

IN THIS ISSUE:

Governor Inslee Releases 2017–19 Budget Proposal

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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.

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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 is presenting his budget proposals in a week-long rollout. This afternoon, Inslee released the first pieces of the Operating Budget: a \$3.85 billion K–12 Education funding package along with a revenue package to fund it. Tomorrow, the governor will release his full Operating, Capital, and Transportation Budgets, with a special focus on mental health reforms and support services for the homeless. Finally, on Thursday, Inslee will discuss his proposals for transforming services for children and families, including the recommendations of his Blue Ribbon Commission on Delivery of Services to Children and Families and efforts to expand access to early learning.

The most recent revenue forecast from the state's **Economic & Revenue Forecast Council** projects there will be over \$2.8 billion in available spending capacity above the current budget. Unfortunately, while state revenues continue to increase, state expenditures continue to increase at a faster rate. Before any new spending on policy requests are considered (including the governor's proposed \$3.85 billion to enhance K–12 Education), Maintenance Level spending is expected to gobble up the additional available revenue—and then some. (“Maintenance Level” refers to the cost—positive or negative—of mandatory caseload, enrollment, inflation, and other legally unavoidable costs to maintain the current budget.) In fact, when the current 2015–17 budget, plus expected Maintenance Level costs, is compared to projected available revenue in 2017–19, the budget is in the “red” by approximately \$1.5 billion.

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. The K–12 Education proposal released by Governor Inslee today is part of a Book II budget. You will likely not hear the governor talking about a Book I budget this session. To comply with the law, a no new revenue Book I budget has been developed and will be submitted by December 20, but it will not be publicly displayed or talked about (at least not by Inslee) because he knows a Book I budget is not something he could support.

Although Governor Inslee released many of the specifics of the K–12 portion of the budget today, he has not yet released an actual budget bill or other implementing legislation which will provide us with important details to determine how, mechanically, the money will flow—along with any strings. Until we can provide that level of detail, we will review the highlights unveiled by the governor today. The education budget,

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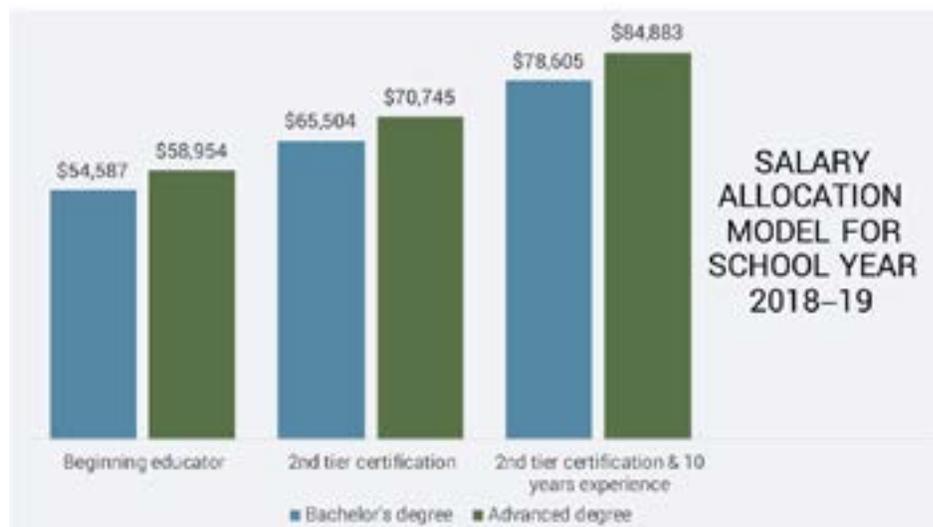
entitled by Governor Inslee as “Putting Washington’s Students First,” is comprised of three major areas: Recruit, Retain, and Continuously Train Great Educators (\$2.96 billion); Close the Opportunity Gap (\$865.8 million); and Engage Students (\$26.1 million).

K–12 Budget Highlights

RECRUIT, RETAIN, AND CONTINUOUSLY TRAIN GREAT EDUCATORS

Competitive Wages for Teacher and School Staff (\$2.41 billion) and Educator Training (\$332.9 million)

The centerpiece of Inslee’s K–12 funding plan is educator compensation. His plan would eliminate the current system of paying teachers based on years of experience and degrees earned and replace it with a **new salary allocation model (SAM)** to better align educator pay with professional development milestones. This new SAM is based on recommendations presented by the **Compensation Technical Working Group** in 2012. The proposed increases in actually salaries, including a significant increase in beginning teacher pay, from the current \$35,700 to \$44,976 in School Year 2017–18 and to \$54,587 in School Year 2018–19 (with additional pay for advanced degrees), are based on the **report provided by an independent consultant** to the Education Funding Task Force (Nov. 2016) and later confirmed by the state’s Employment Security Department. Certificated staff salaries would increase with “2nd Tier Certification” and again with “2nd Tier Certification” and 10 years of experience.



The new SAM would provide certificated staff salaries for 10 months, plus an additional 30 hours in the 2017–18 school year and 80 hours in the 2018–19 school year for professional learning and collaboration. Half of the professional training dollars would be district-directed for collaboration activities. The other half of the training dollars would also be district-directed, but must be spent on activities related to eliminating the opportunity gap, addressing cultural competency, or issues of social/emotional learning.

Classified staff and administrative salaries would also be addressed. Classified salaries would increase from the current \$33,898 per year to \$39,457 in School Year 2017–18 and to \$52,908 in School Year 2018–19. Administrative salaries would increase from the current allocation of \$62,847 per year to \$78,395 in School Year 2017–18 and to \$114,612 in School Year 2018–19. This is one of those “details” which will require some additional review. Is this simply an increase in the state allocation? Or will this act as a “cap” on salaries?

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	2016–17	2017–18	2018–19
	CURRENT SALARY	PROPOSED SALARY	
	Funded based on 180-day school year	Funded based on 10 months plus hours of training and collaboration	
Teachers and educational staff associates		30 hours	80 hours
Beginning experience	\$35,700	\$44,976	\$54,587
Average experience	\$54,865	\$59,709	\$72,466
16 or more years of experience	\$67,288	\$69,938	\$84,883
	Funded based on 11 months	Funded based on full calendar year	
Administration	\$62,847	\$78,395	\$114,612
	Funded based on full calendar year		
Classified	\$33,898	\$39,457	\$52,908

Health Benefits (\$139.1 million)

A key part of compensation is benefits. The governor’s plan would increase the state-funded health benefit rate for state-funded certificated instructional staff and administrative staff from \$780.00 to \$835.96 per month in the 2017–18 school year and to \$848.91 per month in the 2018–19 school year. The rate for state-funded classified staff would increase from \$898.56 to \$963.03 per month in the 2017–18 school year and to \$977.94 per month in the 2018–19 school year. This equals the proposed increase for state employees.

Teacher Mentoring and Career Advancement (\$50.0 million)

In an effort to retain teachers, the governor’s budget would expand the Beginning Educator Support Team (BEST) program in the Office of Superintendent of Public Instruction, putting it on track to provide mentors for all new teachers, beginning in the 2020–21 school year. Additional investments in BEST would include a salary of nearly \$93,000 for full-time mentors, prorated for those mentoring part-time.

Alternative Routes for Teacher Preparation (\$11.0 million)

A diverse, multilingual workforce with school-based experience leads to better academic and social outcomes, especially for children from cultural and linguistic minority populations. Alternate routes are partnerships between school districts and universities that give paraeducators, and those looking to change careers, a way to earn their teaching credential while gaining valuable experience in the classroom. The governor’s budget would expand the Alternative Routes for Teacher Preparation program by 360 candidates. The first priority for these new slots would be for bilingual educators. Additional funding for alternate routes will assist people to stay in their communities, making it a particularly effective strategy for recruiting and retaining teachers who represent the students they serve.

Principal Support and Mentoring (\$7.5 million)

In an effort to retain quality principals, the governor’s budget would support school leaders with internships for principals in training, workshops for principals during their first year, and a new principal mentoring program in BEST.

Paraeducator Training (\$4.7 million)

Paraeducators, an integral instructional support that directly contributes to closing the opportunity gap, would receive assistance in the governor’s budget. Funding would be provided to enhance paraeducator salaries to include 20 hours in the 2017–18 school year and 40 hours in the 2018–19 school year for professional learning, directed by school districts.

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CLOSE THE OPPORTUNITY GAP

Class Size Reduction (\$485.1 million)

The state has made progress on the HB 2776 (2010) goal of reducing class sizes to 17 students in kindergarten through third grade by 2018. Governor Inslee's budget would complete the effort by funding more than 3,400 new teachers for the 2017–18 school year.

Social and Emotional Health (\$325.2 million)

The governor's budget would increase the number of student support staff (specifically, school counselors, nurses, psychologists, social workers, and family engagement coordinators) and provide time for collaboration and training to maximize their effectiveness. The additions would be phased in for half the state's schools with the highest concentration of poverty in the 2017–18 school year, when 1.0 FTE will be added to each prototypical school. In the 2018–19 school year, this increase would be phased in to all schools in the state.

Learning Assistance Program (\$49.6 million)

Learning Assistance Program (LAP) funding would be increased in the governor's budget to improve services for students who need extra support. We understand the governor does not intend to specify how this money is spent, even though the details of this funding have yet to be released. If additional LAP funding is ultimately approved, however, it is highly likely there will be an intense debate among legislators about how to direct this money.

School and District Improvement (\$3.8 million)

Each year, the federal government requires states to identify the 5% of schools most in need of support to improve students' academic outcomes. The federal Every Student Succeeds Act (ESSA) of 2016 provides some funding to states, but not enough to support all the schools identified. Governor Inslee's budget would provide assistance to low-performing schools and districts that do not receive federal funds.

Supporting Foster Youth (\$1.4 million)

Through a partnership with community-based organizations, foster youth receive individualized educational support and guidance, including help transitioning to college and careers after they graduate from high school. The governor's budget would expand this demonstration project to serve another 120 students.

Truancy Reduction (\$1.3 million)

Legislation adopted in 2016 requires school districts to offer Community Truancy Boards and other interventions to reduce student truancy and address the causes of chronic absenteeism. Onetime funding was provided in Fiscal Year 2016 for training of staff members to serve on Community Truancy Boards. The governor's budget would restore and increase grant funding to support Community Truancy Boards.

Mentors for Struggling Students (\$400,000)

The governor's budget would provide funding to expand the Check & Connect program, an intervention strategy used with students who show warning signs of disengagement from school and who are at risk of leaving before graduation. This investment would also support students from military families as they navigate transitions and a pilot project with three corporate partners to mentor students in the workplace.

ENGAGE STUDENTS

MSOC for CTE (\$12.3 million)

Recognizing the higher-than-normal costs for materials and supplies in Career and Technical Education courses, the Maintenance, Supplies, and Operating Costs (MSOC) funding formula would be modified in the governor's budget. The per-student formulas for Career and Technical Education and Skills Centers would be set as enhancements to the general education funding rate. Both would be increased to be 20% higher than the general education rate in the 2017–18 school year and 30% higher in the 2018–19 school year.

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Career-connected Learning (\$6.0 million)

Career-connected learning offers work-based experiences and industry-approved apprenticeships for students who want to enter the workforce or prepare for job training after high school graduation. Funding supports grants for middle and high schools to integrate academic and occupational curricula and train teachers. The governor's budget would triple the state's current investment in this program, with funds being matched by the private sector.

Computer Science for Everyone (\$4.0 million)

The governor's budget would fund grants for curriculum development, teacher training, technology purchases, and digital access for historically underserved groups, including girls and students from low-income, rural and ethnic minority communities. The governor's budget would triple the state's current investment, with funds being matched by the private sector.

Highly Capable Education (\$3.9 million)

The governor's budget would provide program support, combined with higher salary allocations, to allow more students to participate in the Highly Capable program.

Levy Reform

A major part of Governor Inslee's K–12 Education funding plan deals with school district levies. Probably best described as a modified levy swap, the plan would provide every school district with more money from the state and enable (in fact, require) school districts to reduce local property tax rates by at least \$250 million statewide per year. Included with the funding plan is a spreadsheet which shows **individual school district impacts** once the reform plan is fully implemented in the 2018–19 school year.

Once again, we do not have a specific bill or budget language to fully understand the mechanics of this proposal, but if approved by the Legislature, levy reform would be phased in over the biennium. In the first year of the biennium, levy policy would be "current law." The local school district levy lid would be 24% and grandfathered levy rates would remain in place. Local Effort Assistance (LEA or "levy equalization") would be funded at 12%. "Ghost revenues" that have artificially inflated levy bases would be removed. The Per Pupil Inflation (PPI) would be dramatically increased (from 4.27%) and set at 16.35%.

In the second year of the biennium, school district levies would be reduced to 15% across the board, with grandfathering eliminated. LEA would be funded at half the levy lid (7.5%). Funding for LEA would also be increased by \$53.5 million, presumably due to changes in assessed valuation (a Maintenance Level expenditure). PPI would again increase and be set at 21.4%.

As presented by the governor, all districts would receive substantial increases in funding and, coupled with the levy changes in 2018–19, 119 districts would see a tax cut, positively impacting 75% of households and businesses. Because the lid would be reduced, those reductions (for districts collecting above the new lid) would be required. Again, we do not have the nitty-gritty details; however, Office of Financial Management staff crafted this plan to sidestep the "levy cliff" question. It is their belief that this reform would make the levy cliff discussion moot. We will continue to follow up when we have more information.

Revenue Enhancement Proposal

The governor's budget includes a **significant tax package**, expected to raise almost \$4.4 billion. The proposal would increase revenues by:

- \$2.276 billion from increasing the B&O rate on services to 2.5% (from 1.5%) and extending the B&O tax to all services. To protect very small businesses, the governor's plan also doubles the B&O tax filing threshold to \$100,000 and increase the small-business tax credit to \$125 per month.

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- \$1.069 billion from implementing a new Carbon Tax, set at \$25/ton plus inflation, plus 3.5%.
- \$821 million from implementing a new Capital Gains Tax, set at 7.9% for capital gains earnings above \$25,000 for individuals and \$50,000 for joint filers. Residential property would be exempt.
- \$91 million from applying the sales tax to vehicle trade-ins valued over \$10,000.
- \$59 million from applying the Real Estate Excise Tax (REET) to certain foreclosure sales.
- \$57 million from repealing the sales tax exemption on bottled water.
- \$52 million from repealing use tax exemption of extracted fuel.
- \$49 million from changing the nonresident sales tax exemption to a refund program.
- \$12 million from extending economic nexus to retailing B&O activities.

The proposal would also reduce revenues by:

- \$92 million from increasing the small business B&O tax credit threshold (as described above).
- \$30 million from high-technology R&D tax incentives.
- \$16 million from increasing the smoking age to 21.



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