



# AUDITOR GENERAL

## WILLIAM O. MONROE, CPA



### STATE EDUCATION FUNDING 1982 THROUGH 2003

#### Summary

At the request of the Legislative Auditing Committee, we reviewed and analyzed certain aspects of State education funding from fiscal years ended June 30, 1982, through June 30, 2003, with emphasis on the funding levels provided before and after the inception of the Florida Lottery in 1988. For purposes of these analyses, State education funding is defined to be net State Appropriations<sup>1</sup> for K-20 public education.

**Finding No. 1:** There are no widely-accepted definitions or criteria that can be used to derive a definitive answer as to whether Lottery funds have substituted for existing resources for public education. Further, the law does not specify a required State education funding level for funding sources other than the Florida Lottery.

**Finding No. 2:** Based on our identification of various trends and our analysis of data related to State education funding:

- At no time since the inception of the Lottery has non-Lottery State education funding, adjusted and unadjusted for inflation, dropped below pre-Lottery levels.
- Total State education funding, adjusted for inflation, increased an average of 3.67 percent

per year, versus a 7.00 percent increase when unadjusted for inflation.

- Non-Lottery State education funding has generally increased at the same rate as total personal income in Florida for the same period. These trends hold true when the funding and income data are adjusted for inflation.

**Finding No. 3:** The subsequent effects, if any, on State education funding as a result of the merger of the Teacher's Retirement System into the Florida Retirement System on December 1, 1970, are not determinable, primarily due to a lack of detailed historical records.

#### Scope, Objectives, and Methodology

Our audit focused on State funding of K-20 public education in the State of Florida for the fiscal years ended June 30, 1982, through June 30, 2003. K-20 public education refers to public schools, community colleges, and State universities. The objectives of our audit were:

- To determine the effects, if any, on State education funding of the merger of the Florida Teachers' Retirement System (FTRS) into the Florida Retirement System (FRS) with particular emphasis on the impact, if any, on State education funding of the FTRS funding status at the time of said merger and thereafter.
- To determine the total amount of State education funding during the audit period with particular

<sup>1</sup> General Appropriations Act adjusted for line items vetoed by the Governor, line items contingent upon legislation which failed to pass, supplemental appropriations contained in legislation other than the General Appropriations Act, and appropriations resulting from reorganizations enacted by the Legislature.

emphasis on total funding before and after the inception of the Florida Lottery.

- To identify the significant trends in State education funding with particular regard to funds provided from the Florida Lottery versus funds provided from General Revenue since the inception of the Lottery.
- To determine if State education funding has kept pace with inflation since the inception of the Florida Lottery by reference to changes in appropriate inflation indexes.

In conducting our audit, we examined various financial records and related documents pertaining to the funding of public education from the fiscal years ended June 30, 1982, through June 30, 2003. We noted that particular funding of public education by the Florida Legislature changed over time. For example, annual appropriations ranging from \$221 million to \$327 million for the State universities under Contracts and Grants and Auxiliary Enterprises were included in State education funding for fiscal years 1981-82 through 1985-86, but were excluded from appropriations thereafter. More recently, in fiscal year 2002-03, State education funding comprised of State university tuition and fees previously appropriated from the Education and General Student and Other Fees Trust Fund (approximately \$533 million in fiscal year 2001-02) became a non-appropriated item following years of inclusion in State education funding appropriations. Both changes were the result of spending authority being transferred directly to the State universities. For the purposes of our analysis, State education funding refers to those State dollars appropriated by the Florida Legislature for K-20 education during the years included in our audit.

**Background**

Funds for the State support of K-20 public education are provided primarily by Legislative appropriations. Although not included within the scope of our audit, local funds, including ad valorem taxes for K-12 and

certain student fees for colleges and universities, also contribute toward education funding.

The Florida Lottery was established pursuant to a constitutional amendment passed in the November 1986 general election. The 1987 Legislature enacted The Florida Public Education Lottery Act to implement the amendment and the Lottery began operations during the fiscal year ended June 30, 1988.

Two constitutional amendments passed in the November 2002 general election will have a financial impact on future public education funding. One amendment concerns the reduction of class sizes in K-12 public schools by the beginning of the 2010 school year, according to certain maximum enrollment parameters specified by grade level. The other amendment provides for the establishment of free voluntary pre-kindergarten education for every four-year-old child in Florida, beginning no later than the 2005 school year. The effect that these amendments may have on education funding is not considered in this report.

**Findings**

**Finding No. 1 – Legislative Intent**

According to Section 24.102(2), Florida Statutes, the intent of the Legislature regarding the establishment of the Florida Lottery is that:

*the net proceeds of lottery games . . . be used to support improvements in public education and that such proceeds not be used as a substitute for existing resources for public education.*

In the years subsequent to the Lottery’s establishment, concerns have been raised as to whether the Legislature’s expressed intent regarding Lottery funding has been met. The terms *supplant* and *supplement*, though not present in the statutory language, have been used to characterize the status of State education funding from the Lottery with respect to other sources of such funding. Complicating the issue, the law does not define the *existing resources for public education* for which the Lottery is not to be used as a substitute. For example, the funding source to

compare to the Lottery funding could be all non-Lottery State education funding or only General Revenue funding.

There are no widely-accepted definitions or criteria that can be used to derive a definitive answer as to whether Lottery funds have substituted for existing resources for public education (i.e., whether Lottery funds have supplemented or supplanted existing resources). Further, the law does not specify a required State education funding level for funding sources other than the Florida Lottery.

**Finding No. 2 – Trends and Analyses**

We identified various trends and performed analyses of certain data related to State education funding using historical data prior to and subsequent to the inception of the Lottery. In addition, we applied the Consumer Price Index (CPI) (U.S. Bureau of Labor Statistics, base year 2003) in certain circumstances to calculate “adjusted for inflation” data.

However, these trends and analyses may not necessarily depict education funding had the Lottery not been implemented. Competing interests for State funds, as well as general economic conditions impacting the State of Florida, could have resulted in different education funding levels regardless of whether the Lottery was implemented.

State Education Funding

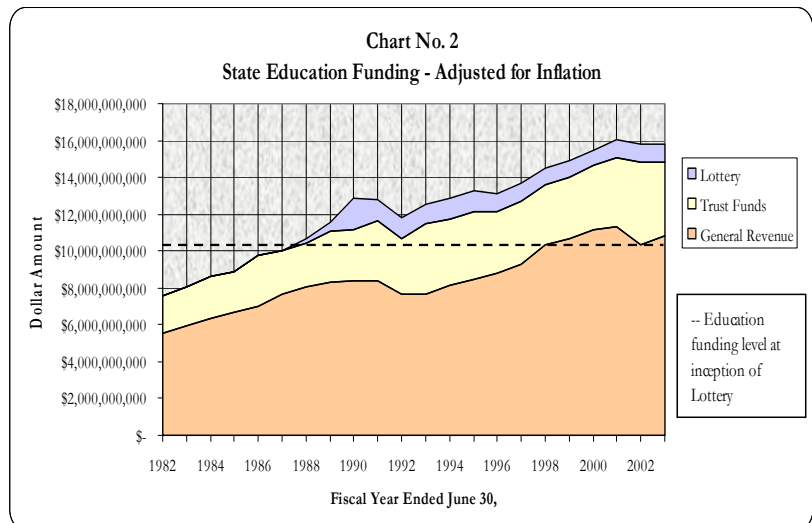
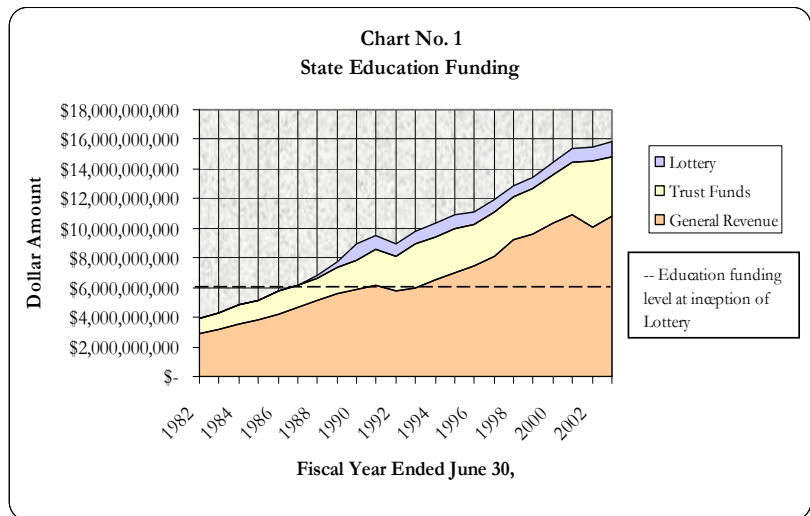
The total amount of State education funding from 1982 through 2003 increased from \$3.9 billion to \$15.8 billion. Funding increases occurred every year except for 1992. Chart No. 1 shows that at no time since inception of the Lottery has non-Lottery State education funding dropped below pre-Lottery levels.

As shown on Chart No. 2, during the audit period, total State education funding, adjusted for inflation, increased at an average annual

rate of 3.67 percent, versus a 7.00 percent average annual increase when unadjusted for inflation. At no time since inception of the Lottery has non-Lottery State education funding, adjusted for inflation, dropped below pre-Lottery level.

General Revenue Education Funding

As shown on Chart 1, General Revenue education funding from 1982 through 2003 increased from \$2.8 billion to \$10.8 billion. As shown on Chart No. 2, when adjusted for inflation, General Revenue funding for education increased at an average annual rate of 3.37 percent, versus a 6.67 percent average annual increase when unadjusted for inflation.



Total Personal Income in Florida<sup>2</sup>

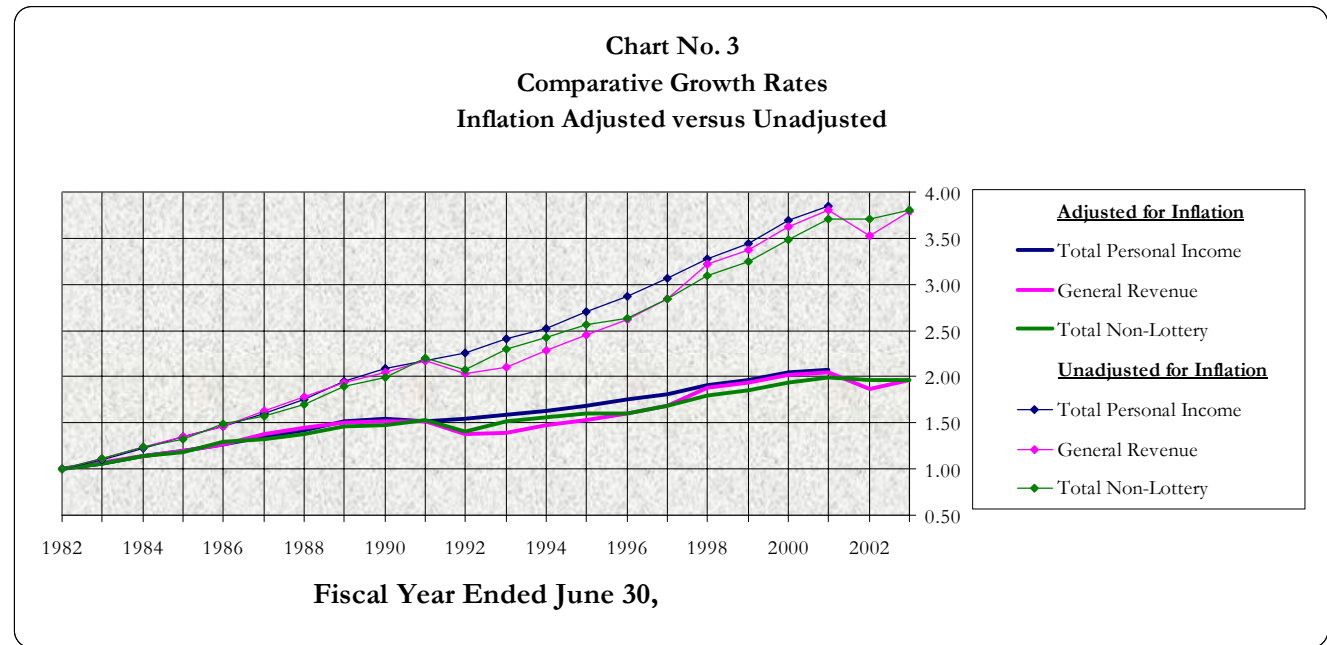
Another trend that was analyzed dealt with the relationship between the total personal income in Florida and non-Lottery State education funding. As shown on Chart No. 3, non-Lottery State education funding has generally increased at the same rate as total personal income for the same general period (total personal income is unavailable for 2002 and 2003). These trends hold true when the funding and income data are adjusted for inflation.

**Finding No. 3 – Teachers’ Retirement System**

The Florida Retirement System (FRS) was created on December 1, 1970, through the consolidation of the then-existing State-administered retirement systems, including the Florida Teachers’ Retirement System (FTRS), the State and County Officers and Employee’s Retirement System, and the Highway Patrol Pension Fund. Additionally, in 1972 the

Judicial Retirement System was merged into FRS. Each of the merged systems had an unfunded liability that was assumed by the FRS upon completion of the merger. According to an actuary report dated April 1973, the total liability stemming from the merger was approximately \$1.8 billion as of July 1, 1972. Our communications with the Division of Retirement, the State Board of Administration, and others disclosed that most of this liability was attributable to the FTRS; however, the available historical records do not include a detailed accounting of the unfunded liabilities attributable to each of the merged systems on December 1, 1970, or thereafter.

As a consequence of the aforementioned lack of documentation, we were unable to determine what effects the merger of the FTRS into the FRS on December 1, 1970, might have had on subsequent levels of State education funding.



This performance audit was made in accordance with applicable *Government Auditing Standards* issued by the Comptroller General of the United States. Please address inquiries regarding this report to Joseph L. Williams, Audit Manager, via E-mail at [joewilliams@aud.state.fl.us](mailto:joewilliams@aud.state.fl.us) or by telephone (850) 414-9941.

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<sup>2</sup> U.S. Department of Commerce, Bureau of Economic Analysis.