Florida:
Long-Range Financial Outlook

September 12, 2012

Presented by:

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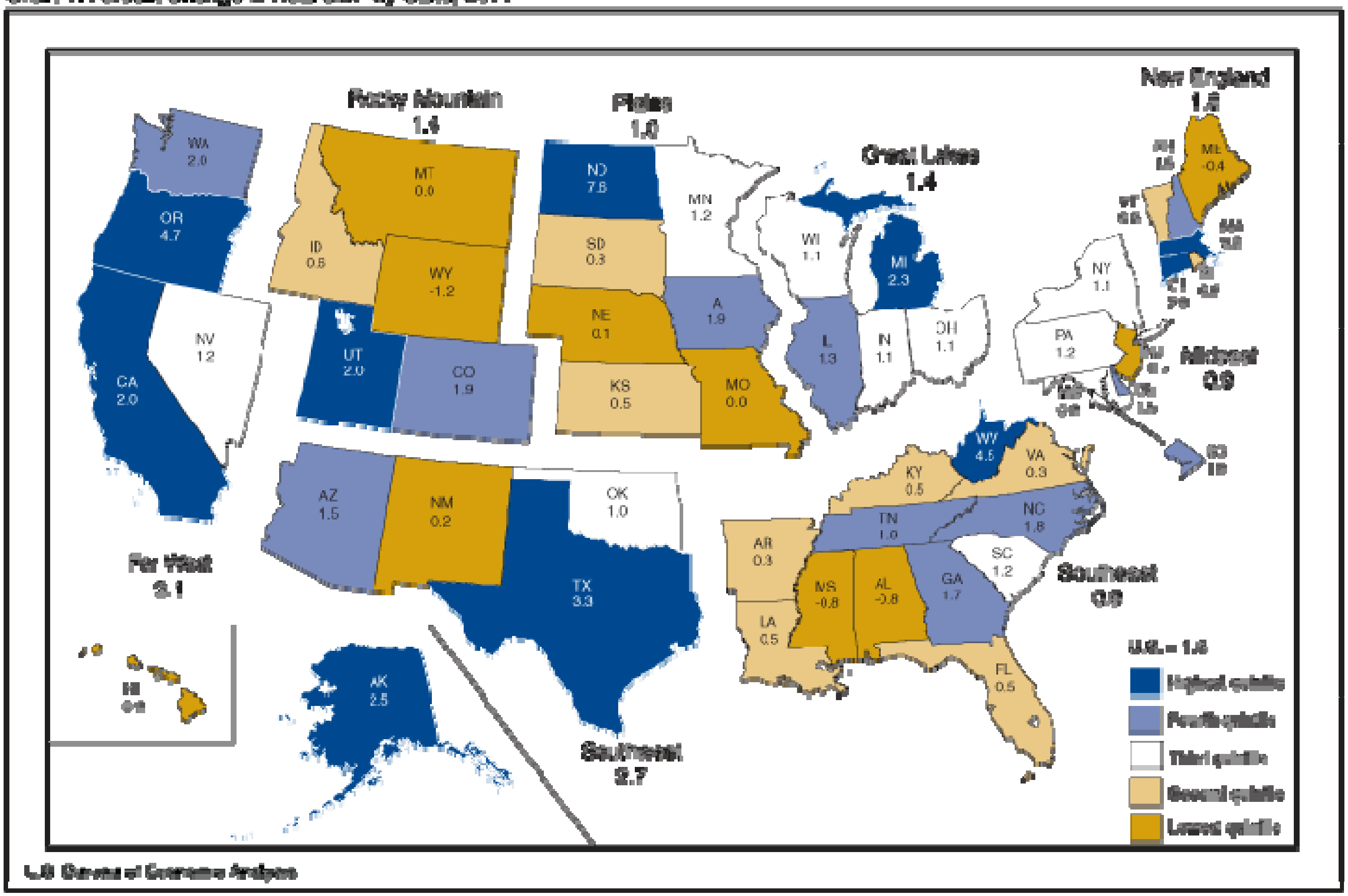
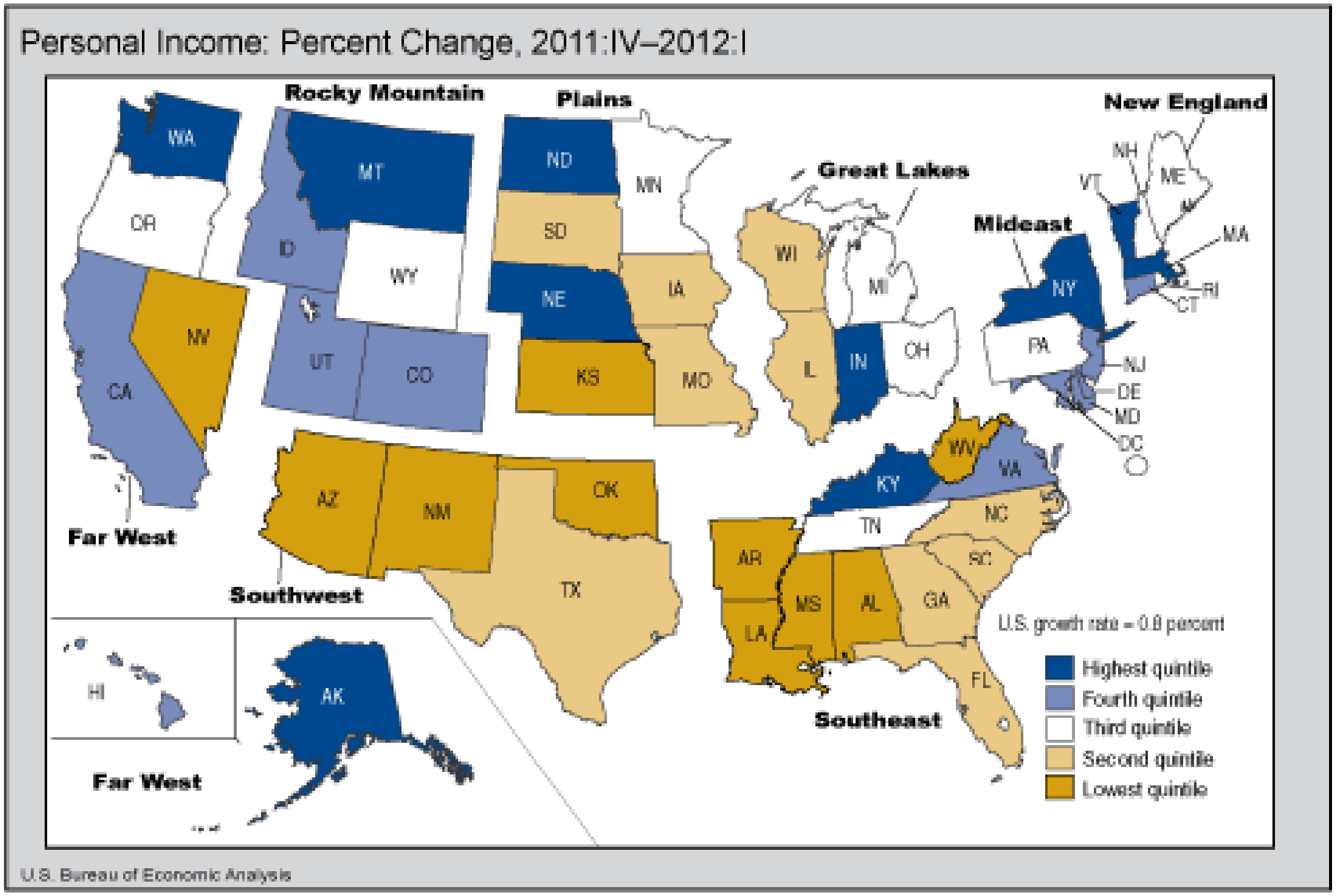
Economy Remained Positive in 2011

Chart 1. Percent Change in Real GDP by State, 2011



In 2011, Florida's economic growth remained in positive territory for the second year after declining two years in a row. State Gross Domestic Product (GDP) ranked us 37th in the nation in real growth with a gain of 0.5%. While the state's ranking improved, the growth slowed from a downwardly revised 0.9% for 2010.

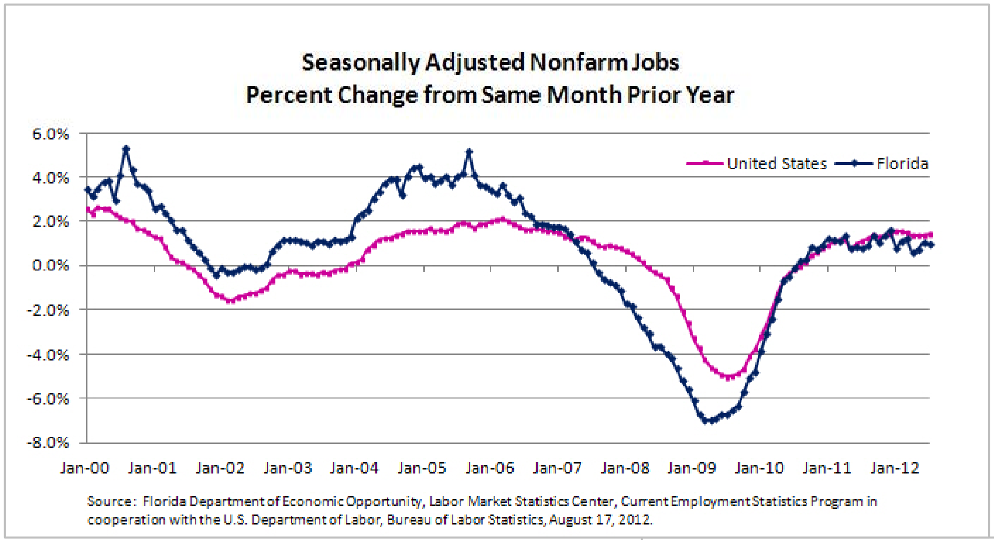
FL Personal Income Grows in Q1:2012



Florida's personal income grew 0.7 percent in the first quarter of 2012, ranking the state 38th in the country with respect to state growth. This was only slightly behind Texas which was ranked 36th. The national average was 0.8 percent. *Health Care and Social Assistance* and *Professional, Scientific and Technical Services* were the strongest industry contributors to the state's growth. Compared to the US as a whole, *Construction* continues to be a drag.

Current Employment Conditions

20 of Florida's 67 counties had double-digit unemployment rates; at the highest, this number was 52



<u>July Nonfarm Jobs (YOY)</u>

US	1.4%
FL	1.0%
YR:	69,900 jobs
Peak:	-743,400 jobs

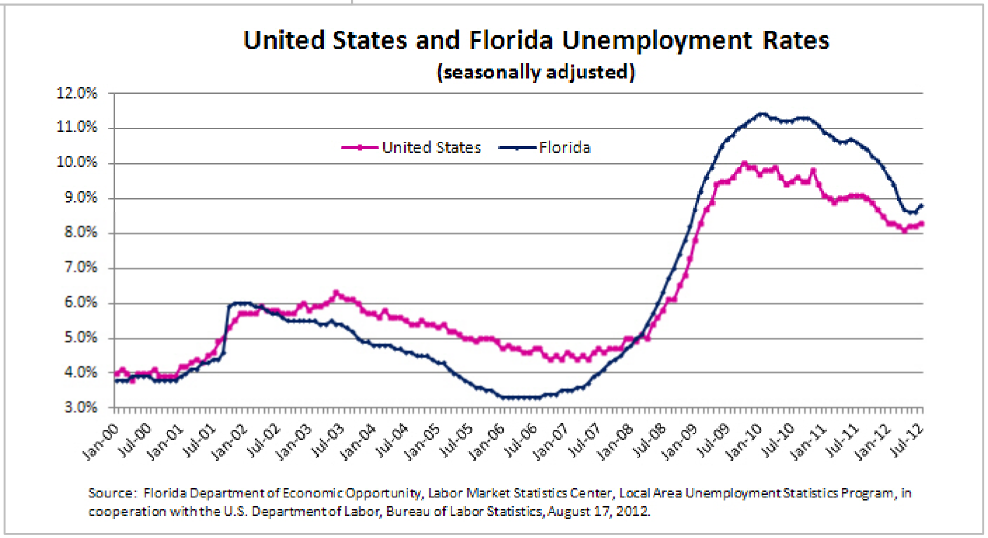
<u>July Unemployment Rate</u>

US 8.3%
FL 8.8%
(816,000 people)

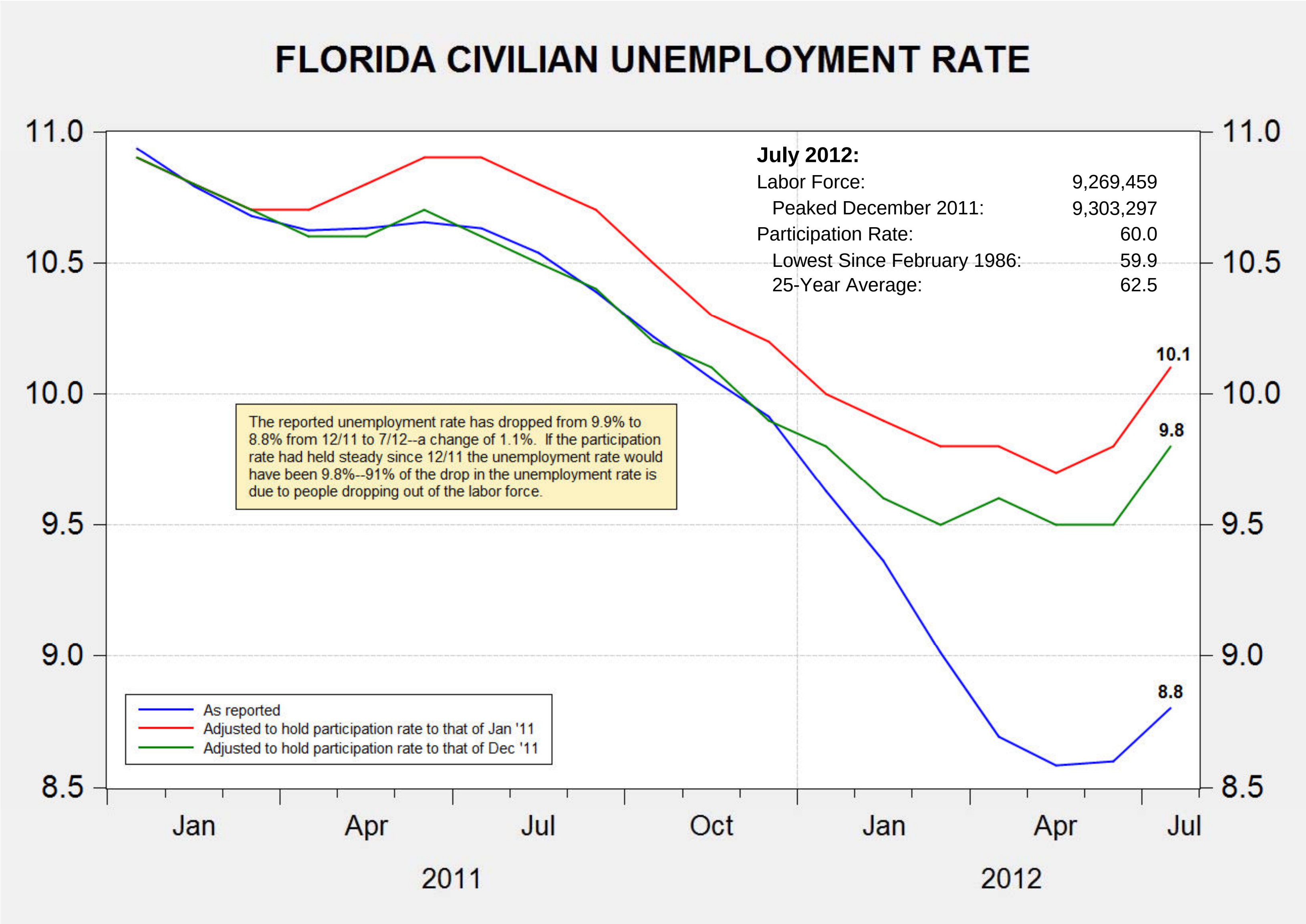
Eleven states had a higher unemployment rate than Florida.

<u>Highest Monthly Rate</u>

January & February 2010
11.4%



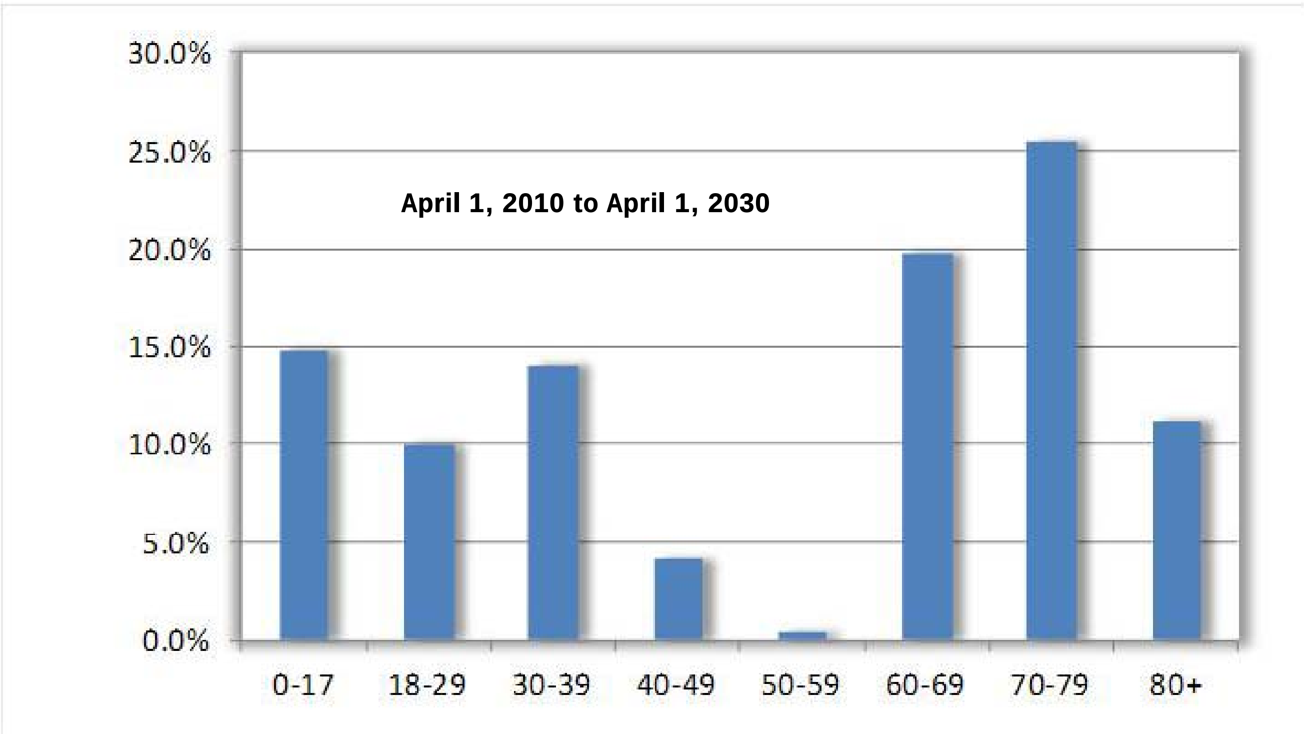
Labor Force Reduction Accounts for Most of Rate Drop



Population Growth Recovering

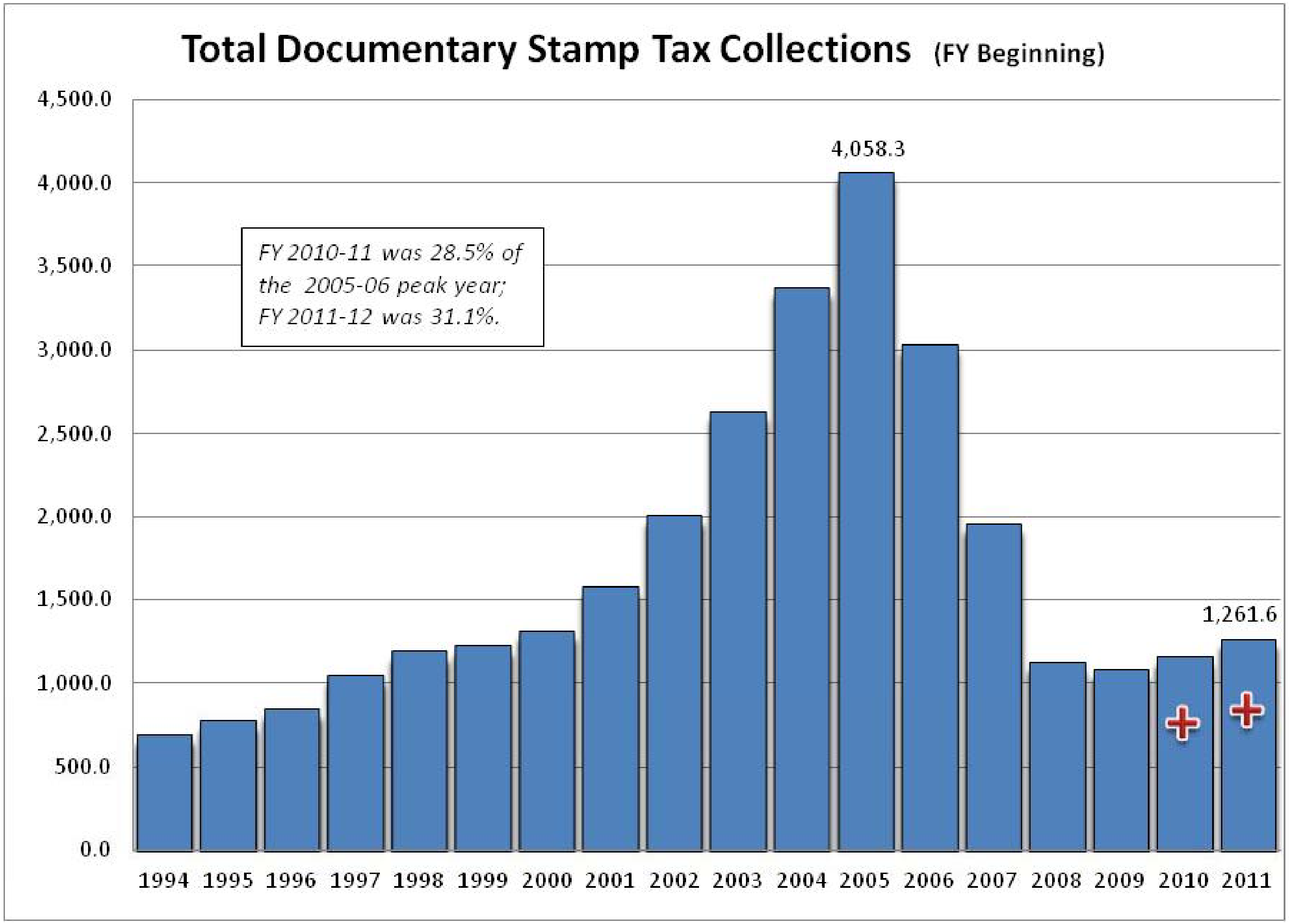
- Population growth is the state's primary engine of economic growth, fueling both employment and income growth.
- Population growth is forecast to continue strengthening, showing increasing rates of growth over the next few years. In the near-term, growth is expected to average 1.2% between 2012 and 2015 – and then continue its recovery in the future, averaging 1.4% between 2020 and 2025. Most of Florida's population growth through 2030 will be from net migration (85%). Nationally, average annual growth will be about 0.9% between 2012 and 2030.
- 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.

Population Growth by Age Group



- Between 2010 and 2030, Florida's population is forecast to grow by almost 4.8 million.
- Florida's older population (age 60 and older) will account for most of Florida's population growth, representing 56.6 percent of the gains. Population aged 65 and over is forecast to represent 24.1 percent of the population in 2030.
- Florida's younger population (age 0-17) will account for 14.8 percent of the gains.

Florida Housing is Generally Improving



Building permit activity, an indicator of new construction, is back in positive territory, showing strong year-over-year growth for the first six months of the calendar year.

Foreclosure Filings Remain Daunting

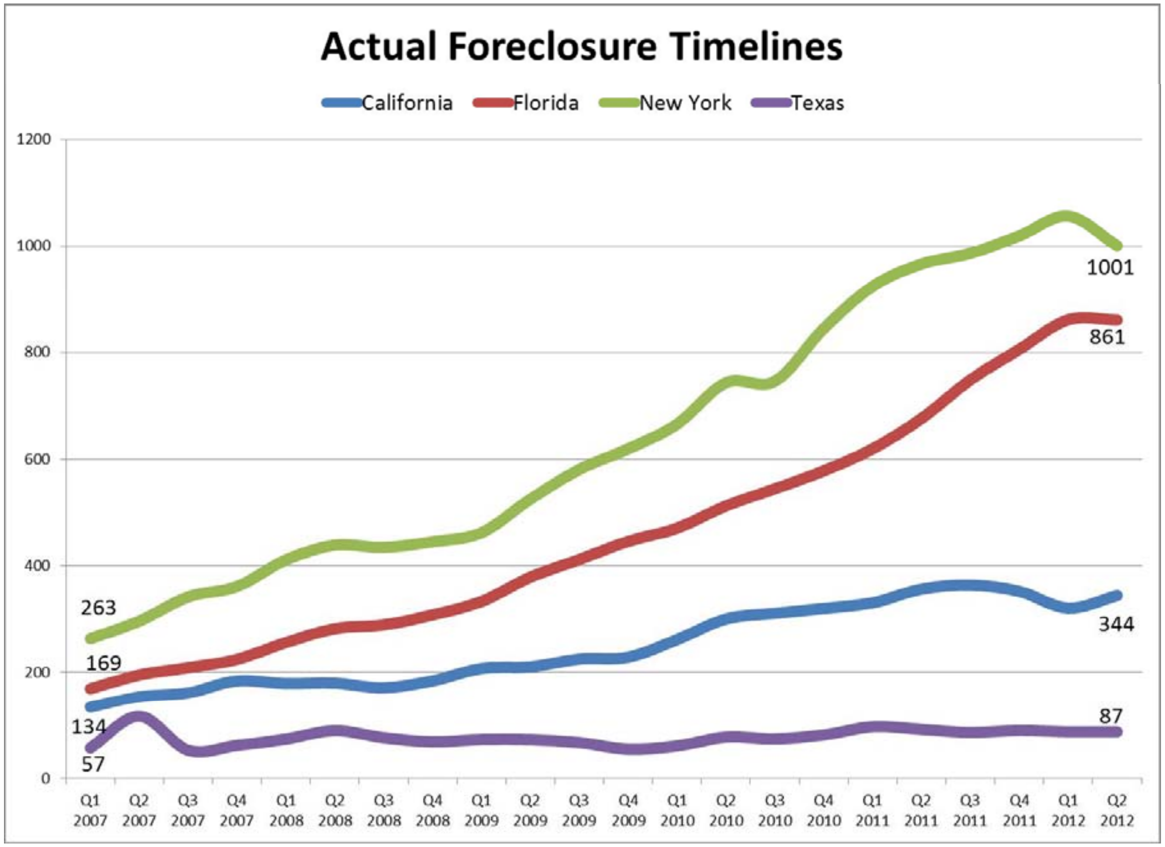
"Optimists point to declining home inventories in relation to sales, but they are looking at an illusion. Those supposed inventories do not include about 5m housing units with delinquent mortgages or those in foreclosure, which will soon be added to the pile. Nor do they include approximately 3m housing units that stand vacant – foreclosed upon but not yet listed for sale, or vacant homes that owners have pulled off the market because they can't get a decent price for them." *Financial Times*

Foreclosure Process (once begun)

- *861 Days – 2.5 yrs – in Florida (3rd Longest Period in Nation)*
- *National Average – 378 days*
- *At the beginning of 2007, FL was at 169 days or less than 6 months.*

July 2012, compared to US:

- *Florida foreclosure activity increased 20% from one year ago.*
- *2nd Highest # of Filings*
- *3rd Highest Foreclosure Rate*
- *Among US Metro Area rates:*
  Palm Bay-Melbourne-Titusville #5
  Five other areas were in the top 20



Data from RealtyTrac

Foreclosures & Shadow Inventory

State		Del %	FC %	Non-Curr %	Yr/Yr Change in NC%
National		7.2%	4.1%	11.3%	-6.3%
FL	*	7.6%	13.7%	21.3%	-6.1%
MS		13.0%	4.0%	17.0%	-0.8%
NJ	*	8.1%	7.6%	15.8%	8.4%
NV		10.2%	5.2%	15.3%	-15.1%
IL	*	7.1%	6.8%	13.9%	-1.1%
OH	*	8.6%	4.9%	13.5%	-1.8%
IN	*	8.7%	4.5%	13.2%	-3.4%
GA		10.1%	2.9%	13.0%	-7.7%
NY	*	6.9%	6.1%	12.9%	3.3%
MD	*	8.2%	4.6%	12.8%	2.6%
LA	*	9.4%	3.2%	12.6%	-4.3%
RI		8.5%	3.9%	12.4%	-5.3%
ME	*	7.1%	5.1%	12.3%	3.0%
CT	*	6.6%	5.6%	12.2%	4.5%
SC	*	7.6%	4.5%	12.1%	-3.1%
TN		9.6%	2.2%	11.9%	-5.2%
DE	*	8.3%	3.3%	11.6%	0.3%

* - *Indicates Judicial State*

State		Del %	FC %	Non-Curr %	Yr/Yr Change in NC%
National		7.2%	4.1%	11.3%	-6.3%
AL		9.7%	1.9%	11.6%	-3.8%
WV		9.1%	2.4%	11.5%	-4.6%
PA	*	7.4%	3.9%	11.3%	1.9%
AR		9.4%	1.9%	11.3%	9.4%
NC		7.9%	3.1%	11.0%	-3.1%
KY	*	7.3%	3.7%	11.0%	-0.8%
HI	*	5.0%	5.9%	10.9%	1.4%
MI		8.0%	2.5%	10.4%	-12.8%
OK	*	6.8%	3.3%	10.1%	-1.1%
NM	*	5.6%	4.1%	9.7%	-0.5%
WI	*	6.3%	[illegible]	[illegible]	[illegible]
MA		7.2%	[illegible]	[illegible]	[illegible]
DC		6.6%	[illegible]	[illegible]	[illegible]
WA		7.4%	[illegible]	[illegible]	[illegible]
CA		6.2%	[illegible]	[illegible]	[illegible]
MO		7.4%	[illegible]	[illegible]	[illegible]
TX		7.4%	[illegible]	[illegible]	[illegible]

State		Del %	FC %	Non-Curr %	Yr/Yr Change in NC%
National		7.2%	4.1%	11.3%	-6.3%
AZ		5.9%	2.9%	8.7%	-24.3%
KS	*	6.5%	2.1%	8.6%	-1.2%
VT	*	4.9%	3.8%	8.7%	7.9%
NH		6.4%	2.0%	8.4%	-5.4%
UT		6.0%	1.9%	8.0%	-8.5%
OR		4.6%	3.4%	8.0%	-6.8%
IA	*	5.1%	2.9%	8.0%	-3.0%
ID		5.0%	2.9%	7.8%	-8.9%
VA		5.9%	1.7%	7.6%	-7.7%
NE	*	5.1%	1.3%	6.4%	-5.4%
[illegible]		[illegible]	[illegible]	6.3%	-11.9%
[illegible]		[illegible]	[illegible]	6.1%	-10.6%
[illegible]		[illegible]	[illegible]	5.7%	-12.0%
[illegible]		[illegible]	[illegible]	5.2%	-6.9%
[illegible]		[illegible]	[illegible]	4.9%	-2.8%
[illegible]		[illegible]	[illegible]	4.9%	-13.9%
[illegible]		[illegible]	[illegible]	3.8%	-10.4%

State		Del %	FC %	Non-Curr %
National		7.2%	4.1%	11.3%
FL	*	7.6%	13.7%	21.3%

Slightly less than half of all residential loans in Florida are for homes that are underwater.

(LPS Data for April and May)

Credit Conditions Remain Tight

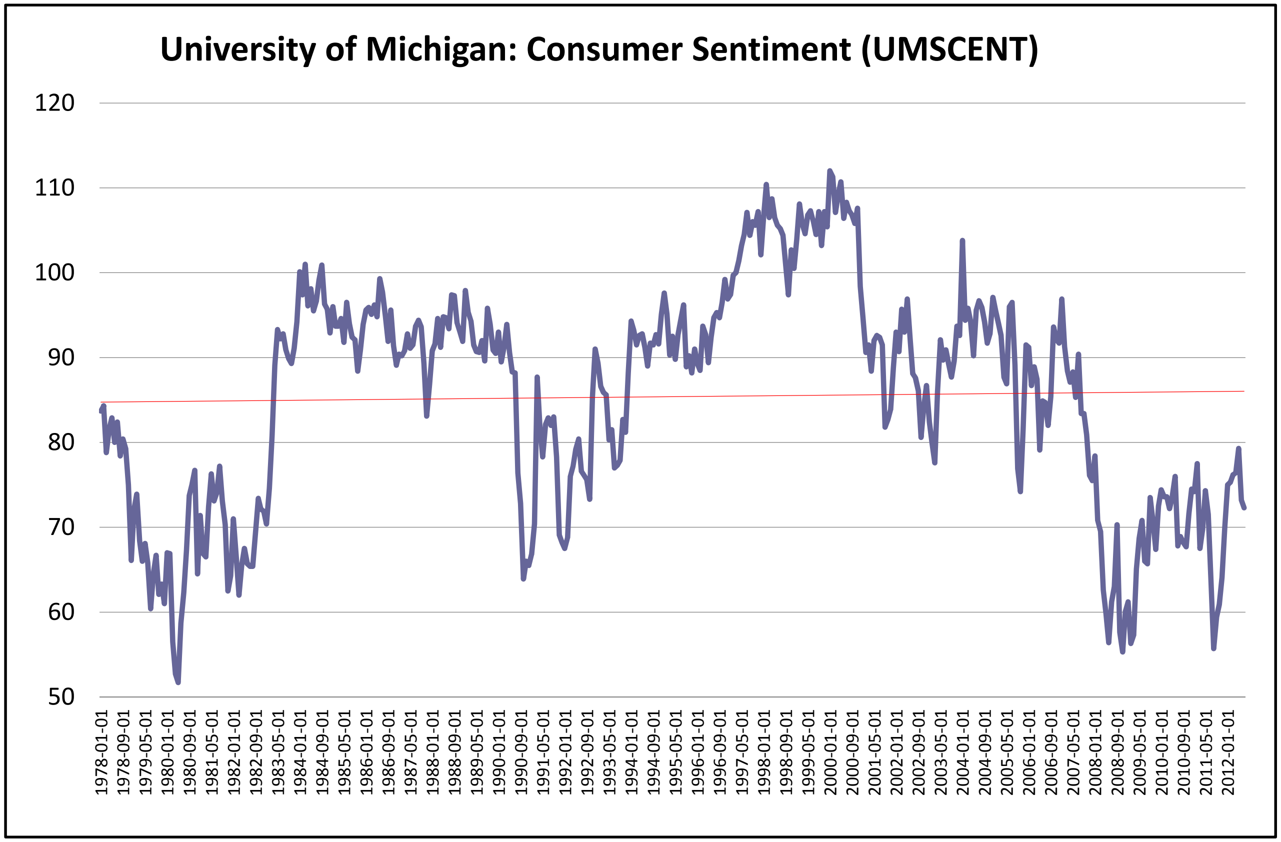
<u>Question to Senior Loan Officers:</u>
Over the past three months, how have your bank's credit standards for approving applications from individuals for **prime residential mortgage loans** to purchase homes changed?

	All Respondents								
	July '12 %	Apr '12 %	Jan '12 %	Oct '11 %	July '11 %	Apr '11 %	Jan '11 %	Oct '10 %	July '10 %
Tightened considerably	1.6%	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tightened somewhat	1.6%	5.6	0.0	4.2	5.7	3.8	3.7	13.0	3.6
Remained basically unchanged	93.4	90.7	94.3	91.7	86.8	92.5	94.4	83.3	87.3
Eased somewhat	3.3	3.7	5.7	4.2	7.5	2.0	1.9	3.7	9.1
Eased considerably	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

July 2012 Senior Loan Officer Opinion Survey on Bank Lending Practices (Federal Reserve Board)

Banks reported that they were less likely than in 2006, to varying degrees, to originate mortgages to any borrowers apart from those with the strongest credit profiles. Downpayments of 20% also a strong requirement.

Perceptions Recover After 8/2011 Dive



- Consumer sentiment can be a leading indicator of recession, but not always: nationally, it had been improving, but fell in August 2011 to near the lowest level of the Great Recession and not far from the lowest level ever posted. The index reading is now back to the levels expected before the August dive (72.3 in July).
- Florida’s consumer confidence (July: 76) is roughly mirroring the national trend.

Economy Slowly Recovering

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

- The national economy is still in recovery. While most areas of commercial and consumer credit are strengthening – residential credit still remains sluggish and difficult for consumers to access. So far, the recovery has been roughly half as strong as the average gain of 9.8% over the same period during the past seven recoveries.

- 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).

The Problem for FY 2012-13

Closing the Budget Gap for 2012-13

Comparing to 2011 Long-Range Financial Outlook (LRFO)

NOTE: Component parts may not sum to the total due to rounding.

(millions)

	Pre-Session...	REC	N/R	TOTAL
LRFO 2011	Funds Available - LRFO 2011	25271.5	1545.5	26817.0
	2012-13 Base Budget + Annualizations	22784.3	0.0	22784.3
	Critical Needs - LRFO 2011	1623.9	33.5	1657.4
	Other High Priorities - LRFO 2011	625.1	261.8	886.9
	Transfer to Budget Stabilization Fund	0.0	214.5	214.5
	Planned Reserve (Unallocated General Revenue)	0.0	1000.0	1000.0
	ORIGINAL BUDGET GAP - LRFO 2011	**238.2**	**35.6**	**273.8**
Oct 2011	Changes to 2011-12 Revenue and Funds Available	0.0	-406.6	-406.6
	Changes to 2011-12 Budget and Projected Deficits	0.0	63.0	63.0
	Conference Adjustments to 2012-13 Revenue	-964.2	9.4	-954.8
	Conference Adjustments to 2012-13 Expenditures	45.3	0.0	45.3
	ADJUSTED BUDGET GAP - OCTOBER 2011	**-771.3**	**-424.6**	**-1195.9**
Jan 2012	Changes to 2011-12 Revenue and Funds Available	0.0	46.0	46.0
	Changes to 2011-12 Budget and Projected Deficits	0.0	2.4	2.4
	Conference Adjustments to 2012-13 Revenue	-54.7	34.8	-19.9
	Conference Adjustments to 2012-13 Expenditures	-163.0	0.0	-163.0
	FINAL BUDGET GAP - January 2012	**-663.0**	**-346.1**	**-1009.1**

Deployed Strategies for FY 2012-13

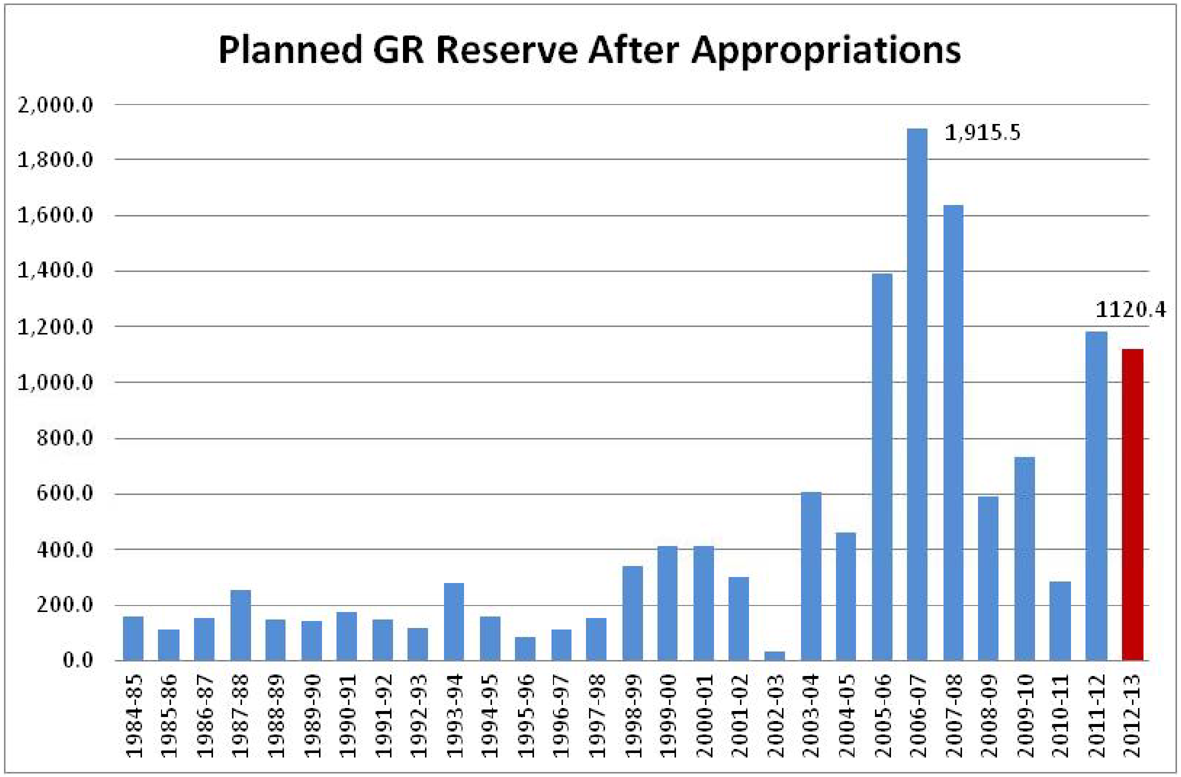
Session 2012 Actions to Close Gap...

(millions)

		REC	N/R	TOTAL
Revenues	Changes to 2011-12 Carry Forward (including deficits)	0.0	-212.4	-212.4
	Final Measures Affecting Revenue	-148.4	241.6	93.2
	SB 1998 Transfer from STTF to GR	0.0	200.0	200.0
	Transfers from Trust Funds	0.0	556.0	556.0
	Adjustments to LFRO Funds Available	-148.4	785.3	636.9
	Improved General Revenue---Percent of Final Adjustments			63.1%
Budget	Final Effective Appropriations Plus Final Reserve	24560.5	1492.7	26053.2
	Estimated Expenditures from LRFO Plus All Adjustments	24915.6	1509.8	26425.4
	Adjustments to LRFO Estimated Expenditures & Reserve	-355.1	-17.1	-372.2
	Reduced Expenditures---Percent of Final Adjustments			36.9%
	FINAL Adjustments	**206.7**	**802.4**	**1009.1**

NOTE: Final General Revenue Reserve Balance (millions) **1120.4**

GR Unallocated & Other Reserves



The final General Revenue reserve balance has since increased by $457.3 million, largely from greater than expected 2011-12 revenue collections. The balance is now projected to be $1,577.7 million for the fiscal year. Combined with the $708.1 million in the Budget Stabilization Fund and approximately $426.1 million that is available in the Lawton Chiles Endowment Fund, the total across all sources that are traditionally mentioned as reserves is $2,711.9 million or 10.5 percent of General Revenue collections for Fiscal Year 2012-13.

Impact of Prior Year's Actions...

- Legislative actions during the 2011 and 2012 Sessions 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 and 2012-13.

- This has greatly improved the Long-Range Financial Outlook's bottom line.

GR Outlook Balance for FY 2012-13

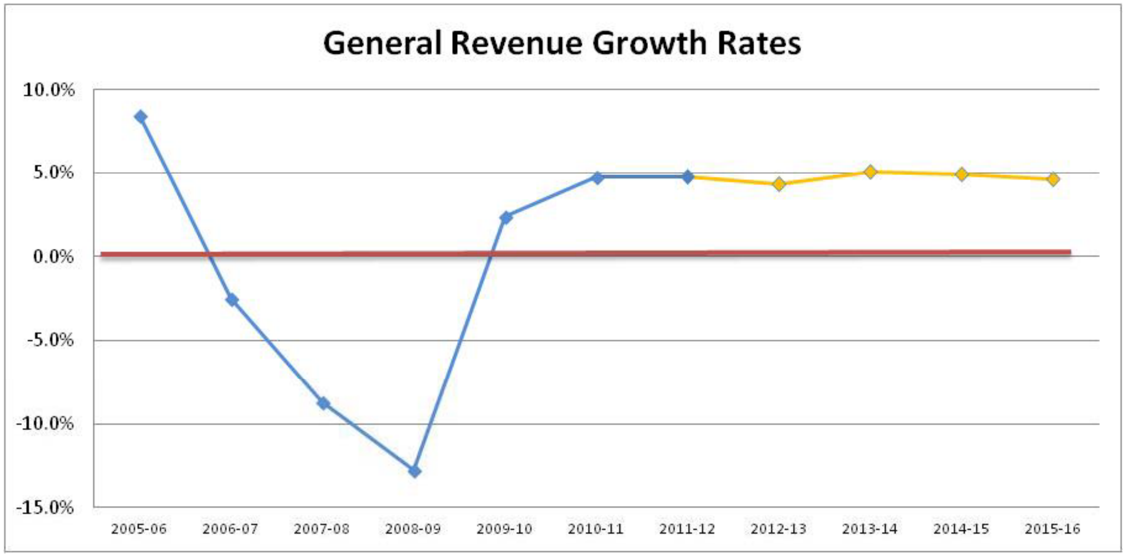
REVENUES	REC	N/R	TOTAL
2012-13 Ending Balance on Post-Session Outlook	**-456.3**	**1576.7**	**1120.4**
-PLUS- Revenue Surplus from 2011-12	0.0	397.8	397.8
-PLUS- Post-Session Adj & Forecast Changes	47.2	12.3	59.5
BALANCE ON CURRENT OFFICIAL OUTLOOK	-409.1	1986.8	1577.7

ADJUSTMENTS			
-MINUS- Reserve for Projected VPK Deficit	0.0	-1.9	-1.9
-MINUS- Reserve for Projected TANF Deficit	0.0	-16.5	-16.5
-MINUS- Reserve for Unfunded Match (TS Debby)	0.0	-9.1	-9.1
ADJUSTMENTS TOTAL	**0.0**	**-27.5**	**-27.5**

BALANCE FOR LONG-RANGE FINANCIAL OUTLOOK **1550.2**

A projected remaining balance of $1.55 billion in nonrecurring dollars is assumed to be available for use in FY 2013-14.

General Revenue Forecast

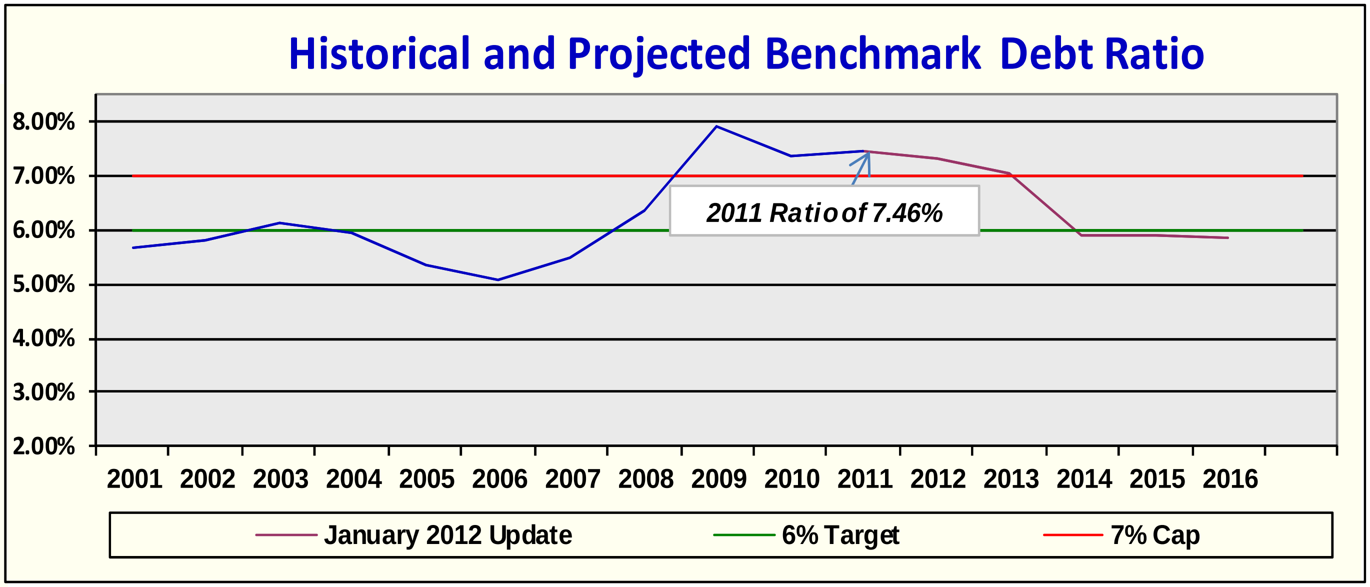


LR Growth: Averages 6%

Fiscal Year	Post-Session Forecast	August Forecast	Difference (Aug - PS)	Incremental Growth	Growth
2005-06	27074.8	[redacted]	[redacted]	[redacted]	8.4%
2006-07	26404.1	[redacted]	[redacted]	[redacted]	-2.5%
2007-08	24112.1	[redacted]	[redacted]	[redacted]	-8.7%
2008-09	21025.6	[redacted]	[redacted]	[redacted]	-12.8%
2009-10	21523.1	[redacted]	[redacted]	[redacted]	2.4%
2010-11	22551.6	[redacted]	[redacted]	[redacted]	4.8%
2011-12	23211.7	23618.8	407.1	1067.2	4.7%
2012-13	24600.1	24631.6	31.5	1012.8	4.3%
2013-14	25878.0	25872.7	(5.3)	1241.1	5.0%
2014-15	27328.2	27141.4	(186.8)	1268.7	4.9%
2015-16	28601.0	28394.0	(207.0)	1252.6	4.6%

*The Post-Session forecast simply updated the January 2012 forecast for Measures Affecting Revenue.

Debt Analysis



7% Max Cap

6% Target

Projected Benchmark Debt Ratio

Fiscal Year	2012	2013	2014	2015	2016
Debt Service as % of Revenue	7.34%	7.06%	5.89%	5.91%	5.86%

- Total state debt outstanding at June 30, 2011 was $27.7 billion. Net tax-supported debt totaled $23.0 billion for programs supported by State tax revenues or tax-like revenues. Based on existing borrowing plans, total State debt outstanding is expected to continue to slowly decline as annual debt retirement increases and new debt issuance decreases.

- During the Outlook period, debt service payments will total about $2.1 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 (unchanged).

Budget Drivers

- Critical Needs are mandatory increases based on estimating conferences and other essential items. The **twenty-two** 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 Fiscal Year 2013-14.

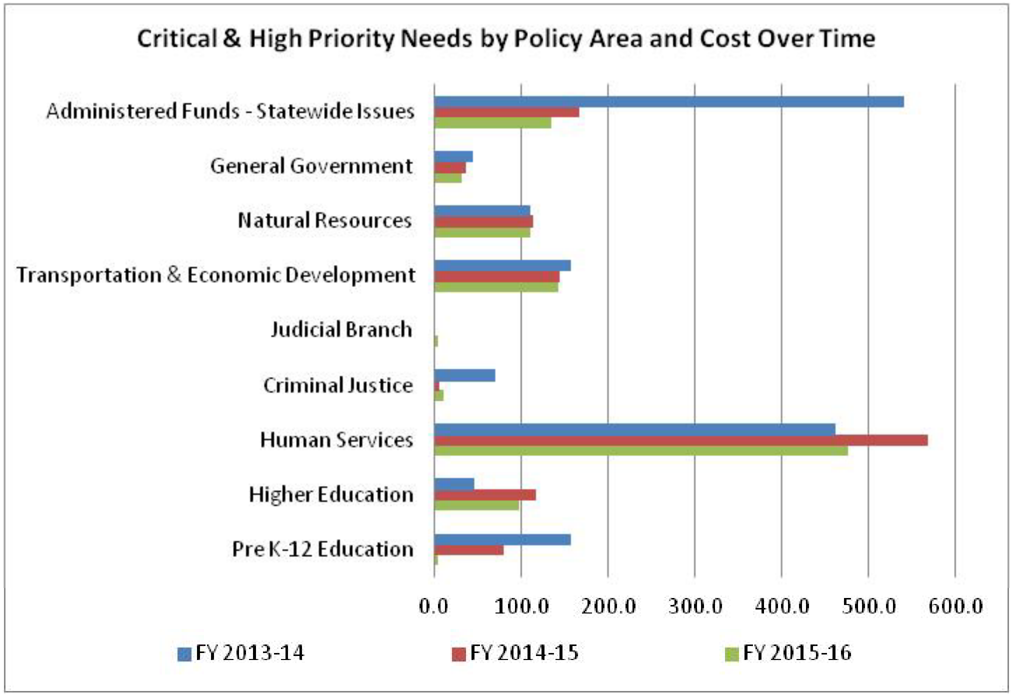
- The **twenty-five** Other High Priority Needs drivers are historically funded issues that are typically viewed as “must funds” in normal budget years. Like the Critical Needs, the greatest General Revenue burden occurs in the first year.

DOLLAR VALUE OF

CRITICAL AND OTHER HIGH PRIORITY NEEDS

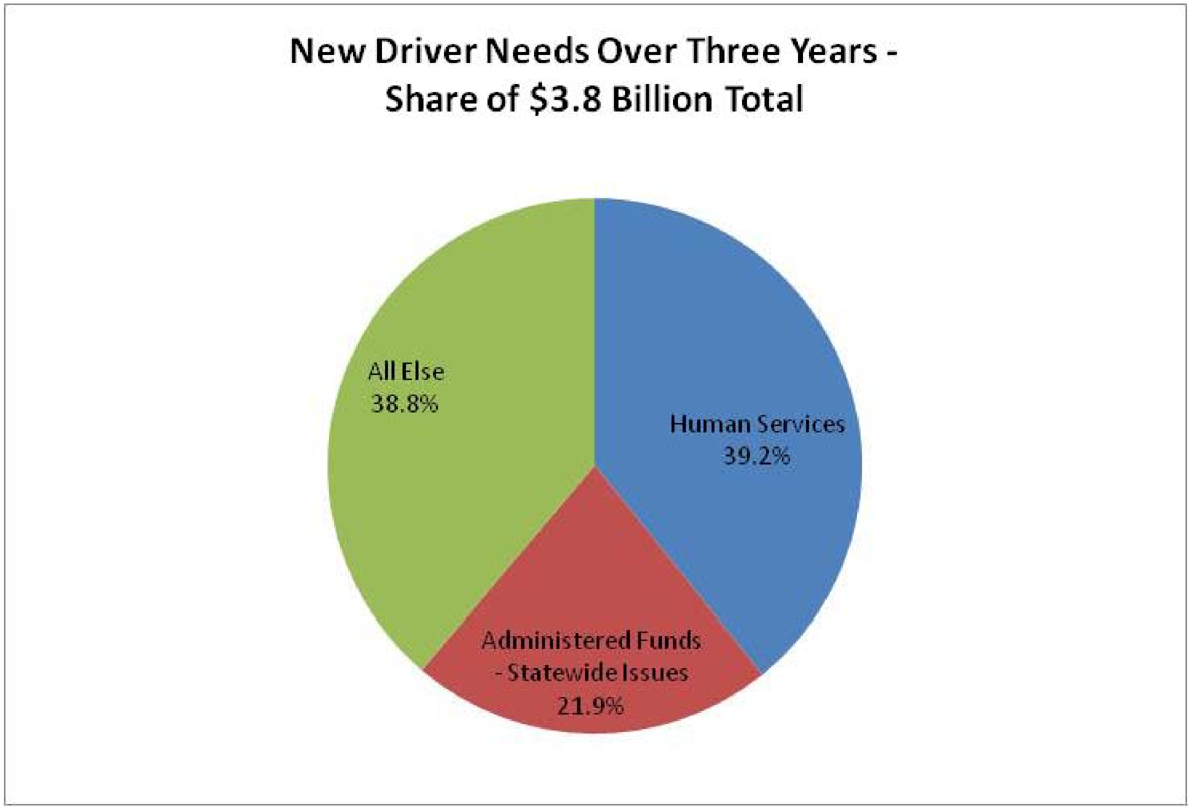
GENERAL REVENUE FUND	FY 2013-14	FY 2014-15	FY 2015-16
Total Tier 1 - Critical Needs	573.7	522.6	219.6
Total - Other High Priority Needs	1016.8	711.6	795.0
Total Tier 2 - Critical and Other High Priority Needs	1590.5	1234.2	1014.6

GR Drivers by Policy Area



POLICY AREAS	FY 2013-14	FY 2014-15	FY 2015-16
Pre K-12 Education	158.2	79.5	4.2
Higher Education	45.9	117.0	97.8
Human Services	461.8	568.2	476.5
Criminal Justice	69.9	6.5	11.5
Judicial Branch	1.3	1.3	5.1
Transportation & Economic Development	157.1	144.5	142.7
Natural Resources	110.1	114.3	110.8
General Government	45.0	36.0	31.5
Administered Funds - Statewide Issues	541.2	166.9	134.5
Total New Issues	1,590.5	1,234.2	1,014.6

Three-Year Outlook Period



Another method of analyzing the projected expenditures for Critical and Other High Priority Needs is to look at the percentage of the total represented by each policy area. Like last year, only two policy areas have double-digit percentages of the total in all three years of the Outlook: the Human Services policy area and the Administered Funds – Statewide Issues area. These areas are staying steady in terms of their future need for new driver dollars.

Most Significant Drivers

General Revenue Drivers (millions)	**FY 2013-14**	**FY 2014-15**	**FY 2015-16**
Medicaid Program Driver (Tier 1)	287.0	362.2	269.2
Percentage of Total Needs	*18.0%*	*29.3%*	*26.5%*
Unfunded Actuarial Liability Driver (Tier 2)	447.7		
FEFP Workload and Enrollment Driver (Tier 2)			271.7

The Medicaid Program driver is the single largest Critical Needs driver in all three years of the Outlook. Broadening the scope to look across all drivers, it represents 18.0 percent, 29.3 percent and 26.5 percent of total Critical and Other High Priority Needs, respectively. However, when Other High Priority Needs drivers are included, the Unfunded Actuarial Liability Driver becomes the single largest driver in Fiscal Year 2013-14—and the 2015-16 FEFP Workload and Enrollment driver in Other High Priority Needs is virtually equal to the Medicaid Driver.

Putting It Together for the First Year

OUTLOOK PROJECTION – FISCAL YEAR 2013-14 *(in millions)*			
	RECURRING	NON-RECURRING	TOTAL
AVAIL GR	**$25,563.8**	**$1,953.9**	**$27,517.7**
Base Budget	$24,623.2	$0.0	$24,623.2
Transfer to Lawton Chiles Endowment Fund	$0.0	$18.2	$18.2
Transfer to Budget Stabilization Fund	$0.0	$214.5	$214.5
Critical Needs	$484.6	$89.1	$573.7
High Priority	$696.5	$320.3	$1,016.8
Reserve	$0.0	$1,000.0	$1,000.0
TOTAL	**$25,804.3**	**$1,642.1**	**$27,446.4**
BALANCE	**($240.5)**	**$311.8**	**$71.3**

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 2013-14. Anticipated expenditures (including the reserve) can be fully funded. The budget will be in balance as constitutionally required.

The Bottom Line...

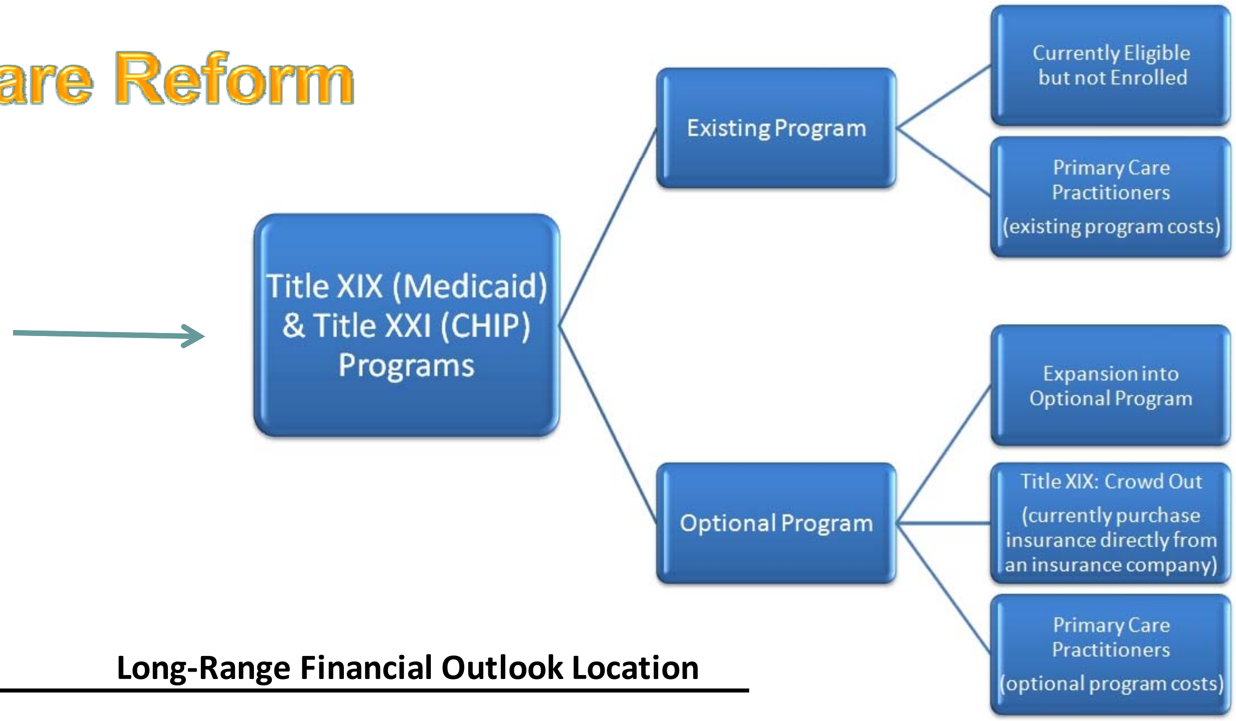
- Fiscal Years 2013-14, 2014-15 and 2015-16 all show projected budget needs within the available revenue for Critical and Other High Priority Needs, including the set-aside of a $1 billion reserve in each year.

- **No Fiscal Strategies are required for any year** in the Outlook period, since there is no budget gap during the period, the anticipated reserve is fully funded, and the budget is growing more slowly than available revenues.

- For the second 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.

Federal Health Care Reform

Supreme Court Decision
Impact on Medicaid



Provision	Long-Range Financial Outlook Location
<u>Existing Medicaid Program</u>	
Currently Eligible, But Not Enrolled	Indeterminate; Federal Health Care Reform Section: Risk
Primary Care Practitioner Rate Increase	
**Mandatory (CY 2013 and 2014)*	Critical Needs Driver #9
**Continue Rate Increase (CY 2015 and 2016)*	Other High Priority Needs Driver #31
<u>Optional Medicaid Program (Expansion)</u>	
Medicaid Program with Kidcare Offset	Federal Health Care Reform Section: Discussion
Primary Care Practitioner Rate Increase	Federal Health Care Reform Section: Discussion
<u>State Group Health Insurance Program</u>	
OPS and Opt-Out Inclusion; Fees	Critical Needs Driver #22
<u>Miscellaneous</u>	
Exchange Creation	Federal Health Care Reform Section: Risk
Technology: Eligibility Determination System	Federal Health Care Reform Section: Risk

Critical Needs Driver #9

	GR	Trust
2013-14	0.0	849.7
2014-15	0.0	424.8
2015-16	0.0	0.0

Other High Priority Needs Driver #31

	GR	Trust
2013-14	0.0	0.0
2014-15	173.8	251.0
2015-16	171.4	504.5

Critical Needs Driver #22

	GR	Trust
2013-14	31.9	15.7
2014-15	48.8	28.2
2015-16	11.6	7.0

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 $71.3 million to the:

1. 2012-13 projected balance of $1,550.2 (from an emergency or a forecast reduction), or
2. Revenue forecast for 2013-14.

An unanticipated reduction in the forecast for General Revenue or emergency expenditures related to a disaster could both produce this result. Similarly, if a reduction occurred of more than $53.5 million in Fiscal Year 2014-15 or more than $594.0 million in Fiscal Year 2015-16, budget gaps would develop which would also affect the subsequent years.

Black Swans

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

- Severe Natural Disasters
  - 2004 and 2005 Hurricane Seasons
  - Budget Stabilization Fund balance is $493.6 million; at the end of FY 2012-13, it will be $708.1 million.

- A complete financial collapse in the Eurozone, leading to a further slowing of the US economy.

- Congressional inability to reach an agreement that heads off the “Fiscal Cliff,” triggering a new recession in the United States.

Eurozone Problems Still Persist

- The sovereign debt crisis in the Eurozone has led to banking instability with spillover effects on the global credit market: threats of even greater problems have reignited.
  - Spain, Portugal and Italy all still face major challenges and contracting economies.
  - Italy may soon be looking for a bailout. Moody's has cut Italy's bond rating by two notches to Baa2, leaving it just two grades above junk status, citing increased risks of higher borrowing costs in part due to contagion from Spain and a possible Greek exit from the euro. Moody's compares economic conditions in Greece to the Great Depression in the US during the 1930s.
  - Greece is now seeking a two-year extension of its latest austerity program in order to ease the severity of the required cuts—and Global Insight is still predicting a Greece exit from the Eurozone (65% probability) by the middle of next year.
  - Efforts to bailout Spain and to begin recapitalizing Spain's banks are underway with other Eurozone leaders, the International Monetary Fund, and the European Central Bank. These steps are being taken to head off a potential liquidity squeeze arising from recent credit downgrades.

- The latest data shows that the Eurozone as a whole contracted by 0.2% during the second quarter of this calendar year, with the economies of Greece, Italy, Spain and Finland displaying the sharpest contractions. The latest data indicate that the Eurozone is at strong risk for another prolonged recession.

- These conditions are negatively affecting the United States:
  - Tighter credit conditions already exist, especially for businesses with foreign interests.
  - Reduced exports and corporate earnings already exist. The Greater Miami area is experiencing a significant reduction in exports to Spain (Florida exports to Spain fell nearly 30% last year).

“Fiscal Cliff” in January 2013

- Given the strong public—and economic—reaction to the turmoil in August 2011, it is unlikely that the looming US “fiscal cliff” in January will pass unnoticed. Caused by the intersection of three major deadlines and a potential debt showdown, the brunt of the “fiscal cliff” will remain largely unknown until after the November elections. Both the Congressional Budget Office and the International Monetary Fund project that, if left intact, the collective impact of these events would be to throw the United States back into a recession.
  - **Automatic Sequester provisions will kick in January 1, 2013**—George Mason University estimated that Florida would lose 41,905 jobs and sustain $3.6 billion in economic losses from the defense cuts.
  - **Key stimulus provisions will expire**—This cluster (including the 2% cut in the employee’s portion of payroll taxes, emergency unemployment insurance benefits, and the 50% bonus depreciation) expires at the end of the 2012 calendar year.
  - **Bush-era tax cuts started in 2001 and 2003 will expire at the end of the 2012 calendar year**—This cluster includes the estate and gift tax provisions (a return to the 2001 parameters of a $1 million exemption and a 55 percent top rate), changes to the child tax credit (cut in half and no longer refundable), and the end of the current schedule for marginal tax rates (elimination of the 10% tax bracket, plus the top rate will rise from 35 percent to 39.6 percent and other rates will rise in a similar manner).
  - **Statutory debt ceiling reached**—The debt ceiling, currently set at $16.4 trillion with the ability to create an additional $200 billion in capacity under the limit, will be hit and need to be raised sometime in January or February.