

Summary of Governor Warner's Proposed Amendments to the Fiscal Year 2006 Direct Aid to Public Education and Department of Education Central Office Budgets ("Caboose Bill")

This document summarizes the major budget changes proposed by Governor Warner to the current 2004-2006 biennial budget (i.e., Chapter 951, 2005 Acts of Assembly) that affect fiscal year 2006. The current biennial budget (Chapter 951) is the budget against which the Governor's proposed changes are made. The Governor's introduced budget bill to the 2006 General Assembly containing his budget amendments to fiscal year 2006 is House Bill/Senate Bill 29, also known as the "Caboose Bill."

FISCAL YEAR 2006 AMENDMENTS TO THE DIRECT AID TO PUBLIC EDUCATION BUDGET

- **Restore Funds Transferred to FY 2005 for Technical Corrections**
The fiscal year 2005 appropriations for Direct Aid to Public Education in the current appropriation act (Chapter 951, 2005 Acts of Assembly) were not sufficient to pay school divisions their full ADM entitlements for fiscal year 2005. To avoid a prorated reduction in Basic Aid payments, Governor Warner supplemented the fiscal year 2005 Basic Aid appropriation using fiscal year 2006 Basic Aid funds. This action created a funding shortfall in fiscal year 2006. The Governor's proposed amendment restores the fiscal year 2006 funds that were transferred to fiscal year 2005 to fund the technical corrections. This amendment restores \$8.9 million in fiscal year 2006.
- **Update Average Daily Membership (ADM) and Fall Membership**
Projections of unadjusted and adjusted average daily membership (ADM) for fiscal year 2006 are revised for each division based on the latest actual ADM and fall membership data available. On a statewide basis, these revised projections result in a decrease in unadjusted ADM of 4,424 students from the projections on which fiscal year 2006 entitlements are currently based in Chapter 951 (as communicated in Regulatory Superintendent's Memorandum Number 1, dated March 4, 2005). Projected ADM for fiscal year 2006 was originally forecast by the Department of Education based on actual data through September 30, 2004, fall membership. The most recent projections contained in the Governor's amended budget have been revised based on actual March 31, 2005, ADM and September 30, 2005, fall membership. While enrollment is still growing statewide, it is not growing as much as originally projected last year. The ADM-based entitlements for fiscal year 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 2006. The ADM and fall membership updates result in an estimated

decrease on a statewide basis in Direct Aid payments of \$8.3 million in fiscal year 2006.

- **Update 2005 Triennial School Census Count**

In accordance with the provisions of Sections 22.1-281 through 22.1-286, *Code of Virginia*, and Chapter 951, 2005 Acts of Assembly (2004-2006 appropriation act), data related to the 2005 triennial school census count have been collected by the Department of Education. The triennial census count is used to distribute the estimated one and one-eighth percent state sales and use tax proceeds to school divisions as part of the Basic Aid funding formula. In addition, the actual cash distribution of the one and one-eighth percent sales tax to school divisions is based on a prorated distribution using the triennial census counts. The 2002 triennial census data will be used to distribute actual sales tax proceeds through December 31, 2005, while the 2005 triennial census data will be used to distribute actual sales tax proceeds beginning on the January 16, 2006, payment and continuing through the end of the 2006 fiscal year.

For fiscal year 2006, the estimated sales tax allocation used in the Basic Aid formula is based on averaging the 2002 and 2005 triennial census counts. As required by the Basic Aid formula, Basic Aid payments have been revised to offset changes in the distribution of sales tax revenues by division, driven by a combination of the census data and each division's composite index of local ability-to-pay. The 2005 triennial census update results in a net increase statewide in Basic Aid funding of \$1.9 million in fiscal year 2006, due to the offset. The affected accounts are Basic Aid and Enrollment Loss. The actual effect of the revised census count will vary by division based on the changes in each division and how these differences compare to the statewide change.

Important Notice: A school division has recently submitted a revised 2005 triennial school census count. This count is higher than the original count submitted by the division. The Department of Education has approved the revised census count submitted by the division and has recalculated projected fiscal year 2006 entitlements for all divisions using the revised data. The projected fiscal year 2006 entitlements for all other school divisions are reduced as a result of this census revision and the resulting redistribution of sales tax, which is only partially offset in each division by increases in the state share of Basic Aid. The net reduction in entitlements across all divisions statewide is \$794,000. Each school division's actual net reduction in funding due to this revision will vary based on each division's composite index.

The projected division entitlements shown in Attachment B and in the Excel calculation template reflect this census revision. This updated Excel calculation file that was posted on December

21, 2005, should be used in place of the version that was originally posted on Friday, December 16, 2005. The original Excel file that was posted did not reflect the latest entitlements based on the approved census revision. If you downloaded this version of the calculation template, please stop using it and replace it with the corrected Excel file. Please return to the department's Web site and download the revised Excel file for your use. In addition, the revised 2005 triennial census data will be used for the distribution of actual sales tax proceeds beginning on the January 16, 2006, electronic funds transfer.

- **Update Sales Tax Projections**

The Governor's amendments reflect the most recent estimate of the one and one-eighth percent sales tax revenue distributed to school divisions for fiscal year 2006. The Department of Taxation's latest estimate of the one and one-eighth percent sales tax revenue is \$1.13 billion for fiscal year 2006. This revised sales tax estimate is approximately \$42.3 million higher than the estimate contained in the current budget, Chapter 951. 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 for fiscal year 2006 decreases by approximately \$23.8 million due to the revised sales tax estimate. In addition, the local share of Basic Aid decreases in both years due to the increased sales tax estimate. The net change in funding to school divisions (due to both the estimated sales tax revenue increase and the Basic Aid off-set) is \$18.5 million in fiscal year 2006.

- **Update Lottery Profits Forecast**

The Governor's amended budget includes a decrease in forecasted Lottery proceeds in fiscal year 2006 of approximately \$8.3 million compared to the total Lottery proceeds forecasted in Chapter 951 (from \$441.8 million in Chapter 951 to the revised forecast of \$433.5 million). The revised forecast of Lottery proceeds for fiscal year 2006 reflects a projected reduction in revenues due to the start-up of a lottery in North Carolina during fiscal year 2006. The total amount for Lottery includes a portion used to offset the state share of cost for the SOQ Prevention, Intervention, and Remediation program and for the state share of Basic Aid, as well as the local portion distributed to divisions on a per pupil basis. The portion used to pay the state share of Basic Aid and SOQ Prevention, Intervention, and Remediation is replaced dollar-for-dollar by a \$5.1 million increase in state General Fund support. The total local share of Lottery proceeds that will be distributed directly to school divisions on a per pupil basis in fiscal year 2006 is \$160.3 million; this represents a reduction of

approximately \$3.2 million compared to the local per pupil distribution contained in Chapter 951. The revised per pupil amount for the local Lottery distribution in fiscal year 2006 is \$240.95 per pupil in adjusted ADM.

- **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 \$20.0 million in fiscal year 2006 across affected accounts for these technical updates. Significant budget adjustments contained in this particular amendment are discussed in more detail in the following paragraphs.

Several programs were updated to reflect actual September 30, 2005, fall membership and participation:

Funding for the K-3 Primary Class Size Reduction Program in fiscal year 2006 is updated to reflect actual September 30, 2005, fall membership, approved participation levels for each school in the program, and per pupil amounts recalculated on the current SOQ base. These actions result in an increase of \$992,782 in fiscal year 2006. The fiscal year 2006 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 2006. Payment of the final K-3 program entitlements for fiscal year 2006 will be made on a semi-monthly basis beginning on the January 16, 2006, electronic funds transfer. The Excel calculation file also contains a spreadsheet that shows the data used in calculating the final school-level entitlements for fiscal year 2006.

The Governor's amended budget includes an update to the At-Risk Four-Year-Old program for actual participation in fiscal year 2006. The funding for fiscal year 2006 reflects this update, which results in a reduction of \$14.6 million. Beginning in fiscal year 2006, 100 percent of identified at-risk four-year-olds are eligible for funding. Actual participation in this program was significantly less than the funded level in fiscal year 2006.

Funding for the SOL Algebra Readiness program in fiscal year 2006 is reduced by \$70,905 as a result of updating enrollment for actual September 30, 2005, fall membership and non-participation in the program.

Updating for actual enrollment reduces funding for the Remedial Summer School program by \$2.7 million in fiscal year 2006.

The use of September 30, 2005, limited English proficient child counts results in a funding reduction of \$1.5 million in the English as a Second Language program.

Funding for the academic year Governor's Schools programs has been adjusted to reflect actual September 30, 2005, enrollment data. This action results in a reduction of state funding in fiscal year 2006 of \$428,462.

Based on September 30, 2005, 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 program has been increased by \$78,000 for fiscal year 2006 based on an increase in the number of schools reported in 2005 fall membership.

Three programs were updated with revised information, including test scores and reimbursement levels:

As required by the appropriation act, the number of students eligible for the Early Reading Intervention program in fiscal year 2006 is recalculated based on updated assessment data from the Phonological Awareness and Literacy Screening (PALS). The funding for the Early Reading Intervention program in fiscal year 2006 is reduced by \$160,317 as a result of updating PALS data in the funding formula as well as non-participation in the program.

The determination of final reimbursement amounts for the school breakfast program for fiscal year 2006 results in a \$560,180 reduction in program funding. Eligible school divisions received their fiscal year 2006 reimbursement payment on the December 16, 2005, via electronic funds transfer. The actual payment for which school divisions were eligible was less than the amount projected for fiscal year 2006.

Funding for regional special education program tuition is increased by \$83,210 in fiscal year 2006 for updated program costs. The regional tuition program reimburses school divisions for the state share of cost of educating students participating in public regional special education programs based on approved tuition levels.

FISCAL YEAR 2006 AMENDMENTS TO THE DEPARTMENT OF EDUCATION CENTRAL OFFICE BUDGET THAT AFFECT SCHOOL DIVISIONS

- **Update National Board Certification Bonus Costs**
Revises the funding for teacher certification bonuses to reflect the actual cost in fiscal year 2006 of providing the initial and

continuing bonus awards. For fiscal year 2006, a reduction of \$285,000.