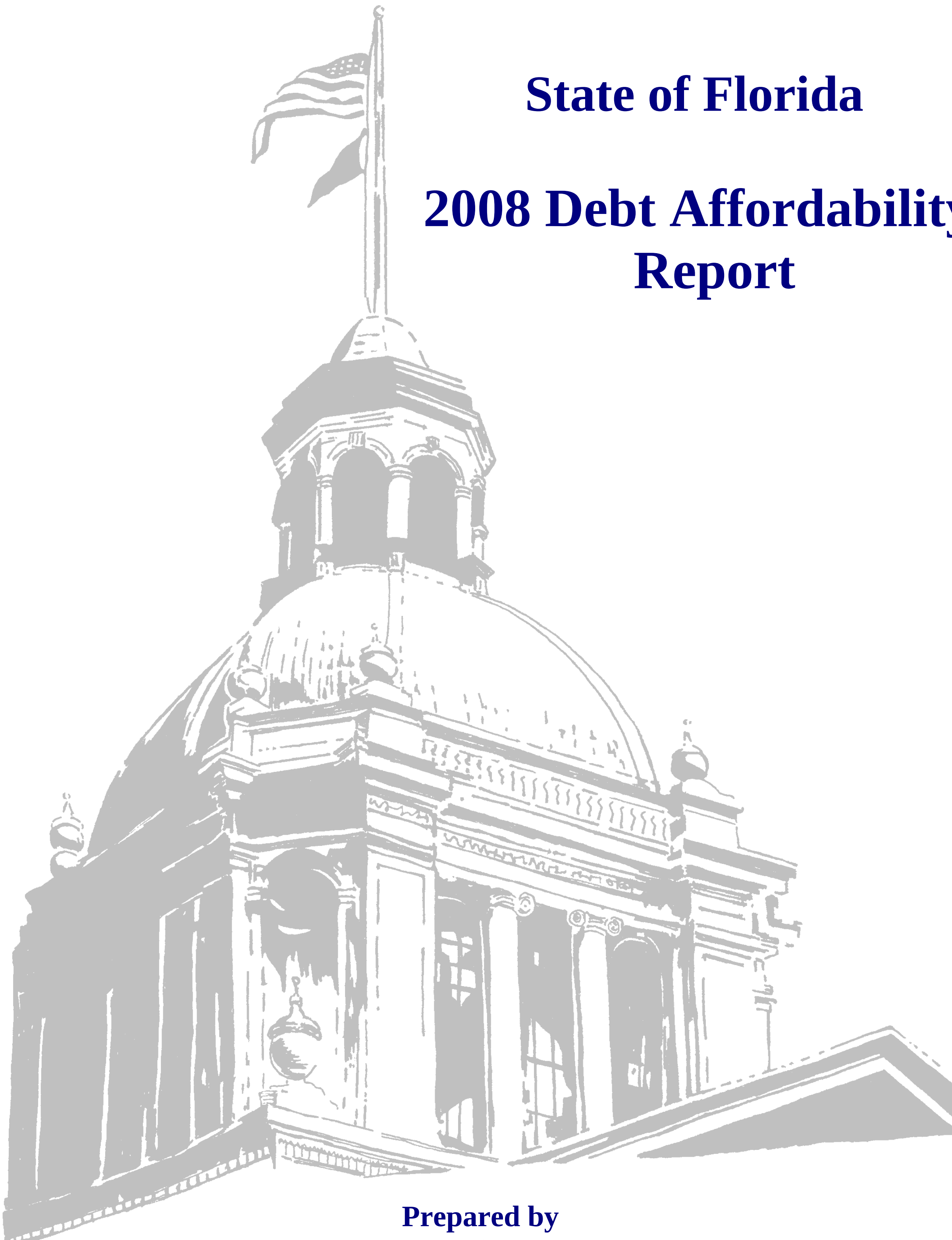
State of Florida

2008 Debt Affordability Report



Prepared by
The Division of Bond Finance
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EXECUTIVE SUMMARY

The purpose of this 2008 Debt Affordability Report is to review changes in the State's debt position over the last year and revise projections used to measure the financial impact of declining revenues and future debt issuance. The 2008 Debt Affordability Report has been prepared as required by Section 215.98, Florida Statutes.

Debt Outstanding: **Total State debt outstanding was $24.3 billion at June 30, 2008.** Net tax-supported debt totaled $20.3 billion for programs supported by State tax revenues or tax-like revenues. Self-supporting debt totaled $4.0 billion, representing debt secured by revenues generated from operating bond financed facilities. Additionally, indirect State debt at June 30, 2008 was approximately $16.6 billion. Indirect debt is debt that is not secured by traditional State revenues or is the primary obligation of a legal entity other than the State. Indirect debt has become a much more significant part of the State's overall debt profile due to borrowing by insurance-related entities such as Citizens Property Insurance Corporation and the Florida Hurricane Catastrophe Fund Finance Corporation. However, indirect debt is **not** a component of State debt ratios or the debt affordability analysis.

Estimated Revenues: Revenue collections in Fiscal Year 2008 of $28.7 billion were $1.0 billion less than Fiscal Year 2007 revenues. Additionally, revenue projections were reduced three times over the past year with **current year revenues decreased by $5.4 billion or 15.8% and next fiscal year revenues decreased by $7.3 billion or 20.2%**. The reductions in revenue projections are due to (1) constrained housing market, consumer spending and business investment caused by the virtual shut-down of credit markets; (2) the impact of the global recession on business expenditures in addition to a dampening in tourism and export growth; and, (3) the pressure on discretionary spending from the deterioration of wealth from increased job losses, the continued decline of home values and investment assets.

Estimated Debt Issuance: **Approximately $13.4 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 $1.2 billion or 9% more than the previous projection of expected debt issuance. Continuation of the environmental programs is expected to add debt for Florida Forever and Everglades Restoration in the amount of $2.4 billion and $1.1 billion, respectively, over the projection period. The additional bonding for the environmental programs is offset by a decrease for debt issued during Fiscal Year 2008.

Estimated Annual Debt Service Requirements: **Debt service payments now total approximately $1.9 billion per year.** During Fiscal Year 2008, annual debt service requirements increased by $129.7 million which is greater than the average annual increase of $97 million over the last ten years. The increase in debt service was due to the $2.4 billion of debt issued over the past year. Annual debt service payments are estimated to increase by 32% from $1.9 billion to $2.5 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. However, Moody's Investor Services and Fitch Ratings have changed their rating outlook from stable to negative.** Additionally, the projected budget deficit and actions taken to address the projected deficit will be an important rating consideration. 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 ratings are presented by the projected budget deficit, a weaker economy and declining revenues,**

budgetary pressure for infrastructure and service-related needs and the need to maintain adequate reserves. The State's response to these challenges will be closely monitored and evaluated by the rating agencies in determining the State's future ratings.

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 $1.7 billion or 6.9% of general revenues at June 30, 2008 which is considered adequate.** During the Fiscal Year 2008, $3.0 billion of reserves were used to offset declines in revenue collections. **Reserves are expected to decrease further in Fiscal Year 2009 and could be depleted without legislative budget reductions and other actions taken in response to reduced revenues.** Adequate reserves have been critical in providing the financial flexibility to react to declining revenues and an important factor in maintaining the State's ratings.

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 5.49% for Fiscal Year 2007 to 6.38% for Fiscal Year 2008.** The increase in the benchmark debt ratio is due to lower revenue collections and increased debt service during Fiscal Year 2008. **The benchmark debt ratio is projected to reach the 7.18% for 2009 and peak at 7.96% for 2010 before improving.** The projected benchmark ratio is expected to exceed the 7% cap through 2013 based on existing borrowing plans and current revenue forecasts. However, the benchmark debt ratio could increase further if revenues continue to decline.

2007 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	**5.49%**	**$986**	**2.68%**
Peer Group Mean	**4.77%**	**$1,492**	**3.79%**
National Median	**Not Available**	**$889**	**2.60%**

A comparison of 2007 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 has improved over the last ten years although the State remains in the middle of the peer-group. The State moved from second to the fifth highest ratio for the benchmark debt ratio of debt service to revenues within the peer group, from third to fifth highest in debt per capita, and from fifth to seventh highest in debt as a percentage of personal income.

Debt Capacity: **There is no debt capacity available within the 7% cap for the next three fiscal years based upon the current revenue projections and existing borrowing plans**. Debt capacity is not available until 2013 when annual debt service is reduced significantly due to the retirement of Preservation 2000 bonds. The estimated debt capacity available in 2013 is $4.0 billion. The debt capacity available within the 7% cap is approximately $17.2 billion over the next ten years. However, this available capacity will change based on future revenue projections and debt issuance.

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 appropriation committee by December 15th each year and, among other things, designates debt service to revenues as the benchmark 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 are 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 2008 Debt Affordability Report has been prepared to satisfy the requirements of Section 215.98, Florida Statues. ***The purpose of this 2008 Report is to review changes in the State's debt position over the past year and revise the projections of the benchmark debt ratio to evaluate the impact of declining revenues and future debt issuance.*** Performing the debt affordability analysis enables the State to monitor changes in its debt position. The 2008 Report also provides information regarding current revenue estimates that enables the State to anticipate and plan for changing economic conditions in its future borrowing plans.

The essence of the 2008 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-a-vis the 6% target and 7% cap. Lastly, ***the target benchmark debt ratio of 6% and the cap of 7% are used to calculate anticipated future debt capacity available within the respective limits.***

The information generated by this analysis 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 long-term fiscal health of the State.***

COMPOSITION OF OUTSTANDING FLORIDA DEBT

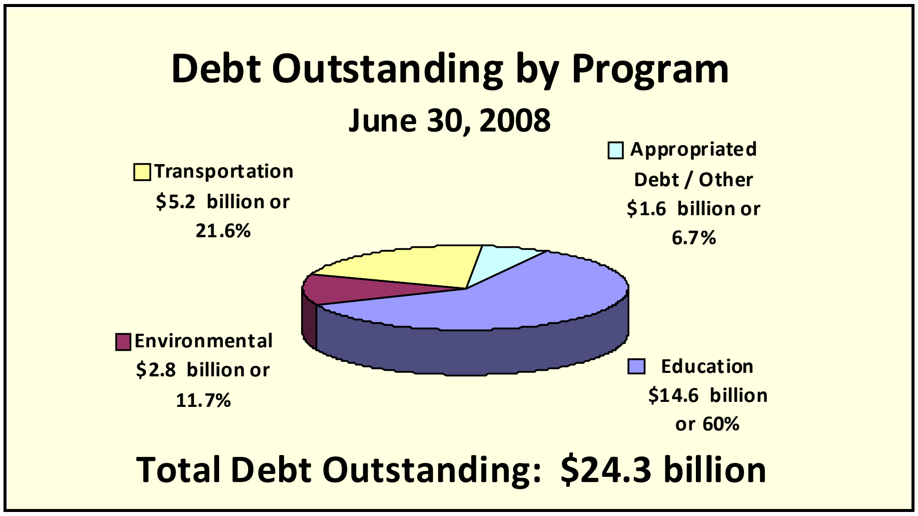


Figure 1

The State of Florida had $24.3 billion total debt outstanding at June 30, 2008. 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 $14.6 billion or 60% of total debt outstanding devoted to school construction. Public Education Capital Outlay or "PECO" is the State's largest bond program with $10.3 billion of debt outstanding, followed by Lottery with $2.6 billion of debt outstanding. The second largest investment area financed with bonds is for transportation infrastructure.[1] The transportation infrastructure financed with bonds consists primarily of toll roads. The combined investment in toll roads by Florida's Turnpike and the State's Expressway Authorities is approximately $3.0 billion. The third largest investment financed with bonds has been for acquiring land for conservation with $2.7 billion of bonds now outstanding for Preservation 2000/Florida Forever and Everglades Restoration.

As shown in Figure 2, ***the $24.3 billion debt outstanding at June 30, 2008 consisted of net tax-supported debt totaling $20.3 billion and self-supporting debt of $3.9 billion.*** Net tax-supported debt consists of debt secured by state tax revenue or tax-like revenue. Self-supporting debt is 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 programs with debt outstanding. The remaining self-supporting debt relates to university auxiliary enterprises such as dormitories and parking facilities.

[1] Transportation debt does not include outstanding debt of the Orlando-Orange County Expressway Authority as in previous debt affordability reports. The authority reported debt outstanding in the amount of $2.4 billion at June 30, 2008.

Debt Outstanding by Type and Program

As of June 30, 2008

(In Million Dollars)

Debt Type		Amount
Net Tax-Supported Debt		**$ 20,328.7**
Self-Supporting Debt		**$ 3,933.9**
Total State Debt Outstanding		**$ 24,262.6**

Net Tax-Supported Debt		
Education		
Public Education Capital Outlay	$ 10,330.2	
Capital Outlay	753.7	
Lottery	2,573.3	
University System Improvement	204.2	
Community Colleges	51.5	
Total Education		$ 13,912.8
Environmental		
Preservation 2000 / Florida Forever	2,492.1	
Everglades Revenue Bonds	195.9	
Conservation and Recreation	10.7	
Save Our Coast	34.2	
Total Environmental		2,732.9
Transportation		
Right-of-Way and Bridge Acquisition	1,737.4	
State Infrastructure Bank	27.5	
Florida Ports	300.8	
Total Transportation		2,065.7
Appropriated Debt / Other		
State Building Facilities	392.8	
Master Lease	26.5	
FLAIR Lease	19.0	
Energy Saving Contracts	37.2	
Prisons	290.8	
DMS Aircraft Lease	4.2	
Juvenile Justice	14.8	
Children & Families	135.3	
Radio Tower Lease	-	
Affordable Housing	251.6	
Pro-Sports Facilities	415.9	
Florida High Charter School	19.9	
Lee Moffitt Cancer Center	9.2	
Total Appropriated Debt / Other		1,617.3
Total Net Tax-Supported Debt Outstanding		**$ 20,328.7**
Self-Supporting Debt		
Education		
University Auxiliary Facility Revenue Bonds		$ 667.4
Environmental		
Florida Water Pollution Control		100.2
Transportation		
Toll Facilities	$ 2,964.1	
State Infrastructure Bank Revenue Bonds	85.0	
Road and Bridge	117.2	
Total Transportation		3,166.4
Total Self-Supported Debt Outstanding		**$ 3,933.9**

Figure 2

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.

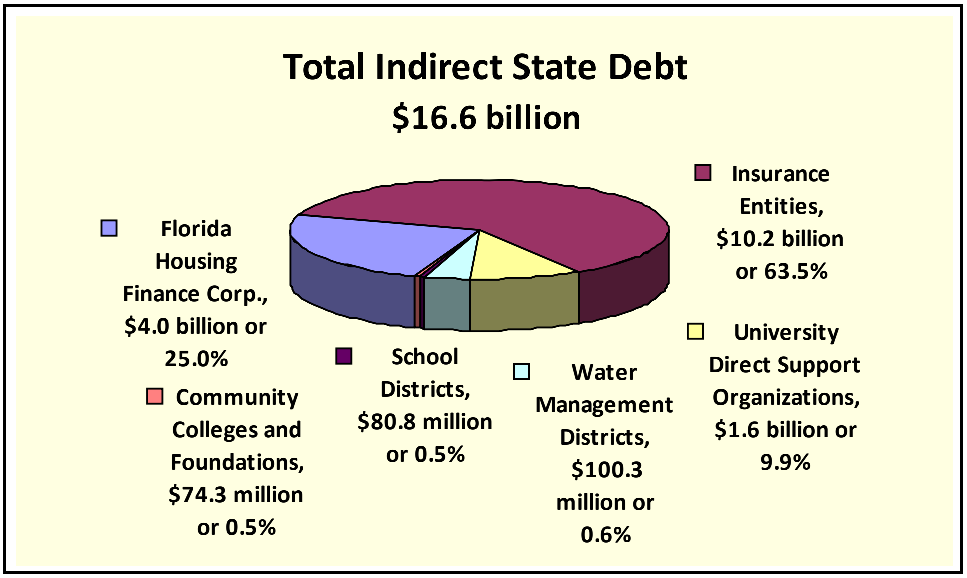


Figure 3

Indirect debt of the State totaled approximately $16.6 billion at June 30, 2008, $2.4 billion more than the previous year-end. The increase in indirect debt primarily relates to debt issued by the Florida Hurricane Catastrophe Fund Finance Corporation to provide liquidity to pay possible future hurricane losses and the issuance of affordable housing bonds. Figure 3 sets forth the State's indirect debt type. ***Special purpose, quasi-governmental insurance entities now represent $10.2 billion or 64% 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 $4 billion of debt outstanding or 25% of the total. University direct support organizations follow with 10% of the indirect debt.

State indirect debt by program is listed in Figure 4 to illustrate which entities incur such debt and for what purpose. For example, 59% of the Florida Housing Finance Corporation debt has been issued for multi-family housing projects and 41% for single family housing. University direct support organization debt makes up approximately 10% of total indirect debt of which 36% is debt of the Shands Teaching Hospital at the University of Florida.

Total Indirect State Debt by Program

(In Millions of Dollars)

Florida Housing Finance Corporation		
Single Family Programs	$ 1,653.8	
Multi-Family Programs	2,369.8	
Total		$ 4,023.7
University Direct Support Organizations		
Shands Teaching Hospital	574.8	
University of Central Florida	329.3	
University of South Florida	287.2	
University of Florida	136.6	
Florida State University	109.1	
Other State Universities	147.1	
Total		1,584.2
School Districts		80.8
Community Colleges and Foundations		74.3
Water Management Districts		646.4
Florida Hurricane Catastrophe Fund Finance Corporation		7,405.6
Citizens Property Insurance Corporation		2,828.8
Total State Indirect Debt		**$ 16,643.8**

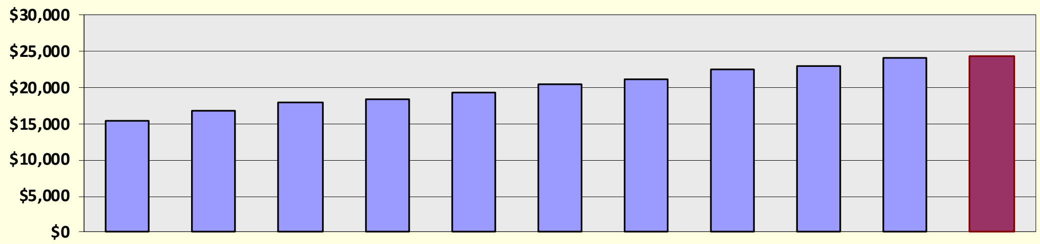
Figure 4

GROWTH IN STATE DEBT

Trends in debt are an important tool to evaluate debt levels over time. Figure 5 graphically illustrates the growth in total State direct debt over the last ten years.

Historical Total Debt Outstanding, Fiscal Years 1998 through 2008

(In Millions of Dollars)



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008[1]
Debt Outstanding	$15,401.9	$16,831.2	$17,958.3	$18,267.4	$19,216.2	$20,380.3	$21,196.9	$22,461.7	$23,025.1	$24,092.3	$24,262.6
Percentage Change	-	9.3%	6.7%	1.7%	5.2%	6.1%	4.0%	6.0%	2.5%	4.6%	0.7%

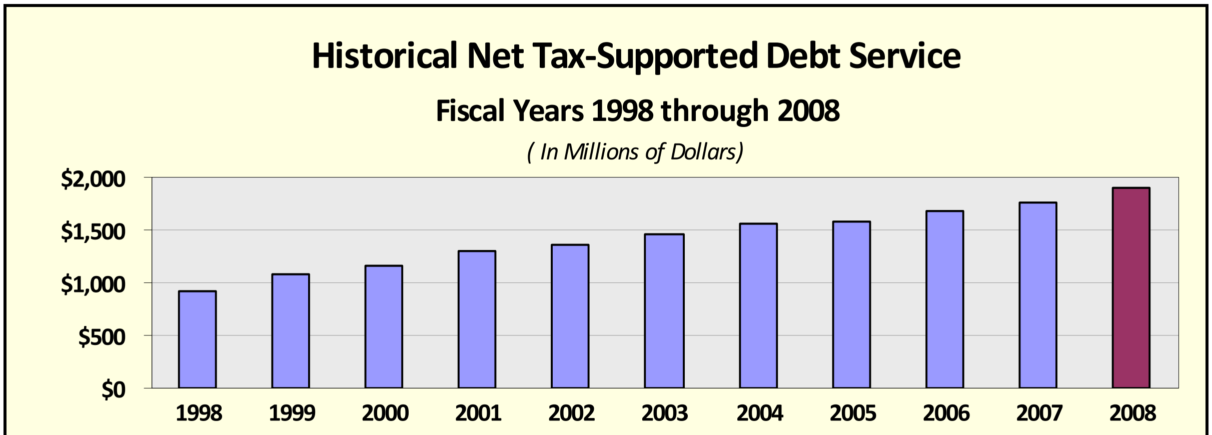
[1] Orlando-Orange County Expressway Authority debt in the amount of $2.2 billion is excluded from the debt outstanding for fiscal year ending June 30, 2008.

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 acquiring conservation lands. ***Total State direct debt has increased by nearly $9 billion over the last ten years, increasing from $15.4 billion at June 30, 1998 to $24.3 billion at June 30, 2008.*** The net increase was primarily due to the issuance of PECO bonds ($4.3 billion), lottery bonds ($2.5 billion), toll bonds ($1.2 billion), and Right-of-Way bonds ($700 million).

Total debt shows only a slight change from the $24.1 billion outstanding at June 30, 2007 because $2.2 billion of Orlando-Orange County Expressway Authority ("OOCEA") debt was excluded. However, net tax-supported debt increased by nearly $2.0 billion from June 30, 2007, with increased debt for school construction of $1.4 billion and for transportation infrastructure of $500 million. The increase in tax-supported debt is also attributable to the inclusion of $416 million for professional sports facilities. Self-supporting debt shows a decrease of $1.8 billion from the prior year because OOCEA debt of $2.2 billion has been excluded from the debt affordability analysis.

Annual net tax-supported debt service grew by $129.7 million, approximately 34% more than the ten-year average annual growth of $97 million. The increase in debt service is consistent with the above average new money debt issuance during 2008 of $2.4 billion. Figure 6 depicts the increase in yearly debt service payments caused by the increase in debt issuance over the last ten years.

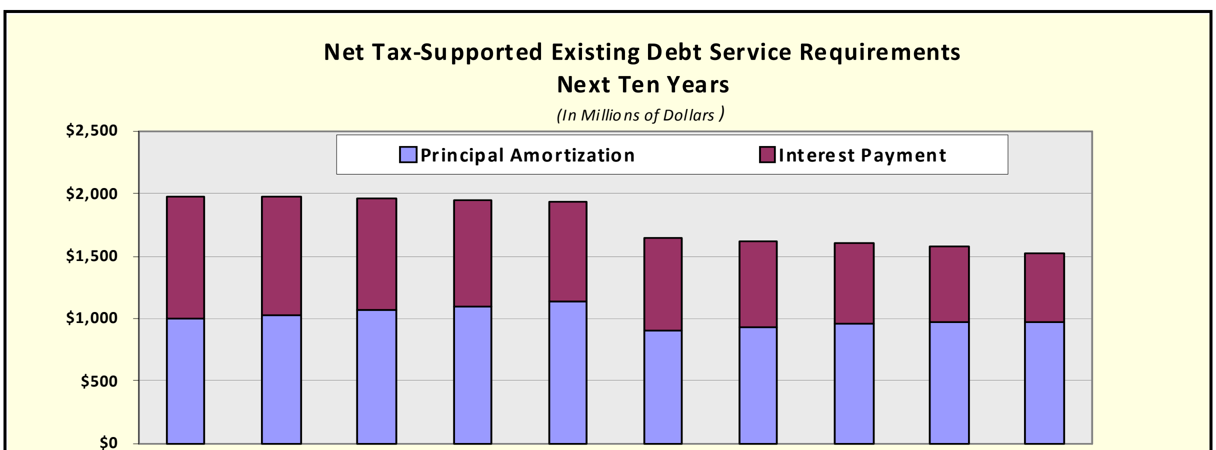


	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Debt Service	$928.2	$1,071.8	$1,166.2	$1,303.4	$1,357.1	$1,459.5	$1,551.9	$1,584.3	$1,680.9	$1,767.9	$1,897.5

Figure 6

The State's annual debt service payments for existing net tax-supported debt is approximately $1.9 billion per year. The State's annual debt service requirements have doubled over the last ten years, rising from approximately $928 million in 1998 to approximately $1.9 billion in 2008. The increased debt service reflects the increase in debt outstanding. 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 $17.8 billion over the next ten years with principal payments of $10.1 billion and interest payments of $7.7 billion. The State policy of using a level debt service structure is apparent with annual debt service requirements of approximately $1.9 billion per year over the next five years dropping to approximately $1.6 billion in 2014 due to the final maturity of Preservation 2000 bonds.



	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
Principal	$ 997	$ 1,025	$ 1,064	$ 1,096	$ 1,142	$ 909	$ 927	$ 959	$ 974	$ 972	$ 10,066
Interest	986	951	900	848	793	736	691	646	600	553	7,704
Total	$ 1,983	$ 1,976	$ 1,964	$ 1,944	$ 1,936	$ 1,644	$ 1,618	$ 1,605	$ 1,574	$ 1,525	$ 17,770

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 2009 through 2018

(In Millions of Dollars)

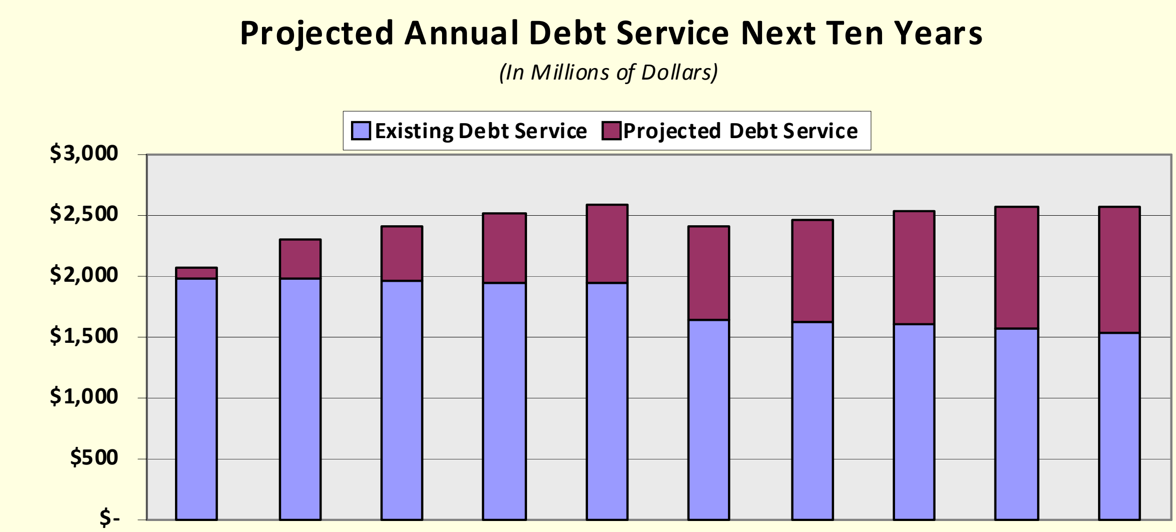
Fiscal Year	PECO	Capital Outlay	Lottery	SUS	Florida Forever	Everglades	ROW	Garvee	Fixed Guideway	Affordable Housing	Prison Facilities	Facilities	Financing Leases	Community College	Total Issuance
2009	$ 1,036.6	$ 50.0	$ 655.0	$ 60.0	$ 300.0	$ -	$ -	$ -	$ -	$ -	$ 190.0	$ 36.6	$ 25.0	$ 28.2	$ 2,381.4
2010	827.0	-	-	-	400.0	150.0	210.0	100.0	173.0	-	-	-	70.0		1,930.0
2011	769.0	-	-	-	300.0	150.0	100.0	-		-	-	-	50.0		1,369.0
2012	902.2	-	-	-	300.0	150.0	75.0	175.0	-	-	-	-	50.0	-	1,652.2
2013	538.6	-	-	-	300.0	150.0	200.0	50.0	-	-	-	-	-	-	1,238.6
2014	734.5	-	-	-	300.0	100.0	200.0	-	-	-	-	-	-	-	1,334.5
2015	584.4	-	-	-	300.0	100.0	-	-	-	-	-	-	-	-	984.4
2016	394.7	-	-	-	300.0	100.0	150.0	-	-	100.0	-	-	-	-	1,044.7
2017	281.9	-	-	-	300.0	100.0	-	-	-	-	-	-	-	-	681.9
2018	328.6	-	-	-	300.0	100.0	-	-	-	-	-	-	-	-	728.6
Total	$ 6,397.5	$ 50.0	$ 655.0	$ 60.0	$ 3,100.0	$ 1,100.0	$ 935.0	$ 325.0	$ 173.0	$ 100.0	$ 190.0	$ 36.6	$ 195.0	$ 28.2	$ 13,345.3

Figure 8

Approximately $13.4 billion 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 $1.2 billion or 9% more than the previous projection despite a reduction of $2.4 billion for debt issued last year. The increase in expected issuance is due to the authorization of $3.4 billion additional debt for extending the Florida Forever ($2.4 billion) and Everglades Restoration ($1.0 billion) environmental bond programs over the ten-year projection period. Expected bond issuance also includes the remaining Class size reduction initiative (Lottery) and transportation infrastructure financing (GARVEE and Fixed Guideway) programs.

PROJECTED DEBT SERVICE

Annual debt service is expected to grow to approximately $2.5 billion over the next three years based on existing debt service and projected bond issuance. This represents a 32% increase in annual debt service requirements. Figure 9 shows existing debt service and the estimated annual debt service for the projected bond issuance over the next ten fiscal years. The maximum annual debt service is projected to occur in 2013 at $2.6 billion. The projected decline in annual debt service requirements in 2014 results from the final maturity of the Preservation 2000 bonds.



	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Existing	$ 1,983	$ 1,976	$ 1,964	$ 1,944	$ 1,936	$ 1,644	$ 1,618	$ 1,605	$ 1,574	$ 1,525
Projected	83	325	443	561	657	762	837	920	984	1,041
Total	$ 2,066	$ 2,301	$ 2,408	$ 2,506	$ 2,592	$ 2,406	$ 2,455	$ 2,525	$ 2,558	$ 2,566

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 2008 conference, again at the August 2008 and recently in the Fall 2008 conference. ***Estimated general revenues for Fiscal Year 2009 were reduced by a total of $4.5 billion or 17% and $6.2 billion or 22% for Fiscal Year 2010.***

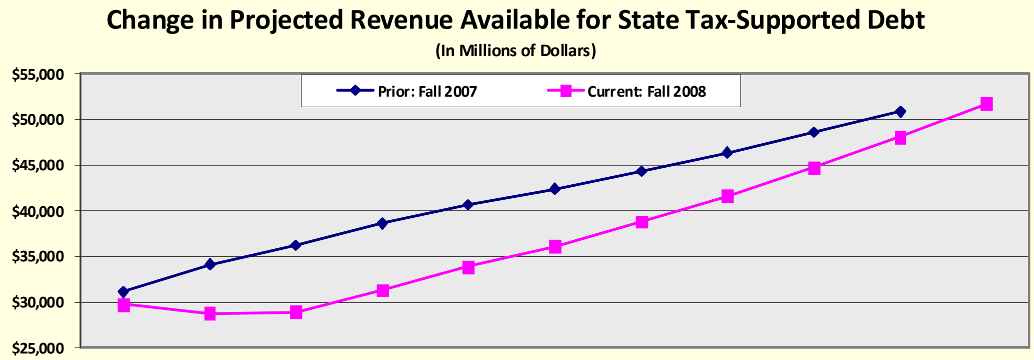
General revenues are available for debt service as well as specific tax revenues pledged to various bond programs such as: gross receipts taxes pledged to the PECO bonds, motor fuel taxes pledged to Right-of-Way bonds, and dedicated percentages of documentary stamp tax collections pledged to the Florida Forever and Everglades Restoration bond programs. Historical and short-term projections of revenues available for debt service by source is provided below.

Projected Revenue Available for State Tax-Supported Debt

	Actual		Projection		
Fiscal Year	2007	2008	2009	2010	2011
Revenue Available *(In Millions)* **:**					
General Revenue	$ 26,404.1	$ 24,112.1	$ 21,978.1	$ 22,322.2	$ 24,267.7
Specific Tax Revenue					
Gross Receipts	1,067.6	1,126.0	1,133.3	1,165.0	1,217.8
Motor Vehicle License	704.3	684.5	651.0	653.8	669.3
Lottery	1,256.4	1,279.8	1,189.5	1,177.2	1,200.3
Documentary Stamp Tax	1,705.8	1,371.4	811.0	782.8	875.3
Severance Tax	10.0	10.0	10.0	10.0	10.0
Motor Fuel Tax	1,097.9	1,091.7	1,061.5	1,099.9	1,152.2
Motor Vehicle License-Surcharge	18.3	18.3	18.1	18.1	18.4
University Net Bldg Fees & Cap. Impr.Fees	37.7	35.7	35.4	35.8	36.2
Community College Cap. Impr.Fees	-	13.7	14.5	14.8	15.1
Federal Funds Pledged to GARVEE bonds	-	-	1,870.6	1,640.6	1,809.4
Total State Revenue Available	**$ 32,302.1**	**$ 29,743.1**	**$ 28,773.1**	**$ 28,920.2**	**$ 31,271.6**

Figure 10

The projection of revenues available for debt service reflects the reductions in general revenues as well as changes in the forecasts of specific pledged revenues. Figure 11 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 (November Revenue Estimating Conference). Changes in the economic environment over the past year include: (1) constrained housing market, consumer spending and business investment caused by the virtual shut-down of credit markets; (2) the impact of a spreading national recession to a global recession on business expenditures in Florida in addition to dampening tourism and export growth; and (3) the pressure on discretionary spending from the deterioration of wealth from increased job losses, the continued decline of home values and investment assets.



Total Revenues Available	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Current: Fall 2008 Projection	$ 29,729.5	$ 28,773.1	$ 28,920.2	$ 31,271.6	$ 33,859.9	$ 36,141.9	$ 38,840.2	$ 41,641.3	$ 44,737.1	$ 48,116.8	$ 51,761.0
Prior: Fall 2007 Projection	$ 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	$ -
Reduction in Projection	(1,381.9)	(5,387.7)	(7,324.6)	(7,331.0)	(6,829.3)	(6,272.4)	(5,515.1)	(4,738.5)	(3,886.6)	(2,781.4)	
Percentage Reduction	(4.4)%	(15.8)%	(20.2)%	(19.0)%	(16.8)%	(14.8)%	(12.4)%	(10.2)%	(8.0)%	(5.5)%	

Figure 11

Actual revenues available for Fiscal Year 2008 totaled $29.7 billion or $2.6 billion under the Fiscal Year 2007 amount of $32.3 billion. This was the second consecutive year over year decrease in collections. This year over year revenue decline is the first experienced by the State in over thirty years. The reduction in near term annual revenues is $5.4 billion for 2009 and $7.3 billion in 2010 from the November 2007 projections. ***The decrease in available revenues causes a deterioration in the expected benchmark ratio.*** Underlying the current forecast is the assumption that the extreme financial stress since mid-September is relatively short-lived, but will be followed by months of little to no growth before gradual recovery begins in the spring of 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 1998 through 2003 the ratio increased, exceeding the 6% target in 2003. Then the benchmark ratio declined from 2004 through 2006, due to strong revenue growth. The increase in the benchmark ratio since 2007 illustrates the impact from lower revenues as the economic environment softened and continued to deteriorate as debt service increased. The projected benchmark debt ratio for the next ten years is based on the most current revenue forecasts and expected debt issuance.

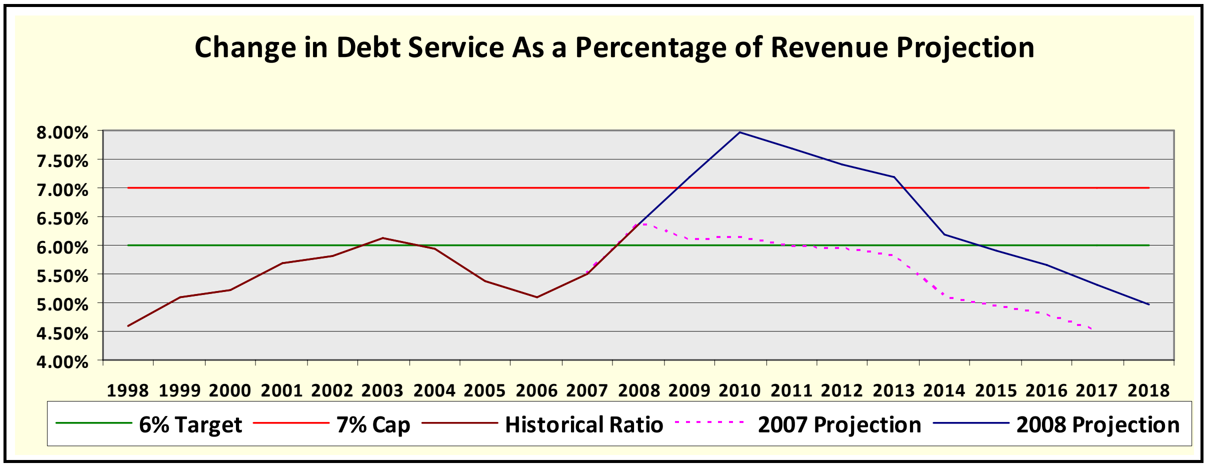


Figure 12

The State's debt position measured by the benchmark debt ratio exceeded the 6% target ratio reaching 6.38% at June 30, 2008, an increase from 5.49% at June 30, 2007. ***The benchmark ratio is projected to exceed the 7% cap in 2009 and remain over the 7% cap through 2013*** based on the current revenue forecasts and existing borrowing plans. 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.

Projected Benchmark Ratio

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
2008 Projection	6.38%	7.18%	7.96%	7.70%	7.40%	7.17%	6.19%	5.90%	5.64%	5.32%	4.96%

Figure 13

The 2008 deterioration in the benchmark debt ratio is due to the combined effect from the lower than expected revenue collections coupled with the increase in debt service from the $2.4 billion debt issued in Fiscal Year 2008. The projected benchmark debt ratio increased from 6.09% to 7.18% for Fiscal Year 2009 and from 6.11% to 7.96% for Fiscal Year 2010. Projected bond issuance includes a new authorization enacted by the 2008 Legislature totaling approximately $3.4 billion to extend Florida Forever and Everglades Restoration.

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. Debt capacity can change significantly due to changes in revenue estimates reflecting a different economic environment as it did in the current fiscal year. ***No debt capacity is available over the next three years because the benchmark debt ratio exceeds the 7% cap.***

Debt Capacity Analysis Ten Year Projection
6%Target; 7.0% Cap
(In Millions of Dollars)

	6% Target	7% Cap
Total Debt Capacity Available	$ 23,203.2	$ 30,553.2
Estimated Bond Issuance	$ 13,353.2	$ 13,353.2
Net Debt Capacity Available	$ 9,850.0	$ 17,200.0

Figure 14

Figure 14 shows that based on the 6% target the total bonding capacity over the next ten years would be $23.2 billion. As previously shown, the expected debt issuance for the next ten fiscal years under existing programs is estimated to be approximately $13.4 billion. This leaves approximately $9.9 billion of debt capacity over the next ten years, which represents a $2.7 billion decrease in available debt capacity over last year's estimate. ***The decrease in debt capacity is due to the addition of $2.9 billion in new debt for continuing the Florida Forever and Everglades Restoration programs authorized by the 2008 Legislature and reduced revenue projections.***

Figure 14 also shows the additional capacity under the 7% cap for the benchmark ratio which could be available to address State infrastructure needs. Total debt capacity within the 7% cap over the next ten years is estimated to be $17.2 billion***. However, there is no debt capacity available over the next three years. Approximately $4.0 billion of debt capacity becomes available in 2013 when annual debt service is reduced significantly due to the retirement of Preservation 2000 bonds.*** 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.

DEBT RATIO COMPARISON

There are three debt 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.

2007 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	**5.49%**	**$986**	**2.68%**
Peer Group Mean	**4.77%**	**$1,492**	**3.79%**
National Median	**Not Available**	**$889**	**2.60%**

Figure 15

Florida's debt ratios are generally higher than the national averages but consistent with the peer-group averages. However, the ten-state peer group comparison as shown in Figure 15 shows that Florida's benchmark debt ratio of debt service as a percentage of revenues is higher than the peer group average.

2007 Comparison of Florida to Ten Most Populous States

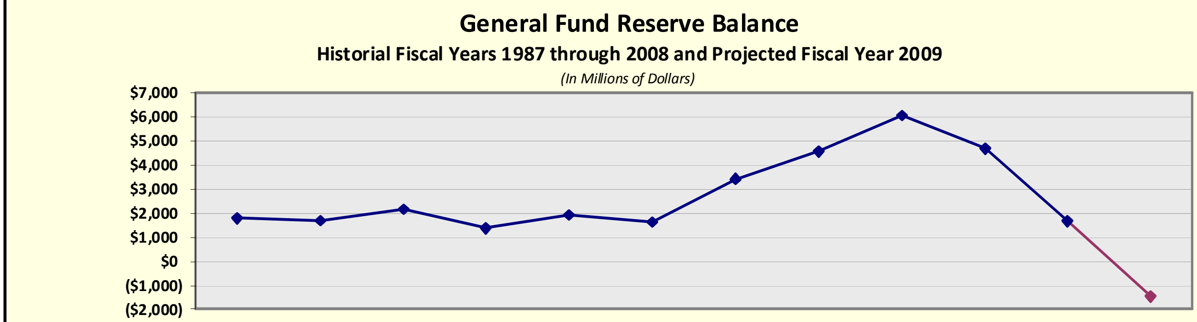
	Rank	Net Tax-Supported Debt Service as a % of Revenues	Rank	Net Tax Supported Debt Per Capita	Rank	Net Tax Supported Debt as a % of Personal Income	General Obligation Ratings Fitch/Moody's/S&P3
New York	1	7.34%	2	$2,762	2	6.30%	AA-/Aa3/AA
California	2	7.06%	4	$1,685	4	4.30%	A+/A1/A+
Illinois	3	6.36%	3	$1,985	3	5.20%	AA/Aa3/AA
New Jersey	4	5.69%	1	$3,478	1	7.50%	AA-/Aa3/AA
Florida	5	**5.49%**	5	**$986**	7	**2.68%**	**AA+/Aa1/AAA**
Georgia	6	5.03%	7	$954	5	3.00%	AAA/Aaa/AAA
Ohio	7	4.60%	6	$966	6	2.90%	AA+/Aa2/AA
Pennsylvania	8	2.97%	8	$870	8	2.40%	AA/Aa2/AA
Texas	9	1.69%	10	$481	10	1.40%	AA+/Aa1/AA
Michigan	10	1.43%	9	$748	9	2.20%	AA-/Aa3/AA-
Median		**5.26%**		**$976**		**2.95%**	
Mean		**4.77%**		**$1,492**		**3.79%**	

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. ***Each of the State's debt ratios have improved over the last ten years. The State has moved from the second to fifth highest ratio for the benchmark debt ratio of debt service to revenues, from third to fifth highest for debt per capita and from third to seventh highest for debt as a percentage of personal income.***

LEVEL OF RESERVES

An important measure of financial health is the level of general fund reserves. The following graphic shows the level of the State's general fund reserves over the last ten fiscal years. The graphic also shows the projected year-end general fund deficit for Fiscal Year 2009 if required budget adjustments were not made by the Legislature.



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
General Fund Reserves	$ 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	$ 1,674.6	($1,461.0)
Reserves as % of Revenues	10.5%	9.5%	11.5%	7.2%	10.0%	8.2%	15.7%	18.3%	22.5%	17.7%	6.9%	(5.1)%

Figure 17

The level of reserves is also an important indicator of the ability to respond to unforeseen financial challenges, which is relevant in evaluating a state's credit position. Historically, Florida's level of reserves resulted 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 2003-2006 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 significantly. Reserves were used in the amounts of $1.4 billion in 2007 and $3.0 billion in 2008 to offset spending reductions from declining revenues. ***However, the State ended Fiscal Year 2008 with general fund reserves of $1.7 billion or 6.9% of general revenues which is considered adequate by the rating agencies.***

The November 2008 Revenue Estimating Conference projected a budget shortfall of $2.1 billion at June 30, 2009 without legislative intervention or the use of trust funds. ***At this time, reserves are projected to be depleted with a shortfall of $1.5 billion or 6.6% of general revenues for Fiscal Year 2009 if required budget adjustments are not made by the Legislature.*** The amount of reserves at June 30, 2009 will be impacted by legislative budget reductions and other actions taken in response to reduced 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.

State of Florida
General Obligation Credit Ratings

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

Figure 18

Florida has very strong credit ratings on its general obligation bonds with the highest rating of "AAA" by Standard and Poor's Rating Services and the next to highest rating category of AA+ and AA1 by Fitch Ratings and Moody's Investor's Service. The strong ratings reflect the State's conservative financial and budgetary practices with historical swift and continued response to declining revenues and increased budgetary pressures from the impacts of deteriorations in the housing market and the economy. Credit strengths have also included adequate reserves, 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.

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 experienced substantial revenue growth and a strong economy for several years. However, over the last two years revenues have been declining and the economy has been weakening. Revenue collections in Fiscal Year 2008 were $29.7 billion, $2.6 billion or 8% less than Fiscal Year 2007 collections. Additionally, the last three revenue estimating conferences (March, August and November 2008) have each promulgated lower revenue projections. The revenue reductions projected for Fiscal Year 2008 total $956 million or 3.2% 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. The State responded to the lower August revenue projections by transferring 50% of the Budget Stabilization Fund balance to the General Revenue Fund reducing but not eliminating the expected budget deficit. However, continued revenue declines coupled with lower reserves are making it increasingly difficult to address projected budget shortfalls without further spending reductions.

The outlook for the State's credit rating remains stable by Standard & Poor's. However, ***Moody's Investors Service and Fitch Ratings changed the outlook of the State's rating from stable to negative in March 2008 and December 2008, respectively.*** The reasons given for the change in the outlook of the State's rating were the severity of the slowdown in the State's economy and the precipitous decline in revenues. ***Challenges to the State's ratings are presented by the projected budget deficit, a weaker***

economy and declining revenues, budgetary pressure for infrastructure and service related needs, and the need to maintain adequate reserves. The State's responses to these challenges will be closely monitored and evaluated by the rating agencies in determining the State's future ratings. Maintaining ratings will be challenging in the current economic environment without making necessary budget adjustments.

CONCLUSION

Florida's total debt outstanding was at $24.3 billion at the end of Fiscal Year 2008. Net tax-supported debt increased by nearly $2 billion, due to the $2.4 billion total bonds issued during 2008. ***The expected future debt issuance under existing programs over the next ten years totals $13.4 billion, $1.2 billion more than last year's estimate.*** The expected increase in debt issuance is due to an additional $3.4 billion of bonding to continue Florida Forever and Everglades Restoration bond programs.

The benchmark debt ratio was 6.38% at June 30, 2008, exceeding the 6% policy target. The benchmark debt ratio is projected to exceed the 7% cap for the first time during the current fiscal year reaching 7.18%. The debt ratio is projected to increase again in Fiscal Year 2010 reaching 7.96%. The increase in the benchmark debt ratio is attributable to increased debt service and lower revenue projections reflecting the impacts from a deteriorating housing market and economy. The projected benchmark debt ratio should be used as a general guide and considered by the Legislature when evaluating future debt authorizations.

There is no debt capacity available over the next three years because the projected benchmark debt ratio exceeds the 7% policy cap. An estimated $4 billion of debt capacity becomes available in 2013 due to a significant reduction in annual debt service due to the retirement of Preservation 2000 bonds.

State revenues available for debt service declined by $1 billion from $29.7 billion in 2007 to $28.7 billion in 2008. Additionally, projected revenues for 2009 and 2010 were revised downward three times over the last year. Estimated revenues were reduced by $5.3 billion or 15.8% for the current fiscal year and $7.3 billion or 20.2% 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 State's general fund reserves decreased by $3.0 billion during Fiscal Year 2008 to approximately $1.7 billion or 6.9% of general fund revenues which is considered adequate. Available reserves were used to mitigate the impact of lower revenues as the economy slowed due to a deteriorating real estate market and a weak economy. The judicious use of reserves for operating expenditures is expected during periods of declining revenues and economic weakening. ***However, it is still very important to maintain adequate reserves to provide the financial flexibility necessary to address financial uncertainties. The current financial outlook indicates a projected deficit of $2.1 billion which would exhaust general fund reserve balances if the Legislature did not intervene and take the steps necessary to balance the budget.***

The State's response to the projected budget deficit, declining revenues, budgetary pressures and maintaining adequate reserves will be closely monitored by rating agencies in determining the State's credit ratings. Maintaining ratings will be challenging in the current economic environment without the necessary budget adjustments.

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.