

## HOUSE OF REPRESENTATIVES STAFF ANALYSIS

**BILL #:** HB 3A Florida Education Finance Program

**SPONSOR(S):** Diaz, Jr.

**TIED BILLS:** IDEN./SIM. **BILLS:**

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR or BUDGET/POLICY CHIEF
1) Appropriations Committee	27 Y, 0 N	Potvin	Leznoff

### SUMMARY ANALYSIS

The state's Florida Education Finance Program (FEFP) is the primary mechanism for funding the operating costs of K-12 public education. The FEFP funding calculations include the FEFP as defined in s. 1011.62, Florida Statutes, the Class Size Reduction Allocation and the District Lottery/School Recognition Funds.

The conference report for SB 2500 which passed during the 2017 legislative session appropriates a total of \$11.5 billion in state funds and sets the required local effort (RLE) at \$7.6 billion for a total FEFP of \$20.4 billion for Fiscal Year 2017-2018. On June 2, 2017, the Governor vetoed the appropriations for the FEFP which also included the appropriations for the Class Size Reduction Allocation and the District Lottery/School Recognition Funds provided for in the conference report for SB 2500.

HB 3A provides appropriations and specifies the uses of the funds for the FEFP, the Class Size Reduction Allocation and the District Lottery/School Recognition Funds for Fiscal Year 2017-2018. The bill appropriates \$11.7 billion in total state funds of which \$154.0 million is nonrecurring:

Item	SB 2500	HB 3A	Difference
FEFP	\$8,225,811,747	\$8,440,944,134	\$215,132,387
Class Size Reduction Allocation	\$3,097,734,706	\$3,097,734,706	\$0
District Lottery/School Recognition Funds	\$134,582,877	\$134,582,877	\$0
<b>Total Appropriations</b>	<b>\$11,458,129,330</b>	<b>\$11,673,261,717</b>	<b>\$215,132,387</b>

The bill sets the RLE at \$7.6 billion which is the same as the RLE for Fiscal Year 2016-2017; this will result in approximately a \$521 million tax avoidance to Florida property owners.

The bill provides \$7,296.23 in total funds per student which is a \$100 increase over total funds per student provided in Fiscal Year 2016-2017. The bill also establishes a base student allocation (BSA) of \$4,203.95 in the FEFP for Fiscal Year 2017-2018 which is a \$43.24 increase over the BSA for Fiscal Year 2016-2017.

The bill also funds in the FEFP the portion of the rate increase for the Florida Retirement System attributable to school districts in the amount of \$54 million which is included in the total funds noted above.

The bill has an effective date of July 1, 2017.

## FULL ANALYSIS

### I. SUBSTANTIVE ANALYSIS

#### A. EFFECT OF PROPOSED CHANGES:

##### Present Situation

##### **Florida Education Finance Program (FEFP)**

In 1973 the Florida Legislature enacted the Florida Education Finance Program (FEFP) and established the state policy on equalized funding to guarantee to each student in the Florida public education system the availability of programs and services appropriate to his or her educational needs that are substantially equal to those available to any similar student notwithstanding geographic differences and varying local economic factors.

To equalize educational opportunities, the FEFP formula recognizes: (1) varying education program costs, (2) varying costs of living, and (3) varying costs for equivalent educational programs due to sparsity and dispersion of the student population.<sup>1</sup>

Funding for the FEFP combines state and local revenues. The sources of state revenues include the General Revenue Fund, the Education Enhancement Trust Fund<sup>2</sup> and the State School Trust Fund<sup>3</sup>. Local revenues are derived almost entirely from property taxes levied by Florida's 67 school districts. Each school board participating in the state FEFP allocation of revenues must levy the local property tax millage which is referred to as the required local effort (RLE).<sup>4</sup> The Legislature annually sets the aggregate statewide RLE within the FEFP.

FEFP 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 to determine the base funding from state and local FEFP funds. In addition to the base funding allocation, and in order to ensure the equalization of educational opportunities for all students, current law establishes additional funding allocations<sup>5</sup> to include:

- *Declining Enrollment Supplement* – provides funds to assist school districts that have fewer students between one year and the next year by providing a portion of the revenue that is lost.
- *Sparsity Supplement* – provides funds to compensate small school districts for diseconomies of scale and to ensure that the full range of services and courses can be offered in rural high schools.
- *State-Funded Discretionary Contribution* – provides funds equivalent to the local revenue that otherwise would be generated from the 0.748 discretionary millage to those entities in the FEFP (lab schools and the Florida Virtual School) which have no taxing authority.
- *0.748 Mills Discretionary Compression* – provides funds to school districts that levy the full 0.748 mills and generate less than the state average per FTE so that, when added to the funds generated by the school district's 0.748 mills levy, are equal to the state average per FTE.
- *Safe Schools* – provides funds to school districts to create and maintain a safe school learning environment.
- *Supplemental Academic Instruction* – provides funds to remediate students who are falling behind to avoid the need for retention. In recent years, these funds have also been used to provide an additional hour of reading instruction in elementary schools identified as low-performing on the statewide reading assessment.

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<sup>1</sup> See, s. 1011.62, F.S.

<sup>2</sup> See s. 24.121, F.S.

<sup>3</sup> See s. 1010.71, F.S.

<sup>4</sup> See s. 1011.71(1), F.S.

<sup>5</sup> See s. 1011.62, F.S.

- *Reading Instruction* – provides funds for a K-12 comprehensive, districtwide system of research-based reading instruction including an additional hour of reading instruction in elementary schools identified as low-performing on the statewide reading assessment.
- *Exceptional Student Education (ESE) Guaranteed Allocation* – provides funds for supplemental services for exceptional students who have low to moderate disabilities and for gifted students.
- *Department of Juvenile Justice (DJJ) Supplement* – provides funds to school districts to supplement other sources of funding for students in juvenile justice education programs.
- *Student Transportation* – provides funds to support the safe and efficient transportation of school district students.
- *Instructional Materials* – provides funds for the purchase and maintenance of instructional materials for students, for library media materials, for science lab materials and supplies, and for digital instructional materials.
- *Teachers Classroom Supply Assistance Program* – provides funds to classroom teachers for the purchase of classroom materials and supplies.
- *Virtual Education Contribution* – provides funds for all virtual education programs to achieve an amount per FTE established in law.
- *Digital Classrooms Allocation* - provides funds to support school districts' efforts and strategies to improve outcomes related to student performance by integrating technology in classroom teaching and learning.
- *Federally Connected Student Supplement* – provides funds to support the education of students connected with federally owned military installations, National Aeronautics and Space Administration property and Indian lands.

The distribution of each school district's FEFP funds are made in payments on or about the 10th and 26th of each month.<sup>6</sup>

### **Class Size Reduction Allocation**

In 2002, as a result of the voter-approved amendment to Article IX, section 1, of the Florida Constitution, limits were set on the number of students in core classes (math, English, science, etc.) in the state's public schools. Beginning with the 2010-11 school year, Florida classrooms could have no more than 18 students in grades PreK-3, 22 students in grades 4-8 and 25 students in grades 9-12. If a district school board determines that it is impractical, educationally unsound or disruptive to student learning, students who enroll after the October student membership survey may be temporarily assigned to a class that exceeds the maximums cited above.

In 2003, the Legislature enacted Chapter 2003-391, Laws of Florida which implements the constitutional amendment. Funds appropriated for the Class Size Reduction Allocation are appropriated to school districts to maintain the class size requirements.

### **District Discretionary Lottery/School Recognition Funds**

The School Recognition Program provides monetary awards to schools that earn an "A" grade, improve at least one performance grade from the previous year or sustain the previous year's improvement of more than one letter grade.<sup>7</sup> The Legislature provides for awards of up to \$100 per student for each qualifying school. The staff and school advisory council (SAC) at each recognized school jointly decide how to use the financial award. As specified in statute, schools must use their awards for one or any combination of the following:

- Nonrecurring faculty and staff bonuses;
- Nonrecurring expenditures for educational equipment and materials; or
- Temporary personnel to assist in maintaining or improving student performance.

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<sup>6</sup> See s. 1011.66, F.S.

<sup>7</sup> See s. 1008.36, F.S.

Any funds remaining after funding the School Recognition Program are allocated to school districts based on each district's proportionate share of the FEFP base funding entitlement. School boards must allocate up to \$5 per unweighted FTE student to be used at the discretion of the SAC or, in the absence of such a council, at the discretion of the staff and parents of the school.

The conference report for SB 2500 which passed during the 2017 legislative session provides appropriations and specifies the uses of the funds for the FEFP, the Class Size Reduction Allocation and the District Lottery/School Recognition Funds for Fiscal Year 2017-2018. The bill appropriates a total of \$11.5 billion in state revenues, of which \$4.9 million is nonrecurring:

Item	SB 2500
FEFP	\$8,225,811,747
Class Size Reduction Allocation	\$3,097,734,706
District Lottery/School Recognition Funds	\$134,582,877
<b>Total Appropriations</b>	<b>\$11,458,129,330</b>

On June 2, 2017, the Governor vetoed the appropriations for the FEFP which also included the appropriations for the Class Size Reduction Allocation and the District Lottery/School Recognition Funds provided for in the conference report for SB 2500.

Effect of Changes

HB 3A provides appropriations and specifies the uses of the funds for the FEFP, the Class Size Reduction Allocation and the District Lottery/School Recognition Funds for Fiscal Year 2017-2018. The bill appropriates \$11.7 billion in total state revenues, of which \$154.0 million is nonrecurring:

Item	SB 2500	HB 3A	Difference
FEFP	\$8,225,811,747	\$8,440,944,134	\$215,132,387
Class Size Reduction Allocation	\$3,097,734,706	\$3,097,734,706	\$0
District Lottery/School Recognition Funds	\$134,582,877	\$134,582,877	\$0
<b>Total Appropriations</b>	<b>\$11,458,129,330</b>	<b>\$11,673,261,717</b>	<b>\$215,132,387</b>

The bill sets the required local effort (RLE) at \$7.6 billion which is the same as the RLE for Fiscal Year 2016-2017; this will result in approximately a \$521 million tax avoidance to Florida property owners.

The bill provides \$7,296.23 in total funds per student which is a \$100 increase over total funds per student provided in Fiscal Year 2016-2017. The bill also establishes a base student allocation (BSA) of \$4,203.95 in the FEFP for Fiscal Year 2017-2018 which is a \$43.24 increase over the BSA for Fiscal Year 2016-2017.

The bill funds in the FEFP the portion of the rate increase for the Florida Retirement System attributable to school districts in the amount of \$54 million which is included in the total funds noted above.

The following chart shows the effect of the changes in the bill between the current year calculation and the proposed Fiscal Year 2017-2018 calculation:

FLORIDA EDUCATION FINANCE PROGRAM  
2017-2018 FEFP - HOUSE BILL 3A CALCULATION

Statewide Summary  
Comparison to 2016-2017 Fourth Calculation

	2016-2017 Fourth Calculation	2017-2018 House Bill 3A Calculation	Difference	Percentage Difference
<b>MAJOR FEFP FORMULA COMPONENTS</b>				
Unweighted FTE	2,805,188.49	2,829,107.39	23,918.90	0.85%
Weighted FTE	3,038,409.35	3,077,667.93	39,258.58	1.29%
School Taxable Value	1,771,785,134,372	1,900,475,414,389	128,690,280,017	7.26%
Total RLE Millage/Reduction for Tax Relief	4.638	4.316	(0.322)	-6.94%
.748 Discretionary Millage	0.748	0.748	0.000	0.00%
Total Millage	5.386	5.064	(0.322)	-5.98%
Base Student Allocation	4,160.71	4,203.95	43.24	1.04%
<b>FEFP DETAIL</b>				
WFTE x BSA x DCD	12,651,239,972	12,949,995,469	298,755,497	2.36%
Declining Enrollment Supplement	2,456,907	2,211,841	(245,066)	-9.97%
Sparsity Supplement	52,800,000	52,800,000	0	0.00%
State Funded Discretionary Contribution	17,360,486	18,577,829	1,217,343	7.01%
.748 Millage Compression	210,055,192	226,344,663	16,289,471	7.75%
Safe Schools	64,456,019	64,456,019	0	0.00%
Supplemental Academic Instruction	706,662,699	712,207,631	5,544,932	0.78%
Reading Instruction Allocation	130,000,000	130,000,000	0	0.00%
ESE Guaranteed Allocation	1,055,304,496	1,060,770,374	5,465,878	0.52%
DJJ Supplemental	7,610,925	7,456,003	(154,922)	-2.04%
Student Transportation	435,164,782	438,875,286	3,710,504	0.85%
Instructional Materials	228,792,422	230,743,258	1,950,836	0.85%
Teachers Classroom Supply Asst Program	45,286,750	45,286,750	0	0.00%
Virtual Education Contribution	15,464,738	12,185,153	(3,279,585)	-21.21%
Digital Classrooms Allocation	80,000,000	80,000,000	0	0.00%
Administered Funds Allocation	787,194	0	(787,194)	-100.00%
Federally-Connected Student Supplement	12,136,893	12,883,871	746,978	6.15%
<b>TOTAL FEFP</b>	<b>15,715,579,475</b>	<b>16,044,794,147</b>	<b>329,214,672</b>	<b>2.09%</b>
<b>ADJUSTMENTS</b>				
Required Local Effort Taxes	7,605,418,567	7,603,850,013	(1,568,554)	-0.02%
Proration to Funds Available	7,451,419	0	(7,451,419)	-100.00%
<b>LESS ADJUSTMENTS</b>	<b>7,612,869,986</b>	<b>7,603,850,013</b>	<b>(9,019,973)</b>	<b>-0.12%</b>
<b>STATE FEFP</b>	<b>8,102,709,489</b>	<b>8,440,944,134</b>	<b>338,234,645</b>	<b>4.17%</b>
<b>STATE CATEGORICAL PROGRAMS</b>				
District Lottery/School Recognition Funds	134,582,877	134,582,877	0	0.00%
Class Size Reduction Allocation	3,071,776,008	3,097,734,706	25,958,698	0.85%
<b>TOTAL STATE CATEGORICAL FUNDING</b>	<b>3,206,358,885</b>	<b>3,232,317,583</b>	<b>25,958,698</b>	<b>0.81%</b>
<b>TOTAL STATE FUNDING</b>	<b>11,309,068,374</b>	<b>11,673,261,717</b>	<b>364,193,343</b>	<b>3.22%</b>
<b>LOCAL FUNDING</b>				
Total Required Local Effort	7,605,418,567	7,603,850,013	(1,568,554)	-0.02%
.748 Discretionary Local Effort	1,272,283,473	1,364,693,386	92,409,913	7.26%
<b>TOTAL LOCAL FUNDING</b>	<b>8,877,702,040</b>	<b>8,968,543,399</b>	<b>90,841,359</b>	<b>1.02%</b>
<b>TOTAL FUNDING (State and Local)</b>	<b>20,186,770,414</b>	<b>20,641,805,116</b>	<b>455,034,702</b>	<b>2.25%</b>
State Dollars per Unweighted FTE	4,031.48	4,126.13	94.65	2.35%
Local Dollars per Unweighted FTE	3,164.75	3,170.10	5.35	0.17%
Total Dollars per Unweighted FTE	7,196.23	7,296.23	100.00	1.39%
State Funds as a Percent of Total	56.02%	56.55%	0.53%	0.94%
Local Funds as a Percent of Total	43.98%	43.45%	-0.53%	-1.20%

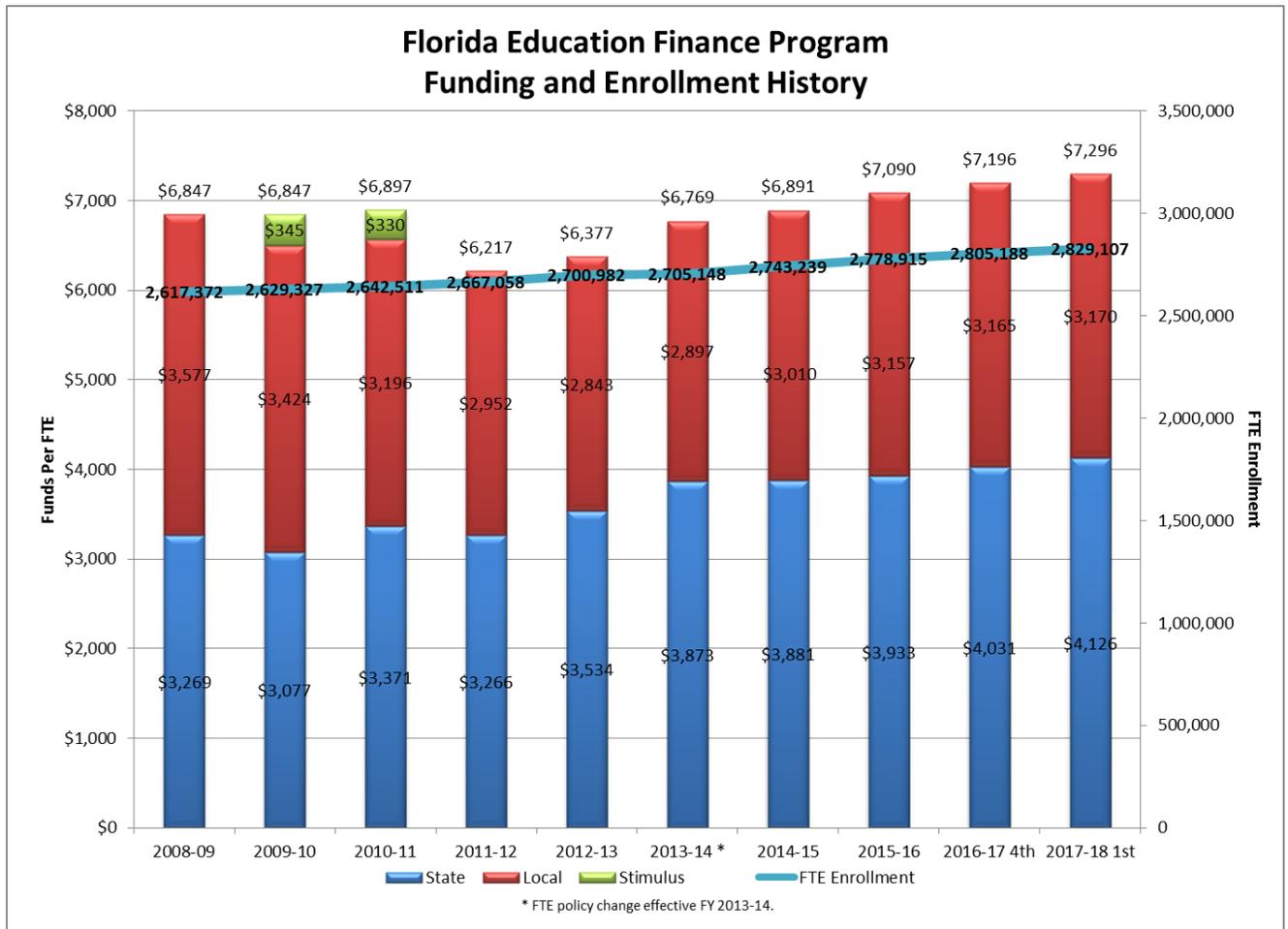
The bill specifies the uses of the funds appropriated in the FEFP for the funding allocations that are in addition to the base student allocation, the Class Size Reduction Allocation and the District Lottery and School Recognition Funds, and describes the calculation formulas for the distribution of these funds.

As identified on the above chart, the bill specifically provides the uses and calculation formulas for the following:

- DJJ Supplemental
- Sparsity Supplement
- Exceptional Student Education (ESE) Guaranteed Allocation
- Declining Student Enrollment Supplement
- Safe Schools
- Supplemental Academic Instruction
- Reading Instruction Allocation
- Instructional Materials
- Student Transportation
- Teachers Classroom Supply Assistance Program
- Federally Connected Student Supplement
- Virtual Education Contribution
- Digital Classrooms Allocation
- Class Size Reduction Allocation
- District Lottery/School Recognition Funds

And finally, the bill incorporates the FEFP work papers by reference for the purpose of displaying the calculations used by the Legislature.

The following chart shows a 10-year history of change in FTE growth as well as the total funds per student:



**B. SECTION DIRECTORY:**

Section 1: Provides an appropriation for the Florida Education Finance Program (FEFP).

Section 2: Provides an appropriation for the Class Size Reduction Allocation.

Section 3: Provides an appropriation for the District Lottery/School Recognition Funds.

Section 4: Incorporates the FEFP work papers by reference for the purpose of displaying the calculations used by the Legislature.

Section 5: Provides the authority to create the FEFP calculation.

Section 6: Specifies the uses of the funds provided for in Section 1 of this act.

Section 7: Specifies the uses of the funds provided for in Section 2 of this act.

Section 8: Specifies the uses of the funds provided for in Section 3 of this act.

Section 9: Provides an effective date of July 1, 2017.

**II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT**

**A. FISCAL IMPACT ON STATE GOVERNMENT:**

1. Revenues:

None.

2. Expenditures:

The bill appropriates \$11.7 billion in total state funds of which \$154.0 million is nonrecurring.

**B. FISCAL IMPACT ON LOCAL GOVERNMENTS:**

1. Revenues:

The bill provides for a statewide reduction in the required local effort millage, resulting in a \$521 million avoidance in property taxes to property owners.

2. Expenditures:

None.

**C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:**

None.

**D. FISCAL COMMENTS:**

	RECURRING	NONRECURRING	TOTAL
<b>GRANTS AND AIDS - FLORIDA EDUCATIONAL FINANCE PROGRAM</b>			
EDUCATIONAL ENHANCEMENT TRUST FUND	\$ 197,655,678	\$ 206,900,000	\$ 404,555,678
GENERAL REVENUE FUND	\$ 8,029,190,367	\$ (63,240,813)	\$ 7,965,949,554
STATE SCHOOL TRUST FUND	\$ 60,138,902	\$ 10,300,000	\$ 70,438,902
	\$ 8,286,984,947	\$ 153,959,187	\$ 8,440,944,134
<b>GRANTS AND AIDS - CLASS SIZE REDUCTION</b>			
EDUCATIONAL ENHANCEMENT TRUST FUND	\$ 103,776,356	\$ -	\$ 103,776,356
GENERAL REVENUE FUND	\$ 2,907,797,252	\$ -	\$ 2,907,797,252
STATE SCHOOL TRUST FUND	\$ 86,161,098	\$ -	\$ 86,161,098
	\$ 3,097,734,706	\$ -	\$ 3,097,734,706
<b>GRANTS AND AIDS - DISTRICT LOTTERY AND SCHOOL RECOGNITION PROGRAM</b>			
EDUCATIONAL ENHANCEMENT TRUST FUND	\$ 134,582,877	\$ -	\$ 134,582,877
<b>TOTAL PROGRAM: STATE GRANTS/K12-FEFP</b>	<b>\$ 11,519,302,530</b>	<b>\$ 153,959,187</b>	<b>\$ 11,673,261,717</b>

The above chart shows the total funds, by category and by fund source, provided for in this bill. Nonrecurring funds are expenditures that are not expected to be needed or available after the current fiscal year, and are deducted during the development of the base budget for next fiscal year. There is a negative nonrecurring general revenue funds in the FEFP. This provides legislative direction to add the \$63.2 million rather than continuing the deduction during the development of the base budget for Fiscal Year 2018-2019. This will result in \$63.2 million of the \$154.0 million in nonrecurring funds being automatically restored in Fiscal Year 2018-2019.

**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**