SANTA ROSA COUNTY PUBLIC SCHOOLS
LONG TERM FISCAL HISTORY

PART ONE
STATE GENERAL REVENUE FORECASTS AND TRENDS

The State budget is reported to be $83 billion. Of that amount about $31 billion is General Revenue (GR), and the balance of the budget is about evenly divided among state and federal trust funds. Most of the appropriations actions of the Legislature is focused on GR. Additionally, the GR budget is based on projections, not on "money in the bank."

The principal source of K-12 public school operating revenue is the Florida Education Finance Program (FEFP). Small portions of the FEFP are derived from the Educational Enhancement Trust Fund (the Lottery) and the Principal State School Trust Fund. Most FEFP revenue is generated by state GR and local ad valorem property tax revenue derived from the Required Local Effort (RLE) millage and the .748 Local Discretionary Effort millage.

The first step in building each year's state budget, and therefore the FEFP, is the adoption by the Legislative Budget Commission (LBC) of the Long Range Financial Outlook. The LBC is a joint standing committee of the Florida House of Representatives and the Florida Senate, empowered to make decisions and budget amendments on behalf of the Legislature. The Long Range Financial Outlook is an annual projection of General Revenue and state GR expenditures for three years into the future. The GR revenues and GR expenses are compared. If projected general revenue expenditures exceed projected general revenues, the Legislature is required to adopt fiscal strategies to increase the revenues or reduce the expenditures. The Legislature has been very clear about refusing to increase taxes to increase revenues, so the burden for closing the fiscal gap is carried by cutting the budget.

Based on the Long Range Financial Outlook for state GR adopted by the LBC on September 12, 2016, state general revenues for fiscal years (FY) 2017-2018 through FY 2019-2020 were not projected to be sufficient to pay the projected costs of rolling forward each year's base GR budget, with the addition of projected expenses for critical and high priority needs for those years. The use of trust fund surpluses balanced the projections for FY 2017-2018. Projections included a GR shortfall of $1.3 billion for FY 2018-2019, and $1.9 billion for FY 2019-2020.

Prior to the 2017 regular session, leaders of the Legislature announced fiscal priorities that did not include a significant increase in FEFP per student funding. The budget and bills that passed the 2017 regular session reflected the announced priorities of the presiding officers of the House and Senate. Although it was not directly stated, the fiscal positions of the Legislature acknowledged the gap between projected revenues and expenditures for the next three years and the need to reduce the base budget from 2017-2018 to help narrow the gap in the coming years. It is and has been the position of the leaders of the Legislature that when expenses exceed revenues, expenses are cut, taxes and fees are not increased.

The September 2017 Long Range Financial Outlook will be less impacted by 2017 GR appropriations' vetoes by the Governor than most years, because Special Session 2017A spent much of the revenue released by his line item vetoes. The Legislature again chose to adopt a "no new revenue" millage rate for the Required Local Effort (RLE), and annual tax cuts were also passed. If the "no new RLE revenue millage rate" continues to be adopted in the coming years, (which reduces FEFP revenue over $500 million per year) and the impacts of the tax package reduce General Revenue in the out years, and competing needs and legislative priorities continue to consume most new available GR, the prospects for robust increases in FEFP revenue will continue to be very problematic, based on current GR projections for the next five years.

There are partial data available to discern the prospects for additional FEFP revenue for FY 2018-2019 and FY 2019-2020. SB 2500, appropriated about $30.9214 of General Revenue. HB 7069 includes the appropriation of an additional $418,950,000 of General Revenue, of which about $278,950,000 are highly likely to be expended in FY 2017-2018. SB 7022 also included about $109.7 million in GR appropriations for state employee salary increases. Total GR expenditures are likely to total about $31.31 billion.

The current Long Range Financial Outlook can be used to help the district preview the prospects for improved revenue for FY 2017-2018, FY 2018-2019, and FY 2019-2020. The table below summarizes the projections. **Dollar amounts below are in billions of dollars unless stated differently.**

<table>
<tr><th>Fiscal Year</th><th>Revenue</th><th>Base Expense
+ Increase</th><th>Revenue -
Expense</th><th>Comments</th></tr>
<tr><td>2017-2018</td><td>$32.370</td><td>$31.3100</td><td>+$1.060</td><td>The balance of over $1 billion is consistent with the Legislature's reserve policy</td></tr>
<tr><td>2018-2019</td><td>$32.253
+$1.060
$33.313</td><td>Base: $31.3100
Increase: + $2.5571
$33.8671</td><td>-$554.1 million</td><td>If the Long Rang outlook projects a negative balance spending will be cut.</td></tr>
<tr><td>2019-2020</td><td>$33.606</td><td>Base: $33.8671
Increase: + $2.0967
$35.9638 Billion</td><td>-$2.3578</td><td>The impact of tax cuts or spending cuts could make the gap smaller or larger.</td></tr>
</table>

The Long Range Financial Outlook annually projects revenues and expenses for the next three years. The next three-year projection, which will be published in September 2017, will reflect the net effect of the appropriations that were approved in SB 2500 from the 2017 regular session and from Special Session 2017A and any vetoes of appropriations. Tax cuts will reduce projected revenues. The base budget that rolls forward will be reduced by the amount of any non-recurring revenue in the current budget. The projections in the chart above will vary slightly based on these factors, but they provide a relatively accurate picture of the funds that will be available in the next two years. General Revenue collections are projected to be about $1 billion more than the General Revenue expenditures for FY 2017-2018. The reserve of slightly over $1 billion in FY 2017-2018 is consistent with the Legislature's reserve policy.

The September 12, 2016 forecast, and the potential September 2017 forecast do not support the probability of enough revenue to generate a major increase in FEFP revenues for the next three years, particularly if the "no new RLE revenue" millage rate continues. The trend shows that the budget gap for FY 2019-2020 that was projected in the September 12, 2016 long Range Outlook will probably persist into the future and drive spending cuts. Lottery funds do not offer a prospect for relief. SB 2500 appropriated $1.984 billion of the available $2.0412 billion in Lottery funds for K-20 education for FY 2017-2018. Lottery funds for the FY 2018-2019 and FY 2019-2020 are projected to be about $200 million below the FY 2017-2018 revenue, which will be lower than the amount of Lottery revenue spent in FY 2017-2018.

Because the projections of future GR expenses and revenues are problematic for the FEFP, the district must repurpose existing revenues by cutting expenditures to "self-fund" salary, benefit and other cost increases, and the cost of initiatives to improve student performance. To assist the Superintendent and the staff with those efforts, an analysis of the recent history of revenues and expenses on a statewide and local level was conducted. The analysis seeks to identify any sources of structural imbalances between revenues and expenses, and provide insight into courses of action that may help manage the FY 2017-2018 budget and prepare for FY 2018-2019.

Generating necessary levels of reductions in expenditures may require the elimination of significant numbers of personnel units sustained through the recession, maintained after the expiration of grants, issued in numbers beyond the revenue generated, or not recovered when students exited the system for other educational options. Because there are vacancies every year, including vacancies of virtually every position type, units can be cut without necessarily terminating existing employees. But for employees to be reassigned and revenues repurposed to impact FY 2017-2018, and FY 2018-2019 the process needs to begin immediately and be sustained in the coming years. Provisions in Board policies and contracts concerning re-hiring and reassigning current employees must be addressed.

The next part of the report analyzes the statewide FEFP revenue and expense decreases that occurred from FY 2007-2008 through FY 2011-2012, and the FEFP revenue and mandatory expense increases that have occurred from FY 2012-2013 through FY 2017-2018. The operating budgets of school districts have suffered from a structural imbalance for several years. Some of the causes of that structural imbalance may be associated with the FEFP revenue reductions that occurred between the FEFP First Calculation of FY 2007-2008 through the FEFP First Calculation of FY 2011-2012.

Additionally, most of the post-recession revenue increases were consumed by legislatively required spending increases. After complying with the new spending requirements, new revenues were insufficient to allow the district to restore funding to pre-recession levels in all the parts of the operating budget that were reduced by the cuts. Unlike the Legislature, the district has absolutely no authority to increase revenues to correct a budget imbalance. The authority to increase revenues resides only with the Legislature or the voters through referendum.

In fact, the School Board and Superintendent do not even have unilateral authority to reduce many of the district's expenditures. Many expenditures are required by Legislative action, by agreed-to employee contracts, market-driven price increases, or obligations to charter schools and the McKay Scholarship program. Although there are a few relatively small, appreciated sources of revenues other than the FEFP, the state and local funding authorized in the FEFP by the General Appropriations Act provides virtually all the district's operating revenues. The district's spending decisions must be consistent with the FEFP revenues provided.

PART TWO
STATEWIDE FEFP REVENUES AND EXPENSES

This section is provided to verify that the fiscal challenges faced by the district are similar to the statewide fiscal picture. A spreadsheet is attached that details specific elements of the FEFP appropriations over time. The spreadsheet pinpoints the revenue trends and some statewide expenditure requirements that impact the district. Please refer to the spreadsheet "Statewide Multi-Year Funding Comparisons 2007-2008 First and Revised Third Calculation vs. 2011-2012 vs. 2016-2017 vs. 2017-2018 First Calculations HB 3A" and note the following points.

1. The First Calculation of FY 2007-2008 was the highest level of FEFP funding provided by the Legislature prior to the collapse of the Florida economy. District budget cuts began at that level.

2. The revised Third Calculation of FY 2007-2008 has been chosen as the pre-recession record high level of funding by the Legislature, because it was the final GAA adopted that fiscal year.

3. The First Calculation of FY 2011-2012 was the lowest level of state and local funds provided in the FEFP during the down cycle in the recession. There were temporary federal funds and temporary savings from FRS rate reductions included in the FY 2011-2012 FEFP, but the state and local funds are the recurring funds upon which future budgets were based, and they comprise the funding level to which districts should have adjusted to be positioned for recovery.

4. The First Calculation of FY 2017-2018 is the FEFP funding provided for the new fiscal year. It was established in HB 3 A during Special Session 2017 A

Notice the revenue trends.

1. The First Calculation of FY 2007-2008 provided $19,304,238,487 in total potential funds.

2. The Revised Third Calculation of FY 2007-2008 provided $18,748,424,701, a reduction of $555,813,786 within the fiscal year, after two budget cutting special Legislative sessions.

3. The First Calculation of FY 2011-2012 provided $16,638,042,876 in total potential state and local FEFP funds, requiring districts to reduce expenses by $2,666,195,611 to re-base the budget.

4. In the process of rebasing the budget the Legislature provided long term and short term reductions in the employer's costs for the FRS that totaled $859.1 million. The long term reduction in FRS employer rates occurred because employees were required to assume payment of three percent of their salaries towards FRS costs, and the pension Cost of Living Adjustment was eliminated. The short term reductions occurred because the Legislature suspended employer rates to pay for the unfunded actuarial liability (UAL) in the FRS. Employer rates to fund the UAL have been reinstated and FRS rate increases now total about $461.5 million a year since FY 2011-2012.

5. The Legislature also eventually eliminated the Merit Award Program (MAP) that was funded at $147.5 million in the First Calculation of FY 2007-2008.

6. Therefore, the Legislature provided districts with short and long term expense reductions of $1.0066 billion of the $2,666,195,611 revenue reduction, to help with the initial adjustment to the revenue cuts. Districts had to address the remaining $1,659,595,611 in expense cuts to reach the re-based FEFP state and local revenue level established.

7. The First FEFP calculation of FY 2017-2018 in HB 3A provided $20,641,805,116 in total potential state and local revenue.

8. This was an increase of $4,003,762,240 from the low point of FY 2011-2012.

9. With this increased revenue came increased required expenditures from that new revenue. The Legislature added the following required expenditures.

10. Increased enrollment brought increased workload. Workload funding for 174,653.45 recalibrated UFTE students at the FY 2017-2018 average dollars per student revenue of $7,296.23, consumed $1,274,311,741 of the new funds.

11. Required FRS employer rate increases consumed $461.5 million of the new revenue.

12. A required teacher salary adjustment consumed $480 million of the new revenue.

13. New programs for the 300 elementary schools with the lowest reading performance, and digital classrooms added $52,482,805 and $80,000,000 respectively.

14. The new required costs totaled $2,348,294,546. That left $1,655,467,694 of net new revenue available for districts to repair their operating budgets.

15. To determine the revenue available to fund the districts' rebased operating budget, after paying for the required new expenses, the net new revenue is added to the base local and state FEFP budget at the bottom of the recession. That calculation is $16,638,042,876 + $1,655,467,694 = $18,293,510,570.

16. The budget reduction process began at the true funding high of $19,304,238,487. The Legislature helped by cutting FRS rates and eliminating the MAP program. Together these accomplished $1,006,600,000 in cuts of required spending.

17. That left the district with the need to cut its share of the difference between the reduced peak budget and the rebased budget funded with the net increase of new uncommitted funds.

18. This is how the calculation looks. $19,304,238,487 - $1,006,600,000 = $18,297,638,487 - $18,293,510570 = $4,127,917. Special Session 2017 A will have almost restored the rebased budget to the level established in the First Calculation of FY 2007-2008.

SUMMARY

To successfully navigate the recession and recovery, in FY 2017-2018 the districts would have had to have permanently cut their share of $4,127,917 from their operating budgets based on the FY 2007-2008 First Calculation**, plus** cut expenses to pay for all non-Legislatively required cost increases including employee raises, health insurance increases, and all other operating cost increases for ten years. Inflation, as measured by the Consumer Price Index over the period, was about 18.3%. Any cost increases not paid for by spending cuts had to be paid for by consuming the districts' fund balance unless a referendum approved the levy of additional millage for operating purposes.

Refer to the spreadsheet that is attached that compares the funding from Special Session 2017A to the FEFP runs from the past ten years. Whether comparing the 2017A First Calculation to the First Calculation or the Revised Third Calculation from ten years ago, there is still significantly less funding for Safe Schools, the SAI without the added funds for the required extra hour, the ESE Allocation, Transportation, and Instructional Materials, even though there are almost 200,000 more students and over 18% inflation in the past ten years.

There is also a spreadsheet attached that compares FEFP funding for the district among the First and Revised Third Calculations of FY 2007-2008, the First Calculation of FY 2011-2012, the Fourth Calculation of FY 2016-2017, and the First Calculation of FY 2017-2018 from HB 3 A. This comparison shows, as would be expected, that the district funding history reflects the state funding history. The disproportionately high level of enrollment growth for a district the size of Santa Rosa County masks some of the funding shortfalls in the major FEFP categorical funds, but an analysis of those items on a dollar per student basis will show the same weakness in funding for these items as the statewide comparison shows. That analysis shows the following:

The per student funding for Safe Schools is $4.06 less than it was ten years ago.
The per student funding for the SAI is $68.04 less than it was ten years ago.
The per student funding for the ESE categorical is $29.70 less than it was ten years ago.
The per student funding for Instructional Materials is $18.24 less than it was ten years ago.

It is also true that, as the statewide analysis shows, the district will have had to make permanent reductions in spending at the bottom of the recession to avoid having a structural deficit in the district operating budget.
In addition, and more importantly**,** the district will have had to have made spending reductions in the operating budget to pay for any increases in spending not required by the Legislature in the period since the bottom of the recession.

The report also shows that the long range financial outlook is not promising, and the district will have to continue to repurpose existing resources to pay for new expenses and initiatives not directly required and funded by the Legislature**.**

The persistent negative difference between projected long range General Revenue funds and General Revenue expenses does not portend a growth in FEFP funding that exceeds the cost of increased enrollments. It would be prudent to plan and execute a budget for FY 2017-2018 and 2018-2019 that does not assume there will be new revenue beyond that generated by enrollment growth. The current extrapolated long term financial outlook does not support an expectation of FEFP funding increases greater than enrollment growth and up to a one percent increase in average dollars per student.

Many note that the 2018 is an election year, and some observers assume that means there will be increased FEFP funding for that reason. It is suggested that increased FEFP funding would be independent of the election year, and, more importantly, that the Leadership in the legislature has been more focused on increased tax cuts than increased public school funding as a vehicle to demonstrate to voters they have met their responsibilities.