

The Impending Fiscal Disaster Facing Public Schools

Richard G. Salmon
Professor, Virginia Tech*

I. Introduction

Others have testified and still others will point to the billions of dollars that the Virginia economy has failed to produce, generating the need to “tighten our belts” and make the necessary budget reductions, both at the state and local levels. It is certainly true that the Virginia economy has faltered, but relative to the nation and most other states, the budget shortfalls that previous administrations and General Assemblies have addressed, and the \$3 billion biennium shortfall faced by the current administration and General Assembly is more manageable.

I am not here to blame anyone, but I cannot help but observe that a substantial part of the current state budget shortfall is due to the fiscal decisions made by previous administrations and general assemblies. Setting long-term tax policies that are based on highly-energized national and state economies inevitably will force reexamination of these policies during the most difficult times. The most obvious example is the so-called, “car tax” that biennially forces the transfer of \$2 billion state revenue to the localities. The transfer of these “replacement revenues” needs to be phased-out, perhaps over two or so biennia. Under the current fiscal conditions, this would be a painful process, both for the Commonwealth and the localities. Other examples are available.

References:

Dadayan, Lucy and Donald J. Boyd, “Recession or No Recession, State Tax Revenues Remain Negative,” *State Revenue Report*, (Albany, New York: The Nelson A. Rockefeller Institute of Government, January, 2010).

Regimbal, James J., “Virginia’s State Budget – A Train Wreck About to Happen,” *The Virginia News Letter*, (Charlottesville, VA.: Weldon Cooper Center for Public Service, October, 2009).

Knapp, John L., “Exploring Virginia’s Tax Structure in a World of Change,” (Blacksburg, VA.: Virginia Polytechnic Institute and State University, Summer, 2009),

II. Magnitude of the Impending Fiscal Disaster Facing Public Schools

In my nearly fifty years in public education, both K-12 and higher education, I cannot remember a fiscal crisis as extensive as the one we are currently facing. The magnitude of the fiscal disaster, if the General Assembly and Governor do not take steps to ease the loss of state revenue, will harm public schools to such an extent that several generations will be repairing the damage. Such large numbers have been cited, that for most people, the numbers become incomprehensible, and these reductions are not one-time reductions but are cumulative.

Numbers that I have not seen cited; however, are the state aid per pupil reductions. That is, the recommended reductions of state aid are divided by the number of pupils in Average

Daily Membership, thus standardizing comparisons. Pursuant to data drawn from the Virginia Department of Education website, from FY 2009 to FY 2011, the recommended per pupil reduction, exclusive of federal stimulus funds, is \$607. Assuming that Virginia school divisions have funded a pupil-teacher ratio of 20:1, the loss for each classroom teacher is \$12,140. There will be a loss of \$12,140 per classroom in every school and for every school division in the Commonwealth. For each child that attends public school in Virginia for the offered 13 years, i.e., K-12, each will suffer a total loss of nearly \$158,000 (unadjusted for inflation).

Reference:

http://www.doe.virginia.gov/school_finance/budget/calc_tools/index.shtml

III. Issues Pertaining to Impending Fiscal Disaster Facing Public Schools

In order to reduce state revenue allocations to public schools, it has been recommended that a “cap on support personnel” be used for calculation of Basic State Aid. The rationale used to justify this action is that the function of instruction will be unaffected. This is absurd. Prior studies, including those conducted by the Joint Audit and Review Commission, has validated the current methodology. The Per Pupil Amount (PPA) for State Basic Aid produced for the allocation formula is a general purpose (general operating) grant that contains cost estimates for several education programs and functions, and does not require categorical disbursement.

Another issue, but perhaps more noble in its intent, is “freezing” the local composite index (LCI), the measure of fiscal capacity used by the Commonwealth for the purpose of equalizing fiscal capacity and resources among Virginia school divisions. Nearly 100 school divisions are fiscally advantaged by holding, i.e., freezing, the LCI (FY 2010 calculation) while the remainder are disadvantaged. Generally, school divisions that possess lower fiscal ability, form this group of nearly 100 divisions. However, this action establishes bad policy. The Commonwealth, rightfully so, has traditionally resisted attempts to “tweak” the LCI, that have been brought to the state by various groups and localities. The new LCI has been calculated and should be implemented as it has in the past. If the Commonwealth decides to assist the lower fiscally able school divisions during this budgetary crisis, other alternatives are available.

If the Commonwealth does freeze the LCI due to the current budgetary problem, it should take the opportunity to address the real flaws of the LCI. Namely, the LCI is based, when calculated, on old data, e.g., FY 2007 is used for the recently calculated LCI, making the data four years old for the first year of the biennium. Due to the algorithm used to calculate the LCI for each school division, each division is mathematically compared to the Commonwealth as a whole, which results in a system where a few large school divisions decide the mathematical fate of all other divisions. For example, whenever the Northern Virginia school divisions collectively experience a rapid economic shift, either up or down, the vast majority of all other school divisions see their LCIs move in the opposite direction to the Northern Virginia divisions.

IV. Concluding remarks.

I encourage the General Assembly to address the state budget crisis in a more transparent and responsible manner. I continue to have faith in the American people, particularly those who call Virginia home. Explain to them that the alternative to increasing the fiscal effort for

education, and other governmental services, is the substantial reduction in the quality of their public schools and public services. Virginia, compared to other states possesses great wealth, but has exerted low fiscal effort for governmental services and a particularly low effort for public schools. A moderate tax increase is unlikely to change this pattern.

Finally, I was talking to a friend of mine, who is the fiscal officer for one of the larger school divisions, who commented, “Everyone in government has warned we likely will fall off a cliff when the federal stimulus funds expire, but these same people have led us to the cliff and now they are pushing us over.”

** This paper represents the opinions of the author only, and does not necessarily represent the views of Virginia Tech.*