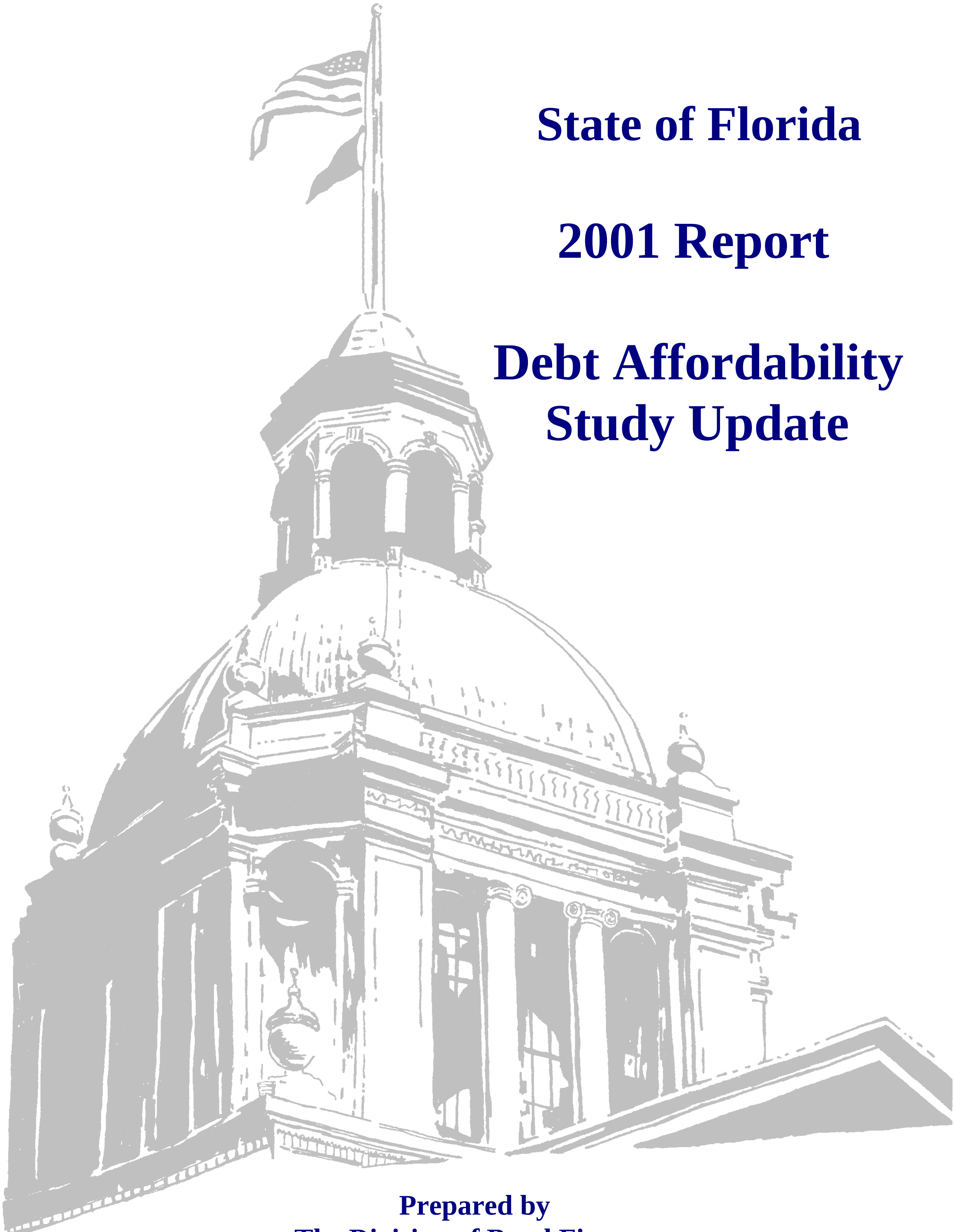

State of Florida

2001 Report

Debt Affordability Study Update

Prepared by
The Division of Bond Finance

December 12, 2001

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INTRODUCTION

In 1999, the Governor and Cabinet, acting as Governing Board of the Division of Bond Finance, requested staff to prepare a Debt Affordability Study. ***The 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 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 of AA/Aa2/AA+.

A report entitled "*State of Florida Debt Affordability Study*" was prepared and presented to the Governor and Cabinet on October 26, 1999. The Debt Affordability Study was the first comprehensive analysis of the State's debt position. The methodology used to analyze the State's debt position was as follows:

- Cataloged All State Debt;
- Evaluated Trends in Debt Levels Over the Last 10 Years;
- Calculated Debt Ratios;
- Compared Florida Debt Ratios to National Medians and to Ten State Peer Group Medians;
- Designated Debt Service to Revenues as the Benchmark Debt Ratio;
- Established Guidelines for Calculating Debt Capacity;
    - 6% Debt Service to Revenues as the Target;
    - 8% Debt Service to Revenues as the Cap; and,
- Calculated Debt Capacity Within the Guideline Range.

The Debt Affordability Study enabled the State's debt position to be evaluated using objective criteria. One of the benefits of the Debt Affordability Study was the development of an analytical approach to monitoring and managing the State's debt position. The process of analyzing the State's debt position also helps integrate debt management practices (an Executive Branch function) with capital spending decisions (a Legislative Branch function). The information produced by the Debt Affordability Study and the Debt Affordability Study 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 *Debt Affordability Study*. The Debt Affordability Study was updated on November 29, 2000 (the "Update"), to provide more current information reflecting additional debt issuance and revised revenue estimates. The Study and the Update were made available to the Governor and Cabinet and the legislature to assist in evaluating the State's debt position.

During the 2000 Legislative Session, the Legislature endorsed and formalized the debt affordability analysis by passing Section 215.98, Florida Statutes. The statute requires the debt affordability analysis to be prepared and delivered to the President of the Senate, Speaker of the House and the chair of each appropriations committee by December 15th each year. The only modification to the methodology for evaluating debt affordability made by the Legislature was a narrowing of the range for the Benchmark Debt Ratio. ***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 6% requires the legislature to determine that the authorization and issuance is in the best interest of the State. Additional debt that would cause the benchmark debt ratio to exceed 7% requires a legislature to determine that the additional debt is necessary to address a critical state emergency.

The Study resulted in the development of a financial model which measures the impact of two changing variables, (1) the State's annual debt service payments and (2) the amount of revenues available for debt repayment. The analysis compares the State's current debt position to relevant industry standards and evaluates the impact on the State's debt position of issuing more debt as well as changes in the economic climate reflected in the current revenue forecast.

This report is the first debt affordability analysis implementing the requirements of Section 215.98, Florida Statute. ***The purpose of this Debt Affordability Study Update is to review changes in the State's debt position, revise the projections to measure the financial impact of future debt issuance and changing economic conditions reflected in the current revenue estimates.*** Performing the debt affordability analysis enables the State to monitor changes in its debt position. This Update also provides more current information regarding the impact of changes in economic conditions and enables the State to anticipate and plan for changing economic conditions in its future borrowing plans.

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 the impact of the changes in these variables on the State's debt position as measured by the benchmark debt ratio. 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 was presented to the Governing Board of the Division of Bond Finance on November 27, 2001 and provided to the Governor's Office of Planning and Budgeting for their use in connection with formulating the Governor's Budget Recommendations. The analysis will be repeated for revised revenue estimating conference forecasts. The information can then be used by the legislature to establish priorities during the legislative appropriation process. Accordingly, ***State policymakers will have the latest information available when making critical decisions regarding borrowing when formulating the appropriations act.*** Additionally, as the legislature considers new financing initiatives, the long-term financial impact of any proposal can be evaluated upon request. The information generated by this analysis is important for policymakers to consider because their decisions on additional borrowing can affect the fiscal health of the State.

COMPOSITION OF FLORIDA DEBT OUTSTANDING

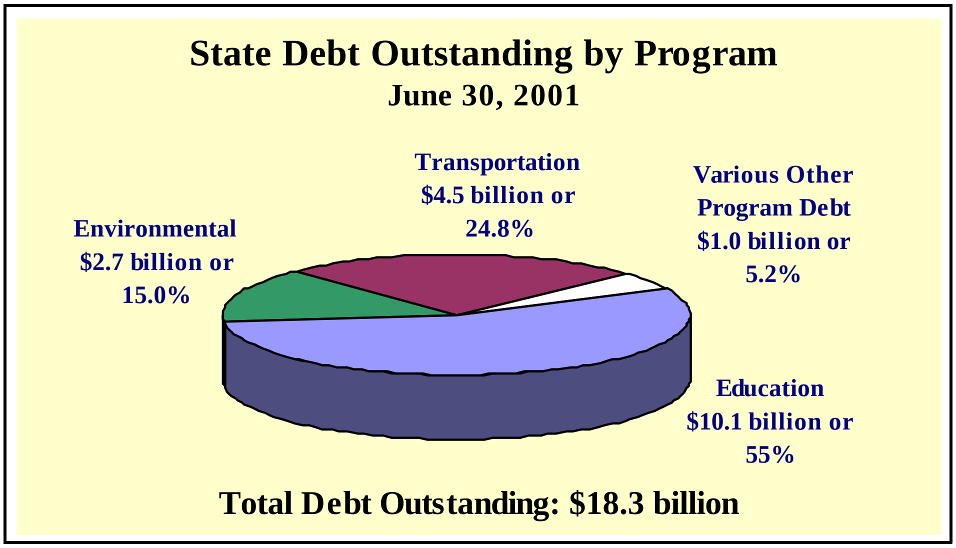


Figure 1

The foregoing pie chart illustrates the State's investment in infrastructure financed with bonds. The largest investment financed with bonds is for educational facilities. Public Education Capital Outlay or "PECO", the State's largest bond program, accounts for approximately $7.3 billion of all State debt outstanding. The second largest programmatic area financed with bonds is transportation 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 / Florida Forever bonds now outstanding for approximately $2.4 billion.

The State of Florida had total debt outstanding of approximately $18.3 billion at June 30, 2001. Net tax-supported debt makes up $14.5 billion for programs supported by State tax revenues as shown in Figure 2. The balance of $3.8 billion is self-supporting debt, such as toll facility and university auxiliary enterprise debt, where financed projects provide revenues for the repayment of the debt (Figure 3).

Bonds Outstanding By Program
Net Tax Supported Debt
As of June 30, 2001
(In Million Dollars)

		Dollar Amount	% of Total
Education			
Public Education Capital Outlay	$ 7,283.7		
Capital Outlay	958.5		
Lottery	1,205.3		
University System Improvement	189.0		
Total Education		**$ 9,636.6**	**66.5%**
Environmental			
Preservation 2000 / Florida Forever	2,412.6		
Conservation and Recreation	24.4		
Save Our Coast	175.2		
Inland Protection (Tanks)	78.9		
Total Environmental		**2,691.1**	**18.6%**
Transportation			
Right-of-Way and Bridge Acquisition	851.1		
Florida Ports	361.3		
Total Transportation		**1,212.3**	**8.4%**
Appropriated Debt / Other			
Facilities	402.0		
Master Lease	27.7		
Prisons	181.7		
Juvenile Justice	19.2		
Children & Families	36.5		
Investment Fraud	7.0		
Radio Tower Lease	-		
Affordable Housing	190.0		
Florida High Charter School	23.3		
Lee Moffitt Cancer Center	63.0		
Total Appropriated Debt		**950.5**	**6.6%**
Total Debt Outstanding		**$ 14,490.5**	

Figure 2

Educational bond programs represent 67% of the net tax-supported debt outstanding or $9.6 billion, environmental programs 19% or $2.7 billion, transportation programs 8% or $1.2 billion and other programs making up the remaining 6% with $1 billion outstanding.

Bonds Outstanding By Program
Self Supporting Debt
As of June 30, 2001

(In Million Dollars)

		Dollar Amount	% of Total
Education			
University Auxiliary Facility Revenue Bonds		**$ 413.3**	**10.9%**
Environmental			
Florida Water Pollution Control		**50.0**	
Pollution Control		**0.8**	**0.1%**
Transportation			
Toll Facilities	$1,983.5		
Orlando-Orange Co. Expressway Authority	1,021.7		
Road and Bridge	307.7		
Total Transportation		**3,312.9**	**87.7%**
Total Debt Outstanding		**$3,776.9**	

Figure 3

Self-supporting debt totals $3.8 billion as of June 30, 2001 and represents debt 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 debt outstanding representing 80% or $3.0 billion of the $3.8 billion total self-supporting debt outstanding. The remaining self-supporting debt relates to university auxiliary enterprises such as dormitories and parking facilities.

In addition to the direct debt comprised of net tax-supported and self-supporting debt, the State also has indirect debt. Indirect debt is debt that is not secured by traditional State revenues or is the primary obligation of a legal entity other than the State. ***Indirect debt of the State totaled $6.4 billion at June 30, 2000.*** Figure 4 sets forth the State's indirect debt by type. The Florida Housing Finance Corporation which administers the State's housing programs is the primary issuer of indirect debt with $3.1 billion or 48% of the total. Special purpose, quasi-governmental insurance entities have $2.2 billion or 35% of total indirect debt. University direct support organizations follow with $698 million or 11% of indirect debt.

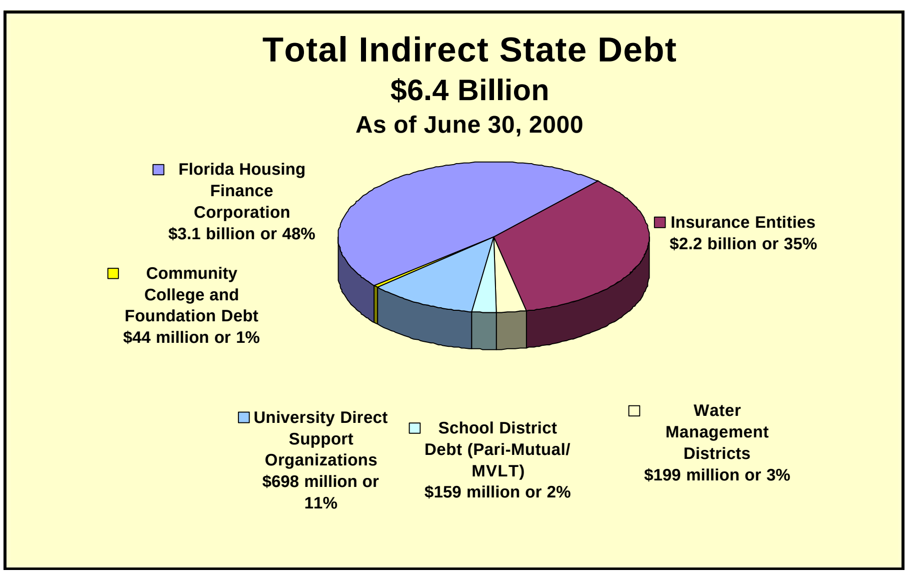


Figure 4

The following Figure 5 lists State indirect debt by program to illustrate which entities incur such debt and for what purpose. For example, 66% of the Florida Housing Finance Corporation debt has been issued for multi-family housing projects and 33% for single family housing. The University of Florida Shands Teaching Hospital accounts for 46% of the university direct support organization debt. Lastly, of the 35% of total indirect debt for the two special purpose insurance entities, 78% is Florida Windstorm Underwriting Association debt and 22% Residential Property and Casualty Joint Underwriting Association debt.

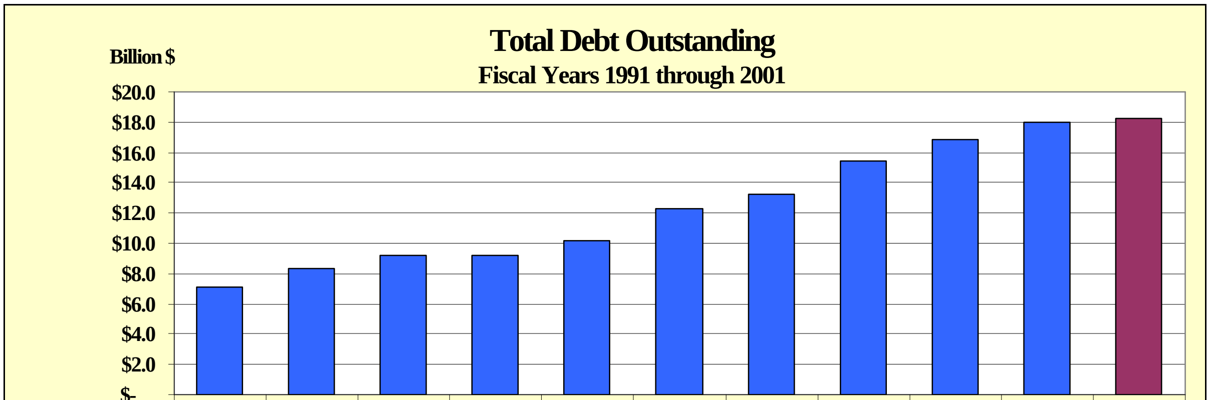
Total State Indirect Debt
June 30, 2000
(In Millions of Dollars)

Florida Housing Finance Corporation		
Single Family Programs	$ 1,036.6	
Multi-Family Programs	2,018.3	
Total		**$ 3,054.9**
Insurance Entities		
Windstorm Underwriting Association	1,741.7	
Residential Property & Casualty Joint Underwriting Assoc.	500.0	
Total		**$ 2,241.7**
University Direct Support Organizations		
University of Florida Shands Teaching Hospital	321.5	
University of Florida Other Direct Support Organizations	87.2	
Florida State University	115.8	
Other State Universities	173.7	
Total		**698.2**
School District Debt (Revenue Debt: Sales Tax, Pari-Mutual)		
Bay County School District	51.0	
Hillsborough County School District	54.6	
Other School Districts	52.9	
Total		**158.5**
Community College and Foundation Debt		**44.1**
Water Management Districts		**199.2**
Total State Indirect Debt		**$ 6,396.6**

Figure 5

GROWTH IN STATE DEBT

Trends in debt are an important tool to evaluate debt levels over time. Figure 6 graphically illustrates the growth in total State direct debt outstanding over the last 10 years.



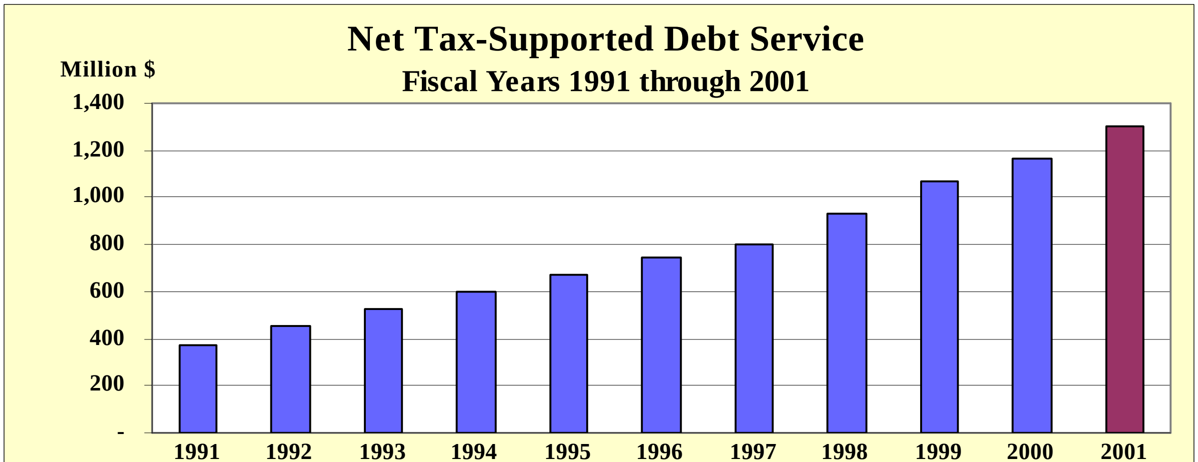
(In Millions of Dollars)	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Debt Outstanding	$7,121.9	$8,317.5	$9,229.2	$9,202.8	$10,154.3	$12,304.9	$13,239.0	$15,401.9	$16,831.0	$17,958.3	$18,267.4

Figure 6

The State made a substantial investment in infrastructure over the ten year period shown addressing the requirements of a growing population for education, transportation and preserving environmental lands. ***Total State debt increased more than 2.5 times over the last 10 years increasing from approximately $7.1 billion at June 30, 1991 to approximately $18.3 billion at June 30, 2001.*** The primary reasons for the increase are additional PECO bonds of $4.7 billion, implementation of the Preservation 2000 / Florida Forever programs and borrowing for expansion of toll facilities of approximately $2.0 billion.

Debt increased a modest $300 million in fiscal year 2001 from $18.0 billion at June 30, 2000 to approximately $18.3 billion at June 30, 2001, much less than the average annual increase of approximately $1.1 billion per year over the last 10 years. The smaller than normal growth resulted from a combination of debt amortization, little debt issuance for transportation and the conversion of the Florida Forever bond issuance to a cash flow model.

Growth in annual debt service mirrors the growth in debt outstanding. Figure 7 depicts the increase in yearly debt service payments caused by the increase in debt over the last ten years.

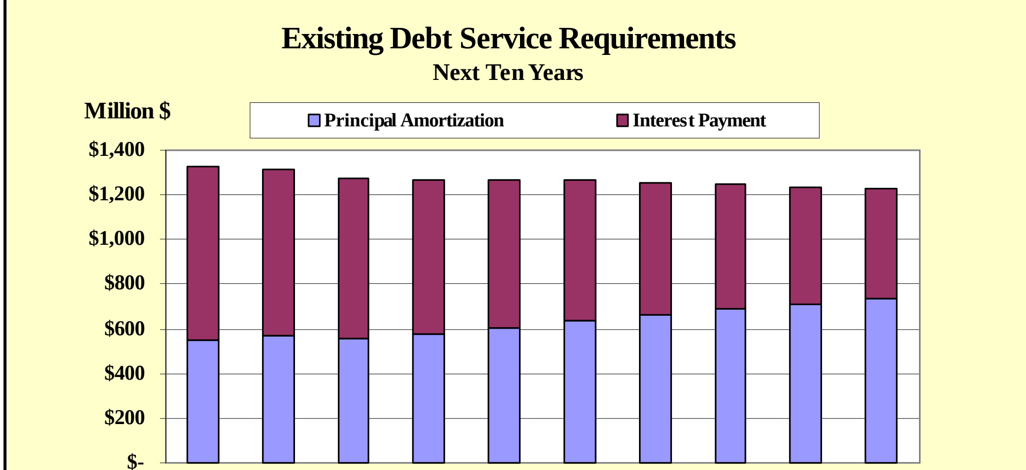


(In Millions of Dollars)	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Debt Service	$370.9	$449.6	$525.0	$601.5	$671.7	$741.6	$801.4	$928.2	$1,071.8	$1,166.2	$1,303.4

Figure 7

The State's annual debt service payments have grown to approximately $1.3 billion per year. Annual debt service requirements have increased 3.5 times over the last 10 years reflecting the increase in debt outstanding. The State's annual debt service payment obligation has risen from $371 million in 1991 to approximately $1.3 billion in 2001. This measure is important from a budgetary perspective because it indicates how much of the State's budget is devoted to paying-off debt before providing for other essential government services.

The debt service for the next ten years on the State's existing net tax-supported debt is shown in Figure 8. The total annual payments consist of both principal and interest on outstanding debt as depicted below. The State policy of using a level debt structure is apparent with annual debt service requirements of approximately $1.3 billion per year over the next ten years. Additionally, total interest payments of $6.4 billion are slightly greater than principal amortization of $6.3 billion over the next ten years.



(In Millions)	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
Principal	$ 552	$ 569	$ 560	$ 578	$ 607	$ 638	$ 663	$ 690	$ 708	$ 740	$ 6,304
Interest	775	745	717	689	658	626	593	560	524	486	6,373
Total	$ 1,326	$ 1,314	$ 1,277	$ 1,266	$ 1,265	$ 1,265	$ 1,256	$ 1,249	$ 1,232	$ 1,226	$ 12,677

Figure 8

EXPECTED DEBT ISSUANCE

The table set out in Figure 9 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 projection. Included in the assumptions used in developing the projected issuance is the acceleration of borrowings for Public Education Capital Outlay projects and the GARVEE transportation bond program.

Projected Debt Issuance By Program Fiscal Years 2002 through 2011

(In Millions of Dollars)

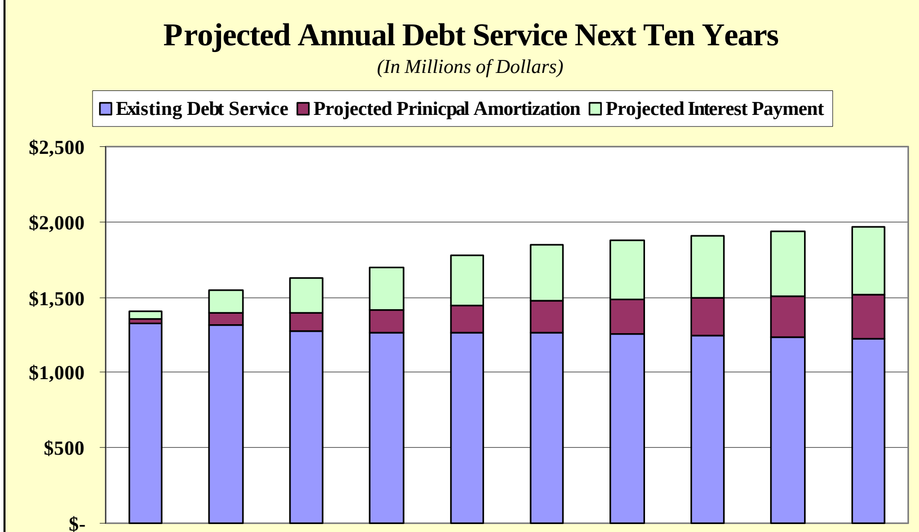
Fiscal Year	PECO	Lottery	SUS	Florida Forever Annual	Florida Forever Prior	ROW	Garvee	Affordable Housing	Facilities	Master Lease	Florida High	Total Issuance
2002	$ 575	$ 475	$ 35	$ 300	$ -	$ 150	$ -	$ -	$ -	$ 25	$ -	$ 1,560
2003	550	350	-	300	125	200	-	200	-	25	-	1,750
2004	635	-	-	300	125	300	50	-	-	25	-	1,435
2005	341	-	-	300	-	250	-	-	-	-	-	891
2006	266	-	-	300	-	120	250	-	-	-	-	936
2007	266	-	-	300	-	-	225	-	-	-	-	791
2008	289	-	-	300	-	-	-	-	-	-	-	589
2009	323	-	-	300	-	-	-	-	-	-	-	623
2010	382	-	-	300	-	-	-	-	-	-	-	682
2011	398	-	-	-	-	-	-	-	-	-	-	398
Expected Issuance	**$ 4,023**	**$ 825**	**$ 35**	**$ 2,700**	**$ 250**	**$ 1,020**	**$ 525**	**$ 200**	**$ -**	**$ 75**	**$ -**	**$ 9,653**
Prior Projection	**$ 3,826**	**$ 1,300**	**$ 60**	**$ 3,000**	**$ -**	**$ 1,300**	**$ 325**	**$ -**	**$ 11**	**$ 75**	**$ 23**	**$ 9,919**
Change	**$ 197**	**$ (475)**	**$ (25)**	**$ (300)**	**$ 250**	**$ (280)**	**$ 200**	**$ 200**	**$ (11)**	**$ -**	**$ (23)**	**$ (266)**

Figure 9

Approximately $9.7 billion of debt is expected to be issued over the next 10 years for all of the State's financing programs currently authorized. This estimated issuance represents a decrease of $266 million or 2.7% compared to the previous projection of expected debt issuance. The slight decrease in expected debt issuance over the next 10 years is primarily due to less Lottery bonds remaining to be issued to fulfill commitments for school construction. It is important to note that no debt has been included in the projections for Everglades restoration, high speed rail or any other major initiative. Any borrowing to fund those programs would be in addition to the $9.7 billion expected borrowing detailed above.

PROJECTED DEBT SERVICE

Annual debt service is estimated to grow to $2.0 billion by Fiscal Year 2011 assuming projected bond issuance of $9.7 billion. Figure 10 shows existing debt service and the principal and interest components of the debt service for the projected bond issuance over the next ten years.



Projected Debt Service Requirements Next Ten Years

(In Millions)	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Existing	$ 1,326	$ 1,314	$ 1,277	$ 1,266	$ 1,265	$ 1,265	$ 1,256	$ 1,249	$ 1,232	$ 1,226
Principal	$ 31	81	120	145	183	213	229	247	272	290
Interest	$ 48	151	228	282	329	366	389	413	438	449
Total	$ 1,406	$ 1,547	$ 1,625	$ 1,693	$ 1,776	$ 1,844	$ 1,875	$ 1,909	$ 1,942	$ 1,964

Figure 10

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 in changing economic environments. ***Figure 11 illustrates the change in expected revenue collections from the weakening economy by comparing the current Revenue Estimating Conference forecast to that of last year.***

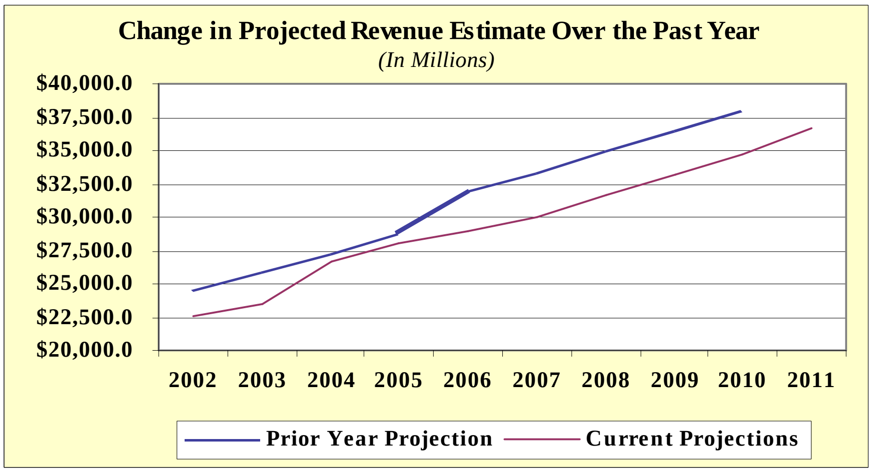


Figure 11

The revised revenue forecasts used in the debt analyses reflect an aggregate decrease of $1.9 billion or 7.8% less than last years's forecast for Fiscal Year 2002 and $2.4 billion or 9.3% less than last year's forecast for fiscal year 2003. The decrease reflects a weakening economy and the estimated financial impact of the terrorist attacks on State revenue collections.

Projected Revenue Available for State Tax-Supported Debt

Fiscal Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Reveue Available *(In Billions)* **:**										
Total Revenue Available *(Fall 2001 Estimates)*	$22.59	$23.45	$26.62	$27.97	$28.90	$29.95	$31.60	$33.17	$34.67	$36.63
Prior Projected Revenues Available *(Fall 2000 Estimates)*	$24.51	$25.86	$27.25	$28.74	$31.93	$33.30	$34.98	$36.56	$38.05	$0.00
Decrease in Revenue Estimate	($1.9)	($2.4)	($0.6)	($0.8)	($3.0)	($3.3)	($3.4)	($3.4)	($3.4)	-
Percent Change in Estimate	(7.8)%	(9.3)%	(2.3)%	(2.7)%	(9.5)%	(10.1)%	(9.7)%	(9.3)%	(8.9)%	-

Figure 12

BENCHMARK DEBT RATIO

The benchmark debt ratio designated for the debt affordability analysis is debt service to revenues available to pay debt service. The guidelines established by the Legislature for the debt ratio are 6% as a target and 7% as a cap. The graphic in Figure 13 presents a comparison of last year's projected benchmark debt ratio with the current year's projection.

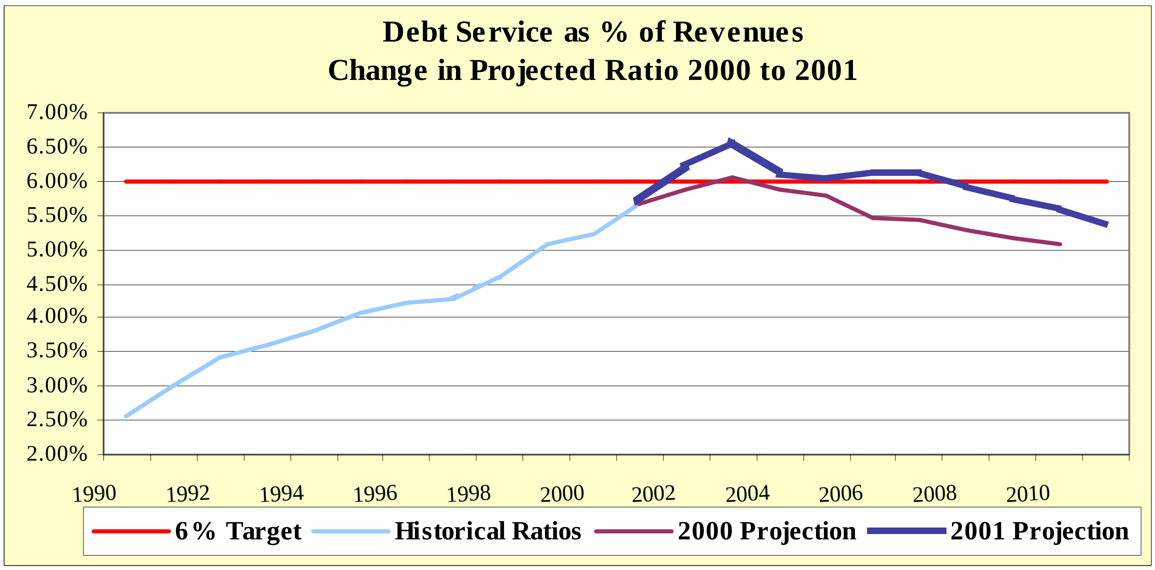


Figure 13

Debt Service to Revenues

Change in Projected Ratio from 2000 to 2001

Fiscal Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
2000 Projection	5.66%	5.87%	6.05%	5.88%	5.77%	5.46%	5.43%	5.28%	5.17%	5.07%	-
2001 Projection	5.69%	6.22%	6.59%	6.10%	6.05%	6.15%	6.16%	5.93%	5.76%	5.60%	5.36%

Figure 14

The State's debt position measured by the benchmark debt ratio was 5.69% at June 30, 2001. ***The benchmark debt ratio is expected to exceed the 6% target in 2002.*** Based on revised forecasts of expected debt issuance and revenue collections, the increase in the benchmark debt ratio is due to lower revenue estimates reflecting a weaker economy.

CHANGE IN DEBT CAPACITY

The last step in the Debt Affordability Study Update is to estimate the future available debt capacity. Figure 15 sets forth the debt capacity available within the 6% target benchmark, taking into account expected issuance under existing state bond programs.

Debt Capacity for 6% Target Benchmark Ratio

(In Millions of Dollars)

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
Total Capacity	$ 1,560.0	$ 1,750.0	$ 1,435.0	$ 891.0	$ 935.6	$ 790.6	$ 1,588.8	$ 1,373.2	$ 1,931.6	$ 397.5	$ 12,653.3
Expected Issuance	1,560.0	1,750.0	1,435.0	891.0	935.6	790.6	588.8	623.2	681.6	397.5	9,653.3
Available Capacity	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,000.0	$ 750.0	$ 1,250.0	$ -	$ 3,000.0

Figure 15

Based on the 6% target benchmark debt ratio, the total bonding capacity over the next 10 years would be $12.7 billion. As shown previously, the expected debt issuance for the next 10 years for the existing financing programs is estimated to be approximately $9.7 billion. This leaves approximately $3.0 billion of debt capacity available over the next 10 years. This represents a $2.3 billion or 43% decrease in available debt capacity over last year's estimates. ***The decrease in available capacity,*** staying within the 6% target benchmark debt ratio, ***is due to lower long-run revenue estimates.*** Addionally, the debt capacity is not available until 2008 and then only incrementally through 2010.

The available bond capacity should be considered a scare resource to be used sparingly to provide funding for 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 used as a cushion against downturns in the economy.

Figure 16 shows the additional capacity under the 7% cap for the benchmark ratio which could be available for critically needed infrastructure. Debt capacity can quickly evaporate in a weak economic environment. The near term additional capacity (through 2006) is $3.2 billion.

Debt Capacity for 7% Cap Benchmark Ratio

(In Millions of Dollars)

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
Total Capacity	$ 2,785.0	$ 3,550.0	$1,540.0	$ 921.0	$1,025.6	$ 1,840.6	$ 1,588.8	$1,573.2	$ 2,131.6	$ 1,847.5	$ 18,803.3
Expected Issuance	1,560.0	1,750.0	1,435.0	891.0	935.6	790.6	588.8	623.2	681.6	397.5	9,653.3
Available Capacity	$ 1,225.0	$ 1,800.0	$ 105.0	$ 30.0	$ 90.0	$ 1,050.0	$ 1,000.0	$ 950.0	$ 1,450.0	$ 1,450.0	$ 9,150.0

Figure 16

ADDITIONAL DEBT RATIOS

Additional debt ratios used by the municipal bond industry are (1) debt as a percentage of personal income and (2) debt per capita. Figures 17 and 18 below illustrate historical and projected levels for the next ten years compared with the Peer Group median for each of the ratios.

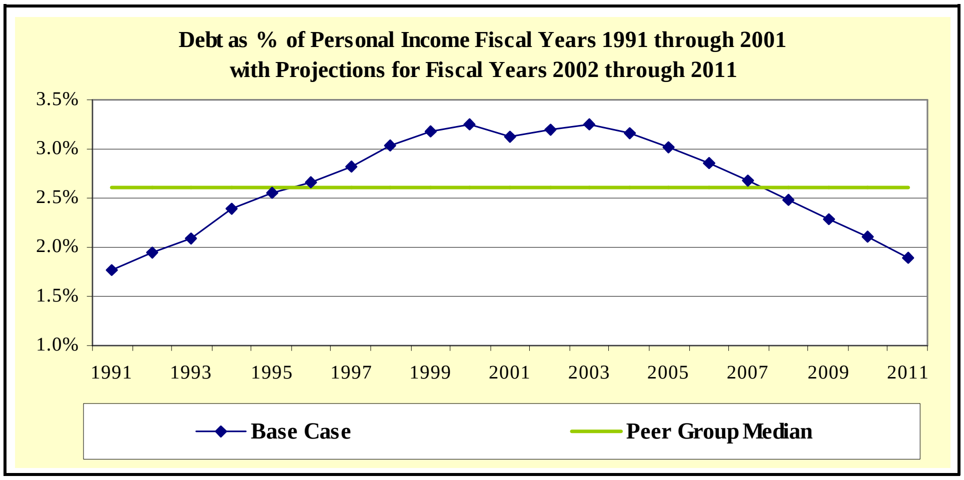


Figure 17

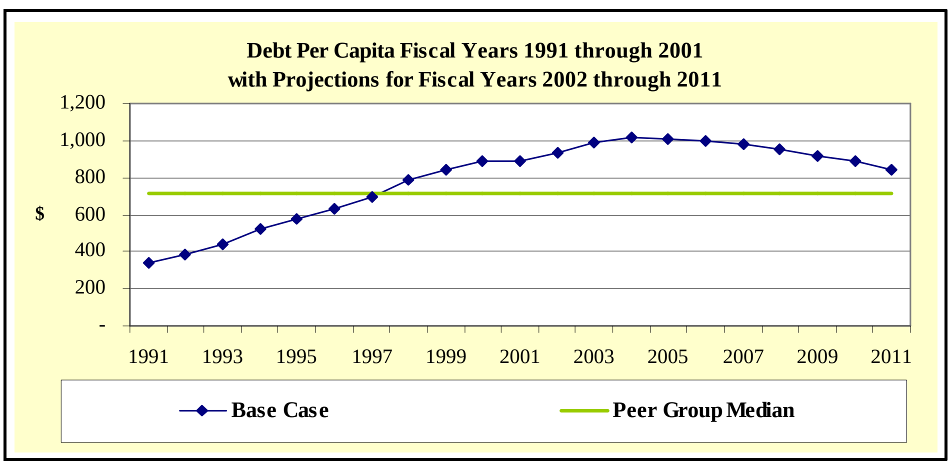


Figure 18

The foregoing projections indicate that the estimated growth in personal income and population will be greater than the growth in State debt. The growth in State debt does not include any new bond programs.

DEBT RATIO COMPARISON

There are three debt ratios used by the municipal industry to evaluate a government's debt position. The three debt ratios are debt per capita, debt to personal income, and debt service to revenues. A comparison to national and peer group medians are helpful because absolute values are not particularly useful without a basis for comparison.

Florida's debt per capita is less than the Ten-State Peer Group mean but exceeds the National median. Florida exceeds the Peer Group and National medians for both debt to personal income and debt service to revenues.

2000 Comparison of Florida to Peer Group and National Medians			
	Net Tax Supported Debt Per Capita	Net Tax Supported Debt as a % of Personal Income	Net Tax Supported Debt Service as a % of Revenues
Florida	**$889**	**3.26%**	**5.22%**
Peer Group Mean	**$907**	**3.02%**	**4.11%**
National Median	**$541**	**2.10%**	**Not Available**

Figure 19

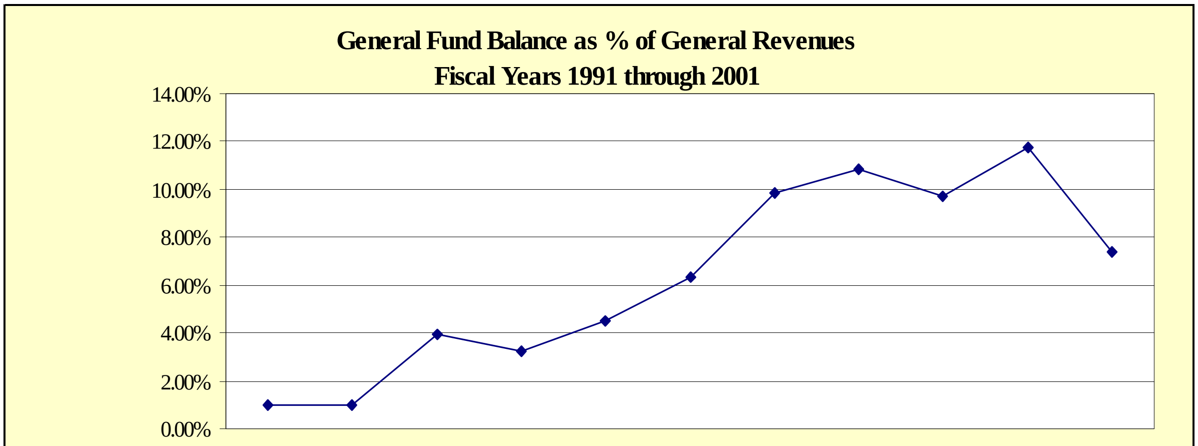
A more meaningful comparison is made by looking at a peer group consisting of the ten most populous states. Florida ranked third in debt measured by debt ratios among the Peer Group. Figure 20 details the Ten Most Populous State Peer Group Comparison for the three debt ratios evaluated.

2000 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	8.32%	1	$2,020	1	6.20%	AA/A2/AA
Ohio	2	5.70%	6	$698	6	2.60%	AA+/Aa1/AA+
Florida	3	**5.22%**	3	**$889**	3	**3.26%**	**AA/Aa2/AA+**
New Jersey	4	4.30%	2	$1,935	2	5.50%	AA+/Aa1/AA+
Illinois	5	4.20%	4	$815	4	2.70%	AA+/Aa2/AA
Georgia	6	3.70%	7	$679	5	2.60%	AAA/Aaa/AAA
California	7	3.30%	5	$733	7	2.50%	AA/A1/A+
Pennsylvania	8	2.50%	8	$603	8	2.20%	AA/Aa2/AA
Michigan	9	2.00%	9	$449	9	1.60%	AA+/Aaa/AAA
Texas	10	1.90%	10	$251	10	1.00%	AA+/Aa1/AA
Median		**3.95%**		**$716**		**2.60%**	
Mean		**4.11%**		**$907**		**3.02%**	

Figure 20

LEVEL OF RESERVES

An important measure of financial health is the level of general fund reserves. The following graphic, Figure 21, shows the level of unencumbered general fund balances over the last 10 years.



(In Million Dollars)	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
General Fund	**$ 98.3**	**$101.5**	**$461.0**	**$411.3**	**$601.8**	**$905.4**	**$1,509.9**	**$1,786.8**	**$1,694.3**	**$2,155.9**	**$1,382.7**

Figure 21

The level of reserves also provide an indication of budgetary flexibility that is relevant in evaluating a state's credit position. The traditional measure used by credit analysts, investors and rating agencies is general fund balance to general revenues expressed as a percentage. In measuring State reserves for this purpose, trust fund balances which could be considered a "reserve", such as funds in the Lawton Chiles Endowment Fund and other trust fund balances whose purpose is limited by law are not included.

Florida's unencumbered general fund balance peaked at approximately $2.2 billion in Fiscal Year 2000, primarily attributable to the funding of a constitutionally required budget stabilization reserve. Reserves were drawn down during Fiscal Year 2001, reducing the balance to $1.4 billion at fiscal year-end. The general fund balance is made-up of the balances in the budget stabilization fund ($894 million) and the working capital fund ($488.7 million). ***The aggregate balance of these funds represents approximately 7.4% of general revenues at June 30, 2001 which is considered adequate.*** The trend of decreasing reserve levels may continue in the near term if the Legislature uses general fund reserves to balance the State's budget.

REVIEW OF CREDIT RATINGS

Credit ratings are the rating agencies' assessment 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 can influence interest rates a borrower must pay. Each of the rating agencies believes that debt management generally and the Debt Affordability Study in particular are positive factors in assigning credit ratings.***

State of Florida General Obligation Credit Ratings	
Fitch IBCA, Inc.	AA
Moody's Investors Service	Aa2
Standard & Poor's Ratings Services	AA+

Figure 22

There are several factors which rating agencies analyze in assigning credit ratings: financial factors, economic factors, debt factors, and administrative/ management factors. Weakness in one area may well be offset by strength in another. However, significant variations in any single factor can influence a bond rating. ***The two most important factors to the State's credit rating in the near term are how the legislature addresses the projected revenue decrease and budget shortfall and the State's economy.***

Even before the terrorist attacks, Florida's economy, following a national trend, was weakening. This weakness was reflected in lower than expected revenue collections estimated to be $670 million for fiscal year 2001/02 by the September 15th Revenue Estimating Conference. Additionally, the terrorist attacks adversely affected Florida's economy especially in the hospitality industry. The financial impact on the State's general revenues is estimated to be $640 million. The combined impact of the lower revenue estimates creates a budget shortfall of $928 million. The legislature is required to balance the budget. How the legislature addresses the expected budget shortfall either through recurring spending cuts or utilizing reserve fund balances will affect the State's financial position.

The second factor which could adversely impact the State's rating is Florida's economy. If the current recession is either more sever or continues for longer than currently anticipated, the State's credit rating could be adversely affected. Also, if the impact of a weak economy is more severe in Florida because of the nature of our economy, the State's credit rating could deteriorate.

At the current time, it does not appear likely that the State's credit rating will suffer. Most economists believe the recession will be relatively mild and fairly short. If this occurs, Florida's credit rating should not be affected. Additionally, the legislature's revised budget will be viewed positively by the rating agencies because it minimizes the use of reserves and non-recurring revenues to balance the State's budget.

CONCLUSION

Florida's debt increased slightly over the past year, growing considerably less than the ten year average. The expected future debt issuance over the next 10 years totals $9.7 billion. Considering expected debt issuance, the estimated bonding capacity available over the next ten years is $3 billion but is not available until 2008. Florida's debt position as measured by the benchmark debt ratio of debt service to revenues is expected to deteriorate by the end of the current fiscal year. The deterioration in the benchmark debt ratio is largely due to lower revenue forecasts reflecting a weaker economy. ***The benchmark ratio is expected to exceed the target of 6% for Fiscal Year 2002. No debt capacity is projected to be available under the target 6% until 2008.*** Debt capacity available for critical infrastructure needs in the near term within the 7% cap is $3.2 billion. Florida's debt is considered moderate and is manageable at the current level.