

***Overview of Governor's Introduced  
Budgets for Fiscal Year 2010 (HB29) and  
the 2010-2012 Biennium (HB30)***

**Presented to the  
House Appropriations Elementary & Secondary  
Education Subcommittee**

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# Overview

- Governor Kaine presented his amendments to the current 2008-2010 budget (HB 29 as introduced) and introduced his proposed 2010-2012 budget (HB 30 as introduced) to the General Assembly money committees on December 18th.
- Both budget proposals include technical updates and policy changes to public education funding (Direct Aid to Public Education) and various language provisions.



# Proposed FY10 Direct Aid Budget Actions in HB 29 as Introduced



# Overall Direct Aid Impact FY 2010

- Compared to the current budget (Chp. 781), Direct Aid general fund appropriations are reduced by \$550.1 million in FY 2010. Separate actions increased nongeneral funds for Direct Aid by \$300.9 million in FY 2010.
- \$30.9 million of the FY 2010 funding reduction was due to technical updates to formulas only (revised enrollment, program participation, etc.).
- Policy changes represent the remaining \$519.2 million decrease in FY 2010 funding.



# Technical Updates to Direct Aid FY 2010

- FY 2010 funding impacted by routine technical updates to accounts:
  - *Reforecast of enrollments: Fall Membership, ADM, and ESL students*
  - *Sales tax and Lottery revenue reforecasts*
  - *Correction to 2008 Triennial Census count (for sales tax distribution)*
  - *Program participation data*



# Technical Updates to Direct Aid FY 2010

- ADM projections increased 1,806 students in FY 2010 from current budget (0.79% annual growth over FY 2009).
- Sales tax estimate (1.125%) reduced by \$85.3 million for FY 2010.
- Net reduction in division funding with Basic Aid off-set is \$37.7 million in FY 2010.



# Technical Updates to Direct Aid FY 2010

- Lottery (NGF) revenue estimate increased by \$9.9 million for FY 2010 due to Lottery proceeds earned in FY 2009 above appropriated estimates.
- SOQ account updates - mainly ADM (\$8.6 million increase).
- Update categorical and incentive programs (\$1.9 million reduction).



# Policy Changes to Direct Aid FY 2010

- Increase Use of Literary Funds (NGF) for VRS Retirement and Social Security by \$72.0 million for FY 2010
  - *Fund source change only; does not change division funding.*
  - *Revised LF forecast and proposed uses of funds assumes no direct loans in FY 2010.*
  - *No interest rate subsidy program provided per Chapter 781.*
  - *The FY 2010 transfer for VRS retirement/social security proposed at \$195.0 million.*





# Policy Changes to Direct Aid FY 2010

- Employer Contribution Rate Premium Holiday for VRS Retirement, Group Life, and Retiree Health Care Credit for the Fourth Quarter of Fiscal Year 2010
  - *Suspension of employer contribution payments by divisions to VRS for these benefits generates a reduction in state funding of \$69.2 million.*
  - *A net local savings projected for most divisions from this action (i.e., reduced state funding offset by the one quarter suspension of benefit payments to VRS for all division employees).*



# Policy Changes to Direct Aid FY 2010

- Transfer a Portion of Basic Aid from General Fund to the Federal State Fiscal Stabilization Fund (SFSF)
  - *Funds \$219.0 million of the state's general fund share of Basic Aid with funds from the K-12 portion of the federal SFSF based on each school division's proportion of the state's share of Basic Aid. This action represents a fund switch only and does not change division funding.*



# Policy Changes to Direct Aid FY 2010

- Policy Changes to Lottery-Funded Accounts
  - *Moves the academic year portion of Governor's School funding from the Incentive service area to the Lottery service area and the School Breakfast account from the Lottery service area to the Incentive service area, for a net increase in Lottery-funded programs of \$9.9 million. This action is funded with an additional \$9.9 million in carry-over Lottery proceeds from FY 2009.*
  - *Results in \$9.9 million general fund savings.*



# Policy Changes to Direct Aid FY 2010

- Remove Funding for Textbooks (\$79.6 million reduction)
- Remove Funding for Non-personal Inflation Factors (\$61.3 million reduction)
- Reduce Certain Incentive, Categorical, and Supplemental Education Programs by 10% (\$0.3 million reduction)



# Policy Changes to Direct Aid FY 2010

- Defer Fourth Quarter State Operated Programs (SOP) Payments
  - *Defers the FY 2010 fourth quarter SOP payment to the first quarter of FY 2011 (\$8.2 million savings in FY 2010). Future SOP payments will continue the fourth quarter deferment in each subsequent fiscal year.*



# Proposed Budget Language FY 2010

- Allow Remaining Funds from FY 2010 to be Carried Over into FY 2011
  - *Any locality that has met its FY 2010 required local effort for the SOQ or required local match for incentive or Lottery-funded programs could carry over into FY 2011 any unspent state funds.*



# Proposed Budget Language FY 2010

- Support for School Construction, Operating Costs and Textbooks
  - *Changes the name of the Additional Support for School Construction and Operating Costs account and encourages school divisions to use the local savings generated from the three month fringe benefit premium holiday to purchase textbooks and other instructional materials.*



# Proposed 2010-2012 Direct Aid Budget Actions in HB 30 as Introduced





# Technical Updates to Direct Aid 2010-2012

- Rebenchmark Costs for 2010-2012 as Presented to the Board of Education in July 2009 (increase of \$59.7 million in FY 2011 & \$78.9 million in FY 2012 over FY 2010 base in Chapter 781)
  - *Reflects the cost of continuing current programs with the required data updates used in the funding formulas; does not reflect any changes in policy.*
  - *Included updates for factors such as funded salaries, Annual School Report data used to calculate prevailing costs, inflation, SOL test score updates, enrollment updates, and projected caseloads for categorical programs.*



# Technical Updates to Direct Aid 2010-2012

- Technical Updates Subsequent to the July Rebenchmarking Budget (increase of \$0.8 million in FY 2011 & \$4.8 million in FY 2012)
  - *Additional technical updates related to the rebenchmarking process that occurred after the Board of Education budget presented in July 2009 due to the timing of data availability.*
  - *Updates to factors such as enrollment projections, SOL data, and caseloads for incentive and categorical programs.*



# Technical Updates to Direct Aid 2010-2012

- Update Fringe Benefits (increase of \$45.5 million in FY 2011 & \$45.7 million in FY 2012)

<b>FUNDED FRINGE BENEFIT RATES:</b>	<b>Current FY 2010</b>	<b>Proposed 2010-2012</b>
Instructional & Professional Support VRS ( <u>Employer</u> Share)	8.81%	10.49%
Group Life ( <u>Employer</u> Share)	0.27%	0.33%
Retiree Health Care Credit	1.04%	1.01%
Nonprofessional Support VRS	7.62%	7.53%
Social Security	7.65%	7.65%



# Technical Updates to Direct Aid 2010-2012

- Updates for Recalculation of Composite Index (increase of \$32.7 million in FY 2011 & \$39.0 million in FY 2012)
  - *See slide 24 for policy proposal to defer new index until FY 2012.*



# Technical Updates to Direct Aid 2010-2012

- Update Sales Tax Projections
  - *Sales tax estimate (1.125%) reduced by \$56.4 million for FY 2011 and \$20.5 million in FY 2012 compared to the base FY 2010 Chapter 781 estimate.*
  - *Net reduction in division funding with Basic Aid off-set is \$24.8 million in FY 2011 and \$9.0 million in FY 2012.*



# Technical Updates to Direct Aid 2010-2012

- Lottery (NGF) revenue estimates remain constant at \$430.2 million in FY 2011 & FY 2012
  - *Of the above estimates, \$395.1 million in FY 2011 and \$398.2 million in FY 2012 are being used to fund the state's share of various programs (e.g., Virginia Preschool Initiative, K-3 Primary Class Size, and SOL Algebra Readiness).*
  - *The per pupil Lottery account is projected to be distributed based on the state share of \$52.05 per pupil in adjusted ADM in FY 2011 and \$46.98 per pupil in adjusted ADM in FY 2012. Total estimated funding is \$35.1 million in FY 2011 and \$32.0 million in FY 2012.*



# Policy Changes to Direct Aid 2010-2012

- Remove Funding for Non-personal Inflation Factors (reduction of \$4.7 million in both FY 2011 and FY 2012).
- Reduce Certain Incentive, Categorical, and Supplemental Education Programs by 15% (reduction of \$0.4 million in both FY 2011 and FY 2012).



# Policy Changes to Direct Aid 2010-2012

- Increase Funding for National Board Certification Bonuses (\$0.5 million in both FY 2011 and FY 2012).
- The update for Composite Index is deferred to FY 2012. Payments for FY 2011 would be based on the 2008-2010 Composite Index, resulting in a reduction in funding of \$29.5 million in FY 2011.





# Policy Changes to Direct Aid 2010-2012

- Eliminate VPSA Educational Technology Grant Program
  - *Reduction in school division distribution of \$59.9 million in both FY 2011 and FY 2012.*
  - *Decreases the required debt service by \$13.0 million in FY 2012 (paid by the Literary Fund)*
  - *The \$13.0 million in Literary Fund savings redirected to VRS retirement payments in FY 2012.*



# Policy Changes to Direct Aid 2010-2012

- Adjust Funded Health Care Premium to Reflect Prevailing Division-Level Participation (reduction of \$134.2 million in FY 2011 & \$135.0 million in FY 2012).
- Funded premium (\$3,375) based on:
  1. *Weighting each division's annual employer-share health care premium using the actual percentage of employees participating in each of the three general plan categories (employee, employee plus one, family) before the statewide linear weighted average premium was calculated; and*
  2. *The LWA premium amount was adjusted for overall employee participation (66%), as reported on the FY 2009 Annual School Report, to derive the funded premium amount.*



# Policy Changes to Direct Aid 2010-2012

- Remove Certain Object Codes and Prorated Regional Program Expenditures From Recognized Support Costs in Basic Aid (reduction of \$87.0 million in FY 2011 and \$87.3 million in FY 2012)
  - *Removed Object Code 2800: Other Benefits (includes annual and sick leave payments for personnel who terminate employment, pension/retirement plans that are specific to a locality, and contract buy-outs).*
  - *Removed Object Code 5800: Miscellaneous Costs.*
  - *Removed Object Code 8100: Capital Replacements.*



# Policy Changes to Direct Aid 2010-2012

- Reduction in State Operated Programs Education Funding Resulting from Planned Closure of two Mental Health Facilities (reduction of \$1.9 million in both FY 2011 & FY 2012)
  - *Facilities are planned for closure by July 1, 2010.*
  - *Southwestern Virginia Mental Health Institute's Adolescent Unit - Smyth County.*
  - *Commonwealth Center for Children and Adolescents - City of Staunton.*



# Policy Changes to Direct Aid 2010-2012

- Transfer a portion of Basic Aid from General Fund to the Federal State Fiscal Stabilization Fund (SFSF) in FY 2011 Only
  - *Funds \$126.4 million of the state's general fund share of Basic Aid in FY 2011 with funds from the K-12 portion of the federal SFSF based on each school division's proportion of the state's share of Basic Aid. This action represents a fund switch only and does not change division Basic Aid funding.*



# Policy Changes to Direct Aid 2010-2012

- Increase Use of Literary Funds (NGF) for VRS Retirement by \$2.0 million for FY 2011 & \$15.0 million in FY 2012
  - *Fund source change only; does not change division funding.*
  - *Revised LF forecast and proposed uses of funds assumes no direct loans in FY 2011 or FY 2012; no interest rate subsidy program proposed either year.*
  - *The total transfer of Literary Funds for VRS retirement is proposed at \$125.0 million in FY 2011 and \$138.0 million in FY 2012.*



# Proposed Budget Language 2010-2012

- State Funds Required to be Appropriated to the Local School Board
  - *Proposed language clarifies the current requirement that all state and local matching funds required by the programs in Direct Aid shall be appropriated to the budget of the local school board.*



# Proposed Budget Language 2010-2012

- Reinstatement Required Local Match for Textbooks and Provide Additional Flexibility
  - *Required local match on state Textbook funds was removed in Chapter 781 for FY 2010 and is reinstated for 2010-2012.*
  - *Proposed language permits school divisions to use textbook funds to purchase electronic textbooks or other technology integral to the curriculum, and the technical equipment required to read and access this technology.*





# Proposed Budget Language 2010-2012

- K-3 Primary Class Size Staffing Ratios
  - *In addition to special education teachers, instructional aides are not permitted to be counted towards meeting the required pupil/teacher ratios in grades kindergarten through three.*



# Proposed Budget Language 2010-2012

- Virginia Preschool Initiative (VPI)
  - *Clarifies the definition of half-day preschool programs as operating for a minimum of three hours of classroom instructional time per day and full-day programs as operating for a minimum of five and one-half hours of classroom instructional time per day.*
  - *Clarifies in-kind contributions toward the local match requirement (no more than 25% of the local match) are defined as cash outlays that are made by the locality that benefit the program but are not directly charged to the program. The value of fixed assets cannot be considered as an in-kind contribution.*



# Proposed Budget Language 2010-2012

- Support for School Construction and Operating Costs
  - *Reestablishes the local match requirement for this Lottery-funded account (per pupil Lottery account).*
- Adjustments to Summer Governor's Schools Program
  - *grants the Superintendent of Public Instruction authority to adjust tuition rates, types of programs offered, length of programs, and the number of students enrolled in order to maintain costs within the available state and local funds for the Summer Governor's Schools and Foreign Language Academies programs.*



# Proposed Budget Language 2010-2012

- Local Match Requirement for Career and Technical Education Payments
  - *Clarifies current practice that local school divisions are not required to provide a local match in order to receive state Career and Technical Education (CTE) equipment payments.*
- School Nurse Expenditures
  - *Clarifies school divisions shall spend the Basic Aid funds provided each year for licensed school nurse positions employed by the school division or for licensed nurses contracted by the school division to provide school health services. Current language reads “will allocate.”*



# Proposed Budget Language 2010-2012

- Option for Local School Boards to Require their Employees to Pay a Portion of Employee Retirement Contributions (see Item 469 K.4.)
  - *One percent contribution paid by division employees in FY 2011 and two percent in FY 2012 if required to by local school board.*

