

## 15<sup>th</sup> Economic Update

February 2, 2010

Dear Colleagues,

### **The Budgetary Good, Bad and Ugly**

The **good news** is that we do not expect a mid-year state budget reduction this school year. In the previous two school years, the school district experienced significant mid-year state funding cuts.

The **bad news** is that everywhere we are seeing signs of continued economic trouble.

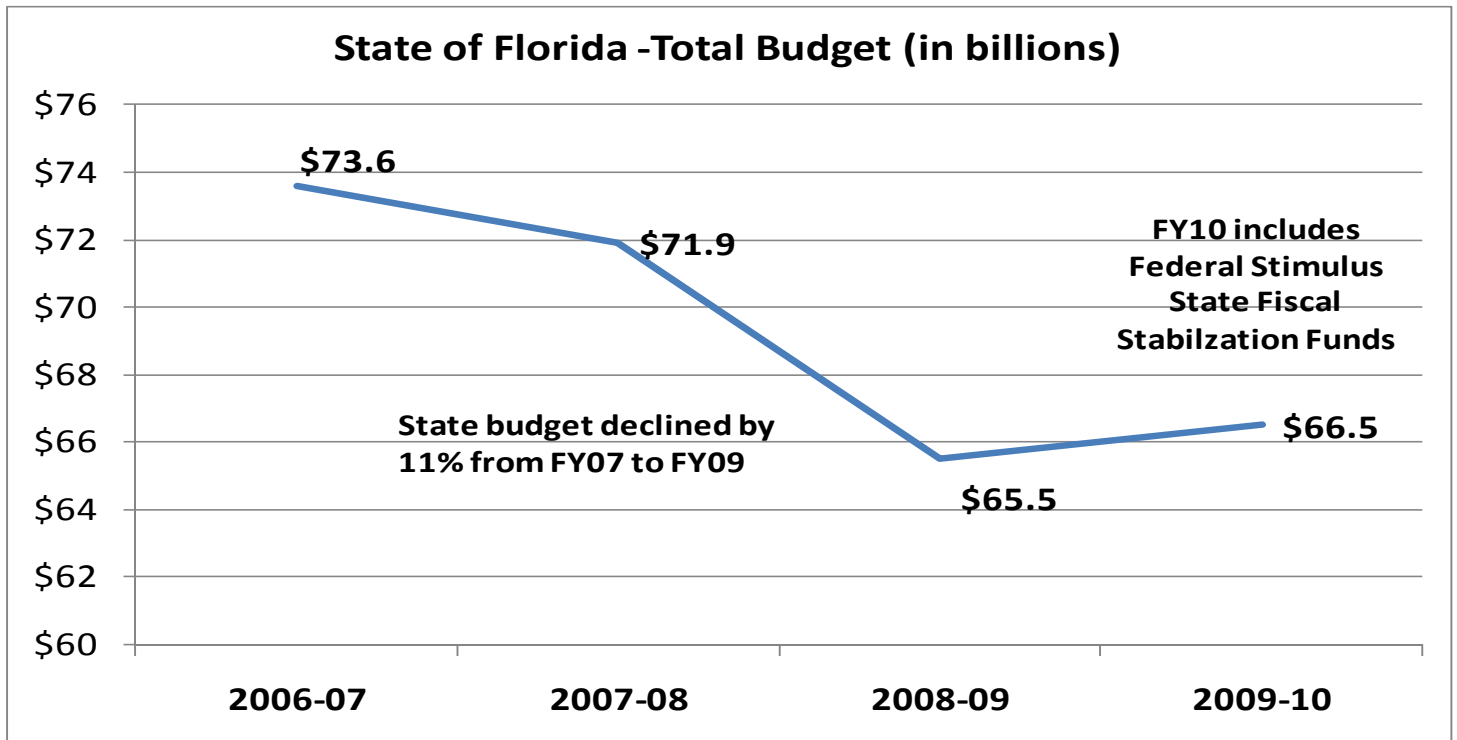
- The *Sun-Sentinel* (1-24-10) headlined “**FLORIDA LEGISLATURE - BUDGET: IT COULD GET UGLY.** Last year \$66.5 billion. This year: At least \$1 billion less”
- *The Palm Beach Post* (2-1-10) chronicled a record \$1.6 trillion US budget deficit.
- The *Sun-Sentinel* editorial (1-31-10) cautioned that even foreign leaders are warning the United States to curb “government deficits and mounting debt” at the risk of further financial meltdown.

The **ugly news** is we expect a dramatic reduction in stimulus funding at the end of next year (FY2011) which will necessitate serious consideration of employee layoffs. Specifically, 1,600 non-instructional jobs are funded through stimulus funding. There are a growing number of American citizens, via the Tea Party movement, who are committed to cutting government spending and taxes.

With these thoughts in mind, we are focusing on balancing the needs of three important goals.

- First, increasing the academic achievement of our students;
- second, protecting our employees, to the extent possible, from job loss or salary roll-backs;
- and third, respecting our taxpayers’ expectation that PBSB maintain fiscal solvency.

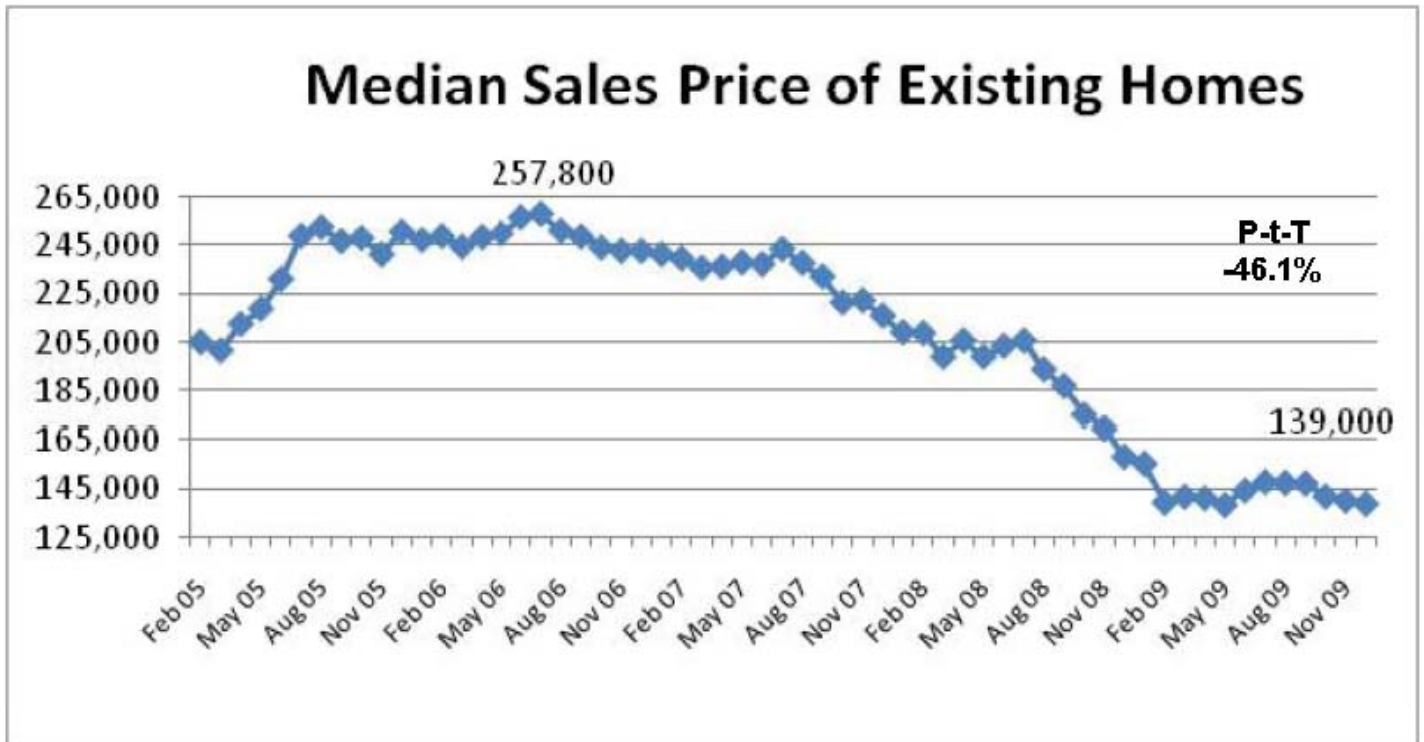
The accompanying graph clearly indicates the broad reduction in State revenues which directly impacts PBSB's ability to budget for the aforementioned goals. In recent years we have seen the total state budget decline by 11%. The uptick in FY2010 is attributed to the infusion of Federal stimulus funds.



### Major Budgetary Factors

#### Housing & Foreclosures

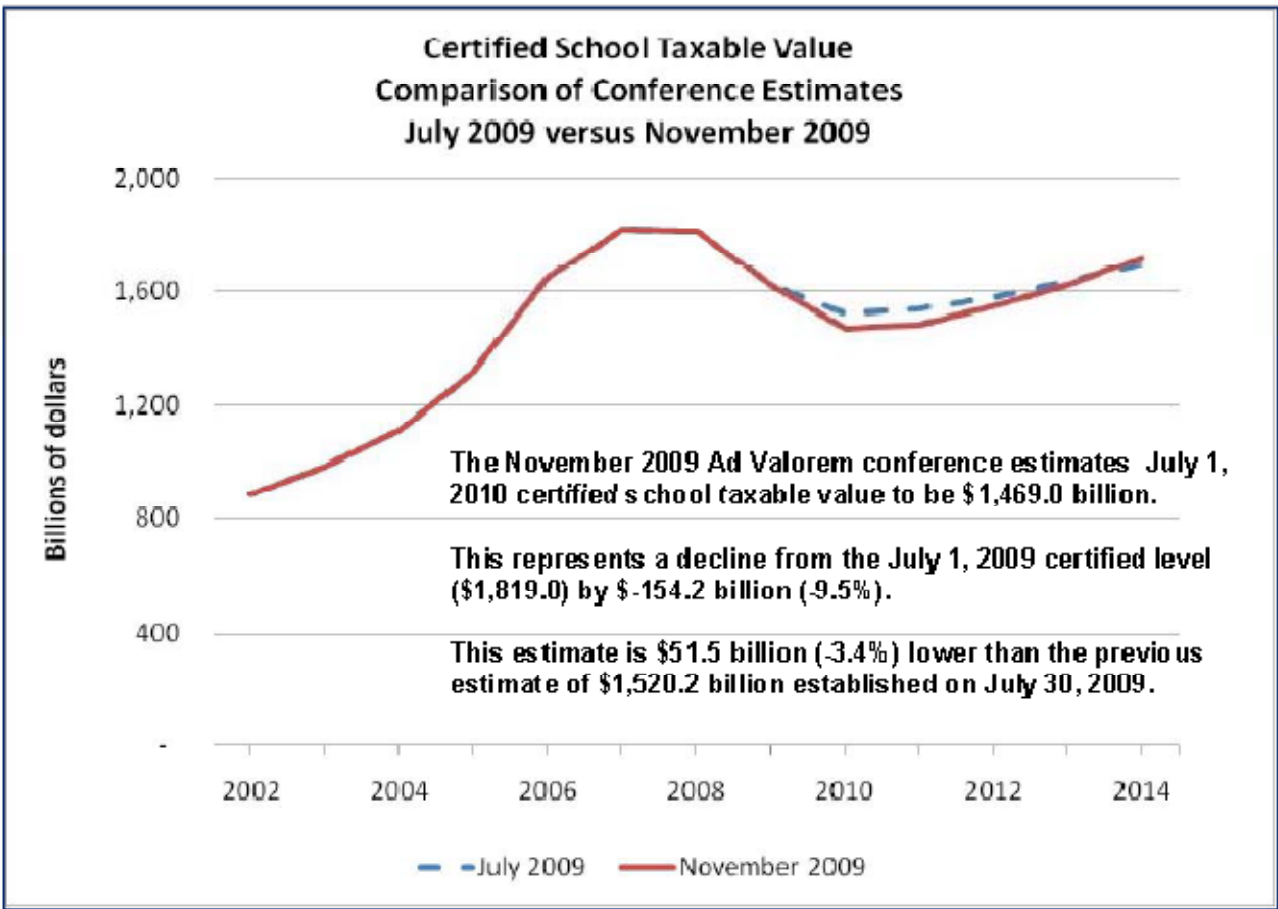
From a national perspective, the recession ended in June, 2009. Having started in December of 2007, it is the longest recession on record and only eclipsed by the Great Depression of the 1930's. However, individual state recovery is expected to vary widely across the country. Florida was one of the hardest hit states due to the collapse of the housing market and our economic turnaround is expected to be very slow. Florida's inventory of foreclosed homes and current mortgage delinquency rate lead the nation. Sales of existing homes have grown, but foreclosures are adding more inventory than the sales are subtracting. The median sales price of homes in Florida has fallen 46.1% since 2006 as shown in the following graph.



### Declining tax revenues

The decline in property values and the tax roll has a direct impact on school district revenues. School taxable values are projected to decline 9.5% statewide and 9.8% in Palm Beach County. This decline in the tax base creates an \$814 million hole in the FY2011 state K-12 education budget. The Florida Legislature must either increase local property taxes or identify other state revenue sources (i.e. gambling) to maintain the current level of funding. The state is also projecting 28,928 additional students for the upcoming 2010-11 school year which must be funded.

Leaders in both the House and Senate have acknowledged a sizeable budget shortfall for next year and do not support tax increases. Senate President Jeff Atwater has stated; "We will not extract one more dollar from the small business owner of this state or from any Floridian's wallet." Senate Budget Chief J.D. Alexander has said "we have to make tough decisions just like every Florida family." The following chart shows how Florida's school taxable value has fallen in recent years.



### **Unemployment**

The reported end of the recession does not mean the unemployment situation will improve in the near future. Florida's unemployment rates are projected to reach 12% in 2010. Based on the Department of Labor's December statistics, Florida's unemployment rate reached 11.8% exceeding the national average of 10%. Palm Beach County's unemployment was 11.5% for December. These figures do not include people who have become discouraged and stopped looking for work or people who have accepted part-time jobs and are currently under-employed. Some reports indicate the true unemployment rate ranges from 17% to 22%.

### **Student Enrollment**

Our student enrollment in Palm Beach County increased by over 2,000 students which generated enough revenue to cover the additional teachers hired to serve these students. However, the funding per student was reduced when the enrollment growth across the state increased and the total educational dollars were held constant.

## **Florida's Budget**

The Florida Legislature will be convening on March 2, for their 2010 regular session. Once again, adopting a balanced state budget that meets the needs of Floridians will be their paramount responsibility. In preparation for the upcoming session, Legislators were recently briefed on Florida's economy. The shortfall between revenues for next year (FY2011) and a continuation budget that addresses only critical needs is projected at \$1.1 billion. Funding other high priority needs, including a \$467 million unfunded actuarial liability in the Florida Retirement System, increases the projected state budget shortfall to \$3.2 billion.

The Governor's \$69.2 billion budget released last week paints a rosier picture and includes a reported 2.61% increase for education. But members of the Legislature have pointed out that revenue sources in the Governor's proposal do not currently exist. An example is a \$433 million gaming compact with the Seminole Tribe of Florida that has failed to pass the Legislature in two previous attempts. The Governor's proposal also relies heavily on additional Federal support and tapping state trust funds. While there seems to be consensus among law makers that funding education is the top priority in this election year, there is little agreement on how to accomplish this goal.

Some recent quotes as reported by *The Miami Herald* on the Governor's recommended FY2011 budget are shown below:

- "His budget is killing me," said Sen. Stephen Wise, R-Jacksonville, who chairs the senate education appropriations committee. "Where is he getting his money?"
- "This budget is not very useful. The reasons for that are the revenues don't exist," said Rep. David Rivera, a Miami Republican and the chief budget-writer in the House.
- "We're going to deal with the facts as we see them. We have less revenue," Senate President Jeff Atwater, R-North Palm Beach
- "Paying for public education will be the state's top priority, and some state workers probably will lose their jobs to layoffs", Senate President Jeff Atwater, R-North

## **The Challenge**

Locally, our school district faces challenges on both sides of the ledger (i.e. diminished revenues and rising costs) for FY2011. The aforementioned 9.8% projected decline in property values equates to a PBSB FY2011 revenue reduction of \$34.9 million to capital outlay and discretionary tax levies. Non-recurring revenue sources utilized for FY2010 will no longer be available and interest earnings on district investments are nearly non-existent. Health insurance costs and unemployment costs are also expected to climb. Both our general fund operating budget and capital projects budget face considerable shortfalls for next year. As a service organization with 80% of its operating budget tied to employee salaries and benefits, budget balancing options that do not impact our workforce are extremely limited.

After the national crisis of sub-prime mortgages, I believe that the vast majority of employees understand the parallels of obligating the school district to expenditures which may be impossible to meet in an uncertain future. Moreover, there is little public sentiment for government not living within revenues.

I began issuing these economic updates nearly two years ago to keep employees apprised of the unprecedented financial challenges facing our school district. Unfortunately, it appears there will be a need to continue these communications for a few more years. The School Board and I will be reviewing our budget in great detail over the next few months to prepare for potential funding reductions in FY2011 and the funding cliff expected in FY2012 as Federal Stimulus funds are exhausted. Your continued dedication to the students of Palm Beach County in these difficult economic times is appreciated.

Your colleague,

*Dr "J"*