

Interest Rates Used in Appropriations, Including PECO
Executive Summary
July 19, 2024

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 maintained a long-term interest rate of 5.25%, the same as the rate adopted in December 2023, after considering information provided 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 4.13% plus a spread of 115 basis points for volatility for an interest rate of 5.28% on the low end and a benchmark rate of 4.13% plus a spread of 140 basis points for volatility for an interest rate of 5.53% on the high end. The 5.25% adopted rate has a spread of 112 basis points over the benchmark rate.

Long-Term Interest Rate

Fiscal Year	2025-26	2026-27	2027-28	2028-29	2029-30
Interest Rate	5.25%	5.25%	5.25%	5.25%	5.25%

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 July 2024 National Economic Estimating Conference forecast for the yield on municipal bonds – the Bond Buyer 20-Bond Index. The July forecast for the Bond Buyer 20-Bond Index indicated only a slight increase in interest rates in all fiscal years. The Conference maintained the rates in each fiscal year, allowing a spread of approximately 50 basis points above the new Bond Buyer 20-Bond Index.

PECO Bonds Interest Rate

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**Division of Bond Finance
Interest Rate Calculations**

July 19, 2024

Division of Bond Finance

Calculation of Long-Term Interest Rate

Long-Term Interest Rate Information*		
	<u>Low End</u>	<u>High End</u>
Current Estimated Long-Term Interest Rate ¹	4.13%	4.13%
Plus: Volatility Spread ²	1.15%	1.40%
Long-Term Interest Rate Range	5.28%	5.53%

¹ Interest rate estimate for a 30-year bond issue based on 5% coupons and estimated yields and credit spreads as of July 15, 2024. Estimate represents the true interest cost, which factors in the cost of call optionality based on the market standard 10-year par call structure. Excludes costs of issuance and underwriter's discount, which would increase the true cost of borrowing.

² Two measures to have been used to calculate interest rate volatility; (1) TM3 Municipal Market Data ("MMD") 30-year AAA benchmark stated yield high-low range over the prior 12 months of 115 basis points and (2) Bond Buyer 11 GO Bond Index maximum annual change over the last 20 fiscal years of 140 basis points.

Long-Term Interest Rate:

The interest rate range noted above is based on the Division of Bond Finance's historical methodology that analyzes interest rate trends and volatility over the past 20 years and most recent 12-month period. Based on estimated yields and credit spreads as of July 15, 2024, the Division's methodology produces a range of 5.28% to 5.53% for the long-term interest rate.

Since the last conference in December 2023, the market's expectations for rate cuts from the Fed have shifted substantially. While at least one rate cut is now projected to occur in 2024 (versus the three expected at the start of year), the anticipated timing of the Fed's shift in rate policy has been repeatedly pushed back by a resilient US economy and stubborn inflation, though the last 2 months of CPI prints have been encouraging. Municipal interest rates rallied in late 2023 but have drifted higher in 2024, and the base rate used in the long-term interest rate range has increased by 14 basis points since the prior conference. Overall municipal debt issuance is up 31% year-over-year through June and issuance could remain elevated through November as issuers pull deals forward to price in advance of potential market volatility related to the presidential election. Still, even with 2024's increased volume, market participants expect the amount of bonds maturing or being redeemed will outpace new issuance, resulting in net negative supply in the municipal market. This is expected to contribute to continued strong technicals in the tax-exempt market as demand outweighs supply. Additionally, the market has seen overall positive inflows to bond funds this year, though demand remains volatile with investor sentiment shifting continuously based on the latest economic data.

Short-Term Interest Rate:

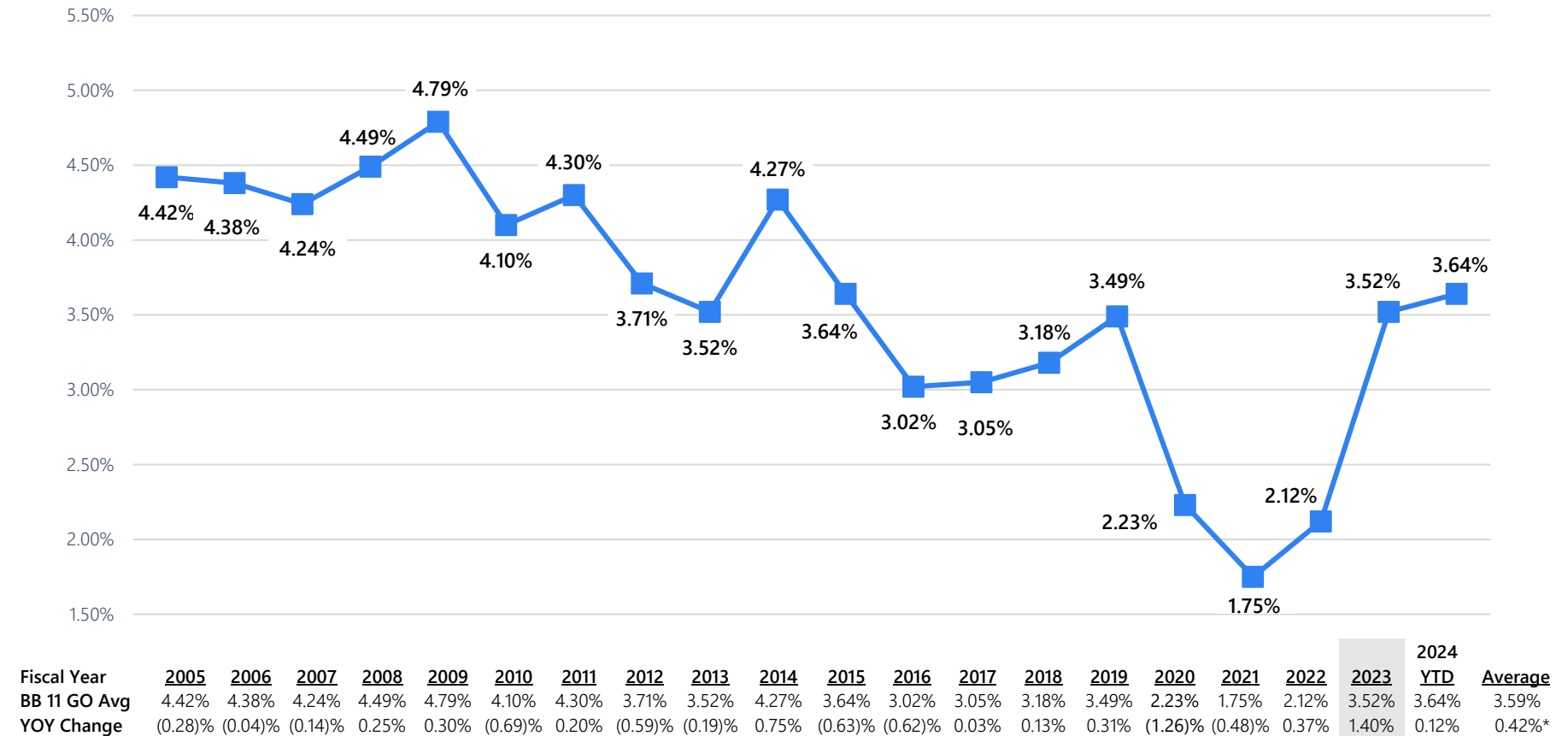
The State does not have any outstanding variable rate debt and there are no current plans for the issuance of additional variable rate debt. As a result, the Division has not produced a short-term interest rate analysis for this conference.

* 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. 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 Last 20 Years

The largest year-over-year change in the annual average Bond Buyer GO Bond Index over the last 20 fiscal years is 140 basis points.



*Average calculated using absolute values of year-over-year changes.

Long-Term Interest Rate Volatility Change in 30-Year Benchmark AAA MMD Rate Last 12 Months

The 30-year benchmark AAA MMD interest rate ranged from a low of 3.42% to a high of 4.57% over the last 12 months, a difference of 115 basis points. These are stated yields assuming 5% coupons and do not factor the effect of call optionality (yield-to-maturity). Also excludes costs of issuance and underwriter's discount.



(BOLD font indicates forecasted values)

YIELD	Bond Buyer 20-Bond Index		Series 2025 FY25-26	Series 2026 FY26-27	Series 2027 FY27-28	Series 2028 FY28-29	Series 2029 FY29-30	Series 2030 FY30-31	Series 2031 FY31-32	Series 2032 FY32-33	Series 2033 FY33-34
	Dec 2023	Jul 2024									
2025 Q3	3.60%	3.56%	4.00% Jul 2024 4.00% Dec 2023								
2025 Q4	3.54%	3.52%									
2026 Q1	3.49%	3.48%									
2026 Q2	3.43%	3.46%									
2026 Q3	3.39%	3.45%		4.00% Jul 2024 4.00% Dec 2023							
2026 Q4	3.35%	3.44%									
2027 Q1	3.33%	3.43%									
2027 Q2	3.31%	3.42%									
2027 Q3	3.31%	3.41%			4.00% Jul 2024 4.00% Dec 2023						
2027 Q4	3.30%	3.41%									
2028 Q1	3.31%	3.40%									
2028 Q2	3.31%	3.40%									
2028 Q3	3.31%	3.40%				4.00% Jul 2024 4.00% Dec 2023					
2028 Q4	3.31%	3.40%									
2029 Q1	3.31%	3.40%									
2029 Q2	3.31%	3.40%									
2029 Q3	3.31%	3.40%					4.00% Jul 2024 4.00% Dec 2023				
2029 Q4	3.32%	3.41%									
2030 Q1	3.32%	3.41%									
2030 Q2	3.33%	3.41%									
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2032 Q2	3.37%	3.45%									
2032 Q3	3.37%	3.46%								4.00% Jul 2024 4.00% Dec 2023	
2032 Q4	3.38%	3.46%									
2033 Q1	3.38%	3.47%									
2033 Q2	3.39%	3.48%									
2033 Q3	3.40%	3.48%									4.00% Jul 2024 4.00% Dec 2023
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2034 Q1	3.41%	3.49%									
2034 Q2	3.41%	3.50%									

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