Florida Association of District School Superintendents

Budget Overview

Fiscal Year (FY) 2019-2020 and FY 2020-2021 Florida Education Budgets

Superintendents face unprecedented financial and operational uncertainty as they enter fiscal year (FY) 2020-2021. Districts are engaged in the budget process as FY 2019-2020 closes out and the FY 2020-2021 district budget is being prepared. School boards have continuation budgets to provide the district with the authority to pay the expenses necessary to operate the district in the period from July 1 through the official adoption of the FY 2020-2021 budget, which usually occurs during the first two weeks of September.

Hard revenue and expense data upon which superintendents can base fiscal decisions for the coming year remain relatively scarce amid the economic uncertainty and the public health challenges they face. Information from revenue collection reports, the Governor’s veto message, revenue and K-12 enrollment estimating conferences, and the state’s Long Range Financial Outlook (LRFO) will be critical for superintendents to consider as budgets are developed, recommended, and implemented in FY 2020-2021.

This report will provide summary information for the 2019-2020 fiscal year. It will provide current, relevant, available revenue information for FY 2020-2021. New data will be forthcoming from the Office of Economic and Demographic Research (EDR). However, the availability of some of that information may not be at an optimal time for budget development. Some of the most important dates on the budget calendar are presented below along with some of the dates of the most important estimating conferences.

July 1 - Property Appraiser Certifies tax rolls including the districts’ school taxable value (STV). First day of TRIM. The good news is that there is not a lot of evidence that the virus has reduced property values.

July 19 - Deadline for the Commissioner of Education to certify the Required Local Effort (RLE) millage rate for school districts. The FEFP Second Calculation is released in concert with the RLE millage certification.

July 24 - Within 24 days of the certification of the school taxable value the superintendent must submit the district’s Tentative Budget to the school board.

July 29 - Within 29 days of the certification of STV the district must advertise the board’s intent to adopt the tentative budget and millage rates. Within 2-5 days of the advertisement the Board must hold the first public hearing on the budget.

September - Within 66-80 days (September 4 to September 18) the School Board must hold the final public hearing on the budget.

When presenting the budget to your school board, remarks should include reminders that the expenditures being planned are based on revenue forecasts, not money in the bank. If unusual events disrupt the economy the forecasts are less likely to accurately describe the future reality. That is why budget numbers change regularly and why the budget is a process not a document. If the economic disruption caused by the virus continues to be as severe as it was in April and May the Legislature will have to meet and create a new, reduced budget.

There have been no forecasting conferences held for any revenue used in the budget since the December and January forecasts used by the Legislature to build the 2020-2021 budget. Of the 35 forecasting conferences scheduled by the EDR, meetings that have the greatest implications for superintendents are posted below. The results of these revenue estimating conferences should be monitored by superintendents and addressed during the budget process. These include

July 9 - Measures Affecting Revenues and Post-Session Outlooks. These reports should give a better picture of the actual fiscal impacts of bills that were passed and signed including the General Appropriations Act plus the impact of any vetoes.

July 21 - Unclaimed Property (Funds the Principal State School Trust Fund.)

July 30 - Lottery Revenue Outlook (The Outlook will have implications for the FY 2020-2021 budget and the FY 2021-2022 Long Range Financial Outlook and budget.)

July 31 - Public Schools Pre-K-12 Enrollment (Enrollment projections will have implications for the Long Range Financial Outlook for the FY 2021-2022 budget.)

August 3 - Ad Valorem Tax Revenue (This will impact the FY 2021-2022 Long Range Financial Outlook and budget. The July 1 Certified Tax Rolls control the 2020-2021 budget.)

August 3 - PECO Trust Fund Revenue

August 4 - VPK Enrollment Estimate

August 10 - Outlooks for Education Enhancement Trust Fund (Lottery), Tobacco Settlement Trust Fund, Principal State School Trust Fund, and General Revenue Year End (FY 2019-2020 Year End). This may help inform the completion of the superintendent's recommendations for the final hearing on the 2020-2021 budget.

August 14 - General Revenue: The GR forecast will have implications for the ability of the state to maintain a balanced budget for FY 2020-2021 and for the FY 2021-2022 Long Range Financial Outlook and therefore the FY 2021-2022 budget.

The General Revenue forecast will be very important, but the timing of the results of the conference is not ideal for the district budget development process.

As we examine the revenue prospects for the FY 2020-2021 budget. It is important to remember that there are multiple revenue sources providing funds for the state and district budgets. Not all of these revenue sources are equally volatile and not all of them will be immediately impacted by the collapse of the global, national, and state economies. The fund sources used in the state and district budgets include:

1. State General Revenue (GR): GR is experiencing severe shortfalls compared to forecasts.
2. Florida Lottery Funds: There is not a recent Lottery revenue forecast. The Governor vetoed the District Lottery School Recognition line item. Therefore $134,582,877 reverted to the Lottery Trust Fund and will be available to offset revenue losses if the economic problems have reduced funds, or to be used if needed for other K-12 expenses.
3. FEFP Local Property Tax Revenue: School taxable value is more stable, and the current problems probably have not impacted this revenue source.
4. Federal Funds: There have been no adjustments to federal revenues for programs including Title One and IDEA. CARES funds are restricted to offsetting the costs associated with the virus.
5. Local option, referendum approved property and sales taxes. These are exclusively local sources.

Local option sales taxes may be reduced more than statewide sales tax reductions depending on the local circumstances. For example, revenue losses from the local option sales taxes in Orange and Osceola Counties are likely to be greater than the impacts on the one in Calhoun County. Local referendum approved property taxes are not likely to see an immediate adverse impact.

FY 2019-2020 YEAR END REVENUE AND EXPENSE HIGHLIGHTS

School districts had a unique fiscal year final quarter. There have been unusual expenses caused by the response to COVID-19, such as costs for deep cleaning facilities and providing devices and connectivity for expanded distance learning opportunities. There have been some unexpected sources of savings too, but whether the expenses were higher than the savings is likely to vary among districts.

The FY 2019-2020 FEFP Fourth Calculation was released on May 22. It contains some changes when compared to the Third Calculation. Increases or decreases in enrollment or revenue in any district are known by each district. There are some statewide patterns that are may inform superintendents' thinking Unweighted Full Time Equivalent (UFTE) student enrollment increased 3,294.26 statewide. The changes in enrollment between the Third and Fourth Calculations were of course not uniform but did generally follow established enrollment patterns. In the February survey period, before the spread of the virus, the Florida Virtual School lead all growth entities with an increase of 1,353.92 UFTE.

It should be noted that Weighted FTE (WFTE) enrollment only increased 2,525.65. It would have been expected that WFTE would have increased to about 3,590 WFTE. The Fourth Calculation suggests that enrollment dropped in certain weighted programs. Weighted programs include 130, 254, 255 and add-on FTE programs. At a time when every student and every dollar is critical, it is suggested that staff members review trends in weighted enrollment, including programs that provide add-on weighted FTE to ensure all students were properly classified and claimed.

The state FEFP "scholarship" programs showed only minor changes between the Third and Fourth calculations. The McKay Scholarship program increased from about $221.5 million to $223.4 million. The Family Empowerment Scholarship program actually decreased about $1 million from $103.5 million to about $102.5 million. It is interesting to note that the expansion of the Family Empowerment program was based on the waiting lists of "unmet demand" among low income families for the vouchers. However, the revenue reported in the 2019-2020 Fourth Calculation suggests that only about 14,000 of the 18,000 vouchers authorized were used in 2019-2020.

If that trend continues the recently signed voucher law, HB 7067, has a provision that will authorize a rapid rise in the family wealth levels qualified to receive these tax dollars. The qualifying level of family income will continue to increase 25% per year when five per cent or more of the authorized vouchers are not used in that year. For example, if the utilization rate in 2020-2021 is not higher than the rate in 2019-2020 the maximum annual income for a family of four qualifying for the scholarships implemented to help low income students will rise to 375% of the poverty level, or over $98,000 per year in just that year.

It is important to remember that there will be about 29,000 more Family Empowerment vouchers authorized in FY 2020-2021. In 2019-2020 there were about 18,000 vouchers authorized and 14,000 used. In 2020-2021 these vouchers will grow about 260%. It is suggested that when planning the 2020-2021 budget, superintendents plan for increased use of these vouchers based on the trends and private school availability in the area. In many areas vouchers could be used by twice as many students as used them in 2020-2021. Remember funds associated with these students will be included in the district's FEFP revenue but will flow into and out of the district's treasury and leave no dollars behind for district expenses.

Due to the increase in FTE enrollment in the Fourth Calculation there was an increase in the proration to the original FEFP appropriation. As a reminder, when the FEFP is adopted with the rest of the state budget the total state funds are fixed. If more students enroll, the amount of dollars available per student are reduced. As a reminder the average dollars per UFTE student in the 2019-2020 First Calculation was $7,672.02. The average dollars per UFTE in the Fourth Calculation is $7,647.15. Remember that the budget is a process, and the numbers do change throughout the year.

FY 2020-2021 REVENUE SOURCES AND ISSUES

The COVID -19 pandemic has had a major negative impact on the revenues used by the state to fund the 2019-2020 budget and to prepare the 2020-2021 General Appropriations Act. The impact of the economic shutdown on the collection of tax revenues for FY 2019-2020 is still not completely known, but the April and May revenue collection reports provide important insight into the state's financial position.

The most important revenue source for General Revenue is the sales tax. Sales tax collections for April totaled $1.8862 billion compared to the forecast for April of $2.4844 billion. Collections for April were $598.2 million less than the forecast. Sales tax collections for May totaled $1.4955 billion compared to the forecast for May of $2.1909 billion, $695.4 million less than the forecasted amount. Sales tax fell more in May than April despite the initial reopening of the economy that occurred in May.

Corporate income taxes and filing fees, and highway safety fees were also significantly below the forecast for both months. April collections for these revenue sources were $323.1 million below the forecast. May were an additional $125.8 million below the forecast for these sources, for a total shortfall of $448.9 million. The May report states that "…a portion of the declines in April and May will be recaptured in June or early in the next fiscal year." That is not a strong assurance that the revenue will be collected in 2019-2020.

The General Revenue collections for April were $878.1 million lower than forecasted and for May collections were $779.6 million below the forecast. The total loss for April and May was $1.6577 billion.

A hypothetical forecast is offered. If the shortfall for June was equal to the average shortfall for April and May, 2019-2020 revenue would be short another $828.85 million. If half of the uncollected corporate taxes and fees were added back to the June collections, they would still be about $604.4 million below the forecast. That would mean that the total shortfall including the shortfalls reported in April and May and our projected June shortfall totals $2.2621 billion. ($878.1 million April shortfall + $779.6 million May shortfall + $604.4 million our June projection = $2.2621 billion prospective shortfall.)

The revenue collection report notes that through March 2020 total revenue collections for 2019-2020 were $202.4 million above estimates. If the extra collections are added to the original projected carryforward of funds available before the post COVID-19 shortfalls, the carryforward would have been $2.1359 billion. ($1.9335 billion original projected carryforward + $202.34 million extra collections = $2.1359 billion.)

If our June projection is close to accurate the shortfall of General Revenue collected compared to the General Revenue forecasted will result in a carryforward of -$126.2 million. This shortfall in 2019-2020 has implications for FY 2020-2021. If the projection suggested for the June shortfall is correct, that surplus available for carryforward into revenue available for FY 2020-2021 would be -$126.2 million. (Projected carryforward $1.9335 billion + $202.4 million extra collections = $2.1359 billion projected carryforward - $2.2621 billion prospective shortfall = -$126.2 million.)

The January 2020 General Revenue forecast for 2020-2021 had a total available revenue of $36.5057 billion. That assumed a carryforward of $1.9335 billion as part of the total funds available. If the estimated shortfall for June 2020 is correct that $1.9335 billion balance forward will be reduced to -$126.2 million.

That is not totally inconsistent with the Governor's veto message. He discussed the prospective state reserves. He said he expected there would be $2.3 billion in unallocated General Revenue. He said that amount included $781.6 million in "projected reversions." He said that the $2.3 billion surplus "…does not include adjustments for COVID-19 revenue losses"

Subtracting the projected reversions of $781.6 million from the $2.3 billion reserve projected by the Governor leaves a balance of $1.5184 billion. The 2020-2021 forecast projected $36.5057 billion in available General Revenue. HB 5001 appropriated $35.1909 billion in General Revenue. The difference is $1.3148 billion. The extra collections through March added $202.4 million for a total of $1.5172 billion. The difference of about $1.2 million is not material and is probably driven by “rounding” errors.

The impact on the Governor’s projected surplus of $2.3 billion is impacted by the actual and projected COVID-19 related General Revenue shortfalls. If our June revenue shortfall projections are correct, the General Revenue for FY 2020-2021 will be reduced as follows. The projected carryforward included in the revenue in the forecast of +$1.9335 billion will be changed to -$126,2 million. That would reduce the revenue available for the appropriation by $2.0597 billion. That will leave FY 2020-2021 available General Revenue at $34.446 billion and pre-veto General Revenue appropriations of $35.1909 billion.

That means that the pre-veto General Revenue budget would have a deficit of $744.9 million. The Governor has indicated that there will be $781.6 million in General Revenue reversions. That would rebalance the budget and leave a fund balance of $36.7 million. The Governor vetoed $487,778,659 in General Revenue appropriations. That will move the General Revenue surplus to $524,478,659.

The Governor indicated that state General Revenue reserves totaled $6.3 billion. However, after adjusting unallocated General Revenue for actual and projected FY 2019-2020 General Revenue shortfalls unallocated General Revenues total about $525 million. The Budget Stabilization Fund is about $1.7 billion. Unallocated trust funds are estimated to be $1.5 billion, and the Lawton Chiles Trust Find is estimated to have $800 million in total reserves. Total reserves after the COVID-19 related shortfalls and General Revenue fund vetoes are about $4.525 billion.

The first look ahead into General Revenue for the rest of the 2020-2021 fiscal year will not happen until the August 14 General Revenue estimating conference. Given the recent volatility and the uncertainty surrounding the economy and the virus, a revenue forecast through June 30, 2021 is very challenging.

However, each superintendent has to prepare budgets for the school board and lead the district through the year ahead. The biggest revenue challenge for the state and district budgets for 2020-2021 is that presented by the volatility of state General Revenue.

To help make concrete the challenge the following scenario is suggested. Should we enter the 2020-2021 fiscal year with the working capital fund of $525 million created by the Governor’s vetoes after the projected COVID-19 projected General Revenue shortfall, and the economy continues to register General Revenue shortfalls each month in 2020-2021 equal to the average shortfall in sales tax collections for April and May, which was $648.8 million, then in 12 months the shortfall in General Revenue collections would equal $7.7856 billion. ($648.8 million X 12 = $7.7856 billion) It is interesting that another source, Moody’s Analytics, predicts that Florida will have an $8 billion revenue shortfall.

After spending the working capital created by the Governor’s vetoes, the shortfall would be $7.2606 billion.

There is no way to know how the COVID-19 pandemic will play out. The state's economists will be challenged to create stable, reliable revenue forecasts. We could experience the type of steep but short recession followed by a fast steep recovery for which many are hoping. But the Federal Reserve's national economists have forecasted unemployment rates of almost ten percent through 2020. The Federal Reserve Chair Jerome Powell said in the Federal Reserve's June 10, 2020 economic forecast, "My assumption is that there will be a significant chunk, well into the millions," Mr. Powell said, referring to workers "who don't get to go back to their old job, and, in fact, there may not be a job in that industry for them for some time."

The outgoing Senate President and the Governor have stated that they do not believe there is a need for a special session to reduce the budget before the November elections. The current House Speaker has said he is willing to consider such a special session "soon." None of the state leaders have stated that stated there is no need for a special session to reduce appropriations.

Based on the history of the Legislature over the past several years it seems unlikely that there would be a willingness to spend 100% of the available reserves with as much uncertainty as exists in both the economy and the public health sector. If the Legislature were to act, based on their appropriations history it seems possible that they would sweep trust fund surpluses to help address the economic crisis. If our projections are accurate that would reduce the prospective shortfall to about $5.7606 billion.

If the Legislature chooses to use either the Lawton Chiles Trust Fund or the Budget Stabilization Fund it is required to refill those reserves as prescribed by law. Additionally, the Legislature is very concerned about the state's credit rating, and it is reluctant to empty reserves. Finally, the Legislative leaders and staff are very fiscally prudent, and it would be very unusual for them to spend the state's reserves to zero with no hard data to show a return to pre-COVID-19 revenue levels, a return that does not currently seem to be very likely.

To provide a potential scenario to consider when planning the budget, the following is offered. First it is very unlikely that the June 2020 General Revenue collections will exceed the amount projected above. Therefore, the projected unappropriated General Revenue after the Governor's vetoes will be the amount that we projected. We can also assume based on Legislative history, that the trust fund sweeps will be made. If that occurs we would still face a General Revenue shortfall of about $5.7606 billion.

Finally, to fold in a note of hopeful optimism, if we assume that some progress with the virus will be made, then perhaps revenue collections will improve in 2021. If those six months result in collections that experience only half the projected shortfalls the shortfall would be reduced about $1.9464 billion. That would reduce the General Revenue shortfall to about $3.8142 billion.

The General Revenue used in the initial FEFP was about 33.2 % of the available General Revenue. If the FEFP has to sustain a 33.2% of the hypothetical remaining shortfall, the reduction would total about $1,266,314,400. That is a reduction of about 5.6% in total FEFP revenue. In previous similar situations, the adjustments were imposed as an additional component in the FEFP titled "Equal Percent Reduction."

As the CARES Act funds are currently understood, those funds are to help pay for the increased costs associated with the pandemic. It would require a new Federal appropriation to provide funds to state and local governments to replace revenue reductions due to COVID-19. It seems the CARES funds referred to by state leaders may help keep problems on the expenditure side of the budget from getting worse, but those funds apparently cannot be used to solve a revenue problem. Therefore, the situation and options as currently understood lead to a conclusion that a special session may probably be required to address a likely state budget deficit in 2020-2021.

The Governor continues to state that a special session on the budget will not occur before the November elections. None of the state leaders have stated that there will be no budget cutting special sessions in 2020-2021. Should the economy not miraculously rebound almost immediately to pre-COVID-19 levels a budget cutting special session from late November through January seems possible. Should that happen, superintendents would only have a half a year to address any budget reductions, thereby doubling the impact for the remainder of FY 2020-2021.

To execute that level of reduction with only half the fiscal year remaining would require a cut in spending of about 11.2% for the balance of the year, a reduction of district General Fund uncommitted fund balances of an amount equal to about 5.6% of the total General Fund revenue (not the fund balance), or some combination of these strategies. If a district uses its uncommitted fund balances to manage the entire hypothetical cut for the year, the district would have to start FY 2020-2021 with a projected June 30, 2021 ending committed and uncommitted fund balance large enough to pay for the cuts and still have at least a three percent fund balance as prescribed by law.

Of course, the fiscal impact of any declining enrollment driven by COVID-19 would be in addition to any reductions from the Legislature.

Designing and implementing fiscal strategies to reduce 2019-2020 Operating Fund expenditures by 5%-10% as part of the process of preparing the 2020-2021 budget would be worth considering.

FY 2020-2021 BUDGET VETO IMPACTS

The Governor has published a specific list of the vetoes. There was one veto that was for funds included in the FEFP runs. The Governor vetoed line item 10, which is the line item that includes funding and proviso language for the District Lottery and School Recognition funds. The veto eliminated funding for school recognition awards, awards that would have been impossible because of the elimination of school grades for 2019-2020 due to the impacts of COVID-19.

The veto caused $134,582,877 to be reverted to the Educational Enhancement Trust Fund. The reverted funds could be used to offset revenue reductions should Lottery sales be adversely impacted by the changes in the economy. If Lottery revenue forecasts do not show a reduction due to falling sales and the Legislature is required to convene a special session to produce a new budget the proceeds from the veto could be used to replace diminished General Revenue in the FEFP.

The District Discretionary Lottery and School Recognition fund was the only item within the FEFP that was vetoed. The Governor sustained the Teacher Salary Increase Allocation. He also signed HB 641 which included the statutory changes related to establishing the increased base salary for classroom teachers as defined in law.

There were many education projects vetoed. To help put related documents in the same place the 2020 Veto List and the Governor's budget message are being sent with this report. Vetoed items include FADSS Superintendent's Training for $500,000, and the re-appropriation of $41,579,863 of unspent Guardian Program revenue that was provided in 2018 in the school safety act and has not been spent. The funds revert to the General Revenue fund. (Line item 97, the new $500,000 for Guardian training was not vetoed.)

Line Item 25, Special Facilities construction projects, was not vetoed. Line item 99, Take Stock in Children was not vetoed. Line item 103, School District Foundation Matching Grants was not vetoed. Line Item 108, Regional Educational Consortiums was not vetoed. Line Item 111, Gardiner Scholarships and Line Item 112 Reading Scholarships were not vetoed. Line Item 113, the Community School Grant Program was not vetoed. In Line Item 117A, the School Hardening Grants section was not vetoed but the other three projects in the item were vetoed.

The Governor's line item vetoes totaled $1,000,337,940. The Governor vetoed $487,778.659 in General Revenue projects and $512,559,281 in Trust Funds' appropriations.