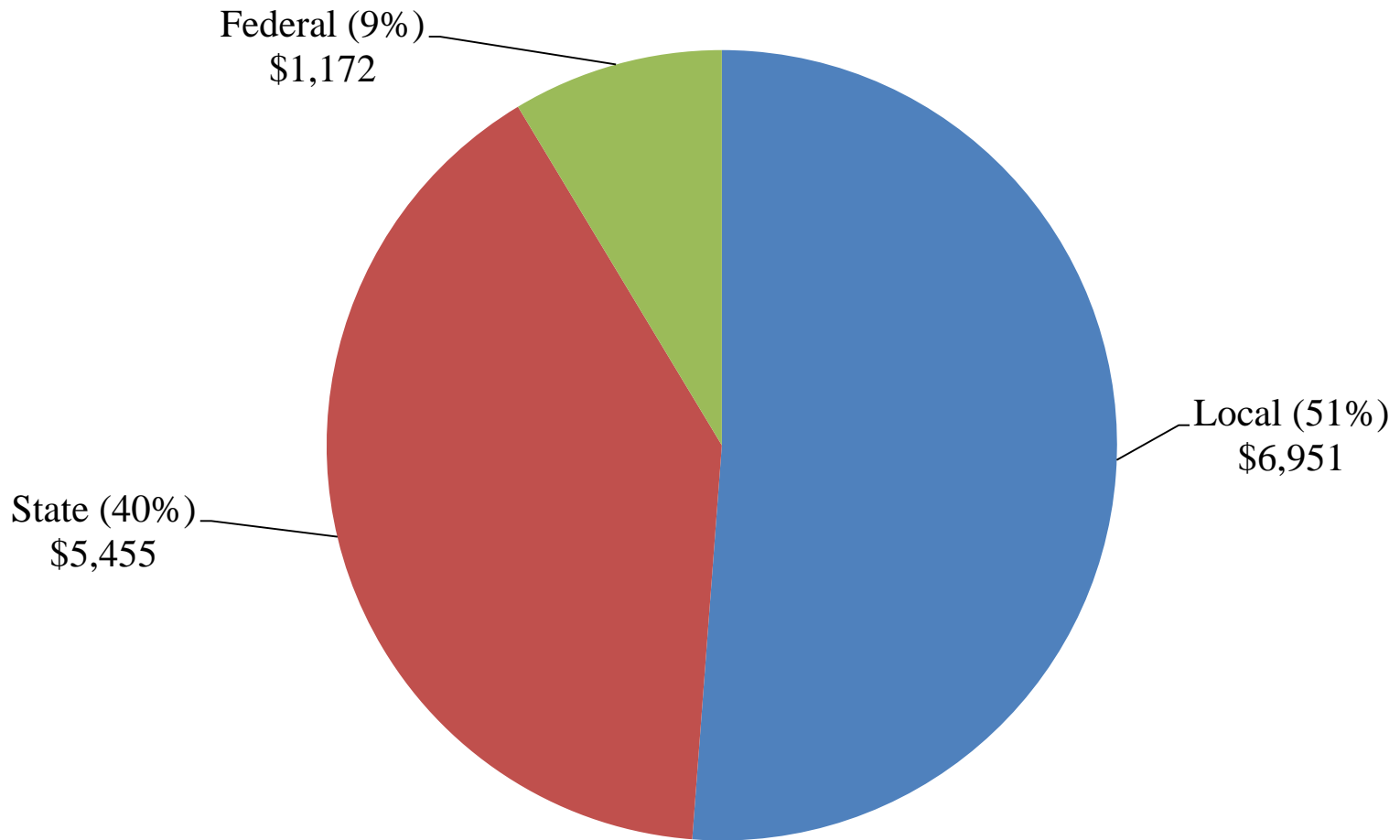


K-12 Funding Issues for the 2014 Session

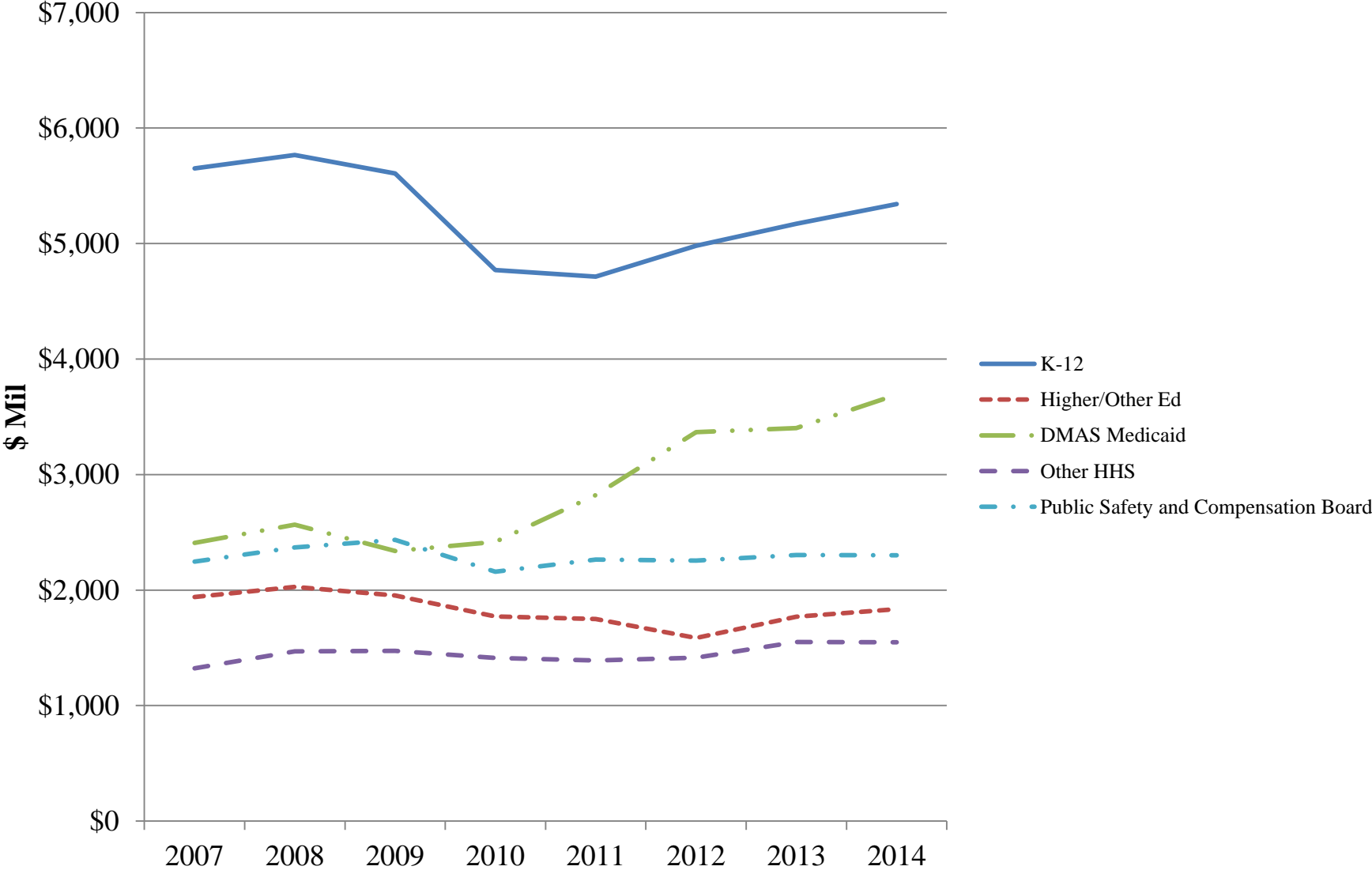
VACO Education Steering Committee

Fiscal Analytics, Ltd.
August 16, 2013

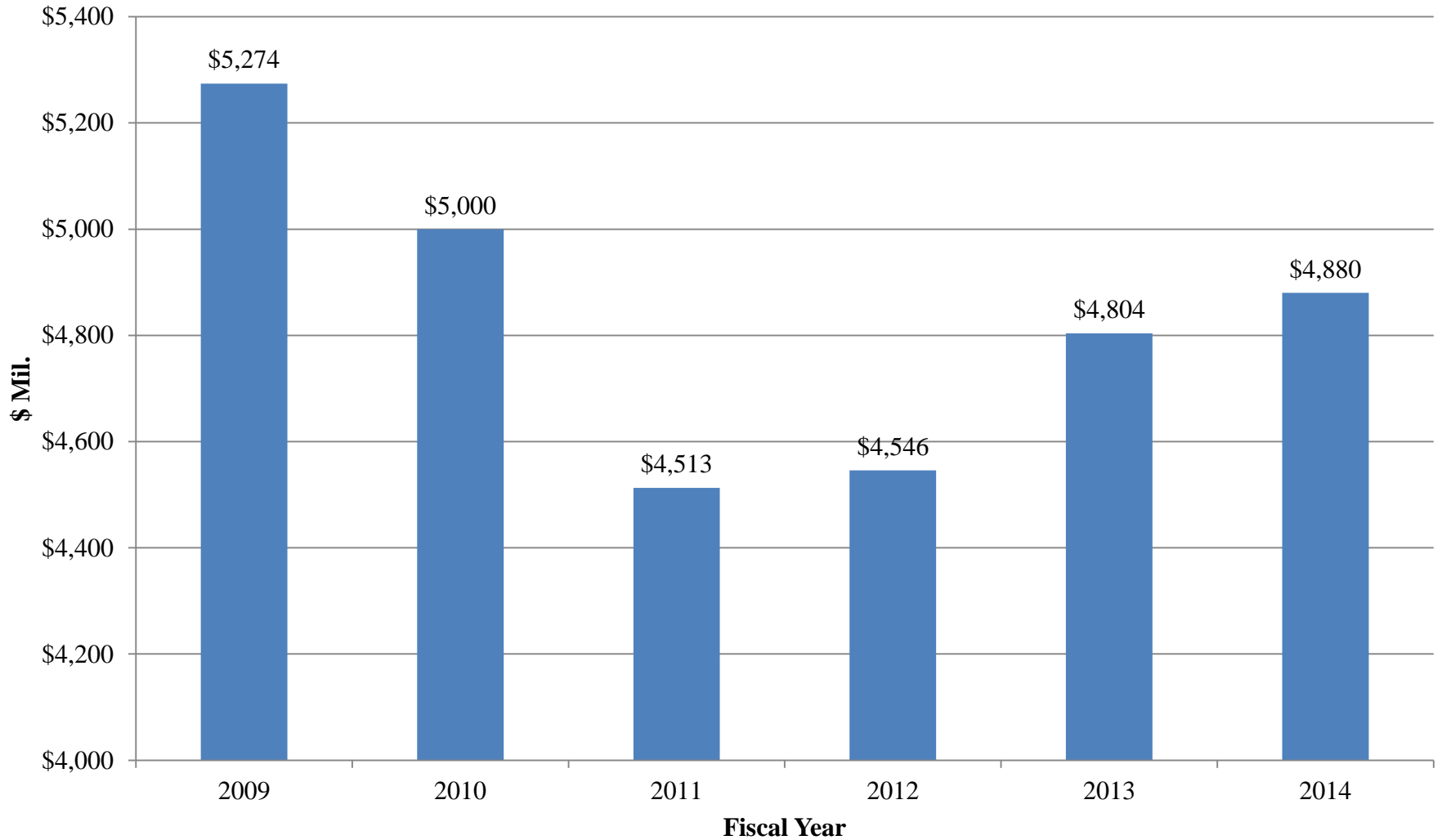
FY 2012 K-12 Funding in VA (\$ Mil.)



State General Fund Appropriation Trends



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



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

Policy Changes During Recession Reduced State K-12 Funding, Particularly for Support Functions

- Established a funding cap of 1 support position per 4 instructional positions.
- Enacted a federal revenue deduct of 38% to eliminate so-called double-counting of funding for support positions.
- Other support function reductions adopted .
 - Include \$0 in division LWA for non-personnel support
 - Extend school bus replacement cycle from 12 to 15 years
 - Eliminate staff travel, leases/rentals, and facilities from recognized non-personnel support funding
- Changed funding for health care premiums to reflect actual participation rates (but not actual premiums paid).
- Eliminated annual/sick leave payments for personnel who terminate employment, capital outlay replacement and a “miscellaneous” category.
- Eliminated non-personnel inflation increases.
- Supplanted GF with lottery funds for savings such as:
 - Transfers remedial summer school, ESL, and 2/3 of textbook funding to lottery.
 - Eliminates enrollment loss and add'l support for construction and operating costs.
 - Limits participation in the K-3 Class Size Reduction Program to schools with free lunch higher than 30 percent.

K-12 GF Budget Changes for the Current Biennium

2012 Session:	<u>2013</u>	<u>2014</u>	<u>Total</u>
Update SOQ programs	\$180.7	\$197.1	\$377.8
Increase Retirement Contribution Rates	\$170.9	\$171.5	\$342.4
Update Incentive and Categorical Programs	\$64.8	\$77.5	\$142.3
Assistance with Retirement, Inflation and Pre-school Costs	\$55.0	\$55.0	\$110.0
Update Composite Index	\$42.7	\$45.1	\$87.8
Update Sales Tax Forecast & Basic Aid Offset	\$17.6	\$38.1	\$55.7
Update K-3 Class Size Reduction Program	\$23.5	\$23.6	\$47.1
Early Reading Program Initiative	\$4.1	\$4.1	\$8.2
Update Voc-Ed Program	\$3.6	\$3.2	\$6.8
All Other Net Additions	\$5.2	\$2.9	\$8.1
Literary Fund transfer to GF for VRS	(\$1.0)	(\$0.7)	(\$1.7)
Reduce Cost of Competing for Support Positions	(\$4.3)	(\$20.7)	(\$25.0)
Use Kindergarten Count as Proxy for Pre-K	(\$13.0)	(\$13.7)	(\$26.7)
Update Lottery Forecast and Replace GF	(\$18.2)	(\$22.9)	(\$41.1)
Capture Est. Non-Participation in Pre-K	(\$27.3)	(\$27.6)	(\$54.9)
Include Portion of ARRA SFSF in Federal Rev. Deduct	(\$54.0)	(\$54.1)	(\$108.1)
Eliminate Non-personal Inflation Update	(\$54.4)	(\$54.6)	(\$109.0)
Remove FY 2012 One-time Spending	<u>(\$107.3)</u>	<u>(\$107.3)</u>	<u>(\$214.6)</u>
Net Change in K-12 Spending	\$288.6	\$316.5	\$605.1

K-12 GF Budget Changes for the Current Biennium

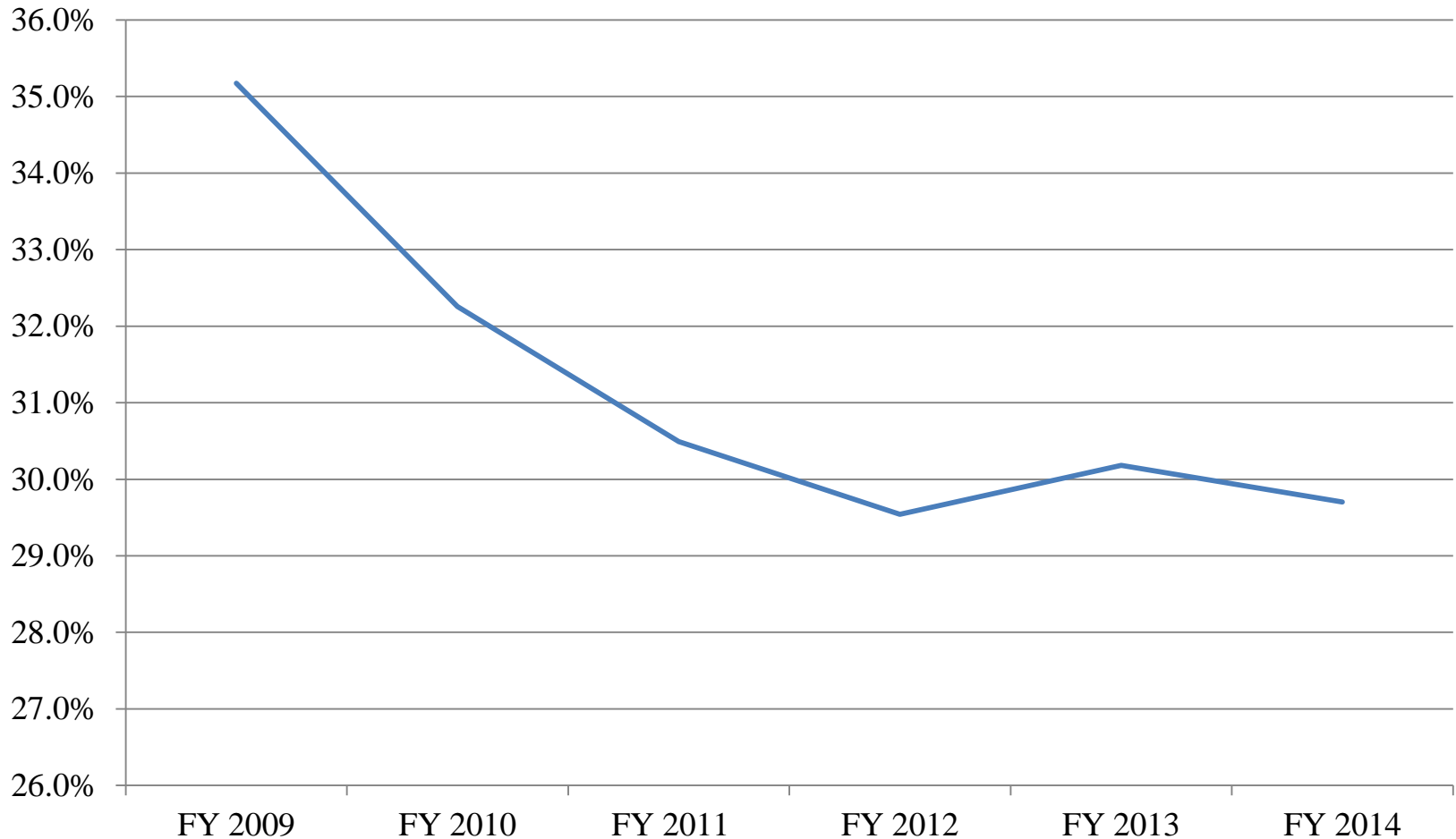
2013 Session:	<u>2013</u>	<u>2014</u>	<u>Total</u>
2% Increase for Funded SOQ Instr. & Support	\$0.0	\$70.2	\$70.2
Update Sales Tax and and School-Age Pop.	\$4.0	\$5.7	\$9.7
Strategic Compensation Initiative	\$0.0	\$7.5	\$7.5
Consolidate Bedford Schools LCI	\$0.0	\$6.2	\$6.2
Funding for Visually Impaired Staffing	\$0.0	\$4.9	\$4.9
New Reading Specialists Initiative	\$0.0	\$1.4	\$1.4
Security Equip Competitive grants	\$0.0	\$1.3	\$1.3
Math/Science Recruitment & Retention	\$0.0	\$0.7	\$0.7
Year-around-Schools Planning Grants	\$0.0	\$0.4	\$0.4
All Other Net Increases	\$0.0	\$1.5	\$1.5
Adjust Early Reading methodology	\$0.0	(\$0.4)	(\$0.4)
Update Incentive and Categorical Programs	(\$1.0)	(\$0.5)	(\$1.5)
Cost of Competing Adjustment for Support Positions	\$0.0	(\$2.8)	(\$2.8)
Supplant GF With Additional Literary Fund Revenue	(\$9.0)	(\$6.5)	(\$15.5)
Update Lottery-Funded Programs Costs	(\$11.2)	(\$4.8)	(\$16.0)
ADM Adjustment	(\$8.9)	(\$10.7)	(\$19.6)
Offset GF With Additional Lottery Revenue	<u>(\$42.2)</u>	<u>\$0.0</u>	<u>(\$42.2)</u>
Net Change in K-12 Spending	(\$68.3)	\$74.1	\$5.8

Additional General Funds During 2013 Session Used Primarily for Rainy Day Fund

	2012 Adopted Budget		2013 Adopted Budget		<u>GF Change</u>	<i>Notes</i>
	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2013</u>	<u>FY 2014</u>		
Legislative and Executive Dept's	95.8	95.8	97.2	103.2	8.8	
Judicial Dept.	421.8	421.7	423.1	424.2	3.8	
Compensation Board	607.2	606.8	613.5	610.5	10.0	<i>Increased 1st year jail per diems</i>
Treasury Board GF Debt Service	616.6	649.3	607.7	613.6	(44.6)	<i>Re-financings at lower rates</i>
Admin. / Tech., Other Finance	199.8	198.1	201.4	205.6	9.1	
Rainy Day Fund	132.7	166.4	132.7	339.6	173.2	<i>Includes \$95 mil. for 2014-16</i>
Car Tax Reimbursement	950.0	950.0	950.0	950.0	-	
Commerce and Trade	172.9	175.5	170.8	182.7	5.1	
Agriculture / Nat. Resources	230.0	137.5	247.8	144.0	24.3	<i>\$16.9 mil. in balances for WQIF</i>
K-12 Direct Aid	5,240.6	5,268.3	5,172.2	5,342.5	5.8	<i>Doesn't include \$30 mil. lottery est.</i>
Higher & Other Education	1,773.7	1,791.9	1,770.1	1,834.4	38.9	
Medicaid (DMAS)	3,523.8	3,690.5	3,402.0	3,690.7	(121.6)	
Other Health & Human Services	1,580.0	1,523.0	1,551.5	1,548.7	(2.8)	<i>CSA reduced \$51.5 mil.</i>
Public Safety & Veterans/HS	1,699.3	1,680.3	1,700.4	1,702.1	22.9	<i>Opening prison in Grayson</i>
Transportation	41.0	41.0	41.0	42.0	1.0	<i>Does not incl. \$49 m sales tax to TTF</i>
Central Appropriations	35.2	105.9	34.5	251.0	144.4	<i>\$45m ATL, empl health & compen.</i>
Independent Agencies	-	-	0.2	1.2	1.4	
Capital	20.3	-	20.1	-	(0.2)	
Total GF Appropriations	\$17,340.7	\$17,502.0	\$17,136.2	\$17,986.0	\$279.5	

State K-12 Funding Now Below 30% of the General Fund

GF Direct Aid to K-12 As % of Total GF Appropriations



K-12 Rebenchmarking Inputs for the 2014-16 Biennium

Major Inputs Fixed for Biennium

- Funded Instructional and Support Prevaling Salaries
- Special Ed Child Counts
- ADM Projections Used in SOQ Model
- Composite Index
- Head Start Enrollment for VPI
- Free Lunch Eligibility
- SOL Test Scores for Prevention, Remediation program
- Federal Revenue for Support Cost Deduct
- Prevaling Textbook Costs

Major Inputs Updated Annually

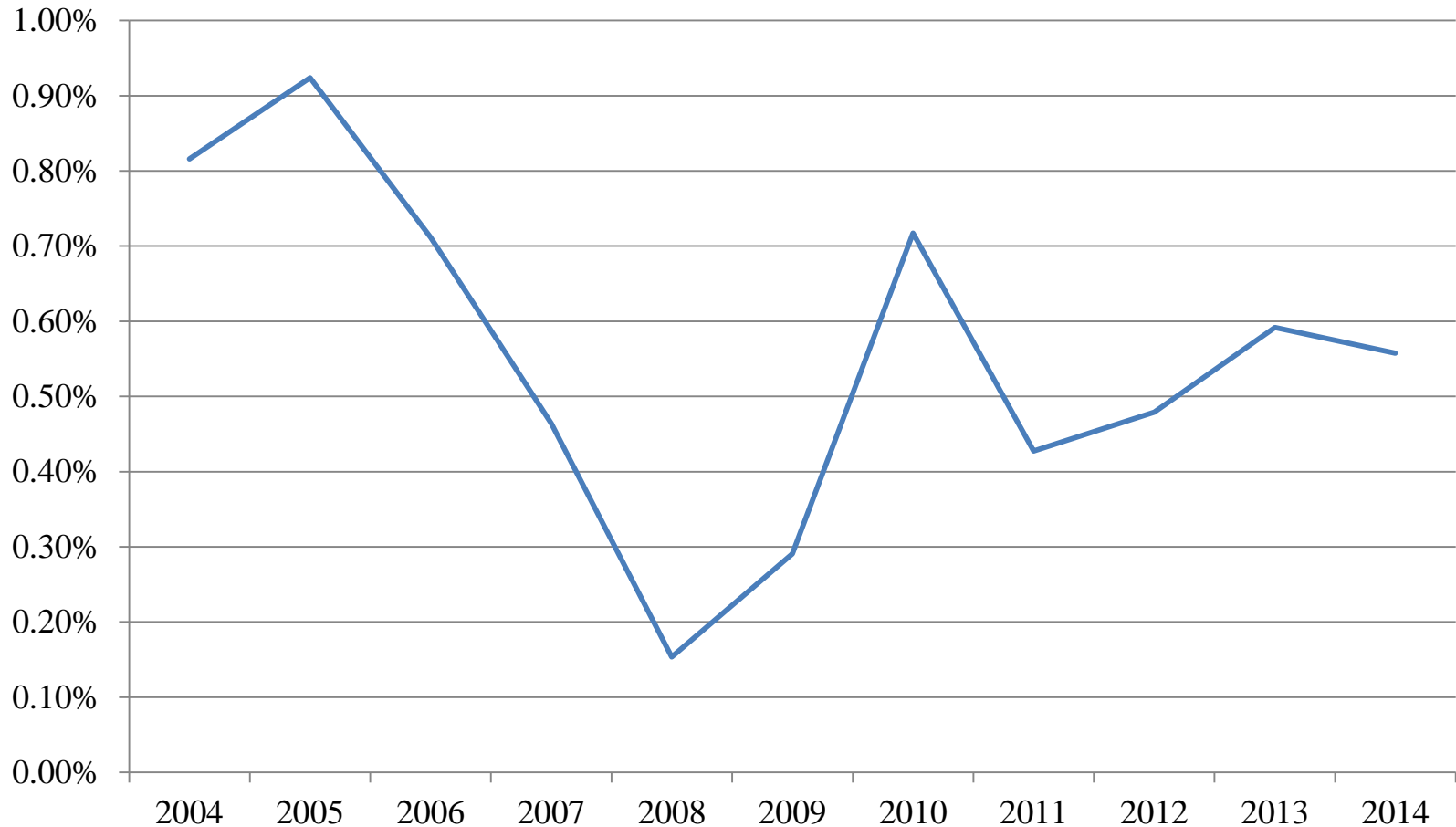
- Enrollment
- Lottery Revenue
- Sales tax Revenue
- VRS Fringe Benefit/Health Care Premiums
- Inflation Factors

Rebenchmarking Gains in FY 2014-16 Will Be Modest Due to K-12 Spending Growth from FY10 to FY12

	<u>2002</u>	<u>2004</u>	<u>2006</u>	<u>2008</u>	<u>2010</u>	<u>2012</u>
Local	\$4,569	\$5,147	\$5,804	\$6,591	\$6,548	\$6,951
Local Growth		12.7%	12.8%	13.6%	-0.7%	6.2%
State	\$3,829	\$4,119	\$4,956	\$5,758	\$5,311	\$5,455
State Growth		7.6%	20.3%	16.2%	-7.8%	2.7%
Federal	\$592	\$721	\$820	\$857	\$1,446	\$1,172
Federal Growth		21.8%	13.7%	4.5%	68.7%	-19.0%
Total	\$8,990	\$9,987	\$11,580	\$13,206	\$13,305	\$13,578
Total Growth		11.1%	16.0%	14.0%	0.7%	2.0%

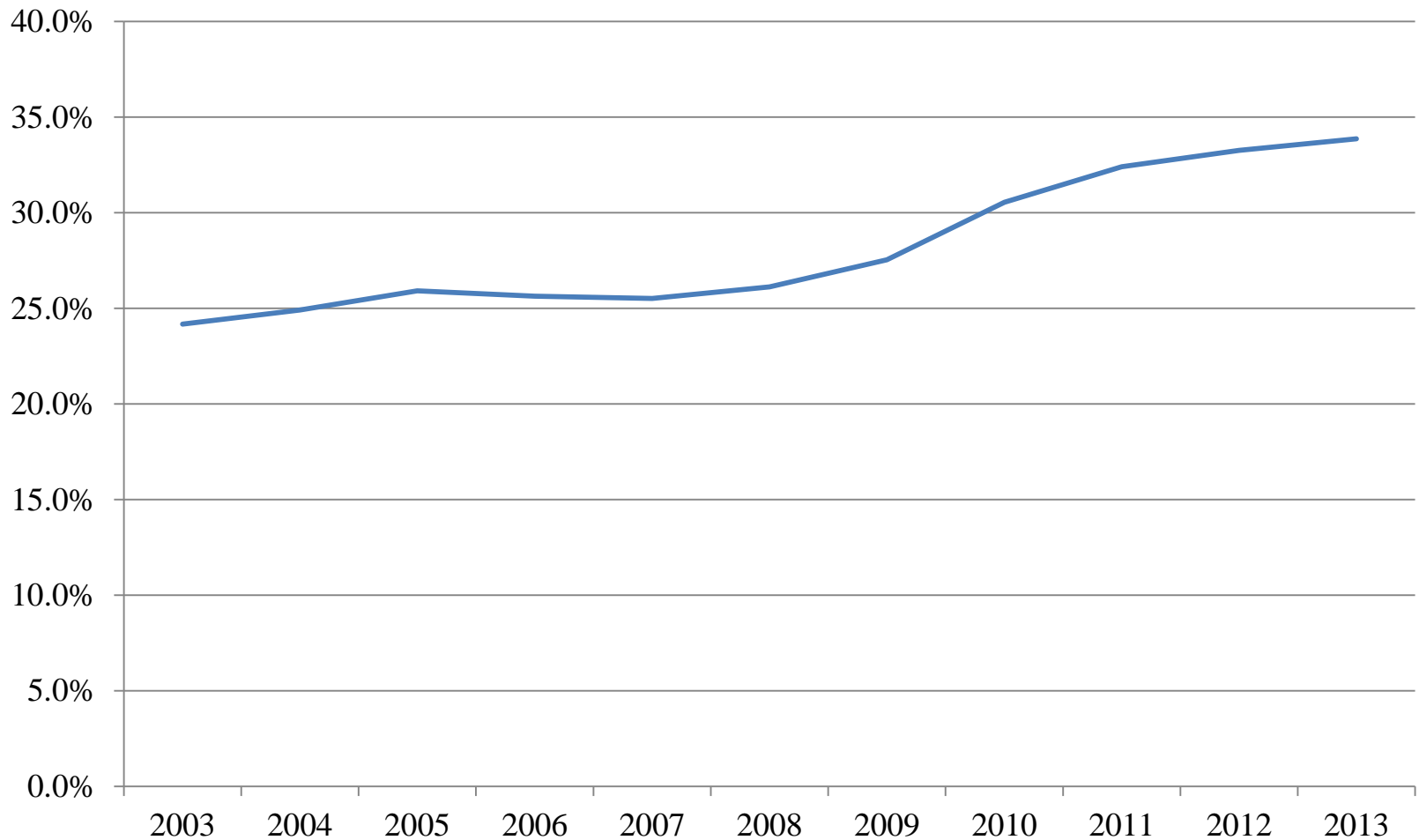
Number of K-12 Public School Students Growing Slowly

Annual Growth in



...But Free Lunch Students Growing Faster Relative to the K-12 Student Population

Free Lunch Students as a Percent of K-12 ADM



Retirement Rates Will Continue Rising

	<i>FY 2012-14 Adopted Rates</i>	Projected 2014-16 Rates *	Salary Base	% State GF	Est. Additional GF Needed \$ Mil./yr
State	8.76%	12.3%	\$3.5 bil.	50%	\$62
Teachers	11.66%	14.8%	\$7.2 bil.	35%	<u>\$79</u>
					\$141

* 11.8% FY 2013 investment return,
80% phase-in schedule assumed

K-12 Funding Issues for the 2014 GA Session

- Expect fewer large changes in the LCI this biennium.
- The amount of federal funding for 2014-16 is unknown.
- Will the state provide further teacher salary increases? Will additional performance pay or career ladder funding be included in the budget?
 - 89% of localities opted to fund 2 percent state salary increase in FY 2014. (Henrico, Hanover, and Spotsylvania opted out.)
- Will the state fully fund its share of retirement/benefit rates?
- Will inflation be funded from base year 2012 to current year?
- Will cost-of-competing in Nova be restored?
- Will funding levels be raised to help meet new accreditation standards - such as graduation/completion indexes,
- Will at-risk student programs be increased to help low-income/minority students meet SOL/graduation requirements?
 - How will the state takeover of struggling schools be implemented?

2014-16 GF Resource Outlook

- Reasonable to expect at least an additional \$2.2 billion in general fund resources in the 2014-16 biennium above the FY 2014 base budget. This assumes carry forward balances from FY 2014, and modest annual 4 percent revenue and transfers growth.
- The approximately \$18 billion annual GF base budget in the 2012-14 biennium will grow to over \$19 bil. in the 2014-16 biennium.

2014-16 State Budget Pressures

- K-12 re-benchmarking and higher ADM (\$500 mil.?)
- Medicaid cost increases (\$450 mil. assuming 6% cost increases)
- Rainy Day Fund Requirements (\$300 mil.)
- Rising VRS Rates (\$280 mil.)
- GF debt service increases (\$100 mil.)
- Mental health needs and DOJ settlement costs
- Increasing state employee health insurance costs
- State employee and teacher salary increases
- Other public education enhancements
- Full year new prison costs
- Cash for capital needs due to limited debt capacity
- Higher VITA contract rates?

Summary

- Modestly expanding economy will likely enable the state to provide some discretionary funding to K-12 beyond just rebenchmarking increases.
- However, discretionary funding increases will be muted due to competing demands from the Rainy Day fund and debt service requirements, higher VRS rates and health care costs, likely state employee salary increases, and continued restoration of budget cuts in other areas of state government such as higher education.
 - Potential Medicaid growth rates and expansion issues add a degree of uncertainty.