

# Board of Education Agenda Item

Item: \_\_\_\_\_ E. \_\_\_\_\_

Date: March 26, 2009

**Topic:** Report on Amendments to the 2008-2010 Biennial Budget Adopted by the 2009 General Assembly and Funding for Public Education under the American Recovery and Reinvestment Act of 2009 (ARRA)

**Presenter:** Mr. Kent C. Dickey, Assistant Superintendent for Finance

**Telephone Number:** 225-2025

**E-Mail Address:** Kent.Dickey@doe.virginia.gov

## Origin:

Topic presented for information only (no board action required)

Board review required by

State or federal law or regulation

Board of Education regulation

Other: \_\_\_\_\_

Action requested at this meeting  Action requested at future meeting: \_\_\_\_\_ (date)

## Previous Review/Action:

No previous board review/action

Previous review/action

date January 15, 2009

action The Board received a report on the Governor's proposed amendments to the 2008-2010 biennial budget.

## Background Information:

Governor Kaine's proposed amendments to the 2008-2010 Direct Aid to Public Education budget included technical updates to funding formulas, targeted reductions in FY10 in response to state revenue shortfalls, and a funding loss cap payment to divisions. The 2009 General Assembly acted on the Governor's budget recommendations and adopted its amended 2008-2010 budget on February 28, 2009. The General Assembly adopted most of the Governor's budget recommendations, as well as several of its own amendments. The General Assembly's overall budget is based on \$821 million less in general fund revenue for the biennium than the Governor's introduced budget, which represents a total general fund budget shortfall of \$3.7 billion when compared to the 2008-2010 budget passed at the 2008 session. No additional reductions in Direct Aid funding resulted from this latest reduction in projected general fund revenues.

On February 17, 2009, the federal stimulus law, the American Recovery and Reinvestment Act of 2009 (ARRA), was signed into law. Significant amounts of one-time funding for education under the law will be coming to Virginia on a formula basis beginning this spring. Competitive grant opportunities focusing on various reform goals will also be available to Virginia within the next several months. The principles of ARRA funding are:

- must be spent quickly to save and create jobs;
- should be used to improve student achievement and help close the achievement gap;
- will be subject to additional and more rigorous public reporting requirements; and
- are available for a limited duration (only two to three years) and should be invested in ways that do not result in unsustainable commitments after the funding expires.

The ARRA includes three primary funding sources for public education: State Fiscal Stabilization Funds (SFSF); supplemental Title I, Part A funding; and supplemental Individuals with Disabilities Education Act (IDEA) funding. Smaller amounts of formula funding will be available in areas such as educational technology. States will be required to submit a two-phase application to the U.S. Department of Education (USED) to receive funding for the three main funding sources. The applications must include assurances in meeting key requirements. USED has begun issuing guidance to states on ARRA funding. In turn, VDOE has begun providing information to school divisions on key elements and requirements of the ARRA to assist divisions in developing effective plans to spend the federal stimulus funds consistent with the principles of the law.

### **Summary of Major Elements:**

This report will provide a summary of the final 2008-2010 budget actions affecting public education adopted by the 2009 General Assembly and a summary of public education funding under the Recovery and Reinvestment Act of 2009 (ARRA).

The amended budget adopted by the General Assembly maintains the Governor's recommendation to limit targeted reductions to Direct Aid funding to FY10 only (with only standard formula updates made to FY09 funding). The General Assembly adopted the FY10 targeted funding reductions as recommended by the Governor (i.e., funding cap for support positions; elimination of school construction grants; elimination of Lottery funding for school construction; and elimination of FY10 salary increase).

While the General Assembly adopted the funding reduction resulting from the support position cap methodology recommended by the Governor, it did not adopt this methodology as a permanent change to the SOQ funding formula. Instead, the General Assembly directs the Department of Education to generate a cost estimate for the 2010-2012 SOQ rebenchmarking that includes and excludes the support position funding cap, and to report the resulting costs to the Governor, the General Assembly money committees, and the Board of Education by September 1, 2009. The Board is required to review the current instructional standards in the SOQ and the appropriateness of establishing ratio standards for support positions, and to report its findings and recommendations for rebenchmarking to the Governor, the General Assembly money committees, and the Joint Subcommittee on Elementary and Secondary Education Funding by November 1, 2009.

Further, the General Assembly did not accept the Governor's proposal to use \$60.9 million in Lottery funds for a one-time funding loss cap payment to mitigate divisions' loss of state funds in FY10. Instead, the General Assembly budget maintains the distribution of these funds using the existing per

pupil funding methodology. It also provides flexibility in the use of these funds by waiving in FY10 the local match and the requirement that 50 percent of the funds be spent on non-recurring costs.

The General Assembly adopted various recommendations by the Governor to provide flexibility to school divisions, including the Board's proposals for flexibility in the use of state funds and local match to employ data coordinators, English language learner teachers, and reading and mathematics specialists. For FY10, the General Assembly provides flexibility in the use of SOQ textbooks funds by allowing the funds to be spent by school divisions for any purpose and by waiving the local match. The General Assembly budget also provides an additional \$1.0 million in FY10 to fund expected growth in the number of teachers eligible for bonuses due to achieving national board certification.

The State Fiscal Stabilization Fund (SFSF) is a new program authorized under the ARRA, with limited funding duration. The SFSF consists of an 81.8 percent portion for K-12 and higher education, intended primarily to backfill recent state funding reductions, and an 18.2 percent portion available to governors to sustain government services, which can include education. States must use their allocations to help restore for FY09, FY10, and FY11 support for public elementary, secondary, and postsecondary education to the greater of the FY08 or FY09 level. The funds needed to restore support for elementary and secondary education must be run through the state's primary elementary and secondary education funding formula. The General Assembly's budget provides an FY10 allocation of the SFSF to school divisions and it designates the entire 18.2 percent discretionary portion of the SFSF for specific state-level projects.

It is anticipated the state application for SFSF will be due to USED by April. USED will release 67 percent of the SFSF to Virginia upon receiving a completed application. The remaining funding will be provided to Virginia during summer 2009 after the second-phase application is filed. SFSF are available for obligation at the state and local levels through September 30, 2011. The funding will include rigorous public reporting requirements.

The USED guidance states that SFSF may be used at the local level to pay salaries to avoid having to lay off teachers and other school employees. Funds may also be used for modernization, renovation, or repair of school buildings. Further, SFSF education funds may be used for any activity authorized under the Elementary and Secondary Education Act (ESEA), the Individuals with Disabilities Education Act (IDEA), the Adult Education and Family Literacy Act, or the Carl D. Perkins Career and Technical Education Act.

By late March or April, USED plans to release to Virginia 50 percent of ARRA formula funds under Title I, Part A, and IDEA, Part B (both grants to states and preschool), based on currently approved state applications. The remainder of the funds will be awarded between July 1 and October 1, 2009, based on amendments Virginia will be required to make in other applications. Allowable uses of the Title I and IDEA funds under ARRA are the same as in the main programs. The funding will remain available for obligation through September 30, 2011, with Title I carryover limitations remaining in effect.

### **Superintendent's Recommendation:**

The Superintendent of Public Instruction recommends that the Board of Education accept this informational report.

**Impact on Resources:**

The General Assembly's budget reduces state Direct Aid funding by \$104.2 million in FY09 and by \$629.5 million in FY10 compared to the current 2008-2010 budget (Chapter 879) passed at the 2008 session. The FY09 reduction is due to technical changes and the FY10 reduction is due mostly to the targeted reductions. Compared to the introduced budget, the General Assembly's budget is \$8.0 million less in FY09 and \$26.9 million less in FY10 due mainly to lowered sales tax estimates and estimated non-participation savings in the Virginia Preschool Initiative program. State funding distributions to school divisions would decrease by \$383.2 million (six percent overall) from FY09 to FY10 due mainly to the targeted FY10 reductions. The General Assembly's budget is under review by Governor Kaine. He may propose amendments or vetoes to the General Assembly's budget to be considered at the veto session on April 8, 2009.

Preliminary ARRA formula funding awards for Virginia that have been released by USED are as follows: State Fiscal Stabilization Fund (\$1.2 billion – education and discretionary portions); Title I (\$165.3 million); IDEA Part B State Grants (\$281.4 million); IDEA Part B Preschool Grants (\$9.5 million); and Educational Technology State Grants (\$10.8 million). Where available, preliminary ARRA division-level funding allocations have been communicated to school divisions. The General Assembly allocated the K-12 portion of the SFSF to divisions over a two-year period (in state FY10 and FY11). The FY10 division allocation of this funding totals \$365.2 million statewide, and was allocated to divisions based on the proportion of targeted state funding reductions divisions experienced in FY10. There is limited funding available under ARRA for state-level administration in VDOE.

**Timetable for Further Review/Action:**

None.