

The 2016-18 State GF Budget and Financing of Virginia K-12 Public Education

Virginia Association of Counties
Education Steering Committee

Fiscal Analytics, Ltd.

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What are General Fund Appropriation Prospects?

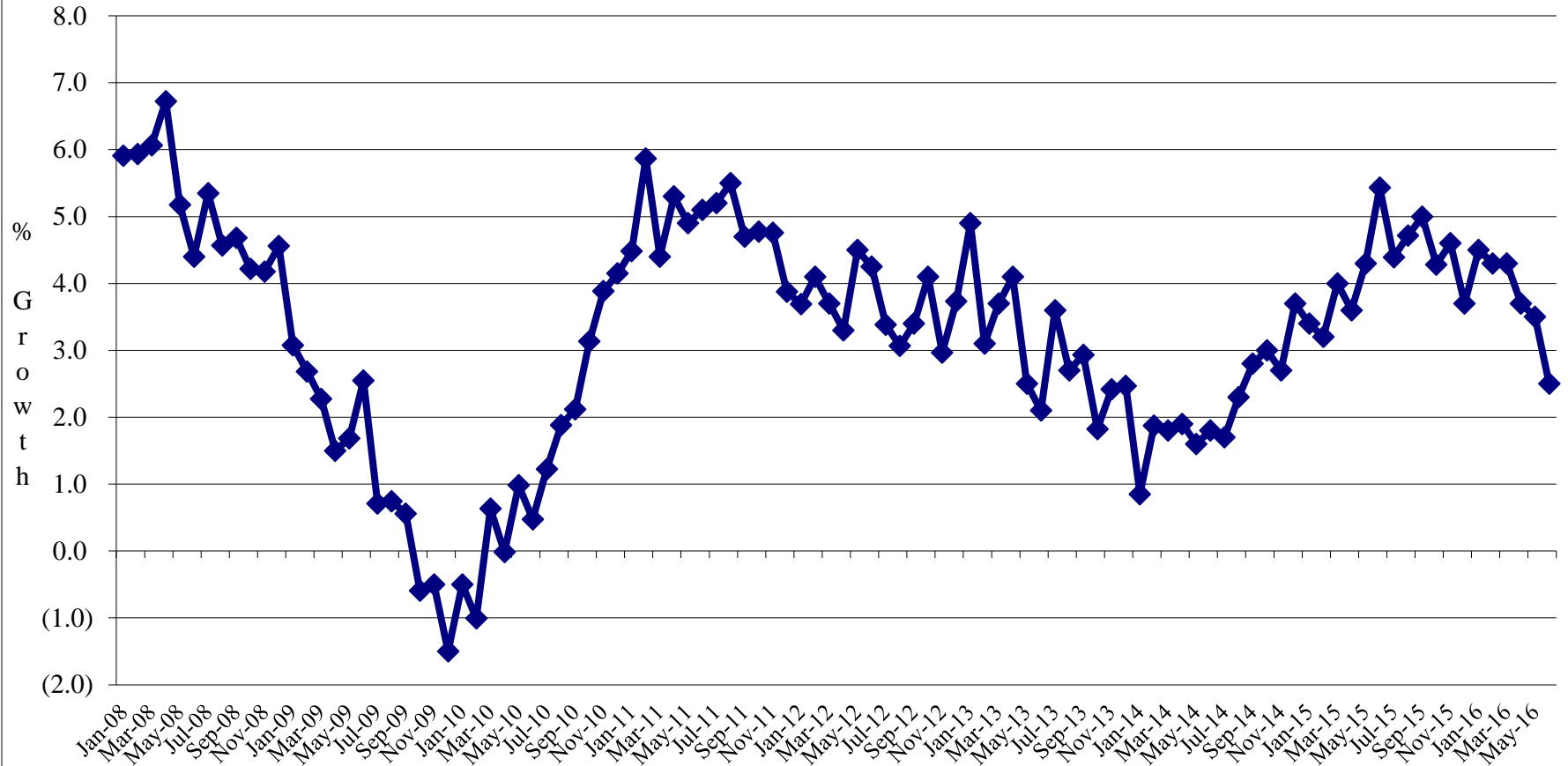
- \$266 million GF revenue shortfall. 1.7% actual growth vs 3.2 percent forecast. Shortfall will affect 2016-18 budget.
 - Income tax withholding grew 2.4% versus 4.1% forecast
 - Non-withholding grew 0.9% versus 1.9% forecast.
 - Sales tax grew 1.9% versus 4.1% forecast
- 2016-18 revenue re-forecast due by Sept. 1. Likely over \$800 million 2016-18 budget shortfall. Could be higher if revenue growth forecast in FY 2017 & FY 2018 reduced.
- 2016-18 state and state-supported local employee (\$190 m) and teacher/support salary (\$134 m) increases contingent on FY 16 revenues not being more than 1 percent below official forecast.
- Use of \$250+ in Rainy Day Funds will also likely be available to help cover shortfall.
- Still leaves \$200+ mil. in additional 2016-18 budget cuts possibly necessary.

Will GF Revenue Growth Be Lowered in Fiscal Years 2017 and 2018?

<u>Fiscal Years</u>	<u>Avg. Annual GF Growth*</u>
1990-1999	5.9%
2000-2008	5.7%
2009-2015	1.9%
2016	1.7%
<i>2017 Official Forecast</i>	<i>3.2%</i>
<i>2018 Official Forecast</i>	<i>3.8%</i>

* Does not include GF transfers

Recent Decline in Individual Income Tax Withholding Growth 12 Mo. Moving Avg (% Growth)



Note: Income tax withholding % of total GF revenues = 63%

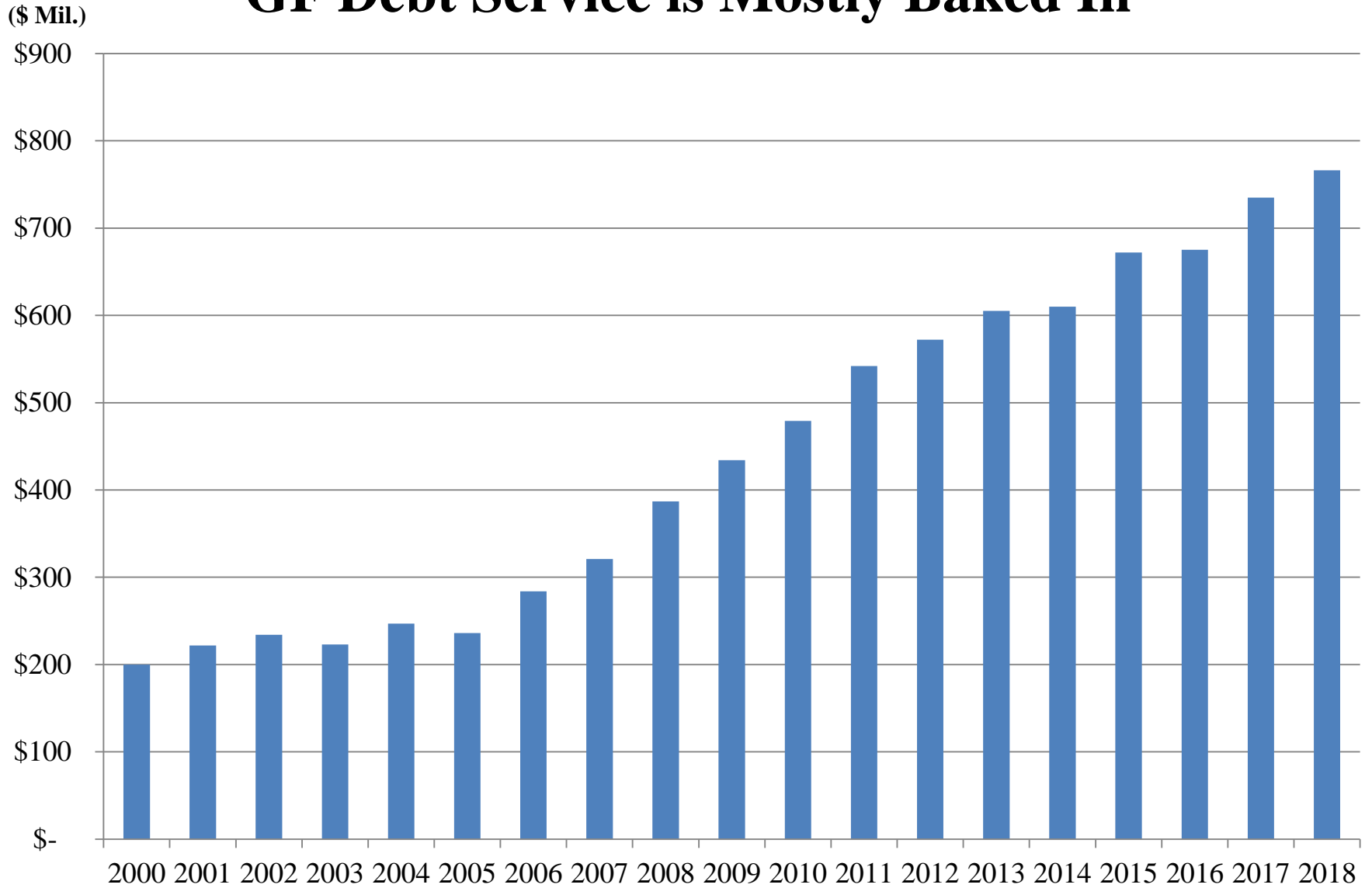
Where Will Budget Cuts Take Place?

	2016 Session Adopted GF Budget (\$ Mil.)			
	FY 16 Budget	FY 17 Budget	FY 18 Budget	Above FY 16 Budget X 2
Legislative and Executive	107.7	115.5	115.5	15.5
Judicial Dept.	456.0	484.5	485.2	57.7
Administration/Compensation Board	691.7	711.8	718.6	47.0
Treasury Board Debt Service	675.0	734.9	766.3	151.2
Other Finance/Technology	181.6	191.6	188.6	16.9
Rainy Day Fund	-	605.6	0.0	605.6
Car Tax Reimbursement	950.0	950.0	950.0	-
Commerce and Trade	197.0	203.9	217.3	27.1
Agriculture / Nat. Resources	174.7	237.7	172.2	60.5
K-12 Education/Central Office	5,576.0	5,900.0	6,190.6	938.6
Higher & Other Education	1,865.5	2,046.7	2,081.1	396.8
DMAS Medicaid	4,159.5	4,280.4	4,405.1	366.5
Other Health & Human Services	1,682.6	1,772.7	1,780.7	188.2
Public Safety & Veterans/HS	1,837.5	1,921.8	1,949.4	196.2
Transportation	69.1	41.0	41.0	(56.2)
Central Appropriations	334.8	139.6	223.0	(307.0)
Independent Agencies/Capital	<u>143.2</u>	<u>12.0</u>	<u>0.3</u>	<u>(274.1)</u>
Total GF Appropriations	\$19,102.0	\$20,349.7	\$20,284.9	2,430.6
GF Resources (Revenues + Transfers)	\$19,119.3	\$19,481.2	\$20,230.3	
Balances	\$932.1	\$946.2	-\$0.5	
Unreserved Balance	\$265.3	\$77.7	\$22.6	

So Far, Medicaid Spending Is Within Budget.

<u>Fiscal Years</u>	<u>Avg. Annual Growth</u>
2000-2009	8.8%
2010-2015	6.2%
2016	9.3%
2017	3.8%
2018	2.9%

GF Debt Service is Mostly Baked In



GF State Aid to Localities (\$ Mil.)

	<u>FY 2009</u>	<u>FY 2014</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
Direct Aid to K-12	\$5,607.6	\$5,240.3	\$5,527.0	\$5,838.9	\$6,131.9
K-12 % of Total GF Appropriations	35.2%	29.6%	28.9%	28.7%	30.2%
Health and Human Services	888.4	791.7	867.5	883.4	886.6
<i>CSA</i>	299.7	217.2	237.2	235.9	235.0
<i>Community MH/MR Services</i>	249.4	269.3	318.0	331.1	335.4
<i>Local Social Services Staff</i>	117.4	115.3	114.4	117.5	117.5
<i>Community Health Programs</i>	117.6	107.2	115.1	117.8	117.6
<i>Welfare Services and Programs</i>	104.3	82.7	82.8	81.1	81.1
Public Safety	734.3	687.9	715.5	737.5	744.4
<i>Local Sheriffs Offices</i>	406.1	411.3	436.0	451.8	458.0
<i>Local Police Depts HB 599</i>	197.3	172.4	172.4	178.0	178.0
<i>Local Jail Per diem</i>	80.1	59.4	61.4	60.6	61.3
<i>Assistance for Juvenile Justice</i>	50.8	44.8	45.7	47.1	47.1
Constitutional Officers	155.3	145.8	152.5	157.5	158.3
Dept. of Accounts Transfers	49.3	49.3	49.5	49.6	49.6
Car Tax	950.0	950.0	950.0	950.0	950.0
Aid-to-Locality Reduction	(50.0)	-	-	-	-
Total Local GF Aid	\$8,334.9	\$7,865.0	\$8,262.0	\$8,616.9	\$8,920.8
Total GF Appropriations	\$15,943.0	\$17,705.2	\$19,102.0	\$20,349.5	\$20,285.0
Local Aid % of Total GF	52.0%	44.1%	43.3%	42.3%	44.0%

How Did K-12 Funding Fare in the 2016-18 Adopted Budget?

- K-12 direct aid funding has dropped from 35 percent of all GF spending in FY 09 to 29 percent in FY 16 and up slightly to 30 percent of the adopted budget by FY 18.
- The adopted 2016-18 biennium increased K-12 GF by \$939 mil., representing 39% of all new funding (\$2.43 bil.), and slightly more than K-12's current share of all general funds.
 - This will decline with the \$134 mil. loss of teacher and support staff salary increases.
- K-12 was increased an avg. 5.6% per year in the 2016-18 adopted GF budget versus half that in the 2014-16 biennium.
- FY 18 K-12 funding is still lower in inflation-adjusted per pupil \$ than 10 years ago.

Major 2016-18 New K-12 Funding

- Rebenchmarking provided about \$400 million of the \$850 mil. GF above base budget K-12 funding for the 2016-18 biennium.
- \$173.5 mil. GF to free up supplemental lottery per pupil allocations.
- \$134 mil. for state share of 2% teacher salary increases in Dec. 2016, *contingent* on available revenues.
- \$56.8 mil. to fund higher employer contribution rates for instructional retirement benefits (100% of the recommended VRS rates in FY 2018 - 14.66% to 16.32%).

Note: The covered “teacher” VRS salary base will be approximately \$7.9 bil. in FY 18. Localities are responsible for about 60% of that salary base. The additional 1.66% rate increase will cost *localities* about \$80 mil.

- \$34.4 mil. to restore PD8 COCA for support positions at 10.6% in both years.
- \$14.2 mil. for additional at risk student funding based on numbers of free lunch students, and *contingent* on applicable schools submitting any required corrective action plans.
- \$10 mil. GF to decrease the Literary Fund transfer for teacher retirement.
- \$5.0 mil. for career and technical credentialing and equipment.
- \$4.6 mil. to expand VECF grants.
- \$2.9 mil. to increase VA Preschool Initiative per pupil from \$6,000 to \$6,125.
- \$2.1 mil. for grants for develop alternative teacher compensation systems.

2016 Session State Per Pupil K-12 Direct Aid Funding Nominal and Inflation-Adjusted (CPI \$2005)



State Standards of Quality Do Not Reflect True Costs for Local K-12 Divisions

- Only 67% of statewide K-12 positions are funded by the SOQ (locals also pay bulk of VRS costs); The “linear weighted average” methodology underfunds 85% of teacher’s salaries (in 2/3 of school divisions); real-time costs not reflected in re-benchmarking; support costs underfunded or no longer paid.
 - Just raising SOQ teacher salaries to the national average and funding prevailing support costs requires an additional \$750 million GF/year.
 - SOQ currently funds only 2,600 out of 19,000 teacher aides and 923 out of 2,554 assistant principals.
- Localities on average spend about double, or \$3.6 bil. beyond state requirements to meet SOL and SOA requirements. All 134 local school divisions exceeded Required Local Effort (RLE) in FY 15.

Divisions up to 25% Above RLE	16
Divisions Exceeding 25% to 75%	50
Divisions Exceeding 76% to 100%	31
Divisions Exceeding 100% RLE	37

Literary Fund Is Largely Used for Teacher Retirement

Sources & Uses of Literary Fund												
	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18
Revenue Sources:												
Loan Payments to Literary Fund and Interest	\$42.8	\$40.0	\$38.7	\$38.7	\$43.0	\$33.2	\$48.5	\$40.6	\$35.4	\$21.8	\$20.2	\$19.2
All Other *	\$177.6	\$190.0	\$199.5	\$202.0	\$158.1	\$160.3	\$161.5	\$160.6	\$393.8	\$324.9	\$198.7	\$192.8
TOTAL Revenue	\$220.4	\$230.0	\$238.2	\$240.7	\$201.1	\$193.5	\$210.0	\$201.2	\$429.2	\$346.7	\$218.9	\$212.0
Spending Allocations:												
Teacher Retirement	\$116.0	\$124.9	\$228.7	\$195.0	\$139.6	\$130.1	\$140.1	\$144.4	\$375.7	\$165.2	\$165.2	\$155.2
Tech Equipment Debt Service	\$62.6	\$63.6	\$64.5	\$65.3	\$63.5	\$62.7	\$60.7	\$60.1	\$60.6	\$62.5	\$64.7	\$68.1
School Security Debt Service								\$1.3	\$2.4	\$3.7	\$4.9	\$6.2
Interest Rate Subsidy	\$7.6	\$16.4	\$11.1	\$3.1	\$0.8	\$2.1	\$0.4	\$0.7	\$0.1	\$1.2	\$0.0	\$0.0
School Construction Loans**										\$52.9	\$0.0	\$0.0
TOTAL Allocations	\$186.2	\$204.9	\$304.3	\$263.4	\$203.9	\$194.9	\$201.2	\$206.5	\$438.8	\$285.6	\$234.8	\$229.5

* Incl. special one-time payment of \$193 m in FY 15

** Loans may be made from available balances

1. Revenues come from criminal fines, fees and forfeitures, unclaimed and escheated property, unclaimed lottery winnings and repayments of prior Literary Fund loans. A principal balance of \$80 million must be maintained in order for other Fund money to be used for teacher retirement fund.

State K-12 Policy Changes Adopted to Reduce Funding

<u>Major K-12 Funding Policy Changes Since 2008 Session</u>	<u>Session</u>	<u>Biennial \$ in Mil.</u>
Cap Funding for Support Positions	2009	(\$754)
Adjust Health Care Participation Rates	2010	(\$269)
Eliminate Equipment, Travel, Misc. Expenses From SOQ Calculation	2010	(\$244)
Eliminate School Construction Grants and Lottery Support for School Construction	2009/10	(\$122)
Eliminate Non-personal Inflation Update (not originally intended as permanent, <i>partially offset in 2012-14 biennium</i>)	2012	(\$109)
Reduce funding for K-3 class size program; use Kindergarten enrollment as proxy for four-year-olds for VPI; eliminate enrollment loss assistance	2010/12	(\$79)
Include \$0 Values in Linear Weighted Avg Calculation	2010	(\$79)
Eliminate COCA for support positions in NoVa	2012/14	(\$50)
Extend School Bus Replacement Cycle From 12 to 15 Yrs	2010	<u>(\$19)</u>
Total Major Policy Changes Since 2009		(\$1,725)

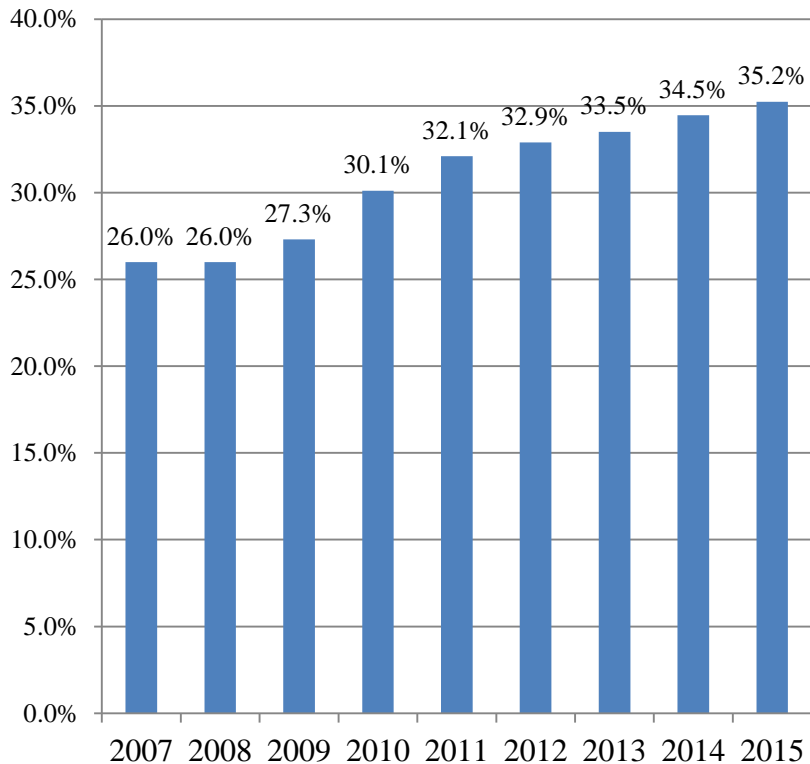
Virginia Board of Education Is Currently Conducting Its Mid-Biennium SOQ Review

- BOE recommended SOQ funding changes have not been adopted by the General Assembly for many years.
- Currently examining where local practices exceed state recognized staffing practices.
- The Board's SOQ Standing Committee is currently considering:
 - The appropriate state-recognized staffing ratio for assistant principals.
 - Whether part-time principals are sufficient for small schools. 12 percent of schools have under 299 students and are only provided funding for a part-time principal.
 - Whether the support position cap put in place in 2009 should be continued or rather prevailing staffing practices should dictate the number of funded positions.

More Difficult and Diverse Student Population to Educate

- 163,000 Special Ed Students (13%)
 - More At-Risk Students

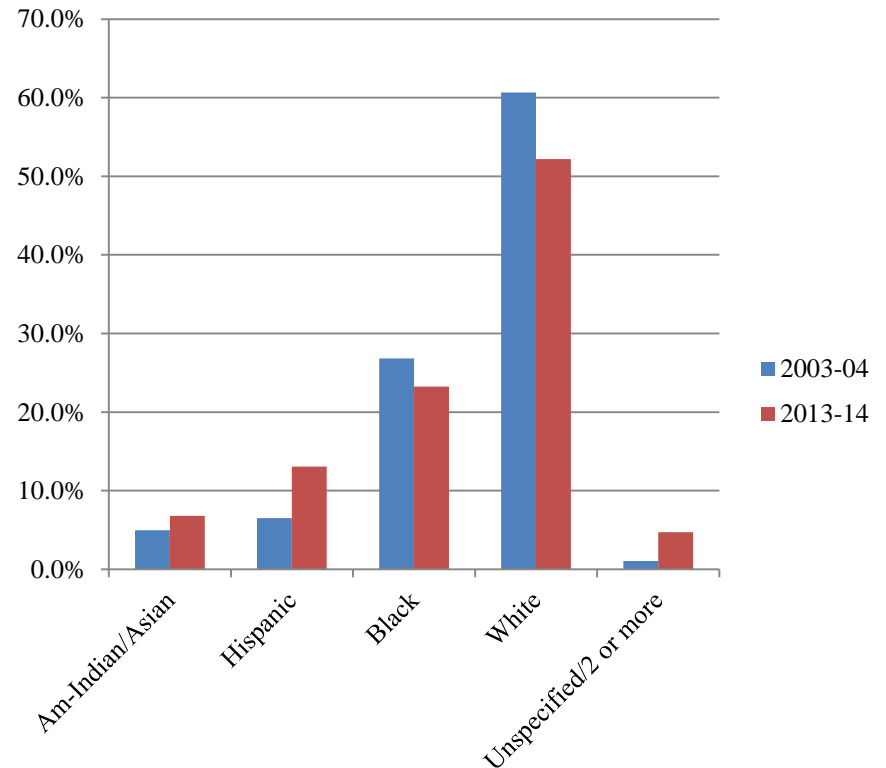
Percentage of Free Lunch Students in VA



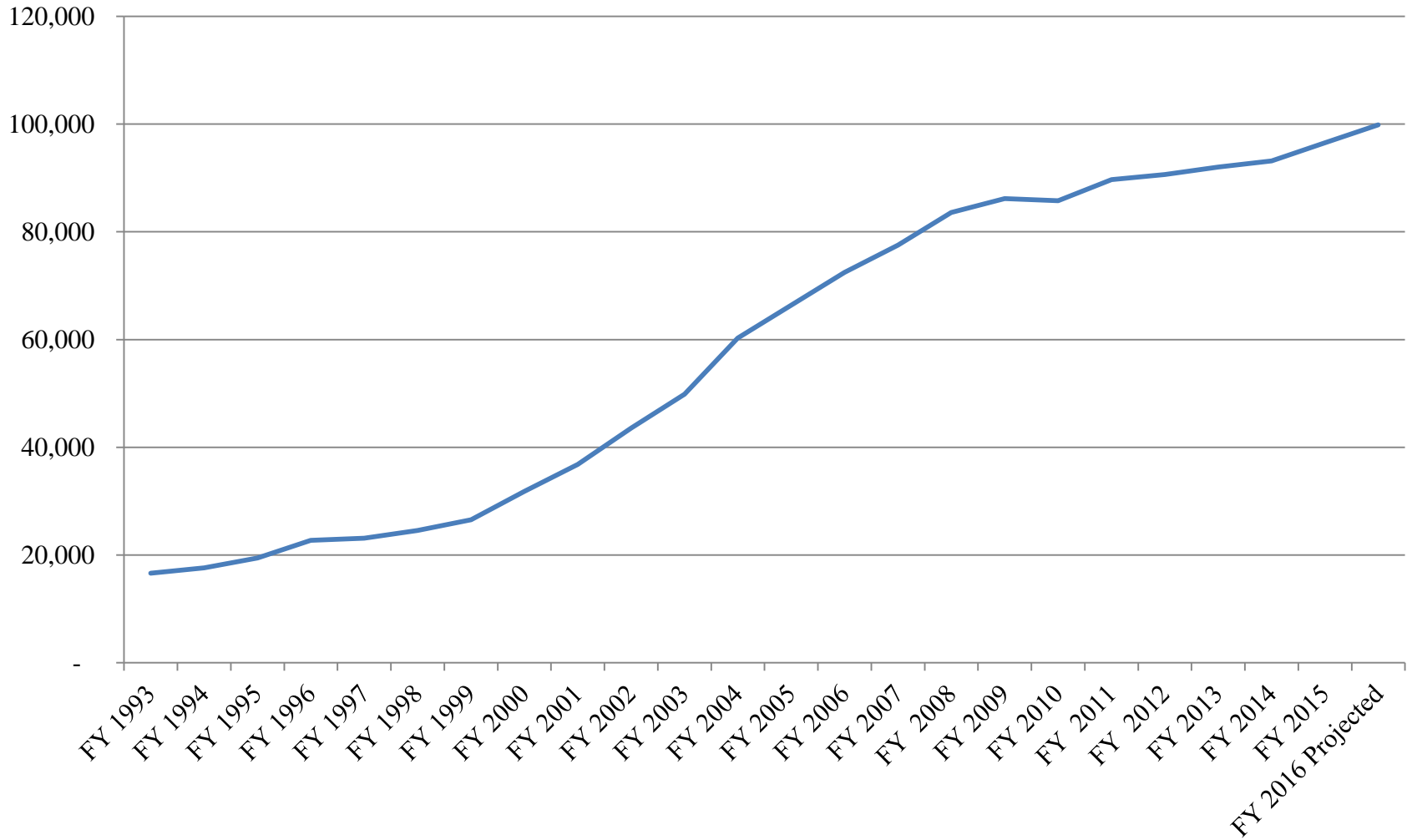
Source: Virginia Dept. of Education

- Changing Student Demographics

VA Public K-12 Student Population by Race



Rising Numbers of English as a Second Language Students (Currently 8% Statewide; 18% PD8)



Source: Virginia Dept. of Education

The Achievement Gap Persists

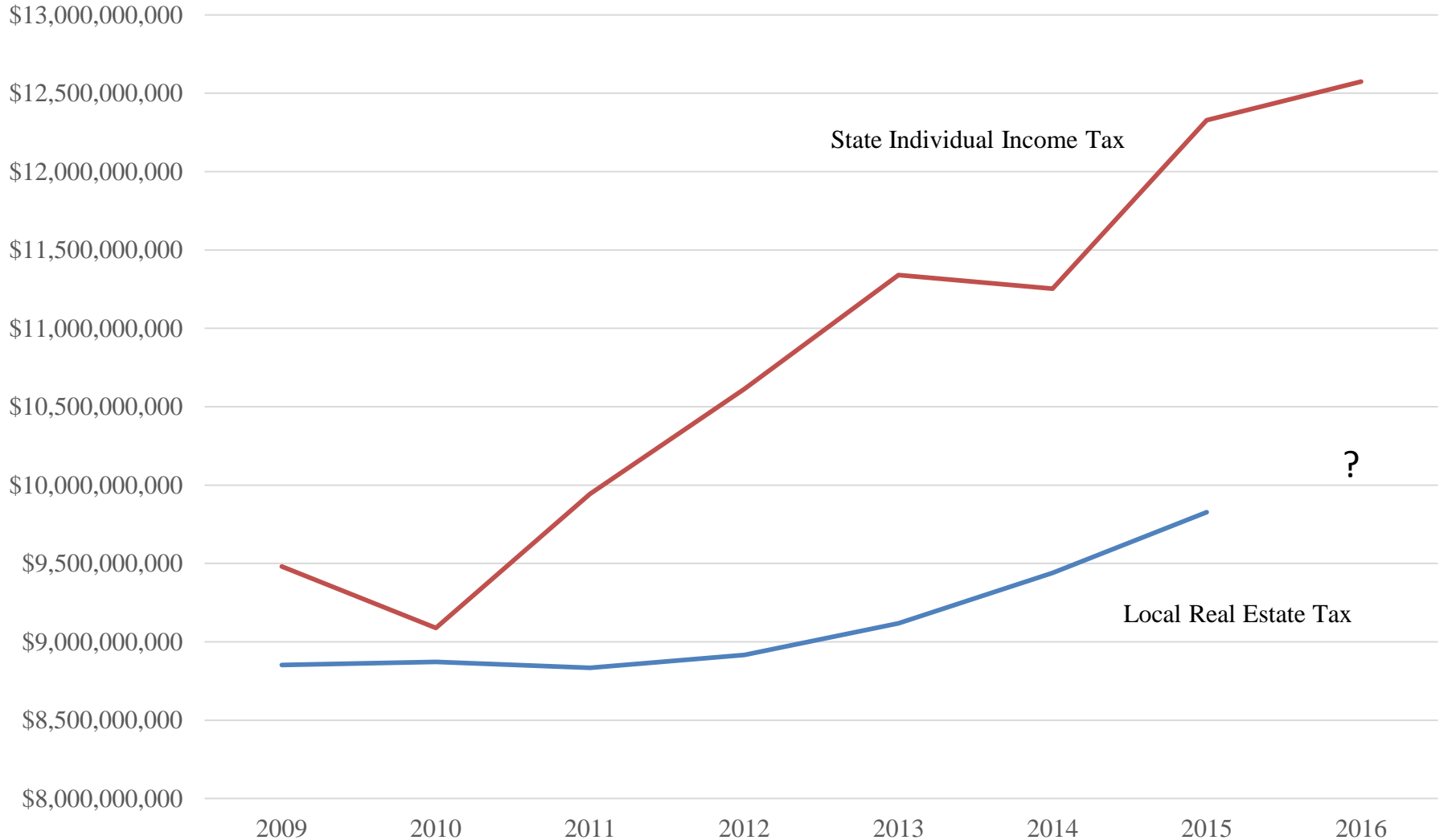
Over 20 Percent of All Schools Not Fully Accredited (2015-16)

Fully Accredited	1414
Conditionally Accredited (New)	9
Partially Accredited - Improving	123
Partially Accredited - Warned	215
Accreditation Denied	13
To Be Determined	49

SOL Pass Rates (2014-15)

	<u>English</u>	<u>Math</u>
Asian	90	93
White	86	85
Hispanic	71	73
Black	65	67
Economically Disadvantaged	66	68
Limited English Proficiency	61	67

Slow State Income Tax Growth Has Still Significantly Exceeded Local Real Estate Tax Growth Since Recession



Even Slow Real Property Revenue Growth Has Required Sharply Rising Rates

Median Real Estate Tax Rates in Virginia Localities*

	<u>CY 2009/FY10</u>	<u>CY 2014/FY15</u>	<u>Change</u>
Cities	0.900	1.040	0.140
Counties	0.550	0.640	0.090
Towns	0.180	0.180	-

* Nominal rates per \$100 of assessed value. Source: Weldon Cooper Center, "Virginia Local Tax Rates"

Despite Local Fiscal Issues, the Burden of the State-Local Fiscal Partnership is on Localities

	<u>2012 JLARC Ranking</u>	<u>2015 JLARC Ranking</u>
Per capita personal income	8	10
State and local <i>taxes</i> as a percentage of personal income	43	45
Per capita state taxes	34	36
Per capita local taxes	13	15
State Per Pupil Funding	35	41
State and Local Per Pupil Funding	17	26
Average Salary of Public School Teachers	28	35

Source: Virginia Compared to Other States, JLARC, 2012, 2015 Editions

What K-12 Help Do Localities Need?

- Continue prioritizing restoring state K-12 funding.
 - Better recognize prevailing school division practices in the state SOQ to meet SOL and SOA mandates.
 - Address low teacher salaries and turnover and provide incentives for attracting high quality teachers (esp. in hard to staff schools and subjects).
 - Direct more funding to school construction, equipment and technology tools for 21st century teaching.
 - Increase efforts to improve low-performing students, and provide more career and technical education options.
- Examine state tax preferences and compare cost/benefits to enhancing K-12 funding.
- Provide additional revenue options for localities.