



2011-13 OPERATING BUDGET

OVERVIEW

Second Engrossed Substitute House Bill 1087

**SENATE WAYS & MEANS COMMITTEE
MAY 25, 2011**

APPENDIX 2

FUNCTIONAL AREAS OF GOVERNMENT

EMPLOYEE COMPENSATION

MAJOR SAVINGS

ELIMINATE FUTURE PLAN 1 COST-OF-LIVING ADJUSTMENTS - \$344.4 MILLION GENERAL FUND-STATE SAVINGS, \$74.8 MILLION OTHER FUNDS SAVINGS

Savings are achieved by ending future automatic benefit increases in the Public Employees' Retirement System Plan 1 and the Teachers' Retirement System Plan 1 (PERS 1 and TRS 1) under the Uniform Cost-of-Living (Uniform COLA) provisions established in 1995. The basic minimum benefit amount in the plans (currently \$42.63 per month per year of service) will continue to be increased by the Uniform COLA increase amount, and the alternative minimum benefit for members retired at least 20 years is raised to \$1,500 per month rather than \$1,194 per month, effective July 1, 2011. As a result of these changes, the unfunded accrued actuarial liability in PERS and TRS Plans 1 is reduced by approximately \$4 billion.

SUSPENSION OF INITIATIVE 732 - \$295.6 MILLION NEAR GENERAL FUND-STATE SAVINGS

Initiative 732 (I-732) was approved by voters in the November 2000 general election. It required the state to provide an annual cost-of-living adjustments (COLA) for K-12, community college and technical college academic employees and classified employees at technical colleges. During the 2009-11 biennium, the Legislature suspended the I-732 COLA but mandated a catch-up cost-of-living adjustment to be provided in equal increments during the 2011-13 and 2013-15 biennia. These requirements are suspended for 2011-13 biennium and the catch-up provisions are permanently removed.

K-12 EMPLOYEE SALARY REDUCTION - \$179.0 MILLION NEAR-GENERAL FUND-STATE SAVINGS

Allocations to school districts for K-12 employees' salaries will be reduced by 3 percent for administrators and by 1.9 percent for classified and certificated instructional staff for each of two upcoming school years. These reductions are intended to be consistent with the salary reductions for general state employees.

THREE PERCENT SALARY REDUCTION FOR STATE EMPLOYEES - \$177.1 MILLION NEAR GENERAL FUND-STATE SAVINGS, \$85.5 MILLION OTHER FUNDS SAVINGS

Expenditures on state employee salaries are reduced through a 3 percent reduction in employee salaries, excluding employees earning less than \$2,500 per month. The reduction is temporary through the 2011-13 fiscal biennium only. The reductions will be implemented consistent with collective bargaining agreements ratified for the 2011-13 biennium. Employees subject to the 3 percent reduction in salary will receive temporary salary reduction leave of up to 5.2 hours per month. State institutions of higher education are similarly required to implement compensation reductions equivalent to the 3 percent salary reduction.

NATIONAL BOARD FOR PROFESSIONAL TEACHER STANDARDS BONUSES - \$61.1 MILLION NEAR GENERAL FUND-STATE SAVINGS

Funding is adjusted to reflect two changes to the National Board for Professional Teaching Standards (NBPTS) bonus program: 1) adopting a bonus payment date of July 1st of each school year, beginning in the 2011-12 school year; and 2) prorating the first year national board bonus by 60 percent (a 40 percent reduction), to reflect the percentage of the school year newly NBPTS-certified teachers are certified.

NO LOCAL PUBLIC SAFETY BENEFIT ENHANCEMENT ACCOUNT TRANSFER - \$5.0 MILLION GENERAL FUND-STATE SAVINGS

Under legislation enacted in 2008, the state treasurer must transfer money to the Local Public Safety Enhancement Account (LPSEA) starting in calendar year 2011, and every two years thereafter, if the prior fiscal biennium's general state revenues exceed the previous fiscal biennium's revenues by more than 5 percent, subject to appropriation. Funds in the LPSEA may be used for public safety programs and retirement benefit increases for law enforcement officers and fire fighters. No transfer is required in 2011.

RETIREMENT INCENTIVE SAVINGS - \$4.4 MILLION GENERAL FUND-STATE SAVINGS

K-12 salary expenditures due to additional retirements expected among experienced teachers as a result of the \$250 per month health benefit subsidy provided by Senate Bill 5846 (health benefit subsidies) to members of the Teachers' Retirement System Plan 1 (TRS 1). The subsidy, which lasts for up to three years, is available to TRS 1 members who elect to retire before the end of October 2011. It is assumed that the retiring teachers will be replaced by less experienced teachers who receive lower salaries, resulting in savings in excess of the incentive payment and other costs.

K-12 PUBLIC SCHOOLS

OVERVIEW

The budget preserves funding for programs of basic education and funds growth of student enrollment and inflationary cost increases, providing \$179 million more in state funds in the 2011-13 biennium than were provided for such programs in the 2009-11 biennium. The budget fully funds several important non-basic education programs including the gifted program, full-day kindergarten for the 20 percent of students in the poorest schools, and levy equalization payments to school districts with high local tax rates. The budget retains funding for teacher bonuses for certification by the National Board for Professional Teaching Standards but makes modification to when the bonuses are paid.

The budget also provides educational enhancements in several key areas. For example, the budget maintains the momentum of public school funding improvements by restoring reductions to class-size funding in the lower grades in schools with high rates of poverty, enhancing funding for pupil transportation, all day kindergarten, and accelerating the launch of the new statewide system of principal and teacher evaluations that was approved by the Legislature in 2010.

Many budget changes are aimed toward reform as well as achieving spending reductions. Examples include changing the alternative learning system funding system, restructuring bilingual education funding formulas to provide transition assistance for successful exit from the program, and reviewing methods for improving the procurement of K-12 employee health benefits purchasing.

INCREASES

K-3 CLASS SIZE FUNDING - \$33.6 MILLION NEAR GENERAL FUND-STATE

Funding for lower class sizes in grades kindergarten through four was eliminated in the December, 2010 early action supplemental with the policy carried into the 2011-13 biennium. The budget provides \$33.6 million to partially restore lower-class sizes for schools with more than 50 percent of students eligible for free- or reduced-price lunch. The maximum average K-3 class size under the definition of basic education is 25 full-time equivalent students per teacher. The budget provides funding to achieve 24 students per teacher in high poverty schools.

PUPIL TRANSPORTATION ENHANCEMENT - \$5.0 MILLION NEAR GENERAL FUND-STATE

A new funding formula will take effect September 2011 with the beginning of the next school year. The budget, in addition to providing for maintenance-level growth in areas such as ridership and employee pension costs, adds \$5 million to enhance funding for pupil transportation.

FULL DAY KINDERGARTEN PHASE-IN - \$5.0 MILLION NEAR GENERAL FUND-STATE

Funding is provided to continue phasing-in full-day kindergarten programs in high poverty schools. Approximately 21 percent of eligible students will be served in the 2011-12 school year, and 22 percent in the 2012-13 school year.

PRINCIPAL & TEACHER EVALUATION SYSTEM - \$3.0 MILLION NEAR GENERAL FUND-STATE

In 2010, the Legislature enacted legislation to make significant changes in teacher and principal evaluation systems, including the introduction of a four-level evaluation ranking rather than the current two-level satisfactory and unsatisfactory system used by most districts currently. The budget adds \$3 million to increase the number of school districts participating on a pilot basis to lead up to statewide implementation in school year 2013-14.

MAJOR SAVINGS

INITIATIVE 728 STUDENT ACHIEVEMENT PROGRAM - \$860.7 MILLION NEAR GENERAL FUND-STATE SAVINGS

The Student Achievement Fund was authorized by voter approval of Initiative 728 in 2000. Districts use funds, primarily, to lower class sizes by hiring more teachers and providing professional development. The per-student allocation was reduced in the budget for school year 2009-10 and eliminated for school year 2010-11. The elimination of the per-pupil distribution is extended in the budget with the intention of incorporating the funding into a revised financial plan for implementation of basic education reforms.

K-3 CLASS SIZE FUNDING REDUCTION - \$214.7 MILLION NEAR GENERAL FUND-STATE SAVINGS

Funding for lower class sizes in grades kindergarten through grade 4 was eliminated in the December, 2010 early action supplemental. This policy is carried forward into the 2011-13 biennium. The reduction increased class sizes in grades K-3 from 23 full-time equivalent students per teacher to the maximum required size under the definition of basic education of 25 students per teacher; and increased class sizes in grade 4 to the maximum of 27 students per teacher from a class size of 26.15. The budget provides to partially restore and enhance smaller class sizes for schools with more than 50 percent of students eligible for free- or reduced-price lunch.

STUDENT ASSESSMENT CHANGES - \$51 MILLION NEAR GENERAL FUND-STATE

The budget assumed a variety of savings from efficiencies and reductions in the student assessment system. These include: (1) getting savings through the execution of renewal clause options and other state contracting efficiencies; (2) changes in assessment requirements for science for the 2011-13 biennium; (3) restructuring the collection of evidence rates and method of payment; (4) suspending the development of diagnostic assessments due to the joining of the SMARTER Balanced Assessment Consortium; and (5) reducing administrative staff and overhead costs associated with the assessment system.