Special Edition:

House Releases 2019–21 Operating Budget Proposal

This morning, on Day 71 of the scheduled 105-day session of the 2019 Legislature, the first legislative budget proposal was released. Democratic budget-writers and Leaders in the House gathered for a press conference at 11:45 a.m. to unveil their 2019–21 Operating Budget package. Following the roll-out of the Operating Budget, Democratic Leaders also unveiled their proposed 2019–21 Transportation Budget and their 2019–21 Capital Construction Budget.

To start the Operating Budget press conference, Representative Timm Ormsby (D-Spokane), chief budget-writer for the House Democrats and the Chair of the House Appropriations Committee, put the budget in context with the current environment. He specifically referenced the extraordinary costs of the Maintenance Level budget (that is, the cost to continue current programs and services from 2017–19 into 2019–21, adjusting for caseloads and other costs). After making adjustments for decreases in the February 2019 Caseload Forecast and increases in the March 2019 Revenue Forecast, the state is estimated to have $50.56 billion to spend. This is $4.5 billion above the 2017–19 levels (and includes revenues from the early adoption of SB 5581—online sales taxes—as we have discussed in previous newsletters). The Maintenance Level is estimated to be $50.50 billion (almost $4.2 billion of which is for McCleary-related ripple effects in K–12 Education).

Chair Ormsby’s Operating Budget proposal (a Proposed Substitute of HB 1109) would appropriate $52.8 billion, including $2.3 billion (net) of Policy Level increases. Obviously, doing the simply math, you can see the proposed spending is above the estimated available revenues. To help even this imbalance, the House proposes three major revenue sources (There are no bill numbers available, as the legislation has not yet been formally introduced). The first proposal is a combination of two revenue sources: the implementation of a Capital Gains Tax and changing the Real Estate Excise Tax from a flat tax to a graduated tax, based on property values. (Note: In the press conference today, Democratic Leaders referred to the Capital Gains Tax as an “Extraordinary Profits Tax”—and I’m sure soon-to-be released Republican press releases will refer to this as a “Capital Gains Income Tax.” Oh, what’s in a name?) The second source is the elimination of a set of Business & Occupation (B&O) Tax preferences, including preferential rates for bullion dealers, and travel agents and tour operators. The proposal would also replace the current out-of-sales tax exemption with a mechanism that would allow out-of-state purchasers to collect refunds on sales taxes paid. The third source is an increase in the B&O tax rate for a set of specific business categories with the resultant revenues being dedicated specifically to higher education. Adoption of each of these proposed tax changes is estimated to increase revenues by $979 million in 2019–21, increasing to $2.17 billion in 2021–23.

As noted above, the Operating Budget proposal would provide $2.3 billion in Policy Level increases. Of that total, the state’s constitutional Paramount Duty, K–12 Education, would only receive $664 million. And of that $664 million, a full 70 percent of the increase would
go to fund the implementation of the School Employees’ Benefits Board program (and would not provide any assistance to school districts in funding non-state funded employees).

Key highlights of the (somewhat bare) K–12 Education portion of the budget are detailed below. Full budget details, including a Summary, a comprehensive agency detail, an updated Four-Year Budget Outlook, and the actual budget bill are available from the Washington State Fiscal Information website.

**Major K–12 Policy Enhancements**

**School Employee Health Benefits – $425.7 million**
Funding is provided for implementation of the School Employee’s Benefits Board (SEBB) program beginning January 1, 2020. The House’s budget proposal uses insurance funding rates of $1,079 per employee per month for Fiscal Year 2020 and $1,106 per employee per month for Fiscal Year 2021. The amount includes Benefit Allocation Factors (BAF) for state allocated classified staff (1.43) and certificated staff (1.02), as negotiated and included in the Tentative Collective Bargaining Agreement between the governor’s Office of Financial Management and a coalition of school employee labor representatives.

Health care insurance for state employees in the Public Employees’ Benefits Board (PEBB) are funded at a rate of $938 per employee per month in Fiscal Year 2020. The SEBB funding in this section includes a decrease in the rate assumed prior to SEBB implementation (July 1, 2019 to December 31, 2019) from a rate of $971 to $938, to match the PEBB rates. Increased retiree remittance allocations are also provided to school districts as part of an increase to the Medicare-eligible retiree subsidy beginning January 1, 2020.

It is important to remember this funding is presumed to provide for state-funded school employees and no funding (beyond some additional funding via the BAFs) is included for eligible employees that are locally or federally funded. Additionally, it should be noted that the Health Care Authority recently released new estimated health benefit rates of $1,114 per employee per month in Fiscal Year 2020 and $1,127 per employee per month in Fiscal Year 2021. We have been concerned that conversations in the Senate center around potentially funding health benefit rates at a level of $1,096 per employee per month in Fiscal Year 2020 and $1,102 per employee per month in Fiscal Year 2021. The House’s proposed funding rates are even more disconcerting (although it should be noted that while the Fiscal Year 2020 rate of $1,079 per employee per month is lower than both the HCA estimate and the current conversation in the Senate, the Fiscal Year 2021 rate of $1,106 per employee per month is below the HCA estimate, but slightly above what the Senate apparently will propose).

**Special Education and Institutions – $71.9 million**
The House budget provides funding to increase the current excess cost multiplier for special education students from 0.9609 to 0.9925. Additionally, funding is provided to institutional education programs to support students with unique educational needs and for student records coordinators in each of the three districts that include long-term residential schools under the Department of Children, Youth and Family Services to manage the transmission of academic records with residential schools.

We are appreciative of the ongoing conversation of the current underfunding of special education; however, the documented statewide underfunding of special education is at least $300 million and as much as $400 million. We have been advocating for an increase of the excess cost multiplier in the current high watermark proposal, **SB 5091** (currently in the House Education Committee), from the proposed 1.00 to at least 1.07. Neither of these multipliers would fully fund the current underfunded need of special education; however, a 1.07 multiplier would go a long way to assist school districts. Providing an even lower multiplier (of 0.9925) than what is currently on the table is horribly disappointing. Obviously, we have more work to do.
Local Effort Assistance – $71.2 million
Funding is provided in the House budget to increase Local Effort Assistance (LEA or levy equalization), beginning in Calendar Year 2020, due to the assumed passage of levy and LEA changes.

We had assumed the House’s long-awaited levy/LEA proposal would be released with its budget and this was confirmed today. We have the general parameters of the House’s proposal; however, no specific language is public at this point. The vehicle for the new language will be HB 2140; however, currently this bill is a “Title Only” bill (just as the name implies, the bill was introduced with only a title, “Relating to K–12 education funding,” and includes NO bill language).

The soon-to-be-unveiled Proposed Substitute HB 2140 will change the current levy and LEA policies adopted in EHB 2242 (2017) from the current levy lid of $1.50 per $1,000 Assessed Value (AV) or $2,500 per pupil—whichever is less—along with LEA limited to $1,500 per pupil (that is, the sum of the district’s levy collection and state-provided LEA). As we understand it, the new levy cap would be either 20 percent of the district’s state and federal revenue or the lesser of $3,000 per pupil or $1,50/$1,000AV. LEA is funded in two ways. For districts that have at least 75 percent of their students qualifying for Free and Reduced-Price Meals (FRPM), LEA would be funded at 12 percent of a district’s state and federal revenue; and districts that have less than 75 percent FRPM-qualifying students, LEA would be funded at 10 percent of a district’s state and federal revenue.

The budget also includes a reduction of $700,000 at OSPI for levy spending plans. Currently, OSPI must review the use of local revenues for compliance with enrichment requirements, including the preballot approval of enrichment levy spending plans. Presumably HB 2140 (or some other bill) will eliminate EHB 2242’s (2017) requirement that OSPI review/approve school district levy plans.

Paraeducator Professional Development – $12.0 million
Funding is provided for two days of comprehensive paraeducator professional development each school year, beginning in School Year 2019–20—which would be required under a new Proposed Substitute HB 2140 (the same school funding “Title Only” bill that will include a new levy/LEA proposal). Current law requires school districts to provide paraeducators a four-day “fundamental course of study.” The law, however, specifically notes that school districts must only provide the course in school years for which state funding is appropriated specifically for this purpose and only for the number of days that are funded by the appropriation. Additional legislation, HB 1658 (which resides in the Senate Early Learning & K–12 Education Committee), would still require the four-day course of study, but would adjust the current law deadlines.

Student Mental Health and Safety – $5.4 million
The House budget provides funding to implement HB 1216. Each ESD would be provided funding to establish a Regional School Safety Center and OSPI would be provided funding to monitor certain safety-related programs and plans.

High-Skilled Program Grants – $3.4 million
Funding is provided to expand the current grant program for secondary Career and Technical Education to include support for the maritime and construction industries, in addition to the current funding for aerospace programs.

School Financial System Redesign – $2.4 million
Funding is provided to OSPI to continue the redesign of the school financial systems to align with the requirements of EHB 2242 (2017), the “McCleary Education Funding Plan.” Funding is expected to be 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.
High School Assessment System – $1.2 million
Funding is provided to implement HB 1599 (adopted today by the Senate Early Learning & K–12 Education Committee). The appropriation would fund: the establishment an online platform for statewide High School and Beyond plans; IT staff at OSPI; and staff and resources at the State Board of Education to convene a Mastery-Based Learning Work Group.

Additional Funded Legislation
The House budget would provide funding to implement a number of additional bills, including the following:

- **HB 1424**—CTE Course Equivalencies. $727,000 is provided for staffing and grants to assist districts in expanding course equivalencies for Career and Technical Education courses.

- **HB 1304**—CTE ALE Programs. $495,000 is provided for staffing to implement the Vocational Alternative Learning Experience Pilot Program and to develop Career and Technical Education frameworks that include Alternative Learning Experience programs.

- **HB 1660**—Extracurricular Activities Reporting. $75,000 is provided for extracurricular activities reporting requirements, for OSPI to collaborate with Associated Student Body executive boards, and to administer and promote the Promoting Lively Activities for Youth (PLAY) Grant Program.

- **HB 1139**—Educator Workforce Supply. $120,000 is provided for OSPI to provide training to student teacher mentors.

- **HB 1130**—Public Schools Language Access. $231,000 is provided for OSPI to convene a workgroup regarding language access for public school students and their family members.

- **HB 1039**—Opioid Overdose Medication. $137,000 is provided for OSPI to develop opioid-related overdose guidelines, training requirements, and a grant program.

- **HB 1272**—School Lunch Duration. $150,000 is provided for OSPI to designate six public schools as demonstration sites to implement and evaluate seated lunch duration procedures for school lunch periods.

- **HB 1264**—Secondary Traumatic Stress. $207,000 is provided for OSPI to identify or develop online training modules to support teachers affected by secondary traumatic stress.