

Governor's Introduced Budget (House Bill/Senate Bill 30) for the 2012-2014 Biennium

This document summarizes the budget proposals by Governor McDonnell for the 2012-2014 biennium affecting the Direct Aid to Public Education and Department of Education Central Office budgets. The fiscal year 2012 base budget against which the Governor's recommended funding changes were made for the 2012-2014 biennium is Chapter 890, which was adopted at the 2011 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. 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. Department of Education Central Office Budget

1. Central Office Policy Changes Impacting School Divisions

A. DIRECT AID TO PUBLIC EDUCATION

1. Technical Updates to Existing Direct Aid Programs

- **Rebenchmark Direct Aid Costs for 2012-2014 (as presented to the Board of Education in July 2011)**

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 2012-2014 Board of Education rebenchmarking presentation dated July 28, 2011, provided as Attachment D 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 data updates used in the funding formulas, and do not reflect any changes in policy. For fiscal year 2013, routine rebasing of costs for the Standards of Quality and other Direct Aid programs results in an increase of \$145.6 million. For fiscal year 2014, the increase is \$173.1 million.

▪ **Technical Updates to Direct Aid Accounts for 2012-2014 Subsequent to the Rebenchmarking Budget Presented to the Board of Education in July 2011**

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 budget presented in July 2011, due to the timing of data availability. These technical adjustments include updates to factors such as enrollment projections, Standards of Learning 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 decrease the state share of cost by \$4.1 million in fiscal year 2013 and \$2.6 million in fiscal year 2014.

▪ **Update Fringe Benefit Employer Contribution Rates**

The Governor’s introduced budget adopts a higher employer contribution rate for instructional retirement benefits in 2012-2014 than was funded in Chapter 890 for fiscal year 2012 (6.33 percent to 11.66 percent). The rate recommended by the Governor is based on the same actuarial assumptions as the rate recommended by the VRS Board except for the rate of return on investment assets. The Governor’s recommended rate assumes an 8.0 percent rate of return while the rate recommended by the VRS Board assumes a 7 percent rate of return. The prevailing non-professional VRS rate has been updated and is funded at 10.23 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 2012-2014 reflects a rate increase from fiscal year 2012 (0.6 percent to 1.11 percent). For the group life contribution, the rate proposed for 2012-2014 reflects a rate increase from fiscal year 2012 (0.28 percent to 0.48 percent). All fringe benefit rates are proposed to be the same in fiscal years 2013 and 2014. These rate changes increase state funding by \$170.9 million in fiscal year 2013 and \$171.5 million in fiscal year 2014 (compared to costs based on fiscal year 2012 rates).

FUNDED FRINGE BENEFIT RATES:	FY 2012	FY 2013	FY 2014
Instructional & Professional Support VRS (<u>Employer Share</u>) (Does not include RHCC - see below)	6.33%	11.66%	11.66%
Instructional & Professional Support VRS (<u>Employee Share</u>)	5.00%	5.00%	5.00%
Total Instructional & Professional Support VRS Rate	11.33%	16.66%	16.66%
Group Life (<u>Employer Share</u>)	0.28%	0.48%	0.48%
Group Life (<u>Employee Share</u>)	0%	0.71%	0.71%
Total Group Life Rate	0.28%	1.19%	1.19%
Retiree Health Care Credit (<i>Paid as part of the VRS Instructional retirement per pupil amount</i>)	0.60%	1.11%	1.11%
Non-professional Support VRS	7.53%	10.23%	10.23%
Social Security	7.65%	7.65%	7.65%
Health Care Premium	\$3,375	\$3,778	\$3,778
Total Instructional Benefit Percent (<u>Employer Share</u>)	14.86%	20.90%	20.90%
Total Non-professional Support Benefit Percent	15.46%	18.36%	18.36%

- **Updates for Recalculation of Composite Index for 2012-2014**

The 2012-2014 composite index of local ability-to-pay was calculated using 2009 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 2009 are provided by the Weldon Cooper Center for Public Service at the University of Virginia, and the March 31, 2010, average daily membership is based on data reported by school divisions to the Department of Education. Updating Direct Aid accounts based on the recalculated 2012-2014 composite index increases the state share of Direct Aid funding by \$42.7 million in fiscal year 2013 and \$45.0 million in fiscal year 2014.

- **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 2013 and 2014, 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 \$1,202,500,000 for fiscal year 2013 and \$1,243,700,000 for fiscal year 2014. These revised sales tax estimates are approximately \$40.2 million higher in fiscal year 2013 and \$81.4 million higher in fiscal year 2014 than the fiscal year 2012 estimate contained in Chapter 890. 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 \$22.6 million in fiscal year 2013 and \$45.7 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 increase and the Basic Aid offset) is an increase of \$17.6 million in fiscal year 2013 and an increase of \$35.7 million in fiscal year 2014.

In addition, effective with fiscal year 2013, the Governor's budget bases the distribution of sales tax revenues to school divisions on the estimate of school-age population as provided by the Weldon Cooper Center for Public Service at the University of Virginia.

- **Update Lottery Proceeds**

Total Lottery proceeds are projected to increase by \$14.4 million to \$450.3 million in fiscal year 2013 and by \$19.1 million to \$455.0 million in fiscal year 2014, compared to the fiscal year 2012 Lottery estimate contained in Chapter 890. The total projected Lottery amounts in fiscal years 2013 and 2014 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 paragraph labeled “Textbook Funding” below for updates to the Textbooks account.

2. Direct Aid Budget Policy Changes

▪ Remove Non-personal Inflation Funding for the 2012-2014 Biennium

The Governor’s introduced budget proposes eliminating funded inflation factors from the non-personal component of Basic Aid for the 2012-2014 biennium. Typically, as part of the biennial rebenchmarking process, the Department of Education updates non-personal inflation factors to bring base year expenditures 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 \$54.4 million in fiscal year 2013 and \$54.6 million in fiscal year 2014.

▪ Increase Funding for Jobs for Virginia Graduates Program

For fiscal year 2013 and fiscal year 2014, state funding for the Jobs for Virginia Graduates program is increased by \$250,000, from \$373,776 to \$623,776 each year.

Please note that programs under the “Supplemental Education” category, such as Jobs for Virginia Graduates, are not included in Attachment B or the Excel template. Funding for supplemental education programs are not distributed to school divisions statewide, and serve a unique purpose for specific school divisions.

▪ Update the Federal Revenue Deduct in Basic Aid Formula

The Governor’s introduced budget proposes including in the federal revenue deduct calculation a portion of the American Recovery and Reinvestment Act (ARRA) State Fiscal Stabilization Fund (SFSF) revenues from fiscal year 2010, the base year of Annual School Report Financial Section (ASRFIN) data used to calculate state SOQ funding for the 2012-2014 biennium. The proposed portion of ARRA SFSF revenues to be included in the federal revenue deduct represents 59.2% of total ARRA SFSF revenues to school divisions in fiscal year 2010, from the portion of SFSF allocated by the General Assembly to offset permanent state Direct Aid reductions in fiscal year 2010. This action results in a reduction of state funding of \$54.0 million in fiscal year 2013 and a reduction of \$54.1 million in fiscal year 2014.

▪ 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 divisions (specified in the appropriation act) in fiscal years 2013 and 2014. Chapter 890 provides the state share of funding for the full COCA rate (24.61

percent) on SOQ funded support positions for the Planning District Eight school divisions and a phased-in rate of 6.15 percent for certain adjacent divisions. The Governor's introduced budget proposes the elimination of state funding for both the full and phased-in COCA factors for SOQ funded support positions in fiscal years 2013 and 2014. This action results in a decrease in state funding of \$32.2 million in fiscal year 2013 and \$32.8 million in fiscal year 2014.

▪ **Transfer the Remedial Summer School Program from the Lottery Service Area to the Standards of Quality Service Area**

The Governor's introduced budget proposes transferring the Remedial Summer School program from the Lottery service area to be funded with general funds in the Standards of Quality service area. This fund source switch does not impact projected payments to school divisions. Transfer of this program from the Lottery service area increases the amount of Lottery proceeds available for other programs by \$22.3 million in fiscal year 2013 and \$23.1 million in fiscal year 2014. The Governor's introduced budget utilizes this portion of Lottery funds to support the increased state share of cost associated with technical updates to other Lottery-funded programs, as well as the additional Textbooks payments funded by Lottery proceeds (please see the paragraphs labeled "Update Lottery Proceeds" above and "Textbook Funding" below for further details on these updates.

▪ **Decrease Literary Fund Support for VRS Retirement**

The Governor's introduced budget holds constant the transfer from the Literary Fund to support the state share of cost for teacher retirement at \$130.1 million in fiscal year 2013. In fiscal year 2014, the Literary Fund transfer amount decreases by \$300,000, from \$130.1 million to \$129.8 million. These actions do not affect division per pupil amounts or projected entitlements for VRS retirement in fiscal year 2013 or fiscal year 2014.

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

The Governor's introduced budget includes an additional \$215,000, from \$4,970,000 to \$5,185,000, in fiscal year 2013 and fiscal year 2014 to support the projected number of eligible teachers qualifying for the National Board Certification bonuses awarded by the state.

▪ **Virginia Preschool Initiative (VPI)**

In addition to the technical updates for the Virginia Preschool Initiative (VPI), the Governor's introduced budget also proposes the following changes to the funding methodology.

- The number of unserved at-risk four-year-olds in each locality will be based on the projected number of kindergarten students, updated once each biennium with the Governor's introduced biennial budget. The division-level free lunch eligibility percentage will continue to be used, but applied to kindergarten enrollment.

- For fiscal year 2013 and fiscal year 2014 only, the number of slots funded in each school division will be the higher of 1) the calculated slots based on projected kindergarten enrollment or 2) the lesser of either the calculated slots using projections of four-year-olds from the Virginia Employment Commission (VEC) or the actual number of utilized slots in fiscal year 2012. Beginning with fiscal year 2015, the number of funded slots would be based only on projected kindergarten enrollment in lieu of VEC projected number of four-year-olds.
- The projected VPI non-participation rate in both fiscal year 2013 and fiscal year 2014 remains at the same 25.43 percent rate contained in Chapter 890 for fiscal year 2012. This estimate of non-participation affects the state appropriation for the program but does not change the division-level entitlement amounts.

After all policy actions, including the estimate of non-participation, state funding for VPI is reduced by \$40.3 million in fiscal year 2013 and \$41.3 million in fiscal year 2014.

▪ **Eliminate Funding for Project Discovery**

The Governor's introduced budget eliminates state funding for Project Discovery, resulting in a savings of \$619,650 in each year of the biennium. The savings amount is being redirected to partially support new state funding for Communities in Schools, as described below.

▪ **Eliminate Funding for Mentoring in Hard-to-Staff Schools and Redirect the Funding**

The Governor's introduced budget proposes eliminating state funding for the Mentoring in Hard-to-Staff Schools portion of Education for a Lifetime (EFAL) in fiscal year 2013 and fiscal year 2014. The savings of \$839,067 for each year resulting from this action is used to fund the following programs:

- Increase state funding for Race to GED by \$385,138 in each year to partially address increased GED testing costs at the local level. Please see the paragraph labeled "Increase Funding for Race to GED" below for further details regarding changes to the Race to GED account.
- Increase state funding for Summer Residential Governor's Schools and Foreign Language Academies by \$60,068 in each year to help address the rising costs of these programs and maintain existing program offerings.
- The Governor's introduced budget includes an additional \$325,000 in each year of the biennium for the Virtual Virginia program to support the statewide implementation and operation of the required Economics and Personal Finance course. This funding will ensure that sufficient student slots are available to accommodate statewide demand for the course. Beginning with the current ninth-grade class, each student is required to obtain one standard unit of credit in Economics and Personal Finance to graduate with a Standard or Advanced Studies Diploma.

- Provide \$100,000 each year to assist in the development of charter schools. The Superintendent of Public Instruction will award grants to charter schools using criteria established by the Department of Education.

▪ **Reduce Funding for Adult Literacy**

The Governor's introduced budget proposes reducing state funding for Adult Literacy by \$165,375 in each year of the biennium. The savings resulting from this action come from a reduction of the state adult literacy funding for the Virginia Department of Housing and Community Development (\$125,000) and the Virginia Education Technology Alliance (\$40,375). These savings have been redirected to partially fund the expansion of the PluggedInVA initiative to all eight superintendents' regions across the state. Please see the paragraph labeled "Expand PluggedInVA" below for further details on this program.

▪ **Increase Funding for Race to GED**

The Governor's introduced budget provides an additional \$385,138 in each year of the biennium to address an increase in GED testing costs at the local level. This increase is being supported by the transfer of state funding from the Mentor Teacher in Hard-to-Staff Schools account, which is being eliminated. The fees charged by GED testing vendors increased by \$13 (from \$45 to \$58 per test taker) in July 2011, and are expected to continue to rise substantially in the coming two years as the test content and format change. The additional \$385,138 each year offsets the \$13 increase in the current GED testing cost.

▪ **Expand PluggedInVA**

The Governor's introduced budget includes \$465,375 in each year of the biennium for the expansion of the PluggedInVA initiative to all eight superintendents' regions across the state. PluggedInVA is an integrated adult education and work force training program in which adults who lack a high school diploma earn a GED certificate, Career Readiness Certificate, at least one industry certification, and up to 24 credits at partnering community colleges. The curriculum is targeted to growth industries within the regions where the program is implemented.

Funding is provided to expand PluggedInVA by redirecting existing state funds in the Direct Aid to Public Education budget. Specifically, the state adult literacy funding for the Virginia Department of Housing and Community Development (\$125,000) and the Virginia Education Technology Alliance (\$40,375) have been redirected to the PluggedInVA initiative. In addition, \$300,000 in existing state funding for the Race to GED program will be allocated to the PluggedInVA initiative.

▪ **Increase Funding for Virginia Workplace Readiness Skills Assessment**

The Governor's introduced budget includes \$308,655 in each year of the biennium for the new Virginia workplace readiness skills assessment and other Board-approved industry certifications. This would cover the cost of the workplace readiness skills assessment for 40 percent of the students who graduate from Virginia public schools each year, based on the

per student cost for the Virginia workplace readiness skills assessment of \$9.00. School divisions could choose to use these funds to cover the costs of other industry certifications that have been approved by the Board of Education. Existing federal and state career and technical education funds may also be used to cover the cost of the Virginia workplace readiness skills assessment and other Board-approved industry certifications.

▪ **Fund Testing Costs for the Preliminary SAT (PSAT) for all 10th graders**

The Governor's introduced budget includes \$913,016 in each year of the biennium to pay the testing fees for all tenth-grade students enrolled in a public school in Virginia to take the Preliminary SAT (PSAT) exam. This funding assumes a statewide participation rate of 75 percent.

▪ **Fund New Supplemental Education Initiatives**

• *Math & Science Teacher Recruitment Pilot Initiative*

The Governor's introduced budget includes \$500,000 in fiscal year 2013 and \$100,000 in fiscal year 2014 to fund a pilot initiative to attract, recruit, and retain high-quality diverse individuals to teach science, technology, engineering, or mathematics (STEM) subjects in Virginia's middle and high schools.

A new teacher with no teaching experience employed full-time in a Virginia school division who has been issued a five-year Virginia teaching license with an endorsement in mathematics, physics, or technology education and assigned to a teaching position in a corresponding STEM subject area is eligible to receive a \$5,000 initial incentive award after the completion of the first year of teaching with a satisfactory performance evaluation and a signed contract for the following school year. An additional \$1,000 incentive award may be granted for each year the eligible teacher receives a satisfactory evaluation and teaches a STEM subject for up to three years in a Virginia school division.

The maximum incentive award for each eligible teacher is \$8,000. State funding will be awarded on a first-come, first-served basis with preference to teachers assigned to teach in hard-to-staff schools or schools in improvement.

• *Create Governor's Health Sciences Academies*

The Governor's introduced budget includes \$80,000 in fiscal year 2013 to provide one-time planning and implementation grants to support the establishment of Governor's Health Science Academies. In spring 2012, the Department of Education will solicit competitive proposals for state funding from school divisions in each of the eight superintendents' planning regions. The Department of Education will award eight planning grants of \$5,000 each during the first semester of the 2012-2013 school year to support the program development process. Upon approval by the Board of Education to implement an Academy in the second half of fiscal year 2013, the Department will award eight implementation grants of \$5,000 to each of the

approved Academies. These grants are one-time only to assist in the creation of these academies.

- *Preparation Pilot Initiative*

The Governor's introduced budget includes \$300,000 in fiscal year 2013 and \$400,000 in fiscal year 2014 to establish a comprehensive pilot initiative to recruit students to major in the fields of mathematics and science to help alleviate the shortage of qualified teachers in these fields.

The Department of Education will issue a competitive Request for Proposals at the beginning of fiscal year 2013 targeting Virginia higher education institutions. Institutions submitting proposals must have an elementary education prek-6 approved program or middle/secondary approved programs in mathematics and science. The proposals submitted by the institutions of higher education must include a budget for planning costs in the first year. First-year expenses may include personnel costs, curriculum development, meeting and travel costs, etc. State funding for subsequent years may include personnel costs (faculty and support), tuition incentives, student materials, operational support, etc. The pilot will include one year of planning and student candidates will be expected to complete a baccalaureate degree and licensure requirements in four years. Preference will be given to proposals that prioritize tuition incentives in the budget.

- *Create Pilot Youth Development Academy*

The Governor's introduced budget includes \$67,897 in each year of the biennium to support implementation of a Youth Development Academy pilot program for rising ninth- and tenth-grade students in selected regions of the Commonwealth. All school divisions within the selected pilot regions will have the opportunity to send students to the academy, with a total of approximately 50 slots available. The pilot program will last for a minimum of two weeks in the summer of 2012 and 2013. School divisions in the selected regions will partner with a community organization or other participating divisions to host the academy.

The local applicant selected to conduct a pilot academy, in consultation with the Department of Education, will develop the curriculum and content for the pilot academy to include a focus on civics education, financial literacy, community service, preventive health, character education, and leadership skills. Each of the eight superintendents' planning regions will be invited to apply to host the pilot academy. The Department of Education will make the final determination on which region will implement the pilot academy based on the proposals received.

- *Fund Communities in Schools*

The Governor's introduced budget includes \$1,000,000 in each year of the biennium for Communities in Schools of Virginia (CIS), to support dropout prevention activities. The additional funding will be divided equally between CIS and targeted localities throughout the state with underperforming schools. Each of the targeted localities would receive funding based on an application process and a local/regional

matching grant of up to \$100,000 per year would be required. This funding is being partially supported by the transfer of state funding from the Project Discovery allocation, which is being eliminated.

- **Textbook Funding**

The Governor's introduced budget proposes several actions that affect programs that are funded by Lottery proceeds (please see paragraphs labeled "Update Lottery Proceeds," "Transfer the Remedial Summer School Program from the Lottery Service Area to the Standards of Quality Service Area," "Virginia Preschool Initiative (VPI)," "Eliminate Funding for Mentoring in Hard-to-Staff Schools," and "Increase Funding for Race to GED" above for further details on these updates. After all actions, the portion of Textbooks payments that will be funded by Lottery proceeds increases by \$8.9 million in fiscal year 2013 and \$5.3 million in fiscal year 2014, compared to the portion of Textbooks payments funded by Lottery proceeds in Chapter 890. This fund source change does not impact the projected payment amounts to divisions for textbooks.

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

- **Modify School Division Consolidation Language for Fifteen Year Composite Index Hold Harmless**

The Governor's introduced budget proposes to clarify existing language regarding the consolidation of school divisions and the related composite index hold harmless provision. Currently, Chapter 890 provides for a fifteen year composite index hold harmless only when local governments consolidate and a five year composite index hold harmless when two or more school divisions consolidate. The Governor's proposal would also provide for a fifteen year composite index hold harmless when two or more school divisions consolidate, regardless of whether or not it was the result of local government consolidation.

- **Add Instructional Spending to School Performance Report Card**

The Governor's introduced budget includes new language requiring the Department of Education to include in the annual School Performance Report Card for school divisions the percentage of each division's annual operating budget allocated to instructional costs. In doing so, the Department of Education must establish a methodology for allocating each school division's expenditures to instructional and non-instructional costs in a manner that is consistent with the funding of the Standards of Quality as approved by the General Assembly.

Furthermore, at the discretion of the Superintendent of Public Instruction, the Department of Education may report on other methods of measuring instructional spending such as those used by the U.S. Census Bureau and the U.S. Department of Education.

B. DEPARTMENT OF EDUCATION CENTRAL OFFICE

1. Central Office Policy Changes Impacting School Divisions

▪ Performance Evaluation Training

The Governor's introduced budget provides \$277,000 in state funding in fiscal year 2013 and \$138,500 in fiscal year 2014 to support training sessions in each of the eight superintendents' regions on implementing new performance evaluation models for teachers and principals.

▪ Innovative Education Technical Advisory Group

The Governor's introduced budget includes \$100,812 in each year of the biennium to establish an Innovative Education Technical Advisory Group to review and give guidance to potential applicants during the planning process for charter schools, college partnership laboratory schools, and virtual school programs. The advisory group would consist of expert consultants who would provide applicants, the Department of Education, and the Board of Education feedback on the extent to which the applications meet approval criteria.

▪ Increase Academic Review Funding

The Governor's introduced budget provides \$499,777 in state funding in fiscal year 2013 for academic reviews due to an increase in the anticipated number of schools that are not fully accredited due to the implementation of more rigorous Standards of Learning assessments in mathematics and increasing graduation and completion index benchmarks impacting high schools.