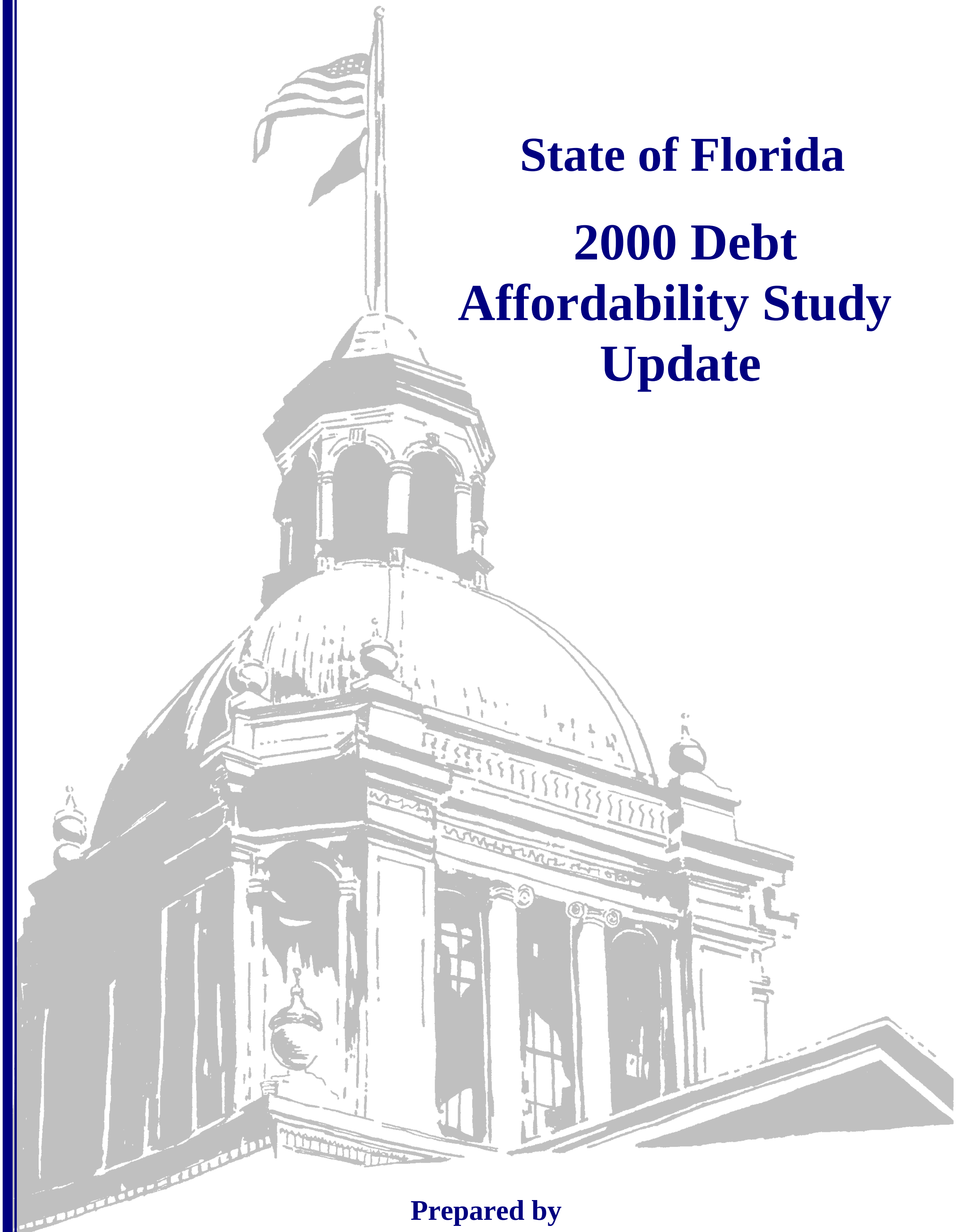
State of Florida

2000 Debt Affordability Study Update



Prepared by
The Division of Bond Finance
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INTRODUCTION

The Governor and Cabinet, acting as Governing Board of the Division of Bond Finance, requested staff to prepare a Debt Affordability Study. The study was to provide policymakers with a way to assess 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 method for protecting, and perhaps enhancing, Florida's bond ratings of AA/Aa2/AA+.

A report entitled "*State of Florida Debt Affordability Study*" was prepared and presented to the Governor and Cabinet. The Debt Affordability Study was the first comprehensive analysis of the State's debt position. The methodology employed for this analysis was as follows:

- All State debt was cataloged;
- Debt level trend over last 10 years was evaluated;
- Debt ratios were calculated;
- Florida debt ratios were compared to national medians and to 10-state peer group medians;
- Designated debt service to revenues as the benchmark debt ratio;
- Established a 6% target and 8% cap as benchmark guidelines for calculating debt capacity;
- Debt capacity within guideline range was calculated; and,
- Sensitivity analysis applying different economic scenarios was performed.

The primary function of the Debt Affordability Study, evaluating the State's debt position, additionally provided an analytical tool for monitoring and managing the debt position. The process developed also helps to integrate debt management practices (an Executive Branch function) with the capital spending decisions (a Legislative Branch function). The information produced by the Debt Affordability Study and subsequent updates can be used by policymakers to evaluate the long-term impact of financing decisions and assist in prioritizing capital spending.

The Governor and Cabinet, as Governing Board of the Division of Bond Finance, adopted the debt affordability model and recommendations set forth in ***State of Florida Debt Affordability Study prepared by the Division of Bond Finance dated October 26, 1999*** ("Study"). The ***2000 Debt Affordability Study Update*** ("Update") is the first annual update implementing the procedures recommended in the Study. Using the financial model as developed, this 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 both optimistic and pessimistic revenue forecasts on the State's debt position.

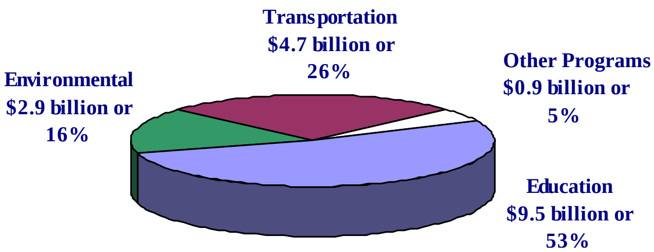
The Update consists of (1) reviewing and identifying reasons for changes in the State's debt position and (2) revising the projections to measure the financial impact of future debt issuance. The Update, by providing more current information regarding the impact of changes in economic conditions, enables the State to anticipate and plan for changing economic conditions in its future borrowing plans while monitoring changes in debt position.

The essence of this Update is to revise 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 Division of Economic and Demographic Research. The revised benchmark debt ratio is then compared with last year's projections to assess whether the State's debt position is expected to improve or deteriorate. Lastly, the target benchmark debt ratio of 6% debt service to revenues is used to calculate anticipated future debt capacity available.

The information generated by this analysis has been provided to the Governor's Office of Planning and Budgeting for their use in connection with formulating the Governor's Budget Recommendations. The analysis is also repeated for revised revenue estimating conference forecasts and will be provided to legislative appropriations staff and House and Senate leadership. Accordingly, the latest information is available to State policymakers making critical decisions regarding additional borrowing. As the legislature considers new financing initiatives, the long-term financial impact of any proposal can also be evaluated upon request. Due to the impact of additional borrowing decisions on the fiscal health of the State, Policymakers need to consider the information provided by this analysis.

The following graphic sets forth the State's total outstanding debt by programmatic area:

Debt Outstanding by Program
June 30, 2000

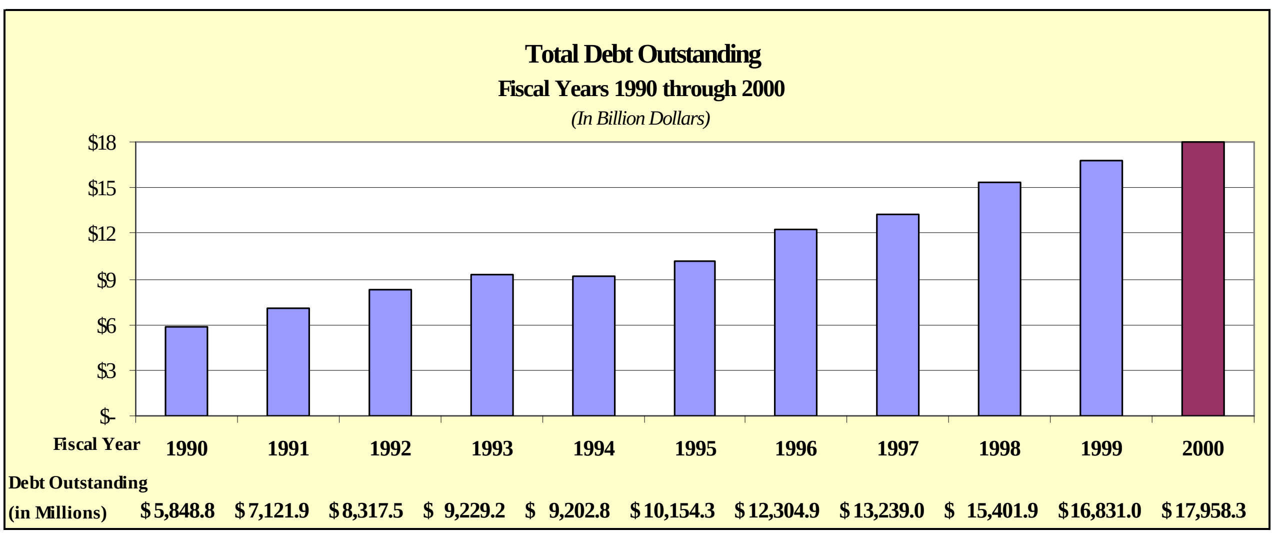


Total Debt Outstanding: $18.0 billion

The largest investment financed with bonds is in educational facilities. Public Education Capital Outlay, or "PECO", accounts for approximately $7.1 billion of all State debt outstanding. The second largest program area financed with bonds is for toll roads. The combined investment in toll roads by Florida's Turnpike and the State's Expressway Authorities is approximately $3.0 billion. The third largest investment financed with bonds has been for acquiring environmentally sensitive lands with Preservation 2000 bonds now outstanding in the principal amount of approximately $2.5 billion.

GROWTH IN STATE DEBT

The following graphic illustrates the growth in total State debt outstanding over the last 10 years:



Total State debt more than tripled over the last 10 years, increasing from approximately $5.8 billion at June 30, 1990 to approximately $18.0 billion at June 30, 2000. The growth was primarily brought on by increased PECO bonds of $4.6 billion, implementation of the Preservation 2000 program with bonds outstanding of $2.5 billion and borrowing for expansion of toll facilities of approximately $2.0 billion.

The trend of increasing debt continued in fiscal year 2000 with debt increasing approximately $1.2 billion from $16.8 billion at June 30, 1999 to approximately $18.0 billion at June 30, 2000. The $1.2 billion increase over the last year is reasonably consistent with prior year increases. Over the last 10 years the average annual increase in debt outstanding was approximately $1.2 billion per year.

The following chart sets forth the total State debt outstanding by program compared with amounts outstanding for the prior year:

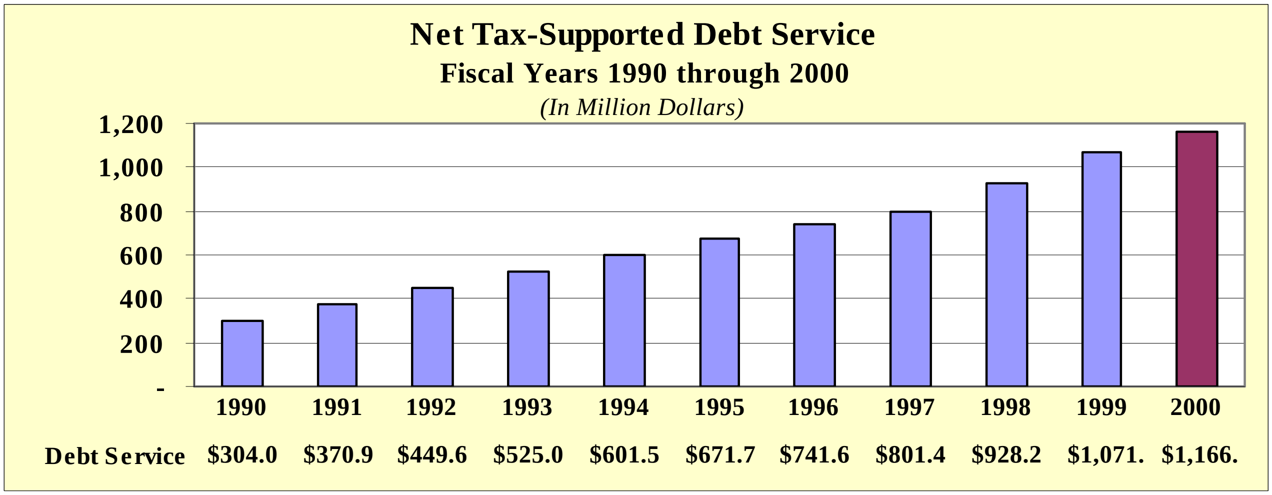
Bonds Outstanding By Program
June 30, 1999 and June 30, 2000
(In Million Dollars)

	June 30, 1999	June 30, 2000	$ Change
Education			
Public Education Capital Outlay	$ 6,808.5	$ 7,070.6	
Capital Outlay	945.3	984.0	
Lottery	546.5	895.6	
University System Facilities	467.3	520.3	
Total Education	**8,767.6**	**9,470.5**	**$ 702.9**
Transportation			
Toll Facilities	1,850.6	1,927.8	
Orlando-Orange County Expressway Authority	1,053.8	1,036.2	
Right-of-Way and Bridge Acquisition	884.5	868.2	
Road and Bridge	574.4	552.0	
Florida Ports	213.3	367.2	
Total Transportation	**4,576.6**	**4,751.4**	**$ 174.8**
Environmental			
Preservation 2000	2,324.4	2,504.9	
Conservation and Recreation	27.4	25.9	
Save Our Coast	206.9	191.5	
Inland Protection (Tanks)	195.0	137.9	
Pollution Control	2.0	1.4	
Total Environmental	**2,755.7**	**2,861.6**	**$ 105.9**
Appropriated Debt / Other			
Facilities	375.6	412.0	
Master Lease	23.1	21.5	
Prisons	196.7	189.4	
Juvenile Justice	20.0	19.6	
Children & Families	38.0	38.0	
Investment Fraud	8.9	8.0	
Affordable Housing	69.0	117.0	
Lee Moffitt Cancer Center	-	69.3	
Total Appropriated Debt	**731.3**	**874.8**	**$ 143.5**
Total Debt Outstanding	**$ 16,831.2**	**$ 17,958.3**	**$ 1,127.1**

The largest increase in debt over the last year was for funding of educational facilities. Total education related debt increased approximately $703 million over the last year because of additional PECO bonds and continued deployment of the Lottery Bond program. Transportation related debt also contributed to the overall increase, rising by some $175 million. The largest increase in transportation debt was due to additional bonds issued by the Florida Ports Financing Commission. Less significant increases occurred due to the last installment of Preservation 2000 Bonds and additional borrowings by the Florida Housing Finance Corporation for affordable housing and financing of the H. Lee Moffitt Cancer Center at the University of South Florida in Tampa.

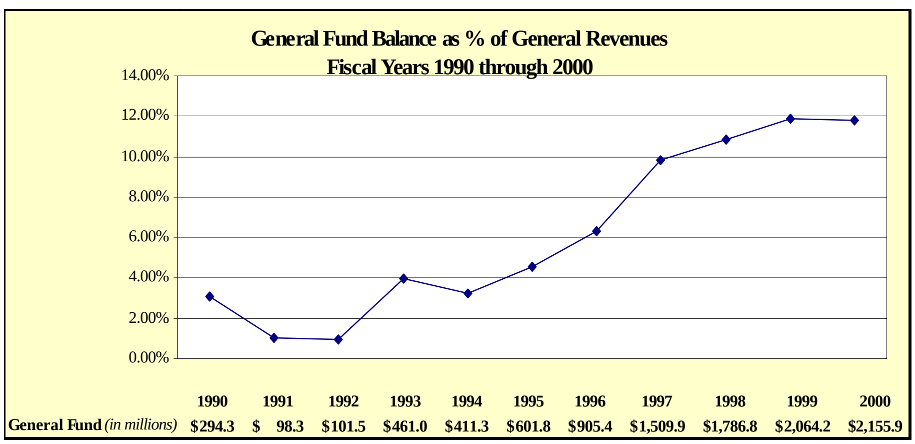
GROWTH IN ANNUAL DEBT SERVICE

The following illustration depicts the increase in yearly debt service payments caused by the increase in debt outstanding:



Annual debt service requirements have more than tripled over the last 10 years reflecting the increase in debt outstanding. The State's debt service payment obligation has risen to approximately $1.17 billion annually. Important from a budgetary perspective, this measure indicates the portion of the State's budget devoted to paying off debt, an obligation which must be provided for before other essential government services. ***Increases in debt service requirements reduce budgetary flexibility.***

LEVEL OF RESERVES



The graphic on the right shows the level of unencumbered general fund balances over the last 10 years.

The level of reserves is also an indication of budgetary flexibility that is relevant in evaluating one's credit position. The traditional measure used by credit analysts, investors and rating agencies is general fund balance compared to general revenues, expressed as a percentage. Florida's unencumbered general fund balance has increased to approximately $2.2 billion. The increase is primarily attributable to the funding of a constitutionally required budget stabilization reserve. The general fund balance is made up of the balances in the budget stabilization fund ($847 million), the working capital fund ($819 million), and the general fund ($490 million). The aggregate balance of these three funds represents approximately 12% of general revenues at June 30, 2000, which is considered adequate. This measure does not include trust fund balances which could be considered a "reserve" such as funds in the Lawton Chiles Endowment Fund and other trust fund assets whose purpose is limited by law.

EXPECTED DEBT ISSUANCE

The following table represents the expected debt issuance over the next 10 years for each of the State's currently authorized bonding programs; also shown is the increase or (decrease) from the prior year projections:

Projected Debt Issuance By Program

Fiscal Years 2001 through 2010

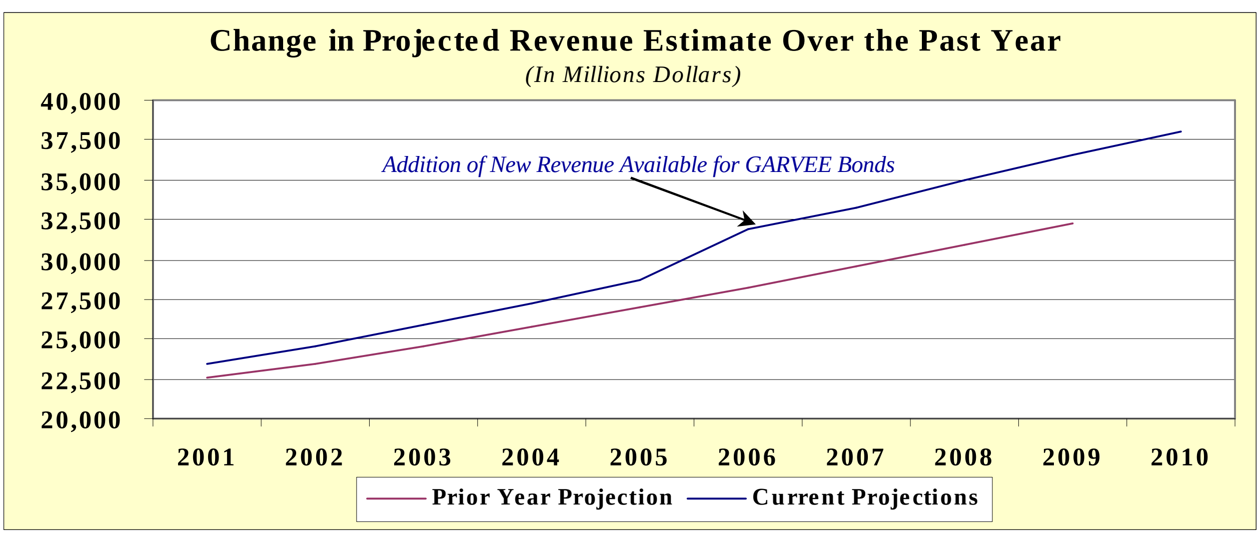
(In Thousands)

Fiscal Year	PECO	Lottery	SUS	Fla. Forever	ROW	Garvee	Facilities	Master Lease	Florida High	Florida Ports	Affordable Hsg.	Total Issuance
2001	$ 595,500	$ 700,000	$ -	$ 300,000	$ -	$ -	$ 10,500	$ 25,000	$ 23,330	$ -	$ -	$ 1,654,330
2002	552,200	440,000	60,000	300,000	150,000	-	-	25,000	-	-	-	1,527,200
2003	512,700	160,000	-	300,000	250,000	-	-	25,000	-	-	-	1,247,700
2004	352,000	-	-	300,000	250,000	-	-	-	-	-	-	902,000
2005	279,900	-	-	300,000	170,000	-	-	-	-	-	-	749,900
2006	286,400	-	-	300,000	170,000	250,000	-	-	-	-	-	1,006,400
2007	294,900	-	-	300,000	187,500	75,000	-	-	-	-	-	857,400
2008	305,800	-	-	300,000	29,900	-	-	-	-	-	-	635,700
2009	309,400	-	-	300,000	42,500	-	-	-	-	-	-	651,900
2010	337,200	-	-	300,000	49,600	-	-	-	-	-	-	686,800
Expected Issuance	**$ 3,826,000**	**$ 1,300,000**	**$ 60,000**	**$ 3,000,000**	**$1,299,500**	**$325,000**	**$ 10,500**	**$ 75,000**	**$ 23,330**	**$ -**	**$ -**	**$ 9,919,330**
Prior Projection	**$ 3,450,700**	**$ 1,584,025**	**$ -**	**$ 3,000,000**	**$ 649,000**	**$ -**	**$ 62,500**	**$ 75,000**	**$ -**	**$ 140,240**	**$ 50,000**	**$ 9,011,465**
Change	**$ 375,300**	**$ (284,025)**	**$ 60,000**	**$ -**	**$ 650,500**	**$325,000**	**$ (52,000)**	**$ -**	**$ 23,330**	**$ (140,240)**	**$ (50,000)**	**$ 907,865**

Approximately $9.9 billion of debt is expected to be issued over the next 10 years for all of the States's financing programs which are currently authorized. This represents an increase of $900 million or 10% over the previous projections in the original Debt Affordability Study. The increase in expected debt issuance over the next 10 years is due to additional borrowing for purchasing right-of-way, implementation of the GARVEE bond program in 2006 and additional issuance of PECO bonds. ***It is important to note that no debt has been included in the projections for Everglades restoration, high speed rail or any other financing initiative not authorized under current law.*** Any borrowing to fund those programs would be in addition to the $9.9 billion expected borrowing detailed above.

LONG-RUN REVENUE FORECASTS

The following illustration shows the expected general revenue collections over the next 10 years compared with the



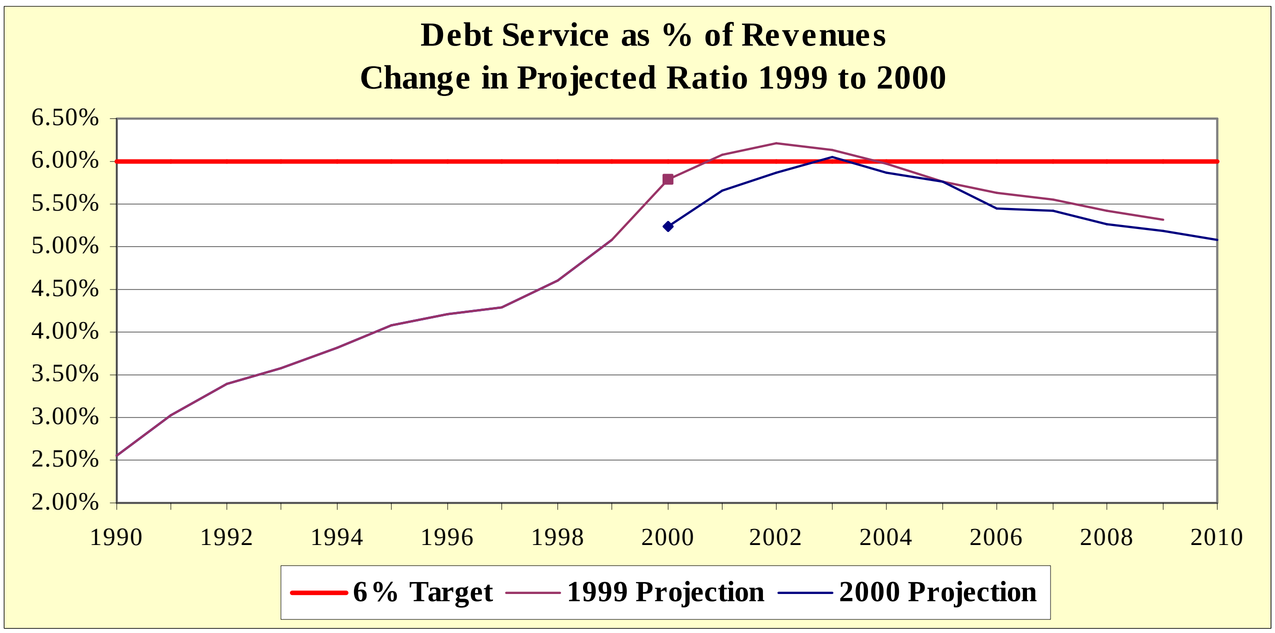
Ratio of Debt Service to Revenues

Change in Projected Ratio from 1999 to 2000

Fiscal Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
1999 Projection	5.78%	6.09%	6.21%	6.14%	5.97%	5.76%	5.64%	5.54%	5.43%	5.32%	-
2000 Projection	5.25%	5.66%	5.87%	6.05%	5.88%	5.77%	5.46%	5.43%	5.28%	5.17%	5.07%

The long-run revenue forecasts used in the debt analyses reflect an aggregate increase of $4.2 billion, or 13.6% greater than last years's forecast. The increase is due to a combination of two factors: (1) adding a new revenue stream to the forecast not heretofore included because it was not leveraged and (2) better than expected collections for Fiscal Year 2000 and a higher compounded annual growth rate reflecting a more optimistic view of the economy. The implicit compound annual growth rate increased from 4.38% last year to 5.54% this year.

BENCHMARK DEBT RATIO



The benchmark debt ratio designated for the debt affordability analysis compares debt service to revenues available to pay debt service. The guidelines established for the debt ratio are 6% as a target and 8% as a cap. The forgoing graphic presents a comparison of last year's projected benchmark debt ratio with the current year's projection. Based on revised forecasts of expected debt issuance and revenue collections, the State's debt position measured by the benchmark debt ratio has improved slightly from 5.78% to 5.25% at June 30, 2000. The slight improvement is due to more optimistic revenue forecasts reflected in the revised revenue forecast. The expected growth in revenue exceeds the higher expected debt issuance, resulting in a lower benchmark debt ratio. However, even with the expected improvement the benchmark debt ratio still exceeds the 6% target in 2003. Additionally, Florida's debt ratio is higher than either the national median or our 10-state peer group median.

CHANGE IN DEBT CAPACITY

The following table shows the estimated debt capacity available over the next 10 years:

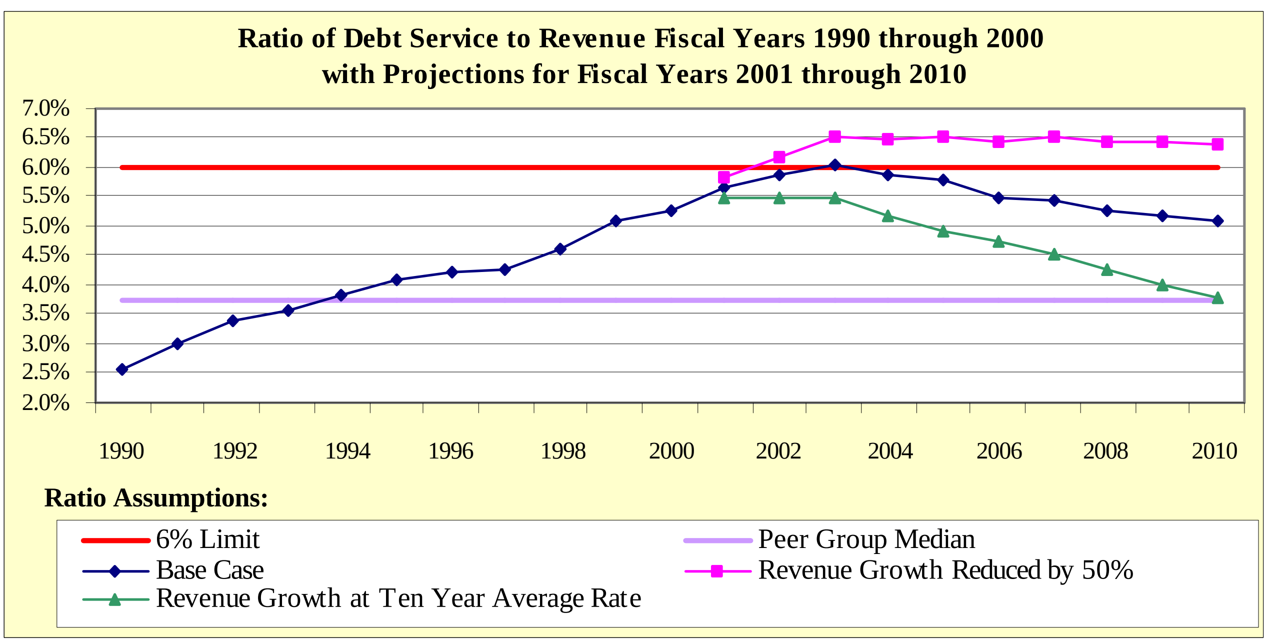
Change in Capacity From 1999 to 2000 for Base Case 6% Target Benchmark Ratio

(In Million Dollars)

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total
Total Capacity	$1,700.99	$1,527.20	$1,647.70	$1,302.00	$ 1,849.90	$1,506.40	$1,607.40	$1,385.70	$1,351.90	$1,386.80	$15,265.99
Expected Issuance	1,700.99	1,527.20	1,247.70	902.00	749.90	1,006.40	857.40	635.70	651.90	686.80	9,965.99
Available Capacity	**$ -**	**$ -**	**$ 400.00**	**$ 400.00**	**$1,100.00**	**$ 500.00**	**$ 750.00**	**$ 750.00**	**$ 700.00**	**$ 700.00**	**$5,300.00**

The last step in the Update is to estimate future available debt capacity. Based on the 6% target benchmark debt ratio, the total bonding capacity over the next 10 years would be $15.3 billion. As shown previously, the expected debt issuance for the next 10 years for the existing financing programs is estimated to be approximately $10 billion. This leaves approximately $5.3 billion of debt capacity available over the next 10 years, which represents a $2 billion increase in available debt capacity over last year's estimates. The increase in available capacity, staying within the 6% target benchmark debt ratio, is due to higher long-run revenue forecasts. However, the additional debt capacity is not available until 2003 and then only incrementally over the 10 year period. The available bond capacity should be considered a scarce resource to be used sparingly to fund critically needed infrastructure. It is not prudent to use the capacity simply because the financial model indicates it is available. Once used, the capacity is not available again for 20 years. The available debt capacity should be viewed as a cushion against downturns in the economy.

SENSITIVITY ANALYSIS



The estimated debt capacity has been calculated using the latest forecasts available. It is inevitable that the actual debt issuance and revenue collections will vary from the forecasts, thereby either increasing or decreasing the estimated debt capacity. The foregoing sensitivity analysis shows how the benchmark debt ratio changes based on different economic scenarios. The base case scenario reflects the expected debt ratio based on the most current forecasts. The green line reflects a more optimistic scenario with revenue forecasts equal to the 10 year average annual growth rate. The red line shows a more pessimistic revenue forecast with growth reduced by one-half. As can be seen, during less favorable economic climates the benchmark debt ratio could exceed the 6% target. This would eliminate the debt capacity available under the base case scenario. ***The analysis demonstrates clearly that changes in economic climates can reduce available debt capacity.*** Therefore, the prudent approach is to reserve the available debt capacity as a cushion against less favorable economic climates and use it only for critically needed capital improvements.

CONCLUSION

Florida's debt continues to increase at approximately the same rate as over the last 10 years. The expected future debt issuance over the next 10 years has increased $900 million over last year's projection totaling $9.9 billion. Even with the increase in expected debt issuance, the estimated bonding capacity available over the next 10 years has increased by $2 billion over last year's estimate from $3.3 billion to $5.3 billion. This increase in available debt capacity is due to higher revenue forecasts than in the prior year. Florida's debt position as measured by the benchmark debt ratio of debt service to revenues has improved slightly over last year decreasing from 5.78% to 5.25%. Again, the improvement in the State's benchmark debt ratio is largely due to higher revenue forecasts reflecting a robust economy. Florida's debt is considered moderate and is manageable at the current level.