A black and white photograph of a man in a suit and tie, looking down. He is holding a glowing blue globe of the Earth with both hands. The globe is the central focus, showing the continents and oceans in a vibrant blue hue. The background is dark, making the man and the globe stand out.

January 2006

PREPARING FOR THE FUTURE

A Brief Review
of the Major Drivers
of Florida's Future
in the First Decades
of the 21st Century

A Report from The Florida Council of 100

Task Force Members

Duby Ausley	Chairman Emeritus, Ausley & McMullen
Barney Barnett	Vice Chairman, Publix Supermarkets
Phil Blumberg	President & CEO, American Ventures Corporation
Hyatt Brown	Chairman & CEO, Brown & Brown
Chuck Cobb	Managing Director & CEO, Cobb Partners
John Dasburg	Chairman & CEO, ASTAR Air Cargo
Don DeFosset	Former Chairman & CEO, Walter Industries
Remedios Diaz-Oliver	President & CEO, All American Containers
Earl Durden	Chairman & CEO, Rail Management Corp
Llwyd Ecclestone	Chairman, PGA Resorts Company
Charlie Edwards	President & CEO, Smoot Adams Edwards Doreah & Brinson
Richard Fain	Chairman & CEO, Royal Caribbean Cruises
Ray Ferrero	President, Nova Southeastern University
 Judy Genshaft	President, University of South Florida
Ben Hill Griffin	Chairman & CEO, Ben Hill Griffin
Steve Halverson	President & CEO, The Haskell Company
Phil Handy	CEO, Strategic Industries, LLC
Bob Helms	CEO, Wachovia Bank—Florida
Sherrill Hudson	Chairman & CEO, TECO Energy
Tom James	Chairman & CEO, Raymond James Financial
Burke Kibler	Chairman Emeritus, Holland & Knight
Joe Lacher	Former President, BellSouth Telecommunications
Howard Lance	Chairman, President, & CEO, Harris Corporation
Josh Leibowitz	Managing Partner-Florida, McKinsey & Company
Bob Lufrano	Chairman & CEO, Blue Cross/Blue Shield, Florida
Bernard Machen	President, University of Florida
Tom Morgan	President & CEO, Hughes Supply
Dick Nunis	President, Business Solutions
Whit Palmer	President, The Palmer Companies
Susan Paregis	Director, Agency for Workforce Innovation
Peter Rummell	Chairman & CEO, The St. Joe Company
Bill Schoen	Chairman, Health Management Associates
Jim Seneff	Chairman & CEO, CNL Financial Group
Bill Smith	President & CEO, Capital City Bank
Susan Story	President & CEO, Gulf Power Company
Chris Sullivan	Chairman, Outback Steakhouse
Paul Tash	Editor, Chairman & CEO, St. Pete Times
Stew Turley	Former Chairman, Eckerd Corporation
Bill Vogel	Superintendent, Seminole County
Ken Walker	District President, Edison College
Dave Wenner	CEO, Kalypso Ventures
John Zumwalt	Chairman & CEO, PBS&J

About The Florida Council of 100

Formed in 1961 at the request of then Governor C. Farris Bryant, The Florida Council of 100 exists to promote the economic growth of Florida and improve the economic well-being and quality of life of its citizens. It is a private, non-profit, non-partisan association whose members represent a cross-section of key business leaders in Florida. The Council, the first of its kind in the United States, works in close harmony with the Governor and the Legislature and with other private organizations to achieve quality of life improvements for all the citizens of Florida.

In recent years, The Council has established task forces and working groups on key issues affecting Floridians: water management, civil service reform, K-20 education, tort reform, and the constitutional amendment process. This past spring, The Council launched The Florida's Future Task Force to conduct analysis to identify the top drivers of Florida's Future. The task force's findings have been compiled into this report, which will be shared with current and future state officeholders to assist them in their work. The Council will also use this report to guide its thinking on the creation of new issue task forces aimed at developing proposals to address challenges that may not be adequately addressed by other public/private organizations at this time.

ACKNOWLEDGMENTS The task force would like to acknowledge several individuals whose time and expertise enhanced this effort. Governor Jeb Bush and Lt. Governor Toni Jennings provided their perspectives as current leaders of the state. Former Governors Reubin Askew, Wayne Mixson, and Bob Martinez added thoughtful insights about where Florida is heading in the future. House Speaker Allan Bense, Senate President Tom Lee, and Senators Ken Pruitt, Al Lawson, and Les Miller offered their points of view from a legislative perspective. We also spoke with former Council chairman Stew Turley, the retired Chairman of Eckerd Corporation, and Lynda Kever, the Publisher of

Florida Trend magazine, who shared their views on Florida's future. The intensive, focused, and comprehensive assistance of McKinsey & Company, which contributed superb research and analytic skills, made this report possible. Particularly, we would like to thank the following McKinsey & Company folks – Co-Managing Partners for Florida, Josh Leibowitz and Alex Niemeyer, and Associates Anthony Nichtawitz, Axel Lapica, and Paulo Marchesan. And finally, the task force thanks our Council staff: Charlie Ohlinger, Executive Director, and Kathy Lowy, Issues Director, for coordinating the effort and keeping the process on track.

Dear Floridians:

Through the years, Florida has been an exceptionally attractive new home for hundreds of thousands of Americans who relocate from other states each year and for the thousands of immigrants who arrive from other countries. Those who have participated in this amazing growth have also been participants in finding ways to accommodate it, and much good has been done over the years to continuously improve our great state.

With this in mind, The Council of 100's Florida's Future Task Force has identified eight key drivers that will impact Florida over the next decade and beyond. We've also asked some key questions which we believe will require resolution to keep Florida on the track of vibrancy and continuous improvement. This report purposely does not attempt to answer these questions or propose solutions to these tough challenges. That is work for follow-on efforts by the Council of 100 and others in the public and private sectors - and of course, several of these needs and questions already have governmental and private organizations working on them

Within the Florida Council of 100, we will use these eight drivers to establish our issue task forces in areas of particular strategic importance, to delve into the details of these challenges, and to develop ideas for resolving them. We also encourage others to use this list of eight to establish their own priorities for what must be done to continuously improve the economic well-being and quality of life of the people of Florida. The following pages briefly highlight our analysis and our conclusions on these eight critical drivers of Florida's future:

- #1 – Education
- #2 – Income, jobs, and business climate
- #3 – Growth management and environment
- #4 – Hurricane readiness and costs
- #5 – Attainable housing
- #6 – Rising health care costs
- #7 – Energy dependence and affordability
- #8 – Globalization

Peter S. Rummell
Chairman, The Florida Council of 100
(Chairman and CEO, St. Joe Company)

Charles E. Cobb
Chairman, Florida's Future Task Force
(CEO, Cobb Partners, Ltd.)

Eight Drivers of Florida's Future

Introduction

In the spring of 2005, with some of our existing task force efforts coming to conclusion, the Florida Council of 100 decided to make a strategic appraisal of Florida's progress over the past few decades and to identify the top seven or eight drivers which will determine Florida's future. Our external goal was to assist governmental leaders in developing their priorities and goals for Florida, and internally to provide a methodology for the Council itself to determine what issues could be addressed over the next few years.

Under the leadership of then Council Chairman Chris Sullivan (Chairman, Outback Steakhouse) and Vice-Chairman Peter Rummell (Chairman and CEO, St Joe Company), our "Florida's Future Task Force" was established. Ambassador Chuck Cobb (CEO, Cobb Partners, Ltd.) agreed to chair this effort and 42 Council members from across business sectors and geographical areas agreed to serve on the task force.

Using great research and analysis from McKinsey & Company, the Task Force considered dozens of important challenges and opportunities facing Florida. With much deliberation, that broad listing was consolidated into the list of eight major drivers of Florida's future discussed in this report. Some other issues, although important in their own right, did not rise to the level of "major driver" and were deleted from further consideration. We then continued analysis and conducted a series of interviews with past and current governmental leaders, both to gain additional information and to validate our process and drivers list. Within each driver, we found several issues which have been at the top of everyone's lists for many years and are likely to remain there for many years in the future.

Our Task Force work concluded its initial work at the Council Fall 2005 General Membership Meeting when members of the Council used hand-held voting machines to individually indicate the importance of some 20 issues within the eight drivers to the future of Florida. That led to the priority ranking of the eight drivers which follows this introduction. Please note that this report does not make any attempt to provide resolution to the eight drivers or to the many issues comprising them. That is the next step for Florida and for the Council of 100.

#1

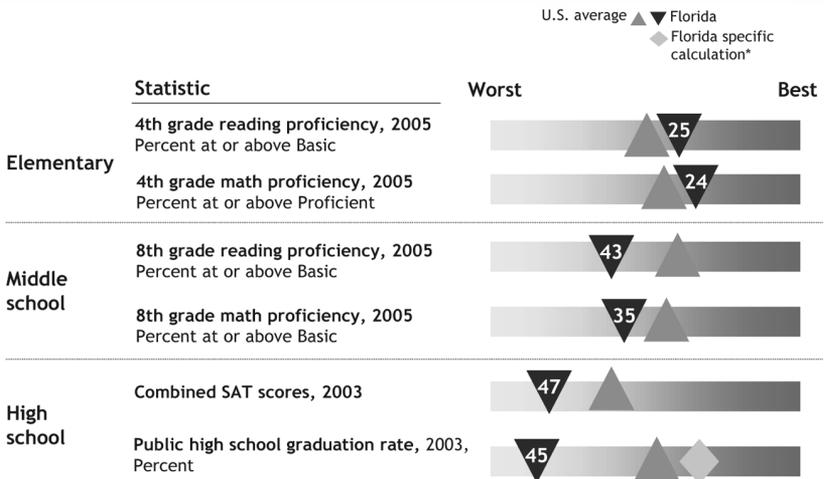
EDUCATION

The main findings with respect to education are:

- **Florida’s K-12 system at the elementary level has improved substantially in recent years and is above national averages**
- **From middle school on, however, the K-12 system begins to lag national averages significantly**
- **Florida’s university system, while improving, is still behind national averages on most dimensions**
- **A comparison of the degrees awarded and the needs of Florida employers makes it apparent that students’ employment prospects will be improved if they pursue academic programs more clearly aligned with the state’s employment base.**

Elementary school performance has improved and is now at or above national average, ranking 24th in NAEP math scores and 25th in reading. From middle school on, however, performance begins to lag, and by high school the state ranks 47th in SAT scores (although Florida has made great

K-12 PERFORMS ABOVE AVERAGE IN ELEMENTARY SCHOOL, BUT LAGS FROM MIDDLE SCHOOL ONWARD



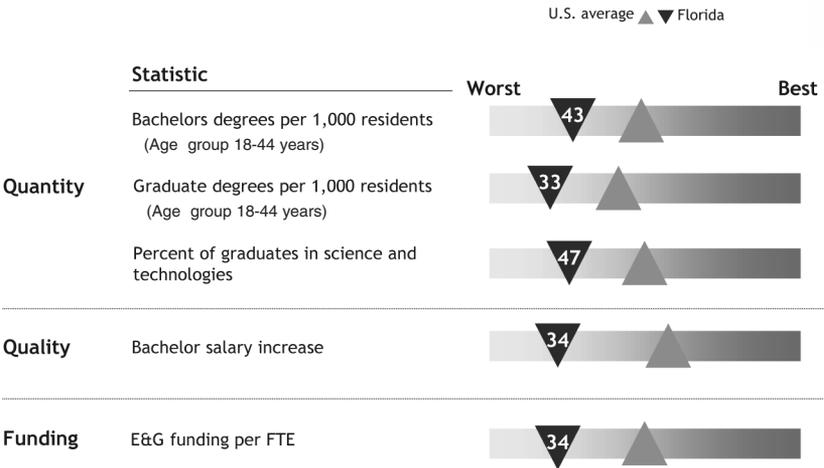
* Calculated longitudinally by tracking individual students and includes GEDs; not comparable to other states

Figure 1

increases in the number of students taking the SAT, which may have some impact on average scores). Florida should be congratulated for being the only state which funds the PSAT for all students. Similarly, while the state’s high school graduation rates have improved, Florida still lags significantly, ranking 42nd or 45th – depending on which calculation methodology is used. (In this regard, Florida is to be congratulated for its leadership in developing a method for computing graduation rates which was recently agreed to by the National Governors Association; once all states compute graduation rates in the same manner, we may well see changes in the rankings.)

Research that might indicate a close correlation between per student funding and academic achievement in U.S. school systems is lacking, and there are many factors which lead to high student achievement. Many hold high hopes that Florida’s recently implemented “return on investment” measurement for K-12 education will not only provide some increase in the ability to understand the relationship of spending and performance, but will also increase accountability for the system. Nevertheless, based on 2002

HIGHER EDUCATION, WHILE HAVING MADE IMPROVEMENTS, LAGS NATIONAL AVERAGES



Sources: 2003 SREB analysis of National Center for Education Statistics completions surveys (www.nces.edgov/ipeds <<http://www.nces.edgov/ipeds>>); U. S. Census Bureau state population estimates; National Center for Public Policy and Education, Measuring Up Reports of 2002 and 2004; SREB Education data

Figure 2

data (the most recent available from the Census Bureau surveys), we do know that Florida ranks 42nd in the country in K-12 spending per student, spending \$6,000 per student versus the U. S. average of \$7,600.

Given the opposing upward trending of many measures of performance even in the midst of difficult funding challenges brought about by growth and the class size amendment of 2002, it is apparent that further research in this area could be fruitful. (It should be noted that The Florida Council of 100 opposed the class size amendment in 2002 due to the absence of credible data showing that smaller class size leads to increased student achievement. In 2006, our Class Size Working Group will support efforts aimed at modifying the 2002 amendment.)

Florida makes more extensive use of its community college system than other states: in Florida, 9.0 students per 1,000 residents between 18 and 44 graduate from the community college system versus 5.6 for the U.S. overall. Affirming the value of this high-quality system not only for direct preparation of students for the workforce, but for its highly regarded 2+2 relationship with universities, the state currently has plans to expand the size and scope of this system.

At the bachelor's level and above, the state has made improvements over the past few years but performance still lags along most dimensions. The state's colleges and universities award far fewer bachelor and post-bachelor degrees than other states, with 10.1 and 3.8 per 1,000 residents versus 12.4 and 5.0 for the U.S., respectively. In terms of quality, as measured by the increase in salary with a bachelor's degree versus without, the state's performance rank has improved from 36th in the country in 2002 to 34th in 2004, still offering room for improvement. Magazine college rankings offer further evidence of Florida's opportunities for improvement: no Florida schools are among top 49 engineering programs, no Florida institutions among top 104 liberal arts schools, and there have been no Nobel Prizes awarded to professors at Florida universities. The Council's 2004 report "We Must Do Better: Moving Florida's State University System to the Next Level of Quality and Accessibility" made proposals to improve the system by increasing tuition and need-based aid while tightening standards for Bright Futures scholarships. We continue to believe substantial changes to the system are needed.

Comparing the number of degrees awarded in the state with the job market, there appears to be an imbalance and an opportunity to realign degrees with market needs. There are gaps in certain fields, for example, nursing and teaching. In aggregate, however, there also appears to be an excess supply of bachelor degrees versus current needs. Federal and state

agencies report conflicting data in this regard. By one measure, each year, on average, the state reports 41,000 job openings requiring bachelor and post-bachelor degrees, while 83,000 public and private university/college students are expected to graduate with these degrees each year. This difference certainly requires reconciliation and may say more about the state's current economic mix than about its educational system.

Lower than desired performance across the educational system sets the stage for below average income levels in the state. Additionally, it may be an important inhibitor to attracting companies and talent to the state, potentially affecting employment levels and growth rates, as well as the skill level of job openings.

Among the key questions the state needs to address are:

- **How can the performance of middle and high school be improved?**
- **What needs to be done to improve the performance of Florida's colleges and universities?**
- **How can the apparent imbalance of graduates in certain career areas be improved?**



INCOME, JOBS AND BUSINESS CLIMATE

The analysis of income, jobs and business climate revealed two significant findings:

- **The state has maintained a high growth rate, which has resulted in low unemployment and poverty levels**
- **Despite this growth, income levels remain low compared to national averages, and the economy remains concentrated in a small number of industries.**

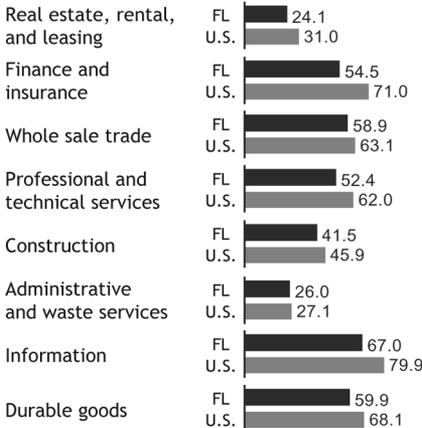
Florida has historically managed to maintain a high economic growth rate (4.1% annual growth in GSP versus 2.1% population growth rate). This trend has helped contribute to improved unemployment rates, which continue below U.S. averages (3.4% in Florida in October versus 5.0% U.S. average). According to the Agency for Workforce Innovation (AWI), Florida created 253,200 new jobs from October 2004 to October 2005; this figure positions Florida first among the nation’s 10 most populous states in new job creation. Florida also had the fastest job growth rate among this subset of states.

However, poverty levels in Florida are higher on average and income

ADDITIONALLY, FLORIDIANS EARN LESS COMPARED TO NATIONAL AVERAGES FOR SAME INDUSTRY

Top industries with FL wages BELOW national average

Average wages
Dollar thousands



Top industries with FL wages ABOVE national average

Average wages
Dollar thousands

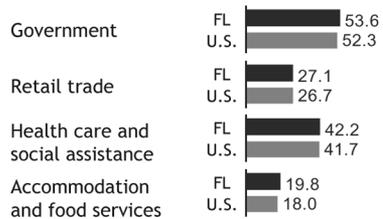


Figure 3

Source: www.bea.gov

levels are relatively low – 38th in the country. Florida salaries average \$38.5k versus a U.S. average of \$43.9k. Of this \$5.4k wage gap, \$2.1k can be attributed to Florida's higher economic concentration in low-wage industries. For example, 15.9% of Florida's economy is in real estate, whereas 12.5% of the US economy is in real estate. Furthermore, the average real estate wage in Florida is \$31K, well below the US real estate average of \$43.9. A lawyer in Florida, for example, earns \$10k less on average than his or her peer elsewhere in the U.S.; an engineer earns \$8k less. In part, these sorts of pay gaps within an industry may be caused by salary variations across the sub-segments of an industry; for example, Florida's Finance and Insurance sector is dominated by retail bankers, while New York's is mostly investment bankers. Additionally, Florida's lack of an income tax, great climate, and historically lower cost of living have to some extent offset this trade-off with wages.

Additionally, 60% of Florida's economy is concentrated in eight industries: real estate, state and local government, retail, wholesale, construction, support services, ambulatory healthcare, and banking. This means that Florida is among the seven states with the highest industry concentration.

As a result, Florida's economy would be more susceptible to a downturn in its leading industries than most other states. Furthermore, if the state continues to grow in its current industries and industry sub-segments, it will continue to have lower-than-average wages. In recognition of these facts, Governor Bush has made diversification of the economy one of his top three priorities for his second term, and Enterprise Florida has adopted a strategy for attracting new industry sectors to Florida.

The overall business climate in Florida seems to be quite attractive, particularly for small businesses; Florida ranks among the top 10 states in the country in three surveys (e.g., ranking 2nd in State Business Tax Climate 2004 and 5th in Small Business Survival Index 2005). However, serious concerns exist in the business community regarding the need for civil justice reform, and the Council's Tort Reform Task Force will continue working to address some of the inequity in an effort to insure Florida remains competitive.

Some key questions that the state needs to address are:

- **What are the top opportunities to diversify into higher wage, higher growth industries, and what does the state need to do to capitalize on those opportunities?**
- **In addition to civil justice reform, what are the other main areas of improvement of the state's business climate, and what needs to be done to improve upon them?**

#3

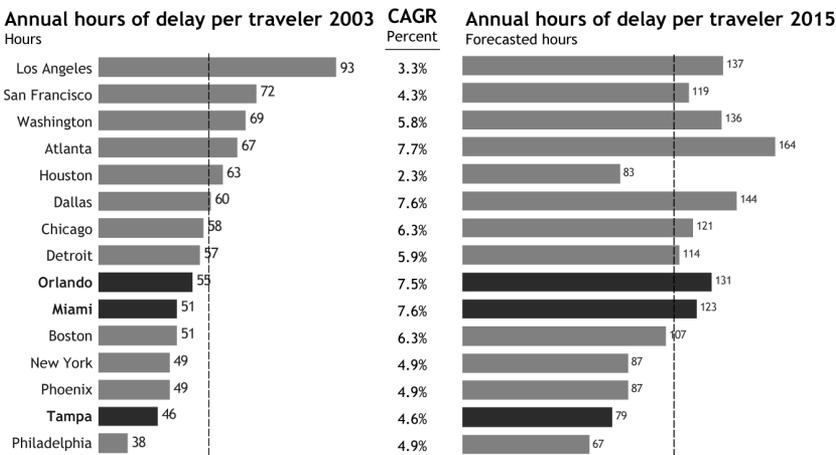
GROWTH MANAGEMENT AND THE ENVIRONMENT

Several key findings emerged from the analysis of Florida’s growth management and infrastructure:

- **Florida is growing significantly faster than the average U.S. state**
- **Florida’s growth puts pressure on its natural environment and infrastructure, particularly its highways and schools**
- **Airport and port capacities and the communications infrastructure seem well positioned to accommodate future growth**
- **Overall, the state has sufficient water, but it needs to invest in distribution and would benefit from a statewide governing body**
- **Recognizing the pressure on its fragile natural environment, Florida has made large investments in environmental protection and restoration, but significant opportunity remains.**

Florida is likely to sustain its rapid population and economic growth rates (2.1% and 4.1% per year, respectively), which will put stress on the state’s infrastructure and natural environment. Areas of potential infrastructure concern are highways, water, transportation (ports and airports) and communications.

TRAVEL DELAYS ARE INCREASING FASTER IN FLORIDA, BUT COMMUTE TIME IS STILL LOWER THAN OTHER MAJOR METROS



* Delay is defined as extra travel time for peak periods

Source: Texas Transportation Institute; 2005

Figure 4

Florida's commute time delays in its major cities (i.e., Miami, Tampa, Orlando) are currently below those of major national metro areas (e.g., Los Angeles, Atlanta). However, the delays in Florida are increasing more rapidly. As shown in Figure 2, the average delay time in Orlando in 10 years will be 50% higher than current delays in Los Angeles.

Florida's highway congestion is also a factor in hurricane evacuation scenarios. The Miami area has the same population as Houston, but only one-third the lane-miles per capita (0.32 vs. 0.93), making a rapid evacuation of the area very difficult.

Recognizing these challenges, last summer Governor Bush announced more than \$3B in transportation improvements to relieve some of the backlog of road projects and implement major projects across the state.

Water in the state of Florida as a whole is abundant, with an average of 54" of annual rainfall (ranked 2nd in the U.S.). However, as highlighted in our 2003 report "Improving Florida's Water Supply Management Structure," rainfall is not distributed evenly throughout the state, and investments in water treatment and distribution will be required to meet future needs. Additionally, Florida lacks a statewide body governing its water supply, and this may represent a barrier to making effective decisions.

Although many funding and policy improvements resulted from 2005 legislation, continuing attention will be required by the state to assure the future certainty of Florida's water supplies in the upcoming decades.

With respect to the environment, 27% of the state is designated wetlands or other to-be-protected areas, which has resulted in a natural tension between environmental protection and population growth. Recognizing the value of its natural environment, Florida spends more on environmental programs than all but two other states, including \$2B in 2004. Water quality is better than most states, and although Morgan Quitno's 2005 state rankings show land and air toxic releases per square mile to be more than many other states, Florida's geography and climate tend to keep air quality good (based on EPA survey of air quality).

Some key questions that the state needs to address are:

- **What is the regulation and funding mix required to close the gap in growth management and environmental protection?**
- **Given the lack of highway infrastructure for emergency evacuation, what is the state's real readiness for a major hurricane, what plans are in place, and what are the major gaps?**
- **What statewide water governance structures and processes are needed to ensure effective and efficient management of such an important resource?**

#4

HURRICANE READINESS AND COSTS

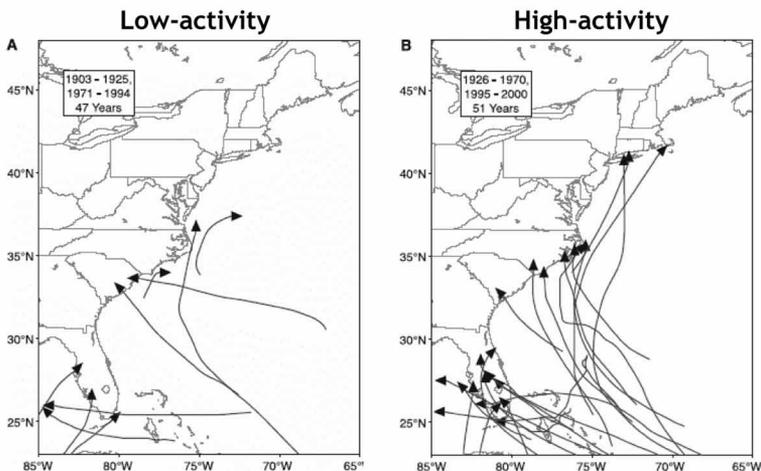
The state's situation with respect to hurricane readiness and costs can be summarized as follows:

- **The next 10 to 20 years are likely to be a period of high hurricane activity**
- **Hurricanes have a measurable economic impact on local markets**
- **Insurance premiums in Florida are high and likely to rise further, given the heavy demands on private and public insurance systems**
- **Predictions about increased hurricane activity may have a secondary effect of adversely affecting tourism and trade in the state.**

Max Mayfield, Director of the National Hurricane Center, has said “expect more hurricanes large and small during the next 10 to 20 years.” During periods of high hurricane activity, the incidence of major hurricanes making landfall is more than twice as high than during low periods, based on research covering almost a century (1903 to 2000). During the 2004 and 2005 hurricane seasons, the state has felt the impact of this prediction first hand.

FLORIDA SHOULD EXPECT A HIGHER INCIDENCE OF HURRICANE LANDFALLS OVER NEXT 10 TO 20 YEARS

Comparison of major hurricane landfalls between low-activity and high-activity cycles



Source: Science Magazine, 20 July 2001 v. 293

Figure 5

Before the major hurricanes of 2005, Florida already had the third highest property insurance rates in the country. The state-backed property insurance provider, Citizen's Insurance, was technically bankrupt by the end of 2004 and, as a consequence, the high rates that Floridians pay are expected to nearly double. These higher insurance rates will put a squeeze on Floridians' budgets, and may encourage some residents to flee the state ("state flight") while impeding the state's ability to attract companies and talent (some of whom may be discouraged by their fear of being caught in a hurricane).

Governor Bush has recently announced significant (\$565M) funding recommendations for hurricane preparedness, response, and recovery, which will be of major benefit to establishing a "culture of preparedness" for hurricanes. This, in itself, sets the stage for even greater resiliency to the impacts of hurricanes on Florida business and people.

Some key questions that the state needs to address are:

- **Given the Governor's latest proposals for a "culture of preparedness," what will be the improvements in real readiness for a hurricane, what additional plans must be put in place, and what are the major gaps?**
- **What steps need to be taken to ensure high property insurance costs do not contribute to "state flight" because of high and increasing costs of living?**
- **Why are property and casualty premiums rising so fast, and can anything be done to alleviate the situation?**



ATTAINABLE HOUSING

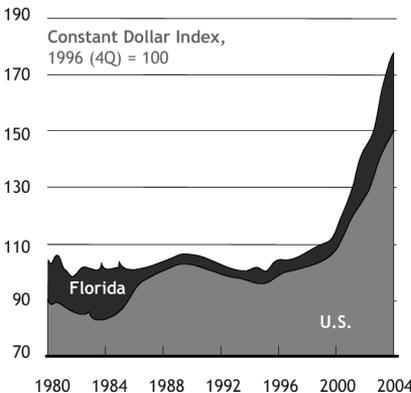
The analysis revealed several important findings about the housing market in Florida:

- **The real-estate boom in Florida has outpaced the rest of the U.S. and significantly outpaced Florida's growth rate of household income levels**
- **The boom has significantly affected the affordability of home ownership; rental affordability has remained flat, but is still worse than U.S. averages.**

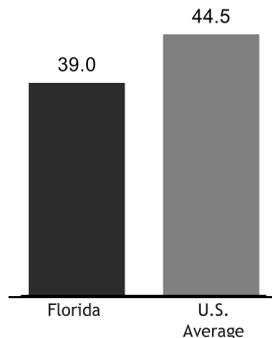
Housing prices in Florida are rising faster than average house prices in the U.S. and significantly faster than state income levels. From 1996 to 2004, Florida's average house price increased 70%, versus 50% for the U.S. average (and Florida housing was already priced higher than the U.S. average in 1996). Because Florida's household income remains lower than the U.S. average, (\$39.0k versus \$44.5k), this trend has made home ownership increasingly difficult for many Floridians. Rental affordability has not worsened in recent years but is already significantly worse than in the rest of the country.

FLORIDA'S REAL ESTATE MARKET HAS BEEN BOOMING, BUT HOUSEHOLD INCOMES HAVE FAILED TO KEEP PACE

Inflation adjusted house price indexes have increased significantly



While the median household income has remained below the U.S. average
Average household income, U.S. dollar thousands



Source: LeRoy Collins Institute, *Tough Choices: Facing Florida's Revenue Shortfall*, October 2005

Figure 6

As a result of these housing trends, a Florida household that earns the state's median income, allocates the federally recommended 35% of income to housing, and uses traditional financing can afford to buy an \$111,000 home. However, the state's median home price is \$189,000, or 70% above their means.

As a result, some Floridians will remain permanent renters (which may be problematic with so many rental properties being converted into condominiums) and others will leave Florida as housing costs lower the state's overall affordability.

Some key questions that the state needs to address are:

- **What is the impact of high real estate costs on the state's attractiveness to employers and employees**
- **What can be done to mitigate the risk of state flight because of the rapidly rising cost of living?**



RISING HEALTH CARE COSTS

Florida's health care situation can be summarized as follows:

- **Florida spends less per capita on Medicaid than other states, while having a higher percentage of uninsured and higher individual spend per capita on health care**
- **Medicaid spend continues to rise rapidly, outpacing population, GSP, and budget growth**
- **Medicaid spend consumes an ever larger share of the state's resources and has become a significant budget issue.**

While Florida's health care costs are increasing rapidly (Medicaid spend has been increasing at 12% per year), the state spends less per capita on average than other states (\$741 versus \$981 U. S. average in 2004). This may be caused in part because Florida has more of its population with Medicare benefits than most other states. This may contribute to higher health care spending by individuals as well as a higher uninsured rate in the state (19% versus 16% nationally in 2003-2004).

The rapid increases in Medicaid spending are particularly worrisome in a state with low revenues. If no changes are made, Medicaid is projected to consume 50% of the state budget by 2015, effectively crowding out other important spend categories such as education.

Recognizing this impact on other key state programs, Governor Bush and the Florida legislature are taking action in 2005 and 2006 to find ways to both improve the health of Medicaid recipients while reducing overall growth costs of the program.

Some key questions that the state needs to address are:

- **In light of state action in 2005-2006, what other actions should be taken by the Governor and legislature to reduce the growth rate of Medicaid, and for individual and small group markets?**
- **What can be done to ensure medical insurance affordability and accessibility for the average Floridian?**



ENERGY DEPENDENCE AND AFFORDABILITY

The analysis of the state’s energy situation revealed the following findings:

- Soaring oil prices are driving energy costs up, but Florida pays lower than average prices for gasoline, partially because of its favorable geographic location;
- Electricity prices have been rising rapidly
- Florida is a net importer of electricity and relies more heavily on natural gas and oil-fired power plants
- The state has remained relatively independent of national electricity power grids
- The state has limited infrastructure for sourcing natural gas and liquefied natural gas (LNG)

Florida is well positioned geographically with respect to sourcing gasoline and other crude oil derivatives, as it is relatively close to the Gulf Coast, while being able to import fuel from Europe, the Caribbean and South America. This has likely contributed to Florida’s relatively low gasoline prices. According to August 2005 national figures, Florida is the 14th lowest-priced state based on gasoline prices at the pump.

As an electricity market, Florida has two main characteristics: 1) it is much more dependent on natural gas and oil for power generation, and 2) it has remained largely disconnected from national power grids.

Figure 8 shows the breakdown of Florida’s power generation capacity by technology. The higher reliance on natural gas and oil, which are the most expensive sources of power, has contributed to increasing electricity prices in the state, a trend that is likely to continue.

FLORIDA IS CURRENTLY PAYING LESS AT THE PUMP THAN OTHER STATES

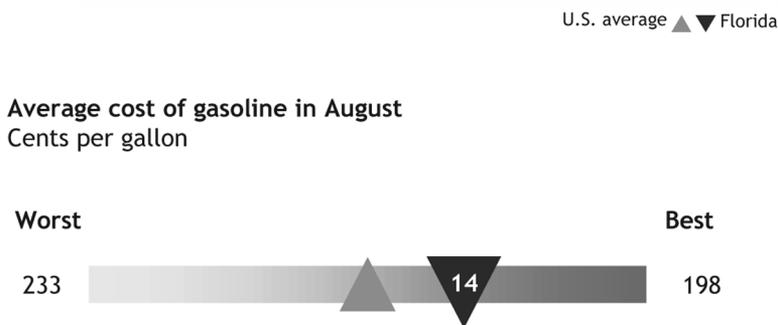


Figure 7

FLORIDA RELIES MORE HEAVILY ON NATURAL GAS AND OIL FOR POWER GENERATION

Sources of Florida's electricity generation (variable costs only)
 Cost/kwh normalized for installed capacity, using oil and gas prices as of October 12, 2005

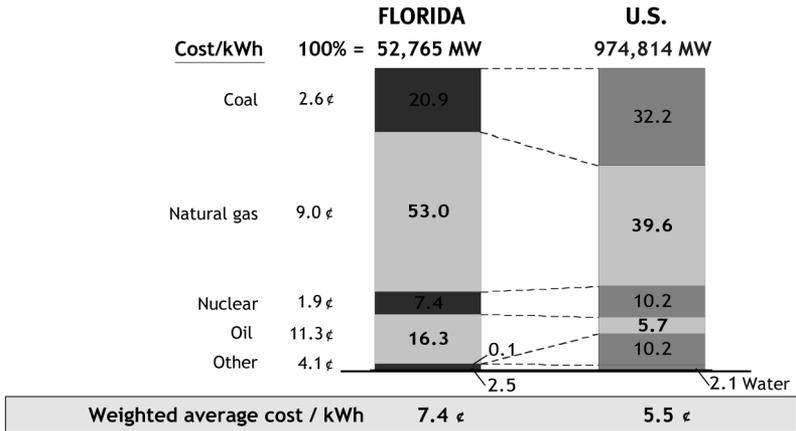


Figure 8

Source: Energy Velocity, Platt's, Bloomberg, EIA, McKinsey analysis

Additionally, because Florida did not fully deregulate as other states did in the 90s, it has remained largely disconnected from other states power grids; Florida imports 4% of its power needs. While this relative independence protects Florida from the contagion of problems rolling across interstate grids, it also puts a premium on local generation capacity.

Finally, while the state is well positioned geographically to source natural gas and LNG, the state lacks sufficient infrastructure to do so, particularly for South Florida. (There are currently only two pipelines supplying the state.) This, combined with the higher reliance on natural gas and relative independence of national power grids, leads to a potentially higher electricity risk profile for the state.

Some key questions that the state needs to address are:

- What is required to ensure Florida has reliable and affordable energy (gasoline and electricity) in the future?
- What are the costs and benefits of putting in place reliable energy infrastructure, given the projected increased risk of hurricanes?



GLOBALIZATION

The major findings on globalization are:

- Florida generally stands to gain from increased global trade activity
- Globalization could put a few industries at risk.

The world is rapidly globalizing as trade barriers fall, enabling companies to seek out the best cost structure on a global basis, and previously-closed third world countries become open and achieve scale as attractive consumer markets.

Florida, with its privileged geographic position as gateway between the U.S. and Europe, the Caribbean, Central and South America, and Africa, largely stands to gain from globalization. Increased flows of capital, trade and tourism will benefit Florida's largest industries, including real estate, construction, wholesale and retail trade, finance and insurance, and professional services. Industries likely to benefit from globalization represent 46% of the state's economy, while those with neutral or negligible impact represent 40%.

However, globalization is also likely to have a negative impact on some sectors, namely durable goods, non-durable goods, and agriculture. These sectors represent 6.9% of the state's GSP.

Some key questions that the state needs to address are:

- What is the real impact of globalization on the state? How can this impact be communicated to key decision makers as well as to all Floridians?
- Which Florida industries stand to gain from globalization, and what assistance can be provided to ensure they fully capitalize on the opportunities?
- What can be done to help the state's industries that are at risk because of globalization?

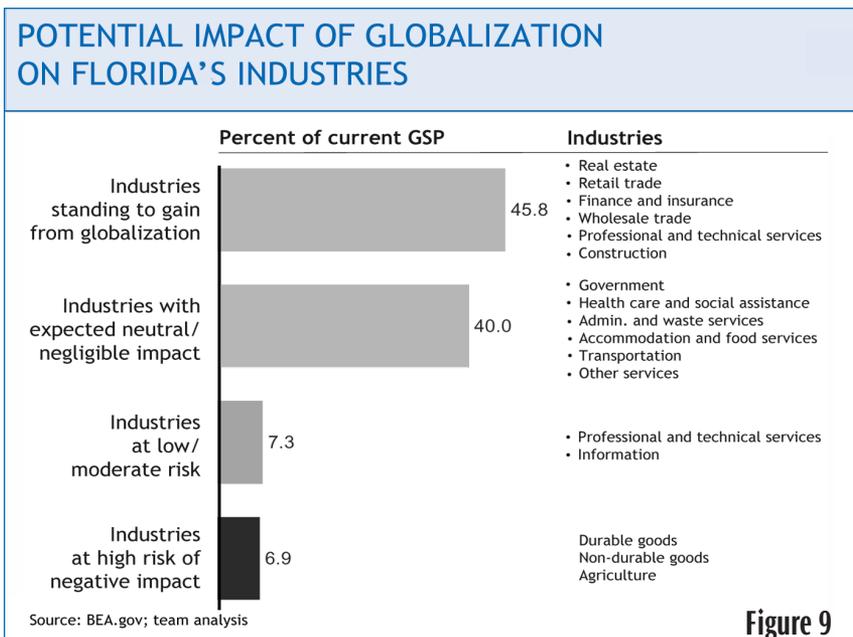


Figure 9

SUMMARY

As was indicated in the introductory letter, this report does not attempt to provide resolution to the eight drivers or to the many issues comprising them – that will be the next step. We deliberately narrowed a very large list of challenges and in so doing have not included everything that Florida will face in the future. But we certainly hope that all will agree that successfully addressing the eight drivers identified in this report is absolutely critical to the future of Florida.

As is our custom, our membership will determine which of the drivers and questions seem most important as well as the ones on which the Council of 100 will most likely to be able to provide helpful public policy input. We will work with other organizations and the current and future political leadership of our great state to help us determine our projects for the next few years. We will use these eight drivers to establish our issue task forces in areas of particular strategic importance, to delve into the details of these challenges, and to develop ideas for resolving them.

We encourage others to also use this list of eight drivers to establish their own priorities for what must be done to continuously improve the economic well-being and quality of life of the people of Florida. After all, achieving these goals is what the public and private sectors value most and what the people of Florida depend upon us to do.



The Florida Council of 100, Inc.

400 North Ashley Drive, Suite 1775

Tampa, Florida 33602

Phone: 813-229-1775

E-Mail: info@fc100.org

Website: www.fc100.org