To: Interested Parties  
From: Representative Bill Fromhold, Chair, House K-12 Finance Workgroup  
Date: December 2, 2004  

Subject: K-12 Finance Workgroup Report Letter of Transmittal  

Attached you will find the final report of the House K-12 Finance Workgroup.  

There has been growing pressure in recent years to take a close look at our K-12 finance system, and that pressure has come both from outside the Legislature and more recently from legislators themselves. The House passed a K-12 funding study bill (HB 2955) in the 2004 legislative session, but we could not convince our colleagues in the other chamber to go along with us. Acknowledging that the issue could not be put off yet another year, the House consequently decided to form an interim bipartisan K-12 Finance Workgroup to take a first step in examining our education funding system.  

As Chair, I asked that the Workgroup keep a tight focus on a single question: Is our funding system consistent with our education policies? The basic structure of our funding system - a staff unit funding model with additional funding for special needs coupled with limited local tax authority - was created in 1977. Much has changed since then – most importantly, education reform was enacted in 1993. As a first step in examining the linkages between our finance system and our education policies, we needed to ask whether the basic finance structure still works or is an entirely new approach needed.  

The Workgroup concluded that the basic finance structure is sound to the extent that it is driven by student enrollment and staffing ratios, and attempts to address special needs. We also acknowledged, however, that there are structural flaws in our state funding formulas that need to be addressed. The areas identified are the compensation system, the Special Education funding formula, the Student Transportation funding formula, the Learning Assistance Program funding formula, and grandfathered local levy limitations. Further, the Workgroup acknowledged that more needs to be done to better link our finance system to our outcome-based policies.  

It should be noted that the Workgroup did not address the issue of adequacy: Are we providing enough money in the right ways to bring all students up to the standards we have set? As we move to the next phase in our review of the K-12 funding system, which will be addressing the identified structural deficits in our current system, the question of adequacy will naturally follow.
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INTRODUCTION

The operating budgets proposed by the House of Representatives in the 2003 and 2004 legislative sessions included funding for a study of this state’s K-12 finance system. In addition, the House passed legislation (HB 2955) in 2004 that called for a K-12 finance study. None of these measures was adopted by the Senate. As a result, members of the House convened an internal workgroup to begin to review K-12 finance issues. The House K-12 Finance Workgroup was organized after the end of the 2004 legislative session as a bipartisan effort to examine the structure of Washington's K-12 finance system. Membership on the Workgroup consisted of eight Democrats and eight Republicans. (See Appendix for membership list.)

The Workgroup adopted the following purpose statement: "To acquire a foundation of knowledge that will allow the Legislature to address the question of whether our K-12 education finance structure is consistent with the state's education policies, including the goals of education reform."

Over the course of four meetings, the Workgroup was briefed by staff from the Legislature, the Office of the Superintendent of Public Instruction, the Office of Financial Management, and the Professional Educator Standards Board. Presentations were also made by national K-12 finance experts affiliated with the University of Washington’s School Finance Redesign Project. (See Appendix for meeting agendas and list of presenters.)

Four school district superintendents were invited to speak to the Workgroup. Each of the selected districts has average or above average rates of poverty among their students, yet the district's average scores are above the statewide averages in most categories. The districts were also selected to represent a range of district types: large, medium and small; urban, rural and suburban; and in Eastern and Western Washington. The superintendents of the Spokane School District, the Napavine School District, the North Thurston School District, and the Federal Way School District were asked to address two sets of questions:

• What are the strengths and weaknesses of our K-12 funding structure from a district perspective? What works well and what would you change?

• How has your district directed and used available resources to increase student achievement? What strategies have worked well? What have been the obstacles to using resources to increase student achievement?

Their comments, which helped inform the Workgroup's conclusions, can be found in the Appendix.
In its final meeting, the Workgroup concluded that our K-12 education finance structure is fundamentally sound in that it is responsive to student enrollment and to different characteristics of students. However, the Workgroup also identified a number of weaknesses in the funding formulas and found that more could be done to better align the funding structure with our education policies.

This document begins with the conclusions adopted by the Workgroup. Following those conclusions is a summary of the presentations made to the Workgroup. The purpose of the summary is to provide background and context for the conclusions.
PART I: CONCLUSIONS ADOPTED BY THE K-12 FINANCE WORKGROUP

The Workgroup adopted the following conclusions at their July meeting:

We find that the general approach of our K-12 funding framework is structurally sound. The focal point of our finance system is student enrollment, which is consistent with our standards-based education policies. Whether schools are teaching from an input-based policy framework or a standards-based policy framework, state funding must be allocated to districts in a consistent and equitable manner that attempts to recognize the basic costs of educating all students as well as the additional costs of educating special needs populations such as special education students, English language learners, and students needing remedial help. Our system does that.

There are, however, a number of weaknesses in our funding formulas that need further consideration, and more could be done to better align the funding structure with our education policies. Accountability measures have not been incorporated into our funding system. The funding formulas provide neither incentives for achievement nor disincentives for failure. Although some help is provided to struggling schools through education reform grant programs such as focused assistance and math helping corps, these programs are not available to all districts similarly situated, and they have not been integrated into our definition of basic education funding. Our funding structure does not encourage teaching in hard-to-serve schools or difficult-to-fill positions such as math and science, nor does it recognize cost-of-living variations among regions in the state. Our state teacher compensation system does not reward student achievement, or, except for the bonus for National Board certification, excellence in teaching. Although limited funding for mentoring is included in a few grant programs, the state compensation structure itself does not reward mentoring.

According to national K-12 finance experts, the art of linking finance structures to student achievement is relatively new, and knowledge about how to do this effectively and efficiently is limited. Over the next couple of years, the University of Washington’s (UW) School Finance Redesign Project will examine how finance structures can be better linked to student performance and how money can be used more effectively to support student achievement. Washington is one of four states in which field work will be conducted. Given the constraints of limited time and resources, the Workgroup defined finance structure narrowly, concentrating on the mechanisms and formulas used to allocate state money to districts and those used to allow and limit local revenue enhancements. But funding structure can be conceived much more broadly to include the rules and regulations that accompany the dollars the state sends to districts as well as the decisions made at the district and school level in the use of the dollars. The UW’s study will use this broader definition of finance structures, thus adding depth and breadth to the knowledge acquired through the Workgroup. The UW study is the most comprehensive ever undertaken on education
funding adequacy, and its findings regarding linking finance structures to student performance will add substantially to existing knowledge. We should follow their progress closely over the next few years.

**Next Steps**

Based on the Workgroup’s overview of state education funding formulas and structures, the following areas have emerged as warranting further structural review leading, potentially, to revisions.

**Teacher Compensation**

Although knowledge of how to link finance systems with student performance is limited, teacher compensation is the one aspect of education finance that researchers agree is crucial. According to national education finance experts, the level and structure of teacher pay are key to providing a quality teacher in every classroom and accomplishing the goals of standards-based education reform. Additionally, as staff from the Professional Educator Standards Board demonstrated, the state salary allocation schedule is not aligned with the system of professional development and certification put in place in the last few years. While the new professional development and certification process affects only about 8,000 teachers currently, that number will continue to grow as new teachers enter the system. The Legislature should establish a process to evaluate a new teacher salary structure that is aligned with our standards-based policies as well as our certification and professional development policies. Consideration should be given to including factors that take into account market forces such as regional cost-of-living differences and teaching in hard-to-serve schools and in difficult-to-fill positions such as science and math; that provide additional incentives for mentoring and for increasing student achievement; and that encourage and reward professional development through knowledge- and skills-based pay.

Thirty-four of our 296 school districts receive higher salary allocations for teachers because the state stopped short of fully equalizing district salaries in the late 1980s. In evaluating a new teacher compensation system, care should be taken to ensure a rational basis for differences in state salary allocations. Additionally, the “average” salaries used to allocate funding for administrators and classified staff are based on specific district practices in the 1980s, differ substantially from district to district, and are unrelated to actual current salaries. More equitable mechanisms for allocating state funding for administrator and classified salaries should also be evaluated.

**The Special Education Allocation Formula and the Safety Net Process**

There is a very active public debate taking place over both the adequacy and the structure of our special education funding formulas and our safety net process. This is a large, complicated, and frequently emotional topic. The Workgroup focused on learning about the basic mechanics of how the state provides special education funding to districts. In the
process it became apparent that a number of issues warrant further consideration. These issues include such things as the efficacy of the safety net process; the potential lack of equity as well as adequacy resulting from allocations based on presumed average costs versus an approach that recognizes varying costs based on disability criteria or Individual Education Plans; the methodology districts use to report their special education expenditures; and whether it is possible to objectively distinguish between costs arising from factors within the districts’ control and those arising from factors beyond the districts’ control. The Legislature should conduct an in-depth examination of the entire special education funding structure to ensure it is sensitive to the changing demographics of the population served.

**The Student Transportation Funding Formula**

The state student transportation allocation formula was developed in the early 1980s based on the practices and costs of a small number of districts, and it has not been re-examined since. Districts have told us that the student transportation formula over-compensates some districts and under-compensates most others. The Legislature should examine whether the student transportation allocation formula equitably and adequately funds student transportation. It should consider whether the per-mile per-student allocation rate, which has been adjusted only by inflation and legislatively authorized compensation changes since the early 1980s, adequately reflects current compensation, fuel, and other operating costs. It should ask whether advances in technology have made it possible to base allocations on actual miles rather than on weighted straight-line miles. The Legislature should consider whether education reform policies have changed transportation demands on districts by requiring or encouraging such things as high school community service field projects and extended-day programs. And finally, the system for reimbursing school districts for purchasing buses should be re-examined, and consideration should be given to using mileage depreciation rather than calendar depreciation.

**The LAP Allocation Formula**

Under our current Learning Assistance Program (LAP) formula, 90% of state remedial education funding is based on norm-referenced test scores (not on WASL scores) and 10% is based on poverty. A bill enacted in 2004 requires the state to allocate half of the money based on assessments and half on family income factors beginning with the budget we will write in 2005 for the 2005-07 biennium. Within those basic guidelines, many decisions will have to be made, such as whether to switch to using WASL scores, what measure of poverty to use, and whether there should be hold-harmless provisions. Research tells us there is a strong correlation between poverty and low student achievement. Districts have told us that it makes little sense to take money away from districts that are able to improve their test scores when the underlying challenges posed by high rates of poverty have not gone away. As the new LAP funding formula is developed, using poverty as the sole funding driver should be re-examined.
Grandfathered Levy Lid Districts

The levy lid for most districts is 24% of state and federal revenues. Ninety-one districts, however, have been grandfathered at higher percentages, up to a high of 34%, which allows those districts to raise more in local levies. Districts that are able to take advantage of the higher levy capacity can use these dollars for higher supplemental salaries and enhanced programs, creating disparities among neighboring districts. It is time to re-examine the grandfathered levy lids, keeping in mind the key role played by levy equalization in maintaining an equitable funding system.
PART II:
BACKGROUND

K-12 FINANCE AND THE STATE CONSTITUTION

The Constitutional Obligation

Article IX, section 1 of the state Constitution states that it "is the paramount duty of the state to make ample provision for the education of all children residing within its borders[.]" Section 2 of Article IX requires the Legislature to “provide for a general and uniform system of public schools.”

K-12 Finance and the Courts: The Two Major Decisions


The case known as School Funding I resulted from widespread levy failures in the mid-1970s. The Seattle School District sued the state in Thurston County Superior Court, and in early 1977 Judge Doran found that the state had neither defined nor fully funded basic education. The court directed the Legislature to adopt appropriate legislation, but declined to order specific relief. The Legislature enacted the Basic Education Act (BEA) and the Levy Lid Act the same year.

In 1978, the state Supreme Court affirmed Judge Doran, holding under Article IX of the state Constitution that all children residing within the state's borders have a right to be amply provided with an education, and that this right is constitutionally paramount and must be achieved through a general and uniform system of public schools.

The state complies with this mandatory duty only when it makes ample provision through regular and dependable tax sources. Excess levies are not "regular and dependable" tax sources, because they vary from year to year and district to district. The Legislature may authorize use of excess levies only for "enrichment" programs that the state is not required to support under its basic education obligation. The state may not cause districts to fund basic education with local levy funding.


School Funding II arose in 1982, after the Legislature attempted to recede from a funding level established in an earlier budget.

School Funding II stands for two chief propositions: First, once the Legislature has defined and fully funded basic education, it may not reduce that level of funding, though presumably
the Legislature retains the right to revise the content of the basic program of education. Second, items within the state's definition of basic education are not restricted to the formulas and ratios found in the BEA statutes. Instead, the court will look to the statutory programs and services to which all children are entitled.

In holding that the state's K-12 funding obligation includes more than General Apportionment, Judge Doran reasoned that the constitutional basic education obligation also includes the statutory programs of special education, bilingual education, remedial education, some--but not all--pupil transportation, and vocational education, on the ground that these statutory programs were necessary for at least some children to access the basic education program.

**Lessons Drawn from the Court Decisions**

- As the “paramount duty” of the state, K-12 education takes precedence over other state spending. Because K-12 education is a right of constitutional dimension, the separation of powers principles that ordinarily prohibit judicial involvement in the appropriations process do not apply. This means that a court may order the Legislature to make appropriations to fund the statutory basic education definition.

- The Legislature has not only the right but the duty to review, evaluate, and revise, if necessary, the education system of the state to meet children’s current needs. To avoid judicially created obligations, the Legislature must continue to assert its constitutional prerogative of defining basic education.

- Although the state is constitutionally responsible for full funding of basic education, the state has delegated day-to-day control over school operations and management to local school districts. In general, basic education funding provided to districts is for allocation purposes only--in other words, subject to certain limits, districts determine how to spend the allocations. Because the state has delegated away its control over these expenditures, it has a strong interest in preserving its ability to prove that it has fully funded its obligations.

- Both *School Funding I* and *II* emphasize the importance of salary costs and staffing levels in meeting the state's funding obligation. "The most significant factors to be considered in determining the funding used are the staff ratios and the related salary costs." The state must fund "salaries necessary to assure local school districts the ability to hire and retain competent staff."

- Courts are willing to recognize basic education “accretion” through legislative enactments; at the same time, courts are willing to scrutinize declarations that a program is basic education, and to weigh those declarations against previous judicial constructions. For this reason, incorporation of any new item or principle into the basic education definition should link the requirement to a substantive component
of education. Additionally, the court has not expressly determined what sort of findings or studies would justify legislative revisions to basic education definitions and formulae.

- Washington has not faced a true “general and uniform” lawsuit in recent years, because the BEA promotes funding equity.

**Education Policies**

**Overview and Policies in Place Before 1977**

Washington has a decentralized public education system made up of separate school districts, each controlled by locally elected school boards. The Superintendent of Public Instruction is a constitutional officer with oversight of the system, however the management of each district is determined by its local board. The state has partnered with the school boards by providing a portion of each school district's funding and through general laws that attempted to provide some overall guidance on the minimum level of instruction or service that should be available to students within each district.

Before the passage of the Basic Education Act of 1977, legislative guidance was relatively general. All districts were required to teach a set of common subjects, provide physical education, and ensure that all graduates had studied the state and federal constitutions, history, and government. In addition, school districts were required to create student learning objectives and to provide standardized testing to all students in grade four and to a sample of students in grades eight and eleven. Accountability was provided primarily through the electoral process. Local voters approved school levies and bonds and elected the local school boards.

**Basic Education Act and the 1980s**

With the passage of the Basic Education Act of 1977, the state took on an enhanced role in the funding and control of the system. The law included goals for the skills students needed to learn in school and requirements for providing minimum levels of instruction in various subjects, a school year of at least 180 days of instruction, and a minimum of 25 hours per week of direct classroom instruction for classroom teachers. It also included a list of duties required of classroom teachers and school board members. For the most part, these additional duties were based on instructional responsibilities or student services, also called "inputs."

For the next 14 years, the state tried to strengthen the educational system through studies and enhanced requirements for high school graduates and new teachers. Standardized testing, in which students were compared to their peers across the country, was required for fourth, eighth, and eleventh grade students. New programs were created, such as the Transitional
Bilingual Program for immigrant students and the levy equalization or Local Effort Assistance Program for school districts. Through another new program called Running Start, high school juniors and seniors were permitted to attend college and earn dual high school and college credit for college level work. State and national studies suggested that more dramatic changes were needed to ensure that students were getting the same education quality offered to children in other industrialized nations of the world. In response to those studies, Washington began to consider a new approach to educational policy, an approach based on the performance of students rather than the provision of services.

**Education Reform**

During the early 1990s, Washington adopted a series of education reforms through two major pieces of legislation: SB 5953 in 1992 and HB 1209 in 1993. Through these laws, the state moved toward a performance-based education system that included new learning goals, state adopted academic standards, assessments based on those standards, student and school accountability for results, and increased management flexibility for school districts. The learning goals were added to the Basic Education Act. The law also included learning improvement grants for teachers, internship programs for principals and administrators, paraprofessional training, and annual school reports. The law that regulated teacher contact hours was phased out and the law that required districts to offer a specific number of instructional hours by grade level was modified to provide more flexibility. Other laws that require school districts to provide instruction in a variety of subjects and describe the duties of teachers and school boards remained unchanged. The Commission on Student Learning was directed to recommend systems to help struggling students, intervene in unsuccessful schools, and provide awards and incentives for successful schools. Finally, two legislative committees were created, one of which was a fiscal committee charged with recommending a new educational funding formula.

In response to the two laws, academic standards in reading, writing, mathematics, listening, science, social studies, the arts, and health and fitness have been created by teams of teachers, parents, and community members. Tests or assessments (the Washington Assessment of Student Learning, or WASL) are administered to students to help determine whether the students are meeting the state's standards in those subjects. The first assessments were created in reading, writing, mathematics, listening, and science. The assessments are not limited to multiple choice items; instead students are asked to perform tasks that demonstrate higher levels of critical thinking. Public school students at the elementary, middle, and high school levels are required to take the assessments and the results are reported to parents, the community and the state and federal governments.

**School and District Accountability**

In 1999, the state established a template for a new educational accountability system through the creation of the Academic Achievement and Accountability Commission (A+). The Commission was responsible for the identification of schools and districts for rewards,
assistance, or intervention based on how well students perform on state assessments. The Commission was also directed to adopt and revise the levels of achievement that students would have to reach to meet state standards. Finally it was charged with the adoption of goals for improving graduation rates and student success on state assessments. The law creating the Commission did not include any incentive or other consequence for meeting the Commission's goals. In addition, it prohibited interventions in a school or district for academic reasons until a new law is passed permitting such interventions.

In 2001, through the federal "No Child Left Behind Act", a national education accountability system was adopted for all states that receive federal education funds. Through the Act, schools, school districts and the state will be held accountable for student achievement of state standards in reading/language arts, mathematics, and science. The achievement must be measured by assessments tailored to each state's own standards. In addition to assessments in fourth, seventh, and tenth grades, the state is required to add assessments in reading and mathematics in the third, fifth, sixth, and eighth grades. The results of the tests must be reported to the federal and state governments as well as to parents and the community. Test results are disaggregated for subgroups of students, including students in special education, English language learners, low-income students, and students in various racial and ethnic groups. The federal law includes an escalating list of consequences for schools and districts that fail to reach targeted achievement goals if those schools or districts receive federal Title I funding, which is funding designed to help raise the achievement of struggling students. However, only those consequences permitted under state law can be imposed on a school or district.

Student Assistance and Accountability

The 1993 Education Reform Act, HB 1209, included a provision that required high school students to pass the state assessments in order to graduate, but made the requirement contingent upon a future decision by the State Board of Education that the high school assessment system was sufficiently valid and reliable to hold students accountable for its results. In 2000, the State Board adopted a rule that required the graduating class of 2008 to pass the high school assessment in reading, writing, listening, and mathematics, once the Board found that the assessment system was valid and reliable. Science was added to the requirement for the class of 2010. The State Board also increased minimum high school graduation requirements for that graduating class by requiring students to have a high school and beyond plan and to complete a culminating project. In 2004, the Legislature put one of the new graduation requirements into law, the requirement that most students in the graduating class of 2008 pass the reading, writing, and mathematics high school assessment before graduation. The new law, HB 2195, also removed listening, social studies, the arts, and health and fitness from the list of state assessments offered in any grade. Districts are still required to teach all of the subjects except listening, but the way that student achievement in those subjects could be measured was expanded to include classroom-based assessments or other educational strategies. In 2004, the Legislature also revised the Learning Assistance Program, a program that provides assistance to struggling students. It
expanded the program to include struggling high school students, revised the funding formula to include a higher poverty factor, and gave the Superintendent of Public Instruction greater control over the approval of local program plans.

**Summary of Policy Trends**

Before the passage of the Basic Education Act of 1977, Washington's public school system was very decentralized, with most policy and funding decisions made by local school boards. While some oversight was provided by the Superintendent of Public Instruction and some guidance was provided by law, most decisions on curriculum, employment, programming, and services were made by the local boards. With the passage of the Basic Education Act of 1977, the state began a movement toward an enhanced state role in the funding and policy guidance of the state's public schools. The shift in funding responsibility carried with it some regulation of school operations, including a mandatory length in the minimum school year, mandatory instructional hours or seat-time for students, and mandatory contact hours for teachers. It also created more uniformity in the types of instructional services offered to students.

With the passage of the education reform laws in the early 1990's, the state has maintained or perhaps enhanced its role in the policy guidance of schools. The reform laws attempted to shift that guidance from the types of instruction or other services to be provided (inputs) to the type of performance expected of students (results). The laws created state standards in academic subjects and state assessments, WASLs, to evaluate student learning in many of those subjects. The laws also modified or removed some of the previous regulations on seat-time and teacher contact hours. However, many of the laws that were in place before the Basic Education Act, and most of the provisions of the act itself, remain unchanged. For the most part, the education reform laws were added to the previous laws governing public schools.

Today, most of the decisions on curriculum, employment, programming, and services remain decentralized under the control of local school boards. However, the students and school districts governed by those boards face new consequences intended to encourage student achievement through a state accountability system designed for public schools and implemented for high school graduates and a federal accountability system designed and implemented for schools and school districts that receive Title I funds.
K-12 Finance System

Washington State’s 296 school districts are funded through a combination of state, federal, and local sources. In the 2002-03 school year, school districts received a total of $7.3 billion in revenues, 70% of which were from the state, 16% from local property taxes, and about 10% from federal sources (another 4% was from miscellaneous sources). Of the $23.7 billion in the current two-year state general fund and Student Achievement Fund budgets, about $10.6 billion, or just under 45%, is for K-12 education. The K-12 Finance Workgroup focused its efforts on the formulas and mechanisms through which the state allocates money to school districts, although some attention was also paid to federal and local sources of revenues.

Funding for Basic Education Programs

The programs included in the definition of basic education for state budgetary purposes have not changed since the 1983 School Funding II decision identified them as part of the Legislature's definition of basic education. State funding for basic education programs is formula-driven in that the level of funding is determined through calculations that take into account such variables as the number of students, state-funded student-to-staff ratios, and the education and experience (“staff mix”) of teachers. Although the court in School Funding II stated that basic education funding formulas were not set in "constitutional concrete," the constitutional protection for basic education program funding has in practice limited revisions to funding formulas. By contrast, funding levels for education programs not included in the basic education funding category are subject to political bargaining and can be created, changed, or eliminated through the legislative process, just like other areas of the state budget.

The basic education programs, which make up about 88% of state K-12 funding, are shown in Table 1 along with their funding levels and share of total state K-12 spending in the 2003-05 fiscal biennium.
Table 1
State Funding for Basic Education Programs
2003-05 Biennium
Dollars in Millions

- General Apportionment $7,697 72.8%
- Special Education 862 8.2%
- Student Transportation 434 4.1%
- Learning Assistance Program 127 1.2%
- Transitional Bilingual Program 105 1.0%
- Institutions 36 0.3%

Subtotal: Basic Education $9,261 87.6%
Subtotal: Non-Basic Ed $1,313 12.4%
Total State K-12 Education $10,575 100.0%

General Apportionment

Foundational state funding to school districts is provided through the General Apportionment formula. Every enrolled K-12 student generates state funding under the Apportionment formula. The funding formulas for Special Education, the Learning Assistance Program (LAP), Bilingual Education, and Student Transportation, by contrast, allocate additional money to districts based on specific characteristics of students.

The Apportionment funding formula determines the number of certificated administrators, certificated instructional staff, and classified staff for which a district will receive state funding based on the number of full-time equivalent (FTE) students enrolled in the district. For every certificated staff generated through the state formula, an amount is provided for non-employee-related costs (NERCs). The per certificated staff amount provided through the NERC was established in the 1980s and increases with inflation as measured by the Implicit Price Deflator. In the 2003-04 school year, the state provided $8,785 for each state formula driven certificated staff through the NERC.

General Apportionment

State Apportionment Funding in the 2003-05 Biennium:
- $7.7 Billion
- 73% of state K-12 spending.

Average Apportionment Allocation Per Student:
- $4,184 in 2003-04 SY
In addition, the Apportionment formula provides funding for salaries and benefits for formula-generated staff. The basis for the calculation of staff salary allocations differs from district to district. For certificated instructional staff (CIS, which is made up primarily of teachers), the average education and experience of a district’s staff is the basis for the salary allocation. The average education and experience of a district’s CIS is determined by placing each CIS on the state salary allocation grid. (See Appendix for the state salary allocation schedule.) For 34 “grandfathered” districts, however, the salaries on the allocation grid are greater than those for other districts, ranging from 0.1% greater for the Cosmopolis School District (Grays Harbor County) to 6.3% greater for the Everett School District. (A list of the 34 grandfathered districts can be found in the Appendix. Additional background on teacher compensation can be found below.) Prior to the enactment of the Basic Education Act in 1977, there was a large variation in salary levels among districts. The state sought to equalize teacher salary allocations throughout the 1980s by providing higher annual across-the-board salary increases to those districts with salaries below the statewide average. This process was not completed, however, and the state salary allocations for 34 districts remain higher than for other districts.

There are no salary allocation grids for administrators or classified staff. Instead, the basis for salary allocations is actual average district salaries as determined in the 1980s, increased by legislatively authorized across-the-board salary increases since then. In the 2003-04 school year, the allocation for each state-funded certificated administrator ranged from $30,583 for the Evaline School District (Lewis County) to $74,541 for the Skykomish (King County), Harrington (Lincoln County), Columbia (Stevens County), and St. John (Whitman County) school districts. The allocation for each state-funded classified staff ranges from $21,266 for the Damman School District (Kittitas County) to $32,173 for the Seattle School District.

The Workgroup concluded that differences in state allocations for teacher salaries should have a rational basis, and that more equitable mechanisms for allocating state funding for administrator and classified staff salaries should be found.

Special Education Funding

The current state funding formula for Special Education was implemented in 1995 in response to studies conducted by the Office of Financial Management, the Office of the Superintendent of Public Instruction, and the Joint Legislative Audit and Review Committee (JLARC, formerly known as the Legislative Budget Committee) between 1990 and 1995. These studies were undertaken in response to steep increases in special education enrollment compared to total K-12 enrollment. The formula in place at the time of the studies provided funding to districts based on the number of special education students in 14 disability categories. The amounts provided to districts varied based on assumptions about the amount of time spent providing special education services to students in each category. The JLARC
special education enrollment:  
- 0 through 2 years of age: 2,500  
- Ages 3 to 21: 121,800  

State Appropriations 2003-05:  
- $862 Million  
- 8% of total state K-12  

Average state per student allocation, 2003-04 school year:  
- 0 through 2 years of age: $4,520  
- Three to 21 years of age: $3,667  

The Workgroup concluded that the Special Education funding structure needs further examination. Issues to be considered include the efficacy of the safety net process and the equity and adequacy of providing a flat per student allocation.  

For birth to 2 year olds, the special education allocation is 115% of the district’s average per student Apportionment allocation. (Districts have the option of offering special education programs for this age group.) For 3 to 21 year olds, the state Special Education allocation is 93% of the district’s average per student Apportionment allocation. For students age 5 through 21, the Special Education allocation is in addition to the Apportionment allocation. (The district receives no Apportionment allocation for students less than 5 years old.) Formula-driven increases, which are attributable to increases in NERCs and salaries and benefits, are not included in the per student state special education allocation in the 2003-05 biennium. Instead, increased federal special education funding is expected to cover these cost increases.  

The allocation formula provides state funding for special education enrollment up to 12.7% of a district’s total enrollment. Federal dollars are used to provide the allocation for any special education enrollment from 12.7 to 13% of a district’s total enrollment.  

In addition to the per student allocation, the special education funding structure includes a safety net process for districts that can demonstrate extraordinary special education program costs beyond state, federal and local resources. Prior to the 2002-03 school year, state and federal funds were used for safety net awards. Beginning with the 2002-03 school year, safety net awards are made with federal dollars only. Also beginning with the 2002-03 school year, the number of categories for which a district could apply for safety net funds was reduced from four (maintenance of state revenue, percentage awards, student demographic awards, and high cost individuals awards) to one (high cost individual awards).
**The Student Transportation Funding Formula**

The Student Transportation Funding Formula provides allocations to districts based on the number of students transported and the straight-line distances between route stops and schools. For every calculated student mile, a flat funding allocation of $39.43 was provided in the 2003-04 school year. The funding rate was established in the early 1980s and has been adjusted for inflation and state-funded compensation increases since then. Districts receive a state allocation for trips to and from home and school in school buses, passes or tokens used on local transit systems, shuttles between learning centers for instruction mandated by statute, and in-lieu payments made to parents or guardians. The state does not provide funding for field trips, extracurricular trips, extended school day take-home trips, or after school activity take-home trips. The state provides funding for bus stops within one mile of school through a modified allocation formula for grades kindergarten through 5; the state does not fund bus stops within one mile of school for grades 6 through 12.

The state also reimburses districts for school bus purchases based on the lowest bid received on the state bid for a basic bus. Districts must pay for any optional equipment they choose to purchase above the basic bus. Reimbursement is based on the replacement cost and is spread out over the life of the bus as determined for each class of bus by OSPI.

The Workgroup concluded that programmatic, technological, and other changes that have occurred since the student transportation funding formula was created necessitate an in-depth examination of this formula and the bus purchasing reimbursement methodology.

**The Learning Assistance Program Funding Formula**

The Learning Assistance Program (LAP) provides remediation assistance to students functioning below grade level in reading, math and language arts. Districts receive allocations based on student test scores and poverty. The current funding formula provides funding based on the percentage of students testing in the lowest quartile on nationally norm-referenced tests and on poverty as measured by the percentage of students eligible for free-and-reduced-price lunch. About 90% of LAP dollars are allocated based on test scores and 10% on poverty.

During the 2003 and 2004 legislative sessions, proposals were brought forward to change the funding formula, including using poverty as the sole basis for allocating LAP funding.
Legislation enacted in 2004 requires allocating half of LAP dollars based on assessments and half based on family income factors beginning in the 2005-06 school year. The specifics of the formula will be determined through the budget process during the 2005 legislative session. Decisions will include which test scores to use (WASL scores versus norm-referenced tests) and what measure of family income to use.

The Workgroup recommended that the Legislature reconsider using poverty as the sole basis for allocating LAP funding.

Teacher Compensation

State funding for teacher salaries is allocated to districts based on the state salary allocation model which rewards years of teaching experience and education credits. Most, but not all, districts have chosen to adopt a salary schedule exactly like or similar to the one used for allocating state funds. Statutory controls restrict local districts’ ability to vary from the schedule within their base salary contracts. (In addition to the base salary, teachers can also receive supplemental pay for additional time, responsibility, or incentives (TRI). TRI contracts are funded through local levies.)

The state’s approach to teacher salaries is intentionally objective and financially neutral to the districts: Salaries and state funding are based on the objective criteria of time and credits, and districts are not financially penalized for hiring more experienced teachers. Criticisms of the teacher compensation system include the following: There is a lack of recognition of cost-of-living differences among districts; there are no incentives to teach in high-need districts or schools; and, as argued by the staff of the Professional Educator Standards Board, there is a misalignment between the time-and-credits basis for salaries and our increasingly performance-driven system of educator development.

In 1997, the State Board of Education adopted rules establishing a new, performance-based system of educator preparation and certification effective with new teachers beginning in 2000. The purpose of the new system is to ensure that educators can demonstrate a positive impact on student learning. Where the old system confers certificates based on completion of course work and accumulating credits, the new system confers certificates based on demonstrated competencies against uniform standards.

The state salary allocation structure and the old system of teacher certification both reward the accumulation of credits and time. The new system of teacher development, by contrast, rewards demonstrated competencies. This misalignment between the salary structure and the new teacher certification and development system means that the two systems are recognizing and rewarding teachers based on different criteria. While the new professional development and certification process affects only about 8,000 teachers currently, that number will continue to grow as new teachers enter the system.
The Workgroup identified the teacher compensation system as an area that merits further attention and work. Consideration should be given to aligning the salary structure to the new certification system; recognizing regional cost-of-living differences; rewarding for teaching in high-needs schools, mentoring and increasing student achievement; and recognizing professional development through knowledge- and skills-based pay.

Funding for Non-Basic Education Programs

The programs included in the budgetary category non-basic education make up about 12% of state K-12 funding. The non-basic education programs, their funding levels, and their share of state K-12 funding in the 2003-05 biennium are shown in Table 2.

Table 2
State Funding for Non-Basic Education Programs
2003-05 Biennium, Dollars in Millions

- Student Achievement Fund (I-728) $410 3.9%
- Levy Equalization 329 3.1%
- K-4 Enhanced Staffing Ratio 209 2.0%
- Salary and Health Benefit Increases 161 1.5%
- Education Reform Programs 76 0.7%
- Two Learning Improvement Days 54 0.5%
- State Office 23 0.2%
- Statewide Programs/Allocations 19 0.2%
- Highly Capable Program 13 0.1%
- Educational Service Districts 7 0.1%
- Food Services 6 0.1%
- Summer & Extended Day Skills Centers 5 0.0%
- Pupil Transportation Coordinators 2 0.0%

Subtotal: Non-Basic Education Programs $1,313 12.4%

Basic Education Programs $9,261 87.6%
Total - State Funds $10,575 100%

The largest program included in the non-basic education funding category is the Student Achievement Fund. Approved by the voters in 2000 as Initiative 728, this funding stream provides a flat amount for each FTE student ($219 per student last school year and $254 per student in the current school year). Allowable uses include reducing class size, professional development, early learning programs, and extended learning programs.
Included under heading “Education Reform” is $28.7 million that goes to OSPI for the development and administration of the WASL. Also included under Education Reform are the following grant programs:

- $12.1 million for professional development programs for teachers, principals, and superintendents
- $17.8 million for struggling schools, including Focused Assistance, Math Helping Corps, and Reading Corps
- $12.2 million for food and social services programs

Funding levels for these Education Reform grant programs are not formula-driven; instead, the funding levels are determined through the legislative budget process. In distributing these grants to districts, OSPI stays within available funds either by limiting the number of districts that receive a particular grant or by limiting the amount each district receives.

(Levy equalization, the second largest non-basic education program is discussed below.)

The Workgroup noted that although the state provides funding to help struggling schools, funding is not available to all districts similarly situated, and such programs and funding streams have not been incorporated into the basic education funding category.

Local Maintenance and Operation Levies and Levy Equalization

Key to the School Funding I decision was the principle that funding for basic education programs could not be dependent on local excess levies. The Legislature responded to this by enacting the Levy Lid Act of 1977, which limits the amount that can be raised through school district maintenance and operation levies. Where local levy revenues made up 32% of total school district revenues prior to the levy failures of 1975 that precipitated the 1977 school funding lawsuit, they fell to less than 10% of total school district revenues after the enactment of the Levy Lid Act. Since then, local revenues as a percentage of total district revenues have increased slowly but steadily, standing at 15.6% in the 2002-03 school year.

Local levy revenues are capped at the lesser of the district's levy lid or the amount approved by voters. For most districts, the levy lid is 24% of most of the district's state and federal revenues. Ninety-one districts, however, are grandfathered at higher levy lid percentages ranging from just over 24% (24.01% in Bridgeport School District in Douglas County) to just under 34% (33.9% in Kahlotus School District in Franklin County). (See Appendix for a list of the grandfathered levy lid districts.)

M&O Levies and Levy Equalization in Calendar Year 2004

- $1.2 billion raised in local M&O levies by 274 districts
- $164 million allocated to 217 districts through the levy equalization program
Not all districts are able to take advantage of their maximum levy authority. School district levy elections require a 60% yes vote to pass and a district can make no more than two attempts in one calendar year to pass a levy. A double levy failure means the district will have no local tax revenues for at least one calendar year. Of the 177 districts that held levy elections in 2004, three had double levy failures (Napavine and Onalaska in Lewis County and Rochester in Thurston County). Levies can be from one to four years in duration.

The property tax rate needed to raise the maximum amount allowed under the levy lid depends on the district's assessed property values relative to the district's state and federal revenues. Districts with high assessed values relative to their state and federal revenues will have lower property tax rates than district with low assessed values relative to their state and federal revenues. To help equalize local tax rates and thus the ability to raise local revenues, the Legislature created the Local Effort Assistance Program (LEA), also known as levy equalization, in 1987. Districts with above average tax rates receive allocations under the levy equalization program if they pass a local levy. The following table shows the impact of the levy equalization program on school district property tax rates.

### Table 3

**School District Property Tax Rates**  
(Dollars Per $1,000 of Market Value)\(^1\)  
Before and After Levy Equalization Calculations in 2004

<table>
<thead>
<tr>
<th>School District</th>
<th>Before</th>
<th>After</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seattle School District</td>
<td>$1.20</td>
<td>$1.20</td>
</tr>
<tr>
<td>Federal Way School District</td>
<td>$3.18</td>
<td>$2.96</td>
</tr>
<tr>
<td>Spokane School District</td>
<td>$4.46</td>
<td>$3.60</td>
</tr>
<tr>
<td>Sunnyside School District</td>
<td>$10.74</td>
<td>$6.93</td>
</tr>
</tbody>
</table>

The Workgroup determined that the grandfathered levy lids should be reexamined, keeping in mind the key role played by levy equalization in maintaining an equitable system.

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\(^1\) Tax rates in this table are calculated based on 100% of market value. Local tax rates are expressed in dollars per $1,000 of assessed value. The relationship between assessed value and market value varies from county to county. On average, assessed value is about 90% of market value but some counties are as low as 80% of market value and others as high as 99% of market value. Calculating the rates based on 100% of market value eliminates this variation in assessment levels by county and makes possible a statewide comparison of tax rates.
WASL Scores

The discussion of the K-12 funding system takes place against the backdrop of education reform requirements and WASL scores. Beginning with the graduating class of 2008, students will have to meet or exceed state standards on the WASL or pass an alternate assessment in order to graduate. Under the federal No Child Left Behind Act, all students must meet state standards by the year 2014. As the following charts show, although there has been improvement in statewide WASL scores, there are significant differences in achievement levels among racial and ethnic groups.
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House
K-12 Finance Workgroup

Committee Members

Bill Fromhold - Chair (D)
Ross Hunter - Vice Chair (D)
Glenn Anderson - Ranking Minority Member (R)
Gary Alexander - Asst. Ranking Minority Member (R)
Bruce Chandler (R)
Frank Chopp (D)
Don Cox (R)
Kathy Haigh (D)
Kelli Linville (D)
Joyce McDonald (R)
Jim McIntire (D)
Lois McMahan (R)
Sharon Tomiko Santos (D)
Helen Sommers (D)
Gigi Talcott (R)
Rodney Tom (R)
Agendas

K-12 Finance Workgroup

Tuesday, April 13, 2004

1. Legislative Hearings & Ballot Measures: Ethics Considerations  
   Timothy Sekerak, House Counsel
2. The State Constitution and School Funding in Washington: Cases and Lessons  
   Kristen Fraser, Counsel, Office of Program Research
3. The Creation of the Basic Education Act of 1977  
   Denny Heck, Former State Representative
   Suzi Morrissey, Research Analyst
5. Introduction to Washington's K-12 Finance System  
   Calvin W. Brodie, Office of the Superintendent of Public Instruction  
   Jennifer Priddy, Office of the Superintendent of Public Instruction  
   Denise Graham, Office of Program Research

Wednesday, May 12, 2004

1. Special Education State and Federal Funding  
   Calvin W. Brodie, Office of Superintendent of Public Instruction
2. Bilingual Program Funding Formula  
   Jennifer Priddy, Office of Superintendent of Public Instruction
3. Education Reform Funding  
   Jennifer Priddy, Office of Superintendent of Public Instruction
4. Selected Findings of the 1999 JLARC Study on K-12 Finance and Student Performance  
   Pete Bylsma, Office of Superintendent of Public Instruction
5. Teacher Compensation: Overview of Current Salary Structure and Alternative Compensation Structures  
   Julie Salvi, Office of Financial Management  
   Jennifer Wallace, Professional Educator Standards Board

Monday, June 7, 2004

1. The Student Transportation Funding Formula  
   Kristen Fraser, Counsel, Appropriations Committee  
   Allan J. Jones, Office of the Superintendent of Public Instruction
2. The State K-12 Finance Structure from the District Perspective  
   Denise Graham, Staff, Appropriations Committee, Introductions  
   Brian Benzel, Spokane  
   George Crawford, Napavine  
   Tom Murphy, Federal Way  
   Jim Koval, North Thurston
3. Linking Education Finance Structures to Student Achievement - Perspectives from National Education Finance Experts
   
   Jacob Adams, Director of the School Finance Redesign Project at the University of Washington
   
   Janet Hansen, Vice President and Director of Education Studies at the Committee for Economic Development in Washington, DC
   
   Allan Odden, Professor of Educational Leadership and Policy Analysis at the University of Wisconsin-Madison.

Monday, July 12, 2004

1. Discussion on K-12 finance structure.

Presentations can be found at the following website:
Memorandum

June 7, 2004

To: Representative Bill Fromhold, Chair, and Members
   House of Representatives K-12 Finance Work Group

From: Brian L. Benzel, Ph.D.
      Superintendent

Re: Our approach to using resources to accomplish our mission

Attached is an outline of the comments I am presenting surrounding the following questions that you’ve posed to me:

1. What are the strengths and weaknesses of our K-12 funding structure from a district perspective? What works well and what would you change?

2. How has your district directed and used available resources to increase student achievement? What strategies have worked well? What have been the obstacles to using resources to increase student achievement?

These questions are sufficient for a lifetime of doctoral dissertations, but I’m trying to address them in the 20 minutes you’ve allocated to me. Consequently, you’re getting the big picture view; if desired, we can add the details at any level of refinement you desire.

We are making monumental efforts to improve student achievement in the face of structural constraints that often seem to be designed to block our efforts. Aligning the incentives of state policy with the expected results is
important. While structural issues may account for somewhere in the neighborhood of 25% of our issues, insufficient resources to accomplish our task are a major limitation.

As leaders, our shared obligations are to create the conditions wherein success can be achieved for our students. I approach this presentation in the positive belief that we are all trying to provide each student in the system with the reading, writing, and mathematical skills to advance his/her learning in the next stage of their development. My comments and views are offered in that context.

Thank you for providing my colleagues and me with this opportunity to share and learn with you.

cc: Spokane School Board Members
I. Our Context

A. Strategic Plan adopted by the Board provides sponsorship and focus for the work of the schools.
   1. Plan built upon School Improvement Plans
   2. Developed with active involvement of staff and community partners
   3. Central focus of the plan is to align our internal and external efforts on developing the skills for each student to succeed at the next grade level and graduate from high school prepared for post-secondary pursuits in a democratic society.

B. Examples of Key Measures of Success
   1. Sustain student, staff and community relationships as evidenced by climate surveys, community surveys and levy election results
   2. 90% of our students at standard in literacy and mathematics by 2007
   3. High school graduation rates
   4. Balanced budget and positive annual audits

C. Student Achievement Strategies
   1. Alignment of the written, taught and tested curriculum
   2. Professional development and instructional coaching
   3. Use of a variety of classroom based and systems tests to measure student progress
   4. Build the skills of building principals to be instructional leaders
   5. Create inclusive decision-making processes to assure systems alignment and collaborative problem solving
   6. Develop meaningful partnerships with the community and engage them in securing and enhancing local, state and federal funding to accomplish the District’s mission
II. Budget Development Strategies to Support Strategic Plan

A. Budget Development Calendar starts in February
   1. Calculate the cost of current year programs in the future year.
   2. Determine estimate of likely revenue available
   3. Identify budget gap or opportunity for program investments if gap is positive

B. Key district budget decisions must be made in March and April; precede legislative action on the state’s budget
   1. Certificated staffing decisions must be made in March and April to accommodate student scheduling and planning for the next year
   2. Negotiated agreement with teachers and others must be followed
   3. Predicting legislative actions is imprecise at best

C. Mandatory program offerings must be met
   1. Special Education
      a. Flat per student allocation for all students regardless of severity of need is not working---over $5.0 million unfunded mandate in 2004 FY
      b. Enrollment growth in this area combined with overall enrollment decline and the 13% funding lid---326.37 FTE unfunded, $2.35 million
      c. Creates a structural requirement to use levy money to meet legal mandates
      d. Maintenance of Effort requirements prohibit making decisions that improve economies or reduce costs even if services are sustained or improved
      e. The Safety Net process is inadequate to address the quality management requirements to deliver special education services
         i. Not allowed to budget Safety Net money
         ii. IEPs that allow flexible staffing models to avoid wasted time are not funded in the Safety Net process; reduced our application by over $200,000
2. Title I/Learning Assistance Program
   a. Dedicated funding allocated only to eligible schools
   b. Coordinate funding based on poverty levels; LAP penalty for high performance; lose funding when test student performance increases
   c. Alignment of incentives is state structural problem
   d. Comparability requirements of Title I makes it too expensive to extend this strategies that work to improve student performance to non-Title I schools (must extend base funds to all schools)

D. Providing the for the support of teaching and learning
   1. After staffing is defined, budget hearings are conducted with each budget manager.
   2. Mandatory costs of conducting business
      a. Costs we cannot readily control: Legal costs, utilities, elections, audits, insurance, security
      b. Health, safety and security issues
      c. Classified staffing levels: custodians, technology, clerical support
      d. Transportation
      e. Administrative costs are essential, but generally not acknowledged
      f. Supplies, equipment and capital outlay items
      g. Enterprise funds---nutrition services, child care, other services
   3. Programs with high community interests and demand are levy supported
      a. Extra-curricular activities for students (student engagement and relationships)
      b. Maintenance of facilities
      c. Extra staffing to meet unfunded mandates for security, health services, and technology
      d. Levy resources are quasi-discretionary and are being squeezed when fund are reduced for mandatory programs and service levels are not adjusted

E. Summary of Issues to Address
   1. Structural tension in district budget building: Improve learning versus care for physical plant and massive investment in schools?
a. The state allocation models struggle between a distribution strategy and a directing expenditures strategy
b. We cannot obtain the high levels of performance we get with some schools without funding that extends our capacity to all schools

2. Special education structures not reflective of the demands of the law, the requirements of the students and the needs to create proper management practices

3. Inadequate integration of categorical programs and various legal requirements of an employer make sustaining a focus on teaching and learning difficult

4. Levy lid not responsive to the policy decisions of the legislature
   a. Legislative decisions require allocation decisions for levy dollars and weaken the buying power of the levy; community interests not able to be met; erodes support for levy
   b. Salary increase capacity not keeping pace with policy decisions
   c. Levy equalization is essential given the variance in levy lid authority among districts

Attachments

a. Schedule for budget development and community engagement

b. Summary of budget reductions by fiscal year
Building the Budget for Spokane Public Schools: 2004-2005
Budget Preparation Schedule

February 25  School Board Budget Update (2003-2004) and 2004-05 Budget Development Plan

March 16  Administrator Preview of Preliminary 2004-2005 Budget Issues

March 17  Education Association Building Representatives Preview of Preliminary 2004-2005 Budget Issues


April 12  Preview of Preliminary 2004-2005 Budget Issues for Citizens Advisory Committee (CAC) Input

April 12 & 14  Departmental Budget Review Hearings

April 28  School Board Work Session on Development of Preliminary 2004-2005 Budget Solutions

May 5  Staff Budget Forum - 4:00 pm - Chase Middle School Community Budget Forum - 7:00 pm - Chase Middle School

May 6  Staff Budget Forum - 4:00 pm - Glover Middle School Community Budget Forum - 7:00 pm - Glover Middle School

May 12  School Board Work Session on 2004-2005 Budget for Development of Preliminary Budget

May 17  Review of Preliminary 2004-2005 Budget Solutions with CAC

May 26  Preliminary 2004-2005 Budget Presented to School Board

July 9  Proposed Budget Available to the Public

July 28  School Board Adoption of 2004-2005 Budget
Prior Budget Cuts -
The Story Continues

2002-2003
- 6.0
2003-2004
- 9.1
2004-2005 (estimated)
- 5.7

Three Year Total Cuts

Millions

Cuts from 2002-03 and 2003-04

Central Administration/Support Positions Reduced
$ 2.0
Custodial Positions Reduced
0.8
Transfer of Staff to Capital Projects Fund
0.6
Teaching Staff Reduced to Match Student Enrollment
4.0
Library Media Assistants – Eliminated
0.9
Extra-curricular Expenditures Reduced
0.8
One-time Only Compensation Eliminated
2.7
Medicaid Match Expenditures Reduced
0.5
Other Programs Eliminated ( e.g. Traffic Safety, etc.)
2.8

TOTAL PRIOR YEARS CUTS

$ 15.1
## Recommend Budget Balancing Solutions

<table>
<thead>
<tr>
<th>Solution</th>
<th>Dollars</th>
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</thead>
<tbody>
<tr>
<td>Reduce Certificated Staff Further</td>
<td>$3,700,000</td>
</tr>
<tr>
<td>Additional Central Office Reductions</td>
<td>250,000</td>
</tr>
<tr>
<td>Reduce General Fund Travel Further</td>
<td>65,000</td>
</tr>
<tr>
<td>Defer Maintenance of Buildings - Painting</td>
<td>220,000</td>
</tr>
<tr>
<td>Special Ed Reductions - Reduce/Reassign Social Workers</td>
<td>300,000</td>
</tr>
<tr>
<td>Eliminate Proposed Increase in School Supplies</td>
<td>300,000</td>
</tr>
<tr>
<td>Reduce Cleaning - Elementary School Night Custodians</td>
<td>180,000</td>
</tr>
<tr>
<td>Negotiate Change in Automatic Extracurricular Pay Increases</td>
<td>60,000</td>
</tr>
<tr>
<td>Eliminate High School LOC Instructional Assistants</td>
<td>200,000</td>
</tr>
<tr>
<td>Use Some of 2005-06 Host Schools Savings</td>
<td>425,000</td>
</tr>
<tr>
<td>Examine Re-Deploying $200,000 from Middle School HUBS to Focus on Middle School Student Learning Needs</td>
<td>---</td>
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</tbody>
</table>

**TOTAL BUDGET BALANCING SOLUTIONS** $5,700,000
Good morning. I am George Crawford, superintendent of Napavine School District, a position I have held for 15 years. For those of you that don't know, Napavine is half-way between Seattle and Portland on the Interstate 5 corridor, or about 35 miles south of Olympia. We have approximately 650 students, pre-school through 12th grade.

Being invited to address this group in the company of these three other districts is indeed a "heady" experience for a small school superintendent. My peers from these larger districts assure me they get up in the morning and put their pants on the same way I do, one leg at a time. Yet, I am still in awe of the "large school mystique".

I sincerely hope my comments can help this committee to better understand, from a small school perspective, how our K-12 funding structure works with respect to increasing student achievement.

Washington state has approximately 300 school districts. Of those, roughly 200 would be considered small. Please keep in mind that the choices and decisions made in individual districts are going to be based upon those circumstances and views specific to that community and school. The unique factors that make up public schools vary widely throughout the state.

"Achieving Small School Success in Washington State" is a publication available through Northwest Regional Educational Laboratory. This publication identifies some of the advantages small schools have:

- Small numbers facilitate more communications and personal relationships among staff members, board members, parents and the community.
- The school is at the heart of the community.
- School boards are closer to their schools.
- Administrators and staff are closer to school reform issues because there are fewer layers of bureaucracy impeding change. Teachers are accustomed to site-based management, staff collaboration, and the need for flexibility.
* Teachers know their students well. Students may have the same instructor multiple years, and may have siblings who were taught by the same teacher. Relationships with parents have been established over time.
* Students benefit from more personalized instruction. The low adult to student ratio provides for a sense of security.
* Students may experiment with a variety of extracurricular activities and discover unknown talents. Because the student body is small, more youngsters can assume leadership roles and participate in sports, band, drama, chorus and other activities.
* Studies have shown that low-income and at-risk students often perform better in small schools. All students demonstrate lower dropout rates and better attendance.

In putting together this presentation, my biggest hurdle has been to overcome the need to keep my focus on funding structure versus the view that the strength of any effort to improve student achievement has come about because of the people in our district and the efforts made collectively. It is not structure of funding, it is people who make the difference in Napavine.

Small schools often lack the expertise necessary to truly do the best job. My district has overcome much of this through co-operatives:
  a. Lewis County Special Education Co-operative-sharing the hard to find specialists with other small districts.
  b. Lewis County Small School's Vocational Co-operative-Voc. Ed.
  c. Chehalis-Centralia Special Education Co-operative-placement for more severe need students.
  d. Lewis County Substitute Teacher Service.

A major source of support for all small districts in my area is Educational Service District 113. ESD 113 is truly service oriented. In recent years they have been the primary support source for our activities to increase student achievement. Unfortunately, due to budget restraints, what they have been able to provide free in the past will necessitate a fee. I want to emphasize, even though our district has suffered a double levy failure this spring, those services are so vitally important we are budgeting money to insure the help and support will continue.

Other ESD 113 support services include technology, fiscal, state and federal grant application procedures, personnel, and media center.

So, what about the K-12 funding structure? The basic staff funding formula gives us so much for apportionment. Those calculations for administrative support, substitute teachers, non-employee related costs and classified maintenance salaries are among those not sufficient for real costs. Funding only half-time kindergarten classes is an additional problem. The small high school factor does benefit my district, along with the K-4 enhancement ratio.
Categorical funding for specific purposes:

* **Special Education** Unfortunatelly the one-size-fits-all approach poses a difficult problem for small schools. One high cost student can dramatically impact a small school's budget. One student is presently costing about $30,000 above and beyond any revenue due to an appropriate but expensive placement. As I prepared this report I learned of a new four year old, new to our district, with severe health and learning problems. This will be a required service in excess of $20,000.

* **Remediation** For my district, the LAP funding has been critical for basic skills development. Due to the constant changes in funding calculations, the year-to-year planning is problematic.

* **Transportation** The home-to-school calculation is not realistically sufficient. Additional subsidy is necessary. However, the reimbursement for bus purchases through depreciation payments has worked well. It is only when the state changes the plan in midstream that adjustments need to be made.

* **Bilingual programs** Not a part of district programs.

* **Targeted federal funds** Napavine benefits from federal funds in food service, vocational education (Carl Perkins), special education, Title II (reduced class size and staff training), and Title I (remediation in grades 1-6).

A variety of grants have supported increased student achievement:

* **CRS (Comprehensive School Reform)** re-training teachers grades 5-12 to include language arts in all instruction

* **21st Century Grant** support extended learning opportunities for grades K8, alternative school options

* **Washington Reading Corp.** Brings support for elementary reading - Other grants help purchase a walk-in refrigerator, support technology (wiring, software and hardware), all contribute to a need. Without the extra help the activity would not occur or general fund money would have to have been spent.

Limited local levies. In the past three years, Napavine School District has experienced two double levy failures. The most recent failure was by only 15 votes. Since our district has benefitted significantly from Levy Equalization Assistance, the financial loss is even greater.

The district profiles indicate only about 4% of Napavine's revenue came from local taxes for school year 2002-03. What that meant in practical terms is that we laid off three full-time custodial staff, dramatically reduced district support for extracurricular stipends, made parents fund raise for activities, and implemented a pay-to-play fee for sports.

The biggest impact instructionally was the inability to adopt a language arts curriculum that staff had spent two years working on. We waited until the 2003-04 year. Besides not being able to adopt the new materials, we were only able to purchase minimal supplies and materials in other areas. Facility and grounds maintenance was curtailed, a new bus purchase was put off.
Because a double levy failure impacts two school year budgets, our district had not really totally recovered this current year. Now we are struggling with efforts to put together a budget for 2004-05 that will attempt to reflect our priority for improved student achievement. At present, the school board has approved recommendations for budget reductions of $415,000 for our next school year.

I don't see the practices that Napavine School District has implemented as necessarily unique. The school board took the position several years ago that student learning needed to be the priority. Our district is bordered by six other high school districts. Centralia Community College has an aggressive running start program. With choice, alternative schools, and home schooling, we have competition for the students that come to school at Napavine. Somewhere along the way, we decided we could not compete in many areas, especially where money was the source. Instead, we decided we would try and create the most positive atmosphere, or climate, for our students and employees. We've attempted to use research based strategies when making decisions about how to use the limited resources available to us.

We participated from the beginning with OSPI's school reform activities. While we stumbled at first, through the commitment of ESD 113, we have been able to train staff and move ahead with many beneficial practices that have supported the improvement of student achievement.

Specifically, these are some of the things our district has directed and used available resources to increase student achievement:

* All day kindergarten.
* Summer school opportunities for all students.
* After school programs for extended learning.
* Alternative school for grades 9-12.
* Computer assisted learning.
* Investment in extended contract days for certificated staff for training.
* Accelerated Reading program grades K-12.
* Washington Reading Corp.
* WASL Wall of Fame.
* School wide recognition of successful test scores.
* Grade looping first and second grades (same teacher).
* New and remodeled facilities.
* Small class sizes.
* Individualized instructional plan for those students struggling in basic skills.
* All support and remediation programs tied to school improvement plan (LAP, Title I, special education).
* Site based decisions.
* Building level leadership, the principal.
* Modified school calendar to create training time for staff.
* Applications of technology for improved learning.
* District wide testing and student assessment.
* Student portfolios.
* Math/science instruction grades 7-12.
* Adoption of textbooks and other instructional materials.

ESD 113 staff helped implement the Nine Characteristics of High Performing Schools. The results have been focused instruction on key student learnings, we have operated as school wide teams, the district has attempted to identify and address unique needs of school staff, students who need additional help have been identified and given support, positive attitude does matter. We feel we have moved into more of the second order change tier of school improvement. ("Decade of Reform", Jeffrey T Fouts, Seattle Pacific University)

We divided the district's operations into instructional and non-instructional activities. Any non-instructional activities have been scrutinized and where possible streamlined to operate within their revenue source. Where possible, we've identified activities such as extracurricular that are part of the M and O Levy.

Instructional activities are tied to a district Strategic Plan. Each building has a school improvement plan. Within respective buildings, before the go ahead is given for any resources (time or money) the need must be tied to the planning process. As I have referenced before, much of the expertise for the instructional support has come from the ESD 113 staff.

In closing, I fretted all weekend over this report. I am worried you will come away from this review with the impression that all we do is shift the money around and make things work. That is just not the case. All of us have a plan to make our schools a better place for students. Way more than just activities to increase student learning occur in our schools. If we had the luxury to only do that, I can assure you we would show even better performance on test scores.

The last several years in public schools have been like a roller coaster when you look at funding structures and what schools are required to do with those funds. If the funds are in short supply, or non-categorical, we are crowded at the bargaining table. When the money is categorical, while somewhat protected, it may not be in our area that is a need. We really are trying to do what is most beneficial for students and at the same time do it by the rules and laws that are required. It just seems that as each year goes by, it is a little more difficult to make things work. There are a few more required mandates (technology and school reform), a few more fixed costs that go up (utilities, insurance, required fees), and more pressure at the local level from employee groups. Couple all this with a double levy loss.

Thank you for the opportunity to address your committee. Can I answer any questions?
June 7, 2004

To: Representative Bill Fromhold, Chair, and Members  
House of Representatives K-12 Finance Work Group

From: Thomas R. Murphy  
Superintendent

Re: Reflections on Current Structure of K-12 Funding

I appreciate this opportunity to speak with you briefly regarding the several questions before us:

1. What are the strengths and weaknesses of our K-12 funding structure from a district perspective? What works well and what would you change?

2. How has your district directed and used available resources to increase student achievement? What strategies have worked well? What have been the obstacles to using resources to increase student achievement?

Strengths and Weaknesses, What Works Well:

One of the positive aspects of the current structure is that it is “student-driven,” and recognizes a certain funding amount is necessary to accomplish the basic education needs of all students. I don’t believe any other approach makes sense nor would be workable. The current model is predictable, at least as predictable as a District’s enrollment forecasts and decisions made at the legislative level regarding the per pupil allocation.

However, the current structure was implemented as a result of the Doran decisions more than twenty-five years ago, and was designed to fund the Basic Education definition of the time. The current structure does not recognize changes in what many students, parents, business, and school employees now recognize as “basic education.”

Since the Doran decisions, the definition of Basic Education fundamentally changed with the passage of HB1209 in 1993. The funding model developed in 1977 did not anticipate the increased accountability required by the Essential Academic Learning Requirements (EALRs) and the Washington Assessment of Student Learning (WASL) nor has legislation subsequent to HB 1209 substantially revised K-12 funding. In addition the current structure does not recognize the emergence of technology and the requirement that all students now master the basic elements to be successful within the K-12 system and beyond.
The current structure does not recognize the fixed costs of operating a school. For example, the ongoing operating costs for our district to simply open an elementary school are one million dollars. This amount is allocated for such staff as Librarian, Counselor, Principal, secretaries, educational assistants, and custodians. There is also no recognition for security and utilities.

Special Education
The current structure for funding students with special needs does not take into account the severity of the student's disability, and the Safety Net approach is impossible to access if a district, like mine, is meeting the "Maintenance of Effort" standard required.

The shortfall in special education funding in Federal Way School District was $2.8 million dollars in the 2002-03 school year and this number has increased for 2003-04.

The existing safety net system does not address our funding shortfall at all. Beginning in 2002-03 safety net is completely funded with federal dollars, and all state funding was discontinued. What this means on the ground is that those federal dollars are diverted away from local districts. Thus, the current safety net system reduces the amount of federal funding available to Federal Way to meet the costs of providing the necessary special education services.

To make matters worse, Federal Way doesn't qualify for any safety net funds, so we cannot recover any of the federal special education funds that we otherwise would have received but for the existence of the current safety net system.

OSPI provides a worksheet for determining preliminary eligibility for safety net funding (OSPI Safety Net Worksheet A). Federal Way does not qualify for any safety net funding because of the State's maintenance of effort rules. In essence, the District's history of serving high needs students precludes its access to any safety net funding.

We carefully consider the educational programming decisions we make in Federal Way so that we provide appropriate, necessary services without providing "Cadillac" programs. We have successfully proven the appropriateness of our programs in administrative hearings and federal courts.

Any suggestion that school districts do not properly account for general education funding received for special education students is false. The $100 million funding shortfall statewide and the $2.8 million shortfall in Federal Way come directly from the State's mandated, uniform accounting system described to you at the last Workgroup meeting (Forms F-196 and 1077 reporting system). Thus, we are merely stating the amount of the shortfall -- $2.8 million -- based upon the State's own accounting rules.

Additionally, the current structure does not account for the numerous unfunded mandates we work with yearly. Each and every unfunded mandate is cumulative in its effect and erodes the amount of money we have to dedicate directly to student achievement. Many of these mandates may not seem to require a lot of money but, a lot of money or not,
there exists unobservable indirect costs to implement any and all mandates coming from the state or federal government. Federal Way Public Schools has the lowest administrative costs, as a percent of the budget, of any school district serving 3,000 students or more. Every new unfunded mandates makes holding on to this status nearly impossible (Attachment 1).

A very large funding structural problem for my district is the current disparity in state funding for teacher salaries, classified salaries, and administrator salaries. Federal Way is either near or at the bottom of King County districts in state funding for these categories. The loss in state funding for Federal Way Public Schools for 2003-04 is $860,000 (Attachment 2).

**What would I change:**

Redefine “Basic Education” and develop a funding structure that recognizes ALL students must meet state standards in Reading, Math, Writing, and Science, regardless of their special circumstances and needs. The formula must recognize that one size does not fit all.

The structure of the funding formula should recognize the struggle between “efficient” and “effective” with which every district wrestles each year during budget development and make provisions for “fixed costs” of school building operations.

Fund unfunded mandates or eliminate them, or make them optional.

Design a structure for funding students with special needs that recognizes the severity of need, and provides support accordingly.

Address the disparity in funding for staff.

**Used Available Resources to Increase Student Achievement:**

For the past five years we have been clearly focused on literacy for ALL children and are using individual student data to improve student achievement. These data are used to drive resources, tailor professional development and evaluate program effectiveness.

We have filtered all budget requests, staff development programs, and staffing decisions, using the singular focus on literacy. For example, we used the three days provided by the Legislature beyond the one-hundred eighty day contract for teachers, combined with two days supported by our local levy, to provide five days of staff development in reading strategies for every teacher in our district.

We have also aligned our resources with the District’s commitment to reduce the achievement gap. For example, we have created teacher specialists for each elementary and middle school to work with teachers on differentiated instructional strategies and with students below standards. All district staff – ranging bus drivers to classroom

**Federal Way Public Schools**

**Superintendent Tom Murphy**
teachers to principals – received training to help them understand the needs of students from diverse backgrounds.

We have used I-728 funds strategically to lower class size in K-2, implement all-day Kindergarten at most of our schools, provide extended learning opportunities for struggling students, and focused staff development for teachers designed to improve the use of data in increasing student achievement. We have implemented an Accelerated Learning Program for all students who did not pass the seventh grade WASL in reading and/or math within the context of the school day.

Obstacles to Using Resources:

I-728 resources are now being used to supplant both the reduction in the K-4 staff/student ratio from 55.4 to 53.2 per one thousand K-4 students and the loss of the third learning improvement day. The cost of continuing these previously funded programs is about $750,000. The State’s commitment to bringing ALL students to standard must be accompanied by a similar commitment to funding.

Thank you for providing me with this opportunity to share my thoughts with you.
June 7, 2004

Representative Bill Fromhold, Chair, and Members of the House of Representatives
K-12 Finance Work Committee:

Thank you for the opportunity to speak to you regarding the structure of Washington State’s K-12 finance system. I am attaching my comments related to the two questions you have asked my fellow Superintendents and I to respond to. It is my hope that the information shared with you today will encourage you to continue to explore avenues with us to assure each student who exits our school system leaves with the knowledges, skills and abilities to be successful whatever their aspirations for the future might be.

Sincerely,

James E. Koval
Superintendent

c: North Thurston Public Schools Board of Directors
Funding Structure

Two of the major issues facing our K-12 education system today are its funding structure and the adequacy of funds available. The two go hand in hand, and while I will be focusing my comments on the structure today – I do believe that the current structure is an impediment to our ongoing efforts to increase student achievement for all students.

Specifically, I’ve been asked to address the current structure – what works well and what should change. I’ve also been asked to indicate how we have directed and used the resources available to increase student achievement.

So – what works well in the current structure . . . . I believe a component that should continue in the current funding model is the student at the center of the structure. The student currently drives the number of staff – and then indirectly drives the number of classified staff, non employee related costs, etc. Our Transportation, ESL, and Gifted formulas all use students as the driver for funding. This is an important key to the success of the funding structure.

Secondly, the allocation of certificated staff within the funding structure is an important element to maintain. This is an important gauge for a district in determining how many teachers are allocated to provide a child’s basic education.

The first change I would suggest the State make in funding structures is to use the provision of a student’s basic education as the driver of funding. We all have a shared interest . . . the State should provide funding sufficient that all students in the State of Washington can receive a basic education.

A basic education – now, more than ever before – can be defined by looking at the state’s Essential Learnings, Grade Level Expectations and other state standards. These allow us to determine the “what” and “when” of the learning process. And while I continue to believe you should leave the “how” of the learning process at the local level – it is imperative that you start the funding structure with the “what and when” of state expectations.

Our current funding structure includes a “K-4” enhanced ratio. One would hope that this enhancement is related to a review of state standards and the determination that more teacher contact time is required to meet these expectations through grade 4 than in grades 5 through 12. Or was this developed as a way to focus more efforts in lower grades so that less effort is needed in upper grades? It is unclear to me - why is it important for the legislature to designate how many 4th grade teachers vs. 5th grade teachers we employ – and how is that related to state expectations? In short, I believe it would be more important for the funding system to take into account what we need to teach and when we need to teach it in determining the amount of resources provided at the local level.

At the High School level, State requirements include the four pathways, certificate of mastery as well as the expectation that our high schools can prepare a student for a public
education in our local universities. If the state’s definition of Basic Education includes a graduation project, technology literacy, a four year plan, and the opportunity for students to attend a state university – the state must create a funding structure that provides the resources necessary to ensure students have the chance to have these experiences to grow into our citizens of tomorrow.

Finally, there are a few areas where the structure of the system should work, but the system is so grossly under funded that it raises questions about the structure itself. For instance; the structure of the transportation and special education finance systems are reasonable – but they are grossly under funding the responsibility. Using a weighted average mile for transportation and using the number of students as the base for special education are both appropriate funding drivers. The problem with these two systems is the amount of money provided. The transportation funding system only provides roughly 75% of the cost of transporting students to and from school in our district. The special education funding system only provides 77% of the cost of educating these students (if federal funding is included).

**Directing Resources to Increase Student Achievement**

Our district has worked diligently at directing available resources towards activities that will directly increase student achievement. The variables that we believe need to be addressed are time, training and tools. In the areas of time and training – we have worked with our teachers to improve the teaching and learning experience . . . more engaged time at a student’s instructional level should dramatically increase student achievement regardless of the measurement tool. We have utilized our resources specifically to provide teachers and principals with strategies and techniques to move all students forward.

Specifically, we have provided training and strategies to teachers at all grade levels in the areas of writing and literacy. Beginning this summer, our focus will turn to math. We believe that ongoing, sustained investments in training our teachers will pay huge dividends in the future.

As for instructional tools, we continue to seek out instructional materials that are aligned with state learning expectations. We have adopted new writing programs, a new literacy program and are working towards adoption of math materials. Better tools in each program will allow our teachers to use their training and the instructional time to better meet the needs of all our students.

We have used all of our I-728 funds for teachers in the past. Next year, we will use the funding exclusively for teachers in grades 5 through 12 – along with all training associated with those teachers. While these funds are important to us, there is no reason these funds couldn’t be incorporated into an already existing structure. Separate pots of money only create paperwork burdens – and do not lead to increased student achievement.
The largest hurdle we face in trying to utilize our funding to increase student achievement are the reductions in funding for "discretionary" grants. Allocations from the state and federal government are becoming more and more directed in terms of what percentage of each grant can be used for specific activities. These set asides sound good, but in reality they take away from a local district’s ability to determine the "how" of the teaching and learning process and do not take into account the specific needs of our teachers and our students. Finally, the elimination of the flexible education fund hampers our ability to determine what works best for our district and our kids.

In conclusion, I would leave you with the following thoughts:

(1) School districts and teachers can and will find ways to improve student achievement. Adoption of state funding systems that provide adequate and equitable funding to all school districts in the state is vitally important to our continued efforts.

(2) The state should actively seek ways to lift the bureaucratic paperwork requirements from school districts. We spend far too much time and energy on activities that do not directly impact student achievement – and not by our choice.

(3) There is no question whether the funding structures should be re-examined and overhauled. The structures developed should be directly related to the requirements and expectations placed on local school districts – and it must be assumed that a district will not need to pass a local levy in order to meet basic education responsibilities.

(4) And while the current structures are problematic, the real problem is that even the current structures have been under funded since they were first developed. School districts are failing financially due in part to the state’s inability and/or unwillingness to recognize the true costs of education. The state must recognize its responsibility to provide teachers with an appropriate wage and benefit package for their responsibilities and education level. School districts should not be required to pass local levies to ensure funding for a students basic education. Too much is at stake to let 40% of our voters decide whether or not a basic education should be withheld.
### The 2003-04 State Salary Allocation Schedule

#### K-12 Salary Allocation Schedule For Certificated Instructional Staff

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<th>Years of Service</th>
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# The 34 Grandfathered Salary Districts

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<th>District</th>
<th>Base Salaries</th>
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All others: $29,149
The 91 Grandfathered Levy Lid Districts

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