Washington Research Council

Policy Brief

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The Senate- and House-Passed Supplemental Budgets Would Fully Fund School Salary Increases

Briefly

The Senate and House have passed 2018 supplemental budgets that would increase NGFS+ spending by $1.117 billion and $380.4 million, respectively. Both would fully fund the increase in school staff salaries required by the McCleary decision, which should satisfy the state Supreme Court. Also, both the Senate and House would reduce state property taxes—but they would use funds from the rainy day account to do so.

The 2018 supplemental operating budgets passed by the Senate and House are broadly similar. Both would fully fund the increase in school staff salaries required by the McCleary decision a year earlier than planned (though the original House proposal would not have done so). Both would reduce property taxes. Both would use funds from the rainy day account.

Operating near general fund–state plus opportunity pathways (NGFS+) spending already enacted for 2017–19 totals $43.708 billion. The Senate-passed budget would increase NGFS+ appropriations by $1.117 billion, and the House-passed budget would increase them by $380.4 million. Much of the difference is due to an apportionment change that would save $609.1 million in the House budget. Also, the Senate would appropriate $103.8 million for its new McCleary penalty account, while the House would transfer funds to its penalty account.

Balance Sheet

Revenues. According to the Feb. 2018 revenue forecast, 2017–19 NGFS+ revenues will total $44.990 billion. Both the Senate and House would reduce the state property tax rate, which would reduce revenues by $228 million in the Senate budget and $232 million in the House budget.

Other Resources. Both the Senate and House budgets would transfer funds from the budget stabilization account (BSA, or rainy day fund) to the NGFS+ in 2017–19. The Senate would transfer $228 million and the House would transfer $996 million. Additionally, the House would transfer $105.2 million from the NGFS+ to a new basic education account. Other fund transfers in the House budget include $51.0 million to the disaster response account.

Spending. The Senate budget would increase NGFS+ spending by $1.117 billion over enacted 2017–19 appropriations. The House budget would increase spending by $380.4 million. The $737.1 million difference is mostly explained by two items. First, the House would make a change to the school district apportionment schedule, saving $609.1 million. Second, both budgets would create new accounts to hold McCleary fines. The Senate would appropriate $103.8 million from the NGFS+ for its account, but the House would transfer funds to its account (so they don't show up in the

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House's NGFS+ spending figures).

Maintenance level changes (the cost of providing current services) would reduce NGFS+ spending by $131.2 million in the Senate budget and $151.2 million in the House budget. (The difference here mainly comes in public schools—the House assumes a maintenance level reduction of $19.3 million from reducing elementary class sizes but the Senate does not.) Policy changes would increase spending by $1.249 billion in the Senate budget and $531.6 million in the House budget.

Table 1: 2017–19 NGFS+ Balance Sheet (Millions of Dollars)

	Senate Passed	*House Passed*
Beginning Balance	1,149	1,149
Revenue		
Feb. 2018 Revenue Forecast	44,990	44,990
Feb. 2018 Passed		
Property Tax Reduction	**(228)**	**(232)**
Other Revenue Legislation	**(27)**	**(24)**
Total Revenue	*44,735*	*44,734*
Other Resource Changes		
Transfer to Budget Stabilization Account	(439)	(439)
Transfer to BSA (Extraordinary Revenue Growth)	(1,609)	(1,604)
Transfer from BSA (Extraordinary Revenue Growth)	1,078	1,078
Other Enacted Fund Transfers	328	328
Prior Period & CAFR Adjustments	41	41
Feb. 2018 Passed		
Transfer from BSA	**228**	**996**
Transfer to Basic Education Account		**(105)**
Other Fund Transfers	**-**	**(52)**
Total Other Resource Changes	*(373)*	*243*
Total Resources	*45,511*	*46,126*
Spending		
Enacted Budget	43,708	43,708
Reversions	(217)	(217)
Feb. 2018 Passed		
Maintenance Level Changes	**(131)**	**(151)**
Policy Changes	**1,249**	**532**
Total Spending	*44,609*	*43,872*
Unrestricted Ending Fund Balance	902	2,254
Budget Stabilization Account Balance	1,638	1,638
Transfers from GFS and Interest Earnings	2,086	2,077
Transfers to the GFS	(1,078)	(1,078)
Transfers to Other Accounts	(925)	(925)
Appropriations from BSA	(19)	(19)
Feb. 2018 Passed		
Transfer to GFS	**(228)**	**(996)**
Appropriations from BSA	**(22)**	**(22)**
Projected BSA Ending Fund Balance	1,451	675
Total Reserves	*2,354*	*2,929*

Reserves. The Senate budget would leave an unrestricted NGFS+ ending fund balance of $902 million in 2017–19; the House would leave $2.254 billion. In addition to already enacted withdrawals from the BSA, the Senate would transfer $228.0 million (SSB 6614) and the House would transfer $995.8 million (HB 2993) to the NGFS+ to fund the property tax rate reductions. Also, both budgets would appropriate $22.5 million from the BSA for fire costs (SSB 6174). At the end of 2017–19, the BSA balance would be $1.451 billion in the Senate budget and $675 million in the House budget.

Revenue Details

Since the June 2017 revenue forecast (on which the enacted 2017–19 operating budget was based), expected NGFS+ revenues have increased by $1.212 billion for 2017–19 and $1.143 billion for 2019–21.

Those figures exclude the effect of new tax legislation enacted as part of the 2017–19 budget process, which are expected to increase revenues by $2.079 billion in 2017–19 and $3.483 billion in 2019–21. Chief among the 2017 enacted tax legislation is the increase to the state property tax that was enacted to help pay for the final components of the Legislature's response to the state Supreme Court's McCleary decision on school funding. EHB 2242 increased the state property tax rate by $0.81 per $1,000 of assessed value, to $2.70/$1,000 beginning in 2018.

Both the Senate- and House-passed budgets would reduce the state property tax rate, but the new rates under each budget would still be higher than in CY 2017.

In the Senate, SSB 6614 would reduce the property tax rate to $2.35/$1,000 in CY 2018. (It would revert to $2.70 in 2019.) This would reduce revenues by

$228 million in 2017–19 and $203 million in 2019–21. (SSB 6614 has not yet been passed by the Senate.)

In the House, HB 2993 would reduce the state property tax rate to $2.395/$1,000 in CY 2019 and $2.30/$1,000 in CY 2020. This would reduce revenues by $232 million in 2017–19 and $764 million in 2019–21. (HB 2993 has not yet been passed by the House.)

Additionally, HB 2967 would impose a capital gains tax "with the proceeds used to support a reduction to the combined state property tax rate" beginning in CY 2021. This would increase NGFS+ revenues by $415 million in 2019–21. (HB 2967 has not yet been passed by the House.)

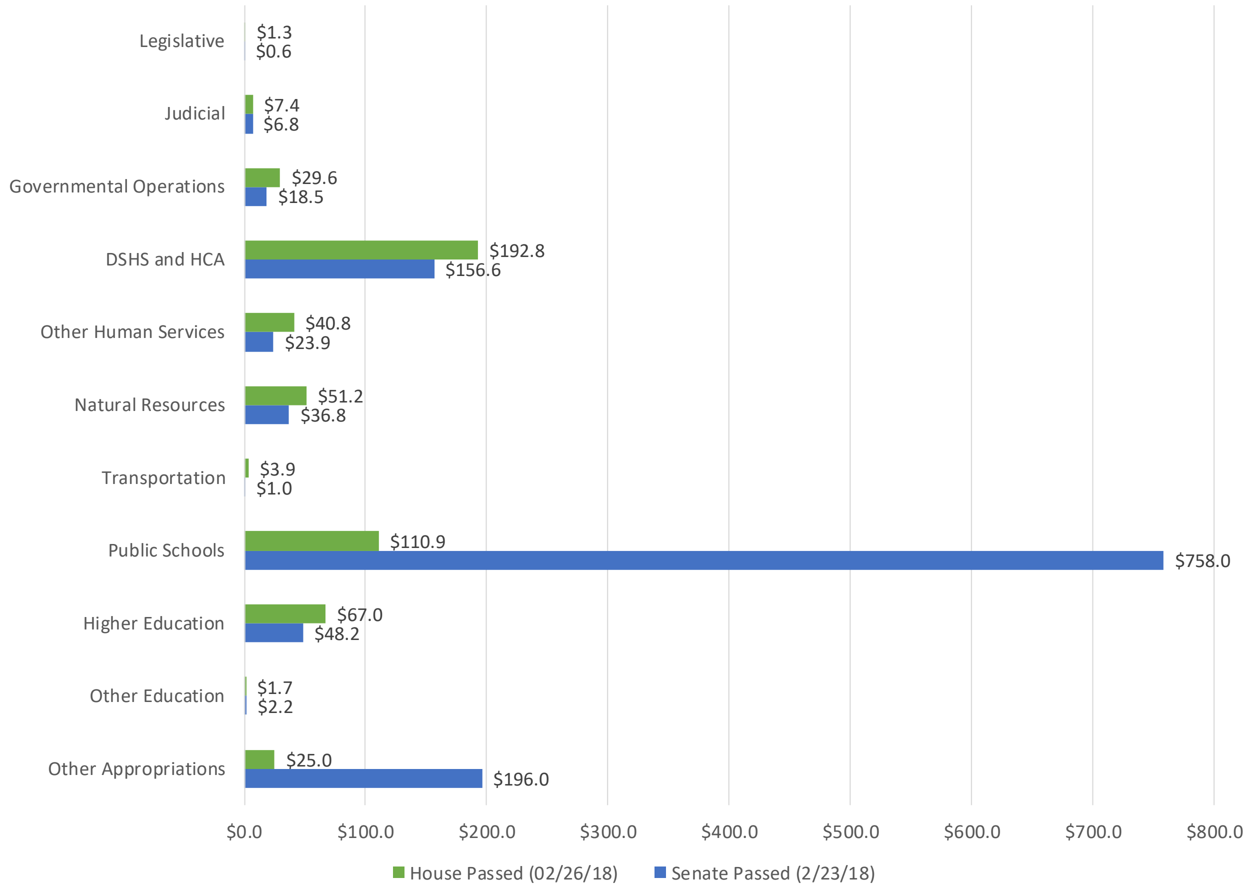
Finally, the House budget assumes passage of HB 2947 (a B&O tax rate reduction for rural manufacturers), which would not affect revenues in 2017–19 but would reduce revenues by $10.7 million in 2019–21. (It has not been passed by the House.)

Spending Details

Public Schools. The main McCleary item outstanding before the 2017 legislative session was the increase in school staff salaries. Legislation enacted last year (EHB 2242) partially funds the increase in school year 2018–19 and fully funds it in SY 2019–21. In Nov. 2017, the Court ordered the Legislature to fully fund the increase in SY 2018–19.

Both the Senate and House budgets would create dedicated accounts to house the McCleary fines that have been accruing since Aug. 13, 2015. The Senate would appropriate $103.8 million to its

Chart: 2017–19 NGFS+ Policy Changes (Millions of Dollars)



dedicated McCleary penalty account from the general fund–state (GFS), and it shows up in "other appropriations" in the chart on page 3. The Senate would then use $25.2 million of this for special education, as noted below. The House would transfer $105.2 million to its new basic education account (BEA) from the GFS, and it would appropriate all of it. (These BEA appropriations are not included in the chart on page 3.)

On Feb. 14, the Senate passed E2SSB 6362, which would make changes to basic education funding. The Senate-passed budget assumes enactment of this bill, with the exception of a change to the school district apportionment schedule.

Both the Senate- and House-passed budgets would fully fund school salaries in SY 2018–19, which would increase 2017–19 spending by $777.9 million in the Senate budget and $775.4 million in the House budget. (Of the $775.4 million, $62.3 million would come from the BEA; the rest would be from the NGFS+.) The House-passed budget would save $609.1 million by changing the school district apportionment schedule.

EHB 2242 had established regionalization factors for salary allocations to account for regional differences in the cost of hiring staff, based on home values in each district. The Senate-passed budget would adjust them for certain districts ($4.9 million) and create a "salary safety net grant program" for districts that can demonstrate that their state salary allocations negatively impact their ability to recruit and retain teachers (because, for example, their average experience is higher than the statewide median). The Senate budget would appropriate $20.0 million for these grants.

The House-passed budget would also adjust regionalization factors for certain districts, and it would add a 4 percent increase for districts with median teacher experience and education above the statewide average. These changes would increase spending by $17.82 million, of which $17.77 million would be from the BEA.

Both the Senate and House would increase the special education multiplier, and both would use $25.2 million from their dedicated McCleary accounts to do so. (Also for this purpose, the Senate budget would increase NGFS+ spending by $80,000 and the House budget would increase NGFS+ spending by $81,000.)

Both the Senate and House would delay the phase-in of professional learning days by one year, saving $29.8 million in the Senate budget and $27.0 million in the House budget. The Senate budget would save $10.0 million by reducing the special education safety net and $20.7 million by maintaining current running start rates instead of increasing them.

The House would delay the requirement that K–3 class size allocations be based on actual class sizes by one year, to SY 2019–20; this would increase spending by $20.0 million.

Higher Education. The Senate-passed budget would increase state need grant spending by $9.8 million. The House-passed budget would increase state need grant spending by $25.0 million to reduce the wait list by a third.

Other. Both the Senate- and House-passed budgets would increase spending by $30.2 million due to assumed Healthier Washington savings that have not been realized and $34.6 million for overspending at the state hospitals. Both would appropriate $46.4 million for fines the state must pay under the Trueblood case (related to the timeliness of competency evaluations).

Both the Senate and House budgets would continue the planned integration of physical and behavioral health care services for Medicaid clients: the Senate would transfer $568.4 million from DSHS to HCA and the House would transfer $574.5 million.

Both budgets would increase spending for the Department of Natural Resources for fire suppression costs: $27.2 million in the Senate budget and $35.2 million in the House budget.

School District Apportionment

State funds to school districts are apportioned on a set schedule (RCW 28A.510.250). Over the years, the Legislature has made changes to it; the three changes since 1980 have increased the percentage paid in July and August. The House budget would increase that percentage further.

While the state fiscal year is July 1 to June 30, the school district fiscal year is Sept. 1 to Aug. 31. Thus, by increasing the percentage paid in July and August, the state can save money in the current year without reducing funding for districts in their fiscal year. EHB 2242 increased the percentage paid in July and August from 20 percent to 23 percent, effective Sept. 1, 2019. As passed by the Senate Feb. 14, E2SSB 6362 would increase that to 25 percent and make it effective a year earlier.

The Senate budget bill notes, "With the recent influx of revenues in the February 2018 official economic and revenue forecast, the legislature finds the proposed changes to the apportionment payment schedule are no longer necessary." The House budget would go ahead and make these proposed apportionment changes.

Outlook

Both budgets would balance over four years. The Senate's unrestricted NGFS+ ending balance would be $54 million in 2019–21 and the House's would be $409 million. The Senate budget would transfer $203.0 million from the BSA to the NGFS+ in 2019–21, to complete funding of the property tax rate reduction (SSB 6614). The BSA balance in 2019–21 would be $1.812 billion in the Senate budget and $1.198 billion in the House budget.

Comment

Both budgets responsibly abide by the four-year balanced budget requirement. That said, both would use the rainy day fund to pay for property tax reductions. And the House budget would change the apportionment schedule for one-time savings.

The big question coming in to this session was whether the Legislature would adopt a budget that adequately addresses the state Supreme Court's Nov. 2017 order. As both budgets would fully fund the school staff salary increase in SY 2018–19, it seems likely that the state Supreme Court will be satisfied.

Table 2: Schedule of State Apportionment Payments to School Districts (Percentages, By Year of Legislation)

	1965	**1969**	**1972**	**1979**	**1981**	**1982**	**2017** (effective Sept. 1, 2019)	**E2SSB 6362** (would be effective Sept. 1, 2018)
September	8.5	10	10	9	9	9	9	9
October	8.5	8	8	9	9	9	8	8
November	8.5	6.5	6.5	5.5	5.5	5.5	5	5
December	8.5	6.5	8.5	9	9	9	9	9
January	10	13	13	9	9	9	8.5	8.5
February	10	13	13	9	9	9	9	8
March	8.5	11	11	9	9	9	9	8
April	8.5	5	5	9	9	9	9	8.5
May	8.5	5	5	5.5	5.5	5.5	5	5
June	3.5	5	3	9	7	6	6	6
July	8.5	8.5	8.5	8.5	9.5	10	12.5	12.5
August	8.5	8.5	8.5	8.5	9.5	10	10	12.5
% in July & August	**17**	**17**	**17**	**17**	**19**	**20**	**23**	**25**

Note: Under 2011 legislation, for SY 2010-11, the June payment was reduced by $128 million and the July payment increased by $128 million.