STATE OF FLORIDA 2014 DEBT AFFORDABILITY REPORT

Prepared by
The Division of Bond Finance
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EXECUTIVE SUMMARY

The Division of Bond Finance prepared the 2014 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 2014 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, 2014 was $24.2 billion, a $400 million decrease from the prior fiscal year, bringing the aggregate debt reduction to $4.0 billion over the last four years.*** Net tax-supported debt for programs supported by State tax revenues or tax-like revenues totaled $20.0 billion while self-supporting debt, representing debt secured by revenues generated from operating bond-financed facilities, totaled $4.2 billion. Indirect State debt at June 30, 2014 was approximately $12.2 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.

Reserves: A government's level of general fund reserves is one of the most important indicators of its financial strength. After using reserves to offset revenue declines during the Great Recession, the State's General Fund Reserves (Unspent General Revenue plus the Budget Stabilization Fund) were replenished to ***$3.6 billion at June 30, 2013*** and cited as a key credit strength by the rating agencies. ***General Fund Reserves decreased slightly during Fiscal Year 2014 to $3.5 billion or 13.4% of general revenues. General Fund Reserves are projected to decrease further to $2.8 billion, or about 10.3% of general revenues as Unspent General Revenue was used to supplement expected revenue collections when formulating the Fiscal Year 2015 budget. Should the projected decline in General Fund Reserves materialize during Fiscal Year 2015, the State's financial flexibility will have diminished by nearly $800 million in two years.*** However, Trust Fund balances also serve 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, 2014, 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 and Stable outlook, respectively.*** Credit strengths noted by the rating agencies include restoring structural budget balance supported by improved revenue performance and ongoing growth in sales tax collections, the State's primary operating revenue; strong 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; a relatively well-funded pension system; and a large and diverse economy. However, the State's ratings are sensitive to continued economic stability and improved revenue performance; 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, balancing the budget without over-reliance on non-recurring revenues, and management of long term liabilities related to the pension system and P3 contracts - an area where growth in debt may occur.

Estimated Annual Debt Service Requirements: ***Annual debt service payments totaled $1.9 billion in Fiscal Year 2014***. Fiscal Year 2014 debt service requirements decreased by approximately $300 million due to the retirement of the Preservation 2000 bonds. Projected debt service is expected to remain at approximately $2.0 billion through Fiscal Year 2017 as payments on transportation P3 projects are added, which are offset by limited new-money debt issuance and ongoing refinancing activities to lower interest rates on outstanding debt and generate debt service savings.

Estimated Debt Issuance: ***Approximately $4.1 billion of debt is projected to be issued over the next ten years primarily for transportation projects.*** The execution of the Department of Transportation's long-term Public-Private Partnership ("P3") contract in Fiscal Year 2015 to expand I-4 through Orlando ***("I-4 Ultimate") accounts for $2.7 billion of the projected debt issuance*** with the remainder attributable to debt for acquiring right-of-way or bridge construction. Projections exclude any borrowing for PECO, Florida Forever or Everglades Restoration, and additional P3 projects entered into by the Department of Transportation.

Revenue Projections: ***Revenues available to pay debt service in Fiscal Year 2014 totaled $33.7 billion, approximately $1.4 billion more than Fiscal Year 2013.*** Florida's economy continues to recover from the Great Recession, fueling growth in base revenues. Revenue Estimating Conferences held since the 2013 Report was published in December 2013 have had minimal cumulative effect on the forecast for Fiscal Years 2014, 2015 and 2016. The long term revenue forecast could be impacted by negative changes in the State's ongoing housing recovery and geopolitical uncertainty and its effect on the U.S. and international economies. ***Revenue estimates promulgated at the August 2014 conferences were used for the purposes of the 2014 Report.*** The Revenue Estimating Conference will meet in December 2014 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 5.60% in Fiscal Year 2014 from 6.79% in Fiscal Year 2013.*** The improvement is directly related to the increased amount of revenue available to pay debt service ($1.4 billion) and a significant reduction in annual debt service (approximately $300 million) resulting from retirement of Preservation 2000 bonds. ***For the first time in several years, the benchmark debt ratio is below the 6% policy target.*** The benchmark debt ratio is projected to increase in Fiscal Year 2015, but remain below the 6% policy target.

An analysis of the primary debt ratios utilized by the municipal market based on June 30, 2013 data reveals that ***Florida's ratios are consistent with or lower than national and peer group averages for all categories 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 debt as a percentage of state Gross Domestic Product ("GDP"). The State's ranking for debt per capita and debt as a percentage of personal income each improved to eighth from sixth.

Debt Ratios
2013 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	6.79%	$1,059	2.57%	2.50%
Peer Group Mean	6.65%	$1,711	3.70%	3.32%
National Median	5.10%	$1,054	2.60%	2.40%

Pension Liability: ***The pension system is relatively well-funded with a funded ratio of 85.4% at June 30, 2013.*** Rating agencies have made positive comments regarding Florida responsibly managing and funding its pension system and modifying benefits to manage the liability over the long-term. Moody's recently downgraded six of the ten states with the largest pension burdens, primarily due to the magnitude and poor management of the pension obligation. Annual pension contributions are viewed as long-term fixed costs by rating agencies, and like debt service, potentially crowd-out other expenditures if not managed prudently. As a result, ***management and funding of the pension system are an important aspect of evaluating Florida's credit rating.***

Rating agencies employ 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 falls substantially below national and peer group averages at 9th out of 11. 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; and for annual contributions as a percentage of revenues.

Pension Metrics
2013 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	Actuarial Contribution as % of Revenues
Florida	27.30%	$954	2.30%	2.30%	2.30%
Peer Group Mean	91.90%	$4,384	9.47%	8.10%	8.10%
National Median	60.30%	$3,010	7.70%	6.00%	6.00%

Debt Capacity: ***Based upon current revenue projections and existing borrowing plans primarily for transportation projects only, debt capacity is available within the 6% policy target*** as projections for the benchmark debt ratio remain consistently below 6% through 2024. The debt capacity available over the next ten years within the 6% policy target is nearly $18.8 billion. After reducing this amount to reflect projected future borrowing that includes execution of the I-4 Ultimate contract and borrowing for right-of-way acquisition, ***$14.7 billion in estimated debt capacity remains available within the 6% policy target*** in Fiscal Year 2015. However, debt capacity is a scarce resource and should be used only sparingly to fund critical infrastructure needs. Additional capacity is available under the 7% cap; however, this capacity should be considered as a buffer against revenue declines, which could quickly erode capacity under the 7% cap.

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 2014 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 the Legislature has 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 financing initiative. ***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.***

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COMPOSITION OF OUTSTANDING STATE DEBT

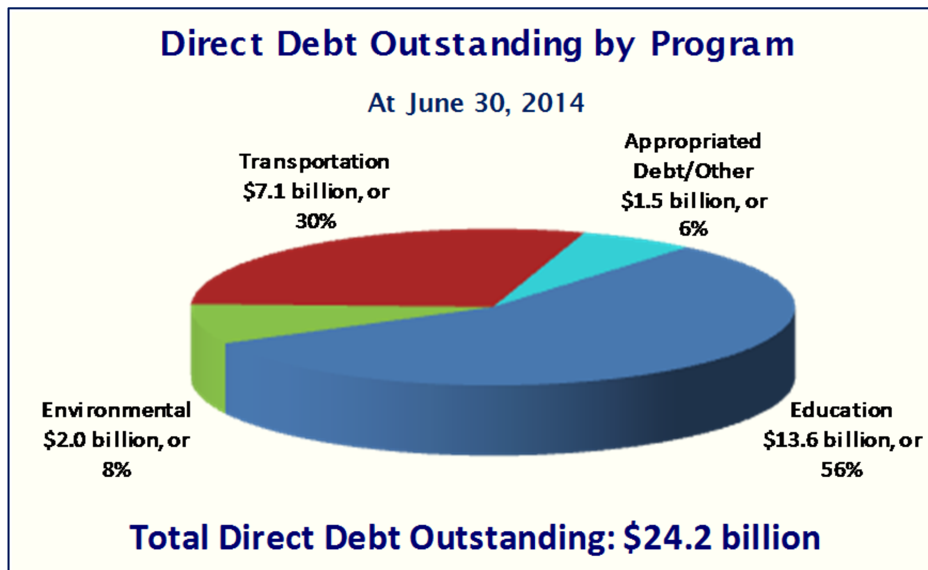


Figure 1

The State of Florida had $24.2 billion in total direct debt outstanding at June 30, 2014, $40 million less than the previous year-end bringing the aggregate debt reduction to $4.0 billion over the last four years. Figure 1 illustrates the State's investment in bond financed infrastructure by program area. Educational facilities are the largest investment financed with bonds, with $13.6 billion or 56% 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 $9.8 billion. PECO is the State's largest bond program and due to declining gross receipts taxes, no new money bonds have been issued under this program since Fiscal Year 2011. However, the 2014 Legislature passed legislation that shifted a portion of the State sales tax to the gross receipts tax on electricity that generates revenues for the PECO program. The August 2014 PECO estimating conference projects that the fund shift creates $2.2 billion in PECO bonding capacity; however no additional bonding for PECO has been included in the Report. Transportation infrastructure at $7.1 billion is the second largest investment consisting primarily of toll roads financed with bonds for Florida's Turnpike Enterprise ($2.9 billion). Contributing to the next largest portion of transportation debt are Public-Private Partnership ("P3") long-term obligations ($2.2 billion) and Right-of-Way Acquisition and Bridge Construction bonds ($1.6 billion). Environmental program bonding is the third largest component of State debt, with $1.6 billion of bonds outstanding for the Florida Forever and Everglades Restoration programs.

As shown in Figure 2, ***the $24.2 billion of direct debt outstanding at June 30, 2014, consisted of net tax-supported debt totaling $20.0 billion and self-supporting debt of $4.2 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. 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 wastewater projects.

Direct Debt Outstanding by Type and Program

As of June 30, 2014

(In Millions Dollars)

Debt Type		Amount
Net Tax-Supported Debt		$20,012.5
Self-Supporting Debt		4,221.7
Total State Debt Outstanding		**$24,234.2**
Net Tax-Supported Debt		
Education		
Public Education Capital Outlay	$9,786.1	
Capital Outlay	377.6	
Lottery	2,218.5	
University System Improvement	163.8	
University Mandatory Fee	86.7	
State (Community) Colleges	97.8	
Total Education		$12,730.4
Environmental		
Florida Forever Bonds	1,273.7	
Everglades Restoration Bonds	227.9	
Inland Protection	73.3	
Total Environmental		$1,574.8
Transportation		
Right-of-Way Acquisition and Bridge Construction	1,638.1	
State Infrastructure Bank	6.7	
P3 Obligations	2,204.0	
Florida Ports	378.2	
Total Transportation		$4,227.0
Appropriated Debt / Other		
Facilities	310.1	
Prisons	570.8	
Children & Families	103.0	
Juvenile Justice	7.8	
Lee Moffitt Cancer Center	131.6	
Master Lease	14.8	
Energy Saving Contracts	49.6	
Sports Facility Obligations	292.6	
Total Appropriated Debt / Other		$1,480.2
Total Net Tax-Supported Debt Outstanding		**$20,012.5**
Self-Supporting Debt		
Education		
University Auxiliary Facility Revenue Bonds		$852.7
Environmental		
Florida Water Pollution Control		432.9
Transportation		
Toll Facilities	2,883.0	
State Infrastructure Bank Revenue Bonds	53.2	
Total Transportation		2,936.1
Total Self-Supported Debt Outstanding		**$4,221.7**

Figure 2

In addition to direct debt, the State 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.***

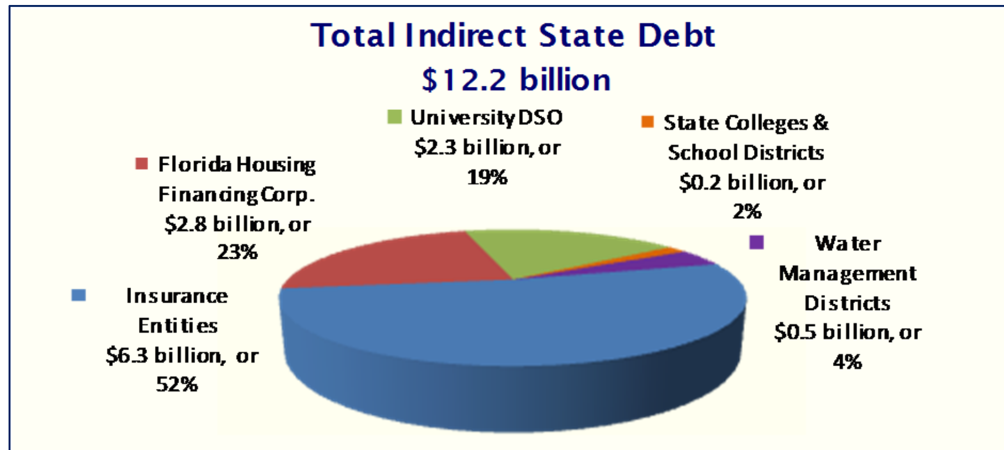


Figure 3

Indirect debt of the State totaled approximately $12.2 billion at June 30, 2014, $1.7 billion less than the previous year-end. Indirect debt primarily declined due to a substantial change in debt associated with the insurance entities ($1.5 billion). Figures 3 and 4 provide information on the State's indirect debt. ***CAT Fund and Citizens represented $6.3 billion or 52% of total indirect debt and consists of both liquidity and post-event financings.*** At June 30, 2014, liquidity debt outstanding was $3.9 billion for Citizens and $2.0 billion for the CAT Fund, while post-event debt secured by emergency assessments totaled $388.9 million for Citizens. CAT Fund defeased its outstanding post-event debt in July 2014 and assessments associated with securing those bonds will expire at the end of calendar year 2014. In addition, Citizens expects to defease a portion of its outstanding debt in March 2015 (Fiscal Year 2015), which will allow an assessment securing those bonds to expire July 1, 2015. 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 $2.8 billion or 23% of the total indirect debt outstanding, and university direct support organizations followed with $2.3 billion or 19% of the total indirect debt outstanding.

Total Indirect State Debt by Program

(In Millions of Dollars)

Insurance Entities		
Florida Hurricane Catastrophe Fund Finance Corporation	$ 2,000.0	
Citizens Property Insurance Corporation	4,320.5	
Total		$ 6,320.5
Florida Housing Finance Corporation		
Single Family Programs	1,294.6	
Multi-Family Programs	1,474.5	
Total		2,769.1
University Direct Support Organizations		
Shands Teaching Hospital & Affiliates	721.3	
University of South Florida	387.8	
University of Central Florida	297.7	
Florida Gulf Coast University	230.9	
Florida Atlantic University	213.8	
North Florida	145.9	
University of Florida	136.3	
Other State Universities	213.8	
Total		2,347.4
Water Management Districts		509.8
School Districts		
Bay	43.5	
Lake	16.2	
Osceola	13.3	
Other School Districts	44.3	
Total		117.2
State (Community) Colleges and Foundations		89.0
Total State Indirect Debt		**$ 12,152.9**

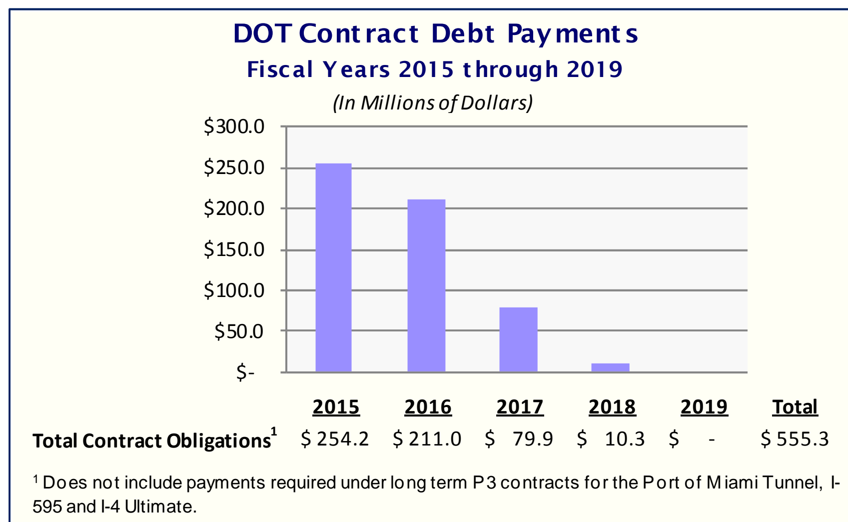
Figure 4

DEVELOPMENTS IN ALTERNATIVE FINANCING TECHNIQUES

Alternative financing techniques fund capital projects and utilize State resources as a repayment source. Five 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 capital costs and operations/maintenance expenses associated with the project are paid to a private partner through "Availability Payments"; debt issued through Direct Support Organizations ("DSOs") of the State universities; State university financed facilities through P3 contracts; and charter school transactions that have occurred with more frequency and may continue to grow in the near term. ***Tracking and disclosing 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, 2014, the remaining cost of advancing projects with Contract Debt totaled approximately $555.3 million through Fiscal Year 2019,*** which is the last year of the adopted five-year work plan horizon as shown in Figure 5. 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.



	2015	2016	2017	2018	2019	Total
Total Contract Obligations[1]	$ 254.2	$ 211.0	$ 79.9	$ 10.3	$ -	$ 555.3

[1] Does not include payments required under long term P3 contracts for the Port of Miami Tunnel, I-595 and I-4 Ultimate.

Figure 5

DOT's required payments under its Contract Debt have been excluded from calculating the benchmark debt ratio because such payments are funded from sources 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 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 2014 Report, Contract Debt payments continue to be excluded from the benchmark debt ratio.

DOT Long Term P3 Projects

Pursuant to Section 334.30, Florida Statutes, DOT has executed three agreements with private partners to advance construction of the I-595 Corridor Improvement Project, the Port of Miami Tunnel Project, and I-4 Ultimate Project through Orlando. ***These projects have combined costs of $4.5 billion ($1.3 billion for the I-595, $543 million for the Port of Miami Tunnel, and $2.7 billion for the I-4 Ultimate).***

The capital costs and operations/maintenance expenses of these P3 projects are financed through "Availability Payments" and periodic payments made during construction and upon final acceptance of the project. Availability Payments are mandatory, scheduled payments that commence when construction is complete and continue for 30 to 35 years thereafter. The capital costs of these P3 contracts are included as outstanding debt of the State. ***The capital portion of the required payments for DOT's P3 projects total $7.9 billion over the next 40 years.*** The schedule of mandatory payments for the capital portion of the P3 projects is shown in Figure 6. The maximum aggregate annual payment of $550.9 million for the capital costs associated with these projects is due in 2022. If the maximum payment were due in Fiscal Year 2014 and included as debt service, the 2014 benchmark debt ratio would increase by approximately 1.63%. DOT anticipates that a portion of the mandatory capital portion of Availability Payments will be partially funded with non-STTF revenues (i.e., toll revenues and local government contributions).

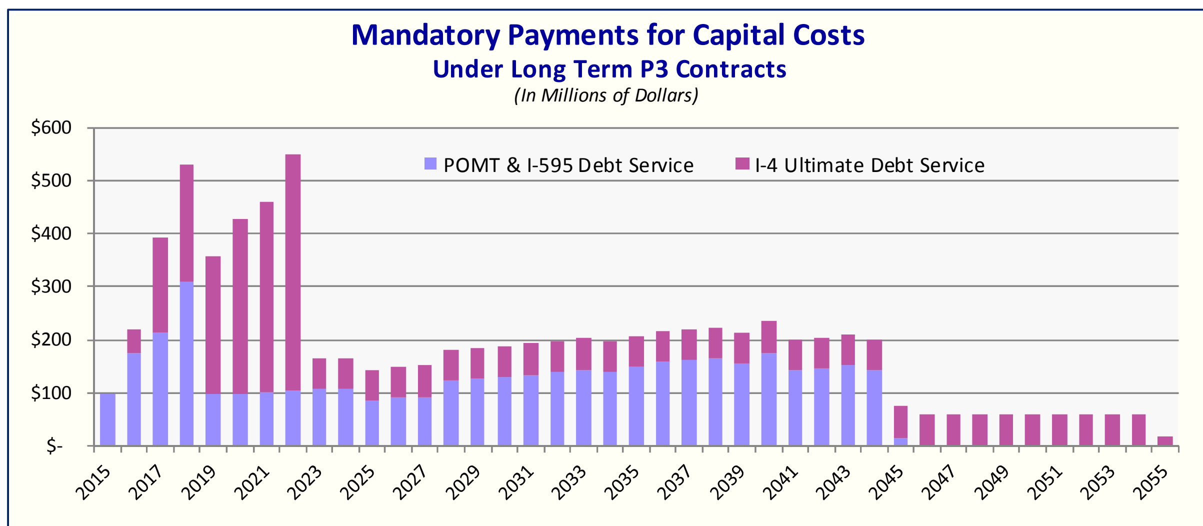


Figure 6

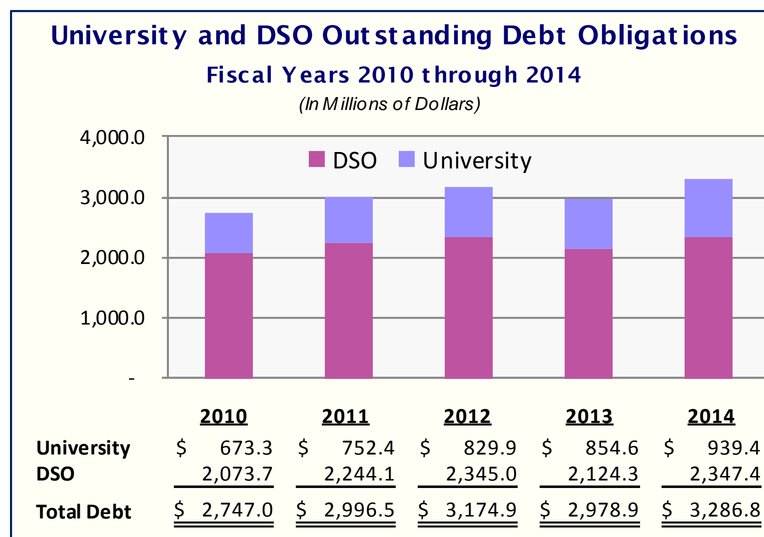
As noted above, ***the State includes capital costs associated with construction of P3 projects as long-term debt.*** Originally, only the capital portion of the Availability Payment was considered long term debt. As a result, periodic payments for the I-595 and Port of Miami Tunnel projects were not initially included as outstanding debt of the State. However, over the last 12 months, rating agencies began evaluating the effect of P3 payments on the State's liability profile. The general consensus among rating agencies is periodic payments, no matter when paid to the private partner, finance construction costs and should be included as long term debt of the State. As a result, at June 30, 2014, remaining periodic payments associated with the I-595 project ($512 million) were added to the State's outstanding net tax-supported debt in the 2014 Debt Affordability Report.

Unlike the I-595 and Port of Miami Tunnel projects, the capital portion of the Availability Payment for I-4 Ultimate is a level repayment structure ($58.5 million beginning in Fiscal Year 2021). In addition, repayment of the construction costs is scheduled to begin in Fiscal Year 2016 (May 2016) with nearly $1.7 billion repaid through periodic payments to the concessionaire by Fiscal Year 2022 (July 2021). An interlocal agreement with the Central Florida Expressway outlines a contribution to the I-4 Ultimate project of $230 million appropriated in Fiscal Years 2018 through 2020, reducing DOT's funding obligation in those years by $75 million, $75 million and $80 million, respectively. In addition, DOT expects other funding sources (i.e. local sources and toll revenues) to be available to fund a portion of the State's obligations under this P3 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 2024, $789 million remains for further leveraging under the statutory cap. ***The amount available under the statutory cap generates (for illustrative purposes) additional debt capacity of $7.9 billion. If this amount were added to the State's Fiscal Year 2014 debt burden, the incremental increase in the benchmark debt ratio would be approximately 2.34%***. 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 13% from $2.1 billion in Fiscal Year 2010 to $2.3 billion in Fiscal Year 2014 while total combined debt has grown 20% over the same time period as shown in Figure 7. ***For purposes of the 2014 Report, DSO debt is excluded from the benchmark debt ratio and is considered indirect debt.***



	2010	2011	2012	2013	2014
University	$ 673.3	$ 752.4	$ 829.9	$ 854.6	$ 939.4
DSO	2,073.7	2,244.1	2,345.0	2,124.3	2,347.4
Total Debt	$ 2,747.0	$ 2,996.5	$ 3,174.9	$ 2,978.9	$ 3,286.8

Figure 7

University P3 Projects for Capital Construction

Several universities have expressed interest in financing university facilities using a P3 financing structure as an alternative to revenue bonds. Revenue bonds and any other form of debt are subject to the requirements and limitations in Florida Statutes §1010.62, including review and approval by the Board of Governors ("BOG"). ***Some universities and BOG staff have taken the position that universities have the authority to finance facilities using a P3 circumventing the BOG review and approval process and other requirements and policies contained in Florida Statutes §1010.62.*** Florida Polytechnic University executed a P3 contract for a student housing facility and Florida International University is developing a $60 million student housing facility on its Biscay Bay Campus using a P3 financing structure. Several other universities are considering P3s to finance various capital projects. BOG staff and the universities are currently developing "guidelines" for P3s. There is no statutory framework for authorizing P3 financings. Clear and express rules and criteria governing the authority and limitations on P3s would be helpful to all stakeholders. ***We will continue to monitor the development of university P3 agreements and the associated long term obligations to determine their effect, if any, on the State's liability profile.***

Charter Schools

According to the Florida Department of Education's website, there were 615 charter schools educating over 229,000 students in the State of Florida in Fiscal Year 2014, an enrollment increase of 12.9% in one year. 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. Capital outlay disbursements to charter schools have increased from $55 million in Fiscal Years 2012 and 2013 to $91 million in Fiscal Year 2014. Estimates indicate the capital outlay disbursements declined to $71 million in Fiscal Year 2015, but remain above the amount allocated four years ago. Despite capital outlay disbursements made to Florida charter schools through the State's budget, enrollment demand has pressured existing charter school facilities and contributed to the proliferation of debt issuance to finance new schools or refinance existing schools. Since October 2012, $448 million in debt for charter school facilities has been issued by the Florida Development Finance Corporation on behalf of charter school operators. This represents a portion, but not all of the charter schools financed by leveraging state charter school funding. 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 2004 through 2010 and the reductions in each of the last four fiscal years.

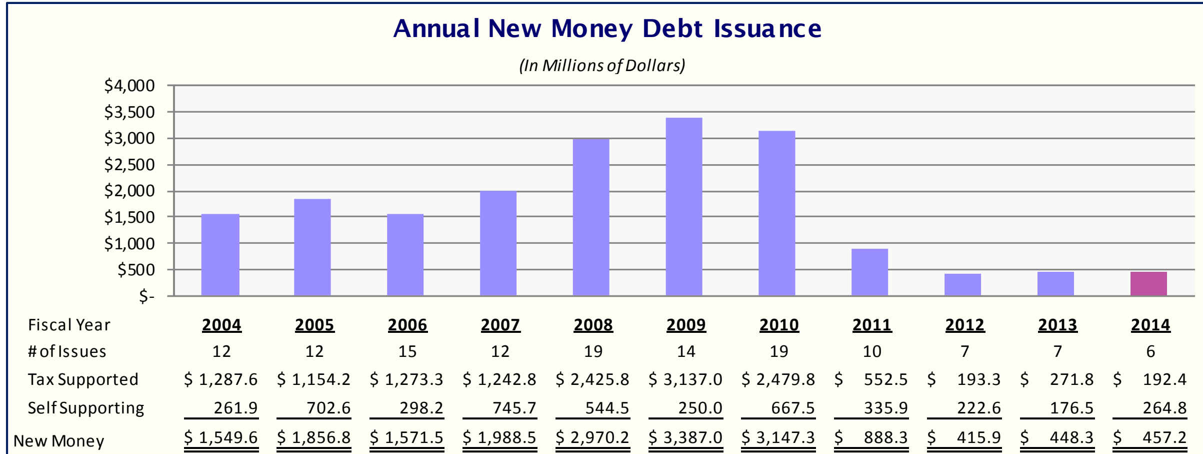
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Debt Outstanding	$21.2	$22.5	$23.0	$24.1	$24.3	$26.4	$28.2	$27.7	$26.2	$24.6	$24.2
Annual Change	-	1.3	0.6	1.1	0.2	2.1	1.8	(0.5)	(1.4)	(1.5)	(0.4)
% Change	-	6.0%	2.5%	4.6%	0.7%	8.8%	6.7%	(1.7)%	(5.2)%	(5.9)%	(1.5)%

Figure 8

Between Fiscal Years 2004 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 $7.0 billion from $21.2 billion at June 30, 2004 to $28.2 billion at June 30, 2010. During those years, increases in debt outstanding were primarily due to the issuance of PECO bonds ($2.8 billion), Lottery bonds ($1.0 billion), P3 obligations ($1.7 billion), Right-of-Way bonds ($400 million), correctional facility financings ($500 million), and Everglades Restoration bonds ($200 million).

Total direct debt declined by approximately $4.0 billion over the last four fiscal years ($500 million in Fiscal Year 2011, $1.5 billion in Fiscal Year 2012, $1.6 billion in Fiscal Year 2013 and $400 million in Fiscal Year 2014) from a high of $28.2 billion at June 30, 2010 to $24.2 billion at June 30, 2014. The decrease in total direct debt outstanding in Fiscal Year 2014 resulted from principal amortizations exceeding new money issuance.

New money bond issuance illustrated in Figure 9 shows substantially less issuance in each of the last four years. In Fiscal Year 2014, ***new money bond issuance was $457 million, a fraction of the average annual bond issuance for Fiscal Years 2004 through 2010 of $2.4 billion and the average annual bond issuance over the prior 10 years of $1.8 billion.***



Fiscal Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
# of Issues	12	12	15	12	19	14	19	10	7	7	6
Tax Supported	$ 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	$ 192.4
Self Supporting	261.9	702.6	298.2	745.7	544.5	250.0	667.5	335.9	222.6	176.5	264.8
New Money	$ 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	$ 457.2

Figure 9

In addition to the $457 million new money bond transactions in Fiscal Year 2014, the State issued about $714 million in refunding bonds: $344 million for net tax-supported bond programs and $377 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 almost $100 million on a gross basis and $87 million on a present value basis through refunding transactions. Fiscal Year 2014 debt service savings were $4.2 million, with average annual savings of approximately $5.5 million thereafter. ***Over the last four fiscal years, the State has executed 51 refunding transactions totaling $6.8 billion, reducing total gross debt service expenditures by $1.25 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 $1.9 billion per year. Over the last ten years annual debt service payments increased between Fiscal Years 2004 and 2011, peaking at $2.2 billion in Fiscal Year 2011 where it remained for two years before declining 14% to $1.9 billion in Fiscal Year 2014. The change in the annual debt service payment mirrors the increase in total debt outstanding between Fiscal Years 2004 and 2010. The substantial decline in the annual debt service payments in Fiscal Year 2014 reflects the final payment on Preservation 2000 bonds that occurred in Fiscal year 2013. 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. The annual debt service requirement of $1.9 billion in Fiscal Year 2014 illustrates the first material decline in debt service since 1990.

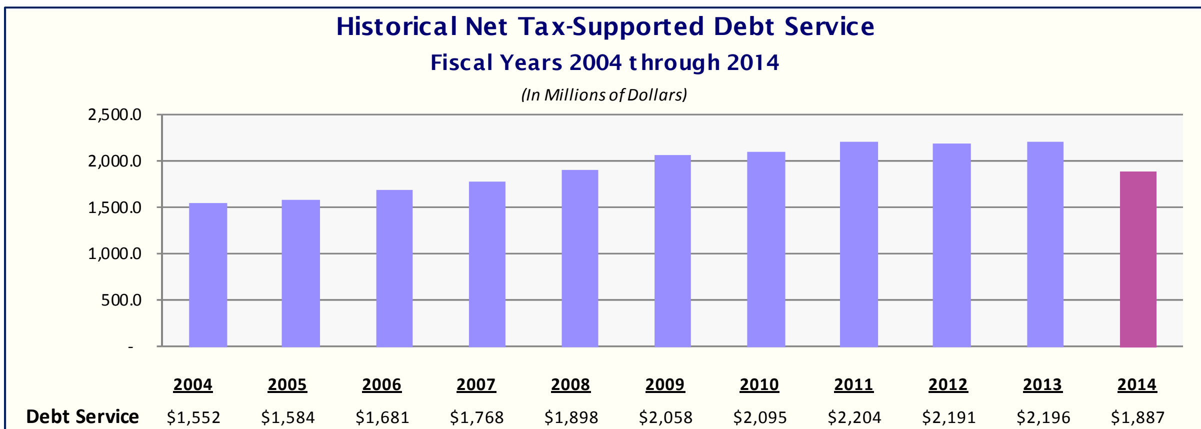


Figure 10

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. Debt service payments on existing outstanding debt total $18.2 billion over the next ten years, with principal and interest payments of $11.9 billion and $6.3 billion, respectively. Annual debt service requirements peak in Fiscal Year 2018 before declining throughout the projection period.

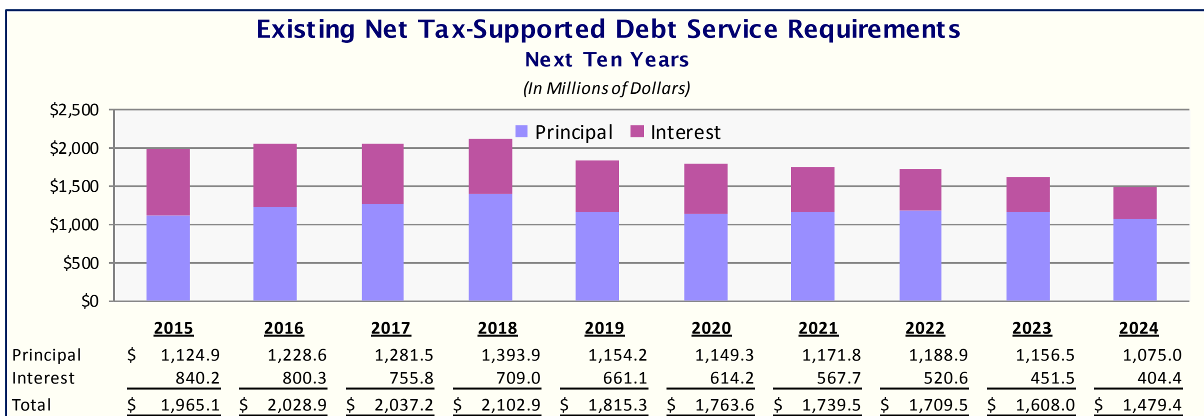


Figure 11

PROJECTED DEBT ISSUANCE

Future projected debt issuance is provided by various State agencies that receive proceeds under authorized bond programs. Projections exclude any additional borrowing for PECO, Florida Forever and Everglades Restoration, and additional P3 projects entered into by the Department of Transportation as the amounts and timing of debt issuance under these programs are unknown.

Projected Debt Issuance By Program
Fiscal Years 2015 through 2024

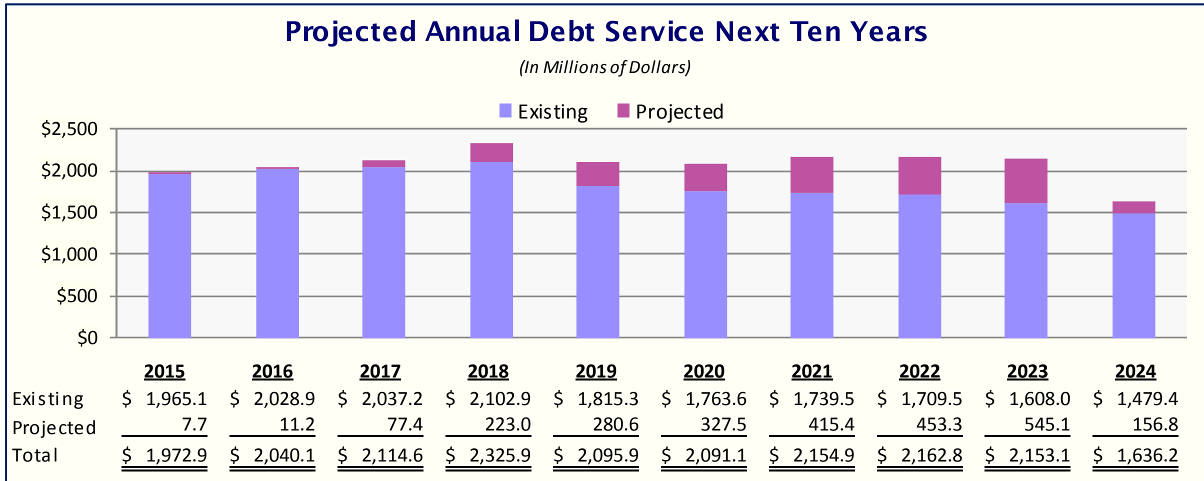
(In Millions of Dollars)

Fiscal Year	Everglades Restoration	ROW	P3 Project	Master Lease	Total Issuance
2015	$ 50.0	$ -	$ 2,710.6	$ 10.0	$ 2,770.6
2016	-	-	-	10.0	10.0
2017	-	250.0	-	10.0	260.0
2018	-	200.0	-	-	200.0
2019	-	280.0	-	-	280.0
2020	-	200.0	-	-	200.0
2021	-	200.0	-	-	200.0
2022	-	150.0	-	-	150.0
2023	-	50.0	-	-	50.0
2024	-	-	-	-	-
Total	$ 50.0	$ 1,330.0	$ 2,710.6	$ 30.0	$ 4,120.6

Figure 12

As detailed in Figure 12, ***approximately $4.1 billion in debt issuance is projected over the next ten years primarily for transportation projects only with $2.7 billion attributable to financing the I-4 Ultimate P3 project in Fiscal Year 2015.*** The projected issuance decreased by $870 million (17%) from the approximately $5.0 billion projected at June 30, 2013. Projected debt issuance decreased from the previous year due to the exclusion of additional issuance projected for PECO bonds. The 2014 Legislature passed legislation that shifted a portion of the State sales tax to the gross receipts tax on electricity and telecommunications that generates revenues for the PECO program. The August 2014 PECO estimating conference projects that the funds shift creates $2.2 billion in PECO bonding capacity. However, the 2014 Report excludes potential future bond issuance for PECO, Florida Forever and Everglades Restoration in the projections and additional P3 projects entered into by the Department of Transportation. ***The decrease in projected issuance over the next ten years positively impacts the projected benchmark debt ratio.***

PROJECTED DEBT SERVICE



	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Existing	$ 1,965.1	$ 2,028.9	$ 2,037.2	$ 2,102.9	$ 1,815.3	$ 1,763.6	$ 1,739.5	$ 1,709.5	$ 1,608.0	$ 1,479.4
Projected	7.7	11.2	77.4	223.0	280.6	327.5	415.4	453.3	545.1	156.8
Total	$ 1,972.9	$ 2,040.1	$ 2,114.6	$ 2,325.9	$ 2,095.9	$ 2,091.1	$ 2,154.9	$ 2,162.8	$ 2,153.1	$ 1,636.2

Figure 13

Figure 13 shows existing debt service and the annual debt service requirements for projected bond issuance and P3 contracts over the next ten fiscal years. ***Based on existing and projected debt service, annual debt service is expected to marginally increase to about $2.0 billion in Fiscal Year 2015. Growth in annual debt service peaks in Fiscal Years 2018 before declining throughout the projection period.*** Deferred payments under the Port of Miami Tunnel and I-595 P3 contracts are not fully reflected in the illustration because they extend beyond the projection period. Figure 13 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 2014 exceeded Fiscal Year 2013 collections by $1.4 billion, a 4.2% 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 August 2013, general revenue estimates have remained largely unchanged for Fiscal Years 2014, 2015 and 2016. ***The August 2014 Revenue Estimating Conference results have been used for purposes of this Report. Revenue forecasts are expected to be reviewed and revised by the December 2014 Revenue Estimating Conference and this Report will be updated once the results become available.*** Forecasted revenue growth could be tempered by unforeseen events or circumstances that negatively affect the economy including negative changes in the State's ongoing housing recovery, geopolitical uncertainty and its effect on the U.S. and international economies, or a change in the Federal Reserve's current accommodative monetary policy.

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. The projection of revenues available for debt service reflects forecasts adopted at the August 2014 Revenue Estimating Conferences.

Total revenues available in Fiscal Year 2014 totaled $33.7 billion or $1.4 billion more than the $32.3 billion available in Fiscal Year 2013. The increase in total available revenues results in an improvement in the expected benchmark debt ratio.

Projected Revenue Available for State Tax-Supported Debt

(In Millions of Dollars)

	Actual		Projection		
Fiscal Year	**2013**	**2014**	**2015**	**2016**	**2017**
Revenue Available:					
General Revenue	$ 25,343.6	$ 26,198.0	$ 27,189.4	$ 28,246.6	$ 29,655.0
Less : Documentary Stamp Tax Included Below	(381.0)	(603.7)	(689.4)	(777.8)	(840.9)
Net General Revenue	$ 24,962.6	$ 25,594.3	$ 26,500.0	$ 27,468.8	$ 28,814.1
Specific Tax Revenue					
Gross Receipts	1,003.1	1,005.4	1,162.9	1,192.1	1,211.7
Motor Vehicle License	566.1	557.5	574.8	586.3	601.1
Lottery	1,383.3	1,463.3	1,490.2	1,513.7	1,540.1
Documentary Stamp Tax	1,001.0	1,048.3	1,148.8	1,252.7	1,325.7
Motor Fuel Tax	1,169.2	1,198.3	1,236.4	1,284.3	1,331.5
Motor Vehicle License-Surcharge	18.4	17.0	17.4	18.9	18.3
Tax on Pollutants-IPTF	188.3	193.0	196.4	200.5	204.6
University Net Bldg Fees & Cap. Impr. Fees	51.7	55.8	54.5	55.6	56.7
Community College Cap. Impr.Fees	31.5	34.9	35.1	35.3	35.5
Title Fees	-	200.0	200.0	200.0	200.0
Federal Reimbursements for Transportation	1,958.5	2,331.0	2,182.3	2,499.1	2,541.8
Total State Revenue Available	**$ 32,333.7**	**$ 33,698.7**	**$ 34,798.9**	**$ 36,307.5**	**$ 37,881.2**

Figure 14

Figure 15 sets forth a five-year history and ten-year estimate of revenues available to pay debt service. Fiscal Year 2010 represents the first year of minimal growth in revenue collections following the Great Recession. Consistent improvement in the State's economy since Fiscal Year

2010 has positively affected revenues available for debt service and the projected benchmark debt ratio. For the first time since the Great Recession, Fiscal Year 2014 revenues available for debt service surpassed the peak year experienced in Fiscal Year 2006.

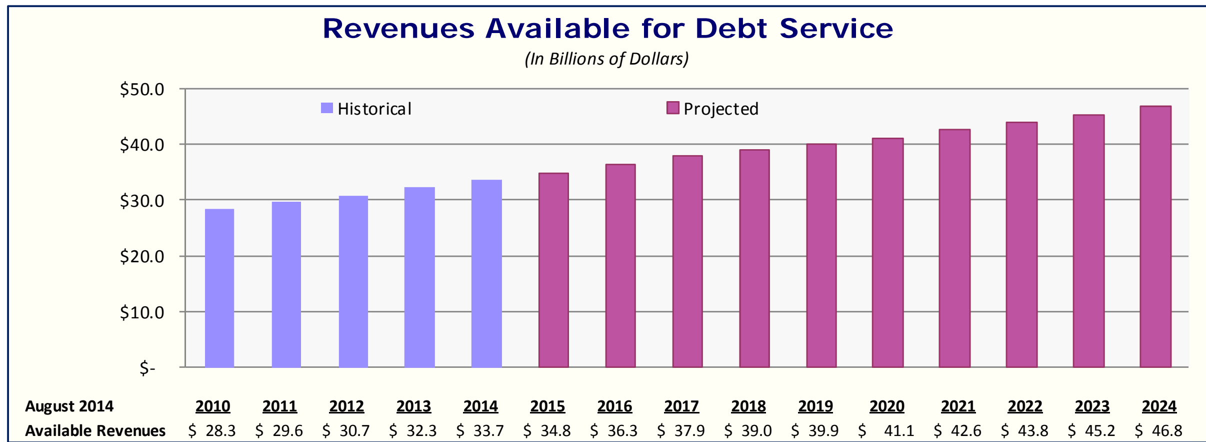


Figure 15

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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.*** The benchmark debt ratio increased significantly between Fiscal Years 2006 and 2009 as revenues declined during the Great Recession. Following Fiscal Year 2010, the benchmark debt ratio gradually declined when revenues improved and debt service payments remained flat. ***The benchmark debt ratio improved significantly in Fiscal Year 2014 to 5.60%, falling below the 6% target for the first time since prior to the Great Recession*** because of increased revenue collections and a decrease in debt service resulting from the retirement of Preservation 2000 bonds during Fiscal Year 2013.

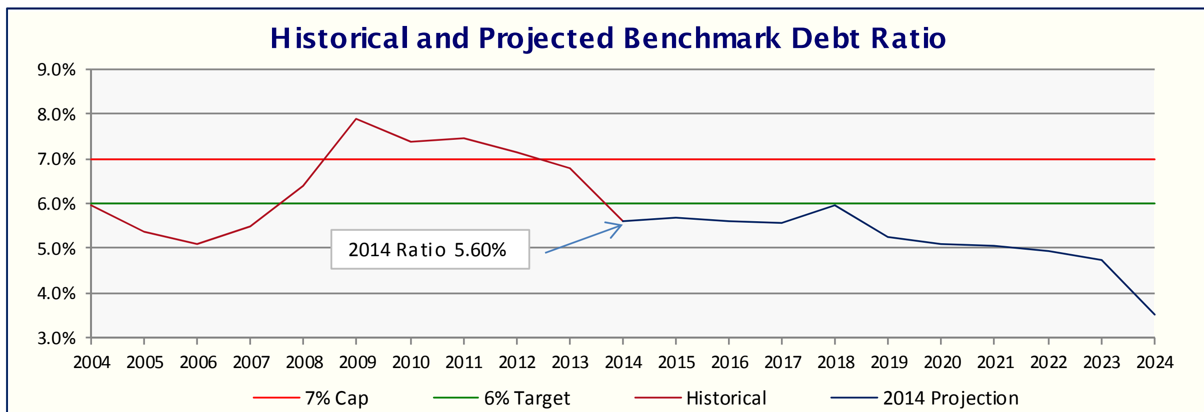

Figure 16

The projected benchmark debt ratio for the next ten years, shown in Figure 17, is based on the August 2014 revenue forecasts and projected debt issuance as of the date of this Report. ***The December 2014 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 2013	Actual 2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
2014 Projection	6.79%	5.60%	5.67%	5.62%	5.58%	5.96%	5.26%	5.08%	5.06%	4.94%	4.76%	3.50%

Figure 17

The benchmark debt ratio improved to 5.60% in Fiscal Year 2014 below the 6% target. Projections show the benchmark debt ratio remaining below the 6% policy target over the forecast period reflecting lower projected issuance, steady increases in forecasted revenue collections, and ongoing refinancing activities that lower future debt service payments.

Projected bond issuance excludes any additional borrowing for PECO, Florida Forever and Everglades Restoration, and additional P3 projects entered into by the Department of Transportation 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 projected 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 2014 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 5.60% in Fiscal Year 2014, a substantial amount of capacity is available compared to last year's report when the benchmark debt ratio remained above the 6% target and close to 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	$ 18,850.0	$ 24,850.0
Estimated Bond Issuance	$ 4,120.6	$ 4,120.6
Net Debt Capacity Available	$ 14,729.4	$ 20,729.4

Figure 18

Figure 18 shows that over the next ten years, $18.8 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 $4.1 billion for the next ten fiscal years. As a result, approximately $14.7 billion of debt capacity is available over the next ten years (an $870 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 excludes any additional borrowing for PECO, Florida Forever and Everglades Restoration, and additional P3 projects entered into by the Department of Transportation as the amounts and timing of debt issuance under these programs are unknown. Also shown in Figure 18 is an estimated $24.8 billion in available capacity to address State infrastructure needs under the 7% benchmark debt ratio cap over the next ten years.

Projections in this Report indicate ***the benchmark debt ratio will remain consistently below the 6% target through 2024, 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 policy change creates a more rigorous standard to justify using bonding capacity and reinforces the principle that ***estimated debt capacity should 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 four primary debt ratios: debt service to revenues; debt per capita; debt to personal income; and net tax-supported debt as a percentage of a state's gross domestic product ("GDP"). Florida's debt ratios are compared to national and peer group medians where the State's peer group is comprised of the eleven most populous states.

2013 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	6.79%	$1,059	2.57%	2.50%
Peer Group Mean	6.65%	$1,711	3.70%	3.32%
National Median	5.10%	$1,054	2.60%	2.40%

Figure 19

Florida's debt ratios as shown in Figure 19 are consistent with national and lower than peer group averages for each metric except the benchmark debt ratio. Figures 19 and 20 show Florida's benchmark ratio of debt service as a percentage of revenues is higher than the peer and national average.

2013 Debt Ratios 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	11.40%	2	$3,204	2	6.00%	2	5.20%	AA+/Aa1/AA+
Illinois	2	10.10%	3	$2,580	3	5.60%	3	4.80%	A-/A3/A-
California	3	9.40%	4	$2,465	4	5.30%	4	4.70%	A/Aa3/A+
New Jersey	4	8.90%	1	$3,989	1	7.30%	1	7.00%	A/A1/A
Florida	**5**	**6.79%**	**8**	**$1,059**	**8**	**2.57%**	**5**	**2.50%**	**AAA/Aa1/AAA**
Georgia	6	6.70%	7	$1,064	5	2.90%	5	2.50%	AAA/Aaa/AAA
Ohio	7	5.50%	6	$1,087	6	2.70%	5	2.50%	AA+/Aa1/AA+
Pennsylvania	8	5.10%	5	$1,172	7	2.60%	5	2.50%	AA-/Aa3/AA-
North Carolina	9	3.70%	9	$806	9	2.10%	10	1.70%	AAA/Aaa/AAA
Texas	10	3.00%	11	$614	11	1.50%	11	1.20%	AAA/Aaa/AAA
Michigan	11	2.60%	10	$785	9	2.10%	9	1.90%	AA/Aa2/AA-
Median		**6.70%**		**$1,087**		**2.70%**		**2.50%**	
Mean		**6.65%**		**$1,711**		**3.70%**		**3.32%**	
National Median		**5.10%**		**$1,054**		**2.60%**		**2.40%**	

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 or below 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 improved its position to eighth from sixth for debt per capita and debt as a percentage of personal income.***

Pension Obligations

The pension system is relatively well-funded with a funded ratio of 85.4% at June 30, 2013. Rating agencies have made positive comments regarding Florida responsibly managing and funding its pension system and modifying benefits to manage the liability over the long-term. Moody's recently downgraded six of the ten states with the largest pension burdens, primarily due to the magnitude and poor management of the pension obligation. Annual pension contributions are viewed as long-term fixed costs by rating agencies, and like debt service, potentially crowd out other expenditures if not managed prudently. ***The State's management and funded status of its pension plan is an increasingly important factor in the State's credit analysis.***

Rating agencies have developed quantitative methodologies to evaluate a state's pension liabilities and integrate them into their credit analysis. Moody's and Fitch each employ 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 like Florida's, Moody's and Fitch allocate the unfunded liability to all participating governments, attributing only a portion 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's adjusted pension liability of about $18.6 billion falls significantly below the median of nearly $32.2 billion for the largest states with ***Florida having the lowest ratio in the peer group when comparing the ANPL to personal income, per capita, and GDP; and actuarially required contribution as a percentage of revenues.***

2013 Pension Metrics Comparison of Eleven Most Populous States

Adjusted Net Pension Liabilities ("ANPL") and Actuarial Required Contribution ("ARC") Medians

State	Rank	ANPL (in Millions)	Rank	ANPL Per Capita	Rank	ANPL as a % of Revenues	Rank	ANPL as a % of Personal Income	Rank	ANPL as a % of State GDP	Rank	ARC as % of Revenues
California	1	$ 189,442	4	$ 4,942	5	92.5%	4	10.2%	4	8.6%	3	5.6%
Illinois	2	167,582	1	13,009	1	268.3%	1	27.7%	1	23.3%	1	11.2%
Texas	3	104,422	5	3,948	4	102.8%	5	9.0%	5	6.8%	5	3.8%
New Jersey	4	87,644	2	9,848	2	179.7%	2	17.8%	2	16.1%	2	8.1%
Pennsylvania	5	76,927	3	6,022	3	129.7%	3	13.0%	3	11.9%	4	4.9%
New York	6	32,192	8	1,638	11	24.2%	10	3.0%	10	2.5%	6	1.5%
Michigan	7	26,854	6	2,714	7	58.6%	6	6.9%	6	6.2%	6	1.5%
Georgia	8	22,099	7	2,212	6	60.4%	7	5.8%	7	4.9%	8	1.4%
Florida	**9**	**18,657**	**11**	**954**	**10**	**27.3%**	**11**	**2.3%**	**11**	**2.3%**	**11**	**0.6%**
Ohio	10	16,859	10	1,457	9	33.0%	9	3.5%	9	3.0%	10	0.7%
North Carolina	11	14,620	9	1,485	8	34.9%	8	3.8%	8	3.1%	9	1.3%
Median		**$ 32,192**		**$ 2,714**		**60.4%**		**6.9%**		**6.2%**		**1.5%**
Mean		**$ 68,845**		**$ 4,384**		**91.9%**		**9.4%**		**8.1%**		**3.7%**
National Median		**$ 12,110**		**$ 3,010**		**60.3%**		**7.7%**		**6.0%**		**2.0%**

Figure 21

Figure 21 shows the most recent metric published in Moody's pension medians report released in November 2014 -- the Actuarially Required Contribution or "ARC" as a percent of governmental revenues. Publishing this metric emphasizes the importance Moody's places on fully funding the ARC, which is one of the most critical aspects of prudent management of the pension system over the long term. Following three fiscal years where the State deviated from its historical discipline by failing to make material contributions towards amortizing the unfunded liability, the full actuarially required contribution was appropriated in Fiscal Years 2014 and 2015.

Rating agencies have not coalesced around a standard methodology for treatment of other post-employment benefits ("OPEB"). Generally the analysis and credit implications of OPEB costs revolve around whether benefits are contractually or constitutionally protected similar to pension benefits or if like Florida, benefits are discretionary and included in the budget on a pay-as-you-go

basis. As a result, the implicit subsidy associated with Florida's OPEB does not materially affect the long term liability profile.

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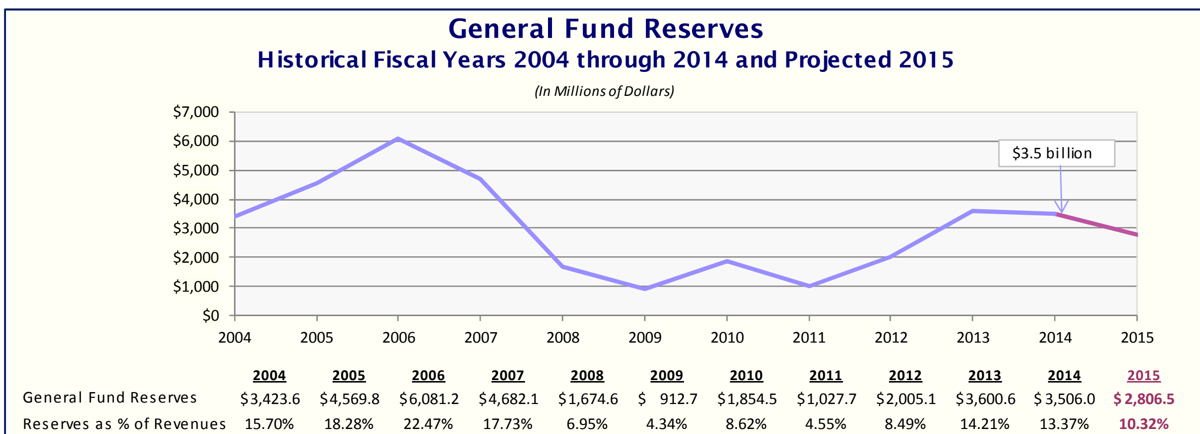
LEVEL OF RESERVES

An important measure of financial health and ability to respond to unforeseen financial challenges is the level of general fund reserves. The State's unspent general revenue combined with the Budget Stabilization Fund are collectively referred to herein as the "General Fund Reserves." Figure 22 shows the level of the State's General Fund Reserves over the last ten fiscal years, as well as the projected June 30, 2015 General Fund Reserve balance. ***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 Reserves to general revenues, expressed as a percentage.



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
General Fund Reserves	$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	$3,600.6	$3,506.0	$2,806.5
Reserves as % of Revenues	15.70%	18.28%	22.47%	17.73%	6.95%	4.34%	8.62%	4.55%	8.49%	14.21%	13.37%	10.32%

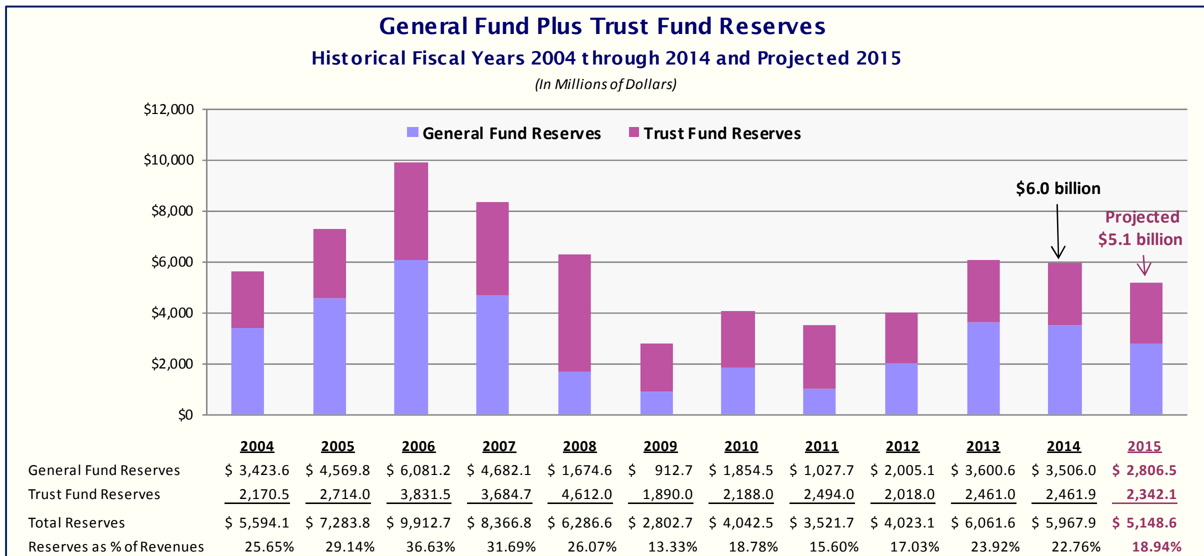
Figure 22

General Fund Reserves

Florida's General Fund Reserves increased substantially between Fiscal Years 2004 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. From Fiscal Years 2007 to 2009 when Florida experienced a precipitous decline in its major operating revenues (sales tax and documentary stamp taxes) due to the Great Recession, General Fund Reserves were drawn down to mitigate spending reductions. Following that three-year period, General Fund Reserves increased in Fiscal Year 2010 due to revenue enhancements and federal stimulus funding. After using reserves in Fiscal Year 2011 to balance the budget, improved revenue collections during Fiscal Years 2012 and 2013 as well as an informal target to retain $1 billion in unspent general revenue, favorably affected General Fund Reserves at June 30, 2013 when General Fund Reserves were replenished to $3.6 billion or 14.2% of general revenues. Policymakers increased the target to maintain a minimum $1.5 billion in unspent general revenue in Fiscal Year 2014 and transferred the third required installment to replenish the Budget Stabilization Fund. Despite these positive financial commitments, ***General Fund Reserves declined $100 million to $3.5 billion or 13.4% of general fund revenues at the end of Fiscal Year 2014.*** The Fiscal Year 2015 budgeted spending plan includes using additional General Fund Reserves with a projected draw down to $2.8 billion or 10.3% of general fund revenues. ***Should the projected decline in General Fund Reserves materialize at June 30, 2015, the State's financial flexibility will have diminished by nearly $800 million in two years.***

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 excess trust fund balances that are available and can be used for other purposes if directed by the Legislature. In fact, the Legislature has routinely swept 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 a more holistic picture of the State's financial flexibility. Figure 23 shows the impact of including trust funds in the reserve analysis over the last ten years.



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
General Fund Reserves	$ 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	$ 3,600.6	$ 3,506.0	$ 2,806.5
Trust Fund Reserves	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	2,461.0	2,461.9	2,342.1
Total Reserves	$ 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	$ 6,061.6	$ 5,967.9	$ 5,148.6
Reserves as % of Revenues	25.65%	29.14%	36.63%	31.69%	26.07%	13.33%	18.78%	15.60%	17.03%	23.92%	22.76%	18.94%

Figure 23

Including trust fund balances better reflects the State's true financial flexibility available from reserves. Total reserves (including trust fund balances) of approximately $6.0 billion or 22.8% of general revenues at June 30, 2014 were considered strong by rating agencies. The adopted budget for Fiscal Year 2015 includes a one-time use of trust fund balances equal to $281 million. In addition, Trust Fund Reserves were appropriated to fund budget priorities including those related to education, health care, tourism and environmental initiatives. As a result, total reserves are expected to decrease at June 30, 2015 to $5.1 billion or 18.9% 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, 2014, the three major rating agencies, S&P, Fitch, and Moody's each affirmed the State's AAA, AAA, and Aa1 general obligation ratings and Stable Outlook, respectively. The stability in the State's general obligation ratings and credit strengths reflect each agency's view including: an improving economy as evidenced by stabilized and improved revenue collections; greater financial flexibility through restoration of reserve levels following the depletion from the peak during the Great Recession; and relatively well-funded pension system. 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 the broad employment growth, with all sectors experiencing positive year-over-year improvement as of August 2014. 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 maintaining structural budget balance in light of continued budget pressures; sustained improvement in employment and payroll as the State continues to recover jobs lost during the Great Recession; maintain reserve balances following improvement since the end of the Great Recession; and the potential negative fiscal and economic consequences or unmanageable assessments caused by a catastrophic hurricane. In addition, analysts will continue to evaluate how management of long term liabilities such as P3 contracts and pension funding will affect the State's budget. ***Rating agencies will continue to evaluate the State's ability to meet revenue projections, maintain improved financial reserves and structural budget balance given reliance on economically sensitive sales tax collections, Florida's primary operating revenue.***

CONCLUSION

Total State direct debt outstanding as of June 30, 2014 was $24.2 billion, a $400 million decrease from the prior fiscal year, bringing the aggregate debt reduction to $4.0 billion over the last four years. The reduction was primarily due to principal amortizations, coupled with less new money issuance. Indirect debt decreased by $1.7 billion during Fiscal Year 2014, declining to $12.2 billion from $13.8 billion at June 30, 2013. ***Projected future debt issuance primarily for transportation projects only totals $4.1 billion.*** Projected issuance is driven by DOT's long-term I-4 Ultimate P3 project at an estimated cost of $2.7 billion (including $230 million contributed by the Central Florida Expressway to offset construction costs). Projections exclude any additional borrowing for PECO, Florida Forever and Everglades Restoration, and additional P3 projects entered into by the Department of Transportation as the amounts and timing of debt issuance under these programs are unknown. ***Florida's debt is considered moderate and is manageable at the current level.***

Reserves are critical and provide the financial flexibility necessary to address financial uncertainties. At the end of Fiscal Year 2014, ***General Fund Reserves were $3.5 billion or 13.4% of general fund revenues. General Fund Reserves are projected to decrease to $2.8 billion at June 30, 2015, a projected $700 million decrease.*** Trust fund balances also provide reserves the State can utilize, if necessary. Including trust fund reserves augments the General Fund Reserves and better reflects the State's level of financial flexibility. ***Total reserves, including trust fund balances, were considered strong by rating agencies at nearly $6.0 billion or 22.8% of general revenues at June 30, 2014.*** Total reserves are expected to decrease, but remain sufficient at $5.1 billion or 18.9% of general fund revenues at June 30, 2015.

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 and Stable "Outlook" on the State's general obligation debt during Fiscal Year 2014.*** Rating agencies cite as credit strengths the State's improving economy including employment growth, increased revenues and improved financial flexibility due to growth in reserves, coupled with strong budget and financial management practices, a structurally balanced budget and an economy that benefits from a low cost of living and favorable climate. Remaining concerns over maintenance of the current ratings include the continued stability in Florida's economic and financial performance, maintaining adequate reserves in light of continuing budget pressures and balancing the budget without overreliance on non-recurring revenues. The State's credit ratings also remain vulnerable if a catastrophic hurricane weakens the State's economy or precipitates unmanageable assessments.

Annual debt service requirements on net tax-supported debt decreased to $1.9 billion for Fiscal Year 2014 from $2.2 billion in Fiscal Year 2013. Annual debt service requirements decreased primarily due to the retirement of Preservation 2000 bonds during Fiscal Year 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 $1.4 billion in Fiscal Year 2014 to $33.7 billion. The economic recovery has stabilized, as evidenced by an increased forecast for sales tax collections, the State's largest operating revenue. Overall the Revenue Estimating Conferences have kept the long-term revenue forecast largely unchanged for Fiscal Years 2014, 2015 and 2016. The State's forecast remains vulnerable to negative changes in the State's ongoing housing recovery, geopolitical uncertainty and its effect on the U.S. and international economies, or a change in the Federal Reserve's current accommodative monetary policy. The August 2014 revenue estimates were used to

prepare the 2014 Report. The Revenue Estimating Conference will meet in December 2014 to update and revise revenue forecasts.

The benchmark debt ratio improved over the past year to 5.60% from 6.79%, reflecting increased revenues available to pay debt service as well as a reduction in annual debt service. The projected benchmark debt ratio shows the ratio remains below the 6% policy target. The anticipated improvement in the benchmark debt ratio is attributable to the projected growth in revenues and limited new money issuance, keeping annual debt service at approximately $2.0 billion through Fiscal Year 2017. 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 2013 debt ratios to national and peer group averages indicate that Florida's debt ratios are consistent with national and 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 debt as a percentage of state GDP. The State's ranking improved to eighth from sixth for debt per capita and debt as a percentage of personal income.

The pension system is relatively well-funded with a funded ratio of 85.4% at June 30, 2013. Rating agencies have made positive comments regarding Florida responsibly managing and funding its pension system and modifying benefits to manage the liability over the long-term. Annual pension contributions are viewed as long-term fixed costs by rating agencies, and like debt service, potentially crowd-out other expenditures if not managed prudently. When pension liabilities are analyzed based on rating agency adjustments, ***Florida is near the bottom of the peer group for the adjusted net pension liability ("ANPL") (9th) and is the lowest when comparing the ANPL to personal income, per capita, and GDP and the actuarially required contribution as a percentage of revenues.***