

## Public Education

The adopted 2004-06 budget for Direct Aid to Public Education contains a net increase of \$1,485.8 million GF and \$47.4 million NGF for the biennium when compared to the adjusted base budget. This total reflects new spending of \$1,853.8 million GF, offset by \$368.0 million GF in reductions.

Biennial increases for direct aid to public education include formula-driven and technical increases of \$1,210.1 million GF to update the Standards of Quality (SOQ), Incentive, and Categorical accounts for increased enrollment, prevailing costs of education, and updated composite index calculations.

Of the estimated \$377.7 million from the one-quarter cent of sales tax revenues from the Public Education SOQ/Local Real Estate Property Tax Relief Fund that was established pursuant to Chapter 4, 2004 Acts of Assembly, Special Session I, half of the revenue, together with other general funds, supports the \$325.9 million in SOQ funding revisions pursuant to Chapters 939 and 955, 2004 Acts of Assembly. The remaining half is distributed based on school-age population, consistent with the existing one cent of sales tax dedicated for public education.

Other increases include: \$66.9 million GF to finish the phase in of administrative support positions and fix the one-month rollover of fringe benefits costs; \$55.1 million GF to fund 100 percent of at-risk four-year-olds unserved by Head Start programs by the second year; \$39.8 million GF in additional lottery proceeds to support the State Board of Education's recommendation to revise the SOQ Remediation methodology; net \$26.9 million GF from other sales tax revenues; \$19.7 million GF to enhance funding for English as a Second Language; \$16.6 million NGF (Literary Fund) for debt service on technology equipment note issuance; \$10.1 million GF to help school divisions meet the requirements of the federal No Child Left Behind Act; \$7.1 million GF to fully fund the cost of competing adjustment for Planning District 8; and \$5.5 million GF for programs to help high school seniors pass Standards of Learning (SOL) graduation requirements.

In addition to the transfer of an additional \$30.8 million NGF from the Literary Fund to cover a portion of retirement costs, the following reductions offset cost increases: \$109.8 million GF from deducting non-personal technology costs from the SOQ; \$90.0 million GF from deducting 29.34 percent of certain federal revenue sources from SOQ costs; \$63.9 million GF related to the VRS retirement rate and the Retiree Health Care Credit rate; \$34.7 million GF from redirecting SOL prevention, intervention, and remediation to SOQ prevention, intervention, and remediation; \$20.2 million GF from eliminating the Student

Achievement Grants account; \$12.0 million GF by changing the K-3 Class Size Reduction calculation; and \$2.2 million GF from Algebra Readiness.

The adopted budget also includes a net increase of \$18.8 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**

- *Virginia Cancer Research Fund.* Includes \$50,000 NGF the second year (assumed revenue from a yet to be created income tax check-off) for a new Virginia Cancer Research Fund to support the cancer centers at UVA Medical Center and VCU Medical Center.
- *"Efficiency Reviews" of School Divisions.* Adds \$984,000 GF the first year to continue the school efficiency review pilot program.
- *Schools for the Deaf and Blind.* Adds \$100,000 GF the first year towards a capital needs assessment for consolidating the state's two schools for the deaf, blind and multi-disabled.

- **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.
- *No Child Left Behind: Statewide Student Information System.* Adds \$798,948 GF and \$2.7 million NGF the first year, \$3.6 million GF the second year and 4.0 FTE to contract for the 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 the first year and \$970,540 GF the second year and five positions 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.
  - ***Maintain National Board Certification Bonus Levels for Teachers.*** Adds \$330,000 GF the first year and \$787,500 GF the second year based on an estimated 137 additional initial awards in FY 2005 and an additional 160 initial awards in FY 2006. These additional initial awards would increase the total number of teachers holding National Board Certification in Virginia to 707.
  - ***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 the SOL tests needed for graduation. (Additional funding of \$2.8 million GF each year for this purpose is included in the Direct Aid to Public Education budget.)
- **Direct Aid to Education**
    - ***Technical Changes (Biennial SOQ Re-benchmarking).*** Includes \$564.3 million GF and \$22.9 million NGF (Literary Fund) the first year and \$645.8 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.** Salary data is adjusted to reflect prevailing salaries in 2001-2002 and the FY 2004 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 in the unadjusted average daily membership (ADM) the first year above the projected March 2004 ADM, and by another 16,223 students the second year, for an estimated total of 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 2004-2006 Standards of Quality budget is calculated by the Department of Education to reflect the following fringe benefit rates: 6.03 percent the first year and 6.62 percent the second year, 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 the 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.
- 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 (i.e., the local share decreased), 37 went up (i.e., the local share increased), 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 and Categorical Accounts. Updated enrollment projections, updated free lunch eligibility data (statewide the percent of students eligible for the federal free lunch program changed from 23.55 percent to 24.53 percent), and updated participation rates for particular programs were applied. (A list of incentive and categorical accounts is included at the end of this section.)

– *SOQ Revisions (Chapters 939 and 955, 2004 Acts of Assembly): Elementary Resource Teachers, Required Middle and High School*

***Planning Period, and Technology Positions.*** Adds \$105.8 million GF the first year and \$220.3 million GF the second year for: five elementary resource teachers per 1,000 students; a required daily planning period for middle and high school teachers (25 percent the first year; 100 percent the second year); and one instructional and one support technology position per 1,000 students (support only in the first year; support and instructional in the second year).

Half of the  $\frac{1}{4}$  cent of sales tax revenue from the Public Education SOQ/Local Real Estate Property Tax Relief Fund, pursuant to Chapter 4, 2004 Acts of Assembly, Special Session I, estimated at \$83.5 million GF the first year and \$105.4 million GF the second year, helps to support the SOQ funding revisions outlined above.

- ***SOQ Revisions (Chapters 939 and 955, 2004 Acts of Assembly): SOQ Intervention, Prevention, and Remediation.*** Transfers additional lottery proceeds of \$20.5 million GF the first year and \$20.6 million GF the second year to fund the State Board of Education’s approved revision to the SOQ remediation calculation. The new 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 the SOL tests. In contrast, 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.
- ***Additional 1/8 Cent Sales Tax Based on School-Aged Population.*** From the Public Education SOQ/Real Estate Property Tax Relief Fund, the remaining half of the  $\frac{1}{4}$  cent sales tax revenue of \$83.5 million GF the first year and \$105.4 million GF the second year will be distributed based on school-aged population. Consistent with the existing one cent of sales tax for public education, this results in an offset to the state’s share of Basic Aid payments of \$47.0 million GF the first year and \$59.4 million GF the second year.
- ***Other Sales Tax Revenue.*** Adds a net \$12.2 million GF the first year and \$14.7 million GF the second year in additional sales tax revenue due to tax law changes (i.e., the elimination of sales tax exemptions for public service corporations, cigarette tax increases, and sales taxes on pre-paid phone cards) and the mid-session revenue re-forecast.

- ***At-Risk Four-Year-Olds Preschool Program.*** Adds \$24.8 million GF the first year and \$30.3 million GF the second year to fund 90 percent of at-risk four-year-olds unserved by Head Start programs in the first year and 100 percent in the second year. New language specifies the establishment of standards in accordance with appropriate preparation for students to be ready to enter kindergarten. (This includes the \$2.2 million GF each year in the budget as introduced.)
- ***Complete Phase-In of Certain Support Positions and Correct One-Month Rollover of Fringe Benefits Costs.*** Adds \$22.7 million GF the first year and \$23.0 million GF the second year to finish the phase-in, begun by the General Assembly in 2002, of certain administrative support positions. Adds \$21.3 million GF the second year to fix the one-month rollover of fringe benefits costs from one fiscal year to the next (a one-time cost).
- ***English as a Second Language.*** Adds \$9.1 million GF the first year and \$10.6 million GF the second year to increase the number of instructional positions per 1,000 students for whom English is a second language from 10 to 17.
- ***No Child Left Behind: Implementation Costs.*** Adds \$4.7 million GF the first year and \$5.4 million GF the second year to help with the costs of implementing the federal No Child Left Behind Act. The total \$10.1 million GF includes \$1.0 million GF for grants to school divisions to develop leadership training programs.
- ***Continue Technology Equipment Note Issuance.*** Adds \$7.1 million NGF (Literary Fund) the second year for the first year of an issued five-year \$59.1 million note for technology equipment. Costs related to a 2006 issuance will begin in FY 2007.
- ***Complete 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 the full 24.61 percent.
- ***Project Graduation.*** Adds \$2.8 million GF each year for regional summer school programs and on-line SOL tutorials targeted to helping students pass the SOL tests needed for graduation.
- ***Other Increases.*** Adds \$250,000 GF each year for Wolf Trap’s Early Learning Through the Arts program; \$200,000 GF each year for the

Jobs for Virginia Graduates program; \$178,000 GF each year to increase the Governor's Schools funding cap to 1,500 students per school; and \$153,000 GF in the second year for Chapter 820, 2004 Acts of Assembly that affects Highland County.

- ***Limit to 29.34 Percent the Deduct of Federal Revenues from SOQ Costs.*** Reduces funding by \$44.9 million GF the first year and \$45.1 million GF the second year by deducting certain federal revenues from total SOQ costs. (This is in lieu of the reduction proposed in the introduced budget of \$208.3 million the first year and \$209.8 million the second year from (1) the deduction of certain locally generated revenues from total SOQ costs and (2) the deduction of 100 percent of certain federal revenues from 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 costs from the calculations of SOQ costs.
- ***VRS Retirement Rate and Retiree Health Care Credit Rate.*** Reflects offsetting savings in Direct Aid of \$36.4 million GF the first year and \$27.5 million GF the second year by using (1) the "normal" teacher retirement rate of 6.03 percent the first year and 6.62 percent the second year rather than 7.82 percent each year and (2) a Retiree Health Care Credit rate of 0.55 percent each year rather than 0.59 percent.
- ***Eliminate SOL Remediation Incentive Account and Student Achievement Block Grant.*** Reduces funding by \$17.3 million GF the first year and \$17.4 million GF the second year by eliminating SOL remediation as a separate incentive account. Reduces funding by \$10.1 million GF each year by eliminating the Student Achievement Block Grant as a separate account.
- ***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.
- ***Algebra Readiness.*** Captures \$1.1 million GF each year in savings from the Algebra Readiness program by changing the funding calculation to the percent of students who qualify for federal free lunch.

- *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.

<b>Adopted Literary Fund Sources &amp; Uses</b> (\$ in millions)			
	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>
<b>Adopted Revenues &amp; Balances</b>	<b>\$213.2</b>	<b>\$214.2</b>	<b>\$203.5</b>
<b>Adopted Uses</b>			
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	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
<b>Total Uses</b>	<b>\$176.4</b>	<b>\$201.4</b>	<b>\$203.1</b>
<b>Ending Balance</b>	<b>\$36.8</b>	<b>\$12.8</b>	<b>\$0.4</b>

*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	School Construction
At-Risk Add-On	ISAEP
Primary Class Size K-3	SOL Algebra Readiness
At-Risk Four Year Olds	Technology
Early Reading Intervention	

### **Categorical Programs**

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

### **Direct Grants**

Southwest Education Consortium	Small School Division Assistance
Project Discovery	Mentor Teacher Program
Southside VA Reg. Tech. Consort.	Indian Children
William King Reg. Arts Center	Wolf Trap's Early Learning Inst.
Jobs for Virginia Graduates	