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S&P: Florida Still Has Time, but Late Budget Adoption Could Signal Weaker Management and Pressure Outlook.

NEW YORK (Standard & Poor's) May 29, 2015–Standard & Poor's Ratings Services today said that it believes the State of Florida (AAA/Stable) still has time to reach budget agreement in its special session that begins on June 1, but it would be unprecedented and significant if the Florida legislature failed to pass a budget by fiscal year-end.

The senate and the house have called the special session to complete the state budget over the course of 20 days and by the end of June. Florida constitution requires the state to adopt a balanced budget for each fiscal year and Florida has never passed a late budget. Assuming the absence of a budget in early fiscal 2016, we expect 'AAA' rated Florida will continue to make its debt service payments on time and in full. However, should budget disagreement extend well into July without an appropriation, we note that the state would need to make Aug. 1, 2015, debt service payments from debt service reserve funds held by the trustee. From a credit standpoint, continued political brinkmanship that results in a late budget (past June 30) with a need to use debt service reserve funds to cover scheduled debt service payments would reflect a weakening of state budget management that we consider uncharacteristic of a 'AAA' rated state.

The Florida constitution requires that the state pass a balanced budget for each fiscal period and it does not have a provision that calls for a continuation budget. Gov. Scott has asked agencies to identify critical services that need state funding if Florida is unable to pass the budget on time, thereby causing a government shutdown. The governor's office has also identified a baseline budget at fiscal 2015 levels, in addition to critical spending needs, that could serve as a budget model, although we understand the legislature and governor would still need to approve such a plan. Florida has passed a budget after the end of regular session only three times since 1992 when it adopted the budget on the last day of that fiscal year. More important, although extremely close in 1992, the state has never failed to pass a budget before July 1.

The house's unprecedented early adjournment on April 28 with no budget, two days before the end of the regular session, reflected positions in the legislature that were far apart and entrenched. The primary cause of the budget impasse is a disagreement about health care funding. The state previously received $1.3 billion of federal revenue for the $2.2 billion low income pool (LIP) program based on a federal waiver that expires in June 2015. The house and governor disagree with a senate plan that would have offset the potential loss of funding from the LIP program by expanding Medicaid. The federal Centers for Medicare and Medicaid Services (CMS) sent a letter to the state last week preliminarily estimating $1 billion in total federal and state funding needs for the LIP program for fiscal 2016, although it still did not guarantee the funding. Should the CMS decide not to renew funding by July 2015 and should Florida decide not to replace that funding, payments to health care providers could drop. The special session agenda includes the state budget, Medicaid expansion, tax cuts, the implementation of Amendment 1, and the associated use of documentary stamp taxes, along with several other issues.

In the event the Florida legislature is unable to adopt a fiscal 2016 budget before July 1, state

officials report that there are sufficient resources appropriated from the fiscal 2015 budget to meet all July 1 debt service payments for revenue, appropriation, and full faith and credit-backed bonds, which are due to the paying agent at least one day before the debt service date. Fiscal 2015 budget appropriations also cover scheduled Sept. 1, 2015, debt service payments for the Department of Management Services' facilities pool revenue bonds. We understand, however, that without a fiscal 2016 appropriation, Florida might need to tap debt service reserves for Florida Correctional Finance Corp.'s certificates of participation debt service
payments due Aug. 1, 2015. State officials report that amounts in associated debt service reserve funds held with the trustee are sufficient to cover such a contingency; nevertheless, we would view a need to use debt service reserves as uncharacteristic of a 'AAA' rated state. A budget standoff that continued past June 30, without appropriations in place for upcoming debt service payments, would be a sign of weak budget management that could pressure our outlook on Florida. We will continue to monitor the status of deliberations as the state works through its budget impasse during the special session.

Under Standard & Poor's policies, only a Rating Committee can determine a Credit Rating Action (including a Credit Rating change, affirmation or withdrawal, Rating Outlook change, or CreditWatch action). This commentary and its subject matter have not been the subject of Rating Committee action and should not be interpreted as a change to, or affirmation of, a Credit Rating or Rating Outlook.

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