

SENATE BILL REPORT

SB 5313

As of February 12, 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.

Brief Summary of Bill

- Changes the school district enrichment levy lid to 28 percent of a district's levy base, rather than \$1.50 per \$1,000 of assessed value or \$2,500 per pupil.
- Provides that a school district is eligible for local effort assistance if the district's levy rate needed to raise the 14 percent levy amount exceeds the statewide average 14 percent levy rate.

SENATE COMMITTEE ON EARLY LEARNING & K-12 EDUCATION

Staff: Alex Fairfortune (786-7416)

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.

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.

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: School District Levy Authority. Beginning with taxes levied for collection in 2020, a school district's enrichment levy lid is 28 percent of the district's levy base, 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 eligible to receive LEA if the district's levy rate needed to raise the 14 percent levy amount exceeds the statewide average 14 percent levy rate. State

funding is proportional to the degree at which the district's rate exceeds the statewide average rate.

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: 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 can not 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 doesn't 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: PRO: Senator Lisa Wellman, Prime Sponsor; Gene Sementi, West Valley School District—Spokane; Jennifer Priddy, Finance Manager, Olympia School District; JoLynn Berge, Assistant Supt 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, OFM; Rebecca Vaux, Washington's Paramount Duty.

CON: Wade Smith, Walla Walla School District.

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

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