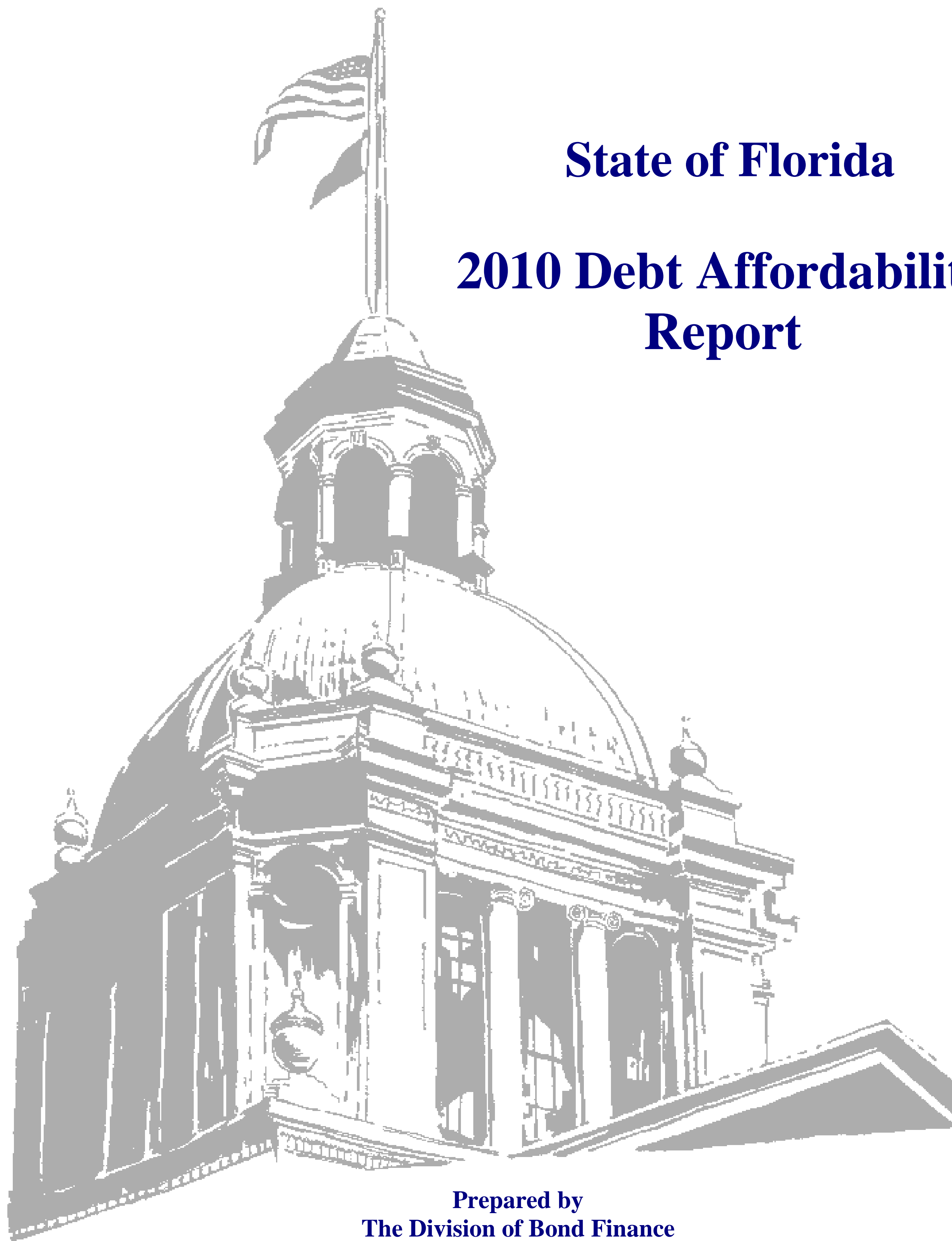
State of Florida

2010 Debt Affordability Report



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EXECUTIVE SUMMARY

The purpose of this 2010 Debt Affordability Report is to review changes in the State's debt position over the last year and revise projections used to measure the financial impact of changes in revenues and future debt issuance. The 2010 Debt Affordability Report has been prepared as required by Section 215.98, Florida Statutes.

Debt Outstanding: ***Total State debt outstanding was $28.2 billion at June 30, 2010.*** Net tax-supported debt for programs supported by State tax revenues or tax-like revenues totaled $23.6 billion, and self-supporting debt, representing debt secured by revenues generated from operating bond-financed facilities, totaled $4.6 billion. Additionally, indirect State debt at June 30, 2010 was approximately $16.4 billion. Indirect debt is debt that is either not secured by traditional State revenues or is the primary obligation of a legal entity other than the State. Indirect debt has become a much more significant part of the State's overall debt profile due to borrowings by insurance-related entities such as Citizens Property Insurance Corporation and the Florida Hurricane Catastrophe Fund Finance Corporation; however, indirect debt is not a component of State debt ratios or the debt affordability analysis.

Overview of the State's Credit Ratings: ***The State maintained its credit ratings during the past year.*** The Standard and Poor's rating is unchanged at AAA with a negative outlook. Fitch Ratings recalibrated the State's rating to AAA from AA+, retaining the negative outlook, in their move to a uniform rating scale for municipal and corporate bonds. Moody's Investors Service also recalibrated municipal ratings to a global scale without a change in the State's rating of Aa1; however the outlook was changed to stable from negative. The State's conservative financial and budgeting practices, swift response to budget pressures, adequate reserves, moderate debt burden with clear guidelines and a well funded pension plan are recognized credit strengths. The projected budget deficit and actions taken to address the projected deficit will be important rating considerations. ***Maintaining adequate reserves, developing a structurally balanced budget, and not relying on one-time revenue sources are critical factors the rating agencies will be evaluating when determining the State's future ratings.***

Reserves: One of the most important indicators of a government's financial strength is its general fund reserves. ***The combined balance of the Budget Stabilization Fund and General Fund was $1.9 billion or 8.6% of general revenues at June 30, 2010, which is considered adequate by rating agencies.*** This was the first year with an increase in reserves after three consecutive years of declines. ***General Fund reserves are expected to decrease in Fiscal Year 2011 to $1.1 billion, or 4.9% of general revenues, which is slightly below the 5% considered adequate by rating agency guidelines.*** However, Trust Fund balances have served as an additional source of reserves, augmenting the State's financial flexibility. Adequate reserves have been critical in providing the financial flexibility to react to declining revenues and an important factor in maintaining the State's ratings.

Estimated Debt Issuance: ***Approximately $7.2 billion of debt is expected to be issued over the next ten years for all of the State's currently authorized financing programs.*** This estimate is approximately $3.0 billion or 30% less than the previous projection of expected debt issuance.

However, the expected Public Education Capital Outlay ("PECO") issuance is $350 million more than last year. The increase in PECO program debt capacity was created through a "funds shift" or a recharacterization of a portion of communication sales taxes as gross receipt taxes by the 2010 Legislature. The prior projection of expected debt issuance included $1.0 billion of GARVEE bonds for transportation, which is not included in projections this year. Expected debt issuance also does not include additional obligations for Public/Private Partnership ("P3") projects as there is no basis for projecting these transactions.

Estimated Annual Debt Service Requirements: ***Debt service payments now total $2.1 billion per year.*** During Fiscal Year 2010 annual debt service requirements increased by $37 million, which is less than the average annual increase of $93 million over the last ten years. This increase in annual debt service is less than expected when considering the $2.5 billion of tax-supported debt incurred in Fiscal Year 2010. However, after making adjustments for debt service accruals paid from escrowed moneys on refunded bonds and for annualized debt service on bonds outstanding for only part of the year, the annualized increase in debt service is $170 million. This is a more accurate reflection of the annualized recurring commitment of future revenues for the debt incurred during Fiscal Year 2010 and increases the benchmark debt ratio as more fully described below. ***Based on projected bond issuance, annual debt service payments are estimated to increase to $2.3 billion over the next three years.***

Revenue Projections: ***Revenues available for debt service in Fiscal Year 2010 of $28.3 billion were $2.3 billion more than Fiscal Year 2009. The substantial increase in revenues is primarily due to the addition of a new revenue source –*** $1.8 billion of federal reimbursements pledged to GARVEE bonds that were expected to be issued in 2010 but were not. The substantial declines in historical revenues available for debt service experienced in the prior three fiscal years abated in Fiscal Year 2010 and collections exceeded Fiscal Year 2009 by $500 million. The August 2010 short term revenue projection assumes modest revenue growth until a full economic recovery begins in earnest in the spring of 2011. ***The Revenue Estimating Conferences will meet on December 14th to update revenue forecasts, which could result in negative revisions to projected revenue collections and cause the projected benchmark debt ratio to increase.***

Debt Ratios: ***The State's benchmark debt ratio of debt service to revenues available to pay debt service has improved significantly over the past year from 7.91% for Fiscal Year 2009 to 7.39% for Fiscal Year 2010.*** Although the benchmark debt ratio improved, ***when considering the impact of accrued debt service on refunded debt and annualized debt service on bonds issued during the year, the benchmark debt ratio increases to 7.86%, which is comparable to the prior year*** and negates the apparent improvement. The benchmark debt ratio is projected to be 7.31% for 2011 and 7.09% for 2012, before falling below the 7% cap to 6.93% in 2013. The projected improvement is due to the combined effect of increased revenues available to pay debt service and decreased expected debt issuance. The projected benchmark debt ratio is expected to exceed the 7% cap through 2012 based on existing borrowing plans and August 2010 revenue forecasts. The benchmark debt ratio could increase further if revenues do not grow as anticipated or additional debt is authorized.

A comparison of 2009 debt ratios to national and peer-group averages indicate that Florida's debt ratios are generally higher than the national averages but lower than the peer-group averages for all but the benchmark debt ratio. The State's ranking in the ten-state peer group has improved over the last ten years, although the State remains in the middle of the peer-group. The State moved from the third to second highest ratio for the benchmark debt ratio of debt service to revenues within the peer group, remained fifth highest in debt per capita, and sixth highest in debt as a percentage of personal income.

2009 Comparison of Florida to Peer Group and National Medians			
	Net Tax Supported Debt as a % of Revenues	Net Tax Supported Debt Per Capita	Net Tax Supported Debt as a % of Personal Income
Florida	7.91%	$1,192	3.16%
Peer Group Mean	5.93%	$1,647	3.84%
National Median	Not Available	$936	2.50%

Debt Capacity: ***Based upon the current revenue projections and existing borrowing plans, there is no debt capacity available within the 7% cap for the next two fiscal years***. Debt capacity is not available until 2014 when annual debt service declines substantially due to the retirement of Preservation 2000 bonds. The estimated debt capacity available within the 7% cap in 2014 is $3.2 billion. The debt capacity available over the next ten years within the 7% cap is approximately $13.3 billion. Capacity will not become available within the 6% target until 2016. The amount and timing of debt capacity available will change based on future revenue projections and debt issuance.

INTRODUCTION

In 1999, the Governor and Cabinet, acting as Governing Board of the Division of Bond Finance, requested that staff prepare a Debt Affordability Study. ***The primary purpose of the study was to provide policymakers with a basis for 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.*** A secondary goal was to provide 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 standards and evaluates the impact of issuing more debt, as well as changes in the economic climate reflected in current revenue forecasts, on the State's debt position.

During the 2001 Legislative Session, the Legislature adopted the debt affordability analysis by enacting Section 215.98, Florida Statutes. The statute requires the debt affordability analysis to be prepared and delivered annually to the President of the Senate, Speaker of the House and the chair of each appropriation committee and, among other things, designates debt service to revenues as the benchmark debt ratio. ***Additionally, the Legislature created a 6% target and 7% cap for calculating estimated debt capacity.***

Additional debt that would cause the benchmark debt ratio to exceed the 6% target may be issued only if the Legislature determines that the authorization and issuance of such additional debt are in the best interest of the State. Additional debt that would cause 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.

The 2010 Debt Affordability Report ("Report") has been prepared to satisfy the requirements of Section 215.98, Florida Statues. ***The purpose of the Report is to review changes in the State's debt position over the past year and revise the projections of the benchmark debt ratio to evaluate the financial impact of future debt issuance and changing economic conditions reflected in current revenue estimates.*** Performing the debt affordability analysis enables the State to monitor changes in its debt position. The Report also provides information regarding current revenue estimates, which enables the State to anticipate and plan for changing economic conditions in its future borrowing plans.

The essence of the Report is the revision of projected debt ratios for three factors: (1) actual debt issuance and repayments over the last year; (2) expected future debt issuance over the next 10 years; and (3) revised revenue forecasts by the Revenue Estimating Conference. The revised debt ratios are compared with national averages and the debt ratios of our ten-state peer group. Additionally, the revised benchmark debt ratio is evaluated vis-a-vis the 6% target and 7% cap. Lastly, ***the target benchmark debt ratio of 6% and the cap of 7% are used to calculate anticipated future debt capacity available within the respective limits.***

The information generated by this analysis will be 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. The analysis will be updated as Revenue Estimating Conference forecasts are revised so that ***State policymakers and the Legislature will have the latest information available when making critical decisions regarding borrowing 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. ***The information generated by this analysis is important for policymakers to consider because their decisions on additional borrowing can affect the long-term fiscal health of the State.***

COMPOSITION OF OUTSTANDING FLORIDA DEBT

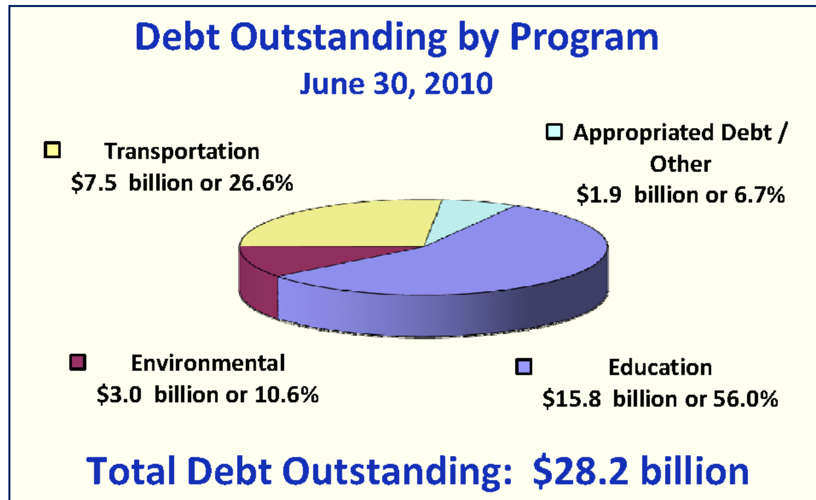


Figure 1

The State of Florida had $28.2 billion in total debt outstanding at June 30, 2010. Figure 1 illustrates the State's investment in bond financed infrastructure by program area. Educational facilities are the largest investment financed with bonds, with $15.8 billion or 56% of total debt outstanding devoted to school construction. The State's largest bond program, Public Education Capital Outlay or "PECO", accounts for $11.2 billion of debt outstanding, followed by the Lottery bond program with $2.9 billion of debt outstanding. Transportation infrastructure, consisting primarily of toll roads financed with bonds, is the second largest investment at $7.5 billion. The combined investment in toll roads by Florida's Turnpike and the State's Expressway Authorities is approximately $3.3 billion. Right-of-Way Acquisition and Bridge Construction bonds and P3 long-term obligations follow with $1.8 billion of debt outstanding for each program and account for 48% of transportation debt outstanding. The third largest investment financed with bonds has been for acquiring land for conservation, with $2.6 billion of bonds outstanding for the Preservation 2000/Florida Forever and Everglades Restoration bond programs.

As shown in Figure 2, ***the $28.2 billion of debt outstanding at June 30, 2010 consisted of net tax-supported debt totaling $23.6 billion and self-supporting debt of $4.6 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 and other expressway authority bond programs, are the primary self-supporting programs with outstanding debt. The remaining self-supporting debt relates to university auxiliary enterprises such as dormitories and parking facilities and the water pollution control revolving loan program which provides low interest rate loans to local governments.

Debt Outstanding by Type and Program

As of June 30, 2010

(In Million Dollars)

Debt Type		Amount
Net Tax-Supported Debt		**$ 23,557.3**
Self-Supporting Debt		**4,610.5**
Total State Debt Outstanding		**$ 28,167.8**
Net Tax-Supported Debt		
Education		
Public Education Capital Outlay	$ 11,230.4	
Capital Outlay	642.7	
Lottery	2,940.4	
University System Improvement	234.4	
Community Colleges	105.8	
Total Education		$ 15,153.7
Environmental		
Preservation 2000 / Florida Forever	2,351.1	
Everglades Restoration Bonds	224.3	
Conservation and Recreation	5.7	
Save Our Coast	10.8	
Inland Protection	95.2	
Total Environmental		2,687.0
Transportation		
Right-of-Way Acquisition and Bridge Construction	1,821.4	
State Infrastructure Bank	24.4	
P3 Obligations	1,694.3	
Florida Ports	282.7	
Total Transportation		3,822.9
Appropriated Debt / Other		
Facilities	394.0	
Master Lease	14.1	
FLAIR Lease	1.5	
Energy Saving Contracts	39.7	
Prisons	721.7	
DMS Aircraft Lease	3.5	
Juvenile Justice	12.7	
Children & Families	126.7	
Affordable Housing	156.2	
Sports Facility Obligations	373.9	
Florida High Charter School	18.6	
Lee Moffitt Cancer Center	31.0	
Total Appropriated Debt / Other		1,893.7
Total Net Tax-Supported Debt Outstanding		**$ 23,557.3**
Self-Supporting Debt		
Education		
University Auxiliary Facility Revenue Bonds		$ 673.3
Environmental		
Florida Water Pollution Control		323.6
Transportation		
Toll Facilities	$ 3,450.1	
State Infrastructure Bank Revenue Bonds	75.6	
Road and Bridge	88.0	
Total Transportation		3,613.7
Total Self-Supported Debt Outstanding		**$ 4,610.5**

Figure 2

In addition to direct debt, the State also has indirect debt. Indirect debt is debt that is either not secured by traditional State revenues or is the primary obligation of a legal entity other than the State. Although in some cases indirect debt may represent a financial burden on Florida's citizenry, e.g., assessments to service Florida Hurricane Catastrophe Fund and Citizens Property Insurance Corporation debt, ***indirect debt is not included in the State's debt ratios or the analysis of the State's debt burden.***

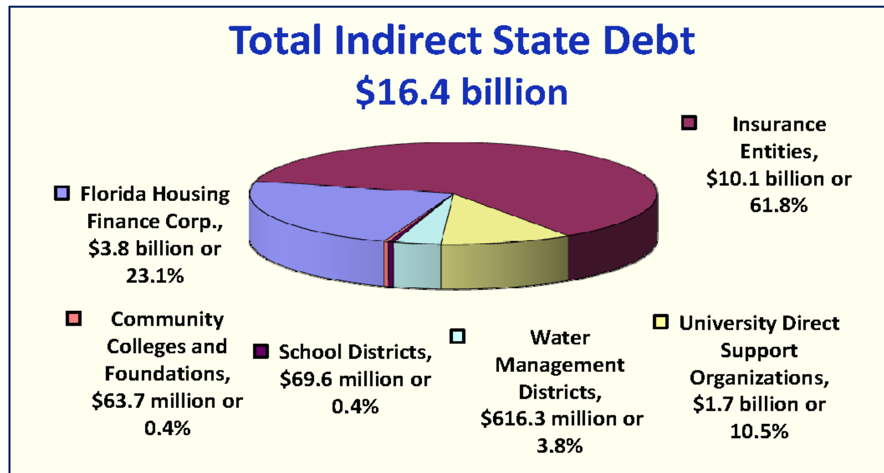


Figure 3

Indirect debt of the State totaled approximately $16.4 billion at June 30, 2010, $1.7 billion more than the previous year-end. The increase in indirect debt primarily relates to $2.4 billion of debt issued by the Citizens Property Insurance Corporation to provide liquidity for the payment of possible future hurricane claims. At June 30, 2010, liquidity debt outstanding was $3.7 billion for the Citizens Property Insurance Corporation and $3.5 billion for the Florida Hurricane Catastrophe Fund Finance Corporation. Figure 3 sets forth the State's indirect debt by program. ***Special purpose, quasi-governmental insurance entities now represent $10.1 billion or 62% of total indirect debt.*** The Florida Housing Finance Corporation, which administers the State's housing programs, had $3.8 billion of debt outstanding or 23% of the total. University direct support organizations follow with 10.5% of the indirect debt.

Total Indirect State Debt by Program

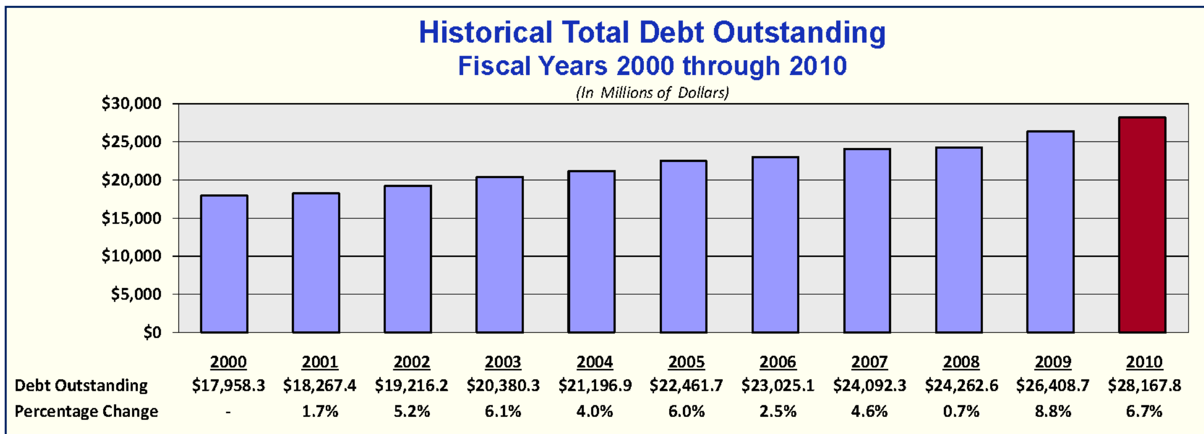
(In Millions of Dollars)

Florida Housing Finance Corporation		
Single Family Programs	$ 1,618.4	
Multi-Family Programs	2,183.0	
Total		$ 3,801.4
University Direct Support Organizations		
Shands Teaching Hospital	629.0	
University of Central Florida	342.6	
University of South Florida	373.0	
University of Florida	138.9	
Florida State University	101.7	
Other State Universities	139.8	
Total		1,724.9
School Districts		69.6
Community Colleges and Foundations		63.7
Water Management Districts		616.3
Florida Hurricane Catastrophe Fund Finance Corporation		5,649.9
Citizens Property Insurance Corporation		4,495.8
Total State Indirect Debt		**$ 16,421.6**

Figure 4

GROWTH IN STATE DEBT

Trends in debt are an important tool to evaluate debt levels over time. Figure 5 graphically illustrates the growth in total State direct debt over the last ten years.



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Debt Outstanding	$17,958.3	$18,267.4	$19,216.2	$20,380.3	$21,196.9	$22,461.7	$23,025.1	$24,092.3	$24,262.6	$26,408.7	$28,167.8
Percentage Change	-	1.7%	5.2%	6.1%	4.0%	6.0%	2.5%	4.6%	0.7%	8.8%	6.7%

Figure 5

Total State direct debt has increased by $10.2 billion over the last ten years, increasing from $18.0 billion at June 30, 2000 to $28.2 billion at June 30, 2010. The State made a substantial investment in infrastructure, addressing the requirements of a growing population for education, transportation, and acquiring conservation lands. The net increase was primarily due to the issuance of PECO bonds ($4.2 billion), lottery bonds ($2.0 billion), Public/Private Partnership ("P3") obligations ($1.8 billion), toll road bonds ($1.4 billion), and Right-of-Way bonds ($1.0 billion).

Total debt increased by $1.8 billion in Fiscal Year 2010 from $26.4 billion at June 30, 2009 to $28.2 billion at June 30, 2010. The $1.8 billion increase in debt outstanding is substantially more than the average annual increase of $1.0 billion. The increase in debt was due to new money issuance of approximately $3.1 billion under various bonding programs. New money tax-supported debt issuance was $2.5 billion causing a net increase of $1.2 billion in tax-supported debt. The single largest increase was due to the second Public Private Partnership for the Miami Tunnel project totaling $543 million. Other notable increases in debt occurred for school construction ($300 million) and prison construction ($318 million). Self-supporting debt increased by approximately $600 million, primarily due to increased debt for transportation toll facilities.

Fiscal Year 2010 bond issuance included $1.6 billion of Build America Bonds ("BABs"). BABs, which were authorized under the American Recovery and Reinvestment Act of 2009, are issued at taxable interest rates, and the Federal Government reimburses the issuer for 35% of the interest cost. The State expects 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.

Pursuant to Section 334.30, Florida Statutes, over the past two years, the Department of Transportation has executed two agreements with private entities in order to advance the I-595 Corridor Improvement Project and the Port of Miami Tunnel Project. The aggregate annual payment of such obligations for P3 projects may not exceed 15% of funds available in the State Transportation Trust Fund (STTF) in any given year. ***The two existing P3 projects have combined project costs to the State of $1.8 billion with "Availability Payments" over the next 35 years totaling $3.5 billion.*** The I-595 Corridor Improvement Project is estimated to cost $1.3 billion and the Port of Miami Tunnel Project is estimated to cost $543 million. "Availability Payments" are mandatory scheduled payments that begin once construction is finished in fiscal 2013 and 2014 and continue for 30 years.

The maximum aggregate annual payment for these two P3 projects is $170.5 million, which is approximately 3.0% of the funds available in the State Transportation Trust Fund. Availability Payments do not commence until Fiscal 2013-14. However, if this annual payment had been included as debt service for Fiscal Year 2010, the impact on the 2010 benchmark debt ratio would have been approximately 0.6%. The maximum annual payment under the statutory 15% cap is estimated to be approximately $840 million. If the State fully leveraged P3s up to the statutory cap, it would add an estimated $9 billion to the State's debt burden. The corresponding increase in the benchmark debt ratio would be approximately 2.4%.

In addition to new money debt issuance during Fiscal Year 2010, the State issued $2.0 billion in refunding bonds, $1.8 billion for net tax-supported bond programs and $224 million for self-supporting bond programs. The refunding transactions were issued to reduce debt service by taking advantage of historically low interest rates. The refundings resulted in a total debt service savings of $258 million and a present value savings of $212 million. Fiscal Year 2010 debt service savings were $11 million, with average annual savings of $24 million thereafter.

GROWTH IN ANNUAL DEBT SERVICE

The State's annual debt service payments for existing net tax-supported debt is approximately $2.1 billion per year. The State's annual debt service requirements have increased by 75% over the last ten years, rising from approximately $1.2 billion in 2000 to approximately $2.1 billion in 2010. The increased debt service reflects the increase in debt outstanding. This measure is important from a budgetary perspective because it indicates how much of the State's budget must be devoted to paying debt service before providing for other essential government services.

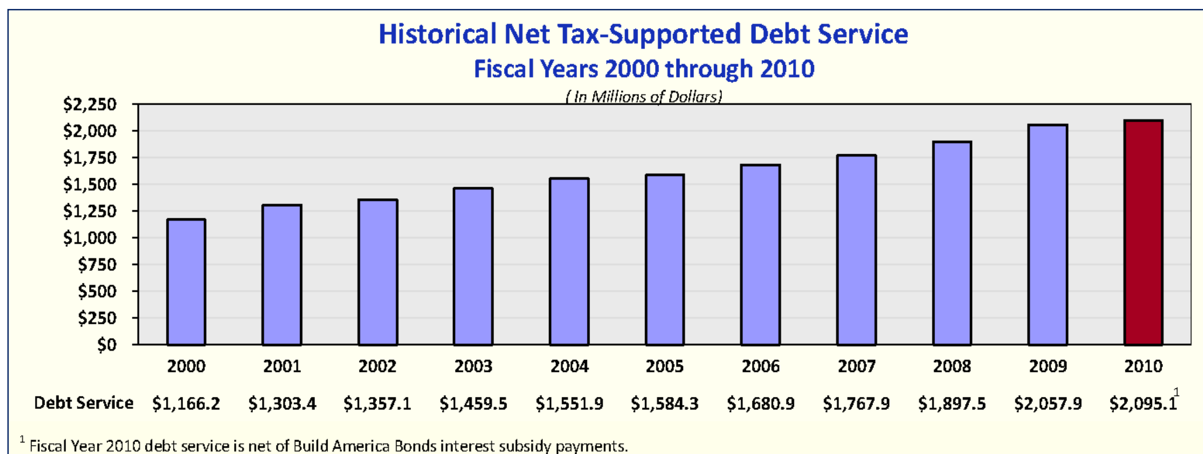
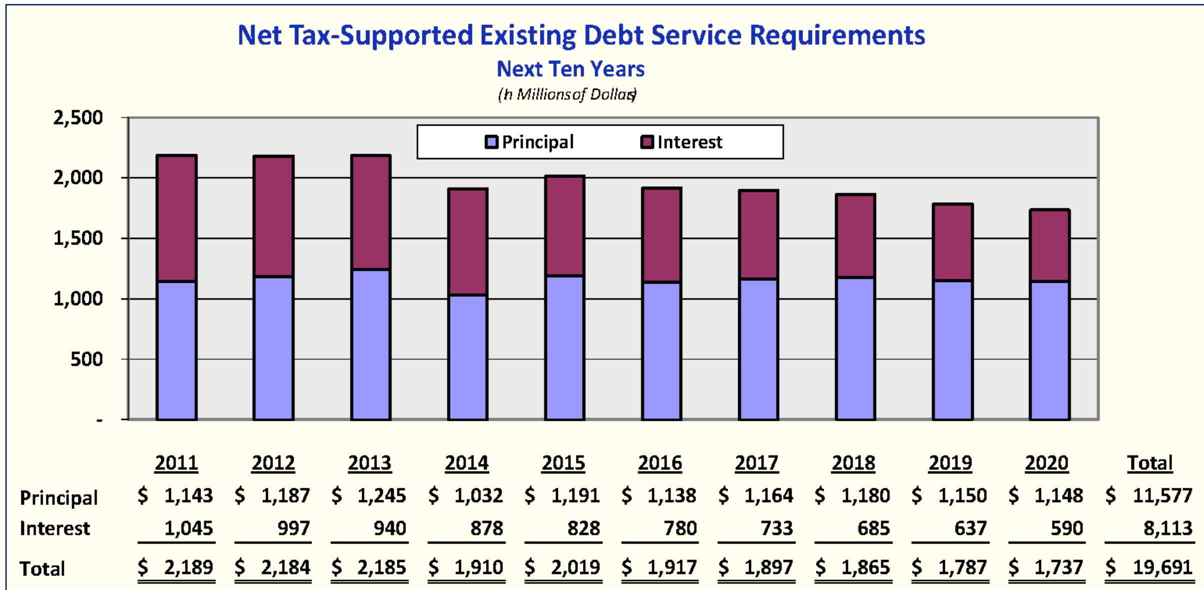


Figure 6

Net tax-supported new money debt issuance totaled $2.5 billion, which is 56% more than the $1.6 billion ten-year average annual issuance. ***During Fiscal Year 2010 annual debt service requirements increased by $37 million,*** which is less than the average annual increase of $93 million over the last ten years. This increase in annual debt service is less than expected when considering the $2.5 billion of tax-supported debt incurred in Fiscal Year 2010. ***However,*** after making adjustments for debt service accruals paid from escrowed moneys on refunded bonds and for annualized debt service on bonds outstanding for only part of the year, ***the annualized increase in debt service is $170 million.*** This is a more accurate reflection of the annualized recurring commitment of future revenues for the debt incurred during Fiscal Year 2010 and increases the benchmark debt ratio as more fully described below. Figure 6 depicts the increase in yearly debt service payments caused by the increase in debt over the last ten years.



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
Principal	$ 1,143	$ 1,187	$ 1,245	$ 1,032	$ 1,191	$ 1,138	$ 1,164	$ 1,180	$ 1,150	$ 1,148	$ 11,577
Interest	1,045	997	940	878	828	780	733	685	637	590	8,113
Total	$ 2,189	$ 2,184	$ 2,185	$ 1,910	$ 2,019	$ 1,917	$ 1,897	$ 1,865	$ 1,787	$ 1,737	$ 19,691

Figure 7

Debt service for the next ten years on the State's existing net tax-supported debt is shown in Figure 7. The total annual payments consist of both principal and interest on outstanding debt. Payments for debt service on existing outstanding debt total $19.7 billion over the next ten years, with principal and interest payments of $11.6 billion and $8.1 billion, respectively. The State's policy of using a level debt service structure is apparent, with annual debt service requirements of approximately $2.2 billion per year over the next three years. The State's annual debt service payments drop in 2014 by approximately $270 million due to the final maturity of Preservation 2000 bonds.

EXPECTED DEBT ISSUANCE

Figure 8 represents the expected debt issuance over the next ten years for each of the State's currently authorized bonding programs. Future debt issuance is based on information provided by various agencies receiving the proceeds of the bonds and does not include any new bonding programs. The projections for expected debt issuance also do not include the maximum amount statutorily authorized under some bonding programs, e.g., Florida Forever, GARVEE and Public/Private Partnerships for transportation.

Projected Debt Issuance By Program, Fiscal Years 2011 through 2020

(In Millions of Dollars)

Fiscal Year	PECO	Capital Outlay	Everglades	ROW	GARVEE	Master Lease	Energy Contracts	Community College	Total Issuance
2011	$ 696.2	$ 30.5	$ -	$ -	$ 85.2	$ 30.0	$ 20.0	$ 28.1	$ 889.9
2012	350.0	50.0	56.0	101.0	-	20.0	20.0	-	597.0
2013	573.4	-	-	202.0	-	20.0	20.0	-	815.4
2014	726.6	-	-	252.5	-	-	-	-	979.1
2015	691.4	-	-	207.1	-	-	-	-	898.5
2016	587.9	-	-	146.5	-	-	-	-	734.4
2017	589.9	-	-	-	-	-	-	-	589.9
2018	571.4	-	-	-	-	-	-	-	571.4
2019	553.3	-	-	-	-	-	-	-	553.3
2020	523.5	-	-	-	-	-	-	-	523.5
Total	**$ 5,863.6**	**$ 80.5**	**$ 56.0**	**$ 909.1**	**$ 85.2**	**$ 70.0**	**$ 60.0**	**$ 28.1**	**$ 7,152.5**

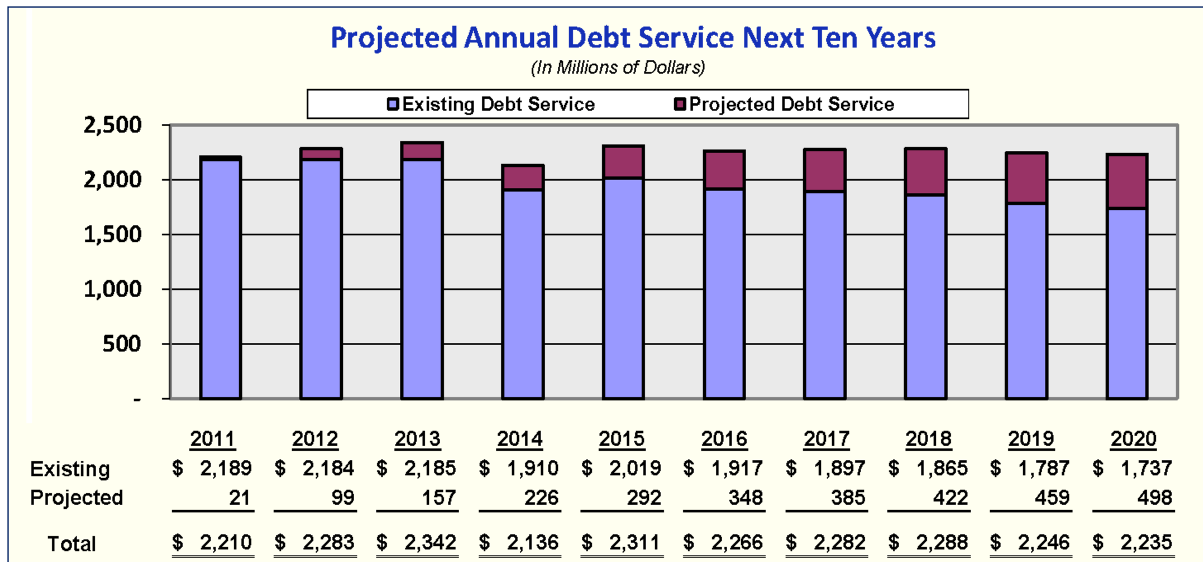
Figure 8

Approximately $7.2 billion in new money debt is projected to be issued over the next ten years for all of the State's currently authorized financing programs. The projected issuance is down significantly ($3.0 billion) from the prior year's projections ($10.2 billion). The decrease is due to higher than normal issuance in Fiscal Year 2010 ($2.5 billion) and DOT's elimination of approximately $1.1 billion from its projected issuance of GARVEE bonds. Expected bond issuance is predominately for financing educational facilities (PECO) and, to a lesser extent, transportation infrastructure (Right-of-Way Acquisition and Bridge Construction). Additional environmental bonds have been excluded from expected issuance because the legislature has discontinued the customary annual authorizations for the environmental programs bonds. ***The decrease in expected issuance helps improve the projected benchmark debt ratio.***

Although total expected debt issuance is significantly lower than prior years, projected PECO issuance is $350 million more than last year. The 2010 Legislature authorized a "funds shift" or recharacterization of a portion of the communication sales taxes as gross receipts taxes during regular session. The authorization to recharacterize revenues created additional bonding capacity within the PECO program. Substantial increases in debt in recent years have resulted from financing arrangements to address specific needs, e.g., P3 projects and prison financing, rather than on-going bonding programs. These ad hoc financing arrangements are not predictable and, therefore, the accuracy of the foregoing estimates may be affected.

PROJECTED DEBT SERVICE

Annual debt service is expected to grow to approximately $2.3 billion over the next three years based on existing debt service and expected bond issuance. This represents a 10.5% increase in annual debt service requirements. Figure 9 shows existing debt service and the estimated annual debt service for the projected bond issuances over the next ten fiscal years. The maximum annual debt service is projected to occur in 2013, at $2.3 billion. The final retirement of the Preservation 2000 bonds will cause a decline in annual debt service requirements by $270 million in 2014. However, the growth in annual debt service resumes in 2015 when mandatory payments begin on the P3 projects that were executed in 2009 and 2010.



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Existing	$ 2,189	$ 2,184	$ 2,185	$ 1,910	$ 2,019	$ 1,917	$ 1,897	$ 1,865	$ 1,787	$ 1,737
Projected	21	99	157	226	292	348	385	422	459	498
Total	$ 2,210	$ 2,283	$ 2,342	$ 2,136	$ 2,311	$ 2,266	$ 2,282	$ 2,288	$ 2,246	$ 2,235

Figure 9

LONG-RUN REVENUE FORECASTS

Projected revenue available to pay debt service is one of the two variables used to calculate the benchmark debt ratio. Revenue projections are especially important when changes reflect a different economic environment. ***Changes in revenue estimates have a significant impact on the calculation of available debt capacity because of the multiplier effect.*** Revenue collections for Fiscal Year 2010 were virtually on estimates, resulting in no significant adjustments to the short-term Revenue Estimating Conference projections during Fiscal Year 2010. ***The August 2010 Revenue Estimating Conference results have been used for purposes of this Report.*** Compared with the December 2009 projections, estimated general revenues were increased by a net amount of $492 million or 2.3% for Fiscal Year 2010 and $557 million or 2.5% for Fiscal Year 2011. Fiscal Year 2011 general revenue collections have been running under estimates and were $136 million short of estimate through October 2010. ***The December 2010 Revenue Estimating Conference is expected to update revenue forecasts which may result in negative revisions.***

General revenues are available for debt service 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. Historical and short-term projections of revenues available for debt service by source are provided in Figure 10 below. The projection of revenues available for debt service reflects the adjustments in general revenues as well as changes in the forecasts of specific pledged revenues.

Projected Revenue Available for State Tax-Supported Debt

	Actual		Projection		
Fiscal Year	2009	2010	2011	2012	2013
Revenue Available *(In Millions)* :					
General Revenue	$ 21,025.6	$ 21,523.1	$ 22,967.0	$ 24,672.7	$ 26,341.6
Specific Tax Revenue					
Gross Receipts	1,126.2	1,097.7	1,130.6	1,153.9	1,197.9
Motor Vehicle License	659.9	580.5	648.9	664.5	686.5
Lottery	1,289.1	1,247.2	1,180.8	1,186.0	1,200.6
Documentary Stamp Tax	746.6	686.8	713.0	786.2	686.8
Severance Tax	10.0	10.0	10.0	7.3	-
Motor Fuel Tax	1,075.5	1,085.8	1,110.4	1,162.7	1,219.8
Motor Vehicle License-Surcharge	18.0	19.7	16.5	16.8	17.3
Tax on Pollutants-IPTF	-	192.0	196.2	201.9	208.2
University Net Bldg Fees & Cap. Impr. Fees	34.9	35.6	37.8	38.4	39.0
Community College Cap. Impr.Fees	16.3	22.4	22.6	22.8	23.0
Federal Funds Pledged to GARVEE bonds	-	1,844.9	2,186.0	2,270.7	2,165.8
Total State Revenue Available	**$ 26,002.0**	**$ 28,345.6**	**$ 30,219.8**	**$ 32,183.9**	**$ 33,786.6**

Figure 10

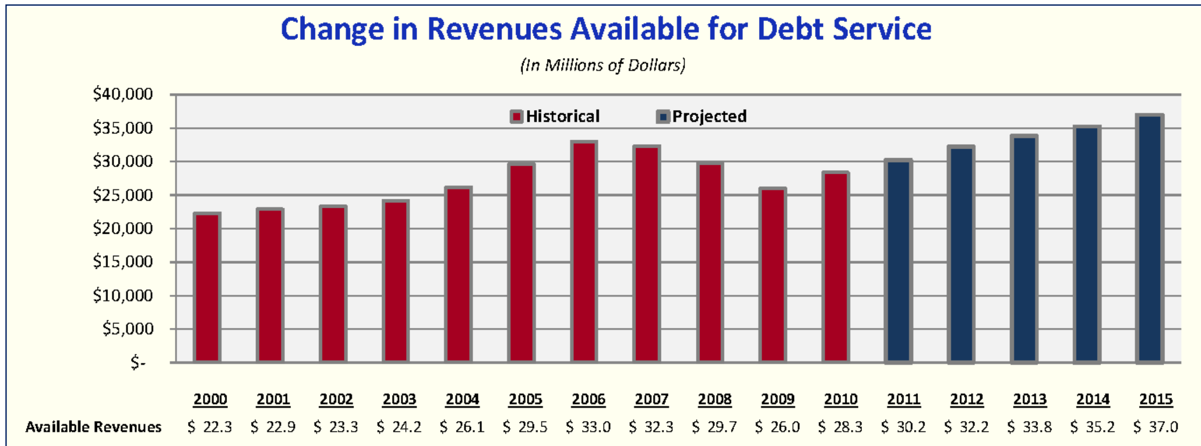


Figure 11

Figure 11 sets forth a ten-year history and five-year estimate of revenues available to pay debt service. The declines in revenue collections from 2007 through 2009 due to a weak economy caused significant increases in the benchmark debt ratio. See "Benchmark Debt Ratio" herein. Over the past year, the economic environment has shown indications of stabilizing and the early stages of an expected gradual recovery. Declines in revenue collections seem to have abated and actual collections are close to estimates. The Revenue Estimating Consensus Conference remains cautiously optimistic and has included an underlying assumption in the August 2010 forecasts that the extreme financial and economic stress experienced over the last few years reached bottom sometime during the spring of 2010. Modest growth in revenues is expected before a full recovery begins in earnest in the spring of 2011. The improvement in the benchmark debt ratio reflects the expected improvement in the economy and revenue collections.

Actual revenues available in Fiscal Year 2010 totaled $28.3 billion or $2.3 billion more than the Fiscal Year 2009 amount of $26.0 billion. However, $1.8 billion or 78% of the year over year increase is due to the addition of a new revenue source, i.e., federal reimbursements for transportation which would be used to pay debt service on GARVEE bonds. The GARVEE bond program was authorized by the 1999 Legislature and incorporated into the Department of Transportation work plan since 2001. However, GARVEE bonds have not been issued, and indications are that the GARVEE bonds anticipated to be issued in Fiscal Year 2011 will be postponed. GARVEE bonds are not included in the Department's current adopted work plan. However, federal reimbursements that would be pledged to GARVEE bonds have been included in the revenues available for debt service. Excluding the GARVEE revenues results in a $500 million year over year increase in revenues in 2010 and the first year of positive revenue growth in three years. ***The increase in available revenues results in an improvement in the expected 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 guidelines established by the Legislature for the benchmark debt ratio include a 6% target and a 7% cap. ***Figure 12 tracks both the historical and projected benchmark debt ratio.*** From 2000 through 2003 the ratio increased, exceeding the 6% target in 2003. Then, due to strong revenue growth, the benchmark debt ratio declined from 2004 through 2006. The significant increase in the benchmark debt ratio since 2006 illustrates the combined impact of declining revenues and increasing debt service. The projected benchmark debt ratio for the next ten years is based on the August 2010 revenue forecasts and expected debt issuance. The December 2010 Revenue Estimating Conference is expected to update revenue forecasts, which could result in negative revisions to projected revenue collections, thereby causing the projected benchmark debt ratio to increase.

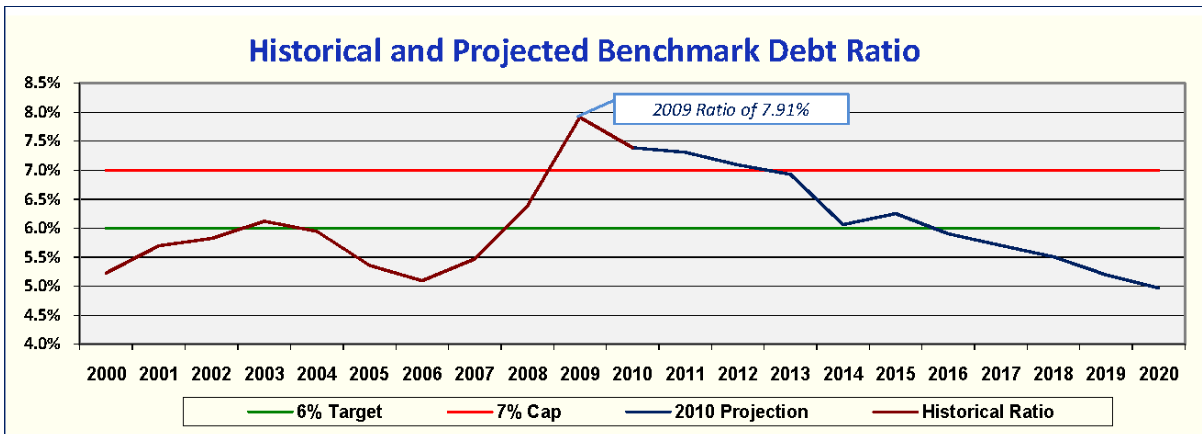


Figure 12

The State's debt position as measured by the benchmark debt ratio was 7.39% at June 30, 2010, an improvement from the 7.91% at June 30, 2009 but still exceeding the 7% cap. However, the positive change in the benchmark debt ratio is not as great as it appears. The improvement from increased revenues is primarily the result of the addition of federal reimbursements that would secure GARVEE bonds. In addition, as previously discussed, Fiscal Year 2010 debt service as shown does not fully reflect the recurring impact on the benchmark debt ratio for debt incurred in Fiscal Year 2010. ***After making adjustments*** for debt service accruals paid from escrowed moneys on refunded bonds and for annualized debt service on bonds outstanding for only part of the year, ***the benchmark debt ratio increases to 7.86% for Fiscal Year 2010.***

As shown in Figure 13, based on the current revenue forecasts and existing borrowing plans, ***the benchmark debt ratio is projected to remain over the 7% cap through 2012***. The benchmark debt ratio projections indicate that the benchmark debt ratio peaked in 2009 and will gradually improve until 2015 when mandatory "availability payments" for P3s commence.

Change in Benchmark Ratio Projection

	2009 Actual	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Prior Projection		7.72%	7.76%	7.46%	7.20%	6.32%	6.22%	6.19%	5.95%	5.67%	5.31%	-
2010 Projection	7.91%	7.39%	7.31%	7.09%	6.93%	6.06%	6.25%	5.90%	5.71%	5.51%	5.19%	4.97%
Change in Projection		**(0.33)%**	**(0.44)%**	**(0.37)%**	**(0.26)%**	**(0.26)%**	**0.03%**	**(0.29)%**	**(0.25)%**	**(0.17)%**	**(0.12)%**	

Figure 13

The 2010 improvement in the benchmark debt ratio should be considered in context of (1) a substantial amount of the increase in revenues was an increase in the base revenue as a result of federal reimbursements that would be used to secure GARVEE bonds, not revenue growth;(2) 2010 debt service does not reflect a full year of expected debt service payments on $2.5 billion of debt issued in Fiscal Year 2010; and (3) $543 million of the P3 long-term obligations have deferred debt payments until 2014. 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 the P3 or GARVEE programs. ***The projected improvement in the benchmark debt ratio is dependent on realizing the revenue growth projected by the Revenue Estimating Conference and foregoing any new bond authorizations beyond those included in existing borrowing plans. Projected improvement may be effected by the potential negative revisions to revenue forecasts that may result from the December 14th Revenue Estimating Conference.***

CHANGE IN DEBT CAPACITY

The last step in the debt affordability analysis is to estimate future available debt capacity. Debt capacity, as presented in this report, is based on current issuance expectations and the August 2010 revenue projections. Debt capacity can change significantly due to changes in revenue estimates reflecting a changing economic environment. ***No debt capacity is available over the next two years because the benchmark debt ratio exceeds 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	$ 14,375.0	$ 20,400.0
Estimated Bond Issuance	$ 7,152.5	$ 7,152.5
Net Debt Capacity Available	$ 7,222.5	$ 13,247.5

Figure 14

Figure 14 shows that based on the 6% target, the total bonding capacity over the next ten years will be $14.4 billion. As previously shown, the expected debt issuance for the next ten fiscal years under existing programs is estimated to be approximately $7.2 billion. This leaves approximately $7.2 billion of debt capacity over the next ten years (representing a $700 million increase in available debt capacity over last year's estimate), which can be attributable to decreased estimated bond issuance. ***However, no capacity is available within the 6% target until 2016.*** No expected issuance has been assumed for the continuation of environmental programs authorized by the 2008 Legislature or additional issuance for the P3 and GARVEE transportation programs. However, PECO projected issuance uses an additional $350 million of capacity for borrowings made available to the bond program by the recharacterization of a portion of the communication sales taxes as gross receipts taxes.

Figure 14 also shows the additional capacity under the 7% cap for the benchmark debt ratio that could be available to address State infrastructure needs. Total debt capacity within the 7% cap over the next ten years is estimated to be $20.4 billion; however, as noted above, there is no debt capacity available over the next two years. Approximately $3.2 billion of debt capacity becomes available in 2014 when annual debt service declines significantly due to the retirement of Preservation 2000 bonds. Estimated debt capacity should be considered a scarce resource to be used sparingly to provide funding for critical State infrastructure needs. Once used, the capacity is not available again for twenty years.

DEBT RATIO COMPARISON

There are three debt ratios used by the municipal bond market to evaluate a government's debt position: debt service to revenues; debt per capita; and debt to personal income. Comparisons of the State debt ratios to national and peer group medians are helpful because absolute values are not particularly useful without a basis for comparison. A more meaningful comparison is made by using a comparable peer group consisting of the ten most populous states.

2009 Comparison of Florida to Peer Group and National Medians

	Net Tax-Supported Debt as a % of Revenues	Net Tax-Supported Debt Per Capita	Net Tax-Supported Debt as a % of Personal Income
Florida	7.91%	$1,192	3.16%
Peer Group Mean	5.93%	$1,647	3.84%
National Median[1]	Not Available	$936	2.50%

Figure 15

Florida's debt ratios are generally higher than the national averages but are consistent with the peer-group averages. ***However, the ten-state peer group comparison as shown in Figure 15, indicates that Florida's benchmark ratio of debt service as a percentage of revenues is higher than the peer-group average.***

2009 Comparison of Florida to Ten Most Populous States

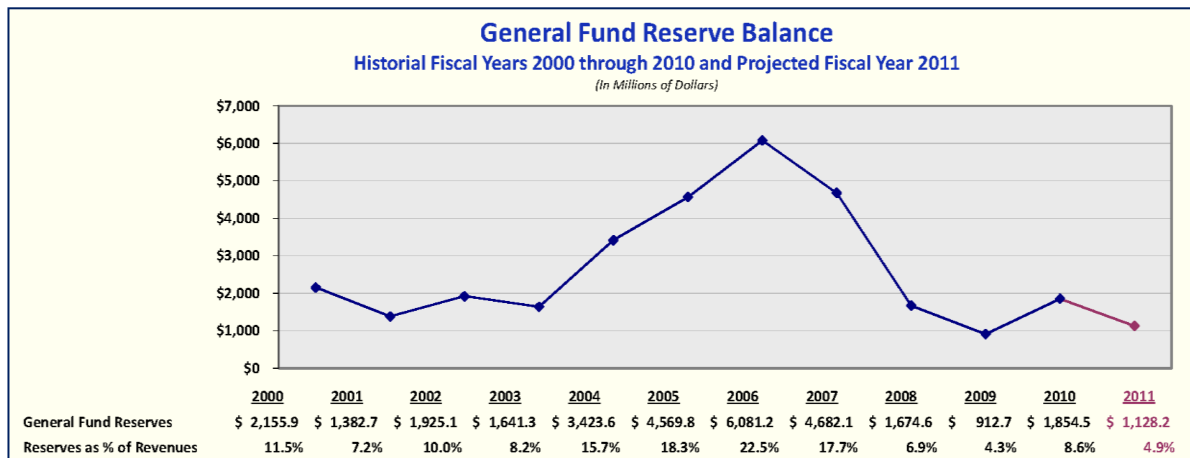
	Rank	Net Tax-Supported Debt Service as a % of Revenues	Rank	Net Tax-Supported Debt Per Capita	Rank	Net Tax-Supported Debt as a % of Personal Income	General Obligation Ratings Fitch/Moody's/S&P
New York	1	8.40%	2	$3,135	2	6.50%	AA/Aa2/AA
Florida	2	**7.91%**	5	**$1,192**	6	**3.16%**	**AAA/Aa1/AAA**
California	3	7.71%	3	$2,362	3	5.60%	A-/A1/A-
Ohio	4	7.40%	8	$933	7	2.40%	AA+/Aa1/AA+
Georgia	5	6.97%	6	$1,120	5	3.30%	AAA/Aaa/AAA
New Jersey	6	6.54%	1	$3,669	1	7.20%	AA/Aa2/AA
Illinois	7	6.32%	4	$1,856	4	4.40%	A/A1/A+
Pennsylvania	8	3.17%	7	$938	8	2.30%	AA+/Aa1/AA
Michigan	9	2.43%	9	$748	9	2.10%	AA-/Aa2/AA-
Texas	10	2.42%	10	$520	10	1.40%	AAA/Aaa/AAA
Median		**6.76%**		**$1,156**		**3.23%**	
Mean		**5.93%**		**$1,647**		**3.84%**	

Figure 16

Figure 16 details the Ten Most Populous State Peer Group Comparison for the three debt ratios. As indicated above, Florida is in the middle of the group for debt per capita and net tax-supported debt as a percentage of personal income ratios. ***Florida's ranking deteriorated over the past year for the benchmark ratio of debt service as a percentage of revenue, moving from third to second highest. The State has remained fifth highest for debt per capita and sixth highest for debt as a percentage of personal income.***

LEVEL OF RESERVES

An important measure of financial health is the level of general fund reserves. The following graphic shows the level of the State's general fund reserves over the last ten fiscal years. The graphic also shows the projected year-end general fund reserves balance for the current fiscal year.



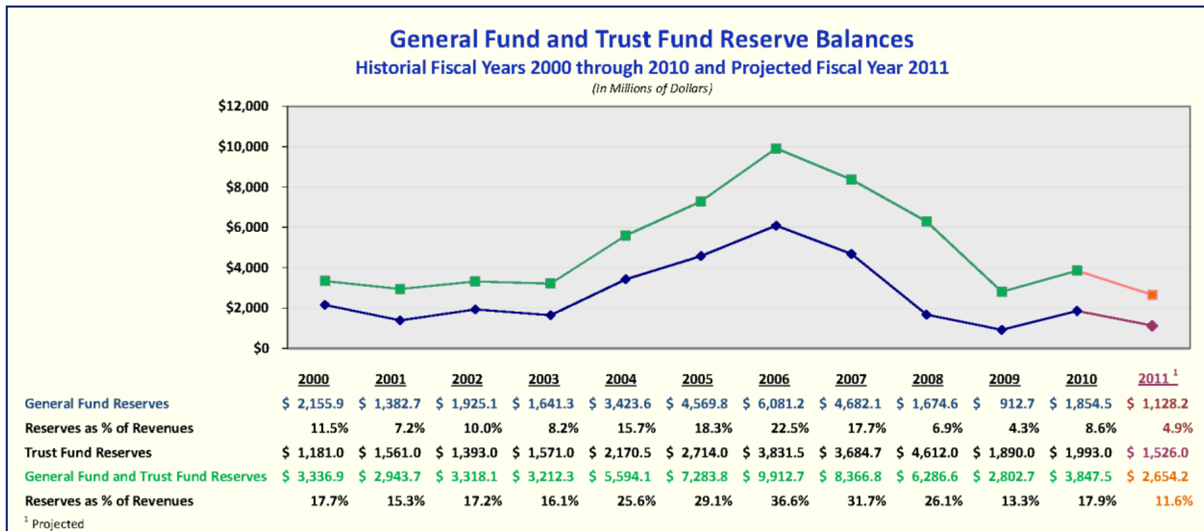
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
General Fund Reserves	$ 2,155.9	$ 1,382.7	$ 1,925.1	$ 1,641.3	$ 3,423.6	$ 4,569.8	$ 6,081.2	$ 4,682.1	$ 1,674.6	$ 912.7	$ 1,854.5	$ 1,128.2
Reserves as % of Revenues	11.5%	7.2%	10.0%	8.2%	15.7%	18.3%	22.5%	17.7%	6.9%	4.3%	8.6%	4.9%

Figure 17

Florida's general fund reserves increased substantially from 2003-2006 to an extraordinarily high level of $6.1 billion or 22.5% of general revenues. The growth in reserves significantly strengthened the State's financial position and was cited as a credit strength in State rating upgrades in early 2005. The increase in reserve balances for Fiscal Year 2010 follows three consecutive annual declines from 2007 through 2009 when reserves were used to offset spending reductions from declining revenues. In connection with balancing the 2010 budget, the Legislature enacted several revenue enhancements and received significant moneys under federal stimulus legislation, which permitted a more prudent level of reserves. However, the State's budget for 2011 contemplates using reserves so that the anticipated reserves at the end of the current fiscal year are again expected to be reduced. ***The State ended Fiscal Year 2010 with general fund reserves of $1.9 billion or 8.6% of general revenues. The level of reserves is projected to decline to $1.1 billion or 4.9% of general fund revenues during Fiscal Year 2011. The projected level of reserves is slightly under the 5% considered adequate by rating agencies.***

The level of reserves is also an important indicator of the ability to respond to unforeseen financial challenges, which is relevant in evaluating a state's credit position. Historically, Florida's level of reserves resulted from conservative financial management practices and has been cited by credit rating agencies as a credit strength. The traditional measure used by credit analysts, investors and rating agencies is the ratio of general fund balance to general revenues expressed as a percentage. In measuring State reserves for this purpose, the State's unencumbered general fund balance plus moneys in the Budget Stabilization Fund are included in the calculation. However, trust fund balances that could be considered a "reserve", such as moneys in the Lawton Chiles Endowment Fund and other trust fund balances, had not been included in measuring the State's reserves prior to 2009.

The State has historically created trust funds and dedicated specified revenues for a particular purpose. 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 permitted trust fund balances to be used as a source of revenues in the general fund budget during periods of economic weakness to mitigate spending reductions from declining revenues. Therefore, including trust fund balances in the reserve analysis provides for a more realistic picture of the State's financial flexibility. Figure 18 below shows the impact of including trust funds in the reserve analysis.



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 [1]
General Fund Reserves	$ 2,155.9	$ 1,382.7	$ 1,925.1	$ 1,641.3	$ 3,423.6	$ 4,569.8	$ 6,081.2	$ 4,682.1	$ 1,674.6	$ 912.7	$ 1,854.5	$ 1,128.2
Reserves as % of Revenues	11.5%	7.2%	10.0%	8.2%	15.7%	18.3%	22.5%	17.7%	6.9%	4.3%	8.6%	4.9%
Trust Fund Reserves	$ 1,181.0	$ 1,561.0	$ 1,393.0	$ 1,571.0	$ 2,170.5	$ 2,714.0	$ 3,831.5	$ 3,684.7	$ 4,612.0	$ 1,890.0	$ 1,993.0	$ 1,526.0
General Fund and Trust Fund Reserves	$ 3,336.9	$ 2,943.7	$ 3,318.1	$ 3,212.3	$ 5,594.1	$ 7,283.8	$ 9,912.7	$ 8,366.8	$ 6,286.6	$ 2,802.7	$ 3,847.5	$ 2,654.2
Reserves as % of Revenues	17.7%	15.3%	17.2%	16.1%	25.6%	29.1%	36.6%	31.7%	26.1%	13.3%	17.9%	11.6%

[1] Projected

Figure 18

Including trust fund balances augments the general fund reserves and better reflects the State's true financial flexibility available from reserves. Figure 18 illustrates the impact of trust fund balances on State reserves over the last ten years. ***Total reserves (including trust fund balances) were $3.8 billion or 17.9% of general revenues at June 30, 2010.*** However, the adopted budget for the current fiscal year contemplates the use of reserves and, therefore, the reserves at the end of Fiscal Year 2011 are expected to decline.

REVIEW OF CREDIT RATINGS

Credit ratings are the rating agencies' assessments of a governmental entity's ability and willingness to repay debt on a timely basis. ***Credit ratings are an important indicator in the credit markets and influence interest rates a borrower must pay when issuing debt.*** Each rating agency considers debt management generally, and the Debt Affordability Report in particular, positive factors in assigning credit ratings.

Rating agencies analyze several factors when assigning credit ratings. Financial, economic, debt and administrative/management factors are considered in the rating process. Weakness in one area may well be offset by strength in another. However, significant variations in any single factor can influence a bond rating.

State of Florida
General Obligation Credit Ratings

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

Figure 19

Florida has very strong credit ratings on its general obligation bonds with the highest rating of AAA by Standard and Poor's Rating Services, AAA by Fitch Ratings and the second highest rating category of Aa1 by Moody's Investors Service. The strong ratings reflect the State's conservative financial and budgetary practices with historically swift and continued responses to declining revenues. Credit strengths have also included adequate reserves, moderate debt burden with clear guidelines and a well funded pension plan. Florida remains in the top tier (the top 20%) of all states according to a quantitative scorecard-ranking system developed by Moody's Investors Service. ***Although the State has avoided being downgraded through the latest negative economic cycle as more fully described below, it remains challenged to maintain structural budgetary balance and adequate reserves.***

Although the economy remained weak, the State was able to maintain its high credit ratings over the past year. The Legislature's timely balancing of the current year's budget and prompt response in making the difficult but necessary budget adjustments was instrumental to maintaining the State's credit ratings. The State's credit ratings benefitted from an industry-wide move to a uniform rating scale for municipal bonds and corporate bonds. Municipal general obligation bonds were recalibrated upward to reflect the unique characteristics and credit strengths relative to corporate credits. Fitch recalibrated the State's rating from "AA+" with a negative outlook to "AAA" with a negative outlook. Moody's rating remained at "Aa1", but the negative outlook was changed to a stable outlook. Standard and Poor's rating remained the same at "AAA" with a negative outlook.

Current ratings reflect the State's conservative financial management practices, moderate debt burden, well-funded pension system, large and diverse economy, and still significant reserves. However, ***the State's current credit ratings remain vulnerable, and the rating agencies will be carefully monitoring future economic and budgetary developments.*** The credit challenges facing the State are its economy and further weakness causing revenue declines, failure to address the drop-off of federal stimulus moneys included in the budget, reliance on one-time revenues to balance the budget, and the inability to restore and maintain adequate reserves.

Strategies used to balance the budget have included a combination of spending cuts, use of reserves and stimulus moneys, trust fund transfers and revenue redirects, and fee increases. These fiscally responsible legislative actions have been critical to maintaining the State's credit ratings in this challenging economic climate. Although the State has successfully managed the economic recession thus far, challenges from economic weakness and budgetary pressures continue, and the rating agencies are closely monitoring developments. ***Maintaining adequate reserves, developing a structurally balanced budget and not relying on one-time revenue sources are critical factors the rating agencies will be evaluating.***

CONCLUSION

During the past year, Florida's revenue collections stabilized and were virtually on estimate, breaking the trend of revenue declines experienced since 2006. The Legislature protected existing ratings through prudent fiscal management and timely budget adjustments. Future economic weakness and budgetary pressures from the reduction of federal stimulus moneys present credit challenges. ***Rating agencies will be monitoring how the State responds to critical credit factors such as maintaining adequate reserves, developing a structurally balanced budget, and not relying on one-time revenue sources.***

Revenues available for debt service in Fiscal Year 2010 totaled $28.3 billion, $2.3 billion more than Fiscal Year 2009. However, by adding a new revenue source related to GARVEE bonds, federal revenue for transportation accounted for $1.8 billion or 78% of the increase. ***Organic revenue growth of $500 million or 2% portrays a more accurate picture of stabilizing revenues.*** Underlying the August 2010 revenue short-term forecast is the assumption that the extreme financial and economic stress of the last few years has reached its bottom and modest growth is expected going forward. The Revenue Estimating Conference will meet on December 14, 2010 to update revenue forecasts, which could result in negative revisions to projected revenue collections.

Reserves are critical and provide the financial flexibility necessary to address financial uncertainties. General fund reserves increased to $1.9 billion or 8.6% of general fund revenues for 2010 (considered adequate). The growth in reserves was the first increase after three consecutive years of declines as a result of reserves being used to offset the impact of reduced revenues. ***Projected general fund reserves for 2011 are $1.1 billion, or 4.9% of general fund revenues, which is slightly below the 5% considered adequate by rating agency guidelines.*** Trust fund balances are also a form of reserves that the State has used to balance the general fund budget during periods of revenue weakness. Available reserves, including trust funds, were used to mitigate the impact of lower revenues as the economy slowed. The judicious use of reserves for operating expenditures is expected during periods of declining revenues and economic weakness. However, replenishment of reserves during stronger economic conditions is important.

Florida's total debt outstanding was $28.2 billion at June 30, 2010. Net tax-supported debt increased by $1.2 billion, primarily due to an additional $543 million in long-term obligations for the second P3 project. The remainder primarily consisted of annual borrowings for education and transportation. Self-supporting debt increased by approximately $600 million, primarily due to new issuances for toll road facilities. ***Expected future debt issuance under existing programs over the next ten years totals $7.2 billion, $3.0 billion less than last year's estimate.*** The projected debt issuance does not include any additional amount for environmental bonds, P3 projects or GARVEE bonds. Florida's debt continues to increase and over the past year grew at a higher rate than the national average. ***Florida's debt is considered moderate and is manageable at the current level.***

Annual debt service requirements on tax-supported debt remained at $2.1 billion for Fiscal Year 2010. Over the past year, debt service increased $37 million, or 2%, which is not fully indicative of the increase in debt outstanding. ***After making the adjustments*** for debt service accruals paid from escrowed moneys on refunded bonds and for annualized debt service on bonds outstanding for only part of the year, ***the annualized increase in debt service is $170 million.*** Annual debt service requirements are projected to increase by 10.5% to $2.3 billion over the next two years based on existing borrowing plans.

The benchmark debt ratio was 7.39% at June 30, 2010, exceeding the 7% policy cap. However, after making adjustments for debt service accruals paid from escrowed moneys on refunded bonds and for annualized debt service on bonds outstanding for only part of the year, the benchmark debt ratio totals 7.86%, which is more representative of the long-term impact of the Fiscal Year 2010 debt issuance. The benchmark debt ratio is projected to continue to improve in Fiscal Year 2011, reaching 7.31%, but is projected to continue to exceed the 7% cap for the next two years. The anticipated improvement in the benchmark debt ratio is attributable to the projected growth in revenues and the reduction in expected debt issuance which is expected to slow the growth in debt service. The projected benchmark debt ratio should be used as a general guide and considered by the Legislature when evaluating future debt authorization.

There is no debt capacity available over the next two years because the projected benchmark debt ratio exceeds the 7% cap. An estimated $3.2 billion of debt capacity becomes available in 2014 due to a substantial reduction in annual debt service created by the retirement of Preservation 2000 bonds.