

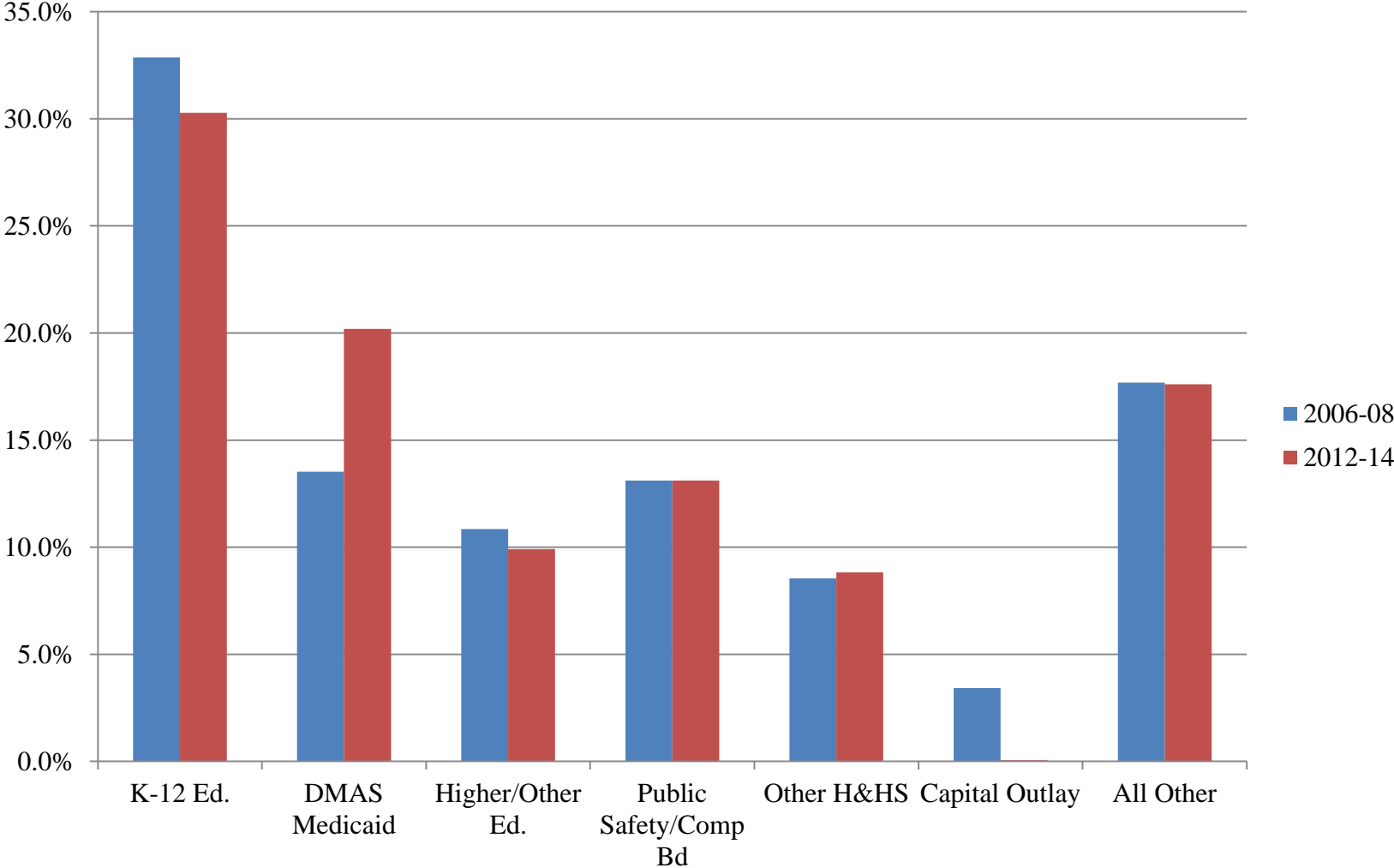
The Potential for State K-12 Spending in the 2014-16 Biennium

VACO Education Steering Committee

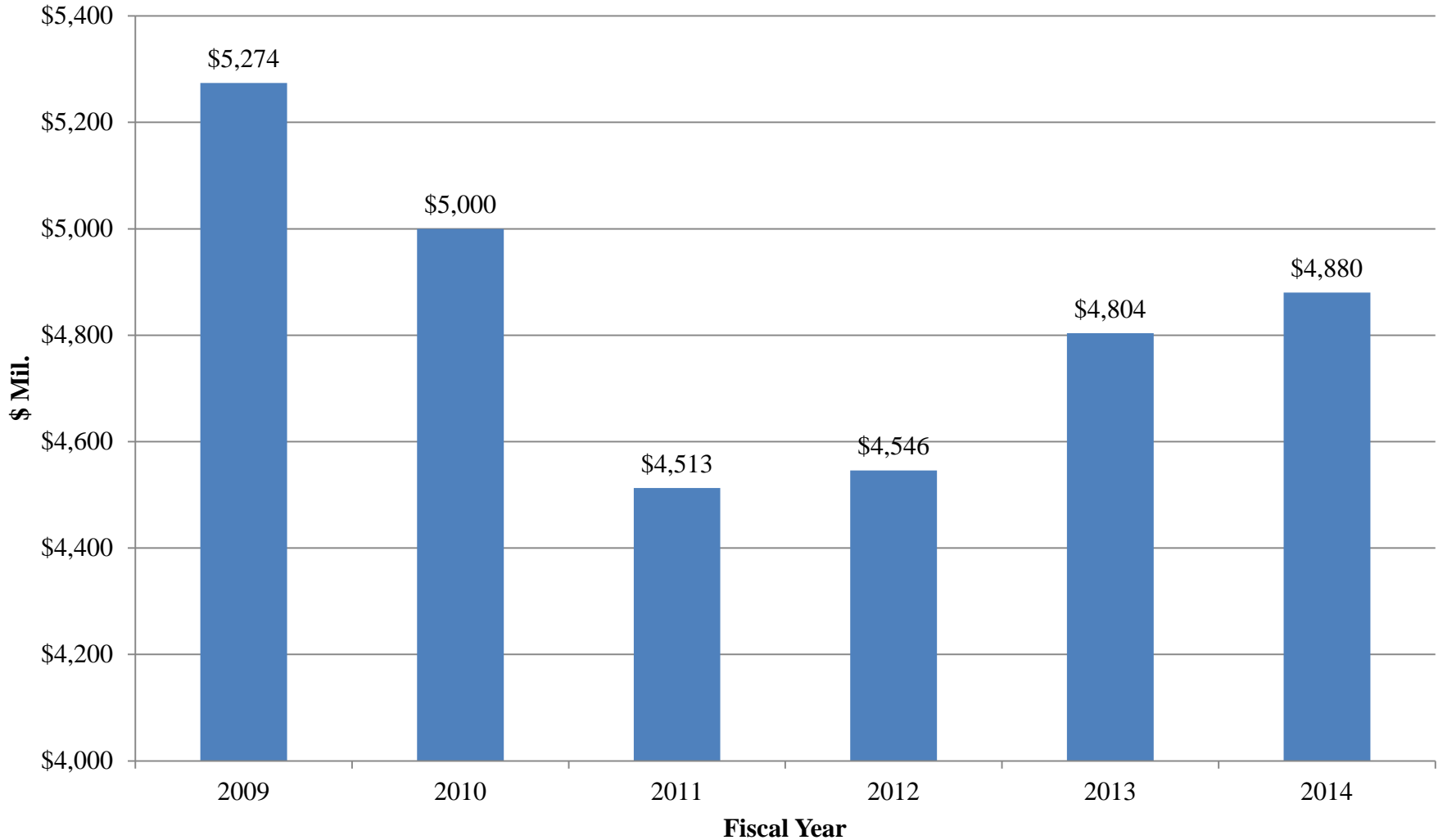
Fiscal Analytics, Ltd.

November 10, 2013

Change in Share of State General Fund Appropriations 2006-08 to 2012-14 Biennium

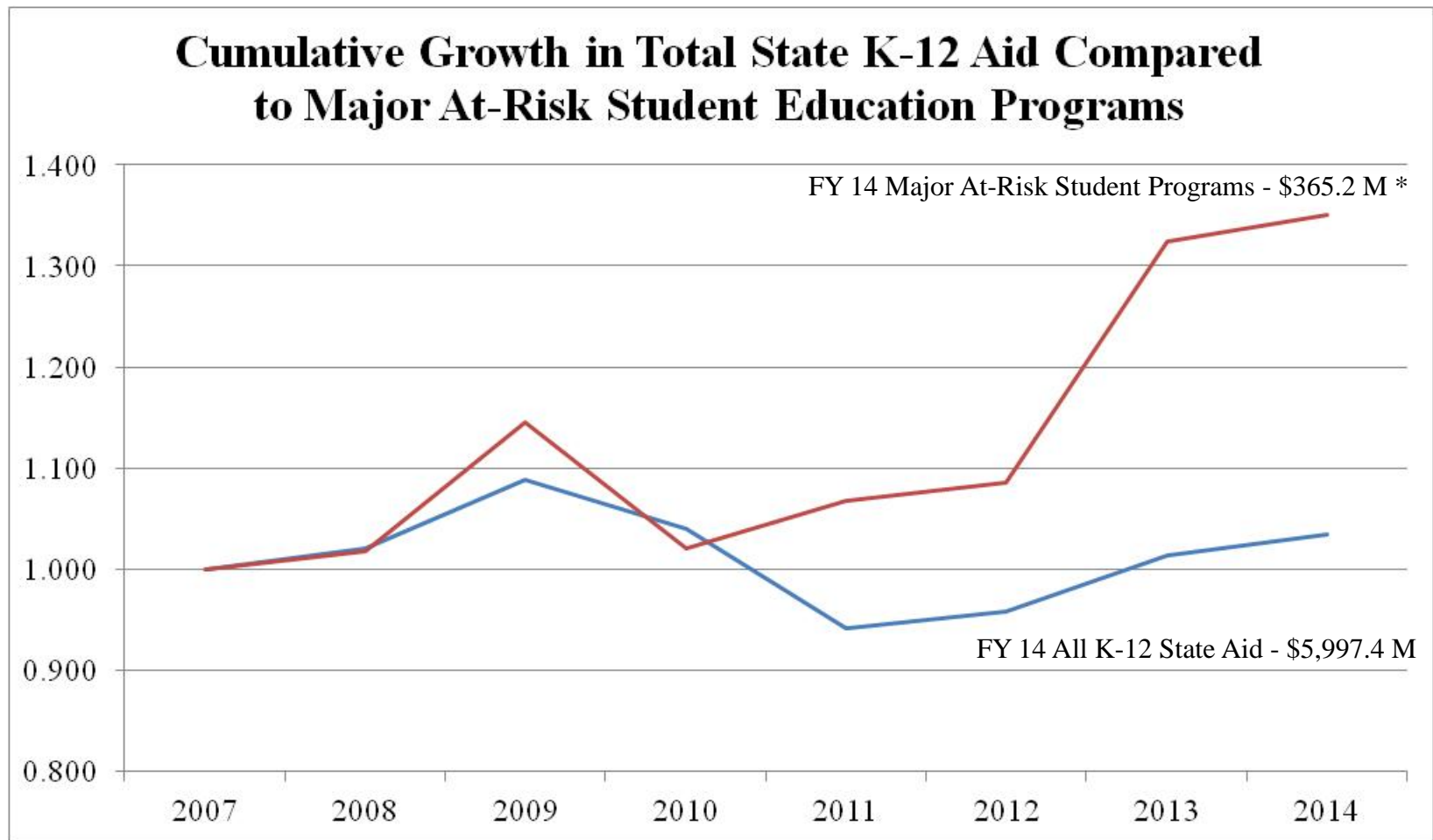


State Per Pupil Education Funding Well Below FY 09 Peak (All Funds)



Includes GF, lottery profits, miscellaneous NGF, and state appropriated federal stimulus funds

State At-Risk Student Education Aid Growing Faster Than Overall Aid



* Includes state funds for SOQ Prevention, Intervention, Remediation, and Lottery-funded At-Risk, K-3 Class Size, VPI, Algebra Readiness, Early Reading programs

Initial DOE 2014-16 Re-benchmarking Update (\$ Mil.)

	<u>FY 2015</u>	<u>FY 2016</u>	<u>2014-16 Total</u>
Recognize the FY 14 state 2% increase in Funded Salaries	68.8	68.8	137.6
Update Federal Revenue Deduct	52.0	52.0	104.0
Update Non-Personal Support Costs Inflation Factors	47.0	47.2	94.2
Update Non-Personal Support Costs	34.9	35.4	70.3
Update Health Care Premium	26.7	26.7	53.4
Include Full VPI participation Slots	23.4	23.4	46.8
Update per Pupil Transportation Costs	18.2	18.8	37.0
Update SOL Failure Rate to 2011 and Free Lunch % to 2012	16.8	16.9	33.7
Update Enrollment Counts	9.1	24.5	33.6
Update Personal Support Costs	5.9	5.9	11.8
Update per Pupil Textbook Amount	4.5	4.5	9.0
Update remedial summer school enrollment & per pupil amounts	1.7	3.3	5.0
Update Gifted and Technology Positions	2.2	2.4	4.6
Update ESL enrollment projections	1.3	2.5	3.8
Update Support Position Cap	(2.9)	(3.2)	(6.1)
Update Prevailing SOQ Instructional Salaries	(4.6)	(4.6)	(9.2)
Update Career & Technical Education Enrollment to 2012	(5.4)	(5.4)	(10.8)
Update Special Ed Child Count to Dec. 1, 2012	(8.3)	(8.0)	(16.3)
Remove Additional Assistance One-time Spending	(55.6)	(55.6)	(111.2)
Remove Compensation Supplement Funding and Reset Support Cost Inflation to 0%	<u>(70.4)</u>	<u>(70.4)</u>	<u>(140.8)</u>
	\$165.3	\$185.1	\$350.4

Remaining Major K-12 Rebenchmarking Inputs for the 2014-16 Biennium

- Expect VRS teacher retirement: rates to rise from 11.66% to 14.5%, costing the state \$81 million and local school divisions \$125 mil. more per year statewide (approx. avg. responsibility = 40% state, 60% local -- with individual school division responsibility dependent on their LCI).
 - Represents a 24 percent increase in teacher retirement costs.
- Updates to lottery and sales tax revenue still forthcoming.
- Local composite index changes.

2014-16 GF Budget Outlook

Fiscal Analytics forecasts \$1 billion in unspent balances by the end of FY 2016 using the following assumptions:

- Uses a conservative 3.3% GF revenue growth forecast for FY 14 and 4 percent revenue growth per year in 2014-16 biennium (no recession forecast). Assumes balances roll forward.
- Assumes the following mandatory/high priority spending* in the 2014-16 biennium:
 - K-12 re-benchmarking as reported Sept. 26 by DOE.
 - Teacher (\$233 mil.) and state employee (\$293 mil.) VRS, health insurance, and other benefit increases. No teacher or state employee salary increases assumed.
 - Nov. 2012 consensus Medicaid inflation and utilization increases (3.9% in FY 15 and 4.5% in FY 16). No inflation increases for hospitals or nursing homes. No Medicaid expansion through the Affordable Care Act.
 - Higher education E&G cost increases according to institutional plans.
 - Additional GF debt service of \$164 mil. based on new debt issuance as authorized by the GA.
 - 2014-16 Rainy Day Fund deposits of \$314 mil.

Potential for New GF Spending in the 2014-16 Biennium

	<u>Sept. 2013 DPB GF Financial Plan</u>		
	FY 2014 Adopted Budget (\$ mil.)	FY 2015 Projected Budget (\$ mil.)	FY 2016 Projected Budget (\$ mil.)
Legislative and Executive Dept's	103.2	103.2	103.2
Judicial Dept.	424.2	424.9	425.7
Administration/Comp Board	644.7	670.0	670.2
Treasury Board GF Debt Service	613.6	678.3	713.1
Other Finance/Technology	266.3	266.3	266.3
Rainy Day Fund	244.6	243.1	70.8
Car Tax Reimbursement	950.0	950.0	950.0
Commerce and Trade	182.7	188.8	174.5
Agriculture / Nat. Resources	144.0	188.7	159.9
K-12 Education/Central Office	5,403.9	5,625.2	5,697.0
Higher & Other Education	1,773.1	1,801.1	1,879.2
DMAS Medicaid/VHCF	3,824.9	3,974.9	4,155.7
Other Health & Human Services	1,785.3	1,774.5	1,714.6
Public Safety & Veterans/HS	1,702.1	1,718.6	1,718.6
Transportation	42.0	42.0	42.0
Central Appropriations	251.0	382.9	422.8
Independent Agencies/Capital	1.2	1.2	1.2
Total GF Appropriations	\$ 18,356.8	\$ 19,033.7	\$ 19,164.8
FA Estimated Revenue Resources*	\$ 18,144.7	\$ 18,928.4	\$ 19,615.2
Balances **	\$ 509.1	\$ 669.0	\$ 568.2
Unspent Balance	\$ 297.0	\$ 563.7	\$ 1,018.6

* Includes FA re-forecasted revenues, transfers, Va Health Care Fund

** DPB identified unspent balances, plus previous year unspent balance from FA revenue re-forecast

2014-16 Biennium

Potential Additional GF Expenditures Items

- Potential GF expenditures above current services/mandatory/high priority spending:
 - K-12 education enhancements above re-benchmarking
 - State employee and teacher salary increases
 - Unforeseen/new Medicaid cost increases
 - Hospital and nursing home inflation increases
 - Accelerated sales tax final phaseout (\$150 mil.)
 - VITA contract increases
 - Additional higher education funding
 - Capital outlay pay-as-you-go projects
 - Additional public safety enhancements/HB 599 Aid to Police
 - Water quality expenditures
- Forecast sensitivity: Each one percent change in income tax withholding for FY 2014 changes 2014-16 budget outlook revenues by about \$300 million.