

# HOUSE BILL REPORT

## SHB 2776

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### As Amended by the Senate

**Title:** An act relating to funding distribution formulas for K-12 education.

**Brief Description:** Regarding funding distribution formulas for K-12 education.

**Sponsors:** House Committee on Education Appropriations (originally sponsored by Representatives Sullivan, Priest, Maxwell, Dammeier, Carlyle, Finn, Anderson, Eddy, Nelson, Goodman, Orwall, Hunter, Simpson, Jacks, Kagi, Ormsby, Morrell, Probst and Santos).

**Brief History:**

**Committee Activity:**

Education Appropriations: 1/26/10, 1/28/10 [DPS];  
Ways & Means: 2/3/10, 2/8/10 [DPS(APPE)].

**Floor Activity:**

Passed House: 2/13/10, 73-23.  
Senate Amended.  
Passed Senate: 3/4/10, 32-15.  
Passed Senate: 3/4/10, 47-0.

### Brief Summary of Substitute Bill

- Sets forth in statute numeric values in the prototypical school funding formula adopted in 2009, for average class size, allocations of building-level staff, supplemental instruction for categorical programs, central office administration, and allocations for maintenance, supplies, and operating costs (MSOC), all to take effect September 1, 2011.
- Requires that allocations for class size in grades K-3 be phased in to provide for a class size of 15.0 by the 2015-16 school year.
- Requires an increase in MSOC allocations to be phased in to a total of \$1,082.76 per full-time equivalent student by 2013-14, plus adjustment for inflation.
- Requires continued incremental phase-in of full-day kindergarten starting in 2011-12, with statewide implementation by 2017-18.

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*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.*

- Implements a new funding formula for pupil transportation in 2011 rather than 2013, and adopts a schedule for phasing-in funding under that formula with full implementation by 2013-14.
- Changes timelines for technical working groups on compensation and local finance and puts the Compensation Working Group under the lead direction of the Office of Superintendent of Public Instruction, rather than the Office of Financial Management.

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## HOUSE COMMITTEE ON EDUCATION APPROPRIATIONS

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 12 members: Representatives Haigh, Chair; Probst, Vice Chair; Priest, Ranking Minority Member; Hope, Assistant Ranking Minority Member; Anderson, Carlyle, Hunter, Kagi, Maxwell, Quall, Rolfes and Wallace.

**Staff:** Barbara McLain (786-7383) and Ben Rarick (786-7349).

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## HOUSE COMMITTEE ON WAYS & MEANS

**Majority Report:** The substitute bill by Committee on Education Appropriations be substituted therefor and the substitute bill do pass. Signed by 16 members: Representatives Linville, Chair; Ericks, Vice Chair; Sullivan, Vice Chair; Dammeier, Assistant Ranking Minority Member; Cody, Conway, Darneille, Haigh, Hunt, Hunter, Kagi, Kenney, Kessler, Pettigrew, Priest and Seaquist.

**Minority Report:** Do not pass. Signed by 6 members: Representatives Alexander, Ranking Minority Member; Bailey, Assistant Ranking Minority Member; Chandler, Hinkle, Ross and Schmick.

**Staff:** Ben Rarick (786-7349).

### **Background:**

#### Overview.

Legislation enacted in 2009 (chapter 548, Laws of 2009 or Engrossed Substitute House Bill 2261) revised the definition of the program of Basic Education and established new methods for distributing state funds to school districts to support this program of Basic Education. Various technical working groups were established to continue implementation of the legislation, as well as a Quality Education Council (QEC) composed of eight legislators, leaders of four state education agencies, and a representative of the Governor's Office.

#### Prototypical School Funding Formula.

The current funding formula for Basic Education relies on allocations of three different types of staff (certificated instructional, certificated administrative, and classified) per 1,000 full-time equivalent (FTE) students, plus an allocation for nonemployee-related costs calculated per certificated staff. Funding for categorical programs such as the Learning Assistance

Program (LAP), the Transitional Bilingual Instructional Program (TBIP), and the Highly Capable Program is expressed as a per-student allocation. Funding for Special Education is through an excess cost allocation, which is a specified percent of the Basic Education allocation. With the exception of minimum staffing ratios, these formulas and their funding values are found in the appropriations act and associated documents rather than in statute.

The 2009 legislation states that, beginning September 1, 2011, "to the extent the technical details of the formula have been adopted by the Legislature, the distribution formula for the Basic Education instructional allocation shall be based on minimum staffing and nonstaff costs the Legislature deems necessary to support instruction and operations in prototypical schools serving high, middle, and elementary school students."

In the 2009 legislation, a certain amount of detail about the structure of the formula was placed into statute. The assumed size of each level of prototypical school is stated. Allocations for classroom teachers will be based on an assumed class size for various grade levels and assume a daily planning period. For each prototypical school, there will be allocations of specified types of building-level staff such as principals, librarians, counselors, office support, custodians, etc. Allocations for maintenance, supplies, and operating costs (MSOC) are expressed per FTE student and subdivided into various cost categories. Funding for categorical programs will be based on a level of supplemental service, such as an extended school day or year.

However, with the exception of the excess cost allocation for Special Education, the 2009 legislation did not contain any numeric values for the various funding formula elements to be implemented in 2011.

#### Funding Formula Technical Working Group.

The Office of Financial Management (OFM) and the Office of Superintendent of Public Instruction (OSPI) were directed to convene a working group made up of school financial managers, representatives of various education groups, and other individuals with expertise in education finance to develop the details of the new funding formula and submit recommendations to the Legislature by December 1, 2009. The work of the Funding Formula Technical Working Group (FFTWG) was overseen by the QEC, which was also charged with making recommendations to the Legislature by January 1, 2010.

The FFTWG developed a recommended set of numeric values for the prototypical school funding formula that are intended to represent, as closely as possible, a translation of current levels of state funding for Basic Education into the new formula elements. Their final report calls these the "Baseline" values. The report also recommends various adjustments to the structure of the formula that appears in statute. According to an implementation timeline in the report, some action by the 2010 Legislature would be needed to continue the transition to a new formula in order for school district accounting and budgeting, as well as state budgeting and apportionment, to be based on the new funding structure by September 1, 2011.

The QEC recommended that the 2010 Legislature adopt the Baseline values and details of the prototypical school funding formula as recommended by the FFTWG and place these values into statute, to take effect September 1, 2011.

#### Pupil Transportation Funding Formula.

The current pupil transportation funding formula calculates the costs of transporting eligible students to and from school based on a radius mile for each student transported, adjusted by various factors. The 2009 Basic Education legislation authorized a new funding formula that uses a regression analysis of various cost factors to allocate funds to school districts. The laws authorizing the new formula take effect September 1, 2013, but implementation of the formula is to be phased-in according to an implementation schedule adopted by the Legislature. The QEC was directed to include a recommendation about this phase-in in its January 2010 report.

The QEC recommended that the new formula be authorized beginning September 1, 2011, rather than 2013, and further recommended that funding for the new formula be phased-in over a three-year period beginning in 2011.

#### Other Funding Working Groups.

The 2009 legislation also created a Local Finance Working Group and a Compensation Working Group. The Local Finance Working Group is to be convened beginning July 1, 2010, to develop options for a new system of supplemental school funding through local levies and local effort assistance. Their report is due December 1, 2011. The Compensation Working Group is to be convened beginning July 1, 2011, with an initial report due by December 1, 2012.

The QEC recommended that these two groups be convened immediately, with reports due in 2010. The QEC also recommended that the FFTWG be continued and asked to monitor implementation of the new funding formula and provide technical advice to the OSPI and the QEC.

#### Other QEC Recommendations.

The QEC's January 2010 report also contained recommendations to phase-in enhancements of state allocations for K-3 class size, MSOC, and full-day kindergarten above the values expressed in the Baseline. The QEC recommended that these enhancements be adopted in statute.

### **Summary of Substitute Bill:**

#### Intent.

The Legislature intends to adopt the technical details of a new distribution formula for Basic Education and authorize a phase-in of implementation of a new distribution formula for pupil transportation. Unless otherwise stated, the numeric values adopted represent the translation of 2009-10 state funding levels for the Basic Education Act into the funding factors of the prototypical school funding formula. The Legislature will continue to review the formulas and make revisions as necessary for technical purposes and to correct errors.

#### Prototypical School Funding Formula.

The following numeric values for average class size, which forms the basis of allocations for classroom teachers in the funding formula, are specified:

- Grades K-3 25.23

- Grade 4 27.00
- Grades 5-6 27.00
- Grades 7-8 28.53
- Grades 9-12 28.74

Average class sizes are specified based on student enrollment in the following courses:

- exploratory and preparatory Career and Technical Education (CTE) in middle and high school 26.57
- preparatory CTE in skill centers 22.76
- lab science, AP, and International Baccalaureate 28.74

The following allocations of building-level staff for each level of prototypical school are specified:

	<u>Elementary</u>	<u>Middle</u>	<u>High</u>
principals and building administration	1.253	1.353	1.880
teacher librarians	0.663	0.519	0.523
student health services	0.135	0.068	0.118
guidance counselors	0.493	1.116	1.909
teaching assistance	0.917	0.685	0.638
office support and non-instructional aides	1.971	2.277	3.201
custodians	1.622	1.902	2.903
student and staff safety	0.077	0.090	0.138

A new category of administrative staff allocations is created, called district-wide support, to be allocated per 1,000 FTE students in the school district:

- technology support 0.615
- facilities, maintenance, and grounds 1.776
- warehouse, laborers, and mechanics 0.325

Staffing unit allocations for central office administration are calculated as 5.3 percent of the staffing unit allocations for classroom teachers, building-level staff, and district-wide support.

Minimum allocations of additional resources to support the LAP, TBIP, and Highly Capable Programs provide, as a statewide average, the following instructional hours per week per student in a class size of 15:

- LAP 1.5156 hours
- TBIP 4.778 hours
- Highly Capable 2.159 hours

The minimum allocations for MSOC per FTE student are specified as the following 2008-09 values, which must be adjusted annually for inflation:

- technology \$ 54.43
- utilities and insurance \$147.90
- curriculum and textbooks \$ 58.44
- other supplies and library materials \$124.07
- professional development \$ 9.04
- facilities maintenance \$ 73.27

- central administration and security      \$ 50.76
- Total:**      \$517.90

Additional modifications are made to the structure of the funding formula:

1. Several categories for allocation of building-level staff and MSOC are changed.
2. A separate allocation for career and technical education (CTE) and skill center administrative staff is created.
3. Allocations for categorical programs are standardized, to be based on supplemental instructional hours per week in a class size of 15.
4. The funding base used to calculate excess costs for Special Education is corrected to exclude enhanced funding for CTE.
5. The staffing base used to calculate staffing allocations for central administration is adjusted to exclude CTE enhancements and categorical programs and include a new districtwide support allocation.

For purposes of the statewide salary allocation schedule, those staffing categories from the prototypical school formula that are considered certificated instructional staff are specified.

Enhancements.

The average class size for grades K-3 must be reduced each year beginning in 2011-12 and beginning with schools with the highest percent of low-income students, until the class size in the formula beginning in the 2015-16 school year is 15.0.

Beginning with the 2011-12 school year, funding must continue to be phased-in incrementally each year for full-day kindergarten until full statewide implementation is achieved in the 2017-18 school year.

Beginning in 2011-12, the allocations for MSOC must be annually increased after being adjusted for inflation until the following 2007-08 values (to be adjusted for inflation) are provided beginning in the 2013-14 school year:

- technology      \$113.80
- utilities and insurance      \$309.21
- curriculum and textbooks      \$122.17
- other supplies and library materials      \$259.39
- professional development      \$ 18.89
- facilities maintenance      \$153.18
- central administration and security      \$106.12
- Total:**      \$1,082.76

Pupil Transportation Funding Formula.

Laws authorizing a new pupil transportation funding formula take effect September 1, 2011, instead of September 1, 2013. The phase-in of the implementation of the new formula must begin no later than the 2011-12 school year and be fully implemented by the 2013-14 school year.

Funding Working Groups.

The Local Finance Working Group is convened by April 1, 2010, and a report is required by June 30, 2011. In addition to its existing task, this group is directed to examine district

capacity and facility needs associated with phasing in class size reduction and full-day kindergarten, as well as analyze the potential use of local funds that are made available from proposed increases in funding for transportation and MSOC.

The initial report from the Compensation Working Group is due by June 30, 2012. Lead responsibility for convening the Compensation Working Group is re-assigned to OSPI, in collaboration with OFM. The FFTWG is to be periodically convened to provide advice and technical assistance to the OSPI and the QEC.

#### Other Items.

The OSPI must implement and maintain an internet-based portal that provides, for each school building, the staffing levels and other funding elements assumed in the prototypical school funding formula, along with a comparison of how school districts actually deploy staff and resources in the building.

The Washington State Institute for Public Policy (WSIPP) must annually calculate a savings to taxpayers resulting from improved extended graduation rates compared to the prior school year. The OSPI must include this estimate in its annual dropout and graduation report.

#### **EFFECT OF SENATE AMENDMENT(S):**

The following provisions are removed from the bill: 1) Implementation of a new pupil transportation funding formula in 2011 rather than 2013, along with a phase-in of funding under the new formula with full implementation by the 2013-14 school year; 2) A requirement to reduce average class size for grades K-3 until the class size in the prototypical school funding formula reaches 15.0 students per teacher in the 2015-16 school year; and 3) A requirement to provide annual enhancements in the funding formula for maintenance, supplies, and operating costs until an allocation of \$1,082.76 per student is reached in the 2013-14 school year. Full statewide implementation of full-day kindergarten is to be achieved by the 2018-19 school year with no defined start-date. The House bill required continued phase-in beginning in 2011-12 and completed in 2017-18.

Within the prototypical school funding formula, staff allocations associated with classified staff positions are based on the 2009-10 operating budget levels (one staff per 58.75 students) rather than the Basic Education Act level (one staff per 60 students). A building-level staff category for health and social services staff is subdivided into discrete allocations for school nurses, social workers, and psychologists.

A provision is added to restore a requirement that school districts maintain a minimum staffing ratio of 46 certificated instructional staff per 1,000 students in Basic Education rather than repeal the requirement as of September 1, 2011, under current law.

A Local Finance Working Group must submit an initial report by November 30, 2010, and a final report by June 30, 2011, rather than a single final report by June 30, 2011. Rather than continue a Funding Formula Working Group to provide technical assistance and advice to the Quality Education Council, members of this group are encouraged to be included in the Local Finance Working Group to serve this purpose. The Department of Revenue must provide staff support and assistance to the Local Finance Working Group. The report from a

Compensation Working Group continues to be due by December 1, 2012, rather than being moved to June 30, 2012 as in the House bill.

A requirement that the Washington State Institute for Public Policy prepare an annual estimate of savings to taxpayers resulting from increased graduation rates is removed.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** Sections 2, 3, and 10 dealing with adding numbers and making adjustments to the prototypical school funding formula, section 4 dealing with phasing in full day kindergarten, and section 8 dealing with phasing in funding under the pupil transportation formula take effect September 1, 2011. Section 6 dealing with convening the Local Finance Working Group by April 1, 2010, contains an emergency clause and takes effect immediately. The remainder of the bill takes effect 90 days after the end of the session in which it is passed.

**Staff Summary of Public Testimony (Education Appropriations):**

(In support) This bill is an important next step to implement Engrossed Substitute House Bill 2261 as originally envisioned. Difficult economic times present an opportunity to rethink the way the state funds important core programs. According to experts, the state has a high percentage of jobs in science and technology industries, but does not produce enough graduates to fill them in state. House Bill 2776 will help prepare students for higher education and the world of work.

The state has run out of excuses. The economic climate is not going to improve anytime soon. This bill is the state's "mulligan," an opportunity to get it right the second time after failure to effectively implement the original education reform legislation.

The funding formula technical working group did a good job of involving experienced practitioners from school districts. The Washington Association of Business Officials appreciates being included. The working group provides the needed translation from one system to the next so that the transition can be as funding neutral as possible.

Currently, transportation is funded substantially by local levies, and this bill will provide needed levy relief for school districts. The state needs to meet its responsibility to fully fund basic education. Class size enhancements and increased allocation in maintenance, supplies, and other operating costs will allow districts to invest in local reforms, whereas currently that money is used to pay for basic programs.

The fiscal note for this bill is significant; however, remember that these are costs currently being borne by school districts. There is a significant problem with dropouts in our state, and this bill can help address that. There is insufficient funding for counseling. Programs for parent involvement, such as Parent Teacher Association (PTA), are losing their funding.

The bill should mention the Beginning Educator Support Team (BEST) teacher mentorship program; a program that was highlighted by the Quality Education Council (QEC).

(In support with concerns) Small school district enhancements are not sufficiently addressed in the bill; the language should be more specific. The timelines for the compensation working group should not be moved up. The Washington Education Association (WEA) wants the conversation on compensation to be a positive one and right now the state does not have the funding to change the salary structure in a substantive way.

(Opposed) This bill may not be necessary to accomplish what you want to do. The system has to have the ability to weed out people who cannot perform their jobs effectively. This bill should also rescind the mandate that public school teachers must pay union dues even if they are not members.

**Staff Summary of Public Testimony (Ways & Means):**

(In support) There was testimony in the Education Appropriations Committee which led to amendments which have refined the bill. While the entire bill is important, it is critically important to establish section 2 in statute. There are arduous timelines for the Office of the Superintendent of Public Instruction (OSPI) to follow to get the prototypical formula in place prior to the 2011-12 school year, and this change allows the OSPI to do that. The steadfast leadership of Representatives Sullivan, Priest, Dammeier, and Haigh have pushed this bill forward. This bill presents an opportunity for the state to assume the cost of a lot of what school districts' are already doing to support basic educational programs. In particular, the transportation increase and the Maintenance, Supplies, and other Operating Costs (MSOC) allocation increase should be prioritized. Many more advocates would be here today, but they are working on getting their local levies approved on the ballot right now. Most people understand that there is a local share and so there is unlikely to be "cross messages," which suggest that the passing of this bill means local communities don't need to pass their levies. This bill only deals with the state's share and doesn't really change the local share. Parents for many years have put school finance as a top priority and worked very hard to support 2261. This bill prevents last year's legislation from being an empty promise.

(In support with concerns) There are still concerns about the compensation workgroup timeline. The original bill, which moved the compensation workgroup start date to April 2010, is the preferable approach.

(Opposed) None.

**Persons Testifying (Education Appropriations):** (In support) Deborah Parsons; Fred Stanley, Washington Association for Pupil Transportation; Gary Wargo, La Crosse School; Alison Meryweather, Parent Teacher Association; Pat Montgomery; Deb Blakeslee, Parent Teacher Association; Corion Patten, Parent Teacher Association; George Scarola, League of Education Voters; John Stokes, Parent Teacher Association; Heidi Bennett, Parent Teacher Association, Seattle Council; Kim Howard, Washington State Parent Teacher Association; Jennifer Priddy, Office of the Superintendent of Public Instruction; Jim Kainbur, Stand for Children; Dan Steele, Washington State School Directors Association; Doug Nelson, Puget

Sound Educators (SEIU) 1948; Barbara Mertens, Washington Association of School Administrators; and Mitch Denning, Alliance of Education Association.

(In support with concerns) Randy Parr, Washington Education Association; and Barbara Merten, Washington Association of School Administrators.

(Opposed) Paul W Locke.

**Persons Testifying (Ways & Means):** (In support) Randy Dorn, , Office of the Superintendent of Public Instruction; Randy Parr, Washington Education Association; Doug Nelson, Public School Employees/Service Employees International Union 1948; George Scarola, League of Education Voters; and Kim Howard, Washington State Parent Teacher Association.

(In support with concerns) Mitch Denning, Alliance of Education Associations.

**Persons Signed In To Testify But Not Testifying (Education Appropriations):** None.

**Persons Signed In To Testify But Not Testifying (Ways & Means):** None.