Full Appropriations Council on Education & Economic Development

Tuesday, February 9, 2010
9:00 AM – 12:00 PM
212 Knott Building

Council Meeting Packet

Larry Cretul
Speaker

David Rivera
Chair

The Florida House of Representatives

Full Appropriations Council on Education & Economic Development
Full Appropriations Council on General Government & Health Care

Larry Cretul
Speaker

David Rivera
Chair

Meeting Agenda
Tuesday, February 9, 2010
212 Knott Building
9:00 AM – 12:00 PM

I. Call to order/Roll Call

II. Opening Remarks by Chair Rivera

III. Presentation on Debt Affordability and Bond Ratings by J. Ben Watkins III, Director, State Board of Administration, Division of Bond Finance

IV. Closing Remarks and Adjournment

State of Florida

Debt Overview

House Appropriations Council on Education and Economic Development

February 9, 2010

The Debt Affordability Analysis

- Purpose of Debt Affordability Analysis is to Provide a Framework for Measuring, Monitoring and Managing the State's Debt Position
- Provides Information to Assist Legislature in Formulating Capital Spending Plan
- Analytical Approach to Evaluating the State's Debt Position
- Financial Model to Calculate Future Bonding Capacity Based on Two Variables
  1) Reasonable Borrowing Levels Measured by Debt Ratios
  2) Amount of State Revenues Available to Pay Debt Service
- Model Provides Framework for Evaluating Long-term Impact of Existing and New Financing Programs

Debt Affordability Analysis

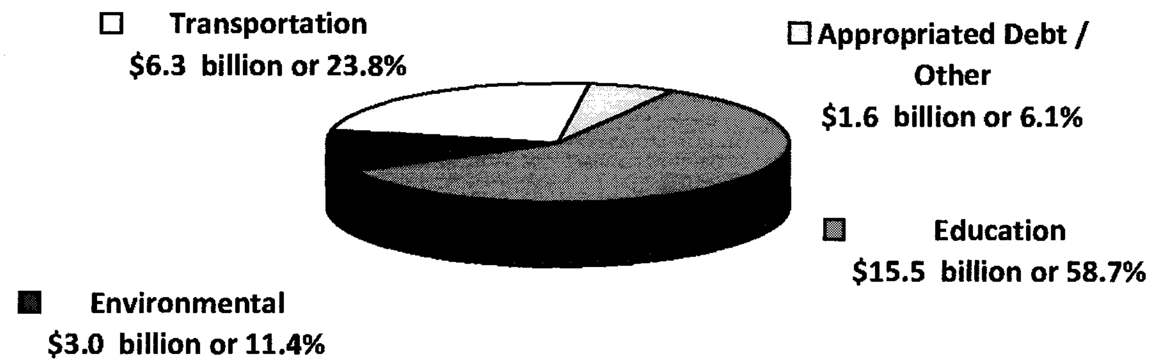
- Calculate Total State Debt Outstanding
- Evaluate Growth in Debt and Annual Debt Service Requirements Over Last Ten Years
- Update Projections for Expected Future Debt Issuance and Revised Revenue Estimates
- Calculate Benchmark Debt Ratio Based on Expected Future Debt Issuance and Revenue Collections
- Calculate the Estimated Debt Capacity Available Based on the 6% Target and 7% Cap
- Evaluate Level of Reserves and Review Credit Ratings

State Debt Outstanding

Total Debt Outstanding: $26.4 billion

Debt Outstanding by Program

June 30, 2009



Total Debt Outstanding: $26.4 billion

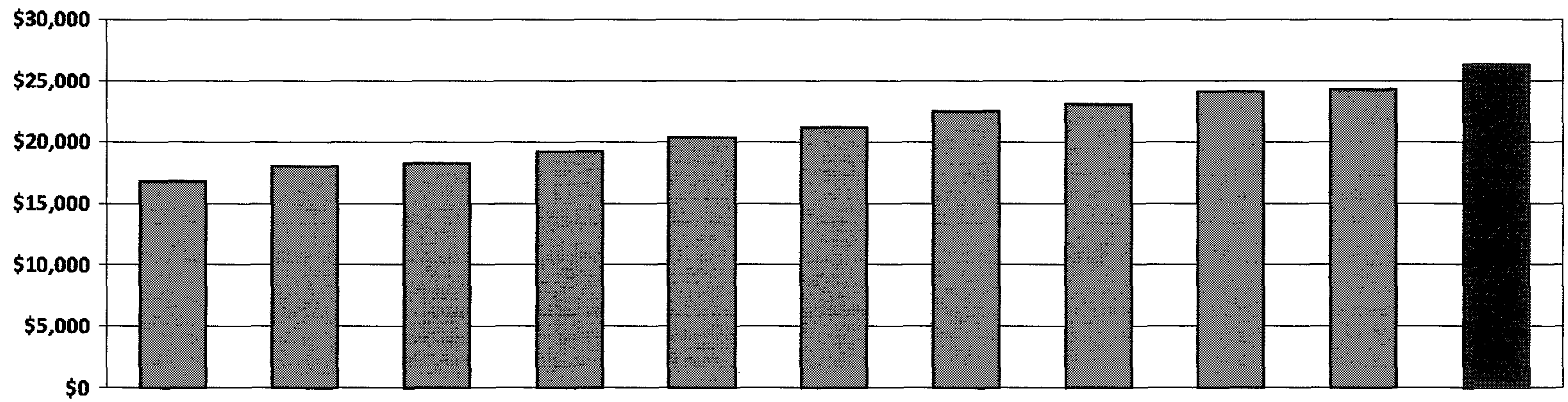
Debt Outstanding by Type as of June 30, 2009

(In Million Dollars)

Debt Type	Amount
Net Tax-Supported Debt	$ 22,372.9
Self-Supporting Debt	$ 4,035.8
Total State Debt Outstanding	$ 26,408.7

Growth in Debt Outstanding

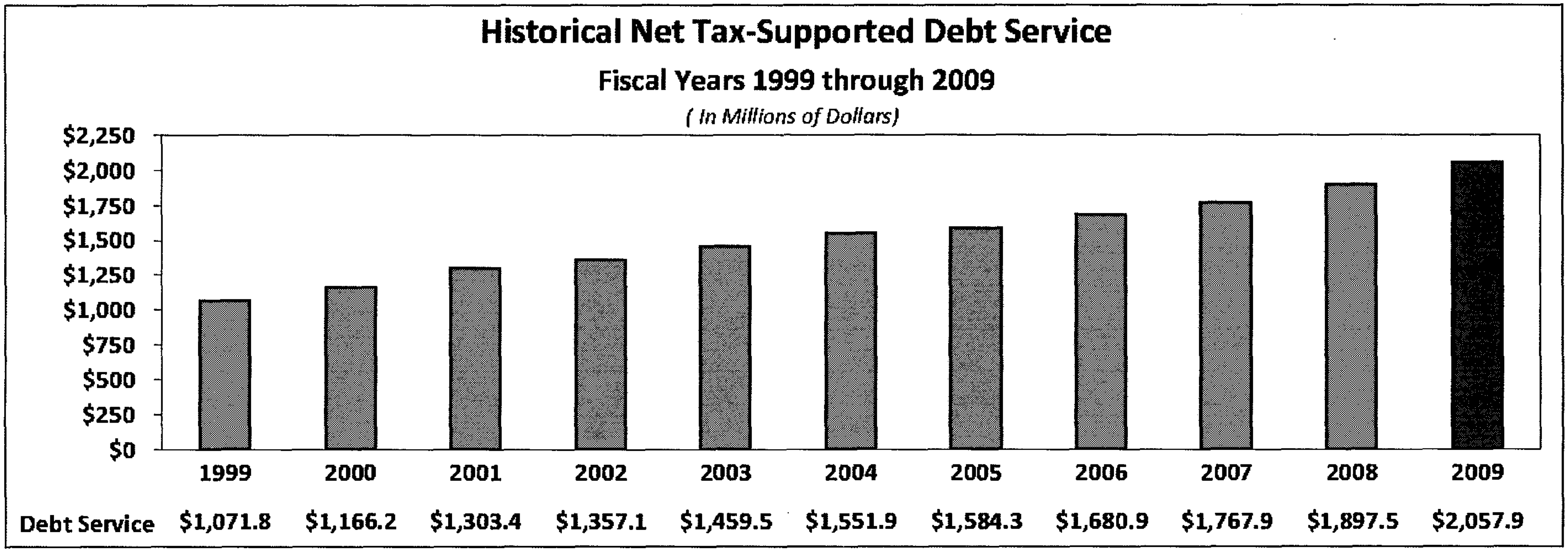
Historical Total Debt Outstanding
Fiscal Years 1999 through 2009
(In Millions of Dollars)



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Debt Outstanding	$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	$26,408.7
Percentage Change	-	6.7%	1.7%	5.2%	6.1%	4.0%	6.0%	2.5%	4.6%	0.7%	8.8%

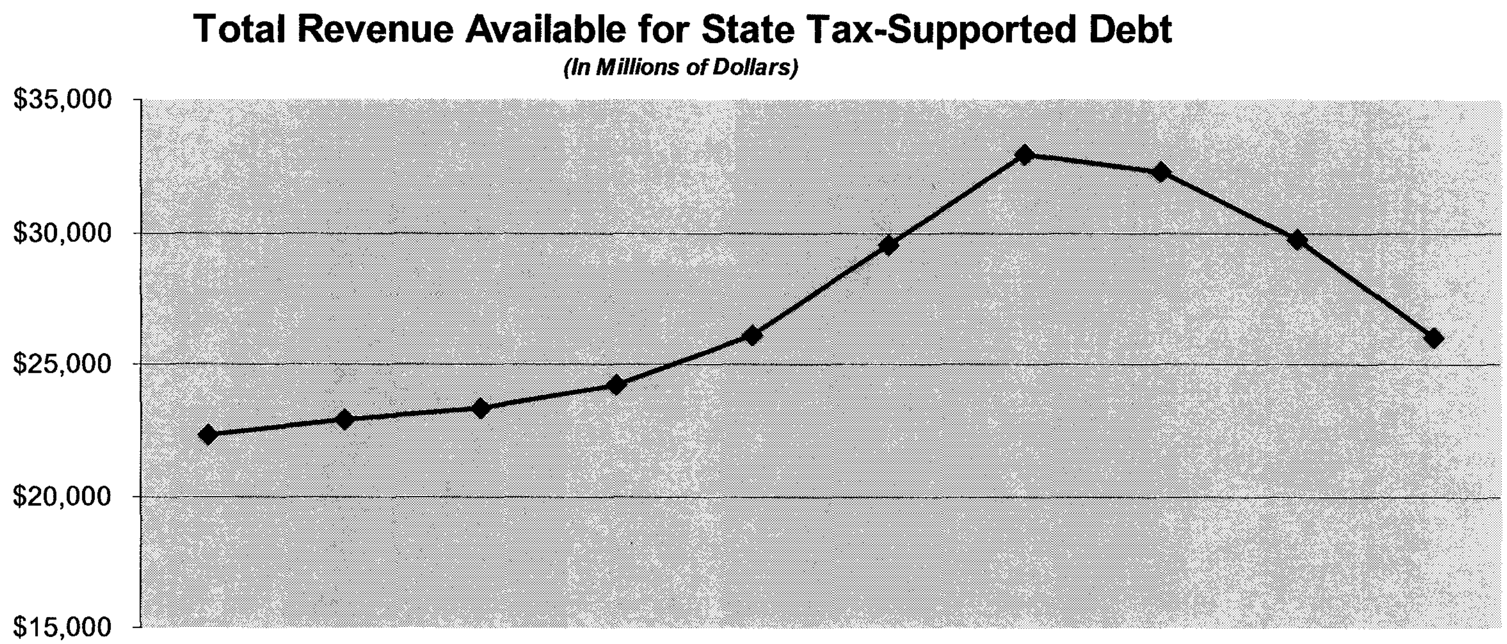
- **Total Debt Increased $9.6 Billion, From $16.8 Billion to $26.4 Billion Over Last Ten Years**
- **Increase in Debt Outstanding of $2.1 Billion Over Last Year Due to:**
  - **$1.2 Billion for Transportation Infrastructure Associated with the implementation of Public/Private Partnership Projects**
  - **$970 Million Increase in Debt for School Construction**

Growth in Annual Debt Service



- **Annual Debt Service Payments for Net Tax-Supported Debt Totals Approximately $2.1 Billion Annually**
- **Increased Debt Service Reduces Future Budgetary Flexibility**
- **Annual Debt Service Requirements Increased by $160.4 Million Over Last Year Due to Additional Debt Issuance**

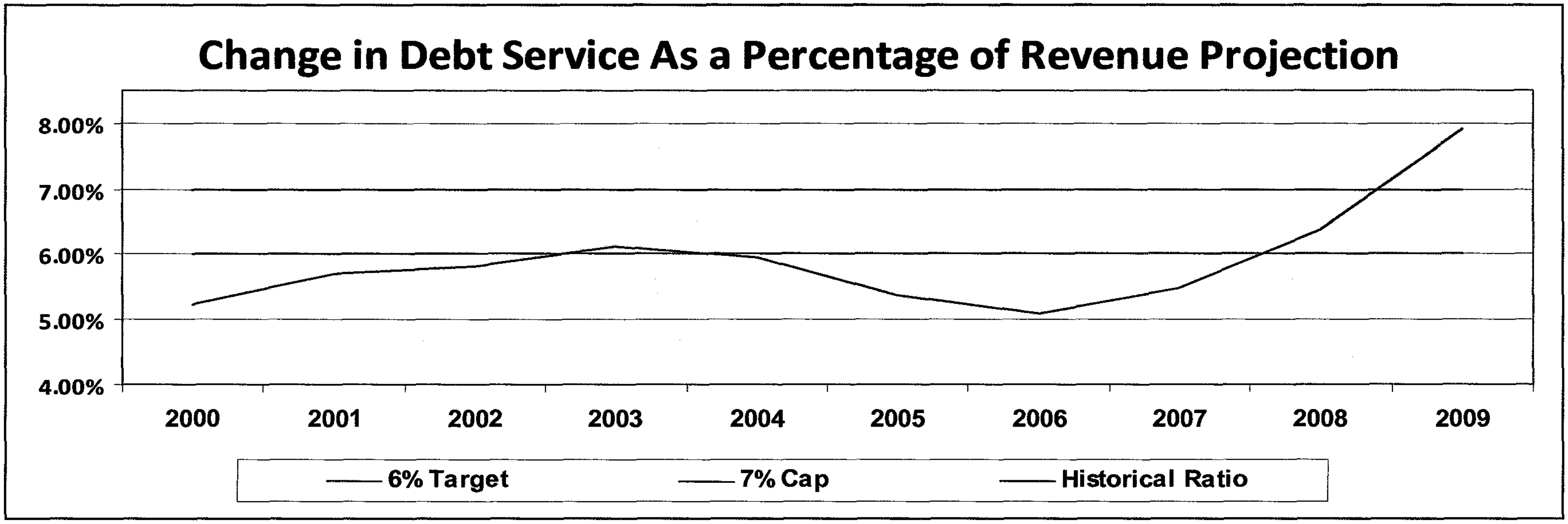
History of Revenues



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total Revenue Available	$ 22,310	$ 22,877	$ 23,301	$ 24,174	$ 26,105	$ 29,546	$ 32,984	$ 32,302	$ 29,743	$ 26,002

- **Annual Revenues Available for Debt Service Increased from 2003 to 2006 in a Robust Economy and then in 2007 Started to Decline as the Economy Weakened and Entered a Recession**

History of Benchmark Debt Ratio

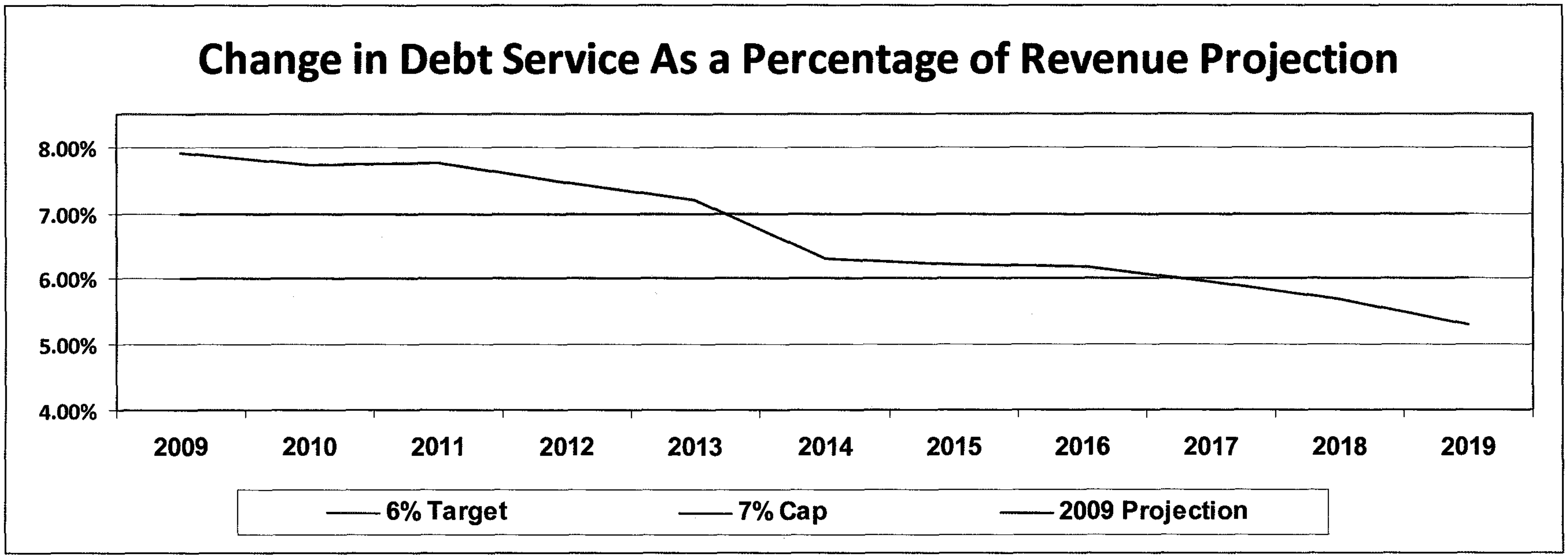


Benchmark Debt Ratio

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Actual	5.23%	5.70%	5.82%	6.12%	5.94%	5.36%	5.10%	5.47%	6.38%	7.91%

- **Benchmark Debt Ratio 7.91% at the End of 2009 Fiscal Year**
- **The Increase in the Benchmark Debt Ratio is Due Primarily to Lower Revenue Projections Reflecting a Weakening Economy**

Projected Benchmark Debt Ratio

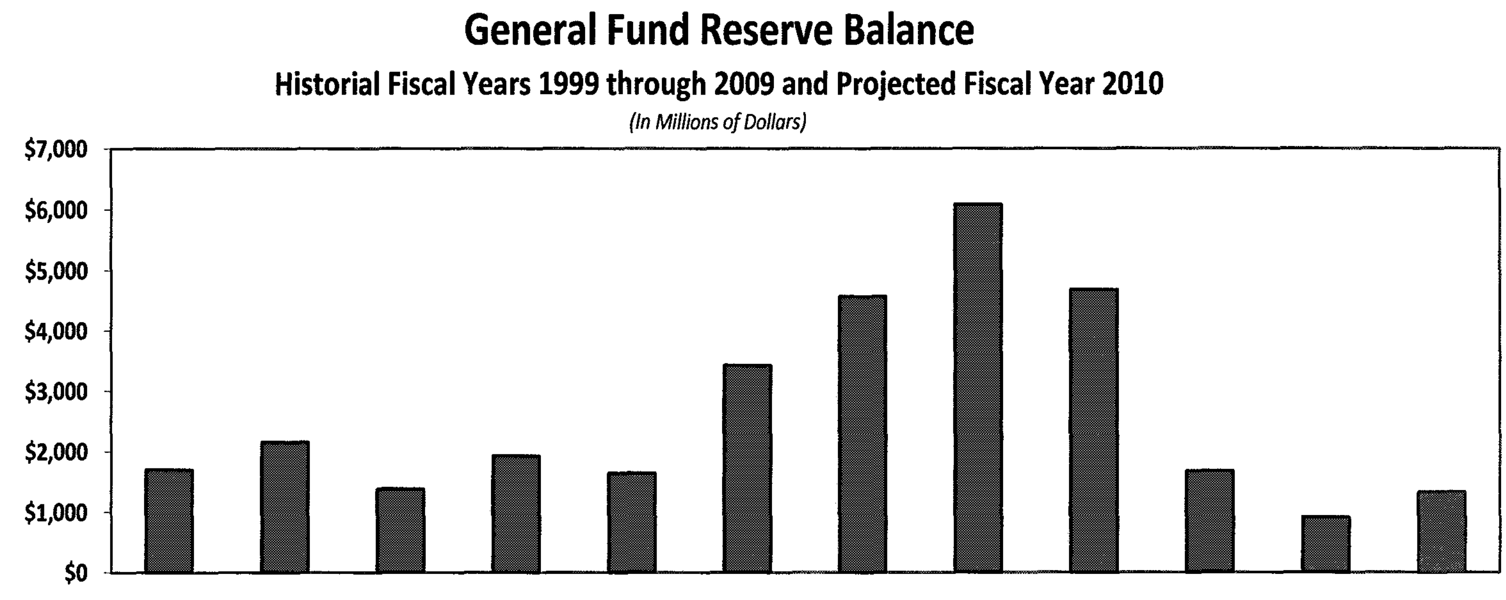


Benchmark Ratio Projection

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
2009 Projection	7.91%	7.72%	7.76%	7.46%	7.20%	6.32%	6.22%	6.19%	5.95%	5.67%	5.31%

- **Benchmark Debt Ratio Projected to Remain Over 7% Cap Through 2013 Based on Current Revenue Projections**
- **Projected Benchmark Debt Ratio Based on Estimated Debt Issuance and EDR Revenue Forecasts**

Level of Reserves



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General Fund Reserves	$ 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	$ 912.7	$ 1,330.0
Reserves as % of Revenues	9.5%	11.5%	7.2%	10.0%	8.2%	15.7%	18.3%	22.5%	17.7%	6.9%	4.3%	6.3%

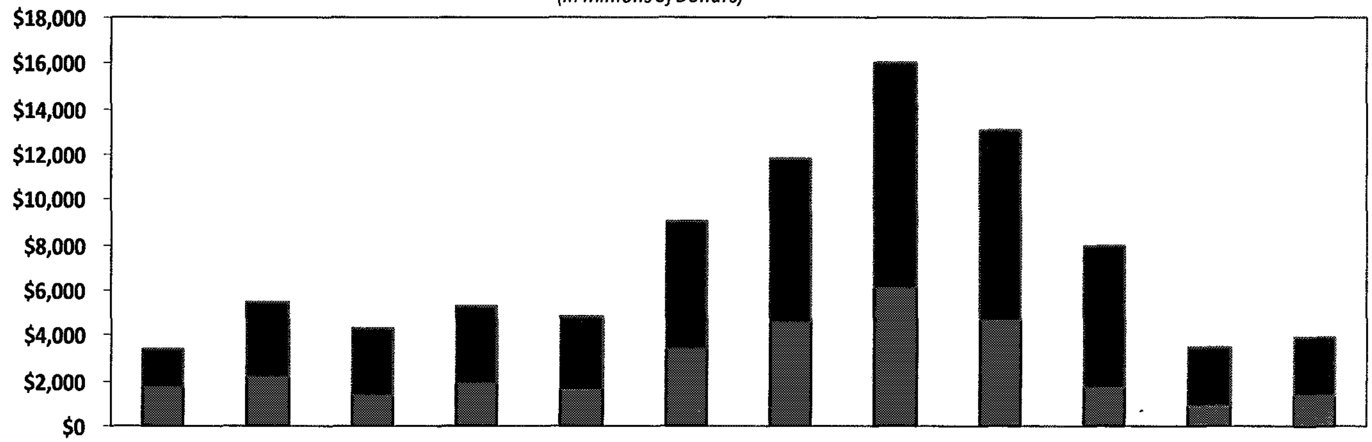
- **General Fund Reserves are an Important Measure of Financial Health and Budgetary Flexibility**
- **General Fund Reserves As a Percentage of GR Expenditures is the Traditional Ratio Used by Rating Agencies to Measure Reserves**
- **General Fund Reserves are Estimated to be $1.3 Billion at End of Current Fiscal Year 2010 and are Considered Adequate at the Current Level**

Level of Reserves

General Fund and Trust Fund Reserve Balances

Historial Fiscal Years 1999 through 2009 and Projected Fiscal Year 2010

(In Millions of Dollars)



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Trust Fund Reserves	$ -	$ 1,181.0	$ 1,561.0	$ 1,393.0	$ 1,571.0	$ 2,170.5	$ 2,714.0	$ 3,831.5	$ 3,684.7	$ 4,612.0	$ 1,668.0	$ 1,306.8
General Fund and Trust Fund Reserves	$ 1,694.3	$ 3,336.9	$ 2,943.7	$ 3,318.1	$ 3,212.3	$ 5,594.1	$ 7,283.8	$ 9,912.7	$ 8,366.8	$ 6,286.6	$ 2,580.7	$ 2,636.8
Reserves as % of Revenues	9.5%	17.7%	15.3%	17.2%	16.1%	25.6%	29.2%	36.6%	31.7%	26.1%	12.3%	12.5%

- **Florida is Unique in That Trust Funds Have Been Created for Specific Dedicated Revenues with Reserve Balances Estimated to be $1.3 Billion**
- **Total Reserves Including Trust Funds are Estimated to be $2.6 Billion; 12.3% of General Fund Revenues**

Credit Rating Considerations

- Rating analysis focuses on four primary areas
  - Financial Factors
  - Economic Factors
  - Debt Factors
  - Administrative/Management Factors

State Credit Ratings

	Ratings	Outlook
Standard & Poor's	AAA	Negative
FitchRatings	AA+	Negative
Moody's	AA1	Negative

2005 State received rating upgrades

- Moody's upgrade from AA2 to AA1 /stable outlook (January 2005)
- S&P upgrade from AA+ to AAA /stable outlook (February 2005)
- Fitch upgrade from AA to AA+ /stable outlook (March 2005)

2008-2009 State rating outlooks were changed to negative

- Moody's outlook changed from stable to negative (March 2008)
- Fitch's outlook changed from stable to negative (December 2008)
- S&P's outlook changed from stable to negative (January 2009)
- Moody's placed on Watchlist for downgrade (April 2009)
- Removed from Watchlist for downgrade (July 2009)

State Credit Ratings

- **Credit Strengths**
  - **Conservative Budget and Financial Management**
  - **Swift Response to Budget Pressure From Declining Revenues**
  - **Adequate Reserves**
  - **Moderate Debt Burden With Clear Guidelines**
  - **Fully Funded Pension Plan**

- **Challenges:**
  - **Weaker Economy and Declining Revenues**
  - **Maintaining Structural Budgetary Balance**
  - **Budgetary Pressure For Infrastructure And Service-related Needs of Growing Population**
  - **Maintaining Adequate Reserves**

Factors that Could Negatively Affect Ratings

- Inability to Preserve Adequate Reserves
- Increased Reliance on Non-recurring Revenue
- Continued Declines in Revenues
- Further Deterioration of the State's Economy

Conclusions

- Benchmark Debt Ratio Exceeds 7% Policy Cap Due Primarily to Revenue Decline

- Benchmark Debt Ratio is a General Guide and Long Term Planning Tool, Not Bright Line Test

- State's Credit Rating Maintained Because of the Legislature's Prudent and Fiscally Responsible Approach to Balancing Budget

- Rating Agencies are Closely Monitoring State