

HOUSE BILL REPORT

HB 1484

As Reported by House Committee On:

Education

Finance

Title: An act relating to county property tax levies for school purposes.

Brief Description: Authorizing voter approved regular property tax levies for school purposes.

Sponsors: Representatives Hunter, Jarrett, Haigh, Tom, McDermott, McIntire, Simpson, P. Sullivan, Kagi and Chase.

Brief History:

Committee Activity:

Education: 1/31/05, 3/1/05 [DPS];

Finance: 3/4/05, 3/7/05 [DP2S(w/o sub ED)].

Brief Summary of Second Substitute Bill

- Permits a voter approved county property tax of 75 cents per \$1,000 of value to be used for collectively bargained cost-of-living supplements for school employees.

HOUSE COMMITTEE ON EDUCATION

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 6 members: Representatives Quall, Chair; P. Sullivan, Vice Chair; Hunter, McDermott, Santos and Tom.

Minority Report: Do not pass. Signed by 5 members: Representatives Talcott, Ranking Minority Member; Anderson, Assistant Ranking Minority Member; Curtis, Haigh and Shabro.

Staff: Susan Morrissey (786-7111).

Background:

Initiative 728

Initiative 728 (I-728) was approved by voters in the November 2000 general election. Under this initiative, lottery proceeds and a portion of the state property tax are dedicated for educational purposes by transferring revenues into the Student Achievement Fund and the Education Construction Account. Under I-728, allowable uses of the Student Achievement Fund include: hiring more teachers to reduce class sizes and making necessary capital

improvements; creating extended learning opportunities for students; providing professional development for educators; and providing early childhood programs.

Property Taxes and Regular Levies

Property taxes are imposed by the state and many local governments. All real and personal property in this state is subject to property tax each year based on its value, unless a specific exemption is provided by law.

The maximum property tax rate is limited by the state constitution to a maximum of 1 percent of true and fair value, or \$10 per \$1,000 of value. Levies that fit within the 1 percent rate limit are regular levies. Generally, districts are not required to get voter approval for regular levies.

In order to implement the 1 percent limit, the Legislature has adopted rate limits for each individual type of district. The dollar rate limits are statutory, and provide a specific limit on the rate each tax district can levy. The state levy rate is limited to \$3.60 per \$1,000 of assessed value. The Office of Financial Management predicts that in calendar year 2005, the state rate will be \$2.50/\$1,000. By 2006, the rate is estimated at \$2.50 per thousand.

County general levies are limited to \$1.80 per thousand, county road levies are limited to \$2.25 per thousand, and city levies are limited to \$3.375 per thousand. The state, county, road, and city districts are known as "senior" districts. Junior districts like fire, library, and hospital districts each have specific rate limits as well.

In addition, there is an overall rate limit of \$5.90 per thousand for most districts. The state property tax and a specific list of local levies, such as emergency medical services, conservation futures, and affordable housing, are not subject to the \$5.90 limit. There is a complex system of prorating the various levies so that the total rate for local levies does not exceed \$5.90. If the total rate exceeds \$10 after prorating under the \$5.90 aggregate rate limit then another prorating procedure reduces levy rates so that the total rate is below \$10 per \$1,000 of value.

In addition to the rate limitations, a district's regular property tax levy is limited by a statutory maximum growth rate in the amount of tax revenue that may be collected from year to year. The voters amended this revenue limit most recently with the passage of I-747 in November 2001. The limit requires a reduction of property tax rates as necessary to limit the growth in the total amount of property tax revenue received to the lesser of one percent or inflation, generally. The revenue limitation does not apply to new value placed on tax rolls attributable to new construction, to improvements to existing property, or to changes in state-assessed valuation.

In areas where property values have grown more rapidly than 1 percent per year the 101 percent revenue limit has caused district tax rates to decline below the maximum rate.

Excess Levies

The Washington Constitution provides a procedure for voter approval for tax rates that exceed the 1 percent limit. These taxes are called "excess" levies. The most common excess levies are maintenance and operation levies for school districts and bond retirement levies. Excess levies must obtain a 60 percent majority vote plus meet a minimum voter turnout requirement. Excess school levies must be authorized by the voters at least once every four years.

Summary of Substitute Bill:

Counties are authorized to impose a regular property tax levy for the maintenance and operation of schools. The requested levy is submitted to a vote after the county has received resolutions requesting the levy from school district boards representing a majority of the students in the county. Majority voter approval of the tax is required. Once approved, the levy proceeds are distributed to school districts based on the number of full-time equivalent employees in each school district and the cost-of-living supplement for the county. The cost-of-living supplement is equal to the difference in rental costs in the county compared to the rental costs in the lowest rental cost county.

The maximum levy rate is the lower of the amount required to fully fund the cost-of-living supplement or 75 cents per \$1,000 of assessed value. The tax is not subject to either the \$5.90 aggregate rate limit or the 101 percent levy revenue limit. Once imposed, the tax is permanent unless a new petition is submitted by local school districts, and the tax is increased or decreased by voters as requested by the districts.

The Legislature intends that this additional funding be used by school districts to provide collectively bargained regional cost-of-living salary supplements for school employees.

Substitute Bill Compared to Original Bill:

The substitute bill limits any funds raised to regional cost-of-living salary supplements, distributes property tax revenue to school districts based on the number of employees and the cost-of-living supplement for the county, and sets the cost-of-living supplement equal to the difference in rental costs in the county relative to rental costs in the lowest rental cost county. The substitute caps the property tax at the lower of the amount necessary to fully fund the cost-of-living supplement or 75 cents per \$1,000 of assessed value, limits the money raised to employee salaries, clarifies the bargaining statute to permit the money to be bargained, and removes the emergency clause.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill takes effect 90 days after adjournment of session in which bill is passed.

Testimony For: The cost-of-living varies dramatically around the state. This is one reason that some of the urban school districts with high housing costs have a hard time keeping good teachers. For example, the median cost of a new house in King County is \$324,000. In West Bellevue it's \$736,000, and in Grays Harbor it's \$104,000. The United States military and many companies pay their employees a housing supplement when they relocate to high cost areas. This legislation creates a way for school districts to provide salary supplements to their employees to balance the differences among counties in rental and housing costs. It provides a creative way for voters to help their teachers afford to rent or own homes. It will help school districts retain good teachers, a benefit to students and to communities.

Testimony Against: The proposal would be a boon to education if it were adopted on a statewide basis. Because it is limited to counties, it will end up creating salary inequities among teachers throughout the state. It will exacerbate the problems that property poor districts have in recruiting and retaining good teachers. When fully implemented, it would produce four times more money for King County than for Yakima. It also requires local voters to fund the salaries that the courts have emphatically said are the state's responsibility under the paramount duty clause of the Washington Constitution.

Persons Testifying: (In support) Representative Hunter, prime sponsor; Representative Tom; Representative Jarrett; Wendy Kimbal, Heather Johnson and Katie Thorliefson, Seattle Education Association; Michael Riley and Stephen Miller, Bellevue School District; Gary King, Washington Education Association; and Ken Kanikeberg, Public School Employees of Washington.

(Opposed) Neal Kirby; Mitch Denning, Alliance of Educational Associations; and Barbara Mertens, Washington Association of School Administrators.

Persons Signed In To Testify But Not Testifying: None.

HOUSE COMMITTEE ON FINANCE

Majority Report: The second substitute bill be substituted therefor and the second substitute bill do pass and do not pass the substitute bill by Committee on Education. Signed by 5 members: Representatives McIntire, Chair; Hunter, Vice Chair; Conway, Hasegawa and Santos.

Minority Report: Do not pass. Signed by 4 members: Representatives Orcutt, Ranking Minority Member; Roach, Assistant Ranking Minority Member; Ahern and Ericksen.

Staff: Rick Peterson (786-7150).

Summary of Recommendation of Committee On Finance Compared to Recommendation of Committee On Education:

The second substitute removes the language referring to maintenance and operation and requires the levy money be used solely for regional cost-of-living salary supplements.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Second Substitute Bill: The bill takes effect 90 days after adjournment of session in which bill is passed.

Testimony For: We pay teachers consistently across the state. However, the actual cost of living varies dramatically across the state. This approach is the recommendation of a bi-partisan committee that met this summer. A number of studies have suggested the best way to promote a student's education is to have a great teacher in the classroom. High teacher turnover has occurred in urban districts. Teachers in rural districts have more tenure and education than teachers in urban districts. Washington lags the West Coast by 22 percent in pay. Seattle teachers are 96th in pay when compared to the top 100 cities across the country. It is difficult for teachers to afford to live in the more urban locations. This is not a statewide problem, so local people should be able to vote on whether to provide a local solution.

Testimony Against: None.

Persons Testifying: Representative Hunter, prime sponsor; and Randy Parr, Washington Education Association.

Persons Signed In To Testify But Not Testifying: None.