



## Virginia's K-12 Funding Formula

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# Study resolution

## SENATE JOINT RESOLUTION NO. 294

*Directing the Joint Legislative Audit and Review Commission to study the true cost of education in the Commonwealth and provide an accurate assessment of the costs to implement the Standards of Quality. Report.*

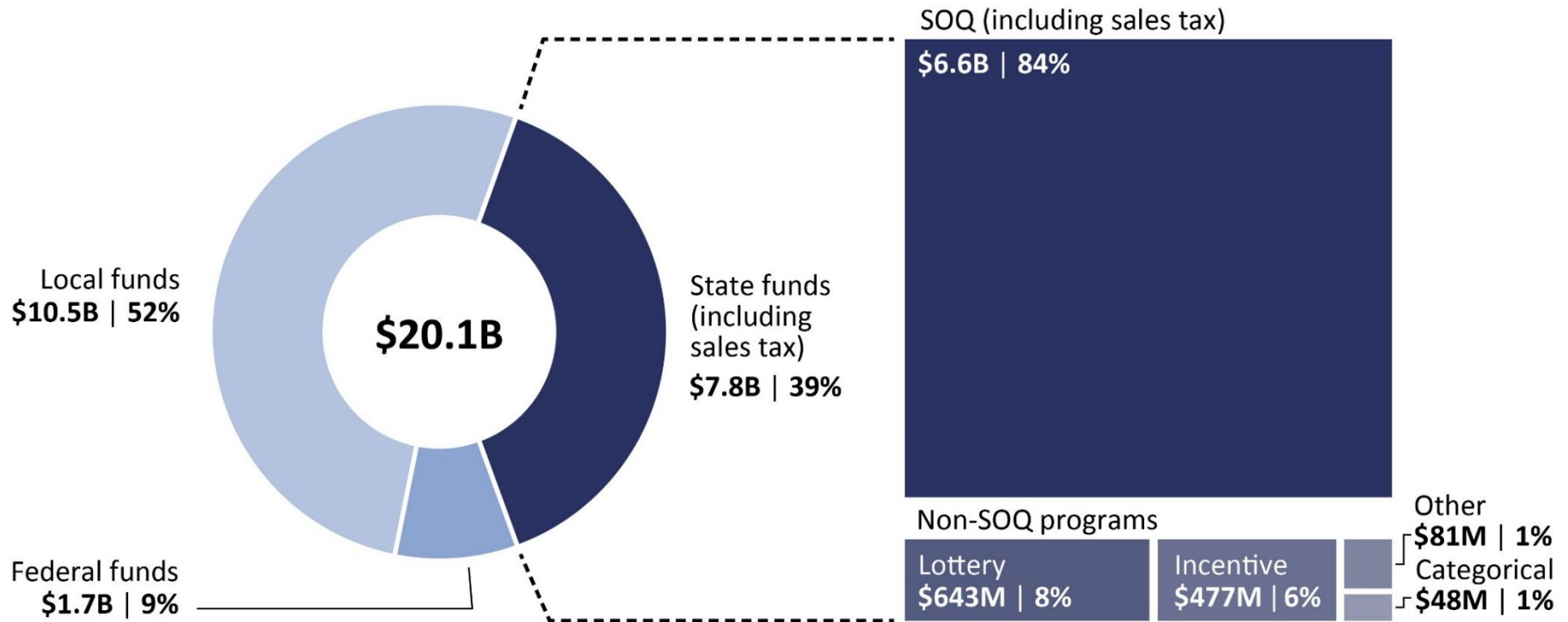
Agreed to by the Senate, January 27, 2021

Agreed to by the House of Delegates, February 24, 2021

In conducting its study, the Joint Legislative Audit and Review Commission shall

- (i) estimate the cost of implementing the Standards of Quality based on the actual expense of education prevailing in the Commonwealth,
- (ii) determine if the Standards of Quality accurately reflect actual standards of practice within each school division,
- (iii) analyze changes in the Standards of Quality funding formula since 2009 and the impact of such changes on its accuracy in reflecting such costs,
- (iv) recommend changes to the Standards of Quality funding formula

# Virginia school divisions receive local, state, and federal funding



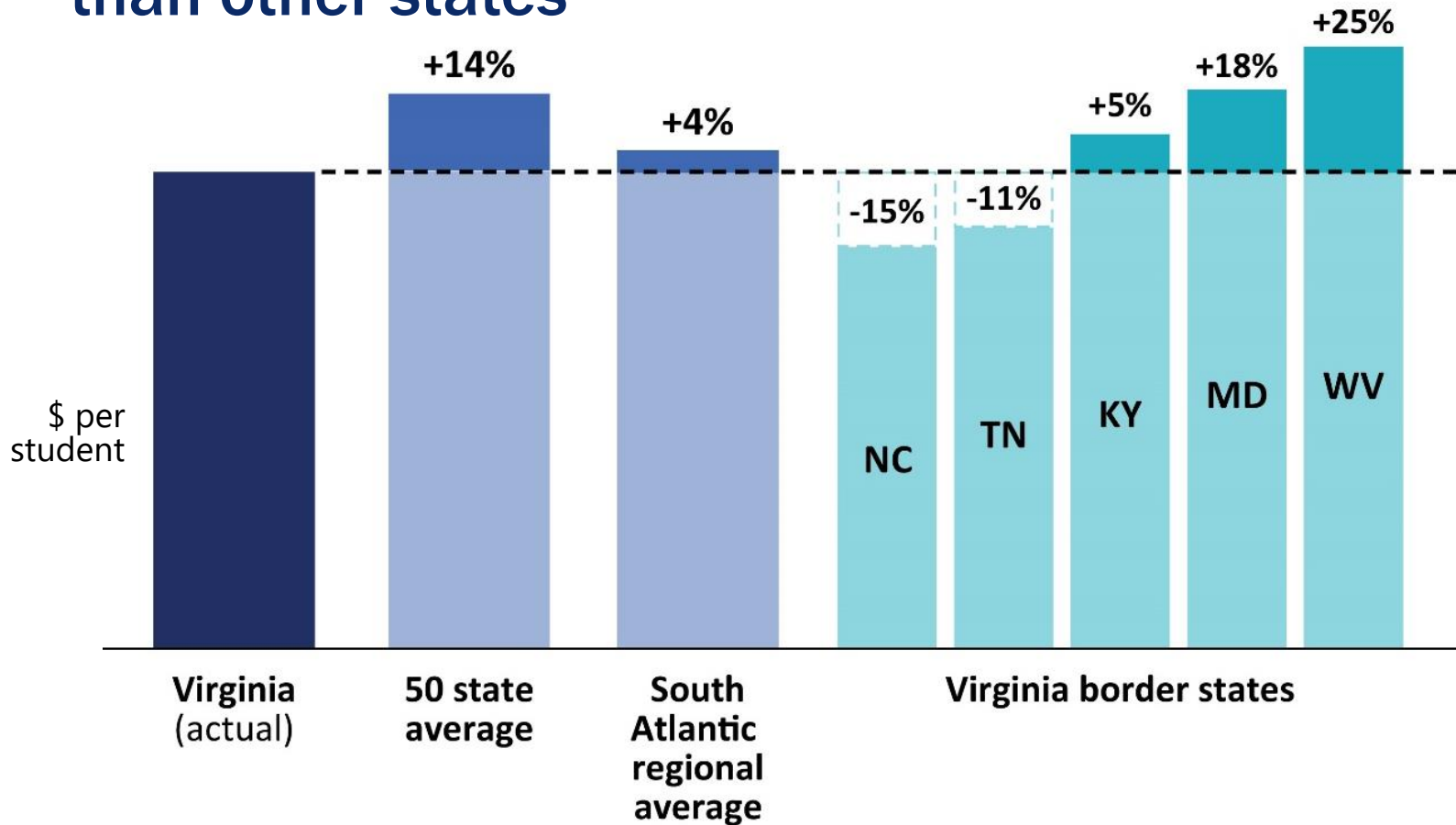
- Fairfax County accounts for \$2.5B of the \$10.5B in local funding

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## In brief

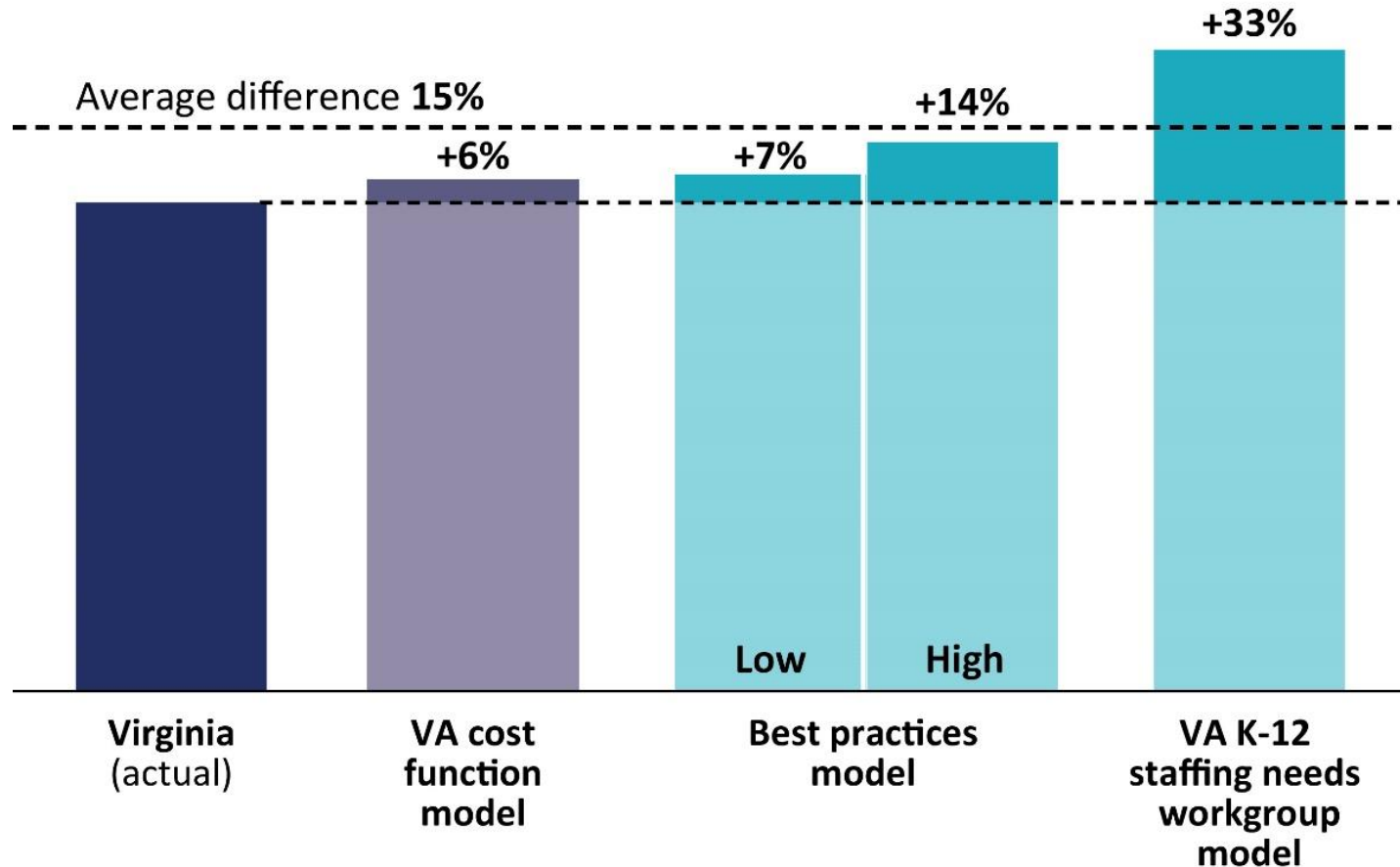
- Virginia school divisions receive less K–12 funding per student than
  - divisions in other states
  - several key funding benchmarks

# Virginia divisions receive less funding per student than other states



NOTE: Adjusted, FY20 data. Includes funding for K-12 operations from all sources (federal, state, and local). Analysis controls for differentials in statewide cost of labor.

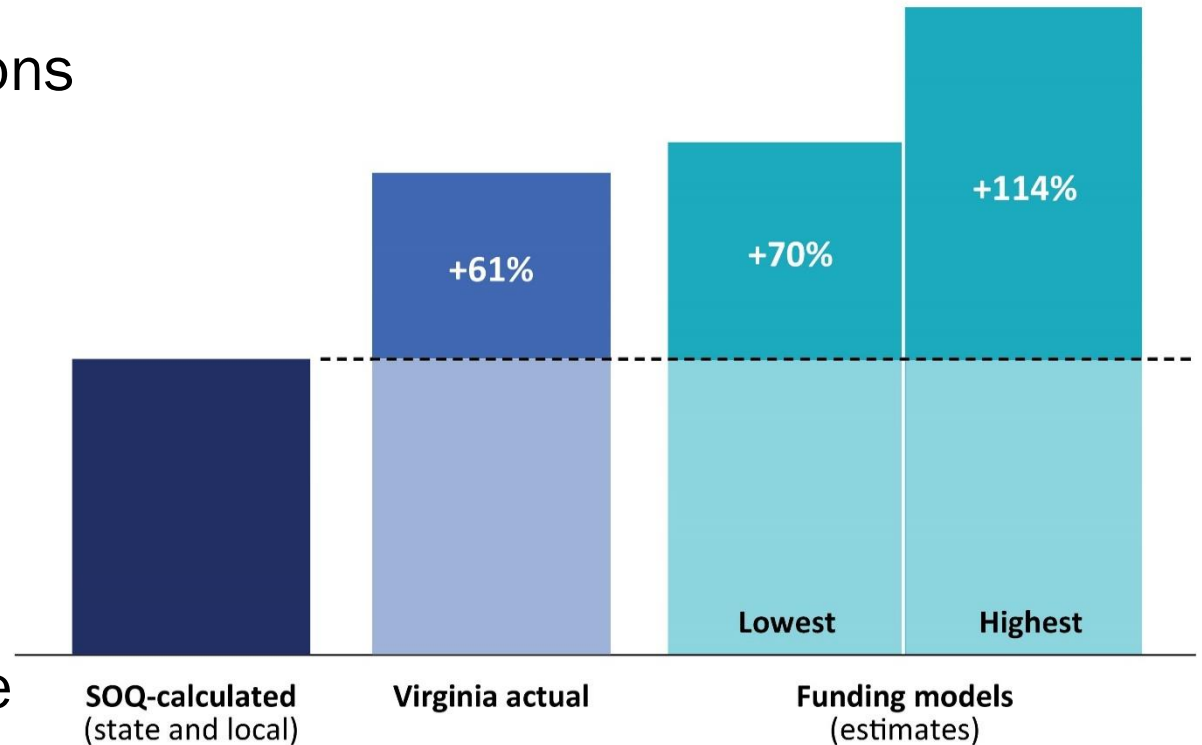
# Funding models estimate Virginia school divisions need 6 to 33 percent more total funding



NOTE: Includes funding for K-12 operations from all sources (federal, state, and local).

# SOQ-calculated funding amounts are substantially less than actual funding and benchmarks (FY21)

- SOQ formula calculated divisions needed \$10.7B
- But divisions actually spent \$17.3B
- Most affects divisions in localities that are less able to pay



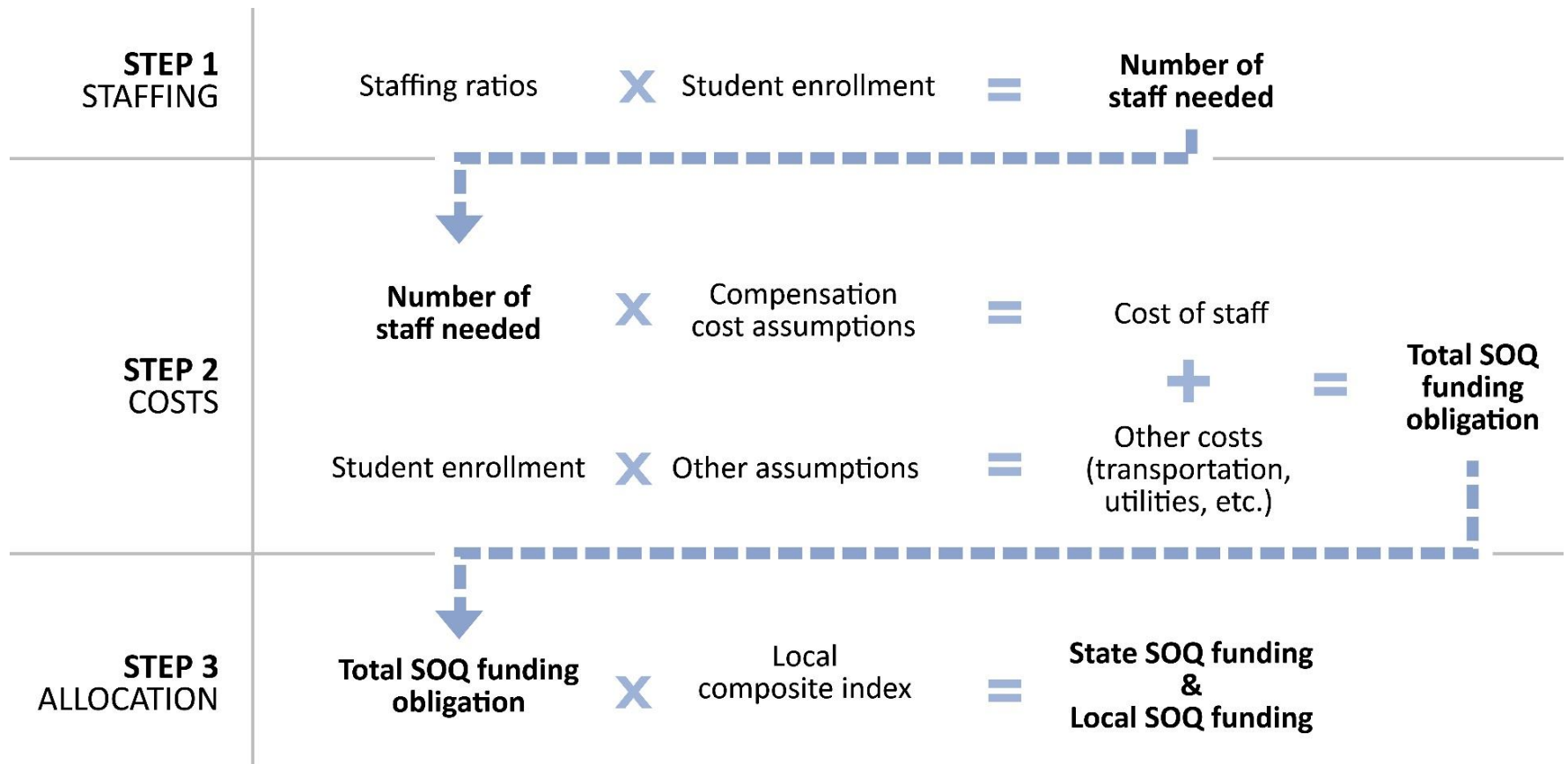
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## In brief

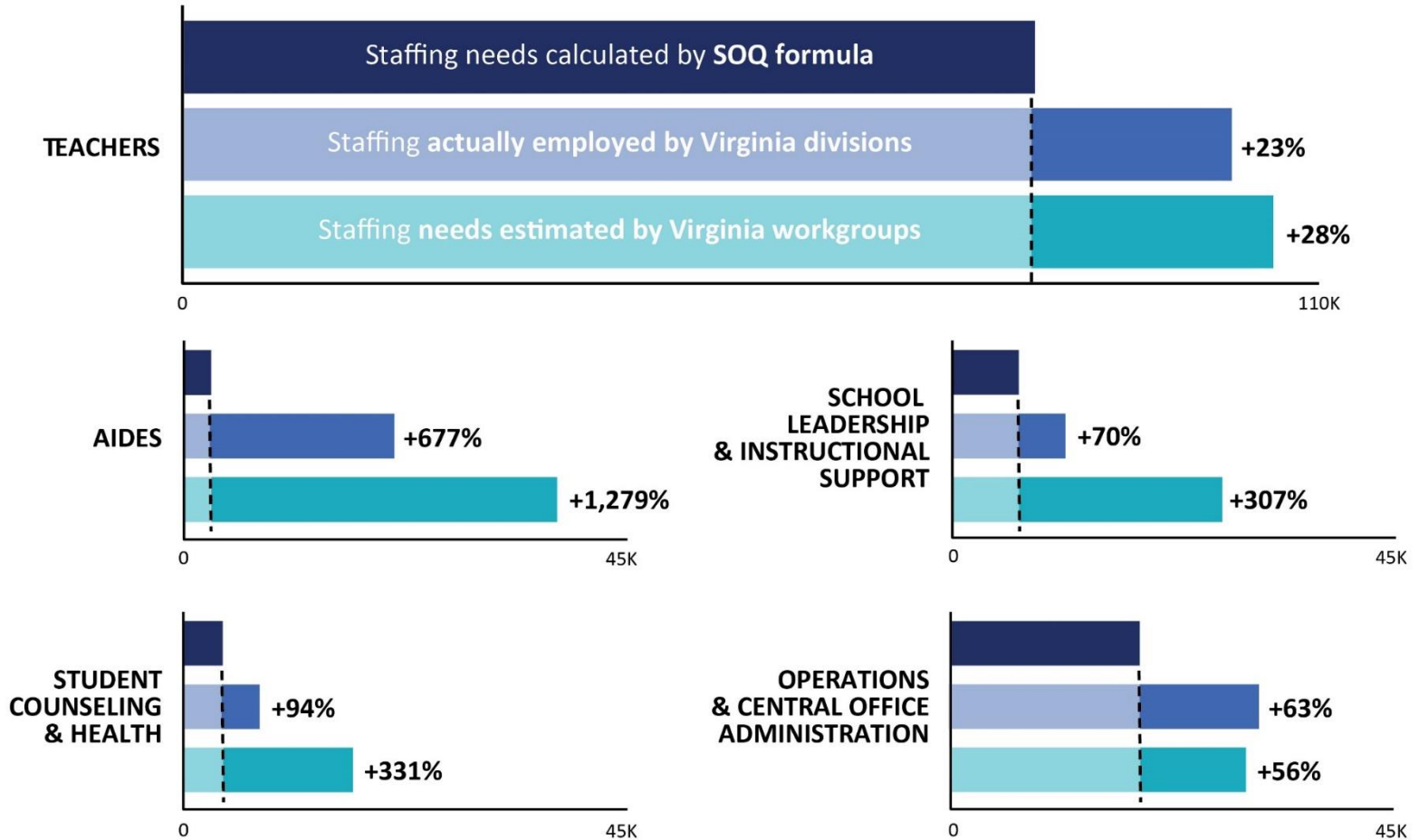
- Many of the SOQ formula's inputs and assumptions lack a clear rationale and do not reflect prevailing practice in school divisions



# SOQ formula is primary way state determines amount of K-12 education funding



# Formula calculates fewer of all major staff types than number employed and estimates of need



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# SOQ formula cost calculations lack clear rational and do not reflect prevailing practice

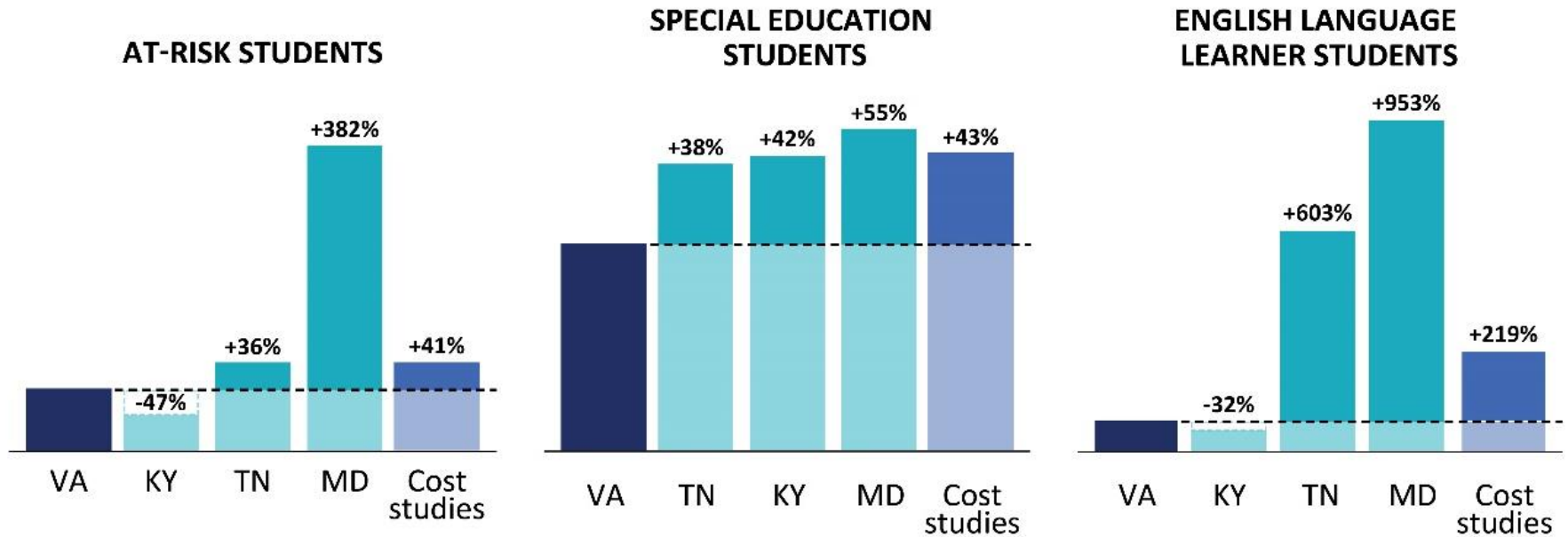
- Salary cost assumptions
  - underweight staffing costs at large divisions that employ majority of staff
  - are adjusted at rates that usually trail growth in actual salaries paid
- Support cap and a few other Great Recession changes reduce funding for school divisions below prevailing costs

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## In brief

- SOQ formula does not adequately account for higher needs students (one of the three main cost drivers outside a division's control)

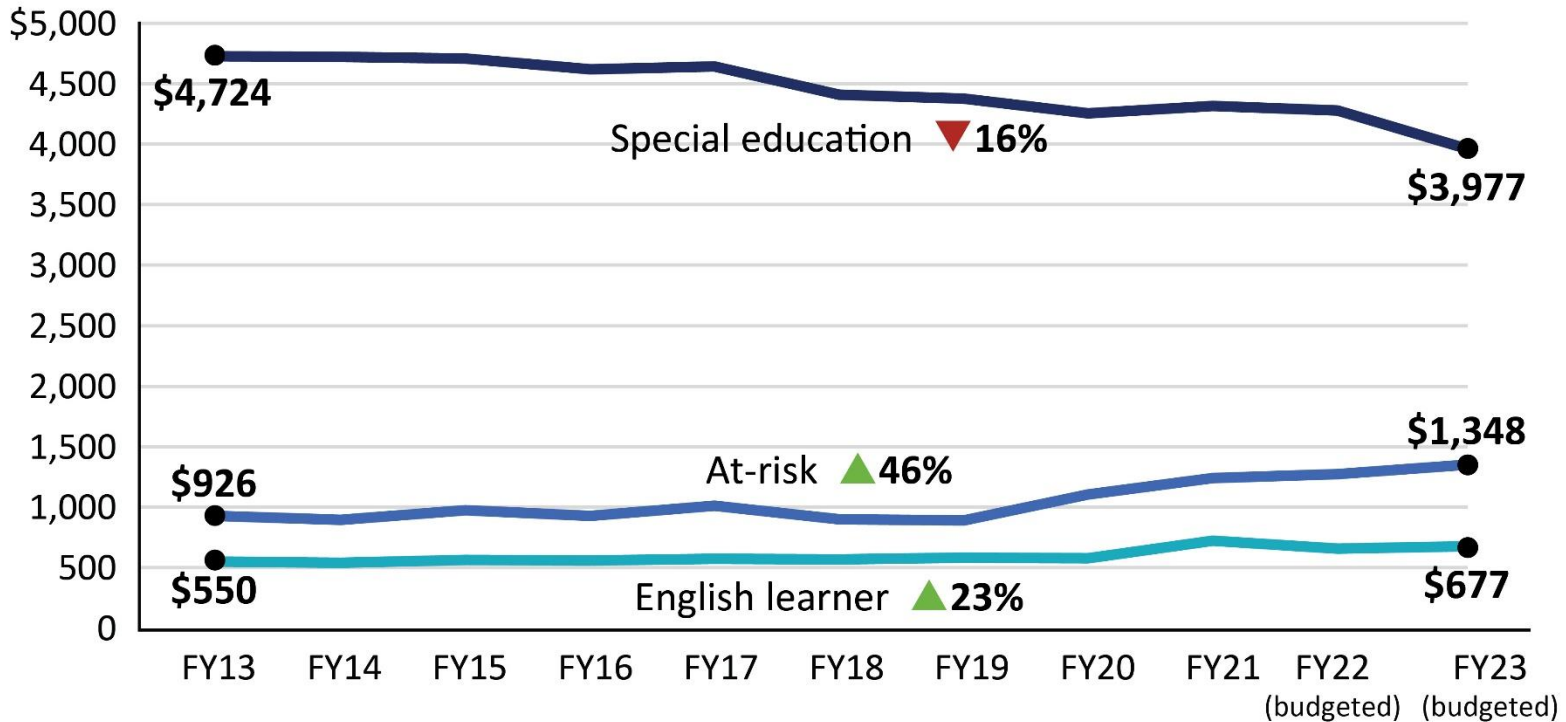
# State funding for the three types of higher needs students is below several benchmarks



NOTES: Other state data is derived from their formula weights and base student funding amounts, adjusted for inflation and each state's Comparable Wage Index for Teachers (CWIFT). The cost study amounts are calculated from the midpoints (average or median) per pupil base amounts and student weightings recommended in the cost studies reviewed, adjusted for inflation and CWIFT.

# State funding for at-risk and English learners has increased but special education funding has decreased

Additional funding per student



Presented in FY21, per student dollars. FY22 and FY23 figures are based on budgeted expenditures and not actual reported revenues. FY23 figure makes several assumptions of future inflation and enrollment changes.

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## Several issues identified with at-risk funding programs

- Funding for at-risk programs is essential for low income student success, yet majority is not SOQ required
- Funding programs do not provide divisions with consistent base amount for each at-risk low income student
- Data used to estimate poverty for at-risk program funding is old and increasingly inaccurate
  - Funding program data assumes 39 percent of students are low income (eligible for free lunch)
  - VDOE nutrition program data shows 53 percent are eligible for free lunch

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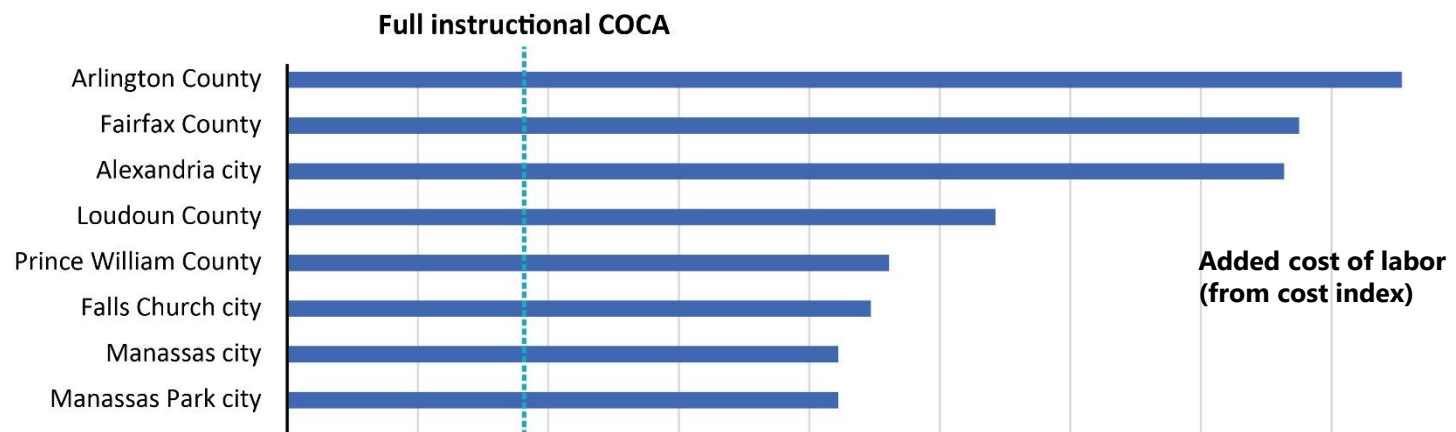
## In brief

- SOQ formula does not adequately account for higher regional labor costs and division size (the other two of three main cost drivers outside a division's control)

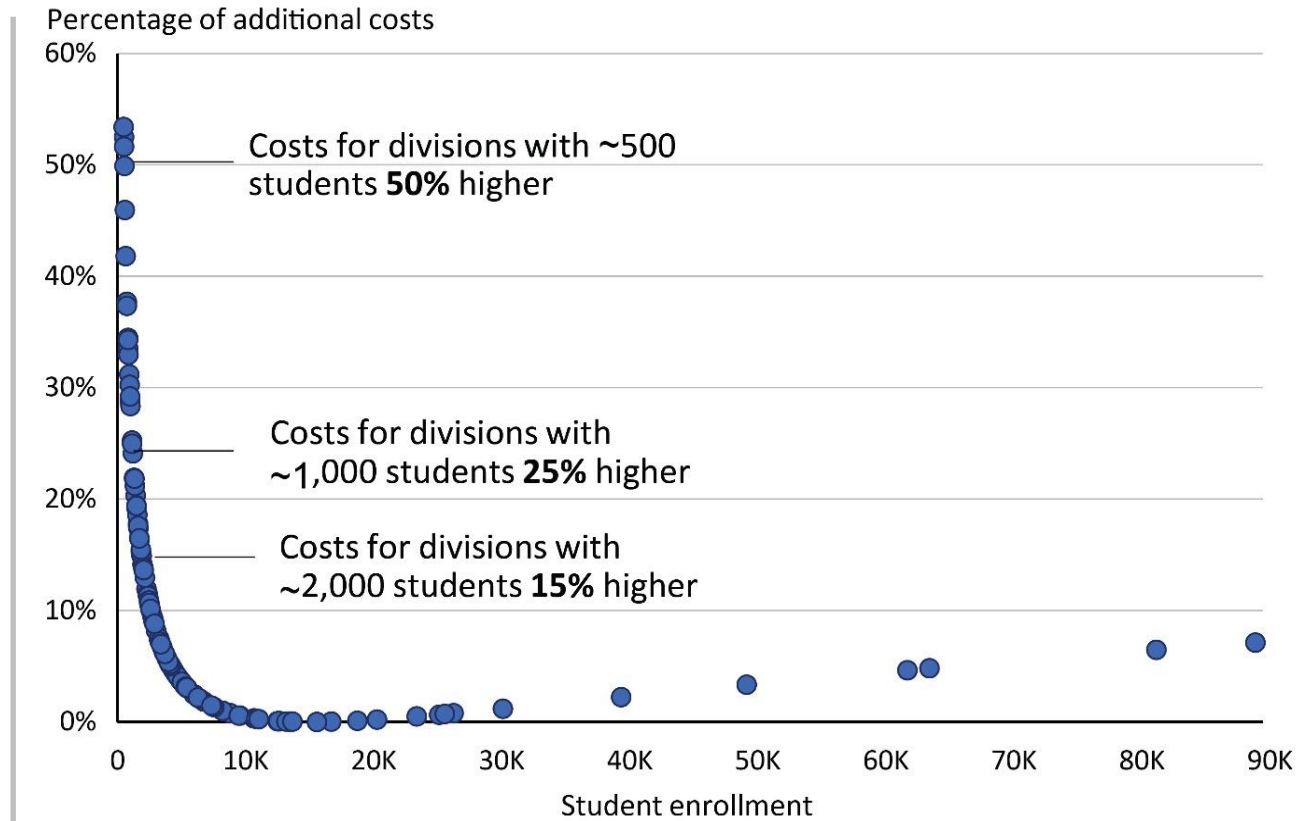
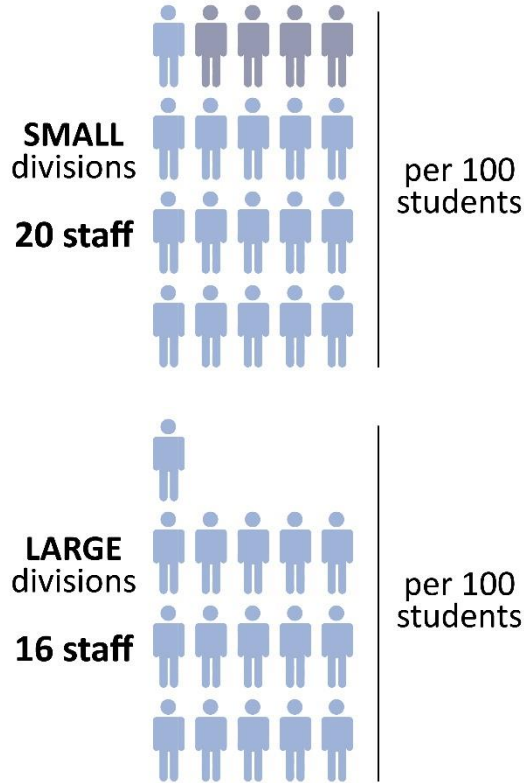


# Cost of competing adjustment (COCA) based on outdated data, not applied to all higher cost areas

- COCA only applies to Northern Virginia but some divisions in other parts of state have above average costs
- COCA percentages lower than cost of labor index
  - Adjustment uses flat percentages that were developed in 1995 using imprecise 1991 data



# Academic research and analysis of Virginia finds small divisions have higher costs per student



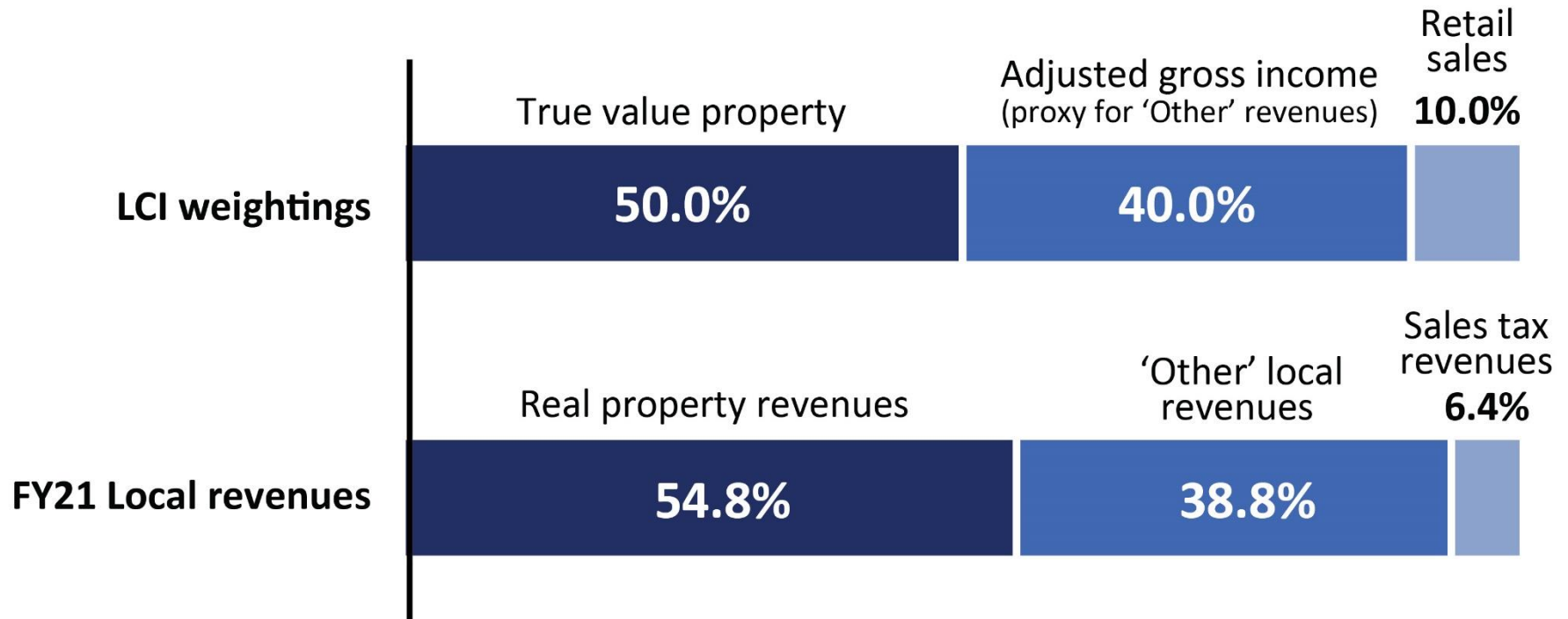
Second figure shows Virginia school divisions plotted using a formula developed by cost study researchers.

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## In brief

- Local composite index used to apportion funding obligations between the state and each locality is a reasonably accurate measure of ability to pay

# Proportion of current local revenue sources still similar to original LCI weightings from 1970s



# Many LCI concerns unfounded, but there is an issue with predictability

- Many concerns unfounded
  - Does not include tax-exempt property values
  - Not skewed by one or a few extremely wealthy residents
  - Excluding local land use & other tax policies is appropriate
- LCI recalculations each biennium can result in sudden, large losses of state funding

Example	Change in LCI	Reduction in state funds	
		\$	%
Greensville	0.2799 ↑ 0.4607	-1.12 M	-15
Richmond City	0.4688 ↑ 0.5139	-6.75 M	-5

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## Revenue capacity is a more accurate measure than LCI and would better capture ability to pay

- While LCI is reasonably accurate, it uses an old methodology and makes limited use of available data
- Revenue capacity is a newer and more precise way of measuring ability to pay
  - Measures how much revenue a locality can practically capture from its taxable wealth base (controlling for differences in taxing decisions)
  - Does *not* assume localities rely equally on different tax bases
  - Does *not* use a proxy measure for personal property tax
  - Used in state calculations of the fiscal stress index

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## In brief

- SOQ formula should provide accurate picture of funding needs and should be used to guide—but not determine—budget decisions
- Most states use a student-based K-12 funding formula, which is simpler than Virginia's complex staffing-based formula

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## SOQ formula should not directly determine budget amounts

- In practice, SOQ calculations are subject to revision based on budget priorities and constraints
- SOQ formula should ideally provide accurate picture of funding needs to guide—but not determine—budget amounts
  - SOQ formula calculates estimated funding need
  - General Assembly appropriates an amount above, below, or equal to what formula estimates
- Separating SOQ formula from determining budget would have several benefits





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## In brief

- Recommended SOQ formula changes have substantial funding implications and could be phased in over the next several biennia







# Recommended formula changes & state budget impact

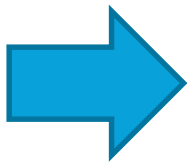
	State \$ impact (FY23)	Percent change
<b>Recommendations: Near term</b> <i>(in FY25–26 &amp; FY27–28 biennia, if funding is available)</i>		
Address technical issues with the formula	\$45M	0.6%
Discontinue Great Recession-era cost reduction measures	\$515M	6.5%
Calculate prevailing costs using division average, rather than LWA	\$190M	2.4%
Change Local Composite Index to three-year average	–\$1.5M	–0.02%
Convert non-SOQ At-Risk Add-On funding to SOQ-required funding	--	--
Replace outdated and inaccurate free lunch measure	\$250M	3.2%
Consolidate two largest at-risk programs into new SOQ At-Risk Program		
Direct further study of special education staffing needs	--	--
<b>Recommendations: Long term</b> <i>(by FY33–34 biennia, if funding is available)</i>		
Develop & adopt new staffing ratios, based on actual staffing	\$1,860M	23.5%
Update out-of-date salary assumptions during re-benchmarking	Depends on timing <sup>a</sup>	
Replace cost of competing adjustment with newer, more accurate method	\$595M	7.5%
Adopt economies of scale adjustment to assist small school divisions	\$90M	1.1%

# Division-level funding impacts posted on website <https://jlarc.virginia.gov/>



The screenshot shows the top navigation bar of the JLARC website. The header is dark blue with the JLARC logo in white. Below the logo are navigation links for 'All Reports', 'Upcoming and Recent Meetings', and 'About JLARC'. A search box is on the right. A secondary bar below contains links for 'VRS, VITA & Virginia 529', 'Fiscal & Econ Development', and 'Health/Human Services Reviews'.

- Summary 
- Report 
- Recommendations 
- \$ Impacts for School Divisions 
- Online Appendixes 
- Presentation 



## Virginia's K-12 Funding Formula



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## Three things to keep in mind when looking at division-level financial impacts

- Local funding impact is the change in the *local SOQ funding obligation*, not the local budget
- Funding obligation for all recommendations combined is higher than the sum of all individual recommendations
- Estimates are based on JLARC staff's model, not actual calculations in VDOE's SOQ formula IT application
  - Estimates are for what impact would have been in FY23

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