

A black and white photograph of a school building. The building has a prominent gabled roof. In the foreground, a large, white 'X' is painted on a dark wall. The image is slightly out of focus, giving it a soft, artistic feel.

SCHOOL FINANCING: LEVIES

WHERE HAS THE LEVY MONEY GONE?



How much money does it take to educate a child in Washington state public schools? In the 1999–2000 school year, districts spent an average \$8,266 on each public school student.¹ But only an average \$2,955 per pupil (or 36% of per pupil spending) was spent on what state officials call Basic Education. (This includes “instruction in reading, language arts, mathematics, social studies, science, music, art, health, physical education, industrial arts and other subjects deemed appropriate by the school district.”²)

Disagreement over what it means to provide basic education for children and how much it will cost has resulted in several lawsuits against the state. Three landmark cases during the past 20 years were decided by former Thurston County Judge Doran. (Judgments in these actions are commonly referred to as the “Doran Decisions.”)

In 1977, the first Doran Decision mandated that the state must make available a dependable tax source to fund the basic education program rather than relying heavily on local special levies. Doran Decision II came in 1983 and found the state is also responsible for providing funding for special education, bilingual, remedial, and limited transportation programs. Doran Decision III followed in 1988, identifying shortcomings in the legislature’s formula for providing special education funding and a need for a safety net to address what the court determined was underfunding.

Pressure to increase state funding for education did not stop after the Doran Decisions. Education issues have recently been well-represented by initiatives on our state ballots: initiatives supporting reduced class sizes, guaranteed annual cost-of-living increases for teachers, and additional K-12 discretionary funding.

Despite Doran Decision I, most school districts still regularly seek additional revenue from local taxpayers in the form of levies. These levies are advertised for things like sports programs that otherwise will be cut; new curriculum for students currently sharing tattered, out-of-date textbooks; technology; new buses, etc. But districts are not bound by law to use the levy funds as advertised, so they often use the money to pay for administrative costs.

This problem is created in part by the unrealistic cap imposed by lawmakers on administrative employees’ salaries. Politicians like to say they reduced or limited the salaries of “bureaucrats” to put more money into classrooms, but, in reality, superintendents and principals cannot be hired for dollars allowed in the state allocation model. This forces districts to find the money elsewhere. That “elsewhere” is usually levy dollars—a fact that cannot be discussed openly with taxpayers who would not pass very many levies if they knew this.

While school districts are required to fill out numerous reports on budgeted and actual spending, they are not required to tie expenditures to specific revenue sources. This means year after year the legislature appropriates more money to school districts without following through to see where it is actually spent. The legislature’s intent for the Basic Education Allocation is

generally viewed by school districts not as an expenditure directive, but rather as an allocation formula that district administrations can use at their discretion.

Therein lies the problem: If lawmakers want an exact expenditure accounting, they will have to do more micromanaging, which is hardly productive. On the other hand, unless districts are forced to directly tie expenditures to revenue sources, neither taxpayers nor lawmakers will have a clue how revenue is actually spent.

So what do we know? Every year, the Evergreen Freedom Foundation analyzes several school district budgets in our ongoing attempt to identify problems and potential solutions in the current public school financial system. In 2001, we chose the Mead and Spokane School Districts. We used two school district reporting forms that are easily accessible from the Office of the Superintendent of Public Instruction’s website³ and analyzed them under the assumptions that:

- Money allocated by state or federal government for a specific purpose (i.e., Basic Education) is to be spent on that program.
- If a program’s expenditures exceed the revenue money allocated by the state and federal governments, the only places additional money can come from are levies or excess revenues from other programs.

Mead School District

When the Mead School Board met to decide the district’s 1999–2000 budget, it planned to receive and spend \$49.1 million from its general fund. It actually

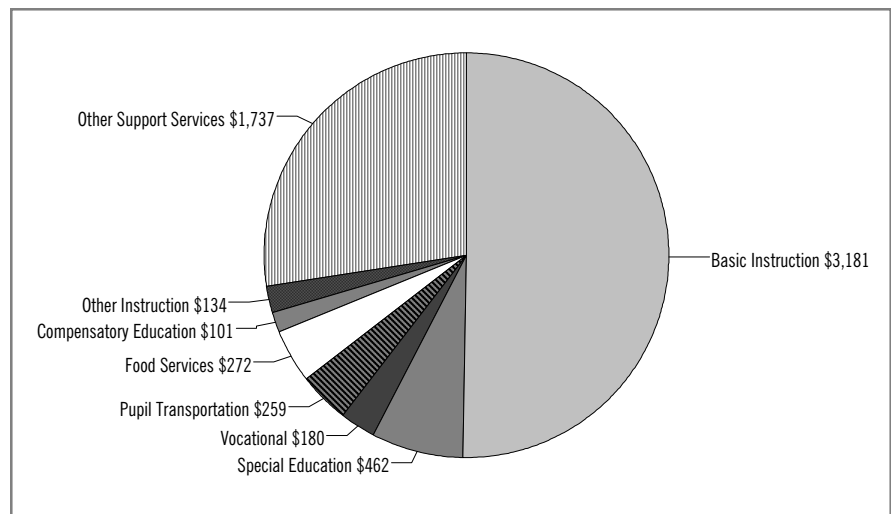


Chart 1: Mead School District general fund expenditures per student

received only \$48.6 million, but spent \$49 million from its general fund (\$6,326 general fund expenditures per pupil). This left a \$.4 million gap. (A question that must be answered is where did it come from? Beginning fund balances? Reserves?)

The district reported spending \$13.4 million on what it calls Support Services (mostly administration expenditures). A few of the expenditures in Support Services programs were for utilities, librarians, and other activities directly related to teaching, but even after these expenditures were subtracted, Support Services expenditures exceeded \$10 million. An additional \$906,382 in administration activities were scattered among other programs.

What happened to Mead’s revenue from the local levy? Figure 1 gives a summary of how the district spent its \$7.7 million levy in school year 1999–2000.⁴

Negative numbers in the table below represent programs that spent less money than revenue received from the levy. The unspent revenue may have been used to fill up financial gaps in other programs. Positive numbers in the above table represent funds either received from the levy or transferred from other programs to make up for cost overruns.

In summary, it appears Mead School District’s Basic Education, Vocational Education, Remediation, LAP and Drivers’ Education programs received more state revenue than their expenditures, so the extra money was available for other programs. (See Mead School District 1999–2000 financial analysis, page D.)

On the other hand, expenditures in programs 94–Instruction Support and 97–District-Wide Support

Basic Education	-\$3.1 million
Special Education	+\$278,534
Vocational Education	-\$94,972
Remediation	-\$8,007
Learning Assistance Program (LAP)	-\$9,226
Traffic Safety Education (Drivers’ Ed)	-\$16,272
District-Wide and Instruction Support	+\$10.4 million
Levy amount	\$7.7 million

Figure 1: Mead School District expenditures of levy funds, 99–00

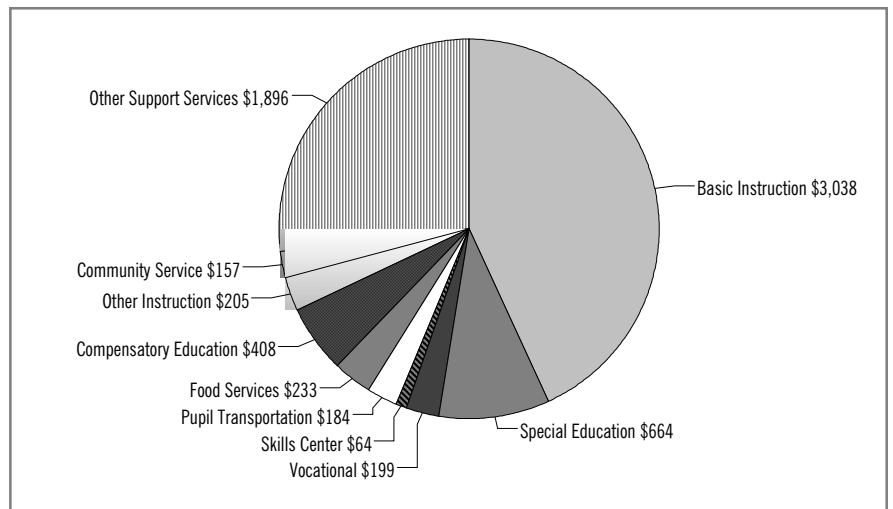


Chart 2: Spokane School District general fund expenditures per student

(mostly administration, also referred to as Support Services) exceeded the programs’ revenue by nearly \$10.4 million. Money to make up for these cost overruns did not come through bake sales. It probably came from the levy and extra funds in the Basic Education, Vocational Education, Remediation, LAP and/or Drivers’ Education programs.

Spokane School District

Application of the same assumptions and methods of calculation used in the Mead analysis reveals more of the same in Spokane School District, only on a larger scale.

The Spokane School District 1999–2000 budget adopted by the school board included \$225.8 million in revenue and \$226.4 million in expenditures from its general fund. Actual financial reporting reveals the district received \$216 million in revenue and spent \$216.3 million from its general fund (\$7,046 general fund expenditures per pupil). (The same question can be asked here: Where did the district procure the extra \$.3 million it spent?)

Support Services programs report spending \$52.8 million. After taking out those expenditures in Support Services programs that appear to be directly related to teaching children (utilities, librarians, etc.), \$41.4 million was spent mostly in administrative expenditures.

Spokane’s \$35.2 million local levy (and money taken from programs with excess revenue) in 1999–2000 appears to include the spending indicated in Figure 2.⁵

Basic Education	-\$14.3 million
Special Education	\$3.8 million
Vocational Education	-\$309,123
Skills Center	-\$42,207
Remediation	-\$61,033
District-Wide and Instruction Support	\$44.2 million
Levy amount	\$35.2 million

Figure 2: Spokane School District expenditures of levy funds, 99–00

Expenditures in programs 94–Instruction Support and 97–District-Wide Support (mostly administration, also referred to as Support Services) exceeded the programs’ revenue by nearly \$44.2 million. Once again, it appears that money was taken out of the district’s Basic Education, Vocational Education, Skills Center and Remediation programs and put into district special education and support programs along with most of the levy money.

EFF’s analyses of Mead and Spokane financial statements reveal something quite different than what the public commonly believes, that

1. the districts apparently used a substantial amount of money from the local levy and programs with excess funds to cover administrative expenses and
2. their *Basic Education programs appear to have extra money*—enough to transfer to other programs (such as Support Services programs).

The Solution

Several solutions suggest themselves.

- The state can stop pretending that it funds administrators’ salaries.
- Lawmakers can refrain from micromanaging district budgets while still requiring them to directly tie all expenditures to revenue sources to be published in a public report. This way, the mandate is on *providing information*, and the voters and lawmakers can decide if they like the decisions made by the district administrators.
- “Truth in levy advertising” could become law.

Financial transparency is long gone in K-12 financing, but if the system is to continue receiving broad public support, a responsible and timely remedy must be provided. Until then, two issues will always be at stake when it comes to school financing: 1) Is all this money

being spent wisely toward the end goal of producing literate students, and 2) How will we know? Who can we trust?

Endnotes

1. Office of the Superintendent of Public Instruction, *School District and ESD Financial Reporting Summaries 99-00*, Section One: Statewide Average Financial Tables, (June 2001), table ten.
2. Office of the Superintendent of Public Instruction, *Accounting Manual for Public School Districts*, (September 2001), chapter 6, section 3, page 1.
3. EFF’s analysis of Mead and Spokane budgets and expenditures are based on each district’s F-195 and F-196 forms for 99-00.
4. These numbers are based on EFF’s analysis of Mead’s actual revenue and expenditures. Analysis of the district’s budget reveals similar numbers, indicating the district’s transfer of funds between programs was not unforseen.
5. See *infra*.

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