

Changes to the Fiscal Year 2002 Budget (HB/SB 29) Proposed by the Senate and the House of Delegates

DEPARTMENT OF EDUCATION CENTRAL OFFICE BUDGET

National Board of Professional Teaching Standards Bonuses

Senate – Provides additional funding of \$325,000 to fully fund national board certification bonuses for the anticipated number of eligible classroom teachers. For fiscal year 2002, 70 teachers are eligible for a \$5,000 initial bonus and 53 teachers are eligible for a \$2,500 continuing bonus.

House – Same as Senate.

DIRECT AID TO PUBLIC EDUCATION BUDGET

VRS Group Life Holiday

Senate - No action taken.

House - Reduces funding for VRS group life in fiscal year 2002 by \$641,493 for a two-month premium holiday in May and June 2002. There is no change in the group life employer contribution rate for fiscal year 2002 (0.32 percent); however, group life payments will only be made for the first ten months of the year (through April 2002). Please be aware that since fringe benefit payments for the month of June are "rolled over" to the following fiscal year, there only will be a one-month (May) reduction in state revenue in fiscal year 2002. The second month reduction in state revenue will occur with the special July 2002 fringe benefit rollover payment. In addition, group life costs for support positions paid through Basic Aid will be prorated on a ten-month basis using a rate of 0.27 percent (e.g., ten-twelfths of 0.32 percent). This would result in a slight reduction in your Basic Aid per pupil amount for the current year.

Note: At this time, it is not certain how the Virginia Retirement System will implement this proposed group life premium holiday. VRS generally reduces the contribution rates for employers to conform with changes that reduce funding to school divisions. VRS has indicated that it will issue guidance to school divisions regarding this amendment if it is adopted.

Update VRS Support Rate

Senate - Reduces the VRS support rate applied to non-professional support positions from 4.83 percent to 4.35 percent, reflecting the prevailing rate of the most recent data from the Virginia Retirement System. This action reduces funding in fiscal year 2002 by \$740,440. The following accounts are affected by this change: Basic Aid, Salary Supplement, Enrollment Loss, At-Risk, and Alternative Education.

House - Same as Senate.

Recognize Additional Lottery Proceeds, Including Basic Aid and Hold Harmless Offsets

Senate - Provides an additional \$6.0 million in lottery proceeds in fiscal year 2002. After deducting the portion of these proceeds that are dedicated to basic aid (based on the average state share of the composite index), the remaining amount that will be distributed directly to localities in fiscal year 2002 is \$2.4 million. Including additional proceeds contained in the introduced budget (HB/SB 29), additional lottery proceeds will be distributed to localities in fiscal year 2002 based on the state share of \$32.15 per pupil, an increase of \$3.79 per pupil above the amounts contained in the introduced budget. School divisions' allocations for lottery hold harmless payments are reduced by \$453,839 due to the anticipated receipt of these additional lottery proceeds.

House - Same as Senate.

Update Virginia Public School Authority (VPSA) Technology Initiative (NGF)

Senate – Provides for the distribution of an additional \$208,000 in VPSA technology notes for an additional eight schools at \$26,000 per school.

House – Same as Senate.

Update At-Risk Four Year Olds Program

Senate - Reduces funding by \$3.1 million based on actual participation in the program. This amendment captures savings from reduced participation, not a reduction in the entitlements paid to school divisions. Payments for fiscal year 2002 will reflect this amendment.

House - Same as Senate.

Update K-3 Primary Class Size Reduction Program

Senate - Reduces funding by \$2.3 million based on September 30, 2001, fall membership, approved participation levels, and a reduction in the VRS instructional employer contribution rate from 4.24 percent to 3.6 percent.

House - Same as Senate.

Governor's Schools Technical Updates

Senate - Provides \$29,867 in additional funding to address supplemental funding needed for summer programs.

House - Same as Senate.

Advancement Via Individual Determination (AVID)

Senate – Provides an additional \$42,276 to fully fund AVID programs in the cities of Petersburg and Staunton, and the county of Culpeper.

House – No action taken.

Literary Fund

Senate – Replaces \$53.0 million in general funds with Literary Fund revenues to be used for VRS retirement. This action only affects the source of funding for retirement payments and would not affect division entitlements in fiscal year 2002. Consequently, no Literary Fund revenues will be available for direct loans in fiscal year 2002 as a result of this action.

House – Same as Senate. The House also included language in HB 29 clarifying that school employee retirement and social security contributions include payments from funds derived from the principal of the Literary Fund.

Early Reading Intervention Program

Senate – Language was added to SB 29 to clarify that incentive payments in fiscal year 2002 are based on the same weights used in fiscal year 2001.

House – Same as Senate.

Carryover Provisions

Senate - No action taken. Language in SB 29, as introduced, relating to the carryover of fiscal year 2002 unexpended balances into fiscal year 2003 for the SOL Algebra Readiness Program was accepted by the Senate.

House - Language is added to specify that any unexpended balances of state funds on June 30, 2002, that are not required to be spent for the state share of SOQ programs may be carried forward to be appropriated to school divisions in fiscal year 2003 for any school purpose and that these funds would continue to be counted as state funds. This provision would apply to the SOL Algebra Readiness program as well as other non-SOQ direct aid accounts.

**Changes to the 2002-2004 Biennial Budget as Introduced (HB/SB 30)
Proposed by the Senate and the House of Delegates**

DEPARTMENT OF EDUCATION CENTRAL OFFICE BUDGET

Best Practice Centers

Senate - Eliminates all eight of the regional best practice centers for a savings of \$1.8 million in fiscal year 2003 and \$2.4 million in fiscal year 2004.

House - Reduces the number of centers from eight to four and removes the related funding.

History SOL Tests

Senate – No action taken.

House – Provides additional funding to create separate history tests in grades five through eight. Also provides additional funding to change the history tests to match the revised history standards of learning.

Academic Reviews

Senate – Reduces funding for the academic review teams based on the recent reductions in the number of schools accredited with warning. Fewer reviews are anticipated due to improvements in student scores on the Standards of Learning tests and also due to the implementation of the Board of Education's provisional accreditation benchmarks that will be in effect during 2002-2004.

House – Same as Senate.

Web-Based SOL Testing

Senate – Defers the statewide implementation of the Web-based testing program for one year. This would allow the department an additional year to identify and accommodate technical and implementation issues through further pilot testing and development. In addition, school divisions are provided additional time to have their infrastructure fully operational and ready for on-line testing at the high school level in fiscal year 2004. Base funding is still available in 2002-2004 for the continued development of the program. This amendment does not affect the proposed funding for school divisions that is provided from VPSA equipment note proceeds.

House – Defer statewide implementation by two years until the Spring of 2005. This amendment does not affect the proposed funding for school divisions that is provided from VPSA equipment note proceeds.

National Board of Professional Teaching Standards Bonuses

Senate - Provides an additional \$875,000 in fiscal year 2003 and \$1.5 million in fiscal year 2004 to fully fund bonuses for the number of teachers expected to be eligible in 2002-2004. In fiscal year 2003, 138 teachers are projected to be eligible for the initial bonus of \$5,000 and 137 teachers are projected to be eligible for the continuing bonus of \$2,500. In fiscal year 2004, 198 teachers are projected to be eligible for the initial bonus of \$5,000 and 275 teachers are projected to be eligible for the continuing bonus of \$2,500.

House - No action taken.

School Food Allergy Program

Senate - Language requires the Department of Education to develop recommendations for a school food allergy program.

House - No action taken.

Special Education Billing Program

Senate - Language requires the Department of Education to work with the Department of Medical Assistance Services to expand services covered under the special education billing program.

House - No action taken.

Literacy Passport Test

Senate - No action taken.

House - Language ends the Literacy Passport Test after July 1, 2003, and eliminates passing the Literacy Passport Test as a requirement for receipt of a high school diploma effective July 1, 2003. As a result, funding for this testing in fiscal year 2004 has been eliminated.

DIRECT AID TO PUBLIC EDUCATION BUDGET

VRS Group Life

Senate - Reduces the VRS group life employer contribution rate from 0.40 percent to 0.13 percent in both fiscal years. This revised rate is based on employer contributions to the group life program only for active employees, and not retirees who would be funded from existing program assets. This change in the rate does not affect the group life benefits of current or future eligible retirees. This amendment reduces state funding to school divisions by \$5.1 million in fiscal year 2003 and \$5.6 million in fiscal year 2004. This action also reduces state funding for Basic Aid, VRS Group Life, and other accounts affected by the Basic Aid per pupil amount and fringe benefit changes.

Note: At this time, it is not certain how the Virginia Retirement System will implement this proposed group life rate change. VRS generally reduces the contribution rates for employers to conform with changes that reduce funding to school divisions. Under this proposal, the employee rate would also be reduced from 0.58 percent to 0.19 percent. VRS has indicated that it will issue guidance to school divisions regarding this amendment if it is adopted.

House - Proposes a VRS group life premium holiday in both fiscal years, effectively reducing the group life employer contribution rate for funding to 0.0 percent in both years. This action reduces funding by \$7.8 million in fiscal year 2003 and \$8.0 million in fiscal year 2004. This action reduces state funding for Basic Aid, VRS Group Life, and other accounts affected by the Basic Aid per pupil amount and fringe benefit changes.

Note: At this time, it is not certain how the Virginia Retirement System will implement this proposed group life premium holiday. VRS generally reduces the contribution rates for employers to conform with changes that reduce funding to school divisions. VRS has indicated that it will issue guidance to school divisions regarding this amendment if it is adopted.

VRS Retirement – Instructional/Professional Rate

Senate – No action taken.

House - Reduces the VRS retirement employer contribution rate on instructional and professional support positions from 4.44 percent (3.77 percent for the instructional rate plus 0.67 percent for the Retiree Health Care Credit rate) in the introduced budget to 2.88 percent (2.21 percent for the instructional rate plus 0.67 percent for the Retiree Health Care Credit rate) in both fiscal years. This reduced rate is based on recognizing gains in the retirement fund over a reduced time frame. This amendment reduces state funding to school divisions by \$26.9 million in fiscal year 2003 and \$29.2 million in fiscal year 2004. This action reduces state funding for Basic Aid, VRS Retirement, and other accounts affected by the Basic Aid per pupil amount and fringe benefit changes.

Note: At this time, it is not certain how the Virginia Retirement System will implement this proposed contribution rate change. VRS generally reduces the contribution rates for employers

to conform with changes that reduce funding to school divisions. VRS has indicated that it will issue guidance to school divisions regarding this amendment if it is adopted.

Salary Supplement Funding

Senate - Reduces funding by \$28.4 million in fiscal year 2003 and \$49.0 million in fiscal year 2004 (continuation funding) by eliminating the 2.0 percent salary increase that was to be effective December 1, 2002.

House - Instead of the 2.0 percent increase that was to be effective December 1, 2002, the House provides a 2.75 percent teacher salary increase effective December 1, 2003, for a reduction of \$28.4 million in fiscal year 2003 and a net reduction of \$18.9 million in fiscal year 2004. The 2.75 percent salary increase is contingent on the official state revenue estimate for fiscal years 2003 and 2004 not being revised downward, in which case the funds would be used for a revenue reserve. This is consistent with proposed salary increases for state employees, state-supported local employees, and higher education faculty. Please note that salary supplement funding is not included in the entitlement sheets contained in Attachment E or the calculation tool at this time. The distribution, should it occur, is shown separately in Attachment G.

SOL Teaching Materials

Senate - Reduces funding by \$3.2 million in each year by eliminating the \$5 per pupil that was included in the Governor's introduced budget.

House - Same as Senate.

SOL Teacher Training

Senate - Reduces funding by \$7.6 million in fiscal year 2003 and \$7.7 million in fiscal year 2004 by providing only the state share of funding based on the composite index. This program was previously funded based on a 100 percent state share of \$15 per pupil.

House - Reduces funding by \$17.3 million in fiscal year 2003 and \$17.4 million in fiscal year 2004 by eliminating state funding for the program.

School Health Incentive Fund, Maintenance Supplement, Truancy, Dropout Prevention, Additional Teachers, Reading Recovery, and Software Rights

Senate - No action taken

House - Eliminates state funding for each of these programs by reducing \$1.7 million each year for School Health Incentive Fund, \$9.6 million in fiscal year 2003 and \$9.7 million in fiscal year

2004 for Maintenance Supplement, \$2.2 million each year for Truancy, \$11.0 million each year for Dropout Prevention, \$28.9 million in fiscal year 2003 and \$29.0 million in fiscal year 2004 for Additional Teachers, \$141,581 each year for Reading Recovery, and a net \$57,588 each year for Software Rights. Each of these programs would be eliminated under this proposed change.

At-Risk Add-On

Senate - No action taken.

House - Reduces funding by \$12.9 million in fiscal year 2003 and by \$12.8 million in fiscal year 2004 by reducing the maximum add-on weight used in calculating the distribution of the At-Risk Add-On program. The top add-on weight is reduced from 12 percent to 8 percent in fiscal year 2003 and from 12 percent to 7.75 percent in fiscal year 2004.

Adult Literacy

Senate - No action taken.

House - Reduces funding by \$1.3 million in each year for Adult Literacy.

Culpeper Detention Center

Senate - No action taken.

House - Reduces funding by \$279,020 in fiscal year 2003 and \$292,051 in fiscal year 2004 to reflect the decision not to open the Culpeper Detention Center.

Virginia Guaranteed Assistance Program (VGAP)

Senate - Reduces funding by \$450,000 by eliminating state funding for Achievable Dream.

House - Reduces funding by \$780,000, leaving state funding for Achievable Dream only.

School/Community Health Center Pilots, Student Exchange Program, Blue Ridge Regional Program, Elementary Alternative Education Pilots, and Jobs for Virginia Graduates

Senate - Eliminates \$1.5 million each year for the School/Community Health Center Pilots, \$10,000 each year for the Student Exchange Program, \$50,000 each year for the Blue Ridge Regional Program, \$60,000 each year for Elementary Alternative Education Pilots, and \$325,000 each year for Jobs for Virginia Graduates. Each of these programs would be eliminated under this proposed change.

House - Same as Senate.

Project ECOLE, Hampton Roads Consortium, and William King Regional Arts Center

Senate - No action taken.

House - Eliminates \$50,000 each year for Project ECOLE, \$55,000 each year for the Hampton Roads Public Education Regional Consortium, and \$115,000 each year for the William King Regional Arts Center. Each of these programs would be eliminated under this proposed change.

Project Discovery, Western Virginia Public Education Consortium, Small Division Assistance Grants

Senate - No action taken.

House - Reduces state funding for Project Discovery in each year by 50 percent, or \$542,877, and reduces state funding for the Western Virginia Public Education Consortium by \$50,000 each year. Eliminates \$200,000 each year for the small division assistance grant to Norton and reduces Highland County's allocation by 50 percent or \$100,000.

Clinical Faculty/Mentor Teacher Programs

Senate - Reduces by half the funding for the Clinical Faculty and Mentor Teacher programs for a savings of \$687,500 each year of the biennium.

House - No action taken.

Literary Fund

Senate - No action taken.

House - Replaces \$2.8 million in general funds in fiscal year 2003 and \$3.0 million in general funds in fiscal year 2004 with Literary Fund revenues to be used for teacher retirement. This action only affects the source of funding for retirement payments and would not affect division entitlements in either year. This action is possible due to the anticipated additional revenues that will be deposited to the Literary Fund pursuant to HB 606.

Update for Third Quarter 2001 Inflation Data

Senate - Reduces funding by \$22.1 million in fiscal year 2003 and \$22.3 million in fiscal year 2004 by updating the inflation factors used in the SOQ funding formula based on third quarter

2001 inflation data. The accounts affected by this change are: Basic Aid, Textbooks, Enrollment Loss, At-Risk, Additional Teachers, ESL, and Alternative Education.

House - Same as Senate.

Update VRS Support Rate

Senate – Reduces the employer share of the state-funded rate from 4.83 percent to 3.07 percent for non-professional support positions for a savings of \$2.6 million in each year. These rates reflect the statewide prevailing rate based on the most recent data from the Virginia Retirement System. Actual rates paid to the Virginia Retirement System will vary by school division. The following accounts are affected by this change: Basic Aid, Salary Supplement, Enrollment Loss, At-Risk, and Alternative Education.

House - Same as Senate.

Rollover of Non-Instructional Caps from FY 2002

Senate – Provides an additional \$958,392 in fiscal year 2003 to fully fund the state’s share of the non-instructional capped benefits from fiscal year 2002 that are “rolled-over” and paid in fiscal year 2003. This funding correction affects the VRS Retirement, Social Security, and Group Life accounts. Since these costs will be included in Basic Aid in the future, fiscal year 2003 is the last year these non-instructional caps will be funded with a “roll-over” component. In future years, these funds will be provided on a current year basis with Basic Aid.

House - Same as Senate.

Recognize Additional Lottery Proceeds, Including Basic Aid Offset

Senate - Provides an additional \$9.9 million in lottery proceeds in fiscal year 2003 and \$10.0 million in fiscal year 2004. After deducting the portion of these proceeds that are dedicated to basic aid (based on the average state share using the composite index), the remaining amount that will be distributed directly to localities in each year is \$4.1 million. Lottery proceeds will be distributed to localities in fiscal year 2003 based on the state share of \$202.94 per pupil and in fiscal year 2004 based on the state share of \$201.84 per pupil.

House - Provides an additional \$9.0 million in lottery proceeds in fiscal year 2003 and \$5.5 million in fiscal year 2004. After deducting the portion of these proceeds that are dedicated to basic aid, the remaining amount that will be distributed directly to localities in fiscal year 2003 is \$3.6 million and \$2.2 million in fiscal year 2004. Lottery proceeds will be distributed to localities in fiscal year 2003 based on the state share of \$201.63 per pupil and in fiscal year 2004 based on the state share of \$198.33 per pupil.

Remedial Summer School

Senate - No action taken.

House - Reduces funding by \$900,000 in fiscal year 2004 for projected non-participation. Please note that the school division entitlement sheets shown in Attachment E reflect the full formula-based entitlement. This amendment is intended to capture savings from projected non-participation. It is not intended to reduce actual entitlements. In the event that entitlements from actual participation exceed the available appropriation, payments to school divisions will be prorated on a statewide basis.

Update K-3 Primary Class Size Reduction Program

Senate - Provides an additional \$649,976 in fiscal year 2003 and \$496,977 in fiscal year 2004 based on updates to free lunch eligibility, the composite index, fall membership projections, and fringe benefit rates.

House - Provides an additional \$649,976 in fiscal year 2003 and \$496,977 in fiscal year 2004 based on updates to free lunch eligibility, the composite index, fall membership projections, and fringe benefit rates. In addition, reduces funding by \$1.2 million in fiscal year 2003 and \$1.0 million in fiscal year 2004 for projected non-participation. This amendment is intended to capture savings from projected non-participation. It is not intended to reduce actual entitlements. In the event that entitlements from actual participation exceed the available appropriation, payments to school divisions will be prorated on a statewide basis. Please note that the school division entitlement sheets shown in Attachment E reflect the full formula-based entitlement.

Participation Savings in the At-risk Four-Year Old Program

Senate - Reduces funding by \$1.5 million in fiscal year 2003 and \$3.0 million in fiscal year 2004 for projected non-participation. This amendment is intended to capture savings from projected non-participation. It is not intended to reduce actual entitlements. In the event that entitlements from actual participation exceed the available appropriation, payments to school divisions will be prorated on a statewide basis. Please note that the school division entitlement sheets shown in Attachment D reflect the full formula-based entitlement.

House - Reduces funding by \$1.5 million in fiscal year 2004 for projected non-participation. This amendment is intended to capture savings from projected non-participation. It is not intended to reduce actual entitlements. In the event that entitlements from actual participation exceed the available appropriation, payments to school divisions will be prorated on a statewide basis. Please note that the school division entitlement sheets shown in Attachment D reflect the full formula-based entitlement.

School Construction Grants

Senate - Restores \$27.5 million in fiscal year 2003 and \$27.5 million in fiscal year 2004, including related language. Funding would be provided based on a \$100,000 "floor" payment to each school division, with the remainder of funding distributed on a prorata basis using prior year ADM weighted for the composite index.

House - No action taken.

Update Governor's Schools

Senate - Provides an additional \$178,656 in fiscal year 2003 and \$409,949 in fiscal year 2004 to address a shortfall in summer residential programs, continued funding for a summer residential agricultural school, update enrollment, and fund anticipated enrollment at the new Massanutten and Piedmont schools.

House - In addition to making the same changes as the Senate, the House reduces the funded per pupil amount for the academic year Governor's Schools based on the proposed reduction in the Basic Aid per pupil amount due to applying third quarter 2001 inflation data and funded fringe benefit rates. This action reduces funding by \$65,511 in fiscal year 2003 and \$67,704 in fiscal year 2004. The total per pupil amounts for the academic year Governor's Schools are reduced from \$3,449 to \$3,418 in fiscal year 2003 and from \$3,451 to \$3,420 in fiscal year 2004.

Update VPSA Technology Distributions (NGF)

Senate - Provides an additional \$208,000 in VPSA technology notes in fiscal year 2003 and 2004 based on eight additional schools being included in the distribution.

House - Same as Senate.

Advancement Via Individual Determination (AVID)

Senate - Reduces funding in fiscal year 2003 by \$45,000 for a program that is no longer operating. Provides an additional \$2,276 in fiscal year 2004 by reducing funding by \$45,000 for a program that is no longer operating and adding \$47,276 for program expansions.

House - Eliminates all state funding in both years for this program.

Alternative Education

Senate - Reduces funding by \$269,012 in fiscal year 2003 and \$191,675 in fiscal year 2004 to reflect final salaries and fringe benefits used in the per pupil cost for the program.

House - No action taken.

Phase-out the Deduction of Prevailing Local Revenue from Basic Aid

Senate - No action taken.

House - This action reflects the cost of phasing out the current practice of deducting prevailing locally generated revenues from the Basic Aid cost calculation as recommended by the Joint Legislative Audit and Review Commission report *Review of Elementary and Secondary School Funding*. This amendment provides additional funding for approximately half of the cost in fiscal year 2003 at \$24.7 million, and the full amount in fiscal year 2004 at \$49.7 million. This action affects: Basic Aid, Enrollment Loss, At-Risk, and Alternative Education.

Restore Administrative Position Costs

Senate - No action taken.

House - Provides an additional \$24.9 million in fiscal year 2003 and \$65.0 million in fiscal year 2004 for a portion (approximately 34 percent in the first year and 90 percent in the second year) of the state share of the prevailing cost of certain administrative support positions, as recommended by the Joint Legislative Audit and Review Commission report *Review of Elementary and Secondary School Funding*. This action affects: Basic Aid, Enrollment Loss, At-Risk, and Alternative Education.

Early Reading Intervention Program

Senate - Language was added to SB 30 so that incentive payments will continue to be based on the weights used in fiscal year 2001.

House - Same as Senate.

Remediation Programs Block Grant Language

Senate - Restores language not included in the introduced budget providing flexibility in the use of SOQ Remediation and SOL Remediation funds. Please note that the Remedial Summer School program is not included in this language so that the existing language in the appropriation act would govern this program.

House - Same as Senate

School-to-Work Program

Senate - Eliminates general fund support of \$75,000 for the federal School-to-Work program.

House - Same as Senate.

LANGUAGE AMENDMENTS

Private Activity Bond Authority

Senate - Language allows the Secretary of Education to authorize the use of a new allocation of the Commonwealth's portion of tax-exempt private activity bond authority, which is available under federal law.

House - No action taken.

Literary Fund Loan Rates for Consolidated Divisions

Senate - Language specifies that if the composite index of a consolidated division is reduced during the course of a fifteen year period to a level that would entitle the division to a lower interest rate for a Literary Fund loan than when it was originally released, the Board of Education must reduce the rate for the remainder of the period of the loan.

House - No action taken.

Local Effort Language

Senate - No action taken.

House - Language requires the Department of Education to collect the necessary data to make required calculations at the start of the school year to ensure that a school division has appropriated adequate funds to support its estimated required local expenditure as well as make calculations at the close of the school year to verify that the level was met.

Basic Aid/Literary Fund Language

Senate - No action taken.

House - Language authorizes the Department of Education to transfer any available funds between the various entitlements to address any insufficiencies and to prorate any overall shortfall proportionately across all the school divisions.

Special Education Billing Program

Senate - Language requires the Department of Education to work with the Department of Medical Assistance Services to expand the services covered under the special education billing program.

House - No action taken.