

## Public Education

The Governor's proposed 2002-04 budget for Direct Aid to Public Education contains a net increase of \$158.9 million GF and \$167.0 million NGF for the biennium when compared to the adjusted appropriation for current operations. This total reflects new spending of \$524.7 million, offset by \$198.8 million in reductions.

Roughly half of the increased funding, or \$167.0 million, comes from the transfer of Literary Funds to cover a portion of the cost of teacher retirement and Social Security.

Recommended increases for direct aid to public education include formula-driven and technical increases of \$416.2 million to update the Standards of Quality accounts for increased enrollment, prevailing costs of education, sales tax revenues and updated composite index calculations; \$25.8 million to update costs and participation rates in a number of categorical and incentive programs; \$77.1 million to provide a 2 percent salary increase for school employees, effective December 1, 2002; and \$5.7 million to continue the funding of a number of direct grants.

In addition to the transfer of Literary Funds to cover a portion of the increased costs, the following funding reductions are proposed to help offset cost increases: eliminate the School Construction Grants program (\$110.0 million GF); eliminate the Lottery Hold Harmless program (\$29.7 million GF); apply the composite index to the retiree health care credit (\$36.1 million GF); adjust VRS and Group Life rates to reflect the most current valuation (\$14.8 million GF); reduce the state share of SOL materials funding from \$10 per pupil to \$5 per pupil (\$6.4 million GF); and capture anticipated savings from the At-Risk Four-Year-Olds Preschool program (\$1.5 million GF).

To partially compensate for the diversion of Literary Funds from school construction, the Governor proposes that \$25.0 million remain in the Literary Fund to support an interest rate subsidy program. This amount would enable about \$112.5 million in projects on the First Priority Waiting List to move to alternative financing.

Sufficient funds also were retained in the Literary Fund for debt service on the proposed authorization of \$115.8 million in Virginia Public School Authority Equipment Notes -- an effort that has been underway for several years to increase educational technology in schools throughout the Commonwealth. As has been the case in past years, debt service on the Notes will be paid from the

Literary Fund over five years, with the first payment of \$13.7 million occurring in FY 2004.

The Governor's proposed budget includes a net increase of \$11.4 million GF for the Department of Education, primarily to enhance the state's testing program. No funding changes have been recommended for the schools for the deaf and the blind.

- **Secretary of Education**

- ***Qualified Zone Academy Bonds.*** Revises the state's eligibility criteria for federal Qualified Zone Academy Bonds. Prior language limited eligibility to school divisions meeting free or reduced lunch criteria and having schools in federal empowerment or enterprise zones. The proposed change expands the eligibility to school divisions with schools in empowerment or enterprise zones, even if they do not meet the free or reduced lunch criteria.
- ***Across-the-Board Reductions.*** Includes a cut of \$267,462 GF each year in Central Appropriations as part of a 6 percent across-the-board reduction. Actions for achieving these savings are not specified in the budget. The reduction was calculated against a base that included \$3.8 million for programs related to the Virginia Plan for Equal Opportunity in State-Supported Institutions of Higher Education.

- **Department of Education**

- ***SOL Testing Program: Web-Based Computerized Testing.*** Adds \$3.0 million GF the first year and \$3.4 million GF the second year for the Web-based Standards of Learning (SOL) testing program. Funds will enable all high schools in Virginia to administer end-of-course SOL tests online by the Spring of 2003. Funds would be used to finish converting test items into an electronic format, pay the vendor for administering the tests online, and to merge scores from both the online and paper tests for consolidated reports to schools and school divisions.
- ***SOL Testing Program: Emergency Retakes and Remediation Recovery.*** Includes \$1.5 million GF each year to expedite retesting of students who narrowly fail one or more of the high school end-of-course SOL tests and to retest students who fail a SOL test but still advance in grade, after they have received remediation. These

programs have been administratively funded in each of the last two fiscal years from unexpended balances.

- ***Other Testing Programs.*** Adds \$970,632 GF the first year and \$1.6 million GF the second year for the state’s assessment program. Funding includes increases for renewal of the vendor contract for current testing, development of new writing tests in certain grades, and additional alternative assessments for children receiving special education. The second year amount also includes a slight reduction to reflect the phase out of the Literacy Passport Tests.
- ***Across-the-Board Reductions.*** Cuts \$1.6 million GF each year from the agency as part of 6 percent across-the-board reductions in Central Appropriations. Actions for achieving these savings are not specified in the budget. This action is in addition to the \$4.2 million GF savings taken out of the agency’s base budget each year to reflect productivity savings and Executive Order 74 actions in FY 2002.
- **Direct Aid to Public Education**
  - ***Technical Changes to SOQ Funding.*** Includes \$101.1 million GF and \$86.0 million Literary Funds the first year and \$148.1 million GF and \$81.0 million Literary Funds the second year to make technical adjustments in Standards of Quality funding due to the following:
    - Updated Prevailing Instructional Salaries. Instructional salary data is adjusted to reflect prevailing salaries in 1999-2000 and the 2001 salary increase provided by the General Assembly.
    - Updated Prevailing Instructional Support Costs. Support cost data, including textbooks (up from \$61.25 per pupil to \$82.06 per pupil) and instructional supplies, are adjusted using the 1999-2000 Annual School Report.
    - Updated Projected Enrollment. Enrollment is expected to increase by 10,563 students (unadjusted ADM) the first year above the projected March 2002 ADM, and by another 10,178 students the second year, for an estimated 1,163,318 students in FY 2004.

- Revised Inflation Factors. Prevailing support costs, updated to reflect 1999-2000 actual costs, are adjusted for inflation through the first quarter of 2001.
- Revised Fringe Benefit Costs. The 2002-04 Standards of Quality budget is calculated by the Department of Education to reflect VRS Board-adopted rates for retirement (with Basic Aid paying the employer share of 4.24 percent for instructional personnel and 4.83 percent for non-instructional) and group life (at a rate of 0.32 percent), full state payment of the Retiree Health Care Credit (at 0.68 percent); Social Security (at 7.65 percent), and an increase in the health insurance rates from \$2,296 to \$2,787 per instructional position.

Note: Subsequent modifications to VRS rates result in a funding decrease of \$7.6 million GF the first year and \$7.2 million GF the second year based on the actuarially-derived retirement contribution rate at June 30, 2001, of 3.60 percent rather than the 4.24 percent contribution rate approved by the VRS Board of Trustees. Funding is increased for the Group Life rate (from 0.32 percent to 0.04 percent) for fiscal years 2003 and 2004.

- 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 \$799.8 million the first year and \$850.6 million the second year, a decrease from the base budget of \$34.7 million in FY 2003 and an increase of \$16.1 million in FY 2004.
- Revised Composite Index of Local Ability-to-Pay. Updates the elements used to calculate each school division's composite index of local ability-to-pay from 1999 to 2001. The composite index measures local wealth through true value of real property (50%), adjusted gross income (40%), and sales tax collections (10%). The index is weighted two-thirds by average daily membership (ADM) and one-third by population. The index for 100 divisions went down, 27 went up and 9 remained the same.

- Updated Student Counts. Student counts in special, vocational, gifted and remedial education have been updated from 1998-99 to 2000-01 data.
  
- ***Technical Changes to Incentive-Based Accounts.*** Includes \$2.0 million GF the first year and \$1.9 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 revenue projections (for the Lottery), updated free lunch eligibility data (statewide the percent of students eligible for the federal free lunch program decreased from 25.31 percent in FY 1999 to 23.55 percent in FY 2001), and updated participation rates for each particular program. (For many of the programs, free lunch eligibility data is used to determine funding levels, although services are not provided to children based on their eligibility for free lunch.) (A list of Incentive Based Accounts is included at the end of this section.)
  
- ***Technical Changes to Categorical Accounts.*** Includes \$9.0 million GF the first year and \$12.9 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. The largest increases are projected for (1) funding special education services for children in hospitals, clinics and detention homes due largely to the opening of two new juvenile detention facilities; (2) the costs of providing special education to children in jails due to increased demands and contract costs; and (3) English as a Second Language due to increased enrollment and costs. (A list of Incentive Based Accounts is included at the end of this section.)
  
- ***Continuation of Direct Grants.*** Includes \$2.9 million GF each year to continue funding a number of direct grants for specific programs outside the normal Standards of Quality funding framework. (Funds were omitted from the base budget calculation but are included in the Governor's proposal.) (A list of Incentive Based Accounts is included at the end of this section.)
  
- ***Teacher Salary Increase.*** Includes \$28.3 million GF the first year and \$48.8 million GF the second year to provide the state share of a 2 percent salary increase, effective December 1, 2002, for school employees. A contingent appropriation in Central Appropriations

would allow the Governor to administratively increase this percentage, if actual revenues exceed the official forecast.

- ***Eliminate School Construction Grants.*** Reduces funding by \$55.0 million GF each year through elimination of the School Construction Grants program. Since 1998, the School Construction Grants program has provided each school division with a basic grant of \$200,000 and additional funding based on a per-pupil amount.
- ***Literary Fund Diversions.*** Proposes supplanting \$86.0 million GF the first year and \$81.0 GF the second year with Literary Fund revenues to help offset the cost of rebenchmarking the Standards of Quality, by paying a portion of Teacher Retirement and Social Security costs. HB/SB 29 also proposes using \$57.0 million in Literary Fund revenues to fund teacher retirement in FY 2002.

<b>Literary Fund Sources &amp; Proposed Uses – 2002, 2003 &amp; 2004</b> (Dollars in Millions)			
	<b><u>FY 2002</u></b>	<b><u>FY 2003</u></b>	<b><u>FY 2004</u></b>
<b>Projected Revenues</b>	<b>\$135.8</b>	<b>\$147.8</b>	<b>\$160.6</b>
<b>Proposed Uses</b>			
Teacher Ret./Soc. Security	\$57.0	\$86.0	\$81.0
Interest Rate Subsidy	11.5	5.0	20.0
Technology Debt Service	52.8	51.7	54.6
School Construction.	9.0		
<b>Total Uses</b>	<b>\$130.3</b>	<b>\$142.7</b>	<b>\$155.6</b>
<b>Ending Balance</b>	<b>\$5.5</b>	<b>\$5.1</b>	<b>\$4.9</b>

Proposes using \$25.0 million in Literary Fund revenues during 2002-04 to leverage approximately \$112.5 million in construction projects, through interest rate subsidies each year. Given current interest rates, a \$1 subsidy leverages about \$4.50 dollars in construction. The budget also authorizes the issuance of an additional \$115.8 million in equipment notes through the Virginia

Public School Authority over the biennium. Debt Service of \$13.7 million in the second year would be paid from Literary Funds.

- **Retiree Health Care Credit.** Decreases funding for Direct Aid by \$18.3 million GF the first year and \$17.8 million GF the second year to reflect proposed changes in the way the Retiree Health Care Credit is funded. Currently, the credit is funded 100 percent by the state. Proposed amendments apply the Standards of Quality funding formula to the credit, thereby reducing state costs by calculating a local share and by applying the credit only to state-funded SOQ positions.
- **Eliminate Lottery Hold Harmless.** Reduces funding by \$14.8 million GF each year by eliminating the Lottery Hold Harmless payments.
- **Reduce the SOL Materials Grant.** Decreases funding by \$3.2 million GF each year by reducing the per-pupil amount from \$10 to \$5.
- **Savings from Non-Participation in PreSchool for At-Risk Four-Year-Olds.** Decreases funding by \$1.5 million GF the first year, assuming some non-participation in the Preschool program.
- **Transfer Contractual Costs.** Decreases funding by \$150,000 GF each year in Direct Aid due to the transfer of the costs of several contractual obligations for the Career Switcher Program and Governor's School programs from the Direct Aid budget to the Department of Education. A companion change is made in the Department of Education.

A listing, by locality, of proposed funding for FY 2003 Direct Aid to Public Education is included as Appendix A and proposed funding for FY 2004 Direct Aid to Public Education is included as Appendix B.

## **PROGRAMS FUNDED ABOVE THE SOQ**

### **Incentive-Based Programs**

Maintenance Supplement	Lottery
At-Risk Block Grant	Lottery Hold Harmless
Reduced K-3 Class Size	Four-Year-Olds Preschool
Early Reading Intervention	SOL Teaching Materials
SOL Remediation	Additional Teachers
SOL Teacher Training	Drop-Out Prevention
Truancy	Health Incentive Fund
School Construction	GED Funding
SOL Algebra Readiness	Technology Assistants

### **Direct Grants**

Project ECOLE	Student Exchange Program
SW Education Consortium	Project Discovery
Blue Ridge Regional Program	Hampton Roads Regional Co-Op
Southside Reg. Technology Cons.	Western VA Education Cons.
Wm. King Regional Art Center	Alt. Education Pilot Programs
Small School Division Asst. Grants	Jobs for Virginia Graduates

### **Categorical Programs**

Vocational Education Categorical	Homebound Instruction
Hosp., Clinics & Detention Homes	Regional Sp. Education Tuition
Special Education In Jails	Adult Education
English as a Second Language	Reading Recovery
AVID	Foster Care
Alternative Education	Electronic Classroom
School Food Services	Governor's Schools
VGAP	Adult Literacy