

SENATE BILL REPORT

ESSB 6499

As Passed Senate, February 14, 2014

Title: An act relating to creating the joint task force on local education financing reform.

Brief Description: Creating the joint task force on local education financing reform.

Sponsors: Senate Committee on Early Learning & K-12 Education (originally sponsored by Senators Dammeier, McAuliffe, Litzow, Ranker, Billig, Frockt, Tom, Hargrove, Fain and Rivers).

Brief History:

Committee Activity: Early Learning & K-12 Education: 2/03/14, 2/05/14 [DPS, DNP, w/oRec].

Passed Senate: 2/14/14, 29-20.

SENATE COMMITTEE ON EARLY LEARNING & K-12 EDUCATION

Majority Report: That Substitute Senate Bill No. 6499 be substituted therefor, and the substitute bill do pass.

Signed by Senators Litzow, Chair; Dammeier, Vice Chair; Billig, Brown, Fain, Hill and Rivers.

Minority Report: Do not pass.

Signed by Senators McAuliffe, Ranking Member; Cleveland and Mullet.

Minority Report: That it be referred without recommendation.

Signed by Senator Rolfes, Assistant Ranking Member.

Staff: Susan Mielke (786-7422)

Background: State funding for education may be supplemented with special levies approved by registered voters who are living in the school district. The Office of Superintendent of Public Instruction (OSPI) reports that 286 of the 295 school districts are currently collecting levy revenue.

Initiatives 728 and 732. In 2000 voters approved two state initiatives that required additional state funding for schools: Initiative 728 (I-728), which required state funds for class size reduction, extended learning opportunities, educator professional development, early childhood education, and capital costs related to the class size reduction or early childhood

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education; and Initiative 732 (I-732), which required annual state cost-of-living adjustments for public K-12 school employees and community and technical college employees. On a number of occasions, these initiatives were reduced or suspended by the Legislature. Since 2009 I-732 has been suspended, including for the 2013-14 and 2014-15 school years. In 2012 I-728 was repealed.

School District Levies. The Washington State Constitution gives school districts authority to levy local property taxes when the voters of the district approve the levy. Such local levies are sometimes called excess levies because the levy is in excess of the statutory 1 percent limit on property tax. School districts may run levies for four purposes: maintenance and operations (M&O), debt service, transportation vehicles and equipment, and capital projects.

Levy Base. The maximum levy a school district may collect is determined by the district's levy base. The levy base includes most state and federal revenues received by the district in the prior school year. Legislation enacted in 2004 allows a school district to include in the district's levy base the amounts that the district would have received if I-728 and I-732 had not been reduced or suspended in subsequent budgets. In 2010 the Legislature allowed K-4 class size reduction funds, no longer funded by the state, to be included in districts' levy base calculations and extended the inclusion of the I-728 and I-732 amounts until 2017.

Levy Lid. Local school district excess levies are limited by the state's levy lid law. The Levy Lid Act, enacted in 1977, limits the amount a school district can raise through its maintenance and operation levies. The original cap on school district levies was 10 percent of the school district's state and federal revenues, but some districts with higher levies at the time were grandfathered in at the higher level. The lid has been adjusted upward by the Legislature a number of times, but grandfathering has not been eliminated. Currently 205 of the 295 districts have a levy lid of 28 percent. The other 90 districts have levy lids ranging from 28.01 percent to 37.90 percent based on what the districts' levy had been in 1977.

Local Education Levy Equalization. In 1987 the Legislature approved local effort assistance (LEA) to help school districts with above-average tax rates due to low property valuations. The state began making LEA payments to school districts in January 1989. Eligible districts are districts with a 14 percent levy rate, which exceeds the statewide average 14 percent levy rate. The district 14 percent levy rate is the tax rate needed to collect a levy equal to 14 percent of the district's levy base. In calendar year 2012, 215 of the state's 295 school districts received LEA allocations totaling \$296.7 million. Eighteen more districts were eligible but did not pass an M&O levy to qualify for LEA. LEA allocations make up about 3 percent of all school district revenues statewide. LEA funds are not part of a school district's basic education allocation.

Levy and Local Effort Assistance Technical Working Group. In 2009 the Legislature created a workgroup of stakeholders to develop options for a new system of K-12 supplemental funding through local school district levies and local effort assistance. The workgroup submitted its final report to the Legislature in July 2011.

Summary of Engrossed Substitute Bill: The legislative Joint Task Force on Local Education Financing Reform (Task Force) is created to review the use of local levies by

school districts and the equity issues resulting from various aspects of the local levy process. The Task Force is comprised of the following members:

- two members from each major caucus in the House of Representatives, appointed by the Speaker of the House;
- two members from each major caucus of the Senate, appointed by the majority leader and minority leader of the major caucuses of the Senate;
- the Governor; and
- the Superintendent of Public Instruction.

The legislative members are voting members of the Task Force. The Governor and Superintendent are ex officio members. The voting members must select co-chairs, who must be voting members of the Task Force.

The Task Force must review the work of the Levy and Local Effort Assistance Technical Working Group, Compensation Technical Working Group, other relevant studies, the use of local levies by school districts, and equity issues related to various aspects of the local levy process. By December 1, 2014, the Task Force must recommend to the Governor and the Legislature approaches and draft legislation to address identified equity issues and provide a system for state and local funds that are distributed in an equitable manner. Any recommendation included in the report must be supported by at least six voting members of the Task Force.

Staff support for the task force is jointly provided by Senate Committee Services and the House of Representatives Office of Program Research, with the Office of Financial Management and OSPI providing data and models as needed.

Appropriation: None.

Fiscal Note: Requested on January 27, 2014.

Committee/Commission/Task Force Created: Yes.

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

Staff Summary of Public Testimony on Original Bill: PRO: We all know that it is the paramount duty of the state under the Constitution to amply fund a basic education for Washington's children. However, the state is pushing a great deal of that responsibility onto the school districts so that they had to use local levies for this purpose. But levies are an unreliable source of funding, because a levy is dependant on voter approval and must be renewed. Levies also lead to inequity between our school districts because there are dramatic differences between the assessed value of the property within districts resulting in differences in the community's ability to raise funding through a levy. A student's education should not be based upon their zip code. Legislators must wrestle with this exceedingly complex policy, fiscal, and political problem. We need to find the right balance between state and local funding and how to transition any changes. There has been a lot of work done in this area by previous taskforces and that hard work will lay the foundation for the work of this taskforce. We would like for the Task Force to include representatives of school districts. The timeline is short but it is important for the discussion to occur and to be prepared to address these

issues in the next biennium. It is time to make the funding system fair and not cause some districts to be disadvantaged.

CON: This is another complicated issue and bill. We agree that the burden of paying for basic education needs to be taken off the school districts and the local taxpayers within the districts. You cannot detach levies and levy equalization from other elements of school funding. Until you know how the Legislature will transition to the enhanced compensation model included in 2261, and other funding issues including classified staffing ratios, special education funding, and small schools funding, then it will be difficult to come to an answer about local levies. There is very little time for the discussion necessary in the timeline in the bill and we do not believe you will have sufficient time to address all the issues.

OTHER: The current uses of levies will change as the Legislature moves toward full funding of basic education. A lot of the uses of levies are for compensation purposes so if the Legislature addresses the compensation issues then perhaps the local levies could be used for something else. We are concerned that you will not have sufficient time to address all the funding issues that are interwoven with local levies. There is a nexus between state and local funding so having a taskforce to analyze this fundamental issue of education funding is the right thing to do to move forward. The issue is not whether the information is available, but rather it is about the political will of the policymakers. The Superintendent of Public Instruction believes that this could be done by the Quality Education Council instead of creating a new group.

Persons Testifying: PRO: Senator Dammeier, prime sponsor; Charlie Brown, The Schools Alliance; Russell Hanscom, Kent School District, school director.

CON: Shawn Lewis, WA Education Assn.

OTHER: Dan Steele, WA Assn. of School Administrators; Ken Kanikeberg, OSPI; Jami Lund, Freedom Foundation.