

Levies & Levy Equalization



**JOINT TASK FORCE ON EDUCATION FUNDING
NOVEMBER 7, 2012**

**Office of Financial Management
Senate Committee Services
House Office of Program Research**

Two Types of Property-Tax Levies

- **Regular levies:**

- The state property tax is a “regular” levy
- Regular levies are subject to the 1% Constitutional limit
- Tax rates are expressed as dollars per \$1,000 of value so the 1% translates to a \$10 limit. Of the \$10 limit, the state has a \$3.60 share*
- State property taxes are dedicated to common schools
- Taxes must be uniform on the same class of property in the geographical limits of the taxing authority, so statewide property tax must be uniform

- **Excess levies:**

- The local school property tax is an “excess” levy (not subject to the \$10 limit but requires voter approval)
- There are several types of school-district levies; focus for today is the Maintenance and Operations (M&O) levy
- Requires approval of a simple majority of voters
- Amount is limited by the state Levy Lid Act

*The actual rate is lower than the \$3.60 limit. The current state rate is \$2.22 for 2012 collections.

School District M&O Levies

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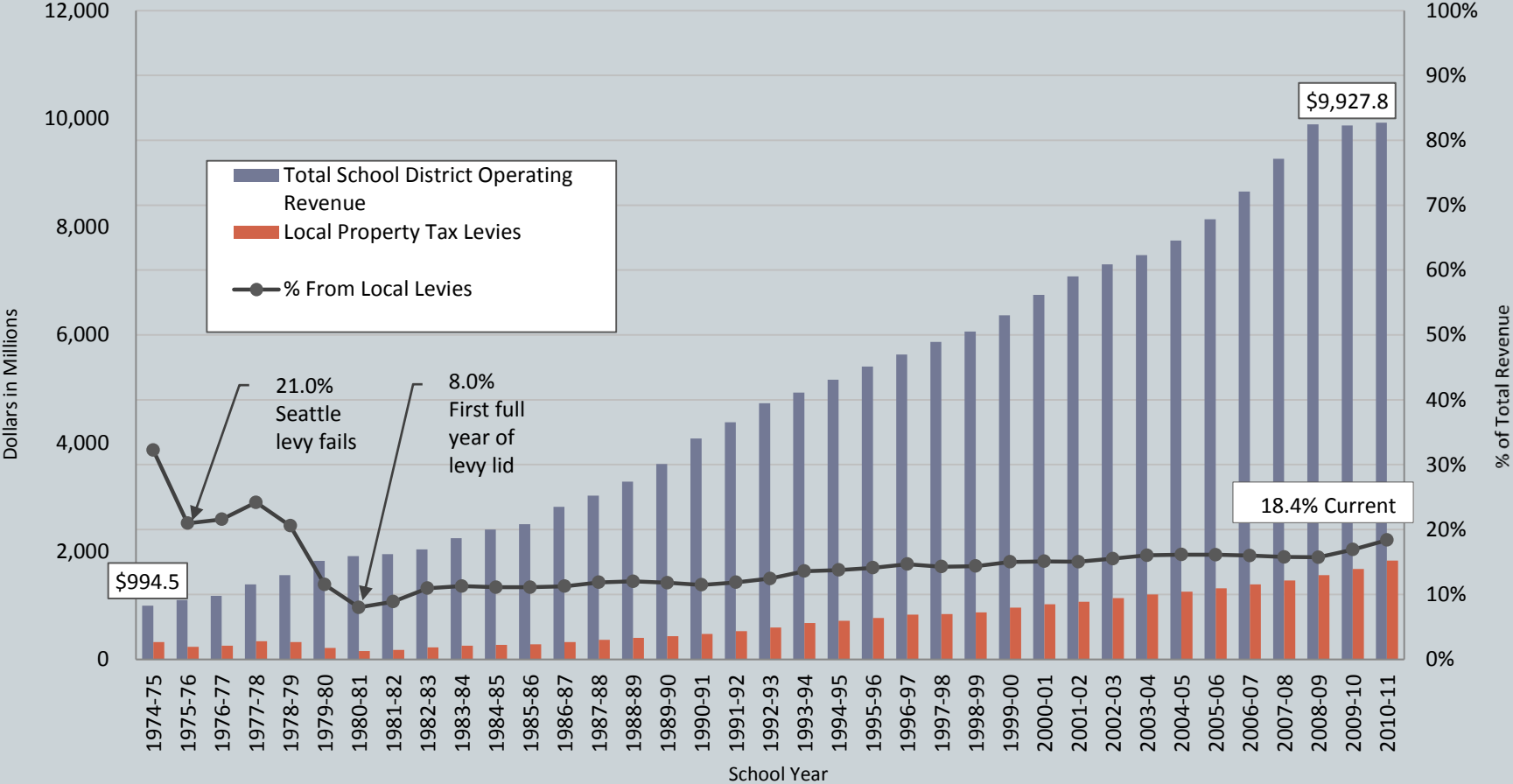
- The State Constitution provides school districts the authority to levy property taxes.
- Before 1977, M&O levies made up as much as 30% of school district operating revenues statewide.
- The failure of Seattle School District's 1976 levy led to a court case and the Doran decision requiring the state to fully fund "basic education."
- In response, in 1977 the state passed the Basic Education Act which increased state support to schools, and the Levy Lid Act which limits the amount a district can raise through M&O levies.
- In 2010, SHB 2893 increased the levy lid percentage – effective calendar year 2011 through 2017 – from 24% to 28%. Grandfathered increments remained the same and add on to the 28% base. The levy-equalization percentage increased from 12% to 14% and additions to the levy base were extended or added.

The 1977 Levy Lid Act

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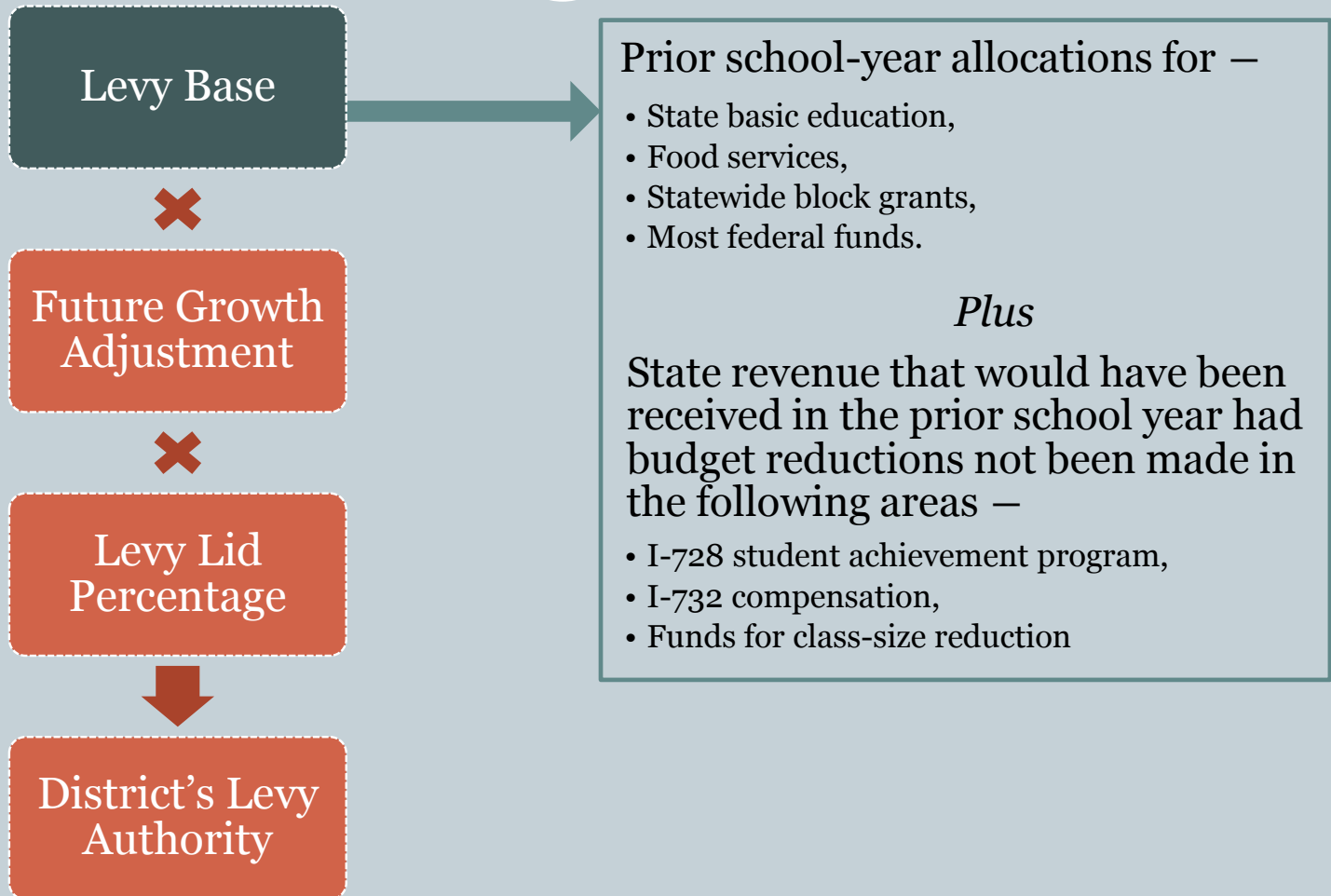
- The 1977 Levy Lid Act limits the amount of revenue that can be collected, the length of the term, and the number of times the levy can be put before the voters.
- The term of M&O levies is from one to four years.
- School districts may ask voters for levy approval a maximum of two times in a calendar year. Unsuccessful levies may be resubmitted in subsequent years.
- M&O levy revenues are for enhancements to the state basic education program. – e.g., extracurricular activities, enhanced class offerings, additional salaries for additional duties for teachers.
- Since the Levy Lid Act passed, the Legislature has gradually amended the act, changing the limits on levy revenue districts may collect.

Local Levies as a Percent of All School Districts' Revenue



Levy Authority Formula

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Levy Authority Formula

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The levy lid percentage for most districts is 28%

Of the 295 school districts, 90 have grandfathered levy lids above 28% – ranging from 28.01% to 37.90%

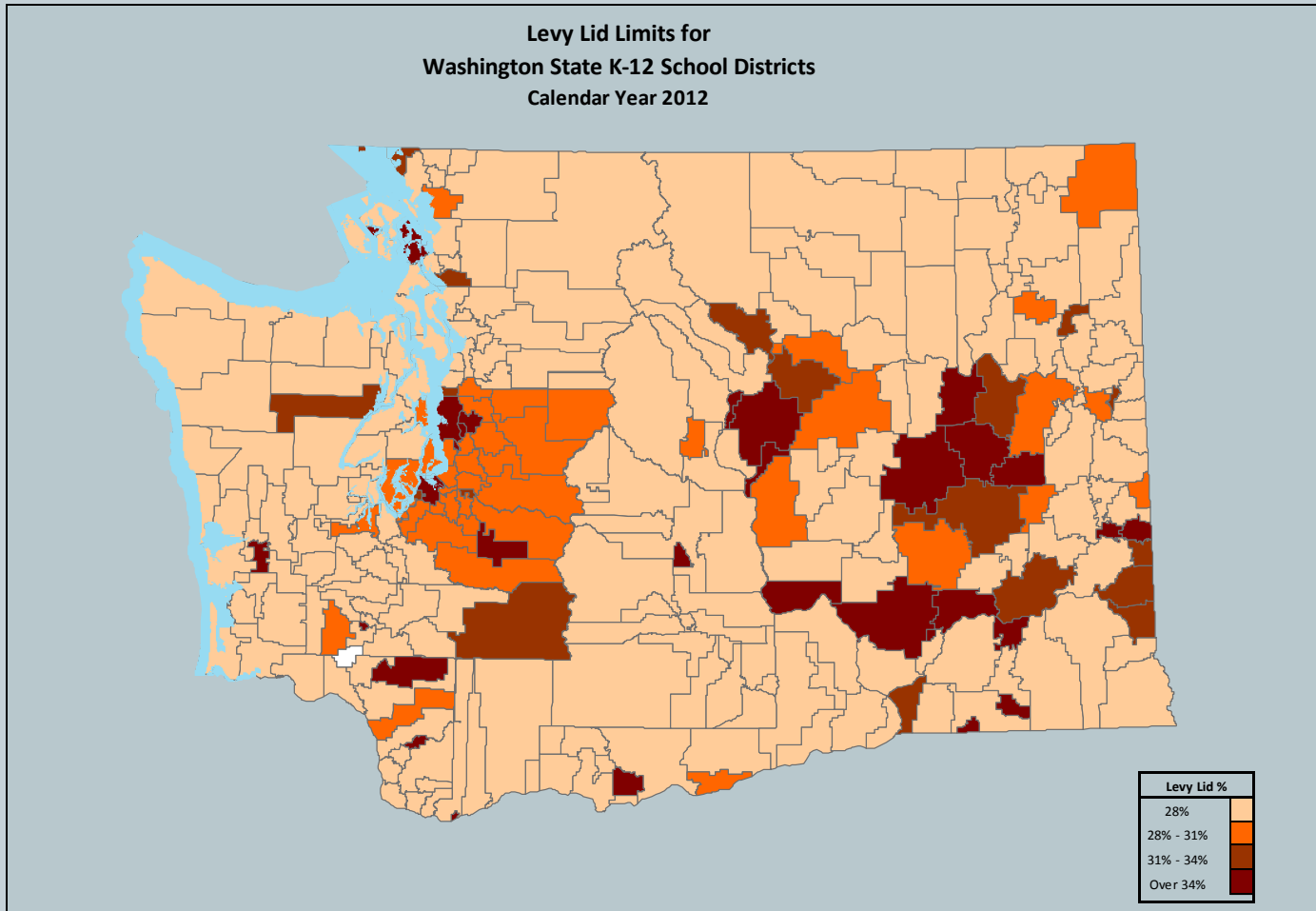
All levy lid percentages are scheduled to revert to the prior 24% (plus grandfathered increments) as of January 1, 2018.

Note: As described below, the district's local levy authority is reduced by the value of the levy equalization payment.

Levy Lid % and Grandfathered Districts

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Levy Lid Limits for
Washington State K-12 School Districts
Calendar Year 2012



The Local Effort Assistance (LEA) Program

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- Also referred to as “levy equalization”
- Purpose spelled out in RCW 28A.500.010:
“The purpose of these funds is to mitigate the effect that above average property tax rates might have on the ability of a school district to raise local revenues to supplement the state's basic program of education. These funds serve to equalize the property tax rates that individual taxpayers would pay for such levies and to provide tax relief to taxpayers in high tax rate school districts.”

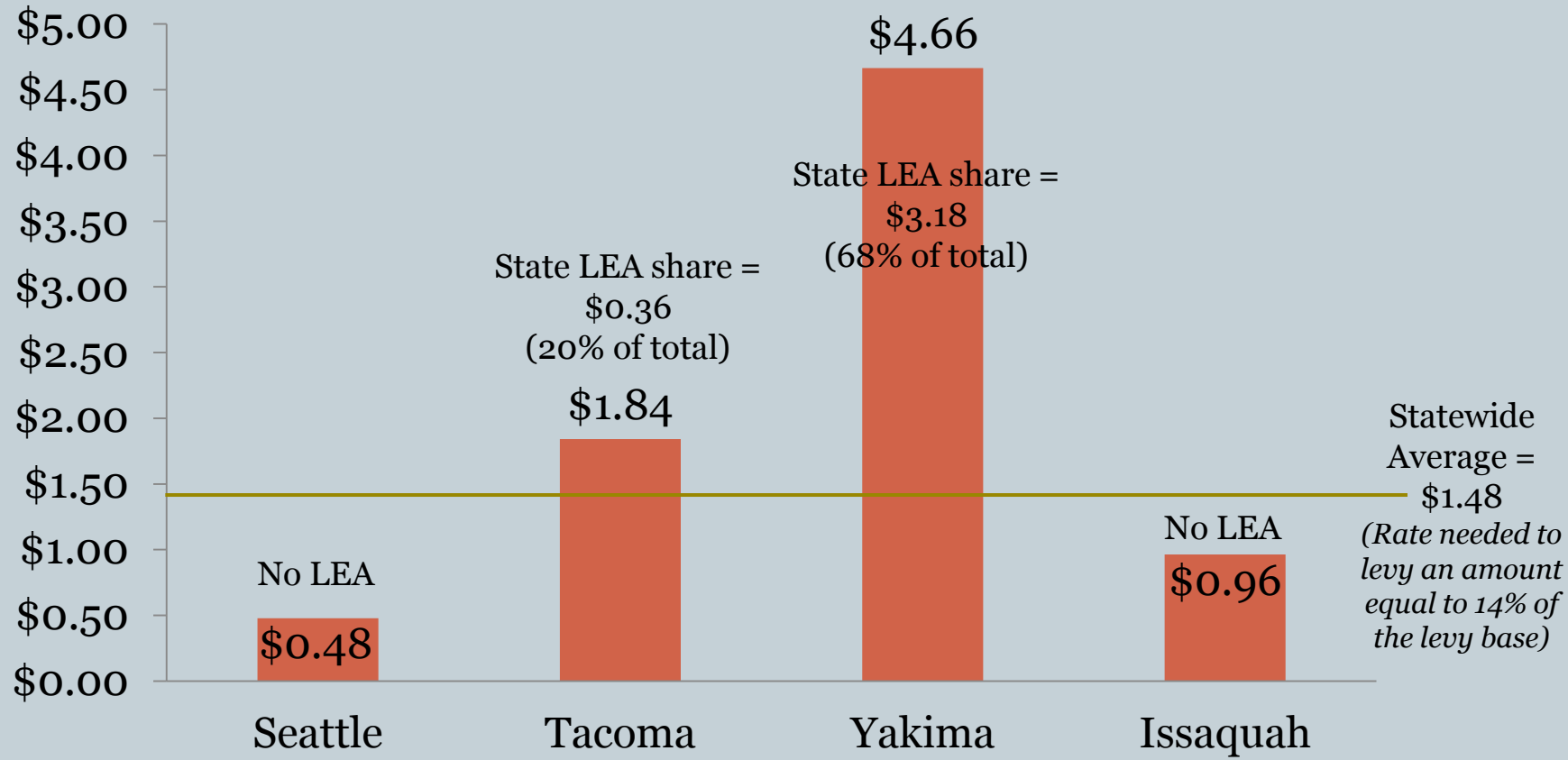
The Local Effort Assistance (LEA) Program

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- The LEA program currently provides equalization up to 14% and districts must have an approved M&O levy to qualify.
- If the tax rate needed by a district to raise 14% of its revenue base is greater than the statewide average, the state contributes an amount to make up that difference.
- This amount is deducted from the amount districts are allowed to collect in local levies.
- LEA program is outside the Legislature's definition of basic education.

LEA Illustrations

Est. 2013 Levy Rate for 14% of Levy Base (per \$1,000 of Adjusted Assessed Value)



LEA Calculations in Two Sample Districts

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Hypothetical Example for 2013	District 1	District 2
Enrollment	15,000	15,000
Levy base	155,000,000	155,000,000
Approx. adjusted assessed value (AAV)	20,000,000,000	4,500,000,000
14% levy amount (levy base x 0.14)	21,700,000	21,700,000
14% levy rate (levy amt ÷ AAV) x \$1,000	\$1.09	\$4.82
Max LEA = levy amt x ((levy rate – avg rate) ÷ levy rate)*	\$0	\$15,037,000

*Estimated statewide average 14% levy rate for 2013 = \$1.48

What does this mean for taxpayers in each district?

If each district has a taxpayer with a \$200,000 house, the following table illustrates the individual taxpayer impact, before and after LEA, to raise the same dollar amount and the same per-pupil amount:

Annual Taxpayer Impact	District 1	District 2
Prior to LEA	14% levy rate = \$1.09	14% levy rate = \$4.82
	Annual tax on \$200,000 = \$218.00	Annual tax on \$200,000 = \$964.00
After LEA	14% levy rate = \$1.09	Remaining rate after LEA = \$1.48
	Annual tax on \$200,000 = \$218.00	Annual tax on \$200,000 = \$296.00

Facts & Figures about Levies – CY2012

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- 281 of 295 school districts collecting M&O levy revenue.
- Total value of \$2.0 billion ranging from \$13,000 (Nespelem) to about \$153 million (Seattle).
- 255 districts are collecting less than their allowed lids; 54 districts are collecting 90% or more of their lids; 128 districts are between 50% and 90% of their lids; 59 districts are collecting less than 50% of their lids.
- 215 of 295 districts (73%) receive LEA payments.

Levy Swap Proposals

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1) SENATE BILL 6858

Prime sponsor: Sen. Joseph Zarelli

Proposed in 2010 Legislative session prior to levy lid lift

2) HOUSE BILL DRAFT H-3045.6

Rep. Hunter Draft Proposal

Work session: December 7, 2011

Example 1) SB 6858

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- Proposed in 2010 Legislative session, prior to levy lid lift
- Decreased school district levy authority by 12 percentage points, from 24% to 12% of the levy base (no change to grandfathering)
- Increased the state property levy by 88 cents per \$1,000 assessed property value
- Funded the new student transportation funding formula and higher maintenance, supplies, and operating cost (MSOC) allocations beginning with school year 2011-12
- Included a “hold-harmless” provision to ensure no school district would receive less revenue in SY2011-12 and thereafter than was received in SY2010-11 from the following sources: local levies, levy equalization, state transportation and MSOC allocations

SB 6858 Fiscal Summary

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- Fiscal assumptions: based on calendar year 2011 figures, prior to enactment of SHB 2893 which increased levy lid and LEA percentages
- Reduction of levy lid from 24% to 12%, and increasing levy base by new state expenditures for transportation and MSOC would have reduced school district levy collections by a net of \$828.1 million
- Increase of state property tax by 88 cents would have generated state revenue of \$828.0 million
- Increased state expenditures to school districts (higher LEA, transportation and MSOC allocations, plus hold-harmless funds) total \$912.0 million

SB 6858 School District Impact

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- Overall loss of \$828 million in local levy revenue
- Overall gain of \$912 million
 - \$828 million in ↑LEA, MSOC, transportation + \$84 million in hold harmless = \$912 million
- With hold harmless, no school district would have received less net funding
- 195 districts would have received more funding

SB 6858 Taxpayer Impact

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- Statewide, the proposal was revenue neutral, although some property owners would have increased taxes and others would have decreased taxes
- It was estimated that taxpayers in 156 districts would have paid lower rates
- It was estimated that taxpayers in 139 districts would have paid higher rates
 - Higher rates would have been paid in districts with less than a 12% levy
 - Higher rates would have been paid by property-wealthy districts

SB 6858 Sample Taxpayer Impacts

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All figures based on calendar year 2011 projections at the time of the proposal, prior to levy lid lift & other changes.

House Bill Draft H-3045.6

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- The state property tax rate is increased by \$1.17 per \$1,000 of value starting in CY2013.
 - Local M&O levies are reduced by roughly \$1 billion
 - The state property tax levy is increased by approximately \$1 billion
 - Statewide, revenue is maintained at a nearly neutral level, though tax rates increase/decrease locally at different rates.
- Makes the new state property tax rate permanent by exempting the state property tax from the 1% revenue growth limit.
- Distributes the new state property tax revenue to school districts in proportion to the previous year's general apportionment allocations on a resident student basis.

House Bill Draft H-3045.6

- The new state property tax distribution offsets previously approved local excess levies by the amount of the school districts' respective distributions of new state property tax revenue.
- New school district excess levy caps are established for maintenance and operation levies at \$2,500 per student.
- The draft proposed bill does not address levy equalization.
 - State payments in levy equalization are estimated to increase under this scenario.
 - The total increase, depends on numerous policy choices at both the state and district levels.