

# **Virginia's Framework for Costing the Standards of Quality (SOQ)**

Presentation to the Senate Finance Committee  
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# Virginia's SOQ Costs Framework

- State SOQ serve as basic standards of minimum quality education in Virginia
- Virginia's approach to costing the Standards of Quality (SOQ) has two major components:
  - Use of quantified standards as available in the SOQ, to estimate the minimum number of personnel required
  - Use of “prevailing” school division unit costs, for example:
    - the prevailing salary level
    - prevailing costs per pupil



## ***Constitution of Virginia: General Assembly*** **Responsibility for SOQ Cost Matters**

- State Board of Education responsible for determining and prescribing the SOQ, subject to revision only by the General Assembly
- GA responsible for determining SOQ costs and apportioning costs between State and local governments
- GA must “by whatever means, see that sufficient funds, state and local, are available to maintain a quality program in every school division in the Commonwealth” (*Commentaries on the Constitution of Virginia, 1974*)



## 1972-73 Task Force on Financing the SOQ

- Created by Governor Linwood Holton
- Included key legislators and two assistant attorney generals
- Issued interim (1972) and final (1973) reports
- Concluded that three funding guidelines seemed implicit in the *Constitution of Virginia*:
  - SOQ “must be realistic in relation to current educational practice”
  - Estimate of SOQ costs “must be realistic in relation to current costs for education”
  - Local share of SOQ costs “must be based on local ability to pay”



## February 1973 Attorney General (AG) Opinion

- Between the interim and final task force reports, the AG's office was asked whether State's basic aid formula was consistent with constitutional requirements
- AG found that school division salaries and staffing levels almost universally exceeded the levels used in the formula
- AG indicated that the funding approach was not satisfactory:
  - "in estimating the cost of implementing the Standards, the General Assembly must take into account the actual cost of education rather than developing cost estimates based on arbitrary figures bearing no reasonable relationship to the actual expense of education prevailing in the Commonwealth"
- In light of the AG's opinion, the 1973 General Assembly voted to add funding to its allocation for FY 1974 (*Commentaries on the Constitution*)



## 1983 AG Opinion

- Ten years later, AG issued an opinion which reiterated main points from prior opinion:
  - “The legislative determination of cost may not be based upon arbitrary estimates with no reasonable relationship to the actual expense.”



## What Is the “Actual Expense” To Be Considered?

- It is not each school division’s own actual expense – this approach would reward high spending
- Instead, it is the “actual expense prevailing in the Commonwealth”



# What Expense Is “Prevailing” in the Commonwealth?

- **Statewide average** costs used for about a decade in DOE’s calculations, following method from the SOQ funding task force
- General Assembly did not fund these costs in full
- JLARC study in mid-1980s found that statewide average costs were above the costs of most school divisions
- JLARC study proposed use of **linear weighted average** salary:
  - Sorts or rank orders the unit costs
  - Gives the greatest weight to the median cost
  - Gives least weight to the very highest and lowest costs
  - Calculates a prevailing salary based on the weights and the unit costs
- The linear weighted average typically produces salary figures that are about 90% of the statewide average



# AG Informal Guidance Regarding JLARC SOQ Cost Study in the mid-1980s

- AG was asked to provide informal guidance regarding the proposed change. The AG indicated in November 1985 that:
  - “In my view, it is constitutionally permissible for the GA to change the method for determining the cost of the instructional personnel component, even though the change yields a lower basic operation cost than under the existing method, provided the new method takes into account actual costs...  
I understand from the information you have provided that JLARC believes that its method more fairly represents the actual cost of the component. If JLARC’s assumption is, in fact, accurate, I am of the view that the proposal is constitutionally defensible.  
At this point, I nonetheless express concern. Both the existing and the proposed method are susceptible to an adverse [legal] finding to the extent they may fail to yield a realistic basic operation cost. As JLARC’s proposal will generate less additional State funding than under the existing method... it appears particularly prudent to be absolutely persuaded as to JLARC’s statistical methodology as a recognized and improved measurement of the costs of the program.”
- The linear weighted average was adopted for use by the State, beginning with the 1986-88 biennium



## Task Force Interpretations and AG Opinions and Guidance Have Not Been Contradicted Since

- No contradicting court rulings or legal opinions since 1980s
- State's funding formula challenged in court in early 1990s
  - Case did not address the adequacy of SOQ costs and funding
  - Complaint was that expenditure levels of school divisions are not uniform, calling into question equality of educational opportunity
- Virginia Supreme Court found
  - There is no guarantee of equality of expenditure in the Virginia Constitution
  - Instead, Virginia's framework requires that all school divisions have programs which at least meet the SOQ



# Contemporary Questions for Which SOQ History May Shed Some Light

- How much latitude does the General Assembly have in estimating SOQ costs?
  - GA has some latitude and may change its costing methods, but Attorney Generals have advised that its cost estimates should not be arbitrary or unrealistic or unreasonable in relation in to the expense prevailing in the Commonwealth
- Why do SOQ costs need to be “re-benchmarked” (the routine use of more recent cost figures)?
  - If “old” data are used, resulting cost estimates are less likely to be “realistic” and “reasonable” in relation to current prevailing costs



# Proposed House Budget Changes With Potential Impact on Calculation of SOQ Costs

## ■ This biennium:

- Policy for updating the SOQ prevailing cost to take into account inflation impacts
- Policy for how a portion of federal revenues are deducted
- Approach to determining SOQ non-instructional staff salaries

## ■ Next biennium:

- Approach to determining SOQ instructional staff salaries



# Policy for Use of Inflation to Move Non-Personnel & Health Insurance Costs Forward from Base Year

Inflation from Base Year to Budget Preparation  
Time  
(But Not Prospective Inflation)

Approach	Full Credit	Partial Credit	Inflation Cap
Prior to 2006-08 biennium	100% of inflation	Not applicable	None
Current *	100% of the first 5%	35% of percentage points above 5	None
Proposed *	100% of the first 3%	50% of percentage points from 3 to 7	5%

\* Base year (FY 2006) costs updated based on inflation rates for FYs 2007-08

**IMPACT: SOQ costs will not be adjusted to fully recognize inflation impacts if inflation is above 3%.**

**STATE SOQ COST REDUCTION = \$20.3 million**



# Policy for Deduction of a Portion of Federal Revenues That Pay for Non-Personnel Support Costs

Approach	Size of Federal Fund Deduct	Deduction Cap
Current	Each division's revenues from certain federal accounts, up to a capped amount	Prevailing statewide per-pupil deduct
Proposed	Each division's revenues from certain federal accounts	None

**IMPACT:** School divisions with above-average per-pupil federal aid based on need factors will see more of a deduction from their calculated SOQ costs and State funding. This could raise more questions about whether federal funds are being used to supplant State and local cost responsibilities.

**STATE SOQ COST REDUCTION = \$22.1 million**



# Approach to Determining Non-Instructional SOQ Staff Salaries

Approach	Determination of Salaries	FY 2009 & 2010 Budget
Current	Re-benchmarked every 2 years using actual data (“prevailing” school division salary level)	Uses FY 2006 salaries as base & subsequent pay raises authorized by General Assembly
Proposed	No re-benchmarking for FY 2006; base year to be used in the future is unclear	Uses FY 2004 salaries as base & subsequent pay raises authorized by General Assembly

IMPACT: Relies on an older base year to initially set a “prevailing” cost before applying pay raises as authorized by the General Assembly.  
STATE SOQ COST REDUCTION = \$78.8 million



# SOQ Instructional Staff Salaries: Future Policy on Methods to Determine Costs (2010-12 Biennium)

Approach	Fiscal Year						
	2006	2007	2008	2009	2010	2011	2012
Current	n.a.	n.a.	Base = Prevailing FY 2008 salaries	Pay raise?	Pay raise?	Pay raise?	Pay raise?
Proposed	Base = Prevailing FY 2006 salaries	Pay raise (4.00%)	Pay raise* (3.00%)	Pay raise* (2.00%)	Pay raise* (0%)	Pay raise?	Pay raise?

\* Pay raises are those approved in the State budget. Under proposed approach, approved pay raises for FYs 2008 to 2010 average **1.8%**. (Average raise for FYs 2003-07 was **1.9%**).



## SOQ Instructional Staff Salaries (Cont'd.): Impact of Proposed Change

**IMPACT:** Change involves the use of an older base year to initially set a “prevailing” cost before applying pay raises set in the State budget.

### STATE SOQ COST CHANGE IN 2010-12 = Unknown

For 2010-12 biennium, the impact may be dampened because State-approved salary increases for these positions in FY 07 and FY 08 were more than usual (4% and 3%).

Proposed change would establish a precedent, however, for using old base year data with an expanded time period covered by State budget pay raises -- which could substantially reduce State SOQ costs in some biennia. State budget salary actions regarding instructional personnel are often similar to actions impacting State employees, and may average less than 2% per year.

SOQ funding model runs by DOE indicate the change if done in this biennium would have reduced State funding by \$227.4 million



# SOQ Instructional Staff Salaries (Cont'd.): Approved State Budget Pay Raises Averaged 1.9% in Recent Years

## Percent Increases Over Prior Year

Fiscal Year	Approved Pay Raise	CPI-U (Inflation)	Statewide Average Teacher Salary	Virginia Personal Income Per Capita
2003	0%	2.2%	2.3%	2.0%
2004	2.25	2.2	3.0	4.6
2005	0	3.0	3.3	5.9
2006	3.0	3.8	4.1	5.3
2007	4.0	2.5	4.1	3.9
<b>Average Annual Increase</b>	<b>1.9%</b>	<b>2.7%</b>	<b>3.4%</b>	<b>4.3%</b>



# Summary / Conclusions

- Prior Attorney General opinions have indicated that:
  - The General Assembly can change the methods it uses to estimate SOQ costs
  - However, cost estimates cannot be arbitrary and cannot lack a reasonable relationship to the actual expense prevailing in the Commonwealth
  
- Before the General Assembly changed its SOQ cost method at the 1986 Session based on a change proposed in a JLARC report, the Attorney General advised:
  - that cost methods are “susceptible to an adverse [legal] finding to the extent they may fail to yield a realistic basic operation cost”
  - “it appears particularly prudent to be absolutely persuaded” as to the new method being a “recognized and improved measurement of the costs of the program.”



## Summary / Conclusions (continued)

- In taking into account the “actual expense” of education, changes to use cost data which is older than what is available and to place a more restrictive cap upon the recognition of inflation expenses raise some concern
- Localities must develop budgets that reflect the costs of attracting and retaining teachers in each upcoming year. “Tier One” costs sought to anticipate these increases, whereas the proposed approach would not necessarily recognize past increases