

# Interest Rates Used in Appropriations, Including PECO Executive Summary

November 20, 2020

The Revenue Estimating Conference adopted a series of interest rates for use in the state budgeting process, including any bonding related to Public Education Capital Outlay (PECO). The adopted interest rates take into consideration current benchmark rates and market volatility.

The long-term interest rate is used for bond issues with maturity structures of 20 years or more. The Conference reaffirmed the long-term interest rate of 4.50% adopted in July based on a recommendation by the Division of Bond Finance. The Division of Bond Finance recommends a range for the long-term interest rate based on a benchmark rate of 2.93% plus a spread of 126 basis points for volatility for an interest rate of 4.19% on the low end and a benchmark rate of 2.93% plus a spread of 199 basis points for volatility for an interest rate of 4.92% on the high end. The 4.5% adopted rate has a spread of 157 basis points over the benchmark rate.

## Long-Term Interest Rate

Fiscal Year	2021-22	2022-23	2023-24	2024-25	2025-26
Interest Rate	4.50%	4.50%	4.50%	4.50%	4.50%

As recommended by the Division of Bond Finance in December 2019, the Conference discontinued the adoption of a short-term or variable interest rate forecast. The adopted short-term interest rate was previously used to calculate debt service on the outstanding Everglades variable rate bonds. Variable rate bonds were initially issued in 2006 and 2007. The last outstanding issue of Everglades VR 2007A&B Bonds has now been refunded with fixed-rate bonds and was called for redemption on December 4, 2019. The Division of Bond Finance has no plans to recommend the issuance of variable rate bonds in the future.

Finally, the Conference adopted interest rates for use by the Revenue Estimating Conference in its calculation of the Maximum Appropriations for Public Education Capital Outlay (PECO). The adopted interest rates take into consideration current benchmark rates and the November 2020 National Economic Estimating Conference forecast for the yield on municipal bonds – the Bond Buyer 20-Bond Index. Downward revisions were made throughout the forecast due to the continued significant interventions by the Federal Reserve in the financial markets to support the economy during the coronavirus pandemic. These interventions are expected to be persistent through the near-term forecast horizon.

## PECO Bonds Interest Rate

Fiscal Year	2021-22	2022-23	2023-24	2024-25	2025-26
Interest Rate - July 2020	3.75%	4.00%	4.00%	4.00%	4.25%
<b>Interest Rate - November 2020</b>	<b>3.25%</b>	<b>3.25%</b>	<b>3.50%</b>	<b>3.50%</b>	<b>3.75%</b>