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**Education Committee**

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**HB 2079**

**Brief Description:** Changing school levy provisions.

**Sponsors:** Representatives Santos, Cox and Hankins.

**Brief Summary of Bill**

- Increases the maximum levy percentage under the levy lid from 24 percent to 28 percent.
- Increases the levy equalization formula from 12 percent to 14 percent.

**Hearing Date:** 3/3/03

**Staff:** Susan Morrissey (786-7111).

**Background:**

In 1977 when the state assumed additional responsibility for funding schools, the Legislature limited school district maintenance and operation levy authority by passing the levy lid law. This law determines the maximum amount that school districts can collect through local maintenance and operation levies, also called excess levies. The original 1977 law, which took effect in 1979, sought to limit levy revenue to 10 percent of a school district's state basic education allocation. It also contained a grandfather clause that permitted districts that historically relied heavily on levies to exceed the 10 percent limit.

The levy lid law has subsequently been modified 10 times. A number of the changes revised the calculation of a district's levy base. Under the 1977 law, the levy base was limited to the amount a district received from the state for basic education. In 1979, state categorical funding such as funds for transportation and special education were added to the base. In 1987, revenue was added to the levy base from certain federal programs and state block grants. In 1992, the base was further expanded by adding the percentage increase in state basic education divided by 55 percent.

The current formula for the levy lid is:

**(levy base × maximum levy percentage) ÷ transfers - maximum possible levy**

## **equalization)**

Under current law, a district's levy base includes most state and federal revenues for the prior school year. The base is further increased by the percentage increase in state basic education funding per student between the prior and current school years, divided by 55 percent. Under the levy lid formula, most districts may ask the voters to approve an amount equal to 24 percent of the total state and federal funds received by the district (the district's levy base). There are 91 school districts that are grandfathered in at higher percentages that range between 24.1 percent and 34 percent.

### Levy Equalization

In 1987, the Legislature created the Local Effort Assistance Program (LEAP), also known as levy equalization. The LEAP provides state funding to eligible school districts to match local maintenance and operation levy revenues. The LEAP was adopted to help equalize the amount of local funding that school districts with comparatively high property tax rates can raise in comparison to the amounts raised by school districts with below average property tax rates.

The levy equalization formula compares the tax rate a district needs in order to raise an amount equal to 12 percent of its state and federal revenues with the statewide average tax rate needed to raise 12 percent of state and federal revenues for all districts. Districts with above average tax rates receive a state match on local levy dollars. The equalization formula was tied to the levy lid formula at  $\frac{1}{2}$  of the maximum levy percentage.

Since its inception, the program has grown from \$24 million a year in 1989 to \$141 million a year in 2002. The number of eligible districts increased from 163 in 1989 to 210 in 2002. The reasons for the growth are changes in: assessed values, the levy base, legislative policy, and increases in voter-approved levies.

The 2002 Legislature reduced levy equalization funding by 1 percent for 2003. It also created a task force to study the levy equalization program and its impacts in order to determine whether the purpose of the program is being met under the current funding formula. The task force recommended that any changes to the program be considered within the context of a review of the entire education financing system. It also recommended that any reductions in the funding formula should be done on a pro-rata basis. It also recommended that Office of Superintendent of Public Instruction address some anomalies in its administration of the program through rule changes.

### **Summary of Bill:**

The maximum levy percentage is increased from 24 percent to 28 percent. The 91 grandfathered school districts may exceed that percentage to the extent permitted under current law. The levy equalization formula is increased from 12 percent to 14 percent.

**Appropriation:** None.

**Fiscal Note:** Requested on 2/26/03.

**Effective Date:** The bill takes effect 90 days after adjournment of session in which bill is passed.