

AGENDA

DIVISION OF BOND FINANCE OF THE STATE BOARD OF ADMINISTRATION

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(Contact person: J. Ben Watkins III - 488-4782)
The Capitol, Florida
December 8, 2015

This meeting is open to the public.

1. Approval of minutes of the meeting of November 10, 2015.
Attachment #1
2. Performance Evaluation for the Division of Bond Finance.
3. 2015 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 2015 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, NOVEMBER 10, 2015.

LOCATION: FLORIDA ATLANTIC UNIVERSITY
JOHN D. MacARTHUR CAMPUS
STUDENT RESOURCE BUILDING
5353 PARKSIDE DRIVE, JUPITER, FLORIDA

REPORTED BY: CARETHA WISDOM.

DOWNTOWN REPORTING, LLC
200 SOUTH ANDREWS AVENUE
SUITE 604
FORT LAUDERDALE, FLORIDA 33301
(954)-522-3376

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DIVISION OF BOND FINANCE

GOVERNOR SCOTT: Next I would like to recognize Ben Watkins with the Division of Bond Finance.

MR. WATKINS: Good morning, Governor, cabinet members.

Item No. 1 is approval of the minutes from the September 29th meeting.

GOVERNOR SCOTT: Is there a motion on the item?

ATTORNEY GENERAL BONDI: So moved.

GOVERNOR SCOTT: Is there a second?

CFO ATWATER: Second.

GOVERNOR SCOTT: Any comments or objections?

(NO RESPONSE):

GOVERNOR SCOTT: Hearing none, the motion carries.

MR. WATKINS: Item No. 2 is the report of award on competitive bond sales. The first was the solicitation for a \$50 million credit facility for the Consolidated Equipment Financing Program. The credit facility was awarded to the low bidder at a true interest

1 cost of approximately 1.37 percent.

2 Item 2B is the competitive sale of
3 \$46.7 million in Everglades Restoration Bonds
4 used for sewerage systems to help defer the
5 cost of local governments and facilities that
6 they have provided. The bonds were awarded to
7 the low bidder at a true interest cost of 3.11
8 percent.

9 Item 2C was the competitive sale of
10 \$195.9 million of Turnpike Revenue Refunding
11 Bonds. The bonds were awarded to the low
12 bidder at a true interest cost of 3.15 percent.
13 That allowed us to reduce the interest rate on
14 current outstanding bonds of 5 percent to the
15 3.15 percent, generating gross debt service
16 savings of 43.7 million, present value savings
17 of 31.9 million or 15.1 percent of the
18 principal amount of bonds being funded.

19 And lastly on the report of awards, is
20 Item 2D, which was the competitive sale of
21 \$233.1 million in PECO Refunding Bonds. The
22 bonds were awarded to the low bidder at a true
23 interest cost of 2.97 percent. That allowed us
24 to reduce the interest rate on current bonds
25 from 4.57 percent to 2.97 percent, generating

1 gross debt savings of 44 million, present value
2 savings of 32.7 million or 12.9 percent of the
3 principal amount of the bonds being refunded.

4 So from a macro perspective, we continue
5 to enjoy very favorable interest rates, both
6 from an interest rate standpoint, as well as
7 money flowing in and being invested in the
8 municipal space.

9 If you'll recall, there was a lot of
10 speculation about lift-off and Federal monetary
11 policy in September. But China's economy was
12 often collapsing in the emerging market. So
13 the reserve stepped away from that, and now the
14 speculation is about raising rates in December,
15 if they're meeting in December. And we've
16 already seen the impact of that, but just to
17 give you a sense of order of magnitude. Ten to
18 twenty basis points moving in interest rates
19 higher, so that's not catastrophic from any
20 perspective. So we continue to enjoy very
21 favorable market conditions and interest rates,
22 and we'll continue to pursue refundings.

23 So from a fiscal year-to-date standpoint,
24 from June 30 through today, we've executed four
25 refundings aggregate principal amount of

1 950 million, generating gross debt service
2 savings of 162 million or present value savings
3 of 123 million.

4 So the next two items are actually
5 follow-ons to that to give us additional
6 authorization to pursue refundings.

7 Item 3 is a resolution authorizing the
8 issuance in competitive sale of \$145 million in
9 Public Education Capital Outlay Refunding Bonds
10 for debt service savings.

11 **COMMISSIONER PUTNAM:** So moved.

12 **GOVERNOR SCOTT:** Is there a second?

13 **CFO ATWATER:** Second.

14 **ATTORNEY GENERAL BONDI:** Second.

15 **GOVERNOR SCOTT:** Any comments or
16 objections.

17 (NO RESPONSE):

18 **GOVERNOR SCOTT:** Hearing none, the motion
19 carries.

20 **MR. WATKINS:** And lastly, Item 4 is
21 resolutions authorizing issuance in the
22 competitive sale of \$195 million in Turnpike
23 Revenue Refunding Bonds for debt service
24 savings.

25 **GOVERNOR SCOTT:** Is there a motion?

1 **ATTORNEY GENERAL BONDI:** So moved.

2 **GOVERNOR SCOTT:** Is there a second?

3 **COMMISSIONER PUTNAM:** Second.

4 **GOVERNOR SCOTT:** Any comment or
5 objections?

6 (NO RESPONSE):

7 **GOVERNOR SCOTT:** Hearing none, the motion
8 carries.

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C E R T I F I C A T E

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STATE OF FLORIDA

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COUNTY OF PALM BEACH

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I, Caretha Wisdom, Professional Court Reporter and Notary Public in and for the State of Florida at Large, do hereby certify that I was authorized to and did report the foregoing proceedings in stenotype; and that the foregoing pages are a true and complete transcription of my stenographic notes of the proceedings.

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DATED this 23rd day of November, 2015.

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CARETHA WISDOM.
Court Reporter.

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State of Florida

2015

Debt Affordability

Report

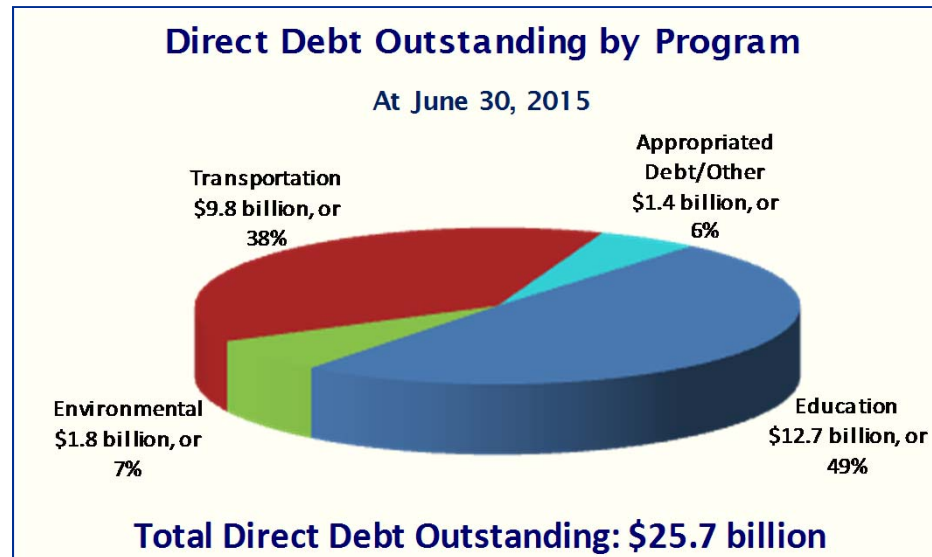
December 2015



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



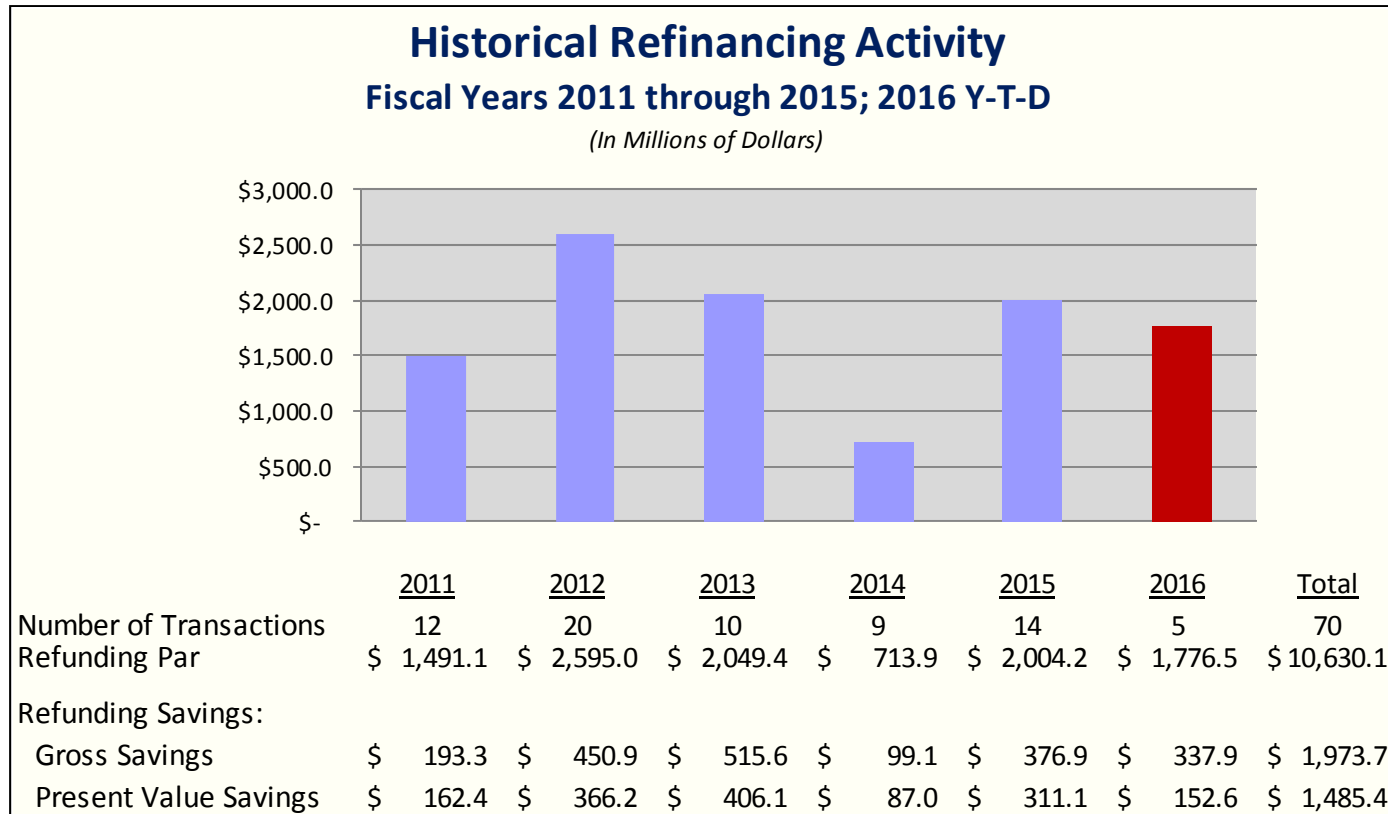
- Total outstanding direct debt at June 30, 2015 was \$25.7 billion (net tax-supported debt was \$21.6 billion and self-supporting debt was \$4.1 billion)
- Largest infrastructure investment for school construction of \$12.7 billion (49%)
- **Second largest for transportation projects (primarily long term Public-Private Partnership obligations and toll facilities) of \$9.8 billion (38%); \$2.7 billion increase or nearly 40% over prior year**
- Third largest for acquiring land for conservation of \$1.8 billion (7%)

Decrease In Debt Relative to Historical Trend



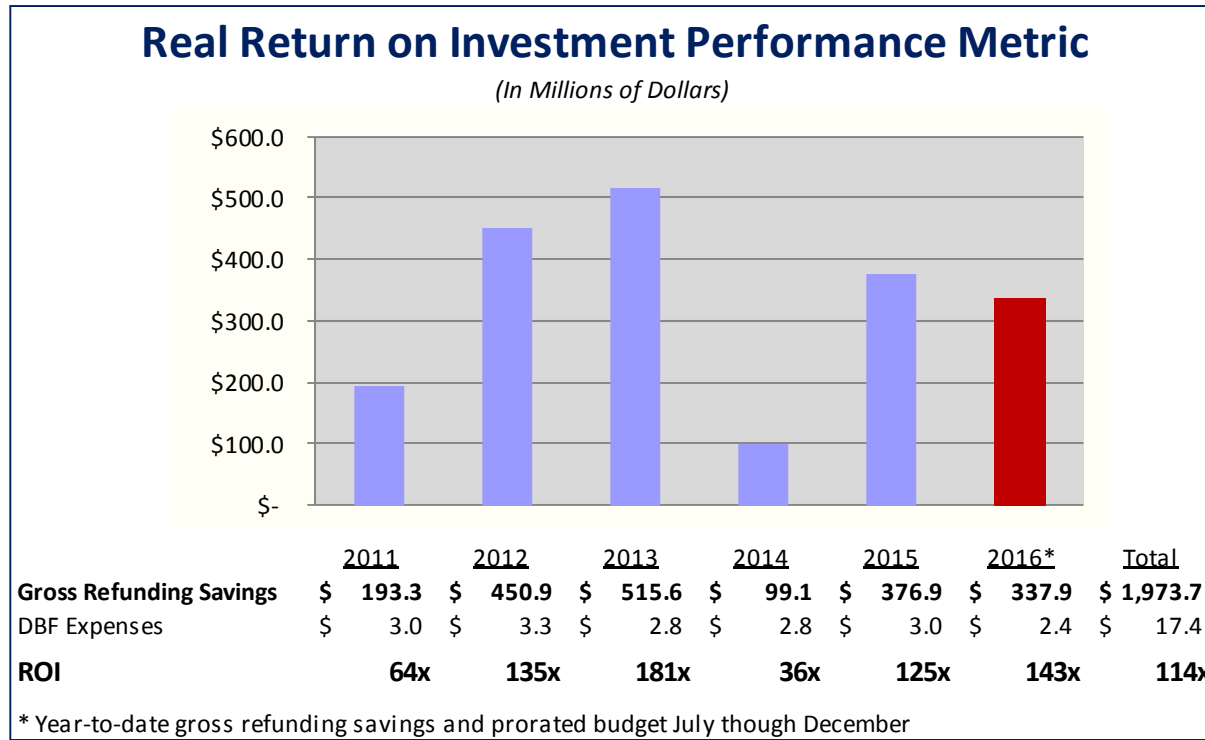
- State debt outstanding increased annually and more than tripled from 1992 through 2010 before decreasing for four consecutive years (2010-2014)
- ***Total direct debt outstanding has decreased by approximately \$2.5 billion over the last five fiscal years***
- Increase in Fiscal Year 2015 due to adding Public-Private Partnership obligations for I-4 Ultimate
- Decrease over the last five fiscal years reverses a long-term trend of increasing State debt
- ***If trend of increasing debt had continued, outstanding debt would be \$33.3 billion or 30% (\$7.6 billion) more than it was at end of Fiscal Year 2015***

Refinancing Activity



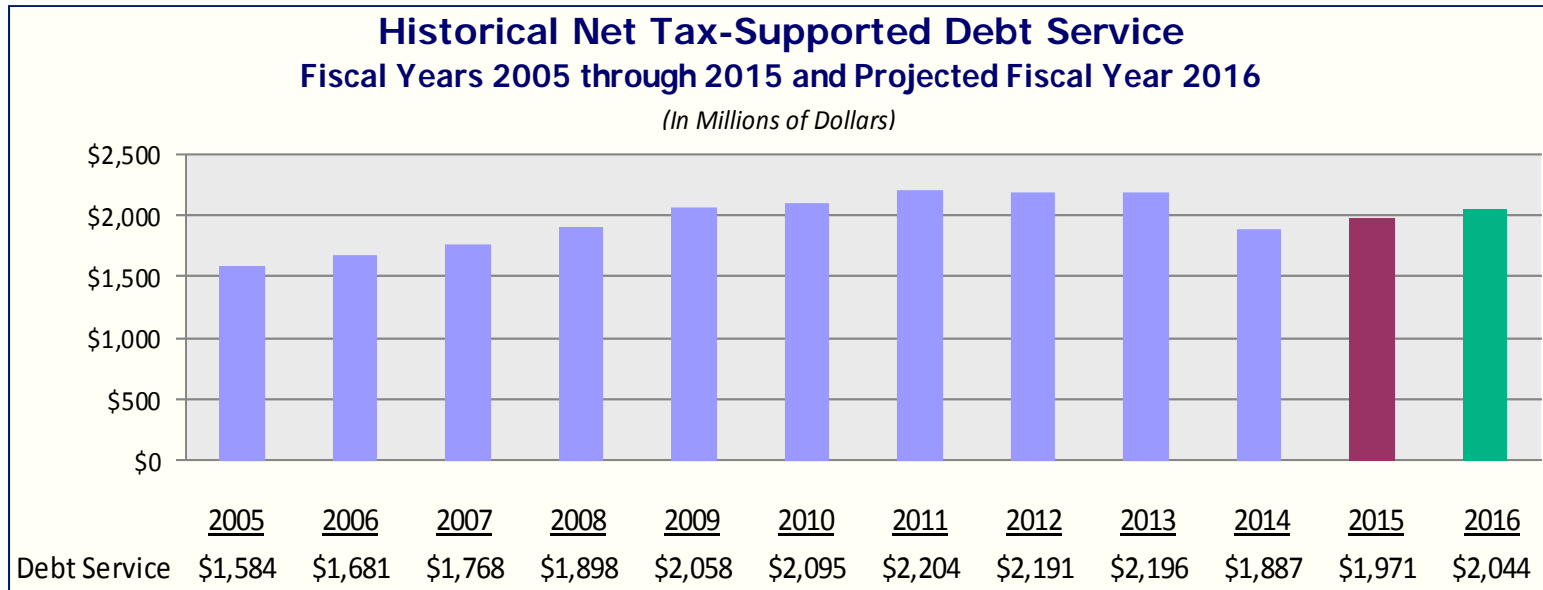
- DBF executed 70 refunding transactions over the last 5.5 fiscal years totaling \$10.6 billion
- **Refinancing activity has generated gross debt service savings of nearly \$2.0 billion** or \$1.5 billion on a present value basis
- DBF has executed 5 refunding transactions to-date in Fiscal Year 2016 totaling about \$1.8 billion and generating gross debt service savings of \$338 million or \$153 million on a present value basis
- Fiscal Year 2016 includes the refinancing of the Public-Private Partnership obligations for the I-595 project

Savings/Return on Investment



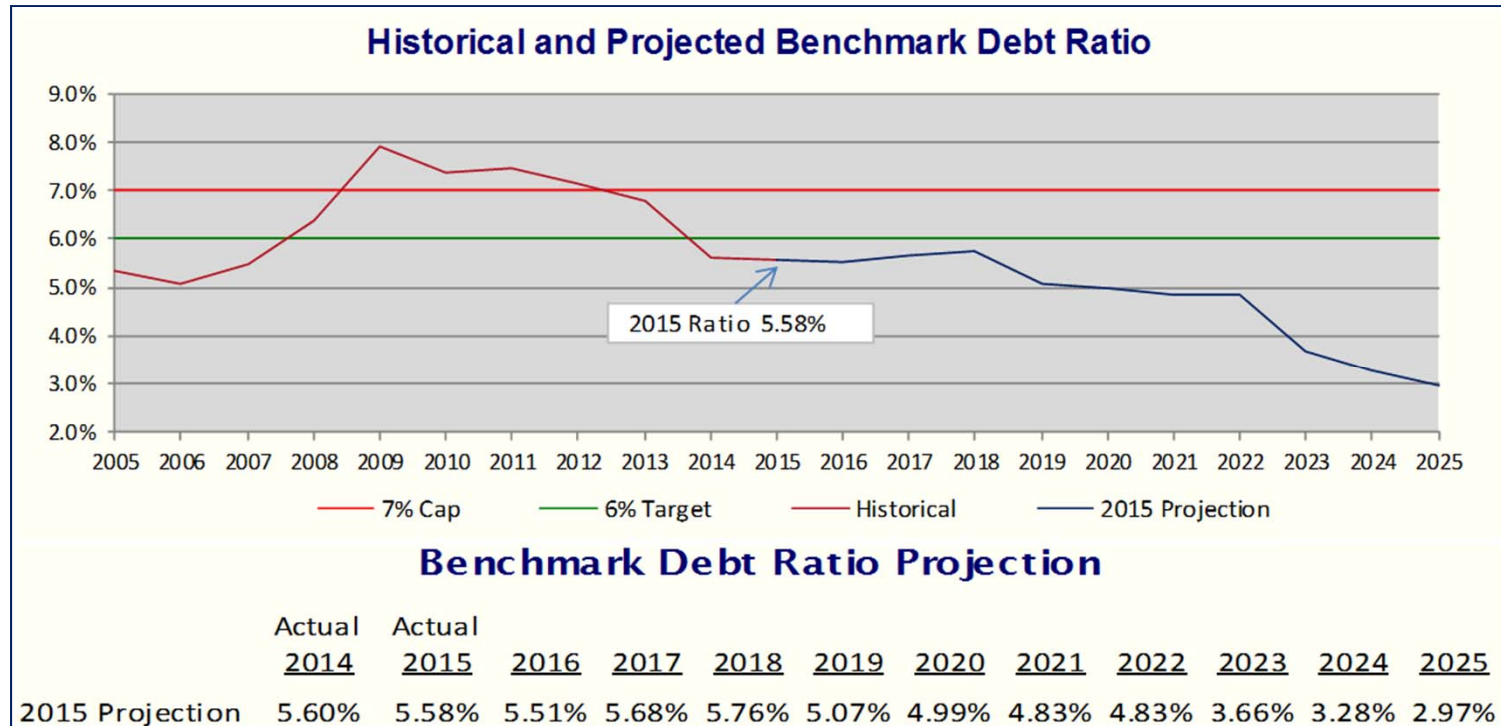
- Return on investment on refinancings has averaged 114x the past 5.5 years based on total savings divided by total DBF Expenses
- The return on investment has varied from a high of 181x in 2013 to a low of approximately 36x in 2014
- ***The return on investment based on debt service savings from refinancings in Fiscal Year 2015 was approximately 125x DBF Expenses***
- The return on investment for 2016 year-to-date is 143x DBF Budgeted Expenses (July through December)

Changes in Annual Debt Service



- Annual debt service payments for net tax-supported debt increased nearly 50% over nine years from \$1.6 billion in 2005 to \$2.2 billion in 2013
- Fiscal Year 2014 debt service decreased approximately \$300 million to \$1.9 billion due to final retirement of Preservation 2000 bonds in Fiscal Year 2013
- ***Fiscal Year 2015 debt service increased to about \$2.0 billion due to refinement of how Public-Private Partnership obligations are reflected in outstanding debt***
- Fiscal Year 2016 debt service is expected to remain about \$2.0 billion before increasing to approximately \$2.3 billion in 2018 due to payments on the I-4 Ultimate Project

Benchmark Debt Ratio



- Benchmark debt ratio is debt service as percentage of revenues available to pay debt service
- Significant increase in benchmark debt ratio from 2006 – 2009 due to significant revenue declines
- **Benchmark debt ratio flat for Fiscal Year 2015 at 5.58% but remains under the 6% target**
- Benchmark debt ratio is projected to remain under the 6% target throughout the 10-year projection period but is dependent upon continued revenue growth

Florida's Relative Ranking Among Peer Group

2014 Debt Ratios Comparison of Eleven Most Populous States									
	Net Tax-Supported Debt Service		Net Tax-Supported		Net Tax-Supported		Net Tax-Supported		General Obligation
	Rank	as a % of Revenues	Rank	Debt Per Capita	Rank	Debt as a % of Personal Income	Rank	Debt as a % of State GDP	Ratings Fitch/Moody's/S&P
New York	1	11.40%	2	\$3,092	2	5.70%	3	4.66%	AA+/Aa1/AA+
Illinois	2	10.30%	3	\$2,681	2	5.70%	2	4.79%	BBB+/Ba a1/A-
New Jersey	3	8.90%	1	\$4,138	1	7.40%	1	6.81%	A/A2/A
California	4	7.90%	4	\$2,407	4	5.10%	4	4.24%	A/Aa3/A+
Georgia	5	6.70%	7	\$1,043	5	2.80%	6	2.32%	AAA/Aaa/AAA
Ohio	6	5.80%	6	\$1,109	6	2.70%	7	2.27%	AA+/Aa1/AA+
Florida	7	5.60%	8	\$1,029	7	2.40%	5	2.42%	AAA/Aa1/AAA
Pennsylvania	8	5.20%	5	\$1,117	7	2.40%	8	2.21%	AA-/Aa3/AA-
North Carolina	9	4.30%	10	\$739	9	1.90%	10	1.56%	AAA/Aaa/AAA
Michigan	10	3.20%	9	\$758	9	1.90%	9	1.74%	AA/Aa1/AA-
Texas	11	2.60%	11	\$406	11	1.00%	11	0.71%	AAA/Aaa/AAA
Median		5.80%		\$1,109		2.70%		2.32%	
Mean		6.54%		\$1,684		3.55%		3.07%	
National Median		5.30%		\$1,012		2.60%		2.21%	

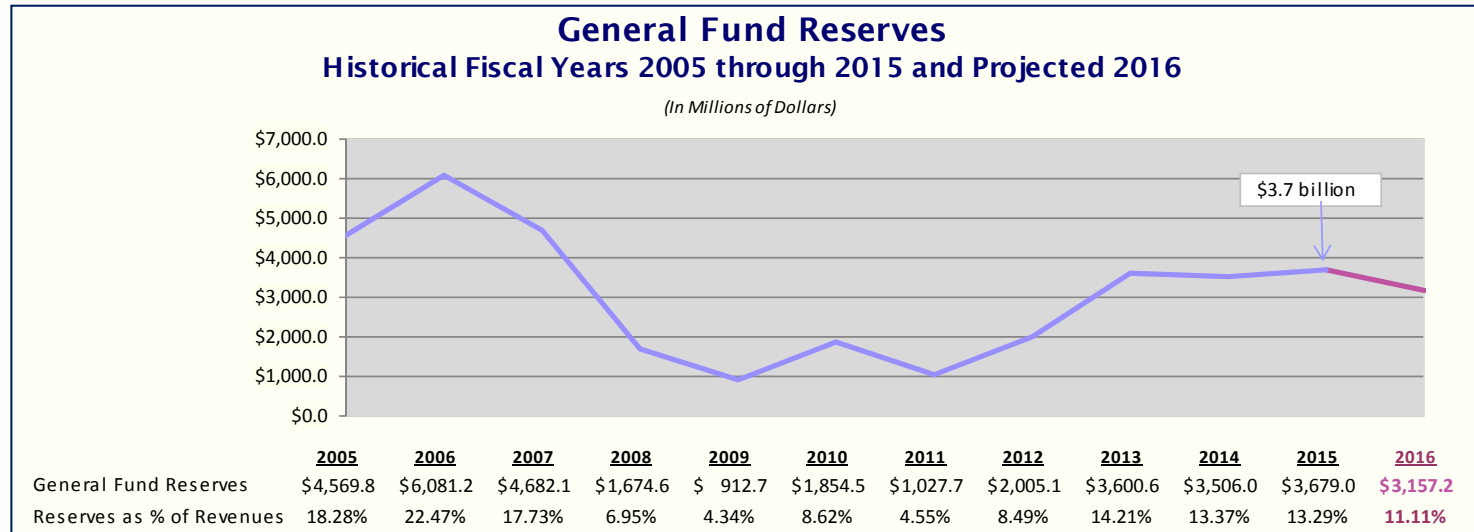
- **Florida's debt burden is lower than the peer group average for all metrics**
- Florida's debt per capita is 8th lowest
- Florida's benchmark debt ratio and debt as a percentage of personal income is 7th lowest
- Florida's debt as a percentage of State's GDP is 5th lowest

Peer Comparison of Pension Liabilities

2013 Pension Metrics Comparison of Eleven Most Populous States												
Adjusted Net Pension Liabilities ("ANPL") and Actuarial Required Contribution ("ARC") Medians												
State	Rank	ANPL (in Millions)	ANPL as a % of			ANPL Per Capita	ANPL as a % of			ARC as % of Revenues		
			Rank	Revenues	Rank		Personal Income	Rank	State GDP		Rank	
California	1	\$ 189,442	5	92.5%	4	\$ 4,942	4	10.2%	4	8.6%	3	5.6%
Illinois	2	167,582	1	268.3%	1	13,009	1	27.7%	1	23.3%	1	11.2%
Texas	3	104,422	4	102.8%	5	3,948	5	9.0%	5	6.8%	5	3.8%
New Jersey	4	87,644	2	179.7%	2	9,848	2	17.8%	2	16.1%	2	8.1%
Pennsylvania	5	76,927	3	129.7%	3	6,022	3	13.0%	3	11.9%	4	4.9%
New York	6	32,192	11	24.2%	8	1,638	10	3.0%	10	2.5%	6	1.5%
Michigan	7	26,854	7	58.6%	6	2,714	6	6.9%	6	6.2%	6	1.5%
Georgia	8	22,099	6	60.4%	7	2,212	7	5.8%	7	4.9%	8	1.4%
Florida	9	18,657	10	27.3%	11	954	11	2.3%	11	2.3%	11	0.6%
Ohio	10	16,859	9	33.0%	10	1,457	9	3.5%	9	3.0%	10	0.7%
North Carolina	11	14,620	8	34.9%	9	1,485	8	3.8%	8	3.1%	9	1.3%
Median		\$ 32,192		60.4%		\$ 2,714		6.9%		6.2%		1.5%
Mean		\$ 68,845		91.9%		\$ 4,384		9.4%		8.1%		3.7%
National Median		\$ 12,110		60.3%		\$ 3,010		7.7%		6.0%		2.0%

- Moody's and Fitch each employ "adjustments" to reported pension liabilities for greater comparison of State defined benefit systems
- **Florida's adjusted net pension liability ("ANPL") metrics are significantly stronger than national medians**
- Florida has the third lowest ANPL in the peer group and second lowest ANPL as a percentage of revenues
- Florida has the lowest ANPL in the peer group for each of the other metrics; per capita, personal income, GDP and ARC as a percentage of revenues
- **Pension system management and funding is an important part of credit analysis**

General Fund Reserves



- General Fund reserves include unspent General Revenue and funds held in the Budget Stabilization Fund
- General Fund reserves accumulated through Fiscal Year 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 steadily restored since Fiscal Year 2011
- ***Fiscal Year 2015 ended with General Fund reserves of \$3.7 billion or 13.3% of general revenues***
- General Fund reserves are projected to decrease to \$3.2 billion or 11.1% of projected general revenues at the end of Fiscal Year 2016
- ***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		
	<u>Ratings</u>	<u>Outlook</u>
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 were affirmed during Fiscal Year 2015 and have not changed***

Florida's Credit Ratings

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

Strengths:

- ***Strong financial and debt management practices***
- ***Structurally balanced budget***
- ***Broad economic recovery and employment growth that currently outpaces the U.S.***
- Moderate debt burden with clear guidelines
- Relatively well-funded pension system and fully funding the pension contribution in Fiscal Years 2014, 2015 and 2016
- Large, service based economy that benefits from a low cost of living and favorable climate

Challenges:

- Heavy dependence on economically sensitive sales taxes
 - ***Maintaining adequate reserves*** following improvement over past three years
 - ***Maintaining structural budget balance while absorbing spending pressures and without overreliance on non-recurring revenues***
 - 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 continue to evaluate the economic recovery and the State's ability to meet revenue projections, maintain reserves and structural budget balance
 - State ratings remain vulnerable to deterioration in economic conditions or developments negatively affecting financial resources or reserves

Conclusions

- **State debt has been reduced by \$2.5 billion over the last five years** (not including federal loan repayment to unemployment trust fund)
- At June 30, 2015 **State direct debt totaled \$25.7 billion**, \$1.5 billion more than the prior fiscal year because of PPP obligations for the I-4 expansion
- **Refinancings** over last five fiscal years **have saved the State \$1.6 billion**
- Recurring annual debt service payments were \$2.0 billion in Fiscal Year 2015, slightly higher than Fiscal Year 2014
- **Benchmark debt ratio of 5.58% remained below the 6% target for a second consecutive year**
- **General Fund reserves at June 30, 2015 were approximately \$3.7 billion, or 13.3% of General Revenues** and are projected to decrease to \$3.2 billion during Fiscal Year 2016
- **State credit ratings are very strong (AAA, AAA, Aa1)** but vulnerable to a deterioration in economic conditions negatively affecting financial performance, structural budget balance or reserves
- Management and funding of the pension system have become a part of evaluating the State's credit rating and fully funding the ARC is an important credit consideration