

HOUSE BILL REPORT

SHB 1059

As Passed House:
January 23, 2017

Title: An act relating to delaying implementation of revisions to the school levy lid.

Brief Description: Delaying implementation of revisions to the school levy lid.

Sponsors: House Committee on Appropriations (originally sponsored by Representatives Lytton, Sullivan, Kagi, Fitzgibbon, Dolan, Kilduff, Frame, Pollet, Senn, Ormsby, Jinkins, Bergquist, Farrell, Blake, Hudgins, Tarleton and Cody).

Brief History:

Committee Activity:

Appropriations: 1/11/17, 1/12/17 [DPS].

Floor Activity:

Passed House: 1/23/17, 62-35.

Brief Summary of Substitute Bill

- Delays for one year changes to the formulas for calculating school districts' maximum maintenance and operation levy authority, and corresponding local effort assistance.

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 17 members: Representatives Ormsby, Chair; Robinson, Vice Chair; Bergquist, Cody, Fitzgibbon, Hudgins, Jinkins, Kagi, Lytton, Pettigrew, Pollet, Sawyer, Senn, Springer, Stanford, Sullivan and Tharinger.

Minority Report: Do not pass. Signed by 10 members: Representatives Chandler, Ranking Minority Member; MacEwen, Assistant Ranking Minority Member; Stokesbary, Assistant Ranking Minority Member; Buys, Condotta, Haler, Manweller, Schmick, Taylor and Wilcox.

Minority Report: Without recommendation. Signed by 5 members: Representatives Caldier, Harris, Nealey, Vick and Volz.

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.

Staff: Jessica Harrell (786-7349).

Background:

Local Property Tax Levies for Schools.

Upon voter approval, school districts are authorized to collect levies above the 1 percent constitutional property tax limit. School district voters may approve maintenance and operation (M&O) levies for up to four years, capital levies for up to six years, and bond levies for the life of the bonds.

A school district's maximum M&O levy amount is determined by the district's levy base and levy percentage. Generally speaking, a district's annual levy base is 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 percentage is the maximum allowable percentage of the levy base that a school district may collect. Until calendar year 2018, the levy percentage, also referred to as levy lid, for most school districts is 28 percent, which means that each calendar year districts may collect up to 28 percent of their levy base. (Some districts are "grandfathered" at a higher levy percentage.) Beginning in calendar year 2018, the levy percentage decreases to 24 percent, or for districts grandfathered at a higher levy percentage, decreases by 4 percentage points. The calculated amounts that were added to the levy base in 2010 will also be eliminated from the base beginning in calendar year 2018.

Local Effort Assistance.

The Local Effort Assistance program (LEA), also known as levy equalization, was created in 1987. Under the state's LEA program, the state provides additional funding to school districts that are at a relative disadvantage in raising M&O levies due to relatively low property values. School districts are eligible for LEA if they have a higher than average levy rate and if the district has certified a local excess levy. Levies are equalized up to 14 percent of the levy base, half of the 28 percent levy lid that is applied to the majority of districts. Equalization is set to reduce to 12 percent beginning in 2018, maintaining the current one-half policy.

Local Effort Assistance is expressly not part of the state's program of basic education. In calendar year 2016, 217 districts were eligible to receive LEA, of which 212 districts received the assistance.

Summary of Substitute Bill:

Each of the following provisions that were scheduled to change beginning in calendar year 2018 are delayed by one year to calendar year 2019: the 4 percentage-point reduction in the levy lid; the elimination of additional calculated amounts from the levy base; and the change in the equalization rate from 14 percent to 12 percent.

Appropriation: None.

Fiscal Note: Available.

Effective Date: This bill takes effect 90 days after adjournment of the session in which the bill is passed, except for sections 2 and 3, relating to school district levy authority, which take effect January 1, 2018, and January 1, 2019, respectively.

Staff Summary of Public Testimony:

(In support) School districts plan their next budgets at the same time that the state is deliberating its own budget. Delaying the levy cliff is critical to provide stability for districts as they prepare for the upcoming school year. It allows districts to continue to plan while the Legislature continues its work to fully fund education.

It is important that funding isn't taken away before state full funding occurs. School districts are working on their budgets right now. With the McCleary funding delayed for a year, this means that districts are preparing for cuts while waiting for full funding. The levy dollars are vital to the classrooms. Teachers and paraeducators see and experience the impact that the additional funding made available by the local levies has on the classroom every day. The Highly Capable Program has shown dramatic improvements in students' experiences, making them excited to be in the classroom and even to do homework. Without this bill, class sizes will be larger, there will be fewer library resources, and fewer key support positions, such as school nurses. Teachers and other staff are working in an environment in which they don't know if they'll have a job next year. School districts are put in the position of firing teachers, only to try to rehire them in August. This does not help the teacher shortage problem. School districts that have a supportive parent-teacher association are in a better position than those without because they may be able to make up some of the difference. The levy cliff should be extended so that the school districts can prepare for next year, the Legislature can focus on fully funding basic education, and so teachers, staff, parents and students can have stability.

It is impossible to believe that the state can provide tax breaks to high tech and aerospace industry companies but cannot fully fund education. There are schools that rely on donated books and that don't have current reference books. Access to a good library is vital to a student's education. School districts must prepare for the levy cliff just in case this bill doesn't pass and if the levy cliff bill is the only solution for now, so be it.

House Bill 1059 is prudent policy. It provides insurance for school districts so that they can plan for next school year and parents and students are certain about what service will be offered in the coming school year. The levy cliff has an impact on nearly every school district in the state. Enrollment doesn't change. School districts still have the same number of students to serve. If the levy cliff occurs, districts will have to provide fewer services to their students to make up for the loss of revenue. For many districts the loss that the levy cliff represents is not insignificant. It's a larger percentage of their budget which equates to a large number of teaching and staff positions.

The mission at the Office of Superintendent of Public Instruction (OSPI) is educating children. The OSPI has two clients, school districts and the Legislature. The job at the OSPI is to help provide the Legislature with information and to support the Legislature's needs. The levy lid is causing a lot of concern and taking up a lot of time in districts. By the

end of this session you will have an education funding solution. This bill will help districts plan now and not focus on worst-case scenarios.

School district staffing decisions are made in the early spring. If the levy cliff stays in place, reduction in force notices will be inevitable. The notices are stressful to staff as well as administrators. People are tired of the uncertainty with their finances. Time is of the essence. Waiting until the end of session is too late because districts are making decisions now. If the levy cliff occurs, districts will be forced into funding services with reserves and making reductions that are not sustainable in the long run.

(Opposed) Delaying the levy cliff is bad public policy and it breaks a promise that lawmakers made to Washington state. It's not surprising that people are suspicious of elected officials. They feel the system is rigged against them and this bill is an example of a promise broken. Homeowners are expecting a reduction because that's what they were told.

(Other) The Washington Education Association supports a solution to the levy cliff. With that being said, the levy cliff fix should be part of a comprehensive solution to fully fund education. There is some concern that early action on a levy cliff fix could result in continued delay of the *McCleary* fix.

Persons Testifying: (In support) Representative Lytton, prime sponsor; Heather Lindberg, Joan Burton, Darcy Pickard, and Vanessa Longacre-Wilcox, Washington's Paramount Duty; Ginny Lindberg; Corinne Alef, Timber Ridge Elementary Parent Teacher Student Association; Marie Sullivan, Pasco School District and Eastern Washington Quality Schools Coalition; Kelly Aramaki, Seattle Public Schools; Dave Mastin, Office of Superintendent of Public Instruction; Tom Seigel, Bethel School District; Beth Worthington, North Kitsap Schools; Grace Yuan, School Alliance; Dan Steele, Washington Association of School Administrators and Washington Association of School Business Officials; Charlie Brown, Tacoma School District; Melissa Gombosky, Spokane Public Schools; and Christa Winquist.

(Opposed) Liv Finne, Washington Policy Center.

(Other) Julie Salvi, Washington Education Association.

Persons Signed In To Testify But Not Testifying: None.