



COMMONWEALTH of VIRGINIA

Department of Planning and Budget

DANIEL S. TIMBERLAKE
Director

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

November 15, 2017

The Honorable Thomas K. Norment, Jr.
Co-chairman, Finance Committee
The 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
The 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 836, 2017 Acts of Assembly, enclosed is an update on the Standards of Quality (SOQ) expenditures based upon the most current data available.

This report includes eight types of updates to SOQ funding for fiscal year 2018 or the 2018-2020 biennium:

1. Updates for the SOQ re-benchmarking process, as received by the Board of Education at its September 28, 2017, meeting;
2. Update of the Composite Index of Local Ability-to-Pay (preliminary);
3. Update of fringe benefit contribution rates for funded positions in the SOQ model based on Virginia Retirement System (VRS) board-certified rates;
4. Update of fall membership and average daily membership projections based on September 30, 2017, fall membership data (preliminary);
5. Update of the Lottery Proceeds Fund estimate based on the Virginia Lottery's November 2017 forecast;

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6. Update of sales tax revenues for public education based on the Virginia Department of Taxation's November 2017 forecast that will be considered by the Governor's Advisory Council on Revenue Estimates (GACRE);
7. Update of the latest yearly estimate of school age population provided by the Weldon Cooper Center for Public Service; and
8. Adjustment to reinstate the fiscal year 2018 appropriation that was transferred to fiscal year 2017 to cover the Direct Aid appropriation shortfall resulting from higher than expected enrollment reported as final average daily membership.

Please contact me should you have questions concerning this information.

Sincerely,

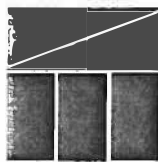


Daniel S. Timberlake

Enclosure

c: The Honorable Richard D. Brown
Mr. Robert Vaughn
Ms. Sarah Herzog
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, 2017**

Overview

In accordance with Chapter 836, 2017 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.

Specifically, this report contains the following updates and projected state costs for the Standards of Quality in FY 2018 and the 2018-2020 biennium:

- Updates for the SOQ rebenchmarking process, as received by the Board of Education at its September 28, 2017, meeting;
- Update of the Composite Index of Local Ability-to-Pay (preliminary);
- Update of fringe benefit contribution rates for funded positions in the SOQ model based on Virginia Retirement System (VRS) board-certified rates;
- Update of fall membership and average daily membership projections based on September 30, 2017, fall membership data (preliminary);
- Update of the Lottery Proceeds Fund estimate based on the Virginia Lottery's November 2017 forecast;
- Update of sales tax revenues for public education based on the Virginia Department of Taxation's November 2017 forecast;
- Update of the latest yearly estimate of school age population provided by the Weldon Cooper Center for Public Service; and
- Adjustment to reinstate the FY 2018 appropriation that was transferred to FY 2017 to cover the Direct Aid appropriation shortfall resulting from higher than expected enrollment reported as final Average Daily Membership (ADM).

The following table details the general fund expenditure impact of these updates to the Standards of Quality for FY 2018 and the 2018-2020 biennium:

	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
Chapter 836 base (general fund only)	\$6,030.0 million	\$6,030.0 million	\$6,030.0 million
Updates for the 2018-2020 SOQ rebenchmarking process	N/A	\$235.0 million	\$256.8 million
Update of the Composite Index for the 2018-2020 biennium (preliminary)	N/A	\$(1.0) million	\$(0.4) million
Update of fringe benefit contribution rates for funded positions in the SOQ model	N/A	\$(21.3) million	\$(21.3) million
Update fall membership and average daily membership projections (preliminary)	\$(6.8) million	\$(9.1) million	\$(10.3) million

	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
Update the Lottery Proceeds Fund estimate	\$(52.0) million	\$(40.2) million	\$(40.2) million
Update of sales tax revenues for public education	\$0.7 million	\$14.5 million	\$28.2 million
Update of the latest yearly estimate of school age population	N/A	\$2.6 million	\$2.6 million
Adjustment to reinstate the FY 2018 appropriation transferred to FY 2017	\$1.1 million	N/A	N/A
Revised total estimated state cost	\$5,973.0 million	\$6,210.5 million	\$6,245.4 million

Details

Pursuant to the *Code of Virginia* and Chapter 836, 2017 Acts of Assembly, DOE calculated the cost of rebenchmarking the Standards of Quality for the 2018-2020 biennium. This process involves technical updates using the current methodology; it does not reflect the impact of any policy changes. Factors updated for the 2018-2020 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 2018-2020 biennium for each division using data from the Department of Taxation. This calculation updates data from tax year 2013 to tax year 2015 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 2014 to 2016. Appendix B of this report contains the Composite Index values by school division for the 2018-2020 biennium, as well as a comparison to the 2016-2018 biennium values. As of the date of this report, the Virginia Department of Taxation is reviewing 2015 tax data for a few divisions that challenged these figures, and therefore, the 2018-2020 Composite Index values provided in Appendix B are preliminary and are subject to change pending the results of this review.

Furthermore, the fringe benefits contribution rates for retirement and retiree health care credit have been updated based on the respective Virginia Retirement System (VRS) board-certified rates for the 2018-2020 biennium; the VRS board-certified group life rate remains constant for the 2018-2020 biennium. The following table provides a comparison of the rates for the 2018-2020 biennium to those currently funded in FY 2018:

<u>Fringe Benefit</u>	<u>FY2018</u>	<u>2018-2020 Biennium</u>
Retirement	16.32%	15.68%
Retiree Health Care Credit	1.23%	1.20%
Group Life	0.52%	0.52%

The impact of updates to the fall membership and average daily membership enrollment counts are preliminary at this time, as the Department of Education has not yet completed its work to verify the fall membership data submitted by school divisions in October 2017. However, based on preliminary findings, fall membership and projected average daily membership are lower in FY 2018 than the projections used in Chapter 836. Based on these lower enrollment figures, the Department of Education estimates preliminary savings of \$6.8 million in FY 2018. Furthermore, based on preliminary findings, average daily membership projections are lower in FY 2019 and FY 2020 than the projections used in the Department of Education's preliminary rebenchmarking estimates for the 2018-2020 biennium. Based on these lower enrollment figures, the Department of Education estimates preliminary savings of \$9.1 million in FY 2019 and \$10.3 million in FY 2020. The final estimated costs from the lower enrollment figures cannot be determined until the Department of Education completes its analysis of the school division enrollment data and its related impact on projections.

The FY 2018 appropriation in Chapter 836 anticipates \$546.5 million in transfers to the Lottery Proceeds Fund. This estimate does not include the residual transfer of FY 2017 profits from August 2017 totaling \$11.8 million. Additionally, the Virginia Lottery Board recommends a revised estimate of FY 2018 profits totaling \$586.7 million. In total, the revised estimate for expected funds available to the Lottery Proceeds Fund for FY 2018 is \$598.5 million. The increase of \$52.0 million in Lottery Proceeds over the Chapter 836 appropriation includes the residual from FY 2017 and the additional revenue projected. These additional Lottery revenues can be used to save an equal amount of general fund appropriation in FY 2018. Furthermore, the Virginia Lottery Board recommends an estimate of \$586.7 million available to the Lottery Proceeds Fund in each year of the 2018-2020 biennium. The annual increase of \$40.2 million in Lottery Proceeds over the Chapter 836 base appropriation included in the 2018-2020 re-benchmarking process can save an equal amount of general fund in FY 2019 and FY 2020.

Based on the Virginia Department of Taxation's November 2017 forecast for the sales tax education distribution, the FY 2018 estimated education distribution increases by \$2.5 million over the FY 2018 appropriation in Chapter 836, which results in an additional state cost of \$0.7 million after accounting for the savings realized in Basic Aid from increased sales tax revenues. Additionally, Taxation projects increases of \$33.7 million in FY 2019 and \$64.7 million in FY 2020, resulting in additional state costs of \$14.5 million and \$28.2 million, respectively, after accounting for the savings realized in Basic Aid from increased sales tax revenues. Furthermore, based on the July 1, 2016, estimate of school age population provided by the Weldon Cooper Center for Public Service, the Department of Education calculates an additional state cost of \$2.6 million each year of the 2018-2020 biennium.

Lastly, as communicated to you in the letter dated June 30, 2017, during FY 2017, an administrative adjustment was processed to transfer \$1.1 million general fund appropriation from FY 2018 to FY 2017 to provide additional funding necessary to meet the state's obligation for FY 2017 Direct Aid to Public Education payments to school divisions. To ensure that the FY 2018 appropriation includes sufficient funding to meet the state's obligation for FY 2018 Direct Aid payments, the FY 2018 appropriation must be increased by \$1.1 million to reinstate the amount transferred to cover the FY 2017 shortfall.

Appendix A:

2018-2020 Rebenchmarking Increments from Base Year 2018

(Direct Aid Appropriation Tracking - State Shares Only)

Step	Action	FY 2019	FY 2020
1	Remove Non-Participation Estimate for the Virginia Preschool Initiative (general fund portion of cost)	24,195,672	24,195,672
2	Remove FY 2018 One-Time Spending	-	-
3	Reset Nonpersonal Support Costs Inflation Factors to 0% in SOQ Model	(12,846,610)	(12,846,610)
4	Reset Personal Support Costs Inflation Factors to 0% from 1.5% in SOQ Model and Remove FY 2018 Compensation Supplement Funding	(39,850,326)	(39,850,326)
5	Update Fall Membership and Average Daily Membership Base Year and Projected Enrollment Counts	16,101,957	22,279,366
6	Update Special Education Child Count to December 1, 2016.	7,005,200	7,573,096
7	Update Career & Technical Education Enrollment to School Year 2016-2017	1,325,970	1,305,714
8	Update SOL Tests Failure Rate Data to School Year 2015-2016 and Free Lunch Percentages to School Year 2016-2017	8,781,244	8,672,940
9	Update SOQ Gifted, Support Technology, and Instructional Technology Positions for Enrollment	(482,606)	(430,617)
10	Update Base Year Prevailing SOQ Instructional Salaries to FY 2016	19,701,491	19,795,968
11	Update Base Year Expenditures from Annual School Report to FY 2016 for Support Positions Costs (Prevailing Base Year Positions Per Pupil and Salaries)	22,524,984	22,614,801
12	Update Base Year Expenditures from Annual School Report to FY 2016 for Nonpersonal Support Costs Per Pupil	35,779,370	34,207,381
13	Update Federal Revenue Deduct Per Pupil Amount (from FY 2016 Revenues)	(1,121,174)	(1,212,007)
14	Update Support Positions Ratio Cap (Ratio of Instructional to Support Positions from 4.19:1 to 4.27:1)	(9,461,524)	(9,405,356)
15	Update Costs for Division Superintendents, School Boards, and School Nurses (without inflation)	2,999,531	2,905,199
16	Update Health Care Premium (without inflation)	29,013,845	29,004,610
17	Update Textbook Per Pupil Amount (without inflation)	(7,176,073)	(7,189,292)
18	Update Pupil Transportation Costs (without inflation)	(14,057,598)	(10,023,758)

Step	Action	FY 2019	FY 2020
19	Update Non-Personal Support Cost Inflation Factors	58,490,185	58,541,694
20	Update Salary Inflation Factors (Instructional and Support) to Recognize Cost of Continuing FY 2018 2.0% Compensation Supplement into 2018-2020 Biennium	82,170,862	82,446,818
21	Update English as a Second Language Enrollment Projections	1,754,803	3,618,177
22	Update Remedial Summer School Per Pupil Amount and Enrollment Projections	1,877,302	3,524,455
23	Update Incentive Accounts (Academic Year Governor's School Enrollment and Per Pupil Amount; remove 2.5% PPA increase and \$50/course for Governor's School)	(416,864)	(350,603)
24	Update Categorical Accounts (Special Education - Homebound, Jails, and State-Operated Programs)	1,125,496	2,265,415
25	Update Lottery Accounts (VPI, Algebra Readiness, Foster Care, K-3 Class Size Reduction, Special Ed. Regional Tuition, School Breakfast)	18,057,982	25,673,183
26	Update 3-Year Average Free Lunch Rates for CEP Schools	(10,487,449)	(10,515,935)
Total Current Rebenchmarking Cost:		235,005,670	256,799,985

Appendix B:

**Comparison of 2018-2020 and 2016-2018
Local Composite Index Values**

Division Number	Division	2018-2020 Composite Index	2016-2018 Composite Index	Variance
001	ACCOMACK	.3506	.3462	.0044
002	ALBEMARLE	.6780	.6394	.0386
101	ALEXANDRIA	.8000	.8000	.0000
003	ALLEGHANY	.2423	.2423	.0000
004	AMELIA	.3230	.3182	.0048
005	AMHERST	.3073	.3132	(.0059)
006	APPOMATTOX	.2950	.2917	.0033
007	ARLINGTON	.8000	.8000	.0000
008	AUGUSTA	.3601	.3508	.0093
009	BATH	.8000	.8000	.0000
010	BEDFORD COUNTY	.3132	.3132	.0000
011	BLAND	.3070	.3002	.0068
012	BOTETOURT	.3855	.3766	.0089
102	BRISTOL	.2922	.3043	(.0121)
013	BRUNSWICK	.3537	.2808	.0729
014	BUCHANAN	.3078	.3171	(.0093)
015	BUCKINGHAM	.3484	.3405	.0079
103	BUENA VISTA	.1849	.1773	.0076
016	CAMPBELL	.2850	.2746	.0104
017	CAROLINE	.3445	.3258	.0187
018	CARROLL	.2726	.2722	.0004
019	CHARLES CITY	.5175	.4910	.0265
020	CHARLOTTE	.2439	.2539	(.0100)
104	CHARLOTTESVILLE	.6903	.6590	.0313

Division Number	Division	2018-2020 Composite Index	2016-2018 Composite Index	Variance
136	CHESAPEAKE	.3475	.3439	.0036
021	CHESTERFIELD	.3522	.3510	.0012
022	CLARKE	.5505	.5437	.0068
202	COLONIAL BEACH	.3599	.3402	.0197
106	COLONIAL HEIGHTS	.4179	.4182	(.0003)
107	COVINGTON	.2980	.2803	.0177
023	CRAIG	.3235	.3026	.0209
024	CULPEPER	.3573	.3576	(.0003)
025	CUMBERLAND	.2809	.2817	(.0008)
108	DANVILLE	.2546	.2629	(.0083)
026	DICKENSON	.2470	.2700	(.0230)
027	DINWIDDIE	.2783	.2777	.0006
138	EMPORIA	.2168	.2163	.0005
028	ESSEX	.4297	.4316	(.0019)
134	FAIRFAX CITY	.8000	.8000	.0000
029	FAIRFAX COUNTY	.6754	.6844	(.0090)
109	FALLS CHURCH	.8000	.8000	.0000
030	FAUQUIER	.6113	.5827	.0286
031	FLOYD	.3337	.3402	(.0065)
032	FLUVANNA	.3911	.3759	.0152
135	FRANKLIN CITY	.2952	.2930	.0022
033	FRANKLIN COUNTY	.3954	.3948	.0006
034	FREDERICK	.3898	.3889	.0009
110	FREDERICKSBURG	.6209	.6071	.0138
111	GALAX	.2587	.2609	(.0022)
035	GILES	.2779	.2740	.0039
036	GLOUCESTER	.3821	.3730	.0091
037	GOOCHLAND	.8000	.8000	.0000

Division Number	Division	2018-2020 Composite Index	2016-2018 Composite Index	Variance
038	GRAYSON	.3461	.3338	.0123
039	GREENE	.3321	.3281	.0040
040	GREENSVILLE	.2189	.2236	(.0047)
041	HALIFAX	.2999	.3024	(.0025)
112	HAMPTON	.2741	.2773	(.0032)
042	HANOVER	.4468	.4285	.0183
113	HARRISONBURG	.3645	.3855	(.0210)
043	HENRICO	.4183	.4158	.0025
044	HENRY	.2253	.2331	(.0078)
045	HIGHLAND	.8000	.8000	.0000
114	HOPEWELL	.2032	.2108	(.0076)
046	ISLE OF WIGHT	.3967	.4011	(.0044)
047	JAMES CITY	.5657	.5641	.0016
049	KING AND QUEEN	.3945	.4154	(.0209)
048	KING GEORGE	.3720	.3664	.0056
050	KING WILLIAM	.3285	.3120	.0165
051	LANCASTER	.7717	.7566	.0151
052	LEE	.1754	.1701	.0053
137	LEXINGTON	.4171	.4054	.0117
053	LOUDOUN	.5383	.5497	(.0114)
054	LOUISA	.5474	.5436	.0038
055	LUNENBURG	.2525	.2434	.0091
115	LYNCHBURG	.3700	.3630	.0070
056	MADISON	.4607	.4411	.0196
143	MANASSAS	.3557	.3582	(.0025)
144	MANASSAS PARK	.2675	.2676	(.0001)
116	MARTINSVILLE	.2135	.2111	.0024
057	MATHEWS	.5059	.5232	(.0173)

Division Number	Division	2018-2020 Composite Index	2016-2018 Composite Index	Variance
058	MECKLENBURG	.3767	.3491	.0276
059	MIDDLESEX	.6159	.6336	(.0177)
060	MONTGOMERY	.3919	.3832	.0087
062	NELSON	.5355	.5933	(.0578)
063	NEW KENT	.4171	.4152	.0019
117	NEWPORT NEWS	.2781	.2821	(.0040)
118	NORFOLK	.2957	.2988	(.0031)
065	NORTHAMPTON	.4745	.4913	(.0168)
066	NORTHUMBERLAND	.7186	.7542	(.0356)
119	NORTON	.2870	.2857	.0013
067	NOTTOWAY	.2385	.2366	.0019
068	ORANGE	.4024	.3811	.0213
069	PAGE	.3007	.2960	.0047
070	PATRICK	.2396	.2479	(.0083)
120	PETERSBURG	.2430	.2365	.0065
071	PITTSYLVANIA	.2443	.2410	.0033
142	POQUOSON	.3742	.3797	(.0055)
121	PORTSMOUTH	.2462	.2506	(.0044)
072	POWHATAN	.4301	.4033	.0268
073	PRINCE EDWARD	.3598	.3377	.0221
074	PRINCE GEORGE	.2391	.2454	(.0063)
075	PRINCE WILLIAM	.3783	.3848	(.0065)
077	PULASKI	.3192	.3105	.0087
122	RADFORD	.2429	.2512	(.0083)
078	RAPPAHANNOCK	.7670	.7398	.0272
123	RICHMOND CITY	.4924	.4758	.0166
079	RICHMOND COUNTY	.3100	.3180	(.0080)
124	ROANOKE CITY	.3415	.3443	(.0028)

Division Number	Division	2018-2020 Composite Index	2016-2018 Composite Index	Variance
080	ROANOKE COUNTY	.3620	.3587	.0033
081	ROCKBRIDGE	.4498	.4522	(.0024)
082	ROCKINGHAM	.3681	.3561	.0120
083	RUSSELL	.2322	.2375	(.0053)
139	SALEM	.3715	.3704	.0011
084	SCOTT	.1917	.1888	.0029
085	SHENANDOAH	.3821	.3663	.0158
086	SMYTH	.2174	.2136	.0038
087	SOUTHAMPTON	.2963	.2856	.0107
088	SPOTSYLVANIA	.3626	.3617	.0009
089	STAFFORD	.3462	.3445	.0017
126	STAUNTON	.3867	.3827	.0040
127	SUFFOLK	.3419	.3409	.0010
090	SURRY	.8000	.8000	.0000
091	SUSSEX	.3482	.3481	.0001
092	TAZEWELL	.2624	.2745	(.0121)
128	VIRGINIA BEACH	.4045	.3925	.0120
093	WARREN	.4333	.4043	.0290
094	WASHINGTON	.3434	.3494	(.0060)
130	WAYNESBORO	.3578	.3556	.0022
207	WEST POINT	.2554	.2422	.0132
095	WESTMORELAND	.4743	.4557	.0186
131	WILLIAMSBURG	.7702	.7747	(.0045)
132	WINCHESTER	.4243	.4326	(.0083)
096	WISE	.2474	.2669	(.0195)
097	WYTHE	.3145	.3122	.0023
098	YORK	.3821	.3905	(.0084)