State of Florida

Economic Strength	Financial Condition	Debt & Long-Term Liabilities	Management & Operating Environment	Overall Score
Good	Good	Good	Good	Good

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Analysis as of 2 Jul 2012

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Issuer Profile

Florida has a diverse economic base with metropolitan economic anchors in Miami, Tampa, and Orlando. Significant areas of the state remain rural.

Bonds are typically revenue bonds secured by the state's general obligation (GO) pledge and/or a specific tax or revenue stream. Public Education Bonds, which account for the largest portion of outstanding debt, are secured by a double-barreled pledge of the state's general obligation (GO) pledge along with revenues from the state's gross receipts tax (GRT) on utilities.

State	State of Florida
Sector	State

Key Statistics

Population (2010)	18,511,620
Gross State Product (GSP) ($Millions)	$747,735
GSP Per Capita	$40,392
Per Capita Personal Income % US Average	97.1%
Median Household Income % US Average	91.8%
% Unemployment (2011)	10.5%
Total Fund Balance % of Spending (2011)	12.7%
Total Debt Burden ($000s)	$22,096,909
Dept Burden Per Capita	$1,193
Principal Amortization (10 years)	53.6%

Credit Perspective

• Morningstar believes Florida is a strong long-term credit. We like the state's below average cost of living, sizeable quantity of developable land, and favorable location.

• The recent recession severely impacted the state. Although the economy has returned to a state of moderate growth, Morningstar believes Florida will take a long time to fully recover.

• Strong, proactive management has enabled the state to maintain healthy reserve levels despite significant revenue losses.

• Florida's debt profile is conservative with a moderate debt burden. Pension and OPEB obligations are well managed.

Credit Forecast

The state's revenues come largely from sales taxes, which leaves it vulnerable to economic cycles. However, the state's strong, proactive management, high reserve levels, and sound long-term economic profile should ensure Florida remains a stable investment for the forecast period.

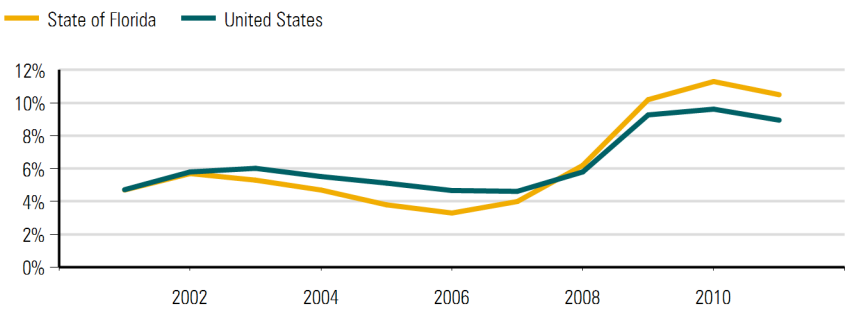
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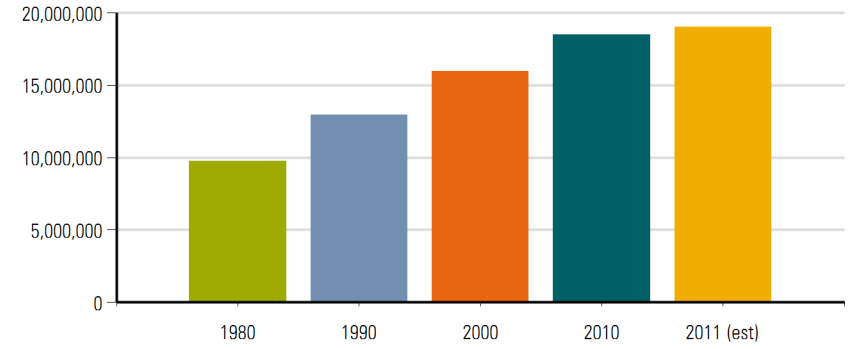
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Historical Unemployment



Population Trend



Economic Strength

Morningstar believes it will take some time for the state to fully recover from the recent recession. The recovery may be concentrated in certain sectors while others, notably construction, may never return to pre-recession activity levels. However, the long-term profile of the state remains strong, aided by its below average cost of living, sizeable quantity of developable land and favorable location.

Florida's aggregate population growth has been rapid with over a 15% increase in residents between 2000 and 2010. However, growth was largely concentrated in the early portion of the last decade. Population increases continue currently, but at a significantly slower pace. The age distribution for the state differs from national figures, with a larger percentage of residents aged 65 or older and a smaller percentage of working age adults, which tends to create a larger need for government services. However, the state also has a large percentage of part-time residents, which contribute tax revenue but generally are less likely to utilize a comparable amount of state services.

Government currently accounts for the largest source of non-farm industry employment, followed by educational and health services, professional and business services, and retail trade. Government, education and health services tend to add stability to the economy.

The state was severely impacted by the recent recession and housing crisis. Data from the Bureau of Labor Statistics (BLS) show construction related employment declined by 49% from the peak

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Economic Snapshot

Gross State Product (GSP) ($Millions)	$747,735
GSP Per Capita	$40,392
Population (2010)	18,511,620
10 year population change	15.8%
30 year population change	89.9%
Median Age: (US:36)	40
Dependency Ratio	62.9%
% Unemployment (2011)	10.5%
% Unemployment (May 2012)	8.5%
% of Persons Below the Poverty Line	13.8%
Top Industry (Employment)	Trade, Transportation, and Utilities
Top Industry (Production)	Real estate and rental and leasing
% Population with High School Degree	55.0%
% Population with Bachelor's Degree	25.9%
Median Household Income (MHI) (2010)	$47,661
MHI % US Average	91.8%
Per Capita Personal Income (PCPI) (2010)	$26,551
PCPI % US Average	97.1%

Economic Strength (continued)

in 2006 to 2010 (most recent available annual data) while manufacturing shed over 26% of jobs over the same time period.

But it could have been worse. Although tourism and agriculture remain significant employment centers, the economy has diversified from its historical roots. As mentioned above, the state's diversification into education and health services has added a degree of stability as those sectors have seen continued employment growth over the last few years. Other sectors have returned to growth in either fiscal 2010 or fiscal 2011, with gains shown in finance, professional and business service, leisure and hospitality, and retail trade. The unemployment rate has fallen from significantly from a year prior, more closely mirroring the national average.

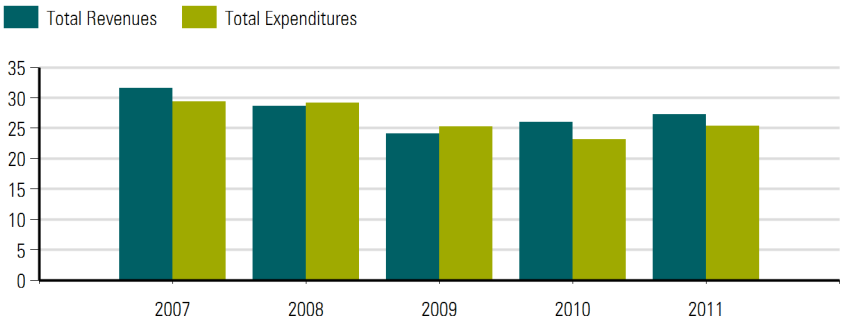
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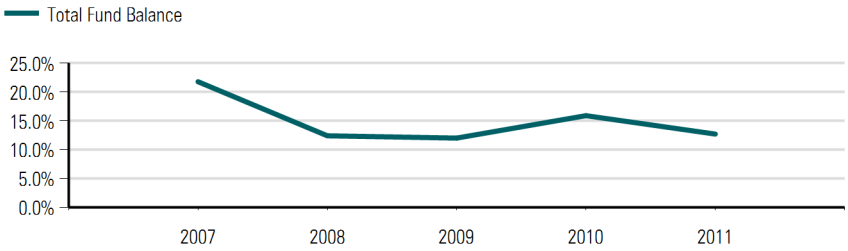
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Historical Revenues and Expenditures ($Millions)



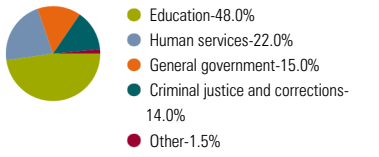
Total Fund Balance as Percentage of Spending



Top Sources of General Fund Revenues



Top Sources of General Fund Expenditures



General Fund ($000s)

Fiscal Year	2011
Total Assets	$6,125
Total Liabilities	$2,498
Total Revenues	$27,289
Total Expenditures	$25,320
Excess (Deficiency) of Revenues Over (Under) Expenditures	$1,969
Operating Surplus (Deficit) After Transfers	-$545
Net Change in Fund Balance	-$543
Total Fund Balance	$3,627
Net Cash & Investments as % of Spending	15.7%
Total Fund Balance as % of Spending	12.7%

Financial Condition

The financial condition of the state remains sound, with proactive budgetary management maintaining healthy reserve levels in recent years despite significant revenue volatility.

The largest source of tax revenues is the sales and use tax, a uniform 6% tax on sales across the state. This enables the state to distribute a portion of state costs to part-time residents and tourists, although it makes it vulnerable to economic cycles, as exhibited during the recent recession. Total general fund revenues declined by more than a third between fiscal 2006 and fiscal 2009. This decrease would have been worse had it not been for the receipt of federal stimulus revenues, which helped mitigate a portion of the revenue decline. The state reacted by reducing spending levels and making a policy decision to use a portion of reserves. Due to these actions, the state was able to maintain both adequate service levels and healthy reserves.

Revenues began to stabilize in fiscal 2010 with moderate growth for the past two audited years (fiscal 2010 and 2011). Despite this growth, there was a gap of $374 million between original and final estimated revenues for fiscal 2011. The state reacted by reducing budgeted expenditures by $212 million during the year. Total spending increased after three years of annual declines, notwithstanding midyear budget reductions. A moderate $0.5 billion of reserves were used during the year, lowering the general fund balance to $3.6 billion, equal to a still strong 12.7% of total spending. The budget stabilization fund, located within the general fund, held $279.2 million in reserves at the end of the year.

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Financial Condition (continued)

The state addressed a projected fiscal 2012 budget gap through additional spending reductions ($1.2 billion), not replacing projects previously funded with federal stimulus revenues ($0.9 billion) and requiring employee pension contributions ($1.3 billion). The October 2011 Revenue Estimating Conference estimated fiscal 2012 revenues to come in $600 million, roughly 2.5% below previous estimates, and 2.9% above fiscal 2011 levels. Based on the October 2011 estimates, the spending levels included in the fiscal 2012 budget would generate an operating surplus for the year.

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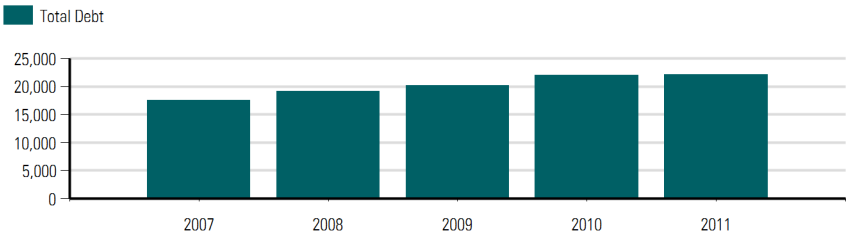
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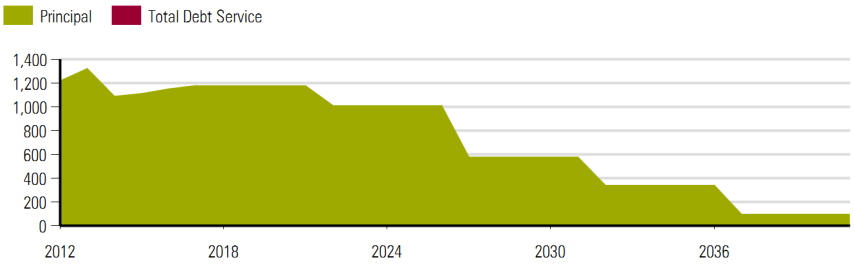
Direct Debt Snapshot ($000s)

Security	Amount Outstanding
Road and Bridge Bonds	$1,965,605
State Board of Ed Capital Outlay Bonds	$621,235
Lottery Education Bonds	$2,903,893
Public Education Bonds	$11,479,785
State University System Bonds	$214,515
University Auxiliary Bonds	$761,336
Inland Protection Bonds	$90,105
Save Our Coast Bonds	$4,785
Preservation 2000 Bonds	$135,650
Florida Forever Bonds	$1,917,055
Water Pollution Control Bonds	$527,280
Florida Facilities Pool Bonds	$374,450
State Infrastructure Bank Bonds	$91,775
Everglades Restoration Bonds	$214,590
COPS	$794,850
Analyst Adjustments	N/A
Less: Self-supporting	N/A
Net Direct Debt	**$22,096,909**
Debt Burden:	
Per Capita	$1,193
Debt Burden as % of Personal Income	4.5%
Principal Amortization (10 years)	53.6%

Historical Debt Burden ($Millions)



Projected Principal and Total Debt Service ($Millions)



Debt and Long-Term Liabilities

Florida has a moderate debt burden. The vast majority of the state's debt is fixed rate, with less than 0.5% of total outstanding debt in variable rate form. The state has no exposure to derivatives.

The state administers the Florida Retirement System (FRS), which provides pension benefits for members. Membership is compulsory for state, county, school district, state university, and state community college employees. Cities and other jurisdictions also have optional participation. Members have defined benefit and defined contribution benefit options. Effective fiscal 2011, the state legislature enacted plan changes, including the implementation of 3% employee contribution rate as well as extending the vesting period for new members and the period used for determining average final compensation. The plan remains well funded at over 86%.

Other post-employment benefits (OPEB) are limited to an implied subsidy for healthcare benefits. Retirees are able to purchase health insurance at the blended group rate, creating an implied subsidy for the state. The state continues to fund OPEB benefits on a pay as you go basis.

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Other Long-Term Liabilities

Pension

Defined Benefit/Defined Contribution	Multiple
Type of Plan	Cost Sharing Multiple Employer
% Funded (2011)	86.6%
Pension Costs as % of Spending	N/A
Increase in pension costs over past 3 years	12.8%
Fully funding Actuarially Required Contribution (ARC)	Yes

Other Post-Employment Benefits (OPEB)

Pay-go Funding or ARC Funding	Pay-go
Presence of OPEB Trust	No
Pay-go Funding as % of ARC	34.4%
OPEB as % of Spending	N/A
Funded Ratio (2011)	N/A

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Management and Operating Environment

State management is strong and proactive with no significant hurdles faced from the operating environment.

State law limits the ratio of tax-supported debt to tax-supported revenues, but the policy is flexible. Tax-supported debt can exceed 6% of tax revenues if the state legislature deems it in the best interest of the state. The state legislature is required to deem additional debt necessary to address a critical emergency if the ratio exceeds 7%. The state exceeded this 7% threshold in fiscal 2011 due to reductions in tax revenues.

The state constitution mandates the creation and maintenance of a budget stabilization fund (BSF), equal to 5% to 10% of the prior year's general fund revenues. This revenue is able to be transferred to the general revenue fund to offset a deficit or provide emergency funding. Any withdrawals are to be restored in five equal annual installments, beginning in the third fiscal year after the expenditure, though the legislature has the ability to establish an alternate restoration schedule. Slightly less than $1.1 billion of BSF reserves were transferred to the general fund in fiscal 2009. In accordance with the law, the state has prepared a repayment schedule which calls for $0.2 billion to be paid from the general fund to the BSF annually for five years beginning in fiscal 2012. Both the BSF and general reserve fund are located within the general fund.

The state budget must be balanced through current revenues, which Morningstar views positively. Revenue estimates are revised at least three times

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Management and Operating Environment (continued)

a year. The rate of growth of state revenues in a given year is limited to the average annual growth rate of personal income for the previous five years. Revenues collected in excess of this limitation are deposited into the BSF.

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