

Summary of Governor McAuliffe's Proposed Amendments to the 2016-2018 Budget (HB 1500/SB 900 as Introduced)

This document summarizes the budget changes proposed by Governor McAuliffe to the current 2016-2018 biennial budget ([Chapter 780](#), 2016 Acts of Assembly, as communicated in [Superintendent's Memorandum #054-16](#), dated March 16, 2016) that impact the Direct Aid to Public Education and the Department of Education Central Office budgets in fiscal years 2017 and 2018. The current biennial budget (i.e., Chapter 780) is the budget against which the Governor's proposed changes are made. The Governor's introduced budget bill to the 2017 General Assembly containing his amendments is House Bill 1500/Senate Bill 900. 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 in the following two sections:

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

1. Technical Updates to Existing Direct Aid Programs Included in HB 1500/SB 900
2. Direct Aid Budget Policy Changes Included in HB 1500/SB 900
3. Direct Aid Budget Language Changes Included in HB 1500/SB 900

Section B: Amendments to the Department of Education Central Office Budget

1. Amendments to DOE Central Office Budget Included in HB 1500/SB 900

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

1. Technical Updates to Existing Direct Aid Programs Included in HB 1500/SB 900

▪ Update Average Daily Membership (ADM) and Fall Membership

Projections of unadjusted and adjusted average daily membership (ADM) for fiscal years 2017 and 2018 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, 2015, fall membership. The most recent projections contained in the Governor's introduced budget amendments have been revised based on actual March 31, 2016, ADM and September 30, 2016, fall membership.

On a statewide basis, the revised unadjusted ADM projections are 2,610 students lower in fiscal year 2017 and 3,691 students lower in fiscal year 2018 than the original projections

contained in Chapter 780. The ADM-based payments for fiscal years 2017 and 2018 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 2017 and re-projected fall membership in fiscal year 2018. The ADM and fall membership updates result in an estimated decrease in Direct Aid payments on a statewide basis of \$14.8 million in fiscal year 2017 and \$20.5 million in fiscal year 2018.

▪ **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 2017 and 2018, 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 \$1,347.4 million for fiscal year 2017 and \$1,377.1 million for fiscal year 2018. These revised sales tax estimates are approximately \$35.5 million lower in fiscal year 2017 and \$55.8 million lower in fiscal year 2018 than the projections contained in Chapter 780. 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 \$20.0 million in fiscal year 2017 and \$33.3 million in fiscal year 2018. 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 \$15.6 million in fiscal year 2017 and a decrease of \$24.5 million in fiscal year 2018.

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. The July 1, 2014, school-age population estimates will be used to distribute fiscal year 2017 sales tax revenues. The fiscal year 2018 sales tax distribution was amended to reflect the July 1, 2015, school-age population estimates. The fiscal year 2017 school-age population estimates remain the same as in Chapter 780, and continue to use the July 1, 2014, estimate to distribute sales tax revenue in fiscal year 2017. This action does not change the total amount of sales tax distributed to divisions in fiscal year 2018, just the distribution to individual divisions. This action results in a \$1.9 million increase in the general fund appropriation for Basic Aid in fiscal year 2018.

- **Update Lottery Revenue Estimate**

The Governor's amended budget increases the Lottery proceeds estimate by \$47.1 million to \$608.6 million in fiscal year 2017, as compared to the projection contained in Chapter 780. This additional Lottery funding is used to replace a like amount of state general funds in certain Direct Aid accounts. The Governor's amended budget increases the Lottery proceeds estimate by \$5.3 million to \$546.5 million in fiscal year 2018, as compared to Chapter 780, and is likewise used to replace general fund costs in certain Direct Aid accounts.

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

Various technical adjustments have been made to SOQ, Incentive, Categorical, Lottery-funded, and Supplemental Education 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 \$9.3 million in fiscal year 2017 and \$4.2 million in fiscal year 2018 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 2017 and fiscal year 2018. Funding for the Remedial Summer School program decreased by \$3.6 million in fiscal year 2017 and \$4.2 million in fiscal year 2018, based on actual participation in the Remedial Summer School program in Summer 2016. In addition, state funding for English as a Second Language is increased by \$690,144 in fiscal year 2018 based on actual fiscal year 2017 enrollment.

- *Incentive Technical Updates*

Funding for the Governor's Schools program is reduced by \$559,259 in fiscal year 2017 and decreased \$786,409 in fiscal year 2018, based on actual enrollment in fiscal year 2017 and updated program course load data. These changes include reverting the Southwest Virginia Governor's School program length back to a 5/6th day program, a decrease of \$87,661 in fiscal year 2017 and \$91,793 in fiscal year 2018. Finally, VPSA Educational Technology Grants decreased by \$5.5 million in fiscal year 2017 and \$5.7 million in fiscal year 2018 based on updates for schools reporting fall membership for fiscal year 2017, and for 2016-2017 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 \$404,962 in fiscal year 2017 and \$138,801 in fiscal year 2018 based on actual program participation. Funding for the Special Education Homebound

program is reduced by \$358,338 in fiscal year 2017 and \$365,504 in fiscal year 2018 based on the actual state's share of local program costs in fiscal year 2017. Funding for the Special Education Jails account is reduced by \$69,285 in fiscal year 2017 and \$132,037 in fiscal year 2018 based on actual payments for fiscal year 2016 and estimated program participation in fiscal year 2017. Funding for the Special Education State Operated Programs account increased by approximately \$32,295 in fiscal year 2017 and \$370,144 in fiscal year 2018 based on actual payments for fiscal year 2016 and estimated program participation in fiscal year 2017. The division distribution of state funds for the School Lunch program account for fiscal years 2017 and 2018 is updated to reflect fiscal year 2016 actual payments. The total state funding for this program remains the same as in Chapter 780; only the distribution was updated.

- *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 decreased by approximately \$1.3 million in fiscal year 2017 and increased by \$37,575 in fiscal year 2018. Funding for Regional Alternative Education is reduced by \$95,540 in fiscal year 2017 and \$282,352 in fiscal year 2018. Funding for K-3 Primary Class Size Reduction is reduced by approximately \$6.5 million in fiscal year 2017 and \$3.2 million in fiscal year 2018. Funding for the Early Reading Intervention program is increased by \$1.9 million in fiscal year 2017 and \$1.9 million in fiscal year 2018. Funding for School Breakfast is increased by \$961,165 in fiscal year 2017 and \$1.3 million in fiscal year 2018. Funding for Foster Care is increased by \$1.3 million in fiscal year 2017 and \$1.7 million in fiscal year 2018. In addition, Special Education Regional Tuition is reduced by \$2.7 million in 2017 and \$3.3 million in 2018 based on actual costs in fiscal year 2016. Funding for English as a Second Language is increased by \$768,279 in fiscal year 2017 based on actual fiscal year 2017 enrollment.

- *Supplemental Education Service Area Updates*

Funding for the National Board Certification Bonus Program is reduced by \$870,000 in fiscal year 2017 and \$785,000 in fiscal year 2018 for the actual number of teachers who hold National Board Certification in fiscal year 2017 and for an updated projection of the number holding certification in fiscal year 2018.

- **Update Driver's Education Funding in Basic Aid**

The Governor's amended budget increases non-general fund revenues received from the Department of Motor Vehicles for driver's education costs funded in the Basic Aid formula by approximately \$1.5 million in fiscal year 2017 and \$1.6 million in fiscal year 2018. These non-general fund revenue increases supplant like amounts of general funds within the Basic Aid formula. The non-general fund revenue for driver's education increased due to the eight-year driver's license renewal cycle, which became effective in

fiscal year 2014, now being fully phased in as of fiscal year 2017. This change does not affect the funded per pupil amounts for Basic Aid or projected payments for Basic Aid in fiscal years 2017 and 2018, but is only a fund source change within the Basic Aid formula.

- **Include Project Graduation Distribution Formula**

As previously announced in Superintendent's Memo # 133-16 dated May 27, 2016, a distribution formula has been implemented in the Governor's amended budget for Project Graduation that will impact division funding for fiscal years 2017 and 2018. The new distribution formula uses the number of failures on SOL end-of-course assessments in a division and compares that figure to the statewide total number of failures. The amounts are adjusted based upon the composite index. The total state funding available to divisions for fiscal year 2017 and 2018 is unchanged from that provided in the Chapter 780 budget.

2. Direct Aid Budget Policy Changes Included in HB 1500/SB 900

- **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 years 2017 and 2018, from \$166.3 million to \$191.3 million in fiscal year 2017, and from \$156.3 million to \$181.3 million in fiscal year 2018. The increased transfer amount is offset by a corresponding state general fund decrease of \$25.0 million in fiscal years 2017 and 2018. These fund source changes do not affect division per pupil amounts or projected payments for VRS retirement in fiscal years 2017 or 2018.

Note: The Governor's amended budget does not change any of the fringe benefit rates for fiscal years 2017 or 2018 that were adopted last session in the Chapter 780 budget; all rates remain the same as adopted last session. The fringe benefit rates included in the Governor's amended budget are listed in the table below for your information.

HB 1500/SB 900 As Introduced Funded Fringe Benefit Rates:	FY 2017	FY 2018
Instructional & Professional Support VRS (<u>Employer Share</u>) (<i>Does not include RHCC - see below</i>)	14.66%	16.32%
Group Life (<u>Employer Share</u>)	0.52%	0.52%
Retiree Health Care Credit (RHCC) (<i>Paid as part of the VRS Instructional retirement per pupil amount</i>)	1.11%	1.23%
Non-professional Support VRS	7.11%	7.11%
Social Security	7.65%	7.65%
Health Care Premium	\$4,604	\$4,604
Total Instructional Benefit Percent (<u>Employer Share</u>)	23.94%	25.72%
Total Non-professional Support Benefit Percent (<u>Employer Share</u>)	15.28%	15.28%

- **Remove the State's Share of a 2.0 Percent Salary Increase (i.e., Compensation Supplement) for Funded SOQ Instructional and Support Positions and Academic Year Governor's Schools**

The Governor's amended budget removes the state share of funding in fiscal year 2017 and 2018 for the 2.0 percent Compensation Supplement that was to be effective December 1, 2016, for funded SOQ instructional and support positions and for Academic Year Governor's Schools. This action results in a decrease in state funding of \$49.3 million in 2017 and \$86.0 million in fiscal year 2018.

- **Add One-Time Bonus for SOQ-funded Instructional and Support Personnel and Academic Year Governor's Schools**

The Governor's amended budget includes funding for a one-time bonus payment effective December 1, 2017, equal to 1.5 percent of the funded salaries for funded SOQ instructional and support positions and Academic Year Governor's Schools. No local match of funds is required. Funded SOQ instructional positions include the teacher, guidance counselor, librarian, instructional aide, principal, and assistant principal positions funded through the SOQ staffing standards for each school division in the biennium. This action results in a \$55.5 million increase in state general funds in fiscal year 2018. It is anticipated, as a form of one-time compensation, the state bonus funding will be paid to school divisions on December 1, 2017.

- **Update Supplemental Lottery Per Pupil Amount**

The Governor's amended budget includes an increase in the per pupil amount for the Supplemental Lottery allocation from \$52.42 per pupil to \$52.56 per pupil in fiscal year 2017 and from \$224.43 per pupil to \$225.25 per pupil in fiscal year 2018. This action increases statewide allocations by \$97,438 in fiscal year 2017 and \$572,162 in fiscal year 2018.

- **Add a Summer Governor's School for Entrepreneurial Leadership Planning Grant**

The Governor's amended budget includes \$32,292 in fiscal year 2018 for a planning grant to establish a summer Governor's School for Entrepreneurial Leadership.

- **Teacher Improvement Fund**

The Governor's amended budget includes a \$2.0 million decrease to the Teacher Improvement Fund in fiscal year 2018. \$50,000 is maintained in fiscal year 2018 for additional planning grants.

- **Summer Cyber Camp**

The Governor's amended budget includes \$480,000 to continue state support for Summer Cyber Camps in fiscal year 2018 (for summer 2017 operation).

- **Teacher Residency Program**

The Governor's amended budget includes a \$1.0 million increase to the Teacher Residency Program in fiscal year 2018.

- **Teacher Recruitment and Retention**

The Governor's amended budget reduces funding for Teacher Recruitment and Retention (specifically, the Math/Science Teacher Recruitment Initiative Pilot component) by \$400,000 in fiscal years 2017 and 2018. In fiscal year 2018, this funding is redirected to the DOE Central Office budget to help fund the cost of the required Algebra Readiness Diagnostic Test (ARDT) provided at no cost to school divisions.

3. Direct Aid Budget Language Changes Included in HB 1500/SB 900

- **Technical Amendment to COCA Rates Language**

Amends budget language to properly reflect that the Cost of Competing Adjustment (COCA) for support positions is funded in both years of the 2016-2018 biennium.

- **Add Language to Expand the Use of Traineeships for Education of Special Education Personnel**

Adds budget language to allow full expenditure of the current Special Education Endorsement Program appropriation by more accurately reflecting actual student workload and current higher education tuition rates.

- **Add Language to Redirect Uncommitted Teach for America Appropriation to the Teacher Residency Program**

Adds budget language to redirect any uncommitted Teach for America (TFA) appropriation to the Teacher Residency Program in anticipation that the TFA program will not use the full 2016-2018 biennium appropriation. Any commitments to TFA would take precedence over redirection of funds to the Teacher Residency Program.

SECTION B. AMENDMENTS TO THE DEPARTMENT OF EDUCATION CENTRAL OFFICE BUDGET

1. Amendments to DOE Central Office Budget Included in HB 1500/SB 900

- **Increase Funding for Instructional Improvement System**

Provides an additional \$1.6 million in fiscal year 2018 to support projected statewide access to the Department of Education's Instructional Improvement System at no cost to local school divisions.

- **Increase Funding for the Algebra Readiness Diagnostic Test (ARDT)**

Redirects \$400,000 in fiscal year 2018 from the Math/Science Teacher Recruitment Initiative Pilot in the Direct Aid budget to help fund the cost of the required Algebra Readiness Diagnostic Test (ARDT) provided at no cost to school divisions.

- **Transfer Administration of Certain Federal Child Nutrition Programs from the Department of Health to the Department of Education**

In fiscal year 2018, transfers administration of the Summer Food Service Program and the Child and Adult Care Food Program from the Virginia Department of Health to the Virginia Department of Education. \$57.7 million in non-general funds and 20.0 positions would be transferred for these programs from Health to Education.

- **Continue Funding for the Student Growth Model**

Continues \$500,000 in funding in fiscal year 2018 for a student growth model pilot program to provide personalized instructional and academic planning for students, facilitate data driven school improvement efforts, and support the state's accountability and accreditation systems.

- **Reflect Fiscal Year 2017 Savings from October 2016 Savings Plan**

Reflects fiscal year 2017 general fund savings of \$763,125 included in the Governor's October 2016 Savings Plan for approved reduction strategies in the DOE Central Office budget. Some of the specific funding reductions include: teacher and principal professional development (\$300,000); eMedia (\$100,000); IT Academy (\$100,000);

Kindergarten Readiness Assessment (\$100,000); and teacher evaluation training (\$34,625).

▪ **Reflect Savings in DOE Budget from Fiscal Year 2018 Reduction Strategies**

Reflects general fund savings in fiscal year 2018 of \$1.53 million from reduction strategies in the DOE Central Office budget. The specific funding reductions include: eliminate general funds for 6.0 positions (\$649,163); teacher and principal professional development (\$300,000); IT Academy (\$200,000); School Quality Profile (\$150,000); eMedia (\$100,000); Kindergarten Readiness Assessment (\$100,000); and teacher evaluation training (\$34,625).