

RatingsDirect®

Summary:

Florida State Board of Education State of Florida; Appropriations; General Obligation

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Summary:

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Credit Profile		
US\$124.155 mil pub ed cap outlay rfdg bnds ser 2022 A due 06/01/2033		
<i>Long Term Rating</i>	AAA/Stable	New
Florida Dept of Children & Families, Florida		
State of Florida, Florida		
Florida Dept of Children & Families (Florida) APPROP		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Florida Dept of Children & Families (Florida) APPROP		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Florida St Brd of Ed, Florida		
State of Florida, Florida		
Florida St Brd of Ed (Florida) GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating to the Florida State Board of Education's series 2022 A (forward delivery) public education capital outlay (PECO) refunding bonds issued for the State of Florida. At the same time, we affirmed our 'AAA' rating on Florida's general obligation (GO) debt and our 'AA+' rating on the state's appropriation debt outstanding. The outlook on all ratings is stable.

The PECO bonds are payable by a pledge of gross receipts taxes (GRT) and secured by Florida's full faith and credit pledge. Our 'AAA' rating on the series 2022 A PECO bonds reflects our assessment of the state's full faith and credit pledge. The PECO bond proceeds will refund a portion of the existing State Board of Education PECO bonds for debt service savings.

Credit overview

With 2022 in sight, Florida's economic outlook continues to surprise to the upside from our initial expectations following the onset of the pandemic more than a year ago. With ample reserves and support from extraordinary federal aid, the state managed through peak recessionary winds and is well positioned, in our view, to continue to benefit from the economic recovery seen across the country.

Following net general revenue collection declines of \$2 billion, or 6.1% in fiscal 2020 relative to fiscal year 2019, fiscal year 2021 general revenue grew 15.7% (unaudited). At fiscal year-end, its unallocated general fund and budget stabilization fund (BSF) reserves grew to a total of \$9.4 billion (unaudited) or a strong 27% of recurring general fund

appropriations. For fiscal year 2022, the Consensus Revenue Estimating Conference (REC) projects general revenues fund revenues to increase by 1.7% over fiscal year 2021 and nearly 4% in fiscal year 2023.

Riding positive budgetary and economic momentum, the state's task for developing its budget for fiscal year 2022 proved comparatively easier and reflects totals of \$36.3 billion for the general revenue portion and \$101.5 billion for all funds. Of the \$9.2 billion increase in the budget, \$6.9 billion reflects pandemic relief from federal funds. Unlike its fiscal year 2021, which was initially expected to be balanced in part with one-time measures, its 2022 budget aligns recurring revenues with recurring expenses, with federal aid supplementing nonrecurring outlays. Slightly less than 50% of the general revenue budget is dedicated to public education, followed by health and human services at slightly over 33%. The all funds budget appropriates \$4.5 billion for environmental purposes, including \$846 million for targeted water quality improvements, \$629 million to support Resilient Florida initiatives, and \$522 million for Everglades restoration. The state also appropriated \$5.3 billion of the \$8.8 billion allocated from the America Rescue Plan for various purposes.

By fiscal year end, its unallocated general fund and BSF balance is estimated to grow 6.6% to slightly over \$10 billion, or approximately 27.7% of budgeted appropriations, levels we view as strong. Of the total, \$7.3 billion is unspent general revenue with the balance (\$2.7 billion) from its BSF. Additionally, the state estimates an additional near \$2 billion in available excess trust funds resources available, raising reserves to approximately 33.2% of general revenue fund appropriations.

Florida's estimated gross state product (GSP) growth of 5.6% for 2021 is marginally above the estimated national level of 5.4%, according to IHS Markit. By 2022, the state's growth is forecast to again be slightly above the national level of 4.3% and then to exceed the national level in 2023 by 30 basis points (bps). S&P Global Economics' baseline forecast is for U.S. GDP to expand 5.7% (annual) in 2021, up from a 3.4% contraction in 2020 relative to 2019. By 2022, the U.S. economy is forecast to grow 4.1%. (For additional information, see "Economic Outlook U.S. Q4 2021: The Rocket Is Leveling Off," published Sept. 23, 2021.)

Overall, Florida's unemployment rate was 4.9% (September), ranking 29th among states and roughly equal to the U.S. rate of 4.8% and a marked improvement after peaking at 13.8% in April 2020. The state's leisure and hospitality sector continues to weigh on overall employment, but continues to recover with employment back to 87% of its pre-pandemic levels.

Although we expect Florida's overall economy and housing demand will remain relatively strong, we believe its reliance on natural resources to generate business and sustain in-migration makes its economy more vulnerable to environmental risks, such as hurricanes and rising sea levels. So far, the state has demonstrated fiscal resilience to significant hurricanes. Florida sets aside reserves to account for potential hurricanes, and when including various available trust fund balances, are anticipated to remain strong, in our view. In addition, it supports a currently affordable property insurance market through the Florida Hurricane Catastrophe Fund and Citizens Property Insurance Corps, which both retain significant reserves. We also view it as a positive step that the state's fiscal year 2021 and 2022 budgets include measures to address water-quality issues and climate change.

Additionally, the creation of a chief resilience officer in 2019, although currently vacant, moved the state in a positive

direction as it continues working to coalesce state and local resiliency initiatives. While these risk-mitigation measures provide protections for the foreseeable future, in our view, changes in storm frequency or severity and rising sea levels or temperatures could result in a variety of outcomes that--individually or in combination--weaken economic activity and related state revenues. In our view, ongoing focus on the long-term exposure to the state from climate-related risks, accompanied by demonstrated mitigation and adaptation initiatives, is supportive of our long-term view of the state's credit quality.

Florida's GO bonds are eligible to be rated above the sovereign because we believe the state can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions" (published Nov. 19, 2013), U.S. states are considered to have moderate sensitivity to country risk. The institutional framework in the U.S. is predictable with significant state autonomy and flexibility demonstrated by serial bond amortization, as well as independent treasury management.

Based on the analytic factors we evaluate for states, on a scale of 1.0 (strongest) to 4.0 (weakest), we have assigned Florida an indicative credit score of 1.4.

Gross receipts tax

Pledged taxes for the PECO bonds consist of a 2.50% GRT on providers of electricity and natural or manufactured gas, a 2.60% tax on the retail sale of nonresidential electric power or energy, and a 2.52% tax on the sale of communication services. The majority of pledged GRT revenue (approximately 98%) comes from the electric and telecommunications industries tax base. Actual debt service coverage by pledged revenue in fiscal 2021 (unaudited) was 1.34x based on \$1.1 billion of revenues and \$830 million of debt service. Pro forma maximum annual debt service (MADS; \$827.2 million) coverage by fiscal 2021 revenue is 1.34x. The Revenue Estimating Conference forecasts that annual GRT will increase 2.37% in fiscal year 2022, and 1.1% in fiscal year 2023. The resolution allows the state to issue additional debt if historical GRT revenue, adjusted for changes in adopted legislation, covers debt service by at least 1.11x. There is no remaining legislative authorization for additional PECO bonds at this time.

For more information about the state, please see the full analysis on Florida, published June 24, 2021, on RatingsDirect.

Stable Outlook

Downside scenario

Were the state to rely significantly on nonrecurring revenues without demonstrating a commitment toward structural balance, we could lower the rating. Downside risk for the rating also includes a comparatively weaker economic recovery relative to peers should certain economic sectors (including leisure and hospitality) weigh on overall growth. Additionally, if severe and frequent catastrophic hurricanes were to make landfall in Florida and substantially weaken the statewide economy or lead to debt issuance that lifts the tax-supported debt burden for Florida above those of its state peers, this could also pressure the rating.

Environmental, social, and governance factors

We view Florida's social and governance risks as being in line with our view of the sector as a whole. Although the state's age dependency is substantially above the national average that could lead to higher service costs, its social capital risks are neutral in our analysis given the positive economic activity generated by strong employment and population growth. In our view, Florida's environmental risks are above those of the sector given its vast coastline as a peninsular state, which exposes it to chronic and acute physical risks. However, we believe this risk is mitigated by the creation of entities to provide for a stable insurance market and recent measures to address climate resiliency.

For additional information see, "ESG U.S. Public Finance Report Card: Florida Governments And Not-For-Profit Enterprises," published on Sept. 9, 2021.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of November 10, 2021)		
Florida GO		
Long Term Rating	AAA/Stable	Affirmed
Florida GO		
Long Term Rating	AAA/Stable	Affirmed
Florida GO		
Long Term Rating	AAA/Stable	Affirmed
Florida GO		
Long Term Rating	AAA/Stable	Affirmed
Florida GO		
Long Term Rating	AAA/Stable	Affirmed
Florida GO		
Long Term Rating	AAA/Stable	Affirmed
Florida GO		
Long Term Rating	AAA/Stable	Affirmed
Florida GO		
Long Term Rating	AAA/Stable	Affirmed
Florida GO		
Long Term Rating	AAA/Stable	Affirmed
Florida GO		
Long Term Rating	AAA/Stable	Affirmed

Ratings Detail (As Of November 10, 2021) (cont.)

Florida GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Florida GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Florida GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Florida GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Florida GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Florida GO		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
Florida GO		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
Florida GO		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
Florida GO		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
Florida GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Florida GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Florida GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Florida GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Florida GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Florida GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Florida GO (AGM)		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
Florida GO (AMBAC)		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed

Ratings Detail (As Of November 10, 2021) (cont.)

Florida GO (FGIC) (National)		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
Florida GO (MBIA)		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
Florida (Right-of-Way) GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
State of Florida dept of transp right-of-way acquis & br construction rfdg bnds ser 2021B due 07/01/2033		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Florida Dept of Mgmt Svcs, Florida		
State of Florida, Florida		
Florida Dept of Mgmt Svcs (Florida) APPROP		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Florida Dept of Mgmt Svcs (Florida) APPROP		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Florida Dept of Mgmt Svcs (Florida) APPROP		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Florida Dept of Mgmt Svcs (Florida) APPROP		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Florida Dept of Mgmt Svcs (Florida) APPROP		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Florida Dept of Transp Fincg Corp, Florida		
State of Florida, Florida		
Florida Dept of Transp Fincg Corp (Florida) APPROP		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Florida Dept of Transp Fincg Corp (Florida) APPROP		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Florida St Brd of Ed, Florida		
State of Florida, Florida		
Florida Brd of Ed (Florida) GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Florida GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Florida St Brd of Ed (Florida) GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Florida St Brd of Ed (Florida) GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Florida St Brd of Ed (Florida) GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Florida St Brd of Ed (Florida) GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Florida St Brd of Ed (Florida) GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Florida St Brd of Ed (Florida) GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

Ratings Detail (As Of November 10, 2021) (cont.)		
Long Term Rating	AAA/Stable	Affirmed
Florida St Brd of Ed (Florida) GO		
Long Term Rating	AAA/Stable	Affirmed
Florida St Brd of Ed (Florida) GO		
Long Term Rating	AAA/Stable	Affirmed
Florida St Brd of Ed (Florida) GO		
Long Term Rating	AAA/Stable	Affirmed
Florida St Brd of Ed (Florida) GO		
Long Term Rating	AAA/Stable	Affirmed
Florida St Brd of Ed (Florida) GO		
Long Term Rating	AAA/Stable	Affirmed
Florida St Brd of Ed (Florida) GO		
Long Term Rating	AAA/Stable	Affirmed
Florida St Brd of Ed (Florida) GO (AGM)		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
Florida St Brd of Ed (Florida) GO (AGM) (SEC MKT)		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
Florida St Brd of Ed (Florida) GO (MBIA) (National)		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
Florida St Brd of Ed (State of Florida) pub ed cap outlay rfdg bnds (State of Florida) ser 2021B due 06/01/2041		
Long Term Rating	AAA/Stable	Affirmed

Many issues are enhanced by bond insurance.

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