



Commonwealth of Virginia

GENERAL ASSEMBLY
RICHMOND

September 14, 2007

The Honorable John H. Chichester
Chairman, Senate Finance Committee

The Honorable Vincent F. Callahan, Jr.
Chairman, House Appropriations Committee

Gentlemen:

As your respective appointees to the Joint Subcommittee on Elementary and Secondary Education Funding, we are pleased to submit this Preliminary Report.

Background

As you know, the originating language in the 2006 Appropriation Act created a technical workgroup of staff from various agencies to study certain education funding issues. In order to provide legislative direction to this work and to ensure a public process, language in the subsequent 2007 Appropriation Act (see actual language below), instead, restructured this work as a small joint subcommittee of two members of the money committees to help provide on-going direction regarding the General Assembly's constitutional responsibility for public education finance in Virginia.

2007 Appropriation Act (Item 1):

H. 1. The Chairmen of the House Appropriations and Senate Finance Committees shall each appoint one member from their respective committees to a joint subcommittee to provide on-going direction and oversight of Standards of Quality funding cost policies and to make recommendations to their respective committees.

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2. The Joint Subcommittee on Elementary and Secondary Education Funding shall: 1) study re-benchmarking cost trends and drivers; 2) review existing Standards of Quality (SOQ), incentive, categorical, and school facilities funding streams within Direct Aid to Public Education, as well as the Literary Fund, and identify options for efficiencies and cost savings and for greater funding flexibility, especially to better prepare the state and localities for future economic downturns; 3) consider alternatives to across-the-board compensation supplements to better target state funds; 4) review funding streams for students at-risk of academic failure, and assess whether such programs should be incorporated into the SOQ; and 5) examine special education funding issues.

3. The school divisions, the staff of the Virginia Department of Education, and staff of the Joint Legislative Audit and Review Commission, are directed to provide technical assistance, as required, to the joint subcommittee. The Joint Subcommittee shall publish a preliminary report by September 15, 2007.

August 20, 2007 Meeting

The first meeting, initially scheduled for June 18, 2007, was postponed until August 20, 2007. At the meeting, as staff to the Joint Subcommittee, Susan Hogge (House Appropriations) reviewed the budget language establishing the charge and Sarah Herzog (Senate Finance) provided an overview of current SOQ funding cost policies. In addition, Kent Dickey, Assistant Superintendent of Finance, Virginia Department of Education (DOE), provided an analysis of recent re-benchmarking cost trends and drivers, including preliminary estimates for the 2008-2010 biennium. Finally, Bob Rotz, Senior Division Chief with the Joint Legislative Audit and Review Commission (JLARC), reviewed the history and constitutional basis of Virginia's Standards of Quality. (All four presentations from the meeting are attached.)

In addition, towards the end of the meeting Delegate Tata informally opened up the floor to questions and comments from the audience, which consisted of about 25 individuals representing various organizations.

Preliminary Timeline and Development of Guiding Principles

Given the importance, magnitude and complexity of the Commonwealth's system of public education finance, we would recommend that this effort be viewed as a multi-year, essentially on-going endeavor. Specifically, we propose beginning with a review of the various funding programs in Direct Aid, including those targeting students at-risk of academic failure.

While acknowledging that differing perspectives will exist on certain issues, we also began to discuss some possible "guiding principles" for this Joint Subcommittee to direct our work together:

Simplicity: Where possible while maintaining important policy objectives, efforts should be made to simplify the methodology of the SOQ funding formula and to consolidate multiple programs that have a comparable design and goals.

In addition, there is a need to strike the right balance between funding **flexibility and accountability**. Without being overly prescriptive and imposing "one-size-fits-all" solutions to widely varying situations, we need to ensure that state programs are supporting state policy goals for public education.

Efficiency: Efforts to identify efficiencies and cost savings should focus on "real" savings to school divisions and not simply shift costs from one level to another. Since dollars are limited, the relative cost of programs and selective targeting of programs should be considered in terms of the achieving the biggest "bang for the buck" and minimizing redundancy within various programs.

At the same time, as educators professionally, we view education at its core as an **investment** in the citizens and workforce for the future of Virginia. In reviewing current programs, we are mindful that the world has changed since we sat behind a schoolhouse desk. The most critical educational task before us today is to prepare our young citizens to be competitive globally in a workforce and economy that has fundamentally changed in its demands.

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Next Meeting

For the next meeting, tentatively planned for late November 2007, we plan to continue reviewing existing Direct Aid programs, with a briefing on the Incentive Programs, including a look at the current uses by school divisions of At-Risk Add-On funding, as reported to DOE. In addition, we will receive an update on the School Efficiency Reviews program, which has completed reviews of more than 24 school divisions since 2004.

After that, we would anticipate our work resuming after the 2008 Session.

We thank you for this opportunity and look forward to continuing to work together for Virginia.

Respectfully Submitted,



Senator R. Edward Houck



Delegate Robert Tata

**Revised Language Adopted During 2007 Session
Within Item 1 – General Assembly of Virginia**

H. 1. The Chairmen of the House Appropriations and Senate Finance Committees shall each appoint one member from their respective committees to a joint subcommittee to provide on-going direction and oversight of Standards of Quality funding cost policies and to make recommendations to their respective committees.

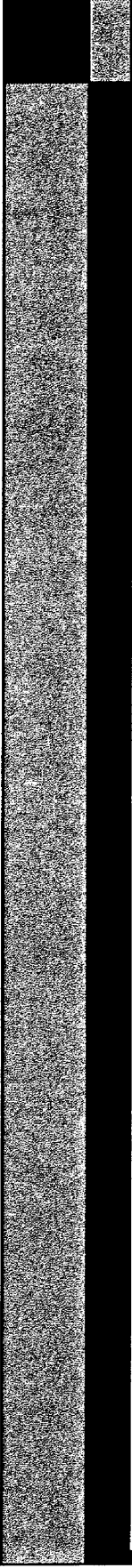
2. The Joint Subcommittee on Elementary and Secondary Education Funding shall: 1) study re-benchmarking cost trends and drivers; 2) review existing Standards of Quality (SOQ), incentive, categorical, and school facilities funding streams within Direct Aid to Public Education, as well as the Literary Fund, and identify options for efficiencies and cost savings and for greater funding flexibility, especially to better prepare the state and localities for future economic downturns; 3) consider alternatives to across-the-board compensation supplements to better target state funds; 4) review funding streams for students at-risk of academic failure, and assess whether such programs should be incorporated into the SOQ; and 5) examine special education funding issues.

3. The school divisions, the staff of the Virginia Department of Education, and staff of the Joint Legislative Audit and Review Commission, are directed to provide technical assistance, as required, to the joint subcommittee. The Joint Subcommittee shall publish a preliminary report by September 15, 2007.

**Original Language Adopted During 2006 Session
Within Item 135 – Direct Aid to Public Education**

21. The Department of Education shall convene a technical work group to include appropriate staff of the Department of Planning and Budget, the Senate Finance and House Appropriations Committees, and the Joint Legislative and Audit Review Commission. The group shall: 1) study re-benchmarking cost trends and drivers; 2) review existing Standards of Quality (SOQ), incentive, categorical, and school facilities funding streams within Direct Aid to Public Education, as well as the Literary Fund, and identify options for efficiencies and cost savings and for greater funding flexibility, especially to better prepare the state and localities for future economic downturns; 3) consider alternatives to across-the-board compensation supplements to better target state funds; 4) review funding streams for programs for students at-risk of academic failure, and assess whether such programs should be incorporated into the SOQ; and 5) examine special education funding issues.

The technical work group shall provide to the Governor and the Chairmen of the House Appropriations and Senate Finance Committees: a) a detailed project workplan no later than August 1, 2006, and b) a summary of their work by September 15, 2007.



Overview of the Current Funding Framework for the Standards of Quality

Presentation to the

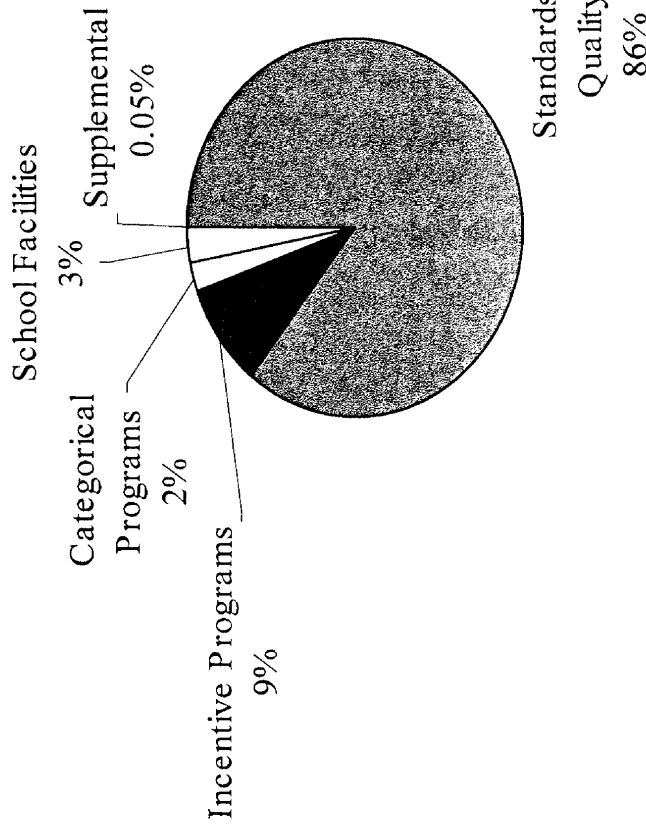
Joint Subcommittee on Elementary and Secondary Education Funding

August 20, 2007

Sarah Herzog, Senate Finance Committee Analyst

Direct Aid to Public Education

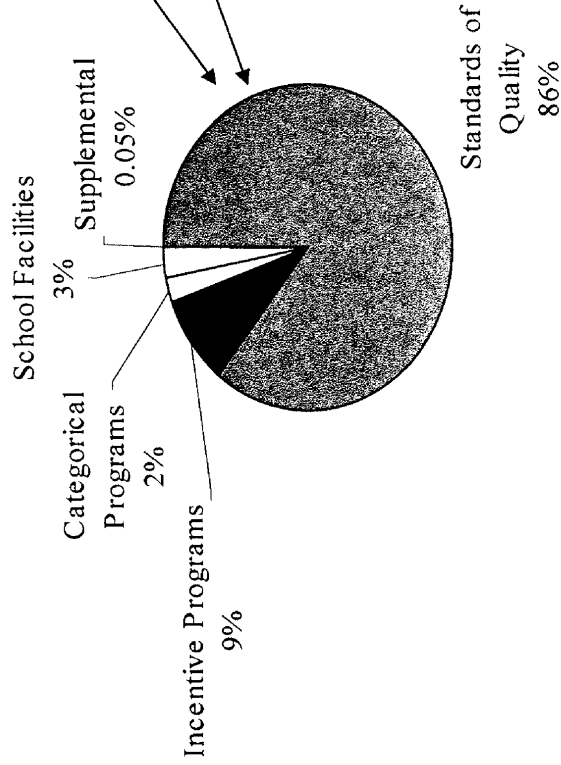
SOQ funding accounts for majority of Direct Aid



	Standards of Quality	FY08
Basic Aid		\$2,710,926,572
Sales Tax		\$1,202,199,660
Textbooks		\$67,589,092
Vocational Education		\$60,918,007
Gifted Education		\$27,870,812
Special Education		\$339,871,667
Prevention, Intervention, and Remediation		\$41,945,067
VRS Retirement		\$238,706,431
Social Security		\$159,303,341
Group Life		\$8,340,580
English as a Second Language		\$36,452,224
Remedial Summer School		\$25,172,218
Total		\$4,919,295,671

Direct Aid to Public Education

\$373M in Lottery & Literary Funds Support SOQ Costs



Lottery Proceeds	FY08
SOQ (supports a portion of Basic Aid cost)	\$236,931,856
SOQ (supports a portion of Intervention, Prevention, Remediation costs)	\$19,517,499
Incentive (Lottery – School divisions must use at least half for non-recurring expenses)	\$148,950,645
Total Lottery	\$405,400,000
Literary Fund Revenue	
SOQ (supports a portion of Retirement costs)	\$116,128,935
Incentive (Technology Equipment Debt Service)	\$63,784,682
School Construction Loans & Interest Rate Subsidies	\$35,000,000
Total Literary Fund	\$214,913,617

Overview

Key components of the SOQ funding framework

Staffing: *What are the minimum instructional positions required by the Standards of Quality?*

- Class size ratios for students to teachers; Ratios for principals, librarians, & guidance counselors, etc.; Special education, remedial, ESL, career & tech., gifted
- Fall membership enrollment (by school by grade), projected ADM

Calculation of Total Costs: *What is the cost of the positions and related support functions?*

- **Instructional Costs** – Base year prevailing salaries (Linear weighted average of actual ASR data) updated for G.A. salary increases to beginning of the biennium, Cost of competing adjustment (COCA), Benefits rates
- **Support Costs** – Base year prevailing expenditures updated for inflation rates to the beginning of the biennium, COCA, Benefits rates, Transportation
- Deduct 29% of certain federal revenues

Sharing of Costs Between State & Local: *How are the total costs divided?*

- Basic Aid: 1-1/8 cent sales tax based on triennial census of school aged population
- Remainder is equalized based on composite index of local ability-to-pay (on average 55% state share-45% required local effort, max. of 80%) on per pupil basis (actual ADM)

Staffing Standards

How many instructional positions are required by the SOQ?

Staffing Standards

Class Size and Other Ratios: § 22.1-253.13:2

Basic Instructional Standards for Basic Aid Funding in 2004-2006 Biennium (Standard 2)								
Standards of Quality Class Sizes/Ratios					Standards of Quality School-level Staffing			
Grade	Maximum Class Sizes	School-wide Pupil-Teacher Ratio	Division-wide Pupil-Teacher Ratio	Division-wide English Pupil-Teacher Ratio	Guidance Counselor	Librarian	Assistant Principal	Principal
K	24; 29 w/ aide		24 to 1		<i>ELEMENTARY SCHOOL POSITIONS</i>			
1	30				.20 per 100 students (500 to 1)	less than 300 students=.50; 300 or greater students=1.0	less than 600 students=0.0; 600 to 899 students=.50; 900 or greater students=1.0	less than 300 students=.50; 300 or greater students=1.0
2	30							
3	30							
4	35							
5	35	25 to 1		<i>MIDDLE SCHOOL POSITIONS</i>				
6	35			.20 per 80 students (400 to 1)	less than 300 students=.50; 300 to 999 students=1.0; 1,000 or greater students=2.0	less than 600 students=0.0; 1.0 per 600 students	1.0	
7	35							
8		24 to 1 in FY2005	24 to 1		<i>HIGH SCHOOL POSITIONS</i>			
9		21 to 1 in FY2006			.20 per 70 students (350 to 1)	less than 300 students=.50; 300 to 999 students=1.0; 1,000 or greater students=2.0	less than 600 students=0.0; 1.0 per 600 students	1.0
10								
11								
12								
UN								

Other funded division-wide SOQ standards adopted by the 2004 General Assembly:

Five resource teachers in art, music, and physical education per 1,000 students in grades K-5

One technology support position per 1,000 students in grades K-12 in FY2005

One support technology and one instructional technology position per 1,000 students in grades K-12 in FY2006

17 instructional positions per 1,000 students identified as having limited English proficiency (ESL)

Staffing Standards

Class Size and Other Ratios

- Class size ratios are applied to enrollments grade by grade, school by school
 - Ex. An elementary school with just one 5th grader receives funding for a full 1.0 5th grade teacher
- A minimum of 51 professional personnel for each 1,000 students is required; Gifted = 1.0; Special education and career & tech. = 6.0
- Prevention, Intervention & Remediation = one hour of additional instruction per day based on the percent of students eligible for free lunch with a per pupil ratio of 18:1 to 10:1 depending upon a school division's failure rate on the English and Math SOLs
- ESL = 17 per 1,000 students

Staffing Standards

Board of Education's Proposed Revisions

- The State Board of Education adopted seven proposed revisions to the SOQ that were put forward in proposed legislation in the 2007 Session at an **estimated total FY08 cost of \$173 million.**
 - None of the revisions were approved by the General Assembly.
 - Reading specialist per 1,000 students
 - At least one full-time principal for each school regardless of size
 - Assistant principal per 400 students
 - Speech-language pathologist per 60 cases
 - Math specialist per 1,000 K-8 students
 - Data manager or test coordinator per 1,000 students
 - Instructional and paraprofessional staff for the blind and vision impaired

Calculation of Total Costs

What is the cost of meeting the standards?

Prevailing Costs

Linear Weighted Average

- Since spending reflects in part local decisions about how to operate schools, the SOQ model does not simply reimburse actual spending.
 - Instead, the methodology recognizes “reasonable” costs that approximate what most school divisions spend, without being unduly influenced by the extremes.

- Using actual “base year” expenditure Annual School Report (ASR) data (from all revenue sources) from all school divisions, a weighted average is calculated for each of various cost components.
 - The “base year” is the most recent year for which actual data is available when the biennial costs are developed:
 - 2008-10 Biennium (FY09, FY10): Base Year FY06
 - Costs clustered around the middle are weighted 5 times that of the costs at the far low and high extremes.

Instructional Costs

Adjustments to “Base Year” LWA Salaries

- The “base year” LWA salaries are adjusted to account for salary increases funded in the prior Appropriation Act (i.e. FY07, FY08).
 - For the “budget years” (i.e. FY09, FY10), salary actions are considered policy decisions and are not included in re-benchmarking.
 - One of JLARC’s remaining “Tier One” options recommends that an estimated prospective increase in salaries be automatically included.

- Benefits rates for VRS, Group Life, Retiree Health Care Credit are applied.
 - Often the G.A. funded rates vary from those adopted by the VRS Board.

- Cost of competing labor market adjustments (COCA) are included for designated localities.

Support Costs

Adjusting “Base Year” Support Costs for Inflation

- Unlike the instructional staffing standards, most support staff levels are not quantified.
 - Support services are funded based on prevailing statewide expenditures.
- The “base year” LWA costs are adjusted to account for inflation rates (for various cost components are calculated using national data) during the current biennium (i.e. FY07, FY08).
 - For the “budget years” (i.e. FY09, FY10), non-personnel costs are not adjusted.
 - JLARC’s “Tier One” options also recommended an estimated prospective increase in support costs be automatically included.
- Pupil transportation cost calculations take into account: size of the land area of the school division, number of regular education students transported, and the number of special needs students transported.

Federal Revenue Deduct

Deduct 29% of certain federal revenues

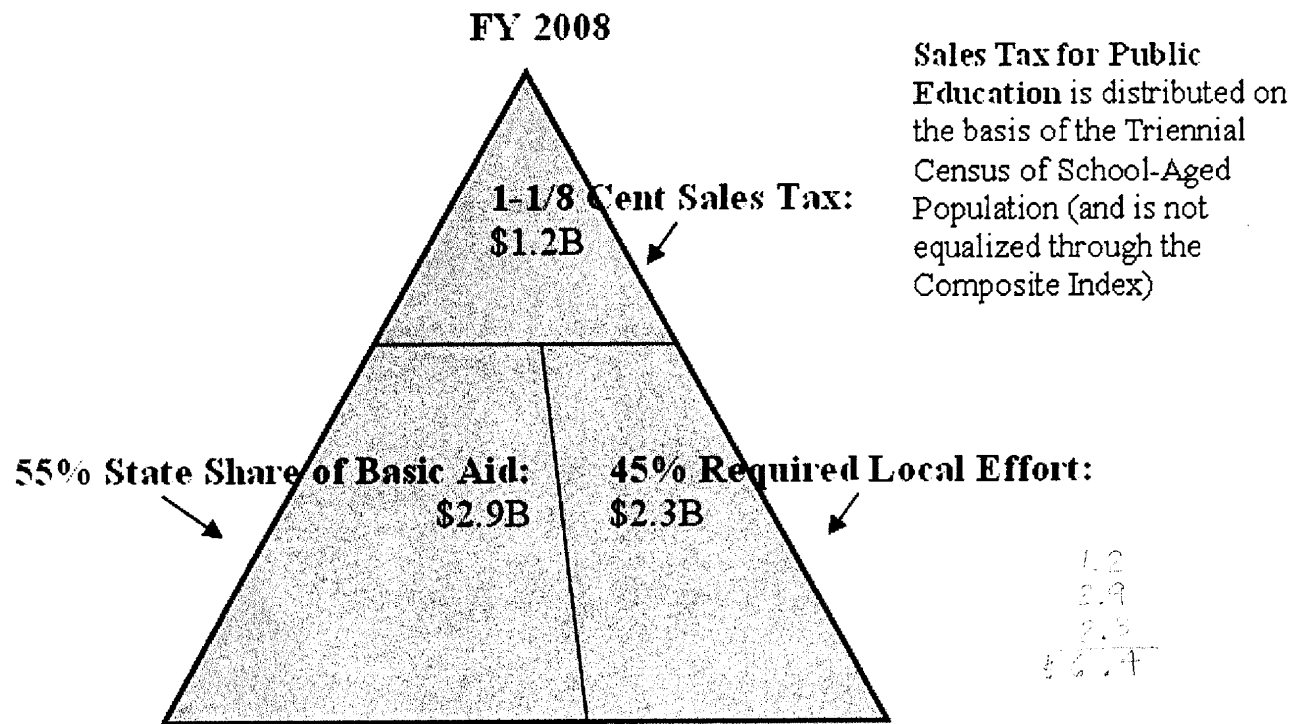
- **2004 Session:** Facing re-benchmarking costs of \$1.2 billion, Governor Warner proposed re-instating the “local revenue deduct” (which had been ended the previous biennium by the General Assembly per a recommendation of the JLARC report) as well as creating a new adjustment known as the “federal revenue deduct” for a total biennial cost savings of over \$400 million.
- **Rationale:** Exclude from the SOQ cost base those expenditures supported by certain local (i.e. rent, rebates, sales of equipment) or certain federal revenues (Economically Disadvantaged Title I, Professional Development, Special Education, Career and Technical Education, and Education Technology).
 - ※ **Methodology:** Since expenditures are in fact not identifiable by fund source, the proposed deduction was instead based on the amount of revenues.
- The General Assembly instead restored the funding to end the “local revenue deduct” and limited the to “federal revenue deduct” to 29%, based on the average percent of costs which are attributable to support costs.
 - ※ In recognition of the fact that the federal funds may be used for purposes other than those which comprise the SOQ cost base (i.e. additional teachers) and,
 - ※ In order to limit the disproportionate impact on those school divisions with high percentages of students in poverty.

Sharing of Costs

How are costs divided between the state and localities?

Sharing of Costs Between State & Local

Sales Tax Distribution



Actual percentages for individual school divisions range from a maximum 80% local share to less than 20% local share depending on the locality's composite index.

Sharing of Costs Between State & Local

Composite Index of Local Ability-to-Pay

Average Daily Membership (ADM) Component =

$$.5 \left[\frac{\text{Local True Values}}{\text{Local ADM}} + .4 \left[\frac{\text{Local Adjusted Gross Income}}{\text{Local ADM}} + .1 \left[\frac{\text{Local Taxable Retail Sales}}{\text{Local ADM}} \right] \right] + \frac{\text{State True Values}}{\text{State ADM}} + .4 \left[\frac{\text{State Adjusted Gross Income}}{\text{State ADM}} + .1 \left[\frac{\text{State Taxable Retail Sales}}{\text{State ADM}} \right] \right]$$

Population Component =

$$.5 \left[\frac{\text{Local True Values}}{\text{Local Population}} + .4 \left[\frac{\text{Local Adjusted Gross Income}}{\text{Local Population}} + .1 \left[\frac{\text{Local Taxable Retail Sales}}{\text{Local Population}} \right] \right] + \frac{\text{State True Values}}{\text{State Population}} + .4 \left[\frac{\text{State Adjusted Gross Income}}{\text{State Population}} + .1 \left[\frac{\text{State Taxable Retail Sales}}{\text{State Population}} \right] \right]$$

Final Composite Index =

((.6667 x ADM Component) + (.3333 x Population Component)) x 0.45

Composite Index

Example: Richmond City

Average Daily Membership (ADM) Component =

$$\begin{array}{r}
 .5 \left[\frac{\$14,125,475,258}{23,877} \right] + .4 \left[\frac{\$3,586,860,459}{23,877} \right] + .1 \left[\frac{\$1,879,882,706}{23,877} \right] = \underline{1.039} \\
 \frac{\$717,952,088,227}{1,165,905} \qquad \frac{\$160,760,462,173}{1,165,905} \qquad \frac{\$74,776,365,127}{1,165,905}
 \end{array}$$

Population Component =

$$\begin{array}{r}
 .5 \left[\frac{\$14,125,475,258}{193,900} \right] + .4 \left[\frac{\$3,586,860,459}{193,900} \right] + .1 \left[\frac{\$1,879,882,706}{193,900} \right] = \underline{0.8081} \\
 \frac{\$717,952,088,227}{7,364,100} \qquad \frac{\$160,760,462,173}{7,364,100} \qquad \frac{\$74,776,365,127}{7,364,100}
 \end{array}$$

Final Composite Index =

$$((.6667 \times \underline{1.039}) + (.3333 \times \underline{0.8081})) \times 0.45 = \mathbf{0.4329}$$

Summary

Key components of the SOQ funding framework

Staffing: *What are the minimum instructional positions required by the Standards of Quality?*

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Calculation of Total Costs: *What is the cost of the positions and related support functions?*

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- Deduct 29% of certain federal revenues

Sharing of Costs Between State & Local: *How are the total costs divided?*

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process and the new budgetary structure for Direct Aid effective for the 2006-2008 biennium. Attachment B shows the major input data used in re-benchmarking Direct Aid costs for the 2006-2008 biennium.

Superintendent's Recommendation:

The Superintendent of Public Instruction recommends that the Board waive first review and adopt this proposed budget that continues current Direct Aid programs in the 2006-2008 biennium re-benchmarked on standard technical revisions without proposed changes in funding policy. It is further recommended that staff be directed to update and revise costs as additional technical revisions are completed consistent with the current funding methodology and policy adopted by the Board.

Finally, it is recommended that the Department submit the re-benchmarked budget for Direct Aid accounts to the Governor together with the remaining policy changes to the SOQ that were adopted by the Board in June 2003. Those policy changes were re-estimated using the same data and assumptions used in the re-benchmarked Direct Aid budget. No other policy changes to the SOQ are recommended at this time.

Impact on Resources:

The 2006-2008 Direct Aid budget approved by the Board will be sent to the Governor for action and ultimately for inclusion in his budget for the 2006-2008 biennium. This budget will establish the level of state funding required by the foundation program established in the Standards of Quality (SOQ), as well as other Direct Aid accounts. The current proposed changes resulting from re-benchmarking the Direct Aid accounts would increase state costs for public education by approximately \$986.0 million in the 2006-2008 biennium (see Attachment C). The re-benchmarked cost of the unfunded SOQ changes proposed by the Board total \$191.5 million. Together, these re-benchmarked costs would increase Direct Aid funding by \$1.18 billion in the 2006-2008 biennium.

Timetable for Further Review/Action:

None.

An Overview of Direct Aid to Public Education Funding

I. New Service Area Structure

- Beginning in the 2006-2008 biennium, the commonwealth will use a new budgetary structure (i.e., “service areas”) for budgeting state Direct Aid to Public Education funds.
- The Department of Planning and Budget (DPB) worked with the Department of Education to match current budget programs/subprograms and planning activities to form a common service area structure. Consequently, the new Direct Aid to Public Education service areas are similar to the previously used structure for Direct Aid account budgeting.
- The new structure refines the grouping of individual accounts that have the same purpose and creates a single service area for federal fund appropriations.
- Service areas:
 - Are what agencies do for the citizen or for other agencies
 - Consist of allocations of resources toward a specific objective
 - Form the basic unit of both budgeting and of planning
- The new Direct Aid to Public Education service areas are:
 - Standards of Quality for Public Education (SOQ)
 - Financial Incentive Programs for Public Education
 - Financial Assistance for Categorical Programs
 - Financial Assistance for School Facilities
 - Financial Assistance for Supplemental Education
 - Federal Assistance to Local Education Programs
- The new service areas generally correlate with the existing budget structure; the service area structure further differentiates the school construction and lottery funds from the Group II - Incentive Accounts, where these funds were previously housed into a separate “Facilities” service area.
- Funding information will still be communicated to school divisions at the program account levels, which have not changed with the new budget structure.
- The rebenchmarking of Direct Aid to Public Education funds for the 2006-2008 biennium uses this new service area structure and information is presented using the service area structure.

- The new detailed service area information by individual account is as follows:

Changes in Direct Aid Budget Structure, 2004-2006 to 2006-2008		
Account Name	"New" – 2006-2008 Direct Aid Budget Structure (Service Area)	"Old" – 2004-2006 Direct Aid Budget Structure (Program/Subprogram & DOE Structures)
Basic Aid	Standards of Quality for Public Education (SOQ)	Group 1 - SOQ
English as a Second Language	Standards of Quality for Public Education (SOQ)	Group 1 - SOQ
Gifted Education	Standards of Quality for Public Education (SOQ)	Group 1 - SOQ
Group Life	Standards of Quality for Public Education (SOQ)	Group 1 - SOQ
Prevention, Intervention & Remediation	Standards of Quality for Public Education (SOQ)	Group 1 - SOQ
Remedial Summer School	Standards of Quality for Public Education (SOQ)	Group 1 - SOQ
Sales Tax	Standards of Quality for Public Education (SOQ)	Group 1 - SOQ
Social Security	Standards of Quality for Public Education (SOQ)	Group 1 - SOQ
Special Education	Standards of Quality for Public Education (SOQ)	Group 1 - SOQ
Textbooks	Standards of Quality for Public Education (SOQ)	Group 1 - SOQ
Vocational Education	Standards of Quality for Public Education (SOQ)	Group 1 - SOQ
VRS Retirement	Standards of Quality for Public Education (SOQ)	Group 1 - SOQ
Lottery	Financial Assistance for School Facilities	Group 2 - Incentive Accounts
School Construction	Financial Assistance for School Facilities	Group 2 - Incentive Accounts
Alternative Education	Financial Incentive Programs for Public Education	Group 3 - Categorical Accounts
At-Risk	Financial Incentive Programs for Public Education	Group 2 - Incentive Accounts
At-Risk Four Year Olds	Financial Incentive Programs for Public Education	Group 2 - Incentive Accounts
Compensation Supplement	Financial Incentive Programs for Public Education	Group 1 - SOQ
Early Reading Intervention	Financial Incentive Programs for Public Education	Group 2 - Incentive Accounts
Enrollment Loss	Financial Incentive Programs for Public Education	Group 1 - SOQ
Governor's School	Financial Incentive Programs for Public Education	Group 3 - Categorical Accounts
ISAEP	Financial Incentive Programs for Public Education	Group 2 - Incentive Accounts
Mentor Teacher Program	Financial Incentive Programs for Public Education	Group 4 - Direct Grants
Education for a Lifetime	Financial Incentive Programs for Public Education	Group 4 - Direct Grants
K-3 Class Size Reduction	Financial Incentive Programs for Public Education	Group 2 - Incentive Accounts
Project Graduation	Financial Incentive Programs for Public Education	Group 4 - Direct Grants
School Breakfast	Financial Incentive Programs for Public Education	Group 3 - Categorical Accounts
SOL Algebra Readiness	Financial Incentive Programs for Public Education	Group 2 - Incentive Accounts
Special Ed Cat - Inservice	Financial Incentive Programs for Public Education	Group 3 - Categorical Accounts
Special Ed Cat - Regional Tuition	Financial Incentive Programs for Public Education	Group 3 - Categorical Accounts
Special Ed Cat - Voc Ed / Special Ed	Financial Incentive Programs for Public Education	Group 3 - Categorical Accounts
SOL Web Based Technology Initiative	Financial Incentive Programs for Public Education	Group 2 - Incentive Accounts
Adult Education	Financial Assistance for Categorical Programs	Group 3 - Categorical Accounts
Adult Literacy	Financial Assistance for Categorical Programs	Group 3 - Categorical Accounts
Electronic Classroom	Financial Assistance for Categorical Programs	Group 3 - Categorical Accounts
Foster Care	Financial Assistance for Categorical Programs	Group 3 - Categorical Accounts
Indian Children	Financial Assistance for Categorical Programs	Group 4 - Direct Grants

School Lunch	Financial Assistance for Categorical Programs	Group 3 - Categorical Accounts
Special Ed Cat - Homebound	Financial Assistance for Categorical Programs	Group 3 - Categorical Accounts
Special Ed Cat - State Operated Programs	Financial Assistance for Categorical Programs	Group 3 - Categorical Accounts
Special Ed Cat - Special Ed in Jails	Financial Assistance for Categorical Programs	Group 3 - Categorical Accounts
Vocational Ed - Cat	Financial Assistance for Categorical Programs	Group 3 - Categorical Accounts
VPSA Notes (Debt Service Paid by Lit Fund)	Financial Assistance for Categorical Programs	Group 2 - Incentive Accounts
Career and Tech. Education Resource Ctr.	Financial Assistance for Supplemental Education	Group 4 - Direct Grants
Jobs for Virginia Graduates	Financial Assistance for Supplemental Education	Group 4 - Direct Grants
Project Discovery	Financial Assistance for Supplemental Education	Group 4 - Direct Grants
Small School Division Assistance	Financial Assistance for Supplemental Education	Group 4 - Direct Grants
Southside VA Reg. Technology Consortium	Financial Assistance for Supplemental Education	Group 4 - Direct Grants
Southwest Education Consortium	Financial Assistance for Supplemental Education	Group 4 - Direct Grants
VA Career Education Foundation	Financial Assistance for Supplemental Education	Group 4 - Direct Grants
William King Regional Arts Center	Financial Assistance for Supplemental Education	Group 4 - Direct Grants
Wolftrap	Financial Assistance for Supplemental Education	Group 4 - Direct Grants

II. Rebenchmarking Information

- All of the Direct Aid accounts have been updated for the following data inputs that impact funding levels. These data inputs include:
 - Funded salary amounts
 - Average daily membership projections
 - Fall membership
 - Base-year expenditure data from the Annual School Report
 - Vocational education student and program counts
 - Special education child counts
 - Standardized test score data and free lunch eligibility for remedial education
 - Updates to division superintendent, school board, nurse, and transportation costs
 - Enrollment projections for remedial summer school and ESL programs
 - Prevailing textbook costs
 - Prevailing health care costs
 - Inflation factors

- The following data inputs will need to be updated; however, data needed to make the appropriate revisions are not available at this time:
 - Revised composite index for the 2006-2008 biennium
 - Lottery and sales tax projections
 - Revised fringe benefit rates from VRS
 - Triennial census information
 - Final enrollment projections

- All of these updates are technical in nature and they do not involve changes in policy or funding methodology, other than those already approved and directed by General Assembly action.
- Attachments B and C contain specific information related to the rebenchmarking updates made to Direct Aid accounts.

III. Standards of Quality for Public Education

- The Standards of Quality determine the majority of state Direct Aid funding. Total state funding will be more than \$5.0 billion in FY 2007 and \$5.1 billion in FY 2008. SOQ accounts represent approximately 89 percent of total state funding for public education annually.
- The Constitution of Virginia establishes the SOQ. The specific requirements of the SOQ are prescribed in statute. Funding for the SOQ is determined primarily by the instructional staffing ratios established in the SOQ as well as recognized support costs that are funded on a standard and prevailing cost basis.
- The Constitution states that the Board of Education shall prescribe the standards, "subject to revision only by the General Assembly."
- There are seven key components of the SOQ funding formula:
 1. Number of students
 2. Staffing ratios for teachers and other funded positions
 3. Salaries of teachers and other funded positions
 4. Fringe benefit rates
 5. Standard and prevailing support costs
 6. Inflation factors
 7. Prevailing federal revenues related to support costs
- The SOQ budget includes funding for all of the programs required by the SOQ. Attachment F illustrates the SOQ funding process.
- Localities must provide a local match for SOQ programs based on their individual composite index of local ability-to-pay. Attachment G illustrates the formula for the composite index of local ability-to-pay.
- SOQ accounts include:
 - Basic Aid
 - English as a Second Language
 - Gifted Education
 - Prevention, Intervention and Remediation
 - Remedial Summer School
 - Special Education

- Textbooks
 - Vocational Education
 - Fringe Benefits (Instructional Positions)
 - Sales Tax
- The SOQ accounts that provide funding for instructional services represent the instructional costs for those programs based on the required number of instructional positions and the salaries that are funded.
 - Basic Aid also includes the support costs for expenses such as pupil transportation, operations and maintenance, and administration; these costs are funded on a statewide prevailing cost basis.
 - Once a total cost is determined for each account, the cost is then converted to a per pupil amount. The per pupil amounts are then multiplied by the average daily membership (ADM) for each school division. From this, the total cost for each SOQ account is determined.
 - For Basic Aid, the total cost is first reduced by the amount of sales tax that will be distributed to each school division. Attachment H provides additional information on the effect of sales tax distribution on Basic Aid.
 - The remaining amount for Basic Aid and the total amount for the other SOQ accounts are then split into state and local shares based on each locality's composite index of local ability-to-pay.
 - Approximately 80 percent of SOQ funding is for salaries and benefits of public school employees. The funded salaries for SOQ instructional positions for the 2006-2008 biennium are shown in Attachment E.

IV. Incentive, Categorical, School Facilities, Supplemental Education

- Incentive, categorical, school facilities, and supplemental education funding makes up the balance of state spending for Direct Aid.
- Incentive-based programs represent approximately \$323 million in FY 2007 and \$329 million in FY 2008; this represents approximately six percent of total state funding for Direct Aid.
- Incentive-based programs provide additional education funding that goes beyond the levels required to meet the Standards of Quality.
- Incentive-based programs are voluntary programs, but in order to receive the state funds, school divisions must agree to meet additional requirements, such as:
 - Certifying they will offer the specific program
 - Meeting the requirements established for the program
 - Providing a local match of funds

- Many of the funding formulas for these programs use a poverty adjustment that is based on free lunch eligibility rates as a proxy for students at-risk.
- Incentive-based programs include:
 - Alternative Education
 - At-Risk
 - At-Risk Four-Year Olds
 - Compensation Supplement
 - Early Reading Intervention
 - Enrollment Loss
 - Governor's School
 - ISAEP
 - Mentor Teacher Program
 - K-3 Class Size Reduction
 - School Breakfast
 - SOL Algebra Readiness
 - Special Education – Inservice
 - Special Education – Regional Tuition
 - Special Education – Vocational Education
 - SOL Web Based Technology Initiative
 - Education for a Lifetime
 - Project Graduation
- Categorical programs represent approximately \$72 million in FY 2007 and \$75 million in FY 2008; this represents approximately one percent of total state funding for Direct Aid.
- Categorical funding provides for additional education programs that go beyond the Standards of Quality.
- State or federal statutes or federal regulation mandates much of this funding. These programs are usually targeted to the particular needs of specific populations.
- Categorical programs include:
 - Adult Education
 - Adult Literacy
 - Electronic Classroom
 - Foster Care
 - Indian Children
 - School Lunch
 - Special Education - Homebound
 - Special Education – State Operated Programs
 - Special Education - Jails
 - Vocational Ed - Categorical

- Under the new service area budget structure, the “school facilities” service area now includes two accounts that were previously budgeted as incentive accounts:
 - Lottery funds
 - School Construction Grants Program

- School facilities programs represent approximately \$191 million annually; this represents three percent of total state Direct Aid funding. The revenue estimates for Lottery for 2006-2008 will be available in Fall 2005; the amount for Lottery shown in Attachment D represents the current FY 2006 Lottery revenue estimate.

- Supplemental education programs represent approximately \$2.5 million annually. Supplemental education programs are not available to school divisions statewide, and serve a unique purpose as stated in the appropriation act.

- Supplemental education programs include:
 - Career and Technical Education Resource Center
 - Jobs for Virginia Graduates
 - Project Discovery
 - Small School Division Assistance
 - Southside Virginia Regional Technology Consortium
 - Southwest Education Consortium
 - Virginia Career Education Foundation
 - William King Regional Arts Center
 - Wolfrap Institute for Early Learning

Virginia Department of Education
2006-2008 Direct Aid to Public Education Base Budget
Updates to the SOQ Model Data Base for 2006-2008
Overview of Major Data Elements Used in Calculations

	FY 2006	2006-2008
A. Student Enrollment Data		
Fall Membership	2002-2003	2004-2005
Special Education Child Count	December 1, 2002	December 1, 2004
Vocational Education Child Count	2002-2003	2004-2005
Prevention, Intervention and Remediation (<i>SOL English & Math Test Scores</i>)	2000, 2001, 2002	Three-year average (2001-02; 2002-03; 2003-04)
Prevention, Intervention and Remediation (<i>Free Lunch Eligibility Data</i>)	October 2002	Three-year average (October 2002, October 2003, October 2004)
B. Expenditure Data	2001-2002 Annual School Report	2003-2004 Annual School Report
C. Fringe Benefit Rates		
Instructional VRS Retirement	7.17%	7.17% - To be updated Fall 2005
Non-instructional VRS Retirement	4.94%	4.94% - To be updated Fall 2005
Social Security/Medicare	7.65%	7.65%
Group Life Insurance	0.00%	0.00% - To be updated Fall 2005
Health Care Premium (<i>Funded with Inflation</i>)	\$3,269	\$4,301
D. Composite Index (Base-Year Data)	2001	2003
E. Non-Personal Support Inflation Factors (<i>Unweighted average</i>)	4.66%	7.30%
F. Textbooks (Funded Per Pupil Amount with Inflation)	\$63.12	\$101.81
G. Average Daily Membership Projections (Original)	1,187,813 (FY 2006)	1,200,947 (FY 2007), 1,214,410 (FY 2008)

Virginia Department of Education 2006-2008 Direct Aid to Public Education Base Budget Factors Affecting Additional State Funds Required for the 2006-2008 Biennium <i>Incremental State Cost from Base-Year FY 2006 to FY 2007 and FY 2008</i>			
Rebenchmarking Step	FY 2006 to FY 2007 Increment	FY 2006 to FY 2008 Increment	Total 2006-2008 Increment
1. Remove Compensation Supplement and 13 month fringe benefit rollover from FY 2006 base cost	(\$75,101,717)	(\$75,101,717)	(\$150,203,434)
2. Reset Support Inflation Factors to 0% <i>(This action better isolates the cost of updating base-year expenditures to FY 2004 in Step 4 and the cost of updating inflation factors to 2006-2008 in Step 13.)</i>	(\$66,908,257)	(\$66,908,257)	(\$133,816,514)
3. Update Average Daily Membership Projections	\$50,640,828	\$88,378,924	\$139,019,752
4. Update Base-Year Expenditures, Enrollment and Cost Projections <i>(FY04 Instructional/Support Expenditures, FY05 School-level Enrollment, Project Costs Forward to FY07 and FY08; update federal revenue deduction amounts)</i>	\$117,778,140	\$117,049,747	\$234,827,887
5. Update Transportation Costs	\$61,960,686	\$61,980,003	\$123,940,689
6. Update Nurse, Division Superintendent & School Board Costs	\$4,499,208	\$4,493,766	\$8,992,974
7. Update Special, Vocational, and English as a Second Language Child Counts	(\$16,080,619)	(\$10,952,083)	(\$27,032,702)
8. Update SOQ Remediation Test Score and Free Lunch Eligibility Data	\$10,882,069	\$10,392,241	\$21,274,310
9. Update Funded Instructional Salaries	\$127,245,336	\$128,506,858	\$255,752,194
10. Update Health Care Cost	\$68,554,055	\$69,245,929	\$137,799,984
11. Update Textbook Per Pupil Amount	\$23,010,774	\$23,224,777	\$46,235,551
12. Update Remedial Summer School Projections	\$3,191,498	\$5,370,117	\$8,561,615
13. Update Inflation Factors to 2006-2008	\$110,715,204	\$111,758,293	\$222,473,497
14. Update Incentive Accounts	\$16,603,403	\$23,455,363	\$40,058,766
15. Update Categorical Accounts	\$5,154,335	\$8,179,881	\$13,334,215
16. Update K-3 Class Size Reduction Program	\$14,749,432	\$14,829,552	\$29,578,984
18. Update Appropriations to Fully Fund DOE Calculated FY 2006 Cost ¹	\$7,577,295	\$7,577,295	\$15,154,590
SUBTOTAL - Rebenchmarking Increments + Updated FY 2006 Appropriations	\$464,471,670	\$521,480,689	\$985,952,359

¹ This value is the additional appropriation that is needed to fully fund the Department of Education's calculated state cost. The majority of this requested additional appropriation is to fully fund the cost of the At Risk Four Year Old program in FY 2007 and FY 2008. In FY 2006, the appropriated cost for the At Risk Four Year Old program assumed a \$6.5 million cost savings for non-participation in the program. The values shown here represent the added cost of assuming full participation in the At Risk Four Year Old program in FY 2007 and FY 2008. The remainder of the additional appropriations fully fund the FY 2006 base cost across other accounts.

Virginia Department of Education 2006-2008 Direct Aid to Public Education Base Budget Factors Affecting Additional State Funds Required for the 2006-2008 Biennium <i>Incremental State Cost from Base-Year FY 2006 to FY 2007 and FY 2008</i>				
Rebenchmarking Step	FY 2006 to FY 2007 Increment	FY 2006 to FY 2008 Increment	Total 2006-2008 Increment	
19.	BOE Recommendation - Elementary Principal <i>(Increase to one full-time position in every elementary school)</i>	\$6,672,326	\$6,709,205	\$13,381,531
20.	BOE Recommendation - Assistant Principal <i>(One full-time assistant principal per 400 students in grades K-12)</i>	\$48,822,814	\$49,409,291	\$98,232,105
21.	BOE Recommendation - Reading Specialist <i>(One position per 1,000 students in grades K-12)</i>	\$36,250,743	\$36,513,323	\$72,764,066
22.	BOE Recommendation - Speech Language Pathologist Caseload <i>(Reduce caseload from 68 to 60 students)</i>	\$3,491,814	\$3,584,718	\$7,076,532
SUBTOTAL - BOE Recommendations		\$95,237,697	\$96,216,537	\$191,454,234
TOTAL:		\$559,709,367	\$617,697,226	\$1,177,406,593

Virginia Department of Education
2006-2008 Direct Aid to Public Education Base Budget

Updates to Direct Aid Accounts for 2006-2008

Includes updates for Funded Salaries, Average Daily Membership, Base-year Expenditure Data, Fall Membership, Vocational Education Student and Program Counts, Special Education Child Counts, and SOL Test Score Data, Incentive and Categorical Account Information

Service Area I							
SOQ Accounts	FY 2006 Base State Cost	FY 2007 Updated State Cost	Variance	FY 2006 Base State Cost	FY 2008 Updated State Cost	Variance	2006-2008 Biennium Variance
Basic Aid	\$2,574,201,392	\$2,984,391,306	\$410,189,914	\$2,574,201,392	\$3,017,720,456	\$443,519,064	\$853,708,978
Sales Tax	\$1,091,031,692	\$1,091,031,692	\$0	\$1,091,031,692	\$1,091,031,692	\$0	\$0
Textbooks	\$42,083,311	\$68,420,762	\$26,337,451	\$42,083,311	\$69,057,080	\$26,973,769	\$53,311,220
Vocational Education	\$54,947,437	\$60,573,900	\$5,626,463	\$54,947,437	\$60,984,768	\$6,037,331	\$11,663,794
Gifted Education	\$26,035,512	\$27,736,452	\$1,700,940	\$26,035,512	\$27,995,356	\$1,959,844	\$3,660,784
Special Education	\$342,529,983	\$338,401,365	(\$4,128,618)	\$342,529,983	\$340,968,763	(\$1,561,220)	(\$5,689,838)
Prevention, Intervention and Remediation	\$63,372,640	\$61,630,110	(\$1,742,530)	\$63,372,640	\$61,676,497	(\$1,696,143)	(\$3,438,673)
VRS Retirement	\$139,000,765	\$148,728,056	\$9,727,291	\$139,000,765	\$150,043,578	\$11,042,813	\$20,770,104
Social Security	\$149,219,804	\$158,614,957	\$9,395,153	\$149,219,804	\$159,970,622	\$10,750,818	\$20,145,971
Group Life	\$0	\$0	\$0	\$0	\$0	\$0	\$0
English as a Second Language	\$26,452,794	\$32,020,752	\$5,567,958	\$26,452,794	\$37,231,053	\$10,778,259	\$16,346,217
Remedial Summer School	\$24,928,647	\$28,120,145	\$3,191,498	\$24,928,647	\$30,298,764	\$5,370,117	\$8,561,615
Group I SUB-TOTAL:	\$4,533,803,977	\$4,999,669,497	\$465,865,520	\$4,533,803,977	\$5,046,978,629	\$513,174,652	\$979,040,172
Service Area II							
School Facilities	FY 2006 Base State Cost	FY 2007 Updated State Cost	Variance	FY 2006 Base State Cost	FY 2008 Updated State Cost	Variance	2006-2008 Biennium Variance
Lottery	\$163,507,784	\$163,507,784	\$0	\$163,507,784	\$163,507,784	\$0	\$0
School Construction	\$27,499,997	\$27,499,994	(\$3)	\$27,499,997	\$27,499,999	\$2	(\$1)
Group II SUB-TOTAL:	\$191,007,781	\$191,007,778	(\$3)	\$191,007,781	\$191,007,783	\$2	(\$1)

Virginia Department of Education
2006-2008 Direct Aid to Public Education Base Budget

Updates to Direct Aid Accounts for 2006-2008

Includes updates for Funded Salaries, Average Daily Membership, Base-year Expenditure Data, Fall Membership, Vocational Education Student and Program Counts, Special Education Child Counts, and SOL Test Score Data, Incentive and Categorical Account Information

Service Area III							
Incentive Accounts	FY 2006 Base State Cost	FY 2007 Updated State Cost	Variance	FY 2006 Base State Cost	FY 2008 Updated State Cost	Variance	2006-2008 Biennium Variance
Alternative Education	\$5,563,652	\$5,679,541	\$115,889	\$5,563,652	\$5,680,381	\$116,729	\$232,618
At-Risk	\$55,164,128	\$63,027,137	\$7,863,009	\$55,164,128	\$62,896,264	\$7,732,136	\$15,595,145
At-Risk Four Year Olds	\$46,639,520	\$58,718,707	\$12,079,187	\$46,639,520	\$59,264,149	\$12,624,629	\$24,703,816
Compensation Supplements	\$51,889,333	\$0	(\$51,889,333)	\$51,889,333	\$0	(\$51,889,333)	(\$103,778,666)
Early Reading Intervention	\$11,082,541	\$11,730,541	\$648,000	\$11,082,541	\$11,855,602	\$773,061	\$1,421,061
Enrollment Loss	\$7,419,950	\$8,088,919	\$668,969	\$7,419,950	\$7,861,206	\$441,256	\$1,110,225
Governor's School	\$9,992,256	\$10,982,441	\$990,185	\$9,992,256	\$11,317,426	\$1,325,170	\$2,315,355
ISAEP	\$2,248,346	\$2,247,581	(\$765)	\$2,248,346	\$2,247,581	(\$765)	(\$1,530)
Mentor Teacher Program	\$1,475,000	\$1,475,000	\$0	\$1,475,000	\$1,475,000	\$0	\$0
Education for a Lifetime	\$6,593,854	\$6,593,854	\$0	\$6,593,854	\$6,593,854	\$0	\$0
K-3 Class Size Reduction	\$66,232,129	\$81,443,828	\$15,211,699	\$66,232,129	\$81,523,948	\$15,291,819	\$30,503,518
Project Graduation	\$2,774,478	\$2,774,478	\$0	\$2,774,478	\$2,774,478	\$0	\$0
School Breakfast Program	\$1,172,020	\$1,172,020	(\$0)	\$1,172,020	\$1,172,020	(\$0)	(\$1)
SOL Algebra Readiness	\$7,449,908	\$8,556,311	\$1,106,403	\$7,449,908	\$8,576,309	\$1,126,401	\$2,232,804
Special Education - Inservice	\$600,000	\$600,000	\$0	\$600,000	\$600,000	\$0	\$0
Special Education - Regional Tuition	\$52,550,159	\$59,208,735	\$6,658,576	\$52,550,159	\$65,135,211	\$12,585,052	\$19,243,628
Special Education - Voc Ed	\$200,089	\$200,089	\$0	\$200,089	\$200,089	\$0	\$0
SOL Web Based Technology Initiative <i>(dist. of NGF VPSA note proceeds)</i>	\$58,702,000	\$58,988,000	\$286,000	\$58,702,000	\$59,300,000	\$598,000	\$884,000
Group III SUB-TOTAL:	\$329,047,363	\$322,499,182	(\$6,548,181)	\$329,047,363	\$329,173,518	\$126,155	(\$6,422,027)

Virginia Department of Education
2006-2008 Direct Aid to Public Education Base Budget

Updates to Direct Aid Accounts for 2006-2008

Includes updates for Funded Salaries, Average Daily Membership, Base-year Expenditure Data, Fall Membership, Vocational Education Student and Program Counts, Special Education Child Counts, and SOL Test Score Data, Incentive and Categorical Account Information

Service Area IV							
Categorical Accounts	FY 2006 Base State Cost	FY 2007 Updated State Cost	Variance	FY 2006 Base State Cost	FY 2008 Updated State Cost	Variance	2006-2008 Biennium Variance
Adult Education	\$1,051,800	\$1,051,800	\$0	\$1,051,800	\$1,051,800	\$0	\$0
Adult Literacy	\$2,580,000	\$2,580,000	\$0	\$2,580,000	\$2,580,000	\$0	\$0
Electronic Classroom	\$2,256,908	\$2,256,908	\$0	\$2,256,908	\$2,256,908	\$0	\$0
Foster Care	\$10,259,191	\$11,109,888	\$850,697	\$10,259,191	\$12,047,112	\$1,787,921	\$2,638,618
Indian Children	\$53,805	\$53,805	\$0	\$53,805	\$53,805	\$0	\$0
School Nutrition	\$5,801,932	\$5,801,932	\$0	\$5,801,932	\$5,801,932	\$0	\$0
Special Education - Homebound	\$5,468,733	\$6,445,147	\$976,414	\$5,468,733	\$7,078,860	\$1,610,127	\$2,586,541
Special Education - Jails	\$2,784,950	\$2,868,499	\$83,549	\$2,784,950	\$2,954,553	\$169,603	\$253,152
Special Education - State Operated Programs	\$26,350,276	\$29,593,951	\$3,243,675	\$26,350,276	\$30,962,505	\$4,612,229	\$7,855,903
Vocational Education - Categorical	\$10,100,829	\$10,100,829	\$0	\$10,100,829	\$10,100,829	\$0	\$0
Debt Service on VPSA Equipment Notes (NGF)	\$62,079,725	\$66,549,968	\$4,470,243	\$62,079,725	\$66,895,905	\$4,816,180	\$9,286,423
Group IV SUB-TOTAL:	\$66,708,424	\$71,862,758	\$5,154,334	\$66,708,424	\$74,888,304	\$8,179,880	\$13,334,214

Virginia Department of Education
2006-2008 Direct Aid to Public Education Base Budget

Updates to Direct Aid Accounts for 2006-2008

Includes updates for Funded Salaries, Average Daily Membership, Base-year Expenditure Data, Fall Membership, Vocational Education Student and Program Counts, Special Education Child Counts, and SOL Test Score Data, Incentive and Categorical Account Information

Total - SOQ	\$4,533,803,977	\$4,999,669,497	\$465,865,520	\$4,533,803,977	\$5,046,978,629	\$513,174,652	\$979,040,172
Total - School Facilities	\$191,007,781	\$191,007,778	(\$3)	\$191,007,781	\$191,007,783	\$2	(\$1)
Total - Incentive	\$329,047,363	\$322,499,182	(\$6,548,181)	\$329,047,363	\$329,173,518	\$126,155	(\$6,422,027)
Total - Categorical	\$66,708,424	\$71,862,758	\$5,154,334	\$66,708,424	\$74,888,304	\$8,179,880	\$13,334,214
TOTAL COST* <i>(Service Areas I, II, III & IV):</i>	\$5,120,567,545	\$5,585,039,215	\$464,471,670	\$5,120,567,545	\$5,642,048,234	\$521,480,689	\$985,952,359

* Total amounts for FY 2007 and FY 2008, and the biennium total does not include the cost of the four proposed Board of Education SOQ changes, or the SOL Web Based Technology Initiative and VPSA Debt Service amounts.

Virginia Department of Education
2006-2008 Direct Aid to Public Education Base Budget

Updates to the SOQ Model Data Base for 2006-2008

*Comparison of Prevailing and Funded Salaries for Standards of Quality (SOQ) Instructional Positions
2004-2006 and 2006-2008 Biennia*

	2004-2006 Prevailing Salary ¹ (FY 2002 Data)	2006-2008 Prevailing Salary ² (FY 2004 Data)	Percent Increase	2004-2006 Funded Salary ³ (Prevailing salary increased by 2.25%)	2006-2008 Funded Salary ⁴ (Prevailing salary increased by 3.00%)	Percent Increase	2004-2006 Funded Salary with COCA ⁵ (Includes cost of competing adjustment of 9.83%)	2006-2008 Funded Salary with COCA ⁵ (Includes cost of competing adjustment of 9.83%)	Percent Increase
Elementary Teacher	\$36,708	\$38,525	4.9%	\$37,534	\$39,681	5.7%	\$41,224	\$43,582	5.7%
Elementary Assistant Principal	\$51,390	\$54,201	5.5%	\$52,546	\$55,827	6.2%	\$57,711	\$61,315	6.2%
Elementary Principal	\$63,141	\$66,817	5.8%	\$64,562	\$68,822	6.6%	\$70,908	\$75,587	6.6%
Secondary Teacher	\$38,769	\$40,403	4.2%	\$39,641	\$41,615	5.0%	\$43,538	\$45,706	5.0%
Secondary Assistant Principal	\$56,103	\$58,043	3.5%	\$57,365	\$59,784	4.2%	\$63,004	\$65,661	4.2%
Secondary Principal	\$69,384	\$73,076	5.3%	\$70,945	\$75,268	6.1%	\$77,919	\$82,667	6.1%
Instructional Aide	\$12,520	\$13,426	7.2%	\$12,802	\$13,828	8.0%	\$14,060	\$15,187	8.0%

¹ Linear weighted average salaries based on FY 2002 base-year data.

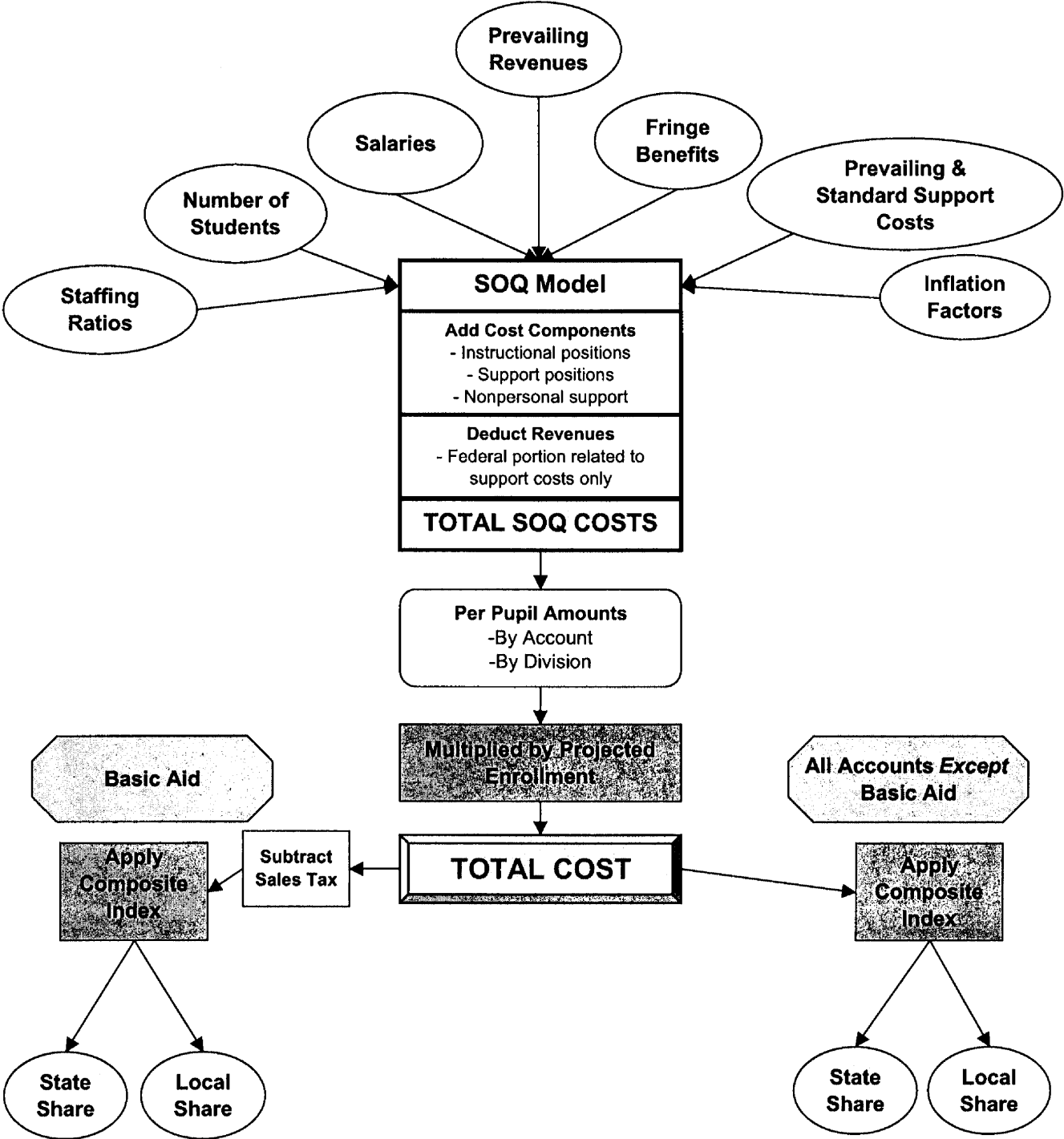
² Linear weighted average salaries based on FY 2004 base-year data.

³ The FY 2002 linear weighted average salaries adjusted for the salary increases granted for SOQ positions in the 2002-2004 state budget (2.25%).

⁴ The FY 2004 linear weighted average salaries adjusted for the salary increases granted for SOQ positions in the 2004-2006 state budget (3.00%).

⁵ School divisions within Planning District Eight receive the cost of competing adjustment (COCA): Arlington County, Fairfax County, Loudoun County, Prince William County, Alexandria City, Fairfax City, Falls Church City, Manassas City and Manassas Park City.

SOQ Funding Process



Composite Index of Local Ability-to-Pay Formula

ADM Component =

$$.5 \left[\frac{\text{Local True Value of Property}}{\text{Local ADM}} \right] + .4 \left[\frac{\text{Local Adjusted Gross Income}}{\text{Local ADM}} \right] + .1 \left[\frac{\text{Local Taxable Retail Sales}}{\text{Local ADM}} \right]$$
$$\frac{\text{State True Value of Property}}{\text{State ADM}} \quad \frac{\text{State Adjusted Gross Income}}{\text{State ADM}} \quad \frac{\text{State Taxable Retail Sales}}{\text{State ADM}}$$

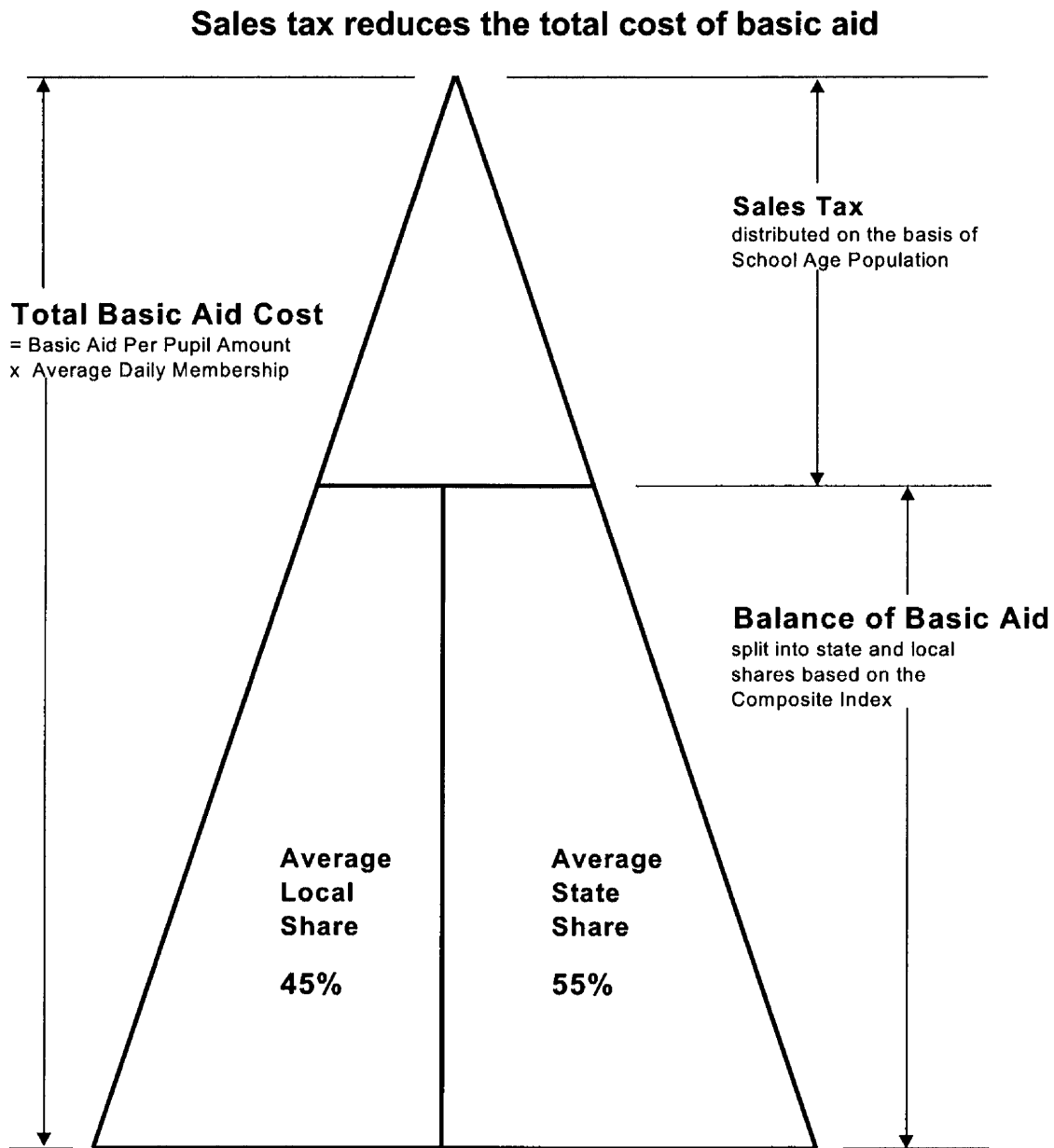
Population Component =

$$.5 \left[\frac{\text{Local True Value of Property}}{\text{Local Population}} \right] + .4 \left[\frac{\text{Local Adjusted Gross Income}}{\text{Local Population}} \right] + .1 \left[\frac{\text{Local Taxable Retail Sales}}{\text{Local Population}} \right]$$
$$\frac{\text{State True Value of Property}}{\text{State Population}} \quad \frac{\text{State Adjusted Gross Income}}{\text{State Population}} \quad \frac{\text{State Taxable Retail Sales}}{\text{State Population}}$$

Local Composite Index =

$$((.6667 \times \text{ADM Component}) + (.3333 \times \text{Population Component})) \times 0.45 \text{ (average local share)}$$

State and Local Shares of Total Basic Aid Cost



Note: State and local shares will vary by locality based on each locality's composite index.

Virginia Department of Education 2006-2008 Direct Aid to Public Education Base Budget Factors Affecting Additional State Funds Required for the 2006-2008 Biennium <i>Incremental State Cost from Base-Year FY 2006 to FY 2007 and FY 2008</i>			
Rebenchmarking Step	FY 2006 to FY 2007 Increment	FY 2006 to FY 2008 Increment	Total 2006-2008 Increment
1. Remove Compensation Supplement and 13 month fringe benefit rollover from FY 2006 base cost	(\$75,101,717)	(\$75,101,717)	(\$150,203,434)
2. Reset Support Inflation Factors to 0% <i>(This action better isolates the cost of updating base-year expenditures to FY 2004 in Step 4 and the cost of updating inflation factors to 2006-2008 in Step 13.)</i>	(\$66,908,257)	(\$66,908,257)	(\$133,816,514)
3. Update Average Daily Membership Projections	\$50,640,828	\$88,378,924	\$139,019,752
4. Update Base-Year Expenditures, Enrollment and Cost Projections <i>(FY04 Instructional/Support Expenditures, FY05 School-Level Enrollment, Project Costs Forward to FY07 and FY08; update federal revenue deduction amounts)</i>	\$117,778,140	\$117,049,747	\$234,827,887
5. Update Transportation Costs	\$61,960,686	\$61,980,003	\$123,940,689
6. Update Nurse, Division Superintendent & School Board Costs	\$4,499,208	\$4,493,766	\$8,992,974
7. Update Special, Vocational, and English as a Second Language Child Counts	(\$16,080,619)	(\$10,952,083)	(\$27,032,702)
8. Update SOQ Remediation Test Score and Free Lunch Eligibility Data	\$10,882,069	\$10,392,241	\$21,274,310
9. Update Funded Instructional Salaries	\$127,245,336	\$128,506,858	\$255,752,194
10. Update Health Care Cost	\$68,554,055	\$69,245,929	\$137,799,984
11. Update Textbook Per Pupil Amount	\$23,010,774	\$23,224,777	\$46,235,551
12. Update Remedial Summer School Projections	\$3,191,498	\$5,370,117	\$8,561,615
13. Update Inflation Factors to 2006-2008	\$110,715,204	\$111,758,293	\$222,473,497
14. Update Incentive Accounts	\$16,603,403	\$23,455,363	\$40,058,766
15. Update Categorical Accounts	\$5,154,335	\$8,179,881	\$13,334,215
16. Update K-3 Class Size Reduction Program	\$14,749,432	\$14,829,552	\$29,578,984
17. Update Appropriations to Fully Fund DOE Calculated FY 2006 Cost ¹	\$7,577,295	\$7,577,295	\$15,154,590
18. Update VPSA debt service in Categorical service area	\$548,150	\$1,770,843	\$2,318,993
SUBTOTAL - Rebenchmarking Increments + Updated FY 2006 Appropriations	\$465,019,820	\$523,251,531	\$988,271,351

¹ This value is the additional appropriation that is needed to fully fund the Department of Education's calculated state cost. The majority of this requested additional appropriation is to fully fund the cost of the At Risk Four Year Old program in FY 2007 and FY 2008. In FY 2006, the appropriated cost for the At Risk Four Year Old program assumed a \$6.5 million cost savings for non-participation in the program. The values shown here represent the added cost of assuming full participation in the At Risk Four Year Old program in FY 2007 and FY 2008. The remainder of the additional appropriations fully fund the FY 2006 base cost across other accounts.

Governor's 2006-2008 Introduced Budget

As of December 2005

Direct Aid Increment Tracking - Appropriation Summary (State Shares Only):

Step	Action	FY 2007	FY 2008	TOTAL
BOE	Technical Rebenchmarking - Includes Updates to VPSA Debt Service <i>(Based on BOE Budget Adopted Sept. 21, 2005)</i>	465,019,819.55	523,251,531.33	988,271,350.88
1	Update 2005 Census Data	3,905,668.00	3,901,394.00	7,807,062.00
2	Updated FY07 and FY08 Lottery Revenue Estimate	(15,700,000.00)	(15,700,000.00)	(31,400,000.00)
2	General Fund Make-Up for Reduced Lottery Transfer to Basic Aid	9,620,960.00	9,620,960.00	19,241,920.00
3	Update Nonprofessional VRS Rate <i>New Rate: 7.48%</i>	4,894,668.00	4,915,357.00	9,810,025.00
4	Update Fringe Benefit Rates <i>New Rates: 11.18% (Instr. VRS); .56% (RHCC); .49% (Group Life)</i>	127,283,395.00	128,558,731.00	255,842,126.00
5	Update Sales Tax Estimate	77,118,633.00	107,909,139.00	185,027,772.00
6	Update 2006-2008 Composite Index	20,002,607.77	21,341,506.85	41,344,114.62
7	Update Remedial Summer School Projections	(3,545,797.00)	(4,905,079.00)	(8,450,876.00)
8	Update English as a Second Language Projections	(1,819,288.00)	(1,528,976.00)	(3,348,264.00)
9 & 12	Update Governor's School PPA & Enrollment; Add Mountain View Governor's School	523,585.00	480,838.00	1,004,423.00
10	Update ADM and Fall Membership Projections Based on Actual FY 2006 Fall Membership	(9,192,840.25)	(15,637,714.25)	(24,830,554.50)
11	Transfer Supplemental Basic Aid from SOQ to Incentive Service Area	0.00	0.00	0.00
13	Update ADM and Fall Membership with New Hopewell Projections	326,877.00	510,099.00	836,976.00
14	Update Fringe Benefit Rates from 11.18% in Step 4 above <i>New Rates: 9.20% (Instr. VRS); .56% (RHCC); .49% (Group Life)</i>	(49,645,097.00)	(50,069,392.00)	(99,714,489.00)
15	3% Compensation Supplement Effective December 1, 2006 <i>(Continuing through FY 2008)</i>	61,435,870.00	106,179,728.00	167,615,598.00
16	Update K-3 VRS and Projected Enrollment	1,289,078.00	1,254,164.00	2,543,242.00
17	Update Governor's School Per Pupil Amount to Reflect Final VRS Rate	(20,345.00)	(20,916.00)	(41,261.00)
19	Add Instructional and Support COCA to Fauquier and Stafford, Phased in at 10% in FY 2007 and 25% in FY 2008	1,374,999.00	3,456,607.00	4,831,606.00
20	Appropriated Grants - Education for a Lifetime; Project Discovery; Communities in Schools	6,552,798.00	5,491,316.00	12,044,114.00
21	Anticipated Participation Savings for At-Risk Four-Year-Old program	(12,595,105.00)	(12,219,328.00)	(24,814,433.00)
22	Remove one-time spending (Wolftrap and Henrico Vocational Program)	(650,000.00)	(650,000.00)	(1,300,000.00)
23	Transfer Central Appropriation funds for school breakfast reimbursement initiative	1,172,020.00	1,172,020.00	2,344,040.00
24	Transfer Central Appropriation funds to Direct Aid budget (Industry Certifications)	682,082.00	682,082.00	1,364,164.00
EA1	Update 2005 Census Data <i>(revised 12/20/05)</i>	(888,801.00)	(946,374.00)	(1,835,175.00)
EA2	Update K-3 Calculation Data <i>(revised 12/20/05)</i>	844,932.00	824,493.00	1,669,425.00
EA3	1.0% Compensation Supplement for Ins. Pos. on 12/01/06 <i>(revised 01/19/06)</i>	14,447,478.00	25,141,157.00	39,588,635.00
Subtotal: Total Costs Above Chpt. 951		702,438,197.07	843,013,343.92	1,545,451,540.99

History of Virginia's Funding Framework for the Standards of Quality (SOQ)

Presentation for the Joint Subcommittee
on Elementary and Secondary Education Funding
Robert B. Rotz, Senior Division Chief, JLARC
August 20, 2007



Virginia's Basic Funding Framework

- State SOQ serve as basic standards of minimum quality education in Virginia
- Virginia's approach to funding the Standards of Quality (SOQ) has two major components:
 - The use of quantified standards as available in the SOQ, to estimate the minimum number of personnel required
 - The use of “prevailing” school division unit costs; for example:
 - the prevailing salary level
 - prevailing costs per pupil

Provisions of the *Constitution of Virginia*: Public Education System to be Provided

- Article I, Section 15:
 - Indicates that “free government” as well as “all progress” rests upon the broad diffusion of knowledge and the use of people’s talents
 - Exhorts the Commonwealth to have “an effective system of education throughout the Commonwealth”
- Article VIII, Section 1:
 - “The General Assembly shall provide for a system of free public elementary and secondary schools for all children of school age throughout the Commonwealth, and shall seek to ensure that an educational program of high quality is established and continually maintained.”

Constitutional Provisions: Standards of Quality (SOQ) Used to Pursue System Objectives

- Article VIII, Section 2:

- Requires that State Standards of Quality for the school divisions are to be “determined and prescribed from time to time by the Board of Education, subject to revision only by the General Assembly”

Constitutional Provisions: General Assembly Responsibility for SOQ Cost Matters

- General Assembly is responsible for determining SOQ costs and apportioning the costs between State and local governments
- *Commentaries on the Constitution of Virginia (1974)* elaborates that the General Assembly must “by whatever means, see that sufficient funds, state and local, are available to maintain a quality program in every school division in the Commonwealth”

1972-73 Task Force on Financing the SOQ

- Created by Governor Linwood Holton
- Included a number of key legislators, two assistant attorney generals, and other designated individuals
- SOQ Funding Task Force issued interim (1972) and final (1973) reports
- Concluded that three funding guidelines seemed implicit in the *Constitution of Virginia*:
 - The SOQ “must be realistic in relation to current educational practice”
 - The estimate of SOQ costs “must be realistic in relation to current costs for education”
 - The local share of SOQ costs “must be based on local ability to pay”

February 1973 Attorney General (AG) Opinion

- Between the interim and final task force reports, the AG's office was asked whether State's basic aid formula was consistent with constitutional requirements
- AG found that school division salaries and staffing levels almost universally exceeded the levels used in the formula
- AG indicated that the funding approach was not satisfactory:
 - "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 reasonable relationship to the actual expense of education prevailing in the Commonwealth"

General Assembly Action Based on AG Opinion

- In light of the AG's opinion, the 1973 General Assembly voted to add funding to its allocation for FY 1974

1983 AG Opinion

- Ten years later, AG issued an opinion which reiterated the main points from the prior opinion
- This AG opinion stated that:
 - “The legislative determination of cost may not be based upon arbitrary estimates with no reasonable relationship to the actual expense.”



AG Informal Guidance Regarding JLARC SOQ Cost Study in the mid-1980s

- In light of prior AG opinions, JLARC staff presented a measure of “prevailing” school division costs for State policy-maker consideration (the linear weighted average)
- AG asked to provide informal guidance regarding the proposed change. The AG indicated that:
 - It is constitutionally permissible for the GA to change the method it uses to estimate SOQ costs, but
 - There is reason to exercise caution in doing so, because any method used is potentially susceptible to an adverse legal finding to the extent that it fails to yield a realistic cost
- The linear weighted average was adopted for use by the State, beginning with the 1986-88 biennium

Task Force Interpretations and AG Opinions and Guidance Have Not Been Contradicted Since

- No court rulings or legal opinions have been issued since the 1980s contradicting the general historical consensus from the SOQ Task Force and the Attorney General opinions
- State's funding formula was challenged in court in the early 1990s, but the case did not address the adequacy of SOQ costs and funding
- Rather, the complaint in the 1990s court case was that expenditure levels of school divisions are not uniform, calling into question equality of educational opportunity
- The Virginia Supreme Court held that there is no guarantee of equality of expenditure in the Virginia Constitution. Instead, the Court found that Virginia's framework requires that all school divisions have programs which at least meet the SOQ



Contemporary Questions for Which SOQ History May Shed Some Light

- How much latitude does the General Assembly have in estimating SOQ costs?
 - GA has some latitude and may change its costing methods, but has been advised in the past that its cost estimates should be realistic, should consider the expense that is prevailing in the Commonwealth, and should not be arbitrary
- Why do SOQ costs need to be “re-benchmarked” (the routine use of more recent cost figures)?
 - If “old” data are used, resulting cost estimates are less likely to be “realistic” and “reasonable” in relation to current prevailing costs
- Why are SOQ costs projected forward in JLARC SOQ Tier One from the re-benchmarking base year to the years being funded?
 - Projected salary increases and inflation assumptions are used as available means or tools to help accomplish the purpose of estimating SOQ costs at levels sufficient to meet “prevailing” costs in the years being funded