Overview of K-12 Education Funding in Virginia
(Direct Aid to Public Education Budget)

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Virginia Department of Education

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**Direct Aid Budget**

- State and federal funding for public education is provided to local school divisions through the Direct Aid to Public Education budget in the Appropriation Act. The General Assembly appropriates the funds. DOE administers the funds.

- Funding is appropriated in six budgetary categories:
  1. Standards of Quality (SOQ)
  2. Incentive Programs
  3. Categorical Programs
  4. Lottery Proceeds Fund
  5. Supplemental Education Programs
  6. Federal Funds
Direct Aid Budget

- The appropriated (Chapter 806, 2013 GA) FY14 funding by fund source is:
  - general funds (incl. 1.125% of state sales tax) = $5.3 billion
  - trust and agency funds (includes Lottery and Literary Fund) = $598.4 million
  - special funds = $3.0 million
  - federal funds = $870.9 million
  - Total = $6.8 billion

- Historically, state funding for public education represents about one-third of the state general fund budget.

- A listing of the state funding for each Direct Aid account for 2012-2014 is shown at the end of the document.
SOQ Funding

The Va. Constitution requires:

- the Board of Education to formulate Standards of Quality (SOQ) for public schools.
- the General Assembly to revise the SOQ, determine SOQ costs, and apportion the cost between the state and localities.
SOQ Funding

- SOQ is established in the Va. Constitution as the minimum educational program school divisions must provide.

- The specific requirements of the SOQ are set out in the *Code of Va.* and the Appropriation Act, such as required programs and staffing.

- State funding must be matched by the locality. The mandatory minimum local funding required known as “required local effort.” Based on the Composite Index.

- Localities may spend more than their required amount and offer programs and employ staff beyond what is required in the SOQ.
SOQ Funding

- The primary determinant of state funding for school divisions – see graph on next slide.

- $5.3 billion – or 88.5% of state funding for public education – in FY14. About 83% of SOQ funding is for salaries and benefits; the rest for non-personal costs (materials/supplies, utilities, etc.).

- Required local effort in FY14 is $3.3 billion – most localities exceed their required effort for the SOQ.

- Existing SOQ funding based largely on JLARC methodology developed in the mid/late 1980s.
SOQ Funding

Projected FY 2014 SOQ Funding Compared to Other State Direct Aid Funding

Standards of Quality 88.5%
Incentive Programs 2.5%
Categorical Programs 1.0%
Lottery Proceeds Fund 7.8%
Supplemental Education 0.2%

FY 2014 Projected Funding:
SOQ = $5,261,418,866
Incentive = $150,861,610
Categorical = $58,321,130
Lottery Proceeds Fund = $462,000,000
Supplemental Education = $11,330,677
Total = $5,943,932,283
SOQ Funding

FY14 funding for the Standards of Quality is provided through the following accounts, mostly on a per pupil basis:

- Basic Aid (incl. health care)
- Special Education
- Career and Technical Education
- Prevention, Intervention, and Remediation
- Gifted Education
- English as a Second Language
- Fringe Benefits for funded instructional positions (VRS, Soc. Sec., Group Life)
- Sales Tax (1.125% for public education)
- Textbooks
- Early Reading Intervention
- SOL Algebra Readiness
Determining SOQ Costs

- Three components of SOQ cost are funded:
  1. required number of **instructional positions** (based on staffing standards in SOQ statute, Appro. Act, & BOE regs., and the funded salaries & benefit rates applied to the positions);
  2. recognized **support positions** (with funded salaries & benefit rates applied); and,
  3. recognized **non-personal support costs** (e.g., supplies, utilities, etc.).

- The support cost components (2 & 3) are funded through Basic Aid mostly on a “prevailing cost” basis, with support positions now capped based on a ratio to instructional positions.

- Funding for most SOQ accounts is provided on a per pupil basis and distributed through average daily membership (ADM).
Determining SOQ Costs

- Input data used to cost out the three cost components are updated every two years during “rebenchmarking”:
  1. Base year number of students;
  2. staffing standards for teachers and other instructional positions;
  3. salaries of teachers and other instructional positions;
  4. fringe benefit rates;
  5. standard and prevailing support costs;
  6. inflation factors;
  7. federal revenues deducted from support costs;
  8. amount of sales tax revenue and school division composite indices.
Determining SOQ Costs

SOQ Funding Process

SOQ Funding Process

Add Cost Components
- Instructional positions
- Support positions
- Nonpersonal support

Deduct Federal Revenues
- Federal portion related to support costs only

TOTAL SOQ COSTS

Per Pupil Amounts
for each SOQ account and each division

Basic Aid
Apply Composite Index

Subtract Sales Tax Allocation

Multiplier by Projected Enrollment (ADM)

TOTAL COST

Apply Composite Index

State Share 55%
Local Share 45%

All other SOQ Accounts

State Share 55%
Local Share 45%
Determining SOQ Costs

State and Local Shares of Total Basic Aid Cost

- Total Basic Aid Cost = Basic Aid Per Pupil Amount \times\ Average Daily Membership

- Balance of Basic Aid split into state and local shares based on the Composite Index

- Average Local Share = 45%

- Average State Share = 55%

(Sales Tax reduces the total cost of Basic Aid)

Note: State and local shares will vary by locality based on each locality’s composite index.
Determining SOQ Costs

- Recent reductions in SOQ funding enacted at the 2009 and 2010 General Assembly sessions in response to state budget shortfalls focused on:
  - support position ratio;
  - eliminate inflationary funding;
  - remove various non-personal funding;
  - other changes to prevailing cost calculations; and,
  - fund health care for SOQ positions at local participation rates.
State-Local Shares of Cost

- The General Assembly is responsible for “apportioning” the cost of the SOQ programs between the state and localities.

- Most state funding for school divisions is “equalized” or adjusted for local ability to pay education costs.

- Local ability to pay is determined by the “Composite Index of Local Ability-to-pay” formula.

- The composite index is used to determine each division’s state and local shares of cost for the Standards of Quality (SOQ) and other Direct Aid programs.
Composite Index Formula

- The General Assembly establishes the composite index formula in the Appropriation Act.

- The formula uses three indicators to estimate "ability-to-pay" for each locality:
  - true value of real property in the locality (weighted 50%)
  - Va. adjusted gross income in the locality (weighted 40%)
  - taxable retail sales in the locality (weighted 10%)

- To account for varying sizes of localities, each indicator is expressed on a per capita basis (using local population & weighted 1/3) and on a per pupil basis (using student enrollment & weighted 2/3).

- The index value for each locality is the proportion of local values in the formula relative to the overall state averages.
Composite Index Formula

- Each index is adjusted to establish across all divisions an overall local share of 45 percent and an overall state share of 55 percent.

- The formula is recomputed each biennium using the most recent data available – the indices for 2012-2014 are based on 2009 data.

- The index value represents the local share of costs (inverse is state share) – for example, an index of 0.7500 = 75% local share / 25% state share.

- The maximum index is capped at 0.8000 – the range of index values for 2012-2014 is 0.1826 to 0.8000.
Composite Index Formula

(ADM = average daily membership)

Composite Index of Local Ability-to-Pay Formula

ADM Component =

\[
\begin{align*}
\text{Local True Value of Property} & \quad \text{Local Adjusted Gross Income} \\
\text{Local ADM} & \quad \text{Local ADM} \\
\text{State True Value of Property} & \quad \text{State Adjusted Gross Income} \\
\text{State ADM} & \quad \text{State ADM}
\end{align*}
\]

\[\text{ADM Component} = \, .5 \cdot \text{Local True Value of Property} + .4 \cdot \text{Local Adjusted Gross Income} + .1 \cdot \text{Local Taxable Retail Sales} + \frac{1}{3} \cdot \text{State True Value of Property} + \frac{1}{3} \cdot \text{State Adjusted Gross Income} + \frac{1}{3} \cdot \text{State Taxable Retail Sales}\]

Population Component =

\[
\begin{align*}
\text{Local True Value of Property} & \quad \text{Local Adjusted Gross Income} \\
\text{Local Population} & \quad \text{Local Population} \\
\text{State True Value of Property} & \quad \text{State Adjusted Gross Income} \\
\text{State Population} & \quad \text{State Population}
\end{align*}
\]

\[\text{Population Component} = \, .5 \cdot \text{Local True Value of Property} + .4 \cdot \text{Local Adjusted Gross Income} + .1 \cdot \text{Local Taxable Retail Sales} + \frac{1}{3} \cdot \text{State True Value of Property} + \frac{1}{3} \cdot \text{State Adjusted Gross Income} + \frac{1}{3} \cdot \text{State Taxable Retail Sales}\]

Local Composite Index =

\[\left(0.6667 \times \text{ADM Component} + 0.3333 \times \text{Population Component}\right) \times 0.45 \text{ (average local share)}\]
Incentive Programs

- Provides $150.9 million in FY14 for optional programs beyond the SOQ (2.5% of total state funding).

- Incentive programs are voluntary programs, but in order to receive 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

- Example programs: Governor’s Schools, special education programs, Compensation Supplement.
Categorical Programs

- Provides $58.3 million in FY14 for programs beyond the SOQ (1.0% of total state funding).

- State or federal statutes or regulations mandate much of this funding.

- Programs are usually targeted to the particular needs of specific student populations.

- Example programs: Adult education and literacy, Virtual Virginia, required spec. ed. services, and the school lunch program state match.
Lottery Proceeds Fund

- Revenue from the Lottery Proceeds Fund is designated for 20 programs formerly funded with general funds, and provides funds for four SOQ accounts (Textbooks [split-funded by GF/Lottery], ESL, Early Reading Intervention, & SOL Algebra Readiness).

- Several Incentive and Categorical accounts were moved into this category by the 2008 GA, including several programs focusing on at-risk students.

- Some of the formulas use a poverty adjustment (free lunch eligibility rates) as a proxy for students at-risk. Most programs have a required local match to receive the state funds.

- Provides $462.0 million in FY 2014 (7.8% of total state funding). Example programs: Va. Preschool Initiative, Early Reading Intervention, K-3 Class Size Reduction.
Supplemental Education Programs

• Provides $11.3 million in FY14 (.2% of total state funding).

• Funding directed to specific regional/division/individual recipients for specific programmatic purposes designated in the Act; not available to divisions statewide.

• Example programs: Virginia Teaching Scholarship Loan Program and National Board Certification teacher bonuses.
Federal Funds – On-going Programs

- Federal funding derived mostly from five separate federal acts:
  - Elementary & Secondary Education Act (“No Child Left Behind”) - targets funding to disadvantaged students and low performing schools towards meeting state achievement standards.
  - Individuals with Disabilities Education Act - governs funding for students with disabilities.
  - Carl Perkins Act - governs funding for career and technical education programs.
  - Adult Ed. & Family Literacy Act – governs funding for adult ed. programs.
  - School Nutrition Act (USDA) - provides subsidies for school meal programs, including free and reduced-priced meals for eligible students.

- Funds allocated to divisions by formula and paid to them on a reimbursement basis through the OMEGA system.
### Direct Aid State Funding
*(appropriated by 2013 GA)*

<table>
<thead>
<tr>
<th>Standards of Quality Funding</th>
<th>FY 2013</th>
<th>FY 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Aid</td>
<td>$2,922,926,071</td>
<td>$2,898,507,568</td>
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<tr>
<td>Sales Tax</td>
<td>$1,211,600,000</td>
<td>$1,257,500,000</td>
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<tr>
<td>Textbooks <em>(split funded)</em></td>
<td>$0</td>
<td>$45,846,044</td>
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<tr>
<td>Vocational Education</td>
<td>$53,785,080</td>
<td>$53,823,405</td>
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<tr>
<td>Gifted Education</td>
<td>$32,083,080</td>
<td>$32,245,796</td>
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<tr>
<td>Special Education</td>
<td>$362,234,349</td>
<td>$366,787,264</td>
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<tr>
<td>Prevention, Intervention &amp; Remediation</td>
<td>$85,106,596</td>
<td>$85,280,308</td>
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<tr>
<td>Remedial Summer School <em>(split funded)</em></td>
<td>$15,329,431</td>
<td>$23,435,017</td>
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<tr>
<td>VRS Retirement <em>(includes RHCC)</em></td>
<td>$302,492,718</td>
<td>$304,272,866</td>
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<td>Social Security</td>
<td>$181,217,441</td>
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<tr>
<td>Group Life</td>
<td>$11,402,539</td>
<td>$11,467,817</td>
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<tr>
<td><strong>Total SOQ</strong></td>
<td><strong>$5,178,177,305</strong></td>
<td><strong>$5,261,418,866</strong></td>
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# Direct Aid State Funding
(appropriated by 2013 GA)

<table>
<thead>
<tr>
<th>Incentive Programs Funding</th>
<th>FY 2013</th>
<th>FY 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governor's School</td>
<td>$14,382,635</td>
<td>$14,958,873</td>
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<tr>
<td>Governor’s School Planning &amp; Startup/Expansion Grants</td>
<td>$100,000</td>
<td>$100,000</td>
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<tr>
<td>Governor’s School Planning Grant - Hampton Roads Site</td>
<td>$100,000</td>
<td>$0</td>
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<tr>
<td>Clinical Faculty</td>
<td>$318,750</td>
<td>$318,750</td>
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<tr>
<td>Career Switcher Mentoring Grants</td>
<td>$279,983</td>
<td>$279,983</td>
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<tr>
<td>Special Education Endorsement Program</td>
<td>$600,000</td>
<td>$600,000</td>
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<tr>
<td>Special Education - Vocational Education</td>
<td>$200,089</td>
<td>$200,089</td>
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<tr>
<td>Virginia Workplace Readiness Skills Assessment</td>
<td>$308,655</td>
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<tr>
<td>EpiPen Grants</td>
<td>$200,000</td>
<td>$0</td>
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<tr>
<td>Additional Assistance with Retirement, Inflation &amp; Preschool Costs</td>
<td>$55,000,000</td>
<td>$55,000,000</td>
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<tr>
<td>Performance Pay Incentive</td>
<td>$597,673</td>
<td>$0</td>
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<tr>
<td>Compensation Supplement</td>
<td>$0</td>
<td>$70,164,391</td>
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<tr>
<td>Early Reading Specialists Initiative</td>
<td>$0</td>
<td>$1,430,868</td>
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<tr>
<td>Strategic Compensation Grants Initiative</td>
<td>$0</td>
<td>$7,500,000</td>
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<td><strong>Total Incentive</strong></td>
<td><strong>$72,087,785</strong></td>
<td><strong>$150,861,609</strong></td>
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# Direct Aid State Funding
(appropriated by 2013 GA)

<table>
<thead>
<tr>
<th>Categorical Programs Funding</th>
<th>FY 2013</th>
<th>FY 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adult Education</td>
<td>$1,051,800</td>
<td>$1,051,800</td>
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<tr>
<td>Adult Literacy</td>
<td>$2,480,000</td>
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<tr>
<td>Virtual Virginia</td>
<td>$4,347,808</td>
<td>$4,347,808</td>
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<tr>
<td>American Indian Treaty Commitment</td>
<td>$61,531</td>
<td>$63,446</td>
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<tr>
<td>School Lunch Program</td>
<td>$5,801,932</td>
<td>$5,801,932</td>
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<tr>
<td>Special Education - Homebound</td>
<td>$5,224,513</td>
<td>$5,605,452</td>
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<tr>
<td>Special Education - Jails</td>
<td>$3,544,117</td>
<td>$3,815,919</td>
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<tr>
<td>Special Education - State Operated Programs</td>
<td>$32,971,928</td>
<td>$35,154,773</td>
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<tr>
<td><strong>Total Categorical</strong></td>
<td>$55,483,629</td>
<td>$58,321,130</td>
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## Direct Aid State Funding (appropriated by 2013 GA)

<table>
<thead>
<tr>
<th>Lottery Programs Funding</th>
<th>FY 2013</th>
<th>FY 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foster Care</td>
<td>$9,016,406</td>
<td>$9,413,338</td>
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<tr>
<td>At-Risk Add-On</td>
<td>$78,734,853</td>
<td>$78,626,984</td>
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<tr>
<td>Virginia Preschool Initiative</td>
<td>$64,953,097</td>
<td>$68,569,714</td>
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<td>Early Reading Intervention</td>
<td>$15,332,606</td>
<td>$14,972,241</td>
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<tr>
<td>Mentor Teacher</td>
<td>$1,000,000</td>
<td>$1,000,000</td>
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<tr>
<td>K-3 Primary Class Size Reduction</td>
<td>$102,671,654</td>
<td>$106,431,479</td>
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<td>School Breakfast Program</td>
<td>$3,693,543</td>
<td>$3,837,586</td>
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<td>SOL Algebra Readiness</td>
<td>$11,173,155</td>
<td>$11,352,196</td>
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<tr>
<td>Regional Alternative Education</td>
<td>$7,802,104</td>
<td>$8,061,000</td>
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<tr>
<td>ISAEP</td>
<td>$2,247,581</td>
<td>$2,247,581</td>
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<tr>
<td>Special Education – Regional Tuition</td>
<td>$72,429,258</td>
<td>$77,703,941</td>
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<tr>
<td>Career and Technical Education – Categorical</td>
<td>$10,400,829</td>
<td>$10,400,829</td>
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<tr>
<td>Project Graduation</td>
<td>$2,774,478</td>
<td>$2,774,478</td>
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<td>Virginia Teacher Corps (NCLB/EFAL)</td>
<td>$415,000</td>
<td>$415,000</td>
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<td>Race to GED (NCLB/EFAL)</td>
<td>$2,485,988</td>
<td>$2,410,988</td>
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<td>Path to Industry Certification (NCLB/EFAL)</td>
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<td>$1,331,464</td>
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<td>Supplemental Basic Aid</td>
<td>$892,395</td>
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<td>English as a Second Language17</td>
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<td>$45,863,224</td>
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<tr>
<td>Textbooks (split funded)</td>
<td>$61,262,666</td>
<td>$15,709,881</td>
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<tr>
<td>Remedial Summer School (split funded)</td>
<td>$6,433,605</td>
<td>$0</td>
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<tr>
<td><strong>Total Lottery</strong></td>
<td><strong>$499,460,000</strong></td>
<td><strong>$462,000,000</strong></td>
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</tbody>
</table>
DOE Website Resources


  ➢ Links to school division funding allocations (downloadable Excel files), Composite Index data, and other information.
Legislative Website Resources

  ➢ Links to bills/appropriation acts, GA session meeting schedules, and state budget resources.

• Va. General Assembly Web page: http://virginiageneralassembly.gov/
  ➢ Similar information and information on GA members and committee meeting schedules.