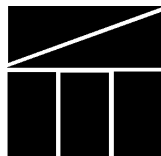


*Preliminary Forecast
to the General Assembly on the
Updates to the Standards of Quality*



**Virginia Department of Planning and Budget
November 15, 2004**

Overview

In accordance with Chapter 4 of the 2004 Acts of Assembly, Special Session I, the Department of Planning and Budget in coordination with the Department of Education (DOE) has prepared a preliminary forecast of the updates to the Standards of Quality expenditures, based upon the most current data available.

This report details several updates to projected state costs for the Standards of Quality in the 2004-2006 biennium, including:

- Technical corrections to the Standards of Quality programs that were not funded during the 2004 General Assembly session;
- Allegheny County's composite index; and,
- Projected Average Daily Membership (ADM).

The following table details the expenditure impact of each update to the Standards of Quality:

| | FY 2005 Projected State Costs vs. Chapter 4 | FY 2006 Projected State Costs vs. Chapter 4 |
|---|--|--|
| Technical Corrections not funded during the 2004 Session (Includes corrections to school enrollment configurations, special education child count, ESL enrollment, and prevailing non-professional VRS rates) | \$12,546,029 | \$13,075,329 |
| Allegheny County's Composite Index change (from .2683 to .2423) | \$336,373 | \$357,034 |
| Preliminary Average Daily Membership Projections – This update to the projections is based on incorporating actual March 31, 2004, ADM only. (Final ADM projections will be based on actual March 31, 2004, ADM and actual September 30, 2004, fall membership; 2004 fall membership is currently being collected by DOE). | (\$15,818,973) | (\$26,423,010) |

It should be noted that this forecast is preliminary and does not include several updates that are expected before the Governor's submission of the budget on December 17, 2004, including September 30, 2004, fall membership.

Technical Corrections

In the last legislative session, the Department of Education identified several technical corrections needed to fully fund the Direct Aid accounts (letter from Dr. Jo Lynne DeMary dated February 16, 2004 to the chairmen of the House Appropriation and Senate Finance committees). The following is a revised estimate of the cost for each of the corrections:

| Technical Corrections | FY 2005 Projected State Costs vs. Chapter 4 | FY 2006 Projected State Costs vs. Chapter 4 |
|---|--|--|
| English as Second Language Student Counts | \$554,017 | \$794,458 |
| Special Education Counts for Montgomery and Buckingham school divisions | \$1,644,223 | \$1,685,409 |
| Base Year Fall Membership and School Classification | \$7,292,644 | \$7,367,863 |
| Prevailing Non-Professional VRS Rates | \$3,055,145 | \$3,227,599 |
| | | |
| Total | \$12,546,029 | \$13,075,329 |

Revise English as a Second Language (ESL) Student Counts

On January 29, 2004, the Department of Education was notified that eleven school divisions incorrectly submitted their ESL student counts. The school divisions underreported these student counts as part of the 2003 Fall Membership data collection. The revised counts will increase the state share of ESL funding required by the Standards of Quality staffing standard.

Special Education Counts for Montgomery County and Buckingham County

In reviewing their state funding projected for the 2004-2006 biennium, both Montgomery County and Buckingham County school divisions identified irregularities in the state support of special education under the Standards of Quality (SOQ). In the case of Montgomery County school division, it was determined that a translation error occurred when the special education count data was transferred from the software system used by the school division to the system used by the Department of Education. Buckingham County school division determined that it had incorrectly submitted its special education data to the Department of Education. In both cases, the result is an increase in the special education per pupil amount, and therefore, an increase in cost to the state share of the funding of the Standards of Quality.

Correct Base Year Fall Membership and School Classification

To determine the number of school-level instructional positions funded in the Standards of Quality (SOQ), a classification code is assigned to each school to designate it as an elementary, middle,

high, or combined school according to each school's grade configuration. This code determines the school-level staffing standards that are applied to the enrollment by grade and by school to generate the number of school-level SOQ funded instructional positions.

When re-basing of the SOQ took place for the 2004-2006 biennium, the codes used did not assign the appropriate staffing standards to all schools. The codes used recognized only four types of grade configurations rather than six. As a result, several schools were misclassified. The fiscal impact of correcting these classifications causes some school divisions to see reduced funding but most of the corrections involve increased funding.

Revise Prevailing Non-Professional VRS Rates

In January 2004, the Virginia Retirement System (VRS) notified the Department of Education that the VRS Board approved new local rates charged for retirement benefits under VRS. The new rate for Standards of Quality funded non-professional, support positions increased 1.87 percent to 4.94 percent. This rate increase has a fiscal impact on the state share of funding of the Standards of Quality.

Alleghany County School Division Composite Index

At its meeting on June 23, 2004, the Board of Education voted to approve a composite index of 0.2423 for the consolidated school division of Alleghany County and Clifton Forge with a proposed effective date of July 1, 2004. The purpose of this action was to adopt the lower of the two indices of the school divisions involved in the consolidation pursuant to Item 146 paragraph A. 4. b., Chapter 4, 2004 Acts of Assembly, Special Session I. The Governor approved the Board of Education's recommendation on July 13, 2004, effectively lowering the school division's composite index from 0.2683 to 0.2423.

The Department of Education has estimated that the cost of this action is \$336,373 in fiscal year 2005 and \$357,034 in fiscal year 2006.

Average Daily Membership

At this time, the Department of Education has revised the Average Daily Membership (ADM) projection based on actual March 31, 2004 ADM only. For fiscal year 2005, the forecast for ADM decreases 4,764 from 1,185,228 to 1,180,464. For fiscal year 2006, the forecast for ADM drops 7,190 from 1,201,451 to 1,194,261. This revised projection would reduce the Standards of Quality costs by \$15.8 million in fiscal year 2005 and \$26.4 million in fiscal year 2006.

It is important to note that final ADM projections will be based on both actual March 31, 2004, ADM and actual September 30, 2004, fall membership. Final September 30, 2004, fall membership is currently being collected and reviewed by the Department of Education. As of the date of this report, not all local school divisions have submitted final data and certified their fall membership report to the Department of Education.