

Florida's Long Term Financial Outlook

Presented to the Legislative Budget Commission

FY 18-19 Executive Summary

The Long Term Financial Outlook (LTFO) projects no recession for the next 3-½ years. This growing economy produces a GR recurring **surplus of 1.2b (4.1%)** over the spending base and **\$1.8b** in non-recurring GR. This is an excellent starting point for next years budgeting cycle.

The LTFO provides funding for the must fund “Critical Needs” totaling \$673.9m. These “Critical Needs” include \$325.7m (5.1%) for Medicaid, \$220m in public school enrollment, and \$137.3 in employee health care benefits. No replacement funds were provided in the LTFO for the \$53.7m in non-recurring Medicaid funding in the current year.

The LTFO provided other revenues to offset critical needs with recurring funding from the Education Enhancement TF \$234.2m and Public School property tax growth \$509.1m. After **all critical needs are funded the GR surplus actually increases to \$1.3b.**

The LTFO provides funding for non-mandatory “Other Priority Needs” totaling (\$1.4b). Funding these programs turns the \$1.3b surplus to a **\$123.9m deficit**. **Education accounts for \$1.3b of the \$1.4b** with increases for PS per pupil expenditures \$498.5m, **millage rollback \$509.1m** and Higher education enrollment \$316.5m.

The LTFO also provides for an additional \$141.1m in historic tax relief raising the **final GR recurring deficit to \$265.0m.**

Over the last 4 years the legislature has provided \$2.2b in tax relief dramatically reducing the funds available for state appropriations. In FY 18-19 the LTFO provides for **\$650.2m in tax relief and millage rollback which slashing the \$1.2b surplus in half.**

Most Legislatures will only hear about the **\$265m deficit**. This will translate into a need to **cut the recurring base**. Little attention will be placed on balancing the budget by not passing tax cuts (\$141.1m) or reducing the impact of millage rollback (\$509.1m) or by cutting the non-mandatory increases (\$967.m).

The LTFO also funds Critical and Other Priority **non-recurring needs** and leaves an unallocated GR reserve of \$1.0b. **Total reserves including the \$1.0b unallocated GR Fund, Budget stabilization fund and Lawton Chiles fund are set at \$3.0b.**

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FY 18-19 Detailed Analysis

The Florida Constitution requires the legislative research office (EDR) to present a Long Term Financial Outlook (LTFO) to the LBC in September of each year. The LTFO covers four years: the current fiscal year, the coming budget year and two out years. The plan provides complete economic, demographic, and revenue projections. The LTFO also provided funding needs, which are classified as “Critical Needs” **must** be funded, “Other Priority Needs” **may** be funded, and “Historic Revenue Adjustments” **may** be implemented. The LTFO is a base line plan and has been significantly modified by the legislature in past legislative sessions.

LTFO Economic Forecast – Florida over the past 3 years has experienced good economic growth with low unemployment and a return to strong increases in population. The LTFO is forecasting a continuation of this growth for the current fiscal year, and the next three fiscal years. At this time no adjustments have been made for Hurricane Irma.

Base Line Recurring GR – The LTFO includes a \$1.2b (4.1%) recurring GR surplus over the current year spending base and \$1,803.4m in non-recurring GR.

Critical Needs Generate additional Surplus – The first commitment of funds in the LTFO is for “Critical Needs”. These are programs that are mandatory based on estimating conference forecasts. Critical needs can be thought of, as the absolute minimum the state must do absent significant law or structural changes. Critical Needs include:

- Public School enrollment growth (\$220.2m)
- Medicaid caseload and inflation growth (\$316.4m). No replacement for the \$53.0m in non-recurring funding in the current year.
- Public Employee Health Care increases (\$137.3m).

The Total GR Critical Needs of \$673.9m was offset in the LTFO by other revenue sources including:

- Education Enhancement TR recurring surplus (Lottery) \$234.2m
- Public School Property Tax growth at current millage \$509.1m

Because of these funding offsets the “critical Needs” actually produced a surplus of \$77.9m and raised the available GR recurring fund from \$1.2b to \$1.3b after all the critical needs were funded.

Other Priority Needs – The second commitment of funds in the LTFO are for “Other Priority Needs”. These are programs that have been historically funded but are not mandatory. The legislature has wide latitude in the amount provided for these programs. OPN total \$1.4b and include:

- Public School increase in dollars per student \$498.5m
- Public School Millage rollback \$509.1m
- Higher Education enrollment growth \$\$123.9m

If the Legislature chooses to fund all of the OPN than this will create a (\$123.9m) recurring GR deficit.

Historic Recurring Revenue adjustments – In addition to the public school millage rollback the LTFO provided for (\$141.1m) in recurring GR tax relief increasing the final recurring deficit to (\$265.0m)

Tax relief Slashes Available Funds - Over the past 4 fiscal years the Legislature has passed \$2.2b in recurring tax relief. General Revenue tax cuts primarily affecting Corporate Profits, Sales Tax and Highway Safety and Motor Fuel Fees totaled \$1.3b. In addition the legislature in the past two sessions rolled back the public school millage providing \$.9b few dollars to public schools. These reductions were replaced with \$.9b in recurring GR.

The LTFO contemplates an additional \$623.1m in tax relief for FY 18-19: Millage rollback in the non-mandatory OPN for (\$509.1) and (\$141.1m) for Historic Revenue adjustments. The combined \$623.1 million cuts the \$1.2b surplus in half.

Non-recurring GR– The LTFO baseline non-recurring revenue starts with a balance of \$1,803.4m. Historic non-recurring revenue adjustment including trust funds sweeps add another \$317.0m raising the total to \$2,120.4m.

- Critical Needs (\$163.9m)
- Other Priority Needs (\$633.8m)
- Unallocated Reserve (\$1,005.7m)

Reserves – The LTFO sets aside reserves totaling \$3,250.1m including

- Unallocated General Revenue \$1,052.0m
- Budget Stabilization \$1,484.7m
- Lawton Chiles Fund \$713.4m