



SREB

Legislative Report

Governors' legislative and budget proposals

Florida (<http://www.floridafirstbudget.com/>)

In November, the governor released his Florida First recommended budget for 2016-17, which focuses on: cutting taxes, helping small businesses become more competitive, and investing in education to foster a skilled workforce. The largest tax reduction proposal would exempt manufacturers and retailers from the corporate income tax; this would reduce general revenues by a projected \$384.9 million in 2016-17. Other proposed tax measures that would reduce general revenues include a 10-day, back-to-school sales tax holiday in August (\$56.1 million), reducing the tax rate on commercial rents (by \$105.9 million) and renewing the sales tax exemption for college textbooks for 2016-17 (\$36.2 million).

Statewide general funds would increase 0.8 percent to \$29.3 billion. These funds include nearly \$10.8 billion for elementary and secondary education, a 1 percent decrease. General funds for the Florida Education Finance Program (FEFP) formula would decline 1.2 percent to \$7.4 billion, while class-size reduction funding would remain level at over \$2.8 billion. However, the proposal directs nearly \$314 million in lottery funds to the FEFP, a 43.1 percent increase. Lottery funds for class size reduction would remain level at \$103.8 million.

General funds for the operation of Florida universities would rise 3 percent to over \$1.9 billion, and total general funding for the university system would rise 2.6 percent to \$2.4 billion. General funds to Florida colleges would rise 1.9 percent to nearly \$955 million, which includes \$10 million (double the 2015-16 amount) for performance-based incentives to colleges whose students earn industry certifications in certain fields.

The National Merit Scholars Incentive Program, which provides awards that supplement Bright Futures merit-based scholarships to National Merit Scholar and National Achievement Scholar students, would operate with \$13.6 million in general funds, up 62.1 percent. The need-based Florida Student Assistance Grant (FSAG) program would receive \$93.7 million, up 2 percent. The proposal also would provide \$62.4 million in lottery funds for FSAG, an 18.4 percent increase.

Georgia (<http://opb.georgia.gov/governors-budget-reports>)

The governor's January State of the State address described continued growth in the state's economy, which he intends to keep stable with conservative state spending. Most of the projected \$1 billion in additional revenue will fund growth in existing programs rather than new budget items.

Mid-year amendments for 2015-16 would provide additional state funds to several education initiatives, including \$109.9 million to adjust Quality Basic Education (QBE) formula funding due to enrollment growth. The Georgia Student Finance Commission would also receive \$30.3 million in lottery funds to support an increase in the number of students attending public colleges and universities who are eligible for the merit-based HOPE and Zell Miller Scholarships.

The 2016-17 statewide budget proposal of \$23.7 billion would increase appropriations by 8.8 percent over the enacted 2015-16 state budget, including \$20.4 billion in general funds (up 6 percent). The governor wants to increase funding to all education agencies, and education initiatives comprise 53.1 percent of the total state appropriations. His plan also includes \$539.4 million for salary increases, largely devoted to education agencies.

The Georgia Department of Education would receive \$8.9 billion in state funds for 2016-17, up 4.9 percent, including \$8.1 billion in QBE funding (up 5.3 percent). To offset continuing austerity reductions built into the formula, the proposal includes an additional \$300 million in state funds to allow local school districts to reduce furlough days, increase instructional days or provide teacher salary increases. The QBE funding increase also would provide \$124.1 million for enrollment growth.

The governor would devote \$413.4 million in state funds to the Department of Early Care and Learning, a 9.7 percent increase. This amount includes \$36.6 million in increased lottery funding to support the pre-kindergarten program. Out of the increase, \$26.2 million would fund the implementation of a new compensation model for lead teachers, provide an increase in assistant teacher salaries, and maintain classroom services.

State funding to the University System of Georgia would increase 5 percent in 2016-17, up to \$2.1 billion in state funds. The increase includes \$59.5 million for either performance incentives or salary adjustments for employee recruitment and retention purposes. The Technical College System of Georgia would receive \$351.4 million, a 3.4 percent increase, with \$8.9 million provided for performance incentives or salary adjustments for teachers and support personnel.

The Georgia Student Finance Commission, which administers student financial aid, would receive \$807.9 million, a 12.7 percent increase. Funding to the HOPE Scholarship for students attending public postsecondary institutions (including the Zell Miller Scholarship for the highest-performing students) would total \$522.4 million in lottery funds, a 12.8 percent increase. Funding to the HOPE Scholarship for students attending independent colleges and universities, the HOPE Grant for students seeking a postsecondary diploma or certificate and the HOPE GED Scholarship would remain unchanged under the proposal. The commission also administers the Move on When Ready dual enrollment program, for which the budget provides an additional \$29.4 million, more than doubling state funds to the program for a total \$58.3 million.

Kentucky (<http://osbd.ky.gov/>)

In the face of projected modest fiscal growth over the coming biennium and the need to address significant Medicaid and pension obligations, the governor's proposed budget for the 2016-18 biennium includes reductions in all areas of state government. The proposal imposes budget reductions in the 2015-16 fiscal

year — including a \$117.7 million general fund reduction — and in the upcoming biennium. However, the proposal exempts critical areas from reductions – including Support Education Excellence in Kentucky (SEEK) school formula funding and student financial aid. The proposal also would provide salary increases for social workers, state police troopers and correctional officers.

General funds would total \$10.7 billion for 2016-17, up 3 percent from the enacted 2015-16 budget, and increase 4 percent to \$11.1 billion for 2017-18. K-12 general funds would stay almost level at nearly \$4.1 billion in 2016-17 and would decline slightly (down 0.2 percent) in 2017-18. SEEK formula funding would increase slightly (up 0.8 percent) to just over \$3 billion in 2016-17 and then decline slightly (down 0.4 percent) in 2017-18. State general fund support for school district health insurance would rise to \$694.8 million in 2016-17 (up 1.3 percent) and to \$696.2 million in 2017-18 (up 0.2 percent).

General funds for the state Department of Education's Next Generation Learners office (which includes state funds for educating students with disabilities, textbook support, extended school services and grant funding for local school districts to provide prekindergarten services) would decline to \$242.4 million in each year of the biennium, down 8.2 percent from 2015-16. General funds for career and technical education also would decline 18.6 percent to \$35.8 million in 2016-17 and increase slightly (0.2 percent) in 2017-18.

Postsecondary education funding would decline 6.4 percent to just over \$1.1 billion in 2016-17 and increase 1.2 percent for 2017-18. The Kentucky Higher Education Assistance Authority would receive \$237.2 million in 2016-17 (up 15.6 percent) and \$242.2 million in 2017-18 (up 2.1 percent). Funding for state postsecondary institutions would decrease 8.3 percent to \$840.5 million in 2016-17 and increase nearly 1 percent to \$848.4 million in 2017-18.

The governor's proposal would implement performance funding for state institutions of higher education in 2017-18, directing one-third of the general fund appropriations for these institutions (\$282.5 million) to the Postsecondary Education Performance Fund. Allocation of these funds to the individual institutions would depend on each institution's progress toward and achievement of performance goals, which would be developed in collaboration with each institution's leadership. The governor proposes transitioning all postsecondary institution general funding to this performance funding model over a three-year period.

Maryland (<http://dbm.maryland.gov/budget/>)

The governor identified several priorities for the General Assembly's 2016 legislative session, including tax relief for individuals and businesses, improving the state's business climate, expanding educational opportunities, and combating the state's heroin and opioid epidemic. He proposed increasing the exemption from personal income taxes from \$1,000 to \$5,000 over a four-year period for those 65 years of age and older, and implementing the increase in the state's earned income tax credit in 2017, two years earlier than currently planned. His proposed manufacturing jobs initiative would eliminate corporate income tax for a 10-year period on new manufacturing businesses in areas designated as Empowerment Zones. Individuals employed by those businesses whose incomes are less than \$65,000 per year would be exempt from individual state income taxes.

To support public and private schools in low-income neighborhoods, the governor proposed an education tax credit for donations that support education needs. The credit includes donations of books, supplies, technology, academic tutoring, tuition assistance and special needs services. The proposal would provide up to \$5 million in credits in 2016-17, with an additional \$5 million in each of the two subsequent fiscal years.

The governor also supports legislation to authorize Education Pathways in Technology (P-TECH) schools, which would offer a six-year program that integrates high school and two-year postsecondary education with workplace skills in STEM (science, technology, engineering and math) fields. Students who complete a P-TECH program would receive a two-year postsecondary degree. Grants to local school districts would support P-TECH programs that, in turn, would cover dual-enrollment costs for program participants.

The governor's proposed budget would add \$235 million to the Rainy Day Fund, bringing the total balance to nearly \$1.1 billion. Statewide general funds for 2016-17 would total \$17.2 billion, up 4.6 percent, including over \$6.1 billion for K-12 education, up 1.7 percent. The state Department of Education would receive \$108.6 million for statewide programs, up 11 percent, including \$16.7 million, up 23.8 percent, to educate youth detained by the state Department of Juvenile Services and \$38.6 million, up 12 percent, for the Division of Accountability and Assessment.

General-funded state aid to education would total nearly \$6 billion, a 1.5 percent increase. This state aid to education includes \$2.7 billion for Foundation Program formula funding (up 1 percent), \$787.9 million for school district employee benefits (up 5.3 percent), \$434.9 million for students with disabilities (up 1.8 percent), and \$227.2 million for Limited English Proficient students (up 4.6 percent).

General funds for state colleges and universities would total nearly \$1.4 billion, a 4.5 percent increase. The proposal should limit tuition increases for in-state undergraduate students to 2 percent in the coming fiscal year. The Maryland Higher Education Commission would receive \$483.3 million, a 6.6 percent increase. This includes \$251 million in state aid to community colleges (up 4.8 percent) and \$63.3 million for community college employee benefits (up 11.6 percent).

Mississippi (<http://www.governorbryant.com/>)

The governor's proposed state budget for 2016-17 continues to promote his priorities of fiscal responsibility and tax credits for working families and would balance spending for core functions of the government with saving for the future. In his State of the State address, the governor spelled out his legislative priorities, which include cutting taxes, reinforcing funding for workforce training programs, and reorganizing the state's foster care system. The governor asked legislators to remove barriers to establishing charter schools and to allow students to attend schools in neighboring districts.

The governor's plan would provide \$6.2 billion in state funds (up 0.5 percent) for government operations, including nearly \$5.7 billion in general funds (up 0.8 percent). State funds for elementary and secondary education would decrease 0.6 percent to \$2.5 billion. Funding formula support for schools would remain level at just under \$2.2 billion. The budget would continue allocating \$15 million to help schools and teachers implement the Third Grade Gate literacy initiative approved in 2013. It would also continue allocating \$2.3 million for dropout prevention efforts under Jobs for Mississippi Graduates.

The governor's budget would continue funding for the Teacher Scholarship program, established to assist high-achieving students who wish to become teachers, at \$1 million. The budget would increase funding to the National Board Certified Teacher Program by 2.2 percent to \$23.1 million.

The proposal includes \$661.2 million (up 0.4 percent) for the university system, with level funding of \$400.7 million for general university support and \$37.9 million for student financial aid. Community college funding would increase 1.1 percent to \$256.1 million.

Oklahoma (<http://www.ok.gov/OSF/Budget/>)

In early February, the governor released her executive budget proposal with the goal of establishing a sustainable, balanced budget and providing greater legislative control over revenues and resources. A recent report by the State Board of Equalization estimated \$6.1 billion in available revenue for 2016-17, a 12.9 percent decrease from the amount certified for 2015-16. The governor, in her State of the State speech, addressed structural deficiencies contributing to the state's budget difficulties with a plan to eliminate one-time funds, make reductions to state agencies, and increase revenues.

The executive budget uses no one-time revenues, which includes eliminating the use of rainy day funds. Under the proposal, 63 agencies will receive \$167.4 million in reductions, with no appropriations to the state Department of Insurance (whose self-generated revenue provides enough funding to support operations) and the Merit Protection Commission. (Legislation introduced with the governor's support would consolidate the commission into the Office of Management and Enterprise Services.) The Corporation Commission and Election Board would each receive level appropriations. The state Department of Education, the Department of Human Services and the Department of Corrections would receive targeted increases.

Her proposal includes \$6.9 billion in state funds for 2016-17, down 0.8 percent from the adjusted 2015-16 state budget. (In December 2015, state finance officials declared a revenue failure, forcing 3 percent cuts in monthly general revenue allocations to all state agencies beginning in January.)

Elementary and secondary education would receive a 4.3 percent increase in state funds over the adjusted 2015-16 budget, up to \$2.5 billion. The plan recommends \$178.4 million for a \$3,000 annual pay increase for public school teachers. Local districts would also receive greater flexibility in using ad valorem tax dollars, currently dedicated to other purposes, by allowing school districts to use the funds for teacher pay and benefits. The Office of Educational Quality and Accountability would receive \$1.7 million, a 6 percent reduction.

Postsecondary education, spared from agency cuts in the 2015-16 state budget, would see a 6 percent reduction in 2016-17 funding. The proposal would provide just under \$883 million to the Oklahoma State Regents for Higher Education. The Department of Career Technology Education would also receive a 6 percent cut in funding to \$122.2 million.

South Carolina (<http://www.governor.sc.gov/ExecutiveOffice/ExecutiveBudget/>)

The governor's recommended budget for 2016-17 is designed to meet South Carolina's greatest needs in education, public safety and recovery from the October 2015 floods. To provide common education leadership and goals at the state level, the governor again advocated making the currently elected state superintendent of education position an appointed position. The proposed budget allows for a 0.2 percent reduction in personal income taxes — the first year of a 10-year plan to lower the income tax rate by 2 percent. The income tax reduction is projected to reduce revenues by \$131 million in the coming fiscal year.

Statewide general funding in 2016-17 would increase 7.8 percent to \$7.4 billion. Overall general funds for K-12 education would total nearly \$2.8 billion (up 7.5 percent), with \$2.6 billion in aid to school districts (up 7.8 percent). Of the \$2.6 billion, nearly \$1.7 billion (up 8.8 percent) is allocated to Education Finance Act formula funding.

Education Improvement Act (EIA) funding, from an earmarked 1 percent sales tax, is projected to rise 11.9 percent to \$763.7 million. Proposed increases include \$79.7 million for the statewide public charter school district (up 14.5 percent), \$27.9 million for instructional materials (up 33.1 percent), \$9.5 million for data collection (up 26 percent), and \$15 million (up from \$1.5 million) to improve the rural teacher recruitment initiative. The governor also proposes replacing EIA aid to school districts with Education Finance Act formula funding.

General funds to universities would rise 0.8 percent to \$368.3 million, while technical colleges would receive \$138.6 million, up 4.5 percent. The governor proposes holding lottery funding steady for most programs; however, the state Department of Education's K-12 Technology Initiative (which provides schools with funds to improve educational technology) would receive \$29.3 million, up 55.2 percent.

Tennessee (<https://www.tn.gov/finance/topic/fa-budget-information>)

In the governor's February State of the State address, he described plans to continue deposits into state reserves and make strategic investments in education and transportation. The budget would cut \$470 million in recurring costs and add \$100 million to the state rainy day fund. The total 2016-17 state funded budget would increase 5.5 percent over the estimated 2015-16 budget to \$16.4 billion.

State funds for K-12 education would increase 5.7 percent in 2016-17, totaling \$4.8 billion. The Basic Education Program funding formula would receive \$4.5 billion, a 5.6 percent increase. The increase in formula funding includes \$104.6 million for raises for teachers and support personnel. Each local education agency would determine the distribution of the funds. The proposal also would devote a recurring \$30 million, which is double the 2015-16 appropriation, through the formula for technology needs in schools.

Postsecondary education would receive significant investments under the governor's budget proposal. Total state funds would rise 6.9 percent to \$1.7 billion. The Tennessee Higher Education Commission would receive nearly \$4 million (up 23.4 percent). The commission's grant programs, which provide tuition awards, discounts and fee waivers, would receive \$21.6 million (up 151.9 percent). This includes most of the funding for the Drive to 55 initiative, which aims to help schools meet the growing need for postsecondary certifications.

In response to growth in the number of students attending state community and technical colleges, the governor introduced the FOCUS Act to provide the six four-year universities currently governed by the Tennessee Board of Regents with their own governing boards. Community colleges and technical schools would remain under the governing authority of the Board of Regents. His budget provides \$416,400 for its administration and implementation.

The University of Tennessee System would receive \$532.2 million in state funds (up 4.9 percent). Two- and four-year institutions under the Tennessee Board of Regents would receive \$746.7 million (up 9 percent).

Virginia (<http://dpb.virginia.gov/budget/>)

On the heels of the \$2.4 billion shortfall for 2015-16, the governor announced in July 2015 a record revenue surplus of \$549.6 million. The surplus allowed state employees and college faculty to receive the 2 percent pay increase lawmakers passed in the 2015-16 budget, while local school divisions received funding for the state's share of a 1.5 percent pay raise for public school positions.

The governor's proposal for the 2016-2018 biennium includes funds for a 2 percent pay increase for state employees, college faculty, teachers and other public workers. It is the first executive proposal since 2008 to include funding for an increase. His plan also includes \$139.1 million in general funds over the biennium in direct aid to public education for local school districts to add approximately 2,500 new elementary and secondary instructional positions (based on funded Standards of Quality salaries and benefits). The governor also proposes \$550,000 in each year of the biennium in general funds to provide computer science training for elementary and secondary teachers.

The state general fund budget would total \$20.3 billion in 2016-17, an increase of 9 percent over the 2015-16 budget. Direct aid to public education would total \$5.8 billion, up 4.9 percent. To support early childhood education, the governor's plan devotes \$1.6 million in new funding for grants to provide scholarships and support for early childhood education teachers to complete high-quality coursework at community colleges.

Four-year institutions would operate with just over \$1 billion, a 2.8 percent increase over 2015-16. The proposal also includes \$378.4 million for two-year institutions, an increase of 4.5 percent.

In the second year of the biennium, the general fund budget would decrease 0.5 percent to \$20.2 billion. Funds for direct aid to public education would increase 5.3 percent to \$6.1 billion. The governor plans to continue supporting grants to increase the skills of the early education workforce in 2017-18 with \$2.3 million (up 43.8 percent).

Public postsecondary institutions would receive \$1.4 billion in general funds in 2017-18, up 0.3 percent. This amount includes an unallocated \$17 million for the faculty pay increase. The proposal funds four-year institutions at about the 2016-17 level with \$1 billion. Two-year institutions would receive \$384.8 million (up 1.7 percent over 2016-17), with \$15.6 million devoted to workforce development programs at community colleges.

West Virginia (<http://www.budget.wv.gov/executivebudget/>)

The governor's January State of the State Address and executive budget proposal featured his priorities of improving the state's business climate to promote economic development, expanding state workforce training and development, growing the state's natural gas industry, helping unemployed West Virginians start new businesses, combating substance abuse, continuing juvenile justice reform, and addressing the state's continuing budget challenges. The state is coping with a long-term decline in severance tax revenues due to declining energy commodity prices and a long-term decline in domestic and international demand for coal. The governor's budget acknowledges that coal production is unlikely to rebound to previous levels.

The governor also highlighted his proposal to restructure the state's innovation zone initiative and to establish the Innovation in Education program, which would reallocate \$2.5 million to help schools increase student interest in STEM and entrepreneurship. A designated Innovation in Education school would determine its goals to measure how well the school is increasing overall student achievement, addressing dropout prevention, and transforming school culture.

While the governor's proposed 2016-17 budget would provide \$4.3 billion in general funds, a 0.5 percent increase, the increased funds would primarily be directed toward public retirement benefits and Medicaid costs. As a result, funding for K-12 would decline 2.7 percent to under \$1.9 billion, including \$1.7 billion in state aid to schools (a 2.5 percent decrease). Community and technical colleges would see a 4 percent decrease to \$62.9 million. Universities would receive \$262.4 million, down 4.1 percent. Combined general and lottery funding for the merit-based PROMISE Scholarship program would remain at \$47.5 million.

Notes from other SREB states

The governors in Delaware and Alabama released their budget proposals for 2016-17 in January and February 2016, respectively. Information on these proposals will be included in the next edition of *Legislative Report*.

The governor in Louisiana signed a proclamation in February, calling the Legislature into a special session to address the expenditure of state funds and structural deficits in the state budget. The special session began in mid-February and will end in March.

This report was prepared by Jeffrey Grove, SREB research associate (Jeffrey.Grove@SREB.org), Sandra Murray, SREB administrative/research assistant (Sandra.Murray@SREB.org) and Gabrielle Whitney, SREB research associate (Gabrielle.Whitney@SREB.org), with assistance from Gale Gaines, vice president, state services (Gale.Gaines@SREB.org). All can be reached at (404) 875-9211.