The Constitution Revision Commission

COMMITTEE MEETING EXPANDED AGENDA

BONDING AND INVESTMENTS
Commissioner Smith, Chair
Commissioner Armas, Vice Chair

MEETING DATE: Tuesday, September 26, 2017
TIME: 1:00—3:00 p.m.
PLACE: 37 Senate Office Building, Tallahassee, Florida

MEMBERS: Commissioner Smith, Chair; Commissioner Armas, Vice Chair; Commissioners Gaetz, Kruppenbacher, Newsome, Rouson, and Solari

TAB	PROPOSAL NO. and INTRODUCER	PROPOSAL DESCRIPTION and COMMITTEE ACTIONS	COMMITTEE ACTION
1	Presentation on Bonding (Article VII) By Ben Watkins, Executive Director of the Division of Bond Finance		Presented

State of Florida

Debt Overview for Constitution Revision Commission

Presented by

The Division of Bond Finance

August 2017

Organization of the State

- Constitutional framework for debt
  - General Principles
    - State general obligation bonds (full faith and credit) may only be issued when approved by voters – Article VII ' 11(a)
  - Bonds secured by taxes may be issued when authorized by Constitutional amendment (voter approval)
    - No pledge of taxes without voter approval
  - Revenue Bonds secured by non-tax revenues may be issued without voter approval – Article VII ' 11(d)

Constitutional Authority for Bonding

Bond Program	Constitutional Authority
Public Education Capital Outlay (PECO) Bonds	Article XII, § 9 (a)(2)
Education Capital Outlay Bonds	Article XII, § 9 (d)
Right-of-Way and Bridge Bonds	Article VII, § 17
Florida Forever and Everglades Bonds	Article VII, § 11 (e)
County Road Bonds	Article XII, § 9 (c)
Housing Bonds	Article VII, § 16
Pollution Control Bonds	Article VII, § 14
Scholarship Loan Bonds	Article VII, § 15
Revenue Bonds	Article VII, § 11 (d)

Types of Debt

- General Obligation or Full Faith and Credit Bonds (Constitutionally authorized)

  <u>Examples:</u> Public Education Capital Outlay (PECO)

  Right-of-Way Acquisition and Bridge Construction (ROW)

- Bonds secured by specified taxes (Constitutionally authorized) -- Article VII ' 11(e)

  <u>Examples:</u> Preservation 2000/Florida Forever

  Everglades Restoration

Types of Debt – cont.

- Revenue Bonds secured by non-tax revenues -- Article VII ' 11(d)

  Examples: Turnpike Bonds or Toll Road Bonds

  Lottery Bonds

  University Auxiliary Facilities (Dormitories and Parking Facilities)

  State Infrastructure Bank

  State Revolving Loan Fund

- Bonds subject to annual appropriation of debt service or Certificates of Participation (COPs)

  Examples: Facilities Pool (State office buildings)

  Prison Financings

  Inland Protection (leaking underground storage tanks)

Limitations on Debt

- Limits on debt imposed in various ways
  1) Constitutional limits on individual programs

     <u>Example:</u> PECO – no more than 90% of gross receipts taxes for debt service – Article XII ' 9(a)(2)

  2) Statutory limits

     <u>Examples:</u> Preservation 2000/Florida Forever – no more than $30 million in debt service in each year additional debt is authorized;

     Right-of-Way – no more than 7% of STTF revenues for debt service

  3) Bond documents

     <u>Example:</u> Limited by enterprise revenues pledged plus additional bonds test

Authorization of Debt

- Legislature authorizes debt through substantive law or appropriations act
  - Legislature decides what to borrow for and how much to borrow
  - Executive Branch implements legislative authorization through Division of Bond Finance (DBF)
  - Governor and Cabinet are governing board of DBF
  - DBF performs centralized debt management function for State and oversees structuring and execution of most State debt issuance

Debt Management Policies

- Chapter 215.98, F.S., requires annual analysis of State's debt position through debt affordability analysis

- Debt affordability analysis prepared annually for legislative leadership

- Debt affordability analysis designates benchmark debt ratio and establishes a target and cap

- Benchmark debt ratio is annual debt service to revenues available to pay
  - Target: 6%
  - Cap: 7%

Debt Management Policies – cont.

- Debt affordability analysis provides framework for State to measure, monitor and manage State's debt position

- Debt affordability analysis assists the legislature in prioritizing capital spending and integrates debt authorization function (legislative branch) with debt management function (executive branch)

Debt Management Policies – cont.

- State debt policies were amended in 2012 to require more rigorous scrutiny of debt financed projects
- Projects must provide tangible, demonstrable benefits to the State
  - Revenue producing projects evaluated based on expected return on investment or internal rate of return
  - Non-revenue producing or tax-supported projects are evaluated using appropriate quantitative metrics
- Analysis completed when project/debt approval is presented to the Governing Board

Sale of Bonds

- Requesting Resolution from agency
- Governing Board (Governor & Cabinet) adopts Authorizing Resolution
- File Bond Validation (if needed)
- Consideration of Competitive Sale versus Negotiated Sale
  - Board policy presumes competitive sale most cost effective
  - Negotiated sale exception requires analysis and approval by Governing Board
- Board policy requires competitive selection process for all professionals regardless of type of sale, including legal counsel, financial advisor, and underwriter (if negotiated sale)

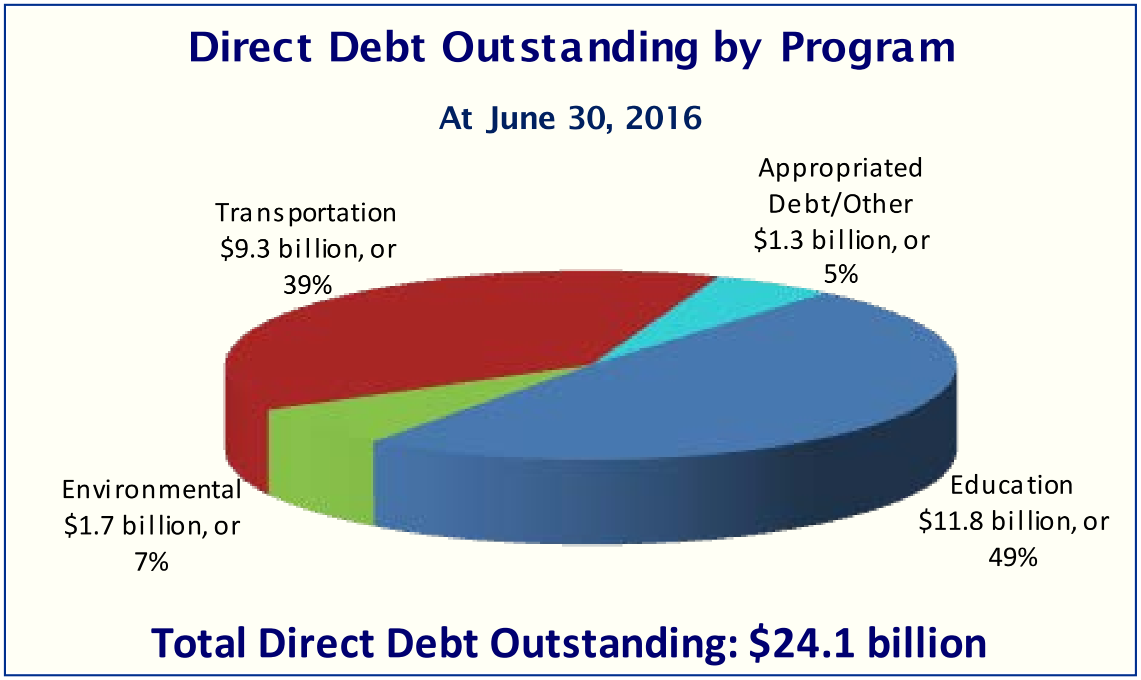
Sale of Bonds – cont.

- Develop financial structure of transaction and run preliminary additional bonds test (ABT)
- Draft Preliminary Official Statement (POS)
- Apply for and obtain credit ratings
- Board adopts sale resolution and authorizes sale of bonds
- Publish notice of sale – 18-hour notice
- Evaluate market conditions for sale
- Announce sale; take bids; verify bids; make award
- If negotiated sale, use financial advisor to help determine that the underwriter is offering the bonds at a fair price
- For refundings, evaluate escrow investment options
  - SPIA, Treasuries, or SLGS
- Report results of sale
- Deliver bonds and close transaction

Regulatory Framework

- Federal Tax Law Compliance
  - Type of facilities financed
  - Private business use limitation
  - Audits and post-issuance compliance
  - Arbitrage compliance
  - Temporary periods & investment limitations
- Federal Securities Laws
  - Exempt from registration
  - Disclosure requirements; subject to anti-fraud securities laws
  - Continuing disclosure requirements – annual filings
  - Investor relations website to provide current information to the market
  - SEC enforcement actions & MCDC

Direct Debt Outstanding



- ***Total outstanding direct debt at June 30, 2016 was $24.1 billion*** (net tax-supported debt was $20.1 billion and self-supporting debt was $4.0 billion)
  - Largest infrastructure investment for school construction of $11.8 billion (49%)
  - Second largest for transportation projects (primarily long term Public-Private Partnership obligations and toll facilities) of $9.3 billion (39%)
  - Third largest for acquiring land for conservation of $1.7 billion (7%)

Decrease In Debt Relative to Historical Trend

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
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	$24.2	$25.7	$24.1

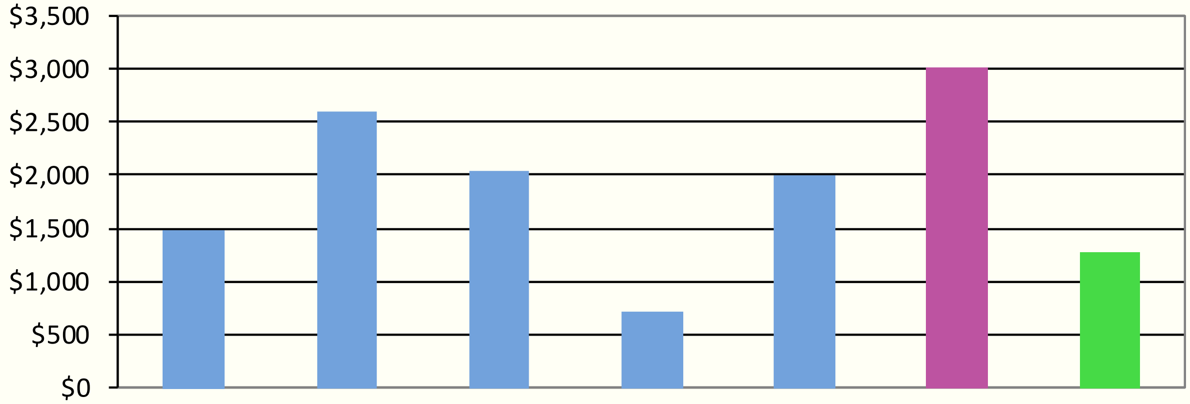
- State debt outstanding increased annually and more than tripled from 1992 through 2010 before decreasing for four consecutive years (2010-2014)
- ***Total direct debt outstanding has decreased by approximately $4.1 billion over the last six fiscal years***
- Increase in Fiscal Year 2015 due to adding Public-Private Partnership obligations of $2.7 billion for I-4 Ultimate
- ***Decrease in debt resumed in Fiscal Year 2016 ($1.6 billion decrease) continuing reversal of long-term trend of increasing State debt***
- If trend of increasing debt had continued, outstanding debt would be $34.3 billion or 42% ($10.2 billion) more than it was at end of Fiscal Year 2016

Refinancing Activity

Historical Refinancing Activity

Fiscal Years 2011 through Fiscal 2017

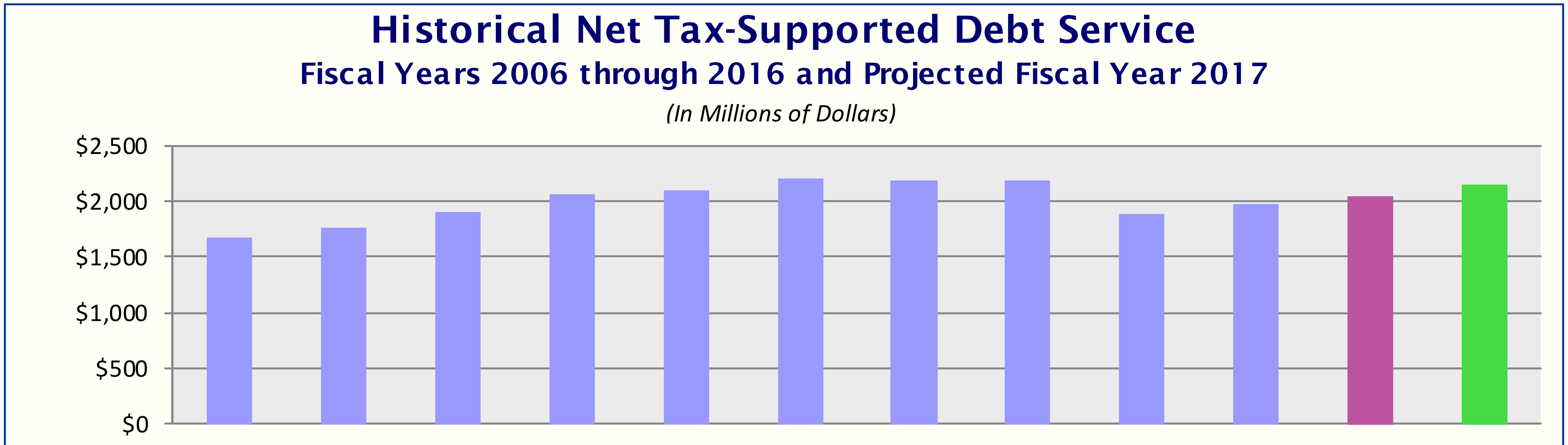
(In Millions of Dollars)



	2011	2012	2013	2014	2015	2016	2017	Total
Number of Transactions	12	20	10	9	14	13	14	92
Refunding Par	$1,491.1	$2,595.0	$2,049.4	$713.9	$2,004.2	**$3,003.6**	$1,267.8	**$13,124.9**
Refunding Savings:								
Gross Savings	$193.3	$450.9	$515.6	$99.1	$376.9	**$618.8**	$303.6	**$2,558.2**
Present Value Savings	$162.4	$366.2	$406.1	$87.0	$311.1	$380.5	$247.0	$1,960.3

- ***DBF executed 14 refunding transactions in Fiscal Year 2017 totaling $1.3 billion and generating gross debt service savings of $304 million*** or $247 million on a present value basis
- DBF executed 92 refunding transactions over the last seven fiscal years totaling $13.1 billion
- ***Refinancing activity over last seven years has generated gross debt service savings of nearly $2.6 billion*** or $2.0 billion on a present value basis
- 50% - half of all state debt has been refinanced at lower interest rates over the last seven years

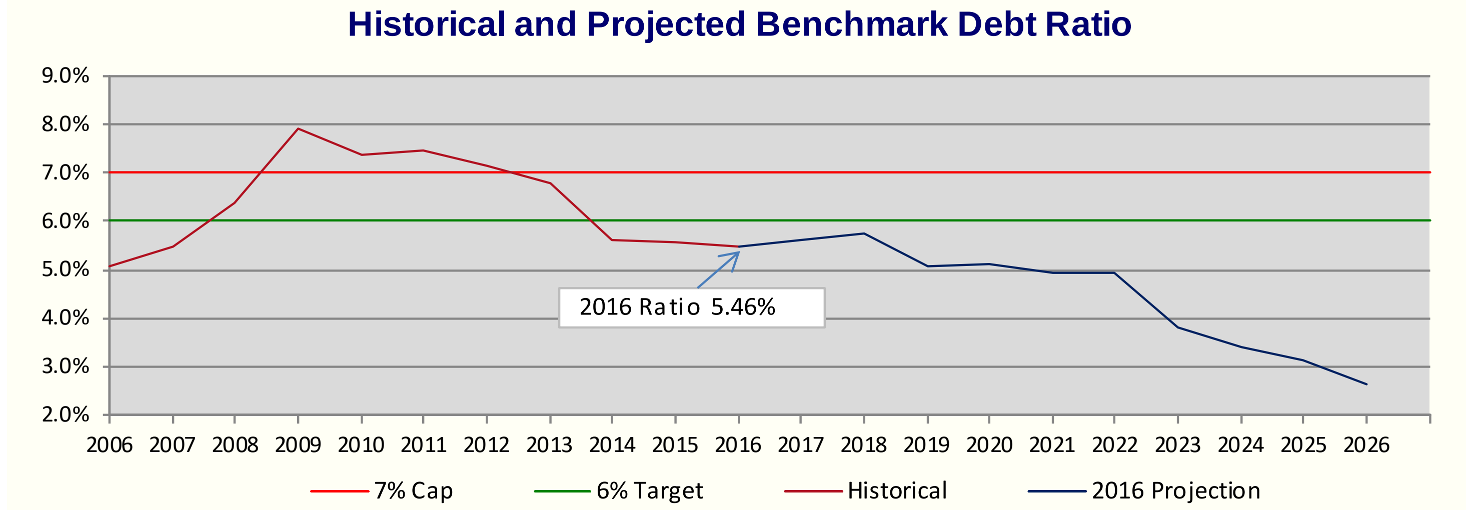
Changes in Annual Debt Service



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Debt Service	$1,681	$1,768	$1,898	$2,058	$2,095	$2,204	$2,191	$2,196	$1,887	$1,971	**$2,053**	**$2,159**

- Annual debt service payments for net tax-supported debt increased nearly 30% over eight years from $1.6 billion in 2006 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 2016 debt service increased to about $2.1 billion due to refinement of how Public-Private Partnership obligations are reflected in outstanding debt***
- ***Fiscal Year 2017 debt service is expected to be to about $2.2 billion*** before increasing to approximately $2.3 billion in 2018 due to payments required on the I-4 Ultimate Project

Benchmark Debt Ratio



Benchmark Debt Ratio Projection

	Actual 2015	Actual 2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
2016 Projection	5.58%	**5.46%**	5.63%	5.75%	5.08%	5.10%	4.95%	4.93%	3.79%	3.40%	3.11%	2.65%

- 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 improved for Fiscal Year 2016 at 5.46% and 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 and restrained issuance of new money debt

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