

**Summary of Governor Warner's Proposed Amendments
to the 2004-2006 Biennial Budget**

Note: This document summarizes the major budget changes proposed by Governor Warner to the current 2004-2006 biennial budget (i.e., Chapter 4, 2004 Acts of Assembly, Special Session I) that affect fiscal years 2005 and 2006. The current biennial budget (Chapter 4) is the budget against which the Governor's proposed changes are made. The Governor's introduced budget bill to the 2005 General Assembly containing his amendments is HB 1500/SB 700.

AMENDMENTS TO THE DIRECT AID TO PUBLIC EDUCATION BUDGET

Technical Adjustments to Existing Direct Aid Programs

- **Update Average Daily Membership (ADM) and Fall Membership** - The proposed budget reflects revised projections of March 31, 2005, and March 31, 2006, unadjusted and adjusted average daily membership (ADM) for each school division. Projected ADM was originally forecast by the Department of Education based on actual data through September 30, 2003, fall membership. The most recent projections contained in the Governor's introduced budget have been revised based on actual March 31, 2004, ADM and September 30, 2004, fall membership. While enrollment is still growing statewide, it is not growing as much as originally projected last year. On a statewide basis, the revised unadjusted ADM projections are 7,859 students lower in fiscal year 2005 and 10,738 students lower in fiscal year 2006 than the original projections contained in Chapter 4. The ADM-based entitlements for fiscal years 2005 and 2006 are recomputed based on these revised projections. In addition, all accounts that are allocated on the basis of fall membership have been updated for actual fall membership in fiscal year 2005 and reprojected fall membership in fiscal year 2006. The ADM and fall membership updates result in an estimated decrease on a statewide basis in Direct Aid payments of \$24.3 million in fiscal year 2005 and \$35.4 million in fiscal year 2006.
- **Update Sales Tax Projections** - The Governor's amendments reflect the most recent estimate of sales tax revenue dedicated to public education for fiscal years 2005 and 2006, as computed by the Department of Taxation. The revised sales

tax revenues include both the one percent portion and the one-eighth percent portion that are appropriated for distribution to school divisions. The projected sales tax entitlement contained in Attachment B and the Excel calculation file reflect the revised estimates for these two sales tax sources, which are shown in Attachment B and the Excel file as a single revenue line-item.

The Department of Taxation's latest estimate of the one percent and one-eighth percent sales tax revenue is \$1,000,900,000 for fiscal year 2005 and \$1,089,400,000 for fiscal year 2006. These revised sales tax estimates are approximately \$5.3 million higher in fiscal year 2005 and \$24.4 million higher in fiscal year 2006 than the projections contained in Chapter 4. As required by the Basic Aid funding formula, state Basic Aid payments have been decreased to offset a portion of the increased sales tax revenues that are projected. The amount of the Basic Aid offset is determined by each division's composite index of local ability-to-pay. The state share of Basic Aid decreases approximately \$3.0 million in fiscal year 2005 and \$13.8 million in fiscal year 2006 due to the revised sales tax estimates. In addition, the local share of Basic Aid decreases in both years due to the increased sales tax estimates.

- **Update Lottery Profits Forecast** - The Governor's amended budget provides an additional \$51.2 million in fiscal year 2005 (from \$395.0 million to \$446.2 million) and \$39.8 million in fiscal year 2006 (from \$402.0 million to \$441.8 million) in Lottery proceeds over the projections contained in Chapter 4. These amounts include a portion used to offset the state share of cost for the SOQ Prevention, Intervention, and Remediation program and for Basic Aid, as well as the local portion distributed to divisions on a per pupil basis. The additional Lottery proceeds projected for fiscal year 2005 are based on carry-over funds from fiscal year 2004 and additional Lottery revenues projected for fiscal year 2005. The additional Lottery proceeds for fiscal year 2006 reflect additional revenues projected for that year.

Statewide, the share of these additional Lottery proceeds distributed to divisions on a per pupil basis totals \$19.8 million in fiscal year 2005 and \$15.6 million in fiscal year 2006. The total local share of Lottery proceeds that will be distributed directly to school divisions on a per pupil basis in fiscal year 2005 is \$165.3 million. In fiscal year 2006,

the total distribution to school divisions is estimated at \$163.5 million.

- **Technical Adjustments to Incentive and Categorical Accounts -** Various technical adjustments have been made to incentive and categorical accounts to reflect the latest information on special education student counts, PALS assessment data, actual and updated projected participation in programs, Limited English Proficient child counts, and Governor's Schools enrollment. Funding is reduced by \$14.5 million in fiscal year 2005 and by \$3.6 million in fiscal year 2006 for these technical updates. Significant budget adjustments contained in this particular amendment are discussed in more detail in the following paragraphs.

The Governor's amended budget assumes estimated participation savings for the At-risk Four-year-old program in fiscal year 2006. Funding is reduced by \$6.5 million in fiscal year 2006 for estimated non-participation in this program. Please note that the school division entitlement sheets shown in Attachment B and the Excel calculation file reflect the full formula-based entitlements for the At-risk Four-year-old program in fiscal year 2006. This action is intended to capture anticipated savings from projected non-participation in the At-risk Four-year-old program in fiscal year 2006; it is not intended to reduce actual entitlements in fiscal year 2006. In the event that entitlements from actual participation exceed the available appropriation, payments to school divisions for the At-risk Four-year-old program in fiscal year 2006 may have to be prorated on a statewide basis if supplemental funding to recognize actual participation is not provided through amendments to the budget in the 2006 session of the General Assembly.

As required by the current appropriation act, the estimated number of students eligible for the Early Reading Intervention program in fiscal years 2005 and 2006 is recalculated based on updated assessment data from the Phonological Awareness and Literacy Screening (PALS) for the 2003-2004 school year. The funding for the Early Reading Intervention program is reduced by \$351,124 in fiscal year 2005 as a result of updating PALS data in the funding formula as well as non-participation in the program. Funding is reduced by \$150,285 in fiscal year 2006 due to updated PALS data only.

Several updates are made to the special education categorical programs. Funding for regional special education program tuition is increased by \$2.6 million in fiscal year 2005 and

by \$4.3 million in fiscal year 2006 for projected cost increases across programs and for increased services provided by the SECEP regional program in Norfolk. In addition, funding for the provision of education services in state-operated programs is reduced by \$261,110 in fiscal year 2005 based upon actual contracted costs. Actual payments for the homebound program in fiscal year 2005 were less than what was budgeted in Chapter 4, resulting in a savings of \$148,203.

Funding for the academic year Governor's Schools programs is adjusted to reflect actual enrollment as of September 30, 2004, but with division enrollment in each program capped at the levels funded in Chapter 4 (as required by budget language in Chapter 4). This action results in a reduction of state funding in fiscal year 2005 of \$771,019. Funding for fiscal year 2006 did not change.

Please note, the Governor proposed a second amendment affecting Governor's Schools. A language amendment is proposed that eliminates the requirement that enrollments by division for each academic year Governor's School be capped at the level used to establish the initial 2004-2006 appropriation in Chapter 4. An additional \$273,546 is provided in fiscal year 2005 to support this proposed language change. Funding for fiscal year 2006 is not affected at this time.

- **K-3 Primary Class Size Reduction Program** - The K-3 Primary Class Size Reduction Program has been updated for fall membership and program participation. The funding for fiscal year 2005 is updated to reflect actual September 30, 2004, fall membership and approved participation levels for each school in the program. These actions result in a reduction of \$1.5 million in fiscal year 2005. The funding for fiscal year 2006 reflects an updated projection of fall membership, which results in a reduction of \$1.6 million.

The fiscal year 2005 entitlements for the K-3 program contained in Attachment B and the Excel calculation file reflect the final entitlements that divisions will be paid in fiscal year 2005. Payment of the final K-3 program entitlements for fiscal year 2005 will be paid on a semi-monthly basis beginning January 16, 2005. The Excel calculation file also contains a new spreadsheet that shows the data used in calculating the final school level entitlements for fiscal year 2005 and the updated projected entitlements for fiscal year 2006.

- **Provide Funding for Technical Corrections to Direct Aid Accounts** - Provides \$10.2 million in fiscal year 2005 and \$9.4 million in fiscal year 2006 to make technical corrections affecting various Direct Aid accounts. These corrections include: updating student counts for the English as a Second Language (ESL) account; correcting the special education child count for certain divisions; funding the latest non-professional VRS retirement contribution rate; and funding instructional positions based on corrected school level enrollment.
- **Update SOL Technology Initiative for Schools Reported in Fall Membership** - Based on September 30, 2004, 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) has been updated. Funding for the VPSA technology grant program has been reduced by \$290,000 in fiscal year 2005 and by \$288,000 in fiscal year 2006 based on a reduction in the number of schools reported in fall membership.

Funding for New or Expanded Programs in the Direct Aid Budget

- **Provide a Compensation Supplement in Fiscal Year 2006** - \$54.8 million in fiscal year 2006 is provided for the state's share of a Compensation Supplement (including related fringe benefit costs) equivalent to a three percent salary increase effective December 1, 2005, for instructional and support positions funded through the SOQ and other state-funded accounts. These Compensation Supplement funds are intended to be incentive funds, and would not be included as part of required local effort; however, in order to receive the state funds, a local match would have to be provided based on the composite index.

If appropriated, the state funds would be paid to school divisions that certify to the Department of Education, no later than March 1, 2006, that equivalent salary increases have been granted locally in fiscal year 2006. The table below provides the equivalent salary increases for different start dates. Please note that the equivalent salary increases are based on a twelve-month year.

Local Salary Increase Start Date	Required Equivalent Percentage Salary Increase in FY 2006
July 1, 2005	1.75
August 1, 2005	1.91
September 1, 2005	2.10
October 1, 2005	2.33
November 1, 2005	2.63
December 1, 2005	3.00

- **Funding for the School Breakfast Program** - Provides \$1.6 million in fiscal year 2006 for a state supplement to the school breakfast program. This funding is part of the Governor's "Healthy Virginians" initiative. The funding is provided based on a \$0.05 reimbursement for every breakfast meal sold. The state funds are intended to leverage additional federal funds by expanding participation in the school breakfast program.

Eligible schools would be required to participate in the USDA School Breakfast Program. The per meal funding would be the same for all student meal types (i.e., free, reduced, and paid). The \$0.05 per meal state reimbursement would be paid for all breakfasts served based on the school nutrition claim data submitted to the department via the SNPWeb system. The reimbursement would be paid to each school division once in the fall based on the preceding year's breakfast meal claims, similar to the current state matching reimbursement for the lunch program. If this funding is approved, the first payment would be made in the fall of 2005 based on breakfast meals served during the 2004-2005 school year. The state funds must be credited to the school nutrition account and may be used only for the operation of the school nutrition programs.

- **Expand the Race to GED program** - Provides \$2.4 million in fiscal year 2006 for approved GED testing centers to increase the frequency of testing, and to increase access to testing throughout the Commonwealth.
- **Provide Funding for a Composite Index Adjustment for Alleghany County** - Provides an additional appropriation of \$342,053 in

fiscal year 2005 and \$362,227 in fiscal year 2006 for an adjustment to the composite index for Allegheny County due to the consolidation of Clifton Forge City school division into Allegheny County school division. Based on the recommendation of the Board of Education and the approval of the Governor, the composite index for Allegheny County for the 2004-2006 biennium is adjusted from 0.2683 to 0.2423. The reduced index for Allegheny County results in a larger state share of cost for those Direct Aid accounts that use the composite index in computing state funding. Related budget language makes this composite index adjustment effective the fiscal year beginning July 1, 2004 (i.e., fiscal year 2005).

- **Provide Funding for Academic Year Governor's Schools for Actual Enrollment** - A language amendment is proposed which eliminates the requirement that enrollments by division for each academic year Governor's School be capped at the level used to establish the initial 2004-2006 appropriation in Chapter 4. An additional \$273,546 is provided in fiscal year 2005 to support this proposed language change. Funding for fiscal year 2006 is not affected at this time.
- **Increase Interest Rate Subsidy Program in the Fall of 2005** - The Governor's amendments propose \$20.0 million in additional interest rate subsidy funding from the Literary Fund in fiscal year 2006, bringing the total available in fiscal year 2006 to \$25.0 million. The subsidy program in fiscal year 2006 will be conducted in the fall of 2005. The interest rate subsidy program is used to provide interest rate subsidy funding through the Virginia Public School Authority for projects on the Board of Education's First Priority Waiting List for a Literary Fund loan.
- **Funding for the Virginia Career Education Foundation** - Provides \$150,000 in fiscal year 2006 for the Virginia Career Education Foundation.
- **Provide Matching Funds for Virginia Literacy Foundation Grants** - Provides \$100,000 in fiscal year 2006 as matching funds for Virginia Literacy Foundation grants.
- **Provide Support for Reimbursement of Special Education Medical Services** - Provides \$3.6 million in fiscal year 2006 for the Department of Education to make payment of the federal share for special education medical services provided by school divisions to Medicaid eligible children. The Department of

Medical Assistance Services (DMAS) currently makes these payments to school divisions; if approved, effective July 1, 2005, these payments would be made by DMAS to the Department of Education. The Department of Education would then make the payments to school divisions. Due to changes in federal rules, this change in payment procedures is necessary to preserve the structure of Medicaid reimbursements received by school divisions for providing special education medical services. Language added to the Direct Aid budget as well as a corresponding amendment in the Department of Medical Assistance Services' budget provides authority for this change.

Other Budget Language Changes Proposed in the Direct Aid Budget that Affect School Divisions

- **Calculation of SOQ Special Education Costs in the 2006-2008 Biennium** - In recalculating the cost of the Standards of Quality for the 2006-2008 biennium, the Department of Education would be required to calculate the cost of school level instructional positions for special education based on the number of students in the disability categories listed in the special education caseloads adopted by the Board of Education. This consolidates the different levels of the mental retardation category into a single category.
- **Unused Student Slots in Regional Alternative Education Programs** - Adds language that in the event a school division does not use all of the student slots it is allocated under the regional alternative education program, the unused slots could not be reallocated or transferred to another school division.
- **Provision Allowing Part-year At-risk Four-year-old Programs in First Year of Implementation** - Adds budget language allowing At-risk Four-year-old programs that are in the first year of implementation and that operate less than the full school year to receive state funds on a prorated basis determined by the portion of the school year that the programs operated. Currently, At-risk Four-year-old programs must operate for the full school year in order to receive state funds.

**AMENDMENTS TO THE DEPARTMENT OF EDUCATION CENTRAL
OFFICE BUDGET THAT AFFECT SCHOOL DIVISIONS**

- **Update Academic Review Process Costs** - Provides an additional \$183,107 in fiscal year 2006 for the projected cost of conducting academic reviews of schools "Accredited with Warning." The number of schools requiring academic reviews has increased due to the phase-out of provisional accreditation.
- **Update National Board Certification Bonus Costs** - Revises the funding for teacher certification bonuses to reflect the latest estimate of initial and continuing awards. For 2005, a reduction of \$182,500. For 2006, an additional \$197,500.
- **Expand the Race to GED program** - Provides \$643,200 in fiscal year 2006 for approved GED testing centers to increase the frequency of testing and access to testing locations throughout the Commonwealth. A companion amendment is proposed in the Direct Aid budget.
- **Update Funding for Education for a Lifetime Program** - Adjusts funding for components of the Education for a Lifetime initiative to support the cost of the training program for turnaround specialists and to provide access to career assessment and planning as part of the state's workforce training activities. For 2005, an additional \$249,886. For 2006, an additional \$959,811.
- **Enhance the Partnership for Achieving Successful Schools (PASS)** - Provides \$200,000 in fiscal year 2006 for a leadership development component in the PASS program, to be conducted in partnership with the Virginia School Boards Association. This component is intended to provide local school board members with strategies to address low student performance on a division-wide basis.
- **Increase Positions for the Testing Program** - Adds two positions in fiscal year 2005 and an additional two positions in fiscal year 2006 to support the on-going requirements of the department's Standards of Learning testing program.
- **Increase Positions to Support the No Child Left Behind Act Requirements** - 23 additional non-general fund positions are

provided in fiscal year 2006 to support the ongoing requirements of the federal No Child Left Behind Act.

OTHER AMENDMENTS AFFECTING SCHOOL DIVISIONS

- **Provide Additional Funding for the School Efficiency Reviews (Project SERVE)** - The Governor's proposed budget includes \$1.4 million for additional contracted school efficiency reviews conducted as part of the Project SERVE initiative and one position to monitor the contracts. This funding would be provided to the Department of Planning and Budget. Additional budget language governing the program is proposed as follows:

Item 283 E. 1. ...Any school division undergoing an efficiency review shall provide a report to the Department of Planning and Budget indicating what action has been taken on each recommendation identified in the efficiency review. The first report shall be made within six months following the receipt of the final efficiency review; with a follow-up report within one year of the final review, and again at twenty-four months. The Department of Planning and Budget shall provide the format for such report.

2. Commencing with reviews completed in FY 2006, partial recovery of the cost of individual reviews may be made in the fiscal year beginning not less than 24 months and not more than 36 months following the release of a final efficiency review report for an individual school division. Such recovery may occur if the affected school division superintendent or superintendent's designee has not certified that at least half the recommendations have been implemented or at least half of the equivalent savings of such efficiency review have been realized. Lacking such certification the school division shall reimburse the state for 25 percent of the cost of the school efficiency review. Such reimbursement shall be paid into the general fund of the state treasury. The Department of Planning and Budget shall provide the format for such certification.

- **Provide Funding for Planning and Site Selection for the Schools for the Deaf and the Blind** - \$49,550 is provided in fiscal year 2005 and \$148,650 in fiscal year 2006 in the

Secretary of Education's budget for campus planning and site selection for the schools for the deaf and the blind.