

COST-SAVINGS AGREEMENTS

Code of Virginia § 22.1-98.2(A.)

Presented to General Assembly of Virginia Chairs, Senate
Finance and Appropriations and House Appropriations

October 1, 2026





COMMONWEALTH of VIRGINIA

Jenna Conway
Superintendent of Public Instruction

DEPARTMENT OF EDUCATION
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October 1, 2026

The Honorable L. Louise Lucas
Chairman, Senate Finance and
Appropriations Committee
Virginia General Assembly
P. O. Box 700
Portsmouth, Virginia 23705-0700

The Honorable Luke E. Torian
Chairman, House Appropriations Committee
Virginia General Assembly
4222 Fortuna Plaza, Suite 659
Dumfries, Virginia 22026

Dear Senator Lucas and Delegate Torian:

Section 22.1-98.2, *Code of Virginia*, provides additional state funding to school divisions serving fewer than 1,100 students in the prior school year, in a locality that has a local composite index of 0.6000 or greater, and has 65 percent or more of its local taxes coming from real estate taxes, if they enter into a cost-saving or service-sharing agreement with a contiguous school division that meets criteria established by the Board of Education. A copy of the current criteria approved by the Board of Education is attached. Section 22.1-98.2, *Code of Virginia*, further authorizes the Virginia Department of Education (VDOE) to provide additional state funding to the qualifying school division by calculating its state Basic Aid entitlement using the lowest composite index of the contiguous school divisions involved in the agreement. The statute also requires VDOE to report annually to the Chairmen of the House Appropriations and Senate Finance Committees the cost-savings agreements made and the adjusted state shares so approved.

For fiscal year (FY) 2026, Highland County Public Schools met the criteria established in Section 22.1-98.2. Highland County submitted a cost sharing agreement made with Augusta County. A copy of the agreement provided by the school division, pursuant to the Board of Education's criteria and Section 22.1-98.2, is attached. The submitted agreement was reviewed by VDOE and found to meet the criteria established by the Board of Education.

In FY 2026, Highland County received a supplemental state Basic Aid payment in the amount of \$1,086,700. This payment was based on Augusta County's FY 2026 composite index of 0.3888 in lieu of Highland County's composite index of 0.8000.

The Honorable L. Louise Lucas
The Honorable Luke E. Torian
August 17, 2026
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If you have questions or require additional information, please do not hesitate to contact Christina Berta, Chief Operations Officer, at (804) 225-2025 or christina.p.bertha@doe.virginia.gov.

Sincerely,

A handwritten signature in black ink, appearing to read "Jenna Conway", with a stylized flourish at the end.

Jenna Conway

JC/cb/eml

Attachments

Decision Brief
for
The Honorable Glenn Youngkin

Request: The Department of Education requests approval of supplemental state funding pursuant to Section 22.1-98.2, *Code of Virginia*, which authorizes an adjustment of the state share of Basic Aid for school divisions that meet specific criteria and enter into a cost-saving or service-sharing agreement with a contiguous school division that meets criteria established by the Board of Education.

For fiscal year 2026, Highland County Public Schools continues a cost-saving/service-sharing agreement with Augusta County Public Schools that has been in place since fiscal year 2006 under the original criteria established by Chapter 820, 2004 Acts of Assembly. In addition, Rappahannock County Public Schools continues a cost-saving/service sharing agreement with Madison County Public Schools that has been in place since 2011 under the revised criteria established by Chapters 589 and 705, 2008 Acts of Assembly. The cost-saving/service-sharing plans submitted by both divisions for fiscal year 2026 meet the Board of Education's criteria. Based on the original criteria, Chapter 725, 2025 Acts of Assembly, appropriates \$930,147 to support Supplemental Basic Aid payments to Highland County in fiscal year 2026. Based on the revised criteria and the data used to calculate payments for Chapter 725, Rappahannock County is not eligible for Supplemental Basic Aid payments in fiscal year 2026.

Pursuant to Section 22.1-98.2, *Code of Virginia*, the Governor is required to approve any such supplemental state funding annually prior to the distribution of funds to a qualifying school division.

Recommendation: The Department of Planning and Budget recommends approval of the fiscal year 2026 Supplemental Basic Aid funding at this time based on funds appropriated in Chapter 725, 2025 Acts of Assembly. Actual payments to these divisions for fiscal year 2026 will be based on actual March 31, 2026, average daily membership and subject to appropriation. If updated projections for fiscal year 2026 indicate that Rappahannock County may become eligible for Supplemental Basic Aid payments, the Department of Education should communicate that information to the Department of Planning and Budget, the Governor, and the General Assembly to determine any action that may be taken to account for additional state appropriation.

DPB Director: Michael D. Maul 08/18/2025
Michael D. Maul Date

CONCURRENCE

Secretary of Education:

Recommend ☒
Recommend w/ Modification ☐
Deny ☐

Aimee Rogstad Guidera 8/18/25
Aimee Rogstad Guidera Date

Secretary of Finance:

Recommend ☒
Recommend w/ Modification ☐
Deny ☐

Stephen E. Cummings 8/22/2025
Stephen E. Cummings Date

APPROVAL

Approve ☒ Approve w/ Modification ☐ Deny ☐

Governor:

Glenn Youngkin
Glenn Youngkin

9/5/2025
Date

APPROVAL

Approve ☐

Approve w/ Modification ☐

Deny ☐

Governor:

Glenn Youngkin

Date

Background: Section 22.1-98.2, *Code of Virginia*, authorizes additional state funding to school divisions that served fewer than 1,100 students in the prior school year, whose localities have 65 percent or more of their local taxes coming from real estate taxes, as calculated by the Auditor of Public Accounts (APA), and have a local composite index of 0.6000 or greater if they enter into a cost-saving or service-sharing agreement with a contiguous school division that meets criteria established by the Board of Education. The Supplemental Basic Aid entitlement for eligible school divisions is calculated by using the lowest composite index of the contiguous school divisions involved in the agreement.

Highland County Public Schools originally formed an agreement with Augusta County Public Schools in fiscal year 2006 (pursuant to Chapter 820, 2004 Acts of Assembly), prior to the adoption of additional criteria by the 2008 General Assembly. Chapters 589 and 705, 2008 Acts of Assembly, expanded the criteria but also permitted any previously eligible division to continue to qualify under the preceding requirement that a school division must have served fewer than 350 students in the prior school year. Rappahannock County Public Schools originally formed an agreement with Madison County Public Schools in fiscal year 2011 (pursuant to Chapters 589 and 705, 2008 Acts of Assembly). It has entered into a similar cost-saving/service-sharing agreement with Madison County Public Schools for fiscal year 2026.

The statute requires the Governor to approve any such payments before they are distributed to the qualifying school division. In addition, the Virginia Department of Education is required to report annually to the House Appropriations and Senate Finance and Appropriations Committees the cost-saving/service-sharing agreements made by divisions that meet the Board of Education's criteria and the adjusted state shares of Basic Aid funding that will be paid to divisions as approved by the Governor.

Chapter 405, 2019 Acts of Assembly removed the 15-year sunset of supplemental payments and indicates that the entitlement will remain in effect until the agreement is terminated by the relevant school divisions.

Discussion: Highland County and Rappahannock County have met the criteria established under Section 22.1-98.2. Highland County has submitted a cost-saving/service-sharing agreement made with Augusta County Public Schools. Rappahannock County has submitted a cost-saving/service-sharing agreement made with Madison County Public Schools. The submitted agreements have been reviewed by the Virginia Department of Education and found to be in compliance with the eligibility criteria established by the Board of Education.

Conclusion: Highland County Public Schools and Rappahannock County Public Schools will receive the state share of Supplemental Basic Aid funding in fiscal year 2026 based on the composite index of the contiguous school division involved in the respective cost-saving/service-sharing agreement for each division. Highland County's Supplemental Basic Aid payment will be computed based on Augusta County's composite index of 0.3888 in lieu of its composite index of 0.8000. The state cost to fund Highland County's payment in fiscal year 2026 is estimated at \$930,147, based on Chapter 725, 2025 Acts of Assembly.

At present time, Rappahannock County would not receive a Supplemental Basic Aid payment in fiscal year 2026 because its estimated Basic Aid payment exceeds the amount it was paid in fiscal year 2007. If the Basic Aid estimate were reduced based upon technical updates to the fiscal year 2026 budget to an amount below their Basic Aid payment in fiscal year 2007, Rappahannock County's Supplemental Basic Aid payment would be computed based on Madison County's composite index of 0.4746 in lieu of its composite index of 0.8000.

The costs for Supplemental Basic Aid are budgeted in the current fiscal year 2026 Lottery appropriations for Direct Aid to Public Education, as provided in Chapter 725, 2025 Acts of Assembly.

Attachments:

- Section 22.1-98.2, *Code of Virginia*
- Eligibility Criteria Approved by the Board of Education ("Eligibility Criteria and Procedures for Supplemental Funding for School Divisions in the Commonwealth of Virginia That Enter Into Cost-Saving or Service-Sharing Agreements")
- Approved Cost-saving/Service-sharing Agreement Between Highland County Public Schools and Augusta County Public Schools for FY 2026
- Approved Cost-saving/Service-sharing Agreement Between Rappahannock County Public Schools and Madison County Public Schools for FY 2026
- Chapter 820, 2004 Acts of Assembly
- Chapters 589 and 705, 2008 Acts of Assembly
- Item 125, Chapter 725, 2025 Acts of Assembly

§ 22.1-98.2. Certain agreements; adjustment of state share for basic aid.

A. Any school board of a school division in which fewer than 1,100 students were included in average daily membership for the preceding school year, in a locality that has a local composite index of .6000 or greater, and has 65 percent or more of its local taxes coming from real estate taxes, as calculated by the Auditor of Public Accounts and reported annually to the Department, upon entering into certain cost-savings agreements with a contiguous school division for the consolidation or sharing of educational, administrative, or support services, shall receive the state share for basic aid computed on the basis of the composite index of local ability-to-pay of the contiguous school division, calculated annually.

The Board shall develop eligibility criteria for such cost-savings and service-sharing agreements and for the adjustment of the state share for basic aid, consistent with the appropriation act.

The Governor shall approve the adjustment to the state share prior to the disbursement of funds. The Department shall annually report to the Chairmen of the House Committee on Appropriations and Senate Committee on Finance and Appropriations the cost-savings agreements made and the adjusted state shares so approved.

B. The local school board receiving the adjusted state share shall not use the additional funds received to supplant local funds appropriated for education. The adjusted state share shall be used solely for educational purposes and shall not be used to reduce local operating expenditures for public education from the prior fiscal year. However, no school division shall be required to maintain a per pupil expenditure for operations that exceeds the per pupil expenditure in the prior fiscal year. The superintendent of the school division shall inform the Superintendent of the public education purpose for which these local funds shall be used.

C. Nothing in this section shall prohibit the Commonwealth from terminating or modifying any program or function under which distribution to a local school board has been made, and if so terminated or modified all obligations hereunder shall cease or be reduced in proportion with such modifications, as the case may be.

D. Except as provided in subsection C, such contractual agreements shall remain in effect until terminated by the relevant school divisions. If any such contractual agreements between the relevant school divisions terminate, the Commonwealth's obligation under this section shall cease.

E. This agreement and adjusted state payment shall be in lieu of any existing funds a locality receives from a Small School Division Assistance grant.

2004, c. 820; 2008, cc. 589, 705; 2019, cc. 405, 406; 2022, c. 355.

Eligibility Criteria and Procedures for Supplemental Funding for School Divisions in the Commonwealth of Virginia That Enter Into Cost-Saving or Service-Sharing Agreements

Purpose

Section 22.1-98.2, *Code of Virginia*, directs the Board of Education to develop eligibility criteria for cost-saving and service-sharing agreements for school divisions that enter into such agreements with contiguous school divisions. School divisions serving fewer than 1,100 students in the prior school year, having a local composite index of .6000 or greater, and having 65 percent or more of their local taxes coming from real estate taxes that enter into such an agreement with a contiguous school division are eligible to receive the state share for Basic Aid computed on the basis of the composite index of the contiguous school division, calculated annually.

The Governor must approve the adjustment to the state share for Basic Aid prior to the disbursement of funds. The Department of Education must annually report to the Chairmen of the House Appropriations and the Senate Finance Committees the cost saving arrangements made, and the adjusted state shares of Basic Aid approved by the Governor.

Definitions

Eligible school divisions: School divisions that served less than 1,100 students in the prior school year, have a local composite index of .6000 or greater, and have 65 percent or more of their local taxes coming from real estate taxes.

Cost-saving or service-sharing agreements: A formal agreement executed between the eligible school division and one or more contiguous school divisions. This agreement must be evidenced by a written document that bears the original signatures of the superintendents of the participating school divisions. The agreement must contain sufficient information to demonstrate how the agreement meets the eligibility criteria.

Additional State Share of Basic Aid: The difference between the Basic Aid entitlement the eligible school division would normally receive and that which it would receive using the lowest composite index of a contiguous school division participating in the agreement.

Eligibility Criteria

Agreements submitted by an eligible school division to the Department of Education must be made with a contiguous school division and must demonstrate how the agreement meets the following criteria:

- evidence of one or more shared services with another school division; or,
- evidence of the savings or cost increases avoided as a result of shared services or a cooperative agreement for purchasing or other administrative practice; or,
- evidence that a savings has been achieved by contracting services with another school division.

The agreement must include a statement of assurance that it complies with all federal, state, and local laws and regulations.

Examples of agreements that may meet these criteria include, but are not limited to, those that:

1. provide for the consolidation or sharing of specialized educational services or educational support services;
2. provide for the consolidation or sharing of specialized educational facilities in instructional areas such as career and technical education;
3. identify administrative or support services that are duplicative and establish a process for the consolidation or sharing of administrative or support services;
4. provide for joint professional development services;
5. provide for the consolidation or sharing of technology applications and support;
6. provide for the consolidation or sharing of operations and maintenance and custodial services;
7. provide for shared, bulk, or volume purchasing; and
8. provide for privatization or outsourcing of support services with a contiguous school division.

Procedures

To be considered for adjusted Basic Aid funding under Section 22.1-98.2, *Code of Virginia*, a school division must submit to the Department of Education a cost or service-sharing plan with a contiguous division prior to September 1 of each fiscal year. The content of the submitted cost or service-sharing plan must meet the above listed criteria.

Receipt of adjusted Basic Aid funding will begin after approval of the plan by the Department of Education and approval of the adjusted payment by the Governor of Virginia. The additional Basic Aid payments will be computed for the eligible school division on the basis of full year funding using the lowest composite index of a contiguous school division participating in the agreement. All payments of additional Basic Aid pursuant to these procedures are subject to appropriation of state funds for this purpose. State funding of additional Basic Aid does not reduce the required local effort of the eligible school division.

References

- Section 22.1-98.2, Code of Virginia
- Chapter 725, 2025 Acts of Assembly

**Service-Sharing/Cost Sharing Agreement
Between
Augusta County Public Schools
and
Highland County Public Schools**

This agreement is between August County Public Schools and Highland County Public Schools for the period of July 1, 2025, to June 30, 2026.

General Agreement

It is the agreement between Augusta County Public Schools and Highland County Public Schools to work cooperatively together to provide such services that will assist Highland County Public Schools in providing educational services to its population at a cost savings. Highland County Public Schools have less than 225 students. Such services may include but are not limited to:

Head Start

Highland County Public Schools, as part of the Shenandoah Valley Head Start Consortium of which Augusta County Public Schools is the fiscal agent, will service as a site for a Head Start class. This program will allow preschool children in Highland County the opportunity to participate in an educational program at a savings to Highland County Public Schools.

The cost savings are estimated at \$50,000.

Vocational Training

Highland High School offers students limited opportunities for career and technical training. Valley Career and Technical Center, which Augusta County Public Schools is the fiscal agent, will permit enrollment of Highland High School Students into their programs on a space available basis. Resulting in opportunity benefit of \$50,000.

Collegial Partnership Program

Since Highland County Public Schools is the smallest school division in the state with only one teacher per grade level at the elementary grades, three middle school teachers and normally one teacher for different content areas at the high school level. Highland does not employ content specialists and there is little opportunity to participate in collegial partnerships. This is a significant limitation in developing services and programs to meet the needs of the school population. Augusta County Public Schools, as a service to Highland County Public Schools, has agreed to participate in a collegial partnership.

Highland Elementary School will be partnered with Churchville Elementary School. The principal of Churchville Elementary School will partner with the principal of Highland Elementary School. Both faculties will interact as we develop our curriculum offerings and continue to meet annual measurable objectives and performance on Standards of Learning assessments.

Augusta County Public Schools instructional specialists will form collegial partnerships with the Highland school library media specialist and our middle school science teacher. The divisions will facilitate similar partnerships with content area teachers in grades six through twelve.

The Highland Special Education Director and ESL Coordinator may collaborate with their peers Augusta County Public Schools to support students requiring specialized services. These departments may share ideas, resources, and professional development opportunities.

The Technology Department will partner with our Technology Director, Gary Lane. Highland County Public Schools, due to our small size, has an extremely difficult time getting companies to submit bids. Therefore, this partnership is invaluable in purchasing servers and related hardware and software.

The cost savings in the above areas are estimated to be \$80,000 due to Highland County not having to pay for consultants in key curricular areas.

Transportation

Highland County Public Schools is investigating the shared services of partnering with Augusta County Public Schools in student transportation to Valley Career and Technical Center, bus driver training, repairs, and maintenance. This partnership may result in cost savings of approximately \$18,000.

These agreements comply with all federal, state, and local laws and regulations.



Dr. Eric Bond, Superintendent
Augusta County Public Schools

6-24-25

Date



Dr. Drew R. Maerz, Superintendent
Highland County Public Schools

6/24/2025

Date



School Board Office
6 Schoolhouse Road
Washington, Virginia 22747
Telephone (540) 227-0023
Fax (540) 987-8896
www.rappahannockschools.us

Contract Between the Madison County School Board and The Rappahannock County School Board

Introduction:

The School Boards of Madison and Rappahannock Counties agree to enter into this "cost-sharing/cost-savings" agreement as permitted by State Board of Education regulations and Virginia Code §22.1-98.2 – *Certain agreements; adjustment of state share for basic aid.*

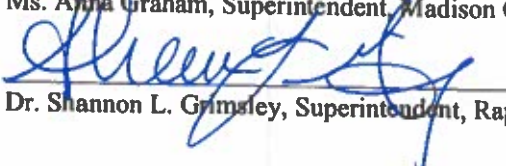
A. Any school board of a school division in which fewer than 1,100 students were included in average daily membership for the preceding school year, in a locality that has a local composite index of .6000 or greater, and has 65 percent or more of its local taxes coming from real estate taxes, as calculated by the Auditor of Public Accounts and reported annually to the Department of Education, upon entering into certain cost-savings agreements with a contiguous school division for the consolidation or sharing of educational, administrative, or support services, shall receive the state share for basic aid computed on the basis of the composite index of local ability-to-pay of the contiguous school division, calculated annually.

The School Boards of Madison and Rappahannock Counties agree to share certain services as follows:

- Do cooperative purchasing in selected areas (custodial supplies, duplicating paper, computers, food, etc.) to be determined through consultation between the school divisions' finance offices and administrative staff.
- HS students may enroll in certain classes in the other school division at no cost. Rappahannock will reserve up to two slots in CTE classes to be determined by availability for Madison students through the second day of the semester. Madison will reserve up to two slots in CTE classes to be determined by availability for Rappahannock students through the second day of the semester. The school divisions may add courses to or delete courses from these lists by mutual agreement.
- Prior to putting surplus school buses and cars up for auction, Rappahannock will offer surplus buses and cars to Madison at no cost.
- Employees of both school divisions may attend on-site staff development on a space available basis at no cost.
- Rappahannock will send its designated professional staff member to Madison to complete approximately 40 written Social Histories annually as part of the Special Education evaluation process at no cost to the Madison Schools.

This agreement shall be in effect from July 1, 2025 – June 30, 2026. This agreement complies with all Federal, State, and Local laws. For the purpose of renewing the agreement, the school divisions agree to consider revisions to this agreement by December 31 of each contract year. If either party wishes to terminate the agreement, written notice must be given to the other party at least 90 days in advance of the proposed date of termination.


Ms. Anna Graham, Superintendent, Madison County Public Schools


Dr. Shannon L. Grimsley, Superintendent, Rappahannock County Public Schools

2/11/25
Date

2/21/25
Date