

**Summary of Governor McAuliffe's Proposed Amendments  
to the 2014-2016 Biennial Budget Impacting the Direct Aid to Public Education and  
Department of Education Central Office Budgets**

This document summarizes the budget changes proposed by Governor McAuliffe to the current 2014-2016 biennial budget ([Chapter 3](#), 2014 Special Session I Acts of Assembly, as communicated in [Superintendent's Memorandum #312-14](#), dated November 21, 2014) that impact the Direct Aid to Public Education and the Department of Education Central Office budgets in fiscal years 2015 and 2016. The current biennial budget (i.e., Chapter 3) is the budget against which the Governor's proposed changes are made. The Governor's introduced budget bill to the 2015 General Assembly containing his amendments is House Bill 1400/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 and the Department of Education Central Office budget amendments is organized into the following two 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 1400/SB 800

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

1. Amendments to Central Office Budget Included in HB 1400/SB 800 Impacting School Divisions
2. Language-Only Amendments to Central Office Budget Included in HB 1400/SB 800

**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 2015 and 2016 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, 2013, fall membership. The most recent projections contained in the Governor's introduced budget amendments have been revised based on actual March 31, 2014, ADM and September 30, 2014, fall membership.

On a statewide basis, the revised unadjusted ADM projections are 1,741 students lower in fiscal year 2015 and 2,214 students lower in fiscal year 2016 than the original projections contained in Chapter 3. The ADM-based payments for fiscal years 2015 and 2016 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 2015 and re-projected fall membership in fiscal year 2016. The ADM and fall membership updates result in an estimated decrease in Direct Aid payments on a statewide basis of \$6.6 million in fiscal year 2015 and \$8.3 million in fiscal year 2016.

- **Update Sales Tax Projections and School-Age Population Estimate**

The Governor's amendments reflect the most recent estimate of sales tax revenue dedicated to public education for fiscal years 2015 and 2016, as calculated 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 payments 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 \$1,267.1 million for fiscal year 2015 and \$1,309.4 million for fiscal year 2016. These revised sales tax estimates are approximately \$5.5 million lower in fiscal year 2015 and \$8.2 million lower in fiscal year 2016 than the projections contained in Chapter 3. As required by the Basic Aid funding formula, estimated state Basic Aid payments have 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 \$3.1 million in fiscal year 2015 and \$4.6 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 decrease and the Basic Aid offset) is a decrease of \$2.4 million in fiscal year 2015 and a decrease of \$3.6 million in fiscal year 2016.

The Governor's amendments also reflect the updated Weldon Cooper Center school-age population estimates used to distribute the sales tax revenue. The school-age population estimates are updated by the Weldon Cooper Center annually for the purpose of distributing sales tax revenues to school divisions on a budgeted and actual basis. July 1, 2012, school-age population estimates will be used to distribute fiscal year 2015 sales tax revenues. The fiscal year 2016 sales tax distribution was amended to reflect the July 1, 2013, school-age population estimates. The fiscal year 2015 school-age population estimates remain the same as in Chapter 3, and continue to use the July 1, 2012, estimate to distribute sales tax revenue in fiscal year 2015. This action does not change the total amount of sales tax distributed to divisions in fiscal year 2016, just the distribution to individual divisions.

- **Update Lottery Revenue Estimate**

The Governor's amended budget increases the Lottery proceeds estimate by \$7.5 million to \$560.6 million in fiscal year 2015, as compared to the projection contained in Chapter 3. This increase includes a carry-over balance of approximately \$3.0 million from fiscal year

2014. The Governor's amended budget increases the Lottery proceeds estimate by \$21.7 million to \$531.7 million in fiscal year 2016, as compared to Chapter 3.

- **Technical Updates to Standards of Quality (SOQ), Incentive, Categorical, and Lottery-Funded Accounts**

Various technical adjustments have been made to SOQ, 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 approximately \$13.2 million in fiscal year 2015 and \$4.4 million in fiscal year 2016 based on these technical updates. Additional information regarding these adjustments is discussed in more detail in the following paragraphs.

- *SOQ Technical Updates*

In addition to the SOQ updates based on ADM and Fall Membership mentioned above in the paragraph entitled "Update Average Daily Membership (ADM) and Fall Membership," the Governor's amended budget includes updates to the Remedial Summer School program in fiscal year 2015 and fiscal year 2016. Funding for the Remedial Summer School program is increased by \$156,483 in fiscal year 2015 and \$542,338 in fiscal year 2016, based on actual participation in the Remedial Summer School program in Summer 2014.

- *Incentive Technical Updates*

The Governor's amended budget recognizes an increase to Incentive accounts of \$147,167 in fiscal year 2015 and a decrease of \$69,711 in fiscal year 2016. Funding for the Governor's School program is reduced by \$145,987 in fiscal year 2015 and \$69,711 in fiscal year 2016, based on actual enrollment in fiscal year 2015. Funding for Math and Reading Instructional Specialists is reduced by \$136,697 in fiscal year 2015, and funding for the Reading Specialists Initiative is reduced by \$239,067 in fiscal year 2015, based on actual schools participating in these programs. Fiscal year 2015 also includes \$668,918 in payments to certain school divisions which corrected reporting errors from fiscal year 2014. Finally, VPSA Educational Technology grants were updated for schools reporting fall membership for fiscal year 2015, and for 2014-2015 accreditation status for use in calculating grants under the e-Learning Backpack Initiative.

- *Categorical Technical Updates*

The Governor's amended budget recognizes savings to categorical accounts of approximately \$1.3 million in fiscal year 2015 and \$694,417 in fiscal year 2016 based on actual program participation. Funding for the Special Education Homebound program is reduced by \$183,176 in fiscal year 2015 and \$264,661 in fiscal year 2016 based on the actual state's share of local program costs in fiscal year 2015. Funding for the Special Education Jails account is reduced by \$59,419 in fiscal year 2015 and \$10,476 in fiscal year 2016 based on actual payments for fiscal year 2014 and estimated program participation in fiscal year 2015. Funding for the Special Education State Operated Programs account is reduced by approximately \$1.1 million in fiscal year 2015 and \$417,696 in fiscal year 2016 based on actual payments for fiscal year 2014 and estimated program participation in fiscal year 2015. The

division distribution of state funds for the School Lunch program account for fiscal year 2015 and fiscal year 2016 was updated to reflect fiscal year 2014 actual payments. The total state funding for this program remains the same as in Chapter 3; only the distribution was updated.

o *Lottery Technical Updates*

The Governor's amended budget includes technical updates based on actual participation and revised estimates to Lottery-funded accounts. All of the changes listed in the following paragraph are based on updated participation factors as submitted by school divisions.

Funding for the Virginia Preschool Initiative is reduced by approximately \$3.7 million in fiscal year 2015 and \$63,034 in fiscal year 2016. Funding for Special Education – Regional Tuition is reduced by approximately \$3.5 million in fiscal year 2015 and \$3.5 million in fiscal year 2016. Funding for Alternative Education is reduced by \$9,954 in fiscal year 2015. Funding for K-3 Primary Class Size Reduction is reduced by approximately \$4.4 million in fiscal year 2015 and \$265,759 in fiscal year 2016. Funding for the Early Reading Intervention program is reduced by \$61,096 in fiscal year 2015 and \$62,991 in fiscal year 2016. Funding for School Breakfast is reduced by \$651,023 in fiscal year 2015 and \$716,160 in fiscal year 2016. Funding for Foster Care is reduced by \$656,469 in fiscal year 2015 and \$833,504 in fiscal year 2016. In addition, state funding for English as a Second Language is increased by \$765,931 in fiscal year 2015 and approximately \$1.3 million in fiscal year 2016 based on actual fiscal year 2015 enrollment.

After all actions, the portion of Remedial Summer School payments that will be funded by Lottery proceeds increases by approximately \$12.2 million in fiscal year 2015, compared to the portion of Remedial Summer School payments funded by Lottery proceeds in Chapter 3. The portion of Textbooks payments that will be funded by Lottery proceeds increases by approximately \$4.1 million in fiscal year 2016, compared to the portion of Textbooks payments funded by Lottery proceeds in Chapter 3. This fund source change does not impact the overall per pupil amount for Textbooks or the projected payment amounts to divisions for Remedial Summer School or Textbooks.

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

- **Increase Literary Fund Support for Virginia Retirement System (VRS) Retirement Payments**

The Governor's amended budget increases the transfer from the Literary Fund to support the state's share of cost for teacher retirement by \$25.0 million in fiscal year 2015, from \$157.9 million to \$182.9 million. The increased transfer amount is offset by a corresponding state general fund decrease of \$25.0 million in fiscal year 2015. These changes do not affect division per pupil amounts or projected payments for VRS retirement in fiscal year 2015.

- One-time Transfer from the Literary Fund for VRS and Reduce Funded Instructional VRS Employer Contribution Rate for Fiscal Year 2016**

The Governor's amended budget utilizes a one-time transfer of \$150.0 million from the Literary Fund toward the payment of the outstanding ten-year deferred contribution balance in the teacher retirement fund of the Virginia Retirement System (VRS). The \$150.0 million in proceeds from the Literary Fund is from the sale of unclaimed stocks and bonds turned over to the state. The funds will be paid directly to VRS by the Department of Education in fiscal year 2016. The reduced deferred balance is then reamortized over the remaining six-year amortization period, resulting in a lower VRS employer rate in fiscal year 2016 (14.50 percent in Chapter 3 to 14.15 percent in the Governor's proposed budget). The proposed budget does not change the employer contribution rate for instructional retirement benefits in fiscal year 2015. The funded rates for the retiree health care credit, group life contribution, and Social Security remain unchanged from Chapter 3 for fiscal years 2015 and 2016. This proposed rate change decreases state funding by approximately \$10.4 million in fiscal year 2016, and provides net local savings across all VRS covered employees. Additional information regarding the benefit rates included in the Governor's amended budget is provided in the table below.

| HB 1400/ SB 800 As Introduced<br>Funded Fringe Benefit Rates:   | FY 2015       | FY 2016       |
|---|---------------|---------------|
| Instructional & Professional Support VRS<br>( <u>Employer</u> Share) ( <i>Does not include RHCC - see below</i> ) | 14.50%        | 14.15%        |
| Group Life ( <u>Employer</u> Share)   | 0.48%         | 0.48%         |
| Retiree Health Care Credit (RHCC) ( <i>Paid as part of the VRS Instructional retirement per pupil amount</i> )    | 1.06%         | 1.06%         |
| Non-professional Support VRS  | 9.40%         | 9.40%         |
| Social Security   | 7.65%         | 7.65%         |
| Health Care Premium   | \$4,188       | \$4,188       |
| Total Instructional Benefit Percent ( <u>Employer</u> Share)  | <b>23.69%</b> | <b>23.34%</b> |
| Total Non-professional Support Benefit Percent ( <u>Employer</u> Share)   | <b>17.53%</b> | <b>17.53%</b> |

- Provide Incentive Funding for Breakfast After the Bell Initiative**

The Governor's amended budget proposes providing \$537,297 in general funds in fiscal year 2016 to support increasing the number of school breakfasts served to unserved or underserved students after the first bell of the school day. The Department of Education is required to communicate to school divisions the types of innovative breakfast serving models and the criteria that will meet the requirements for this reimbursement, which may include, but are not limited to, breakfast in the classroom, grab and go breakfast, or breakfast after first period. School divisions may determine the breakfast serving model that best applies to its students, so long as it occurs after the instructional day has begun. These funds will be used to make monthly payments to divisions at a reimbursement rate of \$0.05 per breakfast meal served that meets the established criteria in fiscal year 2016.

- **Update Driver's Education Funding**  
The Governor's amended budget increases general funds for Driver's Education costs funded in Basic Aid by approximately \$1.3 million in fiscal year 2015 and \$1.4 million in fiscal year 2016. These increases offset with the reduction of non-general fund revenue associated with the change in the Driver's License renewal cycle from 5 to 8 years, which became effective in fiscal year 2014. This change does not affect projected payments for Basic Aid in fiscal year 2016, but is only a fund source change.
- **Literary Fund Interest Rate Subsidy Grant Program**  
The Governor's amended budget proposes providing \$25.0 million from the Literary Fund to support the Interest Rate Subsidy Grant Program. This program is used to provide interest rate subsidy grants through the Virginia Public School Authority (VPSA) for projects on the Board of Education's First Priority Waiting List for a Literary Fund loan. Projects on the Literary Fund Second Priority Waiting List may participate in the program if an unused subsidy appropriation remains once the participation of projects on the First Priority Waiting List is confirmed. The total cost of the subsidy grants cannot exceed \$25.0 million in fiscal year 2016. The subsidy grants are used to provide school divisions participating in the VPSA Pooled School Construction Bond Program debt service payments equivalent to what they would pay on a Literary Fund loan by reducing the principal amount financed under the pooled bond portion of the program.
- **Provide School Construction Loans from Literary Fund**  
The Governor's amended budget proposes providing \$50.0 million from the Literary Fund in fiscal year 2016 to support direct loans for school construction projects on Waiting Lists. Issuing new loans will increase the asset base of the Literary Fund, which must be at least \$80.0 million. Outstanding loan balances from newly issued loans count towards the \$80.0 million minimum asset base, beyond which funds from the Literary Fund may be disbursed for loans and other permitted uses.

Information on the Literary Fund, including the current Waiting Lists, is available at:  
[http://www.doe.virginia.gov/support/facility\\_construction/literary\\_fund\\_loans/index.shtml](http://www.doe.virginia.gov/support/facility_construction/literary_fund_loans/index.shtml).

### **3. Language-Only Amendments for Direct Aid Programs Included in HB 1400/SB 800**

- **Virginia Preschool Initiative (VPI) Reallocation for Wait List Slots**  
The Governor's amended budget proposes providing additional slots in fiscal year 2016, subject to available funds, to school divisions that utilize 100 percent of their available slots in fiscal year 2015 and have a waiting list for additional, unserved eligible children, as certified on the October 1 VPI Fall Verification Report submitted to the Department of Education in fiscal year 2015. The number of slots allocated under this provision will be determined using the balance of the number of slots estimated to calculate the fiscal year 2016 appropriation and the number of actual slots to be used for fiscal year 2016 as reported on the May 15 VPI grant proposals submitted by school divisions. The number of eligible children participating in the program, as certified in the May 15 grant proposals, will be the maximum number of funded slots for the school division for the fiscal year certified (i.e., fiscal year 2016). The due date of the annual VPI grant proposals submitted by divisions to

the Department of Education is moved from June 15 to May 15. The proposed language in the Governor's amended budget states:

*In the second year only, additional slots shall, subject to available funds, be provided to school divisions that have utilized 100 percent of their calculated slots in the first year and have a waiting list for additional, unserved eligible children as certified by such school divisions on the October 1 Virginia Preschool Initiative Fall Verification Report submitted to the Department of Education in the first year. The amount of funding available to provide additional waiting list slots to school divisions in the second year shall be determined by the balance of the number of slots estimated to calculate the dollar amount in paragraph 14.a.1) of this Item and the number of slots reported in the May 15 grant proposed as outlined in paragraph 14.b.1) of this Item.*

*The number of eligible children participating in the program, as certified in this submission, shall equate to the maximum number of funded slots for the school division for the fiscal year certified.*

- **Expanded Use of Funds from Year-Round School Grants**

The Governor's amended budget provides flexibility to the Department of Education for grant funding that is not awarded to school divisions for year-round schools. In fiscal year 2016, the Department may award grants to school divisions to support innovative approaches to instructional delivery or school governance models from balance not used for year-round school grants.

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

### **1. Amendments to Central Office Budget Included in HB 1400/SB 800 Impacting School Divisions**

- **Expand Computer Adaptive Testing**

The Governor's amended budget proposes providing \$732,000 in fiscal year 2016 only (one-time funding) to transition the grade 7 and grade 8 Standards of Learning (SOL) mathematics tests to a computer adaptive testing (CAT) format. Transitioning to CAT will provide opportunities for students to test when they are ready, rather than waiting for a specified testing window, and may support efforts to close the achievement gap by improving the information provided about the skills and concepts that each student has mastered and those where more instruction is needed. Currently, only the grade 6 SOL mathematics test is available in CAT format.

- **Provide Funding for Expedited Retake of SOL Tests**

The Governor's amended budget proposes providing \$200,000 in fiscal year 2016 to permit students who have failed an SOL test at grades 3-8 by a narrow margin to take the test again during the same test administration. Currently, only students who fail an end-of-course SOL test needed for graduation are permitted to immediately retake the test. Expanding this opportunity to grades 3-8 could reduce remediation costs and positively impact school accreditation ratings if the retakes result in higher pass rates.

- **Improve Principal Quality in Under-Performing Schools**  
The Governor's amended budget proposes providing \$713,000 in fiscal year 2016 to establish a program of professional development to increase the capacity of principals in under-performing schools. The proposed funding will provide training, materials, and travel costs for 40 principals in underperforming schools not meeting accreditation standards who will be selected for participation through an application process.
- **Fund Additional Positions in DOE to Increase Capacity**  
The Governor's amended budget proposes providing \$572,976 in fiscal year 2016 to fund five full-time classified positions in the Department of Education, in order to strengthen staffing capacity in key areas of the agency and to increase the level of services to under-performing schools and school divisions. The positions are primarily School-Improvement and Curricular Specialists and would be assigned primarily to the Office of School Improvement and in instructional units.

## **2. Language-Only Amendments to Central Office Budget Included in HB 1400/SB 800**

- **Expand Uses of Information Technology Academy Funding**  
The Governor's proposed budget expands the scope of existing information technology academy funding by authorizing its use for additional information technology credentials.