

Summary of Governor Kaine's Proposed Amendments to the 2008-2010 Biennial Budget

This document summarizes the major budget changes proposed by Governor Kaine to the current 2008-2010 biennial budget (Chapter 879, 2008 Acts of Assembly) that affect fiscal years 2009 and 2010. The current biennial budget (i.e., Chapter 879) is the budget against which the Governor's proposed changes are made. The Governor's introduced budget bill to the 2009 General Assembly containing his amendments is HB 1600/SB 850. A summary of proposed amendments to the Department of Education Central Office budget follows the proposed amendments to the Direct Aid to Public Education budget.

Information related to the Direct Aid to Public Education and the Department of Education Central Office budget amendments are organized into the following two main sections:

Section A. Direct Aid to Public Education Budget

1. Technical Updates to Existing Direct Aid Programs
2. Direct Aid Budget Policy Changes
3. Language-Only Amendments for Direct Aid Programs Included in HB 1600/SB 850

Section B. Department of Education Central Office Budget

1. Changes to Central Office Included in HB 1600/SB 850

AMENDMENTS TO THE DIRECT AID TO PUBLIC EDUCATION BUDGET

Technical Updates to Existing Direct Aid Programs

- **Update Average Daily Membership (ADM) and Fall Membership**
Projections of unadjusted and adjusted average daily membership (ADM) for fiscal years 2009 and 2010 are revised for each school division based on the latest actual ADM and fall membership data available. Projected ADM was originally forecast by the Department of Education based on actual data through September 30, 2007, fall membership. The most recent projections contained in the Governor's introduced budget amendments have been revised based on actual March 31, 2008, ADM and September 30, 2008, fall membership.

On a statewide basis, the revised unadjusted ADM projections are 4,717 students lower in fiscal year 2009 and 4,154 students lower in fiscal year 2010 than the original projections contained in Chapter 879. The ADM-based entitlements for fiscal years 2009 and 2010 are recomputed based on these revised projections. In addition, all accounts that are allocated on the basis of fall membership have been updated for actual fall membership in fiscal year 2009 and re-projected fall membership in fiscal year 2010. The ADM and fall membership updates result in an estimated decrease on a statewide basis in Direct Aid payments of \$31.2 million in fiscal year 2009 and \$42.0 million in fiscal year 2010.

- **Update Sales Tax Projections**

The Governor's amendments reflect 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 estimate of sales tax revenues includes both the one percent portion and the one-eighth percent portion that are appropriated for distribution to school divisions based on school-age population. The projected sales tax entitlements contained in Attachment B and in the Excel calculation file reflect the revised estimates for these two sales tax sources, which are shown in Attachment B and in the Excel file as a single revenue line-item.

The Department of Taxation's latest estimate of the one percent and one-eighth percent sales tax revenue is \$1,126,230,556 for fiscal year 2009 and \$1,175,149,722 for fiscal year 2010. These revised sales tax estimates are approximately \$68.5 million lower in fiscal year 2009 and \$80.1 million lower in fiscal year 2010 than the projections contained in Chapter 879. 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 to be distributed to divisions. The amount of the Basic Aid offset is determined by each division's composite index of local ability-to-pay. The state share of Basic Aid increases approximately \$38.5 million in fiscal year 2009 and \$45.1 million in fiscal year 2010 due to the revised sales tax estimates.

- **Update Lottery Proceeds Forecast**

The Governor's amended budget reflects a decrease of \$30.5 million in fiscal year 2009 (from \$461.0 million to \$430.5 million) and \$30.8 million in fiscal year 2010 (from \$461.0

million to \$430.2 million) in Lottery proceeds versus the Lottery projections contained in Chapter 879.

The share of Lottery proceeds that will be distributed directly to school divisions on a per pupil basis through the Additional Support for School Construction and Operating Costs account in fiscal year 2009 is \$132.3 million. The revised per pupil amount used to distribute current year Lottery proceeds is \$197.95 per pupil in adjusted ADM. For fiscal year 2010, the amended budget reallocates all of the Lottery funds in the Additional Support for School Construction and Operating Costs account to fund other accounts previously funded with general funds as well as to fund a Funding Loss Cap account. Please see the paragraphs below titled "General Fund accounts in the amount of \$55.8 million moved to the Lottery service area" and "Provide a Funding Loss Cap Payment in FY 2010" below for additional details.

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

The Governor's amended budget recognizes savings of \$2.5 million in fiscal year 2009 and an increase of \$7.7 million in fiscal year 2010 resulting from technical updates to SOQ accounts. The Governor's amended budget includes distributing the updated sales tax estimates to divisions based on the 2008 Triennial Census of School-Age Population and full funding of the fiscal year 2010 special education child count corrections that were only funded in fiscal year 2009 in Chapter 879. These updates also include actual fiscal year 2009 student counts for the English as a Second Language (ESL) account.

- **Technical Updates to Incentive, Categorical, and Lottery Accounts**

Various technical adjustments have been made to incentive, categorical, Lottery, and supplemental education assistance accounts to reflect the latest information on special education student counts, PALS assessment data, and actual and updated projected participation in programs. Funding is reduced by \$2.0 million in fiscal year 2009 and by \$1.7 million in fiscal year 2010 for these technical updates. Significant budget adjustments contained in this particular amendment are discussed in more detail in the following paragraphs.

- o *Incentive Technical Updates*

- The Governor's amended budget includes technical updates to the following incentive accounts: Alternative

Education, Governor's Schools, Special Education - Regional Tuition, and VPSA Technology Distribution. Funding is reduced by \$240,434 in fiscal year 2009 and increased by \$236,699 in fiscal year 2010 for these technical updates.

o *Categorical Technical Updates*

The Governor's amended budget includes technical updates to the following categorical accounts: Special Education - Homebound, Special Education - State Operated Programs, Special Education - Jails, and American Indian Treaty Commitment. Funding is reduced by \$1.7 million in fiscal year 2009 and by \$1.9 million in fiscal year 2010 for these technical updates. Please note that any remaining references to "Electronic Classroom" in the budget have been changed to "Virtual Virginia" to update the current operating title of the program.

o *Lottery Technical Updates*

The Governor's amended budget includes technical updates based on actual participation and revised estimates to the following Lottery-funded accounts: Remedial Summer School, K-3 Primary Class Size Reduction, Early Reading Intervention, School Breakfast, and Foster Care. These actions for fiscal year 2009 resulted in savings that were added to the Additional Support for School Construction and Operating Costs account based on the current funding methodology. The accounts in the Lottery service area are funded entirely by Lottery proceeds. As noted above, the amount appropriated for Additional Support for School Construction and Operating Costs has been eliminated in fiscal year 2010 in order to support additional accounts moving to the Lottery service area as well the proposed Funding Loss Cap account. Both of these actions are discussed in more detail below.

Direct Aid Policy Changes

• **Establish Funding Cap on SOQ Support Positions**

The Governor's budget proposes establishing a funding cap on certain Basic Aid support positions starting in fiscal year 2010. The cap is established based on the ratio of one support position per 4.03 SOQ funded instructional positions. This ratio is based on a linear weighted average of the latest three fiscal years of SOQ recognized instructional and support positions as reported by school divisions on the Annual School Report. By applying the one to 4.03 ratio, funding is

provided for the affected support positions at a rate of 18.71 positions per 1,000 students in ADM. This position funding level was determined by applying the one support position to 4.03 instructional positions ratio to the estimated 75.39 SOQ instructional positions per 1,000 students in fiscal year 2010. The funding cap is not applied to the following support positions: division superintendent, school board members, school nurses, or pupil transportation positions. For fiscal year 2010, state funding is reduced by \$340.9 million.

- **Eliminate School Construction Grants Program Funding**

The Governor's amended budget proposes eliminating school construction grants for fiscal year 2010. For fiscal year 2010, state funding is reduced by \$27.5 million.

- **General fund accounts in the amount of \$55.8 million moved to the Lottery service area**

The Governor's amended budget for fiscal year 2010 includes moving six accounts to the Lottery service area that were previously funded by the general fund. These accounts would be funded entirely by Lottery proceeds, resulting in a general fund savings of \$55.8 million in fiscal year 2010. The following accounts are proposed to be reassigned to the Lottery service area in fiscal year 2010: Alternative Education, ISAEP, Special Education - Regional Tuition, Vocational Education - Categorical, NCLB/EFAL, and Project Graduation. These programs will use a portion of the Lottery appropriation previously used for the Additional Support for School Construction and Operating Costs account that was eliminated for fiscal year 2010. The following accounts will no longer be maintained in the Lottery service area and move to the general fund: Enrollment Loss, Remedial Summer School.

- **Provide for a Funding Loss Cap payment to limit the per pupil reduction of state funds to localities in fiscal year 2010**

A one-time payment to provide a funding loss cap is proposed based on the per pupil state funding loss for fiscal year 2010. The total estimated value of this payment is fixed at \$60.9 million, based on the division distributions in HB 1600 /SB 850, and will be funded by Lottery proceeds from the remaining appropriation in the Additional Support for School Construction and Operating Costs account that was eliminated for fiscal year 2010. The proposed payment will be distributed by capping each division's per pupil funding loss at \$403.90 per pupil for fiscal year 2010. Divisions with a per pupil funding loss in fiscal year 2010 due to certain policy changes proposed by the Governor (i.e., 1. setting a

position cap for certain SOQ funded support positions at a ratio of 1 support position for every 4.03 SOQ funded instructional positions; 2. reassigning approximately \$55.8 million in general fund accounts into the Lottery Service Area, resulting in the elimination of funding for the Additional Support for School Construction and Operating Costs account; and 3. eliminating state funding for the School Construction Grants Program account) that exceed \$403.90 per pupil would be eligible to receive this payment. In order to receive this funding, the local governing body is required to appropriate these funds solely for public education expenditures by the school division in fiscal year 2010. Localities are not required to provide a local match to receive these state funds.

- **Reduction to Supplemental Education Assistance Programs**
The Governor's amended budget includes a reduction to the following supplemental education assistance accounts: Career and Technical Education Resource Center, Jobs for Virginia Graduates, Small School Division Assistance, Southside Virginia Technology Consortium, Southwest Virginia Public Education Consortium, Virginia Career Education Foundation, and Van Gogh Outreach Program. Funding is decreased in these accounts by a total of \$404,130 for fiscal year 2010.
- **Remove 2.0 percent Compensation Supplement in FY 2010**
The Governor's amended budget includes removal of the funded 2.0 percent compensation supplement payment included in Chapter 879 for instructional and support positions that was effective July 1, 2009. Funding is decreased by \$71.6 million in fiscal year 2010.
- **Reduction in State-Operated Programs funding for planned closure of two mental health facilities in FY 2010**
Southwestern Virginia Mental Health Institute's Adolescent Unit, located in Smyth County, and the Commonwealth Center for Children and Adolescents, located in Staunton, are planned for closure by July 1, 2009. The educational services at the Adolescent Unit and the Commonwealth Center for Children and Adolescents are provided by Smyth County Public Schools and Staunton City Public Schools, respectively. Funding in the special education State-Operated Programs account is reduced by \$1.9 million in fiscal year 2010 for the elimination of the locally-provided educational services at these two facilities.

- **Update Group Life and Retiree Health Care Credit Rates for FY 2010**

The Governor's amended budget proposes lower employer contribution rates for the Retiree Health Care Credit and Group Life in fiscal year 2010 only. For the Retiree Health Care Credit, the revised rate proposed for fiscal year 2010 reflects a rate decrease from the current fiscal year 2010 rate (1.08 percent to 1.04 percent). For the Group Life contribution, the revised rate proposed for fiscal year 2010 reflects a rate decrease from the current fiscal year 2010 rate (0.33 percent to 0.27 percent). In addition, the employee share of the Group Life rate has been increased from 0.49 percent to 0.52 percent in fiscal year 2010. Funding is decreased by \$2.7 million in fiscal year 2010 due to these employer contribution rate changes.

FUNDED FRINGE BENEFIT RATES:	FY 2009	FY 2010
Instructional VRS (<u>Employer Share</u>) (<i>Does not include RHCC - see below</i>)	8.81%	8.81%
Instructional VRS (<u>Employee Share</u>)	5.00%	5.00%
Total Instructional VRS Rate	13.81%	13.81%
Group Life (<u>Employer Share</u>)	0.33%	0.27%
Group Life (<u>Employee Share</u>)	0.49%	0.52%
Total Group Life Rate	0.82%	0.79%
Retiree Health Care Credit (<i>Paid as part of the VRS per pupil amount</i>)	1.08%	1.04%
Non-professional Support VRS	7.62%	7.62%
Social Security	7.65%	7.65%
Health Care Premium	\$5,188	\$5,188
Total Instructional Benefit Percent (<u>Employer Share</u>)	17.87%	17.77%
Total Non-professional Support Benefit Percent	15.60%	15.54%

Proposed Language Amendments for Direct Aid Programs

- **Increase Literary Fund Transfer for Teacher Retirement**

The Governor's amended budget increases the amount transferred from the Literary Fund to support the state share of cost for teacher retirement by \$42.6 million in fiscal year 2009, from

\$186.1 million to \$228.7 million. In fiscal year 2010, the Literary Fund transfer amount increased by \$11.9 million, from \$111.1 million to \$123.0 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 amended budget authorizes the Virginia Public School Authority to provide approximately \$8.6 million in fiscal year 2009 from the Literary Fund for the interest rate subsidy program for Literary Fund projects on the First Priority Waiting List. For fiscal year 2010, the \$20.0 million approved from the Literary Fund for the interest rate subsidy program is eliminated.

- **Provide school divisions flexibility for Instructional Technology, Early Reading Intervention, SOL Algebra Readiness, and English Language Learner funds**

The Governor's amended budget provides flexibility to school divisions to use the state and local funds for instructional technology resource teachers required by the Standards of Quality to employ a data coordinator position, an instructional technology resource teacher position, or a data coordinator/instructional resource teacher blended position. Divisions using funds in this manner shall only employ instructional personnel licensed by the Board of Education.

School divisions may use the state Early Reading Intervention funds and required local match funds to employ reading specialists to provide required reading intervention services. Divisions may also use the state Standards of Learning Algebra Readiness initiative funds and required local match funds to employ mathematics teacher specialists to provide required mathematics intervention services. Divisions using funds in this manner shall only employ instructional personnel licensed by the Board of Education.

School Divisions may use state and local funds from the SOQ Prevention, Intervention, and Remediation account to employ additional English Language Learner teachers to provide instruction to limited English proficiency students. These funds are to be used to supplement the instructional services provided through the SOQ staffing standard of 17 instructional positions per 1,000 limited English proficiency students. Divisions using funds in this manner shall only employ instructional personnel licensed by the Board of Education.

- **Allow remaining funds from fiscal year 2009 to be carried over to fiscal year 2010**

The Governor's amended budget allows any locality that has met its fiscal year 2009 required local effort for the Standards of Quality or required local match for incentive, school construction, or Lottery-funded programs to carry over into fiscal year 2010 any remaining state funds in an effort to minimize any fiscal year 2010 revenue adjustments that may occur.

- **Provide flexibility for use of Lottery and School Construction escrow funds in fiscal year 2010**

The Governor's amended budget proposes flexibility for divisions to withdraw funds from local escrow accounts established pursuant to Sections 22.1-100.1 (Lottery Proceeds Nonrecurring Costs Escrow Accounts) and 22.1-175.5 (Capital School Projects Fund) of the *Code of Virginia* to pay for recurring operational expenses incurred by the school division in fiscal year 2010. Localities are not required to provide a local match of the withdrawn funds.

- **Local distribution of remaining balance, if any, in the Lottery Proceeds Fund in fiscal year 2010**

The Governor's amended budget proposes to distribute to local school divisions any balance remaining in the Lottery Proceeds Fund after all accounts that are supported by Lottery funds in fiscal year 2010 have been fully funded. These payments would be calculated based on the state share of the per pupil amount in adjusted March 31 Average Daily Membership and the fiscal year 2010 balance in the Lottery Proceeds Fund. In order to receive this funding, the local governing body is required to appropriate these funds for expenditures of the school division. Localities are not required to provide a local match to receive these state funds.

DEPARTMENT OF EDUCATION CENTRAL OFFICE BUDGET

Changes to Central Office Included in HB 1600/SB 850

- As part of the Governor's October Reduction Plan, eliminates \$81,000 in funding in fiscal year 2009 and fiscal year 2010 for the Commission on Civics Education.