

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



**Status Report on the Funding of
Elementary and Secondary Education**

**Staff Briefing
Robert B. Rotz
June 9, 2003**

Presentation Outline

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- Background**
- Update on JLARC Tier One**
- Update on JLARC Tier Two**
- Update on JLARC Tier Three**
- Conclusions**

JLARC Review of Elementary and Secondary School Funding

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- **Study conducted summer of 2000 to fall of 2001**
- **Study done in response to concerns expressed at the 2000 General Assembly Session:**
 - **many localities go beyond the State's Standards of Quality (SOQ), and**
 - **provide more resources to meet some education needs as they see them than the State recognizes or helps to fund.**

State Standards of Quality

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- **The Standards of Quality are minimum requirements to be met by all school divisions (Article VIII, Section 2 of the *Constitution of Virginia*, and §22.1-253.13:8, *Code of Virginia*)**
- **State Board of Education to determine standards, subject to General Assembly revision**
- **General Assembly determines SOQ costs. SOQ task force and several Attorney General opinions indicate that costs:**
 - **must not be arbitrary**
 - **must be realistic in relation to current costs**
- **General Assembly apportions SOQ costs to State and localities**

JLARC Report Had Three Funding Tiers

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- **JLARC study on education funding briefed in November, 2001:**
 - **Prior to release of Governor's budget bill**
 - **Prior to 2002 General Assembly Session**

- **The report suggested three tiers to help structure the way in which the State might address funding options:**
 - **Tier One – Costs in the Upcoming Biennium to Fully Fund Estimated SOQ Costs**
 - **Tier Two – Costs if the State Recognizes More Instructional Positions, and Addresses Potential At-Risk Pre-School Needs**
 - **Tier Three – Costs for Instructional Salary Increases (beyond the first tier) and Construction Costs**

Tier One Costs Were Estimated at \$1.06 Billion for 2002-04 Biennium

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- **Report indicated that full funding of SOQ in 2002-04 biennium would cost \$1.06 billion compared to FY 2002 funding levels**
- **JLARC report indicated that Tier One SOQ costs could be met by new funds, or by shifted non-SOQ funds.**
- **Re-programming of existing non-SOQ education funds to SOQ purposes does not enhance the State's net education funding, however**

JLARC Report Recognized State SOQ and Non-SOQ Funding

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- Report credited the State with its non-SOQ funding in rankings of State support compared to other states
- Also, State non-SOQ funding initiatives were inventoried and discussed on pages 66 to 69 of the report
- Tier One funding costs, however, are not adjusted for State spending that is done for non-SOQ purposes:
 - It is not appropriate to include State non-SOQ funding in assessing the issue of whether SOQ costs are fully estimated and funded
 - Within the State constitutional framework, SOQ funding has a primary place; initiative funding can supplement, but ought not be done in lieu of, SOQ full funding
 - None of the components of JLARC's Tier One cost were being addressed by non-SOQ funding items at the time of the JLARC report

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Tier One: A Combination of Re-Benchmarking and Proposed Costing Adjustments

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- **Tier One of the JLARC report consists of two types of cost changes:**
 1. **Re-benchmarking – Routine updates to the SOQ cost model**
 2. **Proposed Costing Adjustments**

1. Re-Benchmarking SOQ Costs

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- **Every two years, the State updates its SOQ cost estimates based on executing the cost model using more recent data**

- **For example:**
 - **The 2000-2002 budget was built on FY 1998 cost data**
 - **Re-benchmarking for the current budget (2002-04) meant that the budget was built on FY 2000 cost data**
 - **Base year costs are then updated:**
 - **factors such as funded salary increases, and non-personnel support cost inflation, are taken into account up to the fiscal year prior to the start of the new biennium**
 - **pupil enrollment projections for the new biennium are used**

Re-Benchmarking Cycle Used by the State in Funding SOQ

Fiscal Year	2000-02 Biennium	2002-04 Biennium	2004-06 Biennium
1998	Base year data for funding...		
1999	↓		
2000		Base year data for funding...	
2001	This budget year	↓	
2002	This budget year		Base year data for funding...
2003		This budget year	↓
2004		This budget year	
2005			This budget year
2006			This budget year

Re-Benchmarking of Salaries

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- **As part of the re-benchmarking process, DOE staff:**
 - determine the “prevailing” (linear weighted average) salaries for various types of positions for a base year, and
 - work forward from the cost using General Assembly-approved salary increases

- **Whether the rebenchmarking process raises or lowers the base for salary levels, and by how much, depends on how:**
 - (a) the prevailing salary in the base year compares to
 - (b) the State-funded salary for that same base year

- **The Board of Education can recommend salary increases in the budget it submits to the Governor**

- **The Governor and the General Assembly have at times set forth salary goals that have led to funding salary increases at levels intended to go beyond prevailing costs**

Recent History of Costs for Re-Benchmarking for K-12

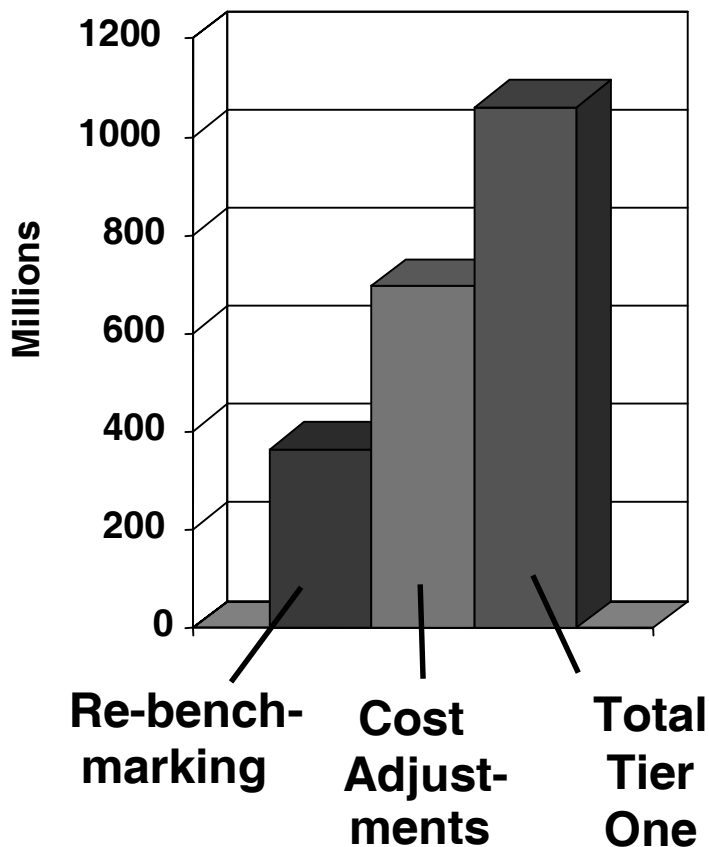
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Biennium	Amount
1992-94	\$319.8 million
1994-96	\$268.4 million
1996-98	\$410.0 million
1998-00	\$428.9 million
2000-02	\$366.5 million
2002-04	\$349.4 million

Note: At the time of the JLARC report, available data indicated the cost for routine updates to the SOQ would be about \$364 million, and this figure was used in Tier One. Updated DOE data has indicated that the amount required for SOQ re-benchmarking is closer to \$349 million to accomplish the same purpose.

Source: Amounts were reported in a House Appropriations Committee staff briefing, January 14, 2003.

Costs of Re-Benchmarking for the 2002-04 Biennium



■ Re-benchmarking accounts for about one-third of the JLARC report Tier One cost in FY 2003 and FY 2004

- Re-benchmarking: JLARC report estimated these costs at \$364 million
- Cost adjustments: Report proposed adjustments estimated at \$696 million
- Total Tier One costs: estimated in JLARC report at \$1.060 billion

Re-Benchmarking Is Part of the Tier One Cost, But Does Not Represent State “Underfunding”

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- The Tier One cost of the JLARC report represented the estimated costs for the State to meet to fully fund the SOQ, in moving from one biennium to another
- Re-benchmarking was and is included in the Tier One cost, because it must be done each biennium to meet SOQ costs
- However, the costs of re-benchmarking should not be used to estimate how much the State may have (or may be) “underfunding” the SOQ:
 - The State has continually met its re-benchmarked costs since the mid-1980s
 - The State is providing for these costs in the current biennium

2. Proposed Cost Adjustments

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- **A second component of Tier One costs are proposed cost adjustments to make SOQ costs estimates more accurate**
 - **Eliminate the practice of deducting “locally-generated revenues” from the SOQ cost calculation**
 - **Fix errors (restore dropped administrative personnel costs)**
 - **Full use of cost of competing percentage for support staff**
 - **More realistic assumptions to fully fund the “prevailing cost” concept**

Several Adjustments in Tier One Relate to the “Prevailing Cost” Concept

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- The underpinning of the State’s approach to funding the SOQ is to use a “prevailing cost” approach to estimate those costs that are not addressed by quantified standards
- The measure used by the State to determine prevailing costs is the “linear weighted average”; it tends to produce a moderate cost level, below the statewide average
- Several of the cost adjustments contained in Tier One would help the State better meet the objective of providing SOQ funding each fiscal year at levels that are expected to be at least sufficient to meet prevailing (linear weighted average) costs

Overview Regarding the State's Progress on Tier One Cost Adjustments

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- The State budget has been gradually addressing Tier One cost adjustments
- The practice of deducting locally-generated revenues from SOQ cost calculations eliminated by second year of current biennium
- Mistakenly dropped administrative personnel costs are being restored:
 - five percent in the first year
 - almost three-quarters of prevailing cost is funded in second year
- A compensation supplement is included in the second year of the budget to address a portion of the compensation-related concerns identified in Tier One of the JLARC report

Overview Regarding the State's Progress on Tier One Cost Adjustments (continued)

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- In difficult budget times, progress has been limited on components of Tier One that entail using more realistic assumptions to meet prevailing costs. Two example areas are salaries and health insurance benefits.
- Teacher salaries -- sufficient data are available now to conclude that:
 - Tier One costs will be relatively close to linear weighted average teacher salaries in FY 2002 and FY 2003
 - However, the State budget salaries for FY 2002 and FY 2003 will be substantially less than the linear weighted average salaries for those years
- Health insurance premium costs:
 - State budget assumes no increase in premiums in FY 2003 and 2004; however, divisions are experiencing substantial premium increases in one or both years
 - Tier One cost estimates used a 9.2 percent increase, FY 2004 over FY 2002
 - The State's employer premium cost for single-coverage of State employees is 13 percent more in FY 2004 than the FY 2002 amount

Conclusion: State Budget Has Been Gradually Addressing the Proposed Cost Adjustments

■ Status in the State Budget for the 2002-04 Biennium:

	Percent of Cost Addressed	
	<u>Yr 1</u>	<u>Yr 2</u>
● Locally-generated revenues (\$97 million)	50 %	100 %
● Fixing erroneous exclusion of administrative personnel costs (\$148 million)	5 %	73 %
● Support cost of competing (\$6 million)	0 %	0 %
● More realistic assumptions to update cost figures (\$445 million)	0 %	6 %
Overall average percent of total costs for proposed adjustments that is met	9 %	34 %

Summary, JLARC Tier One Status for 2002-04 Biennium

■ Routine Re-benchmarking and Cost Adjustments:

	<u>Cost (millions)</u>	<u>Funded (millions)</u>
Re-benchmarking	\$ 364	\$364 *
Cost Adjustments:		
• Locally generated revenues	\$ 97	\$ 75
• Dropped administrative costs	\$ 148	\$ 58
• Support cost of competing	\$ 6	\$ 0
• More realistic assumptions to update costs	<u>\$ 445</u>	<u>\$ 28</u>
• Total	\$ 1,060	\$ 525

* The achievement of funding for re-benchmarked costs is temporary progress. New re-benchmarked costs will soon be calculated by DOE for the 2004-06 biennium. The additional funding for locally-generated revenues and dropped administrative costs was partially offset by reductions in certain non-SOQ funding accounts.

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Components of Tier Two

■ Enhanced Recognition of Instructional Personnel

- Elementary resource teachers
- Funding secondary teachers at 21:1 pupil-teacher ratio (25:1 and current planning period requirement)
- FT elementary principals for small schools
- Assistant principals available at prevailing practice levels
- Consideration of reduced maximum class size and division-wide pupil-teacher ratios

Est. State cost: Up to \$759 million over the biennium, depending on changes made

■ At-risk pre-school funding

- Updated per-pupil cost
- Program availability of up to 100 percent for unserved children
- Program participation allowed for divisions currently using federal funds for this purpose

Est. State cost: \$9 million to \$83 million over the biennium, depending on the changes made

BOE Considering Changes to SOQ

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- On May 28, 2003, the Board of Education completed its first review of proposed revisions to the SOQ
- The proposed revisions resulted from the work of a Standards of Quality Standing Committee of the Board
 - Committee created in November 2001
 - Committee held public hearings during 2002
- Various options that were proposed had a State cost of about \$590 million (DOE staff estimates of FY 2004 costs)
- BOE gave preliminary approval on May 28th to items with a State cost of about \$323.8 million (DOE staff estimate, FY 2004 cost):
 - Biennial cost at FY 2004 level times two would be \$647.6 million
 - Board is currently proposing a four-year phase-in of the items
 - Slide 26 shows items with preliminary approval by BOE for the SOQ, and compares these items to JLARC Tier Two items

Several BOE Proposals Relate to JLARC Tier Two Issues

Issue	Tier Two	BOE Considering for SOQ	BOE FY 2004 State Cost (Millions)
FT elementary principals, small schools	√	√	\$ 6.0
Prevailing assistant principals	√	√	\$ 40.4
Elementary resource teachers	√	√	\$ 67.2
Secondary staffing – planning period	√	√	\$ 116.8
Expanded funding for pre-school	√		--
Prevailing instructional staffing	√		--
Speech-language pathologists		√	\$ 3.0
SOQ prevention, intervention, remediation		√	\$ 19.3
Reading specialists		√	\$ 32.6
Technology specialists: instructional (\$32.6 million) and support (\$5.9 million incremental cost)		√	\$ 38.5

Summary, JLARC Tier Two Status in 2002-04 Biennium

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- Tier Two items have not been funded during the 2002-04 biennium
- State funding for the at-risk four-year old program:
 - continues to be based on a \$5,400 per pupil grant amount that was developed as appropriate back in 1993 and first used in State budgets in FY 1996
 - State appropriations for the program are less than at the time of the JLARC review, due to the use of anticipated participation rates and data revisions
- However, BOE revisions to the standards, if adopted and funded, could bring substantial Tier Two progress in instructional staffing for upcoming biennia

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Components of Tier Three

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■ Enhanced State support for capital costs

- Options :
 - Status Quo
 - Recognize Costs Using a Building Life Cycle Approach
 - Pay Percentage of Prevailing Per Pupil Debt Service Costs
- Cost range of options, 2002-04 biennium :
 - Up to \$291 million over the biennium, depending on the changes made

■ Enhanced State policies on teacher salary funding

- Options :
 - Linear Weighted Average Salary, Statewide Average Ceiling
 - Comparable Pay Report Findings
 - National Average by FY 2006
- Cost range of options, 2002-04 biennium :
 - \$171 to \$392 million

Status, School Construction Options

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- Tier Three options for enhancing State support for school construction were not implemented
- With State budget difficulties, school construction grant funds were cut:
 - Funding was \$55 million per year in prior biennium
 - Funding for 2002-04 budget cut in half (\$27.5 million per year)
- Also, Literary Fund dollars, typically available for school construction loans, are being used to fund teacher retirement costs, and Literary Fund loans to divisions have ceased
- However, the local share of lottery revenue proceeds increased by \$44.6 million over the biennium; at least half of local share lottery funds are to be used for non-recurring (capital) purposes

Status, Tier Three Options for Teacher Salaries

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- Funding salaries up to the statewide average (if paid by divisions) or progressing toward the national average were among the salary options included in Tier Three
- As previously indicated, the State in the 2002-04 biennium is short of paying Tier One salary costs, although a 2.25 percent mid-year salary increase is budgeted in FY 2004
- Therefore, Tier Three salary options appear to be unrealistic at this time
- In FY 2003, the teacher salary levels used in the State budget will be more distant from Virginia's statewide average than in FY 2001 (see next slide)

Difference Between Teacher Salary Levels: State Budget and Virginia, National Averages

Fiscal Year	Amount State Budget Is Below... Virginia Average	Amount State Budget Is Below... National Average
FY 2001	\$ 3,085	\$ 6,177
FY 2002	\$ 4,129	\$ 6,897
FY 2003 *	\$ 5,932	?
FY 2004	?	?

* Note: FY 2003 Virginia average salary used in these calculations is based on certification to DOE by division superintendents of the average budgeted salary to be provided, discounted by 0.5%. The average from such data, discounted by 0.5 percent, were accurate to within + or - \$23 in FY 2001 and FY 2002.

Summary, JLARC Tier Three Status in 2002-04 Biennium

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- Status, Tier Three options for enhanced funding for capital purposes and possible teacher salary goals:

	<u>Option Cost (Millions)</u>	<u>Funding (Millions)</u>
Capital purpose funding options	Up to \$291	- \$10 to – 33 *
Teacher salary goal options **	\$171 - \$312	\$0
Total	\$171 - \$603	- \$10 to -\$33

* Reduction of \$10 million assumes that all increased Lottery Funds are made available for construction. Reduction of \$33 million assumes that half of the Lottery funds are made available for construction. Analysis does not reflect potential negative impacts on capital projects due to Literary Fund diversions.

** The State's does not have an official teacher salary goal at this time.

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Status of Tier One Re-Benchmarking, Current Biennium

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- Tier One costs represent the estimated costs for the State to meet in order to fully fund the SOQ, in moving from one biennium to another
- About one-third of Tier One costs are for re-benchmarking the SOQ
- As has been customary practice, the State is funding its re-benchmarking of SOQ costs in 2002-04
 - State has funded its re-benchmarking over the past 16 years prior to this biennium
 - The costs of routine updates to the SOQ model that were included in Tier One costs was \$364 million

Status of Tier One Adjustments in Costing Practices, Current Biennium

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- **The State budget for 2002-04 also gradually addresses the costing adjustments proposed by Tier One. The budget:**
 - **Eliminates the practice of deducting locally-generated revenues in calculating SOQ costs**
 - **Restores mistakenly dropped administrative personnel costs**
 - **Provides a compensation supplement to school divisions in FY 2004 to address a portion of Tier One costs**

- **The budget addresses 23 percent (\$161 of \$696 million) of the JLARC Tier One Cost that is beyond re-benchmarking**

Overall Status of Tier One, Current Biennium

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■ The current State budget thus provides for:

- Re-benchmarking cost 100 percent
- Cost adjustments of Tier One 23 percent

- All Tier One costs 49 percent

■ In summary, for the current biennium:

- About \$525 million of Tier One costs are funded
- The unfunded portion of Tier One is about \$535 million

Upcoming Biennium Presents a Funding Challenge

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- **For the upcoming biennium (2004-06), it will be a substantial challenge for the State to find funds to pay its share for:**
 - **The upcoming re-benchmarking of the SOQ (part of Tier One)**
 - **Progress in making the Tier One cost adjustments, to accurately estimate and meet prevailing SOQ costs**
 - **A Phase-in of Board of Education SOQ revisions that help address Tier Two cost issues**