



COMMONWEALTH of VIRGINIA

Department of Planning and Budget

DANIEL S. TIMBERLAKE
Director

November 15, 2016

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

The Honorable Thomas K. Norment, Jr.
Co-Chairman, Finance Committee
Senate of Virginia
Post Office Box 6205
Williamsburg, Virginia 23188

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

The Honorable Emmett W. Hanger, Jr.
Co-Chairman, Finance Committee
Senate of Virginia
Post Office Box 2
Mount Solon, Virginia 22843

Dear Senators Norment and Hanger and Delegate Jones:

In accordance with Item 139, Paragraph B.14, Chapter 780, 2016 Acts of Assembly, enclosed is an update on the Standards of Quality (SOQ) expenditures based upon the most current data available.

Because this session will amend the current budget and does not involve the re-benchmarking process, changes in the SOQ costs are limited and primarily include only technical updates. At this time, changes to the sales tax revenues dedicated to public education are preliminary estimates based on the Department of Taxation's May 2016 Standard Forecast (the current interim reforecast announced in August 2016) for the Education Sales Tax Distribution and reflect estimated net general fund savings of \$12.0 million in FY 2017 and \$17.8 million in FY 2018 after adjusting for the required increase in state Basic Aid payments. Final changes will not be available until after the Governor's Advisory Council on Revenue Estimates convenes on November 28, 2016.

Changes to the estimated revenues from the Lottery Proceeds Fund are available at this time. The Virginia Lottery Board estimates a net income projection of \$566,791,709 in FY 2017 and \$546,495,789 in FY 2018. These estimates will increase the Lottery Proceeds Fund by an additional \$5,264,539 in FY 2017 and \$5,264,539 in FY 2018 beyond what is appropriated in the current Appropriation Act. In addition, \$33,190,435 of additional revenue from FY 2016 also will be available in FY 2017.

The final impact of updates to the fall membership and average daily membership enrollment counts are not available at this time. However, based on preliminary

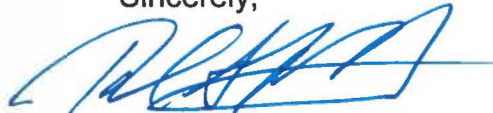
The Honorable Thomas K. Norment, Jr.
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findings, average daily membership projections are approximately 2,612 students lower in FY 2017 and 3,694 students lower in FY 2018 than the projections used in Chapter 780. Based on these lower enrollment figures, the Department of Education (DOE) estimates preliminary state savings of \$14.9 million in FY 2017 and \$20.8 million in FY 2018; however, the actual magnitude of any savings from the lower enrollment figures cannot be determined until analysis of the school division enrollment data and its related impact on projections is completed by the DOE.

Some of the changes discussed above were reflected in the Governor's FY 2017 Savings Plan, released in October 2016, to address the revenue shortfall. Specifically, the Governor's 2017 Savings Plan reflects additional general fund Direct Aid savings of \$115.8 million in FY 2017 and \$85.3 million in FY 2018 in response to revenue shortfalls based on the latest revenue forecast. The savings result from the withdrawal of the salary increase, Lottery balances, and expected additional Literary Fund revenue.

Please contact me should you have questions concerning this information.

Sincerely,

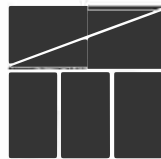


Daniel S. Timberlake

Enclosure

c: The Honorable Richard D. Brown
Ms. Betsey Daley
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, 2016**

Overview

In accordance with Chapter 780, 2016 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 for the 2016-2018 biennium. Because this session will amend the current budget and does not involve the rebenchmarking process, changes in the SOQ costs are limited and primarily include only technical updates.

Final revisions to the sales tax revenues dedicated to public education are not available at this time. Final changes to the revenue estimates will be available after the Governor's Advisory Council on Revenue Estimates (GACRE) meets on November 28, 2016. However, based on the Department of Taxation's May 2016 Standard Forecast (the current interim reforecast announced in August 2016) for the Education Sales Tax Distribution, preliminary estimates reflect net general fund savings of \$12.0 million in FY 2017 and \$17.8 million in FY 2018 after adjusting for the required increase in state Basic Aid.

Changes to the estimated revenue from the Lottery Proceeds Fund are available at this time. The Virginia Lottery Board estimates a net income projection of \$566,791,709 in FY 2017 and \$546,495,789 in FY 2018. These estimates will increase the Lottery Proceeds Fund by an additional \$5,264,539 in FY 2017 and \$5,264,539 in FY 2018 beyond what is appropriated in the current Appropriation Act. In addition, \$33,190,435 of additional revenue from FY 2016 also will be available in FY 2017.

The final impact of updates to the fall membership and average daily membership enrollment counts are not available at this time. DOE is still in the process of analyzing and verifying the data submissions by school division, which must be completed to determine the impact on the total cost of public education. However, based on preliminary findings, average daily membership projections are approximately 2,612 students lower in FY 2017 and 3,694 students lower in FY 2018 than the projections used in Chapter 780. Based on these lower enrollment figures, DOE estimates preliminary state savings of \$14.9 million in FY 2017 and \$20.8 million in FY 2018; however, the actual magnitude of any savings from the lower enrollment figures cannot be determined until analysis of the school division enrollment data and its impact on projections is completed by DOE.

Some of the changes discussed above were reflected in the Governor's FY 2017 plan, released in October 2016, to address the revenue shortfall. Specifically, the Governor's 2017 Savings Plan reflects additional general fund savings in response to revenue shortfalls based on updated revenue forecasts. General fund savings of \$49.0 million in FY 2017 and \$85.3 million in FY 2018 result from removing the two percent salary increase for funded SOQ instructional and support positions, including Academic Year Governor's Schools. On top of the Virginia Lottery Board's additional revenue projections of \$5.3 million in FY 2017 and \$5.3 million in FY 2018, the Governor's 2017 Savings Plan reflects the \$33.2 million of additional Lottery revenues collected in FY 2016 and \$8.6 million additional Lottery revenues shown as cash on the balance sheet for the Lottery Proceeds Fund. Furthermore, the Governor's 2017 Savings Plan offsets

teacher retirement costs in public education with additional Literary Fund revenues of \$25.0 million in FY 2017.

These are the only potential updates to the SOQ that are known at the time of publication of this report. Additional updates, if any, will be included in the Governor's Amended Budget for the 2016-2018 biennium, which is scheduled to be submitted to the General Assembly on December 16, 2016.