

Executive Summary

July 15, 2016

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 agreed with the Division of Bond Finance's recommendation to keep the long-term interest rate of 5.00% which was also adopted in July 2015. The adopted rate of 5.00% reflects current market conditions, and is based on the benchmark rate of 4.00% plus a spread of 100 basis points.

Long-Term Interest Rate

Fiscal Year	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Interest Rate	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%

The short-term (or variable) interest rate remains unchanged from the prior forecast at 2.00%. The average short-term interest rate over the past 12 months was 0.19% and the volatility spread was between 150 and 200 basis points.

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

Division of Bond Finance
Interest Rate Calculations
Economic Estimating Conference

July 15, 2016

Division of Bond Finance

Calculation of Long-Term Interest Rate

Long-Term Interest Rate Information*

Current Long -Term Interest Rate ¹	4.00%	4.00%
Plus: Volatility Spread ²	0.75%	1.30%
Long-Term Interest Rate Range:	4.75% to	5.30%

¹ Current general obligation issue interest rate estimated at 4.00% for a 30 year issue based on current yields and credit spreads.

² Uses Bond Buyer 11 GO Bond interest rate volatility of 75 bps since Fiscal Year 1996 and current volatility from the previous 12 months of approximately 125 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 maintaining the current long-term interest rate for appropriation purposes set at 5% as we are concerned long-term interest rates could ultimately move higher in the next 12 months due to the following:

- Potential Federal Reserve moves that increase interest rates;
- Ongoing volatility and uncertainty in European and Chinese economies that causes substantial daily swings in the U.S. Treasury market; and
- Inconsistent economic data that create uncertainty in the financial markets



Calculation of Short-Term Interest Rate

Short-Term Interest Rate Recommendation*

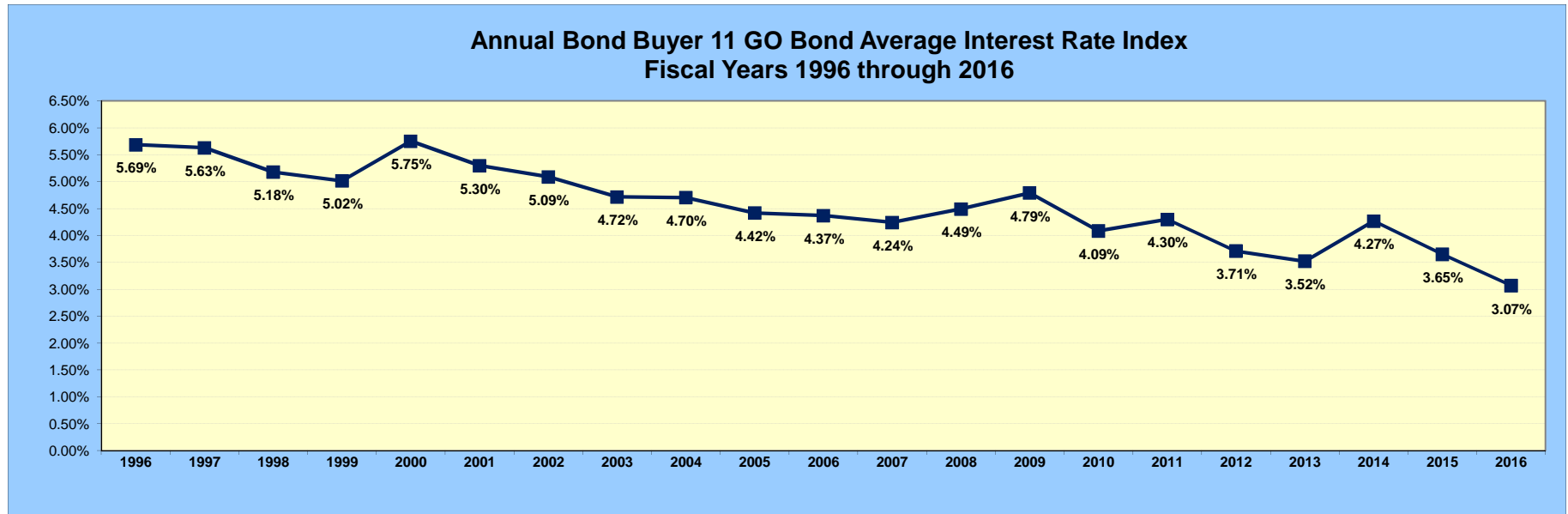
Average Everglades Rate - Past Twelve Months	0.19%	0.19%
Plus: Volatility Spread ³	1.50%	2.00%
Total	1.69%	2.19%
Recommended Short-Term Interest Rate Range for FY 2017-18:	1.60% to	2.10%

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 2017-18, 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.

Change in Bond Buyer 11 GO Bond Average Annual Interest Rates Year to Year Fiscal Year 1996 through 2016

Fiscal Year	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Avg. All Years	
BB 11 GO Average	5.69%	5.63%	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%	3.65%	3.07%	4.65%	
Change from Prior Year		(0.52)%	(0.06)%	(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%	(0.62)%	(0.58)%	(0.11)%

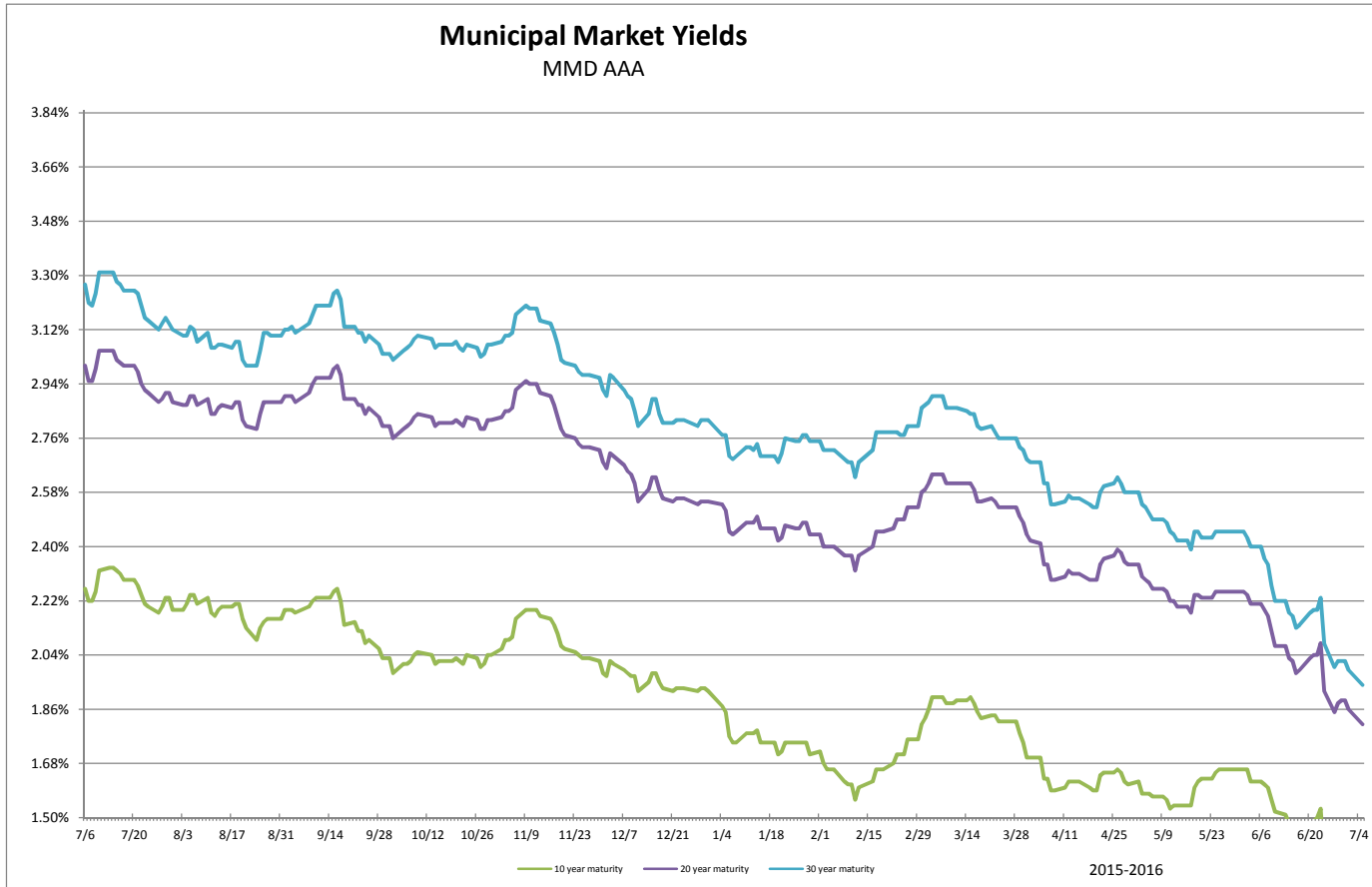


- The maximum change in the Bond Buyer 11-Bond Index over the last 20 fiscal years is approximately 75 bps

10 year min	1.29%
10 year max	2.33%
difference	1.04%
Average	1.88%

20 year min	1.81%
20 year max	3.05%
difference	1.24%
Average	2.58%

30 year min	2.00%
30 year max	3.31%
difference	1.31%
Average	2.82%

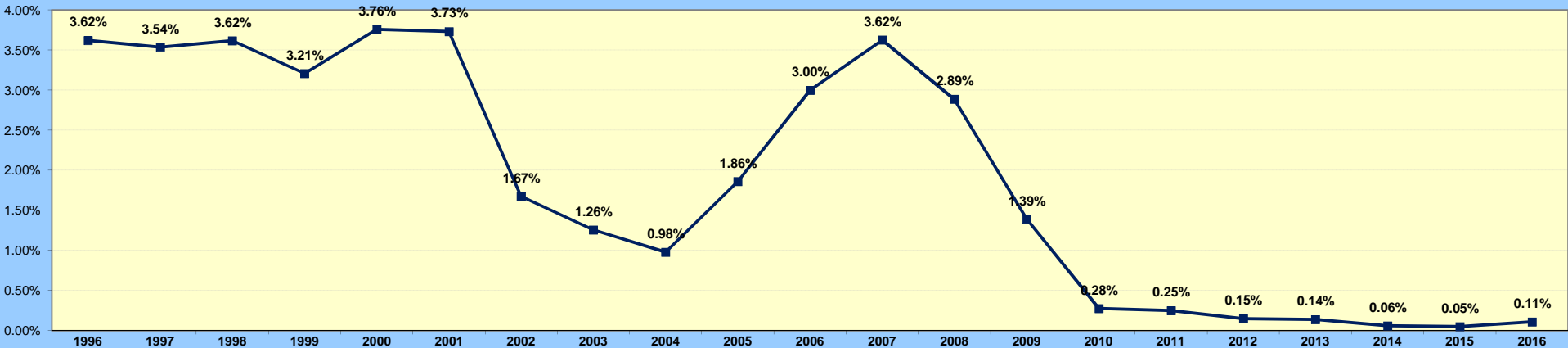


The maximum change in the MMD interest rates over the past 12 months is approximately 130 bps

Change in SIFMA Average Annual Interest Rates Year to Year Fiscal Year 1996 through 2016

Fiscal Year	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Avg. All Years
SIFMA Average	3.62%	3.54%	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%	1.94%
Change from Prior Year	0.04%	(0.08)%	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%	(0.11)%

**Annual SIFMA Average Index
Fiscal Years 1996 through 2016**



- The maximum change in the SIFMA Index over the last 20 fiscal years is approximately 200 bps

Division of Bond Finance
Calculation of Short-Term Interest Rate
Average Everglades Bonds Variable Rate - Past 12 Months

<u>Date</u>	<u>Rate</u>
7/1/2015	0.34
7/8/2015	0.34
7/15/2015	0.33
7/22/2015	0.32
7/29/2015	0.32
8/5/2015	0.31
8/12/2015	0.30
8/19/2015	0.29
8/26/2015	0.27
9/2/2015	0.25
9/9/2015	0.25
9/16/2015	0.19
9/23/2015	0.15
9/30/2015	0.11
10/7/2015	0.10
10/14/2015	0.10
10/21/2015	0.06
10/28/2015	0.05
11/4/2015	0.04
11/11/2015	0.04
11/18/2015	0.04
11/25/2015	0.03
12/2/2015	0.03
12/9/2015	0.03
12/16/2015	0.03
12/23/2015	0.03
12/30/2015	0.02
1/6/2016	0.02
1/13/2016	0.03
1/20/2016	0.02
1/27/2016	0.02
2/3/2016	0.02
2/10/2016	0.04
2/17/2016	0.07
2/24/2016	0.06
3/2/2016	0.08
3/9/2016	0.08
3/16/2016	0.08
3/23/2016	0.07
3/30/2016	0.13
4/6/2016	0.17
4/13/2016	0.34
4/20/2016	0.41
4/27/2016	0.41
5/4/2016	0.42
5/11/2016	0.43
5/18/2016	0.43
5/25/2016	0.41
6/1/2016	0.42
6/8/2016	0.42
6/15/2016	0.43
6/22/2016	0.42
6/29/2016	0.42

12-month Average:	0.19	0.19
Plus: volatility spread	<u>1.50</u>	<u>2.00</u>
	1.62%	2.12%

Recommendation: 1.60% to 2.10%

Everglades Series 2007A-B Variable Rate Bonds Tracking

