



# Fiscal Outlook 2018-22

Board of Directors Meeting  
November 6, 2018

# Overview



## Objectives

- Look back at the legislative milestones in addressing McCleary
- Discuss changing interpretations of E2SSB 6362
- Review the updated long-range projection
- Reiterate the shortfalls of legislature's response to McCleary
- Emphasize the critical need for early legislative action

## Key performance outcomes

- 4.1.a – Long-term planning in finances, staffing, technology, and facilities are intentionally and systematically driven by student enrollment, learning measures, and strategic priorities.
- 4.1.b – A minimum fund balance of five percent is maintained in the general fund.

## Board goal

- S.3.a – Establish budget priorities to align with strategic priorities, State of School Review priorities, and legislative mandates.



# Legislative milestones

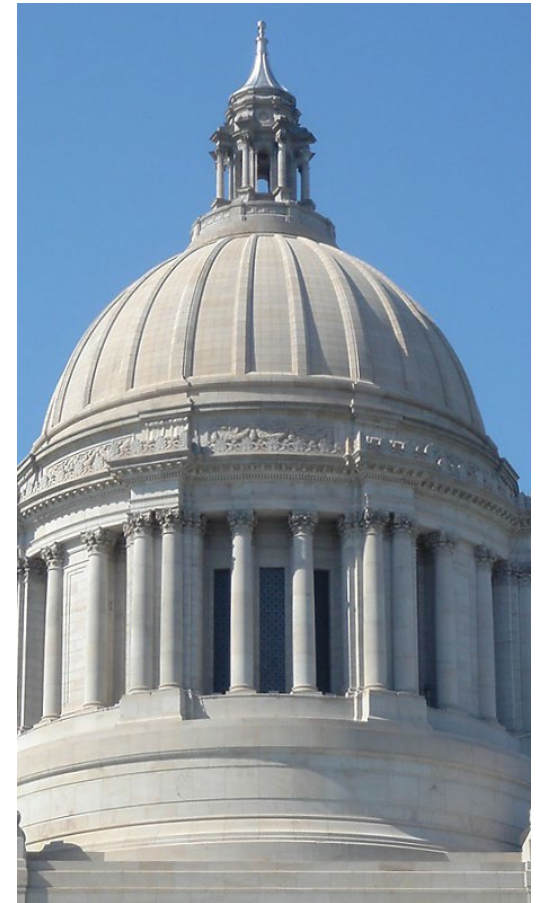


# Legislative milestones 2007-16



## McCleary vs. State timeline

- **2007**: Network for Excellence in Washington Schools (NEWS) files McCleary vs. State
- **2009**: State adopts ESHB 2261 and SHB 2776 defining a framework and timeline to fund K-12
- **2012**: Supreme Court ruled the State “has consistently failed” to provide the ample funding of K-12 and sets 2018 deadline
- **2012-16**: State makes continued investments in all-day K, K-3 class size, transportation, and operating costs, but ignores compensation



# Legislative milestones 2007-16



## State met SHB 2776, ignored compensation

- 2010 bill intended to mitigate McCleary
- 2012 McCleary decision required State to fully fund compensation

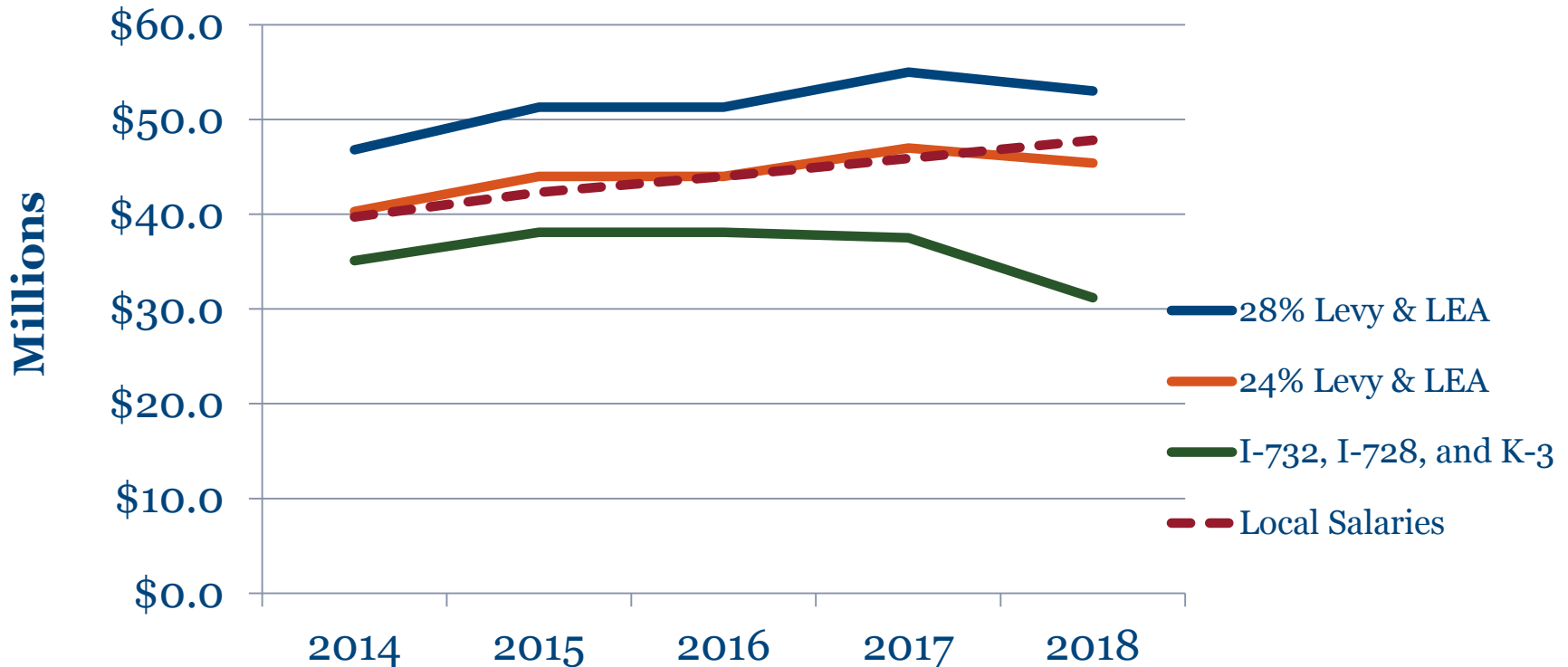
	School Year	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
1	<b>Full-Day Kindergarten</b> Must be fully funded statewide by 2017-18 Phase-in based on FRPL	219 Schools	More funding <i>can</i> begin	More funding <i>must</i> begin	Continues to ramp up	Continues to ramp up	Continues to ramp up	Continues to ramp up	Fully Funded
2	<b>K-3 Class Size Reduction</b> Must be fully funded statewide by 2017-18 Phase-in based on FRPL	\$0	More funding <i>can</i> begin	More funding <i>must</i> begin	Continues to ramp up	Continues to ramp up	Continues to ramp up	Continues to ramp up	Fully Funded
3	<b>Materials, Supplies, Operation Costs (MSOC)</b> Must be fully funded by 2015-16 \$ per student basis		More funding <i>can</i> begin	More funding <i>must</i> begin	Continues to ramp up	Continues to ramp up	Funded at new level	Funded at new level	Funded at new level
4	<b>Basic Transportation</b> Must be fully funded by 2014-15 % of formula funded basis		More funding <i>can</i> begin	More funding <i>must</i> begin	Continues to ramp up	Fully Funded	Fully Funded	Fully Funded	Fully Funded

# Legislative milestones 2007-16



## Major concern was impending 2018 “levy cliff”

- 2010 law called for levy cut from 28 percent to 24 percent
- Districts urged legislature to fully fund compensation first



# Legislative milestones 2016-17



## McCleary vs. State timeline

- **2017**: Legislature adopts EHB 2242
  - ♦ Forced a “levy swap” cutting levies up to 50 percent
  - ♦ Eliminated the Salary Allocation Model and staff mix factor
  - ♦ Ignored special education shortfall
  - ♦ Ignored needed “basic education” definition for spending “rule book”
  - ♦ Ignored need for capital construction funds for K-3 classrooms
- EHB 2242 fully funded compensation by **2019-20**
  - ♦ Created regional increases for high cost areas
  - ♦ Capped **2017-18** salaries at 3.1 percent during transition
  - ♦ Loosely defined how levy dollars must be spent
- **November 15, 2017**: Supreme Court continues contempt order for not fully funding compensation by September 1, 2018

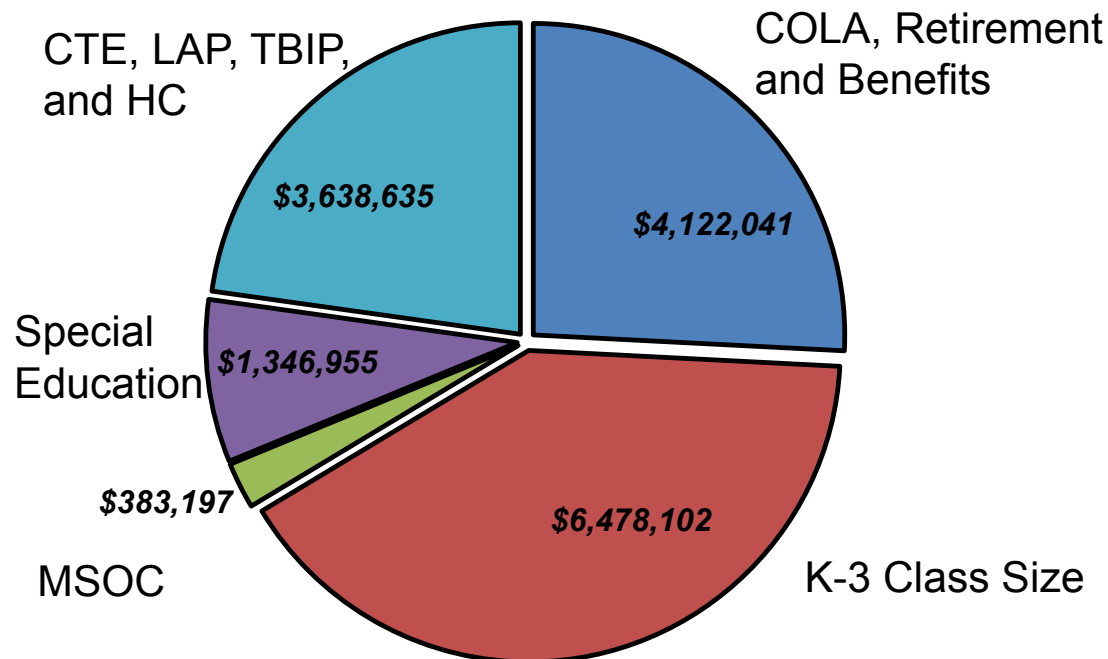


# Legislative milestones 2016-17



## Levy swap undercut district revenues

- Legislature stated intent to hold districts harmless in levy swap
- Legislature assumed all **new revenues** could offset levy cut
- Legislature ignored **most new revenues** had program restrictions
- Program funds have restricted uses and offsetting expenditures
- *Only \$385,000 of the \$15.9 million in 2017-18 could offset levy cut*







# Legislative milestones 2016-17

## Levy swap created new inequities

- Levy authority was redefined to be the lesser of:
  - ♦ \$2,500 per full-time equivalent (FTE) student, or
  - ♦ \$1.50 per \$1,000 of assessed value (AV), with \$1,500 per FTE minimum
  - ♦ State will provide LEA\* of \$557,805 to bring Everett up to \$1,500/FTE
- Everett is capped at \$20 million less than Bellevue
  - ♦ Bellevue (similar FTE to Everett) can collect \$2,500 per FTE

	<i>2018 Projected Assessed Valuation</i>	<i>rate per 1,000</i>	<i>Cap*</i>	<i>per FTE</i>		<i>Student AA FTE</i>	<i>Per student FTE</i>	<i>Cap</i>
Everett	19.56 B	\$1.50	\$29,333,415	\$1,472	Everett	\$19,927.48	\$2,500	\$49,818,700
Bellevue	62.34 B	\$1.50	\$93,506,447	\$4,567	Bellevue	\$20,474.14	\$2,500	\$51,185,350

Source Data: OSPI 2019 F-780

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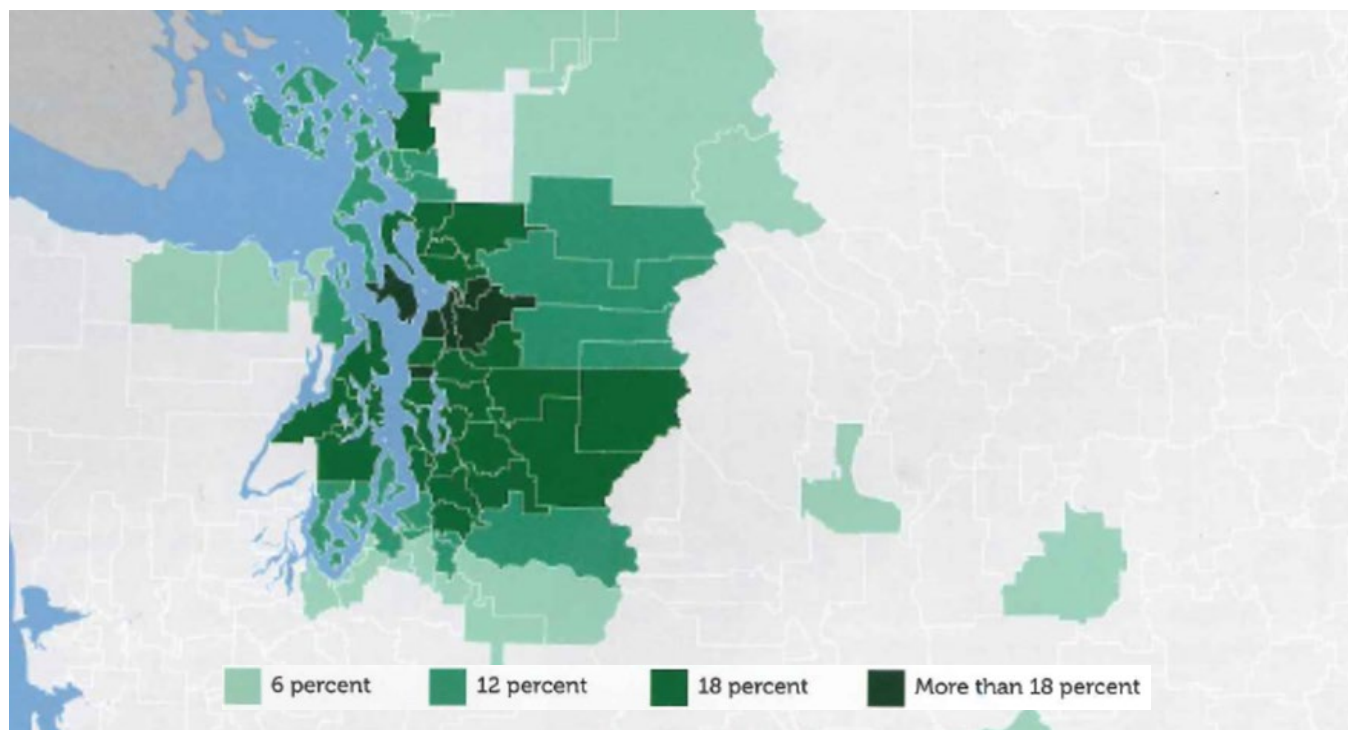
\*Local Effort Assistance ("levy equalization") was created to offset low per student AV.

# Legislative milestones 2016-17



## Regionalization created a structural deficit

- Districts near the King/Snohomish County line were set at 24 percent, then reduced over three years to 18 percent
- Three-year reduction means \$6.7 million loss in today's dollars



# Legislative milestones 2016-17



## Collective impact of EHB 2242

- Significant cut to levy does not keep up with rising local costs
- Cut to 24 percent regionalization exacerbates shortfall over time

(In millions)	2018-19	2019-20	2020-21	2021-22	2022-23
Enrichment Levy/LEA	41.4	30.2	30.7	31.3	32.0
BE CIS – Teachers	(18.2)	(11.0)	(13.8)	(17.3)	(21.0)
BE CAS – Administrators	(2.9)	(1.2)	(1.6)	(2.0)	(2.4)
BE CLS – Classified	(9.0)	(6.3)	(6.9)	(7.5)	(8.1)
<b>Remaining Levy</b>	<b>11.3</b>	<b>11.7</b>	<b>8.4</b>	<b>4.5</b>	<b>0.5</b>
Special Education	(7.1)	(5.3)	(6.7)	(8.1)	(9.5)
Athletics/Activities	(2.7)	(2.7)	(2.8)	(2.9)	(3.0)
Other	(2.9)	(3.1)	(3.3)	(3.5)	(3.7)
<b>Remaining balance</b>	<b>(1.4)</b>	<b>0.6</b>	<b>(4.4)</b>	<b>(10.0)</b>	<b>(15.7)</b>
<i>Regionalization factor</i>	1.24	1.24	1.22	1.20	1.18

# Legislative milestones 2017-18



## McCleary vs. State timeline (continued)

- **2018**: Legislature adopts E2SSB 6362 accelerating compensation increases to fully allocate in 2018-19 and makes exceptions for 3.1 percent cap for step increases and additional time
- **2018**: Legislature ignores inequities of levy formula, definition of basic education, adequate special education funding, salary allocation model, and construction funding for K-3
- **June 7, 2018**: Supreme Court rules end to McCleary vs. State



# Legislative milestones 2017-18



## 2018 session focused on satisfying Court

- E2SSB 6362 provided few changes
  - ♦ Accelerated 2017-19 compensation package to be allocated for 2018-19
  - ♦ Maintained 3.1 percent salary cap for 2018-19
  - ♦ Modestly increased special education funding
  - ♦ Directs OSPI to form a committee on “work day”
  - ♦ Moves up new accounting system to 2018-19
  - ♦ Did not fix levy formula, except for Seattle
- E2SSB 6362 provides for one-time 2019 state property tax reduction of \$0.30 per \$1,000 AV, then increases it by \$0.30 for 2020





# Legislative milestones 2017-18



## Implications EHB 2242 and E2SSB 6362

- Significant influx of funding for 2018-19 that diminishes over time
- 2018-19 levy higher than future years, as cut begins in 2019
- Build up of reserves in recent years to guard against uncertainty has resulted in high fund balances for many districts
- Even with short-term gains, cuts are projected in out years

(In Millions)	2018-19	2019-20	2020-21	2021-22	2022-23
Enrichment Levy/LEA	41.9	32.4	34.5	36.0	37.1
BE CIS - Teachers	(9.1)	(11.3)	(14.1)	(17.8)	(21.6)
BE CAS - Administrators	(0.9)	(1.1)	(1.5)	(1.9)	(2.3)
BE CLS - Classified	(5.8)	(6.6)	(7.2)	(7.9)	(8.5)
<b>Remaining Levy</b>	<b>26.1</b>	<b>13.4</b>	<b>11.7</b>	<b>8.4</b>	<b>4.7</b>
Special Education	(3.6)	(4.6)	(6.1)	(7.8)	(9.5)
Athletics/Activities	(2.7)	(2.8)	(2.9)	(2.9)	(3.0)
Other	(2.6)	(3.2)	(3.3)	(3.8)	(4.0)
<b>Remaining Balance</b>	<b>17.2</b>	<b>2.8</b>	<b>(0.6)</b>	<b>(6.1)</b>	<b>(11.8)</b>
<i>Regionalization Factor</i>	1.24	1.24	1.22	1.20	1.18



# Interpretations of E2SSB 6362

# Interpretations of E2SSB 6362



## 2018-19 preliminary budget development

- Budget development integrated 3.1 percent cap for all employees
- Cap on salaries pushed reserves from \$23.6 to \$34.9 million
- Future years assumed historical increases in salaries and benefits
- Four-year projection showed impact of levy cut and regionalization

General Fund	Budget 2018-19	Forecast 2019-20	Forecast 2020-21	Forecast 2021-22
Beginning Fund Balance	23,588,128	34,917,020	29,813,863	20,767,039
Restricted and Committed	1,702,000	1,702,000	1,702,000	1,702,000
Grant/Categorical Carryover	2,720,000	2,055,000	2,055,000	2,055,000
Assigned to Other Purposes	635,000	250,000	250,000	250,000
Unassigned	18,531,128	30,910,020	25,806,863	16,760,039
Revenues	320,890,135	320,322,076	328,476,772	335,380,740
Expenditures	309,561,243	325,425,233	337,523,596	351,206,665
Ending Fund Balance	34,917,020	29,813,863	20,767,039	4,941,114
Restricted and Committed	3,757,000	3,757,000	3,757,000	3,757,000
Assigned to Other Purposes	250,000	250,000	250,000	250,000
Unassigned	30,910,020	25,806,863	16,760,039	934,114
Ending Fund Balance Percent	11.3%	9.2%	6.2%	1.4%





# Interpretations of E2SSB 6362

## 2018-19 salaries capped at 3.1 percent

- E2SSB 6362 did not provide a COLA
- E2SSB 6362 increased compensation allocation per McCleary for certificated, certificated administrators, and classified staff
- Most group agreements required 2.0 percent or COLA
- All groups were offered an increase up to the 3.1 percent cap
- Transportation contract was increased by 3.1 percent
- Only the EEA contract was open for negotiation

# Interpretations of E2SSB 6362



## WEA announced opposing view of cap

- WEA position was that E2SSB 6362 voided cap for teachers
- School district attorneys disagreed on compensation cap meaning
- Public Employees Relations Commission denied a request for declaratory judgment because all of the necessary parties did not consent to the determination of the matter
- In July and early August, school districts across the state began settling agreements with increases ranging from 10 to 20 percent
- Superintendent Reykdal's statement in an August 22 letter:

*"With no judgment by PERC, we engaged in further discussions with legal counsel, and we continue to believe that the 3.1% salary limitation, cited by some legal opinions that you may have received, is not clearly articulated in E2SSB 6362. The statutory language is ambiguous. "*

- State legislators participated in WEA video emphasizing that new funding was for compensation, not to offset levy cut



# Interpretations of E2SSB 6362



## Final 2018-19 budget projected EEA costs

- State law requires adoption prior to August 31 of each year
- Budget finalized prior to tentative agreement
- Budget not adjusted for other increases above 3.1 percent
- Four-year projection showed impact of levy cut and regionalization

General Fund	Budget 2018-19	Forecast 2019-20	Forecast 2020-21	Forecast 2021-22
Beginning Fund Balance	23,600,000	25,118,840	7,471,806	(7,998,641)
Restricted and Committed	1,702,000	1,702,000	1,702,000	1,702,000
Grant/Categorical Carryover	2,720,000	2,055,000	2,055,000	2,055,000
Assigned to Other Purposes	635,000	250,000	250,000	250,000
Unassigned	18,543,000	21,111,840	3,464,806	(12,005,641)
Revenues	322,525,077	322,695,812	330,971,809	338,011,173
Expenditures	321,006,237	340,342,846	346,442,256	353,928,671
Ending Fund Balance	25,118,840	7,471,806	(7,998,641)	(23,916,139)
Restricted and Committed	3,757,000	3,757,000	3,757,000	3,757,000
Assigned to Other Purposes	250,000	250,000	250,000	250,000
Unassigned	21,111,840	3,464,806	(12,005,641)	(27,923,139)
Ending Fund Balance Percent	7.8%	2.2%	-2.3%	-6.8%



# Interpretations of E2SSB 6362



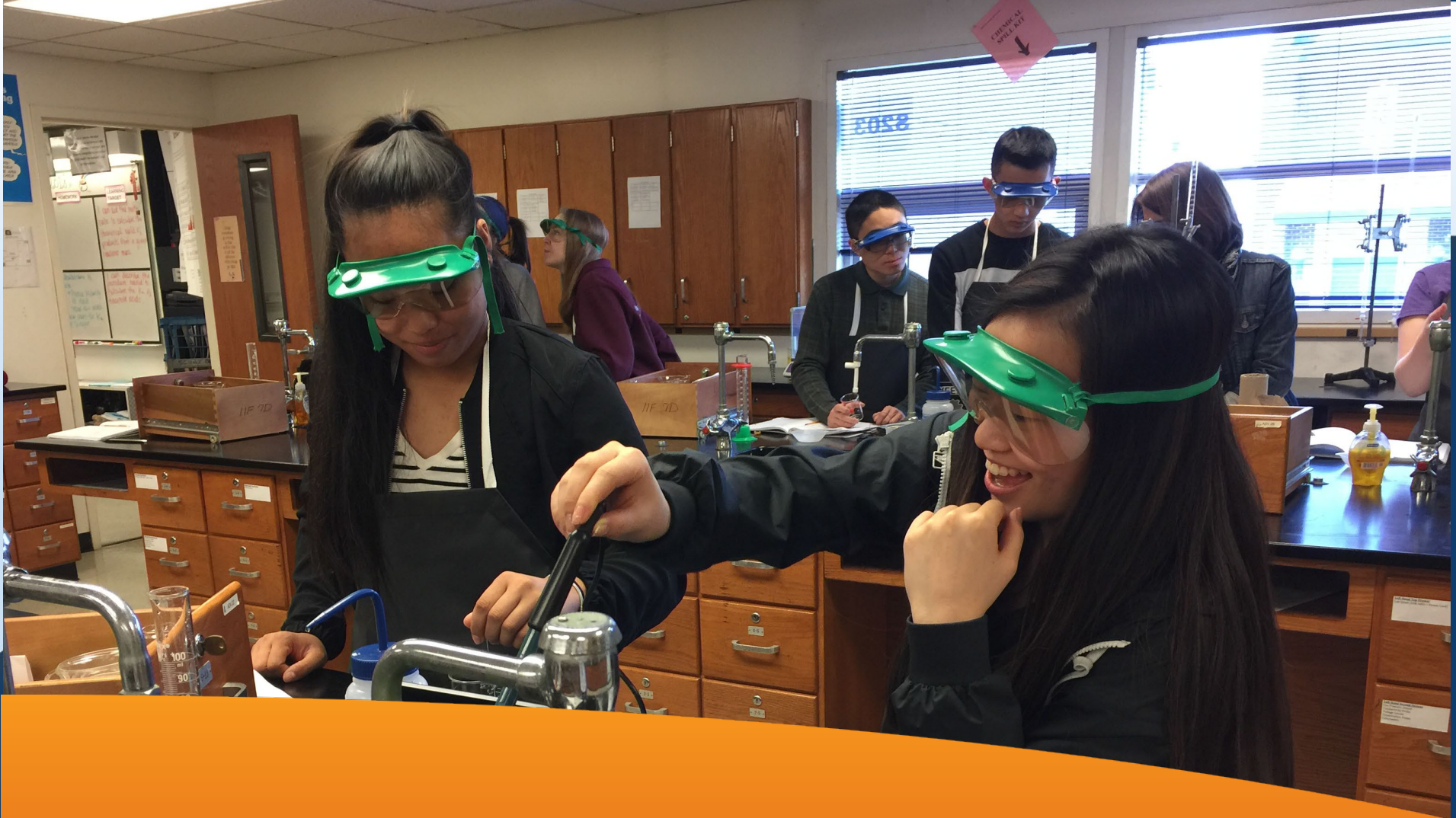
## EEA contract further influenced projections

- Current projections integrate total cost of agreement

Compensation	2018-19	2019-20
Percent increase over prior year	15.5%	2.1%
Dollar increase over prior year	\$20.5 M	\$3.3 M

- Agreement honored state salary minimum and maximum

State fenceposts compared to District BASE (excl. TRI)	Minimum With 24% Regionalization	Maximum With 24% Regionalization
CIS State fence posts	\$50,542	\$113,720
CIS District BASE-no TRI	\$51,000	\$108,923
District BASE over (under) State fence posts	<b>\$458</b>	<b>(\$4,797)</b>



**Updated long-range projection**



# Updated long-range projection

## Assumptions

- Salary and benefit assumptions
  - ♦ Integrates teacher increases per two-year agreement and two percent estimated inflation factor in years three and four
  - ♦ Assumes increases for classified groups over the next two years and two percent estimated inflation factor in years three and four
  - ♦ Recognizes the 3.1 percent cap on administrative staff for 2018-19, then a comparable increase to classified groups in 2019-20, and two percent estimated inflation factor in years three and four
  - ♦ Includes regionalization factor reduction of two percent each year for 2020-21, 2021-22, and 2022-23
  - ♦ Excludes local cost impact of healthcare transition to the School Employees Benefit Board (SEBB) in January 2020
- Includes operational costs for opening Elementary 18
- Assumes K-3 compliance will be required in 2019-20
- Excludes funding increases for areas such as special education



# Updated long-range projection

## Projection

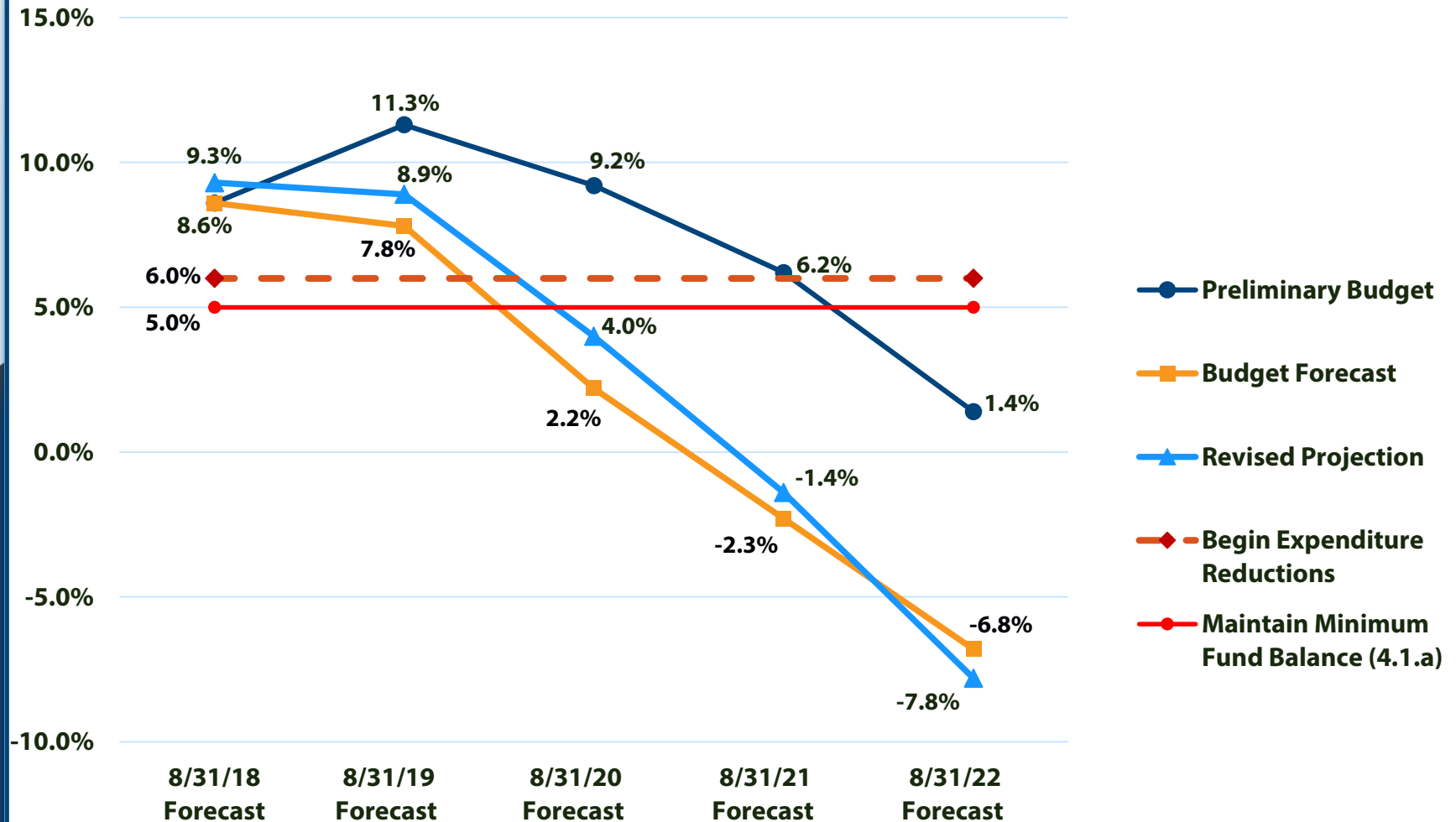
- New projection is more favorable than the four-year budget forecast
  - ♦ Extra teaching positions unfilled due to enrollment projection accuracy
  - ♦ New teachers had *fewer* years of experience than the EPS average
  - ♦ Levy estimate *increase* due to revised county projection for September
  - ♦ *One-time* spike in transportation revenues due to regionalization
  - ♦ Higher categorical funding and staffing timeline for program additions
- Improved 2018-19 projection carries forward into future years
- Projection results in reduction of \$6.5 million for 2019-20
- Several factors can result in an increased or decreased projection
  - ♦ The 2018-19 projection is based on two months of data
  - ♦ Actual salaries and benefits could be above or below those projected
  - ♦ OSPI final rule-making could increase or decrease revenue
  - ♦ State legislature decisions on local impacts of SEBB affects costs
  - ♦ Final assessed value of district property will affect levy revenue
  - ♦ 2019 legislative outcomes will affect both revenue and costs





# Updated long-range projection

## Current projection without levy fix





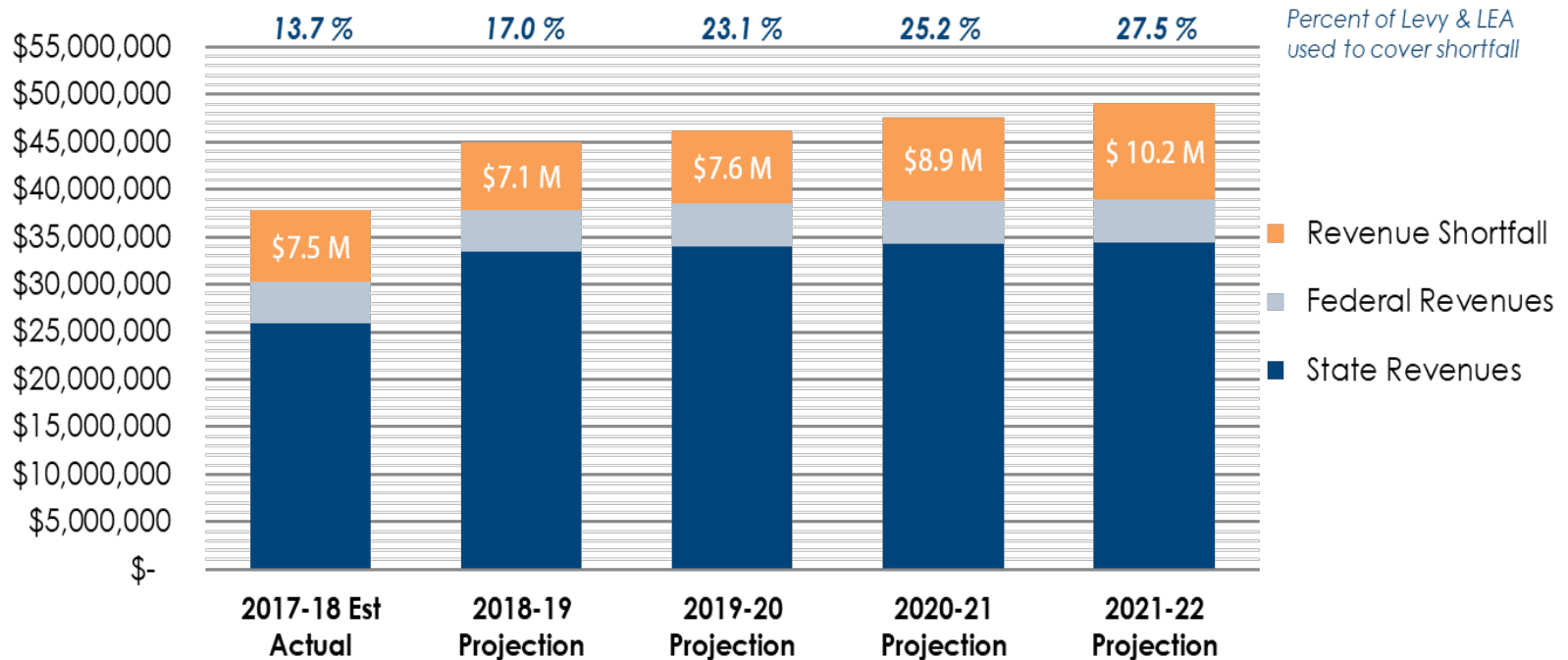
# Legislative shortfalls

# Legislative shortfalls



## Special education shortfall continues

- Projected funding shortfall declines some, then grows to \$10.2 M



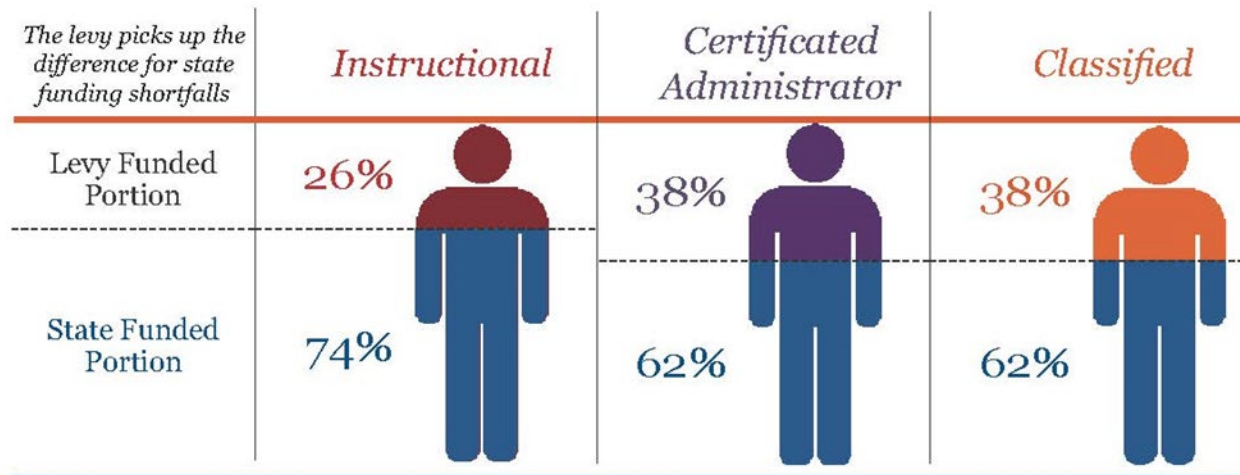
# Legislative shortfalls



## 2015-16 Salary reliance on local levy

- Reliance on local levies was found to be unconstitutional by Court
- McCleary called for more state funding of compensation
- McCleary did not call for levy cuts

*2015-16 State funding shortfalls by group*





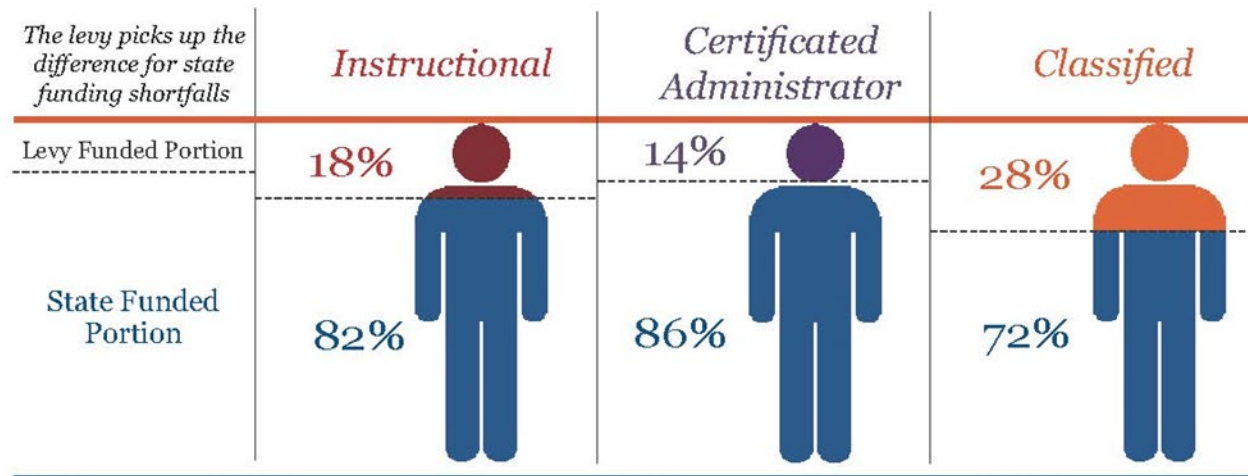


# Legislative shortfalls

## 2019-20 Salary reliance on local levy

- Final year of 24 percent regionalization
- First year of full levy cut to \$1.50 per \$1,000 assessed value (AV)
- Districts near the King/Snohomish County line received a regionalization factor initially set at 24 percent

*2019-20 State funding shortfalls by group*





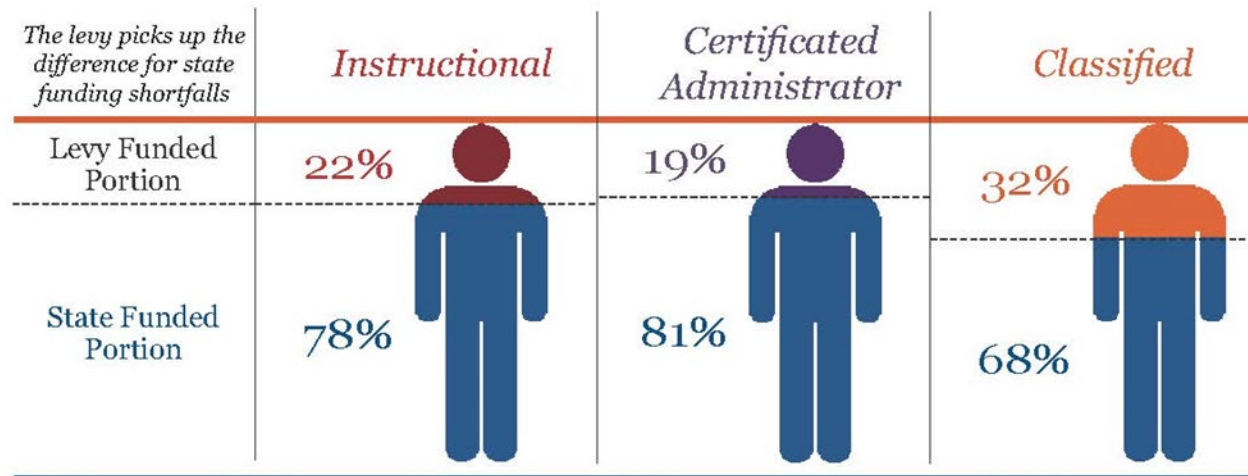


# Legislative shortfalls

## 2022-23 Salary reliance on local levy

- Assumes regionalization cut to 18 percent
- Assumes levy remains at \$1.50 per \$1,000 AV
- Assumes local salaries rise at implicit price deflator or two percent
- Reliance on local levy rises towards Pre-McCleary level

*2022-23 State funding shortfalls by group*

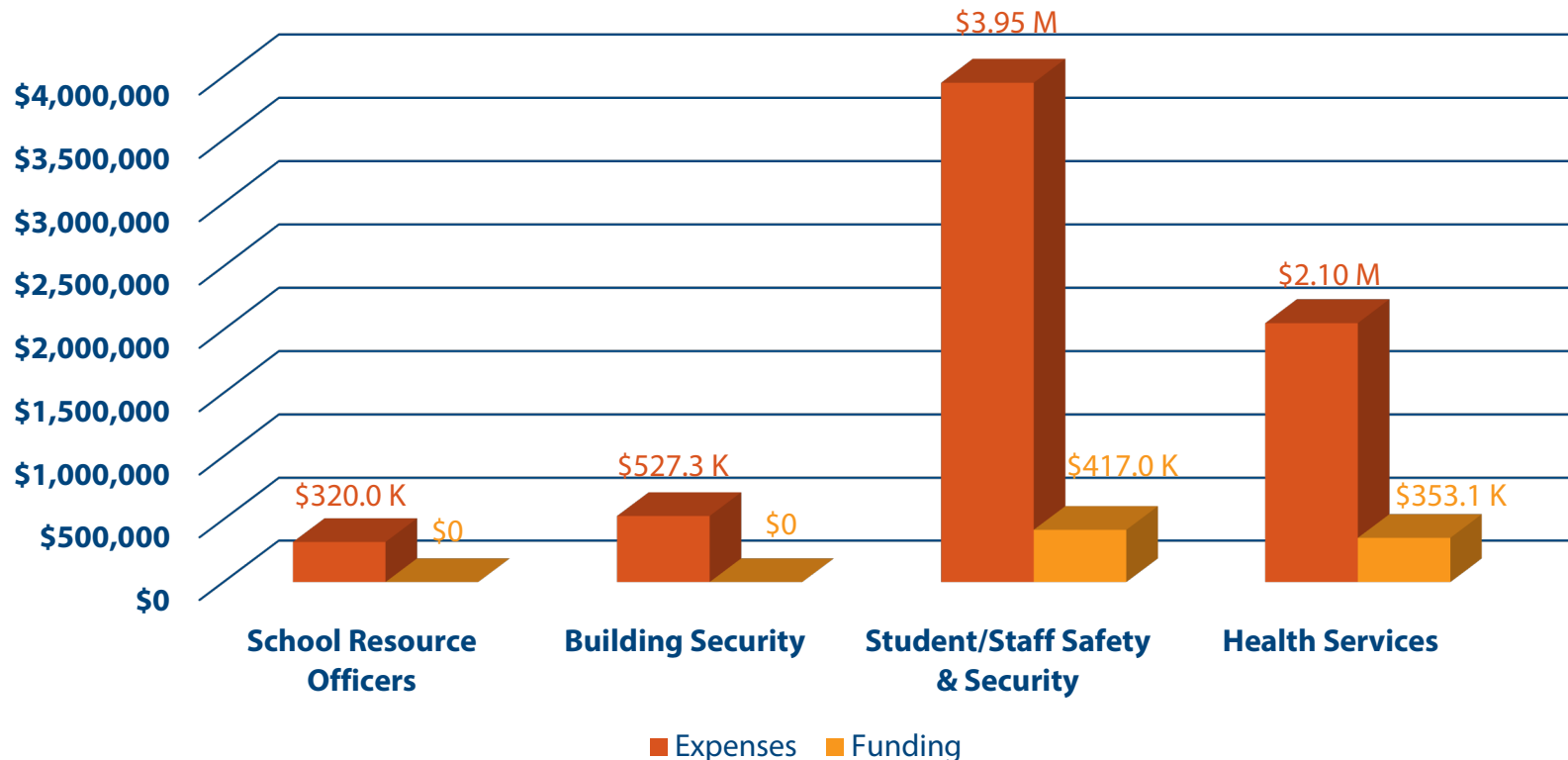


# Legislative shortfalls



## Updates to prototypical school model

- Model created eight years ago does not fund actual operations
- Essential areas such as school safety, security, and health services are significantly underfunded





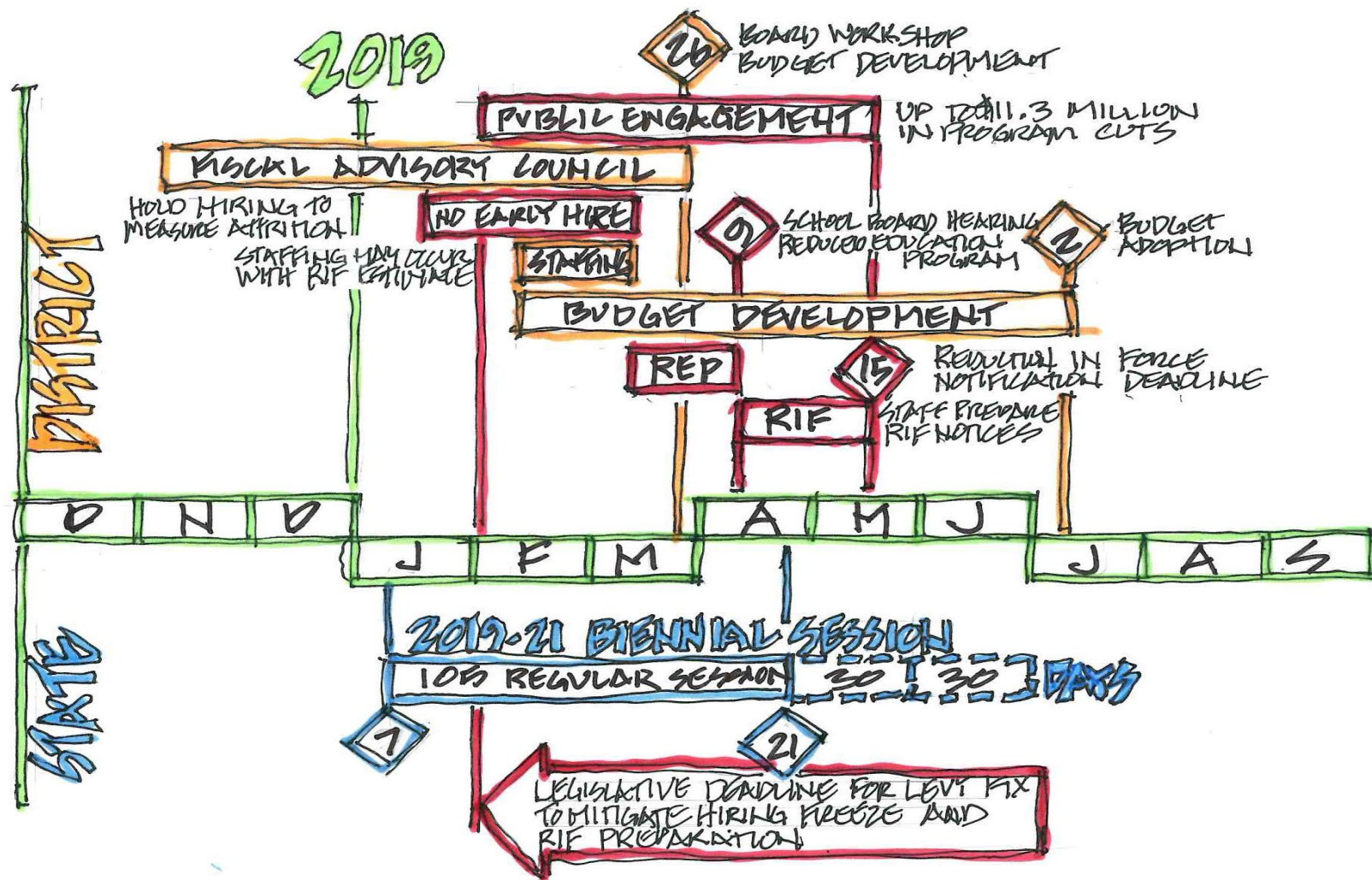
**Need for early legislative action**



# Need for early action



## Legislative fix to levy in January is critical





# Questions