

Backsliding on Progress

Virginia's Funding Formula, State Support for K-12 Falling Behind

By Laura Goren and Michael J. Cassidy

The state is paying a smaller share of the cost of K-12 education now than it did a decade ago, short-changing public schools, driving up the burden on localities, and hitting poor communities hardest of all.

Background

The biggest piece of school funding in Virginia is set using a formula called the Standards of Quality (SOQ). The formula is supposed to calculate the overall cost of education, and then the state pays 55 percent of that cost. Localities pick up the rest. But the SOQ formula doesn't measure the actual cost of K-12 education. Rather, it is a blend of certain costs selected by the General Assembly. In response to years of budget shortfalls legislators have changed the formula in ways that save the state money and redefine what constitutes its share. For example, legislators recently decided to assume that buses would last longer and chose to ignore inflation-related cost increases for things like school utility expenses.

While the state technically meets the 55 percent share of the cost set by the SOQ formula, the share of the **actual** cost of education met by the state is far lower than that and has been declining for years. In fiscal year 2000, the state SOQ formula took account of just 64 percent of school

operating costs, according to a report by the Joint Legislative Audit Review Committee. That report encouraged the state to make the formula "more accurate and current."

Changes in the formula in the mid-2000s resulted in a modest improvement, inching up the share of school costs acknowledged by the SOQ formula to 68 percent by 2009. But those gains have been completely wiped out by subsequent, "cost-saving" changes made by legislators during the recession. In the 2011 fiscal year (the most recent year for which comprehensive total school cost data is available) the formula covered just 60 percent of total costs.

While some of the gap between the formula and the actual cost of education is covered by federal aid, even that has not stopped the downward spiral (see Figure 1).

SOQ Pulls Down Total Share of State Funding

In addition to the state funding that schools get from the SOQ formula, there are several other sources of support for K-12 education in Virginia, including money from state sales and use tax, the Virginia Lottery, and other state assistance. However, even when you add in all those other sources, the total state share of K-12 costs has fallen. In fiscal year 2011, total state funding covered just 44 percent of all non-federal educational costs, down from 48 percent in 2009, and no improvement from the 44 percent in 2000 (see Figure 2).

The state has cut its commitment to its students in real dollars as well. Per-pupil funding in the currently proposed budgets for fiscal year 2013 is 21 percent below

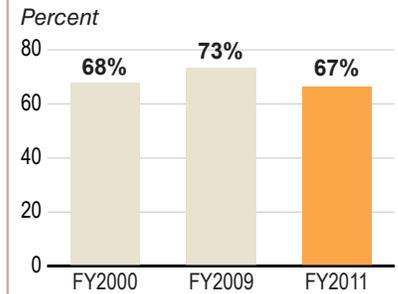


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FIGURE 1

SOQ Formula Falls Short

SOQ (state and local match) formula as a share of actual non-federal spending on K12 education

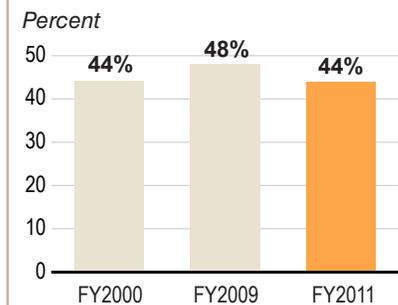


Source: TCI analysis based on Virginia Dept. of Education Basic Aid templates and Superintendents' annual reports

FIGURE 2

State Funding is Back Where We Started

Share of non-federal educational costs paid from all state funds, including state sales & use tax



Source: TCI analysis based on Virginia Dept. of Education Superintendents' annual reports

In fiscal year 2011, total state funding covered just 44 percent of all non-federal educational costs, down from 48 percent in 2009.

2007 levels and four percent below 2000 levels after adjusting for inflation (see Figure 3).

Localities Take on Extra Costs

Faced with a choice between short-changing their students' education and filling the hole themselves, localities have decided to pay far more to their local school divisions than their required local effort under the SOQ formula. They provided twice the SOQ requirement in fiscal year 2011, and they were budgeted to do so again in 2012.

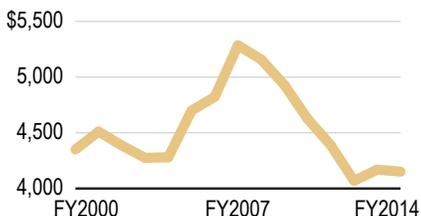
Three Virginia localities – Alexandria, Sussex, and West Point – are slated to spend almost three times the SOQ-required amount.

High-Need Divisions Hit Hardest

The cost shift to localities has not been shared evenly across the state, however. Cuts in state support for K-12 education since 2007 have done the worst harm to school divisions with the highest rates of children living in poverty, since they rely heavily on state funding and don't have enough local resources to make up the difference when that state funding falls short.

FIGURE 3
Falling Back Down

Virginia per pupil General Fund direct aid spending, 2013 dollars
In inflation-adjusted dollars



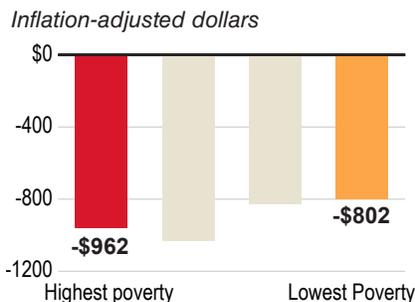
Source: TCI analysis based on state budgets, Governor's proposed FY13-14 budget, BLS inflation estimates, and Weldon-Cooper K12 enrollment data

Note: ARRA SFSF and Ed Jobs money is considered substitute General Fund dollars

Between 2007 and 2011, the school divisions with the highest rate of poverty among school-age children had their per-pupil spending cut \$962 on average after adjusting for inflation, while the state's lowest-poverty school divisions have seen a cut of \$802 (see Figure 4). This means that the school divisions with the highest number of poor children, which are usually communities with the weakest local tax bases and least ability to make up for the loss of state funding, have been hardest hit in recent years. Virginia's failure to protect its most vulnerable students from cuts makes the general decline in state funding for K-12 education even more troubling.

FIGURE 4
School Divisions with High Child Poverty Rates are Hardest Hit

Change in per-pupil state funding for school divisions, FY2007-FY2011, by child poverty rate quartile



Source: TCI analysis based on 2010 poverty rate (age 5-17) and Superintendent's annual reports

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Inadequate Formula

Virginia Attorneys General and educational task force recommendations state that the SOQ formula should be "realistic" when it comes to accounting for the cost of K-12 education. But according to a 2002 JLARC report, "a number of changes were made during the 1990s in the State's approach to estimating SOQ costs. Some of these changes stem from the time of a State fiscal crisis in the early 1990s. But the changes raise questions about whether the State's foundation cost estimates have become less current and less realistic in relation to educational practice than they were prior to these changes." Although the SOQ formula covered a more realistic share of K12 education during the mid-2000s, since then a number of changes to the SOQ formula has undermined this progress.

Recent changes to the SOQ formula include:

- Removed most textbook funding from the SOQ formula.
- Ignored inflationary adjustments for operating costs in certain years.
- Moved Remedial Summer School and English as a Second Language funding out of the SOQ formula.
- Removed the cost of replacing equipment other than technology and facilities, "including machinery, equipment, furniture, fixtures, communications equipment ..."
- Shifted retirement costs to the literary fund, reducing funding that would be available for school construction.
- Assumed school busses will have a longer life-span (from 12 years to 15 years).
- Capped funding for support positions.