

## **Summary of Governor Kaine's Proposed Amendments to the 2006-2008 Biennial Budget**

This document summarizes the major budget changes proposed by Governor Kaine to the current 2006-2008 biennial budget (i.e., Chapter 10, 2006 Acts of Assembly, Special Session I) that affect fiscal years 2007 and 2008. The current biennial budget containing most state Direct Aid funding (i.e., Chapter 10) is the budget against which the Governor's proposed changes are made. The Governor's introduced budget bill to the 2007 General Assembly containing his amendments is HB 1650/SB 750. A summary of proposed amendments to the Department of Education Central Office budget follows the proposed amendments to the Direct Aid to Public Education budget.

### **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, 2007, and March 31, 2008, 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, 2005, fall membership. The most recent projections contained in the Governor's introduced budget have been revised based on actual March 31, 2006, ADM and September 30, 2006, fall membership.

On a statewide basis, the revised unadjusted ADM projections are 5,742 students lower in fiscal year 2007 and 8,448 students lower in fiscal year 2008 than the original projections contained in Chapter 10. The ADM-based entitlements for fiscal years 2007 and 2008 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 2007 and reprojected fall membership in fiscal year 2008. The ADM and fall membership updates result in an estimated decrease on a statewide basis in Direct Aid payments of \$20.4 million in fiscal year 2007 and \$35.8 million in fiscal year 2008.

- **Update Sales Tax Projections**

The Governor's amendments reflect 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 estimate of 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 entitlements contained in Attachment B and in the Excel calculation file reflect the revised estimates for these two sales tax sources, which are shown in Attachment B and in 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 \$1,139,300,000 for fiscal year 2007 and \$1,198,700,000 for fiscal year 2008. These revised sales tax estimates are approximately \$2.7 million higher in fiscal year 2007 and \$6.1 million higher in fiscal year 2008 than the projections contained in Chapter 10. 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 to be distributed to divisions. 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 \$1.5 million in fiscal year 2007 and \$3.4 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 fiscal year 2007 hold harmless sales tax payment included in Chapter 10 (and described in detail in [Regulatory Superintendent's Memorandum No. 009, dated October 6, 2006](#)), is reduced by \$1.2 million in the Governor's amended budget to account for the increased sales tax estimate in fiscal year 2007. The fiscal year 2007 hold harmless sales tax payment was provided in the adopted Chapter 10 budget in response to erroneous sales tax estimates that were adopted in the initial 2006-2008 budget (Chapter 3). The Governor's amended budget provides a total of \$55.5 million in fiscal year 2007 only for the sales tax hold harmless payment. The hold harmless payment will be made on a quarterly basis to divisions in order to maintain the same level of projected state funding in fiscal year 2007 as provided by the initial 2006-2008 budget (Chapter 3). Please note that the Governor's budget does not propose extending the sales tax hold harmless payment to fiscal year 2008; the Governor maintains the sales tax hold harmless payment for fiscal year 2007 only.

- **Update Lottery Profits Forecast**

The Governor's amended budget reflects a decrease of \$20.7 million in fiscal year 2007 (from \$442.6 million to \$421.9 million) and \$20.7 million in fiscal year 2008 (from \$426.1 million to \$405.4 million) in Lottery proceeds versus the lottery projections contained in Chapter 10. This adjustment is based on the revised estimated impact of the North Carolina lottery. 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 lottery revenue estimate for fiscal year 2007 includes \$16.5 million in carry-over lottery funds from fiscal year 2006. This carry-over amount has not changed from the Chapter 10 appropriation.

The total local share of Lottery proceeds that will be distributed directly to school divisions on a per pupil basis in fiscal year 2007 is \$155.3 million. Of this amount, \$148.9 million reflects the local share of the current year Lottery estimate and \$6.4 million reflects the local share of the \$16.5 million carry-over amount from fiscal year 2006. In fiscal year 2008, the total distribution to school divisions is estimated at \$148.9 million. The revised per pupil amounts used to distribute current year Lottery proceeds are \$222.24 in fiscal year 2007 and \$220.99 in fiscal year 2008 per pupil in adjusted ADM. The revised per pupil amount in fiscal year 2007 for the fiscal year 2006 carry-over Lottery proceeds is \$9.50 per pupil in adjusted ADM.

In addition, a recent audit of fiscal year 2005 lottery proceeds resulted in an additional \$351,586 in lottery proceeds from fiscal year 2005 that are available for public education in fiscal year 2007. These funds are directed to offset the cost of the hold harmless sales tax payment, discussed in the preceding section, in fiscal year 2007 only.

- **Technical Adjustments to Standards of Quality (SOQ) Accounts**

The Governor's amended budget recognizes savings of \$2.0 million in fiscal year 2007 and \$3.1 million in fiscal year 2008 resulting from technical updates to two SOQ accounts. These updates include actual fiscal year 2007 student counts for the English as a Second Language (ESL) account, and the Remedial Summer School account. Revised projections for fiscal year 2008 for both accounts are based on the actual student counts from fiscal year 2007.

- **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, and Governor's Schools enrollment. Funding is reduced by \$10.2 million in fiscal year 2007 and by \$6.9 million in fiscal year 2008 for these technical updates. Significant budget adjustments contained in this particular amendment are discussed in more detail in the following paragraphs.

- o *School Breakfast Program*

The Governor's amended budget includes full funding for actual participation in the School Breakfast program in fiscal year 2007, and additional funding in fiscal year 2008 for updated projected participation in this program. Chapter 10 assumed participation savings in both years of the biennium for this program; however, when actual reimbursement data from school year 2005-2006 was submitted by participating school divisions, the cost of actual participation exceeded the funding appropriated in Chapter 10. The Governor's amended budget provides \$168,950 in fiscal year 2007 to reflect actual participation in the program, and provides \$472,121 in fiscal year 2008 for projected growth in School Breakfast program participation.

- o *At-risk Four-year-old Program*

The Governor's amended budget includes full funding for actual participation in the At-risk Four-year-old program (a component of the Virginia Preschool Initiative) for fiscal year 2007. The Governor maintains \$2.0 million in unexpended balances in this account in fiscal year 2007 to provide grants to school divisions for one-time costs related to the start-up or expansion of At-Risk Four-Year-Old programs. The Governor's amended budget continues to assume estimated participation savings for the At-risk Four-year-old program in fiscal year 2008. Funding was reduced by \$12.2 million in fiscal year 2008 in Chapter 10 for estimated non-participation in this program, and the Governor's budget continues this assumption. This action is intended to capture anticipated savings from projected non-participation in the At-risk Four-year-old program in fiscal year 2008; it is not intended to reduce actual entitlements in fiscal year 2008.

Please note that the school division entitlement sheets shown in Attachment B and in the Excel calculation file reflect the full formula-based entitlements for the At-risk Four-year-old

program in fiscal year 2008. 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 2008 may have to be prorated on a statewide basis if supplemental funding to recognize actual participation is not provided through amendments to the budget during the 2008 session of the General Assembly.

o *Early Reading Intervention Program*

As required by the current appropriation act, the estimated number of students eligible for the Early Reading Intervention program in fiscal years 2007 and 2008 is recalculated based on updated assessment data from the Phonological Awareness and Literacy Screening (PALS) for the 2005-2006 school year. The funding for the Early Reading Intervention program is reduced by \$1.7 million in both fiscal years as a result of updating PALS data in the funding formula.

o *Special Education Incentive and Categorical Accounts*

Several updates are made to the special education categorical programs. Funding for regional special education program tuition is decreased by \$3.2 million in fiscal year 2007 and by \$3.5 million in fiscal year 2008 for projected cost decreases across regional programs. In addition, funding for the provision of education services for homebound students is reduced by \$1.6 million in fiscal year 2007 based upon actual costs, and reduced by a projected \$1.5 million in fiscal year 2008.

o *Academic Year Governor's Schools*

Funding for the academic year Governor's Schools programs is adjusted to reflect actual enrollment as of September 30, 2006. Based on actual fall 2006 enrollment data received and revised projections of second semester enrollment in fiscal year 2007 and fiscal year 2008 enrollment, a cost savings of \$785,714 in fiscal year 2007 and of \$382,199 in fiscal year 2008 is recognized.

o *SOL Web-based Technology Initiative*

Based on September 30, 2006, 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 \$234,000 in fiscal year 2007 and by \$234,000 in fiscal year 2008 based on a reduction in the number of schools reported in 2006 fall membership.

**Funding for New or Expanded Programs in the Direct Aid Budget**

- **Update Fringe Benefit Rates in Fiscal Year 2008**  
The Governor's amended budget proposes updated fringe benefit rates for group life and the retiree health care credit in fiscal year 2008. For the group life contribution, the employer rate proposed for fiscal year 2008 reflects a rate decrease from Chapter 10 (from 0.45 percent to 0.40 percent). The group life employee rate for fiscal year 2008 changes from 0.68 percent to 0.60 percent. For the retiree health care credit, the rate proposed for fiscal year 2008 reflects a rate increase from Chapter 10 (from 0.49 percent to 0.70 percent). These employer rate changes increase funding by \$4.3 million in fiscal year 2008.
  
- **Include Sixth-Grade Students in the Standards of Learning (SOL) Algebra Readiness Program in Fiscal Year 2008**  
Funding is provided in fiscal year 2008 to include sixth-grade students reported in fall membership in the funding formula for the SOL Algebra Readiness program. Chapter 10 included funding for grades seven and eight only. The SOL Algebra Readiness program is an incentive program which provides additional instruction to identified students who are at-risk of failing the Algebra I end-of-course test. Including sixth-grade students in the program increases funding by \$3.9 million in fiscal year 2008, and provides additional resources to prepare middle school students to take Algebra I.
  
- **Fund 100 Percent of First- and Second-Grade Students Eligible for the Early Reading Intervention Program in Fiscal Year 2008**  
The Governor's amended budget includes \$4.1 million in fiscal year 2008 to expand the Early Reading Intervention program to fund 100 percent of eligible students in grades one and two. Chapter 10 included funding for 50 percent of eligible students in grades one and two. No formula changes are proposed for Kindergarten or third grade. The Early Reading Intervention program is designed to reduce the number of students needing remedial reading services.
  
- **Provide Additional Transportation Funding in Fiscal Year 2008 for Foster Care Students**  
\$150,000 in fiscal year 2008 is provided to reimburse school divisions for transportation costs incurred in the previous fiscal year resulting from the provision of transportation that permitted students placed in foster care or other custodial placement to continue their education at the same school they attended before the placement. The budget also

includes additional language authorizing the use of any unobligated balances for Foster Children Education Payments to reimburse school divisions for any costs associated with such transportation.

- **Update Summer Residential Governor's School and Foreign Language Academy Budgets to Reflect Reimbursement Costs in Fiscal Years 2007 and 2008**

An additional \$25,000 in fiscal years 2007 and 2008 is included in the Governor's amended budget to update the state share of funding for the Summer Residential Governor's Schools and Foreign Language Academies program costs that have increased due to increases in instructional salaries and benefits, pupil transportation, room and board, and other operational costs of these programs.

- **Pilot Projects for Pre-Kindergarten Programs in Fiscal Year 2008**

The Governor's amended budget includes \$4.6 million to fund pilot projects to expand the availability of high-quality pre-kindergarten programs. Selected pilot projects shall meet the following criteria: providers must participate in the Quality Rating System; both public and private providers shall be eligible to participate in pilot projects; pilot projects shall not be limited to at-risk students; and local match requirements for pilot projects may be waived.

- **Provide a Compensation Supplement in Fiscal Year 2008**

\$63.9 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, 2007, 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; this local match requirement requires certification on the department's yearly "Required Local Match" data collection.

If appropriated, the state funds would be paid to school divisions that certify to the Department of Education that equivalent salary increases have been granted locally in fiscal year 2008. 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.

<b>Local Salary Increase Start Date</b>	<b>Required Equivalent Percentage Salary Increase in FY 2008</b>
July 1, 2007	1.75
August 1, 2007	1.91
September 1, 2007	2.10
October 1, 2007	2.33
November 1, 2007	2.63
December 1, 2007	3.00

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

- **Flexibility in Seasonality Requirements of the Literary Fund Interest Rate Subsidy Program**

This language amendment eliminates the seasonality requirements for the interest rate subsidy sale and allows for a fall and spring subsidy sale. The change allows a second interest rate subsidy sale in the spring to utilize any balance in the annual subsidy appropriation remaining after the fall subsidy sale. This change would help optimize the use of the interest rate subsidy appropriation allowing more projects on the Literary Fund First Priority Waiting List to receive loans for school construction.

- **Allow Participation of Literary Fund Second Priority Waiting List Projects in the Literary Fund Interest Rate Subsidy Program**

The Governor's amended budget includes a language amendment that would allow projects on the Literary Fund Second Priority Waiting List to participate in the Literary Fund Interest Rate Subsidy Program if unused subsidy appropriation remains once the participation of projects on the Literary Fund First Priority Waiting List is confirmed.

- **Authorize Virginia Tech as the Fiscal Agent for the Virginia Educational Technology Alliance**

Language is included in the Governor's amended budget that authorizes the Department of Education to pay Virginia Tech as the fiscal agent for the Virginia Educational Technology Alliance.

- **Counting of Students Participating in Academic Year Governor's School Programs**

The Governor's amended budget clarifies that students attending a revolving Academic Year Governor's School program for only one semester of the school year should be counted as 0.50 of a full-time equivalent student and should be funded for 50 percent of the full-year funded per pupil amount. This amendment clarifies the Department of Education's current payment procedure for students attending only one semester in revolving Governor's School programs.

- **Flexibility in Seasonality Requirements for VPSA Educational Technology Notes Program**

This language change for VPSA technology notes would allow for a fall or spring Educational Technology Notes issue. Chapter 10 currently limits the timeframe in which technology notes can be offered, and when notes can be issued. This language change would allow the Department of the Treasury flexibility in the time of year that the equipment notes are issued in order to take advantage of favorable interest rate environments.

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

- **Funding for two additional positions to manage the Pre-Kindergarten Pilot Programs**

The Governor's amended budget includes an additional \$200,000 in fiscal year 2008 for salaries, benefits, and support costs for two positions in the DOE Central Office. These positions would manage the pre-kindergarten pilot program grants described above that are funded in Direct Aid.