
Education Appropriations Committee

HB 2746

Brief Description: Concerning a comprehensive K-12 education policy.

Sponsors: Representatives Hope, Priest and Sullivan.

Brief Summary of Bill

- Sets forth in statute a finding that the current system of financing public schools relies increasingly on a system of excess property tax levies which are not regular and dependable revenue sources.
- Modifies the charge of the Local Finance Working Group to include an analysis of strategies for a) increasing K-12 funding through the statewide property tax, b) reducing reliance on voter-approved maintenance and operation levies, c) removing levy grandfathering provisions in current law, and d) providing property tax relief for property poor districts.
- Adds a preliminary report to the work of the Local Finance Working group, due December 1, 2010, and adds the Department of Revenue among agencies which must provide staff support to the Working Group.

Hearing Date: 1/26/10

Staff: Ben Rarick (786-7349).

Background:

Funding overview:

School districts in Washington are funded through a combination of state, local, and federal funds. According to Statewide Annual Financial Tables & Charts produced by the Office of the Superintendent of Public Instruction, Washington per pupil revenues in the K-12 public schools for the 2008-09 school year averaged \$9807. Total funding was approximately \$9.77 billion, reflecting all general fund revenue sources to school districts (state, federal, and local sources). During the 2008-09 school year, local funding accounted for approximately 19 percent of total

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funding, while state and federal funds accounted for approximately 67 percent and 13 percent of the total, respectively.

State funding for public schools comes primarily from state general fund revenues. State general fund revenues come from a variety of taxing sources. Approximately 53 percent comes from retail sales and use taxes, 19 percent from business and occupation taxes, 10 percent from the state property tax, and about 5.4 percent from the real estate excise tax. RCW 84.55.010 provides that the state shall levy a tax of \$3.60 per thousand dollars of assessed value to support the common schools; however, due to the imposition of various spending and tax limits, and increasing property values over time, among other factors, the current state property tax rate is estimated at \$1.87.

Local maintenance and operations levies:

Local funds for school districts are raised primarily through excess property tax levies approved by local voters. In calendar year 2009, excess levies were approximately \$1.7 billion statewide.

The Levy Lid Act of 1977 was enacted to impose limits on local excess levies to support schools. The Act was enacted shortly after several large school districts failed maintenance and operations levys, including the Seattle School District. Additionally, in 1978, the Supreme Court issued a ruling in *Seattle vs. State of Washington* requiring the state to fund basic education through dependable and regular tax sources. The Court's ruling found that local excess levies were not reliable or dependable.

The Levy Lid Act imposed a cap on local levies, limiting total local maintenance and operations levies to 10 percent of each districts' state basic education allocation. It also contained a "grandfather clause" which permitted districts already exceeding the 10 percent limit to remain at existing rates. The law contained a phase-out schedule which would have brought all districts to 10 percent by 1982; however, this goal was never realized.

Over time, the legislature has made numerous changes to the limits imposed on local levies which have expanded school district levy authority. These changes include expanding the levy "base" upon which district levy authority is calculated to include more categories of state and federal revenues, and increasing the levy lid incrementally over time to the current limit of 24 percent (91 districts are grandfathered at lid rates higher than 24 percent).

The state also established a program of local effort assistance to provide property tax relief to districts with high property tax rates. The state currently equalizes to 12 percent, or half of the levy lid. Local effort assistance payments to school districts have increased from approximately \$23 million in 1989 to over \$235 million for calendar year 2009, and the number of districts receiving local effort assistance has increased from 163 to 222 during the same time period.

Reliance on excess property tax levies has declined since The Levy Lid Act of 1977. Prior to 1977, maintenance and operation levies accounted for more than 30 percent of school district operating revenues statewide. Since 1977, levy revenues as a percent of total operating revenues dropped below 10 percent in the early 1980's, but have gradually increased and are at approximately 19 percent today.

The QEC and the Local Finance Working Group:

Engrossed Second Substitute House Bill 2261 (Chapter 548, Laws of 2009) created a series of working groups to analyze facets of Washington's public school funding system. Section 114 of the bill created the Quality Education Council (QEC), with responsibilities to recommend and inform the ongoing implementation of a new definition of basic education and the financing to support it. The QEC is also responsible for overseeing the work of various technical workgroups charged with detailed analyses of funding formulas.

Section 302 of the bill created the Local Finance Working Group, charged with developing options for a new system of supplemental school funding through local school levies and local effort assistance. The working group is overseen by the Legislature and the QEC and shall produce a report by December 1, 2011.

Summary of Bill:

The bill sets forth in statute a finding that the current system of financing public schools relies increasingly on excess property tax levies, which are not regular and dependable revenue sources.

The bill modifies the charge of the Local Finance Working Group to include an analysis of strategies for: a) increasing K-12 funding through the statewide property tax, b) reducing reliance on voter-approved levies, c) removing levy grandfathering provisions in current law, and d) adjusting property tax burdens across districts. It also requires the Working Group to analyze proposals made by private citizens.

The bill adds a preliminary report to the work of the Local Finance Working Group, due December 1, 2010. Current law only requires a final report from the Working Group, due December 1, 2011. The bill also requires the Department of Revenue to provide staff support to aid in the financial and legal analysis of the Working Group.

Appropriation: None.

Fiscal Note: Requested on January 18th, 2010.

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