



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.

- 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

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

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.