

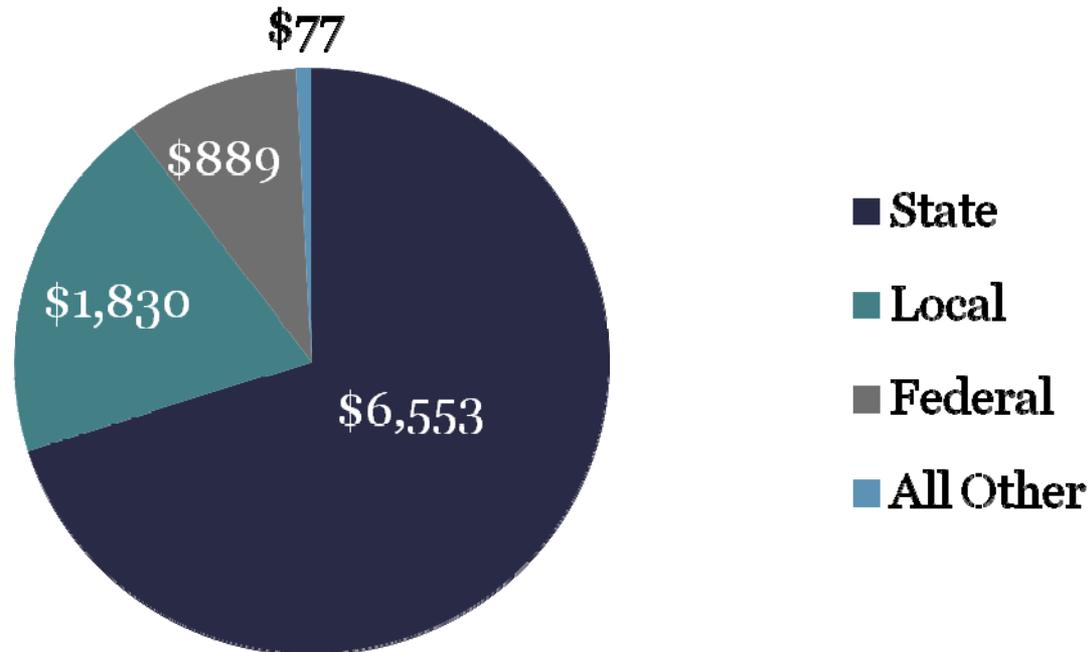
# K-12 Finance: Looming Problems, Proposed Solutions

1. What are the finance problems?
2. What solutions are being proposed?
3. What is the financial outlook for school districts without new resources?

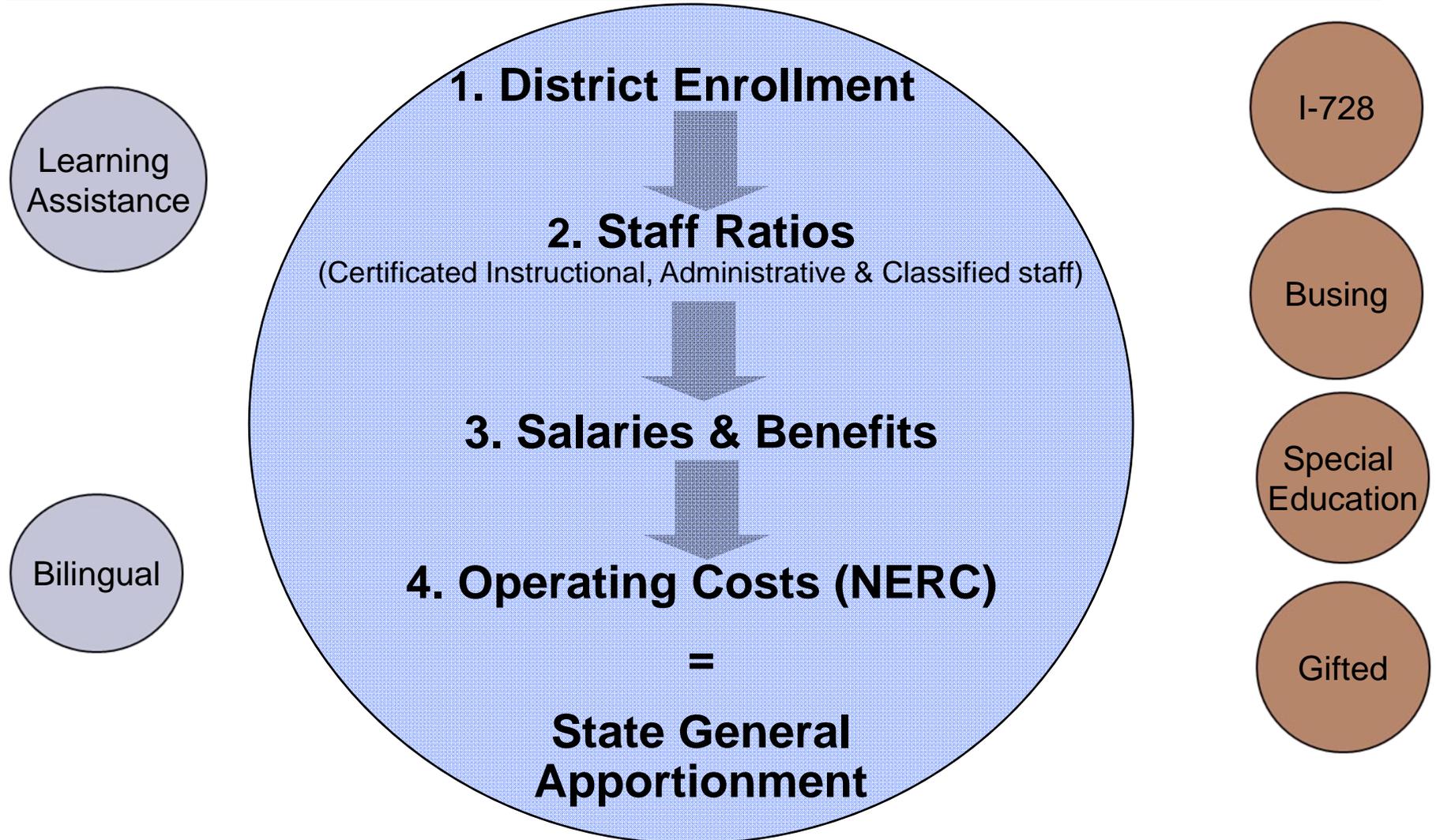
State, Local, and Federal Funds total \$9.3 billion

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



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



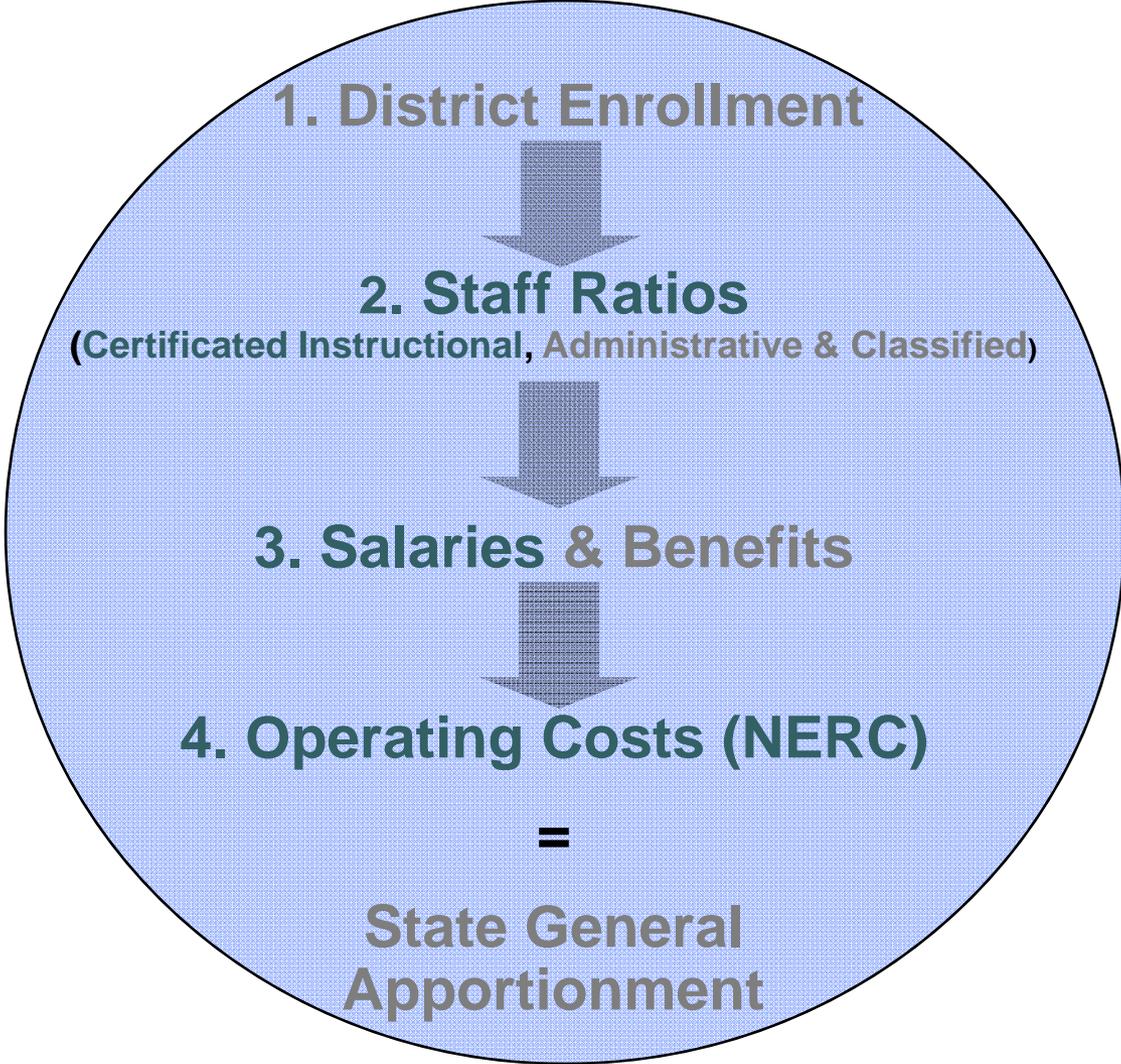
# Presentation Focus

- Finance Problems: 5 Components of System where Basic Education Funding is Significantly Lower than Expectations/Need
  - SPI Proposal to the Basic Education Finance Task Force
  - Correspond with Topics of Interest to SBE
- Financial Outlook for Upcoming School Years and Consequences of Under-funding

# 5 High Priority Basic Education Funding Needs; Many More Remain

Learning Assistance

Bilingual



I-728

Busing

Special Education

Gifted

# Certificated Instructional Staff Ratios

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Certificated  
Instructional Staff

K-4: 1:18.8

5-12: 1:21.7

**Includes**

All Teachers,  
Instructional  
Coaches, Nurses,  
Counselors, Librarians,  
all other Pupil Support

The ratios **do not** represent true class sizes.

Class sizes increase when planning periods, specialist teachers, librarians, counselors, etc., are purchased from within the above ratio.

# Current Funding Re-Styled to Reflect Class Size: Districts Choose Between Lower Class Sizes and More Hours per Day

		<i><b>Students per 1 FTE Staff</b></i>	
		<i><b>5 hours instruction</b></i>	<i><b>6 hours + 1 hr planning</b></i>
<p style="text-align: center;"><b>Certificated Instruction Staff</b> <i>K-4: 1:18.8</i> <i>5-12: 1:21.7</i></p>	<b>=</b>		<b>=</b>
	<b>Teachers</b> { <ul style="list-style-type: none"> <li>Grades K-5</li> <li>Grades 6-8</li> <li>Grades 9-12</li> </ul>	1:20.7 1:24.2 1:24.2	1:24.7 1:29.0 1:29.0
	<b>Instructional Coaches</b>	1:1,250	1:1,250
	<b>Librarians</b>	1:786	1:786
	<b>Guidance Counselors</b>	1:498	1:498
	<b>Nurses</b>	1:2,659	1:2,659
	<b>Pupil Support</b>	1:6,500	1:6,500

# SPI Recommendations to BEFTF: Instructional Staff Ratios

	<b>Current</b>	<b>Proposed Elementary</b>	<b>Proposed Middle</b>	<b>Proposed High</b>
<b>Class Size</b>	Prior slide	21.2	25.5	25.5
<i>Assumed 6 period day for all students</i>				

<b>Students per Staff</b>	<b>Current</b>	<b>Proposed Elementary</b>	<b>Proposed Middle</b>	<b>Proposed High</b>
Instructional Coaches	1,250	1,000	1,000	1,000
Librarians	786	500	500	500
Guidance Counselors	498	NA	350	350
Nurses	2,659	500	750	1,000
Pupil Support	6,500	500	NA	NA

# Adopting a Policy of 6 Hours of Instruction and Lowering Class Size:

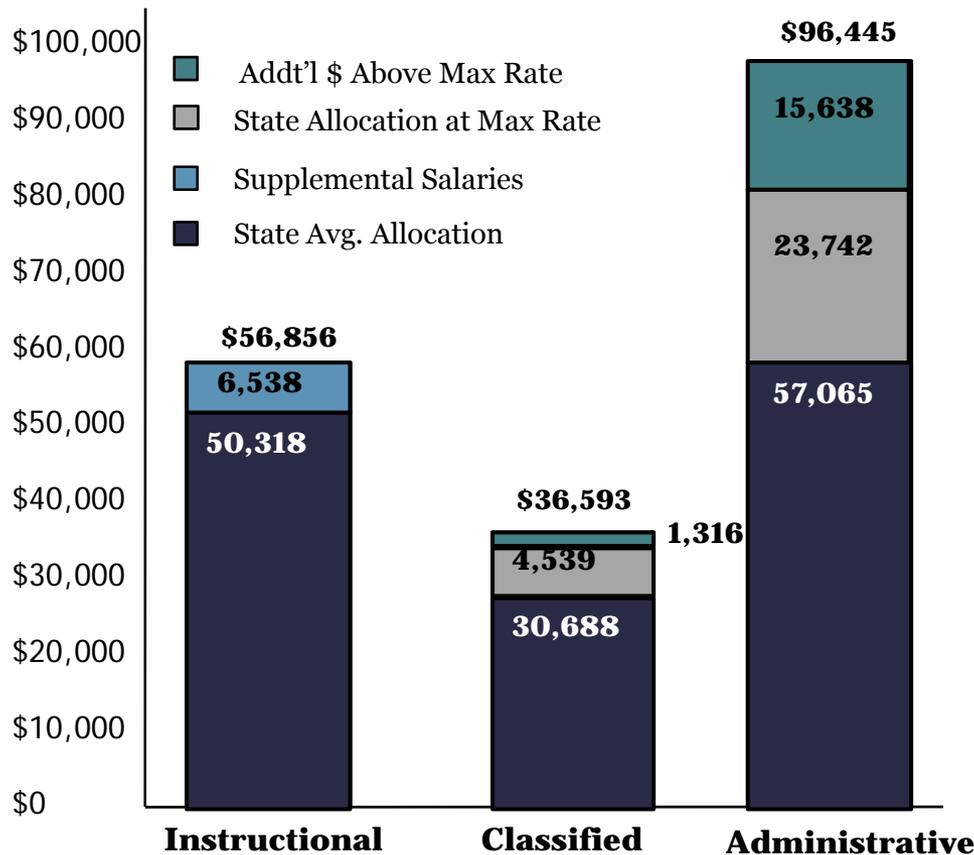
## Cost of Average High School Class Size to National Average (assumes 6 hours of instruction)

	25.5
From 29.0 to:	approx. \$110 M

*Note: Policy decision necessary re: treatment of I-728 funding already used for class size reduction*

# Districts Must Subsidize State Salary Allocations Significantly

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



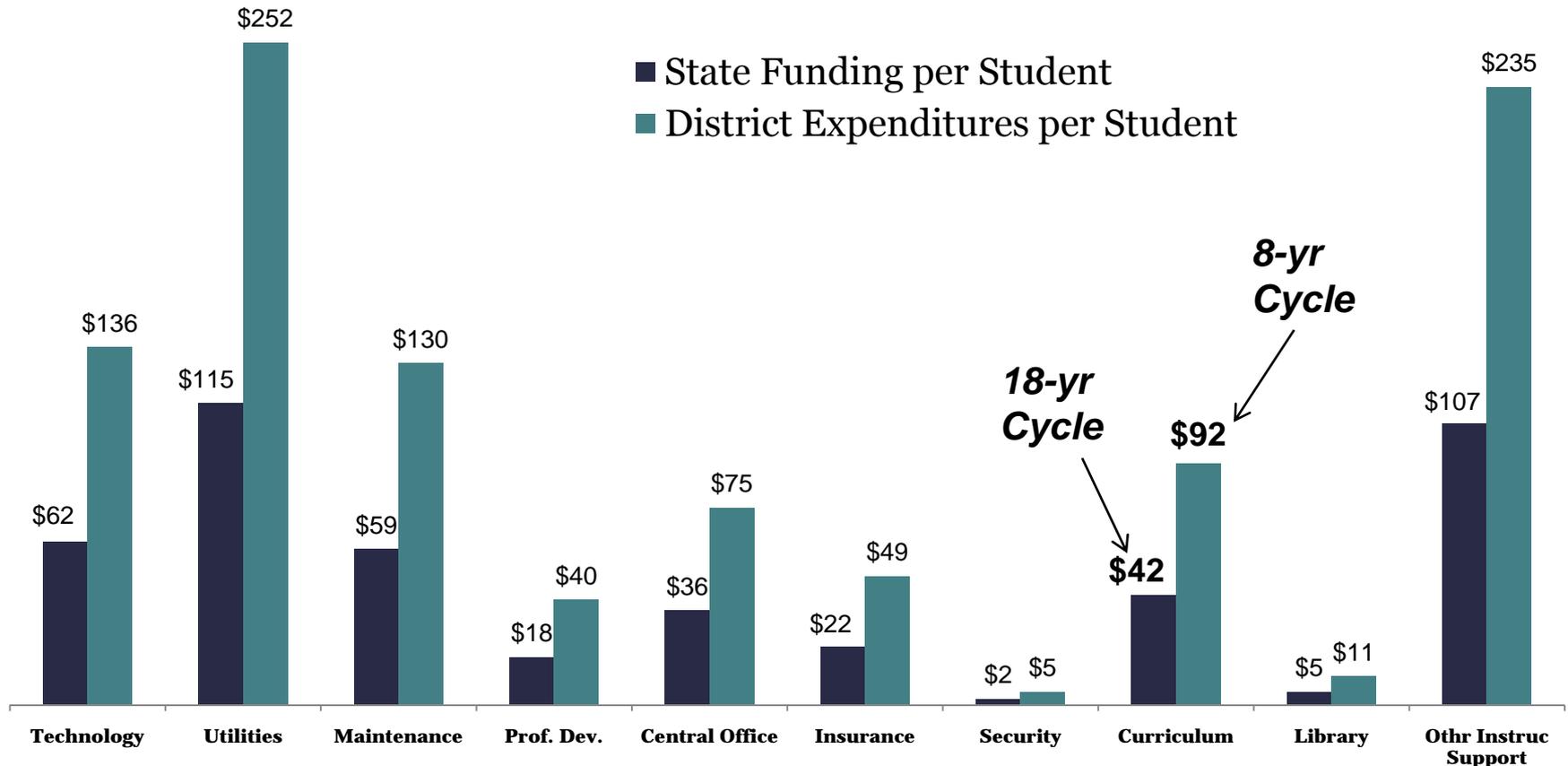
1. Average total salary
2. State average allocation
3. Supplemental salaries not considered a Basic Education responsibility
4. District allocations vary, first step is to equalize salaries, including Instructional
5. After equalization, state still must identify an appropriate method to address the disconnect between state allocations and true costs districts experience

# SPI Salary Recommendations to BEFTF

- Equalize salary allocations for Instructional, Classified, and Administrative Staff (\$400 M per year)
- Create a new Knowledge and Skills-Based compensation model for Instructional Staff
  - Address base pay, provide more compensation over career, better align the model to research
- Allocate salaries for Classified/Administrative staff based on what we know staff cost
  - State employee salaries
  - Actual cost of Principals and Administrators

# Districts Spend Over \$500 Million More on NERC Than the State Funds

**Non-employee Costs per Student, 2006-07 SY Funding and District Expenditures (survey of 71 districts)**



# SPI Recommendation to BEFTF: NERC

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- Allocate on per student basis of \$1,383
  - includes statewide technology program allocation of \$282 per student (would be phased-in over 7 years)
  - includes \$126 per student for curriculum
    - equates to a 6-year adoption cycle

# Current LAP Funding is Inadequate

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- Learning Assistance Program (LAP) allocates 3.46 staff units per 1,000 poverty students (1 staff per 289 poverty students)
- This equates to a teacher spending 30 minutes per day with groups of 28 struggling students
  - No \$ for materials, program support or professional development
- LAP/Title 1 buying-power (teacher hours) is roughly the same as in 1992-93
- Funding is inadequate to cover all student need at a service level that could improve learning

# SPI Recommendation to BEFTF: LAP

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- Reconstitute the LAP formula with 6 formula components based on successful programs:
  1. Class size reduction for severe poverty
  2. Teachers for small group tutoring
  3. Teachers for intensive tutoring
  4. Program administrative support
  5. Professional development for the teacher staffing units driven by parts 1, 2, 3, and 4
  6. Instructional Materials
- \$325 M increase over current funding
  - I-728 currently pays for a portion of this now

# Funding for English Language Learners

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- Current allocation is \$904 per student
  - Funding generates 1 teacher per 75 ELL students
  - At this staffing ratio, no resources are available for interpreters, program administration, professional development, instructional materials, translations, family outreach
- Some districts significantly subsidize the ELL program and positively impact student learning

# SPI Recommendation to BEFTF: ELL

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- Reconstitute the ELL formula with 6 formula components based on successful programs:
  1. Core staffing enhancement - smaller class sizes for ELL
  2. “Floor” funding for districts with few ELL
  3. High ELL/Multiple language enhancement
  4. Middle/High school enhancement
  5. Professional development
  6. Instructional materials and assessments
- \$96 M increase over current funding

# Districts Must Choose Between Mandatory Costs and Improving Achievement

	<b>Problem</b>	<b>Possible Solution</b>
Instructional Staffing Ratios	Districts must choose between class size and instructional hours	Explicit state decision on both assumptions that is funded
Salary Allocations	Out-dated and low	Equalize, re-base to logical drivers
Non-Employee Related Costs	Out-dated and low	Re-base to logical drivers; fund assumptions regarding curriculum
LAP and ELL	Funding not connected to a model of service	Design a model of service based on research and fund

# Financial Outlook for Districts

# K-12 Financial Outlook

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- **What is the financial outlook for school districts without new resources?**
  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 the next steps of school finance?

# State Under-funding Pushes Costs onto Local Funds; Local Funds are Maxed Out

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- 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
- Local Funds are commonly thought to employ “enhancement” staff and programs
- In fact, Local Funds cover the 5 “problems” just covered and transportation, many classified employees performing basic functions, special education (too name a few)
- ***After “Local Funds” cover these costs, not much room to cover compensation increases for levy, federal, and I-728 employees***

# How Have Districts Balanced Their Budgets in the Last Few Years?

## 2000-2008

- Reduction in pension rates saved \$364 million (*slide 21, 23*)
- 2003-05 COLA suspension (3.1%) saved \$187 million (*slide 22, 23*)
- Increases in I-728 revenue and federal funding totaled \$614 million (*slide 24*)
- Increase in levy authority to recognize I-732 suspension and I-728 delay

## 2009 and Beyond

- Pension rates increase (*slide 21*)
- I-728 and federal flatten (*slide 24*)
- Local funds continue to support COLAs
- Other cost continue to increase faster than inflation
  - Health benefits (*slide 25*)
  - Fuel (*slide 26*)
- Levy authority increases an average of 5%
- Levies approved to utilize 92% of authority (*slide 27*)

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

School Year Projections For:

2008-09

2009-10

2010-11

# 3-Year Projection of Local Funds Capacity

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- What are the “puts and takes” against local funds?
  - Must estimate levies, federal funds, COLAs, pensions, health benefits and fuel
  - All conservative, somewhat optimistic
- 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 for TRI component
  - Conservative assumption (e.g., contract days usually inflate with SAM)

# Districts Will Spend Additional \$107 Million on Local Funds Compensation Next Year

## Projected Increases 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	<b>\$107</b>	\$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

# Four Release Valves for Budget Stabilization

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- 1) I-728 Growth (about \$8 million per year or 1.8%)
- 2) Levy Revenue Growth (about \$99 million per year or 6.3%)
- 3) Federal Revenue Growth (\$6 million in 2008-09 or 2.3%)
- 4) 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 (\$20 M)	(127)	(236)	(328)	(\$691)
Net Local Funds Change	\$38	\$60	\$101	\$199

### Net Addition of Local Funds:

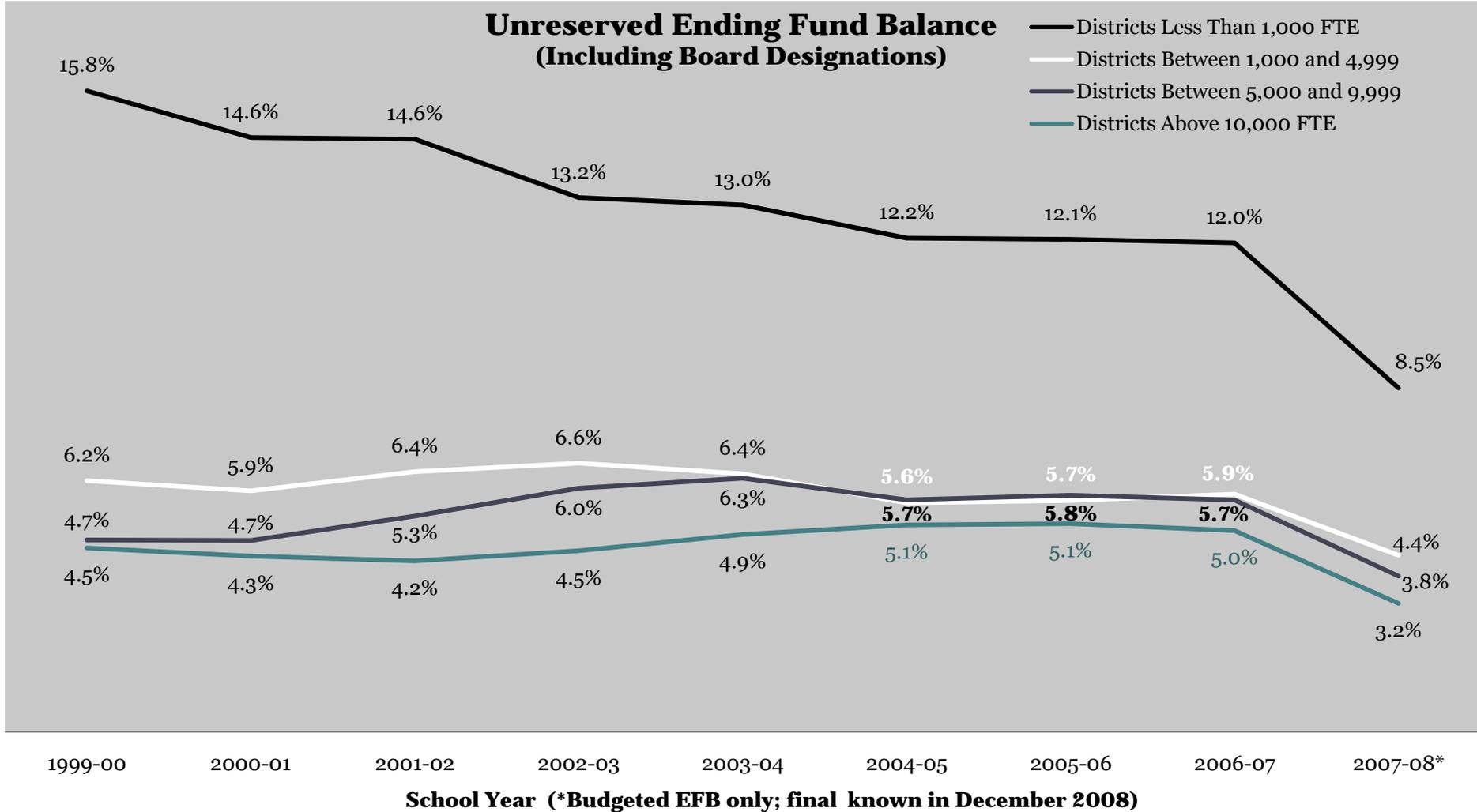
- Must cover all remaining cost increases on a \$2.7 billion base

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

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- 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

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



# Summary of Projections

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- Districts' budgets face significant pressure in order to cover the staffing cost increases that must be paid 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 much room left)
    - Spend down reserves (reserves are already dropping)
    - Cut program budgets and staff
  - 7 districts are on Binding Conditions for 2007-08 school year

# Districts Must Re-visit These Cut Options

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- 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

# A Few More Budget Cut Options Districts Must Re-visit

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- 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)

# Conclusions

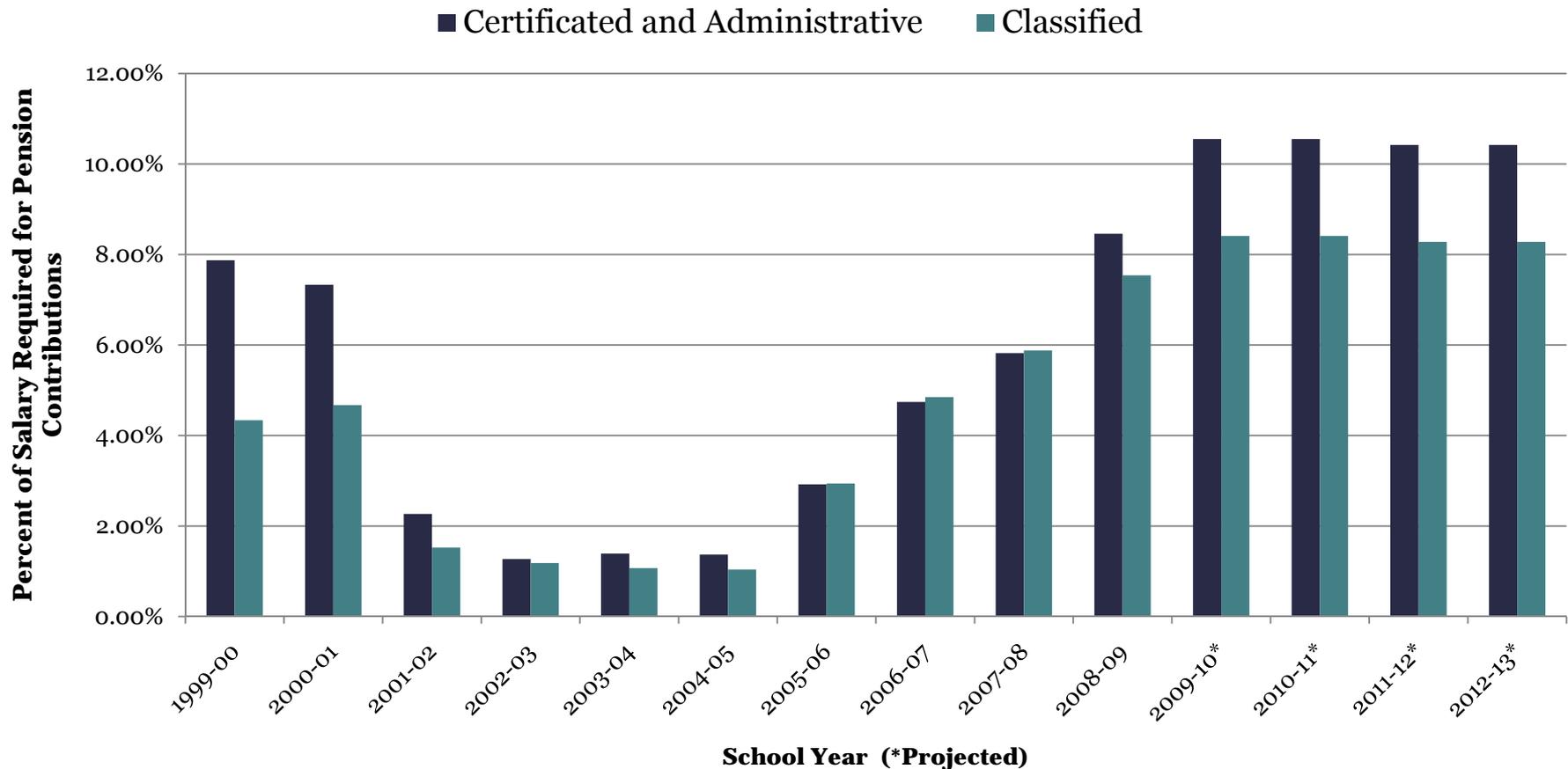
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- Districts have already had to take budget cuts; new cuts harder
- Districts cannot absorb the cost of partially funded programs or unfunded mandates
- Districts have little ability to respond to unknowns
  - Increasing rates of inflation
- Districts 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

# Appendix

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

**Employer Contribution Rates for Certificated and Administrative, and Classified Staff Retirement**



## 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	3.7% + .6	3.7%	3.7%
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

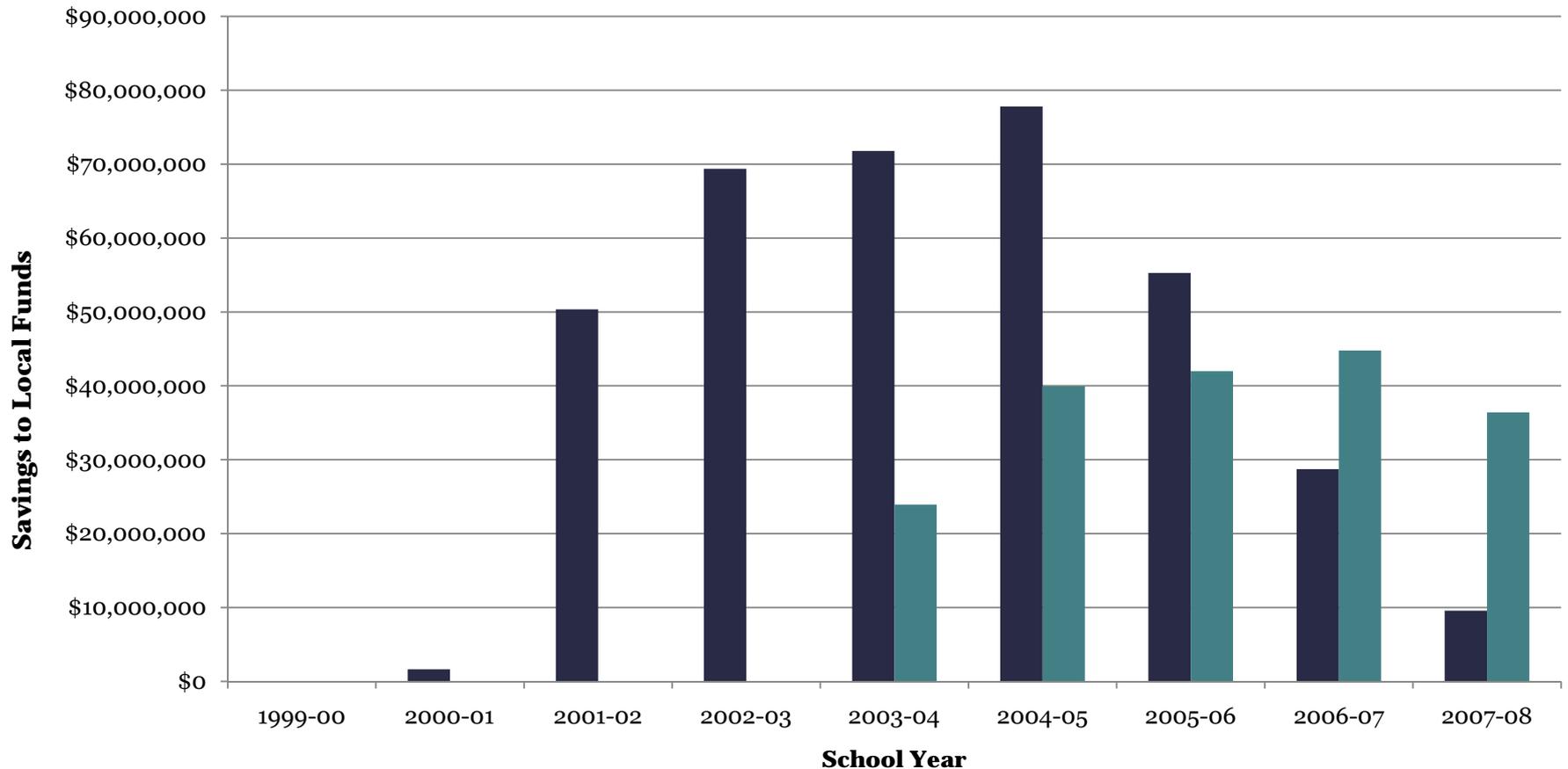
\*\*Increases ranged 3% to .05% for staff in 1st 7 years of career only

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

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

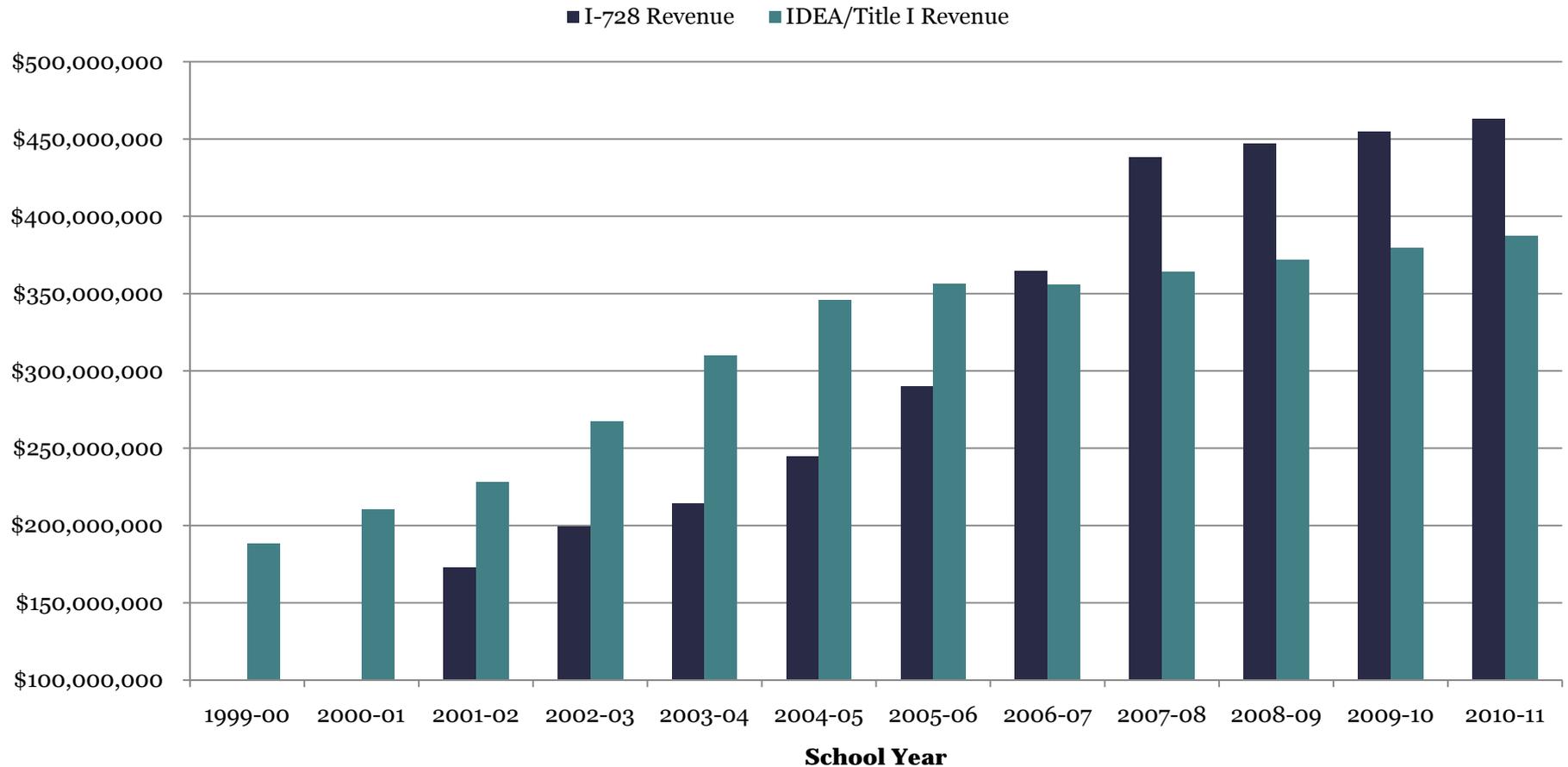
## Annual Local Funds Savings for Pension Rate Reduction from 1999-2000 Rate and Savings Due to COLA Suspension

■ Pension Cost Savings   ■ Salary Suspension Savings



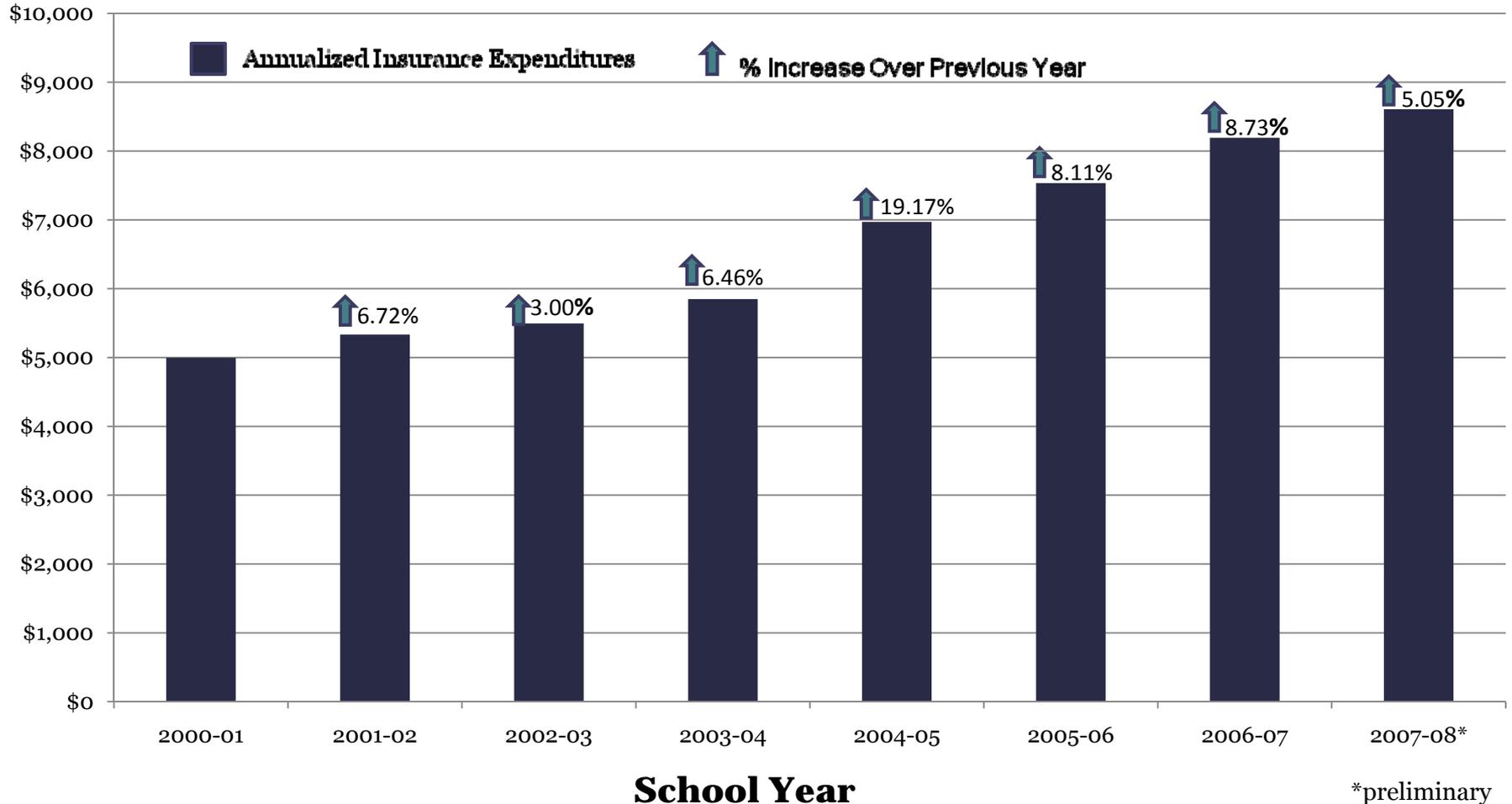
# From 1999-2008, I-728 and Federal Funds Increased by \$614 Million; Beginning 2008-09 Only Small Increases

## IDEA/Title I and I-728 Total Revenue



# Health Benefit Costs Increase Rapidly

## Annual Health Benefit Cost Per Certificated Instructional Staff



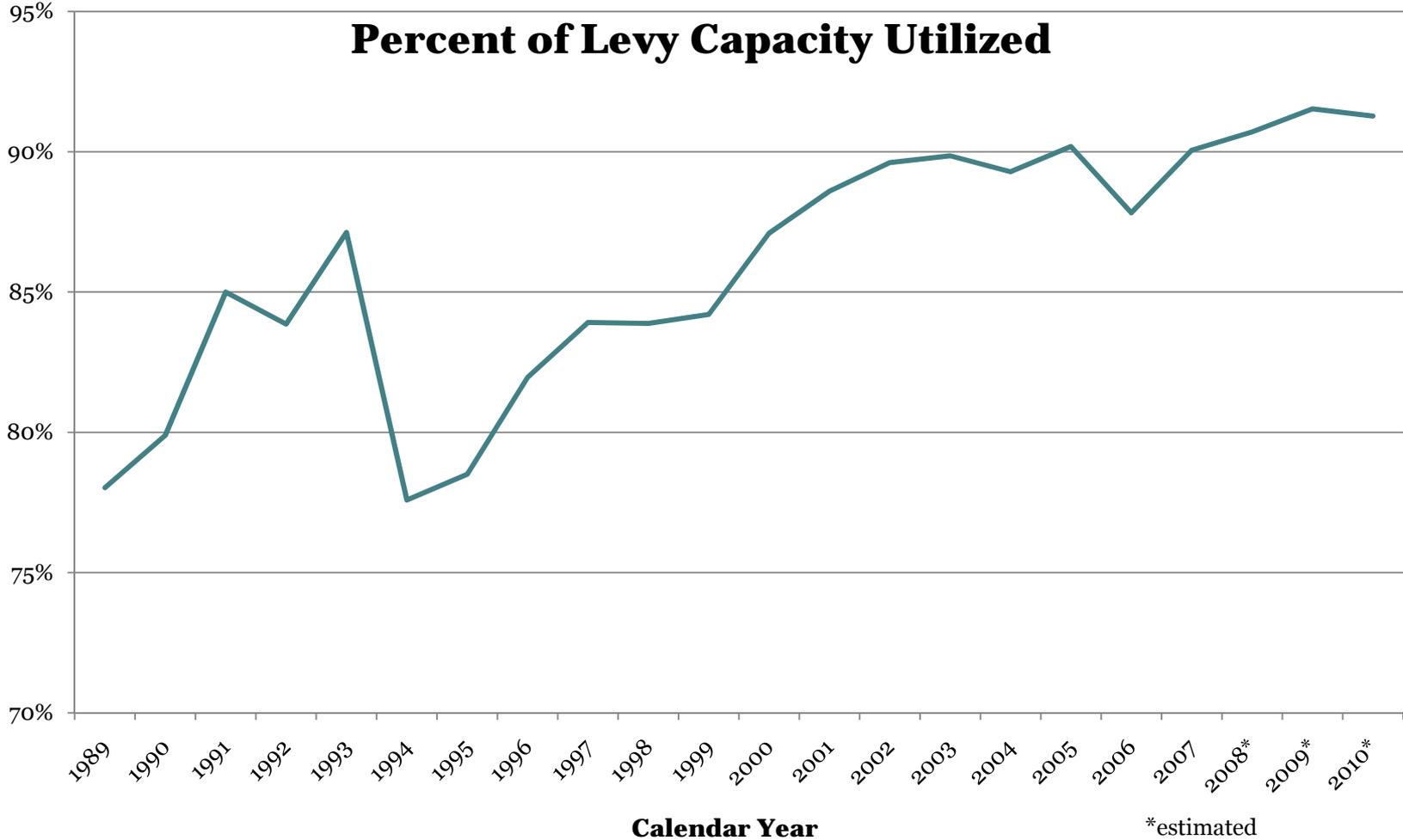
# Diesel Price per Gallon is up 61% over June 2007 Price

## West Coast Monthly Average Retail Price per Gallon of Diesel

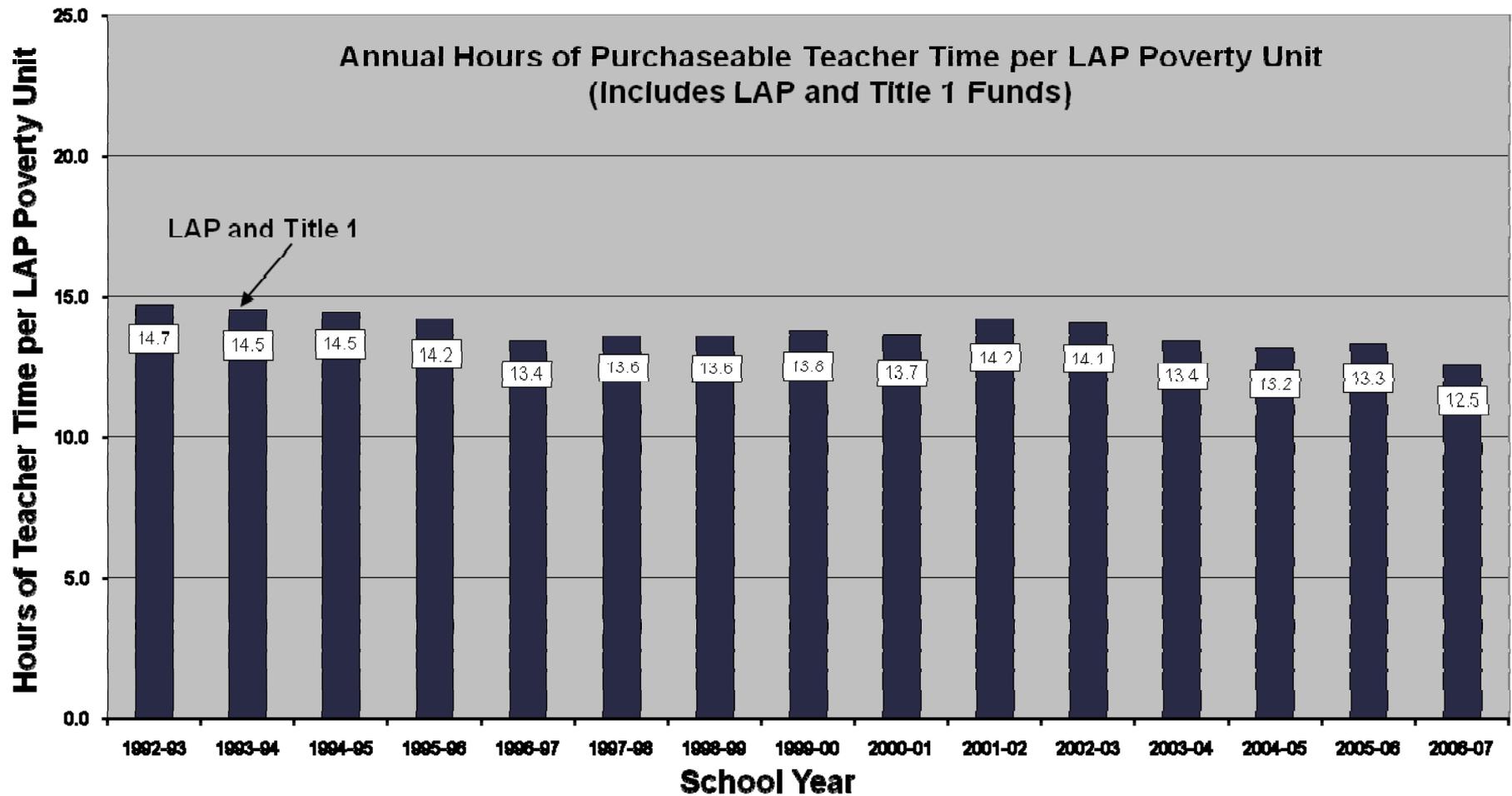


Source: US Energy Information Administration  
Note: "West Coast" data excludes California

# Districts are already Maximizing Levy Authority

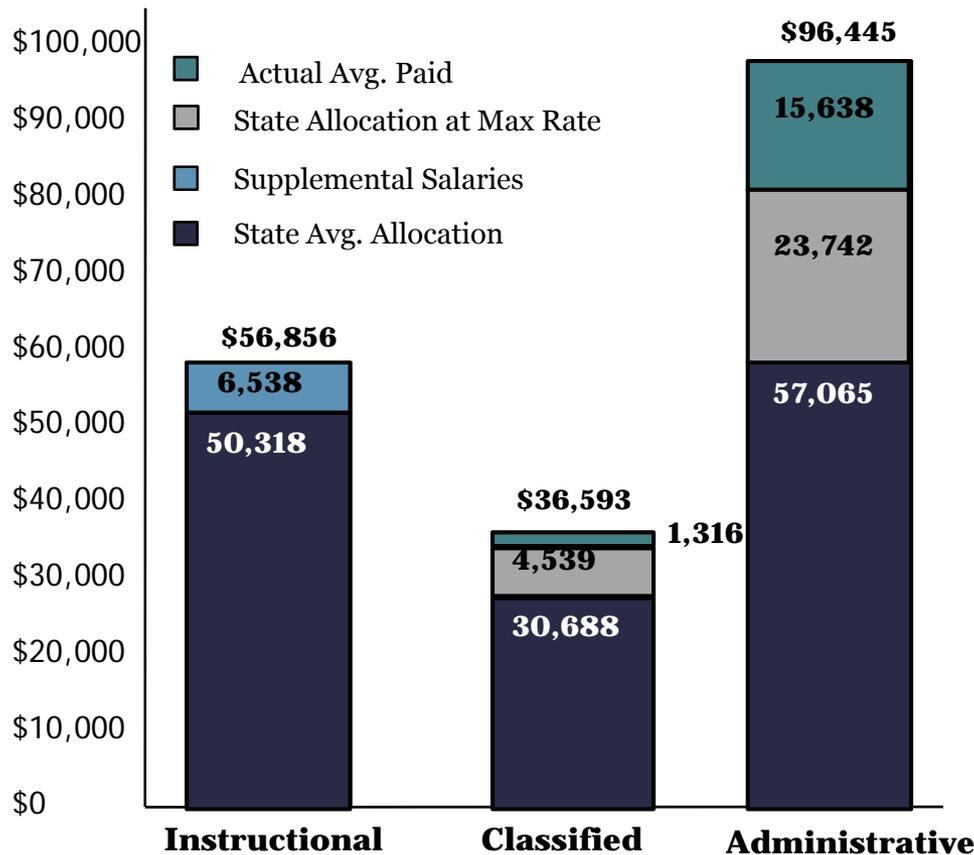


# Even Given Large Increases in Title 1, the Buying Power of LAP/Title 1 is Static When Compared to Hourly Teacher Costs



# Local Funds Pay COLA on 4 Levels

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**