

SENATE BILL REPORT

SB 6858

As Reported by Senate Committee On:
Early Learning & K-12 Education, February 22, 2010

Title: An act relating to carrying out the state's paramount duty by providing ample, stable, and dependable funding for basic education by shifting a portion of school funding from local levies to the state property tax levy.

Brief Description: Providing for ample funding for basic education.

Sponsors: Senators Zarelli, Pflug, King, Hewitt, Stevens, Delvin, Schoesler and Parlette.

Brief History:

Committee Activity: Early Learning & K-12 Education: 2/22/10 [w/oRec-WM, DNP, w/oRec].

SENATE COMMITTEE ON EARLY LEARNING & K-12 EDUCATION

Majority Report: That it be referred without recommendation and be referred to Committee on Ways & Means.

Signed by Senators McAuliffe, Chair; Kauffman, Vice Chair, Early Learning; Oemig, Vice Chair, K-12; King, Ranking Minority Member; Brandland, Gordon, Hobbs, Holmquist and McDermott.

Minority Report: Do not pass.

Signed by Senator Tom.

Minority Report: That it be referred without recommendation.

Signed by Senator Roach.

Staff: Susan Mielke (786-7422)

Background: Constitutional Duty of the State. Under article IX, section 1 of the Washington State Constitution, "It is the paramount duty of the state to make ample provision for the education of all children residing within its borders" The courts have interpreted this to mean that the state must define a program of basic education and amply fund it from a regular and dependable source. The courts have found that local levies are not regular or dependable and may only be used for enrichment programs beyond basic education. The courts have concluded that once the Legislature has established full funding for the program of basic education it may not reduce such funding, even in periods of fiscal

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

crisis. However, the Legislature must review, evaluate, and revise the program of education and its funding in order to meet the current needs of the children in the state. The state must also provide a general and uniform system of public schools under article IX, section 2 of the Constitution.

State Property Tax. Property owners in Washington pay taxes to the state and to several local jurisdictions based on the assessed value of their property, unless an exemption applies. By statute, state property tax levies are designated as exclusively for the support of the common schools, but the money goes to the State General Fund. Under the State Constitution, regular property taxes are limited to 1 percent of the true and fair valuation of the property (\$10 per \$1,000) at a rate that is statutorily limited to \$3.60 per \$1,000 of assessed value. The actual rate in 2009 was \$1.98. In 2009, \$1.8 billion was collected by the state.

School District Property Levy. The State Constitution gives school districts the authority to levy local property taxes above the 1 percent limit on regular property taxes if the voters of the district approve the levy with a simple majority or a bond with a 60 percent or a supermajority. A school district's levy base includes most state and federal revenues for the prior school, including a percentage of any increase in state basic education funding between the prior and current school years. Additionally, funds that districts received from the Student Achievement Program created by Initiative 728 (I-728), and cost-of-living increases for public school employees under Initiative 732 (I-732), are part of a school district's levy base. On a number of occasions, a portion of the funds to be provided via those initiatives were suspended or reduced. Legislation enacted in 2004 allows school districts to include in their levy bases the amounts that districts would have received if I-728 and I-732 had not been reduced in subsequent budgets. This inclusion is scheduled to expire at the end of calendar year 2011.

School District Levy Lid. 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 relied on M&O levies to be grandfathered in and exceed the 10 percent limit. In 1987 the levy lid was increased to 20 percent. In 1994 the levy lid was increased to 24 percent. There are currently 90 school districts that are grandfathered at higher percentages that range from 24.01 percent to 33.9 percent. In 2009, \$1.6 billion was collected through maintenance and operations levies, and \$1.1 billion was collected through levies for capital expenses and bonds.

Student Transportation. The current student transportation funding formula calculates the costs of transporting eligible students to and from school based on a radius mile for each student transported, adjusted by various factors. Last session the Legislature passed legislation which authorized a new funding formula to take effect no later than the 2013-14 school year that uses a regression analysis of various cost factors to allocate funds to school districts. The legislation also created the Quality Education Council (QEC) to, among other things, recommend a phase-in schedule for the new student transportation formula. The

January 2010 report of the QEC included a recommendation that the new student transportation formula be phased-in over three years beginning September 1, 2011.

Materials, Supplies, and Operating Costs (MSOC). The QEC also recommended an increase to the MSOC factors in the prototypical school funding formula based on data collected by OSPI about costs incurred by school districts. The QEC recommended the increase be phased in over a three-year period beginning in the 2011-12 school year and adjusted for inflation in the following years.

Summary of Bill: State Property Tax. An additional state property tax at the rate of 88 cents per \$1,000 assessed property value is established and dedicated to the support of common schools.

School District Property Levy. A school district's levy base continues to include amounts districts would have received if I-728 and I-732 were not reduced by budget changes since enactment. The expiration date for this inclusion is extended to December 2017. In addition, if the K-4 enhancement dollars are eliminated by the Legislature, the lost funds are included in the base in the same manner as I-728 and I-732. The bill creates definitions of the I-728 and I-732 levy base, and specifies the calculation of the I-728 levy base use the allocation rate, rather than total allocation amount, that a district would have received per student.

School District Levy Lid. Beginning in 2011, the maximum levy percentage for a school district is reduced by 12 percent of the levy base for all school districts. The remaining levy lid percentage is 12 percent plus current grandfathered increments resulting in a range from 12.01 percent to 21.9 percent for the grandfathered districts.

Student Transportation. The new student transportation funding formula is implemented beginning in the 2011-12 school year.

Materials, Supplies, and Operating Costs (MSOC). Beginning in the 2011-12 school year, the MSOC allocations will be funded based upon the cost data from the Office of the Superintendent of Public Instruction and adjusted annually for inflation as specified in the appropriations act.

Hold Harmless. Beginning in the 2011-12 school year, the Legislature must ensure that no school district receives a total revenue that is less than the total revenue that the school district received in the 2010-11 school year through local school district levies, state levy equalization funds, state funds for student transportation, and for MSOC.

Appropriation: None.

Fiscal Note: Requested on February 17, 2010.
[OFM requested ten-year cost projection pursuant to I-960.]

Committee/Commission/Task Force Created: No.

Effective Date: The bill contains several effective dates. Please refer to the bill.

Staff Summary of Public Testimony: PRO: This does increase the state levy but reduces the amount of property tax assessed at the local school district level by an equal amount. There are several policy discussions on how and how much schools will be funded. Those policies are not addressed in this bill. This addresses the base funding level for basic education by the state. Several districts have made the case in court that over the years the state has required school districts to assess a local levy for the basic operating costs for MSOC and student transportation. These are really costs that are the responsibility of the state. Property-poor districts have to charge an exorbitant amount to raise the same amount at the local level as property-rich districts. This bill makes a uniform application of the property tax so everyone will pay their fair share to support basic education. Most of the taxpayers will actually see a reduction in their overall property taxes; others will see varying degrees of increase. This is an innovative and imaginative proposal that should be given serious consideration.

OTHER: We are very supportive of the concept and intent of this bill. We have a major funding crisis in education and we want to ensure that a thoughtful discussion is had and some solutions are found. SB 6740 actually frames the funding questions and the ideas in this bill should be added to that bill.

Persons Testifying: PRO: Senator Joe Zarelli, prime sponsor; Doug Nelson. Public School Employees/Service Employees International Union.

OTHER: Dan Steele, Washington State School Directors Association.