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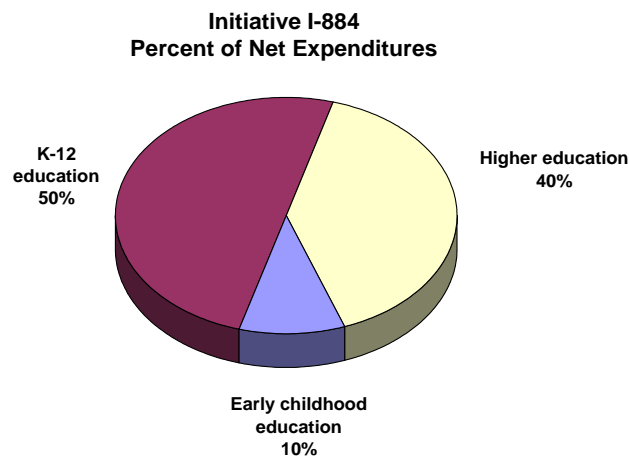
Summary of Initiative 884 to the People

(Funding for certain preschool, school and college educational purposes)

This information has been prepared in response to various requests for a summary of the provisions of Initiative 884, which will be before the voters at the statewide general election on November 2, 2004. The material in this summary is provided for informational purposes only. It is provided for use by members of the Legislature and legislative staff. It is not provided as an expression for or against any of the provisions of Initiative 884. Additionally, the summary is prepared based on current revenue projections and workload forecasts as of June 2004. However, this information is subject to change. A copy of the initiative is available from the Secretary of State's Office directly or on the Web at: <http://www.secstate.wa.gov/elections/initiatives/text/i884.pdf>.

BRIEF SUMMARY

Initiative 884 (I-884) increases the current state sales tax rate from 6.5 percent to 7.5 percent beginning April 1, 2005 and establishes the Washington Education Trust Fund to fund a variety of educational activities, including early childhood education, K-12 schools, and higher education. The initiative specifies that current General Fund-State funding for K-12, higher education and early childhood learning cannot be reduced, supplanted or adversely impacted by distributions from the Washington Education Trust Fund.



Oversight and Accountability

Initiative 884 creates the Education Trust Citizen Oversight Board (ETCOB) to oversee implementation of the act. The ETCOB will have eleven voting members, including the Superintendent of Public Instruction or designee, a member of the Early Education Board, a representative of the public higher education institutions, and eight citizen members appointed by the Governor. The State Auditor or designee will be a non-voting member of the board.

The ETCOB will oversee implementation of act, ensure funding spent per provisions of act, monitor legislative activities to determine if appropriations are in full compliance with act, establish performance benchmarks, and report annually to public, governor, and legislature.

The Board will review and approve early education funding formulas and commission special projects. In addition, the ETCOB will make recommendations to the governor and legislature regarding the operation of the education trust fund.

Audit and oversight expenditures are limited to one-twelfth of one percent of the funds collected, which is estimated to be up to \$3.9 million in the first five years of implementation. Funding for the commissioned projects would be subject to appropriation by the legislature and is estimated to be up to \$19.5 million in the first five years of implementation.

The following table identifies the annual projected revenue and expenditures from the sales tax increase, based on the June 2004 revenue estimates.

Education Trust Fund Five Year Summary					
(Dollars in Thousands)					
Revenue	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
1 percent Sales and Use Tax Increase (Effective 4/1/2005)	164,500	1,037,100	1,093,900	1,153,700	1,216,800
Uses/Trust Fund Distributions					
Education Trust Citizen Oversight Board	100	900	900	1,000	1,000
Statewide Improvement Projects	700	4,300	4,600	4,800	5,100
Education Trust Early Education Account	16,400	103,200	108,800	114,800	121,100
Education Trust Student Achievement Fund (K-12)	81,800	516,000	544,200	574,000	605,300
Education Trust Higher Education Account	<u>65,500</u>	<u>412,800</u>	<u>435,400</u>	<u>459,200</u>	<u>484,300</u>
Total Uses/Trust Fund Distributions	164,500	1,037,200	1,093,900	1,153,800	1,216,800

Source: Staff analysis conducted by Senate Committee Services (SCS) Office of Financial Management (OFM) and Office of Program Research (OPR)

K-12 BACKGROUND

K-12 Funding in 2003-05

Approximately one million public school students are being educated in about 2,200 public schools across the state. For the 2003-05 biennium, the Legislature provided \$10.6 billion in state funds or approximately \$5,500 per FTE public school student.

Per Student Allocation

Initiative 728 (I-728), approved by voters in November 2000, transfers a portion of the state property tax from the state general fund to the Student Achievement Fund (SAF). The SAF is then distributed to school districts to use for class size reduction, extended learning opportunities for students, professional development for educators, early childhood programs, and necessary building improvements to support class size reductions or extended learning opportunities. The initiative provided school districts \$450 per (full-time equivalent or FTE) student in the 2004-05 school year. In subsequent years, the amount would have increased by inflation.

In 2003, the Legislature reduced the distribution of the I-728 funds so that school districts will receive \$254 per FTE student in the 2004-05 school year; \$300 per FTE student in the 2005-06 school year; \$375 per FTE student in the 2006-07 school year; and \$450 per FTE

student in the 2007-08 school year. In subsequent years, the amount is increased by inflation.

Automatic Cost of Living Increases

Under Initiative 732 (I-732), approved by voters in November 2000, an annual cost-of-living adjustment (COLA) is required for K-12 teachers and other public school employees. In 2003, the Legislature suspended the COLA requirement for the 2003-05 biennium, and no COLA was provided except for a few targeted increases. Additionally, the Legislature modified the COLA provisions for K-12 employees so that the state is only required to fund costs associated with providing the COLA to state-funded teachers and public schools employees, rather than all staff for a school district.

SUMMARY OF K-12 PROVISIONS OF INITIATIVE 884

Approximately \$2.3 billion will be distributed to the Education Trust Student Achievement Fund (ETSAF) for K-12 public schools over the next five years. About 70 percent of the new funding is specified to increase the per student allocation to school districts originally created by I-728 and to provide a new per student allocation for serving at-risk students. The remaining 30 percent is directed toward other K-12 activities. Based on current revenue, enrollment, and other workload projections, a five-year estimate of these provisions is detailed in the following table.

Education Trust Student Achievement Fund					
(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>
Beginning Fund Balance	0	82,000	146,000	157,000	179,000
Sales Tax Revenue	81,800	516,000	544,200	574,000	605,300
Property Tax Revenue	<u>195,500</u>	<u>245,100</u>	<u>249,800</u>	<u>256,500</u>	<u>263,500</u>
Total Resources	277,300	843,100	940,000	987,500	1,047,800
<u>Per Student Allocations</u>					
Allocation Based on Total Enrollment	195,500	450,500	511,400	525,100	539,400
At-Risk Student Allocation	<u>0</u>	<u>119,400</u>	<u>155,400</u>	<u>163,900</u>	<u>172,800</u>
Per Student Allocation Subtotal	195,500	569,900	666,800	689,000	712,200
<u>Other Activities</u>					
Salary Increases (Assumes Sept. 1, 2005 implementation)	0	74,400	93,000	93,000	93,000
One-Time Funding for Local Share of Salary Increases	0	33,800	0	0	0
NBPTS Certification Salary Bonuses	0	7,800	10,800	14,800	18,500
Conditional Scholarships (High Need Endorsement Areas)	0	10,000	10,000	10,000	10,000
Superintendent of Public Instruction	<u>0</u>	<u>1,700</u>	<u>1,900</u>	<u>2,000</u>	<u>2,100</u>
Other Activities Subtotal	0	127,700	115,700	119,800	123,600
Total Expenditures	195,500	697,600	782,500	808,800	835,800
Projected Fund Balance	81,800	145,500	157,500	178,700	212,000

Source: Staff analysis conducted by SCS, OFM & OPR

Per Student Allocations

Beginning in the 2005-06 school year, the per student allocations to school districts originally created by I-728 are increased from \$300 per FTE student to \$520 per FTE student. In each subsequent year, the \$520 per student allocation to school districts is increased by inflation.

Beginning in the 2005-06 school year, an “at-risk” allocation for each district is established based on the combined percentage of the number of students eligible for free and reduced price lunches and those enrolled in the transitional bilingual program the prior school year. Currently, approximately 45 percent of the statewide K-12 enrollment falls into one of these two categories. The allocation will be approximately \$347 per student in the 2005-06 school year and would be increased by inflation in each subsequent year.

Impact of I-884 on Amounts Distributed Per Student					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Original I-728 Per Student Allocation	\$450	\$457	\$465	\$477	\$489
Current Law I-728 Per Student Allocation (Amended by the Legislature in 2003)	\$254	\$300	\$375	\$450	\$461
I-884 Per Student Allocation	\$254	\$520	\$530	\$543	\$557
I-884 Per Student Allocation*	\$0	\$347	\$353	\$362	\$371

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

Source: Staff analysis conducted by SCS, OFM & OPR

School districts may expend the per student allocations on the following five uses:

1. Class size reduction.
2. Extended and expanded student learning opportunities, including extended school day and year, tutoring, weekend programs, summer school, optional all-day kindergarten and pre-kindergarten support, and advanced placement and dual placement programs.
3. Additional direct support for school-based educators through pay for curriculum and lesson redesign, training (including reimbursement for higher education costs), mentor teacher and principal training programs, supplemental contracts for mentors and coaches, and reimbursement for classroom supplies.
4. Additional support for student counseling and to increase parent involvement.
5. Improvements to buildings related to class size reductions and extended learning opportunities.

School districts must have an annual public hearing on the district's proposed plan for the use of the funds and on the benchmarks that the district will use to track improvements. Additionally, each district must provide a public accounting of the funds.

OTHER K-12 ACTIVITIES

Salary Increases

Up to \$93 million per year of the ETSAF must be used to provide salary increases to state-funded teachers and other public school employees to raise, to the extent possible, compensation levels to the level that would have been achieved if the I-732 cost-of-living-adjustment provisions had not been suspended for the 2003-05 biennium. The \$93 million per year would support ongoing costs associated with providing a 2.5 percent cost-of-living adjustment on September 1, 2005 to all state funded K-12 staff.

One-Time Fund for Local Share of Salary Increases

In July and August of 2005, \$35 per FTE student will be distributed to each school district. This one-time distribution may be used by school districts to raise the compensation levels of non-state funded K-12 employees to the level that would have been achieved if the I-732 cost-of-living adjustment provisions had not been suspended for the 2003-05 biennium.

National Board for Professional Teaching Standards

The annual National Board for Professional Teaching Standards (NBPTS) bonus, which is currently \$3,500 per year, is increased to \$5,000 per year for certificated instructional staff to attain and maintain NBPTS certification. Additionally, if the certificated instructional staff is assigned to teach or mentor teach in a high-need school, as defined by the Office of Superintendent of Public Instruction (OSPI), an additional \$10,000 bonus amount will be provided for each year that the NBPTS certification is maintained.

Conditional Scholarships

Subject to appropriation, up to \$10 million per year of the ETSAF may be used to award conditional scholarships to college students seeking a teaching endorsement in a high-need area. For each year that the scholarship is awarded, the recipient must teach in their high-need endorsement area for two years in a Washington state public school. The scholarships will be awarded by the Higher Education Coordinating Board (HECB).

Office of Superintendent of Public Instruction Costs

Up to 0.25 percent of the amounts distributed to school districts through the ETSAF may be appropriated to the OSPI for their responsibilities in supporting the National Board for Professional Teaching Standards certification and mentor teacher programs.

Supplant Prohibition

Existing state funding for K-12 public schools may not be reduced, supplanted, or adversely impacted by the distributions from the Washington Education Trust Fund. The total level of state funding per K-12 student in the 2004-05 school year must be maintained in each subsequent year. Before funds from the ETSAF are appropriated, General Fund-State funds must be appropriated to maintain or increase: (1) the per student transfer amounts into ETSAF for the 2004-05 school year and subsequent years; and (2) the general apportionment staffing ratios utilized in the 2004-05 school year.

HIGHER EDUCATION BACKGROUND

Higher Education Funding in 2003-05

The Legislature provided \$2.72 billion in General-Fund-State funding for higher education institutions in the 2003-05 biennium:

- \$1.35 billion for 4-year institutions, which include the University of Washington, Washington State University, Central Washington University, Eastern Washington University, The Evergreen State College and Western Washington University.

- \$1.04 billion for 2-year institutions, which include 34 community and technical colleges and the State Board for Community and Technical Colleges (SBCTC).
- \$333 million for the Higher Education Coordinating Board, primarily for financial aid programs.

In addition, tuition revenue for the 2003-05 biennium is projected to be \$700 million for the 4-year institutions and \$370 million for the 2-year institutions.

Enrollments

For the 2003-04 academic year, there were 86,149 state-funded enrollments for the 4-year institutions and 127,189 enrollments for the 2-year institutions. Actual enrollments for the 2003-04 academic year were 90,203 for the 4-year institutions and 141,605 for the 2-year institutions. Actual enrollments are higher because of choices made by higher education institutions to enroll above the state-funded level.

Automatic Cost of Living Increases

I-732 required an annual cost-of-living adjustment (COLA) for academic and classified employees of community and technical colleges. In the 2003-05 biennium, the Legislature suspended implementation of the I-732 COLA.

SUMMARY OF HIGHER EDUCATION PROVISIONS OF I-884

For higher education institutions, approximately \$1.9 billion will be distributed to the Education Trust Higher Education Account (ETHEA) in fiscal years 2005 through 2009. The initiative specifies funding distributions for new enrollments, research and financial aid which shall produce at least 25,000 new state funded-enrollments. The following table and narrative detail a five-year estimate of the initiative’s provisions affecting higher education.

Education Trust Higher Education Account					
(Dollars in Thousands)					
	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
<u>Resources</u>					
Revenue Distribution into the Fund	65,500	412,800	435,400	459,000	484,300
Required Trust Fund Balance	0	0	(8,300)	(400)	(500)
Total Resources	65,500	412,800	427,100	458,600	483,800
<u>Enrollment</u>					
New Enrollments	0	161,000	167,300	181,000	192,100
High Demand	0	77,400	80,100	86,000	90,700
Legislative Option	0	0	0	28,700	30,200
Enrollment Subtotal	0	238,400	247,400	295,700	313,000
<u>Research</u>					
Competitive Grant Pool	0	20,600	21,400	17,200	18,100
UW Research Grants	0	49,500	51,300	41,300	43,500
WSU Research Grants	0	24,800	25,600	20,600	21,800
Comprehensive and TESC Research Grants	0	8,300	8,500	6,900	7,300
Research Subtotal	0	103,200	106,800	86,000	90,700
Financial Aid	0	51,600	53,400	57,300	60,500
Community College I-732 Salary Increase	0	19,600	19,600	19,600	19,600
Unspecified Revenue Available for Appropriation	65,500	0	0	0	0
Total Expenditures	65,500	412,800	427,200	458,600	483,800

Source: Staff analysis conducted by SCS, OFM & OPR

New Enrollments

Beginning in the 2005-06 academic year, at least 43.75 percent of ETHEA revenues will be distributed to higher education institutions for new enrollments. Enrollments will be funded at the rate of peer institutions, as determined by the HECB. The initiative does not specify an allocation of new enrollments by institution or type.

High Demand Enrollments

At least 18.75 percent of ETHEA funds will be used to fund high demand enrollments at rates which may be double the peer-average funding level for research universities. As is currently the practice, the HECB will manage a competitive process for allocating high demand enrollments to public baccalaureate institutions; the SBCTC will manage the same for community colleges. The initiative does not specify the allocation of funding for high demand enrollments between the HECB and the SBCTC.

Enrollments: Legislative Option

Beginning in fiscal year 2008, the Legislature may allocate 6.25 percent of ETHEA funds for new enrollments at the rate of peer institutions and/or for high demand enrollments.

Research

One-quarter of ETHEA funds will be used for research activities: 48 percent for research grants at the University of Washington; 24 percent for research grants at Washington State University; 10 percent for research grants at the comprehensive institutions (Central, Eastern and Western Washington Universities) and The Evergreen State College; and 20 percent for a competitive grant pool to which any public baccalaureate institutions may apply and which may include cooperative partnerships with private independent institutions.

Financial Aid

Beginning in the 2005-06 academic year, 12.5 percent of the ETHEA funds will be used to fund financial aid programs managed by the Higher Education Coordinating Board. The initiative does not provide for the distribution of ETHEA funds to specific financial aid programs. The initiative amends two existing financial aid programs: (1) beginning in fiscal year 2006, the eligibility for the state need grant will increase from 55 percent to 65 percent of the median family income; and (2) beginning with the high school graduating class in 2006, the eligibility for the Promise Scholarship will expand from the top 15 percent to 30 percent of the graduating class.

Compensation

Up to \$19.6 million of the funds distributed to the SBCTC for new enrollments must be used to restore the rate of pay had I-732 not been suspended for the 2003-05 biennium.

Supplant Prohibition

The initiative prohibits the use of new revenues from the ETHEA to replace existing state funding for higher education. The initiative provides that both the total state funding for each institution and the per-student state funding must be maintained or increased from the amounts provided in fiscal year 2005.

EARLY CHILDHOOD LEARNING BACKGROUND

Early Childhood Learning Funding in 2003-05

The Legislature provided approximately \$26.8 million per year in General Fund-State funding for early childhood learning in the 2003-05 biennium. The primary program for early childhood learning is through the early childhood education and assistance program (ECEAP) administered by the Department of Community, Trade, and Economic Development (DCTED), and is not considered as part of the K-12 basic education system. The ECEAP is a voluntary enrichment program to help prepare low-income children to enter the common school system and serves approximately 5,800 children annually. DCTED has identified a waiting list of about 1,600 eligible children.

The program assists eligible preschool children with educational, social, health, nutritional, and cultural development to enhance their opportunity for success in school. Children may participate in ECEAP if they are not yet eligible for kindergarten (typically four years old), with family income at or below 110 percent of the federal poverty level, eligible for public assistance, and who is not a participant in a federal or state program providing comprehensive services. Programs can enroll up to 10 percent of ECEAP child and family enrollment slots with children and families above the income limit who are otherwise at-risk of school failure due to developmental delays for reasons including medical disabilities, environmental issues, or behavior issues.

SUMMARY OF EARLY CHILDHOOD LEARNING PROVISIONS OF I-884

Almost \$500 million will be distributed to the Education Trust Early Education Account (ETEEA) over the next five years for increased access and quality for early childhood education. Revenues from the ETEEA will be used to create the “Great Beginnings” Preschool Partnership Program. The Early Education Board will be created in the Office of the Governor to oversee the program. In addition local partnerships will be established (Educational Service Districts or an alternative partnership) that will identify early childhood needs and develop plans for local services and infrastructure. Funding for the Early Education Board and Local Partnerships are limited to no more than five percent of funds for specific duties. The role of the Early Education Board will be to:

- establish education goals and benchmarks,
- adopt teacher qualifications and other program standards,
- propose a per capita funding formula for early education services,
- develop a funding formula for capital and professional development,
- approve local partnership plans,
- oversee expansion and quality improvement of ECEAP,
- make recommendations regarding the coordination of state early education and care programs,
- adopt rules, and
- solicit additional funds.

Effective July 1, 2008, the statutory provisions establishing and defining the ECEAP are repealed. Between the initial implementation of this initiative and July 1, 2008, the Early Education Board will expand ECEAP to the maximum extent possible.

Supplant Prohibition

Existing state funding for early childhood learning may not be reduced, supplanted, or adversely impacted by the distributions from the Washington Education Trust Fund. The total level of state funding in fiscal year 2005 for the early childhood education assistance program must be maintained in each subsequent year.

REVENUE BACKGROUND

Sales and Use Tax

The sales tax is paid on each retail sale of most articles of tangible personal property and certain services. The use tax is imposed on the use of articles of tangible personal property when the sale or acquisition has not been subject to the sales tax. The use tax commonly applies to purchases made from out-of-state firms. The state imposes a general sales tax of 6.5 percent of the selling price in the case of the sales tax and of the value of the article used in the case of the use tax. Cities, counties, and other taxing districts may impose sales and use taxes at various rates. Total state and local sales and use tax rates vary from 7 percent to 8.9 percent, depending on the location.

Property Tax Transfers

Under I-728, a portion of the state property tax, which previously was deposited in the general fund, is now deposited in the Student Achievement Fund and distributed to school districts on a per FTE student basis to use for class size reduction, extended learning opportunities for students, professional development for educators, early childhood programs, and necessary building improvement to support the class size reductions or extended learning opportunities.

Under the revisions adopted by the Legislature in 2003, the state property tax deposits are \$254 per FTE student in the 2004-05 school year; \$300 per FTE student in the 2005-06 school year; \$375 per FTE student in the 2006-07 school year; and \$450 per FTE student in the 2007-08 school year. In subsequent years, the amount increases by inflation.

REVENUE SUMMARY OF I-884

Sales and Use Tax

Under I-884, an additional 1.0 percent state sales and use tax is imposed effective April 1, 2005. The total state tax rate will increase from 6.5 percent to 7.5 percent. Revenues from the tax increase are to be deposited into the newly created Washington Education Trust Fund. According to the June 2004 revenue forecast, the Department of Revenue (DOR) estimates this change would raise \$164.5 million for the remainder of the 2003-05 biennium, \$2.1 billion for the 2005-07 biennium, and \$2.4 billion for the 2007-09 biennium.

If I-884 is approved, the total general state and local sales and use tax rate will increase to between 8 percent and 9.9 percent, depending on the location. The annual impact on the

average household income (\$70,000) would be about \$278. According to the DOR, the effect of the tax increase on households will vary by income. The increase will be about \$93 per year on households with incomes of under \$20,000 to \$547 on households with incomes of over \$130,000.

Fund Distributions

Up to one-half of one percent of the moneys in the Washington Education Trust Fund may be appropriated to the Education Trust Citizen Oversight Board for its operation, including the cost of audits and system-wide projects. The remaining moneys will be distributed monthly into newly created funds and accounts: 50 percent to the Education Trust Student Achievement Fund, 40 percent to the Education Trust Higher Education Account, and 10 percent to the Education Trust Early Education Account.

Beginning in fiscal year 2007, the Education Trust Student Achievement Fund, the Education Trust Higher Education Account, and the Education Trust Early Education Account must maintain a reserve of two percent of the prior fiscal year's deposits for emergency appropriation by the Legislature. The Legislature is directed to appropriate moneys in the Education Trust Student Achievement Fund, the Education Trust Higher Education Account, and the Education Trust Early Education Account for the purposes of the initiative at each regular session in an odd-numbered year for the ensuing biennium.

General Fund Impact

The tax changes in I-884 cause secondary impacts in the state's general fund. The reduced property tax transfer out of the general fund will increase general fund revenues by \$484 million over the next five years. However the effect of higher prices ("price elasticity" as described below) will have the effect of reducing general fund revenues by \$306 million. The net effect is an increase of \$178 million to the general fund

Technical Note: Effect of Higher Taxes ("Price Elasticity")

The price of goods has an effect on the amount of goods sold. If the total price increases because of a tax increase, fewer goods will be sold. The DOR assumes that raising the sales tax from 6.5 percent to 7.5 percent (a 12.5 percent increase in the tax) will reduce total sales by about one percent. Revenue from the current 6.5 percent rate will continue to be deposited into the general fund. Because the amount of sales subject to the tax will be slightly reduced, both the state general fund and local governments will receive less revenue than under current law.

According to the DOR, revenue losses to the state general fund are estimated to be \$10.8 million for the 2003-05 biennium, \$139.9 million for the 2005-07 biennium, and \$155.6 million for the 2007-09 biennium. Additionally, revenue losses to local governments are estimated to be \$3.3 million for the remainder of the 2003-05 biennium, \$43.1 million for the 2005-07 biennium, and \$47.9 million for the 2007-09 biennium.