

Executive Summary

July 19, 2017

The Revenue Estimating Conference adopted interest rates for use in the state budgeting process. The adopted interest rates take into consideration current benchmark rates and recent market volatility.

The long-term interest rate is used for bond issues with maturity structures of 20 years or more. The conference adopted a long-term interest rate of 5.00%. While this matched the prior forecast, it is 25 basis points lower than the Division of Bond Finance's recommendation of 5.25%. The adopted rate of 5.00% reflects current market conditions, and is based on benchmark rate of 3.75% plus a spread of 125 basis points for volatility.

Long-Term Interest Rate

Fiscal Year	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Interest Rate	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%

The conference agreed with the Division of Bond Finance's recommendation to increase the short-term (or variable) interest rate to 2.5%, 50 basis points higher than the prior forecast of 2.00%. The average short-term interest rate for Everglades bonds over the past 12 months was 0.70%, but more recent period has been higher.

Interest rates used for calculating Public Education Capital Outlay (PECO) bonding capacity are determined separately.

Division of Bond Finance
Interest Rate Calculations for
Economic Estimating Conference
Interest Rates for use in 2018-19 Appropriations

July 19, 2017

Division of Bond Finance

Calculation of Long-Term Interest Rate

Long-Term Interest Rate Information*

Current Long -Term Interest Rate ¹	3.75%	3.75%
Plus: Volatility Spread ²	0.75%	1.40%
Long-Term Interest Rate Range:	4.50% to	5.15%
Recommended Long-Term Interest Rate for FY 2018-19:	5.25%	

¹ Current interest rate estimate for a 30-year bond issue based on current yields and credit spreads.

² Uses two measures to calculate interest rate volatility; 1. Bond Buyer 11 GO Bond Index- maximum annual change= 75 bps and 2. TM3 Municipal Market Data (MMD) high-low over last 12 months= 140 bps.

Long-Term Interest Rate Recommendation:

Despite the interest rate range noted above, which is based on the Division of Bond Finance’s historical methodology that analyzes interest rate trends and volatility over the past 20 years and 12-month period, the Division would recommend increasing the current long-term interest rate for appropriation purposes from 5% to 5.25% as we are concerned long-term interest rates may move higher in the next 12 months due to the following:

- Federal Reserve movement to more restrictive monetary policy, including increasing the discount rate (3 increases totaling 75 bps in 2017) and quantitative easing tapering, i.e., reducing asset purchases and the size of Fed’s balance sheet

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Calculation of Short-Term Interest Rate

Short-Term Interest Rate Recommendation*

	<u>Low</u>	<u>High</u>
Average Everglades Rate - Past Twelve Months	0.70%	0.70%
Plus: Volatility Spread ³	1.50%	2.00%
Short-Term Interest Rate Range:	2.20% to	2.70%
Recommended Short-Term Interest Rate for FY 2018-19:	2.50%	

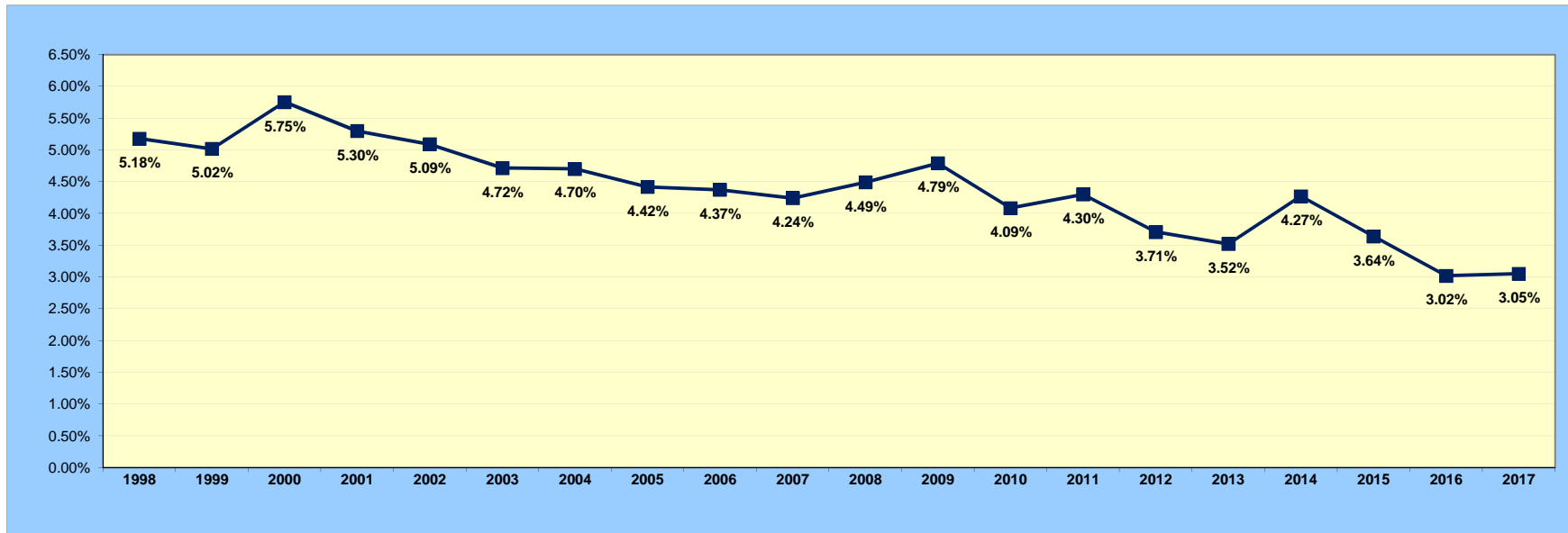
³ Uses the volatility from 20-year change in SIFMA rates of between 150 bps and 200 bps.

* The Division of Bond Finance has supplied the above interest rates to assist the REC in adopting official rates that would be used by state agencies for planning and budgetary purposes for Fiscal Year 2018-19, except for PECO interest rates which are adopted through a separate process. There can be no assurance that actual interest rates for any particular bond issue will not exceed the rates shown above.

Long Term Interest Rate Volatility

Change in Bond Buyer 11 GO Bond Average Annual Interest Rates Year-to-Year Last 20 Years

The maximum change in the annual average Bond Buyer 11 GO-Bond Index over the last 20 years is 75 bps.



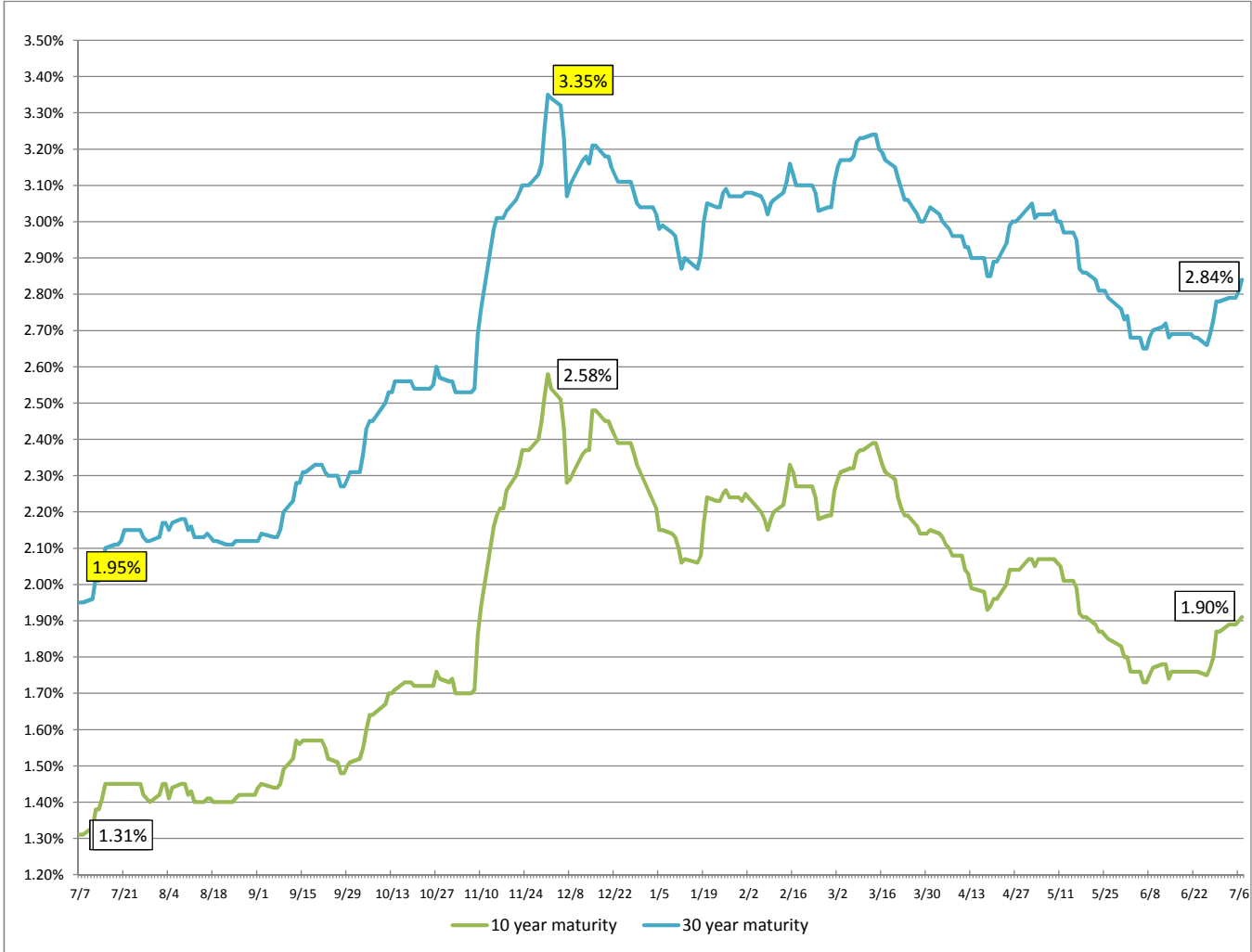
Fiscal Year	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Avg.
BB 11 GO Average	5.18%	5.02%	5.75%	5.30%	5.09%	4.72%	4.70%	4.42%	4.37%	4.24%	4.49%	4.79%	4.09%	4.30%	3.71%	3.52%	4.27%	3.64%	3.02%	3.05%	4.38%
Change from Prior Year	(0.45)%	(0.16)%	0.74%	(0.46)%	(0.21)%	(0.37)%	(0.01)%	(0.28)%	(0.05)%	(0.13)%	0.25%	0.30%	(0.71)%	0.21%	(0.59)%	(0.19)%	0.75%	(0.63)%	(0.62)%	0.03%	(0.13)%

Long Term Interest Rate Volatility

Change in MMD AAA Rates

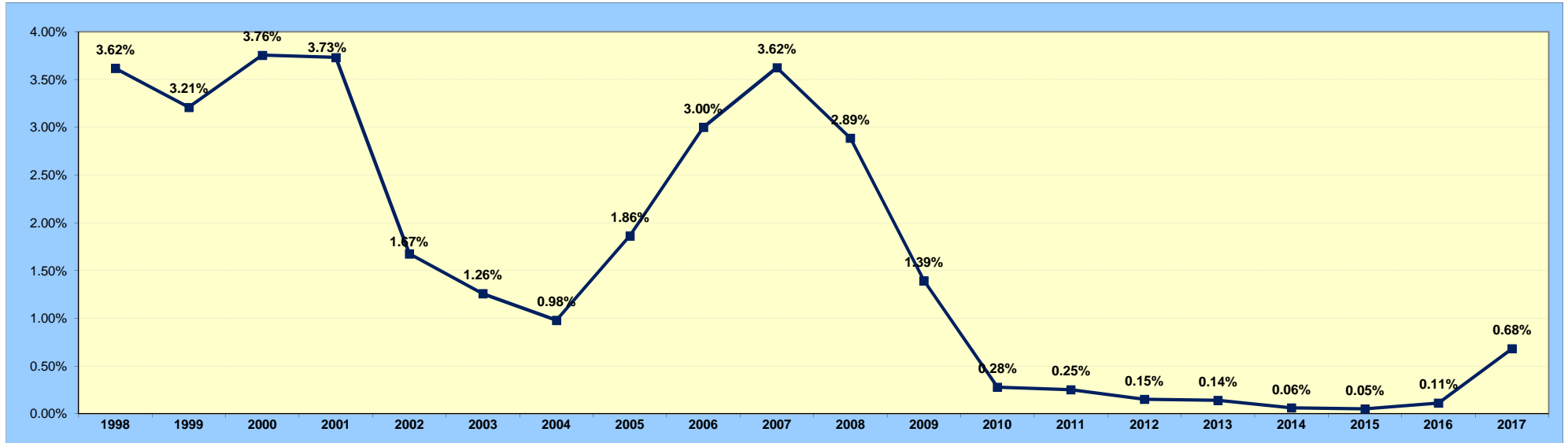
Last 12 Months

The 30 year MMD rate ranged from a low of 1.95% to a high of 3.35% over the last 12 months for a difference of 140 bps.



Short Term Interest Rate Volatility Change in SIFMA Average Annual Interest Rates Year-to-Year Last 20 Years

The maximum annual change in the SIFMA Index over the last 20 fiscal years is 200 bps.



Fiscal Year	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Avg. All Years
SIFMA Average	3.62%	3.21%	3.76%	3.73%	1.67%	1.26%	0.98%	1.86%	3.00%	3.62%	2.89%	1.39%	0.28%	0.25%	0.15%	0.14%	0.06%	0.05%	0.11%	0.68%	1.64%
Change from Prior Year	0.08%	(0.41)%	0.55%	(0.02)%	(2.06)%	(0.42)%	(0.28)%	0.88%	1.14%	0.62%	(0.74)%	(1.49)%	(1.12)%	(0.03)%	(0.10)%	(0.01)%	(0.08)%	(0.01)%	0.06%	0.57%	(0.14)%

**Average Short-Term Interest Rate
Last 12 Months
Average Everglades Bonds Variable Rate**

<u>Date</u>	<u>Rate</u>
7/6/2016	0.40
7/13/2016	0.41
7/20/2016	0.42
7/27/2016	0.45
8/3/2016	0.44
8/10/2016	0.47
8/17/2016	0.49
8/24/2016	0.55
8/31/2016	0.64
9/7/2016	0.66
9/14/2016	0.70
9/21/2016	0.77
9/28/2016	0.86
10/5/2016	0.90
10/12/2016	0.86
10/19/2016	0.76
10/26/2016	0.64
11/2/2016	0.60
11/9/2016	0.57
11/16/2016	0.57
11/23/2016	0.58
11/30/2016	0.60
12/7/2016	0.61
12/14/2016	0.69
12/21/2016	0.74
12/28/2016	0.73
1/4/2017	0.68
1/11/2017	0.67
1/19/2017	0.67
1/25/2017	0.67
2/1/2017	0.68
2/8/2017	0.68
2/15/2017	0.67
2/22/2017	0.66
3/1/2017	0.64
3/8/2017	0.65
3/15/2017	0.76
3/22/2017	0.80
3/29/2017	0.93
4/5/2017	0.91
4/12/2017	0.89
4/19/2017	0.92
4/26/2017	0.93
5/3/2017	0.87
5/10/2017	0.82
5/17/2017	0.78
5/24/2017	0.78
5/31/2017	0.77
6/7/2017	0.77
6/14/2017	0.85
6/21/2017	0.91
6/28/2017	0.93
7/5/2017	0.88

12-month Average: 0.70

Short-Term Interest Rates
Everglades Series 2007A-B Variable Rate Bonds
Interest Rate Tracking

