



NEWS

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STATE DEBT REACHING ITS LIMIT Class-Size Amendment and Growth Management could take State Debt Over the Cap

TALLAHASSEE — While Florida's debt is considered manageable, new spending required to satisfy the class-size amendment and proposed growth management plans could severely strain Florida's borrowing limits. That's the conclusion of a new Florida TaxWatch report, which urges lawmakers to adopt the Governor's recommendations on using cash instead of bonding and to look for additional ways to reduce the state debt.

"While we're pleased about Florida's improved bond ratings, the highest ever in the state's history, we have to maintain continued vigilance to avoid putting off on our grandchildren what we should rightly pay and sacrifice for today," said Dominic M. Calabro, President of Florida TaxWatch.

The Legislature has established a 6% target and 7% cap for Florida's ratio of debt service to state revenue. The 6% cap was breached for the first time in 2003 and is now 5.94%, due mostly to unexpected revenue brought on by a vibrant real estate market and growing corporate taxes. But the report warns that under current estimates, the state will have no additional capacity under the 6% target until 2009.

There is only \$5.35 billion of capacity under the 7% cap, which can only be exceeded in case of a state emergency. While recent increases in revenue estimates should provide some additional cap room, these estimates include only currently authorized bond programs and include no additional bonds for implementing the class-size amendment or the Governor's proposed \$8.5 billion in bonding for new growth management infrastructure. Construction costs to implement the amendment are estimated at over \$9 billion.

The report notes that despite the limited capacity, the credit rating agencies of Moody's, Standard & Poor's and Fitch look favorably on Florida's government bonds, rating them Aa1, AAA and AA+, respectively. The higher the bond rating, the less the state has to pay in interest on its debt service.

Florida's total debt has more than doubled over the last ten years, rising from \$9.2 billion in 1994 to \$21.2 billion in 2004, an average annual increase of \$1.2 billion. This 130% growth far exceeds the combined population and inflation growth of 58% over the same period.

The report points out the need for Florida to effectively monitor and manage its debt with passage of constitutional amendments requiring the state to reduce class size and provide universal pre-kindergarten.

Florida TaxWatch is a private, non-profit, non-partisan research institute that over its 25 year history has become widely recognized as the watchdog of citizens' hard-earned tax dollars. Our mission is to provide the citizens of Florida and public officials with high quality, independent research and education on government revenues, expenditures, taxation, public policies and programs and to increase the productivity and accountability of Florida Government. On the web at www.floridatxwatch.org