

# SENATE OF VIRGINIA

## Senate Finance Committee



## Stretching Virginia's Public School Dollar In a Global Economy and a Digital World

Virginia State Board of Education

Petersburg School Board

Virginia Department of Education

Superintendent and Division Staff

**Turnaround Zone**

Readiness to LEARN

Readiness to TEACH

Readiness to ACT

Lead Turnaround Partner for Reform Support

People: Authority over selection, compensation and work rules

Time: Authority over scheduling, longer day, longer year

Program: Flexibility to shape program to students' needs and turnaround priorities

Money: More budget flexibility, more resources

November 15, 2012



SENATE FINANCE COMMITTEE

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# Global Job Market is Drawing Attention to International Comparisons

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- As jobs with lower skilled “routine” work are automated or outsourced, there is growing focus on the global job market where highly educated workers -- with skills in critical thinking, problem solving, collaboration/communication, creativity, and STEM disciplines -- are in increasing demand.
  - As one measure of competitiveness, international assessments show students in some other countries/regions (including Singapore, Korea, Japan, New Zealand, and Australia) outperforming the U.S.

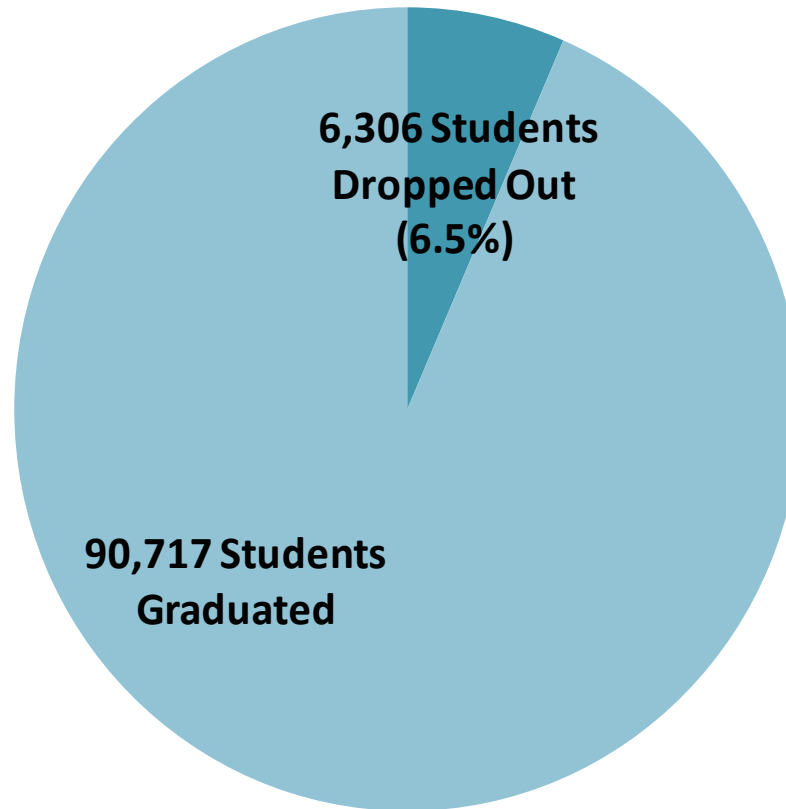
| <b>2009 PISA Tests*</b> | <b>U.S. Rank (and Score)</b> | <b>Shanghai Rank (and Score)</b> | <b>Finland Rank (and Score)</b> | <b>Canada Rank (and Score)</b> |
|-------------------------|------------------------------|----------------------------------|---------------------------------|--------------------------------|
| <b>Reading</b>          | 17 (500)                     | 1 (556)                          | 3 (536)                         | 6 (524)                        |
| <b>Science</b>          | 23 (502)                     | 1 (575)                          | 2 (554)                         | 8 (529)                        |
| <b>Math</b>             | 31 (487)                     | 1 (600)                          | 6 (541)                         | 10 (527)                       |

\*The Programme for International Student Assessment, which assesses applied knowledge of a sample of 15-year-olds every three years, is coordinated by the Organization for Economic Cooperation and Development. The 2009 results include 74 countries.



# Fiscal Consequences of Education in Today's World Highlight Return on Investment as Dropouts Decline

2012 Virginia Graduation Cohort



In Virginia, the average high school graduate generates a lifetime fiscal surplus of **\$368,870** (i.e. pays more in taxes than imposes in direct costs).\*

The average adult high school drop out generates a lifetime net fiscal surplus of **\$17,690**.\*

The lifetime net fiscal impact (difference between graduating and not graduating) for this one group of dropouts would be **\$2.2 billion**. *Compared to last year's 7,046 dropouts (7.2%), this is an improvement of \$260 million.*

\*Council on Virginia's Future, Issue Insight Number 2, August 2008.



## Some Variation in Virginia's State Rankings on Key Outcome and Funding Indicators

|  | Virginia | National Average | VA's Rank |
|--|----------|------------------|-----------|
| <b>Adult Educational Attainment (2010)</b> |          |                  |           |
| Percent with at Least H.S. Equivalent      | 86.5%    | 87.1%            | 31        |
| Percent with at Least Bachelor's Degree    | 34.2%    | 27.5%            | 6         |
| <b>Funding Levels (2008-2009)</b>          |          |                  |           |
| State Per-Pupil Funding                    | \$5,115  | \$6,167          | 35        |
| State and Local Per Pupil Funding          | \$11,405 | \$11,155         | 17        |
| <b>Key Cost Drivers</b>                    |          |                  |           |
| Average Teacher Salary (2008-2009)         | \$48,385 | \$51,108         | 28        |
| Student-Teacher Ratio (Fall 2009)          | 11.7*    | 15.3             | 48        |

Source: Virginia Compared to Other States, 2012 Edition, JLARC.

*\*Note: 2011 NCES data indicate a Virginia ratio of 17.7, which ranks 8<sup>th</sup> highest, after an on-going error in reporting was corrected earlier this year.*



## What are Recent State Spending Trends?

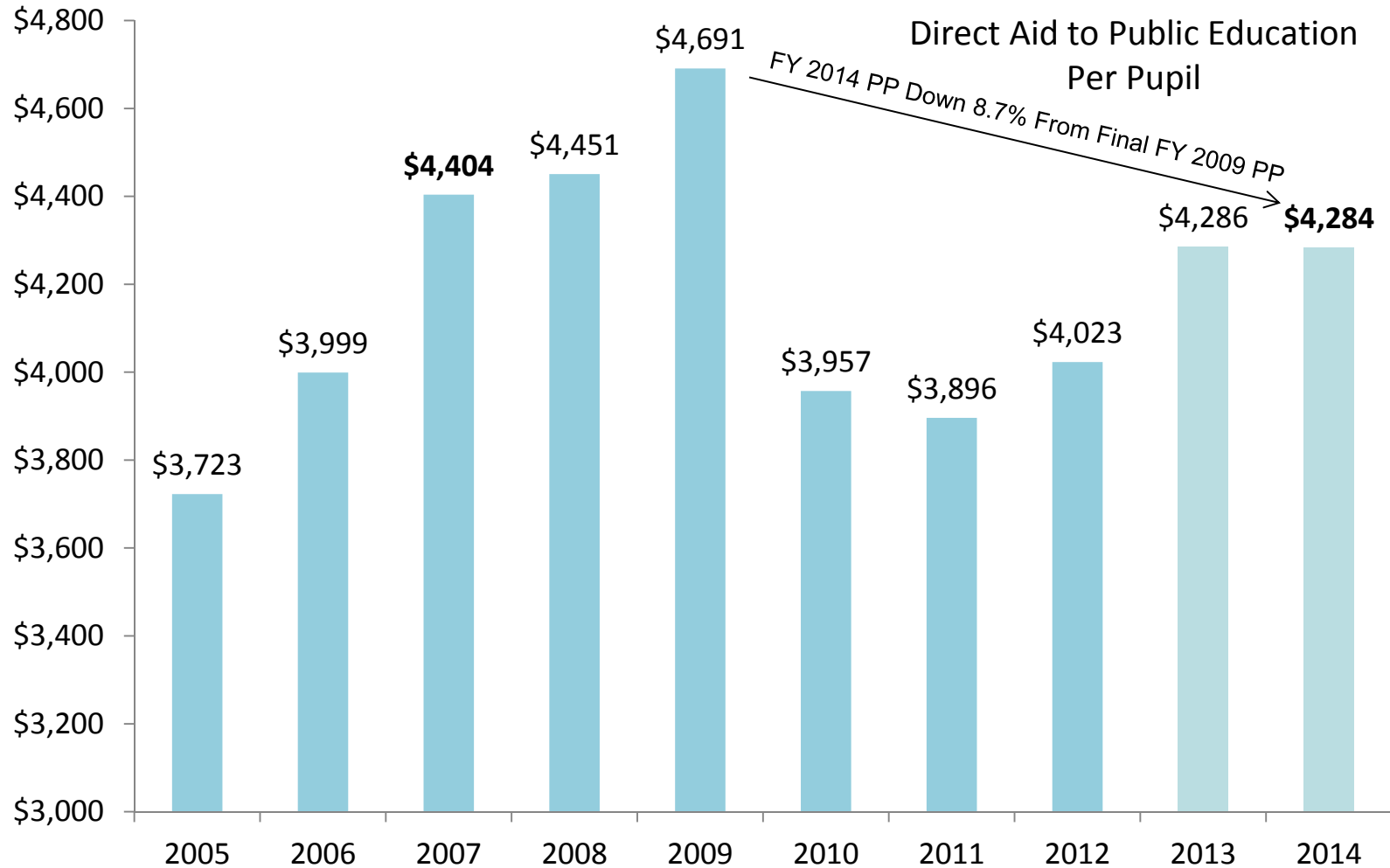
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- Despite the importance of education to future economic competitiveness, the Great Recession, combined with the growth in Medicaid, has taken its toll on state funding levels.
- According to the Center on Budget and Policy Priorities (September 4, 2012), which advocates restoring school funding as an urgent priority:
  - Half of the states still are cutting K-12 with 26 states providing less state funding in FY 2013 than the year before.
  - Virginia is among the 35 states (of the 48 surveyed) where FY 2013 levels are below FY 2008 per pupil levels after adjusting for inflation.



# Per Pupil State GF for Public Education in Virginia

## *Annual Enrollment Growth Has Been Below One Percent*

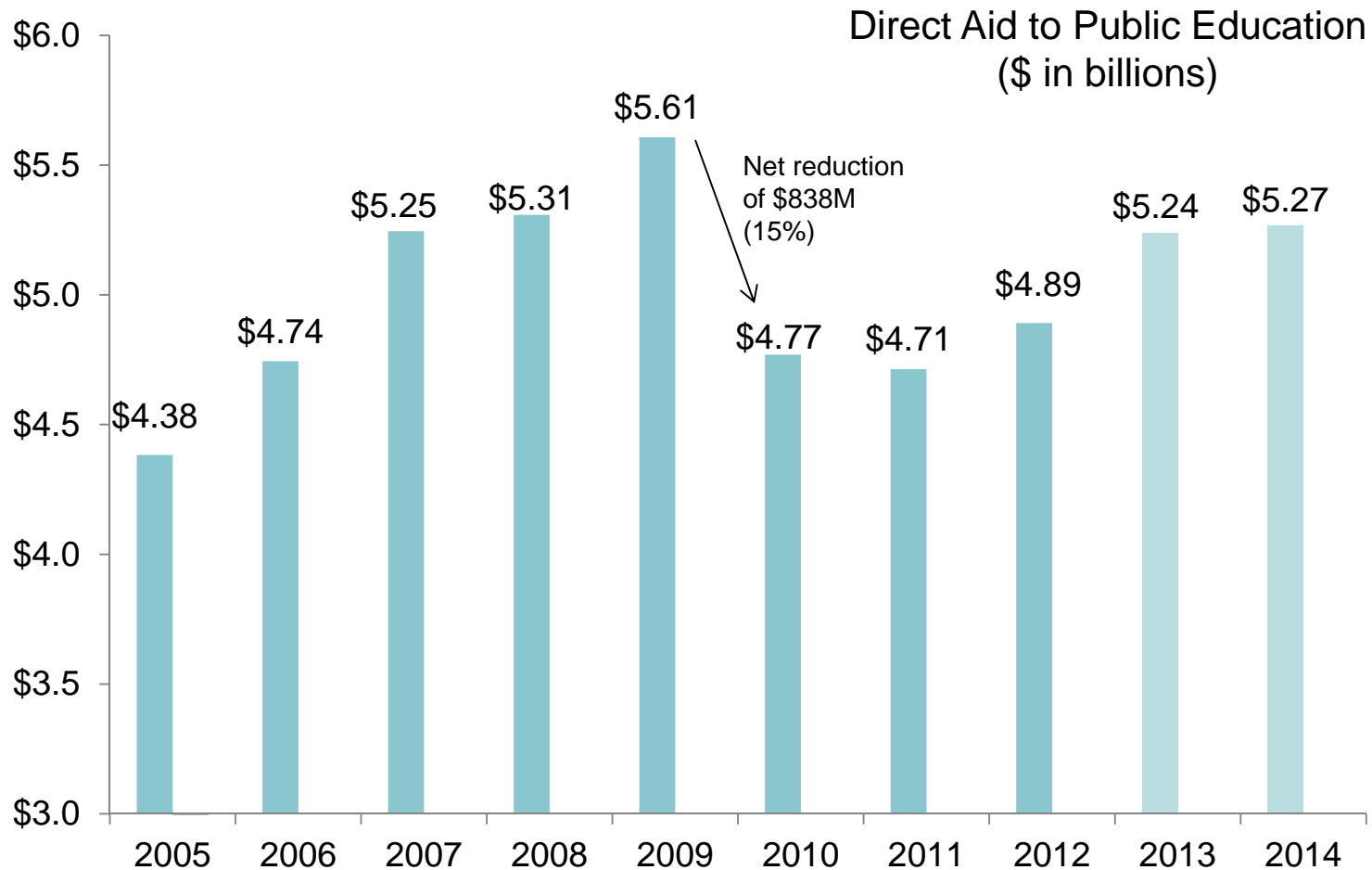


Note: For comparison purposes, figures do not include Lottery Proceeds, which were budgeted as GF prior to FY 2009.



# FY 2014 State GF Dollars for K12 at \$5.27 Billion

## At 30 Percent of GF for 2012-14 Biennium



Note: For comparison purposes, figures do not include Lottery Proceeds, which were budgeted as GF prior to FY 2009.





## State Reductions Primarily Permanent Formula Changes That Reduce State Share, Leaving Most Program Decisions to Locals

| Key State Funding Policy Changes Since 2008  | Session | Biennial<br>(\$ in millions) |
|--|---------|------------------------------|
| Cap funding for support positions  | 2009    | (\$754)                      |
| Eliminate school construction grants   | 2009    | (55)                         |
| Adjust health care for participation rates   | 2010    | (269)                        |
| Eliminate certain school expenditures from SOQ calculation<br>(certain equipment, travel, misc.)   | 2010    | (244)                        |
| Include \$0 values in Linear Weighted Average calculation  | 2010    | (79)                         |
| Eliminate Lottery support for school construction  | 2010    | (67)                         |
| <i>Drop lowest tier from K-3 class size program</i>  | 2010    | (36)                         |
| Extend school bus replacement cycle from 12 to 15 years  | 2010    | (19)                         |
| Eliminate enrollment loss assistance   | 2010    | (16)                         |
| Eliminate inflation update*  | 2012    | (109)                        |
| <i>PreK: Use kindergarten count as proxy for 4-year-olds*</i>  | 2012    | (27)                         |
| *Partial one-time funding provided in FY 2013 and FY 2014 for inflation, preK, and retirement costs. Inflation will be updated in 2014-16 re-benchmarking. |         |                              |



## Have Locals Made Up the Difference? On Average, No.

- Statewide, local spending also has decreased, as property values declined, although by a much lower percentage than the state decrease.
  - Even with the infusion of temporary federal stimulus dollars, total school spending decreased year-over-year in FY 2010 and FY 2011.
    - On a per pupil basis, declined from \$11,316 in FY 2009 to \$10,793 in FY 2011.
    - FY 2012 figures will be available in the Spring, and will constitute base year expenditures for 2014-16 re-benchmarking.

| (\$ in millions)       | FY 2009           | FY 2010           | FY 2011           | FY 2009 - 2011      |
|------------------------|-------------------|-------------------|-------------------|---------------------|
| <b>State</b>           | \$5,013.4         | \$4,236.0         | \$4,091.5         | <b>(\$921.9)</b>    |
| <b>State Sales Tax</b> | 1,089.6           | 1,074.6           | 1,125.1           | <b>35.5</b>         |
| <b>Local</b>           | 6,609.0           | 6,547.8           | 6,512.4           | <b>(96.6)</b>       |
| <b>Federal</b>         | <u>875.9</u>      | <u>1,445.8</u>    | <u>1,356.5</u>    | <b><u>480.6</u></b> |
| <b>TOTAL</b>           | <b>\$13,587.9</b> | <b>\$13,304.3</b> | <b>\$13,085.6</b> | <b>(\$502.3)</b>    |

Source: Table 15, Superintendent's Annual Report, Virginia Department of Education.



## VRS Policy Helped Mitigate Reductions in FY 2011 and FY 2012, But Rates Increased in FY 2013

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- Through FY 2012, state and local reductions were substantially offset by federal stimulus funds (FY 2010 through FY 2013) and by the VRS savings in FY 2011 and FY 2012.
  - The estimated local school savings from the deferral of the contributions rates was over \$600 million for FY 2011 and FY 2012.
    - In FY 2011 and FY 2012, school divisions received less state SOQ funding due to the lower VRS contribution rates, but also had lower VRS bills to pay, making the bottom line “feel” a little better than it looked.
  - While unprecedented reliance on the VRS was a key overall budget strategy for the state in the 2010 Session, the 2012 Session was marked by significant commitments to “stop digging” and to address the unfunded liability over time.
    - For FY 2013 and FY 2014, school divisions will receive more state SOQ funding corresponding to the increase in VRS contribution rates from 6.33 percent to 11.66 percent (over half of the net new money in the adopted budget is for retirement rates), but also have higher VRS bills to pay, making the bottom line “feel” worse than it looks.



## 2012 Pension Legislation Has Short- and Long-Term Impacts on School Divisions

| Pension Reform |   |
|----------------|---|
| 2008           | <ul style="list-style-type: none"> <li>JLARC Compensation study</li> </ul>  |
| 2010           | <ul style="list-style-type: none"> <li>“Plan 2” status created for new employees (age, Avg. Final Comp., COLA)</li> </ul>   |
| 2011           | <ul style="list-style-type: none"> <li>State employees to pay 5 percent employee share (offsetting increase)</li> <li>Updated JLARC study</li> </ul>  |
| <b>2012</b>    | <ul style="list-style-type: none"> <li><b>Hybrid combination DB-DC plan created for new employees</b></li> <li><b>Phase-in over six years to full-funding of the contribution rates</b></li> <li><b>Non-vested Plan 1 changes</b></li> <li><b>Local and school employees to pay the 5 percent employee share</b></li> </ul> |

- Three key impacts for school divisions from the 2012 Session:
  - Fully reinstate the 5 percent member share, with offsetting salary increases by FY 2017 (60 percent fully implemented in FY 2013, 35 percent did minimum).
  - Over the next 20 years, reduces the unfunded liability by \$5 billion and reduces costs by \$1.7 billion, as new employees are enrolled in the hybrid plan.
  - Phase-in to full funding of contribution rates by FY 2019.



# Phasing-In to Full Retirement Rates Will Increase Teacher VRS Costs By About 50% By FY 2019

- Pursuant to SB 498 (2012), funded retirement contribution rates must phase-in over the next six years as follows.

|                              | 2012-14 | 2014-16 | 2016-18 | 2018-20 |
|------------------------------|---------|---------|---------|---------|
| Percent of Board-funded rate | 70%     | 80%     | 90%     | 100%    |

- The current 11.66 percent rate in 2012-14 (approximately 70 percent of 16.77 percent) equates to a state SOQ retirement cost of about \$300 million per year and local school division cost of roughly twice that.
  - Based on the recent updated valuation reflecting additional investment losses, the current funded rate now represents about 64 percent of the actuarially-required level.



# Today's Budget Vocabulary Includes the Term the "New Normal"

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- Budget challenges are not over:
  - Increased demand on schools to produce more college and career-ready graduates (more rigorous SOLs, accreditation, and accountability and changing demographics) to compete internationally for 21<sup>st</sup> century workforce needs;
  - State K-12 spending significantly below previous trend growth levels, combined with other state budget pressures;
  - “Headwinds” of possible federal reductions and the six-year commitment to addressing the retirement unfunded liability;
  - Local revenue challenges that vary across the state (value of real estate differences and Composite Index changes); and
  - Pent up demand by employees for salary increases.
- Can the state help school divisions stretch their dollars, rather than simply settling for “doing less”?



## What Tradeoffs Might The Public Support?

- A March 2012 Fordham Institute survey of 1,009 randomly selected people sought opinions on “Which cost-saving strategies trim the bottom line while safeguarding the interests of kids?”

| Cost Cutting Measures the Public Approves  | Rejected Proposals            | Split Decisions                                 |
|--|-------------------------------|---|
| Increase teacher productivity (i.e. pay freeze over job cuts; seniority; evaluation) | Don't shorten the school year | Fees for sports and extra-curricular activities |
| Move away from traditional pensions  | Don't cut support staff       | More use of virtual education                   |
| Reduce central office administrators   |                               |   |
| Close schools, merge districts   |                               |   |
| Excellence trumps class size   |                               |   |

- **On Class Size:** 73 percent would choose a class of 27 students taught by one of the district's best teachers, while 21 percent would choose a smaller class of 22 students with a randomly chosen teacher.



## What Do Virginians Say?

- Key findings from VCU’s Commonwealth Educational Policy Institute (CEPI) annual telephone poll in December 2011:
  - 60 percent say Virginia schools do not have enough funds to meet their needs, while 29 percent say schools have enough funding now.
  - Public schools top the list of programs that Virginians are willing to support with tax dollars to keep funding levels stable.
  - “Which school budget cuts will hurt the least?”

| Type of Budget Cut Asked About By the Survey | % Who Said Would Hurt Quality A Lot | % Who Said Would Not Hurt Quality |
|--|-------------------------------------|-----------------------------------|
| Teacher layoffs                              | 76                                  | 6                                 |
| Cancel all after-school activities           | 62                                  | 13                                |
| Reduced instructional materials              | 61                                  | 6                                 |
| Teacher pay cuts                             | 61                                  | 8                                 |
| Reduced teacher training                     | 50                                  | 13                                |
| Administrative staff layoffs                 | 36                                  | 21                                |





## Efficiency and Flexibility Are Common Objectives, But Can Require Careful Implementation

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- Although it is local officials who make the bulk of the school budget decisions (within the parameters of the state's minimum high quality program), state actions can also have an important impact.
  - During the 2012 Session, budget attention began to transition from crisis management to a longer-term view of how to manage the “new normal.”
- Several of the key state K-12 education budget issues during the 2012 Session relate more directly to costs:
  - Class size and other flexibility
  - Virtual learning
  - Number of SOL assessments
  - School Efficiency Review Program
- Going forward, a key consideration will be how to balance existing and additional local requests for flexibility without sacrificing legitimate state policy concerns.
  - Longer term, flexibility from program requirements could eventually raise the question of how funding formulas should be calculated (i.e. in the early 2000s, one year's block grant became the next year's eliminated program).



## Class Size and Other Flexibility

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- During deliberations in the 2012 Session, flexibility was a priority of the Education Subcommittee of the Senate Finance Committee, continuing the textbook, carry-over, class size and other flexibility provisions adopted in recent years.
  - Flexibility in using existing funds to employ data coordinators, reading specialists, mathematics teacher specialists, and English language learner teachers.
  - Waiver of pupil-teacher ratios for elementary resource teachers, Prevention, Intervention and Remediation, ESL, Gifted and Talented, Career and Technical Education.
  - Permit school divisions to increase the division-level pupil teacher ratios in grades K-7 and English classes for grades 6-12 by one additional student.
    - **Grades K-7:** division-wide average of 24 (K-3) or 25 (4-7) students per class, with a maximum of 30 (1-3) or 35 (4-7) (Kindergarten max is 24, or 29 with an aide)
    - **English grades 6 – 12:** division-wide average of 24 students per class



# K-3 Class Size Reduction Program Flexibility *Temporary or New Normal?*

- To address disparity, the K-3 Class Size Reduction Program was first funded in FY 1995 as targeted incentive funding to reduce class sizes in grades K-3 below the required SOQ standard of a 24:1 pupil-teacher ratio, particularly in schools having high concentrations of at-risk students.

| Free Lunch Eligibility By School | Grades K-3 School Ratio | Max. Individual K-3 Class |
|----------------------------------|-------------------------|---------------------------|
| 30% but less than 45%            | 19                      | 24                        |
| 45% but less than 55%            | 18                      | 23                        |
| 55% but less than 65%            | 17                      | 22                        |
| 65% but less than 70%            | 16                      | 21                        |
| 70% but less than 75%            | 15                      | 20                        |
| 75% or more                      | 14                      | 19                        |

- The 2012 budget included new flexibility, to accompany the biennial increase of \$47 million for the technical update (free lunch eligibility) to the costs of the program, allowing for both years that school divisions may be considered to meet the requirements if the ratio for each school is no more than three students higher than those otherwise required.



# **Class Size Is a Major Cost Factor**

## ***Implicit Trade Off is With Teacher Salary Levels...***

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- Although research has found positive benefits of smaller class sizes, especially at the earliest grades and for academically at-risk students, the research is not able to definitively answer whether and when spending on maintaining or reducing classes sizes is the most productive use of educational dollars, relative to other priorities.
  - Boiled down to its most fundamental level, the school cost “equation” is based on class sizes, teacher salaries, and everything else.
  - In fact, most Virginia school divisions have reported increased class sizes as one of their budget strategies.
- To illustrate the magnitude of the cost/savings of class size changes:
  - The Fordham survey example of going from a class of 22 students to 27 students (i.e. 5 more students) represents a 23 percent reduction in the number of teachers required.



# Online Learning's Opportunities and Challenges

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- Virtual learning and other computer-based learning -- that meets varying educational needs from credit recovery to accelerated programs -- represents a break with traditional notions of class size standards.
  - Pursuant to the 2010 legislation authorizing establishment of virtual school programs in Virginia, multi-division on-line providers are not bound by the same SOQ staffing ratios as bricks-and-mortar schools.
    - Department of Education criteria states that teachers must be provided at a reasonable ratio based on grade and subject, not to exceed 150 students per FTE teacher.
  - As another example, a key feature of Virginia's new Economics and Personal Finance on-line course and iBook is its ability to reach many more students with one teacher.
- Online learning is a rapidly growing area that presents both opportunities and challenges.
  - The Fordham survey found that Americans are not yet comfortable with the potential impact on such aspects as cheating and social skills.



# Virtual Schooling Raises Funding Policy Questions

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- Absent specific direction via statute, Virginia students who enroll in full-time virtual programs in another school division are provided SOQ and other state funding like any other student in the enrolling division.
  - Although the estimated FY 2012 net state cost difference was only about \$550,000 for fewer than 500 students statewide, based on experience in other states with funding that follows the child, demand could increase substantially, possibly in the ballpark of 25,000 students statewide.
- While legislation did not ultimately pass during the 2012 Session, SB 598 as introduced would have based state funding on the resident division's Composite Index, but 76 percent of the local share would be transferred to follow the student, up to a total state and local per pupil amount of \$6,500.
  - To the extent many of these students are “new” to public education, this would represent an additional state and local budget impact.
- The Substitute that passed the Senate provided the resident division with the first opportunity to enroll its students and directed the Department of education to establish statewide pricing schedules.



# Assessments and Efficiency Reviews

## *Relatively Small State Dollars, But Potential Cost Savings*

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- **SOLs:** SB 185 (2012), which passed the Senate and failed in the House, would have reduced the number of third grade SOLs from four to two, as recommended in JLARC's study of third grade reading.
  - If enacted, this bill would have generated an estimated annual state savings of about \$776,000, not even estimating local savings of costs and time.
- **School Efficiency Review Program:** Since 2004, 38 (out of 132) school divisions have undergone a voluntary review.
  - Net annual savings identified since 2004 total \$40 million, generating money that can be used instead “in the classroom.”
  - Limited funding was maintained in the Conference Report for FY 2013 and FY 2014 to address school divisions on the wait list.



## Other Ideas for Consideration in 2013 or Beyond

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- Candidates for possible cost savings that may merit further study include:
  - Statewide health plan for school divisions.
    - Estimated \$47 million to \$66 million in annual savings (2010 JLARC study on cooperative procurement).
    - DHRM would need funds to proceed with actuarial study (The 2011 Senate budget included \$100,000 for this purpose, as well as \$400,000 for grants for regional cooperative purchasing efforts, but neither were included in the Conference Report).
  - Consolidation of small districts/schools and more regional programs.
    - The State has a long-standing incentive policy to encourage school division consolidation by providing funding based on more favorable Composite Index for a period of 15 years as well as a five-year benefit for consolidation of small schools. Also, adjacent school divisions may appoint the same person as superintendent.
    - Virginia school divisions participate in regional programs in career and technical, gifted (Governor’s Schools), alternative, and special education.
  - Dual enrollment, where students simultaneously earn high school and community college credit.
    - Up to now, the state policy has been specifically not to “penalize” either the high schools’ or colleges’ state funding streams, thereby benefitting schools and colleges that participate.





## 2012 Interim Activities

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- Key activities *since* the 2012 Session concluded could have a budget impact and/or inform discussion of stretching school dollars:
  - The Governor hosted several summer education summits focused on:
    - Charter schools
    - Technology
    - STEM-H
    - Teachers
    - College lab schools
  - The Commission on Youth is studying educational characteristics of five high performing countries/regions (Shanghai, Finland, Canada, Singapore, Korea).
  - JLARC reported on Year Round Schools and is soon to report on Incentives for Local Regional Collaboration and Cost of Competing.
    - Found year round schools with additional instruction during intercessions can improve student performance, especially among black students.
  - The State Board of Education is considering re-affirming previous SOQ revision recommendations and also recommending a JLARC study.
  - The Education Subcommittee of Senate Finance also met three times on many of the topics already mentioned, as well as on Virginia's No Child Left Behind waiver and Petersburg Schools.



## Looking Ahead to the 2013 Session

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- The state's role in supporting teacher pay increases could be a key decision point in the 2013 budget.
- The Commonwealth often, but not always, provides state incentive funding for local teacher salary increases.
  - The last state-supported teacher salary incentive was for November 2007 (FY 2008).
    - Many school divisions last provided raises in FY 2009.
  - The adopted budget currently includes a 2.0 percent salary increase for state employees, including college faculty, in FY 2014 (effective July 10, 2013) and state-supported locals (effective August 1, 2013), contingent on there being no downward adjustment in the revenue forecast.
  - The state share of a 2.0 percent across-the-board increase in teacher (and other SOQ) salaries is roughly \$75 million per year.



# State Support for Local Teacher Pay Increases

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- Given the budget outlook and revenue uncertainty at this time, possible state alternatives for FY 2014 to the typical across-the-board approach could include:
  - Split between an across-the-board amount and a targeted approach.
  - Restore funding from one of the recent methodology changes, with local flexibility to use for salary increases or other purposes.
  - A bonus rather than an on-going increase.
  - Target starting salaries.
  - Targeted Performance Pay (evaluation of state pilot expected in Dec.).
  - Improve non-compensation aspects of teaching.
    - Target the Virginia Teaching Scholarship Loan (i.e. Grant) Program.
    - Elevate the profession in other ways.
- The Commission on Youth's study of leading countries is likely to put forth recommendations related to teacher recruitment, preparation, and compensation that could be studied as part of a longer term strategy looking ahead to the 2014-16 biennium and beyond.



## Conclusion and Recommendations

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- Per pupil state funding for public education remains below levels prior to the Great Recession. If Virginia school divisions are to continue to do more in order to meet the workforce needs of a global economy, the state should continue to support policies that allow localities to stretch each available dollar:
  - Continue to consider tradeoffs inherent in class size policies, thoughtful utilization of technology and assessments, and ways to encourage efficiency efforts.
  - Investigate the impact of a statewide health care plan, further maximizing economies of scale in divisions and schools, potential savings from dual enrollment, and targeted year round schooling.
  - Consider its short and long-term approach to teacher compensation, given both the importance of quality teachers to classroom outcomes and the commitment to address the liability in the retirement system.
  - Sustain work begun by the Commission on Youth looking at practices in high performing countries to inform state education policies.

