

Olympia School District Financial Outlook Under EHB 2242

Why Does the New Finance System Drive Deficits?

Engrossed House Bill 2242 makes significant changes to our financial structure:

- A. Increases state funding driven through increased salary allocations (less need to subsidize salaries via the Maintenance and Operations (M&O) levy).
- B. Allocates state funding driven through salary allocations on an average salary per employee (rather than weighted average if a district has many late career employees).
- C. Increases state funds driven through restricted, or categorical allocations (non-flexible funds).
- D. Decreases the M&O levy (Olympia School District levy decreases by 48%).
- E. Pays for new state funding with an increase in the state schools property tax (in Thurston County, \$0.91/\$1,000 of assessed value growing to \$1.05/\$1,000 by 2021).

The Olympia School District (OSD) will experience a significant and immediate financial crisis driven by the new law and new costly state mandates. What is the extent of the financial crisis for Olympia School District?

	2018-19 School Year	2019-20 School Year	2020-21 School Year
Projected Deficit*	\$6.6 Million	\$9.2 to \$11.5 Million**	10.6 to \$12.9 Million**

*All years based on 2017-18 SY enrollment.

**Depending on salary schedule negotiated.

Why is OSD so hard-hit?

1. There is little new funding for basic education; new enhancements are in specialized programs. (See #1 below.)
2. OSD voters have been generous in the past and maximized the M&O levy. Under EHB 2242, our levy is decreased quickly without knowing the impact of such a tremendous change to the system. (See #2 below.)
3. The Legislature balanced all of the many financial changes for districts by allocating a new funding allocation named 'Regional Cost-of-Living' but none was allocated to Olympia. (See #3, over.)
4. The net increase associated with increased state funding via salary allocations and decreased state funding for districts with more late career teachers (Staff Mix) does not allocate Olympia enough of an increase to offset the reduction in M&O levy or increase in salaries for teachers proposed by the Legislature. (See #4, over.)

#1, Little New Funding for Basic Staffing in Funding Formula

Basic Education Funding Increases		Categorical Program Funding Increases (New Funds Cannot be Transferred to Fill a Deficit Elsewhere)	
Class Size Reduction Grades 4-12	No*	Class Size Reduction Grades K-3	Yes, \$3.3 M**
Transportation	Yes, \$1.2 M	Special Education	Yes, \$1.4 M**
More Librarians or Nurses	No*	Career and Technical Education	Yes, \$1.6 M
More Principals or Office Staff	No*	Struggling Students at 14 Schools	Yes, 200 K
More Counselors	Yes, \$270 K	Struggling Students at 2 Schools	Yes, \$180 K
More Technology or Safety Staff	No*	English Language Learners	Yes, \$62 K
More Operating Resources	No*		

*Still must be subsidized by M&O levy, but levy decreases too much. **Levy must subsidize this categorical program; with levy reduction, must cut other programs to keep these items "whole".

#2, Decrease in M&O Levy is Too Fast and Too Deep

In 2010 the Legislature enacted a law to reduce levies from a cap of 28% to a cap of 24% of total state/federal funds, BEGINNING in 2019. This was referred to as the Levy Cliff and Legislators assured districts that state funding would fill in the difference before this took effect. In enacting EHB 2242, the Legislature set targets to make sure that as the levy decreased, state funding increased enough to "re-fill the bucket". However, the Legislative target was to refill the bucket

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to the 24% level, not the 28% level. The difference for Olympia is \$6 million. In the new finance system, either state funding needs to increase by this amount, or the levy should not decrease until state funding fills in the loss.

#3, EHB 2242 includes Regional Cost-of-Living funding for many districts, but not Olympia School District

Ostensibly this funding is to recognize that some districts' have higher home prices. However, it is also clear that the formula was used to offset the deficits that would be caused by the new formula. OSD does not receive any Regional funds, but a neighbor with lower home prices does receive more funding. The exact formula for distribution of funds has not been released. A 12% regionalization factor, as for Tacoma and Peninsula, would result in \$6.4 million for OSD.

#4, EHB 2242 Increases Average Salary Allocations but Eliminates the 40-Year-Old Formula Component for Districts with High Staff Mix

First, what is Staff Mix? Staff Mix is the component of the state formula, in place since the early 1980s that gave districts with more late-career or highly educated teachers more money for salaries to recognize that these teachers cost more. In Olympia School District, 30% of our teachers are in the MOST expensive cell of the salary schedule, **and this is 22% more than the state on average.**

Years of Service	Percent of OSD Staff in Each Salary Cell									MA+90 OR Ph.D.
	BA	BA+15	BA+30	BA+45	BA+90	BA+135	MA	MA+45		
0	1.37%	0.00%	0.00%	0.31%	0.16%	0.00%	1.02%	0.55%	0.16%	
1	1.58%	0.31%	0.16%	0.16%	0.16%	0.00%	0.47%	0.78%	0.16%	
2	0.85%	0.00%	0.31%	0.09%	0.00%	0.00%	0.16%	1.25%	0.62%	
3	1.00%	0.00%	0.00%	0.59%	0.28%	0.00%	0.91%	0.56%	0.34%	
4	0.31%	0.46%	0.00%	0.00%	0.16%	0.00%	1.22%	0.62%	0.19%	
5	0.81%	0.31%	0.16%	0.00%	0.00%	0.00%	0.47%	1.25%	0.62%	
6	0.41%	0.00%	0.28%	0.62%	0.16%	0.00%	0.53%	1.11%	0.31%	
7	0.47%	0.00%	0.00%	0.16%	0.44%	0.00%	0.43%	0.62%	0.59%	
8	0.72%	0.31%	0.00%	0.41%	0.00%	0.00%	0.55%	0.66%	0.47%	
9		0.81%	0.00%	0.71%	0.75%	0.00%	0.16%	0.87%	1.33%	
10			0.12%	0.16%	0.47%	0.00%	0.47%	0.62%	0.30%	
11				0.47%	0.00%	0.00%	0.94%	1.34%	1.03%	
12				2.09%	0.16%	0.00%	0.00%	0.86%	1.40%	
13					0.47%	0.00%	0.31%	0.91%	1.25%	
14					0.48%	0.00%	0.31%	0.65%	1.87%	
15					0.72%	0.00%	0.47%	0.92%	2.19%	
16 or more					4.75%	0.32%	2.58%	6.87%	29.75%	
Subtotal	7.50%	2.21%	1.03%	5.77%	2.56%	0.00%	6.38%	7.40%	2.40%	35.26%
Subtotal					6.57%	0.32%	4.62%	13.05%	40.18%	64.74%

The Legislature also proposed a salary system that increases a teacher's lifetime salary growth from 88% to 125%. This means that a brand new teacher with a Bachelor's Degree

and 0 years of experience making \$40,000 per year will make either \$75,393 (88%) or \$90,000 (125%) at the end of their career (assuming they pursue additional degrees); all in constant dollars. Increased compensation for educators is overdue, however due to the loss of staff mix funding, Olympia cannot afford either salary schedule.

	Salary Schedule with 88% Lifetime Earnings Increase	Salary Schedule with 125% Lifetime Earnings Increase
Unfunded Cost of OSD Late-Career and Educated Teachers	\$3.9 million Deficit in State Funding for Teacher Salaries/Pensions	\$9 million Deficit in State Funding for Teacher Salaries/Pensions

Staff Mix funding is not just important to fill a deficit. It is critical that we give principals the authority and funding to hire the BEST teacher from among candidates for an open position with no direct or indirect pressure to hire the CHEAPEST candidate.

SOLUTIONS In order to be solvent, Olympia School District will have to implement budget cuts for the 2018-19 SY, amounting to \$6.6 million**. However, there are Legislative solutions that could reduce this deficit.

- Enact a 18% Regional Cost-of-Living allocation for Olympia School District. Eliminates the deficit. (12% is sufficient for the 2018-19 SY; 18% is needed on an on-going basis.)
- Delay implementation of average salary funding method; retain salary schedule allocation method for 2018-19 school year. Reduces deficit by \$4 million.
- Delay the reduction in the M&O levy. (Value varies.)
- Increase state funding to fully pay for Special Education. Reduces the deficit by \$4 million.
- Increase state funding to pay for more librarians, nurses, principals, office professionals, and operating costs so that the remaining M&O levy is not subsidizing these investments. (Value varies.)
- Delay "use-it-or-lose-it" for the K-3 class size reduction. Cost to state is \$0, but reduces deficit by \$1.5 million.

**Upcoming Technology and Safety Levy could reduce this deficit by about \$600,000.

For more information, please email osdbudgetplanning@osd.wednet.edu or visit https://osd.wednet.edu/our_district/district_information/budget.