

HOUSE BILL REPORT

HB 1356

As Reported by House Committee On:
Finance

Title: An act relating to K-12 funding.

Brief Description: Concerning K-12 funding.

Sponsors: Representatives Bergquist, Berg, Ramel, Ormsby, Gregerson, Macri, Obras, Ryu, Berry, Scott, Ortiz-Self, Alvarado, Nance, Pollet, Salahuddin and Hill.

Brief History:

Committee Activity:

Finance: 2/11/25, 2/25/25 [DPS].

Brief Summary of Substitute Bill

- Increases the maximum per-pupil limit used for school enrichment levies gradually over several years up to \$5,035 in the 2031 calendar year.
- Increases the per-student state Local Effort Assistance (LEA) threshold by \$200 above inflation in 2026 and \$300 above inflation in 2027.
- Increases LEA thresholds by an additional \$200 per-pupil in 2029 and 2030.
- Removes the funded enrollment limit for special education (SPED) excess cost funding and requires changes to SPED accounting methodologies for the use of SPED students' general apportionment allocations.
- Requires the Superintendent of Public Instruction to convene a kindergarten through grade 12 (K-12) funding equity workgroup to analyze options for revising K-12 funding formulas.
- Codifies and increases substitute allocations for school staff.
- Changes the 101 percent revenue growth limit for state property taxes to

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100 percent plus population change and inflation, with a capped limit of 103 percent.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 10 members: Representatives Berg, Chair; Street, Vice Chair; Mena, Parshley, Ramel, Santos, Scott, Springer, Walen and Wylie.

Minority Report: Do not pass. Signed by 5 members: Representatives Orcutt, Ranking Minority Member; Jacobsen, Assistant Ranking Minority Member; Abell, Chase and Penner.

Staff: Rachelle Harris (786-7137).

Background:

Local School Enrichment Levies.

Local enrichment levies can be approved by voters within a school district as a property tax for enrichment beyond the state's statutory program of basic education. Enrichment levy collections are capped for school districts at the lesser of \$2.50 per \$1,000 of assessed property value in the district, or \$2,500 per pupil increased for inflation (\$3,149.69 in 2024) for school districts with less than 40,000 students. School districts with 40,000 or more students subject to a per-pupil limit are allowed to collect up to \$3,000 per pupil adjusted for inflation (\$3,779.63 in 2024). The inflation measure used is the consumer price index for all urban consumers, Seattle area (Seattle CPI).

Local Effort Assistance.

The state provides additional Local Effort Assistance (LEA) funding to school districts that would not generate an enrichment levy of at least \$1,550 per student based on prior year enrollment when levying at a rate of \$1.50 per \$1,000 of assessed value. An eligible school district's maximum LEA is the difference between the district's per-pupil levy amount based on a rate of \$1.50 per \$1,000 of assessed value and \$1,550 per student multiplied by the district's prior year enrollment. The \$1,550 per student limit, also known as the state LEA threshold, is adjusted annually by the Seattle CPI and estimated at \$1,949.11 in 2023. State-tribal compact schools receive the LEA equal to the previous year's per-student enrichment levy for the school district in which the school is located up to \$1,550 per pupil adjusted by the Seattle CPI. Charter schools do not receive the LEA.

Charter Schools.

Charter schools are public schools that operate separately from the common school system and school districts. Charter school boards oversee the management and operation of

charter schools, under five-year contracts with a charter school authorizer. There are currently two charter school authorizers: the Washington Charter School Commission and Spokane Public Schools. Charter schools must provide a program of basic education and adhere to requirements specified in state law and the charter contract, but are exempt from other state rules and laws applicable to common schools for the purpose of allowing flexibility in implementing educational programs. There are 17 charter schools in Washington for the 2024-25 school year serving approximately 4,700 students.

Special Education Excess Cost Multipliers and Enrollment.

The state allocates funding for a program of special education (SPED) for students with disabilities using an excess cost formula. For eligible students in kindergarten through age 21 (K-21), the formula multiplies a school district's base allocation by an excess cost multiplier up to an enrollment limit of 16 percent of a school district's full-time student enrollment. School districts receive a tiered excess cost multiplier based on inclusion in a general education setting for K-21 SPED students. A multiplier of 1.12 is provided for SPED students that spend at least 80 percent of the school day in a general education setting. For students in a general education setting less than 80 percent of the time districts receive a 1.06 multiplier. Prior to kindergarten, for students ages 3 to 5 receiving SPED services, districts receive a multiplier of 1.2. These students are not subject to the 16 percent enrollment funding limit.

Special Education Safety Net Funding.

Beyond allocations from excess cost multipliers, the Office of Superintendent of Public Instruction (OSPI) may provide safety net funding if a school district has one or more high-need individual (HNI) students or is in a community impacted by large numbers of families with children eligible for SPED, such as communities with group homes, regional hospitals, or military bases. For the HNI awards, the school district's expenditures for the student must exceed an expenditure threshold. Currently, the threshold for a student in any district to access state safety net funds is 2.2 times the statewide average per-pupil expenditure (APPE) for school districts with more than 1,000 full-time equivalent students, and 2.0 times the APPE for school districts with fewer than 1,000 full-time equivalent students. Most safety net awards come from state funding and cover the HNI costs, while community impact awards comprise a smaller portion of the safety net. Safety net awards are distributed annually in August of each school year.

General Apportionment Funding Used for Special Education.

The K-21 students receiving SPED services generate funding through both general apportionment, also referred to as the basic education allocation (BEA), and excess cost formulas. The OSPI is required to develop an allocation and cost accounting methodology to ensure general apportionment funding is prorated and allocated to a student's SPED program and accounted for before calculating SPED excess cost when services are provided outside of the general education setting. A portion of the BEA amount based on the least restrictive environment (LRE) percentage of time a student is outside of a general education setting is redirected from general apportionment and dedicated to SPED purposes by the

OSPI.

The formulas for SPED also apply to charter schools and tribal schools in state-tribal education compacts.

Prototypical School Funding Formulas.

To determine funding allocations for the state's statutory program of basic education, the state uses a prototypical school formula and other program-specific formulas defined in statute. The formulas include statewide salary allocations necessary to hire and retain qualified staff. To allocate salaries, the Legislature defines salary allocations for certificated instructional staff, certificated administrative staff, and classified staff generated by state prototypical school funding formulas. Minimum salary allocations for school district staff are adjusted for regional differences in the cost of hiring staff. Based on eligibility, students may generate additional funding through programs such as SPED, the transition bilingual instruction program, and the Learning Assistance Program (LAP).

In addition to statutory formulas, funding for substitutes is included in the operating budget. Substitute funding is based on four funded days per classroom teacher generated by state formulas at a daily rate of \$151.86.

Property tax—Limit factor.

All real and personal property is subject to a tax each year based on the highest and best use, unless a specific exemption is provided by law. The annual growth of all regular property tax levy revenue is limited as follows:

- For jurisdictions with a population of less than 10,000, revenue growth is limited to 1 percent.
- For jurisdictions with a population of 10,000 or more, revenue growth is limited to the lesser of inflation or 1 percent.

For purposes of the revenue growth limit factor, inflation means the percentage change in the implicit price deflator (IPD) for personal consumption expenditures for the United States, as published for the most recent 12-month period by the United States Department of Commerce no later than September 25 of the year before the taxes are payable. Taxing districts other than the state may adopt a resolution of substantial need to levy up to 101 percent if the IPD is less than 1 percent.

The value of the following add-ons are in addition to the limit factor:

- new construction;
- construction of wind turbine, solar, biomass, and geothermal facilities;
- improvements to property;
- increased value of state-assessed property; and
- increased value of real property within a local tax increment financing area.

The state collects two regular property tax levies. The revenue growth limit applies to both

state levies and all regular local property tax levies. Excess levies are not subject to this limit and require voter approval.

Summary of Substitute Bill:

Enrichment Levies.

Beginning in the 2026 calendar year (CY), a school district's maximum per-pupil limit for enrichment levy purposes is increased as follows:

- The maximum per-pupil limit is increased by an inflation enhancement of \$500 above Seattle CPI for all school districts in CY 2026.
- The maximum per-pupil limit is increased for school districts with fewer than 40,000 students by an inflation enhancement of 3.3 percent above Seattle CPI each year from CY 2027 to CY 2030.
- Beginning CY 2031, the maximum per-pupil limit is \$5,035 for all school districts, to be increased by Seattle CPI annually thereafter.

Local Effort Assistance.

Beginning in CY 2026, the state LEA threshold is increased as follows:

- The state LEA threshold is increased by an inflation enhancement of \$200 above Seattle CPI in CY 2026.
- The state LEA threshold is increased further by an inflation enhancement of \$300 above Seattle CPI in CY 2027.
- The state LEA threshold is increased further by an additional \$200 per-pupil in 2029 and 2030.
- The inflation enhancements are also applied to state tribal compact tribal schools' LEA.

Special Education.

Beginning in the 2027-28 school year:

- the 16 percent enrollment limit is removed; and
- awards for communities impacted by large numbers of families with children eligible for SPED are removed from the safety net.

Beginning in the 2025-26 school year, the allocation and cost accounting methodology for SPED is changed as follows:

- The methodology must shift 30 percent of the BEA amount for SPED students to the school district's SPED program for expenditure, instead of a percentage based on the LRE.
- If a school district's SPED expenditures exceed state funding provided by excess cost formulas, the SPED safety net, and redirected general apportionment revenue, the remaining portion of the BEA amount for SPED students must be used prior to other funding sources.
- Language specifies that the methodology does not prohibit other funding and state

allocations from being used for SPED programs.

Improving Equity in Kindergarten Through Grade 12 Funding.

The Superintendent of Public Instruction (SPI) is required to convene a kindergarten through grade 12 (K-12) funding equity workgroup to analyze options for revising K-12 funding formulas to be responsive to students' needs, including economic, demographic, and geographic differences. The SPI is authorized to contract with higher education and public, nonpartisan research entities to support the workgroup's analysis. The SPI may determine the composition and meeting frequency of the workgroup, provided that it includes representation from education and community partners that are demographically and geographically diverse and groups representing educators, school and district administrators, labor unions, families, students, community partners who support groups disproportionately impacted by inequities, and legislators.

The workgroup's analysis must address:

- impacts of changes to per-pupil funding formulas and local revenue;
- compensation factors;
- distribution trends from the prototypical funding formulas; and
- formulas that benefit specific populations, like the LAP, the LEA, and small school factors.

The SPI must use the workgroup's analysis to consider options for revising school funding formulas. By November 1, 2025, and annually thereafter, the SPI must report progress and any proposed options to the fiscal and education committees of the Legislature, which must include options that address:

- system and resource inequities;
- state, local, and regional needs;
- potential adoption of student weights; and
- metrics to monitor equitable access to resources.

Any option or group of options proposed by the SPI must not exceed the amounts provided by the additional state property tax revenues generated under the bill, when combined with the other K-12 funding increases in the bill for SPED, the LEA, and substitutes. The Department of Revenue must provide relevant data and analysis to the SPI to support the requirement.

The statute establishing the workgroup expires December 1, 2027.

Substitute Allocations.

Beginning in the 2028-29 school year, allocations for substitutes are increased as follows:

- Classroom teacher substitute days are increased from four to five.
- The daily classroom teacher substitute rate is increased to \$200, adjusted for inflation annually.
- Classified staff are provided allocation for two substitute days at a daily rate of \$150,

adjusted for inflation annually.

State Property Tax for Common Schools.

For the revenue growth limit for state property taxes, the limit factor of 101 percent is replaced with a limit factor of 100 percent plus population change and inflation, with a cap of 103 percent.

"Population change" means the percent increase in the population of a taxing district between the two most recent years provided in the official population estimates published by the Office of Financial Management in April of the year before the taxes are payable. If the population decreases, the population change is zero.

Substitute Bill Compared to Original Bill:

The substitute bill removes the expansion of LEA to charter schools. It moves the start of increased substitute allocations from 2028 to 2029, and increases LEA threshold amounts by an additional \$200 per-pupil in 2029 and 2030.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill contains multiple effective dates. Please see the bill.

Staff Summary of Public Testimony:

(In support) We have been trying to tackle education funding for a long time. The state continues to put money toward schools, and that lessens the local burden, but we need to increase districts' ability to levy more dollars on their own. Providing flexibility to many districts is great, while we continue to consider changes to K-12 funding approaches. Levy and levy equalization changes are needed for longer term solutions. Levy provisions will greatly benefit districts and we like the LEA adjustments too. SPED provisions are complemented by other changes elsewhere in the Legislature. Substitute teacher provisions are good. The levy has not kept up with needs and the limit is too constricting, and voters are clearly willing to allow more. Local flexibility is good. The basic duty of the state is funding education, and the LEA is a complement to state support. The gap between wealthy and poor districts is huge. This bill is a step in the right direction but should go further. LEA increases should match lid increases as well.

(Opposed) Additional financial burdens on taxpayers across the state are not a great idea. The Legislature needs to spend better and with more responsibility. Property owners are struggling. Taxes are being repeatedly raised. Increased taxation is terrible; the added taxes

are felt over and over again. Enrichment levies are used by the legislature to avoid their burden to provide equal opportunities to students. Levies should be eliminated. This bill does not equalize our funding across districts.

(Other) Charter schools are free and open to all, and we have the same requirements as other public schools. Charter schools allow response to communities and closing of caps in education. The calculation for permanent enrichment funding for charter schools in the bill is problematic. Our funding gap is very large; please amend the bill so that charter school students have access to ongoing funding. Charter school students should not face inequities since they cannot access tax levies. Fundraising is insufficient for charter schools; they should be able to have access to levy funding. Focus should be on funding materials, supplies, and operating costs and SPED for public schools. School districts already go out for local levies, and that privileges higher income areas. Increased funding for substitute teachers is great, but a SPED funding shortfall is not well thought out. This bill provides no local relief for districts that cannot reach certain levy caps. Increasing the levy lid and increasing levy equalization by differing amounts is not equal and will contribute to disparity across districts. The bill will not fundamentally change inequity in state funding of schools.

Persons Testifying: (In support) Representative Steve Bergquist, prime sponsor; Clifford Traisman, Bellevue, Highline, Northshore Public School Districts; Clifford Traisman, Seattle, Bellevue, Highline, Northshore and Seattle Public School Districts; Julie Salvi, Washington Education Association; and Kate Davis, Olympia School District.

(Opposed) John Axtell; Max Martin, Association of Washington Business; Jeff Pack, Washington Citizens Against Unfair Taxes; and Tim Eyman, Initiative Activist.

(Other) Barbara Posthumus, Lake Washington School District; Oliver Miska; Derek Sarley, Washington State School Directors' Association; Nora Palattao Burnes, ESD 105 Schools Coalition; Dr. Curtis Guaglianone, Mt. Adams School District; Marcus Harden, WA State Charter School Commission; Barbara Gilchrist, Washington State Charter Schools Association; Andrea Klein, Summit Alas; Amy Kiyota, IMPACT Public Schools; Karen Lobos, Rainier Prep; Sam Schweda, Spokane International Academy; Tom Fleming, CFO, ESD 105 Schools Coalition; Charlie Brown, South Sound Superintendents; and David Knight.

Persons Signed In To Testify But Not Testifying: None.