



# Legislative Update 2017-19 Biennium

**Board of Directors Meeting**

August 29, 2017



**Finance and Business Services**

# Overview

## Objectives

- Review shortfalls in the legislature's response to McCleary
- Discover the consequences of the ***Enrichment Levy swap***
- Understand effects of ***Enrichment Levy rules*** on compensation
- Review initial analysis of ***Enrichment Levy deficit*** projection
- Consider implications of ***K-3 class size reduction***
- Explain ***categorical*** program impacts on budget

## Board goal

- S.5.b, Pursue refined state and local legislative advocacy in support of district priorities



# Legislative Shortfalls



# Legislative shortfalls

## Initial review reveals significant shortfalls

- Legislature ignored special education funding shortfall
  - ◆ *External ratings of Everett's special education program rank high for program quality and efficiency, yet the legislature did not address Everett's 2017-18 funding shortfall of almost \$10 million*
- New **Enrichment Levy** formulas exacerbate inequities
  - ◆ *Increases in statewide property tax were offset by lowering the limits on local levies, but the numbers vary dramatically between districts*
- Significant shifts in state funding and compensation structures create winners and losers
- Capital budget is being held hostage and the duty to build more K-3 classrooms was ignored



# Special Education Shortfall

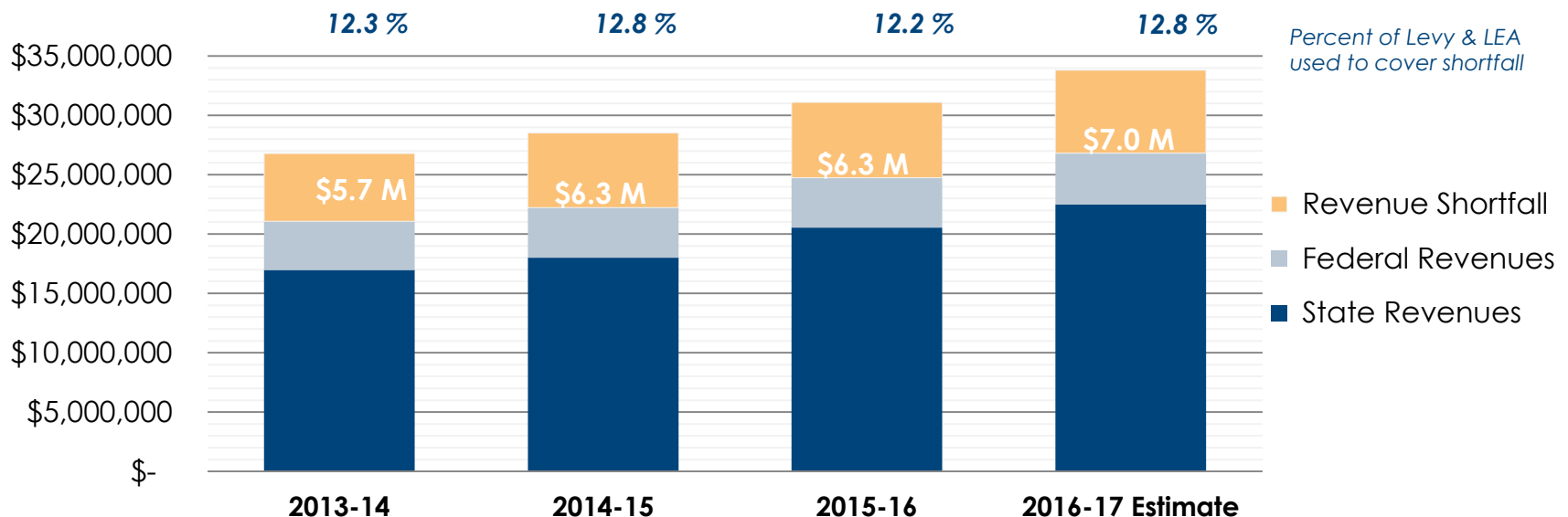


# Special education shortfalls

## Historical underfunding of special education ignored

- Everett programs deliver essential services with high efficiency
- Historically Everett spec. ed. enrollment is between 11.5 and 11.8 percent
- State funding cap was increased from 12.7 to 13.5 percent
- Increase only helps those with high enrollment, not Everett
- **2017-18 shortfall projected to approach \$10 million**

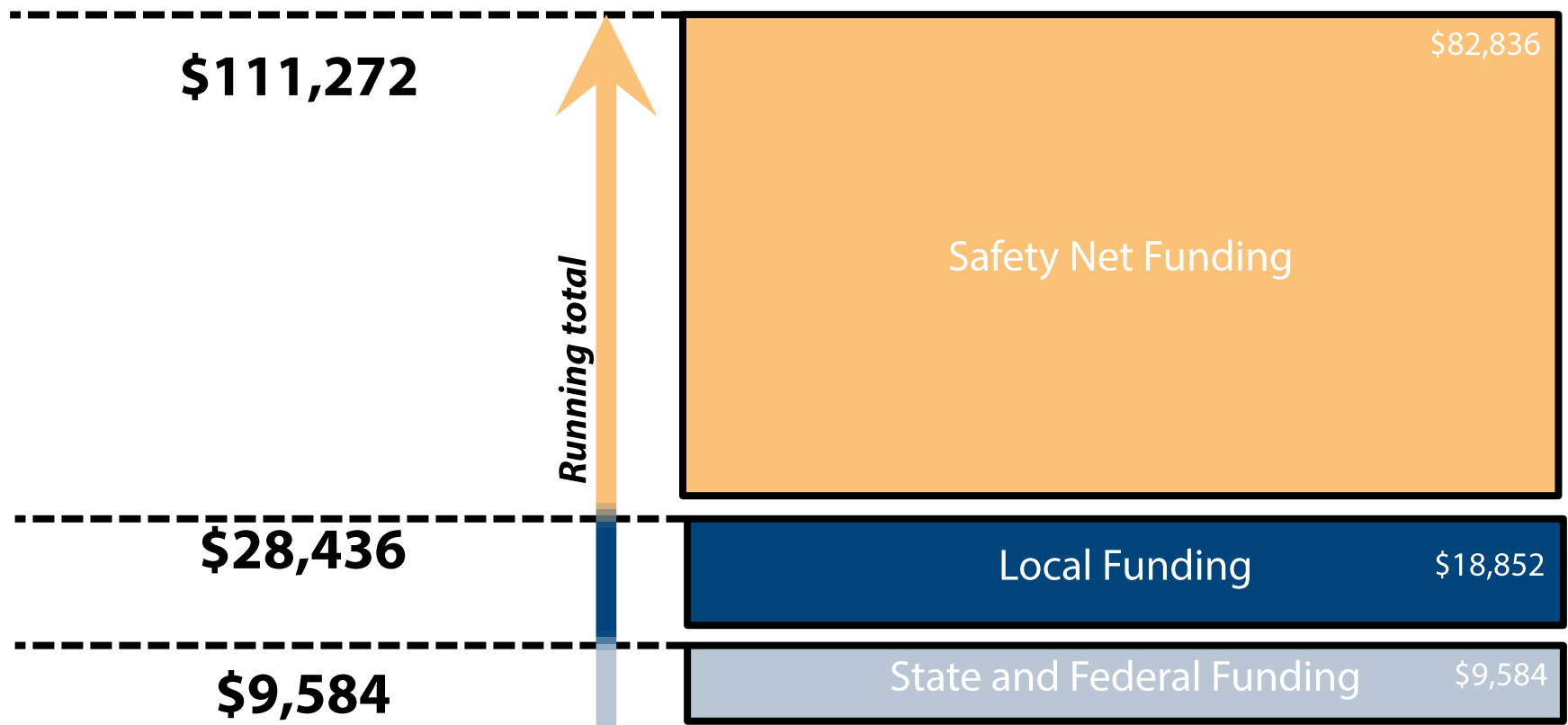
### Everett's Special Education Annual Funding Shortfall



# Special education shortfalls

## Special education is basic education

- OSPI has been tasked with reviewing the safety net formula
- Budget did not add funding to increase safety net reimbursements



# Enrichment Levy





# Enrichment Levy overview

## What is an Enrichment Levy?

- For 30 years law provided a local Maintenance and Operations Levy, often called Educational Programs and Operations Levy
- Over time the legislature increased the levy lid from 10 percent to 28 percent to offset state basic education funding cuts
- Current system is inequitable; many districts are grandfathered as high as 37 percent, and some have no levy at all
- Historical levy growth of 4 to 6 percent kept pace with inflation and collective bargaining agreements
- Future levy will be capped by the **Implicit Price Deflator** (IPD), which typically is below 2 percent.



# Enrichment Levy overview

## In response to the court, the 2017 legislature:

- Renamed the **Maintenance and Operations Levy** the **Enrichment Levy**
- Prohibited using **Enrichment Levy** funds for basic education
- Mandated a new accounting structure to track levy funds
- Did not define clearly the meaning of basic education
- Provided only vague guidance in HB 2242 on how the **Enrichment Levy** can be spent:
  - ◆ *Extracurricular activities, extended school days, or an extended school year*
  - ◆ *Additional course offerings beyond the minimum instructional program*
  - ◆ *Any additional salary costs attributable to the provision or administration of the enrichment activities allowed under this subsection*
  - ◆ *Activities associated with early learning programs*
  - ◆ *Additional activities or enhancements OSPI determines to be a documented and demonstrated enrichment of the state's statutory program of basic education*



# Enrichment Levy inequity

## Inequities of the “lesser” of two formulas

- Levy authority was redefined to be the **lower** of:
  - \$1.50 per \$1,000 of assessed property value (AV) or
  - \$2,500 per full-time equivalent student (FTE)
- Everett currently collects \$3.07/\$1,000 AV
- State guarantees \$1,500 per student FTE
- Bellevue (same FTE as Everett) can collect \$2,500 per FTE
- Everett is just below \$1,500 per FTE
- Everett is capped at \$20 million less than Bellevue***

	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			

# Enrichment Levy rules

## Legislative requirements

- Starting with levies collected in 2019, OSPI must approve an **Enrichment Levy** expenditure plan
- OSPI must respond within 30 days
- February 2018 resolutions due in December
- Board resolutions need be approved in November
- OSPI **Enrichment Levy** plan approval needed by late October
- Expenditure plan submitted to OSPI in late September
- No guidance yet from OSPI on plan content, format, or level of detail necessary for approval
- Ballot title must be confirmed with the local county prosecutor



# Stable Tax Rate Commitment

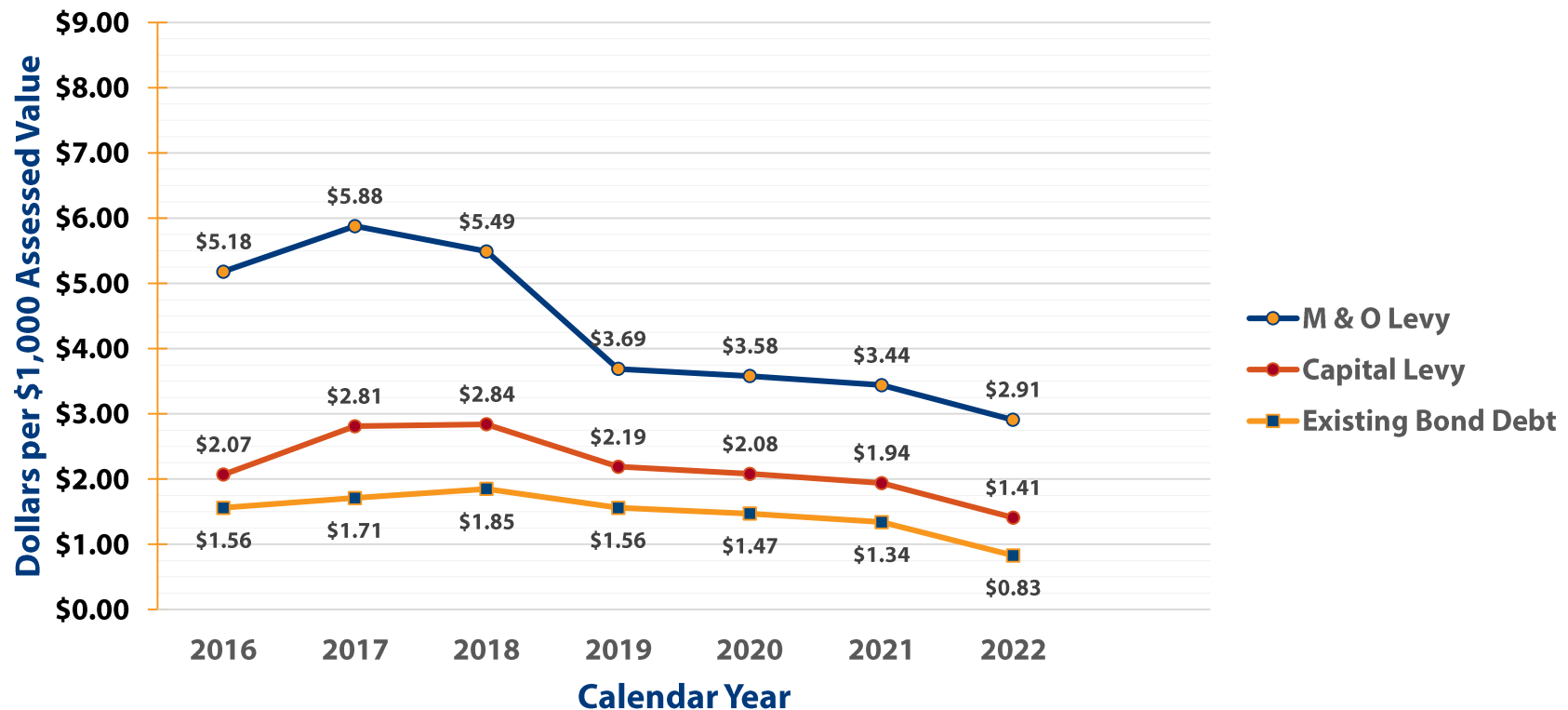


# Stable tax rate implications

## Rate cut from \$3.07 to \$1.50/\$1,000 AV in 2019

- Levy swap will create significant confusion for local communities

### Local Tax Rate Implications

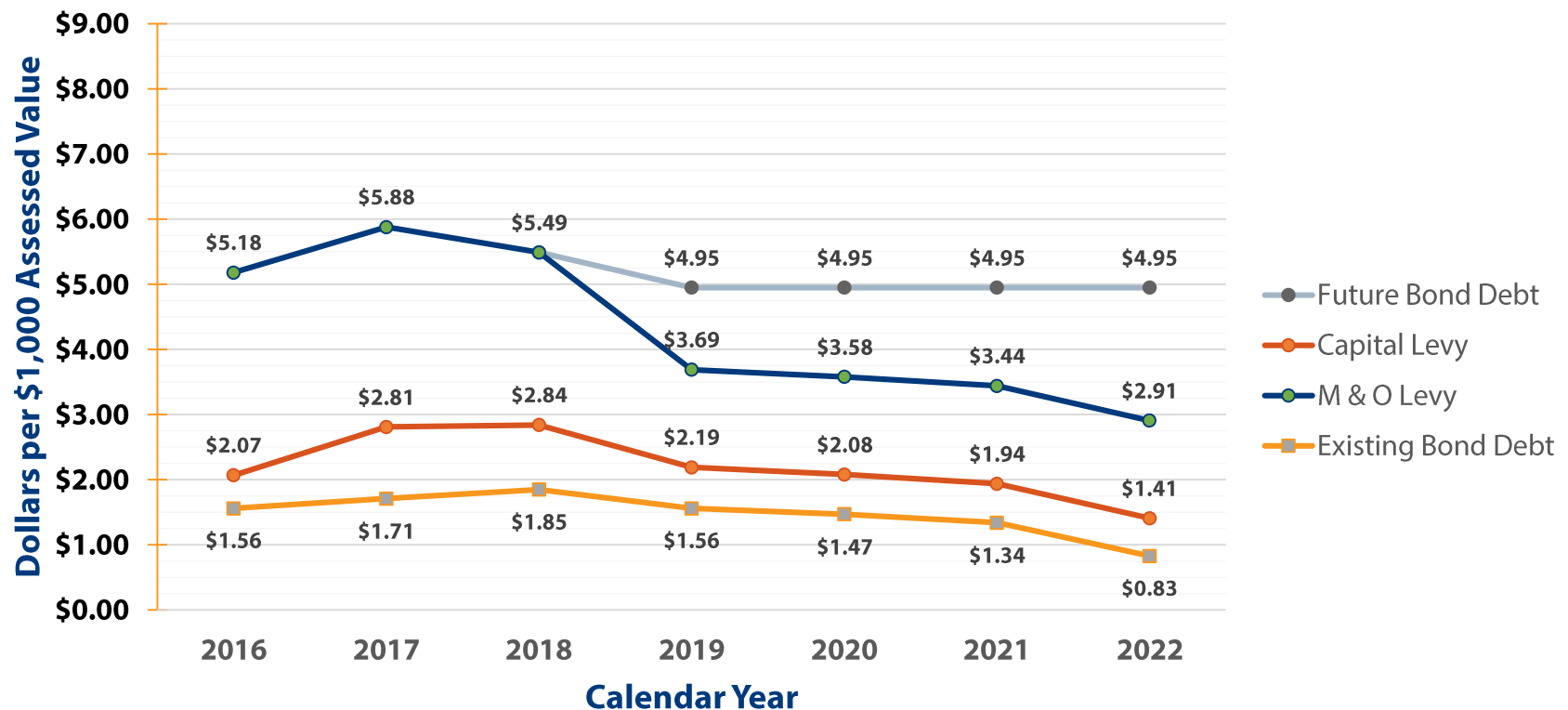


# Stable tax rate implications

## Stable rate commitment must include state schools

- Cut in local levy cap allows greater bonding capacity within stable structure; however, the state increase must now be included in the net tax analysis

### Local Tax Rate Implications

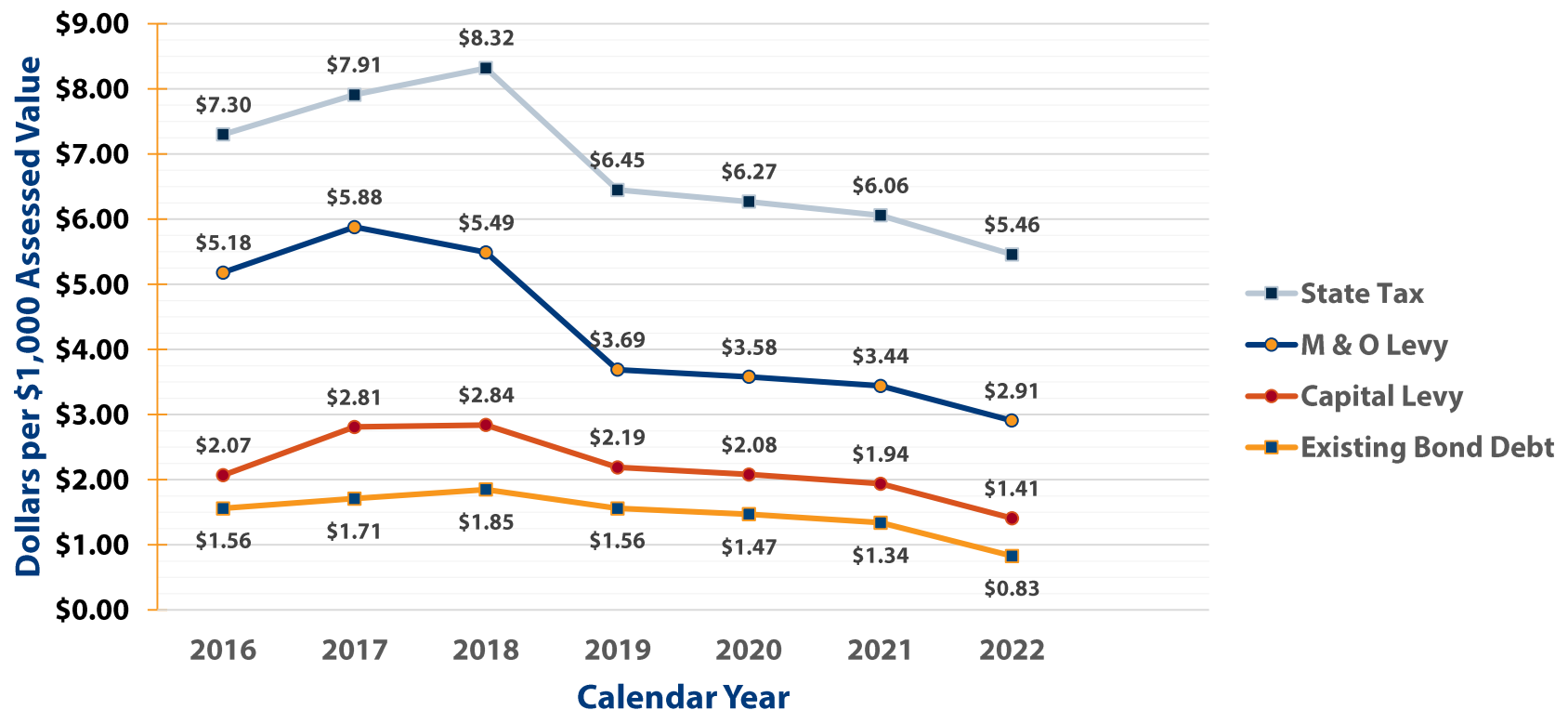


# Stable tax rate implications

## In 2018 state bumps rate to \$2.70/\$1,000 AV

- Current levy is also in place so state increase will create a spike in 2018

### Local and State Tax Rate Implications





# Compensation

*New system implemented in 2018-19*



# Compensation 2018-19 and beyond

## Salary allocation model was eliminated

- OSPI will create an optional salary grid for districts to “consider”
- Staff mix factor cut beginning in 2018-19; districts adjusted to state average
- Equal phase-in between the 2018-19 and 2019-20 school years
- Regionalization factor of 6, 12, 18, or 24 percent applied to the base salaries
- Everett begins at 24 percent then steps down to 18 percent by 2021-22
- Future salary increases lowered from CPI to the IPD

Index	2018	2019	2020	2021
IPD	1.7%	1.6%	1.8%	1.9%
CPI	2.3%	2.7%	2.1%	2.1%
Difference	(0.6%)	(0.9%)	(0.3%)	(0.2%)



# Compensation 2018-19 and beyond

## Crosswalk to new schedules is extremely complex

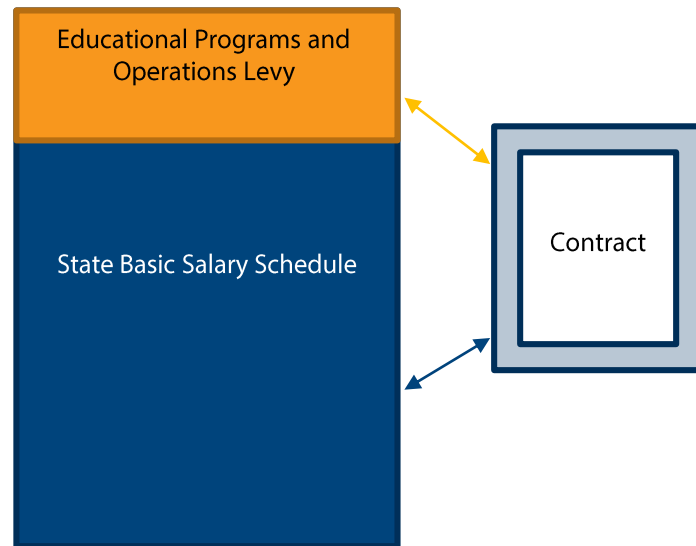
- Baseline for crosswalk is the current combined base and TRI schedule
- Methodology to add new BE funding to current “base salary schedule” must be determined to complete a cell by cell gap analysis
- Delineation of current work now deemed BE vs. enrichment
- HB 2442 kept time, responsibility, or incentive, creating inconsistency with hourly rate language
- New method must be developed to determine the hourly rate of certificated staff

INITIAL 2017-18 TRI SALARY SCHEDULE - DRAFT										
STEP	BA	BA+15	BA+30	BA+45	BA+60	BA+75	BA+90	BA+105	BA+120	BA+135
0	47,928	49,363	50,789	52,057	53,475	54,921	56,358	57,794	59,242	60,682
1	50,538	51,786	53,139	54,666	56,105	57,553	59,000	60,434	61,881	63,318
2	53,004	54,295	55,724	57,167	58,609	60,039	61,492	62,935	64,370	65,809
3		56,669	58,090	59,533	60,959	62,391	63,826	65,252	66,680	68,124
4		59,104	60,562	61,996	63,423	64,852	66,279	67,709	69,146	70,567
5			63,029	64,468	65,893	67,303	68,745	70,171	71,603	73,019
6				67,063	68,483	69,911	71,346	72,763	74,198	75,618
7				69,502	70,931	72,353	73,770	75,205	76,620	78,050
8				72,114	73,527	74,957	76,368	77,794	79,230	80,649
9					76,128	77,549	78,974	80,398	81,815	83,237
10					78,722	80,147	81,579	82,994	84,420	85,835
11					81,317	82,751	84,170	85,584	87,010	88,435
12						85,339	86,764	88,190	89,619	91,033
13						87,937	89,374	90,797	92,212	93,641
14						91,012	92,442	93,858	95,290	96,708
15						92,193	93,641	95,075	96,526	97,963
16						92,193	93,641	95,075	96,526	97,963
17						92,193	93,641	95,075	96,526	97,963
18						92,193	93,641	95,075	96,526	97,963
19						92,193	93,641	95,075	96,526	97,963
20						92,693	94,141	95,575	97,026	98,463
21						92,693	94,141	95,575	97,026	98,463
22						92,693	94,141	95,575	97,026	98,463
23						93,193	94,641	96,075	97,526	98,963
24						93,193	94,641	96,075	97,526	98,963
25						93,193	94,641	96,075	97,526	98,963
26						93,693	95,141	96,575	98,026	99,463
27						93,693	95,141	96,575	98,026	99,463
28						93,693	95,141	96,575	98,026	99,463
29						94,193	95,641	97,075	98,526	99,963

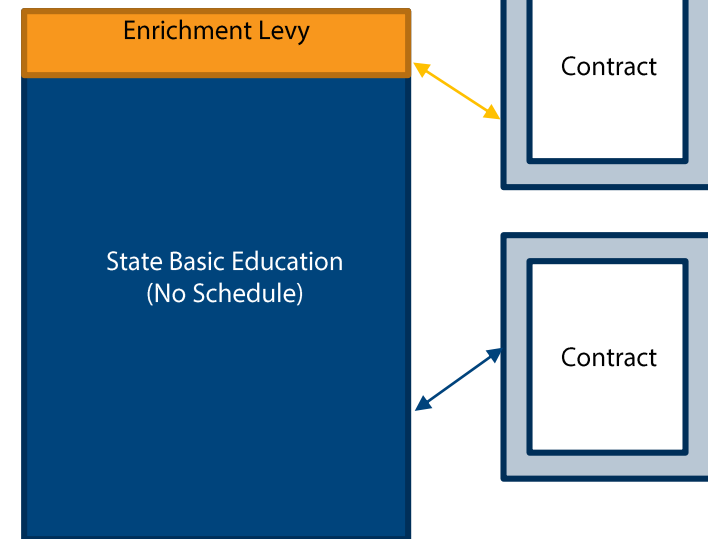
# Compensation 2018-19 and beyond

## Other complexities of transition to a new structure

- Cutting “mix factor” impacts districts with more experienced teachers
- Statewide mix factor is 1.53, while Everett is at 1.59, lowering funding
- State allowed 10 percent higher pay for STEM teachers, no BE funding
- State cut funding for master’s degrees with elimination of salary alloc. model
- In Everett, 790 master’s stipends cost nearly \$3.2 million, now in the base
- Similar analysis must also occur for non-teaching staff



**Now**



**2018-19**

# New Revenue?



# New revenue? K-12 net investment

## Total net investment has been overstated

- Claim of investing \$7.2 billion did **not** back out local levy reduction
- Prior OSPI estimates including I-1351 reached over \$4 billion per year in 2021
- Without new revenues for 2018-19 and beyond, cuts will be necessary

State Fiscal Year	2018	2019	2020	2021	Total
State Revenue	\$392	\$1,518	\$2,362	\$2,979	\$7,251
Local Revenue	\$0	(\$378)	(\$651)	(\$590)	(\$1,619)
Net Revenue	\$392	\$1,140	\$1,711	\$2,389	\$5,632

This chart assumes the levy cliff would occur in the 2019 calendar year, which is now current law.

# New revenue? 2017-18 pivot table

## New discretionary funding is nominal at best

- Most funding is for 2.3 percent COLA and jump in retirement rates
- Many new program increases are restricted to categorical funding

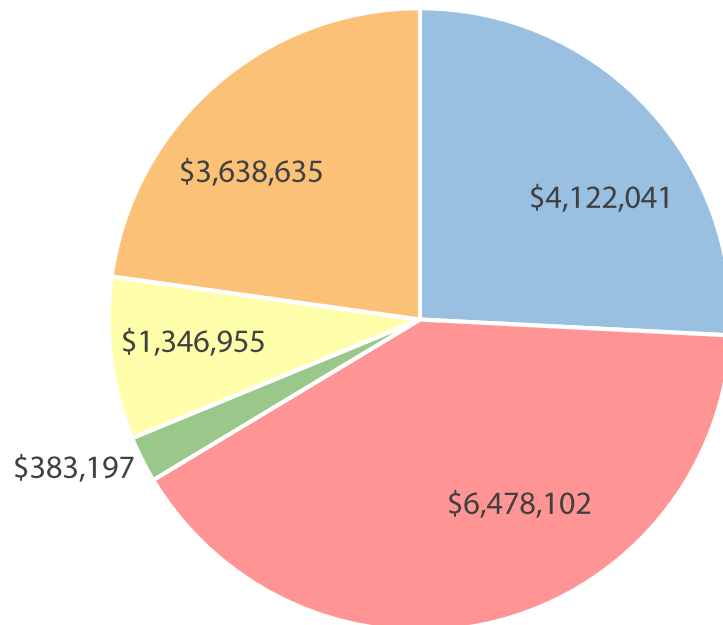
Entity	Group	Description	January 2017 Apportionment	Conference Budget (Variance From Current)
School District	Basic Education Programs	Salary For State Allocated Units	\$ 70,206,081	\$ 1,946,720
		Benefit For State Allocated Units	\$ 27,714,216	\$ 2,110,343
		K-3 Class Size*	\$ 21,851,948	\$ 5,351,994
		K-3 High Poverty Class Size*	\$ 12,904,558	\$ 1,126,108
		Social and Health Services Staff	\$ -	\$ -
		Materials, Supplies, and Operating Costs (Not incl. CTE or Skill Centers)	\$ 22,540,980	\$ 383,197
		ALE Funding	\$ 2,010,640	\$ 58,250
		Dropout Reengagement	\$ 232,237	\$ 6,728
		Special Education	\$ 15,585,630	\$ 1,346,955
		Vocational Programs	\$ 10,016,582	\$ 1,272,235
		Skill Centers	\$ -	\$ -
		Duplicated Salary and Benefits in Baseline for Current Year*	\$ (34,756,506)	\$ -
	Basic Education Programs Total		\$ 148,306,366	\$ 13,602,529
	Categorical Programs	Learning Assistance Program - Salary and Benefits	\$ 4,100,921	\$ 1,706,560
		Transitional Bilingual Program - Salary and Benefits	\$ 3,204,302	\$ 389,778
		Highly Capable Program - Salary and Benefits	\$ 215,898	\$ 270,062
Categorical Programs Total		\$ 7,521,121	\$ 2,366,399	
School District Total			\$ 155,827,487	\$ 15,968,929
Grand Total			\$ 155,827,487	\$ 15,968,929
	Legend			
	2.3% COLA, increased retirement rates and associated fringe benefit pass through for state funded positions requiring local match			
	New funding tied to expanded programs with offsetting state and local staffing costs			
	Inflationary increase to MSOC funding to support underfunded basic education expenditures			
	2.3% COLA, increased retirement rates, associated fringe benefit pass through fund K-3 Class size requiring local match			
	New funding dedicated to categorical programs			



# New revenue? 2017-18 pivot table

## Most “new funding” comes with strings attached

- COLA goes directly to staff and requires match from local levy
- Increased retirement rates ***passed through*** directly to DRS with local match
- Increased categorical funding serves students, but does ***not*** offset levy cut
- K-3 class size funding consumed by teacher and classroom operations costs
- *Less than \$400,000 of the nearly \$16 million available to offset inflation*



- 2.3% COLA, increased retirement rates & fringe benefits pass through for state-funded positions requiring local match
- New funding tied to expanded programs with offsetting state and local staffing costs
- New MSOC funding to support underfunded basic education expenditures as defined in SHB 2260
- 2.3% COLA, increased retirement rates & fringe benefits pass through, & K-3 class size requiring local match
- New funding dedicated to categorical programs

# New revenue? 2018 and beyond

## Remaining levy dollars are only discretionary funding

- After covering existing commitments, little may be left for true enrichment

Everett School District							
School Year 2018-22							
31002 - Everett School District							
School Year 2018-19			SY 2016-17	Maintenance	2018-19 Enacted Budget	2019-20 Enacted Budget	2020-21 Enacted Budget
Basic Education Program Total							
	Apportionment (without CTE & Skills Center)1		\$ 124,901,455	\$ 135,372,546	\$ 160,631,333	\$ 179,165,758	\$180,057,365
	Career & Technical & Skills Center (CTE & SC)		\$ 10,016,582	\$ 10,353,290	\$ 13,306,352	\$ 14,813,834	\$ 14,885,973
	Bilingual (TBIP)		\$ 3,204,302	\$ 3,315,781	\$ 4,260,520	\$ 4,763,364	\$ 4,774,460
	Highly Capable (HiCap)		\$ 215,898	\$ 215,965	\$ 576,057	\$ 644,046	\$ 645,546
	Learning Assistance Program (LAP)		\$ 4,100,921	\$ 4,243,594	\$ 5,063,588	\$ 5,661,213	\$ 5,674,401
	LAP Concentration		\$ -	\$ -	\$ 1,820,530	\$ 2,035,396	\$ 2,040,138
	Special Education		\$ 16,821,025	\$ 18,107,901	\$ 21,507,762	\$ 23,987,579	\$ 24,098,530
	Transportation		\$ 10,475,606	\$ 9,698,721	\$ 10,199,517	\$ 10,677,319	\$ 10,722,594
Total Apportionment			\$ 169,735,789	\$ 181,307,797	\$ 217,365,657	\$ 241,748,510	\$242,899,007
Other Programs / Changes							
	Professional Learning Time		\$ -	\$ -	\$ 665,054	\$ 1,483,912	\$ 2,231,576
	National Board Bonus2		\$ -	\$ -	\$ -	\$ -	\$ -
	Local Effort Assistance (LEA)		\$ 3,295,195	\$ 2,799,922	\$ 2,681,725	\$ 1,129,444	\$ 467,800
Total Other			\$ 3,295,195	\$ 2,799,922	\$ 3,346,779	\$ 2,613,356	\$ 2,699,377
	Total State Funding		\$ 173,030,984	\$ 184,107,719	\$ 220,712,437	\$ 244,361,866	\$245,598,383
Local Funding							
	M&O Levy / Enrichment Levy4		\$ 51,104,800	\$ 47,491,526	\$ 38,820,836	\$ 28,775,799	\$ 30,144,484
Total Local			\$ 51,104,800	\$ 47,491,526	\$ 38,820,836	\$ 28,775,799	\$ 30,144,484
	Total State And Local Funding		\$ 224,135,784	\$ 231,599,245	\$ 259,533,273	\$ 273,137,665	\$275,742,868
New Money (variance to Maintenance)					\$ 27,934,028	\$ 43,750,134	\$ 43,249,723
Variance compared to current school year					\$ 35,397,489	\$ 49,001,881	\$ 51,607,084

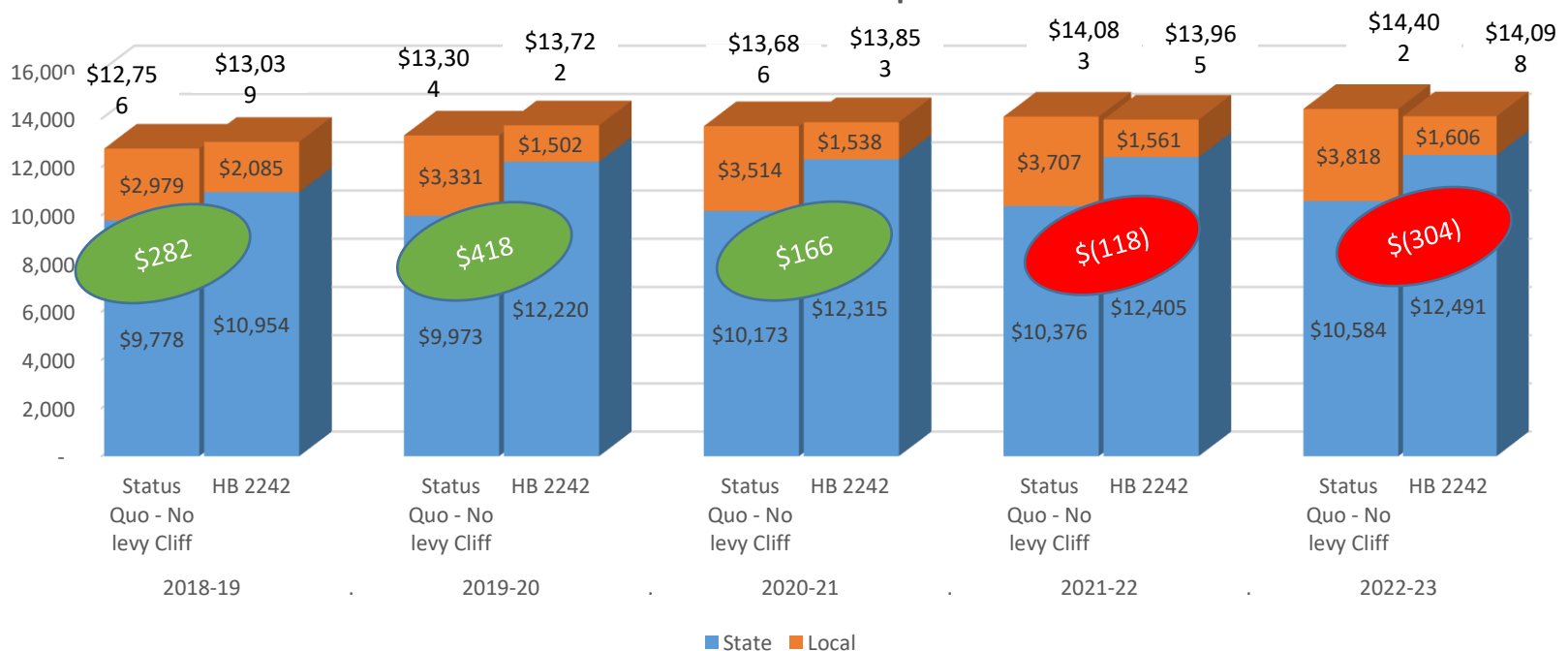
Source - Office of Superintendent of Public Instruction

# New revenue? Total revenue picture

## Total revenue per student increases then declines

- Status quo funding at 28 percent levy compared to new funding
- Claim of new investments true only in first few years
- Phasing out regionalization funding further impacts Everett

Revenue Analysis of Status Quo (no HB2242 salary or levy changes) to Enacted Budget  
Amounts are Per Pupil



# New revenue? 2018 and beyond

## Preliminary look at demands on Enrichment Levy

- Historical increases in salaries and benefits – status quo
- Levy capped by IPD, offset by drop in regionalization factor

(in millions)	2018-19	2019-20	2020-21	2021-22	2022-23
Enrichment Levy/LEA	41.5	29.9	30.6	31.1	31.9
CIS - Teachers	(19.7)	(13.3)	(16.9)	(20.6)	(24.4)
CAS - Administrators	(2.9)	(1.2)	(1.6)	(2.0)	(2.4)
CLS - Classified	(8.6)	(5.9)	(6.7)	(7.4)	(8.2)
Remaining Levy	10.3	9.5	5.3	1.1	(3.1)
Special Education	(6.9)	(5.0)	(6.3)	(7.6)	(8.9)
ALE/Reengagement	(2.1)	(2.2)	(2.3)	(2.4)	(2.5)
Athletics/Activities	(2.6)	(2.7)	(2.8)	(2.9)	(3.0)
<b>Available balance</b>	<b>(1.3)</b>	<b>(0.4)</b>	<b>(6.1)</b>	<b>(11.8)</b>	<b>(17.5)</b>
<i>Regionalization factor</i>	1.24	1.24	1.22	1.20	1.18

# K-3 Class Size Reduction



# K-3 Class size reduction

## 2017-18 K-3 investment fulfills McCleary, not I-1351

- No capital funding for added classroom space
- Late legislative decision-making plus teacher shortage prompted legislature to delay compliance until 2018-19
- Everett only has room to add a few teachers
- Finding teachers is a statewide challenge
- New 17:1 ratio drives about 54 added teachers
- 17:1 **is** a **student-to-teacher ratio** that includes non-classroom teachers (PE, music, reading specialists...), **it is not an individual classroom size requirement**
- When fully implemented including specialists, actual class size will average about 20.5

# K-3 Class size reduction

## Without more classrooms, 2018-19 funding will be cut

- Students do not arrive in even groups of 20, so class sizes will vary by grade levels and by school
- Alternatives include adding more specialists or team teaching, but this will not reduce actual class size
- Multiple State of the School Reviews (SOSR) requested math specialists, and if implemented, 36 classrooms or portables would still be needed to access full K-3 reduction funding of \$6.8 million



# Categorical Programs





# Categorical programs

## Career and Technical Education (CTE)

- Reduced class size from 26.57 to 23.0
- Reduced indirect rate from 15 percent to 5 percent, increasing CTE funding and reducing BE funding

## Learning assistance program

- Increased instructional hours in qualifying high poverty schools (50 percent)

## Other categorical programs

- Increased funding for English learners
- Increased student eligibility for highly capable to 5 percent

# Summary



# Summary

## Presentation provided an overview of the 2017 legislative outcomes under HB 2242

- Reviewed the shortfalls in the legislature's response to McCleary
- Deepened understanding of new Enrichment Levy and levy swap
- Reviewed implications of Enrichment Levy rules on compensation
- Considered preliminary analysis of long-term funding implications
- Reviewed the hurdles of implementing K-3 class size reduction
- Identified categorical funding change impacts on the basic education budget



# Thank You!

