

# ***Overview of Standards of Quality Funding Process***

**Presented to  
the Standing Committee  
of the Standards of Quality**

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# *Briefing Outline*

- **SOQ Requirements**
- **SOQ Funding Summary**
- **Determining SOQ Costs**
- **Determining State & Local Shares of Cost**
- **Appendices**

# ***SOQ Requirements***

- **The Virginia Constitution requires the Board of Education to formulate Standards of Quality (SOQ) for public schools.**
- **The General Assembly is charged with revising the SOQ, determining SOQ costs, and apportioning the cost between the state and localities.**
- **The decision about how much to appropriate for public schools is left to the General Assembly.**

# SOQ Requirements

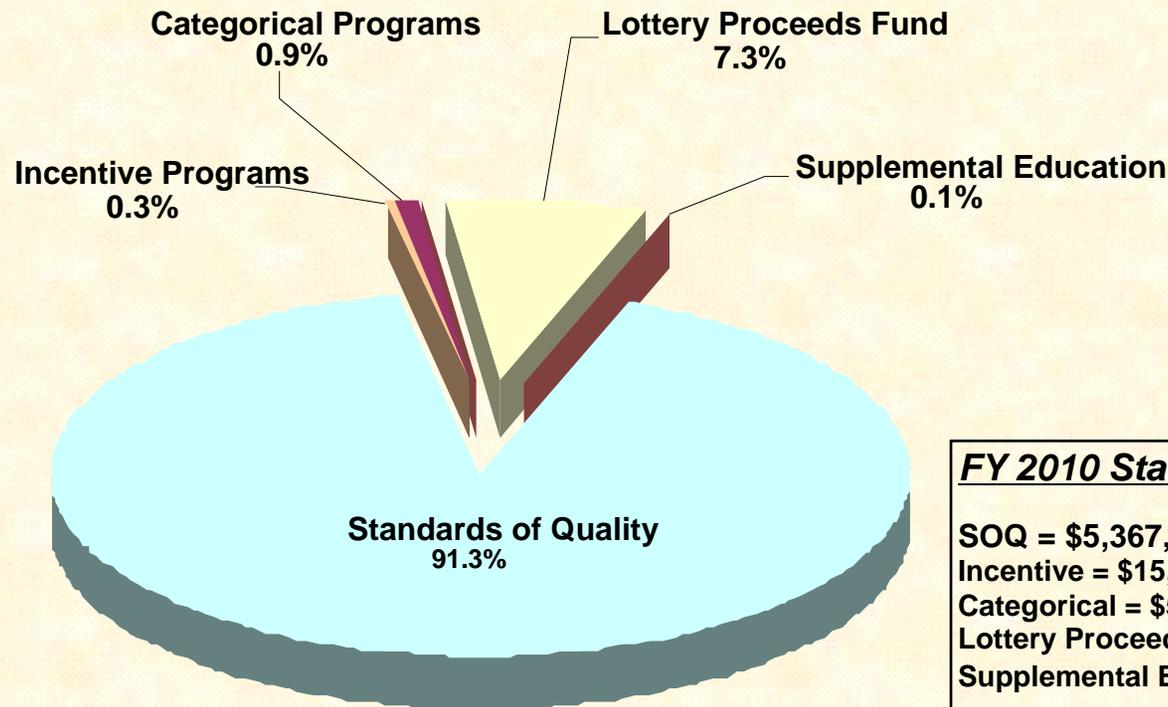
- **The SOQ is established in the Virginia Constitution as the minimum educational program school divisions must provide.**
- **The specific requirements of the SOQ are set out in the *Code of Virginia* and the appropriation act, such as requirements for programs and staffing.**
- **State funding must be matched by the locality. Localities may spend more than the required amounts and offer programs and employ staff beyond what is required.**

# ***SOQ Funding Summary***

- **The primary determinant of state funding for school divisions. (FY10 funding shown in Appendix A.)**
- **\$5.3 billion – or 91.3% of state funding for public education – in FY10. Over 80% of SOQ funding is for salaries and benefits.**
- **Required local match in FY10 is \$3.4 billion – most localities exceed their required match for the SOQ.**
- **Existing SOQ funding based largely on JLARC methodology developed in the mid/late 1980s.**

# SOQ Funding Summary

## Projected FY 2010 State Direct Aid Funding by Category



### ***FY 2010 State Funding:***

SOQ = \$5,367,252,013  
Incentive = \$15,665,828  
Categorical = \$55,559,074  
Lottery Proceeds Fund = \$430,200,000  
Supplemental Education = \$7,541,620

**Total = \$5,876,218,535**

# ***SOQ Funding Summary***

- **Funding for the Standards of Quality is provided through the following accounts, mostly on a per pupil basis (formulas shown in Appendix B):**
  - **Basic Aid**
  - **Special Education**
  - **Career and Technical Education**
  - **Prevention, Intervention, and Remediation**
  - **Gifted Education**
  - **English as a Second Language**
  - **Remedial Summer School**
  - **Fringe Benefits for funded instructional positions**
  - **Sales Tax (1.125% for public education)**
  - **Textbooks**

# *Determining SOQ Costs*

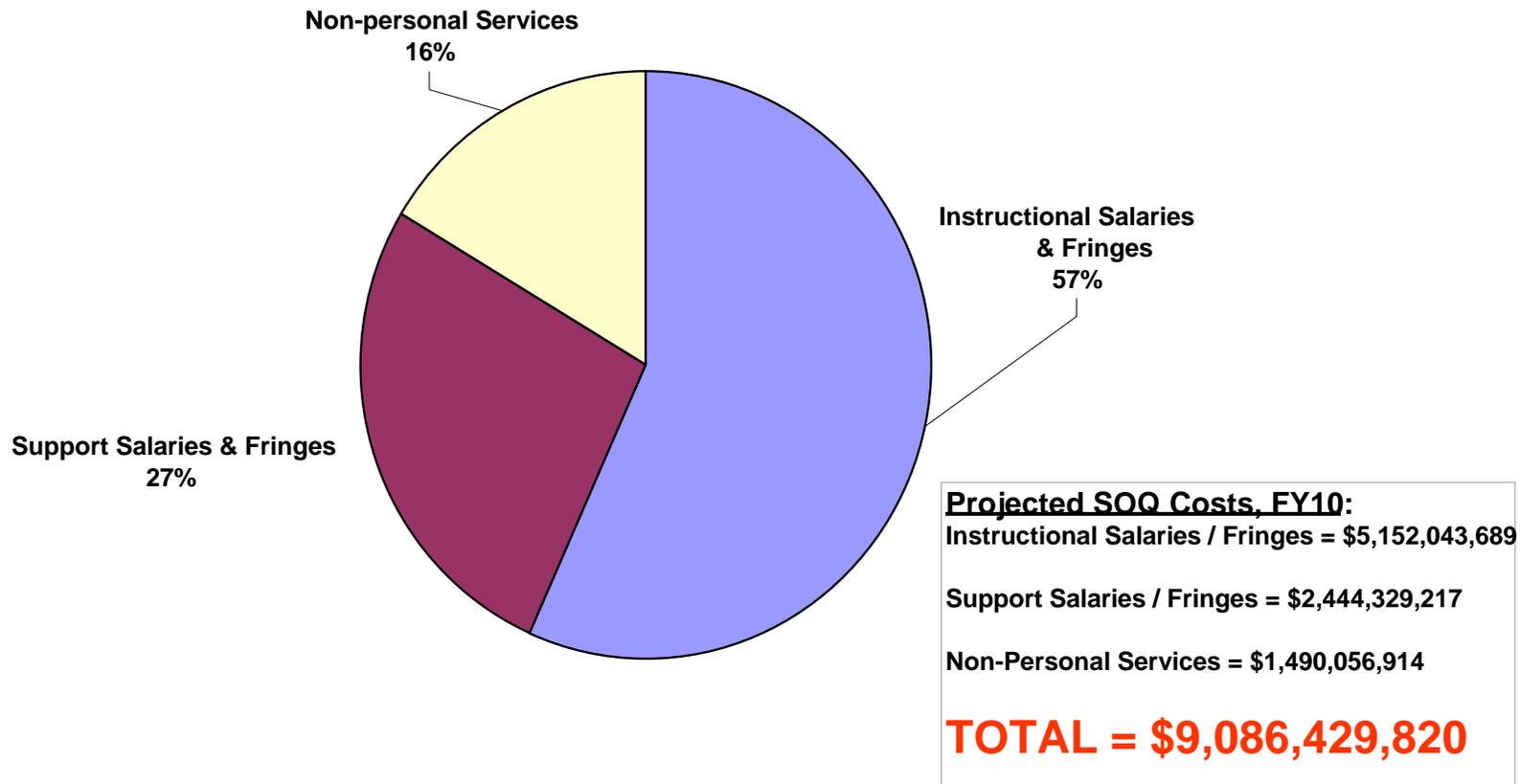
- **Three components of SOQ cost:**
  1. required number of instructional positions (salary and benefits) – driven by staffing standards in Standard 2, appropriation act, and BOE regulations;
  2. recognized support positions (salary and benefits); and,
  3. recognized “non-personal” support costs (e.g., supplies, utilities, etc.).
- **The support cost components (2 & 3) are funded through Basic Aid mostly on a prevailing cost basis.**
- **Each SOQ account is funded by a per pupil cost calculated for each division and distributed on March 31 ADM.**

# ***Determining SOQ Costs***

- **Key input data used to cost out the three components are updated every two years during rebenchmarking:**
  1. **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**

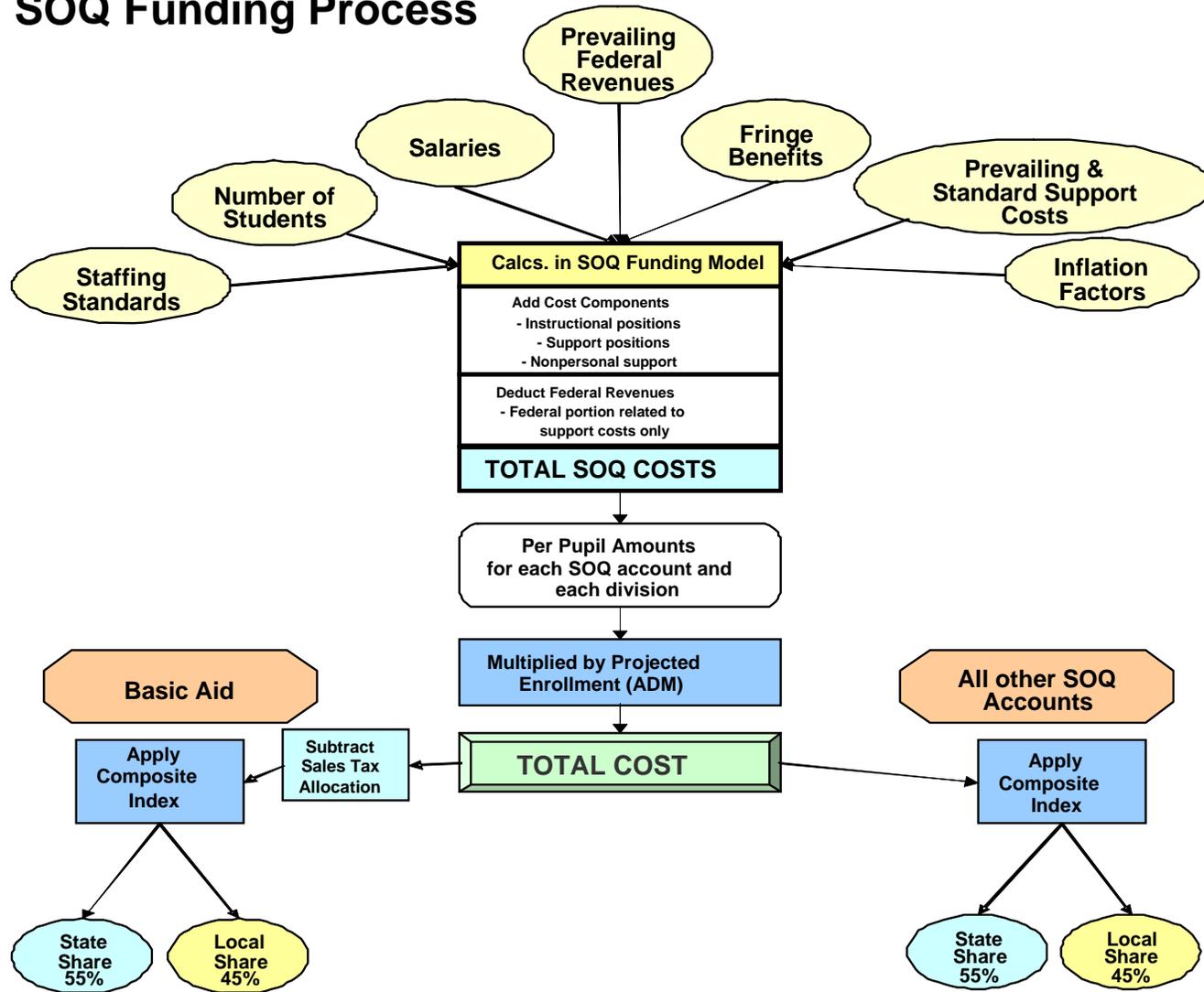
# Determining SOQ Costs

## Projected Total Standards of Quality Costs, FY 2010 Percentage of Total Instructional and Support Costs



# Determining SOQ Costs

## SOQ Funding Process



# *Determining SOQ Costs*

## **Calculate Cost of Instructional Positions**

- Apply all classroom, school, and division staffing standards in Standard 2 for Basic positions (i.e., K-12 teachers, principals, etc.) against school and division enrollment.
- Apply other staffing standards in appropriation act and BOE regs. to associated enrollments for other instructional programs: special education, CTE, remediation, gifted, and ESL.
- Apply minimum staffing standard of 51 positions per 1,000 for Basic positions and 6 positions per 1,000 for special education and CTE positions to ensure “floor” level of positions generated.

# ***Determining SOQ Costs***

## **Calculate Cost of Instructional Positions**

- **The generated instructional positions for each division are multiplied by the applicable funded salary (and cost of competing factor if applicable).**
- **The instructional salary costs are assigned to the applicable SOQ accounts (i.e., Basic Aid, special education, etc.).**
- **The associated fringe benefit costs for the positions are funded in the separate fringe benefit accounts (VRS retirement, Social Security, and VRS group life). Health care is funded in Basic Aid.**

# *Determining SOQ Costs*

## Features of “Prevailing Cost”

- Recognize operating costs in the SOQ based on “reasonable” costs, not each school division’s actual spending.
- JLARC stated “reasonable cost” should reflect what most school divisions spend, not reimbursement of actual expenditures.
- Applied to cost components not quantified in the SOQ:
  - instructional and support salary amounts
  - support staffing per pupil
  - non-personal support costs per pupil

# *Determining SOQ Costs*

## Features of “Prevailing Cost”

- Includes the cost of every division but is not unduly influenced by divisions with unusually high or low costs.
- A weighted average (“linear weighted average”) cost whose weights are derived from the proximity of division costs to the middle or median cost in the distribution.
- Gives greatest weight to the median cost; least weight to the very highest and lowest costs.
- Most school divisions’ actual costs are a little under or a little over the calculated prevailing cost.

# *Determining SOQ Costs*

## Calculation of “Prevailing Cost”

- Array each division’s actual base-year average salary, per pupil support cost, or per pupil support staffing from high to low.
- Assign a weight of 5 to the middle or median division cost.
- Assign corresponding declining weights to costs on either side of the median cost until the highest and lowest costs are reached, which are weighted at 1.
- Apply weights to individual data points and calculate the weighted average. Adjust values for inflation.

# ***Determining SOQ Costs***

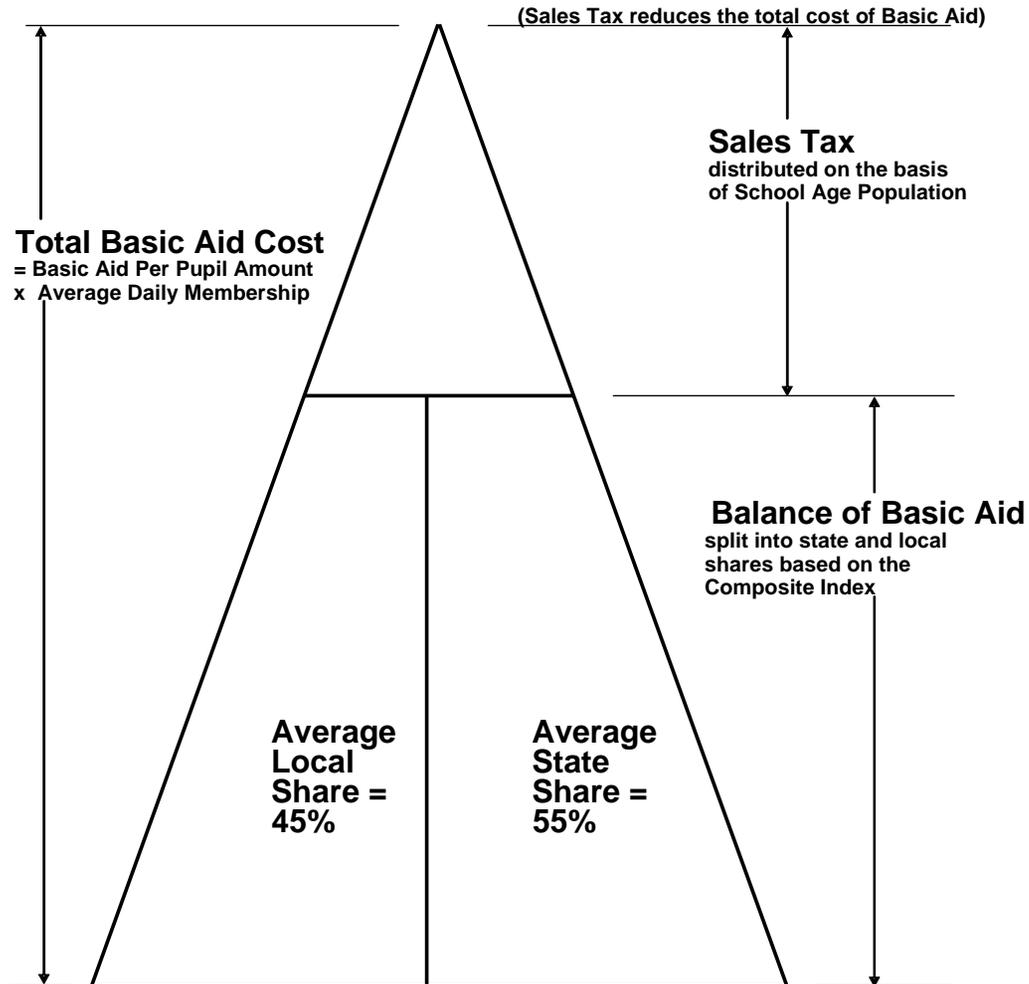
- **Funding for prevailing support costs provided in Basic Aid.**
  - positions and non-personal costs in areas such as technology, pupil transportation, operation & maintenance, professional development, attendance & health, administration, and superintendent, school board, and school nurse positions.
  - proposed cap of 1 support per 4.03 instructional positions would be applied to most prevailing positions (some positions excluded).
- **Basic Aid also includes funding for technology support and school-based clerical positions based on Standard 2. (Support positions funded in Basic Aid shown in Appendix C.)**
- **The “federal revenue deduct” reduces the final Basic Aid cost for the portion of federal expenditures (approx. 29%) picked-up in the prevailing support costs. This allows support cost funding to be driven by state and local expenditures only.**

# ***Determining SOQ Costs***

- **After a total cost is determined for each SOQ 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 division; from this, the total cost of each SOQ account is determined.**
- **For Basic Aid, the total cost is first reduced by the estimated amount of 1.125% state sales tax that is distributed to divisions based on school-age population. 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.**

# Determining SOQ Costs

## 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.

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# ***Determining State & Local Shares***

- **Cost sharing between the Commonwealth and localities and recognizing varying ability to pay education costs are fundamental to the SOQ.**
- **Most SOQ funding is “equalized” based on local ability to pay as determined by the Composite Index of Local Ability-to-Pay. The composite index determines each division’s state and local shares of SOQ costs.**
- **The composite index uses three indicators of ability-to-pay for each locality:**
  - **true value of real property in the locality (weighted 50%)**
  - **adjusted gross income in the locality (weighted 40%)**
  - **taxable retail sales in the locality (weighted 10%)**

# ***Determining State & Local Shares***

- **Each indicator is expressed on a per capita (weighted 33%) and per pupil (weighted 67%) basis.**
- **The index for each locality is the proportion of the weighted local values relative to the weighted statewide values.**
- **Finally, each locality composite index is adjusted to establish an overall statewide local share of 45% and an overall state share of 55%.**
- **Local shares of cost range from a maximum of 80% to below 20%.**

# Determining State & Local Shares

## Composite Index of Local-Ability-to Pay Formula

ADM Component =

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

Population Component =

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

Local Composite Index =

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

## Appendix A – Projected FY10 State SOQ Funding

	<b>FY 2010</b> <i>State Share (Chp. 781)</i>
Basic Aid	3,120,359,684
Sales Tax	1,135,200,000
Textbooks	79,314,230
Vocational Education	66,449,807
Gifted Education	30,826,115
Special Education	371,802,769
Remedial Education	69,143,636
VRS Retirement	226,574,274
Social Security	175,963,239
Group Life	6,233,115
English as a 2nd Language	38,885,716
Remedial Summer School	28,347,411
<b>Total SOQ:</b>	<b>5,349,099,996</b>

## Basic Aid

$((\text{Per Pupil Amount} \times \text{Adjusted ADM}) - \text{Sales Tax}) \times (1 - \text{Composite Index}) = \text{State Share}$

## Career & Technical Education

$((\text{Per Pupil Amount} \times \text{Unadjusted ADM}) \times (1 - \text{Composite Index})) = \text{State Share}$

## English as a Second Language

$(\text{Seventeen teachers per 1,000 ESL students} \times \text{Average salary \& fringe benefits}) \times (1 - \text{Composite Index}) = \text{State Share}$

## Gifted Education

$((\text{Per Pupil Amount} \times \text{Adjusted ADM}) \times (1 - \text{Composite Index})) = \text{State Share}$

## Group Life

**((Per Pupil Amount x Adjusted ADM) x (1 – Composite Index)) = State Share**

## Prevention, Intervention, & Remediation

**((Per Pupil Amount x Unadjusted ADM) x (1 – Composite Index)) = State Share**

## Remedial Summer School

**(Per Pupil Amount x Eligible Number of Students) x (1 – Composite Index) = State Share**

## Sales Tax

**((School division’s triennial Census count /Statewide total school-age population from triennial census) x Total State 1-1/8% sales tax estimate = Local Distribution**

## Social Security

$((\text{Per Pupil Amount} \times \text{Adjusted ADM}) \times (1 - \text{Composite Index})) = \text{State Share}$

## Special Education

$((\text{Per Pupil Amount} \times \text{Unadjusted ADM}) \times (1 - \text{Composite Index})) = \text{State Share}$

## Textbooks

$(\text{Per Pupil Amount} \times \text{Adjusted ADM}) \times (1 - \text{Composite Index}) = \text{State Share}$

## VRS Retirement

$((\text{Per Pupil Amount} \times \text{Adjusted ADM}) \times (1 - \text{Composite Index})) = \text{State Share}$

## Support Position Categories Funded in Basic Aid:

- Assistant Superintendent
- Instructional Professional
  - *ex.: school social worker, instructional specialists*
- Instructional Technical/Clerical
- Attendance & Health Administrative
  - *ex.: school psychologist, attendance officers*
- Attendance & Health Technical/Clerical
- Administration Administrative
- Administration Technical/Clerical
- Technology Professional
- Technology Technical/Clerical
- Operation & Maintenance Professional
- School-based Clerical
- Operation & Maintenance Technical & Clerical
- Pupil Transportation
- Division Superintendent
- School Board Members
- School Nurses