Appropriations Committee

HB 2717

Brief Description: Concerning public schools.

Sponsors: Representatives Dolan, Sells, Goodman, Bergquist, Doglio, Macri, Stanford and Pollet.

Brief Summary of Bill

- Increases school salary allocations for districts next to a district with a higher regionalization factor, and for districts with higher than average experience and education levels for certificated instructional staff beginning in the 2018-19 school year.
- Excludes some salary changes from temporary limitations on 2018-19 school year salary increases for school staff.
- Establishes a Technical Working Group on School Employee Salaries and a School Employee Salary Council to convene by July 2022 and make recommendations regarding basic education employee salaries.
- Requires the Office of the Superintendent of Public Instruction to allocate the greater of the 2017-18 salary allocation adjusted for inflation or the current year salary allocation to school districts.
- Allows a school to receive high poverty-based Learning Assistance Program allocations if it no longer meets the definition of a qualifying school, to be phased out over three years.
- Increases staff values in the prototypical school formula with the intent to provide funding for paid sick leave.
- Changes local school enrichment levies to the lesser of $3,000 per pupil, adjusted for inflation and increases in state basic education funding, or $1.50 per $1,000 of assessed property value.
- Adjusts the Local Effort Assistance (LEA) threshold annually by the percentage change of statewide property valuations and the increase in basic education funding.

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.

- Creates a separate LEA and enrichment levy rate for districts with fewer than 1,000 students.
- Removes limitations relating to the use of enrichment levies and permits any enrichment beyond state provided funding for basic education.
- Removes the 1 percent limit on revenue growth for state property taxes beyond the 2021 calendar year.

Hearing Date: 1/31/18

Staff: James Mackison (786-7104).

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 2019-20 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.

<u>School District Employee Compensation</u>.

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). The regionalization factor for each school district is based on differences in the median residential value of each school district and its nearby districts, with adjustments of 6, 12, or 18 percent. Further regionalization adjustments were identified in the 2017-19 Operating Budget, including adjustments of up to 24 percent for some districts. Beginning with the 2023-24 school year, and every six years thereafter, the Legislature must review and rebase salary allocations to ensure that salary allocations reflect market rates and that regionalization reflects actual economic differences among districts. 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.

<u>State Property Tax, Enrichment Levies, and Local Effort Assistance</u>.

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.

<u>Other Engrossed House Bill 2242 Changes</u>.
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.
- *Staffing Enrichments to Basic Education.* Engrossed House Bill 2242 identified additional school district staffing ratios based on Initiative 1351, a voter initiative approved in 2014 that required the state to fund increased school district staffing to reduce class size and to enhance other staffing ratios.

Summary of Bill:

<u>Compensation</u>.

School District Salaries and Regionalization. School salaries are increased based on revised regionalization factors, and staff experience and education levels. Beginning in the 2018-19 school year, regionalization factors for school salaries are adjusted for districts sharing a boundary with another district that receives a higher regionalization factor. The additional regionalization factor is one-half of the difference in regionalization between the two districts. For districts receiving an additional 6 percent adjustment for a regional adjustment of 24 percent, the 6 percent adjustment is reduced by one percentage point per year through school year 2022-23, as opposed to two percentage points under EHB 2242.

Beginning in school year 2018-19, an additional 8 percent state salary allocation is provided for school districts where the total CIS median experience and average ratio of bachelor's degrees to advanced degrees for the district exceed statewide averages. This bill eliminates the requirement that 50 percent of the staff salary increases in EHB 2242 be phased in for school year 2018-19, while making other adjustments to salaries. The OSPI must allocate the greater of: the 2017-18 salary allocation adjusted for inflation, or the current year salary allocation. For supplemental contracts, school districts are not prohibited from providing overtime for work outside the employee's normal schedule. The hourly rate applies only to time-based supplemental contracts.

Temporary Limitations on Salary Increases. For the 2018-19 school year, individual school district employees may receive additional compensation for specified purposes, including additional days or hours of service, additional responsibilities, step increases, and expansions of academic programs. The restrictions are removed for salary increases for a specified list, including course loads, class size overload, overtime payments, and additional responsibilities. These provisions are null and void if the salary increases by September 1, 2018, are not provided. The temporary limitations on salary increases do not apply to collective bargaining agreements (CBA) modified after July 1, 2017, if the changes to the CBA were for assuring that the original intent of the CBA was not impaired or altered.

Salary Realignment and Rebasing. Beginning in July 2022, and every six years thereafter, the Office of Financial Management must convene a technical working group of specified agency and educational organization staff to recommend, based on a list of requirements, changes to the basic education salary allocations to ensure that allocations align with basic education staffing costs. A School Employee Salary Council is created to review the work of the technical working group and make recommendations to the Governor and Legislature. The recommendations shall take effect in the next biennial period, subject to legislative modifications and final legislative approval.

Sick Leave. Intent is declared that under Initiative 1433 employers must provide paid sick leave and this contributes to meeting the Supreme Court's requirement for K-12 funding formulas to "provide for actual costs of operating the state's program of basic education." The prototypical school funding formula is amended to provide that the allocations are sufficient to provide for the minimum requirements of paid sick leave.

<u>Local Levies and State Property Taxes</u>.

Local Enrichment Levies. Enrichment levies for school districts are set at the lesser of $3,000 per pupil, adjusted for inflation and increases in state basic education funding, or $1.50 per $1,000 of assessed value, for districts with at least 1,000 students. For districts with fewer than 1,000 students, the rate is 1.50 per $1,000 of assessed value.

Local Effort Assistance. The LEA threshold is adjusted annually by a three-year average annual change in statewide assessed property valuations and the percentage increase in basic education funding. School districts with enrollment of less than 1,000 based use a separate threshold for LEA based on a property tax rate of average per pupil rate for such districts at a tax rate of $1.50 per assessed value rate.

Permitted Uses of Local Levies. Local enrichment levies are permitted for any enrichment beyond state provided funding for basic education. Other restrictions on the use of local enrichment levies are removed.

State Property Taxes. State property taxes are no longer subject to the 1 percent limit on revenue growth. For school districts levying the maximum enrichment funding levy rate of $1.50, the additional tax must be set forth in terms of the dollar rate on the ballot proposition submitted to voters.

Other Provisions.

Additional Staffing Levels. The enriched non-basic education staffing levels for all school and district staff other than teachers are enhanced. The allocations must be phased in with 50 percent funded in the 2021-23 biennium, prioritizing high-poverty school districts; and 100 percent funded in the 2023-25 biennium.

Learning Assistance Program. The high-poverty LAP allocation is based on student enrollment at a school with student participation greater than 50 percent in free and reduced price meals. If a school district receives the high-poverty LAP allocation one year but does not qualify in the next year, then the allocation to the district is phased out over three years. The high-poverty allocation must provide 1.1 hours of instruction for each level of the prototypical schools, not on a statewide average.

K-3 Class Size. School districts demonstrating a lack of capital capacity to provide a class size of 17 students to one teacher must be funded at the 17 to 1 ratio.

Hold-Harmless Provisions. OSPI must provide funding to school districts that were adversely impacted under EHB 2242. The OSPI must annually calculate and publish a comparison of state and local revenues in the 2018-19 school year and before EHB 2242.

Apportionment to Districts. If a district's net state and local revenues are adversely impacted by EHB 2242, the OSPI must add the impact amount to the district's apportionment. The OSPI must calculate and publish comparisons between prior funding formulas adjusted for inflation and current state and local revenues.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains multiple effective dates.