

PUBLIC EDUCATION

**Rebenchmarking – The Knowns & Unknowns
What May Be Ahead for the 2012 Session**



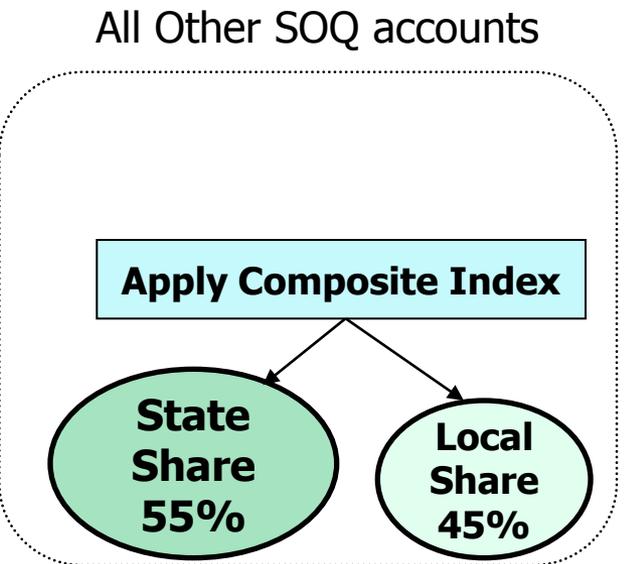
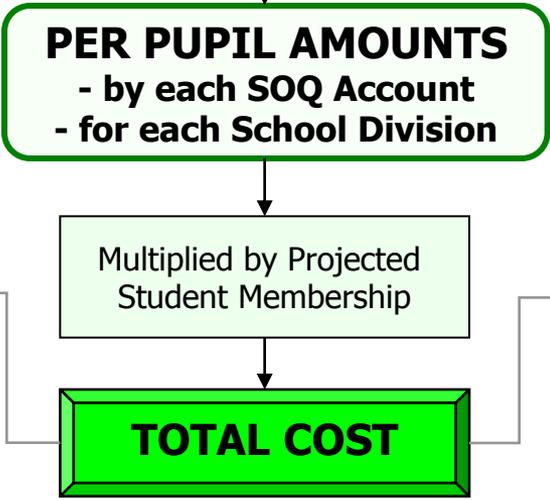
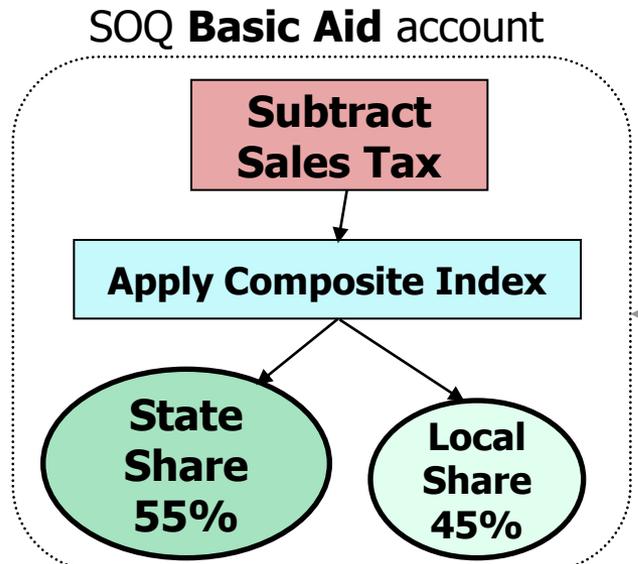
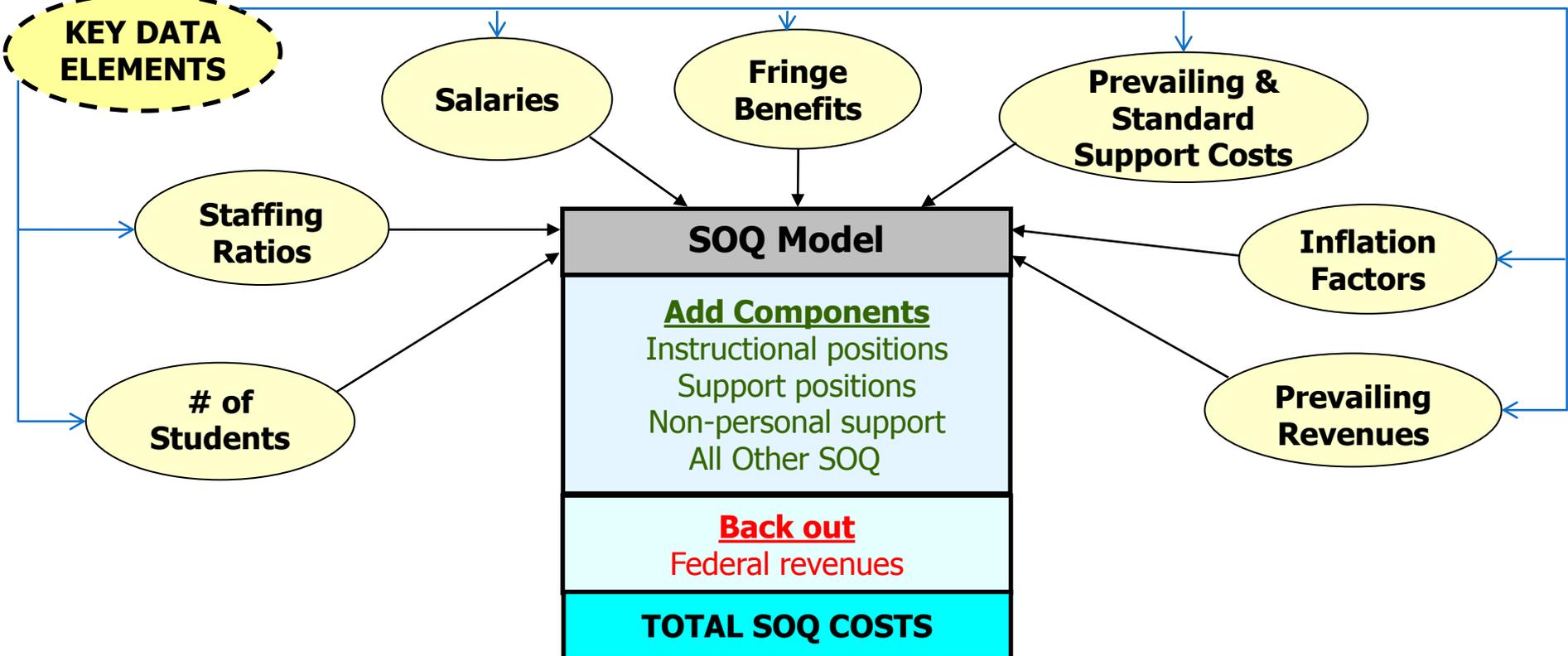
Rebenchmarking Overview

- Rebenchmarking is the process of updating the state's costs of the current Direct Aid programs into the new biennium and is based on a look back of local expenses
- Input data used to calculate the cost of the Direct Aid accounts is updated every two years to recognize changes in costs that have occurred over the prior biennium
- Rebenchmarking updates are technical in nature and do not involve changes in any existing policies or current funding methodologies, other than those previously directed by the General Assembly



Rebenchmarking Overview

- Direct Aid program funding is appropriated in six budgetary categories: Standards of Quality (SOQ), Incentive, Categorical, Lottery Funded, Supplemental programs, and Federal funds
 - SOQ accounts represent approximately 90% of state Direct Aid funding
- The SOQ funding formula includes the following major components that get updated through rebenchmarking:
 - Funded instructional and support salaries
 - Health care premium expenditures
 - Student data projections
 - SOL failure rates
 - Free lunch eligibility percentages
 - Base-year expenditure data - FY 2010 Annual School Report
 - Prevailing textbooks costs
 - Inflation factors for non-personal cost
 - Federal programs revenue
 - Updates to support costs





Policy Changes Have Mitigated Rebenchmarking Costs

- During the 2010 session, the General Assembly adopted policy changes that have moderated costs of rebenchmarking
- These policy changes include:
 - Funding health care costs based on actual participation rates
 - Adjust linear weighted average calculation of non-personal support costs to:
 - Include zeros as a valid entry
 - Eliminate leases, rental, facility, and travel
 - Eliminating certain buy-out personnel & capital object codes
 - Using the combined end-of-year ADM for those divisions that partner together (fiscal agent & contractual divisions)
 - Update the federal revenue deduct to reflect current percentage of non-personal costs in federal revenues received
 - Extend the bus replacement schedule by 3 years



Rebenchmarking Overview

- The adopted FY 2012 Direct Aid budget serves as the starting point for FY 2013 & FY 2014 rebenchmarking
- FY 2012 base budget totaled \$6,355.1 million:
 - \$5,521.0 million - General Fund, Lottery, Literary, and Commonwealth Transportation funds
 - \$834.1 million – Federal funds
- In preparation of the biennial budget plan, the routine process for developing the ‘base budget’ typically involves removing one-time spending items that do not carryover into the next biennium
- For the FY2012-14 budget, the K-12 base adjustments included removing \$107.3 million from one-time allocations included in FY 2012:
 - \$87.7 million - supplement for the \$129.62 per pupil amount
 - \$16.6 million –composite index hold harmless
 - \$3.0 million – performance pay pilot

Preliminary Costs of Rebenchmarking for FY 2012 - 2014

- In July, DOE reported the preliminary state's share of cost for rebenchmarking Direct Aid program accounts
 - However, those totals understated the actual costs of rebenchmarking by assuming the retention of the \$107.3 million each year that had been designated as one-time expenses in FY 2012
- Last week, DOE indicated that the composite index numbers had been updated and the cost estimate is \$87.7 million for the biennium
- The table below reflects the estimated rebenchmarking totals that exclude the one-time spending, and include the cost for updating the composite index

Estimated Rebenchmarking	FY 2013 (\$ in millions)	FY 2014 (\$ in millions)	Biennium (\$ in millions)
Adjusted Net Increases	\$385.3	\$415.3	\$800.6
Total Net Decreases	(\$89.7)	(\$89.9)	(\$179.6)
REVISED Total	\$295.6	\$325.4	\$621.0

FY 2012 - 2014 Rebenchmarking

Estimated Cost Increases	FY 2013	FY 2014	Biennium
Funded Instructional Salaries	\$72.9	\$73.0	\$145.9
Funded Non-Personal Support Costs	56.0	55.5	111.5
Inflation Factor Adjustments	54.3	54.5	108.8
Composite Index	42.7	45.0	87.7
Textbooks	33.4	33.4	66.8
Health Care Premium	25.2	25.0	50.2
Eliminate PreK Non-participation Rate Savings – GF impact	22.1	22.1	44.2
Free Lunch Eligibility	14.6	14.7	29.3
Student Projections: Sept 30 th & March 31 st (ADM)	(0.4)	13.4	13.0
Student Projections: English as a Second Language	2.6	4.8	7.4
Student Projections: Remedial Summer School	1.8	2.8	4.6
Base-year expenses – ASR costs for personal support costs	11.7	11.8	23.5
Division Superintendent, School Board, & Nurses	5.0	4.8	9.8
Incentive & Categorical Accounts	1.5	4.7	6.2
SOQ Gifted, Support & Instructional Technology FTEs	2.6	2.6	5.2
TOTAL INCREASES	\$346.0	\$368.1	\$714.1
Updated Accounts in Excess of Available Lottery Proceeds	\$39.3	\$47.2	\$86.5
NET TOTAL INCREASE COSTS	\$385.3	\$415.3	\$800.6

Major Contributors to Rebenchmarking Costs

- **Funded Instructional Salaries: additional state cost of \$145.9 million** – Despite the fact that the General Assembly did not provide a salary increase to state employees or provide salary incentives to school divisions, the average salary for all instructional-based categories increased since the last rebenchmarking
- The state's share of the increased salaries equals 55% -- additional costs that were generated from locally adopted and previously funded at 100% by the locality

Instructional Positions	2010-12 Prevailing Salary (2007-08 Data)	2012-14 Prevailing Salary (2009-10 Data)	Percent Change
Elementary Teachers	\$43,904	\$45,118	2.8%
Elem. Asst. Principals	\$62,383	\$63,824	2.3%
Elem. Principals	\$76,766	\$78,510	2.3%
Secondary Teachers	\$46,090	\$47,267	2.6%
Secondary Asst. Principals	\$66,658	\$67,824	1.7%
Secondary Principals	\$84,564	\$86,464	2.2%
Instructional Aides	\$16,104	\$16,223	0.7%

Major Contributors to Rebenchmarking Costs

- **Funded Non-Personal Support Costs: additional \$111.5 million** - school divisions' submission of the Annual Superintendents Report (ASR) reported increased costs – table shows the categories with the largest increases

Non-personal Support Category	2010-12 Per Pupil Amount	2012-14 Per Pupil Amount	Per Pupil Variance	Percent Variance
Instructional Classroom	\$249.15	\$302.73	\$53.58	21.51%
Improvement of Instruction	\$384.73	\$410.95	\$26.22	6.82%
Technology	\$151.45	\$177.66	\$26.21	17.31%
Utilities	\$262.81	\$274.76	\$11.95	4.55%
Operation & Maintenance	\$191.98	\$196.19	\$4.21	2.19%
Unemployment Insurance	\$2.15	\$5.64	\$3.49	162.33%
Workers' Compensation	\$24.06	\$26.35	\$2.29	9.52%

Major Contributors to Rebenchmarking Costs

- **Inflation Factor Adjustment Costs: additional \$108.8 million -** Inflation rates have increased by an averaged 3.96% since the FY 2010-2012 rebenchmarking cycle
- The process took the actual FY 2010 ASR costs and adjusted them by these annual rates for FY 2011 and FY 2012 – the revised costs are used for FY 2013 and FY 2014
- As you may recall, during the 2008 session, the General Assembly adopted a policy that implemented a cap on inflation rates
 - The cap is based on 100% funding for the first three percent of inflation and then 50% of the increased rate, up to a maximum adjustment of five percent
- Inflation adjustments may warrant some closer review during the session

Selected Inflation Factors	Annual Rates
Instructional Based:	
Classroom Instruction	4.02%
Instructional Support	4.05%
Improvement of Instruc.	4.18%
Principal's Office	4.08%
Textbooks	3.90%
Transportation	4.47%
Operations & Maintenance:	
Utilities	4.66%
Communications	3.47%
Insurance	3.90%
Unemployment & Workers Comp.	3.90%
Disability Insurance	3.90%



Lottery Funded Programs Exceeded Available Revenues by \$86.5 Million

- The FY 2012 budget included \$435.9 million in Lottery Fund Proceed revenues and funded 19 program initiatives
- After the lottery programs were updated via rebenchmarking, DOE reported that the revised costs exceeded the available lottery revenue by \$218.8 million for the biennium
 - \$103.9 million in FY 2013 and \$114.9 million in FY 2014
- In order to balance the lottery funded programs with revenues, a portion of Textbooks and At-Risk was funded with general fund dollars
 - Resulted in the biennial increase of \$86.5 million to the general fund

Lottery Programs: Updated Costs vs. Proposed Funding

Updated Lottery Programs (\$ in millions)	Adopted FY12 Amt.	UPDATED COSTS			PROPOSED FUNDING			Difference is Funded with General Fund Dollars
		FY13 Amt.	FY14 Amt.	BIENNIAL DIFF.	FY13 Amount	FY14 Amount	BIENNIAL DIFF.	
SOQ - Textbooks (proposed split-funded)	\$26.9	\$62.7	\$62.9	\$71.8	\$27.0	\$27.0	\$0.2	(\$71.6)
At-Risk (proposed split-funded)	63.9	81.0	80.8	33.9	12.9	1.7	(113.3)	(147.2)
PreK (proposed no nonparticipation savings)	65.1	107.3	108.4	85.5	107.3	108.4	85.5	--
All Other Programs*	280.0	288.6	298.8	27.7	288.6	298.7	28.7	--
TOTAL	\$435.9	\$539.7	\$550.8	\$218.8	\$435.9	\$435.9	\$0.0	(\$218.8)

* Other Lottery programs include: SOQ-ESL, Remedial summer school, K-3 Class Size Reduction, Special Education - Regional Tuition, SOL Algebra Readiness, Foster Care, Early Reading Intervention, Regional Alternative Education, School Breakfast, ISAEP, Career & Technical Education, NCLB/EFAL, Project Graduation, Mentor Teacher, and Supplemental Basic Aid



Cost Containment Options for Lottery Programs

- The DOE rebenchmarking update of the PreK program did not take into consideration any adjustment for non-participation savings that had been embedded in Chapter 890
 - FY 2012 budget included \$22 million each year in savings
 - Previous years, funds were budgeted to school divisions even if the students slots were not filled
- Nor did they look at other options – for example:
 - Except for the SOQ mandated programs, the House's position has been to fund the remaining programs placed in the lottery with the available revenues by looking at possible options such as:
 - Select and prioritize funding of the programs supported by available revenues to balance the lottery account
 - Prorate funding for the lowest prioritized ranking program(s)
 - Block grant all lottery funded programs and provide localities with choice and flexibility
 - Allow divisions to determine which programs they select to fund with budgeted funds



FY 2012 - 2014 Rebenchmarking

Rebenchmarking Decreases Included:	FY 2013	FY 2014	Biennium
	<u>(\$ in millions)</u>		
Federal Revenue Deduct PPA (ARRA funds excluded)	(\$35.1)	(\$35.0)	(\$70.1)
Career & Technical Class Student Enrollment Totals	(19.5)	(19.4)	(38.9)
Special Education December 1 Child Count	(13.9)	(13.7)	(27.6)
Pupil Transportation	(13.3)	(13.8)	(27.1)
Support Position Cap	(7.9)	(8.0)	(15.9)
Total Decreases	(\$89.7)	(\$89.9)	(\$179.6)



Remaining Steps for Rebenchmarking

- In addition to the known costs that we have discussed, there are a couple of elements that have yet to be updated in the SOQ funding model
 - These data costs aren't typically finalized until the end of November – the projections from the last three biennium had a wide range of estimated costs:
 - Revised Sales Tax projections: for every one dollar increase in the sales tax revenues, the state's cost for basic aid funding is offset , on average, by fifty-five cents
 - Revised ADM projections: which will include Sept. 30, 2011 membership
 - Revised Lottery Revenue projections
- They will be incorporated into the Governor's 2012-2014 budget plan that will presented to you on December 19th
- Along with the three data points just mentioned, the last unknown cost element deals with teacher retirement and could potentially have a significant impact on rebenchmarking

Revised Teacher Retirement, RHCC, & Group Life Rates

- The final costs will be determined by which set of assumptions that the General Assembly and the Governor approve
- The table below gives you two sets that range from \$169.0 million to \$312.4 million in additional costs each year

Teacher Group	Current Employer Rate	Based on VRS Rates @ 8.0% ROR; 2.50% COLA; 30 years & OPEB (8,3,30)	Change in Rates	Addl. Annual Cost (Calculated at an Estimated \$26.5 Million per each 1% change)	Based on VRS & OPEB Rates @ 7.0% ROR; 2.5% COLA; 30 years	Change in Rates	Addl. Annual Cost (Calculated at an Estimated \$26.5 Million per each 1% change)
Retirement*	6.33%	11.71%	5.38%	\$149.3 million	16.77%	10.44%	\$289.7 million
Group Life	0.28%	0.48%	0.20%	\$5.5 million	0.53%	0.25%	\$6.9 million
RHCC	0.60%	1.11%	0.51%	\$14.2 million	1.17%	0.57%	\$15.8 million
TOTAL	7.21%	15.09%	7.88%	\$169.0 million	18.47%	11.26%	\$312.4 million

* Retirement rates are net of the 5% employee rate



Where Do We Go From Here - Final Thoughts

- The Governor's proposed biennial budget will reflect the updated costs associated with rebenchmarking as a part of his total budget package to the money committees (House Appropriations, House Finance and Senate Finance Committees) on December 19, 2011
- Although K-12 was exempt from the Governor's request to agencies for contingency 2%/ 4%/ 6% reduction strategies, he did establish a workgroup that was directed to evaluate existing polices & to consider potential policy changes that would provide cost containment options
- As a reminder -- in previous years, the House had considered various policy changes that contained costs
- Some strategies that may warrant consideration for the 2012 Session include:
 - Suspend secondary planning period standard
 - Fund teacher retirement at the state employer rate (similar to methodology used to fund constitutional offices funded through the Compensation Board)
 - Adjust instructional salaries based only on state recognized salary incentives