

# SENATE BILL REPORT

## EHB 2242

As Passed Senate, June 30, 2017

**Title:** An act relating to funding fully the state's program of basic education by providing equitable education opportunities through reform of state and local education contributions.

**Brief Description:** Funding fully the state's program of basic education by providing equitable education opportunities through reform of state and local education contributions.

**Sponsors:** Representatives Sullivan, Harris, Lytton and Taylor.

**Brief History:** Passed House: 6/30/17, 67-26.

**Committee Activity:**

**Floor Activity:**

**Third Special Session:** Passed Senate: 6/30/17, 32-17.

### Brief Summary of Engrossed Bill

- Adds statewide salary allocations necessary to hire and retain qualified staff as a component of the Legislature's statutory definition of "basic education."
- Increases state base salary allocations for certificated instructional, certificated administrative, and classified staff and provides minimum and maximum salary limitations.
- Requires the SPI to develop a model salary grid as a school district resource.
- Initiates a new regionalization increase for state salary allocations for certain school districts.
- Limits school district salary increases for the 2018-19 school year as part of the state salary allocation transition.
- Consolidates school employee insurance benefits provided by a newly created School Employee Benefits Board.
- Aligns the prototypical school allocation model with previous increases in funding provided by the Legislature and increases categorical program allocations.
- Modifies the state allocation schedule.

*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.*

- Requires statewide average per-pupil allocations to be included in legislative budget documents and reported by the Superintendent of Public Instruction (SPI) in allocation reports and on the agency website.
- Increases the state property tax rate to \$2.70 per thousand dollars of assessed value beginning in calendar year 2018.
- Provides a new formula for the school district levy lid calculation and renames school district "maintenance and operation" levies to "enrichment" levies.
- Requires a school district to get SPI approval on a spending plan for state enrichment levy proceeds prior to submitting a levy proposition to the voters.
- Provides a new formula for local effort assistance.
- Requires local revenues and state local effort assistance funds to be deposited in a local revenue subfund.
- Directs the State Auditor to conduct regular financial audits of school districts, including a review of expenditures of local enrichment levy funds and supplemental contracts, to ensure local funds are not being expended for basic education.
- Requires school district revenue-to-expenditure accounting, and the development of a four-year district budget plan.
- Repeals the provisions of Initiative 1351 but places the enriched staffing values in a separate chapter. If the Legislature specifically funds the enriched staffing then the enriched staffing becomes basic education.

**Staff:** Jeffrey Mitchell (786-7438), Amanda Cecil (786-7460); Susan Mielke (786-7422)

**Background:** Basic Education. The Washington State Constitution (Constitution) provides; “It is the paramount duty of the state to make ample provision for the education of all children residing within its borders...” The Washington Supreme Court (Court) has interpreted this to mean that the Legislature must define an instructional program of basic education for public schools and amply fund it from a regular and dependable source.

In 2012, the Court issued its opinion in the *McCleary v State* lawsuit. The Court found that Washington State had failed to meet its paramount constitutional duty to amply fund the costs of its basic education program. The Court also reaffirmed that reliance on local school district levies for funding basic education is unconstitutional because local levies are not a regular and dependable funding source since levies are temporary, subject to approval by the voters, and highly variable. The Court directed that local levy funds may only be used for enrichment outside of the definition of basic education. The Court retained jurisdiction to help ensure progress by the State to meet its constitutional obligation.

The Legislature's statutory definition of “basic education” includes the following:

- the minimum components of the instructional program of basic education;
- special education for students with disabilities;
- student transportation to and from school;
- the Learning Assistance Program to assist underachieving students;
- the Transitional Bilingual Instructional Program for students whose primary language is other than English;
- the program for highly capable students; and
- educational programs for individuals under the age of 18 in juvenile detention centers and state institutions.

Prototypical School Allocation Model. In 2009, the Legislature adopted in statute a revised basic education funding allocation model for public schools based on prototypical schools. The stated intent of the model is to illustrate the level of resources needed to operate a school of a particular size using commonly understood terms such as class size, hours of instruction, and specified staff positions. The Legislature adjusts the actual funding allocations from the school prototypes based on the actual number of students in each grade level at each school in the school district. The smallest schools and school districts receive an additional allocation to provide a minimum level of staffing support.

Over the last two bienniums, the Legislature has increased allocations in the omnibus operations appropriation act for middle and high school guidance counselors, parent involvement coordinators for elementary schools, the learning assistance program, the transitional bilingual program, and for materials, supplies, and operating costs (MSOC); however, the prototypical school allocation model in statute was not changed to reflect these increased allocations.

*K-3 class size.* The 2015-17 Omnibus Appropriations Act increased the state funding allocation for K-3 class size reduction. School districts receive the K-3 class size reduction allocation only to the extent of and proportional to the district's demonstrated actual class size.

*Special Education.* The Legislature provides funding for the program of special education based on the additional excess costs of educating students with a disability. There are two primary sources of revenue to support the special education program: (1) the basic education or general apportionment allocation, and (2) the special education excess cost funding. School districts receive a basic education allocation for each student with a disability age five through 21 enrolled in the district or 12.7 percent of the student enrollment in the district, whichever is less. The excess cost funding provides an additional amount that is 0.93 percent of the district's average per-student basic education allocation. The funding allocated for the program must be expended for the purposes of the special education program.

A school district can access additional funding through a safety net process if the district can show extraordinary special education program costs beyond state- and federally-provided resources. Current law requires the SPI rules addressing safety net funding to ensure that the application process is streamlined; that timelines for submission are not in conflict; that the feedback to school districts is timely and provides sufficient information to allow school

districts to understand how to correct any deficiencies in a safety net application; and that there is consistency between awards approved by school district and by application period.

*Learning Assistance Program (LAP).* This program provides supplemental instruction and services to assist underachieving K-12 students and reduce disruptive behaviors in the classroom.

The state allocation for the program is based on the number of K-12 students enrolled in the school district who are eligible for free- or reduced-price meals in the prior school year. Under the prototypical school allocation statute, the minimum allocation for LAP must provide, on a statewide average, 1.5156 hours per week in extra instruction in a class size of 15 students. Since 2013, the Legislature has increased the allocation to provide 2.3975 hours of extra instruction, however, the prototypical school allocation statute was not changed to reflect the additional funding. The funds are for allocation purposes, and does not require the school that generated the funding to receive the funding; however, the funding allocated for the program must be expended for the purposes of the program.

*Transitional Bilingual Instructional Program (TBIP).* This program provides supplemental instruction and services for students whose primary language is other than English. Under the prototypical school allocation, the minimum allocation for TBIP must provide, on a statewide average, 4.7780 hours per week in extra instruction for K-12 students in a class size of 15. The funding allocated for the program must be expended for the purposes of the program. In the 2013-15 biennium, the Legislature phased in three additional hours of instructional support for up to two years for students who have exited the TBIP but the prototypical school allocation model was not changed to reflect the additional funding.

*Program for Highly Capable Students.* The state allocation for this program is based on 2.314 percent of a school district's full-time equivalent basic education student enrollment. Under the prototypical school allocation statute, the minimum allocation for the highly capable program must provide, on a statewide average, 2.1590 hours per week in extra instruction in a class size of 15 students. The funding allocated for the program must be expended for the purposes of the program.

*Career and Technical Education (CTE).* CTE consists of planned programs of courses that includes exploration and preparation of career options. Students have access to CTE in middle and high school programs and regional skill center programs that are approved by the SPI.

*CTE Equivalencies.* In 2014, the Legislature directed SPI to develop curriculum frameworks for CTE courses with content in science, technology, engineering, and mathematics equivalent, in full or in part, to science or mathematics courses that meet high school graduation requirements. The course content must be aligned with the state essential academic learning requirements and industry standards. The SPI has created 37 CTE state-approved course equivalencies. School districts must provide the opportunity for high school students to access at least one science or mathematics CTE course on the SPI list. School districts are not required to report whether or how many state-approved CTE equivalency courses are offered by the district.

*CTE Funding.* CTE funding is provided based on the number of enrolled full-time equivalent students participating in SPI-approved CTE courses that are taught by CTE-endorsed instructors. The Legislature provides funding enhancements sufficient to provide a lower CTE class size than general education classes, and an enhanced per-student CTE rate for materials, supplies, and operating costs. The prototypical school allocation model provides funding for an average CTE class size of 26.57 students at approved CTE middle and high school programs; and 22.76 students at skill center programs. School districts are not required to spend the funding enhancements for the purposes of CTE.

The maximum allowable indirect or administrative costs for state funded CTE programs is 15 percent of the state CTE funds received. The federal Carl D. Perkins Career and Technical Education Improvement Act's maximum allowable indirect or administrative costs for federally funded CTE and skills center programs is 5 percent of the federal CTE funds received.

Local School District Property Taxes. 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 operation (M&O) excess levies for up to four years, capital levies for up to six years, and bond levies for the life of the bonds. Since passage of the Levy Lid Act of 1977, the Legislature has limited the amount school districts may collect through their M&O excess levies.

A school district's maximum M&O excess levy amount is determined by the district's levy base and levy percentage, also referred to as a "levy lid." Generally speaking, a district's annual levy base is its state and federal funding for the prior school year, adjusted for inflation, and additionally calculated amounts that were added to the levy base in 2010, sometimes referred to as "ghost money." The levy lid is the maximum allowable percentage of the levy base that a school district may collect.

Until calendar year 2018, the levy lid for most school districts is 28 percent, which means that each calendar year most districts may collect up to 28 percent of their levy base — some districts are "grandfathered" at a higher levy percentage. Beginning in calendar year 2018, the levy lid decreases to 24 percent, or for districts grandfathered at a higher levy percentage, decreases by 4 percentage points. The calculated amounts that were added to the levy base in 2010 will also be eliminated from the base beginning in calendar year 2018.

Local Effort Assistance (LEA). The LEA, also known as levy equalization, was created in 1987. Under the state's LEA program, the state provides additional funding to school districts that are at a disadvantage in raising M&O levies due to low property values. School districts are eligible for LEA if they have a higher than average excess levy rate and if the district has certified a local excess levy. These levies are equalized up to 14 percent of the levy base, which is half of the 28 percent levy lid that is applied to the majority of districts. Equalization is set to reduce to 12 percent beginning in 2018, maintaining the current one-half policy.

LEA is expressly not part of the state's program of basic education. In calendar year 2016, 217 districts were eligible to receive LEA, of which 212 districts received the assistance.

State Property Tax. The 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 Legislature has established individual district rate maximums and aggregate rate maximums to keep the total tax rate for regular property taxes within the constitutional limit. The state levies a regular property tax for schools at a rate of \$3.60 per \$1,000 AV; however, the estimated effective rate for calendar year 2018 is \$1.86. The state, counties, and cities are referred to as "senior" districts. Junior districts such as fire, library, hospital, and metropolitan park districts each have specific rate limits as well. The tax rates for the city, county, and junior districts must fit within an overall rate limit of \$5.90 per \$1,000 AV. If tax rates exceed this \$5.90 limit, then, under a statutory proration system, junior taxing district levies are reduced and senior districts have preference over junior districts.

In addition to the 1 percent constitutional rate cap, regular property taxes are subject to a 1 percent growth cap. Specifically, the annual growth of regular property tax levy revenue is limited to the lesser of inflation or 1 percent, plus the value of new construction for jurisdictions with a population of 10,000 or more. For jurisdictions with a population less than 10,000, revenue growth is limited to 1 percent.

State Auditor. The State Auditor's Office is a state constitutional office that is part of the executive branch of state government. The State Auditor has the statutory authority to conduct financial audits on all governments in the state, including school districts.

Compensation. The Legislature allocates money to each school district for state-funded school employee salaries and benefits. The actual salaries and benefits for certificated instructional staff and classified staff are subject to the collective bargaining process, within certain limits set by the Legislature.

*Certificated Instructional Staff (CIS).* State funding for teachers and other CIS salaries is provided through the state salary allocation model, which uses education and years of experience to vary the salary levels. The salary allocation is increased for each additional year of experience, up to 16 years, and for additional education, up to a Ph.D. School districts must pay at least the minimum salary on the state salary allocation model and cannot exceed the average salary calculated on the state salary allocation model.

*Certificated Administrative Staff (CAS) and Classified Staff (CLS).* There is no state salary allocation model for certificated administrative staff or classified staff such as bus drivers, food service workers, custodial staff, and classroom aides. Each school district receives an allocation for these staff based on historical salary allocations, adjusted for cost-of-living increases.

*Professional Learning Days.* In 2016, the Legislature defined the term "professional learning" as a comprehensive, sustained, job-embedded, and collaborative approach to improving teachers' and principals' effectiveness in raising student achievement that fosters collective responsibility for improved student performance. Professional learning days must comprise learning aligned with student learning needs, educator development needs, and school district or state improvement goals.

*Supplemental contracts.* School districts may provide additional salary to CIS beyond that provided by the State. The additional salary is provided using supplemental contracts and must be for additional time, responsibilities, incentives and innovations, also known as “TRII.” State law provides that supplemental contracts must not be used for basic education and must not create any present or future funding obligation for the state.

*Health Care.* Health benefits for school district employees may be locally bargained and purchased separately by each district. Employee contributions vary by district, and by bargaining units, and there is substantial variation in the share of the costs paid by employees who insure only themselves versus those who also insure their family members. School districts also have the option of purchasing benefits for employees through PEBB.

Collective Bargaining. Current law authorizes most certificated employees of a school district to bargain wages, hours, and terms and conditions of employment with the school district. Classified school employees of school districts are authorized to bargain personnel matters, including wages, hours, and working conditions.

Accounting. School district accounting requirements organize and operate on a fund basis. Under current law, school districts must establish the following funds:

- a general fund for the M&O of the district;
- a capital projects fund for major capital purposes;
- a debt service fund for the retirement of bonds; and
- an associated student body fund for all monies generated through the programs and activities of any associated student body organization.

Budget Process. Each school district develops and adopts its own budget prior to the beginning of each school year. Current law requires school districts to adopt the budget at a public hearing no later than August 31st in first-class school districts, which have 2000 students or more, and not later than August 1st in second-class school districts, which have under 2000 students. When the budget is completed, each district must publish a notice and provide copies upon request.

Financial Health. The OSPI, with the Educational Service Districts (ESDs), created a tool to provide a snapshot of a school district's overall financial health that includes the fund balance to revenue ratio, expenditures to revenues ratio, and the number of days of cash on hand. Each of these financial indicators are calculated, weighted, and added together to determine a district's financial indicator score.

Absenteeism. OSPI defines chronic absenteeism as a student missing 18 or more full days of school for any reason, excused or unexcused. This represents 10 percent of the school year, and can mean a student misses as few as two days of school per month.

Teacher and Principal Evaluation Program (TPEP). Since the 2015-16 school year, all teachers and principals in Washington have been subject to this four-level evaluation system. Teachers and principals receive an annual evaluation that focuses on one of eight specified criteria. Every four years, the evaluation must be comprehensive and use all eight criteria. A teacher or principal may be transferred from a focused evaluation to a comprehensive

summative evaluation at the request of the teacher or principal, or at the direction of the evaluator of the teacher or principal.

Annual comprehensive summative evaluations are required in the following cases:

- new teachers and principals in the first three years of employment;
- new principals in the first year of employment, if previously employed as a principal by another district in Washington for three or more consecutive school years; and
- teachers or principals receiving a level-one or level-two rating in the previous year.

Initiative 1351. This initiative, approved by the voters in November 2014, allocates funding for smaller K-12 class sizes, with extra class-size reductions for all grades in defined high-poverty schools and for grades K-3 in all schools. The initiative also provides for increased student support staffing, including counselors, teaching assistants, librarians, and others. Schools lacking enough classrooms to reduce class size may use funding for additional staff providing direct student services. Increased funding for these changes is phased-in over four years; however, the Legislature delayed implementation until the 2019-21 biennium, with complete implementation required in the 2021-23 biennium.

State Allocation Schedule. 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 1st through August 31st whereas the state fiscal year is July 1st through June 30th. School districts are apportioned 80 percent of their total school year allocation during the state's fiscal year.

**Summary of Engrossed Bill:** Basic Education. Statewide salary allocations necessary to hire and retain qualified staff is added as a component of the Legislature's statutory definition of "basic education."

Prototypical School Allocation Model. The prototypical school allocation model is amended to align the model with previous increases in funding provided by the Legislature; increase categorical program allocations; and add new requirements to specified components.

*Per-pupil allocations.* The SPI must report on the agency's website the state per-pupil allocations for each school district for the general apportionment, special education, learning assistance, transitional bilingual, highly capable programs, and CTE. Additionally, SPI must report state general apportionment per-pupil allocations by grade for each school district on the website. This information must also be included on school district apportionment reports, which will also be on the SPI's webpage. School districts must include a link to the apportionment reports on the SPI's webpage. Legislative budget documents for the enacted omnibus operating appropriations act must also report the statewide average per-pupil allocations.

*K-3 class size.* Beginning September 1, 2018, school districts receive the K-3 class size allocation only to the extent of and proportional to the district's demonstrated actual class size in grades K-3, up to the average class size of 17 students.

*Special Education Funding.* The percentage of a school district's student enrollment on which the funding for the special education program is based is increased from 12.7 to 13.5



of the enrollment in the district. SPI must review the safety net process and make recommendations to the Governor and the Legislature on specified issues by November 1, 2018. By September 1, 2019, the SPI must review and revise the safety net rules to achieve full and complete implementation of the requirements in the safety net statute.

*Learning Assistance Program (LAP).* The term "underachieving students" is changed to "students who are not meeting the academic standards." The minimum allocation is increased to provide, on a statewide average, 2.3975 hours per week of extra instruction.

A high-poverty, school-based LAP allocation is created for schools with at least 50 percent of the enrolled students eligible for free- or reduced-priced meals. The minimum allocation must provide on a statewide average 1.1 hours per week in extra instruction in a class size of 15. School districts must distribute this allocation to the schools that generated the allocation. The funding must supplement and not supplant the district's expenditures for LAP for these buildings.

*Transitional Bilingual Instructional Program (TBIP).* The minimum allocation, based on a statewide average, of 4.7780 hours per week for students in grades K-6 is maintained. The minimum allocation is increased to 6.7780 hours in extra instruction per week for students in grades 7 through 12, with a class size of 15 students. Additionally, the prototypical school allocation model is changed to reflect the continued funding, on a statewide average, of 3 hours of extra instruction per week in a class size of 15 students who have exited the TBIP program within the previous two years.

*Program for Highly Capable Students.* The percentage of a school district's full-time equivalent basic education student enrollment on which the state allocation is based is increased to 5 percent. District practices for identifying the most highly capable students must prioritize equitable identification of low-income students.

*CTE Equivalencies.* Subject to state appropriation, the OSPI must take actions to increase CTE equivalency crediting on a broader scale across the state and facilitate the implementation of CTE equivalencies. The actions may include the following:

- development of additional equivalency course frameworks, course performance assessments, and development and delivery of professional development for school districts and skill centers implementing the CTE frameworks; and
- providing competitive grant funds to school districts to increase the integration and rigor of academic instruction in CTE equivalency courses.

Beginning in the 2017-18 school year, school districts must annually report to the SPI the number of students participating in state-approved CTE equivalency courses, and the number of state-approved CTE equivalency courses offered in school districts and skill centers. Beginning December 1, 2017, the OSPI must annually submit a summary of the school district information reported regarding the state-approved CTE equivalency courses.

*CTE Funding.* The class size for CTE education is reduced from 26.57 students per classroom to 23.00. The class size for students enrolled in skill center programs is reduced from 22.76 students per classroom to 20.00. The only allowable uses for the enhanced allocation for lower CTE class sizes and the enhanced CTE MSOC are specified including:

- CTE staff salaries and benefits;
- materials, equipment, and supplies;
- smaller class sizes;
- work-based learning programs, such as internships and pre-apprenticeships, including certified work-based learning coordinators and career guidance advisors;
- student fees for national and state-industry-recognized certifications; and
- CTE course equivalency development.

The maximum allowable indirect cost for CTE programs must not exceed the limitations provided under federal law or 5 percent of the state allocation, whichever is lower.

Subject to state appropriation, the OSPI must establish a competitive grant process for school districts to apply for grants for purchasing CTE equipment. The SPI may adopt rules for the grant program.

Enrichment Levies and LEA. School district maintenance and operation levies are changed to enrichment levies.

Beginning with enrichment levies levied for collection in calendar year 2020, a school district must receive approval of an enrichment levy expenditure plan by SPI before the levy proposition is submitted to the voters. SPI will approve a spending plan only if it determines that enrichment levy revenues, as well as other local revenues, will be spent only on permitted enrichment activities. If SPI rejects the expenditure plan, the school district may submit a revised spending plan.

The current statutory formula for the levy lid law is replaced with a new levy lid formula based on a maximum property tax rate of \$1.50 per \$1,000 of assessed value. School districts may collect an enrichment levy amount that does not exceed the lesser of the amount generated by a \$1.50 tax rate or \$2,500 per pupil.

The current statutory formula for LEA is replaced with a new formula based on the per pupil amount of property taxes collected within each school district. Any school district that does not generate an enrichment levy of \$1,500 per student is eligible for LEA equal to the difference of \$1,500 and the school district's per pupil enrichment levy amount, multiplied by the school district's enrollment.

State Property Tax. Beginning with taxes levied for collection in calendar year 2018, an additional state property tax is imposed bringing the aggregate state property tax rate to a combined rate of \$2.70 per \$1,000 of assessed value.

The 1 percent revenue limit does not apply to the total combined state property tax for calendar years 2018 through 2021. Beginning with state property taxes levied for collection in calendar year 2022, and thereafter, the 1 percent revenue limit is reinstated.

Property owners qualifying under the senior citizen and retired persons property tax relief program are exempt from the additional state property tax.

Compensation. The state salary allocations for CIS, CAS, and CLS are increased beginning in school year 2018-19. The state salary allocation increases are phased in providing 50 percent in school year 2018-19 and 100 percent in school year 2019-20.

The statewide average base salary for CIS staff in school year 2019-20 is \$66,194. The statewide average base salary for CAS in school year 2019-20 is \$98,257. The statewide average base salary for CLS in school year 2019-20 is \$47,486.

In addition to the base salary increases, school districts with an average single-family residential value above the statewide median value will be eligible for an additional regionalization adjustment. Regionalization adjustments are 6, 12, or 18 percent, depending on the degree to which the school district's median single-family residential value exceeds the statewide average.

There is an additional 6 percent increase for some school districts based on an analysis of 2016-17 salaries and the new state salary allocation policy. For school districts with a total adjustment of 24 percent, the additional 6 percent increase is eliminated by school year 2022-23. For other districts receiving the 6 percent increase, it is reduced to 3 percent by school year 2022-23.

Beginning with the 2023-24 school year, and every six years thereafter, the minimum state salary allocations and regionalization factors must be reviewed and rebased to ensure that the state salary allocations continue to align with the staffing costs for the state's program of basic education.

Beginning with the 2019-20 school year, salaries for CIS may not be less than \$40,000. Furthermore, the state salary allocation for CIS with at least five years of experience must exceed, by at least 10 percent, the minimum CIS amount.

Additionally, a district may not pay certificated instructional staff more than \$90,000 year. There are exceptions to this maximum amount for educational staff associates, CIS who teach in STEM subjects, and CIS who teach in the transitional bilingual instruction program.

State salary allocations and state maximum and minimum salary allocations are adjusted on an annual basis by the cost of living index.

The cost of living index is changed from the consumer price index to the implicit price deflator.

The minimum and maximum salary limitations do not apply to supplemental contracts for additional time, responsibility, or incentives that is funded through local enrichment levies or other local revenues. The innovations category for supplemental contracts is eliminated.

SPI must convene a stakeholder technical working group to develop a model salary grid. The grid may be used as a resource by school districts in determining local salaries; however, districts are not required to use the salary grid. The SPI must provide the initial model grid to the Governor and the Legislature by December 1, 2017.

*Professional Learning Days.* Beginning with the 2018-19 school year, the state will provide an additional allocation for three professional learning days. The additional state funding will be fully implemented by school year 2020-21. Beginning in the 2019-20 school year, late start or early release of students resulting in partial days of instruction must be limited to no more than seven occurrences during the minimum 180-day school year, except when necessary due to unforeseen events.

*Supplemental contracts.* The "innovation" category is eliminated. Beginning September 1, 2017, school districts must annually report to SPI on supplemental contracts entered into for additional time, responsibility, or incentives. SPI must annual report summarized district information to the education and fiscal committees of the Legislature.

Beginning September 1, 2019, supplemental contracts for CIS must only be for enrichment activities and subject to the new definition of enrichment. The rate the district pays under a supplemental contract may not exceed the hourly rate of the CIS for services under the basic education salary. The SPI may develop recommendations for expanding the non-exhaustive list of specifically permitted activities for supplemental contracts, which the Legislature must review and consider in the 2018 legislative session.

*Health Care.* A School Employees' Benefits Board (SEBB) is established to design and approve insurance benefit plans for school employees. SEBB is made up of nine members, including two representatives of certificated employees, two representatives of classified employees, four members with expertise in health benefits policy and administration, and the director of the Health Care Authority. Beginning January 1, 2020, school districts and charter schools must provide basic and supplemental benefits, including life and liability insurance, through SEBB. To be eligible for coverage an employee must be expected to work at least 630 hours per year. The share of the premium contributions paid by the employee for full family coverage may not exceed the share paid by an employee for employee-only coverage. School employees must bargain with the Governor as the employer's representative over the dollar amount to be contributed for health benefits as one coalition.

State Auditor. Beginning with the 2019-20 school year, the State Auditor must conduct regular financial audits of school districts, including a review of expenditures of local levy funds and supplemental contracts, to ensure local funds are not being expended for basic education.

Before the 2019-20 school year, each school district board of directors must adopt a policy for responding to any audit findings by the auditor on the use of local revenues by the school district. The policy must require a public hearing on the findings.

Collective Bargaining. Nothing in the Act is intended to impair school district collective bargaining agreements. A school district collective bargaining agreement that is executed or modified after the enactment of the legislation and is in effect for the 2018-19 school year may not provide school district CIS, CAS, or CLS with a percentage increase to total salary that exceeds the previous calendar year's annual average consumer price index. However, the district may increase salaries up to the point that the average salary equals the average salary for CIS, CAS, or CLS allocated by the state.

Accounting. Local Revenue Subfund. By the 2019-20 school year, school districts must establish a local revenue subfund. Money deposited into the subfund must include, but is not limited to, proceeds from enrichment levies, transportation vehicle enrichment levies, and LEA funding from the state. School districts must provide separate accounting of state, federal, and local revenues and expenditures, and must provide any supplemental expenditure schedules required by SPI or the statute auditor.

Budget Process. Beginning January 1, 2018, a district's budget must set forth the state-funded basic education salary amounts, locally-funded salary amounts, for individual CIS, CAS and CLS. As part of the annual budget process, school districts must develop a four-year budget plan. The plan must include a four-year projection of student enrollment, and an estimate of funding necessary to maintain the continuing costs of program and service levels and any existing supplemental contract obligations. The public meeting on the budget and the four-year plan must also include any proposed changes to the uses of enrichment funding.

The Caseload Forecast Council must create a technical working group to explore the feasibility of developing a generic model for school districts to use in the required school district four-year budget plan. By September 1, 2018, the Council must report the results of the effort to the Governor and Legislature.

Financial Health. SPI must consider the school district four-year budget plan and student enrollment projection when ranking the financial health of districts to help districts avoid potential financial difficulty, insolvency, or binding conditions.

Absenteeism. The Legislature intends to provide funding in the 2017-19 operating budget for SPI to facilitate a statewide accountability system to improve student graduation and reduce chronic student absenteeism.

Teacher and Principal Evaluation Program. By November 1, 2017, SPI must provide an update on the program, including specified information, to the education and fiscal committees of the Legislature.

Initiative-1351 (I-1351). The provisions of the initiative are repealed. The enriched staffing values established under I-1351 are re-established in a separate chapter. SPI must convene a workgroup of stakeholders to recommend a possible phase-in plan of the staffing enrichments that prioritizes the research or evidence-based strategies for reducing the opportunity gap, assisting struggling students, enhancing the educational outcomes for all students, or strengthening support for all school and school district staff. If any of the enriched staffing values are specifically funded by the Legislature with reference to the chapter in which they are found, then those enriched staffing values become basic education.

State Allocation Schedule. The apportionment schedule is modified by moving 2.5 percent of the apportionment allocations that would occur between September through June into the July apportionment amount.

**Appropriation:** None.

**Fiscal Note:** Not requested.

**Creates Committee/Commission/Task Force that includes Legislative members:** No.

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