Governor Inslee Releases 2019–21 Budget Proposals

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 budget proposals in a week-long rollout. On Monday, December 10, Inslee released his clean energy proposal. The next day, Tuesday, December 11, the governor unveiled his plan to transform the state’s mental health system. Finally, yesterday morning, December 13, Inslee released his full two-year Operating, Capital, and Transportation budgets. Details on the governor’s proposals, with a focus on K–12 impacts, follow below.

First, let us set the stage for the release of the governor’s budget(s). The trigger that forces the governor to begin focusing in on details of his budget (in particular the Operating Budget), is the release of the November revenue forecast. When the final quarterly revenue forecast of the year is released, the state’s budget situation becomes clearer and the governor can determine how much money he has to play with and it helps to determine whether he’ll need to trim his wish list, expand his proposed investments, and/or discuss tax increases or tax cuts.

On November 20, the Economic & Revenue Forecast Council released its revenue update and projected that the state would collect approximately $360.0 million in the remainder of the 2017–19 biennium and the upcoming 2019–21 biennium above what was anticipated in the previous forecast. This is a total increase of $1.7 billion in new revenue for 2017–19 and 2019–21, beyond what was originally projected in February.

An “unexpected” $1.7 billion is a lot of money to play with (to put it into context, the 2017–19 budget appropriated $44.7 billion). That is good news and shows the state’s economy continues to grow—and that is the headline that everyone reads. The story that is not normally told is that while revenues will continue to grow in the near term, there are trends in the November forecast that signal that growth may be slowing. Revenue from Property Tax collections are up significantly (mostly due to increases adopted to fund the Legislature’s McCleary “solution”); however, most other tax sources (Sales Tax, B&O Tax, Utility Tax—comprising 75 percent of the state’s revenue sources) were revised downward. Additionally, while personal income continues to grow, it is growing more slowly than in recent years; and Real Estate Excise Taxes are assumed to have reached their peak.

Positive revenue forecasts make the headlines, but another part of the untold story is the projection on expenditures. Total revenues in the current two-year budget are $46.4 billion and revenues in the upcoming 2019–21 budget are expected to reach $51.4 billion—an increase of over $5.0 billion. Yet, Maintenance Level spending (that is, the cost—positive or negative—of mandatory caseload, enrollment, inflation, and other legally unavoidable costs to maintain the current budget) is expected to increase current 2017–19 expenditures by over $6.0 billion (with K–12 accounting for more than $4.0 billion of that total). So, before the Legislature even has a chance to determine which new or expanded programs they want to fund, the Maintenance Level budget will gobble up more than the expected increase in revenues. There are many ways to tackle this situation; however, revenue increases have
been the governor’s policy choice in the last few years. That continues to be Governor Inslee’s go-to strategy in his proposal revealed yesterday.

To counter a projected deficit—and provide additional resources for additional programs—Inslee included three revenue proposals in his budget, which are projected to raise $3.7 billion:

- **Implement a new nine percent Capital Gains Tax** on the sale of stocks, bonds, and other assets. When State Superintendent Reykdal released his budget proposal earlier this year, he also called for a new Capital Gains Tax. Reykdal proposed that half of the resultant revenues be used to fund K–12 education programs and the second half be used to drive down the State Property Tax rate, so his levy increase plan would be more palatable. Under Inslee’s proposal, a projected increase of $975.0 million in Fiscal Year 2021 (increasing to $2.141 billion in 2021–23) would simply be used to bolster the bottom-line of the budget.

- **Increase the Business & Occupation (B&O) Tax** on services and other activities from the current 1.5 percent to 2.5 percent, projected to raise $2.6 billion in the next biennium.

- **Amend the state’s Real Estate Excise Tax (REET)** from a flat rate to a more progressive graduated rate. Sales of lower-valued properties under $250,000 would be taxed at 0.75 percent and the rate would increase to 2 percent for properties valued over $1 million and to 2.5 percent for sales over $5 million. Sales of property between $250,000 and $1 million would continue to be taxed at the current rate of 1.28 percent. This proposal, which would lower taxes for many citizens, while increasing taxes for others, is expected to generate approximately $400 million in the next biennium. This additional revenue source would be used specifically to help the state pay for removal of fish passage barriers (culverts), as required by a U.S. Supreme Court order.

A major focus of Governor Inslee’s budget proposals is clean energy. On Monday, December 10, Inslee unveiled his plan to launch a “comprehensive clean energy transition” and significantly reduce Washington State’s greenhouse gas emissions over the next 15 years. The governor’s clean energy proposal would accelerate current innovation and efforts to transition to 100 percent clean energy, construct ultra-efficient buildings, establish a clean fuel standard, electrify the state’s transportation system and phase down super-pollutants in certain products. Combined, the policies are projected to reduce greenhouse gas emissions in Washington State to 25 percent below 1990 levels by 2035. The governor requests $273.5 million to accomplish each piece of his proposal.

One of the key parts of Inslee’s climate change proposals is the construction of ultra-efficient buildings (including retrofitting old buildings or building new clean buildings). Inslee is proposing a comprehensive clean building package that would incentivize and encourage retrofitting of buildings and adoption of updated building codes for new construction. Local school district facilities would be included in the effort, with the intent to encourage net zero carbon schools. $10.0 million of Inslee’s overall funding request would be used to build four schools to zero carbon standards through the K–12 construction budget.

Another major focus of the governor’s budget is mental health. On Tuesday, December 11, Inslee announced a detailed plan to transform Washington’s behavioral health system. Following up on a comprehensive strategy released earlier this year, Inslee’s budget proposal would begin to reshape “how and where we treat people suffering from acute mental illness.” He requests an initial investment of $675 million to launch his proposed five-year plan. $404 million would come from the 2019–21 Operating Budget, with another $271 million investment in the 2019–21 Capital Budget. The funding would be used in five key areas: expanding behavioral health treatment options; providing more housing options; investing in workforce development; providing appropriate community-based facilities; and increasing investments in state hospitals.
Yesterday, December 13, Governor Inslee unveiled his complete budget proposals. His 2019–21 Operating Budget would increase total state spending from $44.7 billion in 2017–19 to $54.6 billion. This increase of just under $10.0 billion ($9.97 billion) is comprised of $6.4 billion in Maintenance Level costs and another $3.6 billion in policy-related spending. The $54.6 billion spending level is approximately $3.2 billion above the revenues Washington is projected to receive in 2019–21. As noted above, Inslee has proposed a revenue package raising approximately $3.7 billion to cover that additional spending.

The current spending level for K–12 education is $22.6 billion. In addition to Carryforward Level and Maintenance Level increases of $4.1 billion, Inslee proposes $1.2 billion in Policy Level increases, bringing the total K–12 spending to $28.0 billion. $1.2 billion in increased new spending is significantly higher than Superintendent Reykdal’s budget request; however, note that Inslee’s request includes $643.0 million to fund the School Employees’ Benefits Board (along with another $295.9 million in Maintenance Level costs).

In the governor’s press conference and in his budget briefs, Inslee notes that K–12 funding has increased significantly in recent years due to the Supreme Court’s McCleary decision and legislative efforts to address the decision. In fact, he has stated the Legislature has “fully funded” basic education under HB 2242 (2017) and SB 6362 (2018). Unfortunately, this is the attitude we are going to face with many legislators this session. On a positive note, even though Inslee incorrectly believes basic education is fully funded, he knows additional investments are necessary to enhance services for all students. While he is advocating for some specific key investments, however, he believes local voters, via local levies, should provide for many of those enhancements. As part of his budget, Inslee is proposing that Washington scrap the $1.50/$1,000 AV or $2,500/student levy model adopted in HB 2242 and return to the state’s “traditional” levy structure. Beginning in 2020, Inslee’s proposal would allow all districts to levy up to 28 percent of their state and federal revenues. The proposal would eliminate grandfathering above 28 percent and would eliminate the previous artificial inflation of levy bases (via “ghost” revenues). The proposal would also reinstate Local Effort Assistance (LEA or “levy equalization”) at 14 percent (maintaining the Legislature’s former policy of providing LEA at half the levy lid).

Superintendent Reykdal also has a levy proposal—and we expect several other “options” to be on the table once session starts. Reykdal’s plan is similar, but more detailed than Inslee’s. Reykdal also proposes the state return the old model of capping levies at a percentage of state and federal, but proposes a 22 percent lid. Additionally, levies would be capped at $3,500 per student, so property rich districts are limited from completely whitewashing equity. There also would be a local rate cap, providing LEA to districts whose maximum levy would exceed $3.75/$1,000 AV. Reykdal’s proposed new LEA policy would be revenue neutral. Inslee’s return to a 14 percent LEA would require a state-funded increase of $214.0 million (which is included in his request).

WASA has been wrestling with a specific position on levy/LEA reform, as we seek to assist districts that are in need of additional levy resources and desire additional flexibility, while we also strive to assist property poor districts that would have difficulty in increasing their local levy. This was the focus of the conversation at the Superintendent Component meeting in Spokane in November. As you could probably guess, our members were all over the map on how to address the levy/LEA question. At WASA’s recent Board of Directors meeting, members discussed a preliminary, compromise position. With the potential of multiple levy/LEA plans on the table during session, our position may evolve (and we have yet to discuss the issue with WASA’s Legislation & Finance Committee), but the position they agreed upon gives us a place to start. Simply stated, the Board agreed to support an increase in the levy lid, so long as it is a modest increase and includes “bumpers” or a fence around the additional funding to maintain district control over the funds. Additionally, any levy increase must be coupled with an increase in levy equalization for property poor districts to maintain as much equity as possible.
Following below are specific details of the K–12 Education section of Governor Inslee’s 2019–21 Operating Budget request. For additional information, the Office of Financial Management (OFM), the governor’s budget office, has a series of budget resources on its website, including a high-level summary, agency details, full agency recommendation summaries, and the actual budget bills.

K–12 Education Enhancements

Local Effort Assistance—$213.6 million
The governor proposes to return to the state’s previous levy structure, allowing all districts to levy up to 28 percent of their state and federal revenues, beginning in calendar year 2020. The proposal would also reinstate Local Effort Assistance (LEA or “levy equalization”) at 14 percent, maintaining the Legislature’s former policy of providing LEA at half the levy lid. Funding is provided to restore state funding of levy equalization.

Student Support Staffing—$154.8 million
Nonclassroom-based professionals in schools help prepare students for learning by addressing their academic, social, and emotional needs. Funding is provided to begin phasing in increased allocations for nurses, social workers, psychologists, and guidance counselors in elementary and middle schools in line with Initiative 1351, adopted in 2014. In the first biennium, funding is provided for districts with greater than 50 percent student eligibility for Free and Reduced-Price Meals, and it will expand to districts with 35 percent eligibility in the 2021–23 biennium.

Special Education Multiplier—$94.0 million
Funding is provided for implementation of the targeted and enhanced special education funding structure (with multi-tiered multipliers) proposed by OSPI. Additional funds ($51.1 million) are provided in the Maintenance Level budget to support anticipated increases in Special Education Safety Net expenditures based on actual experience of growth in high cost student need in the 2017–18 School Year and expected growth in services costs. Another $1.0 million is provided to the Washington State Institute of Public Policy to study special education goals, services, and outcomes to help inform Washington’s future options for special education.

Paraeducator Training—$24.6 million
Funding is provided for comprehensive paraeducator training beginning in the 2018–19 School Year. ESHB 1115, adopted in 2017, mandates that, if funding is provided, school districts must provide four days of training to all paraeducators in a fundamental course of study on paraeducator standards of practice and an additional 10 days of training over the next three years to obtain a paraeducator certificate.

Student Mental Health & Safety—$7.5 million
Funding is provided for OSPI to work with the nine ESDs to provide a network of support for school districts to: develop comprehensive suicide prevention and behavioral health supports for students; provide assistance to school districts with comprehensive safe schools planning; conduct needs assessments and school safety and security trainings; coordinate appropriate crisis and emergency response and recovery; and develop threat assessment and crisis intervention teams.

Career Connected Learning—$6.1 million
Funding is provided to support the development of a statewide system of career-connected learning, including a provision that Career and Technical Education students may be counted for up to a maximum of 1.2 FTE.

Institutional Education—$5.3 million
Funding is provided to increase the capacity of institutional education programs to differentiate instruction to meet students’ unique educational needs. Those needs may include, but are
not limited to, one-on-one instruction, enhanced access to counseling for social emotional needs of the student, and services to identify the proper level of instruction at the time of student entry into the facility.

**Next Generation Science Standards—$4.0 million**
Funding is provided for professional development in the Next Generation Science standards and to support community-based climate science organizations to partner with ESDs and school districts. The 2018 Legislature provided funds for these purposes in odd years; this additional funding provides resources in even years.

**Computer Science Grant Program—$4.0 million**
Funding is provided to expand the Computer Science and Education Grant Program. In addition to public-private matching grants, the new funding will provide grants to school districts with greater than 60 percent of students eligible for Free and Reduced-Price Meals with no match requirement.

**Dual Language—$3.3 million**
Funding is provided to double the size of the current K–12 Dual Language Grant Program (see RCW 28A.630.095), providing resources for up to 12 additional school districts and tribal compact schools to create or expand dual language programs.

**School Financial System Redesign—$2.4 million**
Funding is provided to continue redesign of the school financial systems to align with the requirements of 2017’s EHB 2242 (*McCleary* solution). Funding is sufficient to finalize implementation of the accounting system redesign begun in the 2017–19 biennium and to develop and implement the associated school district four-year budgeting system.

**Single Sign-on—$2.4 million**
Funding is provided for single sign-on technology to allow students and staff across the state easier access to necessary instructional technology and applications.

**PESB Career Pathways in Education—$1.0 million**
Increased funding is provided for various programs administered by the Professional Educator Standards Board (PESB) that focus on developing and diversifying Washington’s educator workforce. Increased funding is provided for the Educator Retooling Conditional Load Scholarship, the Recruiting Washington Teachers Program, the Bilingual Educator Initiative, and the continued development and expansion of the Grow Your Own regional recruitment framework.

**SBE Competency Based Diploma—$242,000**
Funding is provided for the State Board of Education (SBE) requested legislation proposing that SBE convene a work group to develop a competency-based pathway to a high school diploma.

**Website ADA compliance—$161,000**
The Office for Civil Rights (OCR) of the U.S. Department of Education determined that the current State Board of Education (SBE) website contains barriers to access for people with disabilities. Funding is provided to upgrade existing public website functionality with modern accessibility functionality and maintain accessibility over time through captioning of SBE meeting video streams.

**K–12 Compensation Adjustments**

**School Employees’ Benefits Board—$643.0 million**
Funding is provided for implementation of the School Employees’ Benefits Board insurance program beginning January 1, 2020. The insurance funding rate is $1,170 per employee
per month for Fiscal Year 2020 and $1,195 per employee per month for Fiscal Year 2021. An additional $295.9 million is provided in the Maintenance Level budget to increase the monthly health benefit allocation for school employees to the amount provided per month to state employees for health benefits, as required by law.

**PERS & TRS Plan 1 Benefit Increase—$43.1 million**
For eligible Public Employees’ and Teachers’ Retirement Systems Plan 1 members, this item provides a one-time, ongoing increase of three percent, up to a maximum of $62.50 per month.

**Non-Rep General Wage Increase—$2.1 million**
Funding is provided for wage increases for state employees who are not represented by a union or who are covered by a bargaining agreement that is not subject to financial feasibility determination. It is sufficient for a general wage increase of three percent, effective July 1, 2019, and a general wage increase of three percent, effective July 1, 2020. This item includes both general government and higher education workers.

**School Safety Academy & Website—$392,000**
Funding is transferred from the Washington State Criminal Justice Training Commission to OSPI to support a school safety program and the School Safety Center, including maintenance of a school safety information website.

**Non-Rep Salary Schedule Revision—$92,000**
Funding is provided for a revised salary schedule for non-represented employees in information technology jobs, in alignment with other state employees.

**State Public Employee Benefits Rate—$39,000**
Health insurance funding is provided for state employees who are not represented by a union, who are covered by a bargaining agreement that is not subject to financial feasibility determination, or who are not part of the coalition of unions for health benefits. The insurance funding rate is $977 per employee per month for Fiscal Year 2020 and $978 per employee per month for Fiscal Year 2021.

**Non-Rep Targeted Pay Increases—$8,000**
Funding is provided for classified state employees who are not represented by a union for pay increases in specific job classes in alignment with other employees.