

SENATE BILL REPORT

SB 5825

As of February 27, 2017

Title: An act relating to addressing the state's paramount duty to fully fund K-12 education by creating a new partnership between the state and local school districts.

Brief Description: Addressing the state's paramount duty to fully fund K-12 education by creating a new partnership between the state and local school districts.

Sponsors: Senators Mullet, Hobbs and Takko.

Brief History:

Committee Activity: Ways & Means: 2/27/17.

Brief Summary of Bill

- Requires school districts to impose permanent regular levies based on the school district's 2017 maintenance and operation (M&O) levy rate.
- Caps future M&O levies at \$1000 per student.
- Provides state levy equalization distributions for school district regular and M&O levies—M&O levies are equalized at 50 percent.
- Requires the Office of the Superintendent of Public Instruction to verify the use of M&O levy funds to ensure that the proceeds are not used for basic education beginning with ballot propositions submitted to voters in 2018.
- Renames M&O levies as enrichment levies.
- Exempts property owners qualifying under the senior citizen property tax relief program from the new permanent regular school district levies.
- Amends the state law outlining the state's program of basic education to include provisions specifying that salary allocations must be sufficient to recruit and retain competent teachers, administrators, and other staff.
- Requires school districts to provide a minimum salary for beginning certificated instructional staff in the basic education program of \$45,000.
- Modifies the salary allocation model for certificated instructional staff.
- Eliminates certain school district salary restrictions.

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.

- Establishes uniform per pupil funding for general and categorical programs.
- Guarantees an \$11,500 per pupil minimum for state basic education distributions and local regular levy revenues.
- Provides a fiscal hold-harmless provision to ensure school districts do not receive less funding under the new funding structure than the funding that would otherwise be provided under current law.
- Requires school districts to establish a separate sub-fund for local enrichment levies and certain other non-basic education revenues.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Jeffrey Mitchell (786-7438)

Background: Basic Education. The Washington State Constitution (Constitution) provides: “It is the paramount duty of the state to make ample provision for the education of all children residing within its borders...” The Washington State Supreme Court (Court) has interpreted this to mean that the Legislature must define an instructional program of basic education for public schools and amply fund it from a regular and dependable source; and that the funding should reflect the actual costs of providing the legislatively defined instructional program of basic education.

School Funding and the Prototypical Model. Over 70 percent of the state allocations to school districts are distributed through the general apportionment prototypical school funding model based on staffing ratios, salary levels, and other cost allocation factors based on student enrollment. The funding formula has specific increases for career and technical education.

For certificated instructional staff, the prototypical school funding system includes a salary allocation schedule. For certificated instructional staff, administrative staff, and classified staff, the system includes allocation amounts based on historical salary levels and includes some school districts at grandfathered levels.

The Legislature’s definition of basic education also includes six other programs: special education; pupil transportation; the Learning Assistance Program for remediation assistance; the Transitional Bilingual Education program; the highly capable program; and educational programs in juvenile detention centers and state institutions. Most of these funds are distributed based on staffing ratios, salary levels, and other cost allocation factors based on student enrollment.

Local School District Levies. School districts are authorized to raise funds locally for their districts through excess levies. Since 1977, the Legislature has limited the amount school districts may request from their voters and collect through M&O levies. The maximum amount that may be raised is based on the state and federal funding received by the district in

the prior year. The amount that may be raised is typically referred to as the district's levy authority.

The levy lid is the limit on school districts' levy authority. Under current law, 205 of the 295 school districts have a levy lid of 28 percent of the district's state and federal funding, which was temporarily increased in the 2010 legislative session from 24 percent. This means that 205 school districts may request voter approval and collect \$0.28 for each \$1 of state and federal revenue the district receives. The other 90 school districts have a levy lid ranging from 28.01 percent to 37.90 percent.

Additionally, in the 2010 legislative session, the Legislature increased a school district's levy base to include certain non-basic education revenues formerly allocated by the state in addition to the revenues the district actually receives from state and federal sources. Effective with the levies for calendar year 2018, the levy lid will revert to 24 percent and the increases will be removed from the levy base.

Local Effort Assistance. The Local Effort Assistance program (LEA) or levy equalization was created in 1987 to mitigate the effect that above-average property tax rates might have on the ability of a school district to raise local revenues through voter-approved levies. The LEA is expressly not part of basic education. The amount is calculated based on equalizing tax rates to a statewide average for a certain equalization rate. The current LEA equalization rate is 14 percent. In calendar year 2018, the LEA equalization rate will decrease to 12 percent.

Constitutional 1 Percent Property Tax Limit. The Constitution limits regular property tax levies to a maximum of 1 percent of the property's value—\$10 per \$1,000 of assessed value. The Legislature established individual district rate maximums and aggregate rate maximums to keep the total tax rate for regular property taxes within this constitutional limit. For example, the state levy rate is limited to \$3.60 per \$1,000 of assessed value; county general levies are limited to \$1.80 per \$1,000 of assessed value; county road levies are limited to \$2.25 per \$1,000 of assessed value; and city levies are limited to \$3.375 per \$1,000 of assessed value. These districts are known as senior districts. The junior districts, such as fire, library, hospital, and metropolitan park districts, each have specific rate limits as well. The tax rates for most of these senior and junior districts must fit within an overall rate limit of \$5.90 per \$1,000 of assessed value. State statutes contain schedules specifying the preferential order in which the various junior taxing district levies are prorated in the event that the \$5.90 limit is exceeded. A few regular property tax levies are not placed into the \$5.90 aggregate rate limit: emergency medical services, conservation futures, affordable housing, certain metropolitan park districts, county ferry districts, criminal justice, fire districts, and county transit are some examples. However, these districts are subject to reduction if the rates for these districts, the state property tax, and the districts subject to the \$5.90 limit together exceed the constitutional limit. These districts are in what has been called the gap, the \$0.50 remaining after subtracting the maximum \$3.60 state levy and the \$5.90 in local regular levies from the statutory \$10 limit.

One Percent Property Tax Revenue Limit. There is a statutory 1 percent limit on revenue growth for taxing districts. This limit is distinct and separate from the 1 percent constitutional limit described above. Under this revenue limit the amount of revenue

collected from regular, i.e., non-voter-approved, levies is restricted to a growth rate of 1 percent plus an additional adjustment for new construction occurring within the taxing district.

Compensation. State Allocations. The state allocates funding for certificated instructional staff (CIS) salaries based on a grid which provides salary values that increase based on educational credit and years of service. Each district's CIS allocation is based on its staff mix, that is, the distribution on the state salary grid of the CIS hired by the district. Funding to support salaries for the classified and administrative staff in the prototypical school funding formula is specified as a stated salary rate per state-funded staff person in the omnibus operating appropriations act. No more than 90 college quarter-hour credits may be used to determine compensation under the state allocation schedule unless the employee has a master's degree or the credits were used in generating state salary allocations before January 1, 1992.

State Restrictions on CIS Salaries. In general, state salary funding is for allocation purposes only, and school districts are not required to hire staff according to the prototypical school staffing formula, nor are they required to pay CIS salaries according to the state CIS salary grid. Instead, actual salaries are determined by each district's collective bargaining agreements.

However, the state places some restrictions on actual salaries districts may pay for CIS. First, a district may not pay CIS less than the lowest salary on the state grid for a bachelor's or master's degree and zero years of service. Second, a district's actual average CIS salary may not exceed the district's actual average salary that is allocated under the state formula. Third, CIS salaries in the basic education program must be consistent with CIS salaries in other programs. Finally, CIS salaries may exceed these limits only by separate contract for additional time, responsibility, incentive, or innovation (TRII). Under the TRII restrictions, districts may not use supplemental contracts to pay for services that are part of the state's program of basic education.

Teacher Certification. Professional Educator Standards Board. Established by the Legislature in 2000, the Professional Educator Standards Board (PESB) is a 12-member board responsible for establishing the requirements for the state certification of educators and approving educator preparation and certification programs. The PESB consists of the Superintendent of Public Instruction and 11 members with certain education experience who are appointed by the Governor for four year terms.

Teacher Certificates. There are two levels of teacher certification in Washington: Residency and Professional. The Residency Certificate is a regular or initial teaching certification that is required for most first-time and out-of-state applicants. To obtain a Residency Certificate, applicants must complete an approved teacher preparation program and pass both a basic skills and content knowledge test.

The Professional Certificate is an advanced level teaching certification. Teachers in Washington are required to obtain the Professional Certificate sometime between their third and seventh years of teaching. To obtain a Professional Certificate, teachers may either complete the ProTeach Portfolio, an external, uniform assessment adopted by PESB, or

become certified by the National Board for Professional Teaching Standards, which offers a voluntary advanced teaching credential.

Accounting. School district accounting requirements organize and operate on a fund basis. Under current law, school districts must establish the following funds:

- a general fund for the M&O of the district;
- a capital projects fund for major capital purposes;
- a debt service fund for the retirement of bonds; and
- an associated student body fund for all monies generated through the programs and activities of any associated student body organization.

Budget Process. Each school district develops and adopts its own budget prior to the beginning of each school year. Current law requires school districts to adopt the budget at a public hearing no later than August 31st in first-class school districts, which have 2000 students or more, and not later than August 1st in second-class school districts, which have under 2000 students. Each district must publish a notice when the budget is completed and provide copies upon request.

Financial Health. The Office of the Superintendent of Public Instruction (OSPI), with the Educational Service Districts (ESDs), created a tool to provide a snapshot of a school district's overall financial health that includes the fund balance to revenue ratio, expenditures to revenues ratio, and the number of days of cash on hand. Each of these financial indicators are calculated, weighted, and added together to determine a district's financial indicator score.

State Auditor. The State Auditor's Office is established in the Constitution as part of the executive branch of state government. The State Auditor has the statutory authority to conduct financial audits on all governments in the state, including school districts.

Summary of Bill: School District Property Taxes. School district M&O levies are renamed enrichment levies.

Beginning with taxes due and payable in calendar year 2018, a school district must impose a regular property tax levy at a tax rate equal to the lesser of \$5 per \$1,000 of assessed value or the tax rate imposed by the school district for its enrichment levy in calendar year 2017. School districts may reduce this tax rate to reflect some or all of state levy equalization funds it receives with respect to its regular property tax levy. School district enrichment levies are collected by county treasurers and remitted to the state where they must be deposited in a new local school district property tax account. All taxes deposited in the local school district property tax account are distributed back to the school districts on a monthly basis.

A school district must use the proceeds under this section only for expenditures related to the school district's program of basic education. Property owners qualifying under the property tax relief program for senior citizens and persons retired by reason of disability are exempt from the new school district regular levies.

Enrichment levies authorized by the voters prior to January 1, 2018, would be discontinued. However, beginning in calendar year 2018, school districts could seek voter approval for new

enrichment levies collectible beginning in calendar year 2019. Enrichment levies would be capped at the greater of \$1,000 per student or \$500,000. The \$1,000 per student limit would be adjusted by inflation from year-to-year.

To ensure that enrichment levies are not used for basic education programs, ballot propositions submitted to the voters in calendar year 2018 and thereafter must provide a report to OSPI detailing the programs and activities to be funded through a proposed enrichment levy. Enrichment beyond the state-provided funding in the Omnibus Appropriations Act for the state's basic education program is a permitted use of the enrichment levies. The report must be submitted to, and approved by, OSPI prior to the election on the proposition.

Beginning in calendar year 2018, enrichment levies, i.e., former M&O levies, that have been approved prior to January 1, 2018, are terminated; however, beginning in calendar year 2018, school districts may seek voter approval for new enrichment levies that would be first collected in calendar year 2019.

Levy Equalization. Beginning in calendar year 2018, the state is required to provide matching funds for school district enrichment levies. Only school districts with an average district rate above the average statewide rate qualify for state funds. The average district rate is calculated by dividing the maximum authorized amount that a school district can collect through its enrichment levy by the assessed valuation of property within the district. A similar calculation would be performed on a statewide basis to determine the average statewide rate. The amount of state equalization is equal to the difference of average district rate and average statewide rate, multiplied by the assessed valuation within the district and further multiplied by 50 percent. Equalization for enrichment levies is not considered part of the funding of the state's program of basic education.

Beginning in calendar year 2018, the state is required to fully equalize the new school district regular levies. The calculation is based on the difference of the average district rate and the average statewide rate used in determining equalization for enrichment levies. More specifically, the amount of equalization for regular levies is equal to the difference in these rates divided by average district rate and this resulting amount is multiplied by the total amount of the school district regular property tax levy. Equalization for school district regular levies is considered part of the state's funding of the program of basic education.

School District Fiscal Accountability and Transparency. By the 2018-19 school year, a local revenue subfund of the general fund must be established for the purpose of accounting for the financial operations of a school district that are paid from local revenues, except the local school district regular property tax, which must be deposited in the school district's general fund. Money deposited into the local revenue subfund must include proceeds from school district enrichment excess levies and state equalization funds for enrichment levies.

By the 2018-19 school year, OSPI rules must require school districts to provide separate accounting of state, federal, and local revenues to expenditures, including the identification and separate accounting of basic education and nonbasic education expenditures by revenue source.

School districts must report, in accordance with the timeline of personnel reporting due dates as determined by the Superintendent of Public Instruction, for all employees under contract as of October 1st of any given school year: (1) the state-funded salary amounts; (2) locally funded salary amounts; (3) total salary amounts; and (4) the full-time equivalents for each individual certificated instructional staff, certificated administrative staff, and classified staff.

To ensure that school district excess levy funds are not being expended for basic education purposes, the State Auditor's regular financial audits of school districts must include a review of the expenditure of school district excess levies as well as employee supplemental contracts.

Compensation & Salary Grid. The state law outlining the state's program of basic education is amended to include provisions specifying that salary allocations sufficient to recruit and retain competent teachers, administrators, and other staff are also part of the state's program of basic education.

Beginning in the 2018-19 school year, the minimum state allocation for salaries for certificated instructional staff in the basic education program is \$45,000. School districts may not provide a salary below this amount. This minimum may be met through state fund and local school district regular levies.

School districts are explicitly prohibited from using enrichment levy funds to increase employee salaries for services that are part of the basic education program.

Beginning in the 2018-19 school year, the state salary allocation schedule for certificated instructional staff is substantially modified. The new allocation schedule requires: (1) salary allocations to be based on ten months of usual and customary work during the school year; (2) different levels of salary allocations for residency certificate holders and second tier certificate holders, which can be further differentiated by undergraduate or advanced degrees; and (3) differentiation based on years of service.

The following two state restrictions on the actual compensation districts provide to CIS are eliminated.

1. The requirement that a school district may not compensate CIS less than the lowest salary on the state allocation schedule for an undergraduate or master's degree and zero years of service.
2. The requirement that a district's actual average CIS salary may not exceed the district's actual average salary that is allocated under the state formula.

Per Pupil Funding Model. The state prototypical funding model is modified to include an additional calculation to provide uniform statewide per pupil amounts for state general education distributions and the state's categorical programs. More specifically, the current model will continue to determine total statewide amounts for general apportionment and the categorical programs such as special education and transitional bilingual. However, these statewide amounts will be divided by the applicable statewide enrollment for these programs to determine a uniform per pupil amount for each program. As a result, some school districts will receive more funding and some will receive less than under the current funding model. A separate per pupil calculation is maintained for career and technical education and skills

centers under the uniform per pupil calculation for state general education distributions. If the state budget provides enhanced allocations for any of the programs, then the enhanced allocation for the program will be used to determine the statewide average per pupil amount.

An \$11,500 per pupil minimum is established. Therefore, all school districts will receive at least \$11,500 per pupil in state basic education distributions and local regular levy revenues. If the allocations from the state and the school district's regular levy revenue is insufficient, the state will allocate the remaining amount to ensure the \$11,500 per pupil minimum is met.

A hold-harmless provision is included. This provision provides additional state funds if a school district would receive less funding under the bill than what current law would provide through the state allocations for the program of basic education, local levies, and state levy equalization.

Appropriation: None.

Fiscal Note: Requested on February 16, 2017. OFM requested ten-year cost projection pursuant to I-960.

Creates Committee/Commission/Task Force that includes Legislative members: No

Effective Date: Ninety days after adjournment of the session in which the bill is passed, except sections 403 and 501, which take effect September 1, 2017, and sections 502 and 504, which take effect September 1, 2022.