

Rewrite the E2SSB 6362 Hold Harmless

As school districts begin to prepare their budgets for 2019-20 many of them will find that they are receiving less money for basic operations than they did before the “McCleary fix.” This is in spite of the fact that almost every district in the state received more state money than they had ever received in the past. The reality is that while total revenues increased, many districts still find themselves in precarious financial situations when they combine the basic education state revenues with the local levy losses. In 2019, local levies were reduced statewide by about \$1.1 billion. When school districts add up the money they have dedicated to operations, one-third or just over 30% of the districts actually received less money to operate their school district in the 2019-2020 school year than they received in the 2017-18 school year, before the “McCleary fix.”

Nine Mile Falls School District is one of 93 districts in the state that is in this position. The table below compares Nine Mile Falls’ “new” state revenues with its true operational revenues. Yes, the district received about \$1,286,279 in additional state revenues. However, \$182,608 of that amount can only be used for special programs. This leaves about \$1,103,672 in “new” state money that can be used to support school district operations. When you combine the \$1,103,671 in new state money with the local levy loss of \$1,589,045 the district actually receives \$485,373 less in operating revenue. This is why many districts are under such financial strain even with the gains in state funding.

Nine Mile Falls School District Example		All State Revenues		Operational Revenues	
		2017-18	2018-19	2017-18	2018-19
	General apportionment	\$10,139,032	\$11,250,291	\$10,139,032	\$11,250,291
	Included in General Apportionment above				
+	*Employee compensation adjustments				
+	Pupil transportation	\$757,237	\$877,137		
+	Special education programs	\$1,455,654	\$1,502,025		
+	Institutional educational programs	\$0	\$0		
+	Transitional bilingual programs	\$0	\$0		
+	Highly capable programs	\$33,957	\$36,573		
+	Learning assistance programs	\$218,500	\$224,634		
minus	General Apport. for special education			(\$279,323)	(\$286,910)
+	Local Levy Collections			2,980,000	1,655,063
+	Local Effort Assistance			717,850	453,742
	Total Revenues	\$12,604,380	\$13,890,659	\$13,557,559	\$13,072,186
			\$1,286,279		-\$485,373

A hold harmless clause was included in E2SSB 6362, which many thought would prevent this situation from occurring. Unfortunately, the hold harmless clause was so restrictive it ended up applying to only one or two districts in the state. The hold harmless language from E2SSB 6362 needs to be rewritten to do what it was intended to do: keep a district from actually going backwards financially.

This hold harmless solution proposes a two prong approach. For school districts under 300 FTE, the district would receive hold harmless funding by simply balancing the new state revenues with levy and levy equalization and excluding the revenues for the special programs. This approach makes sense for districts under 300 FTE because equalizing for enrollment would overstate their levy losses by any losses the small schools funding factors.

For school districts over 300 FTE, like Nine Mile Falls, the solution would be to adjust their hold harmless funding for enrollment.

Total revenues for operations			2017-18	2018-19
Enrollment			\$13,557,559	\$13,072,186
Revenue per student			1,406	1,393
Loss in revenue per student			\$9,644	\$9,385
Hold Harmless	\$258	x	1,393	\$359,622
				-\$258

Will this hold harmless funding solve the funding problem? No, it is purely a stop gap. Every district that receives this hold harmless funding will still have to make program reductions because all it does is return a district to the 2017-18 funding level. That means that any salary or insurance benefit enhancements that were given to employees in 2018-19 remain completely unfunded and will still have to be funded through program reductions. This hold harmless just lessens some of those program reductions.

The hold harmless calculates at \$53.7 million. With the \$15 million appropriated for the current hold harmless, the net cost should be approximately \$38.7 million in new money.

Original Hold Harmless

Proposed Re-write

(Available for districts with \$20 billion in assessed valuation and must have lost half of Levy + LEA)

(Available for all districts that received less operational revenue compared to 2017-18)

Base year

- General apportionment
- + *Employee compensation adjustments
- + Pupil transportation
- + Special education programs
- + Institutional educational programs
- + Transitional bilingual programs
- + Highly capable programs
- + Learning assistance programs

2017-18

- 2017-18 General apportionment
- ~~*Employee compensation adjustments~~
- ~~Pupil transportation~~
- ~~Special education programs~~
- ~~Institutional educational programs~~
- ~~Transitional bilingual programs~~
- ~~Highly capable programs~~
- ~~Learning assistance programs~~
- minus General Apport. for special education

- + Local Levy Collections
- + Local Effort Assistance

- + 2018 Local Levy Collections
- + 2018 Local Effort Assistance

Total Revenues

Total Revenues for Operations

Year 2

- General apportionment
- + *Employee compensation adjustments
- + Pupil transportation
- + Special education programs
- + Institutional educational programs
- + Transitional bilingual programs
- + Highly capable programs
- + Learning assistance programs

2018-19

- 2018-19 General apportionment
- ~~*Employee compensation adjustments~~
- ~~Pupil transportation~~
- ~~Special education programs~~
- ~~Institutional educational programs~~
- ~~Transitional bilingual programs~~
- ~~Highly capable programs~~
- ~~Learning assistance programs~~
- minus General Apport. for special education

- + Local Levy Collections
- + Local Effort Assistance

- + 2019 Local Levy Collections
- + 2019 Local Effort Assistance

Total Revenues

Total Revenues for Operations

* Employee compensation adjustments are already included in general apportionment.

Hold Harmless Calculation

Base Year
 minus Year 2

Hold Harmless

For School Districts under 300 FTE:
 2017-18 Revenues for Operations
 minus 2018-19 Revenues for Operations

Hold Harmless

For School Districts over 300 FTE:
 2017-18 Revenues for Operations by FTE
 minus 2018-19 Revenues for Operations by FTE

Hold Harmless = Amount by FTE multiplied by total FTE

Add an Inflationary Adjustment to the Hold Harmless

The new hold harmless language, if rewritten, would restore a school district back to the 2017-18 funding level. It does not provide any funding for the enhancements that were introduced during the 2018-19 school year.

Nine Mile Falls School District Example

	Operational Revenues		
	<u>2017-18</u>	<u>2018-19</u>	
Total revenues for operations	\$13,557,559	\$13,072,186	
Hold Harmless		<u>\$359,622</u>	
Total revenues for operations with hold harmless	<u>\$13,557,559</u>	<u>\$13,431,807</u>	
Enrollment	1,406	1,393	
Revenue per student	\$9,644	\$9,644	Same as 2017-18
2018-19 Legislative enhancements			
Required minimum teacher salary from \$34,180 to \$40,000			Unfunded
1.9% COLA			Unfunded
Health Care from \$820 per month to \$843.97 per month			Unfunded
MSOC from \$1,244.16 per student to \$1,267.80 per student			Unfunded
New teacher's salary schedule			Unfunded

All of these new enhancements will require Nine Mile Falls School District to reduce more educational programs to fund these items. Unfortunately, the school district is in a much worse financial situation than before the "McCleary fix."

One solution would be to bring the school districts in this financial position back to the 2017-18 funding level with the hold harmless and then add an inflationary increase to the operational state revenues. This would allow for every district to at least gain an inflationary amount over the 2017-18 school year.

If we expand the Nine Mile Falls School District example to include an inflation adjustment, it would look like this:

Nine Mile Falls School District Example	
Calculated Inflation Adjustment	
Total revenues for operations	\$13,072,186
Hold Harmless	<u>\$359,622</u>
2017-18 Funding Level	<u>\$13,431,807</u>
2018-19 IPD	<u>1.90%</u>
	\$255,204
Minus: Any net gains in operating revenues	\$0
Inflation Adjustment	\$255,204

An inflation adjustment would provide an additional \$255,204 in revenue for the 2019-20 school year in addition to the hold harmless. Again, this is not a total school funding solution, but rather a stop gap between the current funding situation and a new legislative solution. Districts will still have to make program reductions as they continue to replace local levy funds with state funds.

The projected cost of an inflationary adjustment is estimated at \$53.2 million. This, combined with the cost of the hold harmless amount (\$53.7 million) makes the total cost of the adjustment \$106.8 million. This adjustment would apply to over 30% of districts in the state.