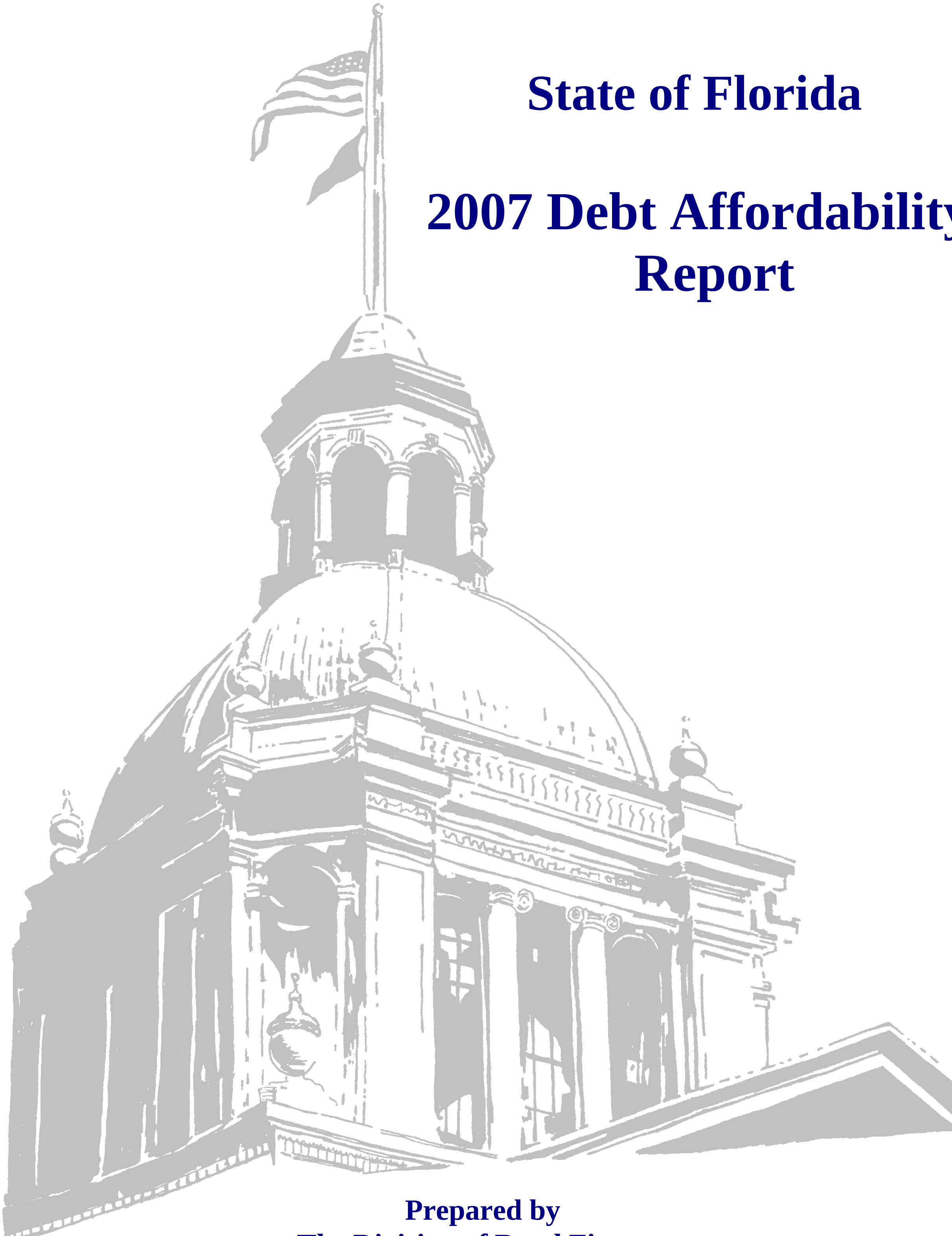
State of Florida

2007 Debt Affordability Report



Prepared by
The Division of Bond Finance

TABLE OF CONTENTS

Tables and Charts

EXECUTIVE SUMMARY

The purpose of this 2007 Debt Affordability Report is to review changes in the State's debt position from June 30, 2006 to June 30, 2007 and revise projections used to measure the financial impact of future debt issuance and economic changes reflected in current revenue estimates. The 2007 Debt Affordability Report has been prepared as required by Section 215.98, Florida Statutes.

Debt Outstanding: Total State debt outstanding at June 30, 2007 was $24.1 billion, $1.1 billion more than at June 30, 2006. Net tax-supported debt totaled $18.3 billion for programs supported by State tax revenues or tax-like revenues. Self-supporting debt totaled $5.8 billion, representing debt secured by revenues generated from operating bond-financed facilities. Additionally, indirect State debt at June 30, 2006 was $14.3 billion, $7.8 billion more than the prior year-end. Indirect debt increased significantly due to borrowing by insurance-related entities, i.e., Florida Hurricane Catastrophe Fund Finance Corporation and Citizens Property Insurance Corporation. Indirect debt is **not** a component of State debt ratios or the debt affordability analysis.

Estimated Revenues: Revenue collections in Fiscal Year 2007 of $32.3 billion were $680 million less than Fiscal Year 2006 revenues. Additionally, revenue projections were reduced three times over the last year with **current year revenues decreased by $2.6 billion or 7.6% and next fiscal year revenues decreased by $3.6 billion or 9.5%**. The reductions in revenue projections are due to (1) the deteriorating housing market exacerbated by sub-prime mortgage crisis and credit tightening; (2) slowing population growth and Florida's vulnerability to the real estate market; and, (3) reduced disposable spending due to increased energy prices. While the short-term outlook has worsened, more normal growth rates are anticipated to return in 2009. However, estimated revenue collections are not anticipated to exceed the Fiscal Year 2005-06 level until Fiscal Year 2009-10.

Estimated Debt Issuance: Approximately **$12.2 billion of debt is expected to be issued over the next ten years for all of the State's currently authorized financing programs.** This estimate is approximately $1.0 billion or 8.9% more than the previous projection of expected debt issuance. Increases in expected educational borrowing of $650 million and increased transportation borrowing of $673 million is offset by decreases in expected issuance for various bond programs. Fixed Guideway Bonds for commuter rail projects is the only new financing program included in expected issuance.

Estimated Annual Debt Service Requirements: **Debt service payments now total approximately $1.8 billion per year.** During Fiscal Year 2007, annual debt service requirements increased by $91.5 million over the prior year, slightly less than the average annual increase over the last ten years. Annual debt service payments are estimated to grow from the existing $1.8 billion to $2.2 billion over the next three years based on projected bond issuance.

Overview of the State's Credit Ratings: **The State maintained its credit ratings during the past year and the rating outlook is stable.** The State's conservative financial and budgeting practices, swift response to budget pressures, substantial reserves, moderate debt burden with clear guidelines and a fully funded pension plan are recognized credit strengths. Challenges to the State's outlook are presented by the weaker economy and declining revenues, budgetary pressure for infrastructure and service-related needs of a growing population and the need to maintain adequate reserves.

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 $4.7 billion or 17.7% of general revenues at June 30, 2007.** During the 2007 fiscal year, $1.4 billion of reserves were used to offset declines in revenue collections. **Reserves are expected to decrease further in Fiscal Year 2008 to a balance of $2.2 billion but are considered adequate at 8.5% of general revenues.** Adequate reserves have been critical in providing the financial flexibility to react to recent changes in the economic environment causing a decline in revenues.

Debt Ratios: The State's benchmark debt ratio of debt service to revenues available to pay debt service has increased over the past year. **The benchmark debt ratio increased from 5.10% for Fiscal Year 2006 to 5.49% for Fiscal Year 2007.** The increase in the benchmark debt ratio is due to lower revenue collections during Fiscal Year 2007. The benchmark debt ratio is projected to reach the 5.99% for 2008 and peak at 6.11% for 2010 before improving. The projected benchmark ratio is reasonably consistent with the 6% target and well within the 7% cap based on existing borrowing plans and current revenue forecasts. However, the benchmark debt ratio could increase further if revenues continue to decline.

2006 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	**5.10%**	**$979**	**2.84%**
Peer Group Mean	**4.03%**	**$1,449**	**3.89%**
National Median	**Not Available**	**$787**	**2.40%**

A comparison of 2006 debt ratios to national and peer-group averages indicate that Florida's debt ratios are generally higher than the national averages but lower than the peer group averages for all but the benchmark debt ratio. The State's ranking in the ten state peer-group is unchanged from 2005 and remains in the middle of the peer-group. The State has the fourth highest ratio for the benchmark debt ratio of debt service to revenues within the peer group and fifth highest in debt per capita and debt as a percent of personal income.

Debt Capacity: **There is virtually no debt capacity available within the 6% target over the next three years based upon the current revenue projection and existing borrowing plans.** However, $12.6 billion in estimated debt capacity is available over the ten-year projection period.

The debt capacity available within the 7% cap is approximately $19.5 billion over the next ten years with $5.5 billion in capacity available over the next three years. The debt capacity available within the 7% cap serves as a cushion for further economic weakening and corresponding revenue declines. Accordingly, the debt capacity available within the confines of the 7% cap should be preserved for critical needs.

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 the 6% target 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 2007 Debt Affordability Report has been prepared to satisfy of the requirements of Section 215.98, Florida Statutes. ***The purpose of this 2007 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 2007 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 2007 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

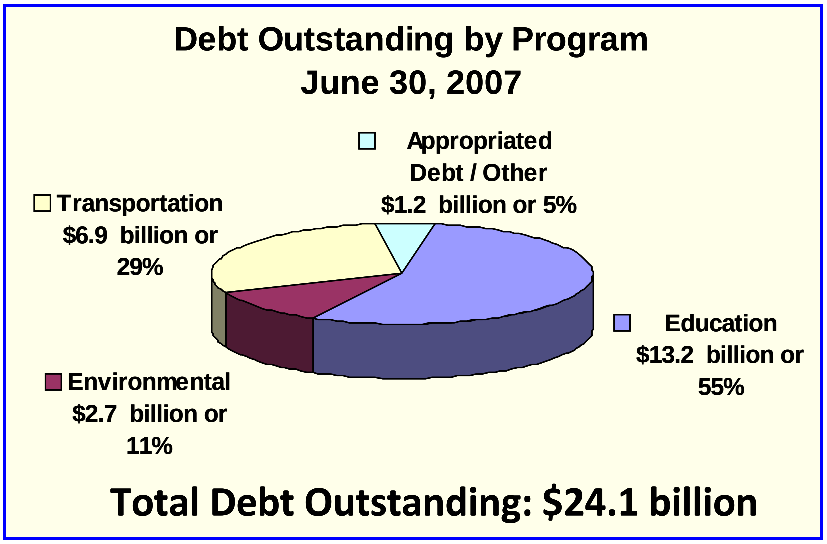


Figure 1

The State of Florida had $24.1 billion total debt outstanding at June 30, 2007. 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 $13.2 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 $9.5 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 $4.8 billion. The third largest investment financed with bonds has been for acquiring land for conservation with $2.7 billion of bonds now outstanding for Preservation 2000/Florida Forever/Everglades Restoration.

As shown in Figure 2, ***the $24.1 billion debt outstanding at June 30, 2007 consisted of net tax-supported debt totaling $18.3 billion and self-supporting debt of $5.8 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, 2007
(In Millions of Dollars)

Debt Type		Amount
Net Tax-Supported Debt		**$ 18,339.6**
Self Supporting Debt		**$ 5,752.7**
Total State Debt Outstanding		**$ 24,092.3**

Net Tax-Supported Debt		
Education		
Public Education Capital Outlay	$ 9,483.7	
Capital Outlay	767.0	
Lottery	2,042.3	
University System Improvement	217.2	
Community Colleges Improvement	53.2	
Total Education		$ 12,563.4
Environmental		
Preservation 2000 / Florida Forever	2,449.6	
Everglades	94.8	
Conservation and Recreation	13.0	
Save Our Coast	54.0	
Total Environmental		2,611.3
Transportation		
Right-of-Way and Bridge Acquisition	1,625.6	
State Infrastructure Bonds	18.5	
Florida Ports	309.2	
Total Transportation		1,953.2
Appropriated Debt / Other		
Facilities	407.7	
Master Lease	35.6	
FLAIR Lease	33.0	
Prisons	281.3	
Juvenile Justice	15.8	
Children & Families	137.2	
Aircraft Lease	4.4	
Radio Tower Lease	-	
Affordable Housing	258.0	
Florida High Charter School	20.6	
Lee Moffitt Cancer Center	18.0	
Total Appropriated Debt		1,211.6
Total Net Tax-Supported Debt Outstanding		$ 18,339.6
Self Supporting Debt		
Education		
University Auxiliary Facility Revenue Bonds		$ 659.6
Environmental		
Florida Water Pollution Control		108.7
Pollution Control		-
Transportation		
Toll Facilities	$ 2,611.9	
Orlando-Orange Co. Expressway Authority	2,205.7	
Road and Bridge	128.1	
State Infrastructure	38.7	
Total Transportation		4,984.4
Total Self Supporting Debt Outstanding		$ 5,752.7

Figure 2

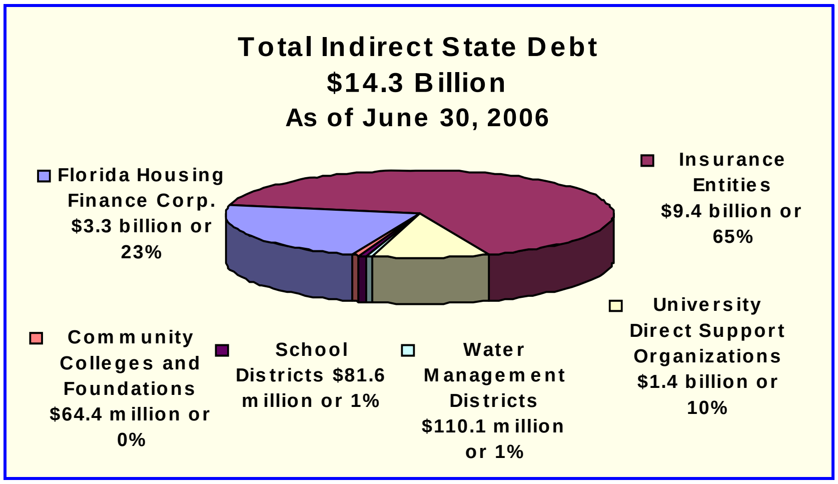


Figure 3

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 is not included in the State's debt ratios and the analysis of the State's debt burden included herein.

Indirect debt of the State totaled $14.3 billion at June 30, 2006, $7.8 billion more than the prior year-end. The significant increase in indirect debt relates primarily to debt issued by the Florida Hurricane Catastrophe Fund and Citizens Property Insurance Corporation to provide liquidity to pay possible future hurricane losses. See Figure 4 below for more detailed information on additional post-period debt issuance by these quasi-governmental insurance entities. The information presented is for 2006 rather than 2007 because more-current information is not available.

Figure 3 sets forth the State's indirect debt by type. ***Special purpose, quasi-governmental insurance entities now represent $9.4 billion or 65% of total indirect debt.*** The Florida Housing Finance Corporation, which administers the State's housing programs and previously the primary issuer of indirect debt had $3.3 billion or 23% of the total. University direct support organizations follow with $1.4 billion or 10% of the indirect debt. Indirect debt totaling $5.5 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, 68% of the Florida Housing Finance Corporation debt has been issued for multi-family housing projects and 32% for single family housing. Shands Hospital at the University of Florida accounts for 30% of the university direct support organization debt. Lastly, 36% of total indirect debt is for the special purpose insurance entity, Citizens Property Insurance Corporation, and 29% for the Florida Hurricane Catastrophe Financing Corporation.

Total State Indirect Debt by Program		
June 30, 2006		
(In Millions of Dollars)		
Florida Housing Finance Corporation		
Single Family Programs	$ 1,037.3	
Multi-Family Programs	2,248.7	
Total		$ 3,286.0
University Direct Support Organizations		
Shands Teaching Hospital	411.6	
University of Central Florida	297.4	
University of South Florida	292.3	
University of Florida	138.7	
Florida State University	111.8	
Other State Universities	119.0	
Total		1,370.8
School Districts		81.6
Community College and Foundation		64.4
Water Management Districts		110.1
Florida Hurricane Catastrophe Financing Corporation		4,150.0
Citizens Property Insurance Corporation		5,200.0
Total State Indirect Debt		**$ 14,262.9**
New Issuance		
Florida Hurricane Catastrophe Financing Corporation		$ 3,500.0
Citizens Property Insurance Corporation		2,012.5
Total New Indirect Debt Issuance		**$ 5,512.5**

Figure 4

Insurance entities have issued $5.5 billion in debt since June 30, 2006 to provide liquidity to pay claims from any future hurricanes and to refinance debt used to pay prior hurricanes losses. Citizens Property Insurance Corporation and the Florida Hurricane Catastrophe Fund Finance Corporation have issued $2.0 billion and $3.5 billion, respectively, subsequent to the 2006 fiscal year as shown in Figure 4. The majority, $4.5 billion, of this debt was issued to provide short-term liquidity for paying hurricane loss claims, with the proceeds of these financings being held and invested pending future hurricane losses. The remaining $1 billion was issued to refinance debt used to pay prior hurricane losses.

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 ten years.

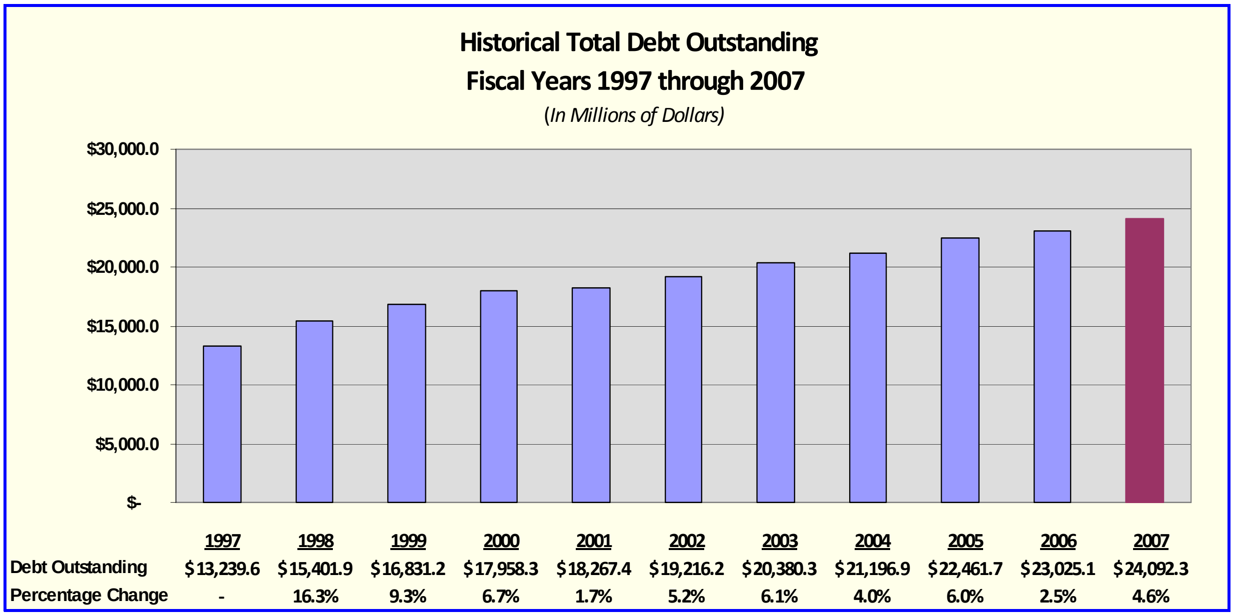


Figure 5

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 ten years, increasing from $13.2 billion at June 30, 1997 to $24.1 billion at June 30, 2007.*** The net increase was primarily due to the issuance of additional PECO bonds ($3.4 billion), lottery bonds ($2.0 billion), toll facility bonds ($1.4 billion), and Right-of-Way bonds ($1.2 billion).

Total debt increased $1.1 billion in Fiscal Year 2007 from approximately $23.0 billion at June 30, 2006, to $24.1 billion at June 30, 2007. The net increase in tax-supported debt is due primarily to additional borrowing for school construction, which accounted for 51% or $544.5 million of the increase over the prior year. Additional toll facility borrowing for transportation infrastructure ($526.5 million) accounted for the remaining increase in self-supporting debt outstanding over the prior year.

Annual net tax-supported debt service grew by $91.5 million, approximately the same as the ten-year average annual growth. The increase in debt service was consistent with the new money debt issuance during 2007 which approximated 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.

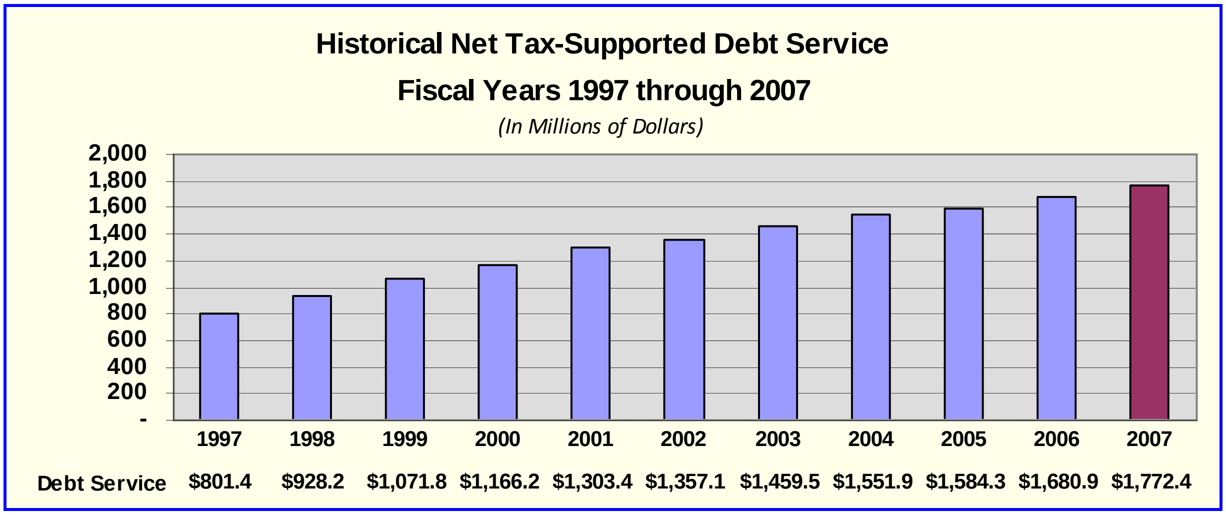
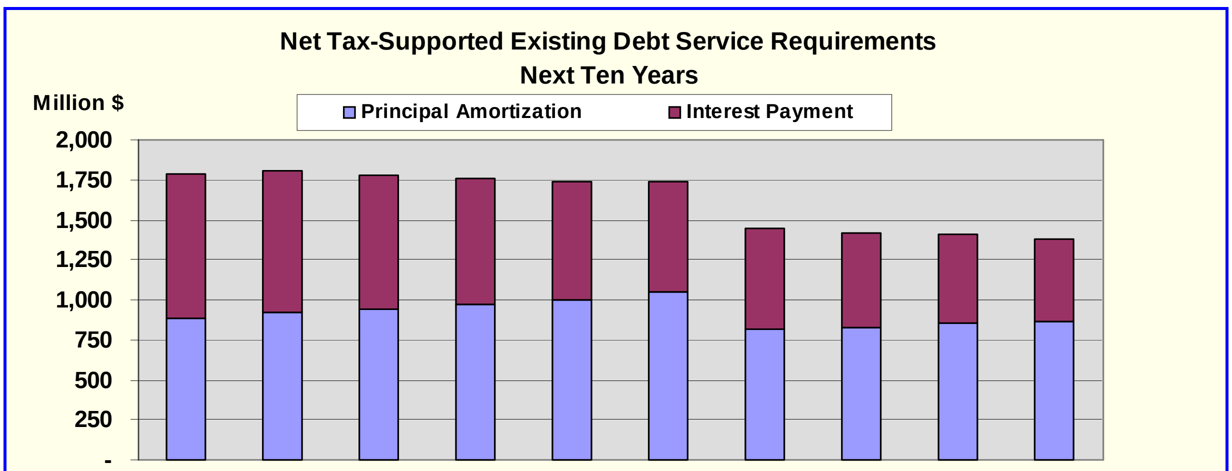


Figure 6

The State's annual debt service payments for existing net tax-supported debt is approximately $1.8 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 $801 million in 1997 to approximately $1.8 billion in 2007. 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. Payments for debt service on existing outstanding debt total $16.2 billion over the next ten years with principal payments of $9.1 billion and interest payments of $7.1 billion. The State policy of using a level debt service structure is apparent with annual debt service requirements of approximately $1.8 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.



(In Millions)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Principal	$ 886	$ 923	$ 944	$ 967	$ 1,005	$ 1,048	$ 811	$ 825	$ 854	$ 866	$ 9,129
Interest	904	879	834	787	738	686	632	591	550	508	7,109
Total	$ 1,790	$ 1,801	$ 1,778	$ 1,754	$ 1,743	$ 1,734	$ 1,443	$ 1,416	$ 1,404	$ 1,374	$ 16,238

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 2008 through 2017

(In Millions of Dollars)

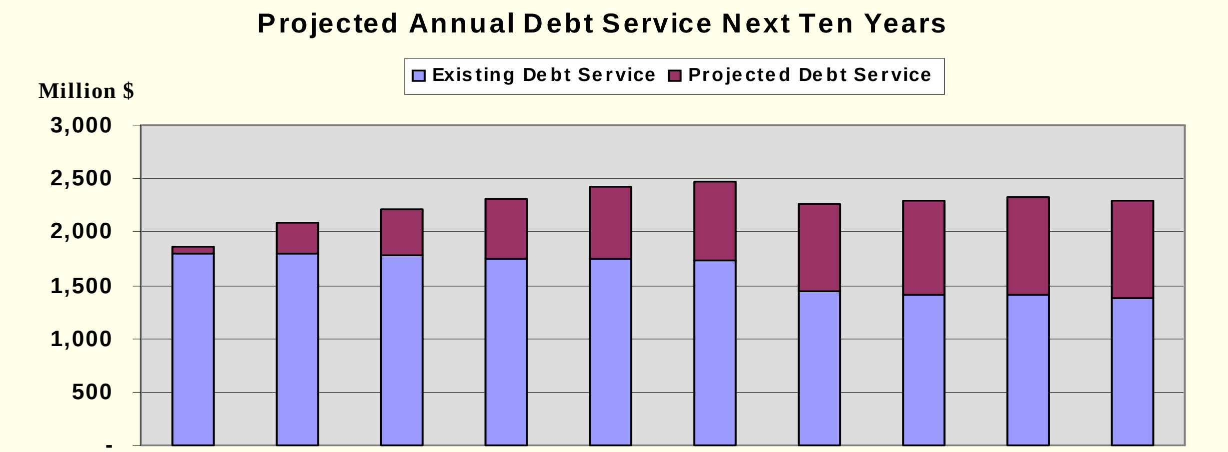
Fiscal Year	PECO	Capital Outlay	Lottery	Florida Forever	Everglades	ROW	Garvee	Fixed Guideway	Affordable Housing	Correctional Facilities	Facilies	Master Lease	Total Issuance
2008	$ 666.3	$ -	$ 450.0	$ 300.0	$ 100.0	$ -	$ -	$ -	$ -	$ 77.5	$ -	$ 25.0	$ 1,618.8
2009	850.0	40.0	855.0	300.0	200.0	200.0	-	-	-	-	35.0	25.0	2,505.0
2010	818.9	-	-	400.0	-	290.0	150.0	173.0	-	-	-	25.0	1,856.9
2011	1,691.1	-	-	-	-	70.0	-	-	-	-	-	-	1,761.1
2012	551.0	-	-	-	-	285.0	300.0	-	-	-	-	-	1,136.0
2013	435.2	-	-	-	-	350.0	100.0	-	-	-	-	-	885.2
2014	722.0	-	-	-	-	-	300.0	-	-	-	-	-	1,022.0
2015	592.4	-	-	-	-	-	225.0	-	-	-	-	-	817.4
2016	461.3	-	-	-	-	-	50.0	-	100.0	-	-	-	611.3
2017	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	$ 6,788.2	$ 40.0	$ 1,305.0	$ 1,000.0	$ 300.0	$ 1,195.0	$ 1,125.0	$ 173.0	$ 100.0	$ 77.5	$ 35.0	$ 75.0	$ 12,213.7

Figure 8

Approximately $12.2 billion of debt is expected to be issued over the next ten years for all of the State's currently authorized financing programs. Estimated debt issuance is approximately $1.0 billion more than the previous projection. Debt for the Class Size initiative (Lottery) is expected to increase by $650 billion and transportation infrastructure financing (GARVEE and Fixed Guideway) is expected to increase by $673 million. However, the total increase is reduced by the reduction of outstanding authorizations for environmental and various other programs. It is important to note that no additional debt beyond that currently authorized by the Legislature has been included in the projections. Any borrowing to fund the constitutional initiative to reduce school class size or other programs would be in addition to the $12.2 billion expected borrowing detailed above.

PROJECTED DEBT SERVICE

Annual debt service is estimated to grow to approximately $2.5 billion by Fiscal Year 2013 and decline thereafter, based on existing debt service and projected bond issuance. 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.



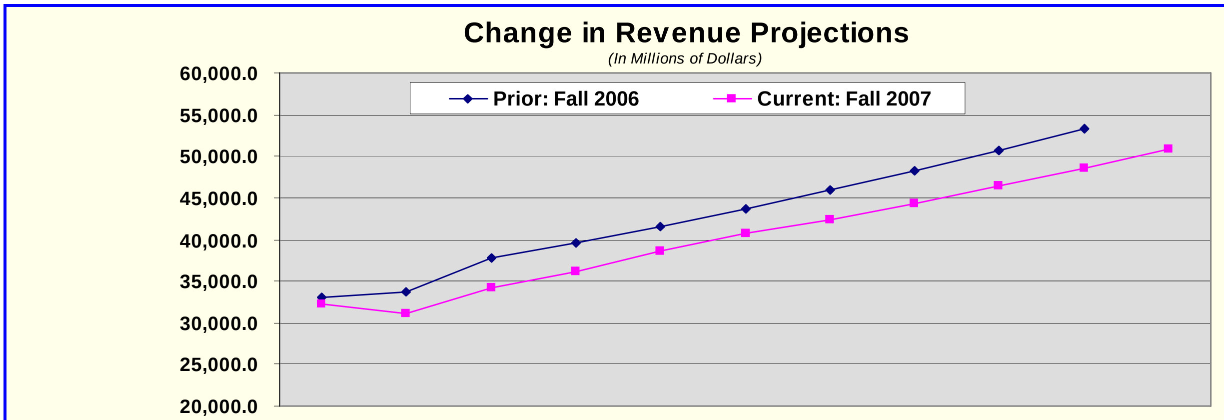
(In Millions)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Existing	$ 1,790	$ 1,801	$ 1,778	$ 1,754	$ 1,743	$ 1,734	$ 1,443	$ 1,416	$ 1,404	$ 1,374
Projected	75	279	436	549	673	734	812	875	918	924
Total	$ 1,865	$ 2,081	$ 2,214	$ 2,303	$ 2,416	$ 2,469	$ 2,256	$ 2,292	$ 2,322	$ 2,298

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***. Short-term Revenue Estimating Conference projections were reduced in the Spring 2007 conference, again at a special conference in August 2007 and recently in the Fall 2007 conference. ***Estimated revenues for 2008 were reduced by $2.6 billion or 7.6% and $3.6 billion or 9.5% for 2009.***

Figure 10 sets forth the estimated revenues available to pay debt service for the next ten 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. Changes in the economic environment over the past year include: (1) further deterioration in the housing market exacerbated by sub-prime financial shock and credit tightening; (2) slowing population growth and Florida's vulnerability to the real estate market; and, (3) reduced disposable spending due to increased energy prices. The adverse economic factors primarily impact corporate income tax, documentary stamp tax and sales tax collections.



Total Revenues Available	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Current: Fall 2007 Projection	$32,302.1	$31,111.4	$34,160.8	$36,244.8	$38,602.6	$40,689.2	$42,414.3	$44,355.4	$46,379.9	$48,623.8	$50,898.2
Prior: Fall 2006 Projection	33,001.5	33,687.9	37,738.6	39,529.4	41,546.2	43,730.2	45,879.4	48,228.3	50,654.4	53,337.5	-
Reduction in Projection	(699.4)	(2,576.5)	(3,577.8)	(3,284.6)	(2,943.5)	(3,041.0)	(3,465.1)	(3,873.0)	(4,274.5)	(4,713.7)	-
Percentage Reduction	(2.1)%	(7.6)%	(9.5)%	(8.3)%	(7.1)%	(7.0)%	(7.6)%	(8.0)%	(8.4)%	(8.8)%	-

Figure 10

Actual revenues available for Fiscal Year 2007 totaled $32.3 billion or $680 million under the Fiscal Year 2006 amount of $33.0 billion. This was the first year over year decrease in collections in more than 30 years. The reduction in near term annual revenues is $2.6 billion for 2008 and $3.6 billion in 2009 from the projection last year. The implementation of the GARVEE program adds $1.9 billion in federal revenue sharing monies as available revenues starting in 2009 which partially offsets the decrease in revenues in 2010 through 2017. The decrease in available revenues causes a deterioration in the expected benchmark ratio. While short-term outlooks have worsened, growth rates are anticipated to return to more normal levels in 2009. However, estimated revenue collections are not anticipated to exceed the Fiscal Year 2006 level until Fiscal Year 2010.

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 and illustrates the change from the prior projection. From 1997 through 2003 the ratio increased, exceeding the 6% target in 2003. Then the benchmark ratio declined from 2004 through 2006, with the improvement primarily attributed to strong revenue growth. The projected benchmark debt ratio for the next ten years is based on the most current expected debt issuance and revenue projections.

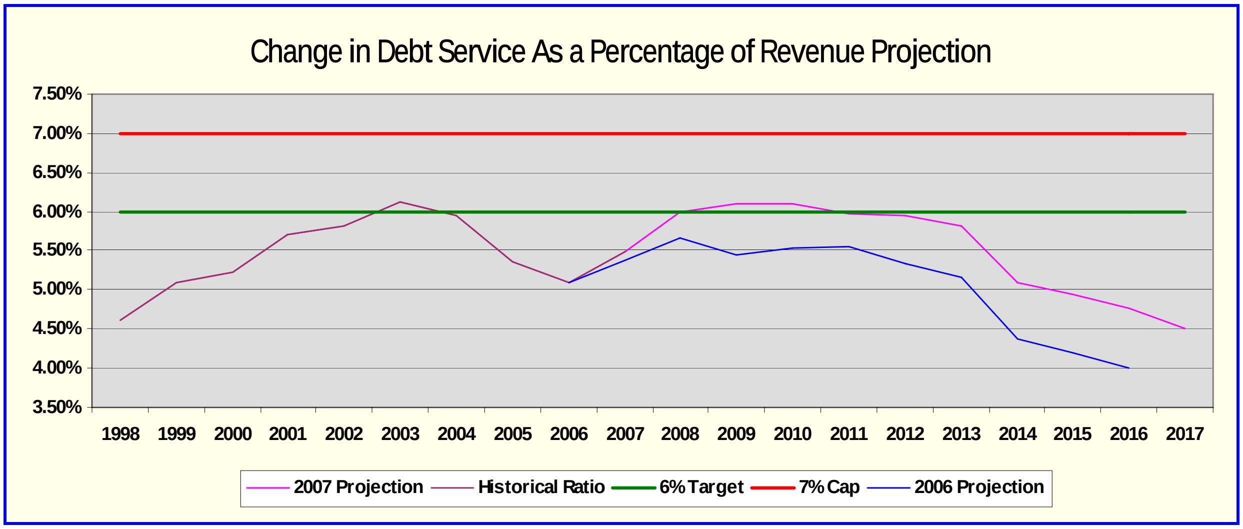


Figure 11

The State's debt position measured by the benchmark debt ratio was 5.49% at June 30, 2007, increasing from 5.10% at June 30, 2006. The benchmark ratio is projected to reach the 6% target in 2008 and remain at or over the 6% target through 2010 based on existing borrowing plans, current revenue forecasts and economic outlook. After a projected increase in the benchmark debt ratio for the next two years, projections indicate an improvement in the State's debt position. The improvement of the benchmark debt ratio is dependent on realizing the revenue growth included in the revenue projections.

Change in Benchmark Ratio Projection

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Prior Projection	5.38%	5.66%	5.44%	5.54%	5.55%	5.35%	5.17%	4.38%	4.19%	4.00%	-
2007 Projection	5.49%	5.99%	6.09%	6.11%	5.97%	5.94%	5.82%	5.09%	4.94%	4.78%	4.51%
Change in Projection	0.11%	0.34%	0.65%	0.57%	0.42%	0.59%	0.65%	0.71%	0.75%	0.77%	-

Figure 12

The 2007 deterioration in the benchmark debt ratio is primarily due to lower than expected revenue collections in Fiscal Year 2007. The projected benchmark debt ratio increased from 5.66% to 5.99% for the current fiscal year and from 5.44% to 6.09% for next fiscal year. Projected bond issuance does include additional borrowing for transportation and a new financing program for commuter rail facilities. However, the benchmark ratio does not reflect any additional borrowing which may be necessary to complete the implementation of the constitutional amendment requiring reduced school class sizes beyond the $650 million authorization for Lottery Revenue bonds made during the 2007 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 and the new financing program for commuter rail facilities. Debt capacity can change significantly due to changes in revenue estimates reflecting a different economic environment as it did in the current fiscal year. The debt capacity available over the next ten fiscal years within the 6% target totals $12.6 billion, $3.7 billion less than the prior projection. ***No appreciable debt capacity is available over the next three years within the 6% target.*** 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	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Total Capacity	$ 1,618.8	$ 2,505.0	$ 2,006.9	$ 1,961.1	$ 1,786.0	$ 5,085.2	$ 2,222.0	$ 2,217.4	$ 2,736.3	$ 2,650.0	$ 24,788.7
Expected Issuance	$ 1,618.8	$ 2,505.0	$ 1,856.9	$ 1,761.1	$ 1,136.0	$ 885.2	$ 1,022.0	$ 817.4	$ 611.3	$ -	$ 12,213.7
Available Capacity	-	-	150.0	200.0	650.0	4,200.0	1,200.0	1,400.0	2,125.0	2,650.0	12,575.0

Figure 13

Based on the 6% target benchmark debt ratio, the total bonding capacity over the next ten years would be $24.8 billion. As shown previously, the expected debt issuance for the next ten fiscal years under existing programs is estimated to be approximately $12.2 billion, not including any additional bonding needed to implement class size reductions. This leaves approximately $12.6 billion of debt capacity available over the next ten years which represents a $3.7 billion decrease in available debt capacity over last year's estimate. ***The reduction in debt capacity is due to the significant reduction in long-run revenue estimates and the $1.0 billion increase in expected issuance over the prior estimate***. The reduction in short-term revenues will cause expected issuance to exceed total capacity available within the 6% target for 2008 and 2009.

Debt Capacity for 7% Cap Benchmark Ratio

(In Millions of Dollars)

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
Total Capacity	$ 3,868.8	$ 4,380.0	$ 2,181.9	$ 2,836.1	$ 2,011.0	$ 5,335.2	$ 2,522.0	$ 2,467.4	$ 3,061.3	$ 3,000.0	$ 31,663.7
Expected Issuance	$ 1,618.8	$ 2,505.0	$ 1,856.9	$ 1,761.1	$ 1,136.0	$ 885.2	$ 1,022.0	$ 817.4	$ 611.3	$ -	$ 12,213.7
Available Capacity	$ 2,250.0	$ 1,875.0	$ 325.0	$ 1,075.0	$ 875.0	$ 4,450.0	$ 1,500.0	$ 1,650.0	$ 2,450.0	$ 3,000.0	$ 19,450.0

Figure 14

Figure 14 shows the additional capacity under the 7% cap for the benchmark ratio which could be available to address State infrastructure needs. The debt capacity available over the next ten fiscal years within the 7% cap totals $19.5 billion. ***The near term additional debt capacity available through 2011 is $5.5 billion.*** The available debt capacity, between the 6% target and the 7% cap serves as a cushion against further economic weakening and associated revenue reductions. The estimated debt capacity should be considered a scarce resource to be used sparingly to provide funding for critical State infrastructure needs. Once used, the capacity is not available again for twenty years. Additionally, 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.

2006 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	**5.10%**	**$979**	**2.84%**
Peer Group Mean	**4.03%**	**$1,449**	**3.89%**
National Median	**Not Available**	**$787**	**2.40%**

Figure 15

Florida's debt ratios are generally higher than the national averages but lower than the peer-group averages. However, the ten-state peer group comparison as shown in Figure 16 shows that Florida's benchmark debt ratio of debt service as a percentage of revenues is higher than the peer group average.

2006 Comparison of Florida to Ten Most Populous States

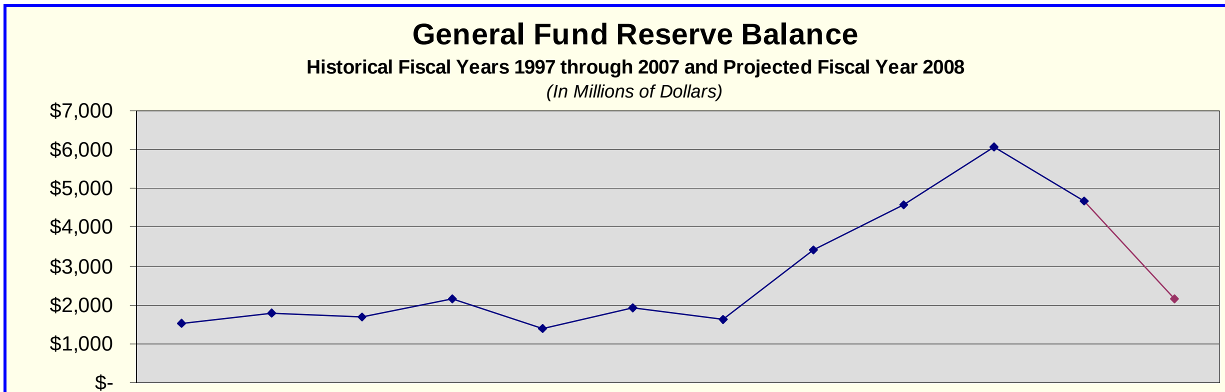
	Net Tax Supported Debt Service Rank	Net Tax Supported Debt Service as a % of Revenues	Net Tax Supported Rank	Net Tax Supported Debt Per Capita	Net Tax Supported Debt Rank	Net Tax Supported Debt as a % of Personal Income	General Obligation Ratings Fitch/Moody's/S&P3
New York	1	7.48%	2	$2,694	2	6.70%	AA-/A1/AA
Illinois	2	6.26%	3	$1,976	3	5.50%	AA/Aa3/AA
Georgia	3	5.77%	7	$916	7	3.00%	AAA/Aaa/AAA
Florida	**4**	**5.10%**	**5**	**$979**	**5**	**2.84%**	**AA+/Aa1/AAA**
Ohio	5	5.05%	6	$974	6	3.00%	AA+/Aa1/AA+
California	6	4.85%	4	$1,623	4	4.40%	A+/A1/A+
New Jersey	7	4.76%	1	$3,317	1	7.60%	AA-/Aa3/AA-
Michigan	8	2.75%	9	$747	9	2.20%	AA-/Aa3/AA-
Pennsylvania	9	1.97%	8	$852	8	2.40%	AA/Aa2/AA
Texas	10	1.40%	10	$415	10	1.30%	AA+/Aa1/AA
Median		**4.95%**		**$977**		**3.00%**	
Mean		**4.54%**		**$1,449**		**3.89%**	

Figure 16

Figure 16 details the Ten Most Populous State Peer Group Comparison for the three debt ratios evaluated. As indicated above, ***Florida is in the middle of the group for each debt ratio. The State remained the fourth highest ratio for the benchmark debt ratio of debt service to revenues*** and fifth for each of the two other debt ratios for 2006.

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 2008.



	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General Fund	$ 1,509.9	$ 1,786.8	$ 1,694.3	$ 2,155.9	$ 1,382.7	$ 1,925.1	$ 1,641.3	$ 3,423.6	$ 4,569.8	$ 6,081.2	$ 4,682.1	$ 2,159.4
% of Revenues	9.6%	10.5%	9.5%	11.5%	7.2%	10.0%	8.2%	15.7%	18.3%	22.5%	17.7%	8.5%

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. ***Florida's level of reserves results from conservative financial management practices and has been cited by the credit rating agencies as a credit strength.*** 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 are included in the calculation. Trust fund balances which could be considered a "reserve", such as moneys in the Lawton Chiles Endowment Fund and other trust fund balances whose purpose is limited by law are not included. However, trust fund balances have been used as a source of revenues in prior periods of economic weakness to mitigate spending reductions from declining revenues.

Florida's general fund reserves increased substantially from 2003 through 2006 to an extraordinarily high level of $6.1 billion or 22.5% of general revenues. The growth in reserves strengthened the State's financial position. Reserves in the amount of $1.4 billion were used in 2007 to offset spending reductions from declining revenues caused by a weakening economy. ***However, the State ended Fiscal Year 2007 with general fund reserves of $4.7 billion or a strong 17.7% of general revenues.***

An estimated $2.5 billion of reserves is expected to be used in the current year to compensate for declining revenues. ***The level of reserves is expected to decrease in Fiscal Year 2008 to a projected balance of approximately $2.2 billion or an adequate 8.5% 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 has very strong credit ratings on its general obligation bonds with the highest rating of "AAA" by Standard and Poor's Ratings Services and the next to highest rating category of AA+ and AA1 by Fitch Ratings and Moody's Investors Service. The strong ratings reflect the State's conservative financial and budgetary practices including spending reductions when necessary, strong economic and financial performance over the last three years, maintenance of substantial reserves, and rising but still moderate debt burden with clear guidelines and a fully funded pension plan. Additionally, Florida remains in the top tier (the top 20%) of all states according to a quantitative scorecard-ranking system developed by Moody's Investors Service.

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 or governance framework. Weakness in one area may well be offset by strength in another. However, significant variations in any single factor can influence a bond rating.

Economic growth and diversification of the economic base have been important elements of the State's credit rating. The State has experienced substantial revenue growth, reflecting the strength of the economy. However, revenue growth has abated, reflecting a weakening of the economy precipitated by a slow-down in the housing market exacerbated by the credit tightening from the sub-prime mortgage crisis. Revenue collections in Fiscal Year 2007 were $32.3 billion, $680 million or 2.1% less than fiscal 2006 revenue collections. Additionally, the last three revenue estimating conferences (March, August and November 2007) have promulgated lower revenue projections. The revenue reductions projected for Fiscal Year 2008 total $2.6 billion or 7.6% less than last year's forecast.

The State has historically responded quickly to lower revenue projections with spending reductions and revised budget plans. This has been recognized by the rating agencies as a credit strength and the State responded in this manner to the lower August revenue projections. However, it may be increasingly difficult to balance the budget using reserves or taking corrective action to avoid budget shortfalls if revenues continue declining.

The outlook for the State's credit rating is stable. The rating agencies note that the State has been able to adjust spending plans in response to declining revenues and still maintain adequate reserves. However, the State continues to face budgetary pressure for infrastructure and service related needs of a growing population. ***How the State responds to these challenges in the future will be monitored closely and evaluated by the rating agencies in determining the outlook for the State's credit ratings.***

CONCLUSION

Florida's debt increased $1.1 billion over the past year, growing by the same amount as the average annual increase in debt over the last ten years. ***The expected future debt issuance under existing programs over the next ten years totals $12.2 billion, $1.0 billion more than last year.*** The expected debt issuance does not include any additional bonding authorizations to fund the constitutional mandate to reduce school class-size.

The benchmark debt ratio was 5.49% at June 30, 2007, below the 6% target but increasing from 5.1% last fiscal year. ***The benchmark debt ratio is projected to reach 5.99% for 2008 and peak at 6.11% in 2010 before improving.*** The increase in the benchmark debt ratio is primarily attributable to lower revenue projections reflecting a weakening economy caused by the slowdown in the housing market. The projected revenue reductions caused a significant increase in the projected benchmark debt ratio from 5.66% to 5.99% in 2008 and from 5.44% to 6.09% in 2009. The projected benchmark debt ratio is reasonably consistent with the 6% target and well within the 7% cap based on existing borrowing plans and current revenue projections. The projected benchmark debt ratio should be used as a general guide and consideration by the Legislature when evaluating future debt authorizations.

The projected debt capacity available over the next ten years within the 6% target is $12.6 billion, but there is no meaningful debt capacity available over the next three years. The projected debt capacity available over the next ten years within the 7% cap is approximately $19.5 billion with $5.5 billion being available over the next three years. The debt capacity available within the 7% cap serves as a cushion against further revenue declines and should be used only to fund critical needs.

State revenues available for debt service declined by $680 million in the 2007 fiscal year from $33 billion in 2006 to $32.3 billion in 2007. Additionally, projected revenues for 2008 and 2009 were revised downward three times over the last year. Estimated revenues were reduced by $2.6 billion or 7.6% for the current fiscal year and $3.6 billion or 9.5% for next fiscal year. ***The projected revenue reductions caused an increase in the projected benchmark debt ratio and a decrease in debt capacity available.*** The Legislature responded to the declining revenue forecast, consistent with its historically conservative financial management practices, by reducing spending and transferring or redirecting general fund revenues to avoid a budget shortfall. This corrective action is consistent with the State's high credit rating and served to preserve the stable outlook despite decreasing revenues and a weakening economy.

The State's general fund reserves decreased by $1.4 billion during Fiscal Year 2007 to approximately $4.7 billion or 17.7% of general fund revenues. Available reserves were used to mitigate the impact of lower revenues as the economy slowed due to a softening real estate market. The judicious use of reserves for operating expenditures is expected during periods of declining revenues and economic weakening. ***The general fund reserves are expected to decrease again in Fiscal Year 2008 to $2.2 billion or 8.5% of general revenues absent any further legislative action to reduce current year appropriations. This level of reserves is considered adequate according to rating agency guidelines.***

Florida's debt continues to increase but at a slower rate than the national average. 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 school class size and budgetary pressures from lower revenues, decreasing reserves and the needs of a growing population.