

Governor's Introduced Budget (House Bill/Senate Bill 30) for the 2014-2016 Biennium

This document summarizes the budget proposals by Governor McDonnell for the 2014-2016 biennium affecting the Direct Aid to Public Education and Department of Education Central Office budgets. The fiscal year 2014 base budget against which the Governor's recommended funding changes are made for the 2014-2016 biennium is Chapter 806, which was adopted at the 2013 Session of the General Assembly.

Information related to the Governor's Direct Aid to Public Education and the Department of Education Central Office budget proposals have been organized into the following sections:

Section A. 2014-2016 Direct Aid to Public Education Budget

1. Technical Updates to Existing Direct Aid Programs
2. Direct Aid Budget Policy Changes
3. Language-Only Amendments for Direct Aid Programs Included in HB 30/SB 30

Section B. 2014-2016 Department of Education Central Office Budget

1. Central Office Policy Changes Impacting School Divisions
2. Language-Only Amendments to Central Office Included in HB 30/SB 30

Section C. 2014-2016 Secretary of Education Budget

1. Secretary of Education Policy Changes Impacting School Divisions

A. 2014-2016 DIRECT AID TO PUBLIC EDUCATION BUDGET

1. Technical Updates to Existing Direct Aid Programs

- **Rebenchmark Direct Aid Costs for 2014-2016 (as presented to the Board of Education in September 2013)**

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, Standards of Learning test score updates, enrollment updates, and projected caseloads for categorical programs. The 2014-2016 Board of Education rebenchmarking presentation dated September 26, 2013, provided as Attachment C to this memorandum, provides additional information about the details and source of the

data used to make these technical updates. These adjustments reflect the cost of continuing current programs with the required biennial data updates used in the funding formulas, and do not reflect any changes in policy. For fiscal year 2015, routine rebasing of costs for the Standards of Quality and other Direct Aid programs results in an increase in state cost of \$165.5 million. For fiscal year 2016, the increase in state cost is \$185.2 million.

▪ **Technical Updates to Direct Aid Accounts for 2014-2016 Subsequent to the Rebenchmarking Budget Presented to the Board of Education in September 2013**

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 presentation in September 2013, due to the timing of data availability. These technical adjustments include updates to factors such as enrollment projections, Standards of Learning test 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 \$42.0 million in fiscal year 2015 and \$51.7 million in fiscal year 2016.

▪ **Update Fringe Benefit Employer Contribution Rates**

The Governor’s introduced budget adopts a higher employer contribution rate for instructional retirement benefits in 2014-2016 than was funded in Chapter 806 for fiscal year 2014 (11.66 percent to 14.50 percent). The rate recommended by the Governor is based on the same actuarial assumptions as the rate recommended by the VRS Board of Trustees. The prevailing non-professional VRS rate has been updated and is funded at 9.40 percent for both years of the biennium. This prevailing rate is used for state funding purposes only; the actual non-professional rate charged by VRS will vary by school division. For the retiree health care credit, the rate proposed for 2014-2016 reflects a rate increase from fiscal year 2014 (1.11 percent to 1.18 percent). For the group life contribution, the rate proposed for 2014-2016 reflects a rate increase from fiscal year 2014 (0.48 percent to 0.53 percent). All fringe benefit rates are proposed to be the same in fiscal years 2015 and 2016. These rate changes increase state funding by \$84.2 million in fiscal year 2015 and \$84.5 million in fiscal year 2016 (compared to costs based on fiscal year 2014 rates).

FUNDED FRINGE BENEFIT RATES:	FY 2014	FY 2015	FY 2016
Instructional & Professional Support VRS (<u>Employer Share</u>) (Does not include RHCC - see below)	11.66%	14.50%	14.50%
Instructional & Professional Support VRS (<u>Employee Share</u>)	5.00%	5.00%	5.00%
Total Instructional & Professional Support VRS Rate	16.66%	19.50%	19.50%
Group Life (<u>Employer Share</u>)	0.48%	0.53%	0.53%
Group Life (<u>Employee Share</u>)	0.71%	0.71%	0.71%
Total Group Life Rate	1.19%	1.24%	1.24%
Retiree Health Care Credit (<i>Paid as part of the VRS Instructional retirement per pupil amount</i>)	1.11%	1.18%	1.18%
Non-professional Support VRS	10.23%	9.40%	9.40%
Social Security	7.65%	7.65%	7.65%
Health Care Premium	\$3,778	\$4,188	\$4,188
Total Instructional Benefit Percent (<u>Employer Share</u>)	20.90%	23.86%	23.86%
Total Non-professional Support Benefit Percent (<u>Employer Share</u>)	18.36%	17.58%	17.58%

▪ **Updates for Recalculation of Composite Index for 2014-2016**

The 2014-2016 composite index of local ability-to-pay was calculated using 2011 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 2011 are provided by the Weldon Cooper Center for Public Service at the University of Virginia, and the March 31, 2012, average daily membership is based on data reported by school divisions to the Department of Education. Updating Direct Aid accounts based on the recalculated 2014-2016 composite index increases the state share of Direct Aid funding by \$18.3 million in fiscal year 2015 and \$18.5 million in fiscal year 2016.

▪ **Update Sales Tax Projections**

The Governor’s introduced budget reflects the most recent estimates of sales tax revenue dedicated to public education for fiscal years 2015 and 2016, 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 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 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 \$1,268,100,000 for fiscal year 2015 and \$1,312,500,000 for fiscal year 2016. These revised sales tax estimates are approximately \$10.6 million higher in fiscal year 2015 and \$55.0 million higher in fiscal year 2016 than the fiscal year 2014 estimate contained in Chapter 806. As required by the Basic Aid funding formula, estimated state Basic Aid payments have been adjusted to reflect the decreased state share of cost resulting from the projected increase 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 decreases approximately \$5.9 million in fiscal year 2015 and \$30.8 million in fiscal year 2016 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 \$4.7 million in fiscal year 2015 and an increase of \$24.2 million in fiscal year 2016.

- **Update Lottery Proceeds**

Total Lottery proceeds are projected to increase by \$38.0 million to \$500.0 million in fiscal years 2015 and 2016, compared to the fiscal year 2014 Lottery estimate contained in Chapter 806. The total projected Lottery amounts in fiscal years 2015 and 2016 are 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. Please see the section labeled "Textbook Funding" below for updates to the Textbooks account.

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

The Governor's introduced budget includes an additional \$575,000 in fiscal year 2015 and \$575,000 in fiscal year 2016 for bonuses provided by the state to support the projected number of classroom teachers who are certified by the National Board of Professional Teaching Standards.

2. Direct Aid Budget Policy Changes

- **Remove Non-personal Inflation Funding for the 2014-2016 Biennium**

The Governor's introduced budget proposes eliminating funded inflation factors from the non-personal component of Basic Aid for the 2014-2016 biennium. Typically, as part of the biennial rebenchmarking process, the Department of Education updates non-personal

inflation factors to adjust base year non-personal expenditures for inflation 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 \$47.4 million in fiscal year 2015 and \$47.6 million in fiscal year 2016.

- **Remove the Cost of Competing Adjustment (COCA) from the Support Position Portion of State SOQ Basic Aid Funding**

The Governor's introduced budget eliminates the cost of competing adjustment (COCA) factor for funded SOQ Basic Aid support positions for school divisions in Planning District Eight and certain adjacent school divisions (specified in the appropriation act) in fiscal years 2015 and 2016. Chapter 806 provides the state share of funding in fiscal year 2014 for a COCA rate of 6.98 percent for SOQ funded support positions for the Planning District Eight school divisions and a partial rate of 1.75 percent for certain adjacent divisions. The Governor's introduced budget proposes the elimination of state funding for both the 6.98 percent and the partial 1.75 percent COCA factors for SOQ funded support positions in fiscal years 2015 and 2016. This action results in a decrease in state funding of \$10.2 million in fiscal year 2015 and \$10.5 million in fiscal year 2016. No changes are proposed to the COCA factors applied to SOQ funded instructional positions.

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

The Governor's introduced budget decreases the transfer from the Literary Fund to support the state's share of cost for teacher retirement by \$28.1 million, from \$136.0 million to \$107.9 million, in fiscal year 2015 compared to the fiscal year 2014 transfer amount designated in Chapter 806. In fiscal year 2016, the Literary Fund transfer amount decreases by \$24.7 million, from \$136.0 million to \$111.2 million, compared to the fiscal year 2014 transfer amount designated in Chapter 806. Of the amounts reduced from the transfer, \$10.0 million in fiscal year 2015 and \$10.0 million in fiscal year 2016 is designated to provide school construction loans for school divisions through the Literary Fund. These actions do not affect division per pupil amounts or projected entitlements for VRS retirement in fiscal year 2015 or fiscal year 2016.

- **Virginia Preschool Initiative (VPI) Non-participation Rate**

In addition to the technical updates to the Virginia Preschool Initiative (VPI) funding formula, the Governor's introduced budget also maintains the projected VPI non-participation rate in both fiscal year 2015 and fiscal year 2016 at the same 25.43 percent rate contained in Chapter 806 for fiscal year 2014. As a result, state funding for VPI is reduced by \$24.2 million in fiscal year 2015 and \$24.3 million in fiscal year 2016. This estimate of non-participation affects the state appropriation for the program but does not change the division-level allocation of student slots or entitlement amounts.

- **Textbook Funding**

The Governor's introduced budget proposes several actions that affect programs that are funded by Lottery proceeds (please see sections labeled "Update Lottery Proceeds" and

“Virginia Preschool Initiative (VPI)” above for further details on these updates.) After all actions, the portion of Textbooks payments that will be funded by Lottery proceeds decreases by \$2.3 million in fiscal year 2015 and \$10.1 million in fiscal year 2016, compared to the portion of Textbooks payments funded by Lottery proceeds in Chapter 806. This fund source change does not impact the projected payment amounts to divisions for textbooks.

- **Provide Funding for Extended Learning Time Models, Preschool, and Alternative Instructional Delivery or School Governance Models**

The Governor’s introduced budget proposes continuing state funding of \$412,500, plus an additional \$200,812 transferred from the Department of Education Central Office budget, for a total of \$613,312 in each year of the biennium. These funds would provide grants to school divisions for preschool programs; extended day or year schedules or year-round schools; or for assistance to establish charter, college laboratory, or virtual schools, or other instructional delivery or school governance models. Planning or start-up grants for extended learning time models could not exceed \$25,000. School divisions would be required to submit their applications to the Department of Education by August 1 preceding the school year in which the grant would be expended. Applications for planning grants must include evidence of commitment to pursue implementation in the school year immediately following the school year in which the planning grant is expended. School divisions with existing extended learning time programs would be eligible to apply for any balances that exist from funds provided. The Department of Education must give school divisions containing at-risk schools (i.e., accredited with warning) priority when considering applications, and may otherwise use competitive criteria in reviewing applications for funding.

- **Provide Funding for a Targeted Instructional Specialists Initiative**

The Governor’s introduced budget proposes providing \$1.8 million in each year of the biennium to provide the state’s share of the cost for one reading or math instructional specialist in underperforming schools. Eligible schools will include those that have been denied accreditation or were accredited with warning for the third consecutive year. In addition, the Department must identify up to 20 additional schools for funding from those that were accredited with warning for the second consecutive year that have shown little or no improvement in student achievement in the past year.

School divisions with eligible schools will be required to certify to the Department that the division has hired a reading or math instructional specialist. School divisions receiving these funds are required to match the funding based on their composite index of local ability-to-pay.

- **Expand Communities in Schools**

The Governor’s introduced budget includes an increase of \$269,400 in each year of the biennium for the expansion of the Communities in Schools of Virginia (CIS) program into Petersburg.

- **Expand the Great Aspirations Scholarship Program**

The Governor's introduced budget includes an increase of \$187,500 in each year of the biennium for the expansion of the Great Aspirations Scholarship Program (GRASP).

- **Expand PluggedInVA**

The Governor's introduced budget includes an increase of \$235,125 in each year of the biennium to fund 20 additional PluggedInVA grants to increase adult education opportunities.

- **Expand the Positive Behavioral Interventions and Support Program**

The Governor's introduced budget provides an additional \$256,960 in each year of the biennium to expand the number of schools implementing the Positive Behavioral Interventions and Support program (formerly known as the Effective Schoolwide Discipline Initiative), which provides models for schools that have significant rates of suspension or expulsion to improve school climate and reduce disruptive classroom behavior. An associated increase in funding to expand statewide training for the program is proposed in the Department of Education Central Office budget; please see the section below labeled "Expand the Positive Behavioral Interventions and Support Program" for further details.

- **Provide Grants for Teach for America Contracts**

The Governor's introduced budget includes \$500,000 in each year of the biennium to provide grants reimbursing school divisions who have hired teachers through the Teach for America program for the \$5,000 fee per teacher. State funds would be paid to school divisions that certify to the Department of Education the number of teachers hired through the Teach for America program. The Opportunity Educational Institution would evaluate each application and provide the Department of Education the final grant allocations.

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

- **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 would be consistent with the date used for the VPSA Educational Technology grant program.

- **Clarify STEM Teacher Bonus Program Language**

The Governor's introduced budget adds 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.

- **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.*"

- **VPSA Educational Technology Grants**

The Governor's introduced budget updates language for the VPSA Educational Technology Grants program to allow the use of unobligated notes proceeds to fund a portion of other technology grants that have been authorized by the General Assembly, in addition to the grants that were originally authorized.

- **Virginia e-Learning Backpack Initiative**

The Governor's introduced budget proposes changes to the structure of the Virginia e-Learning Backpack Initiative, modifying the criteria for determining eligible schools to include only those not fully accredited for the second consecutive year. This change is effective beginning with the spring 2015 grants. In addition, for schools that do not have grades 10, 11, or 12, the grants may transition with the students to the primary receiving school for all years subsequent to grade 9. Schools that receive the grant in fiscal year 2014 will receive funding based on the criteria and structure in place in fiscal year 2014 under the Chapter 806 budget.

B. 2014-2016 DEPARTMENT OF EDUCATION CENTRAL OFFICE BUDGET

1. Central Office Policy Changes Impacting School Divisions

- **Expand the Effective Positive Behavioral Interventions and Support**

The Governor's introduced budget provides an additional \$125,000 in each year of the biennium to support the expansion of the Positive Behavioral Interventions and Support program (formerly known as the Effective Schoolwide Discipline Initiative), for statewide training, technical assistance, and on-site coaching. An associated increase in funding to

expand this program is proposed in the Direct Aid to Public Education budget; please see the section above labeled “Expand the Positive Behavioral Interventions and Support Program” for further details.

- **Transfer Funding from Innovative Education Technical Advisory Group in Central Office to Direct Aid to Support Extended Learning Time Models and Other Uses**

The Governor’s introduced budget combines grant programs to provide a single source for grants for extended learning time models as well as alternative instructional delivery or school governance models and preschool. This action transfers the existing funding for the Innovative Education Technical Advisory Group from the Central Office to the Direct Aid budget for this purpose. A companion action is included in the Direct Aid budget. Please see the section above labeled “Provide Funding for Extended Learning Time Models, Preschool, and Alternative Instructional Delivery or School Governance Models” for further details.

- **Provide Funding to Support the Virginia Center for Excellence in Teaching**

The Governor’s introduced budget proposes providing \$315,923 in fiscal year 2015 and \$330,137 in fiscal year 2016 to support the full annual cost of the Virginia Center for Excellence in Teaching’s residential summer professional development academies for exemplary teachers at George Mason University.

- **Increase Funding for Academic Reviews on Under-Performing Schools**

The Governor’s introduced budget proposes increasing state funding by \$309,680 in each year of the biennium to support additional academic reviews the Department is required to conduct on under-performing schools that are not fully accredited. The cost for such reviews has increased with an increase in the number of schools that are accredited with warning or provisionally accredited.

- **Increase Funding for Early Reading Intervention Diagnostic (PALS)**

The Governor’s introduced budget proposes providing \$104,752 in fiscal year 2015 and \$89,652 in fiscal year 2016 to align the PALS literacy assessment diagnostic tool with revisions to the English Standards of Learning. The additional funding would also provide support to teachers on how to coordinate assessment results with lesson plans.

2. Language-Only Amendments to Central Office Included in HB 30/SB 30

▪ **Clarify Language for the Virginia Center for Excellence in Teaching**

The Governor's introduced budget proposes language that clarifies that teachers must teach in a public school division in Virginia in order to be eligible to attend the Virginia Center for Excellence in Teaching.

C. 2014-2016 SECRETARY OF EDUCATION BUDGET

1. Secretary of Education Policy Changes Impacting School Divisions

▪ **Eliminate Funding for College Partnership Laboratory Schools in the Second Year**

The Governor's introduced budget proposes eliminating funding in fiscal year 2016 for College Partnership Laboratory Schools. This action results in a reduction in state funding for College Partnership Laboratory Schools of \$600,000 in fiscal year 2016. \$600,000 in funding remains for fiscal year 2015.