



# **State of Florida Long-Range Financial Outlook Fiscal Year 2010-11 through 2012-13**

## ***Fall 2009 Report***

***As adopted by the Legislative Budget Commission on September 15, 2009***

**Jointly prepared by the following:**

***The Senate Policy and Steering Committee on Ways and Means  
The House Full Appropriations Council on Education & Economic Development  
The House Full Appropriations Council on General Government & Health Care  
The Legislative Office of Economic and Demographic Research***

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# Long-Range Financial Outlook

## What is the Outlook?

In 2006, Florida voters adopted a constitutional amendment that requires the development of a Long-Range Financial Outlook, setting out recommended fiscal strategies for the state and its departments in order to assist the legislature in making budget decisions. The Legislative Budget Commission is required to issue the Outlook by September 15<sup>th</sup> of each year. The 2009 Outlook is the third document developed in accordance with the provisions of Article III, Section 19(c)(1) of the Florida Constitution.

Ultimately, the Outlook is a tool that provides an opportunity to both avoid future budget problems and maintain more financial stability between state fiscal years. The Outlook accomplishes this by providing a longer-range picture of the state's fiscal position that integrates projections of the major programs driving Florida's annual budget requirements with the revenue estimates. In this regard, the projections primarily reflect current-law spending requirements and tax provisions. It also includes budgetary, economic, demographic, and debt analyses to provide a framework for the financial projections and covers the upcoming three fiscal years: 2010-11, 2011-12, and 2012-13.

**THE OUTLOOK DOES NOT PURPORT TO PREDICT THE FUNDING LEVELS OF FUTURE STATE BUDGETS OR THE FINAL AMOUNT OF FUNDS TO BE ALLOCATED TO THE RESPECTIVE BUDGET AREAS. THIS IS BECAUSE VERY FEW ASSUMPTIONS ARE MADE REGARDING FUTURE LEGISLATIVE POLICY DECISIONS OR DISCRETIONARY SPENDING, MAKING THIS DOCUMENT SIMPLY A REASONABLE BASELINE OR A STARTING POINT. ANY ASSUMPTION REGARDING A CHANGE IN LEGISLATIVE DIRECTION IS CONFINED TO SPECIFICALLY DESIGNATED SCENARIOS. IN EACH SCENARIO, ALL UNSPENT FUNDS ARE STILL CARRIED FORWARD INTO THE FOLLOWING FISCAL YEAR.**

## Who produced it?

The Outlook was jointly developed by the Senate Policy and Steering Committee on Ways and Means, the House Full Appropriations Council on Education & Economic Development, the House Full Appropriations Council on General Government & Health Care, and the Legislative Office of Economic and Demographic Research.

## How was the Outlook developed?

- All major programs that have historically driven significant increases in the State's budget like Medicaid and the Florida Education Finance Program, as well

as recent constitutional requirements such as Class Size Reduction, were reviewed and individually analyzed.

- Forecasts of future workload and enrollment increases were developed for each of the major cost drivers using a variety of methods including projections from Consensus Estimating Conferences and historical funding averages. An additional round of Summer Estimating Conferences was established specifically to facilitate the availability of up-to-date information.
- Costs were applied to the projected workload requirements based on recent legislative budget decisions.
- Exceptional funding needs – the fiscal impact of special issues outside of normal workload and caseload requirements – were identified and addressed when necessary for state operations.
- The various cost requirements were then aggregated by major fund type and compared to revenue estimates for those funds.

### **Understanding the Outlook**

- The Outlook is structured into policy sections that correspond to the Appropriations Bill format required by the constitution. Also included are separate sections for Potential Constitutional Issues, Statewide Distributions / Administered Funds, Revenue Projections, Florida’s Economic Outlook, Florida’s Demographic Projections and Composition, Debt Analysis and a comparison of costs versus revenues.
- Each policy section contains projections of the applicable major state-supported programs, a listing of the assumptions behind the projections and a description of significant policy issues associated with the projections.
- Emphasis is placed on recurring programs, those programs that the state is expected or required to continue from year to year.
- Estimates for several ongoing programs historically funded with non-recurring funds are also included in the Outlook. Even though funded with non-recurring funds, these programs are viewed as annual “must funds” by most legislators and are therefore identified as major cost drivers.
- Revenue projections specifically cover the General Revenue Fund, the Educational Enhancement Trust Fund (lottery and slots proceeds devoted to education), the Principal State School Trust Fund and the Tobacco Settlement Trust Fund. Other trust funds have been estimated and discussed in the sections where they are relevant to the expenditure forecast.

- All revenue projections include recurring and non-recurring amounts.
- The tables used to project fund balances (General Revenue, Educational Enhancement, Principal State School, and Tobacco Settlement) include estimates for both anticipated revenue collections and expenditures. They summarize the information contained and discussed in the rest of the document.
- Budget Drivers have been categorized as either “*Critical Needs*” (annualizations of current year activities, mandatory increases based on estimating conferences and other essential needs) and “*Other High Priority Needs*” (historically funded issues). *Critical Needs* can be thought of as the absolute minimum the state must do absent significant law or structural changes, and *Other High Priority Needs* in combination with the *Critical Needs* form a highly conservative continuation budget.
- For the purposes of this Outlook, prior expenditures from expiring federal stimulus dollars have been redirected to the General Revenue Fund when the underlying activities are ongoing in nature.
- The Fiscal Strategies section demonstrates the impact of varying policy decisions on the baseline projection. The unique assumptions used for these scenarios are not built into the rest of the Outlook.

## *Summary and Findings*

### A. Key Aspects of the Revenue Estimates

- In August, the Revenue Estimating Conference for the General Revenue Fund added \$81.0 million to the previous estimate for Fiscal Year 2008-09 based on actual revenue receipts for the year. For the current year (Fiscal Year 2009-10), \$147.1 million was removed from the estimate. The latter revision caused the estimated revenue collections for Fiscal Year 2009-10 to fall below the Fiscal Year 2008-09 receipts by \$332.4 million, producing a decline of 1.6% before returning to a positive growth rate of 6.8% in Fiscal Year 2010-11. This will mark the end of four consecutive years of revenue declines.
- General revenue collections are expected to grow by an annual rate of 8.2% in Fiscal Year 2011-12 and Fiscal Year 2012-13.

Fiscal Year	Original Forecast	Revised for Session	New Forecast	Difference (New - Rev)	Incremental Growth	Growth
2005-06	27074.8					8.4%
2006-07	26404.1					-2.5%
2007-08	24112.1					-8.7%
2008-09	20944.6	20944.6	21025.6	81.0	-3086.5	-12.8%
2009-10	19998.4	20840.3	20693.2	-147.1	-332.4	-1.6%
2010-11	21091.2	22141.2	22097.0	-44.2	1403.8	6.8%
2011-12	23007.9	24038.2	23914.8	-123.4	1817.8	8.2%
2012-13	24950.6	25991.2	25879.4	-111.8	1964.6	8.2%

- Largely due to legislative decisions during the 2009 Session to increase general revenue funds, reduce the budget and create a sizable reserve, \$667.1 million was available to roll forward into Fiscal Year 2010-11 from Fiscal Year 2009-10. However, the Outlook makes adjustments to cover known deficits in other funds. The anticipated expenditures reduce the ending balance for Fiscal Year 2009-10 to \$381.4 million. These non-recurring funds will be available for expenditure in Fiscal Year 2010-11.
- While the non-recurring general revenue funds are sufficient to meet the non-recurring needs identified in the expenditure outlook for Fiscal Year 2010-11, they are insufficient for Fiscal Years 2011-12 and 2012-13.
- Overall, the General Revenue Fund is solvent for Fiscal Year 2009-10, but has projected shortfalls in each of the three planning years despite the significant revenue growth projected for those years. The Long-Range Financial Outlook assumes that non-recurring solutions are used to address the shortfalls, meaning that the beginning balances for the subsequent years are zero; there are no fiscal strategies deployed that cause permanent changes to revenues or expenditures; and, there is no required repayment of funds in future years.

- The Educational Enhancement and Tobacco Settlement Trust Funds will have little or no long-term growth. Each fund begins the last year of the Outlook period with fewer total dollars for expenditure than were available in Fiscal Year 2009-10.
- Senate Bill 788 authorizes the ratification of an Indian Gaming Compact by the Florida Legislature after execution by the Governor. Revenue from the ratification which would be available for appropriation from the Educational Enhancement Trust Fund (EETF) is not included in the EETF projection of funds available. The bill also authorizes the transfer of any Indian Gaming revenues already received by the state to the EETF once the U.S. Department of Interior approves the ratification; those contingent receipts (\$137.5 million through Fiscal Year 2008-09) are not shown in either the EETF or the General Revenue Fund.
- The Principal State School Trust Fund has a projected deficit in the current year that must be resolved prior to the end of the fiscal year (-\$38.1 million). The Long-Range Financial Outlook assumes that this is accomplished with a non-recurring solution using the General Revenue Fund.

## **B. Key Aspects of the Expenditure Demands**

### **Education Requirements**

- Recurring expenditures on education from the General Revenue Fund, the Educational Enhancement Trust Fund (EETF) and the Principal State School Trust Fund are projected to increase by 10.0% in Fiscal Year 2010-11, 14.8% in Fiscal Year 2011-12, and 4.9% in Fiscal Year 2012-13. These percentages produce dollar increases ranging from \$803.6 million to \$2,091.3 million per year for each of the next three fiscal years.
- Assuming that the legislatively authorized millage rates (i.e., 5.288 required and .748 potential discretionary) remain unchanged, recurring ad valorem revenues to support public school costs for *Critical Needs* are expected to decline by \$173.2 million, or 1.9% by Fiscal Year 2012-13 due to the projected ad valorem tax roll.
- For public schools, critical needs funding of \$1.4 billion from general revenue is provided to maintain total Florida Education Finance Program (FEFP) funds per student over the next three forecast years, including funds to offset tax roll changes and replace federal stimulus funding, and other high priority needs funding of an additional \$1.7 billion is provided to increase total funds per student by a 4-year historical average of 2.87% per FTE for each of the three forecast years.

- Additional general revenue funds are included to replace funds from the Educational Enhancement Trust Fund (EETF). The replacement is necessary because EETF proceeds available for education are not projected to increase sufficiently during the forecast period to address the growing costs of the Bright Futures Program, as well as the other programs funded by the EETF.
- For post-secondary education, critical needs and other high priority needs funding of \$1.2 billion is provided for matching funds for Challenge Grants for state universities and community colleges, replacement of federal stimulus funding, workload, and enrollment increases over the next three years.

### **Human Services Requirements**

- Recurring general revenue requirements for the Human Services area are projected to increase by \$1,502.7 million in Fiscal Year 2010-11, \$1,173.8 million in Fiscal Year 2011-12 and \$336.6 million in Fiscal Year 2012-13 for all *Critical and Other High Priority Needs*.
- Medicaid services are the primary driver of these increases and become the single largest *Critical Need* in the new Outlook. Within the *Critical Needs* category, Medicaid requires additional spending of \$1,608.7 million of recurring and non-recurring general revenue in Fiscal Year 2010-11, \$1,130.7 million in Fiscal Year 2011-12, and \$285.6 million in Fiscal Year 2012-13. Most of the increase is related to the replacement of dollars lost through the expiring federal stimulus provisions. The American Recovery and Reinvestment Act (ARRA) provided a *temporary* increase in the federal medical assistance percentage (FMAP) from October 1, 2008 through December 31, 2010. The loss of federal support increases the need for general revenue funds.
- The continuation of Medicaid for the Aged and Disabled (MEDS/AD) and the Medically Needy programs from July 1, 2010 through December 31, 2010 is accomplished with non-recurring dollars as a *Critical Need* in order to comply with federal requirements for the American Recovery and Reinvestment Act of 2009 (ARRA). Beginning in January 2011 and running through the duration of the planning horizon, funding is provided as an *Other High Priority* with non-recurring general revenue.
- The TANF supplemental grant program was extended under the American Recovery and Reinvestment Act of 2009 (ARRA) through September 30, 2010. The Outlook assumes the continuation of these funds at the same funding level of for Fiscal Years 2010-11, 2011-12 and 2012-13. However, additional state funds are needed for cash assistance in Fiscal Year 2010-11. The cash assistance appropriation for Fiscal Year 2009-10 contained \$44.2 million in non-recurring ARRA funds and \$0.4 million in non-recurring TANF funds. The Outlook



continues the \$44.6 million in Fiscal Year 2010-11 with recurring general revenue funds as a *Critical Need*.

- The KidCare program is anticipated to have significant growth over the three-year forecast period. The caseload growth is projected to be 12.04% for Fiscal Year 2010-11, 11.90% for Fiscal Year 2011-12 and 11.81% for Fiscal Year 2012-13. As a *Critical Need*, the Outlook includes an increase in recurring general revenue funds of \$22.4 million in Fiscal Year 2010-11, \$28.1 million in Fiscal Year 2011-12 and \$32.3 million in Fiscal Year 2012-13 to meet these demands.
- The expenditure estimates also include the required increases for the tobacco education and prevention program for Fiscal Years 2010-11, 2011-12 and 2012-13.

### **Criminal Justice and Corrections Requirements**

- Recurring general revenue requirements for the Criminal Justice and Corrections area are projected to increase by \$144.2 million in Fiscal Year 2010-11, \$142.9 million in Fiscal Year 2011-12, and \$154.1 million in Fiscal Year 2012-13 for all *Critical and Other High Priority Needs*.
- The projected increases in recurring expenditures for criminal justice and corrections programs in each of the next three fiscal years is based primarily on the need to fund increased operational costs, including new prison beds, at the Department of Corrections. There are also significant costs to annualize past actions related to housing the prison population.
- Combined, prison bed construction (including planning and acquisition) and operation will require \$652 million of general revenue over the next three years. These costs are all shown as *Critical Needs*.

### **Natural Resources, Environment, Growth Management and Transportation Requirements**

- The recurring requirements for the Natural Resources, Environment, Growth Management and Transportation area increase minimally during the Outlook period. However, the non-recurring requirements in each of the next three fiscal years exceed the Fiscal Year 2009-10 level. The totals are \$217.5, \$219.9 and \$229.7 million, respectively, for all *Critical and Other High Priority Needs*.
- The Natural Resources, Environment, Growth Management, and Transportation section of the budget typically receives significant amounts of non-recurring general revenue to support ongoing programs after available trust fund resources have been maximized. These programs include wastewater, drinking water, and surface water projects, and capital improvements,

maintenance, and repairs. The financial plan continues this source of funds for these programs based on historical funding averages, or current year funding levels. Also included are FEMA disaster match requirements for all open declared disasters.

### **General Government Requirements**

- Recurring general revenue requirements for the General Government area are projected to increase only minimally in the next three fiscal years (Fiscal Years 2009-10, 2010-11, and 2011-12). The non-recurring requirements in each of the next three fiscal years exceed the Fiscal Year 2009-10 level. The totals are \$147.1, \$256.3 and \$319.0 million, respectively, for all *Critical and Other High Priority Needs*.
- Because of the unique nature of many of the programs in the General Government area, general revenue requirements are minimized and comprise only a small portion of the total budget. The Outlook assumes that available trust fund balances are fully utilized for each program before estimating the need for additional general revenue.
- The Agency for Workforce Innovation began to receive funds from the federal government to cover unemployment insurance (UI) costs in August 2009. According to the current federal regulations, interest will begin to accumulate on any outstanding advance balance in January 2011, and the first interest payment will become due to the federal government in September 2011. Repayment of the principal amount will be made from the UI taxes; however, federal regulation prohibits payment of the interest costs from the UI tax collections. Therefore, the Outlook includes payments from the General Revenue Fund of \$126.9 million in Fiscal Year 2011-12 and \$199.4 million in Fiscal Year 2012-13 to cover the interest costs as a *Critical Need*.

### **Judicial Requirements**

- Recurring general revenue requirements for the Judicial area are projected to increase by 48.9% in Fiscal Year 2010-11 to accommodate the projected loss in court fee revenues. This loss is primarily attributable to the expected decline in mortgage foreclosures.
- Increased expenditures are largely related to the establishment of new judges and the funding of small county courthouses.

## Statewide Distributions / Administered Funds

- State employee benefits and salaries, including pay package, health insurance and retirement, will exceed \$1 billion of general revenue over the next three years.
- Within this section, the largest driver in Fiscal Year 2010-11 relates to the Florida Retirement System (FRS). Upon completion of the 2009 actuarial valuation, the fund was expected to be in an actuarial deficit as of July 1, 2009 due to declining market conditions. Consequently, in order for the Florida Retirement System to be funded on an actuarial sound basis for Fiscal Year 2010-11 and future years, it will be necessary for the statutory contribution rates to be set at the “normal cost” (the actuarially determined cost of the system over the long term) of the FRS. The financial outlook assumes that the Legislature will enact actuarially sound rates for Fiscal Years 2010-11, 2011-12, and 2012-13. Under this assumption, total employer costs are expected to increase by approximately \$372 million dollars in Fiscal Year 2010-11. Approximately, \$209 million of this amount is funded by the General Revenue Fund.

### C. Putting the Revenues and Expenditure Demands Together – Key Findings

- Fiscal Year 2010-2011:
  - Total general revenue available for appropriation is \$22,574.0 million.
  - The base budget plus *Critical Needs* (annualizations of current year activities, mandatory increases based on estimating conferences and other essential items) funded with general revenue are estimated to cost \$23,497.2 million, excluding any holdback for a reserve balance. This figure grows to a total of \$25,205.1 million when the other high priority needs are included.
  - Combined, recurring and non-recurring general revenue program needs – even without a minimum reserve – are greater than the available general revenue dollars, thereby creating a shortfall. The anticipated expenditures (excluding the reserve) outstrip available dollars by \$923.2 million for *Critical Needs*, creating a significant budget gap. When *Other High Priority Needs* are included, the gap grows to \$2,654.4 million.
  - Fiscal Strategies will be required to keep the budget in balance as constitutionally required. By law, the available balance of \$273.9 million in the Budget Stabilization Fund (BSF) cannot be used to address this gap prospectively when a budget is adopted, but can be used when revenues fall below actual appropriations for a fiscal year. Even if the BSF could be used prospectively, the available BSF balance is inadequate to

eliminate the shortfall – an amount that approaches 11% of the projected spending requirements on all needs – and other actions will be needed.

- Unless there is a three-fifths vote by each chamber of the Legislature, recurring adjustments will be needed because the shortfall exceeds the 3% constitutional limitation on the use of non-recurring revenue. This limitation was adopted by voters in the same constitutional amendment that requires the development of the Long-Range Financial Outlook.

<b>OUTLOOK PROJECTION – FISCAL YEAR 2010-11</b> <i>(in millions)</i>			
	<b>RECURRING</b>	<b>NON-RECURRING</b>	<b>TOTAL</b>
<i>Available GR</i>	\$22,068.0	\$ 506.0	\$22,574.0
<i>Bonded Issue</i>	\$ -30.5	\$ 7.2	\$ -23.3
<b>ADJ GR</b>	<b>\$22,037.5</b>	<b>\$ 513.2</b>	<b>\$22,550.7</b>
<i>Base Budget</i>	\$20,669.7	\$ 0.0	\$20,669.7
<i>Critical Needs</i>	\$ 2,519.1	\$ 308.3	\$ 2,827.4
<i>High Priority</i>	\$ 963.2	\$ 744.8	\$ 1,708.0
<b>TOTAL</b>	<b>\$24,152.0</b>	<b>\$ 1,053.1</b>	<b>\$25,205.1</b>
<b>BALANCE</b>	<b>\$ -2,114.5</b>	<b>\$ -539.9</b>	<b>\$ -2,654.4</b>

- With declining revenues in the Educational Enhancement Trust Fund and the Tobacco Settlement Trust Fund, the demand for general revenue dollars to support projected increases in recurring programs is heightened.
- Fiscal Years 2011-12 and 2012-13:
  - Fiscal Year 2011-12 and Fiscal Year 2012-13 both show projected budget needs significantly in excess of available revenue. Excluding the retention of a reserve in each year, Fiscal Year 2011-12 would have a maximum budget gap of \$5,473.2 million and Fiscal Year 2012-13 would have a maximum budget gap of \$5,228.6 million. For just the *Critical Needs*, the projected gaps are \$2,334.7 million in Fiscal Year 2011-12 and \$1,140.9 million in Fiscal Year 2012-13.
  - The available general revenue is insufficient to meet budget demands in the latter years of the plan unless prior actions are taken to reduce the recurring budget needs or increase revenues.
  - Because the required non-recurring adjustment to balance is greater than the non-recurring dollars available, one of three solutions would have to be implemented: (1) no new expenditures could be made from non-recurring dollars, (2) recurring expenditures would have to be reduced to

generate funds for non-recurring expenditures, or (3) trust fund transfers or some other source of non-recurring revenue would be needed to offset the non-recurring need.

#### **D. Analyzing the Result**

Absent any action to close the state's budget gap, projected general revenue growth (recurring plus non-recurring) is insufficient to support anticipated spending and minimal reserve requirements for Fiscal Years 2010-11, 2011-12 and 2012-13. Corrective actions will be required to bring the budget into balance. Furthermore, RECURRING general revenue demands exceed the amount of RECURRING general revenue available in each year of the forecast. This indicates that a structural imbalance is occurring. This situation cannot be addressed within the parameters of the constitutional amendment limiting the amount of non-recurring revenues that can be spent on recurring programs unless an extraordinary vote of the legislature is taken. Assuming sufficient non-recurring revenues were available, the extraordinary vote would have to be taken in every year of the plan. To fund all *Critical and Other High Priority Needs*, the combined total of needed non-recurring funds would be \$13,356.2 million prior to taking into account a reserve balance. For *Critical Needs* alone, the total is \$4,398.8 million. Reserves of this magnitude are currently not available.

Alternatively, any actions to close the budget gap on a *recurring* basis will positively impact the state's bottom line in subsequent years. In this regard, total estimated expenditures for future years would be constrained by the amount of recurring expenditure reductions taken in prior years. Recurring revenue enhancements would similarly alter the negative ending balances in the subsequent years.

**GENERAL REVENUE OUTLOOK - COMPARISON OF ESTIMATED REVENUES TO ESTIMATED EXPENDITURES**

**TIER 1 ISSUES - CRITICAL NEEDS**

**NO FISCAL STRATEGIES --- NO RESERVE**

(\$ MILLIONS)

	FY 2009-10			FY 2010-11			FY 2011-12			FY 2012-13		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
<b>Funds Available:</b>												
Balance Forward	0.0	300.7	300.7	0.0	381.4	381.4	0.0	0.0	0.0	0.0	0.0	0.0
Revenue Estimate	20,883.9	-190.7	20,693.2	22,072.3	24.7	22,097.0	23,910.9	3.9	23,914.8	25,879.6	-0.2	25,879.4
Non-operating Funds	-4.3	272.8	268.5	-4.3	99.9	95.6	-4.3	99.9	95.6	-4.3	99.9	95.6
New Issues - Environmental Land Acquisition	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer From Trust Funds	0.0	600.0	600.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total Funds Available</b>	<b>20,879.6</b>	<b>982.8</b>	<b>21,862.4</b>	<b>22,068.0</b>	<b>506.0</b>	<b>22,574.0</b>	<b>23,906.6</b>	<b>103.8</b>	<b>24,010.4</b>	<b>25,875.3</b>	<b>99.7</b>	<b>25,975.0</b>
<b>Estimated Expenditures:</b>												
Base Budget				20,669.7	0.0	20,669.7	23,188.9	0.0	23,188.9	25,872.8	0.0	25,872.8
<b>New Issues by GAA Section:</b>												
Section 2 - Education	11,327.0	59.1	11,386.1	554.8	0.0	554.8	1,227.4	0.0	1,227.4	26.1	0.0	26.1
Section 3 - Human Services	4,910.1	291.5	5,201.6	1,438.5	250.2	1,688.7	1,161.8	0.0	1,161.8	314.4	0.0	314.4
Section 4 - Criminal Justice and Corrections	3,512.7	32.4	3,545.1	132.8	22.0	154.8	131.1	103.0	234.2	145.5	153.6	299.1
Section 5 - Natural Resources /Environment/Growth Management/Transportation	158.9	10.4	169.3	0.0	9.8	9.8	0.0	9.1	9.1	0.0	7.1	7.1
Section 6 - General Government	618.4	110.1	728.5	13.4	26.4	39.7	4.0	145.6	149.6	1.6	218.7	220.3
Section 7 - Judicial Branch	134.8	0.0	134.8	62.0	0.0	62.0	27.0	0.0	27.0	9.7	0.0	9.7
Administered Funds - Statewide Issues	<u>7.8</u>	<u>22.1</u>	<u>30.0</u>	<u>317.7</u>	<u>0.0</u>	<u>317.7</u>	<u>132.6</u>	<u>0.0</u>	<u>132.6</u>	151.8	0.0	151.8
<b>Total New Issues</b>				2,519.1	308.3	2,827.4	2,684.0	257.7	2,941.7	649.1	379.5	1,028.6
<b>Medicaid Deficit (FY 2008-09 &amp; FY 2009-10)</b>		224.8	224.8									
<b>Other Deficits (PSSTF, RMTF and VPK)*</b>		60.9	60.9									
<b>Transfer to Budget Stabilization Fund</b>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	214.5	214.5	0.0	214.5	214.5
<b>Total Estimated Expenditures</b>	<b>20,669.7</b>	<b>811.3</b>	<b>21,481.0</b>	<b>23,188.9</b>	<b>308.3</b>	<b>23,497.2</b>	<b>25,872.8</b>	<b>472.2</b>	<b>26,345.1</b>	<b>26,522.0</b>	<b>594.0</b>	<b>27,115.9</b>
<b>Ending Balance</b>	<b>209.9</b>	<b>171.5</b>	<b>381.4</b>	<b>-1,120.9</b>	<b>197.7</b>	<b>-923.2</b>	<b>-1,966.2</b>	<b>-368.4</b>	<b>-2,334.7</b>	<b>-646.7</b>	<b>-494.3</b>	<b>-1,140.9</b>

Note: Negative balances are not allowed to carry-forward to subsequent years; the assumption is that each year is addressed with a nonrecurring solution.

\* Principal State School Trust Fund (PSSTF), Risk Management Trust Fund and Voluntary Pre-Kindergarten (VPK)

**GENERAL REVENUE OUTLOOK - COMPARISON OF ESTIMATED REVENUES TO ESTIMATED EXPENDITURES**  
**TIER 2 ISSUES - CRITICAL NEEDS AND OTHER HIGH PRIORITY NEEDS**  
**NO FISCAL STRATEGIES --- NO RESERVE**  
(\$ MILLIONS)

	FY 2009-10			FY 2010-11			FY 2011-12			FY 2012-13		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
<b>Funds Available:</b>												
Balance Forward	0.0	300.7	300.7	0.0	381.4	381.4	0.0	0.0	0.0	0.0	0.0	0.0
Revenue Estimate	20,883.9	-190.7	20,693.2	22,072.3	24.7	22,097.0	23,910.9	3.9	23,914.8	25,879.6	-0.2	25,879.4
Non-operating Funds	-4.3	272.8	268.5	-4.3	99.9	95.6	-4.3	99.9	95.6	-4.3	99.9	95.6
New Issues - Environmental Land Acquisition	0.0	0.0	0.0	-30.5	7.2	-23.3	-61.0	7.2	-53.8	-91.5	7.2	-84.3
Transfer From Trust Funds	0.0	600.0	600.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total Funds Available</b>	<b>20,879.6</b>	<b>982.8</b>	<b>21,862.4</b>	<b>22,037.5</b>	<b>513.2</b>	<b>22,550.7</b>	<b>23,845.6</b>	<b>111.0</b>	<b>23,956.6</b>	<b>25,783.8</b>	<b>106.9</b>	<b>25,890.7</b>
<b>Estimated Expenditures:</b>												
Base Budget				20,669.7	0.0	20,669.7	24,152.0	0.0	24,152.0	27,895.4	0.0	27,895.4
<b>New Issues by GAA Section:</b>												
Section 2 - Education	11,327.0	59.1	11,386.1	1,303.5	110.5	1,414.0	2,085.7	110.5	2,196.2	772.9	110.5	883.3
Section 3 - Human Services	4,910.1	291.5	5,201.6	1,502.7	530.2	2,032.8	1,173.8	604.0	1,777.8	336.6	604.0	940.6
Section 4 - Criminal Justice and Corrections	3,512.7	32.4	3,545.1	144.2	39.4	183.6	142.9	121.0	263.9	154.1	169.1	323.2
Section 5 - Natural Resources /Environment/Growth Management/Transportation	158.9	10.4	169.3	1.1	217.5	218.6	35.4	219.9	255.3	0.0	229.7	229.7
Section 6 - General Government	618.4	110.1	728.5	13.4	147.1	160.5	4.0	256.3	260.4	1.6	319.0	320.6
Section 7 - Judicial Branch	134.8	0.0	134.8	66.0	8.5	74.4	32.0	8.2	40.2	13.7	6.1	19.7
Administered Funds - Statewide Issues	7.8	22.1	30.0	451.5	0.0	451.5	269.6	0.0	269.6	292.1	0.0	292.1
<b>Total New Issues</b>				3,482.3	1,053.1	4,535.4	3,743.4	1,319.9	5,063.3	1,571.1	1,438.3	3,009.4
<b>Medicaid Deficit (FY 2008-09 &amp; FY 2009-10)</b>		224.8	224.8									
<b>Other Deficits (PSSTF, RMTF and VPK)*</b>		60.9	60.9									
<b>Transfer to Budget Stabilization Fund</b>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	214.5	214.5	0.0	214.5	214.5
<b>Total Estimated Expenditures</b>	<b>20,669.7</b>	<b>811.3</b>	<b>21,481.0</b>	<b>24,152.0</b>	<b>1,053.1</b>	<b>25,205.1</b>	<b>27,895.4</b>	<b>1,534.4</b>	<b>29,429.8</b>	<b>29,466.5</b>	<b>1,652.8</b>	<b>31,119.3</b>
<b>Ending Balance</b>	<b>209.9</b>	<b>171.5</b>	<b>381.4</b>	<b>-2,114.5</b>	<b>-539.9</b>	<b>-2,654.4</b>	<b>-4,049.8</b>	<b>-1,423.4</b>	<b>-5,473.2</b>	<b>-3,682.7</b>	<b>-1,545.9</b>	<b>-5,228.6</b>

Note: Negative balances are not allowed to carry-forward to subsequent years; the assumption is that each year is addressed with a nonrecurring solution.

\* Principal State School Trust Fund (PSSTF), Risk Management Trust Fund (RMTF) and Voluntary Pre-Kindergarten (VPK)

EDUCATIONAL ENHANCEMENT TRUST FUND - FUNDS AVAILABLE PROJECTION (\$ MILLIONS)

	FY 2009-10			FY 2010-11			FY 2011-12			FY 2012-13		
	<u>Recurring</u>	<u>Non-recurring</u>	<u>Total</u>	<u>Recurring</u>	<u>Non-recurring</u>	<u>Total</u>	<u>Recurring</u>	<u>Non-recurring</u>	<u>Total</u>	<u>Recurring</u>	<u>Non-recurring</u>	<u>Total</u>
<b>Funds Available:</b>												
Balance Forward	0.0	67.9	67.9	0.0	14.8	14.8	0.0	0.0	0.0	0.0	0.0	0.0
Revenue Estimate	1,377.1	-45.1	1,332.0	1,372.3	0.0	1,372.3	1,385.5	0.0	1,385.5	1,408.4	0.0	1,408.4
Non-operating Funds	3.0	35.8	38.8	3.0	0.0	3.0	3.0	0.0	3.0	3.0	0.0	3.0
<b>Total Funds Available</b>	<b>1,380.1</b>	<b>58.6</b>	<b>1,438.7</b>	<b>1,375.3</b>	<b>14.8</b>	<b>1,390.1</b>	<b>1,388.5</b>	<b>0.0</b>	<b>1,388.5</b>	<b>1,411.4</b>	<b>0.0</b>	<b>1,411.4</b>
<b>Estimated Expenditures:</b>												
Base Budget				1,392.8	0.0	1,392.8	1,390.1	0.0	1,390.1	1,388.5	0.0	1,388.5
Increase/Decrease				-2.6	0.0	-2.6	-1.6	0.0	-1.6	22.9	0.0	22.9
<b>Total Estimated Expenditures</b>	<b>1,392.8</b>	<b>31.1</b>	<b>1,423.9</b>	<b>1,390.1</b>	<b>0.0</b>	<b>1,390.1</b>	<b>1,388.5</b>	<b>0.0</b>	<b>1,388.5</b>	<b>1,411.4</b>	<b>0.0</b>	<b>1,411.4</b>
<b>Ending Balance</b>	<b>-12.7</b>	<b>27.5</b>	<b>14.8</b>	<b>-14.8</b>	<b>14.8</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

PRINCIPAL STATE SCHOOL TRUST FUND - FUNDS AVAILABLE PROJECTION (\$ MILLIONS)

	FY 2009-10			FY 2010-11			FY 2011-12			FY 2012-13		
	<u>Recurring</u>	<u>Non-recurring</u>	<u>Total</u>	<u>Recurring</u>	<u>Non-recurring</u>	<u>Total</u>	<u>Recurring</u>	<u>Non-recurring</u>	<u>Total</u>	<u>Recurring</u>	<u>Non-recurring</u>	<u>Total</u>
<b>Funds Available:</b>												
Balance Forward	0.0	1.3	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfers from Abandoned Property TF	117.3	0.0	117.3	137.6	0.0	137.6	144.6	0.0	144.6	151.9	0.0	151.9
Other Funds	2.8	0.0	2.8	3.1	0.0	3.1	3.3	0.0	3.3	3.8	0.0	3.8
<b>Total Funds Available</b>	<b>120.1</b>	<b>1.3</b>	<b>121.4</b>	<b>140.7</b>	<b>0.0</b>	<b>140.7</b>	<b>147.9</b>	<b>0.0</b>	<b>147.9</b>	<b>155.7</b>	<b>0.0</b>	<b>155.7</b>
<b>Estimated Expenditures:</b>												
Base Budget				159.5	0.0	159.5	140.7	0.0	140.7	147.9	0.0	147.9
Increase/Decrease				-18.8	0.0	-18.8	7.2	0.0	7.2	7.8	0.0	7.8
<b>Total Estimated Expenditures</b>	<b>159.5</b>	<b>0.0</b>	<b>159.5</b>	<b>140.7</b>	<b>0.0</b>	<b>140.7</b>	<b>147.9</b>	<b>0.0</b>	<b>147.9</b>	<b>155.7</b>	<b>0.0</b>	<b>155.7</b>
<b>Ending Balance</b>	<b>-39.4</b>	<b>1.3</b>	<b>-38.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

TOBACCO SETTLEMENT TRUST FUND - FUNDS AVAILABLE PROJECTION (\$ MILLIONS)

	FY 2009-10			FY 2010-11			FY 2011-12			FY 2012-13		
	<u>Recurring</u>	<u>Non-recurring</u>	<u>Total</u>	<u>Recurring</u>	<u>Non-recurring</u>	<u>Total</u>	<u>Recurring</u>	<u>Non-recurring</u>	<u>Total</u>	<u>Recurring</u>	<u>Non-recurring</u>	<u>Total</u>
<b>Funds Available:</b>												
Balance Forward	0.0	7.0	7.0	0.0	0.1	0.1	0.0	0.1	0.1	0.0	0.2	0.2
Revenue Estimate	372.3	0.0	372.3	367.3	0.0	367.3	367.7	0.0	367.7	371.2	0.0	371.2
Non-operating Funds	17.7	0.0	17.7	17.7	0.0	17.7	17.7	0.0	17.7	17.7	0.0	17.7
<b>Total Funds Available</b>	<b>390.0</b>	<b>7.0</b>	<b>397.0</b>	<b>385.0</b>	<b>0.1</b>	<b>385.1</b>	<b>385.4</b>	<b>0.1</b>	<b>385.5</b>	<b>388.9</b>	<b>0.2</b>	<b>389.1</b>
<b>Estimated Expenditures:</b>												
Base Budget				396.9	0.0	396.9	385.0	0.0	385.0	385.3	0.0	385.3
Increase/Decrease				-11.9	0.0	-11.9	0.3	0.0	0.3	3.5	0.0	3.5
<b>Total Estimated Expenditures</b>	<b>396.9</b>	<b>0.0</b>	<b>396.9</b>	<b>385.0</b>	<b>0.0</b>	<b>385.0</b>	<b>385.3</b>	<b>0.0</b>	<b>385.3</b>	<b>388.8</b>	<b>0.0</b>	<b>388.8</b>
<b>Ending Balance</b>	<b>-6.9</b>	<b>7.0</b>	<b>0.1</b>	<b>0.0</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.2</b>	<b>0.1</b>	<b>0.2</b>	<b>0.3</b>



## ***POTENTIAL CONSTITUTIONAL ISSUES***

In 2004, a constitutional amendment passed that requires initiative petitions be filed with the Secretary of State by February 1<sup>st</sup> of each general election year in order to be eligible for ballot consideration. This has been interpreted to mean that all signatures have been certified by the local supervisors of election and that the other requirements for geographic distribution have been met by this date. For 2010, the required number of valid signatures is 676,811.

Section 15.21, Florida Statutes, further requires the Secretary of State to “immediately submit an initiative petition to the Attorney General and to the Financial Impact Estimating Conference” once the certified forms “equal...10 percent of the number of electors statewide and in at least one-fourth of the congressional districts required by s. 3, Art XI of the State Constitution.” For 2009 and 2010, this means that there are at least 67,683 valid and qualifying signatures. Upon receipt, the Financial Impact Estimating Conference (FIEC) has 45 days to complete an analysis and financial impact statement to be placed on the ballot (s.100.371, Florida Statutes).

The petition initiatives on the chart below have met the threshold and triggered FIEC Review. The respective Conferences adopted the required statements; however, the underlying amendments are in varying stages of activation. Accordingly, the amendments are grouped by these stages: (1) amendments filed by petition initiative that are included on the 2010 ballot; (2) statements approved for inclusion on the 2010 ballot (assuming the requisite signatures are received); and, (3) statements still undergoing review by the Supreme Court for inclusion in 2010.

Proposed amendments placed on the ballot by the Florida Legislature are included with the petition initiatives in the first grouping below: Amendments on 2010 Ballot. They appear directly on the ballot without the need for formal financial impact statements.

<b>Amendments on 2010 Ballot</b> (Amendments placed on the ballot by legislative action are in CAPS.)	
REPEAL OF PUBLIC CAMPAIGN FINANCING REQUIREMENT	<i>Ballot Position #1</i>
HOMESTEAD AD VALOREM TAX CREDIT FOR DEPLOYED MILITARY PERSONNEL	<i>Ballot Position #2</i>
PROPERTY TAX LIMIT FOR NONHOMESTEAD PROPERTY; ADDITIONAL HOMESTEAD EXEMPTION FOR NEW HOMESTEAD OWNERS	<i>Ballot Position #3</i>

*Referenda Required for Adoption and Amendment of Local Government Comprehensive Land Use Plans*

*Ballot Position #4... The amendment's impact on local government expenditures cannot be estimated precisely. Local governments will incur additional costs due to the requirement to conduct referenda in order to adopt comprehensive plans or amendments thereto. The amount of such costs depends upon the frequency, timing and method of the referenda, and includes the costs of ballot preparation, election administration, and associated expenses. The impact on state government expenditures will be insignificant.*

## **Amendments & Financial Statements Approved for 2010 Ballot**

**(If requisite signatures are timely received.)**

*Florida Growth Management Initiative Giving Citizens the Right to Decide Local Growth Management Plan Changes*

*The direct impact of this amendment on local government expenditures cannot be determined precisely. Local governments will incur significant costs to establish and administer the new Florida Growth Management Initiative petition process. Additional costs will be incurred for petition notification and signature collection, as well as ballot preparation and associated expenses for conducting any required referendum. The direct impact on state government expenditures will be insignificant. There will be no direct impact on government revenues.*

*Prohibiting State Spending for Experimentation that Involves the Destruction of a Live Human Embryo*

*The amendment is not expected to have an impact on state or local government expenses.*

## **Financial Statements Pending Approval for 2010 Ballot**

**(Underlying amendments have been approved if requisite signatures are timely received.)**

*Standards for Legislature to Follow in Congressional Redistricting*

*Conference adopted the following Impact Statement (1<sup>st</sup> remand): The fiscal impact cannot be determined precisely. State government and state courts may incur additional costs if litigation increases beyond the number or complexity of cases which would have occurred in the amendment's absence.*

*Standards for Legislature to Follow in Legislative Redistricting*

*Conference adopted the following Impact Statement (1<sup>st</sup> remand): The fiscal impact cannot be determined precisely. State government and state courts may incur additional costs if litigation increases beyond the number or complexity of cases which would have occurred in the amendment's absence.*

## ***Significant Risk to the Forecast***

*The “Potential Constitutional Issues” and other considerations included at the end of each expenditure section present inherent risks to the forecasted budget; however, there are other potential threats whose ramifications are more statewide in nature which have the potential of altering key assumptions were they to come to pass. This section describes one component of those risks.*

### **Florida Hurricane Catastrophe Fund and Citizen’s Property Insurance**

Florida’s financial stability is vulnerable to the potential impacts of natural disasters, especially major hurricanes. In addition to the direct tax-supported or self-supported debt, the state also has indirect debt. Indirect debt is that which is not secured by traditional state revenues or is the primary obligation of a legal entity other than the state. A major component of the indirect debt is associated with the Florida Hurricane Catastrophe Fund (FHCF) and Citizen’s Property Insurance Corporation’s ability to pay possible future hurricane losses. According to the 2008 Debt Affordability Report prepared by the Division of Bond Finance, these special purpose insurance entities represented \$10.2 billion or 64% of total indirect debt.

For the 2009 storm season, the Florida Hurricane Catastrophe Fund’s (FHCF) maximum statutory obligation comprised of mandatory and selected optional coverages is \$23.17 billion based on \$31.31 billion in industry losses. However, the FHCF’s obligation by law is limited to the actual claims paying capacity. The FHCF currently projects \$8 billion of liquidity consisting of \$4.5 billion projected cash by December 2009 and \$3.5 billion in pre-event notes. Due to financial market conditions, it is estimated the FHCF would only be able to bond approximately \$8 billion during the next 12 months if a large event occurs during the contract year. In summary, available liquidity and bonding potential is approximately \$16 billion of the \$23.17 billion maximum statutory obligation. This \$16 billion in capacity translates to an approximate 1 in 30 year event or an event that causes \$24.18 billion in industry losses.<sup>1</sup>

For the 2009 storm season, Citizens’ probable maximum loss for a 100-year storm event is \$23 billion. Citizens’ currently has claims paying ability of approximately \$16 billion consisting of \$4 billion cash, \$3 billion pre-event financing, and \$9 billion FHCF reimbursements. In addition, Citizens has the ability to levy broad-based assessments to support financing.<sup>2</sup>

With the ongoing national credit crisis and the overall economic environment, the ability of these quasi-governmental insurance entities to fulfill their financial responsibilities in the event of major hurricanes is highly dependent upon market conditions at the time that bonds would need to be issued. Though the FHCF and Citizens serve significant roles in

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<sup>1</sup> 2009-10 Florida Hurricane Catastrophe Fund Capacity Report data source.

<sup>2</sup> Data provided by Citizen’s Property Insurance Corporation September 2009.

Florida's property insurance market, their ultimate dependence on public assessments and access to credit markets may expose the state to much greater potential financial liability for hurricane-related costs.

## ***Fiscal Strategies***

*As explained previously, the charts entitled “General Revenue Outlook – Comparison of Estimated Revenues to Estimated Expenditures” simply summarize the information contained and discussed within the overall Outlook document. In essence, they are baseline forecasts of the State’s most pressing needs. As such, they do not purport to show the final budget that the Legislature will ultimately pass in any given year.*

*The “Potential Constitutional Issues,” “Significant Risk to the Forecast,” and other considerations included at the end of each expenditure section present inherent risks to the forecasted budget. In addition, the Legislature will need to choose among a number of fiscal strategies to balance the budget which will alter the forecast as well. To meet the constitutional requirements for this document, **SCENARIO “A”** and **SCENARIO “B”** are included to demonstrate the potential impact of the most likely choices. The unique assumptions used for these scenarios are not built into the rest of the document.*

Fiscal Strategies will be required to address the projected gap between revenues and expenditures no later than Fiscal Year 2010-11. By law, the available reserve in the Budget Stabilization Fund (BSF) cannot be used to address this gap prospectively when a budget is adopted, but can be used when revenues fall below actual appropriations for a fiscal year. Even if the BSF could be used prospectively, the available BSF balance is inadequate to meet next year’s shortfall – an amount that approaches 11.0% of the projected budget need – and actions will be needed to keep the budget in balance as constitutionally required.

Essentially, there are four types of strategies:

- Budget Reductions and Reduced Funding Growth
- Trust Fund Transfers or Sweeps
- Revenue Enhancements and Redirections
- Any Combination of the Above

With the exception of trust fund transfers or sweeps that are reevaluated each year, these strategies can be deployed on a recurring or non-recurring basis. When they are used to bring about a recurring change, they also have an impact on the following fiscal years.

Depending on the specific strategy selected, there may be a greater than one-to-one impact on subsequent years. For example, a budget reduction in year one that affects a single item in the budget that has been growing faster than the budget as a whole will further reduce the base budget growth beyond the initial impact of the reduction. Similarly recurring revenue enhancements and redirections will likely have different

impacts in subsequent years. Because this document does not address specific details of strategies, the scenarios do not attempt to treat these vagaries. This means that actual legislative actions may have different results than those shown here.

Within the Outlook window, at least some recurring adjustments are needed because the combined projected gaps range from at least \$4.3 billion to a maximum of \$13.3 billion, depending on the number of high priorities that are ultimately addressed. Non-recurring spending reductions and trust fund sweeps – in isolation – will not generate this level of relief.

In addition, the 3% constitutional limitation on the use of non-recurring revenue to fund recurring expenditures will be a factor. To use more than an amount of non-recurring funds equal to 3% of the total general revenue funds estimated to be available requires a three-fifths vote of the membership of each house.

Moreover, innovative bonding strategies will be of limited use. The Outlook assumes that all currently-authorized bonding programs will continue uninterrupted. With the projected benchmark ratio well above the 7% cap (it is projected to peak at 8.48% for 2010 before gradually improving), there is little room to do anything more in the near-term.

## - I -

**SCENARIO “A”** assumes that the Legislature chooses to fully clear the Fiscal Year 2009-10 deficits with non-recurring support from the General Revenue Fund, leaving an ending balance of \$381.4 million. It also takes into account the required restoration of the Budget Stabilization Fund by initiating five equal annual transfers from the General Revenue Fund. These payments begin in the third fiscal year following that in which the expenditure is made (Fiscal Year 2011-12).

Scenario “A” further assumes that the budget shortfalls are cleared over three fiscal years with a combination of recurring and non-recurring actions. In this regard, all future *recurring* shortfalls are fully addressed by *recurring* solutions; however, non-recurring expenditures are simply limited to the amount of available non-recurring revenue. And finally, a minimum General Revenue Fund ending reserve requirement of \$200 million is in place throughout the three years of the forecast.

### **A. Key Findings**

- Fiscal Year 2010-2011:
  - To develop the \$200 million reserve in Fiscal Year 2010-11, the shortfall increases from the \$2,654.4 million shown in the baseline scenario to \$2,854.4 million.

- Adjustments are made to completely eliminate the projected recurring and non-recurring shortfalls. As shown in the worksheet, the adjustments are in the form of budget reductions and reduced growth, the first of the four fiscal strategies shown above.
- An alternative to budget reductions and reduced growth would be the deployment of revenue enhancements and redirections. The bottom line would be the same; however, the funds available would increase by the amount of the shortfall and no budget adjustments would be made. Similarly, trust fund transfers could be substituted for the non-recurring portion of the shortfall.

<b>SCENARIO "A" – FISCAL YEAR 2010-11</b> <i>(in millions)</i>			
	<b>RECURRING</b>	<b>NON-RECURRING</b>	<b>TOTAL</b>
<b>ADJUSTED GR</b>	\$22,037.5	\$ 513.2	\$22,550.7
<b>EXPENDITURES</b>	\$24,152.0	\$ 1,053.1	\$25,205.1
<b>ADJUSTMENT</b>	\$ -2,314.5	\$ -539.9	\$ -2,854.4
<b>BALANCE</b>	\$200.0	0.0	\$ 200.0

- Fiscal Years 2011-12 and 2012-13:
  - The recurring budget adjustment taken in Fiscal Year 2010-11 substantially reduces the adjustment that has to be taken in Fiscal Year 2011-12 to \$1,935.3 million in recurring dollars and \$1,223.4 million in non-recurring dollars. The total reduction is \$3,158.7 million.
  - In Fiscal Year 2012-13, the adjustment is further limited to \$1,345.9 million in non-recurring dollars.
  - The first of five repayments is made to the BSF in Fiscal Year 2011-12 (\$214.5 million).
  - At the end of the three-year planning horizon, a reserve of \$567.2 million is left as an ending balance.

**B. Analyzing the Result**

Deploying this scenario, the Legislature faces recurring budget adjustments in two of the three years in the planning horizon. In both the first and second years of the Outlook (2010-11 and 2011-12), the total adjustments would be significant, with the second year's adjustments even greater than the first year. Further actions would be

needed in the third year to address the continuing non-recurring problems. Essentially, every year of the Outlook period requires special fiscal strategies.

- II -

**SCENARIO “B”** assumes that the Legislature chooses to fully clear the Fiscal Year 2009-10 deficits with non-recurring support from the General Revenue Fund, leaving an ending balance of \$381.4 million. It also takes into account the required restoration of the Budget Stabilization Fund by initiating five equal annual transfers from the General Revenue Fund. These payments begin in the third fiscal year following that in which the expenditure is made (Fiscal Year 2011-12).

Scenario “B” further assumes that all future shortfalls (even the non-recurring portion) are fully addressed by recurring solutions. This means that – early on – recurring dollars are used to offset the non-recurring problems. And finally, a minimum General Revenue Fund ending balance reserve requirement of \$200 million is in place throughout the three years of the forecast.

**A. Key Findings**

- Fiscal Year 2010-2011:
  - To develop the \$200 million reserve in Fiscal Year 2010-11, the shortfall increases from the \$2,654.4 million shown in the baseline scenario to \$2,854.4 million.
  - Adjustments are made to completely eliminate the projected recurring and non-recurring shortfalls with recurring solutions. As shown in the worksheet, the adjustments are in the form of budget reductions and reduced growth, the first of the four fiscal strategies shown above.
  - An alternative to budget reductions and reduced growth would be the deployment of revenue enhancements and redirections. The bottom line would be the same; however, the funds available would increase by the amount of the shortfall and no budget adjustments would be made. Similarly, trust fund transfers could be substituted for the non-recurring portion of the shortfall.

[SEE CHART ON NEXT PAGE]



<b>SCENARIO “B” – FISCAL YEAR 2010-11</b> <i>(in millions)</i>			
	<b>RECURRING</b>	<b>NON-RECURRING</b>	<b>TOTAL</b>
<b>ADJUSTED GR</b>	\$22,037.5	\$ 513.2	\$22,550.7
<b>EXPENDITURES</b>	\$24,152.0	\$ 1,053.1	\$25,205.1
<b>ADJUSTMENT</b>	\$ -2,854.4	0.0	\$ -2,854.4
<b>BALANCE</b>	\$739.9	\$-539.9	\$ 200.0

- Fiscal Years 2010-11 and 2011-12:
  - The recurring budget adjustments made in Fiscal Years 2010-11 and 2011-12 mean that no further adjustments have to be taken in Fiscal Year 2012-13. However, a substantial amount of non-recurring expenditures are funded with recurring dollars in both Fiscal Years 2011-12 and 2012-13.
  - At the end of the three-year planning horizon, a reserve of \$444.7 million is left after the initial repayment to the BSF.

## **B. Analyzing the Result**

Deploying this scenario, the Legislature faces budget adjustments in only two of the three years in the planning horizon; however, the size of the recurring adjustment is much larger in Scenario B than in Scenario A. Under Scenario A, the Legislature spread the size of the total adjustment over three years (2010-11, 2011-12 and 2012-13). In Scenario B, the Legislature increases the need for significant, recurring budget reductions or revenue enhancements in the first two years (2010-11 and 2011-12) – but moves cleanly into Fiscal Year 2012-13 without the need for further actions.

*Fiscal Strategies ~ Worksheets*

**SCENARIO "A"**  
**GENERAL REVENUE OUTLOOK - COMPARISON OF ESTIMATED REVENUES TO ESTIMATED EXPENDITURES**  
**TIER 2 ISSUES - CRITICAL NEEDS AND OTHER HIGH PRIORITY NEEDS**  
**Fiscal Strategy #1 - Clear Budget Shortfalls Over Three Years with a Combination of Recurring and Non-Recurring Actions**  
(\$ MILLIONS)

	FY 2009-10			FY 2010-11			FY 2011-12			FY 2012-13		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
<b>Funds Available:</b>												
Balance Forward	0.0	300.7	300.7	0.0	381.4	381.4	0.0	200.0	200.0	0.0	200.0	200.0
Revenue Estimate	20,883.9	-190.7	20,693.2	22,072.3	24.7	22,097.0	23,910.9	3.9	23,914.8	25,879.6	-0.2	25,879.4
Non-operating Funds	-4.3	272.8	268.5	-4.3	99.9	95.6	-4.3	99.9	95.6	-4.3	99.9	95.6
New Issues - Environmental Land Acquisition	0.0	0.0	0.0	-30.5	7.2	-23.3	-61.0	7.2	-53.8	-91.5	7.2	-84.3
Transfer From Trust Funds	0.0	600.0	600.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total Funds Available</b>	<b>20,879.6</b>	<b>982.8</b>	<b>21,862.4</b>	<b>22,037.5</b>	<b>513.2</b>	<b>22,550.7</b>	<b>23,845.6</b>	<b>311.0</b>	<b>24,156.6</b>	<b>25,783.8</b>	<b>306.9</b>	<b>26,090.7</b>
<b>Estimated Expenditures:</b>												
Base Budget				20,669.7	0.0	20,669.7	21,837.5	0.0	21,837.5	23,645.6	0.0	23,645.6
<b>New Issues by GAA Section:</b>												
Section 2 - Education	11,327.0	59.1	11,386.1	1,303.5	110.5	1,414.0	2,085.7	110.5	2,196.2	772.9	110.5	883.3
Section 3 - Human Services	4,910.1	291.5	5,201.6	1,502.7	530.2	2,032.8	1,173.8	604.0	1,777.8	336.6	604.0	940.6
Section 4 - Criminal Justice and Corrections	3,512.7	32.4	3,545.1	144.2	39.4	183.6	142.9	121.0	263.9	154.1	169.1	323.2
Section 5 - Natural Resources /Environment/Growth Management/Transportation	158.9	10.4	169.3	1.1	217.5	218.6	35.4	219.9	255.3	0.0	229.7	229.7
Section 6 - General Government	618.4	110.1	728.5	13.4	147.1	160.5	4.0	256.3	260.4	1.6	319.0	320.6
Section 7 - Judicial Branch	134.8	0.0	134.8	66.0	8.5	74.4	32.0	8.2	40.2	13.7	6.1	19.7
Administered Funds - Statewide Issues	7.8	22.1	30.0	451.5	0.0	451.5	269.6	0.0	269.6	292.1	0.0	292.1
<b>Total New Issues</b>				3,482.3	1,053.1	4,535.4	3,743.4	1,319.9	5,063.3	1,571.1	1,438.3	3,009.4
<b>Medicaid Deficit (FY 2008-09 &amp; FY 2009-10)</b>		224.8	224.8									
<b>Other Deficits (PSSTF, RMTF and VPK)*</b>		60.9	60.9									
<b>Transfer to Budget Stabilization Fund</b>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	214.5	214.5	0.0	214.5	214.5
<b>Adjustment to Balance with \$200 Million Reserve</b>	0.0	0.0	0.0	-2,314.5	-539.9	-2,854.4	-1,935.3	-1,223.4	-3,158.7	0.0	-1,345.9	-1,345.9
<b>Total Estimated Expenditures</b>	<b>20,669.7</b>	<b>811.3</b>	<b>21,481.0</b>	<b>21,837.5</b>	<b>513.2</b>	<b>22,350.7</b>	<b>23,645.6</b>	<b>311.0</b>	<b>23,956.6</b>	<b>25,216.7</b>	<b>306.9</b>	<b>25,523.6</b>
<b>Ending Balance</b>	<b>209.9</b>	<b>171.5</b>	<b>381.4</b>	<b>200.0</b>	<b>0.0</b>	<b>200.0</b>	<b>200.0</b>	<b>0.0</b>	<b>200.0</b>	<b>567.1</b>	<b>0.0</b>	<b>567.2</b>

Note: Negative balances are not allowed to carry-forward to subsequent years; the assumption is that each year is addressed with a nonrecurring solution.

\* Principal State School Trust Fund (PSSTF), Risk Management Trust Fund (RMTF) and Voluntary Pre-Kindergarten (VPK)

**SCENARIO "B"**  
**GENERAL REVENUE OUTLOOK - COMPARISON OF ESTIMATED REVENUES TO ESTIMATED EXPENDITURES**  
**TIER 2 ISSUES - CRITICAL NEEDS AND OTHER HIGH PRIORITY NEEDS**  
**Fiscal Strategy #2 - Clear Budget Shortfalls Over Two Years Using Recurring Actions**  
(\$ MILLIONS)

	FY 2009-10			FY 2010-11			FY 2011-12			FY 2012-13		
	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total	Recurring	Non-recurring	Total
<b>Funds Available:</b>												
Balance Forward	0.0	300.7	300.7	0.0	381.4	381.4	0.0	200.0	200.0	0.0	200.0	200.0
Revenue Estimate	20,883.9	-190.7	20,693.2	22,072.3	24.7	22,097.0	23,910.9	3.9	23,914.8	25,879.6	-0.2	25,879.4
Non-operating Funds	-4.3	272.8	268.5	-4.3	99.9	95.6	-4.3	99.9	95.6	-4.3	99.9	95.6
New Issues - Environmental Land Acquisition	0.0	0.0	0.0	-30.5	7.2	-23.3	-61.0	7.2	-53.8	-91.5	7.2	-84.3
Transfer From Trust Funds	0.0	600.0	600.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total Funds Available</b>	<b>20,879.6</b>	<b>982.8</b>	<b>21,862.4</b>	<b>22,037.5</b>	<b>513.2</b>	<b>22,550.7</b>	<b>23,845.6</b>	<b>311.0</b>	<b>24,156.6</b>	<b>25,783.8</b>	<b>306.9</b>	<b>26,090.7</b>
<b>Estimated Expenditures:</b>												
Base Budget				20,669.7	0.0	20,669.7	21,297.6	0.0	21,297.6	22,422.2	0.0	22,422.2
<b>New Issues by GAA Section:</b>												
Section 2 - Education	11,327.0	59.1	11,386.1	1,303.5	110.5	1,414.0	2,085.7	110.5	2,196.2	772.9	110.5	883.3
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Section 5 - Natural Resources /Environment/Growth Management/Transportation	158.9	10.4	169.3	1.1	217.5	218.6	35.4	219.9	255.3	0.0	229.7	229.7
Section 6 - General Government	618.4	110.1	728.5	13.4	147.1	160.5	4.0	256.3	260.4	1.6	319.0	320.6
Section 7 - Judicial Branch	134.8	0.0	134.8	66.0	8.5	74.4	32.0	8.2	40.2	13.7	6.1	19.7
Administered Funds - Statewide Issues	7.8	22.1	30.0	451.5	0.0	451.5	269.6	0.0	269.6	292.1	0.0	292.1
<b>Total New Issues</b>				3,482.3	1,053.1	4,535.4	3,743.4	1,319.9	5,063.3	1,571.1	1,438.3	3,009.4
<b>Medicaid Deficit (FY 2008-09 &amp; FY 2009-10)</b>		224.8	224.8									
<b>Other Deficits (PSSTF, RMTF and VPK)*</b>		60.9	60.9									
<b>Transfer to Budget Stabilization Fund</b>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	214.5	214.5	0.0	214.5	214.5
<b>Adjustment to Balance with \$200 Million Reserve</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-2,854.4</b>	<b>0.0</b>	<b>-2,854.4</b>	<b>-2,618.8</b>	<b>0.0</b>	<b>-2,618.8</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Total Estimated Expenditures</b>	<b>20,669.7</b>	<b>811.3</b>	<b>21,481.0</b>	<b>21,297.6</b>	<b>1,053.1</b>	<b>22,350.7</b>	<b>22,422.2</b>	<b>1,534.4</b>	<b>23,956.6</b>	<b>23,993.3</b>	<b>1,652.8</b>	<b>25,646.1</b>
<b>Ending Balance</b>	<b>209.9</b>	<b>171.5</b>	<b>381.4</b>	<b>739.9</b>	<b>-539.9</b>	<b>200.0</b>	<b>1,423.4</b>	<b>-1,223.4</b>	<b>200.0</b>	<b>1,790.5</b>	<b>-1,345.9</b>	<b>444.7</b>

Note: Negative balances are not allowed to carry-forward to subsequent years; the assumption is that each year is addressed with a nonrecurring solution.

\* Principal State School Trust Fund (PSSTF), Risk Management Trust Fund (RMTF) and Voluntary Pre-Kindergarten (VPK)

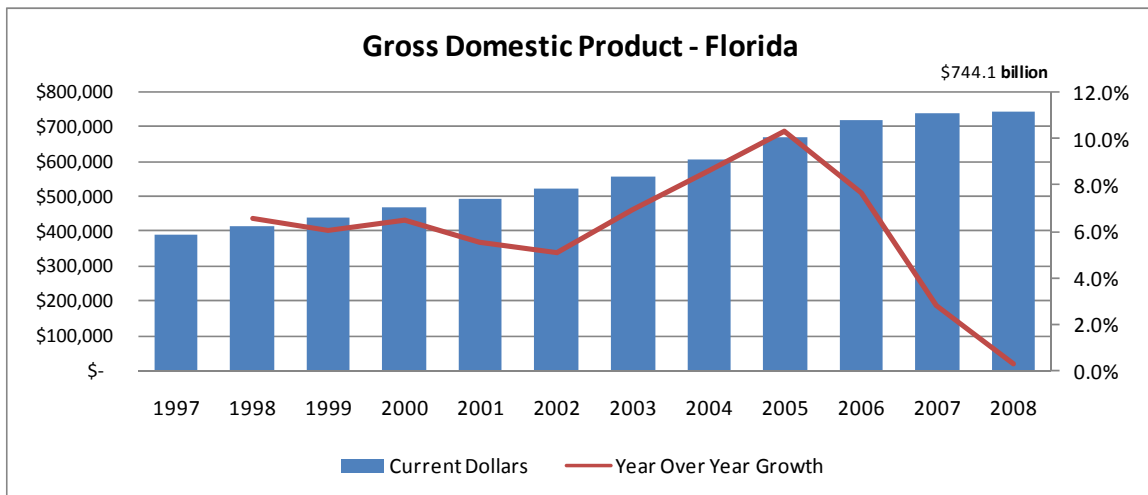
# FLORIDA ECONOMIC OUTLOOK

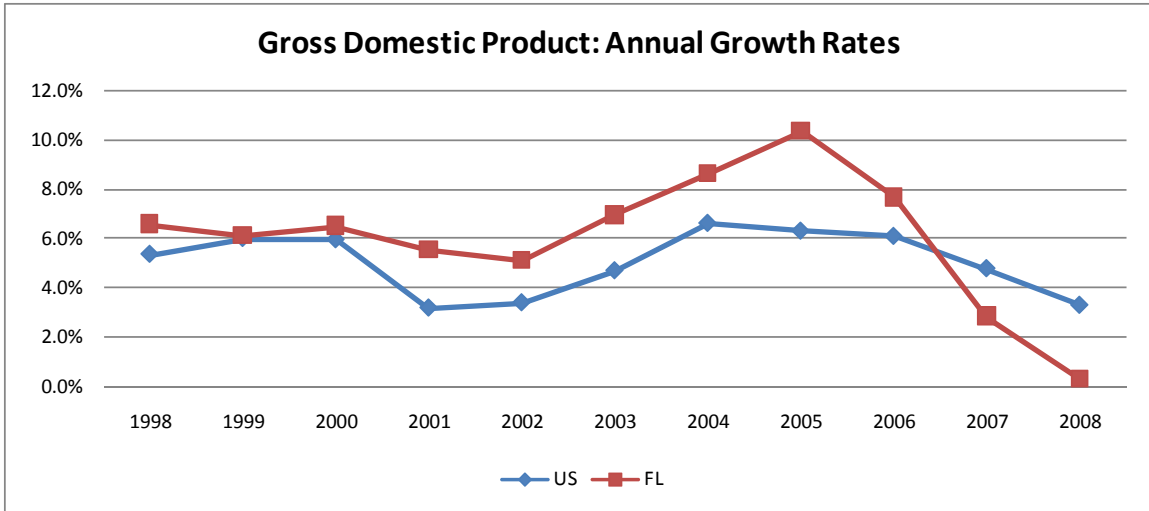
*The Florida Economic Estimating Conference met in July of 2009 to revise the forecast for the state's economy. As further updated by the Legislative Office of Economic and Demographic Research, the latest forecast reveals an economy still burdened in the short run by national and state fiscal shocks, but showing underlying resilience in the longer-term. Population growth – while at an historic low – continues to be the state's primary engine of economic growth, fueling both future employment and income growth. All of the comments below are directed to the immediate planning horizon extending through Fiscal Year 2012-13.*

## **RECAP ~ Recent History**

Until recently, Florida was one of the nation's fastest growing states. With the end of the housing boom and the beginning of the real estate market correction, the state slipped to virtually no growth on a year-over-year basis. While Florida wasn't the only state to experience a significant deceleration in economic growth (California, Nevada and Arizona showed similar trends), it was one of the first and hardest hit. Looking across the 50 states, the three most-widely used indicators of government financial health illustrate these changes.

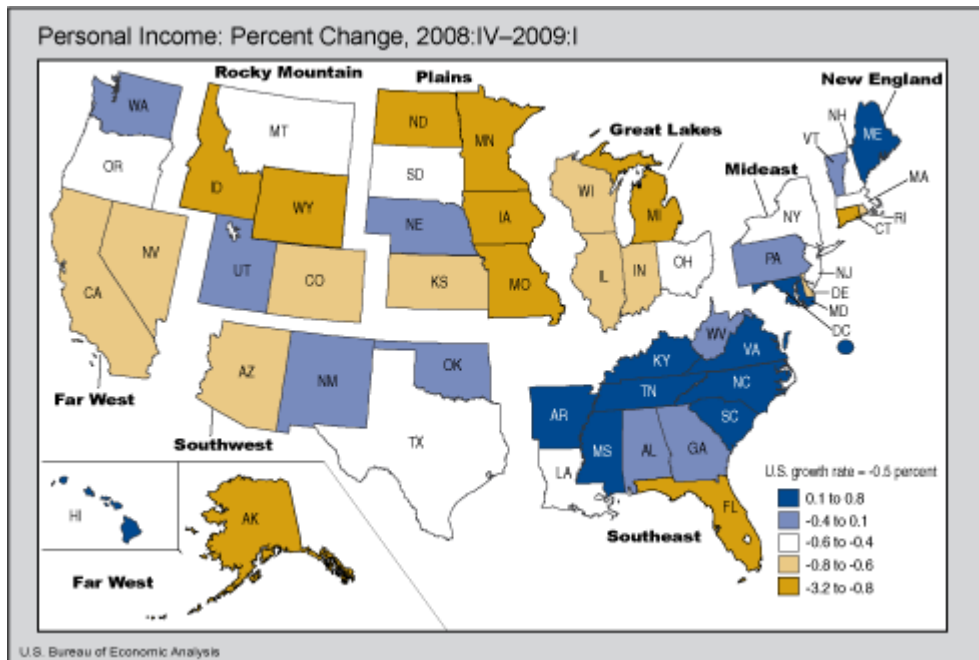
**State Gross Domestic Product** (GDP: all goods and services produced or exchanged within a state) is one of the key economic measures for the comparison of states. In this regard, the year-to-year change in GDP has become the standard. While Florida has outperformed the nation as a whole in nine of the past eleven years, two of these years (2004 and 2005) were greatly influenced by the activity sparked by the 2004 and 2005 storms (primarily through insurance payments). In 2006, Florida returned to the national growth level before dropping below it in 2007 (4.8% US versus 2.8% FL) and 2008 (3.3% US versus 0.3% FL). Florida's nominal GDP in 2008 was just over \$744 billion.



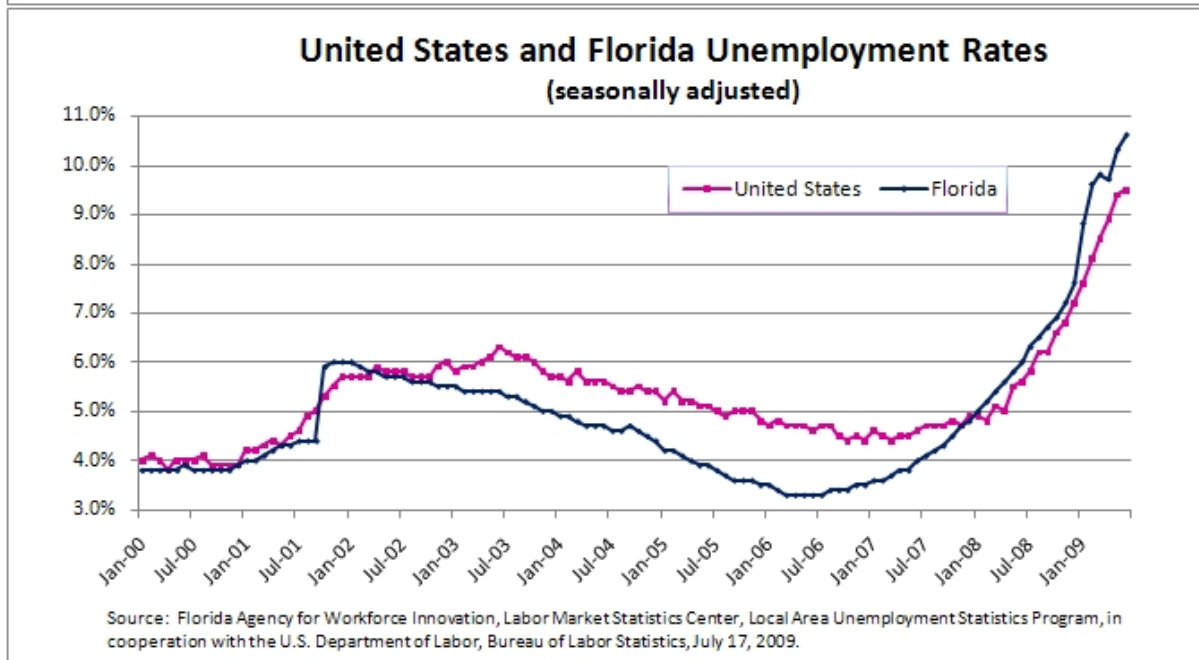
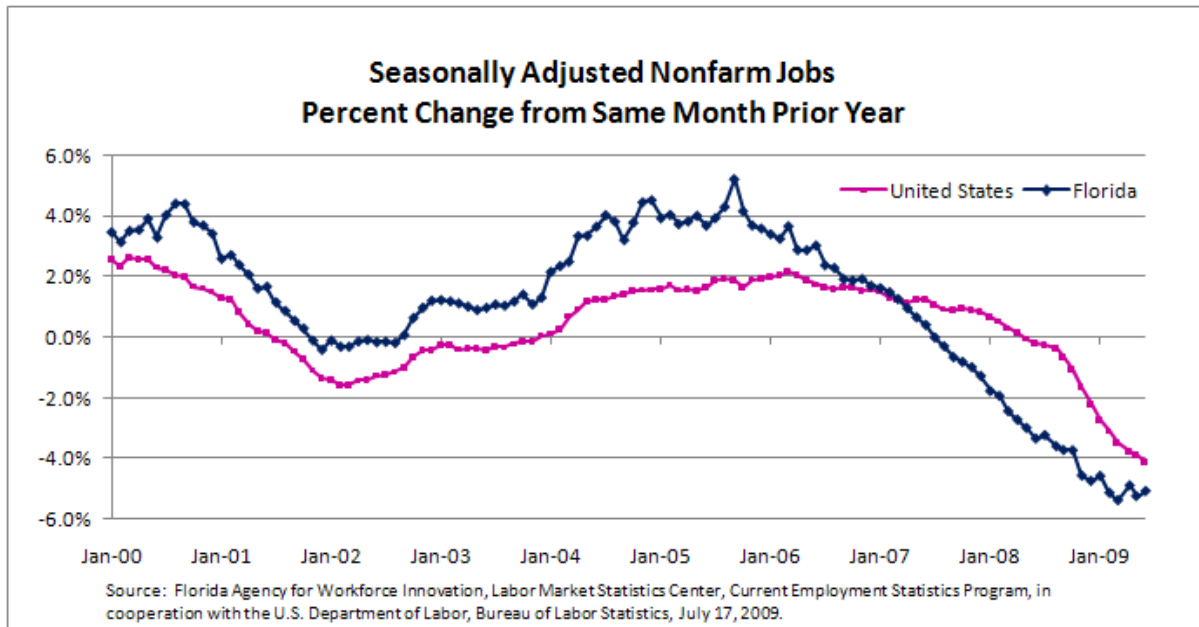


After adjusting for inflation, Florida’s *real* growth in GDP ranked it 48<sup>th</sup> in the nation in 2008 with an outright decline of -1.6%. By way of comparison, Florida ranked 2<sup>nd</sup> in the nation in 2005. For Arizona, Nevada and Florida, losses in the construction sector accounted for a significant portion of the decline – it subtracted more than one percentage point from real GDP growth in each of these states.

Other factors are frequently used to gauge the health of an *individual state*. The first of these measures is **personal income growth** --- primarily related to changes in salaries and wages. Quarterly personal income growth is particularly good for measuring short-term movements in the economy. Over the past year, Florida has experienced three quarters of negative growth. The decline of 0.9% in the most recent quarter (Q1 of the 2009 calendar year) ranked Florida 43<sup>rd</sup> in the country.



The key measures of employment are **job growth** and the **unemployment rate**. While Florida led the nation on the good-side of these measures during the boom, the state is now worse than the national averages on both – and the problems are widespread. Over the last year, the only sector to gain jobs among Florida’s major industries was Education & Health Services. Virtually all of the increase was due to health services, primarily in nursing and residential care facilities. And in June of 2009, 40 of Florida’s 67 counties had double-digit unemployment rates.



Largely, these changes were related to Florida’s troubled housing market and the worsening national and global outlooks. The growing inventory of unsold houses coupled

with the spreading credit crisis dampened residential construction activity throughout the entire year. Last July, the Florida Economic Estimating Conference (FEEC) had expected a meager 59,500 private housing starts for the year. In fact, new activity plummeted to just 15.8% (43,100 private housing starts) of the 2005-06 level. Single and multi-family starts both came close to matching the percentage drops they made in 2007-08 over 2006-07. In yet another manifestation of the large housing market adjustment still facing Florida, existing single family home sales ended the 2008-09 fiscal year nearly 45% below the peak volume of the 2005 banner year, while the median home price continued its double-digit decline.

Florida's economy has essentially moved through three waves of responses to financial shocks. First, the end of the housing boom brought lower activity and employment in the construction and financial fields, as well as spillover consumption effects in closely related industries: appliances, carpeting, and other durable goods used to equip houses. This began in the summer of 2005 when the volume of existing home sales started to decline in response to extraordinarily high prices and increasing mortgage rates. Closely linked to the housing industry, Florida's nonagricultural employment annual growth rate peaked in fall of 2005. By the summer of 2006, existing home prices began to fall, and owners started to experience negative wealth effects from the deceleration and losses in property value. Mortgage delinquencies and foreclosures became commonplace as property prices further tanked in 2007, and the unemployment rate began to climb as part of a slow slide into a national recession that was ultimately declared in December 2007. By the fall of 2008, Florida's homegrown problems with the housing market were giving way to several worldwide phenomena: a national recession that was spreading globally and a credit crisis that was threatening to bring down the world's largest financial institutions. As the subprime mortgage difficulties spread to the larger financial market, it became clear that any past projections of a relatively quick adjustment in the housing market were overly optimistic. Forecasts were dampened through the end of the fiscal year, and then again as the excess inventory of unsold homes was further swelled by foreclosures and slowing population growth arising from the national economic contraction.

### **FORECAST ~ Fiscal Years 2009-10 (base) through 2012-13**

The nation is now in its 20<sup>th</sup> month of recession --- the longest economic contraction since the Great Depression. While the pace of contraction has slowed, it has not ended. Worse than expected employment figures have changed expectations to the downside, and economic weakness will likely persist for a longer period of time. The remaining questions focus on the actual pace of recovery, its sustainability, and the potential need for further stimulus.

***Employment Conditions Continue to Worsen...*** According to the latest nationwide data, Florida is losing jobs (a job growth rate of -5.2% in July) at a greater pace than the nation as a whole (-4.2%). Florida's current numbers represent a loss of 401,100 jobs from a year earlier, with the state's negative over-the-year growth rate actually beginning in September 2007. While the state's job losses began with the construction downturn,



almost all of the major industries have now been affected. Overall employment is projected to decline a further -3.0% in Fiscal Year 2009-10 and then increase by 1.4% in Fiscal Year 2010-11, 3.3% in Fiscal Year 2011-12, and 2.9% in 2012-13. Job restoration in the construction, manufacturing, information and government sectors will lag behind the other areas – not returning to positive annual growth until Fiscal Year 2011-12.

Following the same general pattern, the unemployment rate is expected to peak at 11.0% in the second quarter of 2010, producing an annual level of 10.9% for the fiscal year before very slowly returning to more normal levels. The unemployment rate for Fiscal Year 2010-11 is projected to be 10.8%, followed by 9.9% in Fiscal Year 2011-12 and 9.1% in Fiscal Year 2012-13. The Florida forecast generally matches the national forecast, except the national unemployment rate peaks at 10.8% in the third quarter of 2010, and Florida’s job growth – once recovery begins – is a little faster.

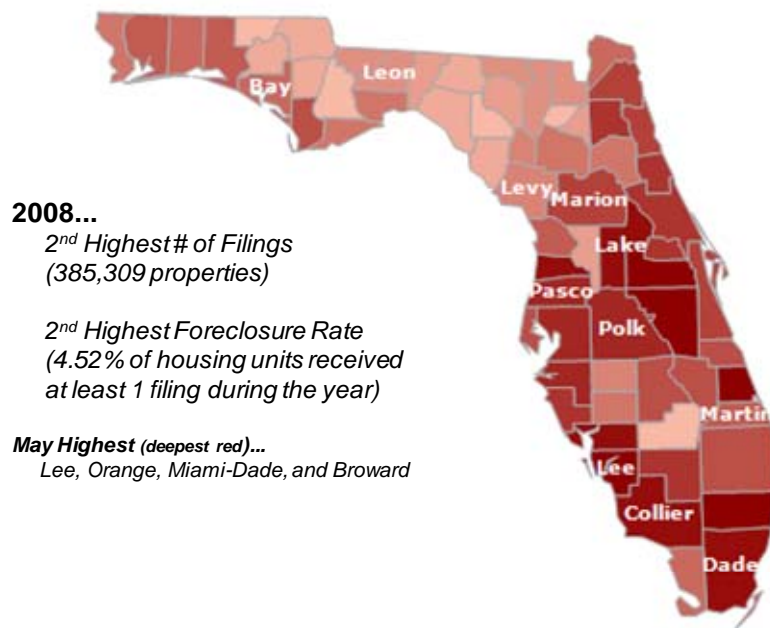
The outlook for wages and salaries has similarly weakened. Originally projected to maintain positive growth throughout the recession, they are now expected to partner the -2.3% decline experienced in Fiscal Year 2008-09 with another -1.3% decline in Fiscal Year 2009-10 before resuming growth --- albeit at a slower than average rate --- in Fiscal Year 2010-11. Normal growth will not return until Fiscal Year 2011-12. Florida’s long-term growth prospects are slightly better than the national forecast; however, Florida’s average annual wages largely fall below the nation as a whole. In 2008, Florida’s average annual wage for all industries was only 89% of the national average.

FLORIDA AVERAGE ANNUAL WAGES AS A PERCENT OF THE U.S.								
	2001	2002	2003	2004	2005	2006	2007	2008*
Total All Industries	87.1%	88.2%	88.8%	89.4%	90.5%	90.5%	89.4%	89.0%
Total Private	85.8%	87.1%	87.8%	88.0%	89.1%	89.1%	87.8%	87.3%
Agriculture, Forestry, Fishing and Hunting	90.0%	88.5%	88.4%	91.7%	91.9%	94.2%	89.4%	85.9%
Mining, Quarrying, and Oil and Gas Extraction	75.0%	76.2%	73.8%	70.4%	68.2%	69.0%	69.3%	64.1%
Utilities	90.8%	91.4%	93.1%	90.8%	89.0%	82.8%	81.9%	86.4%
Construction	87.5%	87.4%	89.3%	90.5%	91.0%	91.6%	89.0%	85.7%
Manufacturing	88.4%	89.3%	89.1%	88.7%	88.1%	88.9%	88.7%	89.4%
Wholesale Trade	93.5%	93.6%	94.3%	94.5%	95.5%	96.3%	94.5%	94.4%
Retail Trade	99.9%	100.2%	100.7%	101.7%	103.6%	103.8%	101.5%	100.9%
Transportation and Warehousing	93.1%	93.5%	95.0%	95.3%	96.2%	97.2%	96.4%	97.0%
Information	81.0%	82.2%	81.8%	84.0%	84.1%	83.4%	82.3%	82.2%
Finance and Insurance	76.9%	80.7%	82.5%	80.1%	80.7%	78.5%	75.9%	75.1%
Real Estate and Rental and Leasing	92.2%	92.7%	95.8%	96.0%	99.1%	94.6%	91.8%	89.3%
Professional and Technical Services	84.6%	84.8%	84.1%	84.7%	85.3%	85.9%	84.8%	84.1%
Management of Companies and Enterprises	88.0%	88.6%	91.3%	89.1%	94.3%	94.0%	93.2%	87.3%
Administrative and Waste Services	92.9%	95.3%	94.4%	94.8%	96.8%	97.2%	95.3%	94.4%
Educational Services	86.2%	86.0%	86.4%	87.9%	88.1%	88.9%	89.1%	88.3%
Health Care and Social Assistance	102.4%	102.3%	102.8%	103.2%	103.3%	103.2%	102.9%	102.0%
Arts, Entertainment, and Recreation	103.4%	102.0%	103.7%	104.8%	104.6%	102.0%	101.9%	103.3%
Accommodation and Food Services	106.4%	105.8%	107.4%	108.3%	111.4%	111.8%	111.5%	109.7%
Other Services, except Public Administration	95.7%	95.0%	96.7%	98.1%	99.6%	100.2%	99.7%	99.2%
Total Government	95.0%	95.2%	95.5%	98.3%	99.2%	99.3%	99.4%	99.7%
Federal Government	96.6%	97.2%	96.3%	97.2%	95.7%	95.7%	95.3%	95.4%
State Government	79.2%	79.7%	80.1%	84.8%	88.0%	90.0%	91.1%	87.3%
Local Government	101.3%	101.3%	101.6%	104.1%	104.9%	104.3%	104.4%	105.6%

**Construction Continues to Drag...** Vigorous home price appreciation that outstripped gains in income and the use of speculative financing arrangements made Florida particularly vulnerable to the decelerating housing market and interest rate risks. In 2006, almost 47% of all mortgages in the state were considered “innovative” (interest only and pay option ARM). With the ease of gaining access to credit, long-term homeownership rates were inflated to historic levels – moving Florida from a long-term average of 66.3% to a high of over 72%. Essentially, easy, cheap and innovative credit arrangements enabled people to buy homes that previously would have been denied.

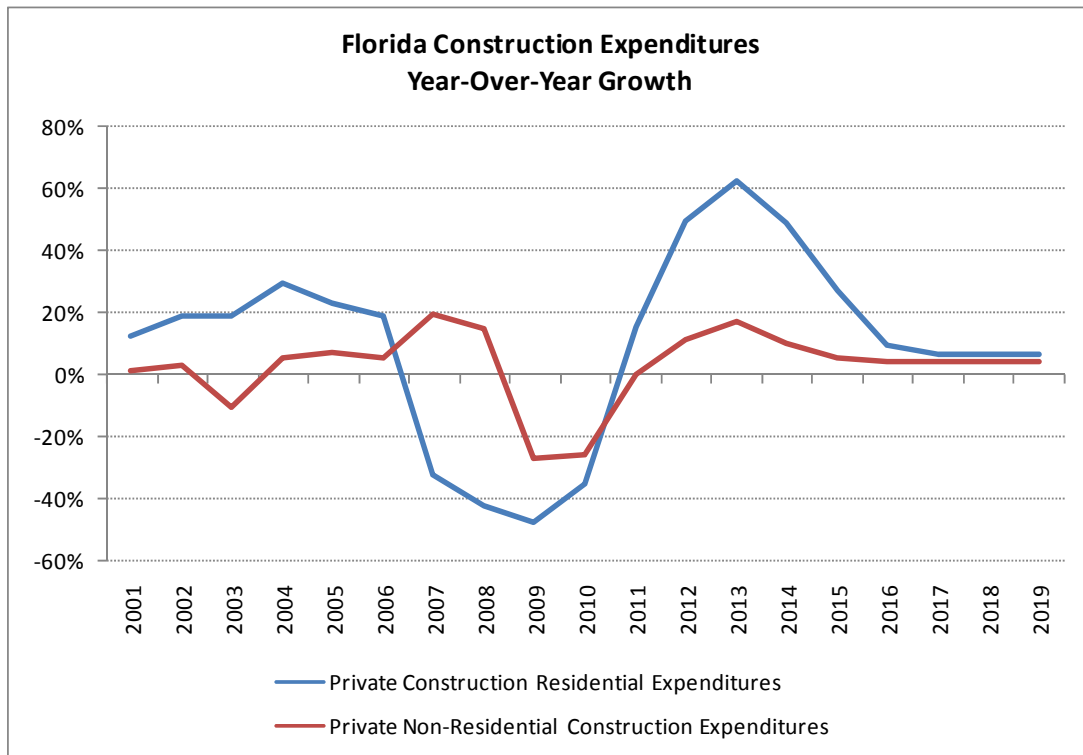
The surging demand for housing led many builders to undertake massive construction projects that were left empty when the market turned. The national inventory of homes is now close to 10 months. In Florida, the picture is worse. Based on the most recent data, the *excess* supply of homes is now approaching 400,000. At any given point of time, an inventory of roughly 50,000 is good – the 400,000 figure is on top of that level. Subtracting the “normal” inventory and using the most recent sales experience, the state will need significant time to work off the current excess – at least until the Spring of 2011 (the fourth quarter of Fiscal Year 2010-11), likely longer. Because the state is so diverse, some areas will reach recovery much faster than other areas.

Foreclosures have further swelled Florida’s unsold inventory of homes. Originally related to mortgage resets and changes in financing terms that placed owners in default, recent increases have been boosted by the continually growing number of unemployed. RealtyTrac’s Midyear 2009 Metropolitan Foreclosure Market Report shows that cities in California, Florida, Nevada and Arizona continued to document the nation’s highest foreclosure rates in the first half of 2009, with those states accounting for 35 of the 50 highest foreclosure rates among metro areas with a population of 200,000 or more.



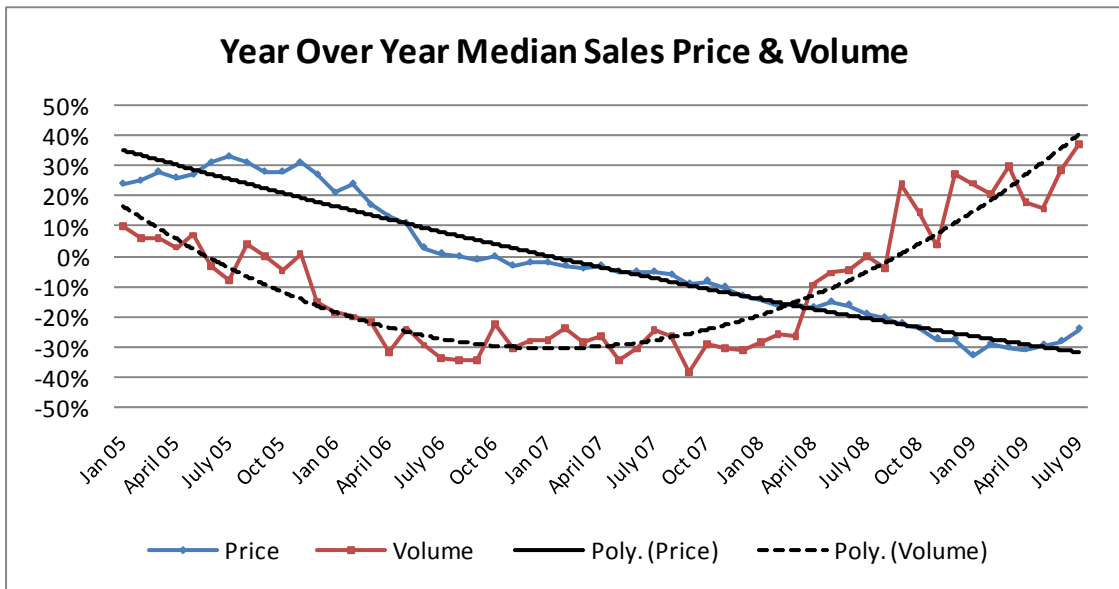
The Florida economy is unlikely to turn around until new construction comes back to life, and that won't happen until the inventory is reduced. With the meltdown in the mortgage market and the subsequent credit crunch, housing starts are well into a significant decline that shows little improvement through the end of Fiscal Year 2009-10. A strong rebound does not begin until the latter half of Fiscal Year 2010-11; however, it lasts through the remainder of the planning horizon. Total construction expenditures follow a similar pattern, never returning to the 2005-06 level during the forecast period.

As the availability of financing for commercial real estate tightens and loan losses mount, growth in private nonresidential construction expenditures is projected to fall another 26% this year after last seeing positive growth in Fiscal Year 2007-08. The market is expected to stabilize next year, and then return to stronger growth in the out-years. Similarly, after posting a 19.5% gain in Fiscal Year 2007-08, public construction activity dropped 16% in Fiscal Year 2008-09 and is projected to drop another 6.7% this fiscal year. Growth will return gradually (0.3% next year and 3.4% in the following year).



During the past ten months, existing home sales have grown by double-digit rates over the same month in the prior year. In the last six months, the sales volume has reached nearly 60% of the level achieved in the 2005 banner year. Much of the sales increase has been driven by the increasing number of distressed sales. This can be seen in the continuing price declines. In 2007, the median price of an existing home declined 5% and in 2008, it declined another 20%. To date, 2009 is averaging a decline of 30%. From an economic perspective, double-digit price declines are a precursor to recovery,

but still a painful adjustment. The inventory of unsold homes suggests that prices will continue to fall through the middle of 2010. From the peak in June 2006 to July 2009, the state had already seen a 42.7% decline in median price for existing homes.



**Population Growth Slower But Steady...**Population growth continues to be the state’s primary engine of economic growth, fueling both employment and income growth. Recently, the national economic contraction has significantly slowed Florida’s population gains, but this is not unexpected. Nearly 80% of the state’s population growth comes from positive net migration, primarily from people moving into Florida from other states. From past studies, it is clear that people are reluctant to move during recessions – first, because of the inability to sell their homes, and second, because of the difficulty in finding new jobs. Florida’s strong international migration, which – until recently – had been a bulwark, is also being affected by the global economic slowing.

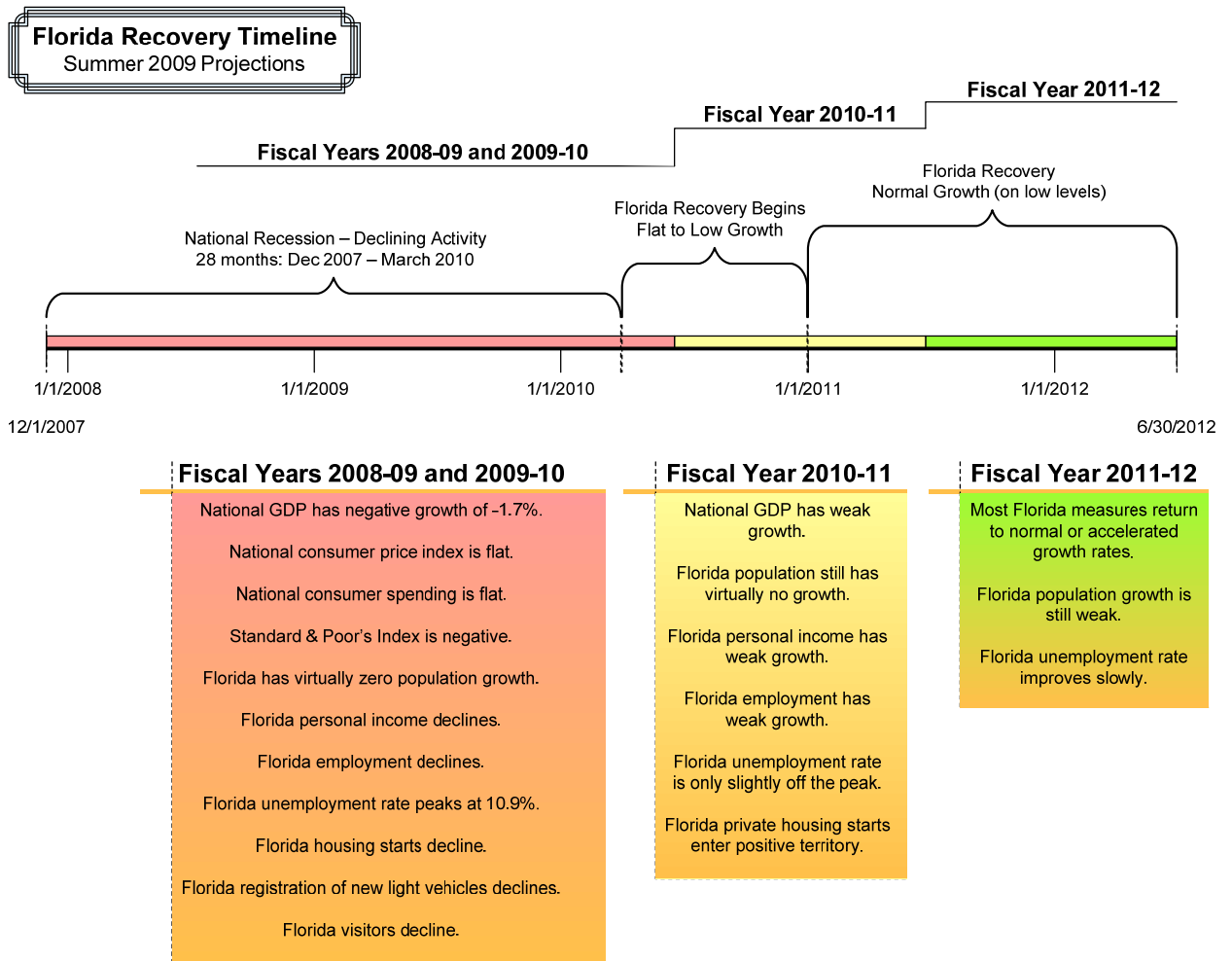
Population growth hovered between 2.0% and 2.6% from the mid 1990’s to 2006, then began slowing – staying flat in 2009 (a zero percent increase over the prior year). In 2010, growth is expected to reflect just the state’s natural increase (positive births minus deaths) with 74,226 new residents. This extremely low rate of growth is unprecedented in Florida’s modern history. Over the forecast horizon, population growth will moderately rebound – persisting above 1.2% after 2012. While this is still significant growth – Florida was adding a city roughly the size of Miami every year; in the future, it will be a city more like Clearwater – it is markedly lower than the average of the annual growth rates between 1970 and 1995 (3.04%).

Overall, Florida’s population:

- was 15,982,824 in 2000,
- was 18,807,219 in 2008,

- is on track to break the 20 million mark in 2015, surpassing New York to become the third most populous state sometime before then, is forecast to grow to 23,979,030 by 2030, most of the growth (89.2%) coming from migration.

Putting all of the variables together, the following timeline to recovery emerges:



## ***FLORIDA DEMOGRAPHIC PROJECTIONS AND COMPOSITION***

*The Florida Demographic Estimating Conference last met in February 2009 to revise the forecast for the state's resident population growth. While the Conference projected flat population growth between April 1, 2008 and April 1, 2009, the latest preliminary data indicates that the state actually lost about 58,000 residents during this period. Because population growth continues to be the primary engine of Florida's economic growth, this data dampens expectations regarding the pace of Florida's recovery from the recession.*

### **Florida's Resident Population**

Florida's population growth helps drive the state's economy, primarily through growth in employment, personal income, and construction. The state's strongest population growth occurred with a surge in new jobs creation. Florida added more net new jobs than any other state between July 2000 and July 2006.

Even the devastating 2004 hurricane season appeared to have little impact as Florida continued to grow at record numbers. The 438,200 new residents during the 2003-04 banner year was exceeded only by the expansion in two back-to-back fiscal years in the early 1970s (Fiscal Year 1971-72 and Fiscal Year 1972-73). Growth remained above the 400,000 mark in each of the next two fiscal years, finally slowing to 286,800 in Fiscal Year 2006-07.

As the recession took hold, Florida's population growth came to a virtual standstill, adding only 6,800 net new residents over the past fiscal year. The most recent preliminary data from April 1, 2008 to April 1, 2009 indicates that the state's population has declined by as many as 58,000 residents. During this same period, Florida lost about 380,000 jobs, ranking it second in the number of jobs lost, behind California.

Technically, the reduction in Florida's population growth was attributable to slower net migration (the number of residents moving in minus those moving out). Net migration is estimated to have fallen substantially during Fiscal Year 2007-08 to about 8,400 net new residents, from 216,300 the year prior. Florida is expected to have experienced negative net migration (more people moving out of the state than into the state) during Fiscal Year 2008-09. The current recession has caused more Floridians to leave the state in search of employment or more affordable living conditions than to move in.

Outside of the recession impact, Florida was ranked second according to *The Harris Poll* (August 2007) as the state where U.S. adults would choose to live if they could live in any state outside of their own. This second place ranking was largely due to baby boomers and mature adults (ages 43 and over), while the younger age groups (Generation

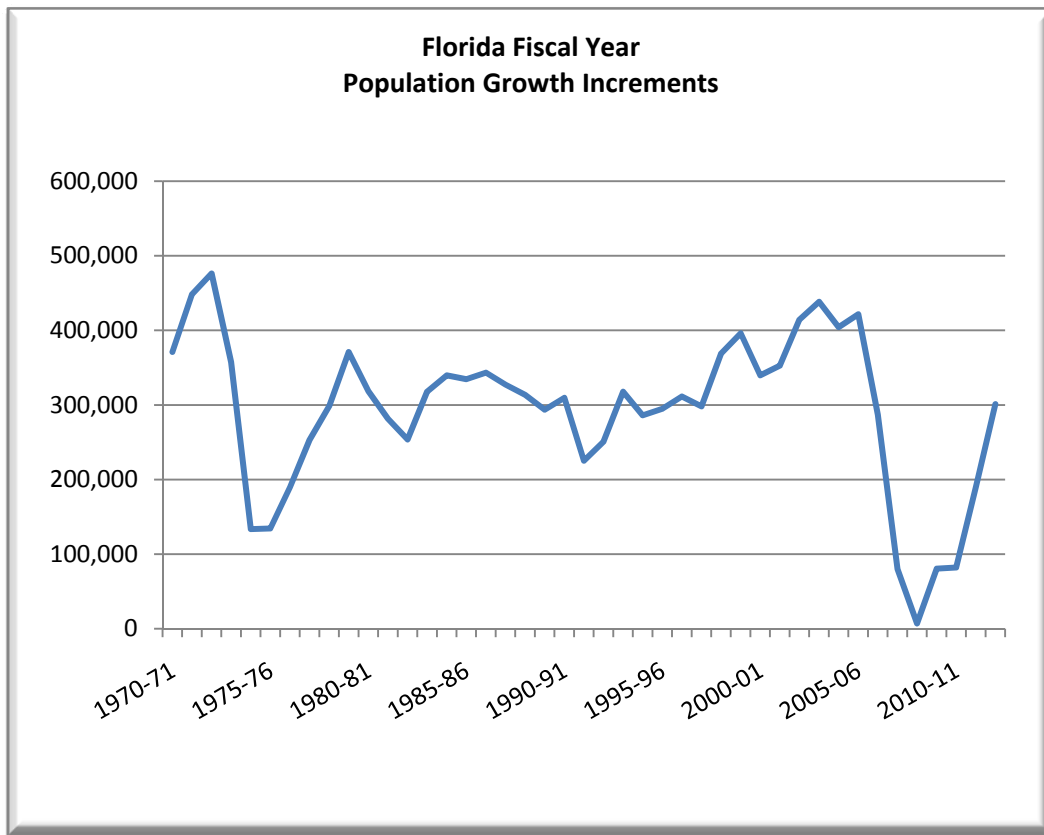
X and Echo Boomers) ranked Florida third and fourth, respectively. In particular baby boomers ranked Hawaii as their most preferred state, while the other three groups ranked California highest.

**Population Growth for Fiscal Year 2009-10**

According to the latest official estimates, Florida’s resident population is forecast to grow by 80,400 residents during Fiscal Year 2009-10. Net migration is expected to rebound slightly over the coming year, representing 18.1 percent of the gains in population. The vast majority of the population growth will still be due to natural increase (more births than deaths). This is contrary to historical patterns where most of Florida’s growth was due to net migration.

**Forecast ~ Fiscal Years 2010-11 through 2012-13**

Florida’s population continues to approach the 20 million mark, gaining 572,500 residents over the next three fiscal years. Florida is anticipated to become the third most populous state by mid-decade, surpassing New York. Almost 70 percent of the growth will be due to net migration, while the remaining 30 percent will be due to natural increase. Net migration has been the key to Florida’s population growth, representing between 75.4 and 95.5 percent of Florida’s population growth from Fiscal Year 1970-71 to Fiscal Year 2006-07. The graph below shows historical and projected levels of population growth through the end of Fiscal Year 2012-13.

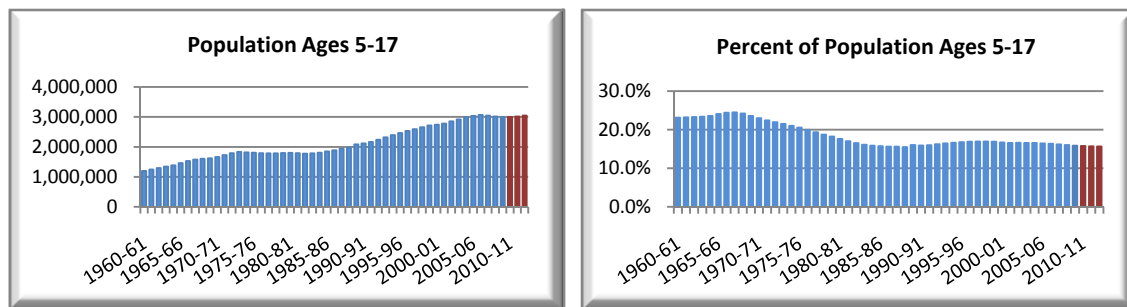


Source: Demographic Estimating Conference, February 2009.

### Demographic Composition

There are slightly more females than males in Florida, 51 percent versus 49 percent, respectively. The state's relationship of females to males is similar to the United States as a whole, where females represent 50.7 percent of the population. Based on the latest July 1, 2008 population estimates from the U.S. Department of Commerce, Bureau of the Census, Florida's median age was 41.9 years. This ranked Florida fourth in the nation in terms of median age, with higher median ages recorded only in Maine, Vermont and West Virginia; however, the actual number of people driving the median age is larger in Florida.

By the end of Fiscal Year 2009-10, the number of school age children in Florida (ages 5-17) is projected to be slightly below 3,000,000, representing 15.9 percent of total population. This percentage peaked in the mid-to-late 1960's, reflecting the end of the baby boom generation's birth cycle. Since then, school age population gradually declined as a percentage of the total population, reaching a low of 15.5 percent at the end of Fiscal Year 1988-89. Overall, the number of school age children is forecast to fluctuate slightly over the next few years, with its percent of total population slipping to 15.6 percent by the end of Fiscal Year 2012-13.



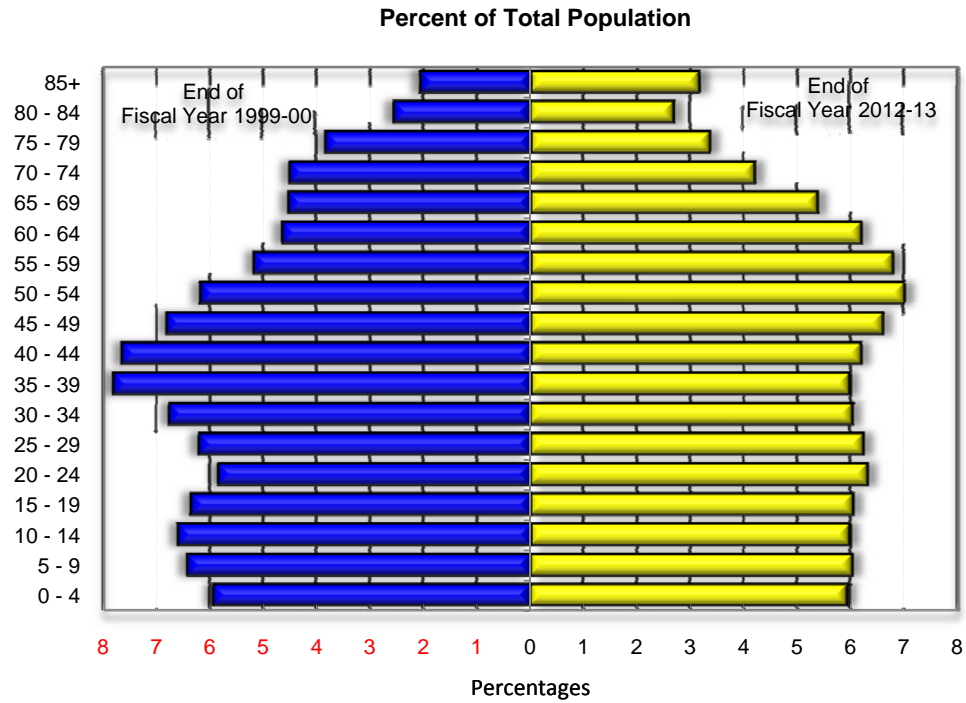
Source: Demographic Estimating Conference, February 2009, End of Fiscal Year

The percentage of prime working age residents (aged 25-54) is expected to decline over the forecast horizon, from 39.3 percent at the end of Fiscal Year 2008-09 to 38.0 percent by the end of Fiscal Year 2012-13. At that point, Florida's prime working age population is expected to number about 7,397,300 – mainly reflecting declines in the population of those aged 35 to 49. As the percentage prime working age residents continue their decline, labor force and other-related issues will raise serious challenges for the future.

As the baby boom generation ages into retirement, the percentage of residents age 50-64 is expected to continue to grow steadily, representing 20.0 percent of the total population by the end of the forecast horizon. The baby boom generation consists of people born between 1946 and 1964, and the first significant wave of retirees from this cohort is expected to hit in 2011. As a result, the number and percentage of residents aged 55 and older will also continue to increase, representing 31.7 percent of Florida's total resident population by the end of Fiscal Year 2012-13.

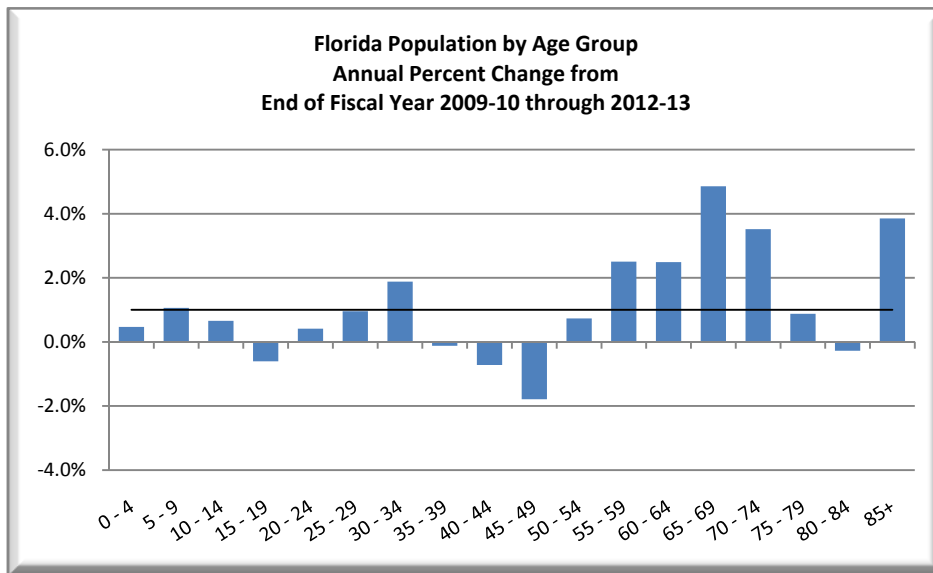


The following chart displays the changes in Florida's population by age group between July 2000 and July 2013.



Source: Demographic Estimating Conference, February 2009.

Over the three year forecast horizon, Florida's population growth will come primarily from the population aged 30-34, 55 to 74, and 85 and over. These age groups are expected to increase both in number and percentage of total population.



Source: Demographic Estimating Conference, February 2009.

Florida's population continues to become more diverse. The 2000 Census showed that 16.8 percent of Florida's population was Hispanic or Latino. By the end of Fiscal Year 2012-13 this percentage is expected to increase to 22.1 percent. Whites comprised 82.2 percent of Florida's population in 2000, while blacks accounted for 15.4 percent. By the end of Fiscal Year 2012-13 these percentages are expected to be 80.4 percent for whites and 16.6 percent blacks.

Florida has typically been a high migration state. Most residents have moved to the state, as only 34 percent of the state's population is comprised of Floridians that were born in the state. Almost one-fifth of Florida's population is foreign born, and about one-fourth of Floridians aged 5 and over indicated that they speak a language other than English at home. Only a few states have a larger percentage of residents aged 5 and over indicating that they speak a language other than English at home: California, New Mexico, Texas, New York, Arizona, New Jersey, and Nevada. Overall, 12 percent of Floridians aged 5 and older speak English "less than very well," while of the Florida residents aged 5 and older that speak a language other than English at home, 45.9 percent indicated that they speak English "less than very well."

Almost 30 percent of Florida's Hispanic population is Cuban and most of Florida's foreign born population is from Latin America, with the greatest number from Cuba. Miami-Dade is currently the only county in Florida where the majority of the population aged 5 or older (62.4 percent in 2007) speak Spanish at home. Overall, 19.1 percent of Floridians aged 5 and older speak Spanish at home, compared to 12.3 percent nationwide.

### **Summary**

Florida's population growth has slowed substantially due to the economic recession; specifically its impact on job creation and the ability of people to migrate into the state. Over the forecast horizon, population growth is anticipated to rebound, but to more moderate levels of growth. Several demographic factors will present challenges for the state's policy makers over the forecast years as the baby boom population begins to enter retirement age. Most importantly, Florida will need to prepare for a more diverse and aging population with its corresponding demands on services.

## ***REVENUE PROJECTIONS***

Throughout the spring and summer, the Revenue Estimating Conference met to revise estimates for Fiscal Year 2008-09 and to develop new forecasts for the upcoming years. Revenue projections were generally weakened relative to the prior forecasts, especially in the early years. Unlike prior years, significant amounts of trust fund reserves no longer exist to buffer errors in the forecast or other downturns in the economy; however, an unexpended balance of \$667.1 million is projected to remain in the General Revenue Fund at the end of Fiscal Year 2009-10.

### ***General Revenue Fund:***

Since the March General Revenue Estimating Conference, the weakening employment picture in Florida and the nation as a whole has delayed the economic recovery. In response, the Revenue Estimating Conference has reduced its estimate of General Revenue collections for Fiscal Year 2009-10 by \$147.1 million or less than 1% below the estimate from March. For Fiscal Year 2010-11, expected revenues were reduced by \$44.2 million from the earlier forecast.

In spite of legislative actions, estimated revenue collections for Fiscal Year 2009-10 are still less than Fiscal Year 2008-09 receipts by \$332.4 million or 1.6%. The Fiscal Year 2010-11 forecast remains positive with projected growth of 6.8% over the revised Fiscal Year 2009-10 estimate, marking an end to four consecutive years of declining revenue receipts.

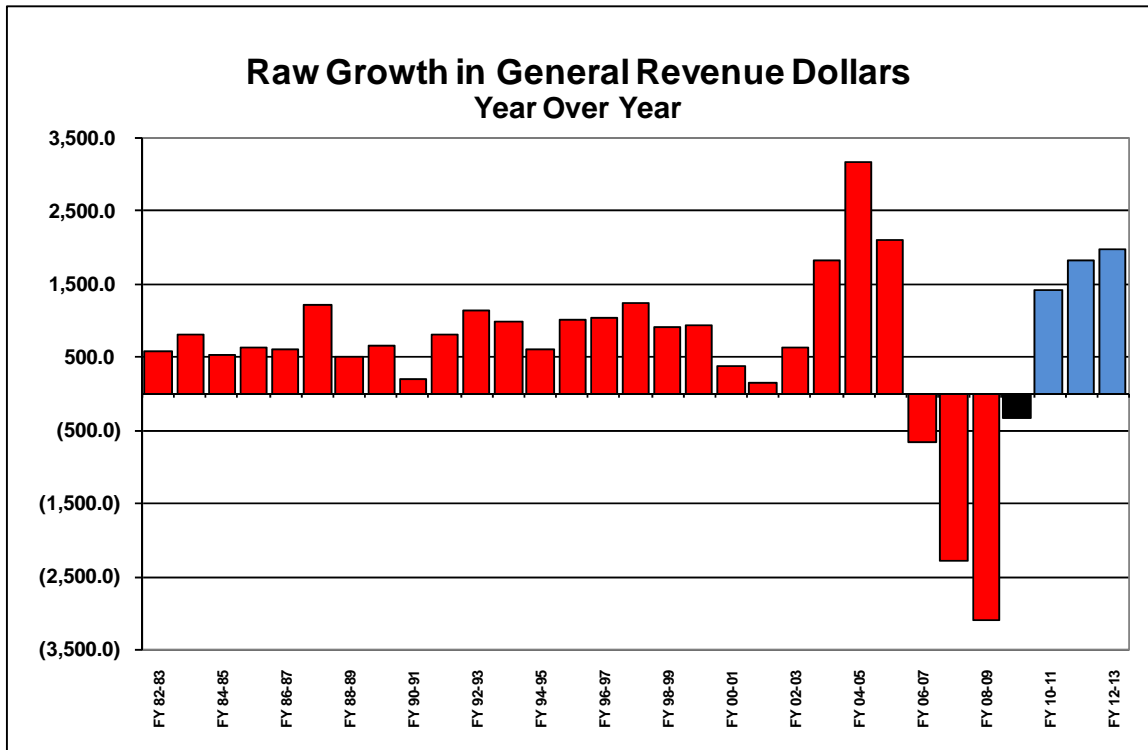
The revisions to the forecast are primarily attributable to the symptoms of the continuing recession, which is now expected to last longer than originally anticipated. First, the hard-to access credit market continues to constrain the housing market, consumer expenditures and business investment. Second, the spread of the worst national recession in the postwar era to a global recession has had spillover effects on business expenditures in Florida and has dampened commercial activity and export growth. Third, the deterioration of wealth from accelerating job losses, the continued depreciation of home values, and the decline in asset values have exerted pressure on discretionary spending. These factors influence revenue collections in the following ways:

- **Sales Tax...**In addition to the continued decline in home prices, worsening job losses and the drop in asset values are undermining consumer and business confidence and reducing discretionary spending. While the consumer response has been ongoing, the commercial response to these conditions is just now hitting the forecast. In this regard, purchases in most sectors fell since the last forecast and are expected to remain below previous estimates in the short-run.
- **Insurance Premium Tax...**Tax collections are expected to fall below previous estimates. Overall collections are responding to a variety of consumer and

business changes in the marketplace. A primary factor is the high number of unemployed Floridians.

Positive adjustments were made to some sources to reflect higher than anticipated collections at the end of the last fiscal year. Notably, anticipated receipts from the Corporate Income Tax were increased in the short-run as corporate profits remained higher than expected due to the quick business response to the faltering economy. In addition, housing-related taxes are not expected to decline as much as anticipated in March.

Underlying the forecast is the assumption that the extreme financial and economic stress that began nearly a year ago will improve by late spring of 2010. Thereafter, months of modest growth are expected before full recovery begins in earnest in the spring of 2011. Revenue collections are not anticipated to exceed the Fiscal Year 2005-06 level within the three-year forecast horizon.



*Note: Several years had tax increases which distort year-over-year changes.*

**Article V Fees & Transfers:**

The Revenue Estimating Conference has developed a separate conference for the exclusive purpose of forecasting Article V Fees & Transfers. Previously, portions of these revenues were included in the General Revenue forecast. However, the passage of SB 2602 created the need for a separate conference by requiring the Revenue Estimating Conference to project the revenues deposited into the State Courts Revenue Trust Fund (SCRTF).

The General Revenue forecast for the first conference was developed by combining the existing estimates with the legislative changes resulting from the enactment of Chapter 2009-61, L.O.F. An adjustment was made to further reduce traffic fine revenue to reflect the increasing rate of decline experienced in the final months of the 2008-09 fiscal year. In Fiscal Year 2009-10, \$187.2 million is expected in the General Revenue Fund. Slightly less than this level is projected for the remaining years of the forecast.

Since the Conference was forecasting trust fund revenues for the first time, actual receipts from Fiscal Year 2008-09 were used as an historical base estimate to which legislative changes (from both the special and regular 2009 legislative sessions) were applied. In addition, revenues into the SCRTF were reduced for each year of the forecast to reflect changes in the assumptions that were used in the original estimate. Eighty-two percent of the total Article V collections (\$1.04 billion) in Fiscal Year 2009-10 will be deposited in various trust funds. Trust fund distributions are expected to follow similar patterns in the out-years.

***Documentary Stamp Taxes:***

*(a portion of these dollars fund general revenue and the rest is associated with various trust funds)*

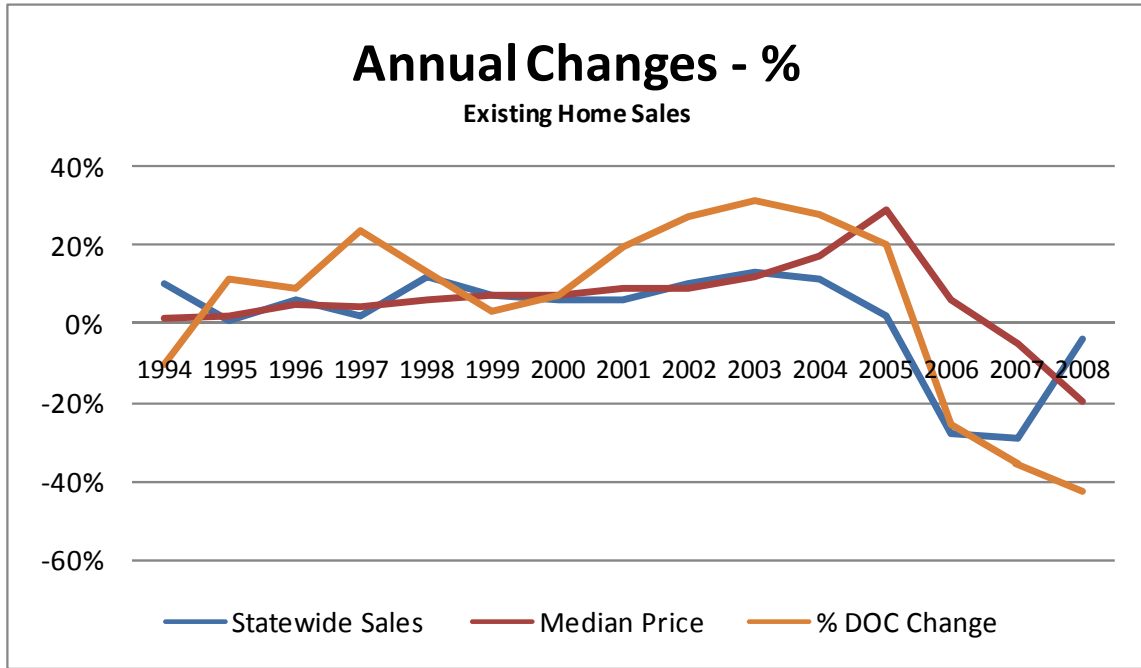
The new forecast reflects conditions that continue to prove that Florida is well below normal patterns of construction and real-estate activity. These conditions are generally expected to last throughout calendar years 2009 and 2010, before returning to more robust growth patterns in 2011. In this regard, Fiscal Year 2009-10 receipts will only achieve 24% of the collection level at its height – the 2005-06 boom year. As the primary driver of the five-year run-up in total documentary stamp tax collections, the state of Florida's housing market is inextricably linked to this revenue source.

The boom, characterized by double-digit growth in home sales and price appreciation, played a significant role in Florida's past collection performance. Current data shows a mixed picture, with year-over year sales of existing homes achieving the seventh month of double-digit increases, while the average monthly sales comprised only 58% of the 2005 level. However, it appears that at least one-third of the sales involve distressed and foreclosed properties. Median sales prices have declined by 28% since last June, affecting nearly every one of the state's metropolitan statistical areas. The peak to trough decline in the median home price for an existing home now stands at 42.6%.

According to the latest Florida Economic Conference, housing starts – albeit exhibiting positive growth – will persist at low levels through calendar year 2009 before beginning a more significant rebound in the second half of 2010. Total construction expenditures follow a similar pattern, although most of Fiscal Year 2009-10 continues negative quarterly growth. Construction expenditures do not return to the 2005-06 level until Fiscal Year 2017-18. Growth in private nonresidential construction is also projected to stay in negative territory this year, before resuming growth at the end of the 2010 calendar year.

Documentary Stamp tax collections are expected to continue declining as the adjustment to stricter lending standards and tighter credit conditions solidifies. Prices will further

weaken – generally exerting downward pressure on collections until the current housing inventory begins to clear. With the increasing level of foreclosures, this is not expected before early 2011.



Total annual collections were greatest in Fiscal Year 2005-06 at \$4.1 billion. In comparison, the forecast for this year is only \$974.8 million, a 13.2% decline over last year. Positive growth is expected in 2010-11 (8.6%) followed by even stronger growth in Fiscal Years 2011-12 and 2012-13 with more typical levels for the remainder of the forecast.

***Highway Safety Licenses and Fees:***

The Revenue Estimating Conference has developed a separate conference for the exclusive purpose of forecasting Highway Safety Licenses and Fees. Previously, portions of these revenues were included in other conferences:

- o General Revenue...Drivers Licenses, and Auto Title and Lien Fees; and
- o State Transportation Trust Fund...various transfers.

However, the enactment of Chapter 2009-71, L.O.F., created the need for a separate revenue estimating conference by significantly increasing the amount of revenues going to the General Revenue Fund, the Highway Safety Operating Trust Fund (HSOTF), and other trust funds.

The General Revenue forecast for the first conference was developed by combining the existing estimates with the legislative changes arising from the enactment of Chapter 2009-71, L.O.F. Adjustments were made to decrease revenues in Fiscal Years 2009-10 and 2010-11 as a result of the significant increase in biennial motor vehicle registrations experienced in June 2009 after the law was enacted. In addition, revenue was slightly

buoyed as a result of a legislative change that increased the amount of late civil penalties. In total, the General Revenue Fund will receive \$793.4 million in Fiscal Year 2009-10. Because the first year is only a partial year (many of the increases did not start until September), future years will have receipts just shy of \$1 billion. Highway Safety Fees are now the third largest source for the General Revenue Fund.

Since the conference was forecasting trust fund revenues for the first time, actual Fiscal Year 2008-09 revenue receipts were used as an historical base estimate to which legislative changes were applied. In addition, specific reductions were made to the HSOTF and the Grants and Donations Trust Fund in the Department of Juvenile Justice due to the increase in biennial motor vehicle registrations. Revenues in the HSOTF were further reduced to remove a fee increase that ultimately did not apply to the Florida Real Time Vehicle Information System for vessels. Previous estimates had included these revenues. Sixty-one percent of the total Highway Safety Fee collections (\$2.02 billion) in Fiscal Year 2009-10 will be deposited in various trust funds. Trust fund distributions are expected to follow similar patterns in the out-years, although future year collections will be annualized.

***Tobacco Settlement Trust Fund:***

On August 25, 1997, the State of Florida and several major American tobacco companies (Philip Morris Incorporated; R. J. Reynolds Tobacco Company; Brown & Williamson Tobacco Corporation; and Lorillard Tobacco Company) entered into a *Settlement Agreement* that included both non-monetary and monetary provisions related to Florida's financial losses as a result of smokers in the state's Medicaid program. In the Agreement, the tobacco companies agreed to discontinue certain forms of advertising and to support certain legislative initiatives. These included prohibiting the sale of cigarettes in vending machines and strengthening civil penalties related to the sale of tobacco products to children and possession of tobacco products by children. The tobacco companies also agreed to make annual payments in perpetuity, with the payments structured to be about \$11.3 billion over the first 25 years, subject to certain annual adjustments, primarily for shipment volume and the Consumer Price Index.

The Tobacco Settlement Trust Fund (TSTF) receives the settlement payments. The funds are currently used for programs in the Health and Human Services area. The current year (2009-10) funds available estimate for the TSTF is \$397.0 million. An additional \$2.2 million goes directly to the Biomedical Research Trust Fund. In Fiscal Year 2010-11, \$367.3 million is expected from payments and profit adjustments, and \$15.7 million is expected in transfers from the Lawton Chiles Endowment Fund. Including unspent (non-recurring) funds from this year of \$0.1 million and \$2.0 million in interest earnings, a total of \$385.1 million will be available for expenditure. These figures make no adjustment for the constitutionally required funding for tobacco education and prevention. The financial obligation for Fiscal Year 2010-11 will be deducted from the trust fund as an expenditure and is estimated to be \$60.4 million.

Settlement payments are expected to grow slowly in the future, but will be negatively affected if nationwide consumption of cigarettes falls more rapidly than expected. Conversely, settlement payments will be positively affected if general price inflation is more rapid than currently projected.

***Tobacco Tax and Surcharge:***

The Revenue Estimating Conference has developed a separate conference for the exclusive purpose of forecasting the Tobacco Tax and Surcharge. Previously, a portion of these revenues were included in the General Revenue Conference. The new conference met convened on August 11, 2009. Based on information regarding collections to date, the Conference increased its 2009-10 estimate of the inventory surcharge on Cigarettes and Other Tobacco Products by \$72.0 million, bringing the estimated total to \$110 million. Assuming that the elevated inventory-based collections will result in lower future collection activity, the Conference made largely offsetting, near-term adjustments to the related taxes and surcharges. The corresponding negative adjustment for surcharge collections is -\$48.0 million to the 2009-10 estimate (split -\$2.7 million Other Tobacco Products and -\$45.3 million Cigarettes). The Conference also made negative adjustments to the 2009-10 estimates of -\$1.2 million to Other Tobacco Products Tax and -\$10.2 million to Cigarette Tax. The conference made no changes to the prior estimates for fiscal years 2010-11, 2011-12, and 2012-13.

<b>Tobacco Tax and Surcharge Conference</b>				
<b>Summary of Differences between Post-Session 2009 and August 2009 conferences</b>				
	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>
<b>Floor Tax</b>				
<b>OTP</b>	4.0	0.0	0.0	0.0
<b>Cigarette</b>	68.0	0.0	0.0	0.0
<b>Total</b>	72.0	0.0	0.0	0.0
<b>Surcharge</b>				
<b>OTP</b>	-2.7	0.0	0.0	0.0
<b>Cigarette</b>	-45.3	0.0	0.0	0.0
<b>Total</b>	-48.0	0.0	0.0	0.0
<b>OTP Tax</b>	2.0	0.0	0.0	0.0
<b>Cigarette Tax</b>	-16.5	0.0	0.0	0.0
<b>GR</b>	-10.2	0.0	0.0	0.0

***Transportation Revenue and the State Transportation Trust Fund:***

*[NOTE: Since there were only insignificant changes from the previous estimates, there was no need to update the forecast in the summer. The next conference will be convened in the Fall.]*

The Revenue Estimating Conference for the State Transportation Trust Fund last met on March 6, 2009, to adopt the forecast for revenues flowing into the State Transportation Trust Fund (STTF). The conference made significant downward adjustments to the overall forecast through the work program period, which ends in 2013-14. Over the work program period, revenues to the trust fund were reduced by \$816.5 million, or 4.7%. The



projected losses are largely the result of the shortfalls that have developed in most categories, as well as the weaker economic activity reflected in the National and Florida economic forecasts. Specific changes in the forecast discussed below all refer to the work program period.

- The projection for revenues from highway fuel consumption, which includes the Highway Fuel Sales Tax and the SCETS Tax, was reduced by \$649.4 million, or 5.7%. Projected tax rates remain stable or slightly lower, with the reduction in the forecast mainly attributable to reduced consumption of both gasoline and diesel fuel.
- The Aviation Fuel Tax forecast was reduced by \$22.6 million, or 6.2%, due to weakness in recent collections as well as the extended economic correction.
- The forecast for Off-Highway Fuel Sales Tax was decreased by \$8.5 million, or 8.8%, due to poor collection performance over the past several months and anticipated weakness in the construction sector in future years.
- Expected revenues from Fuel Use taxes and fees were decreased by \$2.6 million, or 3.1%, while the projection for the Rental Car Surcharge was reduced by \$46.6 million, or 6.9%, due to recent lagging collections and the expectation for continued weakness in tourist activity.
- The distribution from Local Option Tax Service Charge was reduced by \$7.6 million, or 3%, responding to the reduced forecast for highway fuel consumption.
- The weaker economic and demographic outlook also resulted in cuts being made to the registration-related fees. The forecast for Initial Registration Fees was reduced by \$47.3 million, or 6.8%, while the forecast for Title Fees was reduced by \$50.4 million, or 8.3%.

***Session Update: SB1806 provides for a General Revenue Service Charge increase from 7.3% to 8%. According to the Revenue Estimating Conference's official impact for the State Transportation Trust Fund, this bill decreases aviation fuel tax revenue by \$0.6 million per year (\$0.5 million in Fiscal Year 2009-10), and also decreases rental car fee revenue by an amount ranging from \$0.7 million to \$1.0 million per year.***

***HB509 redistributes veterans license plate fees. Beginning in Fiscal Year 2009-10, it redirects \$0.2 million per year from the State Transportation Trust Fund to the State Homes for Veterans Trust Fund.***

***Lottery, Slots & the Educational Enhancement Trust Fund:***

Dedicated to educational programs, lottery and slots dollars are used to fund the Educational Enhancement Trust Fund (EETF). Because these sources are so different, they are typically estimated separately.

The Revenue Estimating Conference met concerning **Lottery** revenues on July 16, 2009. The conference reduced expected distributions to the Educational Enhancement Trust Fund (EETF) from current projections by \$14.5 million in 2009-10 and \$13.4 million in 2010-11, while recognizing that in 2008-09 the EETF distribution exceeded estimate by \$59.0 million. These figures translate into growth rates of -6.7% in 2009-10 and -.4% in 2010-11. Distributions are then expected to increase by 0.7% in 2011-12 and 1.3% in 2012-13.

The forecast for scratch-off, Powerball, Lotto, Play 4, and Cash 3 sales were reduced, while the forecast for Fantasy 5 sales was increased. The forecasts for Mega-Money and Raffle were left unchanged, except that the 2009-10 forecast for Raffle sales was increased by \$2.5 million to reflect sales of the latest raffle game which occurred after the beginning of the 2009-10 fiscal year. Overall the forecast for scratch-off ticket sales was reduced by \$100.0 million in 2009-10 and by \$65.8 million in 2010-11, while the forecast for online ticket sales was reduced by \$59.2 million in 2009-10 and by \$58.9 million in 2010-11.

The impact of the reduced ticket sales on EETF transfers was offset somewhat by the fact that prize payout percentages are expected to be somewhat lower than in the previous forecast, resulting in higher transfer rates to EETF.

<b>Summary of All Lottery Games</b>				
		<b>Post-session 2009</b>	<b>July 2009</b>	<b>Difference</b>
<b>TOTAL EETF</b>	<b>2008-09</b>	1226.2	1285.2	59.0
	<b>2009-10</b>	1213.6	1199.1	-14.5
	<b>2010-11</b>	1207.7	1194.3	-13.4
	<b>2011-12</b>	1215.7	1202.2	-13.5
	<b>2012-13</b>	1231.4	1217.6	-13.8

Because there was little change since the last forecast, the Conference last addressed **slot machine** tax revenues in February. The estimates of transfers to the Educational Enhancement Trust Fund were affected as follows:

<b>Slot Machines Tax Collections</b>			
<b>Millions of \$</b>			
	<b>Oct-08 Estimate</b>	<b>Feb-09 Estimate</b>	<b>Difference</b>
2008-09	107.8	104.4	-3.4
2009-10	137.5	132.9	-4.6
2010-11	188.2	178.0	-10.2
2011-12	202.3	183.3	-19.0
2012-13		190.8	n/a

The February forecast reflected updated tax collections data and information concerning the number of machines in the currently operating facilities. Collections during the first seven months of the last fiscal year were running about 4% below estimate, for a total of \$2.4 million below estimate through January. A good part of the shortfall was due to a miscalculation in tax liability by one of the facilities which resulted in a \$660,000 over payment during the first three months of the year, and a \$2.3 million overpayment during the 2007-08 fiscal year. These overpayments were built into the previous estimate, which resulted in the forecast for the 2008-09 fiscal year being approximately \$2.6 million too high. The remainder of the reduction in the 2008-09 fiscal year was due to lower than anticipated collections overall. The conference expected that the current economic weakness coupled with the introduction of Class III slot machines in Native American casinos would result in lower than previously forecast collections through the remainder of the 2008-09 fiscal year, resulting in a new estimate of \$104.4 million, \$3.4 million below the prior estimate.

The weakness in the collections from the Broward County facilities will continue through 2009-10 with stability in the number of machines but declines in the income per machine. The outlook begins to improve with increasing income per machine as the economy begins to turn around in 2010-11 and further strengthens in 2011-12 and 2012-13. The forecast does not anticipate any increase during the forecast period in the number of machines operating in Broward County facilities.

The forecast also differs from the prior forecast relative to the facilities opening in Miami-Dade County. The prior forecast assumed that there would be a total of 2,700 machines operating in Miami-Dade County beginning January 1, 2010, growing to 3,200 in 2010-11 and 2011-12. The new forecast assumes that Flagler Greyhound will operate for  $\frac{3}{4}$  of the 2009-10 fiscal year with 700 machines, Calder/Tropical Park will operate for  $\frac{1}{2}$  of the year with 1,200 machines, and Miami Jai-Alai will operate for  $\frac{1}{4}$  of the year with 1,400 machines, for a total of 3,300 machines operational during the last quarter of the fiscal year. The number of machines in Miami-Dade County is expected to remain stable throughout the forecast period. The income per machine is expected to follow the same pattern as for the facilities in Broward Country.

This forecast assumes that all facilities currently operating will continue to operate, and that the Miami-Dade facilities will begin operating as outlined above and continue in operation, throughout the forecast period. There is a risk associated with this forecast should one or more of the facilities not open as planned or not remain open due to financial difficulties.

For Fiscal Year 2009-10, the **Educational Enhancement Trust Fund** has a projected positive balance of \$14.8 million after accounting for all available funds and anticipated expenditures. This amount does not include any revenues associated with the Indian Gaming Compact.

***Ad Valorem Assessments (Property Tax Roll):***

Estimates of the statewide property tax roll are primarily used in the appropriations process to approximate the Required Local Effort (RLE) millage rate. This is the rate local school districts must levy in order to participate in the Florida Education Finance Program. The Revenue Estimating Conference met on July 30, 2009 to update its projections for the school roll. The July 1, 2010 certified school taxable value is projected to be \$1,520 billion. This represents a decrease of \$103 billion or a negative 6.3 percent decrease from the July 1, 2009 certified level. After deducting the statutorily required discount rate of 5 percent, the value of one mil applied to school taxable value is approximately \$1,444 million. On a per mil basis, this represents a \$76 million decrease from the March, 2009 estimate and a \$98 million decrease from the July 1, 2009 certified value. The actual RLE millage rate will be set after the legislative session.

The outlook for Florida’s housing market has not changed significantly since the March 2009 conference. Florida’s housing market remains weak. Changes in the estimate reflect the incorporation of new property tax data and not changes to the underlying economic drivers of the model. Even though certain areas of the State are witnessing increased property sales, sales prices for those properties are significantly lower than the same period a year ago. Much of the weak pricing is attributed to forced-sales and sales of foreclosed properties. The value of commercial property, which has fallen during the last year, weighs heavily on the 2010 forecast of taxable value. Long-term growth in taxable value will continue to remain anemic as long as high inventories of unsold property exist.

July 1, 2010 Certified School Taxable Value						
<i>(millions of dollars)</i>	Actual July 1, 2009 Certified School Taxable Value	March 2009 Estimate of July 1, 2010 Certified School Taxable Value	July 2009 Estimate of July 1, 2010 Certified School Taxable Value	Change in Estimates (March vs. August)	Change from Actual	Percentage Change from Actual
School Taxable Value	1,622,946	1,600,301	1,520,210	-80,091	-102,736	-6.3%
Value of one mill at 95 percent	1,542	1,520	1,444	-76	-98	-6.3%

***Gross Receipts Tax and Communications Services:***

The Revenue Estimating Conference met on July 24, 2009 to adopt a new forecast for the Gross Receipts Tax and the State Sales Tax on Communications Services. In Fiscal Year 2008-09, actual collections for the Gross Receipts Tax (levied on electricity, gas and communications) were about \$7.3 million below the March estimate, while collections of the State Sales Communications Service Tax were \$19.8 million lower than the level estimated at the March conference. Compared to the March conference result, the new Gross Receipts Tax forecast shows a decrease for each year through Fiscal Year 2015-16, and increases for the rest of the forecast period. These changes feed directly into the dollars available for PECO appropriations. For the State Sales Tax on Communications Services, the new forecast is lower than the March conference estimates for every year in the forecast period. The highlights are detailed below.

	Gross Receipts Tax All Sources	Gross Receipts Tax on Electricity	Gross Receipts Tax on Gas	Communications Services Tax-Gross Receipts Component	Communications Services Tax-State Tax Component	Additional State Tax on Direct-to-Home Satellite	Local Communications Service Tax
<b>FY 08-09</b>	1126.22	623.71	29.41	473.10	1075.57	58.54	915.76
<b>FY 09-10</b>	1090.80	605.07	28.23	457.50	1098.62	58.11	874.70
<b>FY 10-11</b>	1126.41	632.49	29.43	464.49	1126.77	60.15	886.65
<b>FY 11-12</b>	1177.20	668.90	30.70	477.60	1170.07	62.25	911.19
<b>FY 12-13</b>	1228.21	708.90	31.62	487.69	1205.12	64.43	929.38
<b>FY 13-14</b>	1278.45	746.70	32.88	498.87	1242.42	66.69	949.73
<b>FY 14-15</b>	1331.67	786.48	33.55	511.64	1283.09	69.02	973.26
<b>FY 15-16</b>	1386.56	826.83	34.63	525.09	1324.70	71.44	998.12
<b>FY 16-17</b>	1452.87	878.48	35.12	539.27	1367.17	73.94	1024.37
<b>FY 17-18</b>	1491.43	902.10	35.50	553.83	1409.60	76.53	1051.31
<b>FY 18-19</b>	1528.74	924.09	35.86	568.79	1452.58	78.83	1079.41

**Gross Receipts Tax on Electricity...** The Conference discussed the tax collection pattern since the last estimate was adopted. Collections for the past four months (electricity and gas combined) were \$5 million below the estimate. This error was about 2.4% over this four-month period, and the shortage was mainly due to further weakened demand in Florida's market for electricity.

In the new forecast, the price of electricity in 2009 will increase, but to a lesser degree than projected at the March conference. However, the demand for electricity appears to be further weakening, resulting in a lower forecast for all fiscal years from 2009-10 through 2014-15. Cumulatively, this adjustment subtracts \$60.2 million from the March estimate. From Fiscal Year 2015-16 on, collections are projected to be higher than the March forecast as the economy improves.

**Gross Receipts Tax on Gas Fuels...** Natural gas prices decreased significantly in Fiscal Year 2008-09 and are expected to further erode in Fiscal Year 2009-10 before beginning a period of steady increases. Gas tax collections did not respond to the price reductions as much as anticipated in the previous forecast, resulting in actual receipts that were greater than the March estimates. The Gas Fuels Tax is projected to be higher than the March estimate for each of the future fiscal years.

**Communications Services Tax...** For the past four months, the Gross Receipts Tax component of the Communications Services Tax was \$2.3 million lower (1.5%) than the estimate, and the State Sales Tax component was \$19.8 million lower (1.8%). Starting in Fiscal Year 2009-10 and continuing throughout the forecast, collections for both tax sources are projected to be lower than the March estimates. The weakness is largely attributable to greater than anticipated decreases in demand for cellular phone services, Cable TV, and the residential landline telephony sector.

**Additional State Tax on Direct-to-Home Satellite Service and Local Communications Service Tax...** The conference’s adopted package also includes projections for the additional state tax on Direct-to-Home Satellite Services (DHSS) and the Local Communications Service Tax. The DHSS tax is the portion of the tax that is distributed to local governments through the Local Government Half-Cent Clearing Trust Fund. For the entire forecast period, DHSS collections are expected to be lower than the March estimate, with the Local CST showing a similar pattern of decreases.

**Public Education Capital Outlay and Debt Service Trust Fund:** The Public Education Capital Outlay Program addresses educational facilities construction and fixed capital outlay needs for school districts, community colleges, and universities. The Revenue Estimating Conference met on July 20, 2009 to project the maximum dollars available for appropriation from the Public Education Capital Outlay (PECO) and Debt Service Trust Fund.

	Maximum PECO Appropriations	Estimated PECO Bonding
FY 2009-10	359.3	155.1
<b>FY 2010-11</b>	<b>161.9</b>	<b>10.1</b>
FY 2011-12	464.3	268.5
FY 2012-13	793.4	574.8
FY 2013-14	1162.6	917.5
FY 2014-15	1016.7	745.0
FY 2015-16	929.1	650.0
FY 2016-17	991.2	696.1
FY 2017-18	1022.7	715.0
FY 2018-19	872.3	591.5

The Revenue Estimating Conference reduced the forecast of the maximum amount available for appropriation from the PECO Trust Fund for Fiscal Year 2010-11 by \$210.2 million, to \$161.9 million in total. Of this total amount, \$10.1 million is from the sale of bonds, a reduction of \$182.7 million from the March 2009 estimate. Nearly all of this revision is due to the lower forecast for the Gross Receipts Tax, which funds the debt service on the bonds. The reduction in the Gross Receipts Tax estimate continues to dampen bonding capacity in Fiscal Year 2011-12, before rising to more normal levels in the subsequent fiscal years.

The amount available as cash is projected to be \$151.8 million in Fiscal Year 2010-11, lower by \$27.5 million from the March forecast. The amount available as cash is reduced because of the lower tax forecast and also because of lower interest earnings on trust fund balances.

***Principal State School Trust Fund:***

Used exclusively to meet public school needs, the Principal State School Trust Fund contains revenue primarily derived from unclaimed property. The projection of receipts from abandoned property and the subsequent distribution into the State School Trust Fund were revised July 17, 2009 by the Revenue Estimating Conference. Remittances of abandoned property to the State were below estimate for Fiscal Year 2008-09 at \$298.0 million, or \$14.3 million (-4.6%) lower than estimated. Property returned to owners, however, was significantly higher than estimated. Property returned to owners totaled \$174.9 million, or \$19.5 million greater than forecasted. As a result of these two factors, transfers to the State School Trust Fund were \$38.4 million less than expected. The Revenue Estimating Conference adopted a new forecast which, while reflecting a 5% increase in receipts, anticipates a significantly higher proportion of property returned to owners than previously forecasted. For Fiscal Year 2009-10, the recurring transfer to the State School Trust Fund was decreased by \$36.2 million from the previous forecast. This decrease, in combination with lower estimates of non-operating revenues, leaves a projected deficit in the fund during the 2009-10 fiscal year of \$38.1 million. Future revenues are expected to grow from the 2009-10 level.

## ***FLORIDA DEBT ANALYSIS***

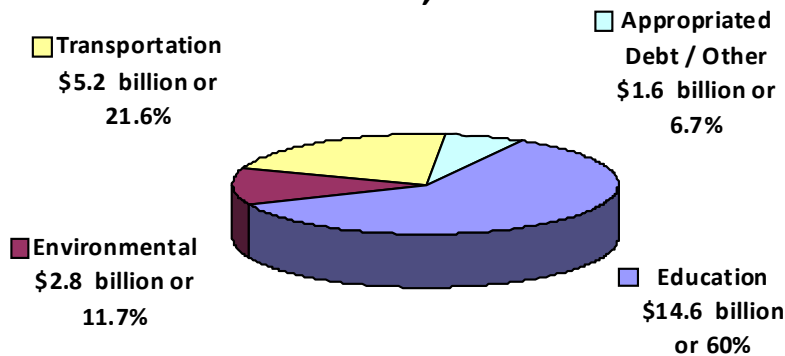
Florida law requires an ongoing analysis of the State’s debt position. This requirement enables lawmakers to consider the impact of future bond issuances on the state’s debt position during the decision-making process. If the state has too much debt relative to its expected revenues, any additional debt financings could impact the State’s credit rating and its borrowing cost. To implement this analysis Florida law designates a benchmark debt ratio and establishes a 6% target, as well as a 7% maximum cap. To exceed the target, the Legislature must determine that additional debt is in the best interests of the state. To exceed the cap, a declaration of critical state emergency must be made. The discussion below reflects the key points of the *2008 Debt Affordability Report* prepared by the Division of Bond Finance which covered the period June 30, 2007 to June 30, 2008. However, *the August 2009 Revenue Estimating Conference results have been considered in* the discussion of estimated revenues and *the projection of the benchmark ratio* of debt service to revenues available. The next report will be released in December.

### ***Debt Outstanding***

Total State debt outstanding at June 30, 2008 was \$24.3 billion, approximately the same as June 30, 2007. Net tax-supported debt totaled \$20.3 billion for programs supported by State tax revenues or tax-like revenues. Self-supporting debt totaled \$4.0 billion, representing debt secured by revenues generated from operating bond-financed facilities. Additionally, indirect State debt at June 30, 2008 was \$16.6 billion, \$2.4 billion more than the prior year-end. Indirect debt increased significantly due to borrowing by insurance-related entities, i.e., Florida Hurricane Catastrophe Fund Finance Corporation and Citizens Property Insurance Corporation; however, indirect debt is not a component of State debt ratios or the debt affordability analysis.

### **Debt Outstanding by Program**

**June 30, 2008**

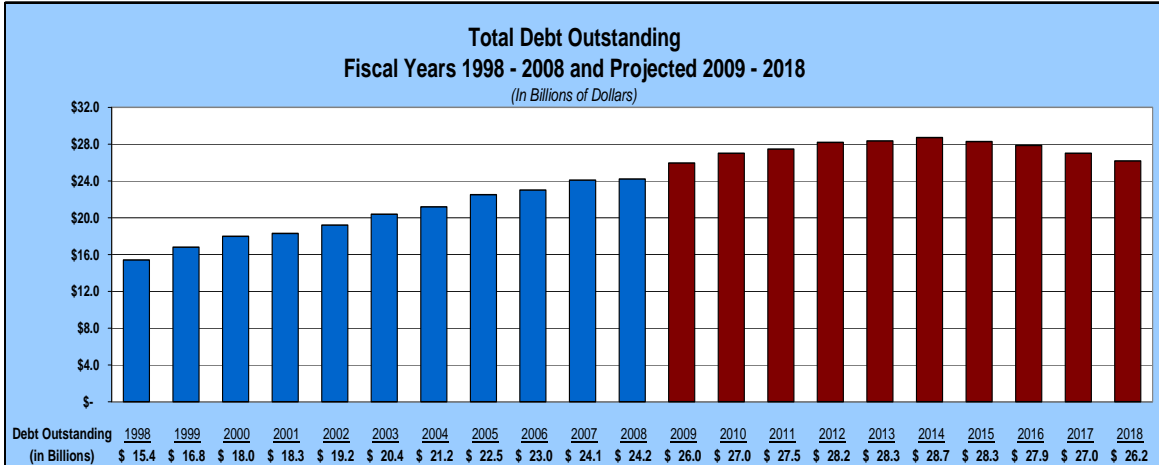


**Total Debt Outstanding: \$24.3 billion**



***Growth in Debt***

Total State Debt has increased nearly \$9.0 billion over the last ten years from \$15.4 billion to \$24.3 billion. Based on existing borrowing plans, debt outstanding is expected to reach \$28.7 billion in 2014.

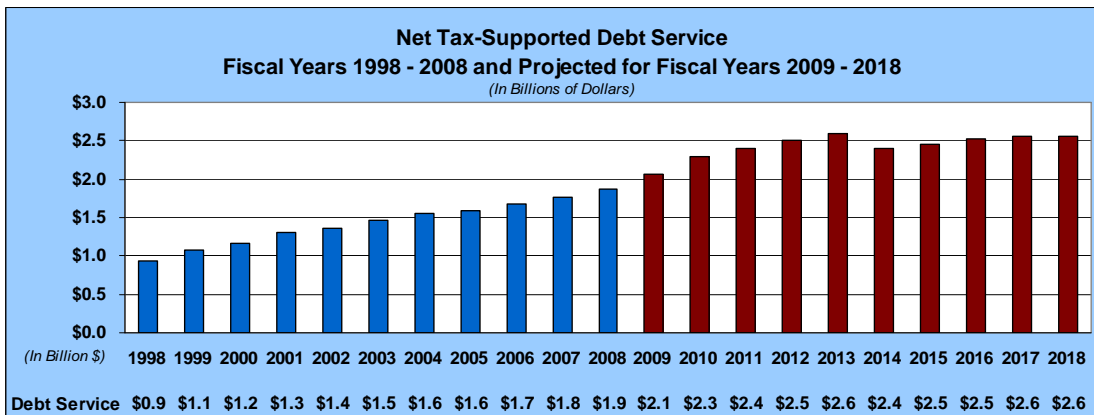


***Estimated Debt Issuance***

Approximately \$13.3 billion of debt is expected to be issued over the next ten years for all of the State’s currently authorized financing programs. This estimate is approximately \$1.2 billion or 9.0% more than the previous projection of expected debt issuance. The increase in expected debt issuance is due to the authorization of \$3.4 billion additional debt for extending the Florida Forever (\$2.4 billion) and Everglades Restoration (\$1.0 billion) environmental bond programs over the ten year period as authorized during the 2008 Legislative Session. However, in the 2009 legislative session only \$50 million of environmental bonds were authorized verses the projected authority for \$400 million.

***Estimated Annual Debt Service Requirements***

Debt service payments now total approximately \$1.9 billion per year. During Fiscal Year 2007-08, annual debt service requirements increased by \$129.7 million over the prior year, approximately 34% more than the average annual increase over the last ten years. Annual debt service payments are estimated to grow from the existing \$1.9 billion to \$2.6 billion over the next three years based on projected bond issuance.

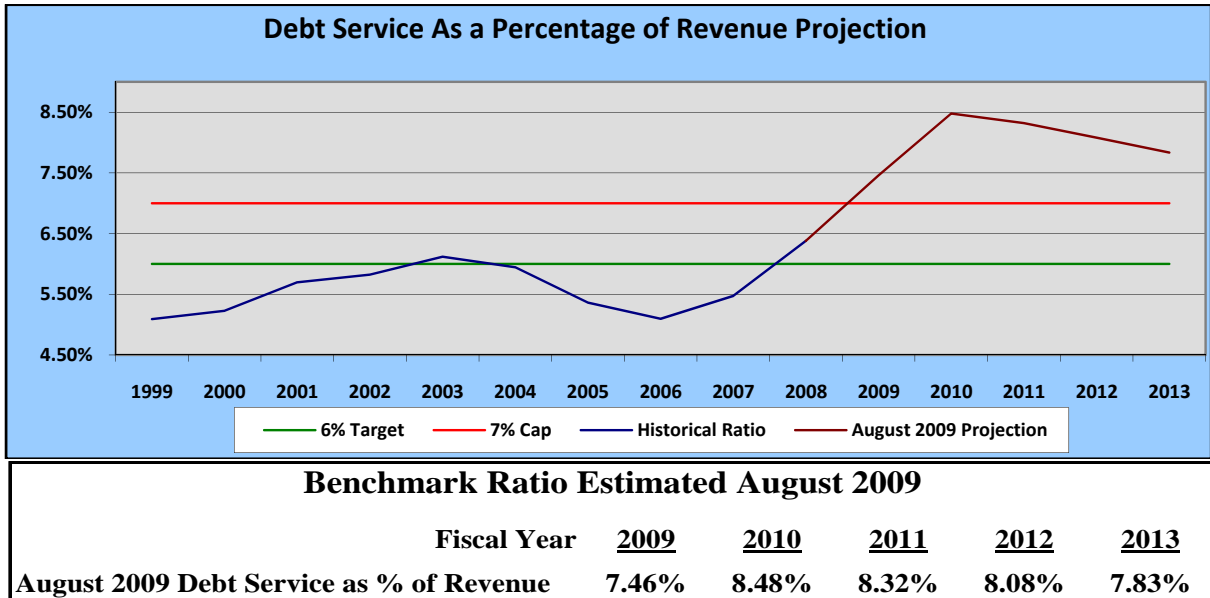


**Estimated Revenues**

As calculated for the purpose of the *Debt Affordability Report*, revenue collections in Fiscal Year 2008-09 of \$27.7 billion were \$2.0 billion or 7% less than Fiscal Year 2007-08 revenues. Additionally, Fiscal Year 2009-10 revenue projections were reduced by an aggregate \$4.8 billion or 18%. Reductions in revenue projections are primarily attributable to the symptoms of the continuing recession, which is now expected to last longer than originally anticipated. As discussed elsewhere in greater depth, these symptoms have three manifestations. First, the hard-to access credit market continues to constrain the housing market, consumer expenditures and business investment. Second, the spread of the worst national recession in the postwar era to a global recession has had spillover effects on business expenditures in Florida and has dampened commercial activity and export growth. Third, the deterioration of wealth from accelerating job losses, the continued depreciation of home values, and the decline in asset values have exerted pressure on discretionary spending.

**Debt Ratios**

The State’s benchmark debt ratio of debt service to revenues available to pay debt service has increased over the past year. The benchmark debt ratio increased from 6.4% for Fiscal Year 2007-08 to approximately 7.5% for Fiscal Year 2008-09. This is the first time that the benchmark debt ratio has exceeded the 7% cap. The increase in the benchmark debt ratio is due to the combined impact of an increase in annual debt service and, more significantly, lower revenue collections during Fiscal Year 2008-09. The benchmark debt ratio is projected to peak at 8.5% for 2010 before improving, largely because of the projected growth in revenues. The benchmark debt ratio could increase further if revenue growth is not realized as projected.



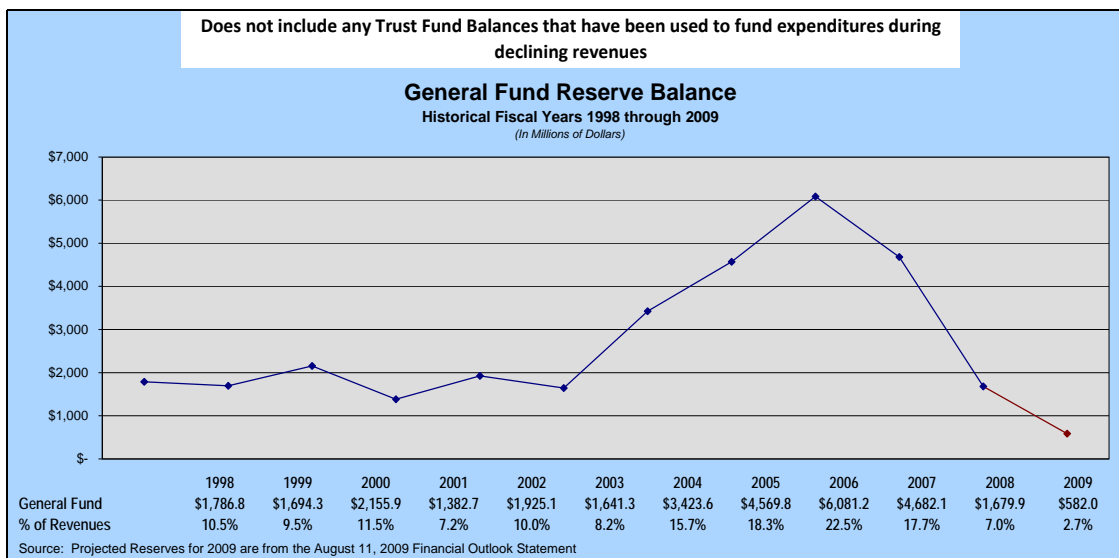
A comparison of 2007 debt ratios to national and peer-group averages indicate that Florida’s debt ratios are generally higher than the national averages but lower than the peer group averages for all but the benchmark debt ratio. The State’s ranking in the ten

state peer-group improved slightly from 2006, but remains in the middle of the peer-group except for the debt as a percentage of personal income where the State's ranking improved from fifth to seventh highest. The State has the fifth highest ratio for the benchmark debt ratio of debt service to revenues within the peer group and fifth highest in debt per capita.

<b>2008 Comparison of Florida to Peer Group and National Medians</b>			
	<b>Net Tax Supported Debt as a % of Revenues</b>	<b>Net Tax Supported Debt Per Capita</b>	<b>Net Tax Supported Debt as a % of Personal Income</b>
Florida	6.38%	\$1,082	2.85%
Peer Group Mean	Not Available	\$1,549	3.74%
National Median	Not Available	\$865	2.50%

### Reserves

One of the most important indicators of a government's financial strength is its general fund reserves. The State's general fund reserves have been reduced significantly over the last three fiscal years to offset revenue declines. The combined balance of the Budget Stabilization and General Revenue Funds was \$4.7 billion or 17.7% of general revenues at June 30, 2007. During the 2007-08 fiscal year, \$3.0 billion of reserves were used to offset declines in revenue collections. Additional reserves were used in Fiscal Year 2008-09 (\$1.07 billion from the Budget Stabilization Fund and \$700 million from moneys in the Lawton Chiles Endowment Fund) to offset the continued decline in revenues. Adequate reserves have been critical in providing the financial flexibility to respond to the deteriorating economic environment, but as reserves have been exhausted the State's future financial flexibility has been impaired.



### Overview of the State's Credit Ratings

Even though confronted with the worst economic downturn in decades, the State was able to maintain its high credit ratings over the past year. However, Fitch Ratings and Standard & Poor's changed the "outlook" for the State's credit rating to "negative" and Moody's Investors Service put the State's rating on "watchlist" for a possible downgrade.

Florida was one of many states whose rating outlook was changed due to the recession and credit crisis. The Legislature's prompt response in making the difficult but necessary budget adjustments was instrumental to maintaining the State's credit rating. Additionally, the Legislature's responsible and timely balancing of the current year budget through a combination of spending reductions, revenue enhancements and stimulus moneys while starting to restore reserves was essential to avoiding a downgrade. Moody's removed the State from its "watchlist" but maintained its "negative outlook." The current ratings of "AAA," "AA+" and "AA1" reflect the State's strong and conservative financial management practices, moderate debt burden, well-funded pension system, large and diverse economy with solid long-term prospects and still significant reserves. However, the State's current credit ratings remain vulnerable and the rating agencies will be carefully monitoring future economic and budgetary developments. The credit challenges facing the State are its economy and further weakness causing revenue declines; reliance on one-time revenues to balance the budget; and, the inability to restore and maintain adequate reserves.

**General Appropriations Act - All Sections**  
**Tier 2 Issues - Critical and Other High Priority Needs**  
**Expenditure projections (\$ millions)**

<b><u>Recurring</u></b>	<b><u>2009-10</u></b>	<b><u>2010-11</u></b>	<b><u>2011-12</u></b>	<b><u>2012-13</u></b>
General Revenue	20,669.7	24,152.0	27,895.4	29,466.5
change		3,482.3	3,743.4	1,571.1
% change		16.8%	15.5%	5.6%
Educational Enhancement TF	1,392.8	1,390.1	1,388.5	1,411.4
change		-2.6	-1.6	22.9
% change		-0.2%	-0.1%	1.6%
State School TF	159.5	140.7	147.9	155.7
change		-18.8	7.2	7.8
% change		-11.8%	5.1%	5.3%
Tobacco Settlement TF	396.9	385.0	385.3	388.8
change		-11.9	0.3	3.5
% change		-3.0%	0.1%	0.9%
<b>TOTAL</b>	<b>22,618.9</b>	<b>26,067.8</b>	<b>29,817.1</b>	<b>31,422.4</b>
change		3,448.9	3,749.3	1,605.3
% change		15.2%	14.4%	5.4%
 <b><u>Nonrecurring</u></b>	 <b><u>2009-10</u></b>	 <b><u>2010-11</u></b>	 <b><u>2011-12</u></b>	 <b><u>2012-13</u></b>
General Revenue	525.6	1,053.1	1,319.9	1,438.3
Educational Enhancement TF	31.1	0.0	0.0	0.0
State School TF	0.0	0.0	0.0	0.0
Tobacco Settlement TF	0.0	0.0	0.0	0.0
<b>TOTAL</b>	<b>556.7</b>	<b>1,053.1</b>	<b>1,319.9</b>	<b>1,438.3</b>
 <b><u>TOTAL</u></b>	 <b><u>2009-10</u></b>	 <b><u>2010-11</u></b>	 <b><u>2011-12</u></b>	 <b><u>2012-13</u></b>
General Revenue	21,195.3	25,205.1	29,215.3	30,904.8
budget impact		4,535.4	5,063.3	3,009.4
Educational Enhancement TF	1,423.9	1,390.1	1,388.5	1,411.4
budget impact		-2.6	-1.6	22.9
State School TF	159.5	140.7	147.9	155.7
budget impact		-18.8	7.2	7.8
Tobacco Settlement TF	396.9	385.0	385.3	388.8
budget impact		-11.9	0.3	3.5
<b>TOTAL</b>	<b>23,175.6</b>	<b>27,120.9</b>	<b>31,137.0</b>	<b>32,860.7</b>
budget impact		4,502.0	5,069.2	3,043.6

# KEY BUDGET DRIVERS

## Long Range Financial Outlook Issues Summary FY 2010-11 through FY 2012-13

	FY 2010-11		FY 2011-12		FY 2012-13	
	Total GR	Total Major TF	Total GR	Total Major TF	Total GR	Total Major TF
<b>Critical Needs (Includes Annualizations, Mandatory Increases Based on Estimating Conferences, and Other Essential Needs)</b>						
1 Annualize Prior Year New Space - Community Colleges & Universities	10.8	0.0	0.0	0.0	0.0	0.0
2 Restore Federal Stimulus Funds from GR - Education Core Instructional Programs	0.0	0.0	1,216.9	0.0	0.0	0.0
3 Education Adjustments to Maintain Current Base Budget	5.6	(5.6)	11.1	(11.1)	0.0	18.2
4 Voluntary Prekindergarten - Workload/Enrollment	22.6	0.0	7.2	0.0	2.8	0.0
5 Florida Education Finance Program (FEFP) - Adjustment to Maintain Per Student Funding	515.8	(18.8)	(7.9)	7.2	23.3	7.8
6 Bright Futures - Workload at Current Award Levels	0.0	3.0	0.0	9.5	0.0	4.7
7 Annualizations - Health Insurance	38.6	25.7	0.0	0.0	0.0	0.0
8 Risk Management Insurance	10.4	5.3	4.0	2.0	3.8	1.9
9 Increases in Employer-Paid Benefits for State Employees	268.7	50.6	128.6	61.4	148.0	70.6
10 Annualizations - Human Services	(2.4)	(0.3)	0.0	0.0	0.0	0.0
11 Medicaid Estimating Conference	1,608.7	191.5	1,130.7	(324.7)	285.6	285.3
12 KidCare Enrollment Growth	22.4	39.8	28.1	62.6	32.3	72.1
13 TANF (Temporary Assistance for Needy Families) Cash Assistance	44.6	6.3	0.0	(13.0)	0.0	(30.8)
14 Maintenance Adoption Subsidies FMAP Adjustment	3.4	0.0	3.4	0.0	0.0	0.0
15 Tobacco Awareness	0.0	(1.4)	0.0	0.9	0.0	1.8
16 Tobacco Settlement Trust Fund Outlook	11.9	(11.9)	(0.3)	0.3	(3.5)	3.5
17 Court System Funding Required to Offset Decline in Court Fee Revenues	62.0	(62.0)	27.0	(27.0)	9.7	(9.7)
18 Annualization of Criminal Justice Estimating Conference (CJEC) Issues	48.4	0.0	0.0	0.0	0.0	0.0
19 Increase in CJEC Prison System Population	84.3	0.0	131.1	0.0	145.5	0.0
20 Criminal Justice - Increased Capacity/Planning and Site Acquisition	10.0	0.0	91.0	0.0	141.6	0.0
21 Judicial - Due Process Costs	12.0	0.0	12.0	0.0	12.0	0.0
22 State Disaster Funding (Declared Disasters)	9.8	0.0	9.1	0.0	7.1	0.0
23 Unemployment Compensation Trust Fund-Interest on Federal Loans	0.0	0.0	126.9	0.0	199.4	0.0
24 Annualizations - Restore Federal Stimulus Funds for Child Support Stimulus	14.5	0.0	0.0	0.0	0.0	0.0
25 Debt Services, Utilities & Pensions	9.7	1.4	1.5	1.3	1.6	1.3
26 Child Support Enforcement - Federal Stimulus	(2.5)	2.5	2.5	0.0	0.0	0.0
27 Fiscally Constrained Counties - Property Tax Cap	18.1	0.0	18.7	0.0	19.3	0.0
28 <b>Subtotal Critical Needs</b>	<b>2,827.4</b>	<b>226.1</b>	<b>2,941.7</b>	<b>(230.6)</b>	<b>1,028.6</b>	<b>426.6</b>
<b>Other High Priority Needs (Includes Other Historically Funded Issues)</b>						
29 Maintenance, Repairs, and Capital Improvements - Statewide Buildings	44.8	15.3	48.4	15.3	43.8	15.3
30 Environmental Programs Funded with Documentary Stamp Tax	87.8	44.2	119.6	21.7	84.2	81.6
31 Environmental Land Acquisition	0.0	300.0	0.0	300.0	0.0	300.0
32 Other Agriculture & Environmental Programs	109.9	297.9	113.3	316.2	124.6	381.5
33 Other General Government Priorities	24.4	23.4	13.1	20.5	3.8	3.7
34 DOT Adopted Work Program FY 2009-2014	0.0	5,481.1	0.0	5,481.1	0.0	5,481.1
35 Other Transportation & Growth Management Priorities	3.5	8.1	3.5	8.1	3.5	8.1
36 Economic Development Programs	65.4	6.7	65.4	7.6	65.4	8.2
37 National Guard Armories - Repairs and Renovations	5.1	0.0	5.1	0.0	5.1	0.0
38 Cultural, Historical, Workforce, and Highway Safety Priorities	25.9	12.8	27.2	10.8	26.0	10.8
39 Restore Federal Stimulus Funds from GR - Education Non-Core Programs	0.0	0.0	133.6	0.0	0.0	0.0
40 Community Colleges - Workload/Enrollment	38.5	0.0	50.4	0.0	45.8	0.0
41 State Universities - Workload/Enrollment	63.7	0.0	82.9	0.0	75.9	0.0
42 Florida Education Finance Program (FEFP) - Increase Funds per FTE	498.5	0.0	516.6	0.0	551.0	0.0
43 Public Schools - Other Issues	1.2	0.0	1.2	0.0	1.3	0.0
44 Workforce Education - Workload/Enrollment	12.8	0.0	16.0	0.0	14.6	0.0
45 Workforce Education - Other Issues	13.5	0.0	4.0	0.0	4.0	0.0
46 Community Colleges - Other Issues	29.4	0.0	0.0	0.0	0.0	0.0
47 Challenge Grants - Community Colleges & State Universities	106.5	0.0	106.5	0.0	106.5	0.0
48 Other Education - Priorities	11.3	0.0	6.9	0.0	6.0	0.0
49 Bright Futures - Workload at Historical Award Levels	0.0	55.7	0.0	32.4	0.0	34.4
50 Education Adjustments to Maintain Current Base Budget	55.7	(55.7)	32.4	(32.4)	34.4	(34.4)
51 Voluntary Prekindergarten - Increase Funds per FTE	11.2	0.0	11.9	0.0	12.3	0.0
52 State Universities - Other Issues	17.0	0.0	6.4	0.0	5.5	0.0
53 State Employee Salary Increases	133.7	63.5	137.0	65.0	140.3	66.6
54 Medicaid for Aged and Disabled and Medically Needy	250.2	424.0	582.8	784.2	582.8	784.2
55 Developmentally Disabled Services	8.2	12.7	6.0	4.6	12.6	15.4
56 Children and Family Services	60.6	14.3	10.2	5.9	9.6	5.9
57 Health Services	4.0	54.1	(4.2)	6.2	0.0	0.0
58 Human Services Information Technology/Infrastructure	0.0	3.6	0.0	2.7	0.0	2.7
59 Shared Detention Cost - Fiscally Constrained Counties	5.8	0.0	5.9	0.0	6.0	0.0
60 Department of Juvenile Justice - Prevention and Intervention Programs	6.3	0.0	6.9	0.0	5.8	0.0
61 Court System Workload - New Judges and Support Positions	4.0	0.0	4.0	0.0	4.0	0.0
62 Small County Courthouses - Capital Outlay Grants	4.1	0.0	3.8	0.0	3.2	0.0
63 State Attorney, Public Defender, and Regional Counsel Workload	5.2	0.0	4.8	0.0	2.9	0.0
64 <b>Subtotal Other High Priority Needs</b>	<b>1,707.9</b>	<b>6,761.8</b>	<b>2,121.6</b>	<b>7,050.0</b>	<b>1,980.8</b>	<b>7,165.3</b>
65 <b>Total Tier 1 - Critical Needs</b>	<b>2,827.4</b>	<b>226.1</b>	<b>2,941.7</b>	<b>(230.6)</b>	<b>1,028.6</b>	<b>426.6</b>
66 <b>Total Tier 2 - Critical Needs Plus Other High Priority Needs</b>	<b>4,535.4</b>	<b>6,987.8</b>	<b>5,063.3</b>	<b>6,819.4</b>	<b>3,009.4</b>	<b>7,591.9</b>

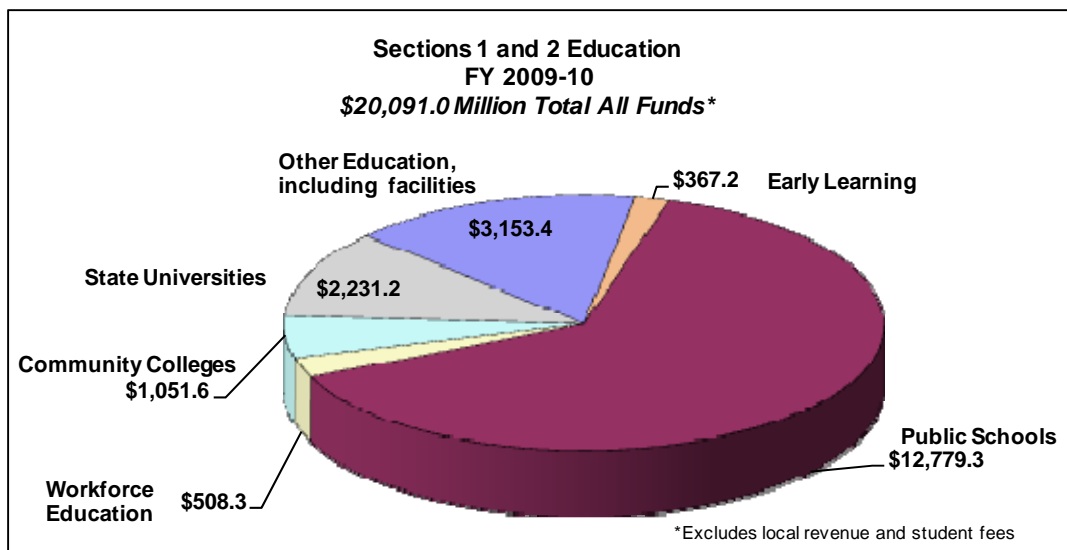
**General Appropriations Act Sections 1 & 2 - Education**  
**Tier 2 Issues - Critical and Other High Priority Needs**  
**Expenditure projections (\$ millions)**

<b><u>Recurring</u></b>	<b><u>2009-10</u></b>	<b><u>2010-11</u></b>	<b><u>2011-12</u></b>	<b><u>2012-13</u></b>
General Revenue	11,327.0	12,630.6	14,716.3	15,489.2
change		1,303.5	2,085.7	772.9
% change		11.5%	16.5%	5.3%
Educational Enhancement TF	1,392.8	1,390.1	1,388.5	1,411.4
change		-2.6	-1.6	22.9
% change		-0.2%	-0.1%	1.6%
State School TF	159.5	140.7	147.9	155.7
change		-18.8	7.2	7.8
% change		-11.8%	5.1%	5.3%
TOTAL	12,879.3	14,161.4	16,252.7	17,056.3
change		1,282.1	2,091.3	803.6
% change		10.0%	14.8%	4.9%
<b><u>Nonrecurring</u></b>	<b><u>2009-10</u></b>	<b><u>2010-11</u></b>	<b><u>2011-12</u></b>	<b><u>2012-13</u></b>
General Revenue	59.1	110.5	110.5	110.5
Educational Enhancement TF	31.1	0.0	0.0	0.0
State School TF	0.0	0.0	0.0	0.0
TOTAL	90.2	110.5	110.5	110.5
<b><u>TOTAL</u></b>	<b><u>2009-10</u></b>	<b><u>2010-11</u></b>	<b><u>2011-12</u></b>	<b><u>2012-13</u></b>
General Revenue	11,386.1	12,741.0	14,826.8	15,599.7
budget impact		1,414.0	2,196.2	883.3
Educational Enhancement TF	1,423.9	1,390.1	1,388.5	1,411.4
budget impact		-2.6	-1.6	22.9
State School TF	159.5	140.7	147.9	155.7
budget impact		-18.8	7.2	7.8
TOTAL	12,969.5	14,271.9	16,363.2	17,166.8
budget impact		1,392.5	2,201.8	914.0

## SECTIONS 1 AND 2 - EDUCATION

### SUMMARY

Funding for Florida's education budget is provided in sections 1 and 2 of the General Appropriations Act and includes programs for early learning (voluntary prekindergarten education), K-12 public schools, workforce education, community colleges, and state universities, as well as financial assistance to students and private colleges. For Fiscal Year 2009-10, the Legislature appropriated a total of \$20.1 billion for the operation of these programs and related facility costs (excluding local revenue and student fees).



The Long-Range Financial Outlook (both critical needs and other high priority needs) includes increases in recurring general revenue spending for education of \$1.3 billion (+11.5%) in Fiscal Year 2010-11; \$2.1 billion (+16.5%) in Fiscal Year 2011-12; and \$772.9 million (+5.3%) in Fiscal Year 2012-13.

In addition to these recurring increases, non-recurring general revenue of \$110.5 million is projected to be needed in each of Fiscal Years 2010-11, 2011-12, and 2012-13.

### ASSUMPTIONS AND DISCUSSION OF MAJOR BUDGET DRIVERS

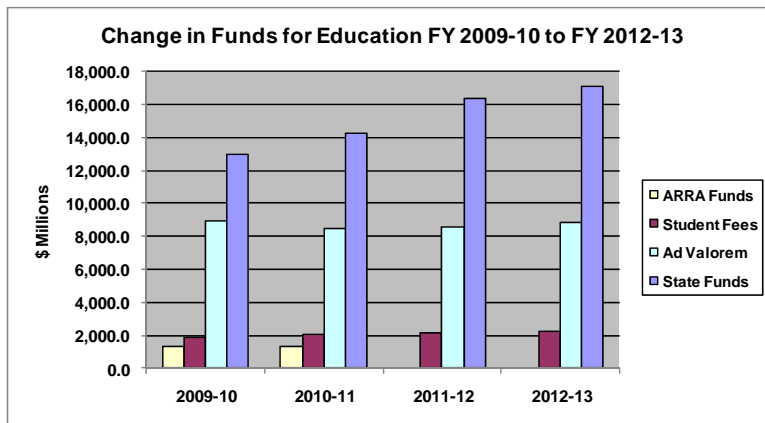
**General** – Projected education budget requirements from the General Revenue Fund, the Educational Enhancement Trust Fund (EETF), the Principal State School Trust Fund, postsecondary student fees, and public school ad valorem revenues have been developed for the 2010-11, 2011-12, and 2012-13 fiscal years by making adjustments to Fiscal Year 2009-10 education funding levels based on workload assumptions and other factors. The projections and major policy assumptions are described below:



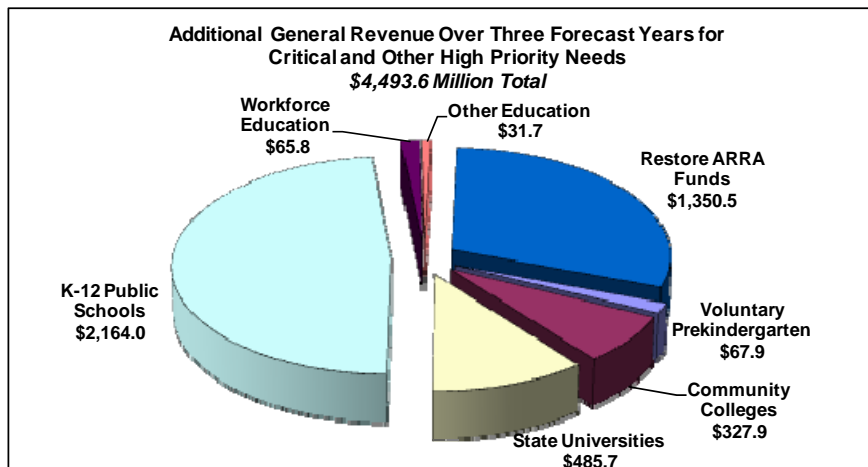
- 1) Available recurring trust funds will be fully utilized before budgeting additional general revenue funds.
- 2) The projected deficit of \$17.5 million in the Voluntary Prekindergarten Education Program will be resolved using non-recurring general revenue in the 2009-10 fiscal year. The deficit is due to a greater number of eligible students participating in the program than was forecasted at the time the appropriations were made for Fiscal Years 2008-09 and 2009-10.
- 3) The projected deficit of \$38.1 million in the Principal State School Trust Fund will be resolved using non-recurring general revenue in the 2009-10 fiscal year.
- 4) Funding projections for the Florida Education Finance Program (FEFP) are based on maintaining the Fiscal Year 2009-10 legislatively authorized millage rates (i.e., 5.288 required and .748 potential discretionary) throughout the three year forecast period. The amount of recurring general revenue in the FEFP formula is adjusted in each of the three forecast years to offset projected losses or increases in ad valorem revenues to support public schools. Over the three year forecast period, there is a net decrease in ad valorem revenues, which is offset by a corresponding increase in general revenue.
- 5) For Class Size Reduction, no additional funding is provided in Fiscal Year 2010-11 to reduce class sizes by two students. The Florida Constitution requires that class size reduction be achieved by the beginning of the 2010 school year.
- 6) Annual tuition increases of 6.5 percent for workforce education programs, community colleges, and state universities are estimated to generate an additional \$388.0 million in recurring fee revenues by Fiscal Year 2012-13.
- 7) The non-recurring State Fiscal Stabilization funds from the American Recovery and Reinvestment Act of 2009 (ARRA stabilization funds) will be available to be appropriated in Fiscal Year 2010-11 from the Federal Grants Trust Fund. Beginning in Fiscal Year 2011-12, critical needs funding includes the restoration of non-recurring ARRA stabilization funds as recurring general revenue in the core instructional programs, including the Voluntary Prekindergarten Education Program, the Florida Education Finance Program, the Florida School for the Deaf and the Blind, the Workforce Development Program, the Community College Program Fund, and State University Education and General Activities. For all other programs receiving ARRA stabilization funds, restoration is included in other high priority needs funding beginning in Fiscal Year 2011-12.
- 8) Targeted funding for federal programs provided through the American Recovery and Reinvestment Act of 2009 is not included in the projections and is not replaced with general revenue. The programs funded with targeted federal dollars include Title I, Individuals with Disabilities Education (IDEA), Education Technology, Education for Homeless Children and Youths, School Lunch

Program, Vocational Rehabilitation Services, Independent Living Services, and Services for Older Blind Individuals.

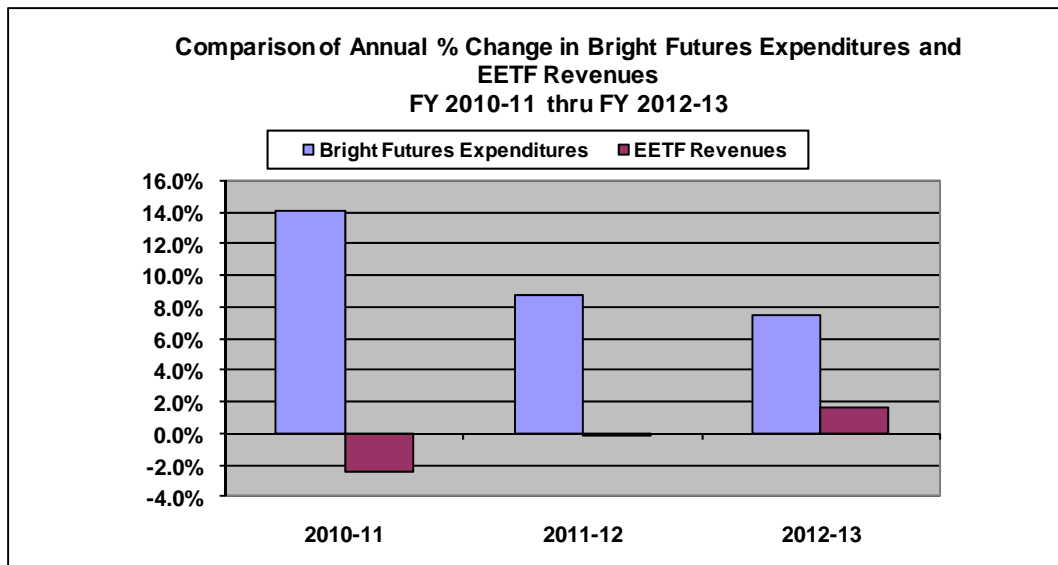
- 9) Recurring general revenue funds are included in the forecast to replace funds from the Educational Enhancement Trust Fund (EETF). Replacement is necessary because EETF proceeds are not projected to increase sufficiently during the forecast period to address the growing costs of the Bright Futures Scholarship Program.
- 10) Most of the growth in recurring expenditures over the three year forecast period is projected to come from state funds, with a large portion of the state funds increase (\$1.4 billion in total) due to restoration of the ARRA stabilization funds in Fiscal Year 2011-12.



- 11) The growth in projected expenditures over the three year period is attributable primarily to three issues: increased student enrollment in public schools (46,623 students), voluntary prekindergarten education programs (8,493 students), community colleges (10,034 students), and state universities (5,825 students); a net decline in ad valorem revenues for public schools; and the restoration of non-recurring ARRA stabilization funds.



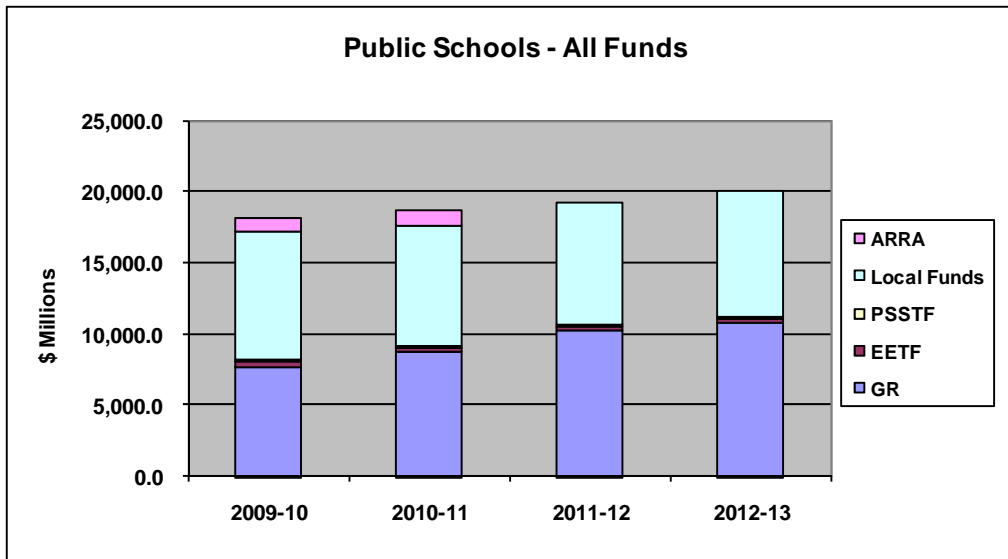
**Educational Enhancement Trust Fund (EETF) Revenues** – Estimated total recurring EETF revenues, comprised of lottery and slot machine revenue, which are available to support education for the forecast period are based on the July 2009 Revenue Estimating Conference. Critical needs funding includes sufficient revenues to fund Bright Futures Scholarship payments based on the number of eligible recipients projected by the Office of Economic and Demographic Research and to maintain current award amounts. Other high priority needs funding includes sufficient EETF revenues to increase Bright Futures awards to pay for annual tuition increases of 6.5 percent for community colleges and state universities. Because the projected growth in EETF proceeds is insufficient to address the growing cost of the Bright Futures program, additional general revenue funding is included to replace EETF revenues that are currently used for other education programs, including public schools, community colleges, and state universities.



**Early Learning (Voluntary Prekindergarten Education Program)** – Critical needs funding is projected for the Voluntary Prekindergarten Education Program for enrollment increases determined by the July 2009 Early Learning Programs Estimating Conference. In addition, funds are included in Fiscal Year 2011-12 to restore non-recurring ARRA stabilization funds. Other high priority needs funding is projected by increasing the base student allocation using the historical four year average percentage increase per FTE in the FEFP of 2.87 percent in each of the three forecast years.

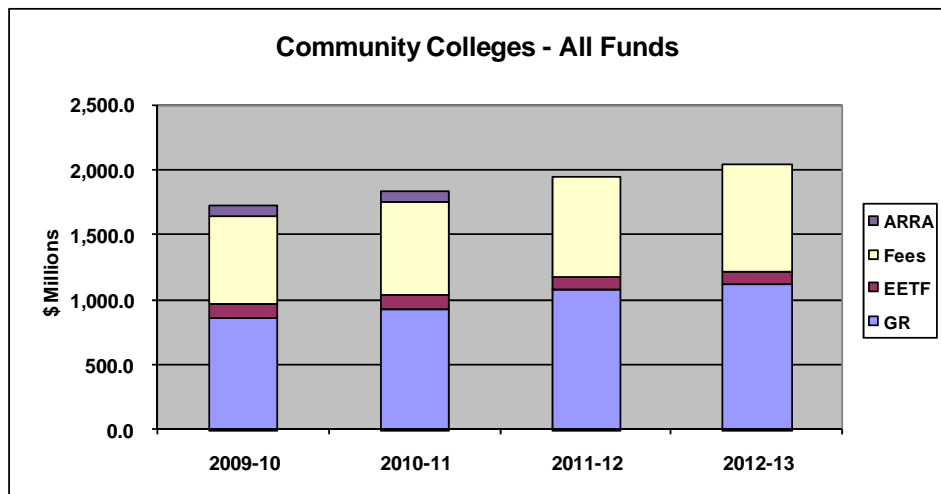
**Public Schools Operating Costs** – Ad valorem revenues projected to be available to support public schools are forecasted by applying the current certified required local effort (RLE) millage rate of 5.288 to the projected tax roll for each of the forecast years. The tax rolls for 2010 through 2012 were projected by the July 2009 Ad Valorem Estimating Conference. Critical needs funding is projected for enrollment growth in the Florida Education Finance Program (FEFP) and Class Size Reduction and to offset the net decrease in ad valorem revenues. Total funds per student are maintained at the Fiscal Year 2009-10 level of \$6,876.99. In addition, funds are included in Fiscal Year 2011-12

to restore non-recurring ARRA stabilization funds in the FEFP and the Florida School for the Deaf and the Blind. Enrollment growth for the three forecast years is based on estimates from the June 2009 Public Schools Enrollment Estimating Conference. Other high priority needs projections include an increase in funding for the FEFP and the Florida School for the Deaf and the Blind based on the historical four year average percentage increase in FEFP funds per FTE of 2.87 percent for each of the forecast years. In addition, recurring funds are included in Fiscal Year 2011-12 to restore non-recurring ARRA stabilization funds in the Non-FEFP, Educational Media and Technology Services, and Federal Grants budget entities.

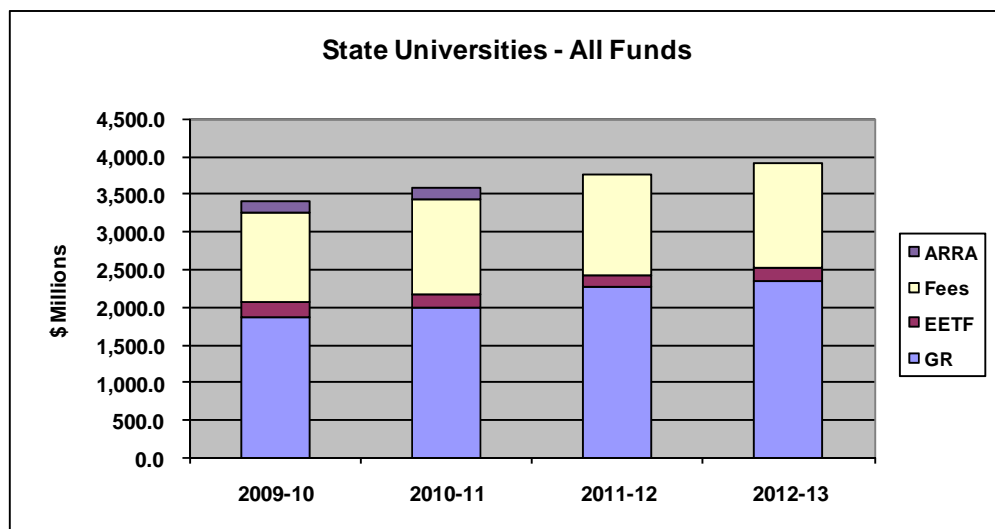


**Workforce Education** – Critical needs funding includes the restoration of non-recurring ARRA stabilization funds in Fiscal Year 2011-12. Other high priority needs funding includes workload increases based on the annual Consumer Price Index plus one percent each year during the forecast period. Funds are also provided in other high priority needs for the restoration of non-recurring appropriations for the Workforce Development, Performance Based Incentives, and Ready to Work programs. A 6.5 percent annual increase in student fees is assumed.

**Community Colleges** – Critical needs funding includes the projected cost to annualize prior year new space operations in Fiscal Year 2010-11 and to restore non-recurring ARRA stabilization funds in Fiscal Year 2011-12. Other high priority needs funding includes workload increases based on a one percent annual increase in enrollment and per student funding increases equal to the Consumer Price Index for each year during the forecast period. Funds are also provided in other high priority needs for the phase-in of new physical space operations (projection based on historical average), the restoration of non-recurring appropriations, and to match private donations through the operating challenge grant program (projection based on historical average). Based on the most recent data available (February 2009), the outstanding eligible match request total for community college operating challenge grants is \$86 million. A 6.5 percent annual increase in student tuition is also assumed.



**State Universities** – Critical needs funding includes the projected cost to annualize prior year new space operations in Fiscal Year 2010-11 and to restore non-recurring ARRA stabilization funds for Education and General Activities, the Institute of Food and Agricultural Sciences, and the medical schools in Fiscal Year 2011-12. Other high priority needs funding includes workload increases based on a one percent annual increase in enrollment and per student funding increases equal to the Consumer Price Index for each year during the forecast period. Funds are also provided in other high priority needs for the phase-in of new physical space operations (projection based on historical average), for the continued phase-in of the FIU and UCF medical schools, and to match private donations through the operating challenge grant program (projection based on historical average). Based on the most recent data available (June 2009), the outstanding eligible match request total for university operating challenge grants is \$140.8 million. In addition, funds are included in Fiscal Year 2011-12 to restore non-recurring ARRA stabilization funds for all other programs. A 6.5 percent annual increase in student tuition is assumed.

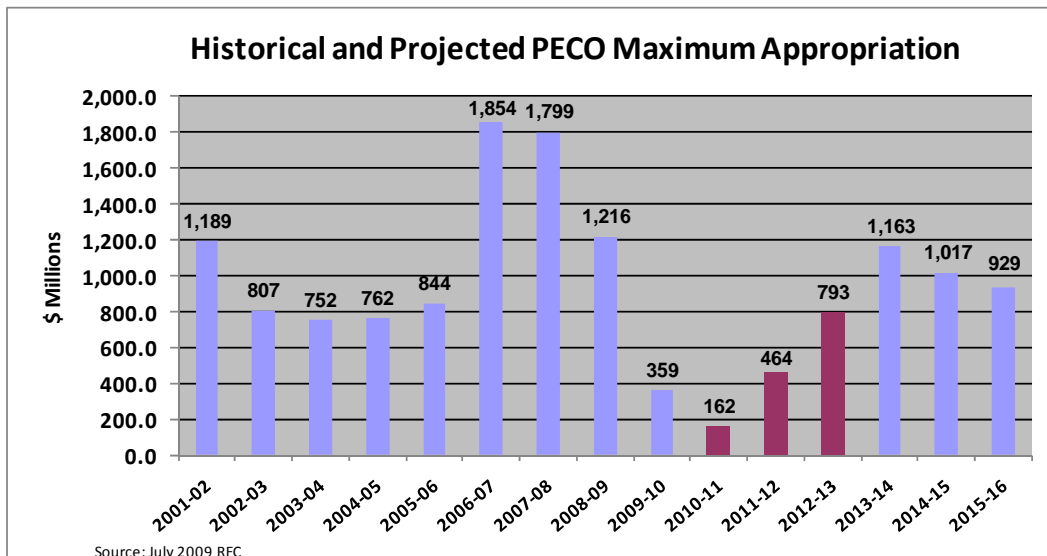


**Other Education** – Funds are provided for the Bright Futures Scholarship Program in the critical needs and other high priority needs projections as discussed in the section on EETF revenues. In addition, funds are included in other high priority needs in Fiscal Year 2011-12 to restore non-recurring ARRA stabilization funds for state student financial assistance programs, private colleges and universities, the State Board of Education, and the Board of Governors. Funds are also provided in other high priority needs each year for workload increases based on the Consumer Price Index for the Florida Student Assistance Grant Program, the Children and Spouses of Deceased or Disabled Veterans Program, the Florida Resident Access Grant (FRAG) Program, and the Access to Better Learning and Education (ABLE) Grant Program.

**Fixed Capital Outlay (FCO)**

**University and Community College Facilities Challenge Grants** – The other high priority needs funding includes non-recurring general revenue to fund facilities challenge grants in Fiscal Years 2010-11 through 2012-13. The projections are based on historical averages for the past four years for both the Community College Facilities Challenge Grant Program and the State University Facilities Challenge Grant Program. Based on the most recent data available (February 2009), the outstanding eligible match request total for community colleges is \$46.4 million. For state universities, the outstanding eligible match request total as of August 2009 is \$113.2 million.

**Public Education Capital Outlay (PECO) Trust Fund** – Each year, the maximum appropriation available from the PECO Trust Fund is estimated from bond proceeds and cash generated by the gross receipts tax. The Florida Constitution provides that these revenues shall be used to finance capital outlay projects for the state system of public education, including public schools, community colleges and state universities. Funding for PECO appropriations for Fiscal Years 2010-11 through 2012-13 is assumed to be at the level projected by the July 2009 PECO Estimating Conference (see chart below).



## **OTHER CONSIDERATIONS**

The Long-Range Financial Outlook is based on events that are known or likely to occur. However, there are some issues that would significantly alter key assumptions were they to come to pass. Some of those issues and their potential ramifications are as follows:

- Chapter 2009-170, Laws of Florida, authorizes the ratification of an Indian Gaming Compact by the Florida Legislature after execution by the Governor. Revenue from the ratification which would be available for appropriation from the EETF is not included in the Outlook. The law also authorizes the transfer of any Indian Gaming revenues already received by the state to the EETF once the U.S. Department of Interior approves the ratification; those contingent receipts are not included in the Outlook.
- The projections in the Outlook for higher education are based on annual tuition increases of 6.5 percent for workforce education, community colleges, and state universities. Section 1009.24, Florida Statutes, authorizes state universities to charge a tuition differential for undergraduate courses. The sum of tuition and the tuition differential cannot increase by more than 15 percent each year. The Outlook does not include additional revenues that may be generated by universities choosing to implement the tuition differential in the three forecast years.
- The Outlook is based on a limited number of major cost drivers. Historically, the Legislature has funded many other issues in addition to these drivers. Consequently, the expenditure projections in the Outlook may be conservative.

**General Appropriations Act Section 3 - Human Services**  
**Tier 2 Issues - Critical and Other High Priority Needs**  
**Expenditure projections (\$ millions)**

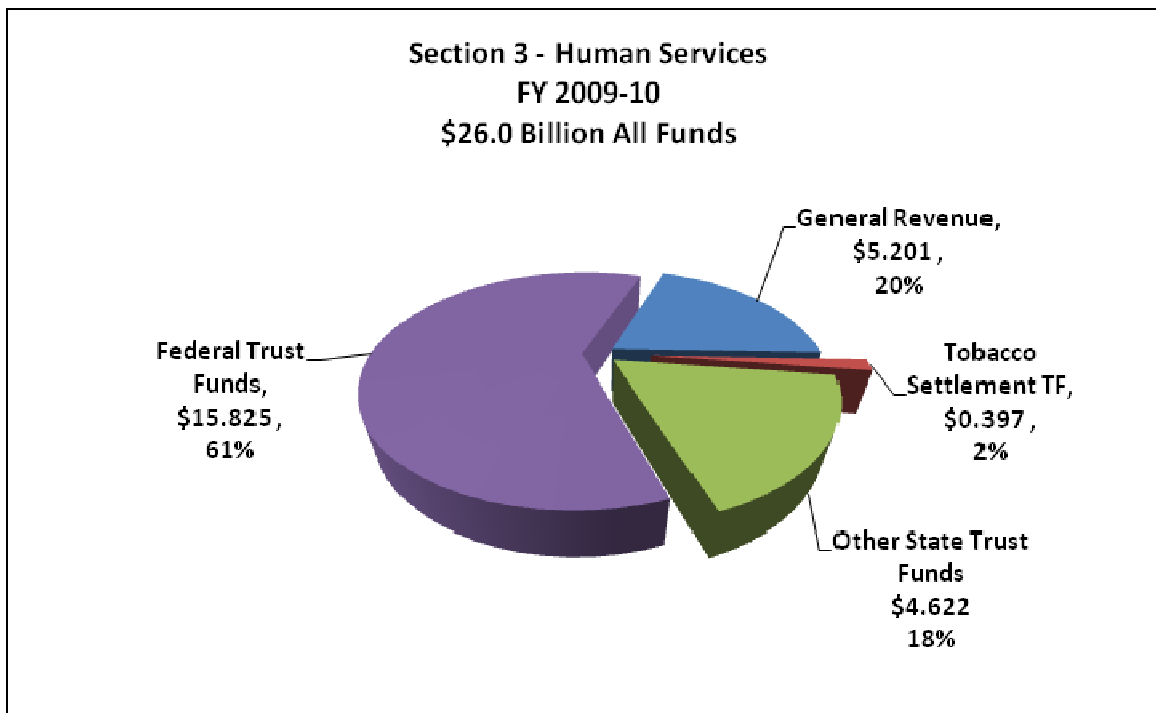
<b><u>Recurring</u></b>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
General Revenue	4,910.1	6,412.7	7,586.5	7,923.1
change		1,502.7	1,173.8	336.6
% change		30.6%	18.3%	4.4%
Tobacco Settlement TF	396.9	385.0	385.3	388.8
change		-11.9	0.3	3.5
% change		-3.0%	0.1%	0.9%
<b><u>Nonrecurring</u></b>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
General Revenue	291.5	530.2	604.0	604.0
Tobacco Settlement TF	0.0	0.0	0.0	0.0
<b><u>TOTAL</u></b>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
General Revenue	5,201.6	6,942.9	8,190.5	8,527.1
budget impact		2,032.8	1,777.8	940.6
Tobacco Settlement TF	396.9	385.0	385.3	388.8
budget impact		-11.9	0.3	3.5



## SECTION 3 – HUMAN SERVICES

### SUMMARY

The Human Services section of the General Appropriations Act includes the following agencies: Agency for Health Care Administration; Agency for Persons with Disabilities; Department of Children and Family Services; Department of Elder Affairs; Department of Health; and Department of Veterans' Affairs. These agencies are funded with a combination of state general revenue, tobacco trust funds, federal funds, private grants and state trust funds. Many health and human services programs are eligible to earn federal matching funds. Maximization of federal funds has been a state priority for many years; however, it is important to note that most federal funding requires state matching funds, and therefore, total federal receipts vary based on the availability of state match. Of the \$26.0 billion total budget for Fiscal Year 2009-10, \$5.2 billion is general revenue funds, \$396.9 million is Tobacco Settlement trust funds, \$4.6 billion is other state trust funds, and \$15.8 billion is federal funds.



Source: Actual for Fiscal Year 2009-10 Adjusted for Supplemental Appropriations and Vetoes

The Long-Range Financial Outlook projects critical need and other high priority need increases in recurring general revenue spending for Human Services of \$1,502.7 million (+30.6%) in Fiscal Year 2010-11; \$1,173.8 million (+18.3%) in Fiscal Year 2011-12; and \$336.6 million (+4.4%) in Fiscal Year 2012-13. In addition to these recurring increases, non-recurring general revenue of \$530.2 million is projected to be needed in Fiscal Year 2010-11; \$604.0 million in Fiscal Year 2011-12; and \$604.0 million in Fiscal Year 2012-13.

## **ASSUMPTIONS AND DISCUSSION OF MAJOR BUDGET DRIVERS**

**General**—Projected health and human services budget requirements from general revenue and other state and federal trust funds have been developed for the 2010-11, 2011-12 and 2012-13 fiscal years by adjusting the Fiscal Year 2009-10 funding levels based on workload assumptions and other factors. The financial outlook includes additional funding based on the following assumptions.

- 1) The projections for Medicaid, KidCare, and Temporary Assistance for Needy Families (TANF) cash assistance are determined annually through formal estimating conferences, which project caseloads and program costs.
- 2) The projections for tobacco settlement funds are determined annually through formal estimating conferences, which project revenues from the tobacco settlement agreement.
- 3) Non-recurring American Recovery and Reinvestment Act of 2009 (ARRA) funds that terminate December 31, 2010, which replaced recurring general revenue funds, are restored in Fiscal Years 2010-11 and 2011-12.
- 4) Historical funding averages were used to project future appropriations for Fiscal Years 2010-11 through 2012-13 for all other human services programs.

### **Critical Needs**

**Annualizations**—The Outlook includes a reduction of \$4.6 million (\$4.3 million GR) to annualize the following budget reductions taken in Fiscal Year 2009-10: additional fraud and abuse prevention and recoupment activities in the Medicaid program; Medicaid rate reductions for prepaid health plans and Intermediate Care Facilities for the Developmentally Disabled; implementation of a quality assessment fee program for Intermediate Care Facilities for the Developmentally Disabled; limits on Medicaid adult vision services; and elimination of paid medication review, and consolidation of the purchase of durable and consumable medical equipment and supplies in the developmental services Medicaid waiver. Annualizations also include an increase of \$1.9 million in general revenue funds for the start-up of the new St. Johns Veterans' Nursing Home.

**Medicaid Program**—The Medicaid program (Title XIX of the Social Security Act) provides health care coverage to certain persons who qualify as low-income elderly, disabled, or families with dependent children. Medicaid is a federal and state matching program. The state participation for Florida is 32.36% and the federal participation is 67.64% for Fiscal Year 2009-10. Medicaid is the second largest single program in the state budget behind public education, representing 26.3% of the total state budget, and is

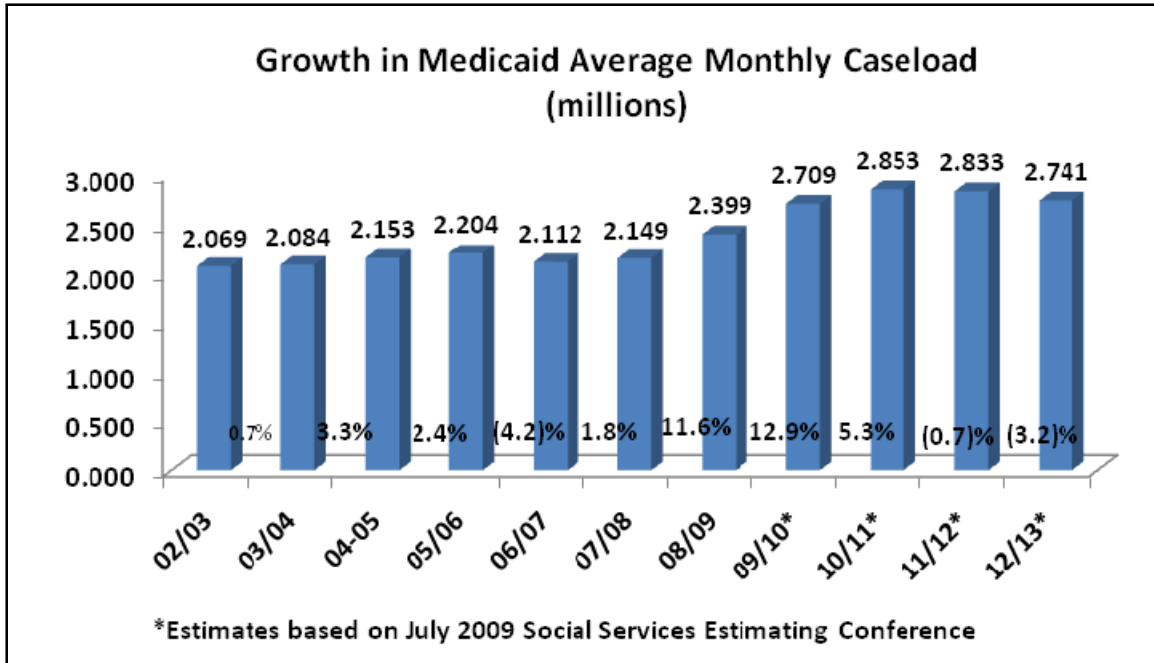
the largest source of federal funding for the state. Medicaid general revenue expenditures represent 12.1% of total general revenue funds appropriated in Fiscal Year 2009-10.

The American Recovery and Reinvestment Act of 2009 (ARRA) provided a temporary increase in the Federal Medical Assistance Percentage (FMAP) from October 1, 2008 through December 31, 2010 to assist state Medicaid programs with the effects of the recession. During an economic downturn, unemployment rises and puts pressure on Medicaid enrollment and therefore causes spending increases. At the same time, increases in unemployment have a negative impact on state revenues making it more difficult to pay the state's share of Medicaid spending increases. Under ARRA, there are three factors used to calculate a state's FMAP increase: 1) a hold-harmless provision to prevent states from receiving a reduction in their Fiscal Year 2009 FMAP based on the formula; 2) all states would receive a base increase in their FMAP of 6.2% after application of the hold-harmless provision; and 3) states with significant increases in quarterly unemployment over a base rate would receive a 5.5%, 8.5% or 11.5% reduction in their state share of Medicaid costs. To be eligible for the enhanced federal funding, states may not have eligibility standards, methods or procedures that are more restrictive than those effective on July 1, 2008. The maintenance of effort (MOE) on eligibility helped to preserve eligibility for the program; however, reductions were necessary in provider payment rates and benefits to curtail Medicaid spending. Even as the economy starts to turn around, the effects on unemployment and Medicaid enrollment will lag behind and continue to rise at the same time that ARRA funds will expire resulting in further pressures on the state budget.

### Caseload

Medicaid caseload grew by more than 6.5% from fiscal years 2002-03 to 2005-06. The enrollment growth was attributed to an increase in the number of low-income persons newly eligible for Medicaid, especially children and elders, resulting partially from the impact of a recession beginning in March 2001 and ending in November of that same year. Fiscal Year 2005-06 marked a slowing in Medicaid program enrollment growth to just 2.4%. Enrollment actually declined by 4.1% to 2.1 million recipients in Fiscal Year 2006-07. The last time the program experienced a decline in enrollment was in Fiscal Year 1997-98. Slower enrollment was mostly attributable to the improving economy and federally required documentation of citizenship resulting in fewer individuals becoming eligible for the program. Enrollment growth began to dramatically increase by 11.6% in Fiscal Year 2008-09 and is estimated to continue to increase by 12.9% in Fiscal Year 2009-10 for a total of 2.7 million beneficiaries as a result of the economic recession. Enrollment growth is estimated to continue to increase by 5.3% in Fiscal Year 2010-11 and peak at 2.9 million beneficiaries. Enrollment is estimated to gradually decrease in Fiscal Year 2011-12 and continue decreasing in Fiscal Year 2012-13 as the recession is expected to end.

[SEE CHART ON NEXT PAGE]



Over the three-year forecast period, Medicaid caseloads are projected to continue growing in Fiscal Year 2010-11 with a growth rate of 5.29% and then begin a gradual reduction in growth of 0.69% in Fiscal Year 2011-12, followed by a 3.25% reduction in growth in Fiscal Year 2012-13.

**Medicaid Caseload Estimates**

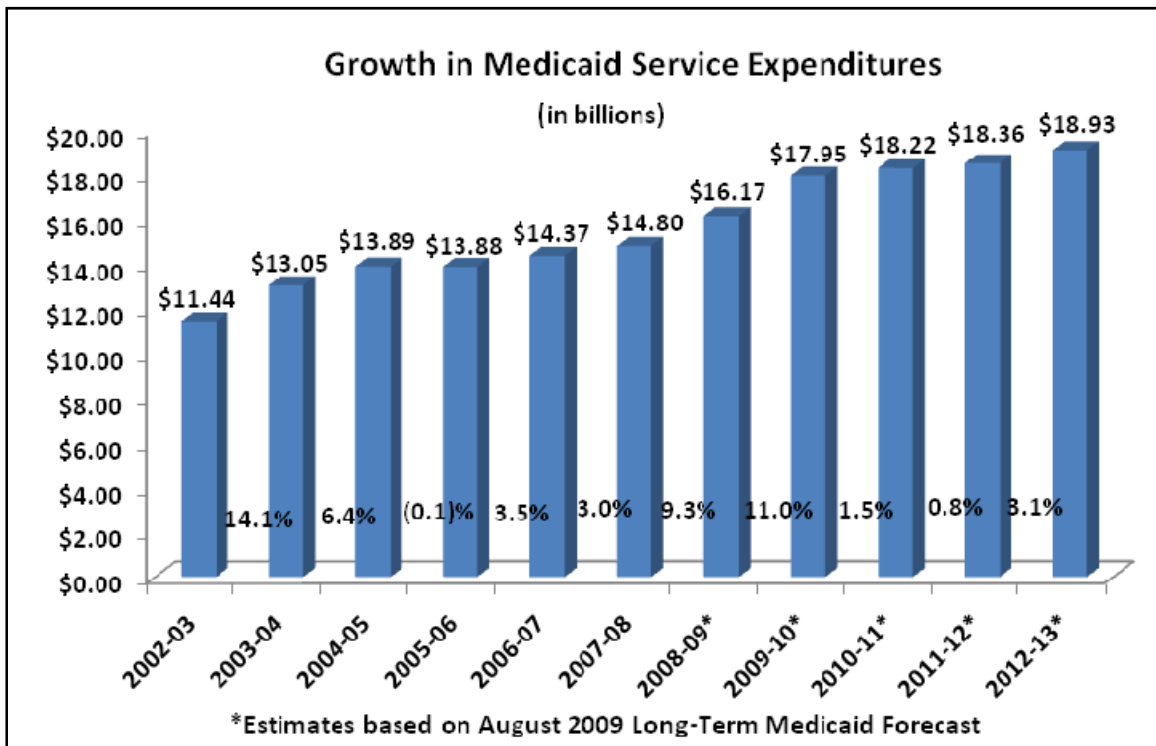
	Fiscal Year 2009-10	Fiscal Year 2010-11	Fiscal Year 2011-12	Fiscal Year 2012-13
<b>Caseload</b>	2,709,460	2,852,876	2,833,171	2,741,092
Increase		143,416	(19,705)	(92,079)
Percent		5.29%	(0.69)%	(3.25)%

Expenditures

Medicaid expenditures grew at an average annual rate of 9.0% between Fiscal Year 2002-03 and Fiscal Year 2004-05 to almost \$14 billion. The primary factors contributing to expenditure growth were prescription drug costs, increasing costs of medical services, long-term care and enrollment growth. This growth persisted despite legislative efforts in implementing new Medicaid cost control measures primarily related to prescription drugs, freezing or reducing provider payment rates, and eliminating optional services. Finally, the expenditure growth in Medicaid stabilized, with a decline of 0.1% in Fiscal Year 2005-06. The decline in expenditures was primarily due to slowing enrollment growth, savings attributable to the inclusion of mental health drugs on the Medicaid preferred drug list and implementation of Medicare Part D, effective January 1, 2006, that shifted coverage of prescription drugs for Medicare/Medicaid dual eligibles from Medicaid to Medicare. States are required, however, to make monthly general revenue payments to the Medicare program under the maintenance of effort or “clawback”

provision for Medicare/Medicaid dual eligibles. These payments are not matched with federal funds but are included in the total expenditures for the Medicaid program. The expenditure growth rate averaged more than 6% per year during Fiscal Years 2007-08 and 2008-09 as the state began to experience the impacts of the recession. The growth rate for Fiscal Year 2009-10 is estimated to be 11.0% with expenditures of approximately \$17.95 billion.

The Medicaid program is increasingly serving populations with very serious and expensive health care needs—frail seniors, people with HIV/AIDS, ventilator-dependent children, and other individuals with serious mental and physical disabilities. While the elderly and disabled represent an estimated 34% of the total Medicaid caseload, they account for almost 69% of Medicaid spending. Medicaid provides expensive chronic care and long-term care services that are largely unavailable anywhere else in the health care system. Demographic trends suggest that these cost pressures will continue to increase. With a growing elderly population, it is critical to control long-term care spending.



Over the three-year forecast period, Medicaid expenditures are projected to increase by 1.5% for Fiscal Year 2010-11, 0.8% for Fiscal Year 2011-12 and 3.1% for Fiscal Year 2012-13. The reason for the increase in expenditures in Fiscal Year 2010-11 is primarily due to an increase in caseload. The 2009 Legislature sunset the Medicaid for the Aged and Disabled (MEDS/AD) program and the Medically Needy program, except for pregnant women and children on December 31, 2010. Additionally, the 2008 Legislature passed legislation that froze the unit cost reimbursement rates at the June 30, 2008 rate

for fiscal years 2009-10 and 2010-11 for hospitals, nursing homes, county health departments, community intermediate care facilities for the developmentally disabled and prepaid health plans, thereby not allowing for automatic price level increases. However, price level increases were included for these services in the estimates for fiscal years 2011-12 and 2012-13. The estimates also include reductions in the FMAP as a result of the expiration of the ARRA temporary increase provided from October 1, 2008 through December 31, 2010.

The Outlook includes an increase in non-recurring general revenue funds for estimated Medicaid deficits: \$59 million in Fiscal Year 2008-09 and \$165.8 million in Fiscal Year 2009-10. Further, the Outlook includes an increase in general revenue funds for Medicaid expenditures of \$1.5 billion (\$250.2 million is non-recurring) in Fiscal Year 2010-11, \$1.0 billion in Fiscal Year 2011-12 and \$285.6 million in Fiscal Year 2012-13. The general revenue increases in Fiscal Year 2010-11 and Fiscal Year 2011-12 include \$963.6 million and \$800.9 million respectively for the reduction in the FMAP. In addition, Medicaid state matching funds are budgeted in other health and human services departments, and the Outlook includes additional general revenue funds for the reduction in their FMAP of \$108.2 million in Fiscal Year 2010-11 and \$89.5 million in Fiscal Year 2011-12.

**Medicaid Expenditure Estimates\***  
(dollars in millions)

	Fiscal Year 2009-10**	Fiscal Year 2010-11	Fiscal Year 2011-12	Fiscal Year 2012-13
<b>FMAP Rate</b>	67.64%	60.71%	54.98%	54.98%
<b>Expenditures</b>				
<i>General Revenue</i>	\$2,288.9	\$3,789.5	\$4,580.5	\$4,866.1
<i>Increase</i>		\$1,500.6***	\$1,041.2	\$285.6
<i>Percent</i>		65.56%	27.48%	6.24%

\* Estimate based on August, 2009 Social Services Estimating Conference and does not include \$108.2 million state matching funds in other departments for Fiscal Year 2010-11 and the \$89.5 million for Fiscal Year 2011-12.

\*\* Base budget adjusted for non-recurring funds and annualizations.

\*\*\* Includes \$250.2 million in non-recurring general revenue funds.

Major policy assumptions and projections for critical needs related to Medicaid expenditures for the forecast period are described below:

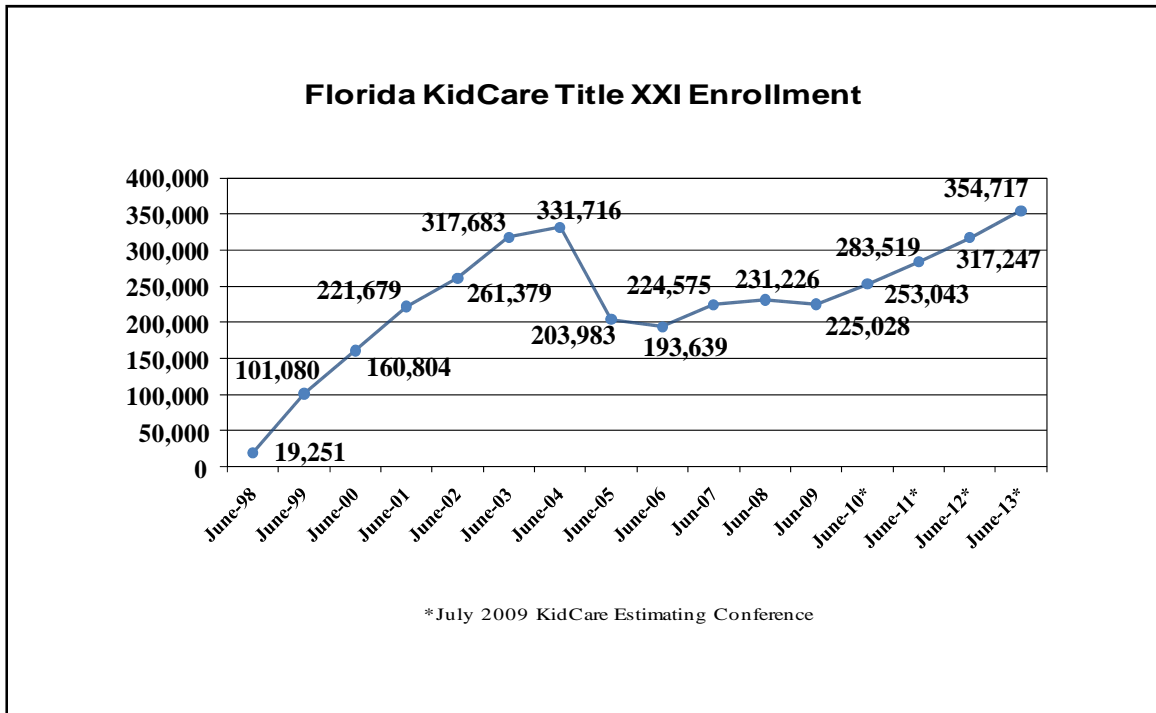
- **Social Services Estimating Conference**—The estimated costs for caseload growth, utilization and inflation were projected based on historical trends and methodologies used by the July 2009 Social Services Estimating Conference. The estimates hold the unit costs flat for hospitals, nursing homes, county health departments, community intermediate care facilities for the developmentally disabled, and prepaid health plans, for Fiscal Year 2010-11, in accordance with chapter 2008-143, Laws of Florida. The estimates include normal growth for price level increases for these services in fiscal years 2011-12 and 2012-13.

- **Federal Medical Assistance Percentage**—The American Recovery and Reinvestment Act (ARRA) provides a *temporary* increase in the federal medical assistance percentage (FMAP) from October 1, 2008 through December 31, 2010. Based on the ARRA calculations, the federal matching rate for Fiscal Year 2008-09 was 64.94% (up from the base rate of 55.46%) and 67.64% for Fiscal Year 2009-10. The Outlook uses the estimated federal matching rate of 60.71% for Fiscal Year 2010-11 (includes half a year of the enhanced rate and half a year with 54.98%). The Outlook uses 54.98% for fiscal years 2011-12 and 2012-13. The 54.98% is the FMAP for federal fiscal year 2010 published in the Federal Register dated November 26, 2008. This reduction of federal support increases the need for general revenue funds, and this impact is included in the estimates.
- **Medicaid for the Aged and Disabled (MEDS/AD)**—To be eligible for the temporary increase in the FMAP, states could not have eligibility standards, methods or procedures in place that were more restrictive than those in effect on July 1, 2008. The 2009 Legislature passed Chapter 2009-55, Laws of Florida, which continues the optional MEDS/AD program until December 31, 2010. For fiscal years 2008-09 and 2009-10, the program has been funded with non-recurring funds. Following “current-law, current-administration” guidelines, the Social Services Estimating Conference *did not* include funding for this program after December 31, 2010. Funding for the period July 1, 2010 through December 31, 2010 has been included as non-recurring. Other high priority needs projections provide funding to continue the program.
- **Medically Needy**—To be eligible for the temporary increase in the FMAP, states could not have eligibility standards, methods or procedures in place that were more restrictive than those in effect on July 1, 2008. The 2009 Legislature passed chapter 2009-55, Laws of Florida, which continues the optional Medically Needy program, except for pregnant women and children, until December 31, 2010. For fiscal years 2008-09 and 2009-10, the program has been funded with non-recurring funds. The portion related to pregnant women and children is funded with recurring funds. Following “current-law, current-administration” guidelines, the Social Services Estimating Conference *did not* include funding for Medically Needy for non-pregnant adults after December 31, 2010. Funding for the period July 1, 2010 through December 31, 2010 has been included as non-recurring. Other high priority needs projections provide funding to continue the program for adults.

**KidCare Program**—KidCare is the state’s children’s health insurance program provided under the federal Children’s Health Insurance Program (CHIP) - Title XXI of the Social Security Act. The KidCare program provides health insurance primarily targeted to uninsured low-income children under age 19 whose family income is at or below 200% of the federal poverty level (\$44,100 for a family of four). CHIP is a federal and state matching program. The state participation for Florida is 31.51% and the federal participation is 68.49% for Fiscal Year 2009-10. Unlike Medicaid, KidCare is not an entitlement program and the federal allotment is capped. Florida’s federal allotment for Federal Fiscal Year 2009 is \$356.1 million.

The KidCare program consists of Medicaid for babies (birth to age 1); Medikids, a Medicaid look-alike program for pre-school children (ages 1 to 5); Florida Healthy Kids for school aged children (ages 5 to 19); and Children’s Medical Services for children with special medical or behavioral health needs (from birth to age 19). The KidCare program also provides services to a limited number of non-Title XXI eligibles that includes legal non-citizens and families that pay the full premium. The program is funded at \$471.9 million in Fiscal Year 2009-10, of which \$142.3 million is state matching funds (\$54.7 million of general revenue and \$87.6 million of tobacco settlement funds).

KidCare enrollment increased steadily through Fiscal Year 2003-04. The 2004 Legislature passed legislation limiting enrollment to open enrollment periods and required additional documentation of family income. As a result of these changes, enrollment in the program declined. The 2005 Legislature restored authority for enrollment to occur throughout the year. The Title XXI caseload as of June 2009 was 225,028. (There were 21,654 additional children enrolled in the program who are non-Title XXI eligible.)



Over the three-year forecast period, caseload growth is projected to be 12.04% for Fiscal Year 2010-11, 11.90% for Fiscal Year 2011-12 and 11.81% for Fiscal Year 2012-13. This growth will provide for increased enrollment of 30,476 children in Fiscal Year 2010-11; 33,728 children in Fiscal Year 2011-12; and 37,470 children in Fiscal Year 2012-13. The Outlook includes an increase in general revenue funds for the KidCare program of \$22.4 million in Fiscal Year 2010-11, \$28.1 million in Fiscal Year 2011-12 and \$32.3 million in Fiscal Year 2012-13.



**KidCare Program Estimates**  
(dollars in millions)

	<b>Fiscal Year 2009-10</b>	<b>Fiscal Year 2010-11</b>	<b>Fiscal Year 2011-12</b>	<b>Fiscal Year 2012-13</b>
<b>Caseload</b>	253,043	283,519	317,247	354,717
Increase		30,476	33,728	37,470
Percent		12.04%	11.90%	11.81%

	<b>Fiscal Year 2009-10*</b>	<b>Fiscal Year 2010-11</b>	<b>Fiscal Year 2011-12</b>	<b>Fiscal Year 2012-13</b>
<b>Expenditures</b>				
<b>State Funds</b>	\$142.3	\$164.7	\$192.8	\$225.1
Increase		\$22.4	\$28.1	\$32.3
Percent		16.97%	17.06%	16.75%

\*Base Budget adjusted for non-recurring funds.

Major policy assumptions and projections for critical needs related to KidCare expenditures for the forecast period are described below:

- **Social Services Estimating Conference**—The estimated costs for caseload growth, utilization and inflation were projected based on historical trends and methodologies used by the July 2009 Social Services Estimating Conference. The conference adopted increases in the Florida Healthy Kids growth rates of 12.06% for Fiscal Year 2009-10, 12.04% for Fiscal Year 2010-11, 11.9% for Fiscal Year 2011-12 and 11.81% for Fiscal Year 2012-13.
- **Chapter 2009-113, Laws of Florida (SB 918)**—The estimated costs include caseload growth and associated expenditures resulting from streamlining the KidCare application process and the removal of various administrative barriers to the program. This legislation modifies KidCare eligibility determinations by allowing electronic verification of family income and allows reactivation of pending applications. The legislation also decreases the period of time from 60 to 30 days that a child is disenrolled from the KidCare program for nonpayment of premiums; reduces the wait period from 6 months to 60 days for eligibility of families who voluntarily cancelled their employer-sponsored or private health insurance; and increases the number of “good cause” reasons that allow children to be immediately eligible for KidCare coverage without a waiting period. These provisions are expected to increase enrollment.
- **Chapter 2009-55, Laws of Florida (SB 1658)**—The estimated costs include expenditures resulting from compliance with the federal Children’s Health Insurance Program Reauthorization Act of 2009 related to documentation of citizenship, mental health parity, dental services and reimbursement of federally qualified health centers and rural health clinics.
- **Federal Medical Assistance Percentage**—The federal matching rate for Fiscal Year 2009-10 is 68.49% (down from 69.78% in Fiscal Year 2008-09). The

Outlook uses the federal matching rate of 68.49% for State Fiscal Years 2010-11, 2011-12 and 2012-13.

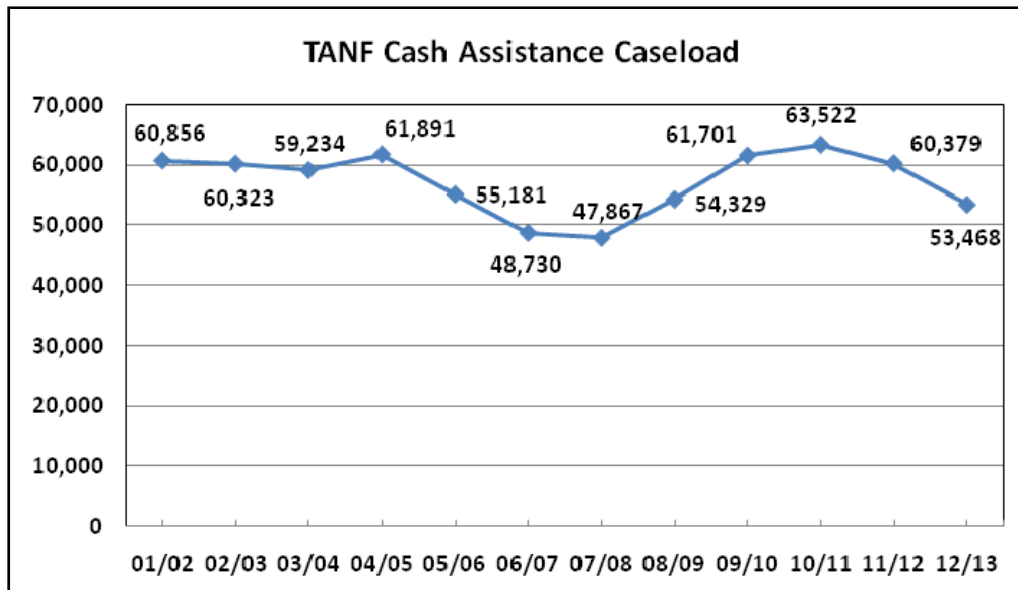
- **Reauthorization**—The Children’s Health Insurance Program Reauthorization Act of 2009 (CHIPRA) reauthorized and funded the CHIP program for four and a half years—through federal fiscal year 2013. The Outlook uses the federal fiscal year 2009 allotment of \$356.1 million for State Fiscal Years 2010-11, 2011-12 and 2012-13. Beginning with the 2009 allotment, funds are available for two years only (previously they were available to be spent over three years).

**Temporary Assistance for Needy Families**—The welfare reform legislation of 1996 ended the federal entitlement to assistance and created the Temporary Assistance for Needy Families (TANF) block grant that provides assistance and work opportunities to needy families. Florida’s federal block grant allotment was \$622.7 million for Fiscal Year 2008-09, including supplemental grant funds of \$60.4 million. The TANF block grant has an annual cost-sharing requirement referred to as maintenance of effort or MOE. States are required to spend 80% of the state funds expended under the former Aid to Families with Dependent Children (AFDC) program or 75% if federal work participation requirements are met (50% all-family rate and 90% two-parent family rate). Because Florida has met the work participation requirements, the required minimum MOE is \$368.4 million (75%) of state funds to help eligible families in ways consistent with the TANF program. States are subject to penalties if MOE is not met. The impact to Florida would be an increase of MOE by 5% or \$24.5 million. The loss of MOE would have to be made up with state funds that do not count towards MOE, and there is a potential loss of up to 5% of TANF federal funds.

The American Recovery and Reinvestment Act of 2009 (ARRA) created a new TANF Emergency Contingency Fund under which states can receive 80% federal funding in Federal Fiscal Years 2009 and 2010 for increased expenditures in three categories: basic assistance, non-recurrent short-term payments, and subsidized employment. Additionally, states have the option of using its emergency fund base year in lieu of the caseload of the prior fiscal year when calculating the caseload reduction credit that will be used for Federal Fiscal Years 2009, 2010 or 2011. The law also authorized states to use carryover TANF funds from prior years for any purpose permissible for TANF spending (previously carryover funds could only be spent on assistance).

Florida’s cash assistance caseload declined from 184,554 in Fiscal Year 1996-97 to 54,329 in Fiscal Year 2008-09. For the first time since Fiscal Year 2004-05, caseload growth increased by 13.5% from Fiscal Year 2007-08 to Fiscal Year 2008-09 and is estimated to increase by 13.6% from Fiscal Year 2008-09 to Fiscal Year 2009-10 because of the anticipated loss of jobs and income during the economic downturn.

[SEE CHART ON NEXT PAGE]



Source: January 2009 Social Services Estimating Conference

Over the three-year forecast period, cash assistance caseload growth is projected to increase slightly by 2.9% in Fiscal Year 2010-11 and decline by 4.9% for Fiscal Year 2011-12 and 11.4% for Fiscal Year 2012-13. The Outlook includes adjustments to cash assistance as follows: an increase of \$44.6 million in general revenue funds, which replaces Fiscal Year 2009-10 non-recurring TANF funds, and an increase of \$6.3 million TANF funds in Fiscal Year 2010-11; a reduction of \$13.0 million TANF funds in Fiscal Year 2011-12; and a reduction of \$30.8 million TANF funds in Fiscal Year 2012-13.

#### Cash Assistance Estimates (dollars in millions)

	Fiscal Year 2009-10	Fiscal Year 2010-11	Fiscal Year 2011-12	Fiscal Year 2012-13
<b>Caseload</b>	61,701	63,522	60,379	53,468
Increase/(Decrease)		1,821	(3,143)	(6,911)
Percent		2.95%	(4.95%)	(11.45%)

	Fiscal Year 2009-10	Fiscal Year 2010-11	Fiscal Year 2011-12	Fiscal Year 2012-13
<b>Expenditures</b>				
Total Funds	\$215.2	\$221.5	\$208.5	\$177.7
Increase/(Decrease)		\$6.3	(\$13.0)	(\$30.8)
Percent		2.93%	(5.87%)	(14.77%)

Source: January 2009 Social Services Estimating Conference

Major policy assumptions and projections for TANF cash assistance for the forecast period are described below:

- **Social Services Estimating Conference**—Estimates for cash assistance were projected based on historical trends and methodologies used by the January 2009 Social Services Estimating Conference. The cash assistance appropriation for Fiscal Year 2009-10 is \$215.2 million, of which \$125.1 million is general revenue funds and \$90.1 million is TANF funds (\$44.2 million is non-recurring ARRA funds and \$0.4 million is non-recurring TANF funds). The Outlook continues the \$44.6 million in Fiscal Year 2010-11 with recurring general revenue funds and adjusts the TANF federal block grant funds for the other changes in expenditures.
- **Reauthorization**—After expiring in 2002 and being extended through several continuing resolutions, the TANF program was reauthorized in early 2006 as part of the Deficit Reduction Act of 2005 and extended through September 30, 2010. The TANF supplemental grant program was extended under the American Recovery and Reinvestment Act of 2009 (ARRA) through September 30, 2010. The Outlook assumes the continuation of these funds at the same funding level of \$60.4 million for Fiscal Years 2010-11, 2011-12 and 2012-13.
- **TANF Emergency Contingency Funds**—The estimates include 80% federal funding from the TANF Emergency Contingency Fund for increased cash assistance caseloads for Federal Fiscal Years 2009 and 2010.

**Tobacco Settlement Trust Fund**—The 2009 Legislature appropriated \$396.9 million from the Tobacco Settlement Trust Fund to fund health and human services programs. This was a recurring reduction of \$52.5 million from the previous fiscal year primarily because of declining tobacco settlement payments and lower Lawton Chiles Endowment interest earnings.

**Tobacco Settlement Trust Fund Estimates**  
(dollars in millions)

	<b>Fiscal Year 2009-10</b>	<b>Fiscal year 2010-11</b>	<b>Fiscal Year 2011-12</b>	<b>Fiscal Year 2012-13</b>
<b>Expenditures</b>	\$396.9	\$385.1	\$385.4	\$388.9
Increase/(Decrease)		(\$11.9)	\$0.3	\$3.5
Percent		(3.0%)	0.08%	0.91%

Major policy assumptions and projections related to expenditures from tobacco settlement trust funds for the forecast period are described below:

- **Revenue Estimating Conference**—The estimated revenues were projected based on historical trends and methodologies used by the February 2009 Revenue Estimating Conference, updated for 2009 legislative actions.
- **Expenditures**—The Outlook assumes that the \$11.9 million reduction in tobacco settlement revenue in Fiscal Year 2010-11 will be replaced with general revenue funds, but the increases in tobacco settlement revenue in Fiscal Years 2011-12 and 2012-13 will replace general revenue funds. The expenditure estimates also include the required adjustments for the Tobacco Education and Use Prevention program for Fiscal Years 2010-11, 2011-12 and 2012-13.

**Tobacco Constitutional Amendment**—A constitutional amendment passed on the November 2006 ballot requiring the Florida Legislature to annually fund a comprehensive, statewide tobacco education and prevention program, using tobacco settlement money to primarily target youth and other at-risk Floridians. The annual funding requirement is 15% of the 2005 Tobacco Settlement payments to Florida, adjusted annually for inflation using the Consumer Price Index. The 2007 Legislature enacted chapter 2007-65, Laws of Florida, which required the Department of Health to operate the tobacco program. The amount required for Fiscal Year 2009-10 was \$61.8 million.

**Tobacco Education and Use Prevention Program Estimates**  
(dollars in millions)

	Fiscal Year 2009-10	Fiscal Year 2010-11	Fiscal Year 2011-12	Fiscal Year 2012-13
<b>Expenditures</b>	\$61.8	\$60.4	\$61.3	\$63.1
Increase/(Decrease)		(\$1.4)	\$0.9	\$1.8
Percent		(2.27%)	1.49%	1.00%

Major policy assumptions and projections for the forecast period are described below:

- **National Economic Estimating Conference**—The estimated tobacco expenditures from the February 2009 Revenue Estimating Conference were adjusted by applying the Consumer Price Index from the February 2009 National Economic Estimating Conference.
- **Expenditures**— Over the three-year forecast period, the Outlook provides for adjustments related to the statewide Tobacco Education and Use Prevention program: \$1.4 million decrease in Fiscal Year 2010-11, \$0.9 million increase in Fiscal Year 2011-12 and \$1.8 million increase in Fiscal Year 2012-13.

**Maintenance Adoption Subsidies**—The Outlook includes \$3.4 million in general revenue funds each year for Fiscal Years 2010-11 and 2011-12 as a result of the expiration of the ARRA temporary increase in the federal medical assistance percentage (FMAP) from October 1, 2008 through December 31, 2010.

**Other High Priority Needs**

**Medicaid for the Aged and Disabled and Medically Needy**—Although not included as a critical need, other high priority needs projections include an increase in non-recurring general revenue state matching funds of \$89.2 million to restore the optional MEDS/AD program and \$161.0 million to restore the optional Medically Needy program, except for pregnant women and children for a six month period in Fiscal Year 2010-11 (January 2011 through June 2011). An increase in non-recurring general revenue state matching funds of \$582.8 million to restore these programs for Fiscal Years 2011-12 and 2012-13 is also included.

**Developmentally Disabled Services**—Other high priority needs projections for the home and community-based waivers include funds to handle potential deficits resulting from the implementation of the four-tiered waiver system and utilization increases based on historical trends. The projected increase in general revenue funds is \$8.2 million for Fiscal Year 2010-11, \$6 million for Fiscal Year 2011-12 and \$12.6 million for Fiscal Year 2012-13.

**Children and Family Services**—The projections restore non-recurring funds for maintenance adoptions, independent living, and mental health and substance abuse services. The Outlook provides workload increases for maintenance adoptions, independent living, forensic mental health and sexually violent predator programs based on three-year averages. The increase in recurring general revenue funds is \$52.6 million for Fiscal Year 2010-11, \$10.2 million for Fiscal Year 2011-12 and \$9.6 million for Fiscal Year 2012-13. The Outlook also includes \$8 million of non-recurring general revenue funds for increased capacity needs for the Florida Civil Commitment Program in Fiscal Year 2010-11.

**Health Services**—The Outlook includes operational costs for the Veterans' nursing home in St. Johns County supplied by the Department of Veterans' Affairs. General revenue funds are increased by \$4 million (\$0.7 million non-recurring) for Fiscal Year 2010-11 and decreased by \$4.2 million for Fiscal Year 2011-12 when the federal per diem replaces the need for general revenue funds. The Outlook also includes recurring restoration of \$50 million non-recurring funds for cancer research from the \$1 tobacco surcharge for Fiscal Year 2010-11, as required by chapter 2009-58, Laws of Florida.

**Maintenance, Repairs, and Capital Improvements**—Other high priority needs projections are based on three-year appropriation averages of maintenance and repair costs for state-owned facilities which include, mental health facilities, developmentally disabled facilities, county health departments, rural hospitals and veteran's nursing and domiciliary homes. The increase in general revenue funds is \$21.2 million in non-recurring funds for each of the three fiscal years 2010-11, 2011-12 and 2012-13.

**Information Technology/Infrastructure**—Other high priority needs projections are based on three-year appropriation averages and include costs for information technology and infrastructure and re-engineering costs for certain information systems. The Outlook provides \$3.6 million from non-recurring trust funds for Fiscal Year 2010-11 and \$2.7 million for Fiscal Years 2011-12 and 2012-13.

## **OTHER CONSIDERATIONS**

The Long-Range Financial Outlook is based on events that are known or likely to occur. However, there are some risks that would significantly alter key assumptions were they to come to pass. Some of those risks and their potential ramifications are as follows:

- The Outlook assumes that the federal government will reauthorize the TANF program beyond Fiscal Year 2010 and continue to provide supplemental grant funds. It also assumes that Florida will continue to meet the work participation requirements and only be required to provide MOE at the 75% amount. If work participation rates are not met, Florida would have to increase MOE by 5% or \$24.5 million, would have to make up the loss with state funds that does not count towards MOE, and could potentially lose up to 5% of TANF federal funds.
- The Outlook does not assume any potential future needs for pending litigation because the outcomes are unknown.

**General Appropriations Act Section 4 - Criminal Justice/Corrections**  
**Tier 2 Issues - Critical and Other High Priority Needs**  
**Expenditure projections (\$ millions)**

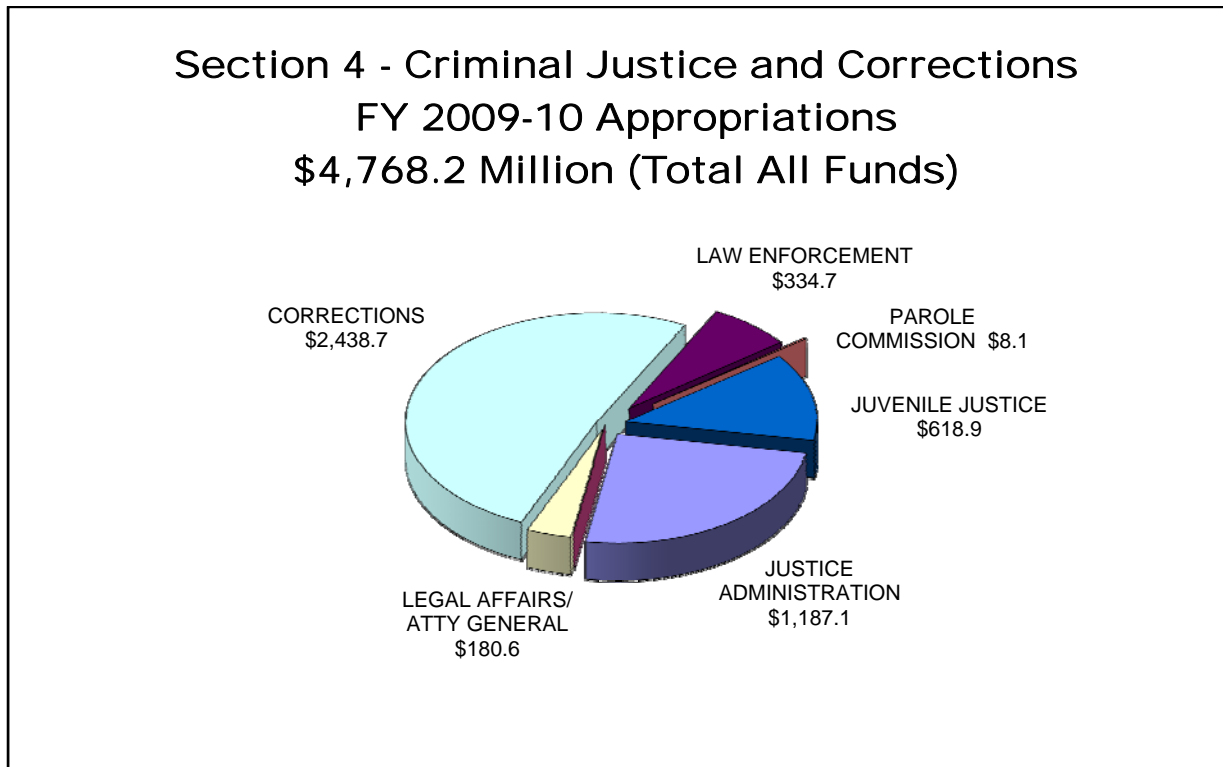
<b><u>Recurring</u></b>	<b><u>2009-10</u></b>	<b><u>2010-11</u></b>	<b><u>2011-12</u></b>	<b><u>2012-13</u></b>
General Revenue	3,512.7	3,656.9	3,799.7	3,953.9
change		144.2	142.9	154.1
% change		4.1%	3.9%	4.1%
<b><u>Nonrecurring</u></b>	<b><u>2009-10</u></b>	<b><u>2010-11</u></b>	<b><u>2011-12</u></b>	<b><u>2012-13</u></b>
General Revenue	32.4	39.4	121.0	169.1
<b><u>TOTAL</u></b>	<b><u>2009-10</u></b>	<b><u>2010-11</u></b>	<b><u>2011-12</u></b>	<b><u>2012-13</u></b>
General Revenue	3,545.1	3,696.2	3,920.8	4,122.9
budget impact		183.6	263.9	323.2



## **SECTION 4 – CRIMINAL JUSTICE AND CORRECTIONS**

### **SUMMARY**

Section 4 of the General Appropriations Act (GAA) includes funding for the Department of Corrections, the Department of Legal Affairs, the Department of Law Enforcement, the Department of Juvenile Justice, the Parole Commission, and Justice Administration. For Fiscal Year 2009-10, the Legislature appropriated a total of \$4,768.2 million in general revenue and trust funds to these agencies. The following chart displays the appropriations by agency.



Source: Actual Appropriations for Fiscal Year 2009-10 Adjusted for Supplementals and Vetoes

For critical and other high priority needs, the Long-Range Financial Outlook projects a total increase in recurring general revenue for Section 4 agencies of \$144.2 million in Fiscal Year 2010-11; \$142.9 million in Fiscal Year 2011-12; and \$154.1 million in Fiscal Year 2012-13. The Outlook also includes non-recurring general revenue spending of \$39.4 million in Fiscal Year 2010-11; \$121.0 million in Fiscal Year 2011-12; and \$169.1 million in Fiscal Year 2012-13.

Total general revenue spending for the base budget, critical need and other high priority issues is \$3,696.2 million in Fiscal Year 2010-11; \$3,920.8 million in Fiscal Year 2011-12; and \$4,122.9 million in Fiscal Year 2012-13.

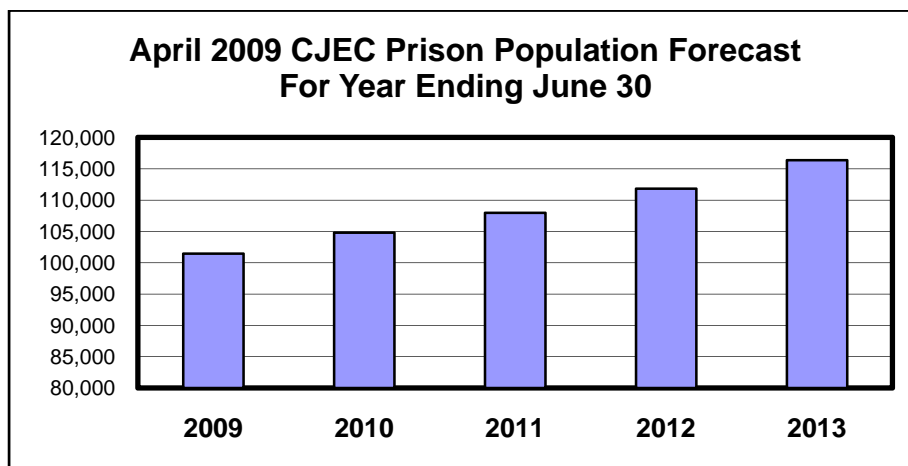
## **ASSUMPTIONS AND DISCUSSION OF MAJOR BUDGET DRIVERS**

**General** - The financial outlook includes additional funding based on the following assumptions:

- 1) Increases in the Department of Corrections are based on the projected increase in the prison population as estimated by the Criminal Justice Estimating Conference. These increases include both recurring general revenue for operational costs and non-recurring general revenue for building new prison beds.
- 2) Funding increases for maintenance and repair of Department of Corrections and Department of Juvenile Justice facilities are based on the average increase in appropriations over the past five years.
- 3) Funding increases for state attorneys and public defenders are based on the average appropriations for workload over the past five years.
- 4) Increases to the prevention and intervention programs in the Department of Juvenile Justice are based on the average increase in appropriations over the past five years.
- 5) Increases to the cost of assisting fiscally constrained counties paying juvenile detention costs are based on the average appropriations over the past five years.

### **Critical Needs**

The Criminal Justice Estimating Conference estimates an increase of approximately 10,384 inmates in Florida's prison population over the next three fiscal years. Major cost drivers for the Department of Corrections (DOC) include operational costs for care of the projected additional inmate population, and construction for the projected increased capacity.



Source: Criminal Justice Estimating Conference

**Increase in Criminal Justice Estimating Conference Population** - Operational cost drivers include security and institutional operations, health services, and educational and substance abuse programming for incarcerated inmates. To calculate projected costs, a baseline average daily per-diem rate was calculated using Fiscal Year 2009-10 appropriations for Security/Institutional Operations, Health Services, Education and Programs, divided by the average of the year's projected end of month populations. The average daily per-diem rate was then applied to the projected increase in inmates anticipated over the next three fiscal years.

The three-year projections include price level adjustments based on the national consumer price index (CPI). To account for rising costs in providing necessary services to inmates, two separate CPI calculations were used in developing projections: 1) a CPI adjustment based on increases in consumer goods and services was applied to Security and Institutional Operations and Education and Programs; 2) a CPI adjustment based on increases in health care services, generally higher than normal goods and services, was applied to the Health Services Program. The Health Services Program is particularly vulnerable to escalating costs due to increased utilization of community hospital and ambulatory care in emergency situations, as well as increased drug costs.

**Fixed Capital Outlay (FCO) – Increased Capacity** – Three-year FCO funding projections for the Department of Corrections include funding for construction of new facilities to meet an increased capacity of approximately 10,384 inmates, or an average of 3,461 inmates per year for the next three years, as estimated by the Criminal Justice Estimating Conference. These projections also include funding for planning, development and permitting for future facilities.

The Department of Corrections' capacity reports and the results from the most recent Criminal Justice Estimating Conference held in April, 2009, indicate that previously funded prisons scheduled to come on-line during the next three years should be adequate to provide for the increased population. Based on these documents, there is a projected surplus of 3,138 beds at the end of Fiscal Year 2009-10; a surplus of 4,342 beds in June 2011; and 3,935 beds in June 2012. According to the department's current phase-in schedule for new beds, bed capacity will not be in a deficit until May 2013. However, since prisons require approximately 18 to 24 months to construct, capacity must be addressed and construction started in 2011. Funding for planning activities, which may include land purchase, permitting, architectural design, site planning and development must begin even earlier.

In order to address the capacity deficit in 2013, approximately 2,000 beds will need to be initiated in 2011. Further, an additional 3,000 beds will need to be constructed in 2012 to address the 2014 capacity deficit. Actual appropriations to cover these needs could vary widely depending on the specific construction options used, and whether the facilities are purchased with cash or through debt service. For example, a new 1,500 to 2,000 bed prison costs approximately \$120,000,000 while the construction of four work camps

which would hold approximately the same number of beds would cost approximately \$56,000,000. What beds are constructed is also dependent upon the type of beds that are needed, such as secure housing units or dormitories.

Based on correctional facility construction projects authorized by the Legislature over the past five years, the average construction cost per bed was \$44,671. Adjusted for inflation using the July 2009 National Economic Estimating Conference estimates for state and local construction spending, the cost per bed would increase to \$45,520 in Fiscal Year 2011-12 and \$47,204 in Fiscal Year 2012-13. Assuming the same ratio of bed-types were constructed, the fixed capital outlay funding for 2,000 correctional facility beds in FY 2011-12 would be approximately \$91,040,000, and funding for an additional 3,000 correctional facility beds in FY 2012-13 would be approximately \$141,612,000. Also, \$10,000,000 is needed in Fiscal Year 2010-11 for planning activities associated with facility construction.

**Due Process Costs** - Due process costs are defined in this document as private attorney fees, court reporting costs, the cost of expert witnesses and the travel cost of regular witnesses for indigent persons involved in the state court system. Under revision 7 to Article V of the Florida Constitution, the cost of these services became the responsibility of the state beginning in Fiscal Year 2004-05. The most costly services involve the payment of attorney fees for private court-appointed counsel for: (1) criminal defendants when the public defender cannot represent them due to an ethical conflict, and (2) indigent parents involved in state-instituted dependency proceedings. Between Fiscal Years 2004-05 and 2006-07, the state continued the then-existing system of using private attorneys appointed locally from a registry. Since October 1, 2007, five new regional conflict counsel offices made up of public attorneys provide legal representation in the majority of these cases.

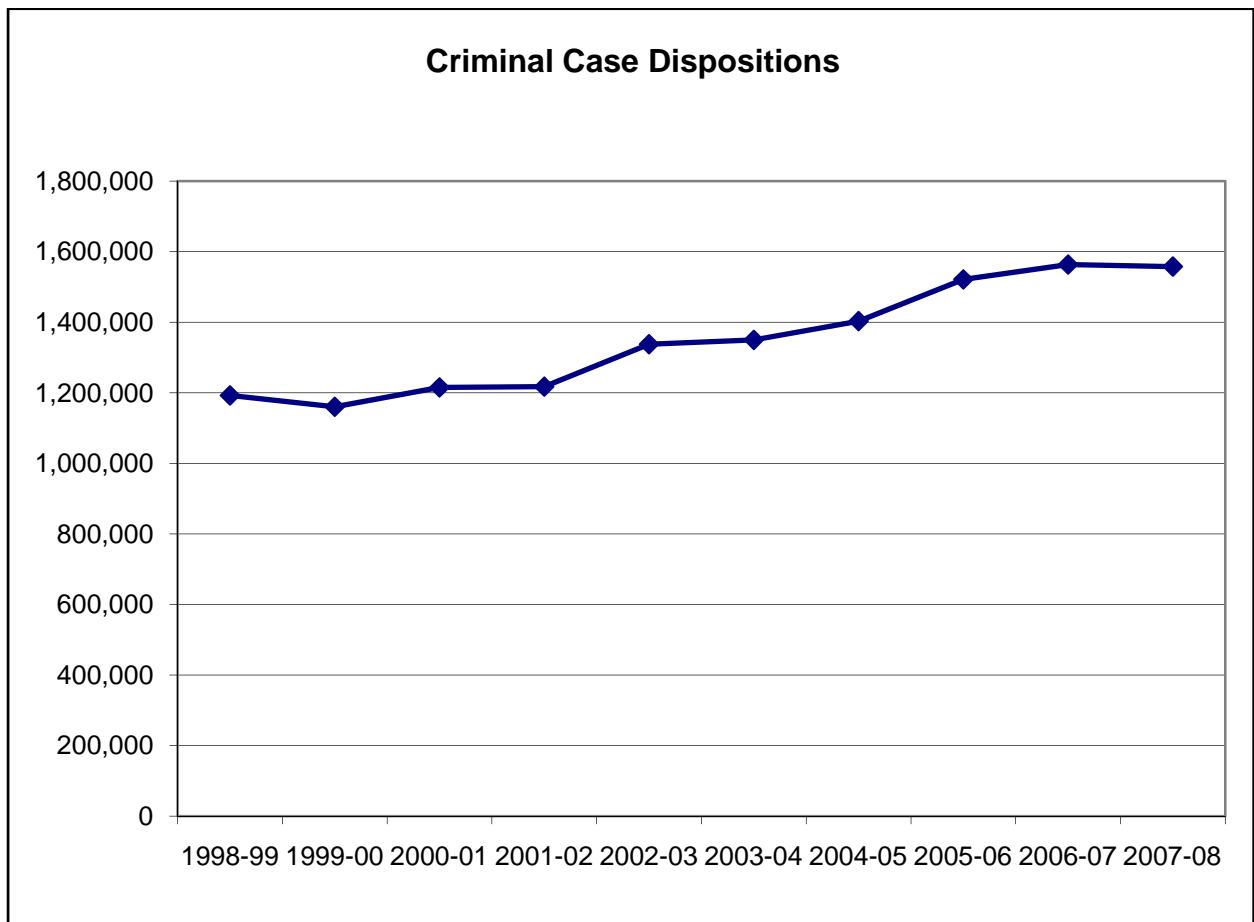
The due process costs in the Outlook are made up of the required payments for old cases that were started before October 1, 2007, where the private attorneys have yet to bill the state. These costs have been difficult to predict, and actual expenditures could vary considerably from these estimates.

### **Other High Priority Needs**

**DOC Workload and Services** - When resources have been available, the Legislature has provided additional funding for the Department of Corrections (DOC) to increase educational, transitional, and substance abuse programming, as well as provide price level increases for food services and other needs. Future funding projections for DOC workload and services have been based on a five-year appropriations average. However, due to recent budget reductions, there has not been any increase of late for such services. Until increased revenues become available to fund optional programs, an increase in funding is not expected.

**Other FCO – Maintenance and Repair** - The Department of Corrections (DOC) is responsible for the upkeep and care of over 140 facilities statewide, which include correctional institutions, work camps, work release centers and road prisons. Approximately 35 percent of DOC’s facilities are at least 30 years old. The Legislature recognizes the importance of keeping its facilities safe and functional by funding repair and maintenance needs. Future funding projections for repair and maintenance for these facilities have been based on a five-year appropriations average.

**Justice Administrative Commission** – The Outlook has two budget drivers in the area of justice administration: (1) due process costs (discussed previously under critical needs), and (2) state attorney and public defender workload. Both are influenced by criminal justice trends such as the increasing crime rate. Over the past ten years, the total of criminal case dispositions (cases closed) has increased an average of 3 percent each year. The growth of criminal cases causes increases in due process costs and a need for new staff for the state attorney and public defender offices.



Source: Office of State Court Administrator, SRS data.

**State Attorney, Public Defender, and Regional Conflict Counsel Workload** - With increased caseloads, additional staff are needed in the state attorney offices, public defender offices, and the new regional conflict counsel offices. Over the last five years, the Legislature has provided an average of \$4.7 million per year increase for the

increased state attorney and public defender workload. An additional \$500,000 was added for the new regional conflict counsel offices.

**Clerks of Circuit Court** - The 2009 Legislature made substantial changes to budgeting for the Clerks of Court. The first change moved the clerks into the state system by including their budget in the 2009-10 General Appropriations Act. Second, Senate Bill 1718 (Chapter 2009-61, Laws of Florida) established a statewide budget cap for the clerks of \$451.4 million, effectively reducing their budget by \$45.6 million. Finally, Senate Bill 2108 (Chapter 2009-204, Laws of Florida) designated that all revenues (court-related fees, fines, costs and service charges) collected by the clerks are considered state funds and shall be remitted monthly to the Department of Revenue for deposit into the Clerks of the Court Trust Fund as created in the Justice Administrative Commission. Since Section 14(b) of Article V of the Florida Constitution requires that Clerk offices be supported by fees, this is not a General Revenue budget driver, but it is noted in the Outlook because of its significant change in budget policy.

**Juvenile Justice** – The Prevention and Intervention Programs in the Department of Juvenile Justice (DJJ) are considered “front-end” services that aim to divert juveniles from institutional or “deep-end” services. The majority of these programs are implemented by local community providers that normally have a better understanding of which programs are the most effective in diverting kids from residential programs. The Legislature has increased front-end services to reduce the need for more costly deep-end services over the past few years. Future funding projections for these programs have been based on a five-year appropriation average.

Currently, DJJ contracts with approximately 140 different private providers who provide over \$267 million in program services statewide. In order to ensure that these private providers are delivering efficient and effective programs and services, the Legislature in the past has funded price-level increases for these providers. While there have been no significant increases over the past five years, there may be a desire to resume funding such needs in future years.

DJJ is responsible for the upkeep and care of a large number of facilities statewide. A majority of these facilities operate residential programs that house kids twenty-four hours a day and seven-days a week. With this operating stress, the Legislature recognizes the importance of keeping these facilities safe and functional for the kids who receive services by funding the repair and maintenance needs for DJJ’s facilities. Future funding projections for repair and maintenance for these facilities have been based on a five-year appropriation average.

The 2004 Legislature passed Senate Bill 2564 (Chapter 2004-263, Laws of Florida) that requires joint financial participation of the state and counties in the provision of juvenile detention. Costs allocated to counties are associated with the time juveniles from those counties spend in detention before being adjudicated. Costs allocated to the state are associated with the time spent in detention by any juvenile who has no known residence, whose residence is out of state, or who has been adjudicated. The bill also recognized

that this will be a burden on counties with a “fiscally constrained county” designation, defined as a rural area of critical economic concern under s. 288.0656, F.S. To alleviate the burden on the counties experiencing those economic conditions, and subject to appropriation, the state provides grant funds to 30 of the 67 counties. Future funding projections for juvenile detention costs for fiscally constrained counties have been based on a five-year average appropriation.

**General Appropriations Act Section 5 - Natural Resources / Environment /  
Growth Management / Transportation  
Tier 2 Issues - Critical and Other High Priority Needs  
Expenditure projections (\$ millions)**

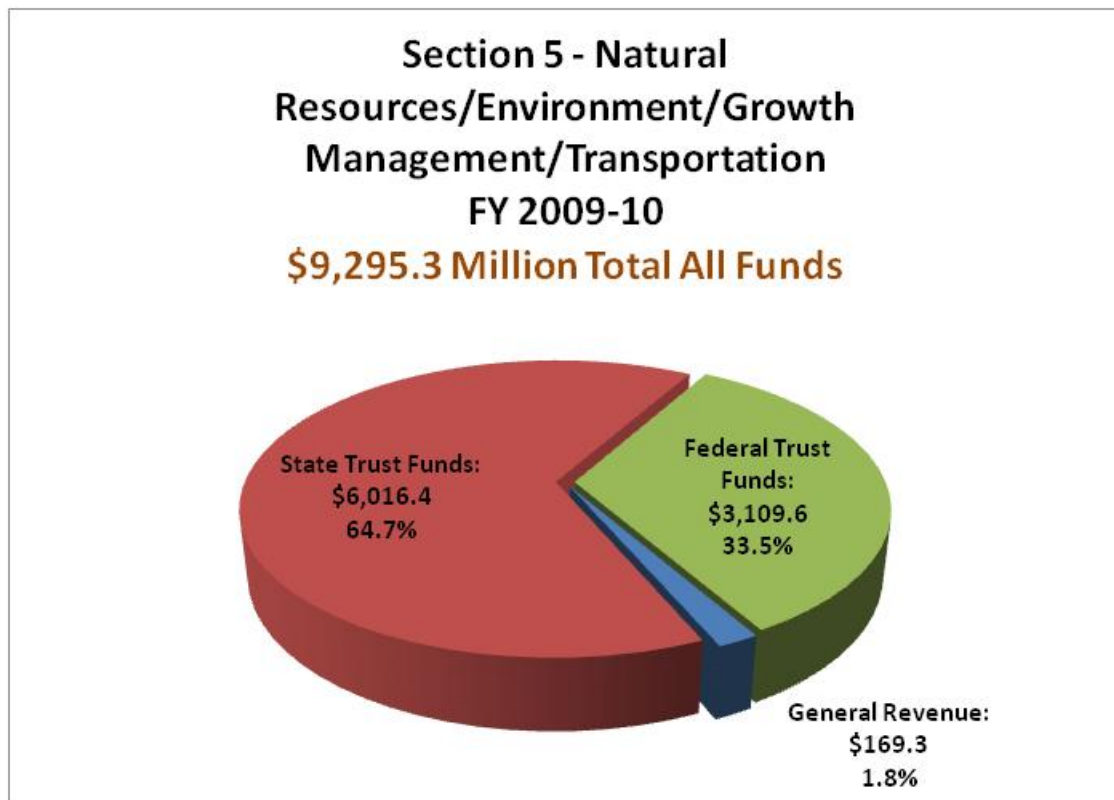
<b><u>Recurring</u></b>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
General Revenue	158.9	159.9	195.3	195.3
change		1.1	35.4	0.0
% change		0.7%	22.1%	0.0%
<b><u>Nonrecurring</u></b>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
General Revenue	10.4	217.5	219.9	229.7
<b><u>TOTAL</u></b>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
General Revenue	169.3	377.4	415.2	425.0
budget impact		218.6	255.3	229.7



## ***SECTION 5 – NATURAL RESOURCES, ENVIRONMENT, GROWTH MANAGEMENT, AND TRANSPORTATION***

### **SUMMARY**

The Natural Resources, Environment, Growth Management and Transportation section of the General Appropriation Act includes the following agencies: Department of Agriculture and Consumer Services, Department of Community Affairs, Department of Environmental Protection, Fish and Wildlife Conservation Commission, and Department of Transportation. These agencies are funded with a combination of state general revenue, federal funds, and state trust funds. Of the \$9.3 billion total budget for the 2009-10 fiscal year, only 1.8 percent or \$169.3 million is funded from state general revenue. The majority of funds are derived from state trust fund sources. Almost, sixty-five percent or \$6.0 billion is from state trust fund sources and \$3.1 billion or 33.5 percent is from federal funds.



Source: Actual appropriations for Fiscal Year 2009-10 adjusted for supplementals, vetoes and statewide distributions.

For critical and other high priority needs, the Long-Range Financial Outlook projects a total increase in recurring general revenue for Section 5 agencies of \$1.1 million in Fiscal Year 2010-11; \$35.4 million in Fiscal Year 2011-12; and zero in Fiscal Year 2012-13. The Outlook also includes non-recurring general revenue spending of \$217.5 million in

Fiscal Year 2010-11; \$219.9 million in Fiscal Year 2011-12; and \$229.7 million in Fiscal Year 2012-13.

Total general revenue spending for the base budget, critical need and other high priority issues is \$377.4 million in Fiscal Year 2010-11; \$415.2 million in Fiscal Year 2011-12; and \$425 million in Fiscal Year 2012-13.

## **ASSUMPTIONS AND DISCUSSION OF MAJOR BUDGET DRIVERS**

**General** – The financial outlook includes funding based on the following assumptions:

- 1) Historical funding averages, or current year funding levels, were used to project future nonrecurring appropriations for Fiscal Years 2010-11 through 2012-13.
- 2) Trust fund resources were maximized in lieu of providing additional general revenue to support ongoing programs.
- 3) Federal funds were maximized with state general revenue as match for the Drinking and Wastewater Revolving Loan programs.
- 4) Programs supported from the documentary stamp tax revenues are based on the August 2009 Consensus Revenue Estimating Conference projections. Over the past few years, the various methodologies for appropriating program budgets supported by documentary stamp tax revenues have included the use of historical funding averages, current-year level of funding, and the statutory distribution. The trust fund balances from documentary stamp tax revenues that remained after funding the programs have been either transferred to the General Revenue Fund or kept in the respective trust funds for future appropriations. The financial outlook is based on the current statutory distribution to all programs supported by documentary stamp tax revenue, which include: the Conservation and Recreation Lands (CARL), Ecosystems Management and Restoration, Water Quality Assurance, Land Acquisition, and Water Management Lands trust funds in the Department of Environmental Protection; the Invasive Plant Control, and State Game trust funds in the Fish and Wildlife Conservation Commission; the General Inspection Trust Fund in the Department of Agriculture and Consumer Services; the Grants and Donations, Local Housing, and State Housing trust funds in the Department of Community Affairs; and the State Transportation Trust Fund in the Department of Transportation. These revenues provide funding for land management and acquisition; beach restoration; oyster relaying; environmental protection efforts, including non-point source pollution prevention; and a variety of affordable housing initiatives, as well as transportation projects and technical assistance relating to local comprehensive planning. The revenue source also provides funding for the state's park operations, exotic and aquatic plant control, and lake restoration efforts. Due to the decline in documentary stamp tax revenues and the targeted redirects to the General Revenue Fund, the Outlook

funds park maintenance, beach restoration, water sustainability, and a portion of land management from general revenue.

- 5) The Natural Resources, Environment, Growth Management, and Transportation section of the budget typically receives significant amounts of nonrecurring general revenue to support ongoing programs after available trust fund resources have been maximized. These programs include wastewater, drinking water, and surface water projects, and capital improvements, maintenance, and repairs. The financial outlook continues this source of funds for these programs based on historical funding averages or current year funding levels. Also included are FEMA disaster match requirements for all open declared disasters.
- 6) Funding levels for the Department of Transportation's (DOT) Five-Year Adopted Work Program, as of July 1, 2009, were used for Fiscal Years 2009-10 through 2013-14. Any changes after July 1, 2009 for the current fiscal year would be reflected in a budget amendment or work program amendment. Changes to the outer years of the Work Program would be reflected in the Tentative Work Program for Fiscal Year 2010-11 through Fiscal Year 2014-15 which will be submitted in February 2010 for legislative consideration.

### **Critical Needs**

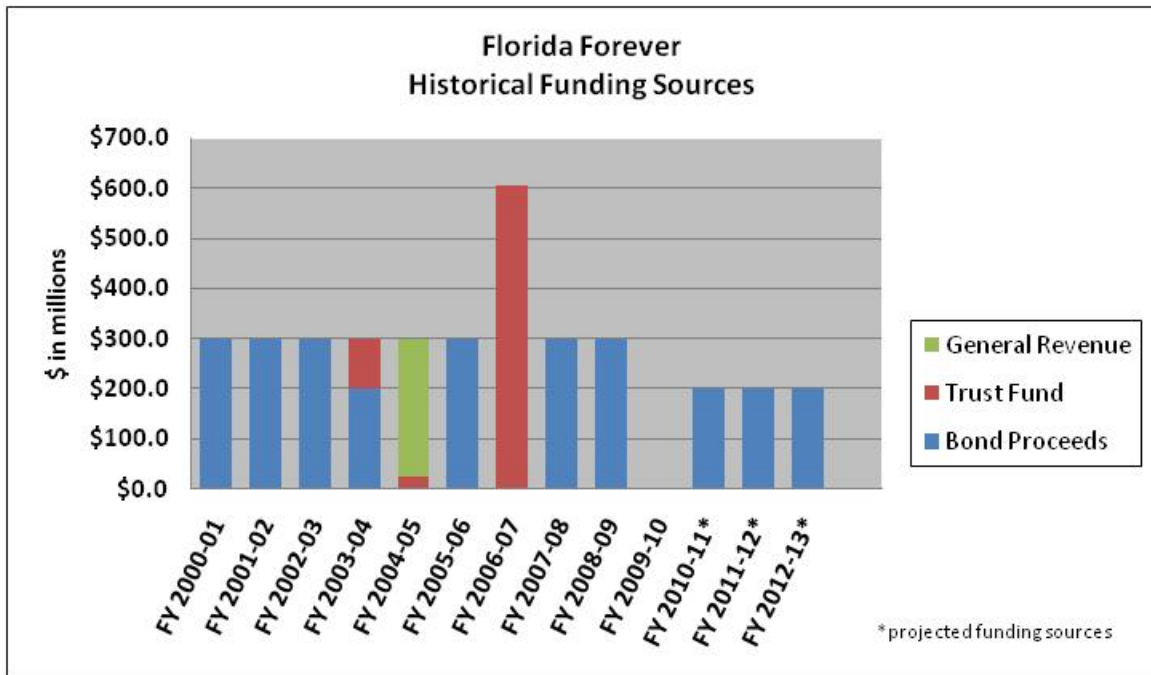
The Outlook includes a reduction in debt obligations for the Conservation and Recreation Lands (CARL) and Save Our Coast bonds. These bonds were authorized prior to the Preservation 2000 and the Florida Forever programs. The debt payments decline throughout the financial outlook period with the final debt payment due June 30, 2012. The source of revenue to support the debt payments is the documentary stamp tax revenue allocated to the CARL and Land Acquisition trust funds within the Department of Environmental Protection.

**Disaster Assistance** – State matching funds for federally declared disasters vary tremendously from one year to the next. The amount of general revenue funds required in any given year is dependent on the number and severity of disasters, as well as the federally required percentage of state participation. The financial outlook contains an estimate of the general revenue required to meet the state match portion for federally declared disasters that includes the outstanding state obligation for all open federally declared disasters.

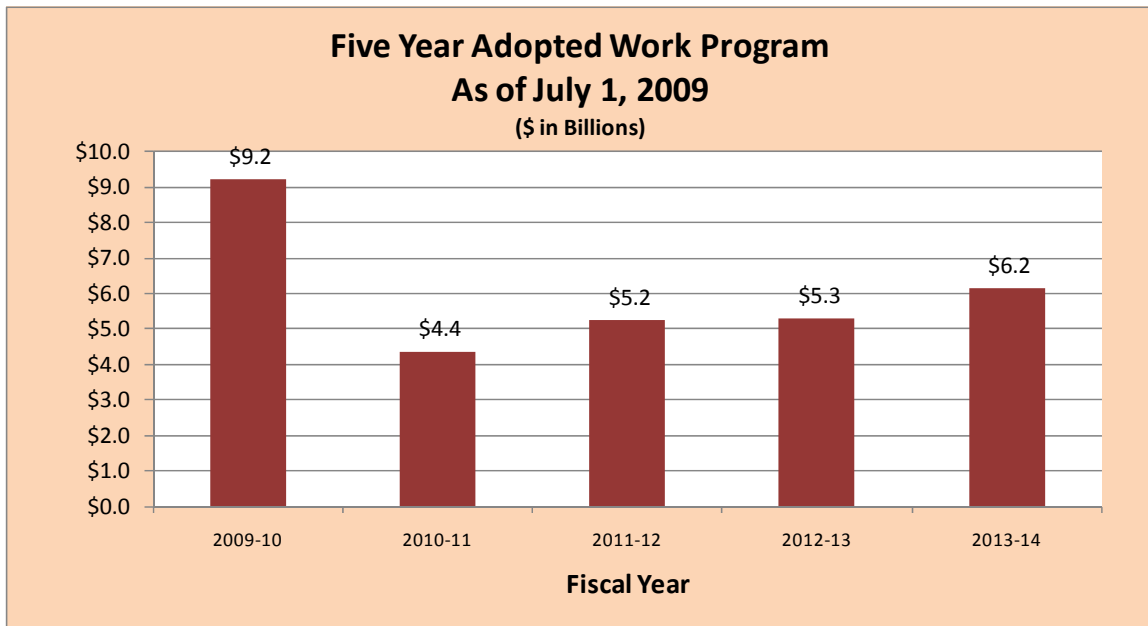
### **Other High Priority Needs**

**Land Acquisition and Restoration** - The financial outlook assumes annual bond authorizations of \$200 million each for Fiscal Year 2010-11 through Fiscal Year 2012-13 for the Florida Forever land acquisition program and \$100 million each year for the Comprehensive Everglades Restoration Plan. A three-year historical funding average is

the funding methodology for these programs. Historically, bonds have been authorized for the state’s land acquisition programs; however, in Fiscal Years 2003-04, 2004-05 and 2006-07, the General Appropriations Act provided nonrecurring general revenue and trust fund balances to fund the program in lieu of authorizing the full \$300 million annual debt. In Fiscal Year 2009-10, Florida Forever was not funded. For Everglades restoration, bond proceeds, nonrecurring general revenue, and trust fund sources have also been provided to support the appropriation. The financial outlook includes bond proceeds as the revenue source for these programs in Fiscal Year 2010-11 through Fiscal Year 2012-13. The debt obligations for Florida Forever and the Everglades are funded from documentary stamp tax revenues allocated to the General Revenue Fund. The recurring general revenue needs for the additional bond authorizations are \$30.5 million for the 2010-11 fiscal year, \$61.0 million in the 2011-12 fiscal year, and \$91.5 million in the 2012-13 fiscal year.



**Department of Transportation Work Program** – The DOT develops a Work Program, which is the department’s list of transportation projects planned for the following five years. It is supported by a balanced five-year financial outlook with a three-year cash forecast of receipts and expenditures. Funding to support the Work Program comes from a variety of trust fund sources, including federal, state, local, bond proceeds, toll collections, and miscellaneous other receipts. Funding projections for each year of the Adopted Five Year Work Program are based on the estimates from the March 2009 Transportation Revenue Estimating Conference (see following chart). Changes in project commitments and revenue estimates after July 1, 2009 will be programmed into the Work Program in February 2010 for legislative consideration.



**Maintenance, Repairs, and Capital Improvements** – The financial outlook assumes funding for repairs and construction for agricultural infrastructure located throughout the state. These building improvements include forestry wildfire prevention facilities, state farmers markets, agriculture promotion & education facilities, and agriculture interdiction station ramp renovations. Based on historical funding, the financial outlook includes funding ranging from \$7.6 million to \$10.2 million in non-recurring general revenue in each fiscal year for the duration of the financial outlook.

**Environmental Programs Funded with Documentary Stamp Tax** – The financial outlook assumes continued funding for programs with documentary stamp tax revenues within the Departments of Environmental Protection, Agriculture and Consumer Services, and the Fish and Wildlife Conservation Commission. The financial outlook provides spending for best management practices, non-point source pollution prevention, land management, lake restoration and beach restoration. The funding level is based on the statutory distribution levels projected by the August 2009 Revenue Estimating Conference.

**Agriculture and Environmental Programs** – The financial outlook includes funding for major programs within the Departments of Environmental Protection and Agriculture and Consumer Services based on historical funding levels. These programs include:

--Water Projects and Other Water Initiatives – the Outlook includes funding for traditional water projects and other major water quality initiatives, such as wastewater improvement for the Florida Keys and projects in the Southern Water Use Caution Area. These projects were historically funded by the statutory sales tax distribution based on the Revenue Estimating Conference. In Fiscal Year 2009-10, this funding was redirected to general revenue. The outlook assumes a historical funding level of \$66.7 million

funded from non-recurring general revenue for each fiscal year for the duration of the financial outlook.

--Drinking Water and Wastewater Revolving Loan Programs – the Outlook provides a state match to all estimated federal dollars available in order to maximize low interest loans to the state’s local governments for needed infrastructure. For the duration of the Outlook, non-recurring general revenue ranging from \$40.8 million in Fiscal Year 2010-11 to \$55 million in Fiscal Year 2012-13 is provided for each fiscal year to match federal funding ranging from \$291.5 million in Fiscal Year 2010-11 to \$375.1 million in Fiscal Year 2012-13.

--Other Agricultural Programs – agriculture continues to be an important industry in Florida. The Outlook provides funding for aquaculture research grants, wildfire suppression equipment, replacement of motor vehicles, and for the distribution of food to needy families. Based on historical funding averages, \$2.4 million in non-recurring general revenue is included for each fiscal year in the Outlook.

### **OTHER CONSIDERATIONS**

The Long-Range Financial Outlook is based on events that are known or likely to occur. However, there are some risks that would significantly alter key assumptions were they to come to pass. Some of those risks and their potential ramifications are as follows:

- Current environmental claims against the state include an issue estimated at \$10 million for a beach nourishment property rights case for which a decision has yet to be issued by the United States Supreme Court.
- Class action lawsuits for damages due to the state's removal of trees exposed to citrus canker have been filed in five counties. The plaintiffs seek additional compensation over and above the amount already paid under section 581.1845, Florida Statutes. The trial court in Broward County awarded an additional \$33 per tree, plus interest, costs and attorneys’ fees. The judgment is on appeal. No other trials are currently scheduled.
- Clean Water – The Department of Environmental Protection, under agreement with the federal Environmental Protection Agency (EPA), conducts needs assessments<sup>3</sup> to determine the cost of infrastructure necessary to comply with the federal Clean Water Act as it relates to wastewater, stormwater, nonpoint sources and estuaries. Based on the most recent information available (released in January 2008, but based on 2004 data), the EPA has identified Florida’s needs over the next twenty years as follows:
  - Wastewater = \$10,716,973,000
  - Municipal stormwater = \$2,182,750,000
  - Nonpoint source = \$9,285,007,000

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<sup>3</sup> The most recently published needs assessment was released in June 2005.

- Estuary management = \$63,073,000  
TOTAL = \$22,247,803,000

- Drinking Water – Needs assessments are also conducted to determine the cost of infrastructure necessary to comply with the federal Safe Drinking Water Act as it relates to public water systems. In the most recent report (released in February 2009, but based on 2007 data), the U.S. Environmental Protection Agency estimated Florida’s total 20-year need for public water systems to exceed \$12.8 billion.
- Water Infrastructure - The Legislature annually authorizes funding for the construction or renovation of drinking water treatment and distribution systems, stormwater management systems, and wastewater treatment and management systems, including water reuse facilities, based on priority listings maintained by the Department of Environmental Protection. The current priority lists include more than \$1.2 billion in projects that will need funding over the next five to seven years, primarily through low-interest loans as part of DEP's State Revolving Fund loan programs. In addition, about \$14 million in wastewater grants for small, financially disadvantaged municipalities is provided annually.

**General Appropriations Act Section 6 - General Government**  
**Tier 2 Issues - Critical and Other High Priority Needs**  
**Expenditure projections (\$ millions)**

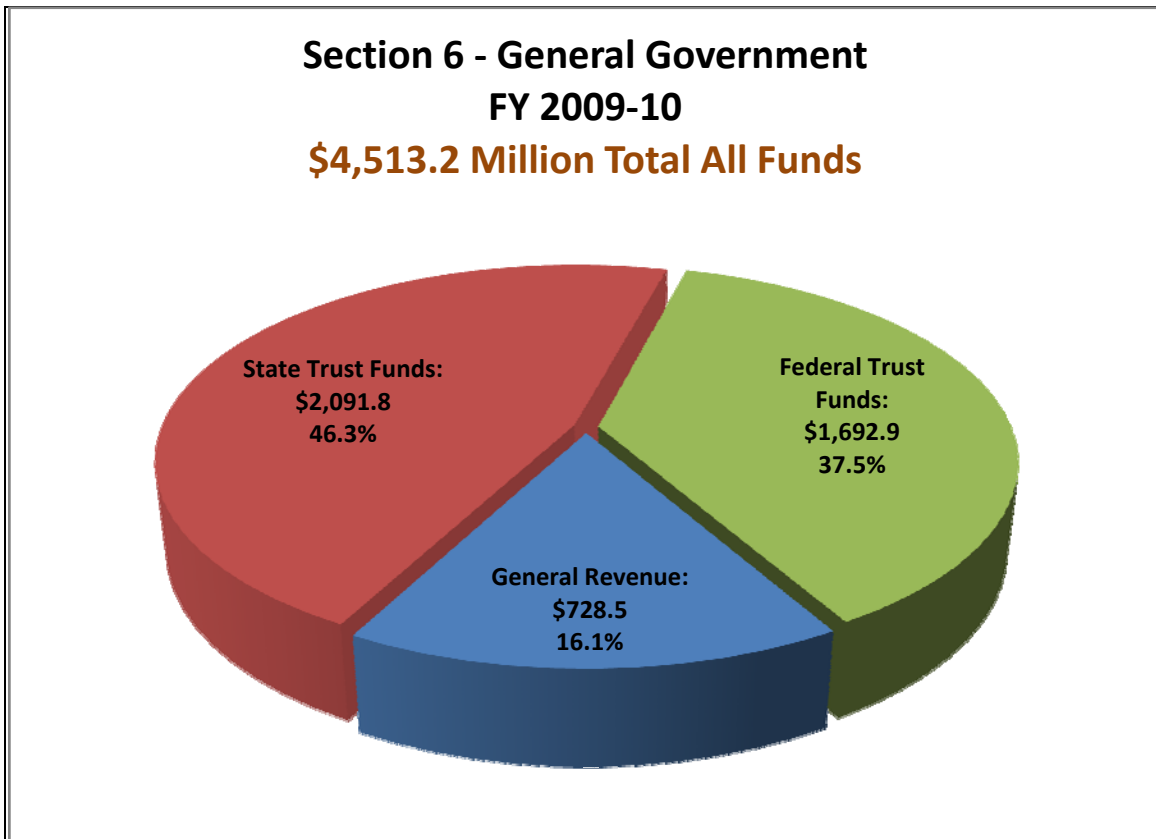
<b><u>Recurring</u></b>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
General Revenue	618.4	631.8	635.8	637.4
change		13.4	4.0	1.6
% change		2.2%	0.6%	0.3%
<b><u>Nonrecurring</u></b>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
General Revenue	110.1	147.1	256.3	319.0
<b><u>TOTAL</u></b>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
General Revenue	728.5	778.9	892.2	956.4
budget impact		160.5	260.4	320.6



## ***SECTION 6 – GENERAL GOVERNMENT***

### **SUMMARY**

The General Government section of the General Appropriations Act includes the following budgets: Agency for Workforce Innovation, Department of Business and Professional Regulation, Department of Citrus, Department of Financial Services, Executive Office of the Governor, Department of Highway Safety and Motor Vehicles, Legislative Branch, Department of Lottery, Department of Management Services, Department of Military Affairs, Public Service Commission, Department of Revenue, and Department of State.<sup>4</sup> These agencies are funded with a combination of state general revenue, federal funds, and state trust funds. Of the \$4.5 billion total budget for the 2009-10 fiscal year, only 16.1 percent or \$728.5 million is funded from the General Revenue Fund. The greater share of funds is derived from state trust fund sources. Over forty-six percent, or \$2.1 billion, is from state trust fund revenues, and \$1.7 billion, or 37.5 percent, is from federal trust funds.



Source: Actual appropriations for Fiscal Year 2009-10 adjusted for supplemental, vetoes, and statewide distributions.

<sup>4</sup> Administered Funds excluded.

The Long-Range Financial Outlook projects critical need and other high priority need increases in recurring general revenue spending of \$13.4 million in Fiscal Year 2010-11; \$4.0 million in Fiscal Year 2011-12; and, \$1.6 million in Fiscal Year 2012-13. The outlook also includes non-recurring general revenue spending of \$147.1 million in Fiscal Year 2010-11; \$256.3 million in Fiscal Year 2011-12; and \$319 million in Fiscal Year 2012-13.

Total general revenue spending for the base budget, critical need and other high priority issues is \$778.9 million in Fiscal Year 2010-11; \$892.2 million in Fiscal Year 2011-12; and \$956.4 million in Fiscal Year 2012-13.

### **ASSUMPTIONS AND DISCUSSION OF MAJOR BUDGET DRIVERS**

**General** – The financial outlook includes additional funding based on the following assumptions:

- 1) Trust fund resources were maximized in lieu of providing additional general revenue to support ongoing programs.
- 2) Historical funding averages, or current year funding levels, were used to project future non-recurring appropriations for Fiscal Years 2010-11 through 2012-13.
- 3) The continuation of the current year level for all economic development programs.
- 4) Funding for armory repairs in the Department of Military Affairs is based on a 3-year funding average.
- 5) General revenue funding to replace non-recurring federal funding to the Regional Workforce Boards and Early Learning Coalitions is included for a continuation of the current year level for workforce services; however, non-recurring federal stimulus funds are not restored from general revenue in the Outlook.
- 6) Federal Funds were maximized with state general revenue or trust fund resources.
- 7) Interest expenses on federal advances for unemployment compensation is based on estimated outstanding loan balances with interest payments from the General Revenue Fund.
- 8) Replacement of federal stimulus funding in the Department of Revenue's Child Support Enforcement Program.

## Critical Needs

**Debt Service & Utilities for Florida Facilities** – The Florida Facilities Pool (pool) is administered by the Department of Management Services to provide both existing office space and construction of new office space for state personnel. Agencies are charged a uniform rental rate to cover the operational costs of the pool, such as utilities and maintenance, and to satisfy bond covenant requirements. Currently, the department is constructing four new office buildings to be located at the Capital Circle Office Complex in Tallahassee. Three of the buildings will be occupied by the Department of Revenue and one will be occupied by the First District Court of Appeals. All buildings are scheduled to be occupied during Fiscal Year 2010-11. Historically, general revenue funds have been provided to cover the cost of the debt service payments during the construction phase. The financial outlook includes \$8.3 million in non-recurring general revenue to fund debt service payments for all four office buildings for the 2010-11 fiscal year. No general revenue funds for debt service payments will be needed for the 2011-12 fiscal year as the rental rate assessed to occupants of the new office buildings will cover the payments and building operations.

The financial outlook also provides for increased funding for utility payments for the pool due to rising costs and the four new office buildings coming online. A three-year average growth rate of 5.19% is used to determine the estimated level of increased funding for future utility costs. The Outlook provides \$1.4 million in Fiscal Year 2010-11, \$1.3 million in Fiscal Year 2011-12, and \$1.3 million in Fiscal Year 2012-13.

**Pensions and Benefits** - In addition to the Florida Retirement System, the Department of Management Services is also responsible for administering other special pension and benefits programs, such as the special pension for the Florida National Guardsmen. Based on historical growth, the financial outlook provides for an increase in recurring general revenue funds of \$1.4 million in Fiscal Year 2010-11, \$1.5 million in Fiscal Year 2011-12, and \$1.6 million in Fiscal Year 2012-13.

**Fiscally Constrained Counties** – Chapters 2007-339 and 2008-173, Laws of Florida, directs the legislature to provide funds to fiscally constrained counties to offset the reductions in ad valorem tax revenue as a result of the property tax cap initiative. The financial outlook provides nonrecurring general revenue of \$18.1 million in fiscal year 2010-11, \$18.7 million in fiscal year 2011-12, and \$19.3 million in fiscal year 2012-13 based on the August 2009 Revenue Estimating Conference.

**Child Support Enforcement** - A provision within the American Recovery and Reinvestment Act of 2009 (federal stimulus) allowed federal child support incentive funds to be used as part of the state's match of federal dollars that support state Child Support Enforcement Programs.

As a result, the Florida Department of Revenue's Child Support Enforcement Program was eligible for \$14.9 million in Fiscal Year 2009-10. The federal stimulus funding allowed \$14.9 million in state general revenue funds to be replaced with federal funds in

the Fiscal Year 2009-10 General Appropriations Act. For the 2010-11 fiscal year, only \$2.5 million in federal stimulus funds will be available to the Child Support Enforcement Program, and no federal stimulus funds are available in Fiscal Year 2011-12 or thereafter.

The financial outlook provides \$12.0 million in recurring general revenue funds and \$2.5 million in non-recurring federal stimulus funds for Fiscal Year 2010-11. In Fiscal Year 2011-12, the financial outlook includes \$2.5 million in recurring general revenue funding to replace the federal stimulus funds and maintain the current level of support to families utilizing the Child Support Enforcement Program for disbursement of child support payments.

**Interest Payments for Federal Unemployment Compensation Advances** - During August 2009, the Unemployment Compensation (UC) Trust Fund fell into deficit. In July 2009, because of the projected deficit, the Governor applied for repayable advances to the State Unemployment Trust Fund from the Federal Unemployment Account. Forecasts of the Unemployment Insurance (UI) tax revenues and unemployment benefit payments indicate that the fund deficit will deepen and federal advances will continue to escalate over the span of the Long-Range Financial Outlook. According to the current federal regulations, interest will begin to accumulate on any outstanding advance balance in January 2011, and the first interest payment will become due to the federal government in September 2011. Repayment of the principal amount will be made from the UI taxes; however, federal regulation prohibits payment of the interest costs from the UI tax collections. Therefore, the outlook includes payments from the General Revenue Fund of \$126.9 million in Fiscal Year 2011-12 and \$199.4 million in Fiscal Year 2012-13 to cover the interest costs.

Employers are required to submit annual Federal Unemployment Tax Act (FUTA) tax payments in addition to their quarterly state unemployment insurance (UI) tax payments. The FUTA tax rate is 6.2%, and under normal conditions employers who pay their state UI taxes in a timely manner receive a credit of up to 5.4% toward their FUTA taxes, so they pay their FUTA tax at a rate of 0.8%. Current federal law provides that employers will experience a partial loss of the federal UI tax credit beginning on January 1, 2012, due to the existence of the outstanding advances; however, the value of the lost credit (the amount of the increased federal taxes) will be used to offset the state's outstanding advance balance. The credit continues to be reduced until such time as the state's advance is fully repaid. (The overall credit is reduced in increments of 0.3 percent each year from 5.4 to 5.1 to 4.8 to 4.5 percent, etc.) There are some actions the state can take to avoid the automatic federal tax increase [reduction of the FUTA credit], but these would involve future legislative actions that are beyond the purview of the Long Range Financial Outlook.

### **Other High Priority Needs**

**Economic Development** - Significantly greater non-recurring general revenue funds were provided for economic development in Fiscal Years 2006-07 and 2007-08 than in

the years previous, thereby making any multi-year averages inaccurate estimates of future need. Since the level of future non-recurring funds for these programs cannot be predicted, the financial outlook relies on projections based on Fiscal Year 2009-10 appropriation levels for all economic development programs.

**National Guard Armories** - Over the last several fiscal years, non-recurring general revenue funds have been appropriated to the Department of Military Affairs to support its Capital Improvement Plan, which provides a priority schedule of maintenance and repair for the 55 National Guard Armories around the state. The outlook includes \$5.1 million annually based on a 3-year funding average.

**Workforce Services** – The Agency for Workforce Innovation administers the state’s Workforce and Early Learning programs. State and federal funding is provided to the twenty-four Regional Workforce Boards and thirty-one Early Learning Coalitions for workforce initiatives and for school readiness, respectively. During the current fiscal year, Fiscal Year 2009-10, the Legislature provided a portion of the funding from non-recurring general revenue. If the programs are to continue at the current-year level, \$2.5 million from general revenue would be needed for school readiness and \$3.3 million from general revenue for the Regional Workforce Boards.

#### **Other General Government Priorities**

**Child Support Enforcement** – In order to increase efficiencies in the Child Support Enforcement Program in the Department of Revenue, the Outlook continues to provide funds for the Child Support Automated Management System (CAMS). The funding is based on the department’s implementation schedule and maximizes all available trust fund resources. For the 2010-11 fiscal year, \$12.1 million in non-recurring general revenue is included in the Outlook, as well as \$10.5 million for Fiscal Year 2011-12 and \$1.9 million for Fiscal Year 2012-13.

**Executive Aircraft** – The Department of Management Services provides on-demand executive air transportation for the Governor, Cabinet, and other high-level state officials on a priority service basis. Historically, the program was funded from a combination of user fees collected from agencies that use the state’s executive aircraft and a general revenue subsidy. For Fiscal Year 2009-10, the Legislature appropriated \$2.1 million in non-recurring general revenue to fund the program’s fixed costs and authorized trust fund expenditures of \$.6 million from user fees to fund variable costs. Based on the current funding policy, the financial outlook provides for a continuation budget for fixed costs, as adjusted for non-recurring scheduled maintenance, which is estimated to be \$2.0 million for Fiscal Year 2010-11, \$2.6 million for Fiscal Year 2011-12, and \$1.9 million for Fiscal Year 2012-13.

## **OTHER CONSIDERATIONS**

The Long-Range Financial Outlook is based on events that are known or likely to occur. However, there are some risks that would significantly alter key assumptions were they to come to pass. One of those risks and its potential ramifications is as follows:

- The Department of Revenue estimates \$135.4 million in potential litigation involving sales and use tax, insurance premium retaliatory tax, corporate income tax and doc stamp tax assessments. These figures are the aggregate of numerous disputes and represent the worst case scenario.

**General Appropriations Act Section 7 - Judicial**  
**Tier 2 Issues - Critical and Other High Priority Needs**  
**Expenditure projections (\$ millions)**

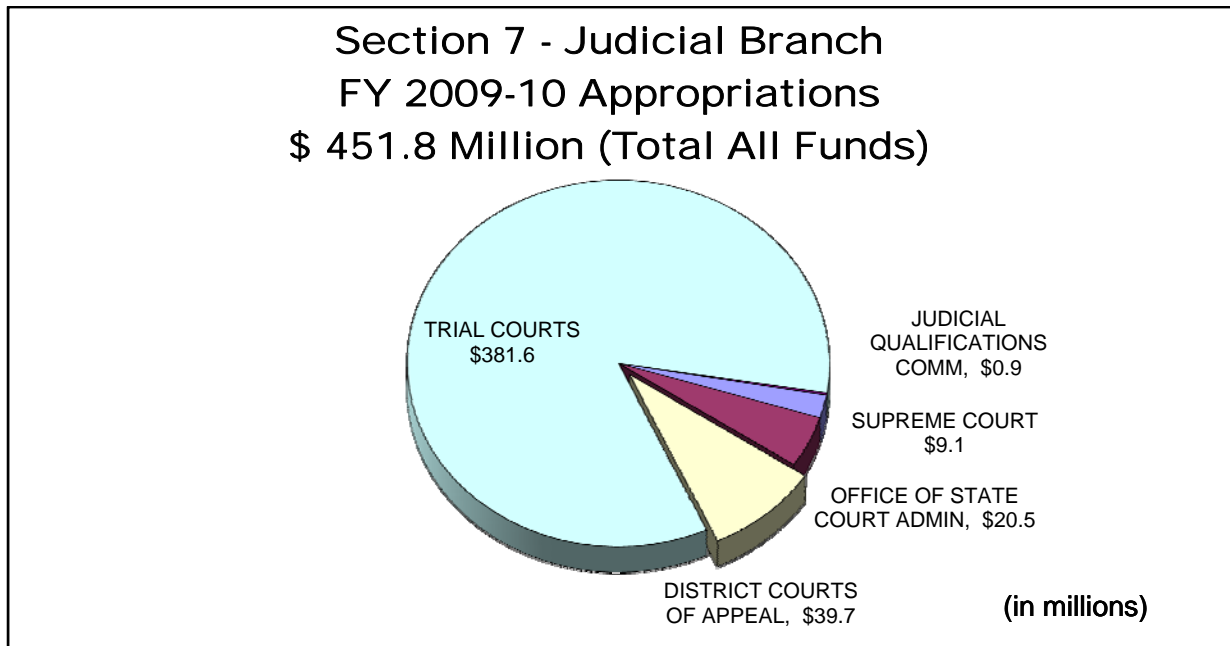
<b><u>Recurring</u></b>	<b><u>2009-10</u></b>	<b><u>2010-11</u></b>	<b><u>2011-12</u></b>	<b><u>2012-13</u></b>
General Revenue	134.8	200.8	232.8	246.5
change		66.0	32.0	13.7
% change		48.9%	15.9%	5.9%
<b><u>Nonrecurring</u></b>	<b><u>2009-10</u></b>	<b><u>2010-11</u></b>	<b><u>2011-12</u></b>	<b><u>2012-13</u></b>
General Revenue	0.0	8.5	8.2	6.1
<b><u>TOTAL</u></b>	<b><u>2009-10</u></b>	<b><u>2010-11</u></b>	<b><u>2011-12</u></b>	<b><u>2012-13</u></b>
General Revenue	134.8	209.3	241.0	252.5
budget impact		74.4	40.2	19.7

## SECTION 7 – JUDICIAL BRANCH

### SUMMARY

Funding for the judicial branch in Section 7 of the General Appropriations Act includes dollars and positions for the Supreme Court, the Office of State Courts Administrator, the District Courts of Appeal, and the trial courts which consist of circuit and county courts. Other court system entities, such as the state attorney and public defender, while officers of the court, are funded in Section 4 - Criminal Justice and Corrections of the General Appropriations Act. The judicial branch's core mission is to resolve civil disputes and criminal charges. Most of the cost of the judicial budget is made up of judges, associated staff, and expenses. The state is responsible for funding nearly the entire judicial branch. Under revision 7 to Article V of the Florida Constitution, the state became responsible for additional court associated costs. Prior to 2004, these costs were the responsibility of the county governments. New costs included the cost of due process services, such as private attorney fees, court reporting, and expert witnesses. Today, the county retains the responsibility of providing facilities, security, communications and information technology to the court system. The total amount appropriated in state general revenue and trust funds for the judicial branch is \$451.8 million for Fiscal Year 2009-10 (see figure below).

For critical and other high priority needs, the Long-Range Financial Outlook projects a total increase in general revenue of \$74.4 million for Fiscal Year 2010-11, \$40.2 million for Fiscal Year 2011-12, and \$19.7 million for Fiscal Year 2012-13.

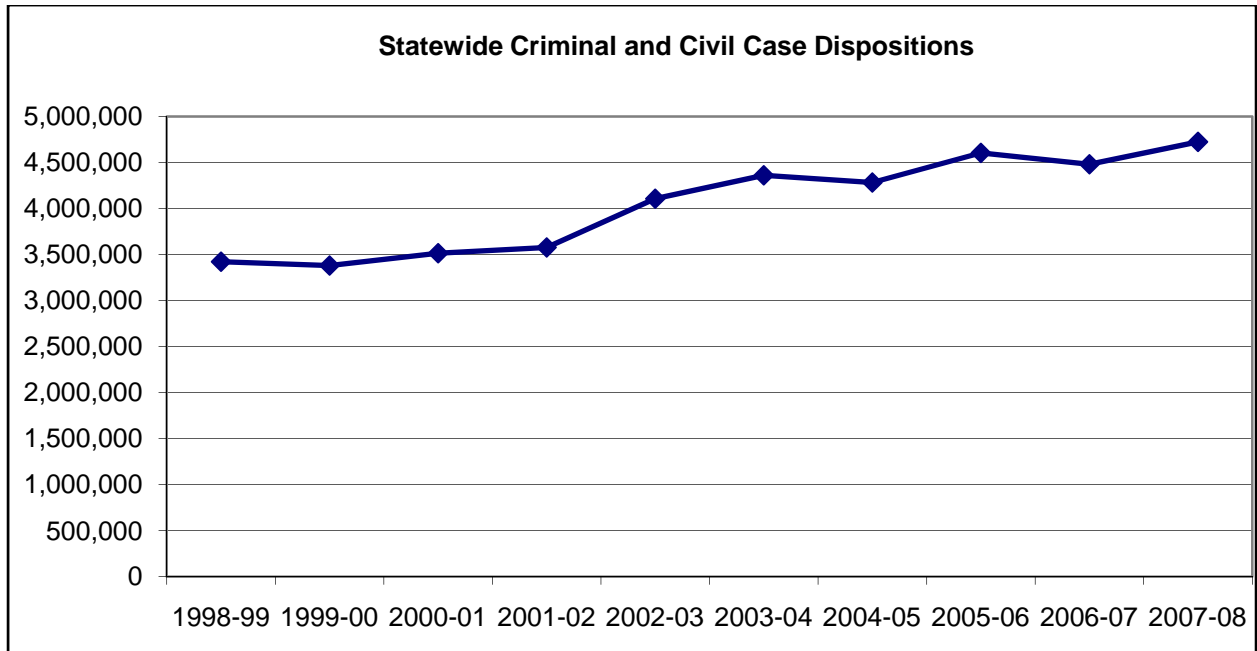


Source: Actual Appropriations for Fiscal Year 2009-10 Adjusted for Supplementals and Vetoes



## ASSUMPTIONS AND DISCUSSION OF MAJOR BUDGET DRIVERS

**General** – The financial outlook includes future funding levels based on historical funding increases in the judicial branch. The Legislature has increased appropriations in recent years to the courts to better process the increase in cases. Criminal and civil case dispositions (cases closed) have increased by a million over the last ten years. On average, the number of cases increased 3.8 percent each year.



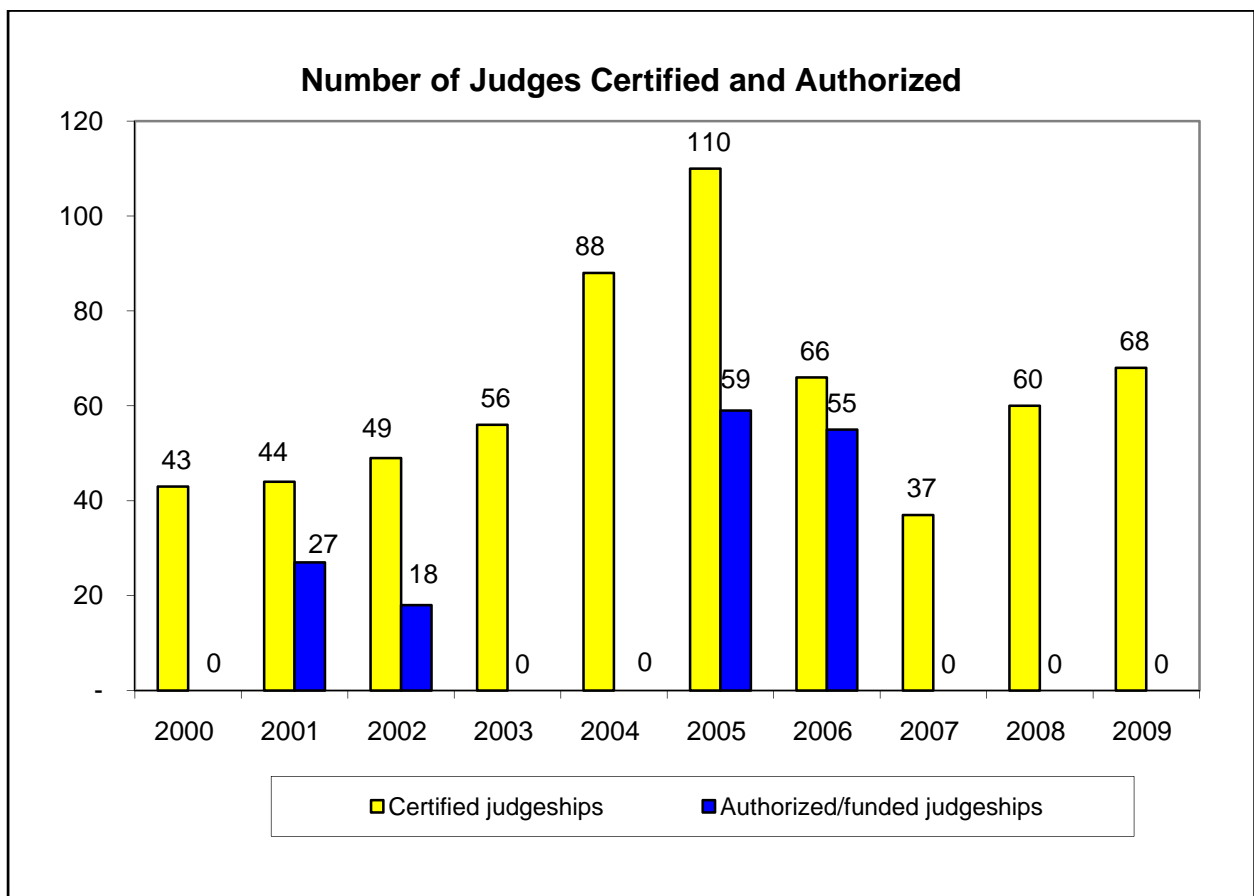
Source: Office of State Courts Administrator, SRS data.

### **Critical Needs**

**Courts System Funding Required to Offset Decline in Court Fee Revenues** - The 2009-10 General Appropriations Act included a fund shift of \$212.7 million from the General Revenue Fund to the State Courts Revenue Trust Fund to fund the operation of the courts. Trust fund revenues were made available in Senate Bill 1718 (Chapter 2009-61, Laws of Florida), primarily by creating a graduated filing fee for real property or mortgage foreclosure cases and increasing filing fees related to circuit civil filings. However, the Revenue Estimating Conference projected a decline in revenue in the out-years, primarily due to the expected decline in mortgage foreclosures. The Outlook projections are based on the total budget of \$220 million less the projected revenue, resulting in the amount of general revenue needed to offset the decline in revenue.

## Other High Priority Needs

**Courts System Workload – New Judges and Support Positions** - The increase in cases has not only caused an increased need in funding, but also in the number of judges. The Florida Constitution requires the Supreme Court to certify to the Legislature the number of judges needed, and the Legislature has historically funded a portion of the court's certification order. The average number of new judges established per year (16) over the ten years from 2000 to 2009 was used to estimate the number of additional judges for the Outlook. No new judgeships were created in the 2007, 2008, and 2009 sessions. The cost to establish a new judgeship, along with the associated staff and expenses, is approximately \$250,000 per year, or \$4 million per year for the 16 judgeships.



Source: Florida Legislature

**Supreme Court and District Courts of Appeal Fixed Capital Outlay** - The state is responsible for the facility needs of the appellate courts, including the Supreme Court and District Courts of Appeal. The Legislature has appropriated approximately \$31.7 million over the last five years to fund repairs and renovation projects for these court buildings. Of that amount, \$9.7 million was appropriated for the new 1<sup>st</sup> District Court of Appeals

building. Once the new 1<sup>st</sup> District Court of Appeals building is occupied, an estimated \$1 million will be needed annually for rent payments beginning in Fiscal Year 2011-12.

**Small County Courthouses** - While the counties are responsible for the facility needs of the trial courts, the Legislature has historically provided additional funding to counties with populations of less than 75,000 to renovate and repair trial court buildings. Over the last five years, such expenditures have averaged \$4.1 million per year. This figure is the basis for the costs contained in the Outlook.

**General Appropriations Act - Statewide Distributions / Administered Funds**  
**Tier 2 Issues - Critical and Other High Priority Needs**  
**Expenditure projections (\$ millions)**

<b><u>Recurring</u></b>	<b><u>2009-10</u></b>	<b><u>2010-11</u></b>	<b><u>2011-12</u></b>	<b><u>2012-13</u></b>
General Revenue	7.8	459.3	728.9	1,021.0
change		451.5	269.6	292.1
% change		5765.6%	58.7%	40.1%
<b><u>Nonrecurring</u></b>	<b><u>2009-10</u></b>	<b><u>2010-11</u></b>	<b><u>2011-12</u></b>	<b><u>2012-13</u></b>
General Revenue	22.1	0.0	0.0	0.0
<b><u>TOTAL</u></b>	<b><u>2009-10</u></b>	<b><u>2010-11</u></b>	<b><u>2011-12</u></b>	<b><u>2012-13</u></b>
General Revenue	30.0	459.3	728.9	1,021.0
budget impact		451.5	269.6	292.1

## *Statewide Distributions / Administered Funds*

### **SUMMARY**

In addition to the legislative budget, the Statewide Distributions / Administered Funds section of the Outlook addresses two different types of issues as follows:

- PART 1: Salaries and Benefits, including salary increases and additional contributions for state employee insurance, as well as Florida Retirement System benefits.
- PART 2: Lump sum appropriations of funds for future distribution to agencies that are formula-driven statewide issues, including the state’s Risk Management Insurance Program.

The Long-Range Financial Outlook projects increases in general revenue funding for both critical and high priority needs relating to statewide distributions of \$451.5 million in Fiscal Year 2010-11, \$269.6 million in Fiscal Year 2011-12, and \$292.1 million in Fiscal Year 2012-13.

### **PART I – Salaries and Benefits**

#### **Salaries**

State employee salary increases are expected to cost \$197.2 million in Fiscal Year 2010-11, \$202.0 million in Fiscal Year 2011-12, and \$206.9 million in Fiscal Year 2012-13. Approximately 67.8 percent of the increases are funded through the General Revenue Fund. These estimates are premised on increases based on the average CPI for those fiscal years (2.44 percent.)

<b>Statewide Across-the-Board Increases</b>				
Fiscal Year 2005-06	Fiscal Year 2006-07	Fiscal Year 2007-08	Fiscal Year 2008-09	Fiscal Year 2009-10
3.6%	3.0%	\$1,000 <i>One-time bonus</i>	No increase	No increase
<i>Note: Certain specific employee groups have received increases in addition to the amounts above.</i>				

#### **Health Insurance**

Costs associated with the state employee health insurance program are expected to increase by \$188.9 million in Fiscal Year 2010-11, \$212.0 million in Fiscal Year 2011-12, and \$256.6 million in Fiscal Year 2012-13. Like salaries, approximately 67.8 percent of the increases are typically funded through the General Revenue Fund.

The increased costs are based on assumptions that the state's self insured plan will experience a 9.5 percent annual growth in medical claims and an average of 11.5 percent annual growth in pharmacy claims, and that the health maintenance contract costs will increase an average of 10.5 percent annually.

On the revenue side of the health insurance program, the financial outlook assumes the additional medical and pharmacy costs will be covered via premium increases paid by the state and employees. Generally, these costs have been funded through this mechanism. Periodically, however, a portion of the anticipated costs have been funded by increases in out-of-pocket expenditures (co-payments, deductibles, and coinsurance) by the employees and retirees and by transfers of trust fund balances to the program.

### **Florida Retirement System**

The Florida Retirement System (FRS) has enjoyed an actuarial surplus for many years that has been used to reduce the contribution rates paid by participating employers or to increase benefits paid to certain members of the System. However, upon completion of the 2009 actuarial valuation, the fund was expected to have an unfunded actuarial liability as of July 1, 2009 due to declining market conditions. Consequently, in order for the Florida Retirement System to be funded on an actuarial sound basis for Fiscal Year 2010-11 and future years, it will be necessary for the statutory contribution rates to be set at the "normal cost" (the actuarially determined cost of the system over the long term) of the FRS. For example, the normal cost of the Regular Class as of July 1, 2008 was 9.63 percent, while the actual statutory contribution rate for Fiscal Year 2009-10 is 8.69 percent.

The financial outlook assumes that the Legislature will enact actuarially sound rates for Fiscal Years 2010-11, 2011-12, and 2012-13. Under this assumption, total employer costs are expected to increase by approximately \$372 million dollars in Fiscal Year 2010-11. Approximately, \$209 million of this amount is funded by the General Revenue Fund. No additional out-year costs are currently anticipated within the planning horizon.

## **Part II – Lump Sum Formula Driven Distributions**

The financial outlook includes funds for the state's Risk Management Insurance Program. This program requires a detailed distribution to state agencies. The general revenue and trust fund allocations to the agencies for these issues are based on historical fund-split percentages.

### **Risk Management Insurance**

The state's Risk Management Program administered by the Department of Financial Services provides workers' compensation, general liability, federal civil rights, auto liability, off-duty law enforcement vehicle property damage, and property insurance coverage to state agencies. The state is self-insured for these types of coverage, and

agencies are assessed premiums on an annual basis for the coverage. The financial outlook uses data available from the August 2009 Risk Management Estimating Conference to estimate costs. These estimated costs include \$10.4 million in recurring general revenue and \$5.3 million in trust funds for Fiscal Year 2010-11, \$4.0 million in recurring general revenue and \$2.0 million in trust funds for Fiscal Year 2011-12 and \$3.8 million in recurring general revenue and \$1.9 million in trust funds for Fiscal Year 2012-13.

### **OTHER CONSIDERATIONS**

The Long-Range Financial Outlook is based on events that are known or likely to occur. However, there are some risks that would significantly alter key assumptions were they to come to pass. One of those risks and its potential ramifications is as follows:

- Numerous lawsuits against the state exist at any point in time, only a few of which are reflected in this document. While the Chief Financial Officer has noted that such lawsuits are not expected to materially affect the state's overall financial position, they do have the capacity to disrupt specific programs and services and to force changes and adjustments to any fiscal outlook.

A summary of the claimed fiscal impact of significant litigation filed against the state are annually reported by the agencies in their legislative budget requests. Significant litigation includes only cases where the amount claimed is more than \$1 million and cases challenging significant statutory policies. In some cases, those summaries are based on the amount claimed by the plaintiffs, which is typically higher than the amount to which the plaintiffs would actually be entitled if they won.