



COMMONWEALTH *of* VIRGINIA

Department of Planning and Budget

DANIEL S. TIMBERLAKE
Director

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November 15, 2019

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, VA 22843

Dear Senators Norment and Hanger and Delegate Jones:

In accordance with Item 136, Paragraph B.14, Chapter 854, 2019 Acts of Assembly, enclosed is an update on the Standards of Quality (SOQ) expenditures based upon the most current data available.

This report includes seven types of updates to SOQ funding for fiscal year 2020 and the 2020-2022 biennium where such updates are appropriate:

1. Updates for the 2020-2022 biennial SOQ rebenchmarking process, as received by the Board of Education at its September 18, 2019, meeting;
2. Update of the Composite Index of Local Ability-to-Pay for the 2020-2022 biennium;
3. Update of fringe benefit contribution rates for funded positions in the SOQ model based on Virginia Retirement System board-certified rates for the 2020-2022 biennium;

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The Honorable Thomas K. Norment, Jr.
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4. Update of fall membership and average daily membership projections based on September 30, 2019, fall membership data (preliminary) for fiscal year 2020 and for the 2020-2022 biennium;
5. Update of the Lottery Proceeds Fund estimate based on the Virginia Lottery's October 2019 forecast for fiscal year 2020 and for the 2020-2022 biennium;
6. Update of sales tax revenues for public education for fiscal year 2020 and for the 2020-2022 biennium based on the Virginia Department of Taxation's 2019 GACRE forecast; and
7. Update of the latest yearly estimate of school age population provided by the Weldon Cooper Center for Public Service for the distribution of sales tax revenues to school divisions.

Please contact me should you have questions concerning this information.

Sincerely,



Daniel S. Timberlake

Enclosure

C: The Honorable Aubrey L. Layne, Jr.
Mr. Robert Vaughn
Ms. April Kees
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, 2019**

Overview

In accordance with Chapter 854, 2019 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 fiscal year 2020 and the 2020-2022 biennium:

- Updates for the 2020-2022 biennial SOQ rebenchmarking process, as received by the Board of Education at its September 18, 2019, meeting;
- Update of the Composite Index of Local Ability-to-Pay for the 2020-2022 biennium;
- Update of fringe benefit contribution rates for funded positions in the SOQ model based on Virginia Retirement System board-certified rates for the 2020-2022 biennium;
- Update of fall membership and average daily membership projections based on September 30, 2019, fall membership data (preliminary) for fiscal year 2020 and for the 2020-2022 biennium;
- Update of the Lottery Proceeds Fund estimate based on the Virginia Lottery's October 2019 forecast for fiscal year 2020 and for the 2020-2022 biennium;
- Update of sales tax revenues for public education for fiscal year 2020 and for the 2020-2022 biennium based on the Virginia Department of Taxation's 2019 GACRE forecast; and
- Update of the latest yearly estimate of school age population provided by the Weldon Cooper Center for Public Service for the distribution of sales tax revenues to school divisions.

The following table details the general fund expenditure impact of these updates to the Standards of Quality for fiscal year 2020 and the 2020-2022 biennium:

	FY 2020 (millions)	FY 2021 (millions)	FY 2022 (millions)
Chapter 854 base (general fund only)	\$6,516.9	\$6,516.9	\$6,516.9
Updates for the 2020-2022 SOQ rebenchmarking process	N/A	\$289.6	\$306.1
Update the Composite Index for the 2020-2022 biennium	N/A	\$7.3	\$7.5
Update fringe benefit contribution rates for funded positions in the SOQ model	N/A	\$31.9	\$31.9
Update fall membership and average daily membership projections (preliminary)	\$21.1	\$38.7	\$50.2
Update the Lottery Proceeds Fund estimate	\$15.4	\$12.7	\$6.5
Update sales tax revenues for public education	\$5.7	\$23.8	\$35.3
Update the latest yearly estimate of school age population	N/A	\$1.2	\$1.2
Revised total estimated state cost	\$6,559.1	\$6,922.1	\$6,955.6

Details

Pursuant to the *Code of Virginia* and Chapter 854, 2019 Acts of Assembly, DOE calculated the cost of rebenchmarking the Standards of Quality for the 2020-2022 biennium. This process involves technical updates using the current methodology; it does not reflect the impact of any policy changes. Factors updated for the 2020-2022 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 2020-2022 biennium for each division using data from the Department of Taxation. This calculation updates data from tax year 2015 to tax year 2017 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 2016 to 2018. Appendix B of this report contains the Composite Index values by school division for the 2020-2022 biennium, as well as a comparison to the 2018-2020 biennium values.

Furthermore, the fringe benefit contribution rates for retirement, retiree health care credit, and group life have been updated based on the respective Virginia Retirement System (VRS) board-certified rates for the 2020-2022 biennium. The following table

provides a comparison of the rates for the 2020-2022 biennium to those currently funded in fiscal year 2020:

Fringe Benefit	FY 2020	2020-2022 Biennium
Retirement	15.68%	16.62%
Retiree Health Care Credit	1.20%	1.21%
Group Life	0.52%	0.54%

The impact of updates to the fall membership and average daily membership enrollment counts are preliminary at this time, as DOE has not yet completed its work to verify the fall membership data submitted by school divisions in October 2019. However, based on preliminary findings, fall membership and projected average daily membership are higher in fiscal year 2020 than the projections used in Chapter 854. Based on these higher enrollment figures, DOE estimates a preliminary cost of \$21.1 million in fiscal year 2020. Furthermore, based on preliminary findings, average daily membership projections are higher in fiscal year 2021 and fiscal year 2022 than the projections used in DOE’s preliminary rebenchmarking estimates for the 2020-2022 biennium. Based on these higher enrollment figures, DOE estimates a preliminary cost of \$38.7 million in fiscal year 2021 and \$50.2 million in fiscal year 2022. The final estimated costs from the higher enrollment figures cannot be determined until DOE completes its analysis of the school division enrollment data and its related impact on projections.

The fiscal year 2020 appropriation in Chapter 854 anticipates \$628.8 million in transfers to the Lottery Proceeds Fund. The Virginia Lottery Board recommends a revised estimate of fiscal year 2020 profits totaling \$586.6 million. This estimate does not include the residual transfer of fiscal year 2019 profits from August 2019 of \$26.9 million. In total, the revised estimate of expected funds available to the Lottery Proceeds Fund for fiscal year 2020 is \$613.4 million. The decrease of \$15.4 million in Lottery Proceeds over the Chapter 854 appropriation requires an equal amount of increased general fund appropriation in fiscal year 2020. Furthermore, the Virginia Lottery Board recommends estimated profits of \$616.2 million fiscal year 2021 and \$622.3 million fiscal year 2022. The decreases of \$12.7 million in fiscal year 2021 and \$6.5 million in fiscal year 2022 over the Chapter 854 base appropriation included in the 2020-2022 rebenchmarking process require an equal amount of increased general fund appropriation in each year of the 2020-2022 biennium in order to maintain current policy.

Based on the Virginia Department of Taxation’s November 2019 revenue forecast submitted to the Governor’s Advisory Council on Revenue Estimates (GACRE), the fiscal year 2020 estimated education sales tax distribution increases by \$12.9 million over the fiscal year 2020 appropriation in Chapter 854, which results in an additional state cost of \$5.7 million after accounting for the savings realized in Basic Aid from increased sales tax revenues. Additionally, Taxation projects increases of \$53.9 million

in fiscal year 2021 and \$79.9 million in fiscal year 2022, resulting in additional state costs of \$23.8 million and \$35.3 million, respectively, after accounting for the savings realized in Basic Aid from increased sales tax revenues. Furthermore, based on the July 1, 2018, estimate of school age population provided by the Weldon Cooper Center for Public Service, DOE calculates an additional state cost of \$1.2 million each year of the 2020-2022 biennium for the distribution of sales tax revenues to school divisions.

Appendix A:

2020-2022 Rebenchmarking Increments from Base Year 2020

(Direct Aid General Fund Appropriation - State Shares Only)

Step	Action	FY 2021	FY 2022
1	Remove Non-Participation Estimate for the Virginia Preschool Initiative (fully funds the formula assuming 100% slot usage)	25,012,766	25,012,766
2	Remove FY 2020 One-Time Spending	(1,150,763)	(1,150,763)
3	Reset Non-personal Support Costs Inflation Factors to 0% in SOQ Model (linked with Step 19)	(55,685,606)	(55,685,606)
4	Reset Personal Support Costs Inflation Factors to 0% from 5.00% in SOQ Model and Remove FY 2020 Compensation Supplement Funding (linked with Step 20)	(214,843,974)	(214,843,974)
5	Update Fall Membership and Average Daily Membership Base-Year and Projected Enrollment Counts	15,471,803	23,107,352
6	Update Special Education Child Count to December 1, 2018	10,100,747	10,305,258
7	Update Career & Technical Education Enrollment to School-Year 2018-2019	661,552	645,382
8	Update SOL Tests Failure Rate Data to School-Year 2017-2018 and Free Lunch Percentages to School-Year 2018-2019	3,554,453	3,581,285
9	Update SOQ Gifted, Support Technology, and Instructional Technology Positions for Enrollment	(715,552)	(506,293)
10	Update Base-Year Prevailing SOQ Instructional Salaries to FY 2018	26,556,957	26,529,777
11	Update Base-Year Expenditures from Annual School Report to FY 2018 for Support Positions Costs (Prevailing Base-Year Positions Per Pupil and Salaries)	24,388,460	24,590,810
12	Update Base-Year Expenditures from Annual School Report to FY 2018 for Non-personal Support Costs Per Pupil	68,975,611	68,674,395
13	Update Federal Revenue Deduct Per Pupil Amount (from FY 2018 revenues)	(11,094,689)	(11,122,438)

Step	Action	FY 2021	FY 2022
14	Update Support Positions Ratio Cap (Ratio of Instructional to Support Positions from 4.27 to 1 to 4.30 to 1)	(1,904,221)	(1,437,227)
15	Update Costs for Division Superintendents, School Boards, and School Nurses (without inflation)	4,652,618	4,625,750
16	Update Health Care Premium (without inflation)	24,816,902	24,887,383
17	Update Textbooks Per Pupil Amount (without inflation)	4,191,324	4,198,258
18	Update Pupil Transportation Costs (without inflation)	33,793,666	33,982,491
19	Update Non-personal Support Cost Inflation Factors (linked with Step 3)	66,317,602	66,391,716
20	Update Salary Inflation Factors (Instructional and Support) - recognize cost of continuing FY 2020 5.0% Compensation Supplement into 2020-2022 biennium (linked with Step 4)	215,635,208	215,994,350
21	Update English as a Second Language Enrollment Projections	2,387,255	5,006,294
22	Update Remedial Summer School Per Pupil Amount and Enrollment Projections	2,894,613	4,564,796
23	Update Incentive Accounts	5,876,195	5,902,547
24	Update Categorical Accounts	101,332	1,379,475
25	Update Lottery Accounts	39,618,030	41,479,290
Total Current Rebenchmarking Cost		289,612,289	306,113,074

Appendix B:

Comparison of 2020-2022 and 2018-2020 Local Composite Index Values

Division Number	Division	2020-2022 Composite Index	2018-2020 Composite Index	Variance
001	ACCOMACK	.3374	.3506	(.0132)
002	ALBEMARLE	.6449	.6780	(.0331)
003	ALLEGHANY	.2819	.2899	(.0080)
004	AMELIA	.3479	.3231	.0248
005	AMHERST	.3141	.3073	.0068
006	APPOMATTOX	.2978	.2950	.0028
007	ARLINGTON	.8000	.8000	.0000
008	AUGUSTA	.3769	.3602	.0167
009	BATH	.8000	.8000	.0000
010	BEDFORD COUNTY	.3132	.3132	.0000
011	BLAND	.3380	.3070	.0310
012	BOTETOURT	.3975	.3856	.0119
013	BRUNSWICK	.4290	.3537	.0753
014	BUCHANAN	.2975	.3078	(.0103)
015	BUCKINGHAM	.3422	.3485	(.0063)
016	CAMPBELL	.2878	.2851	.0027
017	CAROLINE	.3553	.3446	.0107
018	CARROLL	.2749	.2727	.0022
019	CHARLES CITY	.5880	.5175	.0705
020	CHARLOTTE	.2444	.2439	.0005
021	CHESTERFIELD	.3584	.3522	.0062
022	CLARKE	.5729	.5506	.0223
023	CRAIG	.3336	.3235	.0101
024	CULPEPER	.3741	.3573	.0168

Division Number	Division	2020-2022 Composite Index	2018-2020 Composite Index	Variance
025	CUMBERLAND	.2978	.2810	.0168
026	DICKENSON	.2471	.2470	.0001
027	DINWIDDIE	.2879	.2783	.0096
028	ESSEX	.4636	.4298	.0338
029	FAIRFAX COUNTY	.6541	.6754	(.0213)
030	FAUQUIER	.5879	.6114	(.0235)
031	FLOYD	.3418	.3337	.0081
032	FLUVANNA	.3940	.3912	.0028
033	FRANKLIN COUNTY	.3953	.3954	(.0001)
034	FREDERICK	.4120	.3898	.0222
035	GILES	.2695	.2779	(.0084)
036	GLOUCESTER	.3885	.3821	.0064
037	GOOCHLAND	.8000	.8000	.0000
038	GRAYSON	.3615	.3462	.0153
039	GREENE	.3446	.3321	.0125
040	GREENSVILLE	.2799	.2189	.0610
041	HALIFAX	.3058	.3000	.0058
042	HANOVER	.4626	.4468	.0158
043	HENRICO	.4279	.4183	.0096
044	HENRY	.2253	.2253	.0000
045	HIGHLAND	.8000	.8000	.0000
046	ISLE OF WIGHT	.3964	.3968	(.0004)
047	JAMES CITY	.5553	.5657	(.0104)
048	KING GEORGE	.3703	.3721	(.0018)
049	KING AND QUEEN	.4139	.3945	.0194
050	KING WILLIAM	.3407	.3283	.0124
051	LANCASTER	.7835	.7718	.0117
052	LEE	.1692	.1754	(.0062)

Division Number	Division	2020-2022 Composite Index	2018-2020 Composite Index	Variance
053	LOUDOUN	.5466	.5383	.0083
054	LOUISA	.5406	.5474	(.0068)
055	LUNENBURG	.2561	.2525	.0036
056	MADISON	.4738	.4608	.0130
057	MATHEWS	.5162	.5060	.0102
058	MECKLENBURG	.3996	.3767	.0229
059	MIDDLESEX	.6008	.6160	(.0152)
060	MONTGOMERY	.4005	.3920	.0085
062	NELSON	.5604	.5356	.0248
063	NEW KENT	.4166	.4172	(.0006)
065	NORTHAMPTON	.4696	.4746	(.0050)
066	NORTHUMBERLAND	.7116	.7187	(.0071)
067	NOTTOWAY	.2597	.2385	.0212
068	ORANGE	.4105	.4025	.0080
069	PAGE	.3198	.3007	.0191
070	PATRICK	.2456	.2396	.0060
071	PITTSYLVANIA	.2446	.2443	.0003
072	POWHATAN	.4507	.4302	.0205
073	PRINCE EDWARD	.3554	.3598	(.0044)
074	PRINCE GEORGE	.2467	.2391	.0076
075	PRINCE WILLIAM	.3799	.3783	.0016
077	PULASKI	.3235	.3192	.0043
078	RAPPAHANNOCK	.7990	.7672	.0318
079	RICHMOND COUNTY	.3120	.3100	.0020
080	ROANOKE COUNTY	.3660	.3620	.0040
081	ROCKBRIDGE	.4506	.4498	.0008
082	ROCKINGHAM	.3799	.3682	.0117
083	RUSSELL	.2373	.2322	.0051

Division Number	Division	2020-2022 Composite Index	2018-2020 Composite Index	Variance
084	SCOTT	.1899	.1917	(.0018)
085	SHENANDOAH	.3832	.3821	.0011
086	SMYTH	.2228	.2174	.0054
087	SOUTHAMPTON	.3015	.2963	.0052
088	SPOTSYLVANIA	.3722	.3627	.0095
089	STAFFORD	.3470	.3462	.0008
090	SURRY	.8000	.8000	.0000
091	SUSSEX	.3492	.3482	.0010
092	TAZEWELL	.2575	.2624	(.0049)
093	WARREN	.4432	.4333	.0099
094	WASHINGTON	.3416	.3434	(.0018)
095	WESTMORELAND	.4618	.4743	(.0125)
096	WISE	.2372	.2474	(.0102)
097	WYTHE	.3204	.3146	.0058
098	YORK	.3812	.3822	(.0010)
101	ALEXANDRIA	.8000	.8000	.0000
102	BRISTOL	.3051	.2922	.0129
103	BUENA VISTA	.1893	.1849	.0044
104	CHARLOTTESVILLE	.6886	.6772	.0114
106	COLONIAL HEIGHTS	.4156	.4179	(.0023)
107	COVINGTON	.2913	.2981	(.0068)
108	DANVILLE	.2622	.2546	.0076
109	FALLS CHURCH	.8000	.8000	.0000
110	FREDERICKSBURG	.5840	.6210	(.0370)
111	GALAX	.2775	.2587	.0188
112	HAMPTON	.2743	.2741	.0002
113	HARRISONBURG	.3537	.3645	(.0108)
114	HOPEWELL	.2053	.2032	.0021

Division Number	Division	2020-2022 Composite Index	2018-2020 Composite Index	Variance
115	LYNCHBURG	.3668	.3700	(.0032)
116	MARTINSVILLE	.2185	.2135	.0050
117	NEWPORT NEWS	.2842	.2781	.0061
118	NORFOLK	.3059	.2958	.0101
119	NORTON	.2710	.2870	(.0160)
120	PETERSBURG	.2442	.2430	.0012
121	PORTSMOUTH	.2426	.2462	(.0036)
122	RADFORD	.2452	.2429	.0023
123	RICHMOND CITY	.4688	.4925	(.0237)
124	ROANOKE CITY	.3284	.3416	(.0132)
126	STAUNTON	.3877	.3867	.0010
127	SUFFOLK	.3487	.3420	.0067
128	VIRGINIA BEACH	.4082	.4046	.0036
130	WAYNESBORO	.3652	.3578	.0074
131	WILLIAMSBURG	.7459	.7703	(.0244)
132	WINCHESTER	.4319	.4244	.0075
134	FAIRFAX CITY	.8000	.8000	.0000
135	FRANKLIN CITY	.2929	.2952	(.0023)
136	CHESAPEAKE	.3486	.3476	.0010
137	LEXINGTON	.3920	.4172	(.0252)
138	EMPORIA	.2228	.2168	.0060
139	SALEM	.3641	.3715	(.0074)
142	POQUOSON	.3703	.3742	(.0039)
143	MANASSAS	.3611	.3557	.0054
144	MANASSAS PARK	.2755	.2675	.0080
202	COLONIAL BEACH	.3317	.3600	(.0283)
207	WEST POINT	.2614	.2554	.0060