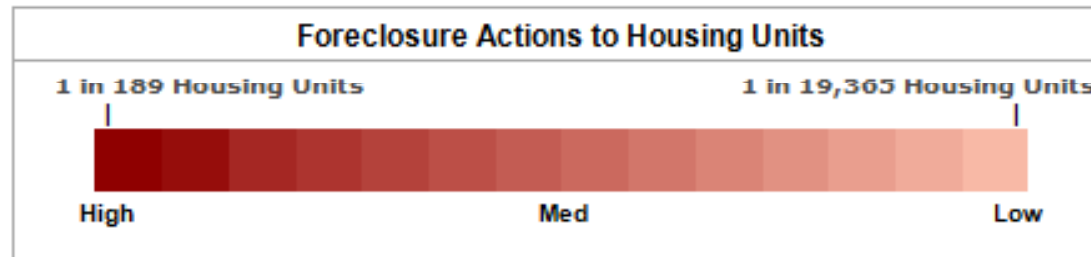
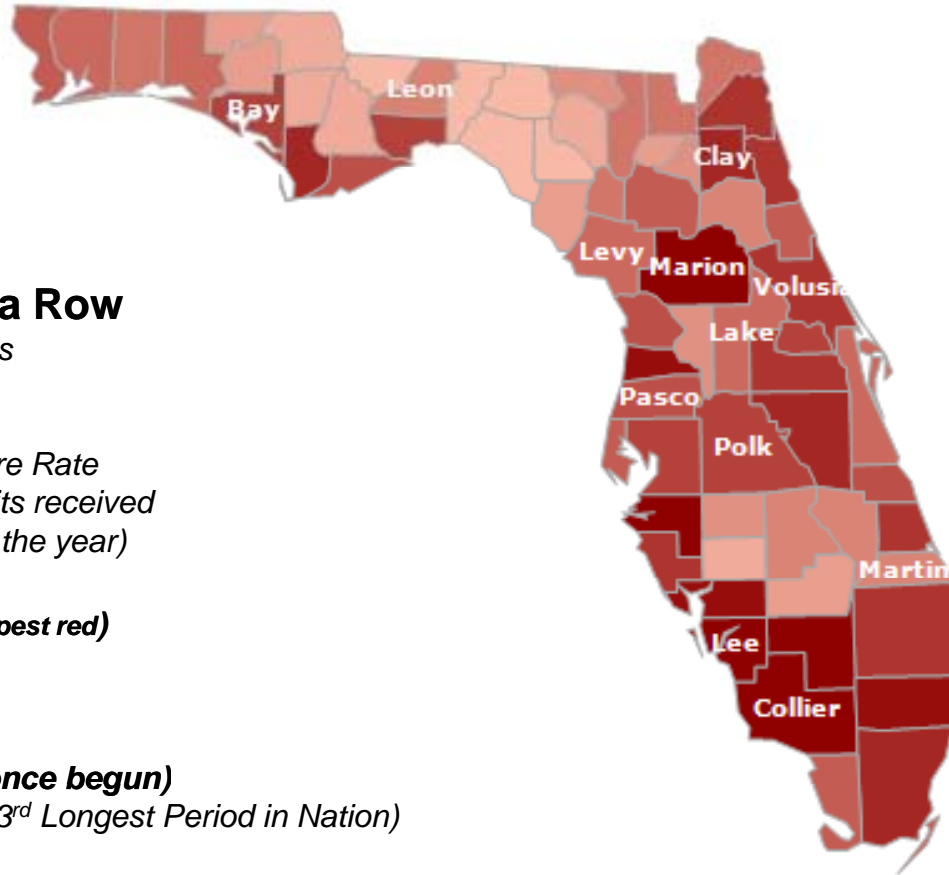
3rd Highest Foreclosure Rate
(5.51% of housing units received
at least 1 filing during the year)

July 2011 (highest = deepest red)

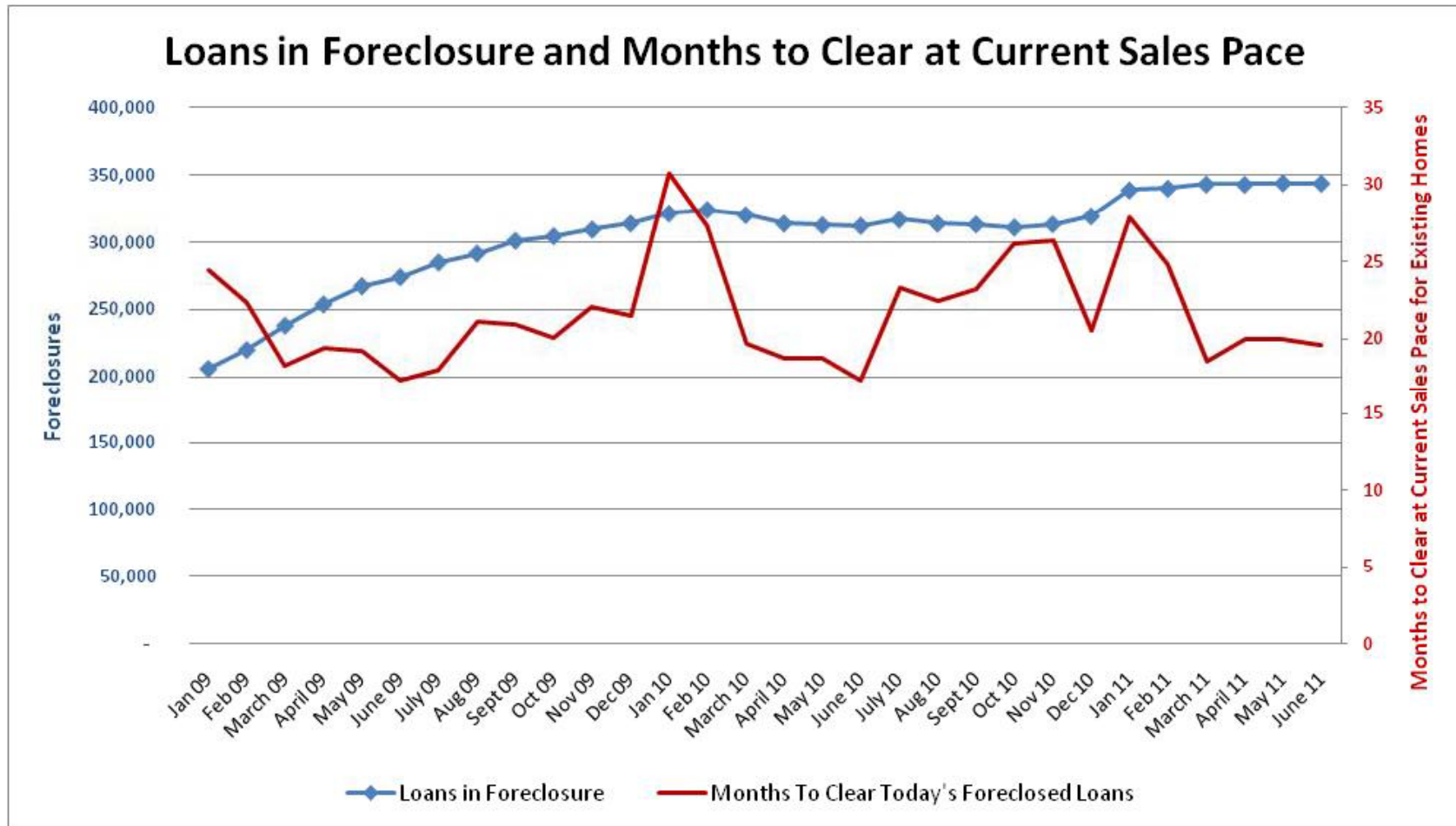
FILINGS: 2nd in US
RATE: 6th in US

Foreclosure Process (once begun)

676 Days in Florida (3rd Longest Period in Nation)



Residential Loans in Foreclosure



Foreclosures & Shadow Inventory

State	Del %	FC %	Non-Curr %	Del/FC
National	7.97%	4.14%	12.11%	192%
FL	8.8%	13.9%	22.7%	64%
NV	10.9%	7.7%	18.6%	142%
MS	13.6%	3.4%	17.0%	397%
NJ	7.4%	7.1%	14.5%	104%
GA	11.0%	3.1%	14.0%	355%
IL	7.6%	6.8%	13.9%	121%
OH	8.6%	4.9%	13.5%	177%
IN	8.8%	4.7%	13.5%	188%
LA	9.7%	3.6%	13.3%	269%
RI	8.6%	4.6%	13.2%	190%
MD	9.4%	3.1%	12.6%	300%
TN	10.1%	2.4%	12.5%	415%
SC	8.7%	3.7%	12.5%	233%
NY	7.5%	5.0%	12.5%	151%
AL	10.3%	1.8%	12.1%	564%
WV	9.5%	2.6%	12.1%	370%
MI	9.1%	2.9%	12.0%	316%

State	Del %	FC %	Non-Curr %	Del/FC
National	7.97%	4.14%	12.11%	192%
ME	7.0%	4.9%	11.9%	143%
AZ	8.1%	3.8%	11.9%	214%
CT	7.5%	4.2%	11.7%	180%
CA	8.5%	3.2%	11.7%	266%
DE	7.5%	4.1%	11.6%	184%
NC	8.5%	2.9%	11.4%	292%
PA	7.8%	3.2%	11.0%	242%
KY	7.4%	3.5%	10.9%	210%
HI	6.1%	4.7%	10.8%	128%
WI	6.4%	4.1%	10.4%	156%
AR	6.8%	2.7%	10.3%	270%
OK	6.7%	3.0%	10.2%	360%
MA	6.5%	2.1%	10.1%	214%
MO	5.8%	2.1%	10.0%	329%
DC	5.6%	1.9%	9.9%	395%
NM	5.0%	2.1%	9.8%	227%
TX	4.0%	2.1%	9.7%	255%

State	Del %	FC %	Non-Curr %
National	7.97%	4.14%	12.11%
FL	8.8%	13.9%	22.7%

Foreclosures adding more to inventory than Sales are subtracting.

Average delinquency at Florida foreclosure start --- 385 days.

(LPS Data for April)

Credit Conditions Remain Tight

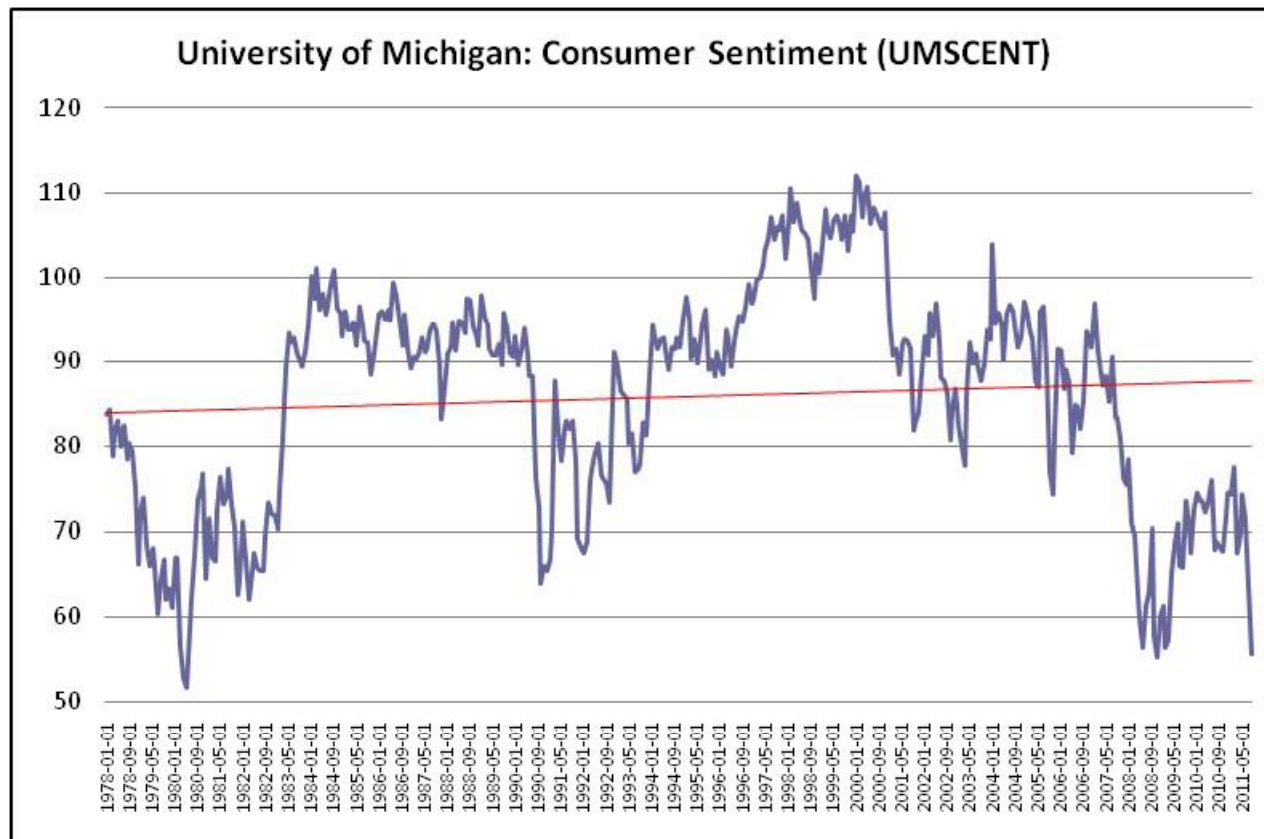
Question to Senior Loan Officers:

Over the past three months, how have your bank's credit standards for approving applications from individuals for **prime residential mortgage loans** to purchase homes changed?

	All Respondents				
	July '11%	April '11 %	Jan '11 %	Oct '10 %	July '10 %
Tightened considerably	0.0	0.0	0.0	0.0	0.0
Tightened somewhat	5.7	3.8	3.7	13.0	3.6
Remained basically unchanged	86.8	92.5	94.4	83.3	87.3
Eased somewhat	7.5	2.0	1.9	3.7	9.1
Eased considerably	0.0	0.0	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0

July 2011 Senior Loan Officer Opinion Survey on Bank Lending Practices (Federal Reserve Board)

Perceptions Plummeted in August



- Consumer sentiment can be a leading indicator of recession: nationally, 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 (55.7 in August versus 51.7 in May 1980)
- Florida's consumer confidence (August: 62) is roughly following the national trend but seems to have greater volatility.

Economy Very Slowly Recovering

Florida growth rates are slowly returning to more typical levels. But, drags are more persistent than past events, and it will take years to climb completely out of the hole left by the recession. Overall...

- The national economy is still in recovery (albeit very weak) and, more importantly, the credit markets are still recovering stability – although they remain sluggish and difficult to access.
- The subsequent turnaround in Florida housing will be led by:
 - Low home prices that begin to attract buyers and clear the inventory.
 - Long-run sustainable demand caused by continued population growth and household formation.
 - Florida's unique demographics and the aging of the baby-boom generation (2011 marks the first wave of boomers hitting retirement).

Known Threat & Black Swans

Known Threat: Continuing Deepwater Horizon Oil Spill impacts

“Black Swans” are low probability, high impact events:

- Severe Natural Disasters
 - 2004 and 2005 Hurricane Seasons
 - Budget Stabilization Fund balance is \$493.6 million.
- Deep second recession caused by a credit market meltdown kicked off by the Eurozone sovereign debt crisis.

The Problem for FY 2011-12

Pre-Session...		(millions)		
		REC	N/R	TOTAL
2	Funds Available - LRFO 2010	24565.7	650.3	25216.0
0				
1				
0	2011-12 Base Budget	22608.4	0.0	22608.4
L	Critical Needs - LRFO 2010	3054.3	167.3	3221.6
R	Other High Priorities - LRFO 2010	936.0	746.2	1682.2
F	Transfer to Budget Stabilization Fund	0.0	214.5	214.5
O				
BUDGET GAP - LRFO 2010		-2033.0	-477.7	-2510.7
A	Conference Adjustments to Revenue - Fall 2010	-615.1	-304.1	-919.2
d	Conference Adjustments to Expenditures - Fall 2010	182.0	3.7	185.7
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BUDGET GAP - DECEMBER 2010		-2830.1	-785.5	-3615.6
	Planned Reserve from GR Unallocated	0.0	1000.0	1000.0
BUDGET GAP WITH PLANNED RESERVE		-2830.1	-1785.5	-4615.6

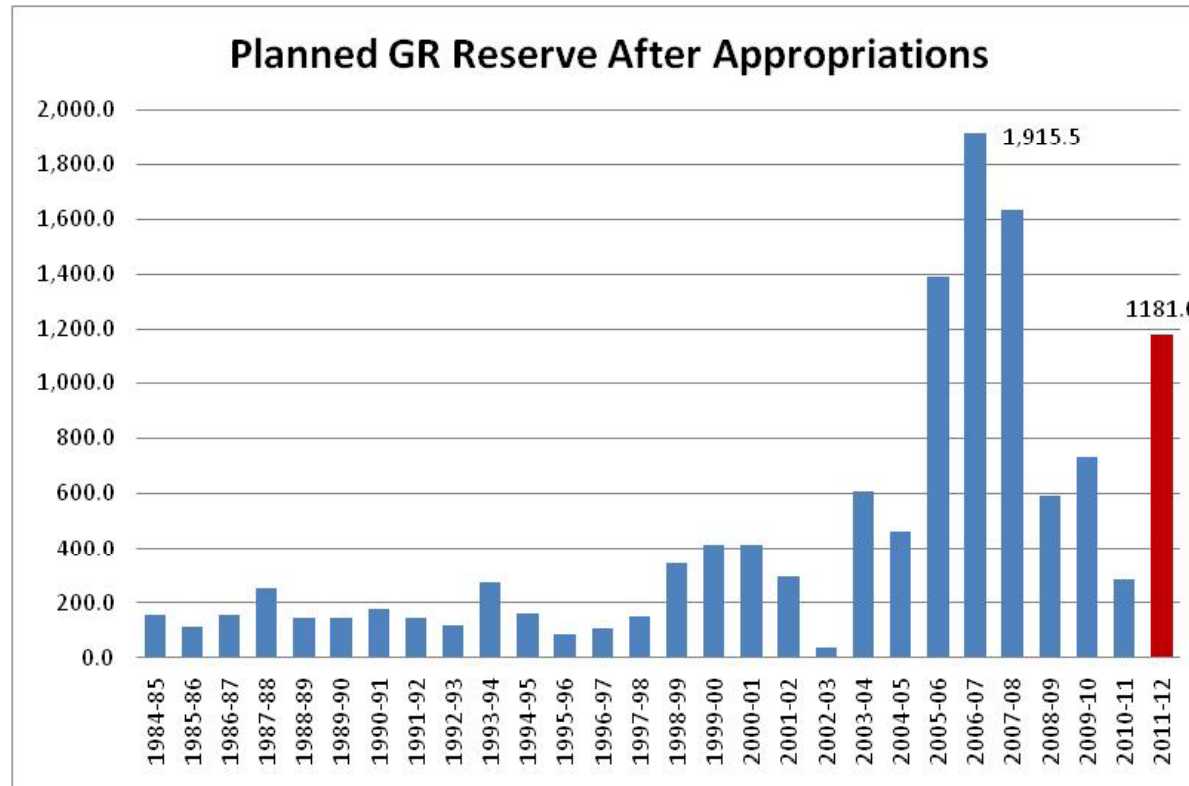
Deployed Strategies for FY 2011-12

Session 2011 Actions...		(millions)		
		REC	N/R	TOTAL
Revenue	Conference Adjustments to Revenue - Spring 2011	-242.6	26.8	-215.8
	Change in Revenue Balance Forward on Outlook	0.0	44.7	44.7
	Removal of Reserve for Proj 2010-11 Medicaid Deficit	0.0	94.4	94.4
	Transfers from Trust Funds	0.0	388.5	388.5
	Final Measures Affecting Revenue	-90.0	47.4	-42.6
	Adjustments to LFRO Funds Available	-332.6	601.8	269.2
	Improved General Revenue---Percent of Final Position			5.6%
REMAINING GAP		-3162.7	-1183.7	-4346.4
Budget	Final Effective Appropriations (GAA, Vetoes, Supps)	22799.3	585.5	23384.8
	Estimated Expenditures from LRFO (Plus Fall 2010 Incr)	26780.7	1131.7	27912.4
	Adjustments to LRFO Estimated Expenditures	-3981.4	-546.2	-4527.6
	Reduced Expenditures---Percent of Final Position			94.4%
FINAL BALANCE		818.7	-637.5	181.2

NOTE: Final General Revenue Reserve Balance (billions)

1.181

GR Unallocated & Other Reserves



The final General Revenue reserve balance has since increased by \$176.5 million, largely from greater than expected 2010-11 revenue collections. It is now projected to be \$1,357.5 million for the fiscal year. Combined with the \$493.6 million in the Budget Stabilization Fund and approximately \$696.2 million in the Lawton Chiles Endowment Fund, the total across all sources that are traditionally mentioned as reserves is \$2,547.3 million or 10.7% of General Revenue collections for FY 2011-12.

Impact of Prior Year's Actions...

- Legislative actions during the 2011 Session to close the projected budget gap through *recurring* means positively impacted the state's bottom line in subsequent years.
- In this regard, total estimated expenditures for future years were constrained by the amount of recurring expenditure reductions taken in Fiscal Year 2011-12.
- This has greatly improved the Long-Range Financial Outlook's bottom line.

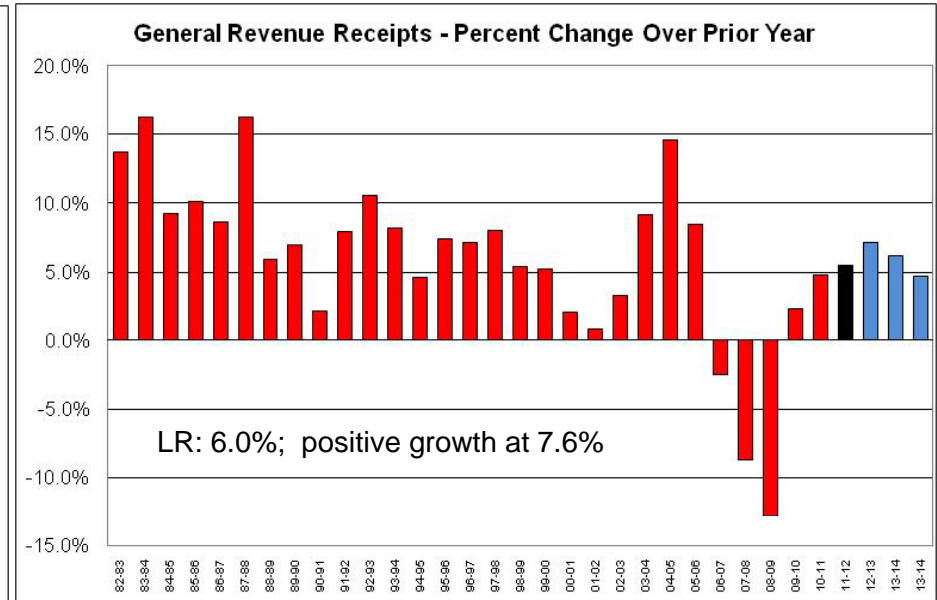
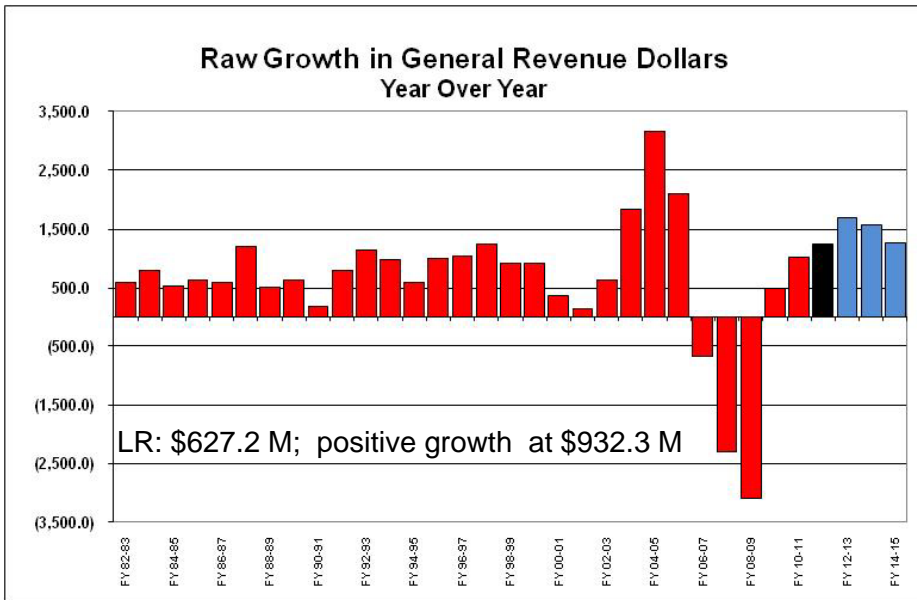
GR Outlook Balance for FY 2011-12

REVENUES	REC	N/R	TOTAL
2011-12 Ending Balance on Post-Session Outlook	818.7	362.3	1181.0
-PLUS- Revenue Surplus from 2010-11	0.0	139.1	139.1
-PLUS- Post-Session Adjustments & Forecast Change	-7.0	44.5	37.5
BALANCE ON CURRENT OFFICIAL OUTLOOK	811.7	545.9	1357.5
ADJUSTMENTS			
-MINUS- Reserve for Projected Medicaid Shortfall	0.0	-54.4	-54.4
-MINUS- Reserve for Projected Courts Shortfall	0.0	-62.5	-62.5
ADJUSTMENTS TOTAL	0.0	-116.9	-116.9

BALANCE FOR LONG-RANGE FINANCIAL OUTLOOK **1240.6**

A projected remaining balance of \$1.24 billion in nonrecurring dollars is assumed to be available for use in FY 2012-13.

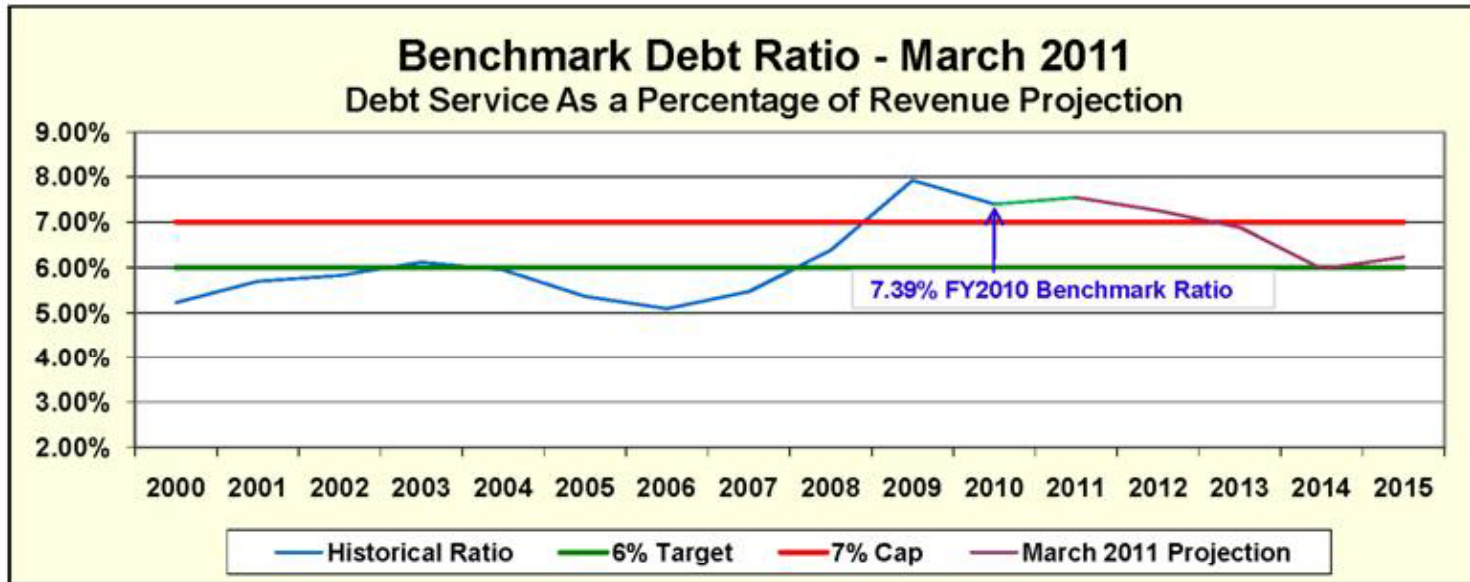
General Revenue Outlook



Fiscal Year	March Forecast	July* Forecast	Difference (July - March)	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	22412.5	22551.6	139.1	1028.5	4.8%
2011-12	23844.7	23795.1	(49.6)	1243.5	5.5%
2012-13	25554.3	25495.1	(59.2)	1700.0	7.1%
2013-14	27140.2	27063.6	(76.6)	1568.5	6.2%
2014-15	28442.8	28340.9	(101.9)	1277.3	4.7%

*Post-Session and Summer Adjustments for End-of-Year & Forecast Changes

Debt Analysis



7% Max Cap
6% Target

Benchmark Ratio Estimated March 2011

Fiscal Year	2010	2011	2012	2013	2014	2015
Debt Service as % of Revenue	7.39%	7.54%	7.25%	6.88%	5.97%	6.23%

- Total state debt outstanding at June 30, 2010 was \$28.2 billion. Net tax-supported debt totaled \$23.6 billion for programs supported by State tax revenues or tax-like revenues.
- During the Outlook period, debt service payments will total about \$2.3 billion per year.
- Highest Level Credit Ratings: Fitch “AAA” with negative outlook (unchanged); Moody’s “Aa1” with stable outlook (unchanged); Standard and Poor’s “AAA” with stable outlook (outlook improved from negative).

Budget Drivers

- Critical Needs are mandatory increases based on estimating conferences and other essential items. The **twenty** Critical Needs drivers represent the minimum cost to fund the budget without significant programmatic changes.
- The **twenty-six** Other High Priority Needs drivers are historically funded issues that are typically viewed as “must funds” in normal budget years. Like the Critical Needs, the greatest General Revenue burden occurs in the first year.

**DOLLAR VALUE OF
CRITICAL AND OTHER HIGH PRIORITY NEEDS**

GENERAL REVENUE FUND	FY 2012-13	FY 2013-14	FY 2014-15
Total Tier 1 - Critical Needs	1,657.4	677.7	1,006.0
Total - Other High Priority Needs	886.9	801.1	839.2
Total Tier 2 - Critical Needs Plus Other High Priority Needs	2,544.3	1,478.8	1,845.2

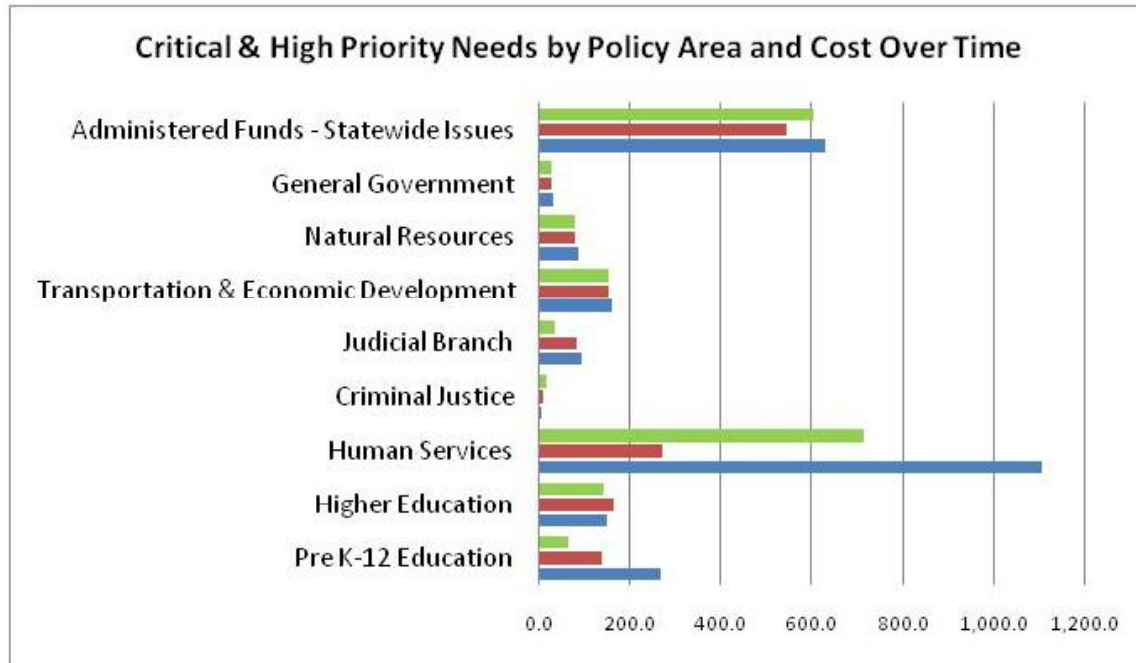
Drivers by Policy Area

LEGEND

BLUE: FY 2012-13

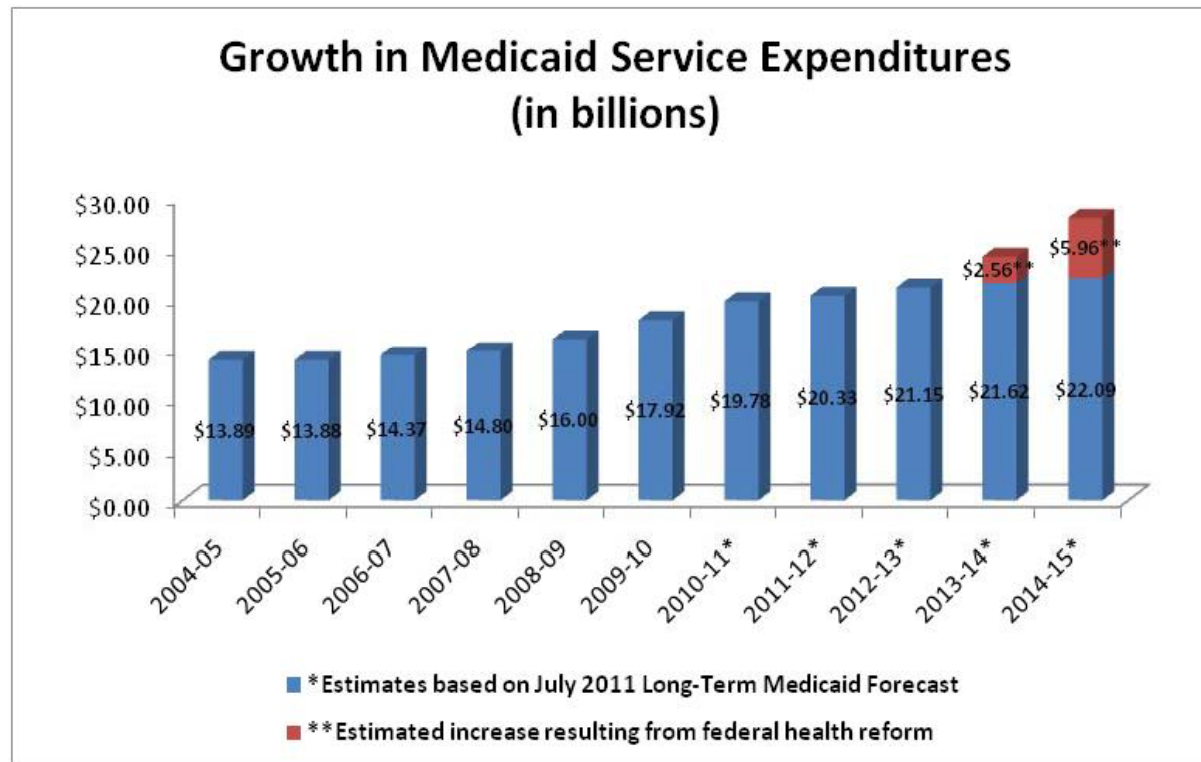
RED: FY 2013-14

GREEN: FY 2014-15



POLICY AREAS	FY 2012-13	FY 2013-14	FY 2014-15
Pre K-12 Education	270.0	139.2	66.4
Higher Education	152.4	163.5	141.8
Human Services	1,106.9	273.3	715.0
Criminal Justice	5.3	9.5	19.3
Judicial Branch	96.6	82.7	35.4
Transportation & Economic Development	162.4	155.7	154.4
Natural Resources	87.7	80.7	79.5
General Government	31.4	27.7	27.8
Administered Funds - Statewide Issues	631.6	546.3	605.7
	2,544.3	1,478.8	1,845.2

Medicaid Driver Dominates



- The two Medicaid Program drivers represent 38.1 percent of the 2012-13 projected expenditures for Critical and Other High Priority Needs. In 2013-14 and 2014-15, the shares are 16.0 percent and 36.7 percent as the costs of Federal Health Care Reform begin to feed into the forecast. Combined, the two Medicaid drivers form the single biggest driver in the first and third years of the Outlook forecast.

Putting It Together for the First Year

OUTLOOK PROJECTION – FISCAL YEAR 2012-13 <i>(in millions)</i>			
	RECURRING	NON-RECURRING	TOTAL
AVAIL GR	\$25,271.5	\$ 1,545.5	\$26,817.0
<i>Base Budget</i>	\$22,784.3	\$ 0.0	\$22,784.3
<i>Transfer to BSF</i>	\$ 0.0	\$ 214.5	\$ 214.5
<i>Critical Needs</i>	\$ 1,623.9	\$ 33.5	\$ 1,657.4
<i>High Priority</i>	\$ 625.1	\$ 261.8	\$ 886.9
<i>Reserve</i>	\$ 0.0	\$ 1,000.0	\$ 1,000.0
TOTAL	\$25,033.3	\$ 1,509.8	\$26,543.1
BALANCE	\$ 238.2	\$ 35.6	\$ 273.8

Combined, recurring and nonrecurring General Revenue program needs – with a minimum reserve of \$1 billion – are less than the available General Revenue dollars, meaning there is no budget gap for Fiscal Year 2012-13. Anticipated expenditures (including the reserve) can be fully funded. The budget will be in balance as constitutionally required.

The Bottom Line...

- Fiscal Years 2012-13, 2013-14 and 2014-15 all show projected budget needs within the available revenue for Critical and Other High Priority Needs, including the set-aside of a \$1 billion reserve in each year.
- **No Fiscal Strategies are required for any year** in the Outlook period, since there is no budget gap during the period and the anticipated reserve is fully funded.
- For the first time since the adoption of the constitutional amendment requiring the development of Long-Range Financial Outlooks, **sufficient funds exist to meet all Critical and Other High Priority Needs** identified for the three years contained in the Outlook. This is true for both recurring and nonrecurring funds.

Risk

The positive budget outlook is heavily reliant on the projected balance forward levels being available, the \$1 billion reserve not being used, **and** future growth levels for General Revenue being retained. A budget gap in Year 1 will occur if there is any change of more than \$273.8 million to the:

1. 2011-12 projected balance of \$1,240.6 (from an emergency or a forecast reduction), or
2. Revenue forecast for 2012-13.

<u>Factors</u>	<u>FY 2011-12</u>	<u>Year 1</u> <u>FY 2012-13</u>	<u>Year 2</u> <u>FY 2013-14</u>	<u>Year 3</u> <u>FY 2014-15</u>
Balance Forward From Prior Year		1240.6	273.8	692.1
Revenue Estimate	23795.1	25495.1	27063.6	28340.9
Total Funds Available	24741.8	26817.0	28418.7	30114.3
Projected Balance	1240.6	273.8	692.1	840.6

Risk Analysis (scenarios are independent)

Scenario 1 Affecting Fiscal Year 2011-12...	
*Forecast Reduction Greater Than	1.2%
*Or An Emergency That Uses Reserve By More Than	22.1%
Scenario 2 Affecting Fiscal Year 2012-13...	
*Forecast Reduction Greater Than	1.1%
Scenario 3 Affecting Fiscal Years 2011-12 and FY 2012-13...	
*Combined Forecast Reduction Greater Than	0.6%

Any one of these scenarios would result in a FY 2012-13 Budget Gap.

Fall Conferences and GR...

- National Economic Estimating Conference significantly lowered the national forecast, removing the uptick in growth originally expected between now and the end of 2012.
 - Gross Domestic Product: 2011 growth to 1.6% (from 2.5%) and 2012 to 1.9% (from 2.6%).
- Demographic Estimating Conference

April 1	Summer 2011		Fall 2011		Difference	
	GROWTH INCREMENT	GROWTH RATE	GROWTH INCREMENT	GROWTH RATE	GROWTH INCREMENT	PERCENT
2011	119,665	0.64	103,508	0.55	(16,157)	-13.5%
2012	152,195	0.80	104,496	0.55	(47,699)	-31.3%
2013	266,975	1.40	156,015	0.82	(110,960)	-41.6%
2014	316,065	1.63	224,353	1.17	(91,712)	-29.0%
	854,900		588,372		(266,528)	-31.2%

- General Revenue Collections for FY 2011-12:

	(millions)
July (final)	-26.8
August (estimate)	-45.0

Today's Economy

