



COMMONWEALTH of VIRGINIA

Department of Planning and Budget

DANIEL S. TIMBERLAKE
Director

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

November 16, 2020

The Honorable Janet D. Howell
Chair, Finance and Appropriations Committee
The Senate of Virginia
Post Office Box 2608
Reston, Virginia 23218

The Honorable Luke E. Torian
Chairman, Appropriations Committee
Virginia House of Delegates
4222 Fortuna Plaza, Suite 659
Dumfries, Virginia 22025

Dear Senator Howell and Delegate Torian:

In accordance with Item 145, Paragraph B.14, Chapter 1289, 2020 Acts of Assembly (the Appropriation Act), I am submitting the enclosed update on the projected costs of the Standards of Quality (SOQ) based upon the most current data available.

This report includes four types of data updates to SOQ funding for fiscal years 2021 and 2022:

1. Update of sales tax revenues for public education based on the Virginia Department of Taxation's preliminary 2020 GACRE forecast;
2. 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;
3. Update of the Lottery Proceeds Fund estimate based on the Virginia Lottery's most recent forecast; and
4. Update of Fall Membership and Average Daily Membership projections based on September 30, 2020, Fall Membership data adjusted for amendments passed by the General Assembly at its 2020 Special Session I.

Please let me know if you have questions about this information.

Sincerely,

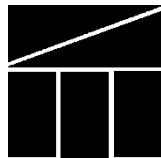
A handwritten signature in blue ink, appearing to read "D. Timberlake".

Daniel S. Timberlake

Enclosure

C: The Honorable Aubrey L. Layne, Jr.
Ms. Anne Oman
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, 2020**

Overview

In accordance with Item 145, Paragraph B.14, Chapter 1289, 2020 Acts of Assembly (the Appropriation Act), the Department of Planning and Budget (DPB), in coordination with the Department of Education (DOE), has prepared the annual report on updates to the cost of the Standards of Quality (SOQ) based upon the most current data available for the 2020-2022 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 based on revisions to data used to determine the costs.

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3. Update of the Lottery Proceeds Fund estimate based on the Virginia Lottery's most recent forecast; and
4. Update of Fall Membership and Average Daily Membership projections based on September 30, 2020, Fall Membership data adjusted for amendments passed by the General Assembly at its 2020 Special Session I.

Sales Tax Revisions

Final revisions to the sales tax revenues dedicated to public education will be available after the Governor's Advisory Council on Revenue Estimates (GACRE) meets on November 23, 2020; however, based on the Virginia Department of Taxation's (TAX) November 2020 preliminary GACRE forecast of the sales tax dedicated to public education, the estimated FY 2021 education distribution increases by \$95.7 million over the FY 2021 interim forecast prepared for the 2020 Special Session I budget, which results in an increased state cost of \$42.3 million after accounting for the state share of savings realized in Basic Aid from increased sales tax revenues. Additionally, TAX projects an increase of \$105.2 million in FY 2022 over the FY 2022 interim forecast prepared for the 2020 Special Session I budget, which results in an increased state cost of \$46.6 million after accounting for the state share of savings realized in Basic Aid from increased sales tax revenues.

School Age Population Revisions

Additional sales tax changes result from updating the estimate of school age population used to distribute sales tax revenue to school divisions. Using the revised estimate of school age population provided by the Weldon Cooper Center for Public Service (based on data as of July 1, 2019), the Department of Education calculates an additional state cost of \$742,335 in FY 2022.

Revised Lottery Revenue

The Virginia Lottery Board has increased its estimate of transfers to the Lottery Proceeds Fund to \$685.0 million in FY 2021. Of this amount, \$676.2 million is the revised estimate of FY 2021 profits and \$8.8 million is the residual profit earned in FY 2020 that was transferred early in FY 2021. The combination of these events increases the estimate of the Lottery Proceeds Fund by an additional \$27.1 million in FY 2021 beyond the current appropriation. The Virginia Lottery Board revised its FY 2022 estimate of transfers to the Lottery Proceeds Fund to \$690.9 million in FY 2022. This estimate increases the Lottery Proceeds Fund by an additional \$24.8 million in FY 2022 beyond the current appropriation. For the biennium, this represents an additional \$51.9 million in available Lottery Proceeds for K-12 education in Virginia.

Enrollment Changes

At this time, DOE has collected actual Fall Membership data submitted by school divisions in October 2020. Actual Fall Membership in FY 2021 is approximately 38,151 students lower than actual Fall Membership in FY 2020 and 43,432 students lower than the FY 2021 Fall Membership projection contained in the current Appropriation Act. This decline is expected to be largely due to the impact of COVID-19 and the adjustments that school division have had to make due to the pandemic.

In anticipation of this shift in Fall Membership and its impact on Average Daily Membership, an amendment to Item 145, Paragraph B. 30 of the reenrolled budget adopted at the 2020 Special Session I sought to mitigate the impact of this decline and the resulting loss of state funds that normally would occur. In observance of this amendment, DOE has determined the impact of not reducing FY 2021 distributions to school divisions based on updated Average Daily Membership projections using the current Fall Membership data.

For a division with actual FY 2021 Fall Membership less than was assumed in the current Appropriation Act, DOE maintained the division's original projected Average Daily Membership for FY 2021 and FY 2022 on which the current Appropriation Act is based. For a division with actual FY 2021 Fall Membership greater than was assumed in the current Appropriation Act, DOE reprojected the division's Average Daily Membership to account for the increased enrollment. This methodology of updating average daily membership (projecting enrollment growth where growth occurred and holding enrollment constant where it declined) results in an additional state general fund cost of \$27.0 million in FY 2021 and \$27.4 million in FY 2022.

To understand the fiscal impact that the statewide decrease in Fall Membership could have on SOQ programs and school division distributions, DOE calculated a scenario that updates Average Daily Membership for all school divisions based on actual FY 2021 Fall Membership submitted by divisions in October 2020. Based on these lower enrollment figures, DOE estimates state savings, if enacted, would be \$199.4 million in FY 2021 and \$201.1 million in FY 2022.

Actual Fall Membership also impacts state funding provided to school divisions through incentive programs. At this time, DOE has updated actual Fall Membership data used in the funding formulas for the Early Reading Intervention and Standards of Learning Algebra Readiness programs. DOE estimates preliminary state savings of \$1.8 million in FY 2021 and \$1.8 million in FY 2022 as a result of updated grade-level Fall Membership for these programs.

Additional updates to the SOQ that are not available at this time will be included in the Governor's amended budget for the 2020-2022 biennium, which is scheduled to be submitted to the General Assembly on December 16, 2020.