

**Governor Warner's Introduced Budget
for the 2004-2006 Biennium**

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

DIRECT AID

Technical Updates

- **Rebase Standards of Quality (SOQ) Costs for 2004-2006** - The Governor's introduced budget includes \$396.0 million in fiscal year 2005 and \$440.0 million in fiscal year 2006 to fund the state's share of routine rebasing costs for the Standards of Quality programs. These technical adjustments include updates for factors such as funded salaries, Annual School Report data used to calculate prevailing cost estimates, inflation, test score updates, and enrollment updates. These adjustments reflect the cost of continuing current programs with the required data updates used in the funding formulas but do not reflect any changes in policy.
- **Update ADM and Fall Membership Projections (as of November 2003)** - The proposed budget reflects funding necessary to cover increases and decreases in projections of March 31, 2005, and March 31, 2006, average daily membership (ADM). The projected ADM used in the introduced budget was forecast by the Department of Education based upon September 30, 2003, fall membership. All accounts that use projected fall membership in their calculations have been updated. For fiscal year 2005, these adjustments result in a decrease of \$3.3 million. For fiscal year 2006, the decrease is \$2.3 million.
- **Update Incentive Accounts** - Funding increases are included in each year of the 2004-2006 biennium for the Early Reading Intervention Initiative and for the Standards of Learning (SOL) Algebra Readiness program. Funding for both of these programs is based on test score data and fall membership. Payments for the Early Reading Intervention Initiative are based upon the number of students in need of services determined by fall membership and test score data from the Phonological Awareness Literacy Screening (PALS) diagnostic

instrument. Funding for the Algebra Readiness program is based on the number of students in grades seven and eight multiplied by the percent of students in each division who failed the eighth grade math SOL test.

Funding for the At-Risk program is also increased in both years of the 2004-2006 biennium. This program is funded through the use of an add-on weight to the Basic Aid per pupil amount. Consequently, all technical rebasing changes to Basic Aid also affect funding for this program.

Other accounts affected by technical updates include the K-3 Primary Class Size Reduction initiative and the At-Risk Four-year-old program.

Technical updates to the incentive accounts total \$26.0 million in fiscal year 2005 and \$26.6 million in fiscal year 2006.

- **Update Categorical Programs** - For the 2004-2006 biennium, the proposed budget contains increased funding for special education programs related to regional program tuition reimbursements, state-operated programs, and homebound education services. Funding for the special education foster care reimbursement program also increases in the 2004-2006 biennium. The additional funding for these programs is required due to projected increases in service levels for the 2004-2006 biennium.

Funding for the academic year Governor's Schools program is projected to increase in the 2004-2006 biennium to reflect new enrollment projections. Funding for the Alternative Education program also increases due to an increase in the per pupil amount used to fund the program in 2004-2006.

Technical updates to the categorical accounts total \$10.9 million in fiscal year 2005 and \$19.5 million in fiscal year 2006.

- **Change Virginia Retirement System (VRS) Employer Contribution Rates for Professional Positions** - The Governor's introduced budget adopts a lower employer contribution rate for retirement benefits than was certified by the VRS Board (7.82 percent versus 8.1 percent). This lower rate is applied to positions in the VRS professional group based on the actuarial valuation of assets and liabilities over 30 years (as opposed to over 23 years as originally calculated by the VRS actuary).

For the retirement contribution, the rates proposed for 2004-2006 reflect the actuarial effect of the rate increase from fiscal year 2004 (3.77 percent to 7.82 percent). For the retiree health care credit, the rates proposed for 2004-2006 reflect the actuarial effect of a rate decrease from fiscal year 2004 (0.67 percent to 0.59 percent). These new rates are the same in both fiscal years.

Please note that there is no employer contribution for Group Life in fiscal years 2005 or 2006 reflecting the proposed continuation of the premium holiday in both years.

The result of these rate changes increases funding by \$80.7 million in fiscal year 2005 and \$87.3 million in fiscal year 2006.

(Note: Please see the contingent appropriation section of this attachment for more information about additional rate reductions.)

- **Update Sales Tax Projections** - The projected sales tax entitlements reflect the most recent estimate of the one percent sales tax, as computed by the Virginia Department of Taxation. The Department of Taxation projects one percent sales tax revenues of \$884.0 million in fiscal year 2005 and \$926.0 million in fiscal year 2006. After applying the Basic Aid offset, the net increase in state funding is estimated to be \$23.8 million in fiscal year 2005 and \$42.4 million in fiscal year 2006.
- **Update Lottery Proceeds** - Total Lottery proceeds are projected to increase to \$395.0 million in fiscal year 2005 and \$402.0 million in fiscal year 2006. Of this amount, \$20.5 million in fiscal year 2005 and \$20.7 million in fiscal year 2006 is dedicated to fund the additional cost of the proposed SOQ prevention, intervention, and remediation program. The local portion of Lottery proceeds are projected to be distributed based on a state share of \$218.26 per pupil in adjusted ADM in fiscal year 2005 and \$219.73 per pupil in adjusted ADM in fiscal year 2006. The net effect of these increases and offsets is an increase of \$1.2 million in fiscal year 2005 and \$3.9 million in fiscal year 2006.
- **Recalculate Direct Aid Accounts Using 2004-2006 Composite Index** - The projected entitlements listed in Attachment B were calculated using the 2004-2006 composite indices communicated in Informational Superintendent's Memorandum Number 208, dated December 5, 2003. The data elements used to calculate the composite index for 2004-2006 are based on data from 2001. For fiscal year 2005, changes in the composite index result in

an increase of \$27.0 million. For fiscal year 2006, the increase is \$26.5 million.

- **Adjust Summer School and Academic Year Governor's School Per Pupil Amounts** - As has been the practice in prior biennia, the per pupil funding for these two programs has been adjusted based on revisions to the calculated per pupil amounts in Basic Aid (for Governor's Schools) and the SOQ basic and remedial position salaries (for Remedial Summer School) to reflect the rebased cost estimates for the 2004-2006 biennium. The additional cost from the change in these per pupil amounts is an increase of \$1.9 million in fiscal year 2005 and \$2.0 million in fiscal year 2006.

Direct Aid Policy Changes

- **Re-institute Local Revenue Deduction** - The proposed budget re-institutes the deduction of prevailing locally generated revenues from the Basic Aid cost calculation. This amendment reduces Direct Aid funding by \$55.1 million in fiscal year 2005 and by \$55.6 million in fiscal year 2006.
- **Continue VPSA Technology Distribution and Do Not Switch to SOQ Prevailing Technology Per Pupil Amount** - The current policy of funding non-personal technology costs through the Virginia Public School Authority equipment notes program is maintained in the 2004-2006 biennium. Consequently, no funding is included in the Basic Aid per pupil amount for non-personal technology costs. These costs will be funded from note proceeds resulting in a savings to the general fund of the Commonwealth. The debt service on these notes will be paid from the Literary Fund. For fiscal year 2005, this initiative results in a savings of \$54.6 million. For fiscal year 2006, the savings is \$55.2 million.
- **Fund the K-3 Class Size Reduction Initiative at the Lower of Statewide Average Per Pupil Amount or Division Per Pupil Amount** - The funding formula used for the K-3 initiative is modified for the 2004-2006 biennium. The new formula provides state funding to participating school divisions using a per pupil amount that is the lower of the division per pupil amount or the statewide average per pupil amount. The practice in the 2002-2004 biennium had been to fund this initiative using the higher of the division per pupil amount or the statewide average per pupil amount. In both years of the biennium, this change results in a savings of \$6.0 million.

- **Institute Federal Revenue Deduction in Basic Aid Formula** - Beginning in the 2004-2006 biennium, certain federal revenues will be deducted from the Basic Aid calculation, a practice that is similar to the local revenue deduction noted above. This deduction is based upon a per pupil amount for each division that is the lower of the school division's actual federal receipts per pupil or the prevailing federal revenues per pupil on a statewide basis. To calculate the federal deduction amount on a per pupil basis, federal revenues received by all school divisions related to Title I, Title II-B, Special Education (Title VI-B), Vocational Education (Perkins Act), and Educational Technology (Title II-D) were totaled and divided by a base Average Daily Membership (ADM) figure. Please note that federal revenues used for capital outlay are not part of the deduction because school divisions do not use these revenues as operating funds. This action results in a Basic Aid decrease of \$153.2 million in fiscal year 2005 and \$154.2 million in fiscal year 2006.

- **Adopt Board of Education's Proposed Prevention, Intervention, and Remediation Program** - A new Standards of Quality prevention, intervention, and remediation program is proposed for the 2004-2006 biennium to assist students who need additional instruction. This new program would replace the current SOQ remediation program. The new program provides funding for one hour of additional instruction per day for identified students. Funding is calculated using the percent of students eligible for the federal Free Lunch program as a proxy for the number of eligible students. A pupil-teacher ratio is then applied to the pool of "identified" students using a range between 18:1 and 10:1, depending upon a school division's combined failure rate on the English and math Standards of Learning tests. Higher combined failure rates are assigned lower pupil-teacher ratios. Localities must match the state funds based on the composite index of local ability-to-pay.

This initiative, which was approved by the Board of Education in June 2003 as part of its revisions to the SOQ, is funded at \$64.6 million in fiscal year 2005 and \$65.0 million in fiscal year 2006. This funding represents an increase of \$20.5 million in fiscal year 2005 and \$20.7 million in fiscal year 2006 over the amount that would have been funded for the current SOQ remediation program. The additional funding is supported by increased Lottery proceeds.

- **Institute a "No Loss" funding provision** - For those school divisions receiving a projected state funding allocation in

fiscal year 2005 or fiscal year 2006 that is less than their projected fiscal year 2004 state funding allocation in the Governor's proposed amendments to Direct Aid for fiscal year 2004 (the "Caboose Bill"), an additional state payment will be provided to ensure that the affected school divisions receive a total state allocation in fiscal years 2005 and 2006 that is at least equal to the total amount to be received in fiscal year 2004 under the "Caboose Bill." For fiscal year 2005, an additional \$1.4 million is provided for this no loss provision. For fiscal year 2006, an additional \$2.2 million is provided.

The proposed No Loss funding is calculated on the basis that three contingent appropriation items will be included in the final fiscal year 2005 and fiscal year 2006 base of funding. These contingent items are: support cost of competing at 24.61 percent; increased ESL funding; and increased At-risk Four-year-old funding. Please note that the level of No Loss funding in fiscal year 2005 and fiscal year 2006 will not change if any or all of these three items are not funded in the final 2004-2006 budget.

- **Continue Implementation of the Standards of Learning Web-based Technology Initiative** - This initiative continues the educational technology notes program in 2004-2006 with debt service paid through the Literary Fund. Approximately \$59.0 million in Virginia Public School Authority (VPSA) equipment notes is expected to be issued in the spring of 2005 and 2006. Continuation of this initiative is intended to increase school divisions' capability for web-based instruction, remediation, and testing of the Standards of Learning.

Grant amounts are maintained at \$26,000 per school (for schools reporting fall membership and for various division and regional programs) 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 local 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 and to establish computer-based instructional, remedial, and testing systems for the Standards of Learning.

The proposed budget also updates the number of schools eligible for funding under the VPSA technology grants. Funding to school divisions for the VPSA technology grant program has been increased by \$468,000 in fiscal year 2005 and by \$780,000 in fiscal year 2006 based on an increase in the number of reported schools.

- **Continue Interest Rate Subsidy Program** - Requires the VPSA to provide interest rate subsidy programs in the fall of 2004 and in the fall of 2005 for Literary Fund projects on the First Priority Waiting List. Five million in subsidy grants would be provided in each year of the biennium.
- **Change Funding Source for VRS Retirement** - The proposed budget uses \$131.9 million in Literary Fund revenues in fiscal year 2005 and \$135.9 million in Literary Fund revenues in fiscal year 2006 in lieu of general funds for VRS retirement. This represents an increase of \$13.4 million in fiscal year 2005 and \$17.4 million in fiscal year 2006 over the current level in fiscal year 2004. This action only affects the source of funding for VRS retirement payments and will not affect school divisions' allocations for VRS retirement in the 2004-2006 biennium.
- **Continue Project Graduation** - Additional funding of \$2.8 million in both years of the biennium is provided for administrative and contractual services in support of this initiative. Governor Warner began Project Graduation in 2002-2003 to provide additional opportunities for students to earn the verified units of credit required to receive a high school diploma. Funding will provide for continuation academies for students who do not graduate with their class, regional academies to help students who are preparing for graduation, and for on-line tutorials for students who need help preparing for their Standards of Learning tests.
- **Increase Support for No Child Left Behind Act** - Additional funding is provided to help the Department of Education develop programs to assist school divisions with meeting the requirements of the No Child Left Behind Act. For fiscal year 2005, an additional \$4.4 million is provided. For fiscal year 2006, an additional \$5.1 million is provided.

Contingent Appropriations

Please note that funding for the following initiatives will only be provided if a series of actions are approved by the General Assembly including the Governor's proposed tax reform package. For more information regarding the Governor's proposed tax reform, visit his Web site located at:

<http://www.governor.virginia.gov/Initiatives/TaxReform/index.htm>

- **Compensation Supplement in Fiscal Year 2006** - The Governor's introduced budget provides funding for a compensation supplement of three percent, effective December 1, 2005, covering SOQ instructional and support positions and affected incentive accounts. Funding for the salary increase is contained in the Central Appropriations section of the introduced budget and is estimated at \$50.1 million in fiscal year 2006.
- **VRS Rate Change** - In addition to the three percent compensation supplement in fiscal year 2006, there would be an employer contribution rate adjustment for VRS retirement, with a new rate set at 6.56 percent in both years of the biennium, which is a reduction of 1.26 percent from the rate of 7.82 percent discussed earlier in this memorandum. This further rate reduction is based on "pooling" the liabilities and assets of the teacher and state employee retirement pools. No change is proposed to the retiree health care credit rate of 0.59 percent.
- **Fully Fund Support Cost of Competing at 24.61 Percent** - Funding would be included to increase the cost of competing factor for SOQ support positions from 20.92 percent to 24.61 percent in the nine school divisions in Planning District Eight. This support cost of competing rate of 24.61 percent is the rate recommended by the Joint Legislative Audit and Review Commission (JLARC) in its most recent study of the cost of competing adjustment. This action results in an increase of \$3.4 million in fiscal year 2005 and \$3.5 million in fiscal year 2006.
- **Increase the Number of Teachers in the English as a Second Language (ESL) Program** - In prior biennia, ESL funding was based on ten teachers for every one thousand limited English proficient (LEP) students. In the 2004-2006 biennium, ESL funding would be based on an increase to seventeen teachers per one thousand LEP students. This proposal increases funding by \$9.0 million in fiscal year 2005 and \$10.6 million in fiscal year 2006.
- **Expand the At-Risk Four-Year-Old Program** - In prior biennia, funding for this program was determined by calculating an unserved population of eligible children, which was derived by deducting those served by federal Title I or Head Start programs from the total number of estimated at-risk four-year-olds. Under this initiative, the deduction for the Title I program will be reduced by one third, which in turn expands the pool of students eligible for state funding. This

initiative results in an increase of \$2.2 million in each year.

CENTRAL OFFICE INITIATIVES

- **Maintain Current Standards of Learning (SOL) Testing Program -**
This initiative continues the existing SOL testing program required by the Standards of Quality and the Standards of Accreditation. Additional funding supports: (1) annual price escalators required by the SOL testing contract; (2) SOL test administration and scoring cost increases due to greater student enrollment; (3) expansion of the SOL history test program; (4) test development activities; and (5) federal grants related to federal No Child Left Behind (NCLB) Act. For fiscal year 2005, general fund appropriations increase by \$1.8 million and federal funds increase by \$400,000. For fiscal year 2006, general fund appropriations increase by \$4.5 million and federal funds increase by \$400,000.
- **Increase Funding for the National Board Certification Program -**
This proposal updates the projected number of classroom teachers with National Board Certification who are eligible to receive the initial or continuation bonus in the 2004-2006 biennium. This proposal also reduces the initial bonus from \$5,000 to \$3,000 and the continuation bonus from \$2,500 to \$1,000 for teachers initially awarded National Board Certification on or after July 1, 2004. For fiscal year 2005, these actions result in additional funding of \$627,500. For fiscal year 2006, these actions result in additional funding of \$849,000.
- **Continue Implementation of the Web-based Standards of Learning (SOL) Technology Initiative -** This initiative funds the costs of: (1) renewing the existing Web-based testing contract in each year of the 2004-2006 biennium; (2) additional Web-based SOL tests at high schools and at middle schools; and (3) three positions needed to support development and implementation of the initiative. Additional funding of \$1.5 million is provided in fiscal year 2005. Additional funding of \$2.1 million is provided in fiscal year 2006.
- **Increase Support for Implementation of No Child Left Behind (NCLB) Act -** In order to comply with the requirements of NCLB, the central office budget is increased by \$1.0 million in both years of the 2004-2006 biennium.

- **Implement Statewide Student Information System** - NCLB requires states to report an increased amount of student-level information. In response to this requirement, an additional \$798,948 in general funds and \$2.7 million in federal funds is added in fiscal year 2005 for the development and implementation of a statewide student information system. For fiscal year 2006, an additional \$3.6 million in general funds is added to the central office budget for the development and implementation of this system.
- **Continue Project Graduation** - Additional funding of \$356,512 in both years of the biennium is provided for administrative and contractual services in support of this initiative.
- **Transfer Veterans Education to the Department of Veterans Services** - This initiative transfers veterans educational and training programs to the Virginia Department of Veterans Services. Federal funds of \$287,267 are transferred in each year of the biennium, along with three full-time equivalent positions.