

Public Education

The Governor's proposed amendments for Direct Aid to Public Education result in a net increase of \$2.1 million GF and \$84.8 million NGF for the biennium when compared to the original appropriation in Chapter 899. This total reflects new general fund spending of \$87.7 million offset by \$85.6 million in general fund reductions. Additional Literary Fund revenue in the amount of \$62.1 million is proposed to supplant general fund for a portion of teacher retirement and Social Security payments. Net new federal funding is anticipated to provide \$22.2 million NGF, and an additional \$0.5 from the Literary Fund is included as a technical adjustment for technology equipment debt service.

Proposed increases include technical adjustments of \$44.6 million GF to return the local share of increased lottery proceeds; \$31.7 million GF to update the Standards of Quality, and some incentive and categorical accounts for updated enrollment and participation projections; and, a net \$11.3 million GF from the effects of changing the distribution of sales tax consistent with the results of the 2002 Triennial Census.

In addition to the proposed transfer of \$62.1 million from the Literary Fund, a number of funding reductions are proposed. Savings of \$543,363 GF is proposed from a 15 percent reduction to smaller special programs such as Project Discovery and the regional consortia. The remaining reductions are technical updates, including: a net \$15.9 million GF to reflect lower sales tax revenues from those assumed in Chapter 899; \$3.1 million GF due to updated inflation factors; and, \$4.0 million GF for updated participation in other incentive and categorical accounts.

Also included is a proposed Student Achievement Block Grant. Funding for three programs – Dropout Prevention, School Health Incentive Payments and Technology Support Payments – is redirected to the new block grant. School divisions can choose to use the grant for any of the following programs: K-3 Reduced Class Size, Early Reading Intervention, At-Risk Four-Year-Olds, and SOL Remediation.

The proposed budget includes a net decrease of \$9.0 million GF for the Department of Education. Reductions include \$3.9 million GF in the state's assessment program, including: the elimination of the Stanford 9 and the Algebra Readiness diagnostic tests; the delay of separate history SOL assessments; and, a delay in the full implementation of web-based SOL testing. The only general fund increase in the Department - \$769,483 - is to replace federal funding currently being used to support the PASS initiative. A reduction of \$3.4 million GF reflects the elimination of 34.0 FTE within the department,

including the closure of the two remaining Best Practice Centers. Net new federal funding is anticipated to provide \$9.2 million NGF and 25.0 FTE, for a net loss of 9.0 FTE.

The Governor's amendments propose a reduction of \$1.0 million GF for the School for the Deaf, Blind and Multi-Disabled in Hampton and a reduction of \$685,123 GF for the School for the Deaf and Blind in Staunton. The reduction for the Staunton school is offset by a \$470,000 GF increase to pay for a temporary boiler to heat the school.

- **Secretary of Education**

- **Governor's October Reductions.** Reduces funding by \$35,718 and 1.0 FTE the first year and \$47,771 and 1.0 FTE the second year from eliminating a vacant position.

- **Department of Education**

- **Governor's October Reductions.** Reduces funding by \$2.4 million GF and 15.0 FTE the first year and \$3.5 million GF and another 19.0 FTE the second year as detailed below.
 - **Web-based Standards of Learning (SOL) Testing.** Reduces funding by \$1.4 million GF in FY 2004 by anticipating less utilization of on-line SOL tests, leaving \$3.6 million GF to meet the demands of high schools ready for this testing. To be eligible for funding under the initiative, school divisions were required to make a commitment to be capable of administering web-enabled SOL tests in each high school by May 1, 2003. According to the Department, not all school divisions will be ready nor want to proceed with web-based end-of-course testing by fiscal year 2004.
 - **Best Practice Centers.** Reduces funding by \$720,000 GF and 7.0 FTE in the second year by closing the two remaining (of the original eight) Best Practice Centers in Southside and Southwest Virginia effective February 1, 2003.
 - **Teacher Licensure Fees.** Uses special fund balances of \$296,100 the first year and \$307,308 the second year generated from teacher licensure fees. Although the activity is currently self-sufficient through fees, the reversion could result in a future fee increase.

- **Other Reductions.** Eliminates 15 positions, resulting in one layoff, reduces discretionary costs, and captures various balances, including \$725,000 in federal funds in FY 2003.
- **Additional Targeted Position Reductions.** Eliminates 12.0 GF FTE that, when added to the Governor's October reduction, will result in a total reduction of 34.0 GF FTE. Federally funded positions increase by 25, which include nine positions for the Reading First grant and six positions for the Teacher Quality grant. These actions together result in a net loss of 9.0 FTE and a shift in the balance between general fund and nongeneral fund positions within the department from 61 percent general fund and 39 percent nongeneral fund to 52 percent general fund and 48 percent nongeneral fund.
- **Governor's Partnership for Achieving Successful Schools (PASS) Initiative.** Increases general fund support for the Governor's PASS initiative by \$769,483 to replace federal funds previously used as partial funding for the program. Funds are used for academic reviews and technical assistance to the state's lowest academically performing schools. This action results in a shift in the balance between state and federal funding for the program from 45 percent state and 55 percent federal in FY 2003 to 70 percent state and 30 percent federal in FY 2004.
- **Model Curricula Training.** Eliminates \$75,000 GF for model curricula training in FY 2004. The first year funding for this purpose was reduced through the Governor's October actions.
- **Testing Programs.** In addition to the Governor's October reduction to the web-based testing initiative, there are several other reductions to the state's assessment program.
 - **Administration of Separate SOL History Tests.** Reduces funding by \$977,985 GF in FY 2004 by deferring until FY 2005 the administration of separate grades six through eight history testing. Instead, the cumulative grade eight test will be administered next year.
 - **Stanford 9 Assessment.** Reduces funding by \$583,273 GF in fiscal 2004 by eliminating state funding for the Stanford 9 test (also known as the Virginia Assessment Program), currently given in grades four, six, and nine and the basis for Standards of Quality Remediation funding. The Stanford 9 is

a norm-referenced test, meaning that student performance can be compared against student performance across the country. Virginia also participates in the National Assessment of Educational Progress (NAEP), also a norm-referenced test, which will be required of all states by the federal No Child Left Behind Act.

- **State-Provided Algebra Readiness Diagnostic Test.** Reduces funding by \$600,000 GF in FY 2004 by discontinuing the practice of offering a state-provided algebra readiness diagnostic test. Language related to the algebra readiness program in the direct aid budget reflects this change. In addition, reduces funding by \$175,000 GF in FY 2004 by capturing anticipated cash balances, primarily from algebra readiness diagnostic testing.
- **Late SOL Test Submissions.** Reduces funding by \$150,000 GF in each year by ending the practice of the state paying the processing fees for late test submissions by school divisions.
- **Technical Support.** Reduces funding by \$35,000 GF in FY 2004 by reducing technical support provided to school divisions and not-for-profit organizations operating At-Risk Four-Year-Olds Programs.
- **Superintendent's Office and Executive Management Costs.** Reduces second year funding by \$50,000 GF in the state superintendent's office and \$100,000 GF in the Department's budget for executive management activities.
- **Conference and Publication Revenues.** Increases NGF revenues by \$100,000 in FY 2004 in anticipation of higher projected revenues for conferences and publications.
- **Direct Aid to Public Education**
 - **Technical Changes to Funding.** Includes technical adjustments, which result in a net increase of \$64.8 million GF over the biennium for Direct Aid to Public Education.
 - **Revised Lottery Proceeds.** Increases the local share of Lottery proceeds by \$28.3 million GF the first year and \$16.3 million GF the second year. The first year increase reflects actual proceeds that exceeded the original estimate by \$38.2

million for FY 2002 and a revised estimate for FY 2003 that is \$33.6 million above the amount estimated in Chapter 899. The revised FY 2004 estimate is \$41.3 million above the estimate in Chapter 899. Also contributing to the higher estimate of proceeds is a 10 percent reduction the first year and a 15 percent reduction the second year in the Lottery Department's administrative budget (see Independent Agencies).

- **Projected Enrollment and Test Scores.** Increases funding for Direct Aid by \$9.1 million GF the first year and \$22.6 million the second year to reflect updated estimates of student enrollment projections based on the March 31, 2002 Average Daily Membership and the September 30, 2002 Fall Membership child counts. It is estimated that 3,459 more students than had been projected in Chapter 899 will be enrolled in Virginia's public schools in FY 2003, and that 6,904 more students than projected will be enrolled in FY 2004. It is now estimated that 1,170,222 students will attend public schools in FY 2004.

The updated enrollment changes funding for the majority of accounts in Direct Aid, including: Basic Aid, Textbooks, Vocational Education, Gifted Education, Special Education, Remedial Education, Retirement, Social Security, and Enrollment Loss.

Embedded in these numbers is a reduction of \$2.7 million GF the first year and \$2.4 million GF the second year for the Early Reading Intervention Program, reflecting lower Fall Membership student counts in the early grades and a shift from using free lunch eligibility to actual test score data for the program's funding formula. (Additional nonparticipation in the program is included in updated participation numbers, see below.)

- **Triennial Census.** Provides funding to cover the increased state share of public education costs from the use of the latest triennial census to distribute the one-cent of sales tax returned for public education – an increase of \$3.7 million GF the first year and \$7.7 million GF the second year. Allocations to school divisions will vary depending on how their change in census compares to the statewide average change in census

- **Sales Tax Estimate and Basic Aid Off-Set.** Decreases funding for Direct Aid from the one-cent of sales tax that is returned for public education, due to a downward revision of the sales tax estimate from that contained in Chapter 899. The projected sales tax loss of \$9.8 million GF in FY 2003 and \$26.0 GF million in FY 2004 will be partially offset by an increase in required state Basic Aid funding, for a net reduction to school divisions of \$4.3 million GF the first year and \$11.6 million GF the second year.
- **Update Inflation Factors.** Decreases funding by \$1.6 million GF the first year and \$1.5 million GF the second year based on inflation factors through the second quarter of 2002.
- **Update for Participation.** Decreases funding by \$3.1 million GF the first year and increases funding by \$24,351 GF the second year based on actual participation in the current year for certain incentive and categorical programs, including: At-Risk Four-Year-Olds, K-3 Reduced Class Size, Remedial Summer School, Governor's Schools, and Alternative Education. When compared to nonparticipation and balance savings assumed in Chapter 899, approximately \$1.0 million less is assumed in the Governor's proposed amendments.

In addition, decreases funding by \$827,171 GF the first year and \$62,868 GF the second year in Special Education Categorical Accounts based on revised participation rates and tuition costs for these programs which include: state-operated special education programs, homebound programs, and tuition for regional programs.

- **Diversion of Additional Literary Fund Revenues.** Supplants \$22.1 million GF the first year and \$40.0 million GF the second year by paying an additional portion of Teacher Retirement and Social Security costs with Literary Fund revenues, increasing the biennial amount used for this purpose from the Literary Fund to \$238.5 million.

Literary Fund Revenues & Uses – 2003 & 2004				
(\$ in millions)				
	Chapter 899		HB 1400/SB 700	
	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2003</u>	<u>FY 2004</u>
Projected Revenues	\$152.5	\$165.3	\$178.7	\$180.7
Proposed Uses				
Teacher Ret./Soc. Security	\$90.7	\$85.7	\$112.8	\$125.7
Interest Rate Subsidy	5.0	20.0	5.0	0.0
Technology Debt Service	51.7	54.6	51.8	55.0
School Construction Loans	0.0	0.0	0.0	0.0
Total Uses	\$147.4	\$160.3	\$169.6	\$180.7
Ending Balance	\$5.1	\$5.0	\$9.1	\$0.0

For the first year, the additional revenue comes from a FY 2002 balance in the Literary Fund and a one-time adjustment to account for the unused portion of already released loans. In the second year, the additional revenue comes from the elimination of the \$20.0 million set aside in Chapter 899 for an interest rate subsidy program and a one-time increase of \$20.0 million from a proposal to allow the earlier recovery of unclaimed stock from demutualized insurance companies. The demutualization proposal assumes the passage of legislation by the 2003 General Assembly to allow the earlier recovery.

As of November 2002, there were 41 projects totaling \$170.3 million on the Literary Fund First Priority Waiting List. The Department is estimating that this number will increase to \$465.3 million in projects on the waiting list by the end of the 2002-04 biennium.

- ***Student Achievement Block Grant.*** Redirects \$16.9 million GF the second year from three programs - Dropout Prevention, School Health Incentive Funding for school nurses, and Technology Support Payments for on-site support of the SOL web-based testing initiative - into a new block grant. School divisions can choose to use the grant for any of the following programs: K-3 Reduced Class Size, Early Reading Intervention, At-Risk Four-Year-Olds

(including children currently served using federal Title I funding), and SOL Remediation. There is a waiver provision that would allow the divisions to use the funding from the three redirected programs for the original purpose, but only if the division can prove to the Superintendent of Public Education that the original programs effectively increase student achievement. The funding is not redistributed. School divisions will receive the same amount of funding for the block grant as under funding formulas for the original programs.

- **Governor's October Reductions.** Proposes savings of \$278,479 GF the first year and \$264,884 GF the second year by applying a 15 percent reduction to the following programs: Project Discovery, the Southwest Education Consortium, the Southside Regional Technology Consortium, the Western Virginia Public Education Consortium, the William King Arts Center, and the Virginia Career Education Foundation.

- **Federal Funds.** Increases funding by \$22.2 million NGF the second year to reflect the following changes in federal funding:
 - **Reading First.** Adds \$15.1 million NGF in the second year, as the additional authority needed to distribute the funding if Virginia receives the federal Reading First grant. Chapter 899 provided this authority for the first year.

 - **Teacher Quality.** Increases funding by \$1.1 million NGF to reflect Virginia's award of a Teacher Quality Grant. Virginia's match for the funding was met through existing funding in the Virginia Teaching Scholarship Loan, Mentor Teacher/Clinical Faculty, Career Switcher and Commonwealth Special Education Endorsement programs. In the first year of the grant, Virginia will receive a total of \$5.0 million NGF. The amount in Direct Aid is the funding that would be distributed to local school divisions. A proposed amendment in the Department of Education reflects the portion to be used for technical assistance and program administration.

 - **School Food.** Provides additional spending authority of \$5.0 million NGF the second year for the school food program, reflecting increases in federal reimbursement rates under the program.

- **Limited English Proficiency.** Increases spending authority by \$1.1 million NGF in the second year for Limited English Proficiency grants under Title III of the No Child Left Behind Act.
- **Virginia School for the Deaf, Blind and Multi-Disabled at Hampton**
 - **Governor's October Reductions.** Reduces funding by \$400,438 GF the first year and \$399,884 GF the second year and a total of 1.0 FTE in the biennium. The school will provide therapy services, transportation, electrical and plumbing, and grounds maintenance using full-time staff instead of through contractual and wage employees. The school will also reduce monthly telephone charges.
- **Virginia School for the Deaf and Blind at Staunton**
 - **Governor's October Reductions.** Reduces funding by \$242,949 GF the first year and \$248,832 GF the second year and a total of 3.0 FTE in the biennium. The school will eliminate one faculty position, one support maintenance position, and several wage positions to achieve the savings. In addition, travel and other non-personal services costs will be reduced, and the agency will increase revenue by \$53,000 NGF the first year and \$18,000 NGF the second year by increasing enrollment and renting unused space to a college.
 - **Heat and Hot Water for School.** Proposes adding \$35,000 GF the first year and \$435,000 GF the second year to provide heat and hot water for the school until a capital project to install boilers is completed. The heat and hot water for the school was previously supplied by the Staunton Correctional Center, which was closed in early December of 2002.

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.