

# SENATE BILL REPORT

## ESSB 5895

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As Passed Senate, April 23, 2013

**Title:** An act relating to education funding.

**Brief Description:** Funding education.

**Sponsors:** Senate Committee on Ways & Means (originally sponsored by Senators Hill and Hargrove).

**Brief History:**

**Committee Activity:** Ways & Means: 4/03/13, 4/04/13 [DPS, DNP, w/oRec].

Passed Senate: 4/23/13, 25-23.

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### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** That Substitute Senate Bill No. 5895 be substituted therefor, and the substitute bill do pass.

Signed by Senators Hill, Chair; Baumgartner, Vice Chair; Honeyford, Capital Budget Chair; Hargrove, Ranking Member; Bailey, Becker, Braun, Dammeier, Hewitt, Padden, Parlette, Rivers, Schoesler and Tom.

**Minority Report:** Do not pass.

Signed by Senators Nelson, Assistant Ranking Member; Conway, Fraser, Hasegawa, Hatfield, Kohl-Welles, Murray and Ranker.

**Minority Report:** That it be referred without recommendation.

Signed by Senator Keiser.

**Staff:** Steve Jones (786-7440)

**Background:** State Expenditure Limit. First enacted in 1993 by Initiative 601, the state expenditure limit allows expenditures from the state General Fund to grow each fiscal year by the fiscal growth factor, which is the average annual growth in state personal income over the prior ten fiscal years.

Extraordinary Revenue Growth. At the end of each fiscal biennium, three-fourths of any extraordinary growth in general state revenue is transferred to the Budget Stabilization Account, commonly known as the Rainy Day Fund. Extraordinary revenue growth is

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defined as the amount by which the growth in general state revenues exceeds by one-third the average biennial growth in general state revenues over the prior five biennia.

Educational Cost-of-Living Adjustments. Initiative 732, enacted in 2000, provides annual salary cost-of-living increases, based on the consumer price index, for school district employees, academic employees of community and technical colleges, and classified employees of technical colleges. These salary increases were suspended by the Legislature in school years 2009-10 through 2012-13.

Education Legacy Trust Account. The Education Legacy Trust Account was established by the Legislature in 2005 to receive dedicated tax revenues to support the K-12 school system, increase higher education enrollments and financial aid, and provide for other educational improvements.

Real Estate Excise Tax (REET). The REET is imposed on the sale of real property. From the revenues of the REET, 6.1 percent is deposited in the Public Works Assistance Account and the remainder is deposited in the state General Fund and the City-County Assistance Account. Penalties for late payments of the REET are deposited into the Housing Trust Fund.

Public Utility Tax. A Public Utility Tax is imposed on a variety of public utilities, including sewers, natural gas, water, and electricity. From the revenues of this tax, 20 percent of the revenue from water utilities and 60 percent from sewer utilities are deposited into the Public Works Assistance Account.

Solid Waste Collection Tax. A Solid Waste Collection Tax is imposed on garbage utilities. Until June 30, 2015, revenues from this tax are deposited into the state General Fund. In fiscal years 2016, 2017, and 2018, the revenues are evenly divided between the state General Fund and the Public Works Assistance Account. Thereafter, all revenues are deposited into the Public Works Assistance Account.

Unclaimed State Lottery Prizes. State lottery prizes that remain unclaimed after 180 days are retained in the State Lottery Account to be used as future prizes, except that one-third of the unclaimed prizes are deposited in the Economic Development Strategic Reserve Account for economic development purposes.

Sales Tax. The state imposes a sales tax on most retail sales in the state. When purchases are made from out-of-state sellers, the state's ability to collect sales tax is limited by federal law and court decisions.

Common School Construction Fund. The Common School Construction Fund was established by an amendment to the state constitution in 1966 to provide a funding source for the construction of K-12 school buildings. The revenues to the fund are from timber sales on state school trust lands and interest earnings on the Permanent Common School Fund. State funding contributions to school construction costs are determined by a funding formula based on three factors: eligible area – a square footage per student – multiplied by a construction cost allocation, and then multiplied by a state funding assistance percentage – formerly known as the matching ratio – that is based on the property tax capacity of the school district.

Excess monies in the Common School Construction Fund may be used for current operating expenses of the K-12 school system if the monies are restored to the fund with interest.

The school districts' shares of the school construction costs are typically funded from a variety of local sources, including general obligation bonds, voter-authorized capital levies, sale of short-term obligations, and local mitigation and impact fees.

The State Building Construction Account, which is funded by the sale of state general obligation bonds, is another funding source for the state's share of K-12 construction costs.

An additional source of state funding for K-12 and higher education construction projects is the Education Construction Fund. With the exception of the 2013-15 fiscal biennium, the State Treasurer must annually transfer \$102 million from the state General Fund to the Education Construction Fund.

State Debt Limit. The state constitution limits the issuance of state general obligation debt. The State Treasurer may not issue a general obligation bond if the amount of interest and principal payments in any year, along with debt payments for existing bonds, would exceed 9.0 percent of the average of the annual general state revenue collections for the previous six fiscal years. The constitutional debt limit is reduced over time from 9.0 percent to 8.0 percent by July 1, 2034. It is set at 8.5 percent starting July 1, 2014; 8.25 percent starting July 1, 2016; and 8.0 percent starting July 1, 2034. The definition of general state revenues includes the state property tax because it is deposited in the General Fund.

The State Finance Committee sets a working debt limit for budget development purposes that is generally lower than the constitutional debt limit. The working debt limit is reduced over time from 9.0 percent to 8.5 percent on July 1, 2015; and 8.25 percent starting July 1, 2017; 8.0 percent on July 1, 2019; and 7.75 percent on July 1, 2021, and thereafter.

**Summary of Engrossed Substitute Bill:** State Expenditure Limit. The state expenditure limit applies to the state General Fund and two related funds – the Education Legacy Trust Account and the Washington Opportunities Pathways Account, which is used for higher education financial aid programs. For the period from July 1, 2015, through July 1, 2023, the fiscal growth factor is the average of the sum of inflation and population change for each of the prior three fiscal years. For this period, the state expenditure limit does not apply to:

- state allocations to school districts;
- appropriations to state colleges and universities and state higher education financial aid programs;
- early learning programs;
- court rulings imposing new state costs;
- expenditures of extraordinary revenue growth to the extent that the revenue is not deposited into the Budget Stabilization Account; and
- appropriations for extraordinary growth in state entitlement programs, excluding new entitlement programs, expanded entitlements, and expanded Medicaid under the federal Affordable Care Act.

Educational Cost-of-Living Adjustments. For the period from July 1, 2015, through July 1, 2023, the State Treasurer must annually transfer to the Education Legacy Trust Account from

the state General Fund the amount that must be expended for educational cost-of-living adjustments under Initiative 732. This fund transfer is contingent on the enactment of Substitute Senate Bill 5194, which repeals the cost-of-living adjustments. For the 2013-15 biennium, the amount will be approximately \$320 million.

REET. From the revenues of the REET, 2.0 percent is deposited into the Public Works Assistance Account, 4.1 percent is deposited into the Education Legacy Trust Account, and the remainder is deposited into the state General Fund. Penalties for late payments of the REET are deposited into the Education Legacy Trust Account.

Public Utility Tax. From the revenues of this tax, 20 percent of the revenue from water utilities and 60 percent from sewer utilities are deposited into the Education Legacy Trust Account.

Solid Waste Collection Tax. In fiscal years 2016, 2017, and 2018, the revenues from this tax are evenly divided between the state General Fund and the Education Legacy Trust Account. Thereafter, all revenues are deposited into the Education Legacy Trust Account.

Unclaimed State Lottery Prizes. State lottery prizes that remain unclaimed after 180 days are deposited into the Education Legacy Trust Account.

Sales Tax. If changes in federal law or court decisions allow the state to collect sales tax on purchases from out-of-state sellers, the State Treasurer must annually transfer to the Education Legacy Trust Account from the state General Fund the net increased amount estimated to be collected.

Common School Construction Fund. The Legislature declares that the first priority for state general obligation bonds is capital appropriations for common school construction. If the Legislature fully funds the state school construction assistance program with general obligation bonds, the Common School Construction Fund is available for current school expenses. Repayment to the Common School Construction Fund is necessary only if the school construction assistance program is not fully funded from other funds.

The State Treasurer is not required to annually transfer monies from the state General Fund to the Education Construction Fund.

State Debt Limit. The Legislature intends to meet its obligation to fund the K-12 school system, in part, by reducing future state debt service payments. The working debt limit is reduced over time from 9.0 percent to 8.5 percent on July 1, 2015; 8.25 percent on July 1, 2017; 8.0 percent on July 1, 2019; and 7.75 percent on July 1, 2034, and thereafter. Until June 30, 2018, one-half of state property taxes are deposited into the Education Legacy Trust Account and one-half into the state General Fund. Thereafter, all state property taxes are deposited into the Education Legacy Trust Account. Property taxes deposited into the Education Legacy Trust Account are not counted toward general state revenues for purposes of calculating the state debt limit.

**Appropriation:** None.

**Fiscal Note:** Available.

**Committee/Commission/Task Force Created:** No.

**Effective Date:** The bill contains an emergency clause and takes effect on July 1, 2013.

**Staff Summary of Public Testimony:** CON/OTHER: Lowering the state debt limit will restrict capital budget expenditures and limit the opportunities to make investments in natural resource projects that drive the economy of the state. The Debt Commission was recently created and has already addressed these issues in a comprehensive way. There is no need to revisit the level of state debt. This proposal will freeze very worthy environmental programs, including Puget Sound cleanup, clean water programs, and public works projects. Critical infrastructure programs need a dedicated revenue source, and these revenues should not be diverted to K-12 programs. K-12 education should not be funded at the expense of other programs. The Public Works Assistance Account has more than \$1 billion in pending applications for water, sewer, and other projects. This will stifle the development of new residential housing. Federal funds are not available for many of these projects.

**Persons Testifying:** CON/OTHER: David Ducharme, Utility Contractors Assn. of WA; Stan Bowman, American Institute of Architects WA Council; Van Collins, Associated General Contractors; Scott Hildebrand, Master Builders Assn. of King and Snohomish Counties; Bill Clarke, WA Public Utility Districts Assn.; Scott Hazlegrove, WA Assn. of Sewer and Water Districts; Ramonda Gattendorf, WA State Parent Teacher Assn.; Sandi Swarthout, Puget Sound School Coalition; Darcy Nonemacher, WA Environmental Council, Bill Robinson, The Nature Conservancy; Majken Ryherd, WA Wildlife and Recreation Coalition.