

## Public Education

The Governor's proposed 2006-08 budget for Direct Aid to Public Education results in a net increase of \$1,501.0 million GF over the biennium, an increase of 15 percent over the adjusted base budget.

The proposed biennial increases for Direct Aid to Public Education include \$1,316.6 million GF to update the Standards of Quality, Incentive, and Categorical accounts for formula-driven technical updates. These include projected Average Daily Membership (ADM) enrollment of 17,436 additional students by the second year; increased prevailing salaries and non-personnel costs of education; sales tax and lottery revenue projections; and updated composite index calculations. This amount includes \$165.9 million GF for the proposed fringe benefit rates for the Virginia Retirement System, the Retiree Health Care Credit, and Group Life insurance.

In addition, proposed amendments add \$167.6 million GF for the state's share of a 3.0 percent salary increase for teachers and support positions (in the Standards of Quality (SOQ), effective December 1, 2006; \$6.1 million GF for a rotating three-year program to attract and retain highly qualified teachers in "hard-to-staff" schools by providing incentives and bonuses; \$4.9 million GF to phase-in the cost of competing adjustment for two localities impacted by the Northern Virginia regional labor market.

Other proposed amendments include \$4.3 million GF for Advanced Placement fees for economically disadvantaged students and for Early College Scholars students; \$749,092 GF to support industry certification efforts; \$500,000 GF one-time to match a Gates Foundation grant through the Communities in Schools program; and \$200,000 GF to increase the grant for Project Discovery, a drop out prevention and college access preparatory program.

For the Department of Education, the Governor's proposed budget includes a net increase of \$3.7 million GF over the biennium, an increase of 3.0 percent over the adjusted base budget. This includes \$1.3 million GF for an increase in the Education Information Management System (EIMS) contract to improve data collection, analysis, and reporting to meet No Child Left Behind requirements; \$974,400 GF to support an on-line student career planning system; \$491,750 GF for additional awards to teachers achieving National Board Certification based on revised estimates of the number of teachers who will be eligible; \$409,590 GF for the "Race for the GED" initiative; and \$143,688 GF for the turnaround specialists program.

- Direct Aid to Public Education
  - *Biennial Rebenchmarking.*

<b>Summary of Factors Affecting Rebenchmarking Costs</b> (\$ in millions)			
	<b>FY 2007</b> (\$134.4)	<b>FY 2008</b> (\$134.4)	<b>Biennial</b> (\$268.9)
<b>One-Time Adjustments</b>			
Proj. Average Daily Membership (ADM)	41.6	73.0	114.7
Program Level Child Counts	(7.4)	(1.6)	(9.0)
<b>Subtotal of Enrollment-Related Factors</b>			\$105.7
Funded Instructional Salaries	127.2	128.5	255.8
Funded Fringe Benefit Rates	82.5	83.4	165.9
Health Care Premiums	<u>68.6</u>	<u>69.2</u>	<u>137.8</u>
<b>Subtotal of Salary &amp; Benefits Factors</b>			\$559.4
Base Year Expenditures	122.3	121.5	243.8
Transportation	62.0	62.0	123.9
Textbooks	23.0	23.2	46.2
Inflation	<u>110.7</u>	<u>111.8</u>	<u>222.5</u>
<b>Subtotal of Non-Personnel Cost Factors</b>			\$636.5
Lottery	(6.1)	(6.1)	(12.2)
Sales Tax and Census	<u>81.0</u>	<u>111.8</u>	<u>192.8</u>
<b>Subtotal of Revenue-Related Factors</b>			\$180.7
Composite Index	<u>20.0</u>	<u>21.3</u>	<u>41.3</u>
<b>Subtotal of Composite Index</b>			\$41.3
Incentive and Categorical Programs	<u>25.8</u>	<u>36.1</u>	<u>61.9</u>
<b>Subtotal of Programs Linked to SOQ Funding Factors</b>			\$61.9
<b>Total</b>	<b>\$616.9</b>	<b>\$699.8</b>	<b>\$1,316.6</b>

- One-Time Adjustments. Prior to calculating the costs for 2006-08, certain one-time adjustments were made (the 3.0 percent compensation supplement provided in FY 2006 was

removed; the 13<sup>th</sup> month of fringe benefits costs included in FY 2006 to fix a previous rollover was removed; the inflation factors were reset to 0 percent to better isolate the cost of updating base year expenditures; non-participation savings in incentive programs were restored).

- Projected ADM. Reflects estimates of student enrollment projections based on March 31, 2005 Average Daily Membership (ADM) and September 30, 2005 Fall Membership student totals. Enrollment is estimated to increase by 6,201 students in the unadjusted ADM the first year, and by another 11,235 students the second year, compared to the level projected for FY 2006 in Chapter 951, for an estimated total of 1,208,149 students in FY 2008.
- Program Level Child Counts. Reflects various adjustments including updated special education, vocational education, and English as a Second Language child counts; updated test score data and free lunch eligibility data; and remedial summer school enrollment projections.

Also, consistent with language in the 2004-06 appropriation act, the five different disability categories for mental retardation were consolidated into one category per the policy of the State Board of Education in compliance with federal requirements.

- Funded Instructional Salaries. Reflects increases in funded salary levels from 2004-06 to 2006-08 due to base year (FY 2004) prevailing salaries increased by the 3.0 percent compensation supplement provided by the General Assembly for FY 2006. Funded salaries for elementary teachers increased from \$37,534 to \$39,681, or 5.7 percent over the two year period. Funded salaries for secondary teachers increased from \$39,641 to \$41,615, or 5.0 percent over the two year period.
- Funded Fringe Benefit Rates. Reflects the following rate adjustments relative to rates funded in Chapter 951 for FY 2006: 9.2 percent for VRS, up from 6.62 percent; 0.56 percent for Retiree Health Care Credit, up from 0.55; and 0.49 percent for the employer's share of Group Life, up from 0.0 percent.

The rate of 9.2 percent is 1.98 points lower than the 11.18 percent rate adopted in October by the VRS Board. The lower rate reflects the following three changes to the Board's assumptions: the amortization period is extended to 30 years from 21 years; the investment return rate is increased to 8.0 percent from 7.5 percent; and the COLA is increased from 2.5 percent to 3.0 percent.

- Health Care Premiums. Reflects costs associated with the prevailing health care premium increasing from \$3,269 to \$4,301, an increase of 32 percent over two years.
- Base Year Expenditures. Reflects various adjustments including base year (FY 2004) expenditure data; updating of school-level enrollment configurations; updated data for the 30 percent federal revenue deduction; and nurse, superintendent, and school board costs.
- Transportation Costs. Reflects updated base year transportation cost data.
- Textbook Per Pupil Amount. Reflects increased per pupil prevailing textbook costs of \$101.81, compared with \$63.12 for 2004-06, an increase of 62 percent.
- Inflation Factors. Reflects costs associated with inflation factors increasing from 4.66 percent to 7.30 percent for the two year period.
- Projected Lottery Proceeds. Decreases the net local share of Lottery proceeds due to a revised revenue estimate for FY 2007 and FY 2008 that is \$15.7 million lower than the amount projected in Chapter 951 for FY 2006, based on the anticipated impact of North Carolina's new lottery.
- Projected Sales Tax Revenue and New Census Count. The net sales tax revenues from the one cent portion and the additional one-eighth cent sales tax from the Public Education SOQ/Real Estate Property Tax Relief Fund that are dedicated for public education and distributed based on school-aged population are projected to increase. This also reflects an additional cost of \$3.9 million each year to update data from the triennial census of school-aged population.

- Composite Index. 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 percent) adjusted gross income (40 percent) and retail sales tax collection (10 percent). The index is weighted two-thirds by ADM and one-third by population.

The index went up for 46 school divisions (i.e. because local wealth increased relative to the rest of the state, the locality is responsible for a larger percentage of SOQ costs); the composite index went down for 81 school divisions, and the composite index was unchanged for 9 school divisions.

- Incentive and Categorical Accounts. Reflects various adjustments to incentive and categorical accounts that are linked to SOQ funding factors, such as ADM enrollment or Basic Aid per pupil cost. Affected programs include K-3 class size reduction, at-risk four-year olds, and Governor's Schools.

- ***Three Percent Salary Increase December 1, 2006.*** Adds \$61.4 million GF the first year and \$106.2 million GF the second year for the state's share of a three percent salary adjustment, effective December 1, 2006, for all instructional and support positions that are prescribed by the SOQ, incentive-based and categorical funding formulas. School divisions that wish to participate must certify to the Department of Education, no later than March 1, 2007, that at least the equivalent increase has been granted in the first year and matched by the local government, based on the composite index of local ability-to-pay.
- ***Salary Incentives to Assist "Hard-to-Staff" Schools in Attracting and Retaining Highly Qualified Teachers.*** Adds \$3.7 million GF the first year and \$2.4 million GF the second year for a rotating three-year program to attract and retain highly qualified teachers in "hard-to-staff" schools by providing \$15,000 relocation incentives and \$3,000 retention bonuses, as well as professional development support. The funding reflects the third and final year of the pilot program in Caroline County and Franklin City; the second year for Petersburg City; and the beginning of the three year program in Emporia/Greensville and Brunswick.

- *Phase-In Cost of Competing Adjustment for Two Localities Affected by the Northern Virginia Regional Labor Market.* Adds \$1.4 million GF the first year and \$3.5 million GF the second year for the cost of competing adjustment for two localities (Fauquier and Stafford) that are 1) adjacent to Planning District 8 and 2) have over 45 percent of the out-commuting work force traveling into the region. The funding reflects a 10 percent phase-in the first year and 25 percent the second year.
- *Advanced Placement Test Fees.* Adds \$1.9 million GF the first year and \$2.4 million GF the second year for Advanced Placement test fees for economically disadvantaged students and for students participating in the Early College Scholars initiative.
- *Industry Certification.* Adds \$266,041 GF the first year and \$483,051 GF the second year to support industry certification efforts based on additional demand.
- *New Grant to Communities in Schools Program.* Adds \$500,000 GF the first year only for the Communities in Schools Program to match a Gates Foundation grant to develop business-like learning environments called “performance learning centers.”
- *Increase Grant for Project Discovery Program.* Adds \$100,000 GF each year to increase the existing grant to Project Discovery, a drop-out prevention and college access preparatory program.
- *Increase NGF Appropriation to Reflect Federal Funds.* Adds \$138.0 million NGF each year to reflect increases in funds available for school nutrition and the No Child Left Behind program.
- *Literary Fund.* Continues the diversion of \$125.9 million each year from Literary Fund revenues to the general fund to pay for teacher retirement costs. As shown below, compared with a combined total of \$29.9 million in interest rate subsidies and direct loans for FY 2006 (actual), it is anticipated that a total of \$34.1 million would be provided first year and \$25.0 million in the second year. It is estimated that this could reduce the waiting list to one year.

**Proposed Revisions to Literary Fund Sources & Uses**  
(\$ in millions)

	<b>FY 2006</b> (Actual)	<b>FY 2007</b>	<b>FY 2008</b>
Beginning Balance	\$83.0	\$60.5	\$30.7
Projected Revenue	195.5	192.9	187.8
<b>Total Revenues &amp; Balances</b>	<b>\$278.5</b>	<b>\$253.4</b>	<b>\$218.5</b>
<b>Uses</b>			
Teacher Ret./Soc. Security	\$125.9	\$125.9	\$125.9
Technology Debt Service	62.2	62.8	64.1
Interest Rate Subsidy	14.9	15.0	20.0
School Construction Loans	15.0	19.1	5.0
<b>Total Uses</b>	<b>\$218.0</b>	<b>\$222.8</b>	<b>\$215.0</b>
<b>Ending Balance</b>	<b>\$60.5</b>	<b>\$30.7</b>	<b>\$3.5</b>

A listing, by locality, of the estimated funding for FY 2007 Direct Aid to Public Education is included as Appendix A and estimated funding for FY 2008 Direct Aid to Public Education is included as Appendix B.

- **Virginia School for the Deaf and Blind at Staunton**
  - *Pay Parity Update.* Adds \$38,132 GF the first year and \$70,398 GF the second year for teacher salary adjustments. The Code of Virginia requires that the Department of Human Resource Management establish salary schedules for all professional personnel at the Virginia Schools for the Deaf and Blind that are competitive with those in effect for the school divisions in which the facility is located.
- **Virginia School for the Deaf, Blind and Multi-Disabled at Hampton**

- *Pay Parity Update.* Adds \$31,696 GF the first year and \$58,515 GF the second year for teacher salary adjustments. The Code of Virginia requires that the Department of Human Resource Management establish salary schedules for all professional personnel at the Virginia Schools for the Deaf and Blind that are competitive with those in effect for the school divisions in which the facility is located.
- **Department of Education**
  - *Education Information Management System.* Adds \$662,530 GF the first year and \$670,656 GF the second year for costs related to the state-wide, student-level data system in order to improve data collection, analysis, and reporting in order to meet No Child Left Behind requirements. This includes a five percent cost escalator in the current vendor contract, licenses for high-speed data transfer software for the system, and the development and delivery of statewide technical assistance to school divisions on utilization of the system to make better instructional delivery decisions.
  - *On-Line Student Career Planning System Contract.* Adds \$487,200 GF each year for contractual costs with Kuder for an existing on-line student career planning system via Virginia Tech.
  - *National Board Certification Bonus for Teachers at FY 2007 Levels.* Adds \$245,875 GF each year. For FY 2007, it is estimated that 731 teachers will be eligible for continuing bonuses at \$2,500 per award and 230 teachers will be eligible for initial bonuses at \$5,000 per award, bringing the total number of teachers holding National Board Certification in Virginia to 961. Funding is not provided for the full amount of estimated increases in FY 2008.
  - *Provide General Funds to Replace Ending Federal Grant for Race for the GED.* Adds \$204,795 GF each year for Race for the GED-related positions to replace funds from a federal workforce grant that will no longer be available.
  - *Provide General Funds to Replace Ending Private Grant for the Turnaround Specialists Program.* Adds \$71,844 GF each year for contractual costs with the University of Virginia to provide training for the Turnaround Specialists principals' training initiative to replace funds from the Wallace Foundation grant that will no longer be available.

- *Increase NGF Appropriation to Reflect Federal Funds.* Adds \$10.0 million NGF each year to reflect an increase in federal funds for teacher certification, conference activities, and the No Child Left Behind program.