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Until there is an equality of financing, there can be no equality of quality.

Equity and Public Education in Virginia

Deborah A. Verstegen

School funding in Virginia has been a major interest of lawmakers, scholars and others since the earliest days of the Old Dominion.¹ The state's ultimate responsibility for public education was recognized as early as Thomas Jefferson's day; however, the specific authority to finance public schools didn't occur until nearly a century later. The Constitution of 1870 required the Superintendent of Public Instruction to develop a plan for a "uniform system of public schools." In 1902 the General Assembly was constitutionally directed to "establish and maintain an efficient system of public free schools." This responsibility was strengthened in 1971, "prompted perhaps in part by judicial responses to desegregation efforts and massive resistance."²

In the late 1980s, interest in school funding again heightened. This was due to growing dissatisfaction with the quality of schooling in America and the release of research³ documenting wide and growing inequalities among school districts in Virginia despite recent legislative restructuring intended to address these concerns.⁴ Subsequently, in January of 1990, as one of his first official actions as governor, L. Douglas Wilder established a Commission on Educational Opportunity for All Virginians and charged it with "advising the Governor and General Assembly on how the Commonwealth could further address and overcome differences in education programs in Virginia's public schools". The Commission submitted its final report in August 1991 which neither identified equal funding as a goal nor did it focus on measuring current fiscal disparities. However, it found widespread inadequacy, in that "all divisions regardless of their local wealth exceed[ed] the [state minimum] standards [Standards of Quality]...suggest[ing] that the divisions view the [SOQ] as too minimal to provide a quality foundation program."⁵ Recommendations included: (1) funding schools according to prevailing practices in school divisions and recognizing the costs of students with special needs including children in poverty, (2) changing the local ability-to-pay measure (the Local Composite Index) to more accurately reflect local fiscal capacity, (3) equalizing the sales tax, 1% of which is returned to localities as a flat grant based on school-aged population in public and private schools, and (4) increasing the maximum local share from 80% to 85%–90%. However, to date, none of these recommendations have been enacted.

Judicial Activity. At the same time, between 1991 and 1994 another stream of activity that propelled interest in school

finances emerged from the courts. A group of poor children and school districts challenged the constitutionality of the school aid system because it failed to furnish a "uniform system of public education which provides children throughout the Commonwealth with a substantially equal opportunity."

Two sections of the Virginia Constitution refer to education and were referenced in the court challenge: Article I, Section 15 (part of the Bill of Rights), and Article VIII, Article I, Section 15 states:

That free government rests, as does all progress upon the broadest possible diffusion of knowledge, and that the Commonwealth should avail itself of those talents which nature has sown so liberally among its people by assuring the opportunity for their fullest development by an effective system of education throughout the Commonwealth.

The Bill of Rights is buttressed by another section of the Virginia Constitution referring to the schools, commonly referred to as the education article. Under Article VIII, Section 1 and 2:

Section 1. Public schools of high quality to be maintained. The General Assembly shall provide for a system of free public elementary and secondary schools for all children of school age throughout the Commonwealth and shall seek to ensure that an educational program of high quality is established and continually maintained.

Section 2. Standards of quality; State and local support of public schools. Standards of quality for the several school divisions shall be determined and prescribed from time to time by the Board of Education, subject to revision only by the General Assembly.

The General Assembly shall determine the manner in which funds are to be provided for the cost of maintaining an educational program meeting the prescribed standards of quality, and shall provide for the apportionment of the cost of such program between the Commonwealth and the local units of government comprising such school divisions. Each unit of local government shall provide its portion of such cost by local taxes or from other available funds.

In challenging the state aid system plaintiffs cited a number of fiscal disparities that produced significant interdistrict differences and affected the quality of education that could be offered: (1) State and local funding for general education in Virginia is 2 1/2 times higher in some local school divisions than in others and this gap has increased 14% over two years. (2) Average classroom salaries are 39% higher in some school divisions than in others. (3) The ten wealthiest school divisions have an average instructional personnel to pupil ratio which is 24% higher than the ratio in the ten poorest school divisions, ranging from 81.8 per 1,000 to 66.2 per 1,000, respectively. (4) Spending for instructional materials is almost 12 times greater in certain school divisions than in others.

In 1994, after three years of litigation, the Virginia supreme court, without a trial on the facts of the case, ruled in *Reid Scott et al., vs. the Commonwealth*⁶ that Virginia's constitutional language meant that education was a fundamental right in Virginia; however, it found this did not require equal funding and upheld the disparate system stating:

"While the elimination of substantial disparity between school divisions may be a worthy goal it simply is not required by the Constitution. Consequently, any relief to which the students may be entitled must come from the General Assembly."⁷

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Nonetheless, the high court stopped short of placing its imprimatur on the disparate funding scheme and left the door open for future court challenges, should an adequacy issue be raised, stating that "...the Constitution guarantees only that the [state minimum] Standards of Quality be met" and the "students do not contend that the manner of funding prevents their schools from meeting the standards of quality."⁸

Legislative Issues. Although Virginia's finance system has recently been upheld by the state's high court, questions have been raised concerning the possibility of a legislative remedy aimed at greater equity and adequacy for all children. Since creation in the early 1970s the formula for disbursing state aid to schools has changed minimally, although there was a restructuring in 1988 when several categorical aids fully funded by the state were collapsed into the equalization grant—including special education, remedial education, vocational education, teacher retirement and transportation; and a "cost of competing" factor was implemented.⁹ Later, in 1994, an "equity package" was adopted in response to the court challenge. This provided add-on funding for some at-risk four year-olds, assistance for technology and aid for reduced class sizes in grades K-3. Despite these modest additions to the funding system, however, the major equalization grant-in-aid, the structure of the distribution system and the measurement of local wealth have remained unchanged over the past quarter century.

Virginia's Current School Funding System. Education is a federal interest, and a state responsibility that is managed locally. In Virginia, like other states, the constitution places the responsibility for the provision and governance of education on the state. Virginia is a relatively wealthy state, ranking 14th in the nation in terms of per capita income. Personal income taxes (13th) are also above the national average, as are property taxes. However, few of these resources reach children in schools and in classrooms across the Commonwealth. As a percent of total funding, state aid comprises only 35% of total school support compared to 46% nationally.¹⁰ Federal aid contributes 5%; this compares to 7% nationally. Local sources provide 60% of total aid; this compares to 47% nationally. Thus, Virginia ranks near the bottom in terms of state and federal aid for schools at 45th nationally; conversely it ranks high in local support ranking 5th across the country. Thus, the local property tax is the mainstay of Virginia's school funding system for elementary and secondary public schools.

The major sources of local revenue come from the real estate tax (48%), the tangible personal property tax (16%), the local sales tax (7%) and other miscellaneous taxes.¹¹ Because state aid is often used to equalize differences in local funding for the schools and to provide equal educational opportunities for all children, regardless of where they reside—and state aid is low—one would expect to see wide variations in school funds among Virginia's school districts conditioned on local wealth. This is supported by numerous research studies.¹²

Major State Equalization Grant. Education is provided in Virginia by 137 fiscally dependent local school divisions, that have boundaries coterminous with the cities, counties and towns they serve. The local school boards do not have taxing authority; in addition, there is no local tax specifically earmarked for public education and local governing bodies are responsible for approving the school budgets submitted by the local school boards.

Over the past six years, from 1989-90 to 1994-95, enrollment has grown nearly 8% and is currently 1,052 million. During this same period students receiving special education services increased nearly 28%, or 3.5 times faster than the ADM; students for whom English is a second language increased 42% or 5 times the ADM to over 20,000; and stu-

dents in poverty (measured by free and reduced price lunch count) increased to 31% of ADM. Total spending for schooling in the state from all sources (federal, state & local) increased 16% between 1990 and 1995—from \$5,636 to \$6,534. When adjusted for inflation, however, per pupil spending has fallen over this same time—from \$5,636 to \$5,596.¹³ Instructional spending accounted for 67% of total spending in 1994-95, with increases over the six year period varying among programs: regular instruction (16%), special education (37%), vocational education (6%), and gifted education (22%).

The state provided a total of over \$6.1 billion for schools over the 1996-98 biennium. However, state aid, as a percent of total budget expenditures, have fallen over time: from 18.1% in 1992 to 17.4% in 1994 and 17.0% in 1995.¹⁴ The Commonwealth of Virginia distributes these funds to localities through a minimum Foundation Program. Under this program, most state aid is distributed through a fiscal equalization grant that provides funding in inverse proportion to local ability-to-pay for education so that the total of state and local revenue is equal across the state up to a point, which is the state guaranteed amount of revenue for basic education. The state's share of funds is determined through a series of three steps: (1) a minimum per pupil expenditure for each school division is determined and guaranteed by the state. (2) The proceeds from one cent of the state 4.5 cent sales and use tax is deducted. It is returned to school districts as a flat grant based on total school-aged children. (3) A required local contribution, equivalent to a uniform tax rate, is charged to the locality and deducted from the remainder, and (4) the difference between the guaranteed amount and the required local contribution becomes the state responsibility.¹⁵ On average, the state pays for 55% of the foundation amount and localities pay 45%. Categorical programs are also provided by the state to address special categories of student needs and district costs—such as special, remedial and vocational education, and transportation—but no direct support is provided to pay for school facilities. Additionally, the state places no limit on the amount of funding that localities are permitted to raise in addition to the state minimum foundation program.

The Foundation Amount. The level of assistance guaranteed by the state, the foundation amount, is based on two calculations: a personnel cost and a support cost. The first component in the calculation, the personnel cost, is based on the state approved number of teachers paid at a "prevailing" salary level. There are 51 teachers per 1,000 students (ADM) approved by the state for basic education; occupational-vocational educational payments and special educational payments; and a minimum of 6/1000 for SOQ support. This creates a "floor" of 57/1000. Also approved are 1 teacher per 1,000 students for gifted education and 9/1000 for remedial education based on the number of students who score in the bottom national quartile of the Virginia State Assessment Program tests or who fail the state's literacy tests. These figures (and the resulting foundation amounts) vary somewhat according to the grade-level and division requirements for pupil-teacher ratios.¹⁶

Staffing estimates are multiplied times a state approved "prevailing" salary level. This sum is divided by the number of students (ADM) to determine the average SOQ cost per pupil.

A second step in calculating the foundation amount is determining support costs, which include all other components of school costs—such as salaries and fringe benefits for the superintendent and support personnel, a portion of transportation, nonpersonnel service costs, and professional development. This sum is divided by the number of pupils in a school system and added to the personnel cost to determine the state guaranteed per pupil amount.

Measure of Local Ability to Pay. The major state grant-in-aid to local school districts, an equalization grant, apportions

aid to local school districts to pay for SOQ costs based on a multifactor index of local ability-to-pay for education and is referred to as the Local Composite Index (LCI). It attempts to reflect the different sources of revenue available to localities and compares three local measures of wealth to statewide averages; and adjusts these indicators by student population and total population. The three measures of local wealth are: the property tax base including the true value¹⁷ of real estate and public service corporations; the taxable retail sales subject to the state general sales and use tax;¹⁸ and adjusted gross income, a proxy for a variety of other fees, charges and personal property taxes available to localities. These components are weighted as follows: property, 50%; income, 40%, and sales, 10%. The sum of 2/3 of the student population LCI (based on average daily membership(LCI)) and 1/3 of the population component is then multiplied by a local nominal share of the SOQ, which is 45%.

The LCI ranges from .1000 to .8000 as all indices above 80% are adjusted to 80%. As might be observed, the lower the LCI the lower a locality's fiscal capacity. An index of .1000 indicates that the local share of the Standards of Quality is 10% and the state's share is the balance or 90%; an index of .8000 indicates that the local share is 80% and the state share is 20%. The calculation is described in the Appropriations Act:

An index figure is computed for each locality. The composite index is the sum of 2/3 of the index of wealth per pupil in ADM (adjusted for half-day kindergarten programs) reported for the first seven (7) months of the school year and 1/3 the index of wealth per capita (population estimate); times the local nominal share of the costs of the Standards of Quality of 0.45. The indices of wealth are determined by combining the following constituent index elements with the indicated weighting: (1) true values of real estate and public service corporations, weighted 50%, (2) adjusted gross income, weighted 40%, and (3) sales weighted 10%. Each constituent index element for a locality is its sum per state average per ADM, or per capita, for the same element.

Cost of Competing. Since 1988, Virginia has designated Planning District Eight (Counties of Arlington, Fairfax, Loudon, and Prince William and Cities of Alexandria, Fairfax, Falls Church, Manassas and Manassas Park) for a special "cost adjustment" to reflect competitive salary levels and the long standing state practice of providing regional cost-of-competing differentials to classified state employees in northern Virginia.¹⁹ Currently total SOQ costs are adjusted upward by 9.83% for these localities.

Discussion. Virginia's school funding system is characterized by large inequalities and inadequacy. For example, according to data presented in the Virginia Education Association's Virginia's Educational Disparities²⁰, in 1994–95 more affluent localities in Virginia had a spending advantage of \$5,167 per pupil. The highest spending school district, Falls Church, averaged \$9,513 per pupil; the lowest spending, Poquoson and Hanover, spent \$4,315 and \$4,379 respectively. These differences are nontrivial. They amount to \$154,020 per classroom of 30 children; or \$6.9 million more to spend divisionwide for one year—\$90 million more over 13 years.

What do these dollars buy? More funding means more teachers, higher teacher salaries, smaller class sizes and better outcomes. In 1994–1995, for example, Falls Church purchased lower class sizes which averaged 91.5 teachers per 1,000 students compared to an average of 72 per 1,000 statewide. It ranked third in terms of class sizes statewide. Falls Church also bought more expensive teachers, paying an average of \$43,807 per teacher; it ranked second statewide in terms of teacher salaries. In terms of outcomes, Falls Church ranked second statewide in the number of graduates (95.2%)

continuing their education; and had one of the lowest drop-out rates in the Commonwealth—less than one half of one percent. It ranked 128th in terms of student drop-outs.

Several points should be made about Virginia's finance system that contribute to these disparities. First, disparities are increased when state aid fails to pay for the full cost of education. The state supports only the minimum, basic education but a quality education for all students and all schools is needed as numerous commissions, reports and studies have concluded. When localities pay for additional programs and services out of their own funds. This propels a substantial amount of unequalized local funding outside of the foundation program—and contributes to disparities in education financing due to variations in local wealth. The tax base varies 140 fold; as a result poor localities can tax high but still must spend low. For example, a one cent tax hike in Clifton Forge raises only \$9,600 but in Fairfax it raises \$7.6 million. In this scenario, there is no way that poor localities can tax themselves to excellence without additional support from the state.

Second, disparities are increased through inadequate state funding for Virginia's schools. In 1991 the Commission on Educational Opportunity for All Virginians found that "all divisions regardless of their local wealth currently exceed(ed) the state minimum standards suggesting that the divisions view the standards as too minimal". In 1994–95 the VDOE found that all localities exceeded the state minimums for the SOQ; 25 more than doubled the effort required by the Standards of Quality and 52 exceeded the requirement by more than 50%.²¹ This leads some to question the degree to which the SOQ is an appropriate standard against which to judge the adequacy of the resources available to the schools.²² It also should be noted that the prevailing salary level is less than both the average or median statewide salary and also has been criticized for driving down the true cost of education under the SOQ.

Third, disparities increase when requirements for schooling are not funded by the state. The state finance program supports operations; buildings and major maintenance and renovation costs are paid for exclusively out of local funds although the state provides loans and interest subsidies through The Literary Fund and the Virginia Public School Bonding Authority.²³ About half of Virginia's schools use trailers as temporary classrooms; almost half of Virginia's schools are over 30 years old; an estimated 68% of the schools need major renovations or replacement; and Virginia's two lending programs have both been impacted by transfers. Unmet need is estimated at \$8 billion over the next five years.

Fourth, disparities are increased through funding that rewards only wealthy localities through such measures as the "cost of competing" factor. Questions include: why only one part of the state is receiving a special cost adjustment when areas such as Hampton Roads and Richmond also register higher costs on state studies; and whether the adjustment reflects "the high cost of living or the cost of living high", in that the wealthiest localities in the state are the sole beneficiaries.

Fifth, disparities are increased through the use of minimum aid provisions and flat grants. These provide assistance without regard to local ability-to-pay for education. Currently the state aid system provides a uniform per pupil grant to school districts from sales tax revenues without regard to local ability-to-pay for education, based on the number of school-aged children; this acts to offset the equalizing effects of the foundation program.

Sixth, disparities are increased when local ability-to-pay is not measured accurately. Previous methods of calculating local wealth relied solely on real property values. The current index was developed by the Governor's 1972–1973 Task Force on Financing the Standards of Quality and remained largely unchanged over the past 2 1/2 decades. Recent attention has focused on variations among local revenue sources or local

needs for services across the state that are not reflected in the fixed weights and the artificial ceiling imposed on the index of 0.8000, both of which erode the overall purpose of the index as a measure of local ability-to-pay for education.²⁴ Wealthy localities benefit through provisions that artificially reduce their local ability to pay for education to 80%; this provides a flat grant of 20% which favors revenue-rich school districts at the expense of revenue poor localities. If the state wishes to assure that all school districts receive at least 20% of equalized accounts then all values of local wealth (LCI) should be recalibrated—that is, lowered proportionally until the highest value stands at .8.

In sum, to offset the differences in school funding generated by local ability and spending on education, new methods of distribution are needed but little can be accomplished without considerably more state funds.²⁵ As the Wyoming court put it, "Until there is an equality of financing there can be no equality of quality."

Endnotes

1. Early history is drawn from: Virginia Division of Legislative Services (n.d.). *A Legislators Guide to Public Education in Virginia*. Richmond, VA: Virginia State Capitol, mimeo.
2. A.E. Dick Howard (1974) *Commentaries on the Constitution of Virginia*, p. 880–884, in Virginia Division of Legislative Services (n.d.). *A Legislators Guide to Public Education in Virginia*. Richmond, VA: Virginia State Capitol.
3. Versteegen, D. A. & Salmon, R. G. (1989). The Conceptualization and Measurement of Equity in School Finance in Virginia. *Journal of Education Finance*, 15(2), 205–228. Versteegen, D. A., (1990). *Closing the Gap? An Equity Analysis of Virginia's Education Finance Reform*. Richmond: Virginia Education Association, pp. 1–26. Versteegen, D. A. & Salmon, R. G. (1991). *Closing the Gap? An Update on School Finance Equity in Virginia*. Richmond, VA: The Virginia Education Association, pp. 1–19.
4. Versteegen, D. A. & Salmon, R. G. (1989). Virginia Education Finance Reform: Have Excellence and Equity Been Achieved? *Journal of Education Finance*, 14(2), 200–220.
5. Governor's Commission on Educational Opportunity for All Virginians. *Final Report*. August 1991, p.1. 5.
6. *Reid Scott et al., v. the Commonwealth of Virginia* [cite]
7. See, for example, Versteegen, D. A. (1992). Keeping Track: School Finance Litigation in Virginia. (pp. 79–85). In Westbrook, K. C., Ed., *State of the States '92: Bridging Troubled Finance Waters*. Proceedings of the Fiscal Issues, Policy and Education Finance Special Interest Group of the American Education Research Association; Versteegen, D. A. & Salmon, R. G. (1995). Issues of Choice and Equity in Virginia. (pp. 183–189). In Edlefsen, C., Ed., *The State of School Finance Policy Issues, 1995*. Ohio State University: Policy Research for Ohio-Based Education.
8. Versteegen, D. A. (1994). The New Wave of School Finance Litigation. *Phi Delta Kappan*, 76(3), 243–250.
9. For a discussion, see: Versteegen, D. A. & Salmon, R. G. (1989). Virginia Education Finance Reform: Have Excellence and Equity Been Achieved? *Journal of Education Finance*, 14(2), 200–220.
10. Data are for 1994 and are drawn from: National Education Association (1995). *Estimates of School Statistics*. New Haven: National Education Association.
11. Rickman, J.B. (1995). Virginia. (pp. 621–632). In Gold, S. ed., *Public School Finance Programs in the United States and Canada*. p. 621.
12. Versteegen, D. A. (1996). Concepts and Measures of Fiscal Inequality: A New Approach and Effects for Five States. *Journal of Education Finance*, 22(2), 145–160.
13. Versteegen, D. A. & Salmon, R. G. (1991). Assessing Equity in Virginia School Finance: Cross-Time Comparisons. *Journal of Education Finance*, 16(4), 417–431. Versteegen, D. A. & Salmon, R. G. (1989). The Conceptualization and Measurement of Equity in School Finance in Virginia. *Journal of Education Finance*, 15(2), 205–228.
14. Virginia Department of Education (1996). *Spending on Public Education*. Richmond, VA: VDOE, p. 4.
15. National Association of State Budget Officers (1996). *State Expenditure Report, 1996*. Washington, D.C.: NASBO.
16. Salmon, R. G. *Virginia School Finance: A Manual for Understanding the Virginia System for Financing Public Schools*. (1990–91). Blacksburg, VA.: Virginia Technological Institution and State University, p. 1.
17. Licensed instructional personnel shall be assigned by each school board in a manner that produces division-wide ratios of students in average daily membership to full-time equivalent teaching positions, excluding special education teachers, principals, assistant principals, counselors and librarians that are not greater than the following ratios: (i) twenty-five to one in kindergarten with no class being larger than thirty students; if the average daily membership in any kindergarten class exceeds twenty-five pupils, a full-time teacher's aide shall be assigned to the class; (ii) twenty-four to one in grade one with no class being larger than thirty students; (iii) twenty-five to one in grades two and three with no class being larger than thirty students; (iv) twenty-five to one in grades four through six with no class being larger than thirty-five students; (v) twenty-four to one in English classes in grades six through twelve. In addition, instructional personnel shall be assigned by each school board in a manner that produces schoolwide ratios of students in average daily memberships to full-time equivalent teaching positions of twenty-five to one in middle schools and high schools. (Virginia Department of Education (July 1, 1992). *Standards of Quality for Public Schools in Virginia*. Richmond, VA: VDOE, Standard 1 (G).)
18. True value is the full market value.
19. Localities are permitted to raise a 1% option sales tax—the revenue from this remains with the city or county; in addition, as discussed, 1 cent of the sales tax is dedicated to public schools.
20. See, Joint Legislative Audit and Review Commission (1996). *Technical Report: The Cost of Competing in the Standards of Quality*, Senate Document 8. Richmond, VA: State Capitol.
21. Virginia Education Association (October 1996). *Virginia's Educational Disparities*. Richmond, VA: VEA.
22. Virginia Department of Education (November 1996). *Spending in Public Education 1989–90 to 1994–95*. Richmond, VA: VDOE, mimeo.
23. cf., McDowell, George, Elias, Carlos & Driscoll, P. (1992). *Paying for Schooling in Virginia: A Citizen's Guide to School Finance*. Blacksburg, VA: Virginia's Rural Economic Analysis Program, Virginia Tech, p. 10.
24. Versteegen, D. A. (1988). Building for the Future: Capital Outlay Financing in Virginia's Elementary and Secondary Education Sector. *Journal of Education Finance*, 13(4), 429–435.
25. cf., McDowell, George, Elias, Carlos & Driscoll, P. (1992). *Paying for Schooling in Virginia*.
26. McDowell, Elias, & Driscoll, "Paying for Schooling."