

Summary of Initiative 884
Office of Program Research
Washington House of Representatives

Ballot Title (Prepared by the Office of the Attorney General)

Initiative Measure No. 884 concerns dedicating funds designated for educational purposes. This measure would create an education trust fund for smaller classes, extended learning programs, certain salary increases, preschool access, and expanded college enrollments and scholarships, funded by increasing retail sales tax by 1 %.

Ballot Measure Summary (Prepared by the Office of the Attorney General)

This measure would create a fund designated for preschool through college education by increasing the retail sales tax rate by 1%. The fund would support preschool assistance for low-income children; additional K-12 programs selected by school districts with citizen input; additional higher education enrollments, scholarships and research; and salary increases for certain teachers and other employees of the school districts and community and technical college districts. A citizen oversight board is established and audits performed.

Education Trust Fund Established

I-884 adds one percentage point to the state sales tax rate, raising the rate from 6.5% to 7.5%, thereby increasing the state sales tax by just over 15 %. The incremental tax increase would be deposited in the Education Trust Fund (ETF).

After deduction of the amounts expended by the Oversight Board, ETF revenues must be distributed as follows:

- 50% in the Education Trust Student Achievement Fund (ETSAF);
- 40% in the Education Trust Higher Education Account (HEA)
- 10% in the Education Trust Early Education Account (EEA).

One half of one percent of revenues to the ETF revenues may be spent by the ETF Oversight Board for Board projects, including audits and systemwide projects. Exclusive of systemwide projects, appropriations to the Board may not exceed one-twelfth of one percent of revenues to the ETF.

See Table 1 below.

Agencies receiving appropriations from the ETF may not spend more than 5 % of these revenues on administration.

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Table 1					
Education Trust Fund Five Year Summary					
(Dollars in Thousands)					
<u>Revenue</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
1 percent Sales and Use Tax Rate Increase (Effective 4/1/2005)	\$164,000	\$1,037,000	\$1,094,000	\$1,154,000	\$1,217,000
<u>Uses/Trust Fund Distributions</u>					
Education Trust Citizen Oversight Board	\$0	\$1,000	\$1,000	\$1,000	\$1,000
Statewide Improvement Projects	1,000	4,000	5,000	5,000	5,000
Education Trust Early Education Account	16,000	103,000	109,000	115,000	121,000
Education Trust Student Achievement Fund (K-12)	82,000	516,000	544,000	574,000	605,000
Education Trust Higher Education Account	65,000	413,000	435,000	459,000	484,000
Total Uses/Trust Fund Distributions	\$164,000	\$1,037,000	\$1,094,000	\$1,154,000	\$1,216,000
<i>(Note: Totals may not add due to rounding)</i>					

ETF Oversight Board

An eleven-member Oversight Board is established for the Education Trust Fund. Board membership comprises eight citizen members, the Superintendent of Public Instruction or representative, a representative of a higher education institution, and a representative of the Early Education Board.

The Oversight Board's duties include ensuring that the intent of I-884 is implemented, ensuring through financial audits performed by the State Auditor that ETF moneys are spent in compliance with I-884, monitoring legislative activities to determine whether appropriations comply with I-884, and establishing performance benchmarks relating to student success.

The Oversight Board must hire an executive director.

The State Auditor must "verify and report to" the oversight board on maintenance of effort requirements.

K-12 Education

Education Trust Student Achievement Fund (ETSAF)

The Student Achievement Fund, established in Initiative 728, is renamed the Education Trust Student Achievement Fund (ETSAF). Revenues into the fund include half of the revenue from the new 1% retail sales tax and a portion of state property tax revenues. (See "Other Revenue Impacts" on page 9.)

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Expenditures from the fund include per student allocations to districts, school employee salary increases, salary bonuses for certain teachers, projects at the Office of the Superintendent of Public Instruction, and conditional scholarships. (See Table 2 below.) Estimated expenditures for fiscal years 2006 and 2007 are based on the official enrollment forecast. Estimated expenditures for fiscal years 2008 and 2009 are based on an unofficial long-range forecast.

	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
<u>Resources</u>					
Beginning Fund Balance	\$0	\$82,000	\$145,000	\$157,000	\$179,000
Sales Tax Revenue	82,000	516,000	544,000	574,000	605,000
Property Tax Revenue	196,000	245,000	250,000	257,000	263,000
Total Resources	\$278,000	\$843,000	\$939,000	\$988,000	\$1,047,000
<u>Per Student Allocations</u>					
Allocation Based on Total Enrollment	\$196,000	\$451,000	\$511,000	\$525,000	\$539,000
At-Risk Student Allocation	0	119,000	155,000	164,000	173,000
Total Per Student Allocation	\$196,000	\$570,000	\$666,000	\$689,000	\$712,000
<u>Other Activities</u>					
Salary Increases (Assumes Sept. 1, 2005 implementation)	\$0	\$74,000	\$93,000	\$93,000	\$93,000
One-Time Funding for Local Share of Salary Increases	0	34,000	0	0	0
NBPTS Certification Salary Bonuses	0	8,000	11,000	15,000	19,000
Conditional Scholarships (High Need Endorsement Areas)	0	10,000	10,000	10,000	10,000
Superintendent of Public Instruction	0	2,000	2,000	2,000	2,000
Other Activities Subtotal	\$0	\$128,000	\$116,000	\$120,000	\$124,000
Total Expenditures	\$196,000	\$698,000	\$782,000	\$809,000	\$836,000
Projected Fund Balance	\$82,000	\$145,000	\$157,000	\$179,000	\$211,000

Per Student Allocations to Districts

Currently, the per student allocations from the Student Achievement Fund under I-728 may be used for reducing class size, providing extended learning opportunities, educator professional development, early assistance, and related capital improvements. These uses are changed as follows:

- All-day kindergarten programs should give priority to students receiving free and reduced-price lunch.
- Uses are expanded to include providing advanced classes and additional courses on subjects assessed for the certificate of mastery, additional counseling and guidance to assure academic success in high school and preparation for a variety of post-secondary options, and increasing parent involvement.

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- When ETSAF funds are used for professional development, they must be for school-based educators and uses are expanded to include reimbursement for fees, expenses and support related to professional certification as well as for reimbursement to teachers for out-of-pocket costs for classroom supplies.
- Uses are expanded to include mentor teacher and principal training programs and supplemental contracts for instructional coaching or mentoring.
- New emphasis is added to the use of funds for training for special education or limited English proficiency instructional staff.

The amounts distributed per student from the new ETSAF under I-884 are as follows:

- For the 2004-05 school year, districts will receive a distribution of \$254 per student. For the 2005-06 school year, districts will receive a distribution of \$520 per student. In subsequent years, this amount will increase by the implicit price deflator.
- In addition, beginning with the 2005-06 school year districts will receive an additional distribution based on percentages of at-risk students. This amount will equal two-thirds of the per-student distribution, multiplied by the total of free and reduced lunch headcount and percentage of Limited English Proficiency (LEP) learners.

See tables 3 and 4 for a comparison of per student distributions under current law and I-884.

Table 3					
Impact of I-884 on Total Amount Distributed on a Per Student Basis					
(Dollars in Thousands)					
	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
Current I-728 Total Per Student Distributions	\$196,000	\$281,000	\$349,000	\$423,000	\$447,000
I-884 - Distributions for Total Enrollment	\$196,000	\$451,000	\$511,000	\$525,000	\$539,000
I-884 - At-Risk Per Student Distributions	0	119,000	155,000	164,000	173,000
Total I-884 Per Student Distributions	\$196,000	\$570,000	\$666,000	\$689,000	\$712,000
I-884 Increased Per Student Distributions	\$0	\$289,000	\$317,000	\$266,000	\$265,000

Table 4					
Impact of I-884 on Amounts Distributed Per Student					
	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
Current I-728 Per Student Allocation	\$254.00	\$300.00	\$375.00	\$450.00	\$461.25
I-884 Allocation for Each Student	\$254.00	\$520.00	\$529.88	\$543.13	\$556.71
I-884 Per At-Risk Student Allocation*	\$0.00	\$346.84	\$353.43	\$362.27	\$371.32

*At-Risk students make up about 45% of statewide enrollment; this percentage varies by district.

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School Employee COLAs

Up to \$93 million per year from the ETSAF must be appropriated by the legislature to restore school employees' rates of pay so that employees do not receive less than they would have received if I-732's COLA requirements had not been suspended during the 03-05 fiscal biennium. Also, a one-time \$35 per student will be distributed to districts in July and August of 2005 for the district's share of compensation for non-state-funded staff needed to restore these pay rates.

National Board for Professional Teaching Standards Certification Bonus

Teachers who receive certification from the National Board for Professional Teaching Standards (NBPTS) will receive a \$5,000 yearly bonus for each year in which they teach or mentor teach and retain certification. Teachers who receive this certification and teach or mentor teach in a high need school as defined by the OSPI will receive an additional bonus of \$10,000 per year. These bonuses are not subject to teacher salary limitations. Currently, teachers with NBPTS certification receive a \$3,500 annual bonus. The estimated expenditure for the 2005-07 biennium is \$19 million and \$34 million for 2007-09.

OSPI Projects

The legislature may appropriate funding from the ETSAF to OSPI to support teachers seeking National Board certification, and to establish and administer mentor teaching programs. Up to one-quarter of one percent of the amounts appropriated to districts from the ETSAF may be appropriated for these purposes.

Conditional Scholarships

The legislature may appropriate up to \$10 million per year from the ETSAF for conditional scholarships for students seeking endorsements in high need areas, as determined by OSPI.

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Higher Education

Money in the Education Trust Higher Education Account (HEA) may be appropriated to four-year institutions, the Higher Education Coordinating Board (HECB), and the State Board for Community and Technical Colleges (SBCTC). These expenditures must result in at least 25,000 additional state-supported higher education FTE students.

Enrollments

- For fiscal years 2006 and 2007, 62.5% of HEA revenues must be used to fund new enrollments.
- For fiscal years 2008 and thereafter, 68.75% of HEA revenues must be used to fund new enrollments
- Within these amounts:
 - 43.75% of HEA revenues must be used to fund new enrollments at the peer average funding rates
 - 18.75% of HEA revenues must be used to fund high-demand enrollments.
- Beginning in FY 2008, 6.25% of HEA revenues must be divided by the legislature between new enrollments at peer average funding rates and high-demand enrollments.
 - Funding for high-demand enrollments must be allocated by the legislature among the two and four-year institutions to be distributed by competitive grant programs administered by those agencies.
 - Funding rates for high-demand enrollments may be up to twice the peer average funding levels for research universities.

I-732 COLAs

- Of the peer-rate funding enhancements for the community and technical colleges, up to \$19.6 million per year shall be used to provide raises as if I-732 had not been suspended in 2003-05.

Financial Aid

- For fiscal year 2006 and thereafter, 12.5% of the moneys in the HEA must be used for financial aid programs.
- State Need Grant eligibility is expanded to 65% of median family income.
- Eligibility for the Promise Scholarship Program is expanded to students in the top thirty % of their graduating class, beginning with the class of 2006.

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Research Funding

For fiscal years 2006 and 2007, 25% of the HEA must be used to "enhance the capacity to obtain other research funding and to conduct high priority research." This amount changes to 18.75% in FY 2008 and thereafter.

- Of these amounts, 80% is distributed as follows: 60% of the distribution to the UW; 30% to WSU, and 10% to the comprehensive universities and the Evergreen State College.
- The remaining 20% must be used by the HECB for a competitive research grant pool; private institutions are eligible to apply.

	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
<u>Resources</u>					
Revenue Distribution into the Fund	\$65,000	\$413,000	\$435,000	\$459,000	\$484,000
Required Trust Fund Balance	<u>0</u>	<u>0</u>	<u>(8,000)</u>	<u>(1,000)</u>	<u>0</u>
Total Resources	\$65,000	\$413,000	\$427,000	\$458,000	\$484,000
<u>Enrollment</u>					
New Enrollments	\$0	\$161,000	\$167,000	\$180,000	\$192,000
High Demand	0	77,000	80,000	86,000	91,000
Legislative Option	<u>0</u>	<u>0</u>	<u>0</u>	<u>29,000</u>	<u>30,000</u>
Enrollment Subtotal	\$0	\$238,000	\$247,000	\$295,000	\$313,000
<u>Research</u>					
Competitive Grant Pool	\$0	\$21,000	\$21,000	\$17,000	\$18,000
UW Research Grants	0	50,000	51,000	41,000	44,000
WSU Research Grants	0	25,000	26,000	21,000	22,000
Comprehensive and TESC Research Grants	<u>0</u>	<u>8,000</u>	<u>9,000</u>	<u>7,000</u>	<u>7,000</u>
Research Subtotal	\$0	\$104,000	\$107,000	\$86,000	\$91,000
Financial Aid	\$0	\$52,000	\$53,000	\$57,000	\$61,000
Community College I-732 Salary Increase	\$0	\$20,000	\$20,000	\$20,000	\$20,000
Unspecified Revenue Available for Appropriation	\$65,000	\$0	\$0	\$0	\$0
Total Expenditures	\$65,000	\$414,000	\$427,000	\$458,000	\$485,000
<i>(Note: Totals may not add due to rounding)</i>					

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Early Education

"Great Beginnings" Preschool Partnership

The "Great Beginnings" Preschool Partnership program is established to ensure school readiness by providing early education to low-income three- and four-year-olds, using appropriations from the Education Trust Early Education Fund (EEF).

The Early Education Board is created in office of the governor, consisting of eight citizen members and representatives of OSPI, DSHS, and DOH. The board will distribute funding to preschool programs, oversee expansion of the existing ECEAP program, and establish local partnerships with ESDs. An executive director position is created. Existing provisions relating to the ECEAP program are repealed.

Table 6					
Education Trust Early Education Account					
(Dollars in Thousands)					
<u>Resources</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
Revenue Distribution into the Fund	\$16,000	\$103,000	\$109,000	\$115,000	\$121,000
Required Trust Fund Balance	<u>0</u>	<u>0</u>	<u>(2,000)</u>	<u>0</u>	<u>0</u>
Total Resources	\$16,000	\$103,000	\$107,000	\$115,000	\$121,000

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Maintenance of Effort/Anti-Supplantation Requirements

"Existing state funding for education" may not be reduced, supplanted, or otherwise adversely impacted by distributions from the ETF and expenditures from the ETSAF, the HEA, and the EEA.

"The fiscal year 2005 total level of state funding for higher education and early childhood education assistance and the 2004-05 school year total level of state funding per student for K-12 shall be maintained in each subsequent year."

Before ETF moneys may be spent, state funding must maintain:

- The per student general fund (property tax) transfer into the ETSAF at the 2004-05 rate (pursuant to I-728, as amended in 2003);
- K-12 staffing ratios used in the general apportionment appropriation for the 2004-05 school year;
- FY 2005 funding levels and per-student funding levels in higher education; and
- FY 2005 support for the early childhood education assistance program.

ETF "Emergency" Reserves

Beginning with FY 07, the ETSAF, the HEA, and the EEA must retain 2% of the previous year's collections for expenditure in the event of a legislative finding of emergency.

The Oversight Board must make recommendations to the legislature on additional appropriations or reductions, as appropriate, to bring the balance in the ETSAF in line with the requirement.

Other Revenue Impacts

I-884 impacts retail sales tax revenues to the state general fund and to local governments. It also impacts the distribution of state property tax revenues between the state general fund and the Educational Trust Student Achievement Fund.

Sales Tax Revenues

By increasing the total sales tax from 6.5 % to 7.5 %, I-884 will reduce the quantity of goods and services purchased by consumers. This reduction in sales will reduce revenue from existing sales taxes for the state general fund and for local governments by about one %. (See Table 7.)

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Property Tax Revenues

Property tax revenue currently deposited into the Student Achievement Fund will be deposited into the new Education Trust Student Achievement Fund, and the amounts to be deposited are revised. Under current law, a portion of state property tax revenues are deposited into the Student Achievement Fund for per student distributions to school districts. All other state property tax revenues are deposited into the state general fund. I-884 reduces deposits of property tax revenues into the Student Achievement Fund, resulting in an increase in property tax revenues going into the state general fund. (See Tables 7 and 8 below.)

- As amended by the legislature in 2003, property tax revenues deposited into the Student Achievement Fund increase from \$254 per student FTE in the 2004-05 school year up to \$450 per FTE in 2007-08, and increase by inflation thereafter.
- I-884 revises property tax deposits into the new ETSAF as follows: An amount equal to \$254 per FTE student will be deposited in the 2004-05 and 2005-06 school years. Thereafter, the per student property tax deposits will be increased by inflation.

	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
Washington Education Trust Fund	\$164,000	\$1,037,000	\$1,094,000	\$1,154,000	\$1,217,000
State General Fund					
Sales Tax Impact	(\$11,000)	(\$68,000)	(\$72,000)	(\$76,000)	(\$80,000)
Property Tax Impact*	0	36,000	99,000	166,000	183,000
Total General Fund	(\$11,000)	(\$32,000)	\$27,000	\$90,000	\$103,000
Local Government	(\$3,000)	(\$21,000)	(\$22,000)	(\$23,000)	(\$24,000)

*The property tax revenue increase to the general fund is offset by a property tax decrease to the Student Achievement Fund as shown in Table 8.

	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
Increased Prop Tax Revenues to GF-S from I-884	\$0	\$36,000	\$99,000	\$166,000	\$183,000
Decreased Prop Tax Revenues to Ed Trust SAF/SAF	0	(36,000)	(99,000)	(166,000)	(183,000)
Net Property Tax Impact	\$0	\$0	\$0	\$0	\$0

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