

K-12 Finance: Looming Problems

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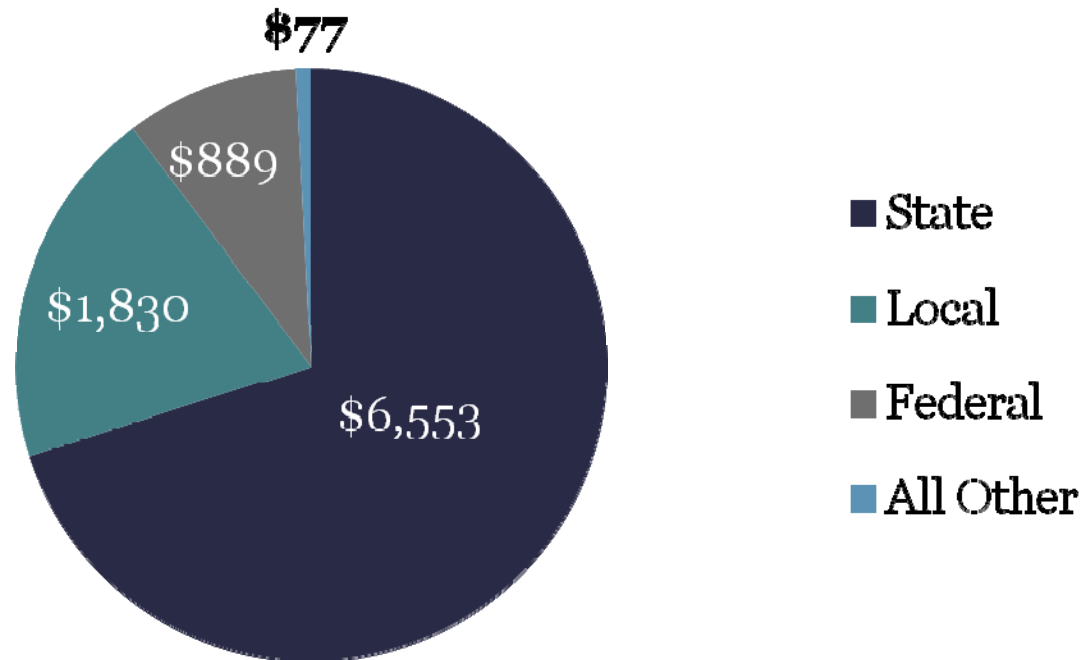
K-12 Financial Outlook

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

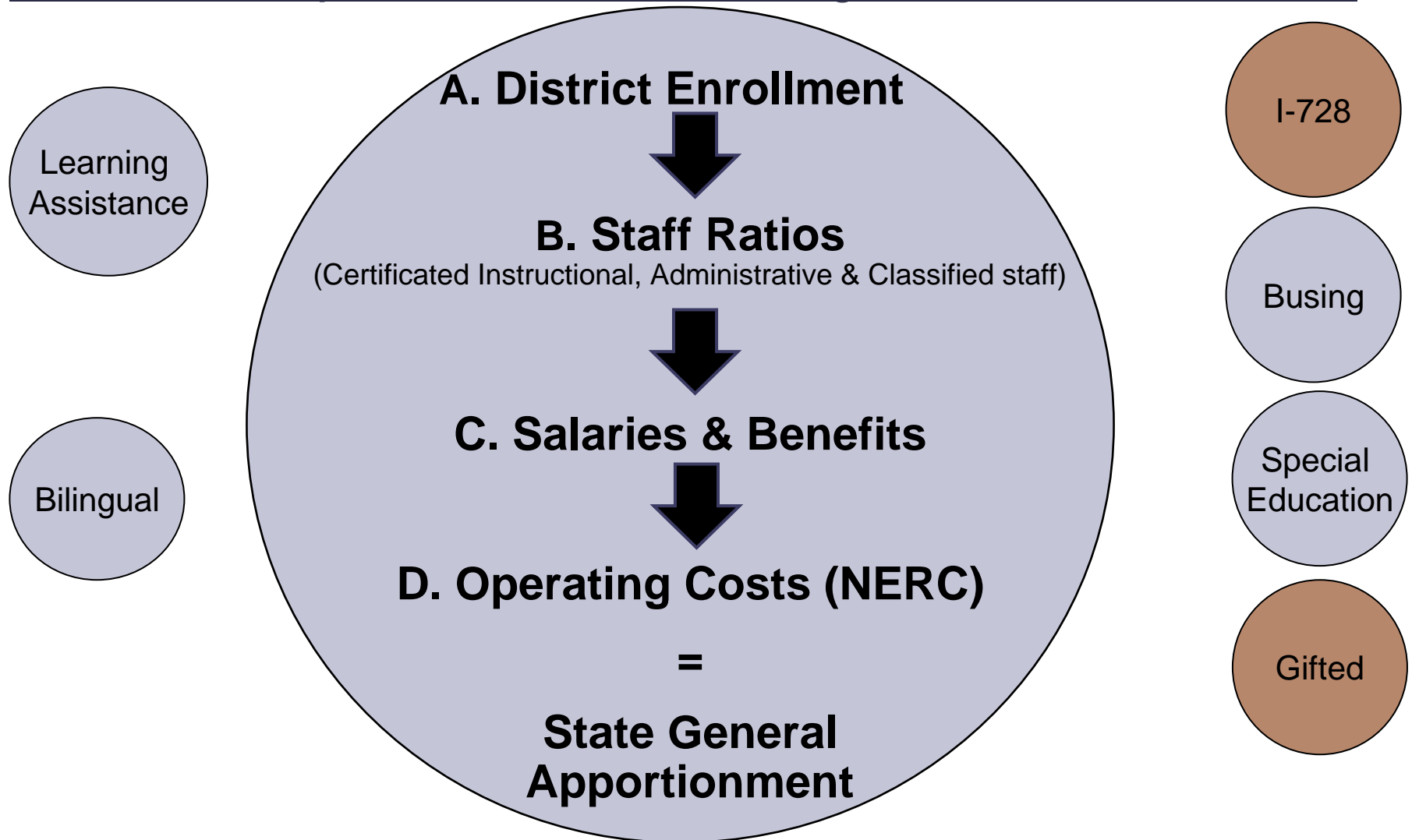
1. Isn't Basic Education the "Paramount Duty" and therefore fully funded?
 - Major areas of state underfunding
2. What is the magnitude of the problem for 2008-09 school year and beyond?

State, Local, and Federal Funds Total \$9.3 Billion

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



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



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?

2000-2008

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

2009 and Beyond

- Pension rates spike
- I-728 and federal funds flatten
- Local funds continue to support COLAs that inflate with Seattle CPI
- Other costs continue to increase faster than inflation
 - Health benefits
 - Fuel and Utilities
- Local levies increasing more slowly and nearing legal maximum rates

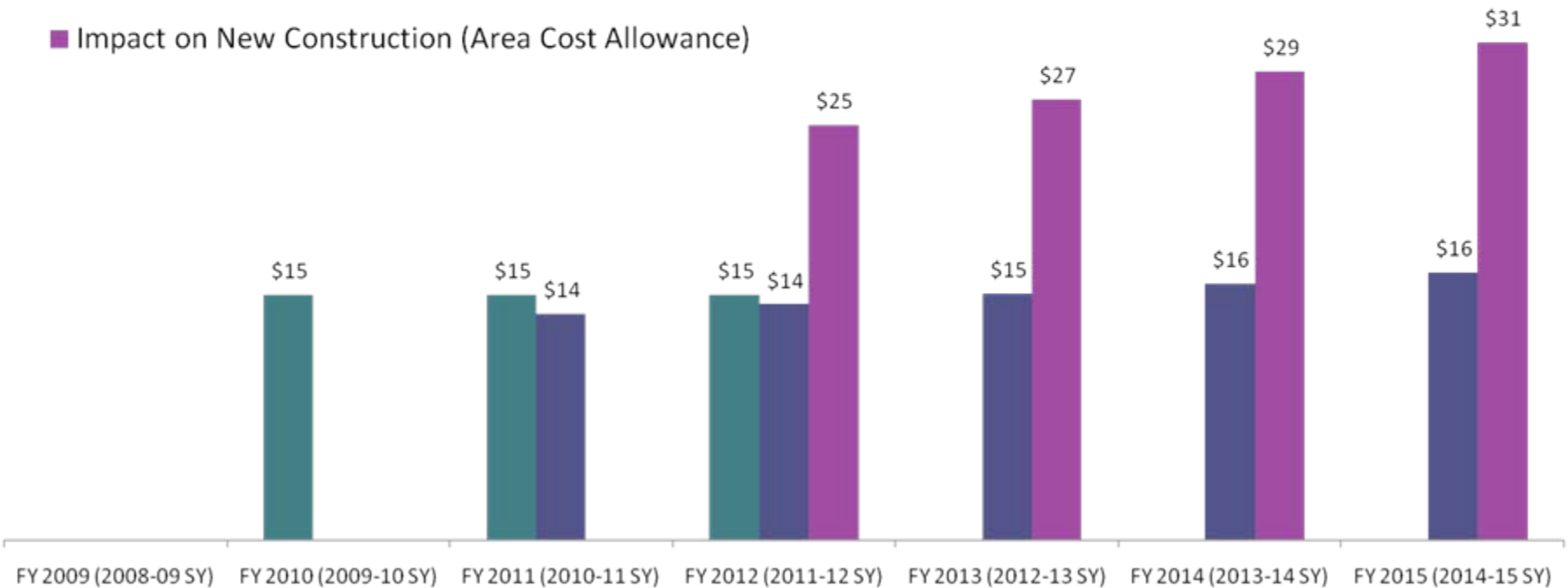
Impact on 2008-09 SY

- 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)



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