

K-12 Financial Outlook

Why do district finance problems and looming cuts seem deeper and more widespread than in recent years?

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- ▶ **Why do district finance problems and looming cuts seem deeper and more widespread than in recent years?**
 1. In the recent past, how were districts balancing budgets?
 - ▶ 2000-2008: several factors limited the negative impact on local funds.
 2. What is the magnitude of the problem for 2008-09, 2009-10, and 2010-11 school years?
 3. Given the outlook, what are the implications for school finance next steps?

Growth in Local Funds Does Not Match Rate of Cost Increase

- ▶ After “Local Funds” cover basic costs, not much room to cover compensation increases for levy, federal, and I-728 employees
- ▶ Local Funds are typically levy and local effort assistance (LEA) funds
 - ▶ Include Federal and I-728 in this analysis
 - ▶ Common elements: discretionary, not state basic education, do not inflate with staffing-based costs
- ▶ State Categorical (Special Education, Transportation, Bilingual, LAP) are sometimes part of the analysis

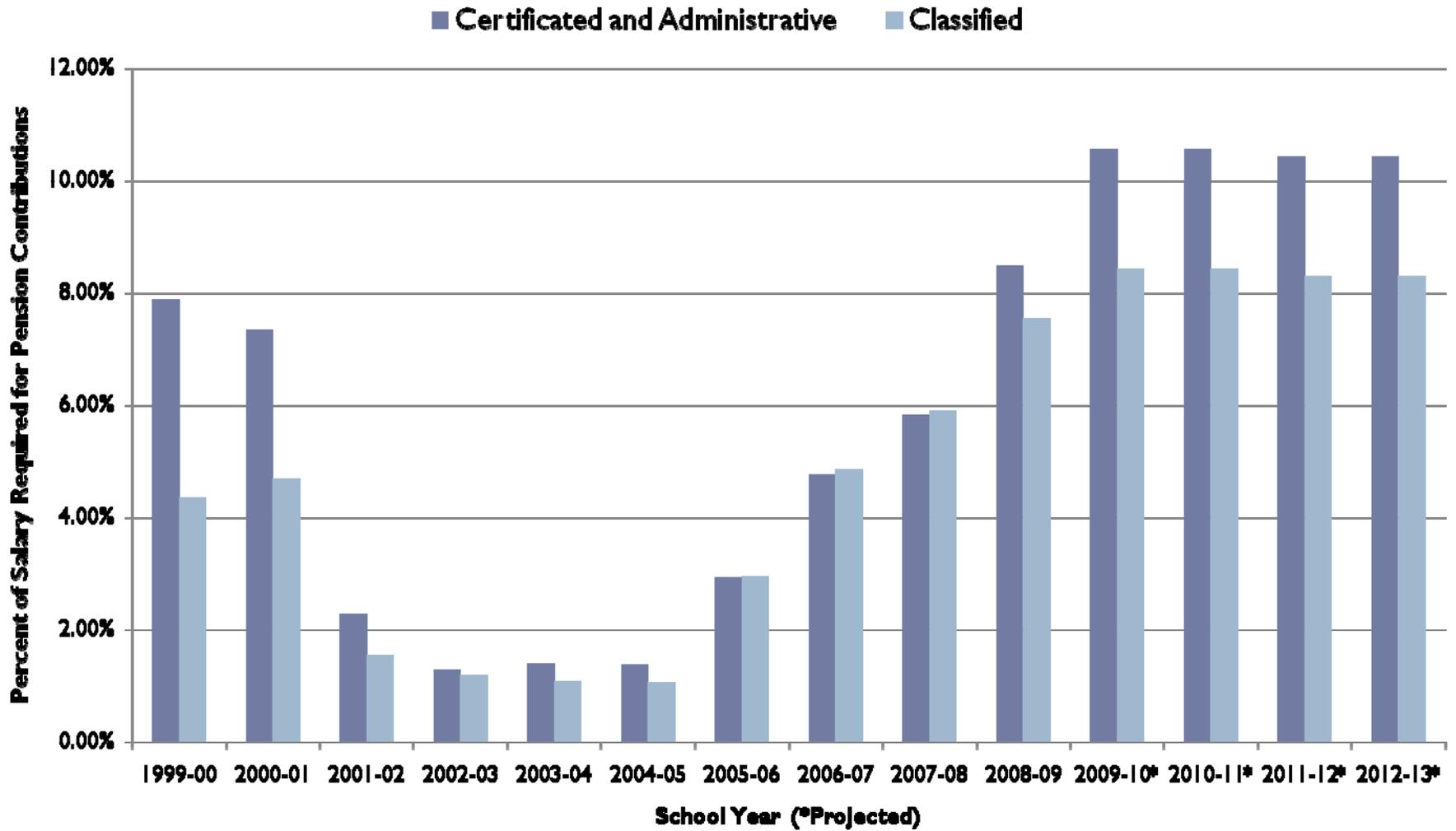
How have districts balanced their budgets in the last few years?

2000-2008: Pressure on Local Funds was Eased by Several Factors

- ▶ Reduction in pension rates
- ▶ 2003-05 COLA suspension (3.1%)
- ▶ Increases in I-728 revenue
- ▶ Increase in levy authority (I-732 suspension and I-728 delay)
- ▶ Increases in federal funding
- ▶ Steady enrollment on average (mixed between districts)

2000-2008: State Savings of \$1.3 Billion in Employer Pension Contributions; \$364 Million for Local Funds

Employer Rates for Certificated and Administrative, and Classified Staff Retirement Contributions



2003-05 and Beyond, Impact to Local Funds was Minimized by Suspension of I-732 COLA

Annual Average Compensation Increases, COLA and Other

	<u>Instructional</u>	<u>Classified</u>	<u>Administrative</u>
1999-00	6.4%*	3.0%	3.0%
2000-01	3.0%	3.0%	3.0%
2001-02	3.7%	3.7%	3.7%
2002-03	3.6%	3.6%	3.6%
2003-04	.4%**	0%	0%
2004-05	.4%**	1.0%	0%
2005-06	1.2%	1.2%	1.2%
2006-07	4.5%	4.5%	4.5%
2007-08	2.8% + .6	2.8%	2.8%
2008-09	3.9% + .7% + .5%	3.9% + .5%	3.9% + .5%
2009-10***	3.4%	3.4%	3.4%
2010-11***	2.4%	2.4%	2.4%
2011-12***	2.5%	2.5%	2.5%

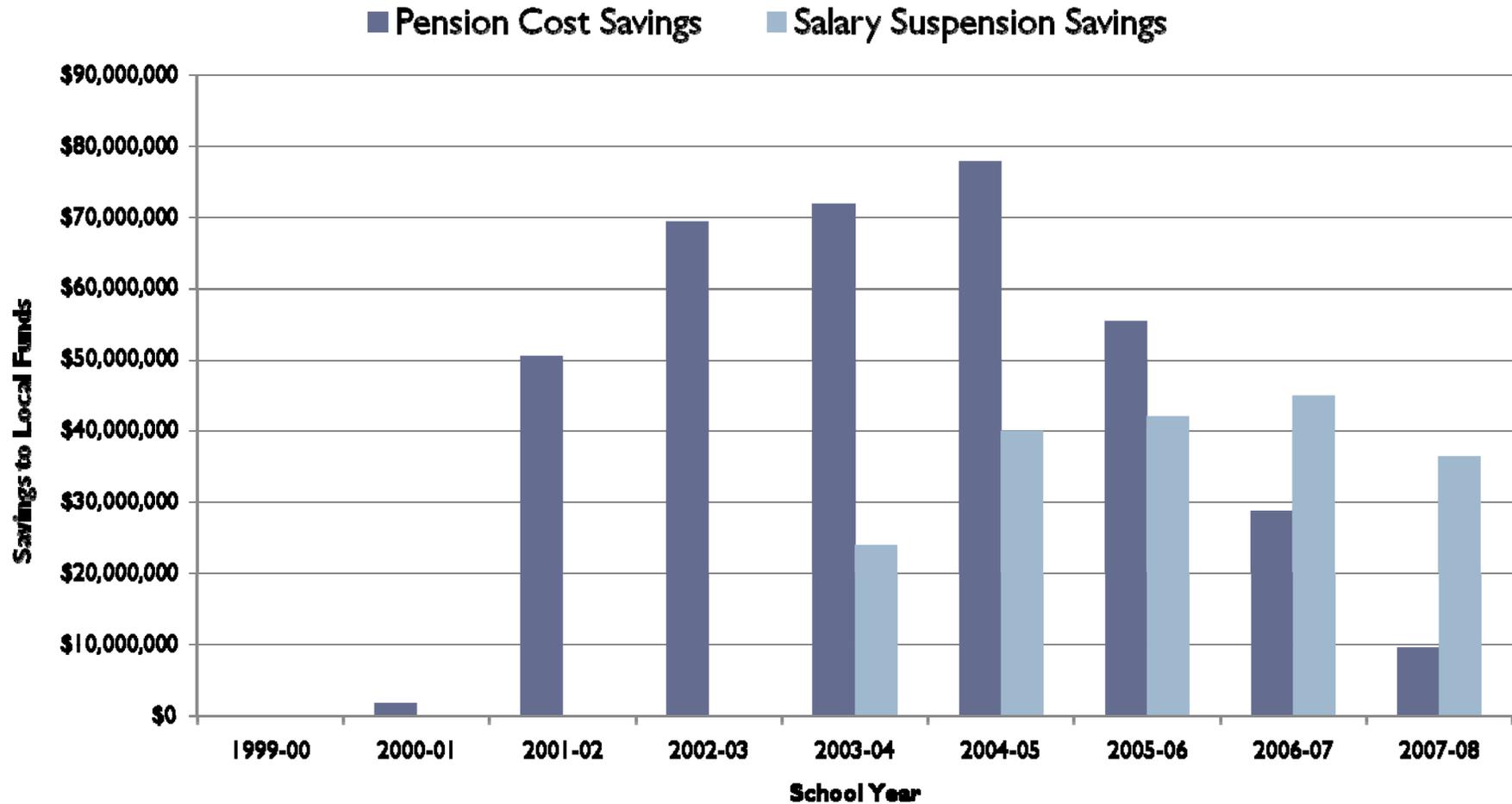
*Increases ranged between 4.7% and 12%; 3 LID added

**Increases ranged 3% to .05% for staff in 1st 7 years of career only

***I-732 COLA based on projected Seattle CPI

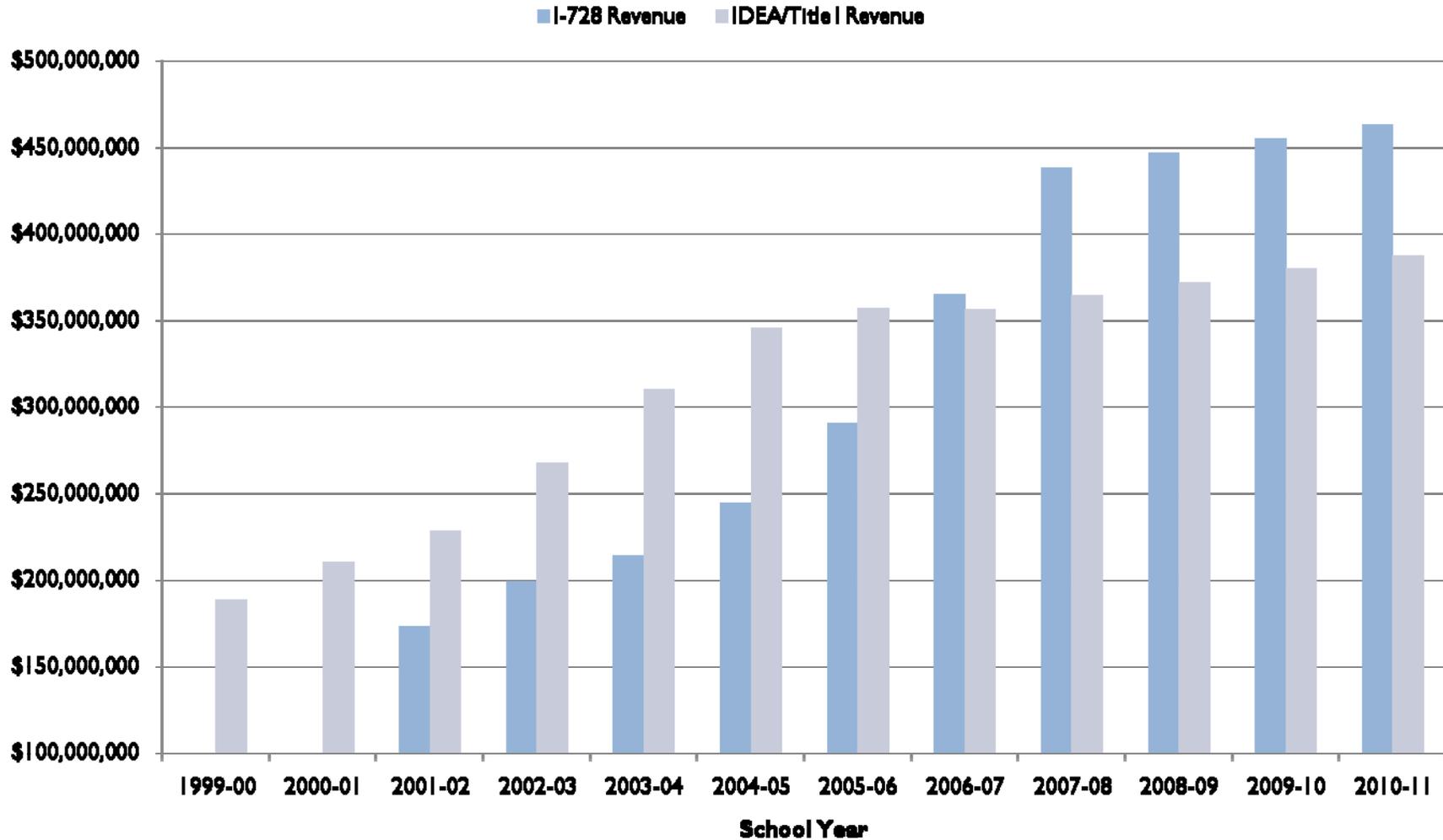
2000-2008: Local Funds Avoided \$551 Million in Compensation Costs

Annual Local Funds Savings for Pension Rate Reduction from 1999-2000 Rate and Savings Due to COLA Suspension



From 1999-2000 to 2007-08, I-728 and Federal Funds Increased by \$614 Million

IDEA/Title I and I-728 Total Revenue



What is the magnitude of the problem
in upcoming school years?

Variables for Pressure on Local Funds in the Upcoming 3 Years

Impacts Local Funds

- ▶ Slower Increases in I-728 and Federal Funds
- ▶ Health Benefit Increase
- ▶ COLAs
- ▶ Pension Rates Increase
- ▶ *Levy Lag*
- ▶ *All Other*
- ▶ *More basic costs funded on levy*

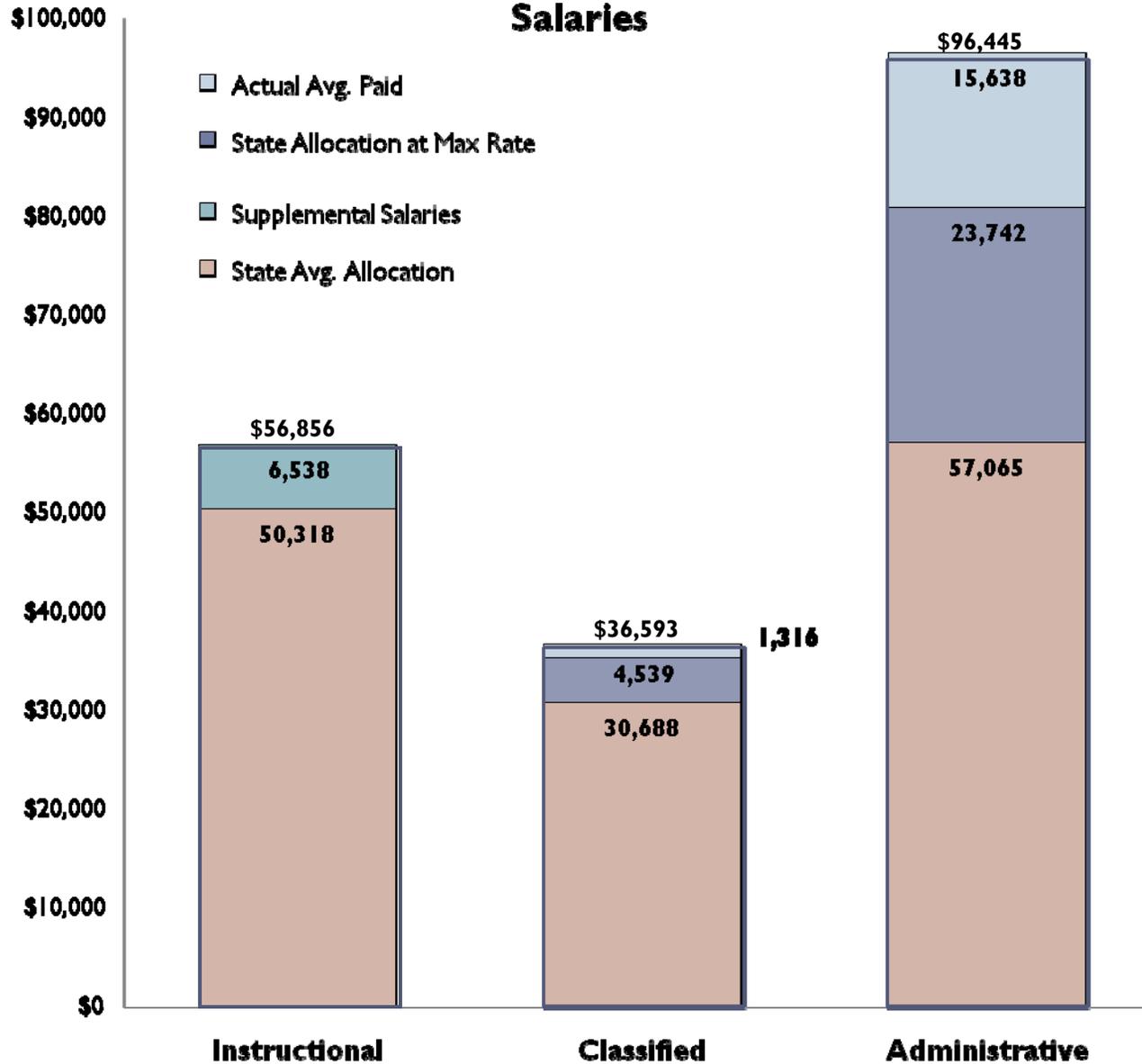
Frees-up Local Funds

- ▶ Salary Equalization “Revenue”
- ▶ Increases in Levy Funding
- ▶ New state funding from 2007/2008 sessions
- ▶ *All Other*
- ▶ *Fewer basic costs funded on levy*

Key Assumptions for Projections

- ▶ **I-728 Employees are included in Local Funds analysis**
 - ▶ Included here because reserves will be spent down quickly
- ▶ **Federal/Levies inflate at increase for 08-09**
- ▶ **Supplemental salaries/TRI: inflate at half of COLA**
 - ▶ COLA assumptions in this projection are 2.2%, 1.7%, and 1.2%, 2008-09 to 2010-11
 - ▶ Conservative assumption for contract days, as days usually inflate with SAM

2007-08 Building Blocks of K-12 Staff Average Salaries



Local Funds COLA Effect (4.4% in 2008-09)

1. COLA on average salary paid for "local staff units" (**\$46 million**)
2. COLA on all supplemental salaries, all staff (**\$10 million**)
3. COLA on unequalized portion of Classified and Administrative salaries, all staff (**\$10 million**)
4. COLA on difference between the state maximum allocation and the salary districts actually pay, all staff (**\$5 million**)

\$71 million total

Districts Will Spend Additional \$631 Million on Local Funds Compensation in Next 3 Years

Projected Change in Expenditure Over 2007-08 School Year

\$ in Millions	2008-09 SY	2009-10 SY	2010-11 SY	Total
Cost of Living Adjustment	71	145	221	\$437
Pension Rate Increase	29	51	54	\$134
Health Benefits Increase	7	20	33	\$60
Total	\$107	\$216	\$308	\$631

Does not include costs associated with:

- ▶ COLA on supplemental salaries that inflate with the salary schedule
- ▶ Health benefits at actual district cost

4 Release Valves for Budget Stabilization

- ▶ **I-728 Growth (about \$8 million per year or 1.8%)**
 - ▶ COLAs, Pensions and Health Care are externally driven factors that inflate faster than I-728 revenue
 - ▶ After compensation increases, reserve will be spent down to 4% in 2009-10 SY
 - ▶ Without budget reductions in I-728 functions, districts will have an I-728-deficit of \$17 million in 2010-11 SY
- ▶ **Levy Revenue Growth (about \$99 million per year or 6.3%)**
- ▶ **Federal Revenue Growth (\$6 million in 2008-09 or 2.3%)**
- ▶ **Spend Down Ending-Fund-Balance**

Summary of Additional Revenue and Costs for Local Funds

Projected Change Over 2007-08 School Year

\$ in Millions	2008-09 SY	2009-10 SY	2010-11 SY	Total
Increased Revenue (I-728, Levy, LEA, Federal)	131	262	395	\$788
2008 Session Changes Impacting Local Funds	34	34	34	\$102
Increased Compensation and Fuel Costs (\$10 M)	(117)	(226)	(318)	(\$661)
Net Local Funds Chng	\$48	\$70	\$111	\$229

Net Addition of Local Funds:

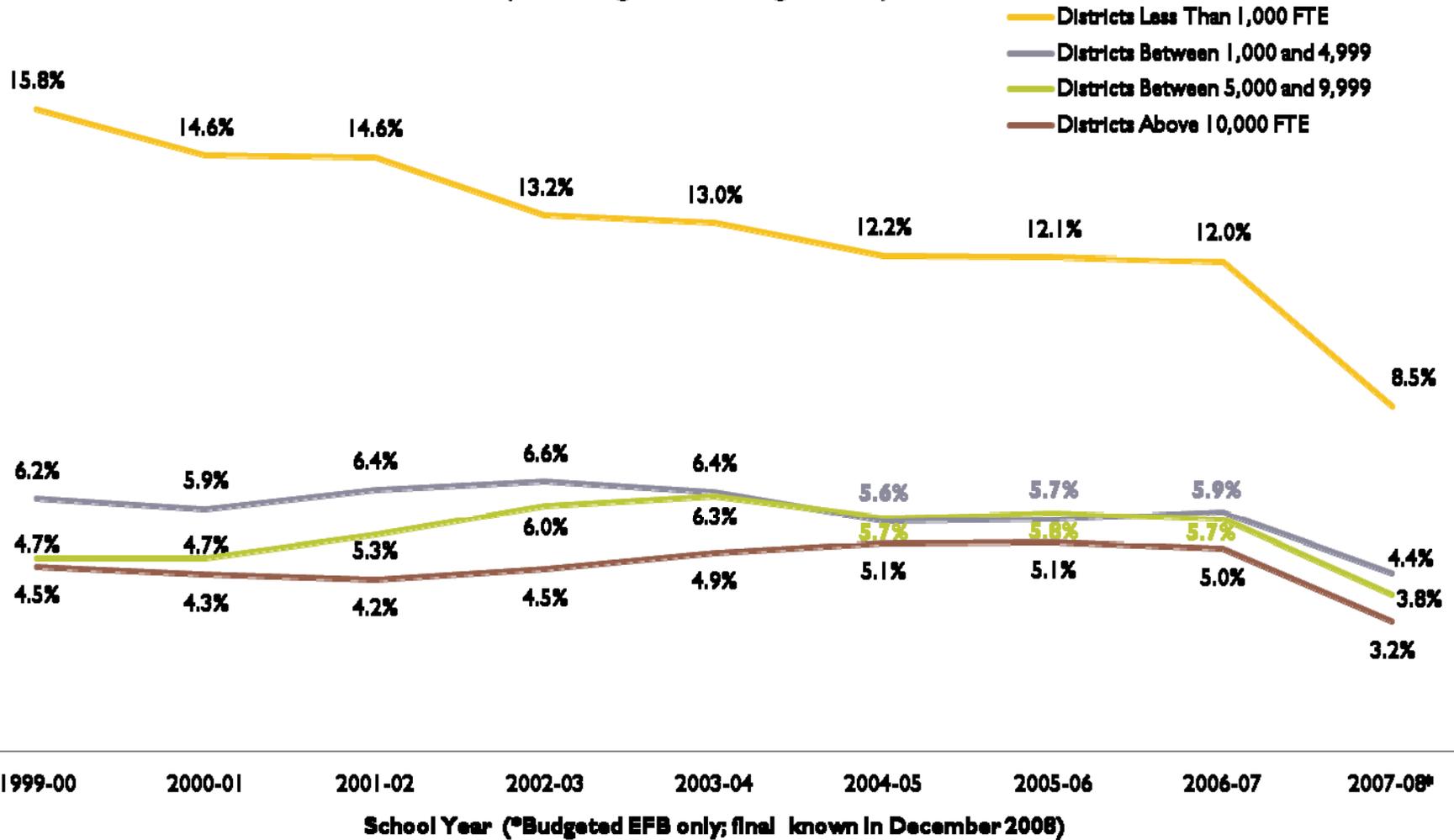
- ▶ Must cover all remaining cost increases on a \$2.4 billion base

After Net Change to Local Funds, Little Room for Other Needs

- ▶ Education programs to provide more assistance and/or instructional expertise for students to meet achievement expectations or improve graduation rates
- ▶ Fuel Prices, Utilities, Insurance
- ▶ Maintenance Emergencies
- ▶ Curriculum Adoption
- ▶ Increased Salaries Beyond COLA
- ▶ Health Care Costs Above State Allocation Rate
- ▶ New Mandates

Ending Fund Balance Totaled \$495 Million in 2006-07; Spending EFB Only Delays Cuts

**Unreserved Ending Fund Balance
(Including Board Designations)**



Summary

- ▶ Districts face significant pressure on their budgets in order to cover the increases associated with the staffing they pay out of local funds
 - ▶ Trends that were favorable in the prior 8 years have slowed or turned around (enrollment is mixed, increasing statewide)
 - ▶ New federal and I-728 funds will not provide significant relief
 - ▶ Unless state resources increase to offset the costs increases, districts have only bad choices:
 - ▶ Increase levy revenue (not all can)
 - ▶ Spend down reserves (reserves are already dropping)
 - ▶ Cut program budgets and staff
 - ▶ 6 districts are on Binding Conditions for the 2007-08 school year

A Few Budget Cut Options Communities Must Debate

- ▶ Close Schools
- ▶ Programmatic cuts (e.g., libraries)
- ▶ Delay curriculum adoption
- ▶ Reduce staff (e.g., increase class size, reduce maintenance staff)
- ▶ Add additional students (e.g. Internet Academies)
- ▶ Cut administration
- ▶ Create additional fees for students and families
- ▶ Eliminate sports and extracurricular activities or Pay to Play
- ▶ Cut arts, music, social studies, physical education
- ▶ Eliminate 6th and/or 7th (0) period in high school
- ▶ Reduce elective course offerings
- ▶ Reduce bussing options (e.g., longer routes, less transportation w/in 1 mile for young, earlier starts for fewer buses)

Given Budget Outlook, What are the Implications for School Finance?

Conclusions

- ▶ Districts have already had to take budget cuts; new cuts harder
- ▶ Districts cannot absorb the cost of partially funded programs or unfunded mandates
- ▶ Districts have little ability to respond to unknowns
 - ▶ Increasing rates of inflation
- ▶ Districts will fall into Binding Conditions
 - ▶ They will need extra support to turn around their budgets
- ▶ Districts may want to consolidate (for some it may not be an option)
 - ▶ Districts need a support infrastructure for a very complex process
 - ▶ Reliance on levies and avoiding inheritance of debt drives to much of the decision for the absorbing district

Conclusions

- ▶ **Enrollment reductions compound problems**
 - ▶ If unanticipated in fall, carrying staff all year
 - ▶ Drives lower basic education apportionment, I-728, LAP
- ▶ **I-728**
 - ▶ Intertwined with all educational programming
 - ▶ I-728 should inflate with CPI rather than IPD *Or*
 - ▶ Incorporate revenue into basic education staffing assumptions so that the revenue inflates with COLA, pensions, and health benefits

Conclusions

- ▶ Increasing foundation support gives districts capacity to pay COLA for local employees
 - ▶ NERC and Transportation are a good option
 - ▶ Increasing the Classified Staff funding ratio is a better option; new funding will inflate with the costs that are the deficit driver
- ▶ Ultimately, districts are too reliant on local funds to support their staffing levels and salaries
 - ▶ Is the state allocation for the number of staff appropriate?
 - ▶ Is the state allocation for salaries (after salary equalization) appropriate?

Parking Lot

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Net Benefit and Cost of Equalization to Local Funds in 2008-09

- ▶ **Benefit to Local Funds: \$224 million**
 - ▶ Classified Staff Allocation: \$88 million
 - ▶ Administrative Staff Allocation: \$111 million
 - ▶ Special Education Revenue: \$25 million

- ▶ **Cost to Local Funds: (\$21 million)**
 - ▶ Certificated Instructional Staff Equalization

Local Resource Increases Barely Cover Compensation and Fuel Increases

Change Over 2007-08 SY

Millions of Dollars	2008-09 SY	2009-10 SY*	2010-11 SY*
Increased Levy, I-728, Federal Resources	131	262	395
Health Benefits Projection	(7)	(20)	(33)
Pension Impact	(29)	(51)	(54)
COLA Impact	(71)	(145)	(221)
Net of LAP/PAS	(3)	(3)	(3)
NERC Enhance	7	7	7
Library Support	4	4	4
Equalization Revenue	23	23	23
Classified Staff Ratio Inc.	3	3	3
Fuel Projections	(10)	(10)	(10)
Net of Variables	48	70	111

COLA and Pension Growth will Outstrip I-728 Revenue Growth



	Revenue Increase Over 2007-08	Cost of Benefits, COLA, and Pension Over 2007-08	Net Revenue	I-728 Reserves*
2007-08				\$26
2008-09	\$9	(\$18)	(\$10)	\$17
2009-10	\$17	(\$33)	(\$17)	\$0
2010-11	\$25	(\$42)	(\$17)	(\$17)

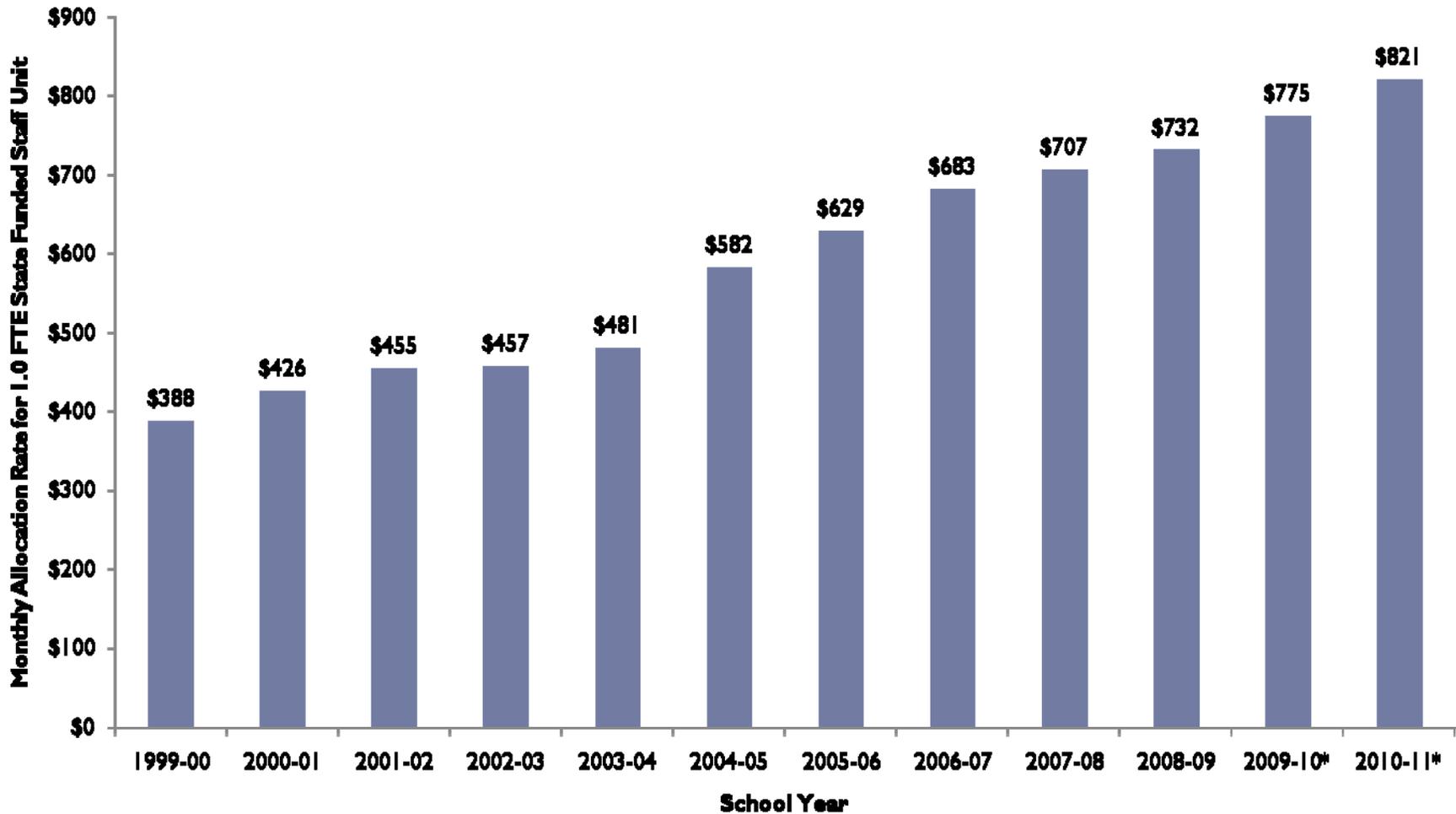
- ▶ COLAs, Pensions and Health Care are externally driven factors that inflate faster than I-728
- ▶ In near future, I-728 cannot balance local funds budgets
- ▶ Without staffing reductions, I-728 funds will be in a deficit position by 2010-11

*Assumes districts retain a 4% reserve

Districts Will Spend Additional \$61 Million on Local Funds' Health Benefits in Next 3 Years

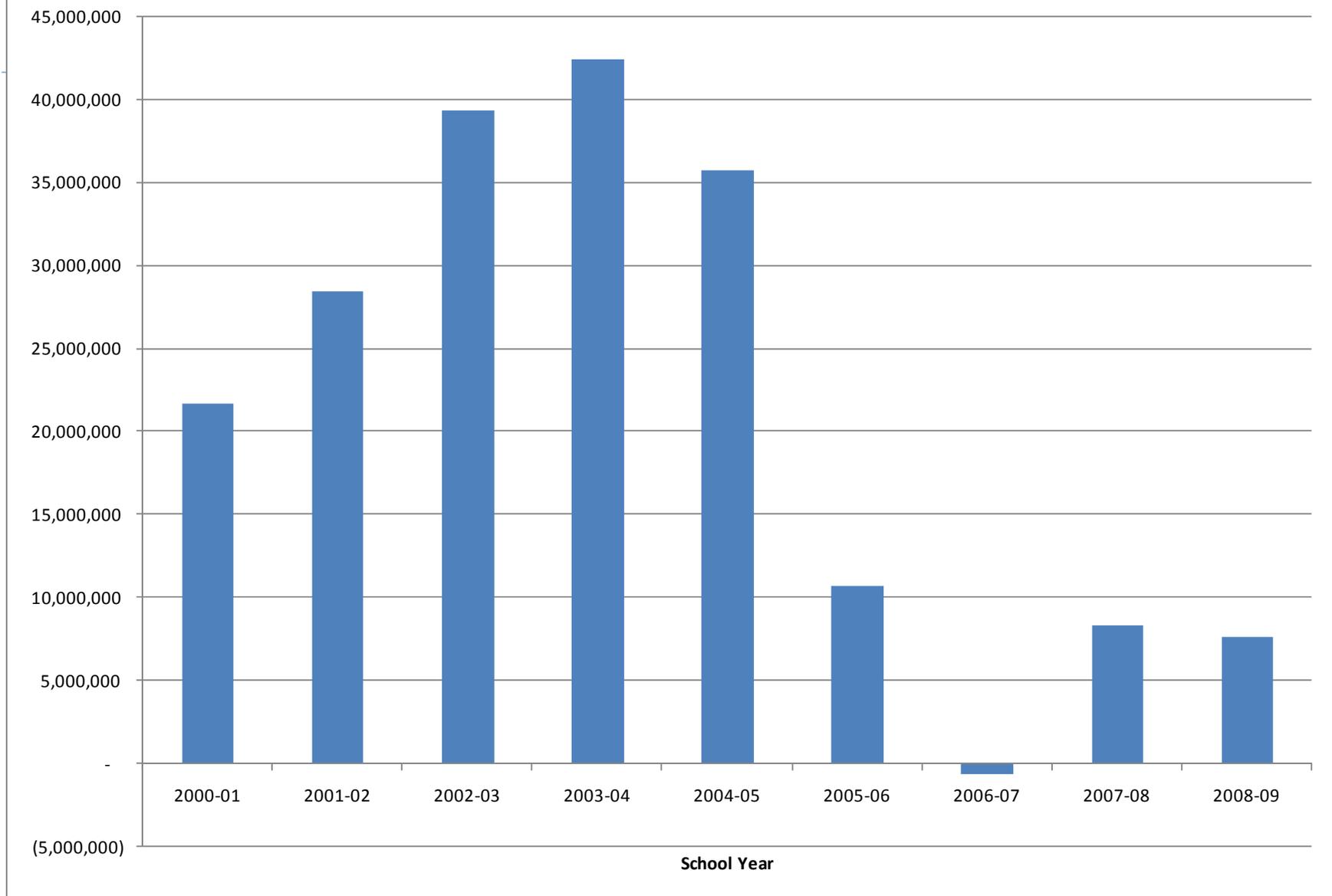


State Health Benefit Allocation Rate for K-12 State Fund Staff FTEs



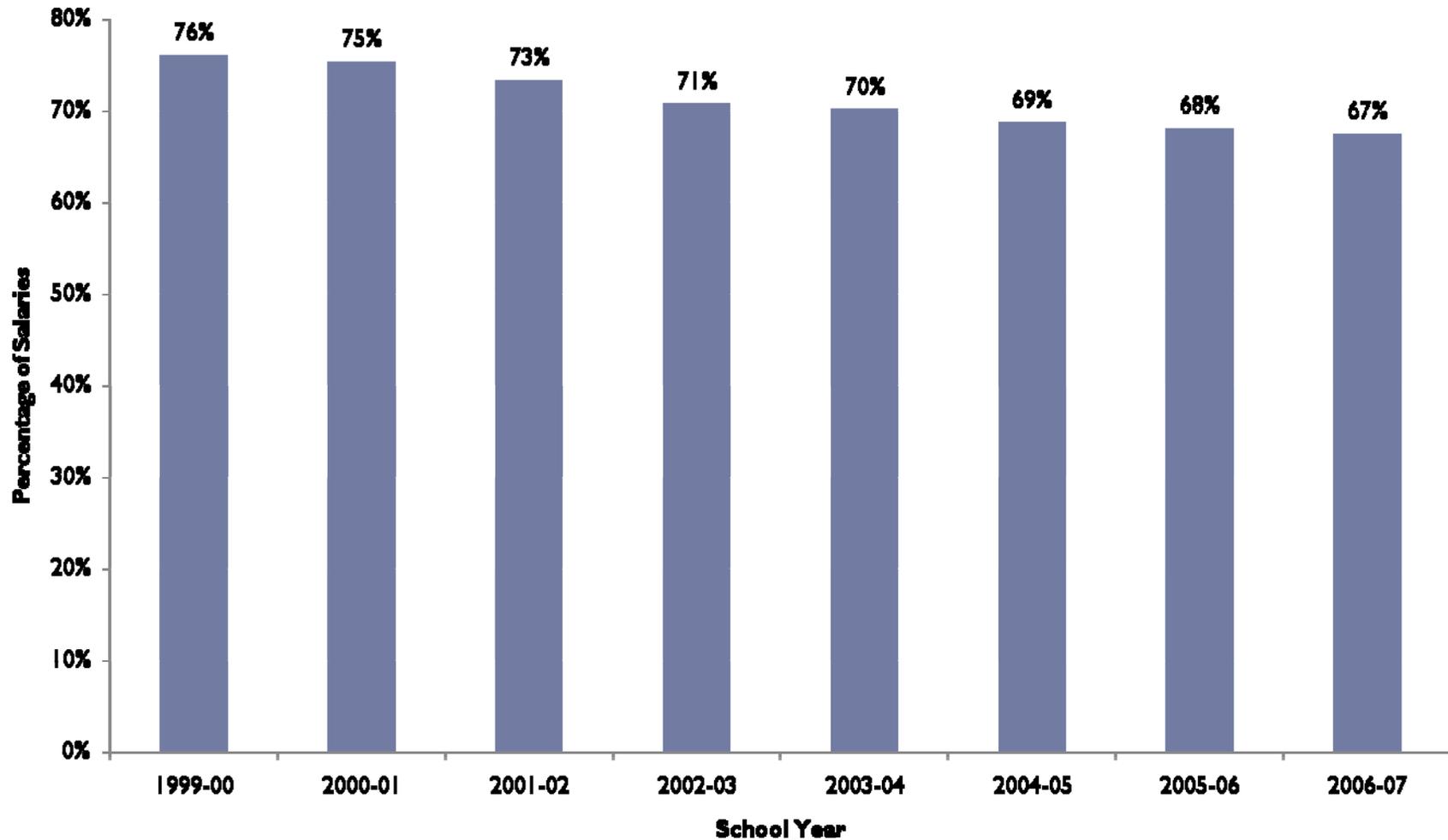
*Projection based on prior 4-year average increase

Increases in Title 1 and IDEA Over Prior Year

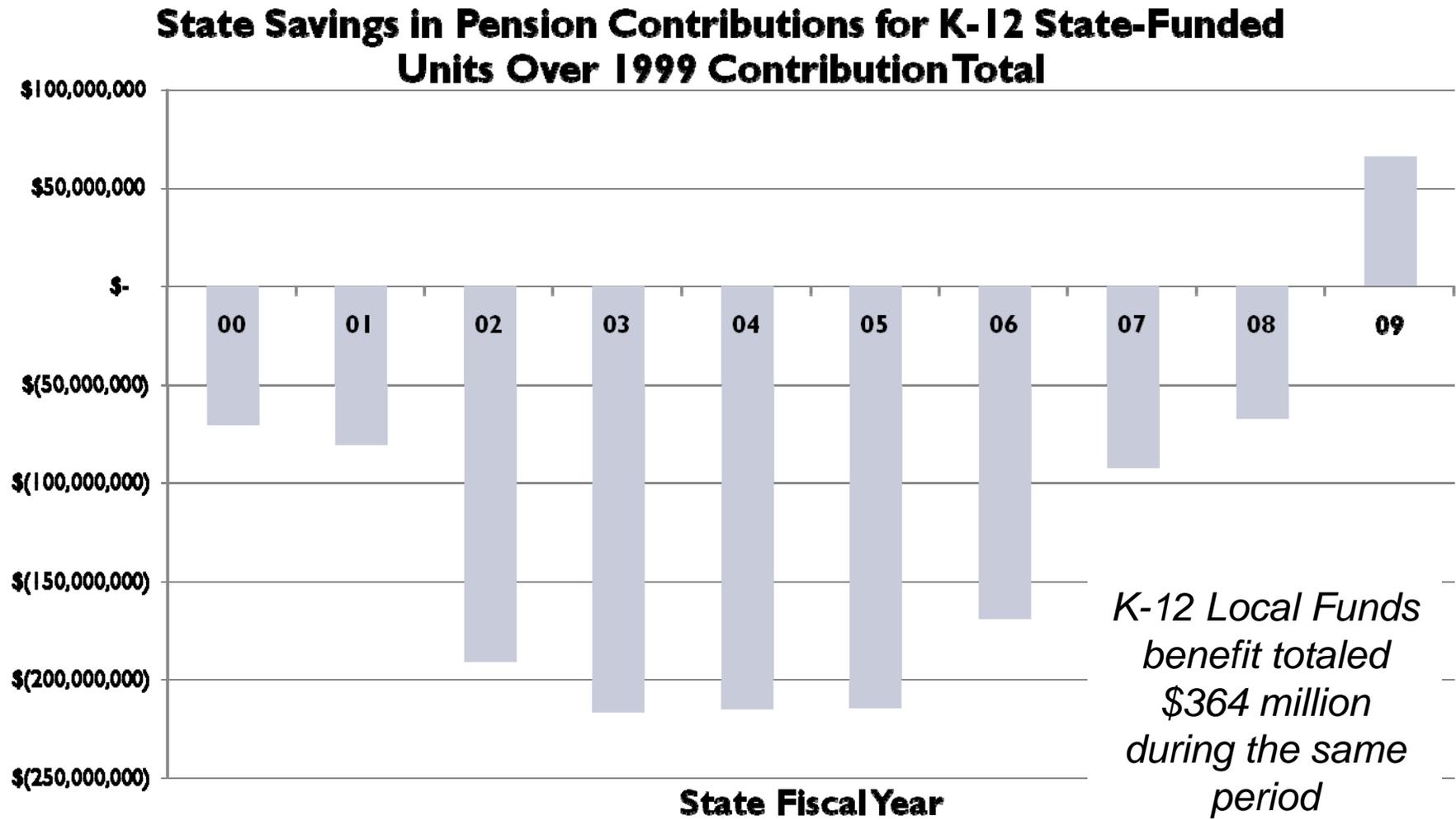


State Funded Staffing Has Decreased Annually

Percentage of Salaries Funded by State Funds



2000-08: State Saved \$1.3 Billion in Contributions for Pensions on K-12 State-Funded Units

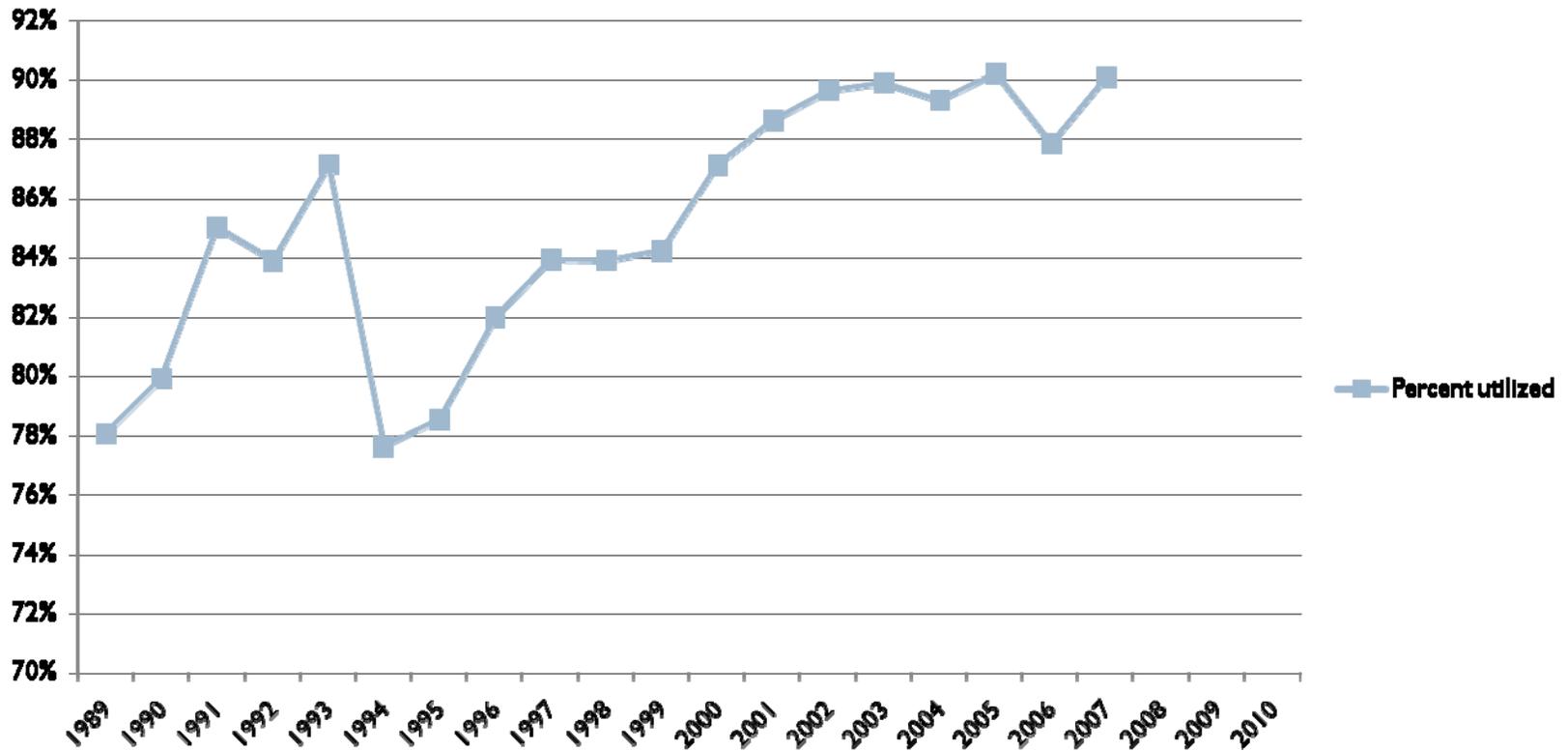


Staffing Units by Category and Source

	CIS	CLS	CAS
State Units	55,452.8	22,265.8	3,975.2
I-728 Units	3,595.2	230.1	27.5
All Other	2,238.8	14,386.6	
Total	61,286.8	36,882.5	4,002.7
% State	90%	60%	99%

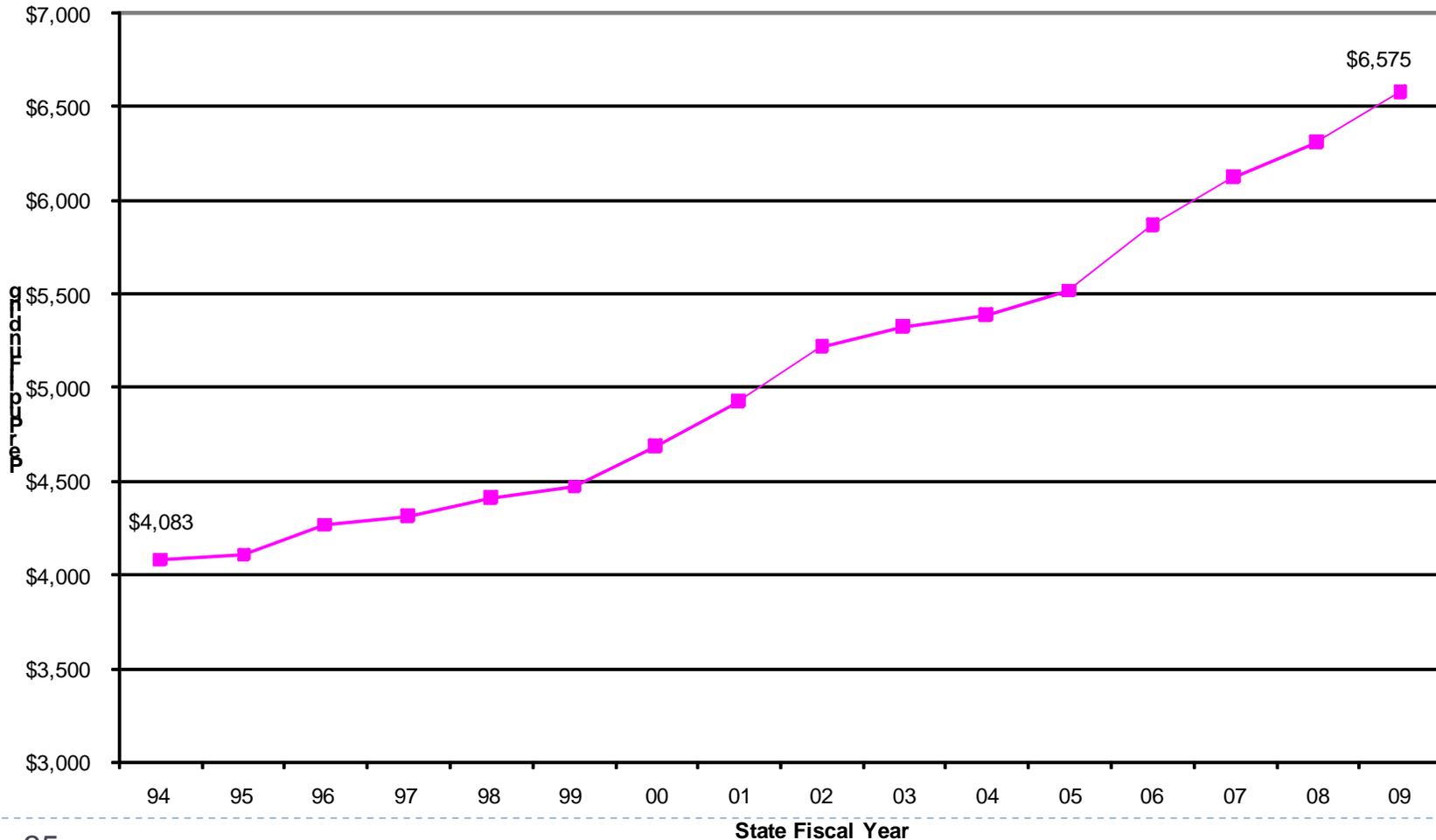
Levy \$ as Percent of Levy Authority

Percent utilized

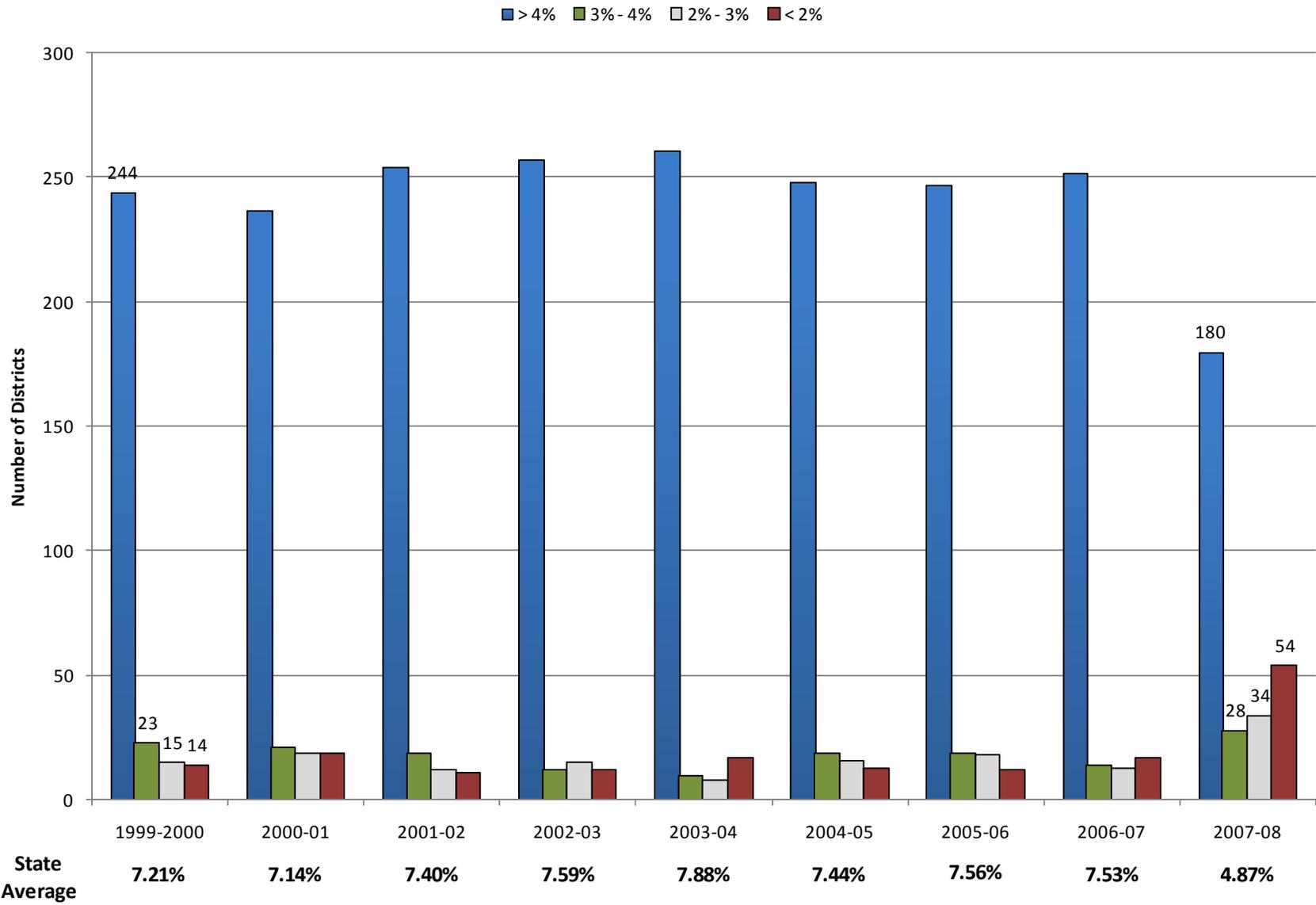


Per Student Funding Increased 60% in 16 Years

State Funding Per K12 Pupil (1994-2009)
(Actual Dollars Without Pension Contributions)

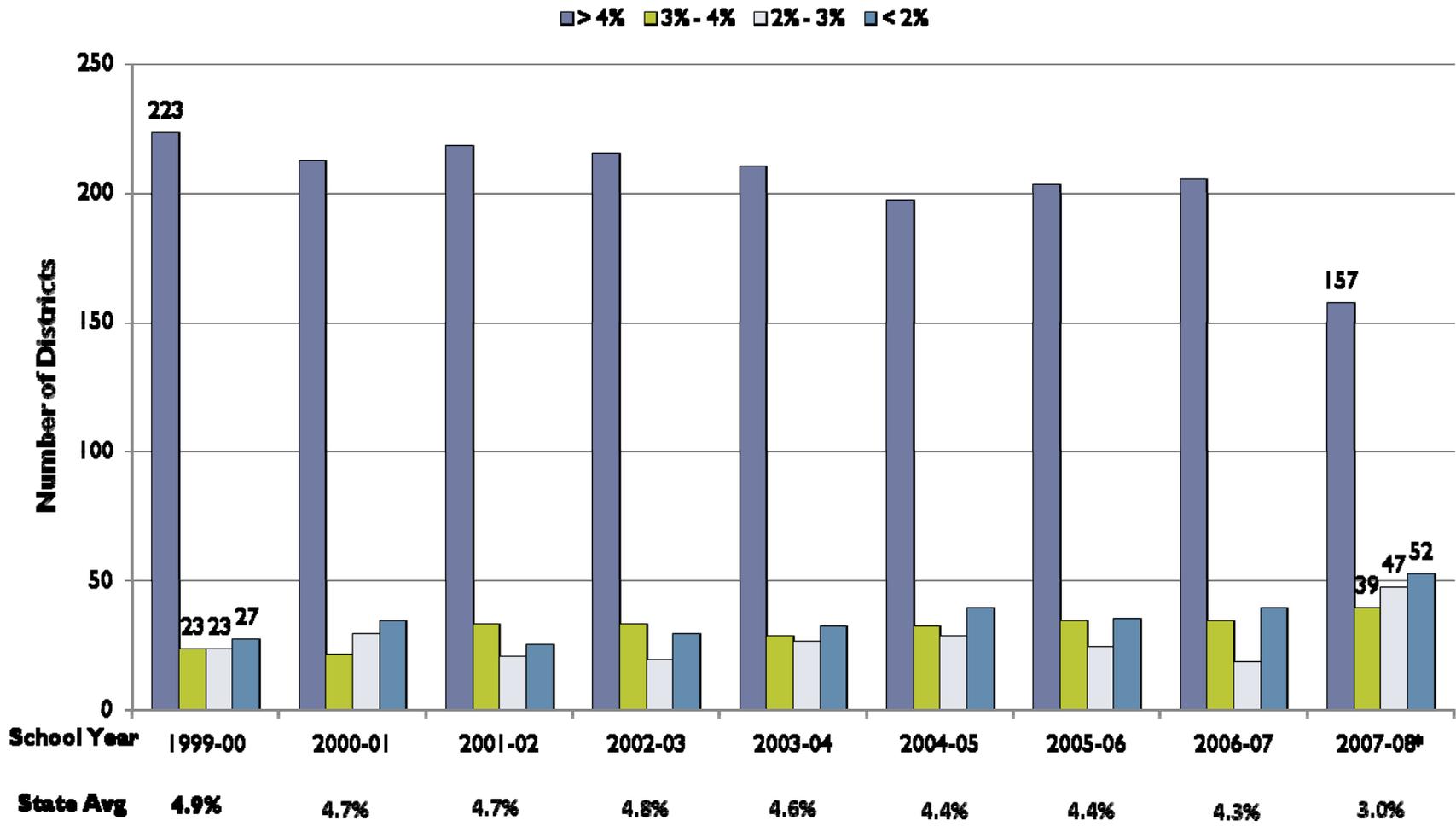


Ending Fund Balance



Many Districts' Ending-Fund-Balance is too Low to Avoid Cuts (and 1x Use of EFB Only Delays Cuts)

Unreserved Ending Fund Balance



Local Funds Cover Salary Increases for More than Just “Extra” Employees

Salaries that inflate with COLAs:

1. Employees hired on levy, federal, I-728 (all)
2. Supplemental Salaries (all)
3. Value of equalization that districts pay (classified and administrators)
 - ▶ In 2007-08, 169 districts’ average classified salary exceeds their allocation rate; 275 districts’ average administrator salary exceeds their allocation rate
4. Salaries above top salary allocation (classified and administrators)
 - ▶ In 2007-08, 94 districts’ average classified salary exceeds the maximum allocation rate; 215 districts’ average administrator salary exceeds the maximum allocation rate

After Compensation Increases, No Room for Reality

Some Variables Can be Modeled:

- ▶ **Ending-Fund-Balance** (No other budget pressures in districts will cause spending down of EFB)
- ▶ **Levy Potential** (increase at 2009 collection rate)
- ▶ **Federal Potential** (increase at 2008-09 rate)
- ▶ **COLA** (at I-732 projected rates)
- ▶ **Pension** (No pension changes by Legislature to increase/decrease projected rates)
- ▶ **Fuel Prices, Utilities, Insurance**
- ▶ **Employee Attrition**
- ▶ **Grants and Foundations**
- ▶ **Maintenance Emergencies**
- ▶ **Local Agreements**
- ▶ **One-time Savings**
- ▶ **District Request, Community Support for Levies**

Districts Will Spend Additional \$134 Million on Local Funds Pensions in Next 3 Years



<i>Millions of \$</i>	Employer Pension Contributions of Local Funds	Change Over 2007-08
2007-08	\$69	
2008-09	\$99	\$29
2009-10	\$120	\$51
2010-11	\$123	\$54