

# Final Report

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Funding Formula Technical Working  
Group

December 1, 2009



# Executive Summary

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**Enacted in the 2009 legislative session, Engrossed Substitute House Bill (ESHB) 2261 creates a new definition of Basic Education for Washington State students.**

To successfully transition to the new Program of Basic Education, ESHB 2261 established several work groups to build the foundation's walls. This report details the tasks addressed by the Funding Formula Technical Working Group (FFTWG).

Specifically, ESHB 2261 required the FFTWG to address the following:

- Develop the details of funding formulas outlined in Section 106 of ESHB 2261, which provides an outline of a prototypical school model funding structure;
- Recommend to the Legislature an implementation schedule for phasing-in any increased program or instructional requirements concurrently with increases in funding; and
- Examine possible sources of revenue to support increases in funding allocations and present options to the Legislature and the Quality Education Council.

The Funding Formula Technical Working Group membership was made up of experienced school district and Educational Service District fiscal professionals, as well as representatives of key educational stakeholder groups. In addition to the practical and operational school district perspective, the FFTWG received strong and able support from technical experts of the Office of Financial Management and the Office of the Superintendent of Public Instruction.

To complete its work, the FFTWG reviewed the components of the new prototypical school model; discussed the distribution methodology for individual elements of the prototypical school model; created the values in the recommended prototype model that represent current or baseline funding; ranked the implementation priorities; and identified revenue options.

This report contains summaries of key policy debates and decision points in the work, as well as the recommendations of the FFTWG in each aspect of this transition to a new funding structure.

## **A New Funding System**

The Funding Formula Technical Working Group began its work in August of 2009. First and foremost, the FFTWG agreed that the restructuring of Basic Education funding formulas can be successfully implemented within the timelines of ESHB 2261. Successful implementation is conditioned on the timely completion of several interdependent tasks, beginning with the tasks and deadline assigned to the FFTWG. Thus, timely completion of this report and the technical work behind it represents the first step in instituting the new and improved K-12 basic education funding allocation system within the timelines established by the Legislature.

The prototypical schools model clarifies and better defines a rational Basic Education allocation system. The Prototypical Schools Model makes state allocations more transparent and it provides a structure for more realistic allocations of resources necessary to support the Constitutional requirement of an ample K-12 education for all Washington students.

The current state funding structure generates funding for schools based on three large groupings of staff (certificated instructional staff, certificated administrative staff, and classified staff), plus a dollar value for non-employee related costs. While the components of this funding formula are relatively simple, the large categories do not produce information relevant to funding and policy debates such as the actual class size funded by the state, or the amount of funding generated for specific costs such as utilities or curriculum materials.

Beginning in the 2011-12 School Year, state funding will be distributed to school districts based upon staffing categories in a prototypical school along with additional funds for maintenance, supplies, and operating costs and administrative staffing. The prototypical schools model is based upon student full-time enrollments of 400 for elementary, 432 for middle and 600 for high school. Since few, if any, schools actually enroll exactly the number of students of a prototypical school, the FFTWG recommends that most allocations made per prototypical school be based upon actual annual average student enrollment per grade and distributed by school district.

While the work to transition from the current funding structure is detailed and complicated, the final implementation of the new prototypical school model will allow for school-level and district-level summaries that are more transparent to the public because they utilize more discrete and commonly understood staffing categories.

In this respect, a more detailed funding formula, with more categories of staff and discrete subsets of maintenance, supplies and operating costs, will simplify the discussions about the funding formula because it will be presented in terms that reflect the actual staffing and operations of a school district.

### **Making the Switch in 2011**

The FFTWG spent much of its effort creating and testing a baseline crosswalk mechanism to convert current K-12 resources into initial prototypical school and district level allocations. The exercise illustrates that even with today's limited resources, the state does not have to wait to change to the prototypical model.

ESHB 2261 acknowledges that ultimately the Legislature will provide budgets to “grow” into an adequate prototypical allocation. The FFTWG acknowledges that ongoing and regular effort will be required by elected policy makers and technical experts to ensure that the new model is funded sufficient to needs of 21<sup>st</sup> century students.

## Details of Funding Formulas

### Clear Allocations

The new funding structure can be summarized in reports that provide detail on the staffing and funds generated by a local school as well as the total staffing and funds generated for a school district. An example of such a report is included below. The numbers in columns represent the number of staff FTE provided to an imaginary school district based on the prototypical school sizes. In reality, every district's actual staff numbers will vary. What matters is the transparency of the allocations.

<b>School Level</b>	<b>Elementary</b>	<b>Middle</b>	<b>High</b>
School Size	400	432	600

<b>School Level Staffing</b>	<b>Elementary</b>	<b>Middle</b>	<b>High<sup>1</sup></b>
Principal/School Admin	1.253	1.353	1.880
Teachers	19.103	18.169	25.050
Teacher Librarian/Media Specialist	0.663	0.519	0.523
Counselor	0.493	1.116	1.909
Health and Social Services	0.135	0.068	0.118
Professional Development Coaches	0.000	0.000	0.000
Instructional Aides	0.936	0.700	0.652
School Office/Other Aides and Support	2.012	2.325	3.269
Student and Staff Security	0.079	0.092	0.141
Custodians	1.657	1.942	2.965
<b>Total School Staff</b>	<b>26.331</b>	<b>26.284</b>	<b>36.507</b>

<b>District-wide Support Staff</b>			
Technology		0.628	
Facilities Maintenance and Grounds		0.201	
Warehouse/Laborers/Mechanics		1.944	

<b>Central Administration Staff</b>			
5.35 Percentage of Total Staff		3.405	

<b>TOTAL -- ALL STAFF</b>		<b>95.300</b>	
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<sup>1</sup> Note: This table is presented as an example of the type of report that could be created for individual schools or districts. This table only represents the staffing generated for general enrollment. Career and Technical Education, Special Education, Highly Capable, Learning Assistance, and Transitional Bilingual Instruction Programs are not included in the staffing shown in this table but are presented in more detailed tables later in the report.

The table above is based on the baseline level of funding for the specific prototype elements as determined through the work of the FFTWG. This baseline provides the same level of staffing and non-employee related costs as the current formula, but allocates those funds according to the new prototypical school structure in ESHB 2261. In transitioning to the new prototypical schools model, the FFTWG generally used current staffing and expenditure patterns in school districts to prorate current state funding among the new categories. In addition, the FFTWG recommends methodologies for implementing the new expenditure categories envisioned by ESHB 2261, such as smaller class sizes in schools with high concentrations of poverty.

### **Prototypical Model Funds are for Allocation Purposes Only**

While these reports will provide transparent information about funding and resources provided to school districts through state formulas, ESHB 2261 does not dictate that school districts spend the resources in that manner. In contrast, it specifically notes that the formulas are for allocation purposes only and do not mandate the specific instructional practices in a district. The FFTWG supports this assumption and maintained it as an operating principle throughout discussions. The FFTWG believes that fewer state restrictions on use of funds means greater flexibility to adjust at the local level to address student academic needs.

There are exceptions where the legislation provides funding for the Learning Assistance Program, Transitional Bilingual Instruction Program, the Highly Capable Program and Special Education as categorical programs. In these situations, the funding for those programs must be expended on services to those students; however, the funding formulas within those sections are allocations and do not mandate a specific structure for the delivery of these educational services. The FFTWG reviewed those assumptions regarding the categorical nature of those programs and agreed that they should remain dedicated to serving those student populations but program structures should continue to be determined through local school district decisions.

### **Implementation Schedule**

To identify common priorities for the phasing-in of new prototypical school elements, the FFTWG members participated in a budgeting exercise which required forced choice prioritization. In this budget tool, investments in any year were limited equal increments over the eight year phase-in. The FFTWG members generally balanced their individual responses with an eye to those investments that are expected to provide the greatest return on student achievement tempered by what is considered feasible given current facilities and availability of additional staff. With that lens, the FFTWG recommended early investments in the Transitional Bilingual Instruction Program, guidance counselors, mentor teacher program, instructional coaches, and office support and security staff. In addition, the FFTWG members recommended earlier phase-in of the maintenance, supplies, and operating costs (MSOC). This is an area where districts are using local discretionary funds to support existing costs. Early investment in MSOC will provide fiscal relief for districts and allow local funds to be reinvested in priority areas.

In addition to the prioritization exercise, FFTWG members identified other considerations and recommendations for implementation. Providing a hold harmless to school districts during the transition phase was a top priority of the group.

## **Possible Sources of Revenue to Support Increases in Funding Allocations**

The FFTWG clearly acknowledges that additional funds will be needed to fully implement an ample prototypical schools funding model. While the current funding formula can be translated to the prototypical model using the baseline calculations, the baseline calculations of the FFTWG do not establish prototypical values that are backed by national research.

For Washington to compete nationally and internationally, a strong education system is essential. Thus, funding a strong educational system utilizing a prototypical allocation model will require changes to Washington's revenue structure.

The FFTWG members recognize that local voters support local schools. Year after year, a majority of school district maintenance and operations levies are supported. Thus members of the FFTWG believe that targeted and specific ways to increase state revenues for the express purpose of supporting education is possible.

The FFTWG reviewed the traditional list of revenue alternatives that are presented in legislative discussions. In addition, FFTWG members had a chance to provide their own ideas regarding revenue options. The full discussion list is included in this report. While there were varied opinions about revenue alternatives, the FFTWG agreed to the following principles:

- Some portion of the growth in current revenue sources should be dedicated to the implementation of K-12 funding reforms.
- While the importance of prioritizing current resources for K-12 was endorsed, members recognized that current funding alone will not provide the total resources needed to implement the vision of ESHB 2261.
- FFTWG recommends that the Legislature consider revenue packages that have varied sources to provide greater stability.
- In addition, FFTWG members recommend that property taxes remain a fundamental source of revenues for schools; property tax should be a cornerstone of any revenue package.
- Finally, FFTWG members recommend that any resources generated for the implementation of the new Program of Basic Education in ESHB 2261 be dedicated in an education trust to preserve these funds for K-12 investments.

### **Onward!**

Members of the FFTWG have appreciated the opportunity to serve in this capacity and look forward to working with elected policy makers on the long road to achieve full implementation of the bill and its work plan





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# Introduction

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## Overview of ESHB 2261

Engrossed Substitute House Bill (ESHB) 2261 was enacted in the 2009 legislative session in response to previous legislative studies that called for a review of Washington's education system and a new definition of basic education.

Washington Learns was created in the 2005 legislative session to conduct a comprehensive review of the education system in Washington state, to include early learning through K-12 and post-secondary education. Submitted to the Legislature in November 2006, its final report articulated a vision for a world-class, learner-focused, seamless education system, and identified priorities for the next phase of work to be done. Those priorities included developing a more meaningful and comprehensive accountability system, redefining basic education, and designing a ten-year implementation strategy.

Formed primarily to carry out the recommendations included in the Washington Learns report, the Basic Education Finance Task Force was convened by the Legislature in 2007 to:

- Review the definition of basic education and all current basic education funding formulas;
- Develop options for a new funding structure and all necessary formulas; and
- Propose a new definition of basic education that is aligned with the Washington Learns expectations and basic education provisions established in chapter 28A.150 RCW.

In its final report, issued in January 2009, the Task Force recommended a change to the funding structure and increases to instructional time to implement new high school graduation requirements developed by the State Board of Education.

In response to the work of the Task Force, the 2009 Legislature debated the recommendations and ultimately enacted ESHB 2261. The Quality Education Council (QEC) and Funding Formula Technical Working Group (FFTWG) were both created by ESHB 2261.

The QEC was created to recommend and inform the ongoing implementation by the Legislature of an evolving Program of Basic Education and the financing to support it. QEC members include eight legislators and representatives of the Office of the Governor, the Office of the Superintendent of Public Instruction, the State Board of Education, the Professional Educator Standards Board, and the Department of Early Learning. The QEC is tasked with the following responsibilities:

- Develop strategic recommendations on the Program of Basic Education and update them every four years;
- Identify measurable goals and priorities for the K-12 system for a 10-year time period; and

- If necessary, request updates and progress reports from education agencies and working groups established by the Legislature.

The first report of the QEC, due January 2010, will include: (1) consideration of how to establish a statewide beginning teacher mentoring and support system; (2) recommendations for a program of early learning for at-risk children; (3) a recommended schedule for the concurrent phase-in of the changes to the instructional program of basic education and the implementation of the funding formulas and allocations to support the new instructional program of basic education; and (4) a recommended schedule for phase-in implementation of the new distribution formula for allocating state funds to school districts for the transportation of students to and from school.

ESHB 2261 also created the Funding Formula Technical Working Group (FFTWG) to:

- Develop the details of funding formulas outlined in Section 106 of ESHB 2261, which provides an outline of a prototypical school funding structure;
- Recommend to the Legislature an implementation schedule for phasing-in any increased program or instructional requirements concurrently with increases in funding; and
- Examine possible sources of revenue to support increases in funding allocations and present options to the Legislature and the Quality Education Council.

The QEC and the Legislature monitor and provide oversight to the FFTWG.

The FFTWG membership includes representatives of the following:

- Legislative Evaluation and Accountability Program (LEAP) Office
- School district and Educational Service District financial managers
- Washington Association of School Business Officials
- Washington Education Association
- Washington Association of School Administrators
- Association of Washington School Principals
- Washington State School Directors' Association
- Public School Employees of Washington

A full list of working group members is included in Appendix 1. This report summarizes the work of the Funding Formula Technical Working Group and the FFTWG recommendations related to the tasks outlined in ESHB 2261.

### **Timeline for Implementation of New Funding Structure**

When one considers the target transition date of September 1, 2011 for the 2011-12 School Year and compares that to the number of processes and tasks that must be finished on-time and in a

certain order, clearly the timeframe is relatively short for transitioning to a new funding structure.

Implementation of the new structure is dependent on timely completion of the following major milestones:

- December 2009 – The Funding Formula Technical Working Group completes its recommendation on the new formula structure and presents it to the Legislature and the Quality Education Council (QEC).
- Early January 2010 – The QEC uses the FFTWG’s recommendation to develop its own final recommendation on the new formula structure for consideration by the 2010 Legislature.
- March 2010 – The Legislature provides the authority and framework for transitioning to the new formula structure, and appropriates dollars for re-development of apportionment systems. OSPI then begins work on the re-development of apportionment systems.
- June 2010 – The School District Accounting Advisory Committee (SDAAC) begins formal discussions of needed changes to accounting standards for the 2011-12 School Year according to the new funding structure. The SDAAC advises the offices of Superintendent of Public Instruction and State Auditor on school district accounting, budgeting, financial reporting, and related matters.
- July 2010 – OSPI develops a tool to compare apportionment in the current structure to that of the new structure. This tool will be run parallel to the current system for one year to identify gaps and issues before converting the funding system.
- September 2010 – OSPI posts the tool for districts to compare current apportionment formulas for the 2009-10 School Year with what apportionment would look like in the new funding structure.
- January 2011 – OSPI incorporates new accounting standards and publishes the accounting and budget manual for the 2011-12 School Year, enabling school districts to begin revisions to their account coding structure and develop their budgets consistent with the new funding formula.
- April 2011 – The 2011 Legislature enacts the 2011-12 and 2012-13 budgets and any necessary funding formula clean-up legislation.
- August 2011 – Apportionment system changes must be completed, tested, and in place prior to the beginning of the school year in September.

These and other tasks must be completed before implementation begins in September 2011. At that point, OSPI will publish budgets, and school districts will begin expending resources within the new funding structure for the 2011-12 School Year.

It's important to note that, because the process acts on an annual basis, if one deadline is missed and the Legislature cannot act in the 2010 legislative session, implementation isn't simply pushed back a week or two, or a month or two; *it's pushed back an entire year*, and we literally have to restart the clock on completing the tasks necessary to accomplishing a successful transition.

It is therefore imperative to meet the milestones to continue the forward momentum necessary to advance these system changes through to full implementation.

# Funding Formula

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## Structure

Section 106 of ESHB 2261 provides an outline of a prototypical school funding structure. One task of the Funding Formula Technical Working Group (FFTWG) was to develop the details of the funding formulas outlined in section 106. This task involved several components. The working group reviewed the prototype elements, or categories, and recommended some changes to the structure. In addition, the working group considered the details of how the funding formula should operate and undertook efforts to represent the current funding system in the new prototype school structure. These elements are discussed individually below. However, in practice, there is a great deal of interconnectedness in this work, and efforts in one area often required revisiting the details in other areas.

The language of ESHB 2261 indicates that the prototypical school funding formula is intended to be for allocation purposes only.

*“The distribution formula under this section shall be for allocation purposes only. Except as may be required under chapter 28A.165, 28A.180, or 28A.155 RCW or federal laws or regulations, nothing in this section requires school districts to use basic education instructional funds to implement a particular instructional approach or service. Nothing in this section requires school districts to maintain a particular classroom teacher-to-student ratio or other staff-to-student ratio or to use allocated funds to pay for particular types of classifications of staff. Nothing in this section entitles an individual teacher to a particular teacher planning period.”*

In other words, school districts receive funding based on the prototypical school staff and non-staff cost assumptions, but school districts will have ultimate authority to decide how to effectively use those resources. This assumption was endorsed by the members of the Funding Formula Technical Working Group and maintained as an assumption throughout the discussions. The working group expressed an interest in preserving this flexibility and decision-making authority for school districts. The FFTWG members expect that the new prototype school model would also bring transparency and public accountability to the funding system because it states funding assumptions in understandable terms centered on the operations of school buildings. This public accountability was viewed as the appropriate check on school district decision-making. Finally, the FFTWG members consider the transfer to a new prototype design to be feasible for the school system on the timelines identified earlier.

## Prototype Elements

The table on the following page outlines the prototypical school elements in section 106 of ESHB 2261.

## Prototypical schools defined in ESHB 2261

High school:	Grades 9-12 — 600 students
Middle school:	Grades 7-8 — 432 students
Elementary school:	Grades K-6 — 400 students

**Teachers** - Average class size for:

- Basic classroom
- Schools with over 50 percent free/reduced meals
- Exploratory and preparatory career and technical education, lab science, advanced placement, and international baccalaureate courses
- Grades K-3

**Other Building Staff** - Minimum allocations for the following types of staff in addition to teachers:

- Principals, assistant principals, and other certificated building-level administrators
- Teacher librarians
- Student health, including nurses and social workers
- Guidance counselors
- Professional development coaches
- Teaching assistance, including any aspect of educational instructional services provided by classified employees
- Office support, technology support, and other non-instructional aides
- Custodians, warehouse, maintenance, laborer, and professional and technical education support employees
- Classified staff providing student and staff safety

**Central Office Staff** - The minimum allocation identified in the budget shall be calculated as a percentage of the district's total allocations for staff under the prototype schools and Highly Capable Program.

**Maintenance, Supplies and Operating Costs (MSOC)** - Minimum allocations for each school district per annual average FTE student for:

- Student technology
- Utilities
- Curriculum, textbooks, library materials, and instructional supplies
- Instructional professional development for certificated and classified staff
- Other building-level costs including maintenance, custodial, security
- Central administration.

The allocation will be enhanced for student enrollment in career and technical education and laboratory science courses.

**Excess Cost Programs**

- **Learning Assistance Program** - Supplemental instruction and services for underachieving students based on the percent of free/reduced meals in each school to provide an extended school day and school year, plus an allocation for MSOC.
- **Transitional Bilingual Instruction Program** - The minimum allocation for each level of prototypical school shall provide for supplemental instruction based on the percent of the school day the student is assumed to receive supplemental instruction, plus an allocation for MSOC.
- **Highly Capable** - Programs for highly capable students based on 2.314 percent of each district's FTE enrollment. The minimum allocation shall provide an extended school day and school year for each level of prototypical school, plus an allocation for MSOC.
- **Special Education** – Excess cost enhancement in a specified percentage of the core allocation for basic class size, other building staff and MSOC. The excess cost allocation is based on district-wide enrollment not to exceed 12.7 percent of total FTE enrollment in grades K-12.



The Funding Formula Technical Working Group reviewed and recommended several changes to the funding formula structure outlined in the legislation. Many of these changes were intended to separate out distinct functions and costs from other groupings. For example, the changes recommended for the Maintenance, Supplies and Operating Costs (MSOC) elements would result in more elements in the prototype model. Since the working group assumed these formulas are for allocation purposes, the additional groupings were recommended with an eye toward transparency and the interest in having understandable categories that can be tracked and reported through the accounting system. In addition, a new category of district-wide support is recommended because these staffing costs do not fit well with either school-based staff, nor with central administration. These staff perform support duties to all schools and to other district buildings and central administrative offices, thus the Funding Formula Technical Working Group recommends that those staff be categorized as district-wide support.

**The following is a summary of recommended changes to the prototypical school structure:**

1. When stating class sizes in grades 4-12, the working group recommends stating those in terms of grades 4-6, 7-8 and 9-12 to better align with prototypical school grade groupings.
2. In the MSOC, the FFTWG recommends creating one category for technology rather than splitting technology components between technology for student instruction and technology for central office or other district-wide categories supported by technology.
3. In MSOC, separate other instructional materials from curriculum and textbooks. This change would separate curriculum and textbooks from the other supplies and library materials from the textbook and curriculum purchases to permit evaluation of the life-cycle of curriculum based on a model of curriculum resource needs.
4. In classified staffing categories, the working group recommends that non-instructional technology staffing be listed as a separate category.
5. In the MSOC, the FFTWG recommends grouping insurance with utilities.
6. The FFTWG recommends creating a category for district-wide support that is separate from school-based staffing and from central administration. This moves some categories of staff from the building-based model to a district-wide support level. Many of these positions are not central administration, but perform duties at a district-wide level.
7. In both staffing components and in the MSOC, separate facilities maintenance from other costs.
8. For the Transitional Bilingual Instruction Program, use a similar structure to the Learning Assistance Program for funding purposes. This recommendation will be discussed in more detail under the section that discusses funding distribution details and methodologies.
9. Add an element for administration to the Learning Assistance Program and the Transitional Bilingual Instruction Program. For consistency, move the central administration percentage generated for the Highly Capable Program from the central

administration area to the Highly Capable Program. Each of these programs has program administration and generates additional central administration costs in districts.

The following table provides a comparison of the original prototype structure and the structure proposed by the Funding Formula Technical Working Group. Differences are highlighted using bold and underlining.

<b>Prototypical schools defined in ESHB 2261</b>	<b>Prototypical schools recommended by FFTWG</b>
High school: Grades 9-12 - 600 students Middle school: Grades 7-8 - 432 students Elementary school: Grades K-6 - 400 students	High school: Grades 9-12 - 600 students Middle school: Grades 7-8 - 432 students Elementary school: Grades K-6 - 400 students
<b>Teachers</b> - Average class size for: <ul style="list-style-type: none"> <li>• Basic classroom</li> <li>• Schools with over 50 percent free/reduced meals</li> <li>• Exploratory and preparatory career and technical education, lab science, advanced placement, and international baccalaureate courses</li> <li>• Grades K-3</li> </ul>	<b>Teachers</b> - Average class size for: <ul style="list-style-type: none"> <li>• Basic classroom</li> <li>• Schools with over 50 percent free/reduced meals</li> <li>• Exploratory and preparatory career and technical education, lab science, advanced placement, and international baccalaureate courses</li> <li>• Grades K-3</li> </ul>
<b>Other Building Staff</b> - Minimum allocations for the following types of staff in addition to teachers: <ul style="list-style-type: none"> <li>• Principals, assistant principals, and other certificated building-level administrators</li> <li>• Teacher librarians</li> <li>• Student health, including nurses and social workers</li> <li>• Guidance counselors</li> <li>• Professional development coaches</li> <li>• Teaching assistance, including any aspect of educational instructional services provided by classified employees</li> <li>• Office support, technology support, and other non-instructional aides</li> <li>• Custodians, warehouse, maintenance, laborer, and professional and technical education support employees</li> <li>• Classified staff providing student and staff safety</li> </ul>	<b>Other Building Staff</b> - Minimum allocations for the following types of staff in addition to teachers: <ul style="list-style-type: none"> <li>• Principals, assistant principals, and other certificated building-level administrators</li> <li>• Teacher librarians</li> <li>• Student health, including nurses and social workers</li> <li>• Guidance counselors</li> <li>• Professional development coaches</li> <li>• Teaching assistance, including any aspect of educational instructional services provided by classified employees</li> <li>• Office support and other non-instructional aides</li> <li>• Custodians</li> <li>• Classified staff providing student and staff safety</li> </ul>
	<b><u>District-wide Support</u></b> <ul style="list-style-type: none"> <li>• <b><u>Technology support</u></b></li> <li>• <b><u>Facilities maintenance and grounds</u></b></li> <li>• <b><u>Warehouse, laborer, mechanic</u></b></li> </ul>
<b>Central Office Staff</b> - The minimum allocation identified in the budget shall be calculated as a percentage of the district's total allocations for staff under the prototype schools and Highly Capable Program.	<b>Central Office Staff</b> - The minimum allocation identified in the budget shall be calculated as a percentage of the district's total allocations for staff under the prototype schools <b><u>and district-wide support.</u></b>

**Maintenance, Supplies and Operating Costs (MSOC)** - Minimum allocations for each school district per annual average FTE student for:

- Student technology
- Utilities
- Curriculum, textbooks, library materials, and instructional supplies
- Instructional professional development for certificated and classified staff
- Other building-level costs including maintenance, custodial, security and central office administration.

The allocation will be enhanced for student enrollment in career and technical education and laboratory science courses.

**Maintenance, Supplies and Operating Costs (MSOC)** - Minimum allocations for each school district per annual average FTE student for:

- **Technology**
- Utilities **and insurance**
- Curriculum and textbooks
- **Other supplies and library materials**
- Instructional professional development for certificated and classified staff
- **Facilities maintenance**
- **Central office and security**

The allocation will be enhanced for student enrollment in career and technical education and laboratory science courses.

**Excess Cost Programs**

- **Learning Assistance Program** - Supplemental instruction and services for underachieving students based on the percent of free/reduced meals in each school to provide an extended school day and school year, plus an allocation for MSOC.
- **Transitional Bilingual Instruction Program** - The minimum allocation for each level of prototypical school shall provide for supplemental instruction based on the percent of the school day the student is assumed to receive supplemental instruction, plus an allocation for MSOC
- **Highly Capable** - Programs for highly capable students based on 2.314 percent of each district's FTE enrollment. The minimum allocation shall provide an extended school day and school year for each level of prototypical school, plus an allocation for MSOC.
- **Special Education** – Excess cost enhancement in a specified percentage of the core allocation for basic class size, other building staff and MSOC. The excess cost allocation is based on district-wide enrollment not to exceed 12.7 percent of total FTE enrollment in grades K-12.

**Excess Cost Programs**

- **Learning Assistance Program** - Supplemental instruction and services for underachieving students based on the percent of free/reduced meals in each school to provide allocations for an extended school day and school year, plus allocations for **administration** and MSOC.
- **Transitional Bilingual Instruction Program** - The minimum allocation for each level of prototypical school shall provide allocations for **an extended school day and school year, plus allocations for administration** and MSOC.
- **Highly Capable** - Programs for highly capable students based on 2.314 percent<sup>2</sup> of each district's FTE enrollment. The minimum allocation shall provide allocations for an extended school day and school year for each level of prototypical school, plus allocations for **administration** and MSOC.
- **Special Education** – Excess cost enhancement in a specified percentage of the core allocation for basic class size, other building staff and MSOC. The excess cost allocation is based on district-wide enrollment not to exceed 12.7 percent of total FTE enrollment in grades K-12.

<sup>2</sup> The FFTWG does not recommend changing the percentage at this time, but does recommend evaluating it.

## Funding Distribution Details and Methodologies

The Funding Formula Technical Working Group reviewed the individual elements of the funding formula structure and discussed how those would operate with reporting requirements, calculations and other details. The group discussions and recommendations related to different prototype elements are detailed below.

### Allocations and Categorical Programs

The FFTWG reviewed the language of ESHB 2261 and concluded that the funding formulas are intended to be for allocation purposes only. The funding is not intended to dictate the structure of programs or the type of services delivered in schools; staffing allocations are intended to provide a specified level of resources. But, the ultimate decisions on how to structure schools to best serve the students is a decision that will remain with the local school boards. The FFTWG supports a structure that provides resources in an allocation model and preserves the flexibility and decision-making at the local level.

The FFTWG reviewed the language around certain programs to determine if they were intended to be categorical or part of a larger allocation. The FFTWG concluded that some programs were intended to be categorical, specifically the Learning Assistance Program, the Transitional Bilingual Instruction Program, Special Education, and Highly Capable. In these instances, the term categorical indicates that resources generated for these programs must be used to provide services to those student populations. The funds generated for those categorical programs remain allocations, meaning that program design remains with the local school district. In some cases, the structure of the program may be subject to approval or other state oversight; those are current provisions of the categorical programs which were not changed in ESHB 2261. The distinction of categorical programs is discussed in further detail after the structure of these categorical programs is outlined.

### Enrollment Reporting

The FFTWG assumes that student FTEs continue to be reported and funded using a nine-month average annual FTE student.

**Except for cases when the allocation is based on distinct school eligibility, such as the additional class size funds for high poverty schools, the Funding Formula Technical Working Group recommends that allocations be calculated based on district-wide enrollment for each prototypical school grade grouping.** This was considered to be consistent with the provision in section 106 of ESHB 2261, which indicates that:

*“Prototypical schools illustrate the level of resources needed to operate a school of a particular size with particular types and grade levels of students using commonly understood terms and inputs, such as class size, hours of instruction, and various categories of school staff. It is the intent that the funding allocations to school districts be adjusted from the school prototypes based on the actual number of annual average full-time equivalent students in each grade level at each school in the district and not based on the grade-level configuration of the school to the extent that data is available.”*

Creating the funding calculations based on individual school buildings would create significant complexity in a system which is ultimately intended to be an allocation method only. In 2004, the Office of the Superintendent of Public Instruction (OSPI) issued a bulletin on reporting school information in the Core Student Records System (CSRS). This bulletin touches on some of the complexities of school-based reporting and the flexibility offered to districts to define services as schools or programs within schools. For the CSRS purposes, a school is defined as:

*“an institution that provides preschool, elementary, and/or secondary instruction and may provide other education-related services to students; has one or more teachers; is located in one or more buildings; and has an assigned administrator.”*

A program is considered a sub-unit of a school. Decisions on how to configure the delivery of educational services in a public school resides with the local school board, within the parameters of state law and regulation. Once an entity is identified as a school, all school-based data collection, data reporting, and accountability requirements apply to the school. The following illustrations are meant to highlight some of the complexities in consistently defining schools across the state:

- There can be multiple schools in one building. Or, in another district, these may be defined as multiple programs within one school.
- One school may be in more than one building. In other cases, more than one school may be housed in one building.
- There are many different grade configurations in current Washington schools, which can blur the lines among elementary, middle and high schools. According to the OSPI data, there are 87 different grade configurations for 2,253 Washington schools. In addition to the prototype groupings of grades K-6; 7-8; and 9-12, current grade configurations include: K-2; 3-5; 6-8; K-5; K-8; 5-7; 7-12; K-12; and many more.
- Contract providers can be classified as a contract school or can be listed as a program within a current school.
- Virtual schools offer an entirely new layer of complexity.

If funding was provided based on current schools, the formula may give some incentive to create smaller schools depending on how the rounding of school staff is addressed when schools are totaled for the district allocation.

Funding the prototype schools for a district using district-wide enrollment will allow for a more simplified reporting and distribution structure. This approach is neutral to the local decisions on how to classify schools and the grade configurations of those schools.

The Funding Formula Technical Working Group does expect OSPI to create a communication tool to allow for viewing school-based staff information generated by the prototype compared to actual staffing. For example, if a parent wanted to see the prototype resources generated by their child’s school, that parent could see that information either by entering enrollment assumptions

and poverty information or by entering that school's name at a central reporting site. The tool would compare the staff generated by the prototype to that school's prior year staff as reported in the S-275 (school personnel report). This tool is critical to accountability in a finance system that is provided for allocation purposes only.

### Class Size

Class sizes that are allocated in the funding formula are assumed to be nine-month average annual class sizes, not minimum funding requirements. This is consistent with the overarching assumption that the funding formulas are for allocation purposes only.

### Planning Time and Interactions with Class Size

When faced with creating a calculation of class size, the FFTWG recognized that the assumed amount of time for teacher planning will impact the ultimate calculation of class size. Many would argue that the state has never recognized or specifically funded planning time. Similarly, many believe that the state allocations were constructed based on a five-hour day. This belief is based on WAC 392.121.122 which defines a full-time equivalent student and sets forth minimum hours for the secondary grades 7-12 at 25 hours each week, or 5 hours (300 minutes) each scheduled school day. Except for Running Start and Skills Centers provisions, high school students taking 5 credits and those taking 6 credit are both counted as 1 FTE student and generate the same funding amount under current statute, WAC and funding provisions.

However, the reality in schools is that teachers have to do planning time and schools provide instruction for closer to 5.6 hours per day in elementary schools and 6 hours per day in middle and high schools, although there is variation across the state. **The FFTWG recommends stating the planning time and instructional time assumptions in a manner that reflects the current operations of schools.** These decisions will impact how class sizes are calculated. A summary of the specific recommendations regarding planning time are outlined below.

An ad hoc group was formed to discuss planning time assumptions that could be used in a prototype model. Based on the work of that group, **the FFTWG recommends stating the planning time in terms of percentage of a teacher's day to recognize that there are different structures for student schedules.** However, the percentages were developed using general practice as a guide. The stated percentages are based on an assumption of one planning period in a six period day for middle and high schools and 45 minutes of planning time per day in elementary schools. These percentages reflect the increase in number of teachers needed to accommodate the assumed planning time for each teacher. **This reasoning results in planning time assumptions of 13 percent for elementary school teachers and 17 percent assumption for secondary teachers. Districts then must hire more teachers to cover the planning time, and because those teachers need planning time too, districts must increase elementary teachers by 15.5 percent to achieve the same specified class size. For middle and high schools, the increase in teachers is 20 percent.**

### *Middle and High School Calculations*

There is a frequent debate about the appropriate percentage to use when assuming one planning hour in a six period day: 17 percent planning time or 20 percent increase in teachers. The following is an illustration on how the group decided to use 20 percent. This example uses the following assumptions:

- 400 students
- 6 period student day
- Average class size of 25, as an example
- 16 classes per hour (400/25)
- 96 classes per day (16\*6)

If there is no planning time assumed for teachers, the school would need 16 teachers (96 classes divided by six classes per teacher).

If there is one period of planning time assumed for teachers, the school would need 19.2 teachers (96 classes divided by five classes per teacher).

The additional staff required for a five-period teaching schedule represents a 20 percent increase in staffing (19.2/16 is 1.2 or 120 percent).

Therefore, an individual teacher is provided planning time for 17 percent of the instructional day but the school needs a 20 percent increase in teachers to cover all planning time.

#### *Elementary calculations*

There is a great deal of variation among elementary schools in terms of hours of operations and amount of time provided for planning periods. Most students attend elementary schools that operate for 5 ½ to 6 hours per day. During that time, students have recess time (which counts as instructional time) and lunch time (which does not count as instructional time). In addition, the teacher planning time within the school day varies from 0 minutes to 50 minutes.

Given this variation, the FFTWG made the following assumptions regarding planning time and instructional time to create the planning time percentage to be used in the allocation formula.

- 400 students
- 5.6 hour or 336 minute instructional day
- Average class size of 20, as an example
- 20 classrooms during the instructional day (400/20)
- 45 minutes for a teacher's planning period (when applied) or 13% of the instructional day
- Each teacher has 291 minutes of instructional time per day (336 minus 45 minutes), when planning time is assumed

If there is no planning time assumed for teachers, the school would need 20 teachers for the assumed number of classrooms.

If there is 45 minutes of planning time assumed for teachers, the school would need 23.1 teachers (20 classrooms times 336 student instructional minutes divided by 291 minutes of teacher instructional time).

The additional staff required to cover the planning time represents a 15.5 percent increase in staffing (23.1/20 is 1.155 or 15.5 percent).

Because elementary schools do not operate in block or period schedules, **the FFTWG recommends discussing the elementary time in terms of what the students receive rather than focusing on teacher planning time.** In essence, while the teacher is planning, the students are with another teacher who is teaching PE, art or music. This is the way these subjects are delivered in elementary schools. The 15.5 percent assumption for planning time could be stated in terms of 100 minutes of PE and 125 minutes of art and music per week. This was seen as an effort to be transparent and understandable to the general public because it reflects how elementary schools are structuring their student and teacher time.

### Poverty Measures

There are two possible data sources for free and reduced price lunch (FRPL) statistics: food services data and the Comprehensive Educational Data and Research System (CEDARS). CEDARS is the system currently used by OSPI for collecting data on courses, students, and teachers. CEDARS replaces the Core Student Records System (CSRS) for this type of data collection. This system is still evolving, but FRPL data has been reported through CEDARS/CSRS over the last three years. When considering school-based funding systems, CEDARS has a distinct advantage over food services data because it can provide building-specific enrollment information. In contrast, food services data is reported to the federal government based on the population served, not the specific building population. In some small districts, multiple school buildings are located adjacent to each other and one building may serve lunch to all students. Food services data would associate the FRPL data with that building while the FRPL data in CEDARS is tied to the students and the school they attend.

The Funding Formula Technical Working Group identified some issues with CEDARS data, but noted that it has been improving over time. In one case, few of the direct-report food service students were identified as FRPL-eligible in CEDARS. Over time, CEDARS is capturing and including a larger percentage of the direct-report students in the FRPL data. The data system is expected to improve further before the new funding system is put in place. **The FFTWG recommends using CEDARS data (all categories of FRPL data) as the source of FRPL information for funding purposes.**

On the timing of data, the FFTWG discussed various options including: once per year data snapshot (i.e., October data); average of the highest two months for a district; average annual or multi-month average; and using prior year. If a snapshot of one month is used, that data could be skewed by one-time events (such as strikes at a major employer in the district). Different districts experience an influx of migrant, high poverty students at different times of the year depending on opportunities in their local economies. The selection of a one-month window may disadvantage some districts compared to others. Some existing state and federal funding programs rely upon October FRPL data. Whether as a one-time snapshot or as part of a multi-month average, the ad hoc group recommended avoiding the use of October data because eligibility has not been fully validated at that point in the year. Using November data would give districts adequate time to clean up data and validate and verify applications. A multi-month average is expected to offer a more accurate picture of poverty data for the district. The use of prior year data will provide more certainty for district planning and budgeting. **The FFTWG recommends using an**



**average of FRPL-eligible students for the months of November through April of the prior school year.**

While district-wide poverty statistics are reasonably stable from year to year, the group recognized that some unique circumstances in a community could cause a sudden change in FRPL eligibility from one year to the next (a plant closure, for example). In recognition of that possibility, the **FFTWG discussed an appeals process option that could allow for the use of current year FRPL statistics if there is a significant change in district-wide poverty status from the prior year.** The district-wide measure was discussed for this determination because it would show significant change in the demographics of a community. School-level data may fluctuate more from year to year and can be impacted by district administrative decisions to move a program, open a new school, or close a school.

Underreporting in middle and high schools was discussed by the group. Because the data matching conducted with social service programs results in eligibility for an entire family, the group expects that some of the historical underreporting at middle and high schools is being addressed through the CEDARS system. However, differences remain. **The FFTWG recommended addressing this issue in a simple manner by lowering the threshold for eligibility at middle and high school.** This is similar to the approach currently used for state-funded bonuses for teachers in high poverty schools certified by the National Board for Professional Teaching Standards. In that case, eligibility for the bonus is based on 70 percent FRPL for elementary schools, 60 percent FRPL for middle schools and 50 percent FRPL for high schools. The FFTWG did not endorse a specific set of poverty percentages for each grade span.

**Class Size Funding for High Poverty Schools:**

An ad hoc group was formed to develop recommendations regarding the structure and operations of class size reduction funding for schools with high concentrations of students in poverty. This particular element was the subject of much discussion and debate within the larger group. Ultimately, **the FFTWG does not have one unified recommendation in this area, but has two options for policymakers to consider.**

The FFTWG articulated some concerns about generating funding based on school data, including the following:

- Cut-offs will create disparities. There is little difference in the concentration of poverty between a 49 percent FRPL school and a 51 percent FRPL school.
- Funding at the school level could create incentives in school districts to concentrate low-income students into certain buildings in order to ensure that buildings meet the threshold for the additional funds. Because data shows that there is an educational impact on all students when buildings reach higher thresholds of students in poverty, the funding formula should not provide incentives to create this environment for students.
- School-level funding could create incentives for a district to categorize programs as schools, create schools within a school, or to move certain programs (such as a gifted program) out of schools that are near the cut-off. These administrative moves may not be in the best interest of the students.

- School-level data may be more volatile per year compared to district-based data. That could create instability in district planning and budgeting.
- School-level data will create complexity regarding the definition of the school, enrollment reporting, and other administrative burdens. At the same time, the funding is specifically provided for allocations purposes only.

Given the clear legislative intent to generate this class size enhancement based on school characteristics, the group identified and debated two different approaches to school-level funding.

In each case, the FFTWG assumed that funding was generated based on school-level data, but that it was provided to districts for allocation purposes. Districts would retain the ability to determine ultimate distribution of those funds. This would allow districts to address funding formula anomalies such as cases where a school generates funding for only a small fraction of a staff position. The ad hoc group anticipated that state reports would provide transparent reports of funds generated by schools and that districts may have to justify different allocations among buildings to the public.

*Percentage-based option with class size reduction based on total school enrollment*

One approach would provide funding for schools that have 50 percent or more of students eligible for free or reduced price lunch. The funding to reduce class sizes would be generated based on the entire school enrollment.

In this scenario, the definition of a school is critical. Districts' authority to define a school could allow for some manipulation of eligibility for these additional funds. Using a two-tier test that defines what is recognized as a school for funding purposes could mitigate districts' ability to make administrative decisions that result in increased funding. For example, to be eligible for this funding, a school would have to either be the largest school in the district for that grade band or must be over 100 students. This would limit the creation of schools within a school for funding purposes, even though districts could still opt for that organizational structure for educational reasons.

In this scenario, the size of the building will generate different funding levels by school. But, similarly sized schools with different concentrations of poverty would generate a similar resource. For example, a 400 student elementary with 51 percent of students eligible for FRPL would generate nearly identical funding as a 398 elementary with 80 percent of students eligible for FRPL.

*Combined approach using student count and percentage*

Another option is to provide these class-size funds for each school in a district that meets a specified threshold of students eligible for FRPL. The FFTWG discussed using thresholds that would equate to 50 percent FRPL eligibility in a prototypical school. For example, elementary schools would be eligible for additional funding if 200 or more students are eligible for FRPL. Lower thresholds could be considered at middle and high schools to allow for underreporting of FRPL eligibility in those schools.

This model could allow funding to be scaled up to provide additional resources for schools with higher numbers of students in poverty. The general option discussed was to provide one teacher when an elementary school has 200 students in poverty and an additional teacher for each 100 students in poverty above the original 200. The group assumed that this additional resource would be proportional (i.e., 0.5 additional teacher allocated with 50 additional students in poverty). In addition, the group expected that the threshold would be prorated for different grade groupings in schools (i.e., the elementary threshold would be prorated for a school that served only grades K-3).

This student count approach provides resources to schools based on significant *numbers* of students in poverty. However, because school sizes vary from the prototype models, this approach could have the impact of generating funding for schools with a wide range of FRPL *percentages*. Even in larger districts, the 200 student threshold in some smaller elementary schools may translate into a much higher percentage of its students (80 percent or more, for example). In the case of large high schools, a high school of 2,000 with 15 percent FRPL eligibility would have 300 students in poverty, which would make them eligible for additional funding if 50 percent of the prototype is used as the threshold (50 percent of 600 in the case of high schools). There was discussion that significant numbers of students in poverty can be a challenge for schools whether big or small; this approach presented one way to mitigate putting larger schools at a relative disadvantage in the school-based funding structure.

To address the incentive to create smaller schools under the percentage model and to provide scalable resources to higher poverty schools, the group ultimately combined the percentage and the per student approaches for a combined approach. This combined approach would generate funding based on school-level poverty information when a school met either of two criteria: 50 percent of students in poverty or an established number of students in poverty, such as 200 at the elementary level.

This combined approach could address disadvantages of the individual approaches. It would allow some additional class size funding for large schools that had large numbers, but not necessarily 50 percent, of students in poverty. This approach could incorporate a low-end threshold as described in the percentage option (building must be largest in grade group for that district or at least meet a specified size). In that way, this combined approach could address previously stated legislative interests in finding an approach that does not reward the creation of small schools within larger districts and does not punish districts that have limited capital facilities and larger school buildings.

**The FFTWG presents these options for further discussion and debate by policy makers. If resources are not an obstacle, the combined approach is preferred because it would reach more schools in which there are concentrated numbers of students in poverty. This is perceived to be aligned with the intent of ESHB 2261. Alternatively, if resources are limited, the group presents the percentage-based option which more closely represents the language of the bill.** A summary of an analysis conducted for the FFTWG discussion is included in Appendix 2.

### Salary assumptions

The current funding structure allocates staff resources using three categories: certificated instructional staff (CIS), certificated administrative staff (CAS), and classified staff (CLS). The new prototypical school funding structure includes 19 staffing categories. The methodology used to represent current staffing resources in the new prototype school structure is discussed in the section which discusses the baseline level of current funding in the new structure.

Once the staff are allocated among the new, more discrete categories, it could allow for different salary assumptions by category of staff. However, in addition to the Funding Formula Technical Working Group, ESHB 2261 includes a compensation workgroup which will begin July 1, 2011. The FFTWG assumes that the details of the compensation system will be addressed through the compensation workgroup with ultimate decisions being made through the legislative process. For the purposes of the funding baseline and the initial operations of the funding system, the FFTWG assumed that staff allocations would continue to use the salary structure currently in place for CIS, CAS, and CLS allocations. In addition, the FFTWG assumes that salaries for certificated instructional staff will continue to use the average experience and years of service (staff mix) for the district rather than school-based or statewide numbers.

### Staff Unit Allocations

The current funding formula allocates staff units to the thousandth decimal place (1.000). When transitioning the current funding system into the new prototype school model, the FFTWG utilized the same methodology to identify a cost-neutral translation to the new system (Baseline). However, **the FFTWG recommends a goal of providing state allocations to the tenth decimal place (1.0).** While there is a cost associated with such a change, it would simplify the discussions of the funding system if a school reported receiving an allocation for 12.5 teachers rather than 12.532 teachers.

### Class Size and MSOC for Career and Technical Education (CTE)

An ad hoc group was formed to discuss the issues related to class size and MSOC enhancement for career and technical education in the new funding system. This group started with a review of the current programs and funding provided for CTE programs in the middle and secondary schools as well as the Skills Centers.

The current funding structure provides enhanced funding for CTE and Skills Centers by adjusting the funded staff units and non-employee related costs (NERC) as follows:

- Vocational Staff ratio 1 per 19.5 students
- Skills Centers Staff Ratio 1 per 16.67 Students
- Each of the staffing ratios for CTE and Skills Centers are bifurcated into 92 percent as CIS and 8 percent as CAS.
- No enhancement is provided for the CLS ratio.
- NERC is provided at a higher rate of \$24,999 for CTE staff units
- Skills Centers receive NERC at \$19,395.

It was discussed that all career and technical education programs offer instruction in two distinct modes:

- Exploratory CTE Courses – CTE courses in which students demonstrate the application of Essential Academic Learning Requirements (EALR) and Grade Level Expectations (GLE) in the context of preparing for living, learning, and working; demonstrate foundational and occupational-specific skills required to meet current industry standards; explore and demonstrate knowledge of career options within the related pathway; and demonstrate leadership and employability skills.
- Preparatory Courses – CTE courses in which students demonstrate mastery of competencies including the application of EALR and GLE as required to meet industry defined standards needed for a specific career; demonstrate leadership skills and employability skills; be employment ready and/or be prepared for postsecondary options

### *CTE Discussion and Proposals*

The FFTWG recommends creating a model in which districts report the CTE enrollment by mode and generate funding based upon assumptions as to what a funded class size would be for exploratory versus preparatory. In the course of discussion, the ad hoc group reviewed the different modes of CTE that may be provided in the different levels of schools. Middle school CTE programs primarily provide exploratory programs, secondary CTE provide a mix of programs, and Skills Centers provide primarily preparatory programs.

Concentration, by mode, of programs provided by district can vary significantly based upon various factors including district philosophy, student interest, facilities, and other resources. This proposal would provide funding for reduced CTE class sizes based upon the mode of instruction provided. Discussion of the operations of these programs resulted in a recommendation that class sizes for exploratory programs be funded consistent with the general instruction population and that the enhanced class size funding be targeted to preparatory courses. A simplified version of this model could use the following assumptions:

- Middle school CTE is funded consistent with the general education class size;
- Skills centers is funded based upon the specified class size for preparatory CTE; and
- High schools would report enrollment as exploratory CTE and preparatory CTE and receive funding based upon the mix of FTE in each respective mode.

### *Maintenance, Supplies and Operating Costs (MSOC)*

The FFTWG found the NERC/MSOC discussion difficult if not arbitrary to undertake at this time. The ad hoc group translated the current funding formula NERC to reflect a per student amount, which is summarized below.

- The current basic education formula generates 5 staff and \$50,895 in NERC for 100 students in grades 9-12. This yields a per student NERC amount of \$508.95.
- Current CTE formula generates 5.13 staff units and \$128,200 in NERC for every 100 CTE students in grades 9-12. The average per student for NERC is \$1,282.00.
- The current Skills Center formula generates 6.0 units and \$116,346.73 in NERC for every 100 skills center students in grades 9-12. The average per student for NERC is \$1,163.46.

- The resulting multiple above the basic education NERC per student is 2.52 for CTE programs and 2.29 for skills centers.

Without further information on the assumed level for NERC/MSOC for the prototypical school, **the Funding Formula Technical Working Group recommends continuing the current multiple of funding for CTE and skills center NERC/MSOC in the transition to a new MSOC funding structure.** As the new funding formula values are specified, this is an area that can be reexamined to test the validity of these assumed ratios.

### *Skills Centers*

The structure of Skills Center funding is not specifically addressed in ESHB 2261. **The FFTWG recommends that the structure of the skills center funding be changed to be more transparent, modeled after the transparency of the prototype school model.**

Skills Centers programs exist through cooperative agreements among school districts. These centers are stand-alone programs that represent a complete cost center. **The FFTWG recommends that funding elements generated by the Skills Centers' reported FTE should be identified and bundled separately from other prototype elements provided to school districts.** This would include any administrative or facility funding elements. Any indirect allowance should be provided to the district to cover those central district costs incurred in departments such as payroll, personnel, and purchasing.

### Class Size and MSOC for Laboratory Science

The Funding Formula Technical Working Group reviewed options on how to implement a class size and MSOC enhancement for laboratory science classes. The FFTWG recommends using an assumed percentage of course offerings as the basis for this funding. The alternative would be to base the allocation on actual student participation in laboratory science classes. However, a participation model would create new, course-specific reporting requirements and require a process to identify which courses meet a laboratory science definition. In CTE programs, there are already common definitions in place along with review, approval and reporting requirements that allow for the course-specific funding structure proposed by the FFTWG. None of that exists related to laboratory science courses. Because this is intended to be part of a general allocation system, **the FFTWG recommends that funding for laboratory science classes be allocated as an assumed percentage of course offerings in high schools.** To come up with this percentage, the FFTWG reviewed the science components of the Core 24 proposal. In the Core 24 structure, the State Board of Education recommends three credits of science within the 24 credits required for graduation, which is 12.5 percent.

This percentage would be applied to the total enrollment in grades nine through twelve to identify the FTE students associated with laboratory science courses. This calculated FTE would be used for the class size and MSOC enhancements. The specified class size will be identified by the legislature in the operating budget. Equipment, curriculum materials and classroom supplies can be expensive in these laboratory settings. **The FFTWG recommends funding for MSOC would be provided based on the same multiple used for career and technical education.**

It is important to note that recent discussions regarding the timing of Core 24 graduation requirements has focused on making Core 24 a graduation requirement six years after funding is

provided for its implementation. The reasoning behind that recommendation is that funding and course offerings need to be in place before any student is required to meet the additional credit requirements. With that premise, **the FFTWG recommendation to tie class size funding for laboratory science to the Core 24 structure is made with an eye toward future graduation requirements, but is assumed to precede the actual implementation of Core 24 as a graduation requirement.** No obstacles were identified regarding early implementation of this funding enhancement; many districts offer at least three credits of science now.

#### Class Size for Advance Placement (AP) and International Baccalaureate (IB)

AP and IB are national and international programs with clearly defined and approved classes. Advance Placement (AP) is a set of thirty three courses developed by the College Board. Each AP course has a corresponding assessment through which students may earn college credit and/or advanced placement in college courses. High schools can offer any subset of these courses once a teacher's syllabus is approved by the College Board. International Baccalaureate is a complete program offering. Schools that offer an IB program must offer the full program, which includes curriculum, student assessment, professional development for teachers, and a process of school authorization and evaluation. IB courses, like AP, may be recognized for college credit by colleges and universities.

**The FFTWG recommends that funding to reduce high school class sizes in AP and IB courses be tied directly to student participation in those classes.** Although many felt that AP classes did not warrant a smaller class size per se, the discussion brought forth the reality that in many high schools or in certain AP topics the student participation may not be large enough to fill a typical class size. Thus, funding to reduce class sizes in these courses will make it easier for districts to offer these programs without adversely impacting other course offerings.

Although the International Baccalaureate programs were recognized as desirable, the actual experience in school districts to date has shown them to be cost prohibitive. IB is only offered in 16 buildings statewide. An ad hoc group looking at these issues gathered information about the process and costs of offering IB programs. The start-up timeline can require two years of effort before the first class is offered to students and involves significant costs. The annual costs of offering programs include specialized training that the group felt was above and beyond the typical teacher training. In addressing a funding formula, the group felt that the state and students would be better served by creating a grant program to cover start-up and training costs for schools that wished to expand into this area rather than addressing these additional costs through an MSOC enhancement. As these programs become more prevalent, the Legislature may wish to review the experiences of schools in the future to determine whether a specific funding formula is practicable.

#### Central Administration Percentage

The language in ESHB 2261 directs that, for central administration:

*“The minimum allocation shall be calculated as a percentage, identified in the omnibus appropriations act, of the total allocations for staff under subsections (3) and (6) of this section for all districts in the state.”*

Those two subsections provide for the basic education prototypical school model and the allocation for Highly Capable Program. An ad hoc group was formed to discuss the structure of the central administration allocation. Fundamental questions were identified and discussed by the group. Should this allocation be provided as a percentage of the staff allocated in the prototypical model and Highly Capable allocation, or should it be allocated as a percentage of the dollars in those programs? Should the allocation be calculated on statewide totals or on district-specific totals?

The FFTWG defined central administration as the administrators and their support personnel required to run a school district. This includes the superintendent, clerical office staff, human resources, accounting, and communications functions. Central administration functions do not directly support school and other direct service programs. The percentage is calculated based on the total staff generated for school level and district-wide support. School level includes functions that directly support the functionality of schools and pupil instruction. District-wide support includes functions that support the entire district but are directly related to pupil instruction and building functionality, such as technology and grounds maintenance.

**The FFTWG recommends that Highly Capable be removed from the central administration calculations.** Instead, the administration associated with Highly Capable, Learning Assistance, and Transitional Bilingual Instruction programs should be included in the costs and allocations for those categorical programs.

The FFTWG decided that the central administration allocation should cover FTE, salaries, and benefits of central administrative staff only; MSOC and district-wide support should be covered in other aspects of the funding formula.

Based on analyses completed by the ad hoc group, **the FFTWG recommends that the calculated percentage be based on district allocations rather than a statewide basis.** This system was seen as a better fit to reflect district costs. Some of the underlying prototypical school allocation may drive significantly different staffing and resources among districts. For example, additional staff to reduced class sizes in high poverty schools will generate more funding and FTE for those staffing resources. Additional staff drive additional central administration costs for duties such as payroll and human resources.

**The FFTWG recommends that the percentage calculation be based on the FTE staff generated by the prototypical school and district-wide staff allocations.** Percentage calculations based on dollars would provide different funding levels for districts for some elements that do not drive central administration costs, such as the relative staff mix or average salary among teachers. If the percentage is calculated based on dollars, rather than FTE, two otherwise similar districts could receive different allocations for central administration simply because their teacher populations had different experience levels. The FFTWG felt this was not a good reason to drive differential funding and recommends that the percentage be based on a percentage of FTE instead. The pro's and con's identified with each approach are outlined in the following table.



Percentage of Dollars	Percentage of FTE
<b>Pros</b>	<b>Pros</b>
Transparency – It is simpler and less complex, making it readily understandable by the general public.	Staff drive staff – as the staff in the district increase, so does the workload on central administration staff.
<b>Cons</b>	<b>Cons</b>
<ol style="list-style-type: none"> <li>1. Staff Mix – Districts will be motivated to hire experienced staff rather than newer teachers.</li> <li>2. Regional COLA – If regional differences are allowed in salary tables, districts with high cost-of-living will get higher central administration funding, which may not be proportional to the cost differences associated with those staff positions.</li> <li>3. Poverty – Teachers certified by the National Board for Professional Teaching Standards who teach in high poverty schools receive a bonus; generating greater funding for the district. This bonus would generate an incremental increase in central administration without a notable increase in central administration workload.</li> </ol>	<ol style="list-style-type: none"> <li>1. Salary Schedule – This will require a salary factor to be created for central administration staff.</li> <li>2. Specific Salary Schedule – A staffing-based allocation will require the state to set a salary factor for central administrative staff that are certificated and those that are classified. (The recommended formula identifies a method to facilitate implementation; the salary allocation can be addressed along with other salary allocations.)</li> </ol>

By calculating a percentage of FTE, the formula would generate an assumed FTE which is a combination of current certificated administrative staff and classified staff. A salary assumption would need to be utilized in order to turn that FTE into a dollar amount for allocation purposes. Based on current staffing patterns, **the FFTWG recommends dividing the FTE as follows: 75 percent for classified staffing and 25 percent for certificated administrative staff.**

Overall, the FFTWG hopes to see that the salary and benefit multiplier is reflective of what districts must pay in order to attract and retain quality staff. The group has decided to leave this decision to the compensation workgroup, which is tasked with conducting a market analysis for all school district employees. Until that work is complete, the FFTWG has identified three options for calculating staffing costs for the central administration allocation:

- The state funded salary and benefit rate for certificated administrative staff and classified staff for each district.
- The average statewide actual compensation cost for certificated staff and classified staff.
- The district specific average actual compensation cost for certificated staff and classified staff.

For the purposes of an initial reflection of the current funding system, **the FFTWG recommends that the current district-specific allocations for classified and CAS staff be utilized.** This will be discussed in more detail in the section outlining the baseline assumptions.

Details on the calculations for the central administration percentage are included in Appendix 3.

### *Scalability*

Through modeling current central administration expenditures, the ad hoc group found that districts with enrollment less than 1,000 tend to have higher percentages of administrative costs. The FFTWG considered a recommendation to use different percentages for central administration allocations based on groupings of districts by size. However, this created district funding differences at the cut-off points of categories. Ultimately, **the FFTWG recommended that the small district issues be addressed through minimum staffing levels in a small school/small district allocation and that the central administration percentage be uniform for all districts.**

### Maintenance, Supplies, and Operating Costs

Non-employee Related Costs in the current system are generated based on the state-funded certificated FTE staff units. In ESHB 2261, maintenance, supplies, and operating cost allocations will be generated based on student enrollment. The FFTWG debated whether MSOC should be based on student enrollment or on staff units. There are many elements of MSOC which are more closely tied to staffing costs. When additional teachers and classrooms are added, MSOC items such as utilities, custodial supplies, building maintenance, property loss insurance, teacher curriculum guides, science and manipulative kits, classroom libraries, other equipment and additional professional development materials and registration costs increase, too. This is important in the prototypical school model, which can generate additional staffing for high poverty schools while allocating the same MSOC based on total enrollment. While the FFTWG recognized this relationship between staffing and MSOC costs, the MSOC per student was seen as a more transparent and understandable number. **The FFTWG recommends allocating the MSOC in terms of student enrollment.** As targeted class size reduction elements are implemented, the FFTWG recommends that further work be done to determine if an additional MSOC factor should be included for those program elements.

### Health benefits

Health benefit allocations for state employees and K-12 staff are included in the biennial budget. In very general terms, state employee benefits are subject to collective bargaining which is then presented to the legislature for approval. Appropriations to state agencies for state employee benefits are generated based on the headcount of staff that work half-time or more. State agencies then provide that funding to the Public Employees Benefit Board (PEBB), which includes funds for current personnel and a component to address retiree benefits. Allocations to K-12 school districts are calculated based on the number of FTE staff generated in state-funded programs, which includes most, but not all state funded allocations. Learning Assistance, Transitional Bilingual Instruction, and Gifted program per student allocations include an assumed component for staffing. Notably, there are no staffing assumptions in the formulas for levy equalization and student achievement funds. In addition, the appropriations act identifies a retiree remittance, also known as the carve-out, to be paid by school districts based on all current staff. This remittance amount is included in the calculations of the health benefit allocation for state-funded staff, but school districts do not generate any additional funding to cover the remittance for other staff funded by federal funds or local levy dollars. These amounts support the costs of participation of K-12 retirees in the PEBB system. In practice, many school districts

have bargained contracts that pass through the full amount of the health benefit allocation for current employee benefits, leaving the retiree carve-out to be paid by the district in addition to any state amounts the district receives for the state-funded benefits.

There are perennial questions about transitioning K-12 current employees into the PEBB system. This has been the subject of several state studies. The most recent study was conducted in 2004 when the Office of Financial Management was directed by the Legislature to examine these issues. The report identified several obstacles to school districts' participation in the PEBB. Those obstacles include the current difference in funding and eligibility, with K-12 generating funding based on FTE staff, but eligibility for participation being identified as individuals who work half-time or more. In addition, there is a structural difference in how benefits have been allocated among staff. In K-12, collective bargaining contracts generally identify an amount per individual for employee benefits; individuals then choose among plans with different levels of benefits when utilizing their allocation. If an individual does not use their entire benefits amount, the remainder is pooled in a way to offset the costs of others in their collective bargaining group. In addition, many districts have bargained contracts that include additional funds provided by the district for employee health benefits. For state employees in PEBB, there are multiple providers of the same benefit package. State employees are generally paying a set percentage of the benefit amount, where the individual benefit amount in K-12 might translate into some individuals paying no money for their plan choice while others with additional dependents may pay much more. This has been described as the state PEBB has a bias towards families (family coverage is cheaper than K-12) and K-12 plans have a bias towards singles (singles pay less, families pay more than PEBB). These differences and the timing of open participation and rate changes make school district participation and transition challenging. A further discussion of these issues can be found in the 2004 report titled: "Evaluation of K-12 Employee Health Benefits Coverage."

An ad hoc group was formed to consider the funding structure for health benefits and other employee benefit issues. This group considered whether state allocations for K-12 should continue with an FTE-based health benefit allocation, or be changed to a headcount allocation model. Some members indicated that going to a headcount model would be best in the long run if the mechanics could be done fairly. It was suggested that a head count approach could be developed that was prorated using actual part-time staff data. At the same time, it was recognized that changing from an FTE to headcount model would be a large and complicated undertaking and throw a lot of confusion into what is already going to be a challenging transition period. In addition, the definition of half-time (discussed below) would have to be debated and decided before any members could recommend a final decision moving to a headcount basis. **The FFTWG recommends retaining the existing FTE-based health benefit allocation model for K-12 until additional details can be researched and vetted.**

There are many school employees, especially among classified staff, who work half-time during the school year. These employees are eligible for benefits through the school districts, but their total hours would not be sufficient to meet the half-time eligibility used to generate funding among state employees. In addition, group members pointed out that there is a big difference in the way the state and school districts treat part-time employees, with the state providing a full benefit to half-time employees and school districts prorating the benefit amount for half-time employees. It was indicated that most districts have a threshold of 3.5-4 hours per day to receive

health benefits and that insurance companies discourage benefits for less than that because of adverse selection concerns. The group brainstormed about how benefits for half-time school district staff could be better aligned with the state system, including how to translate between a 1040-hour half-time state employee and a 720-hour half-time school district employee.

It was suggested that the state's current 1.152 factor that attempts to recognize and fund employees working 1440 hours per year or more as 1.0 FTE for benefits needs to be reviewed. The conversion factor needs to be revised to take into account the current ratio of 261-day classified employees to school year employees. The existing factor was established in 1982 and has not been changed since then. A statewide factor will not eliminate district to district variance, but an update to the factor will be a big improvement. A review of one district's data indicated that the factor in that district would be 1.271. The state does not collect the data needed to do a statewide analysis through regular reporting elements; however, districts should readily have the needed data elements. **The FFTWG recommends that the OSPI survey school districts to gather the data elements needed to analyze and update the statewide ratio of 261-day employees to school year employees. This updated factor is recommended for the new funding structure. It will not cover district to district variance, but will bring all districts closer to covering classified health care costs.**

The size of the PEBB retiree carve-out has grown over time, and school districts do not generally pay this out of the state health benefit allocations. Instead, districts cover this cost-out of local funds. The question was posed whether it would be beneficial for allocations to come in two pieces (health benefit and carve-out allocation), and members of the group indicated it would make no difference. The question was raised whether school district retirees utilize PEBB to the level that the K12 system is paying PEBB for retirees. Based on data from the PEBB, it appears that K-12 retiree participation in PEBB is consistent with the amount paid into the retirement pool by K-12 districts.

The perennial debate about mandating all of K-12 into the PEBB is a hard debate to resolve while the two funding systems are so different. Currently, school districts have the option to enroll their employees, by bargaining unit in the PEBB plans. Despite recent changes by the Health Care Authority, there continue to be many implementation challenges to such a move, which are outside the scope of the FFTWG's work. The FFTWG focused on making improvements in the K-12 funding allocations for health benefits, to better reflect district experience rather than tackling all changes that would be necessary to make a transition to PEBB if that becomes a policy choice. If the Legislature chooses to make such a policy change, the recommendations regarding the health benefit allocation will need to be revisited in that larger context.

#### [Substitutes/sick leave](#)

In general, the group felt that the CIS substitute assumptions in the current funding formula assume too few days and too low a rate when compared to actual district experience and state law. The formula also does not recognize the cost of payroll taxes for substitute pay. When these additional costs are not recognized in a funding allocation, then costs are borne by local resources and/or impact the ultimate classroom resources that districts can provide. If the state is moving to a transparent model that represents funding in terms of class size and subsets of building staffing, all costs associated with those staffing levels should be recognized in some part

of the funding. State law awards 12 days per year for state employees; most districts give 12 days per year and some pro-rate for the school year.

Current state funding allocations provide 4 substitute days per year at a specified dollar amount for certificated instructional staff. A review of data from several school districts demonstrated what group members expected, which was that 8 days per year was more common district experience and the rate assumed in state funding formula did not reflect district experience. Group members indicated that funding formulas should also include a mechanism for funding classified substitutes since most Basic Education Act-funded classified staff require substitute coverage when absent.

The ad hoc group addressing employee benefits issues considered different ways of creating a substitute allocation for classified staff. Two primary options were considered. One approach would generate an allocation based on the FTE staff in specified categories with a general rate and number of days applied to those FTE. Another approach would create individual assumptions of the rates and days for all types of leave for all staff categories in the prototypical school model. This more detailed approach was seen as a way to offer more transparency to the resources generated for different staffing. This would also offer a place within the funding system to address the addition of training days for classified and for certificated staff as well as unique training needs for some positions, such as hazardous materials applications. However, this level of transparency would also add more complexity to the funding formula for one relative small area, employee benefits. Ultimately, the FFTWG recommended creating an allocation for substitute costs that was based on averages and the general categories of staff that require substitutes. This was seen as an improvement on the current system. The FFTWG still believes these additional professional development requirements for certificated and classified staff must be addressed, but recommended that it be done separate from a substitute allocation.

**The FFTWG recommends a new substitute allocation model should be developed, aligned to actual statewide experience in the cost of substitutes, the number of days needed to cover sick leave, and the types of employees for which districts need substitute coverage. Substitute allocations should be calculated on certified instructional staff and those classified staff associated with a school, including paraeducators, school office, security, and custodial staff.**

Separate from substitute costs, districts face costs related to employee attendance incentive programs which provide annual and retirement leave cash-outs for all categories of staff. The current funding formulas do not include any recognition of leave buyout costs. While leave buyout is not technically a state requirement but is an option specifically permitted by state law, members of the group indicated that, as a practical matter, it is impossible to bargain otherwise. It was mentioned that state agencies are required to cover the cost of leave buyout through other staff savings such as vacancy savings, but it was recognized that school districts cannot usually leave vacancies during the school year in many of the instructional programs. **The FFTWG recommends that leave buyout costs are an unfunded area that merit further study, given the significant amount of money districts expend on leave buyout as an employee attendance incentive consistent with RCW 28A.400.210.**

### Learning Assistance Program (LAP)

In the current funding system, the Learning Assistance Program (LAP) is a categorical program with funding generated primarily based on the percentage of students in the school district who are eligible for free or reduced price lunches. School districts design the program employed to provide remediation services to students who are below grade level in reading, writing, or math. The students served in LAP programs are not necessarily students who are eligible for free or reduced price lunches. This population is used to generate the funding because poverty is correlated with low student achievement in many research studies; it is a proxy for identifying the relative need in a district.

In the prototypical school formula articulated in ESHB 2261, much of this structure will remain the same. LAP will continue to be a categorical program which is allocated to school districts based on a poverty factor. Districts will continue to have discretion on how they formulate their LAP program and will serve students who are below grade level in those basic skills areas regardless of family income.

What will change is how the funding is calculated and represented. Consistent with the recommendation on the poverty factor for class size reduction funding, **the FFTWG recommends that the FRPL statistic used in this formula be based on the district's prior year percentage of students eligible for FRPL for the months of November through April. However, for the LAP program, the FFTWG recommends using FRPL rates at a district level.** This level is consistent with the sum of the poverty rates per school; reporting at the district-level will simplify the administration of the system. Yet, school-level data will continue to allow for the representation of LAP funds generated by school for reporting and transparency purposes.

ESHB 2261 specifies that the Learning Assistance Program provide for extended day and extended year and a per student amount for MSOC. The FFTWG concurred with this structure for its recommendations. The FFTWG also assumes that these funds, while stated as extended school day or extended school year are provided on an allocation basis and that districts may use resources to hire instructional coaches, provide professional development, or pull students into small group instruction during the school day as an alternative to an extended day/extended year program.

The model for extra time includes:

1. School year hours per week in extra instruction, with specified class size
2. Hours per vacation week, with specified class size

The FFTWG recommends that the staffing generated based on the hours per week be stated in terms of teacher hours and associated compensation costs. Because funds are assumed to be provided for allocation purposes, school districts could use funds to hire teachers, classified, or other staff consistent with their Learning Assistance Program plan. **The FFTWG recommends that a mechanism be included to fund professional development for classified staff, not just teachers and other certificated staff.**

Also built into the formula are allocations for textbooks and curriculum (which will pay for special assessments, differentiated curriculum for many learning levels) and administration. The curriculum materials are funded via a percentage of the general MSOC textbook category. The percentage of additional MSOC funding dedicated for LAP is derived using total LAP hours divided by total instructional hours per year (1,000 hours) and then is multiplied by the textbook category of MSOC.

ESHB 2261 does not include program or other administration costs within the Learning Assistance Program; nor does it include the Learning Assistance Program in the base that is used to calculate central administration costs. **The FFTWG recognizes that there are administrative costs associated with the Learning Assistance Program and recommends that the same percentage used to calculate central administration be applied to the base staffing generated by the extra time model for LAP.** This administrative cost would be provided as an additional element of the LAP funding.

There can be additional transportation costs associated with extended day programs. The FFTWG assumes that these costs would be reflected in school district expenditures used in regression analysis in the new pupil transportation funding system. Recognition of increased costs will be lagged one year based on the new transportation system, but the FFTWG does not recommend any specific adjustment be made to LAP related to these additional costs.

An alternative LAP program structure was presented to the committee through public input. The FFTWG considered those recommendations and responded. The summary of the problem statements/recommendations and the FFTWG's responses are summarized in Appendix 4.

#### Programs to Assist English Language Learners (ELL) Acquire English Proficiency

The current Transitional Bilingual Instruction Program (TBIP) provides a dollar amount per eligible student. Unlike the LAP program, TBIP generates funding based on the specific population that will be served in the program. It is a headcount program because federal law requires services to students to be based on an individual's English-language proficiency. However, funds for this categorical program are provided as an allocation; school districts have discretion, within program requirements, on how to structure the services to these students. The FFTWG assumes that these funds continue to be provided on an allocation basis within a categorical program, retaining district discretion on program delivery.

The FFTWG recommends that the structure of the allocation for TBIP be similar to the one used for the Learning Assistance Program. In ESHB 2261, LAP is to be provided in terms of extended day and extended year while TBIP funding would be provided as a percentage of the day pulled-out for small group ELL instruction. Even though the funding is for allocation purposes, and does not mandate a program delivery, the FFTWG prefers to quantify the TBIP program in terms of additional time and the class sizes related to that time. Without this consistency, one could interpret the different distribution methodologies in ESHB 2261 to imply that struggling students deserve extra time; ELL students do not. The working group prefers to have consistency between the programs. However, it should be noted that the general practice in the field for both programs tends to be a pull-out delivery method during the school day.



The TBIP funding shall be provided as an allocation for extra time including:

1. School year hours per week in extra instruction, with specified class size
2. Vacation hours per week, with specified class size

As with LAP, the FFTWG recommends that the staffing generated based on the hours per week be stated in terms of teacher hours and associated staff salaries and benefits. Because funds are assumed to be provided for allocation purposes, school districts could use funds to hire teachers, classified, or other staff. **The FFTWG recommends that a mechanism be included to fund learning improvement days or other professional development for classified staff, not just teachers and other certificated staff.**

As with LAP, the TBIP should include an allocation enhancement for the MSOC and administrative component. These TBIP formula components should mirror the respective formula enhancements for LAP.

**The FFTWG recommends that additional study be conducted related to complexity factors that drive additional service demands and higher costs in certain districts. The FFTWG recommends analysis of the validity and magnitude of possible enhancement factors for districts with more TBIP students in secondary schools, for districts with multiple languages, for the mix of student literacy skills in students' native languages, and other possible factors that address complexity of needs in some districts. The FFTWG recommends that this analysis be done using Washington data, rather than national data.**

This work should be done as part of an implementation plan to phase in funding to districts with the most complex needs first; this study should in no way delay additional funding so it must be conducted expeditiously.

#### Highly Capable

**The FFTWG recommends that the Highly Capable funding model be consistent with the model recommended for the Learning Assistance and Transitional Bilingual Instruction programs.** The model should be based on the extra time for education that Highly Capable students receive and an assumed class size for the extra time. The funding model however is not a requirement. As with LAP and TBIP, the resources can be used for any approved program design; districts may use resources to hire coaches, provide professional development, or pull students into small group instruction as an alternative to extended day/extended year programs.

The appropriate student percentage on which to base the Highly Capable Program was discussed at length, with consensus that the 2.314 percent funding basis is too low. **The FFTWG recommends that a research-driven study be commissioned to determine the appropriate percentage, and include students that test into one of the three commonly accepted Highly Capable categories, rather than the current common practice of counting only students that test into all three.** Until such research data is available, extra time should be provided on an allocation basis for 2.314 percent of a districts' student population; as with the current funding model, districts will design measures to identify the number of students to serve in the program. **This study is not intended to delay additional funding so FFTWG recommends it be conducted expeditiously.**



**The FFTWG recommends that a funding floor be developed and implemented by 2018.** The FFTWG recognizes that both the current formula and the recommended formula may create allocations to small districts that are too small to provide any meaningful Highly Capable program. While this is clearly evident for the Highly Capable program, due to the fixed, small percentage of funded students, a floor may need to also be developed for other categorical programs as well. For instance, a district may not generate sufficient ELL funding to create and maintain a meaningful program if a district only has 7 students who qualify.

The funding model shall also include a component for curriculum resources (MSOC) and for program administration, employing the same formulas as for LAP and TBIP covered above.

### Special Education

The special education funding formula is a unique formula for several reasons. It has been debated at length for many years by policymakers, advocacy groups, and district administrators. The formula is at the heart of one lawsuit before the Washington Supreme Court. Federal law establishes that a formula that the state employs cannot encourage (through financial incentive) districts to establish a student's eligibility for individualized services. **The working group recommends that the formula be maintained as a derivative of Basic Education funding.** This recommendation is made with the expectation that basic education revenue will increase with ESHB 2261 implementation. However, if that is not the case, then the factors used in the Special Education formula would need to be revisited.

As with the current funding system, ESHB 2261 specifies that special education will be allocated based on 93.09 percent of the basic education allocation per head-count eligible special education student in kindergarten through age 21, for up to 12.7 percent of students. In addition, eligible students from birth through pre-K would generate funding at 115 percent of the basic education allocation. ESHB 2261 places the special education safety net program into statute rather than continuing to fund that element through budgetary language. The Special Education Safety Net provides an outlet to apply for additional special education funding for school districts that can demonstrate costs that are higher than available revenues.

The FFTWG assumed the same continuation of funding structure and did not recommend any specific changes to this element. Because it is provided as a factor off of the basic education per student allocation, special education funding will grow as investments are made in the prototype funding structure. This was viewed as the best and most appropriate way to address special education funding issues.

In addition, the FFTWG noted that the many years ago, Congress established the appropriate level of federal funding for special education at 40 percent of its costs. In the 2008-09 school year, the federal funding for special education programs covered 18.5 percent of expenditures. That situation has improved in the short term with the influx of federal stimulus dollars, but those dollars are provided on a one-time basis. **The FFTWG recommends that Washington, as well as other states, continue to ask Congress to meet its funding goal for special education.** Once the IDEA funding granted via the federal stimulus act expires, school districts will be in desperate need for new state resources to support the mandates associated with serving special education students.

Summary of Categorical Programs

These programs are each funded as excess costs programs. What this means is that the specific funding provided is for additional services considered to be supplemental to the basic education program and funding the student generates.

Under each of these programs, districts may use these resources for direct provision of services to students during the day in a pullout program, after school, or during the summer and/or may use funding for providing instructional coaches and professional development time for the basic education classroom teachers serving these populations. Typically, for each program the district is subject to an annual application and program approval by OSPI. These application provisions are unchanged under ESHB 2261.

**The table below summarizes the FFTWG recommendations regarding the categorical nature of key programs (vs. general allocation), and whether a specific program design is mandated or funds are provided as an allocation for programmatic design by the district.**

	Current	ESHB 2261	FTFWG
Learning Assistance Program	From among a list of allowable programmatic elements (RCW 28A.165), each district can design a program for struggling students to best address the academic delays of its students. Resources must be spent on struggling students. (Categorical Allocation)	No change is made to the LAP statute (RCW 28A.165.055): “funds appropriated for the learning assistance program must be expended for the purposes of ...[LAP]”	No change from Current and ESBH 2261 intent: <ul style="list-style-type: none"> <li>• Districts design the program</li> <li>• Districts must spend resources on struggling students</li> </ul>
Transitional Bilingual Instruction Program	From among a list of allowable programmatic elements (RCW 28A.180), each district can design a program for ELL students. Resources must be spent on eligible students. (Categorical Allocation)	No change is made to the TBIP statute (RCW 28A.180.080): “moneys appropriated by the Legislature for the purposes of [the TBIP] shall be allocated...for the sole purpose of operating an approved bilingual instruction program.”	No change from Current and ESHB 2261 intent: <ul style="list-style-type: none"> <li>• Districts design the program</li> <li>• Districts must spend resources on ELL students</li> </ul>
Special Education	Districts spend resources based on student IEPs (Individualized Education Plan), and cannot spend resources on services on students without an IEP. (Categorical Allocation)	No change is made to special education statute (RCW 28A.155.050): “Any school district required to provide such services shall thereupon be granted regular apportionment of state and county school funds and, in addition, allocations from state excess funds made available for such special services...”	No change from Current and ESHB 2261 intent: <ul style="list-style-type: none"> <li>• Districts design the program</li> <li>• Districts must spend resources on students with an IEP</li> </ul>
Highly Capable	Districts can spend resources in a variety of ways, but must spend resources on highly capable students. (Categorical Allocation)	RCW 28A.185.020(2): supplementary funds provided for the program for highly capable students under RCW 28A.150.260 (amended by ESBH 2261) shall be categorical funding.	No change from Current and ESHB 2261 intent: <ul style="list-style-type: none"> <li>• Districts design the program</li> <li>• Districts must spend resources on highly capable students</li> </ul>

### Small schools/districts

“Small schools” is a general label used in Washington State to describe three varying settings:

Remote and Necessary – are individual schools within a larger district that serve small student populations in areas that cannot be reasonably transported to and served in other larger schools in the district. In Washington, these can generally be considered to be schools on islands that would require transporting students via both boat and bus to access larger schools in the district.

Small School Districts – are school districts that serve a smaller contingency of students. These are typically older districts that have forgone mergers to maintain their own community schools, or are geographically distant from other school districts making consolidation impractical due to distance.

Small High Schools – are those high schools that serve fewer than 300 student FTEs. These smaller student numbers are insufficient under the basic education funding formula to generate a sufficient funding level to operate a full high school program.

The FFTWG agreed that these three categories represented the universe of schools to be addressed by a small school/district funding system. A single small school within a larger district which is not identified as remote and necessary was not to be addressed and should not be funded as a small school.

The workgroup discussed standards to consider for any new requests for small high school status. **The FFTWG recommends that expansion of the small high school funding to new schools should be limited to those that would meet the following standards:**

- **A unique and self contained location such that there is a permanent resident population requiring such school.**
- **Geographic features which provide physical barrier to the transportation of students to an existing high school district.**
- **Location of the proposed small high school plant is physically separate from other existing high schools by a distance of at least 40 road miles.**

#### *Background: current small school funding*

Specific funding allocations exist for small schools and small districts because those schools and districts do not fit the model used to generate regular school funding. Currently, the general funding formula for basic education provides staffing based upon the reported student FTE enrollment, which requires the following student levels to generate a single 1.0 FTE staff unit.

Certificated Instructional Staff	21.7 FTE generates one staff unit
Certificated Administrative Staff	250 FTE generates one staff unit
Classified Staff	58.75 FTE generates one staff unit

Additionally, the funding for Non-Employee Related Costs (NERC) is generated based upon the number of total certificated staff units from the formula. The current funding rate is \$10,179 per certificated unit. When applied to small school districts or remote and necessary schools, this

funding does not provide the staffing and non-employee costs needed to operate these schools. The current biennial appropriations act addresses this diseconomy of scale by ensuring minimum staffing levels, and corresponding non-employee related costs. That system is described in Appendix 5.

There are currently 136 districts that receive some level of bonus staff units through the small school and district formula. There are often questions raised regarding the amount of funding generated for small schools and the efficiency of those schools. The FFTWG determined that many of these issues are ultimately policy issues for the legislature to consider. The Legislature directed the Joint Legislative Audit and Review Committee to look at the fiscal efficiency of small school districts. The FFTWG defers any questions regarding small school efficiencies to that study process, which is due June 2010.

Developing recommendations for small school funding in a prototype system

**Before any changes are made to small school funding, the FFTWG recommends continued review and analysis of the number and size of small schools and how the current small school formula compares to the new prototype funding.** It is expected that some districts that currently receive small district funding may receive equivalent funding under a prototypical school system when it is fully implemented. Until such time, **the FFTWG recommends the following principals:**

- **A hold-harmless should be considered for any districts that would lose money in a revised formula.**
- **Levy capacity should not be a consideration in the state formula for the Basic Education Act (BEA).**

An ad hoc committee of the working group reviewed the current small school funding system and considered alternatives to that system. The ad hoc committee reviewed the small school funding model in the Picus and Odden report which was part of the Washington Learns study. This model was presented on Page 96 Table 2 of the final report titled “An Evidence-Based Approach to School Finance Adequacy in Washington” submitted by Picus and Odden, with narrative beginning on page 97. A summary of this proposal is as follows:

- Each necessarily small school with 1 to 75 enrollment (regardless of grades) would receive the following:
  - 1 FTE Assistant Principal
  - 1 Teacher FTE for each 7 students. Partial FTE would be calculated.
  - A minimum of 2 positions would be applied.
- For those small elementary schools from 75 to 108 students and for middle and high schools with 75 to 150 students, the staffing would be provided on a pro-rata basis down from the 108 and 150 models presented on Table 2.
- For necessarily small districts, additional resources for 1 FTE superintendent and 1 secretary would also be provided.

The ad hoc committee requested further information about the current districts that benefit from the small school funding formulas. In reviewing data, the ad hoc group made a number of recommendations:

1. Funding for small school districts and remote and necessary schools was less than 17 percent of the overall funding provided to small schools. In reviewing the current formulas and the possibility of changing to the Picus and Odden small school model, the ad hoc group found that establishing a specific prorated per student staff allocation would not adequately address the practical staffing needs of small schools.
2. Small high schools make up 73 percent of funding provided under the small school funding. The working group reviewed an impact of what the Picus and Odden model would provide versus what the current formula provides for a range of small high schools. The analysis is included in the following table:

Enroll	Small High Bonus		Current	Washington Learns (Picus and Odden)			Change	
	Inst. Units	Admin Units	Total Staff	Staff to Student Ratio	Building Staff	Building Admin	Total Staff	From Current
<b>25</b>	7.85	0.40	12.72	7.00	3.57	1.00	4.57	(8.15)
<b>50</b>	6.70	0.30	12.72	7.00	7.14	1.00	8.14	(4.58)
<b>75</b>	5.85	0.24	13.18	7.00	10.71	1.00	11.71	(1.47)
<b>100</b>	5.20	0.22	13.95	13.76	7.27	1.00	8.27	(5.68)
<b>150</b>	3.91	0.16	15.49	13.76	10.90	1.00	11.90	(3.59)
<b>200</b>	2.61	0.11	17.03	13.76	14.53	2.00	16.53	(0.50)
<b>250</b>	1.31	0.05	18.57	13.76	18.17	2.00	20.17	1.60
<b>300</b>	0.02	-	20.11	13.76	21.80	2.00	23.80	3.69

The changes represented by the application of the Picus and Odden model to this range of small high schools can be summarized as follows:

- The model generated a 83 percent cut in funded staff units to the current funding level for the smallest high schools
- The model generated up to a 15 percent increase in the funded staff units for the larger high schools within this group.

The ad hoc group concluded that the Picus and Odden model and its formulas did not adequately address the educational demand and inefficiencies of providing a high school program to a small group of students.

In addition, the ad hoc group considered the impact of Core 24 graduation requirements on school districts. The group recognized that for small schools hiring and retaining staff to teach Core 24 requirements could present a practical challenge. Thus, consideration should be made for incentives or policy for small high schools to increase student participation in internet or distant learning programs. The intent would be to enhance the range of offerings to these students as well as to provide assistance in mitigating the diseconomies of scale that small high schools experience and difficulties in attracting highly qualified staff.

**Based on the analysis conducted by the ad hoc group, the FFTWG made the following recommendations regarding small school and small district funding.**

- All districts should be funded using the same prototypical school models (elementary, middle and high). As with the current funding structure, a small school and small district allocation will be articulated with the same ratios for staff units and non-employee cost allocations as currently exists. Non-employee costs are currently based on a per certificated unit amount, not a per student amount. For the small school and small district allocation only, the FFTWG recommends that the MSOC be stated in terms of a specified dollar amount per certificated staff, in an amount equal to the amount those districts would currently receive for non-employee related costs, plus any inflation factors over time. District will receive an allocation based on the greater of the prototypical school model or the small school and small district funding, whichever is greater.
- Formula blending – As the new funding formulas are phased in there should be a constant check throughout the process to assess the points at which regular prototype school funding would provide equivalent or greater resources than the existing small school formulas. As that happens, specified small school allocations referenced above may become obsolete.
- Formula integration – The timeline for various groups to address key implementation issues of ESHB 2261 that will impact small schools extends well into the future. Some examples include Core 24, and local levy. As the work of these groups progress it is important that the small schools are considered to ensure appropriate consideration and integration of these items into the small school funding.
- Consideration should be made for incentives or policy for small high schools to increase student participation in internet or distant learning programs. The intent would be to enhance the range of offerings to these students as well as to provide assistance in mitigating the diseconomies of scale that small high schools experience and difficulties in attracting highly qualified staff.

Other assumptions:

*Running Start*

The Running Start Program was initiated by the Legislature in 1990 to provide eleventh and twelfth grade students an option to attend public colleges and universities while simultaneously earning high school and college/university credits. Running Start students do not pay tuition for these courses, although they must pay certain mandatory fees based on their course load. Running Start students generate FTE funding in each setting, which can total up to 2 FTE if that student is full-time in high school and at the college or university. School districts report the regular high school FTE for these students as well as the FTE student enrollment for Running Start courses. The funding is provided to school districts, which must send 93 percent of the funding generated for Running Start participation to the college or university. The amount retained by the school district is intended to cover the fiscal and administrative costs to operate this program.

The FFTWG considered how the Running Start Program would operate under the new prototype school funding system. The group concluded that no changes were recommended for the

Running Start Program and specifically wanted to ensure that certain components continue. **The FFTWG recommends that Running Start students continue to generate up to one FTE funding in each setting, which can total up to two FTE for any given student. In addition, the FFTWG recommends that the administrative portion of school funding continue with the current division of 7 percent for school administration and 93 percent for colleges or universities for that portion of the FTE funding.**

While the FFTWG is not recommending changes to Running Start, this program is the subject of another work group. The 2009 Legislature, through 2<sup>nd</sup> Substitute House Bill (2SHB) 2119, directed the State Board for Community and Technical Colleges (SBCTC), in collaboration with OSPI and the other institutions of higher education who participate in the Running Start Program, to identify, assess and report on alternatives for providing ongoing and adequate financial support for the program. Alternatives include student tuition, increased support from local school districts, and reallocation of existing state financial support among the community and technical college system to account for differential program enrollment levels and impacts. SBCTC will report on these, and any additional alternatives identified, to the Governor and Legislature by September 1, 2010.

#### *Virtual Learning*

The FTE students in virtual learning and other alternative learning experience (ALE) programs generate the same funding levels as regular education students in the current system. The difference in those programs relates to how the FTE students are calculated and the contact hours required. Substitute Senate Bill (SSB) 5410 moved the Digital Learning Commons under the Office of the Superintendent of Public Instruction and tasked OSPI to review current program offerings and the cost elements of those programs. That report is due December 1, 2009. The FFTWG felt that it was premature to deal with virtual learning issues. **However, the FFTWG recommends that the Quality Education Council evaluate virtual learning and other ALE programs after the report from SSB 5410 is completed.**

#### *Closely related programs and provisions*

Model appropriations language for the new funding structures in General Apportionment, LAP, TBIP, and Highly Capable programs is included in Appendix 6. Because the structure of special education is not changing, no appropriations language is included for that section. The FFTWG assumes that the Special Education program language and related provisions would continue when ESHB 2261 is implemented.

There are closely related programs and provisions currently included in appropriations sections for General Apportionment for Highly Capable, TBIP and LAP programs. These are not specifically part of current funding formulas, nor part of the prototypical school model. However, the FFTWG assumes that the following programs and provisions will continue or would be reviewed in the future by other groups:

1. Authorization for school districts to petition to reduce or delay any portion of its basic education allocation for any school year
2. Mid-month FTE increase provisions

3. Language regarding recognition of service year credits for educational staff associates
4. Allocations for fire protection districts
5. Summer vocational programs at skills centers
6. Funds for school district emergencies
7. Skills training for students enrolled in extended day school to work programs
8. Per pupil inflator for levies
9. Maximum funding of 1.6 FTE enrollment for skills center students
10. Language to ramp down staff units for small schools when consolidations occur
11. Washington Imagination Network and future problem-solving programs
12. Centrum program at Fort Worden State Park
13. OSPI funding for central provision of English Language Learner assessments
14. Study of current/former Transitional Bilingual Instruction Program students
15. Learning Assistance Program carryover

### Summary

This section of the report summarized many details and assumptions about the operations and structure of a new prototypical school funding system. The resulting structure of the prototype school model could be displayed for the public in a relatively simple report. **The FFTWG recommends that such reporting be available for FTE staff as well as dollars.** The example on the following page only shows the staff allocations.



<b>School Level</b>	<b>Elementary</b>	<b>Middle</b>	<b>High</b>
School Size	400	432	600
<b>School Level Staffing</b>	<b>Elementary</b>	<b>Middle</b>	<b>High<sup>3</sup></b>
Principal/School Admin	1.253	1.353	1.880
Teachers	19.103	18.169	25.050
Teacher Librarian/Media Specialist	0.663	0.519	0.523
Counselor	0.493	1.116	1.909
Health and Social Services	0.135	0.068	0.118
Professional Development Coaches	0.000	0.000	0.000
Instructional Aides	0.936	0.700	0.652
School Office/Other Aides and Support	2.012	2.325	3.269
Student and Staff Security	0.079	0.092	0.141
Custodians	1.657	1.942	2.965
<b>Total School Staff</b>	<b>26.331</b>	<b>26.284</b>	<b>36.507</b>
<b>District-wide Support Staff</b>			
Technology		0.628	
Facilities Maintenance and Grounds		0.201	
Warehouse/Laborers/Mechanics		1.944	
<b>Central Administration Staff</b>			
5.35 Percentage of Total Staff		3.405	
<b>TOTAL -- ALL STAFF</b>		<b>95.300</b>	

<sup>3</sup> Note: This table is presented as an example of the type of report that could be created for individual schools or districts. This table only represents the staffing generated for general enrollment. Career and Technical Education, Special Education, Highly Capable, Learning Assistance, and Transitional Bilingual Instruction Programs are not included in the staffing shown in this table but are presented in more detailed tables later in the report.

The FFTWG developed model budget language that could be used to implement the recommended changes, which is included in Appendix 6. That language may more succinctly demonstrate the final recommendations of the FFTWG for policy makers, business managers, and others. The appropriations language is intended to show the major elements of the funding formulas, but does not include the related provisos listed above.

In addition, the recommendations of the FFTWG would require some changes to ESHB 2261. Draft bill language is outlined in Appendix 7.

## **Establishing Baseline Level Representing Current Funding in New Prototype Structure**

To transition from the current funding structure to the new prototypical school model, the funding that is generated in the current system must be stated in terms of the new system.

The current funding model generates staffing units for three types of staff: certificated administrative staff, certificated instructional staff, and classified staff. In addition, the two groups of certificated staff in the current model generate an additional dollar amount for Non-Employee Related Costs (NERC). The new prototypical school model identifies a greater number of staffing categories and identifies specific components of Maintenance, Supplies and Operating Costs (MSOC) which are provided on a per student basis. Thus, assumptions had to be made regarding how to spread the current state-funded staffing and NERC amounts among these more discrete categories. In general, the FFTWG chose to distribute the current system dollars among new categories according to current school district expenditure patterns.

The Funding Formula Technical Working Group dedicated much of its committee time to discussing the issues related to transitioning from one system to another. While others could choose to make different assumptions about how to represent the current system in the new model, the following table summarizes the results of the baseline developed and recommended by the FFTWG. Following the overview, there is a discussion of assumptions behind this baseline and major decision points discussed by the group.

	<b>Current Funding Level</b>		
<b>School Level</b>	<b>Elementary</b>	<b>Middle</b>	<b>High</b>
Prototypical School Size	400	432	600

<b>Class Size Assumptions</b>	<b>Non-High Poverty Schools</b>	<b>High Poverty Schools</b>
Class Size K-3	23.11	Same
Class Size 4	23.11	Same
Class Size 5-6	27.00	Same
Class Size 7-8	28.53	Same
Class Size 9-12	28.74	Same
Career and Technical Ed (CTE)	26.58	Same
Skills Centers	22.76	Same
Lab Science	28.74	Same
AP/IB	28.74	Same

<b>School Level Staff</b>	<b>Elementary (Staff per 400)</b>	<b>Middle (Staff per 432)</b>	<b>High (Staff per 600)</b>
Principal/School Admin	1.253	1.353	1.880
Teachers	19.103	18.169	25.050
Teacher Librarian	0.663	0.519	0.523
Professional Development Coaches	0.000	0.000	0.000
Guidance Counselor	0.493	1.116	1.909
Student Health (Nurse/SW/Other)	0.135	0.068	0.118
Instructional Aides	0.936	0.700	0.652
School Office/Other Aides and Support	2.012	2.325	3.269
Student and Staff Security	0.079	0.092	0.141
Custodial	1.657	1.942	2.965

<b>District-wide Support</b>	<b>Staff per 1,000 Students</b>
Technology	0.628
Facilities Maintenance and Grounds	0.201
Warehouse/Laborers/Mechanics	1.944

<b>Central Administration</b>	<b>Staff per 1,000 Students</b>
Supervisors/Finance/Personnel/Comm.	0.773
Office Clerical - Central Administration	1.765
Certificated Administrators	0.867

*NOTE: Central Administration is listed in terms of staffing units for the purpose of establishing the baseline that translates current staffing ratios to the new categories of staff. After transitioning to the new formula, central administration will be stated in percentage terms. The baseline would translate into 5.35 percent of school and district-wide support staff.*

<b>Career and Technical Education</b>	<b>Staff per 100 CTE enrollment</b>
CTE School Admin/Support	0.612
CTE Teachers	4.516

<b>Skills Centers</b>	<b>Staff per 100 skills center enrollment</b>
Skills Centers Other Support	0.715
Skills Center Teachers	5.273

<b>Reconciliation to Current Ratios</b>	<b>Staff per 1,000 Students</b>
Certificated Instructional per 1,000 (K-4)	53.200
Certificated Instructional per 1,000 (5-8)	46.000
Certificated Instructional per 1,000 (9-12)	46.000
Classified Staff per 1,000	17.022
Administrators per 1,000	4.000
Vocational Staff per 1,000	51.282
Skills Centers Staff per 1,000	59.880

<b>Maintenance, Supplies and Operating Costs</b>	<b>2007-08 State Funding Per FTE Student</b>
Technology	53.77
Curriculum	57.73
Other Supplies and Library Materials	122.56
Professional Development	8.93
Utilities/Insurance	146.10
Central Office and Security	50.14
Facilities Maintenance	72.38
<b>Total</b>	<b>511.60</b>

	<b>Current Funding</b>
<b>Learning Assistance Program</b>	
Instructional hours per week in class sizes of 15	1.303 Hours/week <sup>4</sup> (1 hour, 18 minutes)
Instructional hours during vacation in class sizes of 15	0
Maintenance, supplies and operating costs per student	0
Administration percentage	0
Hold Harmless – Discontinued Concentration Factors	Approx. \$23 million
<b>Transitional Bilingual Instruction Program</b>	
Instructional hours per week in class sizes of 15	4.826 Hours/week <sup>5</sup> (4 hours, 50 minutes)
Instructional hours during vacation in class sizes of 15	0
Factors for age and complexity of population	0
Maintenance, supplies and operating costs per student	0
Administration percentage	0
<b>Highly Capable Program</b>	
Instructional hours per week in class sizes of 15	2.196 Hours/week (2 hours, 12 minutes)
Instructional hours during vacation in class sizes of 15	0
Maintenance, supplies and operating costs per student	0
Administration percentage	0
Minimum funding level	0
<b>Special Education</b>	
Birth - PreK -- Factor of 1.15 of the basic education allocation	
K-Age 21 -- Factor of 0.9309 of the basic education allocation	

<sup>4</sup> Because Learning Improvement Days are currently part of the state salary allocation model and because the hours per week were calculated based on teacher time, the Learning Improvement Day for teachers would be included in the cost of the of this instructional time per week. If districts hire aides instead of teachers, the FFTWG recommends that funds may be used for classified staff professional development.

<sup>5</sup> Because Learning Improvement Days are currently part of the state salary allocation model and because the hours per week were calculated based on teacher time, the Learning Improvement Day for teachers would be included in the cost of the of this instructional time per week. If districts hire aides instead of teachers, the FFTWG recommends that funds may be used for classified staff professional development.

<b>Learning Improvement Days<sup>6</sup></b>	
Teachers	1
Teacher Librarian	1
Professional Development Coaches	1
Guidance Counselors	1
Student Health (Nurses/SW/Other)	1
Instructional Aides	0

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<sup>6</sup> The FFTWG recommends all Certificated Instructional Staff categories continue to receive a Learning Improvement Day. The positions in the table with 1 Learning Improvement Day reflect the Certificated Instructional Staff positions in the prototype model.

## *Assumptions Used to Represent the Current Formula in the New Prototype Structure*

### Class size and planning time

There was some discussion earlier in the report about whether or not to assume planning time as an element of the current funding. The inclusion of a planning time assumption will impact the class sizes that are reflected under the current funding levels. **Ultimately, the FFTWG recommended including a planning time assumption because it reflects how schools operate.** If planning time was not assumed, the Group felt it would not be a true representation of what could be purchased using available dollars. Based on the work summarized under the funding methodology section, the FFTWG used the following assumptions for planning time: 15.5 percent staffing increase for elementary schools and 20 percent for middle and high schools.

### Instructional Hours

The baseline assumptions are generally based on current practice. An alternative was discussed that could change the secondary level assumption to a five-hour day rather than the current district practice of six hours. While the current funding formula structure does not explicitly state an assumed number of hours per day, this is an often debated issue because current state statutes require certain minimum instructional hours and days of operation, which can be used to imply an assumed five-hour day for secondary schools. The decision on this point will impact how class size is represented. If a shorter day is assumed, a lower class size could be ‘purchased’ using existing state dollars. If a longer day is assumed, then class sizes will be relatively larger with the same funding.

The decision on how to represent current instructional hours will also impact how the cost of changing to new instructional hours requirements is represented. The current system requires a district-wide average of 1,000 hours of instruction in grades 1-12. On a schedule to be adopted by the Legislature, ESHB 2261 changes the instructional hour requirements to be 1,080 instructional hours in grades 7 through 12 and 1,000 instructional hours in grades K through 6. There are two distinctions to be made in this change: 1) the instructional hours in grades 7-12 will increase over the current average required, and 2) instructional hour requirements will be based on an average per grade, not a district-wide average. The second change may impact the instructional hours in elementary schools, depending on a district’s current practice. For example, a district may be meeting the current 1,000 average instructional hour requirement by offering more hours of instruction in middle and high schools and relatively fewer hours in elementary schools.

The assumption of instructional hours was a point of discussion and debate within the FFTWG. There was an interest in using the five hour per day assumption so that the cost of transitioning to new hours of instruction requirements could readily be stated in terms of the additional teachers needed to add an additional period of instruction in middle and high schools. However, there was equal interest in showing the class size assumption in terms of what can be purchased based on current operations of middle and high schools. If the state dollars are represented in terms of a five hour day, the members of the Funding Formula Technical Working Group felt that it would add too much complexity to a tool that was meant to be transparent. In this case, it would show a class size of approximately 24, which would need to be footnoted that it was calculated on only on a five-hour instructional day. The five-hour instructional day would then need to be explained



to the public since that is not how schools operate. In the end, **the FFTWG recommends stating the instructional hours in terms of current practice.** This does not mean that there is no cost to implementing the Core 24 graduation requirements. Assuming a six-hour day in high school would mean that each student has an opportunity for 24 credits during high school, but leaves no room for additional reading and math classes during the school day for struggling students or re-takes of classes in the case of failures to pass every class the first time. Not all students will pass every class on the first try. The system must recognize this reality and build in additional instructional time and opportunities. In addition, reasonable class sizes will allow for more individualized attention and greater student success. These are the types of cost elements that will need to be addressed to successfully implement Core 24 graduation requirements.

Further, the group identifies that districts will be required to provide 1,000 instruction hours at each elementary grade level. This requirement will be intertwined with class size and planning time assumptions. Some districts may not be at this level as the state transitions to the new funding formulas. For future development of formulas, the formulas should assume a 1,000 instructional hour year for elementary students with 13% planning time assumption for elementary teachers. What this means is that in a school day, students would have 5.6 hours of instruction. As an example, 1 teacher would have 45 minutes of planning and 4.9 hours of instruction in front of a class.

#### Spreading NERC dollars to new MSOC categories

Two different approaches were discussed regarding how to spread the current dollar amount for Non-Employee Related Costs (NERC) to the new categories of Maintenance, Supplies and Operating Costs (MSOC). One approach is to spread the dollar amount for NERC proportionately to current costs in these areas. For example, all MSOC categories would be funded at a set percentage of current cost estimates. Another approach is to fully fund elements of the MSOC which are mandatory, such as utilities and insurance, and then spread the remaining amount among the other categories proportionate to the current costs. There were strong opinions on both sides. Some members felt that utilities and insurance must be paid first. These working group members reasoned that if they had to run a school district on only the dollars from the state, they would have to fund utilities and insurance, and would look at the other areas of MSOC for reductions. On the other side of the argument, the current NERC allocation is simply that, an allocation. Other working group members did not want to make assumptions that some elements were funded while others were not. In a similar conversation, some questioned whether or not any amount of NERC should be shown as supporting technology since NERC was originally calculated before many of the current technology demands in schools existed and has never been adjusted to reflect this operational change.

Ultimately, **a majority of the FFTWG recommends that the current dollar allocation for NERC be spread proportionately among all of the new categories of MSOC based on the cost of each element.** Because many of these new categories are not tracked separately in the accounting system, the cost assumptions used to spread the allocation are based on an OSPI survey of school districts regarding their 2007-08 school year costs. This was a follow-up to a survey of 2006-07 costs conducted by an OSPI-convened workgroup of school district business offices and maintenance experts.

### Use of Duty Codes for Staffing Assumptions

The current funding methodology provides staffing resources in three broad categories: Certificated Instructional Staff (CIS), Certificated Administrative Staff (CAS), and Classified Staff (CLS). The prototype school funding structure has 19 staffing categories. This presents major policy questions when determining how to represent the current general categories in the new, more detailed formulas. The FFTWG decided to distribute staff based on current staffing patterns in school districts. To do this, the FFTWG reviewed staffing by duty code. A listing of the prototype school staffing categories and the associated duty codes are included in Appendix 8. This information allowed the FFTWG to proportionally distribute CIS, CAS, and CLS among the new categories.

### Certificated Instructional Staff: Adjustments for School Level

The FFTWG was interested in knowing how staffing patterns changed by grade level for certain certificated instructional staffing positions: teachers, teacher librarians, counselors, and health and social services staff. To learn more, the FFTWG examined building-based data. The following is a description of the data sources used in this work.

The analysis of different duty assignments by building level was completed using OSPI personnel data in the S275 database for school year 2007-2008. Building/school grade level information and student population data came from the Total Enrollment Gender and Ethnicity by Grade Level Report<sup>7</sup> for school year 2007-2008 which utilizes CEDARS data.

The minimum and maximum grade level for each building was identified and the building was classified based on the prototypical model. The categories are defined as:

<b>Prototypical Baseline Level</b>	<b>Grades in School Building</b>
<b>Elementary</b>	PK to 6
<b>Middle</b>	7 to 8 or 6 to 8
<b>High</b>	9 to 12

If a school has grades that do not fit within these categories, it was removed from the dataset. For example, a school with grades K to 8 was removed, because it contains grades from more than one baseline level. A school with grades K to 5 remained in the dataset because all of these grades fit into the Elementary baseline level. Grade 6 was allowed to be flexible but only as an ending or starting grade level; a building ending with grade 6 was considered Elementary and a building starting with grade 6 was Middle. Overall, the CSRS data presented 87 different grade configurations for 2,253 schools. Of these, 47 configurations representing 519 schools were *not* included in this review of duty codes.

The building data was matched to the staffing detail. Only buildings with staff coded to them were included in the analysis. The analysis was conducted for general education programs only,

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<sup>7</sup> <http://www.k12.wa.us/DataAdmin/pubdocs/p105/Oct07GrLevEnrollment.xls>

which are school district accounting programs 01 (basic education), 31 (Vocational – Basic – State), 45 (Skills Center – Basic – State), and 96.7 percent of 97 (District-wide Support).

The final data results reflect approximately 82 percent of all certificated instructional staff in those programs, as well as approximately 82 percent of the student population.

What this means is that for purposes of identifying the class size of middle and high schools, the baseline distributes secondary teachers based on current staffing of middle and high schools. Also, for staff such as teacher librarians, nurses, and other certificated instructional staff, the baseline reflects the distribution districts employ even though OSPI does not collect data to identify how many teacher librarians are elementary, middle, or high school.

#### Certificated Administrative Staff and Classified Staff: Adjustments for School Level

The above method did not provide a substantial enough portion of classified and certificated administrative staff. For these staffing categories, we used OSPI personnel data in the S275 database for school year 2007-2008 for the general education programs listed above. CLS were distributed among grade levels based on student enrollment. CAS were not distributed across grade levels.

#### Certificated Administrative Staff: Principals and Central Administration

School districts do not employ 4 certificated administrative staff per 1,000 students, which is the current allocation level. However, school district salaries for these positions are higher than what is assumed in current state staffing allocations. Districts utilize the full funding allocated for CAS; however total resources do not support the full FTE that is assumed in the state allocations.

The FFTWG baseline distributes the current 4.0 FTE per 1,000 students allocation among the new staffing categories. Because current district staffing patterns were less than the full FTE assumed in state allocations, there was a question as to where those additional staff should be allocated. Should they be attributed to principals, to central administration, or to a combination of the two? **The FFTWG recommended that the current proportion of principals to central administration continue.** This means the additional staff was distributed to the two categories proportionally.

#### Central Administration

Because the baseline was created by distributing current staff allocations among the new staffing categories, the table in this section shows the FTE staff assumed in central administration. When the new formula is implemented, central administration will be calculated based on a percentage of FTE staff generated for prototype schools and district-wide support. The baseline level is 5.35 percent if it is stated as a percentage.

#### Salary assumption

Until the compensation work group makes recommendations in December 2012, the FFTWG assumed that the salaries for various staff categories would continue to be funded based on the existing salary systems for CIS, CAS, and CLS. The detailed work to represent current CIS, CAS and CLS in the new staffing categories also allowed the FFTWG to restate those staff using the three overarching categories for salary purposes. In addition, the FFTWG assumed the continuation of the current policy to use district-wide staff mix when calculating the salary

allocation for certificated instructional staff. Once the new central administration percentage is employed, the state will require an assumption of how much the central administration staff is certificated versus classified; the FFTWG identifies the split as 25 percent certificated and 75 percent classified.

#### Learning Assistance Program (LAP)

The FFTWG has several recommendations related specifically to translating the current LAP funding into the new formula structure.

The current funding formula for LAP includes two targeted funding elements for high concentrations of poverty and for a concentration of English Language Learners (ELL). **The FFTWG recommends that the new LAP formula does not include these concentration factors.** As class size enhancements for high poverty schools are implemented, it is expected to address the same learning issues that were identified when the LAP enhancement for high poverty schools was originally implemented. It is expected that these funds will be reflected in a hold harmless amount for those districts until such time as the LAP program enhancements and/or the class size reductions for high poverty schools catches up to that level. This hold harmless would total about \$23 million.

In the initial baseline, all of the current funding should be translated into extra hours per week in a given class size. None of the current funding should be used to populate extra time in the summer, the textbooks/curriculum, or the administrative component. These components should be phased-in with each installment of enhanced LAP funding.

Other than the concentration factors, which must be held harmless, the remaining translation to the baseline hours is cost-neutral with no loss of resources by district and no additional need for hold harmless factors. The translation is cost-neutral because the formula employed uses statewide salary assumptions and does not yet reflect actual district compensation factors (LEAP schedule and/or staff mix). In the future, in order to fully employ a staffing-based formula that is driven on an equal number of hours of service per student across districts, the Legislature will face choices about how to fully transition the system.

#### Transitional Bilingual Instruction Program

As with LAP, the FFTWG assumed that in translating current funding into to the new formula structure, all current funding is designed to drive allocations for teachers based on the number of hours of service and assumed class size. As with LAP, the FFTWG recommends an initial baseline that translates the current funding based on a statewide average hours per student with statewide compensation assumptions.

#### Career and Technical Education Administration Percentage

The current allocation for career and technical education funding provides total funds for these FTE students through the vocational allocation, and allows districts to use 8 percent for administration. School districts have varying practices related to the amounts set aside for administration. The FFTWG assumed the 8 percent for administration when establishing a baseline level. This raised questions about how to divide that amount in terms of principals and central administration. The FFTWG decided to use the same pattern as seen in general education,

approximately 75 percent for principals and school administration and 25 percent for central administration.

#### Learning Improvement Days

The current funding for one Learning Improvement Day is provided for Certificated Instructional Staff as part of the state's salary allocation model. For the purposes of establishing the baseline level of funding, the FFTWG indicated which staffing categories are currently included in the Learning Improvement Days. However, the FFTWG recommends that when implementing ESHB 2261, the Legislature include professional development funding for instructional aides in addition to the professional development resources generated for certificated staffing categories through Learning Improvement Days.

#### Prototype Elements Not Funded by Current System

The FFTWG assumed that the class size enhancements for high poverty schools, laboratory science, Advanced Placement and International Baccalaureate programs were not funded by the current system. The FFTWG did not assume any additional class size reductions for CTE programs beyond the currently funded ratios. In addition, professional development coaches, professional development for instructional aides, and an MSOC enhancement for laboratory science were not assumed to be funded by the current formula. For the categorical programs, the baseline does not assume any current funding would support the MSOC, administration, or professional development elements for classified staff.

#### Summary

The original baseline (included in Appendix 9) was conducted for the staffing ratios stated in the Basic Education Act. Additional class size and classified staff are allocated in the state operating budget in 2007-08 above those staffing levels. Once the initial baseline was completed, the same methodology can be used to demonstrate how the current funding levels would differ if some of these additional resources were assumed in the funds that are represented in the baseline. The summary table shown earlier in this section represents the current funding levels.

## Implementation Plan

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Individual members of the Funding Formula Technical Working Group (FFTWG) participated in a prioritization exercise which forced choices among investments in prototype elements. The relative size of the investment assumed for each element was based on the proposed ending values presented by Superintendent Dorn to the Quality Education Council (QEC). Even if these are not the final ending values adopted by the QEC or the Legislature, the relative size of the new investments will likely be similar to the relative sizing used in this exercise. For example, class sizes for all will generally be larger than instructional support programs such as mentorship programs or instructional coaches. The prioritization tool limited members to equal investments in each of the eight years.

This exercise prioritized elements outlined in the prototype school model, including categorical programs for Transitional Bilingual Instruction, Learning Assistance, and Highly Capable programs. The incremental increase related to pupil transportation formula changes was not specifically included in this analysis. That funding element is located in a separate section of ESHB 2261 and is a specific charge of the Quality Education Council (QEC). While it was not part of this implementation exercise, FFTWG members have not identified obstacles that would hinder the implementation of transportation formula changes and generally place a high priority on the early implementation of pupil transportation formula changes.

While this process and the summary of the results may seem to indicate a preference for certain, targeted investments, the FFTWG maintains a preference for viewing the prototype school elements as a general allocation that allows for district decision-making on how best to deploy those resources. Yet, even in an allocation model, the state will need to choose what is implemented at different stages. The FFTWG prioritization exercise is meant to inform those decisions, not to dictate specific actions by districts.

### **Summary of Results:**

#### **Phase-in Strategy**

FFTWG members see value in the entire set of recommended investments. Yet this exercise required choosing which elements would be started sooner than others. The timing of investments reflects the prioritization that was required in the forced choice exercise, not a value statement on the ultimate inclusion of any one element. The FFTWG believes that they provide unique input to the QEC and the Legislature in providing an implementation schedule recommendation, in that their recommendations are based on both a consideration of those elements that will have the greatest impact on student achievement (VALUE) and a consideration of the system's ability to implement any proposed increases in the elements during the implementation timeline (CAPACITY). As the FFTWG represents different constituencies, there was considerable dialogue regarding both value and system capacity, but ultimately the group agreed to place elements into categories as shown in the analysis that follows. The FFTWG categorized individual elements of the proposed funding formula into three groups: supports for students; supports for teachers; and other supports. The implementation of individual elements in these groups generally fell within one of the following groupings: (1)

elements that should be funded early in the implementation schedule, (2) elements that should be funded proportionately throughout the implementation schedule, and (3) elements that should be funded later in the implementation schedule. The results are discussed below. Detailed information is provided in Appendix 10.

### **Emphasis in First Four Years**

The implementation in the first four years is focused on providing resources that can readily be absorbed by districts and provide opportunities to improve instruction for students, such as investments in the Transitional Bilingual Instruction Program for English Language Learners. In particular, there is early support for new teachers that need the mentoring and professional development to provide high quality instruction. Providing large increase in Maintenance, Supplies and Operating Costs (MSOC) in the first four years will provide early fiscal relief and allow districts to free up local resources that can be reinvested into priority areas.

#### *Support for Students*

- Transitional Bilingual Instruction Program
- Guidance Counselors

#### *Support for Teachers*

- Mentor Program
- Instructional Coaches

#### *Other Supports*

- Office Support Staff
- Security Staff
- MSOC

### **Incremental Phase-in**

The incremental recommendations are focused on those resources that support the instructional needs of struggling students. The members of the FFTWG, recognizing the need to improve the achievement of the state's most struggling students, recommend gradual implementation of class size reduction for high poverty schools, all-day kindergarten, Learning Assistance Program, and instructional aides. Some of these elements must be implemented over time because of issues related to the school districts' ability to absorb these resources. In particular, class size allocation for high poverty schools and all-day kindergarten implementation are limited by staff and space availability. In addition to support for students, the FFTWG recommends an incremental phase-in of learning improvement days. As resources to provide additional instruction to students increase, so too does the need to provide teachers and/or classified aides with the increased professional development necessary to support quality instruction.

#### *Support for Students*

- Class Size Allocation for High Poverty Schools
- All-Day Kindergarten
- Learning Assistance Program
- Instructional Aides

### *Support for Teachers*

- Learning Improvement Days

### **Emphasis in Second Four Years**

The FFTWG recommends delayed implementation of those elements that require significant investments in increased staffing and facility space and/or those elements with a less direct link for improving student achievement. This forced choice exercise required equal investments in each of the eight years; by definition, some investments had to come later in the implementation period.

### *Support for Students*

- Class Size Reduction For All
- Class Size Reduction (CTE, IB/AP & Lab Science)
- Early Learning Program
- Teacher Librarian/ Media Specialists
- Health Services (School Nurses, Social Workers, other health staff)

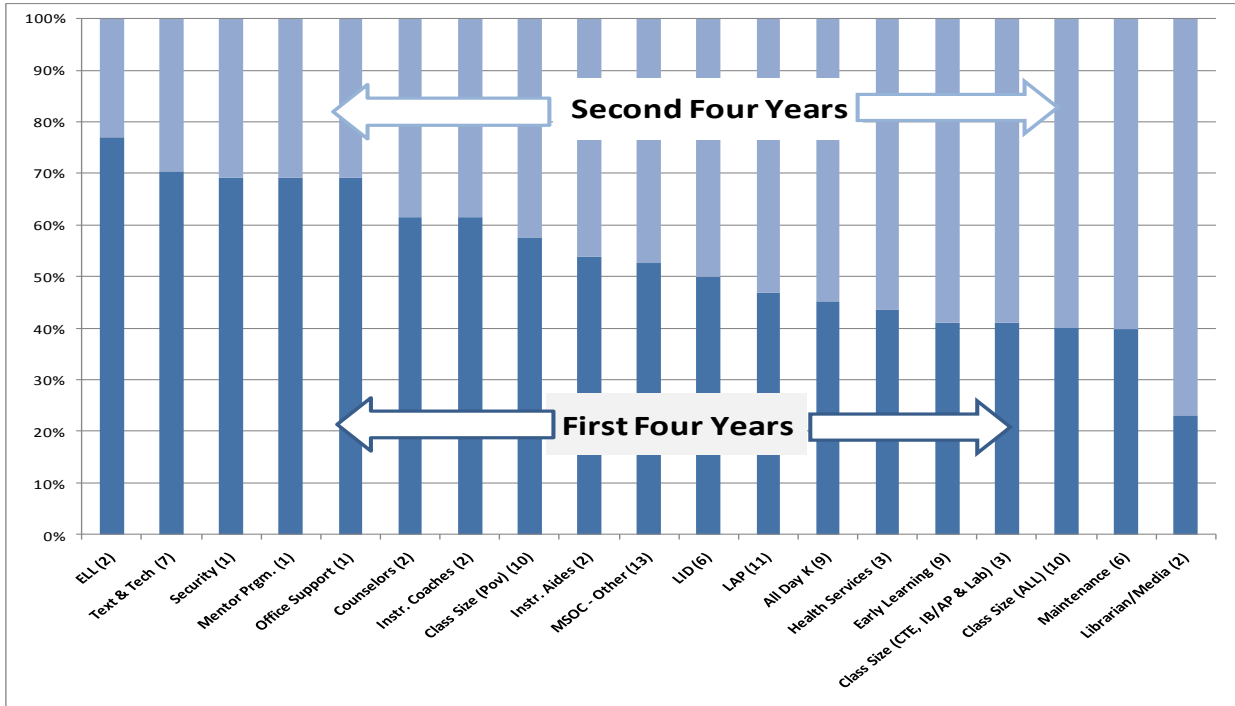
### *Other Supports*

- Maintenance Staff

In summary, the FFTWG would recommend that greater emphasis be placed on certain prototype elements in the initial implementation years. Members' recommendations were made in light of considerations regarding the most efficient means to improve student learning and districts' capacity to implement changes. This table compares the first four years of implementation (dark bars) against the second four years (light bars). Next to each budget element is the number of units needed to fund that activity, which shows the relative size assumed for individual investments.



**Graph 8. Implementation Priority for First Four Years Compared to Second Four Years**



**Additional Implementation Recommendation of the FFTWG**

In addition to the above implementation groupings, the FFTWG wishes to make the following recommendations regarding implementation:

- **The Legislature implements the new funding formula elements in a manner that ensures that districts are held harmless in the implementation phase-in process.** Specifically, the FFTWG supports a model where districts receive per pupil revenue in the general allocation in an amount that is at least equal to the amount the district received in the year prior to the formula transition. In cases where a district’s allocation would be less than that amount, the district would receive a hold harmless allocation. In addition, the FFTWG recommends the same hold harmless approach in each categorical program. This hold harmless approach, which specifies a per pupil funding level to be held harmless, is intended to phase down over time as investments are made in the new prototypical school model. The FFTWG is not supporting a hold harmless that would run parallel funding calculations and/or create permanent “grandfather districts”.
- **The Legislature determines final target levels of service as soon as possible.** The structural methodology and elements recommended by the FFTWG are only a shell for funding distribution, and without the substance of the service levels, this shell will simply portray of the system’s failures. These service levels are also integral in determining the revenue that is necessary to implement the goals of the ESHB 2261 as contemplated by the Legislature.
- **The Legislature accelerates the timelines for the compensation work group in ESHB 2261.** Schools are a people business; approximately 83 percent of district expenditures

are salary and benefits costs for staff. Compensation is integral to the funding formula structure and should be addressed early in the transition.

- **The QEC and the Legislature requests studies to establish funding values of several elements included in the funding structure.** There is general consensus that the baseline and the funding structure as recommended will provide an appropriate method for providing funding to districts. There is also general consensus that some of the elements are currently underfunded, and there is concern that without additional study, that continued underfunding will cause system problems and possible failures.
  - a) The current analysis on the MSOC categories is based on a survey of school district expenditures in these areas. Because of funding pressures in districts, the current funding levels may not reflect what ought to be spent for these items. Other tools being developed, such as the curriculum model developed by OSPI, may offer a better baseline. In addition, there may be different inflation factors that would be appropriate for different MSOC elements; that implementation work remains.
  - b) Similarly, the percentage for central administration at the baseline level of current state funding is 5.35 percent of staff, yet these same staff categories represent 6.1 percent of all current district staff. Current staffing is one lens. However, much like MSOC, current district expenditure patterns may not be the best measure because districts have reduced administration resources over time. At some point, the state may need to create a more detailed analysis of staffing duties included in central administration and review other sources that could provide context to the staffing required in these areas.
  - c) Learning improvement days are currently funded for certificated instructional staff, but no similar funding is provided for instructional aides.
  - d) State funds for substitute costs are currently provided for four days for a proportion of certificated instructional staff, however this allocation does not match the experience of school districts in any of the areas: usage, daily rate or staffing groups for which substitutes are required. Additionally, the state does not provide funding for substitute costs for basic education classified employees. As a result, local districts are funding these costs.
  - e) The health benefit allocation includes an adjustment for classified staff to reflect the percentage of staff who work on a school year schedule, however that rate has not been revised over time and does not appear to reflect current proportions in school districts
- **The Legislature folded I-728 funding into the prototype school model to address class size and staffing improvements.** The FFTWG recommends the following allocation among prototype categories based on the 2007-08 school year expenditures and I-728 for similar uses. About 23 percent of funding should be used to reduce K-4 (or K-3) class size, about 38 percent should be used to reduce class size in grades 5-12, about 11 percent should be used to reduce class sizes in Kindergarten, and about 22 percent should be used to increase professional development coaches; remaining funds will be used for administration via the central administration staffing percentage. Early Learning

is not included in the list for distribution. While a focus of the initiative, very little I-728 funding was expended on this component in the 2007-08 School Year (1 percent) and all-day Kindergarten is not available statewide. A table with the baseline values adjusted to include the I-728 revenues in 2011-12 is included in Appendix 11.

The funding should be designated as Basic Education, and not an enhancement to Basic Education. I-728 resources should be folded into the prototype beginning in the 2011-12 School Year. HB 2356 requires the restoration of I-728 funding to the level per student it would have been provided had the funding not been reduced in the 2009-11 Biennium. This is the level that should augment the prototype.

- **The Legislature phases-in increases to programs serving struggling students, ELL students, and students in high poverty schools at a similar pace targeting the highest need school districts first.** Future Legislatures should recognize the overlapping and significant need for each of these programs by funding all necessary hold-harmless allocations first, and then phasing-in enhancements for the above-mentioned programs by level of poverty and level of ELL complexity.
- **The QEC continues to utilize the FFTWG for periodic input on specific issues in formula development and implementation throughout the implementation phase.** The FFTWG includes a unique mix of perspectives and expertise. The FFTWG expects there will be key points in the transition when this group of finance experts can provide valuable background input.

## Revenue Options

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One of the assignments given to the FFTWG in ESHB 2261 is to “examine possible sources of revenue to support increases in the funding allocations and present options to the Legislature and the Quality Education Council.”

As various revenue options were discussed, it became apparent that there were as many opinions as there were options. It was noted that many members did not feel that they were experts in state revenue policy. However, the group discussion did identify key components and principles:

- Dedicate some portion of revenue growth—According to the Constitution, education is the paramount duty of the state. The current recession and resulting state budget crisis is prompting discussion about what are the essential services of state government. As the economy recovers and existing state revenues grow, the FFTWG recommends that a significant portion of the revenue growth be dedicated to the state’s paramount duty and the implement the new program of basic education defined in ESHB 2261.
- New or increased revenue sources are needed to implement a full prototypical school model—With the first principle, the FFTWG is reinforcing that K-12 basic education funding remains a priority in the use of existing revenue sources. However, the FFTWG members understand that growth in current revenues alone is not sufficient to implement the full vision of ESHB 2261.

Members felt that K-12 funding has been limited for years in part because state resources have been limited by revenue and expenditure limits. The FFTWG members recognize that additional state resources will be essential to implement the new program of basic education envisioned in ESHB 2261. Not only is K-12 education the paramount duty of the state; it is an essential component to maintain Washington’s competitive advantages in a global economy. Investing in education pays big dividends – for individuals, for communities, and for the state as a whole. FFTWG members recognize the importance of a quality education system and recommend that the state pursue additional resources to make such improvements in the program of basic education.

- Property tax as first, fundamental source of revenue for schools—Through the constitution, state property taxes are dedicated to K-12 education. The state portion of the property tax rate was established at \$3.60 per \$1,000 of assessed value. However, statutory limitations on revenue growth combined with rising assessed values over time have translated into a lower state property tax rate, which is currently \$1.98 per \$1,000 assessed value. This long history of property taxes dedicated to education translates into a strong association in the public’s mind regarding the tie between property taxes and education. The FFTWG recommends that the cornerstone of any revenue package would be the state recapturing some, if not all, of the difference between current tax rates and the \$3.60 per \$1,000 assessed value.

- Varied sources for stability–The FFTWG recommends that any package to increase revenue for K-12 include multiple and varied revenue sources to provide greater stability and predictability to revenues and revenue growth over time.
- Dedicate new funding for K-12–Finally, the FFTWG recommends that the Legislature consider a constitutional amendment to create a trust fund for any of the revenue increases dedicated to K-12. Dedicated funds are created almost every year in statute. Fund balances in many of those accounts are transferred into the General Fund in tight fiscal times through simple statutory changes. The FFTWG recommends consideration of a constitutional amendment to create a dedicated K-12 trust fund to allow for greater protection of this dedicated funding and the programs supported by these funds. The recently enacted rainy day account was discussed as one possible model.

The FFTWG reviewed the lists of revenue options that are routinely considered in the legislative environment, which include increases on existing revenue sources, repeal of tax exemptions, and introduction of new revenue sources. Those lists are provided in Appendix 12. In addition, individual members of the group identified their own ideas on revenue options, which included:

- Dedicate a portion of regular revenue growth for K-12 enhancements (Two examples were presented; dedicate 50 percent of increase in state revenue or all state revenue growth in excess of 5 percent)
- Add a consumption tax
- Package multiple tax structure changes together (personal income tax, corporate net income tax and value added tax)
- Repeal estate tax and add a graduated personal income tax starting at \$200,000
- Increase state property tax from \$1.98 per \$1,000 assessed value in an amount up to the historic \$3.60 per \$1,000 assessed value
- Dedicate new state bonding authority associated with any increased revenues to K-12 capital improvements
- Place revenues from appropriations in excess of projected versus actual into an irrevocable, dedicated account for education rather than redirect them to other areas of the state budget

There was also a revenue package plan, presented to the FFTWG to consider by one of its members, which included many of the components listed above. Appendix 13 provides a high-level summary of the plan and a website address where further information can be found.

## Appendix 1—K-12 Funding Formula Technical Working Group

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<b>David Iseminger</b>	Lake Stevens School District	School Board Director
<b>Shawn Lewis</b>	North Thurston Public Schools	Assistant Superintendent, Administrative Services
<b>Michael Mann</b>	Legislative Evaluation and Accountability Program Committee	Managing Consultant
<b>Doug Matson</b>	West Valley School District	Deputy Superintendent, Operations
<b>Tim Merlino/ Brett Blechschmidt</b>	Educational Service District 112	Chief Finance Officer / Assistant Fiscal Officer
<b>Sheryl Moore</b>	Renton School District	Executive Director, Employee Relations
<b>Doug Nelson</b>	Public School Employees	Director of Governmental Relations
<b>Stephen Nielsen</b>	Puget Sound Educational Service District	Assistant Superintendent, Financial Services
<b>Randy Parr</b>	Washington Education Association	Budget Analyst / Lobbyist
<b>Rich Puryear</b>	Richland School District	Executive Director, Financial Services
<b>Jennifer Shaw</b>	Franklin Pierce Schools	Principal, Franklin Pierce High School
<b>Neil Sullivan</b>	Spokane Public Schools	Executive Director, Finance
<b>Farley Walker</b>	Ellensburg School District	Business Manager
<b>Carolyn Webb</b>	Mukilteo School District	Executive Director, Business Services

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The FFTWG members wish to thank the following individuals for providing staff support to the working group:

### **Office of Financial Management**

Julie Salvi  
Amy Skei  
Teri Savage  
Cheri Keller  
Andrea Leigh

### **Office of the Superintendent of Public Instruction**

Jennifer Priddy  
Cal Brodie  
Isabel Munoz-Colon  
Kate Davis  
Barb Billinghamurst  
Jeanne McMinds  
David Morrill  
Jackie Hansman

In addition, the FFTWG wishes to recognize the following individuals who participated on various ad hoc groups of the FFTWG:

*Jerry Bender*, Director of Government Relations, Association of Washington School Principals

*Jim Crawford*, Assistant Superintendent, Fiscal and Operations, Olympia School District

*Jay Leviton*, Director, Career and Life Skills Education, Renton School District

## Appendix 2—Enhanced Funding for High Poverty Schools

Two methods for enhancement were considered that would reduce class size and provide more effective learning environments. The FFTWG reviewed examples of the two scenarios to analyze statewide impacts and different impacts to schools. The following tables summarize the data reviewed by the FFTWG. Both are school-based models; eligibility and funding would be based on individual school characteristics.

### *Method #1 – Percentage Option (Eligible if 50% FRPL; Class size funds based on total enrollment in the school)*

<b>Percent</b>	<b>K - 3</b>	<b>4 - 6</b>	<b>Middle</b>	<b>High</b>	<b>Total</b>
Starting Class Size	15	25	25	25	-
Ending Poverty Class Size	15	22	23	23	-
Ending Regular Class Size	15	25	25	25	-
Starting Teachers	17,951	7,499	7,787	12,479	45,715
Added Teachers	-	324	194	153	670
<b>Total Teachers</b>	<b>17,951</b>	<b>7,823</b>	<b>7,981</b>	<b>12,632</b>	<b>46,386</b>
% of Poverty Students Impacted	58.6%	53.9%	48.8%	30.1%	48.1%
Poverty Students Impacted	66,585	40,345	36,574	27,857	171,361
Total Students Impacted	96,323	59,340	55,786	43,866	255,315
Schools Impacted		462	239	178	879

*Method #2 – Combined Approach (Eligible if 50% FRPL or Established # of Students in Poverty; Class size funds generated on per poverty student ratio rather than based on total school’s enrollment)*

<b>Blended</b>	<b>K - 3</b>	<b>4 - 6</b>	<b>Middle</b>	<b>High</b>	<b>Total</b>
Starting Class Size	15	25	25	25	-
Ending Poverty Class Size	15	22	21	23	
Ending Regular Class Size	15	25	25	25	-
Starting Teachers	17,951	7,499	7,787	12,479	45,715
Added Teachers	-	478	533	306	1,318
<b>Total Teachers</b>	<b>17,951</b>	<b>7,977</b>	<b>8,320</b>	<b>12,785</b>	<b>47,033</b>
% of Poverty Students Impacted	67.8%	63.9%	71.1%	66.1%	67.2%
Poverty Students Impacted	76,997	47,839	53,347	61,166	239,350
Total Students Impacted	120,767	76,451	98,927	149,960	446,105
Schools Impacted		536	297	250	1,083

### Three Hypothetical High Schools under Combined Approach

	<b>School 1</b>	<b>School 2</b>	<b>School 3</b>
<b>Total Enrollment</b>	1,500	1,500	1,500
<b>FRPL Eligible</b>	500	1,000	150
<b>Poverty Percent</b>	33 %	67 %	10 %
<b>Beginning Class Size</b>	25	25	25
<b>Ending Class Size</b>	<b>24</b>	<b>23.08</b>	<b>25</b>



## Appendix 3—Central Administration Percentage Calculations

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### **Which functions are in Central Administration verses school level or district wide support?**

For a complete list of Program/Activity/Duty codes that are included at each level, see Appendix 7.

### **What costs are funded by the state vs. grants or other funding sources?**

The analysis assumed that Basic Education is the state's responsibility. Therefore, the following programs were included 01 (basic education support) and most of 97 (district-wide support).

District-wide support was reduced by 3.3 percent after reviewing the staffing areas included in district-wide support and identifying those that would change if funding for other categorical and federally funded programs disappeared. For those duty assignments, the staffing was assumed to be 85 percent state-funded. When combined with all staff in district-wide support, the staffing units used in the central administration calculations included 96.7 percent of district-wide support.

### **Formula Components**

#### **Numerator**

The numerator is Central Administration. Central Administration is defined as the administrators and their support personnel required to run a school district. This includes superintendent, associate and assistant superintendents, basic education program directors/coordinators, clerical office staff, human resources, accounting, and communications functions. We will use objects 2 and 3 (certificated FTE and classified FTE).

#### **Denominator**

The denominator is School Level and District-wide Support (DWS). School level includes functions that directly support the functionality of schools and pupil instruction. DWS are functions that support the entire district as a whole but are directly related to pupil instruction and building functionality.

We will use objects 2 and 3 (certificated FTE and classified FTE).

#### **FTE Generated**

When the percentage is determined (from the numerator and denominator defined above) it will be multiplied against the staffing allocation for the prototypical school and district-wide support. This generates a total FTE for Central Administration. We will have to divide this into two categories: Certificated and Classified staff. A rough look shows certificated staff makes up 25 percent of Central Administration staffing. Likewise, classified staff makes up 75 percent of Central Administration. If we apply these percentages we will arrive at an FTE for certificated and classified Central Administration staff.

## Appendix 4—Alternative Learning Assistance Program Structure

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An alternative LAP program structure was presented to the committee through public input. The FFTWG considered those recommendations and responded. The summary of the problem statements/recommendations and the FFTWG’s responses are summarized below:

Problem Statement: The proposed funding formulas are similar to the current formulas based on inputs, with no clear connection to resulting student achievement. The assumption is that if a school provides these inputs, the school has provided a basic education and therefore satisfied the state’s responsibility. There are no incentives for success. There are no consequences for failure. There is no funding formula for a school or a school district is not reaching state standards. There is no link to student achievement.

How can state funding formulas be linked to state goals for improving student achievement? How can state funding formulas recognize and reward student success? And how do state funding formulas respond when a school or a school district is failing to meet state standards?

FFTWG response: Student achievement is closely linked to student time with an educator, and the FFTWG proposed funding formula does provide time. Districts are free to use the time quite flexibly within the categorical program. An accountability system is being developed by the State Board of Education, and the LAP funding formula does not need to be designed to accomplish both the allocation method and the accountability function.

Proposed formula: A district’s struggling student funding would be allocated between flexible and categorical funding based on a formula comparing predicted and actual student achievement. Because of the strong correlation between poverty and student achievement, statistical analysis can predict student achievement on state assessments. Districts beating the prediction would be rewarded with more flexible and less categorical funding. Districts falling below prediction would be given more categorical funding and less flexible funding. For example:

- District A with 30 percent poverty, and 85 percent of its students achieving state standards might receive 75 percent flexible funding and 25 percent categorical funding.
- District B with 30 percent poverty and 65 percent of its students achieving state standards might receive 25 percent flexible funding and 75 percent categorical funding.

The [proposed] formula rewards District A with the flexibility to pursue strategies that are working. District A also has an incentive to direct resources to schools and programs to produce results that maximize flexible funding.

This formula gives the state more oversight and involvement in District B. The categorical funding requires state-level program approval, accountability for how and where dollars are spent, and year-end reporting requirements.

FFTWG response: The group felt very strongly that the funding should be retained as a categorical program, in whole. Where districts are improving their student outcomes, the resources should continue to be associated with programs for struggling students and not used elsewhere in the district for other programs or even for facilities maintenance. The group felt that making a portion of the funding flexible in successful programs may have the unintended consequence of hampering those programs, and creating a funding-related yo-yo effect in student outcomes. Further, the group felt that the LAP resources, as proposed, are very flexible; although based on an extended year/day model, the resources could be used for any other strategies to improve results for struggling students. Finally, the group felt that the accountability system is a separate function that applies to the whole district, not just to this funding component, and therefore identifying a formula with a dual role was not desirable.

## Appendix 5—Background: Current Funding for Small Schools and Districts

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The current legislative appropriations act provides minimum and enhanced levels of funding for the Small Schools as follows:

### Small Schools and Remote and Necessary

For small school districts and remote and necessary schools with fewer than 25 FTE enrollment, the formula ensures the provision of a minimum number of certificated staff units. These minimum levels are as follows:

Program Level	FTE Enrollment		Instructional Staff Units	Administrative Staff Units
	>	To		
K-6	0	5	1.76	0.24
K-8	0	5	1.68	0.32
K-6	5	25	$1.76 + [(FTE - 5)/20]$	0.24
K-8	5	25	$1.68 + [(FTE - 5)/10]$	0.32

For small school districts and remote and necessary schools with 25 or more FTE enrollment but not more than 100 FTE in Grades K-8, the formula provides certificated staff units as follows:

Program Level	FTE Enrollment	Minimum Instructional Staff Units	Minimum Administrative Staff Units
	Up to		
K-6	60	2.76	0.24
7-8	20	0.92	0.08

For K-6 programs with FTE enrollment of more than 60 and 7-8 programs with FTE enrollment of more than 20, staff units are calculated based on the regular ratio described above.

For non-high districts meeting the enrollment conditions described below, the formula provides an additional 0.5 certificated instructional staff unit. The enrollment conditions and additional units are provided as follows:

Program Level	FTE Enrollment Between	Additional Instructional Staff Units
K-8	70 and 180 FTE	0.5
K-6 or 1-6	50 and 180 FTE	0.5

### Small High Schools

For districts operating not more than two high schools having total Grades 9-12 FTE enrollment of not more than 300 in each high school, the formula ensures a minimum number of certificated staff units. This does not apply to alternative schools. The FTE enrollment used for determining eligibility includes vocational FTE. To account for staffing generated in the regular formulas, staff units are reduced at the rate of 46 certificated instructional staff units and four certificated

administrative staff units per 1,000 vocational FTE. For districts meeting the above criteria, the formulas for calculating certificated instructional and certificated administrative staff units are as follows:

R&N Schools with High School Students\*

Instr.	4.5 - [Voc FTE X .046]
Admin.	0.25 - [Voc FTE X .004]

60 or less High School FTE

Instr.	9.0 - [Voc FTE X .046]
Admin.	0.5 - [Voc FTE X .004]

60 to 300 High School FTE

Instr.	$9.0 + [(FTE - 60)/43.5 \times .8732] - [Voc FTE \times .046]$
Admin.	$0.5 + [(FTE - 60)/43.5 \times .1268] - [Voc FTE \times .004]$

\* For remote and necessary schools with Grades 9–12 students and total K–12 FTE enrollment of 25 or less.

One classified staff unit is allowed for every three certificated staff units in the small schools discussed above and an additional 0.5 of a classified staff unit is provided for any non-high school district with an enrollment between 50 and 180.

The small school factor takes into consideration the scarcity factor over which many of our small schools have no control. During 2006–07, there were nine small districts and seven remote and necessary schools with enrollment under 25 FTE, 32 small districts and three remote and necessary schools with enrollment between 25 and 100 FTE, 15 non-high districts that received 0.5 additional certificated instructional staff units, and 99 school districts that had small high schools.

<u>Small Schools</u>	<u>Number</u>
Districts with less than 25 FTE	9
R&N schools with less than 25 FTE	7
Districts with 25–100 FTE	32
R&N schools with 25–100 FTE	3
Non-highs between 50–180 FTE	15
Small high schools (under 300 FTE)*	99

\*One district has two small high schools.

<b>School District</b>	<b>R&amp;N School</b>
Lake Chelan	Holden Village
Cascade	Beaver Valley
Woodland	Yale
Steilacoom	Anderson Island
Steilacoom	Harriet Taylor
Orcas	Waldron
Lopez	Decatur
San Juan	Stuart
Ferndale	Beach
Blaine	Point Roberts

## Appendix 6—Draft Appropriations Language for Prototype School Funding Formulas

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*NOTE: Sections in this appendix include references to Section 504 Compensation, which provides for compensation increases. Because the salary structure is not changing at this point, that section is not included here.*

1 **NEW SECTION. Sec. 502. FOR THE SUPERINTENDENT OF PUBLIC INSTRUCTION--**  
2 **FOR GENERAL APPORTIONMENT**

3 The appropriations in this section are subject to the following conditions and limitations:

4 (1) Each general fund fiscal year appropriation includes such funds as are necessary to  
5 complete the school year ending in the fiscal year and for prior fiscal year adjustments.

6 (2) Allocations for staff salaries for the \_\_\_\_\_ school years shall be determined  
7 using formula-generated staff units calculated pursuant to this section which provides staffing  
8 based on a prototypical school model. Funding allocations to school districts will be adjusted  
9 from the school prototypes based on the district's full-time equivalent student enrollment in  
10 each grade level.

11 (A) The prototype school sizes for funding allocations are defined in RCW 28A.150.260.  
12 Consistent with those definitions, prototype elementary schools have 400 average annual full-  
13 time equivalent students in grades K-6. Prototype middle schools have 432 average annual  
14 full-time equivalent students in grades 7-8; prototype high schools have 600 average annual  
15 full-time equivalent students in grades 9-12.

16 (i) Staff units for teachers shall be the number of full-time equivalent classroom teachers  
17 needed to provide average class sizes specified in this subsection. The calculations to translate  
18 average class sizes to staffing units shall include an assumption that elementary, middle and  
19 high school teachers have planning time within the school day. The planning time assumptions  
20 require 15.5 percent additional classroom teachers in elementary schools and 20 percent more  
21 classroom teachers in middle and high schools to achieve the following average class sizes.

22 (a) Grades K-3: Average class size allocation shall be 23.11 full-time equivalent  
23 students in grades K-3 per teacher.

24 (b) Grades 4: Average class size allocation shall be 23.11 full-time equivalent

1 students in grades 4 per teacher.

2 (c) Grades 5-6: Average class size allocation shall be 27.00 full-time equivalent  
3 students in grades 5-6 per teacher.

4 (d) Grades 7-8: Average class size allocation shall be 28.53 full-time equivalent  
5 students in grades 7-8 per teacher.

6 (e) Grades 9-12: Average class size allocation shall be 28.74 full-time equivalent  
7 students in grades 9-12 per teacher, except in cases when lower average class sizes are  
8 specified for career and technical education programs, skills centers, laboratory science, and  
9 advanced placement and international baccalaureate programs.

10 (f) High poverty schools: \_\_\_\_\_TBD – (reduce all class size or provide  
11 additional staff per # of students)\_\_\_\_\_. High poverty schools shall be defined as  
12 schools that have 50 percent or more of students eligible for free or reduced price lunch,  
13 provided that the school’s enrollment is at least 100 average annual full-time equivalent  
14 students or that the school is the largest school within the district for the school’s grade  
15 grouping. \_\_\_\_\_.(Possible additional eligibility for schools with large numbers of students  
16 eligible for free or reduced price lunch)\_\_\_\_\_ The free and reduced price lunch measure used  
17 to determine eligibility for this funding shall be the average percentage of students in a school  
18 who are eligible for free or reduced price lunches in the months of November through April in  
19 the prior school year. A district with a significant increase in students eligible for free or  
20 reduced price lunch above the prior school year may appeal to the office of superintendent of  
21 public instruction to use free or reduced price lunch eligibility based on the current school year.

22 (g) For career and technical education programs approved by the superintendent  
23 of public instruction: Average class size allocation shall be \_\_\_\_\_ full-time equivalent  
24 career and technical education students for preparatory classes in grades 9-12 per teacher.

25 (h) Laboratory science: Average class size shall be \_\_\_\_\_ average annual full-  
26 time equivalent students in laboratory science per teacher. The average annual full-time  
27 equivalent enrollment in laboratory science shall be 12.5 percent of the average annual full-  
28 time equivalent student enrollment in grades 9-12 for a school district, which assumes that  
29 students on average take 3 science classes out of 24 total credits.

30 (i) Advanced placement and international baccalaureate: Average class sizes for  
31 advanced placement and international baccalaureate programs shall be allocated at \_\_\_\_\_



1 average annual full-time equivalent students in grades 9-12 in such courses.

2 (ii) Principals and building level administrators shall be allocated at 1.253 per  
3 prototypical elementary school, 1.353 per prototypical middle school, and 1.880 per  
4 prototypical high school. However, the average annual full-time equivalent student enrollment  
5 for career and technical programs used for administrative calculations in subsection (2)(A)(iii)  
6 of this section shall be excluded from the average annual full-time equivalent student  
7 enrollment used for this allocation by grade level.

8 (iii) For career and technical education programs approved by the superintendent of  
9 public instruction, career and technical education administrative staff shall be allocated at 0.523  
10 per one hundred full-time equivalent career and technical education students.

11 (iv) Teacher librarians shall be allocated at 0.663 per prototypical elementary school,  
12 0.519 per prototypical middle school, and 0.523 per prototypical high school.

13 (v) Professional development coaches shall be allocated at \_\_\_\_\_ per prototypical  
14 elementary school, \_\_\_\_\_ per prototypical middle school, and \_\_\_\_\_ per prototypical  
15 high school.

16 (vi) Guidance counselors shall be allocated at 0.493 per prototypical elementary school,  
17 1.116 per prototypical middle school, and 1.909 per prototypical high school.

18 (vii) Student health staff shall be allocated at 0.135 per prototypical elementary school,  
19 0.068 per prototypical middle school, and 0.118 per prototypical high school.

20 (viii) Instructional aides shall be allocated at 0.936 per prototypical elementary school,  
21 0.700 per prototypical middle school, and 0.652 per prototypical high school.

22 (ix) School office and other aides shall be allocated at 2.012 per prototypical elementary  
23 school, 2.325 per prototypical middle school, and 3.269 per prototypical high school.

24 (x) Student and staff security shall be allocated at 0.079 per prototypical elementary  
25 school, 0.092 per prototypical middle school, and 0.141 per prototypical high school.

26 (xi) Custodial staff shall be allocated at 1.657 per prototypical elementary school, 1.942  
27 per prototypical middle school, and 2.965 per prototypical high school.

28 (B) Staff to provide district-wide support services shall be allocated per 1,000 full-time  
29 equivalent students in grades K-12 as follows: 0.628 staff for technology; 0.201 staff for  
30 facilities, maintenance, and grounds; and 1.944 staff for warehouse, laborers and mechanics.

31 (C) Staff for central administration shall be 5.35 percent of the staff units generated for

1 the prototypical school staff and district-wide support in subsections (2)(A) and (2)(B) of this  
2 section.

3 (3) Skills center programs meeting the standards for skills center funding established in  
4 January 1999 by the superintendent of public instruction shall be allocated 0.92 classroom  
5 teachers and 0.08 administrative units for each 16.67 full-time equivalent career and technical  
6 education students. In addition, such skills center programs shall be allocated \$\_\_\_\_\_ per  
7 average annual full-time equivalent student for maintenance, supplies, and operating costs.

8 (4) (i) Career and technical education full-time equivalent enrollment shall be reported  
9 on the same monthly basis as the enrollment for students eligible for basic support, and  
10 payments shall be adjusted for reported career and technical enrollments on the same monthly  
11 basis as those adjustments for enrollment for students eligible for basic support; and

12 (ii) Indirect cost charges by a school district to career and technical education-secondary  
13 programs shall not exceed 15 percent of the combined basic education and career and technical  
14 education enhancement allocations of state funds.

15 (5) For small school districts and small school plants within any school district which  
16 have been judged to be remote and necessary by the state board of education, additional  
17 certificated instructional staff (CIS) and certificated administrative staff (CAS) units shall be  
18 provided in this subsection to ensure minimum CIS and CAS staffing units. The CIS and CAS  
19 staffing units generated by ratios in this subsection shall be reduced by the equivalent CIS and  
20 CAS staffing units generated for the related enrollment according to regular allocations for  
21 prototypical school staff in subsection (2)(A) of this section, district-wide staff in subsection  
22 (2)(B) of this section and central administration staff units in subsection (2)(C) of this section.  
23 If the total equivalent CIS and CAS staff units generated for such prototypical school staff,  
24 district-wide staff and central administration staff exceed the minimum staffing units in this  
25 section, then no additional staff units for that staffing category shall be generated in this  
26 subsection. To determine the equivalent CIS and CAS staff units generated for prototypical  
27 schools, district-wide support and central administration, these staff units shall be grouped as  
28 certificated instructional staff, certificated administrative and classified staff according to the  
29 methodology in subsection (7) of this section.

30 (a) For districts enrolling not more than twenty-five average annual full-time equivalent  
31 students in grades K-8, and for small school plants within any school district which have been

1 judged to be remote and necessary by the state board of education and enroll not more than  
2 twenty-five average annual full-time equivalent students in grades K-8:

3 (ii) For those enrolling no students in grades 7 and 8, 1.76 certificated instructional staff  
4 units and 0.24 certificated administrative staff units for enrollment of not more than five  
5 students, plus one-twentieth of a certificated instructional staff unit for each additional student  
6 enrolled; and

7 (ii) For those enrolling students in grades 7 or 8, 1.68 certificated instructional staff units  
8 and 0.32 certificated administrative staff units for enrollment of not more than five students,  
9 plus one-tenth of a certificated instructional staff unit for each additional student enrolled;

10 (b) For specified enrollments in districts enrolling more than twenty-five but not more  
11 than one hundred average annual full-time equivalent students in grades K-8, and for small  
12 school plants within any school district which enroll more than twenty-five average annual full-  
13 time equivalent students in grades K-8 and have been judged to be remote and necessary by the  
14 state board of education:

15 (i) For enrollment of up to sixty annual average full-time equivalent students in grades K-  
16 6, 2.76 certificated instructional staff units and 0.24 certificated administrative staff units; and

17 (ii) For enrollment of up to twenty annual average full-time equivalent students in grades 7  
18 and 8, 0.92 certificated instructional staff units and 0.08 certificated administrative staff units;

19 (c) For districts operating no more than two high schools with enrollments of less than  
20 three hundred average annual full-time equivalent students, for enrollment in grades 9-12 in each  
21 such school, other than alternative schools:

22 (i) For remote and necessary schools enrolling students in any grades 9-12 but no more  
23 than twenty-five average annual full-time equivalent students in grades K-12, four and one-half  
24 certificated instructional staff units and one-quarter of a certificated administrative staff unit;

25 (ii) For all other small high schools under this subsection, nine certificated instructional  
26 staff units and one-half of a certificated administrative staff unit for the first sixty average annual  
27 full time equivalent students, and additional staff units based on a ratio of 0.8732 certificated  
28 instructional staff units and 0.1268 certificated administrative staff units per each additional  
29 forty-three and one-half average annual full time equivalent students.

30 (d) For each nonhigh school district having an enrollment of more than seventy annual  
31 average full-time equivalent students and less than one hundred eighty students, operating a

1 grades K-8 program or a grades 1-8 program, an additional one-half of a certificated instructional  
2 staff unit; and

3 (e) For each nonhigh school district having an enrollment of more than fifty annual average  
4 full-time equivalent students and less than one hundred eighty students, operating a grades K-6  
5 program or a grades 1-6 program, an additional one-half of a certificated instructional staff unit.

6 (6) For small school districts and small school plants within any school district which  
7 have been judged to be remote and necessary by the state board of education, additional  
8 classified staffing units shall be provided in this subsection to ensure minimum classified  
9 staffing units. The classified staffing units generated by ratios in this subsection shall be  
10 reduced by the equivalent classified staffing units generated for the related enrollment  
11 according to regular allocations for prototypical school staff in subsection (2)(A) of this  
12 section, district-wide staff in subsection (2)(B) of this section and central administration staff  
13 units in subsection (2)(C) of this section. If the total equivalent classified staff units for such  
14 prototypical school staff, district-wide staff and central administration staff exceed the  
15 minimum classified staffing units generated by the ratios in this section, then no additional  
16 classified staff units shall be allocated. To determine the equivalent classified staff units  
17 generated for prototypical schools, district-wide support and central administration, these staff  
18 units shall be grouped as certificated instructional staff, certificated administrative and  
19 classified staff according to the methodology in subsection (7) of this section.

20 (a) For enrollments generating certificated staff unit allocations under subsection (5)(b)  
21 through (e) of this section, one classified staff unit for each 2.94 certificated staff units allocated  
22 under such subsections;

23 (b) For each nonhigh school district with an enrollment of more than fifty annual average  
24 full-time equivalent students and less than one hundred eighty students, an additional one-half of  
25 a classified staff unit.

26 (7) Until the legislature enacts changes to the salary structure for K-12 staff, the salaries  
27 allocated for staff units generated in this section shall be based on the certificated instructional  
28 staff (CIS), certificated administrative staff (CAS) and classified staff (CLS) in the LEAP  
29 Document 2 used for salary allocations in the 2010-11 school year, adjusted for cost of living  
30 increases according to RCW 28A.400.205 and any additional changes included in section 504 of  
31 this act. The staff categories from the prototypical school model shall be assigned to the CIS,

1 CAS and classified salaries as follows:

2 (a) CIS: all certificated classroom teachers, teacher librarians, professional development  
3 coaches, guidance counselors, and student health staff.

4 (b) CAS: all certificated principals and school administrators, career and technical  
5 education administrators,; and 25 percent of the staff units generated for central administration  
6 according to subsection (2)(C) of this section.

7 (c) CLS: Instructional aides; school office and other aides; student and staff security;  
8 custodians, district-wide facilities, maintenance, and grounds; warehouse, laborers, and  
9 mechanics; district-wide technology staff and 75 percent of the staff units generated for central  
10 administration according to subsection (2)(C) of this section.

11 (8) Fringe benefit allocations shall be calculated at a rate of \_\_\_\_ percent in the 2009-10  
12 school year and \_\_\_\_\_ percent in the 2010-11 school year for certificated instructional staff and  
13 certificated administrative staff salary allocations under subsection (7) of this section, and a rate  
14 of \_\_\_\_\_ percent in the 2009-10 school year and \_\_\_\_\_ percent in the 2010-11 school year  
15 for classified salary allocations under subsection (7) of this section.

16 (9) Insurance benefit allocations shall be calculated at the maintenance rate specified in  
17 section 504(2) of this act, based on the number of benefit units determined as follows:

18 (a) The number of certificated instructional staff and certificated administrative staff units  
19 generated in this section as determined by the methodology outlined in subsection (7) of this  
20 section; and

21 (b) The number of classified staff units generated in this section as determined by the  
22 methodology in subsection (7) of this section multiplied by 1.152. This factor is intended to  
23 adjust allocations so that, for the purposes of distributing insurance benefits, full-time equivalent  
24 classified employees may be calculated on the basis of 1440 hours of work per year, with no  
25 individual employee counted as more than one full-time equivalent.

26 (10) Maintenance, Supplies and Operating Costs:

27 (A) The following allocations shall be provided for maintenance, supplies and operating  
28 costs:

29 (i) Technology: \$53.77 per average annual full-time equivalent student in grades K-12;

30 (ii) Curriculum: \$57.73 per average annual full-time equivalent student in grades K-12;

31 (iii) Other supplies and library materials: \$122.56 per average annual full-time equivalent

- 1 student in grades K-12;
- 2 (iv) Professional development: \$8.93 per average annual full-time equivalent student in
- 3 grades K-12;
- 4 (v) Utilities and insurance: \$146.10 per average annual full-time equivalent student in
- 5 grades K-12;
- 6 (vi) Central office and security: \$50.14 per average annual full-time equivalent student in
- 7 grades K-12; and
- 8 (vii) Facilities and maintenance: \$72.38 per average annual full-time equivalent student in
- 9 grades K-12.

10 (B) An enhanced maintenance, supplies and operating cost allocation is provided for  
11 career and technical education programs approved by the superintendent of public instruction  
12 and laboratory science courses. Including amounts provided in subsection (10)(A) of this section,  
13 the maintenance, supplies and operating cost allocation per average annual full-time equivalent  
14 students in career and technical education and laboratory science shall equal 2.52 times the  
15 regular maintenance, supplies, and operating cost total. Laboratory science is defined as 12.5  
16 percent of average annual full-time equivalent enrollment in grades 9-12.

17 (C) In addition to amounts for maintenance, supplies and operating costs in subsections  
18 (10)(A) and (10)(B) in this section, a supplemental allocation for maintenance, supplies and  
19 operating costs shall be provided to small schools and small districts. \$\_\_\_\_\_ shall be provided  
20 per full-time equivalent certificated staff unit allocated according to subsection (5) of this  
21 section.

22 (11) Allocations for substitute costs for \_\_\_\_ sick days per staff unit shall be distributed for  
23 the following staff units in this section: all classroom teachers in subsection (2)(A)(i) of this  
24 section, teacher librarians, professional development coaches, guidance counselors, student  
25 health staff, instructional aides, school office and other aides, and custodians. Until the  
26 legislature enacts changes to the salary structure for K-12 staff, the amounts provided for  
27 substitutes shall be calculated by grouping the staff units identified in this subsection in two  
28 categories (certificated instructional staff and classified staff) according to the methodology  
29 identified in subsection (7) of this section. For certificated instructional staff, the eight substitute  
30 days per staff unit shall be calculated at a rate of \_\_\_\_\_-. For the classified staff, the eight  
31 substitute days per staff unit shall be calculated at a rate of \_\_\_\_\_.

1           (12) Hold harmless: If a school district's per student allocation generated in this section  
2 and related portions of section 504 of this act is less than the district's per student amount for the  
3 general apportionment program in the 2010-11 school year, the district shall be provided an  
4 additional hold harmless amount. The hold harmless allocation is the dollar amount necessary for  
5 the per student allocation under this section and related portions of section 504 of this act to be  
6 equal to the per student allocation the district received in the 2010-11 school year.

1 **NEW SECTION. Sec. 511. FOR THE SUPERINTENDENT OF PUBLIC INSTRUCTION--**  
2 **FOR PROGRAMS FOR HIGHLY CAPABLE STUDENTS**

3 The appropriations in this section are subject to the following conditions and limitations:

4 (1) Each general fund fiscal year appropriation includes such funds as are necessary to  
5 complete the school year ending in the fiscal year and for prior fiscal year adjustments.

6 (2) The number of funded students shall be a maximum of 2.314 percent of each district's  
7 full-time equivalent basic education enrollment.

8 (A) Allocations for instructional time shall provide 2.196 hours per week in extra  
9 instruction with 15 highly capable students per teacher and 0 hours per week of instruction  
10 during vacation periods with 15 highly capable students per teacher. For salary purposes,  
11 teachers are allocated as certificated instructional staff consistent with the methodology outlined  
12 in subsections (7), (8), and (9) of section 502 of this act.

13 (B) An enhanced maintenance, supplies and operating cost allocation shall be calculated  
14 by taking the curriculum allocation identified in subsection (10)(A)(ii) of section 502 times the  
15 ratio of highly capable hours to the total instructional hours per year.

16 (C) An allocation for administrative costs associated with the highly capable program  
17 shall be calculated in the following manner. Administrative staff units shall be equal to 5.35  
18 percent of the staff units generated in subsection (2)(A) of this section. For salary purposes, 75  
19 percent of administrative staff are allocated as classified staff and 25 percent are allocated as  
20 certificated administrative consistent with salary assumptions and the division of central  
21 administration staff in subsection (7) of section 502 of this act. The salary allocations provided  
22 in this section are exclusive of salary and benefit adjustments provided in section 504 of this act.

23 (3) Hold harmless: If a school district's per student allocation for the highly capable  
24 program in subsection 2 of this section and related portions of section 504 of this act is less than  
25 the district's per student allocation for the highly capable program in the 2010-11 school year,  
26 the district shall be provided an additional hold harmless dollar amount. The hold harmless  
27 amount is the dollar amount necessary for total per student funding allocated to the district for  
28 the highly capable program under this subsection, subsection (2) of this section, and related  
29 portions of section 504 of this act to be equal to the per student amount allocated to the district's  
30 for the highly capable program in the 2010-11 school year.



1 **NEW SECTION. Sec. 514. FOR THE SUPERINTENDENT OF PUBLIC INSTRUCTION--**  
2 **FOR TRANSITIONAL BILINGUAL PROGRAMS**

3 The appropriations in this section are subject to the following conditions and limitations:

4 (1) Each general fund fiscal year appropriation includes such funds as are necessary to  
5 complete the school year ending in the fiscal year and for prior fiscal year adjustments.

6 (2) Allocations for transitional bilingual program shall be provided based on the  
7 headcount number of students in the transitional bilingual instruction program.

8 (A) Allocations for instructional time shall provide 4.826 hours per week in extra  
9 instruction with 15 transitional bilingual students per teacher and 0 hours per week of instruction  
10 during vacation periods with 15 transitional bilingual students per teacher. For salary purposes,  
11 teachers are allocated as certificated instructional staff consistent with the methodology outlined  
12 in subsections (7), (8), and (9) of section 502 of this act.

13 (B) Where a school district hires instructional aides with the resources included in this  
14 section, such aides may be provided with professional development consistent with the number  
15 of learning improvement days allocated within the teacher assumption under subsection (2)(A) of  
16 this section.

17 (C) An enhanced maintenance, supplies and operating cost allocation shall be calculated  
18 by taking the curriculum allocation identified in subsection (10A)(ii) of section 502 times the  
19 ratio of transitional bilingual instructional hours to the total instructional hours per year.

20 (D) An allocation for administrative costs associated with the transitional bilingual  
21 program shall be calculated in the following manner. Administrative staff units shall be equal to  
22 5.35 percent of the staff units generated in subsection (2)(A) of this section. For salary purposes,  
23 75 percent of administrative staff are allocated as classified staff and 25 percent are allocated as  
24 certificated administrative consistent with salary assumptions and the division of central  
25 administration staff in subsection (7) of section 502 of this act. The salary allocations provided  
26 in this section are exclusive of salary and benefit adjustments provided in section 504 of this act.

27 (3) Hold harmless: If a school district's per student allocation for the transitional  
28 bilingual program in subsection 2 of this section and related portions of section 504 of this act is  
29 less than the district's per student allocation for the transitional bilingual program in the 2010-11  
30 school year, the district shall be provided an additional hold harmless dollar amount. The hold

1 harmless amount is the dollar amount necessary for total per student funding allocated to the  
2 district for the transitional bilingual program under this subsection, subsection (2) of this section,  
3 and related portions of section 504 of this act to be equal to the per student amount allocated to  
4 the district for the transitional bilingual program in the 2010-11 school year.

1 NEW SECTION. Sec. 515. FOR THE SUPERINTENDENT OF PUBLIC  
2 INSTRUCTION--FOR THE LEARNING ASSISTANCE PROGRAM

3 The appropriations in this section are subject to the following conditions and limitations:

4 (1) The general fund--state appropriations in this section are subject to the following  
5 conditions and limitations:

6 (A) The appropriations include such funds as are necessary to complete the school year  
7 ending in the fiscal year and for prior fiscal year adjustments.

8 (B) Allocations for learning assistance program shall be provided based on percentage of  
9 students eligible for free or reduced price lunch.

10 (i) The free and reduced price lunch measure used for the learning assistance program  
11 shall be the average percentage of students in grades K-12 eligible for free or reduced price  
12 lunches in the months of November through April in the prior school year. A district with a  
13 significant increase in students eligible for free or reduced price lunch above the prior school  
14 year may appeal to the office of superintendent of public instruction to use free or reduced price  
15 lunch eligibility based on the current school year.

16 (ii) For the purposes of this section, learning assistance students shall be defined as the  
17 average annual full-time equivalent enrollment in a district for grades K-12 times the percentage  
18 of students eligible for free or reduced price lunch in the months of November through April in  
19 the prior school year. School districts with a significant increase in students eligible for free or  
20 reduced price lunch above the prior school year may appeal to the superintendent of public  
21 instruction to use free or reduced price lunch eligibility based on the current school year..

22 (iii) Allocations for instructional time shall provide 1.303 hours per week in extra  
23 instruction with 15 learning assistance program students per teacher and 0 hours per week of  
24 instruction during vacation periods with 15 learning assistance program students per teacher. For  
25 salary purposes, teachers are allocated as certificated instructional staff consistent with the  
26 methodology outlined in subsections (7), (8), and (9) of section 502 of this act.

27 (iv) Where a school district hires instructional aides with the resources included in this  
28 section, such aides may be provided with professional development consistent with the number  
29 of learning improvement days allocated within the teacher assumption under subsection (2)(A) of  
30 this section.

1 (v) An enhanced maintenance, supplies and operating cost allocation shall be calculated  
2 by taking the curriculum allocation identified in subsection (10)(A)(ii) of section 502 times the  
3 ratio of total instructional hours for the learning assistance program to the total instructional  
4 hours per year.

5 (vi) An allocation for administrative costs associated with the learning assistance  
6 program shall be calculated in the following manner. Administrative staff units shall be equal to  
7 (7) percent of the staff units generated in subsection (2)(A) of this section. For salary purposes,  
8 75 percent of administrative staff are allocated as classified staff and 25 percent are allocated as  
9 certificated administrative consistent with salary assumptions and the division of central  
10 administration staff in subsection (7) of section 502 of this act. The salary allocations provided  
11 in this section are exclusive of salary and benefit adjustments provided in section 504 of this act.

12 (C) Hold harmless: If a school district's per student allocation for the learning assistance  
13 program in subsection (1)(B) of this section and related portions of section 504 of this act is less  
14 than the district's per student allocation for the learning assistance program in the 2010-11  
15 school year, the district shall be provided an additional hold harmless dollar amount. The hold  
16 harmless amount is the dollar amount necessary for total per student funding allocated to the  
17 district for the learning assistance program under this subsection, subsection (1)(B) of this  
18 section, and related portions of section 504 of this act to be equal to the per student amount  
19 allocated to the district for the learning assistance program in the 2010-11 school year.

## Appendix 7—Statutory Changes Required to Implement FFTWG Recommendations

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### Changes to 28A.150.260 (*Effective September 1, 2011.*)

1 The purpose of this section is to provide for the allocation of state funding that the legislature  
2 deems necessary to support school districts in offering the minimum instructional program of  
3 basic education under RCW 28A.150.220. The allocation shall be determined as follows:

4 (1) The governor shall and the superintendent of public instruction may recommend to the  
5 legislature a formula for the distribution of a basic education instructional allocation for each  
6 common school district.

7 (2) The distribution formula under this section shall be for allocation purposes only. Except as  
8 may be required under chapter 28A.165, 28A.180, or 28A.155 RCW, or federal laws and  
9 regulations, nothing in this section requires school districts to use basic education instructional  
10 funds to implement a particular instructional approach or service. Nothing in this section requires  
11 school districts to maintain a particular classroom teacher-to-student ratio or other staff-to-  
12 student ratio or to use allocated funds to pay for particular types or classifications of staff.  
13 Nothing in this section entitles an individual teacher to a particular teacher planning period.

14 (3)(a) To the extent the technical details of the formula have been adopted by the legislature,  
15 the distribution formula for the basic education instructional allocation shall be based on  
16 minimum staffing and nonstaff costs the legislature deems necessary to support instruction and  
17 operations in prototypical schools serving high, middle, and elementary school students as  
18 provided in this section. The use of prototypical schools for the distribution formula does not  
19 constitute legislative intent that schools should be operated or structured in a similar fashion as  
20 the prototypes. Prototypical schools illustrate the level of resources needed to operate a school of  
21 a particular size with particular types and grade levels of students using commonly understood  
22 terms and inputs, such as class size, hours of instruction, and various categories of school staff. It  
23 is the intent that the funding allocations to school districts be adjusted from the school prototypes  
24 based on the actual number of annual average full-time equivalent students in each grade level at  
25 each school in the district and not based on the grade-level configuration of the school to the  
26 extent that data is available. The allocations shall be further adjusted from the school prototypes  
27 with minimum allocations for small schools and to reflect other factors identified in the omnibus

1 appropriations act.

2 (b) For the purposes of this section, prototypical schools are defined as follows:

3 (i) A prototypical high school has six hundred average annual full-time equivalent students in  
4 grades nine through twelve;

5 (ii) A prototypical middle school has four hundred thirty-two average annual full-time  
6 equivalent students in grades seven and eight; and

7 (iii) A prototypical elementary school has four hundred average annual full-time equivalent  
8 students in grades kindergarten through six.

9 (c) The minimum allocation for each level of prototypical school shall be based on the  
10 number of full-time equivalent classroom teachers needed to provide instruction over the  
11 minimum required annual instructional hours under RCW 28A.150.220 and provide at least one  
12 teacher planning period per school day, and based on an average class size as specified in the  
13 omnibus appropriations act. The omnibus appropriations act shall at a minimum specify:

14 (i) Basic average class size;

15 (ii) Basic average class size in schools where more than fifty percent of the students are  
16 eligible for free and reduced-price meals;

17 (iii) Average class size for exploratory and preparatory career and technical education,  
18 laboratory science, advanced placement, and international baccalaureate courses; and

19 (iv) Average class size in grades kindergarten through three.

20 (d) The minimum allocation for each level of prototypical school shall include allocations for  
21 the following types of staff in addition to classroom teachers:

22 (i) Principals, including assistant principals, and other certificated building-level  
23 administrators;

24 (ii) Teacher librarians, performing functions including information literacy, technology, and  
25 media to support school library media programs;

26 (iii) Student health services, a function that includes school nurses, whether certificated  
27 instructional or classified employee, and social workers;

28 (iv) Guidance counselors, performing functions including parent outreach and graduation  
29 advisor;

30 (v) Professional development coaches;

31 (vi) Teaching assistance, which includes any aspect of educational instructional services

- 1 provided by classified employees;
- 2 (vii) Office support(~~(, technology support,)~~) and other noninstructional aides;
- 3 (viii) Custodians(~~(, warehouse, maintenance, laborer, and professional and technical~~
- 4 ~~education support employees)~~); and
- 5 (ix) Classified staff providing student and staff safety.

6 (4)(a) The minimum allocation for each school district shall include allocations per annual

7 average full-time equivalent student for the following materials, supplies, and operating costs:

8 ~~((Student technology))~~ Technology; utilities and insurance; curriculum((;)) and textbooks((;));

9 other supplies and library materials; instructional professional development for both certificated

10 and classified staff; facilities maintenance; ~~((other building level costs including maintenance,~~

11 ~~custodial,))~~ and security((;)) and central office administration.

12 (b) The annual average full-time equivalent student amounts in (a) of this subsection shall be

13 enhanced based on full-time equivalent student enrollment in exploratory career and technical

14 education courses for students in grades seven through twelve; laboratory science courses for

15 students in grades nine through twelve; preparatory career and technical education courses for

16 students in grades nine through twelve offered in a high school; and preparatory career and

17 technical education courses for students in grades eleven and twelve offered through a skill

18 center.

19 (5) The allocations provided under subsections (3) and (4) of this section shall be enhanced as

20 follows to provide additional allocations for classroom teachers and maintenance, supplies, and

21 operating costs:

22 (a) To provide supplemental instruction and services for underachieving students through the

23 learning assistance program under RCW 28A.165.005 through 28A.165.065, allocations shall be

24 based on the percent of students in each school who are eligible for free and reduced-price meals.

25 The minimum allocation for the learning assistance program shall provide an extended school

26 day and extended school year for each level of prototypical school, administration, and a per

27 student allocation for maintenance, supplies, and operating costs.

28 (b) To provide supplemental instruction and services for students whose primary language is

29 other than English, allocations shall be based on the number of students in each school who are

30 eligible for and enrolled in the transitional bilingual instruction program under RCW

31 28A.180.010 through 28A.180.080. The minimum allocation for each level of prototypical

1 school shall provide ~~((for supplemental instruction based on percent of the school day a student~~  
2 ~~is assumed to receive supplemental instruction))~~ an extended school day and extended school  
3 year for each level of prototypical school, administration, and a per student allocation for  
4 maintenance, supplies, and operating costs.

5 (6) The allocations provided under subsections (3) and (4) of this section shall be enhanced to  
6 provide additional allocations to support programs for highly capable students under RCW  
7 28A.185.010 through 28A.185.030, based on two and three hundred fourteen one-thousandths  
8 percent of each school district's full-time equivalent enrollment. The minimum allocation for the  
9 programs shall provide an extended school day and extended school year for each level of  
10 prototypical school, administration, and a per student allocation for maintenance, supplies, and  
11 operating costs.

12 (7) The allocations under subsections (3)(b), (c)(i), and (d), (4), and (8) of this section shall be  
13 enhanced as provided under RCW 28A.150.390 on an excess cost basis to provide supplemental  
14 instructional resources for students with disabilities.

15 (8) The distribution formula shall include staffing allocations for district-wide support  
16 activities, including technology support; facilities maintenance and grounds; and warehouse,  
17 laborers, and mechanics. The staff allocation shall provide district-wide support staff units per  
18 1,000 annual average full-time equivalent students in grades K-12 in the school district.

19 (9) The distribution formula shall include allocations to school districts to support certificated  
20 and classified staffing of central office administration. The minimum allocation shall be  
21 calculated as a percentage, identified in the omnibus appropriations act, of the total allocations  
22 for staff under subsections (3), and ~~((6))~~ (8) of this section for all schools in the district.

23 ~~((9))~~ (10)(a) For the purposes of allocations for prototypical high schools and middle schools  
24 under subsections (3) and (5) of this section that are based on the percent of students in the  
25 school who are eligible for free and reduced-price meals, the threshold percentage of such  
26 students in a school shall be adjusted in the omnibus appropriations act to reflect underreporting  
27 of free and reduced-price meal eligibility among middle and high school students.

28 (b) Allocations or enhancements provided under subsections (3) and (4) of this section for  
29 exploratory and preparatory career and technical education courses shall be provided only for  
30 courses approved by the office of the superintendent of public instruction under chapter 28A.700  
31 RCW.



1       ~~((10))~~(11)(a) This formula for distribution of basic education funds shall be reviewed  
2 biennially by the superintendent and governor. The recommended formula shall be subject to  
3 approval, amendment or rejection by the legislature.

4       (b) In the event the legislature rejects the distribution formula recommended by the governor,  
5 without adopting a new distribution formula, the distribution formula for the previous school  
6 year shall remain in effect.

7       (c) The enrollment of any district shall be the annual average number of full-time equivalent  
8 students and part-time students as provided in RCW 28A.150.350, enrolled on the first school  
9 day of each month, including students who are in attendance pursuant to RCW 28A.335.160 and  
10 28A.225.250 who do not reside within the servicing school district. The definition of full-time  
11 equivalent student shall be determined by rules of the superintendent of public instruction and  
12 shall be included as part of the superintendent's biennial budget request. The definition shall be  
13 based on the minimum instructional hour offerings required under RCW 28A.150.220. Any  
14 revision of the present definition shall not take effect until approved by the house ways and  
15 means committee and the senate ways and means committee.

16       (d) The office of financial management shall make a monthly review of the superintendent's  
17 reported full-time equivalent students in the common schools in conjunction with RCW  
18 43.62.050.

## Appendix 8—Duty and Activity Codes Used for Prorating Staff Among New Prototype School Staff Categories

To establish the baseline of current funding levels in the new prototype structure, the FFTWG reviewed current district staffing patterns and utilized this information to distribute staff generated from current formulas for certificated instructional staff, certificated administrative staff and classified staff among the new staffing categories. The following tables show the staffing categories in the prototypical school model and the assumed current staff that were attributed to those new categories. Current staff were allocated based on the combined program, duty and activity codes.

### Programs 01 and 97 (Basic Education and District-wide Support)

#### Certificated Administrators

Program	Duty	Activity
01 Basic Education	12 Deputy/Assist. Supt.	21 Supervision
01 Basic Education	13 Other District Admin.	21 Supervision
01 Basic Education	13 Other District Admin.	25 Pupil Management and Safety
01 Basic Education	25 Other School Admin.	21 Supervision
01 Basic Education	25 Other School Admin.	23 Principal's Office
01 Basic Education	25 Other School Admin.	25 Pupil Management and Safety
01 Basic Education	61 Certificated on Leave	21 Supervision
97 District-wide Support	11 Superintendent	12 Superintendent's Office
97 District-wide Support	11 Superintendent	14 Human Resources
97 District-wide Support	12 Deputy/Assist. Supt.	12 Superintendent's Office
97 District-wide Support	12 Deputy/Assist. Supt.	13 Business Office
97 District-wide Support	12 Deputy/Assist. Supt.	14 Human Resources
97 District-wide Support	13 Other District Admin.	12 Superintendent's Office
97 District-wide Support	13 Other District Admin.	13 Business Office
97 District-wide Support	13 Other District Admin.	14 Human Resources
97 District-wide Support	13 Other District Admin.	15 Public Relations
97 District-wide Support	13 Other District Admin.	25 Pupil Management and Safety
97 District-wide Support	13 Other District Admin.	61 Supervision
97 District-wide Support	61 Certificated on Leave	12 Superintendent's Office
97 District-wide Support	61 Certificated on Leave	13 Business Office
97 District-wide Support	61 Certificated on Leave	14 Human Resources
97 District-wide Support	61 Certificated on Leave	61 Supervision

#### Principals

Program	Duty	Activity
01 Basic Education	21 Elementary Principal	23 Principal's Office

01	Basic Education	22	Elem. Vice Principal	23	Principal's Office
01	Basic Education	23	Secondary Principal	23	Principal's Office
01	Basic Education	23	Secondary Principal	25	Pupil Management and Safety
01	Basic Education	24	Secondary Vice Principal	23	Principal's Office
01	Basic Education	24	Secondary Vice Principal	25	Pupil Management and Safety
01	Basic Education	61	Certificated on Leave	23	Principal's Office

### **Teachers**

Program	Duty	Activity
01 Basic Education	31 Elementary Teacher	27 Teaching
01 Basic Education	32 Secondary Teacher	27 Teaching
01 Basic Education	33 Other Teacher	25 Pupil Management and Safety
01 Basic Education	33 Other Teacher	27 Teaching
01 Basic Education	40 Other Support Personnel	21 Supervision
01 Basic Education	40 Other Support Personnel	22 Learning Resources
01 Basic Education	40 Other Support Personnel	23 Principal's Office
01 Basic Education	40 Other Support Personnel	24 Guidance and Counseling
01 Basic Education	40 Other Support Personnel	25 Pupil Management and Safety
01 Basic Education	40 Other Support Personnel	26 Health/Related Services
01 Basic Education	40 Other Support Personnel	27 Teaching
01 Basic Education	52 Substitute Teacher	27 Teaching
01 Basic Education	61 Certificated on Leave	25 Pupil Management and Safety
01 Basic Education	61 Certificated on Leave	27 Teaching
01 Basic Education	63 Contractor Teacher	27 Teaching

### **Counselor**

Program	Duty	Activity
01 Basic Education	42 Counselor	24 Guidance and Counseling
01 Basic Education	61 Certificated on Leave	24 Guidance and Counseling
01 Basic Education	64 Contractor ESA	24 Guidance and Counseling

### **Library**

Program	Duty	Activity
01 Basic Education	41 Library Media Specialist	22 Learning Resources
01 Basic Education	61 Certificated on Leave	22 Learning Resources
01 Basic Education	64 Contractor ESA	22 Learning Resources

### **Nurse/SW/Other**

Program	Duty	Activity
01 Basic Education	44 Social Worker	24 Guidance and Counseling

01	Basic Education	44	Social Worker	26	Health/Related Services
01	Basic Education	47	Nurse	26	Health/Related Services
01	Basic Education	61	Certificated on Leave	26	Health/Related Services
01	Basic Education	43	Occupational Therapist	26	Health/Related Services
01	Basic Education	45	Spch.-Lang. Path./Audio.	26	Health/Related Services
01	Basic Education	46	Psychologist	26	Health/Related Services
01	Basic Education	48	Physical Therapist	26	Health/Related Services
01	Basic Education	64	Contractor ESA	27	Teaching

### **Instructional Aides**

Program	Duty	Activity
01 Basic Education	91 Aides	22 Learning Resources
01 Basic Education	91 Aides	27 Teaching

### **Non-Instructional Aides**

Program	Duty	Activity
01 Basic Education	91 Aides	23 Principal's Office
01 Basic Education	91 Aides	24 Guidance and Counseling
01 Basic Education	91 Aides	25 Pupil Management and Safety
01 Basic Education	91 Aides	26 Health/Related Services
97 District-wide Support	91 Aides	25 Pupil Management and Safety

### **School Office**

Program	Duty	Activity
01 Basic Education	94 Office/Clerical	22 Learning Resources
01 Basic Education	94 Office/Clerical	23 Principal's Office
01 Basic Education	94 Office/Clerical	24 Guidance and Counseling
01 Basic Education	94 Office/Clerical	25 Pupil Management and Safety
01 Basic Education	94 Office/Clerical	26 Health/Related Services
01 Basic Education	96 Professional	22 Learning Resources
01 Basic Education	96 Professional	23 Principal's Office
01 Basic Education	96 Professional	24 Guidance and Counseling
01 Basic Education	96 Professional	26 Health/Related Services
01 Basic Education	97 Service Workers	22 Learning Resources
01 Basic Education	97 Service Workers	23 Principal's Office
01 Basic Education	98 Technical	22 Learning Resources
01 Basic Education	98 Technical	23 Principal's Office
01 Basic Education	98 Technical	24 Guidance and Counseling
01 Basic Education	98 Technical	26 Health/Related Services
01 Basic Education	98 Technical	27 Teaching

### **Office Clerical - Central**

Program	Duty	Activity
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01	Basic Education	94	Office/Clerical	21	Supervision
97	District-wide Support	94	Office/Clerical	12	Superintendent's Office
97	District-wide Support	94	Office/Clerical	13	Business Office
97	District-wide Support	94	Office/Clerical	14	Human Resources
97	District-wide Support	94	Office/Clerical	15	Public Relations
97	District-wide Support	94	Office/Clerical	25	Pupil Management and Safety
97	District-wide Support	94	Office/Clerical	61	Supervision

### **Sups/Fin/HR/Comm**

Program	Duty	Activity
01 Basic Education	96 Professional	21 Supervision
01 Basic Education	96 Professional	27 Teaching
01 Basic Education	97 Service Workers	21 Supervision
01 Basic Education	98 Technical	21 Supervision
01 Basic Education	99 Director/Supervisor	21 Supervision
01 Basic Education	99 Director/Supervisor	22 Learning Resources
01 Basic Education	99 Director/Supervisor	23 Principal's Office
01 Basic Education	99 Director/Supervisor	24 Guidance and Counseling
01 Basic Education	99 Director/Supervisor	26 Health/Related Services
01 Basic Education	99 Director/Supervisor	27 Teaching
97 District-wide Support	96 Professional	11 Board of Directors
97 District-wide Support	96 Professional	12 Superintendent's Office
97 District-wide Support	96 Professional	13 Business Office
97 District-wide Support	96 Professional	14 Human Resources
97 District-wide Support	96 Professional	15 Public Relations
97 District-wide Support	98 Technical	13 Business Office
97 District-wide Support	98 Technical	14 Human Resources
97 District-wide Support	99 Director/Supervisor	11 Board of Directors
97 District-wide Support	99 Director/Supervisor	12 Superintendent's Office
97 District-wide Support	99 Director/Supervisor	13 Business Office
97 District-wide Support	99 Director/Supervisor	14 Human Resources
97 District-wide Support	99 Director/Supervisor	15 Public Relations
97 District-wide Support	99 Director/Supervisor	61 Supervision
97 District-wide Support	99 Director/Supervisor	62 Grounds Maintenance
97 District-wide Support	99 Director/Supervisor	63 Operation of Buildings
97 District-wide Support	99 Director/Supervisor	64 Maintenance
97 District-wide Support	99 Director/Supervisor	65 Utilities
97 District-wide Support	99 Director/Supervisor	72 Information Systems
97 District-wide Support	99 Director/Supervisor	73 Printing
97 District-wide Support	99 Director/Supervisor	74 Warehousing and Distribution
97 District-wide Support	99 Director/Supervisor	75 Motor Pool

### **Technology**

Program	Duty	Activity
97 District-wide Support	13 Other District Admin.	72 Information Systems
97 District-wide Support	61 Certificated on Leave	72 Information Systems
97 District-wide Support	94 Office/Clerical	72 Information Systems
97 District-wide Support	96 Professional	72 Information Systems
97 District-wide Support	98 Technical	72 Information Systems

### **Student and Staff Safety**

Program	Duty	Activity
01 Basic Education	96 Professional	25 Pupil Management and Safety
01 Basic Education	97 Service Workers	25 Pupil Management and Safety
97 District-wide Support	96 Professional	25 Pupil Management and Safety
97 District-wide Support	97 Service Workers	25 Pupil Management and Safety

### **Custodians**

Program	Duty	Activity
97 District-wide Support	92 Crafts/Trades	63 Operation of Buildings
97 District-wide Support	97 Service Workers	63 Operation of Buildings
97 District-wide Support	98 Technical	63 Operation of Buildings

### **Facilities, Maint, Grounds**

Program	Duty	Activity
01 Basic Education	99 Director/Supervisor	25 Pupil Management and Safety
97 District-wide Support	92 Crafts/Trades	62 Grounds Maintenance
97 District-wide Support	92 Crafts/Trades	64 Maintenance
97 District-wide Support	92 Crafts/Trades	65 Utilities
97 District-wide Support	93 Laborers	62 Grounds Maintenance
97 District-wide Support	94 Office/Clerical	62 Grounds Maintenance
97 District-wide Support	94 Office/Clerical	63 Operation of Buildings
97 District-wide Support	94 Office/Clerical	64 Maintenance
97 District-wide Support	94 Office/Clerical	65 Utilities
97 District-wide Support	94 Office/Clerical	67 Building and Property Security
97 District-wide Support	94 Office/Clerical	73 Printing
97 District-wide Support	94 Office/Clerical	74 Warehousing and Distribution
97 District-wide Support	94 Office/Clerical	75 Motor Pool
97 District-wide Support	96 Professional	62 Grounds Maintenance
97 District-wide Support	96 Professional	63 Operation of Buildings
97 District-wide Support	96 Professional	64 Maintenance
97 District-wide Support	96 Professional	65 Utilities
97 District-wide Support	96 Professional	73 Printing
97 District-wide Support	97 Service Workers	62 Grounds Maintenance
97 District-wide Support	97 Service Workers	64 Maintenance
97 District-wide Support	97 Service Workers	65 Utilities

97	District-wide Support	97	Service Workers	67	Building and Property Security
97	District-wide Support	97	Service Workers	75	Motor Pool
97	District-wide Support	98	Technical	62	Grounds Maintenance
97	District-wide Support	98	Technical	64	Maintenance
97	District-wide Support	98	Technical	65	Utilities
97	District-wide Support	98	Technical	73	Printing
97	District-wide Support	99	Director/Supervisor	25	Pupil Management and Safety
97	District-wide Support	99	Director/Supervisor	67	Building and Property Security

**Warehouse/Laborers/Mechanics**

Program	Duty	Activity
97 District-wide Support	92 Crafts/Trades	74 Warehousing and Distribution
97 District-wide Support	92 Crafts/Trades	75 Motor Pool
97 District-wide Support	93 Laborers	74 Warehousing and Distribution
97 District-wide Support	95 Operators	62 Grounds Maintenance
97 District-wide Support	95 Operators	74 Warehousing and Distribution
97 District-wide Support	95 Operators	75 Motor Pool
97 District-wide Support	97 Service Workers	74 Warehousing and Distribution

**Not State Funded - Extra-Curricular**

Program	Duty	Activity
01 Basic Education	31 Elementary Teacher	28 Extracurricular
01 Basic Education	32 Secondary Teacher	28 Extracurricular
01 Basic Education	33 Other Teacher	28 Extracurricular
01 Basic Education	51 Extracurricular	28 Extracurricular
01 Basic Education	61 Certificated on Leave	28 Extracurricular
01 Basic Education	90 Classified on Leave	28 Extracurricular
01 Basic Education	91 Aides	28 Extracurricular
01 Basic Education	94 Office/Clerical	28 Extracurricular
01 Basic Education	96 Professional	28 Extracurricular
01 Basic Education	98 Technical	28 Extracurricular
01 Basic Education	99 Director/Supervisor	28 Extracurricular

**Program 31 (Vocational)**

**Voc Administrators**

Program	Duty	Activity
31 Vocational—Basic—State	12 Deputy/Assist. Supt.	21 Supervision
31 Vocational—Basic—State	13 Other District Admin.	21 Supervision
31 Vocational—Basic—State	25 Other School Admin.	21 Supervision

**Certificated Administrators**

Program	Duty	Activity
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31 Vocational—Basic—State	61 Certificated on Leave	21 Supervision
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**Teachers**

Program	Duty	Activity
31 Vocational—Basic—State	32 Secondary Teacher	27 Teaching
31 Vocational—Basic—State	33 Other Teacher	27 Teaching
31 Vocational—Basic—State	40 Other Support Personnel	21 Supervision
31 Vocational—Basic—State	40 Other Support Personnel	22 Learning Resources
31 Vocational—Basic—State	40 Other Support Personnel	24 Guidance and Counseling
31 Vocational—Basic—State	40 Other Support Personnel	27 Teaching
31 Vocational—Basic—State	52 Substitute Teacher	27 Teaching
31 Vocational—Basic—State	61 Certificated on Leave	27 Teaching
31 Vocational—Basic—State	63 Contractor Teacher	27 Teaching

**Counselor**

Program	Duty	Activity
31 Vocational—Basic—State	42 Counselor	24 Guidance and Counseling
31 Vocational—Basic—State	61 Certificated on Leave	24 Guidance and Counseling

**Library**

Program	Duty	Activity
31 Vocational—Basic—State	41 Library Media Specialist	22 Learning Resources

**Nurse/SW/Other**

Program	Duty	Activity
31 Vocational—Basic—State	44 Social Worker	24 Guidance and Counseling

**Instructional Aides**

Program	Duty	Activity
31 Vocational—Basic—State	91 Aides	22 Learning Resources
31 Vocational—Basic—State	91 Aides	27 Teaching

**Non-Instructional Aides**

Program	Duty	Activity
31 Vocational—Basic—State	91 Aides	25 Pupil Management and Safety

**School Office**

Program	Duty	Activity
31 Vocational—Basic—State	94 Office/Clerical	22 Learning Resources
31 Vocational—Basic—State	94 Office/Clerical	24 Guidance and Counseling
31 Vocational—Basic—State	94 Office/Clerical	25 Pupil Management and Safety



31	Vocational—Basic—State	96	Professional	24	Guidance and Counseling
31	Vocational—Basic—State	97	Service Workers	25	Pupil Management and Safety
31	Vocational—Basic—State	98	Technical	22	Learning Resources
31	Vocational—Basic—State	98	Technical	24	Guidance and Counseling
31	Vocational—Basic—State	98	Technical	27	Teaching

**Office Clerical - Central**

Program	Duty	Activity
31 Vocational—Basic—State	94 Office/Clerical	21 Supervision

**Sups/Fin/HR/Comm**

Program	Duty	Activity
31 Vocational—Basic—State	96 Professional	27 Teaching
31 Vocational—Basic—State	98 Technical	21 Supervision
31 Vocational—Basic—State	99 Director/Supervisor	21 Supervision
31 Vocational—Basic—State	99 Director/Supervisor	22 Learning Resources
31 Vocational—Basic—State	99 Director/Supervisor	24 Guidance and Counseling
31 Vocational—Basic—State	99 Director/Supervisor	27 Teaching

**Not State Funded - Extra-Curricular**

Program	Duty	Activity
31 Vocational—Basic—State	32 Secondary Teacher	28 Extracurricular
31 Vocational—Basic—State	33 Other Teacher	28 Extracurricular
31 Vocational—Basic—State	51 Extracurricular	28 Extracurricular
31 Vocational—Basic—State	94 Office/Clerical	28 Extracurricular
31 Vocational—Basic—State	96 Professional	28 Extracurricular

**Program 41 (Skills Center—Basic—State)****Voc Administrators**

Program	Duty	Activity
45 Skills Center	25 Other School Admin.	21 Supervision
45 Skills Center	25 Other School Admin.	23 Principal's Office

**Principals**

Program	Duty	Activity
45 Skills Center	23 Secondary Principal	23 Principal's Office
45 Skills Center	24 Secondary Vice Principal	23 Principal's Office

**Teachers**

Program	Duty	Activity
45 Skills Center	32 Secondary Teacher	27 Teaching
45 Skills Center	33 Other Teacher	27 Teaching
45 Skills Center	61 Certificated on Leave	27 Teaching

**Counselor**

Program	Duty	Activity
45 Skills Center	42 Counselor	24 Guidance and Counseling

**Instructional Aides**

Program	Duty	Activity
45 Skills Center	91 Aides	27 Teaching

**Custodians**

Program	Duty	Activity
45 Skills Center	97 Service Workers	63 Operation of Buildings

**Facilities, Maint, Grounds**

Program	Duty	Activity
45 Skills Center	92 Crafts/Trades	64 Maintenance
45 Skills Center	97 Service Workers	62 Grounds Maintenance

**School Office**

Program	Duty	Activity
45 Skills Center	94 Office/Clerical	23 Principal's Office
45 Skills Center	94 Office/Clerical	24 Guidance and Counseling
45 Skills Center	94 Office/Clerical	25 Pupil Mgmt and Safety
45 Skills Center	94 Office/Clerical	26 Health/Related Services
45 Skills Center	96 Professional	24 Guidance and Counseling

**Office Clerical - Central**

Program		Duty		Activity	
45	Skills Center	94	Office/Clerical	21	Supervision

**Sups/Fin/HR/Comm**

Program		Duty		Activity	
45	Skills Center	96	Professional	27	Teaching
45	Skills Center	99	Director/Supervisor	21	Supervision

**Not State Funded - Extra-Curricular**

Program		Duty		Activity	
45	Skills Center	32	Secondary Teacher	28	Extracurricular

## Appendix 9—Original Baseline Funding Using Basic Education Act Ratios

				<b>28A.150.260 (Basic Education Act)</b>		
<b>Class Size Assumptions</b>		Non-High Poverty Schools		High Poverty Schools		
Class Size K-3		25.23		Same		
Class Size 4-6		27.00		Same		
Class Size 7-8		28.53		Same		
Class Size 9-12		28.74		Same		
High School Career and Technical Ed (CTE)		26.57		Same		
Skills Centers		22.76		Same		
Lab Science		28.74		Same		
AP/IB Classes		28.74		Same		

<b>School Level</b>	<b>Elementary</b>	<b>Middle</b>	<b>High</b>
Prototypical School Size	400	432	600

<b>School Level Staffing</b>	<b>Elementary (Staff per 400)</b>	<b>Middle (Staff per 432)</b>	<b>High (Staff per 600)</b>
Principal/School Admin	1.253	1.353	1.880
Teachers	17.754	18.169	25.050
Lab Science Teachers			0.000
AP/IB Teachers			0.000
Teacher Librarian	0.663	0.519	0.523
Professional Development Coaches	0.000	0.000	0.000
Guidance Counselor	0.493	1.116	1.909
Student Health (Nurse/SW/Other)	0.135	0.068	0.118
Instructional Aides	0.917	0.685	0.638
School Office/Other Aides and Support	1.971	2.277	3.201
Student and Staff Security	0.077	0.090	0.138
Custodial	1.622	1.902	2.903

<b>District-wide Support Staff</b>	<b>Staff per 1,000 Students</b>
Technology	0.615

Facilities Maintenance and Grounds	0.197
Warehouse/Laborers/Mechanics	1.904

<b>Central Administration Staff</b>	<b>Staff per 1,000 Students</b>
Supervisors/Finance/Personnel/Comm.	0.757
Office Clerical - Central Administration	1.729
Certificated Administrators	0.867
<b>Total Central Administration Percentage</b>	<b>5.30</b>

<b>Reconciliation to BEA Act Ratios</b>	<b>Staff per 1,000 Students</b>	
Certificated Instructional per 1,000 (K-3)	49.000	
Certificated Instructional per 1,000 (4-8)		46.000
Certificated Instructional per 1,000 (9-12)		46.000
Classified Staff per 1,000	16.670	
Administrators per 1,000	4.000	

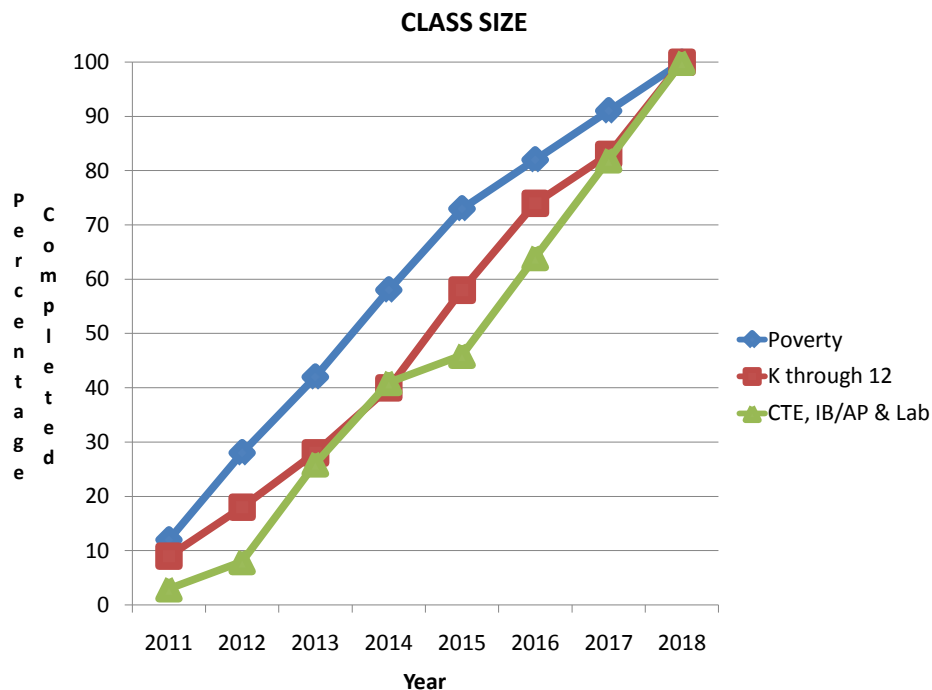
<b>Maintenance, Supplies and Operating Costs</b>	<b>2007-08 State Funding</b>
Technology	\$51.89
Curriculum	\$55.71
Other Supplies and Library Materials	\$118.27
Professional Development	\$8.61
Utilities/Insurance	\$140.99
Central Office and Security	\$48.39
Facilities Maintenance	\$69.85
<b>Total</b>	<b>\$493.71</b>

## Appendix 10—Details Supporting Implementation Recommendations of FFTWG

The following series of graphs lump each of the budget elements in larger categories to identify any general implementation patterns.

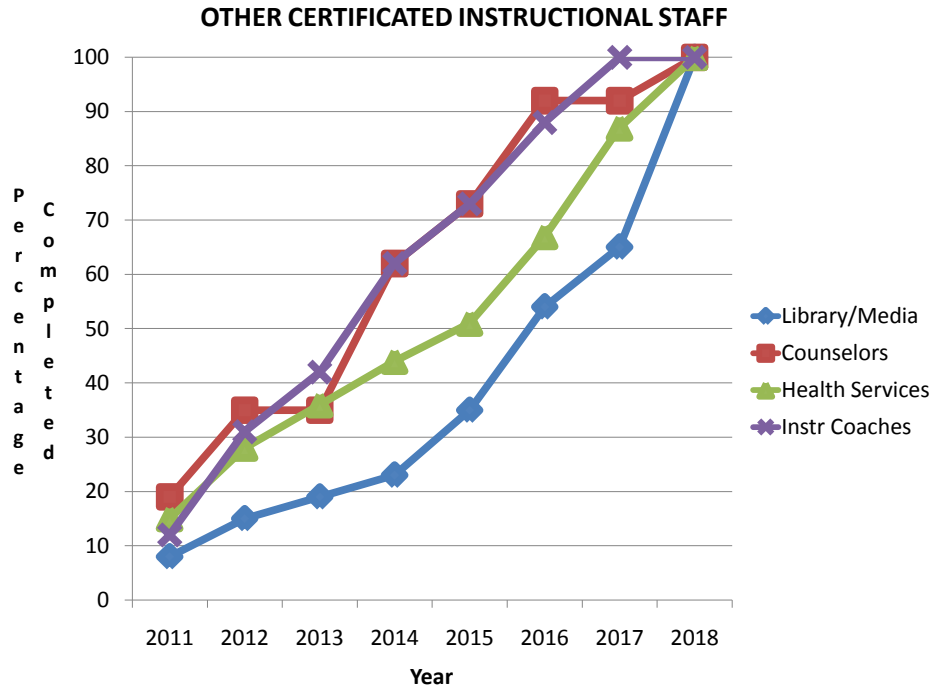
Class size includes three categories - poverty reduction, reduction for all students and reduction for CTE, IB/AP, and lab sciences. In general, Graph 1 below shows a preference for phasing poverty class size reduction earlier than the other two class size reduction options. The class size reduction for all students option indicates a member preference for a somewhat steady phase-in with most of the allocation coming in the last four years. This recommendation was informed by practical considerations on the numbers of new teachers required to implement large class size reductions and the infrastructure requirements to offer that number of additional classes in any given school. The later phase-in will allow time to plan for these changes and implement strategies to recruit and train more teachers and build the necessary facilities. In addition, members recommend phase-in of the class size reduction for CTE, IB/AP, and lab science generally later in the eight-year process.

**Graph 1. Class Size Reduction Options**



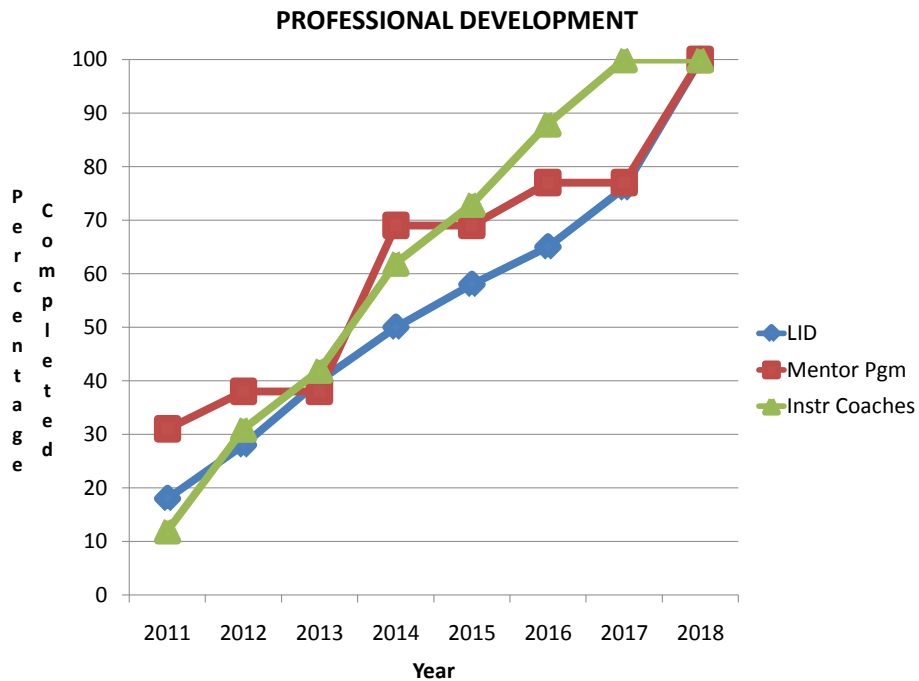
Graph 2 shows the implementation preferences for teacher librarians/media specialists and education staff associates (ESA). Starting with Teacher Librarians, you can see a general preference to have these teachers phased-in late in the eight-year process. Guidance counselors are recommended to be phased-in the first four years. Nurses are steadily phased-in over time with most of the allocation coming at the end. Instructional coaches are also phased-in over time with over half of the allocation coming early.

**Graph 2. Teacher Librarians/Media Specialists and Education Staff Associates**

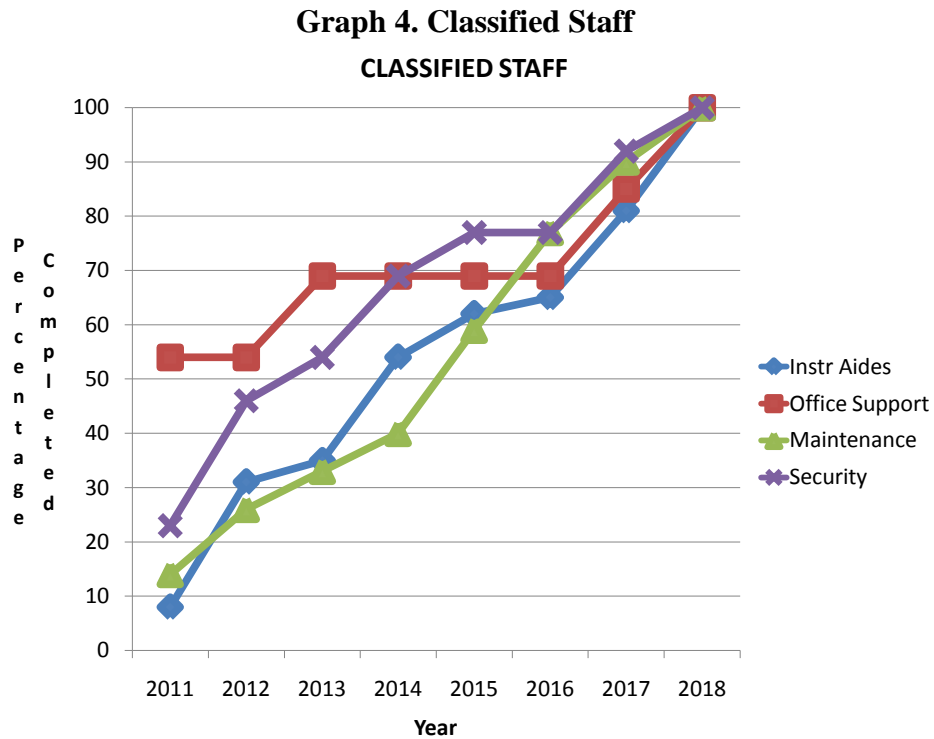


Graph 3 lumps three of the professional development elements – learning improvement days (LID), the new mentor program, and instructional coaches. Of the three, members’ preference was to phase-in the new mentor program earlier in the eight year cycle. LID and Instructional Coaches had a generally steady implementation over the eight years.

**Graph 3. Professional Development**



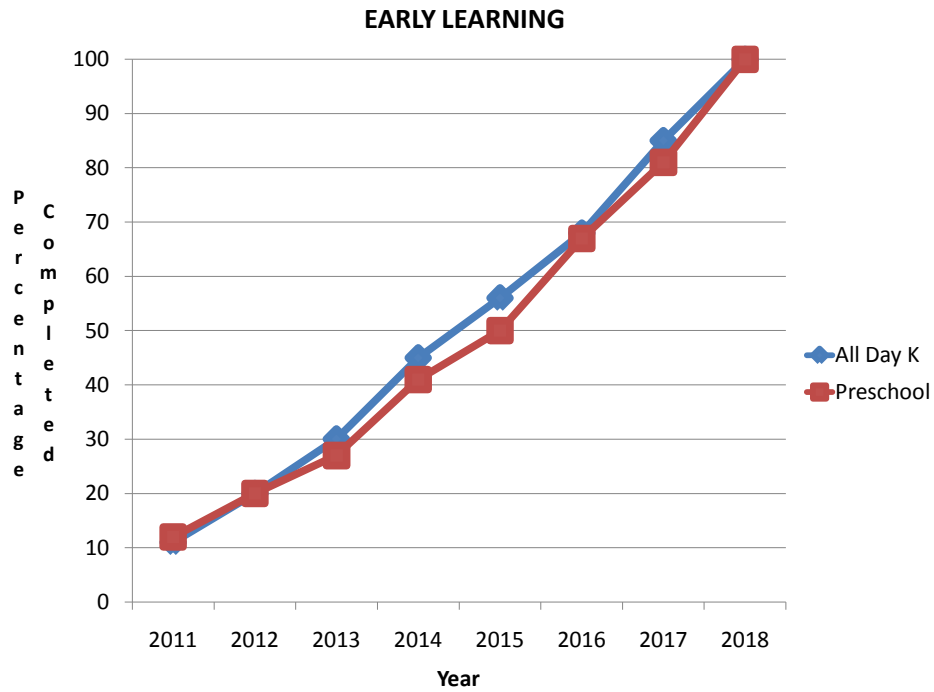
Graph 4 shows the classified staff. There is a preference to implement funding for security and office support in the first half of the eight-year process. These are staff categories that are seen as largely underfunded in the current state system; many of these staff are already in place. State funding for these staff may in fact free up local funds for other higher priority investments because school districts have been using local funds for these services. Instructional aides generally phased-in early, but in no real pattern. Maintenance staff phase-in shows a high point at the beginning and at year five.



Graph 5 shows all-day kindergarten and early learning for at risk youth. Both indicate a member preference to implement each gradually with much of the allocation coming later in the eight year phase-in process.

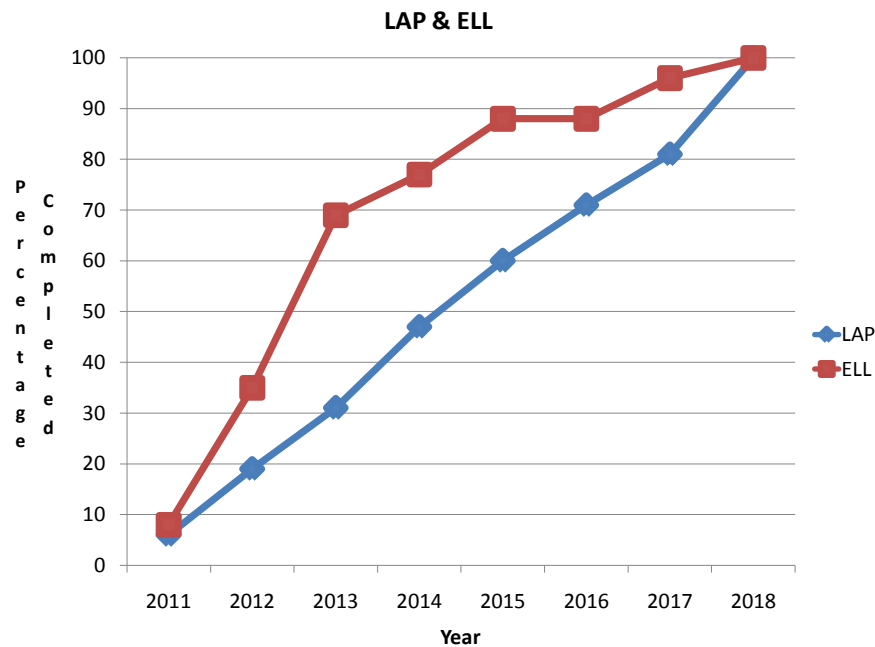


**Graph 5. All-Day Kindergarten and Early Learn Program for At-risk Children**



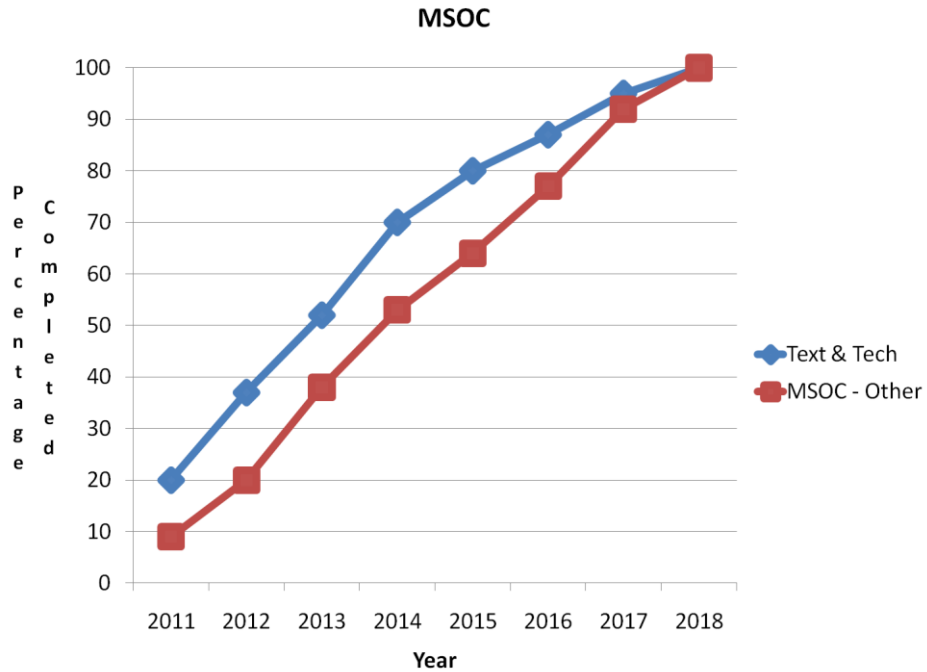
Graph 6 shows the data for the Learning Assistance Program (LAP) and English Language Learner (ELL) Program. The graph shows that members prefer to implement LAP steadily over the eight year phase-in process. ELL program funding data shows that members would recommend an early phase-in of resources.

**Graph 6. Learning Assistance Program and English Language Learner Program**



Finally, Graph 7 shows the maintenance, supplies and operating cost (MSOC) allocation broken up into textbooks and technology and all other MSOC categories. Members indicated a preference to phase-in an allocation for textbooks and technology early in the eight-year process. All other MSOC categories are phased-in steadily over time.

**Graph 7. Maintenance, Supplies, and Operating Costs**



## Appendix 11—Baseline with Initiative 728 Resources Included

	Current Funding Level Plus Initiative 728		
School Level	Elementary	Middle	High
Prototypical School Size	400	432	600

Class Size Assumptions	Non-High Poverty Schools	High Poverty Schools
Class Size K-3	20.50	Same
Class Size 4	20.75	Same
Class Size 5-6	24.64	Same
Class Size 7-8	26.01	Same
Class Size 9-12	26.09	Same
Career and Technical Ed (CTE)	26.58	Same
Skills Centers	22.76	Same
Lab Science	26.09	Same
AP/IB	26.09	Same

School Level Staff	Elementary (Staff per 400)	Middle (Staff per 432)	High (Staff per 600)
Principal/School Admin	1.253	1.353	1.880
Teachers	21.239	19.933	27.593
Teacher Librarian	0.663	0.519	0.523
Professional Development Coaches	0.613	0.662	0.919
Guidance Counselor	0.493	1.116	1.909
Student Health (Nurse/SW/Other)	0.135	0.068	0.118
Instructional Aides	0.936	0.700	0.652
School Office/Other Aides and Support	2.012	2.325	3.269
Student and Staff Security	0.079	0.092	0.141
Custodial	1.657	1.942	2.965

District-wide Support	Staff per 1,000 Students
Technology	0.628
Facilities Maintenance and Grounds	0.201
Warehouse/Laborers/Mechanics	1.944

<b>Central Administration</b>	<b>Staff per 1,000 Students</b>
Supervisors/Finance/Personnel/Comm.	0.976
Office Clerical - Central Administration	2.069
Certificated Administrators	0.995

*NOTE: Central Administration is listed in terms of staffing units for the purpose of establishing the baseline that translates current staffing ratios to the new categories of staff. After transitioning to the new formula, central administration will be stated in percentage terms. The baseline would translate into 5.578 percent of school and district-wide support staff.*

<b>Career and Technical Education</b>	<b>Staff per 100 CTE enrollment</b>
CTE School Admin/Support	0.612
CTE Teachers	4.516

<b>Skills Centers</b>	<b>Staff per 100 skills center enrollment</b>
Skills Centers Other Support	0.715
Skills Center Teachers	5.273

<b>Maintenance, Supplies and Operating Costs</b>	<b>2007-08 State Funding Per FTE Student</b>
Technology	53.77
Curriculum	57.73
Other Supplies and Library Materials	122.56
Professional Development	8.93
Utilities/Insurance	146.10
Central Office and Security	50.14
Facilities Maintenance	72.38
<b>Total</b>	<b>511.60</b>

## Appendix 12—Revenue Options

The materials in this appendix were reviewed by the Funding Formula Technical Working Group at the October 22<sup>nd</sup> meeting.

### REVENUE ALTERNATIVES - OCTOBER 2009

State General Fund Impact<sup>1</sup> (unless otherwise noted) - \$ in millions

Impact for Fiscal Year 2011 Assumes Effective Date of July 1, 2010

*This is a list of options for raising revenues that have been commonly requested. OFM does not advocate these options; we consider them to be administrable.*

<u>Synopsis of Alternative</u>	<u>FY</u> <u>2011<sup>2</sup></u>	<u>FY</u> <u>2012</u>	<u>FY</u> <u>2013</u>	<u>2011-13</u> <u>Biennium</u>
<b>RETAIL SALES/USE TAX - Rate Increase</b>				
# 1 State rate from 6.5% to 6.6%	\$105.4	\$121.2	\$127.8	\$249.0
# 2 State rate from 6.5% to 7.0%	525.0	603.6	636.2	1,239.8
# 3 State rate from 6.5% to 7.5%	1,044.3	1,200.7	1,265.6	2,466.3
<b>RETAIL SALES/USE TAX - Tax Base Expansion (except services)</b>				
#4 Repeal exemption - motor vehicle fuel (incl. fuel taxes) Manufacturing machinery & equipment exemption - total	248.8	301.9	317.5	619.4
#5 repeal	172.5	224.7	269.5	494.2
#6 Trade-in exemption - total repeal	98.9	111.0	113.3	224.3
#7 Repeal exemption for custom software	79.5	97.3	112.9	210.2
#8 Repeal candy and gum exemption	28.0	31.0	31.4	62.4
<b>RETAIL SALES/USE TAX - Extend Tax Base to Services<sup>3</sup></b>				
#9 Consumer Services <sup>4</sup>	100.9	106.9	111.8	218.7
#10 Business Services <sup>5</sup>	742.5	808.1	868.8	1,676.9
#11 Financial Services	192.5	205.2	215.9	421.1
<b>BUSINESS &amp; OCCUPATION TAX - Rate Increases</b>				
#12 10% surtax on all existing rates	269.9	297.4	301.8	599.2
#13 25% surtax on all existing rates	674.7	743.4	754.5	1,497.9
#14 Service rate - from 1.5% to 1.75%	174.1	191.8	194.7	386.5

**BUSINESS & OCCUPATION TAX - Tax Base Expansion**

#15	1st mortgage deduction - total repeal	84.5	96.7	102.9	199.6
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**OTHER BUSINESS TAXES**

#16	PUT rate increase - 25% surtax on all rates	126.2	139.1	141.1	280.2
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**OTHER TAXES - Rate/Base Increases**

#17	Property Tax - State levy increase - \$3.60	661.6	1,394.3	1,435.1	2,829.4
#18	Real estate excise tax increase - from 1.28% to 1.6%	126.7	152.0	167.3	319.3
#19	Oil spill tax - from 5 cents per barrel to 5% of value	376.1	430.2	443.7	873.9
#20	Estate tax - Double all rates <sup>6</sup>	0.0	116.8	118.4	235.2

**NEW TAXES**

#21	Soft drinks - 5 cents per 12 oz. at wholesale ( <i>excludes fountain</i> )	101.8	111.5	111.8	223.3
#22	Bottled water - 1 cents per oz. at wholesale ( <i>includes bulk sales</i> )	182.5	217.8	238.4	456.2

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**NOTES:**

<sup>1</sup>Estimates reflect the September 2009 revenue forecast issued by the Forecast Council.

<sup>2</sup>Estimates for FY 2011 generally reflect 11 months of cash receipts, due to the 7/1/2010 effective date.

<sup>3</sup>Extension of sales tax to services includes reduction in B&O tax to retailing classification.

<sup>4</sup>Some items in this category are already subject to retail sales tax.

<sup>5</sup>Some items in "business services" are also purchased by households.

<sup>6</sup>Estate tax proposals assume a January 1, 2011 effective date. Receipts are deposited into Education Legacy Account.

**REVENUE ALTERNATIVES – OCTOBER 2009**  
**ADDITIONAL EXPLANATION**

**RETAIL SALES/USE TAX – Rate Increase (Options #1 - #3)**

The state levies a sales and use tax of 6.5 percent on the selling price of tangible personal property and certain services purchased at retail (i.e., by consumers). In general, the tax applies to goods, construction including labor, repair of tangible personal property, lodging for less than 30 days, telephone service and participatory recreational activities. Some personal and professional services, such as landscape maintenance and physical fitness services, are taxable. The basic definition of items and transactions subject to sales tax appears in RCW 82.04.050. Use tax applies to taxable items used within the state if retail sales tax was not paid. Use tax is paid at the same rate as the sales tax.

Comments: Sales tax is regressive; increasing the sales tax would put a relatively higher tax burden on lower-income households. Increasing the sales tax increases the incentive for consumers to avoid sales tax by shopping online or across the border. However, increasing the sales tax rate affects both households and businesses alike. Cost of collection is low; revenue gain is more certain. Local governments would also have increased revenues.

**RETAIL SALES/USE TAX – Tax Base Expansion (Options #4 - #8)**

**#4 – Repeal Exemption for Motor Vehicle Fuel**

Motor vehicle fuel is taxed at a per gallon rate of 37.5 cents, but is exempt from retail sales tax. This proposal would repeal the sales tax exemption.

Comments: Public perception is that fuel prices and fuel taxes are high. This proposal would tend to make the tax system more regressive, increasing the tax burden on lower-income households. Fuel intensive industries (such as trucking and agriculture) would be disproportionately impacted. Many believe that any tax on fuel should be dedicated to transportation purposes. Cost of collection is low; revenue gain is more certain. Local governments would also have increased revenues.

**#5 – Total Repeal of Exemption for Manufacturing Machinery and Equipment (M&E)**

New or replacement manufacturing machinery and equipment is exempt from retail sales tax if it is used in a manufacturing operation. This proposal would repeal the exemption.

Comments: Most states with retail sales tax have an exemption for M&E, and therefore, by repealing the exemption, Washington manufacturers could be at a competitive disadvantage. Similarly, Washington may appear a less attractive state for manufacturers to locate in compared to states with no sales tax on M&E. There would be less incentive to maintain/upgrade existing facilities. Cost of collection is low; revenue gain is more certain. Local governments would also have increased revenues.

**#6 - Repeal Exemption for Trade-In Property**

Currently, the definition of selling price for purchases subject to retail sales tax can exclude the value of trade-ins. This exemption is used primarily in sales of motor vehicles, recreational vehicles, and boats, but applies to all trade-in property. The exemption was enacted by voter initiative in 1984. This proposal would repeal the exemption.

Comments: Because the exemption was enacted by voter initiative, we assume an exemption repeal would be unpopular. An exemption repeal could dampen auto sales, which are depressed due to the recession. However, repealing the exemption does remedy a tax inequality; purchasers who do not trade in a like item at time of purchase have to pay sales tax on the total purchase price, while those who trade

in like items pay sales tax on the purchase price less the value of the trade-in property. Cost of collection is low; revenue gain is more certain. Local governments would also have increased revenues.

#### **#7 - Repeal Exemption for Customized Software**

Customized computer software including customized canned software is not subject to retail sales tax. The customization of software has been considered a service. This proposal would repeal the exemption.

Comments: Would make taxation of software more consistent; canned software is currently taxable. However, could be argued that taxing custom software as a service is more reflective of the activity being performed.

#### **#8 - Remove Exemption for Candy and Gum**

Candy and gum are currently defined as food for purposes of the retail sales tax exemption for food for home consumption. This proposal would remove candy and gum from the exemption.

Comments: Many states do not consider candy and gum to be food for purposes of their sales tax exemption. The increased price may discourage consumption and result in fewer health problems. Imposes a tax on discretionary spending. Local governments would also have increased revenues. Will cause increased administrative burden on retailers to identify the items covered by the definition of candy.

#### **RETAIL SALES/USE TAX – Expand Tax Base to Services (Options #9-11)**

Originally, retail sales tax applied only to purchases of tangible personal property. Over the years, certain services, mainly relating to recreational activities and telephone service, have been added to the tax base. However, the bulk of consumer services used by individuals and businesses remain not subject to the tax.

#### **#9 – Consumer Services**

Impose sales tax on consumer services, which includes beauty shops, movies, amusement parks, other recreation services, cable television, funeral services and other services that are intended to be consumed by households. Trend is of household consumption shifting from goods to services. This causes an eroding sales tax base and some inequities (e.g. DVD rentals are taxed, but movie theatre tickets are not). This proposal excludes all medical services.

Comments: Many consumer services are purchased by high-income individuals, so the proposal would tend to make the overall sales tax more progressive. Some consumer services are also purchased by businesses. Extending sales tax to consumer services would create an initial administrative burden for business and the Department of Revenue to collect tax. Local governments would have a revenue gain along with the state.



## **#10 - Business Services**

Impose sales tax on business services, which includes janitorial services, employment agencies, legal services, engineering and architectural services, accounting and auditing, research and development and other services consumed by business. This proposal excludes all medical services.

Comments: Some business services are also purchased by households (e.g. legal services), but are classified as business services because they are primarily purchased by businesses. To avoid the tax, some businesses may shift to providing their services in-house. Because many business services become components of other business services, some provision will need to be made for sales for resale. Although the estimate assumes an exemption for sales for resale, such an exemption will create administrative complexities for businesses and the Department of Revenue. Local governments would have a revenue gain along with the state.

## **#11 - Financial Services**

Impose sales tax on financial services, which includes banking, credit agencies, check cashing fees, credit card fees, insurance companies and agencies, real estate brokers and agents, and management and consulting fees. Both businesses and households are consumers of these services. This proposal excludes all medical services.

Comments: Sales tax might be easy to avoid by restructuring transactions so that there is no fee attached to the service. In addition, financial services can be provided via telephone or the Internet. Imposition of tax could prompt businesses to relocate some or all of their activities out of state. Because few states impose sales tax on financial services, Washington businesses could be at a competitive disadvantage compared to out-of-state businesses. Local governments would have a revenue gain along with the state.

## **BUSINESS & OCCUPATION TAX – Rate Increases (Options #12-#14)**

### **#12 - Add a 10 percent Surcharge to All B&O Tax Rates**

Would increase all B&O rates by 10 percent. For example, the .484 percent rate would increase to .532 percent, the 1.5 percent rate would increase to 1.65 percent.

Comments: Impact would fall on all businesses instead of an isolated sector. The percentage of taxes that falls on business as opposed to consumers is relatively higher in Washington State compared to many other states, increasing the relative business tax burden. Therefore, it may decrease the competitive advantage of Washington firms, and may make Washington a less desirable state for businesses to locate in.

### **#13 - Add a 25 percent Surcharge to all B&O Tax Rates**

Would increase all B&O rates by 25 percent. For example, the .484 percent rate would increase to .605 percent, the 1.5 percent rate would increase to 1.875 percent.

Comment: Same as #12

### **#14 - Increase B&O Tax Service Rate from 1.5 percent to 1.75 percent**

Increase the B&O tax rate for services from 1.5 percent of gross receipts to 1.75 percent of gross receipts. This would represent a 16.7 percent increase in the B&O tax rate for this category of business activity.

Comments: The B&O tax rate on services is already the highest B&O tax rate. Most services do not collect sales tax for their services, making it easier to justify an increase in the B&O tax on services and other activities not subject to retail sales tax. Easy to administer.

### **#15 - Repeal First Mortgage B&O Tax Deduction**

Since the B&O tax was extended to financial institutions in 1970, a deduction has been allowed for interest derived from residential first mortgages (RCW 82.04.4292). This proposal would repeal the deduction.

Comment: It is believed that the deduction does not directly benefit homeowners, since interest rates are determined by national markets. Further, many mortgages are sold to out-of-state firms who have no B&O tax liability. Repeal of the deduction would eliminate confusion about eligibility for the exemption, since mortgages may be sold and resold several times.

### **#16 - Add a 25 Percent Surtax to All Public Utility Tax (PUT) rates**

PUT applies to the gross income derived from operation of public and privately owned utilities, including the general categories of transportation, communications, and the supply of energy and water. This proposal would add a 25 percent surcharge to all PUT rates. For example, the 5.029 percent tax rate for water distribution would increase to 6.2863 percent.

Comments: The tax is essentially passed on to consumers for regulated utilities, since it is considered in setting rates that may be charged for utility service. Some utility services, such as power and water, are essential household expenditures. A consumption tax on these necessary services is quite regressive because of the proportionately heavy impact for low-income households.

### **#17 - Increase State Property Tax Levy to \$3.60**

This proposal would increase the property tax rate to the statutory rate limit of \$3.60 per \$1,000. Because of property tax growth limits, the rate has decreased over time.

Comments: This proposal assumes that Initiative 747's one percent limit stays in effect, and therefore, the rate decreases each year after it is raised to \$3.60. There is a constitutional limit that all property taxes (state and local, regular and junior) cannot exceed 1 percent of the value of the property. Increasing the state property tax rate to its highest amount may result in the junior taxing districts (fire protection, parks, etc.) being prorationed (their revenue being eliminated or reduced) to reduce the overall property tax burden to its constitutional limit.

### **#18 - Increase Real Estate Excise Tax (REET) from 1.28 percent to 1.6 percent**

This proposal would increase the REET rate from the current rate of 1.28 percent to 1.6 percent.

Comments: Would create an additional tax burden to an already weak housing market.

### **#19 - Increase Oil Spill Tax from 5 Cents per Barrel to 5 percent of Value**

The existing oil spill tax is levied on petroleum products that enter the state via vessel or barge at a rate of 5 cents per 42 gallon barrel. This proposal would change the rate and base of the tax so that it is measured by value, rather than volume. The new tax rate would be 5.0 percent, and it would apply to the wholesale value of the products at the time they are imported to the state.

Comments: The existing tax is equivalent to a tax rate of about 0.2 percent of the wholesale value, assuming the price of oil at \$25 per barrel (the price is currently significantly higher. Thus, using this assumption, this proposal in effect increases the tax 20 to 25 times.

There is major volatility in oil prices. Changing the tax to one based on price rather than volume will cause significant volatility in the tax receipts, making it very difficult to forecast the revenues. On the other hand, as oil prices rise, consumption of oil decreases, causing revenues to decrease.

#### **#20 - Double all Rates for Estate Tax**

Current marginal estate tax rates range from 10 percent to 19 percent. This proposal would double all rates.

Comments: Estate tax collections are volatile and therefore not easy to forecast. Estate tax is progressive since it has a \$2,000,000 threshold and marginal rates increase with the size of the estate. The estate tax has a small tax base. The tax increase would fall on a small number of taxpayers.

#### **#21 – Impose Tax on Carbonated Beverages Equivalent to 5 Cents per 12 oz.**

There is a \$1 per gallon tax on syrup used to make carbonated beverages. This proposal would impose a tax on the sales of carbonated beverages on a per ounce basis that is equivalent to 5 cents per 12 ounce bottle or can. Fountain drinks would be excluded due to the existing syrup tax. Most carbonated beverages are currently subject to retail sales tax. This proposal is in addition to the retail sales tax.

Comments: Imposition of the tax could be viewed as being contrary to the wishes of the voters, who repealed a similar tax in 1994. A tax of 0.84 percent per ounce (about one cent per 12 oz. container) on canned or bottled carbonated beverages was adopted in 1989, along with a 75 cents per gallon tax on syrup used to make carbonated beverages. All of the revenue was used for violence reduction and drug enforcement programs. The taxes were scheduled to expire on July 1, 1995. In 1994, the voters approved Referendum 43 which repealed the ounce tax on cans and bottles, increased the per gallon tax to \$1, and removed the expiration date. The impetus for the ballot measure was the distributors claim that this small tax per bottle/can could not be passed on to customers. The increased tax, if passed along, may discourage consumption, resulting in fewer health problems.

#### **#22 – Impose Tax on Bottled Water Equivalent to 1 Cent per Ounce.**

There is currently no specific tax on the sale of bottled water. This proposal would impose a tax on the sales of bottled water on a per ounce basis that is equivalent to 1 cent per oz. for non-bulk containers. Bulk sales of water would be excluded.

Comments: The rate of 1 cent per ounce is a significant percentage of the wholesale value of bottled water. Bottled water used to be subject to retail sales tax. This would re-impose a tax on bottled water without violating the Streamlined Sales Tax Agreement.

**2008 SUMMARY LISTING OF TAX PREFERENCES  
Taxpayer Savings for 2007-09 Biennium**

No.	RCW	Brief Description	Revenue Generated (\$000) State Tax
<b>BUSINESS AND OCCUPATION TAX</b>			
<b><u>Business Activities</u></b>			
#1	82.04.255	Real estate commissions	40,403
#2	82.04.280	Rental of real estate	98,117
#3	82.04.330	Agricultural producers \$28,000 min. to file tax	61,964
#4	82.32.045(4)	return	82,000
<b><u>Deductions</u></b>			
#5	82.04.4281	Investments, nonfinancial firms	699,600
#6	82.04.4297	Govt. grants to nonprofits	150,342
#7	82.04.4311	Public & nonprofit hospitals	144,250
<b><u>Differential Tax Rates</u></b>			
#8	82.04.250(1)	Retailing	43,734
#9	82.04.260(6)	Charter and freight brokers	41,619
#10	82.04.260(9)	Insurance agents Manuf. commercial	40,638
#11	82.04.260(11)	airplanes	150,332
<b><u>Credits</u></b>			
#12	82.04.4451	Small business credit	48,120
#13	82.04.4452	R&D; high technology firms	51,626
<b>OTHER BUSINESS TAXES</b>			
<b><u>Insurance Premiums Tax</u></b>			
#14	48.14.0201(6a)	Medicare receipts	40,122

No.	RCW	Brief Description	Revenue Generated (\$000) State Tax
<b>RETAIL SALES AND USE TAX</b>			
<b><u>Farm Products</u></b>			
#15	82.04.050(9)	Feed and seed	88,898
#16	82.04.050(9)	Fertilizer and chemical spray	86,448
<b><u>Consumer Goods</u></b>			
#17	82.08.0273	Sales to qualified nonresidents	142,825
<b><u>Public Activities</u></b>			
#18	82.04.050(8)	Labor, local road construction	210,000
<b><u>Health-Related Purchases</u></b>			
#19	82.08.0281	Prescription drugs	612,912
#20	82.08.0283	Medical devices, oxygen	155,839
#21	82.08.940	Over-the-counter drugs	40,861
<b><u>Other Sales/Use Tax Exemptions</u></b>			
#22	82.08.0289	Local home telephone service	76,000
#23	82.08.0293	Food and food ingredients	1,708,697
<b><u>Deferrals &amp; Credits</u></b>			
#24	82.60.040	Rural county deferral	40,032
#25	82.63.030	High technology deferral	102,924
<b>OTHER TAXES</b>			
<b><u>Real Estate Excise Tax</u></b>			
#26	82.45.010	REET exemptions	382,003
<b><u>Estate Tax</u></b>			
#27	83.100.020(13)	Estate tax threshold	629,089

## **2008 SUMMARY LIST OF TAX PREFERENCES ADDITIONAL EXPLANATION**

### **#1 - SHARED REAL ESTATE COMMISSIONS**

This statute allows real estate brokerage offices to pay tax only on their share of commissions when multiple brokerage offices participate in a transaction. Individual associate brokers and salespersons are not subject to B&O tax where the brokerage office has paid tax on the gross commission. Charges to associate brokers to recover expenses or for use of facilities are not included within this exemption and represent taxable income to the broker.

Comment: The purpose of the exemption is to eliminate pyramiding of B&O tax on shared commissions. Repeal of the exemption would increase the cost of doing business on an industry that can be currently characterized as distressed.

### **#2 - RENTAL OF REAL ESTATE**

Originally in 1935, RCW 82.04.390 included the prohibition against taxing income derived from the rental of real estate. In 1959, RCW 82.04.280 was amended to subject the rental of real estate to B&O tax at a rate of 0.25 percent. The following year, the State Supreme Court ruled the tax to be unconstitutional in *Apartment Operators Association of Seattle v. Schumacher*, 56 Wn. 2d 46. The Court held that the B&O tax on rental income constituted a tax on property.

Comment: Some believe this case is vulnerable to challenge or that an excise tax could be created specifically for rental and leasing income. All states but Washington, Nevada and Wyoming impose some form of tax (net income or other excise tax) on this income. JLARC recommended continuing the B&O tax exemption because it met constitutional requirements.

### **#3 - AGRICULTURAL PRODUCERS**

B&O tax exemption is provided for farmers who grow, raise, or produce agricultural products for sale at wholesale. Agricultural products are defined in RCW 82.04.213 to include any product of plant cultivation or animal husbandry, plantation Christmas trees, animals, birds, insects and fish, as well as the products obtained from animals, such as eggs, milk and honey. RCW 82.04.410 specifically exempts hatching eggs and poultry used in production of poultry products.

Comments: Farmers are taxed in other states with corporate/individual net income taxes. The B&O tax is imposed on gross receipts without regard to profit, which can create a greater hardship on business with low/cyclical profit margins. JLARC recommended that, given the fact that incomes have increased significantly for some farms since the period of financial hardships when this tax exemption was enacted, the Legislature should consider establishing an income threshold in order to qualify for this B&O exemption.

### **#4 - \$28,000 MINIMUM TO FILE EXCISE TAX RETURN**

Firms whose annual gross income is less than \$28,000 are not required to file excise tax returns. The provision does not apply to businesses that collect and remit retail sales tax. The minimum amount is equal to the amount of annual income below which there would be no B&O tax liability under the service classification as a result of the small business tax credit in RCW 82.04.4451.

Comment: These taxpayers are the smallest businesses within the state. However, some would argue that every person should contribute to the tax system. JLARC recommended no changes to the threshold because the cost of collection outweighed the benefit to the smallest business and the small amount of revenue repeal would generate.

#### **#5 - INVESTMENT INCOME OF NONFINANCIAL FIRMS**

A deduction is provided for interest, dividends and capital gain income earned by persons who are not engaged in banking, loan, security or other financial businesses. A change in 2002 established a 50 percent threshold for loan income before it is taxable.

Comment: The purpose of the deduction is to reflect the perspective that investment income by nonfinancial firms is not considered as engaging in business. JLARC did not recommend changes to this deduction because 1) it served its stated purpose, and 2) businesses could avoid the tax by reducing their presence in Washington. However, interest, dividends and other capital gains are taxed in states with a net income tax structure with no distinction between financial and nonfinancial businesses.

#### **#6 - GRANTS TO NONPROFIT ORGANIZATIONS**

A deduction from B&O tax is provided to nonprofit organizations or local government entities for grants received from federal, state or local governments for the support of health or social welfare programs. Examples of programs covered by the deduction include health care; family and drug counseling; services for the sick, elderly and handicapped; day care; vocational training and employment services; legal services for the indigent; and services for low-income homeowners or renters. Also deductible are Medicare/Medicaid receipts of nonprofit and public hospitals.

Comment: The purpose of the deduction is to reduce the cost of providing such services. However, taxing these activities can lead, in a few cases, to greater federal reimbursements in some programs.

#### **#7 - PUBLIC/NONPROFIT HOSPITALS; GOVT. SUBSIDIZED BENEFITS**

A B&O tax deduction is allowed for public and nonprofit hospitals and community health centers for health care services received from the federal Medicare program, state health programs under Chapter 74.09 RCW, or the state's basic health program. The deduction applies regardless if the revenues were received directly from these programs or through managed health care organizations. The deduction is limited to payments from these governmental programs and does not extend to patient copayments or deductibles.

Comment: The purpose of this deduction is to recognize that the provision of health services to people who receive federal or state subsidized health benefits by reason of age, disability or income level is a necessary governmental function. However, taxing these activities can lead, in a few cases, to greater federal reimbursements in some programs.

## **#8 - RETAILING**

Until 1983, retailers paid the same B&O tax rate as manufacturers and wholesalers. In that year, the B&O rates were increased by 10 percent (to 0.484 percent) for the latter two classifications, but only by 7 percent for retailers (to 0.471 percent).

Comment: Part of the rationale for the lower retailing tax rate was the recognition that during the 1981-83 biennium the state sales tax rate was increased from 4.5 to 6.5 percent and this large increase may have adversely impacted retailing firms. Further, the state does not allow any compensation to retailers for their costs incurred in collecting the state and local sales tax.

## **#9 - CHARTER AND FREIGHT BROKERS**

A preferential B&O tax rate of 0.275 percent is provided for the international activities of charter and freight brokers. This rate was reduced to 0.363 percent in 1979 and again in 1998 to 0.275 percent as part of a B&O tax rate consolidation for tax simplification purposes. The general tax rate for service activities is 1.5 percent.

Comment: The purpose of the preferential rate is to encourage international trade through Washington.

## **#10 - INSURANCE AGENTS**

A preferential B&O tax rate of 0.484 percent is provided for revenue derived in the form of commissions by insurance agents and brokers. Previously, this activity was subject to the B&O service classification at a rate of 1.5 percent. It was reduced to 1.1 percent in 1983 and to 0.55 percent in 1995. In 1998, the rate was reduced to the current level of 0.484 percent as part of a B&O tax rate consolidation.

Comment: The preferential rate is to reflect the perception that insurance companies could not pass on the increased taxes to their current policy holders when the B&O service rate was increased in 1983.

## **#11 - MANUFACTURING OF COMMERCIAL AIRCRAFT**

A preferential B&O tax rate is provided for manufacturers of commercial airplanes or components of commercial airplanes. The general tax rate for manufacturing is 0.484 percent, while manufacturing of commercial aircraft is 0.2904 percent rate.

Comment: The preferential rate is to encourage aerospace manufacturing in Washington.

## **#12 - SMALL BUSINESS CREDIT**

The law provides a credit against B&O tax due of up to \$35 per month. Firms with computed B&O tax liability of \$35 or less pay no tax. The credit amount is reduced as B&O tax liability exceeds \$35 per month and is phased out completely when the tax liability reaches \$70.

Comment: JLARC recommended no changes to the threshold because it served the purpose of providing a subsidy to the smallest businesses or a temporary subsidy to start-up firms.



### **#13 - RESEARCH & DEVELOPMENT TAX CREDIT FOR HIGH TECH**

A B&O tax credit is provided for qualified expenditures on research and development (R&D) by firms. To qualify, the firm must be engaged in one of five fields of high technology: advanced computing, advanced materials, biotechnology, electronic device technology or environmental technology. The credit is allowed for eligible spending on R&D activities that exceeds 0.92 percent of the firm's taxable income. The credit is calculated based on the average tax rate of the firm (1.5 percent starting in 2011) and is capped at \$2 million per year for each participating firm. The B&O tax credit for R&D expenditures is currently scheduled to expire on January 1, 2015.

Comment: The credit stimulates the creation of high-wage jobs in high-technology industries and encourages firms to proceed from the R&D phase to actual manufacturing of new products. Most states have comparable credits within their tax system and it is likely that firms would move their R&D activity out of state to benefit from another state's tax system.

### **#14 - MEDICARE RECEIPTS**

Health maintenance organizations (HMOs) and health care service contractors (HCSCs) are exempt from premiums tax on Medicare payments received from the federal government.

Comment: The credit reduces the cost of providing health care for Medicare patients. Repeal could cause HMOs and HCSCs to further increase rates or reduce services, adversely impacting low-income and elderly patients.

### **#15 - FEED AND SEED**

Sales of feed and seed are excluded from the definition of retail sale, if they are used in the commercial production of any agricultural commodity. The same statute exempts feed and seed sold to landowners that participate in specified federal conservation and habitat protection programs or a cooperative habitat agreement with the Washington State Department of Fish and Wildlife.

Comments: The purpose of the exclusion is to support the agricultural industry (close to 40,000 farms). JLARC did not recommend changes to this exemption because 1) it served its stated purpose, 2) the tax would be difficult to collect, and 3) was fair by treating these items as ingredients and component parts of the final product.

### **#16 - FERTILIZER AND CHEMICAL SPRAY**

Sales of fertilizer, spray materials (including pesticides) and chemical sprays and washes for the post-harvest treatment of fruit are excluded from the definition of retail sale, if they are used in the commercial production of any agricultural commodity. The same statute exempts fertilizer and spray sold to landowners that participate in specified federal conservation and habitat protection programs or a cooperative habitat agreement with the Washington State Department of Fish and Wildlife.

Comments: The purpose of the exclusion is to support the agricultural industry (close to 40,000 farms). JLARC did not recommend changes to this exemption because 1) it served its stated purpose, 2) the tax would be difficult to collect, and 3) was fair by treating this items as

ingredients and component parts of the final product.

### **#17 - PURCHASES BY QUALIFIED NONRESIDENTS**

Persons who reside in a state, US territory or Canadian province that levies a sales tax of less than 3.0 percent are exempt from Washington retail sales tax on tangible personal property purchased for use outside of Washington (i.e., the exemption does not apply to lodging or meals). Sales to residents of other states may also be exempt if their state of residence allows similar exemption for Washington residents; however, no state currently qualifies under this provision of reciprocity.

Comment: The exemption enables Washington sellers, especially along the Oregon border, to compete with merchants in other states that either 1) do not levy a retail sales tax, or 2) levy a sales tax with a low rate. However, there is some misuse of this exemption; people use it to purchase items to be consumed in Washington. Cost of collection is small.

### **#18 - LABOR FOR PUBLIC ROADS**

Labor and services performed on public roads and transportation facilities owned by the federal or local (but not the state) governments are excluded from the definition of retail sale. A contractor for the federal government or a local jurisdiction must pay retail sales/use tax on materials incorporated into the project.

Comment: The state cannot directly tax the federal government, but it can tax contractors who work for the federal government on the value of the materials they incorporate into the project. The impact of the sales/use tax on materials is then indirectly passed on to the federal government. However, repeal of the exemption for labor and services would increase costs for local government road construction.

### **#19 - PRESCRIPTION DRUGS**

Drugs prescribed for use by humans, drugs and devices prescribed for birth control, and drugs and devices for birth control that are dispensed by certain family planning clinics are exempt from retail sales/use tax, as long as the drugs are prescribed by a physician. The exemption is available for all levels of sales and distribution. It is not required that a hospital or physician make a specific charge to the patient for prescription drugs dispensed under a physician's order.

Comment: The exemption reduces the cost of health care.

### **#20 - MEDICAL DEVICES, NATUROPATHIC MEDICINE AND OXYGEN**

An exemption from retail sales/use tax is provided for the following health-related products or devices: 1) prosthetic devices, including eyeglasses and frames, that are prescribed for individuals by a person licensed by the state to prescribe them, 2) medically prescribed oxygen and oxygen delivery systems, 3) medicine of mineral, animal or botanical origin that is prescribed, administered, dispensed or used in the treatment of an individual by a naturopath, and 4) components of prosthetic devices and charges for repairing devices exempted by this statute. Hearing aids, ostomic items and insulin were shifted to other statutes.

Comment: The exemption reduces the cost of health care.

### **#21 - OVER-THE-COUNTER DRUGS THAT ARE PRESCRIBED**

Over-the-counter drugs for human use that are either prescribed directly for patients or are purchased by hospitals or other medical facilities to be prescribed to patients are exempt from retail sales/use tax.

Comment: The exemption reduces the cost of health care.

### **#22 - LOCAL RESIDENTIAL & COIN-OP TELEPHONE SERVICE**

Exemption from retail sales/use tax is allowed for local calls made by residential telephone customers, calls made from coin-operated payphones, and calls made from cell phones by a customer whose primary place of use is outside the state.

Comment: The exemption relieves the tax burden for the "necessary" portion of telephone service (i.e., local calls by individuals; long-distance is taxed). The coin-operated exemption is for purposes of administrative simplicity. The mobile telecommunication service exemption is consistent with the state's implementation of the federal Mobile Telecommunication Act and is intended to clarify "sourcing" issues related to taxing cell phone usage.

### **#23 - FOOD PRODUCTS**

Food and food ingredients purchased for human consumption are exempt from retail sales/use tax. Excluded from the definition of food are alcoholic beverages, tobacco products, soft drinks and dietary supplements. The exemption does not apply to prepared foods.

Comment: The exemption lessens the regressivity of the sales tax and is intended to reduce the cost of essential items.

### **#24 - RURAL COUNTY SALES TAX DEFERRAL**

A deferral of state and local retail sales/use tax is available for the construction of new or remodeled buildings and/or the purchase of equipment used in manufacturing or research and development in certain areas. The deferred tax is waived if the business remains in operation for a period of five years. Rural counties include all counties except King, Pierce, Snohomish, Clark, Spokane, Thurston and Kitsap counties.

Comment: The deferral encourages the investment in large capital expenditures in manufacturing and R&D activities in rural areas. Oregon imposes no sales tax on these investments; Idaho taxes only the materials used in construction. Therefore, people argue this deferral serves to equalize Washington's position with its neighboring states when competing for these large investments. It can be argued that the deferral could be revised to target more rural or distressed areas, which would reduce its cost.

### **#25 - HIGH TECHNOLOGY DEFERRAL**

A deferral of state and local retail sales/use tax is allowed for the construction of buildings and acquisition of machinery and equipment for projects involving research and development or pilot scale manufacturing. To qualify, the firm must be engaged in one of five areas related to high technology: advanced computing, advanced materials, biotechnology, electronic device

technology or environmental technology. The deferred tax is waived if the business remains in operation for a period of five years.

Comment: The deferral stimulates the creation of high-wage jobs in high-technology industries and ultimately encourages the expansion of manufacturing in Washington. Oregon imposes no sales tax on these investments; Idaho taxes only the materials used in construction. Therefore, people argue this deferral serves to equalize Washington's position with its neighboring states when competing for these large investments.

#### **#26 - REAL ESTATE EXCISE TAX EXEMPTIONS**

There are a variety of types of transfers of real property that are excluded from state and local real estate excise tax. These include transfers by gift or inheritance, transfers with respect to divorce, transfers by governmental entities, condemnations, cemetery lots, etc.

Comment: The purpose of some exemptions is to assure that the tax applies only to arm's-length purchases of real estate.

#### **#27 - ESTATE TAX THRESHOLD**

The new stand-alone estate tax enacted in 2005 allows an exclusion of the first \$2 million of asset value from each taxable estate.

Comment: The threshold is intended to assure that estates of a certain value are not subject to the tax. The threshold can be lowered to a smaller amount. The first \$3.5 million in an estate is not subject to federal estate tax. Absent congressional action, the federal threshold will return to \$1.5 million in 2011.

## **SUMMARY OF OTHER TAX OPTIONS**

### **Compiled from the 2002 Washington State Tax Structure Study**

#### **Personal Income Taxes**

Forty-three states have personal income taxes. State individual income taxes are usually tied in varying degrees to the federal Internal Revenue Code (IRC) personal income tax statutes. This creates a number of administrative efficiencies for states and it makes it simpler for taxpayers to comply. A state income tax can vary from the federal tax code by excluding certain income, providing different personal exemptions or deductions, and by fixing a different amount for the standard deduction.

#### Comments:

- In 1932, Washington voters approved an initiative establishing a personal income tax. However, the State Supreme Court ruled this initiative unconstitutional. Since then, the voters have defeated six constitutional amendments enacting a personal income tax. The last proposal in 1973 was defeated 77 percent to 23 percent. Subsequent efforts at enacting a personal income tax have died in the Legislature.
- State income tax payments are deductible from federal taxable income for itemizing taxpayers.
- An income tax provides for growth in tax revenues commensurate with the growth in the demand for state government services, which historical evidence indicates grows at the rate of state income, or faster.
- An income tax provides for a less regressive tax system and can be structured toward ability to pay. However, under the 1932 Supreme Court ruling, the enactment of anything other than a flat rate tax of 1 percent or less may require a constitutional amendment.
- A state income tax allows for an increase in tax harmony with other states and a reduction in tax avoidance via Internet and cross-border shopping because the state can reduce the high retail sales tax rate.
- Levied as a tax on federal taxable income, \$1 billion requires a tax rate of just under 1 percentage point. A flat rate of 5.2 percent would be needed to replace the entire retail sales tax (based on 2002 data).

#### **Corporate Net Income Taxes**

Corporate net income tax is currently levied in 46 states. All of these states either adopt or heavily refer to the federal Internal Revenue Code for definitions of taxable income, although most states allow additional items to be deducted and also require certain federally deducted items to be added back. The application of corporate income tax by states is complicated by multistate firms that derive income in more than one state and by the intricacies of corporate organization.

#### Comments:

- The relative benefits described for a personal net income tax apply to corporate net income taxes.

- A state corporate net income tax allows for a more competitive tax structure, comparable with those of other states, because the state can reduce the high percentage of revenue collected from businesses.
- Relatively high tax rates would be required to replace the existing B&O tax to generate the same revenue.
- Corporate income tax is an extremely volatile tax, with revenue levels subject to great fluctuations and generally much lower during economic downturns.

### **Value Added Taxes (VAT)**

Under a VAT, the taxable base is the value added at each stage of production. For example, a lumber mill pays tax on the value it adds by milling raw timber into lumber, and the manufacturer pays tax on the value it adds by turning lumber into cabinets. The value of the timber embedded in the value of lumber is not taxed again as lumber sales, nor is the value of lumber embedded in the cabinet taxed again as cabinet sales, and so on. Value added is taxed once at every stage, but not more than once, so the total effect is equivalent to taxing just once the full value of final goods and services sold to ultimate consumers. Some VATs are imposed only on businesses during the production process. Others VATs are imposed on purchasers, and therefore, are imposed on businesses during the production process as well as the final consumer of the good or services (both households and businesses). There are several different possibilities of value added taxation for the state: 1) a subtraction method business VAT, 2) a goods and services tax (GST), 3) a progressive VAT, and others.

#### Comments:

- A VAT generally eliminates pyramiding that is caused by the B&O tax.
- The tax is more neutral and fair because value added is a better measure of the actual economic activity conducted by an enterprise than is gross receipts, and all forms of activity are taxed at the same rate regardless of industry or firm production structure.
- Like the B&O tax, the VAT is burdensome to businesses in their unprofitable years, but to a lesser degree because the cost of intermediate goods is not subject to tax.
- Although the VAT is ubiquitous in the world, there are few operating examples of VATs implemented by sub-national governments. In the U.S., Michigan and New Hampshire have addition-type VATs, states in Brazil have origin-based invoice method VATs, Quebec has a destination-based invoice method provincial VAT, and three Maritime Canadian provinces have provincial VATs harmonized with the Federal VAT.
- A uniform VAT is more regressive than a sales tax (or a VAT) that exempts necessities.
- A VAT will involve more administrative and compliance costs than the B&O and retail sales taxes.
- Since nearly all states and the Federal government do NOT levy VATs, there are likely to be harmonization issues. It is not clear if all variants of the VAT would be deductible from the Federal corporate income tax for registered taxpayers and, for some variants, constitutional difficulties about interstate commerce may be encountered.
- Relatively high tax rates would be required to replace the existing B&O tax to generate the same revenue.

**Table 1  
Utilization of Retail Sales and Income Taxes  
In All States, 2001**

	Retail Sales Tax		Corporate Net Income Tax	Personal Income Tax	
	State	Local		Broad-based	Interest/Dividends Only
Alabama	X	X	X	X	
Alaska		X	X		
Arizona	X	X	X	X	
Arkansas	X	X	X	X	
California	X	X	X	X	
Colorado	X	X	X	X	
Connecticut	X		X	X	
Delaware			X	X	
Florida	X	X	X		
Georgia	X	X	X	X	
Hawaii	X		X	X	
Idaho	X	X	X	X	
Illinois	X	X	X	X	
Indiana	X		X	X	
Iowa	X	X	X	X	
Kansas	X	X	X	X	
Kentucky	X		X	X	
Louisiana	X	X	X	X	
Maine	X		X	X	
Maryland	X		X	X	
Massachusetts	X		X	X	
Michigan	X		X	X	
Minnesota	X	X	X	X	
Mississippi	X		X	X	
Missouri	X	X	X	X	
Montana			X	X	
Nebraska	X	X	X	X	
Nevada	X	X			
New Hampshire			X		X
New Jersey	X		X	X	
New Mexico	X	X	X	X	
New York	X	X	X	X	
North Carolina	X	X	X	X	
North Dakota	X	X	X	X	
Ohio	X	X	X	X	
Oklahoma	X	X	X	X	
Oregon			X	X	
Pennsylvania	X	X	X	X	
Rhode Island	X		X	X	
South Carolina	X	X	X	X	
South Dakota	X	X			
Tennessee	X	X	X		X
Texas	X	X	X		
Utah	X	X	X	X	
Vermont	X	X	X	X	
Virginia	X	X	X	X	
WASHINGTON	X	X			
West Virginia	X		X	X	
Wisconsin	X	X	X	X	
Wyoming	X	X			
Number of States Imposing This Tax	45	34	4	41	2

**Table 2**  
**Personal and Corporate Income Tax Rates, January 2002**

State	Personal Income [1]		Highest Bracket	Rate %	Corporation Income %
	Lowest Bracket	Rate %			
Alabama.....	1st \$500	2	Over \$3,000	5 [2]	6.5
Alaska.....	--	--	--	--	1 to 9.4
Arizona.....	1st \$10,000	2.87	Over \$150,000	5.04	6.968
Arkansas.....	1 <sup>st</sup> \$2,999	1	Over \$25,000	7	1 to 6.5 [2]
California.....	1st \$5,454	1	Over \$35,792	9.3 [2]	8.84
Colorado.....	4.63% of federal taxable income				4.63
Connecticut....	1st \$10,000	3	Over \$10,000	4.5	7.5
Delaware.....	2,000-	2.2	Over \$60,000	5.95 [2]	8.7
Florida.....	--	--	--	--	5.5
Georgia.....	1st \$750	1	Over \$7,000	6	6
Hawaii.....	1st \$2,000	1.4	Over \$40,000	8.3	4.4 to 6.4
Idaho.....	1st \$1,000	0.6	Over \$20,000	7.8	7.6
Illinois.....	3% of taxable income				7.3
Indiana.....	3.4% of adjusted gross income [2]				7.9
Iowa.....	1st \$1,162	0.36	Over \$52,290	8.98	6 to 12
Kansas.....	1st \$15,000	3.5	Over \$30,000	6.45	4 [2]
Kentucky.....	1st \$3,000	2	Over \$8,000	6 [2]	4 to 8.25 [2]
Louisiana.....	1st \$10,000	2	Over \$50,000	6	4 to 8
Maine.....	1st \$4,150	2	Over \$16,500	8.5	3.5 to 8.93
Maryland.....	1st \$1,000	2	Over \$3,000	4.75 [2]	7
Massachusetts.	5.3% of taxable income				9.5
Michigan.....	4.1% of adjusted gross income [2]				2.1 [2]
Minnesota.....	1st \$17,570	5.35	Over \$57,710	7.85	9.8
Mississippi.....	1st \$5,000	3	Over \$10,000	5	3 to 5
Missouri.....	1st \$1,000	1.5	Over \$9,000	6 [2]	6.25
Montana.....	1st \$2,100	2	Over \$73,000	11	6.75
Nebraska.....	1st \$2,400	2.51	Over \$26,500	6.68	5.58 to 7.81
Nevada.....	--	--	--	--	--
New Hampshire.	Interest and dividends - 5%				8
New Jersey.....	1st \$20,000	1.4	Over \$75,000	6.37 [2]	9.0
New Mexico.....	1st \$5,500	1.7	Over \$65,000	8.2	4.8 to 7.6
New York.....	1st \$8,000	4	Over \$20,000	6.85 [2]	7.5 [2]
North Carolina...	1st \$12,750	6	Over \$60,000	8.25	6.9
North Dakota....	1st \$3,000	2.1	Over \$50,000	5.54	3 to 10.5
Ohio.....	1st \$5,000	0.743	Over \$200,000	7.5 [2]	5.1 to 8.5 [2]
Oklahoma.....	1st \$1,000	0.5	Over \$10,000	6.65	6
Oregon.....	1st \$2,350	5	Over \$5,850	9 [2]	6.6 [2]
Pennsylvania....	2.8% of taxable income [2]				9.99 [2]
Rhode Island....	25.5% of federal tax				9
South Carolina...	1st \$2,310	2.5	Over \$11,550	7	5
South Dakota....	--	--	--	--	--
Tennessee.....	Interest and dividends - 6%				6
Texas.....	--	--	--	--	4.5 [3]
Utah.....	1st \$750	2.3	Over \$3,750	7	5
Vermont.....	24% of federal tax				7.0 to 9.75
Virginia.....	1st \$3,000	2	Over \$17,000	5.75	6
Washington.....	--	--	--	--	--
West Virginia....	1st \$10,000	3	Over \$60,000	6.5	9
Wisconsin.....	1st \$10,000	4.6	Over \$150,000	6.75	7.9
Wyoming.....	--	--	--	--	--

Sources: Federation of Tax Administrators; "State Tax Guide," Commerce Clearing House, Inc.; Energy Information Administration

[1] The brackets indicated apply to single taxpayers, but most states allow or require joint return filers to split their income.

[2] Local units of government may impose additional taxes.



## Appendix 13—Funding Education Reform – Iseminger Education Finance Plan

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*One member of the FFTWG created a finance plan that was reviewed by the group. Details of the plan can be found at [www.iseminger.com/education.html](http://www.iseminger.com/education.html). The following summary was taken directly from that website.*

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*The Iseminger Education Finance Plan is based on five implementation elements, or *tenets*, that collectively chart an attainable course to funding education reform in Washington state.*

### **Tenet 1– Reserve a Portion of Annual Increases in State Revenues for K-12 Education Reform**

Dedicate 50% of annual increases in state revenues for K-12 education, until full implementation of basic education reform is complete in 2018.

*Benefit:* Revenues are increased for K-12 education without creating a new tax, nor increasing tax rates.

### **Tenet 2 – Shift the 24% Levy Lid to State Collection**

Set all districts to the 24% levy lid collection rate, reduce all grandfathered districts to 24%, and shift those levy collections into the existing \$3.60 state collected portion of the property tax. Create a Local Burden Assistance (LBA) fund, paid out of education revenues, to account for undue tax burdens in low-assessed-valuation districts.

*Benefit:* Provides education revenue in an equitable, consistent manner, most of which is already being collected locally for basic education programs. Uses existing state-based tax authority to collect an already-authorized education tax (the 24% levy lid). Leverages the LEA formula to apply LBA relief for burdensome tax rates, ensuring equity in contribution.

### **Tenet 3: Use State bonding to Address Required Capital Improvements**

Reserve the increased bonding authority realized with Tenet 2 for K-12 capital improvements, such as new schools, necessary for education reform. Weight assistance toward needy districts, and require local effort to receive matching. Use collections of regionally vetted previously-built stock plans to ensure cost- and instructionally-sound construction efficiencies.

*Benefit:* Enables improved basic education throughout the state, including districts without available space. Promotes financial efficiency by using vetted plans, adjusted architecturally and cost-wise for different regions. Ensures local participation to receive match, but recognizes the need for local assistance.

**Tenet 4: Implement Reform by Funding the Neediest Students First**

Since implementation of these programs happen over an eight-year period – from 2010 to 2018 - there is opportunity to fund elements on varied schedules: some elements should be implemented early; some evenly over time, others toward the end.

*Benefit:* Prioritizes funding toward high-impact, high-return program elements that serve the neediest students. In many cases, will provide early benefits to districts that would see increased overall levy rates based on Tenet 2. Programs targeted would include: pre-k for at-risk children; all-day kindergarten weighted toward high poverty districts; classroom reduction for high poverty schools; enhanced ELL programs; enhanced LAP programs.

**Tenet 5: Reform Local Levies: Enable Local Participation Without Statewide Disparity**

Reform local levy rate lids to 10% or \$1 per \$1,000 of assessed value (AV), whichever is *more*. Retain the Local Effort Assistance (LEA) formula as it is today. To mitigate potential future increases in the levy lid, and associated potential for disparity among statewide programs, pass a law that requires local levy proceeds that exceed the 10% or \$1 per \$1000 AV limits deposit 50% of those excess revenues into the LEA fund.

*Benefit:* Retains communities' ability to contribute to local schools, while reducing the levy lid from 24% to 10%. Enables high AV districts to levy on assessed value rather than their student base, and balances levy lid rates with statewide equity among programs.

## Acronyms

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ALE – Alternative Learning Experience program  
BEA – Basic Education Act  
CAS – Certified Administrative Staff  
CEDARS – Comprehensive Education Data and Research System  
CIS – Certificated Instructional Staff  
CLS – Classified Staff  
CSRS – Core Student Record System  
CTE – Career and Technical Education  
EALR – Essential Academic Learning Requirement  
ELL – English Language Learner  
FFTWG – Funding Formula Technical Working Group  
FRPL – Free and Reduced Price Lunch  
FTE – Full-Time Equivalent  
GLE – Grade Level Expectation  
IEP – Individualized Education Plan  
LAP – Learning Assistance Program  
LID – Learning Improvement Days  
MSOC – Maintenance, Supplies and Operating Costs  
NBPTS – National Board for Professional Teaching Standards  
NERC – Non-Employee Related Costs  
QEC – Quality Education Council  
R&N – Remote and Necessary  
SBCTC – State Board for Community and Technical Colleges  
SDAAC – School District Accounting Advisory Committee  
TBIP – Transitional Bilingual Instruction Program

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