

Summary of Budget Actions Affecting K-12 Education in the Governor's Introduced Budget for the 2018-2020 Biennium (House Bill/Senate Bill 30)

This document summarizes the budget proposals introduced by Governor McAuliffe for the 2018-2020 biennium affecting the Direct Aid to Public Education and Department of Education Central Office budgets. The fiscal year 2018 base budget against which the Governor's recommended funding changes are made for the 2018-2020 biennium is Chapter 836, which was adopted at the 2017 Session of the General Assembly. The Governor's proposed budget for the 2018-2020 biennium is introduced with the bill number House Bill/Senate Bill 30.

Information related to the Governor's proposals for the Direct Aid to Public Education and the Department of Education Central Office budgets for 2018-2020 is organized in the following sections:

Section A. 2018-2020 Direct Aid to Public Education Budget

1. Technical Updates to Existing Direct Aid Programs in HB/SB 30
2. Direct Aid Budget Policy Changes in HB/SB 30
3. Language-Only Amendments for Direct Aid Programs Included in HB/SB 30

Section B. 2018-2020 Department of Education Central Office Budget

1. Central Office Policy Changes Impacting School Divisions in HB/SB 30

A. 2018-2020 DIRECT AID TO PUBLIC EDUCATION BUDGET

1. Technical Updates to Existing Direct Aid Programs

- **Rebenchmark Direct Aid Costs for 2018-2020 (as presented to the Board of Education in September 2017)**

The Governor's introduced budget includes the state share of routine rebenchmarking of costs for all of the Standards of Quality and other Direct Aid programs. These technical adjustments include updates for factors such as funded salaries, Annual School Report data used to calculate prevailing costs, inflation factors, Standards of Learning test score updates, enrollment updates, and projected caseloads for Lottery, incentive and categorical programs. The 2018-2020 Board of Education rebenchmarking presentation dated September 28, 2017, provided as Attachment C to this memorandum, provides additional information about the details and source of the data used to make these technical updates. These adjustments reflect the cost of continuing current programs with the required biennial data updates used in the funding formulas, and do not reflect any changes in policy. For fiscal year 2019, routine rebasing of costs for the Standards of Quality and other Direct Aid programs results in an

increase in state cost of \$235.0 million. For fiscal year 2020, the increase in state cost is \$256.8 million.

- **Technical Updates to Direct Aid Accounts for 2018-2020 Subsequent to the Rebenchmarking Budget Presented to the Board of Education in September 2017**

The Governor's introduced budget includes the state share of cost for additional technical updates related to the rebenchmarking process that occurred after the Board of Education presentation in September 2017, due to the timing of data availability. These technical adjustments include updates to factors such as enrollment projections, inflation factors, Standards of Learning test failure rate data, updates for the most recent free lunch eligibility percentages, and caseloads for Lottery, incentive and categorical programs. These adjustments reflect the cost of continuing current programs with the required data updates used in the funding formulas, and do not reflect any changes in policy. These updates decrease the state share of cost by \$4.8 million in fiscal year 2019 and by \$2.1 million in fiscal year 2020.

- **Updates for Recalculation of Composite Index for 2018-2020**

The 2018-2020 Composite Index of Local Ability-to-Pay was recalculated using 2015 base-year data provided by the Department of Taxation for adjusted gross income, taxable retail sales, and true value of real property. The estimates of local population for 2015 are provided by the Weldon Cooper Center for Public Service at the University of Virginia, and the March 31, 2016, average daily membership is based on data reported by school divisions to the Department of Education. Updating Direct Aid accounts based on the recalculated 2018-2020 composite index decreases the state share of Direct Aid funding by \$778,550 in fiscal year 2019 and \$908,847 in fiscal year 2020. The funding impact on school divisions varies depending on whether a school division's composite index increased or decreased compared to its 2016-2018 index.

- **Update Sales Tax Projections**

The Governor's introduced budget reflects the most recent estimates of sales tax revenue dedicated to public education for fiscal years 2019 and 2020, as computed by the Department of Taxation. The revised sales tax estimates include both the one percent portion and the one-eighth percent portion that are appropriated for distribution to school divisions based on school-age population. The projected sales tax entitlement contained in Attachment B and in the Excel calculation file reflects the revised estimates for these two sales tax sources combined as a single revenue line item.

The Department of Taxation's latest estimate of the one percent and one-eighth percent sales tax revenue is \$1,410,800,000 for fiscal year 2019 and \$1,441,800,000 for fiscal year 2020. These revised sales tax estimates are approximately \$32.9 million higher in fiscal year 2019 and \$63.9 million higher in fiscal year 2020 than the fiscal year 2018 estimate contained in Chapter 836. As required by the Basic Aid funding formula, estimated state Basic Aid

payments have been adjusted to reflect the decreased state share of cost resulting from the projected increase in sales tax revenues.

The amount of the Basic Aid offset depends on each division's composite index of local ability-to-pay. The state share of Basic Aid decreases approximately \$18.3 million in fiscal year 2019 and \$35.7 million in fiscal year 2020 due to the revised sales tax estimates. The net change in state funding to school divisions (due to both the estimated sales tax revenue increase and the Basic Aid offset) is an increase of \$14.5 million in fiscal year 2019 and an increase of \$28.2 million in fiscal year 2020.

- **Update Driver's Education Funding in Basic Aid**

The Governor's amended budget decreases non-general fund revenues received from the Department of Motor Vehicles for driver's education costs funded in the Basic Aid formula by \$285,000 in fiscal year 2019 and fiscal year 2020. These non-general fund revenue decreases are replaced by like amounts of general fund increases within the Basic Aid formula. This change does not affect the funded per pupil amounts for Basic Aid or projected payments for Basic Aid in fiscal years 2019 and 2020, but is only a fund source change within the Basic Aid formula.

- **Update Lottery Proceeds**

Total Lottery proceeds are projected to increase by \$40.2 million to \$586.7 million in fiscal years 2019 and 2020, compared to the fiscal year 2018 Lottery estimate contained in Chapter 836. The total projected Lottery amounts in fiscal years 2019 and 2020 are being used to fund the state share of cost of various programs, such as the Virginia Preschool Initiative, Early Reading Intervention, K-3 Primary Class Size Reduction, and SOL Algebra Readiness. The proposed per pupil funding amount for the Supplemental Lottery Per Pupil Allocation Payment is projected at \$273.92 for fiscal year 2019 and \$273.26 for fiscal year 2020; the total funding level each year for the per pupil allocations account is similar to the total funding level for fiscal year 2018 in the Chapter 836 budget.

2. Direct Aid Budget Policy Changes

- **Update Employer Contribution Rates for Virginia Retirement System (VRS) Fringe Benefits**

The Governor's introduced budget proposes lower employer contribution rates for instructional retirement benefits in 2018-2020 (15.68 percent for fiscal years 2019 and 2020) than was funded in Chapter 836 for fiscal year 2018 (16.32 percent). The prevailing non-professional VRS rate has been updated and is funded at 6.28 percent for both years of the biennium. This prevailing rate is used for state funding purposes only; the actual non-professional rate charged to school divisions by VRS will vary by school division. For the retiree health care credit, the rates proposed for 2018-2020 reflect a rate change from fiscal year 2018 for fiscal years 2019 and 2020 (1.23 percent to 1.20 percent). These rate changes

decrease state funding by \$22.5 million in fiscal year 2019 and \$22.6 million in fiscal year 2020 compared to costs based on the fiscal year 2018 rates used in the Chapter 836 budget.

FUNDED FRINGE BENEFIT RATES:	FY 2018	Proposed FY 2019	Proposed FY 2020
Instructional & Professional Support VRS (<u>Employer Share</u>) (Does not include RHCC - see below)	16.32%	15.68%	15.68%
Instructional & Professional Support VRS (<u>Employee Share</u>)	5.00%	5.00%	5.00%
Total Instructional & Professional Support VRS Rate	21.32%	20.68%	20.68%
Group Life (<u>Employer Share</u>)	0.52%	0.52%	0.52%
Retiree Health Care Credit (<i>Paid as part of the VRS Instructional retirement per pupil amount</i>)	1.23%	1.20%	1.20%
Non-professional Support VRS	7.11%	6.28%	6.28%
Social Security	7.65%	7.65%	7.65%
Health Care Premium	\$4,604	\$5,086	\$5,086
Total Instructional Benefit Percent (<u>Employer Share</u>)	25.72%	25.05%	25.05%
Total Non-professional Support Benefit Percent (<u>Employer Share</u>)	15.28%	14.45%	14.45%

▪ **Fund the State’s Share of a Salary Increase for Funded SOQ Instructional and Support Positions in FY20**

The Governor’s introduced budget provides a 2.0 percent salary increase in fiscal year 2020 with an effective date of December 1, 2019, for funded SOQ instructional and support positions (as well as for Academic Year Governor’s Schools as discussed below). The state funding is calculated with an effective date of December 1, 2019, for funded SOQ instructional and support positions, for Academic Year Governor’s Schools, and for Regional Alternative Education Programs. Funded SOQ instructional positions include teacher, guidance counselor, librarian, instructional aide, principal, and assistant principal positions funded through the SOQ staffing standards for each school division in the biennium. \$51.3 million is provided for the state share of a 2.0 percent salary increase effective December 1, 2019, to school divisions which certify to the Department of Education by June 1, 2019, that salary increases of a minimum average of 2.0 percent have been or will have been provided to instructional and support personnel during the 2018-2020 biennium, either in the first year or in the second year or through a combination of the two years. While the aforementioned minimum average 2.0 percent pay increase must be provided by school divisions in order to receive the state funds, a required local match based on the division composite index formerly required under the Compensation Supplement formula is not specifically required in fiscal year 2020 under this action.

▪ **Fund the State’s Share of a Full-Time Principal in all Elementary Schools in FY20**

The Governor’s introduced budget provides state funding for a full-time principal in every elementary school in fiscal year 2020. This funding supports an SOQ staffing recommendation of the Board of Education. In Chapter 836, state funding is provided for 0.5

of an elementary school principal in schools with enrollment under 300 students. This action will increase state funding by \$7.7 million in fiscal year 2020.

- **Decrease Literary Fund Transfer for VRS Retirement (Replace with General Funds)**

The Governor's introduced budget decreases the transfer from the Literary Fund to support the state's share of cost for teacher retirement by \$35.0 million, from \$181.3 million to \$146.3 million, in fiscal year 2019, and by \$45.0 million, from \$181.3 million to \$136.3 million, in fiscal year 2020. This action does not affect division per pupil amounts or projected entitlements for VRS retirement in fiscal year 2019 or fiscal year 2020, but is only a change in the source of funding.

- **Virginia Preschool Initiative (VPI) Non-participation Rate**

In addition to the technical updates to the Virginia Preschool Initiative (VPI) funding formula, the Governor's introduced budget also maintains the projected VPI non-participation rate in fiscal year 2019 and fiscal year 2020 at the same 25.43 percent rate contained in Chapter 836 for fiscal year 2018. As a result, state funding for VPI is reduced by \$24.0 million in fiscal year 2019 and \$24.0 million in fiscal year 2020 by applying the projected non-participation factor to the total funding. This estimate of non-participation affects the total state appropriation for the program but does not change the division-level allocation of student slots or projected entitlement amounts.

- **Academic Year Governor's Schools (AYGS) Funding Add-On**

The Governor's introduced budget retains the Academic Year Governor's Schools add-on funding as provided in fiscal year 2018 under the Chapter 836 budget. State funding includes a 2.5 percent increase to the base per-pupil amount and a \$50 per student per course add-on amount. By retaining these two funding components, state funding for fiscal years 2019 and 2020 increases by \$1.3 million each year over the program amounts calculated during rebenchmarking.

2.0 Percent Salary Increase for AYGS – an increase of \$221,903 in fiscal year 2020 is proposed based on a per pupil add-on (projected at \$72.20) for a 2.0 percent compensation incentive, effective December 1, 2019. In order to receive this state funding, AYGS must meet the same requirements as school divisions as outlined in the section above titled "Fund the State's Share of a Salary Increase for Funded SOQ Instructional and Support Positions in FY20."

- **Provide Additional Funding for At-Risk Add-on in FY20**

The Governor's introduced budget proposes an additional \$7.1 million in fiscal year 2020 based on increasing the Basic Aid per pupil add-on range from a maximum of the range of 13.0 percent to 14.0 percent.

- **No Loss Funding in FY19**

The Governor's introduced budget proposes an increase of \$11.5 million in fiscal year 2019 only to ensure that no division incurs a reduction in state funding in the first year of the new biennium, as compared to the fiscal year 2018 state funding received under the Governor's proposed Caboose Bill amendments to the Chapter 836 budget.

CHANGES IN FUNDING FOR VARIOUS SUPPLEMENTAL EDUCATION ASSISTANCE PROGRAMS

The Governor's introduced budget includes changes in funding for the following programs for fiscal year 2019 and fiscal year 2020.

- **National Board Certification Bonuses**

\$110,038 in fiscal year 2019 and \$256,623 in fiscal year 2020 in additional state funding is provided for the National Board Certification Bonus program for projected increases in the cost of bonuses during the 2018-2020 biennium.

- **Cyber Camps**

The Governor's introduced budget includes \$480,000 of state support for Cyber Camps in fiscal years 2019 and 2020. The funding is intended to support two-week programs aimed at exposing high school students to careers in cyber security and providing foundational cyber security skills.

- **Fund for Principal Retention and Recruitment Incentives**

The Governor's introduced budget includes \$500,000 in each year of the biennium to provide a fund for principal recruitment and retention incentives in school divisions that have a memorandum of understanding with the Virginia Board of Education. The funds will be awarded to eligible school divisions to support the recruitment and retention of high-quality principals based on proposals submitted to the Department of Education using criteria established by the Department.

- **Increase the Positive Behavioral Interventions and Supports Program**

The Governor's introduced budget provides an additional \$500,000 in each year of the biennium to expand the number of schools implementing the Positive Behavioral Interventions and Supports program, which provides researched-based models for schools that have significant rates of suspension or expulsion to improve school climate and reduce disruptive classroom behavior in support of the Classrooms Not Courtrooms initiative.

- **Praxis Assistance for Provisionally Licensed Minority Teachers**

The Governor's introduced budget includes \$50,000 in each year of the biennium to provide Praxis assistance for provisionally licensed minority teachers. This new funding will support test fees and tutoring for provisionally licensed minority teachers seeking full licensure in Virginia. Through a request for proposal process, grants of up to \$10,000 will be awarded to school divisions, teacher preparation programs, or nonprofit institutions in Northern Virginia, Central Virginia, and Hampton Roads.

- **Expand Project Discovery**

Funding for Project Discovery is increased \$100,000 in each year of the biennium.

- **Expand the Virginia Reading Corps Program**

Funding for the Virginia Reading Corps program is increased \$300,000 in fiscal year 2020.

- **Transfer Funding for Teacher Computer Science Training to VCCS**

To align to legislation passed at the 2017 General Assembly Session, funding for this program transfers to the Virginia Community College System (VCCS), which is now responsible for operating the training, and removes \$550,000 from Supplemental Education Assistance in Direct Aid.

3. Language-Only Amendments for Direct Aid Programs Included in HB/SB 30

- **Early Reading Specialists Initiative**

The Governor's introduced budget proposes changes to the eligibility criteria for the Early Reading Specialist Initiative. Schools with a third grade that rank lowest on the reading Standards of Learning assessments will be given priority for the state share of funding for a reading specialist in such schools. Schools receiving state funds in fiscal year 2018 under this initiative are no longer automatically eligible to receive funding in fiscal year 2019 or fiscal year 2020. The new language also allows DOE to award any unallocated funds from this initiative to schools eligible for funding under the Math/Reading Instructional Specialists Initiative. This action distributes state funds to school divisions in a different manner in the 2018-2020 biennium than in fiscal year 2018, but total state funding for the program remains constant.

- **Math/Reading Instructional Specialists Initiative**

The Governor's introduced budget proposes changes to the eligibility criteria for the Math/Reading Specialist Initiative. The Chapter 836 language uses accreditation as the mechanism for determining program eligibility. The proposed language assigns eligibility based upon the schools that rank lowest on the Spring 2017 SOL math or reading assessment. The state share of funding for a reading or math specialist is available to eligible schools for both years of the biennium. The new language also allows DOE to award any unallocated

funds from this initiative to schools eligible for funding under the Early Reading Specialists Initiative. This action distributes state funds to school divisions in a different manner in the 2018-2020 biennium than in fiscal year 2018, but total state funding for the program remains constant.

- **Reallocation of Virginia Preschool Initiative Slots**

The Governor's introduced budget includes new language allowing, subject to available funds each year, allocation of additional VPI slots to school divisions that have utilized 100 percent of their calculated slots the previous year and have a waiting list of unserved children as certified on the Department of Education's October 1 Fall Verification Report in the previous year. Funding for the reallocation is based on the difference between the slots in the calculation for the current program appropriation and the slots reported in the May 15 annual grant proposals from school divisions. Only school divisions that report using 100 percent of the upcoming school year slot allocation in the May 15th grant proposal are eligible for slot reallocation funding.

Additional language changes are intended for clarification and to align language to current practices in operating the program.

- **Breakfast After-the-Bell**

The Governor's introduced budget makes several language changes to the Breakfast After-the-Bell program. The introduced language increases program eligibility by allowing middle and high schools to volunteer for participation. The required annual report on the educational impact of the program is due from school divisions to DOE by August 31st instead of June 30th; other language changes clarify the types of data that school divisions must submit in the annual report to DOE and that divisions are not eligible for funding in the following year if the August 31st reporting deadline is missed. The elementary reimbursement rate is held at \$0.05 per meal, but the established rate for middle and high schools is \$0.10. State funding for the program remains unchanged. Lastly, DOE is required to establish criteria for funding priority if the number of applications from eligible schools exceeds the available funding.

- **Free Lunch Percentage for Schools Enrolled in the Community Eligibility Provision Program**

New language is proposed, for the purpose of funding entitlements that are based on school-level or division-level free lunch eligibility percentages, that indicates that the free lunch rate for schools that participate in the Community Eligibility Provision (CEP) program be based upon the most recent data available prior to that school's enrollment in the program.

Three-year average division-level free lunch rates used in the Prevention, Intervention, and Remediation Program and school-level free lunch rates used in the K-3 Primary Class Size Reduction Program vary depending on when the division or individual school entered the

CEP program. See the chart below to see which rates are substituted in each year of the three-year average free lunch rate computation for CEP schools and divisions.

	Formula Oct. '14 Value	Formula Oct. '15 Value	Formula Oct. '16 Value
Entered CEP Fall 2014	Oct. '13 Value	Oct. '13 Value	Oct. '13 Value
Entered CEP Fall 2015	Oct. '14 Value	Oct. '14 Value	Oct. '14 Value
Entered CEP Fall 2016	Oct. '14 Value	Oct. '15 Value	Oct. '15 Value
Entered CEP Fall 2017	Oct. '14 Value	Oct. '15 Value	Oct. '16 Value

Same as Non-CEP Schools

▪ **Virginia Teacher Scholarship Loan Program**

The Governor’s introduced budget makes language changes to the Virginia Teacher Scholarship Loan Program to incentivize students in teacher education programs to fill vacancies in high-need schools. Students with an undergraduate grade point average of at least 2.7 will be eligible for up to a \$20,000 scholarship if they teach for two years in a top five critical shortage subject and in a school with a free and reduced lunch population of 50.0 percent or greater. Minority students may be enrolled in any content area for teacher preparation. Recipients who only complete one year of the two-year teaching obligation will be forgiven for one-half of the scholarship loan amount.

▪ **STEM Teacher Recruitment and Retention Incentive**

The Governor’s introduced budget makes changes to the STEM recruitment and retention program to attract qualified teachers to middle and high schools experiencing difficulty in recruitment and retention. Teachers employed full-time in a STEM subject area in a hard-to-staff school are eligible for a \$5,000 incentive per year for up to three years. The criterion limiting teacher eligibility to those with up to three years of teaching experience is eliminated. Eligibility for incentive payments will be based on an application process managed by the Department of Education. Language directs DOE to prioritize distributions based on school divisions experiencing the most acute difficulties in recruiting qualified teachers.

B. 2018-2020 DEPARTMENT OF EDUCATION CENTRAL OFFICE BUDGET

1. Central Office Policy Changes Impacting School Divisions

▪ **Technology Application to Automate the Teacher Licensure Approval Process**

The Governor’s introduced budget provides funding to DOE to automate the teacher licensure approval process. The introduced budget provides \$552,500 in both years of the biennium to procure an automated, web-based front-end licensure intake system.

▪ **Reduce Funding for Computer Adaptive Test Revisions**

The Governor’s introduced budget provides removes a portion of the funding provided to DOE in the 2016-2018 biennium to transition Standards of Learning tests to a computer

adaptive test format. The proposed reductions are \$780,584 in both years of the biennium. The remaining appropriation will support revisions to the current computer adaptive tests to incorporate the Board of Education's revisions to the mathematics and English Standards of Learning.

- **School Performance Report Card**

The Governor's introduced budget provides funding to DOE to update the School Performance Report Card to reflect revisions to the Standards of Accreditation and to meet reporting requirements of the Every Student Succeeds Act of 2015. State funding for this initiative is \$150,000 in both years of the biennium.

- **Virginia Kindergarten Readiness Program**

The Governor's introduced budget increases funding to DOE for the Virginia Kindergarten Readiness Program to develop and implement a post-kindergarten assessment that will measure student growth at the conclusion of kindergarten. The increase in state funding is \$275,000 in both years of the biennium.

- **Advisory Council for Digital Citizenship, Internet Safety, and Media Literacy**

The Governor's introduced budget provides \$75,000 in each year of the biennium to DOE to establish and support an advisory council to provide recommendations regarding best practices for instruction in digital citizenship, internet safety, and medial literacy and methods of instructing students safely, ethically, responsibly, and effectively using media and technology resources.

- **Environmental Education**

The Governor's introduced budget provides funding and positions to DOE to coordinate environmental education efforts in Virginia. This initiative will provide \$250,000 to DOE in both years of the biennium.

- **Funding to Research Educator Misconduct**

The Governor's introduced budget provides \$78,084 in both years of the biennium to DOE to support local school division access to the National Association of State Directors of Teacher Education and Certification (NASDTEC) Clearinghouse to research teacher misconduct.

- **Virginia Preschool Initiative Site Visits**

The Governor's introduced budget provides \$50,000 in both years of the biennium for DOE to resume site visits to Virginia Preschool Initiative (VPI) programs. Site visits will help ensure compliance with state guidelines and provide technical assistance to localities for best practices for implementing high-quality preschool programs. These funds will provide

increased technical assistance and professional development opportunities for VPI local coordinators through regional annual VPI coordinator meetings.

- **Enhance eMediaVA Funding**

The Governor's introduced budget provides \$400,000 in fiscal year 2020 to DOE for statewide digital content development, online learning, and related support services through eMediaVA.

- **Student Growth Model Development**

The Governor's introduced budget modifies language to direct the Department of Education to develop a growth scale for the existing Standards of Learning mathematics and reading assessments, which facilitate data-driven school improvement efforts and support the state's accountability and accreditation systems.