

**Summary of the Final Enacted 2006-2008 Biennial Budget Signed by Governor Kaine (Chapter 3, 2006 Acts of Assembly, Special Session I) Affecting the Direct Aid to Public Education and Department of Education Central Office Budgets**

This document provides a summary of the amendments to the final enacted 2006-2008 biennial budget (Chapter 3, 2006 Acts of Assembly, Special Session I) signed by Governor Kaine on June 30, 2006. The amendments adopted by the Senate and the House of Delegates and signed into law by Governor Kaine change the budget introduced by Governor Warner in HB/SB 30 (which was later re-introduced as HB/SB 5002 at the Special Session I). The adopted changes affect fiscal years 2007 and 2008. Fiscal year 2007 begins on July 1, 2006, and ends on June 30, 2007. Fiscal year 2008 begins on July 1, 2007, and ends on June 30, 2008.

The budget amendments initially proposed by Governor Warner in HB/SB 30 (and subsequently by Governor Kaine in HB/SB 5002) and described in Attachment A of Informational Superintendent's Memorandum No. 251 dated December 27, 2005, and the respective budget amendments adopted by the full membership of the Senate and House of Delegates that were communicated in Attachment A of Informational Superintendent's Memorandum No. 049 dated February 28, 2006, are repeated in their original text in this document for reference purposes. The final budget actions approved by the full membership of the General Assembly and signed into law by Governor Kaine (Chapter 3, 2006-2008 Appropriation Act) are noted as "Final Enacted Budget" and are reflected in bold italicized text.

Information related to the Direct Aid to Public Education budget amendments is organized into five sections:

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Information on budget changes to the Department of Education Central Office budget adopted by the General Assembly begins on page 24 of this document.

## **DIRECT AID TO PUBLIC EDUCATION**

### **Technical Updates to Existing Programs**

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

- **Governor** - 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 of Informational Superintendent's Memorandum No. 251. 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 of Informational Superintendent's Memorandum No. 251 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.

- **Executive Amendment** - In January of 2006, the Governor proposed an executive amendment to fund the calculation correction for the K-3 Class Size Reduction program entitlements referenced in the preceding paragraphs. The Governor's amendment provides \$844,932 million in fiscal year 2007 and \$824,493 in fiscal year 2008 to fund the K-3 entitlement corrections.
- **Senate** - Accepts Governor's executive amendment and includes funding for all technical rebenchmarking costs funded in the Governor's introduced budget. In an additional amendment, the Senate proposed a cap on funded inflation rates in the Standards of Quality ("SOQ") funding calculation. The current SOQ inflation methodology provides an adjustment for inflation covering the two-year period from the base-year SOQ data to the first year of the biennium. In the Governor's introduced budget, the value of the various inflation factors over the two-year period is generally between six percent and eight percent. The Senate action would recognize 100 percent of the first five percent of inflation, and 35 percent of each percentage point of inflation above five percent. This action reduces state funding against the introduced budget by approximately \$16.8 million in fiscal years 2007 and 2008, because the value of the inflation factors is reduced compared to those in the introduced budget.
- **House** - Accepts Governor's executive amendment and includes funding for all technical rebenchmarking costs funded in the Governor's introduced budget.
- **Final Enacted Budget - Adopts the Senate amendment.**

**Adjust for Program Non-Participation**

- **Governor** - 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 of Informational Superintendent's Memorandum No. 251 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.

- **Senate** - Adopted the Governor's estimated non-participation savings in the At-Risk Four-year-old program. The Senate's budget also reduces the School Breakfast program funding by \$280,000 in fiscal year 2007 and by \$140,000 in fiscal year 2008 for estimated non-participation.
- **House** - Adopted the Governor's estimated non-participation savings in the At-Risk Four-year-old program. Decreases funding by \$560,000 in fiscal years 2007 and 2008 based on estimated lower participation in the School Breakfast program. The revised lower funding equals the amount of reimbursements paid to school divisions in fiscal year 2006.
- **Final Enacted Budget** - *Adopts the Senate amendment for fiscal year 2007 and reduces the School Breakfast program funding by \$280,000 in fiscal year 2008 for estimated non-participation.*

**Update Fringe Benefit Rates**

- **Governor** - 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.
  
- **Senate** - Proposes increasing the employer contribution rate for VRS retirement benefits from 9.20 percent to 9.58 percent. This new rate is the same in both fiscal years. The proposed rate reflects a change in the amortization period from the maximum allowable 30 years to a period of 26 years. The result of this rate change increases state funding by approximately \$9.9 million in fiscal year 2007 and \$10.2 million in fiscal year 2008.

The Senate's budget adopts the Governor's proposed retiree health care credit rate of 0.56 percent, the proposed group life employer contribution rate of 0.49 percent and the prevailing non-professional VRS rate of 7.48 percent for both years of the biennium.

- **House** - Accepts the Governor's recommended professional (9.20 percent) and prevailing non-professional (7.48 percent) VRS employer contribution rates, as well as the group life employer contribution rate (0.49 percent). Includes an additional \$7.8 million in fiscal year 2007 and \$8.0 million in fiscal year 2008 to increase the retiree health care credit rate from 0.56 percent to 0.86 percent. The proposed rate supports an increase in the monthly retiree health care credit

from \$2.50 per year of creditable service to \$4.00 per year of creditable service.

The department notified school divisions in Informational Superintendent's Memorandum No. 50 dated March 1, 2006, of an additional House amendment to the group life employer contribution rate and the retiree health care credit rate. In the additional amendment, the House proposed reducing the group life employer contribution rate proposed in the Governor's introduced budget from 0.49 percent to 0.45 percent of salary and reducing the retiree health care credit rate by 0.07 percent of salary. These proposed rate changes reduce total state funding by approximately \$2.0 million in fiscal year 2007 and \$2.2 million in fiscal year 2008.

When combined, the House amendments described above, increase the retiree health care credit rate on a net basis from 0.56 percent in the Governor's introduced budget to 0.79 percent in fiscal years 2007 and 2008 (i.e., 0.56 percent [introduced budget] + 0.30 percent [original House amendment] - 0.07 percent [new amendment] = 0.79 percent [final employer share]).

- ***Final Enacted Budget - Adopted the Governor's fiscal year 2007 professional (9.20 percent) and prevailing non-professional (7.48 percent) VRS employer contribution rates. Reduced state funding by \$2.9 million in fiscal year 2007 by reducing the employer's share of VRS Group Life rate from 0.49 percent to 0.45 percent and reducing the Retiree Health Care Credit rate from 0.56 percent to 0.49 percent.***

***Provides approximately \$28.0 million in fiscal year 2008 to fund an adopted professional VRS employer contribution rate of 10.30 percent. Reduced state funding by \$2.9 million in fiscal year 2008 by reducing the employer's share of VRS Group Life rate from 0.49 percent to 0.45 percent and reducing the Retiree Health Care Credit rate from 0.56 percent to 0.49 percent.***

***The fringe benefit rates adopted in the final 2006-2008 budget are:***

<b>Funded Fringe Benefit Rates:</b>	<b>FY 2007</b>	<b>FY 2008</b>
Instructional VRS ( <u>Employer</u> Share)	9.20%	10.30%
Instructional VRS ( <u>Employee</u> Share)	5.00%	5.00%

Funded Fringe Benefit Rates:	FY 2007	FY 2008
<b>Total Instructional VRS Rate</b>	<b>14.20%</b>	<b>15.30%</b>
Group Life ( <u>Employer</u> Share)	0.45%	0.45%
Group Life ( <u>Employee</u> Share)	0.68%	0.68%
<b>Total Group Life Rate</b>	<b>1.13%</b>	<b>1.13%</b>
Retiree Health Care Credit (Paid as part of the VRS per pupil amount)	0.49%	0.49%
Prevailing non-professional VRS employer rate for funding	7.48%	7.48%

**Update Sales Tax Projections**

- Governor** - 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 of Informational Superintendent's Memorandum No. 251 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.

- **Senate** - Same as Governor's introduced budget.
- **House** - Same as Governor's introduced budget.
- ***Final Enacted Budget - Same as Governor's introduced budget.***

**Update Triennial Census for 2005 Data**

- **Governor** - 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 of Informational Superintendent's Memorandum No. 251 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.

- **Executive Amendment** - In January of 2006, the Governor proposed an executive amendment to the introduced budget to correct a school division's 2005 triennial census count as referenced in the preceding paragraphs. The Governor's amendment reduces funding by \$888,801 in fiscal year 2007 and by \$946,374 in fiscal year 2008 as a result of the school division's corrected triennial census. 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.
- **Senate** - Accepts Governor's executive amendment.
- **House** - Accepts Governor's executive amendment.
- **Final Enacted Budget** - *Accepts Governor's executive amendment.*

#### **Update Lottery Proceeds**

- **Governor** - 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.

- **Senate** - Adopts the Lottery estimates in the Governor's introduced budget and replaces the portion of the state cost of the SOQ Prevention, Intervention, and Remediation program funded from Lottery revenues, approximately \$19.5 million in fiscal years 2007 and 2008, with a General Fund appropriation of the same amount each fiscal year. Instead, the Senate's budget directs that \$27.5 million of the total projected Lottery amount be used to fund the School Construction Grants program in fiscal years 2007 and 2008, which replaces the General Fund appropriation of the same amount.

Of the total projected Lottery amount, \$27.5 million in fiscal years 2007 and 2008 is dedicated to fund the state cost of the School Construction Grants program, and \$244.7 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 \$228.26 per pupil in adjusted ADM in fiscal year 2007 and \$226.44 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 \$153.8 million in fiscal years 2007 and 2008; this is a decrease of approximately \$3.1 million per fiscal year compared to the estimated per pupil Lottery funding for fiscal year 2007 and 2008 contained in the Governor's introduced budget. 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.

- **House** - Same as Governor's introduced budget.
- ***Final Enacted Budget - Same as Governor's introduced budget. See page 31 for a summary of an additional amendment involving Lottery funds that was adopted at the reconvened session.***

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

- **Governor** - The projected entitlements listed in Attachment B of Informational Superintendent's Memorandum No. 251 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.

- **Senate** - Same as Governor's introduced budget.
- **House** - Same as Governor's introduced budget.
- ***Final Enacted Budget*** - ***Same as Governor's introduced budget.***

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

- **Governor** - 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.
- **Senate** - Same as Governor's introduced budget.
- **House** - Same as Governor's introduced budget.
- ***Final Enacted Budget*** - ***Same as Governor's introduced budget.***

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

- **Governor** - 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.
- **Senate** - Same as Governor's introduced budget.
- **House** - Same as Governor's introduced budget.
- ***Final Enacted Budget*** - ***Same as Governor's introduced budget.***

**Direct Aid Policy Changes****Compensation Supplement in Fiscal Years 2007 and 2008**

- **Governor** - Provides \$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.

<b>Local Salary Increase Start Date</b>	<b>Required Equivalent Percentage Salary Increase in FY 2007</b>
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

- **Executive Amendment** - In January of 2006, Governor Kaine proposed an executive amendment to provide an additional one percent salary increase effective December 1, 2006, in fiscal year 2007 and continuing for the full year in fiscal year 2008 for instructional positions that are funded through the

Standards of Quality (SOQ) and other Direct Aid accounts. Instructional positions include teachers, guidance counselors, librarians, principals, assistant principals, and teacher aides. The instructional salary increase is provided in addition to the three percent salary increase (also effective December 1, 2006) funded in Governor Warner's introduced budget for all SOQ funded positions. Governor Kaine's amendment raises the total salary increase to four percent for instructional positions and three percent for other professional and support positions. The effective date of both increases is December 1, 2006. The Governor's amendment provides additional state funding of \$14.4 million in fiscal year 2007 and \$25.1 million in fiscal year 2008 to fund the additional one percent salary increase for instructional positions.

The tables below provide the equivalent salary increases for different start dates in fiscal year 2007 to qualify for state compensation supplement funding based on the different percentage increases proposed for instructional positions and other professional and support positions in the Governor's executive amendment. Please note that the equivalent salary increases are based on a twelve-month year.

<b>Instructional Positions: 4.0% Effective December 1, 2006</b>		<b>Professional and Support Positions: 3.0% Effective December 1, 2006</b>	
<b>Local Salary Increase Start Date</b>	<b>Required Equivalent Percentage Salary Increase in FY 2007</b>	<b>Local Salary Increase Start Date</b>	<b>Required Equivalent Percentage Salary Increase in FY 2007</b>
July 1, 2006	2.33	July 1, 2006	1.75
August 1, 2006	2.55	August 1, 2006	1.91
September 1, 2006	2.80	September 1, 2006	2.10
October 1, 2006	3.11	October 1, 2006	2.33
November 1, 2006	3.50	November 1, 2006	2.63
December 1, 2006	4.00	December 1, 2006	3.00

- **Senate** - Accepts Governor Kaine's Executive Amendment.
- **House** - Accepts the three percent salary increase contained in the introduced budget, but moves the effective date of the increase to January 1, 2007. This action results in a savings of \$8.7 million in fiscal year 2007. Fiscal year 2008 funding for the continuation of the three percent increase in the second year is maintained at the same level as recommended in the Governor Warner's introduced budget.

The table below provides the equivalent salary increases for different start dates in fiscal year 2007 to qualify for the state share of Compensation Supplement funded in the House budget. 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 2007</b>
July 1, 2006	1.50
August 1, 2006	1.64
September 1, 2006	1.80
October 1, 2006	2.00
November 1, 2006	2.25
December 1, 2006	2.57
January 1, 2007	3.00

- ***Final Enacted Budget - Adopts the Senate amendment. (See Executive Amendment above for equivalent salary increase tables.) The final budget also includes \$22.0 million in a reserve account in fiscal year 2008 to support an additional 1.5 percent pay increase for SOQ instructional positions effective December 1, 2007. Please note that this funding is not included in the school division distributions for fiscal year 2008 shown in Attachment B or in the Excel calculation file provided.***

**Cost of Competing Adjustments For Additional Localities**

- **Governor** - 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.

- **Senate** - The Senate budget includes the additional cost of competing funding included in the Governor Warner's introduced budget. In an additional amendment, the Senate's budget provides approximately \$1.1 million in fiscal year 2008 to extend the cost of competing adjustment to Fredericksburg and Spotsylvania based on 10.0 percent of the full cost of competing differential (9.83 percent for instructional positions; 24.61 percent for support positions) for SOQ positions in the second year of the biennium.
- **House** - Same as Governor's introduced budget.
- ***Final Enacted Budget - Adopts the Governor's introduced amendment to phase-in the cost of competing adjustment for Fauquier and Stafford Counties and extends the phase-in of the cost of competing adjustment to Spotsylvania, Clarke, and Warren Counties and the City of Fredericksburg, based on 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. For fiscal year 2007, the increased state share of cost is \$1.3 million. For fiscal year 2008, the increased state share of cost is \$3.4 million.***

#### Update the K-3 Primary Class Size Reduction Program

- ***Final Enacted Budget - Reduced state funding by \$170,971 in fiscal year 2007 and provided \$579,020 additional state funding in fiscal year 2008 to update the K-3 Primary Class Size Reduction Program to reflect the changes in the professional VRS, Group Life, and Retiree Health Care Credit rates adopted in the final enacted budget.***

#### Supplemental Education Accounts

- **Governor** - 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 of Informational Superintendent's Memorandum No. 251 or the Excel template. Supplemental education programs are not available to school divisions statewide, and must serve a unique purpose for specific school divisions.

- **Senate** - Eliminates the additional \$100,000 for Project Discovery in fiscal years 2007 and 2008 and transfers the additional \$500,000 in fiscal year 2007 for a one-time matching grant for the Communities in Schools program from the Direct Aid to Public Education budget to the Grants to Non-state Agencies budget. The Senate budget accepts the reduction of \$400,000 for the Career and Technical Education Resource Center and the reduction of \$250,000 for the Wolf Trap Institute for Early Learning Through the Arts for fiscal years 2007 and 2008 as proposed in the Governor's introduced budget.
- **House** - The House amendments accept the one-time matching grant for the Communities in Schools program, and the reduction in both fiscal years for the Wolf Trap Institute for Early Learning Through the Arts that were proposed in the introduced budget. The House amendments eliminate the increased funding proposed for Project Discovery in both fiscal years, and further decrease Project Discovery funding by an additional \$400,000 in each year. The House budget restores \$400,000 in both fiscal years for the Career and Technical Education Resource Center.
- ***Final Enacted Budget - Eliminates the additional \$100,000 for Project Discovery in fiscal years 2007 and 2008. Restores \$400,000 in both fiscal years for the Career and Technical Education Resource Center.***

#### **Education for a Lifetime programs**

- **Governor** - 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.

- **Senate** - Reduces the Mentor Teachers in Hard-to-Staff Schools program and the Virginia Teacher Corps program funding by a combined total of \$900,000 in fiscal year 2007 and by \$450,000 in fiscal year 2008 for estimated non-participation. Another Senate amendment eliminates \$1.6 million in fiscal year 2007 and \$2.1 million in fiscal year 2008 from the Virtual Advanced Placement School that funded Advanced Placement test fees for students in the Early College Scholars program. Funding for the payment of Advanced Placement fees for economically disadvantaged students contained in the introduced budget is accepted.
- **House** - Eliminates the funding proposed for test fees for students in the Virtual Advanced Placement School (\$1.9 million reduction in fiscal year 2007, and \$2.4 million reduction in fiscal year 2008); eliminates funding for the Incentives for Hard-to-Staff Schools (\$3.7 million reduction in fiscal year 2007, and \$2.4 million reduction in fiscal year 2008). Also, recognizes an anticipated cost savings in the Path to Industry Certification program based on fewer expected reimbursements (reduction of \$100,000 in each fiscal year). In total, a reduction of \$5.7 million in fiscal year 2007, and \$4.9 million in fiscal year 2008.
- **Final Enacted Budget** - *Reduces the Mentor Teachers in Hard-to-Staff Schools program and the Virginia Teacher Corps program funding by a combined total of \$900,000 in fiscal year 2007 and by \$450,000 in fiscal year 2008 for estimated non-participation. Eliminates \$1.9 million in fiscal year 2007 and \$2.4 million in fiscal year 2008 that was intended to pay for Advanced Placement test fees in the Virtual Advanced Placement School. Reduces funding for the Incentives for Hard-to-Staff Schools by \$2.1 million in fiscal year 2007, and by \$1.8 million in fiscal year 2008 that would have funded Greenville and Brunswick Counties, and reduces the funding allocation for Petersburg by 50 percent for projected non-participation. Reduces funding in the Path to Industry Certification program by \$100,000 each year based on fewer expected reimbursements. In total, the combined impact of these actions results in a reduction of \$3.1 million in fiscal year 2007, and \$4.7 million in fiscal year 2008 from the introduced budget.*

**Other Funding Amendments for Direct Aid Programs Not in HB/SB 5002 as Introduced**

**Use of Literary Fund Monies**

- **Senate** - Adds \$15.0 million in fiscal years 2007 and 2008 to replace Literary Fund revenues that were budgeted for VRS retirement and Social Security payments in the Governor's introduced budget. This action only affects the source of funding for these payments and will not affect division entitlements in either year of the biennium. With this action, \$15.0 million Literary Fund revenue is freed up each fiscal year to be used for direct Literary Fund loans for projects on the First Priority Waiting List.
- **House** - No action taken.
- ***Final Enacted Budget*** - ***Adds \$10.0 million in general funds in fiscal year 2007 and also in fiscal year 2008 to replace Literary Fund revenues that were budgeted for VRS retirement and Social Security payments in the Governor's introduced budget. This action only affects the source of funding for these payments and will not affect division entitlements in either year of the biennium. With this action, \$10.0 million in Literary Fund revenue is freed up each fiscal year to be used for direct Literary Fund loans for projects on the First Priority Waiting List.***

**Increase Funding for the At-Risk Four-Year-Old Program**

- **Senate** - Provides an additional \$3.3 million in fiscal year 2007 and \$6.6 million in fiscal year 2008 to increase the At-Risk Four-year-old funded per pupil amount from \$5,400 to \$5,700 in fiscal year 2007 and from \$5,400 to \$6,000 in fiscal year 2008. An additional language amendment authorizes the Department of Education to provide one-time, start-up expenses other than capital, or expansion grants out of any unobligated balances in the program based on non-participation.
- **House** - No action taken.
- ***Final Enacted Budget*** - ***Provides an additional \$3.3 million in fiscal year 2007 and also in fiscal year 2008 to increase the At-Risk Four-year-old funded per pupil amount from the state share of \$5,400 to the state share of \$5,700 each year. An additional language amendment authorizes the Department of Education to provide one-time, start-up expenses other than***

*capital, or expansion grants out of any unobligated balances in the program based on non-participation.*

**Begin Phase-Out of the Linear Weighted Average Cap in the Federal Revenue Deduction; Correct Federal Revenue Deduction Calculation**

- **Senate** - No action taken.
- **House** - Proposes the phase-out of the cap in the per pupil federal revenue deduction to Basic Aid, along with a correction in the per pupil amount calculation. These two actions reduce Basic Aid funding by \$1.1 million in fiscal year 2007 and by \$3.0 million in fiscal year 2008. The estimated portion of federal revenues that are included in rebenchmarking support costs are deducted from Basic Aid based on the lower amount of the division per pupil amount or the statewide linear weighted average per pupil amount. This approach currently caps the deduction at the statewide linear weighted average. This amendment would begin to phase-out this cap. In fiscal year 2007, the cap is increased to ten percent above the linear weighted average. In fiscal year 2008, the cap is increased to 20 percent above the linear weighted average. This action deducts a greater per pupil amount from Basic Aid in school divisions where the per pupil values are greater than the statewide linear weighted average amount.
- **Final Enacted Budget** - *Provides an additional \$859,280 in fiscal year 2007 and \$864,278 in fiscal year 2008 to correct the federal revenue deduction calculation as proposed by the House amendment. No action was taken to begin phasing-out the cap on the federal revenue deduction as proposed by the House amendment.*

**Funding for Career and Technical Education Equipment**

- **Senate** - No action taken.
- **House** - Provides \$300,000 each year for increased payments to school divisions to purchase equipment and tools for career and technical education classes.
- **Final Enacted Budget** - *Adopts the House amendment.*

**Funding for the Planning of a New Regional Career and Technical Education Center Located in the Middle Peninsula Area**

- **Senate** - No action taken.
  
- **House** - Provides \$200,000 in fiscal year 2008 for the planning of a new regional career and technical education center located in the Middle Peninsula area. Funding is contingent on a completed comprehensive plan submitted to the Department of Education by July 1, 2007. The plan must include written commitments from participating school divisions, businesses, and other community partners that will be involved in the regional center's development and operation, as well as an annual operating budget, potential course offerings, and short- and long-range goals.
  
- ***Final Enacted Budget - Adopts the House amendment.***

**Proposed Budget Language Changes in the Direct Aid Budget Affecting School Divisions not in HB/SB 5002 as Introduced**

**Technical Workgroup to Study Public Education Funding**

- **Senate** - Adds language requiring the Department of Education to convene a technical work group to include appropriate staff from the Department of Planning and Budget, the Senate Finance and House Appropriations Committees, and the Joint Legislative Audit and Review Commission, as well as representatives of appropriate stakeholder groups to: 1) study re-benchmarking cost trends and drivers; 2) review Standards of Quality (SOQ), incentive, and categorical funding streams within Direct Aid to Public Education, as well as the Literary Fund, and identify options for efficiencies and cost savings and for greater funding flexibility, especially to better prepare the state and localities for future economic downturns; 3) consider alternatives to across-the-board compensation supplements to better target state funds; 4) review funding streams for programs for students at-risk of academic failure, and assess whether such programs should be incorporated into the SOQ; and 5) examine special education funding issues. The technical work group would provide to the Governor and the Chairmen of House Appropriations and Senate Finance a detailed project workplan no later than July 15, 2006, and a summary of their work by October 15, 2006.
  
- **House** - No action taken.
  
- ***Final Enacted Budget - Adopts the Senate amendment; however, amends the deadlines for the detailed project workplan to no***

*later than August 1, 2006, and a summary of the work of the technical workgroup due by September 15, 2007. The technical work group was amended to include only appropriate staff from the Department of Planning and Budget, the Senate Finance and House Appropriations Committees, and the Joint Legislative Audit and Review Commission.*

**Calculation of SOQ Special Education Costs in the 2008-2010 Biennium**

- **Senate** - Adds language stating that the Department of Education must include visually impaired students as a new SOQ special education standard in recalculating the cost of the Standards of Quality for the 2008-2010 biennial rebenchmarking. Currently, state support for visually impaired caseloads is provided through the Department of Blind and Vision Impaired. This funding would be transferred to the Direct Aid budget to offset the state cost of implementing a visually impaired caseload standard in the SOQ.
- **House** - No action taken. (Please note the House proposes a language amendment to the Central Office budget that would require the Board of Education to consider developing a caseload requirement for blind and visually impaired students in its biennial review of the SOQ.)
- **Final Enacted Budget - Adopts the House amendment contained in the Central Office budget.**

**Tuition Grants for Disabled Students**

- **Senate** - No action taken.
- **House** - Establishes a Tuition Assistance Grant Program for Disabled Students to provide grants for students with disabilities to attend a private school of choice. Students with disabilities include K-12 students who are autistic, mentally retarded, physically disabled, seriously emotionally disturbed, speech impaired, hearing impaired, visually impaired, multiple-disabled, other health impaired, who have a specific learning disability, or who are otherwise disabled, as defined by the Board of Education and for whom an individual education program has been written. The grant program would provide funding to a qualified private school that the disabled student would attend instead of attending the public school. The grant amount would be equal to the

average state share of per pupil funding as determined by provisions of the appropriation act.

- ***Final Enacted Budget - No action taken.***

**Required Local Match for Incentive and School Facilities Programs**

- **Senate** - No action taken.
- **House** - Directs the Department of Education to verify the appropriation of a locality's share of local matching funds required for any Incentive or School Facilities program in which a school division elects to participate. The Department of Education must also verify that the required local matching funds are actually spent. Similar to Required Local Effort for Standards of Quality accounts, this language amendment instructs the department to make calculations based on submitted school division data to ensure that school divisions have appropriated adequate local funds, above the required local effort for the Standards of Quality, to support the required local match based on the Incentive and School Facilities programs in which the division has elected to participate. If the department's calculations indicate that insufficient funds have been appropriated to meet the required local matching funds for one or more programs, state payments for such programs will not be made until the division can certify that sufficient local funding has been appropriated to meet the required local match. Beginning in fiscal year 2008, any amount a locality has not expended by the end of a fiscal year in support of the required local match must be paid by the locality into the general fund of the state treasury.
- ***Final Enacted Budget - Adopts the House amendment.***

**Triennial Census Data Used in the Distribution of Sales Tax Revenues to School Divisions**

- **Senate** - No action taken.
- **House** - Specifies the year of triennial census data that will be used in the distribution of sales tax revenues to school divisions. For 2006-2008, the change in language specifies that the "2005 triennial census of school age population in each year of the biennium" shall be used in the sales tax distribution. Language on the current sales tax distribution methodology states that the distribution is based on the "most

recent" or "latest" triennial census data. This language change has no effect on the triennial census data used for the distribution of sales tax in 2006-2008, which would be the 2005 triennial census data under either this language or the budget as introduced. This change mirrors changes in the Caboose budget (HB/SB 29) that changes the effective date for use of the 2005 triennial census to July 1, 2006.

- ***Final Enacted Budget - Adopts the House amendment. This is a language change only. It does not impact funding in the 2006-208 biennium.***

#### **Leadership Development Grant Awards**

- **Senate** - No action taken.
- **House** - Language permits the leadership grant awards to be continued to half of the current participating school divisions. The continuation grant awards will be \$100,000 for each participating school division.
- ***Final Enacted Budget - Adopted language allowing the competitive leadership development grant awards to potentially include existing programs to provide them an opportunity to build on their leadership program offerings.***

#### **Unused Regional Alternative Education Program Slots**

- **Senate** - No action taken.
- **House** - Proposes language to allow school divisions to request the department to allow them to use any unused student slots for a regional alternative education program. The requesting school division would receive state funds for the unused slot based on their composite index not to exceed the funds originally budgeted. As with any assigned slot, school divisions must pay the local share of tuition.
- ***Final Enacted Budget - Adopts the House amendment and added language directing the Department of Education to report by June 30 each year, to the Chairmen of the House Appropriations and Senate Finance Committees, the number of available student slots, students placed, the request of unused slots, and the number of unused slots subsequently used by each school division for each Regional Alternative Education program.***

**Calculation of School Nurse Funding**

- **Senate** - No action taken.
  
- **House** - Directs the department to annually report to school divisions the calculated nursing costs in the support component of the Standards of Quality Basic Aid account. The language amendment also directs school divisions to spend the school nurse funding on nursing positions, or on services from an outside source. Further, the language amendment removes the language that allows school divisions to purchase defibrillators with funds calculated for nursing services.
  
- ***Final Enacted Budget - Adopts the House amendment.***

**DEPARTMENT OF EDUCATION CENTRAL OFFICE BUDGET CHANGES**

**Funding for National Board Certification Bonuses**

- **Governor** - 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.
- **Senate** - Provides an additional \$34,125 in fiscal year 2007 and \$613,277 in fiscal year 2008 to fund National Board Certification bonuses based on the latest projection of teachers eligible to receive bonuses in each fiscal year.
- **House** - Same as Governor's introduced budget.
- ***Final Enacted Budget - Provides an additional \$34,125 in fiscal year 2007 to fully fund the National Board Certification awards for all teachers projected to be eligible in fiscal year 2007. No funding changes were made to the introduced budget for fiscal year 2008.***

**Funding for Education for a Lifetime Programs and EIMS**

- **Governor** - 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.
- **Senate** - Removes \$763,839 in funding each year that was provided in the introduced budget for various components of the Education for a Lifetime initiative. Specifically, funding was removed that would continue the on-line Student Career Planning System (Kuder®), replace federal funds no longer available to support staff in the GED program, and replace expiring non-general funds for the turnaround specialists program. The Department of Education is authorized to use available balances for these purposes.

- **House** - Same as Senate actions related to funding changes. Provides specific authority to use available balances only for the Kuder® system.
- ***Final Enacted Budget - Adopts the House and Senate actions related to funding changes and the House amendment that provides specific authority to use available balances for the Kuder® system.***

**Funding for the Commission on Civics Education**

- **Governor** - Removes funding of \$81,000 each year for the Commission on Civics Education established pursuant to House Bill 1769 (2005 Session).
- **Senate** - Authorizes the Department of Education to use up to \$81,000 of available balances each year for expenses associated with the Commission on Civics Education.
- **House** - Restores funding for the Commission on Civics Education. Provides \$100,000 in fiscal years 2007 and 2008 for expenses associated with the commission.
- ***Final Enacted Budget - Adopts the Senate amendment.***

**Reduction in Standards of Learning Testing Services Contract Amount**

- **Executive Amendment** - Reduces funding for the Standards of Learning testing contract due to a lower than anticipated projected contract cost. Funding is reduced by \$2.0 million in fiscal year 2007 and by \$3.0 million in fiscal year 2008.
- **Senate** - Same as Governor Kaine's Executive Amendment.
- **House** - Same as Governor Kaine's Executive Amendment; however, the House amendment reduces funding by \$1.9 million in fiscal year 2007 and by \$3.2 million in fiscal year 2008.
- ***Final Enacted Budget - Adopts the House amendment.***

**Registration and Travel Expenses for Virginia Commissioners to the Education Commission of the States**

- **Senate** - No action taken.
- **House** - Provides a \$5,000 increase in fiscal years 2007 and 2008 for registration and travel expenses for the legislators and citizens appointed as Virginia's commissioners to the Education Commission of the States.
- *Final Enacted Budget - Provides \$5,000 in fiscal years 2007 and 2008 designated to pay meeting registration and travel expenses of citizens appointed as Virginia commissioners for the Education Commission of the States and the Southern Regional Education Board.*

**Inclusion of Blind and Visually Impaired Students in the Board of Education Review of the Standards of Quality**

- **Senate** - No action taken in Central Office budget. (Adds language in the Direct Aid budget stating that the Department of Education must include visually impaired students as a new SOQ special education standard in recalculating the cost of the Standards of Quality for the 2008-2010 biennial rebenchmarking.)
- **House** - Adds language that directs the Board of Education to consider the inclusion of instructional positions needed for blind and visually impaired students, and to consider the development of a caseload requirement for these instructional positions in the Board's biennial review of the Standards of Quality.
- *Final Enacted Budget - Adopts the House amendment.*

**Consolidation of the Schools for the Deaf, Blind, and Multi-Disabled (VSDBs)**

- **Senate** - No action taken.
- **House** - Adds language to direct the Board of Education to select a final site and final construction plans by July 31, 2006, in order to complete the plan to consolidate the schools for the deaf, blind, and multi-disabled. Directs the Board to select site and plans that fit within the allocated \$61.5 million for the consolidation.
- *Final Enacted Budget - No action taken in the Central Office budget; however, an amendment was adopted in the capital*

*section of the budget related to the VSDB consolidation (see the "other Senate/House Amendments" section below).*

**Board of Education authorized to Require a School Efficiency Review as Part of a Division Level Academic Review**

- **Senate** - Authorizes the Board of Education, in cooperation with the Department of Planning and Budget, to require a school division to participate in a school efficiency review as a component of a division level academic review. A school division would not be charged for any cost of the efficiency review when required to undergo a review.
  
- **House** - No action taken.
  
- **Final Enacted Budget** - *Authorizes the Board of Education, in cooperation with the Department of Planning and Budget, to invite a school division to participate in a school efficiency review as a component of a division level academic review. Commencing in fiscal year 2006, when a school division elects to undergo a school efficiency review, the school division will not be charged the 25 percent for the costs of the review. Such participating school divisions will be required to pay a separate 25 percent of the total costs of such review if the school division's superintendent or superintendent's designee has not certified that at least half of the recommendations have been initiated within 24 months after the completion of the review.*

*Please note an accompanying language amendment that was adopted in the budget of the Department of Planning and Budget which revises the definition of cost applied to the 25 percent reimbursement requirement. The revised definition of cost includes the direct cost incurred by the state for that fiscal year to coordinate the school efficiency review in addition to 25 percent of the contracted consultant cost. The definition excludes indirect agency costs such as purchasing, utilities, etc., not directly related to conducting a school efficiency review.*

**Other Senate/House Amendments for 2006-2008 Not in HB/SB 5002 as Introduced**

Consolidation of the Virginia School for the Deaf and the Blind at Staunton and the Virginia School for the Deaf, Blind, and Multi-Disabled at Hampton.

- *Final Enacted Budget - Directs the State Board of Education, assisted by the Department of General Services, to use a Public-Private Education Act (PPEA) proposal to plan and design the consolidation of the two VSDB schools into a single campus and transfer the students, program, and services to a single campus at Staunton. Provides \$2,500,000 in fiscal year 2007 for planning for the necessary renovations, additions, and new facility construction at the Staunton campus. The Department of General Services will develop a plan for disposing of buildings and property no longer necessary for special education. The Department of General Services will work with the City of Staunton and the Department of Historic Resources when considering proposals that may transfer ownership to or establish long-term leases with private entities. The properties shall be conveyed with appropriate historic easements at fair market value with the proceeds reverting to the general fund to offset the cost of construction of the new facility. The Department of Education will assist with the coordination with appropriate local entities for the transition of services to a regional day program in the Hampton Roads area by no later than June 30, 2008. The Department of General Services, in conjunction with the Board of Education may, with the Governor's approval, convey the current Hampton campus to an existing nonprofit or public entity in Hampton Roads to facilitate these services. In addition, the Department of Education will provide appropriate technical assistance to regional special education programs and school divisions statewide. The Department of General Services will develop a plan for disposing of buildings and property no longer necessary for special education purposes in the City of Hampton. The Department of General Services will work with the City of Hampton and the Department of Historic Resources when considering proposals that may transfer ownership to or establish long-term leases with private entities. The properties shall be conveyed with appropriate historic easements at fair market value.*

Increase Neighborhood Assistance Program Tax Credits and Creates the Schools for Students with Disabilities Fund.

- *Final Enacted Budget - Effective fiscal year 2008, increases annual tax credits allowed under the Neighborhood Assistance Act by \$4.0 million, with \$3.0 million of the additional tax credits to be allocated to individuals, etc. that make contributions to the newly created Schools for Students With*

*Disabilities Fund. Contributions to this fund will be used to provide grants to private schools for students with disabilities. The Department of Education will administer the Schools for Students with Disabilities Fund from which the grants will be made to private schools for students with disabilities for the purpose of reducing the tuition costs to attend such schools. The budget language adopted for the program is as follows:*

*"A. Notwithstanding any other provisions of law and effective July 1, 2007, (1) the annual fiscal year cap for tax credits allowed under the Neighborhood Assistance Act shall be increased from \$8 million to \$12 million, (2) \$1 million of the increase shall be allocated for education programs and \$3 million for providing grants to private schools for students with disabilities, (3) the tax credit percentage for donations made by corporations and individuals is reduced from 45 percent to 40 percent, and (4) the restriction placed upon individuals from claiming a tax credit for the donation if a charitable contribution deduction credit is also taken is removed.*

*The Department of Education shall administer the Schools for Students with Disabilities Fund from which grants will be made to private schools for students with disabilities for the purpose of reducing the tuition costs to attend such Schools. The Fund would be funded from monetary donations for which the Department would allocate the annual \$3 million in tax credits. The Board of Education shall establish guidelines for the grants program, including guidelines for procedures to allocate the \$3 million in tax credits in fiscal years in which more than \$3 million in monetary donations were made to the Fund.*

*In addition, the \$50,000 taxable year limitation on individual tax credits under the Neighborhood Assistance Act pursuant to § 63.2-2006 of the Code of Virginia shall not apply in any taxable year beginning in the relevant fiscal year of the Commonwealth if, after an equitable allocation of tax credits under the Act of such relevant fiscal year, the total amount of tax credits granted for all programs approved under the Act (including tax credits for monetary donations to the Schools for Students with Disabilities fund) for such fiscal year was less than \$12 million.*

*B. Notwithstanding the provisions of paragraph A, any business firm that has pledged in writing on or before January 1, 2006, to a neighborhood organization to make a donation to such organization shall be eligible to receive a tax credit equal to 45% of the value of any qualifying donation that is covered under such writing, provided that the donation is made on or before January 1, 2013 and does not exceed the annual caps established in paragraph A. Nothing in this paragraph shall be interpreted or construed as affecting any other provision of the Neighborhood Assistance Act (§ 63.2-2000 et seq. of the Code of Virginia). For purposes of this paragraph, the terms "business firm" and "neighborhood organization" shall mean the same as those terms are defined in § 63.2-2000 of the Code of Virginia.*

*C. For purposes of this section, the term "individual" means the same as that term is defined in § 58.1-302, but excluding any individual included in the definition of a "business firm" as such term is defined in § 63.2-2000."*

Governor Kaine's Amendments Approved at the Reconvened Session for 2006-2008 Budget

Additional Lottery Proceeds from fiscal year 2006 appropriated in fiscal year 2007.

- **Governor** - The Governor's amendment includes an additional \$16.5 million in Lottery revenues in fiscal year 2007 based on fiscal year 2006 balances resulting from higher than forecasted Lottery proceeds. The total local share of the Additional Lottery proceeds that will be distributed directly to school divisions on a per pupil basis in fiscal year 2007 is \$6.4 million. The payment for the local Additional Lottery distribution in fiscal year 2007 is based on the state's share of \$9.45 per pupil in adjusted ADM. No changes are proposed for how Lottery funds, including these additional lottery proceeds, must be spent. This includes the requirement that at least 50 percent of the funds must be spent for nonrecurring costs such as school construction. Payment of the local share of the additional Lottery funds will be distributed to school divisions in fiscal year 2007 in a separate account called "Additional Lottery."
- **Final Enacted Budget - Adopts the Governor's amendment.**