

**Governor's Introduced Budget (HB/SB 30)
for the 2008-2010 Biennium**

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

Note: The base budget against which the Governor's recommended funding made changes for the 2008-2010 biennium is Chapter 847, which was adopted in the 2007 Session of the General Assembly.

DIRECT AID TO PUBLIC EDUCATION

Technical Updates

▪ **Rebenchmark Direct Aid Costs for 2008-2010**

The Governor's introduced budget includes the state's share of routine rebasing costs for all of the Standards of Quality and other Direct Aid programs. These technical adjustments include updates for factors such as funded salaries, Annual School Report data used to calculate prevailing cost estimates, inflation, test score updates, enrollment updates, and projected caseloads for categorical programs. Additional information about the details and source of the data used to make these updates is contained in Attachments D and E. These adjustments reflect the cost of continuing current programs with the required data updates used in the funding formulas, and do not reflect any changes in policy. For fiscal year 2009, routine rebasing costs for the Standards of Quality and other Direct Aid programs results in an increase of \$455.6 million. For fiscal year 2010, the increase is \$492.1 million.

▪ **Update Fringe Benefit Rates**

The Governor's introduced budget adopts a lower employer contribution rate for instructional retirement benefits in 2008-2010 than was certified by the VRS Board of Trustees (9.35 percent versus 11.84 percent). This lower instructional rate is applied to positions in the VRS professional group. The instructional rate proposed for 2008-2010 represents a rate decrease from fiscal year 2008 (10.30 percent to 9.35 percent). The prevailing non-professional VRS rate has been updated and is 7.60 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 2008-2010 reflects a rate decrease from fiscal year 2008 (1.16 percent to 1.12 percent). For the group life contribution, the rate proposed for 2008-2010 reflects a rate decrease from fiscal year 2008 (0.40 percent to 0.36 percent). All fringe benefit rates are proposed to be the same in both fiscal years. These rate changes reduce funding by \$29.3 million in fiscal year 2009 and \$29.5 million in fiscal year 2010 (compared to costs based on fiscal year 2008 rates).

FUNDED FRINGE BENEFIT RATES:	FY 2008	2008-2010
Instructional VRS (<u>Employer Share</u>) (Does not include RHCC - see below)	10.30%	9.35%
Instructional VRS (<u>Employee Share</u>)	5.00%	5.00%
Total Instructional VRS Rate	15.30%	14.35%
Group Life (<u>Employer Share</u>)	0.40%	0.36%
Group Life (<u>Employee Share</u>)	0.60%	0.53%
Total Group Life Rate	1.00%	0.89%
Retiree Health Care Credit (<i>Paid as part of the VRS per pupil amount</i>)	1.16%	1.12%
Non-professional Support VRS	7.48%	7.60%
Social Security	7.65%	7.65%
Health Care Premium	\$4,274	\$5,211
Total Instructional Benefit Percent (<u>Employer Share</u>)	19.51%	18.48%
Total Non-professional Support Benefit Percent	15.53%	15.61%

▪ **Update Sales Tax Projections**

The Governor's introduced budget reflects the most recent estimate of sales tax revenue dedicated to public education for fiscal years 2009 and 2010, 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 combined 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 \$1,220,200,000 for fiscal year 2009 and \$1,289,200,000 for fiscal year 2010. These revised sales tax estimates are approximately \$18.0 million higher in fiscal year 2009 and \$87.0 million higher in fiscal year 2010 than the fiscal year 2008 estimate contained in Chapter 847. 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 \$10.1 million in fiscal year 2009 and \$49.0 million in fiscal year 2010 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 state funding to school divisions (due to both the estimated sales tax revenue increase and the Basic Aid offset) is an increase of \$7.8 million in fiscal year 2009 and \$37.9 million in fiscal year 2010.

▪ **Update Triennial Census for 2008 Data**

The 2005 triennial census count of school-age population is used to distribute the fiscal year 2009 estimated sales tax proceeds to school divisions as part of the Basic Aid funding formula. The upcoming 2008 triennial census count of school-age population will be used to distribute the fiscal year 2010 estimated sales tax proceeds to school divisions as part of the Basic Aid funding formula. The 2008 triennial census data will not be used for distribution of sales tax proceeds during fiscal year 2009.

In accordance with the provisions of §22.1-281 through §22.1-286, *Code of Virginia*, March 1 through July 15, 2008, is designated as the period during which the 2008 school census will be conducted and completed. The next summary of census returns is due to the department on or before August 15, 2008. Please see Administrative Superintendent's Memorandum Number 53 dated December 14, 2007, for further details.

▪ **Update Lottery Proceeds**

Total Lottery proceeds are projected to increase by \$44.6 million to \$450.0 million in both fiscal year 2009 and fiscal year 2010, compared to the fiscal year 2008 Lottery estimate contained in Chapter 847. Of the total projected Lottery amount, \$19.5 million in fiscal years 2009 and 2010 is dedicated to fund a portion of the state cost of the SOQ Prevention, Intervention, and Remediation program, and \$264.8 million each year is dedicated to fund a portion of the state share of Basic Aid. The local portion of Lottery proceeds is projected to be distributed based on the state share of

\$246.48 per pupil in adjusted ADM in fiscal year 2009 and \$245.57 per pupil in adjusted ADM in fiscal year 2010. The total estimated funding to be distributed to school divisions on a per pupil basis is \$165.7 million in fiscal years 2009 and 2010; this is an increase of \$17.2 million compared to the estimated per pupil Lottery funding for fiscal year 2008 contained in Chapter 847. No changes are proposed for 2008-2010 regarding how Lottery funds must be spent, including the requirement that at least 50 percent of the funds must be spent for nonrecurring costs such as school construction.

▪ **Updates for Recalculation of Composite Index for 2008-2010**

The projected entitlements listed in Attachment B were calculated using the 2008-2010 composite indices communicated in Informational Superintendent's Memorandum Number 241, dated November 14, 2007. The 2008-2010 composite index was calculated using 2005 base-year data provided by the Department of Taxation for adjusted gross income, taxable retail sales, and true value of real property. The estimates of local population for 2005 are provided by the Weldon Cooper Center for Public Service at the University of Virginia, and the March 31, 2006, average daily membership is based on data reported by school divisions to the Department of Education. For fiscal year 2009, updating Direct Aid accounts based on the recalculated 2008-2010 composite index results in an increase in the state share of Direct Aid funding of \$4.9 million. For fiscal year 2010, the increase is \$5.0 million.

Direct Aid Policy Changes

▪ **Virginia Preschool Initiative (VPI)**

An additional \$15.1 million in fiscal year 2009 and \$30.0 million in fiscal year 2010 (\$15.1 million general fund and \$14.9 million nongeneral fund) is provided to fund an expansion of the Virginia Preschool Initiative (additional funding is also provided in the Department of Education's and Department of Social Services' budgets for program administration and support components). The proposal increases the maximum per-pupil amount to \$6,790, caps the composite index at fifty percent, uses free and reduced-price lunch eligibility as the at-risk criterion in the funding formula, and funds a minimum of nine student slots per division. The following is a summary of key appropriation act provisions of the proposed program expansion:

Attachment A to Inf. Supts. Memo No. 261

- By fiscal year 2012, all providers of state-funded preschool programs, whether public or private, shall demonstrate the quality of their programs by participating in the Quality Rating and Improvement System (QRIS);
- The Department of Education shall establish academic standards that are in accordance with appropriate preparation for students to be ready to successfully enter into kindergarten;
- Superintendents of each participating school division or the chief administrators of each participating local government, or their respective designee, must certify that the Virginia Preschool Initiative program follows the established standards and criteria for the service components in order to receive the funding for quality preschool education;
- Funding provided to school divisions or local governments shall be distributed based on an allocation formula providing the state share of per pupil funding ranging from \$5,700 to \$6,790 per pupil for unserved at-risk four-year-olds in each locality for a full-day program. Federal free and reduced-priced lunch program eligibility data from the 2006-2007 school year is used as the at-risk criterion in the funding formula for determining the number of at-risk four-year-olds;
- A minimum of nine student slots per grantee are funded to ensure that at least one preschool classroom is funded in each locality;
- In determining the state and local shares of funding, the composite index of local ability-to-pay is capped at 0.5000;
- No tuition shall be charged by public or private providers for the instructional services supported by the program;
- Programs provided by school divisions or local governments operating half-day shall receive state funds based on a fractional basis determined by the pro-rata portion of a full-day, school year program that is provided. For new programs in the first year of implementation only, programs operating less than a full school year shall receive state funds on a fractional basis determined by the pro-rata

portion of a school year program that is provided. In determining the prorated state funds to be received, a full day program shall be 5.5 hours of instructional time and a school year shall be 180 days;

- A required local match, based on the composite index of local ability-to-pay capped at 0.5000, shall be required for school division and local government grantees. For purposes of meeting the local match, localities may use local expenditures for existing qualifying programs. In-kind contributions of local funds may be applied to meet up to 25 percent of the required local match amount. Private funds contributed for use in the program qualify as local funds toward meeting the required local match;
- Within a local school division or locality, at least 10 percent of any additional student slots funded each year above the number of slots served in fiscal year 2008 must be offered to local private providers through a locally established public-private partnership. School divisions and local governments are waived from this requirement when no QRIS rated private preschool programs serving four-year-old children exist in the locality or no private provider agrees to participate. This requirement does not apply when the total number of funded slots in either year is less than 10;
- Where a local public-private partnership is established and student slots are utilized in private provider settings, school division or local government grantees are required to serve as the fiscal agent for any public funds received and are required to provide on-going program monitoring and oversight of the private provider;

Initial Funding Allocation

- An initial funding allocation based on the number of student slots determined by free or reduced-price lunch eligibility and adjusted for an estimated program participation factor;

Second Funding Allocation

- If a balance of funds remains after the initial allocations are claimed, additional funds may be allocated with the intent to provide school divisions or local governments the

same amount of funding in both years that they received in state funds under the program in fiscal year 2008. Any additional student slots funded through this allocation are not subject to the 10 percent private placement requirement;

- If there are no balances after the initial allocations are claimed, a school division receiving less funds than it was paid in fiscal year 2008 shall be adjusted to the amount paid in fiscal year 2008 if it is serving at least the same number of students served in fiscal year 2008. The resulting payment for the remaining school divisions shall be prorated proportionally if funds are not sufficient to fully fund all allocations of additional funding resulting from this calculation;

Third Funding Allocation

- If a balance of funds remains after the second allocation is completed, additional funds may be allocated with the intent to provide school divisions or local governments funding for additional student slots beyond those provided through the initial allocation. Eligible school divisions or local governments may receive additional funding for additional student slots based on the state share of \$5,700 to \$6,790 per pupil not to exceed their total student slot allocation assuming a 100 percent participation rate applied to the funding formula and based on the certified number of eligible students served. Any additional student slots funded in this allocation are not subject to the 10 percent private placement requirement. Under this allocation, payments will be prorated proportionally if funds are not sufficient to fully fund all requests for additional funding;

Direct Private Provider Funding

- If a balance of funds remains after the first three allocations are completed each year, an allocation of per pupil funds may be provided directly to private preschool providers. Notification will be provided to private preschool providers statewide in the event funds are available for allocation;
- Funds under this allocation will be provided on a competitive application basis using criteria determined by the Department of Education and the Department of Social

Services. Private providers requesting per pupil funds may apply to receive the lesser of the state share of \$6,790 per pupil or the state share of the actual per student tuition cost currently charged for the private program; and

- Private providers who serve children who qualify for free or reduced-price lunch and who participate in the QRIS may apply directly to the Department of Education for funds not claimed by local governments or school divisions. From such funds as are available, the Department of Education shall base its payment on the same calculation that it would pay to the local government or school division in which the private provider is located.

▪ **Compensation Supplement in Fiscal Year 2010**

An additional \$118.4 million in fiscal year 2010 is provided for the state's share of a Compensation Supplement (including related fringe benefit costs) equivalent to a 3.0 percent salary increase effective July 1, 2009, for instructional and support positions funded through the SOQ and other state-funded accounts. An additional \$14.0 million in fiscal year 2010 is provided for the state's share of a Compensation Supplement (including fringe benefit costs) equivalent to an additional 0.5 percent salary increase effective July 1, 2009, for instructional positions only (including: teachers, guidance counselors, librarians, principals, assistant principals, and teacher aides). Total projected state funding in fiscal year 2010 for the Compensation Supplement is \$132.4 million.

Compensation supplement funds are intended to be incentive funding, and are not included as part of required local effort for the SOQ; 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 December 1, 2009, that equivalent salary increases have been granted in fiscal year 2010. The table below provides the equivalent salary increases for different start dates in fiscal year 2010. Please note that the equivalent salary increases are based on a twelve-month year.

Required Equivalent Percentage Salary Increase in FY 2010		
Start Date	Instructional Positions ¹	Support Positions ²
July 1, 2009	3.50%	3.00%
August 1, 2009	3.82%	3.27%
September 1, 2009	4.20%	3.60%
October 1, 2009	4.67%	4.00%
November 1, 2009	5.25%	4.50%
December 1, 2009	6.00%	5.14%
January 1, 2010	7.00%	6.00%

1. **Instructional Positions** - Includes teachers, guidance counselors, librarians, principals, assistant principals, and teacher aides.
2. **Support Positions** - Includes superintendents, nurses, other support staff, and substitutes

▪ **Increase Literary Fund Support for Teacher Retirement**

The amount transferred from the Literary Fund to support the state share of cost for teacher retirement is increased by \$55.0 million in fiscal year 2009, from \$116.1 million to \$171.1 million. In fiscal year 2010, the Literary Fund transfer amount has been reduced by \$25.0 million, from \$116.1 million to \$91.1 million. These actions do not affect division per pupil amounts or projected entitlements for VRS retirement in fiscal year 2009 or fiscal year 2010.

▪ **Interest Rate Subsidy Program**

Language in the Governor's budget authorizes the Virginia Public School Authority to provide \$20.0 million in fiscal year 2009 and \$15.0 million in fiscal year 2010 from the Literary Fund for the interest rate subsidy program for Literary Fund projects on the First Priority Waiting List.

▪ **Data Coordinator for At-Risk High Schools**

An additional \$2.1 million is provided to support the salary and fringe benefits costs of one data coordinator per high school that is considered at-risk. Only divisions with high schools that either have not met Adequate Yearly Progress (AYP) under the federal No Child Left Behind Act or are not

fully accredited under the Standards of Accreditation would be eligible for this funding. This involves 54 high schools statewide based on 2007-2008 AYP and state accreditation ratings.

The data coordinator position is intended to provide schools with needed support in the area of data analysis and interpretation for instructional purposes, as well as overall data management and the administration of state assessments. The position would primarily focus on data related to instruction and school improvement, including: student assessment, student attendance, student/teacher engagement, behavior referrals, suspensions, retention, and graduation rates. School divisions will allocate these funds for data coordinator positions employed by the school division or contracted by the local school division to provide these services in the identified high schools. Individuals serving in this role must hold a current Virginia instructional license.

Localities receiving these incentive payments are required to match these funds based on the composite index of local ability-to-pay.

▪ **Fiscal Year 2008 Base Budget Adjustments for One-Time Funding**

The Governor's introduced budget removes funding from several programs that were funded in fiscal year 2008 as one-time funding. These reductions include approximately \$2.6 million each fiscal year for the six VPI preschool pilots, \$300,000 each year for Project WORD, \$150,000 each fiscal year for math specialists, \$200,000 each fiscal year for the Middle Peninsula Regional Career and Technical center planning grant, \$150,000 each fiscal year for foster care transportation, \$100,000 each fiscal year for Jobs for Virginia Graduates, and \$500,000 each fiscal year for Career and Technical Education equipment.

▪ **Continue Fiscal Year 2008 Budget Reductions**

The Governor's introduced budget includes two budget reductions that have been continued from fiscal year 2008 into the 2008-2010 biennium. For fiscal years 2009 and 2010, funding for the Southside Virginia Technology Consortium is reduced by \$5,000, decreasing the budgeted amount from \$100,000 to \$95,000 each fiscal year. Funding for the Virginia Educational Technology Alliance is reduced by \$2,500,

decreasing the budgeted amount from \$50,000 to \$47,500 each fiscal year.

▪ **Supplemental Education Accounts**

For fiscal years 2009 and 2010, an additional \$75,000 each year is provided for the Virginia Career Education Foundation. For fiscal year 2010 only, an additional \$100,000 is provided for the Project Discovery program, and an additional \$500,000 is provided for a matching grant for the Communities in Schools program.

For the 2008-2010 biennium, funding for the Virginia Teacher Scholarship Loan Program and the National Board Certification Program has been transferred from the Department of Education, Central Office Operations budget, to Supplemental Education under Direct Aid to Public Education. This move will not have any programmatic impact and is intended to consolidate all state grant programs in the Direct Aid budget.

The Governor has also provided an additional \$926,625 in each year of the biennium to support the projected number of eligible teachers qualifying for the National Board Certification bonuses.

Please note that accounts under the "Supplemental Education" category are not included in Attachment B or in the Excel template. Supplemental education programs are not available to school divisions statewide, and must serve a unique purpose for specific school divisions.

▪ **Expansion of Virtual Virginia Program**

The Governor's introduced budget includes additional funding for the Virtual Virginia Program to increase enrollment in on-line courses and expand on-line course offerings. An additional \$960,000 is provided in fiscal year 2010 to support an estimated 800 more students in the program.

▪ **Mentor Teacher Program (Career Switcher)**

The Governor's introduced budget includes additional funding for mentor teachers serving Career Switcher teachers to address the projected participation in fiscal years 2009 and 2010. An additional \$100,000 is included each year of the biennium.

DEPARTMENT OF EDUCATION CENTRAL OFFICE INITIATIVES

▪ **Virginia Preschool Initiative (VPI) Administration**

The Governor's introduced budget includes an additional \$340,100 in fiscal year 2009 and fiscal year 2010 for salaries, benefits, and support costs for three positions in the DOE Central Office. These positions would provide program monitoring and technical assistance, financial management, and evaluation of the VPI program.

▪ **Transfer the Virginia Teaching Scholarship Loan program and National Board Certification to Direct Aid**

For the 2008-2010 biennium, funding for the Virginia Teacher Scholarship Loan Program and the National Board Certification Program has been transferred from the Department of Education, Central Office Operations budget, to Supplemental Education under Direct Aid to Public Education. This move will not have any programmatic impact and is intended to consolidate all state grant programs in the Direct Aid budget.

▪ **Expansion of Phonological Awareness Literacy Screening (PALS)**

The Governor's introduced budget includes additional funding for the Phonological Awareness Literacy Screening (PALS) diagnostic screening instruments and various program support services to local school divisions. The PALS assessment assists in the identification of children who are at risk of early reading difficulties. An additional \$379,550 is provided in each year of the biennium.