

Initiative 728 – Student Achievement Fund

Initiative 728 was approved by the voters as an initiative to the people in November 2000. The initiative directed the transfer of certain existing General Fund-State revenue sources to dedicated education accounts, the revenue to be distributed to school districts on a flat, per-pupil basis to support eligible activities, including but by no means limited to class size reduction.

The Student Achievement program is not a part of the Legislature's basic education funding obligation.

I-728 Provisions as Enacted

I-728 created a new account named the Student Achievement Fund (SAF). Revenues to the account were (1) a portion of state property tax revenue, transferred to the account from the General Fund in amounts calculated on a per pupil basis, (2) state lottery revenue that would otherwise be deposited in the General Fund, and (3) a portion of any excess money in the Emergency Reserve Fund that would otherwise be deposited in the Education Construction Fund, as follows:

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006 --
State Property Tax – Allocation per pupil per year	\$140	\$140	\$140	\$450	Previous yr. amount plus inflation (IPD)
State Lottery – Percent of revenue to SAF	50%	75%	75%	0%	0%
Emergency Reserve Fund – Percent of excess to SAF	75%	75%	75%	75%	75%

The portion of state lottery revenue not going to the Student Achievement Fund was deposited in the Education Construction Fund, while excess Emergency Reserve Fund revenue not going to the Student Achievement Fund was to go to the General Fund.

The shifts of property tax and lottery revenue from the state general fund to the Student Achievement Fund and Education Construction Fund are exempted by I-728 from the provision of I-601 that the state expenditure limit be lowered by the amount of any such shifts.

Money appropriated from the Student Achievement Fund is distributed to school districts as uniform, flat per pupil allocations. The allocations are not related to the state's basic education funding formula, which recognizes and funds local staff costs, or to local school district wealth.

Local districts may use their Student Achievement Fund allocations for:

- Reducing class sizes in grades K-4;
- Making selected class size reductions in grades 5-12;
- Extended learning opportunities such as extended school year, extended school day, before-and-after-school programs, summer school and all-day kindergarten;
- Professional development for educators, defined in the initiative quite broadly;
- Pre-kindergarten programs;
- Improvements or additions to school buildings directly related to class size reductions and extended learning opportunities.

School districts are authorized to decide the best uses of SAF allocations within the allowable uses. Districts must hold at least one public hearing each year on the proposed uses of the allocations. Each district must also make an annual public accounting of the actual uses of these funds and the progress it has made in increasing student achievement.

I-728 directs the Legislature, at each regular session in an odd-numbered year, to make appropriations from the Student Achievement Fund for the purposes and in the manner described in the initiative. Funding to the Student Achievement Fund under I-728 as originally enacted was estimated as follows:

	2001-03 \$ Millions	2003-05 \$ Millions
State Property Tax to SAF	267.0	567.6
State Lottery to SAF	117.9	76.5
Total SAF	384.9	644.1

2003 Amendment to I-728

The 2003 Legislature faced a gap in the 2003-05 biennium between forecast revenues and projected spending needs that was estimated as high as \$2.7 billion. The budget shortfall had several causes, including heavy reliance one-time resources to balance the 2001-03 budget, the economic slowdown and drop in the state revenue forecast, rapid growth in health care costs, and higher-than-anticipated caseload growth in entitlement programs.

Another big contributor to the 2003 budget problem was voter initiatives. I-728, by diverting state property tax and lottery revenue to the Student Achievement Fund and the Education Construction Fund, reduced General Fund resources by \$452 million in the 2001-03 biennium. Because of the steep increase in the SAF property tax allocation from \$140 per pupil in school year (SY) 2004 to \$450 per pupil in SY 2005, the revenue loss to the General Fund from I-728 in 2003-05 was estimated at \$773 million. That represented about 70 percent of the \$1.1 billion difference between forecast revenues and estimated 2003-05 expenditures at maintenance level.

Committed to solving the budget problem without raising taxes that would further burden a struggling state economy, Gov. Locke and the Legislature proposed to amend the I-728 statute to reduce the FY 2005 jump in the per pupil property tax allocation from the Student Achievement Fund, thus retaining more revenue in the General fund. *All budgets proposed for the 2003-05 biennium – governor’s, the Senate’s under majority Republicans, and the House’s under majority Democrats, included this change.*

ESSB 6058 (C 19 L 03) implemented the conference agreement on amendment of I-728. This legislation changed the per pupil amounts of state property tax revenue to be distributed to school districts from the Student Achievement Fund as follows:

SY	Original I-728	ESSB 6058
2003-04	\$140	\$140
2004-05	\$450	\$254
2005-06	Previous year's amount increased by inflation	\$300
2006-07	Previous year's amount increased by inflation	\$375
2007-08	Previous year's amount increased by inflation	\$450
2008-09	Previous year's amount increased by inflation	Previous year's amount increased by inflation

No change was made to the transfer of lottery revenue to the Student Achievement Fund in FY 2004. The lottery money brought the total per pupil allocation for school year 2003-04, as before, to \$211.67. It then rose, as shown above, to \$254.00 per pupil in SY 2005, increasing in equal increments to \$450 per pupil in SY 2008, and thereafter increasing by inflation. While ESSB 6058 reduced Student Achievement Fund allocations for a few years from the amounts originally provided, it still provided for a larger allocation in SY 2005 than in SY 2004, and increasing amounts thereafter.

The 2003 legislation amending I-728 reduced expenditures from the Student Achievement Fund by \$237 million from what would have been spent under previous law, and resulted in a gain of the same amount in revenue to the state general fund. It was a significant piece in the bipartisan budget solution for 2003-05, which aimed to avoid tax increases while protecting essential services. Student Achievement Fund expenditures still increased, from \$370.0 million in the 2001-03 biennium to \$410 million in 2003-05.

2005 Amendment to I-728

The omnibus 2005 tax bill, ESHB 2314, again modified the amounts of state property taxes to be transferred to the Student Achievement Fund for distribution to school districts. The changes in the property tax allocations per student were as follows:

SY	Previous Law	ESHB 2314
2005-06	\$300	\$254
2006-07	\$375	\$254
2007-08	\$450	\$254
2008-09	Previous year's amount increased by inflation	\$265
2009-10	Previous year's amount increased by inflation	\$277
2010-11	Previous year's amount increased by inflation	\$278

The property tax allocations provided by ESHB 2314 were supplemented, in a circuitous way, by ESB 6096 (Generating revenue to fund education). ESB 6096 enacted a new state estate tax and directed that the revenue – a projected \$138 million in the 2005-07 biennium – be deposited in a new account called the “Education Legacy Trust Account.” The budget then transferred the amount of revenue in that account attributable to the estate tax to the Student Achievement Fund, making up for the reductions in the property tax allocations effected by ESHB 2314, and leaving the Student Achievement Account even with where it was before. This set of accounting maneuvers left \$138 million in property tax revenue in the General Fund that would otherwise have been transferred to the Student Achievement Fund, thus helping balance the budget, while creating the appearance that the new estate tax (like the increase in the cigarette tax done at the same time) was “funded education.” Per student allocations to the Student Achievement Fund ended as follows:

	SY 2005-06	SY 2006-07	SY 2007-08	SY 2008-09
Property Tax, from GF	\$254	\$254	\$254	\$265
Estate Tax, from Ed Legacy Acct	<u>\$46</u>	<u>\$121</u>	<u>\$196</u>	<u>\$194</u>
Total	\$300	\$375	\$450	\$459

In FY 2009 the Student Achievement Fund is supported as shown (\$ millions). It is a funding scheme quite different from the one approved by the voters in I-728:

Remaining fund balance from \$275 million General Fund appropriation to SAF in 2005-07 biennium.	\$99.4
Property tax	\$256.2
Transfer from Education Legacy Account	<u>\$90.8</u>
Total	\$446.3

How Much Is the State Spending on I-728?

Spending on the Student Achievement Program has increased from \$370 million in the 2001-03 biennium to a budgeted \$868 million in 2007-09, an increase of \$498 million, or 135 percent. SAF expenditures by biennium are as follows (dollars in thousands):

2001-03	2003-05	2005-07	Budgeted 2007-09
369,993	409,611	630,313	868,339

General Fund revenue reductions from statutory transfers of state property tax revenue to the Student Achievement Fund are \$503.4 million in 2007-09 and an estimated \$540.4 million in 2009-11.

How Are School Districts Using Student Achievement Fund Allocations?

The I-728 statute lists several eligible uses for Student Achievement Fund money, with class size reduction given no priority over the other uses named. (“Class size reduction,” a term with various possible meanings, is not defined by I-728.) SAF allocations may not be used for additional staff compensation for existing duties, but may be used for extended contracts. According to OSPI, “collective bargaining laws and current contracts may require the district to consult with the [teacher] union” on how the money is used.

For the 2006-07 school year, districts reported spending I-728 resources as follows:

Expenditure	\$ millions	% of Total
K-4 Class Size Reduction	78.7	20.4%
Grades 5-12 Class Size Reduction	128.4	33.3%
Extended Learning Opportunities	40.8	10.6%
Staff Professional Development	74.8	19.4%
Early Assistance	4.9	1.3%
Facility Improvements	16.7	4.3%
Indirect Costs	15.6	4.0%
Other	3.4	0.9%
Carry-Over to Next Year	37.3	9.7%
Total	385.7	

Issues and Outlook

The sustainability of the bewildering scheme devised by the 2005 Legislature for funding the Student Achievement Program remains a concern. An outlook on the 2009-11 by the Senate Ways and Means Committee assumes it will require \$457 million in General Fund “backfill” to support Student Achievement Fund allocations at current law and maintain programs funded from the Education Legacy Account in the next biennium. More fundamentally, as the state faces what’s expected to be a \$2 billion-plus budget gap in the next biennium, and as the Basic Education Finance Task Force deliberates on how K-12 education should be funded to raise student achievement, legislators may need to consider whether the almost \$900 million going out the door in Student Achievement Fund allocations is the most effective, efficient and equitable use of those resources.