

## CTE and Skill Center Funding AB

**Agency:** 350 Office of Superintendent of Public Instruction  
**Budget Period:** 2015-17

### **Recommendation Summary Text:**

The 2013-15 biennial budget charged OSPI with reviewing CTE and Skill Center program funding formulas, expenditure accounting systems, and data reporting. The recommendations in the proposal, dated June 2014, would address issues in the current CTE and Skill Center programs as part of the McCleary decision. Total cost of this proposal is \$45.2 million for the 2016-17 school year.

### **Fiscal Detail**

<b>Operating Expenditures</b>		<b>FY 2016</b>	<b>FY 2017</b>	<b>Total</b>
General Fund	001-01	\$0	\$45,160,000	\$45,160,000
<b>Total Cost</b>				

<b>Staffing</b>	<b>FY 2016</b>	<b>FY 2017</b>	<b>Annual Avg.</b>
<b>Total FTEs Requested</b>	0	0	0

### **Package Description:**

#### **Background**

This decision package implements proposals outlined in the CTE and Skill Center Program Funding, Accounting and Data Reporting report provided to the legislature in June 2014 (<http://k12.wa.us/LegisGov/Reports.aspx>). This report was a direct charge to OSPI by the legislature through language in the 2013-15 biennial budget. This budget request was previously submitted as part of the 2015-17 biennial budget request by the Superintendent.

#### **Current Situation**

In school year 2014-15 state funding averaged \$6,097.56 per CTE FTE compared to \$5,755.84 per basic education FTE, this enhancement of \$341.72 or 5.9%, is insufficient to cover the additional costs associated with operating CTE programs, and in fact is not sufficient to cover even the allowed indirect rate charged to the CTE programs of 15%.

The CTE enhancement over basic education has declined over time. The 1995 *Secondary Vocation Education in the State of Washington* report stated the enhancement at that time was 28% above basic education.

For the 2014-15 school year, as reflected on August apportionment reports, 87.34% of the CTE enhancement is for MSOC (Materials, Supplies, and Operating Costs), and 12.66% for enhanced staffing allocations. This is particularly concerning because while the basic education MSOC allocation value has increased by 55.21% since the 2011-12 school year, the CTE MSOC rate has increased by only 6.24%. If you include in impact

## CTE and Skill Center Funding AB

of the 2015-17 biennial budget, from school year 2010-11 to 2015-15, the basic education MSOC allocation value has increased by 121.47%, but the CTE MSOC rate has only increased by 7.3% The total value of the CTE enhancement statewide is estimated to be \$36.8 million for school year 2014-15.

### **Proposed Solution**

Funding formula changes are proposed in the following areas: 1) Other CIS staffing ratio; 2) Principal and CTE Director allocations; 3) Revise CTE and Skill Center MSOC allocations to reflect what districts are actually spending using a three year average; 4) Implement QEC provisionally discussed class sizes; and 5) Funding for the startup of new CTE or Skill Center programs.

### Other CIS Ratio

CTE and Skill Center programs currently receive a lower allocation for Other CIS staff per student FTE than basic education. Each student should be considered a basic education student first and foremost. This is not currently how the funding formula works for CTE and Skill Center programs. The following chart shows a comparison across all programs for the 2014-15 school year.

Other CIS Staffing Position	Prototypical HS Allocation Per 600 Student FTE	Allocation per 600 Student FTE	
		CTE Programs	Skill Center Programs
Librarian	0.523	0.268	0.302
Counselor	2.539	1.303	1.466
Nurse	0.096	0.049	0.055
Social Worker	0.015	0.008	0.009
Psychologist	0.007	0.004	0.004
<b>Total</b>	<b>3.180</b>	<b>1.632</b>	<b>1.836</b>

Based on feedback received from the CTE workgroup that studied the funding formulas and assisted OSPI in the June 2014 report, CTE programs do not require enhancements to these staffing positions, thus the BEA allocation would be sufficient. To rectify this situation, these staff units should be moved out of CTE programs and be allocated through either the prototypical middle or high school as part of basic education.

Skill center programs shall continue to generate an allocation for these staff members within their program allocation, but the allocation should equal what is generated at the prototypical high school.

**Total cost of shifting the Other CIS staff allocation back to basic education for CTE and increasing the allocation within the Skill Center program is \$12.1 million for the 2016-17 school year.**

### Principal/CTE Director Allocation

## CTE and Skill Center Funding AB

The current funding formula backs out the principal allocation from basic education and moves it to the CTE program for each CTE student FTE. This creates an issue due to the fact that Activity 23 – Principals is not an allowable charge to the CTE program in the accounting structure, so CTE is being funded for an allocation which cannot be charged to the program.

It is recommended that CTE students generate a principal allocation at the prototypical middle or high school as part of BEA, and not within the CTE program. The state saves money in this transition because CTE programs get a 2.5% enhancement over the prototypical high school for school based administration in the funding formula which the state would no longer have to pay.

**Total savings to the state realized through shifting the principal allocation back to basic education is \$0.4 million.**

An allocation should be provided for a CTE director (separate from a principal at a rate of 1:432 middle school CTE FTE and 1.39:600 high school CTE FTE. All expenses associated with the CTE director allocation should be charged to Activity 21 – Supervision in the accounting structure and would be allowed to be accounted for as CTE expenses.

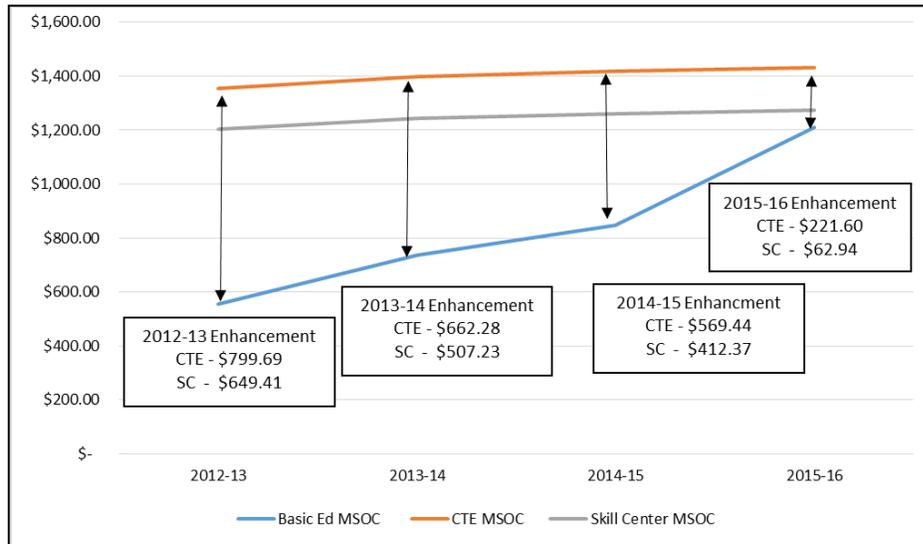
<i>CTE Director Allocation for 2016-17 School Year</i>		
	High School	Middle School
Projected 2016-17 FTE	57,786.45	7,693.95
CTE Director	1.39 per 600 student FTE	1.00 per 432 student FTE
Allocated CIS Staff Units	133.87	17.81
Salary	\$7,377,611	\$983,066
Fringe Benefits	\$1,578,097	\$210,535
Health Benefits	\$1,253,042	\$166,702
Total CTE Director Allocation	\$10,208,750	\$1,360,303
<b>Total Combined Cost</b>	<b>\$11,569,053</b>	

**The total cost of funding a CTE director for both middle and high school programs for the 2016-17 school year is \$11.6 million.**

### Revise CTE and Skill Center MSOC Allocations

Recent budgets have reduced the CTE and Skill Center MSOC enhancements. The impact on the CTE MSOC enhancement is shown in the chart below.

## CTE and Skill Center Funding AB



A portion of the current CTE MSOC allocation is provided with the intent to cover costs associated with utilities, facilities maintenance, and districtwide support. The workgroup found that there were not measureable increased costs in these categories for CTE programs, as such, CTE students should generate these allocations at the same rate as basic education students in the basic education program.

The remaining categories of the MSOC allocation are intended to cover costs associated with technology, curriculum, library and other supplies, and professional development. The allocation for these should remain in the CTE program, and the enhancement above BEA should be based on how much more CTE programs actually spend in these areas as compared to basic education. The following chart shows the proposed per student MSOC allocations for the 2016-17 school year for student MSOC allocations in CTE programs. This chart is based on the policy that all students should generate the BEA MSOC allocations and then an appropriate enhancement to certain MSOC categories should be funded for CTE programs. The multiplier in the chart below reflects a three-year average of comparing actual basic education costs to actual CTE program costs in each of these MSOC categories.

MSOC Category – 2016-17	General Ed. Allocation	CTE Multiplier	CTE Allocation
Technology	\$127.17	3.19	\$405.67
Curriculum	\$136.54	2.63	\$359.10
Library and Other Supplies	\$289.88	1.37	\$397.14
Professional Development	\$21.12	1.03	\$21.75
<b>Total</b>	<b>\$574.71</b>	<b>2.06</b>	<b>\$1,183.66</b>

## CTE and Skill Center Funding AB

Current law states that MSOC be adjusted for inflation each year, which has been done in the cost projection chart below.

The per student rates based on this proposal for CTE MSOC in future years, starting with the 2016-17 school year are shown in the chart below.

<b>MSOC Category</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>
Technology	\$405.67	\$412.56	\$420.00	\$427.97	\$436.54
Utilities and Insurance	\$351.43	\$357.40	\$363.84	\$370.75	\$378.17
Curriculum	\$359.10	\$365.20	\$371.78	\$378.84	\$386.42
Library and Other Supplies	\$397.14	\$403.89	\$411.16	\$418.97	\$427.36
Professional Development	\$21.75	\$22.12	\$22.52	\$22.95	\$23.40
Facilities Maintenance	\$174.10	\$177.06	\$180.24	\$183.67	\$187.34
Districtwide Support	\$120.61	\$122.66	\$124.87	\$127.24	\$129.79
<b>Total</b>	<b>\$1,829.80</b>	<b>\$1,860.88</b>	<b>\$1,894.42</b>	<b>\$1,930.39</b>	<b>\$1,969.03</b>

This chart reflects the combined BEA and CTE enhanced MSOC rates. With the proposed reduction of the indirect rate discussed later in this decision package, only the portions of MSCO related to Technology, Curriculum, Library and Other Supplies and Professional Development would actually be funded in the CTE program.

### Skill Center MSOC

OSPI proposes that Skill Center MSOC values be enhanced above BEA rated based on a three year average of the ratio of actual Skill Center MSOC expenditures per student compared to basic education. Because Skill Centers are their own cost centers, OSPI proposes a slightly different policy than what was discussed for CTE programs. Rather than adjusting individual MSOC components based upon whether or not they are direct program costs, OSPI believes that the total BEA funded MSOC should be adjusted by a factor that reflects the actual cost of Skill Center MSOC compared to BEA.

Per Student MSOC	BEA	Skill Center (Proposed)
2016-17 School Year	\$1,230.62	\$2,768.95
Three Year Average Multiplier		2.25

The proposal for funding CTE and Skill Center MSOC outlined in this decision package, the additional cost (in millions) by school year is as follows:

School Year	2016-17	2017-18	2018-19	2019-20	2020-21
CTE (MSOC Reduction)	-\$19.3	-\$19.6	-\$20.0	-\$20.4	-\$20.8
General Education	\$42.3	\$43.2	\$43.8	\$44.6	\$45.5

## CTE and Skill Center Funding AB

Skill Centers	\$9.9	\$10.1	\$10.3	\$10.4	\$10.7
Combined MSOC Costs	\$32.9	\$33.5	\$34.1	\$34.7	\$35.4

The chart shows a reduction in CTE MSOC funding and an increase to General Education MSOC funding is because the elements of MSOC related to utilities and insurance, facilities maintenance, and security and central office are no longer being generated within the CTE programs. CTE students are generating this MSOC allocation within the general education program, thus the increases on that line item of the chart.

**The combined costs of implementing the proposed MSOC revisions for the 2016-17 school year is \$32.9 million.**

### Implement QEC Recommended Class Sizes

The Quality Education Council provisionally discussed class sizes of 19.0 for middle and high school CTE programs, and 16.0 for Skill Center programs. These class sizes were recommendations from the Funding Formula Technical Working Group report, issued in 2009. Superintendent Dorn's plan to fully fund basic education implements lower class sizes for CTE and Skill Center programs beginning with the 2017-18 school year. These cost estimates include the impact of increasing student caseload as projected by the caseload forecast council.

Program	Class Size	2017-18	2018-19	2019-20	2020-21
CTE	19.00	\$93.4	\$95.1	\$96.9	\$98.7
Skill Center	16.00	\$11.6	\$11.8	\$12.0	\$12.2
Total (in millions)		\$105.0	\$106.9	\$108.9	\$110.9

**There is no cost related to class size reduction in the 2016-17 school year, as the class size reductions do not occur until the 2017-18 school year.**

### Funding for the start-up of new programs

One funding gap identified by the workgroup is the lack of funding to start new CTE and Skill Center programs. OSPI is requesting \$250,000 per year to fund equipment and curriculum startup costs for new programs. OSPI has identified district needs ranging from starting a new medical assistant program or marine program to needing a 3-D printer. These grants would differ from those currently funded by 2SSB6377 – High Demand Grants. For high-demand grants, grantees must use grant funding for one of three high-demand areas: 1) construction; 2) health care; 3) information technology. The start-up grants proposed as part of this decision package would not be limited to only those three areas.

## **CTE and Skill Center Funding AB**

### **CTE Program Indirect Rate**

If the funding formulas are revised according to this decision package, the working group recommended a reduction of the indirect rate from the 15% currently to the federal restricted indirect rate (on average 3%).

### **Contact person**

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### **Narrative Justification and Impact Statement:**

#### **What specific performance outcomes does the agency expect?**

The proposed changes to the funding formula would provide better alignment with actual expenditures and would significantly increase transparency of expenditures.

### **Performance Measure Detail**

#### **Is this decision package essential to implement a strategy identified in the agency's strategic plan?**

Yes. Full funding for education, including CTE and Skill Centers is the Superintendent's number one priority.

### **Reason for change:**

#### **Does this decision package provide essential support to one of the Governor's priorities?**

Yes. Through providing additional CTE program funding, this decision package helps districts offer more STEM programs throughout the state.

#### **Does this decision package provide essential support to one or more of the Governor's Results Washington priorities? If so, describe.**

Yes, an adequately funded CTE program will increase graduation rates.

#### **What are the other important connections or impacts related to this proposal?**

This proposal represents a collaborative work product of the School District Accounting Advisory Committee sub-group made of representatives from both school district business officials, and CTE program directors.

### **Impact on Other State Programs**

#### **What alternatives were explored by the agency, and why was this alternative chosen?**

The work group that came up with the recommendations in this decision package also looked at the option of funding CTE programs through an excess cost accounting model. The workgroup did not recommend this model because there is a general lack of

## **CTE and Skill Center Funding AB**

transparency in an excess cost model of funding that would make it extremely difficult to determine the true revenues and costs of the CTE programs.

### **What are the consequences of adopting or not adopting this package?**

Not funding this decision package means that the state will continue to underfund CTE and Skill Center programs. The misalignment between actual district expenditures and the funding formula will continue to exist. Starting up new programs will continue to be inhibited. And the class size for CTE and Skill Centers, which the legislature believed to be “enhanced” will be marginally more than class sizes funded in basic education. Additionally, since MSOC allocations have not been addressed, the CTE and Skill Center MSOC enhancements have practically disappeared even though it can be shown that these programs have hire per student MSOC costs than general education.

### **What is the relationship, if any, to the state’s capital budget?**

Funding lower class sizes will create the need for additional class rooms. If startup funding stimulates new programs, this will also create the need for additional instructional space.

### **What changes would be required to existing statutes, rules, or contracts, in order to implement the change?**

State statutes would need to be changed in order to implement the new CTE funding structure as proposed. These changes would need to take place in the supplemental operating budget. OSPI’s rules would then also need to be revised.

### **Expenditure and revenue calculations and assumptions:**

Unless otherwise stated in charts or tables, expenditure calculations were performed using caseload forecast enrollment for the 2016-17 and 2017-18 school years, and adjusted by inflation thereafter for MSOC impacts.

### **Revenue Calculations and Assumptions:**

None.

### **Expenditure Calculations and Assumptions:**

The chart below represents the estimated cost of implementing these changes as presented for the 2016-17 school year. The chart does not include the \$250,000 per school year in grants to help cover start-up costs.

Proposal Element	Cost Impact for 2016-17 School Year (in Millions)
Other CIS staff moved to general education	\$12.1
Principals move to general education	-\$0.4
CTE Director	\$11.6
MSOC Revisions	\$32.9
<b>Total of Recommendations for 2016-17 School Year</b>	<b>\$56.2</b>

## CTE and Skill Center Funding AB

The chart below shows the overall cost of this decision package by school year and state fiscal year through the 2019-21 biennium.

Proposal Element	School Year Cost in Millions				
	16-17	17-18	18-19	19-20	20-21
Other CIS Staff Moved to General Education	\$12.10	\$12.10	\$12.10	\$12.10	\$12.10
Principals Moved to General Education	(\$0.40)	(\$0.40)	(\$0.40)	(\$0.40)	(\$0.40)
CTE Director	\$11.60	\$11.60	\$11.60	\$11.60	\$11.60
MSOC Revisions	\$32.90	\$33.46	\$34.06	\$34.71	\$35.40
Class Size for CTE of 19.0	\$0.00	\$93.40	\$95.10	\$96.90	\$98.07
Class Size for Skill Centers 16.0	\$0.00	\$11.60	\$11.80	\$12.00	\$12.20
Sub-Total of Above	\$56.20	\$161.76	\$164.26	\$166.91	\$168.97
Start Up Grants	\$0.25	\$0.25	\$0.25	\$0.25	\$0.25
School Year Costs	\$56.45	\$162.01	\$164.51	\$167.16	\$169.22
	State Fiscal Year in Millions				
	17	18	19	20	21
State Fiscal Year Cost	\$45.16	\$140.90	\$164.01	\$166.63	\$168.81
	15-17	17-19		19-21	
	Biennial Cost	\$45.16	\$304.91		\$335.44

### Object Detail

		FY 2016	FY 2017	Total
A	Salary and Wages	\$0	\$0	\$0
B	Employee Benefits	\$0	\$0	\$0
C	Contracts	\$0	\$0	\$0
E	Goods/Services	\$0	\$0	\$0
G	Travel	\$0	\$0	\$0
J	Equipment	\$0	\$0	\$0
N	Grants	\$0	\$45,160,000	\$45,160,000
	Interagency Reimbursement	\$0	\$0	\$0
	Other	\$0	\$0	\$0
<b>Total Objects</b>		<b>\$0</b>	<b>\$45,160,000</b>	<b>\$45,160,000</b>

## CTE and Skill Center Funding AB

### Expenditures & FTEs by Program

Activity Inventory Item	Prog	Staffing			Operating Expenditures		
		FY 2016	FY 2017	Avg	FY 2016	FY 2017	Total
A0038 Basic Education	021				\$0	\$45,160,000	\$45,160,000
					\$0	\$0	\$0
<b>Total Activities</b>					<b>\$0</b>	<b>\$45,160,000</b>	<b>\$45,160,000</b>

### Six-Year Expenditure Estimates

Fund	15-17 Total	17-19 Total	19-21 Total
State General Fund	<b>\$45,160,000</b>	<b>\$304,910,000</b>	<b>\$335,440,000</b>
<b>Expenditure Total</b>	<b>\$45,160,000</b>	<b>\$304,910,000</b>	<b>\$335,440,000</b>
<b>FTEs</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

**Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?**

All costs associated with this decision package are ongoing, as they impact funding drivers in the state funding formula.