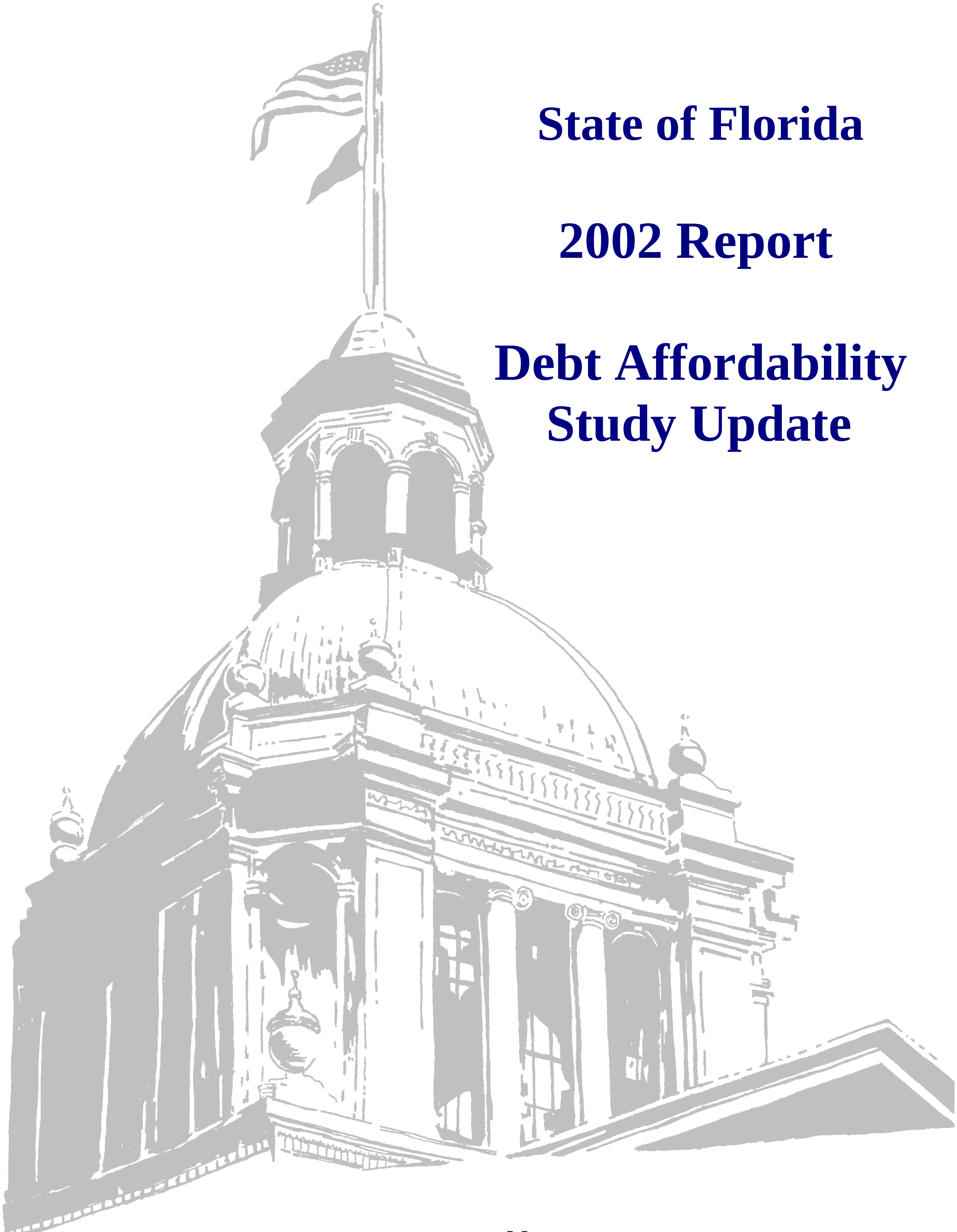
State of Florida

2002 Report

Debt Affordability Study Update



Prepared by
The Division of Bond Finance

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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:

- Catalogued All State Debt;
- Evaluated Trends in Debt Levels Over the Last Ten 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 measuring, 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.

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 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 6% requires the Legislature to determine that the authorization and issuance of such additional debt is in the best interest of the State. Additional debt that would cause the benchmark debt ratio to exceed 7% requires the Legislature to determine that such additional debt is necessary to address a critical state emergency.

The Debt Affordability 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 2002 Report is the Annual Debt Affordability Study Update which satisfies the requirements of Section 215.98, Florida Statute. ***The purpose of this 2002 Report 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. The 2002 Report 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 the 2002 Report 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 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 was presented to the Governing Board of the Division of Bond Finance on December 11, 2002 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

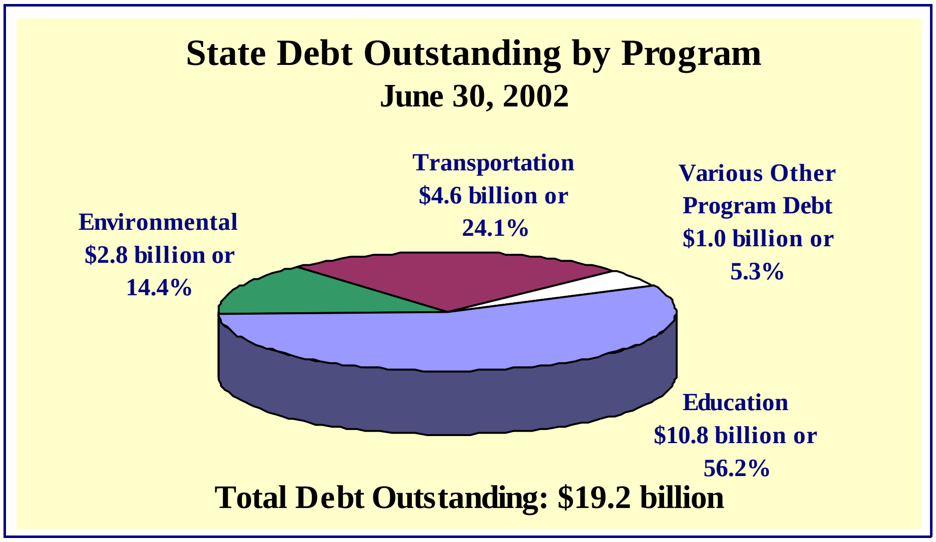


Figure 1

The State of Florida had total debt outstanding of approximately $19.2 billion at June 30, 2002. The pie chart illustrates the State's investment in infrastructure financed with bonds by programmatic area. The largest investment financed with bonds is for educational facilities with $10.8 billion or 56% of total debt outstanding devoted to school construction. Public Education Capital Outlay or "PECO" is the State's largest bond program with approximately $7.7 billion of debt outstanding. The second largest programmatic area financed with bonds is for transportation infrastructure. The transportation infrastructure financed with bonds consists primarily of 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 with approximately $2.5 billion outstanding.

Net tax-supported debt makes up $15.4 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, 2002
(In Millions of Dollars)

		Dollar Amount	% of Total
Education			
Public Education Capital Outlay	$ 7,677.7		
Capital Outlay	943.0		
Lottery	1,527.5		
University System Improvement	211.9		
Total Education		**$ 10,360.0**	**67.2%**
Environmental			
Preservation 2000 / Florida Forever	2,499.9		
Conservation and Recreation	22.7		
Save Our Coast	158.1		
Inland Protection (Tanks)	35.2		
Total Environmental		**2,715.9**	**17.6%**
Transportation			
Right-of-Way and Bridge Acquisition	982.2		
Florida Ports	345.3		
Total Transportation		**1,327.5**	**8.6%**
Appropriated Debt / Other			
Facilities	390.7		
Master Lease	23.3		
Prisons	175.4		
Juvenile Justice	19.2		
Children & Families	35.0		
Investment Fraud	5.9		
Radio Tower Lease	-		
Affordable Housing	289.0		
Florida High Charter School	23.3		
Lee Moffitt Cancer Center	56.3		
Total Appropriated Debt		**1,018.2**	**6.6%**
Total Debt Outstanding		**$ 15,421.7**	

Figure 2

Educational bond programs represent 67% of the net tax-supported debt outstanding or $10.4 billion, environmental programs 18% or $2.7 billion, transportation programs 9% or $1.3 billion and other programs make up the remaining 6% with $1 billion outstanding.

Bonds Outstanding By Program Self-Supporting Debt As of June 30, 2002 *(In Millions of Dollars)*		Dollar Amount	% of Total
Education			
University Auxiliary Facility Revenue Bonds		**$ 439.1**	**11.6%**
Environmental			
Florida Water Pollution Control		**48.1**	
Pollution Control		**0.1**	**0.1%**
Transportation			
Toll Facilities	$2,011.4		
Orlando-Orange Co. Expressway Authority	1,005.3		
Road and Bridge	296.5		
Total Transportation		**3,313.2**	**87.2%**
Total Debt Outstanding		**$3,800.5**	

Figure 3

Self-supporting debt totals $3.8 billion as of June 30, 2002 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 $6.6 billion at June 30, 2001.*** 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 47% of the total. Special purpose, quasi-governmental insurance entities have $2.2 billion or 34% of total indirect debt. University direct support organizations follow with $704 million or 11% of the indirect debt.

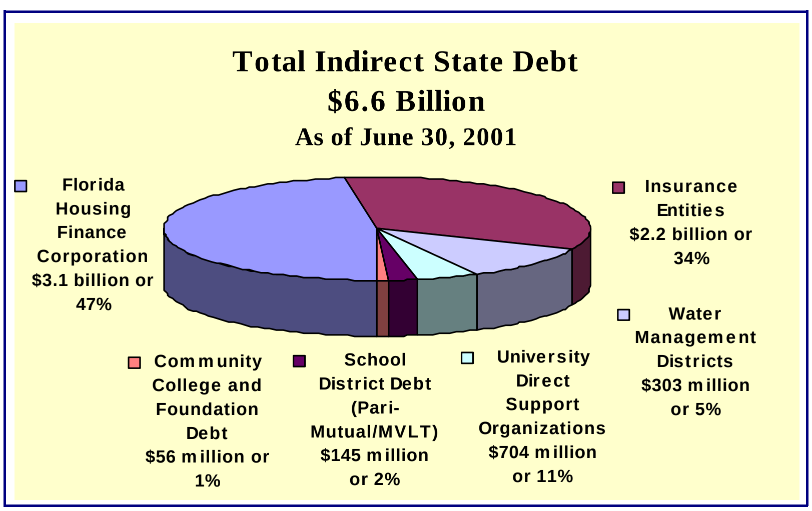


Figure 4

The following Figure 5 lists State indirect debt by program to illustrate which entities incur such debt and for what purpose. For example, 69% of the Florida Housing Finance Corporation debt has been issued for multi family housing projects and 31% for single family housing. The University of Florida accounts for 46% of the university direct support organization debt. Lastly, of the 34% of total indirect debt for the two special purpose insurance entities, 78% is Florida Windstorm Underwriting Association debt and 22% is Residential Property and Casualty Joint Underwriting Association debt. These special purpose insurance entities were merged into Citizens Property Insurance Corporation as of July 1, 2002. However, the debt issued by the predecessor insurance entities remains outstanding.

Total State Indirect Debt

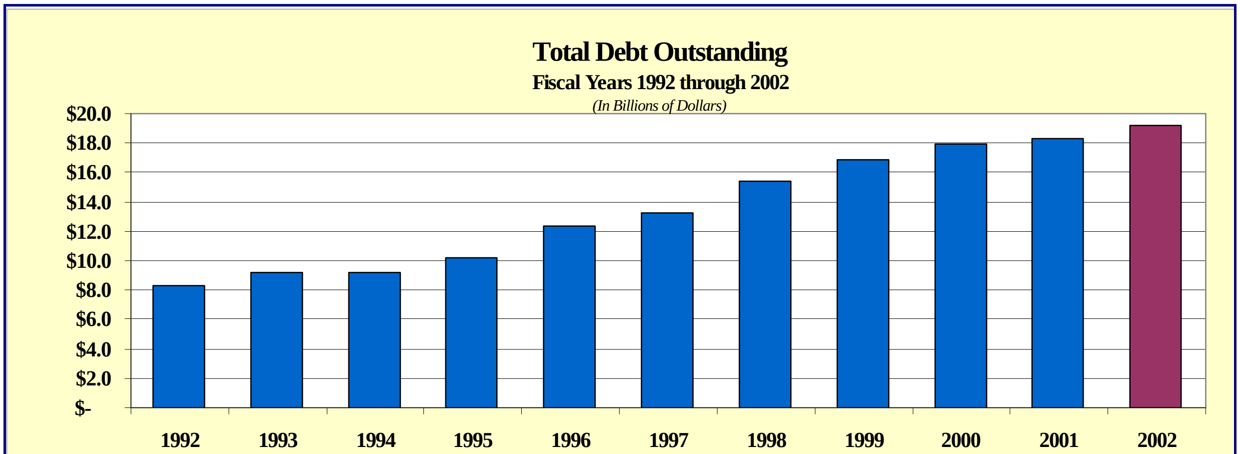
(In Millions of Dollars)

Florida Housing Finance Corporation		
Single Family Programs	**$ 957.0**	
Multi Family Programs	**2,150.4**	
Total		**$ 3,107.4**
University Direct Support Organizations		
University of Florida	**325.5**	
Florida State University	**163.3**	
Other State Universities	**215.6**	
Total		**704.3**
School District Debt (Revenue Debt: Sales Tax, Pari-Mutual)		
Bay County School District	**45.9**	
Osceola School District	**42.5**	
Other School Districts	**57.1**	
Total		**145.4**
Community College and Foundation Debt		**56.4**
Water Management Districts		**302.6**
Windstorm Underwriting Association		**1,741.7**
Residential Property & Casualty Joint Underwriting Assoc.		**500.0**
Total State Indirect Debt		**$ 6,557.8**

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.



Debt Outstanding (in Millions)	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
	$ 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	$19,222.2

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 more than doubled over the last 10 years increasing from approximately $8.3 billion at June 30, 1992 to approximately $19.2 billion at June 30, 2002.*** The increase was primary due to the issuance of additional PECO bonds of $4.5 billion, implementing both the lottery bond program for school construction of $1.5 billion and the Preservation 2000 / Florida Forever programs.

Debt increased $955 million in Fiscal Year 2002 from $18.3 billion at June 30, 2001 to approximately $19.2 billion at June 30, 2002, slightly less than the average annual increase of approximately $1.1 billion per year over the last 10 years. The increase in debt is due primarily to additional borrowing for school construction with PECO and lottery bonds accounting for 79% of the increase or $713 million over the prior year.

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.

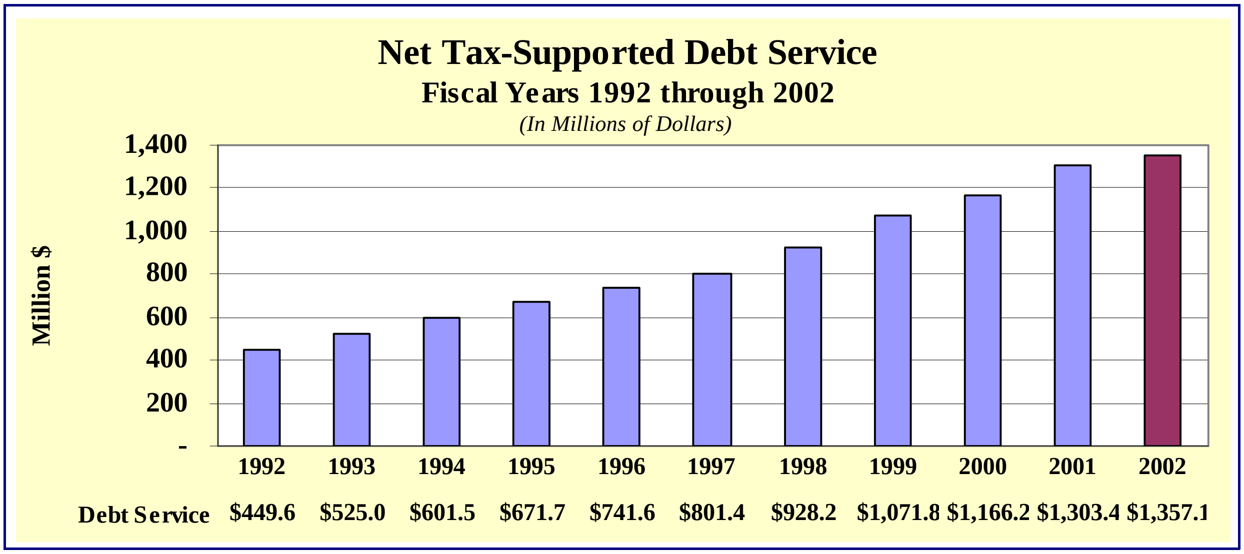
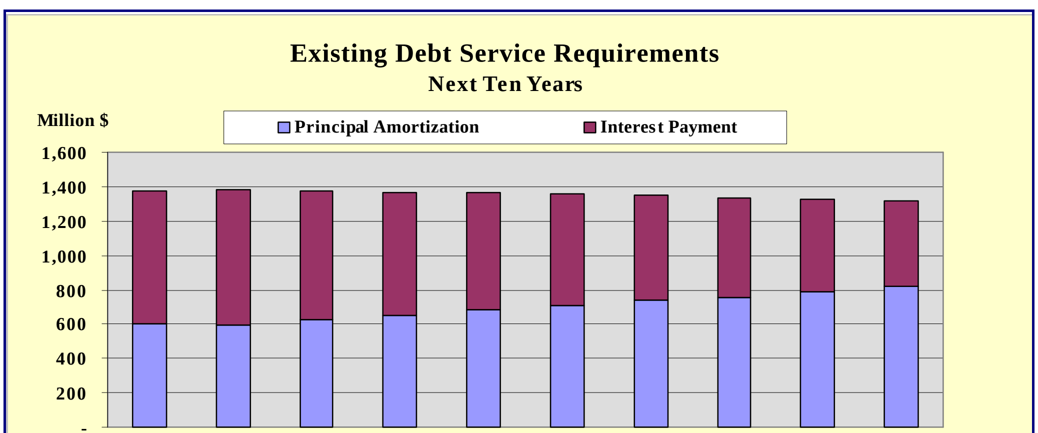


Figure 7

The State's annual debt service payments have grown to approximately $1.4 billion per year. Annual debt service requirements have tripled over the last 10 years reflecting the increase in debt outstanding. The State's annual debt service payment obligation has risen from $450 million in 1992 to approximately $1.4 billion in 2002. 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 $1.4 billion per year over the next ten years. Additionally, total interest payments of $6.6 billion are slightly less than principal amortization of $7.0 billion over the next ten years.



(In Millions)	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
Principal	$ 605	$ 597	$ 626	$ 649	$ 682	$ 709	$ 737	$ 757	$ 788	$ 820	$ 6,970
Interest	774	782	753	721	687	652	617	580	541	500	6,608
Total	$ 1,378	$ 1,379	$ 1,379	$ 1,370	$ 1,370	$ 1,361	$ 1,354	$ 1,337	$ 1,329	$ 1,320	$ 13,577

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.

Projected Debt Issuance By Program
Fiscal Years 2003 through 2012
(In Millions of Dollars)

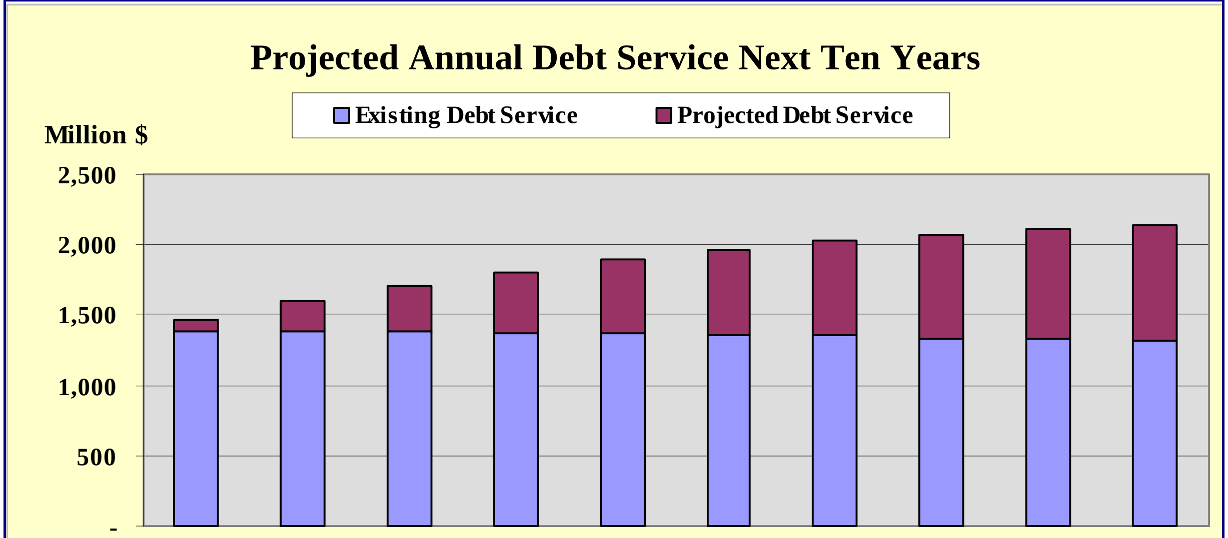
		Capital		Fla. Forever				Affordable			Master	Total
Fiscal Year	**PECO**	**Outlay**	**Lottery**	**Current**	**Prior**	**ROW**	**Garvee**	**Housing**	**Everglades**	**SUS**	**Lease**	**Issuance**
2003	$ 550	$ 30	$ 393	$ 300	$ 150	$ 200	$ -	$ -	$ 100	$ -	$ 25	$ 1,748
2004	663	-	-	300	150	300	-	-	100	-	25	1,538
2005	471	-	-	300	-	300	-	100	100	-	25	1,296
2006	323	-	-	300	-	265	275	-	100	-	-	1,263
2007	375	-	-	300	-	215	225	-	100	-	-	1,215
2008	380	-	-	300	-	255	25	-	100	-	-	1,060
2009	386	-	-	300	-	165	-	-	100	-	-	951
2010	428	-	-	300	-	100	-	-	100	-	-	928
2011	464	-	-	-	-	50	-	-	-	-	-	514
2012	522	-	-	-	-	-	-	-	-	-	-	522
Projected Total	**$ 4,560**	**$ 30**	**$ 393**	**$ 2,400**	**$ 300**	**$ 1,850**	**$ 525**	**$ 100**	**$ 800**	**$ -**	**$ 75**	**$ 11,034**
Prior Projection	**$ 4,023**	**$ -**	**$ 825**	**$ 2,700**	**$ 250**	**$ 1,020**	**$ 525**	**$ 200**	**$ -**	**$ 35**	**$ 75**	**$ 9,653**
Change	**$ 537**	**$ 30**	**$ (432)**	**$ (300)**	**$ 50**	**$ 830**	**$ -**	**$ (100)**	**$ 800**	**$ (35)**	**$ -**	**$ 1,381**

Figure 9

Approximately $11.0 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 an increase of $1.4 billion or 14.3% compared to the previous projection of expected debt issuance. The increase in expected debt issuance over the next 10 years is primarily due to the addition of the Everglades restoration program , the expansion of the Right-of-Way program authorized by the 2002 Legislature, and more borrowing for school construction under the PECO program. ***It is important to note that no debt has been included in the projections for any constitutional initiatives such as class size reduction or high speed rail.*** Any borrowing to fund these constitutional initiatives or other programs would be in addition to the $11.0 billion expected borrowing detailed above.

PROJECTED DEBT SERVICE

Annual debt service is estimated to grow to $2.1 billion by Fiscal Year 2012 assuming projected bond issuance of $11.0 billion. Figure 10 shows existing debt service and the debt service for the projected bond issuance over the next ten years.



(In Millions)	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Existing	$ 1,378	$ 1,379	$ 1,379	$ 1,370	$ 1,370	$ 1,361	$ 1,354	$ 1,337	$ 1,329	$ 1,320
Projected	86	218	325	429	528	602	673	739	781	819
Total	$ 1,464	$ 1,597	$ 1,704	$ 1,799	$ 1,898	$ 1,963	$ 2,027	$ 2,076	$ 2,110	$ 2,139

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.

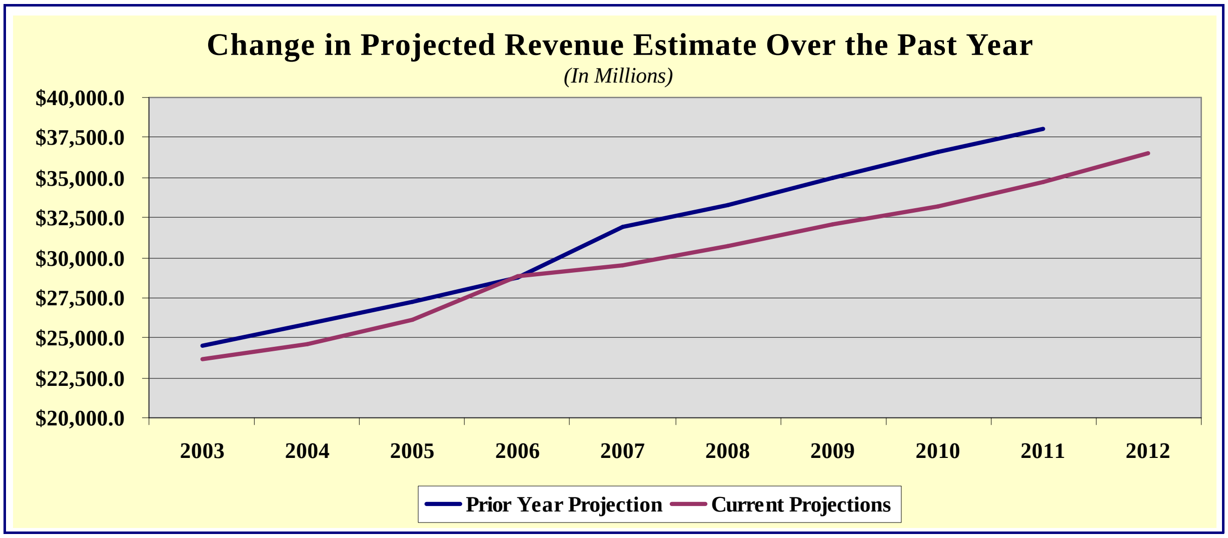


Figure 11

The revised revenue forecasts used in the debt analyses reflect a slight increase of $237 million or 1.0% more than last years's forecast for Fiscal Year 2003. The change in the forecast for Fiscal Year 2004 was primarily due to a timing adjustment for revenues anticipated to be available for the GARVEE program. Decreases otherwise reflect a less robust recovery than previously anticipated.

Projected Revenue Available for State Tax-Supported Debt

Fiscal Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Reveue Available *(In Billions)* **:**										
Total Revenue Available *(Fall 2002 Estimates)*	$23.69	$24.59	$26.10	$28.85	$29.51	$30.76	$32.06	$33.22	$34.76	$36.47
Prior Projected Revenues Available *(Fall 2001 Estimates)*	$23.45	$26.62	$27.97	$28.90	$29.95	$31.60	$33.17	$34.67	$36.63	$0.00
Decrease in Revenue Estimate	$0.2	($2.0)	($1.9)	($0.1)	($0.4)	($0.8)	($1.1)	($1.4)	($1.9)	-
Percent Change in Estimate	1.0%	(7.6)%	(6.7)%	(0.2)%	(1.5)%	(2.7)%	(3.3)%	(4.2)%	(5.1)%	-

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 shows the projections for the benchmark debt ratio revised to reflect the most current expected debt issuance and revenue collections

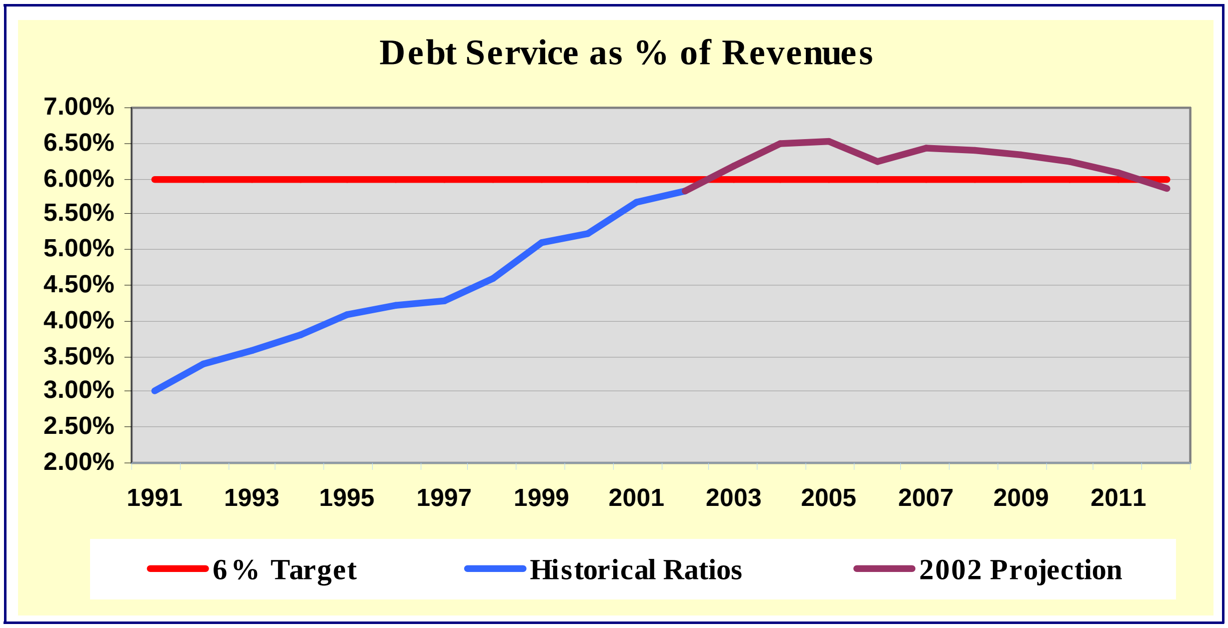


Figure 13

The State's debt position measured by the benchmark debt ratio was 5.82% at June 30, 2002. ***The benchmark debt ratio is expected to exceed the 6% target in 2003.*** The benchmark debt ratio is projected to continue increasing through 2005 peaking at 6.53%. The increase in the benchmark debt ratio is due to $1.4 billion of additional borrowing over the next ten years and lower long-run revenue estimates reflecting a lower expected economic growth rate due to a weaker economy. The additional expected issuance includes a new financing program to fund Everglades restoration, increased borrowing for right-of-way acquisition and more borrowing for school construction under the PECO program.

Debt Service to Revenues

Fiscal Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
2002 Projection	5.82%	6.18%	6.49%	6.53%	6.23%	6.43%	6.38%	6.32%	6.25%	6.07%	5.86%

Figure 14

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. ***The debt capacity available over the next ten years within the 6% target totals $1.2 billion.*** Future expected debt issuance does not include any amounts to provide funding for classroom size reductions or high speed rail.

Debt Capacity for 6% Target Benchmark Ratio

(In Millions of Dollars)

Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
Total Capacity	$ 1,748.5	$ 1,537.6	$ 1,296.4	$ 1,262.7	$ 1,214.8	$ 1,059.7	$ 950.6	$ 927.5	$ 1,139.3	$ 1,096.5	$ 12,233.6
Expected Issuance	1,748.5	1,537.6	1,296.4	1,262.7	1,214.8	1,059.7	950.6	927.5	514.3	521.5	11,033.6
Available Capacity	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 625.0	$ 575.0	$ 1,200.0

Figure 15

Based on the 6% target benchmark debt ratio, the total bonding capacity over the next 10 years would be $12.2 billion. As shown previously, the expected debt issuance for the next 10 years for the existing financing programs is estimated to be approximately $11.0 billion. This leaves approximately $1.2 billion of debt capacity available over the next 10 years. This represents a $1.8 billion or 60% decrease in available debt capacity over last year's estimate. ***The decrease in available capacity,*** staying within the 6% target benchmark debt ratio, ***is due to greater expected debt issuance over the next ten years of $1.4 billion and lower long-run revenue estimates.*** The additional expected debt issuance is due to expanded borrowing for PECO and Right-of-Way programs and implementing a new bonding program to fund Everglades restoration. The estimated debt capacity is not available until 2011.

Figure 16 shows the additional capacity under the 7% cap for the benchmark ratio which could be available for critically needed infrastructure. ***The debt capacity available over the next ten years within the 7% cap totals $5.3 billion.*** The near term additional debt capacity (through 2007) is $2.4 billion. However, debt capacity can quickly evaporate in a weak economic environment because of lower revenues.

Debt Capacity for 7% Cap Benchmark Ratio

(In Millions of Dollars)

Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
Total Capacity	$ 3,323.5	$ 1,537.6	$ 1,871.4	$ 1,262.7	$ 1,489.8	$ 1,409.7	$ 1,375.6	$ 1,902.5	$ 1,664.3	$ 521.5	$ 16,358.6
Expected Issuance	1,748.5	1,537.6	1,296.4	1,262.7	1,214.8	1,059.7	950.6	927.5	514.3	521.5	11,033.6
Available Capacity	$ 1,575.0	$ -	$ 575.0	$ -	$ 275.0	$ 350.0	$ 425.0	$ 975.0	$ 1,150.0	$ -	$ 5,325.0

Figure 16

The available debt 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 viewed as a cushion against downturns in the economy.

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 service to revenues, debt per capita, and debt to personal income. 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 ratios are generally higher than the national and Ten-State Peer Group averages. The only exception is that Florida's dept per capita is lower than the Peer Group mean.

2001 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	**5.70%**	**$892**	**3.17%**
Peer Group Mean	**4.20%**	**$961**	**3.02%**
National Median	**Not Available**	**$573**	**2.30%**

Figure 17

A more meaningful comparison is made by looking at a peer group consisting of the ten most populous states. Figure 18 details the Ten Most Populous State Peer Group Comparison for the three debt ratios evaluated. As indicated below, ***Florida has the second highest ratio for the benchmark debt ratio of debt service to revenues, up from third last year.***

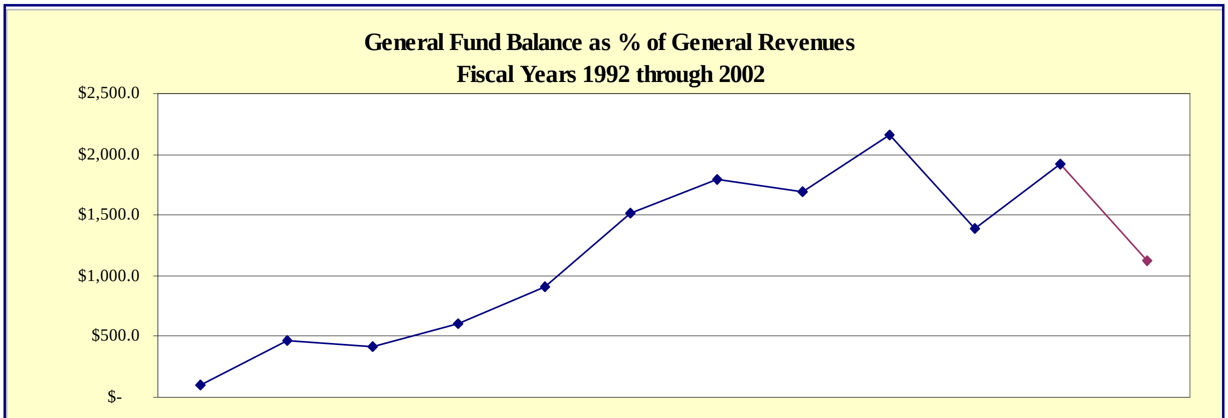
2001 Comparison of Florida to Ten Most Populous States

	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	9.47%	2	$2,045	1	5.90%	AA/A2/AA
Florida	2	**5.70%**	4	**$892**	3	**3.17%**	**AA/Aa2/AA+**
Ohio	3	5.45%	7	$749	6	2.60%	AA+/Aa1/AA+
New Jersey	4	4.73%	1	$2,066	2	5.60%	AA/Aa2/AA
Illinois	5	4.37%	3	$908	5	2.80%	AA+/Aa2/AA
California	6	3.12%	6	$795	7	2.50%	AA/A1/A+
Georgia	7	3.07%	5	$804	4	2.90%	AAA/Aaa/AAA
Pennsylvania	8	2.31%	8	$671	8	2.30%	AA/Aa2/AA
Michigan	9	1.97%	9	$438	9	1.50%	AA+/Aaa/AAA
Texas	10	1.83%	10	$238	10	0.90%	AA+/Aa1/AA
Median		**3.75%**		**$800**		**2.70%**	
Mean		**4.20%**		**$961**		**3.02%**	

Figure 18

LEVEL OF RESERVES

An important measure of financial health is the level of general fund reserves. The following graphic, Figure 19, shows the level of unencumbered general fund balances over the last 10 years and an estimate of such balance expected at this fiscal year-end.



(In Millions)	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
General Fund	$ 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	$ 1,925.1	$ 1,118.5

The level of reserves also provides 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. At the end of Fiscal Year 2002, reserves increased to $1.9 billion. The general fund balance is made up of the balances in the budget stabilization fund ($940.9 million) and the working capital fund (984.2 million). ***The aggregate balance of these funds represents approximately 10% of general revenues at June 30, 2002 which is considered adequate.*** However, general fund balances were used to mitigate the impact of budget cuts due to revenue shortfalls projected for the current fiscal year. Accordingly, it is expected that the general fund balance will decrease to approximately $1.1 billion at June 30, 2003 or of 5.7% of general revenues.

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.***

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.

State of Florida General Obligation Credit Ratings

Fitch Ratings	AA
Moody's Investors Service	Aa2
Standard & Poor's Ratings Services	AA+

Figure 20

Florida's economy was challenged over the last year by the combined impact of a slowing national economy followed by the terrorist attacks on 9/11. These events caused the Revenue Estimating Conference to reduce estimated general fund revenues by $1.3 billion or 6.6% of the estimated general fund revenues. The negative economic climate exacerbated by the expected impact on Florida's hospitality industry caused one of the three rating agencies to change the outlook on Florida's credit rating from stable to negative. However, the outlook for the State's credit rating has been returned to stable. ***The improvement in the outlook was due largely to the timely and fiscally prudent manner in which the Legislature addressed the expected budget shortfall.*** The actions confirmed the State's history of conservative fiscal management and favorably positioned the State for the near term. Also, Florida's economy proved to be fairly resilient and revenue estimates were increased in March 2002 to reflect higher than expected sales and documentary stamp taxes due to an improving economy and low interest rates.

Other factors contributing to Florida's stable rating outlook are a history of strong budgetary reserves and the legislature establishing a formal process for evaluating the State's debt position through this Debt Affordability Study.

CONCLUSION

Florida's debt increased $955 million over the past year, growing slightly less than the ten-year average of $1.1 billion. The expected future debt issuance over the next 10 years totals $11.0 billion. The expected debt issuance does not include any new financing programs to fund constitutional mandates such as class size reduction or high speed rail.

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 due to $1.4 billion more of expected borrowing compared with the estimates for the prior year and lower long-run revenue forecasts reflecting a weaker economy. ***The benchmark ratio is expected to exceed the target of 6% for Fiscal Year 2003.***

The projected debt capacity available over the next ten years within the 6% target is $1.2 billion but is not available until 2011. The projected debt capacity available over the next ten years within the 7% cap is $5.3 billion. However, only $2.4 billion is available over the next 5 years within the 7% cap. Both estimates are lower than last year because of lower revenue forecasts and more future borrowing.

Florida's debt is considered moderate and is manageable at the current level. However, ***if revenue forecasts continue declining and new borrowing programs are added, the benchmark debt ratio will continue increasing.*** Additionally, ***the State faces significant challenges for funding potentially very expensive constitutional initiatives.***