State of Florida

2011 Debt Affordability Report

December 2011

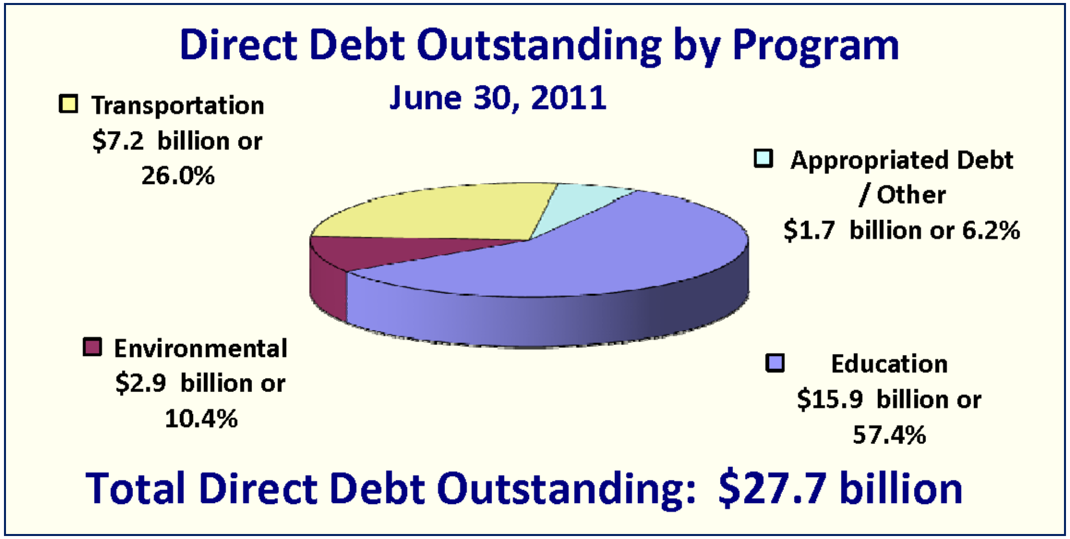
Debt Affordability Analysis

- Purpose of debt affordability analysis is to provide a framework for measuring, monitoring and managing the State's debt
- Provides information to assist Legislature in formulating capital spending plans
- Analytical approach to evaluating the State's debt position
- Financial model used to evaluate debt burden – the "benchmark debt ratio" – based on two variables:
    1) Annual debt service requirements
    2) State revenues available to pay debt service
- Designated benchmark debt ratio – 6% target, 7% cap
- Model provides framework for evaluating long-term impact of bonding

Debt Affordability Analysis

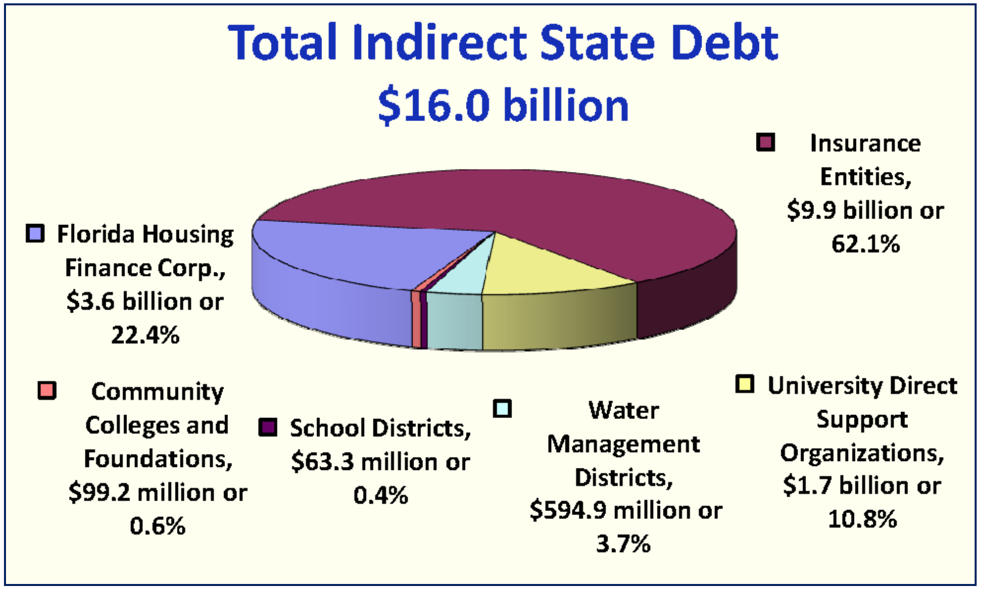
- Calculate total State direct debt outstanding
- Identify and calculate indirect debt
- Evaluate growth in debt and annual debt service requirements over last 10 years
- Update projections for expected future debt issuance compared to revised revenue estimates
- Calculate benchmark debt ratio based on expected future debt issuance and projected revenue collections
- Evaluate level of reserves
- Review credit ratings

Direct Debt Outstanding



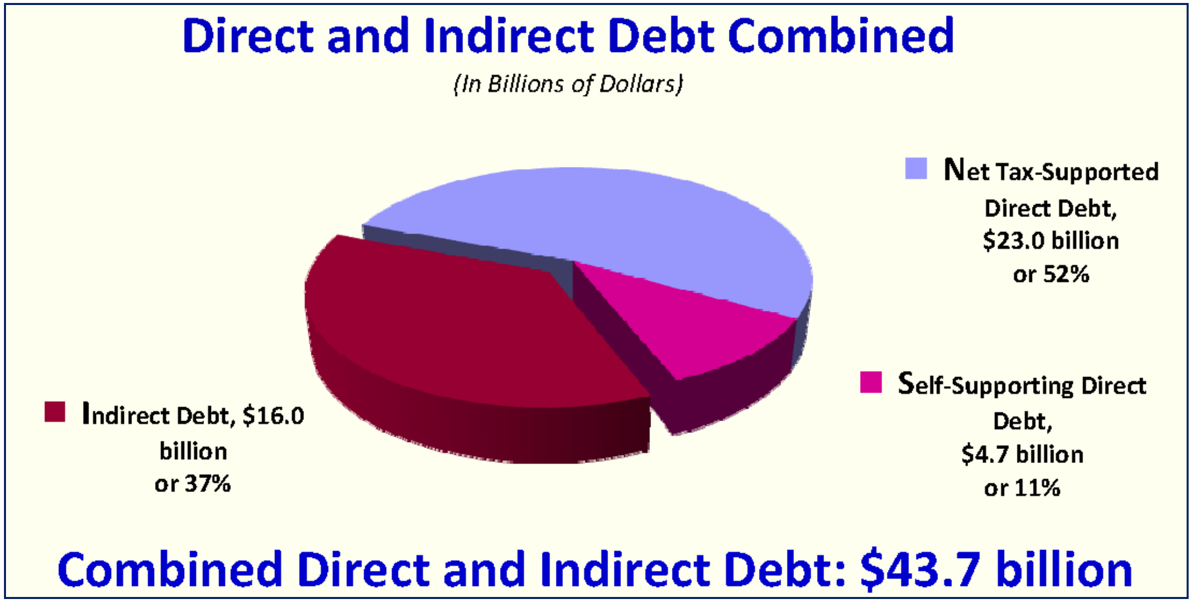
- Total outstanding direct debt at June 30, 2011 was $27.7 billion (net tax-supported debt was $23.0 billion and self-supporting debt was $4.7 billion)
- Largest infrastructure investment for school construction of $15.9 billion (57%)
- Next largest for transportation debt (primarily toll facilities) of $7.2 billion (26%)
- Third largest for acquiring land for conservation of $2.9 billion (10%)

Indirect Debt



- Indirect debt is not included in benchmark debt ratio
- Indirect debt is either not secured by traditional State revenues or is an obligation of a legal entity separate from the State
- Insurance entities account for $9.9 billion or 62% of the indirect debt
  - Florida Hurricane Catastrophe (CAT) Fund Financing Corporation, $5.4 billion
  - Citizens Property Insurance Corporation, $4.5 billion
- Majority of Citizens and CAT Fund debt for liquidity financings, $7.3 billion
- Post-event debt secured by assessments, $2.6 billion
- Increased exposure of Citizens and CAT Fund poses potential future debt burden payable from assessments

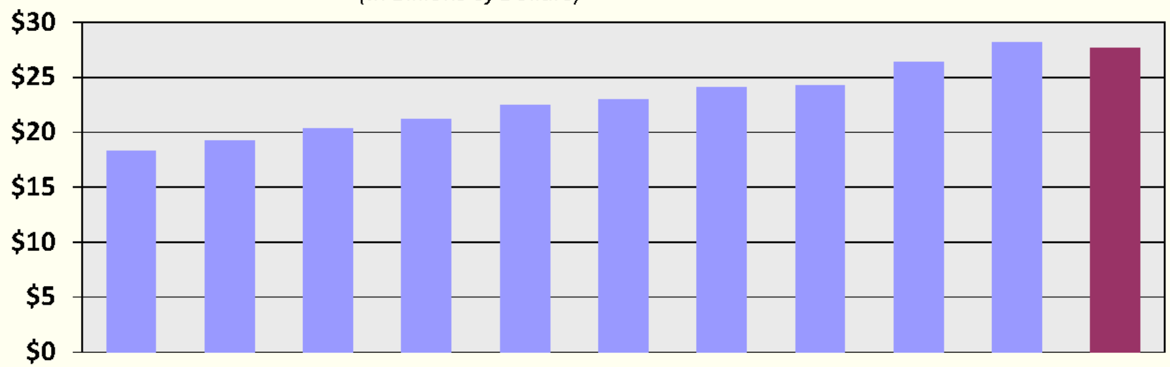
Direct and Indirect Debt Combined



- Combined direct and indirect debt totaled $43.7 billion at June 30, 2011, down slightly from the prior year's $44.6 billion
- Direct debt comprises 63% of the total and indirect debt represents 37% of the combined debt
- While not direct debt of the State, rating agencies are considering the impact of potential future hurricane costs and insurance entity assessments as a factor that could affect the State's ratings

Growth in Direct Debt Outstanding

Historical Total Direct Debt Outstanding
Fiscal Years 2001 through 2011
(In Billions of Dollars)



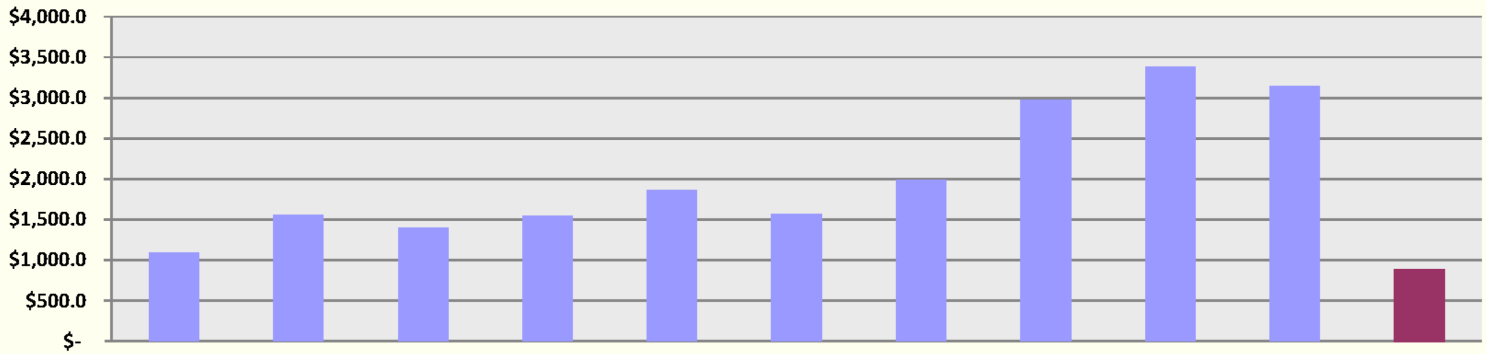
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Debt Outstanding	$18.27	$19.22	$20.38	$21.20	$22.46	$23.03	$24.09	$24.26	$26.41	$28.17	$27.68
Percentage Change	-	5.2%	6.1%	4.0%	6.0%	2.5%	4.6%	0.7%	8.8%	6.7%	(1.7)%

- Over the last 10 years direct debt outstanding increased $9.4 billion from $18.3 billion in 2001 to $27.7 billion in 2011
- Average annual increase in debt approximately $1 billion per year over the last 10 years
- Total direct debt outstanding for 2011 decreased by $500 million
- First time direct debt outstanding has declined, reversing long-term trend

History of Annual Debt Issuance

Annual New Money Debt Issuance

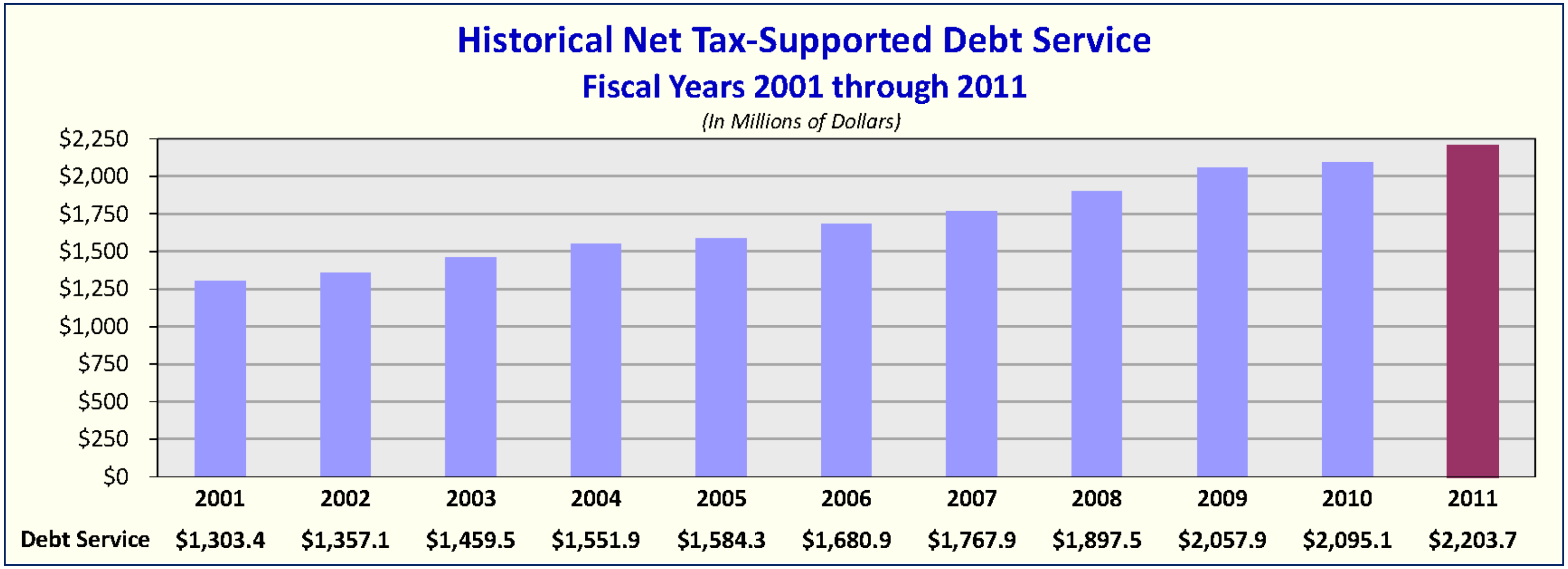
(In Millions of Dollars)



Fiscal Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
# of Issues	16	15	12	12	12	15	12	19	14	19	10
Tax Supported	$ 898.5	$ 1,410.7	$ 1,347.1	$ 1,287.6	$ 1,154.2	$ 1,273.3	$ 1,242.8	$ 2,425.8	$ 3,137.0	$ 2,479.8	$ 552.5
Self Supporting	191.9	144.2	44.6	261.9	702.6	298.2	745.7	544.5	250.0	667.5	335.9
New Money	**$ 1,090.3**	**$ 1,554.8**	**$ 1,391.7**	**$ 1,549.6**	**$ 1,856.8**	**$ 1,571.5**	**$ 1,988.5**	**$ 2,970.2**	**$ 3,387.0**	**$ 3,147.3**	**$ 888.3**

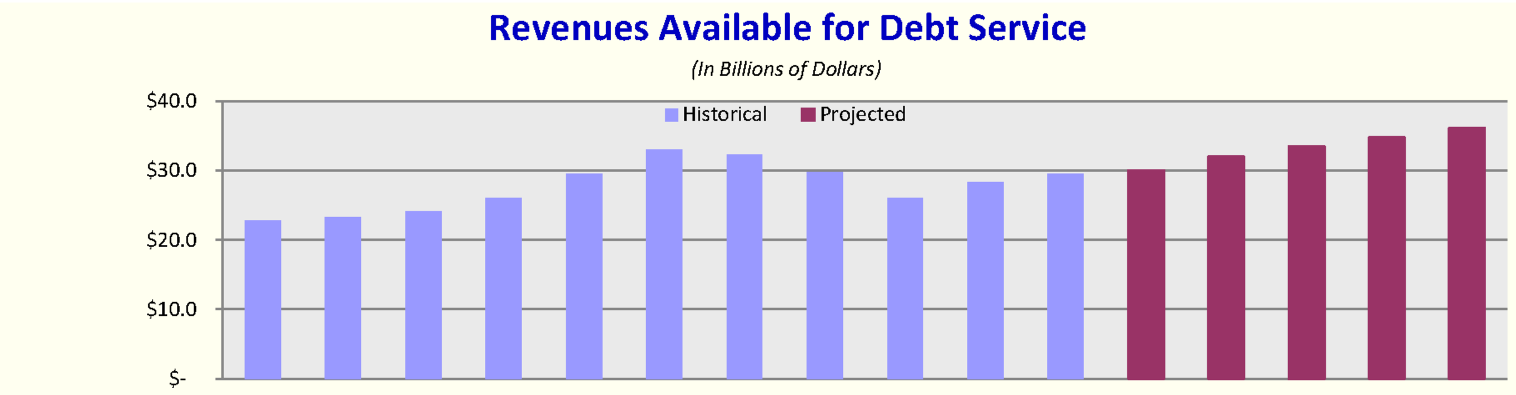
- New-money debt issuance averaged $2.1 billion per year over the past 10 years
- Dramatic decline in new-money bond issuance in Fiscal Year 2011
- New-money issuance in 2011 of approximately $900 million is significantly less than average annual issuance of $2.1 billion and less than 1/3 of amounts issued in prior 3 years
- Decrease in issuance due to curtailed borrowing under PECO and discontinued Florida Forever/Everglades Restoration bonding

Growth in Annual Debt Service



- Annual debt service payments for net tax-supported debt has nearly doubled over the last 10 years, increasing from $1.3 billion in 2001 to $2.2 billion in 2011
- Annual debt service requirements increased by approximately $100 million over the past year from $2.1 billion in 2010 to $2.2 billion in 2011
- Increase in 2011 due to a full year of debt service on Fiscal Year 2010 issuance

Revenues Available for Debt Service



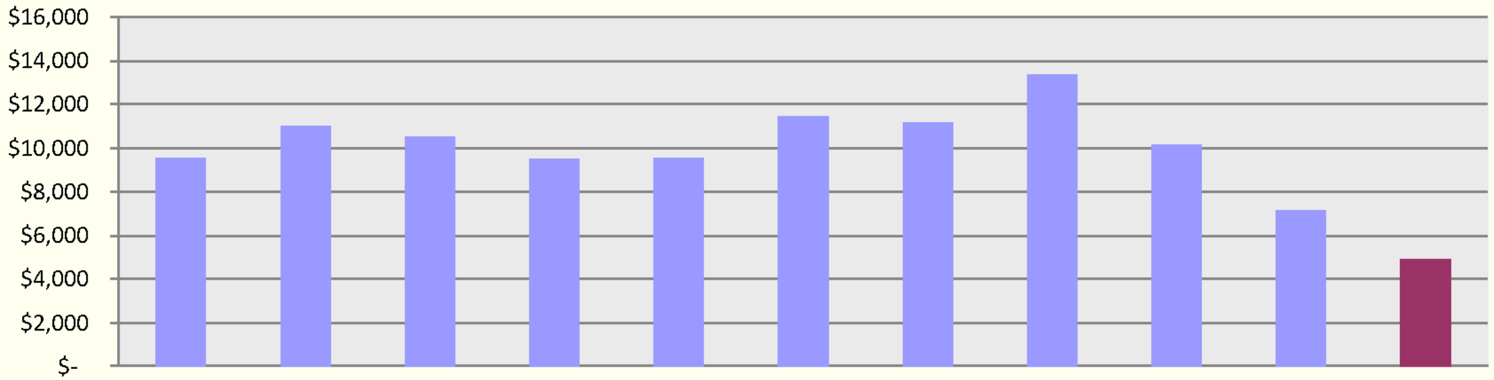
December 2011	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Available Revenues	$ 22.9	$ 23.3	$ 24.2	$ 26.1	$ 29.5	$ 33.0	$ 32.3	$ 29.7	$ 26.0	$ 28.3	$ 29.6	$ 30.1	$ 32.0	$ 33.5	$ 34.8	$ 36.2

- Revenues available for debt service include general revenues and specific revenues pledged to various bond programs
- Projected revenues are based on the October 2011 Revenue Estimating Conference (REC) results
- Significant revenue declines in 2007 through 2009 due to the weak economy
- Revenues recovered in 2010 and 2011 adding $2.3 billion and $1.3 billion, respectively
- Significant portion of revenue growth in 2010 ($1.8 billion) due to addition of a new revenue source to calculations
- Revenue estimates for 2012 and 2013 have been adjusted downward by the last three RECs
- Estimated revenue growth has flattened reflecting slower than anticipated economic recovery

Change in Projected Debt Issuance

Change in Projected Issuance

(In Millions of Dollars)



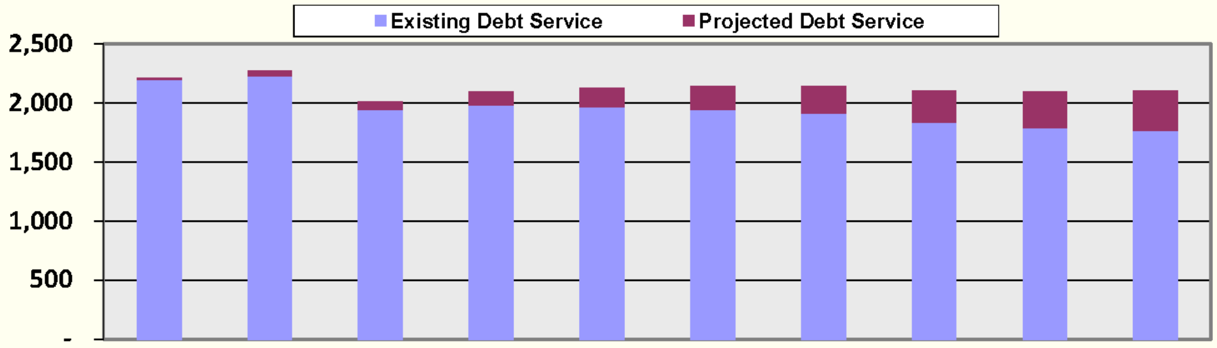
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Projected Issuance	$ 9,562	$ 11,034	$ 10,500	$ 9,502	$ 9,554	$ 11,456	$ 11,156	$ 13,345	$ 10,152	$ 7,153	$ 4,914
Change in Estimate	-	$ 1,472	$ (534)	$ (998)	$ 52	$ 1,902	$ (300)	$ 2,189	$ (3,193)	$ (3,000)	$ (2,239)
Percentage Change		15.4%	(4.8)%	(9.5)%	0.5%	19.9%	(2.6)%	19.6%	(23.9)%	(29.5)%	(31.3)%

- Projected debt issuance expected over the next 10 years has declined substantially in each of the past 3 years
- 2011 projected debt issuance over the next 10 years of approximately $5 billion, a historic low
- Decrease in future projected debt issuance primarily the result of discontinued borrowing for conservation land acquisition and curtailed PECO bonding

Projected Annual Debt Service

Projected Annual Debt Service Next Ten Years

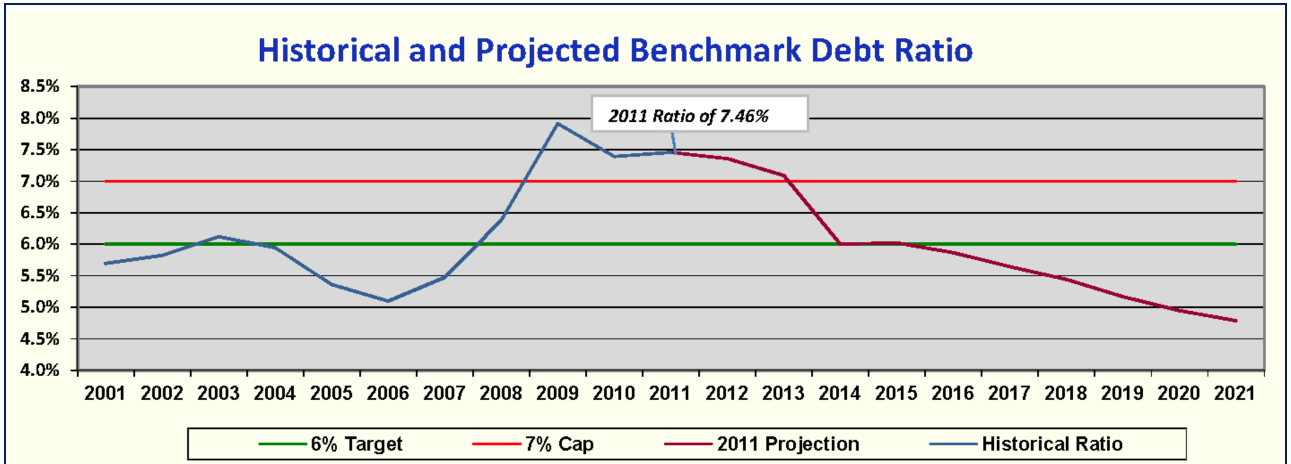
(In Millions of Dollars)



	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
Existing	$ 2,195	$ 2,225	$ 1,942	$ 1,978	$ 1,964	$ 1,945	$ 1,912	$ 1,837	$ 1,787	$ 1,764	$ 19,549
Projected	16	45	72	117	159	196	232	267	304	340	1,748
Total	$ 2,212	$ 2,270	$ 2,014	$ 2,095	$ 2,123	$ 2,140	$ 2,144	$ 2,104	$ 2,091	$ 2,104	$ 21,298

- Annual debt service requirements peak in 2013 at approximately $2.3 billion
- Debt service on projected future debt issuance added incrementally over time as debt is issued
- Drop in annual debt service in 2014 reflects final maturity of Preservation 2000 bonds
- Future debt service reflects the State's policy of level debt structure with the exception of DOT P3s which defer and back-load required payments

Benchmark Debt Ratio



Benchmark Ratio Projection

	2010 Actual	2011 Actual	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
2011 Projection	7.39%	7.46%	7.36%	7.09%	6.00%	6.02%	5.86%	5.64%	5.44%	5.17%	4.94%	4.79%

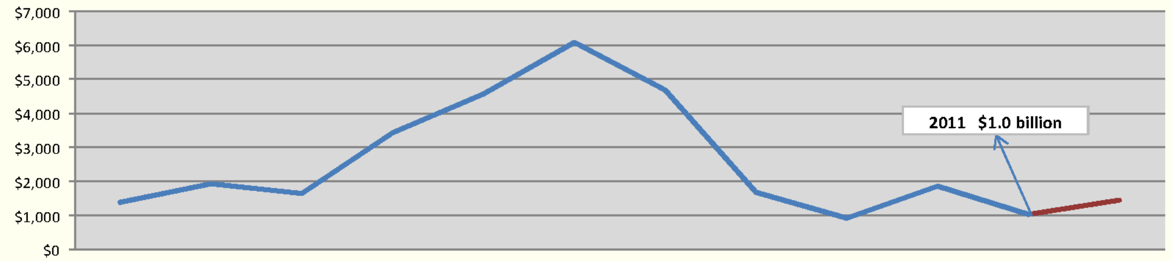
- Benchmark debt ratio is debt service as percentage of available revenues
- Significant increase in benchmark debt ratio from 2006 – 2009 due to dramatic revenue declines
- Improvement in the 2010 benchmark debt ratio was due to adding revenues to base and only a partial year of debt service for 2010 issuances
- Benchmark debt ratio increased slightly to 7.46% for Fiscal Year 2011 reflecting increased debt service and revenue collections
- Benchmark debt ratio is projected to exceed the 7% Cap through 2013
- Significant drop in benchmark debt ratio in 2014 due to final payment on P-2000 bonds

General Fund Reserves

General Fund Reserves

Historical Fiscal Years 2001 through 2011 and Projected 2012

(In Millions of Dollars)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Fund Reserves	$ 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	$ 1,854.5	$ 1,027.7	$ 1,443.6
Reserves as % of Revenues	7.21%	9.95%	8.22%	15.70%	18.28%	22.47%	17.73%	6.95%	4.34%	8.62%	4.56%	6.22%

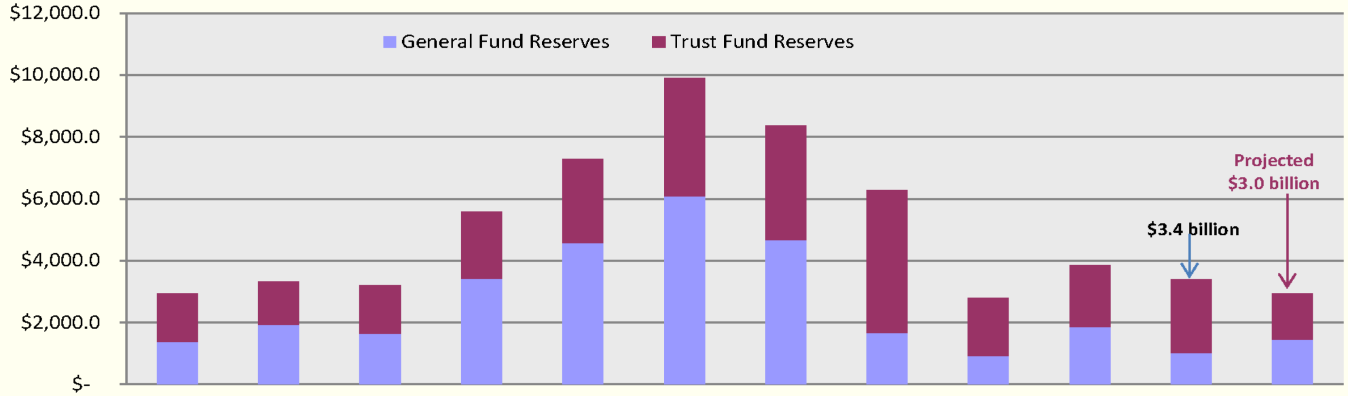
- General Fund reserves include unspent general revenues and moneys held in the Budget Stabilization Fund
- General Fund reserves accumulated from 2003 through 2006 to an unprecedented high of 22.5% of general revenues
- Reserves were used during 2007 through 2009 to minimize spending reductions due to the decline in revenues
- Fiscal Year 2011 ended with General Fund reserves of $1.0 billion or 4.6% of general revenues, which is slightly under the 5% considered adequate by rating agency guidelines
- General Fund reserves are projected to increase to $1.4 billion or 6.2% of projected general revenues at the end of Fiscal Year 2012
- Adequate reserves are critical in providing financial flexibility to respond to changes in the economic environment

Total Reserves Available

General Fund Plus Trust Fund Reserves

Historical Fiscal Years 2001 through 2011 and Projected 2012

(In Millions of Dollars)



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General Fund Reserves	$ 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	$ 1,854.5	$ 1,027.7	$ 1,443.6
Trust Fund Reserves	$ 1,561.0	$ 1,393.0	$ 1,571.0	$ 2,170.5	$ 2,714.0	$ 3,831.5	$ 3,684.7	$ 4,612.0	$ 1,890.0	$ 1,993.0	$ 2,366.6	$ 1,508.0
Total Reserves	$ 2,943.7	$ 3,318.1	$ 3,212.3	$ 5,594.1	$ 7,283.8	$ 9,912.7	$ 8,366.8	$ 6,286.6	$ 2,802.7	$ 3,847.5	$ 3,394.3	$ 2,951.6
Reserves as % of Revenues	15.34%	17.16%	16.08%	25.65%	29.14%	36.63%	31.69%	26.07%	13.33%	17.88%	15.05%	12.72%

- Budgetary practices identify trust fund balances that are available and can be used for other purposes
- Legislature has routinely redirected trust fund balances to augment revenues in the General Fund budget
- Total reserves, including trust fund balances, were approximately $750 million more than expected at $3.4 billion or 15% of general revenues at June 30, 2011
- Current fiscal year budget spends a portion of trust fund reserves and, therefore, total reserves at the end of 2012 are expected to decline to $3.0 billion or 12.7% of general revenues

Florida’s Credit Ratings

- Credit ratings are integral in the municipal bond market and are one factor that affects the interest rate on State debt offerings
- Factors analyzed in assigning State’s credit ratings
  - Governance Framework
  - Financial Management
  - Budgetary Performance
  - Debt/Liability Profile
  - Economy
- Standard & Poor’s changed the “Outlook” for the State’s rating from “Negative” to “Stable” in July 2011

State of Florida
General Obligation Credit Ratings

	Rating	Outlook
Standard & Poor's	AAA	Stable
Fitch Ratings	AAA	Negative
Moody's Investors Service	Aa1	Stable

Florida's Credit Ratings

- The rating agencies have identified the following credit strengths and challenges:

Credit Strengths:

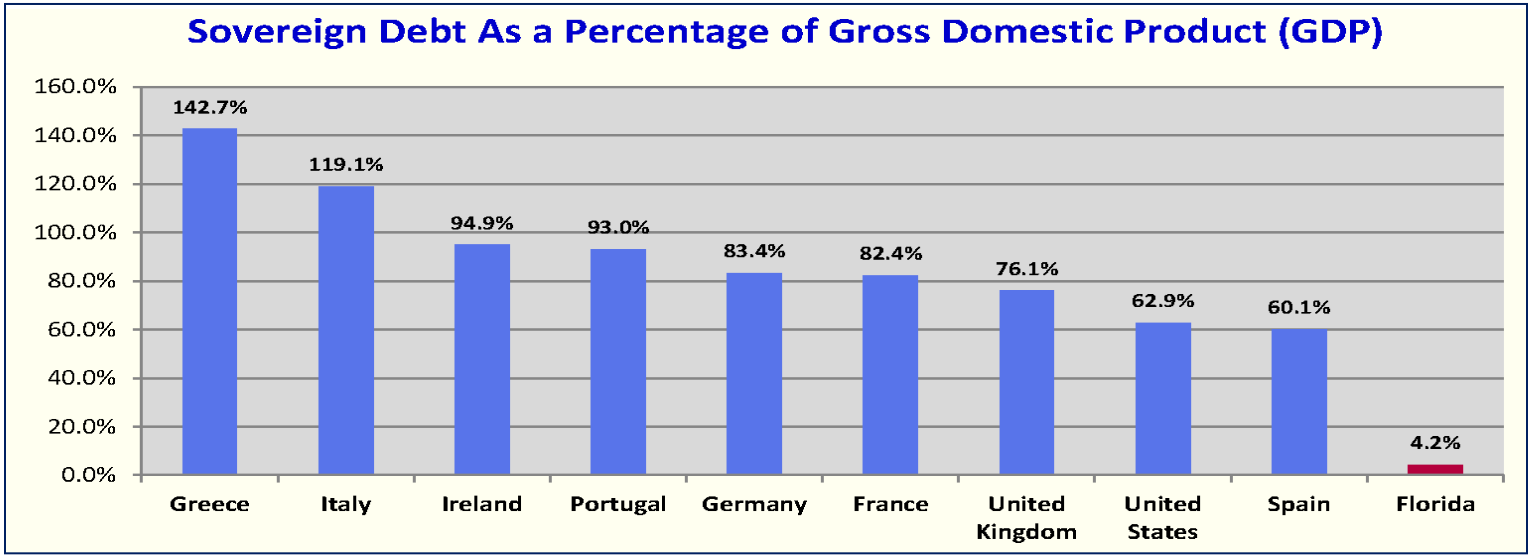
- Conservative budget and financial management
- Swift response to budget pressure from declining revenues
- Adequate reserves
- Moderate debt burden with clear guidelines
- Strong pension funding ratios and limited OPEB liability

Challenges:

- Lagging pace of economic recovery compared to some states
- Ongoing budget pressures due to slow revenue growth
- Reliance on one-time revenues to balance the budget
- Restoring and maintaining adequate reserves
- Potential budget pressure caused by Federal government spending cuts

- State ratings remain vulnerable and rating agencies will be carefully monitoring future economic and budgetary developments

Sovereign Debt As a Percentage of Gross Domestic Product



- Standard industry metric used for measuring sovereign debt is debt as percentage of gross domestic product (GDP)
- Florida's debt as a percentage of GDP is rather small relative to that of the U.S. Federal Government and European nations

Conclusions

- At June 30, 2011, State direct debt of $27.7 billion, $500 million less than prior fiscal year end
- Reduction in total debt due to significantly less new-money issuance in 2011
- Indirect debt and obligations related to Public/Private Partnerships are a significant factor in the State's overall debt profile
- Recurring annual debt service requirements on existing obligations are $2.2 billion
- Benchmark debt ratio of 7.46% remains in excess of 7% policy cap
- General Fund reserves at June 30, 2011 of $1.0 billion are down from 2010 but are projected to increase to $1.4 billion during the current fiscal year
- Total reserves, including trust fund balances, were $3.4 billion at June 30, 2011 and are expected to decline to $3.0 billion during the current fiscal year
- State ratings are very strong (AAA, AAA, Aa1) but are vulnerable to lagging economic recovery and budgetary challenges
- State debt relative to U.S. Federal Government and European sovereign debt is rather small