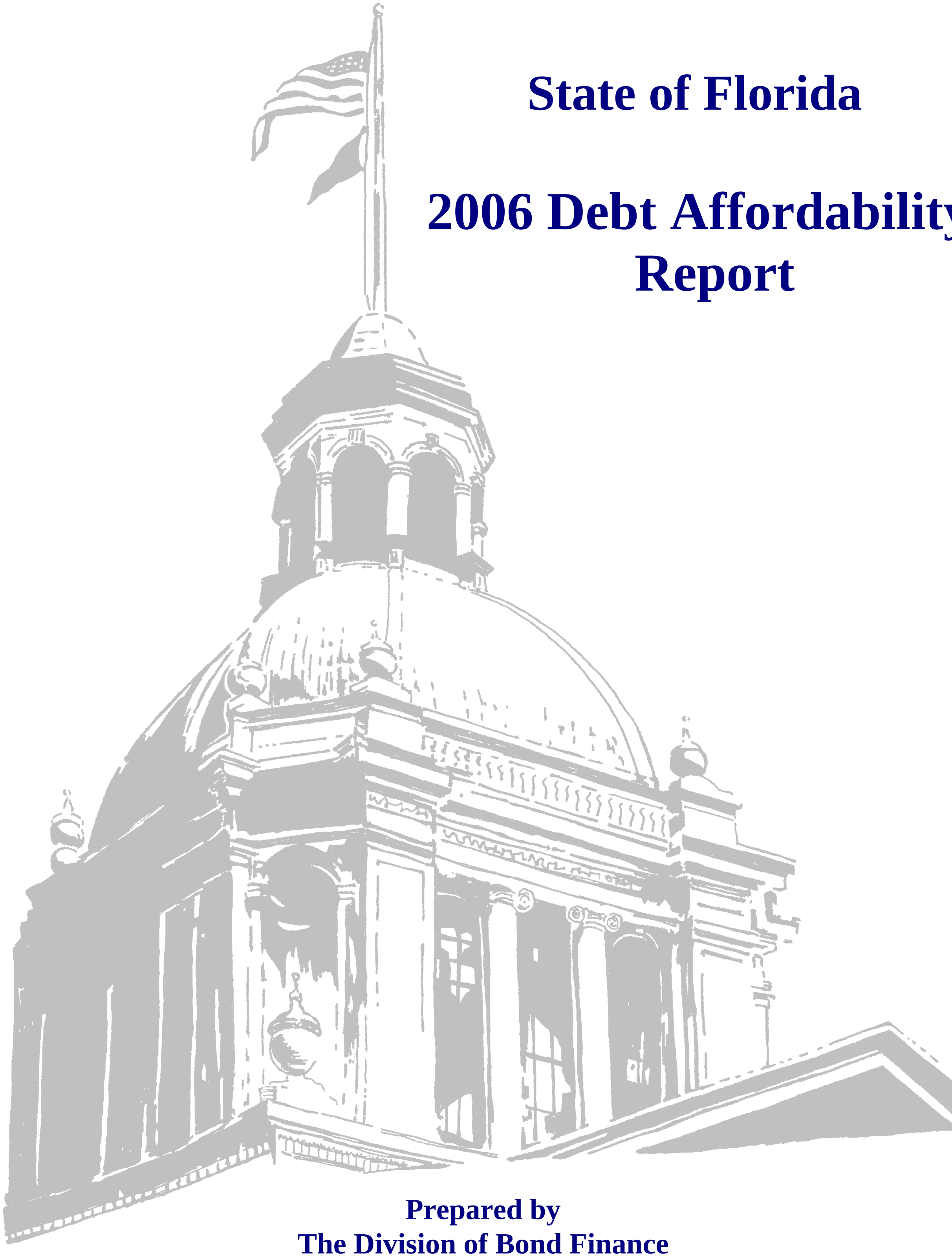
State of Florida

2006 Debt Affordability Report



Prepared by
The Division of Bond Finance

TABLE OF CONTENTS

Tables and Charts

EXECUTIVE SUMMARY

The purpose of this 2006 Debt Affordability Report is to review changes in the State's debt position from June 30, 2005 to June 30, 2006 and revise projections used to measure the financial impact of future debt issuance and economic changes as reflected in current revenue estimates. The 2006 Debt Affordability Report has been prepared as required by Section 215.98, Florida Statutes.

Debt Outstanding: Total State debt outstanding at June 30, 2006 was $23.0 billion, $564 million more than at June 30, 2005. Net tax-supported debt totaled $17.9 billion for programs supported by State tax revenues or tax-like revenues. Self-supporting debt totaled $5.1 billion, representing debt secured by revenues generated from operating bond financed facilities. Additionally, indirect State debt at June 30, 2005 was $6.5 billion, the same as the prior year-end. However, indirect debt recently increased significantly due to borrowing by insurance related entities, i.e., Florida Hurricane Catastrophe Fund Finance Corporation and Citizens Property Insurance Corporation, which is not reflected in the foregoing information. 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. See Figure 4 herein for more detailed information on post report period debt issuance by insurance related entities.

Estimated Revenues: The November, 2006, revenue forecasts used in this report reflect an increase of $340 million or 1.0% over last year's forecast for Fiscal Year 2007, and a decrease of $380 million or 1.1% for Fiscal Year 2008 and a $102 million decrease for Fiscal Year 2009. The decreases in Fiscal Years 2008 and 2009 are due to the soft real estate market. However, the revenue forecast for 2009 and beyond used in projecting the benchmark debt ratio reflect increased revenues due to the expected acceleration of the GARVEE bond program from 2012 to 2009.

Estimated Debt Issuance: Approximately **$11.2 billion of debt is expected to be issued over the next ten years for all of the State's financing programs which are currently authorized.** This estimate is approximately $1.6 billion or 17% more than the previous projection of expected debt issuance. An increase in expected educational borrowing of $2.3 billion for PECO and Lottery is offset by a $0.9 billion decrease in expected issuance for environmental purposes due to cash funding in lieu of borrowing for Florida Forever and Everglades and for bonds issued during the year. **Expected debt issuance does not include any additional bonding for further funding of the constitutional amendment for class size reduction beyond that authorized by the Legislature in 2006.**

Estimated Annual Debt Service Requirements: Annual debt service payments are estimated to grow from the existing $1.7 billion to $2.4 billion by Fiscal Year 2013, assuming projected bond issuance of $11.2 billion. During Fiscal Year 2006 annual debt service requirements increased by $94 million over the prior year which approximates the historical average annual increase over the last ten years.

Overview of the State's Credit Ratings: **The State maintained its upgraded credit ratings during the past year and the rating outlook is stable.** The State's conservative financial and budgeting practices creating substantial reserves are recognized reasons for the State's high ratings. Challenges to the State's outlook are presented by the constitutional amendment on class-size reduction and budgetary pressures from growth related service demands.

Reserves: One of the most important indicators of a government's financial strength is its general fund reserves. **The combined balance of the Budget Stabilization and General Funds was $6.1 billion or 22.5% of general revenues at June 30, 2006.** This unprecedented level of reserves resulted from expenditures being $1.1 billion less than budgeted and general revenue collections exceeding estimates by $669 million. **Reserves are expected to decrease in Fiscal Year 2007 to a balance of $4.3 billion or a healthy 12.9% of general revenues.** Adequate reserves have been critical in providing the financial flexibility to deal with unexpected expenditures such as the costs of storm recovery associated with hurricanes and mitigating the rising cost of insurance to homeowners in the State.

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 5.36% for Fiscal Year 2005 to 5.10% for Fiscal Year 2006.** The improvement in the benchmark debt ratio is due to higher than expected revenues during Fiscal Year 2006 and favorable interest rates during the period. The benchmark debt ratio is projected to remain well within the 6% target during the foreseeable future based on expected debt issuance and the current revenue forecast. However, the expected debt issuance does not include any additional bonding to provide funding for class size reduction beyond the $1.1 billion authorized for Fiscal Year 2007.

2005 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	5.36%	$980	3.07%
Peer Group Median	3.79%	$923	2.99%
National Median	Not Available	$754	2.50%

A comparison of 2005 debt ratios shows that Florida's debt ratios are generally higher than the national and the ten most populous state peer group averages. However, the State ranking has seen improvement. Florida moved from the third to the fourth highest ratio for the benchmark debt ratio of debt service to revenues within the peer group while remaining fifth in debt per capita and debt as a percent of personal income.

Debt Capacity: The debt capacity available within the 6% target is $16.3 billion over the next ten years. However, **only $2.4 billion is available over the next three years**.

The debt capacity available within the 7% cap is approximately $23.4 billion over the next ten years with $7.7 billion in capacity available over the next three years. **The debt capacity available within the 7% cap should be preserved for critical needs and used as a cushion against downturns in the economy or negative impacts on State revenues from market fluctuations such as the softening real estate market.**

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 to enable them to make 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.

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 adopted the debt affordability analysis by enacting 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% may be issued only if the Legislature determines 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% may be issued only if the Legislature determines 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 changes in two variables: (1) the State's annual debt service payments; and (2) the amount of revenues available for debt service payments. 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 current revenue forecasts.

This 2006 Debt Affordability Report has been prepared to satisfy of the requirements of Section 215.98, Florida Statutes. ***The purpose of this 2006 Report is to review changes in the State's debt position over the past year 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 2006 Report also provides 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 2006 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 of the Florida Legislature. 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 provided to the Governing Board of the Division of Bond Finance and to the Governor's Office of Policy and Budget for their use in connection with formulating the Governor's Budget Recommendations. The analysis will be updated as revenue estimating conference forecasts are revised. 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 OUTSTANDING FLORIDA DEBT

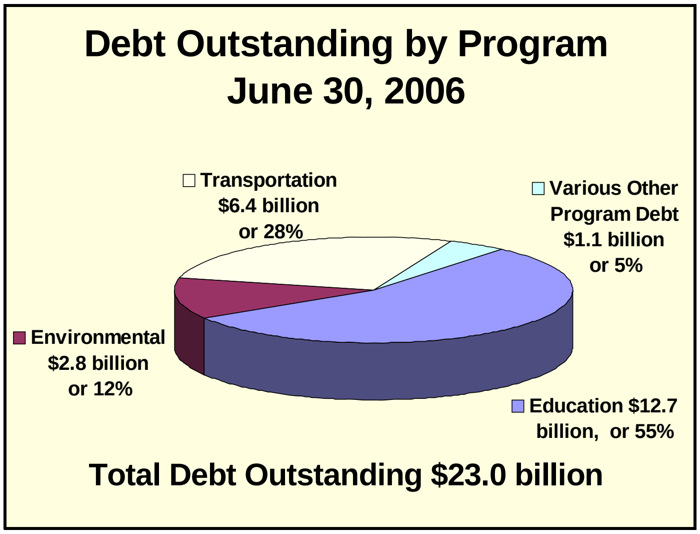


Figure 1

The State of Florida had $23.0 billion total debt outstanding at June 30, 2006. Figure 1 illustrates the State's investment in bond-financed infrastructure by program area. The largest investment financed with bonds is for educational facilities, with $12.7 billion or 55% of total debt outstanding devoted to school construction. Public Education Capital Outlay or "PECO" is the State's largest bond program with approximately $8.8 billion of debt outstanding. The second largest program 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 $4.4 billion. The third largest investment financed with bonds has been for acquiring land for conservation with $2.6 billion of bonds now outstanding for Preservation 2000/Florida Forever/Everglades Restoration.

As shown in Figure 2, ***the $23.0 billion debt outstanding at June 30, 2006 consisted of net tax-supported debt totaling $17.9 billion and self-supporting debt of $5.1 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.

State of Florida
Debt Outstanding by Type and Program
As of June 30, 2006
(In Million Dollars)

Debt Type		Amount
Net Tax-Supported Debt		**$ 17,865.5**
Self-Supporting Debt		**$ 5,159.9**
Total State Debt Outstanding		**$ 23,025.4**

	Dollar Amount	
Net Tax-Supported Debt		
Education		
Public Education Capital Outlay	$ 8,840.2	
Capital Outlay	823.4	
Lottery	2,148.9	
University System Improvement	229.4	
Total Education		$ 12,042.0
Environmental		
Preservation 2000 / Florida Forever	2,533.7	
Everglades	98.4	
Conservation and Recreation	15.1	
Save Our Coast	75.7	
Total Environmental		2,723.0
Transportation		
Right-of-Way and Bridge Acquisition	1,665.6	
State Infrastructure Bonds	21.6	
Florida Ports	317.2	
Total Transportation		2,004.4
Appropriated Debt / Other		
Facilities	328.4	
Master Lease	17.4	
FLAIR Lease	48.6	
Prisons	298.0	
Juvenile Justice	16.7	
Children & Families	70.3	
Aircraft Lease	4.7	
Affordable Housing	264.4	
Florida High Charter School	21.2	
Lee Moffitt Cancer Center	26.4	
Total Appropriated Debt		1,096.2
Total Net Tax-Supported Debt Outstanding		**$ 17,865.5**
Self-Supporting Debt		
Education		
University Auxiliary Facility Revenue Bonds		$ 636.6
Environmental		
Florida Water Pollution Control		116.5
Pollution Control		0.0
Transportation		
Toll Facilities	$ 2,414.3	
Orlando-Orange Co. Expressway Authority	1,811.1	
Road and Bridge	140.6	
State Infrastructure	40.7	
Total Transportation		**4,406.7**
Total Self Supporting Debt Outstanding		**$ 5,159.9**

Figure 2

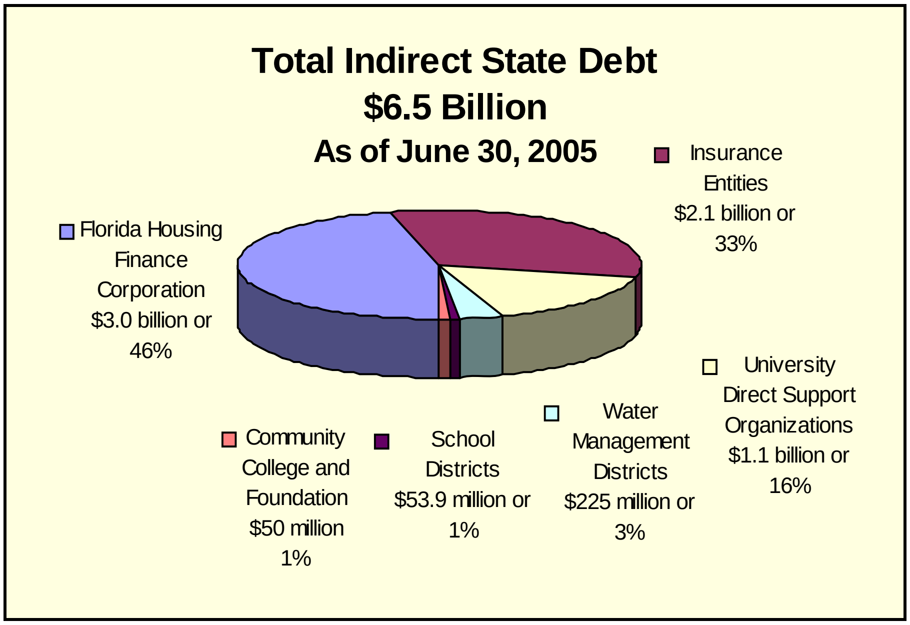


Figure 3

In addition to the direct debt comprised of net tax-supported and self-supporting debt, the State also has indirect debt. Indirect debt is that which 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 $6.5 billion at June 30, 2005, the same as the prior year-end.*** The information presented is for 2005 rather than 2006 because more current information is not available. Figure 3 sets forth the State's indirect debt by type. The Florida Housing Finance Corporation, which administers the State's housing programs, has historically been the primary issuer of indirect debt with $3.0 billion or 46% of the total. Special purpose, quasi-governmental insurance entities had $2.1 billion or 33% of total indirect debt but this does not include significant debt issuance for insurance related purposes after June 30, 2005. See Figure 4 below for more detailed information on post-period debt issuance by quasi-governmental insurance entities. University direct support organizations follow with $1.1 billion or 16% of the indirect debt. Indirect debt totaling $7.2 billion issued by insurance entities after the reported year-end has not been included in the foregoing information.

State indirect debt by program is listed in Figure 4 to illustrate which entities incur such debt and for what purpose. For example, 76% of the Florida Housing Finance Corporation debt has been issued for multi-family housing projects and 24% for single family housing. The Shands Hospital at the University of Florida accounts for 40% of the university direct support organization debt. Lastly, 33% of total indirect debt is for the special purpose insurance entity, Citizens Property Insurance Corporation.

Total Indirect State Debt by Program As of June 30, 2005 *(In Millions of Dollars)*		
Florida Housing Finance Corporation		
Single Family Programs	$ 725.5	
Multi-Family Programs	2,265.6	
Total		$ 2,991.2
University Direct Support Organizations		
Shands Teaching Hospital	426.1	
Florida State University	139.6	
University of Central Florida	194.1	
University of Florida	138.8	
Other State Universities	155.4	
Total		1,053.9
School District		53.9
Community College and Foundation Debt		50.3
Water Management Districts		224.8
Citizens Property Insurance Corporation		2,118.3
Total State Indirect Debt		**$ 6,492.3**
Post Report Period Issuance		
Florida Hurricane Catastrophe Fund Finance Corporation		$ 4,150.0
Citizens Property Insurance Corporation		3,050.0
Total		**$ 7,200.0**

Figure 4

Insurance entities have issued $7.2 billion in debt since June 30, 2005 to fund losses from hurricanes over the last two years and to provide liquidity to pay claims from any possible future hurricanes. Citizens Property Insurance Corporation and the Florida Hurricane Catastrophe Fund Finance Corporation issued $3 billion and $4.2 billion, respectively. A majority of the issuance ($5.9 billion) was for short-term liquidity, to be held and invested pending future hurricane losses, and a portion ($1.3 billion) was to finance deficits from the extraordinary hurricane activity in the previous two years. Additional debt issuance totaling approximately $1.1 billion to complete the financing of hurricane losses has been authorized by Citizens Property Insurance Corporation but not yet issued.

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 over the last 10 years.

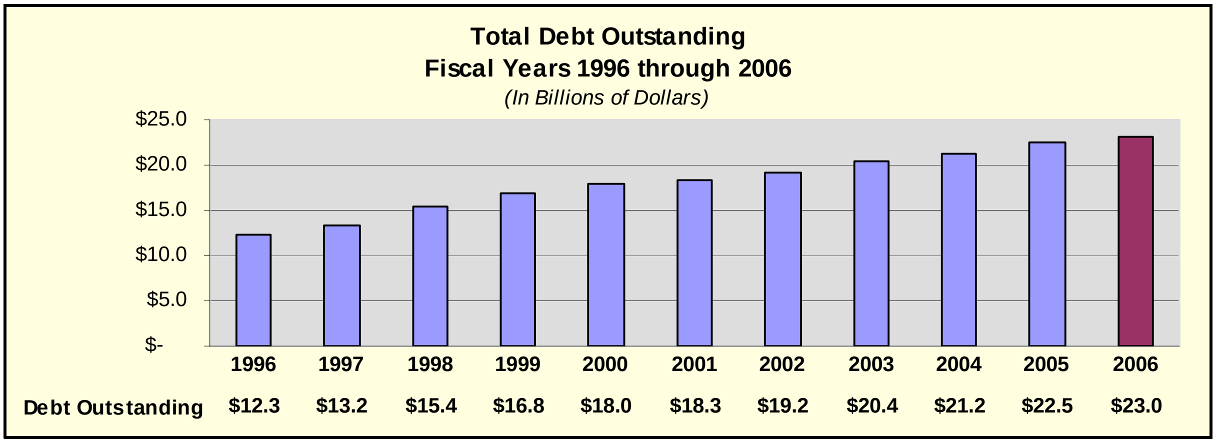
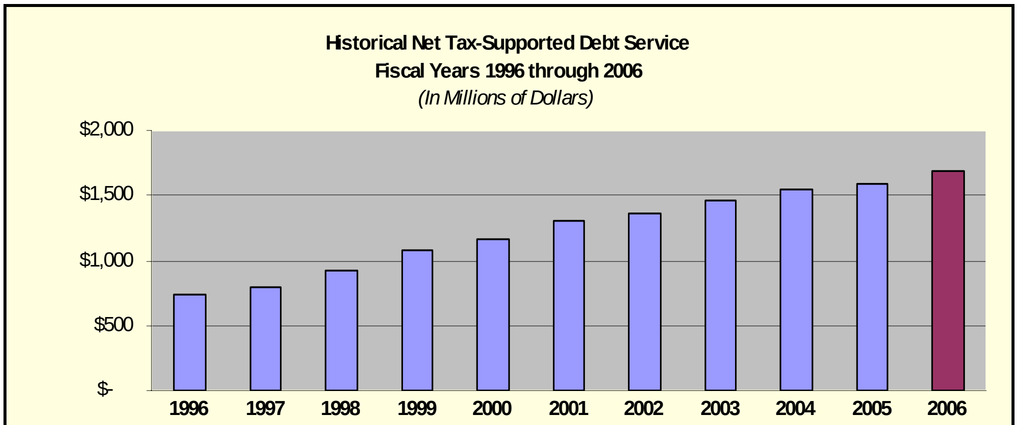


Figure 5

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 acquisition of conservation lands. ***Total State direct debt nearly doubled over the last 10 years, increasing from $12.3 billion at June 30, 1996 to $23.0 billion at June 30, 2006.*** The increase was primarily due to the issuance of additional PECO bonds ($4.9 billion), lottery bonds ($2.6 billion), Right-of-Way bonds ($1.6 billion), and Preservation 2000 / Florida Forever / Everglades Restoration bonds ($2.4 billion).

Total debt increased $564 million in Fiscal Year 2006 from approximately $22.5 billion at June 30, 2005, to $23.0 billion at June 30, 2006, approximately half of the average annual increase of approximately $1.1 billion over the last ten years. The increase in debt is due primarily to additional borrowing for school construction, which accounted for 53% or $297 million of the increase over the prior year. Additional toll facility borrowing for transportation infrastructure ($117 million) and prison construction ($109 million) also increased debt outstanding over the prior year.

Annual net tax-supported debt service grew by $96 million, approximately the same as the ten-year average annual increase of $94 million. The increase in debt service was consistent with the amount of new money debt issuance in 2006 which was also approximately the ten-year average. Figure 6 depicts the increase in yearly debt service payments caused by the increase in debt issuance over the last ten years.

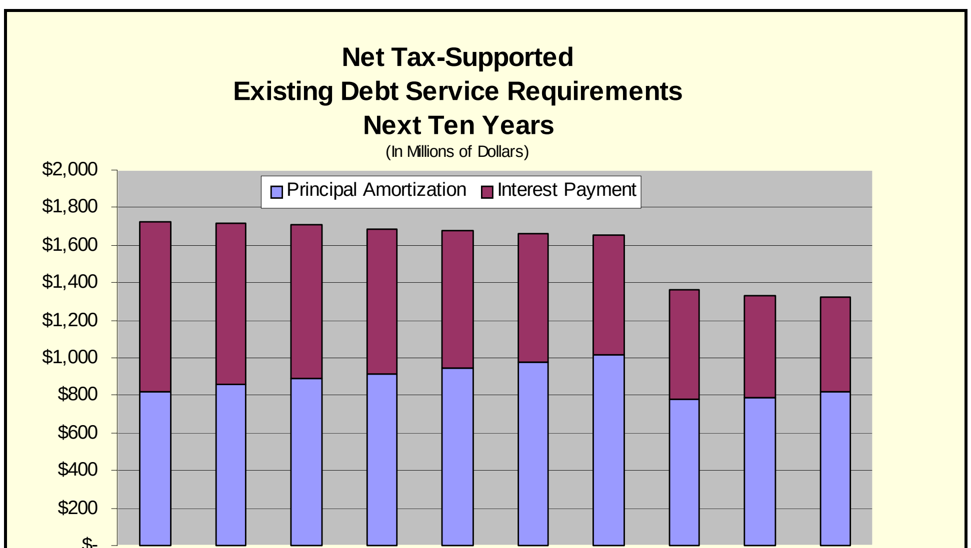


	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Debt Service	$742	$801	$928	$1,072	$1,166	$1,303	$1,357	$1,459	$1,552	$1,584	$1,681

Figure 6

The State's annual debt service payments on net tax-supported debt is approximately $1.7 billion per year. As the amount of outstanding debt has increased, the State's annual debt service requirements have more than doubled over the last ten years, rising from approximately $742 million in 1996 to approximately $1.7 billion in 2006. This measure is important from a budgetary perspective because it indicates how much of the State's budget must be devoted to paying debt service before providing for other essential government services.

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. The State policy of using a level debt service structure is apparent with annual debt service requirements of approximately $1.7 billion per year over the next seven years dropping to approximately $1.4 billion in 2014 due to the final maturity of Preservation 2000 bonds. Over the next ten fiscal years, $8.8 billion in net tax-supported debt is scheduled to be retired.



(In Millions)	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Principal	$ 820	$ 855	$ 890	$ 910	$ 943	$ 977	$1,016	$ 778	$ 791	$ 818	$ 8,800
Interest	905	863	822	778	732	685	634	581	542	502	7,045
Total	$1,725	$1,718	$1,712	$1,689	$1,676	$1,662	$1,650	$1,359	$1,333	$1,321	$15,845

Figure 7

EXPECTED DEBT ISSUANCE

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 2007 through 2016
(In Thousands)

	PECO		Capital		Florida			Affordable		Community		DCFS	Master	Total
Fiscal Year	Current	Prior[1]	Outlay	Lottery	Forever	ROW	GARVEE	Housing	Everglades	Colleges	Facilities	Lease	Lease	Issuance
2007	$ 400	$ 337	$ 42	$ -	$ 250	$ -	$ -	$ -	$ -	$ 53	$ 98	$ 69	$ 25	$ 1,273
2008	416	616	-	200	300	200	-	-	100	-	-	-	25	1,857
2009	247	816	-	200	300	200	100	-	100	-	-	-	25	1,988
2010	537	900	-	255	300	150	150	-	100	-	-	-	-	2,391
2011	599	-	-	-	-	200	275	100	-	-	-	-	-	1,174
2012	513	-	-	-	-	100	100	-	-	-	-	-	-	713
2013	306	-	-	-	-	100	-	-	-	-	-	-	-	406
2014	526	-	-	-	-	100	-	-	-	-	-	-	-	626
2015	351	-	-	-	-	100	-	-	-	-	-	-	-	451
2016	277	-	-	-	-	-	-	-	-	-	-	-	-	277
Expected Issuance	**$ 4,171**	**$ 2,668**	**$ 42**	**$ 655**	**$ 1,150**	**$ 1,150**	**$ 625**	**$ 100**	**$ 300**	**$ 53**	**$ 98**	**$ 69**	**$ 75**	**$ 11,156**

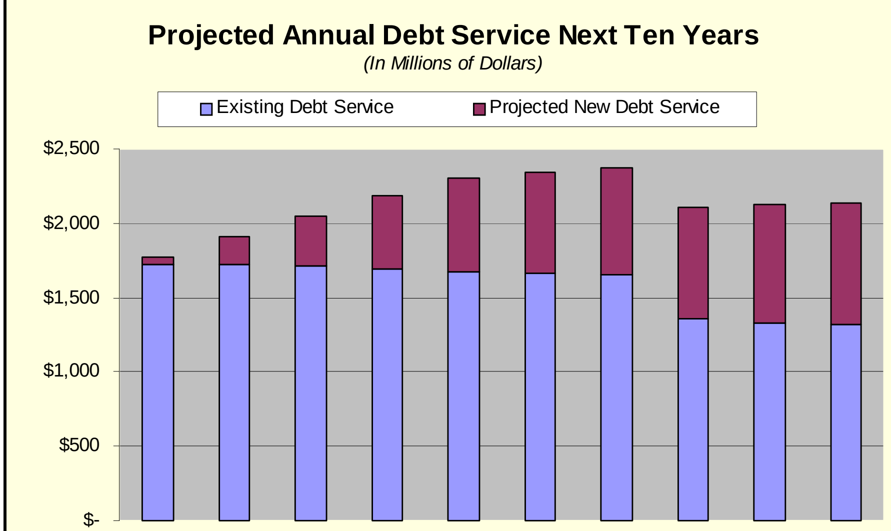
[1] Represents bonds previously authorized but unissued

Figure 8

Approximately $11.2 billion of debt is expected to be issued over the next ten years for all of the State's financing programs which are currently authorized. This estimated issuance is approximately $1.6 billion more than the previous projection. Issuance for educational facilities (PECO and Lottery) is expected to increase by $2.3 billion. However the total increase is less than it would otherwise have been due to cash funding in lieu of bonding and reduction of outstanding authorization for environmental programs as a result of bond issuance. ***It is important to note that no additional debt beyond that currently authorized by the Legislature 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 $11.2 billion expected borrowing detailed above.

PROJECTED DEBT SERVICE

Annual debt service is estimated to grow to approximately $2.4 billion by Fiscal Year 2013 and decline thereafter, assuming projected bond issuance of $11.2 billion. Figure 9 shows existing debt service and the estimated annual debt service for the projected bond issuance over the next ten fiscal years. The projected decline in annual debt service requirements in 2014 results from the final maturity of the Preservation 2000 bonds.



(In Millions)	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Existing	$1,725	$1,718	$1,712	$1,689	$1,676	$1,662	$1,650	$1,359	$1,333	$1,321
Projected	50	187	340	500	628	676	721	752	790	814
Total	$1,775	$1,906	$2,052	$2,189	$2,304	$2,338	$2,371	$2,111	$2,123	$2,135

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 changes reflect a different economic environment. Changes in revenue estimates have a significant impact on the calculation of available debt capacity because of the multiplier effect. 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 used in last year's Debt Affordability Report.

Projected Revenue Available for State Tax-Supported Debt

(In Billions of Dollars)

Total Revenue Available	2006 [1]	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Current: Fall 2006 Estimate	$32.98	$33.00	$33.69	$37.74	$39.53	$41.55	$43.73	$45.88	$48.23	$50.65	$53.34
Prior: Fall 2005 Estimate	$32.26	$32.66	$34.06	$35.75	$37.49	$39.45	$43.29	$45.49	$47.88	$50.45	$ -
Increase/(Decrease) in Revenue Estimate	$ 0.73	$ 0.34	$ (0.38)	$ 1.99	$ 2.04	$ 2.09	$ 0.44	$ 0.39	$ 0.35	$ 0.21	
Percent Change in Estimate	2.3%	1.0%	(1.1)%	5.6%	5.4%	5.3%	1.0%	0.8%	0.7%	0.4%	

[1] Actual Fiscal Year 2006 revenues are compared to the prior estimate.

Figure 10

The near-term revenue forecast reflects the impact of a softening in the real estate market and the corresponding impact on documentary stamp taxes and sales tax forecasts. The forecast shows a small increase in revenues available for Fiscal Year 2007. The projections for Fiscal Years 2008 and 2009 show a decrease in available revenues of $377 million and $102 million, respectively. The decrease in revenues available would cause a deterioration in the benchmark debt ratio ignoring the accelerated implementation of the GARVEE program. The implementation of the GARVEE program adds $2 billion in federal revenue sharing monies as available revenues starting in 2009 which masks the increase in the debt ratio expected from lower general revenue estimates. Without the additional revenues associated with the GARVEE program, the projected benchmark debt ratio would be 5.75% in 2009 rather than the 5.44% currently projected.

BENCHMARK DEBT RATIO

The benchmark measure designated for the debt affordability analysis is the ratio of 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.*** Figure 11 tracks both the historical and projected benchmark debt ratio. From 1996 through 2003 the ratio increased, exceeding the 6% target in 2003. Since that time, the benchmark ratio has declined, with the improvement attributed primarily to strong revenue growth in recent years. The projected benchmark debt ratio for the next ten years is based on the most current expected debt issuance and revenue projections.

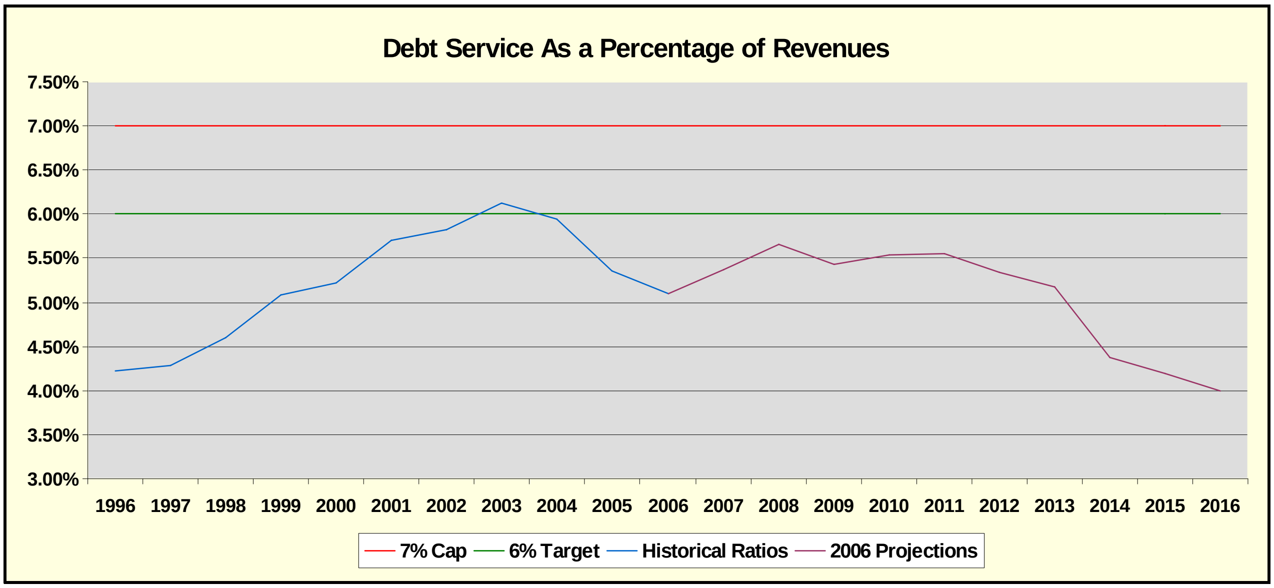


Figure 11

The State's debt position measured by the benchmark debt ratio was 5.10% at June 30, 2006, improving from 5.36% at June 30, 2005. The benchmark improved more than had been projected in the 2005 Debt Affordability Report (5.31%). The benchmark ratio is projected to remain below the 6% target for the foreseeable future based on existing borrowing plans, current revenue forecasts and economic outlook. After a projected increase in the benchmark debt ratio in the next two years, projections indicate further improvement in the State's debt position. However, the improvement in the benchmark debt ratio in 2009 is due to the acceleration of the GARVEE program and the associated revenues rather than an organic increase in revenues available.

Ratio of Debt Service to Revenues

Fiscal Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
2006 Projection	5.38%	5.66%	5.44%	5.54%	5.55%	5.35%	5.17%	4.38%	4.19%	4.00%

Figure 12

The 2006 improvement in the benchmark debt ratio is primarily due to higher than expected revenue collections and favorable interest rates in Fiscal Year 2006. The additional expected issuance does not include any new bond programs. ***The benchmark ratio does not reflect any additional borrowing which may be necessary to complete the implementation of the constitutional amendment requiring reduced class sizes*** beyond the $1.1 billion authorization ($655 million for Lottery Revenue bonds and $433 million for PECO bonds) made during the 2006 legislative session.

CHANGE IN DEBT CAPACITY

The last step in the debt affordability analysis is to estimate future available debt capacity. Debt capacity, as presented in this report, is based on current issuance expectations and the most recent revenue projections. Figure 13 sets forth the debt capacity available within the 6% target benchmark, taking into account expected issuance under existing state bond programs. However, debt capacity can change significantly due to changes in revenue estimates reflecting a different economic environment. The debt capacity available over the next ten fiscal years within the 6% target totals $16.3 billion. ***Over the next three years, the estimated debt capacity within the 6% target is $2.4 billion. 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)

Fiscal Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Total Capacity	$2,748.5	$ 2,682.0	$ 2,037.9	$ 2,441.0	$ 2,399.4	$1,937.8	$5,605.7	$2,351.1	$2,450.6	$2,777.0	$ 27,431.0
Expected Issuance	$1,273.5	$ 1,857.0	$ 1,987.9	$ 2,391.0	$ 1,174.4	$ 712.8	$ 405.7	$ 626.1	$ 450.6	$ 277.0	$ 11,156.0
Avaliable Capacity	$1,475.0	$ 825.0	$ 50.0	$ 50.0	$ 1,225.0	$1,225.0	$5,200.0	$1,725.0	$2,000.0	$2,500.0	$ 16,275.0

Figure 13

Based on the 6% target benchmark debt ratio, the total bonding capacity over the next ten years would be $27.4 billion. As shown previously, the expected debt issuance for the next ten fiscal years under existing programs is estimated to be approximately $11.2 billion. This leaves approximately $16.3 billion of debt capacity available over the next ten years which represents a $400 million decrease in available debt capacity over last year's estimate. ***The reduction in debt capacity is due to the $1.6 million increase in expected issuance over the prior estimate offset by an increase in total capacity caused by slightly higher long-run revenue estimates.***

Debt Capacity for 7% Cap Benchmark Ratio
(In Millions of Dollars)

Fiscal Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Total Capacity	$7,048.5	$ 3,457.0	$ 2,012.9	$ 2,691.0	$ 2,724.4	$2,212.8	$5,905.7	$2,651.1	$2,800.6	$3,077.0	$ 34,581.0
Expected Issuance	$1,273.5	$ 1,857.0	$ 1,987.9	$ 2,391.0	$ 1,174.4	$ 712.8	$ 405.7	$ 626.1	$ 450.6	$ 277.0	$ 11,156.0
Avaliable Capacity	$5,775.0	$ 1,600.0	$ 25.0	$ 300.0	$ 1,550.0	$1,500.0	$5,500.0	$2,025.0	$2,350.0	$2,800.0	$ 23,425.0

Figure 14

Figure 14 shows the additional capacity under the 7% cap for the benchmark ratio which could be available to address a critical State infrastructure need. The debt capacity available over the next ten fiscal years within the 7% cap totals $23.4 billion. ***The near term additional debt capacity available through 2010 is $7.7 billion.*** The available debt capacity, between the 6% target and the 7% cap, should be considered a scarce resource to be used sparingly to provide funding for critical State infrastructure needs. 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 twenty 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 ratios used by the municipal bond market to evaluate a government's debt position: debt service to revenues, debt per capita, and debt to personal income. Comparisons to national and peer group medians are helpful because absolute values are not particularly useful without a basis for comparison. A more meaningful comparison is made by using a peer group consisting of the ten most populous states as a basis for comparison.

2005 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	**5.36%**	**$980**	**3.07%**
Peer Group Median	**3.79%**	**$923**	**2.99%**
National Median	**Not Available**	**$754**	**2.50%**

Figure 15

Florida's debt ratios are generally higher than the national and peer-group medians. However, the ten-state peer group comparison as shown in Figure 16 shows that Florida's debt per capita and debt as a percent of personal income is lower than the peer group mean.

2005 Comparison of Florida to Ten Most Populous States

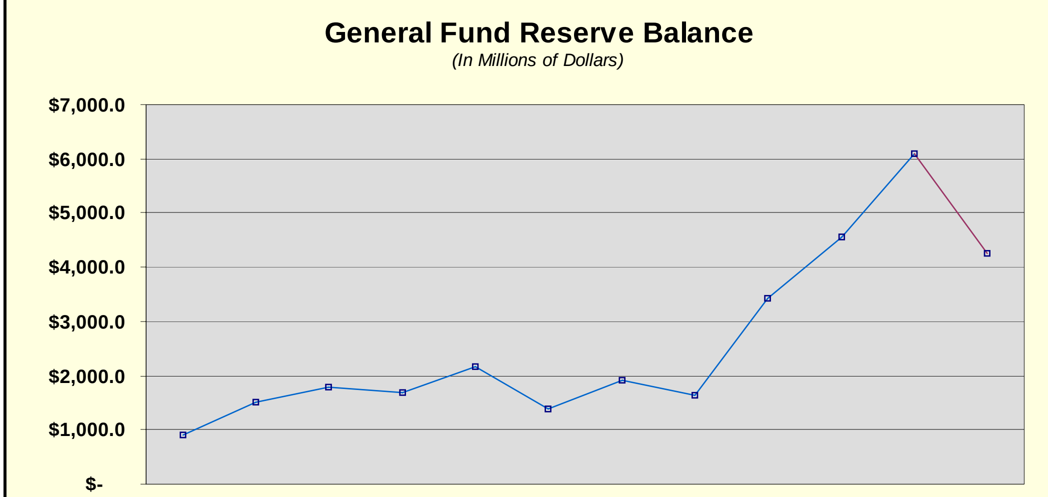
	Rank	Net Tax Supported Debt Service as a % of Revenues	Rank	Net Tax Supported Debt Per Capita	Rank	Net Tax Supported Debt as a % of Personal Income	General Obligation Ratings Fitch/Moody's/S&P
New York	1	9.69%	2	$2,593	2	7.20%	AA-/Aa3/AA
Illinois	2	6.57%	3	$2,019	3	6.20%	AA-/Aa3/AA
Ohio	3	5.56%	6	$866	6	2.90%	AA+/Aa1/AA+
Florida	4	**5.36%**	5	**$980**	5	**3.07%**	**AA+/Aa1/AAA**
New Jersey	5	3.94%	1	$2,901	1	7.40%	AA-/Aa3/AA-
California	6	3.64%	4	$1,545	4	4.70%	A-/A1/A
Georgia	7	2.98%	7	$803	7	2.80%	AAA/Aaa/AAA
Michigan	8	2.76%	9	$691	9	2.20%	AA+/Aa2/AA+
Pennsylvania	9	1.89%	8	$730	8	2.30%	AA/Aa2/AA
Texas	10	1.16%	10	$279	10	1.00%	AA+/Aa1/AA
Median		**3.79%**		**$923**		**2.99%**	
Mean		**4.36%**		**$1,341**		**3.98%**	

Figure 16

Figure 16 details the Ten Most Populous State Peer Group Comparison for the three debt ratios evaluated. As indicated above, ***Florida has the fourth highest ratio for the benchmark debt ratio of debt service to revenues***. In 2005, Florida's ranking, relative to the benchmark debt ratio, improved from the third highest to the fourth highest. Florida remained fifth for each of the two other debt ratios.

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 over the last ten fiscal years. The graphic also shows an estimate of the expected year-end general fund reserves for Fiscal Year 2007.



(In Millions)	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
General Fund	$ 905	$1,510	$1,787	$1,694	$2,156	$1,383	$1,925	$1,641	$ 3,424	$4,570	$ 6,081	$4,268
% of Revenues	6.18%	9.62%	10.54%	9.48%	11.47%	7.21%	9.95%	8.21%	15.69%	18.30%	22.46%	12.93%

Figure 17

The level of reserves is also an important indicator of the ability to respond to unforseen financial challenges, which 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 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 $905 million in 1996 to $6.1 billion for 2006. ***The State ended Fiscal Year 2006 with general fund reserves of $6.1 billion or 22.4% of general revenues.*** The general fund reserves were higher than anticipated due to expenditures being $1.1 billion less than budgeted and general revenue collections being $669 million more than expected.

Florida has distinguished itself from other states over the last four years by building reserves to unprecedented levels. ***The level of reserves results from conservative financial management practices and was cited by the credit rating agencies as a factor in the State's rating upgrades*** discussed below. More importantly, the reserves provide the financial flexibility to absorb unexpected costs such as the cost of responding to hurricanes. ***The level of reserves is expected to decrease in Fiscal Year 2007 but end the year at a projected balance of approximately $4.3 billion or a healthy 12.9% of general revenues.***

REVIEW OF CREDIT RATINGS

Credit ratings are the rating agencies' assessments 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.

Florida is a strong credit as reflected in the rating upgrades received in 2005, including the State's first 'AAA' rating. The rating upgrades were based on the strong and conservative financial and budget management practices, substantial budget reserves and economic trends of the State.

State of Florida
General Obligation Credit Ratings

Standard & Poor's Ratings Services	AAA
Fitch Ratings	AA+
Moody's Investors Service	Aa1

Figure 18

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.

Florida's economy continued to demonstrate robust growth in Fiscal Year 2006. Actual general revenue collections for Fiscal Year 2006 were $265 million more than the April, 2006, estimates. However, revenue growth is slowing due to the effects of a soft real estate market. The latest general revenue forecast completed in November, 2006, projected a small increase for the current fiscal year, but showed decreases in 2008 and 2009. Economic growth has been an important element in the State's credit rating.

Moody's Investors Service has developed a quantitative scorecard for use as an analytic tool in the state rating process. The *U.S. State Credit Scorecard: New Quantitative Tool Introduced to Enhance Consistency of State Government General Obligation Analysis* was released in August, 2006, and included the 2006 scorecards with 2005 comparisons. Application of the new Moody's methodology provides further evidence of the State's financial strength.

- Florida is in Tier 1 for 2006 with an overall scorecard ranking in the top 20% of all states for 2006, an improvement from 2005 when Florida was in Tier 2 behind the first 20% of states.

- In 2006, Florida also achieved a Tier 1 finance ranking, moving up from Tier 2.

- Florida also moved up to Tier 1 in the economy ranking analysis for 2006 from Tier 2 in 2005.

The outlook for the State's credit rating is stable. 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. Also, ***the State's conservative financial and budget management practices have helped create substantial reserves and are recognized by the rating agencies as reasons underlying the State's high ratings.*** However, challenges to the State's stable outlook are presented by the constitutional amendment on class-size reduction and increased budgetary pressure from Medicaid spending and growth-related service demands.

CONCLUSION

Florida's debt increased $564 million over the past year, growing at approximately half the ten-year average of $1.1 billion. ***The expected future debt issuance under existing programs over the next ten years totals $11.2 billion, $1.6 billion more than last year.*** The expected debt issuance does not include any additional bonding authorizations to fund the constitutional mandate to reduce class-size.

The benchmark debt ratio was 5.10% at June 30, 2006, below the 6% target and an improvement from 5.36% last fiscal year. The improvement in the benchmark ratio is due to higher revenue collections and favorable interest rates. The benchmark debt ratio is projected to remain below the 6% target for the foreseeable future based on expected debt issuance and current revenue forecasts.

The projected debt capacity available over the next ten years within the 6% target is $16.3 billion, but only $2.4 billion is available over the next three years. The projected debt capacity available over the next ten years within the 7% cap is approximately $23.4 billion with $7.7 billion being available over the next three years. The available debt capacity within the 6% target and 7% cap has declined from last year due to slower growth in the revenue estimates (reflecting the softening of the real estate market) and increased projected borrowing. ***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 increased significantly during Fiscal Year 2006 to approximately $6.1 billion or 22.5% of general fund revenues. The unprecedented Fiscal Year 2006 reserves were more than had been anticipated because of higher revenue collections than expected and less spending than was budgeted. ***The increased reserves reflect the State's conservative financial management and has strengthened the State's financial position.*** The general fund reserves are expected to decrease in Fiscal Year 2007 but remain at a healthy 12.9% of general revenue.

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 requirement to reduce class size and budgetary pressure from growth related service demands.