ePOLICY brief

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# Initiative 732: Expensive COLA

## BRIEFLY

Initiative 732 mandates an annual cost-of-living-adjustment (COLA) for K-12 school employees and most employees of community and technical colleges.

It significantly weakens legislative oversight of the state budget, overstates the cost of living, and provides a select group of public employees a benefit not available to most taxpayers.

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Initiative 732 is disarmingly simple, and alarmingly simplistic.

The initiative would mandate an annual cost-of-living adjustment (COLA) for all K-12 school employees, community and technical college faculty (not administration), and technical college classified employees.

That's it. The initiative guarantees one group of public employees annual salary increases.

The public schools receive the greatest share of the state budget, about 46 percent in 1999-2001, and about 82 percent that goes to salaries and benefits (only about 57 percent of that to certificated teachers). Even modest percentage increases in the salary base, therefore, have substantial budget impacts.

According to state budget analysts, the initiative will cost the state $412 million in the 2001-2003 biennium.

I-732 was filed by the head of the Washington Education Association, which has for several years had teacher pay at the top of its legislative agenda. For the biennium just completed, teacher salaries were increased an average of 6.43% in the first year, 3.0 percent in the second, with the largest increases going to beginning and to the more experienced teachers. In addition, teachers not at the top of the salary schedule also received increases for seniority and additional education.

Frustrated with the legislature's compensation decisions, the union decided to bypass the legislative process and take its case to the voters. The initiative is based on a faulty premise. Across-the-board salary increases are not the solution to Washington's recruiting and retention challenges in public education.

Beyond that, however, technical and public policy considerations make I-732 a seriously flawed approach to addressing the legitimate issues of educator compensation.

Let's start with a relatively minor technical problem: the flawed local CPI prescribed by the initiative.

**Seattle CPI required.** The Seattle CPI (actually the Seattle-Tacoma-Bremerton CPI) will generally overstate the cost of living. The U.S. Bureau of Labor Statistics has always advised against using local indexes, noting that because they are based on smaller samples, the local inflation estimates are volatile and subject to greater error than the national or regional measures.

According to the initiative, the COLA is calculated by applying the prior year's Seattle CPI to the state-funded salary base. School districts would receive funding from the state sufficient to pay the cost of the COLA increase for salaries and "mandatory salary-related benefits" for all district employees.

Currently, the estimate for the Seattle CPI is 3.4 percent for the 2001-2002 school year; for 2002-2003 the estimate is 2.4 percent.

**Fiscal Impact.** According to state budget analysts, I-732 would cost the state general fund about $412 million. (See table.)

| 2001-2003 Budget Impact | | | |
|---|---|---|---|
| K-12 | | Community & Technical Colleges | |
| State-funded salary base | Non-state-funded salary base | State-funded salary base | Non-state-funded salary base |
| $288 million | $99 million | $19 million | $6 million |

This new salary expense would flow from the general fund and be subject to the expenditure limit established by Initiative 601. Currently, the I-601 limit is expected to increase by from $1.1 – $1.3 billion for the 2001-2003 biennium (actual growth in the limit will be determined by the legislature's 2001 supplemental budget). I-732, then, would claim about one-third of all new spending for the coming biennium.

Not all school district employees are supported by state funding. Some are paid from local levies or federal funds. Under I-732, all would receive the COLA. Oddly, the initiative discriminates between K-12 administrators and community and technical college administrators. The former are included, the latter are not.

**Policy Problems.** Beyond problems with the measurement of inflation, however, I-732 fails because it is bad public policy. While giving everyone from bus drivers to superintendents a modest COLA, it does nothing to address the critical compensation question: how can the state attract and retain the best teachers and principals?

Along the way, it greatly expands the definition of "basic education," making full funding of the COLA an obligation under Article IX of the state constitution. Now, incredibly, cost-of-living adjustments for everyone employed by the public schools is to be among the "paramount" duties of the state.

Concern with teacher pay has occupied the legislature for several recent sessions. The issue is complicated. Creative approaches have been proposed, including higher pay for teachers in high-demand disciplines (computer science, mathematics), merit pay, bonuses for national accreditation, and higher salaries for teachers who act as mentors or team leaders.

I-732, of course, chooses to disregard these efforts and establish a simple formula assuring that – whatever long-term solution is achieved – everyone covered by the current salary schedule will receive and continue to receive an annual pay hike.

In creating a special class of public employee, those connected to public schools, I-732 creates some puzzling inequities. Why should school superintendents, among the more highly-paid public employees in the state, receive an assured cost-of-living bonus when prison guards or health care workers in state institutions do not? Why should a cafeteria worker in a public school get the COLA when someone performing the same work in another state facility does not?

And why should one group of public employees be guaranteed an annual salary increase, regardless of the health of the state economy, when many taxpayers are not?

The major task of a state legislature is adopting the state budget, a fundamental expression of the state's priorities. They strive to be fair, to balance the interests of both public employees and taxpayers.

Currently, the state legislature sets salary policy and funds a salary schedule for public school teachers. In the last biennium, lawmakers attempted to use the salary schedule to attract beginning teachers and reward those at the top of the pay scale, the more experienced teachers.

Compensation decisions frequently are the toughest considerations for state budget writers, as even a tenth of a percentage point can swing the budget by tens of millions of dollars.

Ignored by the promoters of I-732 is the significant cost of health care benefits. The state continues to offer a benefit package substantially more generous than that received by many private sector employees. Over the years, lawmakers have preserved the benefit package even when salary increases were modest, a choice generally supported by state workers.

I-732 complicates that difficult challenge by mandating annual salary increases, regardless of the condition of the state treasury. It fails to reform a calcified compensation scheme. And it guarantees a select group of public employees a salary benefit not enjoyed by many of the taxpayers who support them, including those of their fellow state workers not covered by the initiative.

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