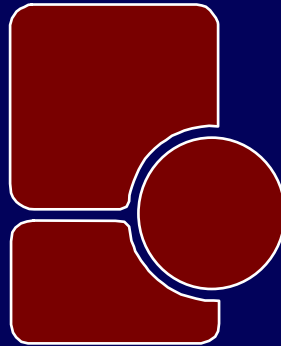


**Joint Legislative Audit and Review Commission
of the Virginia General Assembly**



**Update on Standards of Quality Funding:
JLARC Tier One, and SOQ Adopted by BOE**

**Briefing to House Appropriations
Elementary & Secondary Education Subcommittee
Robert B. Rotz
January 18, 2005**

Presentation Outline

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Background

- Overview of Tier One
- Tier One: Re-Benchmarking
- Tier One: Costs Beyond Re-Benchmarking
(Increases for Salaries, Health Insurance, Support Costs)
- Costs of SOQ Items Adopted by BOE
- Conclusion

State Standards of Quality (SOQ)

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- Virginia's Standards of Quality (SOQ) provide an important foundation for the State's role in funding elementary and secondary education
- The SOQ are minimum requirements for school divisions to provide a program of high quality for public elementary and secondary education
- Pursuant to the *Constitution of Virginia*, SOQ requirements are prescribed by the Board of Education, subject to revision by the General Assembly

Funding the SOQ

- The State and local governments provide SOQ funding
- There is a substantial variation across Virginia in the resource levels that are provided for elementary and secondary education
- While the SOQ framework is not intended to ensure that all pupils have access to equal resources for their education, the SOQ do provide a floor commitment of resources for all school divisions
- Most funding for the SOQ from the State is distributed based inversely to local ability to pay
- Therefore, the extent of the State's role in funding SOQ costs can have a particular bearing on the fiscal burden, and the level of services for students, in those localities that lack a strong local tax base and / or have substantial competing service demands

SOQ Funding Responsibilities – Language from the *Constitution of Virginia*

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- One of the features that distinguishes SOQ cost and funding issues from many other State programs is that the necessity of funding SOQ costs is constitutionally established
- Article VIII, Section 2 of the *Constitution of Virginia* states that:
 - “The General Assembly shall determine the manner in which funds are to be provided for the cost of maintaining an educational program meeting the prescribed standards of quality, and shall provide for the apportionment of the cost of such program between the Commonwealth and the local units of government comprising such school divisions. Each unit of local government shall provide its portion of such cost by local taxes or from other available funds.”

SOQ Costs Are Discussed in the Commentaries on the *Constitution of Virginia*

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■ From the Commentaries on the *Constitution of Virginia*:

- “The [General] Assembly must, by whatever means, see that sufficient funds, state and local, are available to maintain a quality program in every school division in the Commonwealth.”
- “Section 2, in short, places a duty on both the localities and the General Assembly: the localities must put up their share of funds for public schools as determined by the General Assembly, and the General Assembly must see that State and local funds together are sufficient to meet the prescribed standards of quality.”

Constitutional Parameters for SOQ Costs: SOQ Task Force and Attorney General Comments

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- “[In] estimating the cost of implementing the Standards, the General Assembly must take into account the actual cost of education rather than developing cost estimates based on arbitrary figures bearing no relationship to the actual expense of education prevailing in the Commonwealth.”
(Virginia Attorney General’s opinion, February 1973)
- “... the following guidelines are implicit in the Constitution: (1) the Standards of Quality must be realistic in relation to current education practice. (2) The estimate of the cost of the Standards of Quality must be realistic in relation to current costs for education.” *(From the first and second reports of the Task Force on Financing the Standards of Quality for Virginia Public Schools, December 1972 and July 1973)*
- “The legislative determination of cost may not be based upon arbitrary estimates with no reasonable relationship to the actual expense” *(Attorney General’s opinion, February 1983)*

Methods Used to Determine SOQ Costs and Cost Responsibilities

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■ SOQ costs:

- Instructional position component – computer programs are used to calculate the number of positions required by quantified State standards
- Salary levels and support costs – calculated based on “prevailing” school division costs in a previous base year

■ State’s contribution:

- sales tax revenues that are obtained and appropriated by the State to meet SOQ costs, and
- Funding for an overall average 55 percent of remaining SOQ costs

■ Local contribution:

- Percentage share of SOQ costs that localities are required to provide is determined by the composite index measure of local ability to pay
- Most localities have consistently provided local funding for education over the years that is well above their required local expenditure

Focus of Briefing Is on State Funding for SOQ Costs

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■ Briefing focuses on:

- Identifying met and unmet Tier One costs in the current (2004-06) biennium
 - Re-benchmarking
 - Other Tier One costs
- The costs of SOQ items that were adopted by the Board of Education (BOE):
 - Most of these items are now codified in the SOQ, based on Chapter 939 and Chapter 955 of the 2004 Acts of Assembly and the availability of State funding
 - A few items are not codified, as the effectiveness of each of the new SOQ provisions in these Acts was made contingent upon the availability of funding

■ Estimated added State costs for the SOQ shown in the briefing are determined from total SOQ costs, using current definitions for how SOQ costs are shared between the State and local governments

Added SOQ Funds in the 2004-06 Biennium

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- The General Assembly increased the amount of State funding available for SOQ purposes by about \$ 1.28 billion for the 2004-06 biennium (a two-year cost, above the base amount for the prior biennium)
- Most of these funds are for the purposes of:
 - meeting routine SOQ re-benchmarking costs, and
 - paying for newly adopted items in the SOQ
- Funding to meet Tier One costs that are above and beyond re-benchmarking is a small proportion of the overall amount

Percentage Breakdown of Added SOQ Funds, by General Purpose

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■ Added funds of about \$1.28 billion:

● Tier One

- Re-Benchmarking 67 %
- Other JLARC Tier One 4 %

● New SOQ Items Adopted by BOE

- BOE and JLARC Tier Two Items 24 %
- Additional BOE-Adopted SOQ Items 5 %

100 %

Difference Between Added State Funding and Estimated State Costs, 2004-06 Biennium (Costs for Tier One and New SOQs)

Cost Category	State Funding (\$ millions)	Estimated State Cost (\$ millions)	Difference (\$ millions)
Tier One			
- Re-benchmarking	859.5	970.4	110.9
- Other Tier One	52.7	632.9 to 695.3	<u>580.2 to 642.6</u>
SOQ Adopted by BOE			
- BOE & JLARC Tier Two	305.5	408.7	103.2
- Other SOQ Items	61.0	141.8	80.8
Total, FY 05 and FY 06	1,278.7	2,153.8 to 2,216.2	875.1 to 937.5

Note: The 2005 Budget Bill proposes a teacher salary increase of \$54.8 million in FY 2006. If adopted, this funding would increase "Other Tier One" funding from \$52.7 to \$107.5 million, and would reduce the "Difference" column figures for "Other Tier One" and Total" costs by the \$54.8 million amount.

Presentation Outline

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- Background
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Tier One Cost Components

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- Re-benchmarking: Every two years, the State produces SOQ cost estimates based on executing the SOQ cost model using more recent data
- Other Tier One Costs:
 - Technical issues identified in the JLARC funding report (February 2002) – examples include restoration of certain administrative personnel costs that had been dropped in error, and funding the documented cost of competing amount
 - Cost increases – fund increases needed to help ensure that the State SOQ costs meet prevailing (linear weighted average, or LWA) costs

Tier One Assumptions About Funding Prevailing SOQ Costs

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- State estimates of SOQ costs need to be reasonable and realistic in relation to “the actual expense prevailing in the Commonwealth”
- It is important for the State to make a consistent, good faith effort to avoid under-estimating and under-funding prevailing SOQ costs
- Consequently, Tier One takes into account expected increases in prevailing costs
- If school division cost increases ultimately are somewhat less than is anticipated, then at worst the State will have gone somewhat beyond its minimum SOQ cost responsibility in its funding of SOQ programs

The State's Statistic to Measure Prevailing Costs: The Linear Weighted Average (LWA)

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- **How the linear weighted average (LWA) works:**
 - Average school division salaries or per-pupil costs are sorted, from most to least
 - A weighted average of these unit costs is calculated
 - All division unit costs receive some weight in the calculation, but divisions with moderate costs (costs closest to the median) receive the most weight
 - Cost produced is typically between the median division cost and the division-level mean; it is less than the statewide average

Criticism of the LWA, and Its Defense

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- Criticism – typically, 70 to 75 percent of Virginia teachers and pupils are in school divisions that have average teacher salaries above the LWA
- Defense – in any given fiscal year, the LWA emphasizes moderate unit costs among the school divisions
 - Among school divisions, about 43 to 45 percent pay more
 - Among school divisions, about 55 to 57 percent pay less
 - Therefore, the amount is sufficient to cover the “prevailing” salary level among school divisions, even if most teachers and pupils are in school divisions with higher average salaries

The State Does Not Know for Certain What Prevailing (LWA) Costs Will Be in the Fiscal Years It Is Funding

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- As a practical matter, the State obviously sets its budget for each fiscal year before it can know for certain what the prevailing (LWA) cost of the school divisions will be in that particular year
- Moreover, due to the fact that the collection of year-end fiscal data from the school divisions takes time, and the fact that the State re-benchmarks every two years instead of annually, the prevailing cost (the LWA) used by the State is from three to four years earlier
- However, the use of any statistic from an old base year as the basis for meeting prevailing school division costs in upcoming years is problematic, because costs are not static

Tier One Projects Salaries Forward to Pay Prevailing (LWA) Costs

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- To address this problem, under Tier One the base year LWA cost is projected forward:
 - Costs are not projected forward simply for the purpose of “funding inflation prospectively” or to “just give salary increases”
 - Projected salary increases (and inflation rates) are used as available means or tools to accomplish the purpose of calculating costs that can meet prevailing school division costs in the years to be funded
 - For SOQ teachers, Tier One cost projections have been made using a 2.79 percent annual rate of increase

How Do Tier One and State Budget Percentage Increases for SOQ Teacher Salary Costs Differ?

(Example: Calculation of FY 2003 and FY 2004 Costs)

	Tier One		State Budget	
	Pct. Increase	Salary	Pct. Increase	Salary *
<i>FY 2000 LWA</i>	<i>x</i>	<i>\$35,328</i>	<i>x</i>	<i>\$35,328</i>
<i>FY 2001</i>	<i>2.79%</i>	<i>\$36,314</i>	<i>2.40%</i>	<i>\$36,176</i>
<i>FY 2002</i>	<i>2.79%</i>	<i>\$37,327</i>	<i>0%</i>	<i>\$36,176</i>
FY 2003	2.79%	\$38,368	0%	\$36,176
FY 2004	2.79%	\$39,439	1.13%	\$36,583
Cumulative Increase	11.64%	+ \$4,111	3.55%	+ \$1,255

* For illustrative purposes, a single combined teacher salary figure is used throughout this package. For example, in FY 2004, the State budget provided funding for an average elementary teacher salary of \$35,782, and an average secondary teacher salary of \$37,757. This is equated to a SOQ combined teacher salary of \$36,583 (using a split of 59.46 percent elementary SOQ teachers, and 40.54 percent secondary SOQ teachers) .

In Retrospect, How Do Tier One and State Budget Teacher Salaries in FY 2003 and FY 2004 Compare to LWA Costs?

FY	LWA	Tier One (2.79% Per Year)		State Budget Method	
		Salary Calculation	Salary Minus LWA	Salary Calculation	Salary Minus LWA
2000	\$35,328	\$35,328	--	\$35,328	--
2001	\$36,451	\$36,314	--	\$36,176	--
2002	\$37,477	\$37,327	--	\$36,176	--
2003	\$38,337	\$38,368	+ \$ 31	\$36,176	- \$ 2,161
2004	\$39,187	\$39,439	+ \$ 252	\$36,583	- \$ 2,604

Notes: Linear weighted average teacher salaries in FY 2003 and FY 2004 were calculated by JLARC staff using DOE data on actual school division average salaries (elementary and secondary teachers combined) in these years (for data, see DOE's "2004-05 Teacher Salary Survey Results", from December 2004). Amounts shown for FY 2000 to FY 2002 under the State Budget Method "Salary Calculation" column represent the steps that are taken to calculate FY 2003 and FY 2004 State budget salaries. The salaries actually funded by the State budget in FY 2001 and FY 2002 were set based on salary increases that were applied to a prior (FY 1998) base year salary.

What Are the Implications of the Gap Between State Budget Salaries and the LWA, in Terms of Funding Prevailing Division Costs?

	Percent of School Divisions With Average Teacher Salaries <u>Above</u> State Budget Salary	Percent of Students in Divisions With Average Teacher Salaries <u>Above</u> State Budget Salary
FY 2003	71 %	89 %
FY 2004	74 %	90 %

Note: In these fiscal years, 45% of divisions with 73% of the pupils had average teacher salaries about the LWA salary.

Why Are Teacher Salaries Increasing at the Local Level?

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Percent Change,
FY 2000 to FY 2004

■ Virginia personal income per capita	
● Private sector non-farm income	+ 17.7 %
● Total income	+ 14.7 %
■ National employment cost index, wages and salaries	
● Private industry, white collar occupations	+ 14.3 %
● Private industry, all workers	+ 13.9 %
● All civilian workers	+ 13.7 %
■ National average teacher salary	+ 12.2 %
■ Virginia school divisions	
● Statewide average teacher salary	+ 13.4 %
● LWA salary	+ 10.9 %
■ Tier One cost assumptions	+ 11.6 %
■ Consumer Price Index	+ 9.9 %
■ State Budget, SOQ teacher salary amount	+ 3.6 %

In FY 2004, How Did the State Budget Funded SOQ Teacher Salary Compare to Other Salary Levels?

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FY 2004 Salary Data	State Budget Funded Salary, SOQ Positions	Linear Weighted Average (Tier One)	Virginia Statewide Average	National Average (Tier Three)
Salary Amount	\$37,435 *	\$40,100 *	\$43,936	\$46,826
Amount Above State Funded SOQ Salary	NA	\$2,665	\$6,501	\$9,391

* For comparison to the national and statewide average amounts, the average dollar value of the State's Northern Virginia cost of competing adjustment is added to the LWA and State budget funded salaries.

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State Has Funded Most Tier One Re-Benchmarking Costs in 2004-06 Biennium

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Component	Estimated State Cost (millions)	Funded (millions)	Difference, State Cost Versus Funding (millions)
Updating SOQ Costs	\$ 820.1	\$ 820.1	\$ 0
Eliminate Rollover in Fringe Benefit Costs	\$ 21.3	\$ 21.3	\$ 0
VRS Cost, Actuarially-Based Rate	\$ 178.9	\$ 108.1	\$ 70.8
Group Life, Rate Without Premium Holiday	\$ 15.7	\$ 0	\$ 15.7
Unfunded Technical Corrections	\$ 24.4	\$ 0	\$ 24.4
Deduct of Federal Funds Potentially Available for Support Costs	(\$ 90.0)	(\$ 90.0)	NA
Total State Cost, Re-Benchmarking	\$ 970.4	\$ 859.5	\$ 110.9

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A Gap Remains Between State Funding and Full Funding of “Other” Tier One Costs (State Costs and Funding, 2004-06 Biennium)

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Component	Estimated State Cost (millions)	Funded (millions)	Difference, State Cost Versus Funding (millions)
Full Restoration of Mistakenly Dropped Administrative Personnel Costs	\$ 45.6	\$ 45.6	\$ 0
Cost of Competing	\$ 7.1	\$ 7.1	\$ 0
Salary Increases to Meet Expected Prevailing Salaries in FY 2005 and 2006	\$ 443.1	\$ 0.0	\$ 443.1
Prevailing Health Insurance Costs, FY 2005 and 2006	\$ 82.7 to \$ 145.1	\$ 0.0	\$ 82.7 to \$ 145.1
Prevailing Non-Personnel Support Costs, FY 2005 and 2006	\$ 54.4	\$ 0.0	\$ 54.4
Total, Tier One Other Costs	\$ 632.9 to \$ 695.3	\$ 52.7	\$ 580.2 to 642.6

Key Differences, State Funding and Tier One Costs: Moving FY 2002 Base Year Costs Forward to FY 2005 and FY 2006

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	Percent Increases, Salaries		Percent Increases, Health Insurance Premiums	
	State Budget, SOQ Positions	Tier One Costs	State Budget, SOQ Positions	Tier One Costs
FY 2003	0 %	2.79 %	3 %	6 – 10 %
FY 2004	2.25 %	2.79 %	3 %	6 – 10 %
FY 2005	0 %	2.79 %	0 %	6 – 10 %
FY 2006	0 %	2.79 %	0 %	6 – 10 %
Average Annual Rate	0.56 %	2.79 %	1.49 %	6 – 10 %

Note: Preliminary analysis of school division budgeted teacher salaries for FY 2005 indicates that the three-year average annual rate of increase in the LWA for these salaries (in FY 03, 04, and 05) will be about 2.75%. Mercer survey data on national health insurance premium costs indicate that the increases seen in 2003 and 2004 averaged 8.79% per year.

2005 Budget Bill as Submitted Increases SOQ Salaries in FY 2006

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- The proposed budget includes funding for the State share of a pay increase for SOQ personnel that would be effective December 1, 2005
- The dollar value of State payments for this increase:
 - Seven months of a 3.0 percent increase is equivalent to the full fiscal year dollar value of a 1.75 percent pay increase
 - The State share of the cost for SOQ positions is 55 percent
 - Therefore, the dollar value of this increase in State payments to localities represents the cost of about a one percent full-year salary increase for SOQ positions ($0.55 \times 1.75\% = 0.96\%$)
- Starting with the FY 2002 base year, this increase would raise the average annual rate of increase in the SOQ salary levels funded in the State budget by FY 2006 from 0.56 percent per year to 1.00 percent per year
- The proposed increase in funding for the salaries of SOQ personnel would address a portion (\$54.8 million) of the estimated \$443.1 million Tier One salary increase costs

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Substantial Progress Made in Funding JLARC Tier Two / BOE Adopted SOQ Items

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	Estimated State Cost (millions)	State Funded (millions)	Difference (millions)
Full-time Principals, Small Elementary Schools	\$ 13.4	\$ 0	\$ 13.4
Prevailing Assistant Principals	\$ 89.8	\$ 0	\$ 89.8
Elementary Resource Teachers	\$ 149.7	\$ 149.7	\$ 0
Secondary Planning Period	\$ 155.8	\$ 155.8	\$ 0
Total	\$ 408.7	\$ 305.5	\$ 103.2

Progress Also Made in Funding Other SOQ Items Adopted by BOE

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	Estimated State Cost (millions)	State Funded (millions)	Difference (millions)
Technology Positions	\$ 20.5	\$ 20.5	\$ 0
Speech-Language Pathologists	\$ 6.7	\$ 0	\$ 6.7
SOQ Prevention, Intervention, and Remediation	\$ 40.5	\$ 40.5	\$ 0
Reading Specialists	\$ 74.1	\$ 0	\$ 74.1
Total	\$ 141.8	\$ 61.0	\$ 80.8

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Added State Funding in the 2004-06 Biennium Has Helped Pay Re-Benchmarking and Costs for BOE's Adopted Standards

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- **A strong point in State funding for the 2004-06 biennium is in funding for re-benchmarking and for the new SOQ items adopted by the Board of Education:**
 - **Substantial funding is provided to pay re-benchmarking costs**
 - **Budget pays for about 67 percent of the State share of costs for the new items in BOE's adopted SOQ**

- **An area of limited progress is in funding for other Tier One costs beyond re-benchmarking, such as in recognizing teacher salary and health insurance cost increases to address the movement in school division prevailing costs**

Continuing Challenge to Meet Re-Benchmarking and Other Costs in Upcoming Biennium

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- At the next General Assembly Session, in 2006, the State will need to fund SOQ costs for the 2006-2008 biennium
- For these costs, the base year will be FY 2004, rather than FY 2002
- Once again, re-benchmarking alone is not likely to produce SOQ cost amounts that will be fully sufficient to cover LWA (prevailing or typical) school division costs in the years that the State will seek to fund
- The State appears to face a continuing challenge to meet re-benchmarked costs, and, if it chooses, to pay for additional SOQ items adopted by BOE but not yet funded, and to pay its share for the prevailing school division salaries, health insurance premiums, and per-pupil support costs that can be anticipated in the fiscal years that are to be funded

Tier One Table (Estimated Increases in State Costs for the 2004-06 Biennium)				
Component	Estimated State Cost (millions)	Funded (millions)	Difference, State Cost Versus Funding	Comments / Tier One Assumptions
RE-BENCHMARKING COMPONENT				
Updating SOQ Costs	\$ 820.1	\$ 820.1	\$ 0	Note: This cost includes health insurance costs, funded by taking the FY 2002 premium amount and increasing it by 3.0 percent in FY 03 and FY 04.
Eliminate Rollover in Fringe Benefit Costs	\$ 21.3	\$ 21.3	\$ 0	
VRS Rate Change	\$ 178.9	\$ 108.1	\$ 70.8	The estimated State cost uses the actuarially-based rate approved by the VRS Board (8.10 percent for 2004-06). Budget funds 6.03 and 6.626 percent.
Group Life	\$ 15.7	\$ 0.0	\$ 15.7	Tier One is based on the rate recommended for the model (0.44 percent). 2004-06 budget continues a premium holiday.
Unfunded Technical Corrections	\$ 24.4	\$ 0	\$ 24.4	Enrollment, ESL, and special education count corrections, and an updated VRS rate for professional support.
Deduct Federal Funds Potentially Available for Support Costs	(\$ 90.0)	(\$ 90.0)	\$ 0	Size of the federal fund deduct (29.22 percent of the originally proposed deduction)
Total State Cost, Re-benchmarking	\$ 970.4	\$ 859.5	\$ 110.9	
OTHER COSTS TO FULLY FUND TIER ONE				
Full Restoration of Dropped Admin. Personnel Costs	\$ 45.6	\$ 45.6	\$ 0	
Cost of Competing	\$ 7.1	\$ 7.1	\$ 0	
Prevailing Health Insurance Costs, FY 2005 and 2006	\$ 82.7 to \$ 145.1	\$ 0	\$ 82.7 to \$ 145.1	Tier One shows net cost above re-benchmarking to pay for a more realistic premium cost (use of 6 to 10 percent increases for FY 03 to FY 06).
Prevailing Non-Personnel Support Costs, FY 05 and 06	\$ 54.4	\$ 0	\$ 54.4	To estimate and seek to meet likely prevailing costs, apply inflation factor (3 percent).
Salary Increases, to Meet Expected Prevailing Salaries in FY 05 & 06 (the expected LWA in those fiscal years)	\$ 443.1	\$ 0	\$ 443.1	To estimate and seek to meet the likely prevailing costs, increase the FY 2002 LWA salary by 2.79 percent in FY 03, FY 04, FY 05, and FY 06.
Notes: Costs shown above are for SOQ personnel / purposes. Also, health insurance and salary increase costs shown above include these costs for school division positions that are recognized this biennium under the revised SOQ.				
Total, Tier One "Other" Costs	\$ 632.9 to \$ 695.3	52.7	\$ 580.2 to \$ 642.6	
TOTAL SOQ (TIER ONE) COSTS				
Tier One Costs	\$1,603.3 to \$ 1,665.7	\$ 912.2	\$ 691.1 to \$ 753.5	

STATE EDUCATION FUNDING IN THE 2004-06 BIENNIUM: JLARC TIER ONE <u>AND</u> NEW SOQ ITEMS ADOPTED BY BOE (costs in millions)			
Component	Estimated State Cost	State Funded	Difference
JLARC TIER ONE			
- Re-benchmarking	\$ 970.4	\$ 859.5	\$ 110.9
- Other Tier One Costs	\$ 632.9 to \$ 695.3	\$ 52.7	\$ 580.2 to \$ 642.6
- TOTAL	\$ 1,603.3 to \$ 1,665.7	\$ 912.2	\$ 691.1 to \$ 753.5
ITEMS IN BOTH THE SOQ AS ADOPTED BY BOE AND JLARC TIER TWO*			
- Full-time Principals, Small Elementary Schools	\$ 13.4	\$ 0	\$ 13.4
- Prevailing Assistant Principals	\$ 89.8	\$ 0	\$ 89.8
- Elementary Resource Teachers	\$ 149.7	\$ 149.7	\$ 0
- Secondary Planning Period	\$ 155.8	\$ 155.8	\$ 0
- TOTAL	\$ 408.7	\$ 305.5	\$ 103.2
ADDITIONAL ITEMS ADOPTED BY BOE			
- New SOQ: Technology Positions	\$ 20.5	\$ 20.5	\$ 0
- New SOQ: Speech-Language Pathologists	\$ 6.7	\$ 0	\$ 6.7
- New SOQ: SOQ Prevention, Intervention, and Remediation	\$ 40.5	\$ 40.5	\$ 0
- New SOQ: Reading Specialists	\$ 74.1	\$ 0	\$ 74.1
- TOTAL	\$ 141.8	\$ 61.0	\$ 80.8
TOTALS, ALL ITEMS ABOVE	\$ 2,153.8 to \$ 2,216.2	\$ 1,278.7	\$ 875.1 to \$ 937.5
<p>* JLARC Tier Two contained two items that were not part of the SOQ package proposed by the Board of Education (prevailing instructional position ratios, and a non-SOQ item, enhanced pre-school funding). For pre-school programs, the General Assembly added \$50.1 million in the biennium to achieve two of three issues identified in JLARC Tier Two.</p> <p>Notes on Differences Between Tier One Costs and Funding for the Biennium:</p> <ul style="list-style-type: none"> • Re-benchmarking – The Tier One re-benchmarking cost is \$110.9 million higher than State funding. Discussion: The Tier One cost is higher because: (1) for VRS, it uses the actuarially-based Board-approved contribution rate, instead of lesser rates (an estimated \$70.8 million difference); (2) it uses the recommended Group Life rate of 0.44 instead of using a premium holiday (an estimated \$15.7 million difference), and (3) it includes the cost of several unfunded technical corrections (an estimated \$25.6 million difference). • Other Tier One Costs – The anticipated State cost to pay the State's share of prevailing SOQ costs in FY 2005 and FY 2006 is estimated to be about \$580 to \$643 million more than State funding for this purpose. Discussion: With regard to the State's constitutional responsibility for ensuring that SOQ costs are funded, the original SOQ financing task force and two Attorney General opinions indicated that SOQ costs calculations need to exhibit qualities such as being "realistic" and "reasonable" in relation to "the actual expense prevailing in the Commonwealth." Tier One applies salary increases and projected inflation factors as tools to help ensure that the SOQ cost approach responds in good faith to the task of meeting "prevailing" costs in the Commonwealth. Largely because salary increases have generally <u>not</u> been applied in setting State SOQ funding, State-funded SOQ teacher salaries in recent years have been at levels consistently below the actual "linear weighted average". (The linear weighted average is a measure that the State uses to assess the prevailing cost across the school divisions in a particular fiscal year). <p>Source: JLARC staff analysis of cost information from the Virginia Department of Education that was developed through the execution of SOQ cost model runs using Tier One assumptions and the new SOQ items adopted by BOE.</p>			