Why Is the K-12 Budget So Complicated, Anyway?

Policy and legal considerations that shape formula allocation decisions, and the trade-offs inherent in different approaches.

By Legislative Staff

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Basic Education Task Force Meeting

Roadmap of the Presentation

- Focus question: Why is the budget constructed the way it is, and what were the considerations and policy trade-offs that shaped those decisions?
    - This is a conceptual presentation; less about 'how', more about 'why'
- Question some basic assumptions
- Start with a recent case study example: Promoting Academic Success.
- Review several major pieces of the budget
- So what? Why is this information important or actionable? How does it relate to the transparency conversation?

Questioning Assumptions

- Is the K-12 budget really that complex? Compared to what? Other states? Other functional budget areas?
    - What is the problem statement that articulates how current complexity impedes educational quality in districts?
- Will simplifying the budget bring about more transparency? Or, the reverse?
    - What is transparency?
    - Is the assumption that greater transparency will lead to more funding?

Current State Funding

★ items will get more in-depth treatment

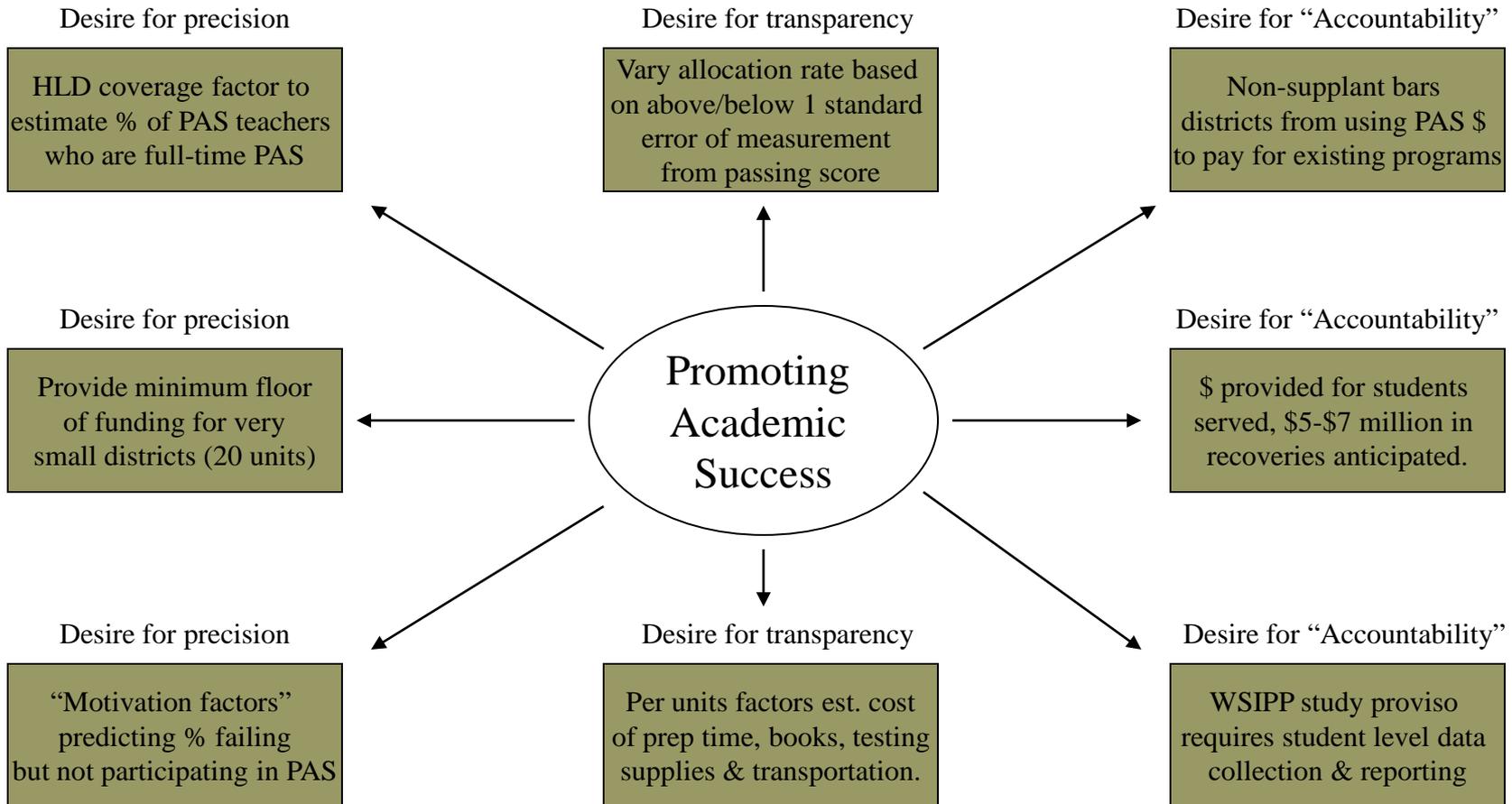| 2007-09 BASIC EDUCATION PROGRAMS		
(Dollars in Millions)		
GENERAL APPORTIONMENT (RCW 28A.150.260)	**$8,968.6**	**66.3%**
SPECIAL EDUCATION (RCW 28A.150.370)	**$1,112.9**	**8.2%**
TRANSPORTATION (RCW 28A.160.150)	**$550.7**	**4.1%**
LEARNING ASSIST. PROGRAM (RCW 28A.165)	**$189.9**	**1.4%**
BILINGUAL (RCW 28A.180)	**$134.5**	**1.0%**
INSTITUTIONS (RCW 28A.190)	**$36.8**	**0.3%**
SUBTOTAL: BASIC EDUCATION PROGRAMS	**$10,993.5**	**81.3%**
2007-09 NON-BASIC EDUCATION PROGRAMS		
(Dollars in Millions)		
STUDENT ACHIEVEMENT FUND (I-728)	$869.8	6.4%
INITIATIVE 732 COLA (3.7%, 2.8%) & OTHER COMP	380.0	2.8%
LEVY EQUALIZATION (LEA)	414.7	3.1%
EDUCATION REFORM	265.2	2.0%
K-4 ENHANCED STAFFING RATIO	233.3	1.7%
HEALTH CARE BENEFIT INCREASES	66.4	0.5%
TWO LEARNING IMPROVEMENT DAYS	66.0	0.5%
SALARY EQUITY INCREASES (2007-09)	64.2	0.5%
PROMOTING ACADEMIC SUCCESS	49.0	0.4%
STATEWIDE PROGRAMS/ALLOCATIONS	41.7	0.3%
STATE OFFICE & ED AGENCIES	33.5	0.2%
HIGHLY CAPABLE	17.2	0.1%
EDUCATIONAL SERVICE DISTRICTS	16.0	0.1%
FOOD SERVICES	6.3	0.0%
SUMMER & OTHER SKILLS CENTERS	5.7	0.0%
PUPIL TRANSPORTATION COORDINATORS	1.7	0.0%
Subtotal: Non-Basic Education Programs	**$2,530.6**	**18.7%**
TOTAL - STATE FUNDS	**$13,524.1**	**100.0%**

Some of the forces that shape decisions about budget allocation methods:

- ☐ Constitutional requirements & judicial guidance
- ☐ Statutes, state & federal
- ☐ Desire for "Accountability"
- ☐ Desire for Budgetary Precision (Equity/Fairness)
- ☐ Desire for "Efficiency"
- ☐ Institutional inertia
- ☐ Nature of legislative process

Promoting Academic Success
A Recent Case Study in how Budgetary Complexity Is Created

Desire for precision

HLD coverage factor to estimate % of PAS teachers who are full-time PAS

Desire for transparency

Vary allocation rate based on above/below 1 standard error of measurement from passing score

Desire for "Accountability"

Non-supplant bars districts from using PAS $ to pay for existing programs

Desire for precision

Provide minimum floor of funding for very small districts (20 units)

Promoting Academic Success

Desire for "Accountability"

$ provided for students served, $5-$7 million in recoveries anticipated.

Desire for precision

"Motivation factors" predicting % failing but not participating in PAS

Desire for transparency

Per units factors est. cost of prep time, books, testing supplies & transportation.

Desire for "Accountability"

WSIPP study proviso requires student level data collection & reporting

Often, steps towards accountability, transparency, and precision create (rather than reduce) budgetary complexity.

Key policy trade-offs
If the goal is to reduce complexity, then….

- *…are you okay with less budgetary precision?*
  - fewer adjustments for student or district-specific equity factors.

- *…are you okay with less "accountability"?*
  - fewer data reporting requirements, perhaps less research knowledge, fewer spending restrictions, more local control.

- *…are you are okay with less "transparency"?*
  - flat dollar amounts with few, if any, underlying assumptions, like I-728.

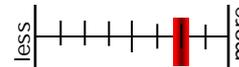*These trade-offs are not always the case, but they often are.*

The trade-offs are not always obvious to policymakers when they are deciding the budget

*"**The Budget Complexity-meter**"*
Here's how a few selected factors usually relate
to budgetary complexity

Transparency   less |—+++—|—+++—| more

Accountability   less |—+++—|—+++—| more

Precision   less |—+++—|—+++—| more

The trade-offs are not always obvious to policymakers when they are deciding the budget
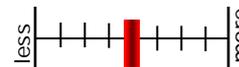
*"**The Budget Complexity-meter**"*
Here's how a few selected factors often (but not always)
contribute to budgetary complexity

Transparency

Accountability

Precision
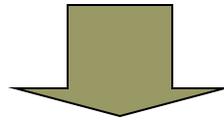
Looking at selected sections

Quick review of how each works, discussion of why they work as they do

- General Apportionment
  - Staffing Ratios
  - Salary Allocations
- Special Education
- Levy Equalization
- Student Achievement Fund
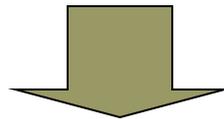- LAP/Bilingual

General Apportionment
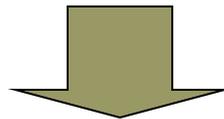## *How does it work?*

District Enrollment

⬇

Formula Staff Units via Staff Ratios
(Teachers & Other Certificated Instructional Staff, Administrators &
Classified Staff)

⬇

Salaries (LEAP schedule) & Benefits

⬇

Nonemployee Related Costs (NERC)

=

State General Apportionment Allocation

> Relatively straightforward - If you know your district's enrollment & salary rates for the 3 types of staff, you can estimate general apportionment funds pretty closely.

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Why does General Apportionment include the staffing ratios that it does?

- *Kinnear* decision & A.G. Gorton opinion laid foundation for a need to establish program of basic education through regular and dependable revenue sources, without resort to special levies.
  - *School funding I* case ultimately mandated this.

- *Miller Report* documented staffing ratios in districts "that passed or did not request" a levy in 1975; this became a basis for defining *ample*.
  - Equalizing staff ratios was seen as necessary to achieve some degree of program uniformity; Miller had documented *"inexplicably wide variations in program offerings"* across districts.

- Previous *Strayer-Haig minimum foundation plan* formula was a weighted per pupil allocation rate with no underlying staffing ratios.
  - Legislators perceived a need build a model with assumptions that could be defended in Court; ironically, a move toward *more transparency*.
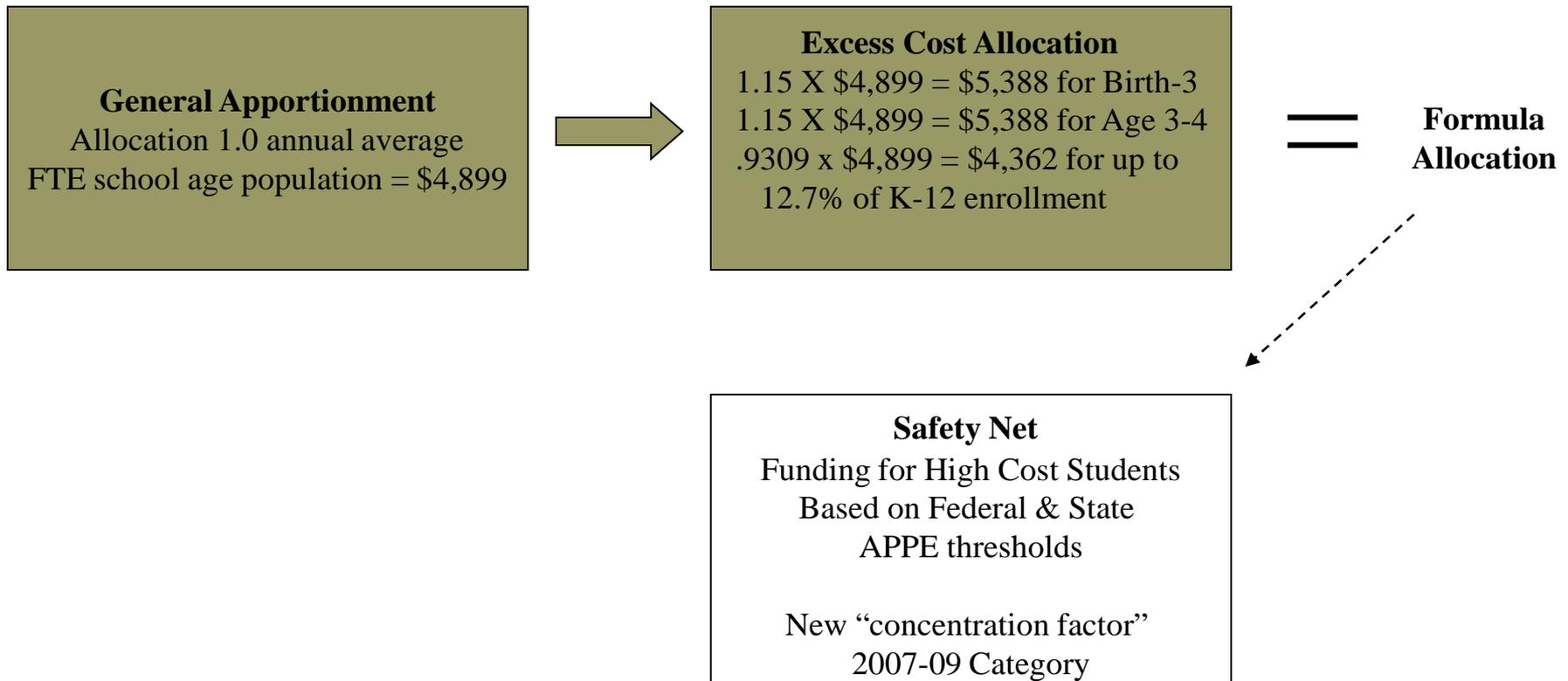
Why the current salary allocation structure?
A desire to ensure equity through some degree of uniformity

- ☐ Miller Report (1975), regarding statewide salary schedules:
  - ■ *"If the state provides most of the support to local schools, and negotiations remain local, what is there to prevent the district from ...overpaying teachers? How can the legislature be accountable... if it does not have a voice in teacher salary negotiations?"*

- ☐ Equalizing funding essentially means equalizing salaries

- ☐ SEABELL plan – an attempt to equalize cert staff salaries.
  - ■ This plan, and variations, were never completely implemented; hence, grandfathering survives today.

- ☐ Staff mix - equalize salaries while holding districts harmless as to their relative staff experience levels.
  - ■ Degree credits and years of experiences became the mechanism for mix mostly because that's what districts were doing already.

- ☐ Classified & administrative salary allocations represented a snap shot of actual salaries in history.
  - ■ The focus for equalizing was on certificated staff (administrators became separate in '87) on the theory that they were the most important component of basic education.

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Special Education
How does it work?

General Apportionment
Allocation 1.0 annual average
FTE school age population = $4,899

Excess Cost Allocation
1.15 X $4,899 = $5,388 for Birth-3
1.15 X $4,899 = $5,388 for Age 3-4
.9309 x $4,899 = $4,362 for up to
12.7% of K-12 enrollment

Formula Allocation

Safety Net
Funding for High Cost Students
Based on Federal & State
APPE thresholds

New "concentration factor"
2007-09 Category

Why does special education look like it does?
Desire for More Simplicity, Accountability, & Efficiency

- ☐ Court decisions (School Funding I, II, & III) established special education as a component of "basic education"

  - ■ Specified certain aspects of the formula that were necessary (e.g. a safety net if the formula is based on averages).

- ☐ Prior to 1995, funding was based on 14 categories of disability. JLARC study in 1995 made 3 key findings relative to this model:

  - ■ "Category creep" – increasing classifications to high cost categories

  - ■ Steadily increasing classification rates overall, and

  - ■ Discrepancies between resources funded by state & provided by districts.

- ☐ New formula sought to simplify the system, and reverse parts of the incentive structure.

  - ■ The 12.7% cap provided incentives for early intervention.

  - ■ Safety net responds to high cost students; continues to search for a balance between *simplicity* and *precision*.

Local Levies & The Levy Lid Act
How do they work?

A district may raise an amount equal to the <u>levy base</u> multiplied by the <u>levy lid percent</u>.

- ➢ <u>Levy Base</u> – includes most state and federal district revenues, adjusted by inflation factors

- ➢ <u>Levy Lid Percent</u>
  - ➢ 24% for most districts
  - ➢ 90 districts are grandfathered above 24%
    - ➢ Range -- 24.01% to 33.9%

Why are there limits on local levies?
A combination of political pressures & judicial mandates

- $183 million in levy failures (including Seattle) in the first 6 months of 1975 brought issue to a head.
  - Legislature provided temporary relief in 1975.
- School Funding I (1977):
  - State must define basic education and fund it through dependable and regular fund sources; special levies were found to be "neither dependable or regular"
- Levy Lid Act of 1977
  - Established goal of limiting special levies to 10% of state basic education allocations, while granting grandfathered status to those above 10%. Also included a phase-down of levy grandfathering that was scheduled to culminate in 1982.
- Over history, the lid has been adjusted many times and multiple phase-down schedules have been introduced, but none fully implemented.
  - Currently, the lid is at 24% and is calculated on an expanded base that includes state & federal revenues.

Levy Equalization
How does it work?

Average District	**Hypothetical District**
$730,000 per student in assessed value	*$365,000 per student in assessed value*

Average District

Tax rate needed for a 12% levy:
$1.20 per $1,000
=
$ 2.2 Million

Hypothetical District

Tax rate needed for a 12% levy:
$2.40 per $1,000

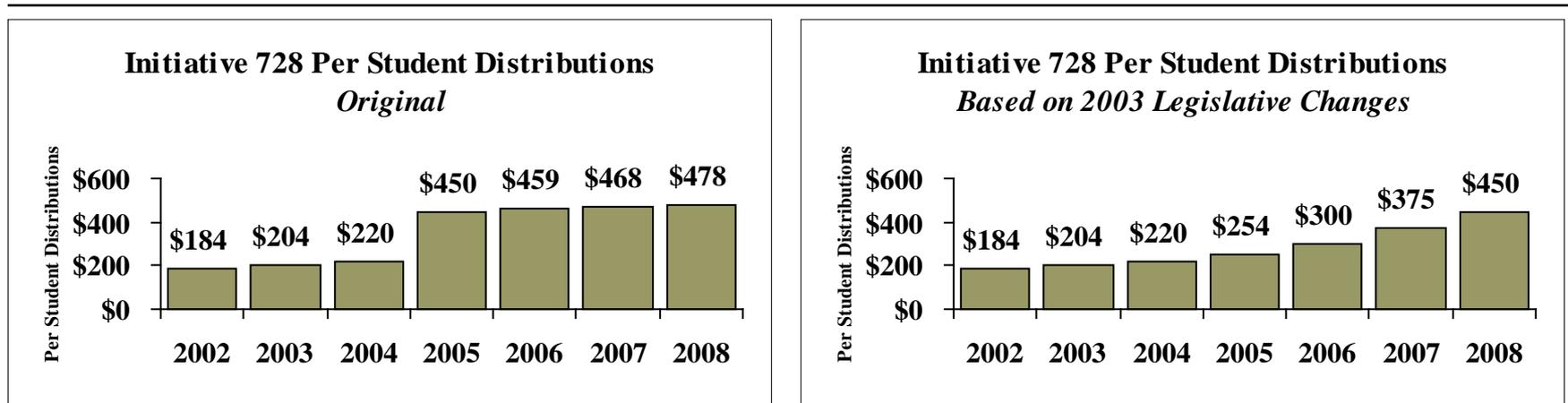*$1.1 million in levy equalization funding*

Amount that can be collected with a levy rate of $1.20 per $1,000
=
$1.1 million

Why does levy equalization look like it does?

☐ Levy equalization was created in 1987 at the same time the Legislature was doubling the levy lid.

☐ Legislature was concerned that increasing the levy lid would adversely impact property poor districts.

  ■ Property poor districts might not be able to take advantage of new lid, but even if they did, it would disproportionately burden resident taxpayers.

  ■ Equalizing at 12% was basically a compromise position; mitigating some of the impacts of low property wealth but not all.

☐ The formulas are complex, but probably need to be to achieve the objectives of the original legislation.

  ■ Formulas which consider relative property wealth and attempt to equalize are inherently data-rich, technical undertakings.

I-728 Student Achievement Fund
How does it work?

Initiative 728 Per Student Distributions
Original

Per Student Distributions

				$450	$459	$468	$478
$600							
$400	$184	$204	$220				
$200							
$0							

2002 2003 2004 2005 2006 2007 2008

Initiative 728 Per Student Distributions
Based on 2003 Legislative Changes

Per Student Distributions

						$375	$450
$600					$300		
$400	$184	$204	$220	$254			
$200							
$0							

2002 2003 2004 2005 2006 2007 2008

- ☐ Funds may be utilized for class size reduction, extended learning opportunities, professional development, early childhood programs, and necessary building improvements.

- ☐ Initiative calls for continued ramp up until <u>state</u> funding reached 90 percent of national average per student <u>total</u> funding or approximately $2,300 additional per student.

- ☐ School boards are required to hold annual public hearings on how the funds are being utilized.

Why does I-728 Student Achievement Fund look like it does?

- The initiative drafters believed that school districts' needs vary and local school boards know best how to use the new funds.

- I-728 favors *flexibility* and *simplicity* over *accountability* and *precision*.
    - Implicit in this approach is an emphasis on empowering local decision-makers.
    - Allocation formula is about as simple as it gets (but not necessarily transparent).
    - Accountability provisions are modest; local public hearing is one example.
    - Flat dollar amounts per pupil are *equal* but not necessarily *equitable*.

- In the context of fiscal constraints, the original timetable for getting to 90 percent of the national average was delayed by the Legislature.
    - Use of national average metric reveals something about the attitudes and beliefs of the initiative drafters, and perhaps also the electorate.

LAP & Bilingual Funding
How do they work?

- ☐ LAP generates about $240/unit based on poverty "units"; it is not an individual student-level entitlement, but is basic ed.

  - ■ In LAP, poverty serves as a proxy for educational challenge.
  - ■ The <u>original</u> allocation rate for LAP was based on the cost of tutoring for 2.5 hours per week in groups of 3.
  - ■ LAP has undergone structural changes to avoid linking funding to test scores; it's now based on poverty rates; costs associated with holding districts harmless.

- ☐ Bilingual generates about $860/student and is a student-level entitlement, as well as basic ed.

  - ■ The <u>original</u> allocation rate for Bilingual was based on providing one teacher per 15.75 bilingual students.
  - ■ The original goal was to limit bilingual students to 3 years in the program.

Why does the funding for remedial & bilingual programs look the way that it does?

- ☐ In 1979, the Transitional Bilingual Instruction Act & the Remediation Assistance Act were created by the Legislature.

- ☐ Starting in 1981, these programs were discontinued as discrete items and combined into the Special Needs Block Grant program.

- ☐ In *School Funding II*, the Court ruled that the two programs had been included as part of Basic Ed and therefore must be funded going forward as categorical programs outside the block grant.

- ☐ In 1985, the categorical programs were reinstated as discrete programs.

- ☐ The State began addresses these educational challenges prior to *School Funding II*; however, the Court's involvement clearly played a role in continuing LAP and Bilingual as discrete programs.

- ☐ Desire for *transparency*, *efficiency*, and *accountability* - as well as institutional inertia - all played key roles in the shaping of these programs.

Wrap-up: What does this all mean?

- ☐ Complexity is a by-product of policy choices made by the Legislature.

- ☐ Eliminating complexity involves trade-offs and requires a serious discussion.

- ☐ Transparency and simplicity are loosely related but probably not synonymous.

- ☐ Transparency can be good public policy, but can also be oversold.

Transparency has Trade-offs

Benefits

1. Stimulates on-going debate and review of assumptions.

2. Engenders public trust.

3. Focuses debate on student needs rather than abstract numbers.

4. Promotes a form of self-accountability for the Legislature.

5. Broadens the spectrum of stakeholders that can participate in the school funding debate.

Challenges

1. Can create, rather than reduce, complexity.

2. Assumptions are high stakes
   a. They send policy signals
   b. They matter in Court
   c. They can become de facto mandates

3. Not everything has a research base.

4. Transparency for what? For whom? About what?