

Summary of Budget Amendments Adopted by the Senate and by the House of Delegates to the 2010-2012 Biennial Budget as Introduced (HB/SB 30) Affecting the Direct Aid to Public Education and Department of Education Central Office Budgets

This document provides a summary of amendments to the introduced 2010-2012 biennial budget (HB/SB 30) that were separately adopted by the House of Delegates and by the Senate on February 25, 2010. The respective amendments proposed by the Senate and by the House of Delegates change the budget introduced by Governor Kaine in HB/SB 30. The adopted changes affect fiscal years 2011 and 2012. Fiscal year 2011 begins on July 1, 2010, and ends on June 30, 2011. Fiscal year 2012 begins on July 1, 2011, and ends on June 30, 2012.

The budget actions proposed by Governor Kaine in HB/SB 30 were communicated in Attachment A of [Superintendent's Memorandum No. 338-09](#) dated December 18, 2009. The original text of that attachment is repeated in this document for reference purposes. The subsequent budget actions proposed by the Senate and the House of Delegates are summarized in this document and are reflected in italicized text.

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

A. Amendments to Direct Aid to Public Education Budget

1. Technical Updates to Existing Direct Aid Programs
2. Direct Aid Budget Policy Changes Included in HB/SB 30
3. Direct Aid Budget Policy Changes Not Included in HB/SB 30
4. Language-Only Amendments for Direct Aid Programs Included in HB/SB 30
5. Language-Only Amendments for Direct Aid Programs Not Included in HB/SB 30

B. Amendments to the Department of Education, Central Office Budget

1. Changes to Central Office Budget Not Included in HB/SB 30

A. DIRECT AID TO PUBLIC EDUCATION

1. Technical Updates to Existing Direct Aid Programs

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

- **Governor** – 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.
- *Senate* – Same as Governor’s introduced budget.
- *House* – Same as Governor’s introduced budget.

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

- **Governor** – 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.
- *Senate* – Same as Governor’s introduced budget.
- *House* – Same as Governor’s introduced budget.

Update Fringe Benefit Rates

- **Governor** – 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>) (Does not include RHCC - see below)	8.81%	10.49%
Instructional & Professional Support VRS (<u>Employee Share</u>)	5.00%	5.00%
Total Instructional & Professional Support VRS Rate	13.81%	15.49%
Group Life (<u>Employer Share</u>)	0.27%	0.33%
Group Life (<u>Employee Share</u>)	0.52%	0.69%
Total Group Life Rate	0.79%	1.02%
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>)	17.77%	19.48%
Total Nonprofessional Support Benefit Percent	15.54%	15.51%

- Senate** – Proposes decreasing the employer contribution rate for VRS professional group retirement benefits from 10.49 percent each fiscal year to 4.84 percent in fiscal year 2011 and 4.42 percent in fiscal year 2012. The proposed rates reflect limiting employer retirement contributions to the Virginia Retirement System to the actuarial “normal cost” plus twenty percent of the unfunded actuarial accrued liability. The “normal cost” is a component of the actuarial rate and reflects only the rate needed to pay for the benefits for each current employee. This action was taken, in part, due to the passage of [HB 1189 Substitute](#) by the Senate, which lowers future unfunded liabilities with structural changes to the retirement system effective with employees hired on or after July 1, 2010, with no prior service credit.*

The Senate also proposes a premium holiday for both the employer and employee share of group life in fiscal year 2011 and fiscal year 2012. The Senate budget adopts the Governor’s recommended employer contribution rates for the retiree health care credit (1.01 percent) and non-professional VRS retirement benefits (7.53 percent) for fiscal years 2011 and 2012. Additional information on the Senate’s proposed benefit rates are provided in the tables below (following the House amendment).

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The rate changes proposed by the Senate decrease state funding by approximately \$159.4 million in fiscal year 2011 and \$171.3 million in fiscal year 2012 compared to the Governor's introduced budget. The Senate amendment includes language stating the intent of the General Assembly that local savings related to the funded rates for public school teachers be used to help maintain local school funding levels.

- **House** – Proposes decreasing the employer contribution rate for VRS professional group retirement benefits from 10.49 percent each fiscal year to 4.01 percent in fiscal year 2011 and fiscal year 2012. The proposed rates reflect limiting the employer retirement contributions to the Virginia Retirement System to the actuarial “normal cost.” The “normal cost” is a component of the actuarial rate and reflects only the rate needed to pay for the benefits for each current employee. The second component of the actuarial rate, the unfunded liability, would not be funded and would not be charged by VRS. This action was taken, in part, due to the passage of [HB 1189](#) by the House of Delegates which lowers future unfunded liabilities with structural changes to the retirement system effective with employees hired on or after July 1, 2010, with no prior service credit.

The House also proposes decreasing the retiree health care credit rate, based on the “normal cost” rate, from 1.01 percent to 0.23 percent in fiscal year 2011 and fiscal year 2012. The House budget adopts the Governor's recommended employer contribution rates for group life (0.33 percent) and non-professional VRS retirement benefits (7.53 percent) for fiscal years 2011 and 2012. Additional information on the House's proposed benefit rates are provided in the tables below.

For fiscal year 2011 only, the House proposes to change the calculation of the state share of cost and required local effort for the Standards of Quality (SOQ). The state share of the SOQ would include a supplemental state payment determined by the difference between the funds received from the state for retirement, group life, and retiree health care credit for positions funded under the Standards of Quality and defined as teachers in § 51.1-124.3, Code of Virginia, which are based on a VRS rate of 10.49 percent and a retiree health care credit rate of 1.01 percent, and the payments made to the Virginia Retirement System for those same positions based on a VRS rate of 4.01 percent and a retiree health care credit rate of 0.23 percent. The local share of the SOQ in fiscal year 2011 would be reduced by the value of the supplemental state share of cost. This reduction in the local share of the SOQ would be considered as a credit against required local effort in fiscal year 2011.

The House proposal also requires local governing bodies to pay an amount equal to each division's required local effort credit to the Virginia Department of Accounts (DOA) on a quarterly basis during fiscal year 2011. The amendment provides the State Comptroller the authority to use State Aid Intercept if the required quarterly payments are not received from each locality. The table below provides the estimated required local effort credit for each locality, based on the Department of Education's projected average daily membership. If enacted, these required local effort credit values would be updated based on actual fiscal year 2011 average daily membership prior to the final local payment to DOA.

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To summarize the House's proposal for fiscal year 2011, the House budget funds the state share of a combined VRS employer rate (10.49 percent) and retiree health care credit (1.01 percent) rate of 11.50 percent. School divisions would be required to pay the Virginia Retirement System based on a combined VRS employer rate (4.01 percent) and retiree health care credit rate (0.23 percent) of 4.24 percent in fiscal year 2011. Local governing bodies would receive a credit towards their fiscal year 2011 required local expenditure for the SOQ equivalent to the value of the supplemental state payment, or the required local effort credit. The House proposal requires local governing bodies to pay an amount equal to the required local effort credit on a quarterly basis to the Virginia Department of Accounts in fiscal year 2011.

The supplemental state payment based on the funding differential between the funded VRS and retiree health care credit at 11.50 percent and the rate at which VRS will charge school divisions in fiscal year 2011, or 4.24 percent, decreases required local effort by approximately \$181.6 million in fiscal year 2011 compared to the Governor's introduced budget. Local governing bodies' required local effort to school divisions is reduced by \$181.6 million in fiscal year 2011 since school divisions would receive this amount as a supplemental state share of the SOQ. For fiscal year 2012, the rate change proposed by the House decreases state funding by approximately \$184.1 million in fiscal year 2012 compared to the Governor's introduced budget. Required local effort for fiscal year 2012 is based on the combined VRS and retiree health care credit rate of 4.24 percent with no required local effort credit adjustment in fiscal year 2012.

The following language is taken directly from the House budget amendment and is provided to help clarify the proposed changes:

"e. The amounts paid by the Department of Education to school divisions for the employer's share of retirement, group life, and retiree health care credit for teachers as defined in § 51.1-124.3, Code of Virginia, shall be based on the following rates:

<u>Employer Share of:</u>	<u>FY 2011</u>	<u>FY 2012</u>
Retirement	10.49 percent	4.01 percent
Group Life	0.33 percent	0.33 percent
Retiree Health Care Credit	1.01 percent	0.23 percent

f. School division payments to the Virginia Retirement System for the employer's share of retirement, group life, and retiree health care credit for teachers as defined in § 51.1-124.3, Code of Virginia, shall be based on the following rates:

<u>Employer Share of:</u>	<u>Normal Cost FY 2011</u>	<u>Normal Cost FY 2012</u>
Retirement	4.01 percent	4.01 percent
Group Life	0.33 percent	0.33 percent
Retiree Health Care Credit	0.23 percent	0.23 percent

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g. For the purposes of determining required local effort paid by the local governing body, the local share of costs shall be based on the rates in paragraph f. above.

h. 1) In the first year, the difference between the funds received from the state for retirement, group life, and retiree health care credit for positions funded under the Standards of Quality and defined as teachers in § 51.1-124.3, Code of Virginia, which are based upon the rates funded in paragraph e. above and the payments made to the Virginia Retirement System for those same positions based upon the rates in paragraph f. above shall be considered an additional state share payment toward the costs of the Standards of Quality. As such, it shall be added to the amounts calculated as the “State Share for the Standards of Quality” pursuant to paragraph A.8. of this Item. Further, the same amount added to the state share for each locality shall be deducted from the amounts calculated as the “Required Local Expenditure for the Standards of Quality” for that same locality pursuant to paragraph A.5. of this Item.

2) The Department of Education shall notify each school division and local governing body of this estimated additional state payment for the applicable school division at the beginning of the fiscal year and shall notify the school division and the local governing body of the final amount based on final average daily membership no later than June 1, 2011.

3) The Department of Education shall provide these same estimates and final calculations to the State Comptroller.

i. 1) In the first year, each local governing body shall pay an amount equal to the amounts deducted from its “Required Local Expenditure for the Standards of Quality” pursuant to paragraph h. above to the Department of Accounts pursuant to policies and procedures to be established by the State Comptroller in coordination with the Department of Education.

2) Such procedures shall include a plan for communicating the requirements of this paragraph to each local governing body and each school division.

3) Such procedures shall require local governments to make an installment payment of at least 25 percent of the estimated total payment no less than each quarter; however, nothing shall prohibit a locality from paying in advance of the required schedule of payments issued by the State Comptroller.

4) Notwithstanding any contrary provision of law, the State Comptroller shall have broad authority to execute the provisions of this section in order to maintain its intended objective, including the use of the State Aid Intercept provisions, and to comply with any accounting standards or requirements of federal law.”

The following table represents the value of each local governing body’s required local effort credit in fiscal year 2011, which also represents the value of the required payment by the local governing body to the Virginia Department of Accounts in fiscal year 2011:

Attachment B to Supts. Memo No. 047-10
March 2, 2010

Div Num	Division	Column A: FY 2011 State Entitlements VRS @ 10.49% and RHCC @ 1.01%	Column B: FY 2011 State Entitlements VRS @ 4.01% and RHCC @ 0.23%	<u>Value of Required Local Effort Credit:</u> Reflects a Reduction to Each Division's Required Local Effort in FY 2011 <u>and</u> the Amount to be Paid to the State by the Local Governing Body in FY 2011 (Column A minus Column B)
001	ACCOMACK	25,264,673	24,381,384	883,289
002	ALBEMARLE	43,605,047	42,543,369	1,061,678
003	ALLEGHANY	16,310,449	15,711,596	598,853
004	AMELIA	9,200,348	8,882,629	317,719
005	AMHERST	25,301,450	24,442,165	859,285
006	APPOMATTOX	13,073,258	12,628,105	445,153
007	ARLINGTON	43,374,195	42,135,429	1,238,766
008	AUGUSTA	50,704,809	48,981,951	1,722,858
009	BATH	1,551,120	1,509,712	41,408
010	BEDFORD	43,255,366	41,827,585	1,427,781
011	BLAND	5,110,461	4,927,609	182,852
012	BOTETOURT	23,827,515	22,989,109	838,406
013	BRUNSWICK	13,011,159	12,572,094	439,065
014	BUCHANAN	18,502,582	17,814,300	688,282
015	BUCKINGHAM	11,978,841	11,549,143	429,698
016	CAMPBELL	44,930,252	43,360,805	1,569,447
017	CAROLINE	20,711,045	19,973,410	737,635
018	CARROLL	21,419,311	20,647,356	771,955
019	CHARLES CITY	4,504,443	4,351,503	152,940
020	CHARLOTTE	13,151,137	12,694,671	456,466
021	CHESTERFIELD	267,581,563	258,042,273	9,539,290
022	CLARKE	8,010,540	7,749,390	261,150
023	CRAIG	4,198,812	4,047,885	150,927
024	CULPEPER	32,720,403	31,582,037	1,138,366
025	CUMBERLAND	8,157,953	7,880,375	277,578
026	DICKENSON	15,253,832	14,682,983	570,849
027	DINWIDDIE	26,494,851	25,537,935	956,916
028	ESSEX	7,911,733	7,681,516	230,217
029	FAIRFAX	460,319,186	446,358,174	13,961,012
030	FAUQUIER	37,776,724	36,590,255	1,186,469

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031	FLOYD	10,676,750	10,312,177	364,573
032	FLUVANNA	18,007,446	17,435,638	571,808
033	FRANKLIN	34,937,137	33,744,465	1,192,672
034	FREDERICK	61,112,991	58,979,804	2,133,187
035	GILES	14,414,294	13,880,651	533,643
036	GLOUCESTER	27,540,174	26,641,605	898,569
037	GOOCHLAND	5,564,810	5,429,049	135,761
038	GRAYSON	11,372,059	10,969,252	402,807
039	GREENE	15,003,700	14,515,669	488,031
040	GREENSVILLE	9,546,653	9,212,188	334,465
041	HALIFAX	33,537,891	32,325,356	1,212,535
042	HANOVER	77,081,485	74,398,836	2,682,649
043	HENRICO	211,330,732	204,246,460	7,084,272
044	HENRY	40,942,526	39,484,344	1,458,182
045	HIGHLAND	1,486,535	1,461,264	25,271
046	ISLE OF WIGHT	25,818,334	24,969,389	848,945
047	JAMES CITY	35,803,326	34,709,070	1,094,256
048	KING GEORGE	18,282,670	17,656,513	626,157
049	KING QUEEN	3,780,567	3,659,992	120,575
050	KING WILLIAM	11,653,701	11,266,627	387,074
051	LANCASTER	2,970,948	2,900,325	70,623
052	LEE	24,599,970	23,677,106	922,864
053	LOUDOUN	205,528,119	198,580,207	6,947,912
054	LOUISA	16,684,723	16,139,393	545,330
055	LUNENBURG	9,419,408	9,086,802	332,606
056	MADISON	7,595,883	7,353,645	242,238
057	MATHEWS	4,587,862	4,452,691	135,171
058	MECKLENBURG	24,743,151	23,874,722	868,429
059	MIDDLESEX	3,338,945	3,255,835	83,110

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060	MONTGOMERY	47,697,813	46,005,619	1,692,194
062	NELSON	7,034,031	6,818,881	215,150
063	NEW KENT	12,266,887	11,853,815	413,072
065	NORTHAMPTON	7,801,305	7,565,322	235,983
066	NORTHUMBERLAND	3,440,931	3,369,751	71,180
067	NOTTOWAY	13,500,956	13,030,936	470,020
068	ORANGE	21,440,591	20,697,508	743,083
069	PAGE	17,814,321	17,208,601	605,720
070	PATRICK	14,299,015	13,773,534	525,481
071	PITTSYLVANIA	51,635,873	49,723,195	1,912,678
072	POWHATAN	19,894,475	19,215,475	679,000
073	PRINCE EDWARD	14,443,577	13,954,661	488,916
074	PRINCE GEORGE	35,268,345	34,017,793	1,250,552
075	PRINCE WILLIAM	368,103,361	355,488,598	12,614,763
077	PULASKI	24,382,829	23,526,882	855,947
078	RAPPAHANNOCK	2,428,851	2,383,094	45,757
079	RICHMOND	6,184,423	5,970,050	214,373
080	ROANOKE	68,682,788	66,193,589	2,489,199
081	ROCKBRIDGE	10,386,039	10,036,230	349,809
082	ROCKINGHAM	55,092,496	53,251,406	1,841,090
083	RUSSELL	24,177,292	23,290,465	886,827
084	SCOTT	23,736,719	22,888,710	848,009
085	SHENANDOAH	27,104,182	26,208,572	895,610
086	SMYTH	29,194,758	28,125,276	1,069,482
087	SOUTHAMPTON	16,527,843	15,958,810	569,033
088	SPOTSYLVANIA	112,043,600	108,118,410	3,925,190
089	STAFFORD	125,265,993	120,790,480	4,475,513
090	SURRY	3,040,278	2,956,227	84,051
091	SUSSEX	7,366,084	7,116,470	249,614

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092	TAZEWELL	35,578,030	34,229,297	1,348,733
093	WARREN	22,389,571	21,603,527	786,044
094	WASHINGTON	36,489,520	35,216,129	1,273,391
095	WESTMORELAND	7,164,220	6,926,876	237,344
096	WISE	37,778,473	36,382,051	1,396,422
097	WYTHE	21,034,923	20,286,275	748,648
098	YORK	55,929,366	54,022,948	1,906,418
101	ALEXANDRIA	27,143,480	26,409,213	734,267
102	BRISTOL	12,672,210	12,243,043	429,167
103	BUENA VISTA	6,665,177	6,414,320	250,857
104	CHARLOTTESVILLE	13,822,912	13,457,847	365,065
106	COLONIAL HEIGHTS	11,920,987	11,507,170	413,817
107	COVINGTON	4,525,884	4,354,805	171,079
108	DANVILLE	36,892,256	35,594,006	1,298,250
109	FALLS CHURCH	4,473,907	4,353,386	120,521
110	FREDERICKSBURG	7,152,463	6,960,472	191,991
111	GALAX	6,872,428	6,617,119	255,309
112	HAMPTON	114,795,693	110,710,182	4,085,511
113	HARRISONBURG	21,719,997	21,004,443	715,554
114	HOPEWELL	22,728,088	21,891,409	836,679
115	LYNCHBURG	41,852,743	40,485,165	1,367,578
116	MARTINSVILLE	13,482,473	12,988,409	494,064
117	NEWPORT NEWS	160,031,277	154,555,503	5,475,774
118	NORFOLK	171,977,204	166,249,944	5,727,260
119	NORTON	4,240,528	4,083,015	157,513
120	PETERSBURG	25,221,707	24,308,780	912,927
121	PORTSMOUTH	84,091,810	81,213,899	2,877,911
122	RADFORD	7,570,661	7,292,440	278,221
123	RICHMOND CITY	112,475,517	109,141,187	3,334,330

Div Num	Division	Column A: FY 2011 State Entitlements VRS @ 10.49% and RHCC @ 1.01%	Column B: FY 2011 State Entitlements VRS @ 4.01% and RHCC @ 0.23%	<u>Value of Required Local Effort Credit:</u> Reflects a Reduction to Each Division's Required Local Effort in FY 2011 and the Amount to be Paid to the State by the Local Governing Body in FY 2011 (Column A minus Column B)
124	ROANOKE CITY	63,043,606	60,929,540	2,114,066
126	STAUNTON	15,198,244	14,782,500	415,744
127	SUFFOLK	73,540,533	71,094,636	2,445,897
128	VIRGINIA BEACH	315,720,510	305,458,122	10,262,388
130	WAYNESBORO	13,705,270	13,221,723	483,547
131	WILLIAMSBURG	2,996,531	2,954,885	41,646
132	WINCHESTER	15,235,511	14,721,402	514,109
134	FAIRFAX CITY	6,099,961	5,939,047	160,914
135	FRANKLIN CITY	7,304,776	7,065,410	239,366
136	CHESAPEAKE CITY	203,686,677	196,934,123	6,752,554
137	LEXINGTON	2,603,502	2,508,236	95,266
138	EMPORIA	5,782,583	5,573,999	208,584
139	SALEM	17,587,503	16,939,196	648,307
140	BEDFORD CITY	3,898,643	3,760,673	137,970
142	POQUOSON	10,713,622	10,346,633	366,989
143	MANASSAS CITY	33,192,587	32,036,315	1,156,272
144	MANASSAS PARK	14,720,521	14,196,826	523,695
202	COLONIAL BEACH	3,363,361	3,235,261	128,100
207	WEST POINT	4,238,997	4,081,002	157,995
TOTAL		5,396,157,953	5,214,516,578	\$181,641,375

Proposed Senate and House Fringe Benefit Rates for 2010-2012:

FRINGE BENEFIT RATES:	Fiscal Year 2011		
	Governor's Introduced	Senate Budget	House Budget ¹
Instructional / Professional Support VRS Retirement (Employer Share) (Does not include RHCC - see below)	10.49%	4.84%	4.01%
Instructional / Professional Support VRS Retirement (Employee Share)	5.00%	5.00%	5.00%
Instructional / Professional Support VRS Retirement Rate	15.49%	9.84%	9.01%
Group Life (Employer Share)	0.33%	0.00%	0.33%
Group Life (Employee Share)	0.69%	0.00%	0.69%
Total Group Life Rate	1.02%	0.00%	1.02%
Retiree Health Care Credit (Paid as part of the VRS per pupil amount)	1.01%	1.01%	0.23%
Non-professional Support VRS Retirement	7.53%	7.53%	7.53%
Social Security	7.65%	7.65%	7.65%
Health Care Premium	\$3,375	\$3,375	\$3,375
Total Instructional / Professional Support Benefits Percent (Employer Share)	19.48%	13.50%	12.22%
Total Non-professional Support Benefits Percent (Employer Share)	15.51%	15.18%	15.51%

¹The House budget funds the state share of a combined VRS retirement employer rate (10.49%) and Retiree Health Care Credit (1.01%) rate of 11.50%. School divisions will be required to pay the Virginia Retirement System based on a combined VRS employer rate (4.01%) and Retiree Health Care Credit (0.23%) rate of 4.24% in FY 2011. The House proposal requires local governing bodies to pay an amount equal to the state share of revenue between these two combined rates to the Virginia Department of Accounts in FY 2011. Local governing bodies will receive a credit towards their FY 2011 Required Local Expenditure for the Standards of Quality equivalent to the value of this payment.

FRINGE BENEFIT RATES:	Fiscal Year 2012		
	Governor's Introduced	Senate Budget	House Budget
Instructional / Professional Support VRS Retirement (Employer Share) (Does not include RHCC - see below)	10.49%	4.42%	4.01%
Instructional / Professional Support VRS Retirement (Employee Share)	5.00%	5.00%	5.00%
Instructional / Professional Support VRS Retirement Rate	15.49%	9.42%	9.01%
Group Life (Employer Share)	0.33%	0.00%	0.33%
Group Life (Employee Share)	0.69%	0.00%	0.69%
Total Group Life Rate	1.02%	0.00%	1.02%
Retiree Health Care Credit (Paid as part of the VRS per pupil amount)	1.01%	1.01%	0.23%
Non-professional Support VRS Retirement	7.53%	7.53%	7.53%
Social Security	7.65%	7.65%	7.65%
Health Care Premium	\$3,375	\$3,509	\$3,375
Total Instructional / Professional Support Benefits Percent (Employer Share)	19.48%	13.08%	12.22%
Total Non-professional Support Benefits Percent (Employer Share)	15.51%	15.18%	15.51%

Updates for Recalculation of Composite Index for 2010-2012

- **Governor** – 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.
- **Senate** – *Same as Governor’s introduced budget.*
- **House** – *The House budget includes a technical update to Dinwiddie County’s 2007 True Value of Property data used in the composite index formula calculation. The value used in the original 2010-2012 composite index calculation did not include the value of property for public service corporation real estate in Dinwiddie County. The inclusion of this data resulted in an increase to Dinwiddie County’s 2010-2012 composite index value, thereby generating a state savings of \$87,936 in fiscal year 2011 and \$96,193 in fiscal year 2012. This action was applied to the statewide total true value of property resulting in a number of other school divisions’ composite indices decreasing. The revised 2010-2012 composite indices based on this update are provided in the Excel calculation tool that reflects the House budget amendments to House Bill 30.*

Update Sales Tax Projections

- **Governor** – 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

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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.

- *Senate* – The Senate's proposed budget increases the sales tax estimates by an additional \$1.3 million in fiscal year 2011 and fiscal year 2012 from the projections contained in the Governor's introduced budget. The revised sales tax estimates are \$1,080,119,070 in fiscal year 2011 and \$1,116,019,070 in fiscal year 2012.

The state share of Basic Aid decreases \$737,894 in fiscal year 2011 and \$737,896 in fiscal year 2012 due to the revised sales tax estimates. The local share of Basic Aid also 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 increase and the Basic Aid decrease) is an increase of \$581,176 in fiscal year 2011 and an increase of \$581,174 in fiscal year 2012.

- *House* – Same as Governor's introduced budget.

Update Lottery Proceeds

- **Governor** – 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-

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2012 biennium. The locality shall appropriate these funds for any public education expenditure in the school division.

- **Senate** – Increases the projection of total Lottery proceeds by \$5.0 million in fiscal year 2011 and fiscal year 2012 due to the addition of Powerball to the Virginia Lottery games. The total Lottery estimate has been revised to \$435.2 million in fiscal years 2011 and 2012.

State funding for the K-3 Primary Class Size Reduction program, which is also funded by Lottery proceeds, was reduced by \$4.8 million in fiscal year 2011 and \$5.0 million in fiscal year 2012 based on the lower VRS and retiree health care credit rates funded in the Senate budget.

The Senate's proposed budget moves the Remedial Summer School program to the Lottery funded accounts. This program is projected to cost \$25.1 million in fiscal year 2011 and \$25.5 million in fiscal year 2012. The Senate's proposed budget also moves \$22.6 million in fiscal year 2011 and \$20.3 million in fiscal year 2012 to the Lottery proceeds area to fund a portion of the English as a Second Language program. Moving these program costs into the Lottery service area reduces the Support for School Construction and Operating Costs per pupil amounts.

Based on all actions in the proposed Senate budget, the Support for School Construction and Operating Costs account is distributed based on the estimated state share of \$19.38 per pupil in adjusted ADM in fiscal year 2011 and \$7.93 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 \$13.1 million in fiscal year 2011 and \$5.4 million in fiscal year 2012; this is a decrease of \$22.0 million in fiscal year 2011 and a decrease of \$26.6 million in fiscal year 2012 compared to the Governor's introduced budget.

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 must appropriate these funds for any public education expenditure in the school division.

- **House** – Increases the projection of total Lottery proceeds by \$5.0 million in fiscal year 2011 and fiscal year 2012 due to the addition of Powerball to the Virginia Lottery games. The total Lottery estimate has been revised to \$435.2 million in fiscal years 2011 and 2012.

The House also proposes moving three accounts, Textbooks, School Lunch, and Remedial Summer School, from the general fund into the Lottery service area. These three accounts will be funded entirely by Lottery proceeds, resulting in a general fund savings of approximately \$82.0 million in fiscal year 2011 and \$82.7 million in fiscal year 2012. School divisions will still be required to meet the required local effort amount for Textbooks funds.

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In addition, the House reprograms funding for the At-Risk Add-on, Virginia Preschool Initiative, Early Reading Intervention, Support for School Construction and Operating Costs, and Enrollment Loss accounts to create a new Lottery Proceeds Block Grant. Funding would be provided on a per pupil basis using ADM and the composite index. The total estimated funding to be distributed to school divisions under this account is \$136.2 million in fiscal year 2011 and \$127.0 million in fiscal year 2012.

The Lottery Proceeds Block Grant must be used for either the Virginia Preschool Initiative, At-Risk Add-On, or Early Reading Intervention program. In order to receive the funding, divisions will be required to meet the program requirements for the program(s) they elect to participate in and provide a local match based on the composite index of local ability-to-pay applied to the proposed per pupil funding formula. The Lottery Proceeds Block Grant is projected to be distributed based on the state share of \$201.20 per pupil in adjusted ADM in fiscal year 2011 and \$186.55 per pupil in adjusted ADM in fiscal year 2012.

2. Direct Aid Budget Policy Changes Included in HB/SB 30

Defer 2010-2012 Composite Index until Fiscal Year 2012

- **Governor** – 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.
- **Senate** – *The Senate budget reinstates the 2010-2012 composite index of local ability-to-pay in fiscal year 2011. This action also eliminates the extension of the fifteen year hold harmless provision for Halifax County provided in the Governor’s introduced budget. Updating Direct Aid accounts based on the 2010-2012 composite index increases the state share of funding by \$29.5 million in fiscal year 2011. This action results in a redistribution of state funds across divisions.*

The Senate budget also provides \$116.5 million in fiscal year 2011 and \$115.2 million in fiscal year 2012 to fund a hold harmless payment in fiscal years 2011 and 2012 for all school divisions that experienced a reduction in state funding as a result of the 2010-2012 composite index update. The state funding is based on 100 percent of the loss in funding based on Senate Bill 30 using the 2010-2012 composite indices rather than the 2008-2010 indices.

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- **House** – *The House budget reinstates the 2010-2012 composite index of local ability-to-pay in fiscal year 2011. This action also eliminates the extension of the fifteen year hold harmless provision for Halifax County provided in the Governor’s introduced budget. Updating Direct Aid accounts based on the 2010-2012 composite index increases the state share of funding by \$29.5 million in fiscal year 2011. This action results in a redistribution of state funds across divisions.*

The House budget also provides \$93.2 million in fiscal year 2011 to fund a hold harmless payment in fiscal year 2011 for all school divisions that experienced a reduction in state funding as a result of the 2010-2012 composite index update. The state funding is based on 80 percent of the loss in funding based on House Bill 30 using the 2010-2012 composite indices rather than the 2008-2010 indices. Please see the section below titled “Direct Aid Appropriation Contingent upon Receipt of Additional Federal Funding for Medicaid Resulting from an Increase in the Enhanced Federal Medical Assistance (FMAP) Rate” for more information.

Remove Non-personal Inflation Funding for the 2010-2012 Biennium

- **Governor** – The Governor’s introduced budget proposes eliminating funded inflation factors from the non-personal component of Basic Aid for the 2010-2012 biennium. Typically, as part of the biennial rebenchmarking process, the Department of Education updates non-personal 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.
- **Senate** – *The Senate’s proposed budget restores non-personal inflation in fiscal year 2012 only based on the inflation factors contained in the Board of Education’s rebenchmarked budget. Based on all actions included in the Senate’s proposed budget, the state share of funding is reduced by \$1.6 million in fiscal year 2012.*
- **House** – *Same as Governor’s introduced budget.*

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

- **Governor** – 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.

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- **Senate** – Same as Governor’s introduced budget. In addition, in a separate amendment (see amendment titled “Remove Non-personal Inflation Funding for the 2010-2012 Biennium” above), the Senate provides funding to increase the funded health care premium from \$3,375 in the Governor’s introduced budget to \$3,509 in fiscal year 2012 only based on the funded inflation factors in fiscal year 2012.
- **House** – Same as Governor’s introduced budget.

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

- **Governor** – 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 non-personal 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
2800	Other Benefits 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.
5800	Miscellaneous
8100	Capital Outlay Replacement (Not applicable to object code 8100 from the ASR function “Facilities,” which is already an excluded cost)

- **Senate** – Same as Governor’s introduced budget. The Senate budget also eliminates the object codes for leases and rentals (5400) and travel (5500), as well as expenditures for non-personal costs in the Facilities function, from recognized support costs in Basic Aid. The types of expenditures included in each of the object codes are described below. This action results in a decrease in state funding of \$34.7 million in fiscal year 2011 and \$34.8 million in fiscal year 2012. Please note that these expenditures will also be excluded from the qualifying base of expenditures for operations for the purpose of calculating whether school divisions meet required local effort for the 2010-2012 biennium.

The Senate budget also includes language instructing the Department of Education to include the expenditures for travel, leases and rentals, facilities, other benefits, miscellaneous, and certain capital replacement for the purpose of calculating rebenchmarking costs for the 2012-2014 biennium. The funding reductions in the 2010-2012 biennium associated with the removal of these expenditures are intended to be temporary.

- **House** – Same as Governor’s introduced budget. The House budget also eliminates the object codes for leases and rentals (5400) and travel (5500) from recognized support costs in Basic Aid. The types of expenditures included in each of the object codes are described

below. This action results in a decrease in state funding of \$30.0 million in fiscal year 2011 and \$30.1 million in fiscal year 2012. Please note that these expenditures will also be excluded from the qualifying base of expenditures for operations for the purpose of calculating whether school divisions meet required local effort for the 2010-2012 biennium.

ASR Object Code	Expenditure Description
5400	Leases and Rentals Includes payments for leases that are not capitalized and rental of land, structures, and equipment (does not included expenditures made under a lease-purchase agreement).
5500	Travel

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

- **Governor** – 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.

- **Senate** – *The Senate’s proposed budget accepts the Governor’s introduced budget’s deferral of the fiscal year 2010 fourth quarter State Operated Programs payment and the continuation of the fourth quarter deferment in each subsequent fiscal year. The Senate proposes to restore funding for educational services at the Southwestern Virginia Mental Health Institute’s Adolescent Unit, located in Smyth County, and at the Commonwealth Center for Children and Adolescents, located in the City of Staunton. The result of these changes increases state funding by approximately \$1.4 million in fiscal year 2011 and \$1.9 million in fiscal year 2012 compared to the Governor’s introduced budget.*
- **House** – *The House’s proposed budget accepts the Governor’s introduced budget’s deferral of the fiscal year 2010 fourth quarter State Operated Programs payment and the*

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continuation of the fourth quarter deferment in each subsequent fiscal year. The House also provides \$1.3 million in fiscal year 2011 and \$1.4 million in fiscal year 2012 to restore funding for educational services at the Commonwealth Center for Children and Adolescents in the City of Staunton.

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

- **Governor** – 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.

- **Senate** – *Same as Governor’s introduced budget.*
- **House** – *Same as Governor’s introduced budget.*

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

- **Governor** – 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

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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.

- *Senate – Same as Governor’s introduced budget.*
- *House – The House budget accepts the Governor’s recommendations and also eliminates the remaining funding for Project Discovery and the Career Switcher Mentoring Grants program. These actions result in an additional state savings of \$1.0 million in each year of the biennium.*

Eliminate VPSA Education Technology Grant Program

- **Governor** – 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.
- *Senate – The Senate budget restores funding for the Virginia Public School Authority (VPSA) Technology Grant Program for both years of the biennium; however, the school eligibility criteria has changed. In order to receive grants under the new formula, qualifying schools are defined as schools that are subject to state accreditation requirements and that report Fall Membership. As a result, district centers are no longer eligible to receive funding under this program; however, governor’s schools, regional centers for vocational education, special education, and alternative education, and the School for the Deaf and the Blind would continue to be eligible for these grants. The entitlement amount for each eligible school remains at \$26,000 and each division would still receive \$50,000. The proposed new methodology includes an additional distribution of \$26,000 for each school that is not fully accredited. Eligible schools could receive this supplemental grant only once for a period of three years following the year the eligible school fails to be fully accredited.*

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The required local match remains at 20 percent and still excludes regional centers and the School for the Deaf and the Blind. The Senate budget also extends the loan period for the technology notes that fund the grants from five years to six years to reduce yearly debt service.

Restoration of this program results in a distribution increase of \$57.6 million in fiscal year 2011 and \$57.8 million in fiscal year 2012 and requires a debt service payment on the technology notes of \$10.7 million in fiscal year 2012. In a separate action, the Senate's budget decreases the Literary Fund transfer for teacher retirement by the same \$10.7 million in fiscal year 2012.

- **House** – *The House budget restores funding for the Virginia Public School Authority (VPSA) Technology Grant Program for fiscal year 2012 only; however, the school eligibility criteria has changed. In order to receive grants under the new formula, qualifying schools are defined as schools that are subject to state accreditation requirements and that report Fall Membership. As a result, district centers are no longer eligible to receive funding under this program; however, governor's schools, regional centers for vocational education, special education, and alternative education, and the School for the Deaf and the Blind would continue to be eligible for these grants. The entitlement amount for each eligible school remains at \$26,000 and each division would still receive \$50,000. The proposed new methodology includes an additional distribution of \$26,000 for each school that is not fully accredited. Eligible schools could receive this supplemental grant only once for a period of three years following the year the eligible school fails to be fully accredited. The required local match remains at 20 percent and still excludes regional centers and the School for the Deaf and the Blind.*

Restoration of this program results in a distribution increase of \$57.8 million in fiscal year 2012. There would be no increase in the required debt service on the technology notes until fiscal year 2013.

Increase Literary Fund Support for VRS Retirement

- **Governor** – *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.*
- **Senate** – *The Senate's budget uses \$13.0 million of Literary Fund balances in fiscal year 2011 to pay a portion of the state share of cost for teacher retirement and Social Security. This increases the Literary Fund transfer amount to \$138.0 million in fiscal year 2011. This action does not affect division per pupil amounts or projected entitlements for VRS retirement or Social Security.*

In addition, the Literary Fund transfer for teacher retirement and Social Security is reduced by approximately \$10.7 million in fiscal year 2012 to fund debt service on the VPSA

technology notes issued in fiscal year 2011. This decreases the Literary Fund transfer amount to approximately \$127.3 million in fiscal year 2012.

- **House** – *The House budget increases the amount transferred from the Literary Fund to support the state share of cost for teacher retirement by \$13.0 million in fiscal year 2011, from \$125.0 million to \$138.0 million. This action does not affect division per pupil amounts or projected entitlements for VRS retirement in fiscal year 2011.*

Increase Funding for National Board Certification Bonuses

- **Governor** – *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.*
- **Senate** – *Same as Governor’s introduced budget.*
- **House** – *Same as Governor’s introduced budget.*

3. Direct Aid Budget Policy Changes Not Included in HB/SB 30

Modify Federal Revenue Deduct Methodology

- **Senate** – *The Senate’s proposed budget modifies the federal revenue deduct methodology to use SOQ funded support costs as a percentage of total SOQ costs to calculate the support portion of federal revenue to be deducted from Basic Aid. As originally adopted by the 2004 General Assembly, the purpose of the federal revenue deduct was to eliminate support expenditures from the base fiscal year that were paid from federal revenues to reduce the impact on the rebenchmarked cost of Direct Aid. The approved federal deduct was based on the estimated portion of federal revenues that were reflected in prevailing support costs of the base year expenditures. The instruction and support cost expenditures used in the calculation were intended to reflect how the SOQ model funds instructional and support costs. Using this revised methodology will ensure that any future funding methodology changes to the SOQ instructional and/or support costs are captured in the federal revenue deduct methodology.*

Calculating the support percent for the federal revenue deduct based on the funded support to total costs ratio in the SOQ model increases the support percentage that is applied in the federal revenue deduct methodology from 29.82 percent in both years of the Governor’s introduced budget to 37.56 percent in fiscal year 2011 and 37.45 percent in fiscal year 2012. As a result, the amount of federal revenues that are deducted from the funded Basic Aid per pupil amount will also increase, which reduces the state’s share of Basic Aid. This action results in a state savings of \$19.5 million in fiscal year 2011 and \$19.2 million in fiscal year 2012.

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- **House** – *Maintains the support percent for the federal revenue deduct based on the funded support to total costs ratio funded in House Bill 30 (29.82%) for fiscal years 2011 and 2012.*

Reduce Full Cost of Competing Adjustment (COCA) to Offset Cost of Funding 2010-2012 Composite Index in Fiscal Year 2011

- **Senate** – *No action taken.*
- **House** – *Reduces the cost of competing adjustment (COCA) for Planning District 8 divisions in fiscal year 2011 to offset the state cost of funding the 2010-2012 composite index in fiscal year 2011. The full COCA rates for instructional and support COCA were reduced by 36.65 percent. The funded instructional COCA rate is reduced from 9.83 percent to 6.23 percent and the funded support COCA rate is reduced from 24.61 percent to 15.59 percent. The estimated state savings to reduce full COCA by 36.65 percent is approximately \$29.5 million in fiscal year 2011. Please note that this action does not affect divisions funded with partial COCA adjustments.*

Eliminate Funding for the Secondary Planning Period

- **Senate** – *No action taken.*
- **House** – *The House budget eliminates funding of the secondary planning period for fiscal years 2011 and 2012. The estimated state savings from eliminating the secondary planning period is approximately \$185.7 million in fiscal year 2011 and \$188.1 million for fiscal year 2012. Suspending funding for the secondary planning period increases the secondary school wide ratio from 21:1 to 25:1 in middle and high schools. In addition, the requirement to provide an unencumbered planning period for middle and high school teachers is removed for the 2010-2012 biennium.*

Adjust Basic Aid Funding for Albemarle County and Charlottesville Based on True Value of Property Adjustment for Albemarle County

- **Senate** – *No action taken.*
- **House** – *The House proposes adjusting Albemarle County's composite index for the 2010-2012 biennium by reducing its true value of property amount in the formula by ten percent, consistent with the percent value as prescribed in the local revenue sharing agreement between Albemarle County and the City of Charlottesville. This action increases Albemarle County's state Basic Aid payment by approximately \$2.8 million in fiscal year 2011 and fiscal year 2012. Charlottesville City's state Basic Aid payment is reduced by the same \$2.8 million each year. This action only changes the funding levels for Albemarle County and Charlottesville in the 2010-2012 biennium. It does not change the funding for any other division and it does not change the final composite indices for divisions in the 2010-2012 biennium.*

Extend School Bus Replacement Cycle from 12 Years to 15 Years

- *Senate* – No action taken.
- *House* – The House budget extends the school bus replacement cycle from 12 years to 15 years, as recognized in the pupil transportation support costs calculation in the SOQ. This results in a state savings of approximately \$9.7 million in fiscal year 2011 and fiscal year 2012.

Correct Facilities Non-Personal Support Cost to Include Facilities Positions

- *Senate* – The Senate budget corrects the Facilities non-personal support cost calculation, which inadvertently excluded expenditures for recognized Facilities positions in Senate Bill 30. These expenditures were previously funded under non-personal support costs. The estimated state cost to restore expenditures for recognized Facilities positions is \$3.9 million in fiscal year 2011 and \$4.0 million in fiscal year 2012.
- *House* – Same as the Senate amendment.

Combine ADM of Jointly-operated Divisions for Per Pupil Support Cost Calculations

- *Senate* – The Senate budget modifies the average daily membership (ADM) total for jointly-operated divisions used in the per pupil support cost calculations. The per pupil calculations for jointly-operated divisions were modified to combine the individual ADM values of the two divisions comprising each jointly-operated division to be consistent with the total expenditure base comprised of both divisions.

The previous per pupil values for jointly-operated divisions included in the calculation of the statewide linear weighted averages for support non-personal costs per pupil and support positions per pupil were in some cases inflated. Correcting the jointly-operating division ADM totals did result in reductions to the funded non-personal costs per pupil and also changed the funded support positions per pupil across the categories subject to the support position ratio.

The estimated state savings resulting from this change is approximately \$24.5 million for fiscal year 2011 and \$24.7 million for fiscal year 2012.

- *House* – Same as the Senate amendment.

Correct Prevailing Support Costs Calculations for Substitutes and Improvement by Excluding Expenditures for Regional Programs

- *Senate* – The Senate budget corrects the SOQ support cost calculations for Substitutes and Improvement by excluding the expenditures for regional programs. The Governor's introduced budget eliminated the practice of prorating regional program expenditures back to the participating school divisions to be included in the calculation of prevailing non-personal support costs. However, the regional program expenditures for Substitutes and

Improvement were inadvertently left in the prevailing calculations for Substitutes and Improvement costs in Senate Bill 30, thereby inflating the resulting prevailing statewide averages. The removal of regional program expenditures from the calculations for Substitutes and Improvement costs results in a state savings of \$8.7 million in fiscal year 2011 and \$8.8 million in fiscal year 2012.

- *House – Same as the Senate amendment.*

Modify SOQ to Include Zero Values in the Calculation of Prevailing Non-Personal Support Costs

- *Senate – The Senate budget modifies the SOQ to include divisions' zero expenditure values in the calculation of prevailing non-personal support costs. Current SOQ funding does not include division zero values in the linear weighted average calculations that determine prevailing costs. By including zeros in these calculations, the prevailing statewide averages for non-personal support costs are lowered, thereby reducing the overall cost of the SOQ. This change reduces state funding approximately \$40.0 million each year of the biennium.*
- *House – Same as the Senate amendment.*

Eliminate Funding for Textbooks in Fiscal Year 2012

- *Senate – The Senate budget eliminates funding for textbooks in fiscal year 2012, resulting in a state savings of \$51.4 million. In addition, for purposes of calculating rebenchmarking costs for textbooks for the 2014-2016 biennium, the Department of Education is directed to include the higher of the fiscal year 2011 or fiscal year 2012 division-level textbook per pupil expenditure in calculating the base year statewide prevailing per pupil amount.*
- *House – No action taken.*

Fund New Regional Governor's School in Prince William County

- *Senate – The Senate's proposed budget provides an additional \$161,360 in fiscal year 2011 and \$325,316 in fiscal year 2012 for the state's share of funding for the new regional academic year Governor's School at Innovation Park. This new regional academic year Governor's School is scheduled to enroll students from Prince William County, Manassas Park, and Manassas City beginning in fiscal year 2011.*
- *House – No action taken.*

Increase School Breakfast Funding

- *Senate – The Senate's proposed budget increases the reimbursement rate for the School Breakfast program from \$0.20 per meal to \$0.22 per meal for fiscal year 2011 and fiscal year 2012. This increases state funding for the School Breakfast program by \$244,297 in fiscal year 2011 and \$289,585 in fiscal year 2012.*

- *House – No action taken.*

4. Language-Only Amendments for Direct Aid Programs Included in HB/SB 30

State Funds Required to be Appropriated to the Local School Board

- **Governor** – 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.
- *Senate – Same as Governor’s introduced budget.*
- *House – Same as Governor’s introduced budget.*

Reinstate Required Local Match for Textbooks and Provide Additional Flexibility

- **Governor** – 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.

- *Senate – Same as Governor’s introduced budget. In addition, the Senate amends the Governor’s introduced budget language to clarify the qualifying uses of textbook funds. The proposed language states:*

“School divisions may use a portion of this funding to purchase Standards of Learning instructional materials. School divisions may also use these funds to purchase electronic textbooks or other electronic media resources integral to the curriculum and classroom instruction and the technical equipment required to read and access the electronic textbooks and electronic curriculum materials.”

The intent of the Senate proposal is to clarify that, while purchasing large quantities of computers is discouraged, the purchase of computers for classroom use is allowable.

- *House – Same as the Senate amendment.*

K-3 Primary Class Size Staffing Ratios

- **Governor** – 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.

- *Senate – Same as Governor’s introduced budget.*
- *House – Same as Governor’s introduced budget.*

Eliminate VPSA Literary Fund Interest Rate Subsidy Program

- **Governor** – 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.
- *Senate – Same as Governor’s introduced budget.*
- *House – Same as Governor’s introduced budget.*

Virginia Preschool Initiative (VPI)

- **Governor** – 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.

- *Senate – Same as Governor’s introduced budget.*
- *House – Maintains the language amendments from the Governor’s introduced budget referenced above as part of the proposed Lottery Proceeds Block Grant that divisions may use to fund VPI. Please see the section titled “Update Lottery Proceeds” for more detailed information.*

Local Match Requirement for Career and Technical Education Payments

- **Governor** – 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.
- *Senate* – Same as Governor’s introduced budget.
- *House* – Same as Governor’s introduced budget.

Support for School Construction and Operating Costs

- **Governor** – 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.
- *Senate* – Same as Governor’s introduced budget.
- *House* – The House budget eliminates the Support for School Construction and Operating Costs account to fund the Lottery Proceeds Block Grant. Please see the section titled “Update Lottery Proceeds” for more detailed information.

Adjustments to Summer Governor’s Schools Program

- **Governor** – 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.
- *Senate* – Same as Governor’s introduced budget.
- *House* – Same as Governor’s introduced budget.

School Nurse Expenditures

- **Governor** – 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.
- **Senate** – *Same as Governor’s introduced budget.*
- **House** – *Same as Governor’s introduced budget.*

5. Language-Only Amendments for Direct Aid Programs Not Included in HB/SB 30

Direct Aid Appropriation Contingent upon Receipt of Additional Federal Funding for Medicaid Resulting from an Increase in the Enhanced Federal Medical Assistance Percentage (FMAP) Rate

- **Senate** – *No action taken.*
- **House** – *The House budget includes language providing authority for the state to redirect a portion of the general fund appropriation for the Department of Medical Assistance Services (DMAS) to other uses if the DMAS receives additional federal Medicaid funding from an increase or extension in the enhanced Federal Medical Assistance Percentage (FMAP) rate. The available general fund appropriation would be used to fund the following two items in Direct Aid: (1) use \$23.0 million to fully fund the composite index hold harmless provision (from 80 percent to 100 percent) in fiscal year 2011 resulting from the use of the 2010-2012 composite indices; and (2) use \$29.5 million to restore the full cost of competing (COCA) rates in fiscal year 2011 for divisions located in Planning District 8. Again, these actions are contingent on the receipt of additional federal funding for Medicaid and, therefore, are not included in the estimated entitlement amounts available in the House calculation template.*

Eliminate Certain Reporting Requirements for the Department of Education

- **Senate** – *The Senate budget eliminates the following four reporting requirements pursuant to recommendations made by the Department of Education in its November 2009 report to the Governor and Chairmen of the House Appropriations and Senate Finance Committees: 1) Individual Student Alternative Education Plan Report; 2) Plan and Report for Programs of Prevention, Intervention, and Remediation; 3) SOL Web-Based Technology Initiative; and 4) Status of Regional Alternative Education Placements.*

- *House – No action taken.*

Department of Medical Assistance Services (DMAS) Retains Five Percent of the Federal Financial Participation for Reimbursement to School Divisions for Medical and Transportation Services

- *Senate – No action taken.*
- *House – The House budget includes language directing effective July 1, 2010, that the Department of Medical Assistance Services (DMAS) shall retain five percent of the Federal Financial Participation for reimbursement to school divisions for special education medical and transportation services. This reimbursement will cover DMAS's costs in assisting school divisions in submitting cost reports under the Medicaid school reimbursement program.*

Clarifies the Types of Support Positions Funded in the SOQ

- *Senate – The Senate budget includes language to clarify the types of support positions currently funded in the SOQ and directs the Department of Education to calculate the cost of eliminating the support position funding ratio in the process of calculating the cost of rebenchmarking for the 2012-2014 biennium.*
- *House – No action taken.*

Provide Temporary Flexibility for Staffing Requirements

- *Senate – The Senate's proposed budget provides temporary flexibility to school divisions in their staffing levels. The Senate proposes to allow school divisions to staff at one higher, in the case of class size ratios, or one lower, in the case of FTEs per 1,000 students, than each of the minimum required staffing levels as currently set out in the Code of Virginia. Subsequent guidance the department received from Senate Finance Committee staff clarified the temporary flexibility is applicable to the Standards of Quality staffing standards provided in Standard 2 of the Standards of Quality statute (§ [22.1-253.13:2](#). Standard 2. Instructional, administrative, and support personnel). This temporary flexibility does not apply to the K-3 Primary Class Size Program.*
- *House – The House proposes language to provide temporary flexibility to school divisions by permitting them to increase their teacher to pupil staffing ratios in kindergarten through grade seven and English classes for grades six through twelve by one additional student. In addition, teacher to pupil staffing ratio requirements for Elementary Resource teachers, Prevention, Intervention, and Remediation, English as a Second Language, Gifted and Talented, Career and Technical funded programs are waived, and instructional and support technology position, librarian, and guidance counselor staffing ratios for new hires are waived. This temporary flexibility does not apply to the K-3 Primary Class Size Program.*

Modify JLARC Study to Include Consolidation of School Division Services

- *Senate* – Modifies the requirements of the JLARC First Priority study on “Opportunities for Regional Cooperation in Government Services” to include information on consolidation of services between school divisions and local governments that have resulted in cost savings or improvement of services.
- *House* – No action taken.

B. DEPARTMENT OF EDUCATION CENTRAL OFFICE BUDGET

Changes to Central Office Budget Not Included in HB/SB 30

Eliminate Project Graduation Funding

- *Senate* – No action taken.
- *House* – Eliminates funding for Project Graduation used to support on-line tutorials. This results in a state savings of \$188,302 in both fiscal year 2011 and 2012.

Evaluation of Services for Children with Autism Spectrum Disorders

- *Senate* – Requires the Department of Education to “collaborate with relevant stakeholders to evaluate the options presented in House document 8 (2009) and determine which options, if any, are beneficial to pursue with respect to (1) enhancing the early intervention system for children with autism spectrum disorders by improving the Part B special education services available to preschool-age children, and (2) improving the delivery of services to school-age children with autism spectrum disorders by increasing the consistency of service provision, enhancing its professional development programs, developing goals and objectives and monitoring progress, and improving transition services. The Department shall report its findings to the Department of Behavioral Health and Development Services no later than March 31, 2010.”
- *House* – No action taken.

Board of Education Review of Testing Requirements

- *Senate* – Requires the Board of Education to review and make recommendations for eliminating any tests not required by the No Child Left Behind Act or associated with verified credit requirements. The findings from this review, including any estimated savings, must be submitted to the Governor and Chairmen of the House Appropriations and Senate Finance Committees by August 1, 2010.
- *House* – No action taken.