HOUSE OF REPRESENTATIVES STAFF ANALYSIS

BILL #: PCB APC 14-04 Education Capital Outlay
SPONSOR(S): Appropriations Committee
TIED BILLS: **IDEN./SIM. BILLS:**

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR or BUDGET/POLICY CHIEF
Orig. Comm.: Appropriations Committee		Hawkins	Leznoff

SUMMARY ANALYSIS

Article XII, Section 9 (a) (2) and sections. 203.01 and 215.61, Florida Statutes, authorize the collection and bonding of gross receipts tax revenues for the purpose of funding education fixed capital.

The bill requires the Department of Education to make monthly transfers from the Public Education Capital Outlay and Debt Service Trust Fund into a separate sub-account to reserve funds for the purpose of paying debt service. Priority is placed on the transfer of funds for debt service over the expenditure of funds for project appropriations. This will ensure that sufficient cash balances within the fund are available to pay debt service for Public Education Capital Outlay bonds (PECO).

The bill requires that cash be reserved and transferred two months earlier than currently authorized to ensure there are sufficient funds to pay debt service on PECO bonds. The acceleration of the reserve (by two months into the previous fiscal year) results in a one-time loss of funds available for project appropriation in an amount equal to two twelfths of the total debt service of $903.4 million (or $150 million) for Fiscal Year 2014-15. The 2014-15 proposed House Budget (PCB APC 14-09), reserves $150 million in unallocated PECO funds for the May and June 2014 payments to the sub account. This bill changes statutes to conform to the use of PECO trust funds in PCB APC 14-09.

The bill is effective upon becoming law.

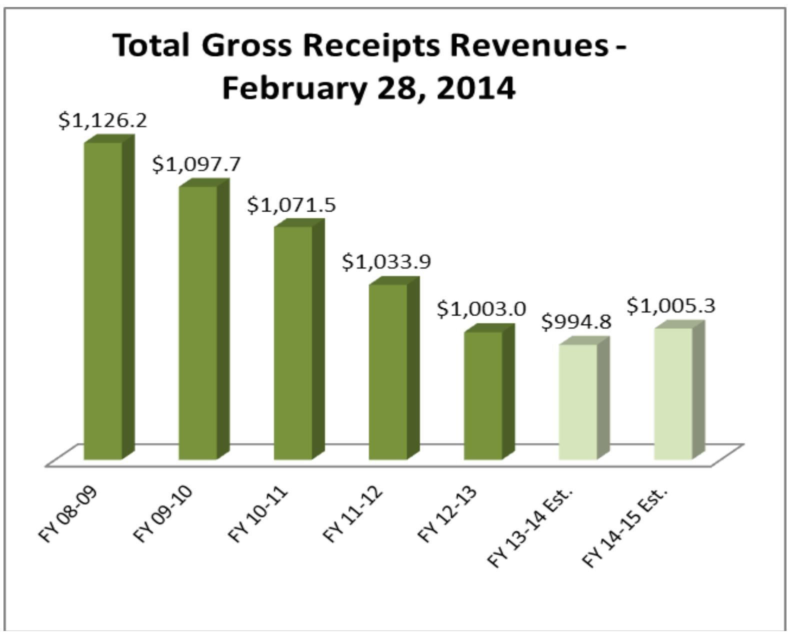
FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. EFFECT OF PROPOSED CHANGES:

Background:
Article XII, Section 9 (a) (2) and sections. 203.01 and 215.61, Florida Statutes, authorize the collection and bonding of gross receipts tax revenues for the purpose of funding education fixed capital.

The revenue source used to pay annual debt service payments on Public Education Capital Outlay (PECO) bonds is the revenue from Gross Receipts taxes (GRT) collected pursuant to s.203.01, Florida Statutes. Total GRT revenues have fallen in recent years from a high of $1,126.2 million in Fiscal Year 2008-09 to the current estimate of $994.8 million for FY 2013-2014. Monthly receipts of Gross Receipts taxes are fairly consistent throughout the year, averaging $82.9 million each month during Fiscal Year 2013-14 with monthly amounts ranging from a low of $75 million to a high of $89 million. The average for Fiscal Year 2014-15 is expected to be $83.8 million (February 28, 2014 Gross Receipts Tax Revenue Estimating Conference, Office of Economic and Demographic Research (EDR)).



Source: Office of Economic and Demographic Research, February 28, 2014 GRT REC

Outstanding PECO bonds total $10,226,555,000 as of March 2014. Total annual debt service payments for Fiscal Year 2014-15 are estimated to be $903.4 million (March 10, 2014 PECO Estimating Conference, Office of Economic and Demographic Research EDR) . Debt service payments are made twice annually. The first payment, for interest only, is due December 1st, and is approximately 25 to 30% of the total annual amount. The second payment, for principal and interest, is due June 1 and represents 70 to 75% of the total annual debt service payment. The Department of Education is required to transmit cash for the debt service payment to the State Board of Administration on the 20th of the month prior to the due date. For Fiscal Year 2014-15, the annual total debt service of $903.4 million, though due in two payments, on average, equates to 12 monthly payments of $75.3 million (which will need to be paid from the $83.8 million in average monthly Gross Receipts tax revenues).

Section 215.61, F.S., limits the amount of PECO bonds that may be issued to 90 percent of the amount which can be serviced by gross receipts tax revenues, based on the average annual amount of revenue collected in the most recent 24 months before the date of issuance of the bonds. As a result of falling Gross Receipts revenues, and the resulting inability to meet the requirements of s. 215.61, F.S., no bonds have been issued since Fiscal Year 2010-11 (See chart below). In Fiscal Years 2011-12 through 2013-14 total PECO appropriations were funded from 100% cash rather than cash and bond proceeds. Smaller, all cash PECO appropriations have contributed to a greater majority of the recently funded projects being maintenance and renovation projects rather than new construction projects. Funds appropriated for maintenance and renovation projects tend to be expended more quickly than those for new construction projects which may be paid over a period of years. The accelerated nature of expenditures combined with falling revenues has contributed to historically lower cash balances within the PECO trust fund.

Public Education Capital Outlay (PECO) Program
Appropriations History Net of Vetoes/ Future Year Estimates

Fiscal Year	BONDS	CASH	Appropriation (net of Vetoes)	
FY 2008-09	924.2	291.9	1216.1	Actual
FY 2009-10	155.1	204.2	359.3	Actual
FY 2010-11	304.8	426.5	731.3	Actual
FY 2011-12	0	119.7	119.7	Actual
FY 2012-13*	0	73.5	73.5	Actual
FY 2013-14**	0	294	294.0	Actual
FY 2014-15	0	247.5	247.5	Estimated
FY 2015-16	0	135.7	135.7	Estimated
FY 2016-17	130.8	149.83	280.6	Estimated

Source: March 10, 2014 PECO Estimate, EDR

*Note: Ch 2012-118, L.O.F. Section 13, transferred $120 million from GR and $130 million from Educational Enhancement Trust Fund to the PECO TF to replace bond proceeds for 2008 and 2010 PECO Bonds for which revenues had fallen below the level allowable for bonding pursuant to s. 215.61, F.S..

**NOTE: $344.8 million General Revenue was transferred into the PECO TF to support appropriated PECO projects. Available PECO trust fund cash of $83.2 million provided by the March 2013 EDR PECO Estimate was not appropriated.

In Fiscal Year 2012-13, interim cash flow projections showed that if expenditures for appropriated projects continued unrestricted, there may be an insufficiency of cash needed to pay the May 2013 debt service, particularly if revenues fell below the levels estimated by the Office of Economic and Demographic Research (EDR). As a precaution, the Department of Education began to set aside a portion of monthly revenues in an amount approximately equal to one twelfth of the estimate for the next year's total annual debt service payment. In addition, the department delayed making expenditures for PECO projects, to ensure sufficient cash was available to pay debt service. Currently, there is no statutory requirement that revenues for debt service be set aside monthly to ensure that debt service payments can be made in each fiscal year.

Effect of Proposed Changes:
The proposed change would place a higher priority on the payment of debt service by requiring the Department of Education to make a monthly deposit into a separate account, prior to making project expenditures. The monthly amount would approximately equal one twelfth of the subsequent year's total debt service. For Fiscal Year 2014-15, the amount transferred into a separate account for debt service would average approximately $75.3 million per month, or $903.4 divided into twelve monthly amounts. The amounts for the May 2015 debt service would have to begin in May 2014 to ensure sufficient funds are transferred to the sub account by the May 20, 2014 due date for transferring the funds to the State Board of Administration.

B. SECTION DIRECTORY:

Section 1 amends s.215.61, F.S., to require a monthly transfer payment to the State Board of Administration for, the purpose of establishing a reserve to pay debt service due on PECO bonds, and establishes that payment of debt service takes precedence over other expenditures from the fund.

Section 2 provides for a transfer of $150M to the fund on or before June 30, 2014 to catch up transfers to the sub-account for the debt service payments due by May 2015 for Fiscal Year 2014-15 total debt service payments.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

   There is no impact on revenues to the state.

2. Expenditures:

   a. The bill requires approximately $1,054.0 million be transferred to the reserve account by the end of Fiscal Year 2014-15 (12 monthy payments of $75.3M for 2014-15 total debt service plus two payments of $75.2 million for the May and June 2015 amounts for Fiscal Year 2015-16 debt service). Since this represents acceleration in the reserve of funds for debt service, there will be a one-time $150 million reduction in the amount of cash available to be included in the maximum PECO appropriation estimate by the Office of Economic and Demographic Research. The 2014-15 proposed House Budget reserves $150 million of PECO trust funds in order to provide two twelfths (transfers associated with May and June 2014) of the total annual debt service amount due in full by May 2015. The remaining ten monthly transfers will be made from July 2014 through April 2015.

   b. Subsequent expenditures of PECO appropriations for fixed capital outlay improvements to Florida Colleges, State Universities, Public Schools and other entities which receive PECO funds may be delayed, as set-aside of a monthly amount (approximately $75.3 million monthly in FY 2014-15) to pay debt service is elevated to first priority. Given that monthly Gross Receipts revenues are expected to average $83.8 million in FY 2014-15, approximately $8 to 9 million on average per month would be available for project expenditures.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues: **None.**

2. Expenditures: **None.**

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR: **None.**

FISCAL COMMENTS: **None.**

III. COMMENTS

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision: **None.**

2. Other: **None.**

B. RULE-MAKING AUTHORITY: **None.**

C. DRAFTING ISSUES OR OTHER COMMENTS: **None.**

IV. AMENDMENTS/ COMMITTEE SUBSTITUTE CHANGES