FINAL REPORT

Levy and Local Effort Assistance Technical Working Group

July 12, 2011

Executive Summary

LEVY AND LOCAL EFFORT ASSISTANCE TECHNICAL WORKING GROUP'S LEGISLATIVE CHARGE

In Chapter 548, Laws of 2009 (ESHB 2261) and Chapter 236, Laws of 2010 (SHB 2776), the Legislature established the Levy and Local Effort Assistance Technical Working Group and directed it to:

- Develop options for a new system of K-12 supplemental funding through local school levies and local effort assistance;
- Consider the impact of the new basic education funding system enacted in SHB 2776 on overall school district revenues;
- Recommend a phase in plan that assures no district suffers a decrease in funding due to implementation of the new system of supplemental funding;
- Conduct an analysis on the potential use of local funds that may become available for redeployment and redirection as a result of increased state funding allocations for pupil transportation and maintenance, supplies and operating costs (MSOC); and
- Examine local school district capacity to address facility needs associated with phasing in full-day kindergarten and K-3 class size reductions.

KEY OBSERVATIONS AND RECOMMENDATIONS ON LEVY AUTHORITY

Several themes emerged in the Working Group's analysis of the current levy system and potential alternatives. The Working Group's key observations and recommendations are:

- **Levies are a core component of community support for schools and provide an opportunity for communities to fund their priorities and affirm their support for education.** Along with school board elections, maintenance and operation, or M&O, levy elections are an important accountability mechanism for voters.

- While they are an important component of total school funding, local levies do not diminish the critical need for state support for schools. **The Working Group is concerned that legislated increases in levy authority not be used to erode essential financial state support for schools.**

- **All districts should retain the ability to levy, at minimum, the amount permissible under current law.**

- **Levy authority appropriate to economic conditions during periods of state and federal funding reductions should be maintained.** The Legislature should continue this well-established precedent. Without the maintenance of local authority, significant budget reductions would occur at the district level. (There are a number of mechanisms to accomplish this, such as use of the per pupil inflator adjustment (PPI), a levy lid lift or modification of the levy base).

- **As funding inequities were noted between neighboring districts, the number of grandfathered districts should be reduced and eventually eliminated by increasing levy authority of the non-grandfathered districts over time.** Fundamental to this goal is continuation of state levy equalization.

- **Increasing levy authority to eliminate grandfathering will help only those communities able to access additional revenue from increased authority.** A number of districts, such as Yakima, cannot access their current levy authority; therefore an increase in authority will provide no benefit to the programs and services in these districts.

- **Levy and levy equalization calculations and formulas should continue to recognize the needs of small schools.**

RECOMMENDATIONS AND OBSERVATIONS ON LEVY EQUALIZATION

The Working Group's major observations and recommendations on levy equalization are:

- **The strong reaffirmation of levy equalization as a necessary tax equity program.** It mitigates the effect of above-average property tax rates on a school district's ability to raise local funds. It also serves to provide property tax relief to taxpayers in districts with above-average property tax rates. The Working Group recommends continuing the program as it is critical to the local funding system.

- **The strong reaffirmation of the current policy of 50 percent levy equalization, which it views as the floor for equalization funding.** As such, each of the levy options considered in the report assume a 50 percent levy equalization construct, at a minimum.

- **A goal of providing more equalization over time, up to full equalization as the Legislature increases state support for core programs.**

- **The rejection of reductions or modifications to the levy equalization formula, such as pro-rating or applying tiered cuts to the formula.**

LEVY AND LEVY EQUALIZATION BACKGROUND

Under Washington state law, K-12 school districts may levy local property taxes for up to four years at a time for school maintenance and operations (M&O) levies, upon simple majority approval by local voters. Of the state's 295 school districts, 281 districts have voter-approved levies. In the 2009–10 school year, M&O levies comprised about 16 percent of total school district operating revenues statewide. These levies are in addition to the funds districts receive from the state and federal governments.

The Washington State Constitution establishes the education of all children as the paramount duty of the state. It requires the state to make ample provision for a uniform system of public schools. As a result of this constitutional mandate, Washington provides the majority of operating funds for local school districts. During the 2009 and 2010 legislative sessions, the Legislature adopted a revised system of state funding for schools. The legislative updates to the state funding formulas for schools also raised issues about the current system of local supplemental levy funding and the state's Local Effort Assistance program. Accordingly, the Legislature created the Levy and Local Effort Assistance Technical Working Group to develop options for a new system of K-12 supplemental funding through local levies and local effort assistance.

Prior to 1977, local M&O levies comprised as much as 30 percent of school district operating revenues statewide. During the economic recession of the 1970s, several districts, including Seattle, experienced levy failures. This launched a series of events in K-12 fiscal policy. The first was the lawsuit and subsequent Supreme Court affirmation of the Judge Doran decision in *Seattle v. State,* also known as Doran I, in which the courts directed the Legislature to define and then fund a program of basic education through stable funding sources, having ruled that local levies were not a stable source of school revenue. In 1977, the Legislature followed the decision with the dual enactment of the Basic Education Act and the levy lid law. The Basic Education Act resulted in significant increases in state funding for school districts while the levy lid law resulted in reductions in local property tax levies for districts. The end result of both was a notable shift from local to state funding of public schools.

Local Levy Authority

The levy lid law caps the amount of local M&O levy a school district can collect. Each school district's levy authority is limited to a set percentage (the levy lid) of the state-defined levy base. An individual district's levy base for any tax year is a composite of the district's prior year's state and federal revenues, adjusted by inflation and other factors. Under current law, the levy lid is 28 percent of the levy base for all districts. However, 90 districts are grandfathered at higher levy lid percentages ranging from 28 to 37 percent. Differences in each district's state and federal revenue base, in addition to the grandfathered levy lids, lead to significant variations in the maximum levy authority of school districts when levy authority is viewed on a dollar-per-pupil basis. These differences have led some to question and express concern for local funding equity across school districts.

Levy Equalization
A district's M&O levy property tax rate, expressed as $1.00 of property tax for every $1,000 of assessed value, is dependent on two factors:

- the size of the district's assessed value of all taxable properties within the district, and
- the size of its voter-approved M&O levy, up to the district's levy limit.

Holding the size of the levies constant, taxpayers in districts will have different tax rates to generate the same amount of revenue: Taxpayers in districts with higher total assessed value pay lower tax rates than taxpayers in districts with lower total assessed value to raise the same amount of revenue. Again, these differences lead to questions and concerns about equity — in this case, the concerns are of taxpayer equity and the corresponding ability of communities to approve levies in support of schools. Beginning in 1989, the state has addressed taxpayer equity concerns by providing state-funded levy equalization, or local effort assistance, funds to districts with above-average property tax rates.

The Working Group affirms levy equalization as an important component of the local levy system as it provides both property tax relief and mitigates the effect that above-average property tax rates have on districts' ability to raise local revenues. The original intent of levy equalization was to provide property tax relief. The Working Group reaffirms this intent. Further, the Working Group asserts that the state should establish a goal of equalizing 100 percent of the total amount levied.

To receive levy equalization funds, voters in a school district must pass a local M&O levy. In calendar year 2011, under a levy lid of 28 percent, the state equalizes tax rates for a 14 percent levy (the first 50 percent of a district's levy lid before grandfathering).

State funds allocated to districts for levy equalization are in lieu of local property tax collections. The district receives equalization funding from the state, instead of the local taxpayers, and the taxpayers pay a lower annual tax bill for their locally approved levy. If a district receives levy equalization, the state deducts that amount from the total the district is authorized to collect in property taxes.

State equalization of the first 50 percent of a district's levy authority is referred to as "partial equalization." Because levies are partially equalized, taxpayers in levy equalization districts still pay higher property tax rates, on average, than those in districts without equalization. The report describes both district-level tax rates and tax payments in detail. The Working Group also analyzed M&O levy tax bills in the context of districts' median family incomes. On average, taxpayers in lower property value districts pay a higher percentage of their incomes for local levy payments. Levy equalization tends to reduce this disparity.

LEVY AUTHORITY OPTIONS

The Legislature requested options for a program of local supplemental funding. The expertise and perspectives of Working Group members allowed a thorough exploration, technical vetting and debate of a variety of policy options. The report provides a summary of each major option developed or reviewed by the Working Group, with analysis of the merits and pitfalls of each.

The Working Group's options detailed in this report center on two different assumptions of state funding. Options 1 and 2 are based on state funding allocations as provided in the 2011-13 biennium, while Options 3 and 4 are based on specific enhancements to state funding.

LEVY AUTHORITY OPTIONS 1 AND 2 — BASED ON STATE FUNDING ALLOCATIONS AS PROVIDED IN THE 2011–13 BIENNIUM

While the Working Group developed options for consideration through a consensus-based process, members *did not achieve a consensus recommendation on Option 1 (retaining the current structure), versus Option 2 (changing authority to per-pupil concept).* The report details its discussions as well as provides recommendations specific to each option for legislative consideration.

- **Authority Option 1:** Retain the Current Levy Structure with Some Modifications
- **Authority Option 2:** Change Local Levy Authority to Per-Pupil Funding Concept

The Working Group recognizes the current levy structure includes several unresolved issues from the 1970s, primarily due to grandfathering. The inclusion of a per-pupil model attempts to resolve some of these issues. However, the Working Group recognizes a per-pupil model creates new questions and policy issues that must be addressed if the model is considered by the Quality Education Council and the Legislature.

THE WORKING GROUP MAKES THE FOLLOWING RECOMMENDATIONS, REGARDLESS OF OPTION 1 OR 2:

- **The number of grandfathered districts should be reduced and eventually eliminated by increasing levy authority of the non-grandfathered districts over time.** Fundamental to this goal is continuation of state levy equalization.

- **Levy authority should be maintained appropriate to economic conditions during periods of state and federal funding reductions.** The Legislature should continue this well-established precedent. The consequence of legislative inaction is significant budget reductions at the local level. (The Working Group notes a number of mechanisms to accomplish this, such as use of the per-pupil-inflator adjustment (PPI), a levy lid lift or modification of the levy base).

- **Alternatively, if a per-pupil model is considered, the per-pupil amount should be high enough to resolve some inequities currently caused by grandfathered levy lids.**

- **No district should lose levy authority**, which would result in on-the-ground budget reductions.

- **Careful consideration should be given to levy equalization impacts** to ensure districts do not lose levy equalization funds due a formula change (as opposed to normal shifts due to changes in total assessed value).

- **Levy and levy equalization calculations and formulas should continue to recognize the needs of small schools.**

Levy Authority Options 3 and 4 — Based on Enhanced State Allocations for Materials, Supplies and Operating Costs (MSOC) and Pupil Transportation

Part of the legislative charge was to consider the impact of the new basic education funding system enacted in SHB 2776 on overall school district revenues. Option 3 (enhanced state funding and levy authority) and Option 4 (state and local property tax shift) are crafted under the assumption of increased state allocations for MSOC and pupil transportation.

- **Authority Option 3**: Enhanced State Funding and Local Levy Authority
- **Authority Option 4:** A Local and State Property Tax Shift

With regard to Options 3 and 4 on enhanced state funding, the Working Group determined it was premature to specify or recommend a specific adjustment to local levy authority based on three compelling factors:

- A new state compensation working group will convene after this report is submitted to the Legislature. Compensation accounts for a significant share of school district expenditures. Any substantive compensation changes will dramatically affect the needs and uses of local levy funds.

- The Legislature's phase in of enhanced funding for SHB 2776 is still to be determined.

- Operating costs to the district are projected to increase due to forecasted increases in enrollment, inflation increases and other factors. Further, state and federal budget reductions will limit the amount of revenues available for programs.

Option 3 analysis of the impact of enhanced state funding on local levy authority. The Working Group recognizes an increase in state funding would, under the current levy structure, increase local levy authority.

- **At minimum, local levy authority for districts should remain at current levels.** The enhanced funding options address two areas of local funding use: MSOC and pupil transportation. Additionally, the other areas of focus for SHB 2776 are on K-3 class sizes and full-day kindergarten programs. Enhanced state revenues would not offset current budget pressures experienced by districts such as:

    - Operating a high school. This includes the need to provide a comprehensive range of courses and extracurricular activities. Additionally, costs of extracurricular activities will continue to rise due to increases in gas prices, athletic fees and other items.

    - Items negotiated under collective bargaining.

    - Programs for which district operational costs exceed state or federal funding allocations and are not addressed by SHB 2776.

- **Depending on the phase in of SHB 2776 and the compensation package put forth by the Legislature, it could be appropriate for local levy authority to increase by the full amount of new state funding.** As class sizes decrease and full-day kindergarten is phased in, more classrooms and staff will be needed:

    - As more classrooms become operational, MSOC revenues will not increase. Pursuant to the new formula, MSOC is per student, not per teacher. Additional classrooms come with a need for more MSOC, particularly for utilities, insurance and maintenance, and districts will rely on local funds.

    - As class sizes are reduced and new staff members are hired, districts will continue to provide supplemental contracts to new staff, pursuant to collective bargaining agreements. Local levy funds are used to accomplish this.

    - Depending on the phase in and the compensation package put forth by the Legislature, it could be appropriate for local levy authority to increase by the full amount of new state funding. However, it is not prudent to make a recommendation of an amount at this time without additional information.

OPTION 4 WOULD INCREASE STATE ENHANCED FUNDING THROUGH A STATE AND LOCAL PROPERTY TAX SHIFT. While the state property tax would increase, the levy lid would be reduced. Option 4 does not necessarily provide a significant increase in total funding to districts: It shifts the source of revenues from the local district to the state. A hold-harmless is included so no district loses revenue. **A property tax shift is rejected as it could hamstring the ability of local districts to meet current collective bargaining obligations and other education commitments to their communities, even with enhanced state funding.**

LEVY EQUALIZATION OPTIONS CONSIDERED AND VETTED

The Working Group reached consensus on the levy equalization program and the importance of continuing it.

- Option 1: Maintain Current Policy (recommended)
- Option 2: Pro-Rate (not recommended)
- Option 3: Tiered (not recommended)

The Working Group's major observations and recommendations on levy equalization are:

- **Strong reaffirmation of levy equalization as a necessary tax equity program.**

- **Strong reaffirmation of the current policy of 50 percent levy equalization and considers this to be the floor for equalization funding.**

- **A goal of providing more equalization over time, up to full equalization as the Legislature increases state support for core programs.**

- **Rejection of any reductions to levy equalization or modifications such as pro-rating or applying tiered cuts to the formula.**

Potential Loss of Levy Authority

The Working Group was charged with analyzing the potential use of local funds that may become available for redeployment and redirection as a result of increased state funding allocations for pupil transportation and MSOC.

Working Group members are deeply concerned by a series of state and federal funding reductions taken during the 2011–13, 2009–11 and prior biennia. **The Working Group believes the total amount of funding available through state and local sources does not support adequate education services levels.** While they are important funding improvements, scheduled state enhancements to MSOC and transportation will not offset the need for supplemental funding through levies. **The Working Group opposes an application of a dollar-for-dollar reduction to levy authority based on the enhanced MSOC and transportation funds.**

School District Facility Capacity for Phasing In Full-Day Kindergarten and K-3 Class Size Changes

The Legislature directed the Working Group to examine local school district capacity to address facility needs associated with phasing in full-day kindergarten and K-3 class size reductions. The Working Group reviewed recent school facility reports, analyses and school district survey results, and described school facility capacity issues and concerns.

Observations and recommendations:

- Comprehensive statewide data on school capacities are not currently available. **There are dangers in extrapolating data, including district and statewide class size and facility capacity averages, into policy statements and options applicable at the individual school level.**

- **Some communities face significant facility capacity issues.** This is not a new issue. **Enrollment increases and programmatic demands are increasing pressure on school facilities.**

- Within districts, facility issues are complex at the individual grade, school and neighborhood levels. Citizens are passionate about their neighborhood schools; **school capacity issues can be among the most challenging issues for school districts to address**.

- Facilities will continue to present barriers to implementing full-day kindergarten and major reductions to K-3 class sizes in some communities. **State funding enhancements for full-day kindergarten and K-3 class size reduction under SHB 2776 were intentionally developed as funding *allocations*, not mandatory program requirements.** It is critical that districts retain flexibility in the use of these allocations, especially given facility capacity constraints and barriers.

- New construction or modification projects are one way to address facility barriers. However, exploration of state and local school construction funding was beyond the scope of the Working Group's legislative charge.

Table of Contents

Introduction

Overview of Statutory Charge

In Chapter 548, Laws of 2009 (ESHB 2261) and further amended in Chapter 236, Laws of 2010 (SHB 2776), the Legislature established the Levy and Local Effort Assistance Technical Working Group. The Legislature directed the Working Group to:

- Develop options for a new system of K-12 supplemental funding through local school levies and local effort assistance;
- Consider the impact of the new basic education funding system enacted in SHB 2776 on overall school district revenues; and
- Recommend a phase in plan that assures no district suffers a decrease in funding due to implementation of the new system of supplemental funding.

During the 2010 legislative session, two additional tasks were added to the Working Group's charge:

- Conduct an analysis on the potential use of local funds that may become available for redeployment and redirection as a result of increased state funding allocations for pupil transportation and maintenance, supplies, and operating costs (MSOC); and
- Examine local school district capacity to address facility needs associated with phasing-in full-day kindergarten and K-3 class size reductions.

The Working Group Membership

The Levy and Local Effort Assistance Technical Working Group (*the Working Group*) included experienced school district and Educational Service District fiscal and policy professionals, as well as representatives of key educational stakeholder groups.

The Working Group met for one year. Members reviewed components and analysis of the current levy and local effort assistance system. They brainstormed options, analyzed outcomes, and engaged in lengthy debates.

Options

The legislative charge specifically requested *options* for a program of local supplemental funding. The members did not reach a consensus recommendation on *a specific local funding option*. However, their wide range of expertise allowed a thorough exploration, technical vetting, and policy debates. This report provides a summary of each option and synthesizes the group's analysis of the possible merits and pitfalls of each.

The members did reach consensus on levy equalization, or the local effort assistance program. The program was designed to provide property tax relief to taxpayers in districts with above-average property tax rates; it also helps to mitigate the effect of above-average property tax rates might have on a school district's ability to raise local funds. The Working Group recommends continuing the program.

Local Levy Authority Today

The Working Group thoroughly reviewed the current levy system. To many, both inside and outside of the K-12 environment, the current system is "a black box" due to its complexity.

MORE THAN THIRTY YEARS OF HISTORY FORMED TODAY'S SYSTEM

The levy lid law of 1977 provides the framework for the state's current property tax levy system. Voters can approve property tax levies for their school district's maintenance and operation (M&O) costs. The levy lid law limits the amount districts may collect.

State law grants local school districts the option of running M&O property tax levies to supplement state and federal funding for schools. Each school district's levy authority is limited to a set percentage (the levy lid) of the state-defined levy base. An individual district's levy base for any tax year is a composite of the district's prior year's state and federal revenues, adjusted by inflation and other factors. Under current law, the levy lid is 28 percent of the levy base for all districts. However, 90 districts are grandfathered at higher levy lid percentages ranging from 28 to 37 percent.

The Levy Authority Calculation

The Office of the Superintendent of Public Instruction (OSPI) calculates each school district's local levy authority by taking the district's levy base (state and federal revenues), inflating it by a state-determined per-pupil inflator—after it has been divided by 0.55, and multiplying it by the district's levy lid percentage.

The mathematic formula:

Levy Base x [1 + (**Per Pupil Inflator**/0.55)] x **Levy Lid Percentage** = **Levy Authority**

OSPI then adjusts each district's levy authority for students residing in one school district and served by another district. This adjustment applies only to certain types of non-resident-domicile students.

The following pages explain each piece of the formula and its underlying policy.

The Implicit Policy: District Variation

If each district's maximum levy authority is divided by its student FTE count, major differences appear. The following pages also explain the reasons for variation. Essentially, levy authority on a per-student basis varies district by district for two reasons:

- Revenues in the levy base.
  As funding in the levy base increases, the district's maximum local levy authority increases.
- Different levy lids.
  The higher the levy lid, the higher the amount of maximum levy authority a district has. Ninety districts have grandfathered levy lids and, may, if their voters approve, levy amounts above the current 28 percent levy lid.

THE LEVY BASE

Each district's levy base is a composition of the prior school year's state and federal revenues, plus additional calculations. In 1977, the base only included state allocations. The Legislature intentionally linked the levy authority calculation to the state's Basic Education Act; since then each district's ability to generate local revenue has been tied to a percentage of its state funding allocations. Later the Legislature added federal revenues to the base. In 2003 and 2010 the Legislature amended the levy lid law to include additional calculated amounts in the base. The inclusion of calculated amounts was a legislative response to specific state K-12 budget reductions and remained part of the base thereafter. The purpose was to offset the impact of state budget reductions on districts' levy authorities. The Legislature recognized that when state funding for schools declined, districts' local levy authorities would also decline –unless the state lifted the levy lid or expanded the levy base by including additional factors in the revenue base. This policy allowed districts with voter-approved multi-year levies to maintain anticipated levy revenue and avoid so-called "compounding" funding reductions that occur when state funding cuts result in lower levy bases. Without this policy, districts would be required to roll back the levy amounts already approved by their voters.

The components of the levy base include:

- *State allocations (for the prior school year)*. This includes state revenues allocated to districts via OSPI from state appropriations, and includes allocations for general apportionment, health care benefits, categorical programs, and non-formula programs such as bonuses for Nationally Board Certified Teachers.

- *Amended (Reduced) Provisions of Initiative 728 and Initiative 732 (based on prior school year data, OSPI derived calculation).* The levy base includes revenues districts would have received if I-728 and I-732 funding allocations had not been suspended by the Legislature at various points since their enactment in 2001.

- *Federal Allocations via OSPI (for the prior school year).* This includes federal program funds allocated to districts through OSPI, and includes federal entitlement programs such as special education, school food service, and Title I.

- *Federal Funds Directly Allocated to the District (two school years prior, adjusted for inflation)*. This is district grant funding received directly from the federal government. The amount is equal to the funding received two school years prior, adjusted by a state specified inflation factor.

- *K-4 Class Size Ratio (based on prior school year data, OSPI derived calculation).* The 2010 Legislature modified the levy base to include state funding for the K-4 ratio enhancement if the enhancement was reduced in future budgets. Since then, the Legislature reduced and then eliminated allocations for K-4 class size reduction. Starting with calendar year 2012, OSPI will calculate an amount of revenue districts "would have" received for K-4, to be added to districts' levy base.

The Levy Base, Statewide Average

The 2011 levy base data indicate state allocations comprise the largest pieces of the levy base, or 78 percent. Figure 1 illustrates the statewide average. Regular federal allocations account for nine percent. OSPI derived calculations for I-728 and I-732 compose eight percent. Temporary federal stimulus funds, also allocated through OSPI, amount to four percent. These funds include both one-time state fiscal stabilization fund allocations for student achievement as well as short-term additional funding allocations for federal categorical programs. Finally, federal direct comprises one percent of the levy base.

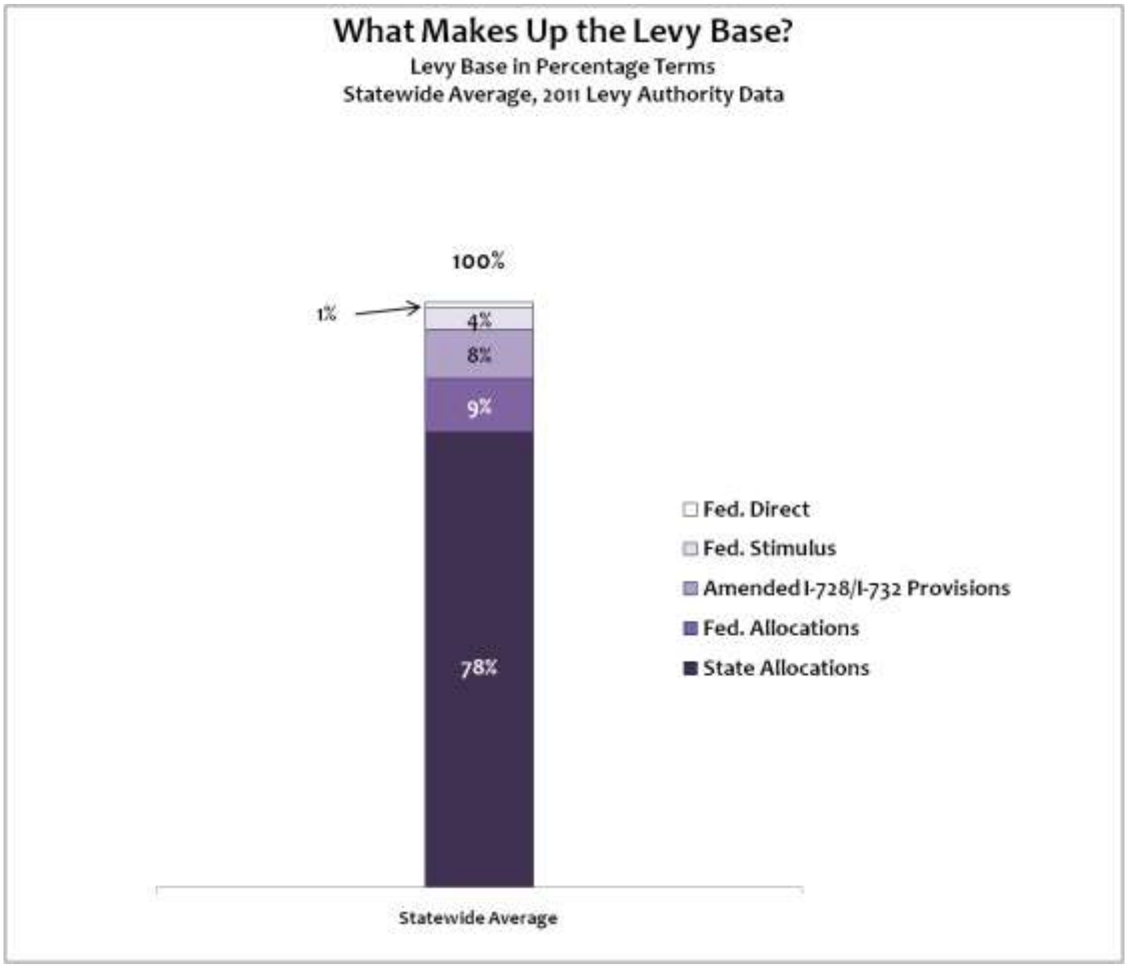

Figure 1: 2011 OSPI Levy Authority Report, F-780.

The statewide picture of levy base components does not always reflect the levy base composition for individual districts. To illustrate the variety, six similarly sized districts were selected. During the 2009-10 school year all served between 11,000 and 18,000 full-time equivalent students. Comparing equally-sized districts illustrates differences in the levy base based on differences in district staffing and enrollment.

Figure 2 illustrates the differences in levy base composition for these districts compared to the state average.

While the statewide average for federal revenue is nine percent, the percentage is higher for districts with above-average federal categorical program enrollment. For example, Yakima serves a significant number of students eligible for federal bilingual education funds. Both Yakima and Renton serve high percentages of students in poverty, generating more federal Title I and food service allocations. As a result, federal revenues make up 16 percent of Yakima's levy base and 11 percent of Renton's.

The state allocation percentage of the levy base may also be higher for districts with average or below average categorical enrollment and grandfathered state teacher salary allocations or higher staff mix (teacher years of experience and education). This is the case for Everett. It is a grandfathered salary district, with below average categorical enrollment. State allocations are 79 percent of its total levy base.

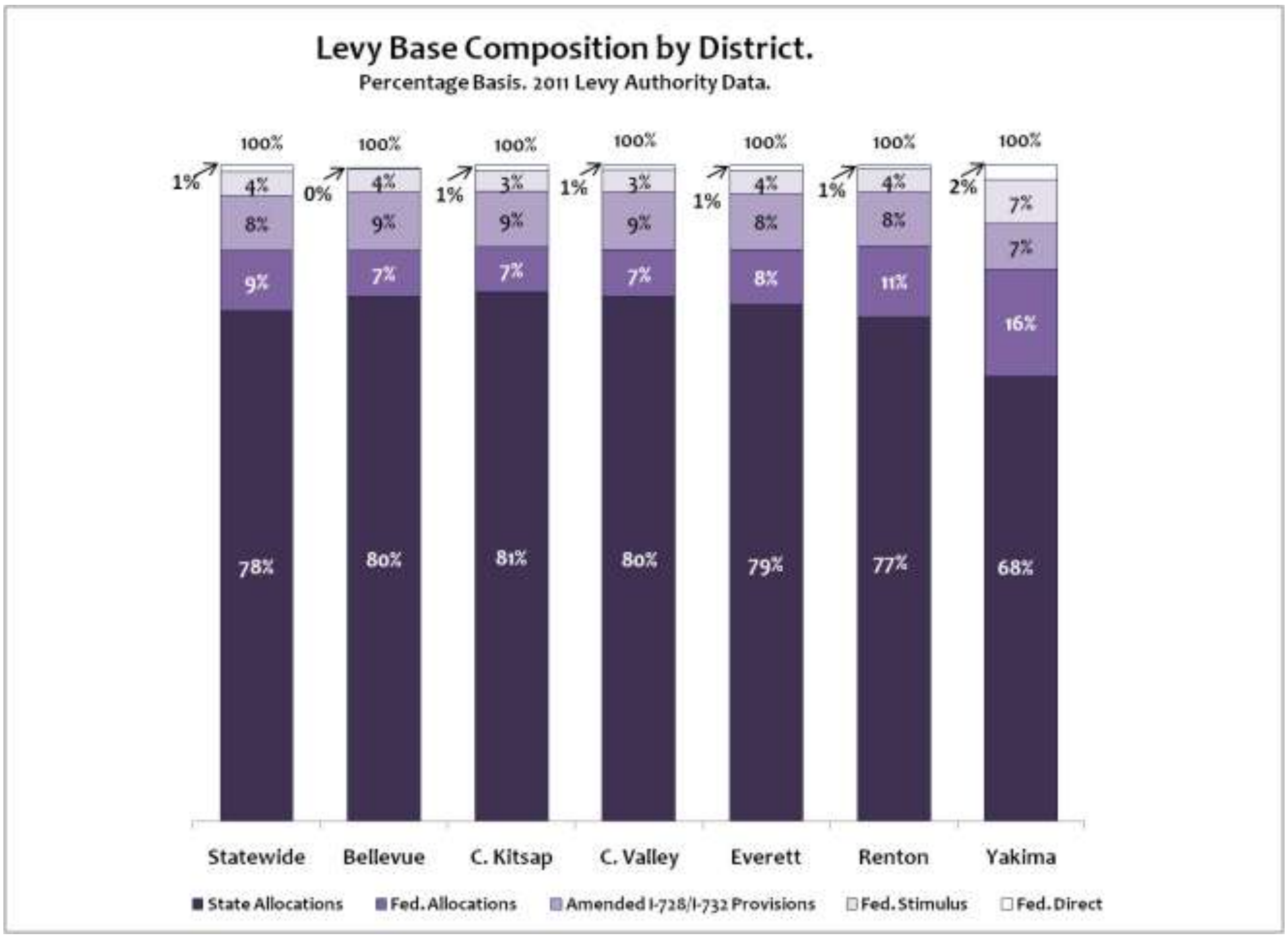

Figure 2: OSPI 2011 Levy Authority Calculation Reports, F-780.

The statewide picture shifts again when displaying levy base on a per-student (FTE) basis, as shown in Figure 3. State allocations per student vary mainly from differences for compensation allocations and state categorical program enrollment. Districts with grandfathered salaries and/or higher staff mix receive additional state allocations. Federal allocations vary, again, due to school district census poverty data and federal categorical program enrollment differences.

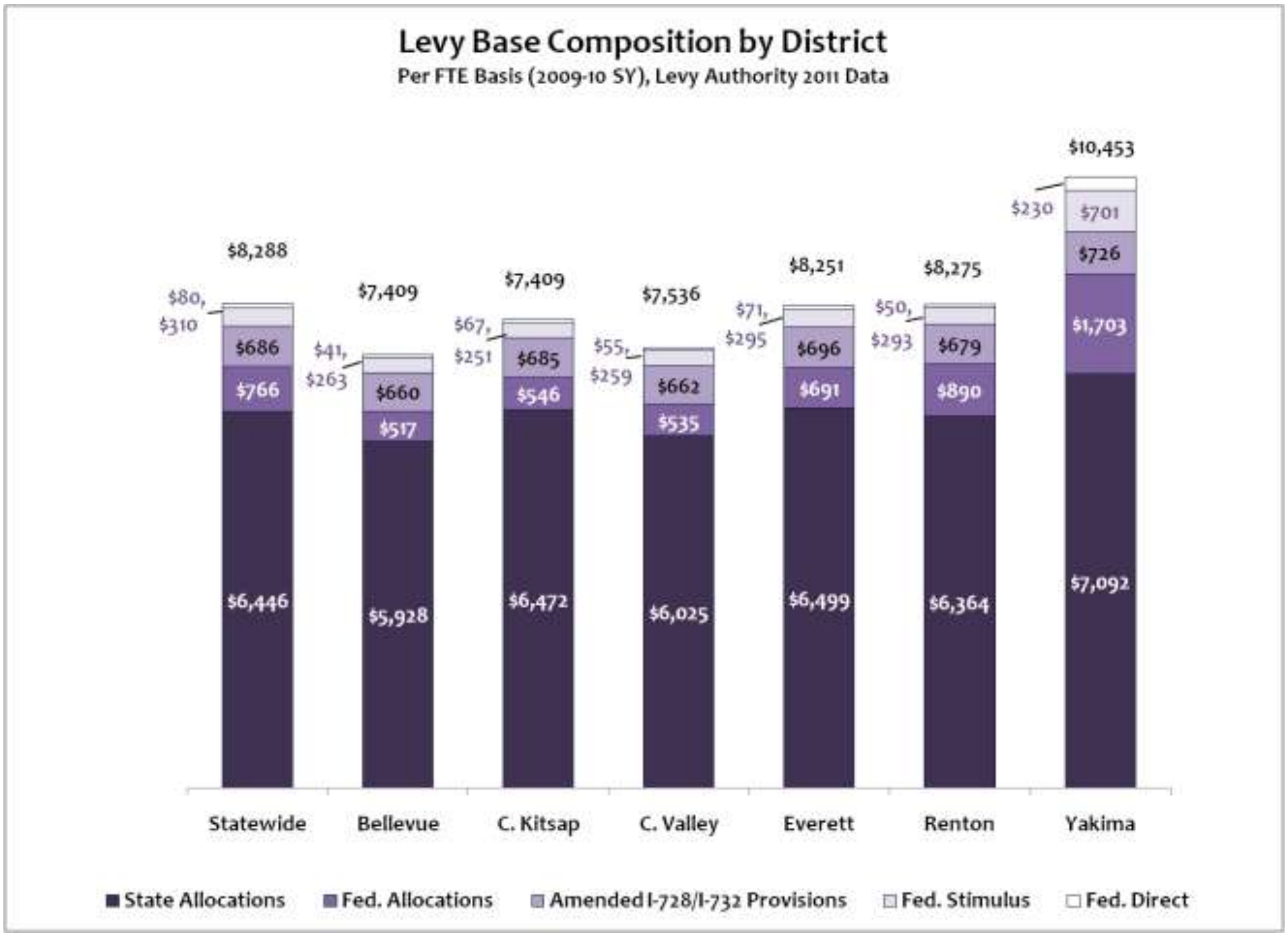

Figure 3: OSPI 2011 Levy Authority Calculation Reports, F-780.

Closer Focus on State Revenues in the Base

State funding allocations are the primary reason for levy base variation. On the following page, Figures 4 and 5 display only state allocations in the levy base, separated by formula (general apportionment, special education, transportation, and other). Figure 4 shows percentages of the total levy base and Figure 5 displays data on a dollar-per-student basis.

State funding allocations differ because of district differences in:

- *Teacher staff mix*. Districts with more senior teachers (or who have more education credits) are allocated more state funding than those with less experienced teachers (or who have earned fewer education credits). Everett and Central Kitsap are examples of districts with above-average staff mix.

- *Grandfathered salary allocations.* When the Basic Education Act was passed in 1977, the state grandfathered-in several districts at higher salary allocations for certificated instructional staff, certificated administrative staff, and classified staff. Everett is an example of such a grandfathered district.

- *Categorical enrollments.* Districts with higher categorical enrollment receive more funding from state funding formulas. Central Kitsap and Central Valley serve higher than average percentages of special education students. Yakima and Renton, as discussed earlier, also serve an above-average percentage of students enrolled in categorical programs. All four districts' state categorical revenues are higher than the state average.

- *Transportation.* On a per-student basis, districts with greater road miles and rural populations receive more transportation allocations.

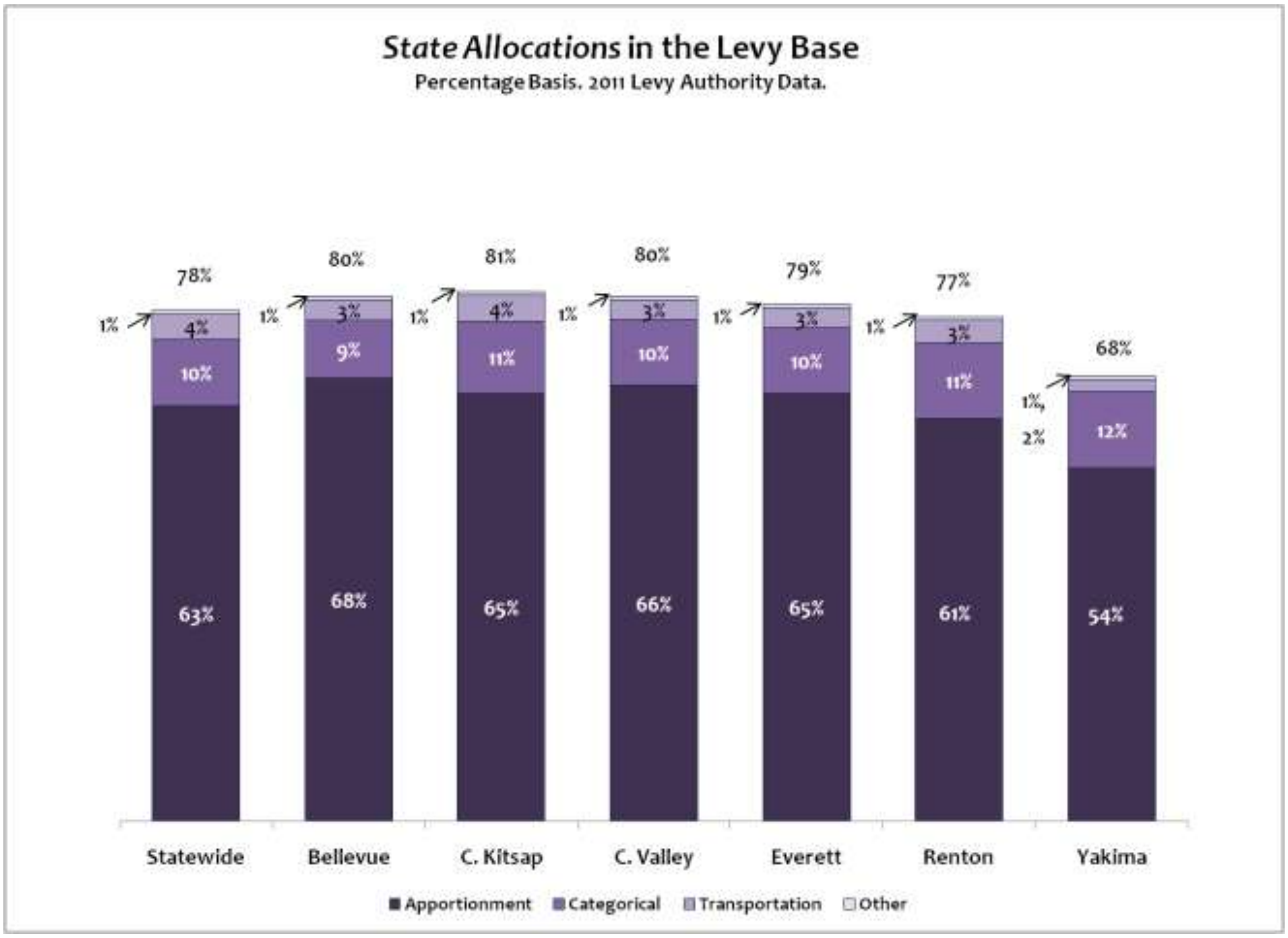

Figure 4: OSPI 2011 Levy Authority Calculation Reports, F-780.

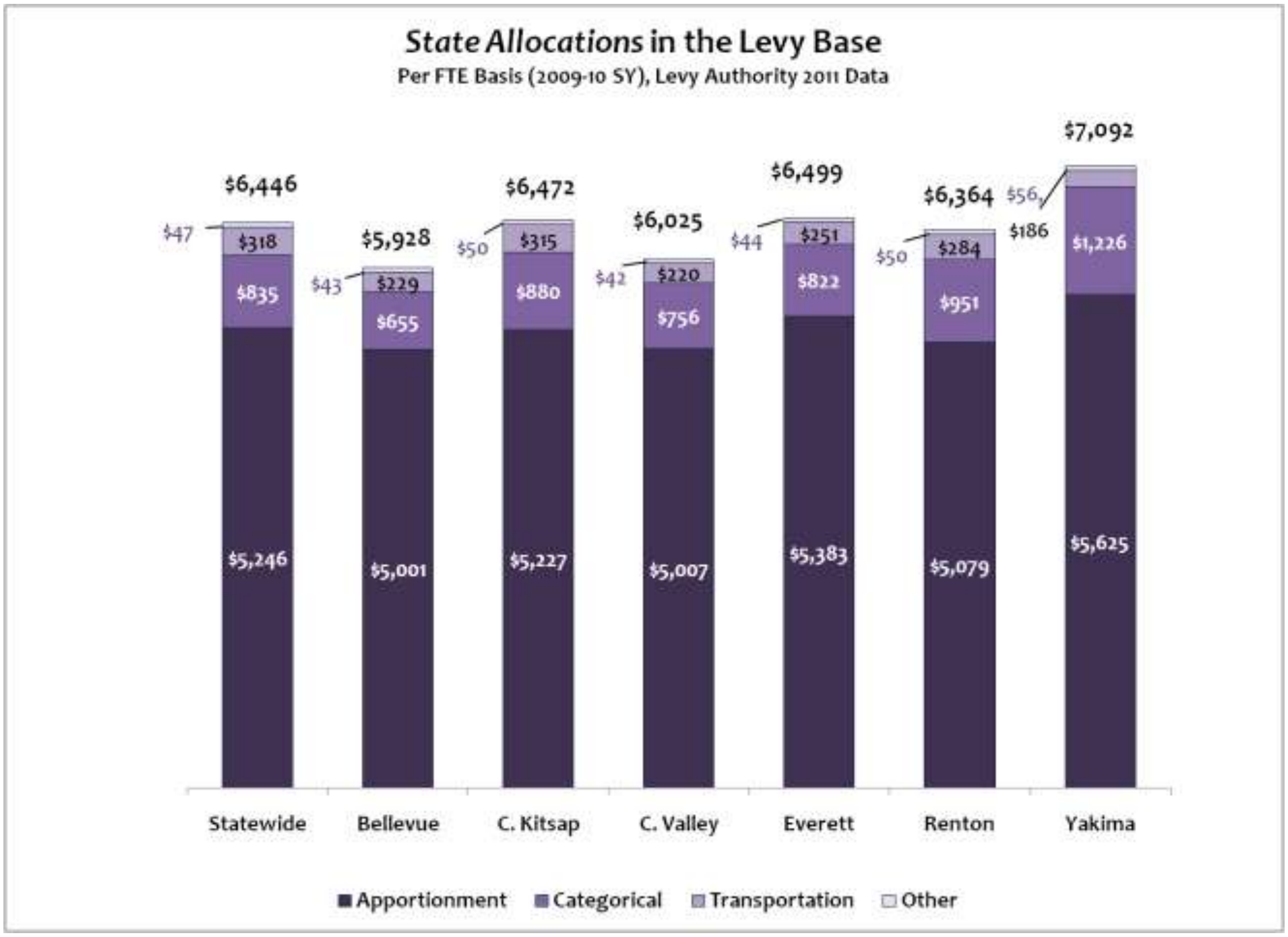

Figure 5: OSPI 2011 Levy Authority Calculation Reports, F-780.

WORKING GROUP DISCUSSION OF ISSUES WITH THE CURRENT LEVY BASE

The Working Group identified several issues with the current levy base:

- *The current levy base calculation no longer reflects actual state and federal revenues.* Though the inclusion of suspended I-728, I-732, and other calculated amounts in the levy base prevents loss of local levy authority and revenue during periods of state budget reductions, it also disassociates the base from the original policy intent of reflecting actual state and federal revenues. The inclusion erodes the original policy basis for using state and federal revenues (and potential or lost revenues) as the base for local levy authority.

- *The current levy base calculation is complex and lacks transparency.* As the base calculation is loosely based on actual funding, the added complexity of deviating from actual revenues complicates explanation of the levy base to local voters, the K-12 community, and policy makers.

- *Inclusion of categorical funds leads to differences in local levy authority between school districts.* The Working Group recognizes these differences are positive or negative depending on one's perspective. As noted above, those with proportionally higher categorical populations have a higher levy base and therefore potentially higher access to local funding than districts with lower categorical enrollment.

The policy debate on categorical funds separated into two lines of thinking:

- The higher categorical funding is a result of higher-need student populations, which should be reflected in the levy base. The higher needs translate into higher costs not just for regular education but also for supplementary services funded through the local levy.

- Alternatively, the local funding is supposed to be supplemental to underlying state and federal funds. Categorical program needs would be better met through state and federal appropriations than through local funding.

- *Inclusion of base state compensation funding in the levy base leads to differences in local levy authority because of grandfathered salary allocations.* Districts with higher state-funded compensation levels for employees (grandfathered certificated salary districts, for example) have higher levy bases, and therefore potentially higher access to local levy funding than districts with lower base compensation funding. As with categorical funding, the Working Group discussed the pros and cons of the policy:

  - Higher levy authority for grandfathered districts is a necessity as levy-funded staff within the district must be compensated at the same levels as their state-funded peers.

  - Alternatively, differences in state compensation allocations to districts are further compounded by including the higher compensation allocations in the districts' levy base.

  The Working Group recommends the state address grandfathered salary allocation differences in its underlying state funding formulas, rather than attempting to address this issue through new adjustments to districts' levy authority calculations.

THE PER-PUPIL INFLATOR & THE 0.55 FACTOR

As state funding increases, particularly for compensation and staffing units increase, there is a need to adjust local districts' levy authorities. This is currently achieved through the per-pupil inflator (PPI) adjustment. Per statute, the PPI is a number provided in the state omnibus appropriations act to represent the annual increases in state funding for K-12 education.

The Working Group recognizes the largest school budget driver is compensation. This includes fringe benefits such as state-established pension contributions and health care benefit costs. The annual fringe benefit increases typically exceeds average inflation as calculated in the implicit price deflator or the consumer price index. When the state adjusts funding allocations to reflect salary and benefit increases, a corresponding change in local levy authority is needed for districts to provide the same adjustments for their non-state-funded employees. Also, when the state increases funding for the level of staffing units, a corresponding adjustment in levy authority is needed. As more staff are hired, districts will continue to provide supplemental contracts to those new staff, pursuant to local collective bargaining agreements. Local levy funds are used to accomplish this. The Working Group recognizes the PPI as an important adjustment factor for recognizing inflationary increases and other cost increases over time.

To convert school year levy authority calculations to a calendar year basis, in statute the PPI is divided by 0.55. The division by 0.55 allows districts to annualize their levy authorities, calculated on a school year basis, with the way the districts collect property taxes, collected on a calendar year basis.

THE ORIGINS OF THE LEVY LID

During the economic recession of the 1970s, several districts, including Seattle, experienced levy failures. This led to a chain of events in the development of K-12 education policy. The first was the lawsuit and subsequent Supreme Court affirmation of the Judge Doran decision in Seattle v. State of Washington, also known as Doran I. The 1977 Legislature responded to the decision with the dual enactment of the Basic Education Act and the levy lid law. The Basic Education Act resulted in significant increases in state funding for school districts, while the levy lid law resulted in reductions in local property tax levies for districts. The end result of both was a notable shift from local to state funding of public schools.

As shown in Figure 6, the initial levy lid imposed in 1979 was 10 percent of the levy base. Since then the Legislature either amended the levy base or the levy lid, expanding the amount of local revenues districts could collect. The lid lifted to 20 percent in 1989 and 24 percent in 1994. Once, in 1998, the Legislature lowered the lid to 22 percent. This change lasted one year before the lid returned to 24 percent in 1999. The 2010 Legislature increased the lid to 28 percent, effective for property tax collections collected between 2011 and 2017. The lid is scheduled to revert to 24 percent beginning in 2018.

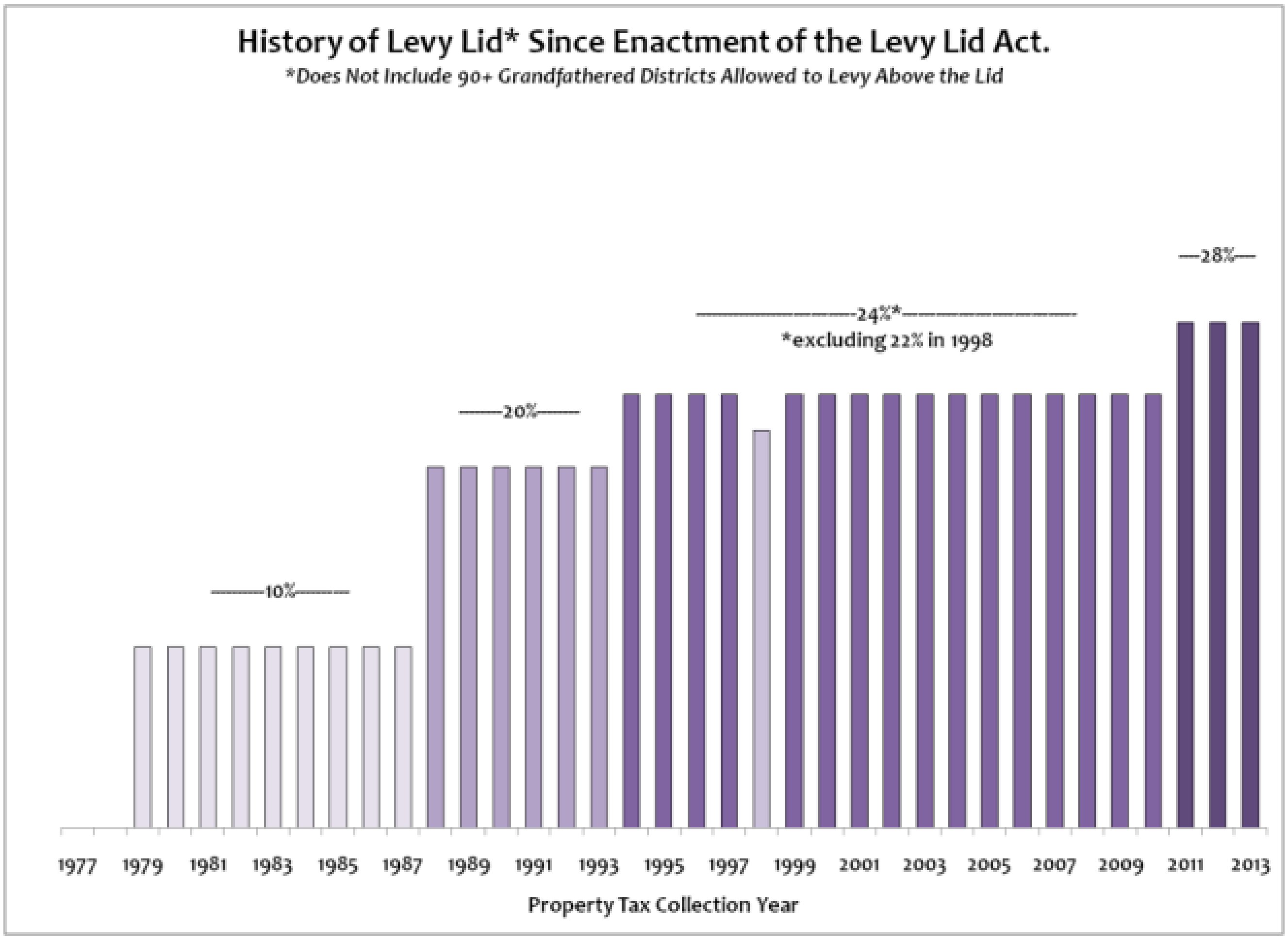

Figure 6: OSPI 2010 Property Tax Levies Report & RCW 28A.500

Grandfathering a Major Cause of Local Revenue Differences

In 1977, the Legislature grandfathered 90 districts at higher levy lids. The original intent was to phase-out the grandfathered districts over a period of time. Subsequent Legislatures extended the phase-down period until eliminating the phase-down requirement in the 1987 session. Instead of a phase-down, the lid was lifted to 20 percent for all districts, and maintained higher percentages for those with grandfathered lids. As later levy-lid lifts occurred, the grandfathered districts' levy authorities increased by the same percentage. This has prevented non-grandfathered districts from "catching-up" to the higher lids of the grandfathered districts.

Figure 7 displays all districts' levy lid limits. The grandfathered districts are shown in orange and shades of purple *(the darker the color, the higher the grandfathered lid)*. The distribution of grandfathered districts *lacks* a geographic pattern. There is significant regional variation, particularly in the Puget Sound area. It is noted, however, that not all districts use their full levy authority, grandfathered or not.

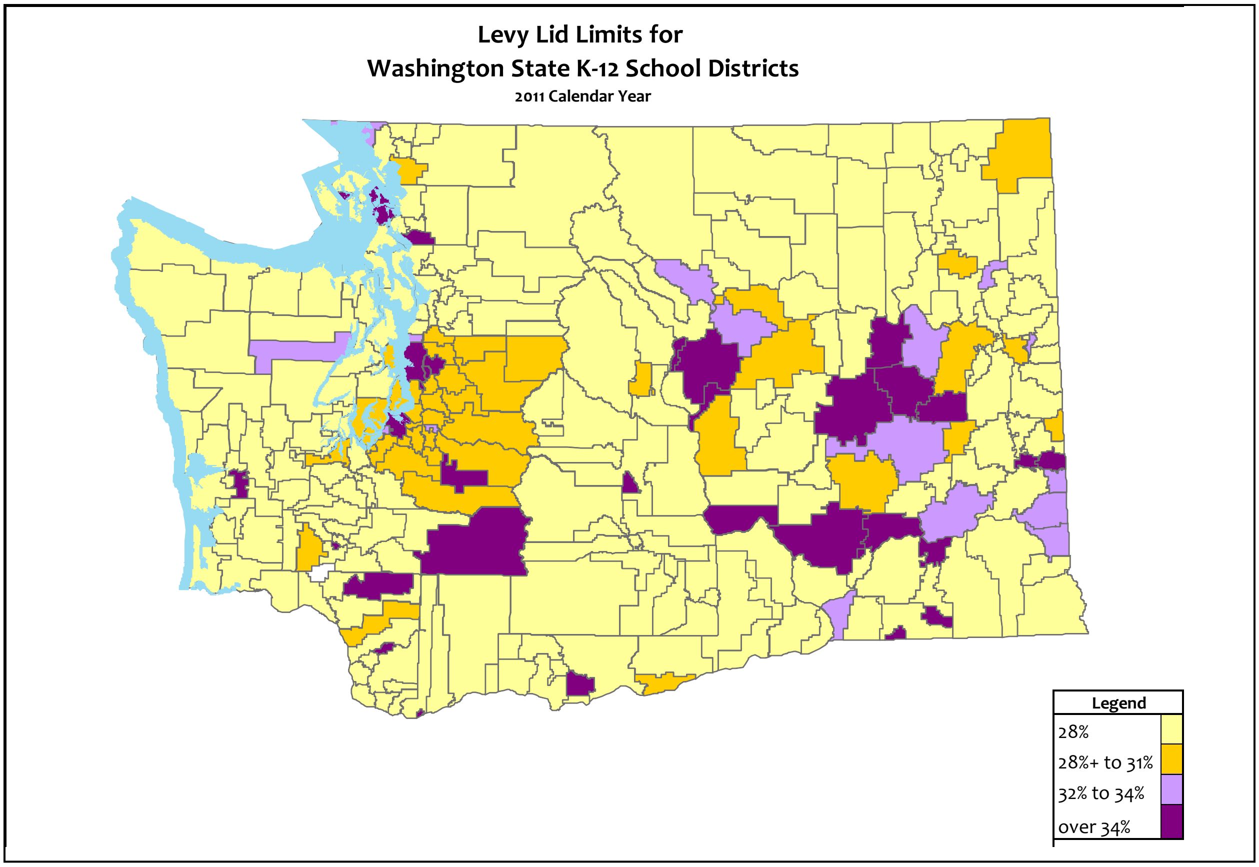

Figure 7: Calendar Year 2011 Levy Lid Limits. OSPI Data.

The grandfathered lid explains a part of the district-to-district variation in levy authority. While Figure 8 displays the sample districts' lids, Figure 9 illustrates the dollar-per-student if each district levied full authority.

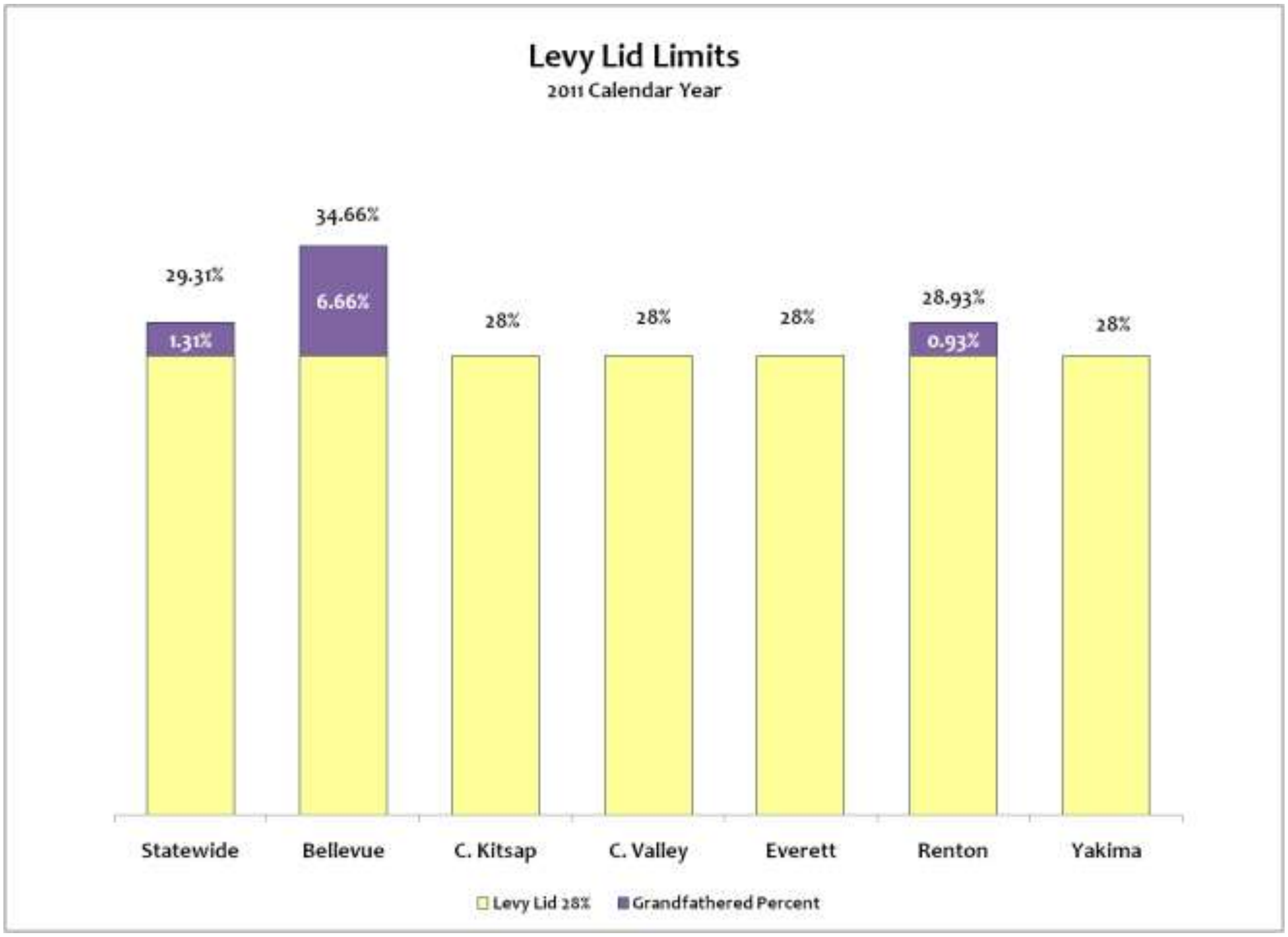

Figure 8: Calendar Year 2011 Levy Lid Limits. OSPI Data.

Figure 9 illustrates the additional authority generated from grandfathered lids. Statewide, the average grandfathered increase in authority is $116. However, only a portion of the districts are grandfathered. In the sample below, grandfathering generates additional authority of $83 per student for Renton and $529 per student for Bellevue.

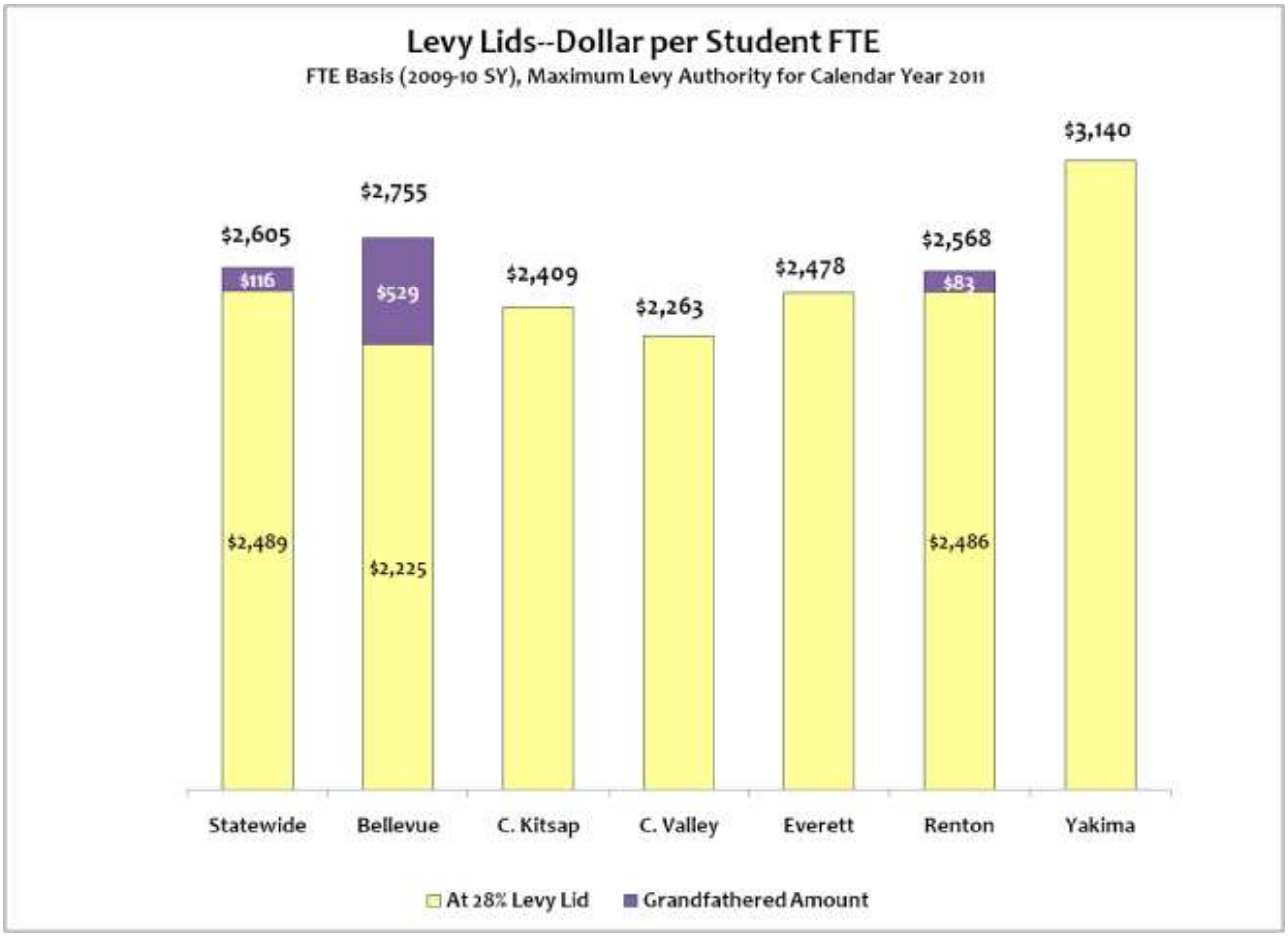

Figure 9: Calendar Year 2011 Levy Lid Limits and 2011 Levy Authority Calculation Reports. OSPI data.

The Working Group held numerous discussions about the pros and cons of the variation caused by state funding. Members did not find many positive attributes of grandfathered lids, except that for the districts currently using that authority, reducing the lids would be detrimental to those districts' ability to maintain current educational programs, physical plant and extracurricular activities. The inequities of grandfathering are a primary concern to the Working Group.

TRANSFERRED LEVY AUTHORITY

OSPI adjusts districts' levy authorities for students residing in one school district and served by another district. This adjustment applies only to certain types of non-resident-domicile students. The resident district's levy authority is increased and the serving district's levy authority is reduced by these transfers. Transfers protect taxpayers in serving districts from subsidizing the education of students from sending districts. Transfers also allow resident districts to raise money for payments to serving districts for locally funded costs. However, this policy does not apply to all types of transfer students.

High and Non-High Districts

Levy authority transfer does apply to the resident domicile students from 47 districts without high schools, commonly called non-high districts. Students from non-high districts enroll in neighboring district high schools. The high school district's levy authority is reduced based on the state revenues received for the non-high students. OSPI increases the non-high district's levy base by the same amount to increase the non-high district's ability to levy for the annual non-high payment to the high school district. The annual non-high payment is made to the high school district to cover the additional local costs of serving the non-high students.

Inter-district Cooperatives

Levy authority transfer does not apply to inter-district cooperatives. Certain districts form cooperatives to provide special education, vocational education, or alternative education programs. These inter-district cooperative arrangements often involve payments between districts. However, statute does not require a transfer of levy authority.

Choice Students

State policy allows students to "choice" into a district other than their resident district. Typically, choice is for the following types of educational programs:

- General Education
- Skills Centers
- Alternative Learning Experience (ALE) Programs (this includes contract based education, online/digital education, and parent partnership education program)
- Special Education Services

The state does not track choice students and does not transfer levy authority for choice students. Education services provided to students through high and non-high district arrangements and inter-district cooperatives include financial agreements between those districts for the costs of services. Financial agreements do not apply to choice students. Once a student "choices" into another district, his or her original resident district is no longer responsible for the costs of the educational service.

WORKING GROUP DISCUSSION OF LEVY AUTHORITY TRANSFERS

The Working Group discussed levy authority transfers. Most members, but not all, affirmed continuing the practice of applying the policy to high/non-high district arrangements. A few questioned the need of transferring authority when the student has become the host district's responsibility; others pointed out that the host district's taxpayers should not bear the tax burden of serving students from other districts.

Working Group members also affirmed the practice of not applying transfers to the inter-district cooperatives, as financial arrangements exist between these districts.

Working Group members discussed the levy authority transfer policy and choice students. Several members from larger Puget Sound area districts discussed reasons why students choice in and out of districts. These include:

- Parent(s) works within in the choice district boundary and prefers student to attend close to place of work rather than home.
- Family moved part-way through the year; student wants to continue at original school.
- District provides a specific program of interest to the student (example: Skills Center or alternative programs)

The Puget Sound area members noted, in general, the number of choice students in and choice students out are about the same for their districts. They noted a distinct difference between the conditions created by choice students and the conditions created by high/non-high students. Most non-high/high district relationships include a single non-high and a single high school district. This contrasts with the example of Northshore School District, which processes choice applications both in and out with over 10 neighboring districts. The option of adjusting levy authority for choice students may modestly improve alignment of the taxpayer funding of their resident students. However, it would increase accounting and processing cost to the district. Members critically questioned whether the marginal benefit would outweigh the administrative costs.

Members of the Working Group did note certain alternative learning experience programs posed a different problem. Districts with disproportionally large student enrollment in alternative learning experience programs also receive significant increases in levy authority and increase in local taxes, if taxpayers approve the higher levy. However, the Working Group believed the discussion of these programs and transferring of levy authority should be considered in concert with consideration of larger education policy questions surrounding those programs.

Variation in Local Property Tax Rates

A district's property tax rate, expressed as $1.00 of property tax for every $1,000 of assessed value, is dependent on two factors:

- the size of the district's assessed value of all taxable properties within the district; and
- the size of its voter-approved M&O levy.

Assessed Value Differences

The size of a district's assessed value drives most of the variation in property tax rates among school districts. Districts with larger commercial property bases and/or higher valued residential property have proportionally higher total assessed value and lower property tax rates. Comparatively, other districts without a commercial base, with significant amounts of federal land exempted from property tax, or with uses subject to current use valuation (farming, for example), have proportionally lower total assessed value and thus higher property tax rates.

Figure 10 displays, for calendar year 2010, the total assessed value per student for all 295 districts in the state. The statewide average is approximately $1 million assessed value per student. On the map below, gold-coded districts are near the state average. Districts with above-average total assessed value per student are white or pale yellow. Those in lavender and purple have lower than average total assessed values per student.

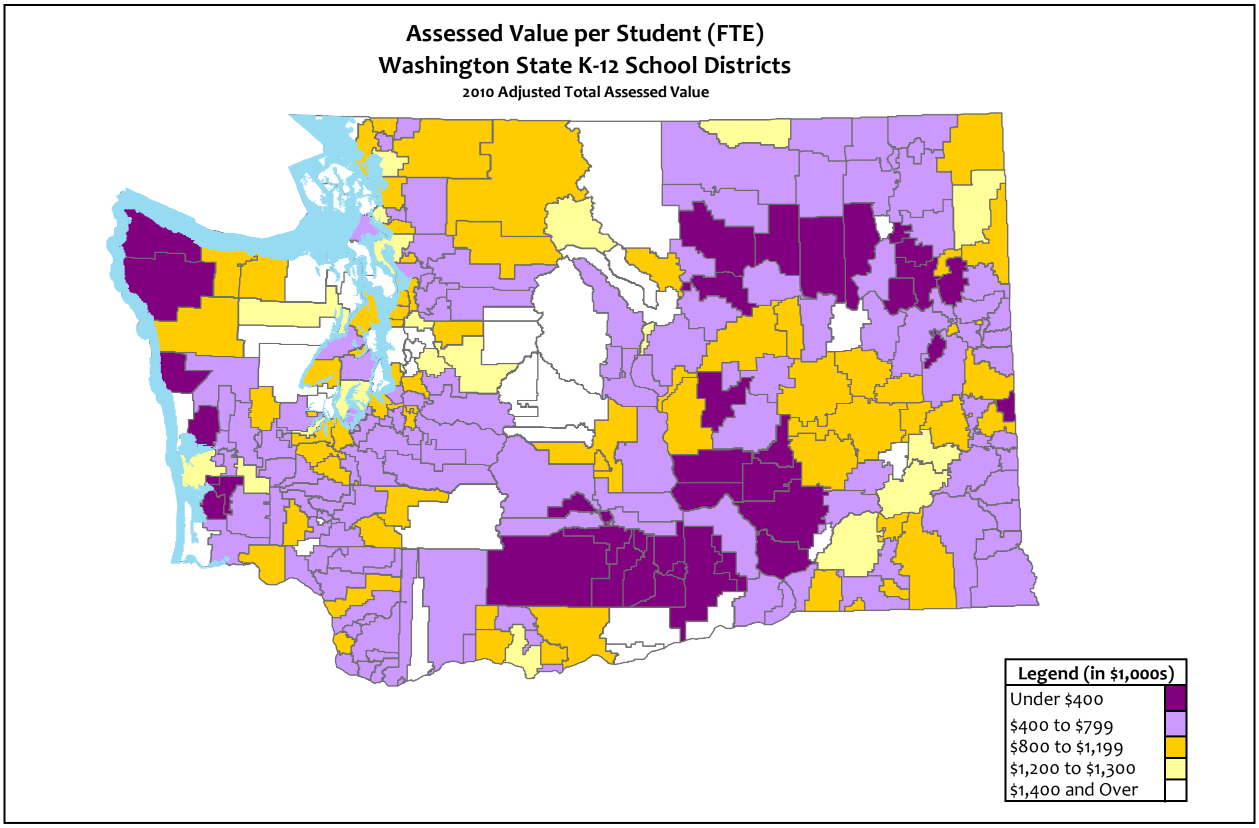

Figure 10: 2010 Adjusted Total Assessed Value, 2009-10 FTES. OSPI Data.

Technical Note: The total assessed values included in this report are adjusted by the Department of Revenue's combined indicated ratio. Assessed values in taxing districts are not broken down by real and personal property totals, so the levy equalization program uses the combined indicated ratio to adjust the assessed value for an apples-to-apples comparison of value between school districts.

Annually, the Department of Revenue calculates two ratios for each county. The ratios measure the level of assessment at the county level to market value. The real property ratio is the comparison of real estate sales and appraisals to real property values on the assessor's rolls. The personal property ratio is a comparison of the value of personal property as determined by the Department of Revenue to the value of personal property on the assessors' rolls. The real and personal ratios are used currently for the calculation of the state property tax levy.

Figure 11 illustrates total assessed value per student for the sample districts. While the statewide average is $1 million, Bellevue is nearly three times the average, and Yakima is one-third the average total assessed value.

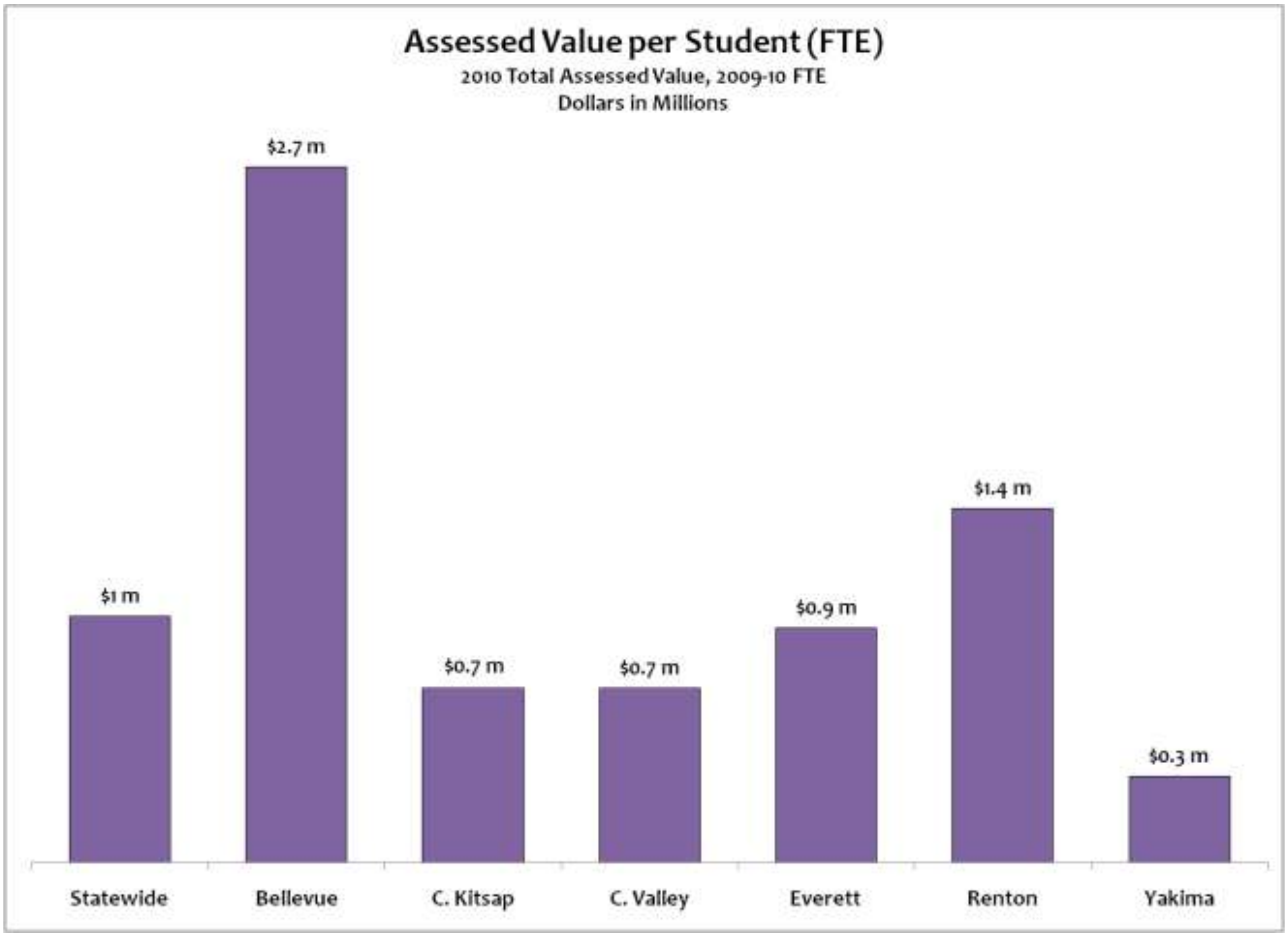

Figure 11: 2010 Adjusted Total Assessed Value, 2009-10 FTES, OSPI Data.

Property Tax Rates

When levying a set amount of funding, as a district's total assessed value increases, its property tax rate declines. Similarly, as total assessed value declines, the tax rate increases.

During the recent economic recession, housing values declined across the state, most dramatically in the Puget Sound area. As a result, to levy the same amount of funding, property tax rates increased. This is not limited to school levies, but applies to all types of property tax levies.

The following two figures illustrate total assessed value's impact on district tax rates. To provide a consistent apples-to-apples comparison, a levy amount equal to $1,000 per student was modeled. As noted in the earlier discussion of levy authority, districts' maximum authority on a per-student basis varies.

As shown in Figures 12 and 13, the statewide tax rate to levy $1,000 per student, or $988 million, is $1.02 per $1,000 of assessed value. Under this framework:

- 93 districts would have tax rates under $1.02 (representing 28 percent of students);
- 145 districts would have rates between $1.02 and $1.99 (representing 60 percent of students);
- 35 district rates would be between $2.00 and $2.99 (representing 7 percent of students);
- 9 districts would have rates between $3.00 and $3.99 (representing 2 percent of students); and
- 13 districts would have rates over $4.00 (representing 3 percent of students).

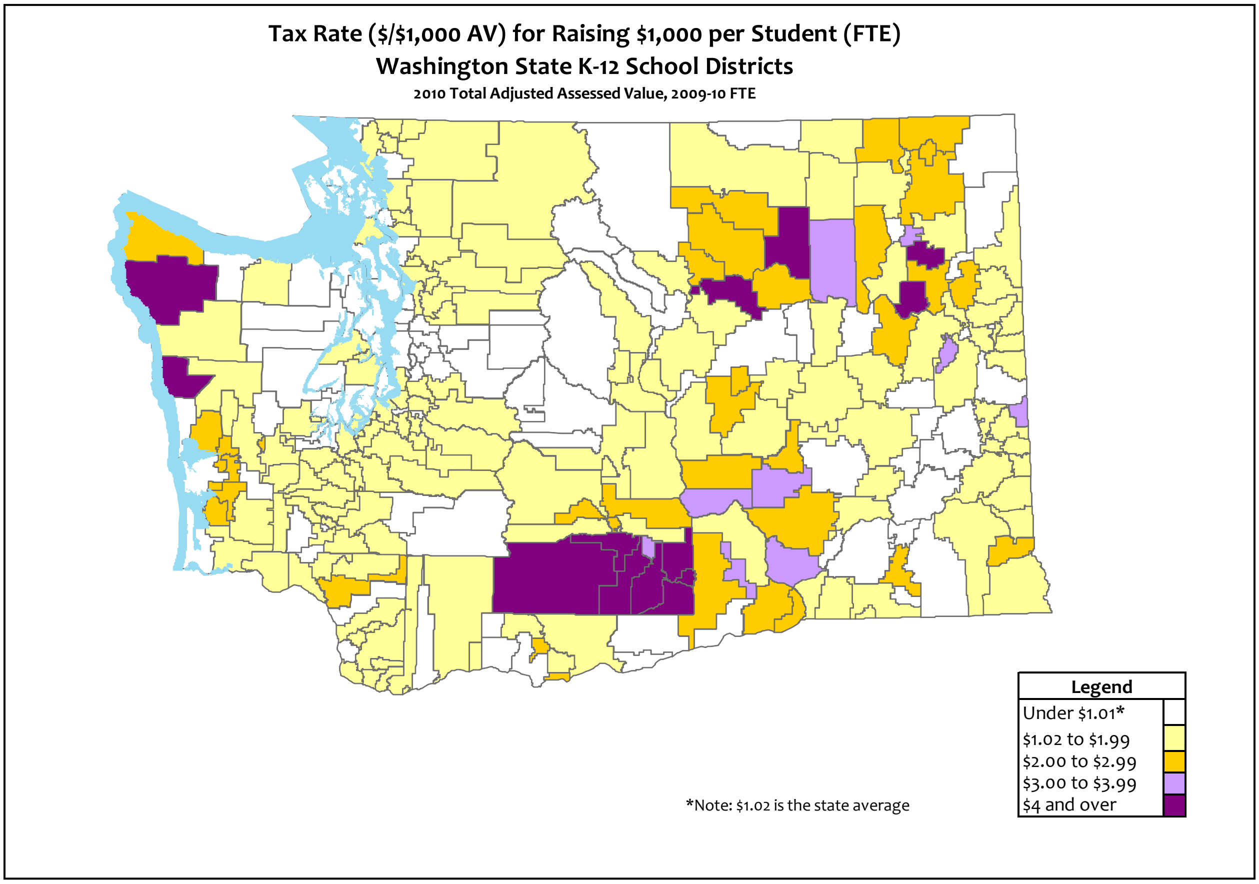

Figure 12: Property Tax Rates calculated with 2010 Adjusted Total Assessed Value and 2009-10 FTES. OSPI Data.

Figure 13 illustrates this difference with the sample districts. Bellevue and Renton, with substantial amounts of commercial property, can levy $1,000 per student with relatively low tax rates. Yakima, with its lower tax base, would need a tax rate nearly three times the state average to yield $1,000 per student.

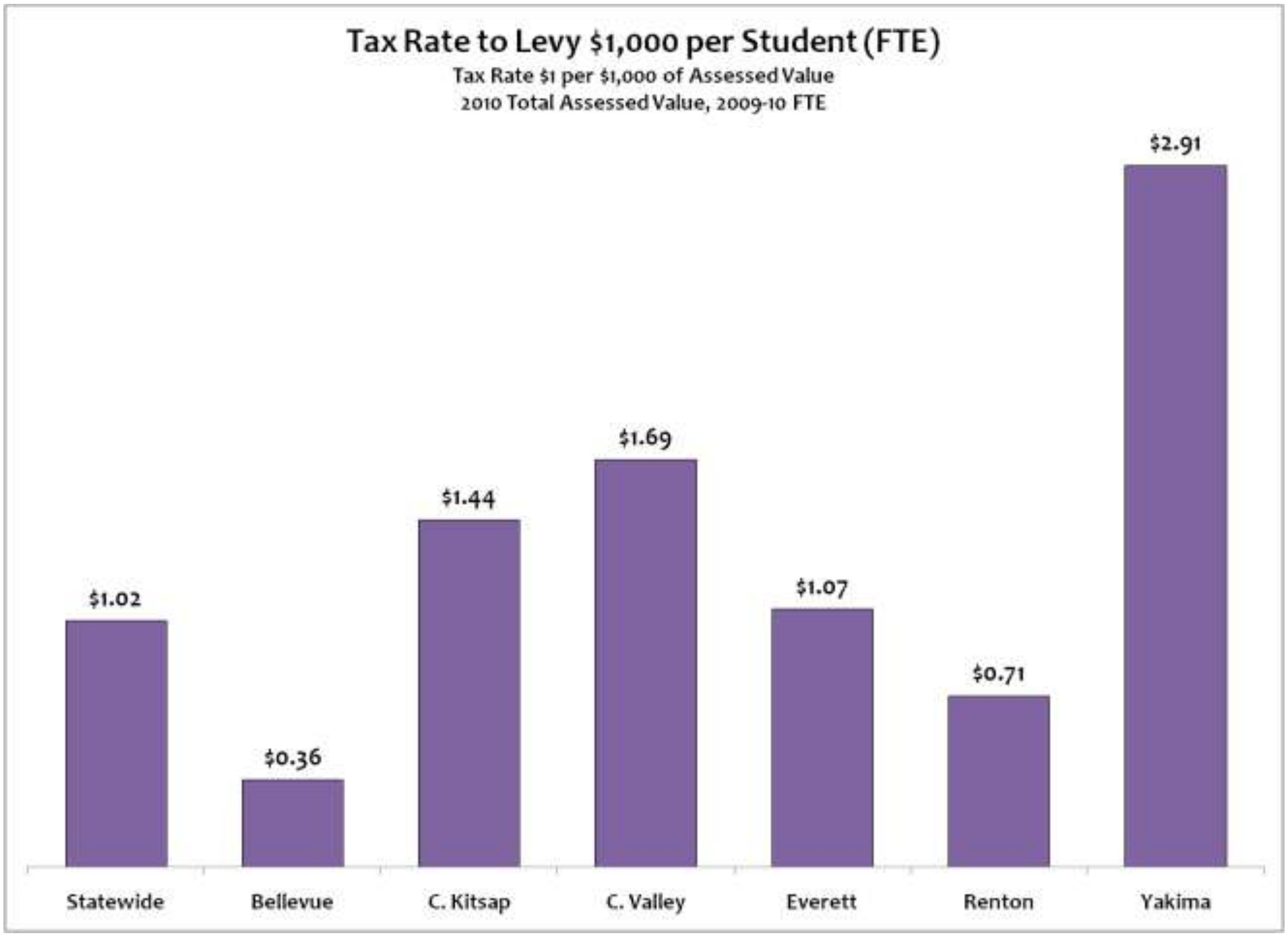

Figure 13: Property Tax Rates calculated with 2010 Adjusted Total Assessed Value and 2009-10 FTES. OSPI Data.

As explained in the discussion of the levy base calculations, districts' levy authorities do not translate into uniform amounts per student. Districts' maximum levy authority amounts vary on a per-student basis. Figure 14 illustrates the tax rates for each district, if all levied the maximum amount allowed under the current levy lid limits. This includes grandfathered districts' authorities. (*Note: this is without any levy equalization funds).*

Figure 14 highlights the disparity in property tax rates. Under the assumption of all districts levying their full authority:

- 41 districts would set tax rates under $2.00 (representing 19 percent of students);
- 110 districts would set rates between $2.00 and $3.99 (representing 49 percent of students);
- 65 district rates would be between $4.00 and $5.99 (representing 21 percent of students);
- 35 districts would experience rates between $6.00 and $7.99 (representing 4 percent of students); and
- 44 districts would have to establish rates over $8.00 (representing 7 percent of students).

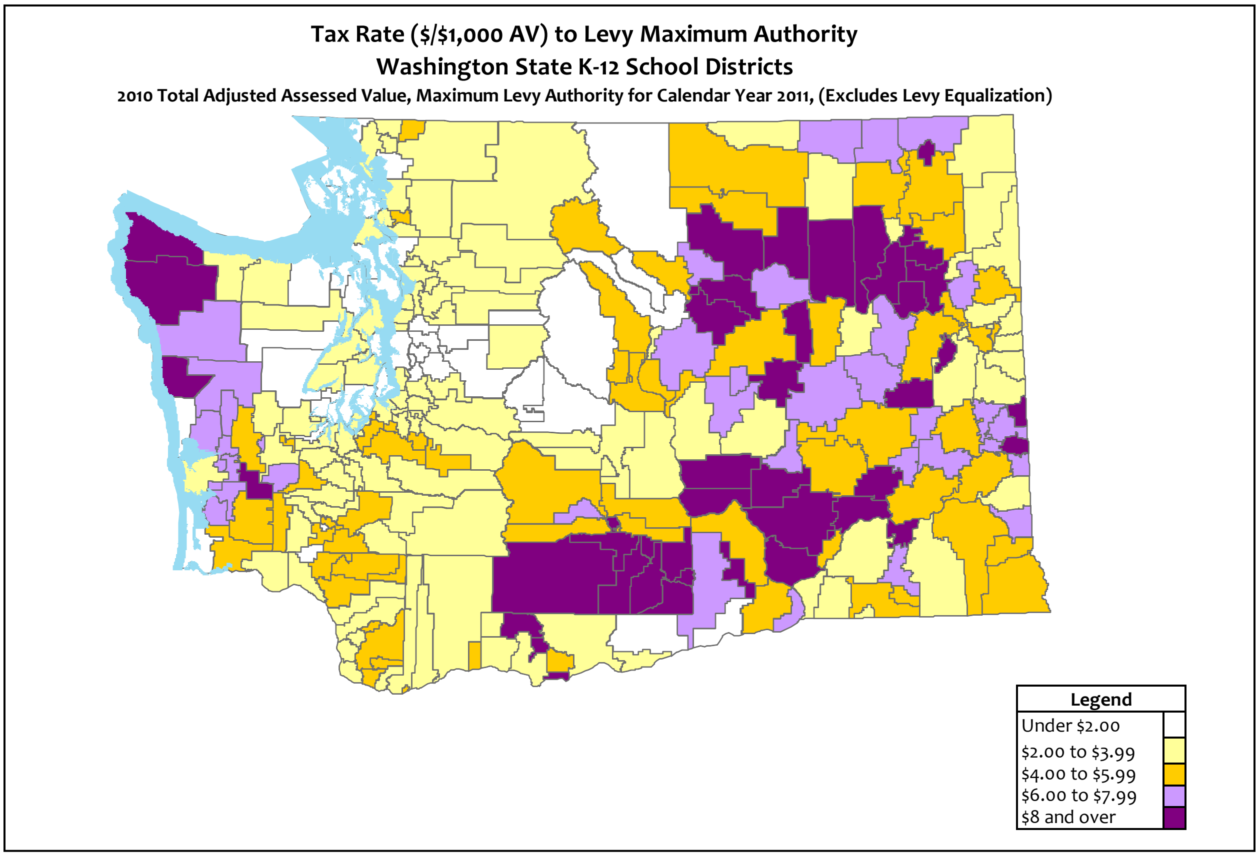

Figure 14: Property Tax Rates for 2010 Adjusted Total Assessed Value and 2011 Maximum Levy Authority. OSPI Data.

The sample districts in Figure 15 illustrate differences in property tax rates to yield the maximum authority. The statewide average rate is $2.65; Everett's rate matches it. Bellevue and Renton are lower. Central Valley and Central Kitsap are in the $3.00 to $4.00 range. Yakima would need a rate of nearly $9.00.

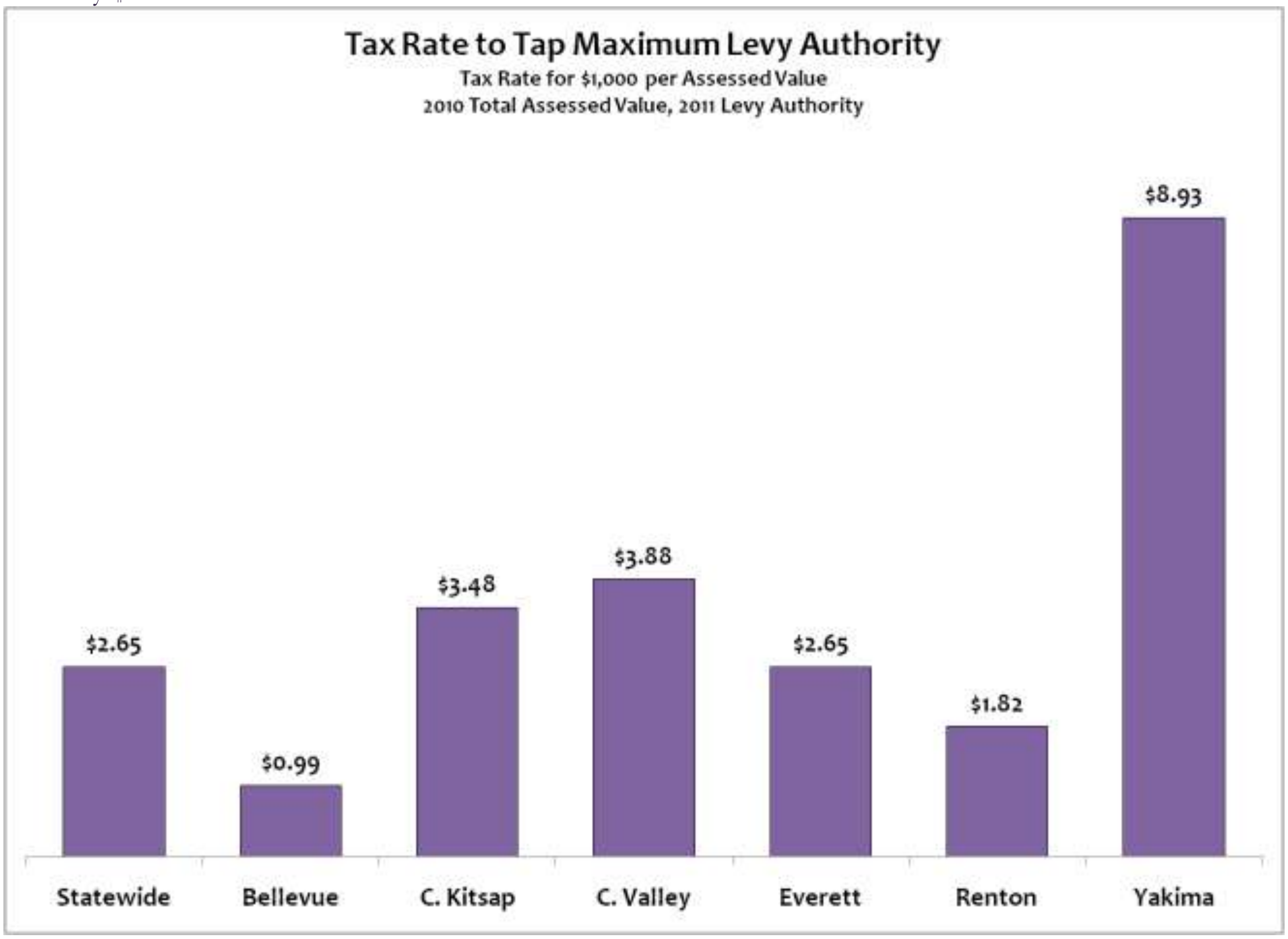

Figure 15: Property Tax Rates for 2010 Adjusted Total Assessed Value and 2011 Maximum Levy Authority. OSPI Data.

The differences in total assessed values and their impact on property tax rates, and, in particular the impact of high property tax rates on communities' ability to raise local funding for schools, created the impetus for the local effort assistance program, or levy equalization. This program is discussed in the next section.

Levy Equalization (Local Effort Assistance)

Since 1989 the state has provided levy equalization, or local effort assistance, funds to districts with above-average property tax rates.

The Working Group affirms levy equalization as an important component of the local levy system as it provides both property tax relief and mitigates the effect that above-average property tax rates have on districts' ability to raise local revenues. The original intent of levy equalization was to provide property tax relief. The Working Group reaffirms this intent. Further, the state should establish a goal of equalizing 100 percent of the total amount levied.

THE MECHANICS OF LEVY EQUALIZATION

In calendar year 2011, under a levy lid of 28 percent, the state equalized tax rates for a 14 percent levy (the first 50 percent of a district's levy lid—before grandfathering). The 2010 Legislature increased the levy lid up from 24 percent, and also increased the levy equalization rate up from 12 percent (maintaining the 50 percent equalizing policy).

State funds allocated to districts for levy equalization are in lieu of local property tax collections. Essentially, levy equalization provides a property tax break to taxpayers in districts with above-average property tax rates. The district receives the funding from the state, instead of the local taxpayers, and the taxpayers pay a lower annual tax bill. A school district must pass a local M&O levy in order to receive levy equalization funds. If a district receives levy equalization, that amount is deducted from the amount it may collect from property taxes.

- *Without Levy Equalization*
  Maximum amount collectible from property taxes = levy authority

- *With Levy Equalization*
  Maximum amount collectible from property taxes = levy authority – levy equalization funds

Figure 16 graphically displays the relationship between levies, levy equalization, and grandfathered levy lid districts. In Column A, all districts may levy up to 28 percent of their base. In Column B, the state, through levy equalization, equalizes tax rates above the state average for the first half of the lid, or 14 percent. The remainder *is not* equalized. Finally, in Column C, the grandfathered districts may levy above the lid. This amount *is not* equalized.

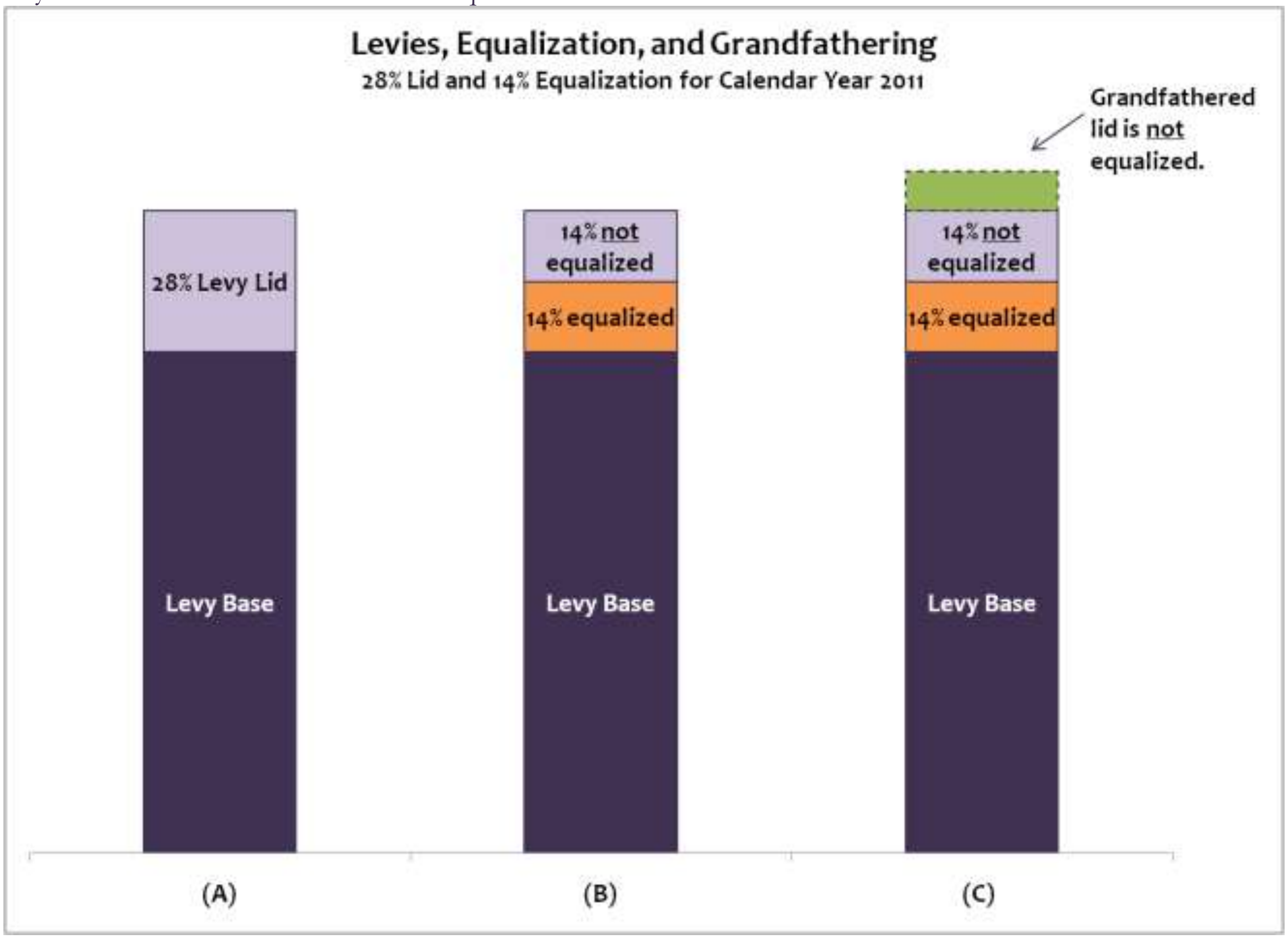

Figure 16: Illustration of Calendar Year 2011 Levy Lid and Levy Equalization

Figure 17 illustrates levy equalization for calendar year 2011, showing the property tax rates at a 14 percent levy for all districts. Taxpayers in districts with rates higher than statewide average ($1.18 per $1,000 of assessed value) pay the state average for the 14 percent levy. The state, through levy equalization, pays the district the amount the local taxpayer would have paid, shown in orange.

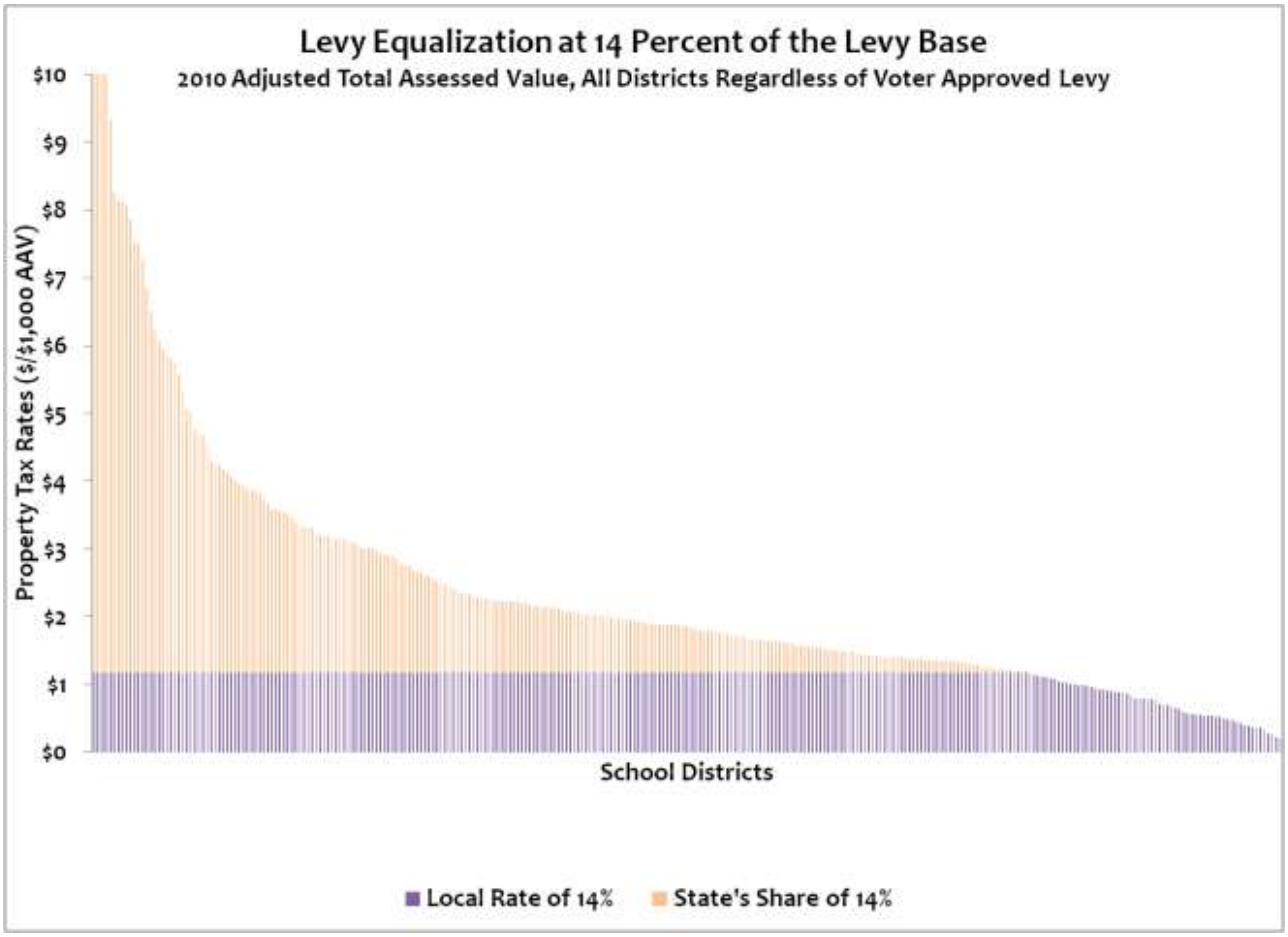

Figure 17: 2010 Adjusted Total Assessed Value, 2011 Calendar Year Levy Authority. OSPI Data.

Figure 18 displays the map of districts in the state eligible to receive levy equalization funds in calendar year 2011.

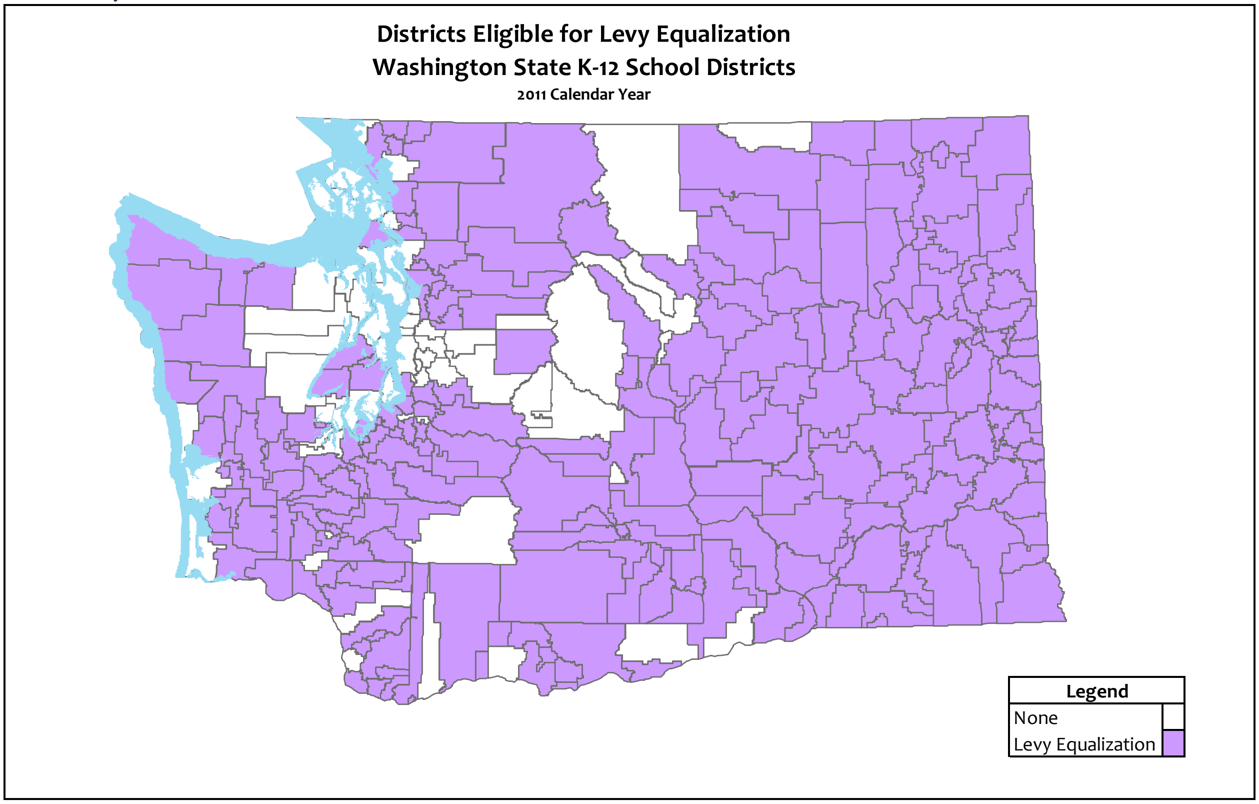

Figure 18: 2011 Calendar Year. OSPI Data.

Levy Equalization Districts Typically Impose Higher Property Tax Rates

Taxpayers living in levy equalization districts still pay higher property tax rates, even with the state's levy equalization payment. Any portion of the levy greater than 14 percent of the levy base is not equalized and thus taxpayers in those districts pay higher rates for the second portion of the levy. On the following page Figure 19 illustrates the tax rate impacts for districts, even with levy equalization.

Most districts receiving levy equalization funds have approved levies greater than 14 percent of their levy base. Of the 234 districts eligible to receive levy equalization funds in calendar year 2011, after combining levy and levy equalization funds and comparing it to the total levy authority:

- 56 districts ran levy equivalent to a 26 percent levy or higher (serving 334,438 students);
- 85 districts ran a levy equivalent to a 21 percent to 25 percent (serving 282,683 students);
- 58 districts ran a levy equivalent to a 15 percent to 20 percent (serving 72,816 students);
- 23 districts ran a levy equivalent to 14 percent or less (serving 26,056 students); and
- 12 districts did not run a levy (serving 2,407 students).

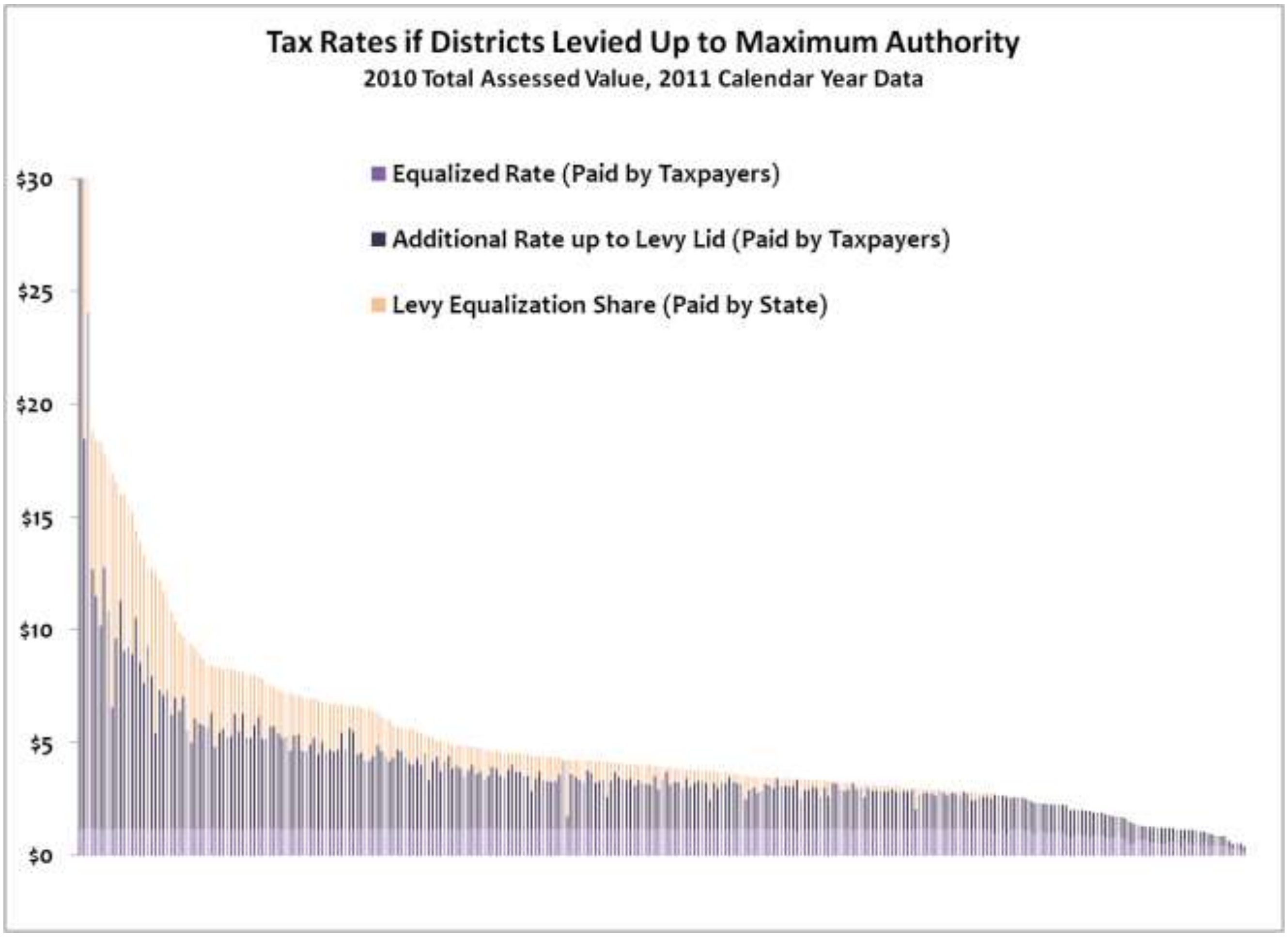

Figure 19: 2010 Adjusted Total Assessed Value. 2011 Calendar Year Levy Authority. OSPI Data.

Figure 20 shows, on a per-student basis, the total amount of authority for the sample districts and the amount covered by locally collected taxes and through levy equalization. It also shows the percent of the levy authority left untapped. Figure 21 shows the tax rates imposed to collect the amount of revenue.

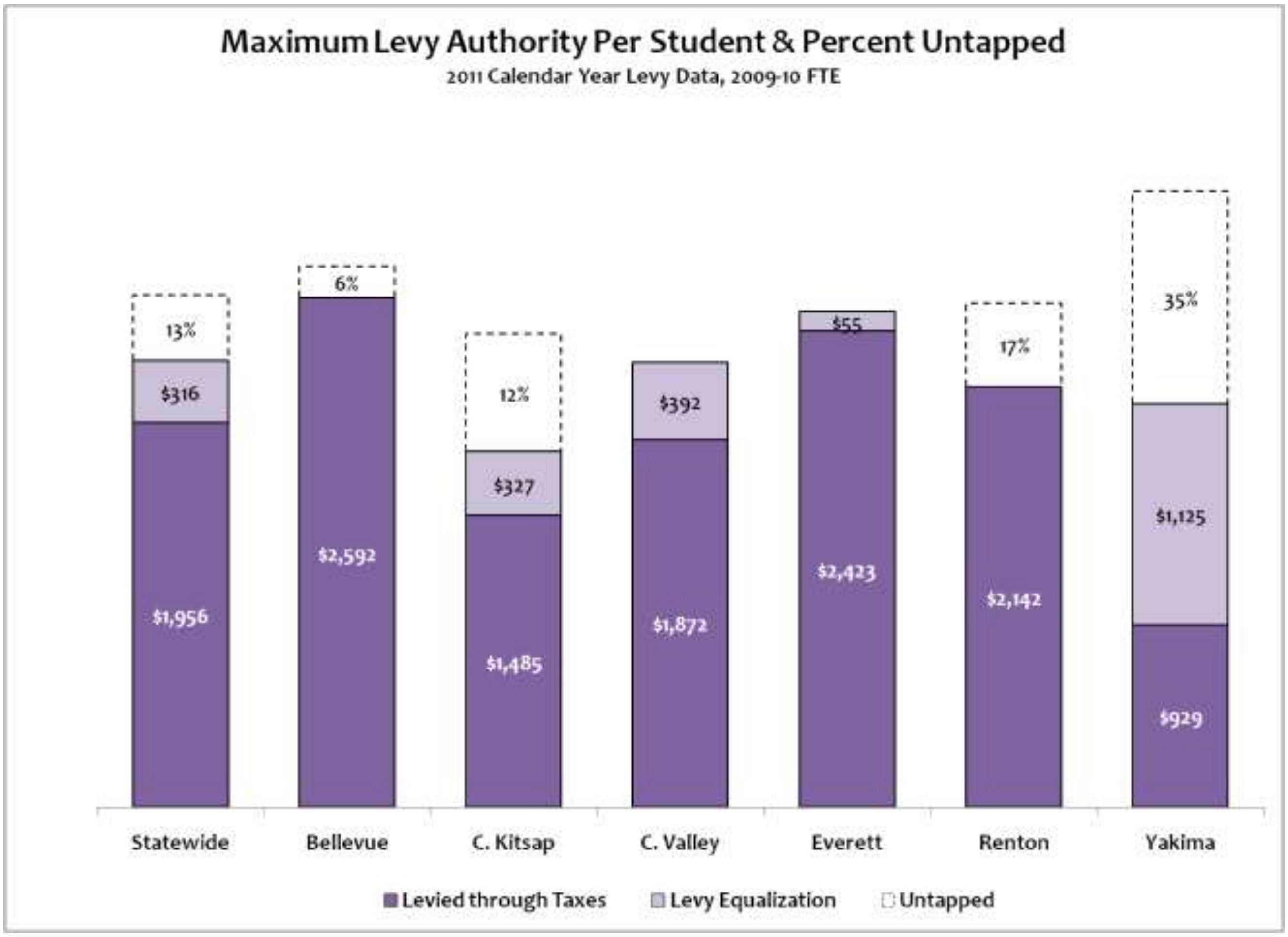

Figure 20: 2011 Calendar Year Levy and Levy Equalization Amounts, 2009-10 FTE. OSPI Data.

Figure 21 translates levy collections, levy equalization, and untapped capacity into tax rates. Yakima imposes a $2.64 property tax rate to levy $929 per student. The state's levy equalization share is shown as well. If Yakima were to tap its total authority, tax rates would increase by $3.09.

Everett imposes a similar rate of $2.59 to levy $2,423 per student. The district fully taps its authority and the state provides a small amount of equalization.

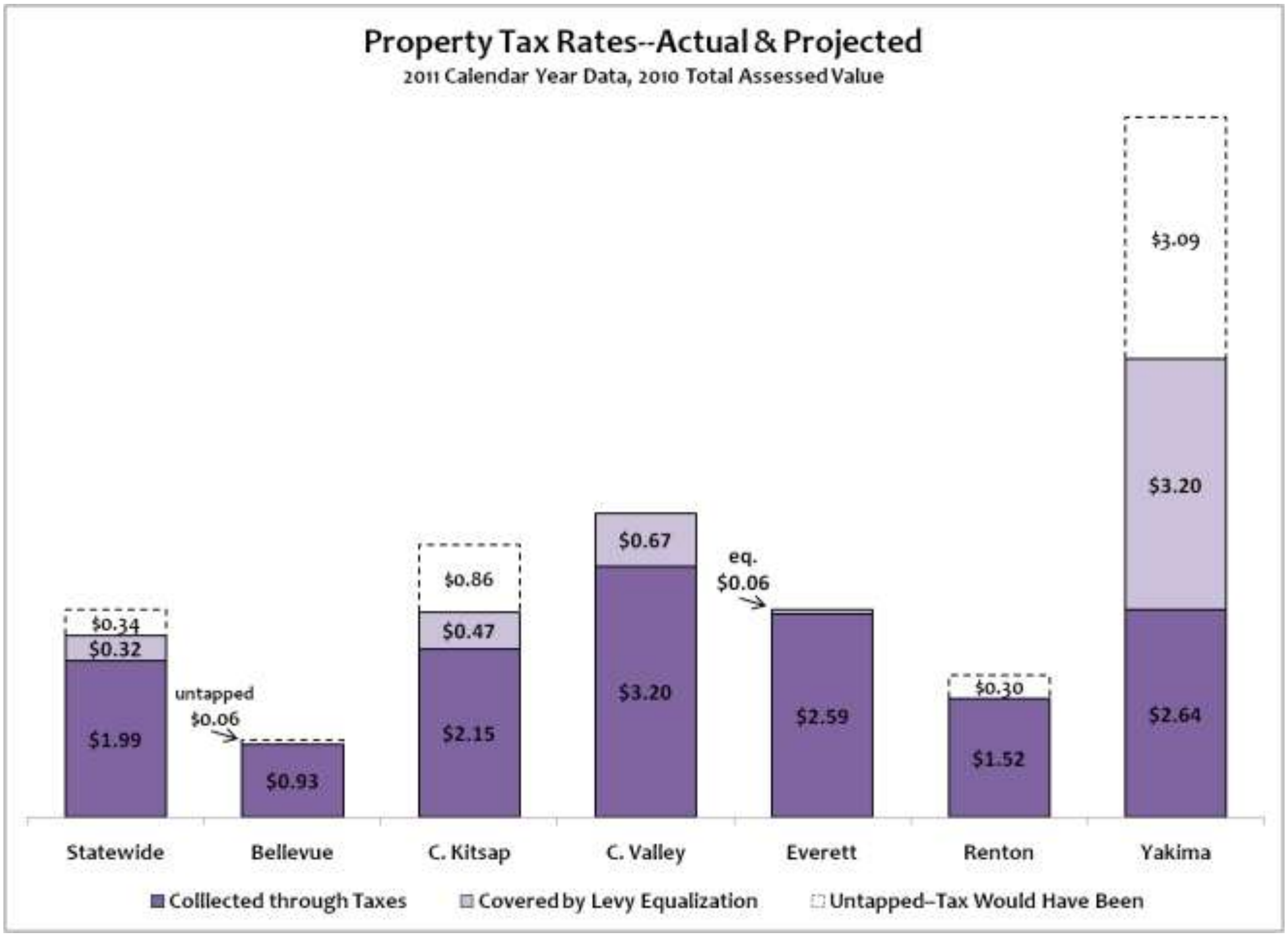

Figure 21: 2010 Adjusted Total Assessed Value, 2011 Calendar Year Levy Data. OSPI Data.

Statewide Tax Rates

Figure 22 displays actual property tax rates for all districts' M&O levies for calendar year 2011. The voter-approved tax rates are as follows:

- 101 districts—tax rates of under $2.00
  (34 percent of districts serving 27 percent of students);
- 120 districts—tax rates of $2.00 to $2.99
  (41 percent of districts serving 51 percent of students);
- 51 districts—tax rates of $3.00 to 3.99
  (17 percent of districts serving 20 percent of students);
- 8 districts—tax rates of $4.00 to $4.99
  (3 percent of districts serving 2 percent of students);
- 1 district with a tax rate over $5.00
  (0.34 of districts serving 0.02 percent of students); and
- 14 district—no levy (5 percent of districts serving 0.3 percent of students).

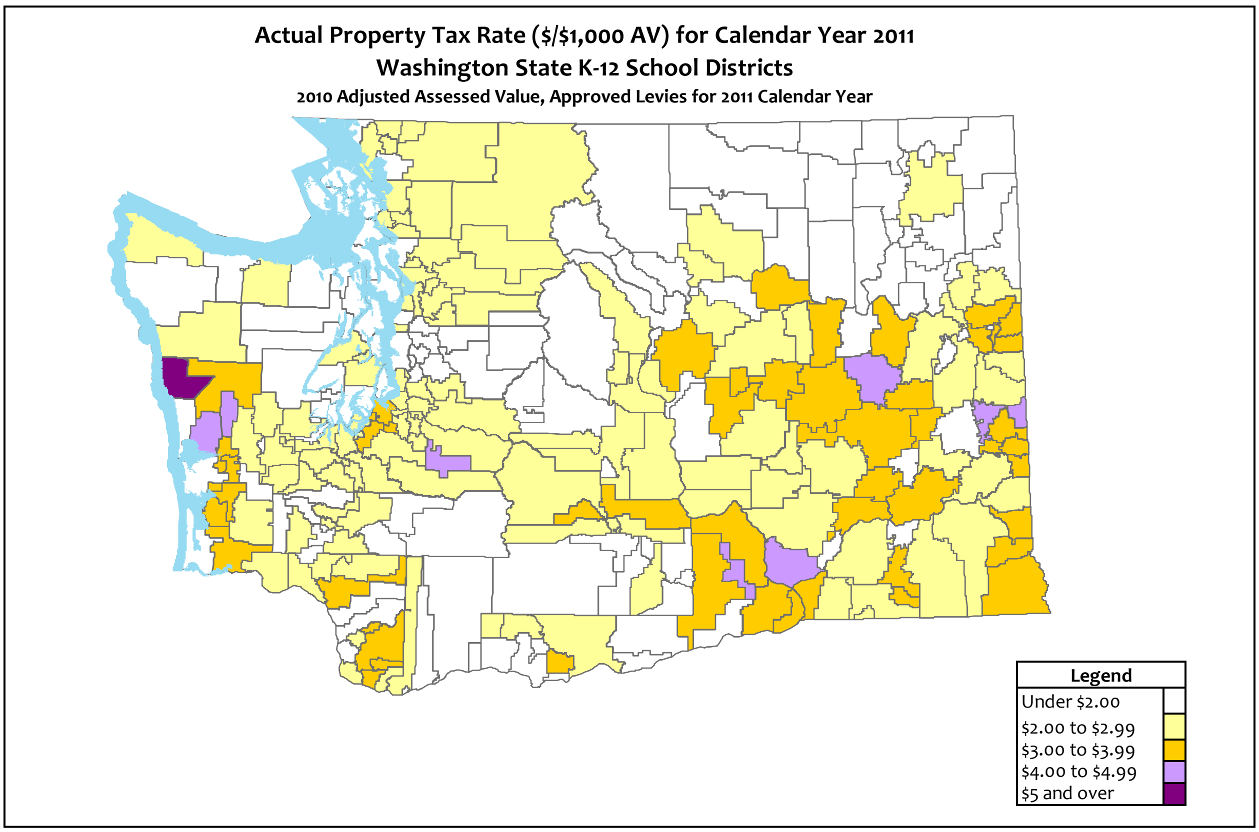

Figure 22: 2010 Assessed Value, 2011 Calendar Year Approved Levies. OSPI Data.

Alternative View of Tax Rate Data

Tax rate data by district is one way of analyzing property taxes. Another is to tally the entire amount of total assessed value in Washington and separate by the tax rates imposed. Figure 23 displays the $970 billion of adjusted total assessed value in Washington by the M&O tax rate levied for calendar year 2011.

The results are similar, though not identical, to the previous district analysis. Of the state's total assessed value, voter approved tax rates are as follows:

- Under $2.00 is imposed on 48 percent;
- $2.00 and $2.99 is imposed on 39 percent;
- $3.00 to $3.99 is imposed on 12 percent;
- $4 to $4.99 is imposed on 0.6 percent;
- Over $5 is imposed on 0.002 percent; and
- No Levy for 0.2 percent.

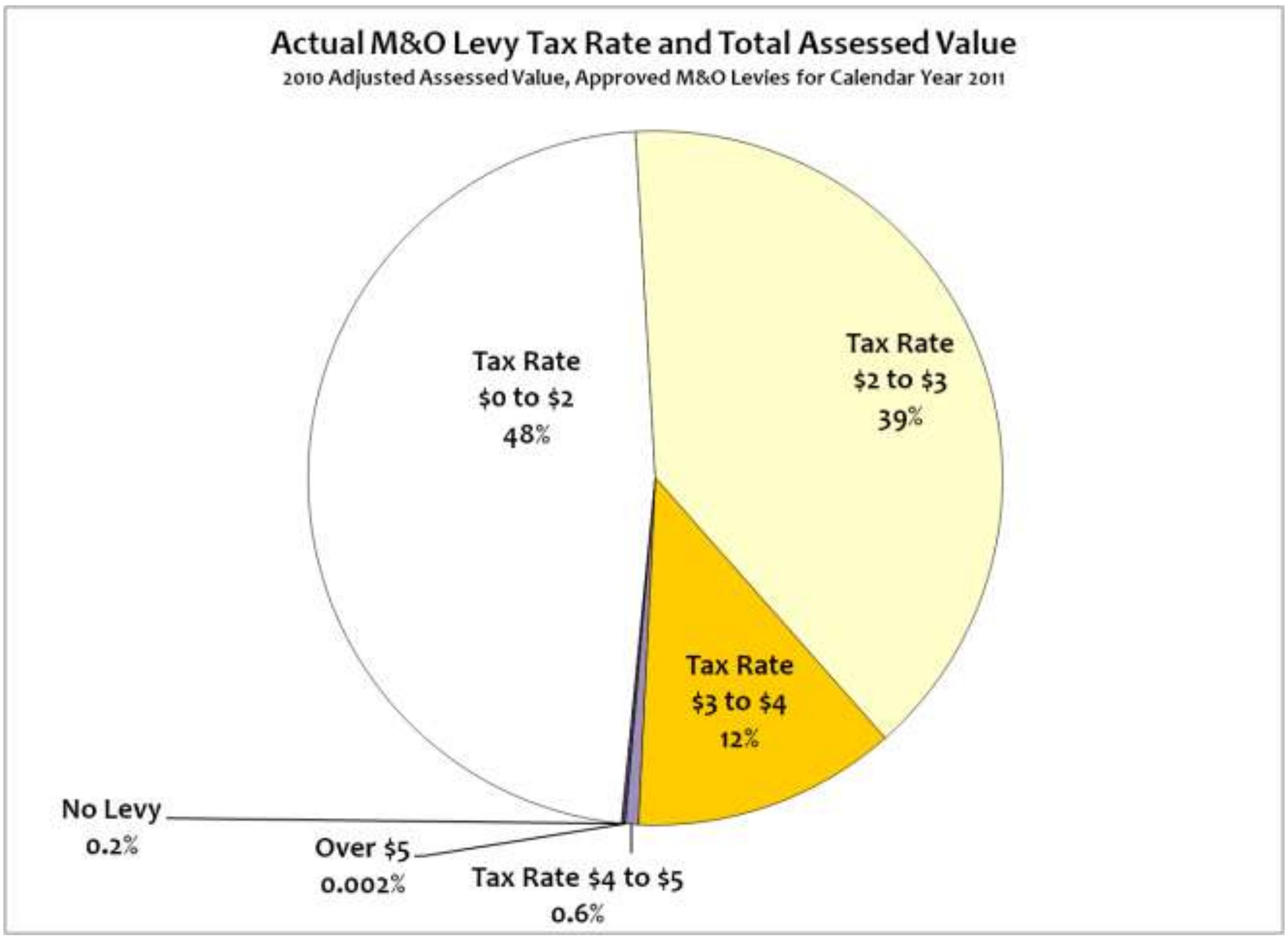

Figure 23: Total Adjusted Assessed Value of $970 billion for 2010.
Grouped by 2011 Calendar Year Tax Rates for M&O Levies. OSPI Data.

Tax Rates, Median Housing Values, and Median Incomes

Property poor districts have relatively higher M&O tax rates. The total assessed value of household properties within the property poor districts tend to be lower, relative to the statewide average. Table 1 provides a summary of median housing values for sample districts and the estimated property tax paid, for the median housing value in the community, based on the median using 2011 levy rates.

The estimated property tax *bill* (as opposed to the tax rate) for a median value house for Yakima is much less than the statewide median and less than Bellevue or Renton. However the median tax bill for houses in property poor districts is not always less. For Central Kitsap and Everett, the median bill is higher than the other sample districts.

Although the median tax bill in Yakima is less, the percent of median household income paid to taxes in Yakima is still higher than the statewide average and in Bellevue. This holds true for the other levy equalization districts shown in Table 1.

Table 1 also shows the property tax bill for a median valued house without levy equalization. If the district collected all funds from taxpayers, Yakima's median house tax bill would increase by $461. Central Kitsap would increase by $135. For a median income earner living in a median valued house, without levy equalization, in Yakima, nearly 2 percent of income would go to pay the M&O tax levy. The statewide average is 0.9% of income. In Bellevue, the median income earner living in a median valued house only pays 0.5% of income.

Table 1: Median House Values, Median Household Incomes and Percentage of Income Paid to Taxes

	Statewide	Bellevue	C.K.	C. V.	Everett	Renton	Yakima
1. Median House Value	$277,600	$533,000	$284,500	$179,000	$268,200	$327,700	$144,100
2. Median Household Income	$68,457	$98,192	$66,970	$59,087	$57,341	$57,435	$44,285
3. Actual 2011 Levy Tax Rate ($1/$1,000 AAV)	$1.99	$0.93	$2.15	$3.20	$2.59	$1.52	$2.64
4. Taxes Paid (Based on Median House price)	$553	$497	$610	$574	$695	$497	$381
5. Percent of Income Paid to M&O Levy (Based on Median Household Income)	0.8%	0.5%	0.9%	1.0%	1.2%	0.9%	0.9%
6. Levy Equalization Tax Rate	$0.32	N/A	$0.47	$0.67	$0.06	N/A	$3.20
7. Amount of Property Tax Covered by State Through Levy Equalization	$89	N/A	$135	$120	$16	N/A	$461
8. Percent of Median Income Paid for M&O Levy if No Levy Equalization	0.9%	0.5%	1.1%	1.2%	1.2%	0.9%	1.9%

US Census Bureau American Fact Finder Data as of 6/10/2011.

The Levy Lid and the 50 Percent Levy Equalization Policy

The Legislature established the levy equalization program in 1987 when it raised the levy lid from 10 to 20 percent for calendar year 1988. The Legislature doubled the levy lid percentage as it recognized the 10 percent lid was constraining for some districts. Under the 10 percent lid, combined state and local funding would not meet cost obligations of local districts. However, the lid lift was concerning to property poorer districts. The same Legislature was also concerned about property tax rate differences and the impact of those differences on districts' ability to raise local levy revenue. A political compromise was reached: the levy lid was lifted, the Legislature also established a mechanism for levy equalization, or the Local Effort Assistance program.

Since authorizing levy equalization, the Legislature's de-facto policy has been to equalize half of the levy lid. Figure 24 provides an illustrative history of the policy.

Occasionally, the 50 percent policy has not been maintained due to budget constraints. From 1994 to 1999, levy equalization was calculated at a 10 levy lid percent while the levy lid was 24 percent. Although the Legislature increased the levy equalization funding to cover a 12 percent levy lid in 2000, from 2003 to 2006 it prorated the allocation. In 2010, when raising the levy lid to 28 percent, the Legislature increased the levy equalization amount to 14 percent.

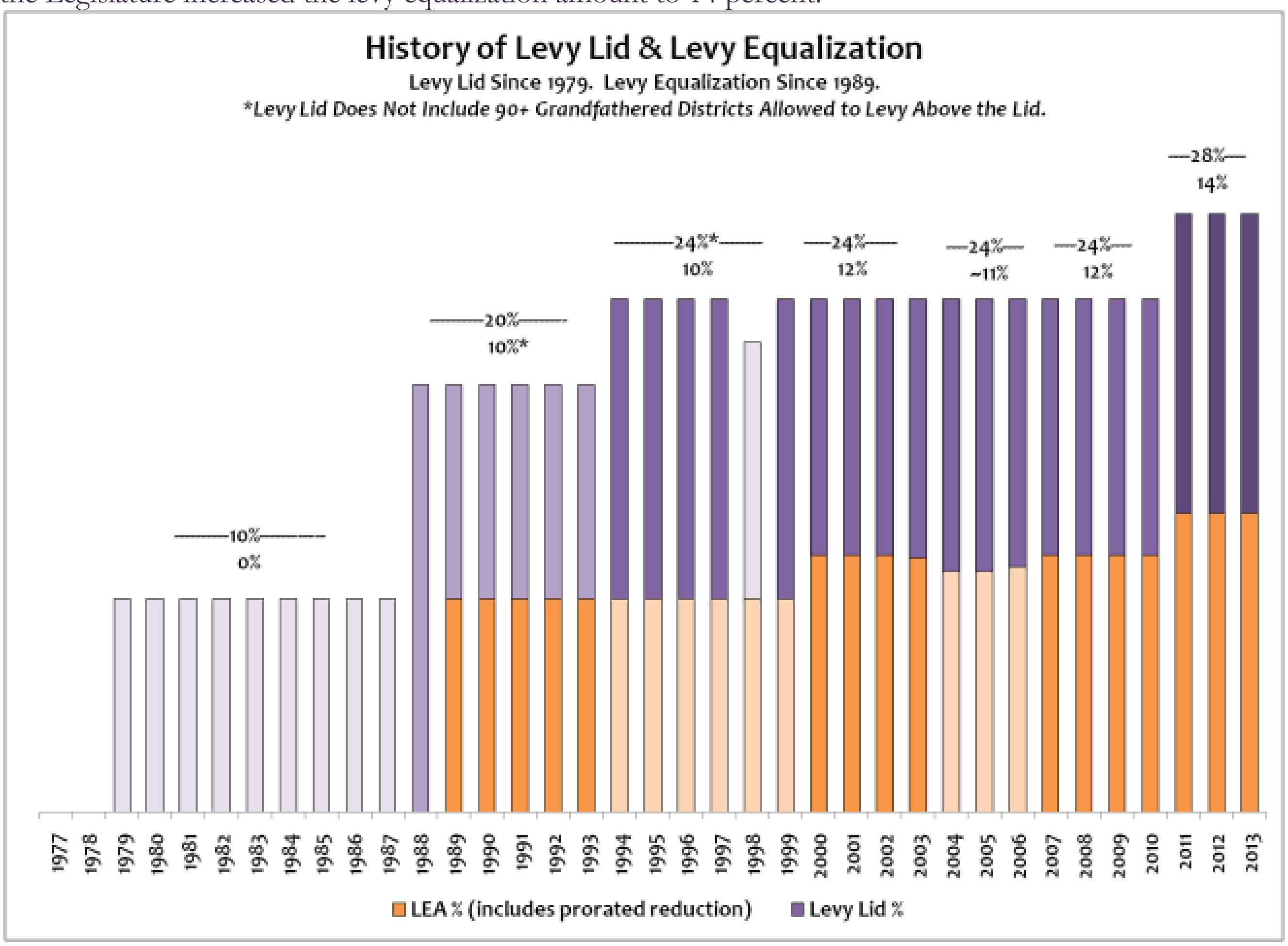

Figure 24: OSPI 2010 Property Tax Levies Report and RCW 28.500

History of Districts Passing M&O Levies and Districts Receiving Levy Equalization

Since the enactment of the levy lid law in 1977, the number of districts passing M&O levies increased gradually, as shown in Figure 25. The additional M&O levies increased the total amount of funding for K-12 programs. Since 1989, a similar trend has occurred with the districts eligible to receive levy equalization, as shown in Figure 26.

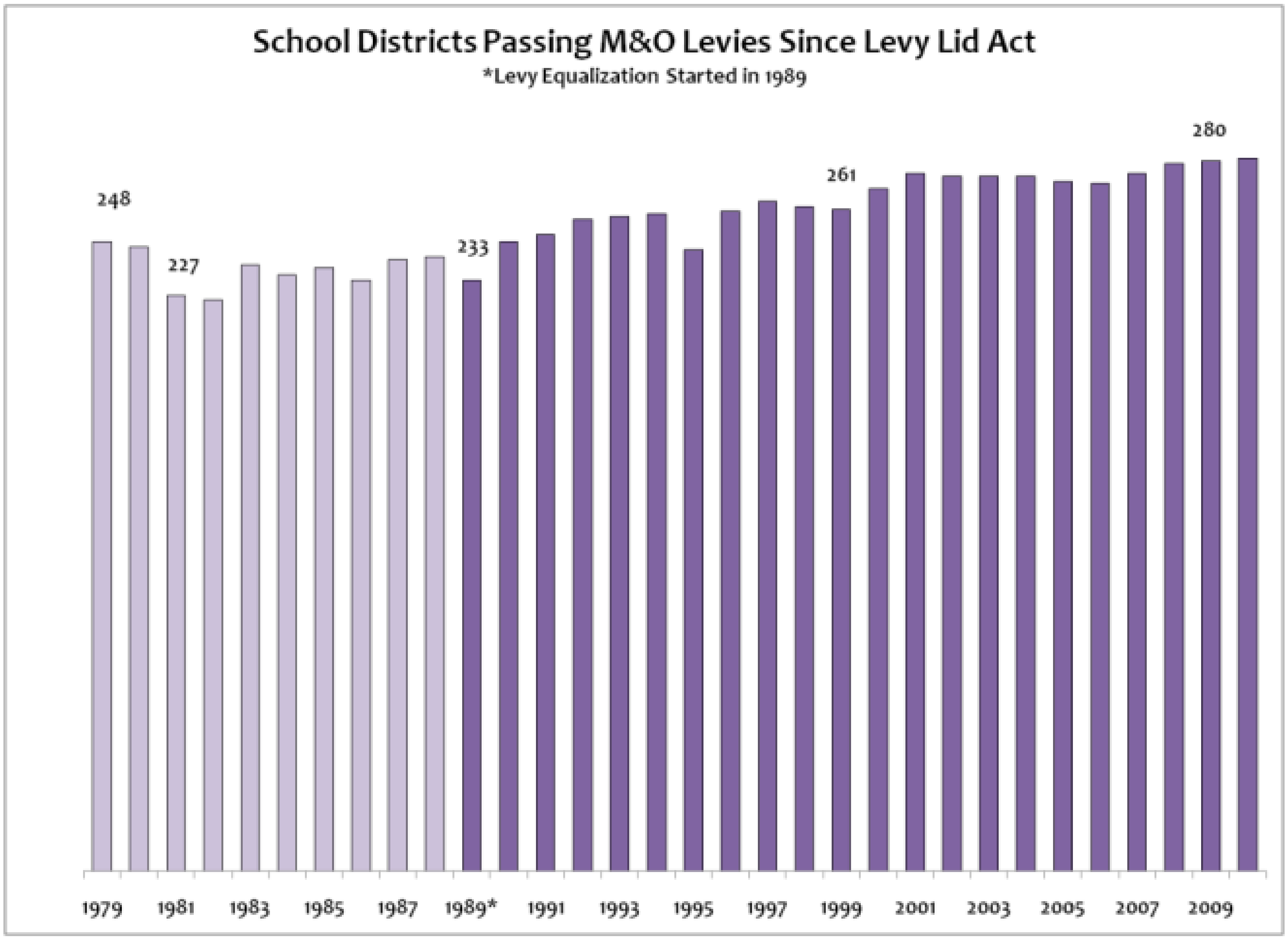

Figure 25: OSPI 2010 Property Tax Levies Report

In 1989, the first year of levy equalization allocations, 163 districts qualified. In 2009, 20 years later, 222 districts received funding. In calendar year 2011, 234 districts are eligible receive funds if their voters approve a levy.

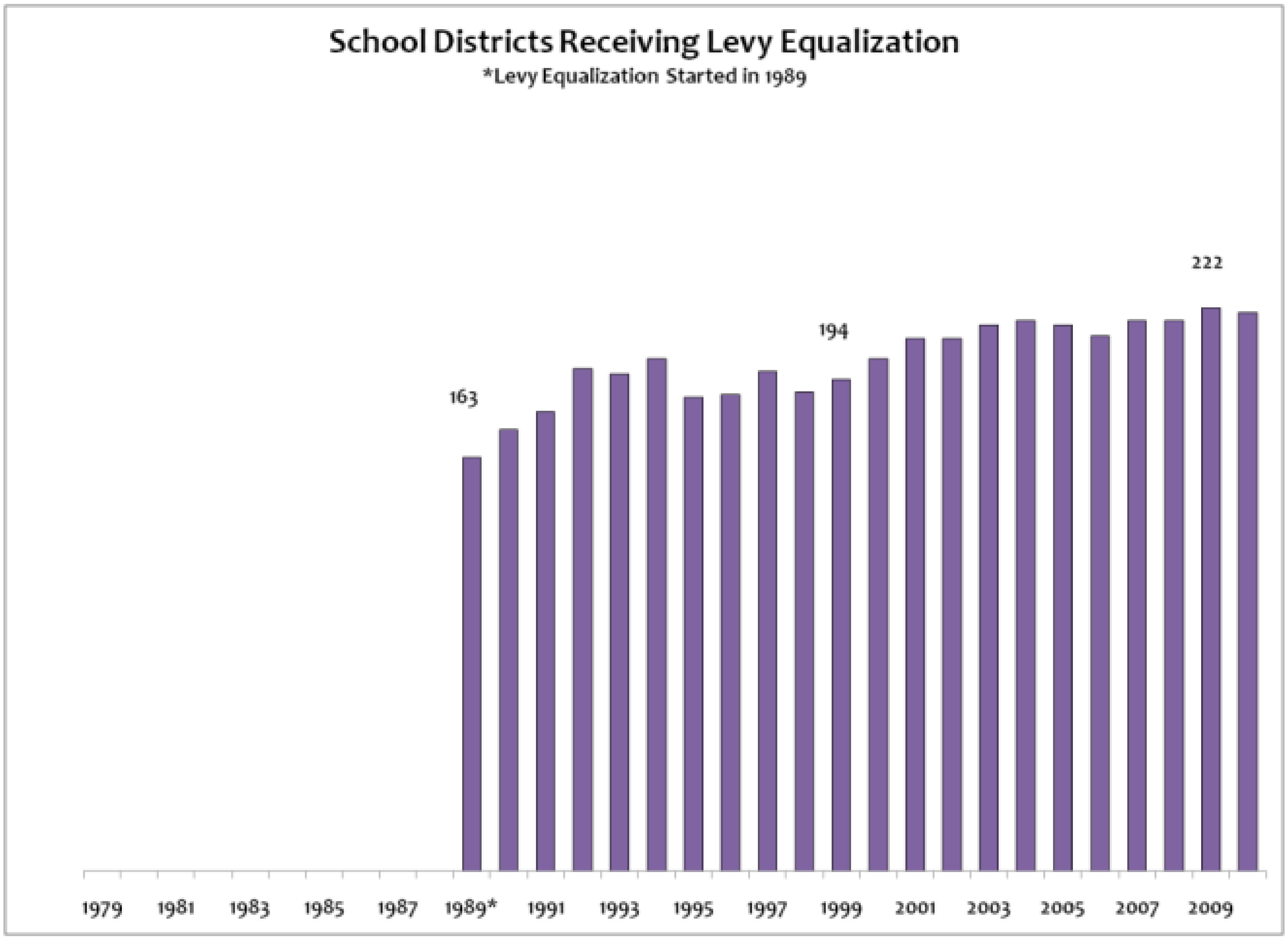

Figure 26: OSPI 2010 Property Tax Levies Report

For the decade following the initial implementation of levy equalization, a steady decline occurred in the number of districts with no M&O levy, either because the districts did not seek a levy or it failed at the ballot box. In 1989, the first year of levy equalization, 48 districts did not run a levy. Fifteen proposed levy measures failed. Ten years later, the number of districts without a levy decreased to 26 while the number of levy failures decreased to nine.

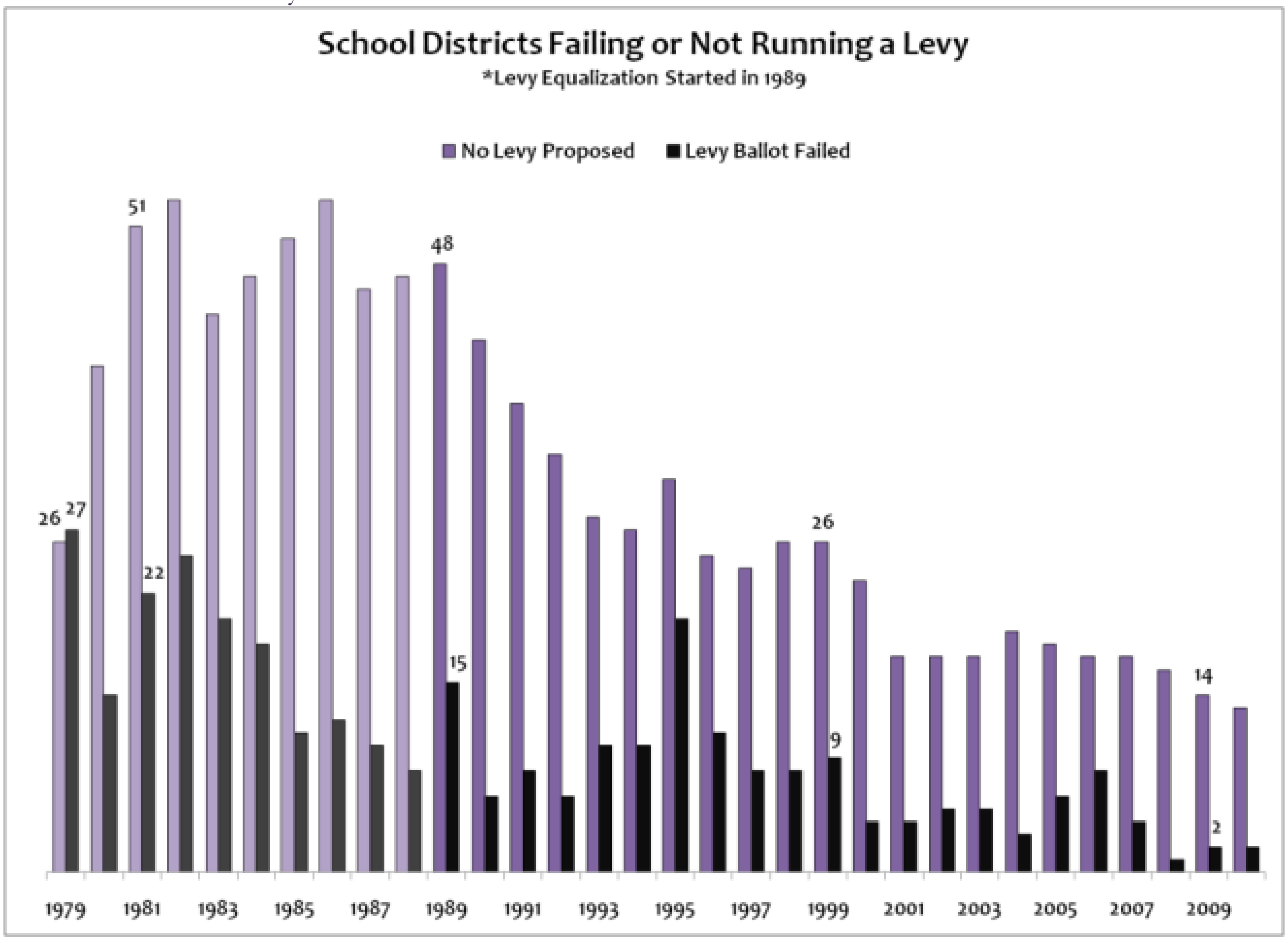

Figure 27: OSPI 2010 Property Tax Levies Report.

Use of Local Levy Funding

Local Districts Use of Levy Revenue

Two years prior to the Doran I decision and the dual enactment of the Basic Education Act and the levy lid law, on average, districts received about one-third of their revenues from local levies (school year 1974-75). The increase in state funding from the Basic Education Act coupled with the limitations on districts' levy amounts, reduced reliance on levies to a low-point of eight percent (school year 1980-81). Since then, the proportion of district revenues provided by local levy revenues has increased due to a combination of:

- Policies expanding the levy base;
- Policies expanding the levy lid;
- Increasing number of districts passing M&O levies;
- Voter willingness to raise additional funding as tax bases expanded;
- Change from "super-majority" to "simple majority" requirement for passing excess levies;
- Statutory changes requiring additional local services;
- Decreases in state funding; and
- Increased community demands for educational services.

Districts turn to levies to back-fill reductions in state and federal allocations for public schools and to meet the increased community demand for education programs, supplemental services, and wrap-around services for students. Further, school districts are under ongoing pressure to provide competitive employee salaries and benefits beyond the allocations provided by the state. The trend has been an increase in levy revenue as percentage of total school district revenues. The Working Group discussed the importance of levy revenues in meeting community expectations for schools. However, the Working Group is concerned with the change in the relative proportion of funding coming from local levies.

The most recent financial data (school year 2009-10) indicates local levy revenue is about 18 percent of school district operating budgets, statewide. Note that this is prior to the levy lid lift going into effect for calendar year 2011. It is also prior to state budget reductions implemented during school year 2010-11 and the 2011-13 biennium. These factors will likely increase local revenues as a percent of total district revenues. Figure 28 displays the data since school year 1974-75.

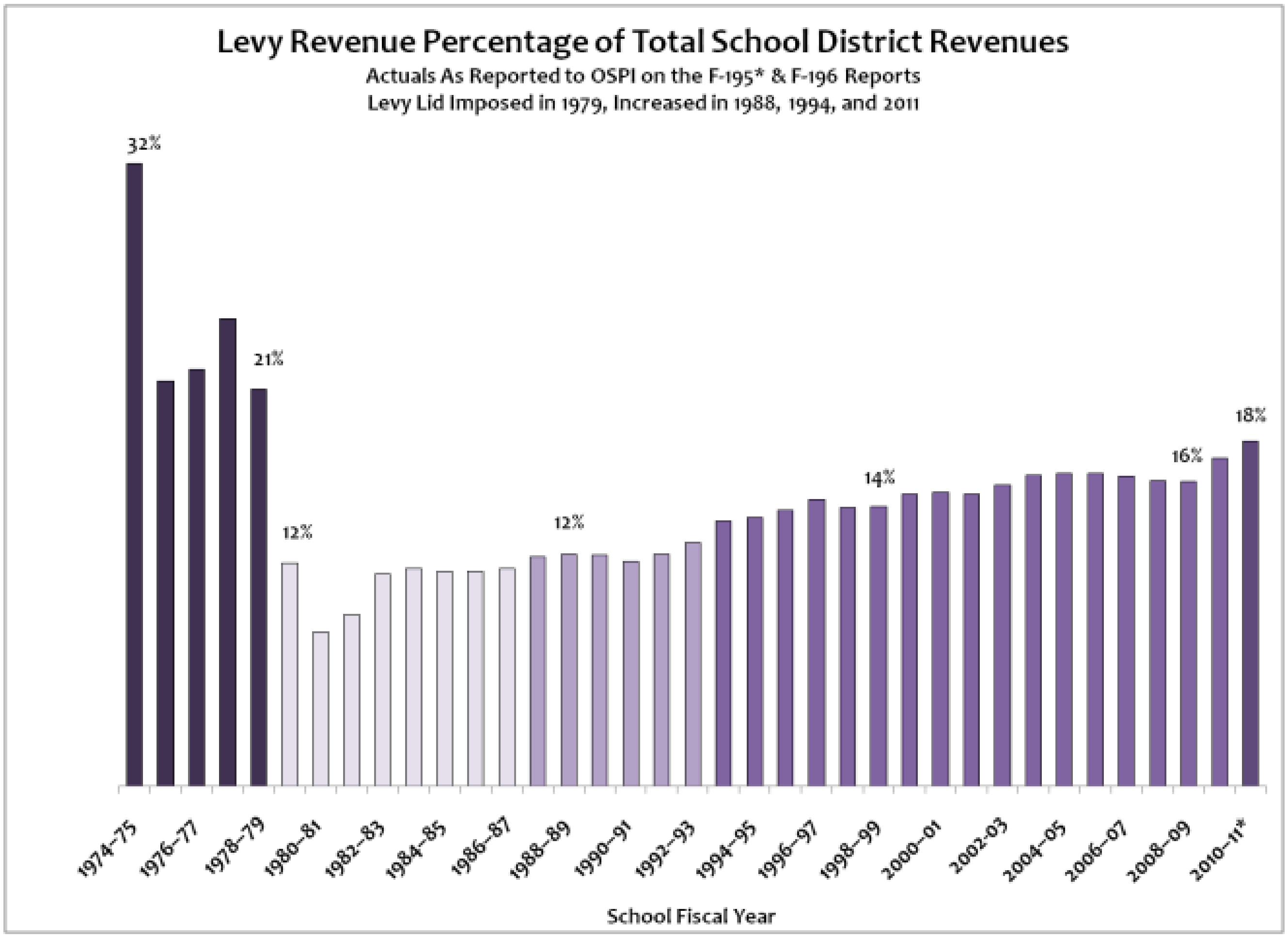

Figure 28: OSPI 2010 Property Tax Levies Report, 2009-10 and 2010-11 from the F-195 and F-196 Reports.

Figure 29 is the same chart, but also adds levy equalization revenue. Combined local levy and levy equalization revenues made up 21 percent of total district revenues in school year 2009-10.

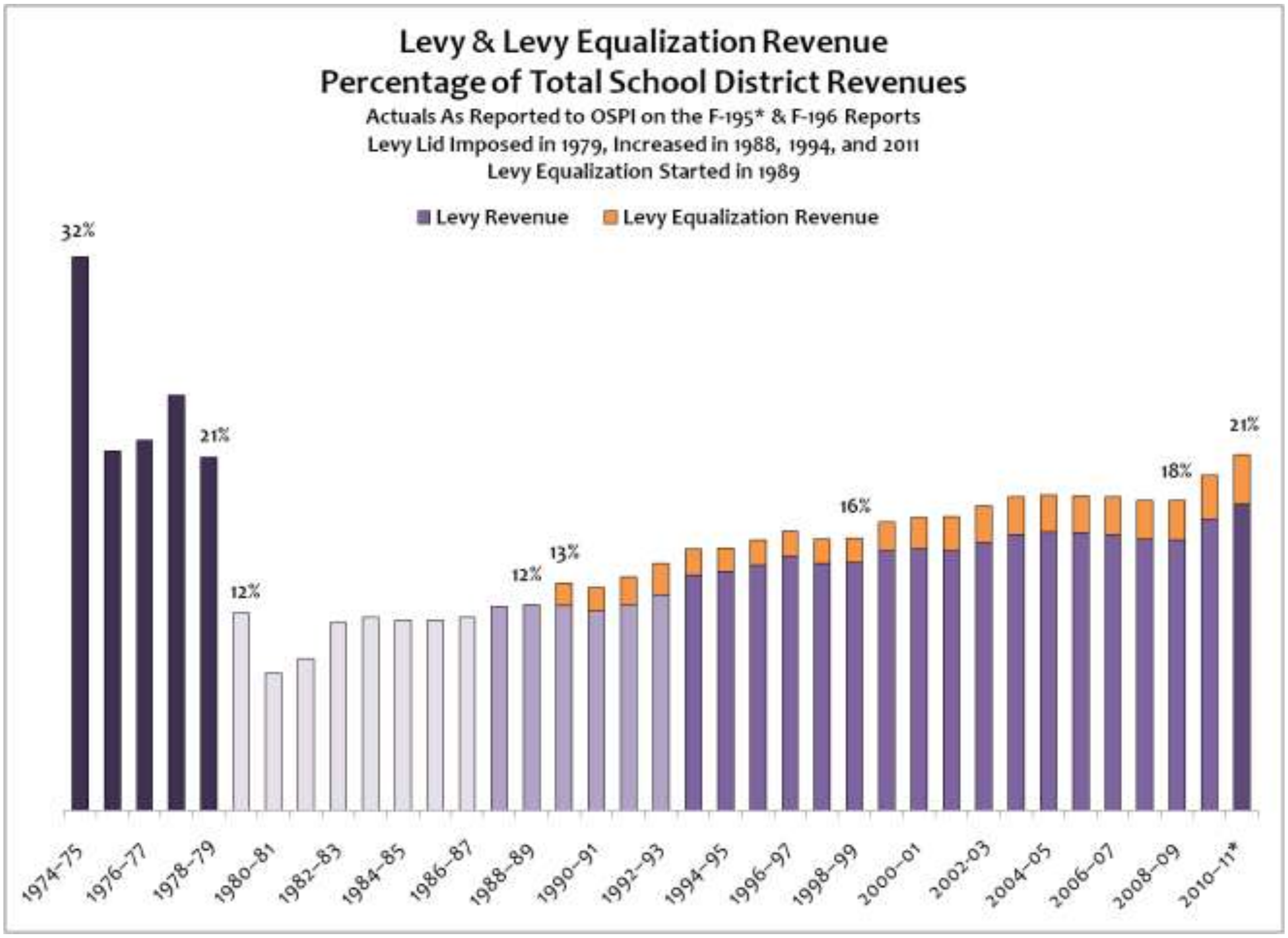

Figure 29: OSPI 2010 Property Tax Levies Report, 2009-10 and 2010-11 from the F-195 and F-196.

Use of Local Funding Discussion

The Working Group spent significant time discussing and identifying the local uses of levy funding.

The Function of Local Revenue

From a school district viewpoint, the local levy is the differential between state and federal funding and a district's actual cost of operations. The local levy pays for district costs not covered by state basic education allocations and/or other state and federal programs. It is a key part of a district's budget. Working Group members expressed serious concerns that local levies are backfilling funding needs not met by state and federal allocations.

The Working Group agrees that the levies were meant for things beyond basic education—the extras. However, as noted in the examples on page 43, levy funding also covers costs associated with programs many believe are—or should be—basic education responsibilities. In their discussions, Working Group members noted more than once that levies "were not intended to let the state off the hook for funding its paramount duty."

Use of Local Funds by Districts

Working Group members identified the following uses of local levy funding:

- Programs for which district operational costs exceed state or federal funding allocations: of particular concern was special education, pupil transportation, bilingual education and other services.

- The Working Group highlighted high school programs. Districts use local funds to provide a six or seven period day, which allows for a richer variety of courses and supplemental student services than those funded through the state formula. The Working Group members highlighted the proposed Core 24 requirements as an area of concern. Without the Core 24 requirement, the number of high school periods offered is a local decision. If Core 24 is required by the state, districts will have to structure a 6 period schedule so students can graduate on time. They are concerned that without additional state funding, mandated Core 24 district operational costs will exceed state allocations.

- Operating costs such as utilities, insurance premiums, election costs, as well as building and grounds maintenance.

- Items negotiated under collective bargaining: time, responsibility and incentive pay (TRI) for certificated instructional staff; market rate salaries for classified employees and administrators; teacher planning time; actual cost of substitutes; sick leave cash-outs; negotiated employee compensation and health insurance provisions; retiree insurance and retirement costs; and administrative costs.

- Local community enhancements: sports and extra-curricular activities; food service; service levels for programs selected by the community that are higher than the standard service level funded by the state;

- Implementation of standards and programs developed since the state funding formulas were established. Examples given were: district information technology standards, information technology instructional costs, substitute teachers and classified staff that qualify for district benefits but do not work the hours recognized as full-time under the state formulas.

- Administration of state, federal, and/or local government policy requirements that the district must comply with, but for which no specific funding is provided. Examples include: legal fees and other costs associated with public disclosure requirements; auditing rules; and regulatory obligations, like H1N1 Influenza policies and health inspections.

Blurry Line: Community Choice or Imposed Operational Cost

There is sometimes a blurry line between whether an item is a community choice, an operational cost imposed by a different jurisdiction, or both. Pupil transportation is an example of this. A community may opt to have every child bussed to school. Hypothetically, there is a point at which something is no longer a state responsibility and becomes a community choice. It is hard to identify that line clearly. Other state task forces and studies have also wrestled with this issue.

A different transportation example is compliance with the federal McKinney Vento Homeless Assistance Act. The act requires local school districts to facilitate access and to provide transportation to the last school attended by homeless students. Limited federal funding is provided. Districts must use their local and state allocations to meet transportation costs.

Federal civil rights laws require districts to provide a level of service for special education and bilingual education. In the example of special education, under the federal Individuals with Disabilities Education Act, districts are required to write an Individualized Education Program (IEP) for all identified students. Pursuant to federal law, the district must provide each student with the special education and related services listed in the IEP. The state provides an enhanced allocation for special education and also provides a safety net mechanism. In addition to state and federal funds, local levy funds are also used for special education services. Just as with pupil transportation, there becomes a point when the types of services and cost of the services is no longer a state responsibility and is instead a community choice. One example is the ratio of special education teachers to paraeducators within a school. If the ratio is driven by collective bargaining agreements, not a specific IEP, then this is a local decision. Alternatively, an IEP may require services provided by a paraeducator, who may need a substitute occasionally. The state's formula does not explicitly provide substitutes for classified staff. Districts must use their local and state allocations to pay for the substitute.

Statewide Summary of Local Levy Fund Use

All local levy dollars are deposited into a district's general fund and co-mingled with state and federal revenues. The district's expenditures are reported by program. Thus the accounting system does not link expenditures to the revenue source.

A similar construct exists in the Washington State budget for the general fund. Sales tax comprises the bulk of revenues. Business and Occupation (B&O) taxes are another significant revenue source. While analysts can pinpoint the state programs supported by the general fund, it is impossible to distinguish those supported by revenues from sales tax versus B&O tax.

OSPI staff analyzed school year 2009-10 financial data to estimate, at the state level, where district local funds were going. Staff identified 11 areas. Staff computed the state and federal funds allocated by formulas or via grants to each program. OSPI staff then compared the allocated revenue with the reported expenditures in each. Table 2 summarizes the financial data and Table 3 provides the data sources.

Compensation costs are a major driver for 10 of the 11 programs or expenditures listed below. As directed in ESHB 2261 and SHB 2776, a compensation technical working group will begin its work in July, 2011. This Working Group recognized local levy funds finance components of employee compensation and that there are overlaps between their work and the work of the forthcoming compensation working group.

Table 2: OSPI Summary of Local Revenue* Spending Calculated from 2009-10 Financial Data *Includes Levy, Levy Equalization, and Miscellaneous Revenues			
	Program or Expenditure Purpose	**Estimated Local Revenues Spent Dollars in millions**	
		Amount	*Percentage*
1.	Teachers & CIS (employees &/or salaries) Above State Allocation	$511	24%
2.	Non Employee Related Costs (NERC)~ Above State Allocation	$445	21%
3.	Classified Staff (employees &/or salaries) Above State Allocation	$278	13%
4.	Benefits and Payroll Taxes Above State Allocation	$227	11%
5.	Increase Fund Balance	$186	9%
6.	Pupil Transportation	$127	6%
7.	Certificated Administrative Staff (employees &/or salaries) Above State Allocation	$119	6%
8.	Special Education	$112	5%
9.	Other Instructional Programs^	$93	4%
10.	Community Services	$18	1%
11.	Other	$3	0%
	TOTAL	**$2,119**	**100%**

Table 3: Data Sources from the 2009-10 Financial Summaries Included in the Analysis 2009-10 OSPI F-196 Report		
Revenues		**Revenue Codes**
A.	Discretionary Revenue Codes	1100, 1300, 1500, 1900, 2100, 2200, 2300, 2400, 2500, 2600, 2700, 2800, 2900, 2910, 3300, 3900, 4100, 4300, 5200, 5300, 6100, 6200, 6300, 6310, 7100, 8100, 8500, 9100, 9300, 9400, 9500, & 9900.
Expenditures		**Program Codes**
1.	Teachers & CIS (employees &/or salaries) Above State Allocation	Programs 01, 31, 45, and 97
2.	Non Employee Related Costs (NERC)*	Programs 01, 31, 45, and 97
3.	Classified Staff (employees &/or salaries) Above State Allocation	Programs 01, 31, 45, and 97
4.	Benefits and Payroll Taxes	Programs 01, 31, 45, and 97
5.	Increase Fund Balance	Increase from 8/31/2009 to 8/31/2010
6.	Pupil Transportation	Program 99
7.	Certificated Administrative Staff (employees &/or salaries) Above State Allocation	Programs 01, 31, 45, and 97
8.	Special Education	Programs 21 & 26
9.	Other Instructional Programs^	Program 79
10.	Community Services	Programs 81, 86, 88, 89
11.	Other	

Data sources from the F-196

Tables 2 & 3: Analysis and Data prepared by OSPI.
~Note, effective September 1, 2011, NERC will be replaced by a different category in the funding formula and accounting reports, referred to as Materials, Supplies, and Operating Costs (MSOC).
^Other instructional programs includes locally funded full-day kindergarten.

Options for a New System

The Working Group's legislative charge was to review and analyzing options for a new system of supplemental funding through levies and levy equalization. On the following pages, each option is summarized and recommendations specific to the option are included. Detail on the impact for 15 sample districts is provided for each levy option and technical appendixes provide detail for all 295 districts.

The Working Group's options detailed in this report center on two different assumptions of state funding. Options 1 and 2 are based on state funding allocations as provided in the 2011-13 biennium, while Options 3 and 4 are based on specific enhancements to state funding.

Levy Authority Options 1 and 2 — Based on State Funding Allocations as Provided in the 2011–13 Biennium

While the Working Group developed options for consideration through a consensus-based process, members *did not achieve a consensus recommendation on Option 1 (retaining the current structure), versus Option 2 (changing authority to per-pupil concept)*. The report details its discussions as well as provides recommendations specific to each option for legislative consideration.

- **Authority Option 1:** Retain the Current Levy Structure with Some Modifications
- **Authority Option 2:** Change Local Levy Authority to Per-Pupil Funding Concept

The Working Group recognizes the current levy structure includes several unresolved issues from the 1970s, primarily due to grandfathering. The inclusion of a per-pupil model attempts to resolve some of these issues. However, the Working Group recognizes a per-pupil model creates new questions and policy issues that must be addressed if the model is considered by the Quality Education Council and the Legislature.

The Working Group makes the following recommendations, regardless of Option 1 or 2:

- The number of grandfathered districts should be reduced and eventually eliminated by increasing levy authority of the non-grandfathered districts over time. Fundamental to this goal is continuation of state levy equalization.

- Levy authority should be maintained appropriate to economic conditions during periods of state and federal funding reductions. The Legislature should continue this well-established precedent. The consequence of legislative inaction is significant budget reductions at the local level. (The Working Group notes a number of mechanisms to accomplish this, such as use of the per-pupil-inflator adjustment (PPI), a levy lid lift or modification of the levy base).

- Alternatively, if a per-pupil model is considered, the per-pupil amount should be high enough to resolve some inequities currently caused by grandfathered levy lids.

- No district should lose levy authority, which would result in on-the-ground budget reductions.

- Careful consideration should be given to levy equalization impacts to ensure districts do not lose levy equalization funds due a formula change (as opposed to normal shifts due to changes in total assessed value).

- Levy and levy equalization calculations and formulas should continue to recognize the needs of small schools.

LEVY AUTHORITY OPTIONS 3 AND 4 — BASED ON ENHANCED STATE ALLOCATIONS FOR MATERIALS, SUPPLIES AND OPERATING COSTS (MSOC) AND PUPIL TRANSPORTATION

Part of the legislative charge was to consider the impact of the new basic education funding system enacted in SHB 2776 on overall school district revenues. Option 3 (enhanced state funding and levy authority) and Option 4 (state and local property tax shift) are crafted under the assumption of increased state allocations for MSOC and pupil transportation.

- **Authority Option 3**: Enhanced State Funding and Local Levy Authority
- **Authority Option 4:** A Local and State Property Tax Shift

With regard to Options 3 and 4 on enhanced state funding, the Working Group determined it was premature to specify or recommend a specific adjustment to local levy authority based on three compelling factors:

- A new state compensation working group will convene after this report is submitted to the Legislature. Compensation accounts for a significant share of school district expenditures. Any substantive compensation changes will dramatically affect the needs and uses of local levy funds.

- The Legislature's phase in of enhanced funding for SHB 2776 is still to be determined.

- Operating costs to the district are projected to increase due to forecasted increases in enrollment, inflation increases and other factors. Further, state and federal budget reductions will limit the amount of revenues available for programs.

OPTION 3 ANALYSIS OF THE IMPACT OF ENHANCED STATE FUNDING ON LOCAL LEVY AUTHORITY. The Working Group recognizes an increase in state funding would, under the current levy structure, increase local levy authority.

- All districts should retain the ability to levy, at minimum, the amount permissible under current law. The enhanced funding options address two areas of local funding use: MSOC and pupil transportation. Additionally, the other areas of focus for SHB 2776 are on K-3 class sizes and full-day kindergarten programs. Enhanced state revenues would not offset current budget pressures experienced by districts such as:

- Operating a high school. This includes the need to provide a comprehensive range of courses and extracurricular activities. Additionally, costs of extracurricular activities will continue to rise due to increases in gas prices, athletic fees and other items.

- Items negotiated under collective bargaining.

- Programs for which district operational costs exceed state or federal funding allocations and are not addressed by SHB 2776.

- Depending on the phase in of SHB 2776 and the compensation package put forth by the Legislature, it could be appropriate for local levy authority to increase by the full amount of new state funding. As class sizes decrease and full-day kindergarten is phased in, more classrooms and staff will be needed:

    - As more classrooms become operational, MSOC revenues will not increase. Pursuant to the new formula, MSOC is per student, not per teacher. Additional classrooms come with a need for more MSOC, particularly for utilities, insurance and maintenance, and districts will rely on local funds.

    - As class sizes are reduced and new staff members are hired, districts will continue to provide supplemental contracts to new staff, pursuant to collective bargaining agreements. Local levy funds are used to accomplish this.

    - Depending on the phase in and the compensation package put forth by the Legislature, it could be appropriate for local levy authority to increase by the full amount of new state funding. However, it is not prudent to make a recommendation of an amount at this time without additional information.

OPTION 4 WOULD INCREASE STATE ENHANCED FUNDING THROUGH A STATE AND LOCAL PROPERTY TAX SHIFT. While the state property tax would increase, the levy lid would be reduced. Option 4 does not necessarily provide a significant increase in total funding to districts: It shifts the source of revenues from the local district to the state. A hold-harmless is included so no district loses revenue. A property tax shift is rejected as it could hamstring the ability of local districts to meet current collective bargaining obligations and other education commitments to their communities, even with enhanced state funding.

LEVY EQUALIZATION OPTIONS CONSIDERED AND VETTED

The Working Group reached consensus on the levy equalization program and the importance of continuing it.

- Option 1: Maintain Current Policy (recommended)
- Option 2: Pro-Rate (not recommended)
- Option 3: Tiered (not recommended)

The Working Group's major observations and recommendations on levy equalization are:

- Strong reaffirmation of levy equalization as a necessary tax equity program.

- Strong reaffirmation of the current policy of 50 percent levy equalization and considers this to be the floor for equalization funding.

- A goal of providing more equalization over time, up to full equalization as the Legislature increases state support for core programs.

- Rejection of any reductions to levy equalization or modifications such as pro-rating or applying tiered cuts to the formula.

Levy Authority Options

15 Sample Districts- Detail

To illustrate the impact of the different options on individual school districts, the Working Group selected 15 similarly-sized districts. The comparison of equally-sized districts illustrates the differences in levy authority and levy tax rates due to assessed values, categorical enrollments, and salary allocations. The Working Group selected the 15 districts with enrollments between 11,000 and 18,000 FTEs. Combined, these districts serve 22 percent of state enrollment.

For each option, after the summary and recommendations, summary tables detail the projected impact for these districts. Calendar year 2011 data provides the basis for the analysis.

Table 4: 15 Sample Districts & Details From the 2009-10 School Year

District	Enrollment 2009-10 FTEs	Adjusted Assessed Value (2010) $ in Billions	Eligible for Levy Equalization?	Free and Reduced Price Lunch Percentage^	Special Education Percentage^	Transitional Bilingual Percentage^	Higher CIS Salary Allocations on the LEAP schedule?
Auburn	13,503	$11	Yes	49%	12%	12%	No
Battle Ground	12,906	$7	Yes	37%	12%	5.1%	No
Bellevue	16,934	$47	No	21%	11%	10%	No
Bethel	16,946	$11	Yes	41%	15%	1%	No
Central Kitsap	11,262	$8	Yes	24%	15%	2%	No
Central Valley	12,234	$7	Yes	38%	13%	2%	No
Everett	17,958	$17	Yes	36%	12%	9%	Yes (5%)
Issaquah	16,038	$21	No	9%	9%	4%	No
Highline	17,025	$16	Yes	63%	13%	21%	No
Kennewick	14,823	$6	Yes	48%	12%	9%	No
Mukilteo	13,663	$15	No	46%	13%	16%	Yes (1%)
North Thurston	13,317	$11	Yes	39%	13%	3%	No
Pasco	13,607	$4	Yes	72%	13%	34%	No
Renton	13,536	$19	No	46%	14%	14%	No
Yakima	13,927	$5	Yes	81%	14%	27%	No
Statewide	**988,006**	**$970**	**234 of 295 Districts**	**42%**	**13%**	**8%**	

^Data from the OSPI School District Report Card for the 2009-10 School Year.
*Kennewick's Special Education Percentage from 2008-09 School Year due to 2009-10 data anomaly.

Levy Option 1: Maintain the Current Structure

The first option presented by the Working Group is to maintain the current structure for determining levy authority.

The Working Group explored three variations within the framework of the current structure.

- Maintain the current structure as is;
- Alternatively, increase the levy lid and restore the levy base to reflect only state revenues and federal revenues; and/or
- Keep the current levy base and reduce or eliminate grandfathered levy lids.

Maintain the Current Calculations

The first part of this report is dedicated to explaining the current calculations; this discussion is not repeated here.

Increase the levy Lid and Restore the levy Base to Reflect Only State Revenues and Federal Revenues

The Working Group explored a modification of the current structure, which would be to increase the levy lid and adjust the levy base. It would:

- **Remove the calculated amounts from the levy base calculations.** Calculated amounts included in levy base calculations would be removed from the levy base. To have a more transparent system, the levy base would consist of actual state and federal revenues.

- **Raise the levy lid by 2.7 percent so no district loses revenue.** Previously, the Legislature included calculated amounts so districts would not lose revenues during times of state budget reductions. For calendar year 2011, this includes suspended I-728 and I-732 amounts. Including these calculation adjustments allowed for district authority to remain constant without the state needing to increase the levy lid. If this adjustment is considered, the levy lid would need to be increased to adjust for the decline in the levy base. Otherwise, local levy authority would be reduced, which would necessitate district budget reductions. *The levy lid would need to be increased 2.7 percent to generate the same level of revenues. This would increase the levy lid percentage to over 30 percent for all districts, and over 40 percent for certain grandfathered districts.*

- **Increase the levy equalization percentage from 14 percent to 15.35 percent**. This would maintain the 50 percent levy equalization policy.

Keep the Current Levy Base and Reduce or Eliminate Grandfathered Levy Lids

The Working Group spent considerable time on grandfathered levy lids, and particularly on the funding inequities it causes between neighboring districts and those in close geographic proximity. They noted two approaches to eliminating grandfathering, and there are costs associated with either approach. The Working Group recommends incrementally increasing the levy lid for non-grandfathered districts. This would increase levy authority and provide additional revenues for districts able to utilize levy authority. The Working Group recommends maintaining fifty percent equalization at a minimum. This would increase the cost of state levy equalization payments.

This approach requires a substantial policy discussion about the amount of grandfathering to reduce and how much to increase the levy lid for non-grandfathered districts. Starting on page 58**,** Tables 8 through 11 provide information on the amount of levy authority, tax rates, and levy equalization payments calculated at various levy lid percentages. Due to the magnitude of the difference between the current levy limit and the highest grandfathered district, complete elimination of grandfathering would result in a significant levy lid lift for most districts. Alternatively, a small, incremental adjustment may not adequately address the negative consequences of grandfathering.

An obvious alternative adjustment would be to incrementally adjust *down* the levy lid for grandfathered districts. This would reduce already established levies for the grandfathered districts and result in actual revenue losses for those districts whose voters approved levies at grandfathered levels. This alternative would necessitate budget reductions and likely renegotiation of collective bargaining agreements in grandfathered districts. The Working Group does not recommend an option that would reduce total revenues to a school district.

Summary of Discussion of Option 1: Maintaining the Current Structure

POSSIBLE BENEFITS

- **Current structure is a successful in generating local revenues.** School districts have operated for decades with the current levy authority system. The majority of school local M&O levies are successfully put forth by school districts and approved by voters.

- **The current structure is familiar to districts.** Policy makers and districts have working with the current system for over 30 years. Even with modifications to the levy base or levy lids, it would be a familiar structure to those involved with levy policy.

- **No district would lose revenue due to a change in levy law under this option**. The Working Group assumes current practice would continue and that levy authority will remain constant even during state budget reductions.

- **The current structure recognizes differential district needs by including state and federal categorical funding.** Districts have different student populations and a corresponding need for local dollars to supplement categorical programs. For example, if a district negotiates a TRI compensation package, it applies to all teachers, not just those in the regular education program. This includes the federal funded and state funded categorical program staff.

POSSIBLE BENEFITS (ASSUMING MODIFICATIONS)

- **With modifications, the system could be more transparent.** If the levy base tied to actual state and federal revenues, one of the original intents of the law. The Working Group heard concerns expressed about the complexity of including planned-but-not-allocated state or federal funding in the levy base.

- **With modifications, the inequities between districts due to levy lids could be reduced.** Reducing or eliminating the differences in levy authority between grandfathered and non-grandfathered districts would improve equity in local funding opportunities for neighboring local communities.

POTENTIAL PITFALLS

The Working Group identified several persistent issues and concerns with the current levy authority system:

- **The levy base is complex and lacks transparency.** It is difficult to explain the levy authority calculation to local levy committees, K-12 stakeholders, voters, and policy makers. Voters can approve levies lasting one to four years. The current system makes it difficult to precisely predict future levy authority levels as it is hard to predict changes in state funding.

- **The current levy base calculation no longer reflects actual state and federal revenues.** Though the inclusion of suspended I-728, I-732, and other calculated amounts in the levy base prevents loss of local levy authority and revenue during periods of state budget reductions, it also disassociates the base from the original policy intent of reflecting actual state and federal revenues. The inclusion erodes the original policy basis for using state and federal revenues (and potential or lost revenues) as the base for local levy authority.

- **The current levy authority system is inequitable, primarily due to grandfathering**. (This concern could be reduced if a lid-lift was provided for non-grandfathered districts, depending on the magnitude of the lid increase).

  The current authority mechanism results in different funding levels—within regions and across the state—without solid policy rationales. Districts raise concerns with a system tied to levies from 1977. The size of voter approved levies from 1977 determined whether a district became grandfathered or not. The result is inequities among neighboring districts. For example, compare Issaquah School District's levy lid of 28.97 percent with neighboring Bellevue School District's levy lid of 34.66 percent and Mercer Island's levy lid of 37.97 percent. For calendar year 2011, Issaquah levied the maximum amount allowed under the lid: $35 million. However, if Issaquah applied Bellevue's lid to it's levy base, it would generate an additional $7 million per year. Applying Mercer Island's lid would provide Issaquah with $11 million in additional revenues. Though Issaquah's voters approved a levy of $38 million for calendar year 2011, $3 million cannot be imposed due to the lid limit. An Issaquah School Board Director presented to the Working Group, noting the difference limits the way the district can compete with its neighbors. Relative to the neighboring districts, Issaquah views themselves as limited in the academic and extra-curricular programs it can offer students and the compensation packages available for its staff.

- **Current levy lid limit is viewed as too restrictive for some districts**. A common concern about the levy lid limit is it constrains many urban school districts from raising the amount of funding needed to provide a quality education for their students or the level education services their community would like to provide.

- **Levy authority declines in periods of state budget reductions without additional legislative modification**. As the levy authority calculation is based on state and federal allocations, during periods of state and federal budget reductions, local levy authority for districts also declines. Other legislative action is required to maintain the same amount of authority. In the past, these actions have included a lid lift, non-revenue based adjustments to the levy base calculations, or an increase in the per-pupil inflator. All require advocacy effort by the K-12 community in order to avoid compounding state funding reductions and local levy reductions. Working Group members expressed frustration at not being able to concentrate legislative advocacy solely on state funding and education polices.

- **Some districts seek alternatives to supplement capped levy collections.** While the levy lid limits property tax revenues for M&O levies, some members on the Working Group noted certain districts supplement the local levy limits through use of some of the following mechanisms:

  Common Examples
  - Use of Capital Project Levies, including Technology Levies
  - Use of Foundations
  - Use of Tuition Funding for Full-Day Kindergarten
  - Use of Tuition or Private Pay for After School Activities

  Uncommon Examples
  - Use of City Property Tax or Dedicated Sales Tax Levies for supplemental after-school services
  - Use of Other Creative Funding Mechanisms: Two district foundations during the 2010-11 school year sent a letter to parents requesting donations of $1 per school day to help offset state funding reductions.

POTENTIAL PITFALLS (ASSUMING MODIFICATIONS):

In response to modifying the levy base and lifting the levy lid:

- **It may be politically difficult for the Legislature to increase the levy lid percentage**. The 2003 Legislature faced state budget cuts, but did not want to increase the levy lid in order to protect local levy authority. By expanding the levy base to include calculated but no-longer allocated funding steams, the Legislature was able to protect district levy revenues without the political fight of lifting the levy percentage. The fear was a percentage increase in the levy lid would be misperceived as a tax or revenue increase, even though the reality would have been no actual change in levy authority. The same issue could arise with this modification; legislators may not be comfortable with the messaging of a higher levy lid percentage, even if applied to a smaller base.

In response to lifting the levy lid to reduce or eliminate grandfathering:

- **Increasing levy authority to reduce or eliminate grandfathering will only assist communities able to access additional revenue from the increased authority**. A number of districts (Yakima, for example) do not fully use current levels of levy authority. Even with levy equalization, the financial capacity of some communities to pay higher property tax levies is limited. An increase in authority will provide no benefit to the programs and services in districts that are not able to pass levies that would generate greater revenue. The Working Group is concerned that improving equity of authority to raise levies does not necessarily translate into equitable access to actual levy funding. Voters must still be willing and able to support higher levies.

- **Greater levy authority would increase the state cost of the current levy equalization program, assuming non-grandfathered levy equalization districts are able to gain voter approval of higher levies.**

- **Reducing or eliminating grandfathering of levies would provide no new levy authority for the grandfathered districts.** Historically, certain grandfathered districts have been the most active in seeking greater levy authority from the state; their voters have been both willing and able to support higher levies in support of schools.

  It may be difficult for the Legislature to increase levy authority for all districts except those already grandfathered. *A variation of this modification would be to allow all districts to increase levy authority over time, but provide greater growth in authority to the non-grandfathered districts. This could narrow the authority gaps over time.*

RECOMMENDATIONS FOR THE CURRENT STRUCTURE

- The Working Group strongly recommends maintaining levy authority appropriate to the economic conditions during periods of state and federal funding reductions. The Legislature should continue this well-established precedent. A reduction in local authority would result in significant budget reductions at the district level. (The Working Group notes a number of mechanisms to accomplish this, such as an adjustment of the PPI, a levy lid lift, or modification of the levy base).

- The Working Group recommends the number of grandfathered districts be reduced and eventually eliminated by increasing levy authority of the non-grandfathered districts over time. Fundamental to this goal is continuing the state levy equalization policy at 50 percent.

Maintaining the Current Calculations

Tables 5 and 6 provide sample district detail based on 2011 calendar year levy information.

Table 5: Maximum Possible Amounts Levy Revenue and Tax Rates								
District	2011 Levy Lid	2011 Maximum Levy Authority ($ in millions)	2011 Property Tax Rate at Maximum Levy Amount (pre Levy Equalization)	2011 Levy Equalization Amount ($ in millions)	2011 Property Tax Rate (with Levy Equalization) at Maximum Levy Amount $1.00/$1,000	2011 Actual Levy Amount (excludes levy equalization) ($ in millions)	2011 Actual Tax Rate $1/$1,000	2011 Actual Levy and Levy Equalization as a Percent of 2011 Maximum Authority*
Auburn	28.9%	$33	$3.20	$3	$2.92	$29	$2.81	97%
Battle Ground	28%	$30	$4.41	$6	$3.47	$21	$3.04	90%
Bellevue	34.66%	$47	$0.99	n/a	$0.99	$44	$0.93	94%
Bethel	28.89%	$41	$4.03	$7	$3.35	$30	$2.88	88%
Central Kitsap	28%	$27	$3.48	$4	$3.01	$17	$2.15	75%
Central Valley	28%	$28	$3.88	$5	$3.20	$23	$3.20	100%
Everett	28%	$45	$2.65	$1	$2.59	$44	$2.59	100%
Highline	28.95%	$46	$2.83	$2	$2.73	$38	$2.34	86%
Issaquah	28.97%	$35	$1.64	n/a	$1.64	$35	$1.64	100%
Kennewick	28%	$37	$6.00	$11	$4.27	$19	$3.15	81%
Mukilteo	28%	$33	$2.24	n/a	$2.24	$32	$2.15	96%
North Thurston	28%	$32	$2.77	$1	$2.65	$28	$2.42	92%
Pasco	28%	$36	$8.28	$12	$5.41	$18	$4.30	87%
Renton	28.93%	$35	$1.82	n/a	$1.82	$29	$1.52	83%
Yakima	28%	$43	$8.93	$15	$5.73	$13	$2.64	65%
Statewide Average	**29.3%**	**$2.6 Billion**	**$2.65**	**$312**	**$2.33**	**$1.9 Billion**	**$1.99**	**87%**

*The majority of elections for calendar year 2011 levy authority occurred in February of 2010. Levy authority was not increased until later in the legislative session. Although some districts sought voter-approval in August of 2010 for higher levies beginning in calendar year 2011, many districts did not seek the authorized increase for 2011.

Table 6: Per-Student Crosswalk		
District	**2011 Maximum Levy Authority Per Student**	**2011 Actual Amount Levied On A Per Student Basis --includes property tax and levy equalization**
Auburn	$2,474	$2,395
Battle Ground	$2,303	$2,078
Bellevue	$2,755	$2,592
Bethel	$2,477	$2,188
Central Kitsap	$2,420	$1,821
Central Valley	$2,298	$2,298
Everett	$2,483	$2,483
Highline	$2,685	$2,314
Issaquah	$2,188	$2,188
Kennewick	$2,481	$2,019
Mukilteo	$2,441	$2,342
North Thurston	$2,367	$2,167
Pasco	$2,613	$2,263
Renton	$2,569	$2,143
Yakima	$3,075	$2,012
Statewide Average	**$2,606**	**$2,272**

Increasing the Levy Lid and Restoring the Levy Base to Reflect Only State Revenues and Federal Revenues

Table 7 illustrates the impact of adjusting the levy lid as result of restoring the levy base to state and federal actual revenues. If this change were considered, the Working Group assumes the levy lid would be increased so no district lost levy authority. In general, if the calculated amounts were excluded from the levy base, a levy lift lid of 2.7 percent would accommodate almost all the districts. There may be a need for some additional grandfathering in order for a few not to lose levy authority.

Table 7: Current Levy Lid & New Levy Lid Required to Generate Same Amount of Maximum Authority

District	2011 Levy Lid Percent	2011 Max. Levy Authority ($ in millions)	2011 Max Authority without OSPI Calculations and at Original Levy Lid	Modified Levy Lid Percent	Modified 2011 Max Levy Authority ($ in millions)
Auburn	28.9%	$33	$31	31.5%	$33
Battle Ground	28%	$30	$27	30.6%	$30
Bellevue	34.66%	$47	$42	37.3%	$46*
Bethel	28.89%	$41	$38	31.5%	$42
Central Kitsap	28%	$27	$25	30.6%	$27
Central Valley	28%	$28	$26	30.6%	$28
Everett	28%	$45	$41	30.6%	$45
Highline	28.95%	$46	$42	31.6%	$46
Issaquah	28.97%	$35	$32	31.6%	$35
Kennewick	28%	$37	$34	30.6%	$37
Mukilteo	28%	$33	$31	30.6%	$33
North Thurston	28%	$32	$29	30.6%	$32
Pasco	28%	$36	$33	30.6%	$36
Renton	28.93%	$35	$32	31.6%	$35
Yakima	28%	$43	$40	30.6%	$44
Statewide Average	**29.3%**	**$2.57 Billion**	**$2.4 Billion**	**32.02%**	**$2.57 Billion**

KEEPING THE CURRENT LEVY BASE AND REDUCING OR ELIMINATING GRANDFATHERED LEVY LIDS

The Working Group spent considerable time on grandfathered levy lids, particularly on the funding inequities between neighboring and regionally grouped districts. Table 8 through Table 11 provide information on the amount of levy authority, tax rates, and levy equalization payments for various levy lid percentages. Due to the magnitude of the difference between the current levy limit and the highest grandfathered district, complete elimination of grandfathering would result in a significant levy lid lift. Alternatively, a small, incremental adjustment may not adequately address the negative consequences of grandfathering between districts.

Table 8: Statewide Summary if Lid is Lifted for Non-Grandfathered Districts

Levy Lid	28%	30%	34%	38%
Average Statewide Levy Lid	29.32%	30.76%	34.24%	38.00%
Number of Grandfathered Districts	90	54	30	0
Average Statewide Tax Rate ($1/$1,000)	$2.65	$2.78	$3.10	$3.44
Maximum Levy Authority Revenue	$2.6 Billion	$2.7 Billion	$3.0 Billion	$3.3 Billion
Number of Districts with Rollback	18	10	5	2
LEA "Lid"	**14%**	**15.0%**	**17%**	**19%**
Maximum Levy Equalization Payments	$312 Million	$334 Million	$379 Million	$424 Million
Number of Districts Eligible for LEA	234	234	234	234
Statewide Average LEA Tax Rate	$1.27	$1.36	$1.54	$1.72

Table 9: Maximum Levy Authority If Lid is Lifted for Non-Grandfathered Districts (Dollars in Millions)

Statewide Lid	28%	30%	34%	38%
Auburn	$33	$35	$39	$44
Battle Ground	$30	$32	$36	$40
Bellevue	$47	$47	$47	$51
Bethel	$42	$44	$49	$55
Central Kitsap	$27	$29	$33	$37
Central Valley	$28	$30	$34	$38
Everett	$45	$48	$54	$61
Highline	$46	$47	$54	$60
Issaquah	$35	$36	$41	$46
Kennewick	$37	$39	$45	$50
Mukilteo	$33	$36	$40	$45
North Thurston	$32	$34	$38	$43
Pasco	$36	$38	$43	$48
Renton	$35	$36	$41	$46
Yakima	$43	$46	$52	$58
Statewide	$2,575	$2,701	$3,007	$3,336

Table 10: Maximum Levy Equalization Amount If Lid is Lifted for Non-Grandfathered Districts (Dollars in Millions)				
Statewide Levy Equalization Percent	14%	15%	17%	19%
Auburn	$2.9	$3.2	$3.6	$4.0
Battle Ground	$6.3	$6.8	$7.7	$8.6
Bellevue	N/A	N/A	N/A	N/A
Bethel	$7.2	$7.7	$8.7	$9.7
Central Kitsap	$3.7	$4.0	$4.5	$5.0
Central Valley	$4.9	$5.2	$5.9	$6.6
Everett	$1.0	$1.1	$1.2	$1.4
Highline	$1.6	$1.8	$2.0	$2.2
Issaquah	N/A	N/A	N/A	N/A
Kennewick	$10.6	$11.4	$12.9	$14.4
Mukilteo	N/A	N/A	N/A	N/A
North Thurston	$1.4	$1.5	$1.6	$1.8
Pasco	$12.3	$13.2	$15.0	$16.7
Renton	N/A	N/A	N/A	N/A
Yakima	$15.3	$16.4	$18.6	$20.8
Statewide	$312	$334	$379	$424

Table 11: Property Tax Rates ($1 per $1,000 of Assessed Value) If Lid is Lifted for Non-Grandfathered Districts and LEA is Maintained at 50 Percent				
Statewide Lid	28%	30%	34%	38%
Auburn	$2.92	$3.02	$3.42	$3.82
Battle Ground	$3.47	$3.72	$4.21	$4.71
Bellevue	$0.99	$0.99	$0.99	$1.09
Bethel	$3.35	$3.45	$3.91	$4.37
Central Kitsap	$3.01	$3.22	$3.65	$4.08
Central Valley	$3.20	$3.43	$3.89	$4.35
Everett	$2.59	$2.78	$3.15	$3.52
Highline	$2.73	$2.82	$3.20	$3.58
Issaquah	$1.64	$1.70	$1.93	$2.15
Kennewick	$4.27	$4.57	$5.18	$5.79
Mukilteo	$2.24	$2.40	$2.72	$3.04
North Thurston	$2.65	$2.84	$3.22	$3.60
Pasco	$5.41	$5.79	$6.57	$7.34
Renton	$1.82	$1.89	$2.14	$2.39
Yakima	$5.73	$6.14	$6.96	$7.78
Statewide	$2.33	$2.44	$2.71	$3.00

Levy Option 2: Per-Pupil Concept

A more significant change from the current system of supplemental levies would be to provide equal dollar-per-student levy authorities, rather than basing levy authorities on adjusted state and federal revenues.

Under a per-pupil levy authority model, the current law's reliance on a levy base and a levy lid would be replaced by a specific dollar amount-per-student multiplied by the district's prior school year enrollment. A per-pupil inflation factor similar to the PPI would still be included.

The Math: Current Law vs. Per-Pupil

Current Law Levy Authority

Currently, each district's levy authority is:

Levy Authority =
Levy Base x [1 + (**Per Pupil Inflator**/0.55)] x **Levy Lid Percentage**

Per Pupil Levy Authority

Under this option, each district's levy authority would be:

Levy Authority =
District Prior Year FTE enrollment x [**Flat Amount + 28% of Small School Factor]** x [1 + (**Per Pupil Inflator**/0.55)]

Conceptual Details

The Working Group explored this concept at length and looked at multiple dollar-per-student amounts. This summary clusters all the various amounts explored into a single option for consideration. It starts with the nuts & bolts of how the concept works, discusses the implications of the various per-student amounts, and concludes with recommendations.

Calculation Timeline

The timeline for data collection and levy authority calculation mirrors the timelines for current law.

Table 12: Per-Pupil Model

M&O Levy Approved by Voters	2009-10 School Year Ends, Final Student Count for Levy Base Determined	Final Levy Base and Levy Authority Calculated by OSPI, including LEA Deduction	District's Levy Authority Certified to County	Levy Property Tax Collections
Spring of 2010, maybe earlier if on a longer election cycle	June, 2010	September 2010	By November 30th, 2010	Throughout Calendar Year 2011

Table 13: Compared to Current Levy Authority and Levy Administration Law Timeline

M&O Levy Approved by Voters	2009-10 School Year Ends, Final State & Federal Allocations for Levy Base Calculated	Final Levy Base and Levy Authority Calculated by OSPI, including LEA Deduction	District's Levy Authority Certified to County	Levy Property Tax Collections
Spring of 2010, maybe earlier if on a longer election cycle	June, 2010	September 2010	By November 30th, 2010	Throughout Calendar Year 2011

**The only step changing is the per-student count as opposed to the state & federal allocation amounts (which was mainly determined by student count).*

District Prior Year FTES

The district's prior year student FTE enrollment forms the base for the per-pupil model. One option would be to use the October 1 FTE count. Another is the annual average FTE count. Statewide, the October 1 FTE count is approximately two percent higher than the annual average, although this varies by district. The analysis here uses annual average FTEs.

What Dollar Level –How Much Authority?

A central issue with a levy authority model based on a flat amount of levy authority-per-student is where to set the dollar amount.

The Working Group explored several dollar amounts-per-student. As shown on the next two charts, statewide current levy authority funding per-pupil varies dramatically. This is because the current system was not intended to provide consistent funding on a per-student basis (it is has intentionally been revenue-based system).

The Working Group analyzed the current levy authority data for calendar year 2011 on a per-student basis. Figure 30 displays the map of districts maximum levy authority on a per-student basis. Figure 31 maps, on a per-student basis, the actual amount of authority used (the amount levied and levy equalization payments combined). The two maps and the data below indicate many districts do not access their full authority.

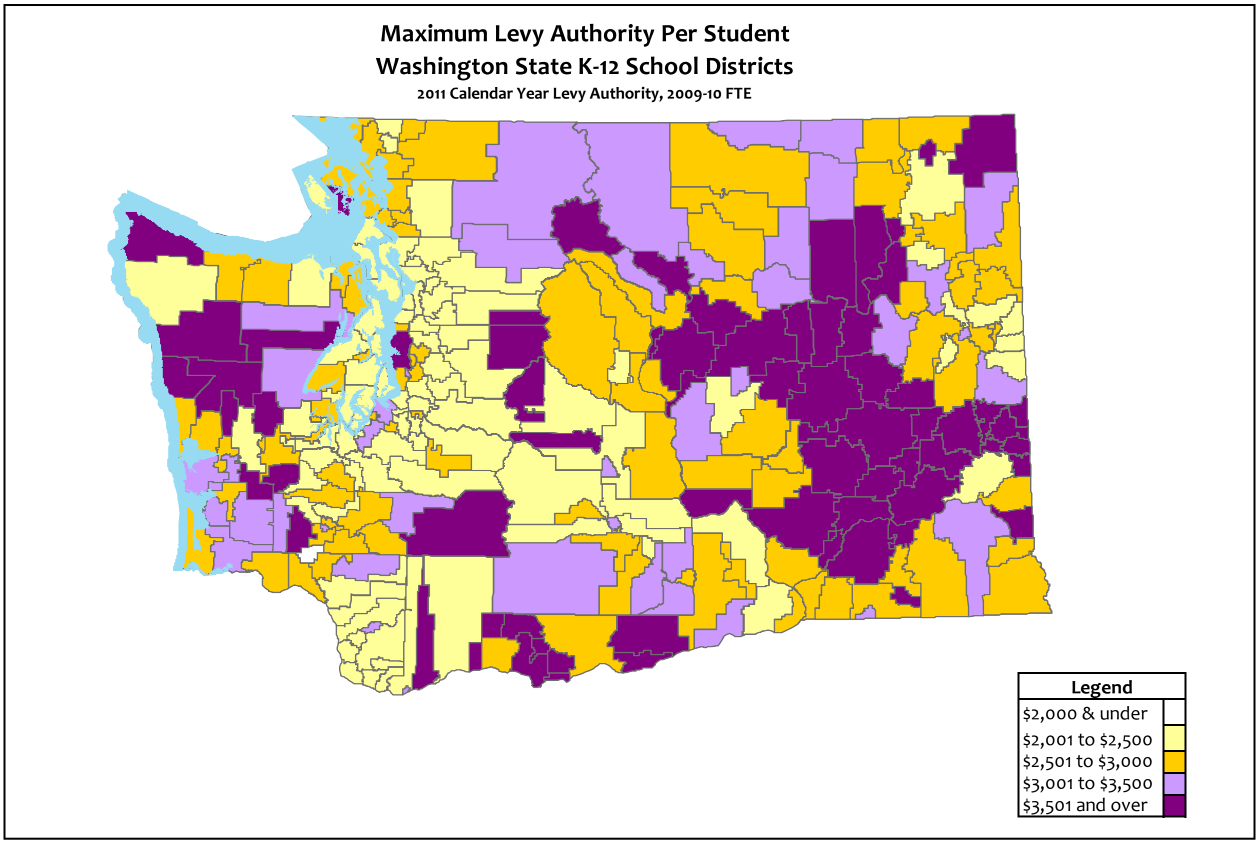

Figure 30: 2011 Calendar Year Levy Authority divided by 2009-10 FTEs. OSPI Data

The distribution of maximum levy authority per student (FTE) is as follows:

- $2,000 and under—0 districts serving 0 FTEs
  (0 percent of districts, 0 percent of students);
- $2,001 to $2,500—88 districts serving 575,687 FTEs
  (30 percent of districts, 58 percent of students);
- $2,501 to $3,000—95 districts serving 276,712 FTEs
  (32 percent of districts, 28 percent of students);
- $3,001 to $3,500—42 districts serving 79,584 FTEs
  (14 percent of districts, 8 percent of students); and
- $3,501 and above—70 districts serving 56,025 FTEs
  (24 percent of districts, 6 percent of students).
    - *However, this includes Seattle, which serves 43,467 FTEs (4 percent of students), the other 69 districts serve 12,558 FTEs (23 percent of districts, 1 percent of students).*

The data on actual approved levies and levy equalization amounts per-student indicates a different picture than provided on maximum authority. 73 percent of districts serving 84 percent of students combined levy and levy equalization amounts at or under $2,500.

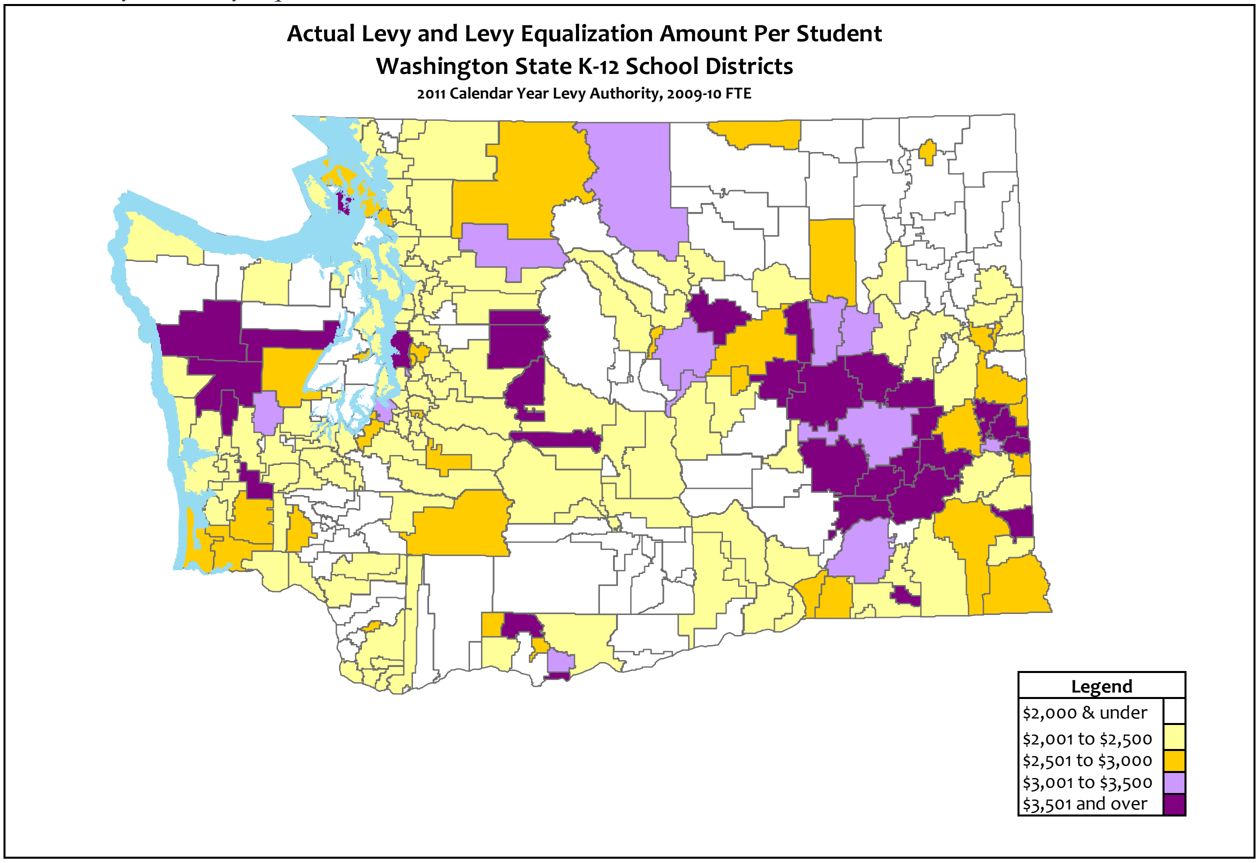

Figure 31: 2011 Calendar Year Levy and Levy Equalization Amounts Divided by 2009-10 FTEs. OSPI Data.

The distribution of actual levy and levy equalization amounts per-student (FTE) is as follows:

- $2,000 and under—94 districts serving 174,407 FTEs
  (32 percent of districts, 18 percent of students);
- $2,001 to $2,500—121 districts serving 647,459 FTEs
  (41 percent of districts, 66 percent of students);
- $2,501 to $3,000—36 districts serving 87,228 FTEs
  (12 percent of districts, 9 percent of students);
- $3,001 to $3,500—13 districts serving 32,460 FTEs
  (4 percent of districts, 3 percent of students); and
- $3,501 and above—31 districts serving 46,452 FTEs
  (11 percent of districts, 5 percent of students).
  - *However, this includes Seattle, which serves 43,467 FTEs (4 percent of students), the other 30 districts serve 2,984 FTEs*
    (10 percent of districts, less than 0.5 percent of students).

Establishing a Dollar Amount Creates Immediate Trade-Offs

- A relatively higher per pupil level ($3,500 or $3,000 per pupil, for example) would be the equivalent of a large levy lift for a significant number of districts. This large lid-lift would help alleviate the disparities in levy authority caused by grandfathering in the current system. For several districts, however, per-pupil limits at this level would be akin to not having a levy lid; tax rates for a maximum levy would likely be economically and politically prohibitive for some.

- A relatively lower per pupil level ($2,500 for example) would be the equivalent of a large levy reduction for many districts, especially those districts with grandfathered levy lids as well as those with grandfathered state salary allocations.

- For several districts, the change in approach would be irrelevant as they do not come close to tapping their full levy authority today and would likely continue to run levies below whatever levy authority limit might ultimately be established. There are a few common characteristics of larger districts (over 5,000 FTEs) that run a levy, but access no more than 75 percent of maximum levy authority: they are eligible for levy equalization, they serve above-average percentages of students eligible for free and reduced price lunch, and serve above-average percentages of students in the bilingual education program. There is a second, less common factor: some districts qualify for federal impact aid due to their close geographic proximity to a naval or military base.

- Not every district would benefit, or benefit proportionally. Under the current system, when the levy lid is lifted, all districts receive increased authority. Under a per-student flat amount, depending on the amount selected, some districts may gain significant authority while others remain the same or potentially lose authority.

- A potential transition to a per-pupil funding system poses a particular concern for rural school districts receiving funding from the small schools factor. These districts serve four percent of the state's students; their unique situation is discussed in depth on page 65.

To Grandfather or Not to Grandfather?

- The Working Group discussed an option of grandfathering certain districts at higher per-pupil levels to maintain their current M&O levy collections. The Working Group discussed this in the context of "red-circling" these districts. Under this idea, the red-circled districts would initially be allowed to maintain a higher levy amount per student. However, as the per-pupil rate grew for inflation or other factors, the red-circled districts would receive a smaller "growth" increase than the rest of the districts until such time as their per-pupil authority equaled the regular state rate. For example, if an annual per-pupil inflator was five percent, the red-circled districts would be allowed only a portion of the increase (two-and-a-half percent, for example) until state per-pupil rate caught up to the grandfathered rate.

Recognizing the Small Schools Factor for Rural Districts

As shown on the map in Figure 31, rural districts serving small student populations have higher current levy authorities on a per-student basis than the statewide average. This is because under the state's revenue-based levy system, these districts receive enhanced state funding through the small schools factor. This factor recognizes that districts with very small student enrollments have higher staffing costs, as they must provide a minimum level of staffing to provide the same educational services as a larger district. Under current law, the state's allocation for small schools factor is part of the state revenues in a district's levy base.

In a conversion to a per-pupil model, without an adjustment for small schools, these districts would be likely to lose local levy authority, translating into a real loss of local revenue and levy equalization funds. The Working Group explored a small schools factor for the per-pupil formula**. If a conversion to a per pupil model is considered, the Working Group recommends the new model ensure no reduction is made to small school districts' levy authority or levy equalization.** For modeling purposes, the Working Group included 28 percent of the small school factor into the levy authority for these districts.

Per Pupil Inflator

The Working Group recognizes that an increase factor is needed for the levy base to keep pace with increased local costs. The Working Group rejected a common inflation adjustment such as the Consumer Price Index (CPI) or Implicit Price Deflator (IPD) because school district costs often outpace average inflation. The largest school budget driver is compensation, and state-established pension contributions and health benefit costs often deviate from average inflation indexes. When the state adjusts funding allocations to reflect salary and benefit increases, a corresponding change in local levy authority is needed for districts to provide the same adjustments for their non-state-funded employees. Also, when the state increases funding for the level of staffing units, a corresponding adjustment in levy authority is needed. As more staff are hired, districts will continue to provide supplemental contracts to those new staff, pursuant to local collective bargaining agreements. Local levy funds are used to accomplish this. The Working Group recognizes the PPI as an important adjustment factor for recognizing inflationary increases and other cost increases over time.

The Working Group notes the year-over-year change in the state's basic education allocation would capture state-established adjustments in pensions and health care benefit allocations. The Working Group recommends the PPI continue to be divided by 0.55 to align the school year budget basis to calendar year levy authority.

Levy Equalization Impact

The Working Group strongly affirms the need for levy equalization to remain at fifty percent of levy authority, as it is administered currently. They noted the long-term policy has been to provide equalization at fifty percent of the established levy lid (excluding grandfathering). Aside from the initial change in the authority calculation, the underlying levy equalization calculation set at 50 percent of levy authority should continue.

Interplay with Levy Equalization—District Impact Depends on the Per-pupil Authority Established

The Working Group discovered a point in crossing over to a per-pupil model where some districts could lose levy equalization. Figure 32 illustrates the mechanics of how this could happen.

Currently, levy equalization is provided based on the district's property tax rate above the state average for a levy amount established at half of the levy lid, or 14 percent. As noted above, moving to a per-pupil model does not impact districts uniformly. Some would gain more authority and some could lose authority. However, the net impact of those gaining would increase the statewide average property tax rates when calculating levy equalization. This increase in the statewide average tax rate could cause some districts to lose levy equalization funding.

In the example below, Bellevue and Yakima are compared. Under current law, the statewide average rate for a 50 percent levy is $1.27. Yakima is equalized for the tax rate above that amount, or $3.20 per $1,000 of assessed value.

Under a $2,500 per-student levy model, the statewide average rate would increase, while Yakima's rate would decline. This would translate into $2.31 of equalization for $1,000 of assessed value, a 28 percent decrease in levy equalization for Yakima.

Under a $3,500 per-student levy model, the statewide average rate would increase, but so would Yakima's rate. This would translate into $3.30 of equalization for every $1,000 of assessed value, which is higher than the current equalization provided and a net gain in dollars for Yakima. The changes in levy equalization are relatively sensitive to changes in dollar-per-student funding under this option. *If such a levy model is considered by the Quality Education Council or the Legislature, particularly close attention needs to be made to the impacts on levy equalization.*

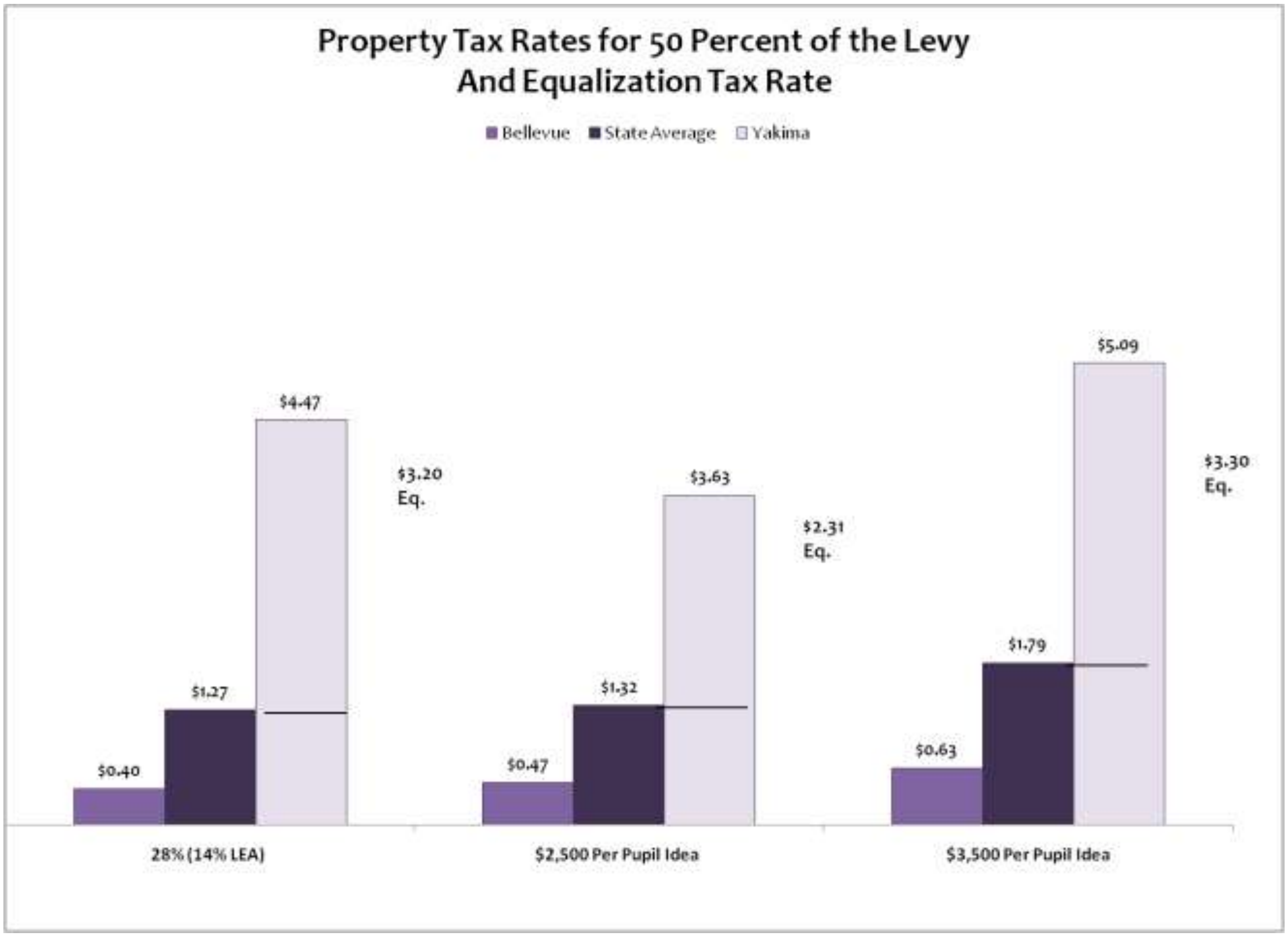

Figure 32: Property Tax Rates for a 50 Percent of the Levy Under a Per-Pupil Concept.
Based on 2010 Adjusted Total Assessed Value. OSPI Data

DISCUSSION OF OPTION 2: PER-PUPIL LEVY AUTHORITY FORMULA

POSSIBLE BENEFITS

- **Eliminates grandfathered districts and could allow for more equitable purchasing power across school districts.** A uniform, statewide per-pupil amount included in the levy authority calculation could potentially eliminate levy funding disparities between districts, especially variances caused by grandfathering.

  The per-pupil authority model would address two different elements of grandfathering:

  - First, if uniform per-pupil levy authority were provided, the authority differences under the current levy lid grandfathering would be eliminated.

- Second, because a per-pupil model would no longer be based on state revenues to each school district, the current state funding formula grandfathering of salary allocations would no longer compound into the levy base.

The Working Group would also recommend the per-pupil model include a formula adjustment for small-schools to preserve current levy authority to protect the purchasing power and provide fiscal stability for small districts.

- **Similarly, this option would no longer provide levy authority based on differences in districts categorical revenues or staff mix.** If local funding is to be purely supplemental to adequate state and federal funds, then a uniform levy amount per-student need not account for differential student needs or compensation differences between districts.

- **Greater simplicity and transparency**. A per-pupil levy authority system is simpler to administer and would be easier to communicate to local voters, the K-12 community, and policy makers. The level of levy authority could be established more explicitly by the Legislature through increases or decreases in the per-pupil amount.

- **De-links state budget decisions from authority to raise local revenues.** Under a per-student formula, during periods of state or federal budget reductions, districts would no longer need to seek Legislative adjustments to levy authority to avoid a "double-hit" to revenues—first a loss of the state or federal funding, compounded by a corresponding loss of levy authority.

POTENTIAL PITFALLS

- **A high per-pupil amount would increase levy authority and could create bargaining pressure**. Some districts would tap higher levy authority to address bargaining issues and/or provide more competitive compensation packages while others may not be able to levy at the higher authority level. This could result in larger disparities in compensation between districts.

- **A lower amount could reduce levy authority or levy equalization dollars for some districts**. This would hamper districts ability to meet their contractual obligations and provide the level of services their communities have already endorsed.

- **Voter rejection**. There could be pressure on tax rates and a potential for double levy failures if districts over-reach in setting their levy request above comfortable levels for voters.

- **Reduced pressure to implement HB 2261 and SHB 2776.** Working Group members noted if local districts increased the amount of levy revenue to be collected and put more money into core programs rather than supplemental activates, it might take the pressure off the Legislature to implement HB 2261/ SHB 2776. An unlimited levy provides an even greater opportunity or risk for the state to pass off the costs of education services to local school districts. Any levy creates an immediate structural tension between the state's authority to establish policy and who will pay the costs of administering the policies (example: health policies, data requirements, enrichment, and professional development).

- **No longer includes categorical funds or staff mix.** Districts costs are aligned with their student population need. As noted above, those with proportionally higher categorical populations have a higher levy base and therefore potentially higher access to local funding than districts with lower categorical enrollment. The higher needs translate into higher costs not just for regular education but also for supplementary services funded through the local levy, so there is a basis for local levy authority to follow categorical funding changes.

- **Levy equalization**. Depending on the amount of per student funding, the cost of the levy equalization program increases. Please see statewide totals on chart on page 72. Alternatively, converting to a lower amount per student may cause some districts to lose levy equalization funding.

- **Possible Disproportional Impact to Small Rural Districts.** This model requires a differential treatment of rural school districts eligible for the small school factor. Members raised concerns that if careful consideration was not provided for these districts, their levy authority would be disproportionately reduced, impacting the ability to meet unique educational needs for rural communities. Strong concern was raised about potential harm to these districts under a per-pupil model.

RECOMMENDATIONS

- **No Consensus**. The Working Group did not reach consensus. Several members raised strong concerns listed above while others viewed the concept favorably.

- **Per-Student Amount: High, not Low.** If considered, the Working Group recommends the per-pupil amount be high enough to resolve some inequities currently caused by grandfathered levy lids.

- **No District Should Lose Revenue.** If considered, the Working Group recommends that the per-pupil amount be set high enough so districts do not lose revenue. Districts currently levying above the selected level should be allowed to continue at their current rate. The alternative of bringing down their authority would result in on-the-ground budget reductions.

- **Careful Consideration of Levy Equalization Impacts**. If this considered, careful consideration must be given to ensure districts do no lose levy equalization funds due to the shift in the model (as opposed to normal shifts due to changes in total assessed value).

- **Needs of Small Rural School Districts Must Be Recognized**. If this concept is considered, careful consideration must be made to ensure small rural districts do no lose levy authority or levy equalization funds due to the shift in the model (as opposed to normal shifts due to changes in total assessed value).

Table 14: Maximum Levy Authority-- Dollars in Millions					
District	2011 Current Law	$2,500	$2,750	$3,000	$3,500
Auburn	$33	$34	$37	$41	$47
Battle Ground	$30	$32	$35	$39	$45
Bellevue	$47	$44	$47	$51	$59
Central Kitsap	$27	$28	$31	$34	$39
Central Valley	$28	$31	$34	$37	$43
Everett	$45	$45	$49	$54	$63
Highline	$46	$43	$47	$51	$60
Issaquah	$35	$40	$44	$48	$56
Kennewick	$37	$37	$41	$44	$52
Mukilteo	$33	$34	$38	$41	$48
North Thurston	$32	$33	$37	$40	$47
Pasco	$36	$34	$37	$41	$48
Renton	$35	$34	$37	$41	$47
Yakima	$43	$35	$38	$42	$49
Statewide	**$2,575**	**$2,563**	**$2,783**	**$3,010**	**$3,475**

Table 15: Tax Rates for Calculating Levy Equalization. $1/$1,000 of Total Assessed Value Assumes 50% Levy Equalization					
District	2011 Current Law	$2,500	$2,750	$3,000	$3,500
Auburn	$1.55	$1.62	$1.78	$1.94	$2.26
Battle Ground	$2.20	$2.39	$2.63	$2.87	$3.35
Bellevue	$0.40	$0.47	$0.50	$0.54	$0.63
Central Kitsap	$1.74	$1.80	$1.98	$2.16	$2.52
Central Valley	$1.94	$2.11	$2.32	$2.53	$2.95
Everett	$1.33	$1.34	$1.47	$1.60	$1.87
Highline	$1.37	$1.32	$1.45	$1.58	$1.84
Issaquah	$0.79	$0.94	$1.03	$1.13	$1.31
Kennewick	$3.00	$3.02	$3.33	$3.63	$4.23
Mukilteo	$1.12	$1.15	$1.26	$1.38	$1.60
North Thurston	$1.39	$1.46	$1.61	$1.76	$2.05
Pasco	$4.14	$3.96	$4.36	$4.75	$5.55
Renton	$0.88	$0.89	$0.97	$1.06	$1.24
Yakima	$4.47	$3.63	$4.00	$4.36	$5.09
Statewide	**$1.27**	**$1.32**	**$1.43**	**$1.55**	**$1.79**

Table 16: Maximum Levy Equalization Dollars in Millions					
District	2011 Current Law	$2,500	$2,750	$3,000	$3,500
Auburn	$2.9	$3.1	$3.6	$4.0	$4.9
Battle Ground	$6.3	$7.2	$8.1	$8.9	$10.5
Bellevue	n/a	n/a	n/a	n/a	n/a
Central Kitsap	$3.7	$3.7	$4.3	$4.7	$5.7
Central Valley	$4.9	$5.7	$6.4	$7.1	$8.4
Everett	$1.0	$0.3	$0.6	$0.9	$1.3
Highline	$1.6	$0.0	$0.2	$0.5	$0.9
Issaquah	n/a	n/a	n/a	n/a	n/a
Kennewick	$10.6	$10.4	$11.6	$12.7	$15.0
Mukilteo	n/a	n/a	n/a	n/a	n/a
North Thurston	$1.4	$1.6	$2.0	$2.3	$3.0
Pasco	$12.3	$11.3	$12.6	$13.8	$16.1
Renton	n/a	n/a	n/a	n/a	n/a
Yakima	$15.3	$11.1	$12.3	$13.5	$15.8
Statewide	**$312**	**$300**	**$330**	**$362**	**$426**

Table 17: Tax Rates for Maximum Authority. Assumes 50% Levy Equalization					
District	2011 Current Law	$2,500	$2,750	$3,000	$3,500
Auburn	$2.92	$2.93	$3.21	$3.49	$4.05
Battle Ground	$3.47	$3.71	$4.07	$4.42	$5.14
Bellevue	$0.99	$0.93	$0.99	$1.08	$1.26
Central Kitsap	$3.01	$3.12	$3.41	$3.71	$4.31
Central Valley	$3.20	$3.43	$3.75	$4.08	$4.74
Everett	$2.59	$2.65	$2.90	$3.15	$3.66
Highline	$2.73	$2.63	$2.88	$3.13	$3.63
Issaquah	$1.64	$1.87	$2.06	$2.25	$2.62
Kennewick	$4.27	$4.34	$4.76	$5.18	$6.02
Mukilteo	$2.24	$2.29	$2.52	$2.75	$3.21
North Thurston	$2.65	$2.78	$3.04	$3.31	$3.84
Pasco	$5.41	$5.28	$5.79	$6.30	$7.34
Renton	$1.82	$1.77	$1.95	$2.12	$2.48
Yakima	$5.73	$4.95	$5.43	$5.91	$6.87
Statewide	**$2.33**	**$2.33**	**$2.53**	**$2.73**	**$3.14**

New Challenges and Opportunities Posed by Enhanced State Funding (Options 3 and 4)

The Legislature directed the Working Group to:

- Conduct an analysis on the potential use of local funds that may become available for redeployment and redirection as a result of increased state funding allocations for pupil transportation and maintenance, supplies, and operating costs (MSOC) *(Section 6, SHB 2776, Chapter 236, Laws of 2010).*

Two different approaches were explored by the Working Group to address impacts of enhanced MSOC and transportation funds on local levy authority.

- The first focused solely on adjusting local levy authority as a result of greater state resources. Option 3 discusses this approach in detail.
- The second considered achieving the state enhanced funding through a state and local property tax shift. Senate Bill 6858 of the 2010 legislative session provided the framework for this approach. Option 4 discusses this in detail and provides a primer of the state property tax.

Policy Debate on State and Local Goals of the Enhanced Allocations

Both approaches intersect with a debate on the policy goals of the phased in allocations included in Chapter 548, Laws of 2009 (ESHB 2261) and Chapter 236, Laws of 2010 (SHB 2776). The central policy debate centers around the answer to this question: What is the over-arching goal of the enhanced state allocations?

- Is the goal to provide more state and local funding in total to K-12 education? Under this goal, the enhanced allocations would increase the levy base and increase levy authority. In addition to the levy authority increase, districts would reprogram the local funds currently spent on transportation and MSOC to other local priorities; or,
- Is the goal to increase state funding for K-12 education, but keep the amount of local revenue around the same level as currently generated? This would require some adjustments to levy authority calculations; or,
- Is the goal to increase state revenues for MSOC and pupil transportation and coordinate the increase with reduction in local revenue collection? This would also require some adjustments to the levy authority calculations.

This specific charge assumes combined local and state funding is adequate for meeting local community needs and that if one source increases the other can decrease. The Working Group disagreed with this assumption. Though state and local funding have historically been linked, Working Group members did not agree that an increase in state funds necessitates a corresponding decrease in local funding. Further, the Working Group raised concerns about the focus of this charge as it only addresses MSOC and pupil transportation revenues, not districts' revenue needs as a whole. Members consistently pointed to a series of recent funding reductions taken during the 2009-11 and 2011-13 biennium (such as the K-4 class size ratio and the suspension of I-728 funds). Districts are currently adjusting to these reductions. Working Group members highlighted earlier funding reductions from the 2000's, which they believe eroded districts' purchasing power. They are concerned the total amount of funding available through state and local sources does not support the communities' level of desired education services. The Working Group thinks that, while important, state enhancements to MSOC and transportation will not offset the need for supplemental funding through levies. **The Working Group opposes an application of a dollar-for-dollar reduction to levy authority based on the enhanced MSOC and transportation funds. As new funds are phased in, the Working Group opposes any reduction to the amount of local revenues districts currently raise—a district should retain, at minimum, its current levy authority.**

With regard to Options 3 and 4 concerning enhanced state funding, the Working Group determined it was premature to specify or recommend a specific adjustment to local levy authority based on three compelling factors:

- A new state compensation working group will convene after this report is submitted to the Legislature. Compensation accounts for a significant share of school district expenditures. Any substantive compensation changes will dramatically affect the needs and uses of local levy funds.
- The Legislature's phase in of enhanced funding for SHB 2776 is still to be determined.
- Operating costs to the district are projected to increase due to forecasted increases in enrollment, inflation increases, and other factors. Further, state and federal budget reductions will limit the amount of revenues available for programs.

Working Group members observed increased allocations for transportation and MSOC will impact districts differently than increases in state allocations for compensation. When the state provides more funding for compensation increases, it is directly tied to increased pension or health benefits and cost-of-living increases. These costs go up for all employees, and a corresponding increase in levy authority recognizes those costs. MSOC and transportation revenues are different. An increase in state revenue specifically for MSOC and transportation does not drive a corresponding increase in local costs.

The Working Group members pointed out several other areas likely to be funded with local levy dollars, even as the phase in of transportation and MSOC frees up district revenues. Here are a few:

- **Supplementing other SHB 2776 Enhancements:** As class sizes decrease and full-day kindergarten is phased in, more classrooms and staff will be needed. Specifically:
    - As more classrooms become operational, MSOC revenues will not increase. Pursuant to the new formula, MSOC is per student, not per teacher. Additional classrooms come with a need for more MSOC, particularly for utilities, insurance, and maintenance, and districts will rely on local funds.
    - As class sizes are reduced and new staff members are hired, districts will continue to provide supplemental contracts to those new staff pursuant to local collective bargaining agreements. Local levy funds are used to accomplish this.
    - Depending on the phase in and the compensation package put forth by the Legislature, the Working Group believed it could be appropriate for local levy authority to increase by the full amount of new state funding. However members felt it was not prudent to make a recommendation of an amount at this time without

additional information.

- **Restoring District Budget Reductions:** Districts have implemented a variety of budget reductions over the past few years, such as postponed curriculum adoptions, reduced staffing levels, and reduced supplementary services for students. Districts will likely attempt to restore these programs if total revenues increase.

- **Enrichment:** Districts could also use freed-up funds to enrich educational services, student support services, and enhance extra-curricular and community-based activities.

BACKGROUND: FORMULA CHANGES & ENHANCEMENTS TO MSOC AND PUPIL TRANSPORTATION

Chapter 548, Laws of 2009 (ESHB 2261) and Chapter 236, Laws of 2010 (SHB 2776), both restructure K-12 funding formulas. The following provides a brief description of the formula changes and proposed enhancements.

Maintenance, Supplies, and Operating Costs (MSOC)

Chapter 548, Laws of 2009 (ESHB 2261) and Chapter 236, Laws of 2010 (SHB 2776) also established a new funding allocation model based on prototypical schools. The new formula for general apportionment includes an allocation for MSOC. The formula change goes into effect September 1, 2011.

Chapter 236, Laws of 2010 (SHB 2776) established in statute a per student allocation rate for MSOC of $517.91 based on the levels provided for 2008-09 school year. It establishes a rate for the 2015-16 school year of $1,082.76, based on 2007-08 school year expenditures, to be phased in over five years starting in the 2011-13 biennium and ending in the 2015-16 school year. Table 18 provides the specific allocations. The Working Group notes the values for the 2015-16 allocations were based on actual expenditures from 2007-08. They also highlight ongoing conversations about what the values *should be* by the members of the Funding Formula Technical Working Group and the Quality Education Council.

Table 18: MSOC Values*
for Annual Average Full-Time Equivalent Students

	Category	Per Student Allocation (2008-09 School Year Dollar Values)	2015-16 Allocations (2007-08 School Year Dollar Values)
1.	Technology	$54.43	$113.80
2.	Utilities and Insurance	$147.90	$309.21
3.	Curriculum and Textbooks	$58.44	$122.17
4.	Other Supplies and Library Materials	$124.07	$259.39
5.	Instructional Professional development for Certificated and Classified Staff	$9.04	$18.89
6.	Facilities Maintenance	$73.27	$153.18
7.	Security and Central Office	$50.76	$106.12
	Total	**$517.91**	**$1,082.76**

***Values As Codified in Section 2 of SHB 2776, Chapter 236, Laws of 2010**

OSPI's fiscal note for SHB 2776 included inflation adjustments (using the implicit price deflator) for both rates to reflect current dollar values. It estimated $682.5 million of increased allocations for fully phasing in the formula in the 2015-16 school year. The fiscal note assumed a corresponding offset of $682.5 million in districts funding of MSOC.

Pupil Transportation
ESHB 2261 and SHB 2776 also established a new formula for allocating funds to districts for student transportation, and included a phase in schedule for full implementation of the new formula.

Up through the 2010-11 school year, student transportation allocations are calculated using a statewide amount per weighted radius mile, the districts' number of students transported, and the distances between route stops and schools.

The new formula, effective September 1, 2011, is an expected cost model. The funding for pupil transportation will be calculated using a regression analysis of major cost factors that are expected to increase (or decrease) the prior year's costs, including basic and special student ridership, district land area (geography), roadway miles, the average distance to school, and other statistically significant coefficients.

Per Section 8 of SHB 2776 the phase in of enhanced state funding under the new formula "shall begin no later than the 2011-13 biennium and be fully implemented by the 2013-15 biennium." OSPI's 2010 fiscal note for SHB 2776 estimated the $160 million increased allocations once the formula is fully phased in. The fiscal note assumed a corresponding offset of $160 million in districts funding of transportation.

MODELING ASSUMPTIONS

This report consistently uses 2009-10 enrollment and financial data as well as calendar year 2011 levy authority data. The following analysis for Options 5 and 6 continue that methodology. Both options model full phase in of the MSOC enhancements and pupil transportation expected cost model as though applied in school year 2009-10. Corresponding adjustments to calendar year 2011 levy authority are modeled.

- **Inflation Adjustments to the MSOC Values**
  For consistent comparison of MSOC values for the 2009-10 school year, the MSOC values of Table 18 were adjusted by inflation (US implicit price deflator or IPD). Per student allocation for 2008-09 was increased to $524.45, to reflect the 1.26 percent change in IPD between fiscal year 2009 and fiscal year 2010. The 2015-16 allocation was increased to $1,112.60 to reflect a 2.76 percent increase in IPD between fiscal year 2008 and fiscal year 2010. For the 2009-10 School Year the difference in per-student rates would be $588.15, increasing total state allocations for MSOC by $581 million.

- **Note: Key Limitations with Pupil Transportation Data**
  OSPI's implementation of the funding formula is still in process. The 2008 consultant's report on expected cost model included a district analysis based on the 2006-07 school year. Using the consultant's model, and adjusting for OSPI's draft rules, in the 2006-07 school year the full phase in would have increased state transportation allocations by $89 million. This is converted to 2009-10 dollar values of $95 million by increasing the amount 6.15 percent based on IPD inflation. *This analysis is illustrative only,* as the values from five years earlier no longer reflect shifts in district enrollment, regression inputs (cost drivers), and expenditures. As such, the allocations represented in the tables *do not* represent allocations to be provided to districts under the new formula once fully phased in.

Impact of Enhanced State Allocations on Total State Allocations
Examples for Illustrative Purposes

Table 19 provides the detail of the sample districts and the projected amounts for 2009-10 school year if the districts had received the fully-phased in enhanced allocations. Note, for this illustration the MSOC calculations only apply to regular enrollment. It does not address corresponding adjustments in the following areas: Special Education, Career and Technical Education, and Skills Centers. Also, 2009-10 allocations exclude any student achievement funds, as they were provided through the federal stimulus state fiscal stabilization funds.

Table 19: 2009-10 State Allocations and Hypothetical Enhanced Allocations Dollars in Millions

District	2009-10 Actual State Allocations *excludes LEA	Enhanced Projection for MSOC (2009-10)	Enhanced Projection for Transportation (2009-10)	TOTAL	Percent Increase from Actual
Auburn	$85	$8	$2	$95	12%
Battle Ground	$76	$8	$1	$85	11%
Bellevue	$101	$10	$2	$113	12%
Bethel	$103	$10	$2	$114	11%
Central Kitsap	$70	$7	$1	$78	12%
Central Valley	$71	$ 7	$1	$79	11%
Everett	$118	$11	$2	$131	11%
Highline	$111	$10	$1	$123	10%
Issaquah	$95	$9	$2	$106	12%
Kennewick	$92	$9	$2	$102	11%
Mukilteo	$90	$8	$2	$100	11%
North Thurston	$81	$8	$1	$90	11%
Pasco	$81	$8	$1	$91	12%
Renton	$86	$8	$1	$96	11%
Yakima	$90	$8	$0.2	$98	9%
Statewide	**$6.2 Billion**	**$581**	**$95**	**$6.9 Billion**	**11%**

Option 3: Enhanced State Funding and Levy Authority

The Working Group recognizes an increase in state funding would, under the current levy structure, increase local levy authority. The Working Group noted the competing and overlapping policy goals of the enhanced allocations and modeled implementation scenarios for Option 3. These ranged from increasing levy authority as a result of the enhanced funds to reducing levy authority.

Three Scenarios

1) **Levy Authority Increases as State Funds Increase.** 100 percent of the enhanced funds are incorporated into the levy base and the levy lid remains at 28 percent. This increases levy authority for all districts.
2) **Levy Authority Stays the Same.** The enhanced funds are included in the levy base and the levy lid is reduced to 26 percent. Levy equalization would be set at 13 percent. This would generate approximately the same maximum levy authority as provided in calendar year 2011.
3) **Levy Authority is Reduced.** The enhanced funds are included in the levy base and the levy lid is reduced to 18.7 percent. Levy equalization would be set at 9.35 percent. This effectively swaps maximum local levy authority with the enhanced state revenues.

Working Group's Conclusions:

- **The Working Group opposed an application of a dollar-for-dollar reduction to levy authority based on the enhanced MSOC and transportation funds. As new funds are phased in, the Working Group opposes any reduction to the amount of local revenues districts currently raise.**
  - A dollar-for-dollar swap assumes combined local and state funding is adequate for meeting community needs and that if one source increases the other can decrease. The Working Group disagrees with that assumption.
  - A reduction in local levy authority would limit districts ability to spend local funds. In particularly, this would constrain the districts currently tapping their full levy authority. Under this reduced local funding scenario, districts access to local revenue would be limited, and as a result, their ability to meet their collective bargaining agreements could be impacted.
  - A reduction in local levy authority prevents districts from receiving the revenues approved by the community through the election process.

- **All districts should retain the ability to levy, at minimum, the amount permissible under current law.** The enhanced funding options address two areas of local funding use: MSOC and pupil transportation. Additionally, the other areas of focus for SHB 2776 are on K-3 class sizes and full-day kindergarten programs. The Working Group notes the enhanced state revenues would not offset current budget pressures experienced by districts. For example:
  - Operating a high school. This includes the need to provide a full range of courses and extra-curricular activities. The members noted the increasing costs of extra-curricular activities due to increases in gas prices, athletic fees, and other items.
  - Items negotiated under collective bargaining.

- Programs for which district operational costs exceed state or federal funding allocations and which are not addressed by SHB 2776.

- **Depending on the phase in of SHB 2776 and the compensation package put forth by the Legislature, the Working Group believed it could be appropriate for local levy authority to increase by the full amount of new state funding.** As class sizes decrease and full-day kindergarten is phased in, more classrooms and staff will be needed. Specifically:
  - As more classrooms become operational, MSOC revenues will not increase. Pursuant to the new formula, MSOC is per student, not per teacher. Additional classrooms come with a need for more MSOC, particularly for utilities, insurance, and maintenance, and districts will rely on local funds.
  - As class sizes are reduced and new staff members are hired districts will continue to provide supplemental contracts to those new staff, pursuant to collective bargaining agreements. Local levy funds are used to accomplish this.
  - Depending on the phase in and the compensation package put forth by the Legislature, the Working Group believed it could be appropriate for local levy authority to increase by the full amount of new state funding. However members felt it was not prudent to make a recommendation of an amount at this time without additional information.

- **The Working Group was not able to prepare detailed options or develop a specific consensus around the level of local authority (i.e. any possible adjustment to the levy lid) for the following reasons:**
  - The state compensation working group will convene after this report is submitted to the Legislature. Unknown at this time is what their findings will be and how the Legislature will respond.
  - The Legislature's phase in of enhanced funding for SHB 2776 is still to be determined.
  - Operating costs to the district are projected to increase due to forecasted increases in enrollment, inflation, and budget reductions at the state and federal level.

Analysis

Tables 20 through 27 provide examples of how overall state funding, levy equalization, and levy collections would each be impacted under the three scenarios. All scenarios assume the levy base is increased by the enhanced state funding. The scenarios assume a four percent per-pupil inflator, as provided for calendar year 2011 in the 2010 Omnibus Appropriations act. The levy lid and the amount of levy equalization is adjusted depending on the scenario: (1) increased levy authority, (2) flat levy authority, or (3) reduced levy authority.

Table 20 provides a statewide summary of the impact of the scenarios.

Table 20: State Summary of a Levy Authority Scenarios Levy Lid Changes Based on Scenario. Levy Equalization at 50 percent of Levy Lid.	Current Law for Calendar Year 2011	Scenario 1: Increased Levy Authority	Scenario 2: Flat Levy Authority	Scenario 3: Levy Authority Declines when State Enhances Funding
Levy Lid	**28%**	**28%**	**26%**	**18.70%**
Statewide Average Levy Lid	29.32%	29.32%	27.32%	20.02%
Number of Grandfathered Districts	90	90	90	90
Statewide Maximum Tax Rate ($1/$1,000)	$2.65	$2.87	$2.68	$1.96
Maximum Levy Authority Revenue	$2.574 B	$2.788 B	$2.597 B	$1.904 B
Number of Districts with Rollback, or Additional Voter Approved Authority Beyond Levy Lid	18	5	19	156
Levy Equalization Amount	**14%**	**14%**	**13%**	**9.35%**
Maximum Amount of Levy Equalization	$312 m	$336 m	$312 m	$224 m
Number of Districts Eligible for Levy Equalization	234	233	233	233
Statewide Average Tax Rate for Levy Equalization	$1.27	$1.37	$1.27	$0.92
Districts with Decline in Levy Equalization	0	60	60	55

Table 21 provides the impact on maximum levy authority on the sample districts.

Table 21: Maximum Levy Authority Under Scenarios Dollars in Millions				
District	Current Law for Calendar Year 2011	Scenario 1: Increased Levy Authority	Scenario 2: Flat Levy Authority	Scenario 3: Levy Authority Declines when State Enhances Funding
Auburn	$33	$36	$34	$25
Battle Ground	$30	$32	$30	$22
Bellevue	$47	$51	$48	$37
Bethel	$42	$46	$42	$31
Central Kitsap	$27	$30	$28	$20
Central Valley	$28	$31	$28	$20
Everett	$27	$30	$28	$20
Highline	$46	$49	$46	$33
Issaquah	$35	$39	$36	$26
Kennewick	$37	$40	$37	$27
Mukilteo	$33	$36	$34	$24
North Thurston	$32	$34	$32	$23
Pasco	$36	$38	$36	$26
Renton	$35	$38	$35	$26
Yakima	$43	$45	$42	$30
Statewide Average	**$2,575**	**$2,788**	**$2,598**	**$1,904**

Table 22 provides the impact on maximum levy equalization amounts for the sample districts. This table assumes levy equalization will continue at 50 percent of the levy lid, so if the levy lid is reduced, the percent equalized also is reduced.

Table 22: Maximum Levy Equalization Under Scenarios (Assumes 50% of Levy Lid) Dollars in Millions

District	Current Law for Calendar Year 2011	Scenario 1: Increased Levy Authority	Scenario 2: Flat Levy Authority	Scenario 3: Levy Authority Declines when State Enhances Funding
Auburn	$3	$3	$3	$2
Battle Ground	$6	$7	$6	$5
Bellevue	N/A	N/A	N/A	N/A
Bethel	$7	$8	$7	$5
Central Kitsap	$4	$4	$4	$3
Central Valley	$5	$5	$5	$4
Everett	$4	$4	$4	$3
Highline	$2	$2	$2	$1
Issaquah	N/A	N/A	N/A	N/A
Kennewick	$11	$12	$11	$8
Mukilteo	N/A	N/A	N/A	N/A
North Thurston	$1	$2	$1	$1
Pasco	$12	$13	$12	$9
Renton	N/A	N/A	N/A	N/A
Yakima	$15	$16	$15	$11
Statewide Average	**$312**	**$336**	**$312**	**$224**

Table 23 displays the dollar amount of would be levied based on the adjustments to the levy lid. The total amount levied excludes levy equalization payments. It is either the maximum amount approved by voters, or the maximum amount allowed by the levy lid, whichever is lower. For many of the sample districts below, the increased authority provided under Scenario 1 would not impact the projected levy amount, at least based on voter approval for calendar year 2011. Issaquah and Everett are exceptions. However, almost all districts would lose local revenue under Scenario 3, which lowers the lid to effectively deduct 100 percent of the enhanced funding from the levy authority.

Table 23: Projected Amount Levied Under Scenarios Dollars in Millions

District	Current Law for Calendar Year 2011	Scenario 1: Increased Levy Authority	Scenario 2: Flat Levy Authority	Scenario 3: Levy Authority Declines when State Enhances Funding
Auburn	$29	$29	$29	$22
Battle Ground	$21	$21	$21	$17
Bellevue	$44	$44	$44	$37
Bethel	$30	$30	$30	$26
Central Kitsap	$17	$17	$17	$17
Central Valley	$23	$24	$23	$17
Everett	$17	$17	$17	$17
Highline	$38	$38	$38	$32
Issaquah	$35	$38	$36	$26
Kennewick	$19	$19	$19	$19
Mukilteo	$32	$32	$32	$24
North Thurston	$28	$28	$28	$22
Pasco	$18	$18	$18	$17
Renton	$29	$29	$29	$26
Yakima	$13	$13	$13	$13
Statewide Average	**$1,933**	**$1,945**	**$1,937**	**$1,904**

Table 24 displays the total amount of actual state allocations for 2009-10 as well as calendar year 2011 local amounts levied and levy equalization funds.

Table 24: Combined State and Local Revenues—Actuals
Dollars in Millions
2009-10 District Data, 2010 Adjusted Assessed Value, 2011 Calendar Year Levies

	(1) 2009-10 Actual State	(2) 2011 Levy Equalization	(3) 2011 Amount Levied	TOTAL
Auburn	$85	$2.9	$29.4	$117
Battle Ground	$76	$6.3	$20.5	$103
Bellevue	$101	N/A	$43.9	$145
Bethel	$103	$7.2	$29.9	$140
Central Kitsap	$70	$3.7	$16.8	$90
Central Valley	$71	$4.9	$23.6	$99
Everett	$118	$1.0	$43.6	$163
Highline	$111	$1.6	$37.8	$151
Issaquah	$95	N/A	$35.1	$130
Kennewick	$92	$10.6	$19.3	$121
Mukilteo	$90	N/A	$32	$122
North Thurston	$81	$1.4	$27.5	$110
Pasco	$81	$12.3	$18.5	$112
Renton	$86	N/A	$29.0	$115
Yakima	$90	$15.3	$12.7	$118
Statewide Total	**$6.2 Billion**	**$305**	**$1.93 Billion**	**$8.4 Billion**

Table 25 provides the total net change in funds under Scenario 1 of keeping the current levy lid of 28 percent. Columns 1 through 5 break out the amounts. Column 6 provides a net difference from actual allocations and collections. All districts would gain under this scenario, netting an average increase of 8 to 9 percent. Most of the funding is from the increased allocations. A limited few would benefit from increased levy collection. Several would benefit from increased levy equalization payments.

Table 25: Combined State and Projected Local Revenues Under Scenario 1: Lid at 28 Percent, Levy Equalization at 14 Percent Dollars in Millions

2009-10 District Data, 2010 Adjusted Assessed Value, 2011 Calendar Year Levies

District	(1) 2009-10 State Allocations	(2) State Enhancements to Allocations	(3) Projected Amount Levied in 2011	(4) Projected Levy Equalization in 2011	(5) Total	(6) Net Change from 2009-10 & 2011 Levy
Auburn	$85	$10	$29	$3	$127	$10
Battle Ground	$76	$9	$21	$7	$112	$9
Bellevue	$101	$12	$44	N/A	$157	$12
Bethel	$103	$12	$30	$8	$152	$12
Central Kitsap	$70	$8	$17	$4	$99	$8
Central Valley	$71	$8	$24	$5	$108	$9
Everett	$70	$8	$17	$4	$99	$8
Highline	$111	$12	$38	$2	$162	$12
Issaquah	$95	$11	$38	N/A	$144	$14
Kennewick	$92	$10	$19	$12	$133	$11
Mukilteo	$90	$10	$32	N/A	$132	$10
North Thurston	$81	$9	$28	$2	$120	$9
Pasco	$81	$9	$18	$13	$122	$10
Renton	$86	$9	$29	N/A	$125	$9
Yakima	$90	$8	$13	$16	$127	$9
Statewide Average	**$6,184**	**$676**	**$1,945**	**$328**	**$9,132**	**$709**

Table 26 provides the total net change in funds under Scenario 2, which would reduce the levy lid so that maximum levy authority approximated the actual maximum authority from calendar year 2011. The goal of scenario 2 is to keep maximum levy authority at the amount currently set for calendar year 2011. Under the scenario, as the state enhanced funding, the local levy authority would remain flat through a levy lid reduction.

Columns 1 through 5 break out the full amounts. Column 6 provides a net difference from actual allocations and collections. As with Scenario 1, all districts would gain under Scenario 2. The average is 8 percent. However, all of the funding is from the enhanced state allocations as local levy authority is not increased.

Table 26: Combined State and Projected Local Revenues Under Scenario 2: Lid at 26 Percent, Levy Equalization at 13 Percent Dollars in Millions

2009-10 District Data, 2010 Adjusted Assessed Value, 2011 Calendar Year Levies

District	(1) 2009-10 State Allocations	(2) State Enhancements to Allocations	(3) Projected Amount Levied in 2011	(4) Projected Levy Equalization in 2011	(5) Total	(6) Net Change from 2009-10 & 2011 Levy
Auburn	$85	$10	$29	$3	$127	$10
Battle Ground	$76	$9	$21	$6	$112	$9
Bellevue	$101	$12	$44	N/A	$157	$12
Bethel	$103	$12	$30	$7	$151	$12
Central Kitsap	$70	$8	$17	$4	$98	$8
Central Valley	$71	$8	$23	$5	$107	$8
Everett	$70	$8	$17	$4	$98	$8
Highline	$111	$12	$38	$2	$162	$11
Issaquah	$95	$11	$36	N/A	$142	$12
Kennewick	$92	$10	$19	$11	$132	$10
Mukilteo	$90	$10	$32	N/A	$132	$10
North Thurston	$81	$9	$28	$1	$119	$9
Pasco	$81	$9	$18	$12	$122	$9
Renton	$86	$9	$29	N/A	$125	$9
Yakima	$90	$8	$13	$15	$126	$8
Statewide Average	**$6,184**	**$676**	**$1,937**	**$306**	**$9,102**	**$679**

Table 27 provides the total net change in funds under Scenario 3, Scenario 3, which lowers the lid 18.7 percent to effectively deduct the enhanced funding from the districts' maximum levy authority.

Columns 1 through 5 break out the full amounts. Column 6 provides a net difference from actual allocations and collections. Most districts would experience a net gain, though the magnitude smaller than Scenario 1. For example, Central Valley would not gain any significant amount of revenue. The statewide total growth is projected at 3 percent, although many districts net growth is closer to 1.5 percent.

Table 27: Combined State and Projected Local Revenues Under Scenario 3: Lid at 18.7 Percent, Levy Equalization at 9.35 Percent Dollars in Millions

2009-10 District Data, 2010 Adjusted Assessed Value, 2011 Calendar Year Levies

District	(1) 2009-10 State Allocations	(2) State Enhancements to Allocations	(3) Projected Amount Levied in 2011	(4) Projected Levy Equalization in 2011	(5) Total	(6) Net Change from 2009-10 & 2011 Levy
Auburn	$85	$10	$22	$2	$119	$2
Battle Ground	$76	$9	$17	$5	$106	$3
Bellevue	$101	$12	$37	N/A	$151	$5
Bethel	$103	$12	$26	$5	$145	$5
Central Kitsap	$70	$8	$17	$3	$97	$7
Central Valley	$71	$8	$17	$4	$99	$0
Everett	$70	$8	$17	$3	$97	$7
Highline	$111	$12	$32	$1	$156	$6
Issaquah	$95	$11	$26	N/A	$132	$2
Kennewick	$92	$10	$19	$8	$128	$7
Mukilteo	$90	$10	$24	N/A	$124	$2
North Thurston	$81	$9	$22	$1	$113	$3
Pasco	$81	$9	$17	$9	$116	$4
Renton	$86	$9	$26	N/A	$121	$6
Yakima	$90	$8	$13	$11	$122	$4
Statewide Total	**$6,184**	**$676**	**$1,604**	**$222**	**$8,685**	**$263**

Option 4: State and Local Property Tax Shift (Not Recommended)

The previous section discusses adjustments to levy authority as the state phases in enhanced funding for MSOC and pupil transportation. The Working Group also explored achieving the state enhanced funding through a state and local property tax shift. Senate Bill 6858 of the 2010 legislative session provided the framework for this option.

The Working Group benefited from the assistance provided by Department of Revenue staff in understanding the mechanics and limitations of the state property tax. The following primer is provided for context.

Primer on the State Property Tax

The state property tax levy is dedicated for public schools and is frequently called the state school levy. Unlike the M&O levy, it is a regular levy and does not need voter approval as the state Legislature authorizes the levy. However, there are statutory and constitutional limits on the state property tax levy.

Constitutional Limits
In brief terms, the Washington State's constitution limits the annual amount of property taxes that may be imposed through a regular levy on an individual parcel of property to one percent of its true and fair value. By law, tax rates are stated in terms of dollars per $1,000 of value. The one percent limit is the same as $10 per $1,000 of market value. State and local regular levies may not exceed $10 per $1,000 of market value.

Statutory Rate Limits
The one percent maximum rate for regular property taxes is limited further by a complex series of statutes. The $10 limit can be broken down as follows:

- **State**: $3.60 limit is the maximum rate for the state levy.
- **Junior (County):** $5.90 aggregate limit applies to certain junior taxing districts. In total, these districts may not exceed $5.90 per $1,000 of assessed value in any tax code area.
- **Junior (Special):** $0.50 of remaining capacity exists and revenue this portion may be used for the following: emergency medical services, affordable housing, conservation futures levies, certain metropolitan parks, criminal justice, ferry district levies transit levies, and certain flood control zone levies.

However, the limit is an aggregate limit, so when the state levy rate is not $3.60 or the aggregate of certain taxing districts does not reach $5.90 then the remaining capacity increases.

Statutory Growth Limit
Statute also places a cap on the growth of increased revenue that may be collected through a regular levy. This applies to the state and locals' regular levies. The limit is on the taxes levied, not the growth in property values. Per Chapter 84.55, the annual increase in regular property tax revenue is the lesser of inflation (the percentage change in the IPD) or one percent. (So the levy is limited to a maximum of 101 percent of the prior year's levy—without voter approval for any lid lifts).

The state levy is calculated in the following way:

1. Department of Revenue calculates the levy and apportions the levy to each county based on market value.
2. The levy rate is calculated by the county assessor based on the apportioned levy and the total assessed value.
3. The levy rate is applied to individual property assessed values.

Changes in the State Tax Rate
As the total collections is limited to no more than one percent growth, when the total state property value increase, the state's property tax rate falls. During periods of declining market value, the rate may increase.

CONCEPT OF SENATE BILL 6858

Introduced during the 2010 legislative session, Senate Bill 6858 (Senator Zarelli, prime sponsor) would have implemented a state and local property tax shift in order to fund state funding formula enhancements for MSOC and pupil transportation. Though the bill did not pass in 2010, the Working Group modeled the concept for calendar year 2011. The same assumptions regarding the levy lid, MSOC, and pupil transportation used in Option 3 are also used in this option.

Though it did not pass, during the same legislative session the Legislature lifted the levy lid to 28 percent and increased levy equalization to 14 percent.

Increase State Property Tax, Fully Fund Enhancements, and Reduce Levy Lid by 50 Percent. (Similar to the original construct of SB 6858). The Working Group updated the concept of SB 6858 to conform to calendar year 2011 levy authority. The levy lid is reduced from 28 percent to 14 percent and the state property tax is increased by $0.96 per $1,000 of assessed value. Levy equalization is maintained at 14 percent, effectively providing 100 percent equalization to eligible districts. A hold-harmless is provided for districts that would otherwise lose revenue under this option, estimated at $183 million for calendar year 2011.

Revenues
Option 4 does not necessarily provide a significant increase in total funding to districts. In total, no district loses revenue. However, some may gain more than others. The source of revenue shifts to the state from the local districts. All districts gain state revenue. The lowering of the levy limit reduces the amount districts can collect locally. This is more limiting for the districts collecting at or near their maximum authority. Districts running levies much below their limit may not experience as much of a local revenue reduction. As a result, the districts likely to experience a net increase in revenues are those not currently tapping their full levy authority.

Tax Rates:

- Districts with higher than average assessed value have lower than average M&O tax rates. By shifting to a statewide property tax, these districts will experience a combined state and local tax rate increase and will pay more in property taxes.

- Tax rates will also increase for districts which either do not have a M&O levy or have a levy below 14 percent. That is because the state increase will be larger than any corresponding local decrease.

- Several districts will experience a reduced combined tax rate as the statewide rate, even after then increase, is lower than the current M&O levy rate at a 28 percent lid.

District Impact

Districts may experience one of four scenarios, summarized on Table 30:

- Total revenue growth over one percent and a tax rate reduction (Yakima).
- Total revenue growth over one percent and a tax rate increase (Central Kitsap).
- Less than one percent revenue growth and a tax rate reduction (Auburn, Central Valley, Pasco).
- Less than one percent revenue growth and a tax rate increase (Bellevue, Bethel, Issaquah).

Table 28
Statewide Summary Option 4: State/Local Property Tax Shift

	Districts	Percent of Districts	Enrollment Served	Percent of Enrollment
Gain over one percent in total revenue and combined property tax rate decrease	11	3%	34,852	4%
Gain over one percent in total revenue and a combined property tax rate increase	96	32%	134,776	14%
Less than one percent revenue growth and combined property tax rate decrease	106	36%	552,143	53%
Less than one percent revenue growth and combined property tax rate increase	83	28%	296,235	30%

Option 4: State and Local Property Tax Shift

POSSIBLE BENEFITS

Increase in state funding for school districts:
Provides a state revenue source for the MSOC and pupil transportation portions of SHB 2776.

Funding would be more stable:

- Districts will receive more state funding for basic education programs.
- Unlike levy funding, state funding is not subject to voter approval every one to four years.

Tax shifts combined with continued levy equalization result in less variation in property tax rates between school districts:

- The proposal equalizes tax rates more than the current system.
- Provides tax cut to property "poor" districts
- If the overall tax rate declines, certain property poor communities may be able to place larger levy amounts on the ballot.

POTENTIAL PITFALLS

Creates a tax increase in some districts:

- Taxes would increase in districts running less than a 14 percent levy.
- Taxes would increase is property "wealthy" districts

Requires a 2/3 vote of the Legislature or 50 percent vote of the people to raise the state property tax

- Could be difficult to obtain sufficient legislative or voter approval for a proposal with property tax winners and losers.

Does not address grandfathered levy authority

- The proposal maintains the funding disparities in levy authority grandfathering.

Different impacts among districts:

- The revenue increase from the state coupled with the levy authority reductions would not impact the districts uniformly.
- At the district level, a percentage reduction in levy authority would not translate evenly to the enhanced allocation for transportation and MSOC at the district level.
- While a hold harmless protects districts from losing total funding, typically the growth rates of hold harmless funding have been flat, compared to the historical growth allowed under the M&O levy authority calculation.

- Several urban and suburban districts would experience lower revenue growth rates and a property tax increase. This would likely to increase the tension among districts regarding differences in total per-pupil funding.

Would Constrain Local Revenue Growth:

- A reduction in local levy authority would limit districts ability to spend local funds. In particularly, this would constrain the districts currently tapping their full levy authority. Districts access to local revenue would be limited, and as a result, their ability to meet their collective bargaining agreements could be impacted.

Less Voter Control

- The state property tax is a regular levy that does not require voter approval. The M&O levy is an excess levy and requires voter approval every one to four years. By swapping the two levies, voters would have less direct control (via the ballot) over property tax rates.

Potential budget pressure on the state

- Revenues from the state property tax levy are currently limited no more than one percent growth. MSOC and pupil transportation are tied to student enrollment, which is projected by the Caseload Forecast Council to grow by 1.6 percent annually over the next decade. Therefore the ongoing cost of the enhancements will outpace the state property tax growth allowed under statute.

Potential Reductions for Junior Taxing Districts

- Hypothetically, a situation could arise where junior taxing districts are prorationed under the constitutional one-percent limit. This could occur if the increase in the state property tax levy coincided with a sharp decline in total market value. It is possible the state rate could increase to the point that in some areas the junior taxing districts tax rates would be reduced as the state has priority over junior districts. However, to date no junior special district's levy has been reduced due to the increases in the state levy rate.

Table 29 Current Law (Actuals) Dollars in Millions					
	2009-10 State Allocations	2011 Actual Levy Amount	2011 Levy Equalization	Combined Total Revenues	State & M&O Local Tax Rate
Auburn	$84.9	$29.4	$2.9	$117.2	$4.87
Battle Ground	$76.3	$20.5	$6.3	$103.2	$5.10
Bellevue	$101.4	$43.9	N/A	$145.3	$2.99
Bethel	$102.7	$29.9	$7.2	$139.7	$4.94
Central Kitsap	$69.7	$16.8	$3.7	$90.2	$4.21
Central Valley	$71.0	$23.3	$4.9	$99.1	$5.26
Everett	$118.2	$43.6	$1.0	$162.8	$4.65
Highline	$111.4	$37.8	$1.6	$150.8	$4.40
Issaquah	$94.8	$35.1	N/A	$129.9	$3.70
Kennewick	$91.5	$19.3	$10.6	$121.4	$5.21
Mukilteo	$90.2	$32.0	N/A	$122.2	$4.21
North Thurston	$81.4	$27.5	$1.4	$110.2	$4.48
Pasco	$81.3	$18.5	$12.3	$112.1	$6.36
Renton	$86.3	$29.0	N/A	$115.3	$3.58
Yakima	$89.8	$12.7	$15.3	$117.8	$4.70
Statewide	**$6,183.7**	**$1,933.2**	**$305.9**	**$8,422.8**	**$4.05**

Table 30
Option 4: Full Phase in, 14% Levy Lid, 14% Levy Equalization and Hold Harmless
Dollars in Millions

	Projected Enhanced Allocation (MSOC & Transpo.)	Projected 2011 Levy Amount	Projected 2011 Levy Equalization	Hold Harmless	Projected Combined Total Revenues	Projected State & M&O Local Tax Rate	Percent Change in Revenue	Percent Change in Tax Rate
Auburn	$94.8	$15.5	$3.3	$3.6	$117.2	$4.49	0%	-8%
Battle Ground	$84.9	$9.2	$6.9	$2.1	$103.2	$4.38	0%	-14%
Bellevue	$113.2	$30.4	N/A	$1.7	$145.3	$3.66	0%	+22%
Bethel	$114.0	$15.7	$7.8	$2	$139.7	$4.52	0%	-8%
Central Kitsap	$77.7	$10.7	$4.1	$0.0	$92.6	$4.38	3%	+4%
Central Valley	$78.9	$9.9	$5.3	$4.9	$99.1	$4.38	0%	-17%
Everett	$130.9	$23.1	$1.1	$7.7	$162.8	$4.38	0%	-6%
Highline	$122.9	$23.8	$1.7	$2.5	$150.8	$4.48	0%	+2%
Issaquah	$106.2	$20.0	N/A	$3.8	$129.9	$3.94	0%	+7%
Kennewick	$101.7	$8.4	$11.5	$0.0	$121.6	$4.38	0%	-16%
Mukilteo	$99.9	$18.1	N/A	$4.2	$122.2	$4.23	0%	0%
North Thurston	$90.5	$15.6	$1.5	$2.6	$110.2	$4.38	0%	-2%
Pasco	$90.7	$5.9	$13.3	$2.2	$112.1	$4.38	0%	-31%
Renton	$95.5	$19.4	N/A	$0.4	$115.3	$4.03	0%	+13%
Yakima	$98.2	$6.6	$16.1	$0.0	$120.8	$4.38	3%	-7%
Statewide	**$6,859.4**	**$1,111.7**	**$327.8**	**$183.4**	**$8,482.2**	**$4.16**	**1%**	**3%**

Levy Equalization Options

Levy Equalization Option 1: Keep Current Policy (Recommended)

The Working Group examined the origins, history and purposes of the local levy and levy equalization systems. The last state task force on levy equalization, the 2002 study by the Joint Task Force on Local Effort Assistance, concluded the current levy equalization formula met the program's key purpose—to reduce differences in local tax rates for local M&O levies. The Working Group concurs; the fundamental purpose of levy equalization is to reduce tax rates in lower property value areas to enable school districts in these communities to seek M&O levy requests that local voters are willing to pass. Maintaining the current levy equalization formula remains a viable option today.

The Primary Purpose of Levy Equalization is to Provide Tax Equity

First and foremost, levy equalization is a program designed to reduce tax rates in those school districts with lower total assessed value—thereby equalizing tax rates across school districts

- Levy equalization is local property tax relief, not a categorical state spending program.
- Levy equalization provides state matching funds to "property poor" school districts to lower the property tax rate needed to collect the first half (50 percent) of a 28 percent levy.
- Without levy equalization, the tax rates needed to collect a 28 percent levy would be prohibitively high in "property poor" districts and would eliminate or dramatically reduce the local levies' capacity to support students and communities in these districts.

The current formula partially equalizes tax rates:

- Levy equalization applies only to the first 50 percent of a district's approved levy. This "partial equalization" has a strong tradition in Washington State. The Working Group continues to support 50 percent equalization as a balanced, fair approach for Washington school districts.

- Fully equalizing districts' levies (or increasing the percentage higher than 50 percent) would increase tax equity at the local level, and is a goal the Working Group recommends to the Legislature as state funding for schools is increased over time. The Working Group recognizes, however, that the cost of equalization to the state raises equity concerns at the state level, as greater state levy equalization payments would come at the expense of either reducing other state budget items or increasing state revenues.

- In the past, the state has reduced the percentage of levy equalization below 50 percent. In every case, subsequent Legislatures have restored levy equalization payments to the 50 percent level.

The current formula is known and relatively predictable:

- School districts and levy committees understand the current levy equalization formulas and are able to plan levy ballot proposals accordingly.

OPTION 1: MAINTAIN THE CURRENT LEVY EQUALIZATION FORMULA

POSSIBLE BENEFITS

Current system is a successful local property tax relief program:

- Provides funding to the lower property value districts whose voters approve levies;
- Reduces tax rates in these districts;
- Tax rates are the biggest driver in whether levies pass or fail;
- Tax rate sensitivity is key consideration for districts in setting their levy requests; and
- Tax rates are effective barometer of local funding fairness.

Maintains opportunity for all district voters to approve a levy in support of their local schools:

- It is important for all communities to engage in supporting their schools;
- Levies provide important local accountability mechanism for schools; and
- Local levy funding is critical to the operation of schools and school activities.

Current formula of 50 percent equalization reflects long-term compromise between property "rich" and property "poor" school districts

- Current system maintains a delicate political compromise

POTENTIAL PITFALLS

Expensive state program in tight fiscal environment:

- Levy equalization payments to school districts will cost the state $612 million in the 2011-13 biennium.

Levy Equalization Option 2: Pro-rate (Not Recommended)

A variation on Option 1 is to maintain the current structure and formula of levy equalization, changing only the percentage of local levies the state equalizes. Were state resources available, the tax equity purpose of the current system could be strengthened by increasing the percentage of the levy equalized—up to and including full equalization. If resources were not available to sustain the current equalization appropriation, reduction of the equalization percentage would reduce the cost of the program while continuing to provide equalization support to all currently eligible districts.

PRO-RATING IS RESPONSIVE TO CHANGES IN STATE FISCAL CONDITIONS WHILE PROTECTIVE OF ALL DISTRICTS RECEIVING EQUALIZATION UNDER THE CURRENT FORMULA.

Reducing or increasing the percentage of levies to be equalized would alter the cost and magnitude of levy equalization without creating "winners" or "losers" among the levy equalization districts:

- All levy equalization payments to districts would float up or down by the same percentage
- Tantamount to an across-the-board increase or decrease in levy equalization

Particularly in the case of a reduction, a percentage change would be the least disruptive to all levy equalization districts, at least in the short term:

- No district would stand to lose levy equalization, or receive a disproportionate reduction in comparison to other levy equalization districts.
- A percentage reduction can be easily restored in a subsequent legislative session. This has, in fact, occurred before.
- Fully equalizing districts' levies (or increasing the percentage higher than 50 percent) would increase tax equity at the local level. The cost of equalization to the state, however, raises equity concerns at the state level, as greater state levy equalization payments would come at the expense of either reducing other state budget items or increasing state revenues.
- In the past, the state has reduced the percentage of levy equalization below 50 percent. In every case, subsequent Legislatures have restored levy equalization payments to the 50 percent level.

OPTION 2: MAINTAIN THE LEVY EQUALIZATION STRUCTURE; CHANGE THE PERCENTAGE OF LEVY EQUALIZED, AS NECESSARY IN RESPONSE TO STATE BUDGET CONDITIONS

POSSIBLE BENEFITS

Perceived by school districts as most equitable way to adjust levy equalization, if changes are required:

- No levy equalization district would lose equalization entirely in a reduction; and
- All levy equalization districts would gain proportionately if increased uniformly.

Flexible change:

- Maintaining current structure makes modest increases or decreases predictable; and
- Short-term changes can be reversed without major disruption to districts.

History of short-term legislative success:

- Short-term reductions have been made in response to state recessions, and have been subsequently restored.

POTENTIAL PITFALLS

Not responsive to the neediest districts:

- Across-the-board approach protects levy equalization payments for eligible districts with tax rates close the state average rate. This occurs at a cost to eligible districts with the highest property tax rates.
- If districts lose levy equalization funds, and voters approve increasing the local levy, then property tax rates will increase.
- If such a district could not make up the levy equalization reduction by increasing their local levy, the resulting funding loss would result in additional cuts to services.

Concern that reductions to levy equalization percentage will harm community opportunities to support schools through local levies:

- The members of the Working Group strongly recommends no reductions be made to levy equalization.

Levy Equalization Option 3: Tiered (Not Recommended)

Change the current structure of levy equalization to a sliding scale or tiered structure—providing higher levels of equalization to those districts with the highest tax rates, with diminishing levels of equalization to districts whose tax rates are closer to the statewide average rate

A tiered approach runs counter to the historical method of levy equalization, which provides the same percentage assistance to all eligible districts. A scaled or tiered approach, however, could maximize the tax equity goal of levy equalization by providing greater levels of equalization to those districts with the highest tax rates. Currently eligible districts with the lowest tax rates are arguably in less need to equalization and would receive less funding under a tiered approach.

Concentrate levy equalization on districts with the highest tax rates:

A sliding scale or tiered levy equalization structure is one way to retain the tax equity goal of equalization with lower state cost, or to shift assistance to the neediest districts at the same cost:

- Over time, the disparity in property tax rates has caused growth in the number of districts eligible for levy equalization.
- Even with current equalization, tax rates are high enough in the lowest property value districts to inhibit these districts from seeking or passing levies up to their current state authority.
- At the same time, other districts with lower rates are able to run and pass levies at the full state limits and still benefit from levy equalization.

A structural change, however, would represent a significant policy shift:

- Some districts would stand to lose more levy equalization support than other districts.
- Reductions in levy equalization could change the political dynamic in some communities. Voters may have been approving levies based on the argument that their tax dollars are being matched directly by some level of state tax support.
- By concentrating levy equalization funding more toward the property poorest districts, there are concerns that popular and legislative support for levy equalization may erode.

OPTION 3: Change the current structure of levy equalization to a sliding scale or tiered structure--providing higher levels of equalization to those districts with the highest tax rates, with diminishing levels of equalization to districts whose tax rates are closer to the statewide average rate

Possible Benefits

Protects or enhances levy equalization for the lowest property value districts:

- Equalizes tax rates more aggressively in the highest tax rate districts.
- There is an imperfect, but reasonable, match between the lowest property value districts and the degree of need for educational support of their students.

More cost-effective equalization mechanism for the state:

- If equalization cuts become necessary due to budget pressures, this approach protects the highest need districts and reduces the lower need districts the most.

Potential Pitfalls

Perceived as enabling state reductions to levy equalization:

- The Working Group does not support any reduction to levy equalization.

Inequitable reduction to, or shift of, equalization:

- Strong concern with levy equalization change that would treat districts differently.

Concentration of levy equalization in property poorest districts could undermine support for the program:

- Greater concentration of levy equalization in fewer districts could undermine popular and legislative support for the program
- Levy equalization is not constitutionally protected under the Basic Education Act. If fewer districts receive funds, fewer legislators may be willing to support the program when in competition with other state funding needs.

Reduction of levy equalization to eligible districts with lower tax rates could have negative consequences locally:

- If voters have approved levies in these districts because their taxes are directly matched by state levy equalization funds, reduction in levy equalization could make levy approval more difficult.
- If districts lose levy equalization funds, and voters approve increasing the local levy, then property tax rates will increase.
- If such a district could not make up the levy equalization reduction by increasing their local levy, the resulting funding loss would result in additional cuts to services.

School District Facility Capacity for Full-Day Kindergarten and K-3 Class Size Changes

The Working Group was charged with analyzing school facility capacity to accommodate smaller full-day kindergarten programs and K-3 class size reduction. The Working Group reviewed other recent school facility reports and analyses, utilized school district survey results, and discussed school facility capacity issues and concerns extensively.

The Working Group notes:

- **Comprehensive data on school capacities does not exist today. There are dangers in extrapolating current data, and district and statewide class size and facility capacity averages, into policy statements and options applicable at the school level.**
- **Significant facility capacity issues exist today in some communities. Enrollment increases and programmatic demands are increasing pressure on school facilities.**
- **Facilities will continue to present barriers to implementing both full-day kindergarten and major reductions to K-3 class sizes in some communities.**
- **Kids don't show up in average units. Within districts, facility issues become complex at the individual grade, school and neighborhood levels.**
- **Citizens are passionate about their neighborhood schools; school capacity issues can be among the most challenging issues for school districts to address.**
- **Where class size reduction requires new or significantly expanded schools, property acquisition for locating new facilities is very challenging in urban areas.**
- **While phase in of class size reduction funding in the highest poverty schools is appropriate, the Working Group notes those same poverty levels are also often correlated with a district's inability to pass a bond measure. Passage of a bond measure is required in order for districts to access state matching funds for construction.**
- **New construction or modification projects are one way to address facility barriers. While the Working Group notes there are significant school construction funding challenges, the Working Group believed exploration of state and local school construction funding was beyond the scope of its charge.**

The Working Group's Charge

Section 6(3) of Chapter 236, Laws of 2010 directed the Working Group to:

"Examine local school district capacity to address facility needs associated with phasing-in full-day kindergarten across the state and reducing class size in kindergarten through third grade." To facilitate this work, OSPI conducted a survey of school district facility capacity for the Working Group.

SHB 2776 Scheduled Phase in of Enhanced Funding Allocations

SHB 2776 calls for the phase in of enhanced funding allocations for full-day kindergarten and reduction of K-3 class size to 17 students by the 2017-18 school year. In school year 2010-11, 219 elementary schools receive full-day kindergarten funding. The state's statutory minimum funding allocation for K-3 class size is 25.23 students.

The enhancements called for in SHB 2776 are funding <u>allocations</u> to school districts, not mandatory implementation requirements. This allocation mechanism is critical to analyzing potential implementation issues at the local level. The Working Group believes school districts will group into three basic responses when implementing the funding enhancements once additional funds are appropriated:

1. *Some districts will implement full-day kindergarten and K-3 class size reductions in a fashion similar to the funding allocations because their communities will have the desire and the facility capacities to do so;*

2. *Some districts will not implement full-day kindergarten and K-3 class size reduction according to the allocation structures because they will not have the facility capacity to enable them to do so; and*

3. *Other districts will have the facility capacity to accommodate full-day kindergarten and K-3 class size reduction, but they will choose to make other decisions on the use of the allocated funds.*

In all cases, under SHB 2776 school districts are required to report on their use of the funding allocations so the state and communities can compare allocated funding to actual use.

Survey data and other information indicated facility capacity will be a barrier to full-day kindergarten and class size reduction in some districts. This is not a new issue. Some districts currently turn down state funding for full-day kindergarten due to facility constraints; and some districts turned down state K-4 supplemental funding when the state required reductions in staffing ratios as a condition of accepting the funding.

SHB 2776 Funding Allocations in the Context of the 2011-13 Biennium State Budget

For years, the state provided supplemental K-4 class size allocations to school districts. This funding resulted in lower class sizes in grades K-4 in many districts. In most cases, districts adjusted facilities over time to accommodate these smaller classes. To the extent that new K-3 class size reduction funding is provided to make up for the loss of the recent K-4 class size funding, many districts will have facility capacity to accommodate class sizes they maintained in recent years. Reductions in class sizes below recent levels are more likely to present facilities challenges to districts, however.

Funding Changes Coinciding with Projected Enrollment Growth and Other Programmatic Needs

It is important to note the class size allocation changes in SHB 2776 will occur at the same time as more students are forecasted to attend the state's elementary schools. The Caseload Forecast Council projects 1.6 percent annual growth over the next decade, with a total enrollment increase of 15 percent. This is a shift from the 2000s when flat enrollment averaged 0.4 percent a year or 4 percent over the decade. District attempts to reduce class sizes below current levels in the face of increasing elementary enrollment statewide will compound facility capacity challenges at the local level.

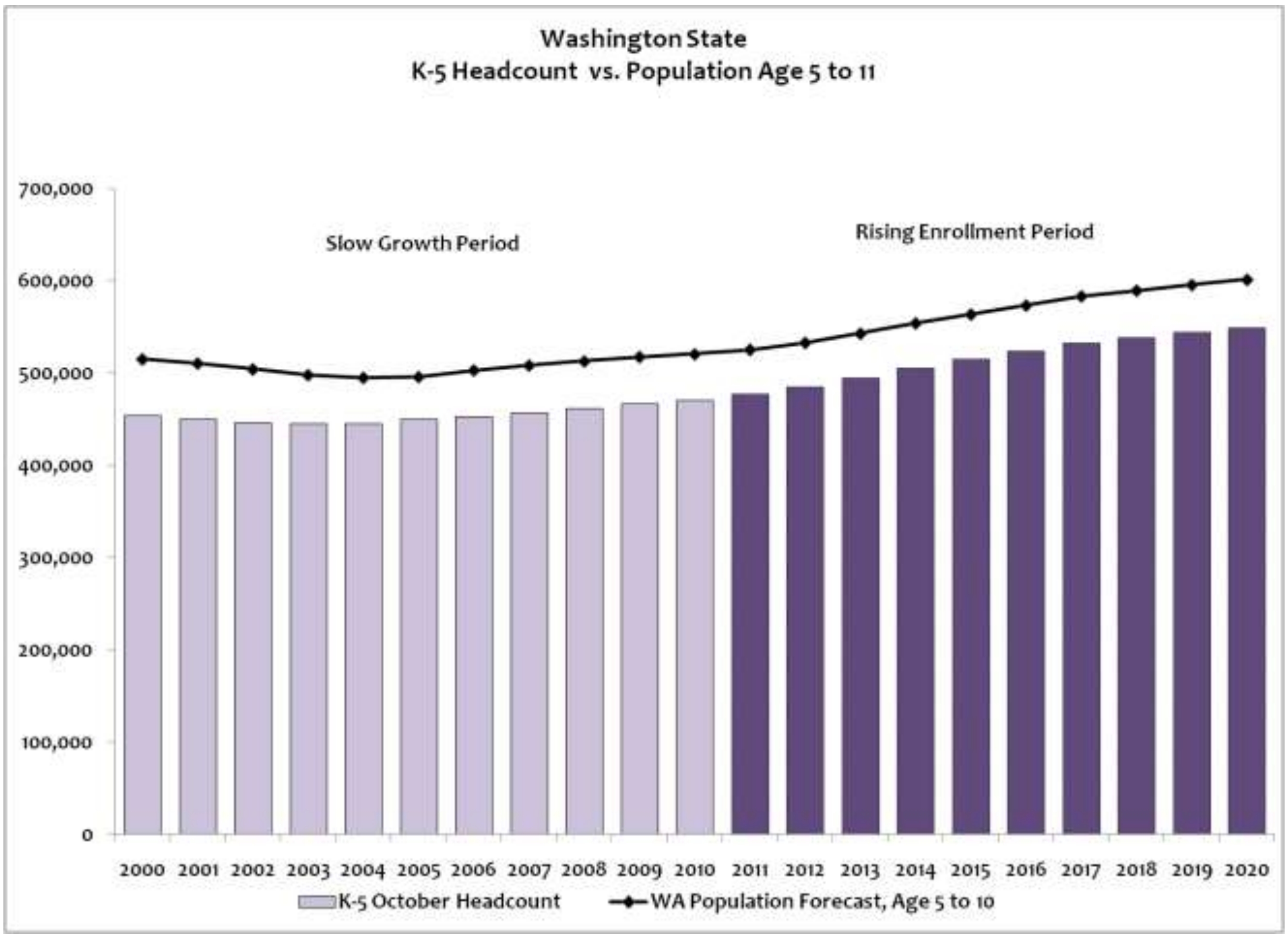

Figure 33: March 2011 Caseload Forecast Council K-12 Long-Term Forecast

In addition, Working Group members currently observe increasing enrollment in special needs preschool programs is placing increased pressure on school facility capacity. Appropriate state and community emphasis on expanding access to early learning opportunities also increase challenges to communities' facility capacity. The Working Group is concerned some school districts currently experience greater difficulty providing school-based facilities for early learning programs such as Head Start and ECEAP. Ideally, these programs would be located in or near the feeder elementary school. As general and special needs student enrollment increases the pressure will grow. Finally, increasing demand for classrooms is competing with other facility needs driven by curricular changes such as Core 24 course requirements and demand for greater laboratory sciences.

Community Level Challenges

Even when a school district has school capacity district-wide, individual site-specific capacity issues result in difficult community challenges in implementing local solutions such as change in busing policies, changing school service area boundaries, and/or restricting access to other valuable community programs such as preschool, child care and other programs. Statewide average capacity data further mask current and anticipated school-level capacity issues.

Facility Survey Data

The Legislature directed both OSPI and the Working Group to report on school district capacity accommodating full-day kindergarten and K-3 class size changes. To maximize efficiency and ease burden on school districts, OSPI conducted one survey for both studies in the fall of 2010. There are significant limitations with such a survey.

All 295 districts received the survey. One hundred and fifty-five responded. While the responding district sample appears to provide a reasonable representation of Washington school districts, <u>the Working Group urges readers to use great caution in extrapolating district-wide survey data and statewide average facility capacities</u>. First, most school districts completed the survey response at a district-wide level. Even at the district level, facility capacity average data mask important and difficult on-the-ground issues at the school site level. The survey data highlight areas of the state with district-wide facility capacity and those with current capacity deficits. What the data do not provide are insights into the complexity and challenges of aligning facilities with needs within and across school communities.

SMALLER K-3 CLASS SIZE & ABILITY TO REDUCE

Of the districts surveyed, 81 plan to accommodate K-3 class sizes of 17 at current school sites (52 percent of respondents). Note: total count may duplicate as districts may combine facility use strategies.

- 77 districts–current school buildings (50 percent of respondents);
- 14 districts –current portables on existing grounds (9 percent of respondents);
- 16 districts –shift existing programs among buildings (10 percent of respondents).

Of the districts surveyed, **74 cannot accommodate K-3 class sizes of 17 at current school sites without additional classrooms** (48 percent of respondents).

Current and Projected K-3 Class Sizes Vary by District Size

Districts reported their current K-3 class sizes and their projected size, if they were constrained only to existing facility space. The results, displayed on the following graphs, generally indicate:

- Current kindergarten class sizes are the lowest of the four grades. It will be easier to accomplish reduced class sizes in kindergarten than in other grades without facility modification.

- Class sizes progressively increase as the grade level increase. It will be harder to reduce Grade 3 class sizes to 17 without additional resources.

- Districts with smaller enrollment (under 1,000 FTE students) are more likely to absorb the additional class sizes without capital modifications. Specifically,
    - Remote/rural districts (FTEs under 300) *can* accommodate smaller class sizes without additional capacity facilities;
    - Small Districts (FTEs between 300 and 1,000) *are likely* to be able to accommodate smaller class sizes without additional capacity facilities;

- Mid-sized districts (FTEs between 5,000 and 10,000) average the highest K-3 class sizes and face the largest facility pressures.

- While on average, large districts (FTEs over 20,000 students) have more facility capacity than their mid-sized peers, location is a significant driver. For example, Vancouver and Spokane need additional classrooms, while Tacoma has current facility capacity.

Note: This survey was conducted in the fall of 2010. Due to budget pressures, districts may adjust class sizes as one of the mechanisms for absorbing state, local, and federal funding reductions.

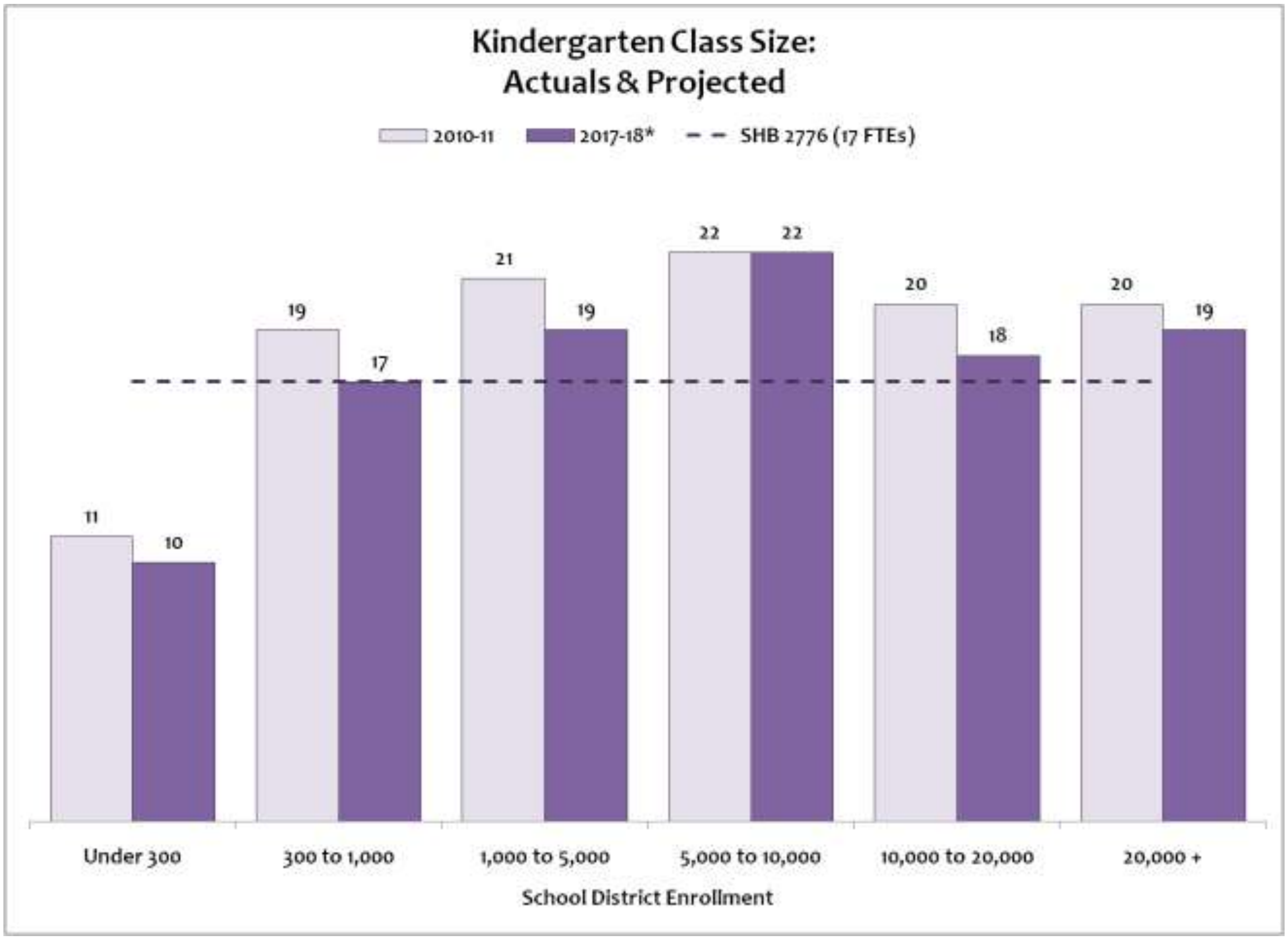

Figure 34: Summary of OSPI Capacity Data. 2009-10 Enrollment.
SHB 2776 stipulates allocations for class sizes of 17 in the 2017-18 school year.
Districts reported October 2010 Kindergarten class sizes and projected the class sizes possible with no facility modifications.

Figure 35: Summary of OSPI Capacity Data. 2009-10 Enrollment.
SHB 2776 stipulates allocations for class sizes of 17 in the 2017-18 school year.
Districts reported October 2010 1st grade class sizes and projected the class sizes possible with no facility modifications.

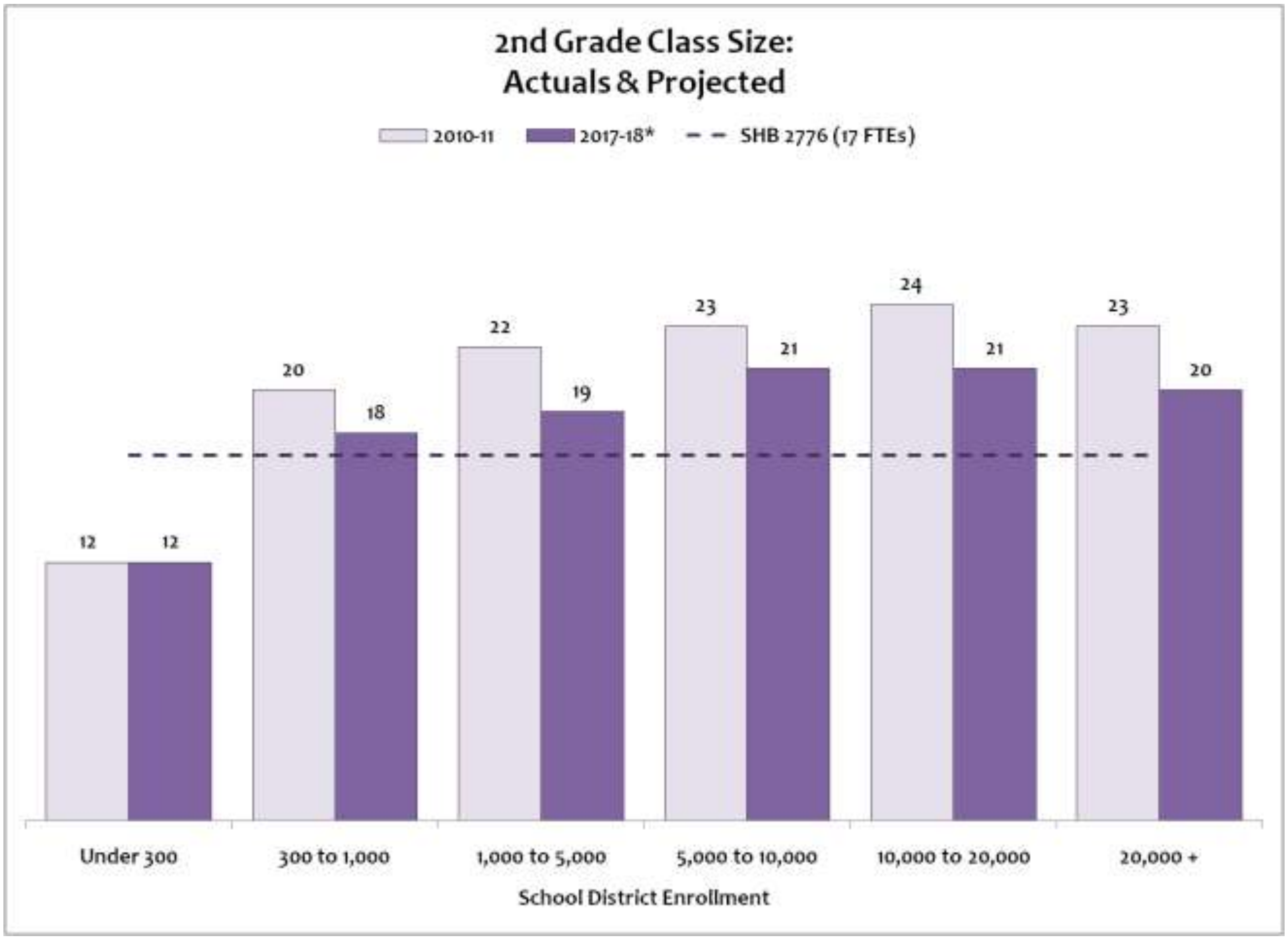

Figure 36: Summary of OSPI Capacity Data. 2009-10 Enrollment.
SHB 2776 stipulates allocations for class sizes of 17 in the 2017-18 school year.
Districts reported October 2010 2nd grade class sizes and projected the class sizes possible with no facility modifications.

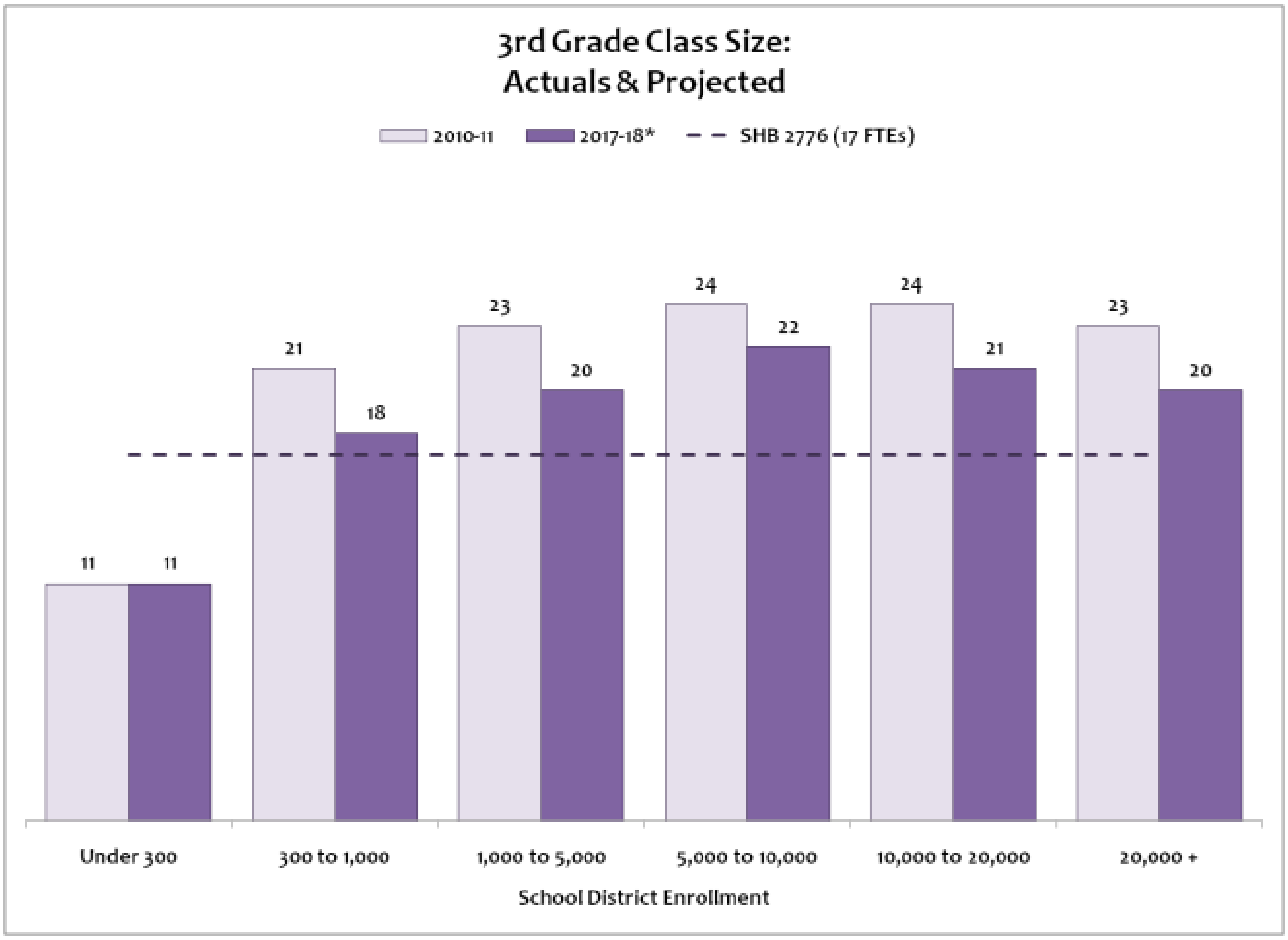

Figure 37: Summary of OSPI Capacity Data. 2009-10 Enrollment.
SHB 2776 stipulates allocations for class sizes of 17 in the 2017-18 school year.
Districts reported October 2010 3rd grade class sizes and projected the class sizes possible with no facility modifications.

FULL-DAY KINDERGARTEN & ABILITY TO IMPLEMENT DISTRICT-WIDE

Current Length of Kindergarten Day Varies Widely

Surveyed districts reported their **current** count of all schools offering kindergarten and whether the programs were full-or-half-day. Out of **671** schools, the count is evenly split **in thirds** among **full-day**, **half-day**, and a **mix** of the two programs.

However, as shown in the graph below, the picture changes depending on the size of the district.

- *Small districts (under 1,000 FTEs)* typically offer either *half-day* or *full-day*, *not both*. Given the small size of these districts, it is not efficient to offer a mix.

- *Very large districts (over 20,000 FTEs)* and *mid-sized districts (1,000 to 5,000 FTEs)* typically offer a higher percentage of full-day kindergarten, and a blend of half-day programs.

- *Mid-Large and large districts (5,000 to 20,000 FTEs)* are not as likely to offer only full-day kindergarten. They are more likely to offer a mix at their schools or half-day programs.

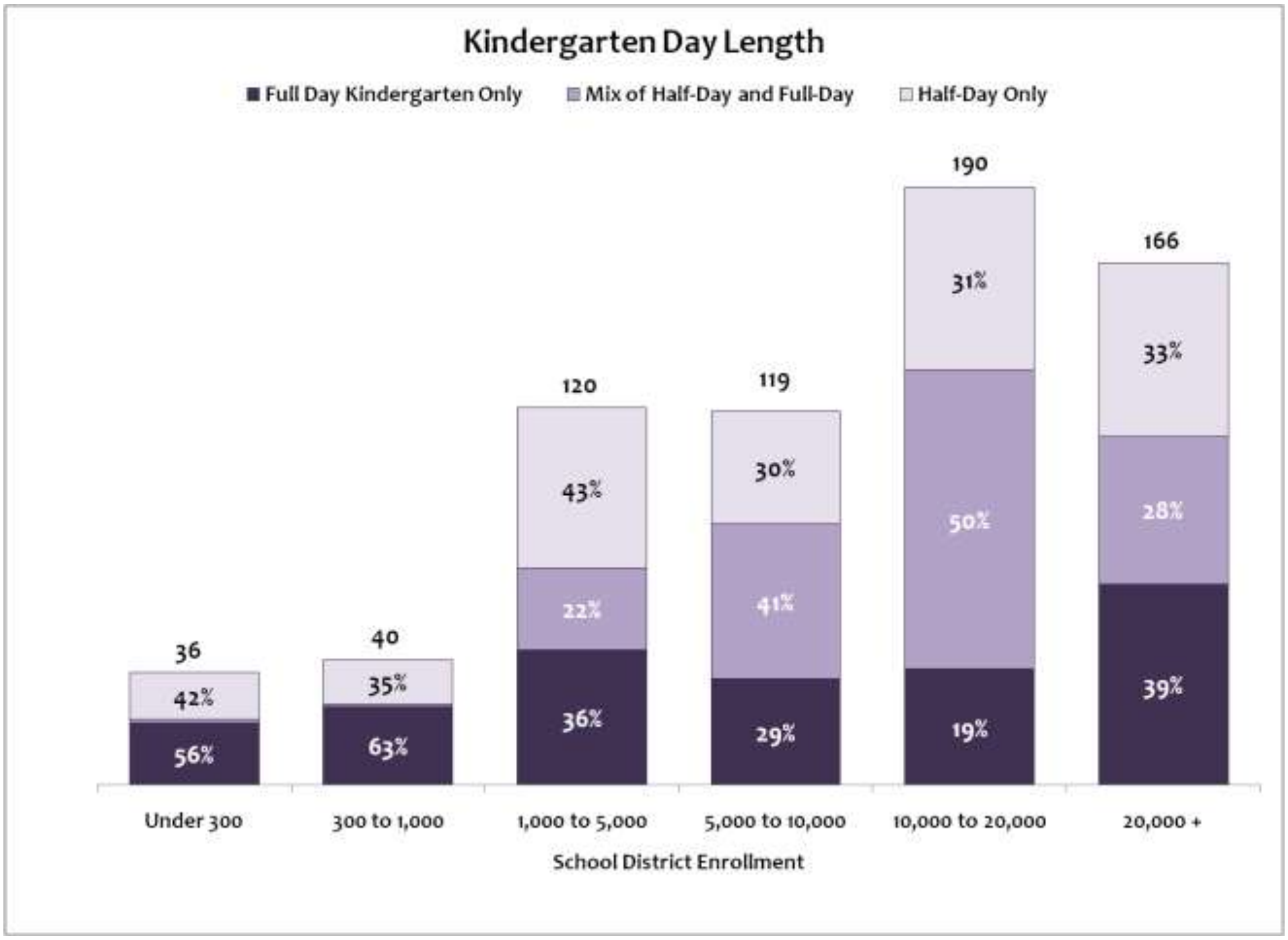

Figure 38: Summary of OSPI Capacity Data. 2009-10 Enrollment.
Surveyed districts report of schools offering kindergarten during the 2010-11 school year.

Note: This survey was conducted in the fall of 2010. Due to budget pressures, districts may adjust full-day kindergarten options as one of the mechanisms for absorbing state, local, and federal funding reductions.

Current Funding for Full-Day Kindergarten

Of the districts surveyed, **111** of the **155** currently offer **full-day kindergarten** to all or some of their students, funded with the following resources:

- *70* received state funding (*45 percent of respondents)*
- *47* use local levy dollars (*30 percent of respondents)*
- *38* charge tuition (*24 percent of respondents)*
- *30* use federal dollars (*19 percent of respondents)*

Note: total count may duplicate as districts may combine fund sources to provide full-day kindergarten programming.

Facilities Available for Full-Day Kindergarten

Of the districts surveyed, **115** can run **full-day kindergarten** at current school sites through the following facility uses:

- *101districts*–current school buildings *(65 percent of respondents);*
- *20 districts* –current portables on existing grounds *(13 percent of respondents);*
- *17 districts* –shift existing programs among buildings *(11 percent of respondents)*.

Note: total count may duplicate as districts may combine facility use strategies.

Facing Facility Barriers to Implementing Full-Day Kindergarten

Of the districts surveyed, **40** cannot offer **full-day kindergarten** at current school sites without additional classrooms *(26 percent of respondents)*. However, this number masks the pressure on larger districts. *As the district's enrollment increases it is more likely a facility barrier exists to implementing full-day kindergarten.*

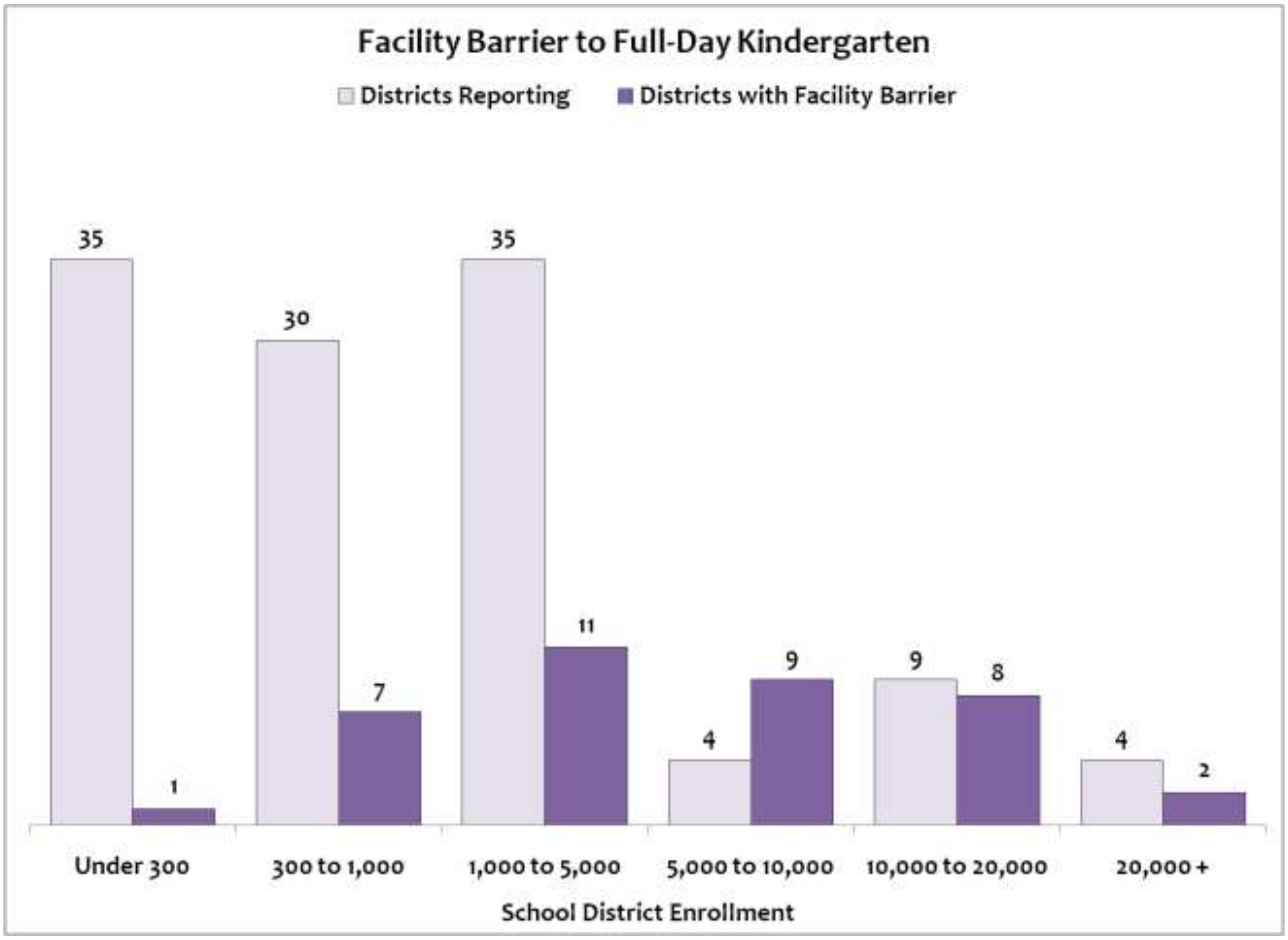

Figure 39: Summary of OSPI Capacity Data. 2009-10 Enrollment.
Surveyed districts report of schools offering kindergarten during the 2010-11 school year.

NEW CLASSROOMS NEEDED

Surveyed districts reported a number of new classrooms are necessary to accommodate K-3 class sizes or full-day kindergarten. They reported a total of 8,302 classrooms use for grades K-3. They project:

- *2,001* new classrooms necessary for *K-3 class sizes of 17 (an increase of 24 percent)*.
- *371* new classrooms necessary for full-day kindergarten statewide (*an increase of 4 percent*)
- Combined, *2,372* new classrooms total, an increase of *29* percent over current usage.

Note: This only includes new classrooms. It does not include districts planning to use existing space.

High Impact on Mid-size and Larger Districts

As shown below, mid-size and larger districts (5,000+ FTEs) identified a facilities need. Their K-3 classroom count may increase by *nearly 40 percent.*

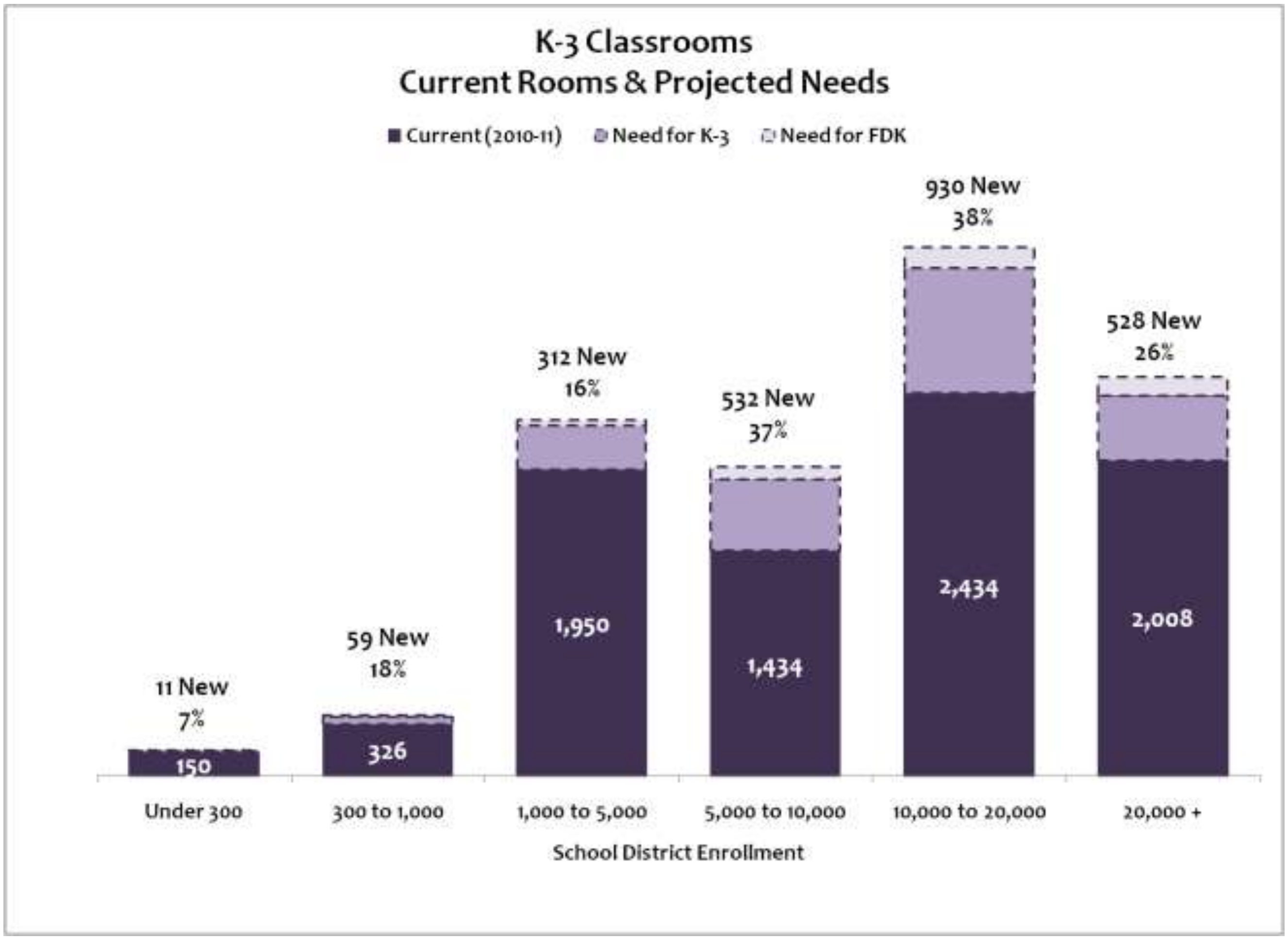

Figure 40: Summary of OSPI Capacity Data. 2009-10 Enrollment.
Surveyed districts report of schools offering kindergarten during the 2010-11 school year.

New construction or modification projects are one way to address facility barriers. However, the Working Group believed exploration of state and local school construction funding was beyond the scope of its legislative charge.

Appendix 1—Levy and Local Effort Assistance Technical Working Group

Brian Benzel	Whitworth University	At Large Member
Don Cox	Retired	At Large Member
Harvey Erickson	Bethel School District	Chief Financial Officer
Nancy Faaren	Olympia School District	Representing Principals
Larry Francois	Northshore School District	Superintendent
Scott Izutsu	Yakima School District	Assistant Superintendent for Business Services
Sally McLean	Federal Way School District	Assistant Superintendent for Business Services
Doug Nelson	Public School Employees	Director of Governmental Relations
Randy Parr	Washington Education Association	Budget Analyst/Lobbyist
Douglas Poole	North Central Educational Service District	Executive Director of Financial Services
Larry Quarnstrom	Rochester School District	Facilities Manager
Ted Thomas	Longview School District	School Board Director
Carolyn Webb	Mukilteo School District	Executive Director, Business Services

Members Providing Technical Assistance

Michael Mann	Legislative Evaluation and Accountability Program Committee	Managing Consultant
Valerie Torres/ Diann Locke	Department of Revenue	Tax Policy Specialist/ Levies, Collections, and Appeals Specialist

Staff support provided by:

Office of Financial Management
Paula Moore, Jim Crawford, Jeanne Rynne and Samantha Smithingell

Office of the Superintendent of Public Instruction
Shawn Lewis, Cal Brodie, Kate Davis, T.J. Kelly, Andrea Cobb, Steve Shish, Kelci Karl-Robinson, and Maria Flores

Appendix 2: Capacity Survey Data Summary

Approach: Two Capacity Reports. One Survey.

The Legislature directed both OSPI and the Working Group to report on school district capacity accommodating K-3 class size changes and full-day kindergarten. To maximize efficiency and ease burden on school districts, OSPI conducted one survey for both studies in the fall of 2010. Below is a summary survey data relevant to the Working Group's work.

Response: All 295 districts received the survey. 155 responded. Below is a summary survey data relevant to the Working Group's work.

Table 1: Survey Respondents

2009-10 Enrollment	No. of Districts Reporting	Total No. of Districts Statewide	% of Cohort Responding to Survey
Under 300	36	86	42%
300 to 1,000	37	66	56%
1,000 to 5,000	46	85	54%
5,000 to 10,000	13	28	46%
10,000 to 20,000	17	21	81%
20,000 +	6	9	67%
Total	**155**	**295**	**53%**

Current K-3 Class Size: Surveyed districts average class size (K-3) for the 2010-11 school year.

Table 2: Average Class Size by Grade (2010-11 School Year)

2009-10 Enrollment	No. of Districts Reporting	Grade K	Grade 1	Grade 2	Grade 3
Under 300	36	11	11	12	11
300 to 1,000	37	19	21	20	21
1,000 to 5,000	46	21	22	22	23
5,000 to 10,000	13	22	23	23	24
10,000 to 20,000	17	20	23	24	24
20,000 +	6	20	22	23	24

K-3 Facility Capacity: Surveyed districts response to facility capacity for K-3 class sizes of 17. Some face facility barriers while others will accommodate with existing spaces inside elementary schools, existing portables already on site, or by shifting programs among buildings.

Table 3: Facility Capacity for K-3 Class Size

2009-10 Enrollment	No. of Districts Reporting	Need New Classrooms	Existing Elementary School Space*	Existing Portables*	Shift Existing Programs*
Under 300	36	3	31	2	2
300 to 1,000	37	12	24	2	4
1,000 to 5,000	46	29	16	4	5
5,000 to 10,000	13	16	1	1	0
10,000 to 20,000	17	10	3	3	3
20,000 +	6	4	2	2	2
Total	**155**	**74**	**77**	**14**	**16**

Projected Class Size: Surveyed districts estimated average class size (K-3) for the 2017-18 school year, if no new classrooms were constructed. This includes class sizes of 17 for those who can accommodate within existing buildings' spaces/resources.

Table 4: Projected Average Class Size by Grade for 2017-18 School Year, No New Classrooms

2009-10 Enrollment	No. of Districts Reporting	Grade K	Grade 1	Grade 2	Grade 3
Under 300	36	10	11	12	11
300 to 1,000	37	17	18	18	18
1,000 to 5,000	46	19	19	19	20
5,000 to 10,000	13	22	21	21	22
10,000 to 20,000	17	18	20	21	21
20,000 +	6	19	20	20	20

New Rooms Needed for K-3 Class Size: Surveyed districts projected the number of new classrooms needed to accommodate class sizes of 17 in grades K-3. New classrooms may either be new additions, new portables, or modifications to existing buildings to create the spaces.

Table 5: Projected Number of New Classrooms Needed (K-3 Class Size of 17)

2009-10 Enrollment	No. of Districts Reporting	No. Districts Needing New Classrooms	Total No. of K-3 Classrooms (survey)	Estimated New Classrooms Needed*	Percentage Increase
Under 300	36	3	150	9	6%
300 to 1,000	37	12	326	50	15%
1,000 to 5,000	46	29	1,950	280	14%
5,000 to 10,000	13	16	1,434	452	31%
10,000 to 20,000	17	10	2,434	799	33%
20,000 +	6	4	2,008	411	20%
Total	**155**	**74**	**8,302**	**2,000**	**24%**

Current Kindergarten Offerings: Surveyed districts reported the number of schools serving kindergartners and the program offering: full-day only, mix of full-and-half-day, and half-day only.

Table 6: Current Kindergarten Offerings

2009-10 Enrollment	No. of Districts Reporting	No. of Schools with Kindergarten Programs	Full-Day Kindergarten Only	Mix of Half-Day and Full-Day	Half-Day Only
Under 300	36	36	20	1	15
300 to 1,000	37	40	25	1	14
1,000 to 5,000	46	120	43	26	51
5,000 to 10,000	13	119	34	49	36
10,000 to 20,000	17	190	37	95	58
20,000 +	6	166	64	47	55
Total	**155**	**671**	**223**	**219**	**229**

Funding Source for Full-Day Kindergarten: Surveyed districts with full-day kindergarten programs reported the funding source of the program: the state's full-day kindergarten program, local levy dollars, tuition paid by parents, and federal funding. Note, count may duplicate, as a school may use a mix of funding sources to operate a full-day kindergarten program.

Table 7: Current Full-Day Kindergarten Funding

2009-10 Enrollment	No. of Districts Reporting	No. of Districts with Full-Day Kindergarten Programs	State Supported	Local Levy Supported	Tuition Supported	Federal Funding Supported
Under 300	36	21	15	11	1	5
300 to 1,000	37	25	19	13	2	8
1,000 to 5,000	46	32	20	11	11	7
5,000 to 10,000	13	16	5	8	10	2
10,000 to 20,000	17	12	7	3	11	6
20,000 +	6	5	4	1	3	2
Total	**155**	**111**	**70**	**47**	**38**	**30**

Full-Day Kindergarten Facility Capacity: Surveyed districts response to facility capacity for implementing full-day kindergarten programs. Some face facility barriers while others will accommodate with existing space inside elementary schools, existing portables already on site, or by shifting programs among buildings. *Note: count duplicates as districts use multiple strategies.

Table 8: Facility Capacity for Implementing Full-Day Kindergarten

2009-10 Enrollment	No. of Districts Reporting	Face a Facility Barrier	Existing Elementary School Space*	Existing Portables*	Shift Existing Programs*
Under 300	36	1	33	2	2
300 to 1,000	37	7	27	3	3
1,000 to 5,000	46	11	29	6	6
5,000 to 10,000	13	9	7	4	2
10,000 to 20,000	17	8	4	4	3
20,000 +	6	4	1	1	1
Total	**155**	**40**	**101**	**20**	**17**

New Rooms Needed for Full-Day Kindergarten Class Size: Surveyed districts projection of new classrooms necessary for full-day kindergarten programs in all schools. New classrooms may either be new additions, new portables, or modifications to existing buildings to create the spaces.

Table 8: Projected Number of New Classrooms Needed (Full-Day Kindergarten)

2009-10 Enrollment	No. of Districts Reporting	No. Districts Needing New Classrooms	Total No. of K-3 Classrooms (survey)	Estimated New Classrooms Needed for FDK	Percentage Increase
Under 300	36	3	150	2	1%
300 to 1,000	37	12	326	9	3%
1,000 to 5,000	46	29	1,950	32	2%
5,000 to 10,000	13	16	1,434	80	6%
10,000 to 20,000	17	10	2,434	131	5%
20,000 +	6	4	2,008	117	6%
Total	**155**	**74**	**8,302**	**371**	**4%**

Combined Facility Impact of Full-Day Kindergarten and K-3 Class Sizes of 17: Total combined new classroom needs reported by districts to accomplish both full-day kindergarten and K-3 class sizes of 17. New classrooms may either be new additions, new portables, or modifications to existing buildings to create the spaces. *Note: all of the 40 districts reporting a facility barrier to full-day kindergarten implementation also reported a facility need for K-3 class size reduction.

Table 9: Projected Combined Number of New Classrooms Needed (Full-Day Kindergarten and K-3 Class Sizes of 17)

2009-10 Enrollment	No. of Districts Reporting	No. Districts Needing New Classrooms	Total No. of K-3 Classrooms (survey)	Estimated New Classrooms Needed for both K-3 & FDK	Percentage Increase
Under 300	36	3	150	11	7%
300 to 1,000	37	12	326	59	18%
1,000 to 5,000	46	29	1,950	312	16%
5,000 to 10,000	13	16	1,434	532	37%
10,000 to 20,000	17	10	2,434	930	38%
20,000 +	6	4	2,008	528	26%
Total	**155**	**74**	**8,302**	**2,371**	**29%**

Bond Information: A cross match was done between the 74 districts reporting a facility barrier with OSPI general obligation bond data from 2010 and elections data from 2010 and 2011.

- In 2010, 63 of the 74 districts collected property tax revenue for previously approved general obligation bonds.
- In 2010, 11 of the 74 districts did not collect property tax revenue for previously approved general obligation bonds.
- In the elections held in 2010 and 2011, of the 74 districts, 5 passed bonds and 9 rejected the bonds.

Appendix 3: Detailed District Data for Levy Authority Options

Detailed district data for levy authority options is available at http://ofm.wa.gov/reports/default.asp#jkl. ~~If assistance is needed, p~~please contact Paula Moore at paula.moore@ofm.wa.gov or 360-902-0540.