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ABSTRACT

Washington State faces the challenge of balancing a number of conflicting economic and political conditions that impact K-12 education either directly or indirectly. These include reduced vehicle license fees, an existing statewide spending limit, a state revenue surplus, proposals to provide property-tax relief, proposed voter initiatives to alter school funding, and significant public support for increasing investments in education. This paper provides a discussion of these issues and a description of the general features of school finance in the state. (DFR)

**Financing Washington's Schools in the New Millennium:
Sorting Through the Mixed Messages**

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Financing Washington's Schools in the New Millennium: Sorting Through the Mixed Messages

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As Washington state enters the new millennium, it faces the challenge of balancing a number of conflicting economic and political conditions which impact K-12 education either directly or indirectly. These conditions include a recently approved statewide initiative which slashes vehicle license fees and limits fee increases, an existing statewide spending limit, a state revenue surplus, proposals to provide property tax relief, proposed voter initiatives to alter school funding, and significant public support for increasing investments in education. A discussion of these issues is provided later in this paper. First, a description of the general features of school finance in Washington state is provided.

General Background about Washington's Finance System

Schools in Washington state derive most of their revenues from state sources. Article 9, Section 1 of the Washington State Constitution declares that it is the "paramount duty" of the state to make ample provision for the education of all children residing in the state. In response to a 1977 court ruling (*Seattle v State of Washington*), the state assumed responsibility for funding "basic education" for a "uniform system of K-12 public schools." According to the court, the legislature is responsible for defining a basic education. The court also declared that financial support for basic education must be provided through state, not local, sources. The state legislature codified its interpretation of this responsibility in the Basic Education Act of 1977. This act defined full funding of basic education through the use of staff-to-student ratios that allocate resources to school districts. In 1983, again in response to a court ruling, the legislature expanded the definition of basic education to include special education programs for the handicapped, transitional bilingual programs, remediation assistance programs, and certain specified pupil transportation costs. The state thus assumed responsibility for funding these additional components of basic education.

Also in response to the court, the legislature enacted the Levy Lid Act in 1977. The Levy Lid Act placed restrictions on the amount of revenue school districts can raise locally. The levy lid was designed to limit local district levies to no more than 10 percent of a district's basic education allocation from the state and to ensure that such money provided enrichment programs at the local level. When the Levy Lid Act was passed, some school districts already collected local revenues that exceeded the 10 percent lid. These districts were given special authorization to continue their higher levies. Levy amounts for these districts were to be reduced gradually so as to eliminate higher levies by 1982. However, the Levy Lid Law has been amended numerous times since 1980. A 1987 amendment changed the levy limit from ten percent to twenty percent. Under current law, districts can raise local levy amounts up to 24% of their state and federal allocation. Also in 1987, the legislature added an additional component of state funding called local effort assistance, or levy equalization aid. Local effort assistance provides a guaranteed yield for local levies to those districts which levy above-average local tax rates to compensate for low property tax wealth. Funds are distributed according to a formula that is driven by the extent to which a district's local tax effort exceeds the state average tax effort. Equalization aid payments to school districts began in January 1989.

Current Revenues and Expenditures

Due to Washington's obligation to fund basic education programs and services from state sources, state revenue sources contribute the majority of funds for schools in Washington state (74% of operating revenue). The largest share of Washington's state operating budget is devoted to K-12 education. For the 1999-01 biennium, 46% is appropriated to K-12 schools and programs. General apportionment (the base allocation) comprises 75% of the state's allocation for operating revenues for K-12 schools. Total state, local, and federal revenue for operating purposes exceeded \$6.06 billion in 1998-99. In that same year, general fund expenditures for K-12 education totaled \$6.037 billion.

The past two decades have seen significant changes in the percentage of school revenue from local tax sources. In 1974-75, for example, excess general fund levies accounted for almost one third (32.23%) of total revenue. As a direct result of changes in the state's school finance formula, that figure fell to 8% by 1980-81. Since 1980-81, the percentage of total revenue from local tax sources has slowly and steadily increased. In 1998-99, local tax sources reached 14.65% of total revenue.

During the 1999 legislative session, the greatest share of spending increases was devoted to teacher compensation. A total of \$422 million was allocated for compensation increases for K-12 employees, including: (1) an across-the-board 3% cost of living increase each year for teachers, administrators, and classified staff, (2) beginning teacher salary increases of 7% and additional smaller increases through the fifth year, (3) a 2% increase for teachers with 16 or more years of experience, and (4) three learning improvement days added to the salary allocation schedule.

Sorting Through the Mixed Messages

As previously mentioned, recent political and economic influences in Washington state present a confusing set of circumstances that call special attention to the rather conflicting signals that are being sent by voters. There are some indications that the public is calling for restraints on spending which is accompanied by a mistrust of government officials and their management of the state's resources. At the same time, public opinion polls show that education is the key concern in the state, and members of the public indicate relatively strong support for increasing support for education initiatives. The main policy issues are outlined below.

The Surplus and the Spending Limit

Washington state has been experiencing a more robust state economy than anticipated. Factors such as lower than expected rates of unemployment, inflation, and student enrollment growth, combined with declining welfare caseloads, tobacco settlement revenues, and high consumer confidence, has contributed to a substantial projected state budget surplus for the 1999-2001 biennium.

A complication in Washington's debate about school funding is Initiative 601, the state's spending limit, which was adopted by the voters in 1993 and went into effect in 1995. This initiative imposes a limit on the state's general fund expenditures, restricts the legislature's ability to raise taxes and fees, provides for a required reserve fund, and restricts the ability of the legislature to transfer program costs to local governments. The spending limit can be increased at a rate over the previous year that is not greater than the sum of population growth and inflation. If state revenues exceed that limit, the excess is deposited into an emergency reserve fund. In order to exceed the spending limit, a two-thirds vote of both houses and the majority vote of the people at a general state election are required. Under Initiative 601, spending from the state general fund for the 1999-01 biennium is limited to \$20.646 billion, with the annual

spending limit for fiscal year 2000 at \$10.170 billion and a limit of \$10.476 billion in fiscal year 2001. Currently, Washington has \$1.3 billion in reserve funds.

Voter-Supported Tax Cuts and Property Tax Relief

In November 1999, voters approved Initiative 695, a statewide initiative that radically altered the state's vehicle license fees. The initiative slashed all car license fees to a flat \$30, regardless of the age or worth of the vehicle. This translated into a reduction of \$750 million in state revenue that is primarily allocated to transportation, and also to local governments for public health and safety programs. Many analysts observed that the Initiative was prompted by voter desire to "send a message" to elected officials to reduce government spending and to narrow the focus of government-funded activities. Policymakers were sent scrambling to develop ways to address the shortfall, and eight different legal challenges to Initiative 695 are now underway. On March 14, 2000 one portion of the initiative was declared unconstitutional by a Superior Court. That ruling is now under appeal to the State Supreme Court.

A key part of the deliberations regarding funding for the 2000 legislative session is the desire to provide for a property tax cut and is being proposed in varying degrees by both political parties and by the governor. Some observers believe this is a response in the aftermath of Initiative 695 and others note that it may be a means to head off another voter initiative that has been filed and is in the process of signature-gathering. This possible initiative would place a limit on property tax rates, in a manner similar to Proposition 13 in California.

Two additional voter initiatives related to school funding are also in the process of signature-gathering for inclusion on the November 2000 ballot. One is a multi-faceted initiative which would direct the legislature to allocate additional resources, including the state surplus revenues, toward reduce class size, provide students with additional time for extended learning opportunities, and/or increase teacher professional development investments. Another facet of this initiative would earmarked currently unrestricted state lottery revenue for K-12 schools, while another aspect would authorize local school districts to receive funds from the state property tax. The second initiative would require an automatic, annual cost-of-living increase for teachers and other school employees in K-12 schools and community and technical colleges. The deadline for meeting signature requirements for these proposed voter initiatives is July 7, 2000.

Public Sentiment Regarding Education Funding

In the midst of the various signals that call for reductions in spending, voters in Washington state consider education to be the state's top priority. A voter survey completed in September, 1999 indicates that voter confidence, support, and concern about public education is at its highest since 1991. A majority of voters (55%) grade the performance of public schools in the state an A or a B, and 66% indicated support for increasing taxes to reduce class size.

Taken together, these political and economic conditions certainly pose additional challenges for those involved in support the funding of public education in Washington as we enter a new millennium.

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