CALHOUN COUNTY PUBLIC SCHOOLS FISCAL STUDY
ORGANIZATION OF THE REPORT

The first section of this report compares the Florida Education Finance Program (FEFP) revenue projected for the district in the FY 2017-2018 FEFP Third Calculation and the revenue projected for the district in the FY 2018-2019 FEFP First Calculation. These comparisons are used because they represent the data with which the Legislature had to work while making revenue and appropriations decisions during the 2018 regular session. More recent data have become available in the 2017-2018 FEFP Fourth Calculation and the FY 2018-2019 Second Calculation. The data included in these projections were not available for the Legislature's consideration, therefore the information could not be included in the appropriations process.

Because of the concern created by the murder of seventeen students and educators at Marjory Stoneman Douglas High School in Broward County Florida, the second section examines the Safe Schools Allocation. It examines the current provisions for and the funding history of the Safe Schools Allocation.

The third section of the report examines the revenue history of the district, from the First Calculation of FY 2007-2008 to the First Calculation of FY 2018-2019. The First Calculation of 2007-2008 was the pre-recession high. This analysis creates a post-recession FEFP "rebased" budget that actually takes into consideration the position of the district in the First Calculation of FY 2007-2008, and compares revenue cuts, and revenue restorations in key areas. It also takes into consideration expenditure reductions enabled by the Legislature, and spending increases required by the Legislature.

Included with this section of the report are two spreadsheets. One compares specific elements of the FY 2018-2019 FEFP First Calculation with the FY 2017-2018 Third Calculation and the First and Revised Third Calculations of FY 2007-2008 and the First Calculation of FY 2011-2012 at the district level. The second spreadsheet makes the same comparisons statewide. The statewide spreadsheet is provided to make it clear that fiscal challenges encountered by the district are reflective of public school funding issues statewide. Not all FEFP elements are included in the spreadsheets. Those that are included were chosen because they provide the most direct insight into the district's operating budget.

The next section of the report discusses historical trends for and current levels of district public school property taxes and millage rates.

The fifth section of the report examines district expenditures as reported in the Annual Financial Reports of 2011-2012, 2012-2013, and 2017-2018, and as they were projected in the FY 2018-2019 adopted budget. This section will identify the most significant operating budget expenditures. If the district were to try and further reduce expenditures, these would be the items with the largest margin for examination, although they may also be areas with few degrees of freedom with regard to reductions.

The sixth section of the report uses the data from the September 14, 2018 Long Range Financial Outlook to project the potential available revenue for FY 2019-2020, FY 2020-2021 and FY 2021-2022.

The final section will summarize the report, and state conclusions based on the data that have been examined.

INTRODUCTION

Calhoun County Superintendent of Schools Ralph Yoder has requested technical assistance from the Florida Association of District School Superintendents. The School District of Calhoun County has been working to address fiscal challenges that have been persisting since the serious recession that began in the fall of 2007. Like all Florida school districts, Calhoun County experienced significant reductions in operating revenues beginning with special sessions of the Legislature in October 2007 and March 2008. Revenue reductions continued through the regular Legislative session of 2011. Despite the funds that have been restored beginning with the 2012 regular Legislative session, the school district has continued to experience fiscal challenges, a circumstance shared by other districts.

To underscore the fiscal situation being experienced by school districts across the state it is instructive to recognize how many districts have turned to their voters and asked for tax increases to address their revenue needs. Thirteen districts have sought and received property tax increases through referenda to provide needed operating revenue. At least six more districts are planning or considering referenda in the near future. Twenty districts, including Calhoun County, have sought and received voter approval for increased local option sales taxes to address capital outlay funding needs. Despite the anti-tax sentiments perceived to exist across the state, voters in large numbers of districts have recognized the need for and the value of additional investments in K-12 public schools. These referenda have been passed in some of the most fiscally conservative communities in the state by wide margins.

Superintendent Yoder has requested technical assistance from the Association to examine the revenues and expenditures of the district to determine if there are revenue sources that are available that the district has not accessed and to identify expenditures that could be reduced significantly enough to address the fiscal needs of the district. Superintendent Yoder has identified a need to solidify the unassigned operating fund balance to protect the financial stability and credit rating of the district, and there is a need to improve the current teacher salary schedule.

The Superintendent is concerned about spending non-recurring revenue from the fund balance for recurring expenses such as an increase in teacher salaries, particularly when the Legislative policy of mandating the use of any new K-12 revenue is considered. That policy is certainly in the purview of the leaders of the Legislature, but it makes the availability of new FEFP funds for higher teacher salaries and revenue increases to pay for other operating cost increases very problematic.

The Florida economy has generally recovered from the recession. However, there are many places in the state, particularly in rural North Florida, where the local economy is still lagging behind the state and nation. The Florida Education Finance Program (FEFP) revenues have been increased beginning in 2012 when compared to the funds available at the bottom of the recession. But when compared to the purchasing power of the revenues appropriated for the FEFP in the First Calculation of 2007, before the recession, and when adjusted for the cost of statewide student enrollment growth and new mandated expenditures that have accompanied the new revenue, the current funding levels are very challenging.

The economic success in some parts of the state, particularly in some major metropolitan areas, has created the impression that Florida school districts should have ample resources to address all of their needs. Increasingly state political leaders are choosing to ignore the revenue and expense positions of K-12 public school districts that existed and had to be used for the budgets the state required based on the First Calculation of Funding Year (FY) 2007-2008. Governor Scott, when announcing the 2018 school grades touted “record spending” for public education and an increase “of $4.5 billion” since 2011-2012.

He is exactly right. From the lowest levels provided in the 2011-2012 FEFP state and local FEFP revenues have increased about $4.5 billion. What Governor Scott did not state was that the budget he signed in 2011-2012 included a cut in state and local revenue for the FEFP of $1.355 billion from the prior year, and that the 2011-2012 baseline he is using as a measuring unit for proper previous funding was a reduction in resources for public school students of $2.6 billion from the 2007-2008 First

Calculation of the FEFP passed by the Legislature led by then Speaker of the House and now U.S. Senator Marco Rubio.

It is important to note that all of the leaders and the members of the majority party who were in and controlled the Legislature and the Executive branch of government in 2007 were elected on and pursued "small government," "low tax," "cut taxes" policies. Therefore, to ignore the status of funding prior to the recession, and to use as the benchmark for proper funding the revenue at the bottom of the worst recession in 80 years ignores the reality that those leaders would never have passed a budget in 2007-2008 that they did not believe represented the most frugal, but appropriate level of funding required for public school students. With that in mind**,** it is entirely appropriate to recognize the fact that the first $2.6 billion of the funding increase reported by the Governor simply replaced funds that conservative leaders of the majority party deemed were necessary to support public school students in 2007.

It is equally appropriate to recognize that of the remaining $1.9 billion of new revenue that has been provided, $1.43 billion was needed to pay for the education of the 193,375 students that entered Florida public schools since 2011-2012. The remaining approximately $470 million of new revenue was more than consumed by the approximately $1.2 billion required to pay for cost increases and new programs mandated by the Legislature and approved by the Governor since FY 2011-2012.

Another way to examine the current revenue is examine the funding for students provided by the Legislature led by now-Senator Rubio in the First Calculation of 2007-2008, and accurately compare that data to the most recent appropriations. When funding from 2007 is increased by the cost of new students who have enrolled since 2007-2008, plus an annual increase in funding of 1.8%, which is the annual average increase in the Consumer Price Index over the past eleven years, a much different reality is revealed. The cost of enrollment growth of 205,509, based on the average dollars per student from 11 years ago of $7,306 is about $1.5 billion. Total potential funds in the 2007-2008 First Calculation were about $19.3 billion. When growth is added to that total the 2007-2008 First Calculation base is about $20.8 billion. Inflation costs as measured by the Consumer Price Index increases over the past eleven years of about 19.8%, is about $4.1 billion. Those adjustments to the previous conservative funding provided by the Legislature eleven years ago would have provided public school students with about $24.9 billion in 2018-2019. The funding reported by the Governor, of about $21.1 billion, is about $3.8 billion less than that amount.

These facts are not provided to dispute the Governor. What he said is true. But telling half the story of the funding for public school students for the past 11 years as some are doing presents what is a fundamentally inaccurate narrative of the challenges faced by the Superintendent and the Board. The Governor also reports that he has been responsible for about $10 billion of tax cuts since he has been in office. Legislative leaders are equally proud of their tax cutting record. These leaders have been elected to carry out the platforms upon which they were elected. If their primary mission has been to reduce taxes that is fine. Nothing in this report challenges the value of that position. But for the Superintendent and School Board members to do what they were elected to do by the same voters who elected the Governor and the leaders of the Legislature, a full, fair and balanced picture is necessary, and the credibility of the local leaders also must be supported.

The Superintendent believes that the district is facing fiscal challenges. He has asked that the post-recession funding levels be analyzed and compared to the pre-recession funding levels and that any issues be identified. He has asked that available revenue sources be analyzed and that it be determined if there are revenue sources that are not being fully accessed. The Superintendent has also asked that the district's expenditures be analyzed and that it be determined if there are any spending decisions that could be made that would release revenue to be repurposed to other priorities, including improving teacher salaries.

This report examines in some detail the district's historic and current revenues and expenses. The report presents the facts as they exist, attempts to offer insight into what the district's actual fiscal options are, and details challenges the Superintendent and the Board must address to move students forward. Remember money isn't everything, but everything costs money.

COMPARISONS BETWEEN
FY 2017-2018 3RD CALCULATION AND FY 2018-2019 1ST CALCULATION

District enrollment is projected to decrease 27.30 Unweighted Full Time Equivalent (UFTE) students in FY 2018-2019 compared to the 2017-2018 Third Calculation. It should be noted that the district's FY 2017-2018 FEFP Fourth Calculation UFTE enrollment decreased 3.56 UFTE students compared to the Third Calculation. If the district's projected enrollment for FY 2018-2019 that was used in the FY 2018-2019 First Calculation did not factor in the enrolment decrease experienced in the Fourth Calculation, the district could experience an even greater enrollment decrease and revenue loss than the one forecasted and included in the First Calculation.

Statewide the FY 2017-2018 Fourth Calculation reported an UFTE enrollment increase of 3,402.89 students, and a Weighted Full Time Equivalent (WFTE) increase of 3,959.66 students compared to the Third Calculation. Total statewide funding increased in the Fourth Calculation compared to the Third Calculation because statewide enrolment was substantially lower in the Third Calculation than in the First and Second Calculations (8,070.05 fewer UFTE and 5,539.22 fewer WFTE), and the funds provided for the larger enrollment forecast in the Fourth Calculation remained appropriated pending the FEFP Fifth Calculation for FY 2017-2018. Any funds still unused at that time would revert to the state treasury and become part of the state's reserve. The amount of state revenue used can decrease due to decreased enrollment, but the amount of the appropriation cannot be increased due to enrollment increases without legislative action. In this case, due to the decrease in enrollment earlier in the year, the funds needed for the increase from the Third to the Fourth Calculation were already appropriated.

These enrollment changes could have implications for district funds for FY 2018-2019. Remember the appropriations for the FEFP are law for fiscal year 2018-2019. There are elements of the FEFP that are not subject to change based on the Laws of Florida for FY 2018-2019. They include the total amount appropriated for the Required Local Effort (RLE), the Base Student Allocation (BSA) and the total state funds appropriated for the FEFP. There are changes from the First to the Second Calculation that are driven by implementing certain required elements from the prior year's appropriations due to data reported in the 2017-2018 Fourth Calculation.

The total statewide amount that must be collected for the RLE cannot change, except for minor changes due to rounding and tax roll changes. Generally, when the tax rolls are certified if property values go up statewide, millage rates would be adjusted down and if property values go down statewide, millage rates would be increased to maintain the appropriated total amount of RLE. At the district level the allocation between state and local funds in the Base FEFP may vary after the tax rolls are certified in July.

The BSA cannot change. If WFTE enrollment is higher than projected when the budget was passed, the total funds for the Base FEFP in the formula would increase to maintain the calculation. However, items that cannot increase are the amounts of the total state funds and RLE appropriation for the FEFP. Therefore, if an enrollment increase drives more money into the Base FEFP, an equal percent reduction will be assessed on all districts to "create" the revenue needed to pay for the increase in the base. This is identified as a "proration of funds." Should a proration occur, and the district's enrollment decrease more than already projected, the result will be a two phase reduction in the total potential funds received by the district, one for the decrease in projected enrollment and one for the proration of funds.

The BSA is the unit of value that is the foundation calculation for base FEFP funding. The Legislature chose to increase the BSA only 47 cents from FY 2017-2018 to FY 2018-2019. This is the lowest BSA increase provided in a non-recessionary year in memory and indicates that the base funding revenue available to pay for operating cost increases will experience little if any growth.

Total potential funds for the district increased $361,296 compared to the FY 2017-2018 Third Calculation. The reference to potential funds recognizes that changes in student enrollment, changes in the tax rolls, or changes caused by actions of the Legislature could impact the total funds actually received.

The Safe Schools Allocation was increased $252,237 and all of the funds must be used to hire additional School Resource Officers. There is a full section of this report that discusses the Safe Schools Allocation.

There was a Mental Health Allocation created that provides $147,980, all of which must be used to provide the mental health services specified in law. The district is required to develop a plan for the use of these funds, and then submit the plan to the Department of Education.

The Teacher Classroom Supply Allocation was increased $7,055, and all of the new funds must be transferred to the teachers and used as determined by the teachers.

An increase in employer-paid Florida Retirement System (FRS) rates will cost about $45,000.

The Legislatively required cost increases included in the FEFP total about $452,272.

Based on the First Calculation 2018-2019 the district would receive about $90,976 less new, additional Florida Education Finance Program (FEFP) funding in the FY 2018-2019 district FEFP than the new costs required in it by the Legislature. That also assumes that the district's enrollment will not be less than the enrollment projected. The amount of all other cost increases such as those for health, property, casualty, and liability insurance rate increases, utility rate increases, salary increases, and all other expense increases will have to be paid for with revenue created by cutting spending in some other part of the operating budget.

As an additional note, the 2018-2019 Second Calculation projects an increase in total potential funds of $12,252 above the increase in the First Calculation. Local funds were down due to reductions in school taxable values. Offsetting changes in state funds computed due to the equity requirements that drive the FEFP resulted in the small increase. That small increase still leaves the district with a larger increase in Legislatively required expenses than the increase in funds provided in the FEFP.

FEFP generating reported enrollment in district schools and programs total 2,175 UFTE students. The district's projected enrollment is 2,179.21 recalibrated UFTE students. If a recalibration factor of .99 is applied, the district "head count" would yield about 2,153.25 recalibrated UFTE students. If the recalibration factor is .995 the "head count" would yield 2,164.13 recalibrated UFTE students. The results of the October FTE membership survey will determine the most current projected recalibrated UFTE district enrollment. Because the available data indicate that the district's enrollment may not reach the FEFP projected recalibrated UFTE membership, a reserve should be held in case projected funding is reduced when the Third Calculation is released in December 2018 or January 2019. For example, a shortfall of about 26 students could generate a loss of about $109,000.

SAFE SCHOOLS HISTORICAL FUNDING NOTES

School safety became the focus of the Florida Legislature on February 14, 2018, as the Legislature's leaders reacted to another mass shooting, this time in Florida at Marjory Stoneman Douglas High School. Given the sudden interest of state leaders in school safety as a result of the murder of seventeen educators and students, the history of the Safe Schools Allocation was researched, and the following details are provided to help the staff address the issue currently and in the future.

At the turn of the century, in 2000, after the Columbine High School shootings, the Legislature increased the funding for Safe Schools twice to an eventual total increase of about 50%. The Safe Schools funds were increased to $75,350,000 statewide by the year 2000-2001. There was no such response after the Sandy Hook Elementary School shootings.

In Fiscal Year 2017-2018 the Legislature appropriated $64,456,019 statewide for Safe Schools. That is almost $11 million less than the Legislature provided at the turn of the century, despite the fact that the state was serving over 440,000 more students in hundreds of more schools in FY 2017-2018. The record shows that the Florida House of Representatives passed its initial budget for FY 2018-2019 two weeks before the murders of seventeen students and educators and did not increase funding for Safe Schools one cent from the $64,456,019 that had been the level of Legislative resource commitment for seven years.

In Fiscal Year 2000 the district received $65,766 for Safe Schools. The district received $85,141 in FY 2017-2018, which is an increase of $19,375. However, the legislature increased the minimum Safe Schools funding for each district from $30,000 in 2000 to $62,660 by 2017-2018 because there was a recognition that a small district could not hire even one deputy with $30,000.

When the change was made to provide an increase for the base funding for small districts, there was not an increase in the total appropriation. The Legislature took funding from the revenue beyond the base in large districts to pay for the adjustment, the major benefit from which was realized by smaller districts.

While the district's funding was $85,141 in FY 2017-2018, $19,375 higher than in 2000-2001, the base funding increase would have been expected to increase the district's funds by $32,660, the amount of the increase in base funding. Student enrollment in the district did increase 44.11 students during these years, which should have driven the increase higher in addition to the $32,660 increase in base funding. The increase in funding from 2000-2001 to 2017-2018 was $13,285 less than the increase for the base.

The increase in the Consumer Price Index since 2000 has accounted for an inflation rate of 31%. The appropriation in 2000-2001 of $65,766 adjusted for that rate of inflation is $86,153 which reflects the Safe Schools purchasing power provided at the turn of the century. That means that the Legislature provided $1,012 less in real purchasing power in 2017-2018 than they provided at the turn of the century.

The FY 2018-2019 FEFP will provide the district about $337,378 for Safe Schools, an increase of about $252,237. The new budget requires the funds to be used for School Resource Officers (SRO), or safety officers as specified in SB 7026, and prohibits the district from supplanting funds currently spent for SRO's.

DISTRICT LEVEL HISTORICAL FEFP COMPARISONS

To help put the prospective FY 2018-2019 fiscal position of the school district in perspective, a step by step analysis of the data presented in the accompanying district level spreadsheet is provided below. The effort is to create a fair comparison between the district's fiscal position in the First Calculation of FY 2007-2008 and the First Calculation of FY 2018-2019.

1. The First Calculation of FY 2007-2008 provided $16,446,597, and the First Calculation of FY 2011-2012 provided $14,182,894 in total potential state and local FEFP funds.

2. From the First Calculation of FY 2007-2008 to the First Calculation of FY 2011-2012 the district lost $2,263,703 In recurring state and local FEFP revenue.

3. In FY 2011-2012 there were significant changes in the Florida Retirement System (FRS) rates charged to school districts. It is estimated that the district's FRS costs were reduced about $713,000. However, all district employees also took a 3% reduction in total compensation and the value of the FRS pension benefit was severely reduced.

4. The Legislature eventually eliminated the MAP program, another in a series of teacher performance pay solutions. That eventually provided the district with an expense reduction of about $114,410 from the highest funding level to accompany the revenue loss. However, legislation passed in 2011 required the adoption of a performance salary plan, and no new revenue has been provided to pay the cost. The assumption was that the salaries of some employees would be cut to pay for the performance pay of others.

5. The FY 2018-2019 First Calculation of the FEFP provided $17,594,076 in total potential funds.

6. The FY 2018-2019 First Calculation provided an increase of $3,411,182 from the FY 2011-2012 First Calculation. With those funds have come some mandatory expenditures.

7. There is a new requirement to provide additional student mental health services. That requirement will cost the district about $147,980.

8. There is a new requirement to hire additional school resource officers. That requirement will cost the district about $251,422 compared to the First Calculation of FY 2011-2012.

9. There is a requirement to fund Digital Classrooms. That consumed $527,219 of the new revenue.

10. The Legislature increased the required funds for the Teacher Supply Allocation by $15,267.

11. Employer FRS rates have increased about $427,450 since the FY 2011-2012 reduction. However, the 3% reduction in total employee compensation remains, and the value of the pension plan remains severely diminished.

12. The Legislature included a required teacher pay increase of $360,636 in FY 2013-2014, which was moved to the base funding the following year and is a continuing cost in the district salary account. The move of the salary allocation to the Base FEFP artificially inflated the per student increase in the BSA, as though $480 million was added to the total FEFP funding, without adding $480 million to statewide funding, and without removing the salary expenditure requirement.

13. The Legislature also invented the concept of "recalibration" when counting student enrollment, and reduced projected UFTE counts statewide 28,939.84 UFTE, from 2,725,210.55 to 2,696,270.71, eliminating funding for almost 29,000 UFTE students and artificially inflating the increase in the average of dollars per student. That enrollment reduction was determined by

comparing two FTE enrollment forecasts, one before and one after recalibration both dated April 15, 2013.

14. District enrollment has decreased 19.37 recalibrated UFTE students since FY 2011-2012. At the average of dollars per student in FY 2011-2012 of $6,319.54, this enrollment loss generated a decrease of about $122,409 in revenue. That revenue loss had to be addressed by a similar cut in expenses of about $122,409 or it will be a factor in creating a structural imbalance in the district's operating budget of $122,409, in addition to the other budget issues discussed below.

15. The required cost increases in FY 2018-2019 total $1,729,974 of the $3,411,182 in post-recession new revenue. That leaves $1,681,208 of new unexpended revenue to add to the rebased FY 2011-2012 budget to provide the district's current, rebased, post-recession budget. The district's total funding for FY 2011-2012 was $14,182,894, plus the $1,681,208 of net available uncommitted new revenue provides a rebased budget of $15,864,102.

16. The highest pre-recession total FEFP funding was $16,446,597. Legislative action resulted in a reduction in employer FRS expenses of about $713,000 and an elimination of $114,410 in MAP expense. These Legislative actions reduced the net pre-recession district funding high to $15,619,187 when the revenues associated with the expenses that were cut are also eliminated.

17. The total current rebased budget is $15,864,102. That means after paying for the new, legislatively required expenses the district would have $244,915 to pay for all increases in costs incurred in the district for the past eleven years, other than the increases required by the Legislature. After the first $244,915, the district would have had to make a dollar for dollar expense reduction to pay for all additional expenses not required by the Legislature that have been incurred over the past 11 years. That includes all health insurance increases, all other salary increases, all new personnel not required to address student growth or not eliminated to offset declining enrollment, all utility rate increases, all diesel fuel price increases, and all other increased costs.

18. The comparisons between the First Calculations of FY 2007-2008 and FY 2018-2019 show interesting comparisons among the categorical funds that help illustrate the condition of the operating budget. Remember the Consumer Price Index has increased about 20%, and Instructional Materials prices, as measured by the cost of Algebra One materials, have increased over 40% in the past eleven years. Each of the following categorical funds are the stated amounts below the amount appropriated eleven years ago: The SAI: ($74,757); the ESE Allocation: ($56,242); Transportation: ($59,894); and Instructional Materials: ($45,428).

19. Because there are no other significant sources of unrestricted state and local operating revenue, and no federal or other fund sources that are available for the General Fund, the sources of the district's continuing budget challenges are evident from the calculations above. In the eleven years since the First Calculation of 2007-2008 the district has only received $244,915 to pay for every cost increase other than those required by the Legislature. Key operating categoricals including Transportation, Instructional Materials and the Exceptional Student Education allocation continue to be significantly below the funding of eleven years ago.

LOCAL SCHOOL PROPERTY TAXES AND MILLAGE RATES

1. Prior to the recession the district was authorized by the Legislature to levy 2.0 mills of property tax to generate local capital improvement revenues. The district levied the authorized rate. The funds are needed to maintain district schools and other facilities, purchase school buses, and pay other expenses as specifically authorized and controlled by the Legislature.

2. During the recession the Legislature reduced the authority for capital improvement tax rate to 1.5 mills. At the time the Required Local Effort (RLE) operating millage was increased by a like amount to temporarily increase available FEFP local operating revenue.

3. As a result of the recession, the School Taxable Value of local ad valorem property also decreased.

4. For two of the past three years, during the recovery, the Legislature chose to roll back the RLE millage rates below the rolled back rate as specified in the TRIM law and eliminate any increase in the amount of RLE revenue included in the FEFP.

5. In the 2018 session, in part due to the scarcity of state revenue, the RLE millage was reduced to about the rolled back millage rate to capture some, but not all of the revenue generated by increased School Taxable Value. The new local revenue that was captured was about equal to the projected value of new construction being added to the tax rolls

6. The tables show the impact of those changes on the taxpayers.

Fiscal Year	Total Local Operating Millage	Total Capital Outlay Millage
2007-2008	4.996	2.00
2018-2019	4.888	1.50
Difference 2018-2019 vs. 2007-2008	(.008)	(.50)

Fiscal Year	Total Local Operating Revenue	Total Capital Outlay Revenue
2007-2008	$2,153,598	$703,612
2018-2019	$2,127,230	$653,860
Difference 2018-2019 vs. 2007-2008	($26,368)	($49,752)

7. The charts above clearly show that the public school millage rates levied on Calhoun County property taxpayers are projected to be .508 mills lower in FY 2018-2019 than the millage rates levied 11 years ago in FY 2007-2008.

8. The charts above also show that Calhoun County property taxpayers are projected to pay $76,120 less in public school property taxes than eleven years ago in FY 2007-2008.

9. It should be noted that in FY 2007-2008 total state revenue provided in the district operating budget decreased and the total local funding required increased when the local tax rolls and millage rates were certified in July. Therefore, the numbers in the charts above are different from the numbers reported in the accompanying spreadsheets.

NON-FEFP OPERATING REVENUE

There are General Fund revenue sources in addition to FEFP state and local revenue. These revenues are sometimes attached to expenditures and are not available for discretionary use. Some of this revenue reimburses expenses already paid from the General Fund. These sources have not evidenced robust growth from FY 2011-2012 to FY 2017-2018. The chart reports the non-FEFP revenue sources displayed in the Annual Financial Reports as actually received. Funds collected for lost texts are omitted.

Revenue Item	2011-2012	2012-2013	2017-2018	Comments
Medicaid Reimbursement	$313,832	$299,190	$309,719	Pays back funds spent for student services
Misc. Fed. Through State	None	None	$9,200	May have restrictions
Workforce Development	$143,901	$133,328	$80,103	Earned and used for Post-Secondary Workforce not for K-12
Workforce Performance Incentive	$962	$1,076	None	Earned and used for Post-Secondary
Racing Commission Funds	$215,750	$215,750	None	For General Fund.
Sales Tax Distribution	See Comment	See Comment	$215,750	Formerly Reported as Racing Commission Funds. To General Fund
VPK	$131,915	$111,381	$67,569	Earned by VPK students for VPK services
State License Tax	$4,535	$4,608	$6,313	Mobile home license tags for General Fund
Other Miscellaneous State Revenue not included in other classifications.	$27,194	$26,785	$131,612	Expenditures may be tied to revenue sources.
Interest on Investments	$15,704	$9,090	$32,116	Available for General Fund Expenses
Net Increase/Decrease in Value of Investments	$9,380	$17,649	None Reported	May not be liquid asset.
Adult Ed. Fees	$872	$1,431	$1,080	Must be for Adult Ed
Other Student Fees Including GED Test	$2,081	$2,411	None Reported	Pays for student services and materials.
Preschool Program Fees	None Reported	None Reported	$ 18,720	Used for Preschool Program costs
Reimbursement of Federal Indirect Costs	$51,222	$43,069	$52,853	Repayment of General Fund for Federal program expenses
Other Miscellaneous Local Revenue	$355,036	$206,908	$67,547	Some revenues have spending requirements.

The General Fund revenue sources other than revenue from the FEFP displayed above do not include every item in the Annual Financial Report. The items that were not included have an insignificant impact on the General Fund. The chart illustrates that there are no uncommitted non-FEFP revenue sources that are growing robustly. The revenue sources that are not tied to a required expenditure are already used to balance the General Fund budget or are used to pay back the General Fund for costs already incurred and are not potential solutions to the district's need for added revenue. The district has transferred funds from the Capital Funds budget to the operating budget. For example, in 2017-2018 the district transferred $143,242 from the Capital Funds account. In 2011-2012 the transfer was $253,855, and in 2012-2013 the transfer was $223,643. The use of these funds in the operating fund has been declining and is restricted by law but may help pay for certain expenses such as property casualty insurance premiums.

EXPENDITURE COMPARISONS

The most pressing financial issues facing the school district are related to the General Fund. The uses of other budget components such as the Special Revenue Fund, composed mainly of Federal revenues, are decided by the externally determined requirements of the programs. Therefore, the focus of this section will be on the General Fund, which is consistent with the other sections of the document.

The data are from the Annual Financial Report (AFR) or the current adopted General Fund budget. The AFR is a required, audited document that reports actual revenue received and actual funds expended, not planned or projected revenues and expenses. This report includes AFR data from FY 2011-2012, FY 2012-2013, and FY 2017-2018. Data from FY 2018-2019 are from the adopted General Fund budget.

The analyses of current and historical FEFP and non-FEFP revenues show that the district's revenue picture has not returned to and progressed from the pre-recession funding provided in the 2007-2008 FEFP First Calculation. Therefore, a search for revenue to support increased costs including teacher salaries or instructional initiatives would have to include at least some examination of the district's Operating Fund expenditures to identify opportunities to reduce expenses. The revenue data suggest that the district must "create" new revenue by reducing current expenses, by securing voter approval of a referendum to increase property taxes or both.

The actual and budgeted expenditures Identified and discussed below are the General Fund functions and objects that account for the greatest proportion of the Operating Fund expenditures and over which the district may have the greatest discretionary decision-making authority. These are the items that have enough revenue committed to be meaningful targets for examination. However, this does not mean that meaningful reductions in these expenditures can be made without undermining the academic performance of students, the safety of staff, and other vital operating responsibilities.

The AFR follows the Department of Education cost accounting rules. There are two categories that are cross-referenced in a matrix, the operating functions of the school district, and the objects of expenditures that are purchased with operating dollars to execute these required functions. Functions are the responsibilities the district executes. Important functions include Instruction and the support services such as Pupil Personnel (Student) Services, Instructional Media Services, and Instruction and Curriculum Development Services. Other support services include School Administration, General Administration, Board, Student Transportation Services, Operation of Plant, and Maintenance of Plant. Objects are the items purchased to achieve the functions. Objects include Salaries, Employee Benefits, Purchased Services, Energy Services, Materials and Supplies, Capital Outlay, and Other Expenses.

As would be expected, Instruction is the function that consumes the greatest amount of the operating budget. Other functions that consume relatively large amounts of operating revenue include: Student Personnel Services, which includes school guidance counselors and similar staff, School Administration, which includes principals and assistant principals, Student Transportation Services, which includes school bus drivers, mechanics, diesel fuel, and school bus aides, Operation of Plant, which includes utilities, custodial services, security and insurance costs and other operating costs. Maintenance of Plant is another function with relatively large expenditures. The Maintenance function is where the costs for the care and repair of district buildings are reported.

The analysis below highlights the largest cost drivers in the AFR. To provide an overview of what the district purchased or proposes to purchase, the actual or budgeted expense for each object associated with key functions is identified and compared. State leaders have chosen to benchmark their success in funding public education by comparing the results of the 2018 session to FY 2011-2012 appropriations, the bottom of the worst recession since the Great Depression. Therefore, this analysis compares the expenditures from the FY 2011-2012 AFR with the data from the FY 2017-2018 AFR and the FY 2018-2019 approved Operating Budget. Data from the FY 2012-2013 AFR were also included, because 2011-2012 expenses were supported by the expenditure of a fund balance created by the Education Jobs Fund of the ARRA Act. The district was directed to supplant $423,781 of state and local funds with these funds, create an artificially large fund balance, and then use that fund balance in FY 2011-2012.

The first table below displays the actual cost of the objects of expenditure in the FY 2011-2012, FY 2012-2013, and FY 2017-2018 operating budgets and the budgeted costs for those items for FY 2018-2019. It is not surprising, given the human resources intensive nature of education that salaries and employee benefits are the two largest expenditure items for each year. These are data for objects only. The following pages show trends in objects of expenditure for Instruction, Pupil/Student Personnel Services, School Administrative Services, Transportation, Operation of Plant, and Maintenance.

Object	2011-2012 AFR	2012-2013 AFR	2017-2018 AFR	2018-2019 Budget[2]
Total	$16,548,748	$16,560,744	$18,373,392	$20,822,225
Salaries	$11,053,325	$11,089,638	$11,368,605	$11,916,560
Employee Benefits	$2,524,017	$2,589,783	$3,528,236	$3,844,960
Purchased Services	$1,209,006	$1,290,763	$1,343,104	$1,671,888
Energy Services	$799,630	$790,298	$796,755	$883,535
Materials and Supplies	$533,573	$481,254	$662,000	$903,971
Capital Outlay	$166,149	$40,553	$286,388	$1,113,435
Other Expenses	$263,044	$278,452	$388,301	$488,076
+ or - Revenues Over Expenditures	-$1,247,783	-$1,110,469	-$124,837	Not Reported
Beginning Fund Balance	$4,755,197	$3,781,733	$3,561,911	$3,597,663
Ending Fund Balance[1]	$3,671,143[1]	$2,890,328[1]	$2,743,078[2]	FB 6-30-2019[3] $1,344,711

[1] Ending fund balance reported is the Unassigned Fund Balance.

[2] The ending 2017-2018 fund balance also included $784,916 in the restricted fund balance, and $69,669 in the assigned fund balance. These items, totaling $854,585, were also carried forward into FY 2018-2019, and inflate the beginning fund balance. It should be expected that this $854,585 will be expended in FY 2018-2019. A relevant comparison for the fund balance change in FY 2018-2019 is between the ending unassigned fund balance in 2017-2018 and the similar value projected for 2018-2019, which is ($1,398,367).

[3] Budgeted revenues and expenses are estimates. The ending fund balance is likely to be different from the projected ending unassigned fund balance.

Appropriately, instruction is the most expensive function in the district, and most of the costs are for salaries and employee benefits. Salaries decreased slightly from FY 2011-2012 to FY 2017-2018, despite the $360,636 Teacher Salary Allocation. The decrease is the result of the retirement of staff at the high end of the salary schedule who were replaced by employees at the lower end of the salary schedule. Employee benefits increased from FY 2011-2012 to FY 2018-2019 reflecting these employees' share of the $427,450 increase in FRS employer rates, and of the $176.27 per employee increase in the Board contribution to employee health insurance costs. Raises were granted in 2015-2016, 2016-2017, and 2017-2018. The decrease in salaries suggests a reduction in the number of instructional staff members or a shift to less costly employees. Purchased services are projected to be $252,088 more in 2018-2019 than in 2011-2012. Capital outlay for 2018-2019 expenses are budgeted for $1,009,540**.** These funds are the current appropriation and carry forward from the district's digital classroom allocation. The use of these funds is restricted by law. They should be used as specified in law this fiscal year.

Object	2011-2012 AFR Instruction	2012-2013 AFR Instruction	2017-2018 AFR Instruction	2018-2019 Budget Instruction
Total	$10,326,479	$10,250,775	$11,074,608	$12,482,683
Salaries	$7,619,262	$7,550,073	$7,483,135	$7,615,000
Employee Benefits	$1,675,418	$1,684,768	$2,177,054	$2,295,370
Purchased Services	$468,982	$506,302	$568,942	$721,070
Energy Services	$1,841	$2,245	$0	$1,000
Materials & Supplies	$345,251	$309,899	$361,466	$518,558
Capital Outlay	$33,969	$6,168	$184,992	$1,009,540
Other Expenses	$181,754	$191,317	$299,017	$322,145

The trends for Pupil/Student Support Services mirror those for Instruction. Most of the expenses are charged to salaries and employee benefits. The projected impact of the Mental Health Allocation of $147,980 is readily noticeable in the FY 2018-2019 budget. However, the 2018-2019 budget for the function is $213,496 higher than FY 2017-2018 and $407,305 higher than FY 2011-2012. The increases in this function and in the purchased services object reflect the increase of purchased services for psychological and other professional services, and in the current year from the mental Health Allocation.

Object	2011-2012 AFR Pupil Personnel Services	2012-2013 Student Support Services	2017-2018 AFR Student Support Services	2018-2019 Budget Student Support Services
Total	$396,765	$499,781	$590,574	$804,070
Salaries	$283,887	$339,503	$368,490	$469,210
Employee Benefits	$57,604	$73,071	$106,210	$163,625
Purchased Services	$54,806	$85,906	$114,804	$168,265
Energy Services	$0	$0	$0	$0
Materials & Supplies	$367	$1,103	$968	$1,350
Capital Outlay	$0	$0	$0	$1,500
Other Expenses	$100	$196	$100	$120

The school administration function provides for the leadership and management all aspects of the district's schools. These are not district level administrative costs. These costs primarily pay for the district's school principals and assistant principals. The total costs have increased $252,151, or about 23%. Salaries increased $133,526 and employee benefits increased $102,810, which together accounts for $236,336 of the increase costs since 2011-2012.

Object	2011-2012 AFR School Admin.	2012-2013 School Admin.	2017-2018 AFR School Admin.	2018-2019 Budget School Admin.
Total	$1,091,624	$1,163,190	$1,288,627	$1,343,775
Salaries	$873,374	$867,162	$974,869	$1,006,900
Employee Benefits	$159,675	$166,310	$251,073	$262,485
Purchased Services	$58,344	$128,869	$61,512	$71,920
Energy Services	$38	$47	$0	$0
Materials & Supplies	$191	$224	$586	$350
Capital Outlay	$0	$495	$520	$1,070
Other Expenses	$0	$81	$65	$1,050

The Student Transportation function includes the cost of the salaries for bus drivers, mechanics, and other transportation department employees. It also includes the costs of repair parts, tires, and of course diesel fuel. Total costs have increased $240,111 since 2011-2012. Non-employee costs have been well controlled. The major drivers increasing costs included an increase of $101,590 for salaries and an increase of $112,934 for employee benefits. Given the challenges districts throughout the state continue to encounter recruiting and retaining bus drivers, and the FRS and health insurance rate increases, these increases are not surprising. The larger problem with regard to the costs for student transportation is that the expenses far exceed the state and local FEFP funds provided for Transportation. The 2017-2018 transportation allocation was $463,512 and reported costs totaled $1,129,517. The projected Transportation revenue for 2018-2019 is $468,706 and projected expenses total $1,236,999. The state does not proport to fully fund student transportation, but the district's costs for 2018-2019 will exceed revenues by $768,293. The revenue the district receives is only 37.9% of the district's cost. The table displaying costs is below.

Object	2011-2012 AFR Transportation	2012-2013 AFR Transportation	2017-2018 AFR Transportation	2018-2019 Budget Transportation
Total	$996,888	$932,945	$1,129,517	$1,236,999
Salaries	$418,345	$421,951	$501,012	$519,935
Employee Benefits	$136,745	$148,476	$235,988	$249,679
Purchased Services	$121,011	$63,774	$108,477	$125,925
Energy Services	$192,133	$200,802	$140,277	$160,100
Materials & Supplies	$86,318	$72,482	$100,036	$118,475
Capital Outlay	$1,440	$911	$689	$12,785
Other Expenses	$40,893	$24,546	$43,034	$50,100

The Operation of Plant is a function that is less employee intensive than the other major functions. This function includes cleaning, disinfecting, moving furniture, routine maintenance of grounds and heating, ventilation and air conditioning systems, providing school crossing guards, security and other such activities that are performed on a daily, weekly, monthly or seasonal basis. Operation of plant does not encompass repairs and replacements of facilities and equipment. Energy costs in 2018-2019 are expected to be $705,820, an increase of $116,772 compared to 2011-2012. Energy costs account for about 44% of the total costs of the function.

Object	2011-2012 AFR Operat. of Plant	2012-2013 AFR Operat. Of Plant	2017-2018 AFR Oper. of Plant	2018-2019 Budget Oper. of Plant
Total	$1,401,248	$1,397,952	$1,476,734	$1,620,318
Salaries	$303,395	$320,573	$377,423	$399,615
Employee Benefits	$107,946	$114,685	$162,864	$178,553
Purchased Services	$336,516	$340,189	$232,648	$262,030
Energy Services	$589,048	$565,146	$640,535	$705,820
Materials & Supplies	$30,980	$35,329	$57,165	$64,800
Capital Outlay	$6,965	$0	$0	$1,700
Other Expenses	$26,394	$22,027	$6,097	$7,800

The Maintenance function reports the cost of activities that are related to maintaining the grounds, buildings and equipment at an acceptable level of efficiency through repairs or preventive maintenance. Equipment repair services that are direct costs of specific programs in other functions are charged to those functions. There is an increase of $46,000 for the capital outlay object.

Object	2011-2012 AFR Maintenance	2012-2013 AFR Maintenance	2017-2018 AFR Maintenance	2018-2019 Budget Maintenance
Total	$307,696	$339,148	$315,532	$408,621
Salaries	$180,083	$198,132	$135,133	$147,225
Employee Benefits	$48,169	$62,320	$41,418	$47,466
Purch. Services	$7,883	$19,056	$24,376	$43,780
Energy Services	$0	$21,788	$15,942	$16,615
Materials & Supplies	$0	$32,501	$93,277	$101,450
Capital Outlay	$0	$5,255	$5,384	$51,900
Other Expenses	$0	$93	$0	$185

Another way of summarizing spending is to examine total expenditures for all functions. The table below displays the total Operating Fund expenses for each function. The functions most directly aligned with instruction, serving students and ensuring the safe and appropriate operation of schools are Instruction, Student Services, Instructional Media, Instructional and Curriculum Development, Instructional Staff Training, Instruction Related Technology, School Administration, Student Transportation, Operation of Plant and Maintenance of Plant (Most “plants” are schools).

It should be noted the functions like central services and fiscal services are functions that similarly support schools. These functions include services such as payroll processing, a service vital to every employee at a school site. The expenditure data, whether analyzed by object or function, clearly show the overwhelming majority of the district’s expenditures are made to support instruction and the operation of the schools. Efforts to reduce expenses to “create” revenue to be repurposed for district priorities will have to include changes in how revenue is spent in these functions.

Function	2011-2012 AFR Total	2012-2013 AFR Total	2017-2018 AFR Total	2018-2019 Budget Total
Instruction	$10,326,479	$10,250,775	$11,074,608	$12,482,683
Student (Pupil) Support Services	$396,765	$499,781	$590,574	$804,070
Instructional Media	$235,215	$255,667	$325,019	$347,022
Inst. and Curr. Dev.	$345,928	$324,634	$317,937	$430,572
Instructional Staff Training	$17,160	$15,203	$13,114	$47,040
Instruction-Related Technology	$409,314	$406,122	$557,644	$644,975
Board	$269,796	$295,264	$415,355	$516,483
General Admin.	$236,905	$237,277	$310,152	$381,417
School Admin.	$1,091,624	$1,163,190	$1,288,627	$1,343,775
Facilities Acquisition Construction	$44,213	$44,400	$55,898	$59,613
Fiscal Services	$358,848	$377,106	$380,733	$421,072
Food Services	$0	$481	$0	$0
Central Services	$0	$0	$3,762	$28,988
Student Transportation	$996,888	$932,945	$1,129,517	$1,236,999
Operation of Plant	$1,401,248	$1,397,952	$1,476,734	$1,620,318
Maintenance of Plant	$307,696	$339,148	$315,532	$408,621
Adm. Technology	$16,012	$14,692	$35,224	$36,000
Community Service	$0	$0	$11,882	$12,577
Facilities Acquisition	$0	$0	$0	$0
Other Capital Outlay	$94,633	$6,099	$71,073	$0
Debt Service	$0	$0	$0	$0
Total	$16,548,748	$16,560,744	$18,373,392	$20,822,225
+ or - Revenues Over Expenditures	-$1,247,783	-$1,110,469	-$124,837	Not Reported In budget
Beginning Fund Balance	$4,755,197	$3,781,733	$3,561,911	$3,597,663
Ending Fund Balance[1]	$3,671,143[1]	$2,890,328[1]	$2,743,078[2]	FB 6-30-2019[3] $1,344,711

[1] Ending fund balance reported is the Unassigned Fund Balance.
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[3] Budgeted revenues and expenses are estimates. The ending fund balance is likely to be different from the projected ending unassigned fund balance.

FY 2019-2020, 2020-2021, and 2021-2022 LONG RANGE FINANCIAL OUTLOOK
BACKGROUND AND PURPOSES OF THE LONG RANGE FINANCIAL OUTLOOK (LRFO)

There is plenty of media attention given to Florida's $89 billion budget. But for Florida public school districts, that number is not really representative of the funds for which districts compete on behalf of our students.

The FY 2018-2019 state budget totals about $89.3127 billion. Of that amount, about $32.8486 billion is General Revenue (GR). The balance of the budget includes about $31.5339 billion in Federal trust funds and $24.9302 billion in state trust funds. The total budget does not include about $9.17 billion in local property tax public school revenue included in the FEFP by the Legislature.

Most of the appropriations' attention during the Legislative session is focused on GR, trust fund revenue that can be used in place of GR, such as the Education Enhancement Trust Fund (Lottery) revenue in the education budget, and local property tax revenue that is used in the FEFP for K-12 public education students. The district should understand that the GR budget and the associated trust funds and local revenues are all based on projections, not on "money in the bank," and funding is subject to changes, including reductions, as student enrollment and economic conditions change.

The principal source of K-12 public school operating revenue is the Florida Education Finance Program (FEFP). Small portions of the FEFP are derived from the Educational Enhancement Trust Fund (the Lottery) and the Principal State School Trust Fund. Most FEFP revenue is generated by state General Revenue (GR) and local ad valorem property tax revenue derived from the Required Local Effort (RLE) millage and the .748 Local Discretionary Effort millage.

The first step in building each year's state budget, and therefore the FEFP, is the adoption by the Legislative Budget Commission (LBC) of the Long Range Financial Outlook (LRFO). The LBC is a joint standing committee of the Florida House of Representatives and the Florida Senate, empowered to make decisions and budget amendments on behalf of the Legislature. The Long Range Financial Outlook is an annual projection of General Revenue income and state General Revenue expenditures for three years into the future. The process of determining revenues is as follows:

1. The consensus revenue estimating conference prepares a multi-year forecast of potential state General Revenue. In preparing the forecast 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 that may be collected based on current and forecasted economic activity.

2. The conference then incorporates any adjustments to revenue. These may include reductions due to tax or fee reductions and increases of both recurring or non-recurring revenue based on actions such as the impacts on appropriations of any vetoes by the Governor, any reversions of non-expended funds, sweeps of "excess" revenue from state trust funds, and any additional revenue sources, such as the revenue projected to be realized from the Indian Gaming Compact.

3. The conference then identifies projected expenditures for each year. The process begins by using the current year's effective appropriations. To prepare the FY 2018-2019 base budget the current GR budget is reduced by the amount of any non-recurring appropriations from the current year that are not supported by current law scheduled to continue beyond July 1, 2019.

4. The base budget for, in this case, FY 2019-2020 is thereby established as the current year budget reduced by eliminating 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. That includes, for example, replacing any non-recurring revenue used to fund the current year FEFP. These costs are estimated based on demographic data that might generate increases or decreases in obligations, and the pending impacts of state or federal law.

7. “Other high priority needs” are appropriations’ priorities identified and funded by the Legislature in a relatively continuous fashion, or in response to current law. 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.

To clarify these concepts for the district the following examples are offered.

A critical need for FY 2019-2020 in the FEFP is the cost of funding projected student enrollment growth at the same level as students are funded in FY 2018-2019. The Legislature has a duty to pay for K-12 public education, and the LRFO funds the cost of “maintaining the current program” by adding student enrollment growth for each next fiscal year at the cost per student for the year in which the LRFO is produced.

A high priority need for FY 2019-2020 in the FEFP is to continue the long standing Legislative policy of increasing the per student funding year over year. Historically the Legislature has funded the FEFP sufficiently to support an increase in the average of the dollars per UFTE. There were exceptions, including the years impacted by the recession. Recently there had been an increase in the average of the dollars per UFTE of about 3% per year. A three year rolling average of the prior three years funding increase is used to project the amount of the increase for this high priority need. After the appropriations of the past two years the rolling average used in LRFO projected an increase of 1.79% in the average of the dollars per UFTE for FY 2018-2019. The average increase dropped from 3% because the Legislature chose to place fewer new dollars for K-12 public education inside the FEFP.

The new LRFO takes into consideration the actual increase in dollars per student provided by the Legislature of 1.39%. You can see how a decision to reduce the increase in funding in prior years reduces the projected growth in the amount of the FEFP in future years. The LRFO for FY 2019-2020 projects an increase in per student funding of 1.16%,

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 the LRFO projects that the Legislature will leave a reserve of at least $1 billion of state General Revenue that will not be appropriated from each year’s GR. The GR revenues and GR expenses are compared in the LRFO for each of the three years. If projected GR expenditures exceed projected General Revenue funds, the Legislature is advised to adopt fiscal strategies to increase the revenues or reduce the expenditures. The Legislature has been very clear about refusing to increase taxes or fees to increase revenues, so the strategy for closing any fiscal gap is cutting the projected budget expenditures.

MAJOR ELEMENTS OF THE LONG RANGE FINANCIAL OUTLOOK
FY 2019-2020, 2020-2021 AND 2021-2022

The LBC met and adopted the Long Range Financial Outlook (LRFO) for FY 2019-2020 through 2021-2022. This is the first step in building the 2019-2020 General Revenue budget.

The LRFO does have immediate implications for the district with respect to the GAA that will eventually be adopted. It carefully analyzes all of the prospective revenue sources for the state General Revenue fund (GR) and the other sources of revenue that could be used to replace and therefore “conserve” GR. It also projects potential GR budgets for the next three years, considering all the sectors of the budget, the long term history of Legislative appropriations decision-making, and the relationships between prospective revenue and expenses that could lead to revenue shortfalls, revenue “surpluses” or a balance between GR funds and GR expenses. A major objective of the LRFO is to “conserve” state General Revenue.

As will be shown below, the out years in the LRFO are subject to significant variability over time based on political and economic changes. Therefore, the projections for the balance between revenues and expenses for FY 2020-2021 and FY 2021-2022 will be discussed only briefly. The report will focus on the forecasts for the projected revenues and expenses for FY 2019-2020 that will play a meaningful role in the next appropriations process.

The variability that impacts long range forecasts is illustrated by the difference between the forecast for FY 2019-2020 in the 2017 LRFO and the recently adopted 2018 LRFO. In the September 2017 Outlook it was projected that that state General Revenue funds would be $1.1462 billion **less** than projected state General Revenue expenses. The current document forecasts a surplus of $223.4 million in state General Revenue for Fiscal Year 2019-2020. What caused this change of $1.3696 billion? There were certainly no tax or fee increases passed in the 2018 Legislative session. In fact, there were more tax cuts passed. The change in fiscal position was caused by both changes in projected revenue and projected expenses.

A simple comparison between spreadsheets in the 2017 LRFO and the 2018 LRFO makes it clear what happened to the projected shortfall for FY 2019-2020. In the 2017 LRFO total projected General Revenue for FY 2019-2020 was $34.6806 billion. (Tier 3 Table, page 22) In the 2018 LRFO total projected General Revenue for FY 2019-2020 was $34.9873 billion. (Tier 3 Table, page 22). Both tables projected revenue from trust fund sweeps would be added to GR. The difference is an increase of $306.7 million.

The same tables also presented projected GR budget expenses. The 2017 LRFO projected total expenses for FY 2019-2020 of $35.8268 billion, including a $1 billion reserve. The 2018 LRFO projected total expenses of $34.7639 billion including a $1 billion reserve. This is a decrease of $1.0629 billion.

When the revenue increase is added to the expenditure reduction the result is a change from the 2017 to the 2018 LRFO of $1.3696 billion. The 2017 LRFO shortfall of $1.1462 billion plus the 2018 LRFO surplus of $223.4 million equals $1.3696 billion. It is very clear what happened.

Projected GR funding for Pre-K 12 education played a very prominent role in the reduction of projected expenses. In the same tables referenced above the 2017 LRFO projected a GR expenditure increase for Pre-K -12 education of $670.6 million for FY 2019-2020.

The table from the 2018 LRFO projects a GR expenditure increase for Pre-K-12 education of $76.9 million. The GR expenditure reduction for Pre-K-12 education contributed $593.7 million, or 55.9% of the reduction in GR expenditure growth.

Not all of the reduction in GR expenditure growth carried by Pre-K-12 education is driven by a real cut in funding. For example, the use of $103.9 million of non-recurring revenue, primarily from Lottery Trust fund carry forward replaced GR, but did not cut funding. Also, the current model does assume that revenue from an increase in Required Local Effort generated by new construction would be used in the FEFP, which would not add enhancements but would replace GR, reducing the projected GR expense for Pre-K-12 education by about $108 million without cutting actual funding.

However, the 2018 LRFO did include some real reductions in the projected growth of the cost of the FEFP. The projected number of Unweighted Full Time (UFTE) students expected in FY 2019-2020 has declined significantly from the projections used for the 2017-2018 Long Range Financial Outlook. The FTE projection completed on July 24, 2018 forecasts 2,861,509.69 UFTE for FY 2019-2020. The FTE forecast completed July 27, 2017 projected 2,877,774.22 UFTE for FY 2019-2020.

That change in forecasts reduced the number of projected UFTE students the state expects to have to pay for by 16,264.53 UFTE from the 2017 forecast to the 2018 forecast. Based on the average dollars per student provided in 2017-2018 of $7,296.23 that change in projected enrollment would reduce spending for the FEFP by about $118.7 million compared to the prior year LRFO. That helps to account for the change in the state's position from the 2017 LRFO to the 2018 LRFO.

The changes in FTE enrollment forecasts include the "hurricane impact" students and assumes they continue in the forward years with their cohorts. The changes also include the "impacts" of 2018 legislation, including the impact of the newly adopted Hope voucher program. The "impacts" are expected to continue to increase over time. The forecast also assumes the continuation of the recalibration policy that limits funding for each student to one FTE while requiring the districts to enroll students in as many classes as they choose, without regard to the costs beyond one FTE.

Another change in calculation also is driven by a projected reduction in FEFP funding. Previously the Long Range Financial Outlook included the historical Legislative policy to fund an increase in the average dollars per student of 3%. As has been previously reported, the Legislature has continued to change that policy and has reduced the per student increase significantly over the past several years. This is a cut in spending that helped reduce the shortfall.

Remember that for 2017-2018 it took a veto of the FEFP and a special session of the Legislature to get a $100 per student increase in total potential funds. Based on the funding policy changes over the past several years, the assumption used in the 2018 LRFO for FY 2019-2020 on page 101 is for a per student increase of 1.16%.

A 1.16% increase in per student funding from the average dollars per student reported in the First Calculation of 2018-2019 would yield about $82.89 more per student. The total investment required for that increase is about $237.2 million as reported on page 101 of the 2018 LRFO. On page 97 of the 2017 LRFO there was an increase per student of 1.79% projected, which was projected to cost $365.9 million. That change also helped reduce the shortfall by $128.7 million. When considering the likely 2019-2020 FEFP it would be wise to assume that funding increases will not exceed $82.89 per student.

The SBE budget recommended an increase in per student funding of $200 per student over the per student funding in the second calculation. That level of funding would cost about $572.3 million, about $335.1 million more than the amount calculated in the 2018 LRFO. Remember that the SBE made that level of an increase in per student funding contingent on taking 100% of the potential revenue growth from the RLE.

Despite these changes in revenues and expenses the 2018 LRFO still projects GR expenses to exceed GR funds for FY 2020-2021 by $47.8 million and for FY 2021-2022 by $456.7 million.

General Revenue continues to be scarce. A major increase in per student funding is unlikely to be supported by state funds. The Senate Appropriations Chair and the Governor continue to state their belief that the full potential growth of revenue that could be realized from the Required Local Effort by holding the current millage rate constant and applying it against the increased school taxable for the new year is not a tax increase. They assert that the new revenue would simply be a function of a growing economy. The incoming Speaker of the House has continued to take the more restricted position that only the funds resulting from the growth in the tax base due to new construction could be captured by applying the rolled back rate to the new school taxable value without creating a tax increase.

The major source of funds that could help district students is clearly local revenue. Even if the position of the Senate Appropriations Chair were to be adopted it is still not certain that the new funds would be available to the local school districts to use at the discretion of the School Board to enhance services to students, increase teacher salaries, or meet other needs in the district. It is possible that the additional revenue would be used to replace state General Revenue. It is also possible that the Legislature would prescribe the use of every dollar as they have done in recent sessions.

Given the unbending "no new revenue" position of the political leadership at the state level, there is no reason to assume there will be a revenue solution to the shortfall problem that the numbers above suggest. It should be understood that changes in the economy and the revenue projections will occur, and the decreasing support provided by the Legislature for a number of the critical and high priority needs may result in a reduction in the budget expenditure projections. However, none of those changes are likely to fully close the revenue-expenditure gaps.

In addition, as the experience after the tragedy at Marjory Stoneman Douglas High School reveals, the Legislature will repurpose both new and existing school district revenue to address issues that the Legislature deems to be priorities. The district leadership may have to use other already existing resources to pay for increasing future expenses. The Legislature has increasingly taken the position that if new revenue is provided, the Legislature will determine how those funds will be spent and exiting leaders have stated publicly that they do not trust local district officials to spend new funds the way the Legislative leadership wants them spent.

It is instructive for Superintendents and School Board Members to remember that the Legislature has granted across the board pay raises to their own state employees only once in the past fourteen years. Budget planning will need to include specific strategies to eliminate current expenses, increase efficiencies, and find other ways to create revenue if the district wishes to invest in new expenses such as teacher pay increases, and to be able to pay for real cost increases such as health insurance premium increases, other insurance cost increases, fuel and other energy cost increases, other utility rate increases, and initiatives to improve student performance other than those the Legislature chooses to implement and fund.

KEY POINTS

Claims of record funding for the FEFP by state level leaders are accurate but misleading. The state has a Constitutional duty to fund the education of all students, and enrollment growth alone drives an increase in total funding that would be higher each year, and therefore a new record of total funding would be set every year long as the state is growing. The real purchasing power of past appropriations must be measured in the context of the erosion in purchasing power caused by new expenditure requirements imposed by the appropriating authority, the Florida Legislature, and inflation. When enrollment growth, new mandated expenses, and inflation are considered, the discretionary purchasing power of the revenue provided for each student is not at a record high.

Recently state leaders have been promoting the amount of revenue that has been provided for the FEFP since the bottom of the recession as the benchmark of progress. It is true that the investment has been considerable. It is not, however an accurate way to measure the impact of the recession and the recovery on the fiscal position and stability of the school district.

The district received additional total potential funding as a result of the 2018 regular session of the Florida Legislature. Total funding increased $361,296. The Legislature added required costs that spent about $452,272, leaving the district about $90,976 less in new revenue for the district's use than the new required expenditures enacted by the Legislature.

Because of the Marjory Stoneman Douglas High School attack that killed 17 students and educators the Legislature increased Safe Schools funding in 2018. Safe Schools funding helps illustrate the fiscal position of the district. At the turn of the century the district received $65,766 in safe schools' funding. In 2017, the district received $85,141, $19,375 more than in 2000. The base Safe Schools funding was increased $32,660 during those years, but appropriations changes led to reductions in the district's Safe

Schools funding. The district will receive $337,378 for Safe Schools funding, which may not be enough to pay all of the newly required costs.

An analysis of the effect of the recession and recovery was provided. From the beginning to the bottom of the recession the district lost $2,236,703 per year in recurring FEFP revenue. From the bottom of the recession in FY 2011-2012 to the FY 2018-2019 FEFP the district recovered $3,411,182. There have been many new expenses that the Legislature has required since FY 2011-2012.

The analysis that was done for 2007 through 2018 shows that after eliminating the revenue associated with required spending cut by the Legislature from 2008 through 2011, adding back the new revenue provided by the Legislature from FY 2011-2012 through FY 2018-2019, then eliminating as new revenue available to the district the amount of new cost increases required by the Legislature, the district has about $244,915 more in the budget in 2018-2019 than it originally had in 2007-2008 to pay for non-mandated cost increases and operating expenses, including teacher and other employee salaries, health and other insurance costs and any other cost increases for the past 11 years, without applying the 11 year, 20% inflation rate. It is very clear that the finances of the district have not recovered from the 2008 recession.

An historical comparison of the millage rates levied, and local school taxes paid in 2007-2008 and 2018-2019 was provided. It showed that public school operating budget millage rates are .508 mills lower in FY 2018-2019 than in FY 2007-2008, and that Calhoun County property taxpayers will pay $76,120 less in public school property taxes than was paid eleven years ago. That increase is related to new construction in the county during the past eleven years.

An analysis of non-FEFP Operating Fund revenue was conducted and revealed no robust increases in revenues from any of these revenue sources, and that most of the non-FEFP revenue comes with accompanying expenditure requirements.

An analysis of Operating Fund expenses was conducted. The major expenses were identified and compared for actual costs for FY 2011-2012, FY 2012-2015, FY 2017-2018 and projected expenses for FY 2018-2019. Total expenditures were examined for each function, and the expenses of the major functions were examined by object. There were no changes in expenditures that were extraordinary or beyond what would be expected from the very restrained recovery for the recession experienced by the district.

The data revealed that salaries actually increased $315,280 from FY 2011-2012 to FY 2017-2018. In FY 2013-2014, $360,636 was added to salary costs by the Teacher Salary Allocation. Expenditures for salaries actually decreased about $45,356 during the period when adjusted for the impact of the salary allocation.

Expenditures for Employee Benefits increased $1,004,219 from 2011-2012 to 2017-2018. Employee benefits are projected to increase another $316,724 for a total $1,320,943. Of that amount about $427,450 is caused by an increase in employer FRS rates. The Board's employee health insurance contribution has also increased nearly $200 per employee since 2011-2012

The Long Range Financial Outlook for FY 2019-2020 through 2021-2022 was analyzed. Despite the changes in General Revenue funds and expenses in the 2018 LRFO, the adopted report still projects GR expenses to exceed GR funds for FY 2020-2021 by $47.8 million and for FY 2021-2022 by $456.7 million. State funds for the FEFP are likely to remain scarce, and at least some of the leaders of the Legislature remain unwilling to access all the potential increase in local funds in the FEFP. When considering the likely 2019-2020 FEFP it would be wise to assume that funding increases will not exceed $82.89 per student.

FUTURE IMPACTS AND STRATEGIES

The data presented on page 12 that summarized district actual and projected expenditures since FY 2011-2012 show that the district's operating budget fund balance has been declining over those years. The historical analysis of FEFP revenue changes and Legislatively required expenditure increases presented on pages 4 through 8, the analysis of the Long Range Financial Outlook summarized above and the historical analysis of local school property tax revenue presented on page 9 all should inform the Board that there are no data to support any belief that there will be a significant infusion of new revenue to change the district's fiscal direction.

This analysis of the data from the School District of Calhoun County that has been conducted shows that the district's fiscal position was very difficult prior to Hurricane Michael, and that the long range outlook was equally challenging at that time. The analysis of district revenue from FY 2007-2008 through FY 2018-2019 clearly shows the district was adversely impacted by the recession, and that the purchasing power of revenue has not recovered to pre-recession levels and cannot cover cost increases.

The short and long term impact of Hurricane Michael is yet to be determined. It has caused severe damage to the district's facilities, and the economic resources and basic infrastructure that serves the community. Restoration efforts are underway across the district, and schools are scheduled to open on November 1, 2018, pending final work by the contractor responsible for emergency restoration services. Everyone in the district has extended heroic efforts to get the system back up and running.

There are several concerns that may further adversely impact the district's fiscal position immediately, and into the future. First, it is possible that collections of local property taxes may be delayed. The most recent conversation with the Tax Collector's Office included a concern that tax bills may not be mailed until November 12, 2018. It remains to be seen how many mailboxes will be available to receive the mail when it is sent. The second problem is that the economic impact of the storm may be so severe that it will make it impossible for some residents and businesses to pay their taxes or pay them in a timely way. There is the possibility that the business disruptions from the storm will result in a cash flow interruption that will severely delay tax collections. Any of these circumstances will negatively impact the financial position of the district. It is also possible that many taxpayers may appeal their assessed valuations as a result of storm damage to homes, businesses and rental properties.

The district's short term financial position may also be negatively impacted by storm recovery costs. Vendors who were engaged on an emergency basis will be invoicing their costs. There is not a provision to assign benefits to the vendors, and that practice is problematic. There may be a significant time lapse between when a vendor will invoice and expect payments, and when insurance reimbursements are received. The district has very limited cash on hand to cover any such invoices and still retain enough liquidity to fund daily operations, including payrolls.

Finally, there is concern that students will have left the district and will not return. Some students whose parents and guardians have lost their homes may leave and not return until after the February FTE survey period. In fact, given the impacts in the community, there is the possibility that the district will experience a loss of students that may be long term or permanent. A decrease in enrollment in the February FTE survey period will have an impact on the district's operating budget during the current fiscal year. For example, if the district drops 100 UFTE students, the impact could be a decrease in revenue of as much as $700,000. That would be in addition to any impacts on local funds from the storm and any possible statewide proration. The district will need to monitor enrollment carefully and continuously and be very careful about controlling expenses during this fiscal year. The district staff has requested that principals conduct an enrollment count of the first day back in school, with other counts later to help determine if there may be an enrollment problem during the second half of the year and beyond.

Beginning as soon as possible, and particularly for FY 2019-2020 and beyond, the district will have to make spending reductions to stabilize the operating budget fund balance and "create" the new revenue needed to pay for cost increases. If there is a further decline in student enrollment that need will be even more acute. As the teacher shortage grows the Board may also have to consider "creating" revenue through spending cuts to improve teacher compensation.

The various data that were presented throughout this report clearly show that the district's largest cost is employee salaries and benefits. That is to be expected given the services the district delivers. The very small size of the district creates challenges. The district must balance its desire to provide a full array of courses, programs and services for students and the need to reduce costs in the face of the current fiscal challenges that are only likely to grow in the future.

To help further illuminate the position of the district, a chart was created comparing the number and type of personnel employed by Calhoun County with the number and type of employees in Dixie, Gulf, and Union school districts. These districts were chosen because they are about the same size as Calhoun County. The most current data available from the Department of Education were from FY 2016-2017.

Item	Calhoun	Dixie	Gulf	Union
UFTE Enrollment	2,168.81 Five Schools	1,998.43 Four Schools	1,883.58 Four Schools	2,277.55 Three Schools
Instructional Personnel Full Time Part Time Total	 151 3 154	 114 0 114	 118 10 128	 163 1 164
Instructional Specialists Full Time Part Time Total	 25 1 26	 18 0 18	 29 2 31	 21 0 21
Instructional Support Personnel Full Time Part Time Total	 44 1 45	 64 0 64	 39 0 39	 36 0 36
Administrative Personnel Full Time Part Time Total	 18 0 18	 13 0 13	 9 0 9	 11 0 11
Managers Full Time Part Time Total	 2 0 2	 0 0 0	 4 0 4	 2 0 2
Educational Support Personnel Full Time Part Time Total	 88 10 98	 91 1 92	 69 5 74	 89 3 92
Total Employees Full Time Part Time Total	 328 15 343	 300 1 301	 268 17 285	 322 4 326
UFTE Students per Employee	6.32	6.64	6.61	6.987
K-12 Cost of Administration per UFTE	$967.72	$1,061.74	$1,195.99	$911.35

The data in the table are not intended to point to any particular strategy for reducing costs. However, to achieve the same average number of students per employee as the ratio in Union County, the district would have to reduce the total employee count to 310, a reduction of 33 employees.

The district provided spreadsheets for each school and site. The spreadsheets include a relatively large number of situations where class enrollment is below levels considered normal to be fiscally supported by the funding formula. There are a relatively large number of classes and programs where the number of students served by a teacher or staff member is very low. and the courses are not among those normally considered critical to student progression, or where the number of employees engaged in the program seem higher than necessary to offer the services to students. There are a relatively large number of personnel serving ESE students, and while there are a multitude of regulations that drive the ESE program, it still must be organized and implemented in a fiscally sustainable way. Specific examples can be identified during the presentation of this report. However, it is recommended that a better approach might be for individual Board members to meet with the appropriate district staff and review the data line by line. This approach would permit a more thoughtful discussion and would not be excessively time consuming.

The FEFP includes the Sparsity Supplement for small school districts. That allocation is intended to help small school districts pay for the extraordinary overhead costs that they incur while trying to meet all of the duties and responsibilities prescribed by law, meet other operating cost challenges of a small district, and to allow the district to offer a full academic opportunity to students in small isolated schools. The total Sparsity Allocation projected for the district for FY 2018-2019 is $1,720,785.

However, a review of the district’s operations helps illustrate the reality that the challenges may exceed the resources provided. For example, the total Transportation Allocation for FY 2018-2019 is projected to be $458,661, but transportation expenses are expected to be $1,236,999. If the Sparsity Supplement revenue is used to cover that shortfall, just transportation costs would consume $778,338 of the $1,720,785.

The schedules in the district’s middle and high schools offer numerous examples of the types of small classes that are supposed to be sustained by the Sparsity Supplement. For example, there is a Pre-Calculus class at Altha Public School with 11 students, an Anatomy and Physiology Honors class with 17 students, an American History Honors class with 8 students and another with 22 students, and many others. These classes would need 25 students to be supported by the state funding formula at the optimal level. But in a small school classes need to be offered that will allow the students to actually have an appropriate offering, and to be able to break schedule conflicts without giving up essential programs. That is probably why there are two American History Honors classes, one of which has only 8 students.

There are a relatively large number of these types of circumstances, and these are the type of situations the legislature had in mind when it created the Sparsity Supplement. However, as the transportation example, and the few items listed above show, the extra support provided by the Sparsity Supplement can be quickly consumed.

The Board will have to find a solution to contain and reduce expenses if it is to avoid a financial emergency that will be more problematic than those currently working in the district might imagine. There are a few tools available to the district to address this fiscal problem. School consolidations have been used in Gadsden, Jackson, Hamilton, Union, and a number of other smaller districts to help reduce the cost of overhead and reduce the number of under enrolled classes in the district.

The Board has spoken clearly that it will not choose to close Carr School as part of any consolidation plan. The Board has determined that the needs of the students in that part of the district are served by continuing to operate the school. Closing Carr School is not the only consolidation option available to help fiscally stabilize the district. It is suggested that the Board would benefit by taking the steps below.

1. It is suggested that the Board create, adopt, and enforce the use of a specific process and formula for allocating resources, including teacher and other units to the schools and programs.

The creation of a sound staffing plan should be the highest priority after the successful reopening of the district, because it will be a key resource to sustain the district going forward.

a. The allocation formula and rules in the staffing plan, should be based on the revenue generated by students in the district, and the total cost of offering programs to the students, including costs that are in addition to a teacher's salary and benefits.

b. The staffing plan must include consideration of all of the operating costs of the district, not just the salary and benefits of the teacher delivering instruction.

c. The allocation formula and rules must be fiscally sustainable and must be implemented, enforced and driven by providing fiscally sustainable resources to meet the instructional needs of students.

2. As a first step in this process it is suggested that district would be to not fill vacancies with permanent employees. Other districts have implemented similar strategies when faced with these circumstances. The first option when filling vacancies might be to apply the formula and search for ways to consolidate classes or operations and expenditures and reassign a currently employed teacher to fill the vacancy.

3. In preparation for FY 2019-2020 it is suggested that the staffing plan be applied across the district to every school, program and position. Efforts should be made to leverage attrition as the first step to reduce the number of employees, and then reduce the workforce as necessary to ensure the delivery of a high quality, fiscally sustainable instructional program for students.

4. When planning for the use of the payments from the insurance claims from Hurricane Michael it is suggested that a full array of options be presented and researched to determine if there may be a way to configure the system that will be even better instructionally and more fiscally sustainable for the future, while retaining the operation of Carr School.

The teacher is key, but the students still must be transported to school. The teachers, parents, students and community members expect the schools to be safe and secure and guarded by law enforcement. The parents students and teachers expect there to be a principal and other leaders to ensure discipline and an instructionally effective program. All employees expect the payroll to be processed, the utility bills to be paid, and the air conditioners to remain in working order. These are costs that must be calculated and considered when creating a fiscally sustainable, educationally sound path for the future.

None of these decisions will be easy. However the history of K-12 FEFP funding and the Long Range Financial Outlook provide evidence that the prospects of substantial increases in state funding are very remote. The history of local public school revenue and the devastation from Hurricane Michael make it clear that local revenue is more likely to fall than to rise. The Board will face even more challenging circumstances if there is not a proactive approach to reducing expenses.