2022-2023 THROUGH 2024-2025 LONG RANGE FINANCIAL OUTLOOK AS ADOPTED BY THE LEGISLATIVE BUDGET COMMISSION SEPTEMBER 3, 2021

The Long-Range Financial Outlook (LRFO) is a constitutionally required annual study that provides a forecast of the projected General Revenue (GR) expenses and income for the next three fiscal years. This LRFO is for fiscal years 2022-2023 through 2024-2025 and uses the August 17, 2021, GR and other summer revenue and demographic forecasts. The summary and conclusions are placed at the beginning to organize the contents and provide the district with a quick reference to help support discussions with the Board, staff, and others.

SUMMARY AND CONCLUSIONS

If any LRFO projects GR expenses in excess of projected revenues it is required to recommend strategies to balance the shortfall. The Legislature generally reduces GR spending to balance revenues with expenses.

The adopted report projects higher GR revenues than GR expenses for all the years in the Outlook. The Outlook projects surpluses of $6.990 billion for fiscal year (FY) 2022-2023, $8.2338 billion for FY 2023-2024 and $10.275 billion for FY 2024-2025. It has been six years since all three years in the Outlook were positive.

Contributing to these balances were funds budgeted to non-recurring GR from the CARES Act ($5.8558 billion), COVID 19 Emergency Rental Relief ($871.2 million), and the American Rescue Plan ($5.4803 billion). There are some restrictions on the uses of these funds, and they are being appropriated by budget amendments.

All the revenues are forecasts and subject to change. Budget increases do not include assumptions for new programs, expansion of current programs, or new funding levels for appropriations projects.

The LRFO does not predict funding levels or the final amounts to be allocated to the respective budget areas. It presents a reasonable baseline to help the Legislature avoid future budget problems.

The forecasts of revenue and expenses for the Florida Education Finance Program (FEFP) for FY 2022-2023 have the most importance, stability, and relevance for district budget planning. The 2022-23 highlights are below.

The Outlook projects growth of 58,308.72 FTE students in 2022-2023, including about 29,000 new voucher students. The increased enrollment will cost about $447.9 million. About $223 million of that cost will be generated by the projected voucher growth. Voucher growth is forecast to continue in all years of the Outlook.

The Outlook includes a total average funds per FTE student increase of 2.14 percent annually to reflect historical funding trends. The LRFO projects that the FY 2022-2023 average dollars per student will be $7,978.28 and projects that the per student funding increase will cost about $499.2 million in FY 2022-2023.

If the appropriated FTE enrollment increase in the FY 2022-2023 FEFP is 58,308.72 and the Legislature increases the average dollars per student 2.14% then the FEFP will increase about $947.1 million.

The Outlook assumes that the Legislature will maintain the current year Required Local Effort (RLE) millage rates and the Discretionary Operating Millage at .748 mills. If the Legislature follows these policies, the Outlook estimates that local funds will increase about $556.9 million and will offset that amount of the increased costs. That means that there remains $390.3 million of new costs that must be covered.

The Outlook has identified growth in the Educational Enhancement Trust Fund and the Principal State School Trust Fund. It projects that these trust funds will have about $452.5 million in additional funds available to pay for the balance of the cost of FEFP Critical and Other High Priority Needs. The Outlook assumes these revenues will be used to pay the rest of the costs and these trust fund balances will still be $62.2 million.

INTRODUCTION TO THE LRFO

Because many Superintendents and finance officers have assumed their duties in the past year, the report's second and third sections provide a summary of what the LRFO is and how it begins the state budget process for the next fiscal year. The balance of the report provides details about forecasts for GR and other revenue sources that impact the FEFP, and the projected increases in GR funded expenses, with a focus on the FEFP. These details will provide a glimpse of the 2022-2023 FEFP funding for projected enrollment increases ("workload") and the currently projected annual historical increase in average per student funding.

The Long Range Financial Outlook was established by Florida voters in a 2006 amendment to the Florida Constitution. It is a required analysis of the projected three-year General Revenue income and expense position of the state of Florida. The LRFO is generated by the Legislature's Office of Economic and Demographic Research, (EDR) and the fiscal staffs of the Florida Senate and House of Representatives.

The Legislative Budget Commission (LBC) is a joint standing committee of the House and Senate that has the authority to act for the Legislature to take necessary actions to ensure the continuing fiscal operation of the state. The LBC meets as necessary and takes steps, including the adoption of budget amendments, that are required due to changes in the state's fiscal position. (Actions much like those taken regularly by the School Board to make needed changes in the district's adopted budget.) One of the legal responsibilities of the LBC is to annually receive, analyze and adopt the Long Range Financial Outlook no later than September 15.

The LRFO is focused on the General Revenue Fund (GR). The Outlook also examines the Educational Enhancement Trust Fund (EETF), (Which is composed of Lottery revenues.) the Principal State School Trust Fund, (Which is composed of revenues from unclaimed property that comes into the possession of the state.), and those local ad valorem property tax revenues that are used to help support the Florida Education Finance Program (FEFP). These additional revenue sources, and others (Such as sweeps of surplus revenue from other state trust funds.) are included to the extent that they generate funds that can be used to pay for state expenses that otherwise would be paid from GR, and therefore can be used to "conserve" state GR. General Revenue is the most flexible fund source available to the Legislature. The Legislature, just like the School Board, prizes the decision-making opportunities associated with funds that have more flexible uses.

The purpose of the Long-Range Financial Outlook is to compare the GR revenue and expenses for the next three years. The LRFO analyzes the expected amount of General Revenue, and the amount of other fund sources which can be used to conserve GR, that will be available to the Legislature in the coming three fiscal years. It then analyzes the continuing and increased expenses that the Legislature is likely to be required to pay for from that General Revenue. As has been stated in previous LRFO's, "The Outlook is a tool that provides an opportunity to both avoid future budget problems and maintain financial stability between state fiscal years."

The next section is intended to help district leadership explain the role of the Long-Range Financial Outlook in the process of producing the state's budget during the coming Legislative session. While it is recognized that there are many sections of the state General Appropriations Act that are important to the district, the life blood for K-12 Florida public education is the Florida Education Finance Program (FEFP). Therefore, the following analysis will be built around the prospective impacts of the LRFO on the FEFP.

THE STATE BUDGET PROCESS AND THE LONG-RANGE FINANCIAL OUTLOOK

The first step in building each year's state budget, and therefore the FEFP, is the adoption of the Long-Range Financial Outlook by the Legislative Budget Commission (LBC). The process is as follows:

1. The General Revenue estimating conference prepares a multi-year forecast of potential state GR after the process of adopting the current fiscal year state budget is completed, including the Governor's vetoes and signature. The conference considers the current year's revenue and the current year's effective GR appropriations to determine the amount of any reserves that can be carried forward into the next year. The conference reaches consensus about the amount of GR forecasted be collected for the current year and following five years.

2. The GR forecasting conference then incorporates any adjustments to revenue. These may include revenue reductions due to tax or fee cuts. It also adjusts for revenue released by vetoes, any reversions of non-expended funds, and sweeps of "excess" revenue from state trust funds.

3. Other revenue estimating conferences also produce related forecasts including the Educational Enhancement Trust Fund, (the Lottery) the Principal State School Trust Fund and the Ad Valorem Revenue forecast. These sources produce revenues that can be used to pay for activities supported by GR, and therefore "preserve" state General Revenue.

4. The LRFO conference then identifies projected expenditures for each year. The process begins by using the current fiscal year's effective appropriations, in this case, those for Fiscal Year (FY) 2021-2022. To prepare the FY 2022-2023 base budget the current GR budget will be reduced by the amount of any non-recurring appropriations from FY 2021-2022 that are not supported by laws scheduled to continue beyond June 30, 2022. The base budget for, in this case, FY 2022-2023 is thereby established as the current year budget reduced by eliminating those specified non-recurring appropriations.

5. New expenses are then identified and added to the base budget. New expenses are sorted into two groups which are labeled "critical needs" and "other high priority needs."

6. Critical needs are funding issues required by the Florida Constitution and/or current "permanent" law. Included among "critical needs" is the cost of "maintaining the current program." This requires the addition of new revenue to replace non-recurring revenue that had been used to fund recurring, required "critical" needs. For example, this would include, replacing non-recurring revenue with recurring revenue, if it had been used to fund part of the FY 2021-2022 FEFP. Maintaining the current budget also includes funding any growth in required expenses at the current year rate. These costs are estimated based on demographic data and the impacts of state or federal law. In the FEFP, "maintaining the program" means projecting the cost for any expected increase in Full Time Equivalent (FTE) student enrollment for each of the three years of the Outlook funded at the current per FTE level.

7. "Other high priority needs" are appropriations' priorities identified and funded by the Legislature in a relatively continuous fashion. The cost of these "other high priority needs" is determined by calculating a rolling three-year average of the amount of the Legislature's annual appropriation for those purposes. A high priority need for FY 2022-2023 in the FEFP is to continue the long-standing Legislative policy of increasing the per FTE student funding year over year. Historically the Legislature has funded the FEFP sufficiently to support an increase in the average of the dollars per Unweighted FTE (UFTE). The cost of the high priority needs of "increasing per FTE student funding" is based on the rolling three-year average amount of the per UFTE student increase in funding.

8. Similar calculations are applied to the revenue and expense projections for each area of the budget for each of the years in the LRFO. In addition, based on prior state policy and the need to maintain the state's favorable credit rating, the LRFO projects that the Legislature will leave a reserve of 3.9% of unappropriated GR, which will be about $1.5 billion in FY 2022-2023. The projected GR revenues and GR expenses are compared in the LRFO for each of the coming three fiscal years.

LRFO PROJECTED REVENUES

Please remember that the LRFO is based on only state General Revenue (GR). The August 17, 2021, GR forecast was used to build the LRFO. The other Summer 2021 revenue forecasts for funds that can be used to "replace" or "buy down" GR, such as the Educational Enhancement Trust Fund (EETF), the Principal State School Trust Fund (PSSTF), and the Ad Valorem Revenue Forecast were also used. Most of the attention related to appropriations that impact K-12 public education, including the FEFP, during the Legislative session, is focused on these sources. When discussing the budget, it should be remembered that all revenues are projections, not "money in the bank" and funding is subject to changes including reductions in revenues and changes in student enrollments. Long range economic forecasting is very challenging. As COVID-19 demonstrated, unpredictable events can alter the actual economic conditions in the state and around the world.

Because of economic volatility this report will focus on FY 2022-2023 and will refer to FY 2021-2022 as appropriate for clarification.

The FY 2021-2022 GR budget was based on the April 6, 2021, forecast. That forecast projected $35.3992 billion in recurring and $3.0999 billion in non-recurring GR. That forecast projected $36.8072 billion in recurring and minus $13.5 million in non-recurring GR for FY 2022-2023. The FY 2021-2022 budget that was passed based on the April 6 forecast reported effective GR appropriations of $34.9597 billion in recurring and $8.0636 billion in non-recurring appropriations. The amount of non-recurring revenue was based on the adjusted funds available as a carry forward from FY 2020-2021 including funds from Federal relief and stimulus bills.

The funds available for FY 2021-2022 projected in the August 17, 2021, GR forecast were much higher than the April forecast. The projection reported $38.2135 billion in recurring and $12.1338 billion in non-recurring GR available for FY 2021-2022. The effective appropriations, after vetoes and other adjustments totaled $34.9597 billion in recurring and $8.0636 billion in non-recurring GR appropriations. Therefore, it is projected that there will be $7.3240 billion in non-recurring GR as a balance to carry forward into the revenue projected for FY 2022-2023 and beyond.

The August 17, 2021, forecast, upon which the LRFO is based, projects $38.9263 billion in recurring and $6.8735 billion in non-recuring GR available. For reasons that were not explained estimated non-recurring GR reported a decrease in estimated 2022-2023 revenues of $564.3 million.

In the next section the projected funding increases for "critical and other high priority" needs will be addressed. However, it is important to recognize going forward that projected 2022-2023 recurring GR is $38.9263 billion and the effective appropriations of recurring GR for FY 2021-2022 are $34.9597 billion. As the Legislature receives the LRFO they will have about $3.9666 billion in unappropriated recurring GR. Having virtually $4 billion of recurring GR available at this initial stage of the budget process has not been recently observed. In addition, there is a beginning balance of almost $7 billion in non-recurring GR ($6.8735 billion). The Budget Stabilization Fund (BSF) has $2.7235 billion, far above the normal minimum due to the liquidation of the Lawton Chiles Trust Fund and the appropriation of the proceeds to the Fund. State reserves are very strong.

The August 17 forecast also projects recurring GR growth well into the future. However, as history clearly teaches, long range economic forecasts, much like long range weather forecasts are not very stable, and the report will not analyze or address revenue or expense forecasts beyond the current and next fiscal years.

LRFO PROJECTED EXPENSES

There are two key points to remember about the projected expenses reported in the LRFO. First, the LRFO only analyzes the GR budget, not the entire state budget. Second, as stated in the LRFO, "The budget drivers do not include any assumptions regarding funding for new programs, expansion of current programs, or new funding levels for appropriations projects." Furthermore, the LRFO includes this reminder: "The Outlook does not predict the overall funding levels of future state budgets or the final amount of funds to be allocated to the respective budget areas—it simply presents a reasonable baseline to help the Legislature avoid future budget problems and maintain financial stability between fiscal years."

With these cautions in mind, the first step in creating the "base budget" is removing non-recurring expenditures from the current year budget to establish the FY 2022-2023 GR "Recurring Base Budget" of $34.961 billion. The LRFO identified a "minimum reserve" need of 3.9% of FY 2022-2023 recurring GR of $38.476 billion, which was reported as $1.501 billion.

It then identified "critical needs budget drivers" and "other high priority needs budget drivers." To support understanding of the terms, the LRFO states: "Critical Needs are issues that can generally be thought of as the minimum funding requirements for core government functions within the current policy framework, absent significant law or structural changes. Other High Priority Needs are issues that have been funded in most, if not all, recent budgets. The budget drivers do not include any assumptions regarding funding for new programs, expansion of current programs, or new funding for appropriations projects."

For FY 2022-2023 “critical needs” project an increase of $1.239 billion, and “other high priority needs” for 2022-2023 project an increase of an additional $1.177 billion in the GR budget.

The August 17 forecast for FY 2022-2023 projected $38.476 billion in recurring GR and unused reserves from the prior year of $7.324 billion. Projected GR for FY 2022-2023 totaled about $45.8 billion.

The LRFO projected “recurring base budget” of $34.961 billion, the “minimum reserve” of $1.501 billion, increases for “critical needs” of $1.239 billion, and increases for “other high priority needs” of $1.177 billion produces a total need of $38.878 billion. There would be a projected surplus of $6.990 billion after calculating and applying projected tax and fee changes and trust fund transfers.

Historic economic volatility diminishes the value of discussing in detail the revenue and expenses for the two out years in the LRFO. It is worth noting that the same calculations made for FY 2022-2023 when applied to the out years result in a projected surplus of $8.238 billion for FY 2023-2024 and a projected surplus for FY 2024-2025 of $10.275 billion. Despite the uncertainty associated with long range economic forecasts, the three years included in this LRFO certainly seem to suggest a positive future for the state’s General Revenue budget.

Returning to the projections for FY 2022-2023, examining the specific budget elements driving the growth of GR funding needs provides insight into the 2022 Legislative Session’s budget process that may impact the school district. The combined critical and other high priority needs impact on GR were summarized and identified by policy area for the three years of the Outlook. Our focus is on the projections for FY 2022-2023.

General Revenue Fund: Total Critical Needs and Other High Priority Needs by Policy Area ($ millions)	FY 2022-2023	FY 2023-2024	FY 2024-2025
Pre-K-12 Education	(62.7)	336..3	298.4
Higher Education	383.6	412.7	457.2
Human Services	1,381.4	302.9	189.3
Criminal Justice and Judicial Branch	57.3	57.3	40.0
Transportation & Economic Development	95.6	93.4	95.6
Natural Resources	185.6	329.8	330.2
General Government	80.5	74.0	76.8
Administered Funds & Statewide Issues	294.5	293.5	287.8
Total New Issues	2,415.9	1,900.0	1,775.3

Remember these impacts are not the amount of total new funds needed by each policy area. These impacts report the need for General Revenue. The policy areas differ in their General Revenue needs by year.

In the out years three policy areas have greater GR needs in the second year of the Outlook: Pre-K-12 Education, Higher Education, and Natural Resources. For these policy areas, the Outlook maximizes the use of state trust funds prior to using General Revenue. For Pre-K-12 there was more unused trust fund revenue available in FY 2022-2023 than in the out years, which is why the GR need was greater in the out years. Funding needs for K-12 education are also addressed by revenues generated by the application of the most recent Legislative policy for Required Local Effort and Discretionary Local Effort Operating Millage. The specifics of FEFP revenues and expenses will be discussed separately.

The impact of the trust fund adjustments is most significant in the two education policy areas where the availability of trust funds decreases the need for General Revenue by $541.0 million in Fiscal Year 2022-23.

In contrast, the General Revenue need for the Human Services policy area is significantly greater in the first year of the Outlook and is primarily related to the Medicaid program. The federal Families First Coronavirus Response Act, signed into law on March 18, 2020, provides a temporary 6.2 percentage point increase in the Federal Medical Assistance Percentage (FMAP), which extends through the last day of the calendar quarter in which the COVID-19 Public Health Emergency terminates. This temporarily provided a great percentage of federal matching dollars for Medicaid expenses.

Currently, the enhanced FMAP is scheduled to end on December 31, 2021. While the Medicaid caseload is projected to decrease beginning in Fiscal Year 2022-23, an increase of $1.1 billion of General Revenue is needed in Fiscal Year 2022-23 to fund the state's increased share of the cost for the program. Medicaid continues to consume the large percentage of GR.

It is also interesting to note that the policy area Administered Funds and Statewide Issues generates an increase of almost $300 million a year for all three years of the LRFO. For the three-year period this policy area requires an increase of $875.8 million in General Revenue. The cost increases in this policy area are driven by increases in projected employer costs for employee health insurance premiums and employer FRS rates for state employees. School districts must find the funds to pay for these costs without any specific appropriations.

FY 2022-2023 FEFP REVENUES AND EXPENSES PROJECTED IN THE LRFO

The Florida Education Finance Program (FEFP) is the state's formula to appropriate funds to school districts for K-12 public school operations, which includes charter schools, and to fund certain school choice scholarships. The FEFP is composed of state and local funds and takes into account various factors such as the individual educational needs of students, the local property tax base, the costs of educational programs, district cost differentials, and sparsity of student population. This program is expected to serve 2.93 million students in Fiscal Year 2021-22, including students funded in the FEFP through the receipt of a Family Empowerment Scholarship (FES).

The changes in the FES voucher programs from the 2021 Legislative session are projected to add 59,979 students beyond the appropriated number of FTE students in the FY 2021-2022 budget. There is a reserve allocation of about $464.3 million to cover the cost of these "unappropriated" students.

The 2021 session demonstrated the Legislature can implement radical changes in K-12 public education policy and funding in any given session. The 2022 Legislative Session is also an election year session, which may further complicate the dynamics of policy and budget making. Providing a preview of the FY 2022-2023 FEFP is very challenging and projecting further into the future would not contribute to understanding.

The entry in the table in the preceding section that reports Pre-K-12 GR funding needs for FY 2022-2023 can be confusing. The entry reports that Critical and Other High Priority Needs for Pre-K-12 Education for FY 2022-2023 is minus $62.7 million. That does not mean that there is a need for less funding for Pre-K-12 education nor does it mean that the FEFP is projected to be lower in FY 2022-2023. What it really means is that there are other revenue sources that the Legislature can choose to use to fund the projected increased costs, and that using those revenue sources will make it possible to lower the General Revenue consumed by the FEFP while paying for increased costs.

The LRFO projects FEFP enrollment increases (workload) that will require funding. The Outlook projects growth of 58,308.72 FTE students in 2022-2023. Of that number about 29,000 of the students are projected to be FES voucher students who had not been in public schools nor in FTE enrollment projections. These students will inflate district enrollments and budgets but will not be enrolled in district schools. The Outlook projects that the increased enrollment will cost about $447.9 million. About $223 million of that cost will be generated by the projected increased enrollment in the radically expanded FES voucher program.

The Outlook includes a total funds per FTE student increase of 2.14 percent annually to reflect historical funding trends. This is not an average annual increase in the Base Student Allocation (BSA). This is just the increase in the average dollars per student. The LRFO projects that the FY 2022-2023 average dollars per student will be $7,978.28 and projects that per student funding increase to cost about $499.2 million in FY 2022-2023.

The costs of the critical and high priority needs for the FEFP are projected to total $947.1 million. If the appropriated FTE enrollment increase in the FY 2022-2023 FEFP is 58,308.72 and the Legislature increases the average dollars per student 2.14% then the FEFP will increase about $947.1 million.

The LRFO recommends ways for the Legislature to “conserve” state General Revenue. Therefore, the Outlook uses other sources of revenue wherever possible. This is particularly true for the revenue needs for the FEFP because of the availability of local property tax revenues, lottery funds and the proceeds from the Principal State School Trust Fund.

The Outlook assumes that the Legislature will follow the FY 2021-2022 policy of maintaining the current year Required Local Effort (RLE) millage rates. That policy holds the millage rate constant, and then applies it against a growing tax base (Certified School Taxable Value). The Outlook also assumes that the Legislature will continue to allow the Discretionary Operating Millage to be set at .748 mills, and that school districts will levy the .748 mills against the increased School Taxable Value. If the legislature follows these policies again in FY 2022-2023 the Outlook estimates that local funds will increase about $556.9 million and will offset that amount of the increased costs of the critical and other high priority needs. That means that there remains $390.3 million of new costs that must be covered.

The outlook has identified growth in the Educational Enhancement Trust Fund and the Principal State School Trust Fund because of unexpected balances projected to be carried forward. The Outlook projects that these trust funds will have about $452.5 million in additional funds available to pay for the balance of the cost of Critical and Other High Priority Needs. The Outlook assumes these revenues will be used to offset the rest of the costs and there will still be trust fund balances of $62.2 million.

In an earlier section it was noted that Pre-K-12 education would need minus $62.7 million of GR in FY 2022-2023 to pay for the critical and other high priority needs. The slight difference reflects the projected slight decrease in projected enrollment is the VPK program for FY 2022-2023.