TWIO

This Week In Olympia

December 18, 2014

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Governor Inslee's Releases 2015–17 Budget Proposals

Special Edition

Each year, by law, the governor is required to submit budget proposals (Operating Budget; Capital Construction Budget; and Transportation Budget) to the Legislature by December 20. This week, Governor Jay Inslee presented his budget proposals in a week-long rollout. On Monday, December 15, Inslee released his 2015–17 Education funding package, consisting of a $2.3 billion two-year investment for early learning ($156 million), K–12 education ($2.0 billion) and higher education ($165 million). On Tuesday, he released a comprehensive 12-year, $12 billion Transportation plan ($3.6 billion in 2015–17), followed by a carbon pollution reduction program (and accompanying fees) on Wednesday. Concluding his budget rollout, this morning Governor Inslee released his full proposed 2015–17 Operating Budget, along with a comprehensive revenue package to fund it. Also released were his full proposals for a 2015–17 Capital Construction Budget and a 2015–17 Transportation Budget.

The governor's 2015–17 Operating Budget includes a significant increase above the current 2013–15 budget. While there is an expected increase of almost $2.8 billion in available revenues above the current budget, the governor's expenditure proposal far exceeds the projected increase in revenues. Technically, by law the governor must submit a budget using only currently available revenues. Clearly, that budget would have been devastating and a second budget would have been produced. In Legislative parlance these two budgets are referred to as "Book I" (no new revenues) and "Book II" budgets. Four years ago, then-governor Christine Gregoire unveiled her required Book I budget in a press conference and after talking about it for about two minutes, quickly set it aside, saying the impacts of that kind of budget are "unacceptable," and spent the remainder of her time discussing her "real" proposal—a Book II budget which included a broad array of revenue-enhancing proposals.

If you watched Inslee's press conference today or if you read any of his budget materials, there is no reference to a so-called Book I or Book II budget. That is because he chose not to play the traditional political game, like Gregoire did four years ago. In order to comply with the law, the governor did in fact develop a no new revenue budget, but chose not to publicly display it, knowing that he did not want to advance such a proposal. Talking with staff from the Office of Financial Management (OFM, the governor's budget office), we understand that Inslee's "Book I" budget made drastic cuts to higher education and several other areas, almost exclusively outside of the K–12 budget. If the budget ever sees the light of day, however, be aware that the two K–12 cuts included are to OSPI and Local Effort Assistance. OSPI's state-funded staffing level would be dramatically lowered and LEA funding to eligible districts would be cut in half.

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.**

Join us at the 2015 WASSDA/WASA/WASBO Legislative Conference, March 1–2. Register will open January 15.

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What Governor Inslee unveiled today was a nearly $39 billion expenditure package ($38.99 billion), funded with a mix of revenue enhancements (including the closing of some tax loopholes), fund transfers, use of reserves and General Fund spending cuts and "efficiencies". Inslee's tax and revenue changes would raise $1.5 billion (although almost $100 million of new, extended or expanded tax preferences are included, dropping the total revenue to $1.4 billion). More than half that amount ($798 million) would come from a new 7 percent capital gains tax and another $380 million would come from a new carbon pollution tax unveiled yesterday. The budget would use $450 million from reserves (requiring a 60 percent approval from the Legislature) and transfer a series of funds ($217 million) into the General Fund. The proposal would also cut $211 million in current General Fund spending and shift a series of costs from the General Fund to other fund sources in order to maximize federal funds, resulting in a "savings" of about $212 million. Although Inslee's plan would utilize a significant amount of budget reserve funds, the package, if adopted, would ultimately leave $911 million in the Ending Fund Balance to protect the budget from emergencies or another economic downturn. It should be noted that the $450 million use of reserves would essentially be used to keep the budget balanced and afloat in the first year of the biennium, while awaiting the proposed taxes to kick in during the second part of the biennium.

On Monday, December 12, WASA published and disseminated a Special Edition *TWIO* outlining the education (early education to K–12 to higher education) investments proposed by Gov. Inslee. There are no changes in today's full budget release; however, with a full view of the budget, we can get a clearer picture of the proposal. Rather than simply repeat the information provided in **Monday's *TWIO***, below are some highlights of the K–12 portion of the budget not discussed earlier. All of the budget documents, including an overview, agency summaries, and the actual budget bill are available on the **governor's budget site**. Please note that there are a large number of new budget provisos (basically budget directives) that we will have to wade through. Given the short turn-around time, we will be unable to address all of them here, but stay tuned when the session begins in January.

K–12 Education Highlights

Local Effort Assistance—Also LEA (also known as "levy equalization") is unchanged in the governor's budget; however, due to proposed basic education enhancements, school district levy bases will expand. This increases local districts' levy capacity and increases required state payments of LEA and the budget provides $28.8 million for that purpose. The Per Pupil Inflator is established at 3.1 percent from the 2014–15 school year to the 2015–16 school year and increases to 7.9 percent from the 2015–16 school year to the 2016–17 school year. This is in addition to a maintenance level increase of $68.9 million, due to changes in assessed valuation and levy passage rates. Total LEA payments to eligible districts would increase from $652.3 million to $750.0 million in this budget.

HB 2776 Basic Education Enhancement—As noted in Monday's *TWIO*, funding for Maintenance, Supplies, and Operating Costs is increased by $751.8 million—from the current $848 per student in the current school year to $1,216 per student in the 2015–16 school year. While this enhancement is in the budget bill, you will not find this specific funding in the agency detail or the agency summaries because it is considered to be a "maintenance level" increase. HB 2776 requires the Legislature to fully fund MSOC by the 2015–16 school year. Because this is a current law obligation, it falls under the maintenance level budget. This specific item is spelled out clearly in the governor's budget highlights because it is a large increase and he wanted to clearly describe his effort to comply with HB 2776.

Because the full funding for K–3 Class Size Reduction and All-Day Kindergarten—both items required by HB 2776—is proposed earlier than currently scheduled, they are noted as enhancements, rather than maintenance level items.

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There has been much confusion about HB 2776 and the *McCleary* decision. The governor and budget staff have publicly stated that fully funding MSOC and providing the early full funding of K–3 Class Size Reduction and All-Day Kindergarten will fulfill the State's obligation to comply with HB 2776. Many journalists have misconstrued these comments to mean that the budget would comply with HB 2776 AND comply with the Supreme Court's Orders in *McCleary*. Clearly, these enhancements would complete the State's obligation to fund HB 2776; however, the *McCleary* decision goes beyond just this bill. OFM has tried to clarify the situation, but the media does not seem to be interested in listening. Educators, though, need to understand that while complying with HB 2776 is positive, it certainly is NOT the end of our road.

Another clarification around the basic education enhancement. In Monday's *TWIO*, we noted that, while the governor has included early funding for K–3 Class Size Reduction, he has been silent on funding Initiative 1351. There is an intention to introduce legislation to address the issue, however. Buried in the budget documents is this language:

> Initiative 1351 (I-1351) changed the state's funding requirements for class size and staffing formulas, with a phase-in schedule estimated at $2 billion for the 2015–17 biennium and full implementation effective September 1, 2018. Legislation integrates the 2015–17 phase-in requirements for I-1351 with the $481.7 million funding provided in the budget for K–3 class sizes, family engagement coordinators, and guidance counselors. The class size and staffing provisions of I-1351 scheduled to go into effect on September 1, 2018 remain intact.

High School Graduation Rates—The governor's budget includes funding for a number of different programs to assist districts in increasing high school graduation rates. There are also new budget provisos around graduation rates. One such proviso would direct school districts to annually report to OSPI a "graduation plan."

Compensation—The governor's budget provides the required Initiative 732 Cost of Living Adjustments for educators and also provides additional funding to enhance that COLA. The required I-732 COLA, based on the Seattle Consumer Price Index is 1.8 percent for the 2015–16 school year and 1.3 percent for the 2016–17 school year. Additional funding is provided to increase the COLA to 3.0 percent for the 2015–16 school year and 1.8 percent for the 2016–17 school year. The total COLA increase is consistent with increases provided to state employees.

Staff Mix—One of the few areas of reduction in the education portion of the budget is for staff mix. The governor's budget provides funding, through the full expansion of state-funded full-day kindergarten and reduced class sizes in grades K–3, for over 7,000 additional certificated instructional staff in the 2016–17 school year. The budget assumes at least 30 percent of these additional staff will be new teachers. **Staff mix**, the state's term for average years of experience and educational credits, is reduced by $35.5 million to reflect these new hires in the K–12 system.

2015–17 Capital Construction Budget

While the focus today was on the governor's 2015–17 Operating Budget, he also unveiled his proposed two-year construction budget. The overall plan would fund more than $3.8 billion for state construction projects. K–12 would receive $657.2 million in the budget.

School Construction Assistance Program—$596.1 million

The governor's budget would "fully fund" OSPI's School Construction Assistance Program, providing grants to qualifying local school districts for construction, renovation and modernization of K–12 public school facilities. Funding is also provided to complete inventory and building condition assessments for all public school districts once every six years, for school mapping and for OSPI to develop a formula-based method of providing energy

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incentive assistance for qualifying projects. OSPI would be required to prioritize grant requests that will result in filling capacity needs to reduce kindergarten through third grade class sizes.

Healthiest Next Generation Grants—$15.0 million

This budget would provide funds for energy efficiency improvements in K–12 public schools with an emphasis on reducing carbon emissions and improving air quality. It would also assist school districts with small repair projects and equipment purchases, such as water bottle filling stations, playground fitness equipment and school nutrition equipment, to promote the health and safety of students and staff. These grants would support Washington's Healthiest Next Generation initiative to improve children's health.

Full-Day Kindergarten Capacity Grants—$10.0 million

The governor would provide funding to public schools that need to increase facility capacity to provide full-day kindergarten. Priority would be given to qualifying schools with high enrollments of students eligible for the free and reduced-price lunch program.

Skills Centers—$36.1 million

This budget would provide funds to preserve and modernize facilities at the Clark County Skills Center in Vancouver, NEW Tech Skills Center in Spokane, Tri-Tech Skills Center in Kennewick and West Sound Technical Skills Center in Bremerton. It would also provide construction funding for a new facility at the Puget Sound Skills Center in SeaTac to support nursing and dental assistance programs.

2015–17 Transportation Budget

The governor also unveiled his 2015–17 Transportation Budget this morning. While there is usually little connection between K–12 education and the Transportation Budget, we mention it for a few reasons. One, transportation is important to our state's economy. If our economy is stagnant, the Operating Budget is negatively impacted and K–12 education is a major part of that budget. Two, the governor's package is extremely large—funding $12 billion worth of projects over the next 12 years and $3.6 billion in the upcoming biennium. While K–12 education is the paramount duty, transportation is another "elephant in the room." Much of this Legislature's focus will be on solving the transportation puzzle. Third, there are education issues in the Transportation Budget.

The governor's budget would provide $65.4 million in 2015–17 and $347.0 million over the next 12 years for the Safe Routes to School, bike/pedestrian, Complete Streets programs. A new program is set up to direct funds to cities and towns for streets that are comprehensively designed to be a vital part of livable, attractive communities where everyone has safe, comfortable and convenient access to community destinations and public places, whether by walking, driving, bicycling or taking public transportation.

Finally, there is one big issue to watch in the Transportation Budget. Sales tax from construction projects is deposited in the General Fund—the main source of funding for schools. There has been a raging debate over the last few years about whether to direct those sales tax proceeds to the Transportation Budget. Inslee's plan would direct at least a portion of those proceeds from the General Fund to transportation projects. The claim is that this proposal would have no measurable effect on the Operating Budget, but we will have to keep a close eye on it.

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Dan Steele, Government Relations dsteele@wasa-oly.org
Washington Association of School Administrators 825 Fifth Ave SE | Olympia, WA 98501
P: 800.859.9272 360.489.3642 | F: 360.352.2043 | www.wasa-oly.org