

**Governor Gilmore's Introduced Budget
for the 2002-2004 Biennium**

**Summary of Budget Proposals Affecting
the Direct Aid to Public Education and
Department of Education Central Office Budgets**

Updates to Existing Direct Aid Programs

- **Rebase Standards of Quality (SOQ) and Related Account Costs for 2002-2004** - The Governor's introduced budget includes an estimated \$180.7 million in fiscal year 2003 and \$201.6 million in fiscal year 2004 to fund the state's share of routine rebasing costs for the Standards of Quality programs. These technical adjustments involve factors such as Annual School Report data, inflation, revised average daily membership (ADM) and enrollment projections, and prevailing salaries that are updated each biennium. These adjustments do not reflect any changes in policy, but reflect the cost of continuing current programs with the required data updates used in the funding formulas.

The projected entitlements listed in Attachment B were calculated using the 2002-2004 composite indices communicated in Informational Superintendent's Memorandum Number 168, dated November 30, 2001. The data elements used to estimate the costs of the SOQ for 2002-2004 were based on the most recently verified data and are summarized in Attachments D and E.

The proposed budget reflects funding necessary to cover increases/decreases in projections of March 31, 2003, and March 31, 2004, average daily membership (ADM). The projected ADM used in the introduced budget was forecast by the Department of Education based on September 30, 2001, fall membership. In addition, projected fall membership was revised based on September 30, 2001, data and all accounts that use projected fall membership in their calculations have been updated based on the revised projections.

The estimated entitlements reflect the most recent estimate of the one percent sales tax dedicated to public education, as computed by the Department of Taxation. The Department of

Taxation projects revenues of \$799.8 million in fiscal year 2003 and \$850.6 million in fiscal year 2004.

Total Lottery proceeds are projected to increase to \$320.0 million in both fiscal year 2003 and 2004. The local portion of Lottery proceeds are projected to be distributed based on the state share of \$196.85 per pupil in adjusted ADM in fiscal year 2003 and \$195.71 per pupil in adjusted ADM in fiscal year 2004. The requirements regarding use of Lottery funds continue in the 2002-2004 biennium. The base year for the maintenance of effort requirement has been updated to fiscal year 2000.

- **Continue Funding for Direct Grant Programs** - Continues funding at fiscal year 2002 levels for all existing programs created to provide particular services or address specific needs in individual localities or regions of the state.
- **Change Virginia Retirement System (VRS) Employer Contribution Rates for Instructional Positions** - Adopts the employer contribution rate for retirement benefits that is applied to instructional positions based on the actuarial valuation of assets and liabilities of the school employee's pool as of June 30, 2001. The rates proposed for 2002-2004 reflect the actuarial effect of the rate reduction in fiscal year 2002 (4.24 percent to 3.6 percent). The employer rate is reduced from 4.24 percent (the rate certified by the VRS Board of Trustees) to 3.77 percent for both fiscal years.

The Group Life rate is increased from 0.32 percent to 0.4 percent for fiscal years 2003 and 2004. The prevailing VRS rate for SOQ non-instructional positions is maintained at 4.83 percent for both fiscal years. These actions result in a projected state savings of \$7.6 million in fiscal year 2003 and \$7.2 million in fiscal year 2004.

- **K-3 Primary Class Size Reduction Program** - Please note that projected entitlements for the K-3 Primary Class Size Reduction program for fiscal years 2003 and 2004 are in the process of being updated by the Department of Education. These revised entitlements will be calculated based on updated projections of K-3 fall membership, updated free lunch eligibility data, the 2002-2004 composite index, and the proposed 2002-2004 employer contribution rates for VRS

retirement and group life. The funding for the K-3 program that is appropriated in the Governor's introduced budget is based on the projected entitlements submitted in the Board of Education's 2002-2004 budget request. These entitlements are shown in Attachment B.

Please note that the revised K-3 entitlements for fiscal years 2003 and 2004 may differ from those shown in Attachment B due to the updates noted above. We will monitor any action by the General Assembly to amend the 2002-2004 funding for the K-3 program based on these revised entitlements and provide additional information when it becomes available.

Direct Aid Program Reductions

- **Fund the Retiree Health Care Credit through the Standards of Quality Funding Formula** - The Governor's budget proposes to reduce payments for the Retiree Health Care Credit to include only those positions funded under the Standards of Quality (SOQ) that are subject to the VRS instructional rate. The budget also proposes to share the cost of the program with localities based on the composite index of local ability-to-pay. Previously, the state paid 100 percent of the cost for this program for all eligible positions employed by school divisions. The Department of Education made these payments directly to VRS on behalf of school divisions.

In fiscal years 2003 and 2004, the Retiree Health Care Credit will be calculated in conjunction with the VRS instructional rate at 0.67 percent for required SOQ instructional and professional support positions. Consequently, the final funded employer VRS rate for instructional and professional support positions will be 4.44 percent (3.77 percent plus 0.67 percent) in both fiscal years. Effective July 1, 2002, school divisions would begin making these contribution payments directly to VRS. As a result of these actions, state funding is reduced by approximately \$18.3 million in fiscal year 2003 and \$17.8 million in fiscal year 2004.

- **Reduction in SOL Instructional Materials Funding** - Reduces the total per pupil amount for SOL Instructional Materials funding from \$10 to \$5; this action reduces state funding by \$3.2 million each year. The prevailing per pupil amount for SOQ Textbook funding increases from \$61.25 in fiscal year 2002 to \$82.06 in fiscal years 2003 and 2004.

- **Discontinue Lottery Hold Harmless Payment** - Discontinues state funding for the Lottery Hold Harmless payment resulting in a reduction of \$14.8 million each year of the biennium.
- **Eliminate School Construction Grants Program Payment** - Removes state funding for the School Construction Grants Program for a reduction of \$55.0 million each year of the biennium.
- **Change Funding Source for VRS Retirement and Social Security Payments** - The Governor's amendments use \$86.0 million in Literary Fund revenues in fiscal year 2003 and \$81.0 million in Literary Fund revenues in fiscal year 2004 in lieu of general funds for VRS retirement and Social Security payments. This action only affects the source of funding for these payments and will not affect divisions' allocations for these accounts in 2002-2004.
- **Apply Participation Rate Savings in the At-risk Four-year-old Program** - Assumes a \$1.5 million savings in fiscal year 2003 due to anticipated participation levels in the program. Please note that the school division entitlements for this program shown in Attachment B reflect the full formula-driven entitlement.

Continued Direct Aid Initiatives

- **Provide Salary Supplement in Fiscal Year 2003** - \$28.3 million is provided in fiscal year 2003 for the state share of a two percent salary increase for SOQ instructional and support positions effective December 1, 2002. \$48.8 million is provided in fiscal year 2004 for the annualized continuation cost of this first year increase. School divisions must certify that an equivalent salary increase will be granted in fiscal year 2003 in order to receive the state funding.
- **Continue Implementation of the Standards of Learning Web-based Technology Initiative** - Provides for an additional educational technology initiative in 2002-2004 with debt service paid through the Literary Fund. \$57.9 million in Virginia Public School Authority (VPSA) equipment notes would be issued in the spring of both fiscal years. Continuation of the initiative is intended to increase school division capability for web-

based instruction, remediation, and testing of the Standards of Learning (SOL).

Grants amounts are maintained at \$26,000 per school (for schools reporting fall membership and for various division and regional centers) and \$50,000 per school division. A required local match is maintained at 20 percent of the state grant amount, and 25 percent of the required match must be used for teacher training. The goals of the program continue to focus on lowering student-to-computer ratios and increasing high speed Internet access in high schools to establish computer-based instructional, remedial, and testing systems for the Standards of Learning.

- **Provide Interest Rate Subsidy Programs** - Requires the Virginia Public School Authority (VPSA) to provide interest rate subsidy programs in fall 2002 and 2003 for Literary Fund projects on the First Priority Waiting List. The fall 2002 program would provide \$5.0 million in subsidy grants and the fall 2003 program would provide \$20.0 million in subsidy grants.

Department of Education Central Office Programs

- **Maintain Current Testing Programs** - Provides additional funding to support on-going state testing programs, including the Stanford 9, Literary Passport, and Standards of Learning tests. Funding is also added for alternative assessments of special education students due to increased participation. Additional funding of \$970,632 is provided in fiscal year 2003 and \$1.6 million in fiscal year 2004.
- **Continue Implementation of the Web-based Standards of Learning Testing Initiative** - Provides additional funding to support contractual services for the development, support, and maintenance of a web-based software application that electronically delivers or administers the high school Standards of Learning end-of-course tests. This proposal supports the capability of all public high schools in Virginia to administer the end-of-course Standards of Learning tests on-line by the spring of 2003. Additional funding of \$3.0 million is provided in fiscal year 2003 and \$3.4 million in fiscal year 2004.

- **Continue Funding for the Emergency Retakes and Remediation Recovery Testing Programs** - Provides general fund support for the continuation of these two programs, which the Standards of Accreditation require be offered to localities. An additional \$1.5 million is provided each year for on-going support of these programs.