

**Summary of Governor Gilmore's Proposed Amendments to the Fiscal Year 2002 Direct Aid to Public Education Budget**

- **Update Average Daily Membership (ADM)** - Projections of division unadjusted and adjusted average daily membership (ADM) for fiscal year 2002 are revised based on actual September 30, 2001, fall membership. On a statewide basis, these revised projections are a decrease in unadjusted ADM of 1,959 students from the projections on which fiscal year 2002 entitlements are currently based (as communicated in Administrative Superintendent's Memorandum Number 25, dated May 25, 2001). The ADM-based entitlements for fiscal year 2002 are recomputed based on these revised projections.
- **Update Fall Membership and other Program Enrollments** - Fiscal year 2002 Direct Aid entitlements that are based on fall membership or program enrollments (i.e., ESL student counts) are revised based on actual 2001 fall membership or actual program enrollments received to date. (Note: revisions to the K-3 Class Size Reduction Program have not been recalculated as of the date of this memorandum).
- **Update Sales Tax Projections** - The Governor's amendments reflect the most recent estimate of the one percent sales tax revenue dedicated to public education for fiscal year 2002. The Department of Taxation's latest estimate of the one percent sales tax revenue is \$770.3 million for fiscal year 2002. This revised sales tax estimate is approximately \$64.2 million lower than the estimate of \$834.5 contained in the current 2000-2002 appropriation act (Chapter 1073). As required by the Basic Aid funding formula, Basic Aid payments have been increased to offset a portion of the reduced sales tax revenues. The amount of the offset is determined by each division's composite index of ability-to-pay. The state share of Basic Aid for fiscal year 2002 increases approximately \$35.9 million due to the revised sales tax estimate.
- **Update Virginia Retirement System (VRS) Employer Contribution Rates for Instructional Positions** - The Virginia Retirement System (VRS) employer contribution rate for instructional positions in fiscal year 2002 is reduced from 4.24 percent (This rate was communicated in Administrative Superintendent's Memorandum Number 25, dated May 25, 2001.) to 3.6 percent. This revised rate is based on the updated June 30, 2001, actuarial valuation of VRS assets and liabilities. This action reduces state funding in fiscal year 2002 by approximately \$10.8 million across all affected accounts. The prevailing VRS rate for non-instructional positions for fiscal

year 2002 is maintained at 4.83 percent. No information is available at this time regarding how the Virginia Retirement System will implement the proposed rate reduction for fiscal year 2002.

- **Update Lottery Profits Forecast** - The revised forecast for Lottery profits for fiscal year 2002 is \$355.3 million, which is approximately \$45.0 million higher than originally projected for fiscal year 2002 in Chapter 1073. Of the additional amount, \$32.3 million is from actual Lottery profits that exceeded the official estimate for fiscal years 2000 and 2001. The remaining portion of the increase is due to the revised Lottery profits forecast for fiscal year 2002 revenues. Lottery profits are expected to increase by approximately \$12.7 million above the amount projected in Chapter 1073. The new projection for fiscal year 2002 is \$323.0 million.

The base per pupil amount for the local Lottery distribution in fiscal year 2002 changes from \$192.90 per pupil in adjusted ADM (as communicated in Administrative Superintendent's Memorandum Number 25) to \$195.53 per pupil in adjusted ADM. This change in the per pupil amount is due to revisions in projected ADM. The additional fiscal year 2002 Lottery profits (from fiscal years 2000 and 2001 balances and the revised fiscal year 2002 revenue estimate) will be distributed based on the state share of \$28.36 per pupil in adjusted ADM.

School divisions' allocations for Lottery Hold Harmless payments will be reduced by any amounts received from the additional Lottery profits. This action reduces Lottery Hold Harmless distributions for fiscal year 2002 by approximately \$4.7 million. The proposed change in fiscal year 2002 local lottery distributions due to the additional Lottery proceeds and the Lottery Hold Harmless offset is a net increase in state funding of approximately \$13.3 million.

- **K-3 Primary Class Size Reduction Program** - For the purpose of this memorandum, the entitlements for the K-3 program contained in Attachment B are those that were communicated to you in Administrative Superintendent's Memorandum Number 25, dated May 25, 2001. Revised entitlements for the K-3 Primary Class Size Reduction program for fiscal year 2002 are in the process of being calculated by the Department of Education. These revised entitlements will reflect actual September 30, 2001, fall membership, approved participation levels for each school in the program, and the proposed 3.6 percent VRS employer contribution rate. A superintendent's memorandum will be issued in January 2002 with details regarding the fiscal year 2002 payments for this program.

- **Use Literary Fund Revenues for VRS Retirement Payments** - The Governor's amendments use \$57.0 million in Literary Fund monies in lieu of general fund support for VRS retirement in fiscal year 2002. This action only affects the source of funding for this payment and will not affect divisions' allocations for the VRS retirement account in fiscal year 2002; however, the use of Literary Fund revenues for VRS retirement reduces the amount of revenues that will be available for Literary Fund loans.
- **Update SOL Algebra Readiness Program** - The fiscal year 2002 distribution for the SOL Algebra Readiness program is updated based on Spring 2001 Standards of Learning (SOL) test scores. This action results in a reduction of state funding in fiscal year 2002.
- **Update Early Reading Intervention Program** - As required by the current appropriation act, the estimated number of students eligible for the Early Reading Intervention program in fiscal year 2002 is recalculated based on diagnostic data from the Phonological Awareness & Literacy Screening (PALS). Prior year PALS data (from Fall 2000) reported by school divisions is used as the measure in determining the estimated number of students. Where a division did not report Fall 2000 PALS data for grades kindergarten, one, two, or three, free lunch eligibility data was maintained to calculate the estimated number of eligible students.