



ECONOMIC OUTLOOK – U.S. and FLORIDA

Florida School Finance Officers Association

November 12, 2020

pfm.com

All data as of 11-11-2020 unless otherwise noted.



Covid19 Recession



First Services Sector Driven Recession

- ◆ COVID-19 has triggered the first recession ever caused by a contraction in the services sector of the economy
- ◆ Prior recessions generally stemmed from the goods producing sector. For example, the Great Recession beginning in 2008 was caused by an excess supply of housing stimulated by faulty financing and speculation
- ◆ Unlike a goods-based recession, a service sector recession does not generate excess inventory that must be absorbed before recovery can begin
- ◆ Instead, a service-based recession causes a very sharp loss of employment and income and devastates restaurants, retail, service, entertainment, tourism and travel
 - Many of these businesses are relatively small and have small capital bases
 - Most services sector workers are relatively lower paid and may lack healthcare and other safety nets and personal savings
- ◆ Since a services sector recession is not burdened by excess inventory, the initial rebound occurs very quickly, but full recovery is delayed until a vaccine is in wide use



COVID-19 Recession – Overview and Key Assumptions

1. Baseline

- A. Overview – COVID-19 has triggered a severe but short global recession. In the U.S. it is the most severe since the Great Depression
- B. Key Assumptions – Gradual re-openings and periodic roll-backs. Normal economic and social activities are delayed until mid-2021 when a vaccine is widely distributed. In between, as testing and quarantine measures ramp up, social distancing remains necessary, dampening economic activity

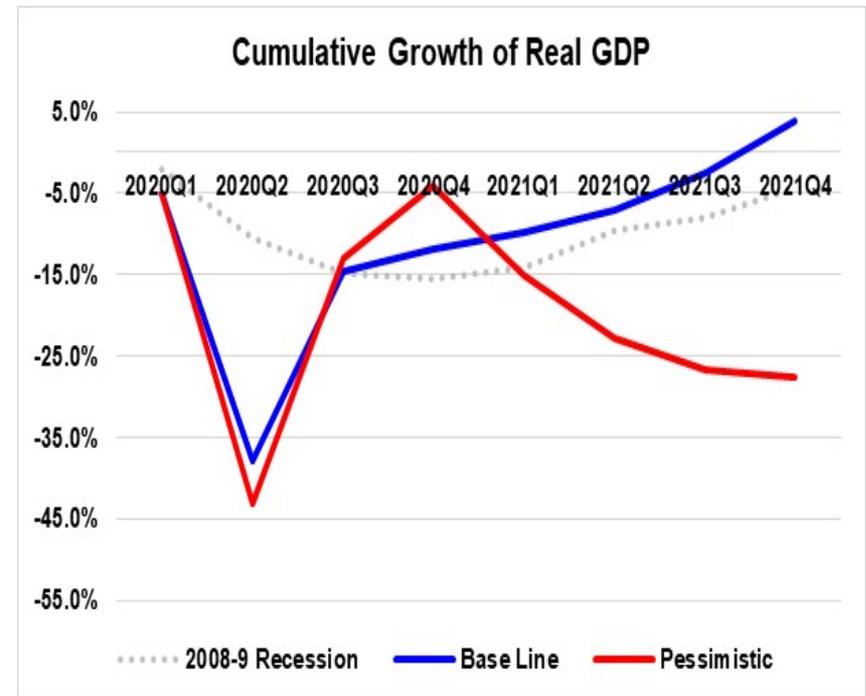
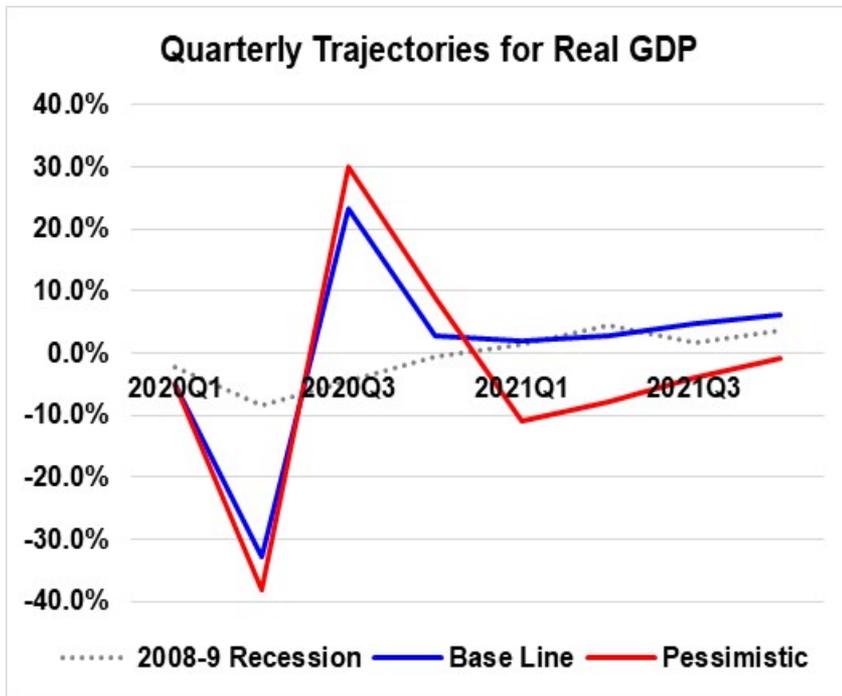
2. Pessimistic

- A. Overview – Infections rebound in the U.S., prompting renewals of lockdown measures preventing a recovery. The result is a prolonged period of below trend economic activity
- B. Key Assumptions – Lockdown measures are abandoned too soon and the epidemic re-erupts in major cities. Extensive monetary and fiscal measures result in a quasi nationalization of major sectors of the economy. These measures fail to restore a meaningful recovery, but they do arrest the downward spiral



Impact of COVID-19 on Real GDP

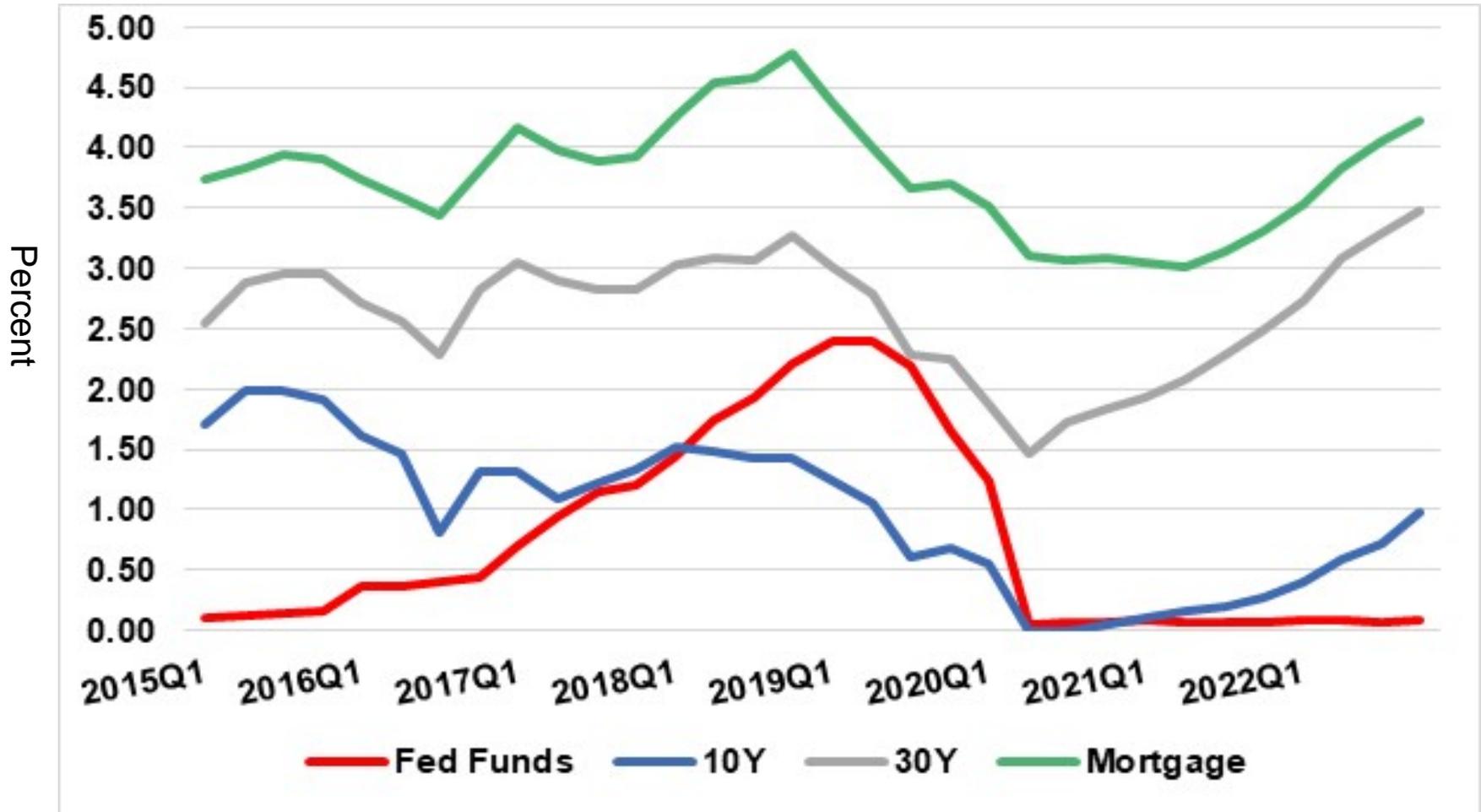
- Baseline – regain prior level of real GDP by 2021Q4
- Pessimistic – do not regain prior level of real GDP until 2023



Sources: Moody's Analytics, and PFM



Key Interest Rates



Source: Moody's Economy.com,



Comparison of COVID-19 Recession to Past Recessions

Recession	Months of Duration	Fall in GDP	Peak Unemployment Rate
Great Depression	43	-30.0%	25%
2008-2009	18	-4.3%	13%
COVID-19	3	-10.5%	15%

- The COVID-19 recession is unique, because it is primarily a services sector recession caused by an epidemic.
- Although the COVID-19 recession is expected to be short in duration, it will likely cause a spike in the unemployment rate higher than in the Great Recession of 2008-9. Again, this is because this recession strikes at the services sector of the economy.
- Strong actions by the Federal Reserve and the \$3T federal stimulus package (equal to 15% of GDP) are likely to prevent cascading sequence of business failures and layoffs from morphing into a financial crises and a depression.

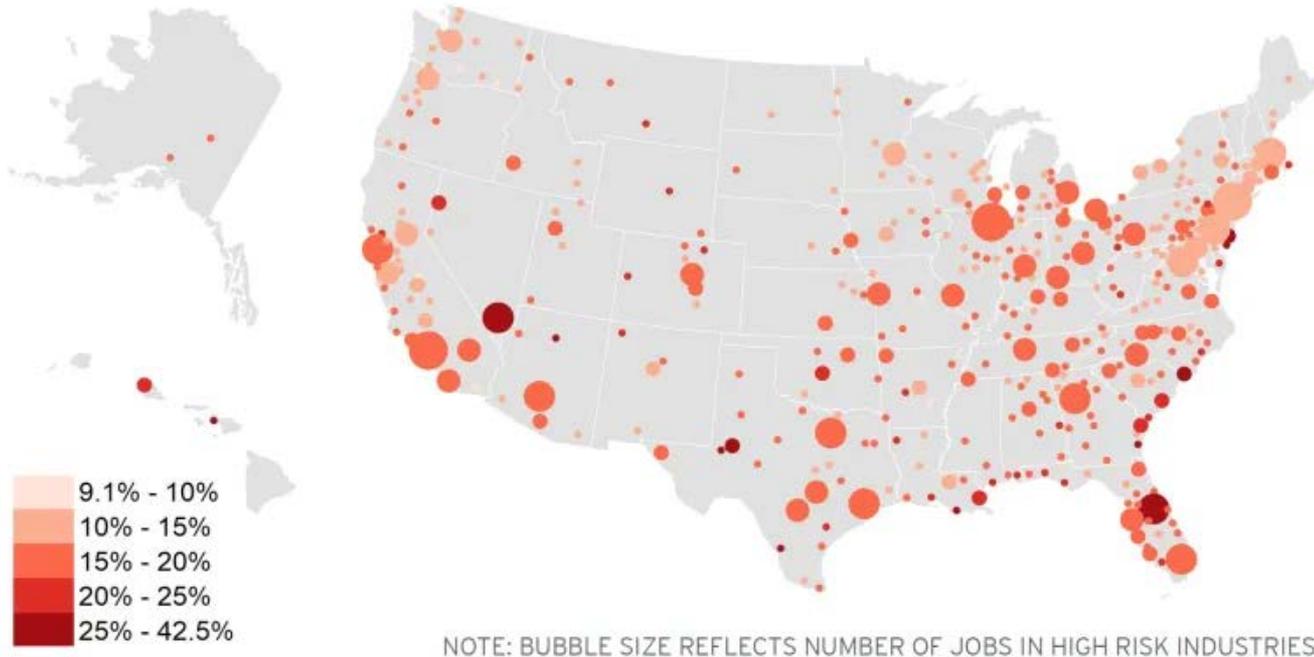
Sources: Moody's Economy.com and NBER



Impact of Geography / Sector Concentration

Sunbelt tourist destinations and energy metros stand to be most affected

Share of metro employment in high risk industries, 2019



Source: Zandi, "COVID-19: A Fiscal Stimulus Plan," (Moody's Analytics, 2020) and Brookings analysis of Emsi data

B Metropolitan Policy Program
at BROOKINGS

In addition to different local and regional economic factors, the level and timing of infections also varies across the country, which may, in turn, impact the timing, pace, and phases of economic recovery



DATA TO FOCUS ON IN THE NEAR TERM



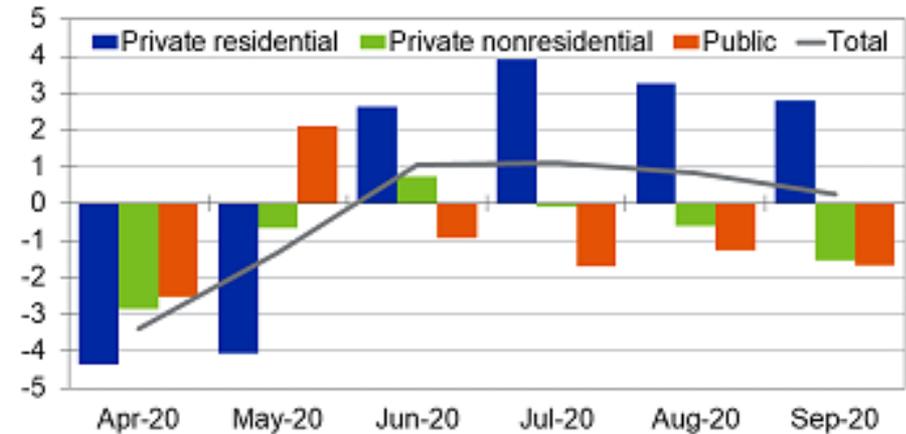
Residential Construction

- Residential Construction is very strong
- Work from home and “K” shaped recovery



Homebuilding Drives Construction Outlays

Construction spending, % change

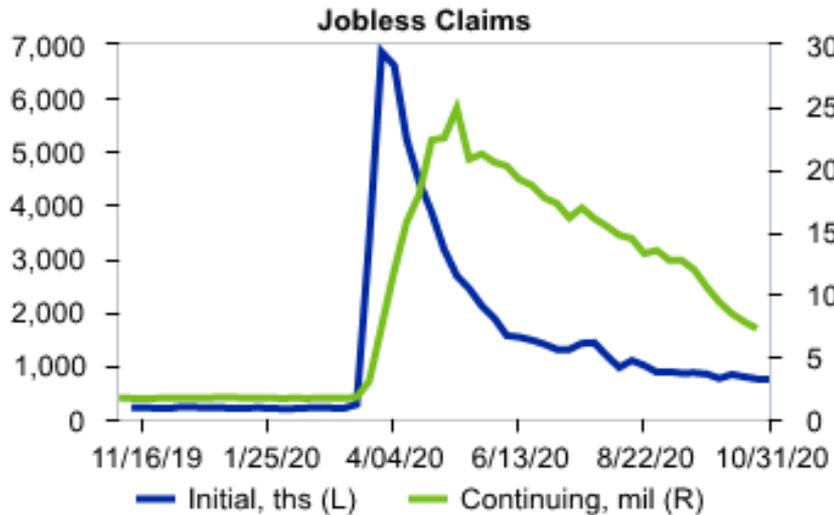


Sources: Census Bureau, Moody's Analytics



Labor Market

Employment is still down by 10 million from February and there are 11 million workers without jobs

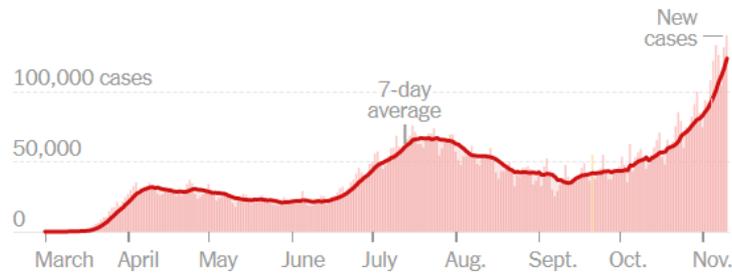




New Covid19 Cases in the U.S. and Florida

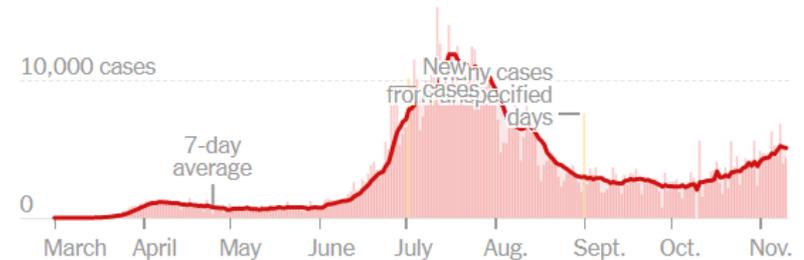
- ◆ New cases are surging to all time highs in the U.S.
- ◆ Florida cases are again on the rise as well

U.S.



	TOTAL REPORTED	ON NOV. 10	14-DAY CHANGE
Cases	10.3 million+	139,855	+69% ↗
Deaths	240,241	1,448	+23% →

Florida



	TOTAL REPORTED	ON NOV. 10	14-DAY CHANGE
Cases	852,166	4,353	+37% ↗
Deaths	17,247	69	-10% ↘
Hospitalized		3,034	+24% →



Structural Change and Implications for the Economic Outlook



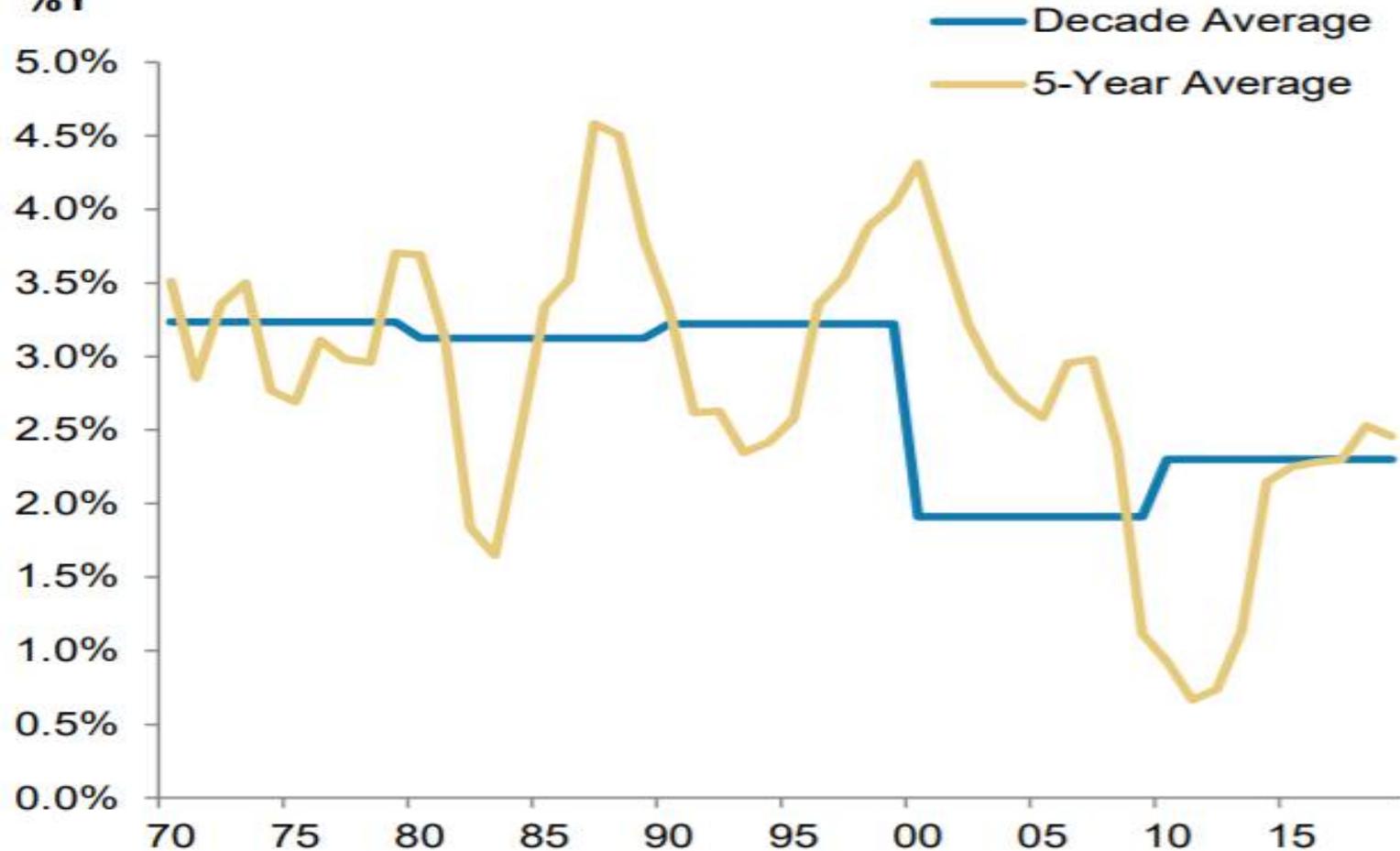
History is a Good Guide to the Future – Until it is Not!

- ◆ “History doesn’t repeat itself, but it often rhymes,” ascribed to Mark Twain.
- ◆ Typically true and useful.
- ◆ Unless there is structural change that no longer makes the history as useful.
- ◆ Substantial structural changes to U.S. economy have occurred over the last decade
 - Globalization
 - Expanded international trade
 - Fraking and expanded U.S. energy production
 - Artificial intelligence
 - Concentration of wealth
- ◆ Results: slower growth, lower inflation, and lower interest rates



Trend GDP growth has slowed

US Real GDP
%Y





Major Tax Categories: Elasticities and Local Factors

Tax Category	Likely Impact	Local Factors
Property	<ul style="list-style-type: none"> • Low impact for residential • Commercial may see appeals and bankruptcies could drive nonpayment 	<ul style="list-style-type: none"> • Frequency of reassessment • Commercial/residential mix • Collections difficulty
Real Estate Transfer	<ul style="list-style-type: none"> • Longer-term cooldown in market possible 	<ul style="list-style-type: none"> • Local housing market composition
Sales	<ul style="list-style-type: none"> • Varies by sector, but near-term impact high 	<ul style="list-style-type: none"> • Industry mix • What is covered
Hotel, Meals, Rental Car	<ul style="list-style-type: none"> • Tourism and hospitality taxes hit hard • Timing, pace and extent of recovery TBD 	<ul style="list-style-type: none"> • Concentration of tourism and hospitality sector
Income	<ul style="list-style-type: none"> • Decline expected with high unemployment, furloughs • Capital gains and other unearned income likely to fall 	<ul style="list-style-type: none"> • Nexus issues for some non-resident (commuter) taxes
Business	<ul style="list-style-type: none"> • Widespread impacts, concentrated on small business and certain sectors 	<ul style="list-style-type: none"> • Industry mix
Excise	<ul style="list-style-type: none"> • Gas tax hit hard; energy and other commercially/industrially driven taxes slowed • Cable and “sin” taxes (alcohol, tobacco) likely more stable 	<ul style="list-style-type: none"> • Industry mix



Retail Space Demands Will Continue to Shrink at Accelerating Rate

- Covid19 recession accelerates changes already underway
- Neighborhood centers resist shrinkage for now
- Other retail must adapt and become more of a compelling experience
- Huge excess supply of obsolete space available for re-use
- Need substantial reform of regulations to spur reuse

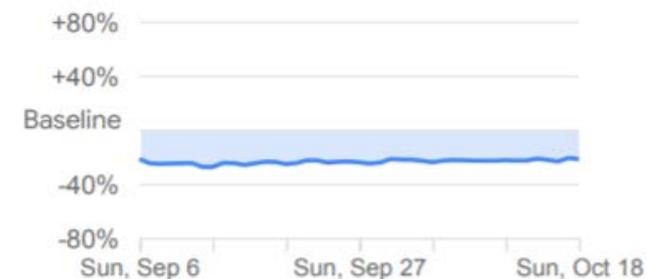
Average Supportable Space – Florida

Retail	1980-2000	2000-19	Post Covid
Neighborhood	25	25	20
Community	15	7	3
Regional/Mall	10	5	1
	=====	=====	=====
Total	50	37	24

Florida mobility data from Google
Businesses fully reopened now
Even if opened, customers must feel safe

Retail & recreation

-21% compared to baseline





Office Space Demand will Shrink Dramatically

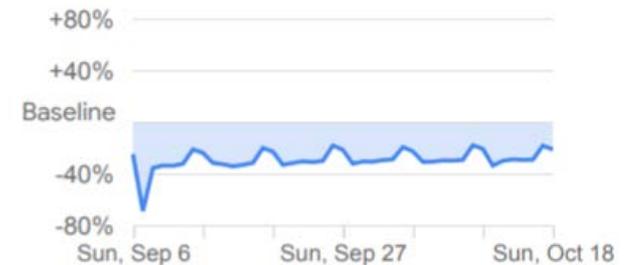
- Office space demand was already shrinking prior to Covid19
- Covid19 recession sharply accelerates this trend – proved work from home can work
- Office space is typically the 3rd largest fixed cost for most businesses – firms will economize
- Only the very best or the very cheapest will compete well
- With more work from home offices located near higher valued homes will be favored
- Opportunities for adaptive reuse

Office	SqFt
1980-2000	250
2000-19	150
Post Covid	50-to-75

Florida Mobility from Google Many still working from home

Workplaces

-21% compared to baseline





Best Selling Master Planned Communities – RCL Survey

RANK	MPC	MSA (CITY, STATE)	DEVELOPER	YTD SALES		
				MY 2020	MY 2019	%Δ
1	The Villages*	The Villages (The Villages, Florida)	The Villages	1,000	1,000	0%
2	Lakewood Ranch	North Port-Sarasota-Bradenton (Sarasota, Florida)	Schroeder-Manatee Ranch, Inc.	838	824	2%
3	Wellen Park¹	North Port-Sarasota-Bradenton (Venice, Florida)	West Villages	683	679	1%
4	Summerlin	Las Vegas-Henderson-Paradise (Las Vegas, Nevada)	Howard Hughes Corporation	642	675	-5%
5	Daybreak	Salt Lake City (South Jordan, Utah)	Daybreak Communities	507	362	40%
6	North Pointe Valley Vista	Las Vegas-Henderson-Paradise (North Las Vegas, Nevada)	D.R. Horton	475		
7	Cane Bay Plantation	Charleston-North Charleston (Charleston, South Carolina)	Gramling Brothers	472	326	45%
8	Nocatee	Jacksonville (Ponte Vedra, Florida)	PARC Group	439	535	-18%
9	Eastmark	Phoenix-Mesa-Scottsdale (Mesa, Arizona)	DMB Associates & Brookfield	436	469	-7%
10	Bridgeland	Houston-The Woodlands-Sugar Land (Cypress, Texas)	Howard Hughes Corporation	425	351	21%
11	Tartesso	Phoenix-Mesa-Scottsdale (Buckeye, Arizona)	D.R. Horton	420	269	56%
12	Balmoral	Houston-The Woodlands-Sugar Land (Houston, Texas)	Land Tejas	409	168	143%
13	Viera	Palm Bay-Melbourne-Titusville (Melbourne, Florida)	The Viera Company	357	254	41%
14	Cadence	Las Vegas-Henderson-Paradise (Henderson, Nevada)	The LandWell Company	356	321	11%
15	Ontario Ranch	Riverside-San Bernardino-Ontario (Ontario, California)	Multiple Developers*	339	474	-28%
16t	Sunfield	Austin-Round Rock (Buda, Texas)	Scarborough Lane	327	245	33%
16t	Tamarron	Houston-The Woodlands-Sugar Land (Katy, Texas)	D.R. Horton	327	164	99%
16t	Verrado	Phoenix-Mesa-Scottsdale (Buckeye, Arizona)	DMB Associates	327	319	3%
19	Estrella	Phoenix-Mesa-Scottsdale (Goodyear, Arizona)	Newland Communities	322	242	33%
20	River Islands	Stockton-Lodi (Stockton, California)	River Islands Development	320	216	48%
21	Lake Nona	Orlando-Kissimmee-Sanford (Orlando, Florida)	Tavistock Development Co.	317	217	46%

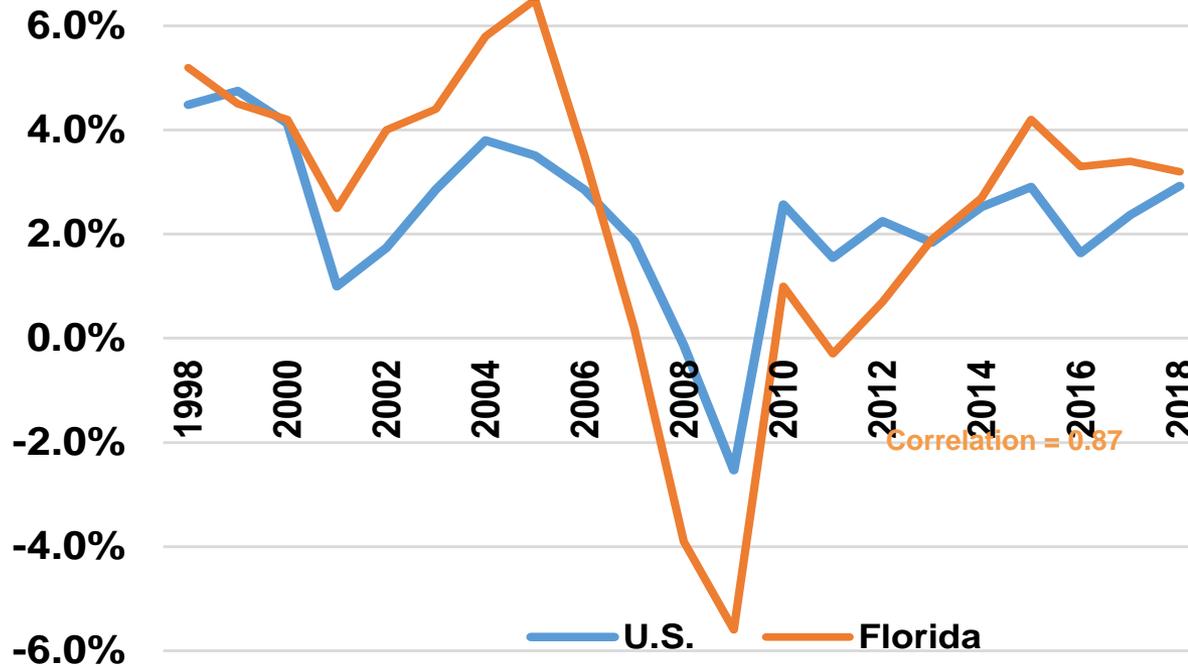


IMPACT ON FLORIDA



Why Care About GDP? Where GDP Goes, so Goes Florida' Gross State Product to a Large Extent

GDP v Florida GSP

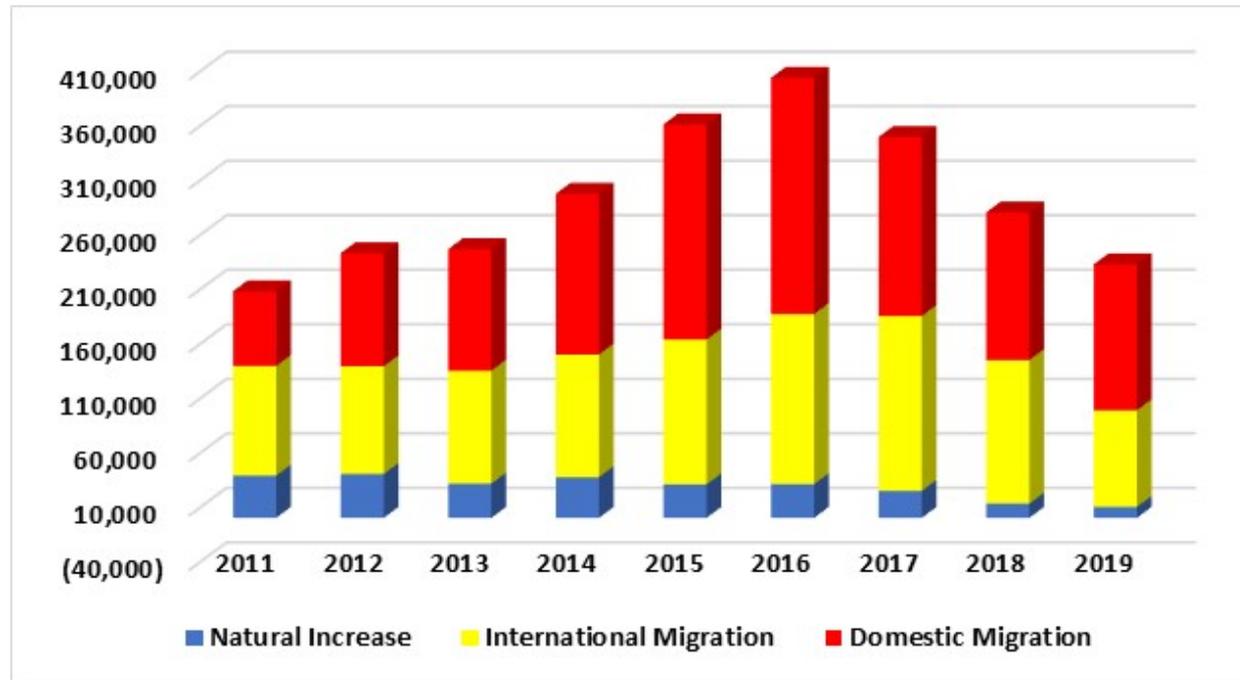


Source: U.S. Bureau of Economic Analysis and PFM



Florida's Population Growth Peaked in 2016 Well Before the COVID-19 Recession

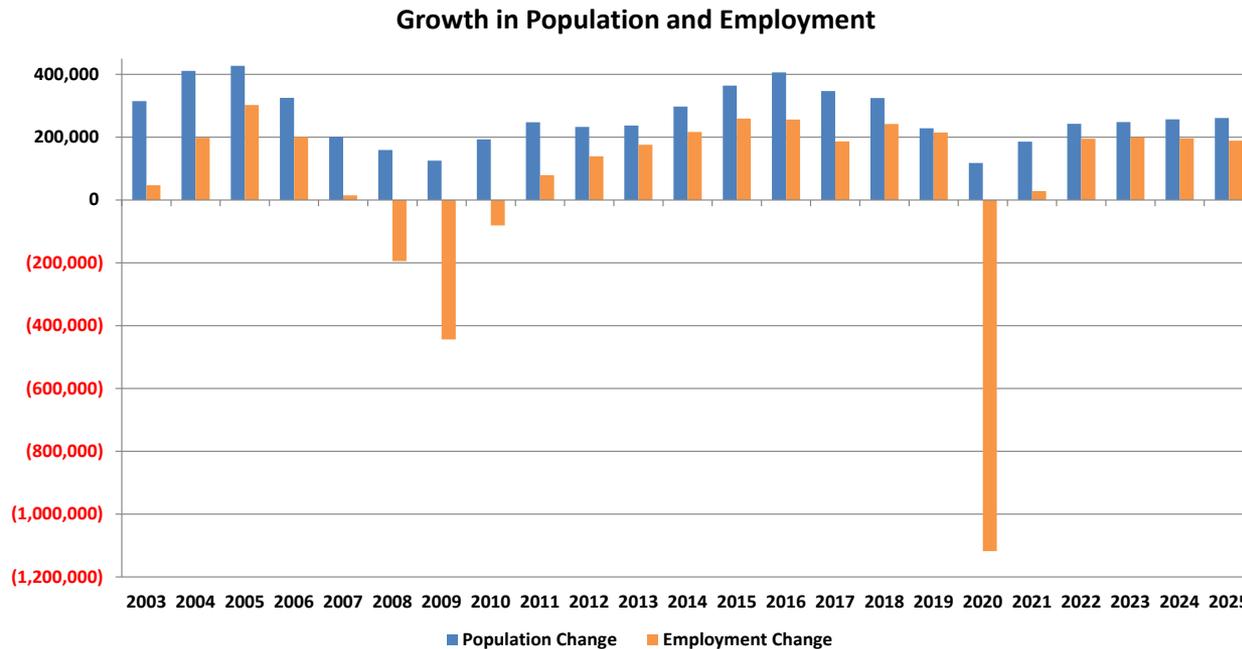
- ◆ Domestic migration into Florida has slowed 38% over the last 3-years
- ◆ International migration dropped 43% since 2016



Source: U.S. Census Bureau



Impact of COVID-19 Recession on Florida: Baseline



- The COVID-19 Recession is expected to hit Florida particularly hard, because it is a services-based recession.
- Florida's economy is heavily concentrated in tourism, trade, and retirement migration — all sectors vulnerable to the COVID-19 Recession.

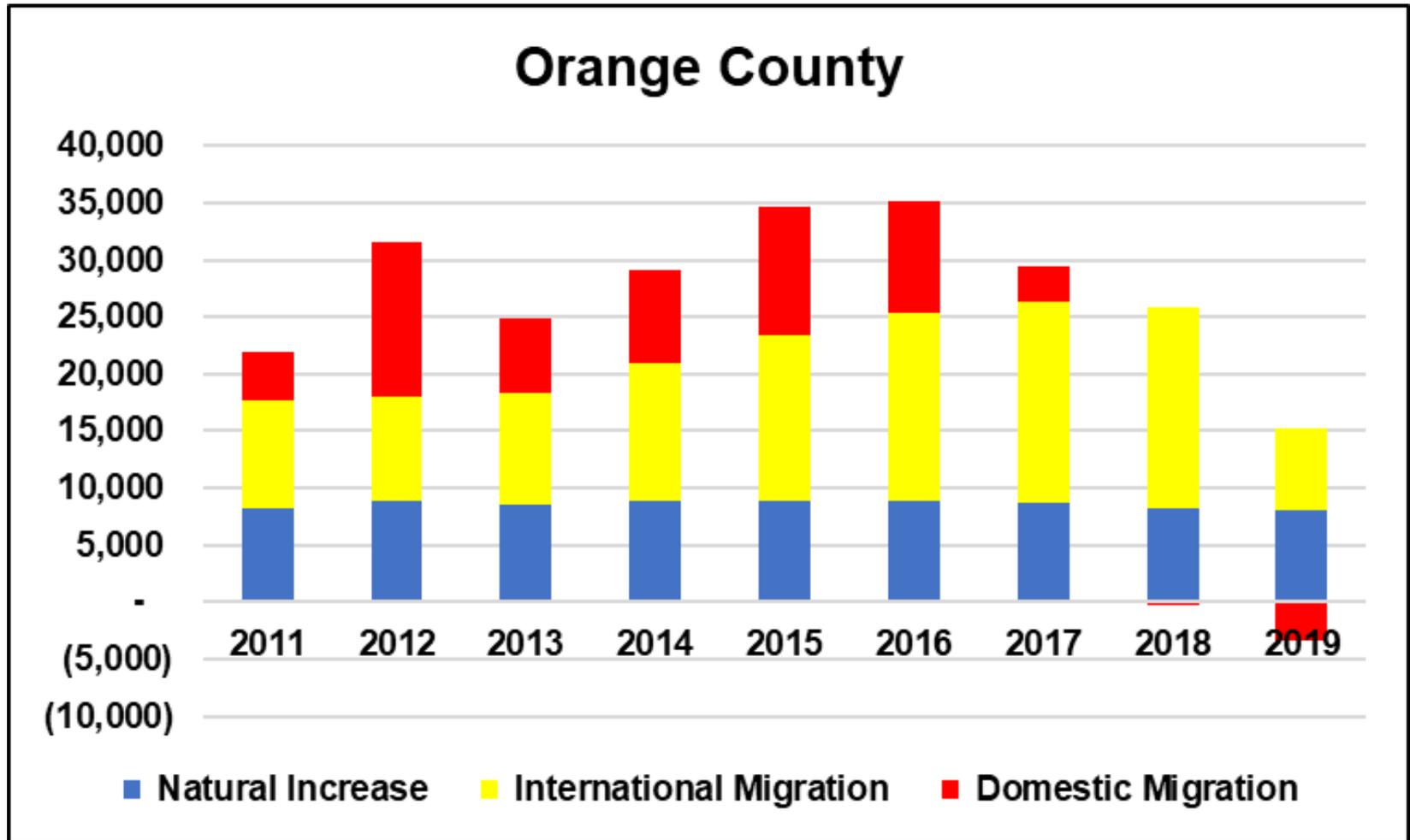
Source: Moody's



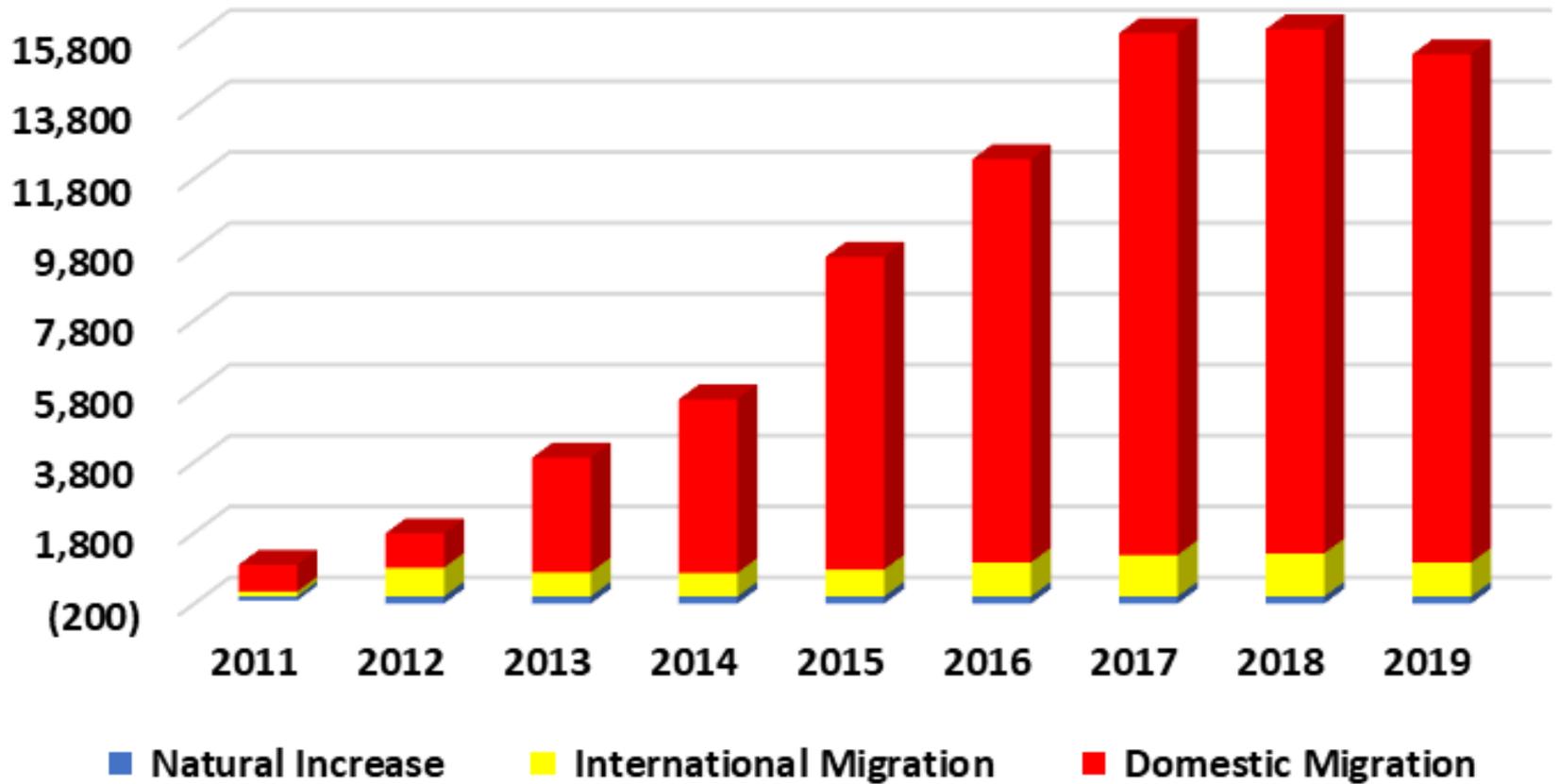
IMPLICATIONS FOR FLORIDA SCHOOL DISTRICTS



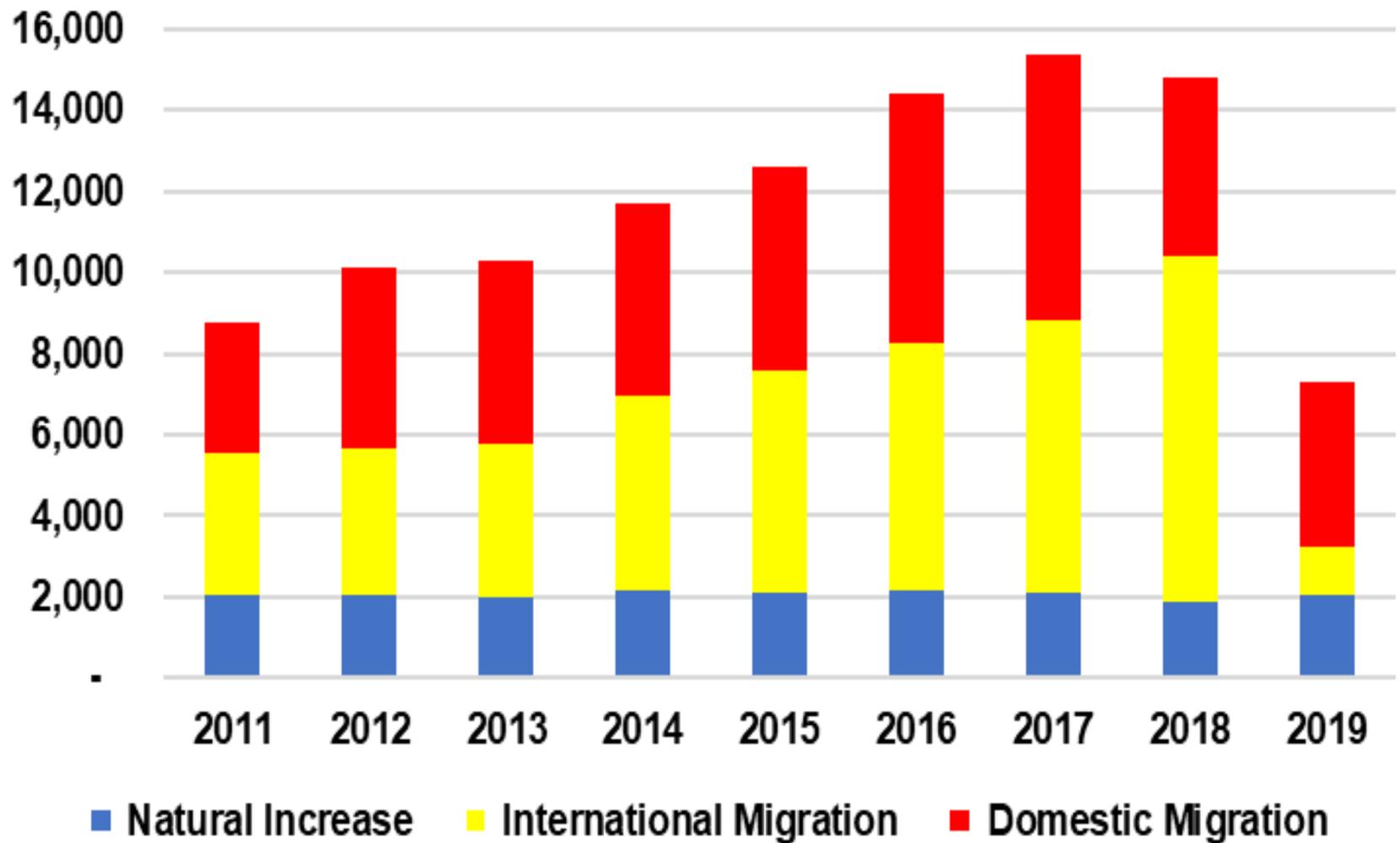
Components of Population Growth



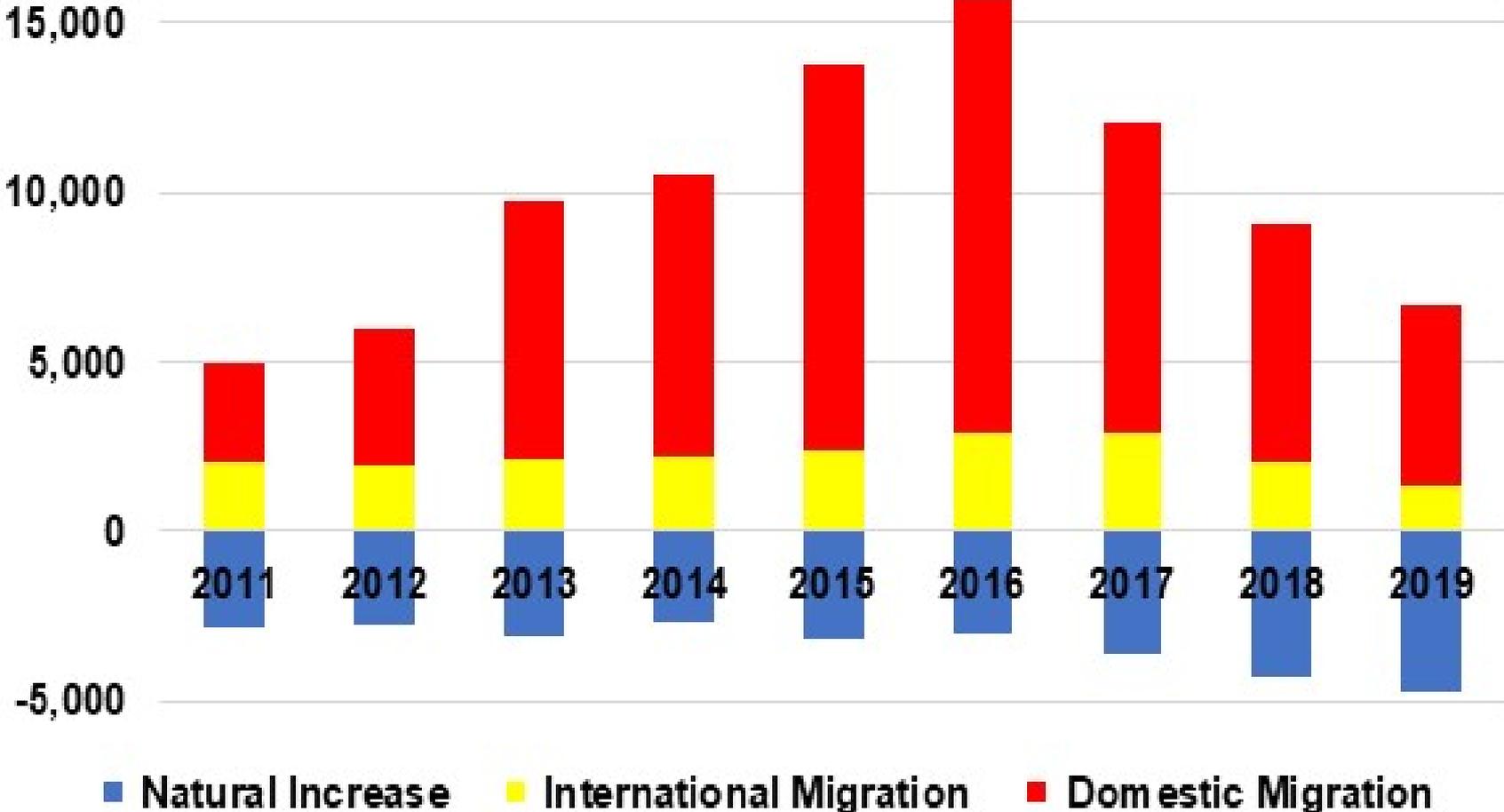
Pasco County



Osceola County

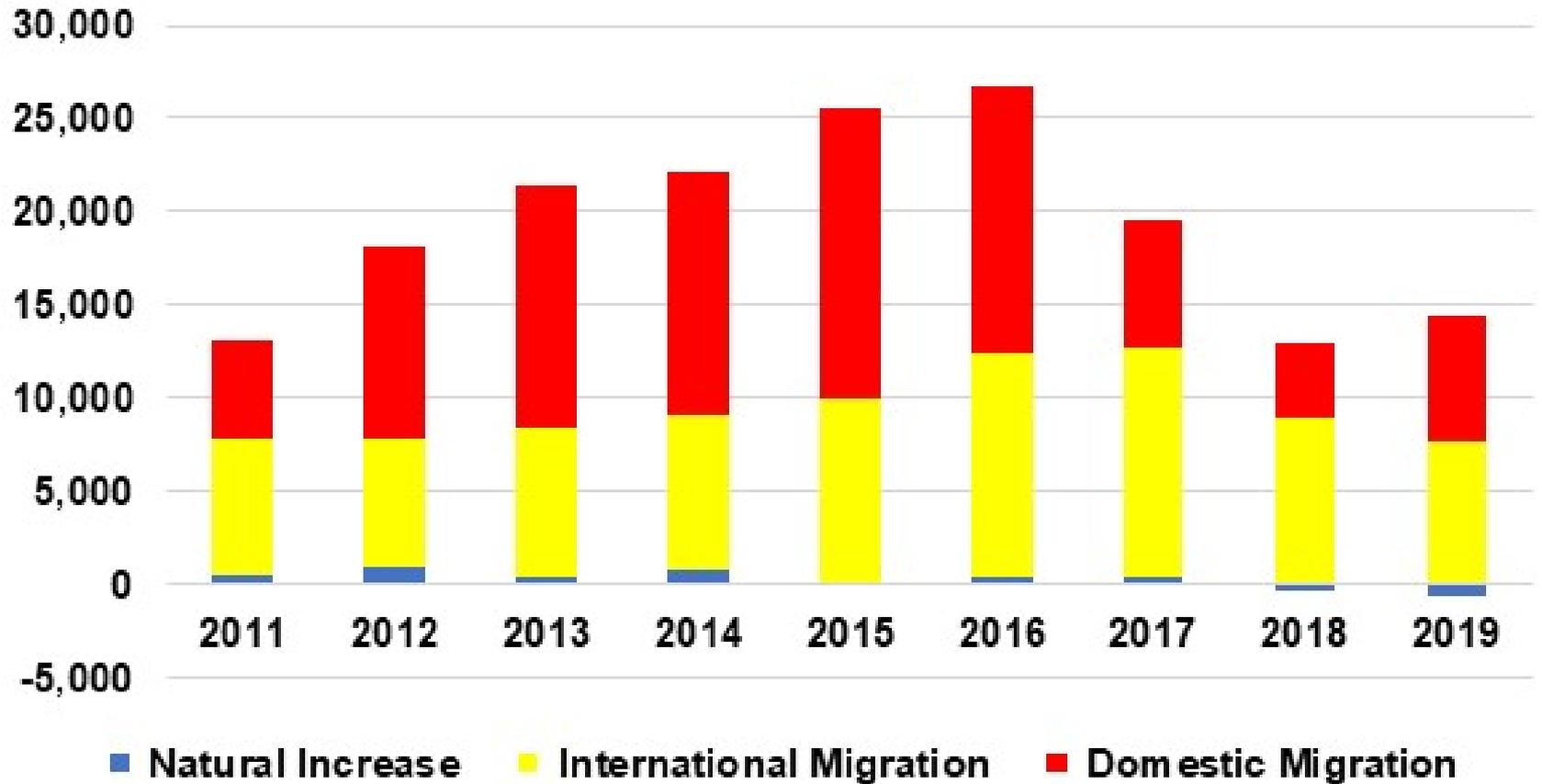


Pinellas County

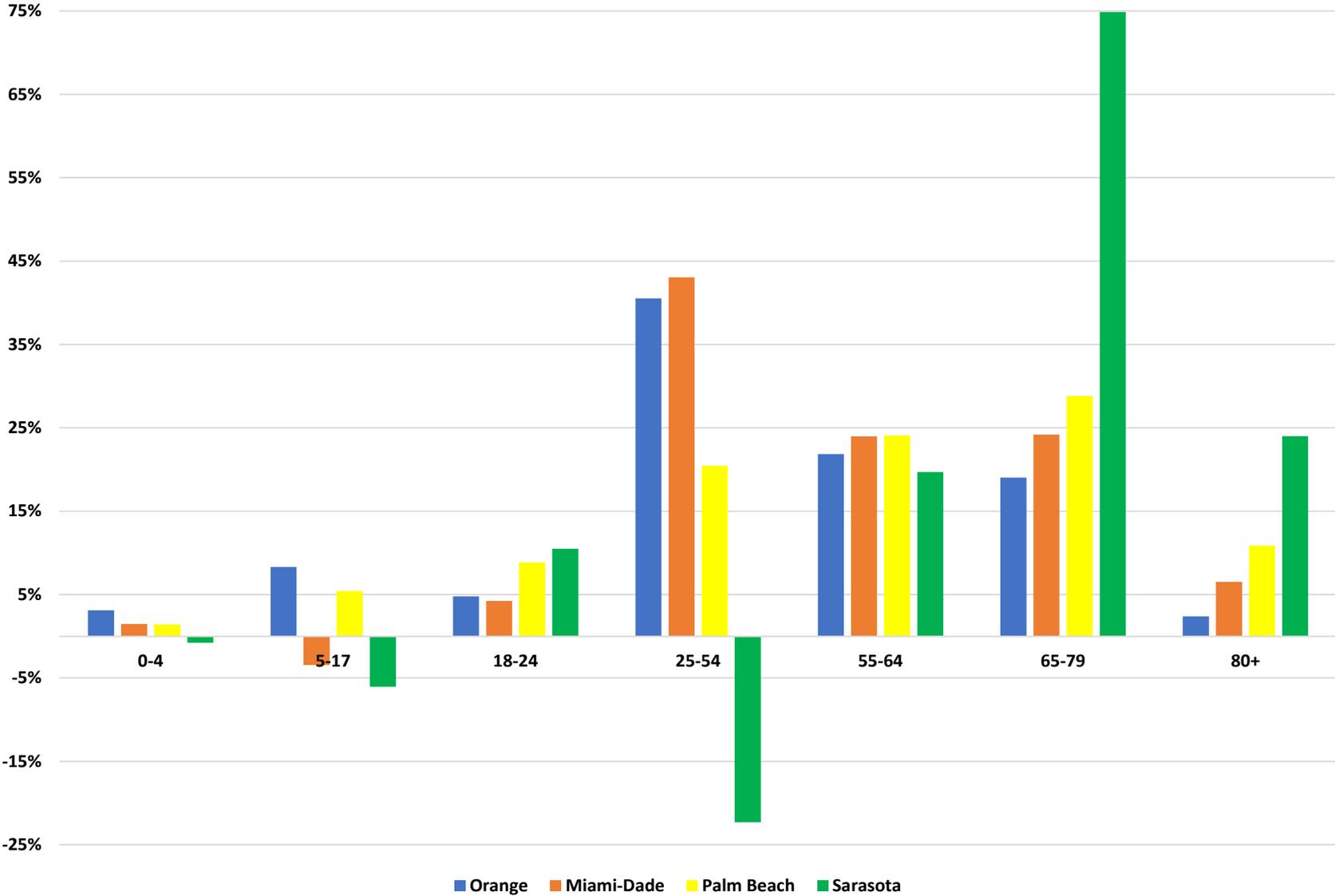




Palm Beach County

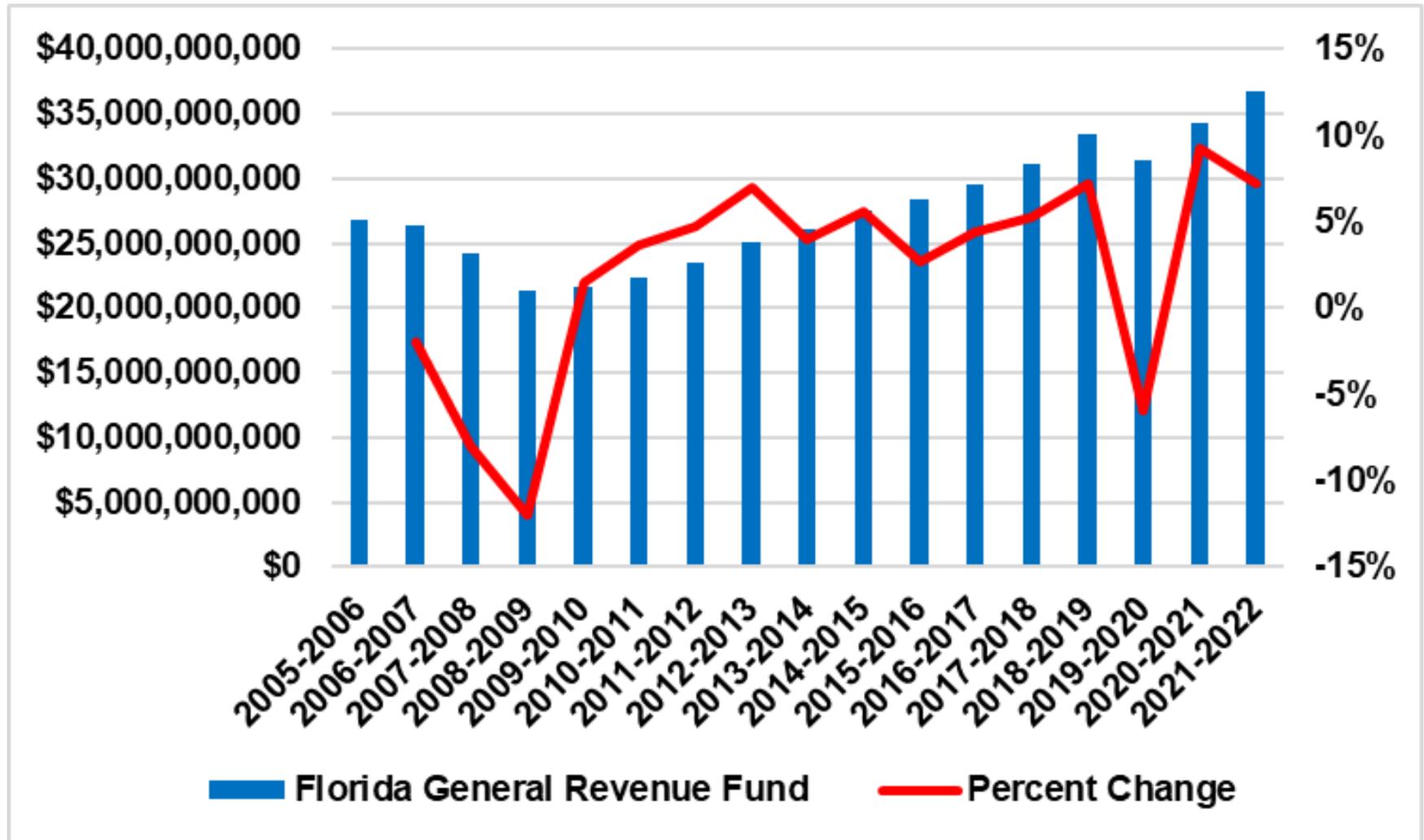


Population Growth by Age Cohort 2010-18





Florida's General Fund Revenue





Other Budget Forecasting Considerations

- ◆ Transparent Budget Assumptions
- ◆ Budget Delays and Controls
 - Filing Delays / Collections Issues
 - Amended Budgets
- ◆ Use of Reserves
- ◆ Multi-Year Perspective
 - Triage => Stability => Sustainability



Final Considerations

- ◆ While State general fund revenues will recover in calendar year 2021, State funding will be impacted.
- ◆ Expect more State holdbacks
- ◆ Potential for property tax erosion
 - 2021 Hotels and Shopping Centers
 - 2022 Hotels, Shopping Centers and Offices
- ◆ School Impact Fees
 - Update if not revised in the last 3 years
 - New state statute governing impact fees
 - Opportunity with booming residential construction
- ◆ Long term impact of school from home



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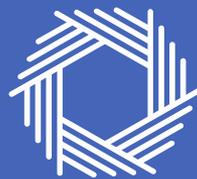
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