

Update: Long-Range Financial Outlook

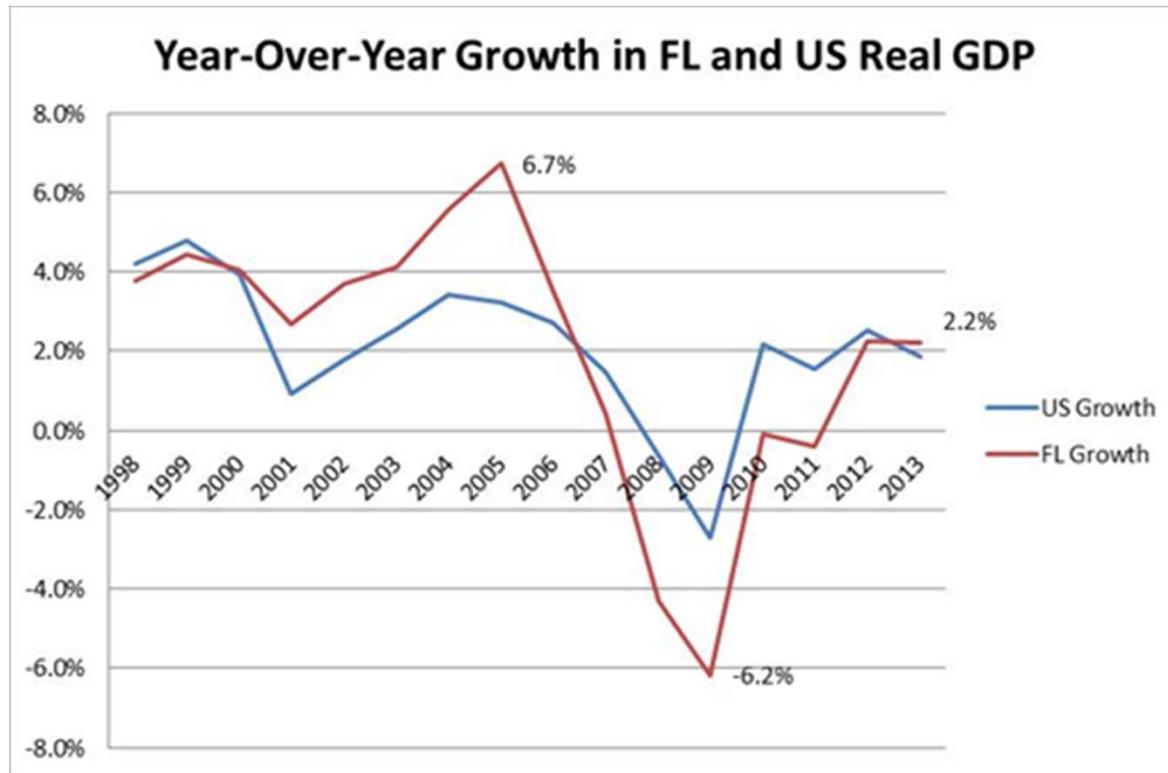
January 7, 2015

Presented by:



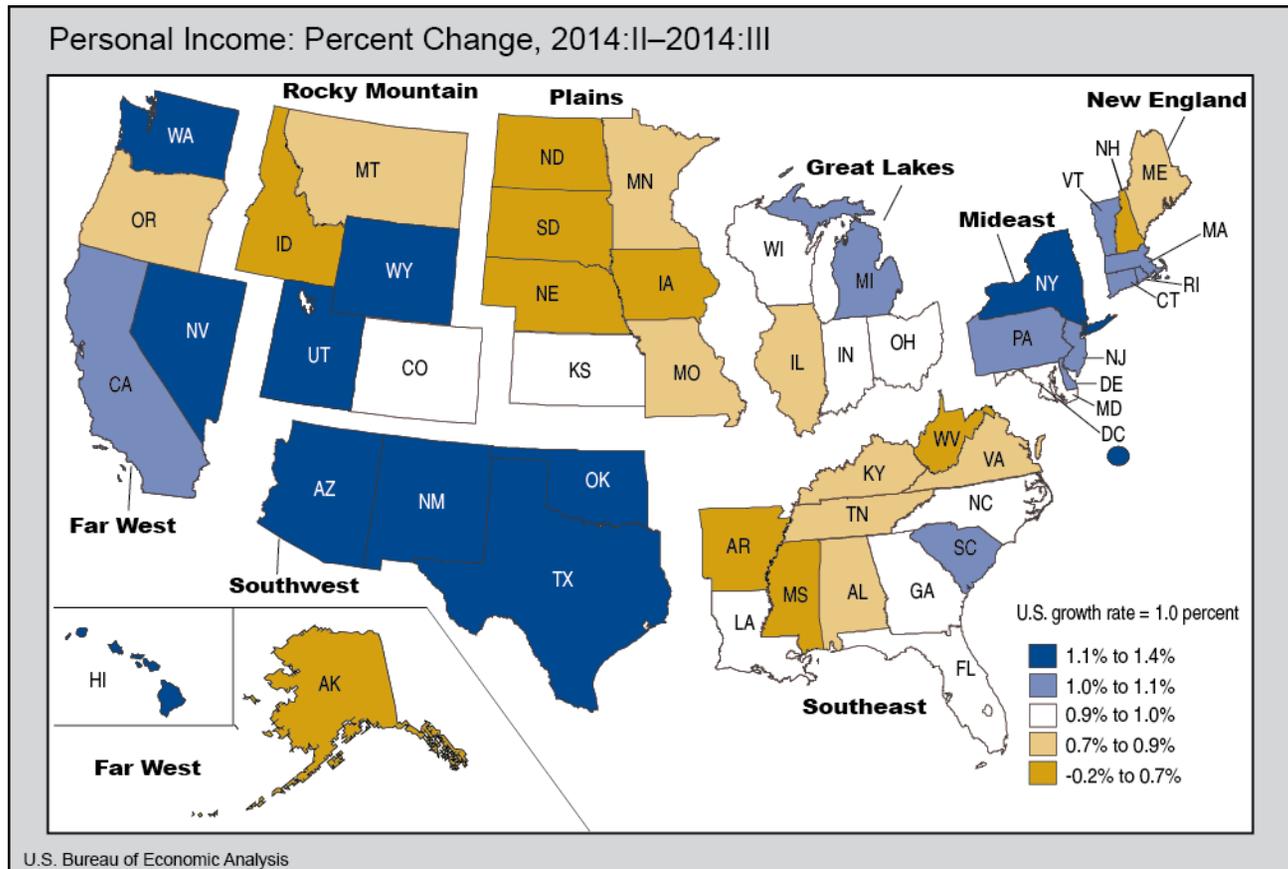
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Economy Had Continued Growth in 2013



In 2013, Florida's economic growth remained in positive territory, matching the state's revised 2012 growth rate. State Gross Domestic Product (GDP) showed Florida with a ranking of 18th in the nation with a real growth gain of 2.2%, moving Florida above the slowing national average of 1.8% for the first time since 2006.

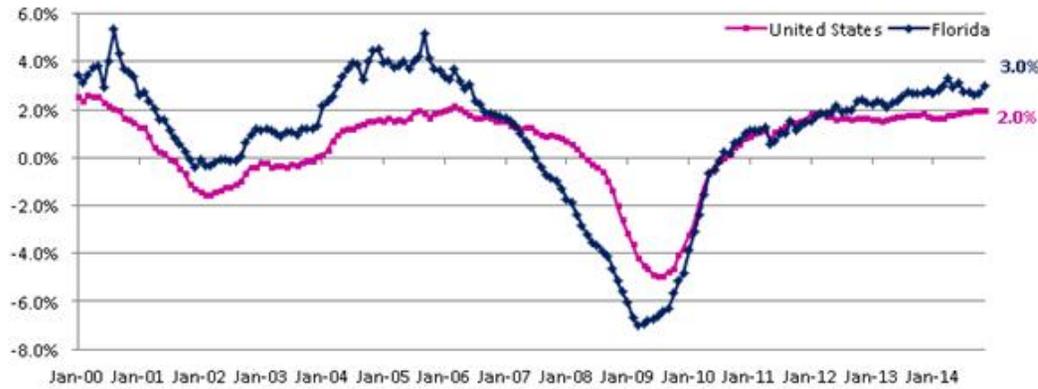
FL Personal Income Growth Slows in 2014:Q3



In the latest data, Florida finished the third quarter of the 2014 calendar year with 0.9% growth over the preceding quarter, falling slightly below the national growth rate of 1.0% and ranking 21st among all states. The results for the entire 2013 calendar year had shown that Florida was ranked 13th in the country with personal income growth of 2.9% which was higher than the national average of 2.6%.

Current Employment Conditions

Seasonally Adjusted Nonfarm Jobs
Percent Change from Same Month Prior Year



Source: Florida Department of Economic Opportunity, Bureau of Labor Market Statistics, Current Employment Statistics Program in cooperation with the U.S. Department of Labor, Bureau of Labor Statistics, December 19, 2014.

November Nonfarm Jobs (YOY)

US	2.0%
FL	3.0%
YR:	229,900 jobs
Peak:	-156,300 jobs

November Unemployment Rate

US 5.8%
FL 5.8% (556,187 people)

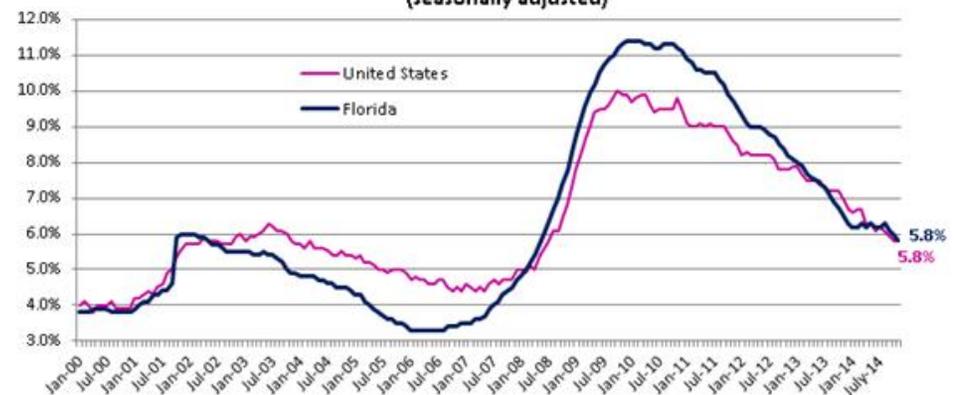
Highest Monthly Rate

11.4% (December 2009 through March 2010)

Lowest Monthly Rate

3.3% (January through August 2006)

United States and Florida Unemployment Rates
(seasonally adjusted)



Source: Florida Department of Economic Opportunity, Bureau of Labor Market Statistics, Local Area Unemployment Statistics Program, in cooperation with the U.S. Department of Labor, Bureau of Labor Statistics, December 19, 2014.

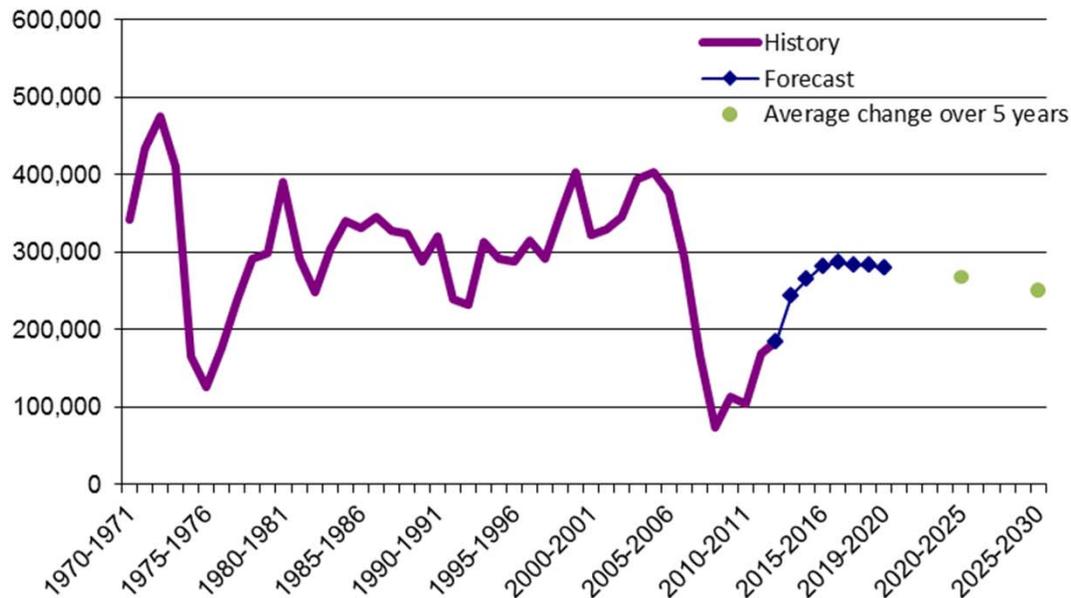
Florida's Job Market

- The job market is still recovering – Florida is 156,300 jobs short of the most recent peak. Rehiring, while necessary, will not be enough.
- Florida's prime working-age population (aged 25-54) is forecast to add about 4,200 people per month, so the hole is deeper than it looks.
- It would take the creation of about 680,000 jobs for the same percentage of the total population to be working as was the case at the peak.

Population Growth Recovering

- Population growth is the state's primary engine of economic growth, fueling both employment and income growth.
- Population growth is expected to continue its recovery, showing increasing rates of growth over the next few years. In the near-term, growth is expected to average 1.39% between 2014 and 2015 – and then strengthen to a slightly higher 1.41% between 2015 and 2020. Most of Florida's population growth through 2030 will be from net migration (93.1%). Nationally, average annual growth will be about 0.74% between 2013 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 prior to April 1, 2016, becoming the third most populous state "sometime" before then – surpassing New York.

Florida's Population Growth



Population:

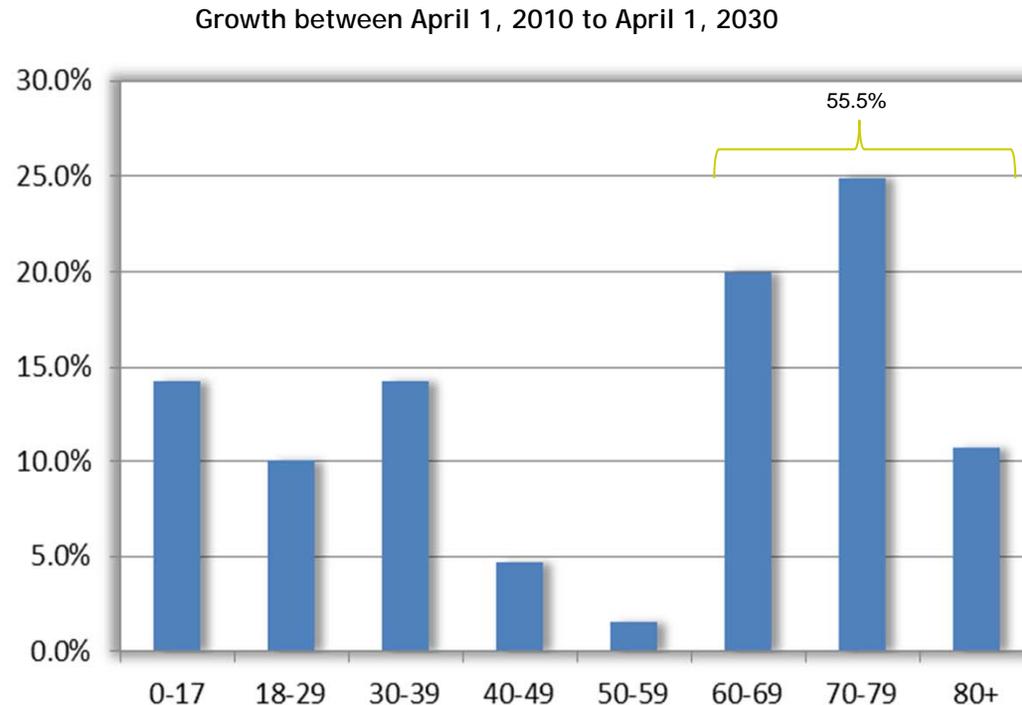
- Average annual increase between 2000 and 2006 was: 361,942
- Average annual increase between 2007 and 2013 was: 135,463

Population is forecast to increase on average by:

- 271,827 between 2014 and 2015 --- a gain of 745 per day
- 286,035 between 2015 and 2020 --- a gain of 784 per day
- 268,340 between 2020 and 2025 --- a gain of 735 per day
- 250,977 between 2025 and 2030 --- a gain of 688 per day

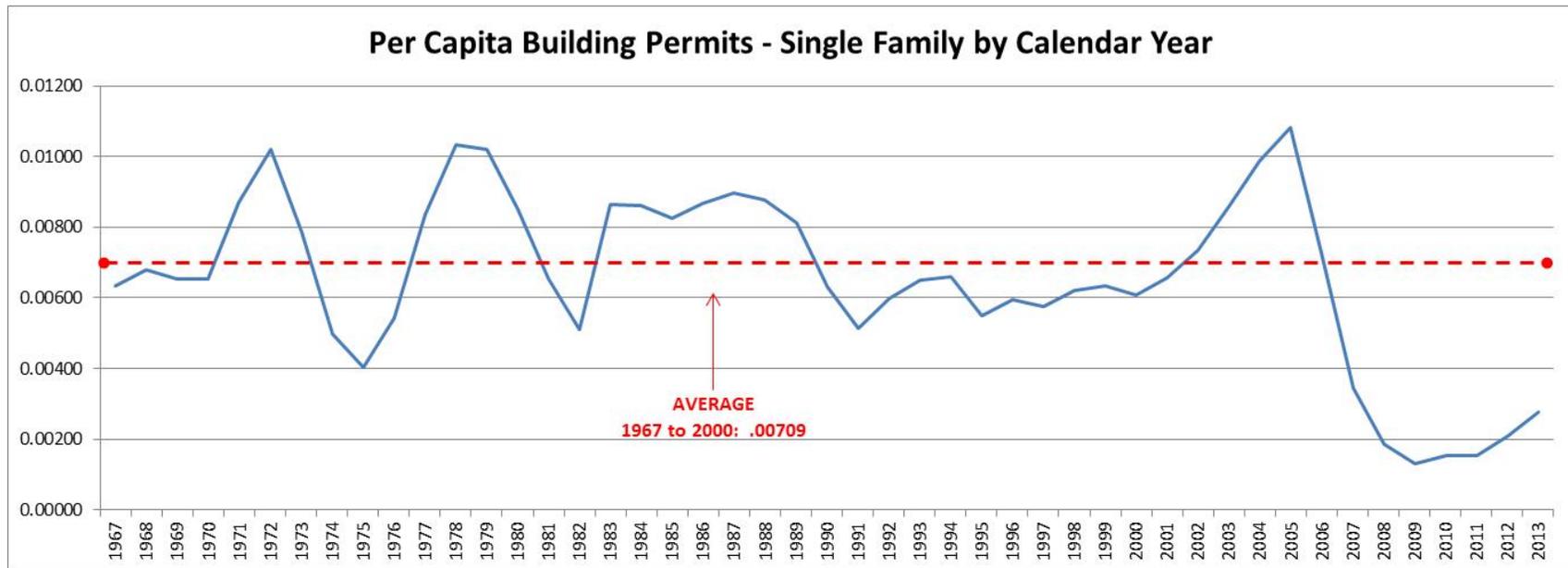
2014	
Orlando	255,636
St. Petersburg	252,372
Hialeah	230,544

Population Growth by Age Group



- Between 2010 and 2030, Florida's population is forecast to grow by almost 5 million persons.
- Florida's older population (age 60 and older) will account for most of Florida's population growth, representing 55.5 percent of the gains.
- Florida's younger population (age 0-17) will account for 14.2 percent of the gains.

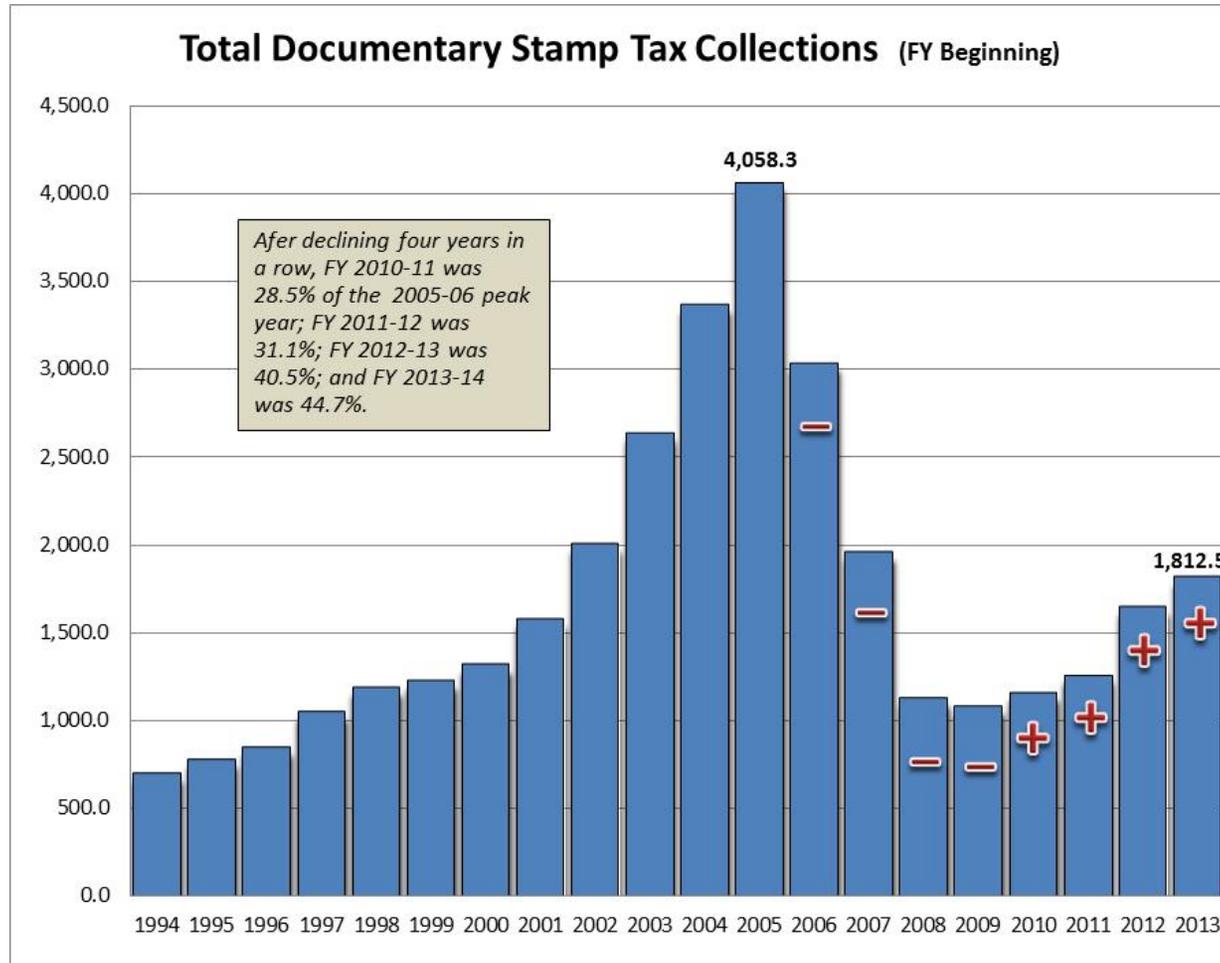
Florida Housing is Generally Improving



Building permit activity, an indicator of new construction, is back in positive territory, showing strong (36.6%) calendar year growth in 2012. While still robust, data for the 2013 calendar year indicates that the increase in permits (33.4%) was slightly below the prior year. Despite the strong percentage growth in both years, the level is still low by historic standards. Residential data for the first eleven calendar months of 2014 indicate slowing activity; year-to-date activity through November is running below last year for the same period, although single family data is slightly higher (+0.60 percent) than last year's data at the same point in time.

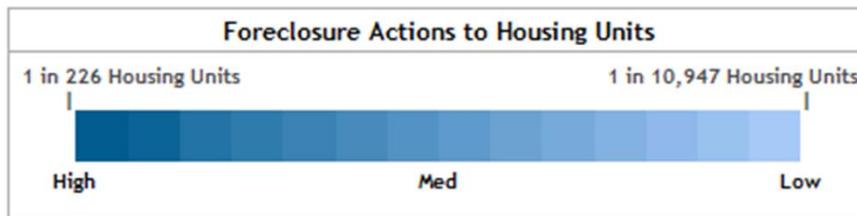
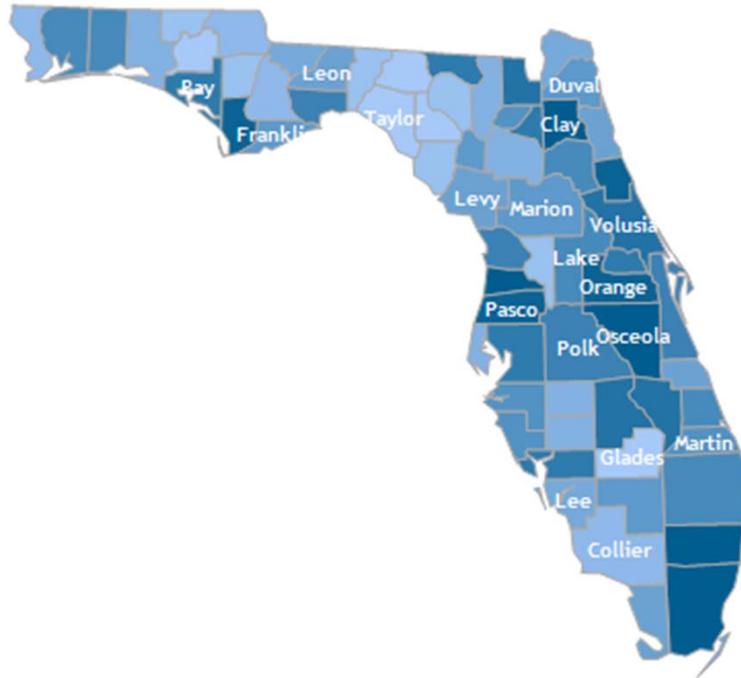
Documentary Stamp Collections

(Reflecting All Activity)



Documentary Stamp Tax collections have moved slightly above (+2.0%) the 2013 level for the first eleven months of the 2014 calendar year.

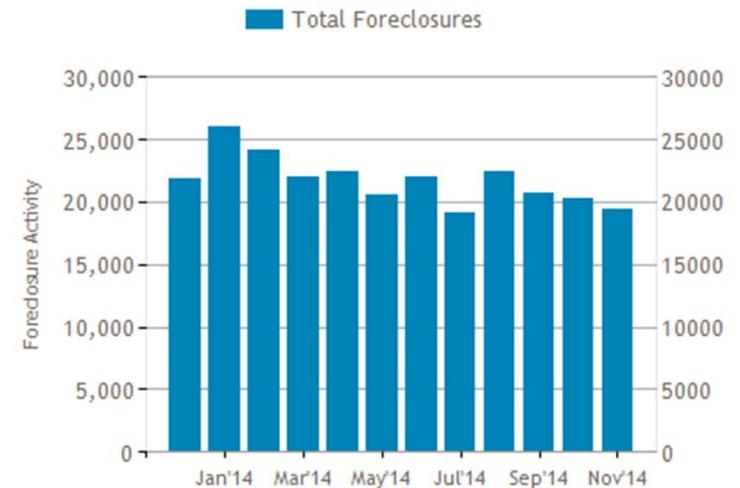
Foreclosures Are Still A Florida Issue



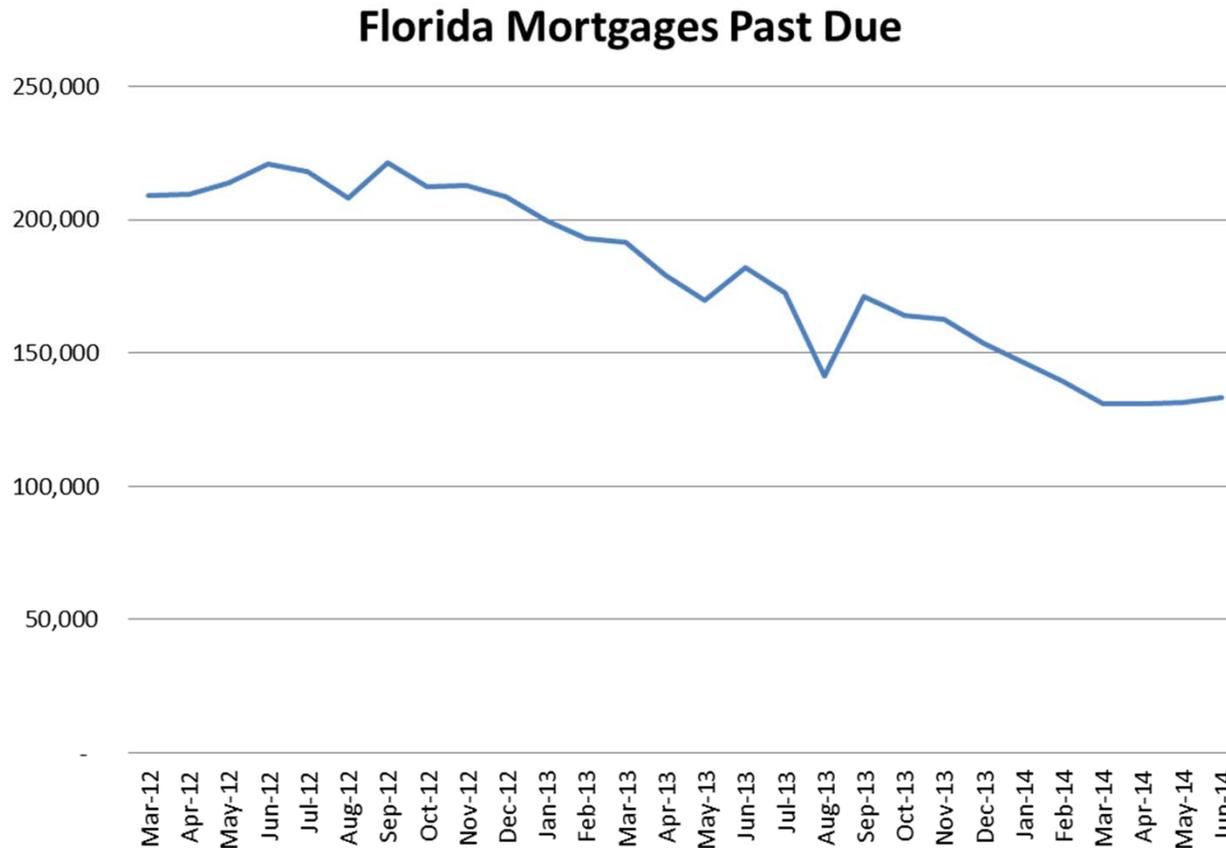
First Six Months of 2014...

- Highest State for # of Filings
- Highest State for Foreclosure Rate
- Among US Metro Area rates: 9 of the top 10 highest metro rates in the nation were in Florida.

- Miami-Fort Lauderdale-Pompano Beach #1*
- Orlando-Kissimmee #2*
- Port St. Lucie #3*
- Palm Bay-Melbourne-Titusville #4*
- Tampa-St. Petersburg-Clearwater #5*
- Lakeland #6*
- Deltona-Daytona Beach-Ormond Beach #7*
- Ocala #8*
- Jacksonville #9*

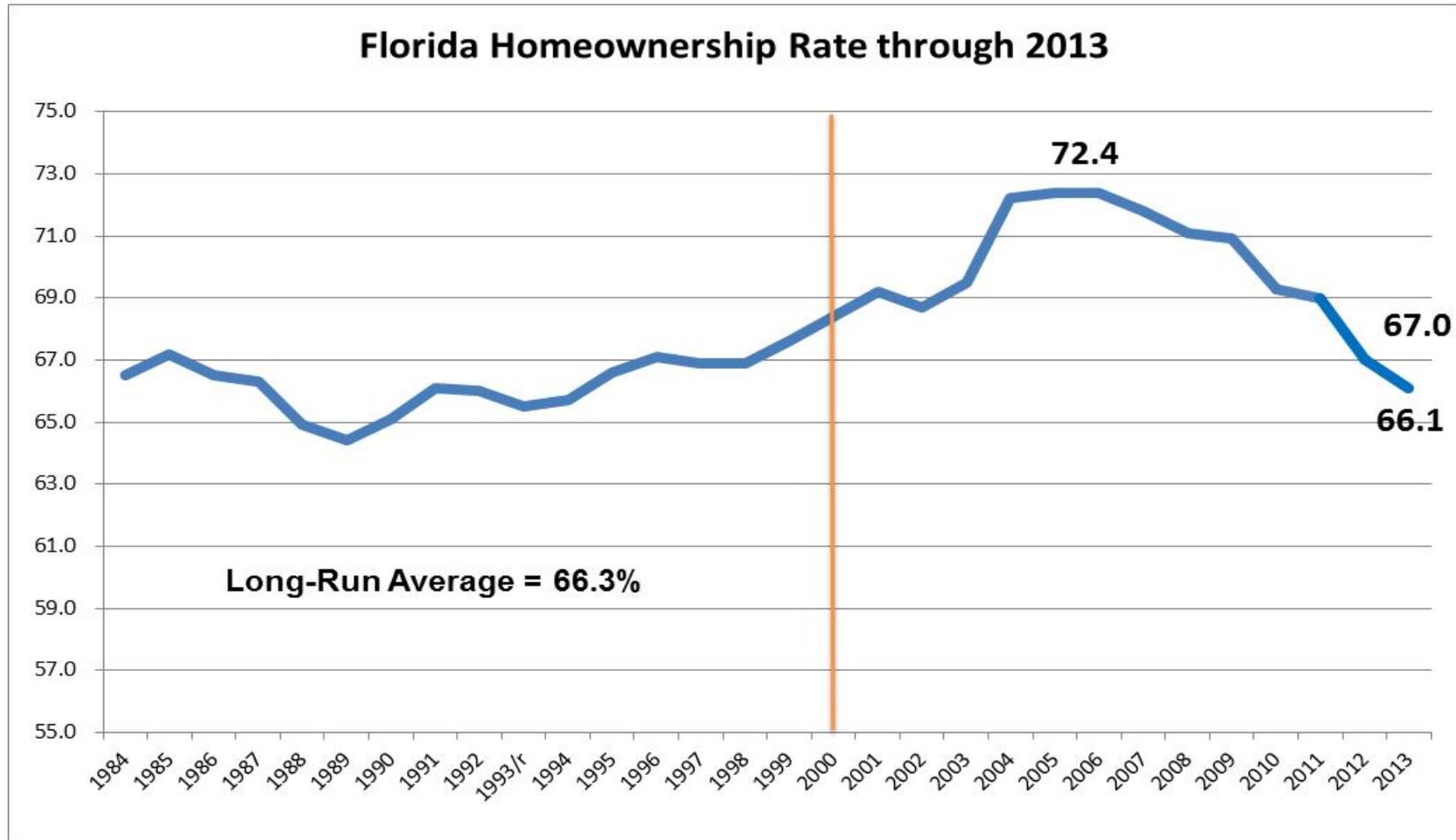


Foreclosures & Shadow Inventory



After being ranked first for many months, Florida has now moved to fifth place among states for non-current mortgages (a measure of delinquencies and foreclosures). A major part of this shift is a reduction in the number of delinquent mortgages which reduces the incoming pipeline. Florida's "underwater" homes declined from a high of 50% of all residential mortgages to 15% in the most recent data.

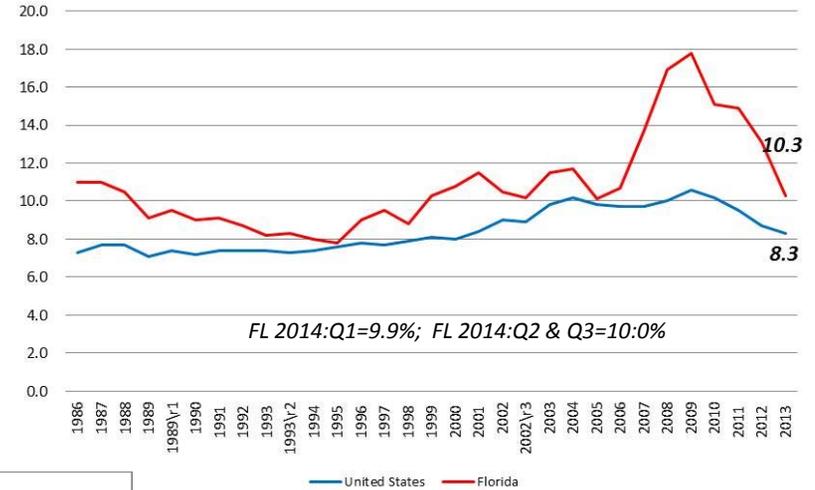
Homeownership Rate Below Normal



The 2013 percentage of 66.1 is the lowest since 1994, and it's below the long-term average. The third quarter of the 2014 calendar year has dropped further to 62.4%. If this becomes the final percentage for the year, it will be the lowest level seen since the data series began in 1984.

Residential Rental Vacancies Still Tightening; Price Pressure Starting to Appear

Rental Vacancy Rates
Longrun Average Percent: US---8.4; FL---10.9



Least Affordable Rental Markets



Florida and U.S. Median Gross Rent (in Current Dollars)

Year	Median Gross Rent		
	U.S.	FL	FL Relative To US
2005	728	809	111%
2006	763	872	114%
2007	789	925	117%
2008	824	947	115%
2009	842	952	113%
2010	855	947	111%
2011	871	949	109%
2012	884	954	108%
2013	905	972	107%

Economy Recovering

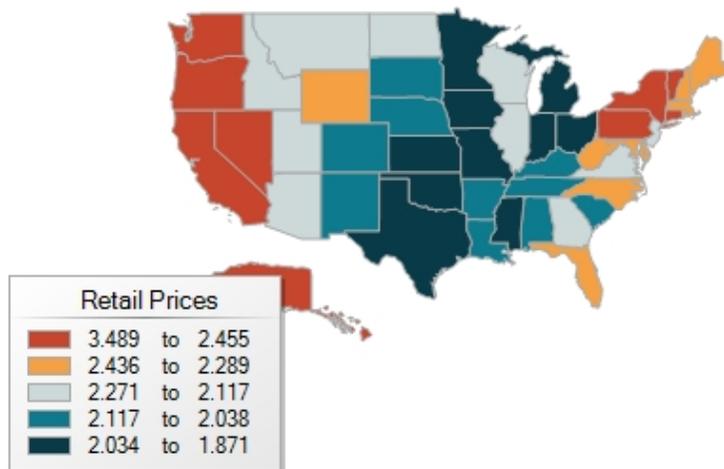
Florida growth rates are generally returning to more typical levels and continue to show progress. However, the drags are more persistent than past events, and it will take a few more years to climb completely out of the hole left by the recession. In the various forecasts, normalcy has been largely achieved by FY 2016-17. Overall...

- The recovery in the national economy is well underway. While most areas of commercial and consumer credit have strengthened – residential credit still remains somewhat sluggish and difficult for consumers to access.
- By the close of the 2013-14 fiscal year, several key measures of the Florida economy had returned to or surpassed their prior peaks.
 - Most of the personal income metrics (real per capita income being a notable exception) and all of the tourism counts 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.
 - In the current forecast, none of the key construction metrics show a return to peak levels until 2022-23.

Low Gas Prices Are A Windfall...

Florida Average Prices	Regular
Current Avg.	\$2.316
Year Ago Avg.	\$3.426
Highest Recorded Avg.	\$4.079

Prices updated as of 1/4/2015 3:45am; AAA



- OPEC’s inaction has allowed gas prices to continue to fall.
- Consumers have treated the lower gas prices as a one-time windfall or dividend, boosting consumer spending. Prices are expected to stabilize by mid-2015.
- IHS (Global Insight) estimates that the savings will be roughly \$750 per household over the next four quarters. For Florida, this means approximately \$5.86 billion in additional spending. If 100% of it was spent on taxable sales, it would be just over \$350 million in additional sales taxes --- a significant part of the change to the forecast.

Conference Results

- **Florida Population** – slightly higher growth than July forecast but still at low levels and rates of growth compared to past trends.
- **National Economic** – no significant change from the July forecast, but a few key drivers to Florida are slightly weaker.
- **Florida Economic** – mixed results compared to the July forecast with some indicators growing faster (Personal Income and Vehicle Registrations) and some slower (Non-Farm Employment, Housing Starts, and Total Visitors) than previously forecast.

Trust Fund Results

Impact from Changes in the Forecast
 [Positive = Savings; Negative = Additional Cost]

Major Trust Funds	2014-15	2015-16	Cumulative Effect
Lottery	-5.1	-22.7	-27.8
Slots	-4.6	-5.9	-10.5
Other Adjustments	<u>7.4</u>	<u>0.8</u>	<u>8.2</u>
Educational Enhancement TF	-2.3	-27.8	-30.1
Unclaimed Property Transfers	0.0	0.0	0.0
Other Adjustments	-0.7	-0.9	-1.6
State School TF	-0.7	-0.9	-1.6
Settlement Payments and LCEF Transfers	0.0	0.0	0.0
Other Adjustments	1.5	0.0	1.5
Tobacco Settlement TF	1.5	0.0	1.5

General Revenue Results

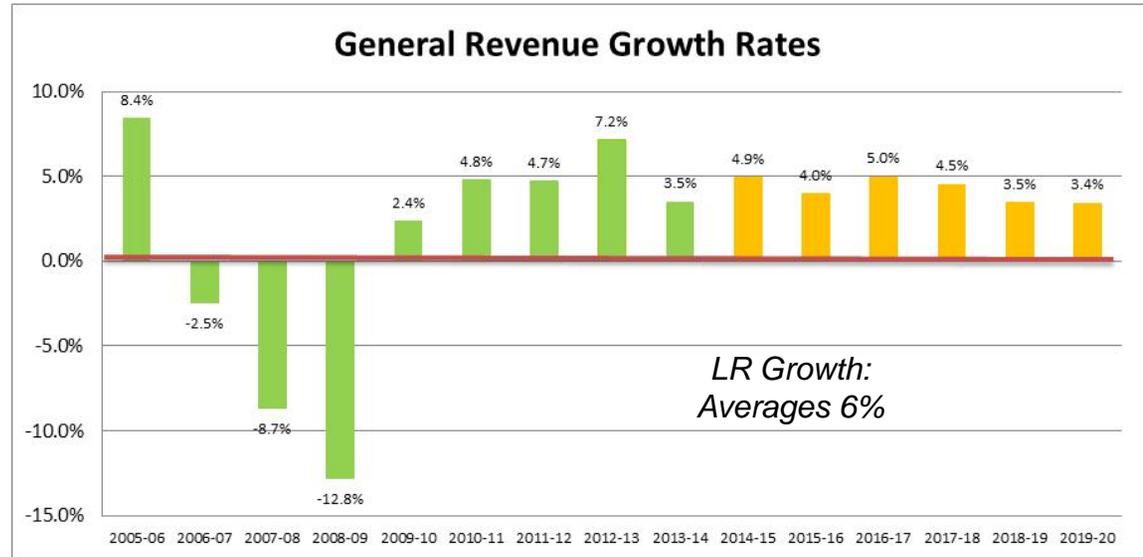
Impact from Changes in the Forecast

[Positive = Savings; Negative = Additional Cost]

General Revenue	2014-15	2015-16	Cumulative Effect
Sales Tax	207.9	176.3	384.2
Corporate Income Tax	22.0	7.9	29.9
Insurance Taxes	8.7	-6.8	1.9
Documentary Stamp Tax	64.4	73.9	138.3
Intangibles Tax	15.3	17.3	32.6
Highway Safety Fees	5.5	8.4	13.9
Beverage Taxes	21.0	60.0	81.0
Indian Gaming	-2.1	-5.5	-7.6
Article V Fees	-14.5	-15.4	-29.9
Tobacco Tax	6.1	6.7	12.8
All Other Sources/Refunds	-38.3	9.1	-29.2
NET REVENUES	296.0	331.9	627.9

General Revenue Forecast

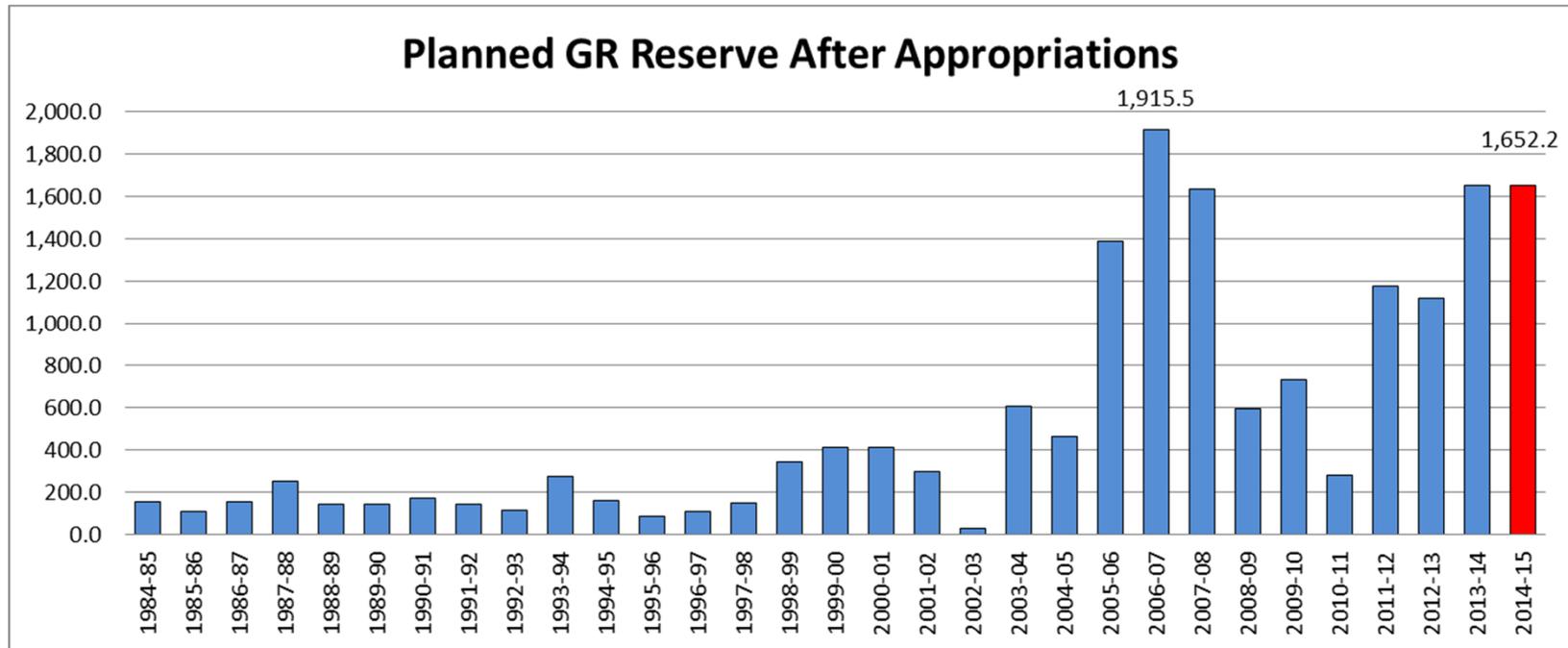
The growth rates for FY 2012-13 and FY 2013-14 are slightly distorted by the receipt of the \$200.1 million deposit from the National Mortgage Settlement Agreement. After adjusting for this deposit, the underlying growth rates are 6.3% and 4.7%, respectively.



Fiscal Year	August 2014 Forecast	December 2014 Forecast	Difference	Incremental Growth	Growth
2005-06	27074.8	27074.8	0.0	1287.4	8.4%
2006-07	26404.1	26404.1	0.0	-670.7	-2.5%
2007-08	24112.1	24112.1	0.0	-2292.0	-8.7%
2008-09	21025.6	21025.6	0.0	-3086.5	-12.8%
2009-10	21523.1	21523.1	0.0	-497.5	2.4%
2010-11	22551.6	22551.6	0.0	1028.5	4.8%
2011-12	23618.8	23618.8	0.0	1067.2	4.7%
2012-13	25314.6	25314.6	0.0	1695.8	7.2%
2013-14	26198.0	26198.0	0.0	883.4	3.5%
2014-15	27,189.4	27,485.4	296.0	1287.4	4.9%
2015-16	28,246.6	28,578.5	331.9	1093.1	4.0%
2016-17	29,655.0	30,000.5	345.5	1422.0	5.0%
2017-18	31,041.6	31,357.4	315.8	1356.9	4.5%
2018-19	32,118.9	32,441.4	322.5	1084.0	3.5%
2019-20	33,237.3	33,548.6	311.3	1107.2	3.4%

In FY 2014-15, projected General Revenue collections are expected to surpass the prior peak in 2005-06.

GR Unallocated & Other Reserves



The state's reserves have continued to grow. Based on the final close-out from 2013-14 and the December revenue forecast for 2014-15, the planned General Revenue reserve balance has increased \$371.2 million since the adoption of the plan in mid-September. The balance is now projected to be **\$1,960.2 million** for the fiscal year. Combined with the \$1,139.2 million expected in the Budget Stabilization Fund and approximately \$605.4 million that is available in the Lawton Chiles Endowment Fund, the total across all sources that are traditionally mentioned as reserves is \$3,704.8 million or 13.5% of estimated General Revenue collections for FY 2014-15.

GR Revenue Adjustments (2014-15)

Funds Available:	<u>Total</u>
Balance Forward	2,581.3
Revenue Estimate	27,189.4
December REC Adjustment to Estimate	296.0
Transfer from Trust Funds	278.1
Miscellaneous Outlook Adjustments	1.9
Total Funds Available	30,346.7

General Revenue Receipts	Total
Original Long-Range Outlook	29,888.4
Fall Adjustments (Balance Forward, Reversions)	162.3
December REC Adjustment	296.0
	30,346.7

Starting Point: FY 2014-15 GR Outlook Balance...

REVENUES	REC	N/R	TOTAL	Summer	Diff
2014-15 Ending Balance on Current Official Outlook	399.2	1,561.0	1,960.2	1,589.0	371.2
ADJUSTMENTS					
-MINUS- Reserve for State Courts TF Revenue Shortfall	0.0	-15.0	-15.0	-15.7	0.7
-MINUS- Reserve for State School TF Projected Deficit	0.0	-108.6	-108.6	-107.9	-0.7
-MINUS- Budget Amendments Approved by 8/15/14	0.0	0.0	0.0	-1.3	1.3
ADJUSTMENTS TOTAL	0.0	-123.6	-123.6	-124.9	1.3
BALANCE FOR LONG-RANGE FINANCIAL OUTLOOK			1,836.6	1,464.2	372.5

A projected remaining balance of \$1.84 billion in nonrecurring dollars is assumed to be available for use in FY 2015-16.

GR Revenue Adjustments (2015-16)

Funds Available:	<u>Total</u>
Balance Forward	1,836.6
Revenue Estimate	28,246.6
December REC Adjustment to Estimate	331.9
Transfer from Trust Funds	-
Miscellaneous Outlook Adjustments	93.0
Total Funds Available	30,508.1

General Revenue Receipts	Total
Original Long-Range Outlook	29,806.6
Balance Forward Adjustment	372.5
December REC Adjustment	331.9
Other Miscellaneous Adjustments	(2.9)
	30,508.1

Cumulative GR Effect on 2015-16

REVISED OUTLOOK PROJECTION – FISCAL YEAR 2015-16 <i>(in millions)</i>			
	RECURRING	NON RECURRING	TOTAL
AVAILABLE GENERAL REVENUE	\$28,717.2	\$1,790.9	\$30,508.1
<i>Base Budget</i>	\$27,036.7	\$0.0	\$27,036.7
<i>Transfer to Lawton Chiles Endowment Fund</i>	\$0.0	\$0.0	\$0.0
<i>Transfer to Budget Stabilization Fund</i>	\$0.0	\$214.5	\$214.5
<i>Critical and Other High Priority Needs</i>	\$872.3	\$346.9	\$1,219.2
<i>Fall Conference Adjustments</i>	???	???	???
<i>Reserve</i>	\$0.0	\$1,000.0	\$1,000.0
TOTAL	\$27,909.0	\$1,561.4	\$29,470.4
BALANCE	\$808.2	\$229.5	\$1,037.7

After adjusting revenues to reflect the Fall conferences, the projected ending balance for 2015-16 improved from the \$336.2 million estimated in September to more than \$1.0 billion. The 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 FY 2015-16. Anticipated expenditures (including the reserve) can be fully funded and the budget will be in balance as constitutionally required.

Key Resource Demand Conferences—Mixed

Conference	Forecast Change	Plan Impact	Major Fund
Criminal Justice Prison Population	+259 prisoners in 14/15 +500 prisoners in 15/16 (thereafter, 1000+ per year)	Higher Funding Need	GR
Voluntary Prekindergarten	-4,048.85 FTE in 14/15 -4,096.21 FTE in 15/16	Lower Funding Need	GR
Public Schools Enrollment	+11,737.31 FTE in 14/15 +16,359.16 FTE in 15/16	Higher Funding Need	GR, EETF
Florida College System Enrollment	-3,343 FTE in 14/15	Lower Funding Need	GR
Post-Secondary Financial Aid	Bright Futures... +3,454 Awards in 14/15 +4,856 Awards in 15/16	Higher Funding Need	EETF (indirectly to GR)
KidCare	Lower caseload, leading to: \$3.6 M savings in 14/15 \$5.5 M savings in 15/16	Lower Funding Need	GR
TANF	\$5.8 M cost in 14/15 \$7.0 M cost in 15/16	Higher Funding Need	GR
Medicaid	\$1.2 M cost in 14/15 \$144.9 M savings in 15/16	Lower Funding Need	GR (indirectly to TFs)

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 achieved. Assuming the \$1 billion reserve is strictly adhered to each year, the recurring balance of \$808.2 million can be invested in *recurring* expenditures in Fiscal Year 2015-16 without causing a budget gap in Fiscal Years 2016-17 or 2017-18. However, the expenditure of *recurring* funds in Year 1 of the Outlook has a compounding effect over time and would reduce future ending balances significantly.

	Projected Ending Balance	Ending Balance if Year 1 Recurring Balance Spent on Recurring Issues	Difference
2015-16	\$1,037.7 million	\$229.5 million	-\$808.2 million
2016-17	\$2,035.9 million	\$419.5 million	-\$1,616.4 million
2017-18	\$3,501.6 million	\$1,077.0 million	-\$2,424.6 million

As part of the decision-making process regarding whether to increase spending or reduce tax revenues, the Legislature should consider the sections of the Outlook entitled *Significant Risks to the Forecast*, *Florida Economic Outlook*, and *Potential Constitutional Issues*, which describe a number of issues that have the potential to alter key assumptions and, therefore, the level of revenues and/or expenditures used to build the Outlook.

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
 - Budget Stabilization Fund balance will be \$1,139.2 million at the end of FY 2014-15.
- Global economic malaise and international strife that spill over to the U.S. economy and indirectly to Florida.
 - Intensifying and spreading global weakness in the Euro Zone
 - In the 2nd Quarter of 2014, Germany’s economy contracted; France’s economy stagnated; and Italy remained in recession. Results were slightly better in the 3rd Quarter with only Italy continuing to contract, but Greece has an upcoming snap election.*
 - Russian economy likely close to recession, with accelerating inflation
 - Deflation worries and severe interruptions in exports
 - Spain has already suffered deflation.*