

SENATE BILL REPORT

SB 5607

As Reported by Senate Committee On:
Ways & Means, January 31, 2017

Title: An act relating to education.

Brief Description: Concerning education.

Sponsors: Senators Braun, Rivers, Fain, Zeiger, Schoesler, Honeyford, Warnick, King, Brown, Angel, Wilson, Sheldon, Becker and Miloscia.

Brief History:

Committee Activity: Ways & Means: 1/30/17, 1/31/17 [DPS, DNP].

Brief Summary of Substitute Bill

- Replaces the K-12 prototypical school funding allocation model for basic education with a per pupil guarantee model.
- Provides additional state supplemental per pupil funding for special education students, low-income students, transitional bilingual students, highly capable students, career and technical education students, and homeless students.
- Imposes a new local effort levy by the state on behalf of school districts at a uniform rate.
- Delays the 2018 reduction in local excess levy authority and state levy equalization distributions by a year.
- Eliminates voter-approved excess levies for calendar year 2019. Future voter-approved excess would be limited to 10 percent.
- Repeals Initiative 1351 and Initiative 732 provisions.
- Includes a variety of provisions dealing with compensation, educator strikes, chronically absent students, teacher removal, financial accounting and controls, school performance targets, school district flexibility, and additional assistance for lower performing schools.
- Includes a referendum clause submitting most of the provisions to a vote at the November general election.

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.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 5607 be substituted therefor, and the substitute bill do pass.

Signed by Senators Braun, Chair; Brown, Vice Chair; Rossi, Vice Chair; Honeyford, Vice Chair, Capital Budget ; Bailey, Becker, Fain, Miloscia, Padden, Rivers, Schoesler, Warnick and Zeiger.

Minority Report: Do not pass.

Signed by Senators Frockt, Assistant Ranking Member on the Capital Budget; Ranker, Ranking Minority Member; Billig, Conway, Darneille, Keiser and Pedersen.

Staff: Jeffrey Mitchell (786-7438)

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 State 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; and that the funding should reflect the actual costs of providing the legislatively defined instructional program of basic education.

School Funding and the Prototypical Model. Over 70 percent of the state allocations to school districts are distributed through the general apportionment prototypical school funding model based on staffing ratios, salary levels, and other cost allocation factors based on student enrollment. The funding formula has specific increases for career and technical education.

For certificated instructional staff, the prototypical school funding system includes a salary allocation schedule. For certificated instructional staff, administrative staff, and classified staff, the system includes allocation amounts based on historical salary levels and includes some school districts at grandfathered levels.

The Legislature’s definition of “basic education” also includes six other programs: special education; pupil transportation; the Learning Assistance Program for remediation assistance; the Transitional Bilingual Education program; the highly capable program; and educational programs in juvenile detention centers and state institutions. Most of these funds are distributed based on staffing ratios, salary levels, and other cost allocation factors based on student enrollment.

Local School District Levies. School districts are authorized to raise funds locally for their districts through excess levies. Since 1977, the Legislature has limited the amount school districts may request from their voters and collect through maintenance and operation (M&O) levies. The maximum amount that may be raised is based on the state and federal funding received by the district in the prior year. The amount that may be raised is typically referred to as the district's levy authority.

The levy lid is the limit on school districts' levy authority. Under current law, 205 of the 295 school districts have a levy lid of 28 percent of the district's state and federal funding, which was temporarily increased in the 2010 legislative session from 24 percent. This means that 205 school districts may request voter approval and collect \$0.28 for each \$1 of state and federal revenue the district receives. The other 90 school districts have a levy lid ranging from 28.01 percent to 37.90 percent.

Additionally, in the 2010 legislative session, the Legislature increased a school district's levy base to include certain non-basic education revenues formerly allocated by the state in addition to the revenues the district actually receives from state and federal sources. Effective with the levies for calendar year 2018, the levy lid will revert to 24 percent and the increases will be removed from the levy base.

Local Effort Assistance. The Local Effort Assistance program (LEA) or levy equalization was created in 1987 to mitigate the effect that above-average property tax rates might have on the ability of a school district to raise local revenues through voter-approved levies. The LEA is expressly not part of basic education. The amount is calculated based on equalizing tax rates to a statewide average for a certain equalization rate. The current LEA equalization rate is 14 percent. In calendar year 2018, the LEA equalization rate will decrease to 12 percent.

Constitutional 1 Percent Property Tax Limit. 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. The Legislature established individual district rate maximums and aggregate rate maximums to keep the total tax rate for regular property taxes within this constitutional limit. For example, the state levy rate is limited to \$3.60 per \$1,000 of assessed value; county general levies are limited to \$1.80 per \$1,000 of assessed value; county road levies are limited to \$2.25 per \$1,000 of assessed value; and city levies are limited to \$3.375 per \$1,000 of assessed value. These districts are known as senior districts. The junior districts, such as fire, library, hospital, and metropolitan park districts, each have specific rate limits as well. The tax rates for most of these senior and junior districts must fit within an overall rate limit of \$5.90 per \$1,000 of assessed value. State statutes contain schedules specifying the preferential order in which the various junior taxing district levies are prorated in the event that the \$5.90 limit is exceeded. A few regular property tax levies are not placed into the \$5.90 aggregate rate limit: emergency medical services, conservation futures, affordable housing, certain metropolitan park districts, county ferry districts, criminal justice, fire districts, and county transit are some examples. However, these districts are subject to reduction if the rates for these districts, the state property tax, and the districts subject to the \$5.90 limit together exceed the constitutional limit. These districts are in what has been called the "gap," the \$0.50 remaining after subtracting the maximum \$3.60 state levy and the \$5.90 in local regular levies from the statutory \$10 limit.

One Percent Property Tax Revenue Limit. There is a statutory 1 percent limit on revenue growth for taxing districts. This limit is distinct and separate from the 1 percent constitutional limit described above. Under this revenue limit the amount of revenue collected from regular, i.e., non-voter-approved, levies is restricted to a growth rate of 1 percent plus an additional adjustment for new construction occurring within the taxing district.

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. State funding for teachers and other certificated instructional staff 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 and Classified Staff. There is no state salary allocation model for certificated administrative staff or classified staff such as bus drivers, food service workers, custodial staff, and class room aides. Each school district receives an allocation for these staff based on historical salary allocations, adjusted for cost-of-living increases.

Health Care. School districts are authorized to provide health care insurance separately or through the Public Employees' Benefit Board. In 2012, legislation was enacted directing school districts that offer basic health care to make progress toward offering health plans with employee premiums for full family coverage that are no more than three times the premiums for single coverage. A report by the Joint Legislative Audit and Review Committee, published January 2016, found that 271 of the 295 districts had not met the premium ratio of three to one.

National Board Bonuses. The National Board for Professional Teaching Standards (NBPTS) program provides an opportunity for teachers to seek an advanced teaching credential by undertaking a rigorous application process. Once earned, the certification is valid for ten years.

Certificated instructional staff with certification from the NBPTS are eligible to receive an annual lump-sum bonus of at least \$5,000 that is adjusted by inflation. The current bonus is \$5,208. In addition, certificated instructional staff with NBPTS certification employed in an instructional assignment in a low-income school are eligible for an additional \$5,000 lump-sum bonus.

Teacher Conditional Scholarship and Grant Programs. A conditional scholarship is a loan that is forgiven in whole or in part in exchange for qualified service as a certificated teacher employed in a Washington K-12 public school. The conditional scholarship programs are designed to help school districts recruit teachers, particularly in subject matter and geographic shortage areas. Under most grant and scholarship programs, the state will forgive one year of loan obligation for every two years a loan recipient teaches in a designated shortage area in a Washington K-12 public school.

Educator Retooling Conditional Scholarship. The Educator Retooling Conditional Scholarship program is available to teachers currently working in a Washington K-12 public school. In order to receive a conditional scholarship, teachers and individuals certificated

with an elementary education endorsement must pursue an endorsement in a subject or geographic endorsement shortage area, such as mathematics, science, special education, bilingual education, English language learner, computer science education, or environmental and sustainability education. The annual scholarship, which may not exceed \$3,000 in value, is for the cost of tuition, test fees, and educational expenses, including books, supplies, and transportation for the endorsement pathway being pursued.

Future Teachers Conditional Scholarship. The Future Teachers Conditional Scholarship program is designed to encourage into the teaching profession individuals who demonstrate outstanding academic achievement, leadership ability, and willingness to commit to providing teaching service in shortage areas; and who are likely to be good role models for students. Participants in the program incur an obligation to repay the conditional scholarship, with interest and an equalization fee, unless they teach for two years in an approved education program for each year of scholarship received. However, participants who teach in a designated teacher shortage area have one year of loan canceled for each year they teach in the shortage area. The program was last funded in fiscal year 2010 at \$1 million annually.

Teacher Shortage Conditional Grant. In 2016, the Legislature created the Teacher Shortage Conditional Grant program within the Future Teachers Conditional Scholarship program. The purpose of the program is to encourage individuals to become teachers by providing financial aid to individuals enrolled in approved teacher preparation programs. The Washington Student Achievement Council was allocated \$468,000 in 2016 for purposes of administering the grant program and is scheduled to award its first grants in Spring 2017.

Performance Excellence Program. A 1987 act established a federal program to evaluate management quality of businesses in the United States. Both the Baldrige Performance Excellence Program and the Malcolm Baldrige National Quality Award are administered by the National Institute of Standards and Technology, within the United States Department of Commerce. The program currently publishes performance excellence frameworks used by trained examiners to evaluate management in both for-profit and non-profit organizations, including the education sector. Following an assessment, an examiner scores an organization's management quality.

Certificated Employee Contracts and Non-renewal. Certificated employees may only be hired by written order of a majority of the school board of directors. The school board of directors must make written contracts, which are generally limited to a one-year term unless otherwise provided by law, with each certificated employee.

Certificated employees may only be terminated under certain limited circumstances, including a finding of a crime against a child or conviction of a felony. However, school boards have the option to not renew the contract of a certificated employee when it is determined that there is probable cause. The board must notify the employee in writing no later than May 15th, or June 15th if the Omnibus Appropriations Act has not yet passed. An employee whose contract is not renewed for probable cause may appeal the decision by requesting a hearing to determine whether there is sufficient cause for non-renewal.

Performance Evaluation as a Cause for Non-renewal or Termination. Legislation enacted in 2010 directed the development of a revised evaluation system for teachers and principals.

The revised evaluation system includes eight evaluation criteria and a four-level rating system ranging from unsatisfactory to distinguished. Evaluations must be performed annually.

Aspects of performance evaluations for certificated instructional staff are specified in statute, including minimum evaluation criteria and the requirement that performance rated as not satisfactory is subject to a probationary period and, if performance does not improve, a finding of probable cause for non-renewal.

Under current law, evaluation results for certificated teachers and principals must be used as one of multiple factors in making human resource and personnel decisions beginning with the 2015-16 school year. These decisions include, but are not limited to, staff assignments and reductions in force.

Collective Bargaining for Educators. Collective bargaining is generally defined as the mutual obligation between an employer and a union or bargaining representative to negotiate in good faith with respect to grievance procedures and personnel matters. The statutory obligation to negotiate does not require either party to reach an agreement, but rather creates a uniform basis for implementing public employee labor rights. Collective bargaining was created in statute in 1967 for classified employees through the Public Employee's Collective Bargaining Act and in 1975 for certificated employees under the Educational Employment Relations Act. Charter school employees were added to both chapters in 2016.

The Public Employees' Collective Bargaining Act broadly provides for the collective bargaining rights of counties, cities, and other political subdivisions and their employees, including classified school employees. The scope of mandatory bargaining covers wages, hours, and working conditions. The courts have described the scope as limited to matters of direct concern to employees. The Educational Employment Relations Act applies to all certificated school district employees. It does not apply to school district superintendents and certain executive, administrative, and confidential employees. The scope of mandatory bargaining with respect to certificated employees is similar to classified employees.

Strikes by Education Employees. No law in Washington explicitly allows or prohibits school district employee strikes. The right to strike is expressly not granted to classified staff. The collective bargaining statutes governing certificated staff are silent as to whether strikes are permitted or prohibited. Washington case law does exist which indicates that public employee strikes are unlawful; however, appellate courts have been reluctant to address the issue with regard to school employees.

Measures of Success. In 2013, the Legislature directed the State Board of Education (SBE) to report on specified statewide indicators of educational system health and recommends evidence-based reforms, if needed, to improve the status of the indicators. The indicators include kindergarten readiness, fourth grade reading, eighth grade mathematics, college readiness, and post-secondary attainment and workforce. The SBE must annually report to the Legislature by December 1st of each even-numbered year.

Under federal and state law, school districts are identified as persistently lowest achieving schools in the state based on the numbers of students in the district that do not meet the state

standard on the statewide assessments in English language arts and mathematics. Such schools are eligible for federal and state grants for improvement.

Student Absenteeism. Current truancy statutes direct schools to take specific actions when students have unexcused absences, including notifying parents in writing after the student has one unexcused absence within a month; and holding a conference with the parent after the student has two unexcused absences in a month and taking specified steps to eliminate or reduce the student's absences. A school must take specified actions, which may include referring a student to a community truancy board, no later than the fifth unexcused absence in a month. Beginning in the 2017-18 school year, juvenile courts must establish with each school district a community truancy board. After the seventh unexcused absence within a month or the tenth unexcused absence in a school year, the school district must file a petition with the juvenile court. The petition must initially be stayed by the court for additional interventions to take place.

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. Each district must publish a notice when the budget is completed and provide copies upon request.

Financial Health. The Office of the Superintendent of Public Instruction (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.

State Auditor. The State Auditor's Office is established in the Constitution as 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.

Innovation Schools, Zones, and Partnerships. In 2011, the Legislature directed OSPI to develop a process for school districts to apply to have schools designated as Innovation Schools. Groups of schools in one district or all schools in multiple districts may apply for designation as an Innovation Zone. A priority is placed on schools focused on the arts, science, technology, engineering, and mathematics (A-STEM) that actively partner with the community, business, and higher education and that use project-based or hands-on learning. Applications for designation must be developed by educators, parents, and communities in

participating schools. Innovation Schools or Innovation Zones may apply to OSPI or the SBE to obtain waivers of specified laws, including commingling of state funds for categorical programs and flexibility in calculating course credits for high school courses. The authorization for Innovation Schools and Zones expires June 30, 2019.

The Collaborative Schools for Innovation and Success pilot pairs colleges of education with low-performing, high-poverty elementary schools. The pilot was authorized by the Legislature in 2012. Goals for the pilot include increasing student achievement, closing the opportunity gap, and changing how future teachers work with students in these types of schools. The three partnerships are: University of Washington with Roxhill Elementary in the Seattle Public Schools, Western Washington University with Washington Elementary in the Mount Vernon School District, and Gonzaga University and Whitworth University with Holmes Elementary in Spokane Public Schools.

Budget and Outlook Provisions. In 1993, the voters of the state established, by initiative, an expenditure limit for the state General Fund. In its current form, the state General Fund expenditure limit for any fiscal year is the prior year's expenditure limit, increased by a fiscal growth factor consisting of the average growth in state personal income for the prior ten fiscal years. The spending limit is suspended until the 2021-23 biennium.

Under legislation enacted in 2012, the Legislature must enact a budget bill that leaves a positive ending fund balance in the state General Fund and related funds. In addition, the projected maintenance level for the budget in the ensuing biennium may not exceed available fiscal resources. This is often referred to as the four-year balanced budget or outlook law.

Neither the state expenditure limit nor the balanced budget requirement establish any prioritization of state expenditures for any particular programs or functions.

The Economic and Revenue Forecast Council was established in 1984 to prepare an official state revenue forecast for use in budget preparation by the Governor and the Legislature. The council consists of two persons appointed by the Governor, the State Treasurer, and four persons representing the four political caucuses of the Senate and House of Representatives.

The Budget Stabilization Account, also known as the Rainy Day Fund, was created in the Constitution in 2007. One percent of general state revenues are deposited into the account each fiscal year and in some cases extraordinary revenue growth. Monies may be withdrawn from the account and appropriated by the Legislature under three circumstances: (1) if the Governor declares an emergency resulting from a catastrophic event; (2) if annual state employment growth is forecast to be less than 1 percent; or (3) the appropriation is made by a 60 percent vote of each house of the Legislature.

Initiative 732. Initiative 732, approved by state voters in November 2000, requires the state to provide an annual cost-of-living adjustment (COLA) for K-12 teachers and other public school employees and certain community and technical college staff, beginning in school year 2002. The Legislature modified the COLA provisions for K-12 employees so that the state is required to fund only costs associated with providing the COLA to state-funded employees. Since all employees are required by statute to receive the COLA, the costs

associated with providing a COLA for locally- and federally-funded staff typically comes from those funding sources.

Initiative 1351. This measure, adopted 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.

Summary of Bill (First Substitute): Weighted Per Pupil School Funding Formula. Beginning in school year 2018-19, the prototypical model is replaced with a weighted per pupil funding formula. The weighted per pupil funding formula contains a basic per pupil guarantee as well as six supplemental state-funded per pupil amounts, including additional per pupil amounts for special education, highly capable, learning assistance, transitional bilingual, and career and technical education. A new supplemental per pupil amount is also provided for homeless students. All certificated and classified staff employed at school districts with above-average home prices would be eligible for a housing allowance. Certificated instructional staff and certificated administrative staff working in high-poverty urban school districts would receive recruitment and retention bonuses.

More specifically, the revised funding structure includes the following major elements:

1. A basic per pupil guarantee of \$10,000 per student. This basic per pupil guarantee is set at a level necessary to exceed the entire projected cost under current law of state general apportionment funding, state levy equalization funding, state pupil transportation funding, and all local school district M&O levies. In meeting the state guarantee, a local contribution is required, referred to as a local effort levy. Beginning in calendar year 2019, the local effort levy would be uniformly imposed in every school district at a rate of \$1.80 per thousand dollars of assessed value; however, the property tax rate would be lowered in future years, as specified in the Omnibus Appropriations Act, as undedicated state revenues become available. In calendar year 2018, as the state transitions to the new funding structure, the local effort levy rate is \$0.45 per thousand dollars of assessed value. The local effort levy is applied to the total cost of the basic per pupil guarantee in each school district, with the state backfilling the difference in order to meet the guarantee. Included within the basic per pupil guarantee is a minimum state contribution requiring the state to pay for at least 40 percent of the basic per pupil guarantee. A small-school hold-harmless provision is included. Under this provision, if a school district with an enrollment of less than 2500 students is estimated to receive less funding under the new formula than the district is estimated to receive under current law, the district will receive the higher amount.
2. An additional \$7,500 per pupil guarantee for special education students.
3. An additional \$1,000 per pupil guarantee for transitional bilingual students.
4. An additional \$2,000 to \$5,000 per pupil guarantee for students in poverty. School districts with a poverty rate above 30 percent would receive \$5,000 based on the number of poverty students exceeding the 30 percent threshold. Poverty rates would

- be calculated using small area poverty estimates by the United States Census Bureau as opposed to the number of students qualifying for free and reduced price lunches.
5. A \$1,000 per pupil guarantee for highly capable students.
 6. A \$500 per pupil guarantee for career and technical education students and students enrolled in skill centers.
 7. A new \$1,500 per pupil guarantee for homeless students. The calculation would be determined through homeless student data collected by OSPI.
 8. After all other funding calculations are completed, if the total per pupil funding amount for a district is less than \$12,500 when including local, state, and federal revenues, the per pupil amount is increased to \$12,500.

All per pupil amounts will be adjusted for inflation based on the implicit price deflator beginning in school year 2019-20.

New Revenue Requirement and Future Reductions to the Local Effort Levy Tax Rate. Beginning with the 2019-21 biennium, a priority of new revenue to the state General Fund and related funds is for meeting enrollment and inflationary increases for the basic per pupil guarantee, the supplemental per pupil guarantees, and other funding components of the new funding system. The second priority use for increased revenue is to reduce the tax rate of the newly created local effort levy to \$1.25 per \$1,000 of assessed value over time.

Once the Omnibus Appropriations Act provides the needed state appropriations and specifies that the local effort levy tax rate is \$1.25 per \$1,000 of assessed value, the priority requirements no longer apply. The calculations necessary to determine compliance with this will be performed by the Economic and Revenue Forecast Council.

Reimbursement to Junior Taxing Districts Impacted by the Local Effort Levy Under the 1 Percent Constitutional Property Tax Limit. To mitigate the negative financial effects of the local effort levy on local taxing districts resulting from the 1 percent constitutional limit on property taxes, taxing districts may seek reimbursement from the state. Each year, the county assessors must notify the Department of Revenue if the assessor determines that the local effort levy has caused a reduction or elimination of one or more taxing district levies because of the 1 percent constitutional limitation. County assessors must submit the required documentation by March 1st of each year to the Department of Revenue to seek reimbursement. Impacted taxing districts will receive payments in the following state fiscal year. The reimbursement program expires after ten years.

One Percent Revenue Limit—Local Effort Levy. The 1 percent revenue limit does not apply to the local effort levy. Therefore, year-to-year changes in local effort levy collections will be a function of changes in assessed value.

School District Excess Levies and LEA. During calendar year 2018, current school district levy policy remains in place through a delay in the reduction in the levy lid limit. Therefore, the levy lid percentage will remain at the same rate as in effect for calendar year 2017. In similar fashion, local effort assistance distributions in calendar year 2018 will continue under current law.

In calendar year 2019, school districts are prohibited from imposing an excess levy.

Beginning in calendar year 2020, school districts may impose an excess local levy. The former 28 percent levy lid is reduced to 10 percent. Local effort assistance is eliminated.

Beginning with local excess levy ballot propositions submitted to the voters in calendar year 2019, districts must provide a report to OSPI detailing the programs and activities to be funded through a proposed excess levy for M&O. The report must be submitted to, and approved by, OSPI prior to the election for the proposition.

Compensation. *Salaries.* Beginning in the 2018-19 school year, there is no statewide salary schedule for certificated instructional staff. However, school district board of directors must not provide salary increases based on a master's or other advanced degree that is not in the subject area in which the individual teaches.

Salaries for all full-time certificated instructional staff in the basic education program must not be less than \$45,000. The total salary and benefits paid to certificated instructional, certificated administrative, and classified staff shall not exceed 80 percent of the district's total expenditures from the district's general fund.

A school district that exceeds the 80 percent threshold as of the 2017-18 school year based on school expenditure data reported to OSPI have until the 2023-24 school year to comply.

Housing Allowance. Beginning with the 2018-19 school year, in addition to other compensation provided to public school employees, state-funded certificated instructional staff, certificated administrative staff, and classified staff teaching full or part-time in eligible school districts will receive an annual housing allowance. The amount of the housing allowance for all full-time staff employed by the school district is equal to \$10,000 multiplied by the regional cost factor. The amount of the allowance for part-time staff is adjusted proportionally. School districts eligible for a housing allowance under this section must increase the compensation of all staff by the amount of the allowance. The "regional cost factor" is the quotient of the school district excess residential value and the highest district excess residential value. "Excess residential value" means the amount by which the average equalized assessed value per residential parcel in the school district exceeds the statewide average equalized assessed per residential parcel. Housing allowances are not considered part of the program of basic education and are not part of the funding necessary to comply with the state's Article IX constitutional duty, and are not subject to collective bargaining.

National Board Bonuses. A school district may provide bonuses to certificated instructional staff who have a certification from the NBPTS. The bonus amounts are determined by the school district board of directors, and are not considered part of the program of basic education or the funding necessary to comply with the state's Article IX constitutional duty.

Teacher Recruitment and Retention Bonuses. Certificated instructional staff and certificated administrative staff are eligible for an annual recruitment and retention bonus of \$12,500. To qualify for a recruitment and retention bonus, the certificated instructional staff or certificated administrative staff must be employed at a school district: (a) with an enrollment exceeding 25,000 students; and (b) a poverty rate exceeding 25 percent.

State-Funded Extended-Year Contracts. Beginning in the 2018-19 school year, each school district is authorized to enter into state-funded supplemental employment contracts with qualified, non-supervisory, certificated instructional staff to provide remedial education instruction and services to underachieving students, as determined by statewide, school, or district assessments or other student performance measurement tools. Supplemental employment contracts are subject to the following conditions and limitations:

- may be for up to an additional 90 days of employment outside of the 180-day school year;
- must be time-based with compensation at an hourly rate as calculated by the employee's placement on the previous year's salary schedule;
- the employee's supervisor must certify to the superintendent of the school district that the activity was done in the appropriate time and manner, and was in compliance with other statutory conditions and limitations;
- non-renewal of supplemental employment contracts does not constitute an adverse change in contract;
- must be separately accounted for by the school districts; and
- must be audited as part of the school district's regular financial audits by the Washington State Auditor's Office to ensure compliance with any statutory limitations and conditions.

The state-funded extended-year contracts are not considered part of the program of basic education or part of the funding necessary to comply with the state's Article IX constitutional duty.

Health Care. School districts that offer basic health care must offer plans designed with premiums for full family coverage that are no more than three times the premiums for single family coverage. Any pooled savings that are used to reduce employee premiums must be used to maintain the three to one cost ratio.

School District Flexibility. School districts are given greater flexibility to hire a person without a certificate to teach students but must ensure that the person undergoes a record check as required by statute.

Top Teacher Recognition Grant Program. The Top Teacher Recognition Grant Program is established to encourage excellence in the classroom teaching ranks and to recognize the most outstanding classroom teachers in Washington.

Subject to availability of funds, in each odd-numbered year, every ESD must identify, based on merit, the top five percent of teachers who are teaching in a school district within the ESD. The teachers identified in the top five percent will be chosen and certified by the ESD board of directors from a list of nominees submitted by each school district's board of directors. The school district board's nominees must be selected from a list of candidates submitted by school principals using selection criteria and a process developed by the school district's board of directors, after receiving input from the community.

The teachers identified in the top two percent will receive a one-time top teacher recognition grant award of \$50,000. The rest of the teachers who are identified in the top five percent will receive one-time top teacher recognition grant awards of \$25,000 each.

The top teacher recognition grant is not subject to collective bargaining, may not be included for the purpose of calculating retirement allowances under any public retirement system in Washington, and is not part of the program of basic education or part of the funding necessary to comply with the state's Article IX constitutional duty.

Collective Bargaining. Any collective bargaining agreement entered into under the laws of the Educational Employment Relations Act or the Public Employees' Collective Bargaining Act must comply with the provisions of this act. This act does not affect or impair any currently effective collective bargaining agreements.

Certificated educational employees do not have the right to strike, participate in work stoppages or work slowdowns, or to otherwise refuse to perform their official duties.

Excellence Assessment Program. Beginning in the 2018-19 school year, OSPI will select ten school districts with at least 5000 students to pilot implementation of the Education Sector Excellence Assessment Framework developed by the National Institutes of Standards and Technology within the United States Department of Commerce.

OSPI must develop a phased-in schedule whereby all school districts with at least 5000 students has implemented the education sector excellence assessment framework by the 2020-21 school year. Each school district selected to implement the excellence assessment framework will receive a \$10,000 grant to cover implementation costs, including contracting with a trained excellence assessment examiner at the beginning of implementation, and every three years thereafter, with the goal of reaching 70 percent or higher on the operational performance scoring guidelines within nine years.

OSPI must develop a standardized method for school districts to report implementation results and must take into consideration feedback by examiners when using the information to streamline and eliminate educational processes. Beginning in the 2019-20 school year, any school districts that has implemented the excellence assessment framework must report to OSPI on implementation progress and examiner results.

By December 1, 2019, all ESDs must implement the education sector excellence assessment framework and contract with a trained examiner at the start of the implementation, and every three years thereafter, with the goal of reaching 70 percent or higher on the assessment scoring guidelines within nine years.

By December 1, 2019, OSPI, SBE, the Professional Educator Standards Board, the Washington State School Directors Association, and the Office of the Education Ombuds must implement the education sector excellence assessment framework by December 1, 2019, and contract with a trained examiner at the start of the implementation, and every three years thereafter, with the goal of reaching 70 percent or higher on the assessment scoring guidelines within nine years.

Authority to Remove Teachers. A teacher who fails to show improvement through in-service training and mentorship to the extent that it is detrimental to the academic performance of students is subject to dismissal.

The teacher must be notified in writing. The notification must include a detailed explanation of the reasons for dismissal. The teacher has the right within ten days of notice to meet informally with the principal for the purpose of requesting that the principal reconsider their decision. Within ten days following the meeting, the principal must either reinstate the teacher or submit to the school district board of directors for consideration at its next regular meeting a written report recommending that the employment contract for the teacher be terminated.

A copy of the report must be delivered to the teacher at least ten days before the scheduled meeting of the board of directors. At the board of directors' meeting, the teacher must be given the opportunity to present information and provide documentation refuting any facts regarding how the principal's determination was made.

The board of directors must notify the teacher in writing of its final decision within ten days following the meeting at which the principal's recommendation was considered. The decision of the board of directors to terminate the contract of a teacher pursuant to this section is final and not subject to appeal.

Measures of Success. The current indicators on which SBE must annually report regarding the health of the educational system are changed and targets that school districts must meet are established. The indicators include third grade literacy rate, improved high school readiness, raised four-year cohort high school graduation rates, and closing the achievement gap. School districts on pace to meet or meeting the performance targets are annually granted greater additional autonomy and flexibility by exempting them from most state laws. The school districts that are not meeting the performance targets are identified as challenged schools in need of improvement and can also be identified as a persistently lowest-achieving school for the purposes of state accountability. The SBE must create a process for a limited number of other schools that are not persistently lowest-achieving to be exempt from most state laws and rules if they file a plan with the SBE with an explanation of how the flexibility will help the districts to improve educational outcomes for the students.

Student Absenteeism. Beginning in the 2019-20 school year, each school district shall create an attendance reserve to be used to reduce chronic student absenteeism. For the purposes of this section, "chronic absenteeism" means when a student has 18 or more absences in a school. If a school has a three-year average student absentee rate that exceeds 20 percent of the student population of the school, then the OSPI must recover from the school district an amount of funds from the district's reserve that is equal to the amount of funds that the school received for each chronically absent student in excess of 20 percent.

Accounting Transparency. Local Revenue Subfund. School districts must establish a local revenue subfund. Money deposited into the local revenue fund must include, but is not be limited to, proceeds from M&O levies and LEA payments from the state. By the 2018-19 school year, school districts must provide separate accounting of state, federal, and local revenues and expenditures, and a separate accounting of basic education and non-basic education expenditures.

Budget Process. As part of their annual budget process, school districts must develop a four-year budget outlook that includes a projection for student enrollment. The information must be posted online and copies made available upon request. Districts are encouraged to use the information to inform the district's instructional priorities and program offerings and to communicate this information to the local community.

Financial Health. OSPI must consider the school district four-year budget outlook and enrollment projection when ranking the financial health of districts. OSPI must present information to the Legislature regarding districts trending towards financial difficulty, insolvency, or binding conditions.

State Auditor. 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.

Initiative 732 and Initiative 1351. Initiative 732 and Initiative 1351 are repealed.

Referendum. A referendum clause is added to the bill which requires a vote of the people on the entire act at the next general election in November 2017, except the provisions of the bill delaying the reduction in the levy lid limit will take effect regardless of the referendum.

EFFECT OF CHANGES MADE BY WAYS & MEANS COMMITTEE (First Substitute):

- Makes a technical correction to the alternative learning experience statute to reference the new formula.
- Removes a sentence specifying that school districts receiving the housing allowance must increase the compensation of staff by the amount of the allowance.
- Includes career and technical education and apprenticeship programs in the measure of success that requires at least 93 percent of students who enroll in a post-secondary program to have the educational background necessary to bypass remedial coursework
- Changes the term supplemental contract to extended year contract to align terminology with the rest of the bill.
- Restores the word "allocation" to clarify that the state salary schedule in place through 2017-18 school year is still for allocation purposes only.
- Makes a technical correction to restore the current law in section 503(3)(b).
- Makes the following changes with respect to paraeducator law: adopts statewide minimum employee standards for paraeducators; establishes a paraeducator advisory board to administer policies and rules for paraeducator preparation, certification, and training; provides for volunteer school districts to field test new paraeducator programs; requires school districts to begin implementing the paraeducator certification and professional development standards; requires the professional educator standards board to design and implement a training program for teachers and principals as it relates to their role working with paraeducators; requires the development of an advanced paraeducator endorsement, training modules, and renewal process; adds new standards to the paraeducator associate of arts degree and community and technical college apprenticeship program requirements; directs the

Institute for Public Policy to conduct a study on the effectiveness of paraeducators in improving student outcomes; and requires the paraeducator advisory board to include one representative from a private school.

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.

Staff Summary of Public Testimony on Original Bill: *The committee recommended a different version of the bill than what was heard.* PRO: I really like that the levy inequalities are being addressed. The supplemental per pupil amounts for the categorical programs very much welcome. The reimbursement program for taxing districts that are negatively impacted by the property tax increase seems to be resolved. The referendum requiring the citizens to buy into the proposal is a good idea. The housing allowance has to be part of basic education. There are cost differences across the state. There is a confusion between state and local funding. Unlike Massachusetts, we have a requirement that we fully fund education. There would be advantages to preserving the prototypical school model. The 10 percent levy lid should be based on the state portion only. The housing allowance should be based on median as opposed to the average. We shouldn't look just where the teachers are working but more regionally. It is difficult to get objective comparisons of teacher performance. This bill stacks up well in terms of providing sustainable funding, driving funds based on student needs and particularly low-income and English language learners, and additional supports for low-performance schools. Thank you for throwing out 30-40 years of formulas for McCleary and recognizing classified staff. We like the flexibility to hire paraeducators. The 80 percent limit will hurt classified staff. I am excited about the focus of this proposal on kids. This proposal looks to address important issues. This bill takes a step towards improving student achievement. The money must follow the child. The reforms in this bill are significant, structural, and impressive. The bill before you incorporates a long-standing recommendation replace the allocation model with a per pupil model. The most significant part of this bill is the guarantee on page six that will provide \$12,500 per student. This a binding and unwavering guarantee by the state. It provides fair and equitable funding. It amply funds the school with a reliable source. This is a student-centered funding approach. Massachusetts changed to a student-based funding model, reduced reliance on local levies, and increased state funding, and the state has now become the number one performer in education. We are glad to see that the levy cliff is being addressed. We also like the healthcare change.

CON: The commitment to equity is appreciated. We like the four core principles. We are disappointed that the prototypical model is being replaced because it is evidenced based. The per pupil model is something we moved away from back in the 1970s. Limiting salaries and benefits to 80 percent is unrealistic. The national board bonus should not be locally driven. Eliminating any increase in pay for a master's degree is a problem. Allowing anyone to be hired as a teacher is the biggest problem with the bill. The increase for highly capable is not sufficient. The limitation in law does not reflect reality. This bill is neither ample nor equitable. A 10 percent levy lid percent won't allow Seattle School districts to support

students with individual education plans. This will create a forty million dollar liability. This bill will not satisfy the court. You are not doing your job by putting this out to the voters. It changes the mix of dollars without increasing the overall level of funding. It reduces resources available for special education. Many districts will go backwards. With a per pupil funding formula, it is hard to know what class sizes are funded or whether the allocation for salaries is sufficient. The bill undermines the will of the voters by repealing Initiative 1351. The bill prohibits school districts from raising the needed local money to pay for special education but doesn't change the 12.7 percent limitation. The funding is this bill is not ample, reliable, or equitable. Sufficient funding must also be equitable and fair. Educator compensation must be based on equity. This proposal resonates with many of our members: the labor market adjustments, the hold-harmless provisions, the extension of the levy lid, and recognizing the importance of beginning teacher salaries. We are concerned that school districts may not be able to make decisions based on their local needs. We would like to see health care benefits be administered through a state system. Levy equalization should be retained. The professional development piece needs to be added. There should be additional supplemental categories that should be added such as students with mental health issues.

OTHER: We will get you an analysis section-by-section going over the fiscal and policy implications. We will provide an analysis of the metrics as to how the K-12 financial mechanisms compare. This proposal begins to close the gap between poverty districts and wealthier districts in terms of the resource distribution. This is one of the most important things that we can do. I am concerned that we don't contribute enough back into our K-12 system while our state becomes more wealthy. Massachusetts spends about \$3 billion more per biennium even though they are similar to our state. The bump in this starting pay is moving in the right direction. We think the measures of success should include references to two year colleges, technical institutes, and apprenticeship programs. We appreciate proposals that increase opportunity and achievement. The prototypical model is the cornerstone of the Legislature's response to the court. We would like to see you build upon previous legislation. We would like to see the Governor and Legislature create a plan to fully fund education this session rather than sending to the voters. It does not align with our goals with respect to professional development for educators and addressing the teacher shortage. Oregon has a per pupil model. It has benefits as well as drawbacks. We like the fact that the funding model reflects the special needs of certain student populations. More money needs to be driven into districts with flexibility so they can address their unique needs.

Persons Testifying: PRO: Neil Strege, Washington Roundtable; Chad Magendanz, citizen; Deb Blakeslee, citizen; Elaine Woo, citizen; Amy Anderson, Association of Washington Business; Liesl Santkuyl, citizen; Sharon Taubel, citizen; Gabriela Villagomez Morales, Campaign for Student Success; Dr. Will Jenkins Sr., Campaign for Student Success; Helen Tauanu'u, citizen; Liv Finne, Washington Policy Center; Roland Bradley, Campaign for Students Success; Dave Powell, Stand for Children.

CON: Bob Cooper, WA Assoc. of Colleges for Teacher Education; Stephen Nielsen, Deputy Superintendent, Seattle Public Schools; Catherine Ahl, League of Women Voters of WA; Jerry Bender, Association of Washington School Principals; Julie Salvi, Washington Education Association; David Spring, Director, Coalition to Protect Our Public Schools.

OTHER: Dan Steele, WA Assoc. of School Administrators, WA Assoc. of School Business Officials; David Berg, Washington Coalition for Gifted Education; Tim Knue, Washington Assoc. for Career and Technical Education; Doug Nelson, PSE/SEIU 1948; Kaaren Heikes, State Board of Education; Charlie Brown, Tacoma School District; Chris Reykdal, The Office of the Superintendent of Public Instruction; Ramona Hattendorf, Director of Advocacy, The Arc of King County; Shirlene Wilson, citizen; Jessica Vavrus, Washington State School Directors' Association; Andy Nicholas, Washington State Budget & Policy Center.

Persons Signed In To Testify But Not Testifying: No one.