Study on School Division

Joint Contracting Incentives

Office of the Secretary of Education

Commonwealth of Virginia

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Background

Chapter 780 of the 2016 Acts of Assembly includes language instructing the Secretary of Education, in consultation with the Secretary of Finance, to develop certain approaches for incentivizing joint contracting between two adjacent school divisions. The language charged the Secretary with considering all the educational services available to school divisions; and to only apply incentives to circumstances where at least one of the school division's populations is equal to or fewer than 4,000 students.

Legislative interest in this issue has grown in recent years under the attention of the Joint Legislative Audit and Review Commission (JLARC) and the Commission on Local Government (CLG). JLARC found in 2014 that the state's approach to consolidation incentives was costly and arbitrary, after which the 2015 General Assembly eliminated existing school division consolidation incentives, and further directed the CLG to develop a process to determine a more appropriate calculation of additional state funds for future local consolidations.

The CLG found that incentivizing joint contracting of school services could assist many fiscally stressed localities without needing to overcome the local identity barriers that tend to impede full school division consolidation. The CLG found that while in recent years only three city reversions to town status have been successful, all three of those were situations in which joint contracts already existed between the school divisions involved. This may be due to the fact that entering into joint contracts may permit divisions to retain two distinct school boards and superintendents, even though many other division functions are consolidated. Continuing to maintain independent school division leadership helps communities maintain local identity. The fear of losing local identity, which is strongly connected to local schools, is commonly attributed to be the biggest barrier to total division consolidation.

Existing Joint Contracting Arrangements in Virginia

Three joint contracting arrangements between school divisions currently exist in the Commonwealth: Fairfax County and the City of Fairfax, Greensville County and the City of Emporia, and James City County and the City of Williamsburg. Each arrangement differs in governance and services shared. For example, the City of Fairfax maintains an entirely separate school board and superintendent from Fairfax County, while both Williamsburg-James City County and Emporia-Greensville share one superintendent and one school board across both divisions.

The City of Fairfax has maintained a School Services Agreement (SSA) with Fairfax County Public Schools (FCPS) since 1961. While the city maintains a separate school board and superintendent, under the agreement FCPS manages and operates city schools, hires staff and develops curriculum, while the City School Board is responsible for the management of the contract and the city-owned school buildings. While superintendents of both divisions jointly

hire principals and use superintendent agreements to address city-specific issues, Fairfax County Public Schools technically fully controls decisions beyond that.

Williamsburg-James City County Public Schools represents another form of joint contracting in that the divisions share one superintendent and one school board, but the joint contract for the percentage of division funding is renewed by the chairmen of both localities' board of supervisors and the school board every three years. The individual joint service contracts are decided by school division staff. Through memoranda of understanding, the school board determines if and how specific services are shared between the two localities.

As mentioned previously, the three recent successful reversions of cities to towns occurred after joint contracting had already been established. South Boston and Halifax County shared a single superintendent, and jointly operated the middle and high schools. Clifton Forge and Alleghany County also jointly operated their school divisions. For the Bedford City/County reversion, Bedford City had paid the County to provide public education services to its students, similar to the current Fairfax arrangement.

Barriers to Joint Contracting

While joint contracting has been identified by the Commission on Local Government as a way to reduce expenses without the political barriers of consolidation, significant barriers do still exist. As mentioned previously, maintaining local identity is the most significant barrier for many communities, and as demonstrated by the various models, is sometimes overcome with joint contracting. For example, in Fairfax's joint contracting arrangement, the city has very little official input over whether or not to close a city high school.

Other barriers are more practical in nature. A significant logistical barrier to entering into joint contracts is the difficulty of ascertaining savings through such an arrangement in advance. While joint contracting can result in savings through larger procurements and economies of scale, the realities of providing some services, like custodians, to a larger combined division can actually increase expenses or lower the quality of services provided. The ability to thoroughly examine and estimate potential savings in advance can help ensure successful joint contracting arrangements are made, but this requires additional funding and significant planning.

Finally, local governing bodies can be a barrier to joint contracts or to the efficient deployment of shared services. Joint contracts create a new subject of debate as local boards of supervisors and council's determine the final amount each school division is responsible for, and then a joint school board or two separate school boards negotiate how to allocate those resources. By layering additional decision makers, such as a second local school board, in to the process the potential for conflict increases.

Best Practices

In research and throughout discussions about joint contracting best practices, a number of key components emerged as critical to the success of a joint contract. The most consistent and notable was the level of specificity included in the memorandum of understanding (MOU) between divisions outlining agreed upon vision for the length of the arrangement, how responsibilities will be shared across both localities, and processes for ending the arrangement. While a joint contract may begin successfully due to strong relationships between individuals in different localities, the inclusion of these specific details help the contract survive inevitable changes in school division leadership.

For example, to better protect against local identity concerns, divisions might require the governing school board to include voting members from both localities on issues such as school closure. Depending on the nuances of the divisions involved and services covered, localities may choose to specify limits on how certain services would be shared to prevent losses of quality.

Approaches for Consideration

After reviewing proposals made by the General Assembly and the Commission on Local Government, interviewing local superintendents and Department of Education staff, and consulting with the Secretary of Finance, the Office of the Secretary of Education (SOE) identifies three approaches for consideration:

- Providing planning grants for localities to assess the feasibility of joint contracts;
- Using a formula that relies on Local Composite Index (LCI) to drive state financial incentives; and
- Establishing specific eligibility requirements and limits on the duration of those incentives.

1. **Providing planning grants to aid localities in studying the feasibility of joint contracting of school services.**

Both JLARC and the CLG recommended providing planning grants through the Appropriation Act to assist localities in assessing whether full consolidation is feasible; to determine the likelihood of improving fiscal sustainability and local services; and to achieve state and local savings. SOE concurs that planning grants could benefit school divisions considering joint contracting arrangements, as the implementation of successful contracts require significant analysis for both divisions involved, and currently localities in fiscal stress must bear the total cost of this analysis. Another barrier to the planning process is the legal cost associated with drawing up contracts, which could also be partially funded through planning grants. The SOE recognizes the following approaches to planning grants identified by the CLG:

- Creating a fund from which grants would be available to localities as needed when considering reversion, consolidation, or joint contracting arrangements. This fund should be kept separate from legislative or executive branch approval to avoid creating additional barriers to the process. This fund could be administered by the Board of Education.
- Providing grants of up to $100,000, with the state and locality sharing the costs according to the Local Composite Index. The grants would fund a feasibility study for any proposal to contract or consolidate localities or school divisions, or revert to town status. The grant funds contribute to the legal work required for drawing up a contracting arrangement.
- Encouraging localities to cooperate in applying for these funds. However, if one of the two localities is unwilling to consider a study, the funds should still be awarded to study the proposal, especially if the requesting locality is experiencing above-average fiscal stress.

2. Using a Local Composite Index (LCI) based formula to calculate incentive funding for school divisions to enter into joint contracts.

Before 2015, the state financial incentives provided for school division consolidations and reversions were achieved by providing a more favorable LCI to the newly consolidated school division for 15 to 20 years after the consolidation. In their September 2014 report, JLARC found that this approach failed to encourage consolidations of the most fiscally stressed localities, instead creating excessive incentives for larger suburban counties to consolidate with smaller cities. As a result, the General Assembly amended the 2014-2016 Appropriation Act to eliminate these incentives.

When the CLG made recommendations in 2015 for a new formula, they suggested that the same funding formula apply to consolidation and full joint contracting of school divisions, which was not previously incentivized. The CLG's proposed funding formula specified that in order to qualify for an incentive at least one of the divisions must have an above-average Fiscal Stress score (from the CLG's Fiscal Stress report), and drove the incentive amount based on the combined fiscal stress scores of the participating localities. This type of formula is used by other state agencies, including the Virginia Compensation Board and the Department of Housing and Community Development, to drive state aid to localities. Based on the CLG's calculations (detailed in Appendix B), this qualification would target aid to school divisions who would benefit financially from joint contracting. However, this funding formula's use of the Fiscal Stress Indicator raised some concern because it is not an indicator commonly used for school funding in Virginia.

Therefore, the SOE identifies two potential amendments to the CLG's funding formula. First, eligibility for state incentives could be based on a division's LCI rather than on their CLG's Fiscal Stress score. This is a baseline that is regularly used by the Department of Education, and

is consistent with other methods of school funding. With this change, in order to receive an incentive for full joint contracting, at least one of the two school divisions could be required to have an LCI below the threshold of 0.45. A table detailing potential incentives for eligible localities under this formula is available in Appendix A.

Second, the formula used to drive incentive funding to divisions could include LCI rather than the CLG's Fiscal Stress Score. Again, this variable is consistent with other methods of school funding, and drives incentives that are proportional throughout the state.

3. Placing limitations on eligibility for and duration of funding to ensure incentives are targeted to appropriate divisions.

In order to ensure that incentives driven by this formula help small divisions and prevent high costs to the state, SOE identifies additional limits. These limits include:

- offering incentives only to school divisions with less than 4,000 students in their average daily membership (ADM);
- including a cap on the duration of these incentives to five years per contract; and
- capping the total funding available from the state each year.

By requiring that at least one division has fewer than 4,000 students in ADM and at least one division has a LCI less than 0.45 in order for both divisions to receive funding, the formula will incentivize the more fiscally stressed localities to enter into shared services agreements.

We also recognize the cost benefit of a time limit, such as five years, on state incentive payments to localities. As the potential cost of providing incentives is high (as calculated in Appendix A), providing incentives for a limited period of time will allow more divisions to take advantage of incentives in the long run. After five years of state incentive payments, localities should be achieving savings through the joint contracting arrangement, and can evaluate whether or not to continue without the incentive at that point.

Conclusion

Joint contracting arrangements have the potential to help localities save money through economies of scale. However, the nuances of navigating these arrangements require thorough planning and development of contracts that address unique local needs and prevent the loss of quality services after entering into an agreement. The Office of the Secretary of Education identifies the following approaches for incentives for joint contracting by a school division with an adjacent school division: 1) the use of planning grants; 2) structuring incentives to help high need school divisions; and 3) establishing appropriate limits on incentive payments to localities entering these agreements. Through these strategies, we believe the state could facilitate successful shared service agreements between local school divisions.

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Appendix A: Examples and Comparisons of Former Incentive to Proposed Incentive

The following tables show various contracting/reversion/consolidation scenarios between adjacent localities, using our identified formula based on local composite index. This list of localities is based on the Commonwealth's list of cities eligible for reversion to town status per Code 15.2-4100. Highlighted localities would not be eligible for incentives based on suggested eligibility limits of school division ADM and LCI.

Cities Eligible for Reversion and Surrounding Counties: Local Composite Index and Average Daily Membership. Highlighted localities would not be eligible for incentives based on suggested eligibility limits of school division ADM and LCI.

City/Town	Local Composite Index	Avg. Daily Member-ship	County	Local Composite Index	Avg. Daily Member-ship
Emporia	0.2495	1,045.8	Greensville	0.2259	1,359.1
Covington	0.2818	928.9	Alleghany	0.2423	2,258.75
Franklin city	0.2978	1,102.1	Isle of Wight	0.4195	5,420.6
Buena Vista	0.1756	1,000.35	Rockbridge	0.4740	2,545.6
Radford	0.2675	1,602.65	Montgomery	0.3866	9,438.4
Radford	0.2675	1,602.65	Pulaski	0.3113	4,284.8
Bristol	0.3085	2,181.2	Washington	0.3813	7,058.76
Martinsville	0.2222	2,164.7	Henry	0.2408	7,047.9
Galax	0.2738	1,311.9	Grayson	0.3461	1,705.2
Galax	0.2738	1,311.9	Carroll	0.2696	3,704.75
Franklin city	0.2978	1,102.1	Southampton	0.2878	2,607.3
Petersburg	0.2475	3,912.7	Chesterfield	0.3496	59,088.8
Petersburg	0.2475	3,912.7	Prince George	0.2430	6,277.6
Lexington	0.4510	639.05	Rockbridge	0.4740	2,545.6
Petersburg	0.2475	3,912.7	Dinwiddie	0.2882	4,374.15
Hopewell	0.2298	4,004.6	Chesterfield	0.3496	59,088.8
Staunton	0.3923	2,586.5	Augusta	0.3545	10,168.1
Hopewell	0.2298	4,004.6	Prince George	0.2430	6,277.6
Norton	0.3102	816.25	Wise	0.2538	5,791.65
Charlottesville	0.6683	4,004.35	Albemarle	0.6506	13,273.32
Waynesboro	0.3493	3,075.9	Augusta	0.3545	10,168.1
Colonial Heights	0.4323	2,800	Chesterfield	0.3496	59,088.8
Williamsburg	0.8000	951.05	James City	0.5632	10,134.1
Williamsburg	0.8000	951.05	York	0.4026	12,546.9
Fredericksburg	0.6135	3,250.4	Stafford	0.3412	27,149.7
Harrisonburg	0.4009	5,255.15	Rockingham	0.3702	11,279.7
Manassas Park	0.2683	3,236.1	Prince William	0.3822	83,683.45
Colonial Heights	0.4323	2,800	Prince George	0.2430	6,277.6
Salem	0.3695	3,770	Roanoke	0.3704	13,926.25
Winchester	0.4376	4,128.15	Frederick	0.3719	13,013.05
Danville	0.2649	5,965.2	Pittsylvania	0.2507	8,902.3
Fredericksburg	0.6135	3,250.4	Spotsylvania	0.3555	23,309
Fairfax city	0.8000	3,156.7	Fairfax	0.6807	178,005
Falls Church	0.8000	2,410.9	Fairfax	0.6807	178,005
Falls Church	0.8000	2,410.9	Arlington	0.8000	23,447
Manassas city	0.3662	7,130.2	Prince William	0.3822	83,683.45
Poquoson	0.3895	2,084.5	York	0.4026	12,546.9

Cities Eligible for Reversion and Surrounding Counties: Total Potential Incentives for Contracting. Highlighted localities would not be eligible for incentives based on suggested eligibility limits of school division ADM and LCI.

City/Town	County	Former Incentive	Proposed Incentive
Hopewell	Chesterfield	$ 30,985,837	$ 1,781,493.70
Hopewell	Prince George	$ 394,600	$ 1,781,493.70
Martinsville	Henry	$ 564,771	$ 1,666,996.96
Petersburg	Prince George	$ 72,855	$ 1,611,349.87
Petersburg	Chesterfield	$ 26,407,796	$ 1,576,320.52
Petersburg	Dinwiddie	$ 815,123	$ 1,576,320.52
Manassas Park	Prince William	$ 44,502,550	$ 1,568,645.48
Danville	Pittsylvania	$ 352,235	$ 1,523,046.72
Colonial Heights	Prince George	$ 2,255,273	$ 1,250,028.16
Buena Vista	Rockbridge	$ 3,879,783	$ 1,062,998.66
Radford	Montgomery	$ 4,981,181	$ 926,773.04
Radford	Pulaski	$ 839,829	$ 926,773.04
Bristol	Washington	$ 2,183,617.76	$ 886,889.25
Fredericksburg	Stafford	$ 4,186,836	$ 870,963.57
Emporia	Greensville	$ 114,280	$ 814,424.20
Fredericksburg	Spotsylvania	$ 3,966,962	$ 805,601.31
Galax	Carroll	$ 24,489	$ 763,875.17
Galax	Grayson	$ 649,994	$ 746,090.93
Waynesboro	Augusta	$ 233,239	$ 678,626.24
Covington	Alleghany	$ 164,762	$ 622,218.49
Manassas city	Prince William	$ 6,251,456	$ 609,480.92
Colonial Heights	Chesterfield	$ 985,267	$ 606,293.85
Staunton	Augusta	$ 402,775	$ 597,710.34
Salem	Roanoke	$ 55,217	$ 549,698.47
Harrisonburg	Rockingham	$ 722,048	$ 534,915.37
Franklin city	Southampton	$ 46,598	$ 530,734.49
Franklin city	Isle of Wight	$ 2,992,020	$ 498,013.50
Norton	Wise	$ 205,158	$ 492,300.83
Winchester	Frederick	$ 1,177,712	$ 476,820.27
Poquoson	York	$ 755,972	$ 321,315.96
Williamsburg	York	$ 1,676,430	$ 187,638.64
Lexington	Rockbridge	$ 299,045	$ -
Charlottesville	Albemarle	$ 310,411	$ -
Williamsburg	James City	$ 998,940	$ -
Fairfax city	Fairfax	$ 1,824,968	$ -
Falls Church	Fairfax	$ 1,336,246	$ -
Falls Church	Arlington	$ -	$ -

Cities Eligible for Reversion and Surrounding Counties: Total Potential Incentives for Contracting Per Student. Highlighted localities would not be eligible for incentives based on suggested eligibility limits of school division ADM and LCI.

City/Town	County	Former Incentive/ADM	Proposed Incentive/ADM
Buena Vista	Rockbridge	$ 3,878	$ 1,063
Emporia	Greensville	$ 109	$ 779
Martinsville	Henry	$ 261	$ 770
Covington	Alleghany	$ 177	$ 670
Norton	Wise	$ 251	$ 603
Galax	Carroll	$ 19	$ 582
Radford	Montgomery	$ 3,108	$ 578
Radford	Pulaski	$ 524	$ 578
Galax	Grayson	$ 495	$ 569
Manassas Park	Prince William	$ 13,752	$ 485
Franklin city	Southampton	$ 42	$ 482
Franklin city	Isle of Wight	$ 2,715	$ 452
Colonial Heights	Prince George	$ 805	$ 446
Hopewell	Chesterfield	$ 7,738	$ 445
Hopewell	Prince George	$ 99	$ 445
Petersburg	Prince George	$ 19	$ 412
Bristol	Washington	$ 1,001	$ 407
Petersburg	Chesterfield	$ 6,749	$ 403
Petersburg	Dinwiddie	$ 208	$ 403
Fredericksburg	Stafford	$ 1,288	$ 268
Danville	Pittsylvania	$ 59	$ 255
Fredericksburg	Spotsylvania	$ 1,220	$ 248
Staunton	Augusta	$ 156	$ 231
Waynesboro	Augusta	$ 76	$ 221
Colonial Heights	Chesterfield	$ 352	$ 217
Williamsburg	York	$ 1,763	$ 197
Poquoson	York	$ 363	$ 154
Salem	Roanoke	$ 15	$ 146
Winchester	Frederick	$ 285	$ 116
Harrisonburg	Rockingham	$ 137	$ 102
Manassas city	Prince William	$ 877	$ 85
Lexington	Rockbridge	$ 468	$ -
Charlottesville	Albemarle	$ 78	$ -
Williamsburg	James City	$ 1,050	$ -
Fairfax city	Fairfax	$ 578	$ -
Falls Church	Fairfax	$ 554	$ -
Falls Church	Arlington	$ -	$ -

Cities Eligible for Reversion and Surrounding Counties: Total Potential Incentives for Contracting As Percentage of 2015 State Share of Basic Aid. Highlighted localities would not be eligible for incentives based on suggested eligibility limits of ADM and LCI.

City/Town	County	Former Incentive as % of State Basic Aid Payment to smaller division	Proposed Incentive as % of State Basic Aid Payment to smaller division
Buena Vista	Rockbridge	105%	29%
Emporia	Greensville	3%	22%
Martinsville	Henry	8%	23%
Covington	Alleghany	5%	21%
Norton	Wise	8%	20%
Galax	Carroll	1%	18%
Radford	Montgomery	98%	18%
Radford	Pulaski	17%	18%
Galax	Grayson	15%	18%
Manassas Park	Prince William	398%	14%
Franklin city	Southampton	1%	16%
Franklin city	Isle of Wight	91%	15%
Colonial Heights	Prince George	33%	18%
Hopewell	Chesterfield	239%	14%
Hopewell	Prince George	3%	14%
Petersburg	Prince George	1%	13%
Bristol	Washington	35%	14%
Petersburg	Chesterfield	217%	13%
Petersburg	Dinwiddie	7%	13%
Fredericksburg	Stafford	70%	15%
Danville	Pittsylvania	2%	8%
Fredericksburg	Spotsylvania	67%	14%
Staunton	Augusta	6%	9%
Waynesboro	Augusta	3%	8%
Colonial Heights	Chesterfield	15%	9%
Williamsburg	York	199%	22%
Poquoson	York	14%	6%
Salem	Roanoke	1%	5%
Winchester	Frederick	12%	5%
Harrisonburg	Rockingham	5%	4%
Manassas city	Prince William	30%	3%
Lexington	Rockbridge	18%	0%
Charlottesville	Albemarle	5%	0%
Williamsburg	James City	118%	0%
Fairfax city	Fairfax	60%	0%
Falls Church	Fairfax	60%	0%
Falls Church	Arlington	0%	0%