

SENATE BILL REPORT

SB 6488

As of January 29, 2010

Title: An act relating to school levies.

Brief Description: Regarding school levies.

Sponsors: Senators Oemig, Gordon, McAuliffe, Tom, Rockefeller, Kline and Ranker; by request of Governor Gregoire.

Brief History:

Committee Activity: Early Learning & K-12 Education: 1/21/10, 1/25/10 [DPS-WM, DNP].

Ways & Means: 1/27/10.

SENATE COMMITTEE ON EARLY LEARNING & K-12 EDUCATION

Majority Report: That Substitute Senate Bill No. 6488 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators McAuliffe, Chair; Oemig, Vice Chair, K-12; Gordon, Hobbs, McDermott and Tom.

Minority Report: Do not pass.

Signed by Senators King, Ranking Minority Member; Brandland, Holmquist and Roach.

Staff: Alicia Kinne (786-7784)

SENATE COMMITTEE ON WAYS & MEANS

Staff: Elise Greef (786-7708)

Background: The State Constitution gives school districts the authority to levy local property taxes provided the voters of the district approve the levy with a simply majority in favor. In 1977 when the state assumed additional responsibility for funding schools, the Legislature limited school district Maintenance and Operation (M&O) levy authority by passing the levy lid law. This law establishes the maximum amount of a school district's M&O levy for a calendar year. In 1979 the levy lid law took effect, limiting excess General Fund revenue to 10 percent of the school district's basic education allocation for the school year. The law allowed districts that historically raised more revenue through M&O levies to

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be grandfathered in at a higher rate than the 10 percent limit. In 1987 the levy lid limit was increased to 20 percent. In 1994 the levy base increased to 24 percent.

The Local Effort Assistant Program (LEA) was originally implemented in 1989 and seeks to equalize the tax burden by providing matching state funds to districts with low property values and high levy rates. The levy equalization percentage is currently 12 percent.

Beginning in 2001 portions of state property tax and state lottery revenues were dedicated to the Student Achievement Fund, per Initiative 728 (I-728). Initiative 728 directed that, beginning in 2004, school districts receive Student Achievement Fund allocations in the amount of \$450 per Full-Time-Equivalent (FTE) student, with the amount to increase by designated amounts in proceeding years. The 2003 Legislature revised the per-pupil payments to a lower amount, to increase in subsequent years. In 2009-11, payments were again reduced – from planned per-pupil allocations of \$458.10 and \$463.58 in School Years 2009-10 and 2010-11, respectively, to \$131.20 and \$99.32.

Passed by voters in November 2000, I-732 required the state to provide annual cost-of-living increases for Washington's public school employees. In 2003, and again in 2009-11, lawmakers suspended the inflation increases in I-732.

Summary of Bill (Recommended Substitute): For calendar years 2011 through 2017, districts are allowed to raise levy lids to 36 percent. During calendar years 2011 through 2017, school districts where voters have authorized a multi-year levy are allowed to seek voter authorization for an additional maintenance and operations levy if the current levy was approved prior to or during 2010.

In calendar years 2011 through 2013, districts eligible for 18 percent local effort assistance are those districts with a 12 percent levy rate that exceeds the statewide average 12 percent levy rate and that, in the prior school year, were in the one-fourth of such districts receiving the least per-pupil funding from state and federal sources. Those districts not in the least one-fourth of all districts for per-pupil funding from state and federal sources are eligible for 12 percent local effort assistance.

For levy collections through calendar year 2017 a district's levy base will include the amounts the districts would have received from state funding for Student Achievement Funds (I-728) and educator cost-of-living increases (I-732) – including the 2009-11 suspensions of these payments. Beginning with calendar year 2011, adjustments made to the levy base to account for changes to I-728 will be made based on prior year rather than current year calculations. Beginning with calendar year 2011, districts may calculate any cuts to the kindergarten through four class size enhancement initiative into the levy base.

EFFECT OF CHANGES MADE BY EARLY LEARNING & K-12 EDUCATION COMMITTEE (Recommended Substitute): Districts eligible for 18 percent local effort assistance are those districts with a 12 percent levy rate that exceeds the statewide average 12 percent levy rate and that, in the prior school year, were in the one-fourth of such districts receiving the least per-pupil funding from state and federal sources. Those districts not in the least one-fourth of all districts for per-pupil funding from state and federal sources are eligible for 12 percent local effort assistance.

Beginning in calendar year 2011, districts may calculate any cuts to the kindergarten through four class size enhancement initiative into the levy base.

Effective date is extended through calendar year 2017.

Appropriation: None.

Fiscal Note: Requested on January 13, 2010.

Committee/Commission/Task Force Created: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony on Original Bill (Early Learning & K-12 Education): PRO: This bill includes in the levy base what districts could have expected in revenue had they received funding for I-732 and I-728. It tries to balance district's need for money with disparities in funding. Time limited factor is purposeful to adjust these provisions when the economy recovers. It helps districts with the political means to do more, but limits it by levy lid.

CON: This bill exacerbates differences between have and have not districts. It is dangerously close to the state backing away from basic education support. The bill lifts the lid too much and will not help all districts with LEA funds. Opposed to the levy lid lift because there is not consensus around how to lift the levy.

OTHER: Concerned about the time frame in the bill and that it does not go long enough. There is also concern about districts just outside the 25th percentile for LEA funds. Superintendent Dorn is very concerned about the levy lid increasing and the districts not having the political will to increase the lid. Recognizes that the lid conversation needs to take place.

Persons Testifying (Early Learning & K-12 Education): PRO: Senator Oemig, prime sponsor; Judy Hartmann, Governor's Policy Office; Amy Skai, Office of Financial Management.

CON: Dan Steele, WA School Director's Association; Paul Locke, citizen.

OTHER: Randy Parr, WA Education Association; Kim Howard, WA PTA.

Staff Summary of Public Testimony (Ways & Means): PRO: This is an important subject and a very big part of our budget. The bill expands the levy base and the size of the Local Effort Assistance (LEA) payments and, like other levy bills, addresses a dire situation. All districts win under the bill; some win more. By expanding the levy base, all LEA collectors win. By increasing the levy lid, the districts who can, will be able to collect additional local levies. Looking at a district-by-district view, some of our supposedly wealthiest districts, on a property value basis, are so hobbled by the current system they are some of the least-funded on a per-pupil basis. At the same time, districts with the most LEA collections are the most

richly funded on a per-kid basis. A have and have-not system is exacerbated by elements in the current levy equalization system. Long-term, we need to harmonize all our funding streams; that process would create winners and losers. In the short-term, this bill does not have losers - just winners. Even though this bill is aggressive in the degree to which the levy lid is lifted, it is preferable to have some solution to districts' funding problems than no solution at all. We genuinely appreciate the approach but are concerned about exacerbating a rich/poor split by lifting the lid so high and selecting a quartile - through whatever formula - to receive enhanced LEA payments.

CON: We strongly oppose this bill. The lid increase goes too far and, even though the bill increases LEA, it is for only a minority of districts. Very few districts will be able to make use of the higher lid. Although all districts are favored by extending the levy base provisions, overall the bill helps only those districts on the two extremes of the spectrum leaving most districts in the middle with nothing. The bill increases disparities. This bill, like the other levy bills, simply winds up being another tax. The City of Seattle has a city school levy as well. Sending out more levy opportunities to a city such as Seattle means guaranteed passage - the people who are voting, "yes" rent and do not have to pay the resulting property taxes.

OTHER: The Governor has the same goal that the Legislature has - helping local districts. The Governor has two important objectives - increasing the levy lid to allow local jurisdictions help themselves, and targeting limited resources to those most in need by focusing on the most extreme quartile. She appreciates Senator Oemig's work on this issue. Where we diverge is in the length of the measure. The original expiration at the end of 2013 was set because the Governor sees this as a temporary measure to carry the state through the very short term until the upcoming Levy Work Group, convening this summer, has an opportunity to do its work. Would like to continue working with you.

Persons Testifying (Ways & Means): PRO: Senator Oemig, prime sponsor; Doug Nelson, Public School Employees of Washington; Randy Parr, Washington Education Association.

CON: Dan Steele, Washington State School Directors' Association; Paul W. Locke.

OTHER: Julie Murray, Office of Financial Management.