

Public Education

The adopted 2002-04 budget for Direct Aid to Public Education contains a net increase of \$29.7 million GF and \$251.0 million NGF for the biennium when compared to the adjusted appropriation for current operations. This total reflects new general fund spending of \$513.1 million, offset by \$483.3 million in reductions. Literary Fund revenue in the amount of \$176.4 million is being used to cover a portion of the cost of teacher retirement and Social Security in the 2002-04 biennium. Net new federal funding will provide \$60.9 million in the biennium, and \$13.7 million from the Literary Fund is included for additional equipment debt service for the technology grant program.

Recommended increases for direct aid to public education include formula-driven and technical increases of \$379.9 million 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; \$74.8 million to end the deduction of locally-generated revenues in the calculation of the state share of the costs of the Standards of Quality; \$58.3 million to begin paying the state share of the cost of administration in local school divisions; \$96.4 million from the newly enacted federal *No Child Left Behind Act* to provide additional funding for Teacher Training, Early Reading and Special Education programs; and \$13.7 million from the Literary Fund for technology debt service.

In addition to the transfer of \$176.4 million in Literary Funds to cover a portion of the cost of teacher retirement and Social Security, the following funding reductions were adopted to help offset cost increases associated with funding the JLARC Tier 1 recommendations: eliminate the Additional Teachers funding added during the previous administration (\$57.1 million GF), Maintenance Supplement (\$19.3 million GF), and 11 smaller programs (\$3.4 million GF). Other base budget reductions include: cut the School Construction Grants program in half (\$55.0 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); eliminate the SOL Teacher Training program as a stand-alone program (\$34.7 million GF); adjust VRS and Group Life rates (\$30.5 million GF); eliminate the additional state payment for Standards of Learning Teaching Materials (\$12.9 million GF); eliminate Virginia Guaranteed Assistance, Truancy and School Community Health Grant programs (\$9.7 million GF); reduce Drop-Out Prevention, At-Risk and Project Discovery Programs (\$8.6 million GF); and capture anticipated savings or make technical changes in several programs (\$9.9 million GF).

To partially compensate for the diversion of Literary Funds from school construction, the budget provides 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 \$117.3 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 \$14.0 million occurring in FY 2004.

The adopted budget includes a net increase of \$3.5 million GF for the Department of Education, primarily to enhance the state's testing program and fully fund the bonuses for teachers achieving National Board Certification. No funding changes have been included for the schools for the deaf and the blind, although language directs the Board of Education and Superintendent of Public Instruction to prepare a plan, by December 1, 2002, for consolidating the two schools into one facility at Staunton.

- **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. Adopted language 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.
- ***Technology & Equipment Leasing Plan for Museums.*** Directs the Secretary of Finance and the Secretary of Education to examine options for establishing an equipment and exhibit replacement program in state-operated museums and report their findings by October 1, 2002.
- ***Tuition & Fee Policy.*** Modifies the tuition and fee policy for higher education institutions. The language provides direction to institutions in setting such tuition and fee policies and requires institutions to communicate their policies, as approved by the boards of visitors, by May 15 of each year.

- ***Electronic Campus.*** Directs the Secretary of Education to evaluate the Consulting Report to the Electronic Campus of Virginia (2001) and develop recommendations that address educational needs in technologically innovative and cost efficient ways.
 - ***Private Activity Bond Allocation for Education.*** Authorizes the Secretary of Education to allocate the use of a new tax-exempt private activity bond authority that has been made available under federal law. This new allocation is available only for educational facilities and does not affect the allocation otherwise available to the Commonwealth and localities.
 - ***Across-the-Board Reductions.*** Includes a reduction of \$44,729 GF the first year and \$51,119 the second year in Central Appropriations as part of the 7 and 8 percent across-the-board reductions. Actions for achieving these savings are not specified in the budget.
- **Department of Education**
 - ***National Board Certification Bonuses.*** Adds \$875,000 GF the first year and \$1.5 million GF the second year to provide bonuses to teachers qualifying for the National Board of Professional Teaching Standards certification in the 2002-04 biennium. Teachers are eligible to receive a \$5,000 first time grant upon initial certification and would be eligible for continuing awards of \$2,500 each year for the life of the certification (10 years). In fiscal year 2003, it is projected that 137 teachers will be eligible for continuation bonuses and an additional 138 will become eligible for the first time. In FY 2004, it is expected that 275 teachers will receive continuation bonuses and another 198 teachers will be eligible for the \$5,000 first-time grant.
 - ***No Child Left Behind Act Testing Funds.*** Adds \$7.9 million NGF the first year as Virginia’s estimated share of assessment funding provided by the federal government to help states begin to comply with the new federal legislation, *No Child Left Behind*.
 - ***SOL Testing Program: Web-Based Computerized Testing.*** Adds \$3.0 million GF the second year for the Web-based Standards of Learning (SOL) testing program. Funds are meant to enable all high schools in Virginia to administer end-of-course SOL tests online by the Spring of 2004.

- ***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.
- ***SOL History Tests.*** Includes \$1.1 million GF the first year and \$603,000 GF the second year to revise the SOL History tests. Funding provides for the full cost in the first year for final development of separate history SOL tests in grades 5 through 8. Funding is provided in each year to develop and administer the current history SOL tests to reflect revisions recently adopted by the Board of Education.
- ***Eliminate Literacy Passport Testing Program and Requirement.*** Reduces funding by \$651,437 GF the second year and provides language discontinuing the Literacy Passport Test after July 1, 2003. The language also eliminates the requirement for the passage of the Literacy Passport Test for the receipt of a high school diploma. The SOL testing program has replaced the Literacy Passport Test.
- ***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.
- ***Across-the-Board Reductions.*** Cuts \$1.9 million GF the first year and \$2.2 million GF the second year from the agency as their 7 and 8 percent across-the-board reductions. 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.
- ***Reduce Best Practice Centers.*** Cuts \$1.2 million GF the first year and \$1.7 million GF the second year by reducing the eight Best Practice Centers, effective at the end of the 2002 school year, down to two. The two Best Practice Centers that will continue to operate, with three staff members in each, will serve Southside and Southwest Virginia.

- ***Eliminate GF Support for Virginia Business-Education Partnership Program.*** Cuts \$97,948 GF each year by eliminating general fund support for the Virginia Business-Education Partnership program.
- ***Reduce Academic Review Teams.*** Reduces funding by \$373,720 GF the first year and \$357,471 GF the second year to capture savings anticipated from the Academic Review Team program due to improvements in the performance of schools on the Standards of Accreditation requirements. The number of schools Accredited with Warning that would be expected to receive assistance from the teams has dropped from 213 in the 2000-02 biennium to 130 in the most recent calculation.
- ***Language Amendments.*** Includes the following language amendments:
 - Directs the Department of Education to develop recommendations for a school food allergy program.
 - Directs the Board of Education and the Superintendent of Public Instruction to prepare a plan for consolidating services for deaf, blind, and multi-handicapped students served in Hampton and Staunton, and to present that plan by December 1, 2002.
 - Directs the Department of Education to work with the Department of Medical Assistance Services to expand the services that can be billed for federal Medicaid funds.
 - Conforms language in the budget for the Virginia Teaching Scholarship Loan program to changes made to the Code of Virginia.
- **Direct Aid to Public Education**
 - ***Technical Changes to SOQ Funding.*** Includes \$152.2 million GF the first year and \$197.2 million GF the second year to make technical adjustments in 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 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 \$75.36

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 fourth quarter of 2001.
- Revised Fringe Benefit Costs. The 2002-04 Standards of Quality budget is calculated using the following rates: for retirement, with Basic Aid paying the employer share of 3.77 percent for instructional and professional support personnel plus 0.67 percent for the Retiree Health Care Credit rate and 3.07 percent for non-instructional support positions and a group life premium holiday for the entire biennium for both the employer and the employee; Social Security (at 7.65 percent), and an increase in the health insurance rates from \$2,296 to \$2,787 per instructional position.
- 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 1997 to 1999. 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.

- Revised Lottery Proceeds. Lottery proceeds are estimated at \$329.0 million the first year and \$330.0 million the second year.
- ***JLARC Tier 1, End Deduction of Locally-Generated Revenues.*** Provides \$24.8 million GF the first year and \$50.0 million GF the second year to phase out the current practice of deducting prevailing locally generated revenues from the Basic Aid cost calculation, as recommended by the Joint Legislative Audit and Review Commission report. The funding provides about half of the cost in FY 2003 and 100 percent in FY 2004.
- ***JLARC Tier 1, Restore Administrative Position Costs.*** Provides \$4.1 million GF the first year and \$54.2 million GF the second year to phase in the inclusion of the prevailing cost of administrative positions in the Basic Aid cost calculation, as recommended by the Joint Legislative Audit and Review Commission report. The funding provides about 5.8 percent of the cost in FY 2003 and 72.0 percent in FY 2004.
- ***Virginia Career Education Foundation.*** Provides \$79,774 GF the first year in Direct Aid, in addition to the \$170,226 in funding through Nonstate agencies, for the Virginia Career Education Foundation. The Foundation is a private non-profit organization that promotes career, technical and vocational education in public schools.
- ***Eliminated or Reduced Programs Redirected to JLARC Tier 1.*** Decreased funding by \$39.9 million GF per year by eliminating or reducing a number of programs: Additional Teachers, Maintenance Supplement, Advancement Via Individual Determination, Jobs for Virginia Graduates, Reading Recovery, Elementary Alternative Education Pilots, Hampton Roads Cooperative, Blue Ridge Training Council, State School-to-Work, Project ECOLE, Student Exchange, Software Rights, and the Western Virginia Consortium.
- ***Reduce School Construction Grants.*** Reduces funding by half (\$27.5 million GF each year) for 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. The 2002-04 funding will be based on a basic grant of \$100,000 per school division and the remainder distributed on a per-pupil basis.

- **Literary Fund Diversions.** Supplants \$90.7 million GF the first year and \$85.7 million 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.

Provides \$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 in construction. As of March 2002, there were 45 projects totaling \$156.7 million on the Literary Fund First Priority Waiting List.

Authorizes the issuance of an additional \$117.3 million in equipment notes through the Virginia Public School Authority over the biennium. Funding is based on grants of \$50,000 to each school division and \$26,000 for each school. A local match of 20 percent is required, and at least 25 percent of that amount must be used for teacher training in the use of technology. Debt service of \$14.0 million in the second year would be paid from Literary Funds.

Literary Fund Sources & Uses -2003 & 2004		
(Dollars in Millions)		
	<u>FY 2003</u>	<u>FY 2004</u>
Projected Revenues	\$152.5	\$165.3
Proposed Uses		
Teacher Ret./Soc. Security	\$90.7	\$85.7
Interest Rate Subsidy	5.0	20.0
Technology Debt Service	51.7	54.6
School Construction Loans	0.0	0.0
Total Uses	\$147.4	\$160.3
Ending Balance	\$5.1	\$5.0

- **Retiree Health Care Credit.** Adjusts 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. The adopted budget applies 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 Stand-Alone Teacher Training Program.*** Reduces funding by \$17.3 million GF the first year and \$17.4 million GF the second year to reflect the elimination of a separate Teacher Training Program. Funding for Basic Aid provides \$39.1 million the first year and \$39.4 million the second year (the state share of \$490 per instructional position) for teacher training.
- ***Eliminate Lottery Hold Harmless.*** Reduces funding by \$14.8 million GF each year by eliminating the Lottery Hold Harmless payments.
- ***Eliminate SOL Materials Grant.*** Decreases funding by \$6.4 million GF each year by eliminating the add-on funding for SOL instructional materials. Funding for Basic Aid provides \$48.4 million the first year and \$48.4 million the second year for textbooks (the state share of \$75.36 per pupil each year).
- ***Eliminate Several Programs.*** Reduces funding by \$2.1 million GF the first year and \$2.2 million GF the second year by eliminating the Virginia Guaranteed Assistance (except for \$125,000 GF for An Achievable Dream that is included in Direct Aid the first year and another \$125,564 GF included in Nonstate agencies), Truancy, and School Community Health Center programs.
- ***Savings from Reductions.*** Reduces funding for At-Risk, Drop-Out Prevention, and Project Discovery programs by taking savings of 7 percent the first year (\$4.0 million GF) and 8 percent the second year (\$4.6 million GF).
- ***Savings from Projected Balances.*** Decreases funding by \$4.4 million GF the first year and \$5.1 million GF the second year, by assuming some non-participation or balances in these programs: Remedial Summer School, At-Risk Four-Year-Olds Preschool, K-3 Reduced Class Size, and Hospitals, Clinics & Detention Homes.
- ***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.

- **Federal Funds.** Increases funding by \$96.4 million NGF the first year and decreases funding by \$22.9 million NGF the second year to reflect the following changes in federal funding:
 - Provides \$52.1 million NGF the first year for teacher quality programs.
 - Provides \$16.9 million NGF the first year for Reading First Grants.
 - Provides \$27.4 million NGF the first year for additional federal Special Education funding.
 - Reduces funding by \$8.7 million NGF the second year due to the expiration of the federal Goals 2000 program.
 - Reduces funding by \$2.9 million NGF the second year due to the expiration of the federal Technology Literacy Challenge program.
 - Reduces funding by \$11.47 million NGF the second year due to the expiration of the federal School-To-Work program.
- **Language Amendments.** Includes the following language amendments:
 - Clarifies that when school divisions consolidate, the payments for school construction grants and technology grants will continue to be distributed as though the divisions were separate for a period of 15 years, consistent with the provisions of the Code of Virginia.
 - Provides flexibility in the use of remediation funding.
 - Directs the Department of Education to monitor compliance with Required Local Effort in the expenditure of funds for public education.

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