

HOUSE BILL REPORT

HB 1685

As Reported By House Committee On:

Capital Budget

Title: An act relating to the creation of a school construction endowment with associated property tax reductions.

Brief Description: Creating a school construction endowment and providing property tax reductions.

Sponsors: Representatives Hankins, Mitchell, Sehlin, Ogden, Carlson, Johnson, Talcott, K. Schmidt, Radcliff, Parlette, Dyer, Skinner, Honeyford, Zellinsky, Keiser, Dickerson, O'Brien, Blalock, Chopp, Hatfield, Regala, Conway, Lantz, Kenney, Wood, Doumit, Morris, Kessler and Cooke.

Brief History:

Committee Activity:

Capital Budget: 2/21/97, 3/10/97 [DPS].

HOUSE COMMITTEE ON CAPITAL BUDGET

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 10 members: Representatives Sehlin, Chairman; Honeyford, Vice Chairman; Sullivan, Assistant Ranking Minority Member; Costa; Hankins; Koster; Lantz; Mitchell; D. Sommers and H. Sommers.

Staff: Bill Robinson (786-7140).

Background: The state provides financial assistance to local school districts for school construction projects. The state program for financial assistance is generally described in statute with specific details for implementation delegated to the State Board of Education. The State Board of Education has developed an eligibility process and an allocation model for distributing state dollars appropriated by the Legislature to local school districts. The first step in the eligibility process requires school districts to secure voter approval of a local bond issue to finance the local share of a school construction project. State assistance has averaged about 50 percent of the total cost of construction projects statewide, although, the percentage amount will vary between districts depending on the value of taxable property in the district.

The state has traditionally relied on timber revenues from school trust lands to fund the state's share of school construction projects. Over the past 10 years, this revenue

source has not kept up with the growing demands of the school system. Timber revenues have remained relatively steady over time while enrollments and construction costs have increased at a faster rate. The Legislature has made up the difference by appropriating money from the state general fund and state bonds. During the past three biennia timber revenues have supplied only 40 percent of the total state money for the school construction program. The majority of the state money came from state bonds (46 percent) and general funds (14 percent).

Several legislatively commissioned studies over the past few years have recommended a dedicated funding source to supplement existing school trust revenues to address the long-term shortfalls in school construction funding. A 1995 report recommended the creation of an endowment fund. The endowment fund would be a sum of money placed into a separate account and only the interest income from the investment of the account would be available for school construction. The principal of the endowment would remain as a stable, perpetual source of income into the future. The concept of an endowment is not new to the state. The state constitution created a permanent common school fund into which all money received for the sale of school trust land is deposited. The principal of the permanent common school fund is non-reducible and only the income from the investments of the fund is available for school construction. The balance in the permanent common school fund is approximately \$140 million from the sale of land on the school trust.

The state operates a lottery to generate revenues for the state treasury. The Lottery Commission offers scratch-off games and several electronic games to maximize lottery revenues which, with the exception of the \$3 million per year that is dedicated to building a baseball stadium, are deposited into the state general fund. The lottery produces about \$125 million per year for the state treasury.

Summary of Substitute Bill: Each year during the 16-year time period from fiscal year 2000 to fiscal year 2015, \$62.5 million of lottery revenue is deposited into the permanent common school fund as an endowment for school construction. After fiscal year 2015, the state property tax levy will be reduced by the amount of lottery revenues deposited in the general fund.

Substitute Bill Compared to Original Bill: The annual amount of lottery revenue deposited into the permanent common school fund is changed from all lottery revenues (estimated at \$125 million) for eight years to \$62.5 million per year for 16 years.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: This bill has an emergency clause and takes effect on July 1, 1997.

Testimony For: The endowment provides a stable, perpetual source of income to fill in the funding gap between trust land revenues and documented need for school construction. Funding school construction from a \$1 billion endowment fund would save the state more than \$3 billion in interest payments on state bonds over the next twenty years. It would be preferable to fund the endowment fund from the general fund surplus created by Initiative 601 rather than from future general fund revenues; however, the public already believes that the lottery is used for education and this proposal will be consistent with that common belief. This proposal is much better than funding schools from impact fees and placing the burden of school construction on homeowners. The future property tax reduction will provide much needed property tax relief.

Testimony Against: None.

Testified: Representative Shirley Hankins, prime sponsor; Tom Balbo, Associated General Contractors; Mary Mauerman, AIA; Larry Swift, Washington Association of School Directors; Karen Davis, Washington Education Association; Donna Salcedo, Washington Association of School Administrators; Jean Ameluxen, Office of the Superintendent of Public Instruction; and Dick Ducharme, Building Industry Association of Washington (all in favor).