AGENDA

DIVISION OF BOND FINANCE OF THE STATE BOARD OF ADMINISTRATION

To view Agenda Items click on the following link:
DBF Agenda Materials

(Contact person: J. Ben Watkins III - 488-4782)
The Capitol
January 22, 2014

This meeting is open to the public.

1. Approval of minutes of the meeting of December 10, 2013.

   Attachment #1

2. Presentation of the 2013 Debt Affordability Report.

   The Division of Bond Finance is required to prepare and deliver to the Governing Board and legislative leadership a debt affordability report containing the information required by 215.98, Florida Statutes. The 2013 Debt Affordability Report satisfies the requirements of 215.98, Florida Statutes.

STATE OF FLORIDA

IN RE: MEETING OF THE GOVERNOR AND CABINET
_____________________________________/

CABINET MEMBERS: GOVERNOR RICK SCOTT
ATTORNEY GENERAL PAM BONDI
CHIEF FINANCIAL OFFICER JEFF ATWATER
COMMISSIONER OF AGRICULTURE ADAM PUTNAM

DATE: TUESDAY, DECEMBER 10, 2013

LOCATION: CABINET MEETING ROOM
LOWER LEVEL, THE CAPITOL
TALLAHASSEE, FLORIDA

REPORTED BY: NANCY S. METZKE, RPR, FPR
COURT REPORTER

C & N REPORTERS
POST OFFICE BOX 3093
TALLAHASSEE, FLORIDA 32315-3093
(850) 697-8314 / FAX (850) 697-8715
nancy@metzke.com
candnreporters.com

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DIVISION OF BOND FINANCE

GOVERNOR SCOTT: Now I'd like to recognize Director Ben Watkins with the Division of Bond Finance to present his agenda.

DIRECTOR WATKINS: Good morning, Governor, Cabinet Members.

GOVERNOR SCOTT: Good morning.

DIRECTOR WATKINS: Item 1 is minutes of the September 24th and October 10th meetings.

GOVERNOR SCOTT: Is there a motion to approve?

COMMISSIONER PUTNAM: So move.

GOVERNOR SCOTT: Is there a second?

ATTORNEY GENERAL BONDI: Second.

GOVERNOR SCOTT: Moved and seconded, show the minutes approved without objection.

DIRECTOR WATKINS: Item Number 2 is a report of award on the competitive bond sale of 24.8 million University of Florida dormitory revenue bonds. The bonds were awarded to the low bidder at a true interest cost of 3.35 percent. It was a combined new money and refunding transaction with 19.6 million being sold for new money for construction of a dormitory at the University of Florida, and $5.2 million was the refunding piece.

The refunding piece allowed us to reduce the interest rates on outstanding bonds from 4.96 percent to 2.31 percent generating gross debt service savings of 473 thousand; 414 thousand on a present value basis or seven and a half percent of the principal amount of the bonds being refunded.

COMMISSIONER PUTNAM: Maybe our office will end their strike and --

GOVERNOR SCOTT: All right. Thank you, Ben.

DIRECTOR WATKINS: Thank you.

And Items 3, 4, and 5 are all refunding transactions being structured and considered for debt service savings. Item 3 is issuance and competitive sale of up to 240 million of lottery revenue refunding bonds.

GOVERNOR SCOTT: All right. Is there a motion to approve?

COMMISSIONER PUTNAM: So moved.

GOVERNOR SCOTT: Is there a second?

ATTORNEY GENERAL BONDI: Second.

GOVERNOR SCOTT: Any comments or objections?

(NO RESPONSE).

GOVERNOR SCOTT: Hearing none, the motion carries.

DIRECTOR WATKINS: Item Number 4 is a resolution authorizing the issuance and competitive sale of up to $230 million in Florida Forever revenue refunding bonds.

GOVERNOR SCOTT: All right. Is there a motion to approve?

CFO ATWATER: So moved.

GOVERNOR SCOTT: Is there a second?

ATTORNEY GENERAL BONDI: Second.

GOVERNOR SCOTT: Any comments or objections?

(NO RESPONSE).

GOVERNOR SCOTT: Hearing none, the motion carries.

DIRECTOR WATKINS: And lastly, Item 5 are resolutions authorizing the issuance and competitive sale of up to $31 million of Capital Outlay refunding bonds.

GOVERNOR SCOTT: Is there a motion to approve?

ATTORNEY GENERAL BONDI: So move.

GOVERNOR SCOTT: Is there a second?

CFO ATWATER: Second.

GOVERNOR SCOTT: Any comments or objections?

(NO RESPONSE).

GOVERNOR SCOTT: Hearing none, the motion carries.

DIRECTOR WATKINS: Thank you, sir.

GOVERNOR SCOTT: Thanks, Ben.

CFO ATWATER: Governor, if there would not be an objection, I would like to speak for a moment about the compensation of the position of the Director of Bond Finance.

GOVERNOR SCOTT: Okay.

CFO ATWATER: And I'm going to do so first to speak to some of the matters reflecting the present incumbent in the position, Mr. Watkins, but more generally in the end is the point I'd like to make.

I think all of us have expressed over the last three years the confidence that we have in Mr. Watkins refunding close to $6 billion in debt, a savings to the people of Florida over $1.1 billion in debt service, and that's extraordinary.

(APPLAUSE).

CFO ATWATER: And I'm sure if he were given the mike, which he won't be, he would say anyone in his position would be responsible to do that. Any of his peers around the country would know that it was the right moment to start refunding. If anything is possible, now is the moment to do it.

But the fact of the matter is he doesn't have any peers around the country. Maybe there are three or four that carry the responsibility that this man carries, this position carries, the largest states in the union, and -- but then you add to that the magnitude of the incumbent in this position needing to explain the marketplace the potential of Citizens financing, Citizens Property Insurance financing, and the potential of the Cat Fund financing that could befall us at any point in time.

I've had the pleasure of traveling with Mr. Watkins to New York. I've sat with him on the same side of the table while across the table were the senior analysts of Fitch, across the table were Moody's, and across the table were S&P, and there is no margin for error. There is the highest of expectation that the incumbent would be able to address any question in great detail, and I have been extremely impressed with how he has handled this.

I might also say, aside from the fact on how he handles the matters intellectually, it is the relationship that he has built with these institutions that frankly hold, you know, the wellbeing of our Florida citizens and the rating in their hands, and it is exceptional the way they respond and I think the manner in which they hold Mr. Watkins in the industry.

So we also know that when we all stepped into these positions that Standard & Poor's had considered that we were a negative outlook state, and there was a very tentative time as we made our first few years in these roles to, Governor, follow the path you had laid out. And we had no better advocate for expressing the path we were on to those agencies and to imagine covering all of the revenue questions, covering all cost questions, the structural balance of the State of Florida's finances, and then being an economist of housing projections and population movement, housing financing in the State of Florida and foreclosures that we're fighting through.

There was no doubt that if somebody would have looked at the challenges that we were facing of the 50 states, some of the toughest situations in that summer of '11, based I think in much part upon the confidence and the work that Mr. Watkins had done. The Standard & Poor's recognized the extraordinary efforts that had been made, Governor, under your leadership and the work of the legislature and the manner by which Mr. Watkins was handling our debt to upgrade us back to stable on the outlook.

And so when I look at this, it is -- I draw the conclusion that he has -- if he has any peers, there would be few in this country. He is the present incumbent, and we are lucky to have him; but my worry would be the risk that the compensation in this position reflect the magnitude and the importance of the role itself. And I believe that the magnitude of this role is -- would be commiserate with the senior investment officers that we have within the SBA itself, there are six senior investment officers today within the SBA and in very critically important positions.

We haven't talked about this and we haven't adjusted this in quite some time for the compensation of this position, so I would like, if it would please the Cabinet, to place a motion before the Cabinet that we establish the compensation of the Director of Bond Finance to be commiserate with the senior investment officer positions of the SBA; and at the present time, the average of those positions salaries would be $183,500 and would, therefore, like to see us proceed with a motion to establish the position's compensation at $183,500 to be the average of the chief investment officer of the state.

ATTORNEY GENERAL BONDI: Governor, may I -- you know, Ben, frankly, I don't know what we'd do without you, and if people don't realize this, you're responsible for what, over 40 refunding bond issues totaling $5.7 billion in the last three years, and that's just remarkable. And it generated what, $1.1 billion in debt service. And you're also responsible for us maintaining our Triple A rating. So thank you for what you do.

You're always professional, as CFO Atwater said, and you always educate us and keep us apprised of what you do; and I can't thank you enough for your service.

GOVERNOR SCOTT: Commissioner.

COMMISSIONER PUTNAM: I would just -- I would just add my support for the motion and my gratitude for the CFO's research to develop the rationale for that, which is an appropriate one. And we're just lucky we don't have to pay you on commission for what you've saved the State of Florida.

ATTORNEY GENERAL BONDI: He'd be retired if we did that.

GOVERNOR SCOTT: Ben, you've done a great job, so congratulations on a well-deserved pay raise based on all that you've accomplished. But thank you very much. You represent our state very well.

So all in favor of the motion to increase compensation.

(AFFIRMATIVE INDICATIONS).

GOVERNOR SCOTT: Any nays?

(NO RESPONSE).

GOVERNOR SCOTT: The motion carries. Congratulations, and well deserved.

(APPLAUSE).

DIRECTOR WATKINS: Thank you, Governor and Cabinet very much, I appreciate it. And it's a privilege to serve, and thank you for your continued confidence and support.

GOVERNOR SCOTT: Congratulations.

* * * *

CERTIFICATE

STATE OF FLORIDA)
COUNTY OF LEON)

I, NANCY S. METZKE, RPR, FPR, certify that I was authorized to and did stenographically report the foregoing proceedings and that the transcript is a true and complete record of my stenographic notes.

DATED this 21st day of December, 2013.

____

NANCY S. METZKE, RPR, FPR
Court Reporter

State of Florida

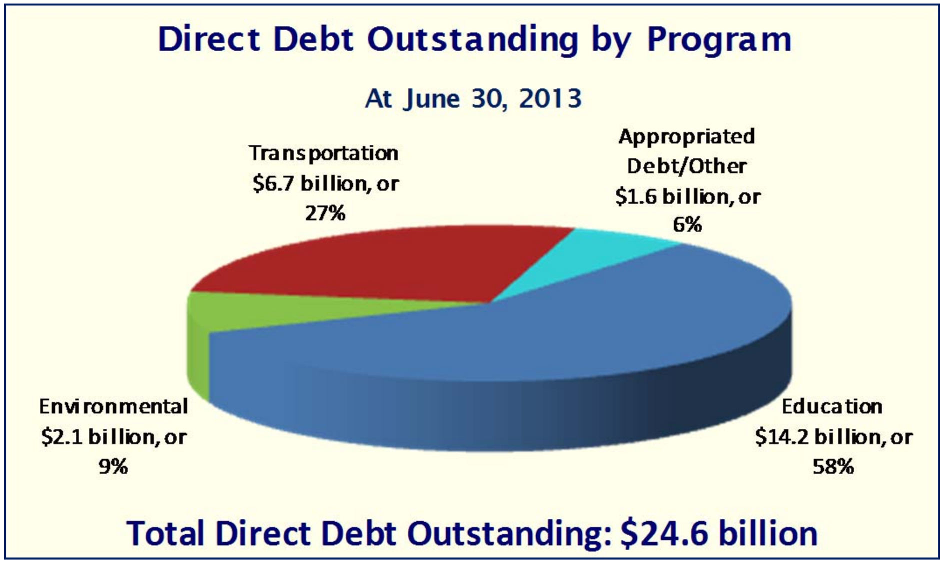
2013
Debt Affordability
Report

January 2014

Debt Affordability Analysis

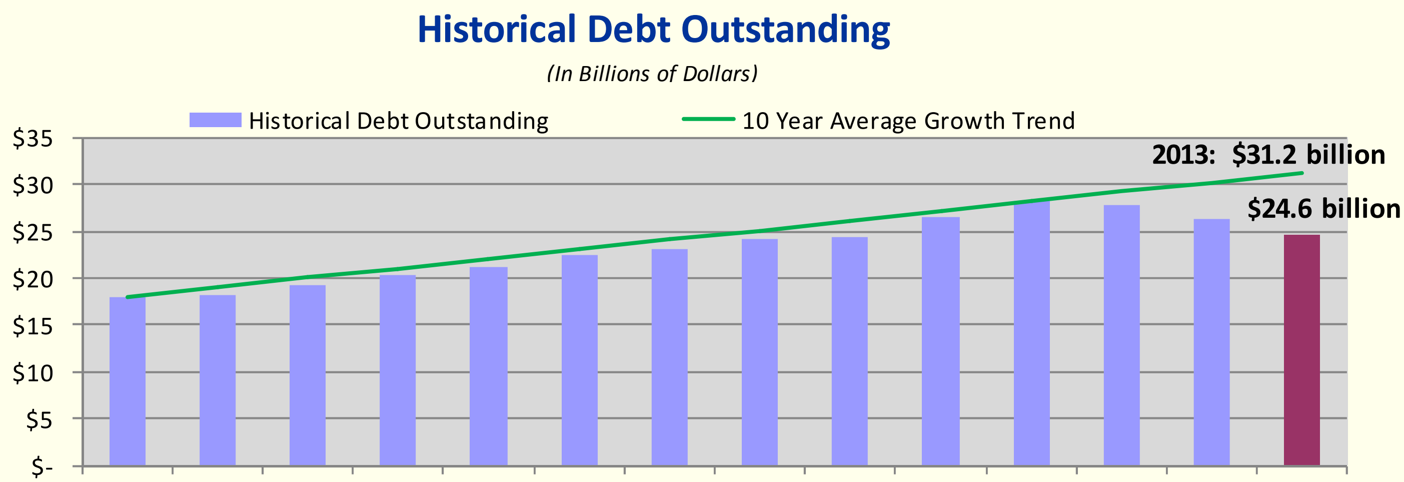
- Purpose of debt affordability analysis is to provide a framework for measuring, monitoring and managing the State's debt
- Provides information to assist Legislature in formulating capital spending plans
- Analytical approach to evaluating the State's debt position
- Financial model used to evaluate 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
- Requirements for Report:
    - Calculate total State direct and indirect debt outstanding
    - Evaluate changes in debt and annual debt service requirements over last 10 years
    - Update projections for future debt issuance compared to revised revenue estimates
    - Calculate benchmark debt ratio based on projected future debt issuance and projected revenue collections
    - Evaluate level of reserves
    - Review credit ratings

Direct Debt Outstanding



- Total outstanding direct debt at June 30, 2013 was $24.6 billion (net tax-supported debt was $20.3 billion and self-supporting debt was $4.3 billion)
- Largest infrastructure investment for school construction of $14.2 billion (58%)
- Next largest for transportation debt (primarily toll facilities and long term P3 obligations) of $6.7 billion (27%)
- Third largest for acquiring land for conservation of $2.1 billion (9%)

Decrease In Debt Relative to Historical Trend



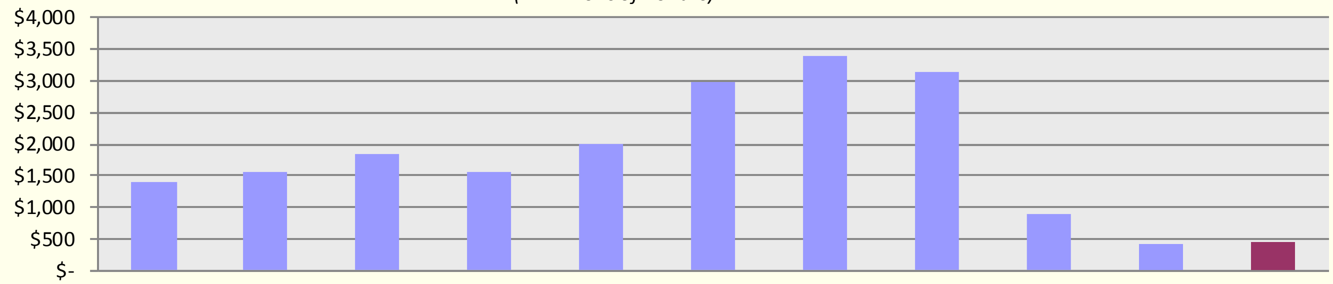
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Debt Outstanding	$ 18.0	$ 18.3	$ 19.2	$ 20.4	$ 21.2	$ 22.5	$ 23.0	$ 24.1	$ 24.3	$ 26.4	$ 28.2	$ 27.7	$ 26.2	$ 24.6

- State debt outstanding increased annually and more than tripled from 1992 through 2010 before decreasing in each of the past three fiscal years
- ***Total direct debt outstanding has decreased by $3.6 billion over the last three fiscal years***: $500 million in 2011, $1.5 billion in 2012, and $1.6 billion in 2013
- Reduction over three-year period primarily resulted from principal repayments on existing debt exceeding new money debt issuance
- Decreases in the last three fiscal years reverses a long-term trend of increasing State debt
- ***If trend of Increasing debt had continued, outstanding debt would be $6.6 billion or 27% more than it was at end of Fiscal Year 2013***

History of Annual Debt Issuance

Annual New Money Debt Issuance

(In Millions of Dollars)

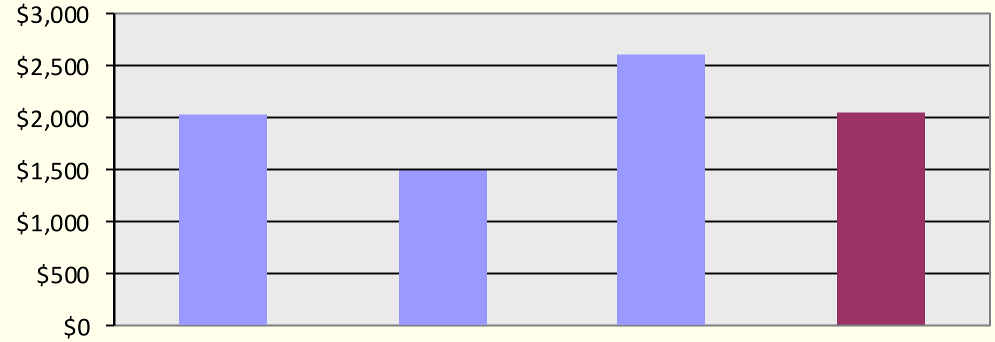


Fiscal Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
# of Issues	12	12	12	15	12	19	14	19	10	7	7
Tax Supported	$ 1,347.1	$ 1,287.6	$ 1,154.2	$ 1,273.3	$ 1,242.8	$ 2,425.8	$ 3,137.0	$ 2,479.8	$ 552.5	$ 193.3	$ 271.8
Self Supporting	44.6	261.9	702.6	298.2	745.7	544.5	250.0	667.5	335.9	222.6	176.5
New Money	$ 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	$ 448.3

- From Fiscal Year 2003 through 2009, new money debt issuance averaged $2.1 billion per year
- ***Significant decline in new money bond issuance in each of the last three fiscal years***
- Only $448 million in new money issuance in Fiscal Year 2013, significantly less than average annual issuance of $2.2 billion between Fiscal Years 2003 and 2010
- ***Issuance in Fiscal Year 2013 was down 80% relative to normal historical annual issuance***

Refinancing Activity

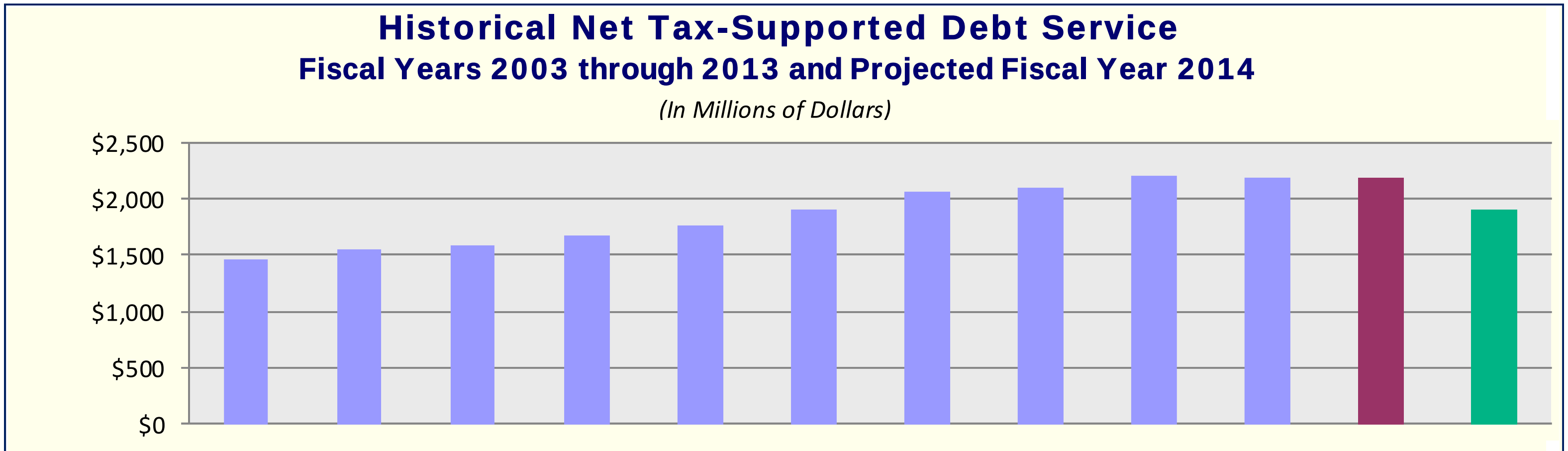
Historical Refunding Activity
Fiscal Years 2010 through 2013
(In Millions of Dollars)



	2010	2011	2012	2013	Total
Number of Transactions	12	12	20	10	54
Refunding Par	$2,020.0	$1,491.1	$2,595.0	$2,049.4	$8,155.5
Refunding Savings:					
Gross Savings	$258.1	$193.3	$450.9	$515.6	$1,417.9
Present Value Savings	$211.6	$162.4	$366.2	$406.1	$1,146.3

- Significant amount of refundings to take advantage of historically low interest rates
- Refunding transactions executed over last four years total nearly $8.2 billion
- ***Refinancing activity has generated gross debt service savings of approximately $1.4 billion*** or $1.1 billion present value basis

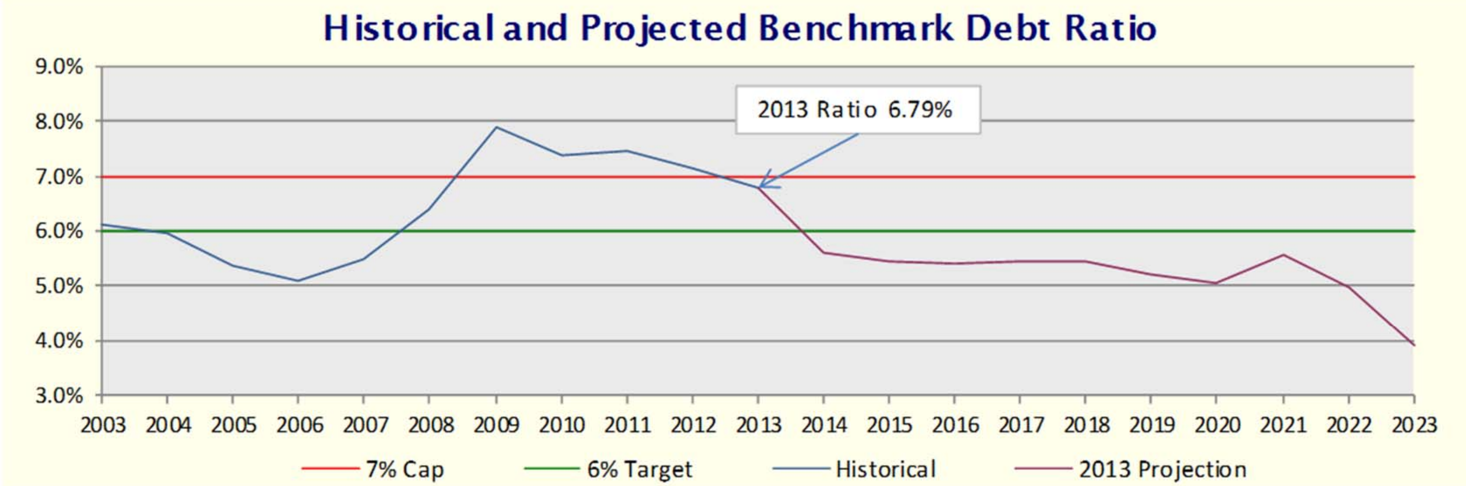
Changes in Annual Debt Service



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Debt Service	$1,459	$1,552	$1,584	$1,681	$1,768	$1,898	$2,058	$2,095	$2,204	$2,191	$2,196	$1,906

- Annual debt service payments for net tax-supported debt has increased more than 50% over the last 10 years, increasing from $1.5 billion in 2003 to $2.2 billion in 2013
- Annual debt service requirements in Fiscal Year 2013 remained nearly unchanged from previous two years
- ***Fiscal Year 2014 debt service expected to decrease approximately $300 million to $1.9 billion due to final retirement of Preservation 2000 bonds in Fiscal Year 2013***

Benchmark Debt Ratio



Benchmark Debt Ratio Projection

	Actual 2012	Actual 2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
2013 Projection	7.14%	6.79%	5.61%	5.44%	5.41%	5.45%	5.45%	5.23%	5.04%	5.57%	4.99%	3.90%

- 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
- ***Benchmark debt ratio improved to 6.79% for Fiscal Year 2013*** falling under the 7% cap for the first time in several years due to increased revenues
- ***Benchmark debt ratio is projected to improve in Fiscal Year 2014*** falling under the 6% target
- Improvement in benchmark debt ratio expected in Fiscal Year 2014 due to combined effect of lower annual debt service requirements and increasing revenues

Florida's Relative Ranking Among Peer Group

2012 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	Rank	Net Tax-Supported Debt as a % of State GDP	General Obligation Ratings Fitch/Moody's/S&P
New York	1	11.50%	2	$3,174	2	6.30%	2	5.36%	AA/Aa2/AA
Illinois	2	10.60%	4	$2,526	4	5.70%	4	4.85%	A-/A3/A-
California	3	9.20%	3	$2,565	3	5.80%	3	4.98%	A/A1/A
New Jersey	4	8.80%	1	$4,023	1	7.60%	1	7.32%	AA-/Aa3/AA-
Florida	**5**	**7.14%**	**6**	**$1,135**	**6**	**2.84%**	**5**	**2.78%**	**AAA/Aa1/AAA**
Georgia	6	7.00%	7	$1,061	5	3.00%	7	2.51%	AAA/Aaa/AAA
Pennsylvania	7	5.00%	5	$1,208	7	2.80%	6	2.66%	AA/Aa2/AA
Ohio	8	4.10%	8	$1,047	7	2.80%	8	2.50%	AA+/Aa1/AA+
North Carolina	9	3.80%	9	$853	9	2.40%	10	1.89%	AAA/Aaa/AAA
Texas	10	3.10%	11	$580	11	1.50%	11	1.16%	AAA/Aaa/AAA
Michigan	11	2.60%	10	$800	10	2.20%	9	2.05%	AA/Aa2/AA-
Median		**7.00%**		**$1,135**		**2.84%**		**2.66%**	
Mean		**6.62%**		**$1,725**		**3.90%**		**3.46%**	
National Median		**4.90%**		**$1,074**		**2.80%**		**2.47%**	

- Florida ranks below the national mean for all metrics except the benchmark debt ratio
- Florida ranks in the middle of the peer group for the primary debt ratios used by the rating agencies (either 5th or 6th, respectively)
- Florida ranks 5th among its peer group for the metric recently employed by the rating agencies measuring State's debt as a percentage of State's Gross Domestic Product (GDP)

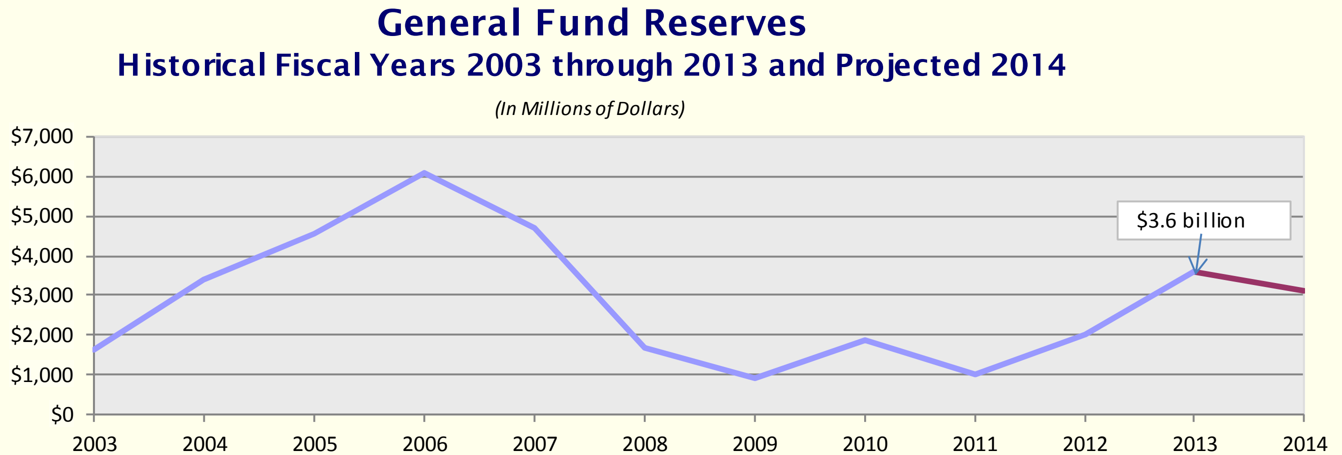
Peer Comparison of Pension Liabilities

2012 Comparison of Peer Group
Adjusted Net Pension Liabilities ("ANPL") Medians

State	Rank	ANPL (in Millions)	Rank	ANPL as a % of Revenues	Rank	ANPL as a % of Personal Income	Rank	ANPL Per Capita	Rank	ANPL as a % of State GDP
Illinois	1	$ 132,968	1	241.1%	1	23.6%	1	$ 10,340	1	19.8%
California	2	120,805	5	61.8%	5	7.3%	5	3,206	5	6.2%
Texas	3	91,695	4	92.5%	4	8.9%	4	3,577	4	7.0%
Pennsylvania	4	63,533	3	105.0%	3	11.8%	3	4,985	3	11.0%
New Jersey	5	63,219	2	137.2%	2	13.7%	2	7,156	2	13.0%
New York	6	22,084	11	16.6%	9	2.2%	8	1,132	9	1.9%
Georgia	7	14,096	6	42.0%	6	4.0%	6	1,437	6	3.4%
Florida	**8**	**12,912**	**9**	**19.2%**	**11**	**1.7%**	**11**	**677**	**11**	**1.7%**
Michigan	9	12,124	7	25.4%	7	3.4%	7	1,228	7	3.1%
Ohio	10	9,778	8	19.6%	9	2.2%	9	847	8	2.0%
North Carolina	11	7,479	10	18.3%	10	2.1%	10	775	11	1.7%
Median		**$ 22,084**		**42.0%**		**4.0%**		**$ 1,437**		**3.4%**
Mean		**$ 50,063**		**70.8%**		**7.4%**		**$ 3,215**		**6.4%**

- Moody's and Fitch each employ "adjustments" to reported pension liabilities for greater comparison of State defined benefit systems
- Florida ranks as the lowest state among its peer group for the adjusted net pension liability ("ANPL") relative to personal income, per capita and GDP
- Pension system management and funding is important part of credit analysis

General Fund Reserves



	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General Fund Reserves	$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	$3,602.1	$ 3,106.5
Reserves as % of Revenues	8.22%	15.70%	18.28%	22.47%	17.73%	6.95%	4.34%	8.62%	4.55%	8.49%	14.21%	11.86%

- General Fund reserves include unspent general revenues and funds held in the Budget Stabilization Fund
- General Fund reserves accumulated from 2003 through 2006 to an unprecedented high of $6.1 billion or 22.5% of general revenues
- In 2007, 2008, and 2009, reserves were used to help balance the budget but have been rebuilt over the last three years
- ***Fiscal Year 2013 ended with General Fund reserves of $3.6 billion or 14.2% of general revenues, exceeding the 10% considered minimally adequate by rating agencies***
- General Fund reserves are projected to decrease to $3.1 billion or 11.9% of projected general revenues at the end of Fiscal Year 2014
- ***Adequate reserves are critical to maintaining the State's credit rating and providing financial flexibility to respond to financial contingencies***

Florida's Credit Ratings

State of Florida General Obligation Credit Ratings	Ratings	Outlook
Standard & Poor's	AAA	Stable
Fitch Ratings	AAA	Stable
Moody's Investors Service	Aa1	Stable

- 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
- Florida's credit ratings remained unchanged during Fiscal Year 2013
- Two positive developments regarding credit ratings in 2013
  - Fitch changed the rating "Outlook" from Negative to Stable
  - Moody's published Special Comment entitled "Florida Back on Track"

Moody's Special Comment

"Florida Back on Track" – published June 2013

- Summary of Key Points in Moody's Special Comment:
  - "Current financial and economic strengths underscore Florida's resilience and ***sound fiscal management"***
  - ***"Reserves are being rebuilt*** to provide cushion against future downturns"
  - ***"Revenues are growing and the economy is improving***, although recovery in the housing sector is still very slow"
  - "Florida remains exposed to revenue volatility as well as hurricane risk"

Fitch Rating "Outlook" Revised to Stable

- On August 23, 2013, Fitch revised the "Outlook" on Florida's bond rating from Negative to Stable
- Drivers for returning "Outlook" to Stable include:
  - ***"Stabilization of Florida's economy*** and related ***improved financial flexibility"***
  - "***Reserves remain satisfactory and have increased over the last two years"*** after being drawn down from their peak during the recession
  - ***"Strong financial management practices"*** including prompt legislative action to address negative revenue estimates to maintain budget balance and adequate reserves
  - ***"Fully funding the pension contribution in FY 2014,*** in contrast to FY 2013"

Florida's Credit Ratings

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

Strengths:

- ***Conservative budget and financial management***
- ***Stabilized economy and related improved financial flexibility***
- Moderate debt burden with clear guidelines
- Relatively well-funded pension system and fully funding the pension contribution in Fiscal Year 2014 in contrast to Fiscal Year 2013
- Large, service based economy that benefits from a low cost of living and favorable climate

Challenges:

- Sustainability of housing market recovery
- ***Maintaining adequate reserves*** following improvement over prior two years
- ***Balancing the budget without overreliance on non-recurring revenues***
- Potential budget pressure caused by Federal sequestration
- Mitigation of fiscal and economic risks associated with hurricane events and insurance entity debt obligations

- Management of the pension system and associated liabilities have become increasingly important to the rating agencies credit analytics
- Rating agencies will evaluate the pace of economic recovery and the State's ability to meet revenue projections and maintain reserves
- State ratings remain vulnerable to further economic weakness or developments negatively affecting financial resources or reserves

Conclusions

- At June 30, 2013, ***State direct debt*** of $24.6 billion, ***$3.6 billion less than Fiscal Year 2010***
- Reduction in total debt continues as principal repayments exceed new money issuance
- Recurring annual debt service payments were $2.2 billion in Fiscal Year 2013 and decline by approximately $300 million in Fiscal Year 2014 to $1.9 billion
- ***Benchmark debt ratio of 6.79% has improved*** and should continue downward trend
- ***General Fund reserves at June 30, 2013 of $3.6 billion are up from Fiscal Year 2012*** and projected to decrease to $3.1 billion during Fiscal Year 2014
- ***State credit ratings are very strong (AAA, AAA, Aa1)*** as highlighted by Moody's special comment and Fitch's decision to change Florida's "Outlook" from Negative to Stable. However, ratings remain vulnerable to budgetary challenges, continued improvement in the State's economy, and unexpected fiscal developments causing a material reduction in recently improved reserves
- Management and funding of the pension system have become an important part of evaluating the State's credit rating