

**Summary of Governor McDonnell's Proposed Amendments  
to the 2010-2012 Biennial Budget**

This document summarizes the major budget changes proposed by Governor McDonnell to the current 2010-2012 biennial budget (Chapter 874, 2010 Acts of Assembly) that affect fiscal years 2011 and 2012. The current biennial budget (i.e., Chapter 874) is the budget against which the Governor's proposed changes are made. The Governor's introduced budget bill to the 2011 General Assembly containing his amendments is House Bill 1500/Senate Bill 800. A summary of proposed amendments to the Department of Education Central Office budget follows the proposed amendments to the Direct Aid to Public Education budget.

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

**Section A: Amendments to the Direct Aid to Public Education Budget**

1. Technical Updates to Existing Direct Aid Programs
2. Direct Aid Budget Policy Changes
3. Language-Only Amendments for Direct Aid Programs Included in HB 1500/SB 800

**Section B. Department of Education Central Office Budget**

1. Amendments to Central Office Included in HB 1500/SB 800 Impacting School Divisions

**Section C. Office of the Secretary of Education Budget**

1. Amendments to the Office of the Secretary of Education Included in HB 1500/SB 800 Impacting School Divisions

**SECTION A: AMENDMENTS TO THE DIRECT AID TO PUBLIC EDUCATION  
BUDGET**

**1. Technical Updates to Existing Direct Aid Programs**

- **Update Average Daily Membership (ADM) and Fall Membership**  
Projections of unadjusted and adjusted average daily membership (ADM) for fiscal years 2011 and 2012 are revised for each school division based on the latest actual ADM and fall membership data available. Projected ADM was originally forecast by the Department of Education based on actual data through September 30, 2009, fall membership. The most recent projections contained in the Governor's introduced budget amendments have been revised based on actual March 31, 2010, ADM and September 30, 2010, fall membership.

On a statewide basis, the revised unadjusted ADM projections are 4,370 students lower in fiscal year 2011 and 6,659 students lower in fiscal year 2012 than the original projections contained in Chapter 874 (as communicated in Superintendent's Memorandum No. 057-10, dated March 18, 2010). The ADM-based entitlements for fiscal years 2011 and 2012 have been recomputed based on these revised projections. In addition, all accounts that are allocated on the basis of fall membership have been updated for actual fall membership in fiscal year 2011 and re-projected fall membership in fiscal year 2012. The ADM and fall membership updates result in an estimated decrease in Direct Aid payments on a statewide basis of \$17.3 million in fiscal year 2011 and \$26.0 million in fiscal year 2012.

- **Update Sales Tax Projections**

The Governor's amendments reflect the most recent estimate of sales tax revenue dedicated to public education for fiscal years 2011 and 2012, as computed by the Department of Taxation. The revised estimate of sales tax revenues includes both the one percent portion and the one-eighth percent portion that are appropriated for distribution to school divisions based on school-age population. The projected sales tax entitlements contained in Attachment B and in the Excel calculation file reflect the revised estimates for these two sales tax sources, which are shown in Attachment B and in the Excel file as a single revenue line item.

The Department of Taxation's latest estimate of the one percent and one-eighth percent sales tax revenue is \$1,123.1 million for fiscal year 2011 and \$1,162.3 million for fiscal year 2012. These revised sales tax estimates are approximately \$44.3 million greater in fiscal year 2011 and \$47.6 million greater in fiscal year 2012 than the projections contained in Chapter 874. As required by the Basic Aid funding formula, state Basic Aid payments have been decreased to offset a portion of the increased sales tax revenues that are projected to be distributed to divisions. The amount of the Basic Aid offset is determined by each division's composite index of local ability-to-pay. The state share of Basic Aid decreases approximately \$24.8 million in fiscal year 2011 and \$26.6 million in fiscal year 2012 due to the revised sales tax estimates.

- **Update Lottery Proceeds Forecast**

The Governor's amended budget maintains the Lottery proceeds estimate of \$435.2 million in fiscal year 2011 but increases the estimate by \$675,000 to \$435.9 million in fiscal year 2012, compared to the projections contained in Chapter 874. Please see the paragraph labeled "Transfer a Portion of General Fund Programs to Lottery Service Area" below for further details on the accounts being partially funded by Lottery proceeds.

- **Technical Updates to Incentive, Categorical, and Lottery-funded accounts**

Various technical adjustments have been made to incentive, categorical, and Lottery-funded accounts to reflect the latest information on special education student counts, PALS assessment data, and actual and updated projected participation in programs. State funding is reduced by \$4.1 million in fiscal year 2011 and \$3.9 million in fiscal year 2012 based on these technical updates. Significant budget adjustments contained in this particular amendment are discussed in more detail in the following paragraphs.

- *Incentive Technical Updates*

The Governor's amended budget includes technical updates to the Governor's School and VPSA Technology grants accounts. Funding for the Governor's School program is reduced by \$453,605 in fiscal year 2011 and \$50,716 in fiscal year 2012, based on actual enrollment in fiscal year 2011. VPSA Technology grants were updated for schools reporting fall membership for fiscal year 2011.
- *Categorical Technical Updates*

The Governor's amended budget recognizes savings to categorical accounts of approximately \$3.6 million in fiscal year 2011 and \$3.8 million in fiscal year 2012 based on actual program participation. Funding for the Special Education Homebound program is reduced by \$600,300 in fiscal year 2011 and \$626,600 in fiscal year 2012 based on the actual state share of local program costs in fiscal year 2011. Funding for the Special Education State Operated Programs account is reduced by \$3.0 million in fiscal year 2011 and \$3.2 million in fiscal year 2012 based on actual payments for fiscal year 2011. The American Indian Treaty Commitment account is reduced by \$13,657 in fiscal year 2011 and \$11,212 in fiscal year 2012 based on actual enrollment.
- *Lottery Technical Updates*

The Governor's amended budget includes technical updates based on actual participation and revised estimates to the following Lottery-funded accounts: Virginia Preschool Initiative, English as a Second Language, Special Education – Regional Tuition, Alternative Education, Supplemental Basic Aid, At-Risk, SOL Algebra Readiness, Textbooks, Remedial Summer School, K-3 Primary Class Size Reduction, Early Reading Intervention, School Breakfast, and Foster Care. These actions for fiscal years 2011 and 2012 result in savings in Lottery funding that is used to supplant general fund support for other programs. Please see the paragraph labeled “Transfer a Portion of General Fund Programs to Lottery Service Area” below for further details on the accounts being partially funded by Lottery proceeds.

In addition to the typical updates for actual participation in the Virginia Preschool Initiative (VPI), the Governor's amended budget also includes two other changes to the program. The projected non-participation rate for fiscal year 2012 has been increased to 23.08 percent from 21.70 percent. This adjustment affects the appropriation for the program but does not change the division-level entitlement amounts. Also, the VPI entitlements for Richmond City and Richmond County have been updated to reflect the corrected number of students served by the federal Head Start program in each locality. This change affects the VPI entitlement amounts for these two localities only.

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

The Governor's amended budget updates funding for bonuses provided by the state to classroom teachers who are certified by the National Board of Professional Teaching Standards. This update is based on the actual number of teachers eligible to receive the bonus payments in fiscal year 2011, resulting in a decrease of \$292,500, from \$4,970,000 to \$4,677,500.

**2. Direct Aid Budget Policy Changes**

- Correct the October 1, 2008, Free Lunch Percentage for Petersburg City**  
The Governor’s amended budget includes changes to several accounts for Petersburg City resulting from a correction to the free lunch data for Petersburg High School. The original free lunch data was used by the Department of Education in the original 2010-2012 rebenchmarking calculations. Based on the corrected free lunch percentage, funding for Petersburg City (both general fund and Lottery) increases by \$357,234 in fiscal year 2011, and \$535,195 in fiscal year 2012.
- Update Funded Professional VRS Rate for Fiscal Year 2012**  
The Governor’s amended budget does not change the employer contribution rate for instructional retirement benefits in fiscal year 2011, but does adopt a higher employer contribution rate of 7.16 percent for instructional retirement benefits in fiscal year 2012 compared to the rate of 5.16 percent included in Chapter 874, 2010 Acts of Assembly. This instructional rate is applied to positions in the VRS professional group for fiscal year 2012. The funded rates for the retiree health care credit, group life contribution, and Social Security remain unchanged from Chapter 874 for fiscal years 2011 and 2012. This rate change increases state funding by approximately \$53.2 million in fiscal year 2012. Please note that the proposed rate change would also impact school division employer contributions paid to VRS in fiscal year 2012. Additional information regarding the benefit rates included in the Governor’s amended budget is provided in the table below.

	<b>HB 1500/SB 800 As Introduced</b>	
<b>FRINGE BENEFIT RATES:</b>	<b>FY 2011</b>	<b>FY 2012</b>
Instructional / Professional Support VRS Retirement ( <b>Employer Share</b> ) ( <b>Does not include RHCC - see below</b> )	3.93%	7.16%
Instructional / Professional Support VRS Retirement ( <b>Employee Share</b> )	5.00%	5.00%
<b>Instructional/Professional Support VRS Retirement Rate</b>	<b>8.93%</b>	<b>12.16%</b>
Group Life ( <b>Employer Share</b> )	0.28%	0.28%
Group Life ( <b>Employee Share</b> )	0.00%	0.00%
<b>Total Group Life Rate</b>	<b>0.28%</b>	<b>0.28%</b>
Retiree Health Care Credit ( <b>Paid as part of the VRS per pupil amount</b> )	0.60%	0.60%
Non-Professional Support VRS Retirement	7.53%	7.53%
Social Security	7.65%	7.65%
Health Care Premium	\$3,375	\$3,375
<b>Total Instructional/Professional Support Benefits Percent (<b>Employer Share</b>)</b>	<b>12.46%</b>	<b>15.69%</b>
<b>Total Non-professional Support Benefits Percent (<b>Employer Share</b>)</b>	<b>15.46%</b>	<b>15.46%</b>

The Governor's amended budget includes language allowing localities the option of charging employees the 5.0% employee share of VRS. Please see the paragraph labeled "Employee Share of VRS" below for further details on the proposed amendment.

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

The Governor's amended budget decreases 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 \$141.6 million to \$139.6 million. In fiscal year 2012, the Literary Fund transfer amount increases by \$2.0 million, from \$128.1 million to \$130.1 million. The reduced transfer amount in fiscal year 2011 will be supplanted by a corresponding state general fund increase of \$2.0 million in fiscal year 2011. In fiscal year 2012, the increased transfer amount will result in a general fund savings of \$2.0 million. These changes do not affect division per pupil amounts or projected entitlements for VRS retirement in fiscal year 2011 or fiscal year 2012.

- **Update the Cost of the Composite Index Hold Harmless Payments in Fiscal Year 2011 and Eliminate the Payments in Fiscal Year 2012**

The Governor's amended budget updates the cost of the composite index hold harmless payments for fiscal year 2011. Chapter 874 included hold harmless payments to reduce the impact of the recalculated composite indices for school divisions for both fiscal years 2011 and 2012. The cost of these payments was based on the Governor's introduced 2010-2012 budget for the 2010 General Assembly Session. The payments were not adjusted to reflect the final actions of the 2010-2012 budget that was ultimately approved (i.e., Chapter 874). The recalculation of the cost of the payments for fiscal year 2011 is based on the actions contained in Chapter 874 as well as the Governor's proposed amendments for the 2010-2012 budget in HB 1500/SB 800 as introduced. As a result, the total state funding for these payments has been reduced by \$8.4 million in fiscal year 2011.

In addition, the Governor's amended budget eliminates the composite index hold harmless payments in fiscal year 2012. The elimination of the fiscal year 2012 hold harmless payments reduces state funding by \$57.6 million in fiscal year 2012.

- **Establish Performance Pay Pilot Program for Instructional Personnel**

The Governor's amended budget includes \$3.0 million in fiscal year 2012 to provide competitive grants to school divisions to pilot models for awarding performance pay for instructional personnel in hard-to-staff schools as determined by the Department of Education. School divisions interested in submitting proposals for competitive grants must outline clearly-defined performance objectives. A significant component of the performance evaluation must include measureable and appropriate achievement goals for student progress, including the state-provided growth measure when available. School division grant proposals are due to the Department of Education no later than June 15, 2011.

- **Decrease State Fiscal Stabilization Fund Support for Basic Aid Payments**

The Governor's amended budget adjusts the funding split for the state share of Basic Aid between the state general fund and the federal State Fiscal Stabilization Fund (SFSF) made available under the American Recovery and Reinvestment Act of 2009 (ARRA). The original fiscal year 2011 amount of Phase II SFSF funds allocated for this purpose by the 2010 General Assembly was \$126,372,427. However, based on the state's final Phase II

application, incorporating all actions of Chapter 874, 2010 Acts of Assembly, the fiscal year 2011 portion of the SFSF allocated to K-12 education has been reduced by \$3,431,113 to \$122,941,314. Governor McDonnell's proposed amendments to the current 2010-2012 biennial budget include an amendment to increase the state's general fund support for Basic Aid by the same \$3,431,113 to fund the portion of Basic Aid no longer supported from Phase II SFSF funding. [Superintendent's Memorandum number 314-10](#) dated December 17, 2010, provides additional information on the final 33 percent (Phase II) of funding from the SFSF authorized under ARRA, including information regarding reimbursement of qualifying expenditures.

The revised SFSF Phase II awards will continue to be allocated based upon each school division's proportion of the state's share of Basic Aid. The final allocations of Phase II SFSF for each school division are shown in the Excel entitlement calculation file in the "Federal Funds for Basic Aid" tab of the worksheet (see Attachment C of this memorandum for instructions on accessing the Excel entitlement calculation file).

Since Phase II SFSF allocations had not yet been awarded, fiscal year 2011 state Basic Aid payments made from July 16, 2010, to December 30, 2010, were not adjusted for the state's share of Basic Aid funded from Phase II of SFSF. Now that the final allocations from Phase II of SFSF have been awarded and are available for reimbursement for qualifying expenditures by school divisions, semi-monthly Basic Aid payments to each division will be updated based on the original Phase II SFSF allocation of \$126,372,427 as funded in Chapter 874, as well as the latest projections of average daily membership (ADM) and the Basic Aid per pupil amounts proposed in the Governor's amended fiscal year 2011 budget, beginning with the January 14, 2011, payment.

Incorporating the Chapter 874 Phase II SFSF allocations into each division's Basic Aid entitlement amount will reduce the semi-monthly Basic Aid payments based on each division's pro rata share of Phase II SFSF funding. The additional \$3,431,113 in state general funds included in Governor McDonnell's proposed amendments to the current 2010-2012 budget to fund the state's share of Basic Aid no longer supported from Phase II SFSF funding will not be included in the semi-monthly Basic Aid payments to each division until this funding is approved by the 2011 General Assembly and the amended 2010-2012 appropriation act is signed into law by the Governor. If the additional state general fund support for Basic Aid is approved, the additional funding for the state's share of Basic Aid would be included in the final semi-monthly payments beginning on May 31, 2011.

- **Transfer a Portion of General Fund Programs to Lottery Service Area**

The Governor's amended budget proposes using Lottery proceeds to fund a portion of costs for accounts that were previously funded by the general fund. In fiscal year 2011, approximately \$19.8 million of the Composite Index Hold Harmless payment will be funded by Lottery proceeds. In fiscal year 2012, approximately \$13.2 million of Textbooks payments will be funded by Lottery proceeds in addition to the \$12.9 million already supported by the Lottery in Chapter 874. These changes modify the source of funds used to support the programs but do not alter the funding methodologies for either account. The remaining costs for each of these accounts will continue to be funded by the general fund so the entitlement amounts for each school division do not change as a result of these actions.

The state recognizes a corresponding general fund savings each year equal to the transfer amounts above.

### **3. Language-Only Amendments for Direct Aid Programs Included in HB 1500/SB 800**

- **Employee Share of VRS**

The Governor's amended budget includes language allowing localities the option of charging employees the 5.0% employee share of VRS. The following language was included in the Central Appropriations section of the Governor's amended budget:

*~~"P.1. The election of a Virginia Retirement System employer to pay, for any employee who was a Virginia Retirement System member on or before June 30, 2010, an equivalent amount in lieu of all member contributions under the provisions of § 51.1-144F is irrevocable. The provisions of this paragraph are declaratory of existing public policy and law. Each county, city, town, local public school board, or other local employer who has elected to pay an equivalent amount in lieu of the member contributions required of an employee who is not a person who becomes a member on or after July 1, 2010, may require such employee to pay member contributions on a salary reduction basis in accordance with § 414(h) of the Internal Revenue Code in the amount of five percent of the employee's creditable compensation, effective July 1, 2011, provided that the employer shall at the same time increase the base salary of such employee by at least three percent.~~*

*2. The election available to a county, city, town, local public school board or other local employer, under Subdivision 2 of § 51.1-144F, to pay an equivalent amount in lieu of the member contributions required of its employees shall not apply to any employee, who is a person who became a member on or after July 1, 2010, hired by a county, city, town, local public school board, or other local employer on or after July 1, 2011."*

Additional information will be provided by the Virginia Retirement System.

- **Clarify Process for Addressing a Shortfall in the Lottery Proceeds Fund**

The Governor's amended budget provides the Department of Education with authority to adjust textbook payments supported by the Lottery Proceeds Fund in the event of a Lottery revenue shortfall. The Department of Education is authorized each year to temporarily suspend textbook payments made to school divisions from Lottery funds in the event of a shortfall in Lottery revenue to ensure that the shortfall can be absorbed in the remaining textbook payments to be made during each fiscal year. In the event that actual Lottery revenues do not meet the projection of Lottery revenues in any fiscal year, the Textbook account would be prorated down equivalent to the amount of the revenue shortfall in that fiscal year. Each school division's textbook funding would be prorated in proportion to their share of the total state share of textbook funding.

- **Clarify the use of Virginia Preschool Initiative Funds**

The Governor's amended budget includes additional language to clarify that the state and local matching funds used to support the Virginia Preschool Initiative program may not be used for capital outlay.

- **Clarify Carry Forward Authority for Fiscal Year 2011 State Funds**

The Governor's amended budget includes additional language to clarify that localities electing to carry forward qualifying state funds from fiscal year 2011 to fiscal year 2012 must appropriate the funds to the school division for expenditure in fiscal year 2012. Any locality that has met its required local effort for the Standards of Quality accounts for fiscal year 2011 and has met its required local match for incentive or Lottery-funded programs in which the locality elected to participate in fiscal year 2011, may carry over into fiscal year 2012 any remaining state Direct Aid to Public Education fund balances available to help minimize any fiscal year 2012 revenue adjustments that may occur in state funding to that locality. The proposed new language clarifies that the fiscal year 2011 state funds carried forward must be appropriated to the school division in fiscal year 2012.

## **SECTION B: DEPARTMENT OF EDUCATION CENTRAL OFFICE BUDGET**

### **1. Amendments to Central Office Included in HB 1500/SB 800 Impacting School Divisions**

- **Eliminate Grants to Regional Superintendents Groups**

The Governor's amended budget eliminates funding to support costs for monthly meeting expenses of the eight regional local superintendent planning groups across the state, resulting in a savings of \$8,000 in fiscal year 2012.

- **Eliminate Funding for Virginia Preschool Initiative On-Site Reviews**

The Governor's amended budget eliminates funding for periodic on-site reviews of local Virginia Preschool Initiative programs in fiscal year 2012. Instead, these assessments will be handled by desk reviews, resulting in a savings of \$20,000 in fiscal year 2012.

- **Increase Support for Career Pathways Program**

The Governor's amended budget provides an additional \$100,000 in fiscal year 2012 for the Career Pathways program, which helps students become aware of the availability of vocational and technical educational programs and encourages them to consider skills based training to help meet the needs of employers in their respective communities or regions of the state.

## **SECTION C. OFFICE OF THE SECRETARY OF EDUCATION BUDGET**

### **1. Amendments to the Office of the Secretary of Education Included in HB1500/SB 800 Impacting School Divisions**

- **Provide Incentive Grants for College Partnership Laboratory Schools**

The Governor's amended budget includes \$600,000 in fiscal year 2012 for establishing or supporting college partnership laboratory schools in the Commonwealth of Virginia.