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Policy Brief

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Education Funding Plans: The Governor and House Want Significant New Spending

Briefly

- The Legislature must fully comply with the McCleary decision on school funding by September 2018.
- Both Gov. Inslee's education funding proposal and HB 1843 would increase state allocations for teacher compensation within the current funding structure, with some changes.
- HB 1843 would adjust salaries for regional differences, and salaries would be rebased every six years based on a comparable wage analysis.
- HB 1843 would include the I-732 cost-of-living adjustments and I-1351 class size reductions in the definition of basic education.
- The bill would gradually lower the amount school districts could levy until reaching 24 percent of their revenues in 2021.
- The bill would increase spending by $1.763 billion in 2017–19, $5.822 billion in 2019–21, and $7.005 billion in 2021–23.
- Some funding options suggested by Democrats on the Education Funding Task Force are: four-tier nexus, tax preference closures, changes to the B&O tax and the state property tax, a capital gains tax, and carbon pricing.

The Legislature must fully comply with the state Supreme Court's McCleary decision by September 2018. The remaining piece is full state funding of basic education compensation.

In 2016 legislation (E2SSB 6195), the Legislature set a deadline for itself "to eliminate school district dependency on local levies for implementation of the state's program of basic education." The deadline is the end of the 2017 session. The bill also set up a process through which the Education Funding Task Force (EFTF) would make recommendations to the 2017 Legislature on implementing the program of basic education. The members of the EFTF (Democratic and Republican senators and representatives) could not agree on recommendations, but the Democratic members of the EFTF offered recommendations of their own and the Republican members offered a set of "guiding principles."

The Democrats' recommendations have been introduced in the Legislature as HB 1843. Additionally, Gov. Inslee offered an education funding plan as part of his 2017–19 operating budget proposal. Both the governor's proposal and HB 1843 would effectively stay within the current education funding structure (the prototypical school model—funds are allocated in the amount needed to operate a school of a certain size with certain types of students, scaled to actual enrollment), while making enhancements and some reforms. (Meanwhile, the Republicans' proposal, introduced as SB 5607, would make significant changes to the funding structure. It was passed by the Senate Feb. 1, and will be the subject of a forthcoming report.)

What is Basic Education?

With the enactment of ESHB 2261 in 2009, the Legislature redefined basic education as "that which is necessary to provide the opportunity to develop the knowledge and skills necessary to meet the state-established high school graduation requirements that are intended to allow students to have the opportunity to graduate with a meaningful diploma that prepares them for postsecondary education, gainful employment, and citizenship."

Basic education includes at least parts of these budget lines: general apportionment, special education, pupil transportation, learning assistance program, transitional bilingual education program, highly capable program, and institutional education (W&M 2015).

Initiative 1351

Voters approved I-1351 in 2014. It has not been funded by the Legislature. The initiative calls for reduced class sizes in grades K–12 and for career and technical education and skill center programs. Additional class size reductions are to be made for high poverty schools. Also, state allocations for non-teacher employees are to be increased. Although it was estimated that I-1351 would cost $3.8 billion a biennium when fully implemented, the initiative did not specify a funding source. The initiative required that at least 50 percent of its allocations be funded in 2015–17 and all allocations be funded by the end of 2017–19. The initiative also stated that its provisions "are to be considered basic education funding." (WRC 2014)

Although the initiative says it reduces K–12 class sizes, it effectively only addresses grades 4–12. The Legislature had already enacted legislation (SHB 2776) in 2010 that requires class size reductions for grades K–3. The Legislature has been increasing funding for those reductions and will finish funding them in 2017–19.

In 2015, the Legislature enacted EHB 2266, which pushed back the implementation of I-1351 by four years (so full implementation is now required by the end of 2021–23). EHB 2266 notes that it was appropriate to do so because "the greatest improvements in student outcomes in the common schools can be achieved in the near term by focusing the investment of state fiscal resources in the areas identified in ESHB 2261 and SHB 2776, which emphasize . . . class size reduction in early grades."

Gov. Inslee's Proposal

Gov. Inslee proposed an operating budget for 2017–19 that includes $2.951 billion to respond to the McCleary decision (by increasing spending on salaries, health benefits, training, and mentoring). (That figure would grow to $5.554 billion in 2019–21.) The governor's proposal would simplify the current salary allocation model. Certificated instructional staff would be paid depending on years of service, whether they have a bachelor's or master's degree, and whether they have a residency (initial level) or a second tier certificate. His proposal would fund certificated instructional staff for 10 months plus 30 hours of training in SY 2017–18 and 80 hours of training in 2018–19. State allocations for beginning teachers would increase to $44,976 in SY 2017–18 and $54,587 in SY 2018–19; allocations for administrative staff would increase to $78,395 in SY 2017–18 and $114,612 in SY 2018–19; and allocations for classified staff would increase to $39,457 in SY 2017–18 and $52,908 in SY 2018–19.

On top of the McCleary funding, Gov. Inslee would fund Initiative 1351 and Initiative 732. (See the boxes to the left and on page 3 for more on the initiatives.)

To help pay for these and other programs, the governor proposes increasing the business and occupation tax rate on services, enacting a carbon tax and a capital gains tax, ending several tax exemptions, transferring monies from dedicated funds to the general fund, and suspending a required payment into a police and fire personnel retirement fund.

HB 1843

HB 1843 was approved by the House Appropriations Committee on Feb. 9. It would address school staff compensation, local levies, I-1351, and accounting practices.

Compensation. Currently the statewide salary allocation schedule is determined in the state operating budget. Actual salaries for teachers and other staff are determined through local collective bargaining, but beginning teachers must be paid at least the minimum specified in the state schedule ($35,700 in SY 2016–17). Also, a district's average salary cannot exceed the state schedule's average salary.

Under HB 1843, the *minimum* state allocation for certificated instructional staff would be increased beginning in SY 2017–18 so that the statewide *average* allocation reaches $70,824 by SY 2019–20 (adjusted for inflation). Similarly, minimum allocations for certificated administrative and classified staff would be increased beginning in SY 2017–18 so that the statewide average allocations reach $117,159 and $54,084, respectively, by SY 2019–20 (adjusted for inflation). Beginning in SY 2019–20, salaries for certificated instructional staff with no experience would have to be at least $45,500. With three years of experience, their salaries would have to be at least $50,500.

Salary allocations would be adjusted annually for inflation. This would be done pursuant to Initiative 732, which provides an annual cost-of-living adjustment (COLA) for school district employees. (See the box on page 3 for more on I-732.) HB 1843 states that beginning in SY 2019–20, state funding for I-732 would be "part of the funding necessary to comply with the state's Article IX constitutional duty." As noted in the box, I-732 originally defined the COLA as basic education, but the state Supreme Court found that the COLA lacked the "substantive content" of a basic education program. (WRC 2012)

In addition to the COLA, beginning in SY 2019–20, state salary allocations would have to be adjusted for "regional differences in the cost of hiring staff." These adjustments would be determined in the budget, but no district could receive less than what they received in the prior year.

Further, beginning in SY 2025–26, the minimum salary allocation would be rebased every six years "to ensure that the state-provided K–12 basic education salary allocations keep pace with the wages of comparable occupations." The Employment Security Department would be tasked with providing updates every six years to a comparable wage analysis it conducted in 2012 (RCW 28A.400.201), and the Office of Financial Management (OFM) would have to calculate a new average base salary based on the comparable wage analysis. The bill requires that the governor's biennial budget proposal use OFM's new average base salaries, and the Legislature would have to either approve or reject the entire state school salary allocations funding request. The comparable wage index could not result in any school district receiving less state funding for the minimum state salary allocation than it did in the previous year.

The bill would also allocate funding for professional learning days for certificated instructional staff, certificated administrative staff, and classified staff: One day in SY 2017–18, two days in SY 2018–19, four days in SY 2019–20, six days in SY 2020–21, and 10 days by SY 2022–23.

The staff salary allocations (as adjusted for inflation and to reflect regional differences, and rebased every six years) and professional learning days would be included in the definition of basic education.

Levies. Under current law, school districts may levy maintenance and operation (M&O) excess levies. These are supposed to be only for non-basic education spending, but in practice they are also used for basic education, which is part of the problem identified in the McCleary decision. In 1977, the Legislature limited the ability of school districts to increase their revenues with M&O levies. Districts were initially allowed to levy 10 percent of their state and federal revenues (this is known as the levy lid). Since then, the maximum they could levy has gradually increased. In 2010, the percentage was 24 percent. That year, SHB 2893 was enacted, increasing the levy lid to 28 percent for 2011 through 2017; the levy lid is scheduled to revert to 24 percent in 2018 (the so-called levy cliff). (Some districts have grandfathered higher percentages.)

HB 1843 specifies that for 2018, the maximum levy percentage would remain at 28 percent. It would drop to 27 percent in 2019, 26 percent in 2020, and 24 percent in 2021. (The levy equalization rate would also be adjusted.) By continuing to allow school districts to levy a high percentage of their revenue, they will have the ability to spend more on enrichments (if approved by local voters). According to Office of Program Research staff, there would be a net increase in allowable levies under the bill, since revenues from the state would be increased by more than the maximum levy percentage would be decreased.

Other. I-1351 is currently scheduled to become effective Sept. 1, 2022. HB 1843 would keep the initiative in place and increase its allocations for parent in-

Initiative 732

I-732 was approved by voters in 2000. It provides an annual cost-of-living adjustment (COLA) for school district and certain community and technical college employees. The COLA is included in the salary base used to determine future COLAs.

The initiative specified that the state must fund the COLA for school district employees "as part of its obligation to meet the basic education requirements under Article IX of the Washington Constitution."

That language about basic education was struck by the state Supreme Court in 2002. It was unconstitutional because the COLA applies to all district employees, regardless of whether they are funded as part of basic education. According to the decision, the provision "provides that a type of funding will be basic education, rather than specifying a type of education or educational service that is provided by the funding, or what instruction the funding relates to." The Court also found that defining these COLAs as basic education would be contra their decision in the Seattle School District case (also known as Doran I, the 1977 school funding decision) because "Regardless of function or previous funding categories, all employees would receive basic education dollars. . . . Basic education dollars would thus be tied to local levies with their deficiencies as a regular and dependable funding source, contrary to the requirements of article IX, sections 1 and 2 and the holding in Seattle School District." (McGowan v. State)

I-732 did not specify a funding source, and it has not been consistently funded by the Legislature (but it remains the law and is considered part of maintenance level). For example, the COLA was suspended in 2009–11, 2011–13, and 2013–15. It is funded in 2015–17 (the cost for school district employees alone is $235.5 million).

volvement coordinators and middle school and high school guidance counselors. The bill would also increase allocations for transitional bilingual instruction in middle and high school and for the learning assistance program and the highly capable program. HB 1843 would increase allocations for career and technical education and skills centers so that those class sizes could be lowered to the levels required by I-1351 by Sept. 1, 2020.

Additionally, HB 1843 would create a working group to make recommendations on changing school district accounting practices. This would include accounting for spending on basic education and locally-determined enrichments separately. Also, school districts would have to report to the superintendent of public instruction on time, responsibility, incentive, or innovative activities (TRII) supplemental contracts.

HB 1843 would in-crease spending by $1.763 billion in 2017–19, $5.822 billion in 2019–21, and $7.005 billion in 2021–23.

HB 1843 would result in increases in total (state, local, and federal) per-pupil funding, according to the Office of Program Research. Under current law, statewide average per-pupil funds are expected to be $12,100 in SY 2018–19 and $12,140 in SY 2019–20. Those figures would increase to $13,580 and $14,900, respectively, under HB 1843. (Harrell 2017)

According to the fiscal note, the bill would increase spending by $1.763 billion in 2017–19, $5.822 billion in 2019–21, and $7.005 billion in 2021–23. (I-1351 would be fully implemented in the 2021–23 biennium.) HB 1843 does not identify funding sources. The recommendations suggest that the state should consider closing tax preferences, making changes to the B&O tax and the state property tax, enacting a capital gains tax, putting a price on carbon, and changing nexus standards to capture more taxes from out-of-state businesses selling to Washington residents.

Comment

Because the Legislature's ability to address McCleary is constrained by the state's resources and need to fund other programs, a targeted, disciplined approach will be required. Going in to the 2017–19 biennium, existing revenues are not expected to cover even the cost of continuing current services (which include K–3 class size reductions that have yet to be fully implemented and the I-732 COLAs). Meanwhile, from 2008 to 2016, Washington's per student spending increase on education was third-highest in the country (Leachman et al. 2016).

This session, the Legislature should focus its K–12 spending on the areas required by the state Supreme Court and reforms that would improve student outcomes. The enhanced salary provisions of HB 1843 may get the state to compliance with the McCleary decision (though they wouldn't provide full funding until SY 2019–20, a year after the McCleary deadline), but the bill adds compliance with I-1351 and I-732 on top of that. They are two very costly initiatives that the Legislature has not seen fit to fund in the past.

Additionally, the state constitution provides that "It is the paramount duty of the state to make ample provision for the education of all children . . ." (Article IX, Section 1). The state Supreme Court found, in the McCleary case, that the state was not providing adequate funding for basic education and that local school districts were using excess M&O levies to make up the difference. This is not acceptable, according to the Court, because excess levies are subject to voter approval and dependent on property values in the district—they are not "dependable and regular." Thus, the state must both enhance funding for basic education and reduce reliance on local levies. HB 1843 would still allow districts to levy a high percentage of their revenues.

As we wrote in a 2016 report on the McCleary decision and education funding in general, the state was in a similar position in the 1970s when the state Supreme Court found that the state was too reliant on local levies to fund education. Avoiding this situation again in another 40 years should be a top priority of the Legislature.

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