

## **Funding Issues that Impact Local School Divisions**

The General Assembly adjourned the 2001 regular session without adopting amendments to the biennial budget enacted at the 2000 Session (Chapter 1073, 2000 Acts of Assembly). Therefore, the budget passed at the 2000 Session remains the appropriation law of Virginia for the 2000-2002 biennium and will continue in effect until a new budget is adopted. Chapter 1073 provides appropriations for both fiscal year 2001 (the current year) and fiscal year 2002 (which begins July 1, 2001).

Absent legislative action by the General Assembly and the Governor to enact an amended budget or administrative action by the Governor to make changes to Chapter 1073, payments to school divisions will be the appropriations contained in Chapter 1073 and all actions and policies will be guided by Chapter 1073. Chapter 1073 gives the Governor authority to take certain types of administrative actions in order to keep the Commonwealth's expenditures from exceeding its revenues. At the present time, the Governor, through Executive Order 74 (01), has directed that no appropriations to Direct Aid to Public Education be withheld in order to balance the state budget.

If a special session of the General Assembly is convened to amend Chapter 1073, it is not certain what effect the outcome of the session would have on the state budget and the state funding received by school divisions. This attachment provides information on factors affecting state funding for school divisions assuming that Chapter 1073 will continue as the budget in effect for the 2000-2002 biennium, as well as potential administrative actions that may be taken by the Governor within the provisions of Chapter 1073. Information on estimated school division entitlements for fiscal years 2001 and 2002 contained in Attachment B are based on the factors as described below.

### Sales Tax/State Share of Basic Aid

Sales tax estimates for fiscal years 2001 and 2002 were revised downward in the Governor's introduced budget (HB 1600/SB 800) to reflect the Department of Taxation's projections for reduced sales tax revenue. Consequently, the Governor's amendments increased state payments for Basic Aid to pay the state's share of that revenue loss. These downward revisions were essentially maintained by both the House (proposed the same as the Governor's budget) and Senate (proposed a slight increase over the Governor's budget) in the versions of the budget that each adopted. Since no budget revisions were adopted, these changes cannot be recognized.

The appropriation act requires that the sales tax revenue projections printed in the appropriation act must be used to determine the state's share of Basic Aid. If Chapter 1073 remains in effect, the revisions described above will not be recognized and there will be no adjustment to the state's share of Basic Aid; however, school divisions will receive the actual revenue collections for the sales tax distribution. Basic Aid payments are not adjusted for actual sales tax collections.

Therefore, under Chapter 1073, the additional state share of Basic Aid resulting from the reduced revenue collections cannot be paid to school divisions because the lower sales tax collections will not have been recognized for purposes of determining Basic Aid payments. This is not an action over which the Department of Education has any discretion. The net impact is that school divisions will receive less sales tax revenue and will not receive any additional Basic Aid funding as was proposed in the Governor's introduced budget and also in the House and Senate versions of the budget. For the purpose of communicating revenue estimates as shown in the division entitlements in Attachment B, the sales tax projections for fiscal years 2001 and 2002 are those contained in Chapter 1073.

#### Average Daily Membership (ADM)

Average Daily Membership (ADM) is projected to increase statewide over the estimates that were contained in Chapter 1073. The Governor's introduced budget and the versions adopted by the House and the Senate provided additional funding for these projected increases (please refer to Informational Superintendent's Memorandum number 223, dated December 22, 2000). In keeping with historical practice and pursuant to Chapter 1073, payments to school divisions will be based on actual March 31 ADM. However, payments to school divisions are limited to available appropriations; therefore, total statewide payments would be the appropriations contained in Chapter 1073 so long as Chapter 1073 remains in effect.

The impact of these factors is that state payments for ADM-based accounts (Standards of Quality and Incentive-based) may have to be prorated to stay within the amounts appropriated. Proration will ultimately depend upon the actual ADM reported statewide and the available appropriations. For the purpose of communicating revenue estimates as shown in the division entitlements in Attachment B, the division ADM projections are those that were contained in the Governor's introduced budget. These ADM projections are the latest fiscal year 2001 and 2002 projections produced by the department.

Based on these ADM projections and due to projected savings in other accounts, the department does not believe that proration will be required in fiscal year 2001. Assuming that a similar amount of savings can be identified and applied to enrollment increases in fiscal year 2002, proration should not be required in fiscal year 2002. If savings cannot be identified in fiscal year 2002, proration may be required for certain accounts where enrollment is expected to exceed the projections contained in Chapter 1073. The estimated state payments contained in Attachment B represent full funding of each account with no adjustments for proration.

#### Program Enrollments-Participation Levels

Similar to the ADM-based accounts, the enrollment and participation levels in some of the Incentive-based and Categorical accounts have increased resulting in the need for additional funding. This additional need was recognized in the budgets proposed by the Governor, the House, and the Senate. To the extent that the updated enrollment and participation in those programs exceeds the available appropriations contained in Chapter 1073, the department may

have to prorate payments to school divisions. Proration will not be necessary if savings in other accounts can be identified. For the purpose of communicating revenue estimates as shown in the division entitlements in Attachment B, division enrollments and participation levels in applicable Incentive-based and Categorical accounts have not been prorated and are those contained in the Governor's introduced budget at their full funding levels.

#### Distribution of Lottery Revenues

The Governor's introduced budget and the versions adopted by the House and the Senate provided additional funding for projected increases in lottery revenues. These additional revenues must be appropriated in order for the department to make payments to school divisions. Chapter 1073 does not contain the additional appropriation authority. Without the additional appropriation authority, the additional revenue cannot be paid to school divisions. For the purpose of communicating revenue estimates as shown in the division entitlements in Attachment B, the projected Lottery revenues are those appropriated in Chapter 1073.

#### VRS Rates

The employer rates currently adopted by the Virginia Retirement System (VRS) Board of Trustees for 2000-2002 are:

<b>Benefit</b>	<b>Fiscal Year 2001</b>	<b>Fiscal Year 2002</b>
Instructional Retirement	7.54%	4.24%
Non-instructional Retirement	The SOQ prevailing average rate is 4.83%; however, the actual rates vary by school division.	
Group Life	0.32%	0.32%

These are the rates that the Department of Education anticipates school divisions will pay to VRS based on the latest information received from VRS. Chapter 1073 used an instructional retirement rate of 7.92% in both fiscal years and prevailing non-instructional retirement rates of 5.65% in fiscal year 2001 and 5.66% in fiscal year 2002 for the purpose of providing state funding to school divisions for retirement benefits for funded SOQ positions. For the purpose of communicating revenue estimates as shown in the division entitlements in Attachment B, the VRS rates shown in the table above are used.

#### Retiree Health Care Credit

Chapter 1073 provided funding for the state to pay 100 percent of the cost of this program in fiscal years 2001 and 2002. The Department of Education pays expenses for this program directly to VRS on behalf of school divisions. No payments are made to school divisions and school divisions are not required to make payments to VRS for this program. This process is required by language contained in Chapter 1073; therefore, it is expected that this practice would

continue if Chapter 1073 remains in effect. For the purpose of communicating revenue estimates as shown in the division entitlements in Attachment B, it is assumed that the current practice will continue; therefore, no payments to school divisions are included in the estimated entitlements in Attachment B.

#### Future Updates

Additional information will be communicated to school divisions as it becomes available regarding actions that must be taken to continue Chapter 1073 as the budget for 2000-2002. School divisions will also be notified about any administrative changes made by the Governor to Chapter 1073 that would affect state funding for school divisions that have not been discussed in this memorandum. In the event that a special session of the General Assembly is convened, the department will provide revised revenue estimates to school divisions based on actions taken at the special session.