

# SENATE BILL REPORT

## ESHB 2140

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As of April 27, 2019

**Title:** An act relating to K-12 education funding.

**Brief Description:** Concerning K-12 education funding.

**Sponsors:** House Committee on Appropriations (originally sponsored by Representatives Sullivan, Dolan and Thai).

**Brief History:** Passed House: 4/26/19, 54-42.

**Committee Activity:** Ways & Means: 4/27/19.

### Brief Summary of Bill

- Changes local enrichment levy limits to either 20 percent of a school district's levy base, or the lesser of \$3,000 per pupil or \$1.50 per \$1,000 of assessed property value in the district beginning in 2020.
- Changes Local Effort Assistance funding formulas, equalizing districts to either 10 percent of the levy base.
- Directs all the second state property tax levy collected in fiscal year 2019 to be deposited into the Education Legacy Trust Account.

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### SENATE COMMITTEE ON WAYS & MEANS

**Staff:** Jeffrey Naas (786-7708)

**Background:** School District Levy Authority. The state Constitution limits regular property tax levies to a maximum of 1 percent of the property's value. Upon voter approval, school districts are authorized to collect excess levies above the 1 percent constitutional property tax limit. School district voters may approve enrichment levies, previously referred to as maintenance and operation (M&O) excess levies, for up to four years, capital levies for up to six years, and bond levies for the life of the bonds. Since 1977, the Legislature has limited the amount school districts may collect through their M&O levies.

*Prior to EHB 2242.* Prior to the passage of EHB 2242 in 2017, a school district's maximum excess levy amount for M&O levies was determined by the district's levy base and levy

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percentage, also referred to as a lid. Generally, a district's annual levy base was its state and federal funding for the prior school year, adjusted for inflation, and additionally calculated amounts that were added to the levy base in 2010, sometimes referred to as ghost money. The levy lid was the maximum allowable percentage of the levy base that a school district could collect, and was set at 28 percent for most school districts. Some school districts were grandfathered in at a higher levy percentage.

*After EHB 2242.* Beginning with calendar year 2019, M&O levies were renamed enrichment levies, and a new levy lid was implemented. A district's maximum enrichment levy is now the lesser of \$2,500 per pupil or a rate of \$1.50 per \$1000 of assessed value. Before a school district may submit an enrichment levy to the voters, it must receive approval of its expenditure plan from the Office of the Superintendent of Public Instruction (OSPI). OSPI may approve the plan if it determines the district will spend enrichment levy revenues only for permitted enrichment activities.

Local Effort Assistance. Local Effort Assistance (LEA), also known as levy equalization, was created in 1987. Under the LEA program, the state provides additional funding to school districts that are at a disadvantage in raising enrichment levies due to low property values.

*Prior to EHB 2242.* Prior to the passage of EHB 2242, the state LEA program provided funding to equalize up to 14 percent of the school district's levy base. A district was eligible to receive LEA if the district's levy rate that was needed to raise the 14 percent levy amount for the district exceeded the statewide average 14 percent levy rate. State funding provided under the LEA program was proportional to the degree at which the district's rate exceeded the statewide average rate.

*After EHB 2242.* Beginning with LEA distributions in calendar year 2019, LEA is calculated under a new formula that provides assistance to any school district that does not generate an enrichment levy of at least \$1,500 per student when levying at a rate of \$1.50 per \$1,000 of assessed value. An eligible school district's maximum LEA is the difference between the district's per pupil levy amount, based on a rate of \$1.50 per \$1,000 of assessed value, and \$1,500 per pupil, multiplied by the district's resident enrollment. Districts that are eligible for LEA but do not levy the maximum levy allowed receive LEA in proportion to their actual levy collection.

**Summary of Bill:** School District Levy Authority. Beginning in the 2020 calendar year, the enrichment levy limit for school districts is changed from the lesser of \$2,500 per pupil or \$1.50 per \$1,000 of assessed property value to either 20 percent of the state and federal levy base in the prior school year or the lesser of \$3,000 per pupil increased by inflation from the 2019 calendar year or \$1.50 per \$1,000 of assessed property value.

Local Effort Assistance. Beginning in the 2020 calendar year, the LEA funding formula for school districts is changed from \$1,500 per pupil for eligible districts to a formula that equalizes districts up to 10 percent of the state and federal levy base in the prior year.

State Property Tax. Directs all the second state property tax levy collected in fiscal year 2019 to be deposited into the Education Legacy Trust Account.

Hold Harmless Technical Correction. Revises the hold harmless calculation established in SB 6362 to base payments for the current school year on levies collected during that school year, rather than levies collected during the previous calendar year.

**Appropriation:** None.

**Fiscal Note:** Requested on March 28, 2019.

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

**Effective Date:** The bill contains an emergency clause and takes effect immediately.

**Staff Summary of Public Testimony:** PRO: We appreciate the increases that will benefit the Tacoma school district. Decreased levy capacity does have repercussions for the school budgets and results in cuts. Levy relief would be hugely impactful. The striker allows flexibility in capital funds and benefits Seattle. The hold harmless language will benefit the Olympia school district.

We are requesting an amendment for ESDs and SEBB so they have time to come up with a solution. SEBB creates a number of additional costs and since ESDs cannot run levies they need a solution. Healthcare costs more than double for ESD 113 due to SEBB costs.

OTHER: An outstanding issue in the budget is the K-3 class size funding and we would like to see a delay in K3 class size compliance for at least one year. The districts need more clear guidelines on allowed usage for enrichment levies.

**Persons Testifying:** PRO: Clifford Traisman, Seattle, Olympia, Highline Public Schools; Carla Santorno, Tacoma School District; Dave Mastin, OSPI; Jessica Vavrus, Washington State School Directors' Association; Charlie Brown, Tacoma Public Schools.

OTHER: Melissa Gombosky, Association of Educational Service Districts; Troy Nichols, Capital Region ESD 113.

**Persons Signed In To Testify But Not Testifying:** No one.