

Representative Hunter's School Levy Proposal

Brief Summary:

- Increases the state property tax rate by \$1.17 per \$1,000 of value starting in 2013 and makes new rate permanent.
- Distributes the new state property tax revenue to school districts in proportion to the previous year's general apportionment allocations.
- Offsets previously approved local excess levies by the amount of the school district's distribution of new state property tax revenue.
- Creates new school district excess levy cap for maintenance and operation levies at \$2500 per student.

Background:

Property Taxes. All real and personal property in this state is subject to property tax each year based on its value, unless a specific exemption is provided by law. The property tax is subject to a number of constitutional and statutory requirements. The State Constitution (Constitution) requires all property taxes to be applied "uniformly;" this has been interpreted to mean that within any given taxing district, the district rate applied to each parcel of taxable property must be the same.

The Constitution limits the sum of property tax rates to a maximum of 1 percent of true and fair value, or \$10 per \$1,000 of market value. Levies that are subject to the 1 percent rate limitation are known as "regular" levies, and there is no constitutional voting requirement for regular levies. The Constitution does provide a procedure for voter approval for tax rates that exceed the 1 percent limit. These taxes are called "excess" levies.

Maintenance and operation (M&O) levies for school districts are the most common excess levies. School M&O levies are capped by a formula to a percentage, 28 percent in most cases, of prior year school funding from state and federal sources. School M&O levies may be authorized for two-year to four-year periods by a majority vote of the school district voters. School districts must wait until the current levy authorization is concluded before requesting another levy authorization. However, if the Legislature increases the levy cap a district may request new authorization before the current levy authorization is concluded.

In order to implement the 1 percent constitutional rate limit for regular levies, the Washington Legislature has adopted statutory rate limits for each individual type of district. The state levy rate is limited to \$3.60 per \$1,000 of value; county general levies are limited to \$1.80 per \$1,000; county road levies are limited to \$2.25 per \$1,000; and city levies are limited to \$3.375 per \$1,000. These districts are known as senior districts. Junior districts such as fire, library, and hospital districts each have specific rate limits as well.

In addition, there is an overall rate limit of \$5.90 per \$1,000 for most districts. The state property tax and a specific list of local levies, such as emergency medical services, conservation futures, affordable housing, and others are not subject to the \$5.90 limit. There is a complex system of prorating the

various levies so that the total rate for local levies does not exceed \$5.90. If the total rate exceeds \$10 after prorationing under the \$5.90 aggregate rate limit then another prorationing procedure reduces levy rates so that the total rate is below \$10 per \$1,000 of value.

In addition to the rate limitations, a district's regular property tax levy is limited by a statutory maximum growth rate in the amount of tax revenue that may be collected from year to year. Generally, the limit requires a reduction of property tax rates as necessary to limit the growth in the total amount of property tax revenue received to the lesser of 1 percent of inflation. The revenue limitation does not apply to new value placed on tax rolls attributable to new construction, to improvements to existing property, to changes in state-assessed valuation, or to construction of certain wind turbines. In districts where property values have grown more rapidly than 1 percent per year, the 101 percent revenue limit has caused district tax rates to decline below their maximum rate. The state property tax is subject to the 1 percent revenue limit. Over time the state property tax rate has declined from the \$3.60 rate. The state property tax rate in calendar year 2011 was \$2.06 per \$1,000 of value and is expected to be about \$2.27 in 2012.

Basic Education Allocations. State funding to support the Instructional Program of Basic Education is allocated to school districts according to funding formulas established in statute and additional provisions specified in the omnibus appropriations act. Beginning September 1, 2011, these formulas allocate funds based on a prototypical school funding method that specifies various assumptions about class size, school staffing levels, allocations for maintenance, supplies, and operating costs, phased-in implementation of full-day kindergarten, district-wide support, and central administration. The appropriations act provides this funding through appropriations for General Apportionment. For the 2011-12 school year, the statewide appropriation for General Apportionment is \$5.1 billion. Funding is allocated based on the number of full-time equivalent students who are enrolled in the district. Most students enrolled in a district also reside in that district, but school choice laws permit students to reside in one district but be enrolled in a different district.

Summary of Proposal:

The state property tax rate is increased by \$1.17 per \$1,000 of value starting in 2013. The new total property tax rate is exempt from the 1 percent revenue limit.

Revenue from the new state property tax is allocated to school districts on a resident student basis in proportion to the previous year's general apportionment allocations.

School district maintenance and operation levies adopted before the effective date of the bill are reduced by the allocation from the new state property tax. Levies adopted before the effective date of the bill may continue for the time period authorized by the voters.

The new cap on school district M&O levies is established at \$2,500 per student. The new cap applies to levies approved after the effective date of the bill. Levies adopted under the new \$2,500 per student cap are not reduced by the allocations from the new property tax. Districts with current levy authorizations may request a new authorization under the new levy cap before the current authorization is concluded.