

Public Education Funding and 2024 Session Outlook

November 16, 2023

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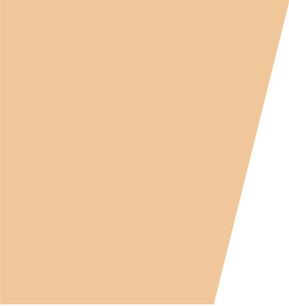
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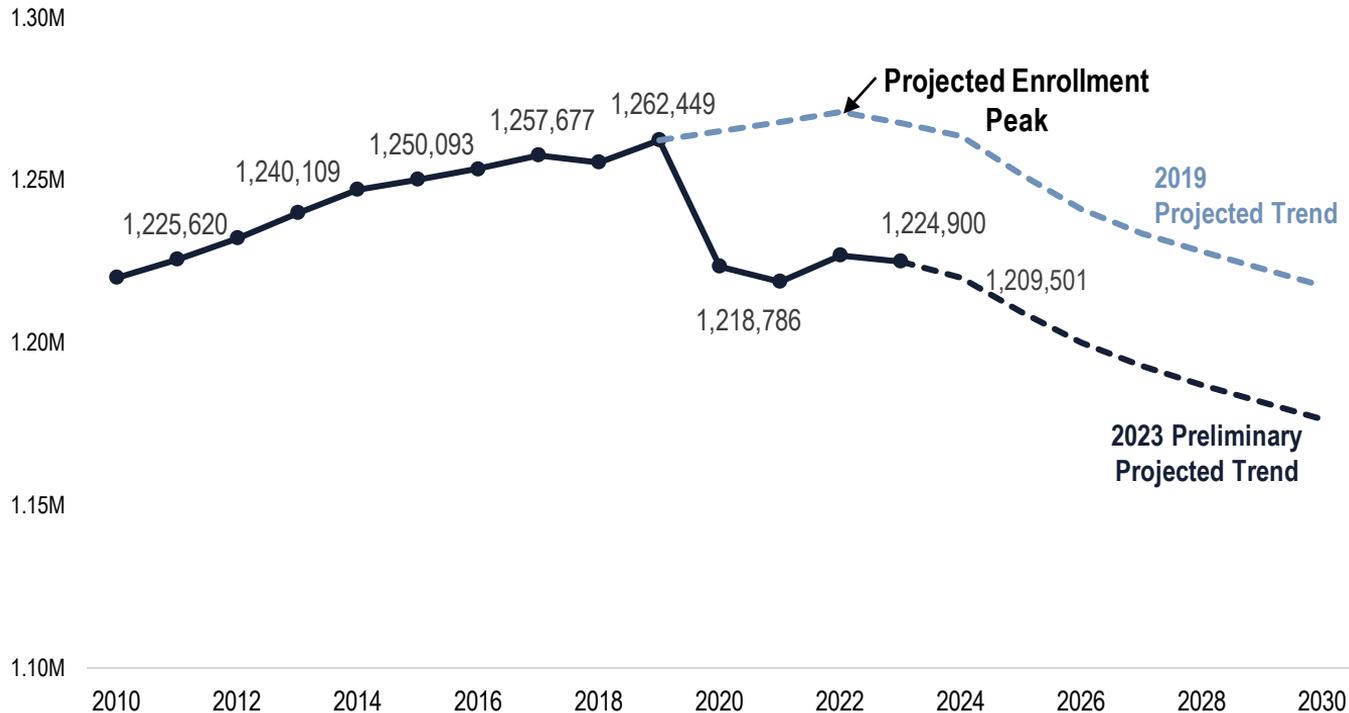
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2024 Session Outlook



Public Education Enrollment Trends

Public School Enrollment Increased Slightly After COVID but is Expected to Decline through 2030



Source: VDOE, Fall Membership Reports; UVA Weldon Cooper K-12 Enrollment Projections. Data accessed November 7, 2023.

- **Pre-COVID Growth (2010-2019):** Prior to 2020, K-12 fall enrollment grew an average of 0.3 percent annually.
- **COVID Decline (2019-2021):**
 - Enrollments declined by 43,663 from 2019 to 2021.
 - Families opting to homeschool students increased 37 percent and enrollment in private schools increased 11 percent.
- **Partial COVID Recovery (2022):** Enrollments increased by 8,202 from 2021 to 2022.
- **Projected Enrollment Decline (2023-2030)** In 2023, enrollments declined by 2,000 students over the prior year. Additional declines are expected through 2030.

Enrollments are Expected to Decline Over the Next Biennium but Figures are Preliminary

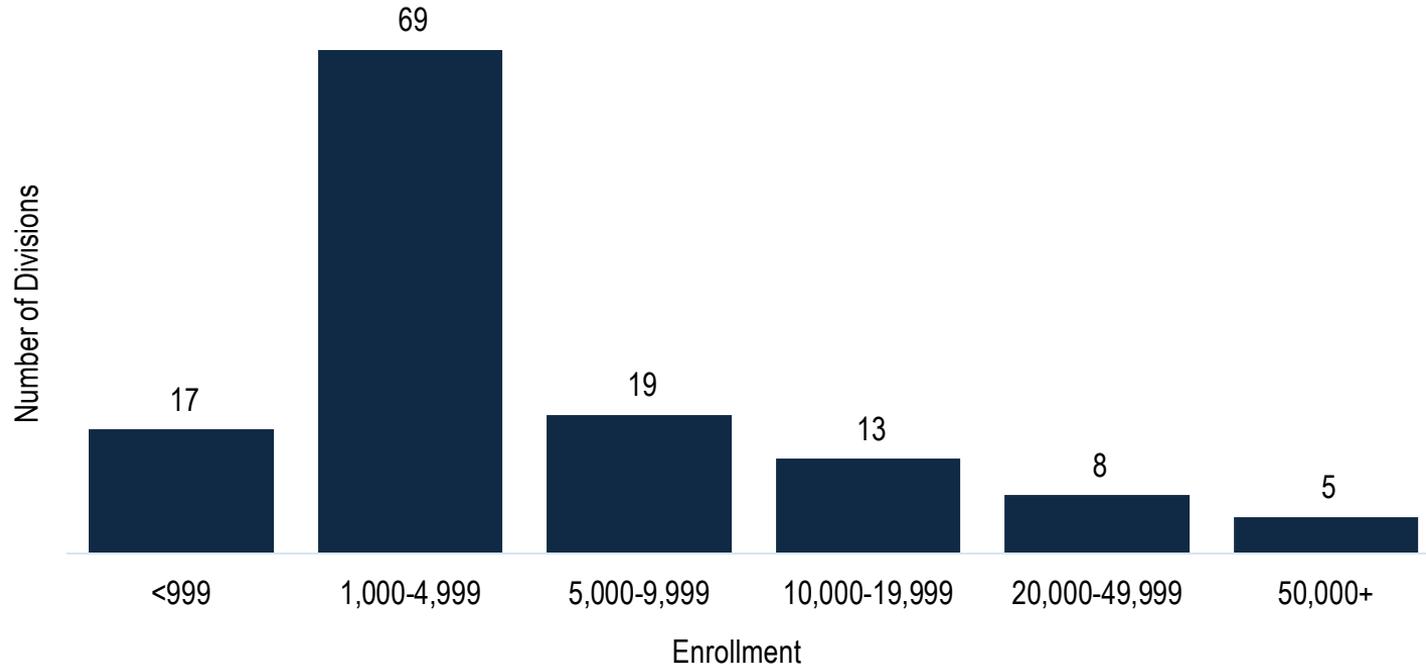
Biennium	2020-2022			2022-2024		2024-2026	
Fall Enrollment	2019	2020	2021	2022	2023	2024*	2025*
Enrollment	1,262,449	1,223,513	1,218,786	1,226,988	1,224,900	1,219,938	1,209,501
Annual Change (prior year)		(38,936)	(4,727)	8,202	(2,088)	(4,962)	(10,437)
Biennial Change			(43,663)		6,114		(15,399)

*Data is based on preliminary estimates provided by the UVA Weldon Cooper Center. Figures may vary if additional students that were homeschooled or enrolled in private schools during the pandemic return to public K-12 education or if in- and out-migration rates change.

Source: Virginia Department of Education, 2019-2023 Fall Membership data. 2024-2025 preliminary projections provided by UVA Weldon-Cooper Center.

Virginia's Divisions Vary Greatly in Size

In Fall 2023, the median school division enrolled 3,637 students with 86 divisions enrolling less than 5,000 students.



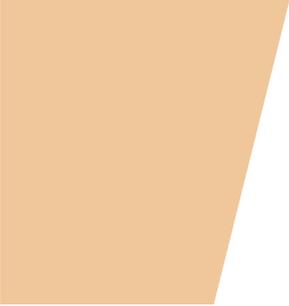
Source: VDOE, Fall Membership Reports. Data accessed November 2023.

Ten Divisions Enroll Half of K-12 Students

In Fall 2023, 10 school divisions enrolled 53 percent of Virginia's K-12 students.



Source: VDOE, Fall Membership Reports. Data accessed November 2023.



Rebenchmarking Estimates for 2024-2026

What is Rebenchmarking?

- Rebenchmarking is the process that updates both the state and local costs in public education for the biennial budget.
- The updates are **technical cost adjustments to meet the Standards of Quality (SOQ) minimum staffing requirements and related support services and prevailing cost updates**, derived from updating FY 2020 to FY 2022 base year local expenses.
- Over 90 percent of state K-12 funding is budgeted for SOQ programs, but Lottery, Incentive, and Categorical Programs are also impacted by rebenchmarking.

SOQ Funding Framework: Three Components

1. STAFFING

How many positions are needed to meet quantified minimum standards?

Staffing ratios
× Student enrollment

Number of staff needed

2. COSTS

What is the cost of meeting the staffing requirements and associated costs?

of staff needed × Compensation costs = Cost of staff
Student enrollment × Other assumptions = Other costs

Cost of staff
+ Other costs

Total SOQ funding obligation

3. SHARE

How are costs shared between the state and localities?

SOQ funding obligation
× Local composite index

State & Local SOQ funding

(1) Staffing is Funded Based on Minimum Staffing Standards, Not Actuals

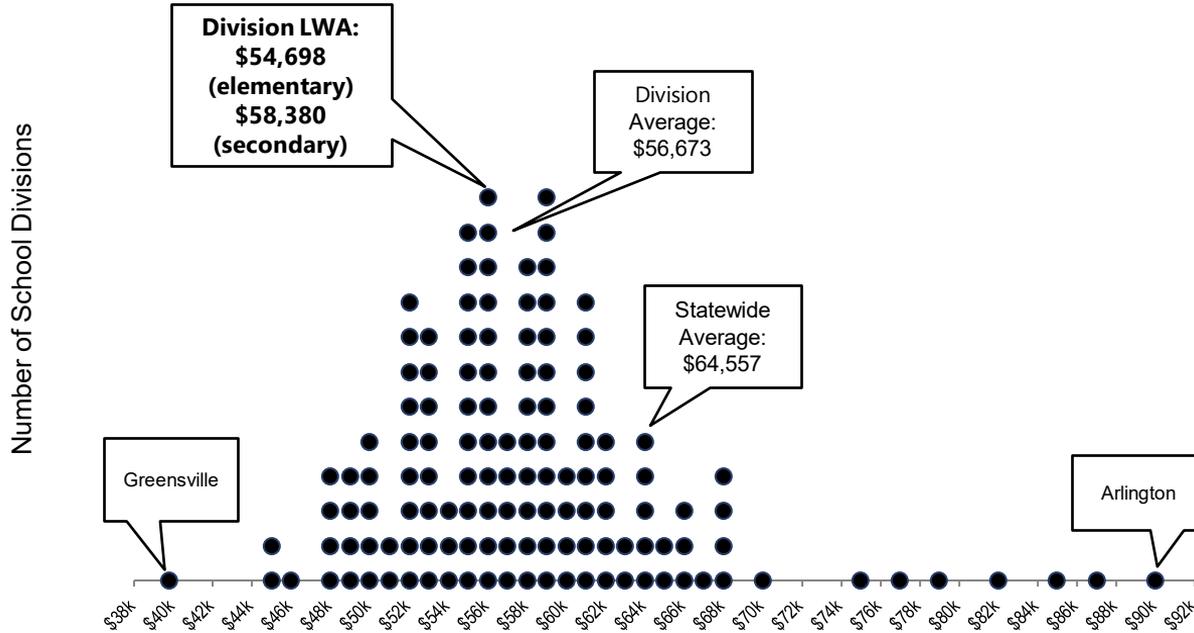
Sample staffing standards

Category	Position	Staffing ratio	
General instruction	General classroom teacher	1 per 24 students in kindergarten – 3 rd grade 1 per 25 students in 4 th grade 1 per 21 or 25 students in 5 th – 7 th grade ^a 1 per 21 students in 8 th – 12 th grade Additional ratios for max class size, English teachers	
	Elementary art, physical education, or music teacher	1 per 200 elementary students	
	Gifted teacher	1 per 1,000 students	
	Vocational teacher	Prevailing ratio of staff per 1,000 students enrolled in vocational education, adjusted to comply with regulatory maximum class sizes	
	Prevention, intervention, remediation teacher ^b	Variable ratio, ranging from 1 per 10 students to 1 per 18 students, where the number of students is determined by SOL failure rates and assumptions about time spent in remediation	
	Special education teacher and aide	Complex set of 60 ratios and student weights applied to counts of special education students	
	English learner teacher	1 per 50 English language learner students	
	Kindergarten aide	1 per kindergarten teacher with more than 24 students ^c	
	School leadership & instructional support	Principal	1 per school
		Assistant principal	0.5 to 1 per 600 to 900 students, depending on school size and level. Exceptions: 0 for schools below 600 students; maximum 1 per elementary school of any size.
Librarian/media Specialist		0.5 to 2 per school, depending on school size and level	

Source: JLARC, Virginia's K-12 Funding Formula.

(2) a. Funded Salaries, and Other Costs, are Based on Prevailing Cost

Since the mid-1980s, the SOQ funding framework has relied on a Linear Weighted Average (LWA), with the division as the unit of analysis, as the best measure of “expenditure levels around which most school divisions tend to cluster.”



Each circle shows where one school division’s actual average teacher salary (FY 2022) falls on the distribution (regardless of the size of the school division).

SOQ Funding for all school divisions is then based on the Division LWA, not each school division’s actual salaries.

Source: VDOE, 2022-2024 Teacher Salary Survey Results. Data provided by VDOE related to prevailing salaries on 11/10/2023.
Note: Salaries include classroom teachers, guidance counselors, librarians, and technology instructors.

(2) b. Base Year Prevailing Salaries are Adjusted for State-Supported Compensation Supplements

Elementary Teachers*	2018-20	2020-22	2022-24	2024-2026
Prevailing Salary (baseline)	\$47,351 (FY 2016)	\$48,925 (FY 2018)	\$51,425 (FY 2020)	\$54,698 (FY 2022)
Compensation Supplements FY 17 = 0% FY 18 = 2%	+2.0%	+5.0%	+5.0%	+12.5%
FY 19 = 0% FY 20 = 5%				
FY 21 = 0% FY 22 = 5%				
FY 23 = 5% FY 24 = 5% + 2% eff. 1/01/24				
Funded Salary	\$48,298	\$51,371	\$53,996	\$61,514

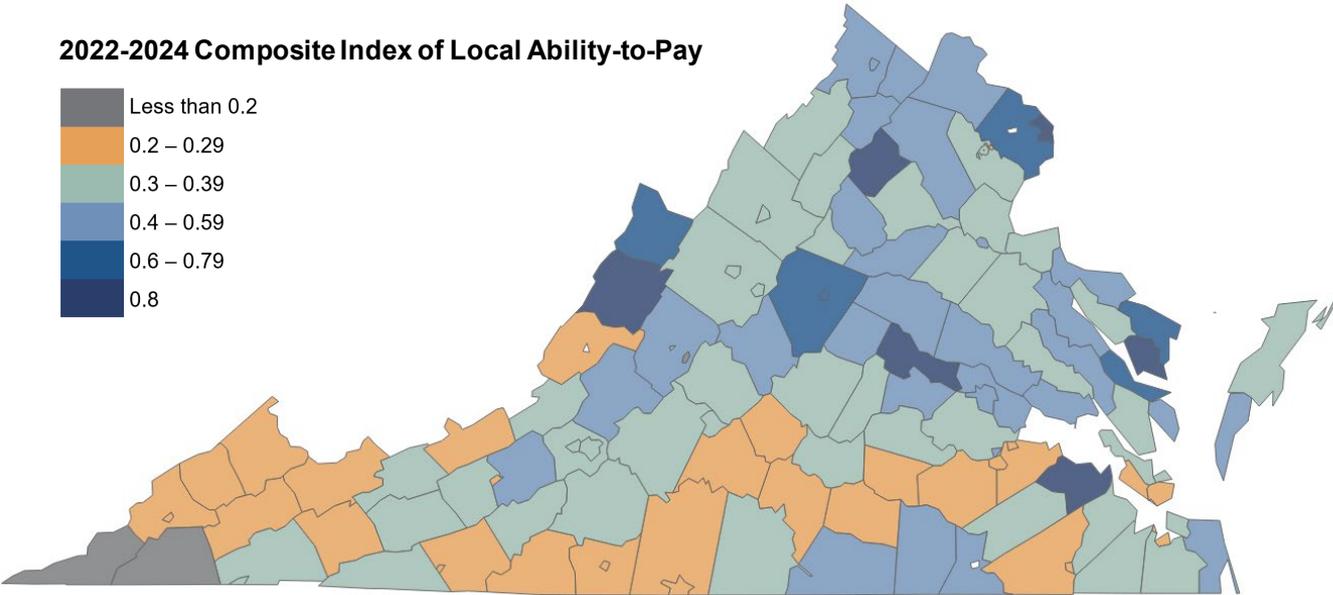
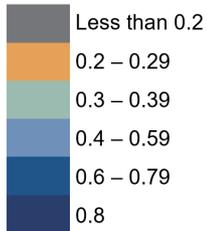
*Note: Separate funded salary amounts are calculated for: elementary teacher, elementary assistant principal, elementary principal, secondary teacher, secondary assistant principal, secondary principal, and instructional aide.

Source: VDOE Presentation to Board of Education, October 20, 2021. Additional updates provided by VDOE for 2024-2026 on November 10, 2023.

(3) a. State/Local Shares Vary Based on Composite Index

The Local Composite Index (LCI) identifies the share a locality must pay of the total calculated education and is based on the locality's property values, adjusted gross income, and taxable retail sales.

2022-2024 Composite Index of Local Ability-to-Pay



- Most state funding for school divisions is “equalized” or adjusted for local ability-to-pay for education costs as determined by the Composite Index of Local Ability-to-Pay.
- The statewide share is 55 percent.
- 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%).

Source: VDOE, 2022-2024 Composite Index of Local Ability-to-Pay.

(3) b. In Addition to Determining State Costs, SOQ also Determines Required Local Spending

The SOQ model also determines the required local effort to meet the quantified standards.

In FY 2022, all school divisions exceeded their required local effort.

- Average local expenditures were more than twice the required level.

In FY 2022, local effort totaled \$8.9 billion and exceeded the SOQ's required local effort by \$5.0 billion.



Source: VDOE, 2022 Required Local Effort and Required Local Match Report.

Many Rebenchmarked Data Elements are Fixed for the Biennium; Notable Exceptions are Enrollment and Sales Tax Revenue Estimates

Major Data Inputs that are Updated for the Biennium:

- Prevailing Non-personnel Costs & Support Positions
- Salaries Update (2 Steps: “Prevailing” & “Funded”)
- Special Education Child Counts
- Fall Membership & Average Daily Membership (ADM) Projections used in SOQ Model
- CTE Course Enrollment
- Composite Index
- Head Start Enrollment (for VPI)
- Free Lunch Percentages
- SOL Test Scores
- Support Positions Cap & Federal Revenue Deduction
- Inflation Factors

Major Data Inputs that are Updated Annually:

- Enrollment Projections – Fall Membership, ADM, English as Second Language, Remedial Summer School
- Reimbursement Account Projections
- Sales Tax (1.125%) and Lottery Revenue Estimates
- VRS Fringe Benefit Rates (subject to General Assembly Action)
- Supplemental General Fund Payment in Lieu of Sales Tax on Food and Personal Hygiene Products

Rebenchmarking is Estimated at \$1.6 Billion for the Biennium, But is Largely Offset by One-Time Investments in FY 2024

(\$ in millions)	FY 2025	FY 2026	Total
Base Budget (FY 2024 GF Only)	\$9,215.00	\$9,215.00	
Rebenchmarking Preliminary Estimate (Sept.)	758.6	831.3	1,589.9
Remove One-time Investments in FY 2024 (COVID Hold Harmless, Flexible One-time and Other Funding)	<u>(586.8)</u>	<u>(586.8)</u>	<u>(1,173.6)</u>
Preliminary Costs (Sept.) less One-Time Investments in FY 2024	\$171.8	\$244.5	\$416.3
Other Updates To-Date (Nov.)*	<u>(96.5)</u>	<u>(153.8)</u>	<u>(250.3)*</u>
Total Preliminary + Nov. Estimate	<u>\$75.3</u>	<u>\$90.7</u>	<u>\$166.0</u>
Revised Total Direct Aid	\$9,290.3	\$9,305.7	
Percent Increase Over Prior Year Base	0.8%	0.2%	

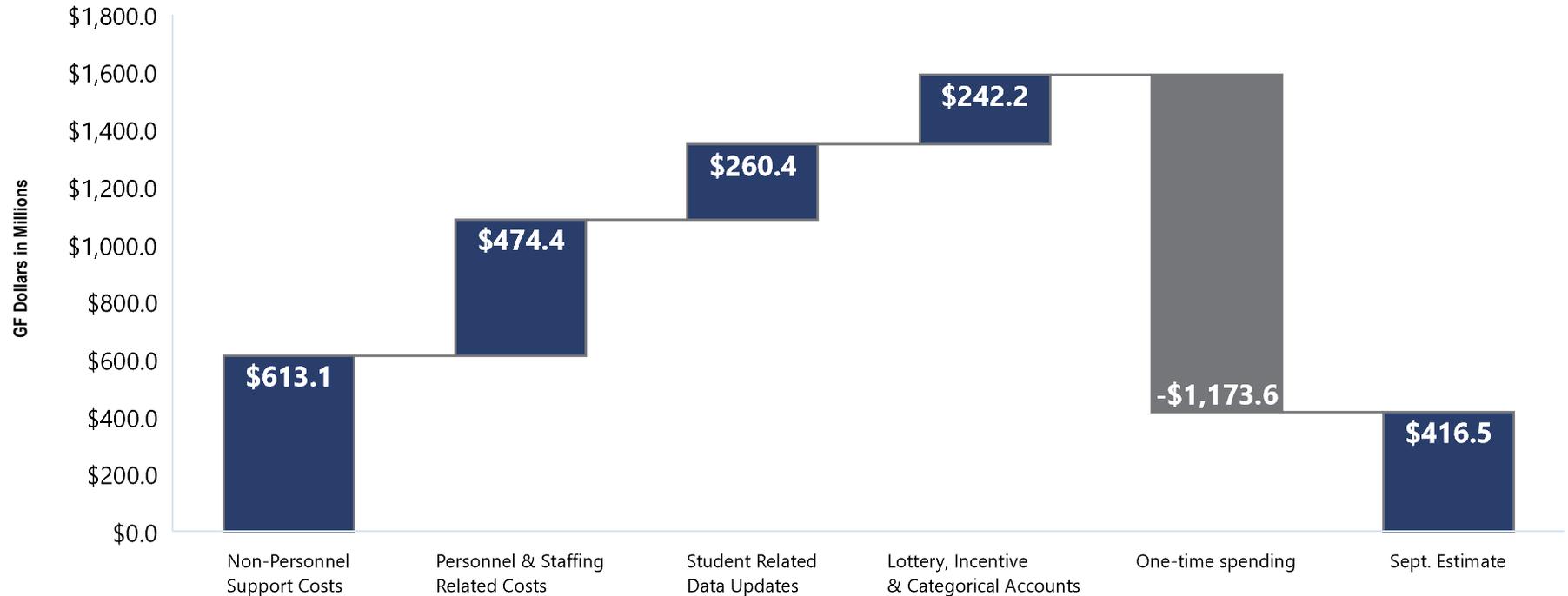
*Preliminary data. Does not include additional updates related to Local Composite Index, enrollments, fringe benefit rates, sales tax projections, and other updates. Figures are expected to change once final amounts are available.

What are the Key Drivers of Rebenchmarking Costs for the Biennium?

- Rebenchmarking in the 2022-2024 biennium used FY 2020 data, which was missing a quarter year of non-personnel expenditures.
 - The budget included a hold harmless in both years for non-personnel, transportation, and special education counts as a result.
- Rebenchmarking in the 2024-2026 biennium uses FY 2022 data, which has large increases from inflation, wage growth, and staffing challenges.
- Also, the number of students that require additional support (free lunch, special education, and English language learners) grew in FY 2022, which impacts 2024-2026 costs.

Non-Personnel and Personnel Related Costs Drove the Majority of Rebenchmarking Increases, But One-Time Investments in FY 2024 Help Offset These Costs

2024-2026 rebenchmarking costs increased by \$1.6 billion over the biennium based on the September estimate. Removal of one-time spending reduced costs by \$1.2 billion.



Non-Personnel Costs Largely Increased Due to Higher FY 2022 Expenditures Compared to FY 2020

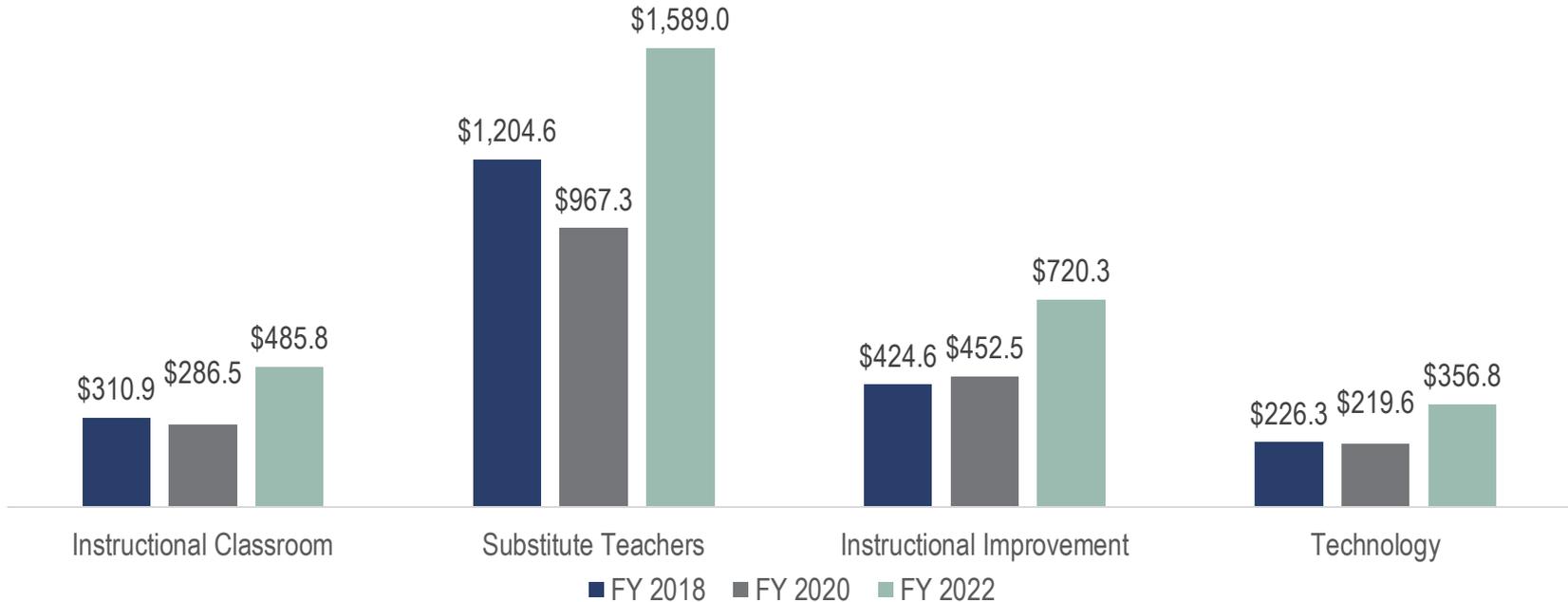
2022-2024 non-personnel support costs are calculated on a prevailing per-pupil basis (e.g., supplies, utilities, etc.) using FY 2022 expenditure data.

Non-Personnel Costs			
(\$ in millions)	FY 2025	FY 2026	Biennium
Reset Non-personnel Support Inflation Factors to 0%	(\$75.6)	(\$75.6)	(\$151.1)
Update Base-Year Expenditures for Non-Personnel Support Costs	385.5	391.2	776.8
Update Pupil Transportation Costs	64.7	66.5	131.2
Update Textbooks Per Pupil Amount	19.9	20.1	40.0
Update Non-Personnel Inflation Factors (includes \$5.0 million annual reduction for 5.0 percent cap)	101.8	102.4	204.2
Update Federal Revenue Deduct Per Pupil Amount*	(193.6)	(194.4)	(388.0)
Total Non-Personnel Costs	\$302.8	\$310.3	\$613.1

*The federal revenue deduction is higher in the 2024-2026 biennium due to federal COVID relief funds. In FY 2022, divisions expended \$655.9 million of their COVID federal relief allocations.

Per Pupil Amounts That Decreased in the Last Rebenchmarking Process (FY 2020) Had the Largest Increases in the Current Process (FY 2022)

Non-Personnel Per Pupil Amounts with Largest Increase in FY 2022



Note: In FY 2022 divisions expended \$655.9 million of their COVID federal relief allocations. Non-personnel expenditures may be higher as a result. These expenditures are partially removed through a federal revenue deduction in the 2024-2026 rebenchmarking process.

Source: Data provided by VDOE on November 10, 2023.

Staffing Costs Primarily Include Updates to Prevailing Salaries and Continuing Salary Increases

Personnel & Staffing Related Costs			
(\$ in millions)	FY 2025	FY 2026	Biennium
Reset SOQ-Model Salary Adjustments and Remove Compensation Supplement	(\$576.7)	(\$576.7)	(\$1,153.4)
Update Salary Inflation Factors for SOQ Positions (includes 12.46% Increase in Chapter 1, 2023 Special Session I)	647.3	652.0	1,299.3
Update Prevailing Salaries of Instructional and Support Positions	160.8	161.7	322.5
Update Superintendents, School Boards, and Nurses Prevailing Costs to FY 2022 Base	0.3	0.2	0.5
Update Health Care Premium Costs	16.6	17.0	33.6
Update Support Position Standard (includes increase to 24 positions per 1,000 ADM)	(14.4)	(13.7)	(28.1)
Total Personnel & Staffing Related Costs	\$233.8	\$240.6	\$474.4

Increases in Special Education and English Language Learners Primarily Drove Student Related Costs

Student Related Data Updates			
(\$ in millions)	FY 2025	FY 2026	Biennium
Update Special Education Enrollment Projections	\$52.3	\$52.8	\$105.1
Update Fall Membership and Average Daily Membership*	26.1	66.2	92.2
Update English as a Second Language Enrollment Projections	7.9	19.3	27.2
Update SOL Test Failure Rate Data and Free Lunch Percentages	6.2	6.3	12.5
Update Remedial Summer School	5.3	5.9	11.3
Update CTE Course Enrollment	4.3	4.3	8.7
Update Other Instructional Positions	1.6	1.8	3.4
Total Student Related Data Updates	\$103.8	\$156.6	\$260.4

*Increase is based on enrollment changes from FY 2020 to FY 2022. Enrollments are expected to decline in 2024-2026 and are reduced in the updated enrollment forecast.

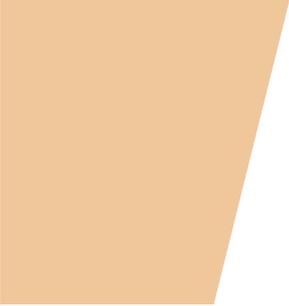
Growth in Free Lunch Students from 2019 to 2022 Increased Costs

Lottery, Incentive, and Categorical Programs			
(\$ in millions)	FY 2025	FY 2026	Biennium
Update Free Lunch Rate (impacts At-Risk Add on) and Lottery Programs*	\$81.1	\$83.3	\$164.5
Virginia Preschool Initiative (VPI) Rebenchmarking	28.0	28.0	56.0
Update Incentive Programs	6.8	6.7	13.5
Update Categorical Programs	2.4	5.8	8.2
Total Lottery, Incentive, and Categorical Programs	\$118.2	\$123.9	\$242.2

*From 2019 to 2022, the number of free lunch students grew by 29,284 (2.0%). Increases occurred across 54 school divisions (40.9%).

Additional Data is Needed to Determine Final Rebenchmarking and FY 2024 Costs

(\$ in millions)	FY 2024	FY 2025	FY 2026	Total
Preliminary (Sept.)		\$758.6	\$831.3	\$1,589.9
Other Updates (Nov.)				
Local Composite Index (LCI)		TBD	TBD	TBD
Fringe Benefit Rates		TBD	TBD	TBD
Enrollment Projections (final FY 2024)	TBD	(99.2)	(156.6)	(255.8)
Lottery Proceeds		2.3	2.3	4.6
Sales Tax Projection (final FY 2024)	TBD	TBD	TBD	TBD
School Age Population (estimate for Sales Tax distribution)		0.4	0.4	0.8
Other Updates		<u>TBD</u>	<u>TBD</u>	<u>TBD</u>
Total Other Updates To-Date (Nov.)		(96.5)	(153.8)	(250.3)
Total Costs (Sept. + Nov. Est.)	TBD	\$662.1	\$677.4	\$1,339.6
Less One-Time Costs		(586.8)	(586.8)	1,173.6
Net Est. Cost of Rebenchmarking (Nov.)		\$75.3	\$90.7	\$166.0



Recent Investments in PreK-12 and JLARC Reviews

PreK-12 Investments Grew Significantly Over the Last Biennium

Direct Aid (\$ in millions GF only)	FY 2023	FY 2024	Total
Base Budget (FY 2022)	\$7,311.6	\$7,311.6	
Less FY 2022 One-Time Spending	(127.3)	(127.3)	(254.6)
Rebenchmarking Updates	90.8	172.9	263.7
Technical Changes (updated after rebenchmarking)	121.5	131.6	253.0
Ongoing Policy Changes	653.5	1,110.8	1,764.3
One-Time Investments	<u>1,093.9</u>	<u>615.4</u>	<u>1,709.3</u>
Total Additional Investments*	\$1,832.4	\$1,903.5	\$3,735.9
Updated Base Funding	\$9,144.0	\$9,215.1	
% Increase from Prior Year (with one-time funding)	25.1%	20.8%	
% Increase from Prior Year (with one-time funding removed)	8.9%	15.2%	

*Some totals do not add due to rounding.

Recent Investments Focused on Salaries, Support Positions, Reading Specialists, At-Risk Students, and Other One-time Investments

Direct Aid (\$ in millions)	FY 2023	FY 2024	Total
Ongoing Select Policy Changes			
Salary Increases (5% FY 2023, 5% FY 2024 +2% Jan. 2024)	\$223.4	\$558.8	\$782.2
Support Positions (20 per 1,000 students FY 2023; 24 per 1,000 FY 2024)	109.4	314.6	424.0
At-Risk Add On Support (increase from 24% to 36%)	71.1	74.2	145.3
K-3 Reading Specialists (Virginia Literacy Act)	30.8	31.7	62.5
Early Childhood Care and Education	13.0	28.1	41.1
One-Time Investments			
School Construction (various programs)	\$800.0	\$0.0	\$800.0
Flexible Per Pupil Funding (learning loss recovery, implementation of Virginia Literacy Act, operational support)	0.0	418.3	418.3
Hold Harmless: Rebenchmarking Affected by COVID-19	177.1	177.4	354.5
College Laboratory Schools	100.0	0.0	100.0
Other One-Time Funding (safety & security grants and other initiatives)	16.8	19.7	36.5

JLARC Reviews

- K-12 Funding Formula
 - Identified that Virginia's funding is below the national average.
 - Recommended changes to how the formula is calculated and how costs are estimated.
- K-12 Teacher Pipeline
 - Reviewed the adequacy of the supply of qualified teachers.
 - Offered recommendations to increase funding for the Virginia Teacher Scholarship Loan Program, support for waivers on certain testing requirements, and provide alternative pathways to teaching and mentoring.

JLARC Review: SOQ Funding Review

JLARC Recommendations: Near-term (\$ in millions)	State Impact (FY 2023)
Address technical issues with the formula	\$45.0
Discontinue Great Recession-era cost reduction measures (includes removal of support position cap, changes to non-personnel costs and the federal deduction calculation)	515.0*
Calculate prevailing costs using division average, rather than LWA	190.0
Change Local Composite Index to three-year average	(1.5)
Convert non-SOQ At-Risk Add-On funding to SOQ-required funding	--
Replace outdated and inaccurate free lunch measure	250.0
Consolidate two largest at-risk programs into new SOQ At-Risk Program	
Direct further study of special education staffing needs	--
Estimated Near Term Costs	\$998.5

*The FY 2024 budget included \$205.3 million to increase the support cap from FY 2023. This may reduce the \$515.0 million estimate.

JLARC Review: SOQ Funding Review

JLARC Recommendations: Long-term (\$ in millions)	State impact (FY 2023)	Estimated Long Term Cost = \$2.5B Near + Long Term Cost = \$3.5B
Develop & adopt new staffing ratios, based on actual staffing	\$1,860M	
Update out-of-date salary assumptions during re-benchmarking	Depends on timing**	
Replace cost of competing adjustment with newer, more accurate method	\$595M	
Adopt economies of scale adjustment to assist small school divisions	\$90M	

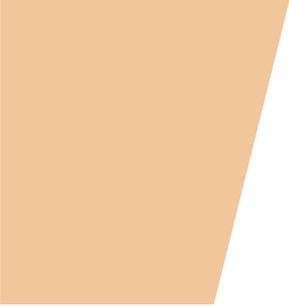
SOURCE: JLARC staff analysis and estimates using in-house JLARC SOQ model developed to approximate fiscal impact.

NOTE: The financial impact of the changes shown here reflect what the impact on the *state* budget would have been in FY23, *after accounting for all funding appropriated that year*. Division-level and local funding impacts can be found on the JLARC website.

****Cost impact is heavily dependent upon rate of inflation during year in which implemented.**

General Assembly Established a Joint Subcommittee on K-12 Funding During 2023 Special Session I

- Appointments of up to five members each from the House Appropriations and Senate Finance and Appropriations Committees.
- Committee will:
 - Review JLARC recommendations and policy options.
 - Determine appropriateness of implementing recommendations and policy options.
 - Develop a long-term plan for phased implementation.
- Initial recommendations due November 1, 2024.



2024 Session Outlook

2024 Session Outlook: Mandatory Budget Pressures & Other Requests

Commitments (biennium estimates):

- Rebenchmarking: Initial estimate of \$416.6 million (additional inputs needed).
- Implementation of reading specialists grades four to eight: \$61.6 million.

Board of Education Standards of Quality Recommendations

(draft from 11/15/2023 meeting):

- Student-based funding formula.
- Academic flexible funding for innovation in learning to address learning loss.
- Work-based learning/high school re-design.
- Special education: Statewide Individualized Education Plan (IEP) system.
- Educator pipeline development: Teacher apprenticeships.
- Data system modernization.

Other Areas of Interest:

- Full removal of pre-recession support position cap
- Support for specific student populations: At-risk Add On, English language learners (ELL)
- Early childhood education

Key Takeaways

Enrollments:

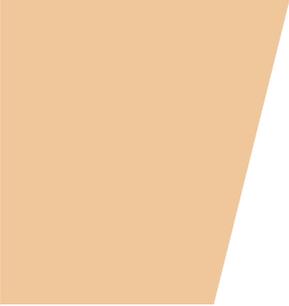
- Initial decline in enrollment from fall 2022 to 2023 and additional declines expected in next biennium and beyond.

Rebenchmarking:

- Significant cost increases as a result of inflation, increased expenditures, and salaries, but are offset by one-time investments in FY 2024 included in the base.
- Estimates are preliminary. Additional inputs will be included in the Governor's introduced budget which will change the estimate.

Outlook:

- Major investments in K-12 in 2022-2024 focused on salaries, support cap, and at-risk students.
- Joint Subcommittee will convene in 2024 to review K-12 funding recommendations from JLARC.
- Budget pressures (obligations) include rebenchmarking and implementation of reading specialists.
- High priority budget items include teacher pipeline, support of specific student populations, learning loss, work-based learning, early childhood, and data systems.



Appendix

What is Virginia's Average Teacher Salary? Depends on the Methodology Used to Calculate the Average

Methodology	VDOE Linear Weighted Prevailing Salary	VDOE Simple Statewide Average Salary	National Education Association (NEA) Average Teacher Salary
Calculation's Use	SOQ Funding Model	Annual school salary survey required in the Appropriation Act.	Comparison across states found in JLARC's Virginia Compared to the Other States and VDOE annual school salary survey.
Considerations	Divisions' elementary and secondary averages are linearly weighted to determine the prevailing average salary used for funding in the Appropriation Act.	Includes salaries of counselors, librarians, and instructional technology.	Excludes salaries of counselors, librarians, and instructional technology, but includes homebound and substitute teachers.
Average Salary Amount FY 2022	\$56,190 ¹	\$64,557	\$61,367

Source: VDOE, 2021-2022 Teacher Salary Survey Results, Appropriation Act, & NEA.

Note: ¹ Estimated single blended prevailing average salary is calculated from weighting the 2022-2024 Appropriation Act's teacher salary amounts of \$48,298 for elementary teachers and \$51,167 for secondary teachers into one amount by the percentages of elementary and secondary teach positions of the total (the weighted percentage is estimated about 61% / 39% respectively).

School Divisions Have Spent 67 Percent of ESSER Funds

Division ESSER Reimbursements by Categories Nov. 7, 2023				
(\$ in millions)	ESSER I	ESSER II	ESSER III	Total
Total Allocation	\$214.7	\$845.4	\$1,899.9	\$2,960.0
Total Reimbursements	214.5	812.1	992.8	2,019.3
Reimbursements as % of ESSER Award	~100.0%	96.1%	52.3%	67.2%
Amount Remaining	0.2	\$33.2	\$907.1	\$940.6
Deadline to Obligate Funds	9/30/2022	9/30/2023	9/30/2024	

Note: ESSER III requires 20% of divisions' formula funds be reserved to address learning loss.
 Source: VDOE ESSER Funds Allocation Dashboard.