

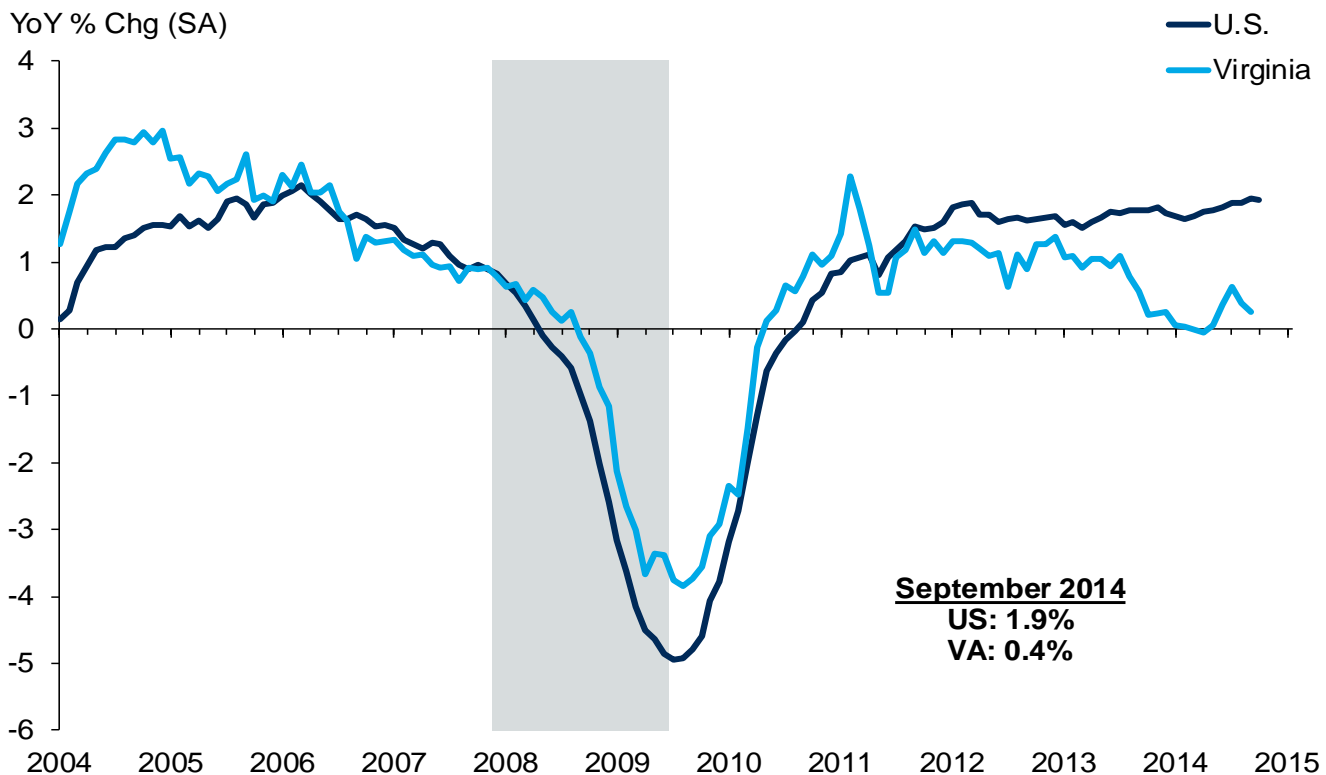
Rationale for Additional Investment in Virginia's K-12 Education System

By Jim Regimbal

A fundamental re-thinking of how the state finances its K-12 public education system is required for Virginia to maintain its standing as having one of the best K-12 education systems in the country. State aid to public education has been inadequate and declining since the 2009 recession. Major state K-12 budget cuts since 2010 have not been restored and a new round of state reductions may be coming. According to JLARC's most recent report on state spending, Virginia ranks 39th in per pupil state support for K-12 public education. Policymakers must understand that education is the foundation for economic growth in the 21st century. Our competitors are not standing still. New investment in Virginia's education system is critical to our economic future.

The near-term economic and financial outlook for Virginia has worsened. While the good news is the United States' economy has improved, the bad news is Virginia's economy has deteriorated since 2013 with much slower employment growth. Virginia relies on federal funding (44% is defense spending) for as much as 20 percent of its economy and federal spending in Virginia is declining.¹ Defense spending declined by 7 percent in federal fiscal year 2013 and another 5 percent in 2014.² The impact of these federal reductions on Virginia's economy has been profound. Employment growth has stalled, high-paying defense contracting jobs have declined, and tax revenues have suffered. State general fund revenues declined by 1.6 percent in FY 2014 and are currently forecast to only increase by 2.9 and 2.7 percent in FY 2015 and FY 2016.

Virginia's Employment Growth Has Slowed³



¹ <http://jlarc.virginia.gov/reports/Rpt455.pdf>

² CBO Monthly Budget Reviews

³ https://www.richmondfed.org/research/regional_economy/reports/fifth_district_economic_indicators/index.cfm

Since February 2014, the state has reduced its 2014-16 general fund budget outlook by \$2.4 billion. Already enacted state K-12 budget reductions removed all but the base re-benchmarking increases planned for the 2014-16 biennium. While K-12 public education has so far fared better in the 2014-16 budget reductions than most other areas of the budget, there is still \$49.8 million (FY 15) and \$272 million (FY 16) in budget reductions needed, plus \$100 million in still unidentified executive management savings in FY 2016. A relatively small core of agency budgets having already taken the brunt of budget reductions, and large portions of the GF budget are off-limits to cuts (i.e. Medicaid, debt service, rainy day funds, car tax reimbursements, etc),. Therefore, unless state general fund revenue growth improves markedly, it is likely K-12 funding will be reduced further for fiscal year 2016 during the 2015 General Assembly Session.

The longer-term ability for the state to meaningfully increase appropriations for K-12 public education is also problematic given current policies. Hundreds of millions of dollars of general fund budget reductions in the 2014-16 biennium are one-time in nature, or were not intended to be permanent - including sweeping up all unspent balances, use of non-general funds, indiscriminate funding reductions to local government, and cuts to higher education base funding levels. In addition, the state is relying on \$235 million in rainy day funds in FY 2016 to fund ongoing operating expenses. Constitutional requirements also mandate that the state must make a rainy day fund deposit of \$156 million in FY 2017 just for achieving its 2.9 revenue target in FY 2015. Without significant revenue growth beyond current forecasts (and above required rainy day fund deposits), the state will be starting the 2016-18 budget cycle with a nearly \$1 billion structural imbalance to fill before even thinking about restoring previous budget reductions, or adding funding to K-12 programs or teacher salaries.

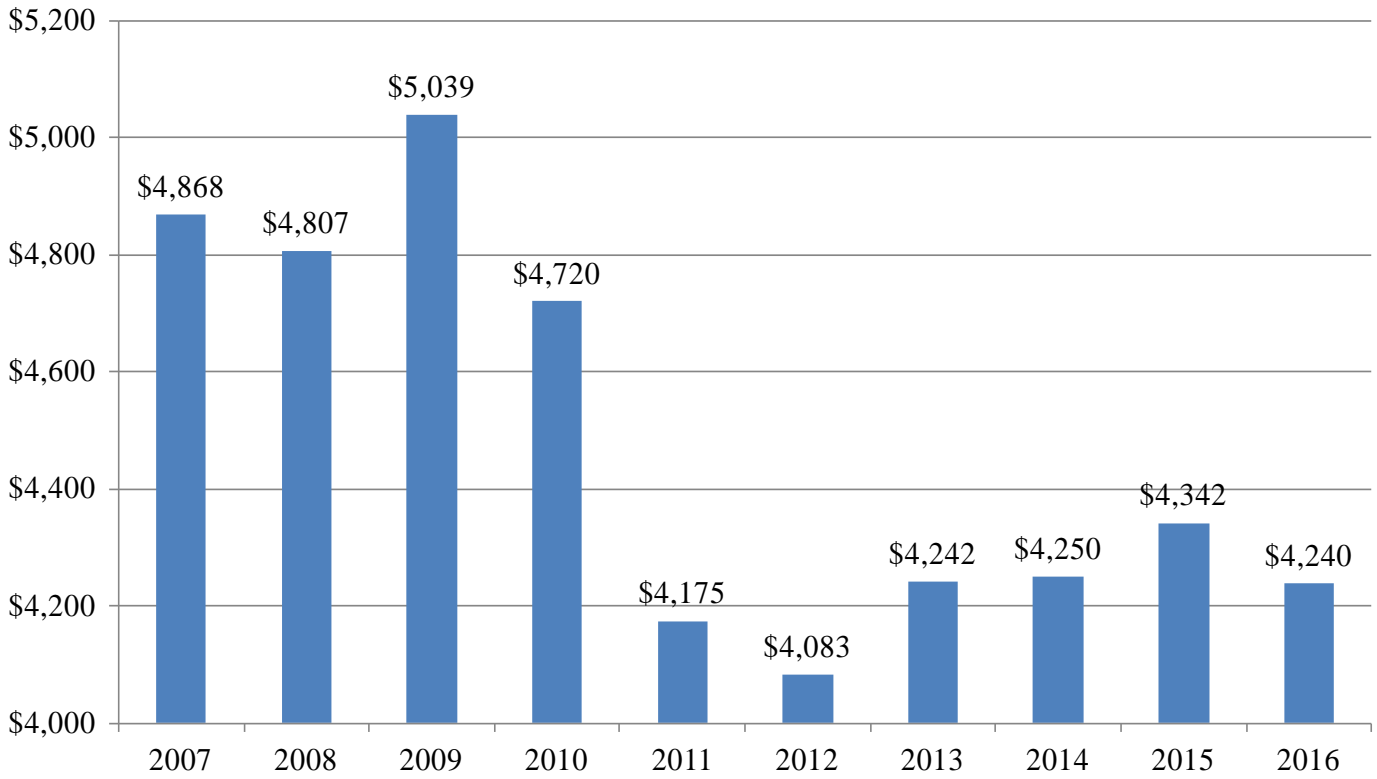
State direct aid appropriations for K-12 have grown little, if at all, for some time – even taking into account the 2004 state tax increases. In their 2013 review of state spending, JLARC reported that over the ten year period from 2004-13 total state direct aid appropriations to K-12 grew just 39 percent, with general fund K-12 direct aid appropriations growing only 27 percent.⁴ In its latest 2014 draft state spending report, JLARC reports that over the latest ten year period from 2005-14 total state direct aid appropriations to K-12 grew only 25 percent, with general fund K-12 direct aid appropriations growing only 13 percent.⁵ Since the 2009 recession, state K-12 funding has actually declined. State direct aid K-12 appropriations in FY 2009 were \$7.1 billion (all funds)/\$5.6 billion (GF), and in FY 2014 were only \$6.8 billion (all funds)/\$5.2 billion (GF). State aid for K-12 has dropped even more when viewed in the context of inflation-adjusted per pupil spending – from \$5,039 in FY 2009 to \$4,250 in FY 2014 (all funds, 2007\$).

So where does Virginia get the resources to invest in education? Virginia needs to look at its tax base. Over the last several decades, whenever revenues grew above trend, our policymakers permanently reduced the general fund tax base. The 2004 \$900 mil./yr. tax increase has been more than offset by numerous tax reductions, such as the car tax reduction (\$950 mil./yr), age subtraction (\$300 mil./yr), food for home consumption sales tax relief (\$220 mil./yr), low income tax relief (\$200 mil./yr), estate tax repeal (\$150 mil./yr), insurance premiums transfer to transportation (\$130 mil./yr), land preservation tax credit (\$100 mil./yr), coal tax credits (\$80 mil./yr), corporate taxable income change to a single sales factor (\$60 mil./yr), and dozens of other smaller, but still substantial other tax loopholes and preferences. Virginia has also traditionally exempted services and non-profits from the state sales tax. Virginia cannot afford all of these tax preferences. Choices need to be made between investing for our education future, or providing special interest tax preferences and loopholes.

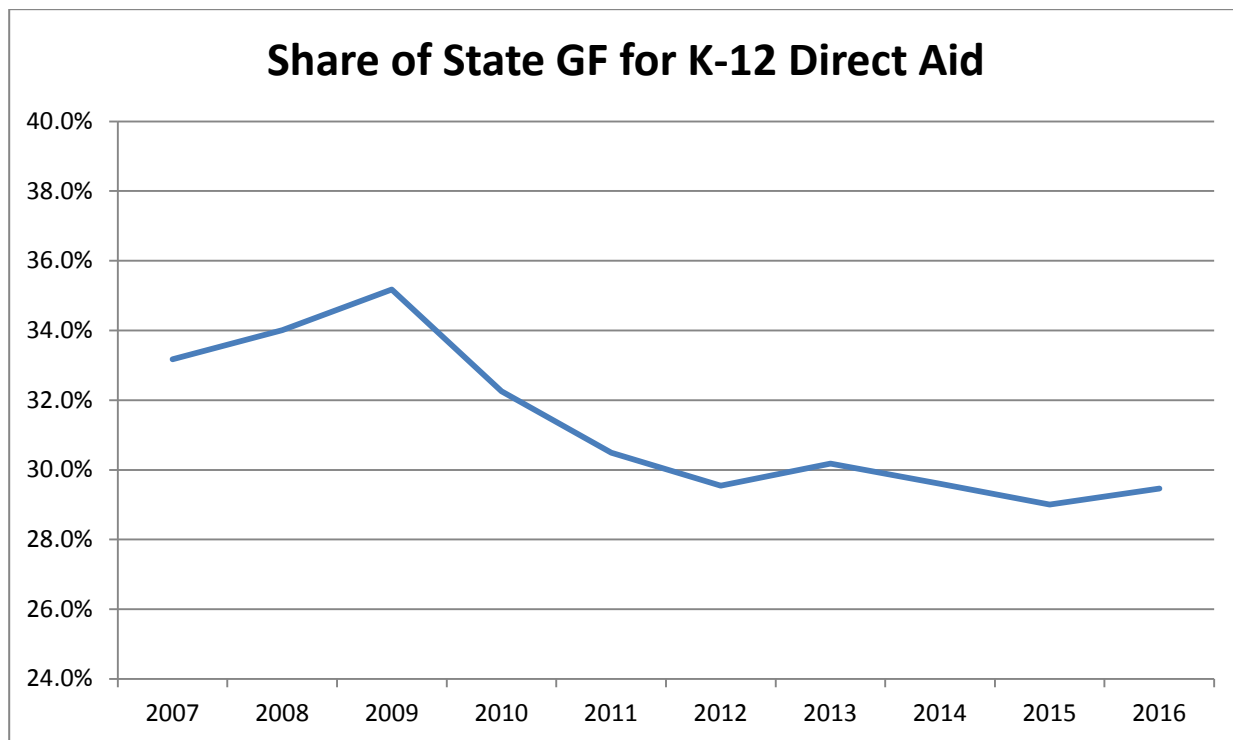
⁴ <http://jlarc.virginia.gov/reports/Rpt449.pdf>

⁵ <http://jlarc.virginia.gov/reports/Rpt462.pdf>

Inflation-Adjusted State Per Pupil K-12 Funding Reveals Large Declines in State Aid (2007 \$ - All State Appropriated Funds)



State K-12 funding reductions have reduced K-12 funding from 35 percent of the general fund in FY 2009 to below 30 percent in FY 2014 and beyond.



The state's reduction in funding for K-12 has occurred through numerous policy changes since FY 2009. Most of the policy changes have resulted in reduced state funding for school "support" personnel and administrative and employee benefits. The reality is that local school divisions have to continue to provide the same or an even greater level of programs and services to meet the state demands to improve accountability and school performance.

<u>Major State K-12 Funding Policy Changes Since 2009</u>	<u>Session</u>	<u>Biennial \$Mil.</u>
Cap Funding for Support Positions	2009	(\$754)
Eliminate School Construction Grants	2009	(\$55)
Adjust Health Care Participation Rates	2010	(\$269)
Eliminate Equipment, Travel, Misc. Expenses From SOQ Calculation	2010	(\$244)
Include \$0 Values in Linear Weighted Avg Calculation	2010	(\$79)
Eliminate Lottery Support for School Construction	2010	(\$67)
Drop Lowest Tier From K-3 Class Size Calculation	2010	(\$36)
Extend School Bus Replacement Cycle From 12 to 15 Yrs	2010	(\$19)
Eliminate Enrollment Loss Assistance	2010	(\$16)
Eliminate Non-personal Inflation Update (not originally intended as permanent, <i>partially offset in 2012-14 biennium</i>)	2012	(\$109)
Reduce Nova COCA for support positions	2012	(\$28)
Use Kindergarten as Proxy for 4-yr-old Pre-K Count	2012	<u>(\$27)</u>
Total Major Policy Changes Since 2009		(\$1,703)

While state aid for public education has been dropping both in nominal and real terms, and as a share of the state's general fund, the state's Board of Education has been recommending increases in the definition of the Standards of Quality. Unfortunately, the General Assembly has not provided the funding to adopt these changes.

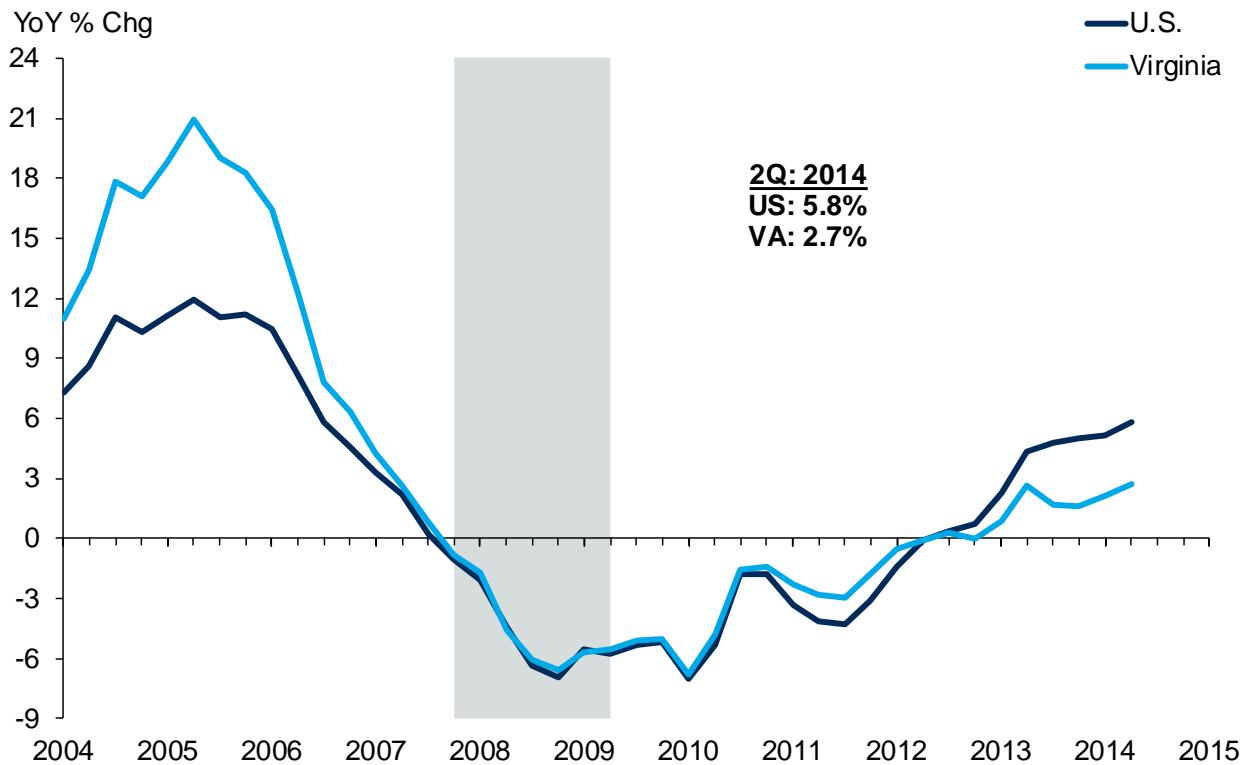
	<u>Year First Recommended</u>	<u>FY 2014 Est. \$ Mil</u>
A full-time principal for each elementary school	2003	\$8.0
A full-time assistant principal for every 400 students in the school	2003	\$70.6
One reading specialist for every 1,000 students in K-12	2003	\$51.3
One mathematics specialist for every 1,000 students in K-8	2006	\$35.0
A data manager-test coordinator for every 1,000 students in K-12	2006	\$51.3
Reducing speech-language pathologist caseloads from 68 to 60	2003	<u>\$5.3</u>
Total Annual Unfunded BOE Recommended SOQ Changes		\$221.5

With reduced state support, the burden of providing adequate funding has fallen to the localities.

However, localities already shoulder a much larger portion of K-12 expenditures than intended by state policy. Under the definitions of the state’s Standards of Quality, the localities are expected to pay 45 percent of total costs. In reality, localities fund 56 percent of the total state-local cost of public education.⁶ The Virginia Department of Education reported that localities had to budget \$3.55 billion in FY 2013 above their state required local effort (RLE) to maintain real world school systems.⁷ The reality is that school division’s spent 108 percent more than required by the state in FY 2013.

It is problematic to expect localities to shoulder an even higher burden of funding K-12 public education than it already does. Real estate values continue to be depressed in Virginia compared to the recovery in the U.S. as a whole. As a result, local government revenues remain depressed - increasing only 2 percent in fiscal year 2013 – and with little prospect for even average growth rates in future years without significant tax rate increases.

House Price Index⁸



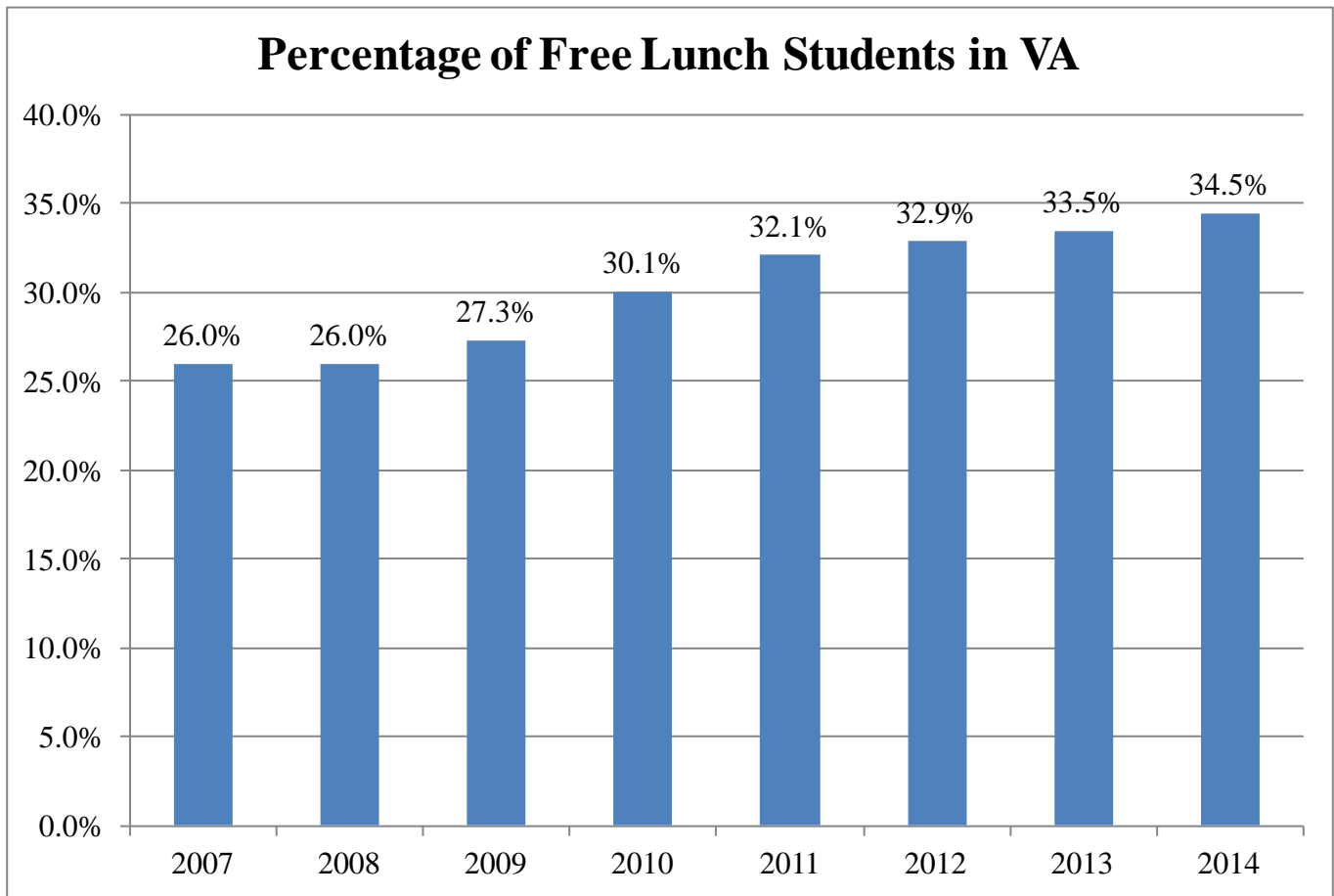
K-12 Public Education Needs Are Growing

⁶ http://www.doe.virginia.gov/statistics_reports/supts_annual_report/index.shtml, Table 15

⁷ [http://leg2.state.va.us/dls/h&sdocs.nsf/By+Year/RD212011/\\$file/RD21.pdf](http://leg2.state.va.us/dls/h&sdocs.nsf/By+Year/RD212011/$file/RD21.pdf)

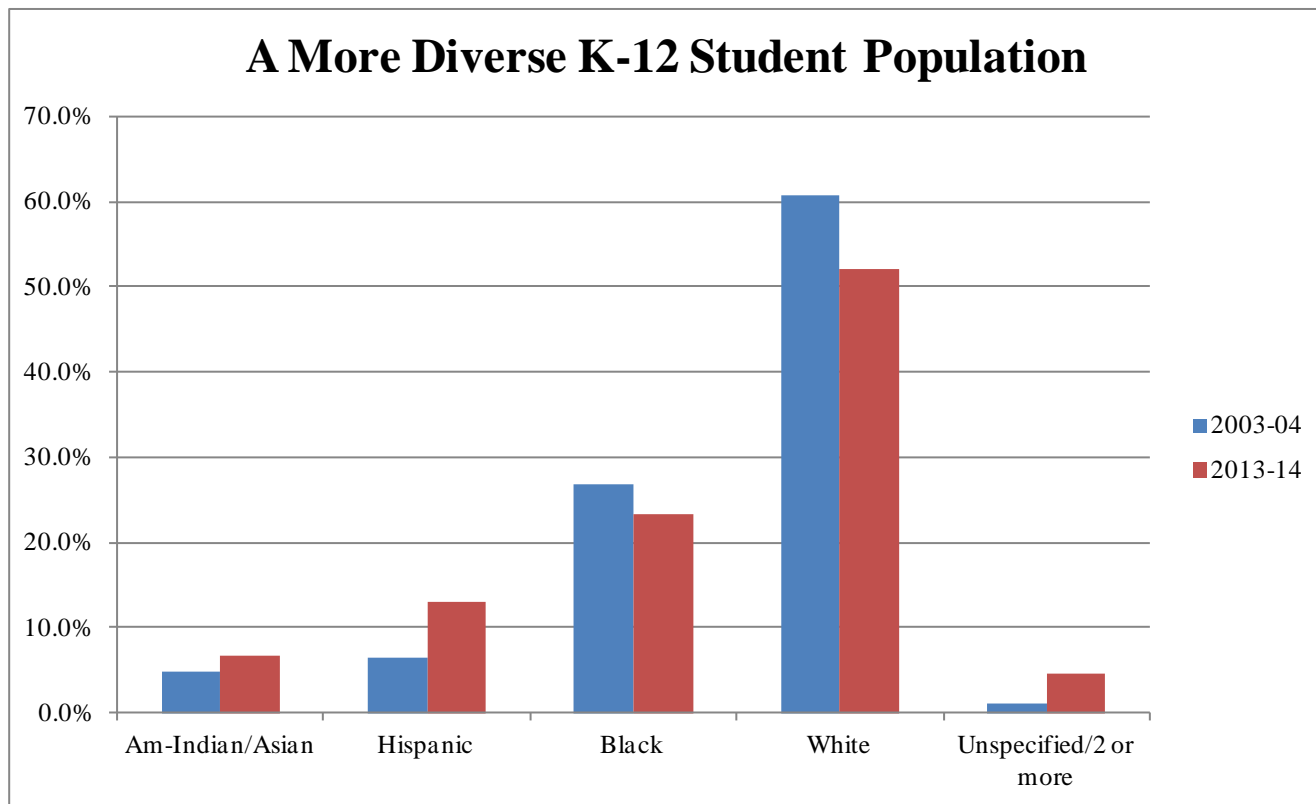
⁸ https://www.richmondfed.org/research/regional_economy/reports/fifth_district_economic_indicators/index.cfm#tabview=tab5

At the same time that state K-12 funding has declined, the number of at-risk students in Virginia schools has significantly increased. More than one-third of K-12 students are now free lunch-eligible, with another seven percent reduced-price lunch eligible.⁹



⁹ <http://www.doe.virginia.gov/support/nutrition/statistics/index.shtml>

Virginia’s K-12 public schools are also becoming more racially diverse, with the largest increases occurring in the Hispanic and Asian student populations.



These more economically-challenged and diverse student populations increase the challenge of meeting more stringent testing and graduation requirements. State requirements for improving school and student performance have increased. SOL tests, graduation requirements, and school accreditation standards have become more rigorous. School accreditation ratings reflect student achievement on SOL tests and other approved assessments in English, history/social science, mathematics and science. Ratings are based on the achievement of students on tests taken during the previous academic year or on a three-year average of achievement. 577 Virginia public schools, or 32 percent of all schools, are not fully accredited. 2014-15 school accreditation ratings are listed below:

Fully Accredited	1249
Provisionally/Conditionally Accredited	23
Accredited with Warning	541
Accreditation Denied	13

There is still a yawning achievement gap in Virginia for at-risk students. In the 2013-14 school year, there was a 20-30 point achievement gap for economically-disadvantaged students. As a result, 36 “Priority” and 73 “Focus” schools have been identified based on overall reading and mathematics achievement and graduation rates in the case of high schools. Priority schools are among the lowest five percent performing schools and must engage a state-approved turnaround partner to help implement an improvement model. Focus schools have specific needs for improvement and must employ a state-approved coach to help implement intervention strategies to meet achievement goals. Most underperforming schools are subject to these and other intervention strategies as a consequence of not meeting accountability standards.

The Achievement Gap Persists 2013-14 SOL Pass Rates

	<u>English</u>	<u>Math</u>
Asian	87	90
White	82	80
Hispanic	65	67
Black	59	60
Economically Disadvantaged	59	61
Limited English Proficiency	54	62

The good news is that even with these challenges Virginia’s public schools are showing improvement. On-time graduation rates have increased 8.6 percent since fiscal year 2008. The class of 2014 graduated almost 90 percent within four years, and more than 50 percent graduated with an advanced diploma.¹⁰ While it’s difficult to compare SOL English scores with previous years due to the more stringent SOL tests instituted for the 2012-13 school year, SOL math scores are comparable. Math scores have steadily improved for all subgroups over the last several years. However this improvement will not continue without adequate funding and resources.

SOL Pass Rates Improve for Math

	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
Asian	87	88	90
White	75	77	80
Hispanic	61	64	67
Black	52	55	60
Economically Disadvantaged	54	57	61
Limited English Proficiency	59	59	62

¹⁰ http://www.doe.virginia.gov/statistics_reports/graduation_completion/cohort_reports/index.shtml

Summary

There is a fundamental mismatch in Virginia between the performance expectations and goals for K-12 public schools and the amount of state funding provided to meet our high expectations. State funding has been significantly reduced since the last recession and has not been restored. Given the performance of Virginia's economy and resulting state tax revenues over the last year, there is the threat of further reductions in fiscal year 2016.

Local governments have been hard pressed to make up the funding reductions from the state. Localities already provide more than double what is required to match state K-12 appropriations. Local revenues remain stressed from the slow recovery of the real estate market in Virginia.

Our school system is becoming more diverse. The recession also contributed to the rising number of at-risk students. The number of free and reduced lunch economically-disadvantaged students has risen by over eight percent since 2008 to about 41 percent of all K-12 students in Virginia. These students have traditionally been harder to teach as reflected in their substantially lower SOL scores.

At the same time, Standards of Learning, and accreditation and graduation requirements have become more stringent. Expectations and requirements for closing the achievement gap with at-risk students have also risen. While progress has been made in recent years in closing the achievement gap, it will take resources, quality teaching, and leadership to completely close the achievement gap and attain our ultimate goal of a quality education for all students in order to successfully compete in the global economy of the 21st century.

Virginia's economy has become dependent on federal spending. Reductions in federal spending, particularly in defense, have dramatically lowered the growth in our economy. Everyone recognizes that Virginia needs an economic transformation. Public policymakers in Virginia need to understand that transforming our economy requires a more qualified workforce – and that requires more resources.

Hard choices about priorities also need to be made about how our state resources can meet our education needs. Virginia's tax code is littered with tax preferences for special interests. Restoring proper balance to Virginia's tax base is the first step toward adequately funding public education. Without the necessary resources, it is tough to expect our school systems to meet the needs of our diverse population and to train the highly qualified workforce required for the 21st century economy.

ⁱ The same JLARC report cited a 112 percent increase from 2004-13 in total state appropriations for "financial assistance to public ed - SOQ". The funding sources and definitions for the state's Standards of Quality (SOQ) have changed since FY 2004, making a 10 year comparison for "SOQ" spending irrelevant to state aid for K-12. Primarily, the state sales tax distribution based on school-age population is not included in FY 2004 SOQ funding while it is included in FY 2013.