

BUDGET WATCH



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Economic and Caseload Estimating Conferences Provide More Information for Next Year's Budget Shortfall Forecast

Newly Approved Federal FAMP Funding Will Help

The state's Consensus Estimating Conference is currently working to bring more clarity to Florida's state budget outlook. There has been much talk about a significant shortfall facing the 2011 Legislature, but the real number is still unknown. The \$5 billion - \$6 billion shortfall estimate often cited comes from last year's *State of Florida Long-Range Financial Outlook*. The current round of estimating conferences is leading up to a new *Outlook*, which must be released by September 15. Since last year's report, the factors leading to the shortfall estimate have changed or will be changed. It now appears there will be more General Revenue (GR) available (even before the GR Conference later this month) and the 2010-11 budget contained a bit less GR spending than anticipated. See last week's [Budget Watch](#) for more information on the old shortfall estimate and what it means.

This report is the second in a series of *Budget Watches* examining the results of these conferences and their impact on the state budget picture. This report covers the results of the National and Florida Economic Estimating Conferences and conferences dealing with budget drivers such as Medicaid, school enrollment and voluntary pre-K. Last week's *Budget Watch* examined the final official tally of revenue impacts of all the legislation passed by the 2010 Legislature and the latest GR Financial Outlook Statement – which establishes the amount of cash reserves for the current fiscal year, gives the final amount of all GR appropriations, and provides a preliminary estimate of GR available for the next budget. Next week, we will release another report detailing the results of various revenue estimating conferences including: Lottery, Transportation, Tobacco, Ad Valorem and the big one – General Revenue.

National Economic Estimating Conference

The National Economic Conference sets the stage for the Florida Economic Conference (see below) which in turn is the basis for the revenue conferences. The latest national conference, held in July, took a moderate view, forecasting a slow recovery. In some areas – such as housing starts – the conference slightly scaled back expectations from the previous conference held back in January. While housing starts show strong growth rates beginning in Fiscal Year (FY) 2010-11, the number of starts will not reach the FY 2005-06 level until FY 2013-14. The forecast put national unemployment at 9.5% for FY 2010-11, nearly double what it was before the housing crash in 2007, but a bit lower than the 9.8% posted for FY 2009-10. The estimators also expect continued low inflation of 1.1% in FY 2010-11, followed by 1.8% in FY 2011-12. Corporate profits rebounded nicely in FY 2009-10 from a very bad prior year, and another 8% growth is expected in FY 2011-12. However, economists cautioned that uncertain financial markets could tighten up again, which could bring on a double dip recession.

Results of July 2010 National Economic Estimating Conference

Fiscal Year	Annual Growth			
	2009-10	2010-11	2011-12	2012-13
Gross Domestic Product	0.8%	3.0%	2.9%	3.0%
Personal Income	0.1%	4.4%	4.2%	4.8%
Total Jobs	-3.0%	0.6%	2.1%	2.5%
Unemployment Rate (annual rate)	9.8%	9.5%	8.9%	8.2%
Housing Starts	-8.2%	27.8%	54.1%	25.0%
Consumer Spending	1.3%	2.9%	2.6%	1.9%
Corporate Profits	30.9%	8.0%	2.3%	0.2%
Inflation	1.0%	1.1%	1.8%	2.1%

Florida Economic Estimating Conference

The state's economists concluded that Florida's economy has hit bottom but believe that the state will stay there for a while longer, as the housing market is still weighing it down. Generally, FY 2010-11 is when the recovery begins with flat or low growth; things are then expected to pick up in 2011-12 as more normal growth rates resume. The conference forecasts that Florida's unemployment rate will start to improve slowly, dropping from 11.7% in FY 2010-11 to 9.2% in two years and then to 7.5% by FY 2014-15. Most sectors should add jobs in 2010-11, led by the health care sector and other service sectors; however, the construction, financial and information sectors are expected to lose jobs for one more year.

It also appears that population growth in Florida is picking back up, but boom growth is likely a thing of the past. Florida grew by almost 450,000 people in 2004 but the state lost 57,000 (net)

people in 2009. It is estimated that Florida is growing again and 23,000 people will be added in 2010. Growth is forecasted to average approximately 220,000 annually over the next five years.

The economist also noted one major caveat – the impact of the Deepwater Horizon oil spill is still unknown. Recent job data shows that many of the coastal panhandle counties most affected by the spill still have some of the lowest unemployment rates in the state. And while there have been reports of reduced tourism due to the spill, the July forecast increased the estimates of Florida visitors from the previous conference. While the number of tourists was previously expected to decrease by 0.5% during FY 2009-10, the new forecast has a 3.2% increase for that year.

For more information on the forecast for Florida's economy, see [*Florida: An Economic Overview*](#), produced by the Florida Legislature's Office of Economic and Demographic Research.

Results of July 2010 Florida Economic Estimating Conference

Annual Growth

Fiscal Year	2009-10	2010-11	2011-12	2012-13
Personal Income	-0.8%	3.7%	4.3%	5.6%
Total Jobs	-3.8%	1.1%	2.1%	2.9%
Unemployment Rate (annual rate)	11.6%	11.7%	10.8%	9.2%
Housing Starts	-16.6%	21.0%	51.5%	55.6%
Existing Home Sales	28.7%	0.1%	5.9%	4.6%
Median Home Price	-11.1%	0.6%	5.5%	6.8%
Population	0.0%	0.4%	0.7%	1.3%
Florida Visitors	3.20%	1.60%	3.90%	3.70%

Enrollment and Caseload Conferences

Public Schools K-12 Enrollment

The Education Estimating Conference convened on July 13, 2010, to forecast enrollment for Florida's public schools. School enrollment decreased slightly each year from FY 2005-06 to FY 2008-09, falling from 2.641 million full-time equivalent (FTE) students to 2.617 million FTE over that span. That trend now appears to have reversed and school enrollment rolls are growing again – FY 2009-10 saw an increase of 12,000 (0.5%) students and another 16,000 (0.6%) is forecast for the FY 2010-11 (this is the number of FTEs the current budget appropriation was based on). Growth of 20,000 (0.8%) students is forecast for the next budget year. These new students would cost \$136 million at the current per student funding level. Increasing enrollments also have implications for Florida's Class Size reduction amendment. Meeting the already costly requirements of the amendment will grow even more expensive as the number of students

increase. This makes Amendment 8, a proposal that goes to the voters this November to provide more flexibility to school districts in meeting class-size requirements, even more important. For more information on Amendment 8, see [*Amendment 8 is the Right Investment for Florida: Evidence Shows Modifying the Class Size Reduction Amendment Will Save Billion for Florida Taxpayers, July 2010.*](#)

Voluntary Prekindergarten

The Voluntary Prekindergarten (VPK) Estimating Conference met on August 5, 2010, to forecast the number of students that will take part in Florida's \$400 million VPK program. In each year of the forecast, the estimated number of students was decreased from the last estimates made in March 2010. There will be 3,414 (2.2%) fewer FTE students in the program during the current budget year (FY 2010-11) than previously thought. For the next budget year, the estimate was reduced by 2,942 (1.9%) FTEs. This translates to growth of 4.5% in FY 2010-11 and 3.3% in FY 2011-12. This growth is down from 11.7% and 7.1% in the prior two years. Further, when the new estimate for next year is compared to the estimate the current budget was based on, growth is less than 1%, meaning VPK growth should not be a significant contributor to the budget shortfall. There will be an estimated 173,430 total students in the program in this budget year, a participation rate of 71.3% of eligible kids. This participation rate is expected to level off at 75% beginning in FY 2012-13.

Medicaid

In mid-July, the Social Services Estimating Conference met to forecast Medicaid caseloads and expenditures. Medicaid, a \$20 billion program in Florida, is the state's biggest budget driver. The conference finished its work on caseloads, but the final expenditure estimates were not adopted – partly because of the uncertainty surrounding potential federal funding of the program (see below).

The new estimates predict that Florida will, for the first time, have more than 3 million people on Medicaid in FY 2011-12. This estimate is a 2.1% increase from the previous estimate (February 2010) and translates into 3.0% growth from the caseload estimate the 2010-11 budget was based on. Although the expenditure estimates are not finished, the caseload estimate for the current year was also increased (0.4%). The increased caseload will result in a shortfall for the program this year, probably between \$150 million and \$200 million.

FMAP Update – Yesterday, August 10, the U.S. House of Representatives passed an extension of federal Medicaid assistance to the states – known as FMAP. The 2010 Legislature anticipated \$960 million in FMAP money – \$230 million in appropriations are contingent on receiving it. The other \$730 million would be added to reserves. Prospects for the funding had been dimming, but the U.S. Senate passed it last week, the House returned to Washington yesterday to

follow suit, and President Obama signed the bill into law immediately after passage. This is good news for state budgeters, but the exact amount of money for Florida is not yet known and it could be less than anticipated. Additionally, language in the law prohibiting states from using the money to shore up reserves further complicates the issue. The Social Services Estimating Conference will meet next week to consider all this and finalize the Medicaid estimates.

Temporary Assistance for Needy Families (TANF) Assistance Payments

Florida has a welfare reform program called the Work and Gain Economic Self-sufficiency (WAGES) program. The Social Services Estimating Conference forecasts the cash assistance payments – TANF – portion of the program. The estimate for TANF caseloads was decreased by 7.6% from the previous estimate for the current budget year, resulting in no growth from last year's caseloads. The Legislature appropriated \$211 million for this program but the new estimates mean only \$187 million will be needed, leaving a \$24 million surplus. Less than 1% growth is forecast for the next budget year, leading to an increase in expenditures of \$1 million from this year. But this new level of spending is \$23 million less than the current appropriations level. Again, the estimators concluded it is too early to tell if the oil spill will substantially affect TANF payments.

KidCare

The Social Services Estimating Conference finished its work on July 20, 2010, adopting a caseload and expenditure forecast for the KidCare Program through June 2014. KidCare is a \$501 million program that provides health care for the state's uninsured children. In the current budget year, the federal government provided \$336 million of the cost and the state paid \$165 million (\$66 million from general revenue and \$99 from trust funds.) This conference estimated average monthly increases in caseloads by 1.9% in FY 2011-12 and 2.5% in FY 2012-13. To meet the 290,101 monthly cases next year, it is estimated the state will need an additional \$22.5 million in General Revenue.

What Does This Mean For the Next Budget?

Last week's *Budget Watch* showed that for the next budget year (FY 2011-12) the Legislature will have \$24.7 billion at their disposal, which is almost \$2.1 billion more than the recurring general spending for FY 2010-11.

Now that the federal government has approved the enhanced FMAP funding, along with the 2010 Legislature increasing revenues and spending less GR than was assumed in the old shortfall estimate, it appears the shortfall may be less than anticipated.

However, there is approximately \$2 billion in federal stimulus money in the current budget that will not be available next year. How much of this spending will be continued with GR funding remains to be seen.

With the new enrollment and caseload estimates, the appropriations committees can begin estimating the additional costs to meet “critical and high priority needs.” Costs, particularly Medicaid, should increase, but most of the estimates are too not alarming.

While the oil spill impact is still unknown, the economic conferences show that the economy is showing signs of life and this could lead to better news from the General Revenue Estimating Conference set for August 12, 2010.

**This *Budget Watch* was produced by Kurt Wenner, Director of Tax Research,
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Florida TaxWatch's research recommends productivity enhancements and explains the statewide impact of economic and tax and spend policies and practices on citizens and businesses. Florida TaxWatch has worked diligently and effectively to help state government shape responsible fiscal and public policy that adds value and benefit to taxpayers.

This diligence has yielded impressive results: in its first two decades alone, policymakers and government employees implemented three-fourths of Florida TaxWatch's cost-saving recommendations, saving the taxpayers of Florida more than \$6.2 billion -- approximately \$1,067 in added value for every Florida family, according to an independent assessment by Florida State University.

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