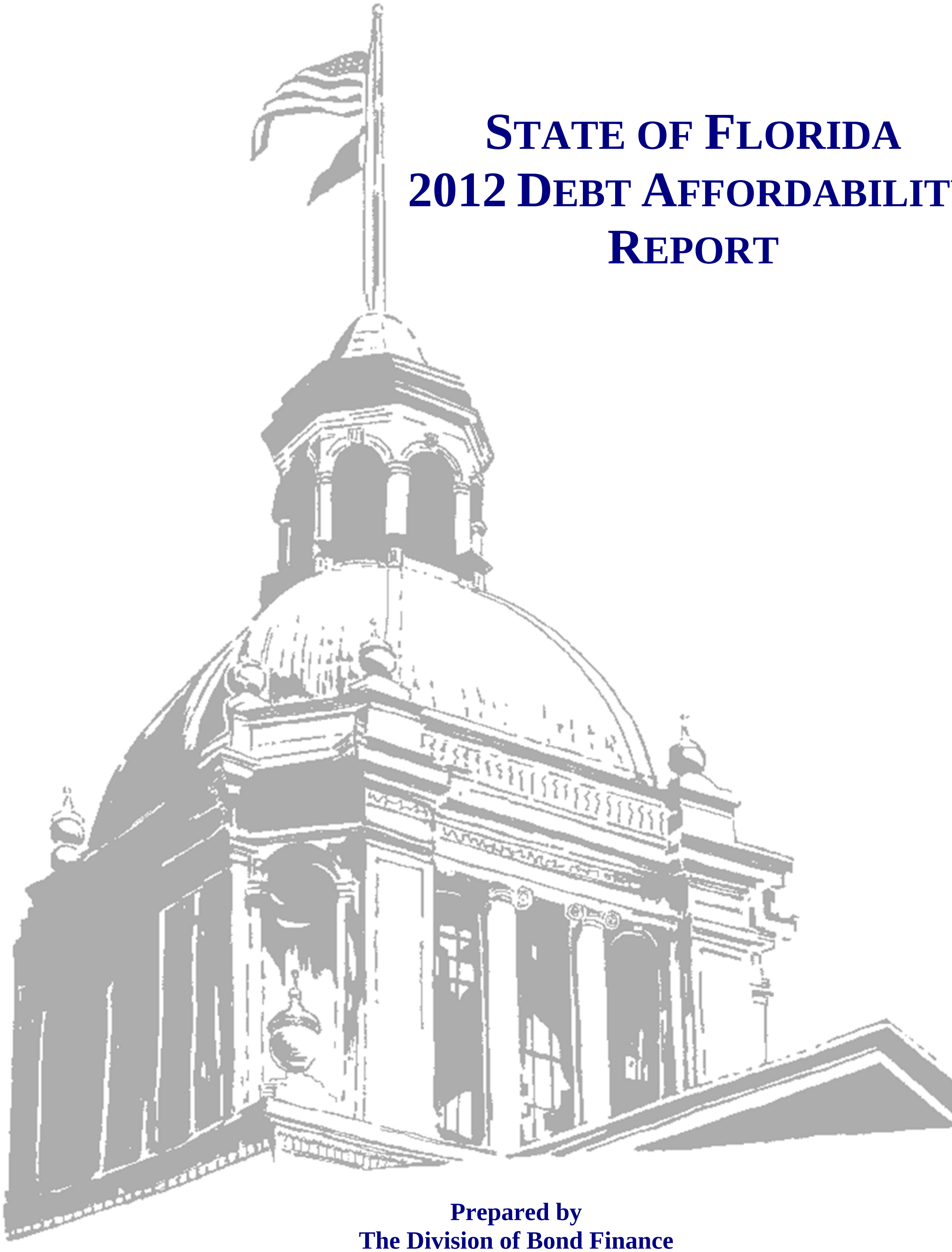
STATE OF FLORIDA
2012 DEBT AFFORDABILITY REPORT



Prepared by
The Division of Bond Finance
December 2012

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EXECUTIVE SUMMARY

The Division of Bond Finance prepared the 2012 Debt Affordability Report to review changes in the State's debt position that occurred over the last year and show how future debt service payments, debt issuance and revenue projections will affect the State's benchmark debt ratio. The 2012 Debt Affordability Report has been prepared as required by Section 215.98, Florida Statutes.

Debt Outstanding: ***Total State direct debt outstanding as of June 30, 2012 was $26.2 billion, a $1.5 billion decline from the prior fiscal year and the second consecutive year debt has decreased.*** Net tax-supported debt for programs supported by State tax revenues or tax-like revenues totaled $21.5 billion while self-supporting debt, representing debt secured by revenues generated from operating bond-financed facilities, totaled $4.6 billion. Indirect State debt at June 30, 2012 was approximately $17.4 billion and represents debt secured by non-traditional State revenues or represents debt obligations issued by a legal entity other than the State. Borrowings by insurance-related entities such as Citizens Property Insurance Corporation ("Citizens") and the Florida Hurricane Catastrophe Fund Finance Corporation ("CAT Fund") comprise the bulk of indirect debt and are increasingly emphasized in the State's overall credit analysis due to the potential hurricane risk. For purposes of this report, indirect debt is excluded from State debt ratios and the debt affordability analysis.

Estimated Annual Debt Service Requirements: ***Annual debt service payments totaled $2.2 billion in Fiscal Year 2012***, which is approximately the same as the annual debt service requirements for Fiscal Year 2011. In Fiscal Year 2013, debt service requirements are projected to remain at about $2.2 billion due to lower new-money debt issuance and continued refinancing of outstanding debt obligations for annual debt service savings. Annual debt service requirements are expected to decline by over $200 million in Fiscal Year 2014 when the retirement of Preservation 2000 bonds occurs.

Reserves: A government's level of general fund reserves is one of the most important indicators of its financial strength. Despite using reserves to offset a portion of the budget gap in Fiscal Year 2012, better than expected general revenue collections throughout the fiscal year, as well as higher than expected year-end expenditure reversions, increased the State's year-end General Fund Reserve balance. ***The combined balance of the Budget Stabilization Fund and the General Fund (collectively referred to herein as "General Fund Reserves") were $2.0 billion or 8.5% of general revenues at June 30, 2012, a nearly $1 billion improvement over the prior fiscal year.*** General Fund Reserves are projected to increase to $2.6 billion, or 10.6% of general revenues at the end of Fiscal Year 2013. Trust Fund balances have served as an additional source of reserves, augmenting the State's financial flexibility. Throughout the Great Recession, adequate reserves provided a critical source of financial flexibility for the State when reacting to declining revenues and are an important factor in maintaining the State's credit ratings.

Overview of the State's Credit Ratings: Credit ratings play an integral role in the municipal bond market and are one factor that affects the State's cost of funds on debt offerings. ***During the fiscal year ended June 30, 2012, the three major rating agencies, Standard and Poor's Rating Services ("S&P"), Fitch Ratings ("Fitch"), and Moody's Investors Service ("Moody's") each affirmed the State's AAA, AAA, and Aa1 general obligation ratings, respectively. Fitch maintained its negative outlook on the rating while Moody's and S&P affirmed the State's stable outlook.*** Credit strengths noted by the rating agencies include the State's conservative financial and budgeting practices; significant progress in restoring structural budget balance; financial flexibility provided by sizable reserves; relatively strong pension funding levels; and a large and diverse economy. Remaining concerns over maintenance of the current ratings include Florida's slow economic recovery; maintaining structural budget balance in light of continuing budget pressures; and the potential negative fiscal and economic consequences of a catastrophic hurricane. In addition, rating agencies continue to focus on the State's ability to maintain adequate reserves and balance the budget without over reliance on one-time revenues.

Estimated Debt Issuance: ***For all of the State's currently authorized financing programs, projections indicate that approximately $5.9 billion of debt is scheduled to be issued over the next ten years.*** This estimate is approximately $940.5 million or 19% higher than the expected issuance at June 30, 2011 and is primarily driven by the Department of Transportation's proposed long-term Public-Private Partnership ("P3") to expand I-4 through Orlando. The I-4 project is estimated to cost $2.4 billion, which represents 41% of the total expected issuance through Fiscal Year 2022. Expected debt issuance excludes short term P3 projects entered into by the Department of Transportation that are funded and completed during the current five-year Work Program horizon.

Revenue Projections: ***Revenues available to pay debt service in Fiscal Year 2012 totaled $30.7 billion, approximately $1.15 billion more than Fiscal Year 2011.*** Florida's economy continues to stabilize and recover from the Great Recession, fueling growth in base revenues. After reducing the revenue forecast for Fiscal Year 2012 by $600 million in October 2011, Revenue Estimating Conferences held in January and August 2012 increased the forecast by $407 million or 4.7% for Fiscal Year 2012; $303 million or 4.3% for Fiscal Year 2013; and $324 million or 5% for Fiscal Year 2014. The Revenue Estimating Conferences will meet in December 2012 to update revenue forecasts, and revisions to the projected benchmark debt ratio will be made accordingly.

Debt Ratios: ***The State's benchmark debt ratio of debt service to revenues available to pay debt service improved to 7.14% in Fiscal Year 2012 from 7.46% in Fiscal Year 2011.*** The improvement is directly related to the increased revenue available to pay debt service ($1.15 billion). For the first time in five years, the benchmark debt ratio is projected to fall slightly below the 7% policy cap in Fiscal Year 2013, one year earlier than projected in last year's Debt Affordability Report. In Fiscal Year 2014, the benchmark debt ratio is projected to decline below the 6% policy target due to a significant reduction (over $200 million) in annual debt service resulting from retirement of Preservation 2000 bonds.

An analysis of the primary debt ratios utilized by the municipal market based on fiscal year end 2011 data reveals that ***Florida's ratios are higher than the national average but below the peer group average for all but the benchmark debt ratio.*** Despite improvement in the State's ranking among its peer group over the last ten years, the State remained in fifth place for the ratio of debt service to revenues and debt per capita and sixth for debt as a percentage of personal income. A new metric introduced and employed by the rating agencies is combining debt and pension liabilities and measuring the outcome as a percentage of the state's gross domestic product. When including the unfunded pension liability with net tax-supported debt obligations, Florida ranks eighth among the peer group.

2011 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	Total Debt and Pension Liabilities as % of GDP
Florida	7.46%	$1,215	3.05%	5.40%
Peer Group Mean	6.76%	$1,722	4.01%	7.60%
National Median	4.90%	$1,117	2.80%	N/A

Debt Capacity: ***Based upon current revenue projections and existing borrowing plans, there is no debt capacity available within the 7% policy cap until Fiscal Year 2014.*** Debt capacity becomes available only when annual debt service substantially declines due to the final retirement of Preservation 2000 bonds. The estimated debt capacity available within the 7% policy cap in 2014 is $3.7 billion. The debt capacity available over the next ten years within the 7% policy cap is approximately $24.1 billion. Capacity will not become available within the 6% target until Fiscal Year 2018 when the benchmark debt ratio falls consistently below 6%. The amount and timing of debt capacity available 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 preparation of a Debt Affordability Study. ***The primary purpose of the study was and continues to be a tool to guide policymakers when assessing the impact of bond programs on the State's fiscal position, enabling them to make informed decisions regarding financing proposals and capital spending priorities.*** Additionally, the report provides a methodology for measuring, monitoring, and managing the State's debt, thereby protecting, and perhaps enhancing, Florida's bond ratings.

The Debt Affordability Study resulted in the development of a financial model that 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 metrics and evaluates the impact of issuing additional debt given current economic conditions reflected in revenue forecasts.

During the 2001 Legislative Session, the Legislature adopted the debt affordability analysis by enacting Section 215.98, Florida Statutes. The statute requires the annual preparation and delivery of the debt affordability analysis to the President of the Senate, Speaker of the House and the chair of each appropriation committee. Among other things, the analysis designates debt service to revenues as the benchmark debt ratio. ***Additionally, the Legislature created a 6% benchmark debt ratio target and 7% cap as policy guidelines for calculating estimated debt capacity.***

Additional debt causing the benchmark debt ratio to exceed the 6% target may be issued only if the Legislature determines that the additional authorization and issuance are in the best interest of the State. Additional debt causing 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.

Preparation of the 2012 Debt Affordability Report ("Report") satisfies the requirements of Section 215.98, Florida Statues. ***The purpose of the Report is to review changes in the State's debt position that occurred over the last year and show how future debt issuance and revenue projections will affect the State's benchmark debt ratio.*** Performing the debt affordability analysis enables the State to monitor changes in its debt position. The Report includes information regarding current revenue estimates, which enables the State to consider changing economic conditions in its future borrowing plans.

The Report reflects information regarding the following three factors that impact revisions to projected debt ratios: (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 Revenue Estimating Conference. The revised debt ratios are compared with national averages and Florida's eleven-state peer group. Additionally, the revised benchmark debt ratio is evaluated vis-a-vis the 6% target and the 7% cap. Lastly, ***the Report shows whether future debt capacity is available within the target benchmark debt ratio of 6% and 7%.***

The information generated by this analysis is 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. ***Updates to the analysis will occur as Revenue Estimating Conference forecasts are revised so that State policymakers and the Legislature have the latest information available when making critical future borrowing decisions during the appropriations process.*** In addition, the Legislature can request the Division of Bond Finance to conduct an analysis of the long-term financial impact when considering any proposed new financing initiatives. ***Information generated by this analysis includes important aspects for policymakers to consider when making future borrowing decisions as these choices can affect the long-term fiscal health of the State.***

COMPOSITION OF OUTSTANDING FLORIDA DEBT

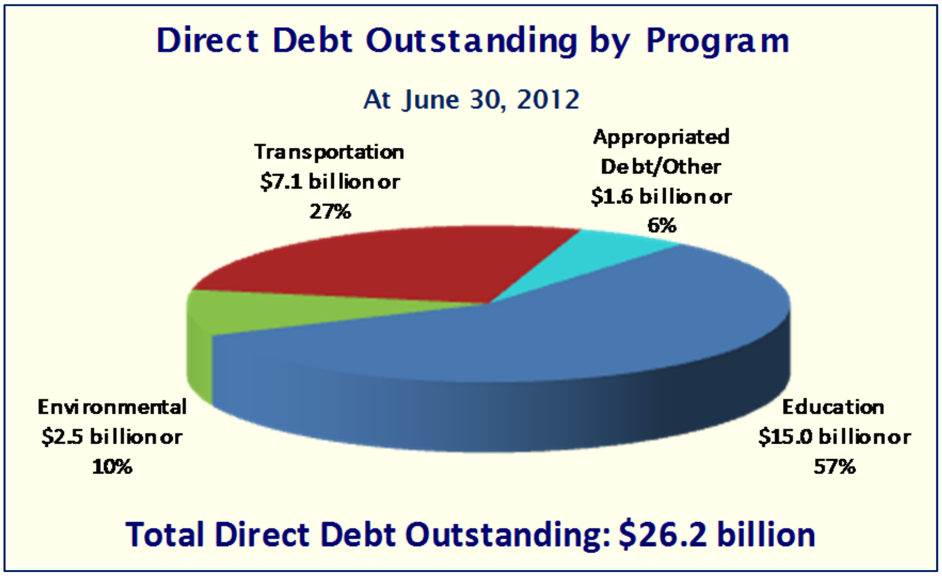


Figure 1

The State of Florida had $26.2 billion in total direct debt outstanding at June 30, 2012, $1.5 billion less than the previous year-end. Figure 1 illustrates the State's investment in bond financed infrastructure by program area. Educational facilities are the largest investment financed with bonds, with $15.0 billion or 57% of total debt outstanding. Included in this amount are bonds outstanding for the State's largest bond program, Public Education Capital Outlay ("PECO"), which accounts for $10.8 billion, followed by the Lottery bond program with $2.5 billion. Transportation infrastructure at $7.1 billion is the second largest investment consisting primarily of toll roads financed with bonds for Florida's Turnpike Enterprise and the State's Expressway Authorities ($3.2 billion). Contributing to the next largest portion of transportation debt are Public-Private Partnership ("P3") long-term obligations ($1.7 billion) and Right-of-Way Acquisition and Bridge Construction bonds ($1.8 billion). Conservation land acquisition is the third largest investment financed with bonds, with $1.9 billion of bonds outstanding for the Preservation 2000/Florida Forever and Everglades Restoration bond programs.

As shown in Figure 2, ***the $26.2 billion of direct debt outstanding at June 30, 2012 consisted of net tax-supported debt totaling $21.6 billion and self-supporting debt of $4.6 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 Enterprise and other Expressway Authority bond programs, are the primary self-supporting programs with outstanding debt. The remaining self-supporting debt relates to university auxiliary enterprises, which primarily finance campus housing and parking facilities and the water pollution control revolving loan program, which provides low interest rate loans to local governments for water improvement projects.

Direct Debt Outstanding by Type and Program

As of June 30, 2012

(In Millions Dollars)

Debt Type		Amount
Net Tax-Supported Debt		$21,592.8
Self-Supporting Debt		4,635.1
Total State Debt Outstanding		**$26,228.0**
Net Tax-Supported Debt		
Education		
Public Education Capital Outlay	$10,825.6	
Capital Outlay	529.6	
Lottery	2,524.9	
University System Improvement	195.7	
University Mandatory Fee	50.0	
Community Colleges	107.5	
Total Education		$14,233.4
Environmental		
Preservation 2000 / Florida Forever	1,712.2	
Everglades Restoration Bonds	204.5	
Inland Protection	84.8	
Total Environmental		2,001.5
Transportation		
Right-of-Way Acquisition and Bridge Construction	1,776.2	
State Infrastructure Bank	16.7	
P3 Obligations	1,694.3	
Florida Ports	266.9	
Total Transportation		3,754.1
Appropriated Debt / Other		
Facilities	354.0	
Prisons	649.5	
Children & Families	115.4	
Juvenile Justice	10.3	
Lee Moffitt Cancer Center	23.2	
Affordable Housing	51.0	
Master Lease	7.1	
Energy Saving Contracts	57.0	
Sports Facility Obligations	319.1	
Florida High Charter School	17.2	
Total Appropriated Debt / Other		1,603.8
Total Net Tax-Supported Debt Outstanding		**$21,592.8**
Self-Supporting Debt		
Education		
University Auxiliary Facility Revenue Bonds		$780.2
Environmental		
Florida Water Pollution Control		501.9
Transportation		
Toll Facilities	3,289.2	
State Infrastructure Bank Revenue Bonds	63.9	
Total Transportation		3,353.1
		$4,635.1
Total Self-Supported Debt Outstanding		

Figure 2

In addition to direct debt, the State also has indirect debt. Indirect debt represents debt secured by non-traditional State revenues or represents debt obligations of a legal entity other than the State. In some cases, indirect debt may represent a financial burden on Florida's citizenry, e.g., assessments to service the CAT Fund and Citizens debt. ***Indirect debt is not included in the State's debt ratios or the analysis of the State's debt burden.***

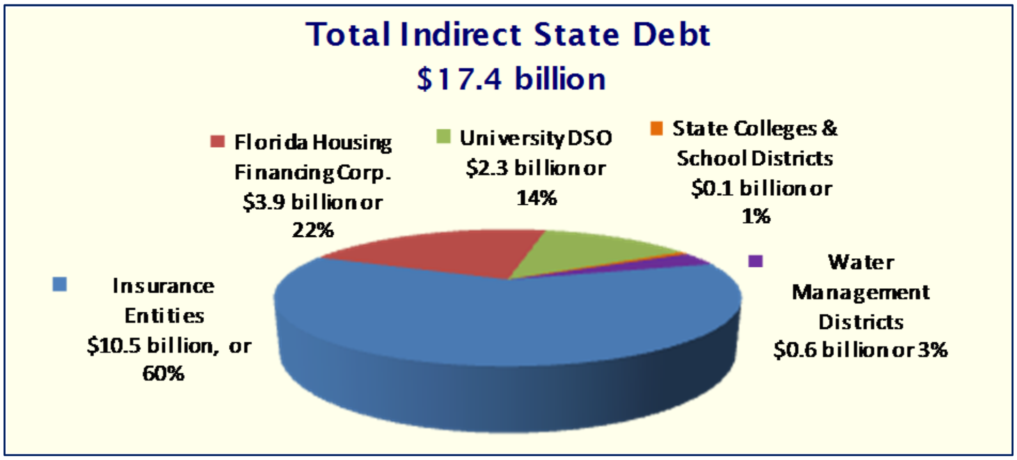


Figure 3

Indirect debt of the State totaled approximately $17.4 billion at June 30, 2012, $1.4 billion more than the previous year-end. Figures 3 and 4 set forth the State's indirect debt by program. ***CAT Fund and Citizens represented $10.5 billion or 60% of total indirect debt and consists of both liquidity and post-event financings.*** At June 30, 2012, liquidity debt outstanding was $5.1 billion for Citizens and $3.5 billion for the CAT Fund, while post-event debt secured by emergency assessments totaled $1.9 billion for Citizens and the CAT Fund, combined. Although the State views the insurance entities as completely independent and responsible for their own obligations, rating agencies consider the amount of debt outstanding by the insurance entities integral to the State's overall credit and debt analysis due to the fiscal impact the insurance entity emergency assessments could have on Florida's citizenry. The Florida Housing Finance Corporation, which administers the State's housing programs, had $3.9 billion or 22% of the total indirect debt outstanding, and university direct support organizations followed with $2.3 billion or 14% of the total indirect debt outstanding.

Total Indirect State Debt by Program

(In Millions of Dollars)

Insurance Entities		
Florida Hurricane Catastrophe Fund Finance Corporation	$ 4,800.9	
Citizens Property Insurance Corporation	5,727.3	
Total		$ 10,528.2
Florida Housing Finance Corporation		
Single Family Programs	1,908.7	
Multi-Family Programs	1,958.4	
Total		3,867.1
University Direct Support Organizations		
Shands Teaching Hospital & Affiliates	650.3	
University of South Florida	443.3	
University of Central Florida	329.6	
Florida Gulf Coast University	198.9	
Florida Atlantic University	168.8	
University of Florida	166.0	
North Florida	152.8	
Other State Universities	235.4	
Total		2,345.0
Water Management Districts		566.6
School Districts		67.9
State (Community) Colleges and Foundations		59.4
Total State Indirect Debt		**$ 17,434.2**

Figure 4

DEVELOPMENTS IN ALTERNATIVE FINANCING TECHNIQUES

Alternative financing techniques fund capital projects that utilize State resources as a repayment source. Three alternative financing techniques are noted in this section of the Report: short-term (less than five years) Design, Build, Finance Contracts utilized by the Department of Transportation ("DOT"); debt issued through Direct Support Organizations ("DSOs") of the State universities; and charter school transactions that have occurred with more frequency and may continue to grow in the near term. ***Disclosure regarding transactions using these alternative financing techniques is important as they are more frequently involving an encumbrance of future state resources but are not reflected as direct debt obligations.***

Design, Build, Finance Contracts

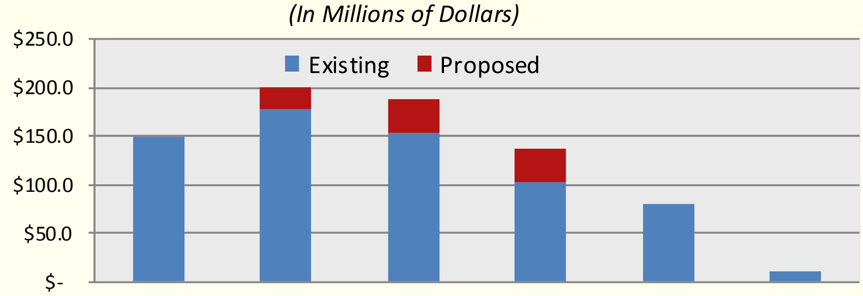
DOT has used Design, Build, Finance Contracts ("DBF Contracts") to advance projects within its five-year workplan. DBF Contracts accelerate projects but defer payments to a later date when moneys are available within the five-year workplan, similar to short-term debt. In Fiscal Year 2012, the cumulative cost of advancing the workplan through DBF Contracts totaled approximately $675 million payable from State Transportation Trust Fund ("STTF") revenues. DOT has proposed future DBF Contracts totaling approximately $92 million.

The total of existing and proposed DBF Contracts is approximately $767 million. The aggregate annual payments required under the DBF Contracts through Fiscal Year 2018 are shown in Figure 5 below.

Existing and Proposed DBF Contract Availability Payments

Fiscal Years 2013 through 2018

(In Millions of Dollars)



	2013	2014	2015	2016	2017	2018	Total
Existing DBF Contracts	$ 149.6	$ 177.9	$ 154.1	$ 103.0	$ 79.9	$ 10.3	$ 674.8
Proposed DBF Contracts	-	22.2	34.7	34.8	-	-	$ 91.7
Total Annual Payments[1]	$ 149.6	$ 200.1	$ 188.8	$ 137.8	$ 79.9	$ 10.3	$ 766.5

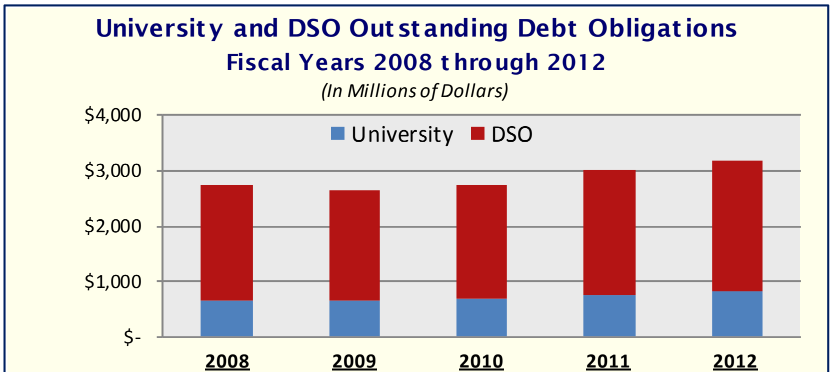
[1] Does not include payments required under long term contracts for the Miami Tunnel and I-595 projects or the proposed I-4 project.

Figure 5

As noted in the 2011 Debt Affordability Report, DBF Contract commitments, unlike the existing long term P3 projects for the Miami Tunnel and I-595, were excluded from calculating the benchmark debt ratio because the payments balance within the current five-year workplan horizon and the commitments introduce near-term volatility in the State's benchmark debt ratio, impairing the usefulness of the debt affordability analysis as a long-term planning tool in managing the State's debt position. However, the contractors awarded the I-95 North and the State Road 9B projects totaling $97.8 million leveraged Availability Payments received from DOT to secure gap financing from the municipal bond market. Availability Payments are mandatory scheduled payments due from DOT to the contractor that begin usually when construction is finished and continue throughout a stated timeframe. ***The decision to exclude short term DBF Contracts from the benchmark debt ratio will be analyzed annually as this practice evolves.*** For purposes of the 2012 Report, short-term DBF Contracts continue to be excluded from the benchmark debt ratio.

University DSO Obligations

Each university in the State system utilizes DSOs to support its various auxiliary functions (e.g. athletics, healthcare, fundraising, research activities, etc.). DSOs can also serve as a conduit issuer or shell corporation that universities use to finance capital projects including campus housing, parking and athletic facilities. DSO transactions are approved by the universities' Boards of Trustees, DSO Boards, and the Board of Governors; however, unlike transactions managed by the Division of Bond Finance, DSO transactions do not require approval by the Governor and Cabinet. DSO debt has grown from $2.1 billion in Fiscal Year 2008 to $2.3 billion in Fiscal Year 2012, or nearly 13% over five years as shown in Figure 6 below. ***For purposes of the 2012 Report, DSO debt is excluded from the benchmark debt ratio and is considered indirect debt.***



	2008	2009	2010	2011	2012
University	$ 667.4	$ 640.3	$ 673.3	$ 752.4	$ 829.9
DSO	2,082.2	2,006.5	2,073.7	2,244.1	2,345.0
Total	$ 2,749.6	$ 2,646.8	$ 2,747.0	$ 2,996.5	$ 3,174.9

Figure 6

Charter Schools

There are currently over 450 charter schools educating approximately 5.9% of the student population in the State. Like Florida public schools, charter schools in Florida receive funding from the State on a per student basis. With the expansion of charter schools in Florida and the need for new facilities to house a growing student population, charter school debt issuance has been increasing in the State. In an October 2012 report, the Local Initiatives Support Corporation indicated that Florida charter schools issued five series of bonds totaling $154.5 million between January 1, 2011 and May 31, 2012. This amount was the second highest only to Texas charter schools ($269 million) and represented approximately 13.5% of the $1.14 billion of total debt issued by all charter schools nationally during the same time period. ***As of May 31, 2012, Florida charter schools had over $490 million in original par amount of bonds outstanding***, approximately 9.1% of the $5.4 billion outstanding in the sector on a nationwide basis.

Debt obligations of Florida charter schools are often secured by mortgages on the facilities as well as operating revenues, which indirectly uses appropriations received from the State. However, charter school debt does not constitute an indebtedness of the State and the State is not obligated for payment of debt service on the bonds. While declining aid from the State is cited as a credit negative in charter school credit ratings reports, the rating agencies analyze the school's enrollment, demand as evidenced by wait lists, management and strength of its board, student test scores, ability to cover future debt service with current operations, and adequate days cash on hand when assigning a rating. Additionally, evaluation of the charter school operator is also embedded in the analysis and not the creditworthiness of the State. ***Since charter school debt is not an obligation of the State and municipal market participants evaluate the obligations based on the operator and success of the school, it is not treated as direct debt and is excluded when calculating the benchmark debt ratio.***

GROWTH IN STATE DEBT

Reviewing the trend in the State's outstanding debt is an important evaluation tool to show how debt levels have changed over time. Figure 7 illustrates the growth in total State direct debt from Fiscal Years 2002 through 2010 and the reductions in each of the last two fiscal years.

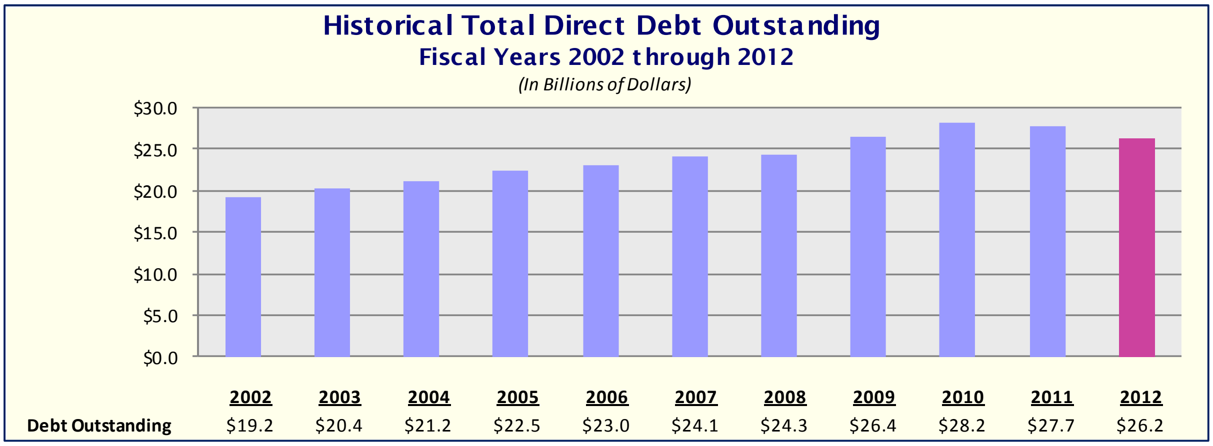
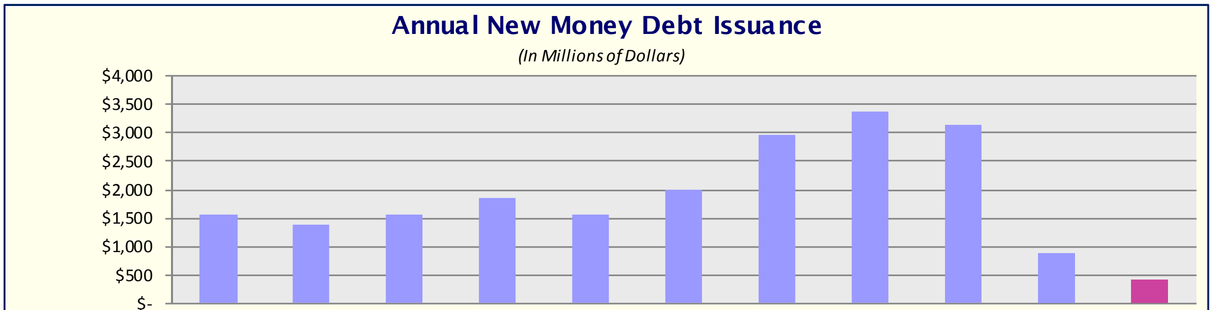


Figure 7

Over the last ten years, the State made substantial investments in infrastructure for education, transportation, and acquiring conservation lands to address the requirements of a growing population. As a result, total State direct debt grew by $9.0 billion from $19.2 billion at June 30, 2002 to $28.2 billion at June 30, 2010. The net increase was primarily due to the issuance of PECO bonds ($3.1 billion), Lottery bonds ($1.0 billion), Public-Private Partnership ("P3") obligations ($1.8 billion), toll road bonds ($1.2 billion), and Right-of-Way bonds ($800 million).

Total direct debt declined by approximately $2.0 billion over the last two fiscal years ($500 million in Fiscal Year 2011 and $1.5 million in Fiscal Year 2012) to $26.2 billion from a high of $28.2 billion at June 30, 2010. The decrease in total direct debt outstanding resulted primarily from principal amortizations on existing debt. Self-supporting debt outstanding declined slightly in Fiscal Year 2012 to $4.6 billion, a reduction of $100 million from the prior year.

New money issuance is illustrated in Figure 8 below, showing Fiscal Year 2012 as the third consecutive year of declining new money bond issuance. ***New money bond issuance in Fiscal Year 2012 of approximately $416 million was significantly less than the average annual bond issuance over the last ten years of $2 billion.***



Fiscal Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
# of Issues	15	12	12	12	15	12	19	14	19	10	7
Tax Supported	$ 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	$ 193.3
Self Supporting	144.2	44.6	261.9	702.6	298.2	745.7	544.5	250.0	667.5	335.9	222.6
New Money	$ 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	$ 415.9

Figure 8

In addition to the $416 million new-money bond transactions in Fiscal Year 2012, the State issued $2.6 billion in refunding bonds during Fiscal Year 2012: $2.4 billion for net tax-supported bond programs and $152 million for self-supporting bond programs. The refunding bonds were issued for debt service savings by lowering the interest rates on outstanding debt. By taking advantage of the historically low interest rate environment, the State saved $442 million on a gross basis and $357 million on a present value basis through refunding transactions. Fiscal Year 2012 debt service savings were $21 million, with average annual savings of approximately $30 million thereafter. ***Cumulatively since Fiscal Year 2007, the State has executed $7.0 billion in refunding transactions, reducing total gross debt service expenditures by about $975 million over the remaining life of the bonds (approximately 20 years).***

GROWTH IN ANNUAL DEBT SERVICE

Annual debt service payments for the State's existing net tax-supported debt is approximately $2.2 billion per year. Over the past ten years, annual debt service requirements have grown 60%, increasing from approximately $1.4 billion in 2002 to approximately $2.2 billion in 2012. Growth in the annual debt service payment mirrors the growth in total debt outstanding over the same period. From a budgetary perspective, measuring the growth in annual debt service indicates how much of the State's resources are obligated for paying debt service before providing for other essential government services.

Figure 9 depicts the change in annual debt service payments over the last ten years. ***Annual debt service requirements decreased $13 million in Fiscal Year 2012, the first time in ten years that debt service payments were lower than the previous year.*** Debt service requirements were reduced by cash flow savings which resulted from refunding transactions executed during the year.

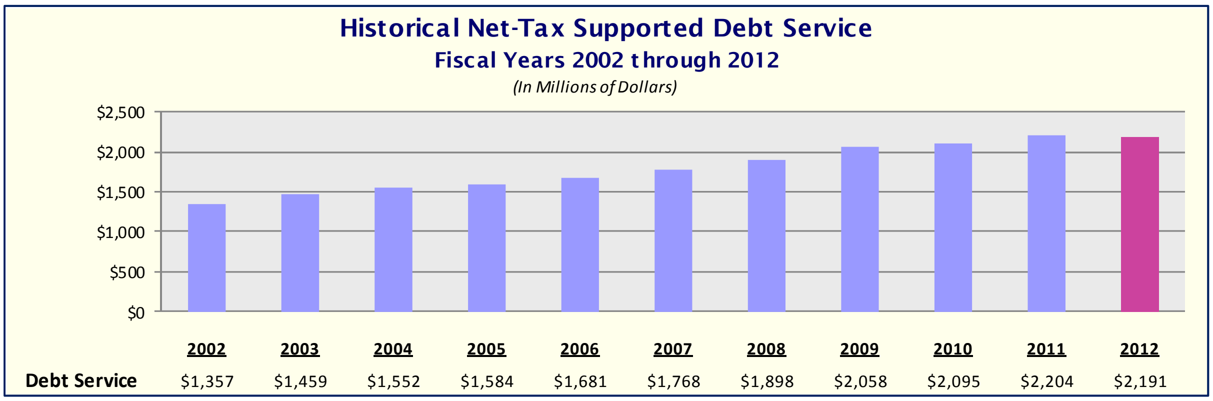
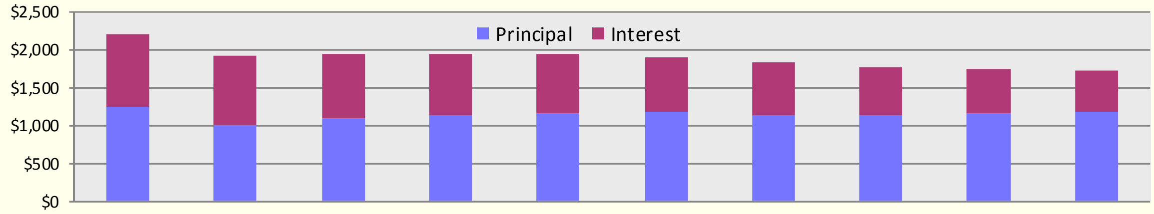


Figure 9

Debt service payments on existing outstanding debt total $18.8 billion over the next ten years, with principal and interest payments of $11.5 billion and $7.3 billion, respectively. Annual debt service payments over the next ten years for the State's existing net-tax supported debt, consisting of both principal and interest amounts, are shown in Figure 10. In Fiscal Year 2013, annual debt service requirements remain at approximately $2.2 billion before declining to approximately $1.9 billion in Fiscal Year 2014 when the Preservation 2000 bonds are retired. Annual debt service requirements remain at approximately $1.9 billion through Fiscal Year 2018, which is indicative of the State's adherence to level debt service repayment. In Fiscal Years 2015 through 2017, deferred payments on Public-Private Partnership ("P3") contracts impact the level debt service payment structure. As more fully described below, mandatory long-term contractual payments required under the existing P3 arrangements are significantly deferred, deviating from the State's normal practice of using a level debt structure.

Existing Net-Tax Supported Debt Service Requirements
Next Ten Years
(In Millions of Dollars)



	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Principal	$ 1,242.6	1,018.5	1,089.6	1,132.2	1,159.2	1,175.7	1,150.5	1,148.9	1,172.0	1,189.5
Interest	946.2	885.3	838.0	796.7	751.5	704.3	656.7	609.8	563.4	516.3
Total	$ 2,188.8	$ 1,903.8	$ 1,927.6	$ 1,928.8	$ 1,910.8	$ 1,880.0	$ 1,807.2	$ 1,758.7	$ 1,735.4	$ 1,705.8

Figure 10

Department of Transportation Long Term P3 Projects

Pursuant to Section 334.30, Florida Statutes, the Department of Transportation ("DOT") has executed two agreements with private companies (the I-595 Corridor Improvement Project and the Port of Miami Tunnel Project) and plans to enter into a third contract (I-4 Expansion through Orlando) to advance construction of the projects. ***The two existing P3 projects have combined project costs to the State of $1.8 billion ($1.3 billion for the I-595 and $543 million for the Port of Miami) with Availability Payments over the next 35 years totaling $3.5 billion. The State's cost for the proposed I-4 Project is estimated to be $2.4 billion with total capital and debt service payments of approximately $4.0 billion over a 40 year period.*** Availability Payments are mandatory scheduled payments that continue for 30 to 35 years after construction is complete.

The aggregate annual payment for such long term P3 obligations may not exceed 15% of the annual funds available in the State Transportation Trust Fund ("STTF"). The maximum aggregate annual payment for existing P3s totals $170.5 million (not including the proposed P3 for the I-4 expansion through Orlando), or approximately 3.7% of the funds available in the STTF. Had this amount been included as debt service, the 2012 benchmark debt ratio would have increased by approximately 0.56%. The maximum annual payment under the 15% cap is approximately $800 million based on funds available in the STTF as of June 30, 2012. Should DOT fully leverage the amount available under the 15% statutory cap, an additional $6.4 billion in debt would be added to the State's debt burden, increasing the benchmark debt ratio by approximately 2.6%. ***Going forward, analysis of DOT's use of long term P3 contracts will continue in order to determine the effect on the State's benchmark debt ratio, with long-term P3s included as direct debt.***

Build America Bonds

Build America Bonds ("BABs") were authorized under the American Recovery and Reinvestment Act of 2009 and issued with taxable interest rates with the Federal Government reimbursing the issuer for 35% of the interest cost. The State issued approximately $1.6 billion in BABs prior to expiration of the program and expects to receive subsidy payments equal to 35% of the interest paid on each interest payment date of the BABs. Debt service is shown net of the BABs subsidy for purposes of this Report. In Fiscal Year 2012, BAB subsidies totaled $33.6 million and will decrease annually over the life of the BABs bond issues. The State's practice has been to appropriate gross debt service amounts and revert any unused debt service appropriations at year-end.

EXPECTED DEBT ISSUANCE

Future expected debt issuance is provided by various State agencies that receive proceeds under *authorized bond programs. New bonding programs and projections for the maximum amount* statutorily authorized under some bonding programs (e.g., Florida Forever and GARVEE) are excluded in the expected issuance as the amounts and timing of debt issuance under these programs are unknown.

Projected Debt Issuance By Program: Fiscal Years 2013 through 2022

(In Millions of Dollars)

Fiscal Year	PECO	Capital Outlay	Lottery	State Colleges	State Univ. System	University Mandatory Student Fee	Everglades Restoration	ROW	P3 Project	Lee Moffitt	Seaports	Master Lease	Total Issuance
2013	$ -	$ 30.0	$ 89.8	$ 25.0	$ -	$ 50.0	$ 50.0	$ -	$ -	$ 115.0	$ -	$ 10.0	$ 369.8
2014	-		-	-	130.0	-	-	160.0	-	-	140.4	10.0	440.4
2015	326.6	-	-	-	-	-	-	120.0	2,386.5	-	-	10.0	2,843.1
2016	307.7	-	-	-	-	-	-	110.0	-	-	-	-	417.7
2017	300.2	-	-	-	-	-	-	85.0	-	-	-	-	385.2
2018	272.5	-	-	-	-	-	-	75.0	-	-	-	-	347.5
2019	263.6	-	-	-	-	-	-	85.0	-	-	-	-	348.6
2020	265.0	-	-	-	-	-	-	109.0	-	-	-	-	374.0
2021	256.8	-	-	-	-	-	-	73.0	-	-	-	-	329.8
2022	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	$ 1,992.4	$ 30.0	$ 89.8	$ 25.0	$ 130.0	$ 50.0	$ 50.0	$ 817.0	$ 2,386.5	$ 115.0	$ 140.4	$ 30.0	$ 5,856.1

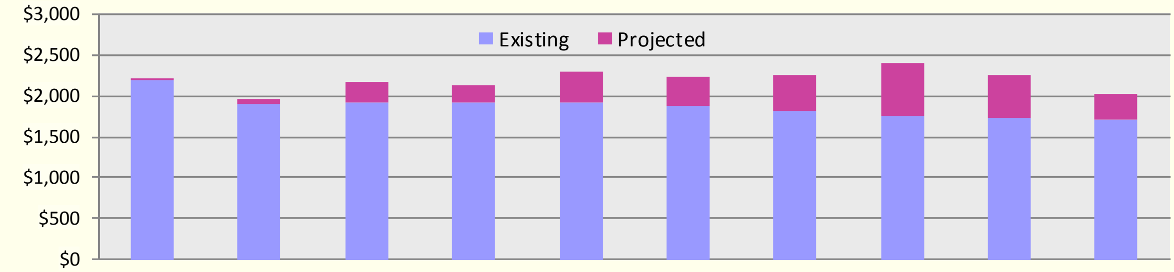
Figure 11

As detailed in Figure 11 above, ***approximately $5.9 billion in new money debt issuance is projected over the next ten years for all of the State's currently authorized financing programs. The projected issuance increased by $940.5 million over the $4.9 billion expected issuance projected at June 30, 2011. Expected debt issuance increased over the previous year primarily due to DOT's proposed long term P3 project to expand I-4 through Orlando, which is estimated to cost $2.4 billion and accounts for 41% of the total projected issuance.*** The PECO program is the State's largest bond program, but the amount of borrowing for school construction continues to decline due to declining gross receipts tax collections. Additionally, since Fiscal Year 2009, the Legislature has not authorized bonding to acquire conservation lands under the Florida Forever program. ***The increase in expected issuance over the next ten years negatively impacts the projected benchmark debt ratio.***

PROJECTED DEBT SERVICE

Projected Annual Debt Service Next Ten Years

(In Millions of Dollars)



	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Existing	$ 2,188.8	$ 1,903.8	$ 1,927.6	$ 1,928.8	$ 1,910.8	$ 1,880.0	$ 1,807.2	$ 1,758.7	$ 1,735.4	$ 1,705.8
Projected	20.9	65.8	236.2	196.0	374.6	361.5	451.4	641.4	527.5	323.6
Total	$ 2,209.7	$ 1,969.6	$ 2,163.8	$ 2,124.8	$ 2,285.4	$ 2,241.4	$ 2,258.6	$ 2,400.0	$ 2,262.9	$ 2,029.4

Figure 12

Figure 12 shows existing debt service and the estimated annual debt service for the projected bond issuances over the next ten fiscal years. ***Based on existing and projected debt service, annual debt service is expected to remain at approximately $2.2 billion in Fiscal Year 2013 and, as a result of the retirement of the Preservation 2000 bonds, decrease by $240 million in Fiscal Year 2014. However, growth in annual debt service resumes in Fiscal Years 2015 through 2019 as mandatory payments begin on DOT's P3 projects executed in Fiscal Years 2009 and 2010.*** Deferred payments under long-term P3 contracts are not fully reflected in the illustration because they increase over time and extend beyond the projection period. The projected debt service does not include short-term DBF Contracts for accelerating DOT's five-year work program or for future P3 projects currently contemplated by DOT. However, projected debt service does include the estimated long-term DOT payment obligations for the I-4 P3 project.

LONG-RUN REVENUE FORECASTS

Revenue available to pay debt service is one of the two variables used to calculate the benchmark debt ratio. Actual general revenue collections for Fiscal Year 2012 exceeded Fiscal Year 2011 collections by $1.15 billion, a 3.9% increase. ***Changes in revenue estimates have a significant impact on the calculation of available debt capacity and are especially important given the State's dynamic economic environment.*** Since the December 2011 Debt Affordability Report, which utilized revenue estimates from the October 2011 Revenue Estimating Conference ("REC"), revenue forecasts increased in January and August 2012, as the economic recovery began to improve. Collectively, general revenue estimates were increased by $407 million or 4.7% for Fiscal Year 2012; $303 million or 4.3% for Fiscal Year 2013; and $324 million or 5.0% for Fiscal Year 2014.

The August 2012 Revenue Estimating Conference increased most elements of its near-term forecast. The Florida Office of Economic and Demographic Research ("EDR") anticipates the housing market correction, historic levels of foreclosure activity, and ongoing unemployment figures that remain higher than the national rate will persistently drag on Florida's economy in the near term affecting the steady pace of recovery. ***The August 2012 Revenue Estimating Conference results have been used for purposes of this Report. Revenue forecasts are expected to be reviewed and revised by the December 2012 Revenue Estimating Conference and this Report will be updated once the results become available.***

General revenues, 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), are available for debt service. Historical and short-term projections of revenues available for debt service, broken down by source, are provided in Figure 13 below. The projection of revenues available for debt service reflects forecasts adopted at the August 2012 Revenue Estimating Conferences.

Projected Revenue Available for State Tax-Supported Debt

(In Millions of Dollars)

	Actual		Projection		
Fiscal Year	2011	2012	2013	2014	2015
Revenue Available:					
General Revenue	$ 22,551.6	$ 23,618.8	$ 24,631.6	$ 25,872.7	$ 27,141.4
Less : Documentary Stamp Tax Included Below	(167.2)	(208.6)	(265.7)	(457.5)	(509.0)
Net General Revenue	$ 22,384.4	$ 23,410.2	$ 24,365.9	$ 25,415.2	$ 26,632.4
Specific Tax Revenue					
Gross Receipts	1,071.5	1,033.9	1,027.9	1,051.6	1,077.7
Motor Vehicle License	621.7	616.8	637.7	649.9	665.7
Lottery	1,184.0	1,316.6	1,354.6	1,375.8	1,390.9
Documentary Stamp Tax	890.3	973.7	959.5	1,024.5	1,108.8
Severance Tax	10.0	-	-	-	-
Motor Fuel Tax	1,102.9	1,110.7	1,149.8	1,192.6	1,244.3
Motor Vehicle License-Surcharge	18.4	18.3	18.4	18.8	19.4
Tax on Pollutants-IPTF	192.0	189.7	191.7	195.6	200.4
University Net Bldg Fees & Cap. Impr. Fees	37.8	38.6	54.6	55.7	57.3
Community College Cap. Impr.Fees	26.0	28.3	30.0	31.0	32.0
Federal Reimbursements for Transportation	2,017.8	1,971.6	2,125.6	2,452.3	2,553.2
Total State Revenue Available	**$ 29,556.7**	**$ 30,708.4**	**$ 31,915.6**	**$ 33,463.0**	**$ 34,982.1**

Figure 13

Total revenues available in Fiscal Year 2012 totaled $30.7 billion or $1.15 billion more than the $29.6 billion available in Fiscal Year 2011. General revenue collections in Fiscal Year 2012 exceeded the prior year by $1.07 billion, benefitting from one-time events rather than exhibiting underlying strength. The August 2012 REC forecasted an increase in total available revenues in future years, with the general revenue forecast moderately weaker for Fiscal Years 2014 and 2015. ***The increase in total available revenues results in an improvement in the expected benchmark debt ratio.*** While not included in EDR's forecasts, the continuing difficulties in the Eurozone and the lack of a resolution of the fiscal cliff prior to January 2013 present risks to the State's current revenue forecast.

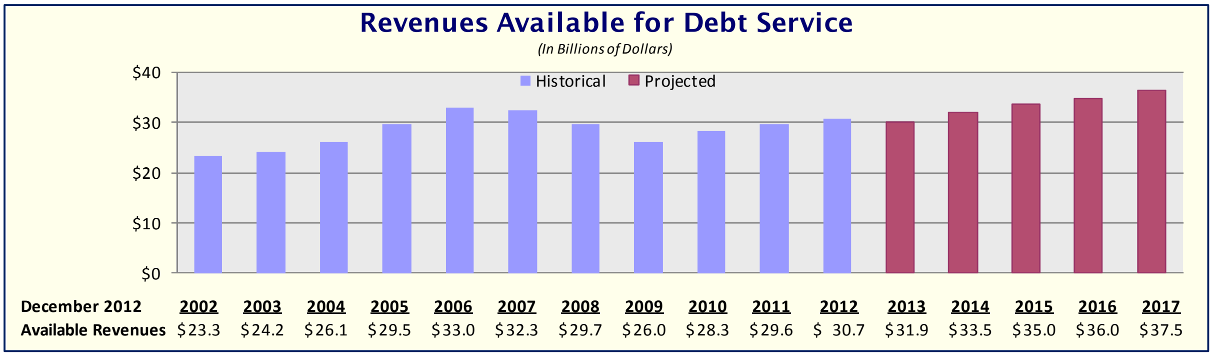


Figure 14

Figure 14 sets forth a ten-year history and five-year estimate of revenues available to pay debt service. The declines in revenue collections due to the impact of the Great Recession significantly increased the benchmark debt ratio in Fiscal Years 2007 through 2009. See "Benchmark Debt Ratio" herein. Over the past year, the economic environment showed an ongoing, gradual recovery. The projected benchmark debt ratio reflects the steady pace of improvement in the economy and corresponding revenue collections.

BENCHMARK DEBT RATIO

The metric used for the benchmark in the debt affordability analysis is the ratio of debt service to revenues available to pay debt service. The policy guidelines established by the Legislature include a 6% target and a 7% cap for the benchmark debt ratio. ***Figure 15 tracks both the historical and projected benchmark debt ratio.*** Between Fiscal Years 2002 and 2003 the ratio increased, exceeding the 6% target in 2003. During the period between Fiscal Years 2004 and 2006 the benchmark debt ratio declined due to strong revenue growth. The significant increase in the benchmark debt ratio from Fiscal Year 2006 through 2009 illustrates the dramatic decline in revenues available for debt service. The improvement reflected in Fiscal Year 2010 resulted from adding federal reimbursements for transportation to the revenue base and only a partial year of debt service for Fiscal Year 2010 issuances. The slight increase in the benchmark debt ratio for Fiscal Year 2011 is due to the offsetting effects from increased debt service and improved revenue collections. ***The benchmark debt ratio subsequently improved in Fiscal Year 2012 primarily due to increased revenue collections over the prior year.***

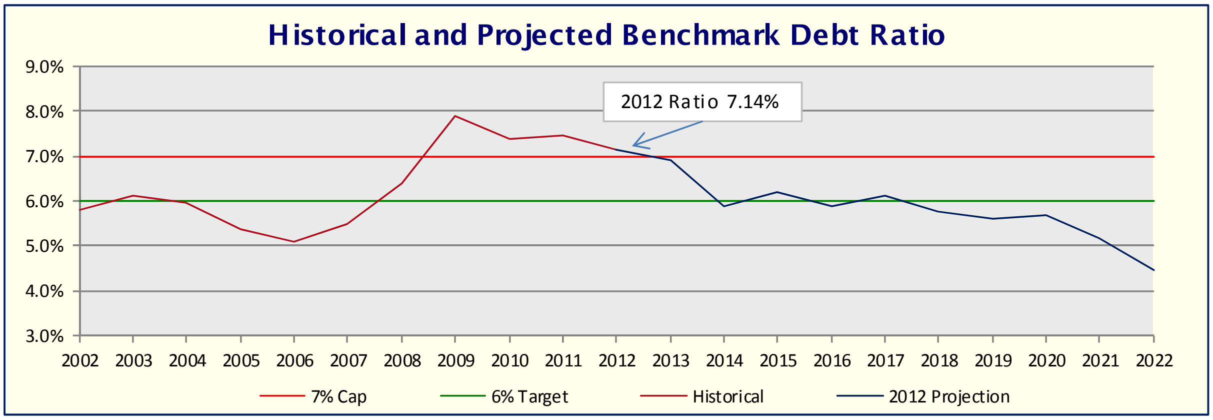


Figure 15

The projected benchmark debt ratio for the next ten years, shown in Figure 16 below, is based on the August 2012 revenue forecasts and expected debt issuance as of the date of this Report. ***The December 2012 Revenue Estimating Conference is expected to revise the general revenue forecast, and projections of the benchmark debt ratio will be affected and updated accordingly.***

Benchmark Debt Ratio Projection

	Actual 2011	Actual 2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
2012 Projection	7.46%	7.14%	6.93%	5.89%	6.19%	5.90%	6.10%	5.76%	5.60%	5.70%	5.19%	4.47%

Figure 16

The benchmark debt ratio improved to 7.14% in Fiscal Year 2012 but remains above the 7% policy cap. However, projections show the ratio dipping below the 7% cap in Fiscal Year 2013 and again dramatically improving in Fiscal Year 2014 due to reduced debt service requirements resulting from the retirement of Preservation 2000 bonds. Fiscal Year 2014 coincides with the projected benchmark debt ratio returning to compliance with the 6% policy target. Overall, the projections reflect the offsetting impact of lower projected issuance, especially PECO bonds, against steady increases in forecasted revenue collections and ongoing refunding transactions that lower future debt service payments.

Projected bond issuance does not include a new authorization enacted by the 2008 Legislature totaling approximately $3.4 billion to extend the Florida Forever and Everglades Restoration programs or additional issuance for transportation infrastructure under P3 arrangements (outside of the three noted in this Report) and the GARVEE as the amounts and timing of debt issuance under these programs are unknown. ***The projected improvement in the benchmark debt ratio is dependent on realizing the revenue growth projected by the Revenue Estimating Conference and foregoing new bond authorizations beyond those included in existing borrowing plans.***

CHANGE IN DEBT CAPACITY

The final step in the debt affordability analysis is estimating future available debt capacity. Debt capacity, as presented in this report, is based on expected issuance as of the date of this Report and the August 2012 revenue projections. Debt capacity can change significantly due to changes in revenue estimates reflecting a changing economic environment. ***With the benchmark debt ratio currently exceeding the 7% policy cap, no meaningful debt capacity is available until Fiscal Year 2014.***

Debt Capacity Analysis Ten-Year Projection

6% Target; 7.0% Cap

(In Millions of Dollars)

	6% Target	7% Cap
Total Debt Capacity Available	$ 17,906.1	$ 24,091.1
Estimated Bond Issuance	$ 5,856.1	$ 5,856.1
Net Debt Capacity Available	$ 12,050.0	$ 18,235.0

Figure 17

Figure 17 shows that over the next ten years, $17.9 billion in bonding capacity is available based on the 6% benchmark debt ratio target. As previously shown, expected debt issuance under existing bond programs is $5.9 billion for the next ten fiscal years. As a result, approximately $12.1 billion of debt capacity is available over the next ten years (a $3.6 billion increase in available debt capacity over last year's estimate), which can be attributable to decreased expected bond issuance. However, ***no capacity is available within the 6% target until Fiscal Year 2018 when the benchmark debt ratio falls consistently below 6%.*** Assumptions for expected issuance includes the proposed long term P3 project for the expansion of I-4 through Orlando but excludes any additional borrowing for environmental programs authorized by the 2008 Legislature and borrowing under GARVEE for transportation projects as the amounts and timing of debt issuance under these programs are unknown.

Also shown in Figure 17 is available capacity to address State infrastructure needs under the 7% cap for the benchmark debt ratio. Total debt capacity over the next ten years within the 7% cap is estimated to be $24.1 billion; however, as noted above, there is no debt capacity available until Fiscal Year 2014 when approximately $3.7 billion becomes available 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

The municipal bond market evaluates a government's debt position with three primary debt ratios: debt service to revenues; debt per capita; and debt to personal income. A secondary debt ratio of net tax-supported debt as a percentage of GDP has recently been introduced to facilitate the comparison of municipal credits to sovereign debt. State debt ratios are compared to national and peer group medians because absolute values are not particularly useful without a basis for comparison. A more meaningful comparison is made with a peer group comprised of the eleven most populous states.

2011 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	Net Tax-Supported Debt as a % of GDP
Florida	7.46%	$1,215	3.05%	2.97%
Peer Group Mean	6.76%	$1,722	4.01%	3.50%
National Median	4.90%	$1,117	2.80%	2.40%

Figure 18

Florida's debt ratios are higher than the national averages but are consistent with or lower than the peer group averages. However, as shown in Figure 19, Florida's benchmark ratio of debt service as a percentage of revenues is higher than the peer group average.

2011 Comparison of Eleven Most Populous States

	Rank	Net Tax-Supported Debt Service as a % of Revenues	Rank	Net Tax-Supported Debt Per Capita	Rank	Net Tax-Supported Debt as a % of Personal Income	General Obligation Ratings Fitch/Moody's/S&P
Illinois	1	12.40%	3	$2,564	3	6.00%	A/A2/A
New York	2	11.30%	2	$3,208	2	6.60%	AA/Aa2/AA
New Jersey	3	8.70%	1	$3,964	1	7.80%	AA-/Aa3/AA-
California	4	8.50%	4	$2,559	3	6.00%	A-/A1/A-
Florida	**5**	**7.46%**	**5**	**$1,215**	**6**	**3.05%**	**AAA/Aa1/AAA**
Georgia	6	7.20%	7	$1,099	5	3.10%	AAA/Aaa/AAA
Pennsylvania	7	4.90%	6	$1,134	7	2.80%	AA+/Aa2/AA
Ohio	8	4.40%	8	$1,012	7	2.80%	AA+/Aa1/AA+
North Carolina	9	3.60%	9	$815	9	2.30%	AAA/Aaa/AAA
Texas	10	3.20%	11	$588	11	1.50%	AAA/Aaa/AA+
Michigan	11	2.70%	10	$785	10	2.20%	AA-/Aa2/AA-
Median		**7.20%**		**$1,134**		**3.05%**	
Mean		**6.76%**		**$1,722**		**4.01%**	

Figure 19

Figure 19 details the Eleven Most Populous State Peer Group Comparison for the three primary debt ratios. Following the 2010 Census, North Carolina became the tenth most populous state and has since been included as a member of the peer group. As indicated above, Florida is in the middle of the peer group for all debt ratios. ***Florida's relative ranking remained in the middle of the group for the benchmark ratio of debt service as a percentage of revenue, moving from fourth to fifth. The State remains fifth for debt per capita and sixth for debt as a percentage of personal income.***

Pension Obligations

Recently, municipal bond market participants have shown an increasing interest in the financial challenge presented by defined benefit retirement systems. Some states have not responsibly funded these defined benefit systems, raising credit concerns by investors and rating agencies. Additionally, some governments have reduced or deferred the Annually Required Contributions ("ARC") to their pension systems for budget relief purposes, compounding the long-term funding issues. Due to the potential credit implications related to increasing pension liabilities, ***rating agencies have developed quantitative methodologies to evaluate a state's pension liabilities and integrate them into their credit analysis.***

Over the past 12 months, Moody's Investors Service ("Moody's") and Fitch Ratings ("Fitch") each released special reports discussing modified approaches to evaluating pension obligations. Each agency will evaluate a state's pension liability and apply a common rate of return to the pension system's investments. Additionally, for multi-employer plans, such at Florida's, Moody's and Fitch will apply their analysis just to the portion of the unfunded liability associated with the State.

The unfunded actuarially accrued liability ("UAAL"), whether it's combined with total debt outstanding or analyzed separately, is a widely accepted metric within the credit markets. One method to evaluate the affordability of a state's pension liabilities is to compare them to the size of a state's economy, which can be measured by gross domestic product ("GDP"). The comparison of Florida's pension liability as a percentage of GDP relative to the eleven largest states is noted in Figure 20 below.

Comparison of Peer Group

Debt and Pension Liabilities as a Percent of GDP

(In Millions of Dollars)

State	State GDP	Government Long-Term Debt	Pension Unfunded Liability	Total Debt and Pension Liabilities	Rank	Total Debt and Pension Liabilities as a % of GDP
Illinois	$ 670,727	$33,266	$82,907	$ 116,173	1	17.3%
New Jersey	486,989	35,937	41,850	77,787	2	16.0%
Ohio	483,962	11,810	59,686	71,496	3	14.8%
California	1,958,904	92,909	107,297	200,206	4	10.2%
Pennsylvania	578,839	14,310	36,235	50,545	5	8.7%
Michigan	385,248	7,712	21,711	29,423	6	7.6%
New York	1,157,969	53,796	8,860	62,656	7	5.4%
Florida	**754,255**	**21,593**	**18,956**	**40,549**	**8**	**5.4%**
Georgia	418,943	10,337	12,312	22,649	9	5.4%
Texas	1,308,132	14,385	28,463	42,848	10	3.3%
North Carolina	439,862	8,167	2,774	10,941	11	2.5%
Median		**$14,385**	**$28,463**	**$ 50,545**		**7.6%**
Average		**$27,657**	**$38,277**	**$ 65,934**		**8.8%**

Figure 20

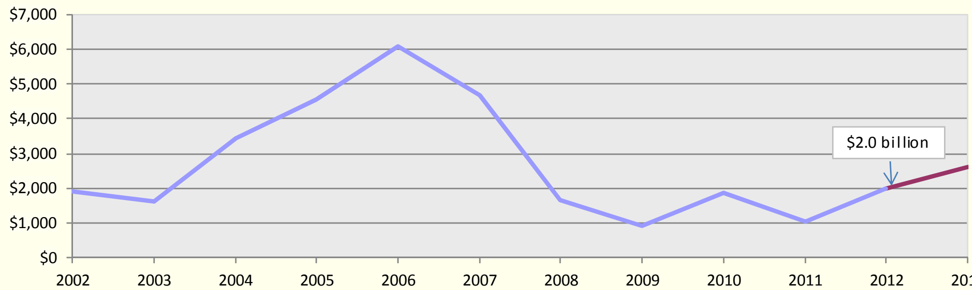
As shown, ***Florida has one of the lowest (8th) debt ratios when the pension UAAL is combined with outstanding debt and compared to the State's 2011 GDP.*** Notably, Florida's combined debt and pension liabilities of about $41 billion fall well below the average amount of $66 billion for the largest states, which is primarily due to Florida's fairly well-funded pension system and decreasing net tax-supported debt. ***Rating agencies have given Florida positive marks for responsibly funding its pension system and modifying benefits to manage the liability over the long term.*** However, over the last two fiscal years, the State has deviated from its historical discipline by failing to make material contributions towards amortizing the UAAL. ***The State's management and funded status of its pension plan will be an increasingly important factor in the State's credit analysis.***

Although excluded from Figure 20 above, rating agencies are beginning to consider the impact of other post employment benefits (“OPEB”) on a state’s debt profile. Going forward, this liability may become a standard component of a State’s debt profile. However, the treatment of OPEB liabilities may evolve differently than that of pension liabilities as no generally accepted convention has been developed for evaluating the long term financial impact and in many instances OPEB is not a constitutional or contractual obligation.

LEVEL OF RESERVES

An important measure of financial health and ability to respond to unforeseen financial challenges is the level of general fund reserves. The State's General Fund combined with the Budget Stabilization Fund are collectively referred to herein as the "General Fund Reserves." Figure 21 below shows the level of the State's General Fund Reserves over the last ten fiscal years, as well as the projected year-end General Fund Reserve balance for Fiscal Year 2013. ***Historically, Florida's level of reserves resulted from conservative financial management practices, and rating agencies cite financial flexibility provided by reserves as a key credit strength.*** The traditional measure used by credit analysts, investors and rating agencies to assess the strength of the State's financial position is the ratio of general fund balance to general revenues expressed as a percentage.

General Fund Reserves
Historical Fiscal Years 2002 through 2012 and Projected 2013
(In Millions of Dollars)



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General Fund Reserves	$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	$2,005.1	$ 2,615.7
Reserves as % of Revenue	9.95%	8.22%	15.70%	18.27%	22.42%	17.69%	6.91%	2.73%	8.62%	4.55%	8.49%	10.62%

Source: Office of Economic and Demographic Research. Reserve amounts shown include the Budget Stablization Fund.

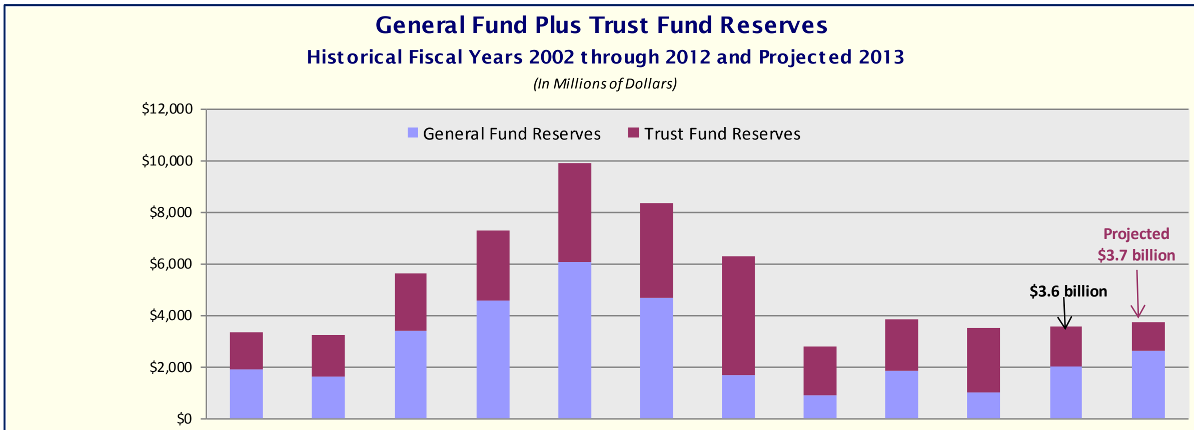
Figure 21

General Fund Reserves

Florida's General Fund Reserves increased substantially between Fiscal Years 2003 and 2006 to an extraordinarily high level of $6.1 billion or 22.5% of general revenues. The substantial growth in reserves strengthened the State's financial position and was cited as a credit strength in State rating upgrades in early 2005. The increase in the General Fund Reserve balances for Fiscal Year 2010 follows three consecutive annual declines from 2007 through 2009, when reserves were used to minimize spending reductions from declining revenue collections. Balancing the Fiscal Year 2010 budget by incorporating several revenue enhancements and federal stimulus moneys resulted in an improved level of reserves for Fiscal Year 2010. However, after significant use of reserves in Fiscal Year 2011, improved revenue collections during Fiscal Year 2012 and an uncharacteristically large amount of year-end expenditure reversions favorably affected the General Fund Reserve balance at June 30, 2012. ***The State ended Fiscal Year 2012 with General Fund Reserves of $2.0 billion or 8.5% of general revenues, an increase of approximately $1.0 billion over the General Fund Reserves at the end of Fiscal Year 2011.*** The adopted General Fund budget for Fiscal Year 2013 utilized total reserves to balance the budget and included the second, required transfer to replenish the Budget Stabilization Fund. ***The level of General Fund Reserves is projected to increase to $2.6 billion or 10.6% of general fund revenues at the end of Fiscal Year 2013. Favorably, the level of reserves as a percentage of revenues at June 30, 2012 surpasses the 8% considered adequate by rating agencies.***

Trust Fund Reserves

Prior to 2009, trust fund balances that could be considered a "reserve," such as moneys in the Lawton Chiles Endowment Fund and other trust fund balances were not included in measuring the State's reserves. The State has historically created trust funds and dedicated specified revenues for particular purposes. Well over half of the State's budget is comprised of trust funded programs and activities. Established budgetary practices identify trust fund balances that are available and can be used for other purposes. In fact, the Legislature has routinely redirected available trust fund balances to supplement the general fund budget during periods of economic weakness to offset declining revenue collections. Therefore, including trust fund balances in the reserve analysis provides for a more holistic picture of the State's financial flexibility. Figure 22 below shows the impact of including trust funds in the reserve analysis over the last ten years.



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General Fund Reserves	$ 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	$ 2,005.1	$ 2,615.7
Trust Fund Reserves	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	2,483.5	1,570.0	1,098.0
Total Reserves	$ 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	$ 3,511.2	$ 3,575.1	$ 3,713.7
Reserves as % of Revenues	17.16%	16.08%	25.65%	29.14%	36.63%	31.69%	26.07%	13.33%	17.88%	15.55%	15.14%	15.08%

Figure 22

Including trust fund balances better reflects the State's true financial flexibility available from reserves. Total reserves (including trust fund balances) of $3.6 billion or 15.2% of general revenues at June 30, 2012 were considered strong by rating agencies. The adopted budget for Fiscal Year 2013 changes the relative composition of reserves; however, total reserves are expected to increase at June 30, 2013. The increase in General Fund Reserves is expected to more than offset the decline in trust fund balances, improving total reserves at the end of Fiscal Year 2013 by $125 million to $3.7 billion or a healthy 15.1% of general revenues.

REVIEW OF CREDIT RATINGS

The State's credit rating is a rating agency's assessment of the willingness and ability to timely repay debt obligations. ***Credit ratings play an integral role in the municipal bond market and are one factor that affects the State's cost of funds on debt offerings.*** Each rating agency considers four primary factors in its analysis: governance, debt and liability profile, budget and financial management, and economic indicators. Each agency assesses the four factors on a quantitative and qualitative basis relative to the state's peers within its rating category. Despite the standardization of credit factors, each are evaluated slightly differently based on the agency's published criteria.

State of Florida
General Obligation Credit Ratings

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

Figure 23

During the fiscal year ended June 30, 2012, the three major rating agencies, S&P, Fitch, and Moody's each affirmed the State's AAA, AAA, and Aa1 general obligation ratings, respectively. Fitch maintained its negative outlook on the rating while Moody's and S&P affirmed the State's stable outlook. The stability in the State's General Obligation ratings reflect each agency's credit strengths including: sound and conservative financial management practices; significant progress in restoring structural budget balance; relatively well-funded pensions; financial flexibility provided by sizable reserves; and a large, service-based economy that benefits from a low cost of living and desirable climate. In addition, these strengths are bolstered by the State's adoption of a balanced budget following the phase out of the American Recovery and Reinvestment Act stimulus funding, proactive approach to raising revenues and reducing expenditures to achieve budget balance, and commitment to rebuilding the Budget Stabilization Fund to pre-recession levels. Rating analysts also note the State's ongoing credit challenges related to a lagging economic recovery including unemployment that remains higher than the national rate; a housing market that remains challenged due to foreclosures and depressed prices; maintenance of structural budget balance in light of continued budget pressures for funding education and Medicaid; and the potential negative fiscal and economic consequences or unmanageable assessments caused by a catastrophic hurricane.

Going forward, the agencies will continue to observe Florida's pace of economic recovery relative to the U.S. and the southeastern region and the State's ability to meet revenue projections and maintain financial reserves, which are significant factors to the overall rating analysis. In addition, rating analysts have focused attention on the State's budget and its relationship to federal spending due to the potential cuts in State funding that may result from efforts to reduce the federal deficit. ***In the end, Florida's credit ratings remain vulnerable should further economic weakness or other developments negatively affecting financial resources or financial flexibility occur.***

CONCLUSION

Total direct debt outstanding declined $1.5 billion in Fiscal Year 2012 from $27.7 billion to $26.2 billion, the second consecutive year over year decline in total direct debt outstanding. The reduction was primarily driven by principal amortizations, coupled with less new money issuance. Indirect debt increased by $1.4 billion during Fiscal Year 2012, growing to $17.4 billion from $16.0 billion at June 30, 2011. ***Expected future debt issuance under existing programs over the next ten years totals $5.9 billion.*** The increase in expected issuance resulted from DOT's proposed long-term P3 project to expand I-4 through Orlando at an estimated cost of $2.4 billion. The projected debt issuance does not include any amounts for short-term DBF contracts or the issuance of environmental or GARVEE bonds as the timing and amounts of potential borrowing under these programs are unknown. ***Florida's debt is considered moderate and is manageable at the current level.***

Although outstanding debt decreased, ***annual debt service requirements on net-tax supported debt remained approximately flat at $2.2 billion for Fiscal Year 2012***. Annual debt service requirements are projected to remain at about $2.2 billion in Fiscal Year 2013, before declining in 2014 due to the final maturity of Preservation 2000 bonds. Future debt service reflects the State's policy of level debt structure with the exception of the two existing long-term P3 projects that defer and back-load required payments.

Revenues available for debt service increased $1.15 billion in Fiscal Year 2012 to $30.7 billion. The economic recovery has begun to stabilize, as evidenced by increased revenue forecasts from the last two Revenue Estimating Conferences. Revenues available to pay debt service were increased for Fiscal Year 2012, Fiscal Year 2013 and Fiscal Year 2014. However, the continuing difficulties in the Eurozone and the potential lack of a resolution of the fiscal cliff prior to January 2013 present risks to the State and could affect the revenue forecast going forward. The Revenue Estimating Conference will meet in December 2012 to update and revise revenue forecasts.

Reserves are critical and provide the financial flexibility necessary to address financial uncertainties. In Fiscal Year 2012, ***General Fund Reserves grew to $2.0 billion or 8.5% of general fund revenues surpassing the 8% considered adequate by rating agency criteria. General Fund Reserves are projected to increase during the current fiscal year to $2.6 billion or 10.6% of general fund revenues***. Trust fund balances also provide reserves the State can utilize to balance the general fund budget. Including trust fund balances augments the General Fund Reserve and better reflects the State's level of financial flexibility. ***Total reserves, including trust fund balances, were considered strong by rating agencies at $3.6 billion or 15.2% of general revenues at June 30, 2012.*** Although trust fund balances are expected to decrease during Fiscal Year 2013, the increase in General Fund Reserves is expected to more than offset the decline, improving total reserves at the end of Fiscal Year 2013 by $125 million to $3.7 billion or a healthy 15.1% of general revenues.

The benchmark debt ratio improved over the past year to 7.14% from 7.46%, reflecting increased revenues available to pay debt service. The projected benchmark should continue a downward trend and fall below the 7% policy cap in Fiscal Year 2013 for the first time in five years and one year earlier than projected in last year's Debt Affordability Report. The anticipated improvement in the benchmark debt ratio is attributable to the projected growth in revenues and level debt service payments of $2.2 billion in Fiscal Year 2013. The projected benchmark debt ratio should be used as a general guide and considered by the Legislature when evaluating future debt authorization.

A comparison of 2011 debt ratios to national and peer group averages indicate that Florida's debt ratios are higher than the national average but lower than the peer group averages for all but the benchmark debt ratio. The State continues to fall in the middle of the peer group and is fifth for the ratio of debt service to revenues and debt per capita and sixth for debt as a percentage of personal income. Additionally, when pension liabilities are combined with long-term debt, the State has the eighth lowest debt ratio among the eleven state peer group.

Credit ratings play an integral role in the municipal bond market and are one factor that affects the State's financing costs. ***S&P, Fitch, and Moody's each affirmed their respective ratings of AAA, AAA, and Aa1 on the State's general obligation debt during Fiscal Year 2012.*** Although Fitch's AAA rating carries a negative outlook, both S&P and Moody's maintain stable outlooks. Rating agencies cite as credit strengths the State's ***conservative fiscal management practices; significant progress in restoring structural budget balance; financial flexibility provided by sizable reserves; relatively well-funded pension system; and large service based economy that benefits from a low cost of living and favorable climate.*** Remaining concerns over maintenance of the current ratings include Florida's slow economic recovery and maintaining adequate reserves as well as structural budget balance in light of continuing budget pressures. Accordingly, ***the State's credit ratings remain vulnerable should the economic recovery not materialize as projected or if a catastrophic hurricane weakens the State's economy or precipitates unmanageable assessments on the tax base.***