

Appropriations Committee

HB 2721

Brief Description: Modifying basic education provisions.

Sponsors: Representatives Sullivan and Dolan; by request of Superintendent of Public Instruction.

Brief Summary of Bill

- Revises school district enrichment levies to either \$2,500 per pupil or the 2018 voter approved levy, reduced by the state property tax rate if the selected levy rate exceeds \$1.50 per \$1,000 of assessed value plus the state property tax rate.
- Increases the threshold below which school districts qualify for state Local Effort Assistance funding from \$1,500 per pupil to \$2,100 per pupil.
- Removes transportation vehicle enrichment levies and limits on administrator salaries from local enrichment levy restrictions.
- Removes requirement for pre-approval of local enrichment levies by the Office of the Superintendent of Public Instruction.
- Delays the requirement that districts meet K-3 class size ratios until the 2019-20 school year.
- Excludes choice transfers and prekindergarten students from the definition of "resident student."
- Allows a school to receive high poverty-based Learning Assistance Program allocations for one year after it no longer meets the definition of a qualifying school.
- Revises limitations on salary increases in the 2018-19 school year and specifies calculations for Professional Learning Days.
- Specifies qualifications for hold-harmless payments to school districts.
- Removes reporting requirements for per-pupil expenditures.

Hearing Date: 1/31/18

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.

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Background:

The Washington Constitution declares: "It is the paramount duty of the state to make ample provision for the education of all children residing within its borders. . ." 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 state allocates state funding to districts monthly according to a statutory apportionment schedule. 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.

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.

In the third special session of 2017, Engrossed House Bill (EHB) 2242 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 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.

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.

Restrictions were placed 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.

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.

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. In addition, EHB 2242 enhanced LAP instructional hours currently funded in the budget.
- *Per Pupil Reporting.* To promote transparency, for each school district the SPI must report per-pupil allocations for general apportionment and specified categorical programs in online and in legislative budget documents. The monthly schedule used for apportioning state funding to school districts is revised effective July 1, 2018.

Summary of Bill:

Local Enrichment Levies and Local Effort Assistance.

Enrichment Levies. The maximum amount a school district may levy is either the maximum per-pupil limit (\$2,500 multiplied by the number of enrolled students) or the levy amount approved by voters for the 2018 tax year. If enrichment levies exceed \$1.50 per \$1,000 AV plus the state property tax rate for common schools (estimated at \$2.44 per \$1,000 AV), then the local levy rate must be reduced by the state property tax rate.

Local Effort Assistance. The threshold below which a district may qualify for LEA is changed from \$1,500 to \$2,100 per resident student in the prior school year. Eligible school districts, the maximum enrichment levy and the threshold are calculated based on "resident students," which are defined as all students residing in the boundaries of a school district, excluding students who transfer into the district or are enrolled in pre-kindergarten.

Hold Harmless. A school district qualifies for a hold-harmless payment, beginning in the 2018-19 school year and the 2019-20 school year, if the total of the state allocation, enrichment levies, and LEA under EHB 2242 is less than what a district would have received for that year under laws as of January 1, 2017.

Enrichment Levy Limitations. The following conditions and limitations on the use of local enrichment levies are changed or removed:

- Transportation vehicle enrichment levies are changed to transportation vehicle levies and are not subject to enrichment levy restrictions.
- Language applying limitations to supplemental contracts under RCW 28A.400.200 is removed.
- A limitation on administrator (CAS) salary costs funded from enrichment levies is removed.
- Pre-ballot approval of enrichment levy spending plans by the OSPI is removed.

Salaries and Professional Learning.

Districts are restricted from increasing total expenditures for CIS, CAS, and CLS salaries above inflation (the CPI) for the 2018-19 school year. The expenditure limitations do not prohibit

additional compensation for additional time, responsibilities, and expansions of academic programs provided by current personnel.

A separate state allocation for learning days is created, to be calculated by multiplying a daily rate for CIS staff based on the statewide average salary including regionalization adjustments, by the number of Professional Development Days provided by the state. School districts are not required to provide learning days in excess of the state allocated number.

References to "staff mix" in charter school and tribal school statutes are removed, and source attribution for IPD inflation is changed to the value as reported in the March publication of the state Economic and Revenue Forecast Council.

Other Changes.

K-3 Class Sizes. The beginning date to adjust funding for average K-3 class size ratios (currently 17:1) to reflect a district's actual class sizes is delayed from the 2018-19 school year to the 2019-20 school year.

High Poverty Learning Assistance Program Allocations. A school will receive an additional allocation of 1.1 instructional hours of high poverty LAP funding for one year after it no longer meets the definition of high-poverty, which is defined as having greater than 50 percent of enrollment eligible for free and reduced price lunches, based on a three-year rolling average.

Per-Pupil Reporting. The OSPI reporting requirements are changed from per-pupil allocations to per-pupil expenditures. Reporting at the grade level is no longer required. Budget documents and the enacted budget are not required to report statewide per-pupil allocations for general apportionment and categorical programs.

Appropriation: None.

Fiscal Note: Requested on January 11, 2018.

Effective Date: The bill contains multiple effective dates.