



National Trends

Despite the gloomy revenue outlook and economic woes, many states are sparing higher education institutions from major budget cuts and in some cases, lawmakers are even providing increases. The difference in the current economic downturn compared to previous economic slumps is that more state leaders are willing to put money into higher education with the intent to use universities as economic drivers.³ Some states have scaled back reductions acting to close budget gaps by raising taxes or cutting other areas of the budget more deeply.



³ Chronicle of Higher Education 5/8/2008 article



Attachment 2

Florida Trends

For the next several years, the revenue outlook for Florida is quite bleak. There is very little growth anticipated for the state's primary revenue source.... general revenue. Lottery funds, which only support education, are expected to remain basically flat and the revenue source used to support the construction of educational facilities has not kept pace with recent trends.

Based on the last general revenue estimating conference, the major general revenue factors such as sales tax, documentary stamps, and corporate income tax collections are all down. These factors are influenced by the credit crisis, stagnate housing market, increasing energy prices, and higher unemployment.

Lottery revenues, touted as enhancing education, have flattened. In an effort to create additional interest, several new games have been added, thus there was an expectation that new revenue would be generated. The new games, such as the \$30 scratch off game, the Cash 3 and Play mid-day play options and the Lotto new play option, have not generated the additional revenue as previously expected.⁴ Recently the Department of Lottery announced that Florida will join other states in offering Powerball in hopes of generating additional consumer interest and ultimately increase revenues for education.

The March, April and May general revenue collections continue to come in below the March revenue estimates. This does not bode well as the state began the new fiscal year on July 1.

With the downward revision in general revenue and lottery revenue estimates and the continued shortage of general revenue collections, the state will not release the full 25 percent of appropriated funds normally provided each quarter beginning July 1, 2008. According to the Executive Office of the Governor (EOG), only 24 percent will be released each quarter as they continue to monitor the economy and revenue collections. If this continued for the full fiscal year, the State University System would receive a four percent or \$96 million reduction in the operating budget. This would be in addition to \$165 million in cuts taken over the last nine months.

⁴ Revenue Estimating Conference - Lottery Sales, Executive Summary, April 9, 2008



A. General Revenue Outlook

Based on the general revenue outlook statement, revenue collections are not anticipated to approach the revenue levels of Fiscal Year 2005-06 level until Fiscal Year 2010-11 (Exhibit 2).⁵ Once revenue collections stabilize, it is estimated that there will be at least two years of minimal growth. With the possibility of little new revenue, and increases in inflation, the universities' purchasing power will decline thus resulting in a base reduction in revenue. This will make it challenging to hire and retain faculty/staff and purchase goods and services. This will ultimately impact the quantity and quality of services for students.

While the State's general revenue portion of the 2008-09 \$65 billion state budget is 39 percent, the general revenue portion of the State University System Educational and General budget is 63 percent. With low tuition and a high reliance on state support, the decline in state revenue has a significant impact on the university system. Generally the university system is the last to receive new funds and the first to see a reduction in funding behind k-12 education, health care and criminal justice/corrections.

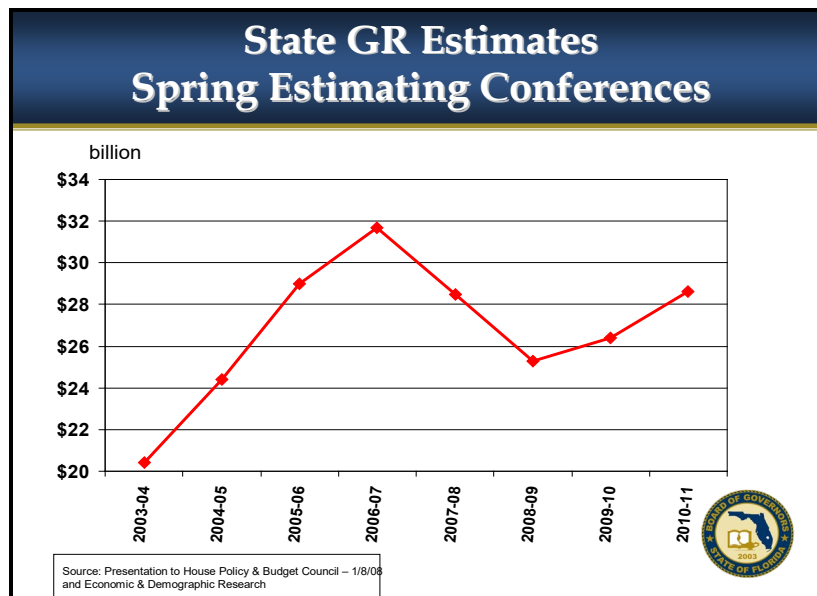


Exhibit 2

B. Lottery Revenue Outlook

In April the estimating conference reduced the expected lottery revenues from the previous projections by \$46.9 million in 2007-08, \$79.0 million in 2008-09, and \$79.5 million in 2009-10. Lottery will continue to have some growth but not as originally estimated. These figures

⁵ Executive summary, Revenue Estimating Conference for the General Revenue Fund, "Financial Outlook Statement", March 11, 2008



Attachment 2

translate into growth rates of 1.2% in 2007-08, 3.2% in 2008-09, and 2.0% in 2009-10. In addition, Bright Futures and debt services payments for educational facilities have first claims on lottery revenue. Bright Futures tends to grow each year as more students qualify and there are increases in community college and university tuition. This has resulted in universities not receiving their share of lottery revenues until the middle of the fiscal year. With a reduction in general revenue and a delay in receiving lottery revenues, universities must be diligent in managing their cash flow.

For the past two years, the Major Gifts Challenge Grant matching program was funded entirely from lottery. Since both lottery and general revenue collections are down, there is not a 2008-09 appropriation for this program which the Board of Governors requested \$85 million. 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.

Another concern is that the Legislature has shifted over \$68 million from general revenue funding to lottery funding for the state universities. Thus, if the lottery revenue collected is lower than projected, the universities will not receive their full lottery appropriation, thus resulting in an automatic reduction in funds.

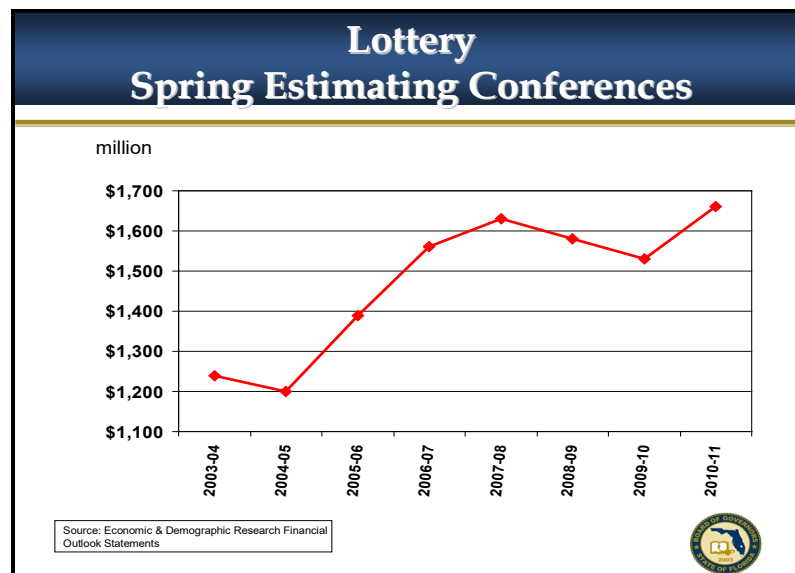


Exhibit 3



C. Gross Receipts Sales Tax and the Communications Services Tax Outlook

Public Education Capital Outlay (PECO) is the primary revenue source for university construction, generating \$454.8 million in 2008-09 funding. This follows a record amount of \$660.4 million in 2007-08 and \$515.8 million 2006-07. However, the PECO projection for the universities is projected to fall to \$119.6 million in 2009-10 and \$197.7 million in 2010-11 (Exhibit 4). 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.

While these collections have generally exceeded 2006-07 levels, collections have been at or below estimate. Therefore, it is highly unlikely that PECO projections will be increased until collections strengthen. On a positive note, the nature of this program is such that cuts to current appropriations are not anticipated.

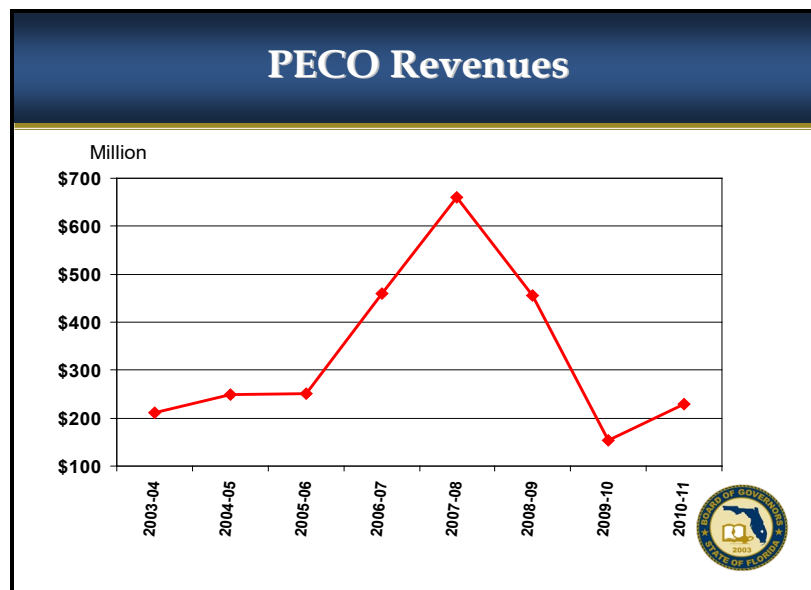


Exhibit 4

Non-recurring general revenue serves as the primary source for university facility challenge grants and new for 2009-10, concurrency payments related to campus master planning. The university system will need an estimated \$90 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.

Given the current PECO forecast, the Board of Governors will be challenged to provide funding to finish construction of those projects which are currently appropriated for 2008-09. Some projects may not be fully funded until 2011-2012, leaving little funding for any new projects.