

## A PARAMOUNT DUTY: Funding Education for *McCleary* and Beyond

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### Introduction

Washington state policymakers must come up with billions in more funding over the next few years to comply with the State Supreme Court's decision in *McCleary v. State*, which mandated a significant boost in K-12 school funding. But they shouldn't stop there. To create opportunities that will help all children – from the time they enter the classroom to when they join the workforce – investments beyond *McCleary*'s mandates are a must.

At the same time, additional resources are needed to maintain investments in health, safety, early learning, family security, and affordable college – all necessary to the success of kids and the future prosperity of all Washingtonians. That means additional revenue.

To build a state that provides educational opportunities for all kids and opens doors to better jobs, higher wages, greater job security, and a stronger economy, we need to:

- **Fully fund basic education:** The *McCleary v State* ruling made it clear that policymakers must make progress toward fully funding basic education by 2018. This is not only our constitutional obligation, it is necessary to ensure students have the tools and skills they need to succeed.
- **Go above and beyond *McCleary*:** Providing an education that ensures all kids can succeed will require more than

just the basics mandated by *McCleary*.

Real success means investing in learning that begins at birth, making sure that kids who are falling behind can catch up, and maintaining our commitments to health care, affordable colleges and universities, public safety, and all the other keys to building a strong economy.

- **Raise revenue:** Funding basic education is a paramount duty, but it is not our only duty. Investments we make now have an important impact on educational attainment, our economy, and future prosperity. We can't destroy them to meet *McCleary*. That's why new revenue is necessary. A new state tax on capital gains could raise about \$700 million per year in new resources. Policymakers could also extend tax increases passed in 2010 that are set to expire, generating \$630 million in the next budget cycle.

### Fulfilling our duty

*“It is the paramount duty of the state to make ample provision for the education of all children residing within its borders, without distinction or preference on account of race, color, caste or sex.”*

-Washington state Constitution, article IX, Section 1

There have been multiple cases clarifying the constitutional requirement and the parameters of what basic education entails (see Appendix Box 1). In the most recent case, *McCleary v State*, the Supreme Court determined that the state had violated its constitutional obligation by consistently failing to provide enough resources to fund a basic education for the more than 1 million kids in our public school system.<sup>1</sup> The Court has made it clear that it will play an active role as the legislature responds to the mandate, and will retain jurisdiction over the case to ensure full implementation of funding by 2018.<sup>2</sup>

The Court found that:

- **Funding for basic education is inadequate and undependable:** According to the Court, “ample” funding means “considerably more than just adequate,” and funding must be accomplished through “dependable and regular tax sources.”<sup>3</sup>
- **Local governments bear too much responsibility:** The state’s reliance on local property taxes to support basic education – instead of broader, statewide taxes – “fails to provide the ‘ample’ funding” required by the Constitution.<sup>4</sup>
- **Recently-enacted reforms show promise:** The legislature has recently enacted two laws – House Bills 2261 and 2776 – “which if fully funded, will remedy deficiencies in the K-12 funding system.”<sup>5</sup>

## Meeting McCleary

To comply with *McCleary*, lawmakers must make progress to fully fund the commitments made in two laws enacted in recent years. HB 2261 redefined the program of basic education, established a new funding structure, and required that funding be fully implemented by 2018. HB 2776 established additional major funding enhancements and a timeline to phase-in reforms. These reforms build on the existing program of basic education (see Box 2).

### A new school funding model

A central component of reform involved a change to the way funds are distributed to schools. To determine

future allocations to school districts, policymakers had to determine how much funding would be necessary for a typical school to provide a program of basic education. To do this, they developed the “prototypical” school model, which can be used to gauge the amount of funding needed for different sizes of schools and make funding allocations more transparent. Under the new prototypical school model, four core components are used to determine a school’s funding (see Appendix Tables 1-4).

### Increased learning time

In kindergarten, instruction time is increased as the transition from half-day to full-day kindergarten is phased-in. For grades one through six, 1,000 hours of instruction are required per year by grade, rather than as an average over all grades, which is the current standard. The number of instructional hours per year for students in grades 7 through 12 is increased by 80 hours (to 1,080 from 1,000). With increased instruction time comes the opportunity for students to complete 24 credits for graduation, from the current 19 credit requirement.

### Class size reduction

Outside of the changes made to the program of basic education, the state must provide funding to reduce class sizes in kindergarten through third grade, to no more than 17 students per teacher by 2018. Phased-in implementation begins with schools that have the highest percentage of kids from lower-income households who receive free and reduced-price lunch.

## Additional funding is a must

### Too reliant on local resources

While state funding remains the largest source of school funding, comprising 66 percent of total school revenue, local levies (property taxes approved by voters for a specified school district) have become increasingly important in filling the gaps left by inadequate state resources (see Figure 1).

Although local levies are meant to fund “enrichment programs” that are beyond the scope of basic education,

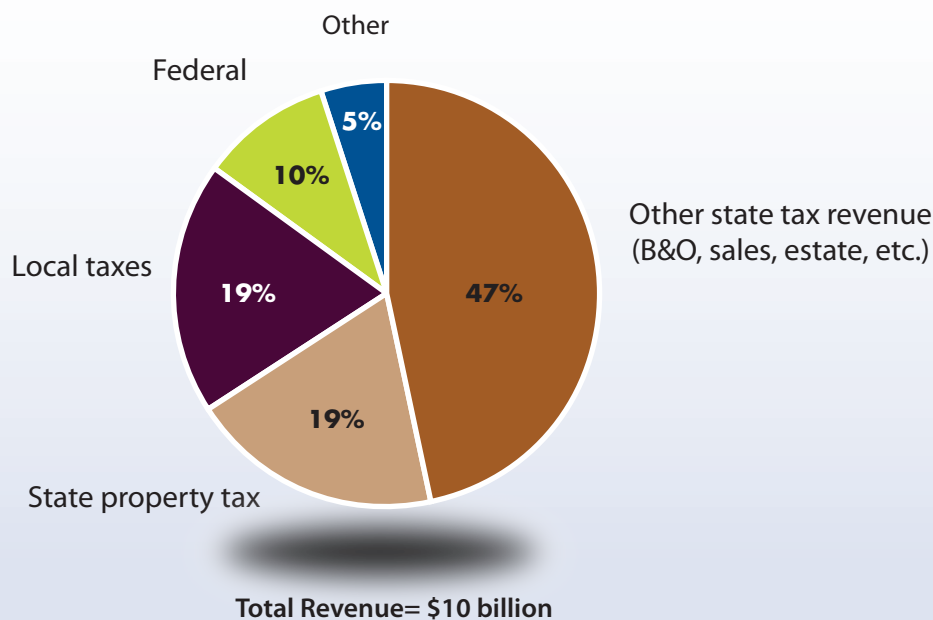
## Box 2: Basic Education Programs

Program	Description
<b>General Apportionment</b>	Foundational resources provided to local school districts by the state, based on a funding formula. These resources represent the largest share of funding for basic education in Washington state.
<b>Transportation</b>	Covers the cost to transport kids to and from school, and replace school buses. Recent reforms established a new funding model and a phased-in approach to fully funding transportation as part of the definition of basic education.
<b>Learning Assistance</b>	Provides support to students who score low in reading, math, and language arts, and 11th and 12th graders at risk of not graduating. The state provides school districts an allocation based on the required number of hours for instruction per week.
<b>Highly Capable Program</b>	Addresses the unique needs of students who are considered “gifted” because they excel in specific fields or exhibit a high capacity to learn. This program was added to the program of basic education by HB 2261 and is funded based on a designated number of hours of instruction per week.
<b>Transitional Bilingual Education</b>	Helps English Language Learners become proficient in English. The funding allocation is based on a designated number of hours of bilingual instruction per week.
<b>All-day Kindergarten</b>	The current requirement is for half-day kindergarten. Full day kindergarten for all kids will be phased-in as part of the program of basic education by 2018.
<b>Institutional Education</b>	Provides learning opportunities to people in residential schools and juvenile detention facilities. The state funds a 220-day educational program for these children.
<b>Special Education</b>	Provides services such as early-intervention and appropriate learning opportunities for students with disabilities. School districts receive a percentage of the general apportionment funding per student, based on students’ age.

Source: Chapter 548, Laws of 2009 (HB 2261) and Chapter 236, Laws of 2010 (HB 2776); K-12 financing guide, 2012, Senate Ways & Means Committee

## Figure 1: State is Largest Source of Funding for Schools

Revenue by source, 2011-12 school year



Source: Budget & Policy Center calculations of data from LEAP; "Other" category includes revenue from other school districts, local non-tax funds, revenue from agencies and associations; state property tax estimates from Dept of Revenue for FY 2012

such as extra-curricular clubs and advanced placement programs, the truth is that districts step in with local funds because the state does not pay the full cost of a basic education. In fact, local funding currently supports a multitude of school's basic needs like staff salaries, transportation, counselors, textbooks, and utilities.<sup>6</sup>

Heavy reliance on local resources has resulted in an uneven education system, in which wealthier localities are able to raise more money than poorer areas of the state. As Figure 2 shows, funding from local levies varies widely by school district. The Sumner School District in north Pierce County, for example, raises almost seven times more revenue per student locally than the Sunnyside School District in Yakima County.

Adequate state funding is necessary to safeguard access to a basic education for all kids, regardless of a neighborhood's property wealth. This was affirmed by the Court in its conclusion that, "the state's reliance on

local dollars to support the basic education program fails to provide the 'ample' funding" required by the constitution.<sup>7</sup>

### *Harmful "I-747 cap" undermines property tax resources*

All revenues from the state property tax are dedicated to K-12 education. In the 2011-12 school year that amounted to about 19 percent of total education funding (see Figure 1). Yet, the state property tax has been hamstrung by the "I-747 cap," which has greatly limited state resources for education.

Approved by voters in late 2001, Initiative 747 limited annual growth of regular property tax collections, or "levies," to 1 percent or the rate of inflation (whichever is smaller).<sup>8</sup> But this limit is arbitrarily low and doesn't allow schools to keep up with the actual costs of things such as heating classrooms, paying teacher salaries, and educating children with special needs – all of which rise much faster than 1 percent each year. As a result,

state property tax resources for education have not kept pace with the amount needed to sustain the state's education system. In turn, schools have been forced to rely more heavily on special maintenance and operations (M&O) levies to generate enough resources for classroom operations.

Had state property taxes been allowed to rise by about 6 percent each year – which was the limit prior to I-747 – property tax revenues would have been about \$1.2 billion higher in 2012.<sup>9</sup> Unless policymakers repeal the I-747 cap, property taxes will continue to generate far less than what is needed to sustain Washington state's education investments for the foreseeable future.

## How Much Funding is Enough?

There are different perspectives on how the state can fulfill the requirements of the *McCleary* ruling. While all of them come with different price tags, it is clear that additional funding will be needed to abide by the ruling.

## Funding core enhancements

The details of a new funding formula and a timeline for phasing-in new learning requirements were outlined in HB 2776. It calls for additional funding in four areas: full-day kindergarten; K-3 class size reduction; maintenance, supplies, and operating costs; and transportation. The total cost is estimated at \$1 billion in the 2013-15 budget, growing to \$3.3 billion by 2017-19.<sup>10</sup>

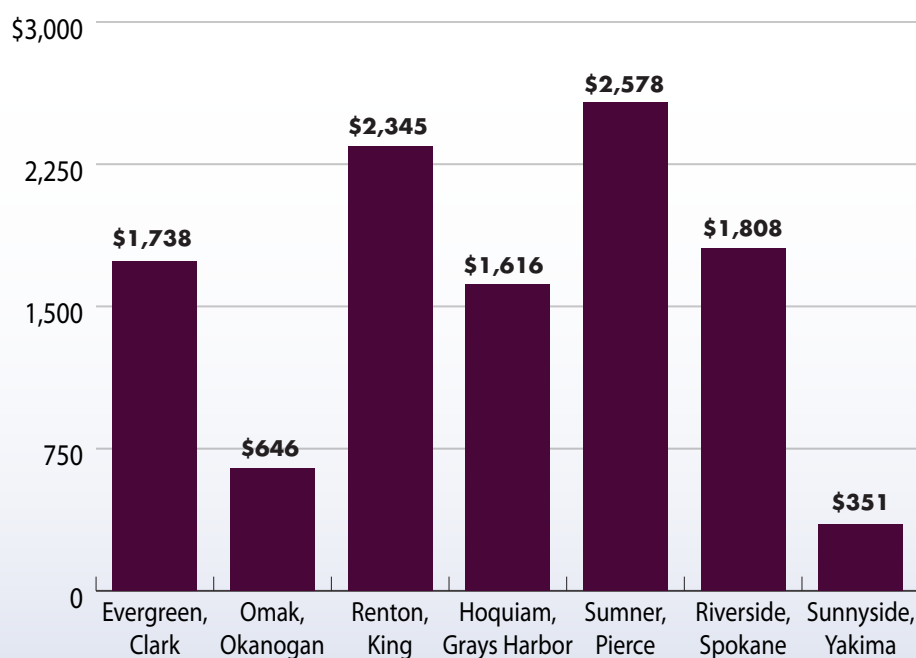
## Task Force recommendations

Another assessment concluded that more is needed. The Joint Task Force on Education Funding, established by the legislature, estimates that it will take \$1.4 billion in the next two-year budget cycle and \$4.5 billion by 2017-19 to meet our obligations.<sup>11</sup> (Figure 3 and Appendix Table 5)

In addition to the core enhancements, the Task Force recommended funding for provisions that are central to reform, but do not have set deadlines required in law, such as increased learning time and graduation

## Figure 2: School Revenue from Local Taxes Varies Widely

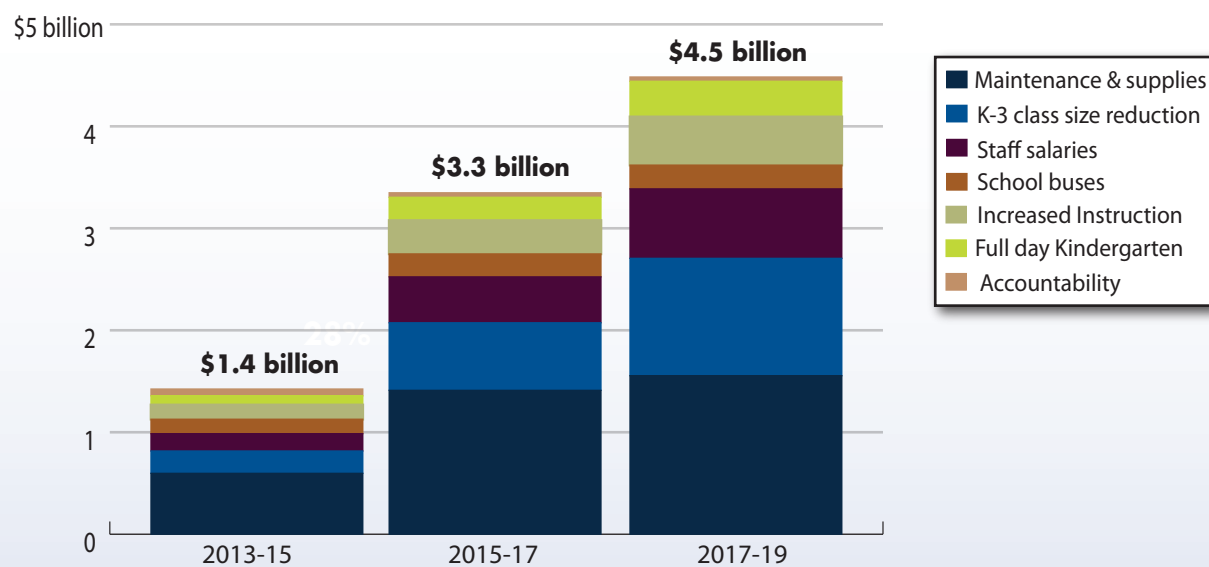
Revenue per student from local taxes by district, 2010-11 school year



Source: Budget & Policy Center calculations of data from OSPI

## Figure 3: What it Takes to Fund McCleary

Cost to meet McCleary by biennium, according to Joint Task Force on Education Funding



requirements, increased salaries for classified staff, and accountability measure such as professional development and implementation of a revised teacher and principal evaluation system.

### Teacher compensation

Recruiting and retaining quality educators will require compensation that is competitive within the current market. Research shows that teacher quality responds to wages—higher wages attract better teachers.<sup>12</sup>

A proposal by The Compensation Technical Working Group (TWG), authorized as part of HB 2261, recommends higher starting pay for teachers, competitive salaries, annual cost of living adjustments, and increased time for training and professional development, among other enhancements.

These investments are estimated to cost an additional \$2.8 billion per fiscal year once fully implemented.<sup>13</sup>

## Ensuring Opportunity for All Kids Means Going Beyond McCleary

Fully funding basic education, as prescribed by the Court, is a good start but won't be enough. It won't give kids all the resources and opportunities they need to grow, prosper, and help build Washington state's economy.

Schools must ensure all kids can succeed by addressing inequalities experienced by children of color and those from low-income families. As Washington state becomes increasingly diverse, it is crucial that we close this "opportunity gap" to ensure a better education for all children.

*At our current rate of progress it would take over a century to close the gap.<sup>14</sup>*

The statistics tell a troubling story:

- **The opportunity gap starts early.** Disparities in cognitive, social and behavioral skills and overall health are evident before a child turns one, and grow larger by age two.<sup>15</sup>
- **The opportunity gap is evident on nearly every indicator of child well-being.** Children of color or from low income families lag behind their more economically secure peers on everything from education outcomes, neighborhood safety, and health issues, and are more likely to enter the child welfare system.<sup>16</sup>
- **Not finishing high school on time.** Nearly eight of every 10 students (75 percent) graduate overall, but students of color and those from low-income families are less likely to graduate on-time (within four years of entering ninth grade) compared to their white and higher-income peers.<sup>17</sup>

### Changing Demographics and Washington's Destiny

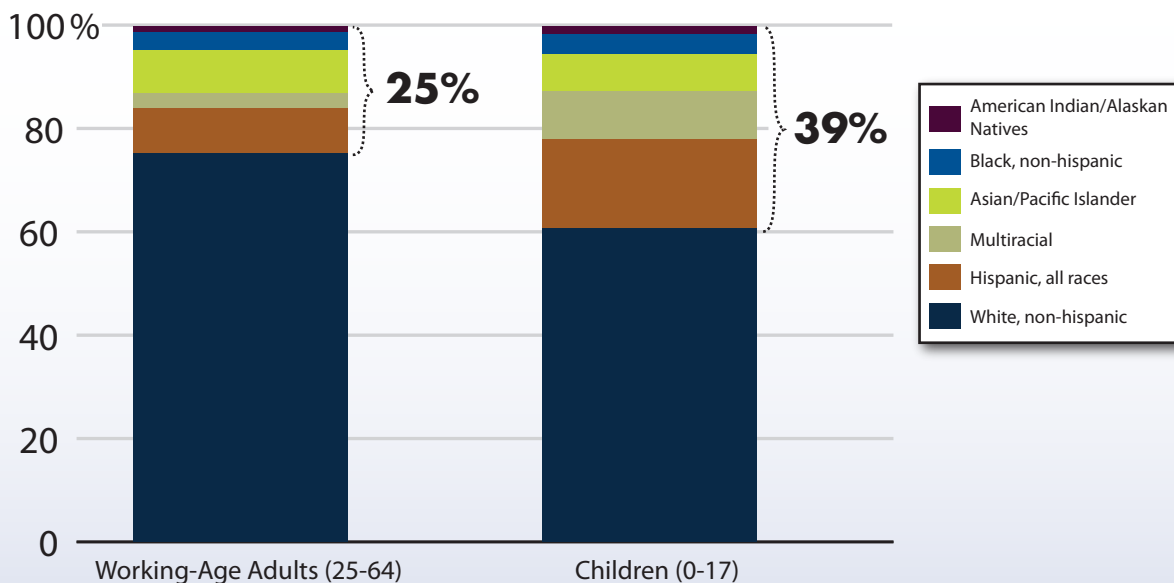
Children of color make up a growing part of Washington state's population, representing nearly 40 percent of children (see Figure 4). Failure to provide them equal opportunity to succeed in school not only sets them back personally, it is a long-term threat to Washington state's

**“Opportunity Gap”**

The difference between learning opportunities afforded to children who live in high-poverty neighborhoods and attend high-poverty schools, and those for children from schools and communities with greater resources.

## Figure 4: Washington State's Children are the Most Diverse Cohort Ever

Washington state demographics by age group, 2011



Source: Budget & Policy Center Analysis date from IPUMs



economy, since these children will go on to make up a major share of the workforce.

Gaps in college enrollment by race and ethnicity, especially for Hispanic students— who, along with American Indian/Alaskan Native students, are the least likely to enroll in college after high school compared to their peers – means lower aggregate earnings for our state economy and restricted economic growth.<sup>18</sup>

Eliminating the achievement gap for the current working population of Blacks, Hispanics, and Native Americans would have given them an estimated \$240 million in additional earnings in 2011 alone.<sup>19</sup>

### Closing the Gaps

The Supreme Court ruling on education was made in isolation of other budget priorities, but that does not mean they aren't related to educational achievement. While funding for public schools makes up the largest component of the state budget, investments in health care, economic security, and the entire education

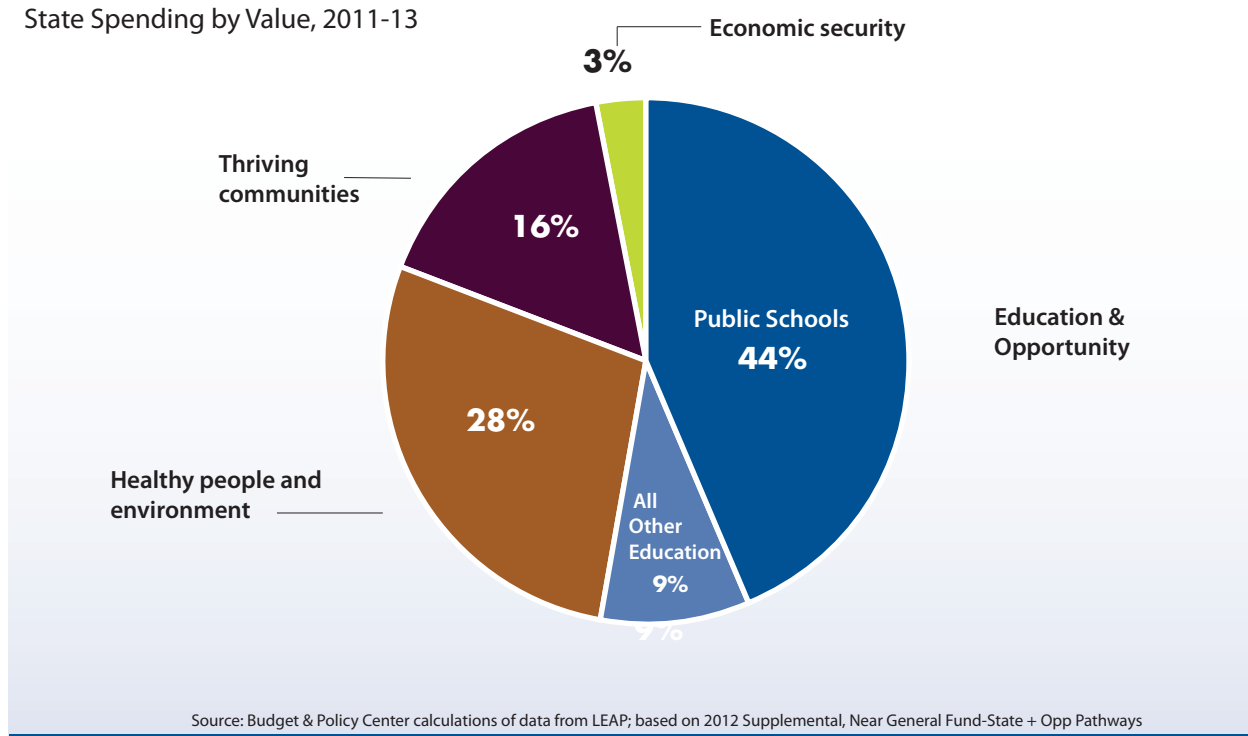
system, are deeply connected to kids' well-being and ability to do well in school (see Figure 5).

The *McCleary* decision presents an opportunity to start erasing the inequalities that children of color and those from low-income families face. Among the steps lawmakers can take:

- **Make early learning part of the state's requirement for basic education:** The first five years of a child's life set the stage for her or his entire future. A high quality early learning system is one of the best investments our state can make to ensure all children have the opportunity to reach their full potential, which benefits everyone. It can also boost school achievement, reduce the need for special education, and increase college attendance.<sup>20</sup> The Legislature added early learning to the definition of "basic education" in HB 2261, but it was ultimately vetoed by Governor Gregoire.
- **Invest in services that improve children's lives:** Of the 1.6 million children in Washington state,

## Figure 5: State's Largest Investment Goes to Public Schools

State Spending by Value, 2011-13





one in three live in families that have a hard time making ends meet.<sup>21</sup> *Kids can't perform well in school if they are distracted by hunger, don't have stable housing, or face stress caused by poverty.*<sup>22</sup>

Investments in health care, mental health, and family work supports provide the services that kids need to be successful. Washington state policymakers have drastically cut these programs in recent years, resulting in the elimination of health care for tens of thousands of workers and the loss of economic supports, such as child care assistance, that helped many families get and keep a job.

- **Reverse cuts in higher education:** It is not enough to provide opportunities for kids through high school. An affordable college education should be available to all students, and will pay dividends for a lifetime in higher wage earnings and better jobs. A college degree can boost median wages 2.5 times higher than a high school degree (\$42,000 vs. \$17,000).<sup>23</sup> In 2009, unemployment among associate degree holders was half that of those with only a high school diploma.<sup>24</sup>

Yet, Washington state lawmakers have cut over \$1.4 billion from higher education in the last four years, resulting in skyrocketing tuition and putting college beyond the reach of thousands of Washingtonians.

## New Revenue Must Be Part of the Solution

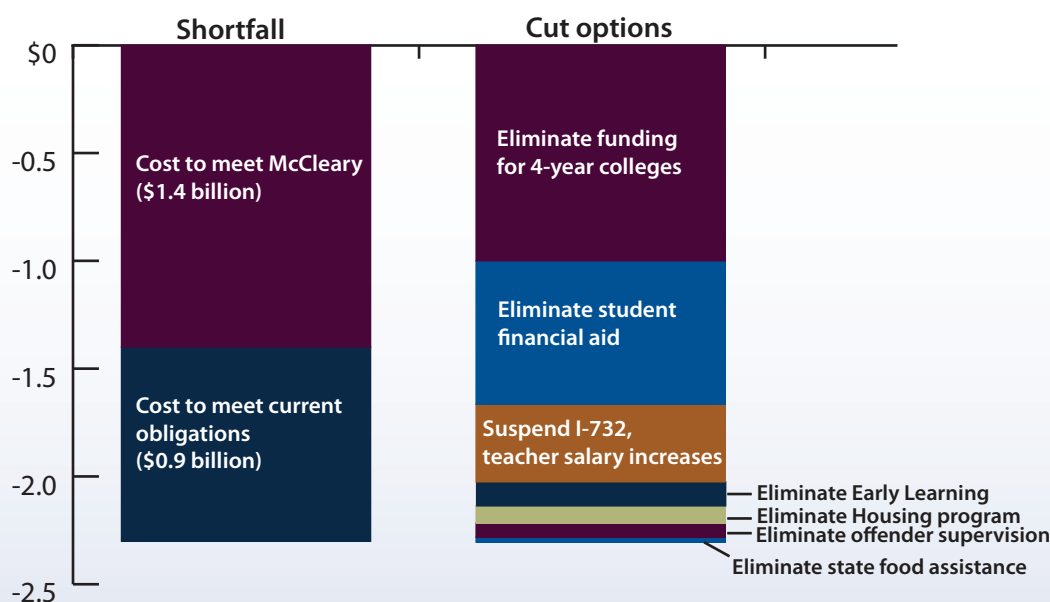
To invest in education as required by the *McCleary* decision and to address shortcomings beyond that, we need new revenue. The only alternative is deep cuts to all other state services, a course that would destroy jobs and hurt families and communities, wiping out any gains the economy may see from a better education system.

Figure 6 illustrates how infeasible an all-cuts approach would be. Generating the necessary resources to meet *McCleary* and addressing the existing shortfall between available revenue and public needs through budget cuts alone would be equivalent to cutting all funding for:

- four-year state colleges and universities (\$1 billion);
- student financial aid (\$660 million);

## Figure 6: What an All-Cuts Budget Really Looks Like

Near General-Fund Shortfall and Cut Options, 2013-15, dollars in billions



Source: Budget & Policy Calculations; data from LEAP, House Office of Program Research, Senate Committee Services; McCleary cost estimates based on recommendations by the Joint Task Force on Education Funding

- cost-of-living increases for teachers (\$360 million);
- early learning programs for young children (\$112 million);
- housing assistance for individuals with disabilities (\$79 million);
- offender supervision (\$65 million); and
- food assistance for vulnerable families (\$24 million).

That would only be enough to cover the coming 2013-15 budget cycle. Even deeper cuts to health care, public safety, and higher education would be required in future budgets to meet the requirements of *McCleary*.

Fortunately, there are a range of options policymakers can pursue that would generate additional resources in the near-term, while building a more adequate and equitable revenue system in the future.

One option is a new state excise tax on capital gains that could raise about \$700 million per year in new resources. Policymakers could also eliminate the onerous I-747 property tax cap, which could generate more than \$1 billion per year. Other options, like extending our 1930s-era sales tax to include modern consumer services are detailed in Appendix Table 6.

## Acknowledgments

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## Appendix

### Box 1: Historical Background

#### *Selected court cases and legislation*

***Seattle School District No. 1 v. State***: In 1976, in response to a twice-failed effort to raise funding for basic education through levies in the Seattle School District, a lawsuit was filed claiming that the state was not living up to its constitutional “paramount duty” to fund education. In *Seattle School District No. 1 v. State*, the Supreme Court agreed, finding that the reliance on local levies requiring voter approval did not provide a stable and reliable source of revenue. The Court mandated that basic education be defined and funded through dependable revenue sources without relying on local levies.

**Basic Education Act of 1977 (BEA)**: Responding to the lower court in the Seattle case, lawmakers passed the Basic Education Act, which defined the program of basic education, specifying instructional content, staffing ratios, and a minimum number of instructional hours and days. The BEA also declared the state responsible for full funding and addressed the overreliance on local funding by capping the amount of funding that local school districts could raise through levies.

***Seattle II, 1983***: In this case, the Court ruled again that the state had violated the Constitution by underfunding basic education. This time it broadened the definition of “basic education” to address the special needs of some students, adding special education, bilingual, and remedial programs to the program of basic education.

***Federal Way School District v State, 2009***: Clarified that a “uniform system” for funding education requires consistent educational content, teacher certification, instructional hours, and a statewide assessment system, but does not require uniform funding of staff salaries across school districts.

Source: *McCleary v State*, 2012, Background Information; National Education Access Network

**Table 1: Prototypical School Staffing**

	Elementary School	Middle School	High school
<b>Number of students</b>	400	432	600
<b>Staffing levels</b>			
Principals/administrators	1.253	1.353	1.880
Librarians	.663	.519	.523
Guidance counselors	.493	1.116	1.909
Teaching assistance	.936	.700	.652
Office support	2.012	2.325	3.269
Custodians	1.657	1.942	2.965
Student & staff safety	.079	.092	.141
Parent involvement coordinators	0	0	0
School nurses	.076	.060	.096
Social workers	.042	.006	.015
Psychologists	.017	.002	.007

Source: Budget & Policy Analysis: Data from House Bill 2776 (Chapter 236, Laws of 2010)

**Table 2: Prototypical School Class Sizes**

Grades	Class Size
Kindergarten- 3	25.23
4	27.00
5-6	27.00
7-8	28.53
9-12	28.74
Middle & high school CTE*	26.57
Skill Center program	22.76

Source: Budget & Policy Analysis: Data from House Bill 2776  
(Chapter 236, Laws of 2010)

\*CTE - Career & Technical Education

**Table 3: Prototypical School District-wide support**

Classified Staff	Per 1,000 students
Technology	.628
Facilities, Maintenance, Grounds	1.813
Warehouse, Laborers, Mechanics	.332

Source: Budget & Policy Analysis: Data from House Bill 2776  
(Chapter 236, Laws of 2010)

**Table 4: Prototypical School Maintenance, Supplies, Operating Costs (MSOC)**

<b>MSOC component</b>	<b>Per student Allocation 2008-09 values</b>	<b>Per student Allocation 2015-16</b>
Technology	\$54.43	\$113.80
Utilities and Insurance	147.90	309.21
Curriculum & textbooks	58.44	122.17
Other supplies & library materials	124.07	259.39
Professional development	9.04	18.89
Facilities Maintenance	73.27	153.18
Central admin. and security	50.76	106.12
<b>TOTAL</b>	<b>\$517.91</b>	<b>\$1,082.76</b>

Source: Budget & Policy Analysis: Data from House Bill 2776 (Chapter 236, Laws of 2010); 2008-09 values are minimum allocations, adjusted for inflation until 2015-16 values are reached.

**Table 5: Joint Task Force on Education Funding Proposed Spending Plan**

dollars in millions

	<b>2013-15</b>	<b>2015-17</b>	<b>2017-19</b>
Revised school bus formula	\$141.6	\$225.1	\$232.8
Maintenance, Supplies, Operating Costs	597.1	1,410.9	1,554.7
K-3 class size reduction	219.2	662.8	1,150.6
Full day kindergarten	89.3	227.4	348.7
Increased instruction (Career & College Ready plan)	140.4	327.6	473.4
Staff salary increases	169.8	450.2	681.5
Accountability (evaluation, professional development)	66.5	44.5	42.0
<b>TOTAL</b>	<b>\$1,423.9</b>	<b>\$3,348.5</b>	<b>\$4,483.7</b>

Source: Joint Task Force on Education Funding, Final Report, Dec. 2012

Appendix Table 6: Revenue Options

Option	Description	Revenue (2013-15)	Further information
Extend 2010 tax increases	In 2010, policymakers temporarily increased the Business and Occupation (B&O) tax rate for the service industry to 1.8 percent from 1.5 percent. An excise tax on wholesale beer was also increased by \$0.50 per gallon. (Small microbreweries were exempt from the increase.) Both of these tax increases are scheduled to expire on June 30, 2013.	\$635 million	<a href="http://budgetandpolicy.org/reports/revenue-measures-enacted-in-washington-state-in-2009-and-2010?searchterm=Revenue+Measures+en">http://budgetandpolicy.org/reports/revenue-measures-enacted-in-washington-state-in-2009-and-2010?searchterm=Revenue+Measures+en</a>
Adopt a state capital gains tax	A new 6.5 percent tax on capital gains – profits from the sale of corporate stocks, bonds, and other financial assets – above \$10,000 per year.	\$700 million	<a href="http://budgetandpolicy.org/reports/a-capital-reform-using-capital-gains-to-fuel-job-creation-and-economic-prosperity-in-washington-state?searchterm=A+Capital+Ref">http://budgetandpolicy.org/reports/a-capital-reform-using-capital-gains-to-fuel-job-creation-and-economic-prosperity-in-washington-state?searchterm=A+Capital+Ref</a>
Extend the sales tax to consumer services	Extend the sales tax to consumer services such as massages and spa treatments, investment advice, satellite and cable TV, and hair styling.	\$220 million	<a href="http://budgetandpolicy.org/policy-areas/policy-agenda-framework-for-prosperity/revenue">http://budgetandpolicy.org/policy-areas/policy-agenda-framework-for-prosperity/revenue</a>
Increase the state sales tax and fund the Working Families Tax Rebate	Raise the state sales tax rate to 7.5 percent from 6.5 percent. Funding the sales tax rebate program, known as the Working Families Tax Rebate, would offset costs for lower-and middle-income families with children.	\$2.1 billion	<a href="http://budgetandpolicy.org/reports/increasing-and-modernizing-the-sales-tax">http://budgetandpolicy.org/reports/increasing-and-modernizing-the-sales-tax</a>
Eliminate the I-747 cap and increase the state property tax to \$3.60 per \$1,000 of fair market value	The state property tax rate currently amounts to \$2.22 per \$1,000 of fair market value. Current statutory and Constitutional restrictions prohibit the tax rate from exceeding \$3.60 per \$1,000 of assessed value.	\$1.9 billion	<a href="http://www.leg.wa.gov/JointCommittees/EFTF/Documents/JTFEF%20Final%20Report%20-%20Combined%20(2).pdf">http://www.leg.wa.gov/JointCommittees/EFTF/Documents/JTFEF%20Final%20Report%20-%20Combined%20(2).pdf</a>
Adopt an excise tax on fuel sold by oil refineries	As part of her 2013-15 biennial budget, Governor Gregoire proposed a new tax on wholesale fuel (including diesel) to fund student transportation, a requirement under the McCleary ruling. Initially set at 1.85 percent of the wholesale price, the tax would gradually rise to 4.62 percent by the 2017-19 budget cycle.	\$360 million	<a href="http://budgetandpolicy.org/schmudget/fuel-tax-good-first-step-but-more-should-be-done">http://budgetandpolicy.org/schmudget/fuel-tax-good-first-step-but-more-should-be-done</a>
Eliminate a use tax break for oil refineries	As part of her 2013-15 budget, Governor Gregoire proposed eliminating a use tax exemption on “extracted fuel.” This tax break was enacted in 1949 and was originally intended for lumber mills that used woodchips to fuel their operations. Today, oil refineries claim about 98 percent of the benefit, however.	\$60 million	<a href="http://daily.sightline.org/2013/01/10/hog-wild-loop-hole/">http://daily.sightline.org/2013/01/10/hog-wild-loop-hole/</a>
Eliminate B&O and sales tax breaks for high-tech businesses	In 1994, policymakers enacted a sales tax break on equipment purchased by businesses engaged in “high-tech” research and development. A B&O credit for these activities was also enacted. State auditors recently found these tax breaks to be ineffective at creating jobs and highly expensive. A Citizen’s Commission charged with reviewing tax breaks recommends that these breaks be eliminated.	\$114 million	<a href="http://www.citizentaxpref.wa.gov/documents/comments2012reports.pdf">http://www.citizentaxpref.wa.gov/documents/comments2012reports.pdf</a>
Eliminate outdated tax breaks for trucking, rail, and shipping companies	In order to avoid a conflict with federal law, two public utility tax (PUT) breaks for shipping and rail companies were enacted in the 1930s, allowing them to avoid paying taxes on hauls involving travel to multiple states. However, federal law has changed since the 1930s and the potential legal conflict no longer exists. Washington is now the only state that offers such tax preferences for these businesses. State auditors have recommended that these breaks be eliminated.	\$70 million	<a href="http://www.leg.wa.gov/JLARC/AuditAndStudyReports/2010/Documents/11-4.pdf#page=15">http://www.leg.wa.gov/JLARC/AuditAndStudyReports/2010/Documents/11-4.pdf#page=15</a>  <a href="http://www.leg.wa.gov/JLARC/AuditAndStudyReports/2010/Documents/11-4.pdf#page=49">http://www.leg.wa.gov/JLARC/AuditAndStudyReports/2010/Documents/11-4.pdf#page=49</a>
Eliminate a sales tax break for nonresident shoppers	Enacted in 1965, for shoppers from Oregon, Alaska, and other states with low or no sales taxes. Ostensibly, the exemption was to help Washington businesses on the Oregon border compete. However, the effectiveness of the exemption is unclear, given that most qualifying purchases occur in King County.	\$50 million	<a href="http://www.leg.wa.gov/JLARC/AuditAndStudyReports/2011/Documents/12-2.pdf#page=227">http://www.leg.wa.gov/JLARC/AuditAndStudyReports/2011/Documents/12-2.pdf#page=227</a>



## *Methodology for Endnote 19*

Calculating the economic impact of Washington state's achievement gap is an exercise designed to illustrate the significant economic costs of under-educating an increasingly growing portion of our state's children. The methodology implemented below is conservative in nature and should not be looked at as a final approximation. As the communities of color continue to grow as a share of the population it is likely that economic costs of our achievement gap will grow as well.

**Magnitude of the achievement gap:** In order to determine the size of the achievement gap between white students and students of color, we use 2011 standardized 8th grade composite math scores from the National Assessment of Educational Progress (NAEP). Taking the difference in average scores between whites and the minority communities (Hispanic, Black Non-Hispanic, and Native Americans) we determined the achievement gap in terms of standard deviations.

**Determining the “Earnings premium” to higher achievement:** We draw on the academic literature to provide an estimate of the earnings benefit to increasing academic achievement. Estimated earning premiums remain relatively consistent across studies; demonstrating an annual earnings premium of 10 to 15 percent per standard deviation increase in standardized test scores. In line with this research, we utilize a 12 percent earnings premium, consistent with estimates found in Lazear, 2003.

**Population and Wage estimates:** We use 2011 ACS data (3 year estimates) to determine the size of the current Hispanic, Black non-Hispanic, and Native American populations actively employed in the Washington state workforce and median income of those individuals. This provides us with a rough estimate of the current aggregate earnings of Washington state's minority population.

**Educated in-state:** To maintain conservative estimates on the total earnings impact of closing the achievement gap in Washington state, we use 2011 ACS data to determine what share of the employed working population was actually born in-state. Doing so gives us a conservative estimate of individuals who realistically would have attended Washington state schools. Indeed, if other states were to make similar strides in reducing achievement disparities, a larger proportion of the adult minority population would benefit.

**Calculating the total earnings impact:** The total earnings impact is the product of the five factors discussed above and is displayed below in appendix table 7.

## Appendix Table 7: Earnings Impact of Washington State's Opportunity Gap

	Black, Non-Hispanic	Hispanic	American Indian/ Alaskan Native
Currently Employed in the Labor Force	97,771	282,323	30,067
Median Wage	\$30,492	\$30,000	\$30,492
Earnings Premium for Closing the Gap	12%	12%	12%
Standard Deviation difference in NAEP Scores	.778	.658	.993
Percent of Population Born in Washington	21%	17%	63%
Earnings Impact	\$59,537,005	\$114,432,916	\$69,185,325
<b>Total Earnings Impact</b>	<b>\$243,155,246</b>		