

Lottery funds could be the ticket for new classrooms

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OLYMPIA — From Safeco Stadium to the Qwest Field and Exhibition Center in Seattle, lottery revenue has been the winning ticket for various cash-starved state accounts. A proposal in the Legislature would turn lottery proceeds into new classrooms across Washington state.

In 2000, voters approved Initiative 728, a measure that directed lottery revenue from the state general fund for K-12 education, including class-size reduction. However in 2009, funds were reallocated into the the state general fund for the 2009-2011 biennium to cover a projected budget deficit. If the bill is passed, \$707 million in lottery-backed bonds would be used to finance the construction of K-3 classrooms.

"This isn't the Republican solution or the Democratic solution — it's the right thing to do," said Rep. Drew MacEwen, R-Union, a co-sponsor of the proposal. "We cannot continue to advocate for smaller class sizes in K-3 classrooms without funding the construction that allows for the required reductions."

The Office of the Superintendent of Public Instruction estimates 8,150 teachers for K-3 education and 3,500 classrooms would be needed to fully address the state's McCleary obligations.

In the McCleary v. Washington decision in 2012, the state Supreme Court ruled that the state was not sufficiently funding education. K-3 class size reduction was one of the priorities outlined by the court. According to a court order dated Jan. 9 this year, an estimated \$700 million would be needed to fully fund all-day kindergarten and K-3 class-size reduction.

[House Bill 2797](#) passed out of the House 90-7 last Tuesday with strong bipartisan support. The bill would help get classrooms ready as districts begin reducing class sizes to meet McCleary obligations by 2017. School districts would be able to build K-3 classrooms at no local expense.

The Office of the Superintendent of Public Instruction would determine where the schools and classrooms would be built, prioritizing "unhoused" K-3 students according to the 90-square-foot space per student mandated under the McCleary decision.

"Kids need classrooms," said Rep. Hans Dunshee, D-Snohomish, chair of the Capital Budget Committee and prime sponsor of the bill. "We're creating 7,000 jobs from Aberdeen to Walla Walla while building good classrooms for our youngest students, and we did it by working together, across party lines."

State Superintendent of Public Instruction Randy Dorn expressed his disappointment with both budgets that were announced last week. He estimated about \$400 million would be needed to keep the state on track for full funding of the McCleary decision by 2018.

"Any additional money the legislators want to appropriate for basic education is welcome," Dorn said.

However, Democratic State Treasurer Jim McIntire said the bill was a risky gamble.

"While I appreciate the need to give more attention to funding school construction, issuing these bonds would be outside the state's constitutional debt limit and would be a significant credit negative for the State of Washington," McIntire said in a letter to Gov. Jay Inslee and Senate leaders.

McIntire said the bill would likely increase the state's overall cost of funds for other investments — like transportation — because it would be regarded by the credit market "as a step away from Washington's long history of strong financial management and fiscal responsibility by exceeding our debt limit."

Dunshee said that after receiving negative feedback from the Piper Jaffray bond firm — which McIntire consults — he checked two other banks, including the Royal Bank of Canada. The other

bank didn't want its name disclosed publicly. Dunshee said both banks thought the bill was financially sound.

The bill would authorize the state finance committee to issue \$707 million in lottery revenue bonds. Dunshee estimates about \$100 million a biennium could be generated from the lottery to pay for K-3 classrooms. McIntire believes the state would only be able to borrow half the amount and at a higher cost.

Because revenue bonds depend on projected revenue, they are riskier than general obligation bonds — which operate off of existing revenue, such as income, property and sales taxes. McIntire said that while lottery revenues are fairly robust at the moment, there was no guarantee that the trend would continue.

While Washington isn't the first state to use lottery bonds to construct classrooms, only Arizona, Florida, Oregon and West Virginia have taken similar steps.

Leaders in the Senate Majority Coalition Caucus were critical of the proposal.

"There are a lot of games to me. They're double counting the money and the treasurer has already said that this isn't the way to go," said Senate Majority Leader Rodney Tom, D-Medina.

"I think that it's ironic that they're talking about taking \$100 million out of the general fund for education to buy junk bonds," said Sen. Andy Hill, R-Redmond, Chair of the Senate Ways and Means Committee.

"Why do that, when you've got a \$2 billion capital budget where we only spend a small minority on schools? We should just take that \$2 billion and spend more on schools," Hill said.

For Dunshee, this bill represents a small but necessary step in addressing McCleary obligations.

"They have to solve a \$2 billion dollar problem for the operating side on McCleary, so this will be chump change compared to that," Dunshee said.

"They always want to do something later. They've delayed a real conversation about how do you fund McCleary. They'd rather do nothing. That's their absolute, bottom-line position on everything," he said.

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