

## **Summary of Governor Kaine's Proposed Amendments to the 2008-2010 Biennial Budget ("Caboose Bill")**

This document summarizes the budget amendments proposed by Governor Kaine to the current 2008-2010 biennial budget (i.e., Chapter 781, 2009 Acts of Assembly) that affect fiscal year 2010. The actions summarized in this document include, where applicable, Governor Kaine's executive spending reduction plan actions as announced on September 8, 2009. The current biennial budget (Chapter 781) is the budget against which the Governor's proposed changes are made. The Governor's introduced budget bill to the 2010 General Assembly containing his amendments is HB 29/SB 29. 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 sections:

### **Section A. Amendments to the 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 29/SB 29

### **Section B. Amendments to the Department of Education Central Office Budget Impacting School Divisions**

1. Changes to Central Office Included in HB 29/SB 29

## **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 year 2010 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 an increase in unadjusted ADM of 1,806 students from the projections on which fiscal year 2010 entitlements are currently based in Chapter 781 (as communicated in Superintendent's Memorandum Number 052-09, dated March 6, 2009). The ADM and fall membership updates result in an estimated increase on a statewide basis in Direct Aid payments of \$14.5 million in fiscal year 2010. Projected ADM for fiscal year 2010 was originally projected by the Department of Education based on actual data through September 30, 2008, fall membership. The most recent projections contained in the Governor's amended budget have been revised based on actual March 31, 2009, ADM and September 30, 2009, fall membership. The ADM-based entitlements for fiscal year 2010 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 2010.

- **Update Sales Tax Projections** – The Governor's amendments reflect the most recent estimate of sales tax revenue dedicated to public education for fiscal year 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, 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 \$1,049,900,000 for fiscal year 2010. This revised sales tax estimate is approximately \$85.3 million lower in fiscal year 2010 than the projections contained in Chapter 781. 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 \$47.6 million in fiscal year 2010 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 \$37.7 million in fiscal year 2010.

- **Update 2008 Triennial Census Student Count for Corrected Submissions** – Following the approval of the Chapter 781 budget by the 2009 General Assembly, the Department of Education was notified by two school divisions of errors in their original submission of the 2008 Triennial Census of School-Age Population. The Governor's amended budget provides an additional \$391,860 in fiscal year 2010 to address the costs associated with correcting the 2008 census count.
- **Update Lottery Profits Forecast** – The Lottery forecast did not increase for fiscal year 2010; however, the Governor's amended budget provides an additional \$9.9 million in fiscal year 2010 (from \$430.2 million to \$440.1 million) in Lottery proceeds over the projections contained in the Chapter 781 budget. The additional \$9.9 million in Lottery proceeds were earned in fiscal year 2009 above appropriated estimates and were carried over for appropriation in fiscal year 2010.

The estimated share of Lottery proceeds that will be distributed directly to school divisions on a per pupil basis through the Support for School Construction, Operating Costs and Textbook account in fiscal year 2010 is \$72.4 million. The revised per pupil amount used to distribute current year Lottery proceeds is \$107.87 per pupil in adjusted ADM. Please see the paragraph below titled "Policy Changes to Lottery Funded Accounts" for additional details on changes to accounts funded from Lottery proceeds.

- **Technical Adjustments to Standards of Quality Accounts**

The Governor's amended budget recognizes savings of \$5.9 million in fiscal year 2010 resulting from technical updates to SOQ accounts. Based on actual fiscal year 2010 enrollment, Remedial Summer School funding is reduced by \$3.1 million and the funding for English as a Second Language is reduced by \$2.8 million.

- **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 2010 for these technical updates. Significant budget adjustments contained in this particular amendment are discussed in more detail in the following paragraphs.

- *Incentive Technical Updates*

The Governor's amended budget includes technical updates to the School Breakfast account and the VPSA Technology grant awards. Funding for the School Breakfast program is reduced by \$31,364 in fiscal year 2010, based on reimbursements paid for actual participation in the program in fiscal year 2010. VPSA Technology grants were updated for schools reporting fall membership for fiscal year 2010.

- *Categorical Technical Updates*

The Governor's amended budget recognizes approximately \$1.9 million in savings to categorical accounts based on actual program participation. Funding for the Special Education Homebound program is reduced by \$182,591 in fiscal year 2010 (from \$5.6 million to \$5.4 million) based on the actual state share of local program costs. Funding for the Special Education State Operated Programs account is reduced by \$1.7 million based on actual payments for fiscal year 2009. The Governor's introduced budget also proposes a change in the timing of State Operated Program payments beginning in fiscal year 2010. Please see the paragraph labeled "Defer Fourth Quarter State Operated Programs Payments" below for further details on this change in payment schedule.

- *Lottery Technical Updates*

The Governor's amended budget includes technical updates based on actual participation and revised estimates to the following Lottery-funded accounts: K-3 Primary Class Size Reduction, Early Reading Intervention, Foster Care, Enrollment Loss, At-Risk, Virginia Preschool Initiative, SOL Algebra Readiness, Alternative Education, Special Education - Regional Tuition, Supplemental Basic Aid, and actual fiscal year 2010 enrollment in academic year Governor's Schools programs (up to the enrollment cap of 1,600 students). These actions for fiscal year 2010 resulted in savings that were added to the Support for School Construction, Operating Costs and Textbooks account based on the current funding methodology. The accounts in the Lottery service area are funded entirely by Lottery proceeds. Additional account changes were made to the Lottery service area in fiscal year 2010 based on the additional revenue earned in fiscal year 2009. These account changes are discussed in more detail below.

**Direct Aid Budget Policy Changes**

• **Employer Contribution Rate Premium Holiday for VRS Retirement, Group Life, and Retiree Health Care Credit for the Fourth Quarter of Fiscal Year 2010**

The Governor's introduced budget maintains the employer contribution rate premium holiday for VRS retirement, group life (and employee rate for group life only), and retiree health care credit for the fourth quarter of fiscal year 2010 (April through June 2010) first announced in the Governor's fiscal year 2010 reduction plan from September 2009. For fiscal year 2010, state funding is reduced by \$69.2 million. There are no changes to the VRS retirement, retirement health care credit, or Group Life employer contribution rates on which school divisions will make monthly contribution payments to VRS for fiscal year 2010. However, employer contribution payments by divisions to VRS for these benefits will be suspended from April through June 2010. The applicable employee share for VRS retirement will still be paid by divisions to VRS for the full fiscal year. The employee share of Group Life will only be charged to school divisions by VRS from July through March 2009.

State SOQ payments for these benefits will be reduced by approximately 50 percent (from January to June 2010) to account for the premium holiday in the fourth quarter. The following charts are provided to assist in understanding the rates on which school divisions will be billed by VRS from July to March 2009, and the equivalent rates on which state SOQ payments for these benefits will be paid to school divisions for the full fiscal year:

<b>FY10 FRINGE BENEFIT RATES (PAID BY SCHOOL DIVISIONS TO VRS):</b>	<b>FY 2010 <u>EMPLOYER RATE</u> Rates for Division Payments to VRS July 2009 to March 2010</b>	<b>FY 2010 <u>EMPLOYEE RATE</u> Rates for Division Payments to VRS July 2009 to June 2010</b>
Instructional VRS (Does not include RHCC - see below)	8.81%	5.00%
Nonprofessional Support VRS	7.62%	5.00%
Group Life	0.27%	<b>0.52% (July through March Only)</b>
Retiree Health Care Credit	1.04%	

<b>FY10 FRINGE BENEFIT RATES (STATE FUNDS PAID TO SCHOOL DIVISIONS):</b>	<b>FY 2010 <u>EMPLOYER RATE</u> Rate for State Payments July 2009 to June 2010</b>
Instructional VRS (Does not include RHCC - see below)	6.61%
Nonprofessional Support VRS	5.72%
Group Life	0.20%
Retiree Health Care Credit ( <i>state funds paid as part of the VRS per pupil amount</i> )	0.78%

The net local savings generated from the three-month fringe benefit premium holiday is estimated at over \$140 million statewide (i.e., savings from suspending three months of payments to VRS less three-months of state payments). The net savings will vary by division based on divisions' composite index and creditable compensation base.

- **Remove Funding for Textbooks** - The Governor's amended budget proposes eliminating Textbook funding for fiscal year 2010. For fiscal year 2010, state funding is reduced by \$79.6 million. Textbook funding is a recurring payment, therefore, school divisions have already received partial payments based on their initial allocation for fiscal year 2010. The payments that the school divisions received through the December 16, 2009, payment will be charged by the Department of Education to their Basic Aid payments for fiscal year 2010 on December 21, 2009. This adjustment will increase the amount of Basic Aid funding that school divisions are credited with receiving to date in fiscal year 2010 and will reduce their Basic Aid payments for the remainder of fiscal year 2010. In a separate language amendment, the Governor included additional language in the Support for School Construction, Operating Costs and Textbooks account encouraging localities and school divisions to use a portion or all of the estimated \$140 million in local savings generated from the three month fringe benefit premium holiday described above to purchase textbooks and Standards of Learning instructional materials.

The Excel calculation file that accompanies this memorandum contains a tab entitled, "Modified Basic Aid Payments," which details the calculation of the adjustment to Basic Aid payments for Textbook funding divisions have received to date in fiscal year 2010. This tab lists the amount of Textbook funding being charged to divisions' Basic Aid entitlement (column F) and the resulting total fiscal year 2010 projected Basic Aid entitlement from general funds (column G). Column J lists the estimated total remaining Basic Aid payments for December 31, 2009, through June 30, 2010.

- **Remove Funding for Nonpersonal Inflation Factors** - The Governor's introduced budget proposes eliminating funded inflation factors from the nonpersonal component of Basic Aid. For fiscal year 2010, state funding is reduced by \$61.3 million. This action reduces the Basic Aid per pupil amount for each division.
- **Reduce Certain Incentive, Categorical, and Supplemental Education Programs by 10 Percent** – Pursuant to the Governor's fiscal year 2010 reduction plan from September 2009, funding for certain incentive, categorical, and supplemental education programs has been reduced by 10 percent for a total savings of \$296,962 in fiscal year 2010.

Under incentive programs, the budget for Clinical Faculty is reduced by \$37,500, from \$375,000 to \$337,500, and Career Switcher Mentoring Grants is reduced by \$32,939, from \$329,392 to \$296,453. The Virginia Educational Technology Alliance under categorical programs is reduced by \$4,750, from \$47,500 to \$42,750.

In supplemental education, the Career and Technical Education Resource Center is reduced by \$29,179, from \$291,790 to \$262,611; Jobs for Virginia Graduates is reduced by \$43,974,

from \$439,737 to \$395,763; Project Discovery is reduced by \$90,000, from \$900,000 to \$810,000; the Southside Virginia Regional Technology Consortium is reduced by \$6,930, from \$69,300 to \$62,370; the Southwest Virginia Public Education Consortium is reduced by \$14,590, from \$145,895 to \$131,305; the Virginia Career Education Foundation is reduced by \$3,647, from \$36,474 to \$32,827; the Van Gogh Outreach Program is reduced by \$8,453 from \$84,528 to \$76,075; and the Greater Richmond Area Scholarship Program (GRASP) is reduced by \$25,000, from \$250,000 to \$225,000.

- **Transfer Portion of Basic Aid from General Fund to the Federal State Fiscal Stabilization Fund** - The Governor's fiscal year 2010 reduction plan from September 2009 funded \$68.9 million of the state's general fund share of Basic Aid with funds from the K-12 portion of the federal State Fiscal Stabilization Fund (SFSF) based upon each school division's proportion of the state's share of Basic Aid. The Governor's introduced budget increases the amount of the state's fiscal year 2010 general fund share of Basic Aid to be funded from the K-12 portion of the SFSF by an additional \$150.1 million for a total of \$219.0 million. The SFSF allocations are based upon each school division's proportion of the state's share of Basic Aid.

The SFSF is provided under the federal stimulus law (American Recovery and Reinvestment Act of 2009, or ARRA) and the allowable uses of these funds for K-12 operational costs are broad. The SFSF funds allocated to each school division's state share of Basic Aid will be available for reimbursement beginning in January 2010 for eligible SFSF expenditures. All SFSF reimbursements will be processed through the VDOE OMEGA system. This action backfills the fiscal year 2010 general fund reduction to Basic Aid with SFSF funds and is not intended to be a permanent reduction to the Basic Aid funding formula.

Each school division's estimated portion of SFSF funds allocated from this action is shown in the Excel entitlement calculation file described above. Recurring Basic Aid payments will be adjusted in January 2010 to account for the portion paid from SFSF funds, the portion paid as Textbook funds from July 16, 2009, to December 16, 2009, (see paragraph above titled "Remove Funding for Textbooks" for further details on this action) as well as updated ADM projections included in the Governor's introduced budget. Please note that this action will accelerate the use of a portion of the K-12 SFSF funds otherwise available for allocation in fiscal year 2011.

- **Defer Fourth Quarter State Operated Programs Payments** - The Governor's amended budget proposes deferring the fiscal year 2010 fourth quarter State Operated Programs payment (previously paid on an estimated basis in June of each fiscal year) to the first quarter of fiscal year 2011, resulting in savings of \$8.2 million in fiscal year 2010. Final fiscal year 2010 state payments to the school divisions operating these programs will be based on certified expenditures from the first three quarters (July - March) of fiscal year 2010 only. State payments for certified actual expenditures from the fourth quarter of fiscal year 2010 will be made in fiscal year 2011. Future State Operated Program payments will continue the fourth quarter deferment in each subsequent fiscal year.

- **Policy Changes to Lottery Funded Accounts** – Pursuant to the Governor's fiscal year 2010 reduction plan from September 2009, the Governor's introduced budget moves a total of \$9.9 million in funding for accounts currently funded with the general fund to the Lottery service area supported by lottery proceeds. This action moves the academic year portion of Governor's School funding (approximately \$12 million), which is currently funded in the Incentive service area and by the general fund, to the Lottery service area. It also moves the School Breakfast account (approximately \$2.1 million), currently paid for out of the Lottery service area, to the Incentive service area and the general fund. The impact of these two transfers is to reduce the general fund portion of the Incentive service area by \$9.9 million and to increase the Lottery service area support by \$9.9 million. This action is funded with an additional \$9.9 million in carry-over lottery funds from fiscal year 2009.
- **Additional Literary Fund Support for Teacher Retirement**  
The Governor's fiscal year 2010 reduction plan from September 2009 increased the amount transferred from the Literary Fund to support the state share of cost for VRS retirement and Social Security by \$55.0 million. The Governor's introduced budget increases the amount transferred from the Literary Fund to support the state share of cost for VRS retirement and Social Security by an additional \$17.0 million for a total transfer of \$195.0 million in fiscal year 2010. This action does not change the value of division per pupil amounts for VRS retirement or Social Security, nor does it change the projected state payment to divisions for the VRS retirement or Social Security accounts.

**Language-Only Amendments for Direct Aid Programs Included in HB 29/SB 29**

- **Allow Remaining Funds from Fiscal Year 2010 to be Carried Over to Fiscal Year 2011**  
The Governor's amended budget allows any locality that has met its required local effort for the Standards of Quality accounts for fiscal year 2010 or that has met its required local match for incentive or Lottery-funded programs in which the locality elected to participate in fiscal year 2010 to carry over into fiscal year 2011 any remaining state fund balances available to help minimize any fiscal year 2011 revenue adjustments that may occur in state funding to that locality.
- **Support for School Construction, Operating Costs and Textbooks**  
The Governor's amended budget changes the name of the Additional Support for School Construction and Operating Costs account to Support for School Construction, Operating Costs and Textbooks for fiscal year 2010. In addition, the Governor included additional language in the fiscal year 2010 Support for School Construction, Operating Costs and Textbooks account encouraging localities and school divisions to use a portion or all of the estimated \$140 million in local savings generated from the three month fringe benefit premium holiday described above to purchase textbooks and Standards of Learning instructional materials, as needed.

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

**Changes to Central Office Included in HB 29/SB 29**

- **Reduce Support for Project Graduation Online Tutorials**

Pursuant to the Governor's fiscal year 2010 reduction plan from September 2009, the Governor's introduced budget reduces general fund support for Project Graduation online tutorials in reading and Algebra I by \$168,210.

- **Transfer General Fund Support for Academic Reviews to Nongeneral Fund Resources**

Pursuant to the Governor's fiscal year 2010 reduction plan from September 2009, the Governor's introduced budget transfers \$300,000 in general fund support for the Academic Review process to nongeneral fund resources. Federal stimulus and other ongoing federal grant funds will be used to maintain the same level of services.

- **Transfer General Fund Support for Partnership for Achieving Successful Schools (PASS) to Nongeneral Fund Resources**

Pursuant to the Governor's fiscal year 2010 reduction plan from September 2009, the Governor's introduced budget transfers \$456,188 in general fund support for the Partnership for Achieving Successful Schools (PASS) initiative to nongeneral fund resources. Federal stimulus and other ongoing federal grant funds will be used to maintain the same level of services.