STATE OF FLORIDA
2013 DEBT AFFORDABILITY REPORT

Prepared by
The Division of Bond Finance
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EXECUTIVE SUMMARY

The Division of Bond Finance prepared the 2013 Debt Affordability Report to review changes in the State's debt position that occurred over the last year and show how future debt service payments, debt issuance and revenue projections will affect the State's benchmark debt ratio. The 2013 Debt Affordability Report has been prepared as required by Section 215.98, Florida Statutes.

Debt Outstanding: ***Total State direct debt outstanding as of June 30, 2013 was $24.6 billion, a $1.6 billion decline from the prior fiscal year and the third consecutive year debt has decreased.*** Net tax-supported debt for programs supported by State tax revenues or tax-like revenues totaled $20.3 billion while self-supporting debt, representing debt secured by revenues generated from operating bond-financed facilities, totaled $4.3 billion. Indirect State debt at June 30, 2013 was approximately $13.8 billion and represents debt secured by revenues not appropriated by the State or debt obligations issued by a legal entity other than the State. Borrowings by insurance-related entities such as Citizens Property Insurance Corporation ("Citizens") and the Florida Hurricane Catastrophe Fund Finance Corporation ("CAT Fund") comprise the bulk of indirect debt and are increasingly emphasized in the State's overall credit analysis due to the potential economic and financial consequences of hurricanes on the State. For purposes of this report, indirect debt is excluded from State debt ratios and the debt affordability analysis.

Estimated Annual Debt Service Requirements: ***Annual debt service payments totaled $2.2 billion in Fiscal Year 2013***, virtually unchanged from the annual debt service requirements for Fiscal Year 2012. Fiscal Year 2014 debt service requirements will decrease about $300 million to approximately $1.9 billion due to the retirement of the Preservation 2000 bonds. Projected debt service is expected to remain at approximately $1.9 billion as a result of limited new-money debt issuance and ongoing refinancing activities to achieve debt service savings.

Reserves: A government's level of general fund reserves is one of the most important indicators of its financial strength. The State continued to rebuild its reserves following depletion during the Great Recession. As the State's economy improved in Fiscal Year 2013, General Fund revenues climbed to $25.3 billion, exceeding budgeted revenues and were bolstered by a one-time payment from the National Mortgage Settlement. As a result, ***the combined balance of the Budget Stabilization Fund and the General Fund (collectively referred to herein as "General Fund Reserves") increased to $3.6 billion or 14.2% of general revenues at June 30, 2013, a $1.6 billion improvement over the prior fiscal year.*** Fiscal Year 2014 General Fund Reserves are projected to decrease to $3.0 billion, or 11.5% of general revenues. Trust Fund balances have served as an additional source of reserves, augmenting the State's financial flexibility.

Overview of the State's Credit Ratings: Credit ratings play an integral role in the municipal bond market and are one factor that affects the State's borrowing cost on debt offerings. ***During the fiscal year ended June 30, 2013, the three major rating agencies, Standard and Poor's Rating Services ("S&P"), Fitch Ratings ("Fitch"), and Moody's Investors Service ("Moody's") each affirmed the State's AAA, AAA, and Aa1 general obligation ratings, respectively. Fitch revised the State's "Outlook" from Negative to Stable following the end of the fiscal year, while Moody's and S&P affirmed the State's Stable outlook.*** Credit strengths noted by the rating agencies include the State's conservative financial and budgeting practices; restoring reserves that improve financial flexibility and remain satisfactory despite being drawn down to mitigate spending cuts during the Great Recession; relatively strong pension funding levels; and a large and diverse economy. However, the State's ratings are vulnerable to continued improvement in the economy; exposure to revenue volatility; and the potential negative fiscal and economic consequences of a catastrophic hurricane.

Additionally, rating agencies continue to focus on the State's ability to maintain adequate reserves and balance the budget without overreliance on non-recurring revenues.

Estimated Debt Issuance: ***For all of the State's currently authorized financing programs, approximately $5.0 billion of debt is projected to be issued over the next ten years.*** Approximately 50% of projected debt issuance over the next ten years is attributable to the Department of Transportation's proposed long-term Public-Private Partnership ("P3") to expand I-4 through Orlando ("I-4 Ultimate"). The I-4 Ultimate project is estimated to cost $2.4 billion ($1.5 billion of which is expected to be repaid by Fiscal Year 2021). Projected debt issuance excludes short-term P3 projects entered into by the Department of Transportation that are funded and completed during the current five-year work program horizon.

Revenue Projections: ***Revenues available to pay debt service in Fiscal Year 2013 totaled $32.3 billion, approximately $1.6 billion more than Fiscal Year 2012.*** Florida's economy continues to recover from the Great Recession, fueling growth in base revenues. Revenue Estimating Conferences held in December 2012 and August 2013 increased the forecast for Fiscal Year 2013 by $683 million or 2.8%; $312 million or 1.2% for Fiscal Year 2014; and $192 million or 0.7% for Fiscal Year 2015. However, revenue growth could be tempered by unforeseen events or circumstances that negatively affect the economy e.g., continued Congressional debate on deficit reduction and raising the debt ceiling or the Federal Reserve's monetary policy decision to "taper" by reducing quantitative easing programs. The Revenue Estimating Conference will meet in December 2013 to update revenue forecasts, and revisions to the projected benchmark debt ratio will be made accordingly.

Debt Ratios: ***The State's benchmark debt ratio of debt service to revenues available to pay debt service improved to 6.79% in Fiscal Year 2013 from 7.14% in Fiscal Year 2012.*** The improvement is directly related to the increased amount of revenue available to pay debt service ($1.6 billion). For the first time in several years, the benchmark debt ratio is slightly below the 7% policy cap. In Fiscal Year 2014, the benchmark debt ratio is projected to decline below the 6% policy target due to a significant reduction in annual debt service (approximately $300 million) resulting from retirement of Preservation 2000 bonds and refinancing activities.

An analysis of the primary debt ratios utilized by the municipal market based on June 30, 2012 data reveals that ***Florida's ratios are higher than the national average but below the peer group average for all but the benchmark debt ratio.*** Despite improvement in the State's ranking among its peer group over the last ten years, the State remained in fifth place for the ratio of debt service to revenues and sixth for debt as a percentage of personal income. The State's ranking for debt per capita improved to sixth from fifth. Florida also ranks fifth in the metric of debt as a percentage of state gross domestic product ("GDP"), which has recently become an additional metric of comparison amongst states by the rating agencies.

2012 Comparison of Florida to Peer Group and National Medians

	Net Tax-Supported Debt Service as a % of Revenues	Net Tax-Supported Debt Per Capita	Net Tax-Supported Debt as a % of Personal Income	Net Tax-Supported Debt as a % of GDP
Florida	7.14%	$1,135	2.84%	2.78%
Peer Group Mean	6.62%	$1,725	3.90%	3.46%
National Median	4.90%	$1,074	2.80%	2.47%

Pension Liability: Management and funding of the pension system has become an important aspect of evaluating Florida's credit rating. The City of Detroit's high profile municipal bankruptcy filing and the State of Illinois' severely underfunded pension systems have heightened the scrutiny of pension liabilities. Over the last 18 months, rating agencies have begun employing various "adjustments" to reported pension liabilities for greater comparability across the state sector. These adjusted net pension liabilities ("ANPL") are analyzed relative to the economic metrics used to evaluate debt obligations. ***An analysis of Florida's adjusted net pension liability indicates it is one of the lowest of any state.*** Florida is the lowest in the peer group when comparing the ANPL to the traditional debt metrics of per capita, personal income, and state GDP.

2012 Comparison of Florida to Peer Group and National Medians

	Adjusted Net Pension Liability as a % of Revenues	Adjusted Net Pension Liability Per Capita	Adjusted Net Pension Liability as a % of Personal Income	Adjusted Net Pension Liability as a % of GDP
Florida	19.20%	$677	1.70%	1.70%
Peer Group Mean	70.80%	$3,215	7.40%	6.40%
National Median	45.10%	$2,456	7.10%	5.30%

Debt Capacity: ***Based upon current revenue projections and existing borrowing plans, debt capacity is available within the 7% policy cap as projections for the benchmark debt ratio remain consistently below 6% through 2023.*** The debt capacity available over the next ten years within the 7% policy cap is approximately $23.9 billion. After reducing this amount to reflect execution of the I-4 Ultimate contract, $1.14 billion in estimated debt capacity remains available within the 7% policy cap in Fiscal Year 2015. The amount and timing of available debt capacity is affected by future revenue projections and changes in projected debt issuance.

INTRODUCTION

In 1999, the Governor and Cabinet, acting as Governing Board of the Division of Bond Finance, requested a study of the State's debt position. The debt study and analysis of the State's debt position was the genesis of the annual Debt Affordability Report. ***The annual analysis included in the Debt Affordability Report was and continues to be a tool to guide policymakers when assessing the impact of bond programs on the State's fiscal position, enabling them to make informed decisions regarding financing proposals and capital spending priorities.*** Additionally, the report provides a methodology for measuring, monitoring, and managing the State's debt, thereby protecting, and perhaps enhancing, Florida's bond ratings.

The debt affordability study resulted in the development of a financial model that measures the impact of changes in two variables: (1) the State's annual debt service payments; and (2) the amount of revenues available for debt service payments. The analysis compares the State's current debt position to relevant industry metrics and evaluates the impact of issuing additional debt given current economic conditions reflected in revenue forecasts.

During the 2001 Legislative Session, the Legislature adopted the debt affordability analysis by enacting Section 215.98, Florida Statutes. The statute requires the annual preparation and delivery of the debt affordability analysis to the President of the Senate, Speaker of the House and the chair of each appropriation committee. Among other things, the statute designates debt service to revenues as the benchmark debt ratio. ***Additionally, the Legislature created a 6% target and 7% cap as policy guidelines for the benchmark debt ratio.***

Additional debt causing the benchmark debt ratio to exceed the 6% target may be issued only if the Legislature determines that the additional authorization and issuance are in the best interest of the State. Additional debt causing the benchmark debt ratio to exceed 7% may be issued only if the Legislature determines that such additional debt is necessary to address a critical State emergency.

Preparation of the 2013 Debt Affordability Report (the "Report") satisfies the requirements of Section 215.98, Florida Statutes. ***The purpose of the Report is to review changes in the State's debt position that occurred over the last year and show how future debt issuance and revenue projections will affect the State's benchmark debt ratio.*** Performing the debt affordability analysis enables the State to monitor changes in its debt position. The Report includes information regarding current revenue estimates, which enables the State to consider changing economic conditions in its future borrowing plans.

The Report reflects information regarding the following three factors that impact revisions to projected debt ratios: (1) actual debt issuance and repayments over the last year; (2) projected future debt issuance over the next ten years; and (3) revised revenue forecasts by the Revenue Estimating Conference. The revised debt ratios are compared with national averages and Florida's eleven-state peer group. Additionally, the revised benchmark debt ratio is evaluated vis-a-vis the 6% target and the 7% cap. Lastly, ***the Report shows whether future debt capacity is available within the 6% target and 7% cap.***

The information generated by this analysis is provided to the Governing Board of the Division of Bond Finance and to the Governor's Office of Policy and Budget for their use in connection with formulating the Governor's Budget Recommendations. ***Updates to the analysis will occur as Revenue Estimating Conference forecasts are revised so that State policymakers and the Legislature have the latest information available when making critical future borrowing decisions during the appropriations process.*** In addition, the Legislature can request the Division of Bond Finance to conduct an analysis of the long-term financial impact when considering any proposed new financing initiatives. ***Information generated by this analysis includes important aspects for policymakers to consider when making future borrowing decisions as these choices can affect the long-term fiscal health of the State.***

COMPOSITION OF OUTSTANDING STATE DEBT

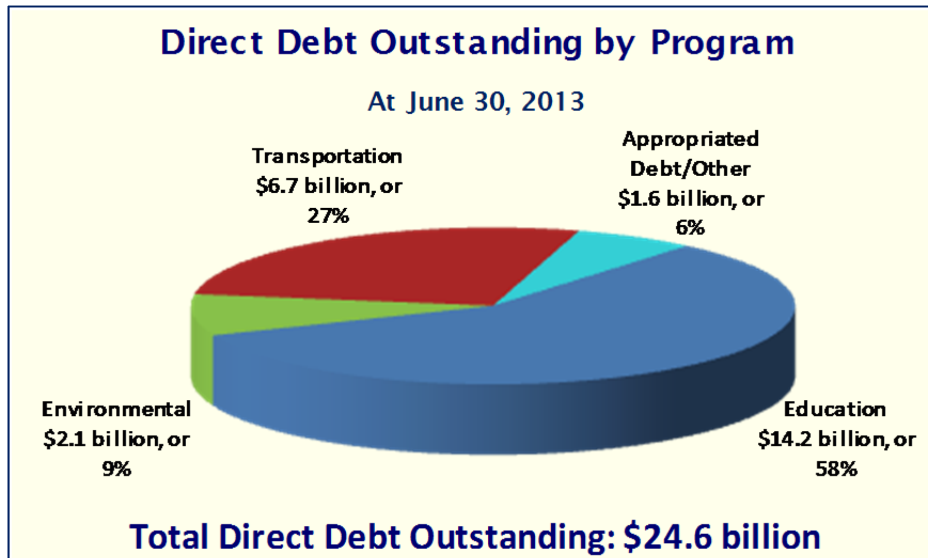


Figure 1

The State of Florida had $24.6 billion in total direct debt outstanding at June 30, 2013, $1.6 billion less than the previous year-end. Figure 1 illustrates the State's investment in bond financed infrastructure by program area. Educational facilities are the largest investment financed with bonds, with $14.2 billion or 58% of total debt outstanding. The bulk of the outstanding amount for educational facilities is comprised of Public Education Capital Outlay ("PECO") bonds, which account for $10.2 billion. Although PECO is the State's largest program, no new money bonds have been issued under this program since Fiscal Year 2011. Transportation infrastructure at $6.7 billion is the second largest investment consisting primarily of toll roads financed with bonds for Florida's Turnpike Enterprise ($2.8 billion). Contributing to the next largest portion of transportation debt are Public-Private Partnership ("P3") long-term obligations ($1.7 billion) and Right-of-Way Acquisition and Bridge Construction bonds ($1.7 billion). Conservation land acquisition is the third largest investment financed with bonds, with $1.6 billion of bonds outstanding for the Florida Forever and Everglades Restoration bond programs.

As shown in Figure 2, ***the $24.6 billion of direct debt outstanding at June 30, 2013, consisted of net tax-supported debt totaling $20.3 billion and self-supporting debt of $4.3 billion.*** Net tax-supported debt consists of debt secured by state tax revenue or tax-like revenue. Self-supporting debt is secured by revenues generated from operating the facilities financed with bonds. Toll facilities, including the Turnpike Enterprise and Alligator Alley bond programs, are the primary self-supporting programs that have outstanding debt. The remaining self-supporting debt relates to university auxiliary enterprises, which primarily finance campus housing and parking facilities and the water pollution control revolving loan program, which provides low interest rate loans to local governments for water improvement projects.

Direct Debt Outstanding by Type and Program

As of June 30, 2013

(In Millions Dollars)

Debt Type		Amount
Net Tax-Supported Debt		$20,347.7
Self-Supporting Debt		4,265.7
Total State Debt Outstanding		**$24,613.4**
Net Tax-Supported Debt		
Education		
Public Education Capital Outlay	$10,226.6	
Capital Outlay	456.7	
Lottery	2,429.1	
University System Improvement	178.4	
University Mandatory Fee	48.2	
Community Colleges	102.7	
Total Education		$13,441.6
Environmental		
Florida Forever Bonds	1,359.1	
Everglades Restoration Bonds	240.5	
Inland Protection	79.2	
Total Environmental		1,678.7
Transportation		
Right-of-Way Acquisition and Bridge Construction	1,704.1	
State Infrastructure Bank	1.6	
P3 Obligations	1,694.3	
Florida Ports	258.1	
Total Transportation		3,658.1
Appropriated Debt / Other		
Facilities	332.6	
Prisons	611.0	
Children & Families	109.3	
Juvenile Justice	9.1	
Lee Moffitt Cancer Center	132.3	
Master Lease	6.0	
Energy Saving Contracts	55.4	
Sports Facility Obligations	313.6	
Total Appropriated Debt / Other		1,569.4
Total Net Tax-Supported Debt Outstanding		**$20,347.7**
Self-Supporting Debt		
Education		
University Auxiliary Facility Revenue Bonds		$806.5
Environmental		
Florida Water Pollution Control		467.7
Transportation		
Toll Facilities	2,922.5	
State Infrastructure Bank Revenue Bonds	69.0	
Total Transportation		2,991.5
Total Self-Supported Debt Outstanding		**$4,265.7**

Figure 2

In addition to direct debt, the State also has indirect debt. Indirect debt represents debt secured by revenues not appropriated by the State or debt obligations of a legal entity other than the State. In some cases, indirect debt may represent a financial burden on Florida's citizenry, e.g., assessments that are pledged to the CAT Fund and Citizens debt. ***Indirect debt is not included in the State's debt ratios or the analysis of the State's debt burden.***

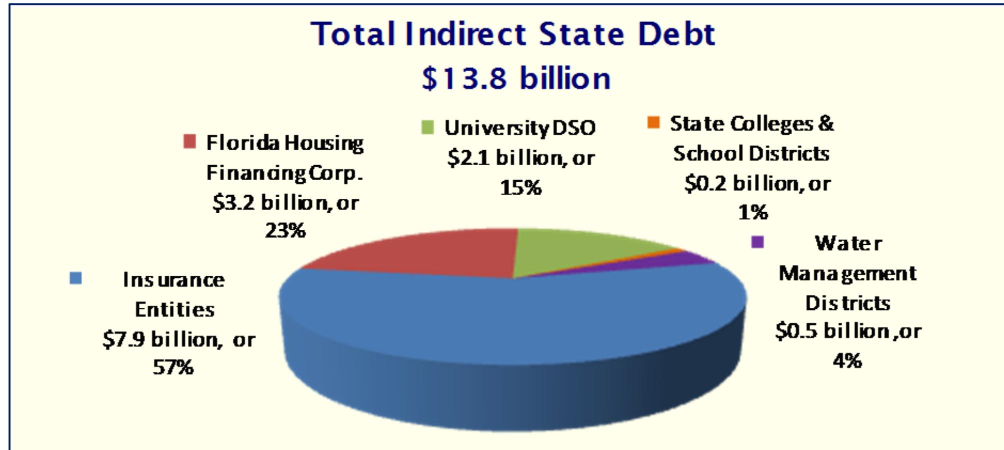


Figure 3

Indirect debt of the State totaled approximately $13.8 billion at June 30, 2013, $3.6 billion less than the previous year-end. Indirect debt declined due to a reduction in the insurance entities debt issued for liquidity and a $700 million decline in Florida Housing Finance Corporation's debt outstanding. Figures 3 and 4 set forth the State's indirect debt by program. ***CAT Fund and Citizens represented $7.9 billion or 57% of total indirect debt and consists of both liquidity and post-event financings.*** At June 30, 2013, liquidity debt outstanding was $4.3 billion for Citizens and $2.0 billion for the CAT Fund, while post-event debt secured by emergency assessments totaled $1.5 billion for Citizens and the CAT Fund, combined. Although the State views the insurance entities as completely independent and responsible for their own obligations, rating agencies consider the amount of debt outstanding by the insurance entities integral to the State's overall credit and debt analysis due to the fiscal impact the insurance entity assessments could have on Florida's citizenry. The Florida Housing Finance Corporation, which administers the State's housing programs, had $3.2 billion or 23% of the total indirect debt outstanding, and university direct support organizations followed with $2.1 billion or 15% of the total indirect debt outstanding.

Total Indirect State Debt by Program

(In Millions of Dollars)

Insurance Entities		
Florida Hurricane Catastrophe Fund Finance Corporation	$ 3,000.9	
Citizens Property Insurance Corporation	4,855.8	
Total		$ 7,856.7
Florida Housing Finance Corporation		
Single Family Programs	1,548.7	
Multi-Family Programs	1,621.2	
Total		3,169.9
University Direct Support Organizations		
Shands Teaching Hospital & Affiliates	580.8	
University of South Florida	358.5	
University of Central Florida	306.7	
Florida Gulf Coast University	203.1	
Florida Atlantic University	168.8	
North Florida	164.8	
University of Florida	133.3	
Other State Universities	208.2	
Total		2,124.3
Water Management Districts		541.7
School Districts		67.3
State (Community) Colleges and Foundations		82.9
Total State Indirect Debt		**$ 13,842.8**

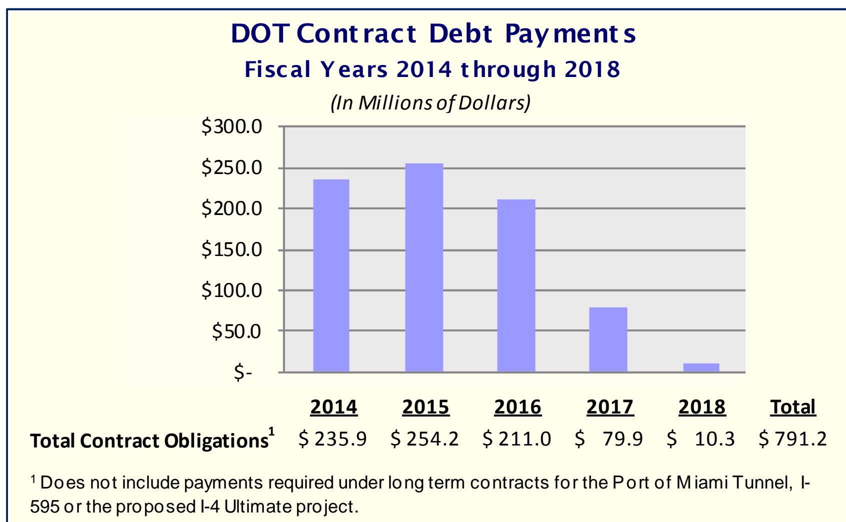
Figure 4

DEVELOPMENTS IN ALTERNATIVE FINANCING TECHNIQUES

Alternative financing techniques fund capital projects that utilize State resources as a repayment source. Four alternative financing techniques are noted in this section of the Report: Department of Transportation ("DOT") short-term (less than five years) Build-Finance and Design-Build-Finance contracts; DOT long term P3 projects where the operations and maintenance and capital costs associated with the project are paid to a private partner through Availability Payments; debt issued through Direct Support Organizations ("DSOs") of the State universities; and charter school transactions that have occurred with more frequency and may continue to grow in the near term. ***Disclosure regarding alternative financing technique transactions is important as they frequently involve an encumbrance of future state resources but may not be reflected as direct debt obligations.***

DOT Short Term Contract Debt

DOT has used Build-Finance and Design-Build-Finance contracts (collectively referred to herein as "Contract Debt") to advance construction projects. Contract Debt accelerates project construction but obligates DOT to make payments at a later date when funds are available within the five-year work plan, functionally equivalent to short-term debt. DOT makes the mandatory, future payments from the State Transportation Trust Fund ("STTF") revenues based on a contractual schedule. Payments can begin during construction or may begin once construction is finished. ***At June 30, 2013, the remaining cost of advancing projects with Contract Debt totaled approximately $791 million through Fiscal Year 2018,*** which is the last year of the adopted five-year work plan horizon as shown in Figure 5 below. Although a portion of the payments may be offset with other funding sources, the amounts represent the total payments due under Contract Debt payable from STTF revenues, as the State is the ultimate obligor.



	2014	2015	2016	2017	2018	Total
Total Contract Obligations[1]	$ 235.9	$ 254.2	$ 211.0	$ 79.9	$ 10.3	$ 791.2

[1] Does not include payments required under long term contracts for the Port of Miami Tunnel, I-595 or the proposed I-4 Ultimate project.

Figure 5

DOT's required payments under its Contract Debt have been excluded from calculating the benchmark debt ratio because such payments are cash-flowed from funding within the five-year work plan horizon. Including required payments under the Contract Debt would introduce near-term volatility in the State's benchmark debt ratio, impairing the usefulness of the debt affordability analysis as a long-term planning tool in managing the State's debt position. This treatment differs from the portion of required payments associated with the capital costs for the Port of Miami Tunnel, I-595 and the proposed I-4 Ultimate long term P3 projects (discussed below) which are included as

debt when calculating the benchmark debt ratio. ***The continued exclusion of Contract Debt payments from the benchmark debt ratio will be evaluated annually.*** For purposes of the 2013 Report, Contract Debt payments continue to be excluded from the benchmark debt ratio.

DOT Long Term P3 Projects – Existing and Planned

Pursuant to Section 334.30, Florida Statutes, DOT has executed two agreements with private partners to advance construction of the I-595 Corridor Improvement Project and the Port of Miami Tunnel Project. ***These projects have combined project costs of $1.8 billion ($1.3 billion for the I-595 and $543 million for the Port of Miami Tunnel).***

The operations and maintenance and capital costs of these P3 projects are primarily financed through "Availability Payments". The State is obligated to pay the capital costs of these contracts and therefore the full amount of such costs is included as outstanding debt of the State. Availability Payments are mandatory, scheduled payments that commence when construction is complete and continue for 30 to 35 years thereafter. ***The capital portion of the required Availability Payments for DOT's existing P3 projects total $3.5 billion over the next 32 years.*** The schedule of the capital portion of the Availability Payments for these two P3 projects is shown in Figure 6 below. The maximum aggregate annual payment of $170.5 million for the capital costs associated with these projects is due in 2040. If the maximum payment were due in Fiscal Year 2013 and included as debt service, the 2013 benchmark debt ratio would increase by approximately 0.53%. DOT anticipates that the capital portion of Availability Payments will be partially funded with non-STTF revenues (i.e. toll revenues generated from the I-595 project and local government contributions).

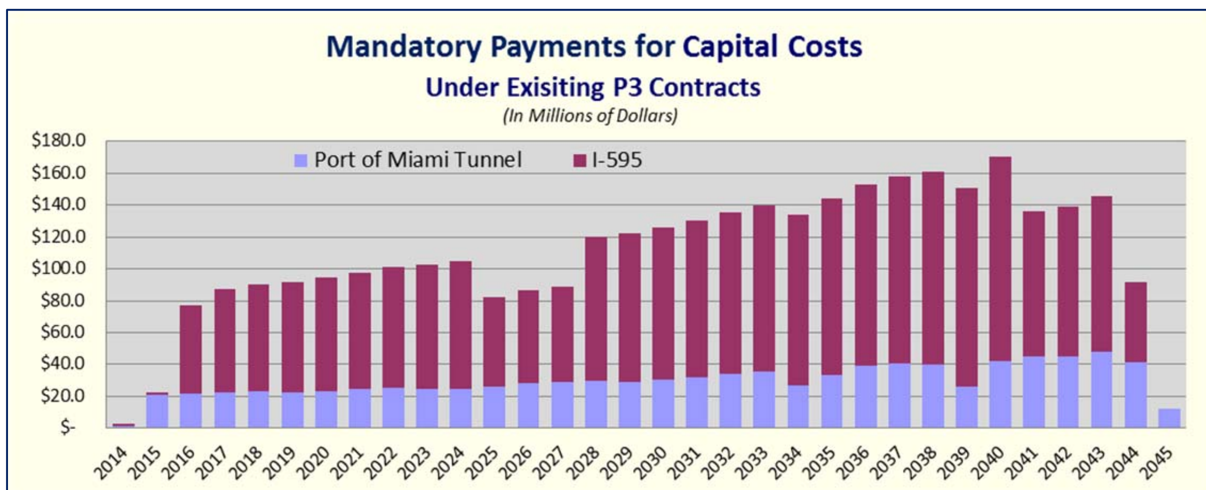


Figure 6

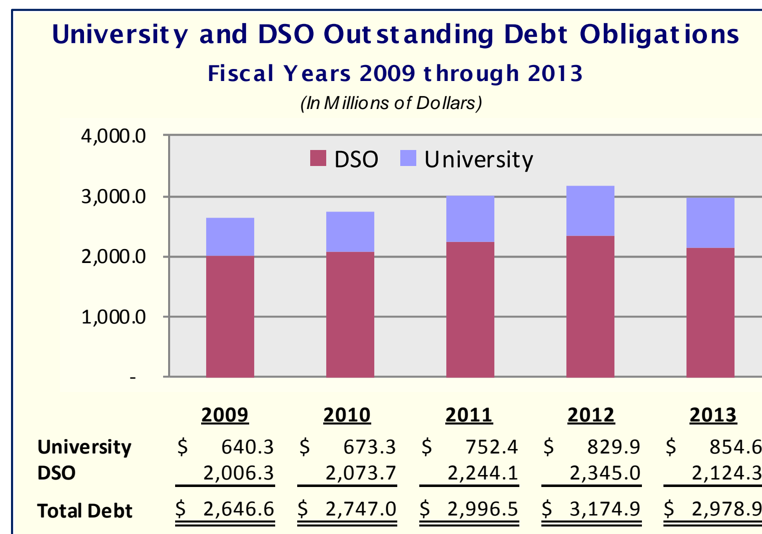
In Fiscal Year 2014, DOT published a Request for Proposal to enter into a P3 contract for the I-4 Ultimate. ***The proposed project is expected to cost $2.4 billion with total capital and interest costs of approximately $4.0 billion over a 40 year period.*** Unlike the existing long-term P3 contracts, the capital portion of the Availability Payment for I-4 Ultimate is a level repayment structure. In addition, repayment of the State's obligations is expected to begin in Fiscal Year 2016 with nearly $1.5 billion scheduled to be repaid through periodic progress payments to the private partner by Fiscal Year 2021. DOT expects other funding sources (i.e. local sources, toll revenues and SCETS fuel taxes) to be available to fund a portion of the State's obligations under this contract but remains the ultimate obligor for the payments. ***Accordingly, the full amount of the capital costs is included as outstanding debt of the State.***

Section 334.30, Florida Statutes, requires DOT to ensure that no more than 15% of the total available federal and state funding in the STTF in any given year be obligated to required payments for

Contract Debt and P3 contracts. The amount available under the 15% cap varies annually over the next ten years; however, DOT estimates that in Fiscal Year 2023, $754 million remains for further leveraging under the statutory cap. The amount available under the cap would potentially generate (for illustrative purposes) additional debt capacity of $7.5 billion. If this amount were added to the State's Fiscal Year 2013 debt burden, the incremental increase in the benchmark debt ratio would be approximately 2.3%. ***Going forward, we will continue to analyze the amount available in the STTF that can be further leveraged under the statutory cap to determine the effect on the State's benchmark debt ratio.***

University DSO Obligations

Each university in the State system utilizes DSOs to support its various auxiliary functions (e.g. athletics, healthcare, fundraising, research activities, etc.). DSOs can also serve as a conduit issuer or shell corporation that universities use to finance capital projects, including campus housing, parking and athletic facilities. DSO transactions are approved by the universities' Boards of Trustees, DSO Boards, and the Board of Governors; however, unlike transactions managed by the Division of Bond Finance, DSO transactions do not require approval by the Governor and Cabinet. DSO debt grew nearly 17% from $2.0 billion in Fiscal Year 2009 to $2.3 billion in Fiscal Year 2012, before declining 9.4% to $2.1 billion in Fiscal Year 2013 as shown in Figure 7 below. ***For purposes of the 2013 Report, DSO debt is excluded from the benchmark debt ratio and is considered indirect debt.***



	2009	2010	2011	2012	2013
University	$ 640.3	$ 673.3	$ 752.4	$ 829.9	$ 854.6
DSO	2,006.3	2,073.7	2,244.1	2,345.0	2,124.3
Total Debt	$ 2,646.6	$ 2,747.0	$ 2,996.5	$ 3,174.9	$ 2,978.9

Figure 7

Charter Schools

In Fiscal Year 2013, according to the Florida Department of Education, there were 578 charter schools educating over 203,000 students in the State of Florida, an enrollment increase of nearly 74% since Fiscal Year 2009. Like Florida public schools, charter schools receive funding for operations from the State on a per student basis. In addition, charter schools can become eligible for capital outlay funding beginning in the fourth year of operation; however, the funding has fallen short of the amount necessary to finance facilities given the enrollment demand. As a result, charter school debt issuance in the State has grown. Florida charter schools are active participants in the municipal bond market, with over $490 million in original par amount of bonds outstanding as of May 31, 2012. The amount represents approximately 7.7% of the $6.4 billion outstanding in the sector on a nationwide basis. Given the ongoing growth in charter school enrollment, debt issued by charter schools for facilities is expected to continue.

Debt obligations of Florida charter schools are often secured by mortgages on the facilities as well as operating revenues, which indirectly uses appropriations received from the State. However, charter

school debt does not constitute a debt of the State as the State is not directly obligated for payment of debt service on the bonds. Although the level of State support is cited in charter school credit rating reports, the rating agencies analyze the charter school's operating performance and demand characteristics when assigning a rating. Additionally, evaluation of the charter school operator is embedded in the analysis and not the creditworthiness of the State. ***Since charter school debt is not a direct obligation of the State and municipal market participants evaluate the obligations based on the operator and success of the school, it is not treated as direct debt and is excluded when calculating the benchmark debt ratio.***

CHANGES IN STATE DEBT OUTSTANDING

Reviewing the trend in the State's outstanding debt is an important evaluation tool to show how debt levels have changed over time. Figure 8 illustrates the growth in total State direct debt from Fiscal Years 2003 through 2010 and the reductions in each of the last three fiscal years.

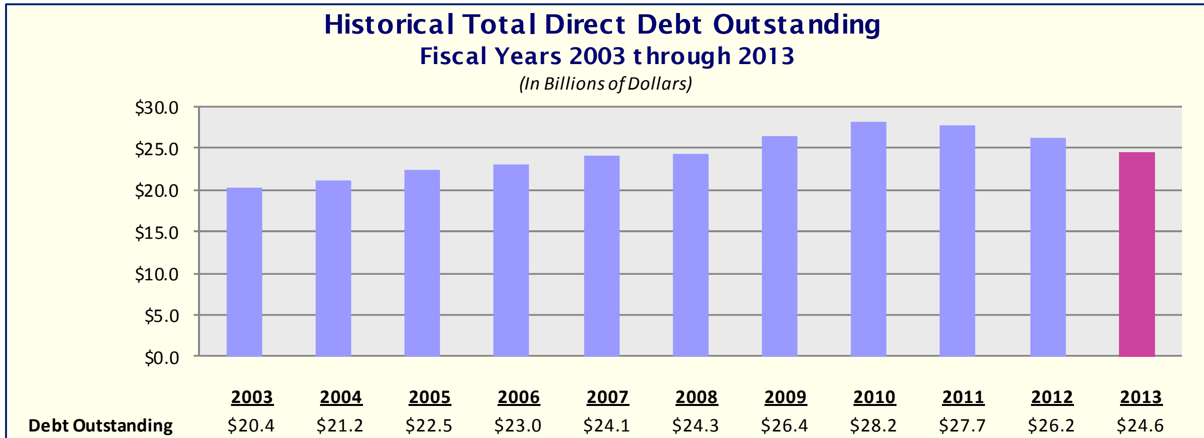
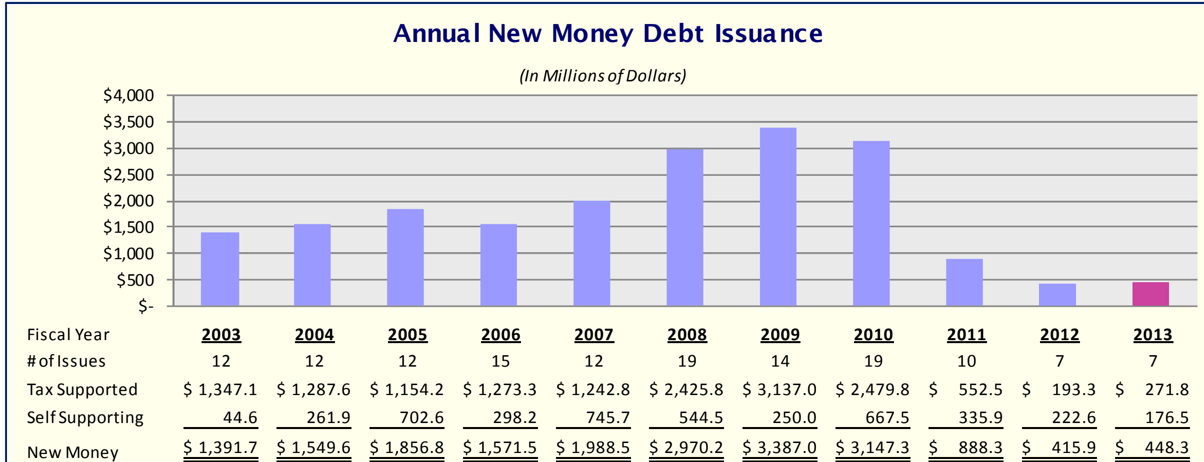


Figure 8

Between Fiscal Years 2003 and 2010, the State made substantial investments in infrastructure for education, transportation, and acquiring conservation lands to address the requirements of a growing population. As a result, total State direct debt grew by $7.8 billion from $20.4 billion at June 30, 2003 to $28.2 billion at June 30, 2010. During those years, increases in debt outstanding were primarily due to the issuance of PECO bonds ($3.2 billion), Lottery bonds ($1.1 billion), P3 obligations ($1.7 billion), Right-of-Way bonds ($700 million), correctional facility financings ($600 million), and Everglades Restoration bonds ($200 million).

Total direct debt declined by approximately $3.6 billion over the last three fiscal years ($500 million in Fiscal Year 2011, $1.5 billion in Fiscal Year 2012 and $1.6 billion in Fiscal Year 2013) from a high of $28.2 billion at June 30, 2010 to $24.6 billion at June 30, 2013. The decrease in total direct debt outstanding in Fiscal Year 2013 resulted from principal amortizations exceeding new money issuance and the final maturity of the Preservation 2000 bonds.

New money bond issuance illustrated in Figure 9 shows substantially less issuance in each of the last three years. In Fiscal Year 2013, ***new money bond issuance was $448 million, significantly less than the average annual bond issuance for Fiscal Years 2003 through 2009 of $2.1 billion.***



Fiscal Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
# of Issues	12	12	12	15	12	19	14	19	10	7	7
Tax Supported	$ 1,347.1	$ 1,287.6	$ 1,154.2	$ 1,273.3	$ 1,242.8	$ 2,425.8	$ 3,137.0	$ 2,479.8	$ 552.5	$ 193.3	$ 271.8
Self Supporting	44.6	261.9	702.6	298.2	745.7	544.5	250.0	667.5	335.9	222.6	176.5
New Money	$ 1,391.7	$ 1,549.6	$ 1,856.8	$ 1,571.5	$ 1,988.5	$ 2,970.2	$ 3,387.0	$ 3,147.3	$ 888.3	$ 415.9	$ 448.3

Figure 9

In addition to the $448 million new-money bond transactions in Fiscal Year 2013, the State issued $2.2 billion in refunding bonds: $1.8 billion for net tax-supported bond programs and $385 million for self-supporting bond programs. The refunding bonds were issued for debt service savings by lowering the interest rates on outstanding debt. By taking advantage of the historically low interest rate environment, the State saved $534 million on a gross basis and $424 million on a present value basis through refunding transactions. Fiscal Year 2013 debt service savings were $15 million, with average annual savings of approximately $32 million thereafter. ***Over the last four fiscal years, the State has executed 54 refunding transactions totaling $8.2 billion, reducing total gross debt service expenditures by about $1.4 billion over the remaining life of the bonds.***

CHANGES IN ANNUAL DEBT SERVICE PAYMENTS

Annual debt service payments for the State's existing net tax-supported debt is approximately $2.2 billion per year. Over the past ten years, annual debt service requirements have grown 51%, increasing from approximately $1.5 billion in Fiscal Year 2003 to $2.2 billion in Fiscal Year 2011 where it has remained for the subsequent two years. Growth in the annual debt service payment mirrors the growth in total debt outstanding between Fiscal Years 2003 and 2010. From a budgetary perspective, measuring the growth in annual debt service indicates how much of the State's resources are obligated for paying debt service before providing for other essential government services.

Figure 10 depicts the change in annual debt service payments over the last ten years. Annual debt service requirements in Fiscal Year 2013 remained at approximately $2.2 billion.

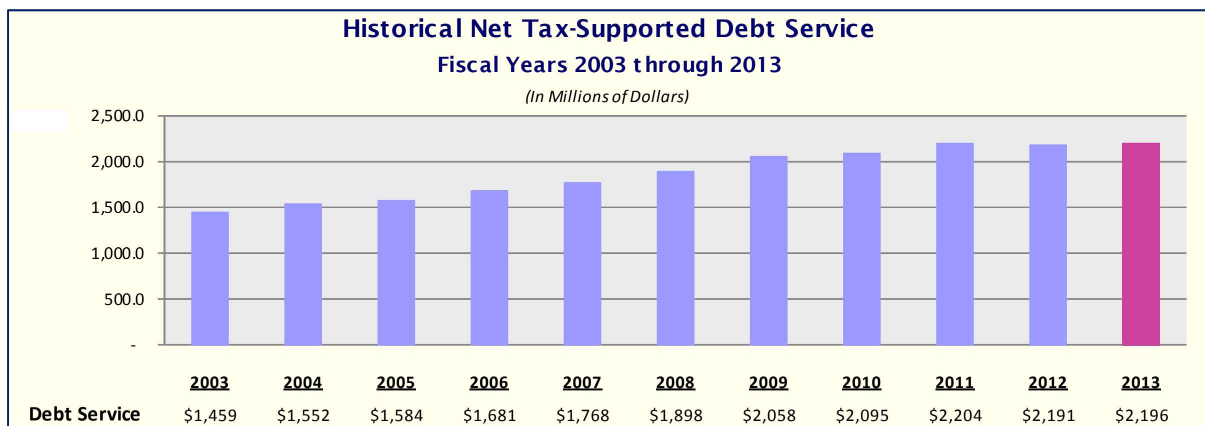
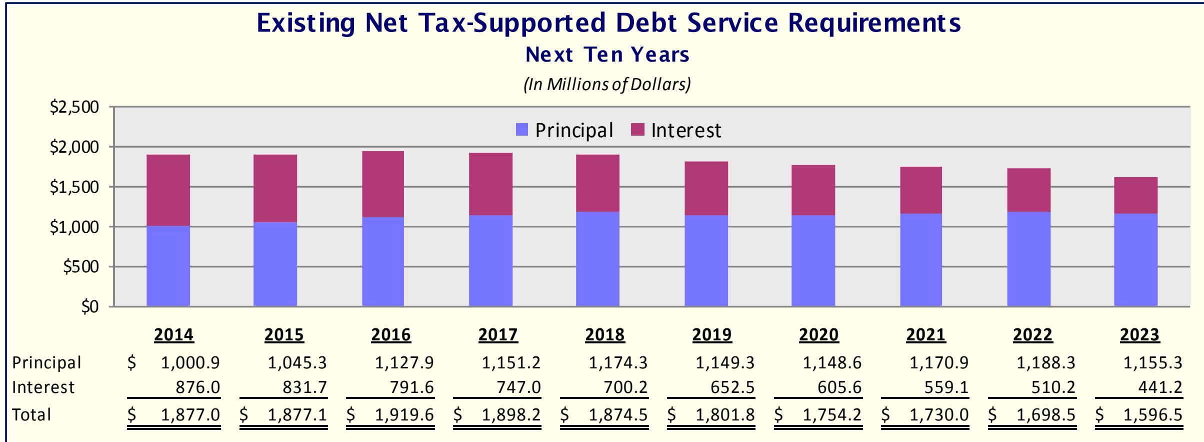


Figure 10

Debt service payments on existing outstanding debt total $18.0 billion over the next ten years, with principal and interest payments of $11.3 billion and $6.7 billion, respectively. Figure 11 shows annual debt service payments consisting of both principal and interest amounts over the next ten years for the State's existing net tax-supported debt. In Fiscal Year 2014, the annual debt service requirements decline from $2.2 billion to approximately $1.9 billion following the retirement of the Preservation 2000 bonds in Fiscal Year 2013. Annual debt service requirements remain at approximately $1.9 billion through Fiscal Year 2018, which is indicative of the State's adherence to level debt service repayment. In Fiscal Years 2016 and 2017, deferred, mandatory payments for the existing Port of Miami Tunnel and I-595 Corridor Improvement P3 projects impact the level debt service payment structure and slightly increase annual debt service in those two years. The proposed I-4 Ultimate payment structure is expected to be level, consistent with the State's debt management policy.



	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Principal	$ 1,000.9	1,045.3	1,127.9	1,151.2	1,174.3	1,149.3	1,148.6	1,170.9	1,188.3	1,155.3
Interest	876.0	831.7	791.6	747.0	700.2	652.5	605.6	559.1	510.2	441.2
Total	$ 1,877.0	$ 1,877.1	$ 1,919.6	$ 1,898.2	$ 1,874.5	$ 1,801.8	$ 1,754.2	$ 1,730.0	$ 1,698.5	$ 1,596.5

Figure 11

Build America Bonds

Build America Bonds ("BABs") were authorized under the American Recovery and Reinvestment Act of 2009 and issued with taxable interest rates with the Federal Government reimbursing the issuer for 35% of the interest cost. The State issued approximately $1.6 billion in BABs prior to expiration of the program and expected to receive subsidy payments equal to 35% of the interest paid on each interest payment date of the BABs. Debt service is shown net of the BABs subsidy for purposes of this Report. In Fiscal Year 2013, BAB subsidies were expected to total $33.6 million but due to Federal Sequestration, were reduced to $32.2 million. Sequestration will impact BAB subsidies received in Fiscal Year 2014 and could continue to reduce subsidies through Fiscal Year 2021. The State's practice has been to appropriate gross debt service amounts and revert any unused debt service appropriations at year-end. For purposes of this report, projected debt service in Fiscal Year 2014 through 2021 is shown with a 7.2% subsidy reduction due to sequestration as communicated by the IRS.

PROJECTED DEBT ISSUANCE

Future projected debt issuance is provided by various State agencies that receive proceeds under authorized bond programs. New bonding programs and projections for the maximum amount statutorily authorized under some bonding programs (e.g., future DOT P3 projects, Florida Forever and GARVEE) are excluded from the projected issuance as the amounts and timing of debt issuance under these programs are unknown.

Projected Debt Issuance By Program: Fiscal Years 2014 through 2023

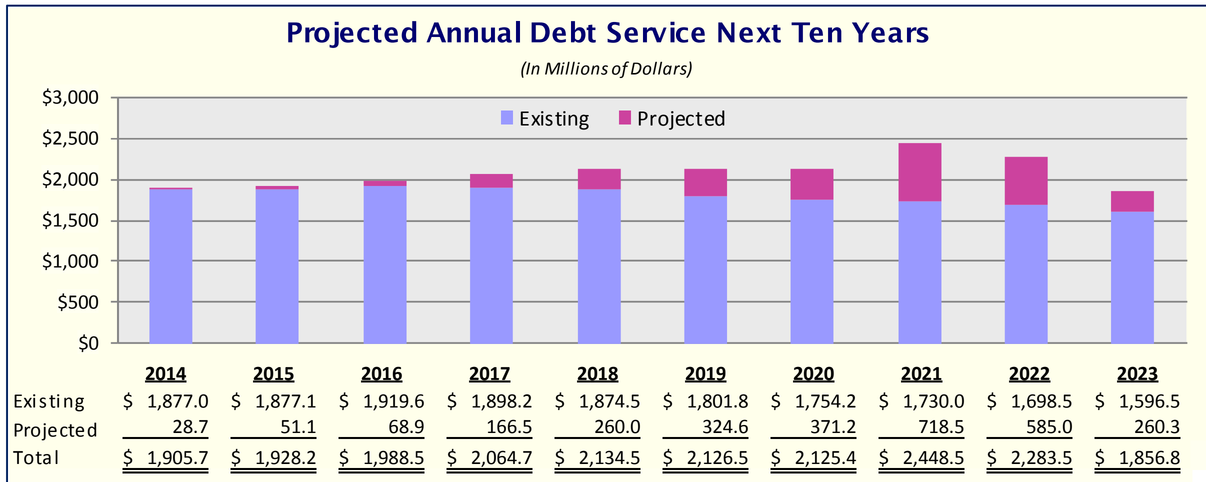
(In Millions of Dollars)

Fiscal Year	PECO	Capital Outlay	State Univ. System	University Mandatory Student Fee	ROW	P3 Project	Seaports	Master Lease	Total Issuance
2014	$ -	$ 30.0	$ -	$ 41.5	$ 160.0	$ -	$ 144.7	$ 10.0	$ 386.2
2015	-	-	133.0	-	100.0	2,386.5	-	10.0	2,629.5
2016	-	-	-	-	200.0	-	-	10.0	210.0
2017	216.1	-	-	-	200.0	-	-	-	416.1
2018	192.5	-	-	-	85.0	-	-	-	277.5
2019	198.7	-	-	-	100.0	-	-	-	298.7
2020	202.6	-	-	-	90.0	-	-	-	292.6
2021	205.9	-	-	-	50.0	-	-	-	255.9
2022	199.1	-	-	-	25.0	-	-	-	224.1
2023	-	-	-	-	-	-	-	-	-
Total	$ 1,214.9	$ 30.0	$ 133.0	$ 41.5	$ 1,010.0	$ 2,386.5	$ 144.7	$ 30.0	$ 4,990.6

Figure 12

As detailed in Figure 12 above, ***approximately $5.0 billion in new money debt issuance is projected over the next ten years for all of the State's currently authorized financing programs. The projected issuance decreased by $866 million (15%) from the $5.9 billion projected at June 30, 2012.*** Projected debt issuance decreased from the previous year primarily due to continued declines in gross receipts tax collections that negatively affect the capacity for future borrowing for school construction under the PECO program. Additionally, since Fiscal Year 2009, the Legislature has not authorized bonding to acquire conservation lands under the Florida Forever program. ***The decrease in projected issuance over the next ten years positively impacts the projected benchmark debt ratio.***

PROJECTED DEBT SERVICE



	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Existing	$ 1,877.0	$ 1,877.1	$ 1,919.6	$ 1,898.2	$ 1,874.5	$ 1,801.8	$ 1,754.2	$ 1,730.0	$ 1,698.5	$ 1,596.5
Projected	28.7	51.1	68.9	166.5	260.0	324.6	371.2	718.5	585.0	260.3
Total	$ 1,905.7	$ 1,928.2	$ 1,988.5	$ 2,064.7	$ 2,134.5	$ 2,126.5	$ 2,125.4	$ 2,448.5	$ 2,283.5	$ 1,856.8

Figure 13

Figure 13 shows existing debt service and the estimated annual debt service for the projected bond issuances over the next ten fiscal years. ***Based on existing and projected debt service, annual debt service is expected to decline to about $1.9 billion in Fiscal Year 2014 following the final payment on the Preservation 2000 bonds. However, growth in annual debt service resumes in Fiscal Years 2015 through 2021 as mandatory payments begin on DOT's long term P3 projects.*** Deferred payments under existing long-term P3 contracts are not fully reflected in the illustration because they increase over time and extend beyond the projection period. Figure 13 does reflect projected payment obligations for the I-4 Ultimate project but excludes required payments for DOT's short-term Contract Debt.

LONG-RUN REVENUE FORECASTS

Revenue available to pay debt service is one of the two variables used to calculate the benchmark debt ratio. Actual general revenue collections for Fiscal Year 2013 exceeded Fiscal Year 2012 collections by $1.7 billion, a 7.3% increase. ***Changes in revenue estimates have a significant impact on the calculation of available debt capacity and are especially important given the State's dynamic economic environment.*** Since the December 2012 Debt Affordability Report, which utilized revenue estimates from the August 2012 Revenue Estimating Conference ("REC"), revenue forecasts increased in December 2012 and August 2013, as Florida's economy continued to recover from the Great Recession. Collectively since August 2012, general revenue estimates were increased by $683 million or 2.8% for Fiscal Year 2013; $312 million or 1.2% for Fiscal Year 2014; and $192 million or 0.7% for Fiscal Year 2015.

The August 2013 REC results were mixed, with some elements of its near-term forecast increasing while others decreased. The Florida Office of Economic and Demographic Research ("EDR") anticipates real estate taxes (primarily Documentary Stamp Taxes) will continue to show solid growth as statistics indicate the recovery in the housing market is firmly underway. EDR notes the overall revenue growth rates in Fiscal Years 2014 and 2015 are tempered by the potential economic impacts of Federal Sequestration. ***The August 2013 Revenue Estimating Conference results have been used for purposes of this Report. Revenue forecasts are expected to be reviewed and revised by the December 2013 Revenue Estimating Conference and this Report will be updated once the results become available.***

General revenues, as well as specific tax revenues pledged to various bond programs (such as gross receipts taxes pledged to the PECO bonds, motor fuel taxes pledged to Right-of-Way bonds, and dedicated percentages of documentary stamp tax collections pledged to the Florida Forever and Everglades Restoration bond programs), are available for debt service. Historical and short-term projections of revenues available for debt service, broken down by source, are provided in Figure 14 below. The projection of revenues available for debt service reflects forecasts adopted at the August 2013 Revenue Estimating Conferences.

Projected Revenue Available for State Tax-Supported Debt

(In Millions of Dollars)

	Actual		Projection		
Fiscal Year	**2012**	**2013**	**2014**	**2015**	**2016**
Revenue Available:					
General Revenue	$ 23,618.8	$ 25,343.6	$ 26,184.2	$ 27,333.2	$ 28,560.9
Less : Documentary Stamp Tax Included Below	(208.6)	(381.0)	(598.6)	(678.7)	(758.8)
Net General Revenue	$ 23,410.2	$ 24,962.6	$ 25,585.6	$ 26,654.5	$ 27,802.1
Specific Tax Revenue					
Gross Receipts	1,033.9	1,003.1	997.5	1,010.5	1,025.8
Motor Vehicle License	616.8	566.1	582.5	597.0	612.9
Lottery	1,316.6	1,383.3	1,417.3	1,441.9	1,460.6
Documentary Stamp Tax	973.7	1,001.0	1,043.3	1,138.0	1,232.1
Motor Fuel Tax	1,110.7	1,169.2	1,183.2	1,219.7	1,261.0
Motor Vehicle License-Surcharge	18.3	18.4	19.5	20.1	20.6
Tax on Pollutants-IPTF	189.7	188.3	191.8	195.3	199.5
University Net Bldg Fees & Cap. Impr. Fees	38.6	51.7	54.5	55.7	55.8
Community College Cap. Impr.Fees	28.3	31.5	31.7	31.9	32.1
Title Fees	-	-	200.0	200.0	200.0
Federal Reimbursements for Transportation	1,971.6	1,958.5	2,483.4	2,618.0	2,489.5
Total State Revenue Available	**$ 30,708.4**	**$ 32,333.7**	**$ 33,790.3**	**$ 35,182.6**	**$ 36,391.9**

Figure 14

Total revenues available in Fiscal Year 2013 totaled $32.3 billion or $1.6 billion more than the $30.7 billion available in Fiscal Year 2012. In Fiscal Year 2013, general revenue collections, representing the bulk available to pay debt service, exceeded the prior year by $1.7 billion. General revenue collections were bolstered by a one-time payment of $200.1 million resulting from the National Mortgage Settlement. ***The increase in total available revenues results in an improvement in the expected benchmark debt ratio.*** The Federal Government's inaction on the budget extended Federal Sequestration into Fiscal Year 2014, which EDR expects will have time-limited and minimal effect on state revenues. However, revenue growth could be tempered by unforeseen events or circumstances that negatively affect the economy e.g., continued Congressional debate on deficit reduction and raising the debt ceiling or the Federal Reserve's monetary policy decision to "taper" by reducing quantitative easing programs.

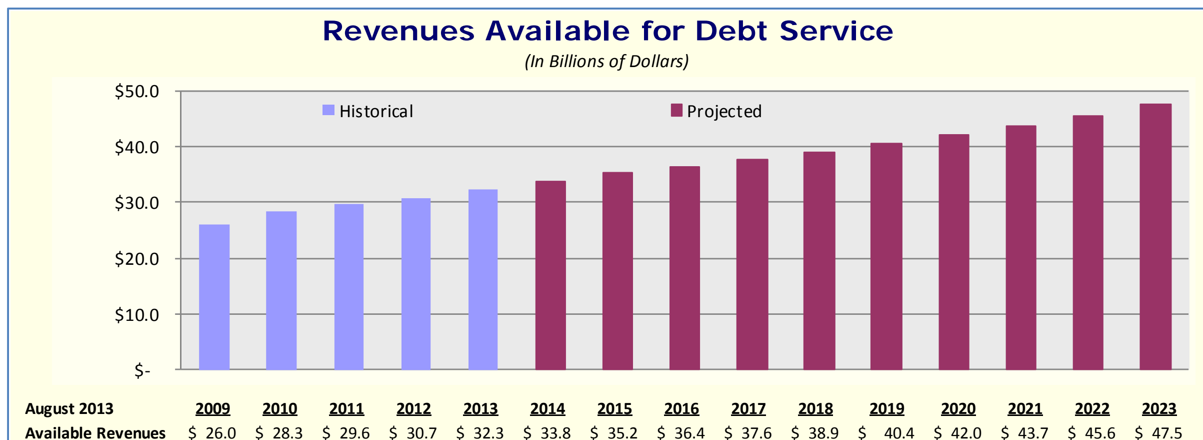


Figure 15

Figure 15 sets forth a five-year history and ten-year estimate of revenues available to pay debt service. Fiscal Year 2009 represents the trough in revenue collections during the Great Recession, which pushed the benchmark debt ratio to its highest point over the last ten years when it crept up to nearly 8% (see "Benchmark Debt Ratio" herein). However, every year since Fiscal Year 2009, the State's economy has gradually improved, positively affecting revenues available for debt service and the projected benchmark debt ratio.

BENCHMARK DEBT RATIO

The metric used for the benchmark in the debt affordability analysis is the ratio of debt service to revenues available to pay debt service. The policy guidelines established by the Legislature include a 6% target and a 7% cap for the benchmark debt ratio. ***Figure 16 tracks both the historical and projected benchmark debt ratio.*** Although the ratio exceeded the 6% target in 2003, during the period between Fiscal Years 2004 and 2006 the benchmark debt ratio declined due to strong revenue growth. The significant increase in the benchmark debt ratio from Fiscal Year 2006 through 2009 illustrates the dramatic decline in revenues available for debt service. The improvement reflected in Fiscal Year 2010 resulted from adding federal reimbursements for transportation to the revenue base. The slight increase in the benchmark debt ratio for Fiscal Year 2011 is due to the offsetting effects from increased debt service and improved revenue collections. Healthier revenue collections continued in Fiscal Years 2012 and 2013 resulting in two consecutive years of an improved benchmark ratio. ***The benchmark debt ratio in Fiscal Year 2013 improved to 6.79%, falling below the 7% cap for the first time in several years.***

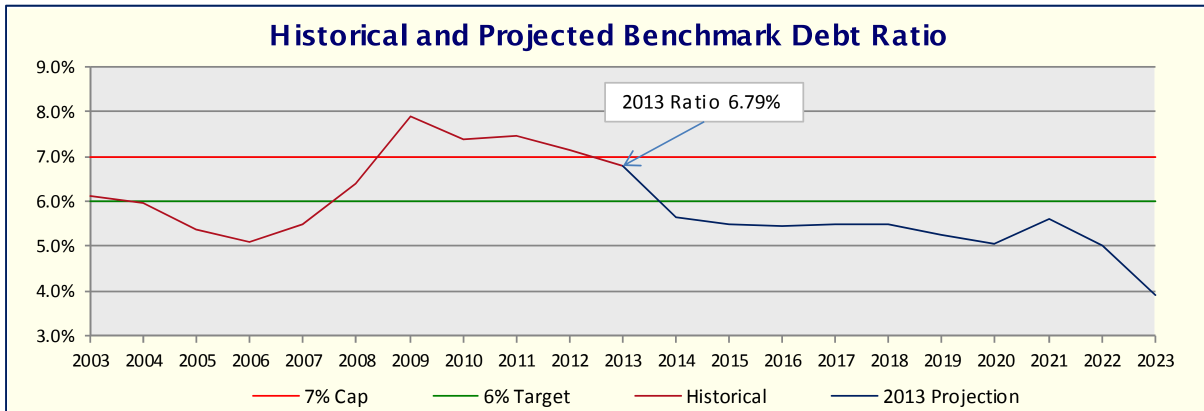


Figure 16

The projected benchmark debt ratio for the next ten years, shown in Figure 17 below, is based on the August 2013 revenue forecasts and projected debt issuance as of the date of this Report. ***The December 2013 Revenue Estimating Conference is expected to revise the general revenue forecast, and projections of the benchmark debt ratio will be updated accordingly.***

Benchmark Debt Ratio Projection

	Actual 2012	Actual 2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
2013 Projection	7.14%	6.79%	5.64%	5.48%	5.46%	5.49%	5.48%	5.27%	5.06%	5.60%	5.01%	3.91%

Figure 17

The benchmark debt ratio improved to 6.79% in Fiscal Year 2013 above the 6% target but within the 7% policy cap. Projections show a dramatic improvement in the ratio in Fiscal Year 2014, dipping below the 6% policy target due to reduced debt service requirements resulting from the retirement of Preservation 2000 bonds. Overall, the projections reflect the offsetting impact of lower projected issuance, especially PECO bonds, against steady increases in forecasted revenue collections and ongoing refinancing activities that lower future debt service payments.

Projected bond issuance does not include a new authorization enacted by the 2008 Legislature totaling approximately $3.4 billion to extend the Florida Forever and Everglades Restoration

programs or additional issuance for transportation infrastructure under P3 contracts (outside of the three noted in this Report) and the GARVEE program as the amounts and timing of debt issuance under these programs are unknown. ***The projected improvement in the benchmark debt ratio is dependent on realizing the revenue growth projected by the Revenue Estimating Conference and foregoing new bond authorizations beyond those included in existing borrowing plans.***

CHANGE IN DEBT CAPACITY

The final step in the debt affordability analysis is estimating future available debt capacity. Debt capacity as shown below in Figure 18 is based on projected issuance as of the date of this Report and the August 2013 revenue projections. Debt capacity can change significantly due to changes in revenue estimates reflecting a changing economic environment. ***With the benchmark debt ratio improving to 6.79% in Fiscal Year 2013, a substantial amount of capacity is available compared to last year's report when the benchmark debt ratio remained above the 7% cap.***

Debt Capacity Analysis Ten-Year Projection

6% Target; 7.0% Cap

(In Millions of Dollars)

	6% Target	7% Cap
Total Debt Capacity Available	$ 17,800.0	$ 23,900.0
Estimated Bond Issuance	$ 4,990.6	$ 4,990.6
Net Debt Capacity Available	$ 12,809.4	$ 18,909.4

Figure 18

Figure 18 shows that over the next ten years, $17.8 billion in bonding capacity is available based on the 6% benchmark debt ratio target. As shown previously, projected debt issuance under existing bond programs is approximately $5.0 billion for the next ten fiscal years. As a result, approximately $12.8 billion of debt capacity is available over the next ten years (an $800 million increase in available debt capacity over last year's estimate), which can be attributable to decreased projected bond issuance and higher revenue estimates. Assumptions for projected issuance include execution of the I-4 Ultimate contract but exclude any additional borrowing for environmental programs authorized by the 2008 Legislature, future DOT P3 projects, and borrowing under GARVEE for transportation projects as the amounts and timing of debt issuance under these programs are unknown. Also shown in Figure 18 is an estimated $23.9 billion in available capacity to address State infrastructure needs under the 7% benchmark debt ratio cap over the next ten years. After reducing estimated debt capacity available to reflect execution of the I-4 Ultimate contract, $990 million and $1.14 billion in estimated capacity remains available under the 6% target and 7% cap, respectively in Fiscal Year 2015.

Projections in this Report indicate ***the benchmark debt ratio will remain consistently below the 6% target through 2023, which provides flexibility for the State to issue additional debt while maintaining compliance with the 6% policy target.*** However, the State's debt policy was modified in December 2012, requiring state agencies to show a return on investment or other appropriate quantitative metrics as justification for bond-financed projects. This justification for such projects creates a more rigorous standard to utilize bonding capacity and reinforces the idea that ***estimated debt capacity be considered a scarce resource and used sparingly to provide funding for critical State infrastructure needs.*** Once used, the capacity is not available again for twenty years.

DEBT RATIO COMPARISON

The municipal bond market evaluates a government's debt position with three primary debt ratios: debt service to revenues; debt per capita; and debt to personal income. A fourth ratio of net tax-supported debt as a percentage of a state's gross domestic product ("GDP") has recently been introduced to facilitate the comparison of municipal credits to sovereign debt. State debt ratios are compared to national and peer group medians where the peer group is comprised of the eleven most populous states.

2012 Comparison of Florida to Peer Group and National Medians

	Net Tax-Supported Debt Service as a % of Revenues	Net Tax-Supported Debt Per Capita	Net Tax-Supported Debt as a % of Personal Income	Net Tax-Supported Debt as a % of GDP
Florida	7.14%	$1,135	2.84%	2.78%
Peer Group Mean	6.62%	$1,725	3.90%	3.46%
National Median	4.90%	$1,074	2.80%	2.47%

Figure 19

Florida's debt ratios are higher than the national averages but are consistent with or lower than the peer group averages. However, as shown in Figure 20, Florida's benchmark ratio of debt service as a percentage of revenues is higher than the peer group average.

2012 Comparison of Eleven Most Populous States

	Rank	Net Tax-Supported Debt Service as a % of Revenues	Rank	Net Tax-Supported Debt Per Capita	Rank	Net Tax-Supported Debt as a % of Personal Income	Rank	Net Tax-Supported Debt as a % of State GDP	General Obligation Ratings Fitch/Moody's/S&P
New York	1	11.50%	2	$3,174	2	6.30%	2	5.36%	AA/Aa2/AA
Illinois	2	10.60%	4	$2,526	4	5.70%	4	4.85%	A-/A3/A-
California	3	9.20%	3	$2,565	3	5.80%	3	4.98%	A/A1/A
New Jersey	4	8.80%	1	$4,023	1	7.60%	1	7.32%	AA-/Aa3/AA-
Florida	**5**	**7.14%**	**6**	**$1,135**	**6**	**2.84%**	**5**	**2.78%**	**AAA/Aa1/AAA**
Georgia	6	7.00%	7	$1,061	5	3.00%	7	2.51%	AAA/Aaa/AAA
Pennsylvania	7	5.00%	5	$1,208	7	2.80%	6	2.66%	AA/Aa2/AA
Ohio	8	4.10%	8	$1,047	7	2.80%	8	2.50%	AA+/Aa1/AA+
North Carolina	9	3.80%	9	$853	9	2.40%	10	1.89%	AAA/Aaa/AAA
Texas	10	3.10%	11	$580	11	1.50%	11	1.16%	AAA/Aaa/AAA
Michigan	11	2.60%	10	$800	10	2.20%	9	2.05%	AA/Aa2/AA-
Median		**7.00%**		**$1,135**		**2.84%**		**2.66%**	
Mean		**6.62%**		**$1,725**		**3.90%**		**3.46%**	
National Median		**4.90%**		**$1,074**		**2.80%**		**2.47%**	

Figure 20

Figure 20 details the Eleven Most Populous State Peer Group Comparison for the four debt ratios relative to net tax-supported debt. As indicated above, Florida is in the middle of the peer group for all debt ratios. ***Florida's relative ranking remained in the middle of the group for the benchmark ratio of debt service as a percentage of revenue and is fifth for net tax-supported debt as a percentage of GDP. The State moved from fifth to sixth for debt per capita and remains sixth for debt as a percentage of personal income.***

Pension Obligations

Management and funding of the pension system have become an important aspect of evaluating Florida's credit rating. The City of Detroit's high profile municipal bankruptcy filing and the State of Illinois' severely underfunded pension systems have led to increased scrutiny of pension liabilities. Over the last 18 months, ***rating agencies have developed quantitative methodologies to evaluate a state's pension liabilities and integrate them into their credit analysis.*** Moody's Investors Service ("Moody's") and Fitch Ratings ("Fitch") each released special reports discussing modified approaches to evaluating pension obligations. Each agency has begun employing various "adjustments" to reported pension liabilities for greater comparability across the state sector including application of a common rate of return to the pension system's investments. Additionally, for multi-employer plans, such as Florida's, Moody's and Fitch will apply their analysis just to the portion of the unfunded liability attributed to the State.

These adjusted net pension liabilities ("ANPL") are analyzed relative to the economic metrics used to evaluate debt obligations among Florida's peer group. As shown in Figure 21, ***Florida is one of the lowest among its peer group for the ANPL (8th) and is the lowest when comparing the ANPL to personal income, per capita, and GDP.*** Florida's adjusted pension liability of about $12.9 billion falls well below the average amount of $50 billion for the largest states. Additionally, Florida's ANPL is significantly lower than the peer group averages for all other metrics. ***Rating agencies have given Florida positive marks for responsibly managing and funding its pension system and modifying benefits to manage the liability over the long term.***

2012 Comparison of Peer Group

Adjusted Net Pension Liabilities ("ANPL") Medians

State	Rank	ANPL (in Millions)	Rank	ANPL as a % of Revenues	Rank	ANPL as a % of Personal Income	Rank	ANPL Per Capita	Rank	ANPL as a % of State GDP
Illinois	1	$ 132,968	1	241.1%	1	23.6%	1	$ 10,340	1	19.8%
California	2	120,805	5	61.8%	5	7.3%	5	3,206	5	6.2%
Texas	3	91,695	4	92.5%	4	8.9%	4	3,577	4	7.0%
Pennsylvania	4	63,533	3	105.0%	3	11.8%	3	4,985	3	11.0%
New Jersey	5	63,219	2	137.2%	2	13.7%	2	7,156	2	13.0%
New York	6	22,084	11	16.6%	9	2.2%	8	1,132	9	1.9%
Georgia	7	14,096	6	42.0%	6	4.0%	6	1,437	6	3.4%
Florida	**8**	**12,912**	**9**	**19.2%**	**11**	**1.7%**	**11**	**677**	**11**	**1.7%**
Michigan	9	12,124	7	25.4%	7	3.4%	7	1,228	7	3.1%
Ohio	10	9,778	8	19.6%	9	2.2%	9	847	8	2.0%
North Carolina	11	7,479	10	18.3%	10	2.1%	10	775	11	1.7%
Median		**$ 22,084**		**42.0%**		**4.0%**		**$ 1,437**		**3.4%**
Mean		**$ 50,063**		**70.8%**		**7.4%**		**$ 3,215**		**6.4%**

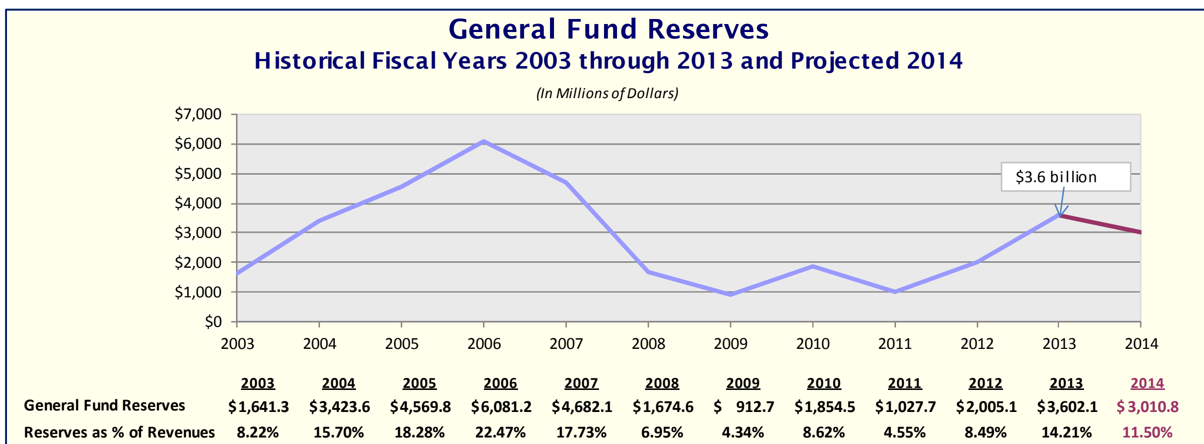
Figure 21

In Fiscal Years 2011, 2012 and 2013, the State deviated from its historical discipline by failing to make material contributions towards amortizing the unfunded liability. Favorably, the State contributed the full actuarially required contribution in Fiscal Year 2014. ***The State's management and funded status of its pension plan is an increasingly important factor in the State's credit analysis.***

Although excluded from Figure 21 above, rating agencies have begun to consider the impact of other post-employment benefits ("OPEB") on a state's debt profile. Going forward, this liability may become a standard component of a State's debt profile. However, the treatment of OPEB liabilities may evolve differently than that of pension liabilities as no generally accepted convention has been developed for evaluating the long term financial impact and in many instances, OPEB is not a constitutional or contractual obligation.

LEVEL OF RESERVES

An important measure of financial health and ability to respond to unforeseen financial challenges is the level of general fund reserves. The State's General Fund combined with the Budget Stabilization Fund are collectively referred to herein as the "General Fund Reserves." Figure 22 below shows the level of the State's General Fund Reserves over the last ten fiscal years, as well as the projected year-end General Fund Reserve balance for Fiscal Year 2014. ***Historically, Florida's level of reserves resulted from conservative financial management practices, and rating agencies cite financial flexibility provided by reserves as a key credit strength.*** The traditional measure used by credit analysts, investors and rating agencies to assess the strength of the State's financial position is the ratio of general fund balance to general revenues expressed as a percentage.



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General Fund Reserves	$1,641.3	$3,423.6	$4,569.8	$6,081.2	$4,682.1	$1,674.6	$ 912.7	$1,854.5	$1,027.7	$2,005.1	$3,602.1	$3,010.8
Reserves as % of Revenues	8.22%	15.70%	18.28%	22.47%	17.73%	6.95%	4.34%	8.62%	4.55%	8.49%	14.21%	11.50%

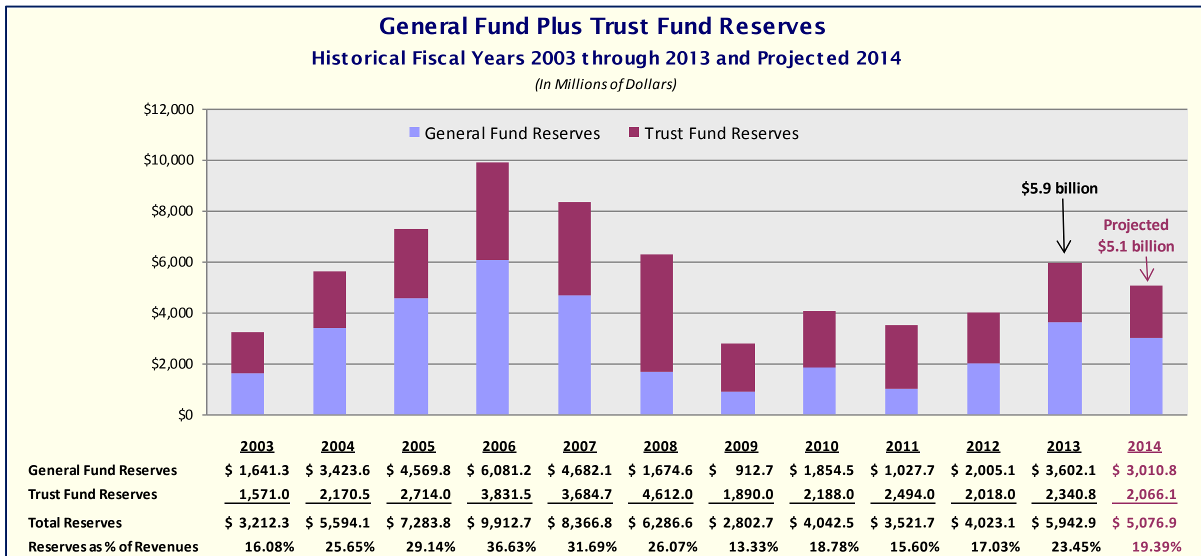
Figure 22

General Fund Reserves

Florida's General Fund Reserves increased substantially between Fiscal Years 2003 and 2006 to an extraordinarily high level of $6.1 billion or 22.5% of general revenues. The substantial growth in reserves strengthened the State's financial position and was cited as a credit strength in State rating upgrades in early 2005. The increase in the General Fund Reserve balances for Fiscal Year 2010 follows three consecutive annual declines from 2007 through 2009, when reserves were used to minimize spending reductions from declining revenue collections. Balancing the Fiscal Year 2010 budget by incorporating several revenue enhancements and federal stimulus moneys resulted in an improved level of reserves for Fiscal Year 2010. After using reserves in Fiscal Year 2011 to balance the budget, improved revenue collections during Fiscal Years 2012 and 2013, combined with a target for unspent general revenue of $1 billion, favorably affected the General Fund Reserve balance at June 30, 2013. ***The State ended Fiscal Year 2013 with General Fund Reserves of $3.6 billion or 14.2% of general revenues, an increase of approximately $1.6 billion over the General Fund Reserves at the end of Fiscal Year 2012. Favorably, the level of reserves as a percentage of revenues at June 30, 2013 surpasses the 10% considered minimally adequate by rating agencies.*** The adopted General Fund budget for Fiscal Year 2014 included the third required transfer to replenish the Budget Stabilization Fund. In addition, policymakers targeted an increase in unspent general revenue to $1.5 billion. Despite these positive financial commitments, ***General Fund Reserves are projected to moderately decrease to $3.0 billion or 11.5% of general fund revenues at the end of Fiscal Year 2014 based on the budgeted spending plan.***

Trust Fund Reserves

Prior to 2009, trust fund balances that could be considered a "reserve," such as moneys in the Lawton Chiles Endowment Fund and other trust fund balances, were not included in measuring the State's reserves. The State has historically created trust funds and dedicated specified revenues for particular purposes. Well over half of the State's budget is comprised of trust-funded programs and activities. Established budgetary practices identify trust fund balances that are available and can be used for other purposes. In fact, the Legislature has routinely redirected available trust fund balances to supplement the general fund budget during periods of economic weakness to offset declining revenue collections. Therefore, including trust fund balances in the reserve analysis provides for a more holistic picture of the State's financial flexibility. Figure 23 below shows the impact of including trust funds in the reserve analysis over the last ten years.



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General Fund Reserves	$ 1,641.3	$ 3,423.6	$ 4,569.8	$ 6,081.2	$ 4,682.1	$ 1,674.6	$ 912.7	$ 1,854.5	$ 1,027.7	$ 2,005.1	$ 3,602.1	$ 3,010.8
Trust Fund Reserves	1,571.0	2,170.5	2,714.0	3,831.5	3,684.7	4,612.0	1,890.0	2,188.0	2,494.0	2,018.0	2,340.8	2,066.1
Total Reserves	$ 3,212.3	$ 5,594.1	$ 7,283.8	$ 9,912.7	$ 8,366.8	$ 6,286.6	$ 2,802.7	$ 4,042.5	$ 3,521.7	$ 4,023.1	$ 5,942.9	$ 5,076.9
Reserves as % of Revenues	16.08%	25.65%	29.14%	36.63%	31.69%	26.07%	13.33%	18.78%	15.60%	17.03%	23.45%	19.39%

Figure 23

Including trust fund balances better reflects the State's true financial flexibility available from reserves. Total reserves (including trust fund balances) of $5.9 billion or 23.5% of general revenues at June 30, 2013 were considered strong by rating agencies. The adopted budget for Fiscal Year 2014 includes a one-time use of trust fund balances equal to $385 million. As a result, total reserves are expected to decrease at June 30, 2014, but remain healthy at $5.1 billion or 19.4% of general revenues.

REVIEW OF CREDIT RATINGS

The State's credit rating is a rating agency's assessment of the willingness and ability to timely repay debt obligations. ***Credit ratings play an integral role in the municipal bond market and are one factor that affects the State's borrowing cost on debt offerings.*** Each rating agency considers four primary factors in its analysis: governance, debt and liability profile, budget and financial management, and economic indicators. Each agency assesses the four factors on a quantitative and qualitative basis relative to the state's peers within its rating category. Despite the standardization of credit factors, each are evaluated slightly differently based on the agency's published criteria.

State of Florida
General Obligation Credit Ratings

	Rating	Outlook
Standard & Poor's	AAA	Stable
Fitch Ratings	AAA	Stable
Moody's Investors Service	Aa1	Stable

Figure 24

During the fiscal year ended June 30, 2013, the three major rating agencies, S&P, Fitch, and Moody's each affirmed the State's AAA, AAA, and Aa1 general obligation ratings," respectively. Fitch revised the State's "Outlook" from Negative to Stable following the end of the fiscal year while Moody's and S&P affirmed the State's Stable outlook. The stability in the State's general obligation ratings and credit strengths reflect each agency's view, and Moody's highlighted the State in its favorable Special Comment published in June 2013 entitled "Florida Back on Track". Such credit strengths include: an improving economy as evidenced by stabilized and improved revenue collections and greater financial flexibility through restoration of reserve levels following the depletion from the peak during the Great Recession. Additionally, the State is continually recognized for its sound and conservative financial management practices, including the Legislature's consistent and prompt attention to addressing negative revenue estimates during the downturn to maintain a balanced budget. The rating agencies also note improved employment trends, which began to accelerate during Fiscal Year 2013, specifically indicating growth in non-farm employment exceeding the national growth rate. The existing ratings are further bolstered by strong, long-term economic fundamentals including a low cost of living, attractive tourist and retirement destinations, and favorable geographic location. The State's ongoing credit challenges include sustaining the economic and housing market recovery; maintaining structural budget balance in light of continued budget pressures; and the potential negative fiscal and economic consequences or unmanageable assessments caused by a catastrophic hurricane.

Going forward, the agencies will continue to evaluate Florida's pace of economic recovery and the State's ability to meet revenue projections and maintain improved financial reserves, which are significant factors to the overall rating analysis. In addition, analysts will continue to evaluate how the State's budget is affected by the ongoing Federal Sequestration and debates over the federal deficit and debt ceiling. ***In the end, Florida's credit ratings remain vulnerable should further economic weakness or other developments negatively affecting financial resources or financial flexibility occur.***

CONCLUSION

Total direct debt outstanding declined $1.6 billion in Fiscal Year 2013 from $26.2 billion to $24.6 billion, the third consecutive year over year decline in total direct debt outstanding. The reduction was primarily due to principal amortizations, coupled with less new money issuance. Indirect debt decreased by $3.6 billion during Fiscal Year 2013, declining to $13.8 billion from $17.4 billion at June 30, 2012. ***Projected future debt issuance under existing programs over the next ten years totals $5.0 billion.*** Projected issuance is driven by DOT's long-term I-4 Ultimate P3 project at an estimated cost of $2.4 billion. The projected debt issuance does not include any future P3 projects or the issuance of environmental or GARVEE bonds as the timing and amounts of potential borrowing under these programs are unknown. ***Florida's debt is considered moderate and is manageable at the current level.***

Although outstanding debt decreased, ***annual debt service requirements on net tax-supported debt remained approximately flat at $2.2 billion for Fiscal Year 2013***. Annual debt service requirements are projected to decline in 2014 following the final maturity of Preservation 2000 bonds in 2013. Future debt service reflects the State's policy of level debt structure with the exception of the Port of Miami Tunnel and I-595 long-term P3 projects that defer and back-load required payments.

Revenues available for debt service increased $1.6 billion in Fiscal Year 2013 to $32.3 billion. The economic recovery has stabilized, as evidenced by increased revenue forecasts from the last two Revenue Estimating Conferences. Revenues available to pay debt service were increased for Fiscal Years 2013, 2014 and 2015. However, the potential economic impact from Federal Sequestration and the ongoing debates over resolving the Federal budget deficit and debt ceiling present risks to the State and could affect the revenue forecast going forward. The Revenue Estimating Conference will meet in December 2013 to update and revise revenue forecasts.

Reserves are critical and provide the financial flexibility necessary to address financial uncertainties. In Fiscal Year 2013, ***General Fund Reserves grew to $3.6 billion or 14.2% of general fund revenues surpassing the 10% considered minimally adequate by rating agencies. General Fund Reserves are projected to slightly decline during the current fiscal year to $3.0 billion or 11.5% of general fund revenues***. Trust fund balances also provide reserves the State can utilize to balance the general fund budget. Including trust fund balances augments the General Fund Reserves and better reflect the State's level of financial flexibility. ***Total reserves, including trust fund balances, were considered strong by rating agencies at $5.9 billion or 23.5% of general revenues at June 30, 2013.*** Total reserves are expected to decrease, but remain healthy at $5.1 billion or 19.4% of general fund revenues at June 30, 2014.

The benchmark debt ratio improved over the past year to 6.79% from 7.14%, reflecting increased revenues available to pay debt service. The projected benchmark debt ratio shows a downward trend and falls below the 6% policy target in Fiscal Year 2014 for the first time in several years. The anticipated improvement in the benchmark debt ratio is attributable to the projected growth in revenues and decline in debt service from $2.2 billion to $1.9 billion in Fiscal Year 2014. The projected benchmark debt ratio should be used as a general guide and considered by the Legislature when evaluating future debt authorization.

A comparison of 2012 debt ratios to national and peer group averages indicate that Florida's debt ratios are higher than the national average but lower than the peer group averages for all but the benchmark debt ratio. The State continues to fall in the middle of the peer group and is fifth for the ratio of debt service to revenues and sixth for debt per capita and debt as a percentage of personal

income. Florida also ranks fifth in debt as a percentage of state GDP, which has recently become an additional metric of comparison by the rating agencies. Additionally, when pension liabilities are analyzed based on rating agency adjustments, ***Florida is one of the lowest among its peer group for the adjusted net pension liability ("ANPL") (8th) and is the lowest when comparing the ANPL to personal income, per capita, and GDP.***

Credit ratings play an integral role in the municipal bond market and are one factor that affects the State's borrowing costs. ***S&P, Fitch, and Moody's each affirmed their respective ratings of AAA, AAA, and Aa1 on the State's general obligation debt during Fiscal Year 2013.*** Additionally, Fitch revised the State's "Outlook" from Negative to Stable. Rating agencies cite as credit strengths the State's ***improving economy indicative of stabilized revenue collections and restoration of financial flexibility due to growth in reserves, coupled with conservative financial management practices and an economy that benefits from a low cost of living and favorable climate.*** Remaining concerns over maintenance of the current ratings include Florida's ability to sustain its economic recovery and maintain reserves in light of continuing budget pressures. ***The State's credit ratings also remain vulnerable if a catastrophic hurricane weakens the State's economy or precipitates unmanageable assessments.***