TWIO

This Week In Olympia

June 12, 2013

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About *TWIO*

***This Week in Olympia* is emailed to active WASA and AEA members each Friday during the Legislative Session and is posted on WASA's website at www.wasa-oly.org/TWIO.**

NOTE: WASA staff is currently preparing our annual End of Session report. It will contain full details of the 2013 Operating Budget and the 2013 Capital Budget, along with a comprehensive review of the many education-related bills the Legislature addressed this session. It will be emailed to all TWIO subscribers as soon as it is completed.

Special Edition: Sine Die—Again

The 2013 Regular Legislative Session adjourned on April 28 with negotiators from the House and Senate locked in a stalemate over the 2013–15 Operating Budget. Near the end of the 105-day session, both houses introduced and adopted their own versions of a budget, but there were major differences in approaches to a budget solution and major differences in the overall spending levels.

On April 3, the **Senate released its proposal** (a substitute version of **SB 5034**), which would increase overall spending by $2.1 billion. The enhanced spending would come from the natural growth in state revenue, along with a series of budget transfers and reprioritizations, but included no new taxes. Under the plan, K–12 education would receive an increase of $1.5 billion, including a basic education down payment to comply with the *McCleary* decision of approximately $1.0 billion. It should be noted, however, that calculation includes an increase in the Learning Assistance Program that is arguably outside the required spending on HB 2261/HB 2776 required under *McCleary*. Additionally, part of the increase in LAP comes from rolling several education provisos into a block grant and shifting that funding into LAP—in other words, other areas of the K–12 budget are reduced in order to enhance LAP. Subtracting the LAP enhancement leaves the Senate budget with a *McCleary* increase of around $760 million. The full Senate adopted its budget on April 5 (see detailed review in ***TWIO*, April 5**).

The following week, on April 10, the **House unveiled its budget** response (a striking amendment to **SB 5034**). The House budget would increase spending by almost $3.4 billion over the current budget. The increased spending would come from projected increases in revenue, but also included a series of budget transfers and a proposed $1.3 billion revenue package. The House budget would also completely exhaust the Budget Stabilization Account ($575 million)—which requires a supermajority approval of both houses to access. Under the House's plan, K–12 education would receive an increase of $1.4 billion, of which nearly $1.3 billion would be used as a *McCleary* down payment. The full House adopted its budget on April 12 (see detailed review in ***TWIO*, April 12)**.

Following the adoption of budget proposals, the next step was to negotiate a compromise budget. Negotiations to resolve differences, however, were extremely limited between the House's budget adoption on April 12 and the end of the Regular Session on April 28. Senate leaders did not want to meet on budget issues with the House until they proved they were able to adopt the necessary revenue bills to fund their proposal. Similarly, the House was waiting to meet with the Senate until they adopted the necessary bills to implement their proposal. Neither side believed the other side's budget was viable. Normally during the final few weeks of session, there is frantic activity behind-the-scenes, coupled with a flurry

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of activity in the House and Senate chambers as legislators rush to reach compromise on major issues. This year there was that normal flurry of activity; however, there was little-to-no public or private activity on the budget.

At the conclusion of the Regular Session, Governor Jay Inslee called the Legislature into a Special Session beginning on May 13, giving legislators a two-week break in the hopes budget-writers could move closer to agreement on a compromise budget before rank-and-file legislators arrived back in Olympia. Legislative leaders and budget-writers, along with representatives of the governor's office (the "five corners"), did meet occasionally during the short interim between sessions, but there was no progress in bridging the chasm between the two houses. Budget-writers in each house did do some reworking of their own budgets however. The House made some expenditure changes to match their revenue package, which was revised—and reduced—prior to being adopted by the full House. They also made some revisions recognizing the inability to capture funds from the BSA. Meanwhile, the Senate did some work on their budget savings assumptions. Of course, these changes were made behind-the-scenes and no one but the negotiators really knew the adjustments that were being made.

With no deal struck (that is an understatement) by the start of the Special Session on May 13, the vast majority of rank-and-file legislators remained at home awaiting word of action. Special Sessions are limited to 30 days and for the first three weeks of this session, legislators spent a combined total of 30 minutes in floor action. Finally, with less than a week left, the Legislature sprang to life. On June 5, the House released a new version of a 2013–15 Operating Budget in an effort to break the logjam. In a press conference, House budget-writers stated the new budget included major compromises and was a "significant move" towards the Senate position. The proposal (a substitute version of **HB 1057**) reduced the House's original spending level by over $800 million and they abandoned the idea of using funds from the Budget Stabilization Account. Unfortunately, a substantial portion of the spending reductions came from the House's original proposed *McCleary* down payment. The proposal reduced the down payment from $1.3 billion to $840 million.

Along with the new budget, a new revenue proposal was introduced which was also significantly reduced—and it was no longer needed to fund the budget. Adoption of the revenue package would simply allow an increase in spending over and above what was proposed in the budget package (including a $108 million increase in the *McCleary* down payment). The House budget remained contingent on adoption of two specific revenue enhancements: a fix to the state's estate tax, addressing the Supreme Court's *Bracken* decision (**HB 2064**); and an update to telecommunication taxes, informally known as the Telecommunications Parity Act (**HB 1971**). Both tax increases would raise approximately $270 million, but failure to adopt these fixes could likely cost the state upwards of $1 billion in the coming years.

The House Appropriations Committee adopted the new budget on June 5 and the full House adopted the new budget on June 6 (for details, see ***TWIO*, June 5**). The bill was quickly transmitted to the Senate, where its prospects were unclear.

Just prior to the House's adoption of the budget, Senate leaders announced they had submitted a "comprehensive" counteroffer to the House. Because budget negotiations continued to be sealed, they refused to provide details and other legislators were reticent to discuss specifics. Word was, however, the offer not necessarily as comprehensive as portrayed and included strings—the deal was contingent on adoption of policy bills. Earlier in the Special Session, the Senate Majority's list of policy demands was leaked to the press. While it was not clear exactly what bills were included in this "go home" wish list, it was comprised of 33 individual policy bills. It was unclear how many of these bills were included in the Senate's counteroffer to the House.

Things became a bit clearer two days later, June 8, when the Senate moved the budget to the floor. Rather than putting the House's budget on the calendar, Senate leaders instead scheduled the

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Senate's budget bill, SB 5034. A striking amendment was introduced along with the bill; however, the striking amendment was substantially similar to the Senate's original budget adopted in April. The Senate's new budget did include revenue from an estate tax fix and a telecommunications tax fix; however, the Senate introduced their own versions of the bills (**SB 5872** and **SB 5873**, respectfully). More importantly, Senate leaders clearly stated these two revenue bills (along with the conversion of the current nonresident sales tax exemption into a remittance program contained in **SB 5871**) would not be acted upon until the House adopted three "reform" bills: adjusting to the state's workers compensation system (**SB 5127**); providing school principals with veto-authority over staffing assignments, known as "mutual consent" (**SB 5242**); and capping non-education spending for three biennia, 2015–2023 (**SB 5895**). The full Senate adopted its slightly modified budget on June 8 and adopted their "required" policy bills on June 9.

On Monday, June 10, Day 29 of the Special Session, there was no urgency among legislators and it became obvious a final budget would not be adopted by the close of the session. On Tuesday, the final allowed day of the Special Session, legislators did not even make an attempt to appear active. In fact, the session adjourned Sine Die shortly after 3:30 p.m. after a short day of no action.

Special Session Part II

Understanding the Legislature was going to fail to wrap up its business, Gov. Inslee did not even bother with waiting for the session's official adjournment to announce a Second Special Session. Yesterday morning, Inslee held a press conference to discuss the session and progress on budget negotiations. He announced he would be calling legislators back into a **Second Special Session** immediately, beginning Wednesday at 9:00 a.m.

After 135 days of session, Inslee finally showed some emotion in his press conference. He lit into the Senate Majority Coalition Caucus, firmly stating that adopting essentially the same budget as they adopted in April is not compromise. He praised the House Democrats for "real" compromise: reducing their spending level by over $800 million; abandoning the bulk of their revenue proposals; setting aside their "wish list" regarding policy bills; and conceding to the Senate budget position in over 70 specific areas. His office provided a chart, entitled **"What is real compromise?"** to highlight the different budget moves the two houses have made in recent days.

Before the 2013 session convened, the new Senate Majority Coalition Caucus took a hardline stance against new taxes. When the House adopted its budget, Senate leaders dug their heels in and overtly rejected the idea of any enhanced revenues. In the last week, Senate leaders have finally softened their stance on revenues; however, they are only willing to concede on about $300 worth of revenue. If those changes are not accepted, not only will the state forego an increase in revenue of $300 million, it will likely cost the state at least $1 billion in the next biennium due to a series of lawsuits waiting to be heard. Additionally, while the Majority Caucus has agreed to discuss these minor revenue enhancements, they have conditioned acceptance of those changes on the House giving in to a set of (at least three) policy bills.

While the governor (and others) chastised the Senate for not being willing to compromise, Senate leaders argued that they compromised before they introduced their budget—by including an extension of the Hospital Safety Net Assessment and an expansion of Medicaid (both of which were generally opposed by Republicans); and by accepting state employee collective bargaining agreements as negotiated with former Governor Christine Gregoire. Senate leaders responded to Gov. Inslee's criticism and his chart visualizing House and Senate compromises by releasing their own chart, entitled **"Who's really compromising?"** They argue that backing off of most of their policy agenda is a greater compromise that the House backing off a significant amount of funding. Which is the greater compromise? Well, I guess it is in the eye of the beholder.

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The "Other" Deadline

The Second Special Session, like all special sessions, is limited to 30 days. The deadline that is becoming increasingly more important, however, is midnight June 30—the end date of this biennium. If a state budget is not adopted by July 1, state agencies technically do not have any spending authority. The state has never missed this deadline, but a government shutdown is looking more likely with each passing day.

Staff with the Office of Financial Management and the Office of the Treasurer has been researching what can and cannot be done without a budget. While Gov. Inslee continues to talk positively about adoption of a budget before this ultimate deadline, his cabinet will begin meeting Wednesday to discuss contingency plans as an insurance policy if the worst case scenario comes to pass. Superintendent Randy Dorn has submitted a **letter to legislators** urging them to quickly adopt a budget so school districts are not further negatively impacted by legislative delays. State Treasurer Jim McIntire has also provided some **information to legislators** with historical July payment schedules to highlight the type of services that might be impacted if a budget is not adopted by July 1.

Just prior to the end of the Regular Session, the Legislature adopted a "bare-bones" 2013–15 Transportation Budget, so highway/bridge construction can continue and the State Patrol will be on the road even if there is a government shutdown after July 1. The same cannot be said for capital construction. The 2013–15 Capital Construction Budget has been caught in the Operating Budget dispute between the houses. Without a Capital Budget, bonds and other funds cannot be released. To address this concern, on Monday, the House adopted an emergency, **"bare-bones" Capital Budget** (a substitute version of **HB 1089**) to sustain ongoing projects. The budget would provide $2.4 billion in reappropriations, keeping about 24,000 construction workers on the job. The Senate took no action on the bill before the close of the First Special Session, so the budget has returned to the House.

Advocacy Activities

School administrators are strongly encouraged to maintain contact with legislators throughout the Special Session(s). You continue to have an opportunity to impact the outcome of this session, but you must engage in the process. As you begin to develop budgets, let legislators know what your district is facing, especially if they do not complete a state budget anytime soon. What impact will that have on your district and your decision-making? Do you have a large enough budget reserve to "ride out the storm," or will you be hard-pressed to meet your payroll and contract demands? Additionally, the budget proposals to provide a basic education down payment to comply with the *McCleary* decision leave a bit to be desired (to say the least). The expected (and required) "significant" down payment continues to be ratcheted down and there will be heavy pressure to further reduce that down payment amount without additional revenue. Legislators are faced with extremely difficult decisions—and we fear that K–12 could once again be sacrificed if we do not continue to step up and apply some pressure.

While the budget continues to be the major focus, policy issues continue to be addressed. "Mutual consent" (principal veto-authority over staffing assignments) has been amended and is now referred to as "principal empowerment." The title has changed, but the bill is still bad public policy and the Senate is trying to force the bill's adoption. Other education "reforms" remain high on the Senate majority's priority list and could become endgame bargaining chips in budget negotiations at any time. Potential issues include: A–F letter grading of schools; third grade reading intervention; student suspensions/expulsions; an overhaul of the Learning Assistance Program; and restrictions on teacher compensation. School administrators must continue to be in contact with legislators as they negotiate on a final budget and advance potentially untenable education policy.

Together, we CAN make a difference!

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AEA

By Mitch Denning

On May 21, the Governor vetoed **HB 1652**, deferral of impact fees. It had previously passed both houses of the Legislature and, as passed, does not exempt schools from the deferral process. Citing the need for fast-growing districts to receive their impact fees at the time of the issuance of the building permits rather than at the time of certificate of occupancy, the Governor sided with the need for these particular districts to have the money up front to purchase portables for the students to use when they enroll.

To our knowledge, neither house has to date attempted to override the veto. However, no action isn't the most positive sign, as the session isn't really over until the final gavel is sounded.

Pensions and Health Benefits

By John Kvamme

Two bills continue to be the focus of concern to K–12 in the area of pensions and health benefits. **SSB 5851**, the optional 401K bill, continues to be included in the latest Senate budget, **2ESSB 5034**. We have continued to communicate that this bill is like the camel's nose under the tent in moving toward a 401K style pension plan that will not be optional but mandatory for new employees. It would make the employee 100 percent responsible for the investment outcome of the plan.

The second bill we have opposed that is included again in the Senate's latest budget is **SSB 5905**. This bill projects the amount of state savings that the district would generate by part-time classified and certificated staff selecting to join the health benefit exchange for their insurance. The state would save by aligning the district's health benefit allocation with the number of state funded part-time employees joining the exchange for their insurance. The latest Senate budget reduced their projected saving from $87 million down to $46.1 million and gives these employees $10.1 million of these projected savings to reimburse these employees for exchange costs. We believe it is much too early to determine these possible savings. We believe their is a need for education and marketing of these new Affordable Care plans which are scheduled to begin January 1, 2014. The House budget does not include the bill, however does include a marketing plan funded under OSPI for educating staff regarding the insurance option.

2ESSB 5034 – House and Latest Senate Proposed Operating Budget
Representative Hunter & Senator Hill: The Senate and House budgets both agree on pension contribution rates and are fairly close on health benefits. SSB 5851 (optional 401K) and the early use of the Affordable Care Act, SSB 5905 (Employee Eligibility) are the two major issues in the Senate version of the budget that are concerns of our associations.

Pensions:

- Contribution Rates: are as recommended by the State Actuary through the Pension Funding Council.

		Employer Cost		
	Plan	**Current**	**House & Senate**	**Plan 2 Member**
o	TRS	8.05%	10.39%	4.96%
o	SERS	7.59%	9.82%	4.64%
o	PERS	7.21%	9.21%	

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- Senate Budget Only – SSB 5851: Defined Contribution Option Plan (401K) is included—savings of $2.3 million 2013–15 if this bill that our Association's oppose does pass the full legislature.

Health Benefits:

- Health Benefits Allocation

Current – $768 per month	Senate: 2013–14 - $758	2014–15 - $758
	House: 2013–14 - $768	2014–15 - $768

- Remittance

Current – $65.17	Senate: 2013–14 - $54.68	2014–15 - $55.39
	House: 2013–14 - $64.40	2014–15 - $70.39

The latest Senate budget reduces the remittance by reducing the Medicare retiree subsidy.

- Medicare Retiree Subsidy Per Month

The current rate is $150 per month. The House continues to fund $150 per month for 2013–14 & 2014–15, however in the latest Senate budget there is a reduction down to $100 in 2014 and $110 in 2015.

- Senate Budget Only: Part-time K–12 Classified Staff Served by the Exchange

The Senate in its latest budget projects a savings of $46.1 million instead of the earlier $87 million of savings to GF-State by reducing insurance allocations for income eligible part-time K–12 employees by aligning them with the Federal Affordable Care Act's Washington Health Benefit Exchange premium costs during 2014–15. $10.1 million of these savings are provided to school districts to reimburse part-time employees for Exchange costs. (See more in **SSB 5905** Employee Eligibility.)

Pension and Health Benefit Bill Watch

Retirement

SSB 5851 – Defined Contribution Plan Option (PESP)
Senator Bailey: Creates the new Public Employees Savings Plan (PESP). This plan is a new defined contribution plan (401K) option for persons who are eligible for membership in TRS, SERS, and PERS Plans 2 and 3 and PSERS Plan 2 who were employees first hired in a position on or after July 1, 2014. These new members have the option to make a choice to transfer to PESP within 90 days after hired. If the new member does not make a choice the default plan becomes Plan 3. Present Plan 2 and 3 members in the "transferable plans" (TRS, SERS, PSERS or PERS) can also make an irrevocable choice to move into this new 401K style plan between January 1, 2015, and July 1, 2015. Employee earnings from their past defined benefit plan would be rolled into the member's PESP account in 2015 and 2017. For new and transferred PESP members the plan requires a 5 percent employee contribution up to age 35 and then a 7.5 Percent rate thereafter and the employer would match 80 percent of the employee's contributions. The member's funds would be invested within the employee chosen options within the SIB. The employer would continue to pay contributions to the unfunded liability of Plan 1 on these PESP members. A provision was added that would allow a SESP member to transfer to Plan 3 at a later date and under certain conditions. H. Approp. (In Senate Budget)

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Health Benefits

SSB 5905 – State Employee Health Insurance Eligibility/Affordable Care Act
Senators Hill & Hargrove: Provides goals for K–12 and the State to take advantage of the federal affordable care act (ACA), including the Washington Health benefits exchange, premium tax credits, and subsidies to make more affordable health benefit plans available to part-time K–12 and state employees. It also dedicates a portion of the savings to assist districts in improving plan costs or compensation for those participating employees. Savings appears to come from reducing health benefit allocations by aligning those served by the Exchange with the allocation FTEs. It also aligns eligibility for the PEBB with the ACA guidelines. S. Rules

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