

## Summary of Governor Warner's Amendments to the 2002-2004 Biennial Budget

### DIRECT AID TO PUBLIC EDUCATION BUDGET

#### Technical Adjustments to Existing Programs

- **Update ADM and Fall Membership** – The proposed budget includes the funding required to cover the cost of revised projections of March 31, 2003, and March 31, 2004, Average Daily Membership (ADM). Projected ADM was originally forecast by the Department of Education based on September 30, 2001, Fall Membership. The projections have been revised based on September 30, 2002, Fall Membership. On a statewide basis, these projections are 3,459 students higher in fiscal year 2003 and 6,904 students higher in fiscal year 2004 than the original projections contained in Chapter 899, 2002 Acts of Assembly (2002 Appropriation Act). In addition, all accounts that are allocated on the basis of Fall Membership have been updated. The updates result in an estimated increase in Direct Aid payments of \$13.0 million in fiscal year 2003 and \$25.4 million in fiscal year 2004.
- **Update Triennial School Census Data** – In accordance with the provisions of sections 22.1-281 through 22.1-286, *Code of Virginia*, and the Appropriation Act, data related to the 2002 triennial school census have been collected by the Department of Education. The triennial census data are used to distribute estimated sales tax as part of the Basic Aid formula. In addition, the actual cash distribution of the one percent sales tax for public education is based on a prorated distribution using the triennial census counts. The 1999 census results will be used for distributing sales tax through December 31, 2002, while the new 2002 triennial census data will be used for the distribution of sales tax funding beginning in January 2003 through the end of the fiscal year.

For fiscal year 2003, the estimated sales tax allocation used in the Basic Aid formula is based on averaging the 1999 and 2002 triennial census counts. As required by the Basic Aid formula, Basic Aid payments have been revised to offset changes in the distribution of the sales tax revenues by locality, driven by a combination of the census data and each division's composite index of local ability-to-pay. The 2002 triennial census update results in a net increase statewide in Basic Aid funding of \$3.7 million in fiscal year 2003 and \$7.7 million in fiscal year 2004, due to the offset. Accounts affected are Basic Aid and Enrollment Loss. The actual effect of the revised census will vary by locality based on the changes in each locality and how these differences compare to the statewide change.

- **Update Sales Tax Projections** – The projected sales tax entitlements reflect the most recent estimate of the one percent sales tax, as computed by the Department of

Taxation. The Department of Taxation projects revenues of \$790.0 million in fiscal year 2003 and \$824.6 million in fiscal year 2004. The new projections are \$9.8 million lower in fiscal year 2003 and \$26.0 million lower in fiscal year 2004 than the projections contained in Chapter 899, 2002 Acts of Assembly. As required by the Basic Aid formula, state Basic Aid payments have been increased to offset a portion (determined by each division's composite index of local ability-to-pay) of the reduced sales tax revenues that were projected. In addition, the local share of Basic Aid increases due to the reduced sales tax estimate.

- **Update Lottery Profits Forecast** – The Governor's amended budget provides an additional \$71.8 million in fiscal year 2003 and \$41.3 million in fiscal year 2004 in Lottery proceeds over the projections contained in Chapter 899, 2002 Acts of Assembly. These amounts include the state share used to offset Basic Aid costs and the local share. The additional Lottery proceeds projected for fiscal year 2003 are based on carryover funds from fiscal year 2002, which will be distributed separately in fiscal year 2003 as an Additional Lottery account, and additional Lottery revenues projected for fiscal year 2003. The additional Lottery proceeds for fiscal year 2004 reflect additional revenues projected for that year. Statewide, the local share of these additional Lottery proceeds totals \$28.3 million in fiscal year 2003 and \$16.3 million in fiscal year 2004.

The total local share of Lottery proceeds that will be distributed directly to localities in fiscal year 2003 is \$158.2 million, which includes \$15.0 million that will be paid as Additional Lottery proceeds. In fiscal year 2004, the local distribution is estimated at \$146.2 million. The base per pupil amounts will change from \$202.18 to \$221.75 in fiscal year 2003 and from \$201.08 to \$224.23 in fiscal year 2004. The Additional Lottery profits, estimated at \$15.0 million in fiscal year 2003 only, will be distributed based on the state share of \$23.30 per pupil.

### **Other Changes to Existing Programs**

- **Update Payment Projections for Recent Test Score Data** – Funding for the SOL Algebra Readiness Program and for the Early Reading Intervention Program are based in part on test score data. The number of eligible students for the SOL Algebra Readiness program is determined based the number of students in grades seven and eight (updated for Fall Membership) multiplied by the percent of students in each divisions that failed the eighth grade mathematics Standards of Learning (SOL) test. The percentages of students failing the eighth grade mathematics SOL test on the Spring 2002 administration were lower on average than on the Spring 2001 administration used in the original Chapter 899 funding. Projected payments for fiscal years 2003 and 2004 have been revised based on Spring 2002 SOL test results, resulting in a decrease of \$450,725 in fiscal year 2003 and \$426,531 in fiscal year 2004. Also, please note that language in Chapter 899 related to the use of a state-provided diagnostic test has been removed because state funding for the test has been eliminated in fiscal year 2004.

Funding for the Early Reading Intervention program is based, in part, on the number of eligible students as determined by the percentage of students in need of services on the Phonological Awareness Literacy Screening (PALS). Based on the latest available PALS data from the Fall of 2001 and the Spring of 2002, estimated payments decreased by \$3.4 million in fiscal year 2003 and by \$2.4 million in fiscal year 2004. The original funding projections contained in Chapter 899 were based on a greater reliance on free lunch eligibility data as the funding criteria in the absence of PALS data. Due to the combination of greater availability of PALS data and changes in the number of eligible students based on updates to Fall Membership, funding for the Early Reading Intervention program decreases in each year of the biennium.

- **Use of Literary Fund Monies** – The Governor’s amended budget replaces \$22.1 million in general funds in fiscal year 2003 and \$40.0 million in general funds in fiscal year 2004 with Literary Fund revenues to be used for VRS retirement and Social Security payments. This action only affects the source of funding for these payments and will not affect division entitlements in either year of the biennium. In addition, budget language has been modified to eliminate the interest rate subsidy program provided by the Virginia Public School Authority (VPSA) in fiscal year 2004. The \$20.0 million in Literary Fund revenues set aside for this program in the second year is part of the \$40 million increase in Literary Funds used to fund VRS retirement and Social Security payments in fiscal year 2004.
- **Participation Savings** – The Governor’s amended budget assumes participation savings in fiscal year 2004 from the Remedial Summer School program, the K-3 Primary Class Size Reduction program, and the At-Risk Four Year-Olds program. In fiscal year 2004, funding for the Remedial Summer School program is reduced by \$425,804, funding for the K-3 Primary Class Size Reduction program is reduced by \$635,252, and funding for the At-Risk Four Year-Olds program is reduced by \$3.3 million. Please note that the school division entitlement sheets shown in Attachment B and in the Excel calculation tool reflect the full formula-based entitlements for these programs. This amendment is intended to capture anticipated 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 may have to be prorated on a statewide basis if supplemental funding is not provided.
- **Update for Inflation Data** – Inflation factors used in the SOQ funding formula were updated based on second quarter 2002 data. This action reduces state funding by \$1.6 million in fiscal year 2003 and by \$1.5 million in fiscal year 2004. The accounts affected by this change are Basic Aid, Enrollment Loss, At-Risk, and Alternative Education.
- **Update for Governor’s Schools** – Funding for the academic year Governor’s Schools was reduced by \$503,972 in fiscal year 2003 to reflect enrollment as of September 30, 2002, and the delayed opening of the Massanutten Governor’s School,

which is now scheduled to open in the Fall of 2003. Funding in fiscal year 2004 for the academic year Governor’s schools did not change.

- **Update for Special Education Categorical Programs** – Funding for regional special education program tuition was increased by \$150,000 in fiscal year 2003 and by \$300,000 in fiscal year 2004 because Stafford County will begin to participate in the Northern Virginia Regional Program. In addition, funding for the provision of education services in state-operated programs is decreased by \$946,700 in fiscal year 2003 and by \$362,867 in fiscal year 2004. These decreases reflect adjustments for updated enrollment data. Also, payments related to the special education homebound program in fiscal year 2003 were less than what was budgeted in Chapter 899, resulting in a savings of \$30,471.
- **Update Technology Programs for Schools Reported in Fall Membership** – Based on September 30, 2002, Fall Membership data, the number of schools eligible for funding under the Virginia Public School Authority (VPSA) technology grants (supporting the SOL Web-based Technology Initiative) and the Technology Resource Assistants program has changed. Funding for the VPSA technology grant program has been reduced by \$242,000 in fiscal year 2003 and by \$60,000 in fiscal year 2004 based on a reduction in the number of reported schools. For the Technology Resource Assistants program, the amount of general funds increased by \$69,882 in both years based on four additional high schools reported in Fall Membership.
- **Update Direct Grants** – Various direct grant programs have been reduced by fifteen percent in both years based on actions by Governor Warner in October of 2002. The reductions are as follows:

| <u>Program</u>                                    | <u>FY 03<br/>Reduction</u> | <u>FY 04<br/>Reduction</u> |
|---|----------------------------|----------------------------|
| Southwest Education Consortium                    | \$54,300                   | \$54,300                   |
| Project Discovery                                 | \$151,463                  | \$149,834                  |
| Southside Virginia Regional Technology Consortium | \$32,250                   | \$32,250                   |
| Western Virginia Public Education Consortium      | \$11,250                   | \$11,250                   |
| Virginia Career Education Foundation              | \$11,966                   | Eliminated                 |
| William King Regional Arts Center                 | \$17,250                   | \$17,250                   |
| <b>Total Reduction</b>                            | <b>\$278,479</b>           | <b>\$264,884</b>           |

- **Provide Student Achievement Grants** – The Governor’s amended budget redirects funds from three existing programs in fiscal year 2004, to support the expansion of programs that are known to assist with closing the achievement gap and improving the academic success of students. Funds provided for this program must be used to support one or more of the following purposes:
  1. reducing class sizes in grades kindergarten through three;
  2. increasing services in the Early Reading Intervention program;
  3. serving at-risk four-year-old students including those served by Title I programs; and

4. providing additional remediation to students who have failed or who are at-risk of failing the Standards of Learning tests.

School divisions participating in this program would be required to submit annual reports to the Department of Education, and all state funds would be matched with local funds based upon the composite index of local ability-to-pay.

Funding for the Student Achievement Grants program would be provided by redirecting funds from the current Dropout Prevention, School Health Incentive, and Technology Resource Assistants programs. Total available funding in fiscal year 2004 is estimated at \$16.9 million. Please note that the amount of funding that school divisions receive would not change with this program. Those same amounts from each of the three programs will be redirected to the Student Achievement Grants.

Any school division that chooses to continue using state funding in any of the original three programs, from which Student Achievement Grant funding is derived, must submit a written request for a waiver to the Superintendent of Public Instruction. This request must outline: (1) how such funds will be spent; (2) the type of students served; (3) the expected outcomes of the services provided; (4) the means by which program effectiveness will be evaluated; and (5) evidence of program success in prior years.

#### DEPARTMENT OF EDUCATION (DOE) CENTRAL OFFICE BUDGET

The actions proposed in Governor Warner's amended 2002-2004 biennial budget reduce the general fund appropriation for the DOE Central Office budget by \$2.6 million in fiscal year 2003 and by \$6.5 million in fiscal year 2004. General fund positions are reduced by 22 in fiscal year 2003 and by 34 in fiscal year 2004. The following proposed changes to the Central Office budget affect school divisions:

- **Close Best Practice Centers** – The Southside and Southwest centers will be closed, effective February 1, 2003. Seven positions will be eliminated.
- **Capture Savings from Web-Based Testing Initiatives** – The number of SOL tests administered through the on-line system will be reduced in fiscal year 2004 based on projected school division participation in web-based test administration.
- **Eliminate Printing and Distribution of Public School Laws** – This publication is provided annually to school divisions. Access will now be made available through the Internet, resulting in general fund savings in both years of the biennium.
- **Eliminate Model SOL In-Service Training** – Funding for model teacher, principal, and superintendent training and in-service activities is eliminated in fiscal year 2003 and fiscal year 2004.

- **Defer Funding for Separate SOL History Tests** – For fiscal year 2004, funds will be eliminated for the administration of separate history tests for grades six, seven, and eight. School divisions will continue to administer a cumulative eighth grade history test for 2004, but separate history testing in grades six to eight will be administered starting in school year 2005.
- **Eliminate Diagnostic Test for Algebra Readiness Program** – The state will not provide this diagnostic test to local school divisions for use in identifying students for participation in the SOL Algebra Readiness program. School divisions will now have to determine student eligibility for this program using locally determined criteria.
- **Eliminate Stanford 9 Test** – State-funded administration of the Stanford 9 test will be discontinued in fiscal year 2004.
- **Require School Divisions to Pay Late Processing Fee for SOL Tests** – The department will no longer pay the processing fee resulting from late test submissions by school divisions.
- **Reduce Administrative Support for At-Risk Four-Year-Old Program** – Technical assistance provided by the department to school divisions and not-for-profit organizations will be reduced.
- **Provide Support for the Partnership for Achieving Successful Schools (PASS) Initiative** – For fiscal year 2004, an additional \$769,483 in general funds is provided to continue the PASS initiative. The first year of this initiative was funded with a one-time federal grant.