

HOUSE BILL REPORT

ESB 5023

As Passed House:
March 9, 2017

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

Brief Description: Changing provisions relating to school district excess levies.

Sponsors: Senators Wellman, Rolfes, Nelson, McCoy, Carlyle, Frockt, Palumbo, Lias, Billig, Hunt, Keiser, Pedersen, Conway, Saldaña, Darneille, Hasegawa, Chase, Mullet and Kuderer.

Brief History:

Committee Activity:

None.

Floor Activity:

Passed House: 3/9/17, 87-10.

Brief Summary of Engrossed Bill

- Delays for one year changes to the formulas for calculating school districts' maximum maintenance and operation levy authority, and corresponding local effort assistance.
- Requires districts to submit a report to the Office of the Superintendent of Public Instruction detailing the programs and activities to be supported by a maintenance and operation levy, prior to submittal to the voters for approval.
- Declares that enrichment beyond the state-provided funding in the omnibus appropriations act for the basic education program components under basic education funding statutes is a permitted use of maintenance and operation levies.
- Requires school districts to establish a separate sub-fund for levy revenues.

Staff: Jessica Harrell (786-7349).

Background:

Local Property Tax Levies for Schools.

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.

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.

School District Accounting.

School district accounting requirements organize and operate on a fund basis. Under current law, school districts must establish the following funds:

- a general fund for the maintenance and operation of the district, which includes both moneys received from the state and from other local revenues such as the M&O levies;
- a capital projects fund for major capital purposes;
- a debt service fund for retirement of bonds; and
- an associated student body fund for all moneys generated through the programs and activities of any associated student body organization.

Summary of 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.

Beginning with levies collected in calendar year 2018, school districts must deposit levies into a local revenue sub-fund of the General Fund and separately track the expenditures of local levy revenue. The Superintendent of Public Instruction and State Auditor must collaborate to develop guidance for school districts to implement the new levy accounting requirements.

Additionally, beginning with maintenance and operation levy ballot propositions that will be submitted to voters in calendar year 2018, school districts are required to submit a report to the Office of the Superintendent of Public Instruction (OSPI) detailing the programs and activities to be funded by the maintenance and operation levy. Enrichment beyond the state-provided funding in the omnibus appropriations act for the basic education program components under basic education funding statutes is a permitted use of maintenance and operation levies. The report submitted by school districts must be approved by the OSPI prior to the election.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The 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.