SANTA ROSA COUNTY PUBLIC SCHOOLS
FY 2017-2018 LONG RANGE FINANCIAL OUTLOOK

WHY IS THIS REPORT IMPORTANT?

The School Board has adopted the district's final budget for FY 2016-2017, but there will be continuing adjustments to the current year's budget, and work will be starting on the FY 2017-2018 budget. Based on the Long Range Financial Outlook for state General Revenue (GR) that was adopted by the Legislative Budget Commission (LBC) on September 12, 2016, the recurring revenues for fiscal year (FY) 2017-2018 are not sufficient to pay the costs of rolling forward this year's base budget and the addition of projected critical and high priority needs for the years ahead. The use of trust fund surpluses, allow the projections for FY 2017-2018 to balance. The projections include a GR deficit of about $1.3 billion for FY 2018-2019, and about $1.9 billion for FY 2019-2020.

Speaker of the House Designate Richard Corcoran and current Senate Appropriations Chair, Senator Tom Lee were quoted as follows in an excerpt from a report about the meeting by *Florida Politics.*

The Joint Legislative Budget Commission met in the Capitol to hear the latest financial outlook for 2017-18. Present income and outgo estimates leave Florida with a relatively scant $7.5 million left over out of about $32.2 billion in available revenue.

Roughly two-thirds of the yearly budget goes toward health care and education.

After the meeting, Republican lawmakers stressed the state didn't have a revenue shortage, it had a spending problem, painting a picture of government profligacy.

But, since the GOP has controlled the Legislature for nearly two decades, it's a picture they're prominently featured in.

House Speaker-designate Richard Corcoran said education and health care spending won't be immune to cuts next year.

"If you're asking me, do I think we are misspending or wasting money, or not getting an efficient return from money that's spent on 70 percent of our budget, the answer is yes," he said. "Every single government person comes up here and spends money like a teenager in the mall for the first time with a credit card. We've got to start cutting up the credit card."

Corcoran, who was House Appropriations chair the last two sessions, said "unequivocally, there are tons of things in the budget that need to be cut, should be cut, and will be cut." He didn't offer specific proposals.

State Sen. Tom Lee, the Brandon Republican who chaired the Senate Appropriations committee, cautioned that the numbers were preliminary and could change.

Chief legislative economist Amy Baker, however, earlier told the panel the current forecast "could be the good news" and later outlooks "may not be this good."

"It's very clear … spending levels in this Legislature are just not sustainable," said Lee, who will be succeeded as Senate budget chief by Jack Latvala, a Clearwater Republican.

Clearly the district must be prepared to self-fund from spending cuts any increases in operating costs and any initiatives to meet the goals of the Board and Superintendent. The district should also be preparing to address a potential cut in per student funding through spending reductions.

PURPOSE OF THIS REPORT

This report will continue the series begun on March 21, 2016 to help prepare the district for the FY 2017-2018 budget, by reporting on the results of the September 12, 2016 meeting of the Legislative Budget Commission that heard and accepted the Long Range Financial Outlook for FY 2017-2018 through FY 2019-2020. This analysis will inform the Superintendent, staff and the School Board of the challenges to state General Revenue that will significantly impact the district's budgets for the next three years. The results of the Outlook are very consistent with the earlier reports we provided.

The Long Range Financial Outlook paints a challenging fiscal picture for the district. The Legislature will be very committed to addressing the projected deficit in General Revenue, and there is no doubt that the solution will not include adding new revenue. In fact, the Governor, and the incoming leaders in both the House and the Senate have expressed a priority to further reduce revenue through more tax cuts. The incoming Senate President has detailed specific priorities for additional spending that will cost over $1 billion. Both he and the incoming House Speaker have stated they would be able to fund those priorities by reductions in other areas of the budget.

The district will need to be very careful about managing expenses in the current fiscal year. It is advisable that the district take the necessary steps to implement the recommendations for reductions in costs in a timely way so they can be fully implemented for FY 2017-2018.

None of the current and incoming leaders have expressed a priority to fully fund growth in FTE student enrollment or to significantly increase per student FEFP funding. The districts have done a very good job of managing the revenue cuts from the recession and the relatively weak restoration of funding during the recovery. There have been no significant cuts in services. Student achievement has improved. Parents and students are not complaining about reduced services. Employees have received raises in excess of the increase of per student funding. (Remember that the actual employees of the Legislature, state employees, have not received an across the board salary increase in ten years.)

These are all factors that will make the coming Legislative session very challenging. We will need to be able to tell our story of fiscally responsible decision-making and the challenges we face going forward. The fiscal problems at the state level are not short-term and we need to be positioned to address the challenges for the next several years.

A second report will follow shortly that will analyze the state level revenue and expense trends for the past nine years that have impacted the current district budget. That report will analyze the Florida Education Finance Program (FEFP) revenue decreases that occurred from FY 2007-2008 though FY 2011-2012, and the FEFP revenue and mandatory expense increases that have occurred from FY 2012-2013 through FY 2016-2017. Together the two reports will provide a look ahead at coming fiscal issues, and an accurate historical review to help the district communicate how it has arrived at its current financial position.

THE LONG RANGE FINANCIAL OUTLOOK

1. The Long Range Financial Outlook is required by the Florida Constitution and Florida Statutes. It is a projection of State GR expenses and revenues for the coming three fiscal years.

2. The Outlook is adopted by the Legislative Budget Commission, a joint standing committee of the Florida House and Senate.

3. When an Outlook projects that GR expenses will exceed projected GR, the outlook is required to recommend fiscal strategies to address the shortfall. The Legislature does not have to adopt the strategies proposed, but it is constitutionally required to pass a balanced budget.

4. The Outlook only addresses state General Revenue and expenses paid by state GR. About 36% of the current state budget of about $82 billion is GR. The rest is funded by state trust funds and Federal revenues. These other items are not addressed in the Outlook.

5. The Outlook assumes that the prior year base budget will be continued as the beginning budget for each subsequent fiscal year. If the legal authority for an expenditure expires or is repealed, the Outlook assumes the expenditure **will not** continue and it is eliminated from the budget.

6. In addition to the base budget, the Outlook calculates the cost of funding new “Critical Needs.” Critical needs are expenditures required by the Florida Constitution or by Florida Statues.

7. The Legislature has the sole authority to determine the level of funding needed to pay for these critical needs, but unless the Legislature changes the statutes or the Constitution is amended these items must be funded at some level.

8. “Other high priority needs” include basic funding decisions that the Legislature has made over a period of at least the past three years.

9. The Outlook assumes that the Legislature will increase the base budget to provide funding for critical needs to cover workload increases, and in some cases to increase funding at a rate equal to the average increase for the past three years for other high priority needs. Increased per student funding in the FEFP is one such item treated as an “Other High Priority Need” because of the Legislature’s history of making increased per student funding an appropriations priority.

10. The amounts of projected expenditures are deducted from the amount of total GR forecast for each fiscal year in the Outlook. If projected revenues exceed projected expenditures the Outlook forecasts a surplus available for the Legislature to spend.

11. If the projected expenditures exceed the projected revenues the Outlook suggests a number of fiscal strategies to address the shortfall. The suggested strategies have not included higher taxes and fees to increase revenues, because the Legislature has made it a policy for many years to not increase taxes and fees.

12. The GR forecast upon which the Outlook is based included an addition of $400 million in FY 2016-2017 and $106.7 million a year in the future years from the BP Oil Spill Settlement, and used those revenues to fund GR budget expenditures.

To determine the Pre-K-12 FEFP GR requirements the Outlook provided the following calculations for FY 2017-2018:

1. For FY 2017-2018 the Outlook replaced $197 million in non-recurring FEFP revenue in FY 2016-2017 FEFP with $113.4 million in Educational Enhancement Trust Fund surplus, $55.8 million in State School Trust Fund surplus, and $27.9 million in new GR.

2. This means that to establish funding for FY 2017-2018 the Outlook first reduced the FY 2016-2017 funding by the $197 million in non-recurring revenue used in FY 2016-2017, and then replaced it with funds as described above.

3. Student enrollment growth is projected cost $619.0 million at current year per student funding.

4. The Outlook projects that the Legislature will continue the FY 2016-2017 Required Local Effort (RLE) millage rate certified by the Commissioner of Education in July 2016.

5. When applied to the FY 2017-2018 projected School Taxable Value property tax base the RLE millage will yield about $494.4 million more in local FEFP funds than in FY 2016-2017.

6. The Outlook assumes the Legislature will take those funds, and use them to reduce the need for added GR for the FEFP.

7. The Outlook treats increased per student funding as a ‘high priority need.” The average percentage of per student funding increase for the past three years was 2.73%. The Outlook funds that increase in the amount of $153.7 million for FY 2017-2018.

8. Should all of these recommendations be followed the FEFP would increase in total potential **state and local** funds by about $619.0 million + $153.7 million, for a total of $772.7 million. That compares to an increase in total potential funds in FY 2016-2017 of about $458.2 million. There are data for the FEFP for FY 2018-2019 and FY 2019-2020, but given the volatility of the Outlook, it is premature to focus on those years.

It is very problematic that the FEFP will actually see an increase in state and local funds of $772.7 million. The other data in the Outlook, and other leadership fiscal priorities will impact the availability of funds for the FEFP in FY 2017-2018 and beyond. The Outlook projects a GR deficit of $1.3 billion for FY 2018-2019, and $1.9 billion for FY 2019-2020. The Outlook recommends a fiscal strategy to reduce expenditures smoothed over three years, that proposes reductions of GR expenditures of at least $500 million beginning in FY 2017-2018. In addition to the reductions needed to address the structural budget deficit, the Legislature has other fiscal priorities.

1. Senate President Designate Joe Negron wants to increase funding for the State University System by at least $1 billion over the next two years. Smoothed over the two-year period, that would require another $500 million per year reduction in spending in other budget areas.

2. Senator Negron also wants to bond at least $100 million to buy land south of Lake Okeechobee to help reduce pollution.

3. Governor Scott wants additional tax cuts. He received about half of the $1 billion he requested in FY 2016-2017. The other half will require another $500 million spending cut.

4. The Outlook projected an increase in Medicaid and health care costs of $412.6 million in FY 2017-2018, $1.235 billion in FY 2018-2019, and $1 billion in FY 2019-2020. These increases **do not** address the costs of health care for the indigent that had been provided by the Federal funds for the Low Income Pool (LIP).

5. Because the laws related to LIP were not renewed, there is no longer any such program, and the Outlook does not project any costs associated with the services previously provided by LIP.

6. The needs of indigent people for medical care will not go away, and will have to be addressed at some point by the Legislature. It is not reasonable to expect that insured and paying hospital patients will be the sole funders of indigent health care through increased rates and costs.

7. The federal government provided about $371 million for LIP hospitals. FY 2016-2017 was the last year for these revenues. There is another program for indigent health care, called Disproportionate Share Hospitals. (DSH) for which the Federal Government provided $144.2 million in FY 2016-2017. This funding is scheduled to end in 2017.

What does all this mean to the district?

1. State GR is the single largest source of state revenue for the FEFP, which is the major source of revenue for the district’s operating budget. The Legislature faces a need to reduce GR spending. It would not be surprising for the spending reductions to be started in a non-election year.

2. There are budget deficits projected in the coming years that should be addressed by a spending reduction of about $500 million per year.

3. There are about $1.6 billion in competing funding priorities, each of which has significant support among state leaders, or has a dramatic impact on people in life or death situations.

4. If all of these issues were fully addressed, other budget areas would have to be reduced by over $2 billion. Attention will be directed to reducing the health care costs carried by the state, but because the FEFP is a significant part of GR spending it is possible it too will be impacted.

Given these issues, and the comments of the incoming House Speaker a prudent course of action is to prepare the district for a reduction in per student funding and to self-fund any cost increases by repurposing existing dollars. If those preparations were executed and not needed, the Superintendent and Board would be in a very favorable position to address the district’s priorities. If those preparations were executed and were needed the district would be in a position to continue to operate in a fiscally sound and student focused manner.