

Florida's Revenue Outlook Impact to the State University System

National Trends

Nationally, states struggled to close budget gaps. This year's state legislative session will go down as one of the most brutal in recent memory as the national recession forced lawmakers to find money to cover a staggering \$215 billion in estimated budget gaps for 2009 and 2010 - the equivalent of more than \$700 for every man, woman and child in the country. Even with the federal stimulus package dumping billions of dollars into the states, California, Kentucky, Nevada, New York and Washington are among states that struggled with the largest deficits in modern history.¹

State and local government budgets have been far more severely cut than in previous recessions. In the recession of 1990-1992, state budget shortfalls as a percent of tax sources were 3.9 percent; in the 2001-2003 recession it was 5.8 percent. So far in the 2008-2009 era it's 8.6 percent, and the numbers for 2009 are preliminary. Final numbers will be larger, according to Donald Boyd of the Rockefeller Institute. And, as Boyd points out, these are the numbers states have been posting despite a significant boost from the federal stimulus funds.

Will it get worse? The taxing and spending cuts are not behind us, according to Boyd. "Further difficult actions will be required after stimulus money runs out," he says. "FY 2012 will need much more action."²

Estimates of states' revenue shortfalls have grown worse since the Spring, reaching a total of nearly \$143 billion when most states began the 2010 fiscal year on July 1st, according to a survey by the National Conference of State Legislatures.

Several state university systems, including those of Colorado, Maryland, Virginia, Michigan, and California have been advised to anticipate further cuts in 2009. Florida, Idaho, Massachusetts, Nevada, New Jersey, Rhode Island and South Carolina have been granted authority from the US Department of Education for waivers from the maintenance of effort provisions of the American Recovery and Reinvestment Act, as it is anticipated that these states will be unable to sustain state funding at the 2005-06 levels required by the act.³

Snapshot of Florida's Economy

¹ Stateline.Org. 08/17/09, *States plug budget holes, for now*, Pamela M. Prah.

² Governing, August 2009, *How Bad Is It?* Penelope Lemov.

³ Chronicle of Higher Education, 07/27/09, *More Cuts for Colleges are Likely Even After State Pass Budgets*, Eric Kelderman.

The Florida Economic Estimating Conference met in August 2009 to revise the forecast for the state's economy. As further updated by the Legislative Office of Economic and Demographic Research, the latest forecast reveals an economy still burdened in the short run by national and fiscal shocks, but showing underlying resilience in the longer-term. Population growth – while at an historic low – continues to be the state's primary engine of economic growth, fueling both future employment and income growth. While Florida wasn't the only state to experience a significant deceleration in economic growth, it was one of the first and hardest hit.⁴

Facing the darkest economic climate since the Great Depression, Florida ended its overtime 2009 session by balancing a budget with the help of federal stimulus funds, increasing the cigarette tax by \$1 a pack, increasing various fees and increasing tuition at state universities by as much as 15 percent. However, in spite of several attempts by Florida officials to offset the financial distress of Florida's economy with new revenue sources, estimated general revenue collections for 2009-10 were still less than 2008-09 collections by \$332.4 million or 1.6 percent.⁵ Furthermore, the Conference reduced expected distributions to the educational enhancement trust fund (lottery) from current projections by \$14.5 million in 2009-10 and \$13.4 million in 2010-11.⁶ Within the last couple of years, Florida legislators have faced countless dilemmas in balancing the state budget at a time when state and local sales tax collections are low – this seems challenging as state services are up due to laid-off workers and struggling families seeking unemployment benefits, food stamp incentives and health care services. However, according to the Conference, 2010-11 remains positive with projected growth in general revenue of 6.8 percent over the revised 2009-10 estimates, marking an end to four consecutive years of declining revenue receipts.

What does this mean for State Universities?

For 2009-10, of the \$1.3 billion in federal stimulus funds appropriated to K-20 education in Florida, approximately \$161.2 million in funds was provided to the State University System (SUS) with an equivalent amount expected for 2010-11. The vast majority of these funds will be used to enhance faculty and staff recruitment efforts or maintain already existing personnel. According to the latest projections, an estimated 2,900 jobs will be saved or created throughout the SUS as a result of the federal stimulus funds appropriated in 2009-10. This is great news for the SUS in the short-term as more jobs are saved and created.

⁴ Office of Economic & Demographic Research, Economic Estimating Conference, "Florida Economic Outlook, July 2009."

⁵ Executive Summary, Revenue Estimating Conference for the General Revenue Fund, "Financial Outlook Statement", August 2009.

⁶ Executive Summary, Lottery Estimating Conference, July 2009.

Although the SUS did experience general revenue and lottery reductions of as much as \$296 million, the availability of the federal stimulus funds allowed the universities to maintain jobs that would have been eliminated if these funds were not available.

Providing universities with additional revenue streams pumps extra incentives into enhancing classroom instruction, recruiting world-class faculty, providing scholarships to the best and brightest students and building state of the art research and medical centers. The question still remains.....what happens after these federal funds are no longer available after two years? The timeline assumed by the Conference has weak economic recovery beginning in the Spring of 2010. Although sales tax and insurance premium taxes are expected to lag in the short-run, an increase in corporate income tax is expected due to corporate profits remaining higher than originally anticipated. Furthermore, housing-related taxes are not expected to decline any further. With this in mind, more general revenue may trickle down to the universities as the economy recuperates from four years of revenue shortfalls.

General Revenue Outlook

Based on the most recent general revenue outlook statement, revenue collections for 2010-11 and 2011-12 are not expected to approach the revenue levels of 2005-06 as originally anticipated (Exhibit 1).⁷ However, further projections show that the extreme financial stress that surfaced nearly a year ago will start to diminish by late Spring of 2010. With this possibility in sight, the universities' reliance on general revenue funds could present promising results in the out-years as more state dollars are made available and used towards faculty recruitment efforts and enhancing student service initiatives. This could ultimately improve the quantity and quality of services for over 300,000 students in the SUS.

⁷ Executive Summary, Revenue Estimating Conference for the General Revenue Fund, "Financial Outlook Statement", August 2009.

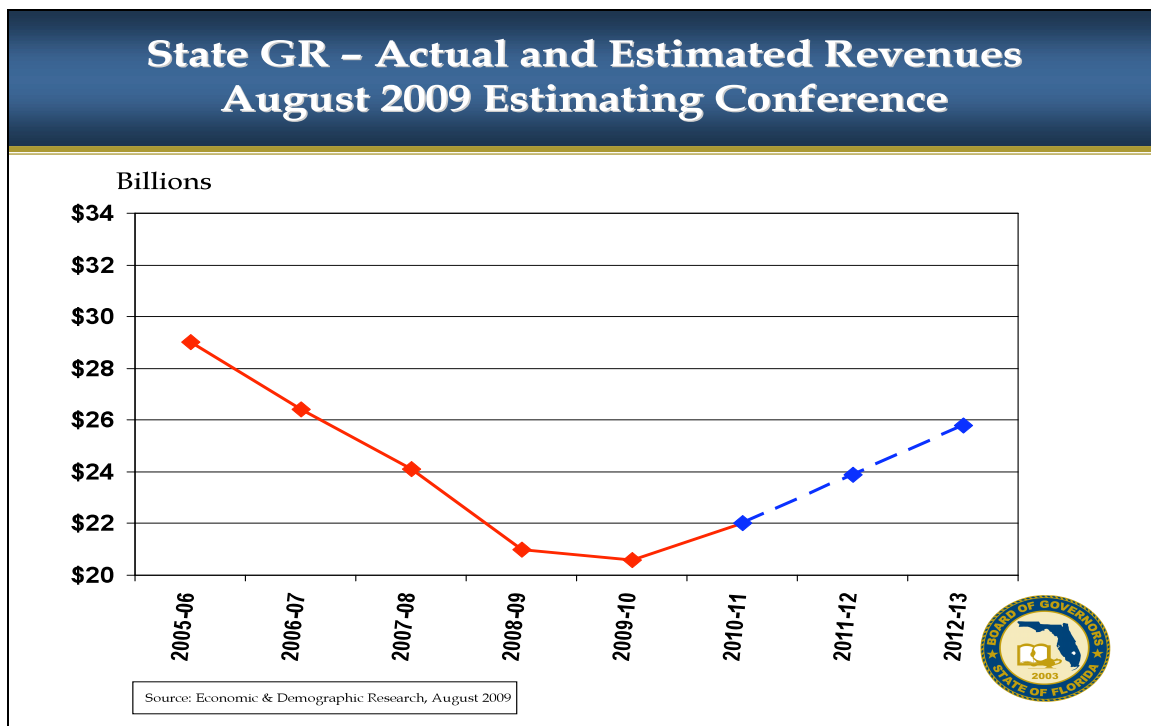


Exhibit 1

While the State's general revenue portion of the entire 2009-10 State budget is 32 percent, the general revenue portion of the SUS Education and General budget is 55 percent. This is a clear indication that the universities' main life support is recurring state appropriated dollars. Since 2007-08, the SUS has seen over \$500 million in state budget reductions – needless to say, any further reductions in state revenues could force universities to make downward adjustments to student enrollment, number of faculty and staff positions, and educational programs.

Lottery Revenue Outlook

In July the estimating conference reduced the expected lottery revenues by \$14.5 million in 2009-10 and \$13.4 million in 2010-11, while recognizing that in 2008-09 the lottery distribution exceeded estimates by \$59 million. However, distributions are expected to increase by 0.7 percent in 2011-12 and 1.3 percent in 2012-13 (Exhibit 2).⁸

⁸ Executive Summary, Lottery Estimating Conference, July 2009.

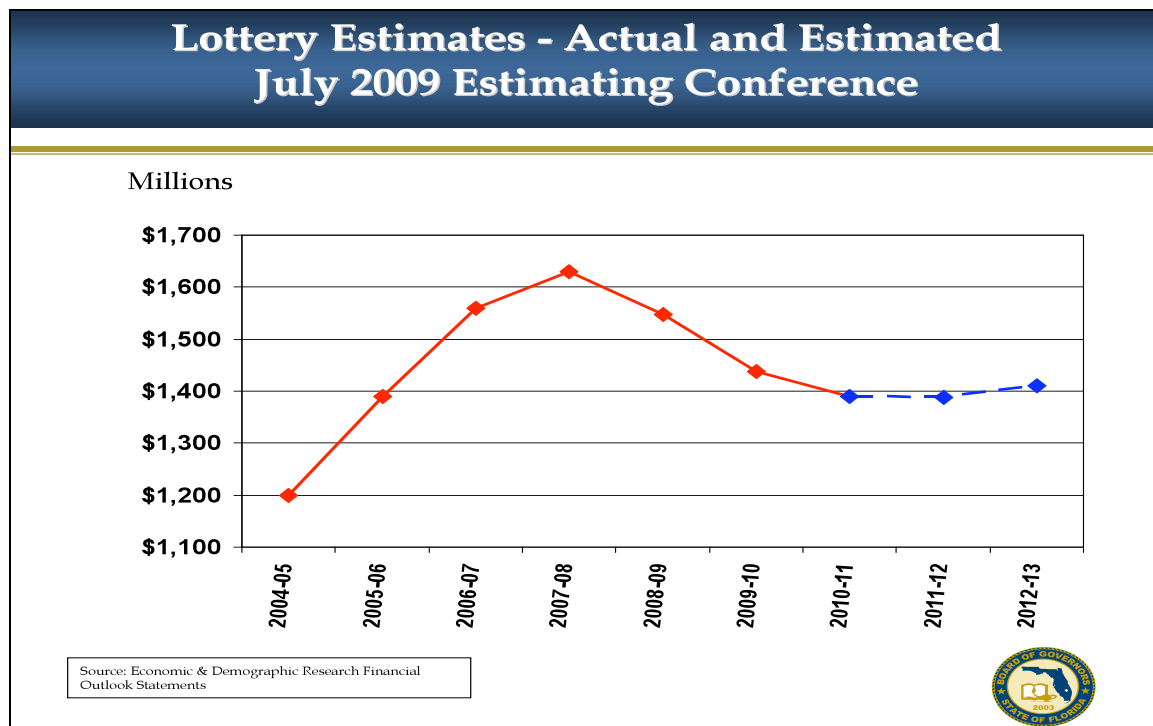


Exhibit 2

The K-12 School Recognition program, Bright Futures and debt service payments for K-12 educational facilities have first claims on lottery revenues. Unfortunately, this has resulted in universities not receiving their first distribution of lottery revenues until the middle of the fiscal year. With further reductions in general revenue and a delay in receiving lottery revenues, universities must be diligent in managing their cash flow operations. Furthermore, if the lottery revenue collections continue to take a downward spiral, universities will not receive their full lottery appropriations, thus resulting in an automatic reduction in funds.

In the 2009-10 Legislative Budget Request the Board of Governors requested \$102 million for the Major Gifts Challenge Grant matching program which is funded with available general revenue or lottery funds. However, since lottery and general revenue collections continue to take a downturn, an appropriation was not provided for this program. In fact, an appropriation has not been given for Major Gifts within the last two years. The inability to match private donations that create endowments in support of scholarships, professorships and Eminent Scholar Chairs could cause donors to withhold future donations until the state provides matching funds.

Gross Receipts Sales Tax and the Communications Services Tax Outlook

Public Education Capital Outlay (PECO) is the primary state revenue source for university construction: \$130.6 million in 2009-10; \$454.8 million in 2008-09; \$660.4 million in 2007-08; \$515.8 million in 2006-07 (Exhibit 3). However, the current PECO projection for the universities is \$50.6 million for 2010-11, with only a moderate recovery in future years.

PECO projections are driven by the change in PECO bond capacity related to collections of the Gross Receipts Sales Tax and the Communications Services Tax. Actual collections of these taxes for 2008-09 matched the 2007-08 levels, meeting the forecasted amounts. However, the PECO forecast for 2009-10 reduces tax collections by 3 percent, with the 2010-11 forecast dropping by almost 6 percent.

Non-recurring general revenue serves as the primary source for university Alec Courtelis facility enhancement challenge grants, as well as concurrency payments related to campus master planning and campus development agreements. The university system will need an estimated \$128 million to fund these needs. To the extent non-recurring general revenue is used to offset cuts to recurring expenses, funding may not be available to fund these needs.

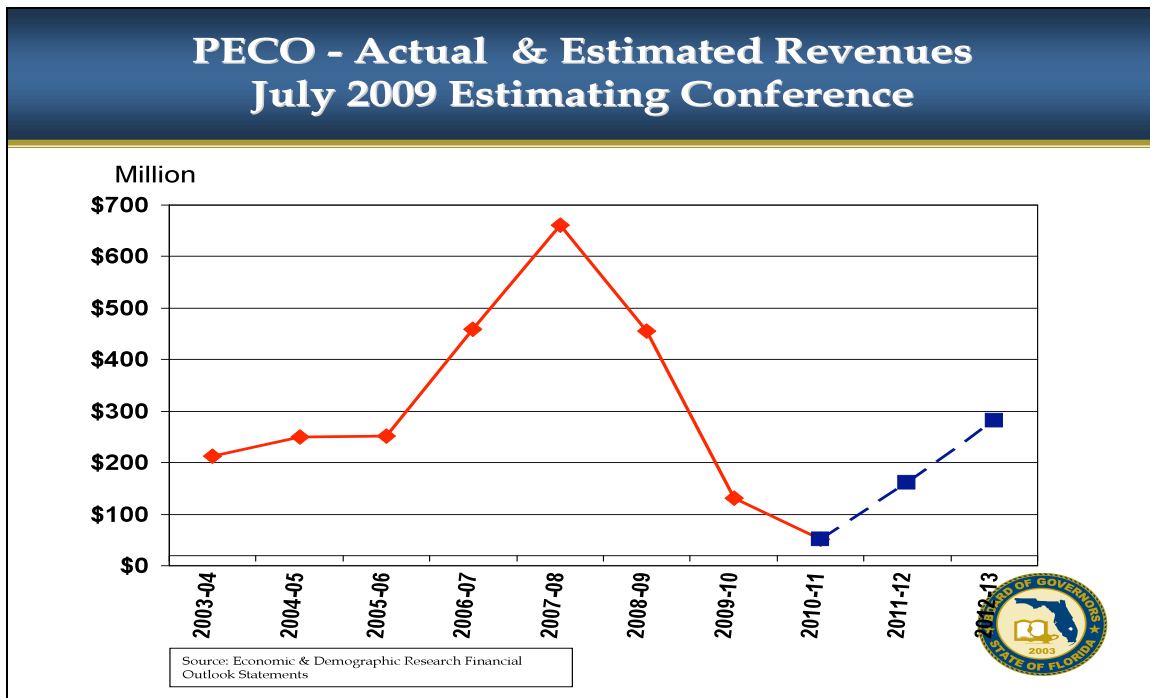


Exhibit 3