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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.**

Pre-Session Update

2014 Session Preview

On Monday, January 13, 2014, the Legislature convenes its second year of the 63rd Biennial Session. During the “short” session, limited to 60 days, policymakers traditionally focus on policy issues while a two-year budget is fine-tuned. Control of the Legislature remains divided—with Democrats running the House and a Republican-dominated Majority Coalition Caucus directing the Senate—which will likely limit the activity on policy issues. With limited additional revenues available, changes to the budget will also likely be minor.

For the first time in six years, the session will begin without a major projected budget shortfall. When legislators adjourned in June 2013, their final, compromise budget left just over \$50 million in the bank (not counting \$578 million in the difficult-to-access Budget Stabilization Account). Since then, revenue collections have been up slightly above projections, increasing the state’s unrestricted reserves to approximately \$215 million. Even so, budget-writers in both houses do not appear eager to adopt significant budgetary changes. Both leaders have publicly stated that any additional resources should be stashed away to further cushion the budget’s bottom line and protect the state from any unforeseen emergencies. There is an increasing conversation about the possibility that NO Supplemental Budget will be adopted in 2014. Even if changes in the budget are necessary, legislators will have an opportunity in the 2015 Session to make adjustments in the two-year budget that runs through June 30, 2015.

Even though the 2014 Session appears to be geared for a “do nothing” session, now is not the time for school administrators to sit on their hands. Administrators need to remain alert and active in the legislative process and should use this potential lull in the battle to further prepare for the future. Use *TWIO* and other WASA legislative resources to engage with your local representatives. Continue to build relationships with your local legislators so they know that you are the “go to” person when education issues are being discussed in the Legislature. Tell your “story” and remind legislators of your schools’ needs. Keep the pressure on by reminding legislators about their funding obligations under the constitution and under the Supreme Court’s Orders in the *McCleary v. State* education funding case; however, remind them upholding their constitutional duty is not simply an obligation—it is the right thing to do. And remind them that K–12 education is not just another budget expenditure, it is a wise and sound investment in the state’s future.

Join us at the 2014 WASA/WSSDA/
WASBO Legislative Conference,
January 26–27. Register now at www.wasa-oly.org/Leg14

Governor Inslee's 2014 Supplemental Budget Proposal

Pre-Session Update: *continued*

By law, the governor is required to submit a budget proposal to the Legislature in December of each year. On December 17, 2013, Governor Inslee released his **2014 Supplemental Budget** request. The introduction of the governor's budget is an opportunity to clearly articulate the administration's priorities for the session. Unfortunately, last session Governor Inslee chose to not even advance a budget because his predecessor, Governor Gregoire, had already introduced the required budget proposal before she left office. Inslee's Supplemental Budget proposal then was his first real opportunity to establish his top-level priorities. Rather than introduce a bold budget, clearly explaining where he wanted to take the state, he chose to submit (in his words) a "hold steady budget." His modest proposal would post-poner budget decisions until 2015 and simply: fill holes left by the one-time, unsustainable fixes used to balance the underlying 2013–15 budget; provide funding for "maintenance level" costs (a series of mandatory cost increases) and other obligations; and make several small investments in priority areas. Overall, Inslee's budget proposes approximately \$252 million in increases. About \$150 million of that overall increase is for "maintenance level" spending. K–12 education would receive an increase of \$7.6 million in policy additions under the governor's spending plan.

While his request for 2014 is relatively small, he did make the case that his budget would carry the state through 2014, and better position the state to tackle a more robust budget discussion in 2015. He noted that projections for mandatory caseloads, school enrollments, and demands for state services continue to grow at a faster rate than the state's projected economic activity and revenue collections. Included in those growing costs are a backlog of compensation issues (including teacher COLAs that have not been provided since 2008) and another major required **investment in basic education** to meet the Supreme Court's orders in the *McCleary v. State* education funding decision.

***McCleary v. State* Update**

Just prior to the 2012 Legislative Session, the Supreme Court handed down its historic **McCleary decision**, finding the state was violating its constitutional paramount duty to amply fund K–12 education. The Court retained jurisdiction in the case to enforce its ruling and "help facilitate progress in the state's plan to fully implement the [ESHB 2261/S HB 2776] reforms by 2018." As part of its **Final Order on Retaining Jurisdiction**, the Court required the state to provide an annual report summarizing actions taken to achieve compliance with the constitution 60 days following the adoption of a state budget through 2018. The plaintiffs are then provided an opportunity to respond to the state's report.

The 2012 Legislature did not continue to cut education funding, yet they did little to make progress towards full funding of basic education. The **Legislature's first report** did not impress the Court. In December, the **Court responded to the state**, affirming that "Year 2018 remains a firm deadline" for constitutional compliance. Further, the Court Ordered the state's 2013 compliance report to:

- Set out the state's plan in sufficient detail to allow progress to be measured according to periodic benchmarks between now and 2018;
- Indicate a phase-in schedule for achieving its mandate; and
- Demonstrate that its budget meets its plan.

In August, the state submitted its **second compliance report**. The report boasted of the Legislature's accomplishments in demonstrating "forward movement" toward ample funding and implementation of HB 2261 by providing an increase of \$982 million in enhancements to basic education. The **plaintiff's response** refuted the state's claims and urged the Court to "issue a clear, firm, unequivocal warning" that continued failure to comply with the Court's Orders will result in "appropriate judicial enforcement."

Pre-Session Update: *continued*

Yesterday, on January 9, the **Court issued its response** to the second compliance report. The Court complimented the Legislature for taking “meaningful steps in the 2013 legislative session to address the constitutional imperative of amply providing for basic education.” The Court’s Order notes, however, the (disputed) \$982 million budget for education in 2013–15 represents “only a 6.7% increase over the current constitutionally inadequate level of funding.” The Court further notes the state “cannot realistically claim to have made significant progress when its own analysis shows that it is not on target to implement ESHB 2261 and SHB 2776 by the 2017–18 school year.” Justices noted that the Legislature failed to comply with the Court’s December 2012 Order and the new Order specifically directs the state to “submit, by April 30, 2014, a complete plan for fully implementing its program of basic education for each school year between now and the 2017–18 school year.” The plan must also include “a phase-in schedule for fully funding each of the components of basic education.”

As noted above, legislators appear reluctant to act on a 2014 Supplemental Budget and Governor Inslee is content with holding steady; however, the Court’s new set of Orders may force them to reconsider. The Court states the Legislature is set to begin its 2014 session and has “an opportunity to take a significant step forward.” They bluntly state “the need for immediate action could not be more apparent. Conversely, failing to act would send a strong message about the state’s good faith commitment toward fulfilling its constitutional promise.” To further hammer their point, the Court firmly tells the state it is incumbent upon the Legislature to “demonstrate, through immediate, concrete action, that it is making real and measurable progress, not simply promises.”

The Court’s Order also addresses the Legislature’s lack of action regarding compensation and school facilities. On compensation, the Justices note the state’s compliance report falls short on personnel costs, writing that “quality educators and administrators are the heart of Washington’s education system” and that “it is deeply troubling that the state’s report does not address [the compensation component] of ESHB 2261 or offer any plan for meeting its goals.” On school facilities, the Justices discuss all-day kindergarten and class size reductions, and the fact these goals force additional costs on local districts which are “strapped for the physical space to meet these goals.” They firmly state: “Make no mistake, enhanced funding for full-day kindergarten and class-size reduction is essential, but the state must account for the actual cost to schools of providing those components of basic education.” Later, the Order notes “current funding falls short of the Joint Task Force on Education Funding plan in every category except full-day kindergarten, yet the funding for this category “does not account for the additional capital investment needed to implement full-day kindergarten.

Note: Please go to the **Supreme Court’s “McCleary” site** for each compliance report, the plaintiff’s responses, and the Court’s Orders.

Superintendent Dorn Offers Funding Plan

In early November 2013, State Superintendent Randy Dorn presented his **2014 Supplemental Budget request**. Unlike Governor Inslee, Superintendent Dorn submitted a proposal that he felt was appropriate and essential, rather than political. Since the close of the 2013 session, Dorn has expressed his concerns that the claimed \$1.0 billion increase in basic education, even if accurate, still fell well short of the recommendations from the Legislature’s own Joint Task Force on Education Funding. To reach the Task Force’s recommended initial investment toward meeting the Supreme Court’s *McCleary* mandate at least another \$400 million would be necessary. Dorn’s budget request includes basic education enhancements of \$461 million beyond what the Legislature appropriated in the underlying 2013–15 budget. Upon releasing his budget package, Dorn stated, “I’ve said for many months that the Legislature didn’t go far enough in 2013. A \$1.4 billion investment would have put the state on the road to meeting *McCleary*. But \$1 billion barely gets us idling in the driveway.”

Pre-Session Update: *continued*

Dorn's total budget request of \$544 million includes funding for two state-funding Learning Improvement Days; technical corrections regarding the calculation of Materials, Supplies and Operating Costs (MSOC) for CTE and Skills Center students and staff for CTE classes and Skills Centers; and a series of smaller increases.

Understanding the state's current budget situation, with little additional resources available, Dorn also crafted his own **basic education funding plan**. Released yesterday, January 9, Dorn's funding plan is intended to be triggered on January 1, 2018, if the Legislature has failed to make ample provision for the education of all children residing within the state by this point in time. His plan would increase education funding by \$7.5 billion in the 2019–21 biennium. The additional revenue would come from a one percent increase in the state sales tax and an increase in the state property tax—constitutionally dedicated to public schools—to the current legal cap of \$3.60 per \$1,000 of assessed value (the state currently collects approximately \$2.15 of the allowable \$3.60). The plan also would require a statewide reduction in local levies (not district-by-district reductions as has been proposed in other levy “swap” plans) and prohibit the use of local levies for basic education expenditures.

Dorn stated clearly that his plan is a “blunt but necessary instrument,” noting that he hopes it will “spur the Legislature into action.” He admitted an increase in the sales tax is “not the best solution to this problem, but something has to be done.” He further stated, “What I am offering with this bill is a clear path to compliance with *McCleary*.”

The **request legislation has been drafted**, but has not yet been officially introduced.

Pensions and Health Benefits

By Fred Yancey/Scott Nelson – The Nexus Group

Pensions have become a very controversial issue. The recent acceptance of the Boeing offer to eliminate defined pensions will have an effect on legislators. Danny Westneat of the SEATTLE TIMES summed it up in a story entitled, “**Boeing Puts All Pensions at Risk: How Can Legislative Democrats Argue Against State Pension Reform Now?**”.

Due to mandated changes in reporting the status of pension funds, there could be a move to replace the present method of actuarial smoothing pension costs and returns with one of “reported market” or “fair value actuarial reporting” which will negatively distort the condition of plans.

During the 2013 Legislative Session, two pension bills were introduced and will still be active during the upcoming “short” session. Both proposed the elimination of the defined benefit retirement plans for all state and school employees. They propose the creation of 401-K type pensions. SB 5356 would have made this Plan 4 mandatory and SB 5851 would have made the DC plan optional with Plan 3 being the default. Both called for the creation of a Public Employees Savings Plan (PESP).

These actions, collectively, will just add fire to a continued move by the Republicans to replicate Boeing's actions.

In addition to pensions, it is highly likely both active and school retiree benefits will be a topic of discussion. SB 5905 proposed moving part-time school employees into the Health Benefit Exchange under the Affordable Care Act. This bill is still active. Also, ESSB 5940, which proposed gathering school district health care benefit information is still being implemented. A final report is due June 2, 2015. Among other tasks, the Legislature directed JLARC staff to also analyze other possible arrangements for providing health benefit coverage for school district employees. Some see this as an attempt to move to a statewide benefit plan for all school districts, instead of the current practice with each district offering their own plans.

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The state also subsidizes health insurance for retirees that use the PEBB plans by paying \$150 month toward the premiums. This is a reduction, made in 2011, from the previous \$183 month paid.

Additional cuts to the pensions would not create significant savings to the state. However, any cut in benefit dollars for health care benefits would create substantial savings for the state and generate needed dollars for other areas in the general fund. The current cost to the state of providing health benefits to school districts is \$1 billion dollars/year. The cost to providing the retiree health care subsidy is \$87 million/year.

Expect state employee and retiree healthcare and pension benefits to be at the center of future budget battles.



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