

## **Summary of Governor McDonnell's Proposed Amendments to the 2010-2012 Biennial Budget ("Caboose Bill")**

This document summarizes the budget amendments proposed by Governor McDonnell to the current 2010-2012 biennial budget (i.e., Chapter 890, 2011 Acts of Assembly) that affect fiscal year 2012. The current biennial budget (Chapter 890) is the budget against which the Governor's proposed changes are made. The Governor's introduced budget bill to the 2012 General Assembly containing his amendments is HB 29/SB 29. Information related to the Direct Aid to Public Education budget amendments are organized into the following sections:

1. Technical Updates to Existing Direct Aid Programs
2. Direct Aid Budget Policy Changes

### **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 year 2012 are revised for each division based on the latest actual ADM and fall membership data available. On a statewide basis, these revised projections result in a decrease in unadjusted ADM of 1,202 students from the projections on which fiscal year 2012 estimated payments are currently based in Chapter 890 (as communicated in Superintendent's Memorandum Number 068-11, dated March 4, 2011). The ADM and fall membership updates result in an estimated decrease on a statewide basis in Direct Aid state payments of \$5.0 million in fiscal year 2012. Projected ADM for fiscal year 2012 was originally projected by the Department of Education based on actual data through September 30, 2010, fall membership. The most recent projections contained in the Governor's amended budget have been revised based on actual March 31, 2011, ADM and September 30, 2011, fall membership. The ADM-based estimated payments for fiscal year 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 2012.

##### **▪ Update Sales Tax Projections**

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

The Department of Taxation's latest estimate of the one percent and one-eighth percent sales tax revenue is \$1,167,000,000 for fiscal year 2012. This revised sales tax estimate is approximately \$4.7 million greater in fiscal year 2012 than the projections contained in Chapter 890. As required by the Basic Aid funding formula, estimated state Basic Aid payments have been decreased to offset a portion of the increased sales tax revenues that are projected. The amount of the Basic Aid offset is determined by each division's composite index of local ability-to-pay. The state share of Basic Aid decreases approximately \$2.6 million in fiscal year 2012 due to the revised sales tax estimates. The net change in state funding to school divisions (due to both the estimated sales tax revenue increase and the Basic Aid offset) is an increase of approximately \$2.1 million in fiscal year 2012.

▪ **Update Lottery Profits Forecast**

The Governor's amended budget increases the estimate of Lottery proceeds by approximately \$18.5 million in fiscal year 2012 (from \$435.9 million to \$454.4 million) over the projections contained in the Chapter 890 budget. This increase includes \$9.0 million in Lottery proceeds that were earned in fiscal year 2011 above appropriated estimates and were carried over for appropriation in fiscal year 2012. Please see the paragraph labeled "Transfer a Portion of General Fund Programs to Lottery Service Area" below for further details on the accounts being funded by the increased Lottery proceeds.

▪ **Technical Updates to Incentive, Categorical, Lottery, and Supplemental Education Assistance Accounts**

Various technical adjustments have been made to incentive, categorical, Lottery, and supplemental education assistance accounts to reflect the latest information on special education student counts, PALS assessment data, and actual and updated projected participation in programs. State funding is reduced by \$3.4 million in fiscal year 2012 for these technical updates. Significant budget adjustments contained in this particular amendment are discussed in more detail in the following paragraphs.

• *Incentive Technical Updates*

The Governor's amended budget includes technical updates to the Governor's School account and the VPSA Educational Technology grant awards. State funding for Governor's School programs is decreased by \$968,542 in fiscal year 2012, based on actual fiscal year 2012 enrollment (up to the enrollment cap of 1,650 students). VPSA Educational Technology grants were updated for schools reporting fall membership for fiscal year 2012 and for accreditation status based on school year 2010-2011 testing.

• *Categorical Technical Updates*

The Governor's amended budget recognizes approximately \$2.1 million in savings to categorical accounts based on actual program participation. State funding for the Special Education Homebound program is reduced by \$188,488 in fiscal year 2012 (from \$5.3 million to \$5.1 million) based on the actual state share of local program costs. State funding for the Special Education State Operated Programs account is

reduced by \$1.3 million based on actual payments for fiscal year 2011 and estimated program participation in fiscal year 2012. State funding for the Special Education Jails account is reduced by \$655,924 based on estimated program participation in fiscal year 2012.

- *Lottery Technical Updates*

The Governor's amended budget includes technical updates based on actual participation and revised estimates to the following Lottery-funded accounts: K-3 Primary Class Size Reduction, Early Reading Intervention, Foster Care, At-Risk, Virginia Preschool Initiative, SOL Algebra Readiness, Alternative Education, Special Education - Regional Tuition, Supplemental Basic Aid, School Breakfast, and Education for a Lifetime (EFAL). In addition, based on actual fiscal year 2012 enrollment, Remedial Summer School state funding is decreased by \$517,124 and state funding for English as a Second Language is decreased by \$1.2 million. Please see the paragraph labeled "Transfer a Portion of General Fund Programs to Lottery Service Area" below for further details regarding the allocation of savings resulting from the above technical updates and the accounts being partially funded by Lottery proceeds.

- *Supplemental Assistance Technical Updates*

The Governor's amended budget reduces state funding for bonuses for teachers earning a National Board Certification by \$142,000 based on actual counts of teachers qualifying for the bonus awards in fiscal year 2012.

## **2. Direct Aid Budget Policy Changes**

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

The Governor's amended budget proposes using Lottery proceeds to fund the remaining portion of costs for accounts that were previously funded partially by the general fund. In fiscal year 2012, the Governor's amended budget proposes to fund Textbooks payments and Composite Index Hold Harmless payments completely by Lottery proceeds. This represents a general fund savings of \$547,306 for Textbooks payments and \$14.6 million for Composite Index Hold Harmless payments. Additionally, the Governor's amended budget proposes funding approximately \$17.5 million of the Supplemental Support for School Operating Costs account from Lottery proceeds. These changes modify the source of funds used to support the programs but do not alter their funding methodologies or the division payment amounts. The remaining costs for the Supplemental Support for School Operating Costs account will continue to be funded by the general fund so the estimated payment amounts for each school division do not change as a result of these actions. The state recognizes a corresponding general fund savings equal to the transfer amounts above.

Please see the paragraphs labeled "Update Lottery Profits Forecast" and "Lottery Technical Updates" above for further details regarding the actions taken that generated the available Lottery proceeds used to fund the policy actions described in this section.