

Summary: Joint Legislative Audit and Review Commission (JLARC) Report on Virginia's K-12 Funding Formula

July 12, 2021

Overall, the JLARC findings are fully in line with issues Virginia's school divisions have been raising for years, if not decades: Virginia's funding formulas do not support the needs of Virginia's public school divisions, teachers, staff, or students. The report also found that this underfunding impacts every school division in the Commonwealth. No division is unharmed by the implications of our flawed funding model regardless of their size, local ability to pay, or location.

Because of this, the summary of recommendations presented by the JLARC staff, and summarized below, are in line with long-standing Legislative Priorities of many school divisions across the Commonwealth.

The report further concludes that the Standards of Quality (SOQ) funding formula does not accurately reflect prevailing practice in our schools because it has been subject to changes that reflect budget decisions made by the General Assembly rather than the educational needs of our students. Additionally, SOQ funding formula maintenance and support has been problematic.

In a bit of a surprise, JLARC did find that the Local Composite Index (LCI) continues to be a reasonable measure of a local government's ability to pay. The report rebuked arguments that local governments often make when advocating for changes or updates to the formula, namely the impacts of tax-exempt properties, small numbers of high-income earners, or local land use policies. While the report found that the formula itself seems to be adequate, it does mention the possible impacts on some local governments when the LCIs are rebenchmarked every two years. Richmond City was mentioned specifically as an outlier in the 2022-2024 rebenchmarking. The city saw increases in both true value of property and income that outpaced other localities in Virginia. That, along with a significant reduction in the city's Average Daily Membership (ADM), resulted in significant spike in Richmond's LCI which resulted in far less state direct aid for schools. The combined effect of enrollment losses from the pandemic along with the City no longer serving as the fiscal agent for about 7,000 virtual students in the Commonwealth drove the sharp decrease in the overall state allocation of direct aid. Large enrollment losses, like we saw in Richmond, not only impacts the calculation of the LCI but also the overall direct aid distribution amount because those figures run through the LCI formula and are then distributed to local governments on a per pupil basis.

The report does make a recommendation on the LCI that, according to the study team, will prevent the types of LCI swings Richmond experienced during this last rebenchmarking.

Important to note, the report recognizes the significant role local governments have played in filling the gap between the needs of our public schools and the current funding levels established in the Standards of Quality. As we have long mentioned, every school division in the Commonwealth invests well over their required local effort. This should have been a key indicator to the General Assembly that Virginia’s funding formulas are not meeting the needs of our public school students, but it has not. The report concludes that local governments are investing just over \$7.3 billion over their current required share of the cost of all direct aid programs. JLARC concludes that the current SOQ formulas underestimate the state share of that funding by just over \$3.5 billion. The report points to specific areas where the SOQ formulas fall short on funding and most are related to overall staffing costs, increased labor costs, and Virginia’s low funding levels for three categories of high-need students: At-risk (defined by students eligible for free lunch), English Language Learners (ELL), and Special Education.

Important context is the response to the report by Secretary of Education Aimee Guiderra and State Superintendent of Instruction Dr. Lisa Coons. They conclude that the current Governor’s investments have far outpaced his predecessors and that there were flaws in the study methodology related to not taking into account those increased funding levels and the Governor’s 2023 budget amendments. You can read that response on page 124 of the [full report](#). The response does mention the Secretary of Education’s report pursuant to House Bill 938 that lays out the needs of our public schools related to the Governor’s priorities. You can read that report, *To Promote Excellence and Higher Student Achievement in Response to House Bill 938*, [here](#).

The full JLARC K-12 Funding Formula Report includes cost estimates for each of the recommendations listed in the “Recommendations” section of this summary. Overall, the cost estimate for updating Virginia’s funding formula to the standard established in the JLARC report stands at **\$3.5 billion**.

Major Findings of the Report:

- **Virginia divisions receive less funding than multiple benchmarks.**
 - JLARC compared spending other states
- **State SOQ formula yields substantially less funding than actual division spending and benchmarks.**
 - Funding models estimate Virginia school divisions need 6 to 33 percent more total funding to meet the needs of our students and schools
 - SOQ formula calculated divisions needed \$10.7B, but divisions actually spent \$17.3B
 - Few (only two, very small) Virginia school divisions spend more on K-12 than peers, after accounting for cost drivers
- **Total statewide staffing needs calculated by SOQ formula are less than actual employment levels and workgroup estimates.**

- Formula calculates fewer of all major staff types than number employed and estimates of need
- Certain “non-personal” costs were removed from the prevailing SOQ cost calculations during the Great Recession, though they are still incurred by divisions (travel, leases, other)
- Calculation used to account for federal funds was changed to use less accurate assumptions
- **SOQ formula systematically underestimates division compensation.**
 - SOQ formula uses a variety of salary assumptions and estimates as basis to determine funding levels but does not determine salaries
 - Formula uses a valid, but little-used, statistical method to calculate the average teacher salary (linear weighted average)
 - This action underweights the prevailing salaries of the divisions with the most staff
 - SOQ formula adjustments for salary costs are usually less than growth in teacher salaries and do not, generally, keep pace with inflation
 - State uses unsystematic process to increase funding for compensation over time
 - Funding for salary adjustments is not consistently provided nor based on a clear measure or objective and often trail actual salary growth and inflation
 - Virginia average teacher salaries consistently trail statutory goal of being at or above national average
- **The current Funding Formula still uses Great Recession-era cost reduction measures (implemented in FY09).**
- **The Funding Formula does not adequately account for higher needs students.**
 - Methodology for at-risk students undercounts students in poverty because the utilization of free and reduced lunch applications
 - State funding per student has increased for at-risk (low income) and English learners and declined for special education, but the formulas still undervalue the cost of the educational needs of these student groups
 - State funding per student for higher needs students is less than several relevant benchmarks
 - Funding for at-risk programs is essential for low income student success, yet not SOQ required
 - Data used to estimate poverty for at-risk program funding is old and increasingly inaccurate
 - State funding for the three types of higher needs students (At-risk, ELL, and Special Education) is below several benchmarks
- **The Funding Formula does not adequately account for local labor costs.**
 - Cost of competing adjustment (COCA) provided in SOQ formula to address higher regional labor costs uses old data and excludes several divisions
 - Cost of competing adjustment amounts are based on an old, imprecise analysis

- Cost of competing adjustment percentages were developed in 1995
- COCA amount is less than division salaries
- Current wage data shows several divisions outside Northern Virginia have above average labor costs, to include divisions in Central VA and Tidewater.
- **The Funding Formula does not adequately account for small divisions' inability to gain economies of scale.**
 - Academic research and analysis of Virginia finds small divisions have higher costs per student
- **Despite being 50 years old, the Local Composite Index (LCI) formula remains a reasonable measure of local ability to pay.**
 - Proportion of current local revenue sources still similar to original LCI weightings from 1970s
 - LCI appropriately excludes tax-exempt properties when measuring local wealth
 - LCI is not substantially skewed by any single individual's income or change in income
 - LCI appropriately does not account for differences in local land use or other tax policies
 - However, LCI recalculations each biennium can result in sudden, large losses of state funding

Virginia can consider a wide range of changes to improve the SOQ Formula.

JLARC RECOMMENATIONS:

Legislative Options to Consider

- RECOMMENDATION 1 – NEAR TERM The General Assembly may wish to consider amending the Code of Virginia and including language in the Appropriation Act directing the following technical adjustments to the Standards of Quality (SOQ) formula and compensation supplement calculations: (i) include all division central office positions in the SOQ formula, (ii) apply the cost of competing adjustment to facility and transportation staff salaries in the SOQ formula, (iii) remove the cap on adjustments to non-personal cost assumptions in the benchmarking process in the SOQ formula, and (iv) account for cost of facilities staff salaries in compensation supplement calculations.
- RECOMMENDATION 2 – LONG TERM The General Assembly may wish to consider including language in the Appropriation Act directing the Virginia Department of Education to develop and propose a new set of fixed and prevailing staffing ratios for the Standards of Quality formula, in consultation with school divisions and the Board of Education, which should accurately reflect how divisions are staffed and be simpler, easier to apply, and comprehensive.
- RECOMMENDATION 3 – LONG TERM The General Assembly may wish to consider amending the Code of Virginia and Appropriation Act to establish Standards of

Quality staffing ratios developed by the Virginia Department of Education, in consultation with school divisions and the Board of Education, that accurately reflect how divisions are staffed.

- **RECOMMENDATION 4 – NEAR TERM** The General Assembly may wish to consider including language in the Appropriation Act that directs the following changes to the Standards of Quality formula: (i) eliminate the support cap, (ii) re-instate the non-personal cost categories removed in FY09 FY10, and (iii) re-instate the federal fund deduction methodology used prior to FY09.
- **RECOMMENDATION 5 – LONG TERM** The General Assembly may wish to consider including language in the Appropriation Act directing the Virginia Department of Education to update the cost assumptions for school division employee salaries used in the biennial Standards of Quality rebenchmarking process to better reflect current salaries paid by school divisions.
- **RECOMMENDATION 6 – NEAR TERM** The General Assembly may wish to consider including language in the Appropriation Act directing the Virginia Department of Education to calculate salary and other Standards of Quality formula cost assumptions using the division average, rather than the linear weighted average.
- **RECOMMENDATION 7 – NEAR TERM** The General Assembly may wish to consider amending the Code of Virginia and including language in the Appropriation Act to change the local composite index to be calculated using a three-year average of the most recently available data, rather than a single year of data every other year.
- **RECOMMENDATION 8 – NEAR TERM** The General Assembly may wish to consider amending the Code of Virginia and including language in the Appropriation Act to designate the At-Risk Add-On program as a Standards of Quality funding program, in recognition that the funding is essential for providing Virginia K–12 students with a quality education.
- **RECOMMENDATION 9 – NEAR TERM** The General Assembly may wish to consider amending the Code of Virginia and including language in the Appropriation Act to direct use of the federally approved Identified Student Percentage measure to calculate funding for all at-risk programs that currently rely on the outdated free lunch estimates.
- **RECOMMENDATION 10 – NEAR TERM** The General Assembly may wish to consider amending the Code of Virginia and including language in the Appropriation Act to consolidate the At-Risk Add-On program and Prevention, Intervention, Remediation program and create a new At-Risk Program under the Standards of Quality. Funding for the new At-Risk Program would be allocated based on each school division's weighted Identified Student Percentage, and 60 percent of funding would be distributed to divisions using a flat per student rate and 40 percent would be distributed using a variable rate based on the concentration of poverty in each school division.
- **RECOMMENDATION 11 – NEAR TERM** The General Assembly may wish to consider including language in the Appropriation Act requiring the Virginia Department of Education to work with school division staff and experts as needed to develop new

special education staffing needs estimates based on a review of current ones and report its findings to the Board of Education, the House Committee on Education, and the Senate Committee on Education and Health.

- **RECOMMENDATION 12 – LONG TERM** The General Assembly may wish to consider amending the Code of Virginia and including language in the Appropriation Act to replace the current cost of competing adjustment with a more accurate adjustment based on a Virginia cost of labor index that better accounts for differing labor costs across school divisions in calculating compensation funding through the Standards of Quality formula.
- **RECOMMENDATION 13 – LONG TERM** The General Assembly may wish to consider amending the Code of Virginia and including language in the Appropriation Act directing that the Standards of Quality formula include an economies of scale adjustment to provide additional funding to divisions with fewer than 2,000 students.
- **RECOMMENDATION 14** The General Assembly may wish to consider amending the Code of Virginia to state that it shall consider the funding amounts calculated by the Standards of Quality (SOQ) formula when determining the amount of funding needed to maintain an educational program meeting the prescribed SOQs but shall not be obligated to appropriate the amounts calculated by the formula.
- **RECOMMENDATION 15** If the Code of Virginia is amended to establish that the funding amounts calculated by the Standards of Quality formula serve only as a guide for needed funding, the General Assembly may wish to consider amending the Code of Virginia and including language in the Appropriation Act to eliminate current SOQ staffing standards and direct the Board of Education to establish all staffing ratios used in the SOQ formula.
- **RECOMMENDATION 16** The General Assembly may wish to consider amending the Code of Virginia to direct the Virginia Department of Education (VDOE) to biennially calculate, compare, and report on differences between the fixed staffing ratios in the SOQ formula and actual ratios in Virginia school divisions, so that fixed ratios can be regularly adjusted as needed. VDOE should report its findings to the Board of Education.
- **RECOMMENDATION 17** The General Assembly may wish to consider including funding in the Appropriation Act for the Virginia Department of Education to begin procuring a modern and more usable Standards of Quality funding information technology application.
- **RECOMMENDATION 18** The General Assembly may wish to consider including language in the Appropriation Act directing the Virginia Department of Education to work with school division finance directors to study the feasibility of implementing a secure, web-based reporting system for annual school reports.
- **RECOMMENDATION 19** The Virginia Department of Education should submit to the Department of Planning and Budget a decision package for modernizing its Standards of Quality funding information technology application and school division financial reporting system to be considered for the governor’s introduced budget.

The decision package should explain and itemize the cost of any consultants, procurements and additional full-time or contracted staff that are expected to be needed to modernize these systems.

- RECOMMENDATION 20 The General Assembly may wish to consider including funding in the Appropriation Act for the Virginia Department of Education to create a position in the Office of Budget responsible for providing technical information and support to school division finance directors regarding (i) the annual financial reporting process and requirements and (ii) data critical for school division budgeting purposes, such as expected and actual amounts of state SOQ and non-SOQ funding.

Policy Options to Consider

- POLICY OPTION 1 The General Assembly could develop and implement a funding plan to increase compensation supplements as needed to achieve the statutory goal of Virginia teacher salaries being at or above the national average.
- POLICY OPTION 2 The General Assembly could amend the Code of Virginia and include language in the Appropriation Act directing that a locality's student enrollment and general population be equally weighted in the calculation of the local composite index for Standards of Quality funding, rather than weighting student enrollment two-thirds and the general population one-third.
Recommendations: Virginia's K-12 Funding Formula Commission draft xvii
- POLICY OPTION 3 The General Assembly could amend the Code of Virginia and include language in the Appropriation Act directing the replacement of the local composite index with a revenue capacity index.
- POLICY OPTION 4 The General Assembly could amend the Code of Virginia to replace the entire staffing-based SOQ formula with a new student-based formula that is based on actual average school division expenditures.
- POLICY OPTION 5 The General Assembly could amend the Code of Virginia to replace the current SOQ formula calculations for special education and English as a Second Language, including any associated calculations for benefits and payroll taxes under other SOQ accounts, with student-based funding calculations that are based on actual average school division expenditures.