

SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

(This document is based on the provisions contained in the legislation as of the latest date listed below.)

BILL: CS/SB 1436

SPONSOR: Finance and Taxation Committee and Senator Carlton

SUBJECT: Class Size Reduction

DATE: March 3, 2003

REVISED: _____

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	<u>Fournier</u>	<u>Johansen</u>	<u>FT</u>	<u>Favorable/CS</u>
2.	_____	_____	<u>AED</u>	_____
3.	_____	_____	<u>AP</u>	_____
4.	_____	_____	_____	_____
5.	_____	_____	_____	_____
6.	_____	_____	_____	_____

I. Summary:

This bill increases the funds available for class size reduction by increasing the gross receipts tax on communications services and allowing for additional bonding of lottery revenue. (The state communications services tax rate is decreased, and the net tax on communications services is unchanged.) It also provides for these funds to be distributed to school districts through new and existing programs.

This bill substantially amends, creates, or repeals the following sections of the Florida Statutes: 24.121; 203.01; 202.12; 202.18; 212.20; 215.61; 1002.37; 1011.24; 1011.61; 1011.685; 013.735; 1013.736; 1013.737;

II. Present Situation:

At the General Election in November 2002 the voters of Florida approved an amendment to Section 1, Article IX of the State Constitution to provide that by the beginning of the 2010 school year the maximum number of students assigned to a teacher who is teaching in a public school shall be as follows: for students in prekindergarten through grade 3 no more than 18; for students in grades 4-8 no more than 22; and for students in grades 9-12 no more than 25.

The amendment further provides that beginning with the 2003-2004 fiscal year, sufficient funds shall be provided to reduce the average number of students by 2 per year until the maximum number of students per classroom does not exceed the requirements.

Based on data provided by the Florida Department of Education the statewide average class size in 2002-2003 is as follows: Prekindergarten through grade 3, 22.5; grades 4-8, 24.8; and grades 9-12, 25.3.

Section 203.01, F.S., imposes a 2.37 percent tax on the gross receipts for communications services. Art. XII, sec. 9(a) of the Florida Constitution provides that all of the revenue derived from the gross receipts tax levied under chapter 203, Florida Statutes, must be placed in the Public Education Capital Outlay (PECO) Fund, and used to pay for capital projects at universities, community colleges, vocational technical schools, or public schools.

Subsection (1) of s. 202.12, F.S., imposes a 6.8 percent tax on the sale of communications services, except for direct-to-home satellite services, which are taxed at 10.8 percent. Section 202.125 (1) provides an exemption for communications services sold to residential households, except for mobile communications service, cable service, or direct-to-home satellite service.

Section 202.18, F.S., provides for the distribution of communications services tax proceeds. For the tax on direct-to-home satellite service that does not constitute gross receipts taxes, sixty-three percent is allocated to the state and distributed by the formula in s. 212.20(6), F.S., except for the portion allocated by s. 212.20(6)(d) (the Local Government Half-Cent Sales Tax), which is prorated to the participating counties by their sales tax collections.

Subsection (6) of s. 212.20, F.S., provides for the distribution of sales tax revenue. After required distributions to the General Revenue Fund and the Ecosystem Management and Restoration Fund, 9.653 percent is transferred to the Local Government Half-Cent Sales Tax Clearing Trust Fund, and another 0.065 percent of the remaining proceeds is transferred to that fund. After those distributions are made, 2.25 percent is transferred to the Revenue Sharing Trust Fund for Counties and 1.0715 percent is transferred to the Revenue Sharing Trust Fund for Municipalities.

Subsection (3) of s. 215.61, F.S., limits the bonds authorized by s. 9(a), Art. XII of the State Constitution to 90 percent of the average amount of gross receipts tax revenue from the 24 months immediately preceding the most recent collection date prior to the date of issuance of any bonds.

Subsection (2) of s. 24.121, F.S., provides for allocation of lottery revenue and expenditure of funds for public education. It limits the transfer of lottery revenue to the Education Enhancement Trust Fund to a maximum of \$180 million in FY 1997-98 and for 30 years thereafter to meet the requirements of bonds issued under s. 1013.68, F.S., or distributed to school districts for the Classrooms First Program. It states that these funds are intended to provide up to \$2.5 billion for public school facilities.

Section 1002.37, F.S., established the Florida Virtual School and provides for its governance. The Virtual School provides courses for students in grades 9 through 12 through electronic means. The school is funded annually in the General Appropriations Act through a "Specific Appropriation". Public school students can take courses offered through the Virtual School at the same time they are enrolled in classes in the public school. Public schools can report for funding through the Florida Education Finance Program (FEFP) the courses its students complete through the Virtual School. It is estimated that during the 2002-03 school year public school students completed courses through the virtual school equivalent to 800 full-time equivalent students (FTE).

III. Effect of Proposed Changes:

This bill increases the funds available to be appropriated for fixed capital to reduce average class size. Sources of revenue to supply these funds are an increase in the gross receipts tax rate for communications services, which increases the Public Education Capital Outlay (PECO) Capital Trust Fund, and additional bonding of lottery revenues in the Educational Enhancement Trust Fund. Bonds backed by these revenue sources would be issued by the Division of Bond Finance in accordance with the state bond statutes.

Bonds funded from gross receipts revenue will be as authorized by s. 9 (d), Article XII of the State Constitution and bonds funded from the revenue in the Educational Enhancement Trust Fund will be as authorized by the Class Size Reduction Lottery Revenue Bond Program created by this bill, with the total principal amount of bonds issued not to exceed \$2,000 million.

The bill provides for four programs for funding fixed capital outlay:

1. The Classrooms for Kids Program, an allocation of funds to all districts using the formula similar to that used for Public Education Capital Outlay,
2. A small county assistance program,
3. The School Infrastructure Thrift Program, and
4. A District Equity Recognition Program.

The bill increases the gross receipt tax rate on communications services to provide additional revenue for the PECO fund, and reduces the state communications services tax rate by an offsetting amount.

Section by section analysis:

Section 1 provides that sections 2 and 3 of this act may be cited as the “Class Size Reduction Act.”

Section 2 creates s. 1011.685, F.S., the Classrooms for Kids operating categorical, providing for the allocation and use of funds to reduce the average class size by 2. The funds will be prorated among all school districts based on each district’s proportion of the Florida Education Finance Program. The funds shall be used to hire or compensate classroom teachers as necessary to reduce average class size by 2. Any funds not required to hire or compensate classroom teachers to reduce average class size may be used for any lawful operating expenditure but districts should give priority to using the funds to increase salaries of classroom teachers.

Section 3 creates s. 1013.735, F.S. the Classrooms for Kids Program, providing for the allocation and use of funds for educational facilities required to reduce the average class size as provided by the Constitution. This program is to be administered as nearly as is practicable in the same manner as the PECO program. The bill provides a formula for allocating funds to the school districts under this program, and allows the state to issue bonds on behalf of the school districts.

The funds would be used to increase student capacity in facilities in addition to the projects in the districts' five year work programs. Funds may be used: (1) to construct, renovate, remodel, repair, or maintain educational facilities; (2) to purchase or lease-purchase relocatable educational facilities; (3) to pay debt service on bonds issued by the district pursuant to this section, the proceeds of which were used for educational facilities to reduce class size that are in excess of the projects in the districts' five year work program; or (4) to hire or supplement the salaries of classroom teachers. The last option is available only to districts that certify to the Commissioner of Education that they have met their constitutional class size caps, and must be paid for with cash distributions of non-PECO funds.

Section 4 creates the Class Size Reduction Small County Assistance Program for the 2004-05 fiscal year to provide funds to school districts in small counties (75,000 or fewer residents) to assist in implementing class size reduction. A school district may not receive an award under this program and the Special Facility Construction Account in the same fiscal year. The sum of \$30 million is appropriated from PECO to the Department of Education to implement this program.

Section 5 appropriates \$100 million from PECO to the Department of Education for the 2003-04 fiscal year to fund awards under the School Infrastructure Thrift Program.

Section 6 creates s. 1013.736 F.S., the District Equity Recognition Program, and appropriates \$500 million from PECO for district equity recognition grants over a period of five years. To be eligible for these grants, a school district must levy the half-cent school capital outlay surtax authorized in s. 212.055(6), F.S.; participate in the levy of the local government infrastructure sales surtax authorized in s. 212.055(2), F.S.; or levy voted millage for capital outlay purposes as authorized in s. 9, Art. VII of the State Constitution. The bill provides for calculating the district equity ratio, and allocating and distributing funds. School districts that do not meet the constitutional class size caps must use the funds for capital outlay to reduce class size. Other school districts may use the funds for any lawful capital outlay purpose.

Section 7 creates s. 1013.737, F.S., the Class Size Reduction Lottery Revenue Bond Program, which authorizes the issuance of revenue bonds to finance or refinance building or acquiring educational facilities. The bonds are payable from lottery revenues and do not constitute a general obligation of the state. The bonds will be issued by the Division of Bond Finance, and the total principal amount of bonds, excluding refinancing, shall not exceed \$2 billion.

Section 8 directs the Commissioner of Education to provide for timely encumbrances of funds for authorized projects, including proceeds to be received under a resolution approved by the State Board of Education authorizing issuance of class size reduction lottery bonds.

Section 9 amends s. 203.01(1)(b), F.S., to increase the gross receipts tax rate on communications services, beginning January 1, 2004, to 2.749 percent, and beginning June 1, 2004, to 2.722 percent. The tax rate for telecommunications used by residential households remains 2.37 percent.

Section 10 amends s. 202.12(1), F.S., to decrease the tax on the sales price of communications services to 6.421 percent beginning January 4, 2004, and to 6.448 percent beginning June 1,

2004. It also reduces the tax on direct-to-home satellite service to 10.421 percent beginning January 1, 2004, and to 10.448 percent on June 1, 2004.

Section 11 amends s. 202.18 (2)(b), F.S., reducing the allocation to the state of communications services tax on direct-to-home satellite from 63 percent to 61.617 percent effective February 1, 2004, and 61.712 percent effective July 1, 2004.

Section 12 amends s. 212.20(6)(d) to increase the share of sales tax revenue remitted to the Local Government Half-cent Sales Tax Clearing Trust Fund from 9.653 percent to 9.678 percent beginning February 1, 2004, and to 9.700 percent beginning July 1, 2004. Distributions to this fund after the distributions under subparagraphs 1., 2., and 3. are increased to 0.0653 percent beginning February 1, 2004, and 0.654 percent beginning July 1, 2004.

Distributions to the Revenue Sharing Trust Fund for Counties are increased to 2.263 percent beginning February 1, 2004, and to 2.264 percent beginning July 1, 2004. The Revenue Sharing Fund for Municipalities' distribution is increased to 1.0776 beginning February 1, 2004, and to 1.078 beginning July 1, 2004.

Section 13 amends s. 215.61, Florida Statutes, to allow the cap on the amount of PECO bonds to reflect revenue which would have been collected if legislation enacted into law prior to the date of determination had been in effect during the 24 month period. It also deletes a reference to an obsolete provision.

Section 14 amends s. 24.121, Florida Statutes, to make technical conforming revisions relating to bond programs funded from lottery revenues. It deletes a \$180 million cap on the amount of lottery revenue that can be transferred to the Educational Enhancement Trust Fund, and removes a reference to providing up to \$2.5 billion for public school facilities.

Section 15 amends s. 1002.37, Florida Statutes, to provide that the Virtual School is to be funded in the Florida Education Finance Program similar to university Lab Schools. Funding is to be based on "credit successfully completed" with 6 credits comprising one full-time equivalent student (FTE). The effect is to increase the number of grade 9-12 public school students taking courses through the Virtual School to assist with the requirement to reduce class size and to eliminate double funding for Virtual School courses taken by public school students.

Section 16 amends s. 1011.24, F.S., adding the Florida Virtual School to the list of special school districts and providing that a Florida Virtual School full-time student must take six full credit completions.

Section 17 amends s. 1011.61 (1) (c), F.S., providing that a Florida Virtual School full-time equivalent student shall consist of six full credit completions in specified courses and that credit completions can be a combination of either full or half credit.

Section 18 provides for severability of the provisions of this act.

Section 19 provides an effective date of July 1, 2003.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

None.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

D. Other Constitutional Issues:

V. Economic Impact and Fiscal Note:

A. Tax/Fee Issues:

This bill increases the gross receipts tax rate for communications services, and reduces the state communications services tax by an equal amount. The net tax on communications services does not change.

B. Private Sector Impact:

None.

C. Government Sector Impact:

This bill will reduce General Revenue and increase the Public Education Capital Outlay (PECO) Fund by \$20.1 million in FY 2003-04, and by \$45.5 million in FY 2004-05. Potential bond sales proceeds are increased by \$474.2 million in FY 2003-04, and by \$89.1 million in FY 2004-05. Additional taxes available as cash and interest earnings will result in total additional amounts available for appropriation from gross receipts tax of \$481.3 million in FY 2003-04, and \$109.0 million in 2004-05.

Transfers from the Education Enhancement Trust Fund to the Class Size Reduction Lottery Revenue Bond Program can be used to issue up to \$2 billion in additional bond principal, and will reduce proceeds available for other purposes by an estimated \$60 million in FY 2003-04 and \$130 million in FY 2004-05 and thereafter.

VI. Technical Deficiencies:

None.

VII. Related Issues:

None.

VIII. Amendments:

None.

This Senate staff analysis does not reflect the intent or official position of the bill's sponsor or the Florida Senate.
