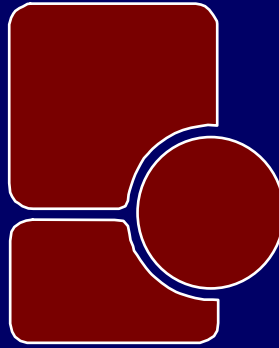


**Joint Legislative Audit and Review Commission
of the Virginia General Assembly**



**Three Funding Tiers from the JLARC Review
of Elementary and Secondary School Funding**

**Presentation to the Governor's Advisory Workgroup
for Continuing K-12 Quality
Robert B. Rotz
October 18, 2005**

Presentation Outline

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Background

Tier One

Tier Two

Tier Three

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 (1972-73) and Attorney General opinions indicate that costs:**
 - **must not be arbitrary**
 - **should have a relationship to the “actual expense of education prevailing in the Commonwealth”**
 - **“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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- **Tier One – costs in each upcoming biennium to fully fund estimated SOQ costs**
- **Tier Two – costs if the State recognizes more instructional positions as part of the SOQ***
- **Tier Three – costs for instructional salary increases (that go beyond the first tier), and assistance for school construction costs**

* Tier Two also included some at-risk pre-school funding issues, such as the lack of an increase over the years in the per-pupil unit cost used by the State in funding.

Presentation Outline

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- Background
- Tier One – Fully Fund SOQ Costs
- Tier Two
- Tier Three

Tier One Intent

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- To make the State's estimation of SOQ costs realistic relative to the prevailing costs of school divisions
- To provide the State with an approach to SOQ costs that is therefore very defensible in the event of legal challenge

Some Cost Components of Tier One Are Being Addressed in State Budgets

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- **Re-benchmarking -- Routine updates to the SOQ cost model are being made**
 - SOQ costs were re-benchmarked for the 2004-06 biennium
 - State is in the process of re-benchmarking for 2006-08

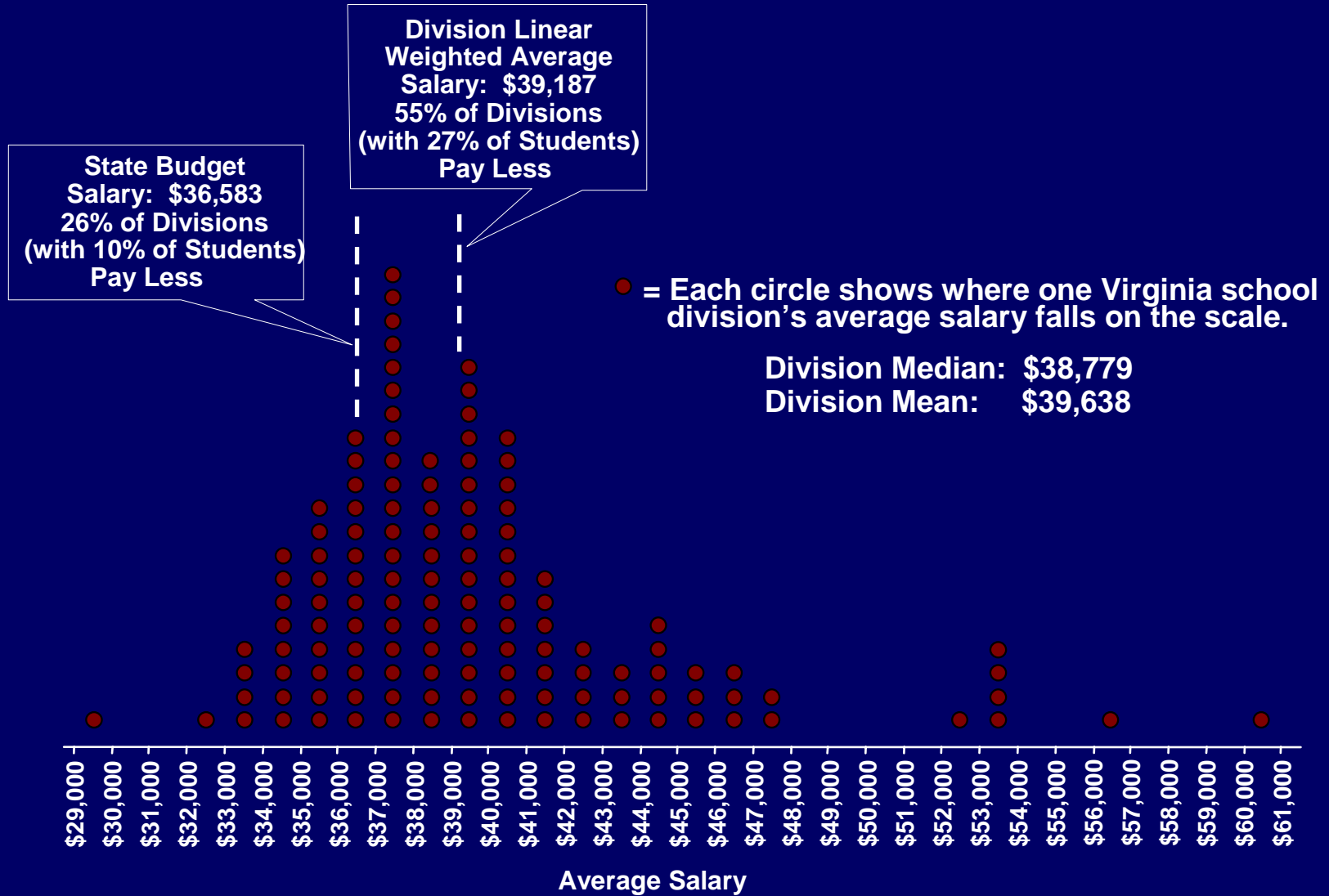
- **Some of the proposed adjustments in determining SOQ costs have been addressed. For example:**
 - Costs originally dropped by mistake have been restored to the cost calculations (some administrative personnel costs)
 - Practice of deducting “locally-generated revenues” before determining State and local shares of costs was eliminated

A Key Tier One SOQ Funding Issue: SOQ Personnel Compensation Costs

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- **Have the State's assumptions about SOQ personnel compensation been adequate to ensure that prevailing school division costs are funded?**
- **SOQ teacher salaries used in the State budget in FY 2004 met the average salary costs of teachers in:**
 - **about one-fourth of Virginia's school divisions**
 - **divisions who educate about ten percent of Virginia's students**

Teacher Salaries in FY 2004



Key Difference in Assumptions, State Budget and Tier One: Moving SOQ Costs from FY 2002 to FY 2005 and FY 2006

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Fiscal Year	STATE BUDGET		TIER ONE	
	SOQ Salary Increase	Health Insurance Premium Increase	SOQ Salary Increase	Health Insurance Premium Increase
2003	0 %	3 %	2.79 %	6 – 10 %
2004	2.25%	3 %	2.79 %	6 – 10 %
2005	0 %	0 %	2.79 %	6 – 10 %
2006	1.75 %	0 %	2.79 %	6 – 10 %
Avg. annual rate	1 %	1.50 %	2.79 %	6 – 10 %

Note: In FY 2006, the State's salary increase of three percent is not effective for the full year. Its dollar value funds the State share of a 1.75 percent salary increase.

Additional State Costs in 2004-06 Biennium to Fully Fund Tier One SOQ Costs

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■ Compensation-Related Costs	
● Prevailing salary costs:	\$388.3 million
● Realistic health insurance costs:	\$82.7 to \$145.1 million
● Fully fund actuary rates for VRS:	\$70.8 million
● Fund group life costs:	\$15.7 million
Sub-total	<u>\$541.8 to \$604.2 million</u>
■ Other Tier One Costs:	\$ 81.8 million
■ Total Added Costs, Tier One:	\$623.6 to \$686 million

Presentation Outline

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Background

Tier One

Tier Two -- Instructional Positions in the SOQ

Tier Three

Several BOE-Adopted Revisions to the SOQ This Biennium Related to JLARC Tier Two Issues

Issue	↓ JLARC Tier Two	BOE- Adopted Revisions	Statutorily Adopted <u>and</u> Funded *
FT elementary principals, small schools	√	√	
Prevailing assistant principals	√	√	
Elementary resource teachers	√	√	√
Secondary staffing – planning period	√	√	√
Speech-language pathologist caseloads		√	
SOQ prevention, intervention, remediation		√	√
Reading specialists		√	
Technology specialists: instructional and support		√	√
Estimated Costs, 2004 – 06 Biennium	\$408.7 million	\$550.5 million	\$366.5 million

* All of the Board’s adopted revisions were set forth in an Act adopted by the General Assembly. However, the Act provided that the new standards were to be effective contingent upon the availability of funding, and ultimately funding was not provided for several items priced at an estimated \$184 million.

Presentation Outline

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Background

Tier One

Tier Two

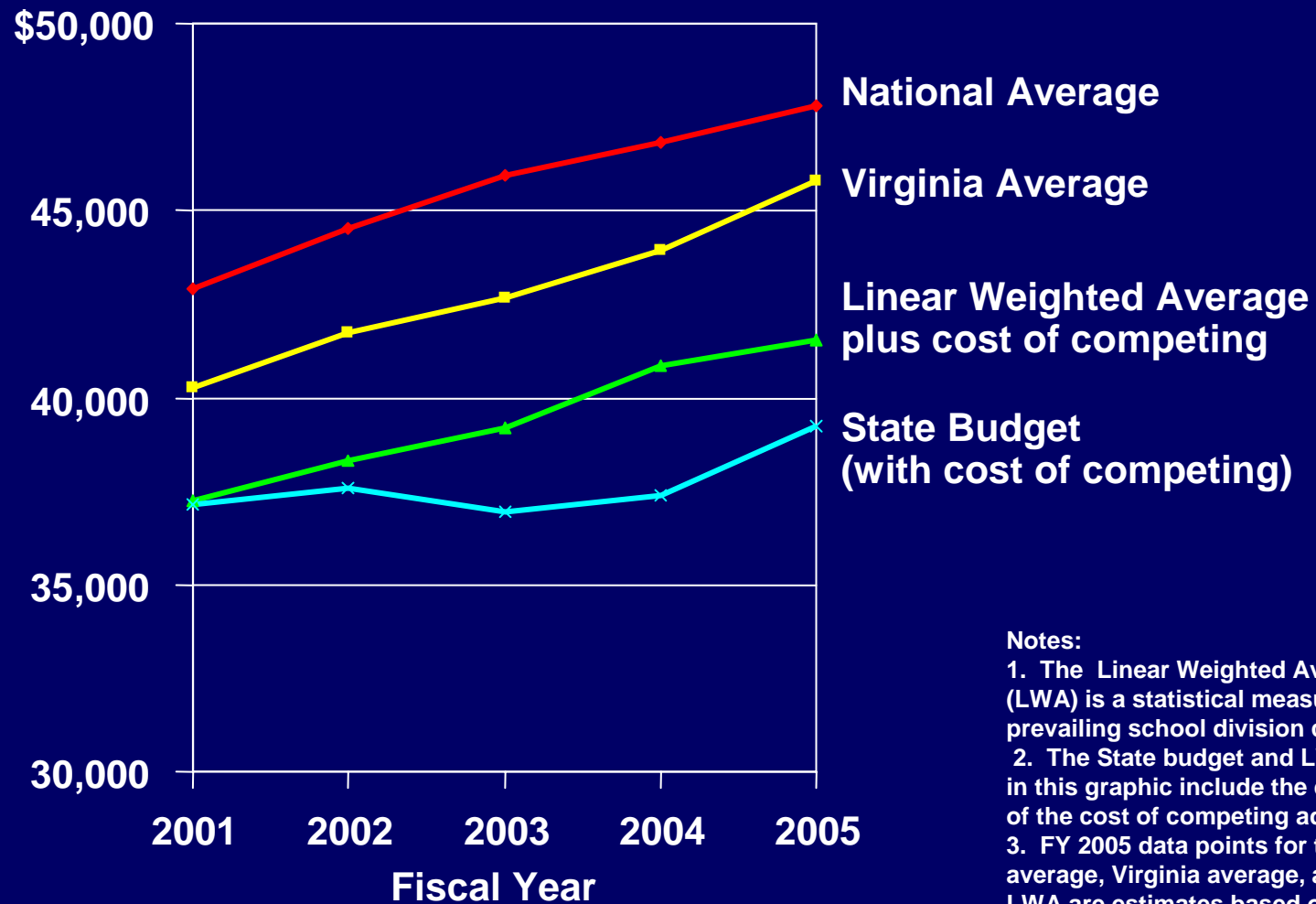
Tier Three – Enhanced State Support for
Teacher Salaries, and School Facilities

Tier Three: Enhanced State Policies on Teacher Salary Funding

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- State budget salaries for teachers in recent fiscal years have been below the national average, statewide average, and linear weighted average (see slide 17)
- Options to enhance State policies on teacher salary funding (going beyond Tier One) were provided as part of Tier Three in the JLARC report:
 - In funding divisions, use the linear weighted average as a floor, and the statewide average as a ceiling
 - Use comparable pay report findings
 - Provide funding needed to move the Virginia average to the national average salary within a designated time frame

State-Budgeted SOQ Teacher Salaries Are Less Than the National Average, Virginia Average, and Virginia LWA Salaries



Notes:
1. The Linear Weighted Average (LWA) is a statistical measure of prevailing school division costs.
2. The State budget and LWA salaries in this graphic include the dollar value of the cost of competing adjustment.
3. FY 2005 data points for the national average, Virginia average, and Virginia LWA are estimates based on preliminary information.

Tier Three: Facility (Capital) Costs

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- **The JLARC review noted that disbursements for school facility costs surged from FY 1986 to FY 2000**
 - Expenditures rose from \$183.5 to \$742.8 million
 - Average growth rate in per-pupil costs was 9.3 percent per year
 - The cost burden was almost exclusively borne by local governments

- **The report also noted reasons to think that these costs might continue to present a funding challenge**
 - Some localities continue to experience growth at high rates
 - There are many aging school buildings statewide
 - About 18 percent (at the time of the review) were built between 1950 and 1959
 - Another 26 percent were built between 1960 and 1969

Tier Three: Included Three Options for State Support of Facility Costs

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- Status Quo
- Building Life Cycle Approach
- Prevailing Per-Pupil Debt Service Costs

Option A: Status Quo (at the time of the JLARC report)

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- **In FY 2000, \$117 million in State funds were available for facility purposes (\$107 million was from general funds)**
 - **School construction grant program: \$55 million per year**
 - **At least 50 percent of locality Lottery proceeds: \$62 million per year**
- **Literary Fund was used for loan purposes; use of the fund for purposes other than school construction project loans was relatively minimal**

Option B: Building Life Cycle Approach

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■ Method:

- Determine replacement cycle for buildings
- Multiply square footage per year times school facility construction costs per square foot

■ Total State Costs Per Year (costs were computed for FY 2000):

- Range was from \$117 to \$350 million per year
- Basis for the cost range
 - Building life cycles of 25 years, 37.5 years, and 50 years were used
 - State shares of 33%, 45% and 50% were used

■ Net Additional State Cost, FY 2000:

- Range was from \$10 to \$243 million per year in added State costs
- Net costs were total costs minus the \$107 million per year in general funds

Option C: Prevailing Per-Pupil Debt Service Costs

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■ Method:

- Determine typical expenditures per pupil for debt service (linear weighted average)
- Appropriate the State share of the costs; funding to be reserved for facility purposes on an as-needed basis

■ Total State Cost Per Year (costs were computed for FY 2000):

- Range was from \$147 to \$221million
- Basis for the cost range -- State shares of 33%, 45% and 50% were used

■ Net Additional State Cost, FY 2000:

- Range was from \$40 to \$114 million per year in added State costs (net costs were total costs minus the \$107 million per year in general funds)

State Support for Capital Costs Since the Time of the JLARC Report

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- The three “Tier Three” options for State support for school construction were not implemented
- With State budget difficulties, the status quo was not preserved:
 - school construction grant funds were cut in half, going from \$55 million per year in the 2000-2002 biennium to \$27.5 million in the 2002-04 and 2004-06 biennia
 - about \$257.7 million in appropriations in the current biennium are made from the Literary Fund to pay for most of the State share of VRS contribution costs for SOQ personnel
- However, the local share of lottery revenue proceeds has increased since the time of the JLARC review:
 - at least half of these proceeds are to go to non-recurring costs
 - In the current biennium, the increase in minimum proceeds available for non-recurring costs (compared to FY 2000) is about \$18 million