



THE WASHINGTON STATE BOARD OF EDUCATION

An education system where students are engaged in personalized education pathways that prepare them for civic engagement, careers, postsecondary education, and lifelong learning

COVER: GOVERNOR'S BUDGET UPDATE

Prepared for the January 2019 Board Meeting

Information item.

As related to:

- Goal One:** All students feel safe at school, and have the supports necessary to thrive.
- Goal Two:** All students are able to engage in their schools and their broader communities, and feel invested in their learning pathways, which lead to their post-secondary aspirations.
- Goal Three:** School and district structures and systems adapt to meet the evolving needs of the student population and community, as a whole. Students are prepared to adapt as needed and fully participate in the world beyond the classroom.

- Goal Four:** Students successfully transition into, through, and out of the P-12 system.
- Goal Five:** Students graduate from Washington State high schools ready for civic engagement, careers, postsecondary education, and lifelong learning.
- Goal Six:** Equitable funding across the state to ensure that all students have the funding and opportunities they need, regardless of their geographical location or other needs.
- Other**

Materials included in packet:

- Governor's Budget Overview
- Governor's Budget K-12 Highlights

Synopsis and Policy Considerations:

This section is an update on the Governor's K-12 budget. Ms. Cynthia Hollimon, Budget Assistant at the Office of Financial Management, will present to the Board on the Governor's K-12 budget. The documents in the packet focus in on the K-12 section of the budget and the entire budget document is available at:

https://ofm.wa.gov/sites/default/files/public/budget/statebudget/highlights/budget19/201921-Budget-and-Policy-Highlights_0.pdf



Investing in Washington's continuing success

After historic K-12 education funding increases, Gov. Inslee continues education investments while putting unprecedented focus on Washington's behavioral health system, statewide broadband, orca recovery, other vital needs

Washington consistently ranks as a top state for business AND the top state for workers. The state's unemployment rate is at a 42-year low. On a bipartisan basis, we have invested in infrastructure and programs that make it possible for Washington to export more products than nearly every other state, operate world-class research universities and expand access to affordable pathways to college and career-connected learning. We value our diverse and inclusive communities and embrace our responsibilities as stewards of our environment. To sustain and enhance our economic growth across the state, Gov. Jay Inslee believes we must continue to invest in services, programs and projects that move Washington forward.

Over the past five years, Gov. Inslee and the Legislature tackled one of the greatest budget challenges the state has ever faced — meeting our constitutional obligation to fully fund basic education. The state had been falling short on its obligation for decades, and fixing the problem required an enormous infusion of state funding for schools.

Though the state still has work to do in meeting the needs of students and teachers, these funding increases are a significant achievement. Among other things, the higher funding is helping to reduce class sizes in kindergarten through third grade, expand all-day kindergarten to all students, raise teacher compensation and fully cover school district transportation and operating costs.

Just over a decade ago, funding for public schools made up less than 40 percent of overall Near General Fund spending. Now, for the first time since the early 1980s, public schools receive more than 50 percent of that spending.

While solving the school-funding problem has been the primary focus in Olympia, Inslee and the Legislature have moved the state forward on a number of other fronts since 2013. For example:

- The state is preparing to launch the best-in-the-nation [paid family and medical leave program](#).
- The state's new [Department of Children, Youth, and Families](#), which combines early learning, child protection and juvenile rehabilitation services, is helping to ensure better outcomes for children and families.
- As has been the case for decades, the state continues to be a leader nationwide in expanding health care coverage.
- The state in 2015 made the biggest [transportation improvement investment](#) in state history.

The state has worked to hold tuition in check at the public colleges and universities while continuing to expand one of the most generous financial aid systems in the country. Last year the governor launched the Career Connect Washington initiative

to help more students pursue good-paying jobs after high school through career-ready education such as registered apprenticeships and technical training programs. And our state in recent years has made historic investments to alleviate the rising demand in the behavioral health system and serve the growing number of people battling opioid addiction and homelessness.

Although the economic boom here has created enormous opportunity for Washingtonians, it has also exacerbated other challenges as our population has rapidly grown and some parts of the state still struggle with unemployment.

Heading into its next two-year budget, Washington faces major challenges in meeting pent-up needs and new obligations that have grown over the decade.

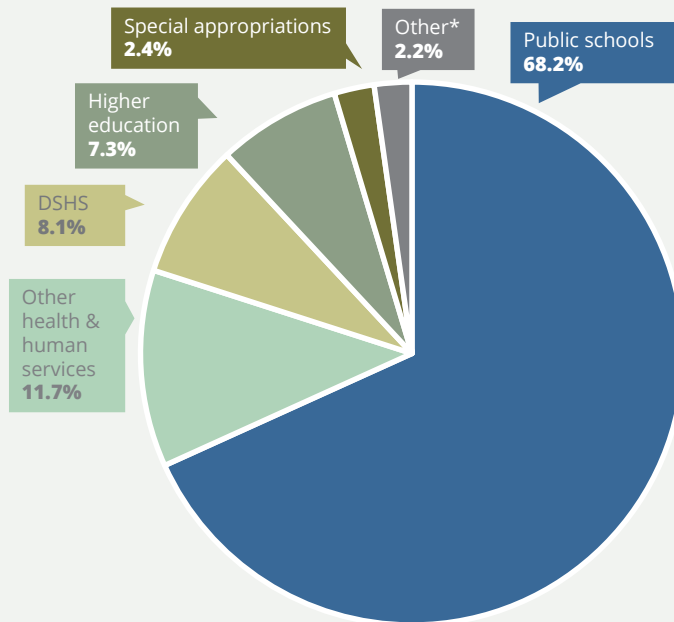
Ten years ago, amid the worst national recession since the Great Depression, the state had to squeeze spending in many areas even as the need for services grew. Then, as the economy recovered, the governor and the Legislature had to steer the bulk of any additional revenue to meeting the state's constitutional education funding obligations. In the past three biennial budgets, Near General Fund-State spending increased about \$13.4 billion. Nearly 70 percent of that new spending — about \$9.2 billion — went to K-12 education.

The fact is, state revenue is not growing fast enough to cover both the huge new mandated outlays for K-12 education as well as meet rising demands and new obligations in a broad range of areas.

Budget homes in on state's behavioral health system, strategies to fight climate change and protect Southern Resident orcas, and builds up statewide broadband

Gov. Inslee understands additional investments are still needed in our public schools, but believes we can no longer delay the focus on a broader array of urgent needs across the state. Through his 2019–21 operating, capital and transportation budgets, the governor is putting forward coordinated and comprehensive plans for addressing several of the state's most pressing issues.

Proportion of growth of Near General Fund spending 2013–19



Over the last three biennial budgets, more than two-thirds of new Near General Fund-State spending — **nearly \$9.2 billion** — has gone to K-12 schools.

*Other includes governmental operations, judicial, other education, natural resources, legislative and transportation

This spring, the governor announced a five-year plan to transform the state’s **behavioral health system**, including how and where people with acute mental illness are treated. His 2019–21 operating and capital budgets provide significant new resources to launch that transformative effort.

His budgets continue investments to improve patient care and **patient and staff safety** at the state’s psychiatric hospitals and to expand **alternative placement capacity** in the community. Most significantly, the governor proposes adding capacity for treating civil patients in smaller, **community-based facilities** so they can be closer to their loved ones and friends.

Supporting **Southern Resident orca recovery efforts** is another key focus of Inslee’s budgets. His

operating, capital and transportation spending plans include an unprecedented level of investments that will support recovery efforts for the endangered Southern Resident orca population. Besides helping orcas, these investments would have significant benefits for the entire Puget Sound ecosystem.

His budgets also include funding to protect and restore habitat, reduce barriers to salmon migration, boost salmon hatchery production, expand pollution prevention and cleanup efforts and alleviate disturbance and noise from vessel traffic to promote a healthier environment and sufficient food source for orcas.

Continuing in his commitment to make Washington a leader in combating climate change, the governor is putting forward a comprehensive package

to steadily reduce **greenhouse gas emissions** statewide and help the state meet greenhouse gas reduction goals set in law.

The package includes a new initiative to reduce **emissions in the state's building sector**, the second-largest source of emissions. The governor's operating and capital budgets also include funding to promote a wide range of **clean energy projects and research**. And his transportation budget includes funding to expand the number of electric vehicle charging stations and to begin converting the state ferry fleet to electric-hybrid vessels.

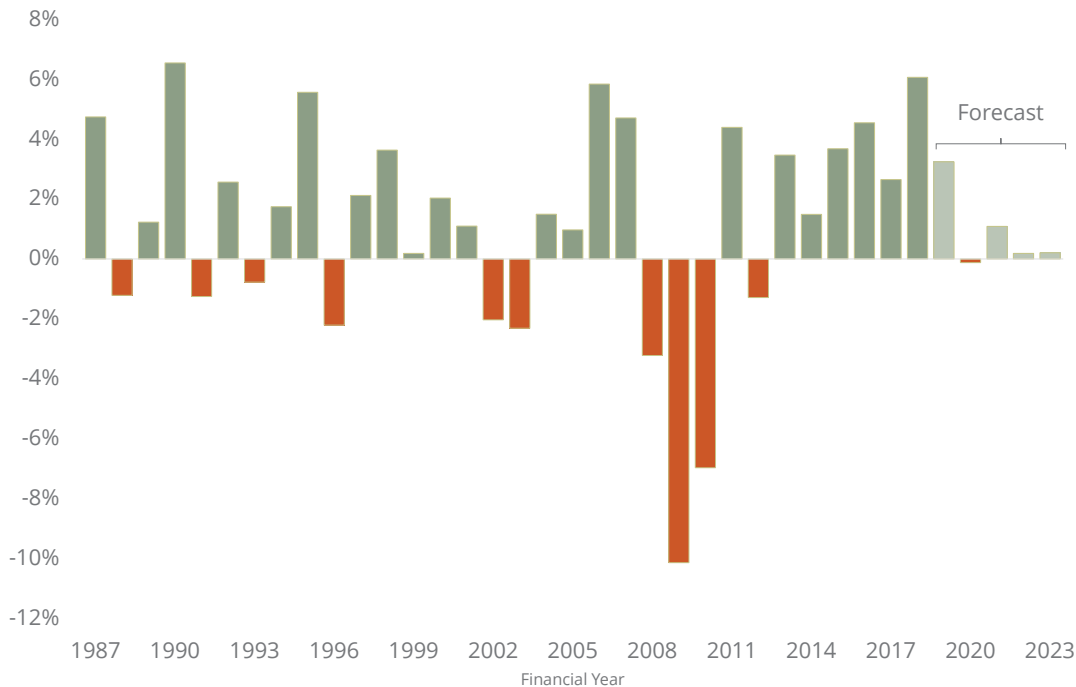
To expand broadband internet access, especially in rural areas of the state, the governor proposes setting up a new **Statewide Broadband Office** to serve as the central planning and coordinating body for public and private efforts to deploy broadband. His budgets also include funding for a competitive grant and loan program to extend broadband services to unserved and underserved people and to remote pockets of the state.

With the state's new children's agency up and running, the governor is calling for bold new investments in the state's early learning system. His budgets include funding to provide **newborn screening assessments and home visiting services** for all Washington families, expand and improve **preschool opportunities**, create a **statewide referral system** to connect families with early learning services and build more **early learning facilities**.

The budgets will make major funding and service improvements throughout our public education system.

The governor proposes new funding to support **special education** efforts and for more school counselors, nurses and social workers to support student needs. The governor also proposes protecting the ability of local communities to invest more **local levy funding** to enhance K-12 programs and services, with voter approval.

Annual percentage change of real per-capita revenue



Source: Economic and Revenue Forecast Council, Nov. 2018

Washington has long been a leader in providing **financial aid** for higher education students. The governor builds on that success by fully funding the Washington College Promise (formerly State Need Grant), which by the 2021–22 school year will guarantee financial aid for all students who qualify for it.

Among other things, the budgets will also increase funding for the **Career Connect Washington** initiative, boost efforts to combat homelessness and opioid abuse, enhance services for people with developmental disabilities and improve our state park system.

The governor is also proposing modest **pay increases** for most state employees, largely to help the state meet the challenge of attracting and retaining workers in a strong economy.

Improving Washington's outdated tax structure

By every measure, the state's economy is doing well. In Washington, however, economic growth does not necessarily translate to equivalent growth in state revenues. That's because we have an outdated state tax system that fails to keep pace with economic growth.

The bulk of Washington's tax system was put in place in the 1930s, when our economy was largely goods based. Today, however, we spend a smaller share of our disposable income on goods and a larger share on services. The bottom line: We do not tax services to the extent we tax goods.

More than half our revenue comes from retail sales taxes, which disproportionately impact people at the lower end of the economic scale and allow the very wealthiest individuals and most prosperous businesses to pay relatively less in taxes.

The state has invested enormously in building up one of the most skilled workforces in the country, designing and maintaining an infrastructure

that enables businesses to transport a growing volume of goods and products, and in preserving the beautiful spaces that companies tout when recruiting employees. When companies and individuals do well, everyone benefits when they help pay it forward so the state can continue investing in the things that ensure the same opportunities for all Washingtonians.

To pay for the investments laid out in his budget, the governor proposes using a portion of the state's budget reserves in combination with revenue from one new tax and changes to two current state taxes:

- A new capital gains tax on the sale of stocks, bonds and other assets. With the tax geared to very large capital gains, only a tiny fraction of the state's wealthiest taxpayers would be affected. Exemptions are provided for retirement accounts, homes, farms and forestry. Earned income from salaries and wages are not capital gains and would not be taxed at all.
- Increasing the state business and occupation tax on services, such as those provided by accountants, architects, attorneys, consultants and real estate agents.
- Changing the state's real estate excise tax from a regressive flat rate to a progressive graduated rate that would lower the tax on sales of lower-value properties and increase it for sales of properties valued at \$1 million or more. Additional revenue generated by the change will help fund the removal of fish passage barriers, or culverts, across the state.

The proposed tax changes would raise nearly \$4 billion in the next biennium. Even with the revenue increases the governor is proposing, Washington's tax collections as a share of the economy will remain below the national average. Heading into the next biennium, the state is projected to have about \$3 billion in total reserves. Under Inslee's proposal, the state would still have about \$2.8 billion in total reserves at the end of the biennium.

K-12 Education

Budget builds on state's landmark school funding achievements

During the past five years, Gov. Inslee and the Legislature dramatically boosted state funding for public K-12 schools and 1 million students. In response to the 2012 McCleary court decision, the state has phased in public school funding of \$4.7 billion. Last year, the final piece of the funding response to the McCleary case was enacted with a \$1 billion state increase in education employee compensation.

As new McCleary funding is maintained in the coming years, the focus of state budgets and policies for the public schools will be on enhancing services for all students, especially for those with the greatest needs for help in achieving their bright potential.

The 2019–21 budget will be the first in which all McCleary funding improvements will be fully funded for an entire biennium: The additional cost of meeting McCleary and other K-12 obligations is nearly \$4.1 billion above the current budget.

Inslee understands that meeting the state's basic education funding obligation was just a start. His budget for the next biennium calls for several major enhancements to the state's public school system.

Local levy authority

Funding the McCleary decision was essential to providing appropriate funding for basic education. Yet Inslee believes that mandatory base funding for schools should be a floor for support and not a ceiling, or limit, on local communities' ability to enhance school services through voter-approved local levies. The governor has heard from schools and families across the state that levy reforms implemented in 2017 simply went too far in reducing local control of school district programming and operations.

With his budget, the governor proposes returning to Washington's traditional levy structure beginning

in calendar year 2020. His levy proposal eliminates old complications such as grandfathering and ghost revenue calculations for a more simplified approach. It allows all districts to levy up to 28 percent of their combined state and federal revenues and reinstates state equalization of local levies at 14 percent of the same. His budget calls for a \$214 million biennial increase in Local Effort Assistance.

Student supports

The governor proposes increasing staffing levels — as called for under Initiative 1351 — for nurses, social workers, psychologists and guidance counselors in elementary and middle schools. These staff provide a system of support for students' physical, mental and emotional well-being in addition to serving as potential points of contact for students who may be seeking adults to trust. The budget includes \$155 million for districts in which more than half of students are eligible for free and reduced price meals. This kicks off a six-year phase-in beginning with Washington's lowest-income districts. Eventually, all districts will be served.

Special education

Investments in the 2018 legislative session, including the final compensation increase under McCleary, raised special education program funding by \$340 million from the 2017–18 to the 2018–19 school years.

In his 2019–21 budget, the governor takes the next steps to funding the special education needs of Washington students:

- \$51 million to fully fund the safety net, a program that reimburses districts for extraordinary expenditures on services to students with the highest-cost special education needs.

- \$94 million to begin phasing in the targeted and enhanced special education funding structure proposed by Superintendent of Public Instruction Chris Reykdal. As the state explores its goals and options for special education, the superintendent's plan will align state resources more closely with student needs.
- \$1 million for the Washington State Institute of Public Policy to study special education goals, services and outcomes — nationally and internationally — to help inform Washington's future options for special education.

Science education

The budget includes \$4 million to double the current investment in climate science education in our schools. This will promote more teacher development in science education and bolster support for community-based organizations to partner with schools and educational service districts to develop training and curriculum supports.

Another \$4 million is for computer science grants, bringing funding for this program to a total of \$6 million. This new investment includes a \$1 million increase for a grant program that requires private matching funds for disbursement. The other \$3 million is for grants to districts in which more than 60 percent of students are eligible for free and reduced price meals.

Student mental health and safety

The budget includes \$7.5 million for a regional support structure for districts to offer a coordinated approach to prevention, early identification and intervention for student behavioral health and safety needs. Coordinated by the Office of Superintendent of Public Instruction and with supports delivered by the nine educational service districts, the proposed funding will provide school districts with capacity to:

- Develop and implement comprehensive safe schools plans.

- Recognize and respond to emotional and behavioral distress in students.
- Expand student access to publicly funded behavioral health services.

Addressing the opportunity gap

The governor proposes additional investments to improve educational outcomes for all students and to address opportunity gaps. These include expansion of dual language opportunities and recruitment of educators from diverse populations and with the ability to teach in multiple languages:

- \$2.7 million to expand and strengthen the state's dual language grant program and statewide supports.
- \$500,000 to cover exam fees for low-income students seeking to earn the Seal of Bilingual Proficiency.
- \$300,000 to widen recruitment of bilingual educators across the state.
- \$50,000 to develop K-12 Spanish language arts learning standards.
- \$3.6 million for scholarships to recruit and retain teachers and address teacher shortages with the condition that the recipients work in Washington public schools for two years (or one year if working in a shortage area).

Paraeducator training

Our public schools rely heavily on paraeducators to serve students in many capacities. A 2017 law requires that all paraeducators receive four days of training in the fundamental course of study within their first year of employment and another 10 days of training during the following three years to obtain a paraeducator certificate. To achieve the goal of a fully trained paraeducator workforce, the governor's budget includes \$24.6 million for four days of training in the 2019–20 school year.