Forty-six percent of Washington's state operating budget is devoted to K-12 education. This paper provides an overview of key features of Washington's school finance system. It examines sources and levels of revenues and expenditures for K-12 public education and outlines major principles of Washington's revenue distribution system. An examination of interdistrict equity of state aid distribution during the period 1974-94 reveals three emerging equity issues: (1) increased dependence on local revenue sources; (2) unknown extent to which local revenues fund basic education services; and (3) the challenge of aligning the state's finance system with the provisions of the statewide education reform effort. Additional information regarding sources of revenue and distribution is current through 1999 projections. The paper examines general and categorical revenue generation for special-education programs, Learning Assistance Programs (LAP), Transitional Bilingual Education, and school construction. Revenue distribution is looked at with respect to guidelines for distribution to school districts, the Levy Lid Act, Levy equalization aid, and distribution of state equalization aid. Emerging equity issues and their relationship to property wealth, and local levy funding, are also examined. (RIB)
STATE OF THE STATES AND PROVINCES

School Finance in Washington State 1997-98: Emerging Equity Concerns

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Emerging Equity Concerns

Introduction

This paper provides an overview of key features of Washington's school finance system. It examines sources and levels of revenues and expenditures for K-12 public education. The paper also outlines the major principles underlying Washington's revenue distribution system. The interdistrict equity of Washington's system of distribution of state aid is examined for the period 1974-1994. The paper concludes with a look at three emerging equity issues in Washington: (1) increased dependence on local revenue sources, (2) unknown extent to which local revenues fund basic education services, and (3) the challenge of aligning the state's finance system with the provisions of the statewide education reform effort.

REVENUE GENERATION

Money to operate Washington's public schools comes from state, local, and federal sources. For the 1996-97 school year, total state, local, and federal revenue exceeded $5.61 billion. In 1996-97, the student enrollment in public K-12 schools reached 991,235. Students are enrolled in 296 school districts. Washington public schools derive the majority of their revenue from state funds. In 1995-96, state revenue comprised 75.76% of the total general fund revenue for K-12 public schools, with local revenue at 17.22% and federal revenue at 6.18%.

State revenue

Taxes represent 96% of Washington's general fund revenue. Retail sales and use taxes, estimated at $9.4 billion for the 1997-99 biennium, compose the largest source of tax revenue for the state's general fund, accounting for 48.4% of all general fund tax receipts. The business and occupation tax provides the next most important source of state tax revenue. It is estimated to generate $3.6 billion, or 18.5% of state general fund revenue in the 1997-99 biennium. Finally, state property tax revenue is projected to constitute $2.65 billion, or 13.7% of state general fund revenues for the 1997-99 biennium.
The largest share of Washington’s state operating budget is devoted to K-12 education. For the 1997-99 biennium, 46.5% is appropriated to K-12 schools and programs. Figure 1 displays the state’s percentage allocations to K-12 education, higher education, human services, and all other programs for the 1997-99 biennium.

### Figure 1

1997-99 Washington State Operating Budget

<table>
<thead>
<tr>
<th>Program</th>
<th>State General Fund</th>
<th>Percent of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legislative</td>
<td>112884</td>
<td>0.59%</td>
</tr>
<tr>
<td>Judicial</td>
<td>59988</td>
<td>0.31%</td>
</tr>
<tr>
<td>Governmental Operations</td>
<td>337914</td>
<td>1.77%</td>
</tr>
<tr>
<td>Human Services</td>
<td>5946307</td>
<td>31.17%</td>
</tr>
<tr>
<td>Natural Resources</td>
<td>231214</td>
<td>1.21%</td>
</tr>
<tr>
<td>Transportation</td>
<td>24507</td>
<td>0.13%</td>
</tr>
<tr>
<td>Public Schools</td>
<td>8868051</td>
<td>46.49%</td>
</tr>
<tr>
<td>Higher Education</td>
<td>2202787</td>
<td>11.55%</td>
</tr>
<tr>
<td>Other Education</td>
<td>49235</td>
<td>0.26%</td>
</tr>
<tr>
<td>Special Appropriations</td>
<td>1243996</td>
<td>6.52%</td>
</tr>
<tr>
<td><strong>Statewide Total</strong></td>
<td><strong>19076883</strong></td>
<td><strong>100.00%</strong></td>
</tr>
</tbody>
</table>

*(Dollars in Thousands)*

Of the total state operating budget for K-12 schools for the 1997-99 biennium, approximately 87% is allocated for basic education. Basic education includes general apportionment as well as programs and services such as pupil transportation, special education, institutional education, transitional bilingual education, and the state’s Learning Assistance Program. General apportionment (that is, the base allocation) comprises 71.9% of the state’s general fund allocation. Figure 2 displays allocations for the 1997-99 biennium.
State categorical aid

As noted above, state funding for basic education also includes support for students' special needs, including special education for the handicapped, transitional bilingual education, and the Learning Assistance Program.

In 1995, a major change occurred in funding special education programs for the handicapped. During the 1995 legislative session, special education funding was set at an overall cap equal to no more than 12.7% of the total student population. Previously, special education funding had been allocated at different rates based on the type of handicapping conditions of enrolled students. In general, under the previous model, districts received higher per-student allocations for students exhibiting more severe handicapping conditions.

For the past 20 years, Washington has operated a program for low-performing students called the Learning Assistance Program (LAP). State funding for LAP during 1997-98 is $60,862,000. Districts qualify for LAP funding on the basis of a formula which accounts for the percentage of students performing below the fourth quartile on standardized tests and the percentage of students who apply for the Free or Reduced Price Lunch Program. Districts are
responsible for allocating LAP funds to individual schools that serve eligible students from grades K-9. LAP is projected to serve 124,210 students statewide during the 1997-98 school year.

The Washington State Transitional Bilingual Education Program serves students whose primary language is not English and whose deficiencies in English language skills impair their classroom learning. Between 1985 and 1995, bilingual students as a percentage of total K-12 enrollment grew from 1.9% to 5.1%. During this same period, the number of students to staff in bilingual programs grew from 14:1 to 20:1. In 1996-97 total state expenditures for bilingual education were approximately $29.69 million and the program served 54,124 students.

School construction

Since 1965, the Common School Construction Fund has provided state revenue for capital construction. This revenue is derived mostly from the sale of timber resources, the 1.3 million acres of state school lands set aside in 1889 to fund education. Beginning in 1990, the legislature added a state General Fund appropriation to the Common School Construction Fund. Additionally, Initiative 601 established conditions under which excess state revenue can be deposited in an Education Construction Fund. Moneys from this fund may be appropriated by the legislature for capital construction projects for higher education institutions and the K-12 system.

School districts acquire funds for capital projects through bond sales, investment earnings on proceeds from these sales, and a state matching program for school construction and modernization. Districts receive state assistance based on their per-pupil property wealth.

Local revenue

Local property tax revenue is estimated to generate approximately $6.2 billion statewide during the 1997-99 biennium. Local taxes which generate revenues for schools often are referred to as "special levies" (because they require local voter approval) or "excess levies" (because they exceed the state's 1% limit on property taxes). Four types of levies can be raised: (1) maintenance and operations (M&O), one or two year levies devoted to district operations, (2) debt service, multi-year levies used to pay principal and interest on general obligation bonds, (3) capital projects, one to six year levies used to pay for school construction or remodeling, and (4) transportation vehicles, one or two year levies used to pay for school buses or other school transportation needs. Maintenance and operations levies constitute the most frequently occurring type of levy. All levies require voter approval. Figure 3 provides a historical review of the levy revenue as a percent of total revenue for the period 1974-1997.
As depicted in Figure 3, 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 composed about a 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 1996-97, local tax sources reached 14.86% of total revenue. A further discussion of this gradual increase in dependence on local revenues can be found in the final section of this paper. Local non-tax...
revenue comes primarily from investment earnings and food service fees. Local non-tax revenue composed 3.1% of total revenue in 1995-96.

Federal revenue

Federal revenue accounts for 6% of total operating revenue in Washington. Washington thus ranked 31st in the nation in terms of the percentage of 1994-95 operating revenue contributed from federal sources. Approximately 30% of federal revenue is derived from the Elementary and Secondary School Improvement Chapter 1 and 2 money, a little more than a quarter (28%) is derived from the School Food Services program, 12% from the Supplemental Handicapped fund, 10% from Federal Impact Aid, and 6% from federal forest revenues.

Washington state provides a higher percentage of revenue from state sources than any other comparable state. In fact, in 1994-95, only two other states provided a higher percentage of revenue from state sources: Hawaii, a single-school district state which provides 90.2% of revenue, and New Mexico, which provides nearly three-quarters (74.4%) of all educational dollars.

Expenditures

Washington's 1995-96 general fund expenditure per FTE pupil equaled $5,845. A description of 1995-96 general fund expenditures by activity is provided in Figure 4.

Figure 4

General Fund Expenditures by Activity

<table>
<thead>
<tr>
<th>Activity Type</th>
<th>Per Pupil Expenditure</th>
<th>Percent of Total Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Admin</td>
<td>419.56</td>
<td>7.18</td>
</tr>
<tr>
<td>Building Admin</td>
<td>373.68</td>
<td>6.39</td>
</tr>
<tr>
<td>Teaching</td>
<td>3564.91</td>
<td>60.99</td>
</tr>
<tr>
<td>Teaching Support</td>
<td>451.51</td>
<td>7.72</td>
</tr>
<tr>
<td>Grounds &amp; Plant</td>
<td>372.85</td>
<td>6.38</td>
</tr>
<tr>
<td>Food Services</td>
<td>179.86</td>
<td>3.08</td>
</tr>
<tr>
<td>Utilities</td>
<td>147.55</td>
<td>2.52</td>
</tr>
<tr>
<td>Insurance</td>
<td>31.68</td>
<td>0.54</td>
</tr>
<tr>
<td>Data Processing</td>
<td>44.16</td>
<td>0.76</td>
</tr>
<tr>
<td>Transportation</td>
<td>259.71</td>
<td>4.44</td>
</tr>
<tr>
<td>TOTALS</td>
<td>5845.47</td>
<td>100</td>
</tr>
</tbody>
</table>
Increasing Fiscal Pressures

Assuming no major changes in state funding mechanisms and spending limits, Washington faces mounting fiscal pressures. School enrollment constitutes the principal determinant of school funding. Washington's K-12 enrollment growth rate will continue to outpace the state's general population growth rate through the end of the 1990's. Moreover, state spending limitations required by Initiative 601 will reduce the state's fiscal capacity to fund basic education commensurate with projected K-12 enrollment growth. Continued growth in Washington's higher education system during this same time period also will exacerbate pressure on state resources. In short, despite a growing economy, increased enrollments at both K-12 and postsecondary levels combined with state and local spending limitations challenge the state's fiscal ability to meet its future educational obligations.

REVENUE DISTRIBUTION

Basic features

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 which 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.

Distribution of state general apportionment revenue to each school district is based primarily on ratios of staff to students. Different ratios exist for each type of staff: certificated instructional, administrative, and classified. Additional revenues are allocated for smaller staffing ratios in grades K-3. The state provides funds to school districts based on their enrollment and the average salary allocation for each type of staff member. Basic education funds are also provided
for Non-Employee Related Costs, that is, costs not associated with employee compensation, such as books, supplies and equipment, materials, and utilities.

Also in response to the court, the legislature enacted the Levy Lid Act. 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 ("grandfathered") to continue their higher levies. Levy amounts for grandfathered districts were to be reduced gradually so as to eliminate higher levies by 1982. However, since its enactment, the levy lid law has been amended eight times (1979, 1981, 1985, 1987, 1988, 1989, 1992, and 1993) and the original 10 percent limit has never implemented. Under current law, districts can raise local levy amounts up to 24% of their state and federal allocation.

In 1987, the legislature added an additional component of state funding called local effort assistance, or levy equalization aid. Local effort assistance provides aid to those districts which levy above-average local tax rates to compensate for low assessed property wealth. Funds are distributed according to a formula which is driven by the extent to which a district's local tax effort exceeds the state average tax effort. For the 1997-99 biennium, funds for levy equalization aid account for 1.8% of the state's general fund budget for K-12 education.

**Distribution of state equalization aid**

Generally speaking, the majority of equalization aid is targeted at districts with lower than average assessed valuation per pupil. However, a few anomalies exist. In 1997, levy equalization assistance was provided to a small number of districts whose assessed valuation per student exceeded the state average. Of the 221 districts which were eligible to receive levy equalization assistance in 1997, 43 districts had assessed valuations per pupil which were greater than the state average. Each of these 43 districts enroll fewer than 1000 students, with 38 districts (88.37%) enrolling fewer than 500 students, and 35 districts (81.4%) enrolling fewer than 300 students. Also, of the 81 districts who are not eligible for levy equalization, 6 districts have assessed valuations per pupil which are slightly below the state average, ranging from one district at 91.8% of the state average and the remaining 5 districts ranging from 97.8% to 99.2% of state average assessed valuation per pupil. Districts who were not eligible for levy equalization assistance in 1997 served 33.24% of the state's students.
**Measures of interdistrict equity**

How well does Washington's current system of state aid distribution address interdistrict equity? A number of equity measures were calculated in order to compare interdistrict equity at three points over a twenty year time period. Statistics for the years 1974-75, 1984-85, and 1994-95 were calculated. The year 1974-75 is a representation of the state's system prior to the enactment of the Basic Education Act of 1977 (described above). In contrast, the 1984-85 and 1994-95 statistics represent periods after enactment of the Basic Education Act and related school finance reforms. As shown in Figure 5, the equity measures show demonstrable changes between 1974-75 and 1984-85, with significant improvements on all four indices. Changes between 1984-85 and 1994-95 are less dramatic, but indicate continued improvement on three equity indicators (coefficient of variation, Gini coefficient, and Federal Range Ratio) and sustained equity status on the McLoone index.

**Figure 5**
Equity Statistics for Washington

<table>
<thead>
<tr>
<th>Type of Measure</th>
<th>1974-75</th>
<th>1984-85</th>
<th>1994-95</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coefficient of Variation</td>
<td>1.08</td>
<td>0.7</td>
<td>0.45</td>
</tr>
<tr>
<td>Gini Coefficient</td>
<td>0.29</td>
<td>0.054</td>
<td>0.046</td>
</tr>
<tr>
<td>McLoone Index</td>
<td>0.81</td>
<td>0.95</td>
<td>0.95</td>
</tr>
<tr>
<td>Federal Range Ratio</td>
<td>8.22</td>
<td>0.35</td>
<td>0.32</td>
</tr>
<tr>
<td>Number of districts</td>
<td>304</td>
<td>298</td>
<td>296</td>
</tr>
</tbody>
</table>

Source: Author analysis of data provided by OSPI

**EMERGING EQUITY CONCERNS**

There are several indicators which illustrate that Washington's state school finance system is fairly sensitive to variations in property wealth across the state's districts. Equity statistics displayed in Figure 5 above indicate that significant progress has been made. An earlier analysis of the distribution of state equalization aid also indicates that, for the most part, equalization aid is targeted at districts whose assessed valuation per pupil is below the state average. Yet there are other emerging issues which raise questions about the overall equity of the finance system. Three emerging equity issues are discussed below.
1. Dependence on local revenue is increasing

As a result of the previously described school finance reforms enacted in 1977, dependence on local revenues for basic aid dropped dramatically and swiftly. Revenues from local levies declined from 24% of total basic education revenues in 1977-78 to only 8% in 1980-81. However, since 1981, levy revenue as a percentage of total revenue has been slowly but steadily increasing over the past 16 years, from 8.87% in 1981-82 to a total of 14.86% in 1996-97. This increase in levy revenue can be attributed to at least three factors: (1) numerous amendments of the Levy Lid Act which allowed for increases in districts' levy authority, (2) a 1987 amendment to the Levy Lid Act which expanded the levy base to include most federal funds, and (3) a gradual increase in the number of districts which passed levies. Consequently, the trend indicates that the state is not likely to meet the original goal of limiting local revenues to 10% of basic education revenues.

2. Does local levy revenue fund basic education services?

According to the Basic Education Act of 1977, local revenues should not be used to fund basic education. However, given existing state databases, it is not possible to examine the exact nature of local levy expenditures, as the state does not collect this information. It is reasonable to believe that differences in uses of levy dollars exist among school districts and individual schools, as these funds are designed to provide for locally-determined enhancements to the basic education program. Some discussion is currently underway to collect reliable and objective statewide data about the uses of local levy dollars. Anecdotal information from local district sources indicate that the possibility exists that, in some cases, levy dollars might be used to support basic education.

3. What is the impact of statewide education reform on school finance equity?

Washington's current school finance system, although atypical in its high level of state contributions to total educational revenue, is typical of most school finance systems nationwide in that it is "input-driven." That is, the system funds staff, materials, buildings, programs, and other objects irrespective of a school's or a district's performance. This input-driven system is designed under a fundamentally different premise than that which defines the state's educational reforms. The ongoing implementation of mandated state standards and student performance-based assessments (the "new basics") raise new questions about the adequacy and equity of school finance provisions for students who are not currently meeting state standards. The Education Reform Act of 1993 challenges the very notion of what constitutes a basic education.
In September 1997, results of the state's new 4th grade student performance assessments in reading, writing, listening and math were released. The administration of this assessment was voluntary, with participation coming from 270 of the state's 296 districts. The statewide profile revealed that only 14 percent of students tested met the standard in all four areas. Additionally, 62 percent of students met or exceeded the standards in listening, 42 percent met or exceeded the writing standards, 48 percent met or exceeded the standard in reading, and only 22 percent met or exceeded the standard in mathematics.

The fiscal consequences of the change to a performance-based educational system are particularly acute in Washington. The court charged the legislature with defining and funding basic education. Fundamental changes occurring with the transition to a performance-based system (due to be in place by the year 2000) raise questions about the current definition of "basic education." Under the provisions of the Basic Education Act, the legislature has the option to reconsider their definition of basic education at any time. The fact that the state standards are widely recognized to represent an increase in the performance level expectations for all students begs the question of whether the current system is "ample" and "uniform" to provide for a basic education for all children.

Another significant impact of the state's reform effort is the need to provide fairly extensive professional development opportunities for teachers to be trained in the implementation of the learning standards and the performance-based assessment system. The levels and sources of fiscal support necessary to meet this professional development challenge have not yet been fully considered.

Finally, work underway by the state's Accountability Task Force carry implications for school finance. The Accountability Task Force is now considering a proposal which will require each district to demonstrate at least a 25 percent improvement in student performance on the state assessments, or face some type of sanctions. The exact nature, timing, conditions, and types of consequences have not yet been determined. Consequently, it is difficult to evaluate the fiscal impact at this time.

In short, the state faces the difficult challenge of better aligning its fiscal policies with its educational improvement policies.
REFERENCES


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