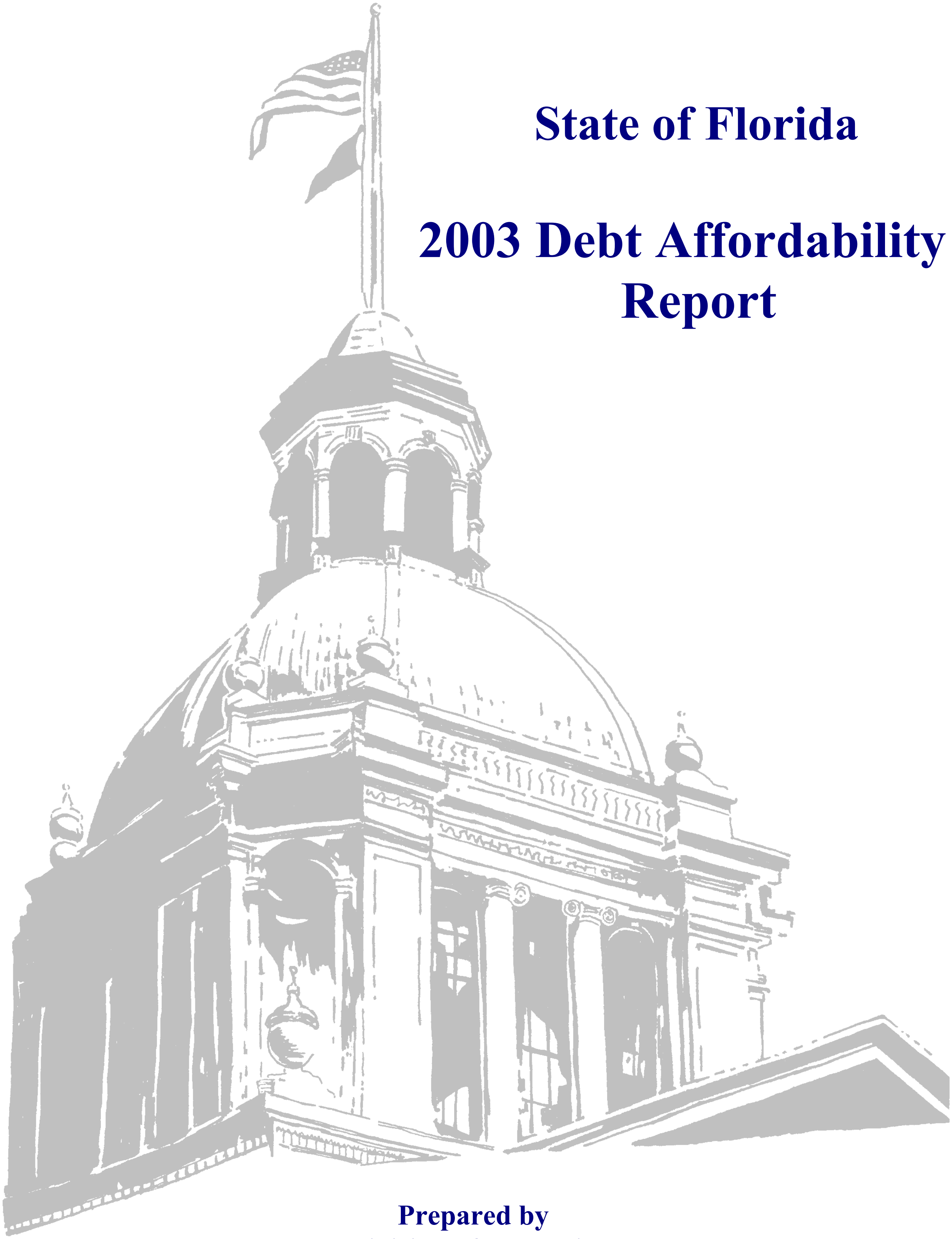
State of Florida

2003 Debt Affordability Report



Prepared by
The Division of Bond Finance

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EXECUTIVE SUMMARY

The purpose of this 2003 Report is to review changes in the State's debt position and to revise the projections to measure the financial impact of future debt issuance and changing economic conditions reflected in the current revenue estimates. The 2003 Debt Affordability Report has been prepared as required by Section 215.98, Florida Statutes.

Debt Outstanding: Total State debt outstanding at June 30, 2003 was $20.4 billion, $1.2 billion more than at June 30, 2002. Net tax-supported debt totaled $16.2 billion for programs supported by State tax revenues and the self-supporting debt totaled $4.2 billion representing debt secured by revenues generated from operating facilities financed with bonds. Additionally, indirect State debt at June 30, 2002 was $6.2 billion. Indirect debt is not secured by traditional State revenues or is the primary obligation of a legal entity other than the State, such as the Florida Housing Finance Corporation and University Direct Support Organizations.

Estimated Revenues: The current long-run revenue forecast is not significantly different from last year's forecast except for the current and next fiscal years. The revised revenue forecasts used in the debt analyses reflect an increase of $440 million or 1.8% more than last year's forecast for Fiscal Year 2004 and $361 million or a 1.4% decrease for Fiscal Year 2005.

Estimated Debt Issuance: Approximately $10.5 billion of debt is expected to be issued over the next ten years for all of the State's financing programs currently authorized. This estimated issuance decreased $533 million compared to the previous projection of expected debt issuance.

Estimated Annual Debt Service Requirements: Annual debt service payments are estimated to grow from the existing $1.5 billion to $2.2 billion by Fiscal Year 2013, assuming projected bond issuance of $10.5 billion.

Overview of the State's Credit Ratings: The State's credit ratings have been maintained by conservative financial management and the maintenance of reserves. Therefore, Florida's ratings have remained strong and did not suffer due to the reduction in revenue growth and the weak economic environment.

Debt Ratios: **The State exceeded the 6% target ratio of debt service as a percentage of revenues for the first time in Fiscal Year 2003.** The benchmark debt ratio increased from 5.82% in 2002 to 6.12% for 2003. The benchmark debt ratio is expected to increase to a high of 6.67% in 2005 assuming the projected debt issuance of $10.5 billion over the next 10 years.

A comparison of 2002 ratios shows that Florida's debt ratios are generally higher than the national and Ten State Peer Group averages. Florida has the second highest ratio for the benchmark debt ratio of debt service to revenues.

2002 Comparison of Florida to Peer Group and National Medians

	Net Tax Supported Debt as a % of Revenues	Net Tax Supported Debt as a % of Personal Income	Net Tax Supported Debt Per Capita
Florida	5.82%	3.25%	$930
Peer Group Mean	4.27%	3.05%	$1,002
National Median	Not Available	2.20%	$606

Debt Capacity: **There is no debt capacity available within the 6% target until 2011.**

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 yearly updates can be used by policymakers to evaluate the long-term impact of financing decisions and assist in prioritizing capital spending.

During the 2001 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 Legislature made the required determination that the debt being authorized is in the best interest of the State in each of the last two years. This determination was set forth in the appropriations act applicable to each year.

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 2003 Report is the debt affordability analysis which satisfies the requirements of Section 215.98, Florida Statute. ***The purpose of this 2003 Report is to review changes in the State's debt position and 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 2003 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 2003 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 Office 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-á-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 presented to the Governing Board of the Division of Bond Finance on December 16, 2003 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.***

This is the third year that the Annual Debt Affordability Report has been prepared and provided to the Legislature.

COMPOSITION OF FLORIDA DEBT OUTSTANDING

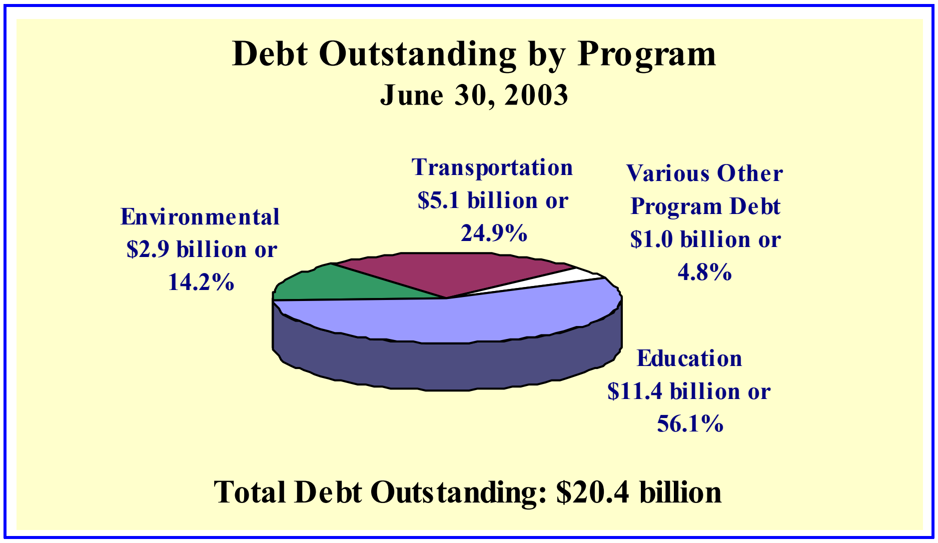


Figure 1

The State of Florida had total debt outstanding of approximately $20.4 billion at June 30, 2003. 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 $11.4 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 $8 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 $3.3 billion. The third largest investment financed with bonds has been for acquiring environmentally sensitive lands with Preservation 2000 / Florida Forever bonds now outstanding for $2.6 billion.

As shown in Figure 2, ***the $20.4 billion debt outstanding at June 30, 2003 consisted of net tax-supported debt totaling $16.2 billion.*** Net tax-supported debt consists of debt secured by state tax revenue. Self-supporting debt 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. The remaining self-supporting debt relates to university auxiliary enterprises such as dormitories and parking facilities.

Debt Outstanding by Type and Program

As of June 30, 2003

(In Million Dollars)

Debt Type	Amount
Net Tax-Supported Debt	**$ 16,186.1**
Self Supporting Debt	**$ 4,194.3**
Total State Debt Outstanding	**$ 20,380.4**

	Dollar Amount	
Net Tax-Supported Debt		
Education		
Public Education Capital Outlay	$ 8,017.7	
Capital Outlay	897.0	
Lottery	1,847.9	
University System Improvement	199.2	
Total Education		$ 10,961.8
Environmental		
Preservation 2000 / Florida Forever	2,604.4	
Conservation and Recreation	21.0	
Save Our Coast	134.5	
Total Environmental		2,759.9
Transportation		
Right-of-Way and Bridge Acquisition	1,156.8	
Florida Ports	338.8	
Total Transportation		1,495.6
Appropriated Debt / Other		
Facilities	373.1	
Master Lease	20.7	
Prisons	166.2	
Juvenile Justice	18.8	
Children & Families	33.5	
Affordable Housing	284.3	
Florida High Charter School	22.8	
Lee Moffitt Cancer Center	49.3	
Total Appropriated Debt		968.8
Total Net Tax-Supported Debt Outstanding		**$ 16,186.1**
Self Supporting Debt		
Education		
University Auxiliary Facility Revenue Bonds		$ 472.4
Environmental		
Florida Water Pollution Control		143.5
Pollution Control		0.1
Transportation		
Toll Facilities	$ 1,921.5	
Orlando-Orange Co. Expressway Authority	1,369.8	
Road and Bridge	287.0	
Total Transportation		**3,578.3**
Total Self Supporting Debt Outstanding		**$ 4,194.3**

Figure 2

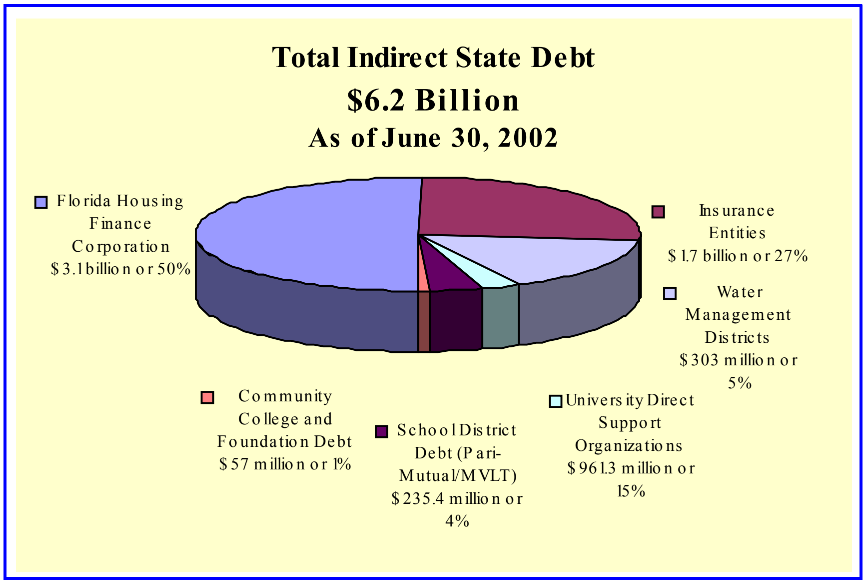


Figure 3

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 $6.2 billion at June 30, 2002.*** Figure 3 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 50% of the total. Special purpose, quasi-governmental insurance entities have $1.7 billion or 27% of total indirect debt. University direct support organizations follow with $961 million or 13% of the indirect debt.

State indirect debt by program is listed in Figure 4 to illustrate which entities incur such debt and for what purpose. For example, 74% of the Florida Housing Finance Corporation debt has been issued for multi-family housing projects and 26% for single family housing. The Shands Hospital at the University of Florida accounts for 44% of the university direct support organization debt. Lastly, 27% of total indirect debt is for the special purpose insurance entity, Citizens Property Insurance Corporation.

Total State Indirect Debt by Program
(In Millions of Dollars)

Florida Housing Finance Corporation		
Single Family Programs	$ 807.7	
Multi-Family Programs	2,320.7	
Total		$ 3,128.5
University Direct Support Organizations		
Shanes Teaching Hospital	422.5	
Florida State University	132.2	
University of South Florida	132.0	
University of Florida	101.8	
Other State Universities	172.8	
Total		961.3
School District Debt (Revenue Debt:MVLT, Pari-Mutual)		
Palm Beach	143.5	
Osceola	42.3	
Other School Districts	49.6	
Total		235.4
Community College and Foundation Debt		57.0
Water Management Districts		175.4
Citizens Property Insurance Corporation		1,675.0
Total State Indirect Debt		**$ 6,232.5**

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 outstanding over the last 10 years.

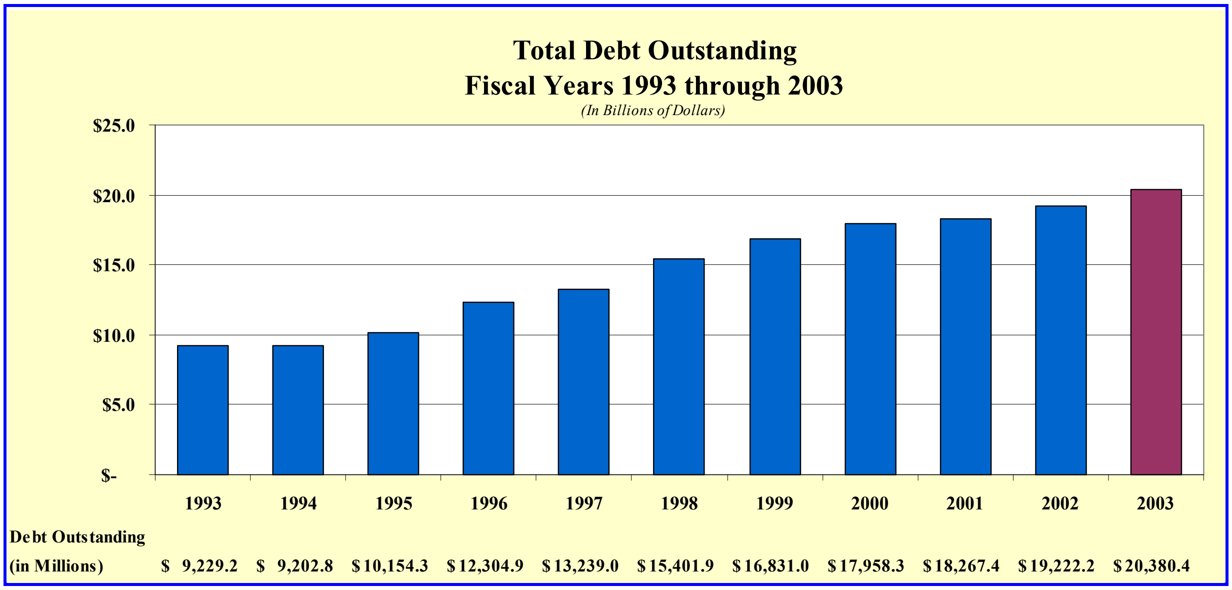
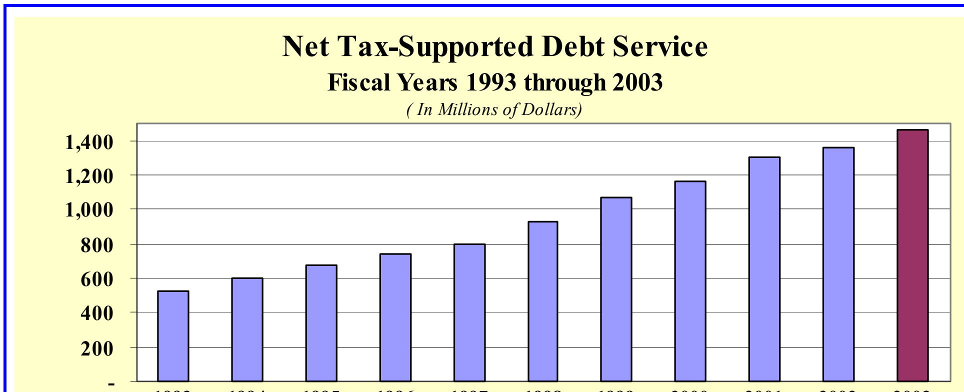


Figure 5

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 $9.2 billion at June 30, 1993 to approximately $20.4 billion at June 30, 2003.*** The increase was primarily due to the issuance of additional PECO bonds of $4.3 billion and implementing both the lottery bond program for school construction of $1.8 billion and the Preservation 2000 / Florida Forever programs for $2.9 billion.

Debt increased $1.2 billion in Fiscal Year 2003 from $19.2 billion at June 30, 2002 to approximately $20.4 billion at June 30, 2003, slightly greater 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 financing programs for education facilities accounting for 50% or $601 million of the increase over the prior year.

Growth in annual debt service mirrors the growth in debt outstanding. Figure 6 depicts the increase in yearly debt service payments caused by the increase in debt over the last ten years.

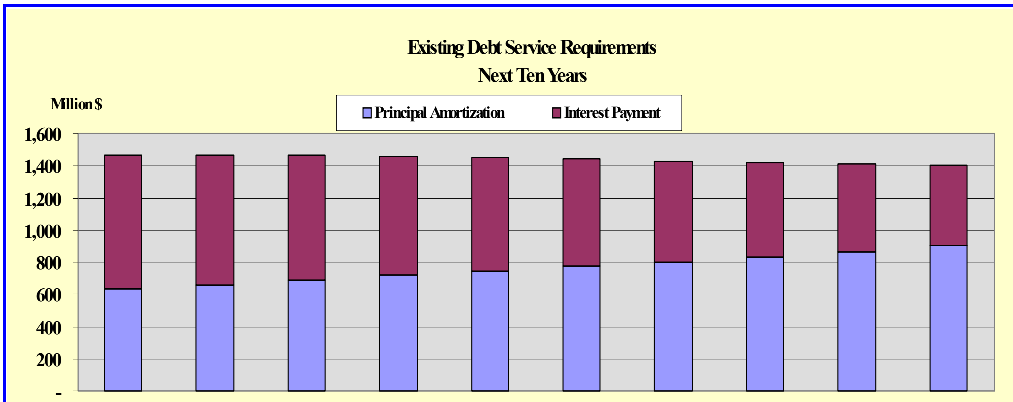


(In Million $)	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Debt Service	$525.0	$601.5	$671.7	$741.6	$801.4	$928.2	$1,071.8	$1,166.2	$1,303.4	$1,357.1	$1,459.5

Figure 6

The State's annual debt service payments on net tax-supported debt have grown to approximately $1.5 billion per year. Annual debt service requirements have nearly tripled over the last 10 years reflecting the increase in debt outstanding. The State's annual debt service payment obligation has risen from $525 million in 1993 to approximately $1.5 billion in 2003. 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 7. 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 $1.5 billion per year over the next ten years. Additionally, total interest payments of $6.8 billion are slightly less than principal amortization of $7.6 billion over the next ten fiscal years.



(In Millions)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
Principal	$ 632	$ 657	$ 690	$ 718	$ 747	$ 777	$ 798	$ 831	$ 864	$ 901	$ 7,613
Interest	833	810	777	741	705	668	630	589	546	500	6,800
Total	$ 1,465	$ 1,467	$ 1,467	$ 1,459	$ 1,452	$ 1,445	$ 1,428	$ 1,419	$ 1,410	$ 1,401	$ 14,413

Figure 7

EXPECTED DEBT ISSUANCE

The table set forth in Figure 8 represents the expected debt issuance over the next 10 years for each of the State's currently authorized bonding programs.

Projected Debt Issuance By Program Fiscal Years 2004 through 2013

(In Thousands)

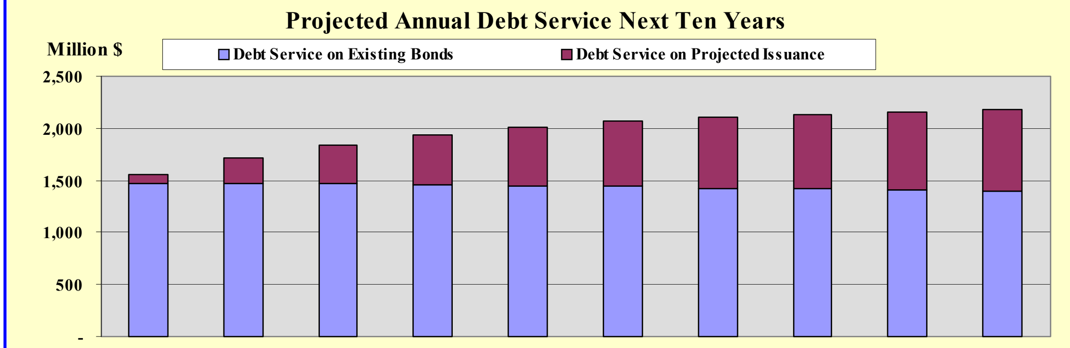
		Capital		Fla. Forever									
Fiscal Year	**PECO**	**Outlay**	**Lottery**	**Current**	**Prior**	**ROW**	**Garvee**	**Affordable Hsg.**	**Everglades**	**Prisons**	**FLAIR**	**Master Lease**	**Total Issuance**
2004	$ 600,000	$ 74,630	$ 400,000	$ 200,000	$ 150,000	$ 300,000	$ -	$ -	$ -	$ 35,000	$ 33,650	$ 25,000	$ 1,818,280
2005	629,700	-	200,000	300,000	150,000	300,000	-	-	100,000	-	35,500	25,000	1,740,200
2006	272,200	-	-	300,000	-	225,000	250,000	100,000	100,000	-	12,145	25,000	1,284,345
2007	443,500	-	-	300,000	-	300,000	250,000	-	100,000	-	-	-	1,393,500
2008	375,100	-	-	300,000	-	225,000	25,000	-	100,000	-	-	-	1,025,100
2009	369,700	-	-	300,000	-	175,000	-	-	100,000	-	-	-	944,700
2010	403,200	-	-	300,000	-	80,000	-	-	100,000	-	-	-	883,200
2011	436,900	-	-	-	-	50,000	-	-	-	-	-	-	486,900
2012	496,200	-	-	-	-	20,000	-	-	-	-	-	-	516,200
2013	407,700	-	-	-	-	-	-	-	-	-	-	-	407,700
Expected Issuance	**$ 4,434,200**	**$ 74,630**	**$ 600,000**	**$2,000,000**	**$ 300,000**	**$1,675,000**	**$ 525,000**	**$ 100,000**	**$ 600,000**	**$ 35,000**	**$ 81,295**	**$ 75,000**	**$ 10,500,125**
Prior Projection	**$ 4,560,100**	**$ 30,000**	**$ 393,460**	**$2,400,000**	**$ 300,000**	**$1,850,000**	**$ 525,000**	**$ 100,000**	**$ 800,000**	**$ -**	**$ -**	**$ 75,000**	**$ 11,033,560**

Figure 8

Approximately $10.5 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 decreased $533 million compared to the previous projection of expected debt issuance. The decrease in expected debt issuance over the next 10 years is due to off-setting increases and decreases in various financing programs. The primary decrease is due to using $300 million in cash from a debt service reserve for funding Florida Forever and Everglades Restoration instead of issuing bonds. Other decreases were caused by issuing bonds for the Florida Forever and Right of Way programs which are not expected to be repeated. The offsetting increase was caused by adding $600 million in lottery bonds to fund the constitutional initiative requiring class size reduction. ***It is important to note that no debt has been included in the projections for further funding of the constitutional initiatives for class size reduction or high speed rail.*** Any borrowing to fund these constitutional initiatives or other programs would be in addition to the $10.5 billion expected borrowing detailed above.

PROJECTED DEBT SERVICE

Annual debt service is estimated to grow to $2.2 billion by Fiscal Year 2013 assuming projected bond issuance of $10.5 billion. Figure 9 shows existing debt service and the estimated annual debt service for the projected bond issuance over the next ten fiscal years.



(In Millions)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Existing	$ 1,465	$ 1,467	$ 1,467	$ 1,459	$ 1,452	$ 1,445	$ 1,428	$ 1,419	$ 1,410	$ 1,401
Projected	91	249	376	477	561	625	680	709	745	779
Total	$ 1,556	$ 1,716	$ 1,843	$ 1,936	$ 2,013	$ 2,070	$ 2,108	$ 2,128	$ 2,156	$ 2,180

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 they change to reflect a different economic environment. Changes to revenue estimates have a significant impact on the calculation of available debt capacity because of the multiplier effect. The chart in Figure 10 sets forth the estimated revenues available to pay debt service for the next 10 years. Additionally, the chart shows the change in expected revenue collections by comparing the current Revenue Estimating Conference forecast to that of last year.

Projected Revenue Available for State Tax-Supported Debt

Fiscal Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Reveue Available *(In Billions)* :										
Total Revenue Available *(Fall 2003 Estimates)*	$25.03	$25.74	$28.80	$29.44	$30.72	$31.95	$33.12	$34.64	$36.44	$38.31
Prior Projected Revenues Available *(Fall 2002 Estimates)*	$24.59	$26.10	$28.85	$29.51	$30.76	$32.06	$33.22	$34.76	$36.47	$0.00
Decrease in Revenue Estimate	$0.4	($0.4)	($0.0)	($0.1)	($0.0)	($0.1)	($0.1)	($0.1)	($0.0)	-
Percent Change in Estimate	1.8%	(1.4)%	(0.2)%	(0.2)%	(0.1)%	(0.3)%	(0.3)%	(0.4)%	(0.1)%	-

Figure 10

The current long-run revenue forecast is not significantly different from last year's forecast except for the next two fiscal years. The revised revenue forecasts used in the debt analyses reflect an increase of $440 million or 1.8% more than last years's forecast for Fiscal Year 2004 and a decrease of $361 million or 1.4% for Fiscal Year 2005.

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 11 shows the historical growth in the benchmark debt ratio over the last ten years and the projected ratio reflecting the most current expected debt issuance and revenue collections.

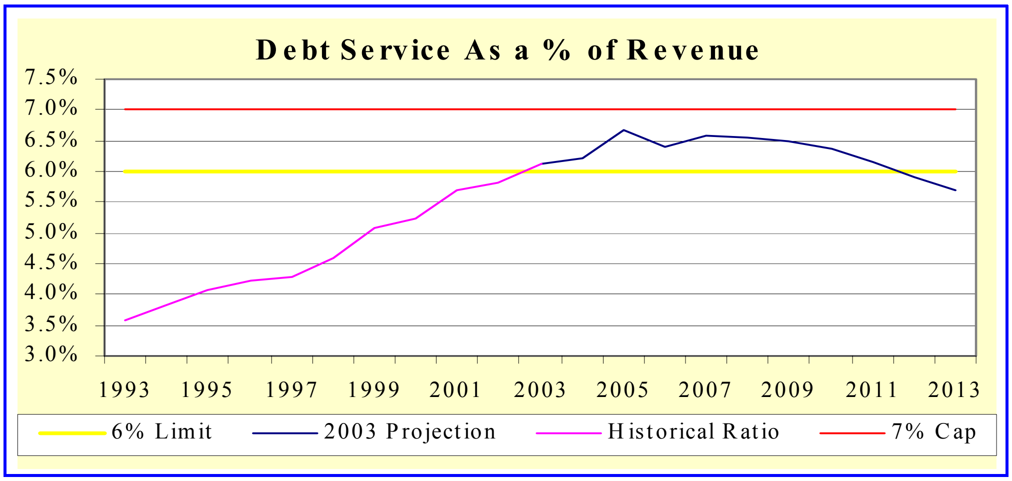


Figure 11

The State's debt position measured by the benchmark debt ratio was 6.12% at June 30, 2003, exceeding the 6% target for the first time. The benchmark ratio is projected to continue increasing through 2005, peaking at 6.67%.

Debt Service to Revenues

Fiscal Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
2003 Projection	6.12%	6.21%	6.67%	6.40%	6.58%	6.55%	6.48%	6.36%	6.14%	5.92%	5.69%

Figure 12

The increase in the benchmark debt ratio is due to $1.8 billion of additional borrowing expected during Fiscal Year 2004 together with lower revenue collections expected during the 2005 Fiscal Year. The additional expected issuance includes an expansion of the lottery bond program providing $600 million to implement the constitutional amendment requiring reduced class sizes.

CHANGE IN DEBT CAPACITY

The last step in the Debt Affordability Study Update is to estimate the future available debt capacity. Figure 13 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 fiscal years within the 6% target totals $1.5 billion.*** The estimated debt capacity within the 6% target is not available until 2011 and 2012 because the benchmark debt ratio is expected to exceed 6% until this time. Future expected debt issuance does not include any additional bonding authorization to implement the constitutional initiatives for class size reductions or high speed rail.

Debt Capacity for 6% Target Benchmark Ratio

(In Millions of Dollars)

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
Total Capacity	$ 1,818.3	$ 1,740.2	$ 1,284.3	$ 1,393.5	$ 1,025.1	$ 944.7	$ 883.2	$ 486.9	$ 916.2	$ 1,507.7	$ 12,000.1
Expected Issuance	$ 1,818.3	$ 1,740.2	$ 1,284.3	$ 1,393.5	$ 1,025.1	$ 944.7	$ 883.2	$ 486.9	$ 516.2	$ 407.7	$ 10,500.1
Available Capacity	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 400.0**	**$ 1,100.0**	**$ 1,500.0**

Figure 13

Based on the 6% target benchmark debt ratio, the total bonding capacity over the next ten years would be $12.0 billion. As shown previously, the expected debt issuance for the next ten fiscal years for the existing financing programs is estimated to be approximately $10.5 billion. This leaves approximately $1.5 billion of debt capacity available over the next ten years. This represents a $300 million increase in available debt capacity over last year's estimate. However, as previously noted this debt capacity is not available until 2011.

Figure 14 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 fiscal years within the 7% cap totals $6.5 billion.*** The near term additional debt capacity available through 2007 is $1.75 billion. However, debt capacity can change significantly because of changes in revenue estimates reflecting a different economic environment.

Debt Capacity for 7% Cap Benchmark Ratio

(In Millions of Dollars)

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
Total Capacity	$ 2,918.3	$ 2,240.2	$ 1,284.3	$ 1,543.5	$ 1,400.1	$ 1,519.7	$ 1,983.2	$ 1,786.9	$ 1,866.2	$ 407.7	$ 16,950.1
Expected Issuance	$ 1,818.3	$ 1,740.2	$ 1,284.3	$ 1,393.5	$ 1,025.1	$ 944.7	$ 883.2	$ 486.9	$ 516.2	$ 407.7	$ 10,500.1
Available Capacity	**$ 1,100.0**	**$ 500.0**	**$ -**	**$ 150.0**	**$ 375.0**	**$ 575.0**	**$ 1,100.0**	**$ 1,300.0**	**$ 1,350.0**	**$ -**	**$ 6,450.0**

Figure 14

The available debt capacity should be considered a scarce 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.

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.

2002 Comparison of Florida to Peer Group and National Medians

	Net Tax Supported Debt as a % of Revenues	Net Tax Supported Debt as a % of Personal Income	Net Tax Supported Debt Per Capita
Florida	5.82%	3.25%	$930
Peer Group Mean	4.27%	3.05%	$1,002
National Median	Not Available	2.20%	$606

Figure 15

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.

2002 Comparison of Florida to Ten Most Populous States

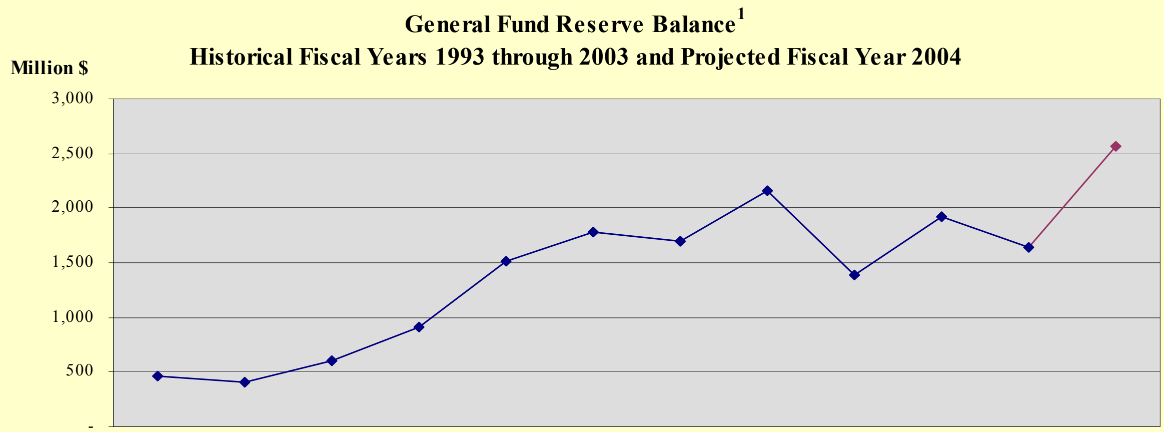
	Rank	Net Tax Supported Debt Service as a % of Revenues	Rank	Net Tax Supported Debt Per Capita	Rank	Net Tax Supported Debt as a % of Personal Income	General Obligation Ratings Fitch/Moody's/S&P
New York	1	9.11%	2	$2,095	1	5.80%	AA-/A2/AA
Florida	2	**5.82%**	4	**$930**	3	**3.25%**	**AA/Aa2/AA+**
Ohio	2	5.82%	7	$750	6	2.60%	AA+/Aa1/AA+
Illinois	4	4.70%	3	$1,040	4	3.10%	AA/Aa3/AA
New Jersey	5	4.63%	1	$2,110	2	5.50%	AA/Aa2/AA
California	6	4.13%	5	$810	7	2.50%	A/A3/BBB
Georgia	7	3.07%	6	$802	5	2.80%	AAA/Aaa/AAA
Pennsylvania	8	2.29%	8	$693	8	2.20%	AA/Aa2/AA
Michigan	9	1.89%	9	$542	9	1.80%	AA+/Aaa/AAA
Texas	10	1.23%	10	$246	10	0.90%	AA+/Aa1/AA
Median		**4.38%**		**$806**		**2.70%**	
Mean		**4.27%**		**$1,002**		**3.05%**	

Figure 16

A more meaningful comparison is made by looking at a peer group consisting of the ten most populous states. Figure 16 details the Ten Most Populous State Peer Group Comparison for the three debt ratios evaluated. As indicated above, ***Florida has the second highest ratio for the benchmark debt ratio of debt service to revenues.***

LEVEL OF RESERVES

An important measure of financial health is the level of general fund reserves. The following graphic, Figure 17, shows the level of the State's general fund reserves by combining unencumbered balances in the General, Working Capital and Budget Stabilization Funds over the last ten fiscal years . The graphic also shows an estimate of the expected fiscal 2004 year-end general fund reserves.



(In Millions)	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
General Fund	**$461.0**	**$ 411.3**	**$ 601.8**	**$ 905.4**	**$1,509.9**	**$1,786.8**	**$ 1,694.3**	**$2,155.9**	**$1,382.7**	**$1,925.1**	**$1,637.3**	**$ 2,562.0**

[1] Fiscal Years 1993 through 1998 amounts are from the State CAFR GAAP Basis Reconciliation Note. Fiscal Years 1999 through 2003 are from the Retrospective Statements released by the Office of Economic and Demographic Research.

Figure 17

The level of reserves is also an important indicator of the ability to respond to unforseen financial challenges that is relevant in evaluating a state's credit position. 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 monies in the Working Capital and Budget Stabilization Funds have been included. 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 general fund reserves have increased substantially over the last ten years from $461 million to $1.6 billion due primarily to the funding of a constitutionally required budget stabilization fund. The general fund reserves have increased almost every year except for fiscal years 2001 and 2003 when general fund reserves were drawn-down to mitigate the impact of budget cuts necessary to adjust for expected revenue shortfalls. Notwithstanding difficult economic conditions and drawingdown a portion of general fund reserves to mitigate budget cuts, the State has maintained adequate general fund reserves. The general fund reserves at the end of fiscal 2003 totaled $1.6 billion or 8.2% of general revenues. The general fund reserves consist of combined balances in the Budget Stabilization Fund ($958.9 million) and General and Working Capital Funds ($678.9 million).

The balance of general fund reserves is expected to increase during the current fiscal year. General fund reserves are expected to increase to approximately $2.6 billion by June 30, 2004, or 12.2% of general revenues.

The expected increase in general fund reserves is due to moneys being received by the State from the federal government under the Jobs and Growth Tax Relief Reconciliation Act of 2003 and higher revenue estimates for the second half of Fiscal Year 2004 for documentary stamp taxes and intangibles taxes. Increasing general fund reserves during a difficult economic climate distinguishes Florida from virtually all other states.

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 believe that debt management generally and the Debt Affordability Report 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 18

The State's credit rating has been protected over the last few years through conservative financial management. The State's economy weakened over the last few years consistent with a slowing national economy and exacerbated by the terrorist attacks. Unemployment rose, peaking at 5.5% in 2002. Job growth also slowed, growing only .5% in 2002. The slowing economy was reflected in lower revenue forecasts for 2002 and 2003. Revenues were projected to decrease requiring budget adjustments totaling $1.3 billion or 6.6% of estimated general fund revenues in Fiscal Year 2002.

Despite being challenged with lower revenue estimates, the State balanced the budget in both fiscal 2002 and 2003 without drawing on the Budget Stabilization Fund. Additionally, the State has managed to maintain the balances in the general and working capital funds.

Florida's economy has proved fairly durable during the latest recession and appears to be improving. Actual general revenue collections for the 2003 fiscal year were $374 million more than the March, 2003 estimates. The latest general revenue forecast completed in November, 2003, projected a $541 million increase for the current fiscal year or 2.6% more than the prior revenue estimates. The increase reflects better than expected collections of documentary stamp and intangibles taxes.

The rating agencies note that the State's debt burden has increased significantly to meet the demands of a growing population. However, the debt burden is still considered moderate at the current level. A positive factor cited in rating reports is the formal process established by the legislature for evaluating the State's debt position through this Debt Affordability Report.

The outlook for the State's credit rating is stable which is a positive reflection of the State's credit in view of 31 negative rating actions affecting 15 states' credit ratings. However, the single most important caveat to the State's stable outlook are the challenges presented over the last year by the constitutional amendment on class size reduction.

CONCLUSION

Florida's debt increased $1.2 billion over the past year, growing slightly more than the ten-year average of $1.1 billion. The expected future debt issuance over the next ten years totals $10.5 billion. The expected debt issuance does not include any additional bonding authorizations to fund constitutional mandates such as class size reduction or high speed rail.

The benchmark debt ratio was 6.12% at June 30, 2003, exceeding the 6% target for the first time. The benchmark debt ratio is expected to continue increasing through 2005 peaking at 6.67%. The increase is caused by additional debt issuance of approximately $3.6 billion expected over the next two years.

The projected debt capacity available over the next ten years within the 6% target is $1.5 billion but is not available until 2011. The projected debt capacity available over the next ten years within the 7% cap is $6.5 billion. However, only $1.75 billion is available over the next 3 years within the 7% cap. Both estimates are slightly higher than last year because of higher revenue forecasts reflecting an improving economy.

Florida's debt is considered moderate and is manageable at the current level. However, ***the State faces significant challenges for funding potentially very expensive constitutional initiatives which may cause the benchmark debt ratio to increase beyond the current projections if they are funded with additional debt authorizations.***