

## **Governor's Introduced Budget for the 2006-2008 Biennium**

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

**Important Notice:** Since the posting of the Excel calculation tool for the Governor's introduced 2006-2008 biennial budget on Friday, December 16, 2005, two data revisions were identified that affect school division entitlements in fiscal years 2007 and 2008. These revisions involve an increase in the 2005 triennial school census count for one division and corrections to the state share of K-3 Class Size Reduction Program funding. Additional information is provided on these revisions in the pertinent sections below. Please note that the appropriations proposed in the Governor's introduced 2006-2008 biennial budget are sufficient to fund the revised entitlements for fiscal years 2007 and 2008. A revised Excel calculation tool was posted to the department's Web site on the afternoon of December 21, 2005. The corrected Excel file that includes these revisions may be downloaded from the following Web address:

<http://www.pen.k12.va.us/VDOE/Finance/Budget/calctools/>

If you downloaded the Excel calculation tool prior to the afternoon of December 21, 2005, please stop using it and download the corrected file.

#### **DIRECT AID TO PUBLIC EDUCATION**

##### **Technical Updates**

###### **▪ Rebase Direct Aid Costs for 2006-2008**

The Governor's introduced budget includes the state's share of routine rebasing costs for the Standards of Quality and other Direct Aid 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, enrollment updates and projected caseloads for categorical programs. Additional information about the details and source of the data used to make these updates is contained in Attachments D and E. These adjustments reflect the cost of continuing current programs with the required data updates used in the funding formulas, and do not reflect any changes in policy. For fiscal year 2007, routine rebasing costs for the Standards of Quality and other Direct Aid

programs results in an increase of \$457.6 million. For fiscal year 2008, the increase is \$520.9 million.

**Important Notice:** It was recently determined that the wrong composite index was assigned to some divisions in the funding formula for the K-3 Class Size Reduction program entitlements contained in the calculation tool posted on December 16, 2005. This error resulted in the display of an incorrect state share of cost for some divisions. The effect of this correction is an increase or decrease in the K-3 program entitlement in fiscal year 2007 and fiscal year 2008 when compared to the entitlement provided in the December 16, 2005, calculation tool. Increases or decreases in a division's entitlement depend upon whether the composite index that was incorrectly assigned to the division was higher or lower than the division's correct composite index. Projected fiscal year 2007 and 2008 K-3 program entitlements have been corrected for all divisions. The revised division entitlements are reflected in Attachment B and in the Excel calculation tool posted on the afternoon of December 21, 2005.

The original Excel file that was posted on Friday, December 16, 2005, does not reflect the corrected K-3 program entitlements and should not be used; therefore, if you downloaded the file prior to the afternoon of December 21, 2005, please stop using that file and download the revised file. The proposed appropriations in the Governor's 2006-2008 introduced budget are sufficient to fund the corrected K-3 program entitlements for each division.

▪ **Adjust for Non-Participation**

Historically, the At-risk Four-year-old program has experienced annual non-participation by some eligible school divisions. The Governor's introduced budget assumes estimated savings for the At-risk Four-year-old program in fiscal years 2007 and 2008 based on historical estimates of non-participation by school divisions. Funding is reduced by \$12.6 million in fiscal year 2007 and by \$12.2 million in fiscal year 2008 for the 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 for fiscal years 2007 and 2008.

This action is intended to capture anticipated savings from projected non-participation in the At-risk Four-year-old program in fiscal years 2007 and 2008; it is not intended to reduce actual entitlements to school divisions in either year. 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 either year may have to be prorated on a statewide basis if supplemental funding to recognize actual participation is not provided through available balances or amendments to the budget in subsequent General Assembly sessions.

▪ **Update Fringe Benefit Rates**

The Governor's introduced budget adopts a lower employer contribution rate for retirement benefits than was certified by the VRS Board of Trustees (9.20 percent versus 11.18 percent). This lower rate is applied to positions in the VRS professional group. For the retirement contribution, the rate proposed for 2006-2008 represents a rate increase from fiscal year 2006 (6.62 percent to 9.20 percent). The prevailing non-professional VRS rate has been updated and is 7.48 percent for both years of the biennium. This prevailing rate is used for state funding purposes only; the actual non-professional rate charged by VRS will vary by school division. For the retiree health care credit, the rate proposed for 2006-2008 reflects a rate increase from fiscal year 2006 (0.55 percent to 0.56 percent). For the group life contribution, the rate proposed for 2006-2008 reflects a rate increase from the premium holiday in the 2004-2006 biennium. The employer contribution rate proposed for group life in 2006-2008 is 0.49 percent. All fringe benefit rates are proposed to be the same in both fiscal years. These rate changes increase funding by \$82.5 million in fiscal year 2007 and \$83.4 million in fiscal year 2008.

▪ **Update Sales Tax Projections**

The Governor's introduced budget reflects the most recent estimate of sales tax revenue dedicated to public education for fiscal years 2007 and 2008, 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 combined on a single revenue line-item.

The Department of Taxation's latest estimate of the one percent and one-eighth percent sales tax revenue is \$1,266,460,000 for fiscal year 2007 and \$1,336,490,000 for fiscal year 2008. These revised sales tax estimates are approximately \$175.5 million higher in fiscal year 2007 and \$245.5 million higher in fiscal

year 2008 than the fiscal year 2006 base projection contained in Chapter 951. As required by the Basic Aid funding formula, state Basic Aid payments have been adjusted to reflect the reduced state share of cost resulting from the projected increase in sales tax revenues.

The amount of the Basic Aid offset depends on each division's composite index of local ability-to-pay. The state share of Basic Aid decreases approximately \$98.3 million in fiscal year 2007 and \$137.5 million in fiscal year 2008 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. The net change in funding to school divisions (due to both the estimated sales tax revenue increase and the Basic Aid off-set) is an increase of \$77.1 million in fiscal year 2007 and \$107.9 million in fiscal year 2008.

▪ **Update Triennial Census for 2005 Data**

The 2005 triennial census count of school-age population is used to distribute the estimated sales tax proceeds to school divisions as part of the Basic Aid funding formula. The 2005 triennial census update results in a net increase statewide in Basic Aid and Enrollment Loss funding of \$3.9 million in fiscal years 2007 and 2008. The 2005 Triennial Census data reflects an increase of 39,363 students over the 2002 count of school-age population.

**Important Notice:** A school division recently submitted a corrected 2005 triennial school census count, which was an increase from the original count submitted by the division. The Department of Education has approved the revised census count submitted by the division and projected fiscal year 2007 and 2008 entitlements have been recalculated for all divisions using the revised census data. The revised division entitlements are reflected in Attachment B and in the Excel calculation tool posted on the afternoon of December 21, 2005. The projected entitlements for all other school divisions are reduced as a result of this census correction 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 actual net reduction in funding due to this revision will vary by division based on each division's composite index.

The updated Excel calculation file that was posted on the afternoon of 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 correction and should not be used. If you downloaded the calculation file prior to the afternoon of December 21, 2005, please stop using it and replace it with the corrected Excel calculation file. The proposed appropriations in the Governor's 2006-2008 introduced budget are sufficient to fund the revised entitlements that are based on the census correction.

▪ **Update Lottery Proceeds**

Total Lottery proceeds are projected to decrease by \$15.7 million to \$426.1 million in fiscal years 2007 and 2008, compared to the fiscal year 2006 Lottery estimate contained in Chapter 951. The projected decrease in Lottery proceeds assumes a reduction in revenues due to a fully operational Lottery program in North Carolina for both fiscal years of the biennium.

Of the total projected Lottery amount, \$19.5 million in fiscal years 2007 and 2008 is dedicated to fund a portion of the state cost of the SOQ Prevention, Intervention, and Remediation program, and \$249.6 million each year is dedicated to fund a portion of the state share of Basic Aid. The local portion of Lottery proceeds are projected to be distributed based on the state share of \$232.83 per pupil in adjusted ADM in fiscal year 2007 and \$230.98 per pupil in adjusted ADM in fiscal year 2008. The total estimated funding to be distributed to school divisions on a per pupil basis is \$156.9 million in fiscal years 2007 and 2008; this is a decrease of \$6.6 million compared to the estimated per pupil Lottery funding for fiscal year 2006 contained in Chapter 951. No changes are proposed for 2006-2008 regarding how Lottery funds must be spent, including the requirement that at least 50 percent of the funds must be spent for nonrecurring costs such as school construction.

▪ **Updates for Recalculation of Composite Index for 2006-2008**

The projected entitlements listed in Attachment B were calculated using the 2006-2008 composite indices communicated in Informational Superintendent's Memorandum Number 241, dated December 9, 2005. The data elements used to calculate the composite index for 2006-2008 are based on data from 2003. For fiscal year 2007, updating Direct Aid accounts based on the recalculated 2006-2008 composite index results in an increase in the state share of public education costs of \$20.0 million. For fiscal year 2008, the increase is \$21.3 million.

▪ **Update Academic Year Governor's School Per Pupil Amounts**

As has been the practice in prior biennia, the per pupil funding for Academic Year Governor's Schools has been adjusted based on

revisions to the calculated per pupil amounts in Basic Aid to reflect the rebased cost estimates and fringe benefit rates for the 2006-2008 biennium. The per pupil amount used to determine funding increases from \$3,543 in fiscal year 2006 to \$3,933 in fiscal years 2007 and 2008 (adjusted for the composite index). As a result of the change in these per pupil amounts, an increase of \$503,240 is funded in fiscal year 2007 and \$459,922 in fiscal year 2008.

▪ **Update Remedial Summer School Per Pupil Amounts**

The per pupil amounts for the Remedial Summer School program have been adjusted based on the SOQ basic and remedial position salaries to reflect the rebased cost estimates for the 2006-2008 biennium. The funded Remedial Summer School per pupil amounts are \$412 for fiscal year 2007 and \$411 in fiscal year 2008. This represents a \$32 per pupil increase in fiscal year 2007 and \$31 per pupil increase in fiscal year 2008 above the fiscal year 2006 funded Remedial Summer School per pupil amount of \$380.

**Direct Aid Policy Changes**

▪ **Compensation Supplement in Fiscal Years 2007 and 2008**

\$61.4 million in fiscal year 2007 and \$106.2 million in fiscal year 2008 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, 2006, for instructional and support positions funded through the SOQ and other state-funded accounts. There is no additional percentage salary increase provided in fiscal year 2008; the funding for fiscal year 2008 is provided to continue the cost of the increase provided in fiscal year 2007.

Compensation supplement funds are intended to be incentive funding, and are not included as part of required local effort; however, in order to receive the state funds, a local match must 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, 2007, that equivalent salary increases have been granted in fiscal year 2007. The table below provides the equivalent salary increases for different start dates in fiscal year 2007. 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 2007
July 1, 2006	1.75
August 1, 2006	1.91
September 1, 2006	2.10
October 1, 2006	2.33
November 1, 2006	2.63
December 1, 2006	3.00

▪ **Cost of Competing Adjustments For Additional Localities**

In recognition of the Northern Virginia labor market for certain localities contiguous to Planning District 8, the Governor's introduced budget includes increased funding to support a cost of competing adjustment for additional qualifying localities.

This funding recognizes 10 percent in fiscal year 2007 and 25 percent in fiscal year 2008 of the full cost of competing differential (9.83 percent for instructional positions; 24.61 percent for support positions) for SOQ positions in the qualifying division. A qualifying locality is one that is contiguous to Planning District 8 and that has more than 45 percent of the total out-commuting workforce commuting to Planning District 8, based on the 2000 census. Currently, only Fauquier and Stafford counties meet these criteria and are eligible for this adjustment. For fiscal year 2007, the increased state share of cost is \$1.4 million. For fiscal year 2008, the increased state share of cost is \$3.5 million.

▪ **Supplemental Education Accounts**

For fiscal year 2007, an additional \$100,000 is provided for the Project Discovery program, and an additional \$500,000 is provided for a one-time matching grant for the Communities in Schools program. In fiscal year 2008, an additional \$100,000 is provided for Project Discovery. For fiscal years 2007 and 2008, funding is reduced by \$400,000 for the Career and Technical Education Resource Center and is reduced by \$250,000 for the Wolf Trap Institute for Early Learning Through the Arts.

Please note that accounts under the "Supplemental Education" category are not included in Attachment B or the Excel template. Supplemental education programs are not available to school

divisions statewide, and must serve a unique purpose for specific school divisions.

▪ **Education for a Lifetime programs**

The Governor's introduced budget includes additional funding for Education for a Lifetime initiatives, including Incentives for Hard-to-Staff Schools, Virtual Advanced Placement School, and Path to Industry Certification. In total, an additional \$5.9 million is provided in fiscal year 2007 and \$5.3 million in fiscal year 2008 for these programs. Please note that Education for a Lifetime programs are not included in Attachment B or the Excel template.

**DEPARTMENT OF EDUCATION CENTRAL OFFICE INITIATIVES**

▪ **Funding for National Board Certification Bonuses**

The Governor's introduced budget includes funding for the cost of providing bonus awards for the projected number of teachers eligible to receive the continuing and initial bonuses in fiscal years 2007 and 2008. For fiscal years 2007 and 2008, \$245,875 in additional funding is provided.

▪ **Funding for Education for a Lifetime programs and EIMS**

The introduced budget provides additional funding for various components of the Education for a Lifetime initiative. Additional funding is provided to continue providing the Student Career Planning System (Kuder®) to school divisions, and for the Race to GED and turnaround specialists programs to replace expiring non-general funds. Additional funding is also provided for the continued implementation of the Education Information Management System (EIMS). In total, an additional \$1.4 million is provided in fiscal years 2007 and 2008.

▪ **Funding for the Commission on Civics Education**

Removes funding of \$81,000 each year for the Commission on Civics Education established pursuant to House Bill 1769 (2005 Session).