FLORIDA ASSOCIATION OF DISTRICT SCHOOL SUPERINTENDENTS
DECEMBER 2020 REVENUE ESTIMATING CONFERENCE REPORTS

SUMMARY

1. The current state of the Florida economy and, prospectively, school district budgets are uniquely volatile in this time of the COVID-19 pandemic.

2. To effectively manage the fiscal position for the balance of 2020-2021 and to plan correctly for 2021-2022 Superintendents need a continuous flow of the most current information about the condition of the state's economy and budget.

3. Because Superintendents must begin issuing resources, including allocations of teachers and other personnel in January, and because commitments for the contracts for teachers and other personnel are generally required to be made before the Legislative budget process concludes, continuous, current information is necessary.

4. Please remember that every year the state budget is built and implemented based on forecasts of revenue, not on revenue collected and deposited in advance in the state treasury. Therefore, this report provides the most current information related to those revenue forecasts.

5. There are four major revenue sources for the funds that support the Florida Education Finance Program. Each has been impacted by the economic impact of the pandemic differently. Each revenue source is identified and discussed below.

6. As is discussed below, the Principal State School Trust Fund, the Educational Enhancement Trust Fund, and ad valorem property tax revenue forecasts project that those fund sources remain basically consistent with the pre-pandemic data. That is good news because taken together these sources contribute about half of the revenue for the Florida Education Finance Program (FEFP).

7. The state General Revenue fund provides the rest of the FEFP revenue, and as the report indicates, the forecast has been severely impacted by the effects of the pandemic. The December General Revenue forecast offered some positive news. The forecast projects that the revenue will improve about $1.5 billion compared to the pandemically reduced August 17 outlook.

8. However, the forecast is still about $2 billion below the pre-pandemic forecast. The December forecast does not project a deficit primarily because CARES funds were included as non-recurring General Revenue, a treatment that the report states is problematic and may not be legal. The outlook states that if CARES funds can't be used in this way the General Revenue fund could project a deficit.

9. General Revenue collections reports are made every month, and the report of November collections which was released after the Forecast were significantly higher than the revenue projected for the month. This is another positive sign. If collections continue to be as much above the forecast as they have been for August, September, October, and November the shortfall will be reduced more, but not quite eliminated.

10. Finally, the report discusses the General Revenue budget projected on September 20, 2020, and despite the improving General Revenue forecast, the projected expenses are still about $2.35 billion higher that projected recurring General Revenue, and if the Legislature continues it reserve policy that shortfall grows to $3,35 billion.

Even given the most hopeful projections, Superintendents should be planning for a budget that under the best of circumstances will include no increased revenue, a reduction of funds for any enrollment decreases, and no added revenue to pay for any expense increases, including any FRS rate increase costs.

INTRODUCTION

During the middle of December, the Office of Economic and Demographic Research held a number of revenue forecasting conferences that have implications for the Florida Education Finance Program (FEFP) budget for the balance of fiscal year (FY) 2020-2021 and for FY 2021-2022. Each revenue source that is important to the district will be treated separately. In each case the results of the revenue forecasts for FY 2020-2021 and for FY 2021-2022 will be reported from the January 2020 estimating conferences, upon which the FY 2020-2021 budget was based before the pandemic, the August 2020 estimating conferences after the economy was damaged by the virus, and the December 2020 estimating conferences after the Florida economy had begun recovering.

The revenue forecasts from the December cycle are generally used for the development of the Governor's recommended budget. During a Legislative Session beginning in March and ending sixty days later, there will be at least one more set of revenue forecasts that are used by the Legislature to develop the House and Senate recommended budgets. In a Spring session there is generally at least one more General Revenue forecast that is produced in April to help support the budget conference process.

There are four revenue sources that are used to support the FEFP. They are the Principal State School Trust Fund (PSSTF), the Educational Enhancement Trust Fund (EETF), Ad Valorem Revenue (used for the Required Local Effort (RLE) and the .748 mill discretionary millage, and the General Revenue Fund. To simplify the report the comparative data are presented in tables, with a few comments to clarify the revenue trends and their implications.

PRINCIPAL STATE SCHOOL TRUST FUND

Type	January, 2020	August 2020	December 2020
Total Revenue: 2020-2021	$273.3 million	$329.7 million	$329.5 million
Appropriations: 2020-2021	N.A.	$278.1 million	$278.1 million
Total Revenue: 2021-2022	$165.9 million	$225.6 million	$225.4 million

It is clear that the COVID-19 pandemic did not have an adverse impact on the revenue projections for this fund source. The revenue projected for FY 2020-2021 increased substantially in the August forecast. It remained at that level in the December forecast. The actual appropriations for FY 2020-2021 actually exceeded the January revenue forecast. The revenue forecast for FY 2021-2022 in December is less than the revenue appropriated for FY 2020-2021, but it was more than the forecast for FY 2021-2022 that was made in January 2020 before the pandemic began. This fund source is a small portion of the funds used in the FEFP, but every one of these dollars is required by law to be sent in the FEFP.

EDUCATIONAL ENHANCEMENT TRUST FUND

Type	January, 2020	August 2020	December 2020
Total Revenue: 2020-2021	$2.3075 billion	$2.1677 billion	$2.2353 billion
Appropriations: 2020-2021	N.A.	$2.0807 billion	$2.0807 billion
Total Revenue: 2021-2022	$2.1495 billion	$2.1613 billion	$2.2508 billion

The COVID-19 pandemic also did not have a major adverse impact on the revenue projections for the Educational Enhancement Trust Fund, which is funded by Florida Lottery sales. The most significant forecast for the rest of this year and for next year is the December 2020 projection. In that projection the revenue for 2020-2021 is still less than the 2020-2021 revenue projected in January 2020. However, the

December 2020 projection forecasts revenue that is higher than the August 2020 projection, and the FY 2020-2021 effective appropriations. The December forecast for FY 2021-2022 is also higher than the FY 2020-2021 effective appropriations and higher than the revenues forecast for FY 2021-2022 in either the January 2020 or the August 2020 forecasts. None of these forecasts were for enormous increases, but the trends are positive. Lottery funds are used to preserve General Revenue in the FEFP and having a little more revenue available for that purpose is promising for the future.

AD VALOREM ESTIMATING CONFERNCE

Almost half of the revenue in the FEFP is generated by local property taxes levied by district school boards. The FEFP revenue is generated by the Required Local Effort (RLE) and the .748 local discretionary operating millage. The total revenue to be generated by the RLE is established by the Legislature in the General Appropriations Act, and the millage each district is required to levy is set by the Commissioner of Education after the tax rolls are certified by local property appraisers on July 1 each year. School Boards must levy the specified RLE millage rate to earn the state funds in the FEFP. The millage rate for the local discretionary operating levy is established by the Legislature, District school boards can lower the millage authorized by law, but they can’t levy a higher rate.

The Ad Valorem Estimating Conference projects the school taxable value for the coming years. The COVID-19 pandemic did not make a significant impact on the projected School Taxable Value for FY 2020-21. The percentage growth of the projected School Taxable Value (STV) for FY 2021-2022 is less than the percentage increases reported for 2020-2021. The rates of increase for 2020-2021 and 2021-2022 are reported below.

District	2020-2021 Percent Increase STV Reported 12-9-20	2021-2022 Percent Increase STV Forecasted 12-9-20	2021-2022 Percent Increase STV Forecasted 1-6-20
Statewide	7.20%	3.19%	5.59%

As the data above demonstrate the School Taxable Value in the districts have maintained their projected rates of growth. The projected percentages of increase for FY 2021-2022 as reported in the December 9, 2020 forecast are generally projected to be somewhat lower than the rates reported for FY 2020. It is important to compare the forecast for 2021-2022 as reported in the December 9, 2020 outlook with the forecast from the January 6, 2020 outlook. Generally, the rates of increase projected in December are lower than the rates of increase forecast in January 2020, before the impact of the virus was known. However, the rates of increase for FY 2021-2022 in the January 2020 forecast were generally lower than the reported rates of increase for FY 2020-2021 reported in the December 9 forecast. Again, the impact of the economic challenges related the pandemic on the ad valorem property values remain muted.

GENERAL REVENUE FUND FORECAST AND COLLECTIONS

Type	January, 2020	August 2020	December 2020
Total Revenue: 2020-2021	$36.5057 billion	$37.1587 billion	$39,2233 Billion
Recurring Revenue: 2020-2021	$35.1886 billion	$31.5689 billion	$33.0037 billion
Appropriations: 2020-2021	N.A.	$35.7921 billion	$37.2763 billion
Recurring Approps: 2020-2021	N.A.	$34.0818 billion	$34.0818 billion
Total Revenue: 2021-2022	$35.8104 billion	$35.1827 billion	$36.4007 billion
Recurring Revenue: 2021-2022	$36.1881 billion	$34.1038 billion	$34.7691 billion

First, when evaluating the status of the General Revenue Fund it is important to remember that when the August projections were published the conference added $5.8558 billion in federal CARES Act funds to non-recurring General Revenue. As was reported earlier, this is an unconventional way of accounting for these types of Federal funds, one that is quite different from how the American Recovery and Reinvestment Act funds were treated during the last major recession.

About $983.4 million in net COVID-19 expenses were accounted for in appropriations amendments in FY 2019-2020 and FY 2020-2021 in the August forecast. The balance of the CARES Act revenue, about $4.8724 billion seemed to be treated as replacement funds for revenue lost due to the pandemic. The forecast includes a clear stipulation that it is not known whether CARES funds can be used in this way. If the funds can't be used in that manner it is possible that the General Revenue fund will become negative. The position of the General Revenue Fund remains very unclear.

The December 21 General Revenue Fund Financial Outlook Statement continued to include the following footnote concerning the use of CARES Act funds as part of the reported non-recurring General Revenue.

"(E) The Coronavirus Aid, Relief, and Economic Security [CARES] Act provided substantial federal government support to individuals, businesses, hospitals, and specific industries dealing with the COVID-19 pandemic and its associated economic consequences. [Public Law No: 116-136; enacted 03/27/2020] Among other things, the legislation created the Coronavirus Relief Fund within the U.S. Department of the Treasury to fund necessary state and local government expenditures incurred due to the COVID-19 public health emergency. The funds currently can be used only for costs not accounted for in the budget most recently approved as of March 27, 2020, and incurred during the period from March 1, 2020, to December 30, 2020. Florida's total allocation was $8,328.2 million, of which $2,472.4 million was distributed by the US Department of the Treasury directly to Florida local governments with populations greater than 500,000. The remaining $5,855.8 million was transferred to the State of Florida. All Relief Fund dollars received by the state have been shown on this outlook as they were received. They have only been debited on the General Revenue Outlook to the extent that formal budget actions have already occurred. However, there remains a high degree of uncertainty surrounding the allowable uses of these dollars by states and local governments. To the extent that the funds cannot be used to fill revenue shortfalls or offset current appropriations when they are used for pandemic-related purposes, or if additional COVID-19 expenditures are required, the Fiscal Year 2020-21 ending balance shown in this outlook will be lower, potentially becoming negative. While today the funds may not be used to fill shortfalls in state or local government revenue (with the exception of covering expenditures that would otherwise qualify), full or partial relaxation of this prohibition was an early part of the negotiations over additional stimulus. Even though additional relief discussions are still underway in Washington, as of the date this outlook was adopted, there were no details or proposed language available. Different treatment in the financial outlook may be warranted in the future."

It should be noted that the outlook also included a number of budget adjustments for the effective appropriations for FY 2020-2021 that were made to pay COVID-19 related expenses with CARES Act funds. It would seem appropriate to assume these expenses and the related revenue would meet the requirements for the use of these revenues as specified in the law.

The good news in this Outlook is that the forecast for recurring GR for FY 2020-2021 increased about $1.5 billion and about $700 million for FY 2021-2022.

The General Revenue (GR) Collections reports have been positive and above the projections for recurring General Revenue reported in the August 17 forecast. The November General Revenue Collections Report, released on December 23, continued the good news. Monthly results for August, September and October were measured against the post-pandemic forecast adopted in August, with all three months in positive territory against the lowered expectations. November also gained compared to the estimate, coming in $277.3 million above the August forecast. After making a series of technical adjustments, the four months together (August, September, October and November) show a combined gain of $996.9 million. Even more favorable, the November results were above the pre-pandemic estimates for the month.

Although we are not making a technical projection, if the revenue collections continue to exceed the August General Revenue forecast each month by the average amount that collections exceeded the forecast for the months of August, September, October, and November, collections would exceed the August projection for those months by $249,225,000 X 7 = $1,744,575,000. When the collections in excess of the August forecast for July through November are added, General Revenue collected in 2020-2021 would exceed the

August Forecast by $2,741,475,000. Recurring GR for FY 2020-2021 would total about $34,310,375,000, which is more optimistic than the December 23 Outlook for FY 2020-2021 recurring GR, which was $33.0037 billion.

The actual work of the EDR produced an increase in the projected recurring GR of $1.4348 billion for FY 2020-2021. While there were some discussions among the economists from the Executive Office of the Governor and EDR Director Amy Baker about whether or not the forecast accurately reflected how robust and sustainable the recovery is and will be, the more conservative approach of the total estimating conference prevailed. While the recurring GR forecast did not increase as aggressively as our simplified projection suggested, the trend remains positive.

Also as noted the Outlook Statement repeated the concerns expressed about the authorized uses of the CARES Act revenue. The resolution of that issue, and the actual increase in expenditures required to pay for the actual costs of the pandemic will have an impact on the fiscal position of the state when the Legislature actually crafts the FY 2021-2022 General Appropriations Act. In addition, the most recent COVID-19 relief bill passed by Congress in late December contains substantial funds for K-12 public education. The details of that bill may have a positive impact on FEFP funding for FY 2020-2021 and FY 2021-2022, and that in turn may provide indirect relief for other General Revenue appropriations.

INSIGHT FROM THE SEPTEMBER 12, 2020 LONG RANGE FINANCIAL OUTLOOK

To provide added insight into the prospective FY 2021-2022 General Revenue budget, parts of the report on the Long Range Financial Outlook are included in this discussion. Below is a summary of the projected FY 2021-2022 General Revenue budget based on the data produced by the Office of Economic and Demographic Research (EDR) and adopted by the Legislative Budget Commission (LBC) in the Long Range Financial Outlook adopted September 12, 2020.

Appropriation Item	Total Recurring and Non-Recurring Expenditure
Recurring Base Budget	$34.1585 Billion
New Issues (Expenses) By GAA Section:	
Pre-K-12 Education	$507.6 million
Higher Education	$50.5 million
Education Fixed Capital Outlay	$116.8 million
Human Services	$788.4 million
Criminal Justice	$105.6 million
Judicial Branch	$2.7 million
Transportation & Economic Development	$503.4 million
Natural Resources	$342.7 million
General Government	$79.0 million
Administered Funds Statewide Issues	$155.9 million
Total New Issues	$2.6529 billion
Transfer to Lawton Chiles Endowment Fund	$304.7 million
Total Estimated Expenditures	$37.1161 billion
Reserves	$1.0000 billion
Total Projected FY 2021-2022 GR Budget	$38.1161 billion

The FEFP is the life blood of school district, charter school and scholarship operations. There are a handful of other high profile appropriation items that impact the school district as well. Although the prospects of fully funding the increases for the FEFP and these other items are problematic it is expected that the district will want to examine some of these details.

The analysis of the FEFP as a key budget driver projected the following issues for FY 2021-2022. First, the LRFO projects an enrollment increase of 30,481.30 UFTE students. The cost of that growth based on maintaining the current year (FY 2020-2021) program is projected to be $239 million. The LRFO then projects an increase in the dollars per UFTE student equal to the rolling three year average increase per

UFTE. The result is projected to be an average funding per UFTE student of $8,030.87. That level of funding is projected to cost $558.7 million.

Together these two items project an increase in FEFP funding totaling $797.6 million. As a note for future planning, the LRFO calculates increases related to these two factors of $780.6 million for FY 2022-2023 and $773.3 million for FY 2023-2024.

It is important to remember that there are other revenue sources in addition to General Revenue that support the FEFP. Revenue increases projected from those fund sources are used to reduce the demand on General Revenue. Local ad valorem revenue contributes almost 50% of the operating dollars provided to school districts by the FEFP. The LRFO assumes that the Legislature will continue the recent policy of applying the rolled back rate to the Required Local Effort (RLE) millage rate. The increase in school taxable value caused by new construction is projected to be included in the RLE revenue. That impact is projected to be an increase of $158.4 million in FY 2021-2022. In addition, the LRFO also assumes the Legislature will allow the full impact of the increase in school taxable value to be applied to the .748 mill local discretionary operating millage. That is projected to generate an increase of about $31.2 million. The increase in total potential local funds is projected to be $189.6 million, and that impact reduces the demand on General Revenue for the FEFP to $608 million.

The LRFO also recognizes that there are funds available from major trust funds that can be used to help support the FEFP. In the Key Budget Driver Worksheet-Critical needs the LRFO projects $124 million of Major Trust Fund Revenues to reduce the demands on GR of the FEFP program.

Isolating the FEFP the LRFO shows that there is a need for $484 million in GR to fund both the enrollment increase that was projected in September and to provide the three year average increase in per student funding.

As the chart above indicates, if all of the new GR expenses projected for the 2021-2022 budget are included in the GAA, and the Legislature maintains a reserve of $1 billion, the budget will have a shortfall of about $3.347 billion even though the projected revenues will have increased. The Legislature has a history of carefully maintaining reserves, but it is possible that the funds required from the table above could be reduced by as much as $1.3047 billion by reducing the allocations for reserves. It would be unusual for the Legislature to choose to allocate no revenue for reserves, but it is possible that the level of reserves they choose to maintain could be reduced.

In addition, when considering the FY 2021-2022 GAA, there will be other issues that will influence appropriations. For example, the LRFO projections assumed an increase in K-12 enrollment of 30,481.30 UFTE students. Enrollments in the current year are still significantly suppressed. A hypothetical example may be helpful. If we assume that the projected enrollment growth doesn't materialize due to the changes in the economy, and in addition assume that enrollment losses from this year total 29,518.70, the reduction in enrollment of 60,000 students would drive a reduction in FEFP funding of about $480,000,000 without any action by the Legislature to cut the budget.

There will be many changes in the economy, and related changes in both the revenue and expense positions of the state before a final 2021-2022 budget is adopted. As districts plan for next year they are urged to exercise care in the enrollment projection and position allocation process to ensure the district has the flexibility needed to respond to changing conditions in a volatile economy.