

## Senate-Passed Bill Would Overhaul and Increase School Funding

### Briefly

- The Senate has passed SSB 5607 in response to the McCleary decision.
- The bill would fund schools based on a new per-pupil funding model.
- Per-pupil funding would be at least \$12,500.
- The salary allocation schedule would be eliminated.
- The minimum teacher salary would be increased and a housing allowance and recruitment and retention bonus would be provided for certain staff.
- I-1351 (class size reductions for grades K–12) and I-732 (cost-of-living adjustments for school staff) would be repealed.
- A “local effort levy” would be levied by the state on behalf of districts, in addition to the current state property tax.
- Several safeguards would be put in place to ensure that any future local excess levies would not be used for basic education.
- The Senate Ways and Means Committee estimates the bill would increase state spending by \$2.481 billion in 2017–19 and by \$4.434 billion in 2019–21.

### What is Basic Education?

With the enactment of ESHB 2261 in 2009, the Legislature redefined basic education as “that which is necessary to provide the opportunity to develop the knowledge and skills necessary to meet the state-established high school graduation requirements that are intended to allow students to have the opportunity to graduate with a meaningful diploma that prepares them for postsecondary education, gainful employment, and citizenship.”

Basic education includes at least parts of these budget lines: general apportionment, special education, pupil transportation, learning assistance program, transitional bilingual education program, highly capable program, and institutional education (W&M 2015).

The Education Funding Task Force (EFTF) was supposed to make recommendations to the Legislature in January as to how to finish complying with the state Supreme Court’s McCleary decision. Although the Democratic and Republican senators and representatives who were members of the EFTF could not agree on recommendations, both sides have since offered detailed education funding plans.

Gov. Inslee’s plan and HB 1843 fit within the existing parameters of the school funding process. (See our earlier brief, “Education Funding Plans: The Governor and House Want Significant New Spending.”) By contrast, the Senate has passed a bill that would use an entirely different model.

As passed on Feb. 1, SSB 5607 would guarantee a fixed amount of funding per student, replace local maintenance and operations (M&O) levies with a state levy, and make several other reforms.

SSB 5607 would be subject to referendum (except for the delay in the maximum levy percentage reduction).

### A Per-Pupil Funding Model

In the current prototypical school funding model, funds are allocated in the amount needed to operate a school of a certain size with certain types of students and scaled to actual enrollment. Central to this formula is the number of adults needed in a school. SSB 5607 would instead institute a per-pupil funding model as of SY 2018–19.

Under the new model, per-pupil funding would be at least \$12,500. First, there would be a “basic per pupil guarantee” of \$10,000. The guarantee would be funded first by a new “local effort levy” (which is described below under “Property Taxes”). Then, the state would contribute at least 40 percent of the basic guarantee. This means that if a district’s local effort levy generates more

than \$6,000 per pupil in SY 2018–19, for example, the basic guarantee amount for that district would be more than \$10,000.

On top of the basic per pupil guarantee, the bill would provide:

- \$1,000 per transitional bilingual student,
- \$1,000 per highly capable student,
- \$2,000 per student in poverty (\$5,000 in school districts where the poverty rate exceeds 30 percent),
- \$1,500 per homeless student,
- \$7,500 per special education student, and
- \$500 per student in career and technical education and skill centers.

After adding any of these categorical funding items to the \$10,000 basic guarantee, if the per pupil funding amount (from state, local, and federal sources) does not equal at least \$12,500, the state would increase funding to that level. These amounts would be adjusted for inflation.

### Compensation

The bill would eliminate the current salary allocation schedule. The current schedule has nine steps for degrees and credits attained and 16 steps for years of service. It is for allocation purposes only—actual salaries are subject to collective bargaining. That said, beginning teachers must currently be paid at least the minimum specified in the state schedule (\$35,700 in SY 2016–17). Also, a district’s average salary cannot exceed the state schedule’s average salary.

Under the bill, there would be no statewide salary schedule for certificated instructional staff as of SY 2018–19. Further, the bill specifies that school districts would not be allowed to increase salaries based on the attainment of advanced degrees that are not in a teacher’s subject area. The bill would require that the minimum salary for certificated instructional staff “in the basic education program” be \$45,000 beginning in SY

2018–19. Additionally, total salaries and benefits paid to certificated instructional and administrative and classified staff would not be allowed to exceed 80 percent of a district’s total general fund expenditures.

The bill would provide other compensation that would not be considered part of basic education:

- A housing allowance of \$10,000 multiplied by a regional cost factor for staff in districts with high property values,
- A recruitment and retention bonus of \$12,500 for certificated staff in districts with enrollment over 25,000 and poverty rates over 25 percent, and
- A “top teacher recognition grant program” that would provide \$25,000 to \$50,000 awards to the best teachers.

### Other Reforms

In addition to changing the way schools are funded and teachers are compensated, the bill would make several other reforms:

- It would repeal I-732 (cost-of-living adjustments for school staff) and I-1351 (class size reductions for grades K–12). (Because SSB 5607 would also eliminate the prototypical school model, the K–3 class size reductions that are required by 2010’s SHB 2776 would no longer be required. For more on these initiatives, see our earlier report, “Education Funding Plans: The Governor and House Want Significant New Spending.”)
- The bill would add new goals for student outcomes and measurements of success. If districts meet these targets, they would get more flexibility to innovate and would be exempt from many state laws.
- If a school has a chronic absentee problem, the Office of Superintendent of Public Instruction would be able to recover some of the funds the school received for absent students.
- Districts would have more flexibility in

- hiring uncertificated people to teach.
- The bill would set minimum standards for paraeducators (classified employees who assist in providing instructional services).
- The bill would not impact current collective bargaining agreements, but future agreements would have to conform to the bill.
- Strikes by educational employees would be prohibited.
- Teachers could be fired if their poor teaching skills are “detrimental to student academic performance.” Currently, the bar for firing teachers is high (for example, they may be fired if they are convicted of a felony). Also, poor evaluations can currently lead to non-renewal of a teacher’s contract, but they are only one factor in that decision.

### Property Taxes

As noted above, the state would be required to initiate a “local effort levy” on behalf of school districts. Collections would begin in 2018, and they would be

on top of the current state property tax. Like the state property tax, the local effort levy would not be subject to voter approval. Beginning in 2019, the levy would be distributed back to the districts proportionally (based on the equalized assessed valuation of property in the district).

The rate of the local effort levy would be uniform across the state (but adjusted, as with other property taxes, to the state equalized value). In general, the local effort levy rate would be \$1.80 per \$1,000 of assessed value, but the rate could be reduced in the budget. SSB 5607 specifies that it would begin at \$0.45/\$1,000 in CY 2018.

The local effort levy would not be subject to the 101 percent growth limit. For purposes of the constitutional 1 percent limit, if the state property tax and local effort levy combine to equal more than \$3.60, SSB 5607 provides that the other taxing districts (e.g., fire districts) could receive a state payment to make up for lost funds (if appropriated). (This provision would expire July 1, 2027.)

Beginning July 1, 2019 (the first day of the 2019–21 biennium), if near general fund–state plus opportunity pathways revenues are greater than those in the previous biennium, the increased revenue would first have to go toward funding enrollment and inflationary increases for the per-pupil funding guarantees. After that, revenue increases would have to be used to reduce the rate of the state-required local effort levy, until it reaches \$1.25/\$1,000 of assessed value.

Under current law, school districts may have maintenance and operation levies if approved by voters, but the amount they may levy is limited to a percentage of their state and federal revenues. The maximum levy percentage is scheduled to go from 28 percent to 24 percent in 2018. SSB 5607 would keep the maximum at 28 percent for 2018 during the transition to the new funding system. The bill would disallow local M&O excess levies for CY 2019. Beginning in CY 2020,

### Property Tax Terms

**Statutory 101 percent growth limit:** A taxing district’s levy is limited to the lesser of the previous year’s revenues adjusted for inflation or 101 percent of the previous year’s revenues.

**Constitutional 1 percent limit:** With some exceptions, the aggregate of all regular property tax levies cannot exceed 1 percent of the value of the property. Thus, regular property taxes are limited to \$10 per \$1,000. The \$10 is split among the state, local taxing districts (e.g., counties), and special purposes. The state’s share is \$3.60 and funds schools. This is a maximum amount.

**State equalized value:** The \$3.60 property tax levy is adjusted to the “state equalized value.” This is done to ensure uniformity across the state. It takes into account the fact that property values as assessed by counties do not always equal market value. As a consequence, some property owners would pay more tax than others for properties with the same market value. (DOR 2017) The effective state property tax rate is expected to be \$1.86 in 2018 (Harrell 2017).

**Maximum Levy Percentage:** School districts may levy maintenance and operation levies (if approved by voters) that are excess levies not subject to the constitutional 1 percent limit. In 1977, the Legislature limited the ability of districts to increase revenue in this way. Most districts may currently levy up to 28 percent of their state and federal revenues. That figure is scheduled to drop to 24 percent in 2018.

districts would only be able to levy up to 10 percent (if approved by voters), for non-basic education purposes. The Office of Superintendent of Public Instruction would have to approve the plans for any levy before it goes to the voters to ensure that collections do not fund basic education.

To further ensure that local excess levies are not used to fund basic education, the bill would change accounting practices to clearly separate revenues from different sources and track basic and non-basic education expenditures based on their revenue sources. The state auditor would be required to review districts' spending to ensure that excess levies are not used for basic education.

### Fiscal Impact

The official fiscal note for the bill is not yet available. The Senate Ways and Means Committee (SW&M) estimates that the bill would increase state spending by \$2.481 billion in 2017–19 and by \$4.434 billion in 2019–21 (as revised Feb. 22). These figures include the estimated cost savings from the repeal of the class size reduction initiative (I-1351), which is included in the bill. (SW&M 2017)

SW&M estimates that per-pupil spending (from state, local, and federal sources) would be \$13,910 in SY 2018–19 (up from \$12,140 under current law). The statewide average changes from current law are shown in the tables below. As noted above, districts would be allowed to levy up to 10 percent of their revenues via M&O excess levies in CY 2020; whether or not they would do so affects the estimates for SY 2019–20 and SY 2020–21. (The numbers in the tables are smallest in CY 2019 and SY 2019–20 due to the changes in M&O levy policy. No M&O levies would be allowed in CY 2019, but SY 2018–19 and SY 2019–20 would each have partial M&O levy funding from CY 2018 and CY 2020. Further, districts would have higher levy authority in CY 2018 than in 2020.)

Under the plan, every school district would get more funding in SY 2018–19 than they would under current law. For SY 2019–20 and SY 2020–21, some districts would get less funding than they otherwise would, depending on whether they collect voter-approved M&O levies.

According to SW&M, the net tax rate change in 2019 (the new state-required

Table 1: Statewide Average Change from Current Law (Assuming no districts have M&O levies after CY 2018)

	<u>SY 2018-19</u>	<u>SY 2019-20</u>	<u>SY 2020-21</u>	
Total Funding for Districts (Millions of Dollars)	\$1,907.8	\$1,075.3	\$1,225.9	
Funding Per Student (Dollars)	\$1,770	\$970	\$1,100	
	<u>CY 2018</u>	<u>CY 2019</u>	<u>CY 2020</u>	<u>CY 2021</u>
Levy Collections (Millions of Dollars)	\$747.3	\$109.7	\$240.0	\$389.3
Tax Rate	\$0.73	\$0.09	\$0.18	\$0.28
Average Homeowner Taxes (Dollars)	\$209	\$26	\$52	\$80

Table 2: Statewide Average Change from Current Law (Assuming levy amounts that are the lesser of 10 percent or the district's previous levy for CY 2020 and thereafter)

	<u>SY 2018-19</u>	<u>SY 2019-20</u>	<u>SY 2020-21</u>	
Total Funding for Districts (Millions of Dollars)	\$1,907.8	\$1,567.1	\$2,286.7	
Funding Per Student (Dollars)	\$1,770	\$1,420	\$2,050	
	<u>CY 2018</u>	<u>CY 2019</u>	<u>CY 2020</u>	<u>CY 2021</u>
Levy Collections (Millions of Dollars)	\$747.3	\$109.7	\$1,520.3	\$1,676.5
Tax Rate	\$0.73	\$0.09	\$1.27	\$1.32
Average Homeowner Taxes (Dollars)	\$209	\$26	\$363	\$378

local effort levy rate less what the voter-approved local M&O levy rate would have been) would be \$0.09/\$1,000 statewide on average. This means that there would be a net increase in property tax collections of \$109.7 million in CY 2019 as a result of swapping local for state dollars. Revenues collected would increase in some school districts and decrease in others as a result of the change, ranging from \$32.9 million less in Tacoma School District to \$235.8 million more in Seattle School District. The impact to the average home owner in 2019 would be a \$26 increase in property taxes, ranging from the average home owner in Carbonado School District paying \$574 less to the average home owner in Mercer Island School District paying \$1,302 more. The districts that could see net tax increases, or decreases, are spread out around the state.

The analysis assumes that the rate of the state-required local effort levy would be \$0.45/\$1,000 in CY 2018 and \$1.80/\$1,000 thereafter. The analysis notes, "As this state [property tax] rate is potentially reduced in subsequent school years, other state funding will need to increase" (SW&M 2017).

### Comment

SSB 5607 represents a significant overhaul of the current K–12 system. It has the potential to both comply with the McCleary decision and improve outcomes for students. A recent report from the Washington Roundtable and Partnership for Learning recommends a student-based funding system similar to the one proposed by SSB 5607: "By driving additional resources to students with greater needs, this easy-to-understand system can improve equity and outcomes" (WRT et al. 2017).

Also, given the safeguards the bill puts in place to keep local funds from being used for basic education, it could help keep the state from being in this situation again. The bill's substitution of state for local funds would reduce the unconstitutional reliance on local levies to fund

education and increase property taxes overall, but the Legislature will have to find additional resources to fully fund the proposed spending. HB 1843, which was passed by the House Feb. 22, is estimated to cost about \$7.6 billion over the next four years and SSB 5607 is estimated to cost about \$6.9 billion over the next four years. (The two bills are not as close to each other as those spending figures would suggest—the spending in HB 1843 doesn't ramp up as quickly as in SSB 5607, and I-1351, included in the House bill, isn't fully funded during this period.)

According to The News Tribune, SSB 5607 "would rely on about \$800 million a year in unspecified savings, which GOP leaders have said can be found in the state's existing budget" (Santos 2017). Meanwhile, HB 1843 was passed without any funding source. Budget writers have their work cut out for them this session.

### References

- Department of Revenue (DOR). 2017. "[Ratio Study Information Sheet](#)." Accessed Feb. 15, 2017.
- Harrell, Jessica. 2017. "[SSB 5607 Bill Analysis](#)." Office of Program Research. February 6.
- Santos, Melissa. 2017. "[State House passes plan to fix school funding, but not how to pay for it](#)." The News Tribune. February 22.
- Senate Ways & Means Committee (SW&M). 2017. "[5607 – Education](#)." February 22.
- Washington Research Council (WRC). 2017. "[Education Funding Plans: The Governor and House Want Significant New Spending](#)." PB 17–02. February 16.
- Washington Roundtable, Partnership for Learning, Education First, Public Impact (WRT et al.). 2017. "[Creating Great Schools For Washington Students](#)." January 11.