K-12 Finance: Looming Problems

K-12 Financial Outlook

Why do school district budget problems seem deeper and more widespread than in past years?

1. Isn’t Basic Education the “Paramount Duty” and therefore fully funded?
   • Major areas of state underfunding
2. What is the magnitude of the problem for 2008-09 school year and beyond?
State, Local, and Federal Funds Total $9.3 Billion

2007-08 Budgeted Resources, 295 School Districts ($ Millions)

- State
- Local
- Federal
- All Other

State Funding of $6.5 Billion is Driven Largely by One Simple Formula Totaling $4.6 Billion

A. District Enrollment
B. Staff Ratios (Certificated Instructional, Administrative & Classified staff)
C. Salaries & Benefits
D. Operating Costs (NERC) = State General Apportionment

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Examples of State Funding Shortfalls

1. Districts subsidize state funding for utilities, insurance, supplies, textbooks by $500 million per year
2. Districts subsidize salaries for support staff by at least $325 million
3. Districts subsidize salaries for principals and other administrators by $172 million
4. Districts subsidize pupil transportation by $100 million per year
5. Districts subsidize teacher salaries and contract days, special education, remediation for struggling students and help for students learning English
6. State pays for only 58% of facilities maintenance; districts report that under-funding leads to delay of maintenance investments

State Underfunding Pushes Costs onto Local Funds; Local Funds are Maxed Out

• Local Funds are typically levy funds
  - But also includes federal, I-728 (class size initiative), and some state funds
• Local Funds are commonly thought to employ “enhancement” staff and programs
• In fact, Local Funds cover the shortfalls listed on the prior slide and others
Quantifying the Outlook for School Districts for 2008-09 SY

- Revenue Increases: I-728, federal, levy, enhanced state funding
- Cost Increases: Salary, benefit, and retirement increases not covered by state, and fuel increases
  - In 2008-09, districts will have a remaining $38 million in new revenue to cover all remaining cost increases on a $2.8 billion base

With $38 Million Net Growth in Local Funds, Little Room for Other Needs

- Education programs to provide more assistance and/or instructional expertise for students to meet achievement expectations or reduce drop-out rates
- Utilities, Insurance
- Maintenance Emergencies
- Curriculum Adoption
- Increased Salaries Beyond COLA Estimated
- Health Care Costs Above State Allocation Rate
- New Mandates from State/Federal Policymakers
Why does it feel like financial problems are hitting us so suddenly?

<table>
<thead>
<tr>
<th>2000-2008</th>
<th>2009 and Beyond</th>
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<tr>
<td>• Reduction in pension rates saved $364 million</td>
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<td>• 2003-05 COLA suspension (3.1%) saved $187 million</td>
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<td>• Increases in I-728 revenue and federal funding totaled $614 million</td>
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<td>• Increase in levy authority to recognize I-732 suspension and I-728 delay</td>
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<tr>
<td>• Pension rates spike</td>
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<td>• I-728 and federal funds flatten</td>
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<td>• Local funds continue to support COLAs that inflate with Seattle CPI</td>
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<tr>
<td>• Other costs continue to increase faster than inflation</td>
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<tr>
<td>• Health benefits</td>
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<tr>
<td>• Fuel and Utilities</td>
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<td>• Local levies increasing more slowly and nearing legal maximum rates</td>
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Impact on 2008-09 SY

• District Ending Fund Balances are dangerously low
• 7 districts on Binding Conditions (great risk of insolvency)
• 5 districts carefully watching for Binding Conditions status
• Roughly 600 staff positions eliminated (equivalent to 1 school district serving 4,000 students)
• No cushion for 2009-10 SY; increases in staff costs, utilities, fuel, insurance potentially cripple districts on financial edge
OSPI Budget Requests for 2010 +

Fiscal Impact of State Board of Health Proposed Rules
Impact by Year by Component; $ in Millions

- Improvements to Current Facilities to Comply with Rules
- (Small Repair Grants)
- Impact on Operating and Maintenance Costs
- Impact on New Construction (Area Cost Allowance)

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Basic Education Finance Task Force

- SB 5627: This act is intended to make provision for some significant steps towards a new basic education funding system and establishes a joint task force to address the details and next steps beyond the 2007-2009 biennium that will be necessary to implement a new comprehensive K-12 finance formula or formulas that will provide Washington schools with stable and adequate funding as the expectations for the K-12 system continue to evolve.
- Recommendations due to Governor and Legislature December 2008

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