RECENT STATE FINANCIAL DEVELOPMENTS

COVID-19

The economic impact of COVID-19 on the State of Florida was significant but brief. Following a short period of restrictions beginning in March 2020 to combat the spread of COVID-19, the economy began to recover with the phased reopening of the State beginning in May 2020. By September 2020, all remaining State restrictions on businesses and activities were removed, and the Governor ordered the end of all remaining restrictions implemented by local governments in May 2021. As a result of the reopening, State revenues have exceeded estimates since August 2020, with Fiscal Year 2020-21 actual net general revenue collections surpassing pre-pandemic projections for the year. In addition to recovering revenues, the State has received substantial federal support, as further detailed below, to address costs incurred related to COVID-19 and revenue losses caused by the restrictions required to combat the spread of the virus.

Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") – In March 2020, the State received an allocation of Coronavirus Relief Funds ("CRF") totaling $5.9 billion (State allocation of $4.6 billion plus $1.3 billion for local governments not qualified to receive direct federal support). There were federal restrictions on the use of these funds and the State developed a process to track COVID-19 expenditures to satisfy various conditions such that all CRF moneys were fully utilized. The State reported the full amount of $5.9 billion of eligible COVID-19 related expenditures to the federal government, including the distributions to local governments, and received all of the CRF funds during Fiscal Year 2019-20.

American Rescue Plan Act of 2021 ("ARPA") – The State was allocated approximately $8.8 billion under ARPA and received the first half of the allocation in May 2021 and the remaining half in May 2022. Qualification for these funds is subject to federal restrictions, and the ARPA funds may be used to cover eligible costs and to replace lost revenue due to COVID-19 through December 31, 2024. The State has filed the required certifications regarding the use of the ARPA funds and has implemented 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. See "Fiscal Year 2021-22" herein for information on the inclusion of the ARPA funding in the State's Fiscal Year 2021-22 spending plan.

Enhanced Federal Medical Assistance Percentage ("FMAP") – Additional federal support has been made available to the State through an adjustment to Medicaid funding. The temporary increase of the FMAP reimbursement rate to the State by 6.2% to 67.7%, effective January 1, 2020, results in total estimated budgetary savings of approximately $4.3 billion from Fiscal Year 2019-20 through the first quarter of Fiscal Year 2022-23. The temporary increase to the reimbursement rate will stay in effect through the quarter in which the federal public health emergency ends.

There may be further federal legislation that provides additional financial assistance to the State, but no assurance can be provided regarding future federal programs/funding. There could also be additional conditions, restrictions and/or guidance/interpretations from the U.S. Treasury regarding qualifying to receive the remaining 50% of ARPA funds and no assurance can be given regarding the State's ability to satisfy any such conditions.

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 intended to be funded primarily from general revenue collections.

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, 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 a portion of these expenditures will be reimbursed by the federal government.

Reserves – The State ended Fiscal Year 2019-20 with a balance in the General Fund of approximately $6.3 billion, including unspent general revenues of approximately $783 million plus $5.5 billion of net CRF moneys ($5.9 billion received less $319 million distributed to local governments of their $1.3 billion share). Additional State reserves as of June 30, 2020, included $1.6 billion in the Budget Stabilization Fund ("BSF"), $877 million in the Lawton Chiles Endowment Fund, and approximately $2.3 billion of various excess trust fund balances. Total reserves at June 30, 2020, were approximately $11.1 billion (35.3% of Fiscal Year 2019-20 general revenue collections).

Fiscal Year 2020-21

Budget and Revenues – The Fiscal Year 2020-21 budget totaled $92.3 billion, an increase of $1.3 billion, or 1.4%, more than the Fiscal Year 2019-20 budget of $91.0 billion. The General Fund budget totaled approximately $34.8 billion, to be funded primarily from general revenue collections. 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 was made to address potential revenue shortfalls precipitated by measures taken to slow the spread of COVID-19, which were not estimated or addressed at the time the Legislature adopted the GAA in March 2020. In anticipation of revenue declines, the Governor also implemented hold-backs of quarterly budget releases to State agencies; however, with the significant rebound in revenues, as discussed below, those hold-backs were determined unnecessary and released to agencies during Fiscal Year 2020-21.

After adoption of the GAA, the State's budget for Fiscal Year 2020-21 was impacted by the ongoing cost of responding to COVID-19. As of August 2021, a total of approximately $1.4 billion of additional non-recurring expenditures related to the State's emergency response to COVID-19 had been added to the Fiscal Year 2020-21 spending plan through budget amendments, with the State anticipating federal reimbursement for a portion of these costs. Additionally, there were budget amendments totaling approximately $2.0 billion made in Fiscal Year 2020-21 related to federal funding received by the State, including the disbursement of the $939 million balance of the local government share of CRF monies received during Fiscal Year 2019-20, and housing, reemployment, and rental assistance funded with CRF monies or other federal funding.

Subsequent to the adoption of the Fiscal Year 2020-21 budget, the State's Consensus Revenue Estimating Conference met in August 2020, and made substantial adjustments to general revenue projections reflecting the anticipated negative economic impacts of the measures taken to slow the spread of COVID-19. Projected general revenues for Fiscal Year 2020-21 were revised downward by $3.4 billion, or 9.9%, from the prior estimates. Following the phased reopening which began in May 2020, the State's general revenue collections rebounded significantly and consistently came in above the August 2020 estimates. The State's Consensus Revenue Estimating Conference subsequently met again twice in Fiscal Year 2020-21, with the projections for general revenue collections increasing at both conferences but actual collections continued to outperform these revised projections.

Actual Fiscal Year 2020-21 net general revenue collections of $36.3 billion were approximately $4.9 billion, or 15.7%, above the general revenue collections for the prior fiscal year and approximately $5.3 billion, or 17.1%, higher than the August 2020 estimates, which were the first revenue projections following the onset of the pandemic. The increase in actual general revenue collections was primarily driven by higher than projected sales and corporate income tax collections.

Reserves – The State ended Fiscal Year 2020-21 with a General Fund balance of $8.3 billion (excludes ARPA funds received by the State which were appropriated for use in Fiscal Year 2021-22). Additional State reserves, as of June 30, 2021, included $1.7 billion in the BSF, $869 million in the Lawton Chiles Endowment Fund, and $2.8 billion in various excess trust fund balances. The inclusion of the BSF and trust fund balances increased the total reserves to approximately $13.6 billion (37.6% of Fiscal Year 2020-21 net general revenue collections).

Fiscal Year 2021-22

Budget – The Fiscal Year 2021-22 budget totals $101.5 billion, which is $9.2 billion (9.1%) more than the Fiscal Year 2020-21 budget of $92.3 billion. More than 75% of the $9.2 billion increase in the State budget is the result of additional federal funding for COVID-19 relief. The additional federal funding relates primarily to spending for education and healthcare and excludes the direct State aid under ARPA discussed below. The General Fund budget totals approximately $36.3 billion and will be funded primarily from general revenue collections and approximately $100 million in trust fund transfers.

The Fiscal Year 2021-22 budget total above does not include the non-recurring appropriation of $5.3 billion of the $8.8 billion allocated to the State under the ARPA. The spending authority for the funds received under ARPA was related primarily to restoring transportation funding and enhancing environmental resiliency and water quality infrastructure, and the appropriations were contingent upon receipt of such funds. As of May 2022, the full $8.8 billion allocated under ARPA had been received by the State.

Revenues –In January 2022, the Revenue Estimating Conference adopted a new forecast for net general revenue collections for Fiscal Year 2021-22 of $40.2 billion, an increase of approximately $3.3 billion from the August 2021 forecast. The increase in projected general revenue collections was primarily driven by continued strength in sales tax collections, with estimated sales tax collections for Fiscal Year 2021-22 increasing by $2.5 billion over the prior estimate. Projections of general revenue from documentary stamp, corporate income, and intangibles taxes also saw meaningful increases of $297 million, $176 million, and $130 million, respectively.

Actual net general revenue collections of $35.2 billion for the ten-month period ended April 30, 2022, were approximately $2.1 billion, or 6.4%, higher than the latest January 2022 estimates and approximately $6.7 billion, or 23.3%, higher than the same period of the prior fiscal year.

Reserves – Based on the January 21, 2022, General Fund Outlook Statement, the Fiscal Year 2021-22 year-end General Fund balance is projected to be approximately $11.3 billion. The Lawton Chiles Endowment Fund was eliminated during the 2021 legislative session with the balance transferred to the BSF at the beginning of Fiscal Year 2021-22, which increased the BSF to approximately $2.7 billion. When including the BSF, total General Fund reserves at fiscal year-end are expected to equal approximately $14.0 billion. Additionally, the State currently projects $2.6 billion in various excess trust fund balances, and the inclusion of the trust funds brings the total estimated State reserves at the end of Fiscal Year 2021-22 to approximately $16.6 billion (41.3% of projected Fiscal Year 2021-22 general revenue collections). The estimated General Fund balance does not reflect $2.1 billion of excess general revenue collections over estimates through April 2022 discussed above. Additionally, $2 billion of available General Fund balances have been dedicated to provide funding for the Reinsurance to Assist Policyholders (“RAP”) program as further discussed under “May 2022 Special Session” below.

Fiscal Year 2022-23

On June 2, 2022, the Governor finalized the Fiscal Year 2022-23 Budget by signing the General Appropriations Act adopted by the State Legislature, after vetoing more than $3.1 billion in spending. The Fiscal Year 2022-23 Budget totals $109.9 billion, which is $8.4 billion (8.3%) more than the Fiscal Year 2021-22 Budget of $101.5 billion. The General Fund budget totals approximately $41.8 billion, representing a 15% increase from the current year budget, and will be funded primarily from general revenue collections and approximately $40 million in trust fund transfers. The total amount for the Fiscal Year 2022-23 Budget of $109.9 billion excludes non-recurring appropriations of the remaining $3.5 billion the State received under ARPA.

May 2022 Special Session

Legislation to address issues in Florida’s property insurance market was enacted in May 2022 that includes litigation reforms and creates the RAP program. The RAP program provides up to $2 billion in reinsurance coverage to property and casualty insurers below the reinsurance coverage provided by the Florida Hurricane Catastrophe Fund and will be funded with nonrecurring General Revenues.

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.

DATED JUNE 3, 2022.