

# Virginia's Eroding Standards of Quality

## How the state slashed support for Virginia's schools since the recession

By Chris Duncombe and Michael Cassidy

Because of changes to how Virginia determines support for public schools, students in Virginia are being shortchanged by \$800 million per year.

Many of the cuts stem from changes legislators made to the state's funding formula. But those changes were not made to improve its accuracy. Rather, they were tactics used to reduce state support in a time of financial strain, and they ignore the actual costs of educating Virginia's students.

Among the changes, lawmakers imposed a cap on the number of support staff the state will help pay for at levels below how many staff schools truly need; they ignored inflation during the recession; they eliminated support for certain equipment and staff travel; and they assumed a longer lifespan for buses.

Though these changes helped balance the state budget, they do not reflect the realities facing Virginia's schools. The cuts threaten the ability of schools to provide the high-quality education that the state is directed to ensure by the state's constitution and that is essential for Virginia to build a strong economy.

### The Standards of Quality

Virginia's K-12 schools are funded by a combination of federal, state, and local dollars, with the bulk of support coming from the state and localities. But it's the state that's in charge of determining how much support schools must receive to be able to provide a high-quality education as directed by the Constitution of Virginia, which says the state must "seek to ensure that an educational program of high quality is established and continually maintained."

Virginia's formula for supporting school divisions – called the Standards of Quality (SOQ) – was designed to make sure that all of Virginia's schools receive a baseline level of support necessary to meet the state's educational standards. The SOQ formula uses minimum staffing standards and other associated costs with projected student enrollment to estimate the total cost school divisions must spend. The state then provides a portion of this funding and requires local governments to provide the rest.

The effectiveness of this model depends on having adequate standards and a formula that reflects the actual costs borne by school divisions in meeting these standards.

The Virginia Attorney General expressed this viewpoint in 1973:

*"[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."*

The formula has undergone a number of changes, particularly during the 1980s as the Joint Legislative Audit and Review Commission (JLARC) performed a multi-year study of the formula. Changes were made with the intent of making the formula reflective of the typical costs of running schools and educating kids in the state. However, due to the massive fall-off of state revenues in the Great Recession, lawmakers enacted arbitrary changes to the formula which caused a precipitous drop in state funding. These recent changes undermine the formula's intent and erode Virginia's support for schools.



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### IN BRIEF

#### The Problem

Cuts made in recent years by Virginia lawmakers to Virginia's education funding have reduced state support for Virginia's schools by \$800 million per year since the 2008-2009 school year. Many of the changes undo parts of the SOQ formula that reflected the actual costs schools face in educating Virginia's children and appear to be tactics used simply to reduce state support during a time of financial strain. Some examples of these tactics include capping the number of support staff the state will help pay for at unrealistic and arbitrary levels; in some cases ignoring inflation in the costs of operating schools; and eliminating support for certain equipment and travel.

#### The Solution

The state should undo these recession-era cuts and make the education funding formula more accurately reflect the actual costs that schools face in educating children. By undoing these cuts, the state will restore support to Virginia's schools to the levels originally intended for the SOQ formula. This will help ensure that all schools can provide and maintain an educational program of high-quality as directed in the Constitution of Virginia.

### Financial Impact of State Cuts

Senate Finance Committee staff estimate the two-year impact of these recent cuts at \$1.6 billion in decreased state support. That's \$800 million per year. And most of these cuts – \$683 million – are in Virginia's SOQ formula, meaning they are felt by all school divisions every year. Other cuts, such as eliminating lottery support for school construction grants and decreasing incentive funds for reducing K-3 class sizes, are not in the formula, but have been left out of the budget since being cut.

These cuts result in fewer teachers, increased class sizes in many schools, and deteriorating facilities, among other things.

When you look at the overall reduction in state support for schools, the gap grows to an average of \$1 billion per year since the recession after adjusting for inflation and student enrollment growth.

The cuts themselves vary widely in form. Some with the largest financial impact include a cap on the number of support positions the state will help pay for; ignoring inflation adjustments; and excluding travel and certain equipment expenditures from the formula. Smaller changes include changing the estimated lifespan of buses to 15 years from 12 years and reducing support for Virginia's K-3 Class Size Reduction program.

### Putting a Cap on Support Staff

The move to cap the number of support positions the state will help pay for reduced state funding annually by an estimated \$378

million, the single largest financial impact of all the changes made since 2009.

These aren't disposable positions. Support services are necessary to run administration and finances, keep equipment functional and buildings safe, care for the physical and mental health of students, and to get students to and from class. Without these positions, schools cannot operate smoothly and safely.

Prior to 2009, the SOQ formula estimated the cost of support staff using a more accurate approach. The formula calculated the most typical level of spending by school divisions on support staff. This way, the state paid schools based on the prevailing practice and did not compensate schools for potentially excessive support costs. In a 2004 review, JLARC concluded that "school division practices and expenditures for non-instructional support services in Virginia appear to be neither inadequate nor excessive."

Yet, lawmakers ignored the JLARC finding and manipulated the formula in 2009 by placing a cap on the funding for many of the support staff. In the first year of the cap, the state cut funding for about 12,900 support positions from the amount recognized before the cap, a decrease of 36 percent. These positions had to be fully funded by local governments or eliminated.

Only five school divisions – serving less than three percent of Virginia's students – had reported staffing levels below the new state cap. This shows that the cap is not the prevailing practice and that the typical school division actually needs support staff well above where the cap was set.

The cap level is not based on how many support staff schools have or need, but on a ratio of how many instructional staff schools have compared to support staff. This ratio is applied to the minimum number of instructional staff schools are required to employ to meet SOQ class-size requirements.

This calculation is flawed because the minimum instructional staffing ratios required in the SOQ are not designed to determine levels for support staff. These ratios developed by the Board of Education determine how many teachers, teacher aides, and guidance counselors are needed to properly educate and advise students in the classroom. These standards do not show how many custodians are needed to maintain a functional and safe learning environment or how many accountants are needed to keep a school's finances in order.

In other words, the cap is arbitrary. It does not represent actual costs, and it is not based upon estimates of the number of needed support staff.

<b>The Financial Cost of Changing School Funding</b>		
<b>How the state has reduced support for Virginia's schools since the recession</b>		
<b>Change to education funding</b>	<b>Year implemented</b>	<b>Two-year cost to schools (in millions)</b>
<i>Total cost for future years</i>		\$1,600
Cap on the number of support positions recognized by state	2009	\$754
Adjustments to health care participation rates	2010	\$269
Remove school expenditures for certain equipment, travel	2010	\$244
Include \$0 values in linear weighted average	2010	\$79
Eliminate lottery support for school construction	2010	\$67
Eliminate school construction grants	2009	\$55
Drop lowest tier from K-3 class size program	2010	\$36
Update federal deduction percentage	2010	\$34
Use kindergarten count as proxy for 4 year olds in VPI	2012	\$27
Extend school bus replacement cycle from 12 to 15 years	2010	\$19
Eliminate enrollment loss assistance	2010	\$16
Eliminate inflation for nonpersonal support services*	2012	\$109

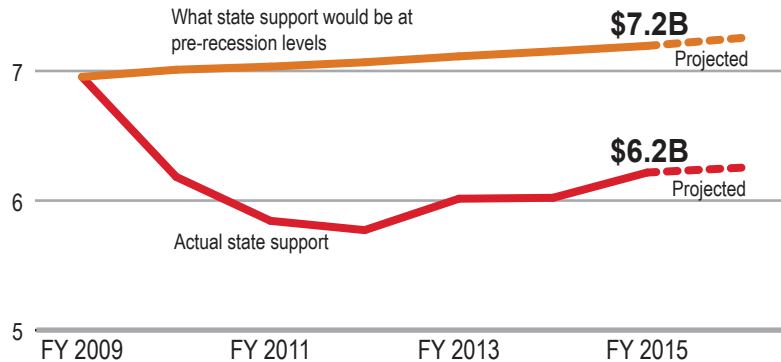
Source: Virginia Department of Education Overview of 2010-2012 Direct Aid Rebenchmarking, Virginia Senate Finance staff slides at Senate Finance Retreats, 2009-2015

\*Note: Inflation has been partially restored for nonpersonal support services for the 2014-2016 biennium and is fully restored in the Governor's proposed budget. The financial impact of eliminating inflation is therefore not included in total cost for future years. Some changes relate to programs outside the Standards of Quality (SOQ) formula.

## Decreased support for Virginia's schools

The state has decreased support for Virginia's public schools by about \$1 billion compared to pre-recession levels

Total state direct aid to Virginia's public schools in billions of FY 2015 dollars



Source: Virginia Department of Education Direct Aid Payment Calculation Templates, Final Direct Aid FY 2009-2015 and Projected FY 2016

Note: State support at pre-recession levels (the top line) was calculated by applying the amount the state spent per student in 2009, inflation adjusted, to the average daily membership for each successive year

### Playing with the Numbers

The state has made other changes to the school funding that make it less reflective of real costs, further reducing support for schools.

The state did not recognize inflation when estimating school expenses other than staff salaries during the recession, a decision that cut biennial support by \$109 million. Lawmakers have continued the trend of fiddling with inflation in the current biennium by only partially recognizing inflation rates.

For example, in estimating SOQ costs, the state has been ignoring inflation in health insurance premium rates, although lawmakers have accounted for health insurance premium cost increases for state workers.

In a sign of progress, inflation adjustments for health insurance and other school expenses are included in the governor's proposed budget for 2016-2018, and lawmakers should follow his lead by adopting this proposal.

The state also decided to eliminate certain expenditures reported by school divisions

from the prevailing cost calculation in the SOQ formula. Schools annually report to the state how much they spend and what they spend it on. In 2010, the state decided to exclude spending for certain equipment, including furniture and motor vehicles, and staff travel – which includes professional development – from the formula. By ignoring these expenses, the state cut its support by about \$122 million annually.

There is not a clear rationale for excluding these items. Senate Finance staff presented the opinion that “it is not clear on what policy basis the state would exclude these expenditures from the SOQ permanently.”

The state also increased the assumed lifespan of a school bus to 15 years from 12 without evidence that this is a safe assumption. In 2004 JLARC reviewed Virginia's replacement cycle and found that most divisions reported replacing school buses every 12 years, suggesting this to be an appropriate lifespan.

Irresponsible decisions such as these could put the safety of Virginia's children at risk.

The state has also made policy decisions to cut back on efforts to decrease class

sizes. The state provides incentive money to schools with high to moderate concentrations of students eligible for free or reduced lunch if they achieve smaller K-3 class sizes, with localities required to match the funding. Schools previously qualified if they had between 14 and 20 students per teacher. In 2010, the state reduced eligibility for the program by dropping the lowest tier of support. Schools with a ratio of 20 students per teacher are now no longer eligible for the program.

### Conclusion

Since 2009, cuts to the state's education funding have cost schools across the state about \$800 million every year. And these cuts are showing up in the form of fewer teachers and support staff, larger class sizes, and deteriorating school facilities.

At this time of rising revenue lawmakers need to begin to plot a course to return the SOQ formula to where it accurately reflects the real costs of running schools and educating our kids. One-time infusions will not be enough. We need real changes that provide sustained funding so that our children, and our children's children, can have the best opportunity for a bright future. Failure to do so jeopardizes the future of Virginia's schools, workforce, and economy.

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