

# **Legislative Funding Outlook**

**Board of Directors Meeting**

**Finance and Business Services**

**May 22, 2018**



# Overview

## Objective

- Update the board on the long-range funding implications resulting from E2SSB 6362 as adopted by the 2018 legislature

## Key performance outcome

- 4.1.b – A minimum ending fund balance of five percent is maintained in the General Fund

## Board goal

- S.5.b – Advocate with legislators in support of ample and equitable district funding



# Financial overview

## Often we must plan for the worst, hope for best

- Dependency on state and local revenues inherently creates uncertainty
- 2012 – 2018 districts benefited from new McCleary funding
- 2019 – 2023 EHB 2242 provides new funding, then reduces over time
- Without legislative action, expenditures must be cut in future years

## Key elements of E2SSB 6362

- Full state salary allocation to occur in 2018-19
- Increases special education multiplier modestly
- Directs OSPI to form a committee on “work day”
- Reduces classified health benefit factor in 2019-20
- Provides for one-time state property tax reduction for 2019 of \$0.30 per \$1,000 AV

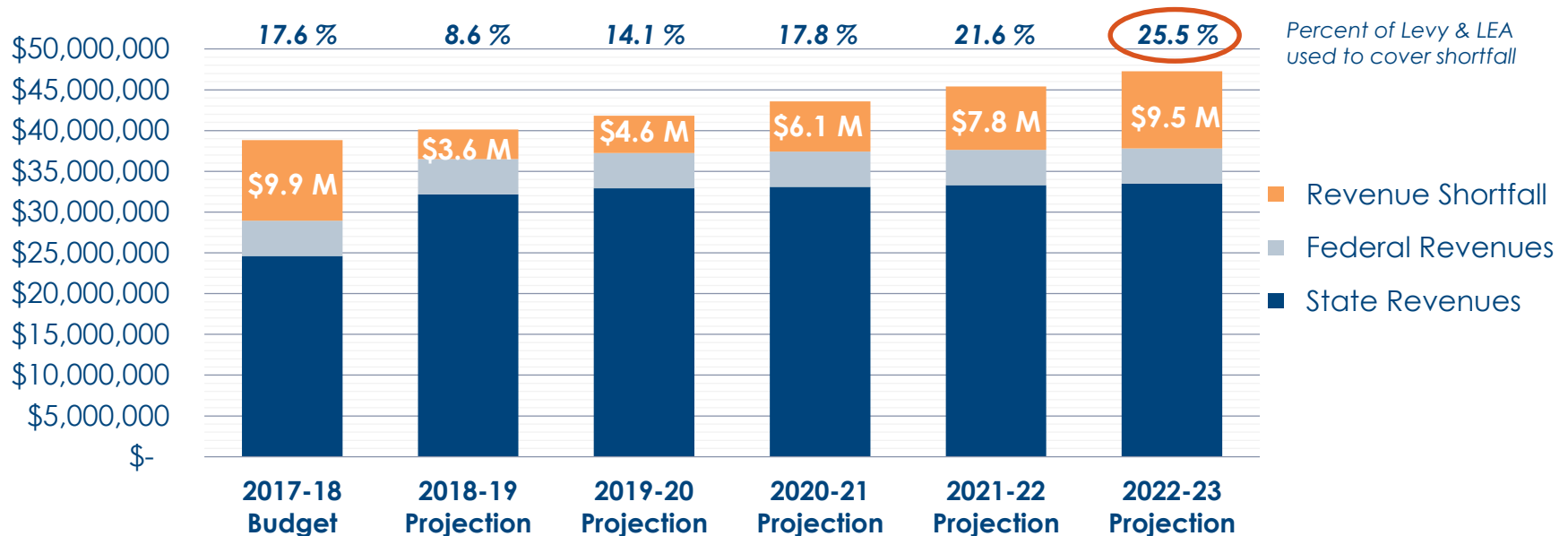


# McCleary not fully funded

## Legislature has not fully funded special education

- Nominal increase in enhancement factor only contributed \$550,000
- Increased state compensation lowers shortfall temporarily
- Projected program cost increases will take a bigger bite out of local levy

### Special Education Annual Funding Shortfall Projections

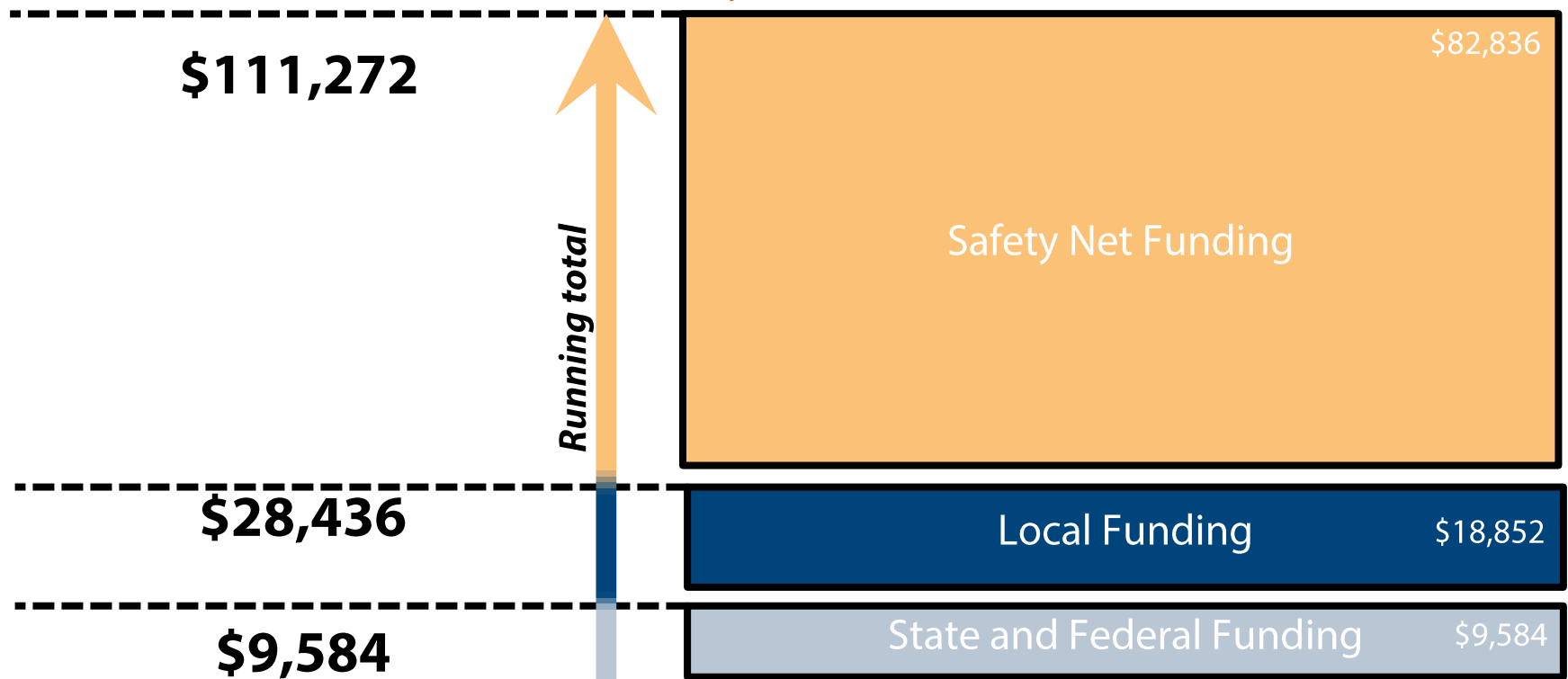


# McCleary not fully funded

## Legislature only corrected part of Safety Net shortfall

- Current “threshold” is \$18,852 above state and federal funding
- Local levy must fund the shortfall

### 2016-17 Safety Net Student Example



# New levy formula impacts Everett

## EHB 2242 approved a new, inequitable levy formula, and E2SSB 6362 did not fix it, except for Seattle

- Levy authority was redefined to be the **lesser of**:
  - \$2,500 per full-time equivalent (FTE) student, or
  - \$1.50 per \$1,000 of assessed value (AV), with \$1,500 per FTE minimum
- Everett is capped at \$20 million less than Bellevue**
  - Bellevue (same FTE as Everett) can collect \$2,500 per FTE

	2015 Assessed Valuation	rate per \$1,000	Cap	per FTE		Student AA FTE	Per student FTE	Cap
Everett	16.9 B	\$1.50	\$25,349,754	\$1,314	Everett	19,297.73	\$2,500	\$48,244,325
Bellevue	53.9 B	\$1.50	\$80,869,462	\$4,184	Bellevue	19,330.19	\$2,500	\$48,325,475
Sunnyside	1.4 B	\$1.50	\$2,092,386	\$315	Sunnyside	6,645.98	\$2,500	\$16,614,950
Source data: OSPI 2017 F-780					Source data: OSPI 2015-16 1251			

# New levy formula impacts Everett

## 2019 levy inequities with neighboring districts

- High AV districts Edmonds, Mukilteo, and Northshore can collect more
- Low AV districts are given Local Effort Assistance (LEA) up to \$1,500/FTE

District	Student FTE	Levy Cap \$2,500/FTE	Assessed Value	Levy Cap \$1.50/1,000 AV	\$1.50 Cap in Dollars/ Student FTE	Add LEA up to \$1,500 per student	2019 per student cap
Edmonds	20,828	\$52.07 M	\$30.07 B	\$45.11 M	\$2,166	0	<b>\$2,166</b>
Everett	19,970	\$49.92 M	\$20.72 B	\$31.09 M	\$1,557	0	<b>\$1,557</b>
Lake Stevens	8,670	\$21.68 M	\$5.87 B	\$8.81 M	\$1,016	\$484/FTE	<b>\$1,500</b>
Marysville	10,934	\$27.34 M	\$8.25 B	\$12.38 M	\$1,132	\$368/FTE	<b>\$1,500</b>
Mukilteo	15,485	\$38.71 M	\$19.52 B	\$29.28 M	\$1,891	0	<b>\$1,891</b>
Northshore	21,434	\$53.59 M	\$31.73 B	\$47.90 M	\$2,221	0	<b>\$2,221</b>
Snohomish	10,060	\$25.12 M	\$9.29 B	\$13.93 M	\$1,385	\$115/FTE	<b>\$1,500</b>

Source: OSPI Multi-Year Tool 5/09/18

Note: 2019 Calendar Year Figures

# New levy formula impacts Everett

## New formula drives a significant cut in 2019 levy

- 2018 OSPI F-780 caps 28 percent levy at \$62.23 million
- Actual 2018 levy and Local Effort Assistance (LEA) total is \$55.50 million
- **2019 OSPI estimate cuts levy to \$31.09 million**
- Results in a **\$31.14 million 2019 cut from 2018 state cap**
- Results in a **\$24.41 million actual 2019 levy and provides no LEA**
- 2018 Legislature considered fix, but then only helped Seattle
- **2019 Legislative fix is paramount** to partially offset structural deficit resulting from phase out of regionalization

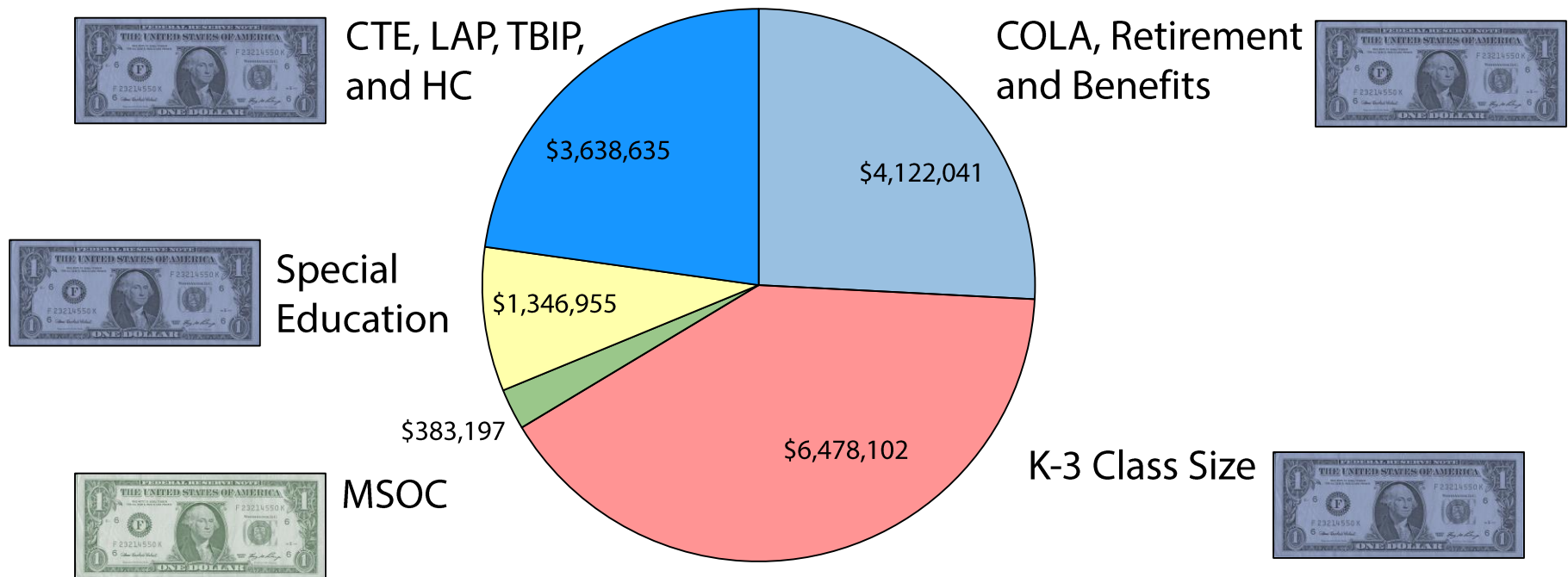




# Much of state funding is prescriptive

## Legislature counted new 2017-18 funds toward levy cut

- Except for MSOC, the rest of the \$15.9 million does not offset levy cut
- “Blue dollars” greatly help students, but do not offset cut in levy
- “Blue dollars” for COLA and benefits go to employees, require local match

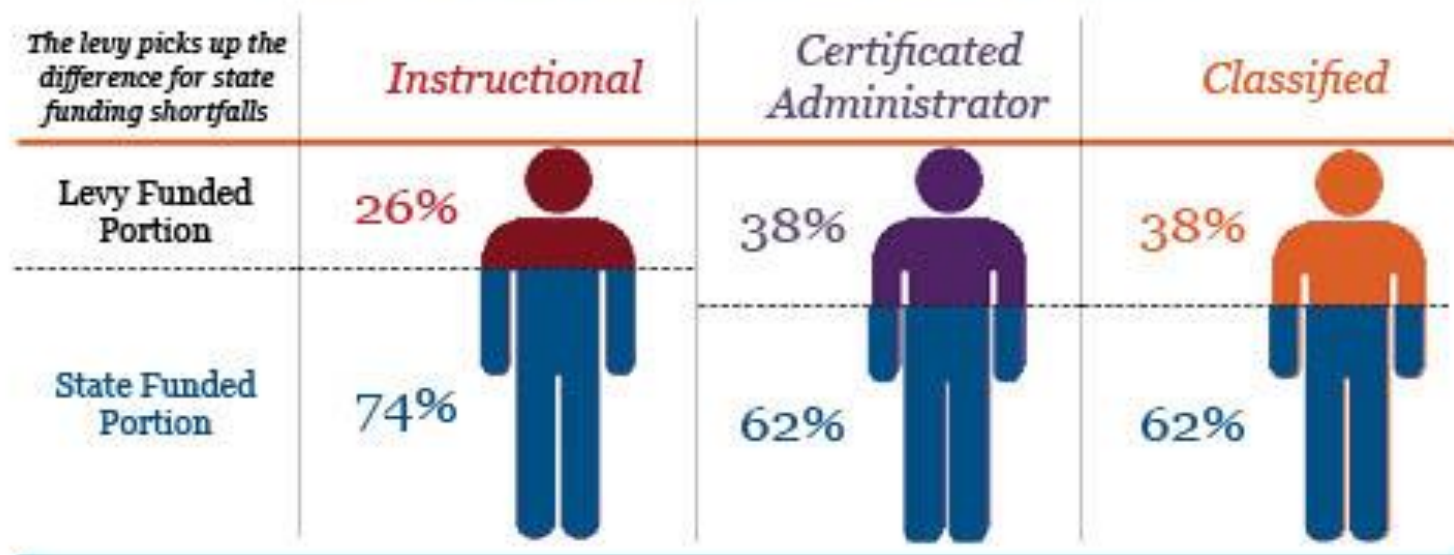


# Compensation reliant on local levies

## Levy funding of salaries prior to EHB 2242 (2017)

- All staff groups were significantly underfunded in 2015-16
- Underfunding of compensation was a major component of McCleary
- 28 percent local levy made up the state shortfall

*2015-16 State funding shortfalls by group*

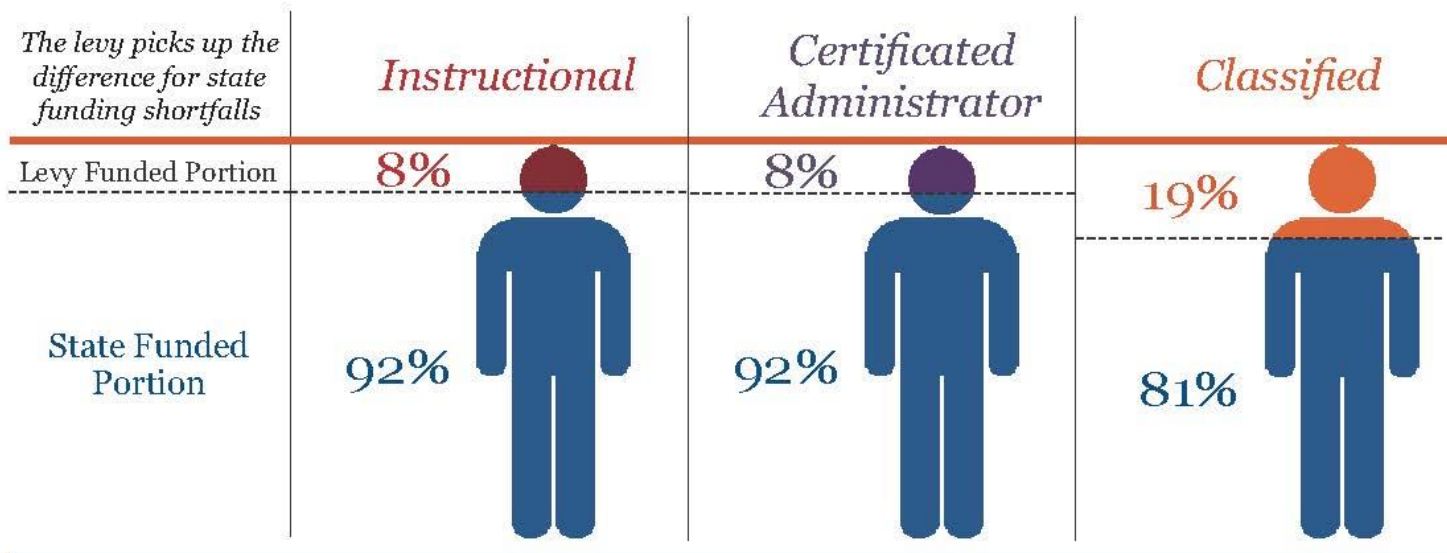


# Compensation reliant on local levies

## Initial regionalization factor of 24 percent

- **All state compensation funds are committed** to employees
- Reduced reliance on local levy creates **one-time surplus of levy funds**
- Levy surplus is from the portion of 2018 \$55.5 levy and LEA in 2018-19

### *2018-19 State funding shortfalls by group*



# Compensation reliant on local levies

## Phaseout of regionalization to 18 percent creates deficit

- Expands the reliance on local levy funding contrary to McCleary
- Combined with excessive cut to Everett levy, result is major shortfall
- Current planning is to reserve surplus levy funds to offset future deficits

*2022-23 State funding shortfalls by group*



# Levy and regionalization phaseout

## Five-year estimate of legislative impacts with \$1.50 levy

- Regionalization phase down creates structural deficit
- State underfunding of salaries increases with phaseout

(In Millions)	2018-19	2019-20	2020-21	2021-22	2022-23
Enrichment Levy/LEA	41.9	32.4	34.5	36.0	37.1
BE CIS - Teachers	(9.1)	(11.3)	(14.1)	(17.8)	(21.6)
BE CAS - Administrators	(0.9)	(1.1)	(1.5)	(1.9)	(2.3)
BE CLS - Classified	(5.8)	(6.6)	(7.2)	(7.9)	(8.5)
<b>Remaining Levy</b>	<b>26.1</b>	<b>13.4</b>	<b>11.7</b>	<b>8.4</b>	<b>4.7</b>
Special Education	(3.6)	(4.6)	(6.1)	(7.8)	(9.5)
Athletics/Activities	(2.7)	(2.8)	(2.9)	(2.9)	(3.0)
Other	(2.6)	(3.2)	(3.3)	(3.8)	(4.0)
<b>Remaining Balance</b>	<b>17.2</b>	<b>2.8</b>	<b>(0.6)</b>	<b>(6.1)</b>	<b>(11.8)</b>
<i>Regionalization Factor</i>	1.24	1.24	1.22	1.20	1.18

Does not include future operating needs for new elementary, large curriculum adoptions, or strategic priorities

# Levy and regionalization phaseout

## Five-year estimate with elementary 18 and curriculum

Enrichment Levy/LEA	41.9	32.4	34.5	36.0	37.1
BE CIS - Teachers	(9.1)	(11.3)	(14.1)	(17.8)	(21.6)
BE CAS - Administrators	(0.9)	(1.1)	(1.5)	(1.9)	(2.3)
BE CLS - Classified	(5.8)	(6.6)	(7.2)	(7.9)	(8.5)
<b>Remaining Levy</b>	<b>26.1</b>	<b>13.4</b>	<b>11.7</b>	<b>8.4</b>	<b>4.7</b>
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Other	(2.6)	(3.2)	(3.3)	(3.8)	(4.0)
<b>Remaining Balance</b>	<b>17.2</b>	<b>2.8</b>	<b>(0.6)</b>	<b>(6.1)</b>	<b>(11.8)</b>
With Curriculum	0.0	0.0	0.0	(1.1)	(0.7)
With Elementary 18	0.0	(1.3)	(1.3)	(1.4)	(1.4)
<b>Adjusted Balance</b>	<b>17.2</b>	<b>1.5</b>	<b>(1.9)</b>	<b>(8.6)</b>	<b>(13.9)</b>

# Levy and regionalization phaseout

**Sustainability is at risk even at voter approved levels**

Enrichment Levy/LEA	41.9	38.4	46.3	50.8	53.4
BE CIS - Teachers	(9.1)	(11.3)	(14.1)	(17.8)	(21.6)
BE CAS - Administrators	(0.9)	(1.1)	(1.5)	(1.9)	(2.3)
BE CLS - Classified	(5.8)	(6.6)	(7.2)	(7.9)	(8.5)
<b>Remaining Levy</b>	<b>26.1</b>	<b>19.4</b>	<b>23.5</b>	<b>23.2</b>	<b>21.0</b>
Special Education	(3.6)	(4.6)	(6.1)	(7.8)	(9.5)
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Other	(2.6)	(3.2)	(3.3)	(3.8)	(4.0)
<b>Remaining Balance</b>	<b>17.2</b>	<b>8.8</b>	<b>11.2</b>	<b>8.7</b>	<b>4.5</b>
With Curriculum	0.0	0.0	0.0	(1.1)	(0.7)
With Elementary 18	0.0	(1.3)	(1.3)	(1.4)	(1.4)
<b>Adjusted Balance</b>	<b>17.2</b>	<b>7.5</b>	<b>9.9</b>	<b>6.2</b>	<b>2.4</b>

Does not include strategic priorities such as 1:1 facilitators and technicians or new high school operating costs

# Summary

## **State did not fully fund McCleary**

- Special education program continues to require local levy dollars

## **Much of the “new” state funding is prescriptive**

- K-3 class size, LAP, COLA, retirement rate increases and benefits

## **All state compensation funds flow to employees**

## **Compensation continues to be reliant on local levies**

- Phaseout of 24 percent regionalization factor exacerbates reliance

## **Legislative action is needed to fix levy**

- Voter approved level is well above \$1.50 per \$1,000 assessed value
- Fix can only help for 2020-2022

## **Even with voter approved levy, sustainability is at risk**



# Thank You!



**Finance and Business Services**