
Appropriations Committee

E2SSB 6362

Brief Description: Modifying basic education funding provisions.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Wellman, Rolfes and Billig; by request of Superintendent of Public Instruction).

Brief Summary of Engrossed Second Substitute Bill

- Moves ahead the schedule for full funding of the increased state salary allocations for school employees to the 2018-19 school year, rather than phasing in over two school years, and adjusts related provisions.
- Increases regional salary adjustments for districts west of the Cascade Mountains adjacent to a district with a regionalization factor more than one tercile higher, and creates a salary safety net grant program for school districts.
- Increases the special education excess cost multiplier from 0.9309 to 0.9609, and directs changes to the special education safety net rules.
- Bases the high-poverty Learning Assistance Program (LAP) allocation on the three-year rolling average of enrollments in free and reduced-price meal programs in a school.
- Creates a transportation alternate funding grant program.
- Indicates legislative intent to provide funding to support schools with paid sick leave costs.
- Changes the inflationary increase for the Local Effort Assistance (LEA) threshold and the maximum per pupil limit on local enrichment levies.
- Defines "resident student" for levy and LEA calculations as a student that either resides in the district or transfers into the district by choice, excluding some participants in online programs.
- Makes changes to enrichment levy restrictions, including removing references to transportation vehicle enrichment levies and excluding funds collected from transportation and facility levies from maximum levy amounts.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

- Delays the implementation of the state allocation for professional learning days by one year.
- Changes the rates to be paid to community and technical colleges for Running Start students to \$6,570, adjusted for inflation from the 2017-18 school year.
- Revises the state's apportionment schedule for monthly payments to school districts.

Hearing Date: 2/24/18

Staff: James Mackison (786-7104).

Background:

To allocate state funding for basic education, the prototypical school funding model allocates general apportionment funding to school districts based on assumed levels of staff and other resources necessary to support "prototypical" elementary, middle, and high schools. The state generates funding allocations for each school district through salary assumptions for different staff types, as well as for non-staff costs known as materials, supplies, and operating costs (MSOC). The funding provided to school districts through the prototypical school formulas is for allocation purposes only, and districts have discretion over how the money is spent to implement the state program, subject to some limits. In addition to the staffing levels and compensation allocated in general apportionment through the prototypical school model, the state's funding formulas also include allocations for additional support and instruction time through funding for specialized services often referred to as "categorical" programs, including Special Education, Vocational Education, Transitional Bilingual Instructional Program, the Learning Assistance Program, and the Highly Capable Program. State law provides an apportionment schedule indicating the proportional share of the total amount due to districts each month. The school district fiscal year is from September 1 through August 31, whereas the state fiscal year is July 1 through June 30.

In the 2012 *McCleary* decision, the state Supreme Court ruled that insufficient state funding for basic education unconstitutionally caused districts to rely on local levy funding to support the costs of implementing the state's program. Since the *McCleary* decision, the Legislature has funded a number of specified enhancements to the basic education program, including transportation; all-day kindergarten; full funding of MSOC; and K-3 class size reductions.

Engrossed House Bill (EHB) 2242, enacted in 2017, made a number of changes to state funding allocations. It expanded state funding for staff compensation to be phased in over the 2018-19 and 2020-21 school years; it revised basic education funding formulas and categorical programs; and it adjusted rates for state taxes and local levies collected by school districts. In November 2017, the Supreme Court upheld the elements of EHB 2242 but declared that the salary allocation phase-in did not comply with the constitutional deadline of 2018.

School District Employee Compensation.

Prior to EHB 2242, to fund staff units in the prototypical school formula, the state allocated funding for certificated instructional staff (CIS) salaries based on a "grid" which provides salary values that increase based on educational credit and years of service, which was used to calculate

a "staff mix." Funding to support salaries for the classified staff (CLS) and administrative staff (CAS) in the prototypical school funding formula is specified in the biennial operating budget bill as a salary rate per state-funded staff person. Engrossed House Bill 2242 established new salary allocations in the prototypical school model and categorical programs to replace the "staff mix," based on minimum statewide average salaries for each of the three school staffing categories. Beginning in school year 2018-19, the minimum allocated salaries must be increased in equal increments to the following amounts for school year 2019-20, adjusted for inflation from the 2017-18 school year:

- CIS—An average salary of \$64,000.
- CAS—An average salary of \$95,000.
- CLS—An average salary of \$45,912.

Under EHB 2242 the minimum allocated salaries are regionalized to reflect regional differences in the cost to recruit and retain staff and are annually adjusted for inflation, based on the Implicit Price Deflator (IPD), rather than a cost-of-living adjustment (COLA) based on the Seattle Consumer Price Index (CPI). Additional requirements are established for CIS salaries. Districts may not pay CIS less than \$40,000, or more than \$90,000, and salaries for CIS with five years' experience must be at least 10 percent more than the minimum salary. These restrictions apply to salaries for the basic education program, and exclude supplemental contracts.

Engrossed House Bill 2242 placed restrictions on school districts' collective bargaining agreements with CIS or CLS. During the 2018-19 transitional period for the new salary allocations, a school district's collective bargaining agreement with CIS or CLS may not provide for a total salary increase, including supplemental contracts, with a percentage increase that exceeds the CPI. This restriction applies to collective bargaining agreements that are in effect for the 2018-19 school year and that are entered into or modified after the restriction becomes law. A similar limit applies to salaries for CAS.

CIS Supplemental Contracts. Districts may pay CIS salaries that exceed the specified amounts only by separate contract for additional time, responsibility, or incentive. Beginning with the 2019-20 school year, a district may enter supplemental contracts only for activities that meet the new definition of enrichment, and the hourly rate under a supplemental contract may not exceed the CIS employee's hourly basic education salary.

Professional Learning. Beginning with the 2018-19 school year, the state must phase in allocations for a total of three Professional Learning Days (learning days) for CIS. The learning days must meet the definitions and standards for professional learning, and do not create an entitlement for an individual CIS to receive any particular number of learning days. Beginning in the 2019-20 school year, late start and early release days are limited to no more than seven days during the 180-day school year, with an exception for unforeseen events.

Special Education.

The state allocates funding for a program of special education for students with disabilities. Special education is funded on an excess cost formula for up to 13.5 percent of a district's students, which multiplies the district's base allocation for students enrolled in special education by an excess cost multiplier of 0.9309. Beyond these allocations, the Superintendent of Public Instruction (SPI) may provide safety net funding if a district has one or more high-cost students,

or if a district is in a community that draws a larger number of families with children in need of special education, such as a community with group homes or military bases.

State Property Tax, Enrichment Levies, and Local Effort Assistance.

State Property Tax. The state Constitution limits regular property tax levies to a maximum of 1 percent of the property's value (\$10 per \$1,000 of assessed value [AV]). The state levies a regular property tax for common schools with a statutory maximum rate of \$3.60 per \$1,000 AV. In addition to the 1 percent constitutional rate cap, regular property taxes are subject to a statutory revenue growth limit based on the lesser of inflation or 1 percent. Under the 1 percent growth restriction, the estimated effective rate of the state property tax for calendar year 2018 is \$1.76 per \$1,000 AV.

Under EHB 2242, a new state property tax is levied for the support of the common schools. For taxes levied for collection in calendar year 2018 through 2021, the aggregate rate for both the current state levy and the new state levy is \$2.70 per \$1,000 AV. The new tax is deposited in the State General Fund. The revenue growth limit does not apply to the state levies during this time. Beginning with taxes levied for collection in calendar year 2022 and thereafter, the revenue growth limit applies to both state levies. Participants in the senior citizen property tax exemption program are fully exempt from the new state levy.

Enrichment Levies. Upon voter approval, school districts are authorized to collect excess levies above the 1 percent constitutional property tax limit. School district voters may approve maintenance and operations (M&O) levies for up to four years, transportation vehicle levies for up to two years, capital levies for up to six years, and bond levies for the life of the bonds. The Legislature limits the amount school districts may collect through their M&O levies. A school district's maximum M&O levy amount is determined by the district's levy base and levy percentage, also referred to as a "lid." Beginning with calendar year 2019, M&O levies are renamed "enrichment levies," and school districts may collect enrichment levies based on a new levy lid. A district's maximum enrichment levy is the lesser of \$2,500 per pupil or a rate of \$1.50 per \$1000 of assessed value. Effective with taxes levied for collection in calendar year 2020, new limitations on enrichment expenditures apply to enrichment levies.

Local Effort Assistance. Local Effort Assistance (LEA) allocations, also known as levy equalization, are provided in proportion to the ratio of a school district's actual enrichment levy compared to the maximum enrichment levy. To qualify for LEA, a school district must have a maximum enrichment levy that is less than \$1,500 per pupil. Local Effort Assistance is provided on a per-pupil allocation basis so that the sum of levy funding and LEA for a qualifying district levying the maximum rate is \$1,500 per pupil. Effective with the 2019-20 school year, new limitations on enrichment apply to districts' LEA expenditures. Both the per-pupil enrichment levy lid and LEA are adjusted annually for inflation.

Enrichment Limitations. Beginning with the 2019-20 school year, districts may spend enrichment levies (including transportation vehicle enrichment levies), LEA, and other local revenues only for documented and demonstrated enrichment of the state's program of basic education. To constitute enrichment, a school district expenditure must supplement state minimum instructional offerings, staffing ratios, program components, or professional learning allocations. Permitted forms of enrichment consist of extracurricular activities, extended school days or school years, additional course offerings, early learning, administration of enrichment activities, and additional

activities approved by the Superintendent of Public Instruction (SPI) through the pre-ballot review process. The SPI may report to the Legislature on expanding the list of specifically permitted enrichment activities. There are also limitations on the portion of CAS salaries that can be funded by enrichment levies.

Beginning with enrichment levies for collection in calendar year 2020, a district must receive approval by the Office of the Superintendent of Public Instruction (OSPI) of an enrichment expenditure plan before it may submit an enrichment levy proposition to the voters. Processes are established for the OSPI pre-ballot review of proposed enrichment expenditures, including limitations on changes to pre-approved uses.

The 2017-19 Operating Budget also provided \$5 million for districts expected to receive less in state allocations, enrichment levies, and LEA under EHB 2242 than they would have received for that year under laws as of January 1, 2017.

Other Engrossed House Bill 2242 Changes.

Engrossed House Bill 2242 made a variety of enhancements to specific elements of the prototypical school funding model and to categorical programs. Among those changes:

- *K-3 Class Size.* Beginning in the 2018-19 school year, districts receive the K-3 class size funding sufficient to fund 17 students to one classroom teacher, only to the extent of, and proportionate to, the district's actual demonstrated class size.
- *Learning Assistance Program.* A new Learning Assistance Program (LAP) allocation is provided to fund an additional 1.1 hours of instruction per week for students in high-poverty schools, which is required to be expended for school buildings that generate the allocation. In addition, EHB 2242 enhanced LAP instructional hours currently funded in the budget.

Additional Background.

- *Transportation Funding Grant Program.* In the 2017-19 Operating Budget, up to \$10 million was provided for fiscal years 2018-2019 for a transportation funding grant program.
- *Running Start.* School districts may keep 7 percent of the state basic education allocation under the prototypical school funding statute that is received for students who participate in the Running Start program. The rest of the state allocation must be transmitted by the school district to the institution of higher education attended by the Running Start student.

Summary of Bill:

School District Salaries.

The increased state salary allocations for CIS, CAS, and CLS provided in EHB 2242 i are fully funded in school year 2018-19 instead of phased in over the 2018-19 and 2019-20 school years. The maximum CIS salary of \$90,000 is removed from statute.

The timeline for rebasing salaries is changed from every six years to every four years. The review conducted when rebasing the salaries must include the inflationary measure that is the most representative of the actual market experience for school districts.

A salary safety net grant program is created for the 2018-19 school year only and subject to funding. The program is for school districts that can demonstrate, at a minimum, that the total CIS state salary negatively affects the district's ability to recruit and retain staff. Additional criteria for the salary safety net grant program are also specified. The total under the program may not be greater than a 2 percent increase to the statewide average CIS salary allocation to the district.

The period for the annual inflationary salary adjustment using IPD for teachers and other school employees is moved ahead to the 2019-20 school year from the 2020-21 school year.

Salary Regionalization.

If a school district shares a boundary with any school district with a regionalization factor more than one tercile higher, then the regionalization factor for the district with the lower regionalization factor must be increased by 6 percent, if the lower district is located west of the crest of the Cascade Mountains. The salaries of charter and tribal compact schools will be adjusted by the regionalization factor that applies to the school district in which the charter school is geographically located. References to staff mix in charter school and tribal school statutes are removed.

Temporary Limits on Salary Increases.

In addition to inflationary increases based on IPD, exceptions are added to the limits on salary increases in the 2018-19 school year. The exceptions include: increases for annual experience and education salary step increases; if the district is below the average total salary by staff group then the district may provide increases up to the statewide average allocation; salary changes for staffing increases due to enrollment growth or state-funded increases; and salary changes to provide professional learning or National Board bonuses.

Paid Sick Leave.

The Legislature intends to provide funding in the Omnibus Appropriations Act to support school districts with the additional costs of paid sick leave under Initiative 1433.

Local School District Levies and Local Effort Assistance.

The inflation measure used to increase the LEA threshold (\$1,500 per student) and the maximum per pupil limit (\$2,500 per student) is changed to the CPI from the IPD. A high school district's maximum levy amount and LEA is reduced by the non-high payment due to the high school district when high school students living in a non-high district transfers to the high school district.

The term "resident" is defined for determining a school district's LEA and for the purposes of levies. Residents are: (1) students who reside within the geographic boundaries of the school district; and (2) students who transfer into the district by choice, except students who participate in an online course or school and do not also attend a school within the district (or, for the purpose of levies, do not receive direct instruction from district CIS) are excluded from the definition. The home district of a student who transfers into another district by choice must not receive levy revenues. School districts participating in an innovation academy cooperative receive a proportional share of the student enrollments.

Language describing the calculation of the maximum LEA is revised. The date for using the sub-fund for local revenues and LEA proceeds, and for districts to report revenue to expenditures is moved up from the 2019-20 school year to the 2018-19 school year.

Enrichment Levy Restrictions.

The use of local levies for administrator salaries must not exceed 25 percent of the total district expenditures for administrator salaries. References to transportation vehicle enrichment levies are removed. Revenues collected from levies for transportation vehicles and school facilities are excluded from some restrictions on enrichment levies, including the calculation of maximum levy amounts.

Special Education.

The special education excess cost multiplier is increased from 0.9309 to 0.9609. Professional learning days are included as part of the special education base allocation. The date for OSPI to review and revise the rules to administer the special education funding safety net process is advanced from September 1, 2019, to September 1, 2018. Additionally, OSPI must revise the rules to provide easier access by districts to the safety net funds by reducing the required annual threshold that must be exceeded for high cost students and adding flexibility to access community impact awards. A district's service delivery choice is eliminated as one of the criteria considered for awarding safety net funds.

LAP.

The high-poverty, school-based LAP allocation is modified to send the allocation to a qualifying school rather than the school building. A qualifying school is a school in which the three-year rolling average of the prior year total annual average enrollment that qualifies for free or reduced-price meals equals or exceeds 50 percent or more of its total annual average enrollment.

Transportation Grants.

A transportation alternate funding grant program is created in statute, subject to the availability of amounts appropriated for this specific purpose. As part of the award process for the grants, OSPI must review the school district's efficiency rating, key performance indicators, and local school district characteristics, such as, unique geographic constraints, low enrollment, geographic density of students, or whether a district is a non-high district.

Professional Learning Days.

The beginning of the phase-in of three professional learning days is delayed from 2018-19 to 2019-20. A school district is not required to provide professional learning days in excess of the state allocations. The state allocation for professional learning days must be used solely for the purpose of providing professional learning. The State Auditor must audit the use of the state funds. A calculation for funding professional learning days is specified.

As the Legislature phases in professional learning days, the number of late start or early release of students resulting in partial days of instruction must be phased down so that when three professional learning days are funded each school district must limit the number of partial days of instruction to no more than seven during the school year.

Running Start.

In school year 2017-18, OSPI must allocate \$6,570 per full-time equivalent college student to the pupil's school district. Each school year thereafter, this allocation shall be increased by the rate of inflation. For career and technical education Running Start students, OSPI must allocate an additional 13.5 percent of the \$6570, increased by the rate of inflation.

State Apportionment Schedule.

The apportionment schedule adjusts the monthly percentages of apportionment payments to school districts, lowering percentages in February, March, and April and increasing the percentage in August. The adjustment results in a school year–fiscal year split of 75 percent of the school year apportionment paid in one fiscal year, and 25 percent paid in the next fiscal year.

Hold-Harmless Provisions.

For the 2018-19 and 2019-20 school years, a school district qualifies for a hold harmless payment if the total state allocation, enrichment levies, and LEA is less than what the district would have received under laws as of January 1, 2017, which is before EHB 2242 was passed by the Legislature.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains multiple effective dates. Please refer to the bill.