
MEMORANDUM

TO: MEMBERS OF THE K-12 FINANCE TASK FORCE

FROM: REP. ROSS HUNTER

SUBJECT: PROPOSED AGENDA

DATE: 8/3/2012

CC: LIST

In January the Washington State Supreme Court ruled (in McCleary) that the state was not meeting its constitutional obligation to “amply provide for the education of all students residing within its borders...” The decision was unanimous, and came with a very strong enforcement model from the court that is still being worked out.

The exact implications of this decision will require a lot of interpretation from both the Legislature and the Court. There are some parts of the school funding equation that are broadly agreed to, and others that will be affected in significant ways by the actions the Legislature takes to meet the demands of McCleary.

This document lays out an approach to develop a proposal for the 2013 legislative session. It seems like the following order makes the most sense.

- **Begin with the end in mind – what’s needed?** We start by coming to agreement on the funding demands – how much money will be required, when will it need to be distributed, on what will it be spent, and how will it be distributed to school districts.
- **Review funding options.** There are several ways that the demands identified in step 1 can be addressed.
 - **Re-arrange the existing budget.** The budget proviso that creates this task force requires that we consider a no-new revenue option with specifics on the structural changes that would have to happen if the new funding comes out the existing revenue streams.
 - **New revenue streams.** The task force may also consider new revenue alternatives.
 - **Changes in local and state responsibilities.** The task force may also choose to consider changing the relationships of local and state property tax levies.
- **Make recommendations.** The task force is required to make proposals, including draft legislation, before the end of the year.

BEGIN WITH THE END IN MIND

Step one is to come to a common understanding of the requirements of the McCleary decision and what the overall school funding system should look like when we are finished. There are a

lot of moving parts that have to mesh together in a cohesive funding proposal. Much of this discussion will be a review of the existing system and the changes that have been proposed by the Quality Education Council (QEC) and by the Legislature in HB 2261 and HB 2776, though many possible funding schemes would change parts of the system somewhat.

We start with a legal analysis on what both McCleary and the Doran decisions require. The legal framework of school funding is an important constraint on choices faced by the Legislature. A shared understanding of the legal environment will help us craft solutions that both work and meet legal muster.

The structure below pulls out the differences in the baseline funding of existing programs and proposed increases as a result of the work by the QEC and 2261/2776.

BASELINE FUNDING REVIEW

Next is an overview of the current funding baseline. This addresses the bulk of current school funding. It's important to understand how these funds are distributed to individual districts, so for each formula we will review the distribution effects of the formula and the overall distribution of funds to districts.

- The **model schools plan** as currently funded in “basic ed”, including reasonable assumptions for growth. This includes the Initiative 732-induced growth in salaries over time, plus assumptions about cost increases for healthcare and other benefits and pension costs. There are a number of things in 2261 that have not yet been turned into implementation schedules in 2776 – things like the 24-credit graduation requirement. We should try to get these laid out, preferably with the help of the QEC.
- **Other formulas** and how they affect funding to districts. None of these formulas were considered in the work on HB 2261/2776 and any significant changes in the system should require us to review them.
 - Levies, including grandfathered districts
 - Local Effort Assistance (LEA)
 - Geographic necessity forces some districts to have very small schools that have a disproportionate amount of overhead. The current system has a small school factor that addresses this issue and there is common agreement that there needs to be some adjustment here but the formula could probably be reviewed.
 - Federal funds (title 1, etc.)
- Additional funding to schools that have high populations of students requiring English as a second language (ESL) make use of a program called Transitional Bilingual. The budget proviso for the task force requires a specific study of the funding mechanism we use here and how the current system may or may not provide incentives to districts to keep students in the program rather than moving them into regular education.

COMPENSATION

Our compensation model was not addressed in the Basic Education Finance Joint Task Force, but it was clear that we must do so. The McCleary decision calls us to task on the amount of

compensation provided by local school districts in excess of what the state provides. This is not uniform (far from it) around the state.

There are three basic categories of compensation to consider.

- Teachers having a teaching certificate are provided a compensation model in the budget (the LEAP schedule) that uses years of experience and various education levels to compute a distribution to the district. Actual teacher salaries are negotiated locally in 295 different school districts. In addition, teachers receive additional compensation from the state if they have national board certification. Districts pay compensation for additional days worked under Time, Responsibility and Incentive (TRI) contracts that can be a substantial increase over the base salary.

- LEAP schedule and distribution of current teachers around the state and around districts. Given that funding is distributed based on the different staff experience levels of districts, we should look at the effects of this distribution.
- Size of healthcare and pension components of compensation and their expected growth over time.
- TRI pay varies significantly by district. In many cases it basically compensates for geographical differences in labor costs, but not perfectly. There are many options to consider here.
- Some districts receive compensation that is up to 5% more per teacher than other districts for historical, but not empirical reasons. A comprehensive solution should address this discrepancy.

A compensation workgroup has done significant work in this area and released a proposal that should be reviewed, though the 50% increase in compensation it proposes is not remotely affordable in any realistic scenarios.

- Classified staff provide services ranging from gardening to instructional support in school districts. The amount the state provides to districts to fund this staff is based on the number of students in the district and a compensation factor that has some historical (but no empirical) basis. It typically does not cover the actual costs of hiring staff for these positions, nor does it cover the actual number of classified staff hired by districts. The BEFJTF did substantial work in this area and it is reflected in 2261/2776.
 - Actual vs. what part the state pays for by district
 - The healthcare provided to this group of employees usually differs substantially from that provided to teachers. Much was discussed on this topic in the 2012 session.
 - Review any empirical basis for the differences in classified rates paid to districts.
- Administrative allocations are provided to districts that rarely come close to meeting the actual administrative costs of running a district. These also vary with no empirical basis from district to district. Again, the BEFJTF did substantial work in this area that is reflected in 2261/2776.

PROPOSED PROGRAMMATIC INCREASES

The QEC made recommendations for program increases to fund 2261/2776 over the next three biennia. This is the increase in program available to students, not compensation to districts for stuff they already do or changes in the compensation of people performing the tasks.

The task force should review the costs of these proposals, including the impact of any proposed changes in compensation.

FUNDING OPTIONS

The proviso requires us to create some funding options, including a look at what would happen in “no new revenue” scenarios.

There is clearly interest in the public and in the political world for a solution that would allocate future growth to K-12 and starve some other areas. Absent any facts this is quite attractive.

It seems worthwhile to inject some facts into the discussion. It’s probably better to not drill down too tightly into what the budget outlook is like, but we’ll need to walk through at least an approximation of what major categories of the budget will look like so that people can see what our areas of flexibility are. The House Office of Program Research (OPR) has developed a budget outlook that we can review to see what changes might be made and what the consequences of that would be. Obvious options include:

1. **No new revenue.** We know what the baseline cost model is and we need to see how much free cash would be generated over the maintenance level and what kind of decisions would be required to make this happen.
2. **Revenue options.** What are the options we might propose that are purely “new” revenue, and how might those be received? It might be most useful to limit the initial discussion to those options that do not require a constitutional amendment. These options could include:
 - a. Extending existing taxes that expire in 2013.
 - b. Capital gains. Can we really do this without an amendment?
 - c. Others? Particular loopholes people want to solve...
3. **Local Levy Swap.** We’re going to need to schedule some time for people to understand the proposal and how it would affect their districts, plus to consider all the factors that would be necessary to include to make it work politically.
 - a. LEA changes (it’s crucial for rural districts to understand their total funding picture, and LEA is a big part of that.)
 - b. Levy model changes (Seattle etc. need something different/bigger than my current proposal.)
 - c. Growth over time with various assumptions about eliminating the 1% growth cap

MAKE RECOMMENDATIONS

The last step is to make recommendations. This will be hard to do prior to seeing the lay of the land following the election and court decisions on the 2/3 voting requirement. It is probably best to flesh out a number of options without actually trying to find the votes for any particular one. Understanding the details of what specific proposals would entail and how it would affect different districts seems like the most effective use of time prior to November.