

SENATE BILL REPORT

SB 6525

As Reported by Senate Committee On:
Early Learning & K-12 Education, February 1, 2018

Title: An act relating to final implementation of education funding reform.

Brief Description: Concerning final implementation of education funding reform.

Sponsors: Senators Mullet, Braun, Palumbo, Fain, Hobbs, Takko, Rivers, Becker, Miloscia, Wilson, Angel, Ericksen, Warnick, Zeiger, Wagoner, Bailey, Honeyford, Brown, Schoesler, Fortunato, O'Ban, Sheldon, King, Walsh, Padden, Short and Hawkins.

Brief History:

Committee Activity: Early Learning & K-12 Education: 2/01/18 [w/oRec-WM].

Brief Summary of Bill

- Implements state salary allocations in the 2018-19 school year if school districts meet certain budget, transparency, and accounting requirements.
- Reduces 2018 enrichment levy collections by an amount equal to the additional salary allocations.

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 Wellman, Chair; Rolfes, Vice Chair; Zeiger, Ranking Member; Billig, Hawkins, Hunt, Mullet, Padden, Pedersen and Rivers.

Staff: Jeffrey Mitchell (786-7438)

Background: General School Funding Background. In the 2012 McCleary decision, the state Supreme Court ruled that insufficient state funding for basic education unconstitutionally caused districts to rely on local levy funding to support the costs of implementing the state's program.

Since the McCleary decision, the Legislature has funded a number of specified enhancements to the basic education program culminating in the passage of EHB 2242 in 2017. EHB 2242

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made a number of changes to state funding allocations. It expanded state funding for staff compensation to be phased in over the 2018-19 and 2020-21 school years; it revised basic education funding formulas and categorical programs; and it adjusted rates for state taxes and local levies collected by school districts.

In November 2017, the Supreme Court upheld the elements of EHB 2242 but declared that the salary allocation phase-in did not comply with the constitutional deadline of 2018. More specifically, the court concluded that the state had met its constitutional duty to fully fund basic education with regard to state funding enhancements made since the 2012 decision, including the new salary allocation model under EHB 2242. However, the court found that the state remains out of full compliance with its constitutional duty because the salary increases in EHB 2242 are not fully implemented by September 1, 2018.

Local School District Levies and Local Effort Assistance (LEA). In 2017, the Legislature reformed the maximum amount school districts may collect through their local district levies (enrichment levies) through the enactment of EHB 2242. EHB 2242 also substantially modifies state funding for the state Local Effort Assistance (LEA) program, which currently provides support for school districts with high local tax rates due to low assessed values. These changes take effect in calendar year 2019.

Before EHB 2242. Through calendar year 2019, a school district's maximum enrichment levy amount is determined by the district's levy base and levy percentage, also referred to as a lid. Generally speaking, a district's annual levy base is the total of its state and federal funding for the prior school year, adjusted for inflation, and including additional amounts that were added to the levy base in 2010, sometimes referred to as ghost money. The levy lid is the maximum allowable percentage of the levy base that a school district may collect. The levy lid for most school districts is 28 percent, which means that each calendar year, districts may collect up to 28 percent of their levy base. Some districts are grandfathered at a higher levy percentage. The 28 percent lid extends through calendar year 2018.

Through calendar year 2019, a school district is eligible for LEA funding if the school district has a higher than average levy rate and if the district has certified a local enrichment levy. Levies are equalized up to 14 percent of the levy base, half of the 28 percent levy lid that is applied to the majority of districts.

After EHB 2242. Beginning with calendar year 2019, school districts may collect enrichment levies based on a new levy lid. A district's maximum enrichment levy is the lesser of \$2,500 per pupil or a rate of \$1.50 per \$1,000 of assessed value.

To qualify for LEA funding, a school district must have a maximum local levy that generates less than a state LEA threshold of \$1,500 per pupil. LEA funding is provided on a per-pupil allocation basis so that the sum of enrichment levy funding and LEA funding for a qualifying district levying the maximum \$1.50 tax rate is \$1,500 per pupil. State LEA allocations are provided in proportion to the ratio of a school district's actual enrichment levy compared to its maximum levy.

Both the per-pupil local levy lid and LEA threshold amount are adjusted annually for inflation beginning in calendar year 2020. The per pupil calculations are based on the average annual resident full-time equivalent students.

School District Auditing, Accounting, and Transparency. Under EHB 2242, beginning with the 2019-20 school year, the State Auditor's regular financial audits must include a review of school district enrichment levies, including use of supplemental contracts. School districts must hold hearings on any audit findings.

Beginning with the 2019-20 school year, EHB 2242 also requires school districts to establish a local revenue fund in which to deposit revenues from enrichment levies—including transportation vehicle levies, LEA, and other local revenues. Also beginning with the 2019-20 school year, districts must use revenue-to-expenditure accounting to separately document expenditures from the respective sources.

EHB 2242 also applies additional requirements to the school district budgeting process. Beginning in 2018, school districts must develop four-year budget plans that include enrollment projections and future cost estimates, including supplemental contracts. Beginning with budgets for the 2019-20 school year, school district budgets must set forth specific information about amounts and sources of each employee's salary. School board budget hearings must address these four-year plans, as well as any request for a change in use to a previously approved plan for enrichment expenditures. School districts must annually report to the Office of the Superintendent of Public Instruction (OSPI) about supplemental contracts.

EHB 2242 requires districts to receive pre-ballot approval by OSPI for an expenditure plan for enrichment levies, before submitting the levy to voters.

Property Tax Collection Process. Property tax statements are mailed by the county treasurer in February of each year. To avoid interest and penalties, at least half of the amount due must be paid by April 30 (if the tax is less than \$50 it must be paid in full by April 30) and the balance is due by October 31.

Summary of Bill: State salary allocations under EHB 2242 would be fully implemented in the 2018-19 school year for school districts implementing specified accounting, budget, and transparency requirements for the 2018-19 school year. More specifically, a school district will receive the additional salary allocations if the district, beginning school year 2018-19:

- establishes a local revenue sub-fund for the deposit of local enrichment levies as well as other local revenues;
- uses enrichment levies solely to enrich the state's program of basic education;
- provides separate accounting of state and local revenues to expenditures;
- has an approved OSPI enrichment levy expenditure plan if the district will be submitting an enrichment levy ballot proposition to the voters in calendar year 2019; and
- prepares a 4-year budget plan.

A portion of the October 2018 school district enrichment levy collections are deferred until 2019. The deferral amount is equal to the increased state salary allocation a school district is

eligible to receive if the district implemented the accounting, budget, and transparency requirements. School district tax rates for 2019 enrichment levies are reduced by an amount necessary to offset the 2018 deferral amount.

Appropriation: None.

Fiscal Note: Requested on February 1, 2018.

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

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

Staff Summary of Public Testimony: No public hearing was held.

Persons Testifying: N/A

Persons Signed In To Testify But Not Testifying: N/A