

Florida has remained in good financial standing this past fiscal year. This is also true of the state's debt position. FY 2022-23 marks the tenth consecutive year with a debt ratio below the six percent target established by the Legislature. In addition:

- Outstanding debt, debt service and the debt ratio have decreased;
- General Revenue (GR) collections increased by \$3.3 billion over FY 2022-23;
- Increased funds within the Budget Stabilization Fund (BSF), significant cash reserves, and an increased debt capacity, provide Florida cushion in case unexpected funding is needed;
- All three major rating agencies affirmed the State's AAA general obligation ratings; and
- Credit agencies determined Florida's financial outlook is stable.

Every year, as required by Section 215.98, Florida Statutes, the Division of Bond Finance creates a debt report, an analysis that helps policymakers consider Florida's fiscal position. The report informs the government's decision-making, but it can also tell the taxpayer how much of their hard-earned money is being committed in the future for expenditures being made today. Florida TaxWatch has been providing taxpayers with a summary and key takeaways drawn from the Division of Bond Finance's Debt Report. This blog aims to do the same for "Debt Report State of Florida 2023."

Florida prioritizes managing its debt to ensure sustainable use of funds as the state continues to develop. To limit the accumulation of debt, Florida has a targeted debt ratio of six percent and a limit of seven percent. The government seeks to uphold these guidelines by restraining the use of borrowed funds and encouraging a revenue-producing economy. This effort is reflected in Florida's FY2022-23 debt ratio of 2.93 percent, a decrease from the 3.8 percent ratio of the preceding year.

As reserves made up 40 percent of General Revenue (GR) by the end of FY 2023, the State is considered strong by rating agencies' standards. A continued high General Fund Reserve level of \$19 billion at the end of FY 2023 also demonstrates Florida's prudent financial management.

Debt Issuance

Florida's legislative and gubernatorial aversion to bonding, consistently high bond ratings, and leverage of bond refinancing opportunities have helped reduce the state's outstanding debt. As of June 30, 2023, the total outstanding direct debt of Florida was \$16.3 billion, an \$800 million decrease from the prior fiscal year. This continues a downward trend that began in FY 2011, totaling an \$11.9 billion reduction, or 42 percent of the total outstanding debt.

Transportation and education funding efforts continue to be the largest portions of direct debt, comprising 51 percent and 38 percent of the debt, respectively. Projected debt issuance over the next ten years decreased by 16 percent in FY 2023. This equates to about a \$300 million decrease since the 2022 Debt Report. A decrease of projected debt issuance indicates less reliance on debt to fund transportation infrastructure projects. Debt ratios being consistently under the six percent target for a decade also

suggests that Florida's debt capacity is strong, and that the State can afford to issue more debt while adhering to the target ratio.

Limiting debt issuance not only keeps future costs down, but also creates an allowance for future debt. By expanding the divide between the current debt ratio (2.93 percent) and the targeted debt ratio (six percent), Florida produces a debt capacity. The debt capacity allows Florida to withstand a sudden onset of debt—which may be necessary to resolve unpredicted circumstances—while respecting its goal of a six percent debt ratio. Due to the current low debt ratio, the total debt capacity that is expected over the next ten years is approximately \$47.7 billion. This is a \$770 million increase in expected debt capacity from the preceding year.

Debt Service Payments

Debt service payments are the principal and interest payments made to retire the debt. For FY 2024, Florida's projected debt service payment is \$1.6 billion, a decrease from the \$1.7 billion in debt service paid in FY 2023. The decline of \$500 million from FY 2022 is due to the last milestone payment made on a large transportation Public Private Partnership (PPP) project. This trend is expected to continue through the decade due to years of debt issuance restraint.

In 2033, Florida's debt service payment is expected to be \$794 million, marking the third time Florida paid less than \$1 billion since the origin of debt service payment tracking in the 1990s. Over the next ten years, the state of Florida is expected to pay \$11.2 billion in debt service on outstanding net tax-supported debt, with 34 percent of the money (\$3.8 billion) in interest payments.

Refinancing can save taxpayers money by reducing interest rates on bonds. Florida has successfully refinanced multiple times. Since FY 2014, the government refinanced its debts 117 times, creating gross debt service savings of \$2.3 billion over the remaining life of bonds. In FY 2023, Florida completed seven refinancing transactions, resulting in gross debt service savings of \$59.5 million. Proactive pursuit of lower interest rates has helped the state's long-term costs, but due to recent interest rate rise and limited new bond issuance, there are fewer available candidates for refinancing. Over the next five years, only \$4.6 billion of debt is available for refinancing given favorable market conditions.

General Revenue and Reserve

Florida's general revenue relies primarily upon sales tax, so during COVID-19, the state experienced a GR drop of \$2.0 billion (6.1 percent) in FY 2019-20. FY 2021 and FY 2022 reaped significant benefits from the economic rebound, with Florida's GR continually exceeding forecasted levels. GR collections in FY 2023 were projected to decrease; however, an increase of \$3.3 billion from FY 2022 was seen. According to the debt report, Florida's GR collection totaled \$47.3 billion in 2023. The expected GR collection for FY 2024 is \$45.7 billion, a 3.5 percent decline, likely to be caused by slowing housing market and automotive sales. Although collections are predicted to decline in FY 2024, collections in FY 2023 surpassed monthly estimates consistently through September of 2023 which, if annualized, can lead to equal collection in the next year.

Florida's General Fund Reserves dropped to \$19 billion by the end of FY 2023, a \$700 million decrease from FY 2022. Despite the decrease, such an extraordinarily high reserve level bodes well for the State's financial flexibility in the wake of unexpected and costly events while continuing investment. General

Fund Reserves are expected to fall further in FY 2024 in lieu of strategic investment in transportation infrastructure through the Moving Florida Forward initiative.

Let's Not Forget About Local Government Debt

While outstanding debt at the state government level in Florida remains relatively low, it is higher at the local level. Florida's local governments are carrying approximately four times the debt of the state. While Florida's total state debt per capita ranks 47th out of the 50 states, Florida per capita local debt ranks 19th. As Florida taxpayers vote, they should be aware of their comparatively high local tax level.

The state of Florida manages its debt in a way that benefits taxpayers, and the state should consider how to ensure the effective practices continue.