THE BOND BUYER

Florida's budget continues long trend of bond debt paydown

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Florida's $114.4 billion proposed budget for fiscal 2024-2025 continues a more than decade-long trend of paying down debt while limiting new bond issuance.

Gov. Ron DeSantis released his recommended budget on Dec. 5, which would spend almost 4%, or $4.6 billion, less than the current fiscal year.

The budget proposal includes $455 million in funding for the Florida Division of Bond Finance to redeem, defease or purchase outstanding state bonds to reduce the state's debt.

"This latest addition of $455 million to the budget for cutting debt really continues a long-standing policy," said Ben Watkins, director of the state Division of Bond Finance.

The state legislature will take up the budget when it convenes on Jan. 9.

Since DeSantis took office in 2019, the state has paid down almost one-quarter of its outstanding debt. The fiscal 2024-2025 budget recommends adding $455 million to the debt reduction program established by the governor last year.

But the trend toward fiscal conservatism began more than a decade ago.

"This latest addition of $455 million to the budget for cutting debt really continues a long-standing policy. It's a continual reduction, not a one-year thing, it actually accelerates it," said Ben Watkins, the state's bond finance director.

"Over the last 10 years, the state saw debt service savings of about $3 billion in 117 refinancing transactions totaling $14.5 billion," Watkins told The Bond Buyer.

"That's part of the way we've reduced out state's debt burden over time," Watkins said.

"The other way has been to forgo new money issuance in our annual amortizations, which have taken our debt down by 42% since 2011. That's down $11.9 billion to $16.3 billion from $28.2 billion," Watkins said.

He noted that the additional funding proposed in the budget accelerates this process and is up from the $255 million that was in last year's adopted budget.

"So that's a big deal," he said. "From our workflow standpoint and doing the tenders — we're looking forward to working on that — it's a little bit different wrinkle from what we normally do."

He said what the bond division has done first is to do current refundings — and done so over and over again to take advantage of the lower interest rates over the past decade.

The second thing it did was to use defeasance for bonds that weren't currently refundable.

"We did those taxable bonds last year, so we could invest in the unrestricted yields" he said. "It's the economics of paying that debt off as well as earning positive arbitrage on those taxable loans."

He said the new money in the budget will save Florida more cash.

"Now we're going to get money to do defeasances and tenders for those bonds that are trading in the secondary market at a substantial discount to the par amount. So this is a third way to save the state money, using different techniques, through financing transactions. We're really looking forward to that," he said.

The budget also includes more than $109 million for residential home mitigation programs and additional oversight of the property insurance market.

This includes $107 million in annual funding to make the "My Safe Florida Home" grant program permanent to continue helping residents through home inspections and cost-sharing for home hardening and wind mitigation programs to reduce insurance premiums and make properties less vulnerable to hurricane damage.

It's pitched as part of the response to skyrocketing homeowners' insurance rates in Florida.

This follows additional funding provided during the legislature's special session and comes as residents continue to recover after hurricanes Ian, Nicole and Idalia.

The party line in Florida government is that abusive lawsuits are the root cause of the crisis that has raised property insurance rates and driven insurers from the state.

Watkins noted that there have been three special sessions of the Legislature over the course of the past two years which have focused on the property insurance market.

"Tort reform — I can't overstate the significance of that. It's a huge deal," Watkins said. "Because the losses were primarily because of insurance fraud. It was institutionalized litigation. And then there were the attorney fees — where lawyers were incentivized to litigate and insurers were discouraged from settling illegitimate claims."

He noted that the reforms are taking a while to work its way through the system, which it is doing now.

"And we have state support for incentivizing companies to come in and take policies out of Citizens Property Insurance Corp., which is happening," he said.

Citizens is the state-created insurer of last resort, providing property insurance to customers the private insurance market won't cover because the high likelihood of losses makes such business uneconomical.

"So we have new private capital coming into the state in the firm of new insurance companies to take policies out of Citizens because they see a more favorable litigation landscape going forward," he said. "They have much more certainty about claims and losses because of the changes on the litigation front."

In July, the Florida Insurance Guaranty Association tapped the municipal bond market for the first time in more than 30 years, selling nearly $600 million of tax-exempt fixed-rate and variable-rate bonds to help fund claims from insolvent insurance companies in the state.

The Florida Hurricane Catastrophe Fund is a tax-exempt state trust fund that provides reimbursements to residential property insurance companies for a portion of their catastrophic hurricane losses in Florida.

The Cat Fund was bolstered in 2020 with bond proceeds from a deal that was upsized to $3.5 billion amid market conditions then favorable to issuers.

The budget recommends $1.1 million in funding for the Florida Office of Insurance Regulation to bulk up its ability to gather data on the property insurance market and $675,000 to hire independent reinsurance and mitigation research experts to bolster its ability to review filings and recommend tools to mitigate property damage from hurricanes.

The proposal also includes $1.1 billion in tax relief for residents, which focuses on reducing the cost of homeowner's insurance as well as expanding sales tax holidays.

The tax package cuts include a one-year exemption on taxes, fees and assessments for homeowner's insurance policies, which is expected to save taxpayers $409 million while cutting the average insurance premium up to 5%.

While some pundits expect the Federal Reserve to cut interest rates next year, Watkins said the bond division's work is not Fed-dependent.

"I expect it will have no impact on us because we really don't have any significant financing plans," he said. "So I don't see it affecting us or our operations because we've effectively shifted to a pay-go system. We're funding important infrastructure initiatives with the resources available."

He noted the state has also built up record reserves, balanced the budget and paid down debt.

"The economy has just been killing it for the past three years. We've been collecting revenues month-over-month every month that have been beyond our estimates," Watkins said. "From where I sit, things really couldn't be better. It's easier than it's ever been to tell Florida's story, from a credit perspective."

Florida is rated triple-A by Moody's Investors Service, S&P Global Ratings and Fitch Ratings and all three assign a stable outlook to the state.

Turning to local governments, the Board of Miami-Dade County Commissioners approved its $10.4 billion fiscal 2023-24 budget on Sept. 21. The county's operating budget totals $6.7 billion while the capital budget is $3.7 billion.

Separately, the Miami Commission on Monday cut the city's operating budget for fiscal 2023-2024 by $25 million to $1.609 billion. Spending cuts to meet balanced budget legal requirements will be taken up at the Commission's budget modification meeting in January.

The city's capital budget remained at $1.125 billion for fiscal 2023-2024.