

Summary of Governor McDonnell's Proposed Amendments to the 2012-2014 Biennial Budget ("Caboose Bill")

This document summarizes the budget amendments proposed by Governor McDonnell to the current 2012-2014 biennial budget (i.e., Chapter 806, 2013 Acts of Assembly) that affect fiscal year 2014. The current biennial budget (Chapter 806) is the budget against which the Governor's proposed changes are made. The Governor's introduced budget bill to the 2014 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
3. Language-Only Amendments for Direct Aid Programs Included in HB 29/SB 29

AMENDMENTS TO THE FY 2014 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 2014 are revised for each division based on the latest actual ADM and fall membership data available. On a statewide basis, these revised projections result in an increase in unadjusted ADM of 1,619 students from the projections on which fiscal year 2014 estimated payments are currently based in Chapter 806 (as communicated in [Superintendent's Memorandum Number 050-13](#), dated February 28, 2013). The ADM and fall membership updates result in an estimated increase on a statewide basis in Direct Aid state payments of \$7.6 million in fiscal year 2014. Projected ADM for fiscal year 2014 was originally projected by the Department of Education based on actual data through September 30, 2012, fall membership. The most recent projections contained in the Governor's amended budget have been revised based on actual March 31, 2013, ADM and September 30, 2013, fall membership. The ADM-based estimated payments for fiscal year 2014 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 2014.

▪ Update Sales Tax Projection

The Governor's amendments reflect the most recent estimate of sales tax revenue dedicated to public education for fiscal year 2014, 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 \$1,219,700,000 for fiscal year 2014. This revised sales tax estimate is approximately \$37.8 million lower in fiscal year 2014 than the projections contained in Chapter 806. As required by the Basic Aid funding formula, estimated state Basic Aid payments have been increased to offset a portion of the decreased sales tax revenues that are projected. The amount of the Basic Aid offset is determined by each division's composite index of local ability-to-pay. The state share of Basic Aid increases approximately \$21.1 million in fiscal year 2014 due to the revised 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 approximately \$16.6 million in fiscal year 2014.

▪ **Update Lottery Revenue Estimate**

The Governor's amended budget increases the estimate of Lottery proceeds by approximately \$55.2 million in fiscal year 2014 (from \$462.0 million to \$517.2 million) over the projections contained in the Chapter 806 budget. Please see the section 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, and Lottery Accounts**

Various technical adjustments have been made to incentive, categorical, and Lottery 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 \$18.6 million in fiscal year 2014 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 recognizes savings to incentive accounts of \$13.1 million in fiscal year 2014 based on actual program participation. Funding for Governor's School programs is decreased by \$332,264 in fiscal year 2014, based on actual fiscal year 2014 enrollment (up to the enrollment cap of 1,725 students). Funding for the Strategic Compensation Grants Initiative is reduced by \$3.0 million based on actual grants awarded. Funding for the salary increase provided for all funded SOQ instructional and support positions in Chapter 806 is reduced by \$9.3 million in fiscal year 2014, based on school division participation as certified on the Department's annual Required Local Effort and Required Local Match data collection. Funding for the Early Reading Specialists Initiative is decreased by \$474,800, based on the two year testing waivers approved by the Board of Education and final certified participation in the program. In addition, VPSA Educational Technology grants were updated for schools reporting fall membership for fiscal year 2014 and for 2013-2014 accreditation status for use in calculating grants under the new Virginia e-Learning Backpack Initiative.

- *Categorical Technical Updates*
The Governor's amended budget recognizes approximately \$2.9 million in savings to categorical accounts based on actual program participation. State funding for the Special Education Homebound program is reduced by \$232,549 in fiscal year 2014 (from \$5.6 million to \$5.4 million) based on the actual state share of local program costs. State funding for the Special Education State Operated Programs account is reduced by \$2.2 million based on actual payments for fiscal year 2013 and estimated program participation in fiscal year 2014. State funding for the Special Education Jails account is reduced by \$401,544 based on estimated program participation in fiscal year 2014.
- *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, and School Breakfast. In addition, based on actual fiscal year 2014 enrollment, Remedial Summer School state funding is decreased by \$282,780 and state funding for English as a Second Language is decreased by \$604,563. Please see the section 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.

2. Direct Aid Budget Policy Changes

▪ Decrease Literary Fund Support for VRS Retirement (Replace with General Funds)

To strengthen the fund balance in the Literary Fund, the Governor's amended budget decreases the transfer from the Literary Fund to support the state's share of cost for teacher retirement by \$2.5 million (from \$136.0 million to \$133.5 million for fiscal year 2014) compared to the transfer amount designated in Chapter 806. This reduction in the Literary Fund transfer is offset by a corresponding \$2.5 million general fund increase to support VRS payments to divisions. These actions do not affect division per pupil amounts or projected entitlements for VRS retirement in fiscal year 2014.

▪ 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 Textbooks payments costs in fiscal year 2014 that were previously funded partially by the general fund. This represents a general fund savings of \$43.8 million. Additionally, the Governor's amended budget proposes funding approximately \$11.4 million of the Remedial Summer School 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 Remedial Summer School 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 section labeled "Update Lottery Revenue Estimate" 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.

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

▪ Clarify STEM Teacher Bonus Program Language

The Governor's amended budget proposes adding clarifying language regarding the STEM Teacher Bonus Program. The proposed language clarifies that teachers are eligible for the initial \$5,000 incentive when, in addition to meeting the other eligibility criteria, they have signed a contract *in the same school division* for the following school year.

▪ VPSA Security Equipment Grants for Consolidated Divisions

The Governor's amended budget proposes to change the date used to determine eligibility for division-level grants for each division involved in a consolidation available as part of the VPSA Security Equipment grant program. The date would be changed from September 30, 2012 to September 30, 2000, so that school divisions that have consolidated continue to be entitled to the division-level grant for the number of school divisions that existed prior to September 30, 2000. This date change is consistent with the date used for the VPSA Educational Technology grant program.

▪ Clarify Language on Special Education State Operated Programs

The Governor's proposed budget includes language clarifying that state funding provided for the education programs in the juvenile justice component of the State Operated Programs account will be based only on students detained in such facilities through a court order issued by a Virginia court. The proposed language specifies that, "*The portion of these funds provided for educational services to children residing in local or regional detention homes shall only be determined on the basis of children detained in such facilities through a court order issued by a court of the Commonwealth.*"