

Interest Rates Used in Appropriations, Including PECO Executive Summary

December 16, 2019

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 revised the long-term interest rate to 4.75%. This rate is 25 basis points lower than the Division of Bond Finance’s recommendation of 5.00%. The recommended rate of 5.00% was based on a benchmark rate of 3.27% plus a spread of 173 basis points for volatility. The 4.75% adopted rate has a spread of 148 basis points over the benchmark rate.

Long-Term Interest Rate

Fiscal Year	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Interest Rate	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%	4.75%

The Conference agreed with the Division of Bond Finance’s recommendation to discontinue 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 December 2019 National Economic Estimating Conference forecast for the yield on municipal bonds – the Bond Buyer 20-Bond Index. Slight downward revisions were made throughout the forecast.

PECO Bonds Interest Rate

Fiscal Year	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Interest Rate - July 2019	4.75%	5.00%	5.00%	5.25%	5.25%	5.25%
Interest Rate - December 2019	4.50%	4.75%	5.00%	5.00%	5.00%	5.00%