



# Virginia's K–12 Funding Formula

# 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.*

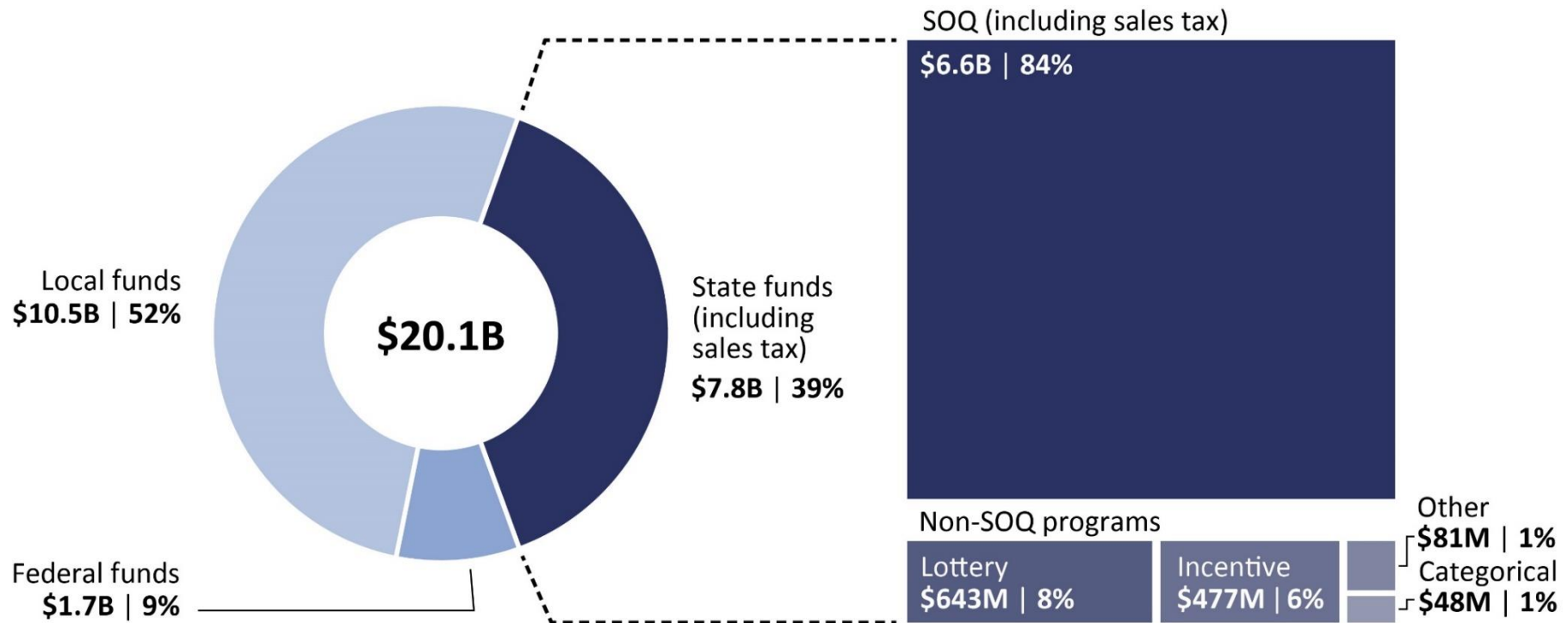
Agreed to by the Senate, January 27, 2021

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

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

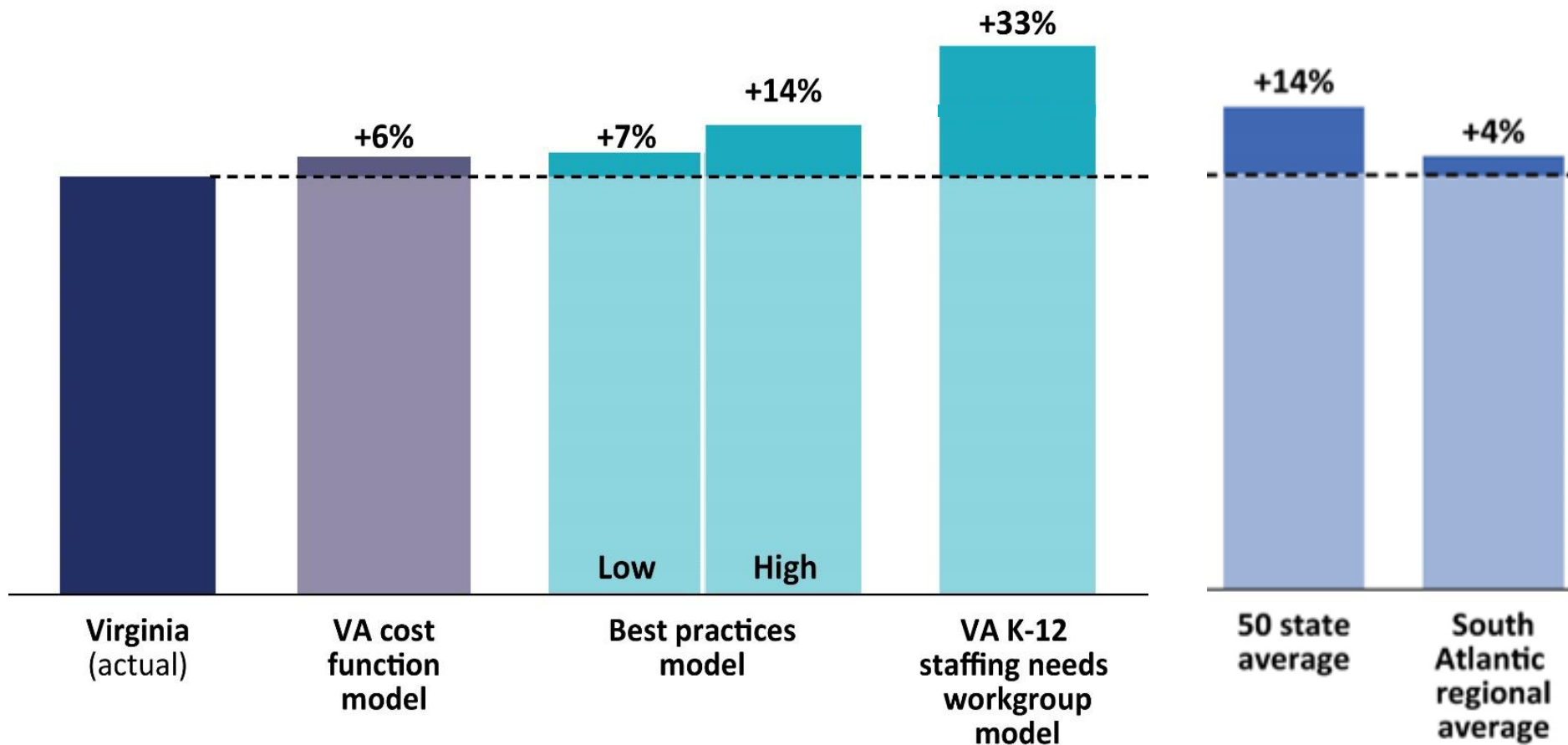
- (i) estimate the cost of implementing the Standards of Quality based on the actual expense of education prevailing in the Commonwealth,
- (ii) determine if the Standards of Quality accurately reflect actual standards of practice within each school division,
- (iii) analyze changes in the Standards 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



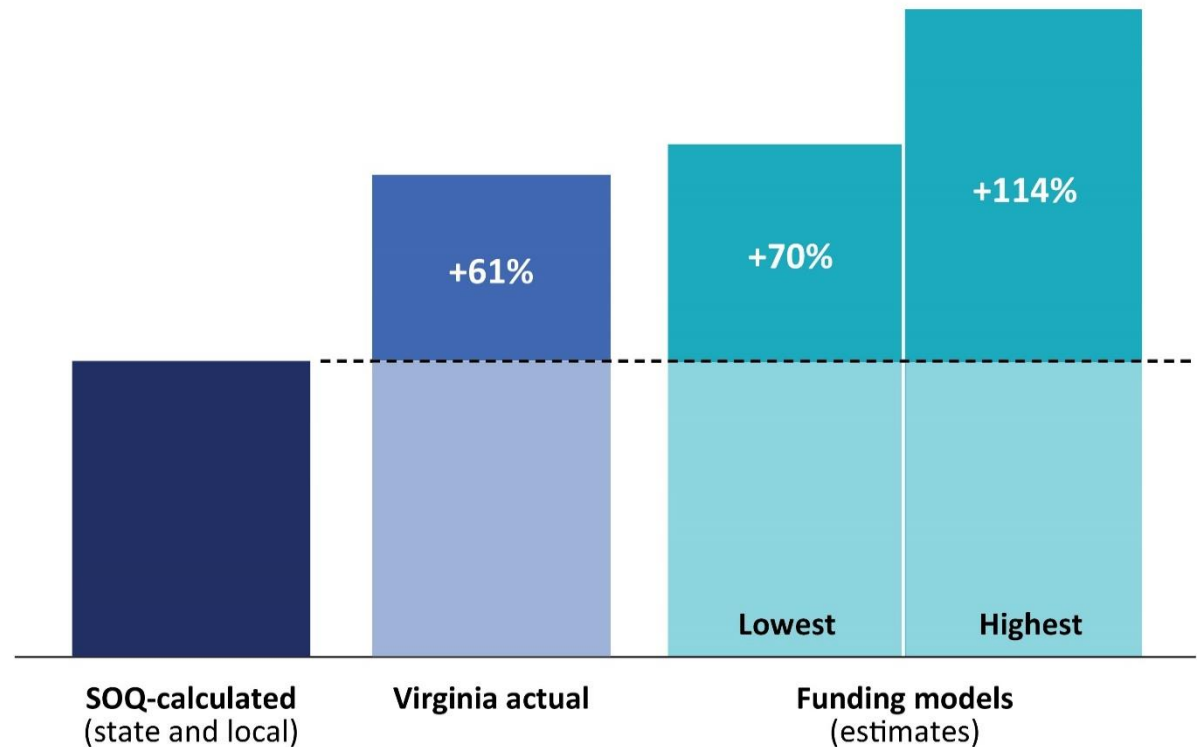
- Fairfax County accounts for \$2.5B of the \$10.5B in local funding
- ~2/3 divisions get majority of funding from state

# Virginia school divisions receive less K-12 operating funding per student than benchmarks

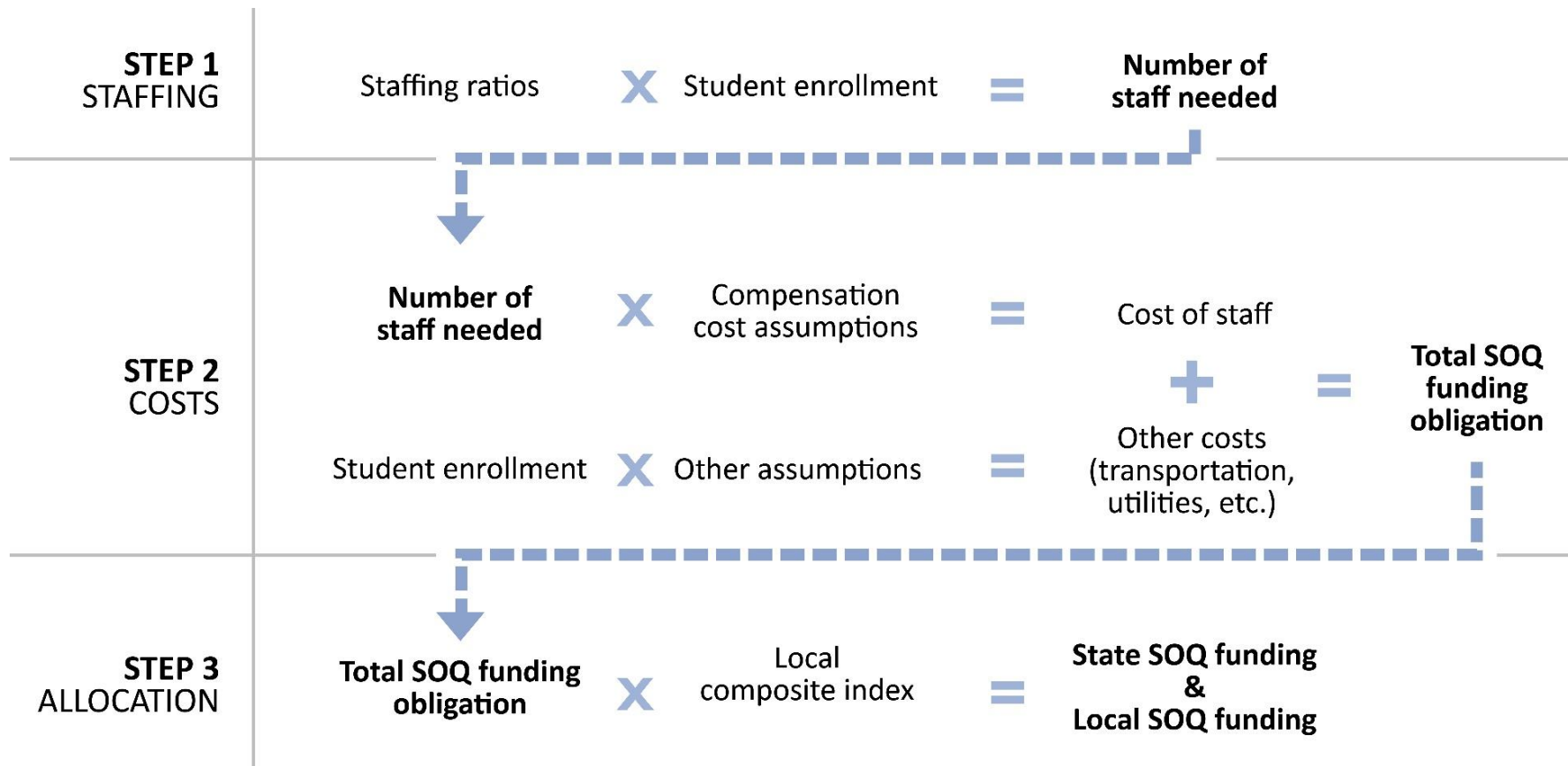


# SOQ-calculated funding amounts are substantially less than actual funding and benchmarks (FY21)

- SOQ formula calculated divisions needed \$10.7B
- But divisions actually spent \$17.3B



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



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

- Formula calculates fewer staff are needed than number actually employed and workgroup estimates
- 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

## SOQ formula calculations lack clear rational and do not reflect prevailing practice (continued)

- State funding per student for higher needs students is less than several relevant benchmarks.
  - State funding has increased for at-risk (low income) and English learners but declined for special education.
- Cost of competing adjustment, which is intended to address higher regional labor costs, uses old data and excludes several divisions.
- Formula does not account for small school divisions' inability to achieve economies of scale, resulting in less funding than needed to operate.



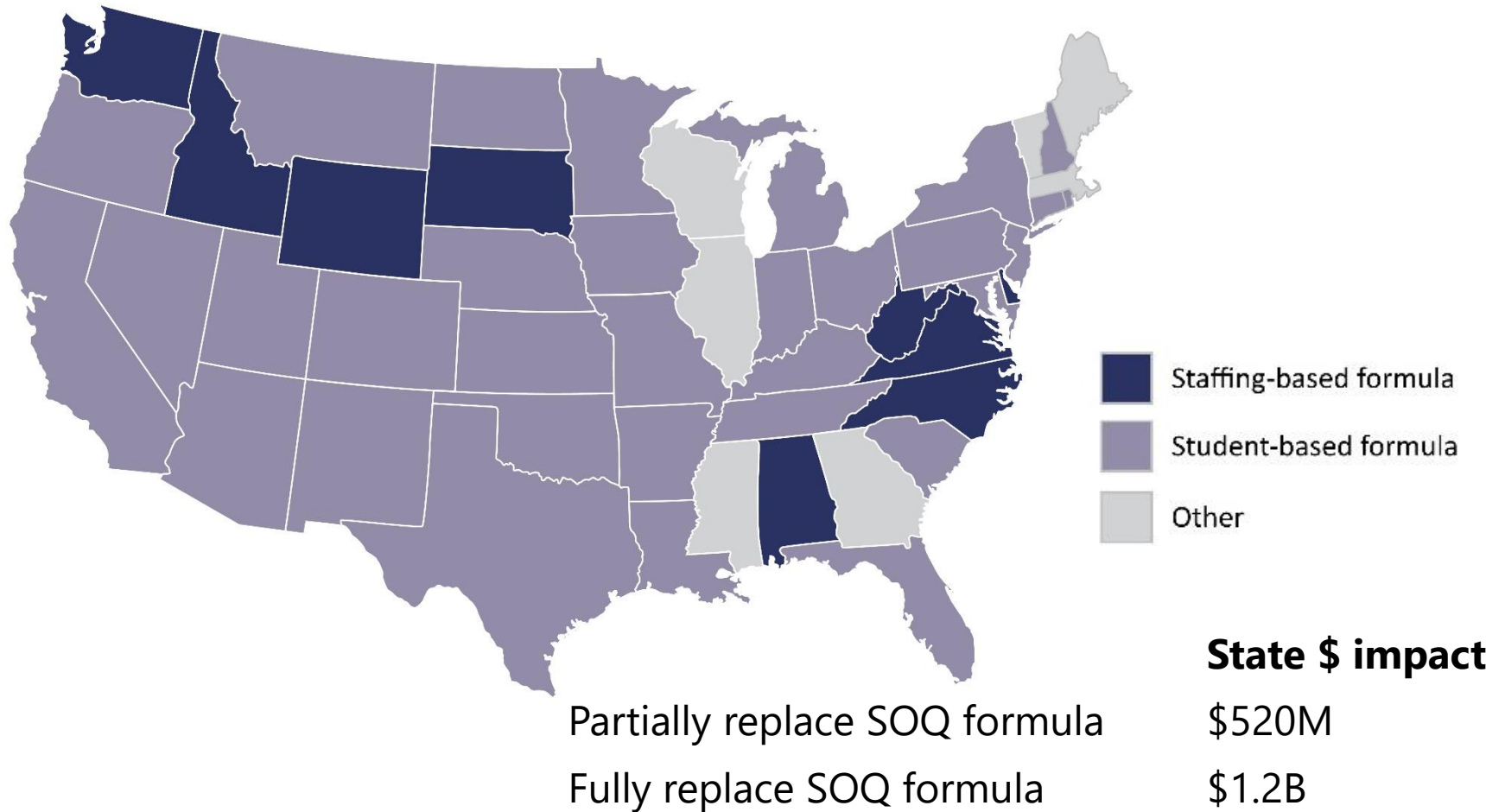
## **LCI is a reasonably accurate measure of ability to pay, but revenue capacity would be better measure**

- Local Composite Index (LCI) used to apportion SOQ funding
- Tax base assumptions are reasonably close to actual
- 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
- Old methodology that makes limited use of available data

## SOQ formula should be used to guide—but not determine—budget amounts

- Formula does not reflect prevailing practice, in part because it has been revised numerous times to reflect budget priorities and constraints
- Instead...
  - SOQ formula should estimate funding needs
  - General Assembly should appropriate an amount above, below, or equal to what formula estimates is needed
- New approach would improve transparency by (a) improving formula accuracy, while (b) providing legislature with the flexibility needed to set budgets

# Virginia could adopt a student-based funding model, like most other states

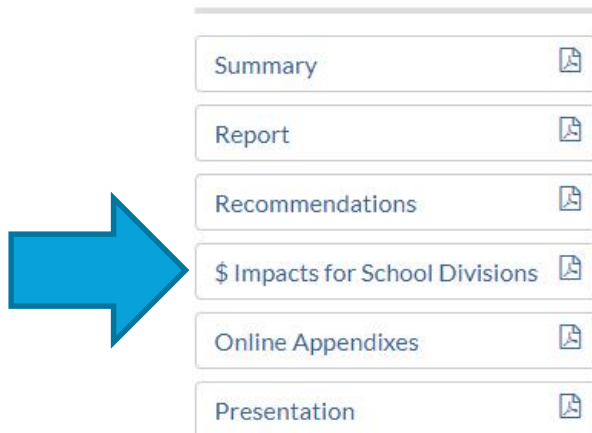


# Recommended formula changes & state budget impact

	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/>



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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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