

HOUSE OF REPRESENTATIVES STAFF ANALYSIS

BILL #: HB 495 School District Price Level Index

SPONSOR(S): Diaz, M., and Bileca

TIED BILLS: None **IDEN./SIM. BILLS:** SB 824

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR or BUDGET/POLICY CHIEF
1) PreK-12 Quality Subcommittee	15 Y, 0 N	Brink	DavisGreene
2) Appropriations Committee	25 Y, 0 N	Potvin	Leznoff
3) Education Committee			

SUMMARY ANALYSIS

The Florida Education Finance Program (FEFP) is used by the Legislature to equalize funding for educational programs and services for all students in the K-12 public school system regardless of geographic or local economic factors. To account for varying costs of living among Florida's school districts, the FEFP includes a district cost differential (DCD) which adjusts funding based on the estimated cost to hire comparable employees. By law, the DCD must incorporate the Florida Price Level Index (FPLI) to provide a statistical basis for funding adjustments to each school district.

Since 2000, the University of Florida's Bureau of Economic and Business Research (BEBR) has been responsible both for calculating the FPLI and for reviewing its methodology. Florida Polytechnic University has collaborated with BEBR in this process since 2014.

The bill provides for third-party review of the FPLI methodology by requiring the Florida Department of Education (DOE) to contract with an independent consulting firm to conduct a review of the FPLI methodology by July 1, 2018. The bill also requires the DOE, by January 1, 2019, and every 10 years thereafter, to submit a report providing recommendations to the chair of the Senate Committee on Appropriations, the chair of the House of Representatives Appropriations Committee, and the Executive Office of the Governor's Office of Policy and Budget.

HB 5001 appropriates the sum of \$100,000 in nonrecurring funds from the General Revenue Fund to the Department of Education to issue a competitive solicitation for the completion of the review for the 2018-2019 fiscal year.

The bill takes effect upon becoming a law.

FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. EFFECT OF PROPOSED CHANGES:

Present Situation

Florida Education Finance Program

The Florida Constitution requires the Legislature to make “adequate provision . . . for a uniform, efficient, safe, secure, and high quality system of free public schools that allows students to obtain a high quality education”¹ The Florida Legislature established the Florida Education Finance Program (FEFP) in 1973 to equalize funding for educational programs and services for all students in the K-12 public school system regardless of geographic or local economic factors.² The FEFP, which is the “primary mechanism for funding the operating costs of Florida school districts,” provides for equalized funding by recognizing:

- varying local property tax bases;
- varying education program costs;
- varying costs of living; and
- varying costs for equivalent educational programs due to sparsity and dispersion of the student population.³

The FEFP incorporates state-appropriated funds and funds raised through *ad valorem* taxes in each local school district. State funds appropriated to finance the 2017-18 FEFP totaled \$11,673,261,717, while the total amount of local funds set by the Legislature was from school districts at \$8,968,543,399.⁴

Under the FEFP, financial support for education is based on individual students participating in a particular educational program rather than on the number of teachers or classrooms.⁵ Funds are “primarily generated by multiplying the number of full-time equivalent (FTE) students in each of the funded education programs by cost factors to obtain weighted FTE students. Weighted FTE students are then multiplied by a base student allocation and by a district cost differential (DCD) to determine the base funding from state and local FEFP funds for a school district.”⁶

District Cost Differentials and the Florida Price Index

The law requires the Commissioner of Education to annually calculate a DCD for each school district to address cost of living differences for employees among the districts. The DCD is calculated by averaging each school district’s Florida Price Level Index (FPLI) for the most recent three years. The average is then multiplied by 0.008 and .200 is added to the product to obtain the final district cost differential.⁷

¹ Art. IX, s. 1(a), Fla. Const.

² Florida Department of Education, *2017-18 Funding for Florida School Districts*, at 1 (2017), available at <http://www.fldoe.org/core/fileparse.php/7507/urlt/Fefpdist.pdf>.

³ *Id.* at 1.

⁴ Public School Funding, The Florida Education Finance Program (FEFP), 2017-2018 Fiscal Year

<http://www.myfloridahouse.gov/Sections/Documents/loaddoc.aspx?PublicationType=Committees&CommitteeId=2892&Session=2017A&DocumentType=General%20Publications&FileName=2017A%20FEFP%20.pdf>.

⁵ *Id.* at 1.

⁶ *Id.* at 1.

⁷ *See id.* at 16, 37.

The FPLI represents the cost of hiring comparable personnel based on maintaining a given standard of living across the school districts.⁸ It is based on wage and employment data for “hundreds of occupations collected by the Florida Department of Economic Opportunity’s Bureau of Labor Market Statistics as part of the U.S. Bureau of Labor Statistics’ Occupational Employment Statistics Survey.”⁹

Before 2003, the FPLI was calculated using a weighted average of the relative prices of goods and services purchased by consumers similar to the Consumer Price Index developed by the U.S. Bureau of Labor Statistics.¹⁰ However, because the FPLI did not consider other factors that could affect the cost of hiring comparable personnel, the FPLI was revised to improve accuracy.¹¹

Since 2003, the FPLI calculation starts with an estimated initial index of relative wages for comparable workers across Florida’s 67 counties.¹² Because the quality and extent of data may vary depending on the size of the labor market in a given county, once the initial index has been estimated, a predicted value is calculated based on the correlation between the initial index and characteristics related to wage levels, such as total population, the costs of goods and services, the raw wage index in neighboring counties, and county retirement age.¹³ To reduce statistical variation, the predicted index and the initial index are then weighted and averaged together based on the relative reliability of each index. This is referred to as “statistical smoothing.”¹⁴ Then, “geographic smoothing” is applied to ensure that the index for non-metropolitan counties does not fall below the commute-time-adjusted wage index of nearby metropolitan counties so that workers are not induced to commute from low-wage districts to higher-wage districts.¹⁵

The University of Florida’s Bureau of Economic and Business Research (BEBR) began reviewing the FPLI methodology and provided recommendations to improve accuracy in 1995.¹⁶ Starting in 2000, it became responsible for calculating the FPLI, as well.¹⁷ Since 2007, BEBR has annually published a report outlining adjustments in the FPLI for each school district and summarizing the calculation methodology.¹⁸ Since 2014, the FPLI has been calculated as part of a collaboration between Florida Polytechnic University and BEBR. Presently, there is no third-party review of the methodology used by Florida Polytechnic University and BEBR to calculate the FPLI.

Effect of Proposed Changes

The bill requires the Florida Department of Education (DOE) to issue a competitive solicitation to contract with an independent, third-party consulting firm to conduct a review of the current price level index methodology by July 1, 2018, and every 10 years thereafter. The bill also requires the DOE, by January 1, 2019, and every 10 years thereafter, to submit a report providing recommendations to the chair of the Senate Committee on Appropriations, the chair of the House of Representatives Appropriations Committee, and the Executive Office of the Governor’s Office of Policy and Budget.

⁸ Jim Dewey, Director of Economic Analysis, Florida Polytechnic University, *2016 Florida Price Level Index* (Jan. 23, 2017), available at <https://floridapoly.edu/wp-content/uploads/2016fpli.pdf>.

⁹ *Id.*

¹⁰ *Id.*

¹¹ *See id.*

¹² *Id.* The FPLI is calculated annually through a collaboration between Florida Polytechnic University and the University of Florida’s Bureau of Economic and Business Research.

¹³ Florida Department of Economic Opportunity, *Florida Price Level Index* (2004) at 4, available at http://www.floridajobs.org/library/2004_FPLI.pdf.

¹⁴ *Id.* at 4.

¹⁵ *See id.* at 4. *See also* Jim Dewey, Director of Economic Analysis, Florida Polytechnic University, *2016 Florida Price Level Index* (Jan. 23, 2017), available at <https://floridapoly.edu/wp-content/uploads/2016fpli.pdf>.

¹⁶ Florida Department of Economic Opportunity, *Florida Price Level Index* (2004) at 1, available at http://www.floridajobs.org/library/2004_FPLI.pdf.

¹⁷ *Id.*

¹⁸ University of Florida, Bureau of Economic and Business Research, *Florida Price Level Index (FPLI)*, <https://www.bebr.ufl.edu/economics/fpli> (last visited Jan. 8, 2018).

B. SECTION DIRECTORY:

Section 1. Creates s. 1011.79, F.S., requiring the Department of Education to issue a competitive solicitation for the review of the current price level index methodology by a specified entity; requiring a report of recommendations be provided to the chair of the Senate Committee on Appropriations, the chair of the House of Representatives Appropriations Committee, and the Executive Office of the Governor's Office of Policy and Budget; providing that the competitive solicitation and review occur every 10 years.

Section 2. Provides the bill takes effect upon becoming a law.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

None.

2. Expenditures:

HB 5001 appropriates the sum of \$100,000 in nonrecurring funds from the General Revenue Fund to the Department of Education to issue a competitive solicitation for the completion of the review for the 2018-2019 fiscal year.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

None.

2. Expenditures:

None.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

None.

D. FISCAL COMMENTS:

III. COMMENTS

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

None.

2. Other:

None.

B. RULE-MAKING AUTHORITY:

None.

C. DRAFTING ISSUES OR OTHER COMMENTS:

None.

IV. AMENDMENTS/COMMITTEE SUBSTITUTE CHANGES

None.