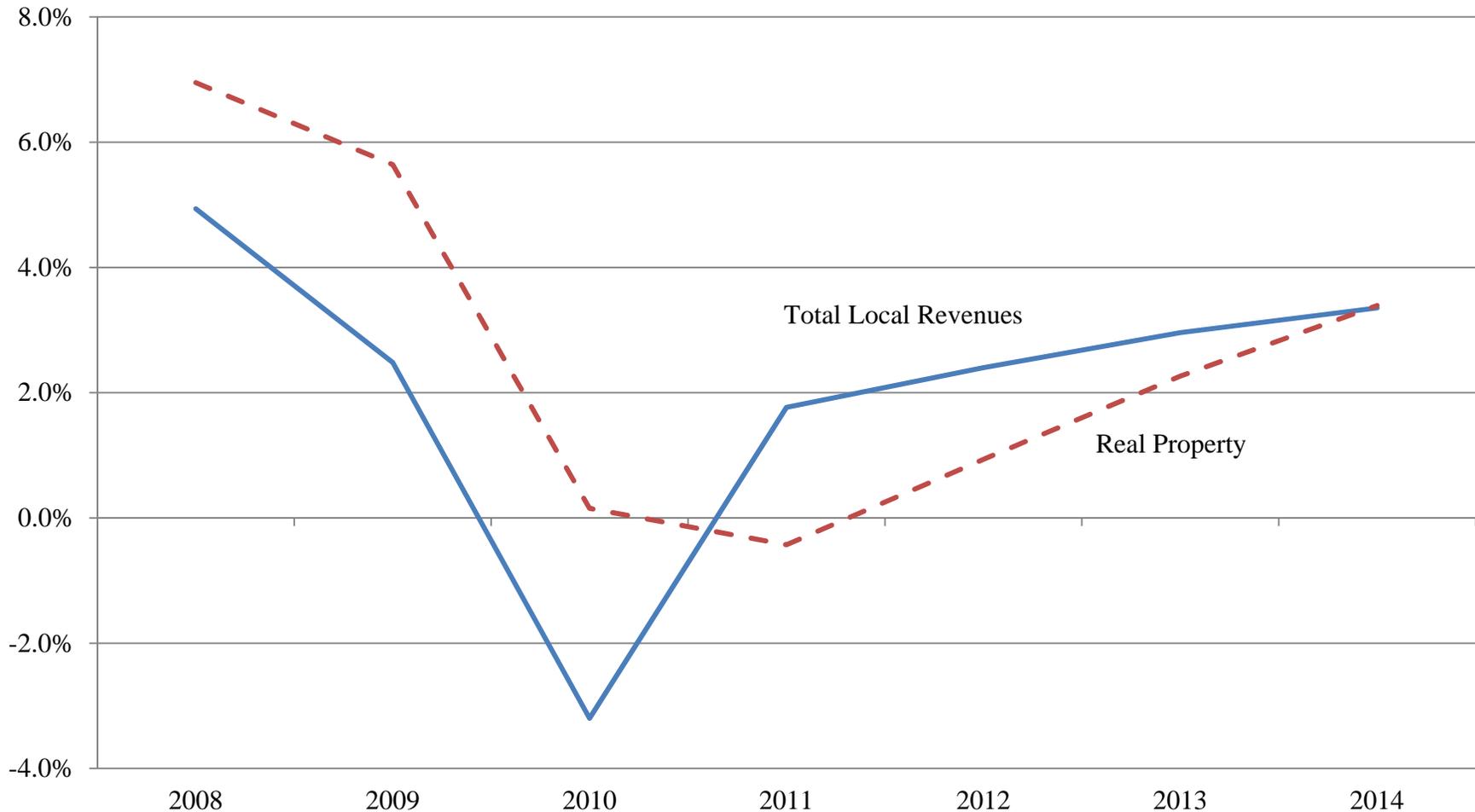


The Case for Increasing State K-12 Education Funding

Presentation to the
Urban Crescent Education Coalition

James J. Regimbal Jr.
Fiscal Analytics, Ltd.
December 11, 2015

Local Revenues Only Beginning to Recover from the Real Estate Recession



Sources: http://www.apa.virginia.gov/APA_Reports/LG_ComparativeReports.aspx

Note: real property tax rate changes from FY 13-15: 20 cities increased, 2 decreased; 57 counties increased, 7 decreased . 2

Since Recession, Local Resources Have Not Kept Pace with Inflation/Population Growth

FY 2009 - FY 2014 VA Locality Revenue Growth

| <u>Locally-Generated</u> | <u>State Sources</u> | <u>All Revenue</u> | <u>Growth in Population/Inflation</u> |
|--------------------------|----------------------|--------------------|---------------------------------------|
| 7.3% | 4.0% | 5.9% | 14.2% |

Sources: http://www.apa.virginia.gov/APA_Reports/LG_ComparativeReports.aspx
<https://finance.virginia.gov/media/3532/gacre-november-2014-fullnotebook.pdf>

Note: Inflation as measured by the CPI grew 10.5% from FY 2009-14

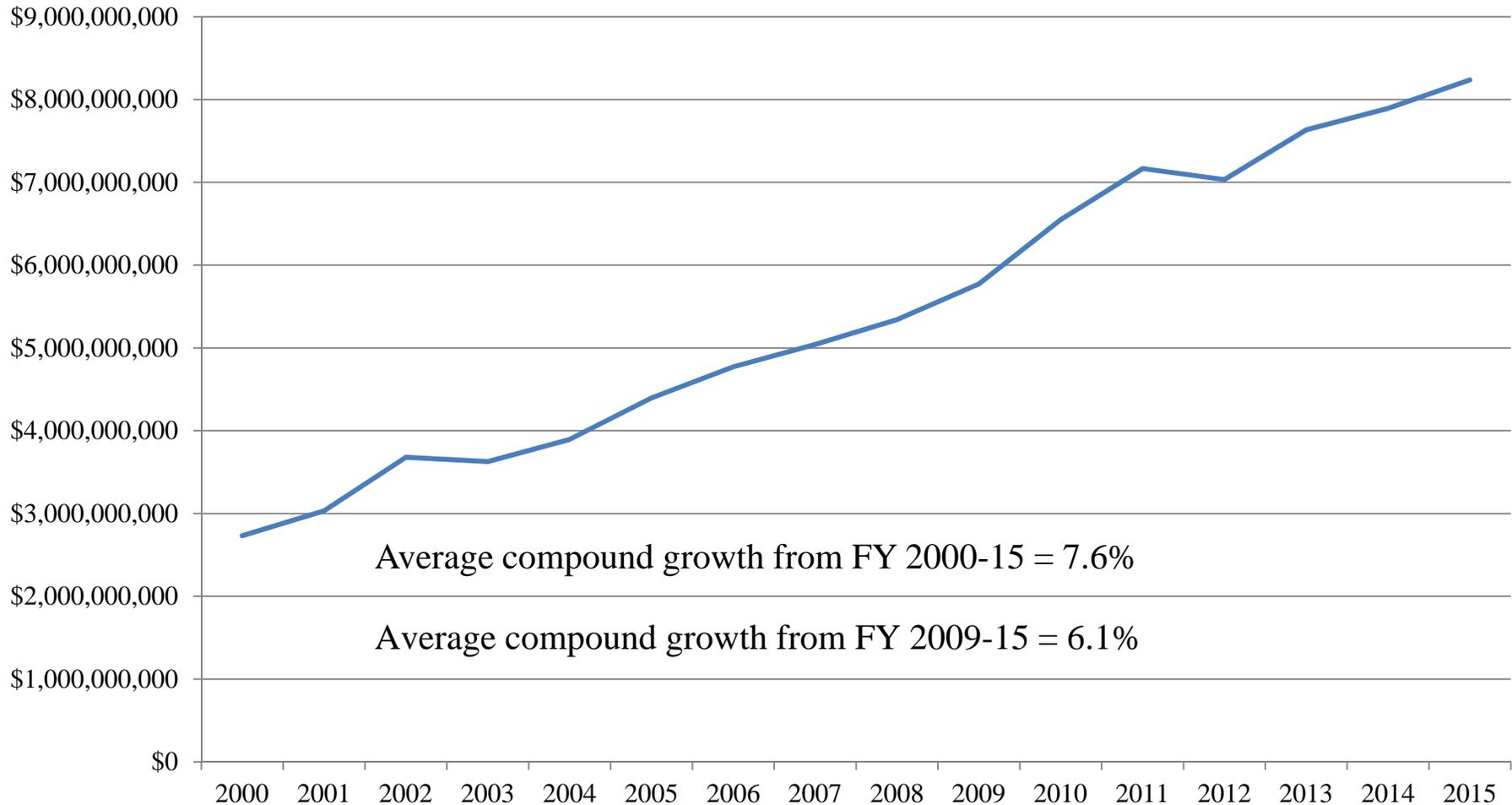
What Has Held Back State Aid for K-12 Education?

Slower State GF Revenue Growth

| <u>Years</u> | <u>Avg. GF Revenue Growth</u> |
|--------------|-------------------------------|
| 1990-1999 | 5.9% |
| 2000-2008 | 5.7% |
| 2009-2015 | 1.9% |

Source: <https://finance.virginia.gov/media/4394/rdb-jmc-presentation-with-appendix-8-27-15.pdf>

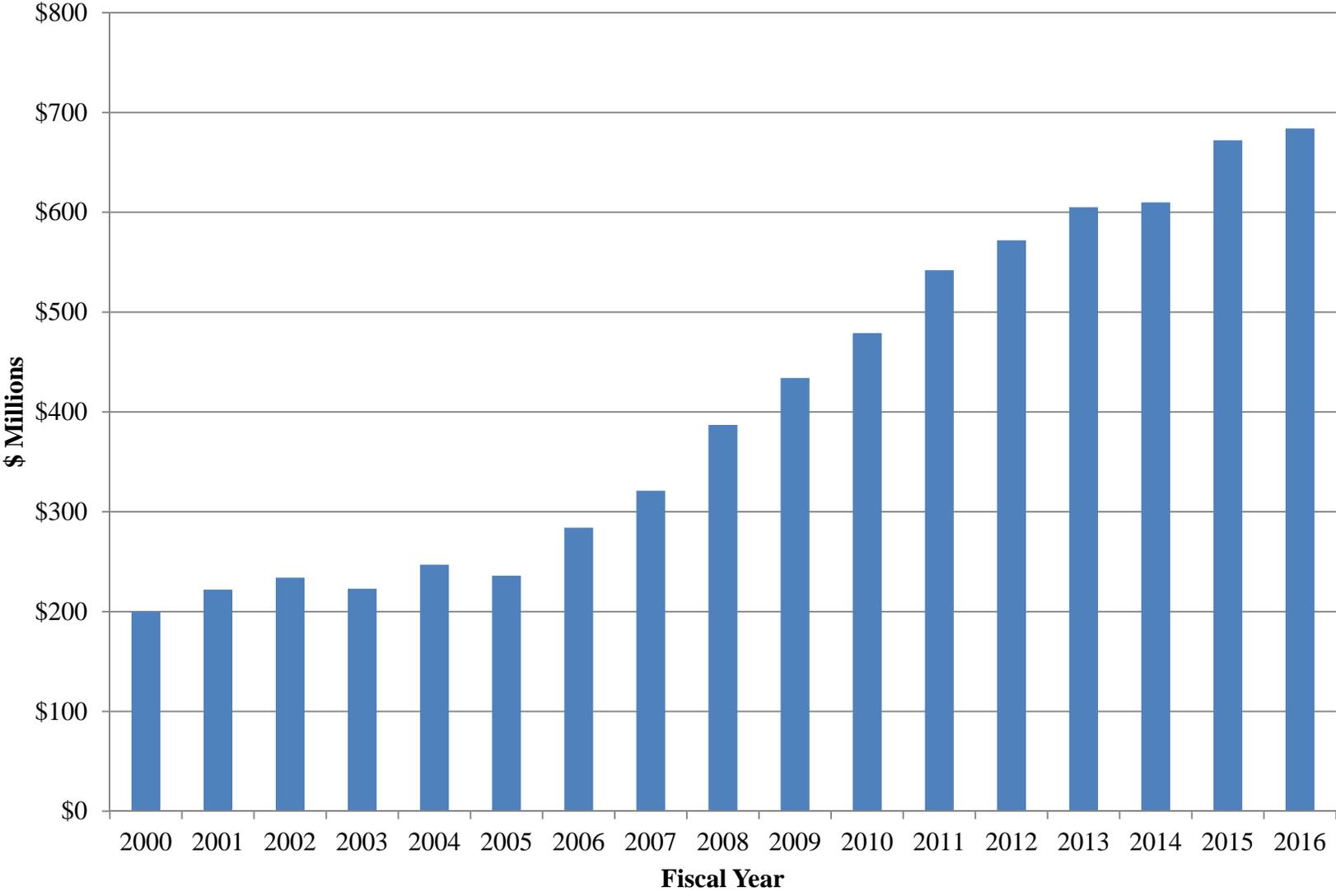
Medicaid Spending Outstripping GF Growth



Note: November 2015 re-forecast of Medicaid projects 9.3% growth in FY 16, 3.8% in FY 17, 2.9% in FY 18.

Source: DMAS Statistical Record, Medicaid expenditures as recorded in CARS

... As is Growing State GF Debt Service



Note: GF debt service expected to rise \$51.4m in FY 17 and \$56.8m in FY 18.

Tax Changes Annually Reduce State GF Revenues by \$2 Bil.

| | <u>Enacted/Amended</u> | <u>FY 2016</u> |
|---|------------------------|------------------|
| Car Tax Reimbursement | 1997, 2003 | \$950 |
| Impose lower 2.5% Sales Tax on Food | 2004 | \$556 |
| Age Subtraction (net of 2004 means testing) | 1994 and 2004 | \$292 |
| Low Income Tax Relief, increase filing thresholds, exemptions, etc. | 2000, 2004, and 2007 | \$203 |
| 1/3 Insurance Premiums to Transportation | 2007 | \$150 |
| Estate Tax Repeal | 2009 | \$140 |
| 0.1% sales tax diversion to transportation | 2013 | \$101 |
| Land Preservation Tax Credit | 2003 | \$100 |
| Historic Rehab Tax Credit | 1999 | \$76 |
| Corp. double weighting sales and single sales factor | 1999, 2009 | \$74 |
| Sales tax exemption for data centers | 2010/2011 | \$51 |
| Sales tax exemption for non-prescription drugs | 1990 | \$39 |
| Subtraction for military wages and unemployment benefits | 1999 | \$37 |
| Coalfield Employment Tax Credits | 2000 | \$34 |
| All Other Tax Reductions Since 1999 | 1990-2014 | <u>\$121</u> |
| State GF Tax Reductions since 1994 | | (\$2,924) |
| Add 1/2 percent sales tax on non-food items | 2004 | \$500 |
| Recordation Tax Increase (net of 3 cents to transp.) | 2004/2007 | \$150 |
| Tobacco Tax Increase (Va Health Care Fund) | 2004 | \$146 |
| Close 2 Corp. Tax Loopholes/Eliminate ST Exem for Pub. Svc. Co. | 2004 | \$143 |
| Sales Tax Presence in Virginia Amazon | 2012 | \$22 |
| Sales tax on satellite TV equipment | 2014 | <u>\$10</u> |
| State Tax Increases since 1994 | | \$971 |
| Net State Tax Change Since 1994 | | (\$1,953) |

Source: Senate Finance Committee Retreat, Revenue Outlook, Nov. 19, 2015

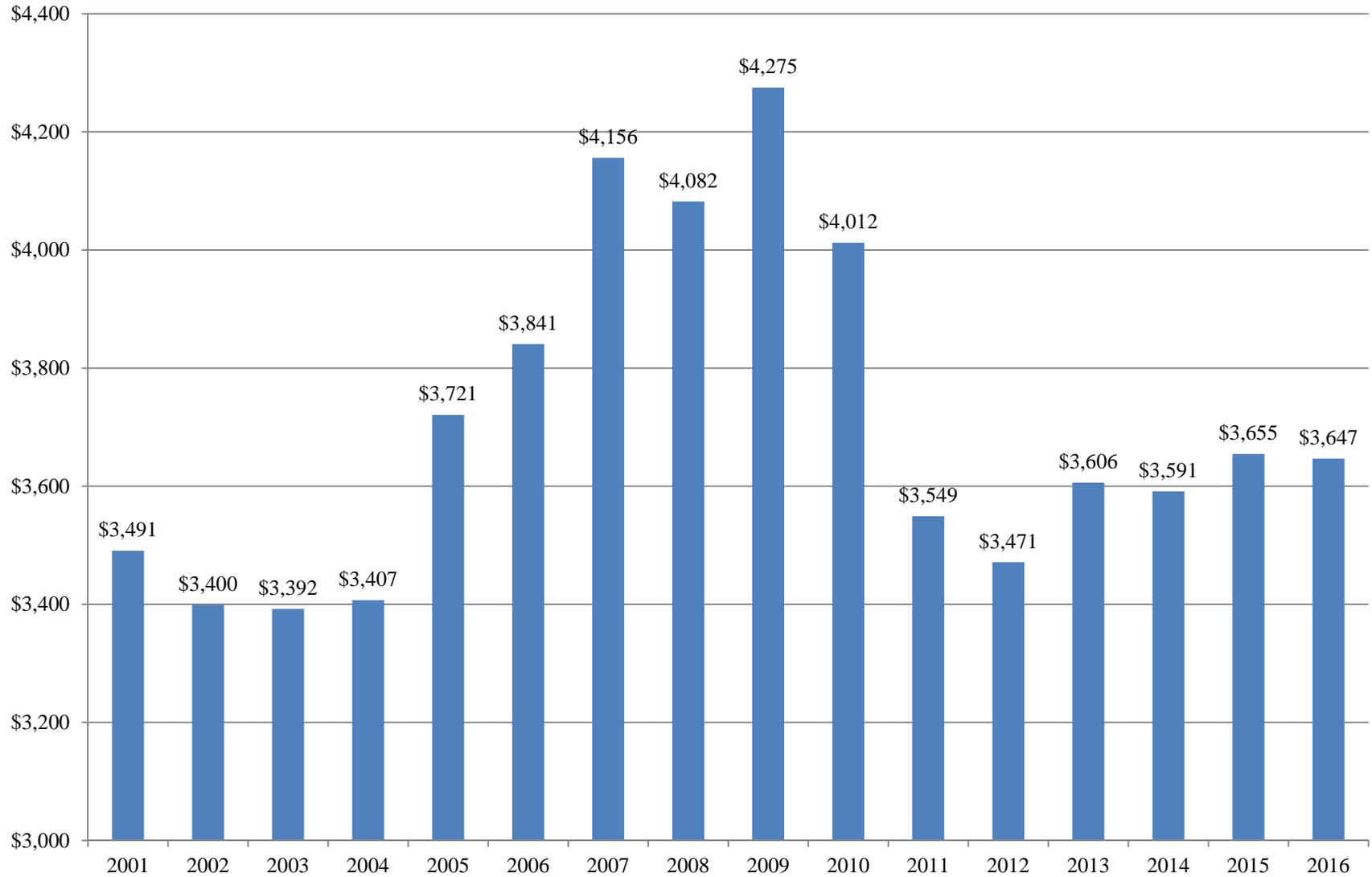
Leads to Declining State Aid to Localities as a Percent of the GF Budget

GF State Aid to Localities (\$ Mil.)

| | <u>FY 2009</u> | <u>FY 2012</u> | <u>FY 2014</u> | <u>FY 2015</u> | <u>FY 2016</u> |
|----------------------------------|----------------------|----------------------|-------------------|----------------------|-------------------|
| Direct Aid to K-12 | \$5,607.6 | \$4,903.1 | \$5,240.3 | \$5,405.4 | \$5,560.3 |
| <i>Percent of the GF</i> | 35.2% | 29.6% | 29.6% | 29.6% | 29.6% |
| Health and Human Services | 888.4 | 822.7 | 791.7 | 810.1 | 846.8 |
| Public Safety | 734.3 | 670.0 | 687.9 | 713.2 | 704.2 |
| Constitutional Officers | \$155.3 | \$143.8 | \$145.8 | \$152.4 | \$152.5 |
| Car Tax | 950.0 | 950.0 | 950.0 | 950.0 | 950.0 |
| Aid-to-Locality Reduction | <u>(50.0)</u> | <u>(60.0)</u> | <u>0.0</u> | <u>(30.0)</u> | <u>0.0</u> |
| Total Local GF Aid | \$8,285.6 | \$7,429.6 | \$7,815.7 | \$8,001.1 | \$8,213.7 |
| Total GF Appropriations | \$15,943.0 | \$16,556.9 | \$17,705.2 | \$18,240.2 | \$18,764.2 |
| <i>Percent of the GF</i> | 52.0% | 44.8% | 44.1% | 43.9% | 43.8% |

Source: Virginia Appropriation Acts

Real Inflation-Adjusted State K-12 Funding is Below 2005 (FY 2001 \$ Per Pupil - All State Appropriated Funds)



Sources: http://www.doe.virginia.gov/school_finance/budget/calc_tools/index.shtml
<https://finance.virginia.gov/media/3532/gacre-november-2014-fullnotebook.pdf>

Recent JLARC Report on K-12 Education: State K-12 Funding Declined

- JLARC stated that Virginia provided 7% less per K-12 student adjusted for inflation from FY 2005 to FY 2014 , with non-instructional spending reduced the most.
 - Health insurance spending increased 66%.
 - *From FY 2007-16 inflation-adjusted state K-12 funding has declined 13%.*
- More than 80% of divisions reported challenges in recruitment and retention. Teacher support services declining. High turnover may reduce instructional effectiveness.
- Divisions spent 30% less to operate and maintain facilities since 2005.

Source: <http://jlarc.virginia.gov/pdfs/reports/Rpt472.pdf>

State K-12 Policy Changes Adopted to Reduce Funding

| <u>Major K-12 Funding Policy Changes Since 2008 Session</u> | <u>Session</u> | <u>Biennial \$ in Mil.</u> |
|--|----------------|--------------------------------|
| Cap Funding for Support Positions | 2009 | (\$754) |
| Adjust Health Care Participation Rates | 2010 | (\$269) |
| Eliminate Equipment, Travel, Misc. Expenses From SOQ Calculation | 2010 | (\$244) |
| Eliminate School Construction Grants and Lottery Support for School Construction | 2009/10 | (\$122) |
| Eliminate Non-personal Inflation Update (not originally intended as permanent, <i>partially offset in 2012-14 biennium</i>) | 2012 | (\$109) |
| Reduce funding for K-3 class size program; use Kindergarten enrollment as proxy for four-year-olds for VPI; eliminate enrollment loss assistance | 2010/12 | (\$79) |
| Include \$0 Values in Linear Weighted Avg Calculation | 2010 | (\$79) |
| Eliminate COCA for support positions in NoVa | 2012/14 | (\$50) |
| Extend School Bus Replacement Cycle From 12 to 15 Yrs | 2010 | <u>(\$19)</u> |
| Total Major Policy Changes Since 2009 | | (\$1,725) |

The State Has Not Funded Virginia Board of Education Recommended Changes to the SOQ

| | <u>Year First Recommended</u> | <u>FY 2014 Est. \$ Mil</u> |
|--|--------------------------------------|-----------------------------------|
| A full-time principal for each elementary school | 2003 | \$8.0 |
| A full-time assistant principal for every 400 students in the school | 2003 | \$70.6 |
| One reading specialist for every 1,000 students in K-12 | 2003 | \$51.3 |
| One mathematics specialist for every 1,000 students in K-8 | 2006 | \$35.0 |
| A data manager-test coordinator for every 1,000 students in K-12 | 2006 | \$51.3 |
| Reducing speech-language pathologist caseloads from 68 to 60 | 2003 | <u>\$5.3</u> |
| Total Annual Unfunded BOE Recommended SOQ Changes | | \$221.5 |

State Standards of Quality Do Not Reflect True Costs for Local K-12 Divisions

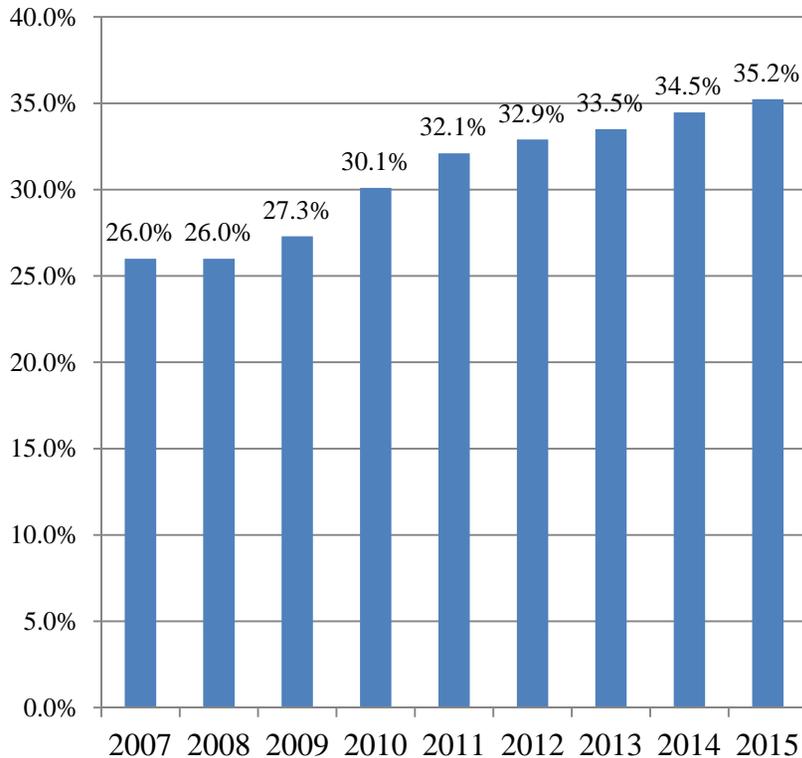
- Not all teachers and support positions are covered by the SOQ; The “linear weighted average” methodology underfunds actual salaries; real-time costs not reflected in re-benchmarking; support costs underfunded or no longer paid.
 - Only 67% of statewide K-12 positions are funded by the state.
 - Approximately 85% of all teachers are paid more (and two-thirds of school divisions) than SOQ funded salary levels.
 - Just raising SOQ teacher salaries to the national average and funding prevailing support costs requires an additional \$750 million GF/year.
- Localities on average spend about double, or \$3.6 bil. beyond state requirements to meet SOL and SOA requirements. All school divisions exceeded Required Local Effort (RLE) in FY 14.

| | |
|---------------------------------|----|
| Divisions up to 25% Above RLE | 10 |
| Divisions Exceeding 25% to 75% | 54 |
| Divisions Exceeding 76% to 100% | 26 |
| Divisions Exceeding 100% RLE | 45 |

More Difficult and Diverse Student Population to Educate

- 163,000 Special Ed Students (13%)
 - More At-Risk Students

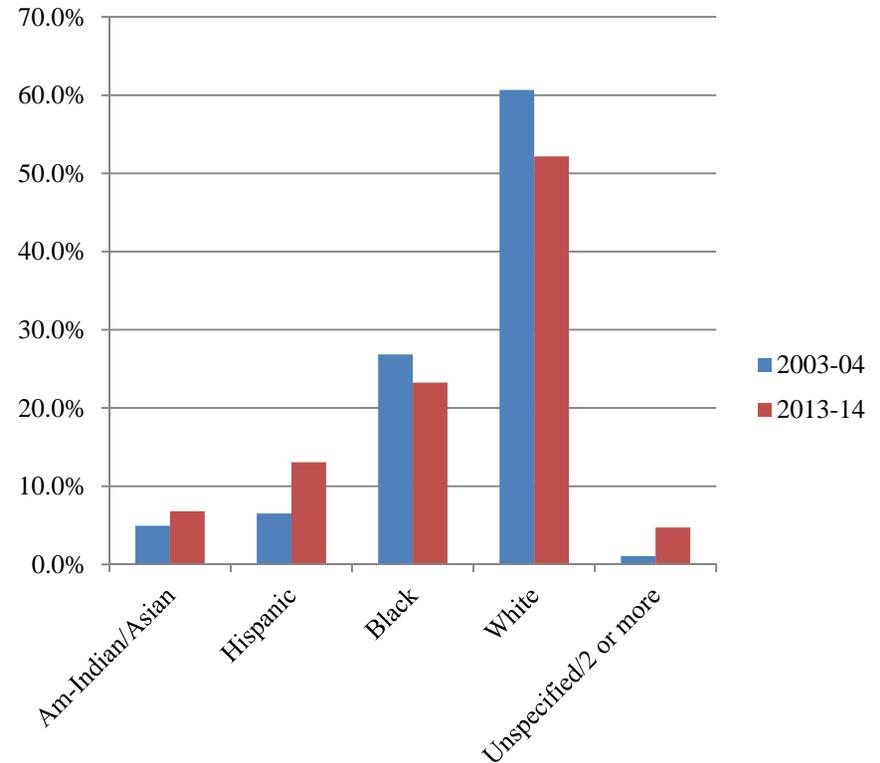
Percentage of Free Lunch Students in VA



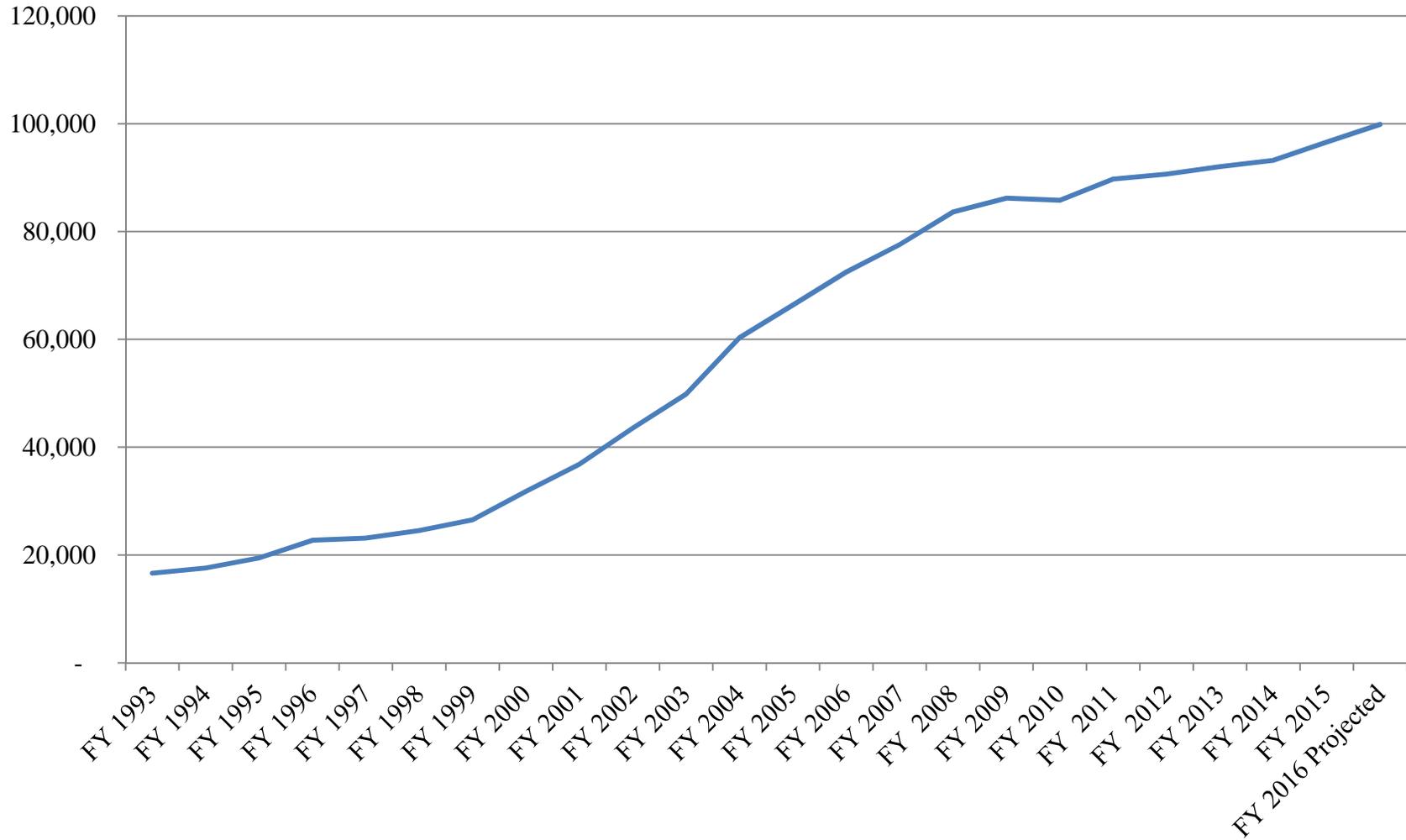
Source: Virginia Dept. of Education

- Changing Student Demographics

VA Public K-12 Student Population by Race



Rising Numbers of English as a Second Language Students (Currently 8% Statewide; 18% PD8)



Source: Virginia Dept. of Education

The Achievement Gap Persists

Over 20 Percent of All Schools Not Fully Accredited (2015-16)

| | |
|----------------------------------|------|
| Fully Accredited | 1414 |
| Conditionally Accredited (New) | 9 |
| Partially Accredited - Improving | 123 |
| Partially Accredited - Warned | 215 |
| Accreditation Denied | 13 |
| To Be Determined | 49 |

SOL Pass Rates (2014-15)

| | <u>English</u> | <u>Math</u> |
|-----------------------------|----------------|-------------|
| Asian | 90 | 93 |
| White | 86 | 85 |
| Hispanic | 71 | 73 |
| Black | 65 | 67 |
| Economically Disadvantaged | 66 | 68 |
| Limited English Proficiency | 61 | 67 |

Virginia Is Wealthy, Low Tax State ...With Comparatively Low Support for K-12

| | <u>2012 JLARC Ranking</u> | <u>2015 JLARC Ranking</u> |
|---|---------------------------|---------------------------|
| Per capita personal income | 8 | 10 |
| State and local <i>taxes</i> as a percentage of personal income | 43 | 45 |
| Per capita state taxes | 34 | 36 |
| Per capita local taxes | 13 | 15 |
| State Per Pupil Funding | 35 | 41 |
| State and Local Per Pupil Funding | 17 | 26 |
| Average Salary of Public School Teachers | 28 | 35 |

Source: Virginia Compared to Other States, JLARC, 2012, 2015 Editions

Options

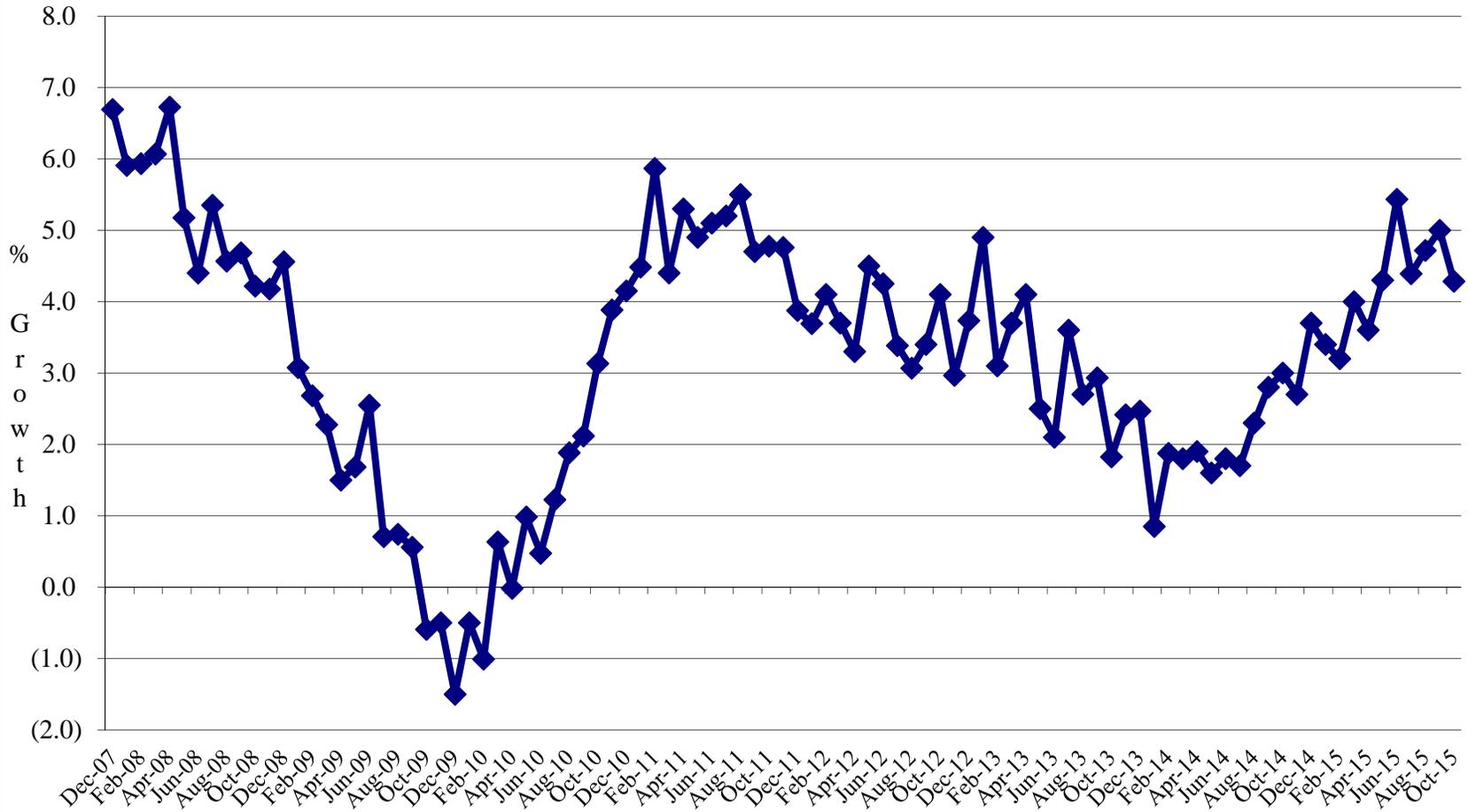
- As state GF revenues recover, prioritize restoring state K-12 funding.
 - Better recognize prevailing school division practices to meet SOL and SOA mandates.
 - Address low teacher salaries and turnover and provide incentives for attracting high quality teachers (esp. in hard to staff schools and subjects).
 - Direct more funding to school construction, equipment and technology tools for 21st century teaching.
 - Increase efforts to improve low-performing students, and provide more career and technical education options.
- Examine state tax preferences and compare cost/benefits to enhancing K-12 funding.
- Provide additional revenue options for localities.

Break

Should 2016-18 General Fund Growth Perform Better than Expected? Yes

- The good news: even with the Rainy Day Fund consuming all the \$550m FY 15 surplus, the revenue base going forward is higher.
 - 3-4% GF revenue growth forecast. Money Committees expect about \$3 bil. in 2016-18 GF resources above the base budget.
- Virginia's economy seems to be improving, even though still underperforming overall U.S. employment and income growth.
 - Income tax withholding (64% of GF) currently growing 4%.
 - Recent 2-year federal budget deal with defense spending increases helps Virginia.
 - DC area employment growth recovering (1.7% yr over yr Sept. growth, stronger professional/business services).

Improving Growth in Individual Income Tax Withholding 12 Mo. Moving Avg (% Growth)



2016-18 GF Budget Outlook from the Money Committees (\$ Mil.)

| | House Appropriations Committee | Senate Finance Committee |
|--|---|-------------------------------------|
| 2016-18 GF Base Budget | \$37,125 | \$37,120 |
| Total Resources (including transfers, balance forward from FY 16) | \$39,852 | \$40,221 |
| 2014-16 Mandatory/High Priority Spending | <u>\$1,941</u> | <u>\$1,881</u> |
| <i>Resources Left after Mandatory/HP</i> | <i>\$786</i> | <i>\$1,220</i> |

High Priority Spending Identified

2016-18 Mandatory/High Priority Budget Pressures (\$ Mil.)

| | <u>SFC</u> | <u>HAC</u> |
|---|------------------|------------------|
| Medicaid Utilization & Inflation | \$789.1 | \$789.1 |
| K-12 Rebenchmarking, teacher retirement | \$477.1 | \$551.4 |
| DoJ HHS Waivers, Redesign, Facility Closure, Compliance | \$135.3 | \$97.4 |
| State employee health ins., retirement, OPEB, VRS | \$125.8 | \$170.6 |
| Debt Service | \$108.2 | \$108.2 |
| DOC Culpeper Women's, inmate medical | \$63.7 | \$17.4 |
| State Police IT, VITA, Cardinal | \$45.1 | \$50.3 |
| CSA Utilization Increase | \$32.8 | \$32.8 |
| Higher Ed new facilities equipment | \$27.8 | Not listed |
| HHR Agency IT costs | \$21.8 | Not listed |
| Comp Bd Jail per Diems, sheriffs | \$21.5 | \$36.0 |
| DBHDS Geriatric Facilities | \$19.0 | \$16.6 |
| DSS Child Welfare Costs | \$14.0 | \$11.8 |
| Economic Dev. Tranlin incentive | Not listed | \$5.0 |
| Criminal Fund involuntary civil commitment | Not listed | \$4.8 |
| DEQ wastewater treatment | Not listed | <u>\$49.5</u> |
| Mandatory/High Priority Budget Pressures | \$1,881.2 | \$1,940.9 |

Examples of Competing Priorities

- State, State-Supported Employee, and Faculty Salaries
- Higher Education Enrollment Increases, Financial Aid
- Capital Outlay, Maintenance Reserves
- Economic Development/Research Initiatives
- Natural Resource Initiatives
- Public Safety Issues
- Accelerated Sales Tax Unwind, Tax Policy Changes
- Other State Agency Budget Requests