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MEMORANDUM

TO: State Board of Education
COPY: Governor's Office
FROM: Rebecca Holcombe, Ed.D., Secretary of Education
SUBJECT: FY2018 Upward Pressures and Assumptions
DATE: November 2016

Overview: State Funding for AOE activities

By statute, Education Fund dollars cannot be used for state level activities, and thus cannot support AOE operations or activities. Instead, AOE operations are paid for out of the State General Fund and by federal funding (federal funding is addressed below). Total General Fund spending for state level activities in FY2017 is \$9,326,652. In FY2008, it was \$13,886,668 or in FY2016 dollars, about \$15,571,684.94.

Currently, the General Fund pays only about 29% of our investment in personal services (staff). General Fund pays for the Secretary's office, positions in our Finance division (to manage state dollars and to keep the lights on). It also pays for state level statutory obligations for which federal dollars cannot be used, such as state regulation of Prekindergarten, Drivers Education, Home Schooling, Support for Independent Schools, all Act 77/Flexible Pathways work, Instructional Technology Support, Adult Education and Literacy and the State Board of Education. Note that costs and source of payment for program approval differ by type of entity.

In any given year, the state spends the equivalent in General Fund of about 0.6% of total Education Fund expenditures to manage and monitor our entire Education Fund investment.

Overview: Federal funding for AOE activities

Federal dollars fund almost all program initiatives the AOE leads including Career and Technical Education, School Improvement, Farm-to-School, nutrition support for daycares, PKs, schools and adult care programs, equity initiatives and accountability work.

The federal government provides a "small state minimum" allocation to support administration of federal funds. This small state minimum is intended to provide a floor to the amount of money the federal government provides to support administration of these dollars. The Vermont AOE has the same scale problem as our districts. Because we are a small state, we generate fewer dollars to support administrative work, but have all the same obligations. That small state minimum would be a stretch under normal conditions, but in addition, it has not increased in about 20 years, not even to keep pace with inflation. Thus, federal programs that used to have enough funds for 9 to 11 staff to operate, in some cases now have only 2 to 3 staff members to *execute and monitor* an increasingly complex and expanded caseload. This puts the

state at increased risk of falling out of compliance, which means more negative audit findings and program failure, and threatens the state's capacity to draw down additional federal funds.

Without federal funding, we would have:

- no way to fund state accountability,
- little in the way of fiscal monitoring and oversight,
- no support for state standards, no program for school improvement and monitoring,
- no ability to pay for the required state assessment (16 V.S.A. § 165 (2) a),
- no staff to support Farm-to-School or Child Nutrition programs, and no food subsidy for children in poverty,
- no staff to support career pathways and advancement of Career Technical Education initiatives, and
- little in the way of downward pressure on special education costs.

In addition, federal funding provides up to 11% of the local spending in our highest poverty districts. Therefore, it is imperative to comply with all requirements necessary to avoid jeopardizing federal funds.

Overview: Upward pressures on AOE budget in FY2018

(Note that costs associated with Items 1-4 must be included in the FY2018 budget. The others represent upward pressures that if not addressed, will affect other programs and obligations. All numbers represent *estimates*.)

1. Internal Service Fund Charges

As per budget submission instructions, AOE is submitting a budget that assumes an increase in internal service fund charges. For General Fund this equals **\$12,083**.

2. Annualization of the FY2017 Pay Act

As per budget submission instructions, the AOE assumes the cost of the annualization of the FY2017 Pay Act, which we estimate to be about **\$135,000** of General Fund.

3. CTE Match - \$210,000 General Fund

The Agency receives \$210,000 in federal funds for the administration of the Carl Perkins Vocational and Applied Technology Educational Act. This funding has a dollar for dollar match requirement from non-federal funds. The agency had substantiated this match on its annual reporting based on the \$12,000,000 plus funding to technical centers from the state's Education Fund. On a recent monitoring visit by staff from the U.S. Education Department we learned these funds were ineligible for the match requirement because they were awarded to technical centers as grants and the requirement is to match state administration funding. We know that going forward, we will need to find General Fund in order to meet the match requirement. We have not yet heard how the U.S. Education Department will rule on the lack of past match funding. This finding will increase our General Fund need by at least \$210,000.

4. Burlington College - \$60,000 General Fund (FY2017 budget adjustment)

The last minute closing of Burlington College at the end of this past May left the College's records in a chaotic state. The State Board of Education is responsible for assigning the student records to a similar institution for maintenance and responding to student record requests. On

behalf of the State Board the Agency attempted to find an institution willing to take on those records but when the state of those records was disclosed there were no willing takers. The Agency agreed to be temporarily assigned to be the holder and processor of the College's student records in order to put them in order so that they could be permanently assigned to another institution. The Agency is tracking those costs it incurs which include the cost of a mover, considerable staff time and payment of a licensing fee to the company that provided the online student record management system. We anticipate this will be our only budget adjustment request and will file the proper request documents shortly.

5. Child Nutrition – \$210,000 General Fund (two positions)

Our current staffing is inadequate to support 1) the increasing numbers of Pre-K and early child care programs participating, 2) the increases in monitoring and oversight and frequency of review required by the federal government, anticipated declines in federal support for administration, and 4) costs to support expansion of Farm-to-School.

Child Nutrition by the numbers:

Administrative Support for Child Nutrition Programs			
GF administrative funds	\$50,692.00	\$60,706.69	\$50,692.00
USDA administrative funds	\$515,651.00	\$617,522.77	\$500,540.00

Note: We expect USDA administrative funds to decline as the number of districts consolidate. This is not a reason to not consolidate as to date, the savings associated with Act 46 far outweigh the total cost of this administrative expenditure, but it is a collateral effect we will need to address.

Child & Adult Care Food Program (CACFP)		
	2006	2,016
Number of food program sponsors	89	135
Number of center sites	145	240
Number of food program sponsors reviewed per year	30-35	40 to 45
Number of onsite days needed for review	90-140	120-225
Number of person days per review	3 to 4	3 to 5
<u>New</u> : required site visits for preapproval review for new programs		20 to 25

School Nutrition Program Administrative Compliance Reviews in 2006 and 2016

	2006	2016	2017*
Governing units	236 districts	85 food authorities	≈86 food authorities
Number of districts reviewed per year	45-50	28 – 33	≈28-33
Length of USDA monitoring tool	72 pages	219 pages	219
Number of years in cycle	5	3	3
Number of staff needed onsite	2	2 to 4	2 to 4
Approximate number of days on site for reviews	80	216	≈216
Number of days per review to write up, follow up and close review	2 to 3	10 to 12	10 to 12
<u>New:</u> Staff days onsite in each School Food Authority being reviewed for a Procurement Review assessing compliance with purchasing strategies, contracting, and financial management. (1-2 days each.)			28 to 40 days
<u>New:</u> Time spent per procurement review on follow-up report writing. (3 days each)			84 to 99 days

Note: we are moving from districts to SU level authorities, in the interest of efficiency and sustainability at the local level. We also have independent school food authorities, which is an upward pressure.

Note: with the Healthy, Hunger Free Kids Act of 2010 new meal program requirements implemented in 2013, 16 SFAs including 3 Academies, left the school meals program. Programs that leave tend to be in wealthier regions.

* Projections

The Child Nutrition program is not just about providing much needed nutrition to hungry children. It is also about supporting Vermont agriculture. The Farm-to-School initiative would not survive without AOE collaboration. A recent study by the Center for Rural Studies and UVM looked at the economic impact study of local food procurement by Vermont schools and found:

- *Vermont schools spent \$915,000—or 5.6% of all food purchased—on local foods during the 2013-2014 school year;*
- *Every dollar Vermont schools spent on local food contributed an additional sixty cents to the local economy, resulting in a \$1.4 million overall contribution to Vermont's economy;*
- *If 75% of Vermont schools doubled their local food spending (from 5.6% to 11.2%) the total economic impact would increase to \$2.1 million.*

This study demonstrates why AOE's Child Nutrition division has been working to increase the proportion of school food budgets spent on local products. We would like to expand this work, but do not currently have capacity.

6. PreK – Two Program Evaluators - \$210,000

The recently adopted law (Act 166 of 2013) entitling Prekindergarten children (ages 3-5) to ten hours a week for 35 weeks of publicly funded early education is codified in 16 V.S.A. § 829. Subsection (e)(10) of that section requires the Agency of Education with the Department for Children and Families to jointly monitor and evaluate the state's PreK program delivered by a combination of the public school and some 1,500 approved private providers. In order to begin to create and implement a monitoring and evaluation system the Agency needs two additional staff persons.

7. Legal Division Upward Pressure – one additional staff attorney - \$108,500

We have just completed a review of the demands on our General Counsel and one staff attorney. Until 2014 the Agency had two staff attorneys in addition to the General Counsel. The Agency went from a total of three attorneys to two due to budget constraints. Based on our recent review by our legal staff, the Secretary has determined a second staff attorney is needed to keep up with the current demand. This has been highlighted in part by many legal issues being brought forward from the onset of the new Early Education program under Act 166 of 2013 in particular, the new federal Every Student Succeeds Act, an increased volume of public records requests, and a greater volume of contracting work and our efforts at stricter compliance with the Agency of Administration's Bulletin 3.5.