

## **Governor's Introduced Budget (HB/SB 30) for the 2010-2012 Biennium**

This document summarizes the budget proposals by Governor Kaine for the 2010-2012 biennium affecting the Direct Aid to Public Education budget. The fiscal year 2010 base budget against which the Governor's recommended funding changes were made for the 2010-2012 biennium is Chapter 781, which was adopted at the 2009 Session of the General Assembly.

Information related to the Direct Aid to Public Education budget adjustments has been organized into the following sections:

### **Amendments to 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 30/SB 30

## **DIRECT AID TO PUBLIC EDUCATION**

### **Technical Updates to Existing Direct Aid Programs**

- **Rebenchmark Direct Aid Costs for 2010-2012 (as presented to the Board of Education in July 2009)**

The Governor's introduced budget includes the state share of routine rebenchmarking of 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 costs, inflation, Standards of Learning 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 Attachment D. 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 2011, routine rebasing of costs for the Standards of Quality and other Direct Aid programs results in an increase of \$59.7 million. For fiscal year 2012, the increase is \$78.9 million.

- **Technical Updates to Direct Aid Accounts for 2010-2012 Subsequent to the Rebenchmarking Budget Presented to the Board of Education in July 2009**

The Governor's introduced budget includes the state share of cost for additional technical updates related to the rebenchmarking process that occurred after the Board of Education budget presented in July 2009 due to the timing of data availability. These technical adjustments include updates to factors such as enrollment projections, Standards of Learning

failure rate data, and caseloads for incentive and categorical programs. 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. These updates increase the state share of cost by \$845,217 in fiscal year 2011 and \$4.8 million in fiscal year 2012.

▪ **Update Fringe Benefit Rates**

The Governor’s introduced budget adopts a lower employer contribution rate for instructional retirement benefits in 2010-2012 than was certified by the VRS Board of Trustees (10.49 percent versus 12.91 percent). This instructional rate is applied to positions in the VRS professional group. The instructional rate proposed for 2010-2012 represents a rate increase from fiscal year 2010 (8.81 percent to 10.49 percent). The prevailing non-professional VRS rate has been updated and is 7.53 percent for both years of the biennium. This prevailing rate is used for state funding purposes only; the actual nonprofessional rate charged by VRS will vary by school division. For the retiree health care credit, the rate proposed for 2010-2012 reflects a rate decrease from fiscal year 2010 (1.04 percent to 1.01 percent). For the group life contribution, the rate proposed for 2010-2012 reflects a rate increase from fiscal year 2010 (0.27 percent to 0.33 percent). All fringe benefit rates are proposed to be the same in fiscal years 2011 and 2012. These rate changes increase funding by \$45.5 million in fiscal year 2011 and \$45.7 million in fiscal year 2012 (compared to costs based on fiscal year 2010 rates).

FUNDED FRINGE BENEFIT RATES:	FY 2010	2010-2012
Instructional & Professional Support VRS ( <u>Employer Share</u> ) <i>(Does not include RHCC - see below)</i>	8.81%	10.49%
Instructional & Professional Support VRS ( <u>Employee Share</u> )	5.00%	5.00%
<b>Total Instructional &amp; Professional Support VRS Rate</b>	<b>13.81%</b>	<b>15.49%</b>
Group Life ( <u>Employer Share</u> )	0.27%	0.33%
Group Life ( <u>Employee Share</u> )	0.52%	0.69%
<b>Total Group Life Rate</b>	<b>0.79%</b>	<b>1.02%</b>
Retiree Health Care Credit <i>(Paid as part of the VRS retirement per pupil amount)</i>	1.04%	1.01%
Nonprofessional Support VRS	7.62%	7.53%
Social Security	7.65%	7.65%
Health Care Premium <i>(see Direct Aid Policy Changes Section on Page 4 below)</i>	\$5,188	\$3,375
Total Instructional Benefit Percent ( <u>Employer Share</u> )	<b>17.77%</b>	<b>19.48%</b>
Total Nonprofessional Support Benefit Percent	<b>15.54%</b>	<b>15.51%</b>

▪ **Updates for Recalculation of Composite Index for 2010-2012**

The 2010-2012 composite index of local ability-to-pay was calculated using 2007 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 2007 are provided by the Weldon Cooper Center for Public Service at the University of Virginia, and the March 31, 2008, average daily membership is based on data reported by school divisions to the

Department of Education. Updating Direct Aid accounts based on the recalculated 2010-2012 composite index increases the state share of Direct Aid funding by \$32.7 million in fiscal year 2011 and \$39.0 million in fiscal year 2012. As one of the Governor's policy changes, the composite index update for the 2010-2012 biennium was deferred until fiscal year 2012. The projected entitlements listed in Attachment B for fiscal year 2012 were calculated using the 2010-2012 composite indices communicated in Superintendent's Memorandum Number 314-09, dated November 6, 2009. Please see the section titled "Defer 2010-2012 Composite Index until Fiscal Year 2012" below for more detailed information.

- **Update Sales Tax Projections**

The Governor's introduced budget reflects the most recent estimates of sales tax revenue dedicated to public education for fiscal years 2011 and 2012, as computed by the Department of Taxation. The revised sales tax estimates 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 \$1,078,800,000 for fiscal year 2011 and \$1,114,700,000 for fiscal year 2012. These revised sales tax estimates are approximately \$56.4 million lower in fiscal year 2011 and \$20.5 million lower in fiscal year 2012 than the fiscal year 2010 estimate contained in Chapter 781. As required by the Basic Aid funding formula, state Basic Aid payments have been adjusted to reflect the increased state share of cost resulting from the projected decrease 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 increases approximately \$31.6 million in fiscal year 2011 and \$11.5 million in fiscal year 2012 due to the revised sales tax estimates. In addition, the local share of Basic Aid increases in both years due to the decreased sales tax estimates. The net change in state funding to school divisions (due to both the estimated sales tax revenue decrease and the Basic Aid offset) is a decrease of \$24.8 million in fiscal year 2011 and a decrease of \$9.0 million in fiscal year 2012.

- **Update Lottery Proceeds**

Total Lottery proceeds are projected to stay constant at \$430.2 million in fiscal years 2011 and 2012, compared to the fiscal year 2010 Lottery estimate contained in Chapter 781. From the total projected Lottery amount, \$395.1 million in fiscal year 2011 and \$398.2 million in fiscal year 2012 is being used to fund the state share of cost of various programs, such as the Virginia Preschool Initiative, Early Reading Intervention, K-3 Primary Class Size Reduction, and SOL Algebra Readiness.

The local portion of Lottery proceeds (through the Support for School Construction and Operating Costs account) is projected to be distributed based on the state share of \$52.05 per

pupil in adjusted ADM in fiscal year 2011 and \$46.98 per pupil in adjusted ADM in fiscal year 2012. The total estimated funding to be distributed to school divisions on a per pupil basis is \$35.1 million in fiscal year 2011 and \$32.0 million in fiscal year 2012; this is a decrease of \$25.7 million in fiscal year 2011 and a decrease of \$28.8 million in fiscal year 2012 compared to the estimated per pupil Support for School Construction and Operating Costs funding for fiscal year 2010 contained in Chapter 781. No changes from fiscal year 2010 are proposed for the 2010-2012 biennium regarding how Support for School Construction and Operating Costs funds must be spent. As a reminder, school divisions are not required to spend a minimum of 50 percent of the Support for School Construction and Operating Costs funds on nonrecurring expenditures to receive these funds. That provision was removed in Chapter 781 for fiscal year 2010 and has not been reinstated for the 2010-2012 biennium. The locality shall appropriate these funds for any public education expenditure in the school division.

### **Direct Aid Budget Policy Changes**

- **Defer 2010-2012 Composite Index until Fiscal Year 2012**

The Governor's introduced budget defers the update to the 2010-2012 composite index of local ability-to-pay until fiscal year 2012. Payments for fiscal year 2011 will be based on the 2008-2010 composite index of local ability-to-pay as funded in Chapter 781. In the case of the 2008-2010 composite index of local ability-to-pay assigned to Halifax County, the fifteen year hold harmless provision is extended for one additional year ending June 30, 2011. The deferral of the 2010-2012 composite index decreases the state share of Direct Aid funding by \$29.5 million in fiscal year 2011. The projected entitlements listed in Attachment B for fiscal year 2012 were calculated using the 2010-2012 composite indices communicated in Superintendent's Memorandum Number 314-09, dated November 6, 2009.

- **Remove Nonpersonal Inflation Funding for the 2010-2012 Biennium**

The Governor's introduced budget proposes eliminating funded inflation factors from the nonpersonal component of Basic Aid for the 2010-2012 biennium. Typically, as part of the biennial rebenchmarking process, the Department of Education updates nonpersonal inflation factors to bring base year expenditures up to the start of the new biennium. By removing this update from the process, the state share of Basic Aid funding is reduced by \$4.7 million in each year of the biennium.

- **Adjust Funded Health Care Premium to Reflect Prevailing Division-Level Participation**

The funded health care premium value was calculated by weighting each division's annual employer-share health care premium used in the prevailing cost calculation according to the actual percentage of employees participating in each of the three general plan categories (employee, employee plus one, and family) and for actual overall employee participation, as reported by divisions on Supplemental Schedule D of the fiscal year 2009 Annual School Report Financial Section. The health care premium of \$3,375 funded in the Governor's

introduced budget represents the statewide prevailing average of the division-level premiums weighted for plan type participation (\$5,107) multiplied by the prevailing rate of overall employee participation in any employer-provided health care plan (66.1 percent). This change in methodology results in a decrease in the state share of Direct Aid funding by \$134.2 million in fiscal year 2011 and \$135.0 million in fiscal year 2012.

- **Remove Object Codes 2800, 5800, and 8100, and Prorated Regional Program Expenditures From Recognized Support Costs in Basic Aid**

The Governor’s introduced budget eliminates Annual School Report (ASR) object codes 2800, 5800 and 8100, as well as regional program expenditures prorated to participating school divisions, from recognized costs included in the calculation of prevailing nonpersonal funding in Basic Aid. The types of expenditures included in each of the object codes are described below. This action results in a decrease in the state share of Direct Aid funding of \$87.0 million in fiscal year 2011 and \$87.3 million in fiscal year 2012.

ASR Object Code	Expenditure Description
<b>2800</b>	<b>Other Benefits</b> Includes annual and sick leave payments for personnel who terminate employment, as well as pension/retirement plans that are specific to a locality and the cost for contract buy-outs.
<b>5800</b>	<b>Miscellaneous</b>
<b>8100</b>	<b>Capital Outlay Replacement</b> (Not applicable to object code 8100 from the ASR function “Facilities,” which is already an excluded cost)

- **Reduction in State Operated Programs Funding Resulting from Planned Closure of Two Mental Health Facilities and Deferment of Fourth Quarter Payments to the Subsequent Fiscal Year**

The Governor’s introduced budget reduces funding for State Operated Programs to account for the planned closure of two mental health facilities at the end of fiscal year 2010. Southwestern Virginia Mental Health Institute’s Adolescent Unit, located in Smyth County, and the Commonwealth Center for Children and Adolescents, located in the City of Staunton, are planned for closure by July 1, 2010. 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 both fiscal years 2011 and 2012 for the elimination of educational services at these two facilities.

In addition, the Governor’s introduced 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. Future State Operated Program payments will continue the fourth quarter deferment in each subsequent fiscal year. As a result of the closure of the two facilities mentioned above and deferment of the fourth quarter

payments, state funding for State Operated Programs increases by \$37,924 in fiscal year 2011 and decreases by \$448,618 in fiscal year 2012.

▪ **Transfer Portion of Basic Aid from General Fund to the Federal State Fiscal Stabilization Fund in Fiscal Year 2011 Only**

The Governor's introduced budget includes the use of \$126.4 million from the federal State Fiscal Stabilization Fund (SFSF) in fiscal year 2011 to cover a portion of the state's general fund share of Basic Aid payments. The funds will be allocated based upon each school division's proportion of the state's share of Basic Aid. This action is not intended to permanently reduce state funding for 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 estimated amount of SFSF for each school division is shown in the Excel entitlement calculation file (Attachment B of this document). The amount of the \$126.4 million allocated to each school division is shown under the "Federal Funds for Basic Aid" tab in column "E" and the resulting total fiscal year 2011 projected Basic Aid entitlement is shown in column "F" of that worksheet.

▪ **Reduce Certain Incentive, Categorical, and Supplemental Education Programs by 15 Percent**

The Governor's introduced budget reduces funding for certain Incentive, Categorical, and Supplemental Education programs by 15 percent, or \$445,443 each year, for a total reduction of \$890,886 for the biennium. The details of the reductions are described below:

- *Incentive programs:*  
For fiscal year 2011 and fiscal year 2012, funding for Clinical Faculty is reduced by \$56,250, from \$375,000 to \$318,750 each year, and Career Switcher Mentoring Grants is reduced by \$49,409, from \$329,392 to \$279,983 each year.
- *Categorical programs:*  
For fiscal year 2011 and fiscal year 2012, funding for the Virginia Educational Technology Alliance is reduced by \$7,125, from \$47,500 to \$40,375 each year.
- *Supplemental Education programs:*  
For fiscal year 2011 and fiscal year 2012, funding for the Career and Technical Education Resource Center is reduced by \$43,769, from \$291,790 to \$248,021 each year; Jobs for Virginia Graduates is reduced by \$65,961, from \$439,737 to \$373,776 each year; Project Discovery is reduced by \$135,000, from \$900,000 to \$765,000 each year; Southside Virginia Technology Consortium is reduced by \$10,395, from \$69,300 to \$58,905 each year; Southwest Virginia Public Education Consortium is reduced by \$21,884, from \$145,895 to \$124,011 each year; Virginia Career Education Foundation is reduced by \$5,471, from \$36,474 to \$31,003 each year; Van Gogh Outreach Program is reduced by \$12,679, from \$84,528 to \$71,849 each year;

and the Great Aspirations Scholarship Program (GRASP) is reduced by \$37,500, from \$250,000 to \$212,500 each year.

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

- **Eliminate VPSA Education Technology Grant Program**

The Governor’s introduced budget eliminates funding for the Virginia Public School Authority (VPSA) Technology Grant Program for both years of the biennium. Eliminating this program results in a distribution reduction of \$59.9 million in each fiscal year and decreases required debt service on the technology notes by \$13.0 million in FY 2012. In a separate amendment, the Governor’s budget increases the Literary Fund transfer for teacher retirement by the same \$13.0 million. The debt service on existing equipment notes from prior fiscal years will continue to be paid by the Literary Fund until maturation. Please see the section titled “Increase Literary Fund Support for Teacher Retirement” below for more detailed information.

- **Increase Literary Fund Support for VRS Retirement**

The Governor’s introduced budget increases the transfer from the Literary Fund to support the state share of cost for teacher retirement by \$2.0 million in fiscal year 2011, from \$123.0 million to \$125.0 million. In fiscal year 2012, the Literary Fund transfer amount increases by \$15.0 million, from \$123.0 million to \$138.0 million. These actions do not affect division per pupil amounts or projected entitlements for VRS retirement in fiscal year 2011 or fiscal year 2012.

- **Increase Funding for National Board Certification Bonuses**

The Governor’s introduced budget includes an additional \$500,000, from \$4,470,000 to \$4,970,000, in each year of the biennium to support the projected number of eligible teachers qualifying for the National Board Certification bonuses awarded by the state.

### **Language-Only Amendments for Direct Aid Programs Included in HB 30/SB 30**

- **State Funds Required to be Appropriated to the Local School Board**

The Governor’s introduced budget includes new language that clarifies the current requirement that all state and local matching funds required by the programs in Direct Aid to Public Education shall be appropriated to the budget of the local school board.

- **Reinstate Required Local Match for Textbooks and Provide Additional Flexibility**

The Governor's introduced budget reinstates language that requires school divisions to match the state's share of textbook funds, based on the composite index of local ability-to-pay, with local funds. This provision was removed in Chapter 781 for fiscal year 2010 only, and has been reestablished for the 2010-2012 biennium.

Language has also been added that provides greater flexibility to school divisions regarding the use of textbook funds. School divisions will be permitted to use textbook funds to purchase electronic textbooks or other technology integral to the curriculum, and the technical equipment required to read and access this technology.

- **K-3 Primary Class Size Staffing Ratios**

The Governor's introduced budget includes new language that clarifies the types of positions eligible to meet the staffing requirements of the K-3 Primary Class Size Reduction program. In addition to special education teachers, instructional aides are not permitted to be counted towards meeting the required pupil/teacher ratios in grades kindergarten through three.

- **Eliminate VPSA Literary Fund Interest Rate Subsidy Program**

The Governor's introduced budget eliminates the interest rate subsidy program for the 2010-2012 biennium. The interest rate subsidy grants are funded by the Literary Fund and target construction projects on the Literary Fund First Priority Waiting List.

- **Virginia Preschool Initiative (VPI)**

The Governor's introduced budget includes new language that clarifies the definition of half-day and full-day preschool programs and provides further guidance for in-kind contributions. Half-day programs shall operate for a minimum of three hours of classroom instructional time per day, excluding breaks for lunch or recess, and grants to half-day programs shall be funded based on the state share of \$3,000 per unserved at-risk four-year-old in each locality. Full-day programs shall operate for a minimum of five and one-half instructional hours, excluding breaks for meals and recess. No additional state funding is provided for programs operating greater than three hours per day but less than five and one-half hours per day.

Currently, a local match is required for the VPI program based on the composite index of local ability-to-pay (capped at .5000). For purposes of meeting the local match, localities may use local expenditures for existing qualifying programs; however, new language included in the Governor's introduced budget requires that at least seventy-five percent of the local match must be cash and no more than twenty-five percent can be in-kind. The new language also defines in-kind contributions as cash outlays that are made by the locality that benefit the program but are not directly charged to the program. The value of fixed assets cannot be considered as an in-kind contribution.

- **Local Match Requirement for Career and Technical Education Payments**

The Governor's introduced budget includes new language clarifying the current practice that local school divisions are not required to provide a local match in order to receive state Career and Technical Education (CTE) equipment payments. The Governor's budget holds constant the \$1.8 million in each year of the biennium provided in Chapter 781 for this purpose. This funding currently provides a base allocation of \$2,000 each year for all divisions, with the remainder of the funding distributed on the basis of student enrollment in secondary CTE courses. As a reminder, state funds received for secondary CTE equipment must be used to supplement, not supplant, any funds currently provided for secondary CTE equipment within the locality.

- **Support for School Construction and Operating Costs**

The Governor's introduced budget changes the name of the "Additional Support for School Construction and Operating Costs" account to "Support for School Construction and Operating Costs." In addition, the local match requirement for this account has been reestablished for the 2010-2012 biennium. These state funds must be matched by the local government based on the composite index of local ability-to-pay. The Governor's introduced budget does not change the allowable uses of the Support for School Construction and Operating Costs account. In order to receive Support for School Construction and Operating Costs funding, the local governing body is required to appropriate these funds for any expenditure of the school division.

- **Adjustments to Summer Governor's Schools Program**

The Governor's introduced budget includes language that grants the Superintendent of Public Instruction authority to adjust tuition rates, types of programs offered, length of programs, and the number of students enrolled in order to maintain costs within the available state and local funds for the Summer Governor's Schools and Foreign Language Academies programs.

- **School Nurse Expenditures**

The Governor's introduced budget includes language clarifying the requirements for school nurse expenditures. School divisions receive funding for school nurses through the support cost calculation in Basic Aid and the state and local shares of this funding are specifically identified and reported to school divisions in the Department's Excel calculation template for each approved budget. Pursuant to the proposed language included in HB/SB 30, school divisions *shall spend* these funds for licensed school nurse positions employed by the school division or for licensed nurses contracted by the school division to provide school health services. Currently, school divisions are only required to *allocate* these funds for such purposes. The new language is intended to further clarify the intent of this requirement.