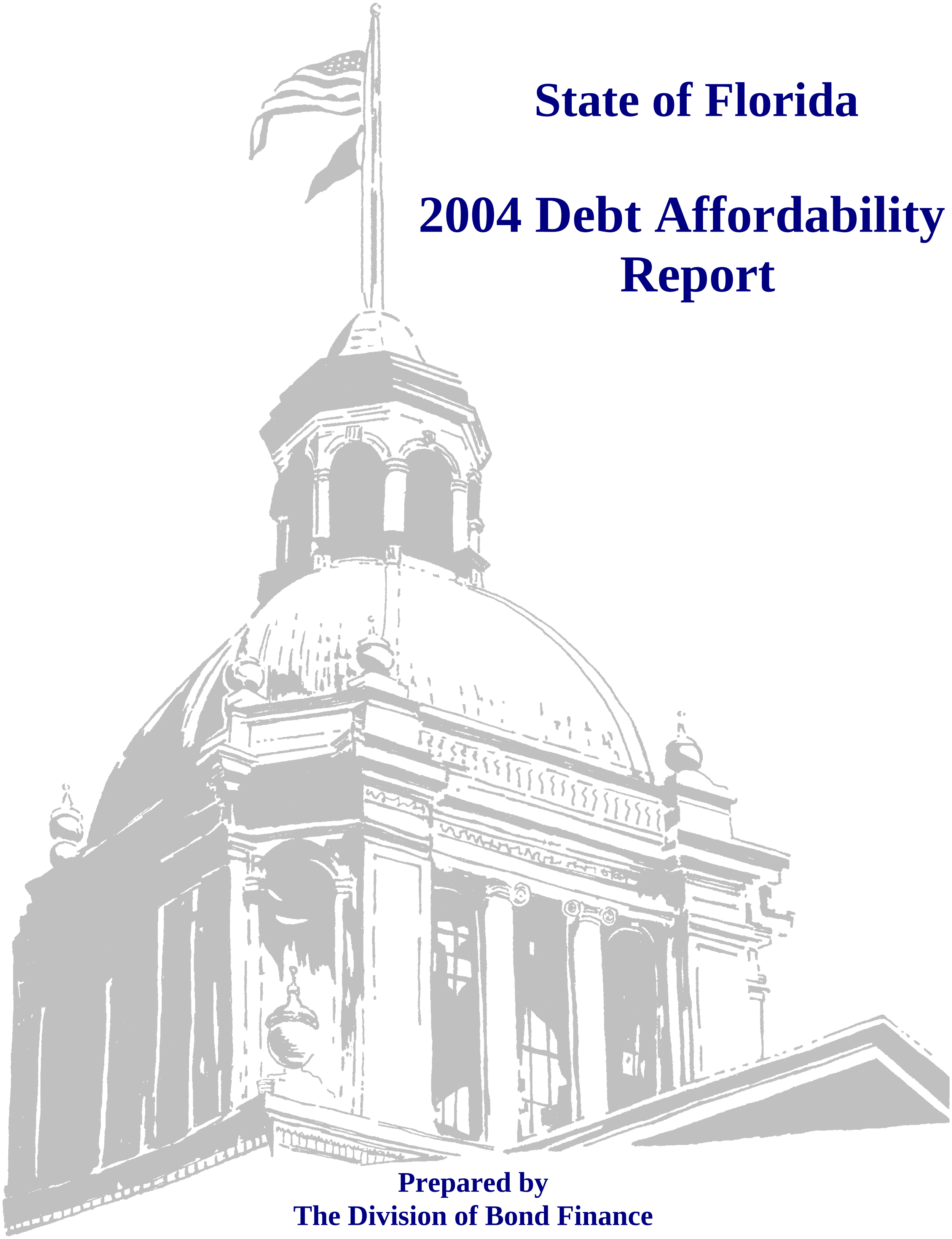
State of Florida

2004 Debt Affordability Report



Prepared by
The Division of Bond Finance

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EXECUTIVE SUMMARY

The purpose of this 2004 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 2004 Debt Affordability Report has been prepared as required by Section 215.98, Florida Statutes.

Debt Outstanding: Total State debt outstanding at June 30, 2004 was $21.2 billion, $817 million more than at June 30, 2003. Net tax-supported debt totaled $16.9 billion for programs supported by State tax revenues or tax-like revenues. The self-supporting debt totaled $4.3 billion representing debt secured by revenues generated from operating facilities financed with bonds. Additionally, indirect State debt at June 30, 2003 was $6.3 billion. 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, such as the Florida Housing Finance Corporation and University Direct Support Organizations.

Estimated Revenues: The current long-run revenue forecast is significantly higher than last year's forecast. The November, 2004, revenue forecasts used in the debt analyses reflect an increase of $2.3 billion or 8.9% more than last year's forecast for Fiscal Year 2005 and $2.2 billion or a 7.5% increase for Fiscal Year 2006. **The higher revenue forecast reflecting a strengthening economy has caused an improvement in the benchmark debt ratio.**

Estimated Debt Issuance: Approximately $9.5 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 $1 billion compared to the previous projection of expected debt issuance. The decrease in expected debt issuance is due to using cash in lieu of bonding for environmental programs and class size reduction in Fiscal 2005. **The expected debt issuance does not include any additional bonding to implement the constitutional amendment for class size reduction.**

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 $9.5 billion.

Overview of the State's Credit Ratings: The State's credit ratings have been maintained and may be enhanced by conservative financial management and the maintenance of reserves. Florida's ratings have remained strong and did not suffer due to the reduction in revenue growth and the weak economic environment experienced during the 2001-2003 economic recession. Additionally, Moody's Investors Service recently announced that they are reviewing the State's general obligation bond rating for a possible upgrade from the current Aa2.

Debt Ratios: **The State's benchmark debt ratio of debt service to revenues available to pay debt service has improved over the past year**. The benchmark debt ratio improved from 6.12% for Fiscal Year 2003 to 5.94% for Fiscal Year 2004. The improvement in the benchmark debt ratio is due to higher than expected revenues during Fiscal Year 2004. The benchmark debt ratio is projected to remain reasonably consistent with the 6% target during the foreseeable future, based on expected debt issuance and the current revenue forecast. The expected debt issuance does not include any additional bonding to provide funding for class size reduction beyond the $600 million authorized in Fiscal 2003.

A comparison of 2003 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.

2003 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	**6.12%**	**3.21%**	**$954**
Peer Group Mean	**4.53%**	**3.56%**	**$1,194**
National Median	**Not Available**	**2.40%**	**$701**

Debt Capacity: **The debt capacity available within the 6% target is $11.9 billion over the next ten years.** However, the debt capacity is not available until 2009 and only $750 million is available over the next five years.

The debt capacity available within the 7% cap is approximately $18 billion over the next ten years. However, only $5.35 billion is available over the next five years. **The debt capacity available within the 7% cap should be preserved and used as a cushion against downturns in the economy.**

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 three 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 2004 Report is the debt affordability analysis which satisfies the requirements of Section 215.98, Florida Statute. ***The purpose of this 2004 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 2004 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 2004 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 was presented to the Governing Board of the Division of Bond Finance on December 7, 2004 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 fourth year that the Annual Debt Affordability Report has been prepared and provided to the Legislature.

COMPOSITION OF FLORIDA DEBT OUTSTANDING

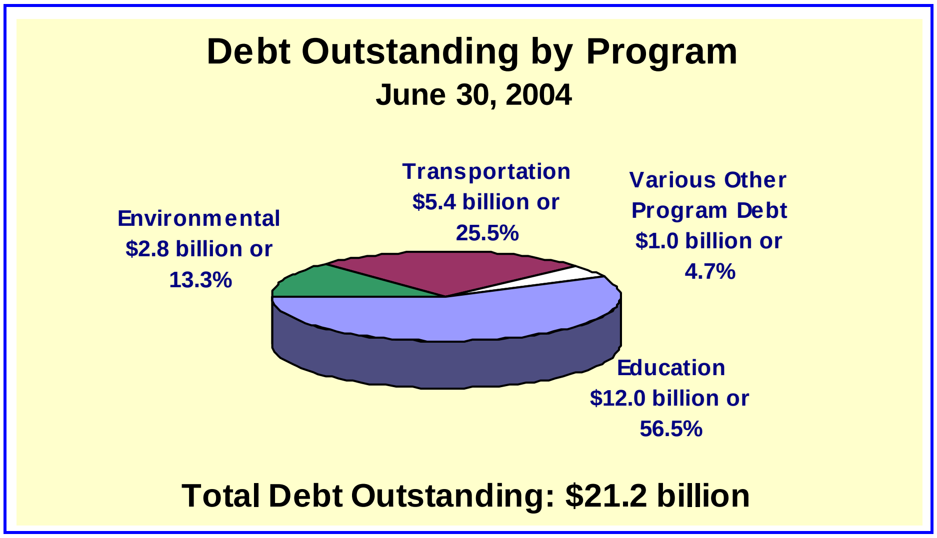


Figure 1

The State of Florida had total debt outstanding of approximately $21.2 billion at June 30, 2004. 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 $12 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 $8.4 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 $3.4 billion. The third largest investment financed with bonds has been for acquiring environmentally sensitive lands with $2.6 billion of Preservation 2000 / Florida Forever bonds now outstanding.

As shown in Figure 2, ***the $21.2 billion debt outstanding at June 30, 2004 consisted of net tax-supported debt totaling $16.9 billion.*** Net tax-supported debt consists of debt secured by state tax revenue or tax-like 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, 2004

(In Million Dollars)

Debt Type		**Amount**
Net Tax-Supported Debt		**$ 16,891.8**
Self Supporting Debt		**$ 4,305.2**
Total State Debt Outstanding		**$ 21,197.1**
	Dollar Amount	
Net Tax-Supported Debt		
Education		
Public Education Capital Outlay	$8,391.2	
Capital Outlay	893.7	
Lottery	1,969.9	
University System Improvement	189.7	
Total Education		$ 11,444.5
Environmental		
Preservation 2000 / Florida Forev	2,555.1	
Conservation and Recreation	19.1	
Save Our Coast	115.8	
Total Environmental		
Transportation		2,690.1
Right-of-Way and Bridge Acquisi	1,427.6	
Florida Ports	332.0	
Total Transportation		
Appropriated Debt / Other		1,759.6
Facilities	358.1	
Master Lease	16.7	
FLAIR Lease	25.8	
Prisons	198.4	
Juvenile Justice	18.4	
Children & Families	31.8	
Aircraft Lease	5.2	
Affordable Housing	278.9	
Florida High Charter School	22.3	
Lee Moffitt Cancer Center	42.0	
Total Appropriated Debt		
Total Net Tax-Supported Debt Outstanding		997.7
		$ 16,891.8
Self Supporting Debt		
Education		
University Auxiliary Facility Revenue Bonds		
Environmental		$ 539.5
Florida Water Pollution Control		
Pollution Control		128.3
Transportation		0.1
Toll Facilities	$2,052.5	
Orlando-Orange Co. Expressway	1,350.6	
Road and Bridge	234.2	
Total Transportation		
Total Self Supporting Debt Outstanding		**3,637.3**
		$ 4,305.2

Figure 2

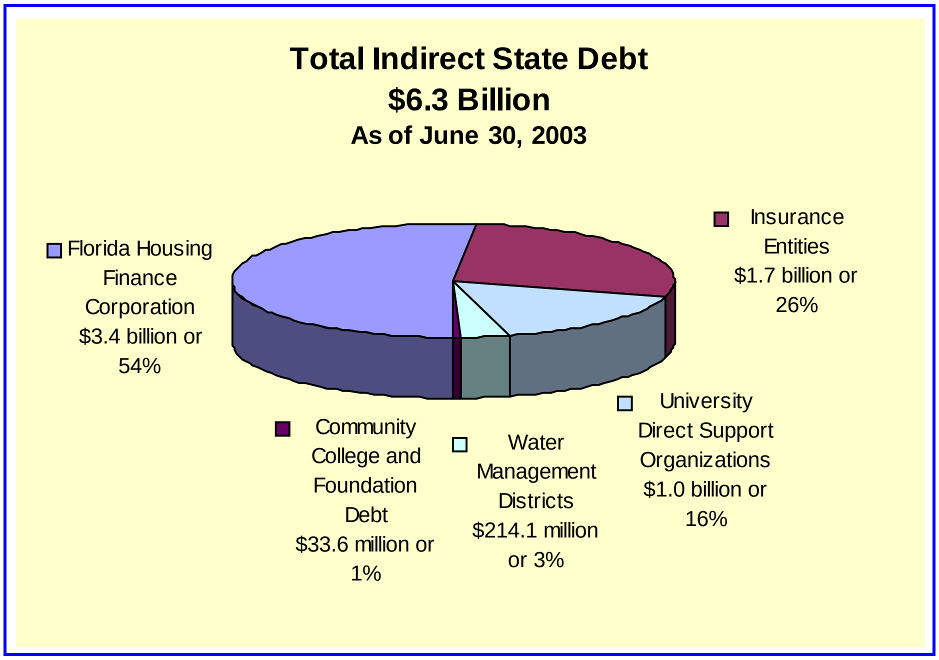


Figure 3

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 $6.3 billion at June 30, 2003.*** 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 $3.4 billion or 54% of the total. Special purpose, quasi-governmental insurance entities have $1.7 billion or 26% of total indirect debt. University direct support organizations follow with $1.0 billion or 16% 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, 75% of the Florida Housing Finance Corporation debt has been issued for multi-family housing projects and 25% for single family housing. The Shands Hospital at the University of Florida accounts for 42% of the university direct support organization debt. Lastly, 26% of total indirect debt is for the special purpose insurance entity, Citizens Property Insurance Corporation.

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

Florida Housing Finance Corporation		
Single Family Programs	$ 869.9	
Multi-Family Programs	2,553.2	
Total		$ 3,423.1
University Direct Support Organizations		
Shands Teaching Hospital	425.8	
Florida State University	129.7	
University of South Florida	177.7	
University of Florida	101.2	
Other State Universities	171.0	
Total		1,005.4
Community College and Foundation Debt		33.6
Water Management Districts		214.1
Citizens Property Insurance Corporation		1,669.2
Total State Indirect Debt		**$ 6,345.4**

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.

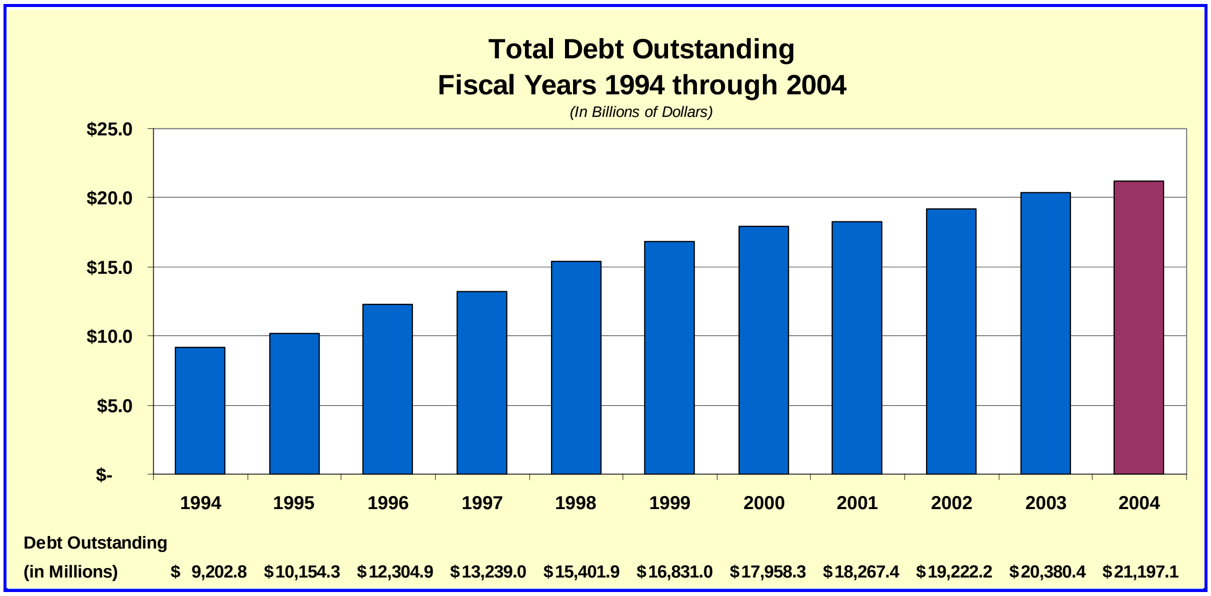
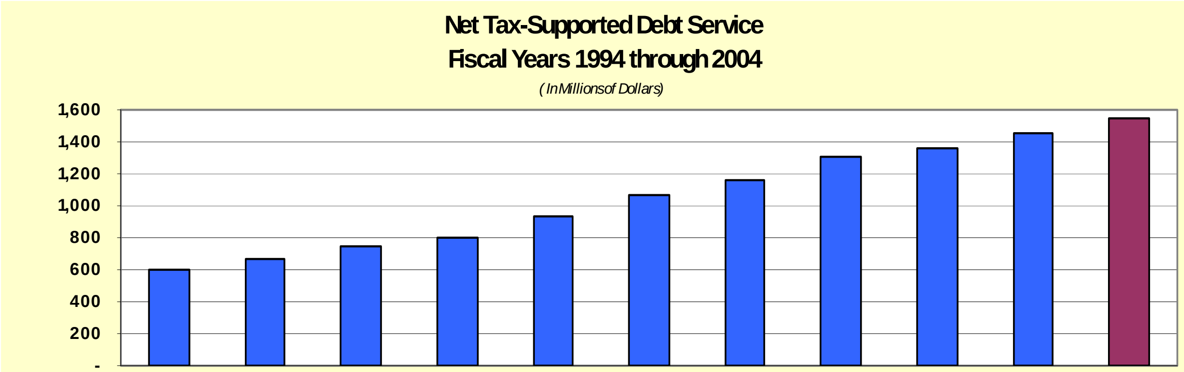


Figure 5

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, 1994 to approximately $21.2 billion at June 30, 2004.*** 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 $2.0 billion, Right-of-Way bond program of $1.4.billion and the Florida Ports financing program of $335 million and the Preservation 2000 / Florida Forever programs for $1.2 billion.

Debt increased $817 million in Fiscal Year 2004 from $20.4 billion at June 30, 2003 to approximately $21.2 billion at June 30, 2004, less than the average annual increase of approximately $1.2 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 67% or $550 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.

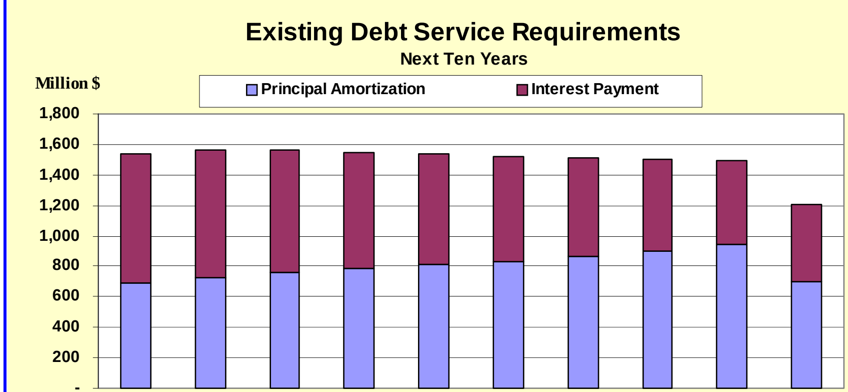


(In Million $)	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Debt Service	$601.5	$671.7	$741.6	$801.4	$928.2	$1,071.8	$1,166.2	$1,303.4	$1,357.1	$1,459.5	$1,551.9

Figure 6

The State's annual debt service payments on net tax-supported debt is more than $1.5 billion per year. Annual debt service requirements have more than doubled over the last 10 years reflecting the increase in debt outstanding. The State's annual debt service payment obligation has risen from approximately $600 million in 1994 to approximately $1.5 billion in 2004. 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 nine years dropping to approximately $1.2 billion in 2014 due to the final maturity of Preservation 2000 bonds. Additionally, total interest payments of $7.0 billion are slightly less than principal amortization of $8.0 billion over the next ten fiscal years.



(In Millions)	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
Principal	$ 688	$ 724	$ 760	$ 784	$ 814	$ 832	$ 867	$ 902	$ 941	$ 699	$ 8,011
Interest	851	840	803	765	726	687	644	600	553	504	6,973
Total	$ 1,539	$ 1,564	$ 1,562	$ 1,549	$ 1,540	$ 1,519	$ 1,511	$ 1,502	$ 1,494	$ 1,202	$ 14,983

Figure 7

EXPECTED DEBT ISSUANCE

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

Projected Debt Issuance By Program Fiscal Years 2005 through 2014
(In Thousands)

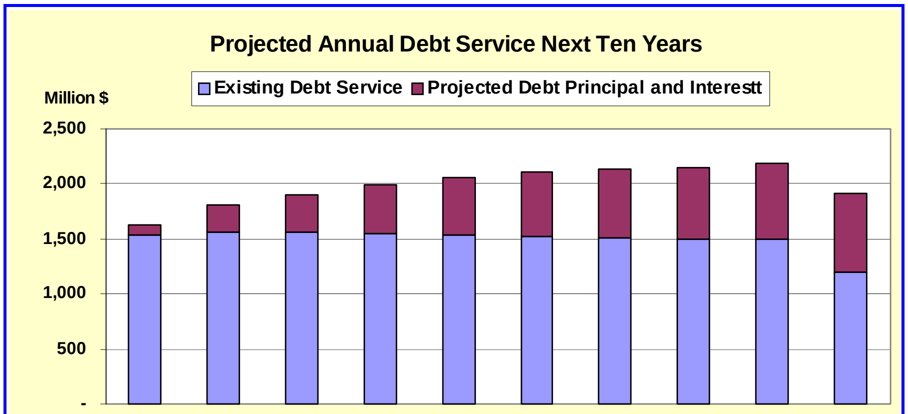
	PECO		Capital		Fla. Forever				Affordable						DCFS		Master	Total
Fiscal Year	Current	Prior	Outlay	Lottery	Current	Prior	ROW	Garvee	Housing	Everglades	SUS	SIB	Prisons	Lease	FLAIR	Lease	Issuance
2005	$ 200	$ 200	$ 61	$ 200	-	$ 250	$ 300	$ -	$ -	$ -	$ -	$ 142	$ -	$ -	$ 42	$ 25	$ 1,420
2006	249	553	-	200	300	100	-	50	-	100	67	-	55	47	12	25	1,759
2007	144	250	-	-	300	-	200	100	-	100	-	-	-	-	-	25	1,119
2008	233	150	-	-	300	-	200	250	-	100	-	-	-	-	-	-	1,233
2009	232	-	-	-	300	-	300	125	100	100	-	-	-	-	-	-	1,157
2010	297	-	-	-	300	-	100	-	-	100	-	-	-	-	-	-	797
2011	354	-	-	-	-	-	100	-	-	100	-	-	-	-	-	-	554
2012	418	-	-	-	-	-	100	-	-	-	-	-	-	-	-	-	518
2013	321	-	-	-	-	-	20	-	-	-	-	-	-	-	-	-	341
2014	604	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	604
Expected Issuance	**$ 3,052**	**$ 1,153**	**$ 61**	**$ 400**	**$ 1,500**	**$ 350**	**$ 1,320**	**$ 525**	**$ 100**	**$ 600**	**$ 67**	**$ 142**	**$ 55**	**$ 47**	**$ 54**	**$ 75**	**$ 9,502**

Figure 8

Approximately $9.5 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 $1 billion compared to the previous projection of expected debt issuance. The decrease in expected debt issuance over the next ten years is due to using cash in lieu of bonding for environmental programs ($300 million) and Classrooms for Kids ($100 million). Other decreases were caused by issuing bonds for the Lottery and Right of Way programs which are not expected to be repeated. ***It is important to note that no debt has been included in the projections for further funding of the constitutional initiative for class size reduction.*** Any borrowing to fund the constitutional initiative or other programs would be in addition to the $9.5 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 $9.5 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)	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Existing	$ 1,539	$ 1,564	$ 1,562	$ 1,549	$ 1,540	$ 1,519	$ 1,511	$ 1,502	$ 1,494	$ 1,202
Projected	93	244	339	437	522	593	623	652	691	713
Total	$ 1,633	$ 1,808	$ 1,902	$ 1,987	$ 2,063	$ 2,112	$ 2,134	$ 2,154	$ 2,184	$ 1,915

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	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Revenue Available (In Billions):										
Total Revenue Available (Fall 2004 Estimates)	$28.04	$30.97	$31.69	$32.87	$34.31	$36.15	$37.93	$39.63	$42.14	$44.51
Prior Projected Revenues Available (Fall 2003 Estimates)	$25.74	$28.80	$29.44	$30.72	$31.95	$33.12	$34.64	$36.44	$38.31	$0.00
Increase in Revenue Estimate	$2.3	$2.2	$2.3	$2.1	$2.4	$3.0	$3.3	$3.2	$3.8	-
Percent Change in Estimate	8.9%	7.5%	7.7%	7.0%	7.4%	9.1%	9.5%	8.8%	10.0%	-

Figure 10

The current long-run revenue forecast is significantly higher than last year's forecast due to the strengthening economy. The revised revenue forecasts used in the debt analyses reflect increases ranging from $2.3 billion or 8.9% more than last years's forecast for Fiscal Year 2005 to $3.8 billion or 10% more than the previous forecast for Fiscal Year 2013.

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 include a 6% target and a 7% 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.

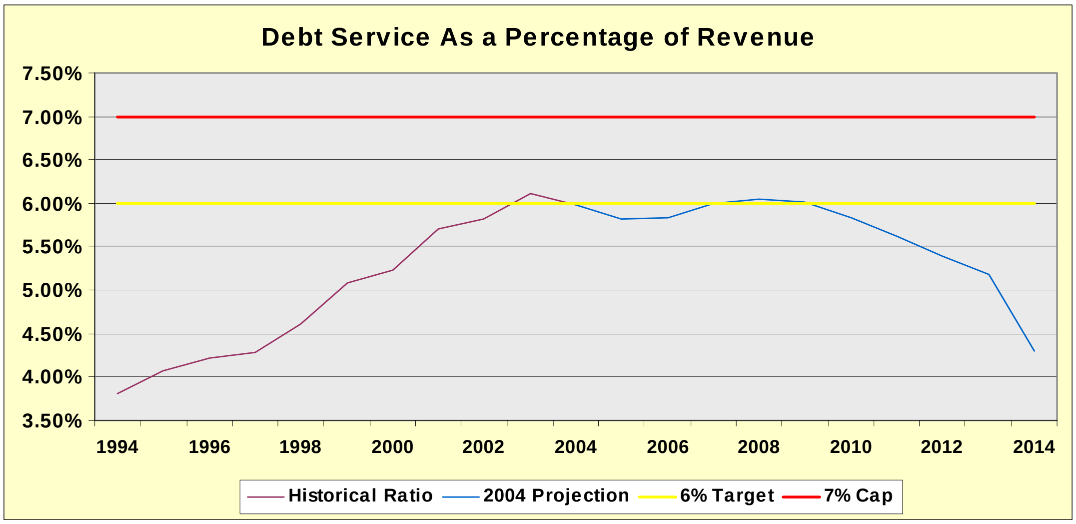


Figure 11

The State's debt position measured by the benchmark debt ratio was 5.94% at June 30, 2004, an improvement from the 6.12% at June 30, 2003 when the 6% target was exceeded for the first time. The benchmark ratio is projected to remain reasonably consistent with the 6% target over the projection period based on existing borrowing plans, current revenue forecast and economic outlook.

Debt Service to Revenues

Fiscal Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
2004 Projection	5.82%	5.84%	6.00%	6.04%	6.01%	5.84%	5.62%	5.39%	5.18%	4.30%

Figure 12

The improvement in the benchmark debt ratio is primarily due to higher than expected revenue collections and the use of cash in lieu of borrowing for environmental programs and class-size reduction during the 2004 Fiscal Year. The additional expected issuance includes one new bond program, the State Infrastructure Bank, which provides additional financing for transportation projects. ***The benchmark ratio does not reflect any additional borrowing which may be necessary to implement the constitutional amendment requiring reduced class sizes*** beyond the $600 million expansion of the lottery bond program enacted by the Legislature in 2003.

CHANGE IN DEBT CAPACITY

The last step in the debt affordability analysis 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 $11.9 billion.*** The estimated debt capacity within the 6% target is not available until 2009 because the benchmark debt ratio is expected to exceed 6% during the intervening time period. ***Future expected debt issuance does not include any additional bonding authorization to implement the constitutional initiative for class size reductions.***

Debt Capacity for 6% Target Benchmark Ratio

(In Millions of Dollars)

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
Total Capacity	$ 1,420.4	$ 1,758.7	$ 1,119.0	$ 1,232.8	$ 1,907.4	$ 1,897.4	$ 1,854.1	$ 1,817.6	$ 5,641.2	$ 2,753.9	$ 21,402.4
Expected Issuance	$ 1,420.4	$ 1,758.7	$ 1,119.0	$ 1,232.8	$ 1,157.4	$ 797.4	$ 554.1	$ 517.6	$ 341.2	$ 603.9	$ 9,502.4
Available Capacity	**$ -**	**$ -**	**$ -**	**$ -**	**$ 750.0**	**$ 1,100.0**	**$ 1,300.0**	**$ 1,300.0**	**$ 5,300.0**	**$ 2,150.0**	**$ 11,900.0**

Figure 13

Based on the 6% target benchmark debt ratio, the total bonding capacity over the next ten years would be $21.4 billion. As shown previously, the expected debt issuance for the next ten fiscal years for the existing financing programs is estimated to be approximately $9.5 billion. This leaves approximately $11.9 billion of debt capacity available over the next ten years. This represents a $10.4 billion increase in available debt capacity over last year's estimate. ***The increased capacity is primarily due to the improved revenue forecast reflecting the strong State economy.*** However, as previously noted this debt capacity is not available until 2009 and only $750 million in debt capacity is available over the next five years.

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 $18 billion.*** The near term additional debt capacity available through 2009 is $5.35 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	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
Total Capacity	$ 5,470.4	$ 1,758.7	$ 1,119.0	$ 1,532.8	$ 2,157.4	$ 2,147.4	$ 2,104.1	$ 2,117.6	$ 5,941.2	$ 3,103.9	$ 27,452.4
Expected Issuance	$ 1,420.4	$ 1,758.7	$ 1,119.0	$ 1,232.8	$ 1,157.4	$ 797.4	$ 554.1	$ 517.6	$ 341.2	$ 603.9	$ 9,502.4
Available Capacity	**$ 4,050.0**	**$ -**	**$ -**	**$ 300.0**	**$ 1,000.0**	**$ 1,350.0**	**$ 1,550.0**	**$ 1,600.0**	**$ 5,600.0**	**$ 2,500.0**	**$ 17,950.0**

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. ***The debt capacity available under the 7% cap should be used as a cushion against downturns in the economy*** because the available capacity can evaporate quickly when a slowing economy produces less favorable revenue estimates.

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.

2003 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	6.12%	$954	3.21%
Peer Group Mean	4.53%	$1,194	3.56%
National Median	Not Available	$701	2.40%

Figure 15

Florida's debt ratios are generally higher than the national averages. The ten-state peer group comparison as shown in Figure 15 shows that, while higher than the national average, Florida's debt per capita and debt as a percent of personal income is lower than the Peer Group mean.

2003 Comparison of Florida to Ten Most Populous States

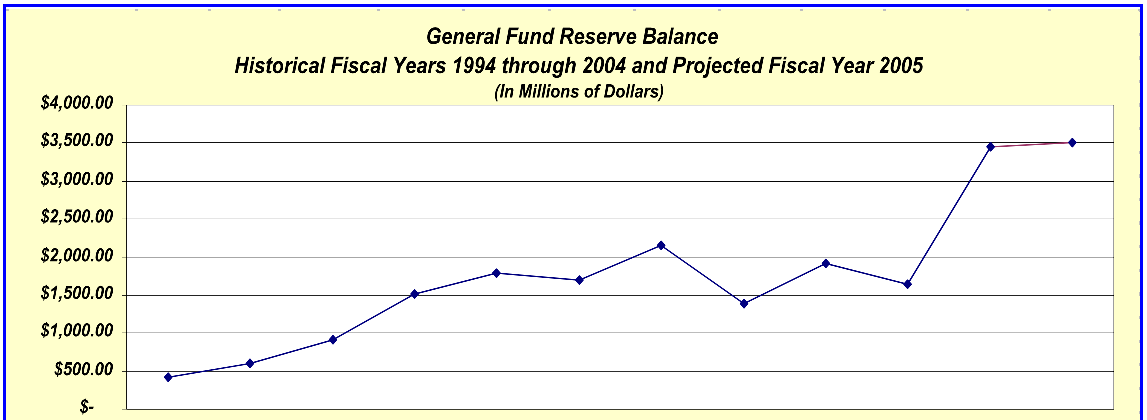
	Rank	Net Tax Supported Debt Service as a % of Revenues	Rank	Net Tax Supported Debt Per Capita	Rank	Net Tax Supported Debt as a % of Personal Income	General Obligation Ratings Fitch/Moody's/S&P
New York	1	10.15%	1	$2,420	1	6.70%	AA-/A1/AA
Florida	2	**6.12%**	5	**$954**	4	**3.21%**	**AA/Aa2/AA+**
Ohio	3	5.75%	7	$806	7	2.70%	AA+/Aa1/AA+
Illinois	4	5.19%	3	$1,943	3	5.80%	AA-/Aa3/AA
New Jersey	5	5.05%	2	$2,332	2	5.90%	AA-/Aa3/AA-
Pennsylvania	6	3.66%	8	$711	8	2.20%	AA/Aa2/AA
California	7	3.55%	4	$1,060	5	3.20%	A-/A3/A
Georgia	8	2.51%	6	$827	6	2.90%	AAA/Aaa/AAA
Michigan	9	2.18%	9	$670	9	2.20%	AA+/Aa1/AA+
Texas	10	1.09%	10	$220	10	0.80%	AA+/Aa1/AA
Median		**4.35%**		**$891**		**3.05%**	
Mean		**4.53%**		**$1,194**		**3.56%**	

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 2005 year-end general fund reserves.



(In Millions)	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
General Fund	$ 411.3	$ 601.8	$ 905.4	$ 1,509.9	$ 1,786.8	$ 1,694.3	$ 2,155.9	$ 1,382.7	$ 1,925.1	$ 1,641.3	$ 3,453.6	$ 3,514.3
% of Revenues	3.15%	4.41%	6.18%	9.62%	10.54%	9.48%	11.47%	7.21%	9.95%	8.21%	15.82%	12.53%

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 $411 million to $3.5 billion due primarily to the funding of a constitutionally required budget stabilization fund and higher than expected revenue collections last fiscal year. 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 drawing down a portion of general fund reserves to mitigate budget cuts, the State has maintained strong general fund reserves. The general fund reserves at the end of fiscal 2004 totaled $3.5 billion or 15.8% of general revenues. The general fund reserves consist of combined balances in the Budget Stabilization Fund ($996.4 million) and General and Working Capital Funds ($2,457.2 million).

The balance of general fund reserves are expected to be maintained during the current fiscal year at approximately $3.5 billion or 14.9% of general revenues. ***Maintaining strong 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. The slowing economy was reflected in lower revenue forecasts for 2002 and 2003. 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 strong reserves 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 2004 fiscal year were $477 million more than the March, 2004 estimates. The latest general revenue forecast completed in November, 2004, projected a $1.6 billion increase for the current fiscal year or 7.3% more than the prior revenue estimates. The increase reflects better than expected collections of sales, 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 positive and Moody's Investors Service is currently reviewing the State's general obligation bond rating for an upgrade. However, significant challenges to the State's positive outlook are presented by the constitutional amendment on class-size reduction and increased budgetary pressure from Medicaid spending.

CONCLUSION

Florida's debt increased $816 million over the past year, growing slightly less than the ten-year average of $1.2 billion. The expected future debt issuance over the next ten years totals $9.5 billion, approximately $1 billion less than the expected debt issuance from last year. The future expected debt issuance was reduced due to using cash in lieu of bonding for environmental programs and class-size reduction. The expected debt issuance does not include any additional bonding authorizations to fund class-size reduction.

The benchmark debt ratio was 5.94% at June 30, 2004, slightly under the 6% target. The benchmark debt ratio is projected to remain reasonably consistent with the 6% target during the foreseeable future, based on the expected debt issuance and current revenue forecasts.

The projected debt capacity available over the next ten years within the 6% target is $11.9 billion, but only $750 million is available over the next five years. The projected debt capacity available over the next ten years within the 7% cap is approximately $18 billion. However, only $5.35 billion is available over the next five years within the 7% cap. ***The available debt capacity within the 6% target and 7% cap has increased significantly since last year because of higher revenue estimates reflecting a strengthening economy.*** The debt capacity available between the 6% target and 7% cap should be viewed as a cushion against downturns in the economy and used only sparingly for critical needs.

The State's general fund reserves were increased significantly during Fiscal Year 2004 to approximately $3.5 billion or 15.8% of general fund revenues. ***The ability to increase reserves reflects the State's conservative financial management and has strengthened the State's financial position.*** It has also distinguished Florida from other states and demonstrated the ability to effectively manage the State during a difficult recessionary period. This is one of the factors noted by Moody's Investors Service in announcing their review of the State's credit rating for a possible upgrade.

Florida's debt is considered moderate and is manageable at the current level. ***However, the State continues to face the challenge of funding the constitutional amendment to reduce class size which, if financed, could cause the benchmark debt ratio to exceed the 6% target***.