

HOUSE BILL REPORT

HB 2332

As Reported by House Committee On:
Finance

Title: An act relating to the levies by school districts.

Brief Description: Concerning the levies by school districts.

Sponsors: Representative Hunter.

Brief History:

Committee Activity:

Finance: 3/2/07 [DP].

Brief Summary of Bill

- Authorizes school districts to impose additional maintenance and operation (M&O) levies to the extent that statutory changes increase levy lid capacity.

HOUSE COMMITTEE ON FINANCE

Majority Report: Do pass. Signed by 6 members: Representatives Hunter, Chair; Hasegawa, Vice Chair; Conway, Ericks, McIntire and Santos.

Minority Report: Do not pass. Signed by 3 members: Representatives Orcutt, Ranking Minority Member; Condotta, Assistant Ranking Minority Member and Roach.

Staff: Mark Matteson (786-7145).

Background:

Property Taxes in General. The State Constitution limits the sum of property tax rates to a maximum of 1 percent of true and fair value, or \$10 per \$1,000 of market value. Levies that are subject to the 1 percent rate limitation are known as "regular" levies, and there is no constitutional voting requirement for regular levies. The Constitution does provide a procedure for voter approval for tax rates that exceed the 1 percent limit. These taxes are called "excess" levies. The most common excess levies are maintenance and operation (M&O) levies for school districts and bond retirement levies. The Constitution provides that excess levies must obtain a 60 percent majority vote plus meet a minimum voter turnout

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requirement. Once a school district issues an M&O levy, no other levy may be issued until the M&O levy expires.

Levy Lids. In 1977, when the state assumed additional responsibility for funding schools, the Legislature limited school district M&O levy authority by enacting the levy lid law. This law determines the maximum amounts school districts can collect through local maintenance and operation 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 which permitted districts that historically relied heavily on excess levies to exceed the 10 percent limit.

Under current law, most districts may ask the voters to approve an amount equal to 24 percent of the district's levy base. There are 91 school districts that are grandfathered at higher percentages that range from 24.01 percent to 33.9 percent.

A district's levy base includes most state and federal revenues received by the district in the prior school year. The levy lid formula increases the base by multiplying the district's state and federal revenues by the percentage change in per student state expenditures between the prior and current school years, divided by 55 percent.

Changes to the Levy Lid Formula. Over time, the Legislature has modified the levy lid formula to increase the lid amount, either by increasing the percentage rate (i.e., the 24 percent rate) or the levy base. In 2004, there was an adjustment to the levy base to address the suspension of the provisions of Initiatives 728 and 732, which increased the base for 2005 and 2006 by almost 5 percent.

School districts for which M&O levies are issued immediately preceding legislative modifications to the levy lid formula do not receive benefit of statutory changes until the current levy expires and a new levy is issued.

Summary of Bill:

School districts may impose additional M&O levies to the extent the Legislature increases statutory capacity under the levy lid formula.

Appropriation: None.

Fiscal Note: Available.

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

Staff Summary of Public Testimony:

(In support) We support this because it provides relief to some districts. Periodically, the Legislature increases levy capacity for school districts but, due to timing of when local levies have been issued, some districts are unable to immediately capture the benefit of such an increase. This could be an issue if part of the reason for such an increase was due, say, to a cost-of-living adjustment in state-funded salaries that then compels local districts to boost salaries for locally-funded personnel. The problem arises when the Legislature increases capacity between levy election years. Current law precludes us from issuing a supplemental levy to capture the increased capacity.

The Issaquah School District is 268th out of 290 school districts in revenue per full-time equivalent enrolled student. In addition, we face budget cuts in the next several years. The extra capacity will make a real difference in programs offered to students.

At Lake Washington School District, this issue is not a theoretical possibility. There is a Senate bill that will increase the levy capacity for up to six years. We ran a levy in 2006. Without this fix, it is unfair and we won't be able to capture this benefit. Some districts will ask for extra capacity, but some won't. It will just depend on circumstances.

(Opposed) None.

Persons Testifying: Representative Hunter, prime sponsor; Bill Freund, Washington Education Association; Connie Fletcher; Issaquah School District; and Don Saul, Lake Washington School District.

Persons Signed In To Testify But Not Testifying: None.