JOINT EDUCATION COMMITTEE
SUBCOMMITTEE ON EDUCATION DEFICIT REDUCTION OPTIONS

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Wyoming K-12 Education Funding Deficit White Paper

BACKGROUND

During the December 19, 2016, meeting of the Joint Education Committee, a Subcommittee was created to develop and consider options and possible solutions to the anticipated K-12 education revenue-expenditure imbalance in the coming years. Wyoming faces an estimated $360 and $400 million annual shortfall in the 2019-2020 and 2021-2022 biennia, respectively for funding the daily operations of Wyoming schools. In fact, the current biennial budget has a shortfall of approximately $644 million, but as of the 2016 Budget Session, the Legislature is using savings from prior years to bridge the gap. Wyoming and our schools have benefited from a booming energy economy the past several years. Energy companies pay a majority of the taxes that fund K-12 education daily operations. This occurs through the 43 mills (31 local mills and 12 statewide mills) assessed to pay for education daily operations and the federal mineral royalties that are directed to the School Foundation Program Account, which also pays for a portion of the daily operations of Wyoming schools. In total, mineral production and the taxes paid by energy producers, fund approximately 65% of the K-12 education operations for Wyoming's schools. Once again, this anticipated deficit and the 43 mills that are assessed are only for the day-to-day operations of schools across Wyoming.

This White Paper does not address the anticipated revenue-expenditure imbalance in the coming years related to State funding for K-12 capital construction and major maintenance of buildings, which has been primarily funded by mineral production (federal coal lease bonus revenues). Since 1998, over $2.3 billion in federal coal lease bonuses has been received and appropriated to maintain and build Wyoming schools. Solutions to find a revenue source(s) to fund K-12 capital construction and major maintenance of buildings will also need to be identified in the near future.

Due to the overwhelming dependence on the mineral industry to fund education in Wyoming, we now find ourselves in a budget phenomenon known as the "double-whammy." In short, the decline in mineral prices and production decreases property valuations, which in turn reduces the revenue collected on the 31 mills assessed by local school districts and the statewide 12 mill levy. However, the State is still required to provide the same level of educational goods and services previously supported by a larger proportion of local tax revenues. The "double-whammy" effect is now upon us as it shifts the amount of funding previously raised by local taxes to the State at a time when the State's revenues from federal mineral royalties and the statewide 12 mill levy are also declining.

The Wyoming Supreme Court has required the system of public education in Wyoming to be complete, uniform, adequate, thorough and efficient. Additionally, the Court has required the funding for education to be the

Legislature's paramount priority, whereas competing budgetary priorities not of a constitutional magnitude are secondary.

The question then becomes how do we as a State address these drastic budgetary shortfalls? It appears evident to members of the Subcommittee that the problem cannot be solved with a focus solely on increasing revenues or decreasing expenditures. The Subcommittee has been tasked with identifying multiple options and strategies to address education funding in Wyoming.

OPTIONS TO ADDRESS DEFICIT

The Subcommittee has identified five areas where the Legislature can find solutions to this problem. Each area might yield approximately $80 million. These five areas combined could potentially fill the $360 to 400 million yearly deficit:

1. Identify reductions or modifications to the current funding formula for Wyoming school districts and reductions to appropriations to state agencies from the School Foundation Program Account.
2. Identify current savings that could be used to offset revenue shortfalls.
3. Identify existing funding streams that could help offset revenue shortfalls.
4. Identify spending policies that could help offset revenue shortfalls.
5. Identify revenue enhancements that could offset revenue shortfalls.

Reductions or Formula Modifications

The Legislature may implement cuts in a phased-in approach, depending on which cuts, if any, are implemented. Examples of reductions in funding or modifications to the funding formula, in no particular order, include:

- Continued targeted decreases by a certain percentage of total funding. For example, a 0.6% reduction in total funding each year yields approximately $10 million in savings annually.
- Calibration of prices in the formula to "cost-based" levels for the non-personnel elements yields approximately $22 million in savings annually. A reduction to only technology and supplies budgets by 10% would yield approximately $6.5 million in savings annually.
- School district consolidation to 23 countywide school districts, while not closing any schools, but streamlining administration functions, yields approximately $7.5 million in savings annually.
- Statewide purchasing of school buses would eliminate the requirement for school buses to be leased or financed, which would yield approximately $0.4 to $1 million in savings annually.
- Reduction to central office administration salaries by 10% yields approximately $3.4 million in savings annually.
- Reduction in funding for student activities by half and requiring fees to augment activity budgets yields approximately $15 million in savings annually.
- The elimination of the instructional facilitator program would yield approximately $22 million in savings annually.
- Reduction of the number of professional development days funded from ten to five days would yield approximately $21.6 million annually. This would set the number of required days of operation to 180 days, which was the number of days required prior to school year 2006-07. This would reduce the salaries for positions in the funding model resourced for 185 days by five days or 2.7%.

Additionally, certain model elements could be held constant such as the 100% reimbursement for allowable transportation and special education expenditures to current funding levels until a review and recalibration of these elements could be performed. Holding transportation and special education expenditures, except bus purchases and leases, and special education tuition, would yield approximately $11.8 million dollars in savings for school year 2017-18. Related options would be to freeze the fleet size of school buses, daily route miles or student activity miles. The State could also review the option of utilizing Medicaid funding as part of the special education formula.

Current Savings

Examples of current savings would be to use the Legislative Stabilization Reserve Account (current estimated balance at the end of the 2017-2018 biennium is $1.59 billion) or the School Foundation Program Reserve Account (current estimated balance at the end of the 2017-2018 biennium is $100 million). These funds would be used to balance out the School Foundation Program Account depending on other options implemented.

Existing Funding Streams

Examples of existing funding sources that could be utilized to assist funding K-12 education are the 1% statutory diversion of severance taxes (approximately $89 million annually) or increase the percentage of federal mineral royalties directed to the School Foundation Program Account.

Spending Policies

An example of spending policy modifications would be to increase the balance of the Common School Permanent Land Fund Reserve Account to allow, or guarantee, a higher level of investment income to flow back to the School Foundation Program Account instead of being deposited to the Common School Permanent Land Fund corpus. Increasing the Reserve Account to 200% of the five year average of the spending policy would require approximately $225 million to flow to the Reserve Account from investment income or some other revenue source by the end of the 2017-2018 biennium. A larger Reserve Account might guarantee 5% investment earnings each year starting in FY 2019, which would provide an additional $85 million to $100 million, annually.

Revenue Enhancements

The Legislature may implement revenue enhancements in a phased-in approach, depending on which, if any, are implemented. Examples of revenue enhancements, in no particular order, include:

- Increase the number of mill levies assessed for education, which would yield approximately $20 million per mill annually.
- Require the taxation of health and professional services at the current 4% statewide sales tax rate, which would yield approximately $64 million annually.
- Increase the statewide sales tax, which would yield approximately $150 million per cent increase annually.

NEXT STEPS

The Subcommittee requests that all stakeholders, including, but not limited to, taxpayers, citizens, educators, parents and school districts provide feedback to the Subcommittee on each area (or others) so it can make recommendations to members of the House and Senate Education Committees to consider sponsoring legislation during the 2017 General Session. The goal of the Subcommittee is to draft legislation based upon the feedback from stakeholders to frame the draft legislation for the House and Senate Education Committees to consider. The House and Senate Education Committees would then hold public meetings during the first week of the 2017 General Session to consider sponsoring the draft legislation.

To provide feedback to the Subcommittee, we ask that you submit public comments on the Legislative Service Office's website at the following hyperlink no later than January 4, 2017:
http://www.wyoleg.gov/PostComments/Disclaimer.aspx?CommID=H04.