

Good afternoon, it is a pleasure to be here to talk with you about a subject that I feel passionately about: How good schools **really** are a community's most powerful economic development engine. Of course, this is preaching to the choir.



As school finance professionals, you live this reality every day. If you work in a high performing school system, you know intuitively your good schools are your locality's goose that lays the golden eggs. On the flip side, if your school system is struggling with achievement and/or infrastructure challenges, you have most likely heard your city officials and citizens complain that your schools are hurting their businesses and lowering property values.

These dialogues are as old as politics itself. For the most part, school systems' responding arguments in funding debates have been largely traditional and anecdotal. When we stand in front of our city and town councils, boards of supervisors and state legislatures, we may be armed with hard data about our schools' needs, but when it comes to proving their worth, we result to tired clichés and obsequious generalities - like "Our fine schools are the reason people want to move to our city" or "We need additional funding because children are our future..." The problem with this approach is our funding partners have heard all these claims countless times so our passionate protests are merely "yada, yada, yada" to them.

Switching the Paradigm

- Schools portrayed as consumers of money
- Competing with city leadership for dollars
- Taking away our hard-fought savings

That's why Virginia Beach City Public Schools sought to strategically switch a paradigm that so many of our city officials and even some citizens have held which viewed schools through the lens of a neighborhood service such as trash collection or sewer services, rather than seeing them for what they really are: a public service that drives or inhibits economic development. As Virginia Beach's superintendent, I grew tired of hearing criticism that portrayed our schools as consumers of dollars. I became convinced that for every dollar we spent, there was more than a dollar accrued. I wanted some proof and the need for that proof was heightened over recent years in part because of the economic downturn and in part because City Council was getting more tight-fisted. They had – and have—other high-dollar projects in their sights, and since K-12 education is the city's largest expenditure, Council members viewed us as competition for dollars.

The infographic is set against a dark brown background with a lighter brown rectangular area on the left. The title 'The Battle in City Hall' is at the top left. Below it, two lines of text show financial losses: 'From 2011-2012: -\$23.7 million' and 'From 2010-2013: -\$41.4 million'. On the right, text states 'All 11 Virginia Beach high schools ranked among the nation's best by The Washington Post'. A faint image of a globe is visible in the bottom right corner of the infographic.

The Battle in City Hall

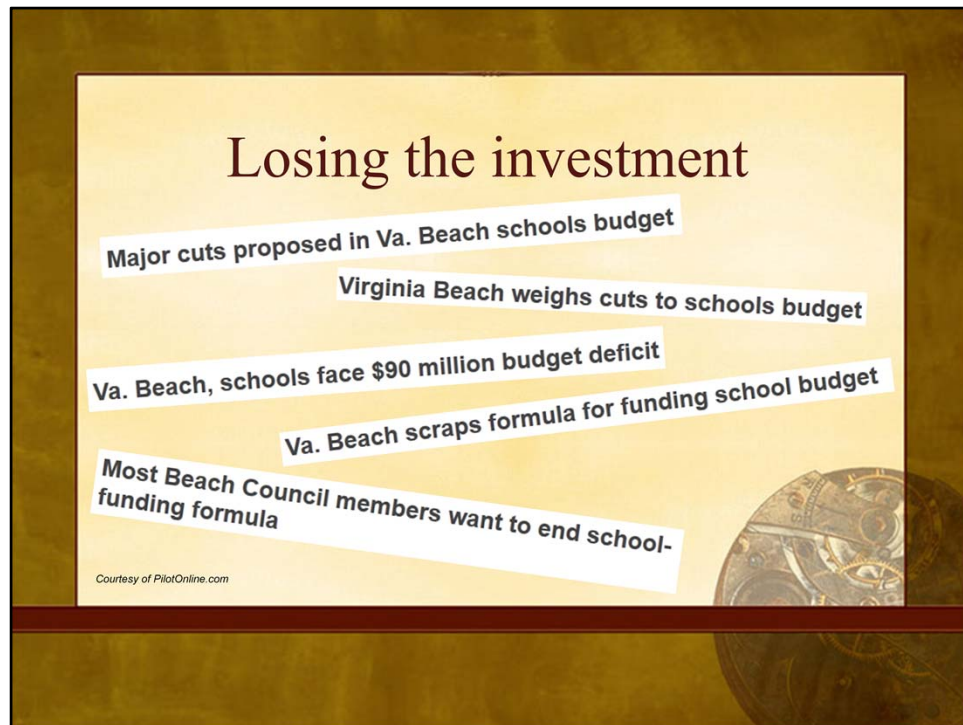
From 2011-2012:
-\$23.7 million

From 2010-2013:
-\$41.4 million

All 11 Virginia Beach high schools ranked among the nation's best by *The Washington Post*

You've all heard the old saying "no good deed goes unpunished." Well - Virginia Beach City Public Schools is the poster child for the truth behind that statement. In recent years, we have streamlined expenditures so we could hold monies in reserve for those hard times. We built reserve funds through strategies such as closing a school, ending five year-round school programs, closing a costly after-school program, cutting central office positions and so on. Our reward? For fiscal year 2011-12, the City Council voted to take \$23.7 million in *our* school funds to underwrite a 2.5 percent raise for *their* employees. In fact, over a three-year period, beginning in 2009-10, the city took \$41.4 million from school reserve and reversion funds. They can do this because Virginia school boards have no taxing authority and are fiscally dependent on their local governments. We can't, by law, hold a reserve fund so that money has to be held for us by the city. In other words, Virginia law requires us to put our chickens in the fox's henhouse.

Virginia Beach is a high performing school system that has delivered many successes throughout the years. Recently *The Washington Post's High School Challenge* index ranked all 11 of our high schools among the nation's best.



Candidly, we've been taken for granted by city leadership and others in the community. "Trim some dollars here, trim some dollars there and the schools will still perform" has been the prevailing attitude. I'm here to tell you that it **does** not, **cannot** and **should not** work that way. Unfortunately, the members of City Council almost learned that lesson the hard way. In the spring of 2011, during the budget adoption process, they eliminated a longstanding revenue sharing formula between the city and the schools. This was a major concern. The revenue sharing formula provided us with the ability to plan ahead because we knew early in the prior fiscal year what revenues we would be dealing with the next fiscal year. It also set a floor, if you will, below which revenues couldn't be lowered without Council action. Not having a revenue sharing formula made the School Board and administration's jobs hard. We were nervous and rightly so. Now revenues could go as low as Council wanted them to go.

That cavalier attitude and unilateral action were motivating to me. Virginia Beach Schools needed to move beyond a laundry list of accomplishments and emotional anecdotes to demonstrate our value. The times called for hard evidence.

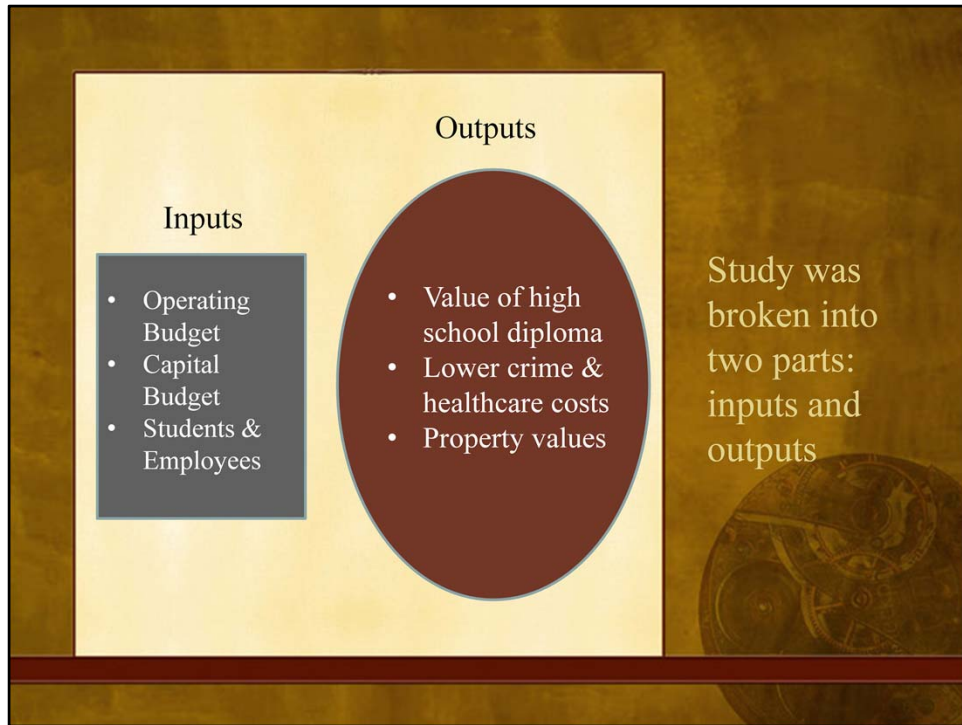
Dr. Michael Walden



Courtesy of North Carolina State University

- Renowned economist for the State of North Carolina
- Completed Economic Impact studies for NC State and University of North Carolina
- Recipient of the 2010 University of North Carolina Board of Governors Award for Excellence in Public Service

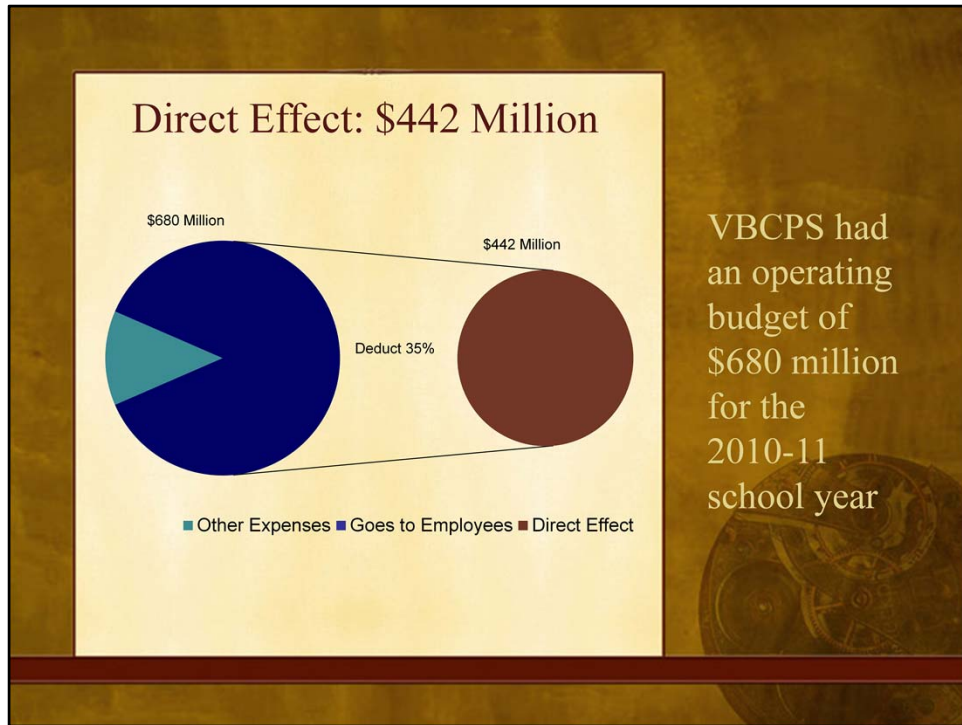
So, I set about finding an economist who could quantify Virginia Beach City Public Schools' impact on the local economy. I thought surely some school system somewhere had done this before. But believe it or not, I couldn't find one. In my search to find an economist, my staff and I talked to a number of universities. Long story short, we found Dr. Michael Walden of North Carolina State University. Dr. Walden is a renowned economist in North Carolina. He has done economic impact studies for both NC State and the University of North Carolina. So, we retained him and he produced a study that was presented to our School Board in June 2011.



So what did the study tell us?

We found that the intrinsic gut feeling of every educational professional was - and forgive the analogy - right on the money.

Dr. Walden divided the study into two parts. In the first phase he looked at the input side of Virginia Beach City Public Schools. Those inputs being our operating budget, the capital budget, the number of students we serve and the number of people we employ. From here, he calculated the return on every single dollar that the school system spent. The second part of the study concentrated on outputs. He divided those into three categories: 1) the economic value of graduating with a high school diploma; 2) the public funds saved by a community that has a lower crime rate and a lesser reliance on public health and social services; and 3) the effect of a good school system on property values.



Let's look at the inputs first. At the time of the study, the annual budget for our school division was \$680 million. About 85 percent of that budget went directly to employee salaries and benefits, which means the vast majority of those funds could be recycled back into local communities through our employees' spending. That said, Dr. Walden had to subtract about 35 percent of our total budget to calculate such spending since federal and state taxes, online sales, insurance premiums and mortgage payments to out-of-region lenders would not be recycled into our local economy. We saw that the direct effect - the money that goes to the employees - totaled \$442 million.

Increased Regional Spending



- Every \$1 we spent resulted in \$1.53 in regional spending
- Every one job in our division resulted in the creation of .64 jobs in the region

However, that is just the baseline of the calculations.

Dr. Walden then incorporated the indirect and induced effects of those funds by acknowledging that the people we support, hire and buy from also use that money to buy groceries, go out to eat and shop locally.

In total, according to the study's findings, the \$442 million we spent directly on our people and our vendors resulted in a total regional effect of \$675.3 million. In other words, for every \$1 we kept in the region, \$1.53 in regional spending was generated.

Virginia Beach City Public Schools is a major employer in Hampton Roads. At the time of this study, we were responsible for 10,484 full-time jobs. Our employees have the need for many services which in and of itself helps create other jobs in the community. Dr. Walden was able to calculate that the indirect effect of our operations – our vendors and outside services – employed 2,516 people. Finally, the induced effect – all that local shopping our employees and our contracted folks do – employed another 4,237 people, which means Virginia Beach Schools supported a total of 17,237 jobs.

In other words, every one job in our division resulted in the creation of .64 jobs in the region.

Capital Budget Pays Off



Every **\$1** of the calibrated capital budget resulted in **\$1.55** in total regional spending

VBCPS spent \$271.9 million for capital projects between 2007-2011

The report also found that the school system's capital budget had wide impacts across multiple economic sectors in the region. VBCPS spent \$271.9 million for capital projects completed between 2007-2011. As with the operating budget Dr. Walden had to account for "leakage." Funds used for land acquisition have no economic impact because they simply represent payment for transfer of ownership and some vendors are out-of-the region vendors. If you subtract those, the direct capital spending retained in the region over five years was \$232.8 million. From there, he calculated the spending impact of the five-year capital budget at more than \$360 million and 2,927 jobs. This means that every \$1 of the calibrated capital budget resulted in \$1.55 of total regional spending. Also, every \$1 million of capital spending was associated with 12.6 jobs in the region.

Outputs: The returns on a good education



These are the varied benefits derived from educating students

These are considered our inputs – the economic effects of our spending. Yet, what I would classify as some of the more surprising and enlightening data came from our outputs – or the benefits derived from educating our students.

Determining Human Capital



- High school graduates earn \$9,000 more annually than high school dropouts
- Data indicate graduates from VBCPS would collectively see more than \$800 million in lifetime earnings

We all know school systems that successfully educate their students and prepare them for higher education or employment opportunities pump benefits back into the economy. In Virginia Beach, we calculated the value of this human capital assuming an average work life and applying the expected annual increase in earnings between a high school graduate and a high school dropout to the number of VBCPS graduates. This formula was applied to the five graduating classes between 2006-2010. A work life of 47 years was assumed. The data showed that high school graduates were earning approximately \$9,000 more a year than high school drop outs. The data further indicated that the students that graduated in this time frame would collectively realize an \$800-900 million increase in lifetime earnings due to earning a high school diploma.

Benefits of Higher Education

- Associate Degree holders earn \$10,000 more a year than high school graduates; college graduates \$22,000 more
- Value of VBCPS students' increased probability of completing college is \$22 million

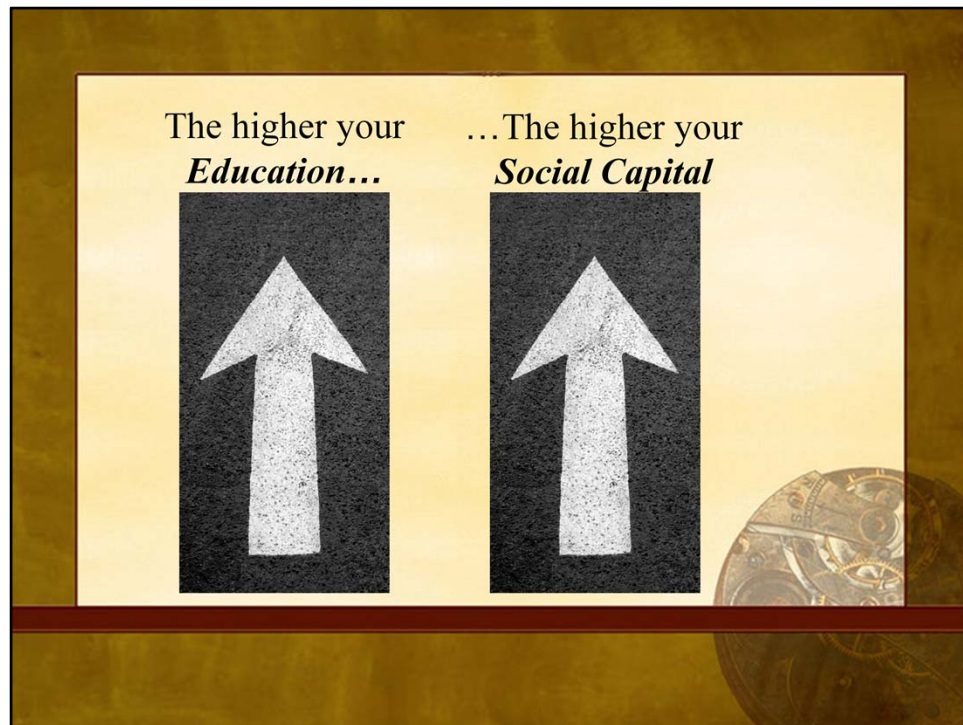


In addition, Dr. Walden projected associate degree holders would earn \$10,000 more a year than high school graduates and college graduates \$22,000 more . Sixty percent of our graduates, over the five years of the study, entered college. The value of this increased probability of completing college was estimated at an aggregate value of \$22 million for those five graduating classes.




Local spending generates local economic activity, which increases local property values

We are creating well-educated and higher-paid graduates who return to use that money in real estate and spending right back at home. Local spending generates local economic activity, which increases local property values.




There were many “a-ha” moments that resulted from this study. One of them was all about cost avoidance. If you have a solid education, and if you are gainfully employed, working for a good living – you are deemed to have high social capital – or strong characteristics that have wider public implications. People with high social capital are more likely to vote, make healthy lifestyle choices and are less likely to engage in criminal activity.

And, wouldn't you know that adds up too. Since healthy and law-abiding citizens reduce costs for the government, our economist factored those in.



Reduced
spending on
crime has
saved
\$178 million -
\$190 million



Our study referenced a report from UCLA that showed for every additional high school graduate, annual spending on crime is reduced by \$1,809. When applying that figure to the number of graduates we have in each graduating class and multiplying the average life expectancy, it was found that educating our students saved anywhere between \$178 million-\$190 million.



Reduced spending on healthcare costs has saved \$82 million - \$88 million



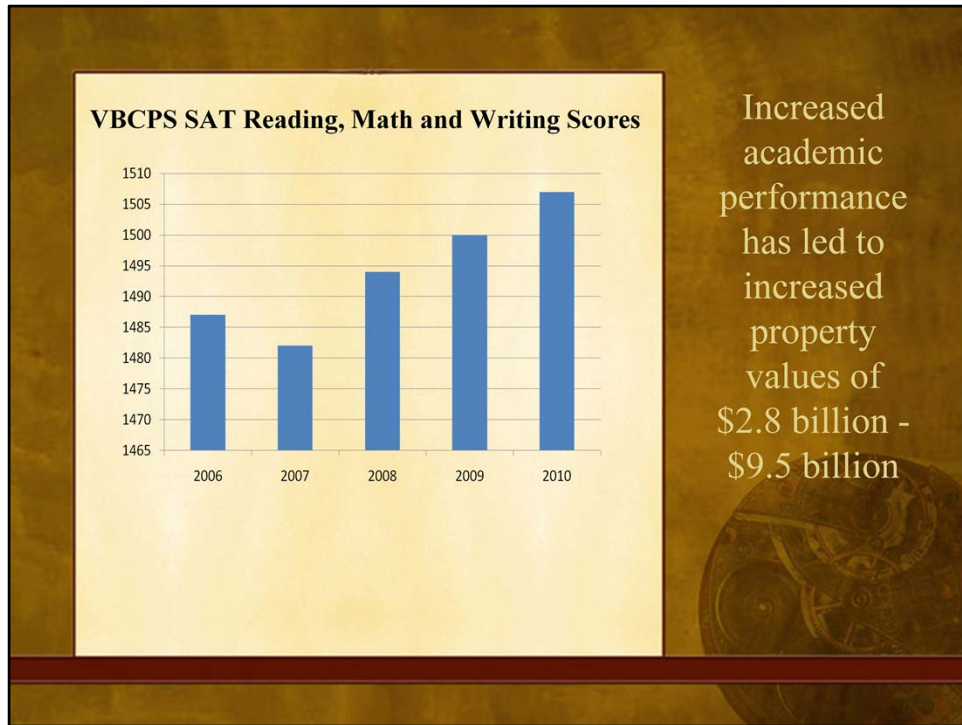
Similarly, another study from the Alliance for Excellent Education showed that every student who graduates from high school will see a lifetime reduction of \$17,362 in Medicaid and uninsured medical coverage costs. Applying that figure to each of our graduating classes, we saw a savings range of \$82 million - \$88 million.

Education: Real Estate's Lifesaver



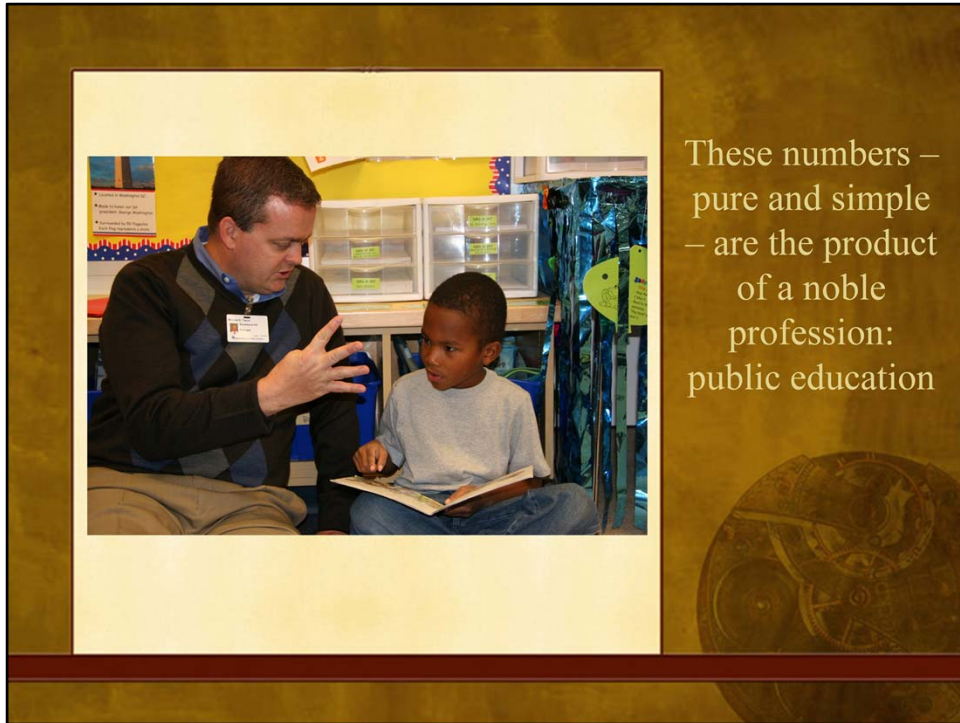
Each of the graduating classes has added close to \$60 million in regional property values and \$500,000 in property tax revenues

While that was indeed interesting to note, perhaps the largest – and certainly most profound finding for me - was the role schools play in real estate values. To determine our school division's impact on these values, Dr. Walden used a complex formula that involved comparing local property values to local income and projecting the change in property values when future incomes rise as a result of students graduating from high school. From this data he was able to project that each of those graduating classes had added close to \$60 million in regional real property values and \$500,000 in real property tax revenues.



He went on to calculate the impact of school performance on residential property values. Real estate agents have long touted certain school zones in their sales pitches. But is it true? Does school performance really impact property values? Over a five year period, Virginia Beach Schools saw increases in not only grade point averages, but SAT Reading, Math and Writing Scores as well as ACT Scores. Drawing on a number of existing research studies that calculated the impact of school quality on residential property values, Dr. Walden was able to estimate that the city of Virginia Beach's property values were between \$2.8 billion and \$9.5 billion higher than they would have been without the improvement seen in those years.

I know I am here to talk about the numbers and dollars and bottom line benefits of our school division, and I have done plenty of that. Let me take a break right here and speak to you frankly, as an educator.

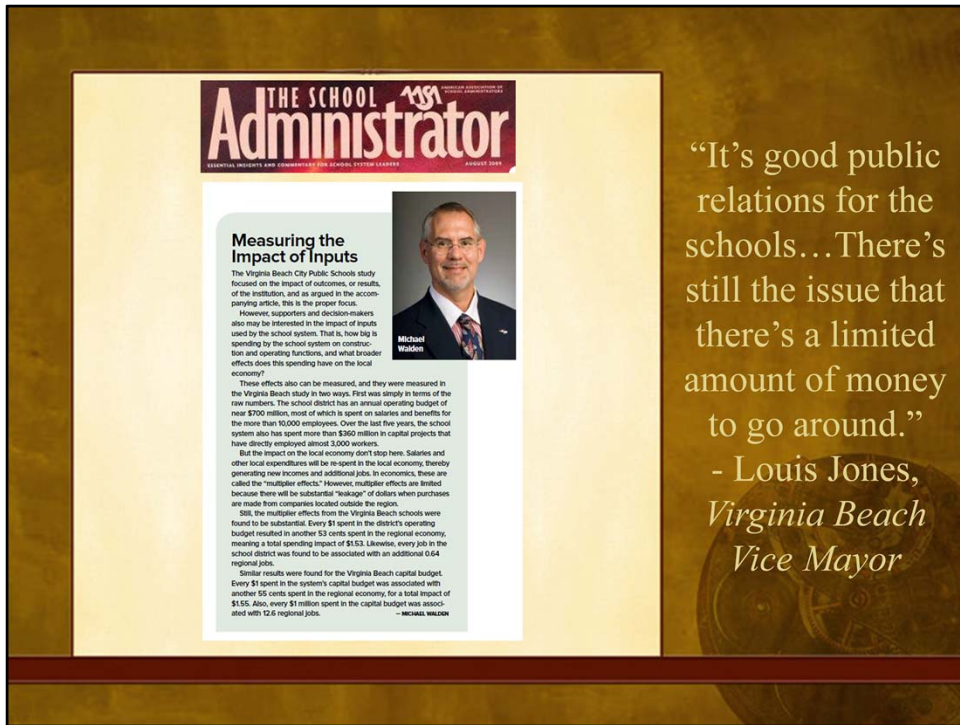


These numbers –
pure and simple
– are the product
of a noble
profession:
public education

These numbers I just gave you - these vast increases in revenue and drastic savings in government spending– they are not the sole result of strategic budgetary moves, cost-saving legislation or mere financial expertise. They are generated because of people-like the second grade teacher who stays after school to help that student who is struggling with reading. They happen thanks to the middle school teacher who gives up a lunch break to help students review for their midterm. They are due to the high school teacher who made Jane Eyre come to life in the classroom and reignited a passion for reading in her students. These numbers – pure and simple – are the product of a noble profession, public education, and I stand here proud to applaud the work of my faculty, staff and students who made this possible.

What's the Point?

We come now to the part I call: What's the point? Did we really change any minds and hearts about the investment in public schools because of this research or was it \$20,000 flushed down the drain?
Candidly, the end result was a mixed one. The response from our city leaders was a collective "so what?"



Ironically, we received a tremendous amount of national publicity on the report, including substantial articles in *Education Week*, *School Administrator Magazine* and *District Administration*. In *Education Week*, Vice Mayor Louis Jones was quoted as saying: “Its good public relations for the schools to say we have a positive impact on the community – I don’t think anybody doubts that. There’s still the issue that there’s a limited amount of money to go around.” By the way, the vice mayor is the one who led the charge to eradicate the city-schools revenue sharing formula.

Study Tallies a District's Return on Investment
Reprinted from December 5, 2011 edition of Education Week magazine


Payoff is \$1.53 for every \$1 invested
 By Christina A. Samuels

How much is a good school system worth?

The Virginia Beach, Va., school district believes its own system is worth about \$1.53 for every \$1 spent from the 70,000-student district's operating fund.


Not content with making an argument that good schools have an economic value that is unmeasurable, the district asked a university economist to calculate just what it brings both to the city and the Hampton Roads region in southeastern Virginia.

The report generated for the district, the third-largest in the state, is more than an academic exercise for James G. Merrill, the Virginia Beach superintendent. The district is one of the few in the state that receive money from local taxpayers based on a revenue-sharing form school district head into budget season, Mr. Merrill said he wanted to principles.



APPLE - A - DAY

July 2011
A Special Edition
 for Parents and the Community



**From Test Scores to Tax Revenues:
 What a Strong School District Means for the Local Economy and You**

We all have heard it. You've probably even said it yourself - Virginia Beach City Public Schools (VBCPS) is among the best school divisions in the nation. Certainly, it's one of the top reasons Virginia Beach is such a great place to live. And while the schools are focused on teaching students the skills and core subjects that they need to be successful learners, workers, and citizens, the school division plays another vital role in the community - boosting the economy by billions of dollars and even positively impacting residents' property values!

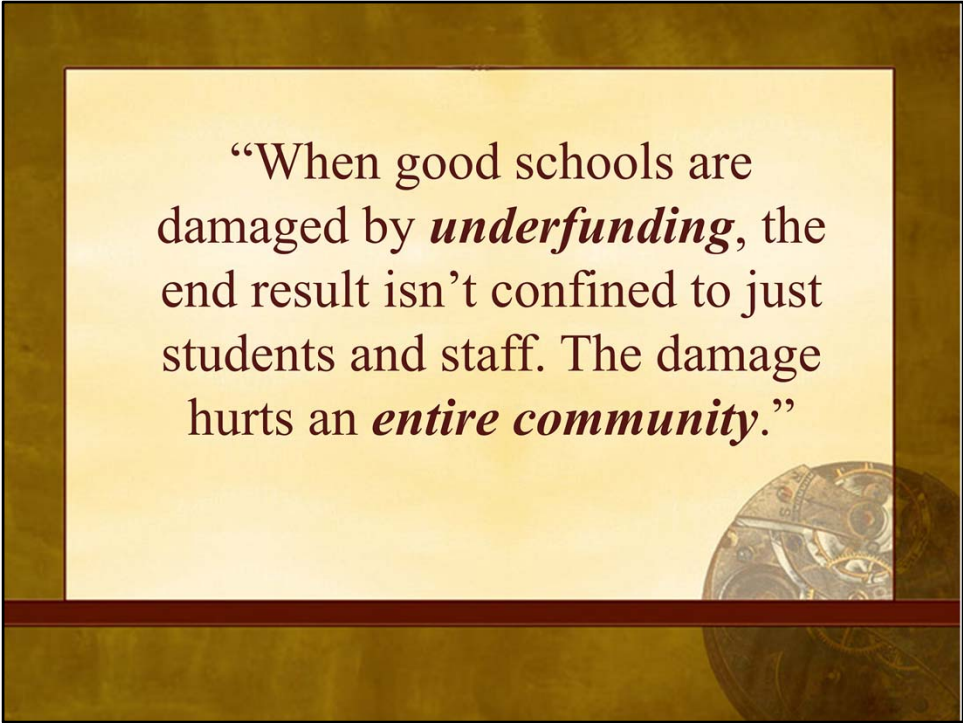
Our School Board chairman offered to bring the economist to a City Council meeting for a briefing. Council didn't take him up on the offer. And so for several months following the study, there was an ominous silence. In the meantime, we promoted our results to those who would listen. We posted the study on our website; included a summary insert in our parent newsletter which is direct mailed to more than 50,000 homes; did media interviews; and essentially shared our results with those who would listen.

Cuts on the Table

- Eliminating *all* JV and middle school sports
- Eliminating transportation to academies and gifted schools
- *Three-day* furlough for all staff
- Reducing work calendars (and pay) for identified administrative staff
- Raising class sizes

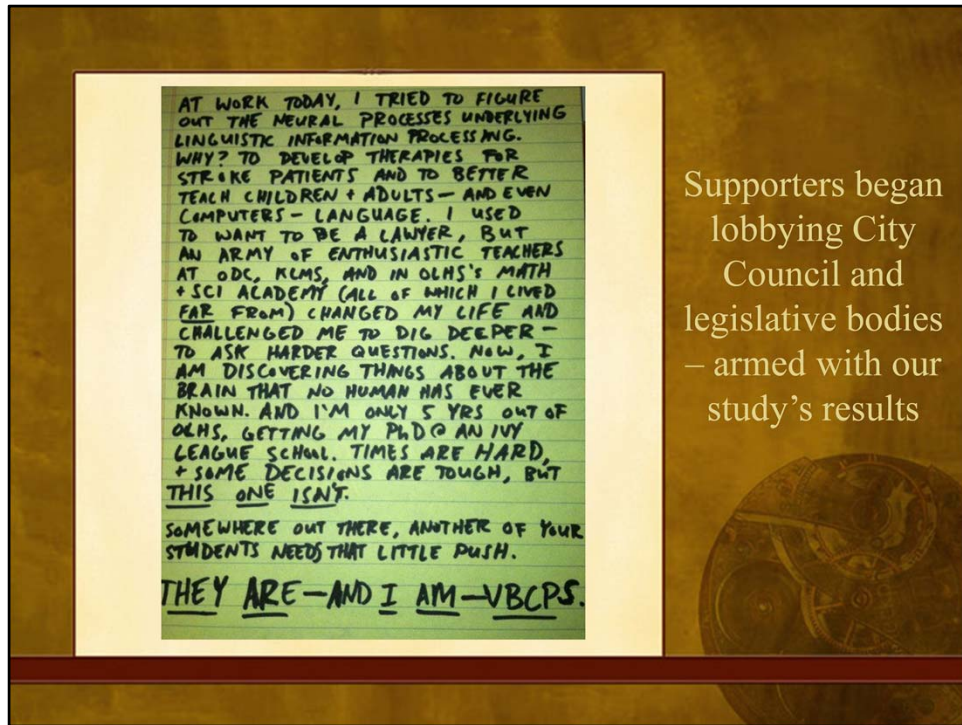
VBCPS was facing a \$39.3 million shortfall heading into the 2012-13 school year

Fast forward to the budget deliberations for the 2012-13 fiscal year. For us, the public part of the budget season runs from early February when I present a recommended operating budget to the School Board until City Council's final adoption of a municipal budget, which includes schools, in mid-May. At the onset of budget deliberations Virginia Beach City Public Schools was facing a \$39.3 million shortfall and remember that revenue sharing formula was gone so we had no guaranteed baseline of funding from the city. My proposed operating budget included a number of drastic recommendations to enable us to balance. These included: eliminating all junior varsity and middle school interscholastic sports; eliminating transportation for eight academy programs and two gifted schools; instituting a three-day furlough for all staff; implementing a hybrid high school schedule which would have saved money because it eliminated positions; reducing the work calendars of some high school assistant principals, guidance personnel and academy coordinators; eliminating 34 security and custodial positions; and raising class sizes – just to name a few of our painful strategies.



“When good schools are damaged by *underfunding*, the end result isn’t confined to just students and staff. The damage hurts an *entire community*.”

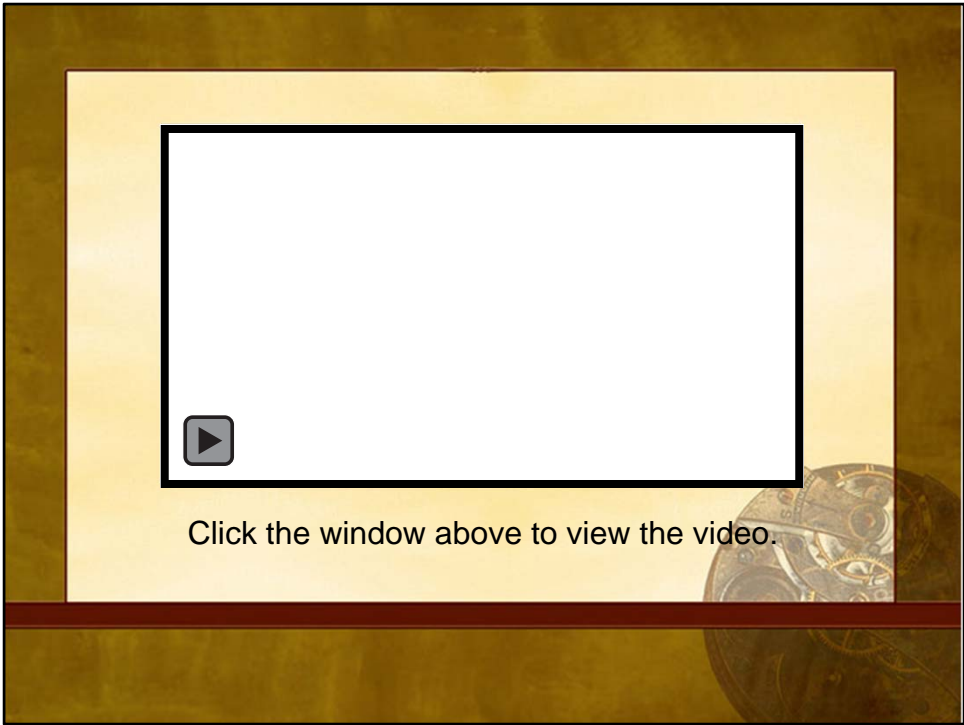
Imagine delivering that kind of news to your community and your workforce. I can tell you it was an emotional presentation and at the crux of it was a firm reminder of the results of our economic impact study. I reinforced then that this study led to an important conclusion. “*When good schools are damaged by underfunding, the end result isn’t confined to just students and staff. The damage hurts an entire community.*”



Supporters began lobbying City Council and legislative bodies – armed with our study’s results

Arming the community with this evidence, I challenged them to step forward on behalf of the schools. The economic impact study, which was so assiduously avoided earlier in the year, became a major talking point for those who began lobbying City Council and our state legislature for increased funding. And lobby they did. In fact, a grassroots “I am VBCPS” movement found life in social media. What you see on the screen is a posting on the “I am VBCPS” Facebook page. A local advertising agency even lent its creative talent pro bono to the movement to do a short video.

(Video Play)



Click the window above to view the video.

Va. Beach council OKs budget with 6-cent tax increase

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By [Mike Hixenbaugh](#)
The Virginian-Pilot
© May 9, 2012

VIRGINIA BEACH

The City Council heard from more than 30 residents Tuesday before voting 8-3 to pass a budget that raises the real estate tax rate by 6 cents.

All but five speakers urged council members not to raise taxes, arguing that homeowners cannot afford to pay a higher rate amidst a tenuous economic recovery.

Those supporting the mayor's budget proposal and rate increase said the city could no longer afford to tap reserves and cut spending four years after the housing downturn started pinching municipal budgets.

The debate is sure to be rehashed in advertisements and stump speeches over the coming months as Mayor Will Sessoms and two council members who voted in favor of the tax increase vie for re-election this fall.

"I think the citizens in Virginia Beach get a pretty good deal for their money," Sessoms said. "If they don't think the price of government is fair, I think someone like me will be done away with."

Rosemary Wilson and Glenn Davis, both facing re-election, said the tax rate adjustment was needed to give teachers modest raises to match one-time bonuses they received this year.

Most of the residents who spoke during a lengthy public hearing before the vote asked the council to support a counterproposal by Councilmen John Moss and Bill DeSteph.

Courtesy of PilotOnline.com

City Council approved a tax increase - part of which was dedicated to schools

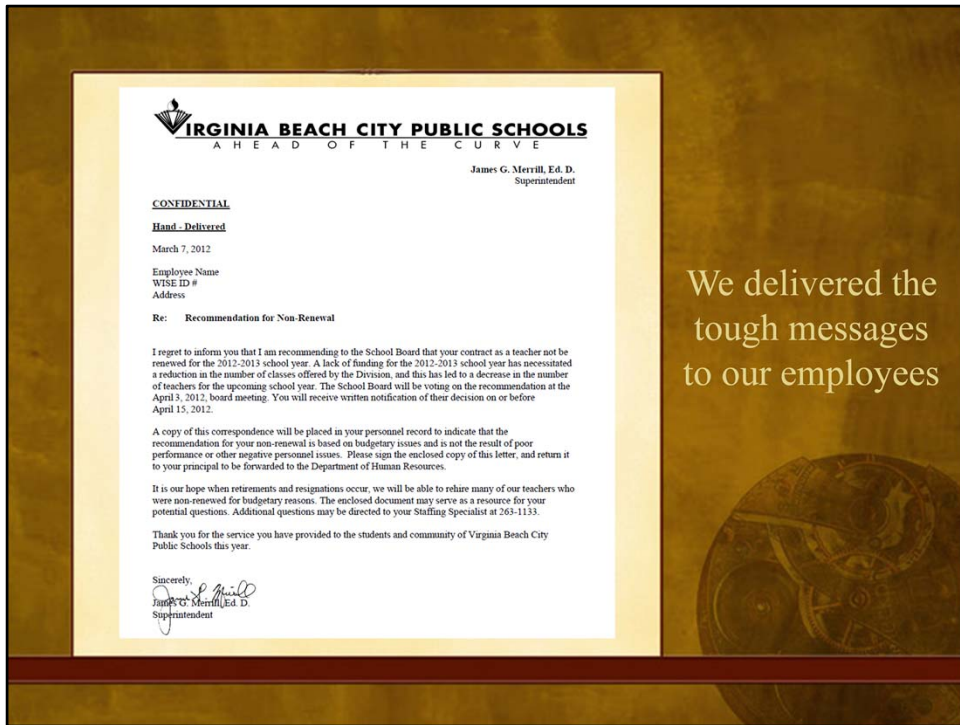
The Hampton Roads Chamber of Commerce also adopted our cause. City Council was wise enough to know that such extensive damage could not be allowed to take place. In the end, our budget shortfall was reduced to \$4.3 million, the result of increased funding and a 6-cent tax increase of which 4 cents was dedicated to schools.

The miraculous thing out of all of this is there was literally no public outcry against the tax increase. Why is that? There are several reasons. The people who had children in our schools desperately wanted them to have a quality educational experience. So they were more than willing to dig a little deeper into their pockets. But what about the people who didn't have children in our schools? Why did they remain silent as they faced a tax increase?

Breaking our own bad news



I believe that their assent was largely the result of our commitment to transparency. We have a philosophy in Virginia Beach that can best be described as “break your own bad news.” Why should we wait for the media to inch the bandaid off, when we know that uncomfortable attention is coming our way? We don’t and we won’t.



For example, in the budget deliberations for 2012-13 we had to issue letters warning our probationary teachers of the possibility of non-renewal. That's a tough message to deliver to almost 250 teachers. But we didn't shrink from that bad news. We had a plan in place to be sure our teachers heard it from us first. That being said, we also knew that as soon as we advised teachers, they would advise the news media. So, we orchestrated our timing. As soon as the teachers received the letters from their principals, we advised local media. I personally did on-camera interviews. This willingness to talk in the bad times as well as the good times breeds trust.



We are often the ones breaking our news – good or bad – to our various audiences

In addition, we have many fast-breaking news tools at our fingertips. This means we are often the ones breaking the news, good or bad, to our various audiences.

- We have an award-winning website that has received an “A” for transparency by the Sunshine Review, an organization that is dedicated to monitoring transparency in local, state and federal governments
- An AlertNow rapid notification service
- The Core, an online blog; Facebook; Twitter; and
- An active listserv through which we distribute news releases to subscribers
- We also stream our School Board meetings live, including the informal workshops where the gritty conversations take place. And when the news is really tough, like it was last budget year, we will host face-to-face meetings. I did a Future Focus presentation on the budget that was open to the community. We also streamed it live on the web;

I believe it was that reputation for open communication that ensured that few, if any doubted our veracity. Unlike the vice mayor, nobody questioned the validity of our research. In fact, it hit home.

More positive outcomes



New revenue sharing formula includes access to funds we did not previously have, namely tourism

We quantitatively proved that our schools' increasing academic prowess had shielded their property values during a recession; that our spending had impressive spin off results; and that good schools had reduced the cost of public health, law enforcement and social services, thereby reducing the financial burden on them.

Another positive result is that several months later City Council restored our revenue sharing formula. It looked a little different and its percentage was lowered, but it now gives us access to some revenues that we didn't have access to under the old formula. These revenues include lodging, meals and entertainment taxes, which in a resort city like Virginia Beach, provides us the potential for growth.

Defending the work of our schools



Did this study solve our woes and elevate us in the minds of our city leadership? Somewhat - in the short-term we were able to stave off disaster and for now, I have to be satisfied with that. In the long-term, however, I remain somewhat cynical. To be honest, our City Council is eyeing many other economic development projects, such as building light rail, for example, so I see competition for dollars in our future. And so I conclude this presentation by asking you to answer for yourselves a few questions: *Has your leadership proved your school system's worth to your governing bodies and your citizens? Or are you making your case with anecdotes and laundry lists of achievements? Or on the flip side, do you need to demonstrate quantitatively what decreased funding of your schools has meant to your community?* In this environment public schools are being asked to defend their performance and expenditures. While uncomfortable as that may be, we can and should be able to do just that.

Thank you.

Questions?

