

State & Local Taxing Systems

Executive Summary

Subgroup Co-chairs

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Recommended Options to Explore in 2026

1. **Examine state models** that attempt to serve a similar function to Washington's LEA by addressing property-wealth disparities or other (e.g., New Jersey's "adequacy budget" approach).
2. **Continue exploration of levy and LEA policy**, including potential modernization or replacement strategies.
3. A review of districts in binding conditions to **identify systemic stress points in Washington's funding structure**.
4. Explore feasible approaches to increasing the K–12 share of the state general fund and the possibility of **creating a new state-level revenue source exclusively dedicated to K–12 education**.

Themes from Subgroup Meetings and Discussion

Revenue Sources and Tax Structures for K–12 Education

Members examined existing and potential revenue mechanisms to support K–12 education. Members noted that other states' revenue sources for funding K–12 were (for the most part) the same as their revenue sources for general government operations: there was no single "new" revenue source that another state has found for K–12 education that Washington could easily adopt.

- Most states rely primarily on property, sales, and income taxes to fund schools; Washington's lack of an income tax limits revenue diversity. Other states have not identified a unique source of K–12 revenue that Washington State either does not already have (property tax, business tax, sales tax); or has not considered (income tax). However, some other states have K–12 revenue sources for K–12 education that are not available to Washington: for example, oil, gas, or mineral taxes to fund education (Alaska, New Mexico); or a second-residence tax (New Jersey), which is unavailable in Washington because of the Constitution's uniformity limitation on property taxes.
- Other suggestions included revisiting tax exemptions, creating a wealth tax, and taxing executive bonuses.

- Several participants recommended focusing on increasing the share of the state general fund dedicated to K–12 education rather than creating a new tax.

State and Local Funding Balance

A central focus of discussion was the relationship between state and local funding and how that balance shapes both adequacy and equity. Other states vary widely in their mix of state and local funding sources for K–12 education; Washington is one of the states that relies more heavily on state than local funding. “Local funding” means local property taxes; we did not find an example of another state relying heavily on a local revenue source for schools other than the property tax.

- Washington’s constitutional requirement that “it is the paramount duty *of the state* to make ample provision for the education of all children residing within its borders” (emphasis added) means that education in Washington State is primarily a state rather than local obligation and argues in favor of state-level rather than local-level revenue sources for funding education.
- However, even other states that rely heavily on local funding have developed mechanisms to try to equalize tax collections at the state level (New Jersey).

Local Control, Local Levies and Levy Equalization (LEA)

Washington still relies substantially on local property tax levies to fund education, even though Washington’s Constitution requires the state to make basic education its paramount duty and even though Washington has more state than local funding for K–12 education compared to many other states.

- Members noted that many districts rely on local levies to fund basic education (for example, special education or materials, supplies, and operating costs (MSOCs)) even though local levies are technically limited to “enrichment” beyond basic education. Participants noted the need to preserve some local flexibility while ensuring that enrichment funding does not substitute for basic education support.
- The group discussed whether the state has reduced local levy authority “too deeply” following McCleary, and whether the shrinking Local Effort Assistance (LEA) program is worsening inequities. In particular, members noted that shrinking LEA may not capture the true ability of local school districts to support local levies for several reasons:
 1. Rises in assessed value (AV) do not mean that families have the ability to pay more in taxes out of pocket because property wealth does not immediately translate into cash or liquidity.
 2. EP&O levies are generally limited to every several years, so a district that has recently lost LEA eligibility cannot necessarily fill the gap with local levies.
 3. Some districts have public or unusable land that isn’t included in local tax bases so their theoretical levy capacity may not match their actual levy capacity. Members also noted a timing issue with LEA, where districts might not know about a loss of LEA

until they have set their budgets; members raised the possibility of a ‘hold harmless’ for sudden increases in AV so that districts have a window to plan for a loss of LEA funding.

- Members discussed how Washington’s system of 295 independent school districts promotes or hinders equity and efficiency. Some members questioned whether district consolidation could improve efficiency, while others cautioned that it might weaken community engagement and levy passage rates.

Additional Workgroup Information

Subgroup Overview

The State and Local Taxing Systems Subgroup has met three times to date to examine Washington’s K–12 funding structure, with a focus on how the balance of state and local revenue sources affects equity, adequacy, and stability. The group’s work supports the broader Basic Education Funding Workgroup by analyzing how current revenue systems align, or fail to align, with the state’s constitutional and policy commitments to provide an ample, equitable, and dependable system of public education.

Across the meetings, members expressed broad agreement that Washington’s current funding structure is insufficient to meet the full range of staffing, programmatic, and capital needs in the K–12 system. Discussions centered on what Washington can learn from other states’ revenue sources for K–12 education; how Washington balances state and local funding for K–12 education compared to other states; and the pros and cons of Washington’s current system of local levies, local control, and LEA as part of the K–12 funding model.