Special Edition: 2013–15 Senate Operating Budget Proposal Released

Operating Budget

Last week, the Legislature’s budget game began in earnest with the release of Governor Jay Inslee’s 2013–15 “budget priorities.” Inslee laid out his vision for balancing a budget and providing a basic education down payment to meet the Supreme Court’s directives in the McCleary decision. (For details on Inslee’s budget package, please see TWIO, Week 11.) Although it was a bit later than expected, the Senate Majority Coalition Caucus today unveiled its 2013–15 Operating Budget Proposal. It is expected that House budget-writers will release their own proposal early next week. With less than 30 days remaining in this 105-day Regular Session (today is the 80th day), legislators will sprint to the negotiating table in an attempt to quickly resolve potentially major budget differences between the two houses, adopt a final compromise budget and go home. They are hard to find, but there are still a few optimists left in Olympia that believe the Legislature will adjourn on-time by April 28.

At noon today, leaders of the Senate Majority Coalition Caucus (along with two minority party budget-writers, Senators Jim Hargrove and Sharon Nelson) held a press conference to formally introduce their “no new taxes” 2013–15 Operating Budget, which they say solves the current expected shortfall, provides a basic education down payment to comply with McCleary and leaves a healthy Ending Fund Balance. Due to the short timeframe between the budget’s release and a public hearing on the proposal, this Special Edition of TWIO provides only some of the major highlights of the Senate’s budget. We will provide more in-depth details in Friday’s (April 5) regular edition of TWIO. For quicker information, the Legislative Evaluation & Accountability Program (LEAP) Committee website includes a budget overview, the full agency detail and the actual budget bill (a Proposed Substitute version of SB 5034).

The Senate’s budget proposal includes no new taxes (nor does it repeal a series of tax exemptions or extend the sunset of the beer and B&O tax surcharges that are set to expire in June, as proposed by Gov. Inslee). The proposal does, however, include “new” revenue. First, the Senate assumes the state will expand Medicaid participation as a part of the federal government’s Affordable Care Act, which is expected to provide the state with approximately $303 million. Second, the Senate assumes legislation will be adopted (HB 1920) to address the Supreme Court’s recent Bracken decision, which invalidated a portion of the state’s estate tax, negatively impacting the budget by approximately $160 million. The remainder of the budget solution comes from: “spending controls and savings” of $2.0 billion; $179 million in fund transfers; and revenue “redirections” of $262 million.

As most budgets do, the Senate’s proposal relies on a series of revenue transfers ($179 million, as noted above). This proposal takes that often used strategy several steps further.
The budget assumes the adoption of SB 5895 (just introduced today), addressing education funding. Included in the bill is a major proposal from gubernatorial candidate Rob McKenna to modify the state expenditure limit to apply to all of state government except for K–12 education, early learning and higher education (a few other exemptions are included to deal with specific budget scenarios). The stated intent is to “enable the state to commit an increasing proportion of state tax dollars and the state budget to the education of our citizens in fulfillment of the state’s paramount duty.” While most of state government will be constrained, “excess growth” (that is, excess revenue) will be prioritized on education (specifically, K–12 education, but also early learning and higher education).

The remainder of SB 5895 redirects and reprioritizes several dedicated accounts to education (specifically, the Education Legacy Trust Account—which may be used “only for support of the common schools, and for expanding access to higher education through funding for new enrollments and financial aid, and other educational improvement efforts”) to assist in meeting the state’s paramount duty to make ample provision for the education of all children in Washington. The bill’s intent language addresses the McCleary ruling which determined “the Legislature has not provided adequate state funding from dependable and regular sources to comply with the paramount duty.” The total amount of funding directed to education due “reprioritizations” assumed under SB 5895 is expected to be $926 million in the 2013–15 biennium, increasing to $1.76 billion in 2015–17 and further increasing to $2.33 billion in 2017–19—that is, just over $4.0 billion in the next three biennia. In addition to the expenditure limit change above, SB 5895 includes the following:

- The bill assumes the adoption of a substitute version SB 5194, which would repeal the automatic educator cost of living adjustments required under Initiative 732. (The original version of the bill would “freeze” the COLAs for the 2013–15 biennium.) SB 5895 would require the total funding that would have been expended for I-732 COLAs to be dedicated to the Education Legacy Trust Account.

- A portion of the current Real Estate Excise Tax (REET) would be diverted to the Education Legacy Trust Account. Currently, 6.1 percent of the REET proceeds are dedicated to the Public Works Assistance Account. SB 5895 would direct 4.1 percent of the REET proceed to education, with the remainder (2 percent) going to Public Works. Further, late payment penalties collected due to REET currently go to the Housing Trust Fund. Under SB 5895, any REET penalties would be deposited into the Education Legacy Trust Account.

- Current taxes on public utilities (water and sewer taxes), which are deposited to the Public Works Assistance Account, would be diverted to the Education Legacy Trust Account.

- Proceeds from taxes on solid waste collection are currently deposited to the Public Works Assistance Account. Under SB 5895, proceeds from this tax would be deposited into the Education Legacy Trust Account.

- Currently, unclaimed prize money from the state lottery is retained by the lottery. Unclaimed lottery prizes would be deposited into the Education Legacy Trust Account under SB 5895.

- If Congress adopts the Marketplace Fairness Act (which would require online retailers to collect sales tax on purchases that customers of brick-and-mortar retailers currently pay), the resulting net increase in sales tax revenue would be dedicated to education via the Education Legacy Trust Account. (Note: Because Congress has not yet acted on this, the potential revenue enhancement is NOT included in the overall total expected education revenue increases noted above.)
• SB 5895 also spells out the Legislature’s intent to prioritize the state’s General Obligation bond capacity for Capital Budget appropriations to support school construction. If the state fully funds the School Construction Assistance Program with bonds, cash receipts that go to the Common School Construction Fund can be used for Operating Budget appropriations for K–12 education.

• SB 5895 would require that state property tax proceeds (already dedicated to common schools) be divided in half, with 50 percent going to the General Fund and 50 percent going to the Education Legacy Trust Account until June 30, 2018. After that date, 100 percent of the state property tax would go to the Education Legacy Trust Account. Property taxes deposited into the Education Legacy Trust Account would not be counted toward general state revenues for purposes of calculating the state debt limit.

Major K–12 Highlights

• The total overall Operating Budget would increase by $2.12 billion under the Senate plan. K–12 education would increase by $1.5 billion. $611 million would remain in reserve ($35 million in the Ending Fund Balance and $576 million in the Budget Stabilization Account). Funding would increase from the current $6,782 per pupil to $7,783 per pupil for the 2014–15 school year.

• Contrary to expectations, the Senate budget provides basic education enhancements according to the statutory implementation schedule from HB 2261/HB 2776:
  o $521 million would be provided to fully fund the enhancement of Maintenance, Supplies & Operating Costs (MSOC) by the 2014–15 school year. The enhancements represent per pupil MSOC rate increases above maintenance level of $83.65 and $500.42 for the 2013–14 and 2014–15 school years, respectively. An additional $15.3 million would be provided to enhance MSOC funding rates in Skills Centers. With this funding, MSOC rates for Skills Centers would be 125 percent higher in the 2013–14 school year than in the 2102–13 school year.
  o $197.5 million would be provided to fully fund the new Pupil Transportation funding formula beginning in the 2013–14 school year.
  o $41.1 million would be provided to continue the phase-in of Full-Day Kindergarten. This funding would expand all-day kindergarten from the current 22 percent of kindergarten enrollment to 30 percent in the 2013–14 school year and to 35 percent in the 2014–15 school year. Schools with the highest percentage of students eligible for the federal Free and Reduced Price Lunch program would continue to be the first priority for funding.
  o $240.8 million would be provided to nearly double the Learning Assistance Program (LAP), coupled with program reforms, as specified by SB 5330. Embedded in this funding (and SB 5330) is a portion of K–3 Class Size reduction funding. SB 5330 would require LAP funds to be used for “interventions and activities for which there is evidence, through research, that they are effective in improving academic achievement.”

• $10.3 million would be provided to assist persistently-failing schools. As outlined in SB 5329, the funding would allow ten schools to begin a three-year improvement process, using an intervention model determined by the district. If the school has not achieved sufficient improvement after three years, OSPI would create a new three-year plan and determine what management structure should be used. OSPI would also “exercise the powers of a school board” with regard to employment
issues. If there is not sufficient progress after this second three-year period, the school could be closed.

- $10.2 million would be provided to enhance the current base-budget funding for teacher training in the new Teacher/Principal Evaluation Process.
- Funding would be provided to restore state salary allocations for K–12 public school employees that were temporarily reduced (1.9 percent for classified and certificated instructional staff and 3.0 percent for certificated administrative staff) during the 2011–12 and 2012–13 school years. The temporary reductions are restored for the 2013–14 and 2014–15 school years.

**Major K-12 “Savings”**

- Initiative 732 would be repealed (with equivalent funding being redirected to the Education Legacy Trust Account, as described above). This would “save” $295.8 million in the K–12 budget—or a total of $321 including eligible community college employees.
- Funding is provided to enhance MSOC rates, including MSOC rates at Skills Centers. $72.2 million is saved, however, from reducing MSOC rates in Career & Technical Education programs. The Senate utilized school districts’ reported enrollments and adjusted for inflation. This results in a CTE MSOC rate that is 43 percent lower in the 2013–14 school year than the 2012–13 school year.
- $37.2 million is saved from consolidating several grants and programs. The increase in LAP includes an enhancement of an equivalent amount of funding. Districts may use LAP funds for those programs for which there is research-based evidence of effective student outcomes (SB 5330). Districts will be allowed to coordinate implementation of the programs statewide, regionally, or individually. The programs included are:
  - Project Citizen
  - Collaborative Schools for Innovation and Success
  - Open K–12 educational resources
  - Interpreter services standards
  - Nurse Corps
  - Navigation 101
  - Washington Achievers Scholars
  - College Bound Scholarship outreach
  - Building Bridges grants
  - Jobs for America’s Graduates (JAG)
  - Communities in Schools
  - Dream Big Community Center
  - Readiness to Learn
  - Career and Technical Education (CTE) grants
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continued

- $17.1 million would be saved from implementing the Smarter Balance Assessment Consortium English language arts and mathematics assessments by the 2014–15 school year (as described in SB 5587). The mathematics End-of-Course (EOC) assessments would not be administered after the 2014–15 school year. As the state transitions to the Smarter Balance English language arts and mathematics assessments, the graduating classes of 2016 and 2017 would be allowed to meet the state standard for high-school graduation purposes using either the current reading and writing assessments or the consortium-developed English language arts assessment; or both of the mathematics EOCs or the consortium-developed mathematics assessments. For high-school graduation, the graduating class of 2018 would be required to meet the state standard on the Smarter Balance English language arts and mathematics assessments.
Retirement and Health Benefits

Senate Operating Budget 2013–15

Pensions:

- Contribution Rates are as recommended by the State Actuary through the Pension Funding Council at an increase in cost to the GF State of $245 million.

  - Rates  Current  Senate
  - TRS    8.05%   1039%
  - SERS   7.59%   9.82%
  - PERS   7.21%   9.21%

- SSB 5851 Defined Contribution Option Plan (401K)—savings of $2.3 million 2013–15

Health Benefits:

- Health Benefit Allocation
  - Current – $768 per month

- Remittance
  - Current – $65.17
  - 2013–14 - $60.17  2014–15 - $61.00

- Retiree Subsidy Per Month
  - Current – $150 per month
  - However there is a reduction down to $100 based on a years of service formula.

- $87 million Savings to GFS by reducing insurance allocations for part-time K–12 employees by aligning them with the Federal Affordable Care Act’s Washington Health Benefit Exchange premium costs.