

RECENT STATE FINANCIAL DEVELOPMENTS

COVID-19

The economic, financial and budgetary impacts on the State and its economy from the measures taken to combat the spread of COVID-19 are expected to be significant but manageable.

State Actions – In response to the public health crisis created by the strain of coronavirus which causes the Coronavirus Disease 2019 (“COVID-19”), the Governor of the State of Florida declared a state of emergency on March 9, 2020. The declaration allows for certain executive actions to respond to the impacts of COVID-19, including granting broad spending authority to meet the State’s financial needs during the pandemic. The Governor subsequently issued numerous additional executive orders in response to COVID-19 in an effort to reduce community spread of the virus and protect Florida’s most vulnerable citizens. Those measures included, among others, closing or restricting access to certain businesses and activities and limiting movement of persons in Florida through April 30, 2020, to those necessary to obtain or provide essential services or conduct essential activities.

During the week of April 20, 2020, the Governor convened the Re-Open Florida Task Force to evaluate how to safely reopen the State. In response to the recommendations published by the task force, the Governor issued an executive order, effective May 4, 2020, to begin reopening the State through a multi-step, three-phased process of easing restrictions after considering medical data in consultation with state health officials. On May 14, 2020, the Governor issued an executive order which brought all Florida counties into Phase 1 allowing for limited reopening of businesses and activities statewide. All Florida counties, excluding Broward, Miami-Dade and Palm Beach, were brought into Phase 2 on June 3, 2020, in accordance with an executive order, which further relaxed business capacity restrictions. On June 26, 2020, the State suspended the sale of alcoholic beverages for on-premises consumption at all bars statewide following an increase in COVID-19 cases. On September 4, 2020, and September 15, 2020, the Governor issued executive orders moving Palm Beach, Broward and Miami-Dade counties into Phase 2 of reopening, bringing all 67 counties into Phase 2. On September 14, 2020, bars were permitted to open for on-premises consumption in compliance with Phase 2 of the State’s reopening plan. On September 25, 2020, the Governor issued an executive order which brought all Florida counties into Phase 3 and removed the remaining restrictions on businesses and activities statewide, with the exception that indoor restaurant capacity may be limited to 50% capacity by a local government order under certain circumstances.

Federal Actions – On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) was signed into law by the President, with the State receiving an allocation of Coronavirus Relief Funds (“CRF”) totaling \$5.9 billion (State allocation of \$4.6 billion plus an additional \$1.3 billion for local governments not qualified to receive direct federal support). There are federal restrictions on the use of these funds and the State has developed a process to track COVID-19 expenditures and expects that it will satisfy various conditions such that all CRF moneys are fully utilized for qualified COVID-19 expenditures. The State has reported to the federal government the full amount of \$5.9 billion of eligible COVID-19 related expenditures, including the distributions to local governments in the State.

Additional federal support has been made available to the State through an adjustment to the Federal Medical Assistance Percentage (“FMAP”) applicable to Medicaid funding, and reimbursement of 75% of the State’s eligible COVID-19 costs by the Federal Emergency Management Agency (“FEMA”) pursuant to the Stafford Act. The temporary increase of the FMAP reimbursement rate to the State by 6.2% to 67.7%, effective January 1, 2020, resulted in budgetary savings of \$592.3 million during Fiscal Year 2019-20 and an estimated \$411.7 million during Fiscal Year 2020-21. There may be further federal legislation that provides additional financial assistance to the State, but no assurance can be provided regarding future federal programs or funding.

The State also currently expects to receive approximately \$10.2 billion in additional federal funding under the American Rescue Plan Act of 2021 (“ARPA”), which was signed into law on March 11, 2021. Qualification for these funds is subject to federal restrictions and the expenditure of the federal funds will be subject to approval by the Florida Legislature, which is currently meeting as part of the regular 60-day legislative session scheduled to conclude April 30, 2021. ARPA funding must be utilized by December 31, 2024, and the State anticipates implementing a process to identify and track eligible expenditures to ensure that all available funds are utilized, similar to its approach to the CRF moneys provided under the CARES Act. The Governor’s budget recommendations for Fiscal Year 2021-22 (see “RECENT STATE FINANCIAL DEVELOPMENTS – Fiscal Year 2021-22” herein) were released prior to the passage of ARPA and therefore do not incorporate the additional federal funding. However, the Governor has

provided recommendations to the Florida Legislature regarding the usage of a portion of the funds made available under ARPA. The Governor's letter outlining his recommendations can be found at:

<http://floridaleadsbudget.com/content/Current/reports/GovernorsRecommendedFunding-Letter.pdf>

The information below for Fiscal Years 2019-20 and 2020-21 includes economic and fiscal impacts of the State's actions in response to the public health crisis caused by COVID-19 and known impacts on the State's financial position.

Fiscal Year 2019-20

Budget and Revenues – The Fiscal Year 2019-20 budget totaled \$91.0 billion, an increase of approximately \$1.7 billion, or 1.9%, over the Fiscal Year 2018-19 budget of \$89.3 billion. The General Fund budget totaled approximately \$33.9 billion and was to be funded primarily from general revenue collections and \$336.5 million in trust fund transfers.

The COVID-19 pandemic-induced economic contraction resulted in general revenue collections declining by approximately \$2.0 billion or 6.1%, from the prior fiscal year to \$31.4 billion. The majority of the decline was attributable to sales tax collections, which decreased by \$794 million, driven primarily by a decline in tourism and recreation. In addition to the revenue shortfalls outlined above, the State's budget was impacted by the cost of responding to COVID-19. Budget amendments resulting in approximately \$510.8 million of net general revenue costs related to the State's emergency response to COVID-19 were added to the Fiscal Year 2019-20 spending plan. The State anticipates that much of these expenditures will be reimbursed by the federal government.

Reserves – The State experienced a decline in General Fund reserves of approximately \$1.7 billion during Fiscal Year 2019-20, from a beginning balance of approximately \$2.5 billion to an estimated ending balance of unspent general revenue of approximately \$815 million at June 30, 2020. Additional estimated State reserves as of June 30, 2020, included \$1.6 billion in the Budget Stabilization Fund, \$877 million in the Lawton Chiles Endowment Fund, and approximately \$2.3 billion of various excess trust fund balances. Total estimated reserves at June 30, 2020, were approximately \$5.6 billion (17.7% of Fiscal Year 2019-20 general revenue collections). Additionally, \$5.5 billion of CRF moneys (including approximately \$931 million that was subsequently distributed to local governments) were on deposit with the State at June 30, 2020, and available for expenditures related to responding to COVID-19.

Fiscal Year 2020-21

Budget and Revenues – On June 29, 2020, the Governor finalized the Fiscal Year 2020-21 budget by signing the General Appropriations Act (“GAA”) after making line-item vetoes totaling more than \$1 billion, including \$488 million of general revenue spending. The historically significant amount of vetoes were made to address potential revenue shortfalls precipitated by measures taken to slow the spread of COVID-19 which were not known at the time the Legislature adopted the GAA on March 19, 2020. After the Governor's vetoes, the Fiscal Year 2020-21 budget totals \$92.3 billion, which is \$1.3 billion, or 1.4%, more than the Fiscal Year 2019-20 budget of \$91.0 billion. The General Fund budget totals approximately \$34.8 billion, anticipated to be funded primarily from general revenue collections. The State anticipates ongoing unbudgeted expenditures related to responding to COVID-19, a portion of which will be eligible for FEMA reimbursement.

Subsequent to the adoption of the Fiscal Year 2020-21 budget, the State's Consensus Revenue Estimating Conference met on August 14, 2020, and made substantial adjustments to general revenue projections reflecting the negative economic impacts of measures taken to slow the spread of COVID-19. Projected general revenues were revised downward by \$3.4 billion, or 9.9%, from the prior estimates for Fiscal Year 2020-21. Actual net general revenue collections for the first five months of Fiscal Year 2020-21 (July 2020 through November 2020) were approximately \$1 billion higher than the August 2020 projections, demonstrating significant improvement over general revenue collections during the last quarter of Fiscal Year 2019-20. This includes sales tax collections that were approximately \$713 million more than August 2020 estimates.

The State of Florida's Consensus Revenue Estimating Conference met again on December 21, 2020, to update general revenue projections in preparation for the upcoming legislative session scheduled to begin on March 2, 2021. The December 2020 Conference increased the projected general revenues for Fiscal Year 2020-21 by approximately \$1.5 billion, or 4.8%, to \$32.5 billion, which is \$1.1 billion above Fiscal Year 2019-20 actual general revenue collections. The largest adjustments in the new December 2020 forecast for Fiscal Year 2020-21 general

revenues relate to increased projected sales tax collections, (\$807 million) corporate income taxes (\$253 million) and documentary stamp and intangibles tax collections, (\$185 million).

Actual Fiscal Year 2020-21 net general revenue collections of \$21.7 billion for the eight-month period ended February 28, 2021, were approximately \$882 million, or 4.2%, higher than the latest December 2020 estimates, and approximately \$29 million, or 0.1%, below the revenue collections for the same period of the prior fiscal year. The increase in actual general revenue collections compared to the latest estimate has been primarily driven by higher than projected sales tax collections.

In addition to maximizing the use of federal funds to address revenue declines, the Governor has implemented budgetary hold-backs of quarterly releases to state agencies, totaling more than \$750 million in Fiscal Year 2020-21, to provide additional financial flexibility to deal with the fiscal impacts of COVID-19. Additionally, all state agencies have been required to identify potential budget reductions of 8.5% for the current fiscal year. Depending on the depth and duration of the economic and fiscal impacts of COVID-19, at some point it may be necessary to make changes to the Fiscal Year 2020-21 budget. Budget adjustments require legislative actions, which could be taken during the regular session scheduled to begin March 2, 2021.

Notwithstanding the expected decrease in revenues and unanticipated expenses related to COVID-19, the State does not anticipate any difficulties with liquidity needed to fund the budget for the current fiscal year which ends June 30, 2021. The State Treasury had approximately \$24.0 billion in State funds as of December 31, 2020, available to fund State expenditures. This amount included approximately \$1.0 billion in unspent CRF moneys received by the State under the CARES Act.

Reserves – Based on the December 21, 2020 General Fund Outlook Statement, the Fiscal Year 2020-21 year-end General Fund balance is projected to be \$1.9 billion, approximately \$580 million higher than the projected year-end General Fund balance from the August 14, 2020 General Fund Outlook Statement. The increase in the projected General Fund balance is primarily the result of the increased December 2020 general revenue estimates along with a one-time tobacco settlement payment of approximately \$193 million, partially offset by additional COVID-19 related expenditures. The Fiscal Year 2020-21 budget includes a \$100 million transfer to the Budget Stabilization Fund, which increases the balance to \$1.7 billion. When including the Budget Stabilization Fund, total General Fund reserves at fiscal year-end are expected to equal approximately \$3.6 billion (11.2% of projected Fiscal Year 2020-21 net general revenue collections). The foregoing estimate does not include any unanticipated expenditures or budget cuts the legislature could make in Fiscal Year 2020-21. Fiscal Year 2020-21 year-end trust fund balances are currently estimated at \$3.2 billion, including \$948 million in the Lawton Chiles Endowment Fund and \$2.3 billion in various excess trust fund balances. The inclusion of the trust fund balances increases the estimated total reserves to approximately \$6.8 billion (21.1% of projected Fiscal Year 2020-21 net general revenue collections). Estimates are based on information available at the time they are made and are subject to revision as additional information becomes available.

It is likely that the full financial impact of COVID-19 on the State, its economy, and its financial position will change, potentially significantly as circumstances and events evolve. The estimates provided above are based on information available at the time of the estimates. Such estimates are subject to revision as additional information becomes available. Also, estimates are subject to risks and uncertainties which may cause results to differ materially from those estimates set forth above. No assurance is given that actual results will not differ materially from the estimates provided above.

Fiscal Year 2021-22

Florida Governor Ron DeSantis released his recommended budget for Fiscal Year 2021-22 on January 28, 2021. The Governor's recommended budget totals \$96.6 billion, an increase of approximately \$4.3 billion (4.7%) from the Fiscal Year 2020-21 budget of \$92.3 billion. More than half of the \$4.3 billion increase over the Fiscal Year 2020-21 budget is for various expenditures and impacts related to the COVID-19 pandemic. The Governor's recommended budget, along with his recommendations for the usage of ARPA funds, will be considered as the Florida Legislature formulates the State budget during the 2021 regular session, which begins on March 2, 2021. More information regarding the Governor's recommended budget can be found at www.floridaleadsbudget.com.

Dated April 1, 2021.