Public Education

The Governor's proposed 2004-06 budget for Direct Aid to Public Education contains a net increase of $728.9 million GF and $47.3 million NGF for the biennium when compared to the adjusted base budget. This total reflects new spending of $1.3 billion GF, offset by $572.4 million GF in reductions. This total does not reflect an increase of $50.9 million GF for a three percent teacher salary increase in the second year and a reduction of $52.4 million GF by using the "pooled" retirement rate of 6.56 percent. These items are located in the Central Appropriations section of the budget, and are contingent upon passage of the Governor's tax proposal. (Excluding an inter-agency transfer of $1.7 million GF and $16.6 million NGF for debt service on technology equipment notes, this equates to an increase of $761.4 million for public education. At the end of this section, a table details the adjustments to direct aid to public instruction.)

Recommended biennial increases for direct aid to public education include formula-driven and technical increases of $1.2 billion GF to update the Standards of Quality, Incentive, and Categorical accounts for increased enrollment, prevailing costs of education, sales tax revenues, and updated composite index calculations; $41.1 million in additional lottery proceeds to support the State Board of Education's recommendation to revise the SOQ Remediation methodology; $16.6 NGF (Literary Fund) for debt service on technology equipment note issuance; $9.5 million GF to help school divisions meet the requirements of the No Child Left Behind Act; $5.6 million GF for programs to help high school seniors pass SOL graduation requirements; and $3.7 million GF to ensure no school division receives less funding than they received for FY 2004 in SB 29/HB 29.

In addition, the following increases are contingent upon passage of the Governor's tax proposal: $19.7 million GF to enhance funding for English as a Second Language; $7.1 million GF to fully fund the cost of competing adjustment for Planning District 8; and $4.5 million GF to reduce the deduction of Title I students from the funding calculation for the at-risk four-year-olds program.

In addition to the transfer of an additional $30.8 million from the Literary Fund to cover a portion of retirement costs, the following reductions are proposed to offset cost increases: $418.1 million GF from deducting certain federal and locally generated revenue sources from SOQ costs; $109.8 million GF from deducting non-personal technology costs from the SOQ; and $12.0 million GF by changing the K-3 Class Size Reduction calculation.

The Governor's proposed budget includes a net increase of $19.1 million GF for the Department of Education, primarily to continue the state's SOL testing programs and to develop a statewide, student information system needed to meet the requirements of the federal No Child Left Behind Act.

- **Secretary of Education**

  - ***Create a Virginia Cancer Research Fund.*** Includes $50,000 GF the first year and $50,000 NGF the second year for a new Virginia Cancer Research Fund to support the cancer centers at UVA Medical Center and VCU Medical Center. Funding in the second year is assumed revenue from a newly created income tax form check-off for the research fund.

- **Department of Education**

  - ***SOL Assessments: Testing Contract Costs.*** Adds $1.8 million GF and $400,000 NGF the first year and $4.5 million GF and $400,000 NGF the second year to meet the contractual inflation adjustment, increased enrollment costs, and costs of a transition year since the existing vendor contract expires on June 30, 2006.

  - ***SOL Assessments: Continue On-line Testing Implementation.*** Adds $1.5 million GF the first year and $2.1 million GF the second year to meet annual contract renewal costs, increased enrollment costs, and provide additional technical assistance to school divisions.

  - ***National Board Certification Bonuses.*** Adds $627,500 GF the first year and $849,00 GF the second year based on the following: (1) an estimated 197 additional initial awards in FY 2005 and additional 238 initial awards in FY 2006, which would bring the total number of teachers holding National Board Certification in Virginia to 874, and (2) for teachers initially awarded certification on July 1, 2004 and after, funding is provided for initial awards of $3,000 rather than $5,000 and annual awards of $1,000, rather than $2,500, for the life of the certification.

  - ***No Child Left Behind: Statewide Student Information System.*** Adds $798,948 GF and $2.7 million NGF, and four positions the first year and $3.6 million GF the second year for a contract for development of an "Education Information Management System" that will improve the department's data collection, analysis, and reporting capability in order to meet the requirements of the federal No Child Left Behind Act.

- *No Child Left Behind: Five New Positions.* Adds $1.0 million GF and five positions the first year and $970,540 GF the second year to meet requirements of the federal No Child Left Behind Act, such as test development for grades 4, 6, and 7, annual improvement in pass rates, increased technical assistance to improve graduation rates, attendance rates, and school safety, and parental notification of options.

- *SOL Remediation (Project Graduation).* Adds $356,512 GF each year to support regional summer and/or extended day school programs and on-line SOL tutorials targeted to helping students pass SOL tests needed for graduation. (Additional funding of $2.8 million GF each year for this purpose is included in the Direct Aid budget.)

- **In Central Appropriations**

  - *Three Percent Salary Increase.* Includes $50.9 million GF the second year for the state share of a three percent salary increase along with the related fringe benefits for public school instructional and support staff effective December 1, 2005. Budget language makes the spending contingent upon passage of the Governor's tax proposal.

  - *"Pooled" Retirement Rate.* Decreases funding by $24.9 million GF the first year and $27.5 million GF the second year by using the "pooled" retirement rate of 6.56 percent rather than 7.82 percent. Budget language makes the spending contingent upon passage of the Governor's tax proposal.

- **In Department of Accounts**

  - **"Efficiency Reviews" of School Divisions.** Adds $2.5 million and 13.0 FTE the first year and $3.3 million and 5.0 FTE the second year for staff and consultants to perform 15 "efficiency reviews" (Governor's Education for a Lifetime initiative) of school systems' administrative functions in 2005 and 20 reviews in 2006. Currently, three reviews are being conducted through the Department of Planning and Budget with existing resources.

- **Direct Aid to Education**

  - ***Technical Changes (Biennial SOQ Re-benchmarking).*** Includes $527.4 million GF and $13.4 million NGF (Literary Fund) the first year and $598.9 million GF and $17.4 million NGF (Literary Fund) the second year to make technical adjustments to Standards of Quality, Incentive, and Categorical funding due to the following:

    - Updated Prevailing Instructional Salaries. Instructional salary data is adjusted to reflect prevailing salaries in 2001-2002 and the FY 2004 salary increase provided by the General Assembly.

    - Updated Prevailing Instructional Support Costs. Support cost data, including textbooks (down from $75.36 to $63.12 per pupil) and instructional supplies, are adjusted using the 2001-2002 Annual School Report.

    - Updated Projected Enrollment. Enrollment is expected to increase by 15,006 students (unadjusted ADM) the first year above the projected March 2004 ADM and by another 16,223 students the second year, for an estimated 1,201,451 students in FY 2006.

    - Revised Inflation Factors. Prevailing support costs, updated to reflect 2001-2002 actual costs, are adjusted for inflation through September 2003.

    - Revised Fringe Benefit Costs. The 2004-06 Standards of Quality budget is calculated by the Department of Education to reflect the following fringe benefit rates: 7.82 percent, up from 3.77 percent last biennium, for retirement; continuation of the premium holiday for group life; 0.59 percent, down from 0.67 percent last biennium, for Retiree Health Care Credit; $3,269 per instructional position, up from $2,734 last biennium, for health insurance premiums.

    - Revised Sales Tax Revenue Projections. Sales tax revenues from the one cent portion of the sales tax that is returned for public education are projected to be $884.0 million the first year and $926.0 million the second year, an increase from the base budget of $23.8 million the first year and $42.4 million the second year.

- Revised Composite Index of Local Ability-to-Pay. The elements used to calculate each school division's composite index of local ability-to-pay are updated from 2001 to 2003. The composite index measures local wealth through true value of real property (50%), adjusted gross income (40%), and retail sales tax collections (10%). The index is weighted two-thirds by ADM and one-third by population. The index for 89 divisions went down, 37 went up, and 10 remained the same.

- Updated Student Counts. Student counts in special, vocational, and remedial education have been updated from 2000 and 2001 to 2002 and 2003 data.

– ***Other Technical Changes to Incentive-Based Accounts.*** Includes $26.0 million GF and $9.5 million NGF the first year and $26.6 million GF the second year to make technical adjustments in incentive-based programs that provide funding beyond the Standards of Quality. Changes in funding requirements for these programs are based on updated enrollment projections, updated free lunch eligibility data (statewide the percent of students eligible for federal free lunch program changed from 23.55 percent to 24.53 percent), and updated participation rates for particular programs. (A list of incentive-based accounts is included at the end of this section.)

– ***Other Technical Changes to Categorical Accounts.*** Includes $10.9 million GF the first year and $19.5 million GF the second year to make technical adjustments in categorical programs that provide funding beyond the Standards of Quality to meet additional federal and state statutory and regulatory requirements. (A list of categorical accounts is included at the end of this section.)

– ***State Board of Education's Proposed SOQ Remediation Enhancement.*** Transfers additional lottery proceeds of $20.5 million the first year and $20.6 million the second year to fund the State Board of Education's proposed revision to the SOQ remediation calculation. The proposed methodology is based on the state's share of the cost of one hour per day of additional instruction for students at-risk of academic failure as measured by eligibility for the federal free lunch program, with a sliding scale for the ratio of students to teachers based on a division's percentage of students failing SOL tests. The current methodology is based on the state's share of the cost of nine instructional positions per 1,000 students scoring in the bottom quartile on the Stanford 9

assessment. (Lottery incentive account funding is based on the state share of $218.26 per pupil the first year and $219.73 per pupil the second year based on: (1) revised lottery revenue projections, (2) the transfer of funds for SOQ remediation, and (3) new composite index calculations.)

- ***No Child Left Behind: Implementation Costs.*** Adds $4.4 million GF the first year and $5.1 million GF the second year to help with costs of implementing the federal No Child Left Behind Act.

- ***Continue Technology Equipment Note Issuance.*** Adds $7.1 million NGF (Literary Fund) the second year for the first year of debt service on a 2005 five-year $59.1 million note issuance. Costs related to a 2006 issuance would begin in FY 2007.

- ***SOL Remediation (Project Graduation).*** Adds $2.8 million GF each year for regional summer school programs and on-line SOL tutorials targeted to helping students pass SOL tests needed for graduation.

- ***"No Loss" Funding.*** Includes $1.5 million GF the first year and $2.2 million the second year to ensure that no school division would receive fewer education dollars in FY 2005 or FY2006 than they will receive in FY 2004 under HB 29/SB 29.

- ***English as a Second Language.*** Adds $9.1 million GF the first year and $10.6 million GF the second year to increase the basis for funding from 10 to 17 the number of instructional positions per 1,000 students for whom English is a second language. Budget language makes the spending contingent upon passage of the Governor's tax proposal.

- ***Cost of Competing Adjustment.*** Adds $3.5 million GF the first year and $3.7 million GF the second year to increase the Planning District 8 cost of competing adjustment for support personnel from 20.92 percent to 24.61 percent. Budget language makes the spending contingent upon passage of the Governor's tax proposal.

- ***At-Risk Four-Year-Olds Program.*** Adds $2.2 million GF each year to reduce from 100 percent to 67 percent the deduction of students being served by Title I programs. Budget language makes the spending contingent upon passage of the Governor's tax proposal.

- ***Deduct Locally Generated and Federal Revenues from SOQ Costs.*** Reduces funding by $208.3 million GF the first year and $209.8

million GF the second year by: (1) deducting certain locally generated revenues from total SOQ costs and (2) deducting certain federal revenues from total SOQ costs.

- ***Deduct Non-Personal Technology Costs from SOQ.*** Reduces funding by $54.6 million GF the first year and $55.2 million GF the second year by deducting non-personal technology cost codes from the calculations of SOQ costs.

- ***Decrease in Primary Class Size K-3 Reduction Funding.*** Reduces funding by $6.0 million GF each year by funding the lower of, rather than the higher of, the division average per pupil cost or the actual division per pupil cost.

- ***Literary Fund Diversions.*** Supplants an additional $13.4 million GF the first year and $17.4 million GF the second year with Literary Fund revenues by funding a portion of Teacher Retirement and Social Security SOQ costs. Uses $5 million each year for interest rate subsidies.

Proposed Literary Fund Sources & Uses
($ in millions)

	FY 2004	FY 2005	FY 2006
Proposed Revenues & Balances	**$213.2**	**$214.2**	**$203.5**
Proposed Uses			
Teacher Ret./Soc. Security	$118.5	$131.9	$135.9
Technology Debt Service	55.0	64.5	62.2
Interest Rate Subsidy	2.9	5.0	5.0
School Construction Loans	0.0	0.0	0.0
Total Uses	**$176.4**	**$201.4**	**$203.1**
Ending Balance	**$36.8**	**$12.8**	**$0.5**

A listing, by locality, of estimated funding for FY 2005 Direct Aid to Public Education is included as Appendix A and estimated funding for FY 2006 Direct Aid to Public Education is included as Appendix B.

Programs Funded Above the SOQ

Incentive-Based Programs

Lottery
At-Risk Add-On
Primary Class Size K-3
At-Risk Four Year Olds
Early Reading Intervention
SOL Remediation
School Construction
ISAEP
SOL Algebra Readiness
No Loss
Student Achievement Grant
Technology

Categorical Programs

Vocational Education
Special Education: Homebound
Special Education: Hospitals
Special Education: Tuition
Special Education: Inservice
Special Education: Jails
Adult Education
Foster Care
Alternative Education
Electronic Classroom
School Nutrition
Governor's School
Adult Literary

Direct Grants

Southwest Education Consortium
Project Discovery
Southside VA Reg. Tech. Consort.
William King Reg. Arts Center
Small School Division Assistance
Mentor Teacher Program
Indian Children

Tracking Direct Aid to Education:

From the Preliminary Re-benchmarking Estimate of $525.1 million (July 23, 2003) to the Governor's Proposed Budget of $761.4 million (December 17, 2003)

Technical (Re-benchmarking) Adjustments		*Running Totals*
Enrollment (SOQ Accounts Only)	$116,670,286	
Base Year Exp. Data (SOQ Accounts Only)	129,785,835	
Special Enrollments (SOQ Accounts Only)	110,145,060	
Funded Salaries (SOQ Accounts Only)	168,471,006	***$525,072,187***
Other* (SOQ, Incentive, and Cat. Accounts)	314,366,830	***$839,439,017***
Sales Tax (SOQ Accounts Only)	66,197,521	
Fringe Rates (SOQ, Incentive, Cat. Accounts)	167,974,258	
Comp. Index (SOQ, Incentive, Cat. Accounts)	53,547,619	
Other Updates (Cat. Accounts Only)	30,436,089	
Other Updates (Incentive Accounts Only)	52,538,662	
Subtotal	**$1,210,133,166**	***$1,210,133,166***
Decreases		
Deduct Local & Fed. Revenues from SOQ	$(418,155,938)	
Remove Tech. Expenditures from SOQ	(109,716,737)	
Reduce K-3 Class Size Funding	(11,976,820)	
Supplant $30.8M GF with $30.8M Lit. Fund	0	
Subtotal	**$(539,849,495)**	***$670,283,671***
Increases		
Revise SOQ Remediation (w/ Lottery)	$41,168,233	
Increase English as a 2nd Language Funding**	19,676,974	
Provide Funding for No Child Left Behind	9,473,290	
Increase PD8 Cost of Competing Adjustment**	7,124,711	
Expand Project Graduation Funding	5,548,956	
Increase At-Risk Four-Year-Olds Funding**	4,463,981	
Institute "No Loss" Funding	3,707,751	
Subtotal	**$91,163,896**	***$761,447,567***

*Other = health insurance premiums, superintendents, school boards, nurses, pupil transportation, remedial summer school enrollment, inflation, partial lottery revenue

**Contingent on Governor's tax proposal.