SENATE BILL REPORT
SB 5313

As of February 27, 2019

Title: An act relating to school levies.

Brief Description: Concerning school levies.

Sponsors: Senator Wellman; by request of Office of Financial Management.

Brief History:

Committee Activity: Early Learning & K-12 Education: 1/23/19, 2/15/19 [DPS-WM, DNP].

Ways & Means: 2/25/19.

Brief Summary of First Substitute Bill

- Allows a school district to choose between a levy lid of either 20 percent of its levy base or $3,500 per pupil.
- Provides local effort assistance (LEA) to school districts operating under the 20 percent levy lid model and have a 10 percent levy rate that exceeds the statewide average 10 percent levy rate.
- Requires, should a school district's LEA decrease from 2019 to 2020, the school district must receive the 2019 LEA amount.

SENATE COMMITTEE ON EARLY LEARNING & K-12 EDUCATION

Majority Report: That Substitute Senate Bill No. 5313 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators Wellman, Chair; Wilson, C., Vice Chair; Hunt, McCoy, Pedersen and Salomon.

Minority Report: Do not pass.

Signed by Senators Hawkins, Ranking Member; Holy, Mullet, Padden and Wagoner.

Staff: Alex Fairfortune (786-7416)

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 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. The Local Effort Assistance program (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 (First Substitute): School District Levy Authority. Beginning with taxes levied for collection in 2020, a school district may choose an enrichment levy lid of either 20 percent of the district's levy base or $3,500 per pupil, rather than $1.50 per $1,000 of assessed value or $2,500 per pupil. No districts are grandfathered in at a higher levy lid percentage.

The district's levy base does not include ghost money, and is composed of the following:
- the school district's basic education allocation;
- state and federal categorical allocations, including pupil transportation, special education, education of highly capable students, compensatory education, food services, and statewide block grant programs; and
- federal allocations for elementary and secondary school programs, excluding federal impact aid funds and allocations in lieu of taxes.

Local Effort Assistance. A district is only eligible to receive LEA if the district operates under the 20 percent levy model. In addition, the levy rate needed to raise 10 percent of a district's levy base must exceed the statewide average 10 percent levy rate. State funding is proportional to the degree at which the district's rate exceeds the statewide average rate.

If a school district's LEA decreases from 2019 to 2020, the school district must receive the 2019 LEA amount.

EFFECT OF CHANGES MADE BY EARLY LEARNING & K-12 EDUCATION COMMITTEE (First Substitute):

- Allows a school district to choose between a levy lid of either 20 percent of its levy base or $3,500 per pupil.
- Provides LEA to school districts operating under the 20 percent levy lid model and have a 10 percent levy rate that exceeds the statewide average 10 percent levy rate.
- Requires, should a school district's LEA decrease from 2019 to 2020, the school district must receive the 2019 LEA amount.

Appropriation: None.

Fiscal Note: Available.

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

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony on Original Bill (Early Learning & K-12 Education): *The committee recommended a different version of the bill than what was heard.* PRO: There was never a mandate to reduce local levies, only to put more money towards basic education. In the old funding world, the biggest difference between districts was levies but now it is regionalization. Some districts get regionalization because they have high property costs, but at the same time get LEA because they are property poor. The state needs to go back to a percentage based levy model because it will flow better with the amount of money given to districts. OSPI chose a 22 percent model because it is a little over halfway from where the limit used to be. It does not restore all of the levy because the state added a lot of money in state funding. Now 22 percent of a much higher base is a significant amount of local levy opportunity. The LEA approach under SB 5466 does not add any additional dollars and focuses on those districts that are truly property poor. After getting to a $3.75/$1,000 AV tax rate the state would fill in the rest. Under the old model about two-thirds of districts were getting equalization, under current law about half of districts are receiving equalization, and under SB 5466 about 40 percent of districts would receive equalization. This treats districts that are property wealthy similar under both policies. SB 5313 is good but would result in much more levy equalization.

There are some inequities and unintended consequences that have come about from previous education funding legislation. In the levy swap, state funding was swapped for local levy dollars. However, the state resources have been very department and subject specific and are often provided for certain categorical programs. These funds cannot be used to pay for preschool, alternative high school, or music programs. For decades basic education has been subsidized with enrichment levies, but now schools can collect only a fraction of what has historically been collected. Local communities need to be able to go to voters to support their kids. A percentage based model is tied to state funding so it is more sustainable and it creates more certainty for school districts. A 28 percent levy is best because it has been done before and it is relatively simple.

CON: The OSPI 22 percent bill would require a higher tax rate on top of the $0.90 increase in the state base tax rate. The 28 percent bill will recreate some of the inequities of pre-McCleary, and cause further pressure between property poor and property rich districts. It would do little more than make the rich districts richer and the poor districts poorer. The either/or bill does not provide for LEA so districts currently receiving LEA would have to double their tax rate in order to get the same level of funding.

OTHER: Under the OSPI proposal there is technical wording that needs to be fixed, because it references the difference between a tax rate and a threshold which is not mathematically possible. While most districts would fall under the 22 percent model, there are concerns that LEA will be eliminated or reduced. The 28 percent proposal only fixes issues for the I-5 corridor, but will be a non-starter in other areas of the state. The 28 percent model will drive more levy equalization, and will restore some funding, but not as much as was lost. There is merit to the either/or model, but it needs to include hold harmless LEA language so that LEA is not removed entirely.

Persons Testifying (Early Learning & K-12 Education): PRO: Senator Lisa Wellman, Prime Sponsor; Gene Sementi, West Valley School District, Spokane; Jennifer Priddy, Finance Manager, Olympia School District; JoLynn Berge, Assistant Superintendent of Finance, Seattle Public Schools; Kate Davis, CFO, Highline Public Schools; Lorrell Noahr, Washington Education Association; Jessica Vavrus, Washington State School Directors' Association; Troy Nichols, Capital Region ESD 113; Rosalind Medina, Tacoma School District; Jim Crawford, Office of Financial Management; Rebecca Vaux, Washington's Paramount Duty.

CON: Wade Smith, Walla Walla School District.

OTHER: Nancy Chamberlain, Washington State PTA; Randy Russell, citizen; Mitch Denning, Alliance of Educational Associations.

Persons Signed In To Testify But Not Testifying (Early Learning & K-12 Education): No one.

Staff Summary of Public Testimony on First Substitute (Ways & Means): PRO: We support this bill as we see it is the only avenue we have currently that would allow us to survive without making devastating cuts to our program and staffing. If we lose our local funding a lot of taxpayers are going to be very surprised that they do not have any money to support extracurricular activities after the McCleary fix. We would appreciate any kind of substantial gap closing. It is important to realize that we not only take care of underrepresented students but also better performing students with the money that comes from the levy. While we do not want taxpayers to pay more we think they should have the choice of paying more levies as an alternative to potentially deep staffing cuts.

I want to remind everyone that McCleary was not about levies, it was about a gross underfunding of education by the state. We need levies for critical staff to support the mental health of our students. This has nothing to do with the collective bargaining agreements that were made recently on teacher salaries and has more to do with the additional funding local levies allow us to provide enrichment programs and the extra staffing necessary to make sure our kids get an opportunity for graduation. The decrease in local levy authority resulting from HB 2242 drastically cut our school district's ability to fund programs our communities support such as an anti-bullying program which will impact about 1000 students.

Levies allow school districts to hire additional teachers and support staff beyond what the state funds. In negotiations this last summer school districts left and right convinced our members that unless there is a fix there is going to be a lot of classified employees laid off in the next year. We hope you will consider whether 10 percent of LEA is sufficient across the board and we would like the bill to include more than one year of a hold harmless provision. The Governor has expressed consistent concern that with full funding of McCleary the reductions in local levy authority have gone too far and you have heard from districts about the likely impacts resulting from reduced levies. McCleary was not about levies; it was clearly about the Legislature defining basic education and then fully funding it.

Levy dollars have enabled our school district to build supports that engage community institutions and the programs in partnership to help students graduate for example. We've grown a humble arts education program from one high needs school to a network of programs offering theater music and dance programs which helps to keep kids off of the streets. These programs have been eliminated as a result of the levy reductions. The 44 districts we represent have not yet all completed their analysis of how this change in the formula will affect them, but we feel confident the changes in this bill would give the vast majority of our school districts the flexibility they need to provide the services that their voters in their community expect.

OTHER: An integral part of HB 2242 was a commitment by lawmakers that increases in local taxes would be limited in return for large state level property tax increases to provide uniform and equitable funding for schools. SSB 5313 would turn back the clock and reintroduce inequity in school funding to the benefit of wealthy school districts leaving students in property poor districts with proportionately less money. We want to include specific clear limits so any new levy dollars are protected and allowed to actually fund those local community priorities. Also, we urge you to extend the levy equalization hold harmless beyond one year.

Persons Testifying (Ways & Means): PRO: Charlie Brown, Tacoma, Franklin Pierce, Bethel School Districts; Troy Nichols, Capital Region ESD 113; Lorrell Noahr, Washington Education Association; Doug Nelson, PSE/SEIU 1948; Lisa Keating, Washington State PTA; Patrick Murphy, Superintendent, Olympia School District; JoLynn Berge, Assistant Superintendent, Business and Finance, Seattle Public Schools; Kate Davis, CFO, Highline School District; Dave Mastim, Office of the Superintendent of Public Instruction; Jessica Vavrus, Washington State School Directors' Association; Jim Crawford, Office of Financial Management, Assistant Director, Budget Division; April Shine, Foundation for Tacoma Students; Tony Gomez, Tacoma Arts Live; Carla Santorno, Superintendent, Tacoma School District; Alan Reitz, White Salmon Valley School Board Chair; Jerry Lewis, White Salmon Valley Schools Superintendent.

OTHER: Dan Steele, Washington Association of School Administrators and Washington Association of School Business Officials; Liv Finne, Washington Policy Center.

Persons Signed In To Testify But Not Testifying (Ways & Means): No one.