SENATE BILL REPORT
SB 5898

As Reported by Senate Committee On:
Ways & Means, April 11, 2013

Title: An act relating to increasing education funding, including adjusting school district levy and state levy equalization provisions.

Brief Description: Increasing education funding, including adjusting school district levy and state levy equalization provisions.

Sponsors: Senators Hill and Hargrove.

Brief History:
Committee Activity: Ways & Means: 4/10/13, 4/11/13 [DPS, DNP].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 5898 be substituted therefor, and the substitute bill do pass.
Signed by Senators Hill, Chair; Baumgartner, Vice Chair; Honeyford, Capital Budget Chair; Hargrove, Ranking Member; Nelson, Assistant Ranking Member; Bailey, Becker, Braun, Dammeier, Fraser, Hatfield, Hewitt, Keiser, Kohl-Welles, Padden, Parlette, Ranker, Rivers, Schoesler and Tom.

Minority Report: Do not pass.
Signed by Senator Hasegawa.

Staff: Elise Greef (786-7708)

Background: K-12 Public School Funding Model. In the 2009-11 biennium, two major pieces of legislation were enacted to redefine basic education and restructure K-12 funding formulas. The first was ESHB 2261 – Chapter 548, Laws of 2009, which added programs to the definition of basic education – including the program for highly capable students and phasing in full-day kindergarten. It increased the number of instructional hours, increased the minimum number of credits for high school graduation, and changed the system for funding student transportation. The bill also created the framework for a new K-12 funding allocation formula based on prototypical schools. Changes took effect September 1, 2011 and most enhancements are to be phased in by 2018 on a schedule set by the Legislature.

The second bill, SHB 2776 – Chapter 236, Laws of 2010, enacted in statute the funding formulas for the new prototypical schools format at levels that represented what the state was spending on basic education at the time. It set targets for class-size reduction in the lower grades and established a timeline for phasing in certain enhancements to the program of basic education and the new funding levels. The new funding model is intended to provide greater understanding about how state funds for K-12 are allocated to school districts, and to improve accountability.

The Senate Omnibus Appropriations Act, ESSB 5034 – making 2013-2015 operating appropriations, which passed the Senate floor on April 5, 2013, funds just over $1 billion in enhancements to K-12 public schools, including full implementation of the new pupil transportation funding formula; full implementation of enhanced rates for materials, supplies, and operating costs (MSOC); an approximately 100 percent increase in additional instruction in the Learning Assistance Program; and continued phase in of full-day kindergarten.

Local School District Levy. Article 7 of the state constitution and chapter 84.52 RCW grant school districts the authority to levy local property taxes. In 1978, the Washington State Supreme Court found that school districts may use local tax levies to fund enrichment programs and programs outside the legislative definition of basic education. However, the use of local levies cannot reduce the state's obligation to fund basic education. The Legislature, therefore, limits the amount of revenue that a school district can raise through maintenance and operation (M & O) levies. The current limit for most school districts is 28 percent of the school district's state and federal funding for the previous school year (called the levy base). Ninety-one school districts have levy limits higher than 28 percent, ranging from 28 to 38 percent of their levy base. These higher limits are based on their historical levels of levy passage prior to the establishment of the limit.

In 2010, the Legislature temporarily increased the levy authority percentage by four percentage points – from 24 percent to 28 percent starting with the 2011 collection year. This resulted in a minimum levy authority percentage of 28 percent. This four percentage point increase was also applied to grandfathered districts. The statutory expiration date for the temporary four percentage point increase is January 1, 2018, when full implementation of the phased-in enhancements under Chapter 548, Laws of 2009, are scheduled to be complete.

As the enhanced state funding is phased in, the levy base increases. Applying the same levy lid percent to a larger base automatically increases M & O levy capacity.

Levy Equalization. Local effort assistance (LEA) is state money paid to eligible districts to match voter approved excess General Fund levies. These payments help school districts that have above-average tax rates due to low property valuations.

Currently, the levy equalization percentage is 14 percent, or half of the minimum levy lid of 28 percent. That means that districts eligible for LEA are those districts with a 14 percent levy rate which exceeds the statewide average 14 percent levy rate. The district 14 percent levy rate is the tax rate needed to collect a levy equal to 14 percent of the district's levy base. The district's 14 percent levy rate is therefore a hypothetical rate used to calculate a state matching contribution and should not be confused with the district's actual tax rate.

A district must certify an excess levy in order to receive LEA. To receive maximum LEA, a district must certify a levy amount greater than or equal to the district's share of the 14 percent levy amount – the 14 percent levy amount minus maximum LEA. Districts certifying less than the district's share of the 14 percent levy amount receive a pro-rata portion of maximum LEA.

The LEA percentage is scheduled to return to its 2010 level of 12 percent on January 1, 2018, which will retain the 50 percent proportional relationship to the minimum levy lid.

Summary of Bill (Recommended Substitute): The statutory per-pupil MSOC rates for the 2015-16 school year are set to reflect the fully phased enhancements provided for the 2014-15 school year in the Senate's budget, adjusted for inflation.

The pupil transportation formula is amended to reflect full implementation and funding as of the 2013-14 school year. Once fully implemented and funded, language is no longer needed that directs the allocation of transition funding.

The minimum levy lid percent is decreased by one percentage point per calendar year, beginning in 2015, to reach the statutory level of 24 percent in 2018. The LEA equalization percentage is decreased by one-half of one percentage point per year over the same time period to retain the proportional 50 percent relationship to the minimum levy lid. The decreases in calendar years 2016 and 2017 are contingent on policy-level basic education enhancements totaling at least $1 billion in the 2015-17 Omnibus Appropriations Act.

EFFECT OF CHANGES MADE BY WAYS & MEANS COMMITTEE (Recommended Substitute): The substitute adds a contingency that levy lid and levy equalization percentage decreases for calendar years 2016 and 2017 are effective only if specific amounts of funding enhancements are provided in the 2015-17 budget.

Appropriation: None.

Fiscal Note: Not requested.

Committee/Commission/Task Force Created: None.

Effective Date: The bill contains several effective dates. Sections 1 and 2 take effect September 1, 2013. Sections 3, 5, and 6 take effect January 1, 2014. Section 4 takes effect January 1, 2018.

Staff Summary of Public Testimony: OTHER: School districts do not believe the step down in levy lids is necessary. They know the levy lids are scheduled to drop in calendar year 2018 and are budgeting for it. As you are putting money back into the system, do not implement the step down. We will deal with the lower lid in 2018 when it comes along. We realize that, as the state steps up to the plate, we do need to look at the local taxpayer and figure out some way to reduce that responsibility. There is a rationale for the calendar year 2015 step down but we are not confident that the state will actually fund in the out years. The first step makes sense but hold off on the later changes. The reset of the funding relationship between the local districts and the state is a conversation we need to be having and something the *McCleary* decision requ ires. A big part of *McCleary* is resetting that relationship regarding shares of levies. The local taxpayers need to be protected as the state steps up and fulfills its obligations. But go with great care and make sure we leave our school districts whole as we go forward.

CON: We prefer class-size reduction funding to full implementation of MSOC. When the temporary surcharge on levies was enacted, it was intended as a bridge to get us through a difficult economic period until we would see full funding in 2018. Districts have other contractual obligations outside the state menu of spending and they need steady resources through the years. The districts are planning for the transition period. We are not confident the state has the capacity to fulfill its funding plan.

Persons Testifying: OTHER: Charles Brown, The Schools Alliance; Doug Nelson, Public School Employees/Service Employees International Union 1948; Frank Ordway, League of Education Voters.

CON: Randy Parr, WA Education Assn.