

**Summary of Governor Kaine's Proposed Amendments
to the 2006-2008 Biennial Budget ("Caboose Bill")**

Note: This document summarizes the major budget changes proposed by Governor Kaine to the current 2006-2008 biennial budget (i.e., Chapter 847, 2007 Acts of Assembly) that affect fiscal year 2008. The current biennial budget (Chapter 847) is the budget against which the Governor's proposed changes are made. The Governor's introduced budget bill to the 2008 General Assembly containing his amendments is HB 29/SB 29.

AMENDMENTS TO THE DIRECT AID TO PUBLIC EDUCATION BUDGET

Technical Adjustments to Existing Direct Aid Programs

- **Update Average Daily Membership (ADM) and Fall Membership** - Projections of unadjusted and adjusted average daily membership (ADM) for fiscal year 2008 are revised for each division based on the latest actual ADM and fall membership data available. On a statewide basis, these revised projections result in a decrease in unadjusted ADM of 7,005 students from the projections on which fiscal year 2008 entitlements are currently based in Chapter 847 (as communicated in Regulatory Superintendent's Memorandum Number 1, dated March 2, 2007). Projected ADM for fiscal year 2008 was originally projected by the Department of Education based on actual data through September 30, 2006, fall membership. The most recent projections contained in the Governor's amended budget have been revised based on actual March 31, 2007, ADM and September 30, 2007, fall membership. While enrollment is still growing statewide, it is not growing as much as originally projected last year. The ADM-based entitlements for fiscal year 2008 have been 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 2008. The ADM and fall membership updates result in an estimated decrease on a statewide basis in Direct Aid payments of \$31.6 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 year 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 in the Excel calculation file reflects 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 \$1,161,300,000 for fiscal year 2008. This revised sales tax estimate is approximately \$40.9 million lower in fiscal year 2008 than the projections contained in Chapter 847. As required by the Basic Aid funding formula, state Basic Aid payments have been increased to offset a portion of the decreased sales tax revenues that are projected. The amount of the Basic Aid offset is determined by each division's composite index of local ability-to-pay. The state share of Basic Aid increases approximately \$23.0 million in fiscal year 2008 due to the revised sales tax estimates. In addition, the local share of Basic Aid increases due to the decreased sales tax estimates. The net change in funding to school divisions (due to both the estimated sales tax revenue decrease and the Basic Aid off-set) is a reduction of \$17.9 million in fiscal year 2008.

- **Update Lottery Profits Forecast** - The Governor's amended budget provides an additional \$76.4 million in fiscal year 2008 (from \$405.4 million to \$481.8 million) in Lottery proceeds over the projections contained in the Chapter 847 budget. The revised Lottery estimate for fiscal year 2008 includes an additional \$44.6 million from an update to the Lottery revenue forecast for fiscal year 2008 and \$31.8 million from actual Lottery profits that were earned in fiscal year 2007 above estimates and that were not appropriated for expenditure in fiscal year 2007. Please note that all of these additional Lottery funds will be used to offset the state share of cost for Basic Aid in fiscal year 2008. There will be no local distribution from these additional Lottery funds in fiscal year 2008. Accounting for changes in the March 31, 2008, ADM forecast, the per pupil amount proposed in the Governor's amended budget for the local distribution of fiscal year 2008 Lottery proceeds is \$222.71.
- **Technical Adjustments to Incentive and Categorical Accounts** - Various technical adjustments have been made to incentive and categorical accounts to reflect the latest information on the

Virginia Preschool Initiative (VPI), actual and updated projected participation in programs, Remedial Summer School enrollment, and Governor's Schools enrollment. Funding has been increased by a total of \$1.9 million in fiscal year 2008 for incentive programs and reduced by a total of \$600,276 in fiscal year 2008 for categorical programs. Significant budget adjustments contained in this particular amendment are discussed in more detail in the following paragraphs.

Funding for the Virginia Preschool Initiative is reduced by \$3.6 million in fiscal year 2008 for actual program participation. Please note that the school division entitlement sheets shown in Attachment B and in the Excel calculation file reflect the entitlements for the VPI program based on actual participation. The VPI program is fully funded for fiscal year 2008 based on actual participation in the program this year.

Several updates are made to the special education categorical programs. Funding for the Special Education Homebound program was decreased by \$472,941 in fiscal year 2008 (from \$5.7 million to \$5.2 million) for the actual state share of cost across local programs.

Updating for actual enrollment reduces funding for the Remedial Summer School program by \$515,279 in fiscal year 2008.

Funding is reduced by \$1,240 for fiscal year 2008 for Alternative Education. The reduction in funding is due to student slot re-allocation in fiscal year 2008.

Funding for the academic year Governor's Schools programs is adjusted to reflect actual enrollment as of September 30, 2007, up to the 1,500 enrollment cap. This action results in a reduction of state funding in fiscal year 2008 of \$592,803.

The Governor's amended budget provides an additional \$337,280 in fiscal year 2008 to fully fund reimbursements paid in fiscal year 2008 for actual participation in the School Breakfast program in fiscal year 2007.

- **FY 2008 Budget Reductions**

In order to address the forecasted state budget shortfall of approximately \$641 million in fiscal year 2008, the Governor enacted a number of budget reduction strategies across state

agencies. The overall general fund appropriation for the Direct Aid to Public Education budget was reduced by \$10,000 in fiscal year 2008 as part of the Governor's reduction strategy. The Virginia Career Education Foundation was reduced by \$2,500, from \$50,000 to \$47,500. The Southside Virginia Regional Technology Consortium was reduced by \$5,000, from \$100,000 to \$95,000. Finally, the Virginia Educational Technology Alliance was reduced by \$2,500, from \$50,000 to \$47,500.

- **Additional Literary Fund Support for Teacher Retirement**

The amount transferred from the Literary Fund to support the state share of the cost for teacher retirement is increased by \$8.8 million in fiscal year 2008, from \$116.1 million to \$124.9 million. This action does not affect division per pupil amounts or projected entitlements for VRS retirement in fiscal year 2008.

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

- **National Board Certification Bonus Awards** - Provides additional funding for the National Board Certification bonuses to support the actual cost in fiscal year 2008 of initial and continuing awards for eligible teachers. For fiscal year 2008, an additional \$404,125 in funding is proposed to fully fund the bonuses. This additional funding must be approved by the General Assembly before additional payments can be made by the department to school divisions.