

Florida School Finance Council Budget Priorities & Recommendations

FY2019

7/12/2017

The Finance Council has reached unanimous agreement on the top three budget issues facing Florida's school districts. It is our hope that the Governor, Commissioner of Education, State Board of Education, and Florida Legislature will give the Council's priorities and recommendations serious consideration as the FY2019 state budget is developed.

About the Council - The Florida School Finance Council serves as an advisory committee to the Commissioner of Education on school funding and business issues. The Council is comprised of 18 members representing small, medium and large school districts and 3 ex-officio members. All representatives are active finance officers responsible for the financial operations of their respective school districts. The Council represents a diverse mix of school districts across the state in terms of size, student demographics, population density, and region.

Purpose of this Paper - Although Florida's economy has steadily improved each year since FY2010, preK-12 education funding has not truly recovered from the Great Recession. The constraints obstructing funding for public school children are no longer economic realities, but political preferences. Florida's slow, but steady economic growth has provided opportunities to significantly improve preK-12 student funding. Unfortunately, these opportunities have been ignored or negated by Legislative action in recent years. To help right the course and address the needs of Florida's public school children in a sustainable manner, the Finance Council has identified its top three budget issues and corresponding recommendations. These recommendations stand to benefit both traditional and charter public schools. It is our hope that the Governor, Commissioner of Education, State Board of Education, and Florida Legislature will give the Council's priorities and recommendations serious consideration as the FY2019 state budget is developed. Our top three priorities are summarized below and supported by fact.

1. **Maintain Required Local Effort (RLE)** – The Legislature has reduced the RLE school tax rate for the past two years creating a structural imbalance in the state budget. As a result, Florida now faces an estimated \$1.3 billion budget gap for FY2019 in the General Revenue Fund. This recent practice of reducing the RLE to the “rolled back rate” must be discontinued. Failure to allow RLE local revenue to grow in a natural manner based on growth in the tax roll will leave Florida unable to adequately fund preK-12 education and places the state in a precarious position to weather future economic downturns.

2. **Restore Local Capital Outlay Millage (LCOM) Authority to 2.00 Mills** - Diminished capital funding caused by a recession driven reduction of 25% to local school board capital improvement taxing authority has resulted in an alarming backlog of deferred maintenance across the state and compromised local efforts to meet capital demands including construction, technology, and school buses. This situation is exacerbated by the new requirement within HB 7069 to provide charter schools a pro-rata share of LCOM funding. Local school boards are held accountable by their respective communities and should have the authority to be responsive to capital demands. Authority must be restored to local school boards to levy up to 2.00 mills within their county to meet the capital needs of both traditional and charter public schools.
3. **Increase Teacher Salaries** in a meaningful sustainable manner that provides a livable wage commensurate with the role and responsibilities of this critical profession. Florida continues to trail the country in teacher salaries and will be severely challenged in the years ahead to adequately staff classrooms with qualified teachers given the expected national shortage.

This position paper will provide a justification for each priority and offer recommendations to address each critical need.

PRIORITY 1 - Maintain Required Local Effort (RLE)

Despite FY2018 budget recommendations by the State Board of Education (SBOE), Governor, and Senate to maintain the RLE school tax rate, the Legislature ultimately followed the House's lead to reduce the RLE to the "roll back rate" for the second consecutive year. This action represents a dangerous change in policy and left unchanged threatens Florida's capacity to adequately fund preK-12 education in the future. The "roll back rate" reflects the rate that would generate the same property tax revenue on a dollar for dollar basis as approved for the prior year. By reducing the RLE 0.322 mills from 4.638 to 4.316 mills for FY2018, over \$500 million in general revenue was taken off the table. Coupled with last year's 0.346 mill reduction to the RLE in the name of "tax relief", over a billion dollars in general revenue that could have benefited Florida's children has been lost. Given the

Economic & Demographic Research (EDR) projected a \$1.3 billion general revenue budget gap for FY2019 in their *Long Range Financial Outlook (FY18-20)* last fall, these legislative reductions to the RLE appear to be shortsighted at best, and an irresponsible dereliction of duties at worst. It is important to note EDR has assumed the RLE would remain constant in their state budget forecasts to date. If resetting the RLE to the “roll back rate” becomes Florida’s policy, future forecasts will likely depict just how unsustainable this practice is and why Florida must safeguard general revenue streams. Recurring critical and high priority state budget needs will exceed recurring general revenue available due largely to these recent reductions to the RLE.

Florida preK-12 education is funded primarily by state sales tax (6%) revenue and local property taxes. Capping the RLE at the “roll back rate” will only put more pressure on state sales tax revenues to fund enrollment growth, rising costs, and teacher salary increases. To help put this in perspective, consider the state sales tax remains at 6% from year to year. The Legislature does not “roll back” sales tax to a lesser percentage when the price of goods or services rises. For example, if the cost of a new car increases from \$20,000 to \$22,000 the following year, the buyer still pays 6% sales tax at the time of purchase regardless of the rising cost from year to year.

School Tax Rates Historically Low

Millage Component	FY1998	FY2018	Variance
Required Local Effort (RLE)	6.529	4.316	-2.213
Discretionary	0.510	0.748	0.238
Add'l Discretionary	0.250	0.000	-0.250
Local Capital Outlay	2.000	1.500	-0.500
Total	9.289	6.564	-2.725

School tax rates are historically low. The table above compares current millage rates to those levied twenty years ago in FY1998. On average, the total school millage rate is down from 9.289 mills in FY1998 to just 6.564 mills for FY2018. This reduction of 2.725 mills represents a 29.34% decrease in school millage rates. At

6.564 mills, school districts are well below Florida’s Constitutional (Article VII, Section 9) ten mill cap applicable to all county, municipal, and school purposes.

Average Homeowner Savings from RLE Roll Back are Minimal

As calculated in the table below, a homeowner with an assessed value of \$225,000 and eligible for the \$25,000 school taxes homestead exemption saved \$69 in FY2017 and another \$64 in FY2018 in school taxes as a result of reductions to the RLE. These savings translate to less than \$6 per month for the average homeowner. Conversely, maintaining the RLE for the past two years would have provided over \$1 billion or \$353 per student in preK-12 funding.

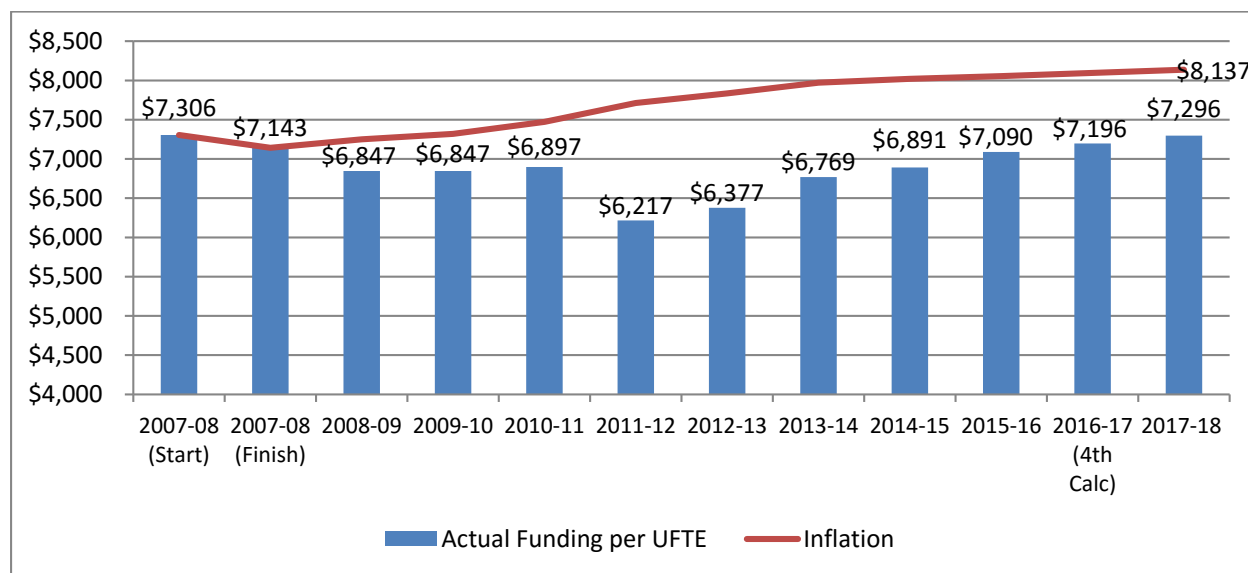
Millage Component	FY2016	FY2017	Decrease	FY2018	Decrease
Required Local Effort (RLE)	4.984	4.638	-0.346	4.316	-0.322
Discretionary	0.748	0.748	0.000	0.748	0.000
Add'l Discretionary	0.000	0.000	0.000	0.000	0.000
Local Capital Outlay	1.500	1.500	0.000	1.500	0.000
Total School Tax Rate	7.232	6.886	-0.346	6.564	-0.322
Sample Homeowner					
Assessed Value	\$ 225,000	\$ 225,000		\$ 225,000	
School Homestead Exemption	\$ 25,000	\$ 25,000		\$ 25,000	
Taxable Value	\$ 200,000	\$ 200,000		\$ 200,000	
			Savings		Savings
Total School Taxes	\$ 1,446	\$ 1,377	\$ (69)	\$ 1,313	\$ (64)

Florida tax payers already benefit from the “Save Our Homes” constitutional amendment (Article VII, Section 4) approved in 1992 which limits the annual increase on homesteaded properties assessed value to 3% or the percent change in CPI for all urban consumers (US City average), whichever is less each year. Further, reducing the RLE to the “roll back rate” negates growth in the tax roll attributed to new construction, despite its direct impact on the demand for services.

Teaching Profession has Fallen Behind Other Public Service Careers

Another consequence of failing to maintain the RLE millage to allow for natural growth in revenue is that it demeans the teaching profession in relation to other

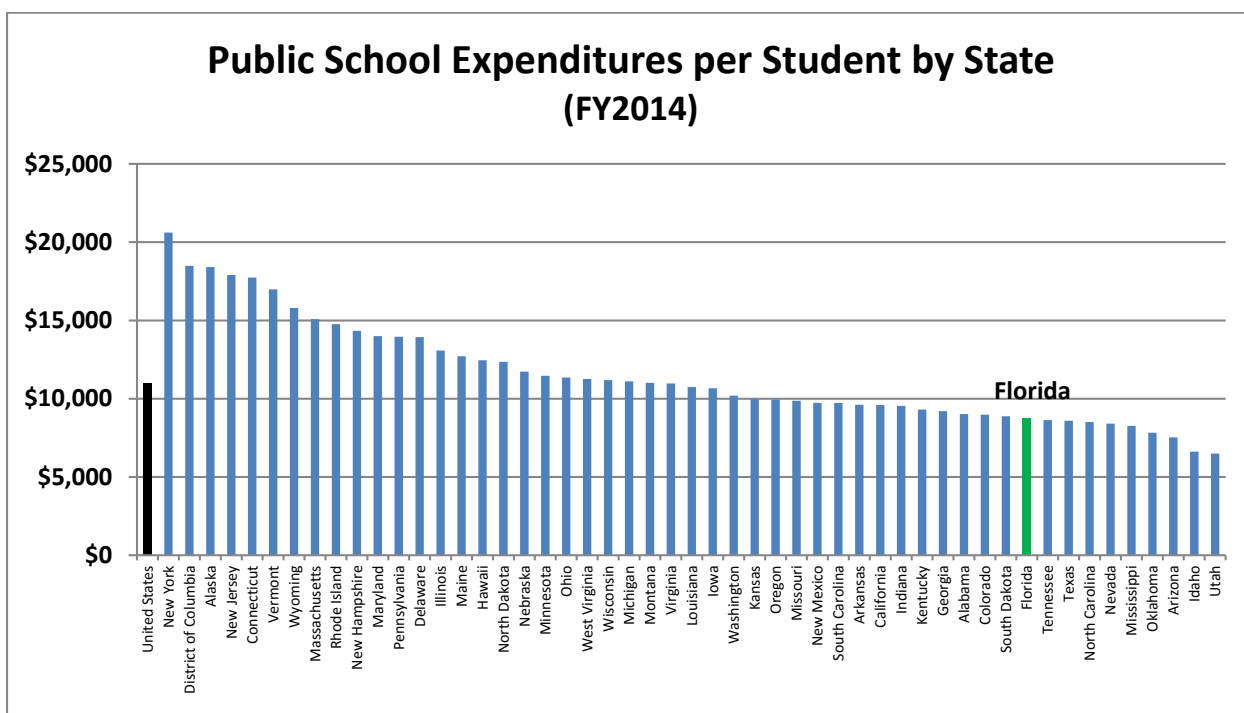
careers of public service and will exacerbate an already precarious cost of living situation. Unlike school districts, all non-school district municipalities – which control their own millage rates – will be able to take advantage of a growing economy increasing their proceeds while not punishing tax payers with a higher millage rate. Those additional revenues will be used to increase salaries for all municipal employees, including firefighters, police officers, county bus drivers, and municipal staff. These additional salaries will pump money into the local economy and drive up prices on everything from housing to goods and services. However, teachers (as well as all other school district employees), whose salaries are tied to revenue levers controlled by the Florida Legislature, will see increases that pale in comparison to their municipal peers and lose additional buying power every year. This will further exacerbate the teacher shortage that is beginning to border on crisis level.



Inflation Has Significantly Eroded School Funding

As illustrated in the chart above, funding for Florida’s school districts has never truly recovered from the recession. At the start of the 2007-08 school year, Florida provided \$7,305.79 per student on average through the Florida Education Finance Program Formula (FEFP). Ten years later, funding per student has reached \$7,296.23. The impact of inflation over ten years cannot be ignored when gauging the significance of Florida’s investment in PreK-12 education. With \$9.56 less per

student to operate public schools after enduring ten years of rising costs and inflation, it is disingenuous for state leaders to tout recent state preK-12 education budgets as “historic” or “record funding levels”. Funding would need to be increased an additional \$841 or 11.5% to \$8,137 per student to offset the estimated impact of inflation as calculated by the Bureau of Labor Statistics Consumer Price Index (CPI) and return schools to pre-recession funding levels. **When considering the impact state wide for more than 2.8 million students, this represents an annual shortfall of over \$2.3 billion dollars.**



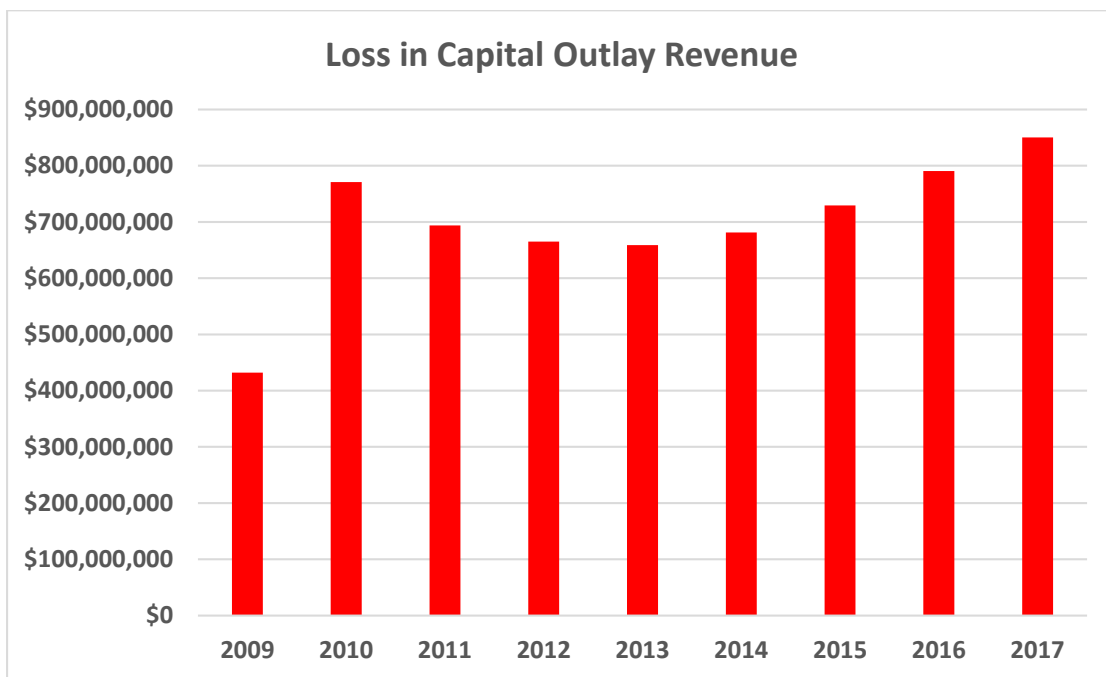
Florida’s K-12 Education Spending Ranks 42nd in United States

Based on the most recent U.S. Census data, Florida’s public schools rank 42nd in the nation in spending per student. Given the meager 1.39% or \$100 increase in funding per student for FY18 and only a 1% or \$71 increase in FY17, there is a good chance Florida will edge even closer to the bottom of the rankings in the years ahead. If the Legislature continues to reduce the RLE to the “roll back rate,” Florida will be destined to hit rock bottom.

RECOMMENDATION 1 – Maintain current Required Local Effort (RLE) local school tax rate of 4.316 mills to help fund meaningful increase to Base Student Allocation (BSA) as Florida’s tax base grows year to year.

PRIORITY 2 – Restore Local Capital Outlay Millage (LCOM) Authority to 2.00 Mills

School districts have been hard hit by the reduction in local capital outlay taxing authority and fluctuation in property values over the past ten years. In response to the great recession, the 2008 and 2009 Florida Legislature reduced the capital millage authority of local school boards by 25%. This was done to offset an increase to the Required Local Effort levy to avoid additional operating budget cuts. Initially, school districts were able to defer capital purchases and tap local capital reserves. But over time, the substantial loss of capital revenue has crippled the ability of school districts to meet school facility maintenance, classroom technology, and bus fleet demands.



The chart above indicates the revenue no longer available to school districts due to the Legislature’s millage reductions. **The cumulative impact over the past ten**

years is \$6.3 billion. This figure grows to \$10.7 billion if you consider the revenue lost due to the decline in state property values.

HB 7069 Triggers Moody's to Issue Credit Negative for Florida School Districts

On June 21, 2017, less than a week after Governor Scott signed HB 7069 into law, Moody's issued a "credit negative" for Florida school districts as a result of the mandate to share LCOM revenue with charter schools. Moody's concluded "continued charter enrollment growth and the associated loss in capital funding for traditional schools may lead to a self-reinforcing cycle of decreased traditional public school enrollment and decreased revenues available for capital planning under the new legislation."

PECO Funds Go Primarily to Higher Ed, pre-K 12 Schools Dependent on LCOM

In addition to the loss of \$850 million in annual LCOM taxing authority, PECO fund allocations to school districts have declined significantly. In FY2008, PECO funds for traditional schools exceeded \$200 million for maintenance and \$297 million for survey recommended needs. This revenue source has been decreasing and is unable to support the needs of traditional and charter schools. While traditional schools were included in the distribution of PECO funds for FY2018, the \$50 million allocation only begins to scratch the surface of the pent-up maintenance demands. The lion's share of PECO dollars has gone to higher education in recent years, which makes LCOM revenue that much more important to traditional and now charter schools.

Schools will Deteriorate and Ultimately Cost Taxpayers More if Unaddressed

Florida school districts comprise over 453 million square feet of facilities. **Schools represent a public asset of \$90 billion** based on an average cost of construction of \$200 per square foot. As of June 30, 2016, the average age of Florida permanent school facilities was 30 years old. Preventative maintenance, repairs, and the upkeep or replacement of building systems (i.e. HVAC, lighting) is critical to ensure these public schools reach their useful life. Failure to do so will eventually lead to the premature replacement of failed buildings at an increased cost to taxpayers.

For every \$1 of deferred preventative maintenance, the ultimate cost of premature failure is estimated at \$4. Many schools across the state also serve as hurricane shelters and must be built and maintained to a high standard. Equally important, the deterioration of schools negatively impacts the core mission of student achievement. Research indicates that both teachers and students perform better in schools with good indoor air quality, lighting, and acoustics. Teacher job satisfaction and retention has also been linked to the condition of the facility. Student attitudes and morale were found to be more positive in new or renovated facilities. Through their research, the Council of Great City Schools estimates well managed school districts should spend 1.5% to 2.0% of the current replacement value of school facilities each year for maintenance. Applying this recommendation to Florida's 453 million square feet of school facilities suggests **an annual commitment of \$1.359 to \$1.813 billion per year is needed for school maintenance.** The 0.50 mill reduction to local capital taxing authority reduced potential capital funding for Florida's 67 school districts by \$850.5 million for FY2017. Although the remaining 1.50 mill capital authority generates over \$2.5 billion, approximately 50% of these funds are committed to existing debt service payments associated with school construction needed to meet enrollment growth and class size reduction. This leaves school districts unable to fully fund maintenance, technology, equipment, and school bus replacement demands.

Classroom Technology Demands Go Unmet

The loss of capital outlay taxing authority has greatly compromised the capacity of school districts to meet the increased demand for technology. Although the FY2018 budget included \$80 million in Digital Classrooms categorical funding, this represents a fraction of the true need. Considering the current enrollment of more than 2.8 million students, this represents just over \$28 per student and does not go far considering the cost of devices, professional development, internet capacity, and IT infrastructure equipment.

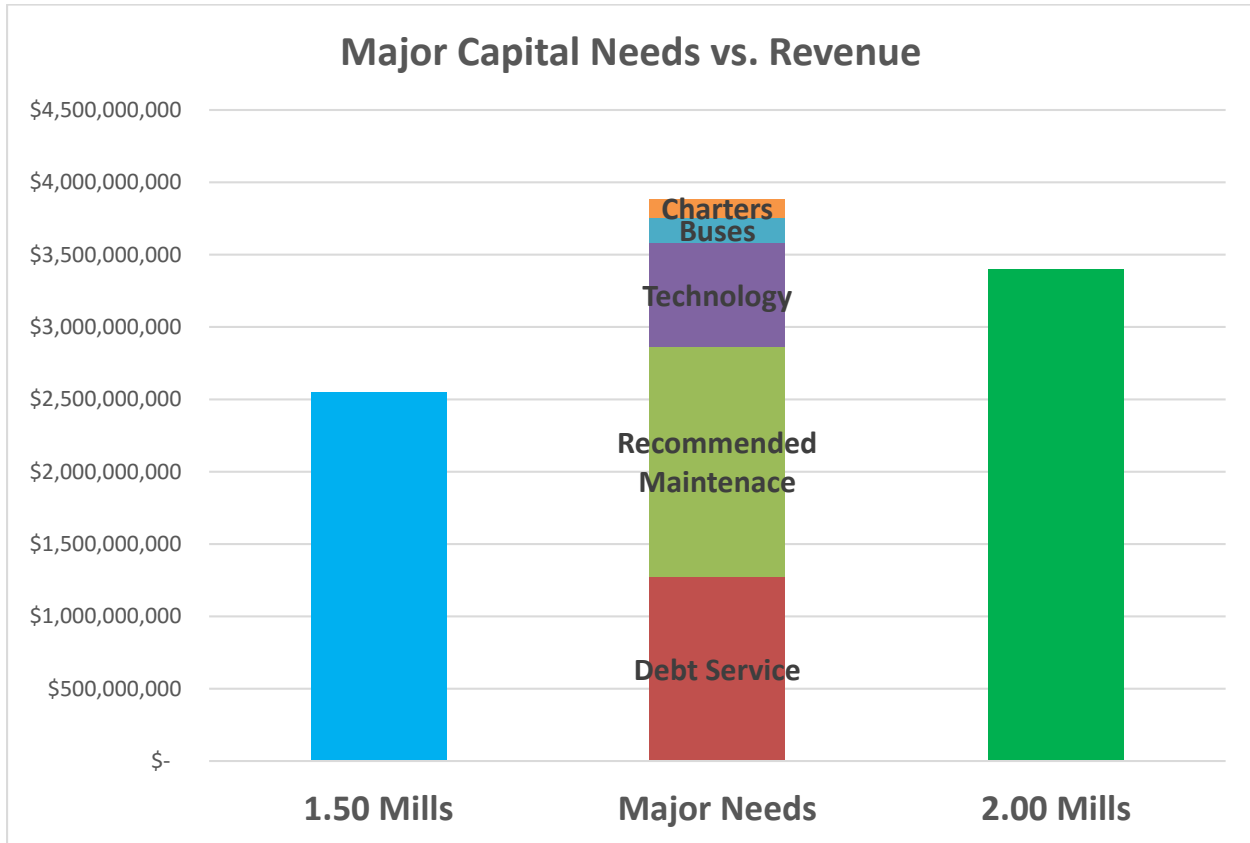
According to Gartner Research, on average Fortune 500 companies spend 3.5% of their budget on Information Technology. The total state K-12 budget through the

FEFP is currently \$20.6 billion. Following this industry benchmark, a **3.5% earmark for IT would require \$721 million per year.**

Aging State Bus Fleet Requires Capital Dollars

Florida's school bus fleet contained 18,997 buses in FY16 and fleet management requires a ten to fifteen year replacement cycle. **Replacing 1/10 to 1/15 of Florida's school buses requires the purchase of 1,266 to 1,900 buses each year at an estimated total cost of \$139 to \$209 million.** School buses continue to age and maintenance costs escalate as districts are unable to keep up with replacement schedules.

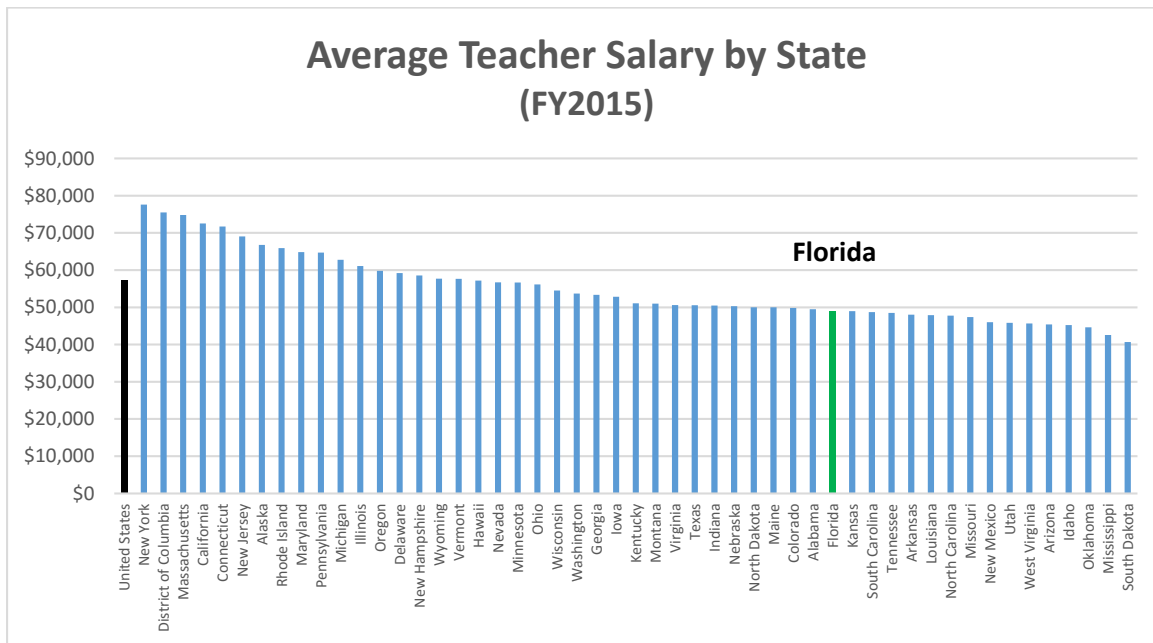
The major demands for revenue generated by 1.50 mills for capital outlay include facility maintenance, new construction, information technology, and school buses. Although school districts face additional capital costs, these major categories alone greatly exceed the revenue generated by the current 1.50 mill levy. This situation is exacerbated by the new requirement within HB 7069 to provide charter schools with a pro-rata share of LCOM funding. Charter school students account for over 10% of Florida's public school students and that figure is anticipated to grow significantly in the years ahead placing additional strain on the LCOM revenue. Restoring the local capital outlay authority back to 2.00 mills would go a long way to bridging the gap between true need and available revenue.



As illustrated in the chart above, authority must be restored to local school boards to levy up to 2.00 mills within their county to meet the capital needs of both traditional and charter public schools. Local school boards are held accountable by their respective communities and should have the authority to be responsive to capital demands.

RECOMMENDATION 2 – Restore Local Capital Outlay Millage (LCOM) Authority to 2.00 Mills to local school boards allowing them to meet the needs of both traditional and charter schools within their county.

PRIORITY 3 – Increase Teacher Salaries in a meaningful sustainable manner that provides a livable wage commensurate to the role and responsibilities of this critical profession.



Florida’s Average Teacher Salary Ranks 36th in the Nation

As indicated in the chart above, Florida continues to trail the country in teacher salaries. Based on data collected by the National Center for Education Statistics (NCES), Florida ranked 36th in average teacher salaries across the United States for FY2015 (most recent data available). Florida’s \$48,992 average salary trails the national average of \$57,379 by nearly 15% or \$8,387 per teacher. It is important to note the average Florida teacher had over 11 years of experience in FY2015 which means these degreed professionals can work over ten years and not reach an annual salary of \$50,000.

There is a Better Way than “Best and Brightest” to Address Employee Salaries

The “Best and Brightest” Program will provide \$233 million in teacher and school principal bonuses for FY2018. While any increase to compensation is welcome, teachers would be better served by a recurring increase to their base salary rather than a one-time bonus. Bonuses do not count towards employees Florida Retirement System (FRS) pension and do not allow teachers to plan their finances

from one year to the next. Further, “Best and Brightest” performance bonuses are somewhat redundant in that current Florida statute (F.S. 1012.22) already differentiates between “effective” and “highly effective” employees and requires teacher and school administrator raises to be awarded based on performance. Also with the “Best and Brightest” Program limited to “classroom teachers” as defined in F.S. 1012.01(2)(a), a large number of instructional personnel such as media specialists, guidance counselors, and resource teachers are excluded from this bonus program, along with assistant principals and other school support employees.

A better way to go is the approach Governor Rick Scott and the Legislature took during the 2013 regular session to create a \$480 million Teacher Salary Allocation categorical within the FEFP. This allocation provided teachers a recurring \$2,500 salary increase on average that counts towards employees’ ultimate retirement benefit. Future initiatives to improve teacher or school administrator compensation should be included within the BSA or FEFP and provide for a recurring increase in compensation that is FRS eligible. While there is some debate regarding the potential severity of a “national teacher shortage,” it is clear Florida has considerable room for improvement in the area of teacher compensation to position our state to successfully recruit and retain quality teachers in the foreseeable future.

RECOMMENDATION 3 – Provide adequate funding to significantly increase teacher salaries on a recurring basis and move Florida closer to the national average teacher salary.

Where does Florida want to be in 5 or 10 years?

Florida has reached the crossroads in terms of preK-12 education funding. At 42nd in the country and a meager funding increase of 1.39% per student for FY2018, there is room for considerable improvement. The minimal “tax relief” achieved by rolling back the RLE, reductions to LCOM, and attempts to address teacher compensation through bonus gimmicks does not paint a bright future for Floridians. Responsible governance and the state Constitution demands the

Governor and Legislature make adequate provision for education funding. Both the 2017 legislative regular and special session resulted in a few people in leadership positions dictating the state budget and a conforming bill (HB 7069) with far reaching implications. A more representative approach is needed in 2018 to help ensure Floridians have a viable future, particularly the 2.8 plus million students entrusted to us for a “high quality” education. Funding is not the only required ingredient to improve education, but it is a critical necessity for which there is no substitute.

Constitution of the State of Florida – Article IX, Section 1

The education of children is a fundamental value of the people of the State of Florida. **It is, therefore, a paramount duty of the state to make adequate provision for the education of all children residing within its borders.** Adequate provision shall be made by law for a uniform, efficient, safe, secure, and high quality system of free public schools that allows students to obtain a high quality education and for the establishment, maintenance, and operation of institutions of higher learning and other public education programs that the needs of the people may require.

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