

TIAA-CREF institute

RESEARCH DIALOGUE

Issue no. 106

MARCH 2013

GASB 45 AND THE FLORIDA PUBLIC SCHOOL SYSTEM: IMPACT, IMPLICATIONS, AND POSSIBLE SOLUTIONS TO THE UNFUNDED LIABILITY PROBLEM

Dr. Patty Born
Florida State University

Dr. Randy Dumm
Florida State University

Scott B. Clark, AAI
Florida State University



Financial Services

Any opinions expressed herein are those of the authors, and do not necessarily represent the views of TIAA-CREF, the TIAA-CREF Institute or any other organization with which the authors are affiliated.

INTRODUCTION

The disclosure requirements under General Accounting Standards Board (GASB) 45 draw attention to a possible unfunded liability for government employers providing other than pension post-retirement benefits (OPEB). While the OPEB category includes pharmacy, dental, vision, long-term disability, and long-term care benefits, post-retirement medical benefits for public sector retirees represent a significant share of potential OPEB liabilities.

The size of the OPEB unfunded liabilities is significant. A 2010 white paper draft entitled “Governmental Accounting Standards Board (GASB) 45 Accounting and Financial Reporting and Implications for Post-Employment Benefits other than Pensions for the 67 Florida Public School Districts” (GASB 45 Report) indicates that the current level of unfunded liability for the Florida school districts exceeds \$3.5 billion. Given the current funding crisis that exists nationwide for public education, any attempt to currently fund these liabilities is likely to have a severe impact on the quality of public education.¹ Taxpayers have shown a marked reluctance to fund public education through additional property taxes or debt. As such, funding OPEB unfunded liabilities would consume resources otherwise available to the school districts. Given the public education funding mechanism employed in Florida and the reluctance of the legislature to increase revenue streams dedicated to public education, this challenge would be particularly severe for the 67 school districts operating in Florida.

This research provides an analysis of the potential impact that the funding of unfunded liabilities identified under GASB 45 would have on the school districts operating in Florida. We consider the operational implications for these school districts, and possible solutions to address the underfunding problem recognized following the implementation of GASB 45.²

We compiled a data set containing information culled from the complete actuarial statements and OPEB summaries that we have received. We supplemented this with additional publicly-available data from the Florida Department of Education and the National Center for Education Statistics. Appendix A contains summary statistics for the variables we use in our analysis. We also provide a series of cross-tabulations in this report, to highlight some particular features of the actuarial reports.

This report proceeds as follows. In Section 2, we provide a brief overview of the GASB 45 legislation and note how it relates, in concept, to SFAS 106 in the private sector. Here we address our first research question as we consider how private corporations responded to SFAS 106, and whether their responses are informative in shaping possible public sector responses. Section 3 provides a discussion of the actuarial reports collected from the Florida school districts and summaries of the information collected from these reports. In Section 4, we turn to the research questions posed in our proposal. We focus first on those issues that relate to the variability of the calculation and treatment of the OPEB liability, e.g., what can we learn from the districts’ actuarial reports regarding actuarial assumptions? And, what is the variation across districts in the employee benefits package, generally? In Section 5, we consider other factors that may facilitate or impede specific responses to the Florida school districts’ funding of OPEB liability. These factors include current sources of funding for school district benefits, the role of the Florida regulatory environment in mandating particular benefits, and the funding approach (i.e., pre-funding versus pay-as-you-go). Section 6 presents some possible strategies to the funding of the GASB liability. A final section concludes.

1 GASB 45 provides for the determination of the amount of unfunded liabilities but currently it does not require that school districts or other governmental entities fund these liabilities.

2 This final report reflects data from 66 of the 67 districts plus data from the Florida Virtual School. Florida Virtual School (FLVS) was founded in 1997 and was the country’s first, state-wide Internet-based public high school. Today, FLVS serves students in grades K-12 and provides a variety of services to other schools and districts.

SFAS 106 AND GASB 45

In December 1990 the Financial Accounting Standards Board (FASB) issued SFAS No. 106, requiring employers to accrue the cost of postretirement benefits other than pensions (OPEB) that are expected to be paid to active and retired employees. Characterized as a *disclosure* regulation, SFAS No. 106 further required that the obligation of these benefits be recognized on employer's financial statements. Behind the accounting standard was the belief that failure to accrue and disclose OPEB costs implies that "no obligation exists prior to payment" of the benefits and that "failure to recognize an obligation prior to its payment impairs the usefulness and integrity of the employer's financial statements (Financial Accounting Standards Board 1990)." If employers prefund OPEB, they relinquish control of the assets and set them aside into a segregated account, usable only for the payment of the benefits. Thus, SFAS No. 106 acknowledges the promise of health care and other OPEBs as a contractual obligation rather than a gratuity. Since payment is deferred, the OPEBs were clarified as a type of deferred compensation.

The standard has been effective for fiscal years starting after December 15, 1992. Firms choosing to undertake an immediate recognition, or catch-up, method were able to charge their after-tax transition obligation to net income. Firms choosing a prospective recognition method, however, deferred and amortized their before-tax transition obligation. While firms were required to recognize the liability by fiscal year 1993, three alternatives were available to them during the adoption period. Firms could: (1) immediately recognize the liability; (2) disclose the liability in the notes of the financial statements; or, (3) delay reporting the liability until FY 1993.

Given the new rule, managers of regulated firms would be expected to respond in a way that enhances their financial statement (D'Souza 1998). Rezaee and Hayes (1995) warned that responses might include a reduction in volatility brought on by the rule by changing OPEB strategies. That is, the larger the liability, the more likely the firm was to delay reporting in order to develop a strategy to curtail promised benefits. Although early adopters tended to have smaller OPEB liabilities, on average firms with large liabilities chose to disclose their liabilities early on in order to minimize market reaction (Amir and Livnat 1996; Smith and Rezaee 1995). The few firms that choose to delay reporting did so at the peril of investors, but the shock was quick and few if any changes in benefits were witnessed (Amir and Ziv 1997). In instances where firms had an extreme earnings-price ratio or where the OPEB obligation was considered excessive, there is some evidence to suggest that firms might have amended their OPEB plans (Amir and Gordon 1996).

According to Cole, Helwege and Laster (1996), it is not possible to draw any single conclusion as the size and nature of the OPEB liabilities would vary based on the characteristics of the firms labor force. The liabilities of firms with a growing or stable labor force should not be too large. Given any economic slowdown, however, downsized firms would be presented with a retired labor force that is larger in comparison to active employees. Between 1991 and 1993, the book value of S&P industries fell by more than 10 percent. While growth throughout the 1990s quickly overcame the decline in value, it also led to a rise in the market-to-book value (Cole et al. 1996). Bernard and Schipper (1994) challenged this, asking whether market agents would treat a recognized liability different than a disclosed liability. Few empirical studies have attempted to answer the question due to difficulty in research design. The length of the adoption period and the magnitude of the rules effects did provide a fertile ground for research. One such study is that of Davis-Friday et al. (1999), which concluded that the distinguishment lacked robustness. As such, other factors were likely to be included in the variations of stock prices. Included in these other factors were the economic recession of the early 1990s and fluctuations from market transition. These alternatives have been supported by Khurana and Loudder (1994), who argued that there is good reason to believe that there is little to no market reaction attributable to the adoption of SFAS No. 106. Amir (1996) further indicated that the disclosure of the liability itself provided little information to investors and that relevancy would have required consideration of the cost components. The rule, however, did not require their inclusion.

The change in accounting standards under GASB 45 reflects the accounting trend towards recognizing liabilities from non-pension benefits that will be provided over the retiree's lifetime. SFAS 106 forced corporations to recognize health

care costs for retirees on an accrual basis (present value of future expected costs) rather than on a cost basis where the health benefit liability reflects the actual costs incurred during the period (Coulter, 1993). As noted above, SFAS 106 has had a significant impact not only on corporate financial statements but also on ability and/or willingness of employers to continue providing post-retirement health benefits. Some employers dropped coverage for retirees altogether, while others modified the plan design by, for example, adding age and service requirements, capping the benefit amount, or moving to a “defined contribution” benefit (Fronstin, 2001).

As noted above, the disclosure of liability required by SFAS 106 was not problematic and this in part was due to corporate concerns about potential adverse market reaction to poor compliance. At this point, one cannot assume that the possibility of market discipline will drive the funding of GASB 45 liabilities. School districts and other public entities receive their financial support at the local level (e.g., property taxes) or from the state in the form of tax transfers. As such, the stakeholders for groups affected by GASB 45 are a much larger group than those who were impacted by SFAS 106. One of the important research questions coming from this project is whether and if so, to what degree, market forces will have a similar impact on the focus and funding of GASB 45 liabilities.

ANALYSIS OF FLORIDA SCHOOL DISTRICTS’ ACTUARIAL REPORTS

Analysis of the actuarial data obtained from the school districts indicates that significant differences exist across most of the assumptions that drive the determination of (unfunded) OPEB liabilities. It is important to note here that we are not suggesting that any of the assumptions that we have examined thus far are incorrect or unacceptable. Rather, we are interested in capturing how these assumptions differ across school districts and actuarial firms in order to better understand the impact that a difference in assumptions has on the OPEB liability. Given the variation that we see in these assumptions, one question that we will further address will be whether OPEB liabilities are sufficiently consistent across school districts as we feel that the answer to this question has important implications for the public policy issues surrounding OPEB and the solutions to the OPEB funding challenge.

Table 1 provides a listing of the actuarial firms that completed OPEB surveys and the school districts to which they provide service. The actuarial firm of Gabriel Roeder Smith & Company did the majority of the OPEB reports (35) followed by AON and Milliman who each completed reports for seven districts. One district (Holmes) indicated that they completed their analysis internally and actuarial firm information was not available for one district (Glades). The remaining nine actuarial firms completed work for three or less school districts.

TABLE 1
ACTUARIAL FIRMS AND SCHOOL DISTRICT CLIENTS

FIRM	SCHOOL DISTRICT
AON	Clay, Hillsborough, Indian River, Osceola, Pinellas, Sarasota, Volusia
Bryan Pendleton Swats & McAllister LLC	Bay
Cavanaugh Macdonald Consulting	Hernando
Financial Risk Analysts	Seminole, Citrus
Gabriel Roeder Smith & Company	Brevard, Broward, Calhoun, Charlotte, Desoto, Franklin, FVS, Gadsden, Hardee, Hendry, Highlands, Jackson, Jefferson, Lake, Lee, Leon, Liberty, Madison, Manatee, Marion, Martin, Nassau, Okeechobee, Pasco, Polk, St. Johns, St. Lucie, Sumter, Suwannee, Taylor, Wakulla, Walton, Washington
Healthcare Analytics a Division of Gallagher Benefit Services, Inc./Apex Management Group	Dade, Duval, Monroe, Okaloosa, Palm Beach
Larimer Wolf Mitchell and Serota	Orange
Milliman	Baker, Columbia, Flagler, Hamilton, Putnam, Santa Rosa, Union
PAEC	Gulf
Scenic Valley Associates	Bradford, Gilchrest, Levy
Stanley Hunt Dupree and Rhine	Alachua, Dixie, Lafayette
Willis	Collier
None- Own Calculations	Holmes
None- Not Available or Provided	Glades, Escambia

Table 2 provides operating budget and payroll statistics for the 62 districts that provided this data. The average operating budget across these school districts was just over \$328 million with total average payroll at about \$219.5 million. Table 2 highlights the differences in size across school districts with the largest having a budget almost eighty times that of the smallest district. Table 2 also shows budget reductions resulting from changes in financial support from the state in recent years.

TABLE 2
SELECTED SCHOOL DISTRICT FINANCIALS, 2008-2009

VARIABLE	MEAN	MEDIAN	MIN	MAX	STD. DEV.	N
Total Operating Budget	\$328,164,547	\$95,837,986	\$7,952,854	\$2,800,000,000	\$540,351,622	62
Change (\$)	-\$13,489,401	-\$3,882,056	-\$200,000,000	\$2,368,653	\$29,016,658	62
Change (%)	-4.65%	-4.00%	-13.40%	4.70%	3.17%	62
Total Payroll	\$219,460,867	\$76,792,432	\$88,372	\$1,600,000,000	\$339,360,471	62

Table 3 provides summary statistics on the districts' Unfunded Actuarial Accrued liability (UAAL) and annual OPEB costs. The Actuarial Accrued Liability is derived by the actuarial firms using district financial and employment data, and incorporates various assumptions which are discussed further below. The annual OPEB cost consists mainly of the annual required contribution (ARC) plus interest on the beginning of the year obligation.³ The average UAAL across the districts that provided this information was about \$42.75 million with the smallest district reporting UAAL at \$72 thousand while the largest district reporting UAAL at over \$323.7 million. Comparing reported UAAL and the prior period UAAL shows that on average, UAAL decreased by almost \$3.23 million. The average OPEB annual cost was just over \$4 million while the average OPEB cost per employee was \$1,732. Average OPEB cost as a percent of payroll was 4.70%. As noted above, the size difference across school districts and the reporting consistency of school districts is clearly reflected in the range between the minimum and maximum figures shown for each of the five variables.⁴

TABLE 3
UAAL AND OPEB STATISTICS

VARIABLE	MEAN	MIN	MAX	STD. DEV.	N
UAAL	\$42,753,241	\$71,976	\$322,766,000	\$64,323,057	65
Prior UAAL	\$45,982,863	\$1,534,105	\$325,689,414	\$62,707,217	57
OPEB Annual Cost	\$4,067,968	\$155,904	\$21,760,000	\$5,298,373	56
Cost Per Employee	\$1,732	\$228	\$5,966	\$1,385	27
Cost as % of Expected Payroll	4.70%	0.60%	14.60%	3.40%	27

Table 4 shows one source of variation across school districts in the form of the discount rate that is used in determining UAAL. The majority of the school districts (28) used a 4.00 percent discount rate. Eighteen school districts used a more conservative discount rate of 3.00 to 3.80 percent while eighteen districts used a more aggressive discount rate assumption of 4.25 to 6.00 percent.

³ The ARC includes normal costs for the current year benefits plus an amount to amortize the UAAL over a period of time, typically 30 years.

⁴ Current employment in the Florida school districts ranges from 155 (Franklin) to 38,641 (Dade). See Appendix A for additional employment statistics, including recent retirements at the district level.

TABLE 4
DISCOUNT RATE ASSUMPTIONS

DISCOUNT RATE	FREQUENCY	PERCENT OF DISTRICTS	CUMULATIVE PERCENT
3.00%	1	1.56	1.56
3.20%	1	1.56	3.12
3.30%	2	3.13	6.25
3.40%	1	1.56	7.81
3.55%	7	10.94	18.75
3.65%	1	1.56	20.31
3.75%	4	6.25	26.56
3.80%	1	1.56	28.12
4.00%	28	43.75	71.87
4.25%	1	1.56	73.43
4.50%	6	9.38	82.81
4.75%	6	9.38	92.19
5.00%	4	6.25	98.44
6.00%	1	1.56	100.00

As with the discount rate, the investment interest rate assumption also provides a source of variation across school districts. A lower investment rate assumption (less than four percent in this case) would be deemed more conservative as it would result in a higher current funding requirement. The opposite would be true for investment assumptions in excess of four percent. The largest percentage of school districts (43%) uses the midpoint interest rate assumption of four percent while 16 districts use a higher percent assumption.⁵

⁵ Incidentally, for all but eight districts, the discount rates and investment rates were equivalent. No additional information was provided in the actuarial reports to explain why different rates were used.

TABLE 5
INVESTMENT RATE ASSUMPTIONS

INVESTMENT RATE	FREQUENCY	PERCENT	CUMULATIVE PERCENT
3.00%	2	3.28	3.28
3.20%	1	1.64	4.92
3.30%	2	3.28	8.20
3.40%	1	1.64	9.84
3.55%	8	13.11	22.95
3.65%	1	1.64	24.59
3.75%	4	6.56	31.15
4.00%	26	42.62	73.77
4.25%	1	1.64	75.41
4.43%	1	1.64	77.05
4.50%	8	13.11	90.16
4.75%	4	6.56	96.72
5.00%	2	3.28	100.00

The uniformity in assumptions about payroll increases is, in particular, striking, given the actual average payroll increases across the districts for the 2008-2009 to 2009-2010 school years (See Appendix B). While most actuarial reports used an estimate of 3 percent, only one district saw an increase in average salaries of that magnitude for the previous year. Many districts saw an overall reduction.

Table 6 shows the actuarial costs methods that were used by the actuarial firms in calculating UAALs. For the 60 school districts that provided information on the actuarial method used, just over 68 percent used the entry age normal method while the remainder used the projected unit cost method. Under the entry age normal method, the cost of each retiree's benefit is based on a level percent of payroll between the time employment started (entry age) and the assumed retirement date. The projected unit cost method considers that each period of service separately to accumulate the final obligation.

TABLE 6
ACTUARIAL COST METHODS

	FREQUENCY	PERCENT
Entry Age Normal	41	68.33%
Projected Unit Cost	19	31.67%

MORTALITY INFORMATION USED IN ACTUARIAL REPORTS

The actuarial reports for 52 districts specified which mortality table was used for generating the mortality experience for the retiree population. A majority of districts providing this information noted that they used the RP-2000 tables, although this is indicated in several different ways, as shown in the table below. Besides the RP-2000 tables, at least four other sources for mortality data were indicated, as shown in Table 7.

TABLE 7
MORTALITY TABLES USED

TABLE	NUMBER OF DISTRICTS
2007 Current Liability Combined Mortality Table	2
2007 Current Liability Mortality Table	1
RP-2000 Mortality Tables <ul style="list-style-type: none"> • Healthy White Collar (26) • Table applied on a gender specific basis (6) • Combined Mortality Table (5) • Combined, gender distinct (3) • Combined Healthy Mortality (2) • Employee and healthy annuitant tables (1) • Healthy White Collar, sex distinct (1) • Sex Distinct (1) 	41
1985-1989 Group Life Insurance Mortality Table	2
1983 Group Annuity Mortality Table, applied on a gender specific basis (GAM-83)	1
Sex-distinct National Vital Statistics Reports	1
Information Not Provided	16

The RP-2000 table is the only mortality table that is based solely on the mortality experience collected from retirement plans. It was developed by the Society of Actuaries specifically for calculating current liabilities. The tables are based on 1992 data projected to the base year 2000.

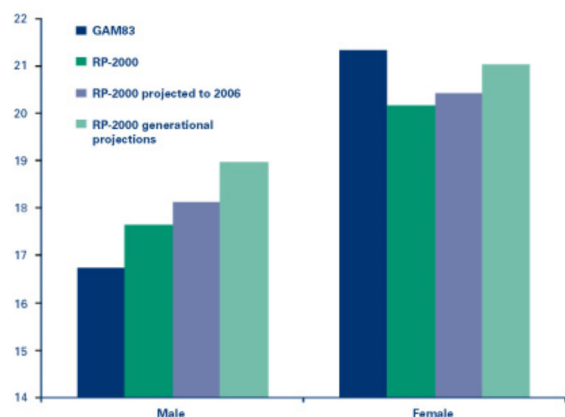
GAM-83 is based on mortality experience from the 1960s and 1970s, projected to 1983. Since life expectancy has been increasing, the rates may not represent the correct level or pattern of mortality for current retirees.

Mortality assumptions may have a significant effect on estimated OPEB liability. We note that the RP-2000 table estimate of the life expectancy for a male born in 1980 is 82.6; in the GAM-83 table it is 81.7. Figure 1 illustrates these differences across genders.

The actuarial reports suggest several other possible sources of variation in the assumptions regarding mortality. Of the 30 districts reporting details about how they projected mortality, 10 projected from the year 2000, 17 projected from the year 2001, and 3 projected from the year 2009. This variation is partly due to different reporting dates, as the actuarial reports were conducted between September 2002 and November 2005. Twenty-seven of the districts reported using the Society of Actuaries' AA projection scale, while 3 did not provide the projection scale. Only 5 reports provided mortality rates for males and females in "elected and senior management" and these reports all used the same rates of 0.92 for males and 0.57 for females.

Twenty-three reports provided information about the mortality table used for disabled males and females. Overall, seven different tables are used to make these assumptions, as shown in Table 8.

FIGURE 1
LIFE EXPECTANCY AT AGE 65 UNDER DIFFERENT MORTALITY STANDARDS (YEARS)



Source: Watson Wyatt Worldwide

TABLE 8
MORTALITY TABLES USED FOR ESTIMATING THE MORTALITY OF DISABLED RETIREES

TABLE	# DISTRICTS USING TABLE FOR DISABLED MALES	# DISTRICTS USING TABLE FOR DISABLED FEMALES
7/1/2007 FRS valuation report	1	1
7/1/2008 FRS Valuation Report	4	4
RP-2000 Combined Disability Mortality Table	6	6
RP-2000 Disability Table	4	4
PBGC Disabled w/ Social Security Table	0	23
RP-2000 Disabled Retiree Table	22	0
RPA-2000 Disabled Retiree Table	1	0

BENEFITS PROVIDED TO RETIREES

The actuarial reports provide little information about the health benefits provided to retirees. No detail is provided to compare coverage details, such as the cost-sharing mechanisms (i.e., deductibles and copayment amounts). Information regarding eligibility for benefits was found in a subset of the reports, and indicate that most of the districts provide full benefits if the retiree is at least 62 years of age and has 6 years of service, or 30 years of service at any age. However, we note that 13 districts have different requirements, as shown in Table 9.

TABLE 9
REQUIREMENTS FOR FULL BENEFITS

REQUIREMENTS	NUMBER OF DISTRICTS
Age 62 and 6 years of service or 30 years of service at any age	30
Commence FRS benefits immediately upon termination and 6 years of service	3
Age 62 and 6 years of service or 30 years of service at any age and receiving a FRS benefit	2
Eligible for an immediate benefit from FRS	2
30 years of service	1
7 years of service	1
Age 59 and 25 years of service (10 in Putnam Co.) or any age and 35 years of service (20 in Putnam Co.) or other member who qualify for and take an immediate retirement benefit from FRS	1
Age 62 and 10 years of service or 30 years of service at any age	1
Age 62 and 6 years of service or 30 years of service at any age; additional criteria noted for special risks.	1
Must be eligible for an immediate benefit from FRS. Benefits are not provided for employees who have deferred receipt of their FRS benefits	1
Eligible for an immediate retirement benefit from FRS and 10 years of continuous service	1
6 years of service	1
Eligible for an immediate retirement benefit from FRS and 10 years of continuous service; Age 62 and 30 years of service	1
Age 42 with 1 month of service or at least 6 years of service at any age	1
Age 59.5 and 6 years of service	1
Information not provided	17

As noted earlier, and is discussed in the following paragraphs there is a substantial variation in plan design choices and assumptions across the school districts of Florida. The discussion above focused on the assumptions embedded in determining GASB 45 and the following paragraphs highlights the variation reflected in the types and features of the employee benefits programs that the districts offer.⁶ Given the fact that employee benefit decisions have been made at the local level, we see the type of variation that one would expect in examining 67 different businesses of various size and operating in different locations. The distinction here is that employee benefit plan features and design choices do affect the OPEB liability. We provided additional commentary related to variation in employee benefit design, features, and assumptions in the concluding section of this report.

Roughly one-third of the actuarial reports received from the districts contained information about the district's other-than-pension benefits. This information is summarized in the next few tables below.

The first table shows other-than-pension benefits, aside from basic health care coverage, offered to retirees in the district. For those districts responding, we note a strong tendency for districts to offer and cover the cost of pharmaceutical benefits. More variation is evident among the other benefits. Dental and vision benefits are more likely to be offered, but not covered by the district. While many districts provide a life insurance benefit, there is an even split between districts that pay for this benefit and those that do not. Only one report mentions that the district provides mental health benefits, perhaps because these benefits are often included in basic health plans. Further, only one district offers a cancer insurance plan, but this is not covered by the district. The number of districts specifically offering non-health benefits is shown in Table 10.

⁶ While not the focus of this paper, we would note similar variation in plan design choices and assumptions exist in school district pension plans as well.

TABLE 10
DISTRICTS OFFERING BENEFITS OTHER THAN HEALTH INSURANCE

	DENTAL	VISION	PHARMACY	LIFE INSURANCE	MENTAL HEALTH	CANCER
Employer funded (included in OPEB)	3	1	37	23	1	0
Employee funded (not included in OPEB)	23	16	0	22	0	1
Complete information not provided	42	51	61	23	67	67

For those districts that did not report benefits, we are unable to determine at this time if they do not actually offer the benefit, or they simply did not include this information in the actuarial report. Further data collection is necessary to get a better idea of the extent that complementary benefits affect the districts' OPEB liabilities.

In Table 11 we show that districts also take different approaches to extending or modifying the eligibility for benefits. In particular, some districts offer an "Opt Out" provision where compensation is provided as an alternative to the benefit. Some offer benefits to the spouse even after the death of the retired employee and some districts also vary in their coverage of benefits when the retiree reaches age 65.

TABLE 11
PROVISIONS FOR EXTENDING OR MODIFYING BENEFITS

	DISTRICT HAS AN "OPT OUT" COMPENSATION PROVISION	BENEFITS PROVIDED TO SPOUSE AFTER DEATH OF RETIRED EMPLOYEE	BENEFITS PROVIDED TO RETIRED EMPLOYEE POST-65
Not offered	6	15	6
Offered, included in OPEB	2	8	2 (district is primary) 13 (district is secondary)
Secondary if enrolled in Social Security Part B, primary otherwise			13
Information not provided	60	27	34

Again, for those districts that reported on these provisions, we note variation in how these provisions are implemented. Only two districts reported offering an "Opt Out" provision. With regard to the second provision, eight of 23 districts extend coverage to spouses after the death of the retired employee. In all cases where this benefit is offered, it is covered by the district, although some extend this only until the spouse reaches age 65.

The actuarial reports do not provide much detail on the health benefits themselves and how they are negotiated. However, we have some indication that this also varies substantially across districts. In 2009, Pasco County became self-insured for major medical health benefits and pharmaceutical benefits. The district is currently considering several plan design changes including increasing office visit co-pays and increasing out-of-pocket maximums. Pasco is one of the two counties that offer employees an opt-out provision at a cost of \$1,200 per employee. The other district, Hardee, uses Blue Cross and Blue Shield to provide benefits.

IMPLICATIONS OF MISSING INFORMATION AND INCONSISTENT ASSUMPTIONS IN ACTUARIAL REPORTS

Our preliminary observations indicate a need to better understand the impact on the UAALs and OPEB liability of districts using different assumptions in their calculations. Further, accurate analysis of the cost drivers and evaluation of possible funding solutions will require a clear understanding of the variations in retiree benefits that currently exist across the districts. The tables in the previous section indicate that the actuarial firms varied significantly in their approaches

to calculating UAALs. The reports are still helpful in providing some basic information about these benefits, such as the eligibility criteria and the provision of benefits beyond basic health care coverage, but comparison across districts is complicated by missing information on the benefits themselves and inconsistencies in assumptions. Here we present a brief illustration of the impact of how one of these assumptions – the discount rate – can provide a misleading estimate of the UAAL.

Table 12 shows the present value of a \$1 annuity paid over 15 years. The difference in present values when using 3.00 percent versus 4.00 percent is an increase of \$0.82, or 7.3 percent. With the average UAAL reported to be around \$42 million, the use of 3.00 percent translates to a UAAL that is \$3 million higher than when estimated at 4.00 percent. Similarly, using a rate of 6.00 percent will result in an estimate of the UAAL that is 22 percent lower than if estimated under the assumption of a 3.00 percent rate. At the average UAAL, this different amounts to over \$9 million. Of course, these calculations assume that the salary, retirement and mortality experience is constant over the 15 years, which is not generally the case. Nonetheless, they illustrate the magnitude of the effect of discount rate choice which complicates, therefore, the comparison of the UAALs across the districts.

TABLE 12
PV OF \$1 ANNUITY OVER 15 YEARS

RATE	PV
3.00%	\$11.94
3.20%	\$11.77
3.30%	\$11.68
3.40%	\$11.60
3.55%	\$11.48
3.65%	\$11.40
3.75%	\$11.32
3.80%	\$11.28
4.00%	\$11.12
4.25%	\$10.93
4.50%	\$10.74
4.75%	\$10.56
5.00%	\$10.38
6.00%	\$9.71

Actuarial firms are developing expertise in calculating the OPEB liabilities to assist municipalities in meeting the GASB 45 rules. According to Milliman (2010), new actuarial firms claiming to be experts have sprung up. Over time, consistency across firms in the assumptions for calculating the liability should improve, and perhaps innovations in how to address the size of the liability will develop.

FACTORS THAT FACILITATE OR IMPEDE SOLUTIONS TO THE FUNDING OF UAALS

Our assessment of the Florida experience indicates several challenges to addressing the size of the OPEB liability, including limitations on how additional funds may be raised, commitments to providing retirees with specific benefits, and general uncertainty as to the importance of the UAAL amount.

SOURCES OF FUNDS

In 2008-2009, school districts in Florida received 33 percent of their financial support from state sources, 51 percent from local sources, and 16 percent from federal sources.⁷ The amount of state support is determined through legislative appropriations and is primarily distributed through the Florida Education Finance Program (FEFP).

The FEFP, enacted in 1973, is the primary mechanism for funding Florida's school districts' operating costs.⁸ It was established to guarantee equal educational opportunity to each student in the Florida public education system. To meet this goal, a funding formula recognizes district variations in: (1) local property tax bases; (2) education program costs; (3) costs of living; and (4) costs for equivalent educational programs due to dispersion of the student population.⁹

The FEFP bases financial support on the number of full-time equivalent (FTE) students in each of the funded education programs. Base funding from state and local FEFP funds are determined by multiplying the weighted FTE students times a base student allocation and by a district cost differential. Program cost factors are determined by the Legislature and represent relative cost differences among the FEFP programs.

The local portion of funding comes primarily from county property taxes. The state Legislature requires school boards to levy a specific tax, referred to as the "required local effort," which is the result of a complex formula accounting for local property values and designed to prevent huge disparities in per-student funding statewide. The Legislature sets the amount of required local effort (\$6,936,892,794 for 2011-2012). Each district's share of the state total required local effort is determined by a process which begins with the Department of Revenue certification of the property tax valuations of each district in July, which then determines each district's required local effort millage rate. Certifications vary across districts due to the use of assessment ratios designed to equalize the effect on the FEFP of differing levels of property appraisal in the counties. Millage rates are adjusted to account for the variation across districts in FEFP allocations. Further, required local effort may not exceed 90 percent of a district's total FEFP entitlement. The most recent (July 2011) certifications for the 67 school districts varied from 5.740 mills to 5.101 mills, with a state average of 5.446 mills. The 90 percent limitation reduced the required local effort of nine districts.

School boards may set discretionary tax levies for current operations (maximum 0.748 in 2011-2012) or capital outlay and maintenance (maximum 1.5 mills for 2011-2012). The latter funds may be used only for specific purposes including, for example, construction and repair of the educational plant, school buses, and software. School districts are also authorized to sell bonds for capital outlay projects to be repaid from local property taxes.

In 2010, the legislature allowed school districts to levy a "critical operating" rate up to one-quarter of a mill to offset reductions in state funding. This millage was approved by 43 of the 67 districts. Further, districts may levy a "voted operating" millage up to 1 mill, if approved by voters. This tax is limited to periods of four year increments.

The Florida Constitution limits districts ability to raise funds for purposes other than for current operations and educational plant. We note wide variation across districts in funding sources (See Appendix C). Most striking is the variation across districts in the share of support received from the state versus local sources. The share of total funding from local sources for 2011-2012 ranges from 10.86 percent (Union) to 78.21 percent (Monroe). The variation in current sources of funding suggests that districts may have to consider different approaches for funding the GASB 45 liability, as the same options do not exist uniformly across the state.

⁷ Most recently, districts have received federal support from the Education Jobs Fund and the Race to the Top program. The Education Jobs Fund is a \$10 billion program to help states avoid K-12 teacher layoffs, while Race to the Top is a \$4.4 billion competitive grant program enacted in 2009 to support states implementing various educational reform initiatives (Cohen, 2010).

⁸ Other state funding sources include the Education Enhancement Trust Fund (proceeds of the Florida Lottery and the tax proceeds on slot machines in Broward and Miami-Dade counties), which was primarily used for class size reductions; "race track funds," which were divided equally among Florida counties; tax receipts from state forests; and proceeds from mobile home licenses number of full-time equivalent (FTE) students ort, 2011-2012, accessed at FLorida .

⁹ See Florida Department of Education Statistical Report, 2011-2012, accessed at <http://www.fldoe.org/fefp/pdf/fefpdist.pdf>.

RETIREE BENEFITS PACKAGE COMMITMENTS

Another barrier to addressing the OPEB liability amounts is the stickiness of benefits that have historically been offered to retirees. Districts' OPEB liabilities would naturally be lowered if total benefits could be scaled back, or if districts could impose additional cost-sharing mechanisms. While limited, the data obtained from the actuarial reports suggests districts currently offer a wide range of benefits to retirees. Many of these differences are due to collective bargaining arrangements, and consequently, it would require extensive negotiations to modify these arrangements.

HOW RELEVANT IS THE LIABILITY?

Now that districts' OPEB liabilities are transparent, the implication is that some action must be taken to reduce the size of this liability. However, it is not clear yet how the current unfunded amount matters for any real purposes, since this liability had always existed before reporting was required by GASB 45. As noted above, potential adverse financial market reactions in part helped to drive the implementation of SFAS 106. Given the uncertainties related to the current economic climate and the recent spate of governmental types of insolvencies, one would expect that bond rating agencies continue to consider and identify the factors that may adversely impact a governmental entity's ability to repay its debt. Further, greater transparency of the actual costs could influence opinions and decisions of voters, school boards, and other public officials. If financial markets react adversely either to an individual school district's disclosure of the GASB 45 or to aggregate liability levels across school districts, then the implications become more problematic. As such, it would seem prudent for districts to focus on identifying approaches to controlling the growth of the OPEB liability. In the next section of the report, we identify and discuss several strategies that will help to address the OPEB liability both in the short and long-term

LINKAGE BETWEEN WORKFORCE MANAGEMENT AND OPEB LIABILITIES

Like other employers, school districts have used early retirement options as a means to manage overall compensation costs by replacing older, higher income employees (predominantly teachers) with lower paid entry level employees. Given the cost associated with providing retirement incentives, the payback for this approach in terms of reduced compensation payouts and pension liabilities may in some cases be more long-term in nature. This approach does however, directly and adversely impact the school district's OPEB liabilities as the early retirement option results in more new retirees who are under the Medicare age. Assuming that the school district continues to provide medical coverage to these retirees, a large scale effort to encourage employee retirements will lead to a significant increase in the OPEB liability.

In a world where the calculation and recognition of GASB 45 liabilities is still in large part an academic exercise, capturing and accounting for the relationship between employee benefit design (in this case, early retirement) and unfunded liabilities (pension and OPEB) may not be that critical. In a world where the financial stakeholders (e.g., rating agencies, bond markets) do factor this information into decisions regarding the availability of capital and the cost of debt, it becomes much more of an issue. At the margin, the presence of OPEB liabilities both at the district level and in the aggregate may have an adverse impact on state borrowing if the state stands as the guarantor of the debt. As discussed above, how financial markets view OPEB liabilities is one the important questions related to GASB 45.

SOLUTIONS

Given the current funding problems that school districts face in the form of reduced property tax collections and state support, it is not a priority, and in most cases, not possible or even desirable, for school districts to fully fund their GASB 45 liabilities. As such, school districts have time to consider options for reducing their OPEB liabilities and ways to alleviate the potential adverse financial impact on future retirees. Some solutions will not be viable under existing labor agreements while others help reduce liability levels but may result in shifting the liability from the district to the future retiree. Several potential solutions are presented and discussed below.

POOLING ARRANGEMENTS

Florida school districts' health benefit plans are negotiated independent of other counties. Efficiency would be increased in pooling across districts and/or pooling the teachers with other municipal agencies at the county level. Many states, including California, Delaware, Georgia, Massachusetts, North Carolina, Washington, and Wisconsin, have created such state pools to increase efficiency. A larger pool will give districts negotiating power in purchasing health care benefits, which can result in significant cost savings including reduced burden of administering plans, thus potentially reducing the size of the OPEB liabilities.

MEDICARE CARVE OUT

Several school districts have investigated the impact of carving out their Medicare eligible populations and this has substantially reduced OPEB liabilities for those districts. In order to provide coverage to eligible retirees and dependents, the Independent Benefits Council (IBC) is establishing the Florida Retired Employee Retirement Plan which will serve as a platform to provide health insurance and several other benefits to qualifying retirees and dependents. The use of a carve out approach ultimately shifts the liability from the school district to the federal government. If successful, the Florida Retired Employee Retirement Plan will provide health insurance benefits on a cost-effective basis while helping school districts reduce OPEB liability exposures. We provide a slight modification to this plan below.

GAP AND GSA ACCOUNTS

Assuming that the school districts move to carve out their Medicare eligible retirees, then the bulk of the GASB 45 liability will come from the early retirement group. There are sound economic reasons for school districts to encourage early retirement but, as discussed above, this decision is somewhat more complex because it increases OPEB liabilities. The question then is whether programs can be developed that would provide school districts the option of continuing early retirement programs without the corresponding increase in OPEB liabilities.

One option would be a health insurance plan specifically designed to cover the early retirement period and it could be tailored for use by educational institutions. The difference between standard health care gap insurance and this "GAP" program is that this coverage would be purchased by the employee in the years leading up to early retirement. As such, there would be no unfunded liability for the school districts for the early retirement group. This program would have the high deductible/catastrophic coverage design features of a HSA type account. Ideally, a savings type of account (what we are calling a GSA) would be created to allow the employee to contribute on a regular basis towards this program on a tax-deductible basis. Funding would begin at least 5 years before retirement and the contribution amount would be based on the expected lump sum premium due at retirement to pay for the gap insurance. An option could be included to allow a lump-sum payment at retirement for the GAP insurance but this may require some underwriting screening or additional loads to cover potential adverse selection problems. As an additional control, access to the GAP program would be available to employees on disability but these employees would need a declination from Medicare to be eligible for GAP coverage and this could be an annual requirement for these retirees. In some ways, this coverage takes on some features of long-term care insurance in that premiums are pre-paid but ratemaking should be no more challenging as substantial data exists for this specific part of the retiree population and the maximum coverage period would be known.

PREFUNDING MECHANISMS

Moving from a pay-as-you-go to a prefunding approach can yield substantial benefits for a school district. The town of Hartford, CT, moved to a prefunding approach by establishing an OPEB trust. Further, twenty-seven school districts in California are participating in a prefunding scheme in cooperation with the California Employers' Retiree Benefit Trust (CERBT). This approach does not address the size of the liability, and requires taking dollars from another source, e.g., the employees, to establish the trust. However, this approach may allow a district to achieve long term investment returns and can contribute to a higher credit rating.

UNIFORMITY IN ASSUMPTIONS

Given the various assumptions used across the 67 school districts, the liabilities generated and the informational content they represent are not consistent. If these were 67 independent businesses, then the variation in the assumptions used would not be an issue. We note that the assumptions used by the school districts were all within the allowed ranges but the end result are liability estimates that vary by the underlying fundamentals (e.g., compensation, age) and by assumption choices. Given the potential public policy issues related to these exposures, it would be beneficial to generate liability amounts across the school districts where differences are due simply to the underlying fundamentals. At a minimum, we would suggest a standard set of assumptions be used to produce a consistent set of OPEBs across districts.

UNIFORMITY IN BENEFITS

As with the choice of assumptions used in the actuarial reports, the employee benefit plan at the district level reflects the decisions that each district has made over time regarding the coverage types and options that the employee benefit plan contains. In line with the recommendation on pooling, this recommendation focuses on potential cost reductions that scale economies can provide in terms of lower insurance premiums due to greater negotiating power or lower transaction costs for things like administrative services or claims management. In addition to the potential reduction in administrative costs, a uniform package of benefits that is based on the best available clinical evidence, with emphasis on best practices for health promotion and disease management, has the added impact of promoting cost efficiency. Finally, uniformity in benefits would facilitate the formation of a single information network and uniform electronic claims forms, thus achieving additional savings across the state health care system.

CONCLUSION

This research project provides an analysis of the potential impact that unfunded liabilities identified under GASB 45 will have on the school districts operating in Florida. In addition to highlighting the extent of the GASB 45 problem, we analyze the factors that impact on OPEB liabilities and identify the various assumptions that are used in calculating OPEB liabilities as well as the different benefit programs reported by the school districts.

In reviewing the actuarial reports, we note a wide range of assumptions used in calculating the OPEB liability associated with GASB 45. At a minimum, the variation in assumptions complicates comparison across districts. It is not clear that these amounts represent a real concern at this time, as the liability has always existed and only now is more transparent. However, as this information may eventually represent a cost to districts – e.g., a higher cost of obtaining debt – a need to control the size of the liability will emerge. We discuss several challenges to adopting a “one-size-fits-all” approach to managing the liability given the wide variation across districts in benefits packages, demographic trends, and general economics.

Finally, we identify and discuss several approaches to addressing the liability. One approach likely to have a significant impact on reducing the magnitude of districts’ estimated OPEBs involves a general reduction in districts’ responsibility for providing benefits by carving out the Medicare eligible population. We also note several ways in which the remaining liability can be managed, e.g., through the formation of a cooperative pooling mechanism, moving toward prefunding the benefits, and establishment of a uniform benefits plan.

School districts in Florida and elsewhere operate in an environment that consists of ever decreasing streams of revenues and significant increases in unfunded liabilities (i.e., pension liability). Within this setting, the GASB 45 problem is still a relatively small, but important issue confronting school districts. Given the potential for the liability to adversely impact future borrowing costs, one might anticipate a situation where school districts face the difficult decision between satisfying the societal obligation of education and allocating scarce resources to servicing existing debt. We believe that school districts should continue to be proactive in identifying and implementing measures today that will effectively help reduce future liabilities under GASB 45.

REFERENCES

- Amir, E. 1996. "The Effect of Accounting Aggregatino on the Value-Relevance of Financial Disclosures: The Case of SFAS No. 106." *The Accounting Review* 71 (4):573-90.
- Amir, E., and E.A. Gordon. 1996. "Firms' Choice of Estimation Parameters: Empirical Evidence from SFAS 106." *Journal of Accounting, Auditing and Finance* 11 (3).
- Amir, E., and J. Livnat. 1996. "Multiperiod Analysis of Adoption Motives: The Case of SFAS No. 106." *The Accounting Review* 71 (4):539-53.
- Amir, E., and A. Ziv. 1997. "Recognition, Disclosure, or Delay: Timing the Adoption of SFAS No. 106." *Journal of Accounting Research* 35 (1):61-81.
- Bernard, V., and K. Schipper. 1994. "Recognition and Disclosure in Financial Reporting." University of Michigan.
- Cohen, Jennifer. 2010. "Comparing Education Jobs Fund and Race to the Top Allocations," New America Foundation, http://edmoney.newamerica.net/blogposts/2010/comparing_education_jobs_fund_and_race_to_the_top_allocations-34113 (Accessed 10/27/2011).
- Cole, K., J. Helwege, and D. Laster. 1996. "Stock Market Valuation Indicators: Is This Time Different?" *Financial Analysts Journal* 52 (3):56-64.
- D'Souza, J.M. 1998. "Rate-Regulated Enterprises and Mandated Accounting Changes: The Case of Electric Utilities and Post-Retirement Benefits Other than Pensions (SFAS No. 106)." *The Accounting Review* 73 (3):387-410.
- Darden, Eric C. 2006. "The New Math: GASB 45 Affects How Districts Account for Retiree Benefits," Forecast: Emerging Issues in Public Education, 4 (3). New York State School Boards Association.
- Davis-Friday, P.Y., L. B. Folami, C.S. Liu, and H.F. Mittelstaedt. 1999. "The Value Relevance of Financial Statement Recognition vs. Disclosure: Evidence from SFAS No. 106." *The Accounting Review* 74 (4):403-23.
- Financial Accounting Standards Board. 1990. *Employers' Accounting for Postretirement Benefits Other Than Pensions of FASB Statement No. 106*. Norwalk, CT: Financial Accounting Series.
- Fronstin, Paul. 2001. "Retiree Health Benefits: Trends and Outlook." *EBRI Issue Brief* No. 236, August.
- Khurana, I.K., and M.L. Loudder. 1994. "The Economic Consequences of SFAS 106 in Rate-Regulated Enterprises." *The Accounting Review* 69 (2):364-80.
- Milliman. 2010. "New Ways to Manage Retiree Benefits," Milliman Insight, September 06, 2010. <http://insight.milliman.com/article.php?cntid=7333> (Last accessed 10/25/2011).
- Rezaee, Z., and R.D. Hayes. 1995. "An Examination of Financial Impacts of SFAS No. 106." *International Advances in Economic Research* 1 (1):53-6.
- Smith, J.A., and Z. Rezaee. 1995. "Earnings Management by the Early Adopters of SFAS No. 106." *International Advances in Economic Research* 1 (4):426-30.

APPENDIX A. “NEW” RETIREMENTS BY DISTRICT AND CLASSIFICATION TYPE

The actuarial reports from 21 districts included the number of enrollees in the current pool of retirees receiving benefits. We combined this information with data obtained on employment from the Florida Department of Education, which includes retirees per year across employment categories. Table A1 provides a summary of this information.

We note that the rate at which retirees, as a proportion of the total employees, enter the pool is quite variable. Further, the proportion of total retirees represented by “new” (within the last five years) retirees varies from 19 percent to over 100 percent; the latter likely reflects the relatively shorter time period in which retirees remain in the OPEB base.

TABLE A1. NEW RETIREES AND MEMBERSHIP IN OPEB

DISTRICT	TOTAL EMPLOYEES	TOTAL NUMBER OF RETIREES FROM 2005-2010 *										TOTAL OPEB RETIREES	NEW RETIREES AS % TOTAL OPEB	NEW RETIREES AS % TOTAL EMPLOYED
		ADMINISTRATIVE			INSTRUCTIONAL				TOTAL "NEW"					
		DISTRICT	SCHOOL	TOTAL	CLASSROOM	OTHER PROF	TOTAL	2005-10						
ALACHUA	4054	18	11	29	134	29	163	173	.	.	4.27%			
BAKER	586	2	2	4	25	8	33	22	54	40.74%	3.75%			
BAY	3046	6	22	28	179	37	216	136	348	39.08%	4.46%			
BRADFORD	504	4	2	6	23	5	28	.	.	.	.
BREVARD	9055	10	29	39	407	71	478	441	.	.	4.87%			
BROWARD	26783	17	96	113	1314	201	1515	1030	1007	102.28%	3.85%			
CALHOUN	340	2	0	2	21	4	25	18	.	.	5.29%			
CHARLOTTE	2333	11	11	22	107	13	120	152	.	.	6.52%			
CITRUS	2380	12	4	16	103	29	132	.	.	.	.
CLAY	4747	3	7	10	106	22	128	51	139	36.69%	1.07%			
COLLIER	5379	18	14	32	238	43	281	193	.	.	3.59%			
COLUMBIA	1461	5	6	11	29	4	33	56	91	61.54%	3.83%			
DADE	38641	56	169	225	1401	321	1722	1685	2342	71.95%	4.36%			
DESOTO	680	3	0	3	44	6	50	24	.	.	3.53%			
DIXIE	270	5	3	8	19	3	22	22	.	.	8.15%			
DUVAL	12759	37	53	90	649	116	765	417	1889	22.08%	3.27%			
ESCAMBIA	5470	15	28	43	343	71	414	426	1214	35.09%	7.79%			
FLAGLER	1910	.	.	.	.	.	.	.	49	.	.
FL VIRTUAL		.	.	.	.	.	.	.	.	.	.
FRANKLIN	155	3	0	3	9	4	13	.	.	.	.
GADSDEN	993	6	6	12	60	15	75	.	.	.	.
GILCHRIST	340	5	2	7	19	3	22	12	.	.	3.53%			
GLADES	241	1	0	1	4	0	4	.	.	.	.
GULF	291	3	0	3	19	3	22	20	.	.	6.87%			
HAMILTON	284	.	.	.	.	.	.	.	38	.	.
HARDEE	680	2	1	3	16	0	16	31	.	.	4.56%			
HENDRY	855	4	2	6	37	12	49	42	.	.	4.91%			
HERNANDO	3022	5	7	12	74	6	80	.	105	.	.			
HIGHLANDS	1664	10	11	21	97	21	118	88	.	.	5.29%			
HILLSBOROUGH	24406	18	90	108	914	208	1122	962	.	.	3.94%			

HOLMES	456	6	6	12	36	6	42	35	94	37.23%	7.68%
INDIAN RIVER	2213	2	1	3	17	4	21	.	.	.	.
JACKSON	1094	6	4	10	56	16	72	62	.	.	5.67%
JEFFERSON	175	4	2	6	33	4	37	22	.	.	12.57%
LAFAYETTE	161	0	0	0	4	1	5	9	.	.	5.59%
LAKE	5377	7	20	27	244	59	303	249	.	.	4.63%
LEE	9097	22	34	56	308	68	376	439	.	.	4.83%
LEON	4387	14	17	31	154	31	185	197	.	.	4.49%
LEVY	887	2	4	6	38	6	44	.	.	.	.
LIBERTY	224	2	1	3	14	0	14	.	.	.	.
MADISON	398	2	3	5	11	3	14	13	.	.	3.27%
MANATEE	5360	18	14	32	248	41	289	962	.	.	17.95%
MARION	6101	11	22	33	254	49	303	364	.	.	5.97%
MARTIN	2327	8	12	20	139	27	166	114	.	.	4.90%
MONROE	1327	8	3	11	28	12	40	.	122	.	.
NASSAU	1388	2	2	4	77	21	98	72	.	.	5.19%
OKALOOSA	2852	8	20	28	219	31	250	323	1362	23.72%	11.33%
OKEECHOBEE	886	4	0	4	61	9	70	57	.	.	6.43%
ORANGE	21363	22	40	62	680	171	851	1106	.	.	5.18%
OSCEOLA	6291	14	19	33	176	51	227	263	296	88.85%	4.18%
PALM BEACH	20870	27	68	95	718	112	830	956	1434	66.67%	4.58%
PASCO	9462	.	.	.	.	.	.	.	445	.	.
PINELLAS	13729	41	78	119	706	130	836	.	.	.	.
POLK	13465	9	26	35	183	29	212	487	.	.	3.62%
PUTNAM	1598	.	.	.	.	.	.	.	480	.	.
SANTA ROSA	2426	11	15	26	138	20	158	153	.	.	6.31%
SARASOTA	5618	12	21	33	311	42	353	273	1388	19.67%	4.86%
SEMINOLE	7204	3	19	22	195	31	226	295	375	78.67%	4.09%
ST. JOHNS	3292	7	4	11	81	17	98	92	.	.	2.79%
ST. LUCIE	4647	2	2	4	55	13	68	.	179	.	.
SUMTER	1003	2	2	4	36	1	37	.	.	.	.
SUWANNEE	743	1	4	5	34	8	42	40	.	.	5.38%
TAYLOR	480	6	0	6	27	5	32	21	.	.	4.38%
UNION	379	1	3	4	10	1	11	.	.	.	.
VOLUSIA	8119	20	33	53	354	67	421	.	.	.	.

WAKULLA	684	7	3	10	39	5	44	50	.	.	7.31%
WALTON	1121	4	3	7	34	6	40	.	.	.	.
WASHINGTON	597	6	5	11	52	12	64	35	.	.	5.86%

* Retirees by classification obtained from FL Department of Education.

APPENDIX B. ACTUAL CHANGES IN TEACHER SALARIES**TABLE B1. PERCENT CHANGE IN AVERAGE TEACHER SALARIES, 2009-10 TO 2010-11**

DISTRICT NUMBER	DISTRICT NAME	2009-10	2010-11	PERCENT CHANGE 2009-10 TO 2010-11
1	Alachua	\$41,721	\$41,204	-1.24%
2	Baker	\$42,367	\$42,298	-0.16%
3	Bay	\$43,152	\$42,741	-0.95%
4	Bradford	\$39,287	\$39,090	-0.50%
5	Brevard	\$45,052	\$44,611	-0.98%
6	Broward	\$50,423	\$42,181	-16.35%
7	Calhoun	\$39,726	\$39,788	0.16%
8	Charlotte	\$47,875	\$48,088	0.44%
9	Citrus	\$44,768	\$44,765	-0.01%
10	Clay	\$45,733	\$45,353	-0.83%
11	Collier	\$53,571	\$52,320	-2.34%
12	Columbia	\$41,257	\$41,085	-0.42%
13	Dade	\$50,749	\$51,408	1.30%
14	DeSoto	\$41,972	\$41,297	-1.61%
15	Dixie	\$41,101	\$41,540	1.07%
16	Duval	\$46,676	\$46,541	-0.29%
17	Escambia	\$42,346	\$41,560	-1.86%
18	Flagler	\$48,606	\$48,067	-1.11%
19	Franklin	\$42,077	\$42,216	0.33%
20	Gadsden	\$35,628	\$35,721	0.26%
21	Gilchrist	\$44,259	\$42,931	-3.00%
22	Glades	\$44,121	\$44,196	0.17%
23	Gulf	\$41,133	\$42,476	3.27%
24	Hamilton	\$42,424	\$42,947	1.23%
25	Hardee	\$42,665	\$42,354	-0.73%
26	Hendry	\$42,092	\$42,778	1.63%
27	Hernando	\$42,398	\$42,681	0.67%
28	Highlands	\$44,017	\$44,550	1.21%
29	Hillsborough	\$45,735	\$45,763	0.06%
30	Holmes	\$41,609	\$41,373	-0.57%
31	Indian River	\$46,356	\$45,796	-1.21%
32	Jackson	\$41,303	\$40,846	-1.11%
33	Jefferson	\$41,811	\$41,171	-1.53%

34	Lafayette	\$41,654	\$42,182	1.27%
35	Lake	\$41,821	\$41,630	-0.46%
36	Lee	\$45,862	\$45,678	-0.40%
37	Leon	\$42,829	\$42,003	-1.93%
38	Levy	\$43,451	\$42,927	-1.21%
39	Liberty	\$39,766	\$40,047	0.71%
40	Madison	\$41,634	\$40,882	-1.81%
41	Manatee	\$48,463	\$47,819	-1.33%
42	Marion	\$43,289	\$43,706	0.96%
43	Martin	\$46,455	\$45,841	-1.32%
44	Monroe	\$56,674	\$57,798	1.98%
45	Nassau	\$45,192	\$45,066	-0.28%
46	Okaloosa	\$51,598	\$51,082	-1.00%
47	Okeechobee	\$44,099	\$43,377	-1.64%
48	Orange	\$44,884	\$44,695	-0.42%
49	Osceola	\$45,070	\$45,574	1.12%
50	Palm Beach	\$48,537	\$47,359	-2.43%
51	Pasco	\$43,474	\$42,710	-1.76%
52	Pinellas	\$45,851	\$45,837	-0.03%
53	Polk	\$42,761	\$42,726	-0.08%
54	Putnam	\$46,013	\$46,386	0.81%
55	St. Johns	\$46,370	\$46,673	0.65%
56	St. Lucie	\$43,010	\$42,413	-1.39%
57	Santa Rosa	\$45,557	\$44,561	-2.19%
58	Sarasota	\$55,886	\$55,994	0.19%
59	Seminole	\$48,868	\$47,985	-1.81%
60	Sumter	\$47,410	\$46,528	-1.86%
61	Suwannee	\$45,396	\$46,440	2.30%
62	Taylor	\$40,938	\$41,494	1.36%
63	Union	\$38,763	\$37,895	-2.24%
64	Volusia	\$45,464	\$44,234	-2.71%
65	Wakulla	\$40,512	\$40,409	-0.25%
66	Walton	\$46,443	\$45,625	-1.76%
67	Washington	\$42,516	\$42,493	-0.05%
	Districts 1-67	\$46,708	\$45,732	-2.09%

* Source: FL Department of Education Survey 3, February 7-11, 2011, as of August 8, 2011

APPENDIX C. SOURCES OF SCHOOL DISTRICT FUNDING, 2011-2012**TABLE C1. SOURCES OF SCHOOL DISTRICT FUNDING, 2011-2012**

DISTRICT	TOTAL STATE, LOCAL, AND FEDERAL FUNDING	TOTAL STATE FUNDING	LOCAL EFFORT TAXES	0.748 DISCRETIONARY LOCAL EFFORT	TOTAL LOCAL FUNDING	% LOCAL FUNDING	% STATE FUNDING
Alachua	165,169,848	89,668,568	66,358,499	9,142,781	75,501,280	45.71%	54.29%
Baker	31,034,178	25,931,355	4,475,351	627,472	5,102,823	16.44%	83.56%
Bay	154,826,112	64,018,346	79,716,288	11,091,478	90,807,766	58.65%	41.35%
Bradford	19,876,526	14,314,873	4,901,736	659,917	5,561,653	27.98%	72.02%
Brevard	443,441,385	273,503,419	149,907,459	20,030,507	169,937,966	38.32%	61.68%
Broward	1,599,624,576	829,119,940	673,117,433	97,387,203	770,504,636	48.17%	51.83%
Calhoun	14,175,917	11,758,463	2,125,517	291,937	2,417,454	17.05%	82.95%
Charlotte	101,595,233	25,237,204	66,584,619	9,773,410	76,358,029	75.16%	24.84%
Citrus	94,708,491	33,867,310	53,588,718	7,252,463	60,841,181	64.24%	35.76%
Clay	223,532,205	168,611,867	48,300,871	6,619,467	54,920,338	24.57%	75.43%
Collier	305,436,438	73,186,848	188,829,772	43,419,818	232,249,590	76.04%	23.96%
Columbia	61,334,245	45,929,535	13,515,119	1,889,591	15,404,710	25.12%	74.88%
Miami-Dade	2,172,492,107	1,001,772,232	1,036,868,528	133,851,347	1,170,719,875	53.89%	46.11%
DeSoto	31,465,058	22,854,336	7,533,121	1,077,601	8,610,722	27.37%	72.63%
Dixie	12,667,021	9,712,372	2,590,970	363,679	2,954,649	23.33%	76.67%
Duval	787,344,314	466,439,264	281,117,717	39,787,333	320,905,050	40.76%	59.24%
Escambia	239,974,051	149,734,010	79,561,422	10,678,619	90,240,041	37.60%	62.40%
Flagler	80,439,096	36,300,909	38,868,376	5,269,811	44,138,187	54.87%	45.13%
Franklin	8,494,334	1,960,865	5,128,745	1,404,724	6,533,469	76.92%	23.08%
Gadsden	35,942,919	27,027,099	7,835,290	1,080,530	8,915,820	24.81%	75.19%
Gilchrist	17,418,815	13,338,039	3,600,004	480,772	4,080,776	23.43%	76.57%
Glades	9,551,696	6,238,821	2,889,208	423,667	3,312,875	34.68%	65.32%
Gulf	12,023,699	3,491,288	7,441,988	1,090,423	8,532,411	70.96%	29.04%
Hamilton	10,473,851	6,032,833	3,910,451	530,567	4,441,018	42.40%	57.60%
Hardee	31,186,897	22,028,654	8,035,968	1,122,275	9,158,243	29.37%	70.63%
Hendry	42,553,232	31,840,902	9,424,716	1,287,614	10,712,330	25.17%	74.83%
Hernando	137,235,270	87,290,711	43,726,428	6,218,131	49,944,559	36.39%	63.61%
Highlands	73,220,325	43,655,945	25,916,985	3,647,395	29,564,380	40.38%	59.62%
Hillsborough	1,220,019,805	808,194,995	363,351,961	48,472,849	411,824,810	33.76%	66.24%
Holmes	20,441,629	17,677,180	2,430,285	334,164	2,764,449	13.52%	86.48%
Indian River	111,023,334	28,226,937	72,711,443	10,084,954	82,796,397	74.58%	25.42%
Jackson	43,371,807	33,892,510	8,336,587	1,142,710	9,479,297	21.86%	78.14%

Jefferson	7,252,096	3,686,810	3,140,969	424,317	3,565,286	49.16%	50.84%
Lafayette	7,103,877	5,726,125	1,206,733	171,019	1,377,752	19.39%	80.61%
Lake	246,910,926	148,946,423	85,512,940	12,451,563	97,964,503	39.68%	60.32%
Lee	539,264,340	190,353,048	307,629,159	41,282,133	348,911,292	64.70%	35.30%
Leon	206,488,464	114,093,308	81,360,256	11,034,900	92,395,156	44.75%	55.25%
Levy	35,950,362	24,887,110	9,694,979	1,368,273	11,063,252	30.77%	69.23%
Liberty	9,328,464	7,870,361	1,280,181	177,922	1,458,103	15.63%	84.37%
Madison	16,352,736	12,362,376	3,510,645	479,715	3,990,360	24.40%	75.60%
Manatee	276,912,077	119,652,241	138,965,846	18,293,990	157,259,836	56.79%	43.21%
Marion	249,545,742	152,017,577	85,623,617	11,904,548	97,528,165	39.08%	60.92%
Martin	118,214,709	29,212,720	75,958,594	13,043,395	89,001,989	75.29%	24.71%
Monroe	60,631,426	13,212,493	33,721,799	13,697,134	47,418,933	78.21%	21.79%
Nassau	70,392,477	26,475,252	38,826,556	5,090,669	43,917,225	62.39%	37.61%
Okaloosa	180,670,420	91,601,636	78,424,360	10,644,424	89,068,784	49.30%	50.70%
Okeechobee	41,361,267	31,644,056	8,586,107	1,131,104	9,717,211	23.49%	76.51%
Orange	1,101,297,635	602,832,596	436,436,783	62,028,256	498,465,039	45.26%	54.74%
Osceola	330,058,856	226,737,447	90,542,901	12,778,508	103,321,409	31.30%	68.70%
Palm Beach	1,124,847,461	317,329,805	721,433,227	86,084,429	807,517,656	71.79%	28.21%
Pasco	417,878,874	285,359,330	116,370,209	16,149,335	132,519,544	31.71%	68.29%
Pinellas	634,470,782	265,663,352	325,486,457	43,320,973	368,807,430	58.13%	41.87%
Polk	576,244,465	418,872,110	138,275,255	19,097,100	157,372,355	27.31%	72.69%
Putnam	67,031,318	45,513,044	18,816,298	2,701,976	21,518,274	32.10%	67.90%
St. Johns	191,347,217	75,092,922	102,784,931	13,469,364	116,254,295	60.76%	39.24%
St. Lucie	242,985,216	150,584,801	81,000,859	11,399,556	92,400,415	38.03%	61.97%
Santa Rosa	148,959,466	97,106,989	45,874,417	5,978,060	51,852,477	34.81%	65.19%
Sarasota	274,094,643	67,526,044	176,384,322	30,184,277	206,568,599	75.36%	24.64%
Seminole	386,084,477	228,781,221	138,325,379	18,977,877	157,303,256	40.74%	59.26%
Sumter	47,025,760	11,792,458	29,959,236	5,274,066	35,233,302	74.92%	25.08%
Suwannee	35,117,951	25,349,709	8,615,047	1,153,195	9,768,242	27.82%	72.18%
Taylor	16,914,847	9,903,291	6,118,547	893,009	7,011,556	41.45%	58.55%
Union	13,837,251	12,334,453	1,323,831	178,967	1,502,798	10.86%	89.14%
Volusia	370,722,633	207,989,129	143,409,062	19,324,442	162,733,504	43.90%	56.10%
Wakulla	30,986,206	23,588,358	6,510,628	887,220	7,397,848	23.87%	76.13%
Walton	48,273,901	11,291,071	28,931,853	8,050,977	36,982,830	76.61%	23.39%
Washington	21,784,395	16,256,790	4,864,044	663,561	5,527,605	25.37%	74.63%