



COMMONWEALTH of VIRGINIA

Department of Planning and Budget

DANIEL S. TIMBERLAKE
Director

1111 E. Broad Street
Room 5040
Richmond, VA 23219-1922

November 13, 2015

The Honorable Walter A. Stosch
Co-Chairman, Finance Committee
Senate of Virginia
4551 Cox Road, Suite 110
Glen Allen, Virginia 23060-6740

The Honorable Charles J. Colgan, Sr.
Co-Chairman, Finance Committee
Senate of Virginia
10660 Aviation Lane
Manassas, Virginia 20110-2701

Dear Senators Stosch and Colgan:

In accordance with Item 136, Paragraph B.14, Chapter 665, 2015 Acts of Assembly, I have enclosed an update on the Standards of Quality (SOQ) expenditures based on the most current data available.

This report includes three types of updates to SOQ funding for the 2016-2018 biennium: (1) technical updates completed as part of the re-benchmarking process and submitted by the Department of Education (DOE) to the Board of Education in September 2015; (2) update of the Composite Index of Local Ability-to-Pay for each school division; and (3) update of employer contribution rates for fringe benefits based on the Virginia Retirement System (VRS) board-certified rates adopted in October 2015. In total, these updates result in additional state costs for public education of \$222.8 million in fiscal year 2017 and \$253.5 million in fiscal year 2018.

This report does not include the impact of final updates to fall membership, average daily membership, and participation rates for incentive and categorical programs for the 2016-2018 biennium. These updates are based on fall 2015 data; consequently, the DOE has not yet completed its work in collecting, analyzing, and verifying data submissions for these components and determining the impact on the cost of the Standards of Quality. It also does not include revisions to the lottery or the sales tax revenue dedicated to public education. The final sales tax changes will depend upon the actions and recommendations of the Governor's Advisory Council on Revenue Estimates (GACRE), which will not meet until November 30, 2015.

Please feel free to contact me should have questions concerning this information.

Sincerely,

A handwritten signature in black ink, appearing to read "D. S. Timberlake".

Daniel S. Timberlake

Enclosure

c: The Honorable Richard D. Brown
Ms. Betsey Daley
Mr. Michael Maul



COMMONWEALTH of VIRGINIA

Department of Planning and Budget

DANIEL S. TIMBERLAKE
Director

November 13, 2015

1111 E. Broad Street
Room 5040
Richmond, VA 23219-1922

The Honorable S. Chris Jones
Chairman, Appropriations Committee
Virginia House of Delegates
Post Office Box 5059
Suffolk, Virginia 23435

Dear Delegate Jones:

In accordance with Item 136, Paragraph B.14, Chapter 665, 2015 Acts of Assembly, I have enclosed an update on the Standards of Quality (SOQ) expenditures based on the most current data available.

This report includes three types of updates to SOQ funding for the 2016-2018 biennium: (1) technical updates completed as part of the re-benchmarking process and submitted by the Department of Education (DOE) to the Board of Education in September 2015; (2) update of the Composite Index of Local Ability-to-Pay for each school division; and (3) update of employer contribution rates for fringe benefits based on the Virginia Retirement System (VRS) board-certified rates adopted in October 2015. In total, these updates result in additional state costs for public education of \$222.8 million in fiscal year 2017 and \$253.5 million in fiscal year 2018.

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Please feel free to contact me should have questions concerning this information.

Sincerely,

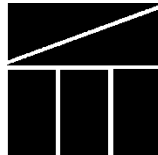
A handwritten signature in black ink, appearing to read "D. Timberlake", written over a light gray rectangular background.

Daniel S. Timberlake

Enclosure

c: The Honorable Richard D. Brown
Mr. Robert Vaughn
Mr. Michael Maul

*Annual Report
to the General Assembly on the
Updates to the Standards of Quality*



**Virginia Department of Planning and Budget
November 15, 2015**

Overview

In accordance with Chapter 665, 2015 Acts of Assembly, the Department of Planning and Budget (DPB), in coordination with the Department of Education (DOE), has prepared the annual report on the update to the Standards of Quality (SOQ) based upon the most current data available. This report includes technical updates to the SOQ accounts that are calculated on an annual basis as well as biennial updates associated with the rebenchmarking process. Enrollment updates are not included in this report because the data submitted by school divisions are still being verified by DOE at the time of this publication. This report also does not include revisions to the sales tax revenues dedicated to public education or the lottery. These revenue estimates will not be available until after the Governor's Advisory Council on Revenue Estimates (GACRE) meets on November 30, 2015.

Specifically, this report contains the following updates and projected state costs for the Standards of Quality in the 2016-2018 biennium:

- Updates for the SOQ rebenchmarking process, as received by the Board of Education at its September 10, 2015, meeting;
- Update of the Composite Index of Local Ability-to-Pay for the 2016-2018 biennium; and
- Update of fringe benefits contribution rates for funded positions in the SOQ model based on Virginia Retirement System (VRS) board-certified rates.

The following table details the expenditure impact of these updates to the Standards of Quality for the 2016-2018 biennium:

	<u>FY 2017</u>	<u>FY 2018</u>
Chapter 665 base (general fund only)	\$5,560.3 million	\$5,560.3 million
Updates for the 2016-2018 SOQ rebenchmarking process	\$178.7 million	\$209.1 million
Update Composite Index for the 2016-2018 biennium	\$25.2 million	\$25.4 million
Update funded retirement contribution rate to 14.66 percent based on 89.84 percent of the VRS board-certified rate of 16.32 percent	\$17.7 million	\$17.8 million
Update funded retiree health care credit contribution rate to 1.11 percent based on 90.00 percent of the VRS board-certified rate of 1.23 percent	\$1.4 million	\$1.4 million
Update funded group life contribution rate to 0.47 percent based on 90.00 percent of the VRS board-certified rate of 0.52 percent	(\$0.2) million	(\$0.2) million
Revised total estimated state cost	\$5,783.1 million	\$5,813.8 million

Details

Pursuant to the *Code of Virginia* and Chapter 665, 2015 Acts of Assembly, the Department of Education calculated the cost of rebenchmarking the Standards of Quality for the 2016-2018 biennium. This process involves technical updates using the current methodology; it does not reflect the impact of any policy changes. Factors updated for the 2016-2018 biennium include items such as: enrollment projections, inflation factors, funded salaries, and transportation costs. A detailed listing of the updates made as part of the rebenchmarking process is included in Appendix A of this report.

DOE also has recalculated the Composite Index of Local Ability-to-Pay for the 2016-2018 biennium for each division using data from the Department of Taxation. This calculation updates data from tax year 2011 to tax year 2013 for Adjusted Gross Income, True Value of Real Property, and Taxable Retail Sales. Additionally, the March 31 Average Daily Membership (ADM) child count has been updated from base year 2012 to 2014. Appendix B of this report contains the Composite Index values by school division for the 2016-2018 biennium, as well as a comparison to the 2014-2016 biennium values.

Furthermore, the fringe benefits contribution rates for retirement, retiree health care credit, and group life have been updated based on the respective VRS board-certified rates for the 2016-2018 biennium. The following chart provides a comparison of the rates for the 2016-2018 biennium to those currently funded in fiscal year 2016:

<u>Fringe Benefit</u>	<u>FY2016</u>	<u>2016-2018 Biennium</u>
VRS (Retirement)	14.06%	14.66%
Retiree Health Care Credit	1.06%	1.11%
Group Life	0.48%	0.47%

Appendix A:

2016-2018 Rebenchmarking Increments from Base Year FY 2016 (Direct Aid Appropriation Tracking - State Shares Only)			
Step	Action	FY 2017	FY 2018
1	Remove Non-Participation Estimate for the Virginia Preschool Initiative (general fund portion of cost)	23,360,100	23,360,100
2	Remove FY 2016 One-Time Spending (Chesterfield/Petersburg Shared Services Agreement, Support for One-Time Teacher Retirement Payment, Virginia Preschool Initiative Hold Harmless Slots)	(4,107,842)	(4,107,842)
3	Reset Nonpersonal Support Costs Inflation Factors to 0% in SOQ Model (not funded in the FY 2016 base)	0	0
4	Reset Personal Support Costs Inflation Factors to 0% from 1.83% in SOQ Model and Remove FY 2016 Compensation Supplement Funding	(62,183,784)	(62,183,784)
5	Update Fall Membership and Average Daily Membership Base Year and Projected Enrollment Counts	888,391	21,120,973
6	Update Special Education Child Count to December 1, 2014	5,081,287	5,050,850
7	Update Career & Technical Education Enrollment to Beginning School Year 2014	(747,168)	(759,420)
8	Update SOL Failure Rate Data to Beginning School Year 2013 and Free Lunch Percentages to Beginning School Year 2014	10,611,066	10,682,638
9	Update SOQ Gifted, Support Technology, and Instructional Technology Positions	1,323,957	1,507,879
10	Update Base Year Prevailing SOQ Instructional Salaries	54,296,365	54,370,516
11	Update Base Year Expenditures from ASRFIN to Beginning School Year 2013 for Personal Support Costs (Positions & Base Year Prevailing Salaries)	31,201,838	31,288,253
12	Update Base Year Expenditures from ASRFIN to Beginning School Year 2013 for Nonpersonal Support Costs	(37,600,572)	(37,205,431)
13	Update Federal Revenue Deduct Per Pupil Amount	26,802,658	26,865,028
14	Update Support Positions Cap Based on Divisions' Ratios (Ratio of Instructional to Support Positions)	(12,626,923)	(12,661,916)
15	Update Costs for Division Superintendents, School Boards, and School Nurses (w/o inflation)	5,512,136	5,496,396
16	Update Health Care Premium (without inflation)	21,212,909	21,347,125
17	Update Textbook Per Pupil Amount (without inflation)	7,668,659	7,700,740
18	Update Pupil Transportation Costs	4,384,435	3,966,270
19	Update Non-Personal Support Cost Inflation Factors	17,603,545	17,579,153
20	Update Salary Inflation Factors (Instructional and Support) to the annual 1.5% adopted by the 2015 General Assembly	58,990,248	59,316,880

Step	Action	FY 2017	FY 2018
21	Update English as a Second Language Enrollment Projections	1,847,442	3,605,348
22	Update Remedial Summer School Per Pupil Amount and Enrollment Projections	2,936,280	4,898,972
23	Update Incentive Accounts (includes Academic Year Governor's School enrollment and Per Pupil Amount and VPSA Technology Grant allocation)	979,933	986,301
24	Update Categorical Accounts (includes Special Education - Homebound, Jails, and State Operated Programs)	530,413	1,403,830
25	Update Lottery Accounts (includes VPI, Foster Care, K-3, Special Education Regional Tuition)	20,778,895	25,502,641
26	Update Compensation Supplement Calculations (Net 0 to Funding)	0	0
Total Current Rebenchmarking Cost:		178,744,268	209,131,500

Appendix B:

Comparison of 2014-2016 and 2016-2018 Composite Index Values

Div. #	Division	<u>2016-2018</u> Composite Index	<u>2014-2016</u> Composite Index	Variance
001	ACCOMACK	.3460	.3555	(0.0095)
002	ALBEMARLE	.6391	.6506	(0.0115)
101	ALEXANDRIA	.8000	.8000	0.0000
003	ALLEGHANY	.2423	.2423	0.0000
004	AMELIA	.3180	.3309	(0.0129)
005	AMHERST	.3130	.3079	0.0051
006	APPOMATTOX	.2915	.3080	(0.0165)
007	ARLINGTON	.8000	.8000	0.0000
008	AUGUSTA	.3506	.3545	(0.0039)
009	BATH	.8000	.8000	0.0000
010	BEDFORD COUNTY	.3132	.3132	0.0000
011	BLAND	.3001	.3254	(0.0253)
012	BOTETOURT	.3764	.3720	0.0044
102	BRISTOL	.3042	.3085	(0.0043)
013	BRUNSWICK	.2806	.2985	(0.0179)
014	BUCHANAN	.3169	.3572	(0.0403)
015	BUCKINGHAM	.3402	.3347	0.0055
103	BUENA VISTA	.1773	.1756	0.0017
016	CAMPBELL	.2745	.2760	(0.0015)
017	CAROLINE	.3256	.3272	(0.0016)
018	CARROLL	.2720	.2696	0.0024
019	CHARLES CITY	.4906	.4432	0.0474
020	CHARLOTTE	.2537	.2505	0.0032
104	CHARLOTTESVILLE	.6586	.6683	(0.0097)
136	CHESAPEAKE	.3437	.3610	(0.0173)
021	CHESTERFIELD	.3509	.3496	0.0013
022	CLARKE	.5435	.5153	0.0282
202	COLONIAL BEACH	.3399	.3520	(0.0121)
106	COLONIAL HEIGHTS	.4181	.4323	(0.0142)

Div. #	Division	<u>2016-2018</u> Composite Index	<u>2014-2016</u> Composite Index	Variance
107	COVINGTON	.2802	.2818	(0.0016)
023	CRAIG	.3024	.3157	(0.0133)
024	CULPEPER	.3573	.3445	0.0128
025	CUMBERLAND	.2815	.2781	0.0034
108	DANVILLE	.2629	.2649	(0.0020)
026	DICKENSON	.2698	.2711	(0.0013)
027	DINWIDDIE	.2774	.2882	(0.0108)
138	EMPORIA	.2161	.2495	(0.0334)
028	ESSEX	.4314	.4023	0.0291
134	FAIRFAX CITY	.8000	.8000	0.0000
029	FAIRFAX COUNTY	.6840	.6807	0.0033
109	FALLS CHURCH	.8000	.8000	0.0000
030	FAUQUIER	.5823	.5586	0.0237
031	FLOYD	.3400	.3470	(0.0070)
032	FLUVANNA	.3757	.3836	(0.0079)
135	FRANKLIN CITY	.2929	.2978	(0.0049)
033	FRANKLIN COUNTY	.3946	.4138	(0.0192)
034	FREDERICK	.3887	.3719	0.0168
110	FREDERICKSBURG	.6069	.6135	(0.0066)
111	GALAX	.2607	.2738	(0.0131)
035	GILES	.2738	.2867	(0.0129)
036	GLOUCESTER	.3728	.3661	0.0067
037	GOOCHLAND	.8000	.8000	0.0000
038	GRAYSON	.3335	.3461	(0.0126)
039	GREENE	.3279	.3568	(0.0289)
040	GREENSVILLE	.2235	.2259	(0.0024)
041	HALIFAX	.3022	.3011	0.0011
112	HAMPTON	.2772	.2878	(0.0106)
042	HANOVER	.4283	.4070	0.0213
113	HARRISONBURG	.3853	.4009	(0.0156)
043	HENRICO	.4219	.4059	0.0160
044	HENRY	.2330	.2408	(0.0078)
045	HIGHLAND	.8000	.8000	0.0000

Div. #	Division	<u>2016-2018</u> Composite Index	<u>2014-2016</u> Composite Index	Variance
114	HOPEWELL	.2107	.2298	(0.0191)
046	ISLE OF WIGHT	.4009	.4195	(0.0186)
047	JAMES CITY	.5638	.5632	0.0006
049	KING AND QUEEN	.4150	.4338	(0.0188)
048	KING GEORGE	.3662	.3774	(0.0112)
050	KING WILLIAM	.3118	.3196	(0.0078)
051	LANCASTER	.7560	.7792	(0.0232)
052	LEE	.1701	.1886	(0.0185)
137	LEXINGTON	.4051	.4510	(0.0459)
053	LOUDOUN	.5494	.5618	(0.0124)
054	LOUISA	.5432	.5644	(0.0212)
055	LUNENBURG	.2432	.2502	(0.0070)
115	LYNCHBURG	.3628	.3680	(0.0052)
056	MADISON	.4408	.4471	(0.0063)
143	MANASSAS	.3579	.3662	(0.0083)
144	MANASSAS PARK	.2675	.2683	(0.0008)
116	MARTINSVILLE	.2110	.2222	(0.0112)
057	MATHEWS	.5228	.5437	(0.0209)
058	MECKLENBURG	.3488	.3609	(0.0121)
059	MIDDLESEX	.6331	.7449	(0.1118)
060	MONTGOMERY	.3830	.3866	(0.0036)
062	NELSON	.5928	.5689	0.0239
063	NEW KENT	.4149	.4298	(0.0149)
117	NEWPORT NEWS	.2819	.2908	(0.0089)
118	NORFOLK	.2986	.3123	(0.0137)
065	NORTHAMPTON	.4910	.4840	0.0070
066	NORTHUMBERLAND	.7536	.7431	0.0105
119	NORTON	.2855	.3102	(0.0247)
067	NOTTOWAY	.2365	.2478	(0.0113)
068	ORANGE	.3809	.3618	0.0191
069	PAGE	.2958	.2985	(0.0027)
070	PATRICK	.2477	.2726	(0.0249)
120	PETERSBURG	.2364	.2475	(0.0111)

Div. #	Division	<u>2016-2018</u> Composite Index	<u>2014-2016</u> Composite Index	Variance
071	PITTSYLVANIA	.2408	.2507	(0.0099)
142	POQUOSON	.3794	.3895	(0.0101)
121	PORTSMOUTH	.2505	.2678	(0.0173)
072	POWHATAN	.4030	.3913	0.0117
073	PRINCE EDWARD	.3375	.3274	0.0101
074	PRINCE GEORGE	.2453	.2430	0.0023
075	PRINCE WILLIAM	.3846	.3822	0.0024
077	PULASKI	.3104	.3113	(0.0009)
122	RADFORD	.2511	.2675	(0.0164)
078	RAPPAHANNOCK	.7392	.7916	(0.0524)
123	RICHMOND CITY	.4756	.4636	0.0120
079	RICHMOND COUNTY	.3178	.3364	(0.0186)
124	ROANOKE CITY	.3442	.3592	(0.0150)
080	ROANOKE COUNTY	.3585	.3704	(0.0119)
081	ROCKBRIDGE	.4519	.4740	(0.0221)
082	ROCKINGHAM	.3559	.3702	(0.0143)
083	RUSSELL	.2373	.2486	(0.0113)
139	SALEM	.3702	.3695	0.0007
084	SCOTT	.1887	.1940	(0.0053)
085	SHENANDOAH	.3662	.3653	0.0009
086	SMYTH	.2135	.2252	(0.0117)
087	SOUTHAMPTON	.2853	.2878	(0.0025)
088	SPOTSYLVANIA	.3615	.3555	0.0060
089	STAFFORD	.3443	.3412	0.0031
126	STAUNTON	.3825	.3923	(0.0098)
127	SUFFOLK	.3407	.3490	(0.0083)
090	SURRY	.8000	.8000	0.0000
091	SUSSEX	.3479	.3585	(0.0106)
092	TAZEWELL	.2743	.2756	(0.0013)
128	VIRGINIA BEACH	.3924	.4034	(0.0110)
093	WARREN	.4040	.3871	0.0169
094	WASHINGTON	.3492	.3813	(0.0321)
130	WAYNESBORO	.3555	.3493	0.0062

Div. #	Division	<u>2016-2018</u> Composite Index	<u>2014-2016</u> Composite Index	Variance
207	WEST POINT	.2421	.2581	(0.0160)
095	WESTMORELAND	.4554	.4633	(0.0079)
131	WILLIAMSBURG	.7744	.8000	(0.0256)
132	WINCHESTER	.4324	.4376	(0.0052)
096	WISE	.2668	.2538	0.0130
097	WYTHE	.3120	.3183	(0.0063)
098	YORK	.3903	.4026	(0.0123)