



ParamountDuty.org
email: info@paramountduty.org
[facebook.com/ParamountDuty](https://www.facebook.com/ParamountDuty)
[Twitter.com/WAParamountDuty](https://twitter.com/WAParamountDuty)

Close the Gap!

On behalf of more than 10,000 parents, teachers, students, individuals, and community leaders joined in advocating for funding basic education, Washington's Paramount Duty submits this response to the Education Funding Task Force's request for recommendations to fully fund K-12 public education in our state.

We must be clear. There isn't a way around the fact that new statewide revenues from wealthy individuals and large corporations are needed to solve this problem. This is not ideology—it's arithmetic. Our schools are underfunded because the Legislature maintains a regressive tax system, in violation of our constitution and our moral obligations to our children.

This is not ideology—it's arithmetic

We strongly believe in public education as a critical service provided by state and local government. Education is, at its core, the root of our democracy and the cornerstone of our economy. Public education allows children, no matter their background, to learn important knowledge and develop skills that will allow them to become thriving adults who are able to contribute positively to our society. Access to a quality education can help a child to break out of the poverty cycle.

For those reasons, Washington's founders enshrined in our constitution some of the strongest language anywhere in the country guaranteeing every child a right to fully funded public education. Visionary legislators such as John Rogers worked to provide a funding source for our public schools that would meet the needs of every child, no matter in which district or community they lived.

Unfortunately, that system has broken down as a result of decisions—such as tax and revenue limiting legislation and initiatives—made in recent decades. The State's paramount duty is to amply fund basic education. However, the State has instead prioritized keeping taxes low on wealthy individuals and large corporations at the expense of our children.



“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.”
— Article IX, Section 1 Washington State Constitution

As you know, our state faces a severe teacher and substitute teacher shortage, serious inequities in student learning and graduation rates, schools with lead in the water, large class sizes, schools without nurses, schools that don't have the funds to offer art, music, or an up-to-date curriculum, just to name a few of the many problems we have heard from parents and teachers.

As a result, communities are left to fend for themselves and scrounge together enough funds to provide children with a quality education. Poorer communities and many people of color often do not have the resources needed to make up for the lack of sufficient funding from the State. The Seattle Times has called this “the state’s civil rights crisis” due to the funding inequities that have been inadvertently reinforced between school districts (through local levies) and within school districts (through PTA funding) throughout our state.¹

Why are we in this mess?

Washington has the most regressive tax system in the nation. This unfair system is why our schools are underfunded. As the most wealthy individuals and corporations in our state take home more income and profits than ever before, yet are not asked to contribute to help fund our schools, we are left to fund education solely through taxes on working people.² It is neither ample nor dependable.

The good news is that statewide polling has shown that the 63% of likely voters agree that our schools are underfunded. Moreover, they want to fully fund our public schools with new revenue.³

We believe that with your leadership, Washington’s citizens are willing consider solutions to fix this critical challenge. This task force can address this problem by identifying new revenue to amply and equitably fund basic education in public schools for every child in the state.

Lastly, while we welcome the opportunity to provide input at the task force’s invitation, we also wish to remind you that it is challenging for any grassroots group to provide the level of detail the task force is requesting.



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Guiding Principles for this Task Force to Consider

Washington's Paramount Duty and its supporters **do not endorse any single, specific solution** to this crisis. Our aim is to provide this task force with guiding principles and recommendations as you move forward with bringing your colleagues together to find a common solution, on behalf of Washington's 1.1 million public school students. The courts and the people of Washington agree that a solution must be adopted in the 2017 legislative session. **We will not accept any further delay.**

Meets constitutional and legal requirements

In *McCleary*, Washington's Supreme Court held that "[t]he legislature's duty to make ample provision for funding the basic education program includes the requirement that funding 'be accomplished by means of dependable and regular tax sources.'"⁴ The words "ample," "dependable," and "regular" are important. The solution legislators adopt in 2017 must meet these requirements and serve our public schools for generations to come.

Protects important state priorities

The State's paramount duty is to support and promote education in all of its forms. To achieve that, the Legislature must ensure that children and their families have the services and opportunities they need to do well in school. Otherwise, we fail to meet our paramount duty. We must not fix education funding by taking already sparse funds from the programs that support our society's most vulnerable members. Therefore, it is unacceptable to fund K-12 public education through cuts to other vital services, such as early learning and higher education, mental health care, long term care, public safety, and other social services.

Sustainable and sufficient revenue

Washington has the most regressive, unfair, and upside-down tax system in the country.⁵ Our wealthiest residents are paying the lowest rate of taxes of anyone in the state, while the burden of taxation falls on the poorest members of our society. This needs to be fixed. Addressing our chronically underfunded public education system is inextricably linked to addressing our tax system. And while we mention several different methods by which this revenue can be raised, it is the Legislature's responsibility to make the final decision.



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Equitable

All schools need more funding than they currently have. Some need a lot more. As the Legislature finally acts to increase the amount of funding given to all schools in 2017, it should build upon existing legislation defining basic education (ESHB 2261) and ensure schools with greater needs get an even larger increase in funding. This can and should be done without reinforcing the state's already problematic emphasis on high stakes testing. In particular, schools with many students of color and students from different cultural backgrounds will need an additional amount of funding. The level of increase should not be a one-size-fits-all amount.

Based on existing legislation

The definition of basic education is laid out in two comprehensive education reform bills, passed in 2009 and 2010: ESHB 2261 and SHB 2776. These two laws provide a detailed road map, spelling out everything that a basic education must encompass, and the Legislature must now fully fund these laws.

While there is a time and a place for reforms that improve the quality of public schools, it is clear that the Legislature finds it easier to propose further reforms without delivering the promised corollary funding. It is time to rectify this dynamic by fixing the funding gap before adopting any complex new education reforms. Dozens of reforms have been passed including the most recent 2016 educational opportunity gap (SHB 1541) – it is time to fund these mandates.

Transparency of funding and spending accountability in Olympia

Voters expect and deserve assurances that any new revenues will be spent as promised. Legislators must ensure that these funds will make it to schools and classrooms, to pay for materials, teacher salaries, and other important elements of a basic education, and the funding process must be transparent. State common schools funding, including new revenues, must go to fully funding basic education in our public schools, and not to charter or private schools.



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Possible Tax Revenue Options for this Task Force to Consider

Washington's Paramount Duty recommends that the Education Funding Task Force not waste precious resources by reinventing the wheel at this final hour before the 2017 legislative session deadline. Instead, we recommend the task force dust off the solutions that have been proposed in recent years to fund basic education. Parents, teachers, and community members have frequently suggested these solutions to us, and we briefly discuss some of these options below.

The final answer will likely include elements from several of these proposed revenue solutions to amply fund basic education from "dependable and regular tax sources."⁶ Consider these options as an a la carte menu, from which the Legislature may pick and choose options and build its own solution.

1. Closing Tax Breaks on Large Corporations

The Boston Globe aptly described the stark choice facing the Washington Legislature as "a question of tax cuts or education."⁷ While the State claims it cannot afford to amply fund basic education, "it gives away more money in corporate tax breaks than any other state aside from New York, which has nearly three times the population."⁸

Tax breaks account for about *\$30 billion a biennium!*

The state currently chooses to provide about **150 tax breaks** to four industries: aerospace, technology, agriculture, and timber. Large companies in these key industries "**pay little or nothing of the \$3.1 billion collected**" under the Business and Occupation (B&O) tax on receipts.⁹

We urge the Legislature to raise the level of intellectual and economic discussion regarding these tax breaks. While these tax breaks result in billions of dollars of lost revenue to our state, there is little to no data on the true public benefit or return on investment these tax breaks provide. Without full transparency and examination of these tax breaks, we cannot properly weigh whether these tax breaks benefit Washington residents.¹⁰ And, even if our state determines that each of these tax breaks is beneficial, we must still weigh whether the purported economic benefit truly outweighs the opportunity cost. ***Should we be giving away billions of dollars to large corporations or using this money to educate Washington's 1.1 million public school students?***



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The Legislature has data from which it can assess the efficacy of each tax break. This allows the Legislature to make a judgment on the opportunity cost, but the public is excluded from these assessments.¹¹ Thus, it is a tad audacious for this task force to ask outside organizations to judge the efficacy of specific tax breaks while it withholds the bulk of the data crucial to these discussions. Because the Legislature does not provide transparent information regarding most current tax breaks, the public is unable to “specify which tax exemptions are recommended to be eliminated” as this task force requested.¹²

Without full transparency on all tax breaks, public school parents and other stakeholders are shut out. The public has every right to engage in a robust discussion or argument about the true value of the revenue lost from these tax breaks. The public is being actively denied the right to determine whether the value of the tax breaks to massive corporations that pay an incredibly low tax rate really outweighs the benefits that this lost revenue would provide to Washington’s school children.

Over the past several years, legislators have suggested numerous proposals—that have passed various committees and chambers—to close specific tax exemptions and instead, invest the funds in public education. The Legislature has passed very few of these proposals into law.

2. Capital Gains Tax on High Profits

According to a recent Washington poll, **65% of likely Washington state voters support a capital gains tax on the wealthy to fund basic education.**¹³ Capital gains are long-term profits from the sale of corporate stocks, bonds, investment property, and other high-end financial assets. Capital-gains tax proposals would not tax gains on residences, retirement-accounts, college-savings accounts, inherited capital assets, dividend payments, or agricultural land. *The 7% capital gains tax would only apply to capital gains in excess of \$50,000 per year for a married couple and \$25,000 for single filers.*

A capital-gains tax would raise about *\$800 million* in fiscal year 2017.¹⁴ Because the actual amount collected from any capital gains tax would fluctuate with the financial markets, the state would rely on only a portion of the average tax revenue and would save the additional revenue in a reserve fund.



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Most of the new revenue from a capital gains tax would be paid by the richest 1% of households—meaning those with incomes of at least \$490,000 per year.¹⁵ In addition to voter support as shown by the poll, the Seattle Times endorsed a capital gains tax: “A long-term solution to the education-funding crisis in Washington is right in front of lawmakers. . . . [The Legislature] should buckle down and make the choice to begin taxing capital gains.” Only nine states, including Washington, do not tax capital gains.¹⁶ Additionally, our neighboring states all tax at a rate higher than the 7% proposed in Washington: 13.3% (California), 9.9% (Oregon), and 7.4% (Idaho).¹⁷

3. Repeal Tax Break for Bottled Water

Until 2004, the state sales tax applied to purchases of bottled water. Repealing the sales tax exemption on bottled water would bring in nearly *\$60 million* a biennium.¹⁸ Washington’s Paramount Duty recommends that any proposal maintain the exemption for schools and people who do not have access to potable water. This reasonable compromise measure raises revenue while preserving reasonable, untaxed access to water.

4. State Income Tax on High Earners

An income tax on wealthy individuals—those earning more than \$200,000 a year or households earning more than \$400,000—would bring in over *\$3.2 billion a year*.¹⁹ For individuals with an adjusted gross income of \$400,000 but not over \$1 million, the tax rate could be 5% of the excess over \$400,000. For individuals with an adjusted gross income over \$1 million the income tax could be \$30,000 plus 9% of the excess over \$1 million. The state estimated that with these proposed income tax rates, 38,400 Washington state tax payers—12,400 individual tax returns and 26,000 married joint, head of household, and widower—would pay the income tax. The Legislature can include an assurance in the legislation that these proposed income tax rates would not be increased for any income level without a majority vote of the Legislature and submission of the changes to the voters for their approval.

As reported in the Seattle Times, a recent study “shows that the wealthiest Americans tend to stay put, regardless of their home state’s tax system.”²⁰ Moreover, the migration data from the study predicts that if Washington were to tax its wealthiest residents’ income at a 1% rate, Washington would “witness an exodus of 19 millionaires.”²¹



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5. Washington Investment Trust (State Bank)

Nearly a century ago, North Dakota established a state bank that is controlled by the people for the benefit of the people and economy of North Dakota. Washington could use the billions of dollars in tax receipts to deposit in the Washington Investment Trust, which would be owned by Washingtonians. The state bank would also generate new revenue from the interest collected on loans made to invest in Washington, its infrastructure, and the state's residents. According to a 2010 analysis, a state bank "could pay total accumulated dividends to the state's General Fund of *\$71 million after 10 years, \$206 million after 20 years, \$382 million after 30 years, and \$675 million after 40 years.*"²² Leaders have sponsored bills to create a state bank, including SB 5553.

6. Carbon Tax or Cap and Trade System

The Legislature could raise revenue by placing a price on carbon, through either capping or pricing carbon pollution. A carbon tax would raise revenue through the tax collections, and a cap-and-trade system would raise revenue through the auction of carbon allowances. Any revenues could be invested in funding basic education in addition to funding strategies to transition Washington to a low carbon economy. According to the fiscal note for 2SHB 1314, a 2015 carbon pricing proposal, such a system could raise as much as *\$600 million to \$700 million annually* for public education in the next five years.²³ We suggest the legislature address the regressive nature of a carbon tax or cap and trade system by compensating lower income households for increased prices.

7. State Property Tax

Washington's Paramount Duty does not support the controversial proposal to do a "levy swap." This concept would raise the state's property tax and lower local property-tax levies. We have heard concerns from parents and teachers in communities across the state that this would not solve the financial woes facing our schools, and could create an unfair burden on poorer residents of our state's urban communities.

Importantly, a levy swap is not required under *McCleary*. The Supreme Court offered "no opinion on whether full state funding of basic education salaries must be accompanied by levy reform," because "how the State achieves full state funding is up to the legislature."²⁴



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Currently, property tax resource growth for Washington's schools at both the state and local level is limited to the lower of either 1% per year or the rate of inflation.²⁵ Accordingly, increasing the state property tax to cover a larger chunk of the funding needed to amply fund basic education would also require the Legislature to eliminate the 1% growth cap on property taxes for school funding.

However, enacting a levy swap would force Washington to continue to rely upon the same legs on the same shaky stool that makes up our regressive tax system—essentially, a broken B&O tax with our largest companies carrying little to no tax burden, a heavy reliance on the sales tax, and significant state and local property taxes. Thus, Washington's Paramount Duty recommends that the Legislature examine and consider revenue sources that branch out from these three taxes to diversify and strengthen Washington's tax structure.

Moreover, if the Legislature examines options with an increased state property tax, the Legislature should also enact a protection for lower income households. For example, property tax payments for homeowners could cease once the tax payments exceed 5% of a household's annual income.

While Washington's Paramount Duty includes the state property tax as a possible source of revenue, we again emphasize that we do not endorse this option. Our organization shares many of the same concerns that the Seattle Times has identified: "Property-tax proposals so far would disproportionately place the burden on people who own homes and business properties in King County. That is not a reasonable fix and would compound the housing-affordability problem that now threatens growth in the core of the state's economy."²⁶

The inequities that exist between Washington's urban and rural areas also exist within the state's urban centers. Although some districts may be comparatively "rich" as a whole, this overlooks the fact that many urban and suburban residents in those districts do not share in that prosperity, struggle to make ends meet, and already carry too heavy of a tax load in our state. Instead, we should look to wealthy individuals and large corporations—who pay relatively little taxes right now—for new revenue.



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In conclusion, Washington's Paramount Duty recommends a range of possible solutions to fully fund basic education. Thank you for considering the above guidelines and recommendations. We look forward to engaging with you in a robust conversation on how to best support Washington's 1.1 million public school students, who represent the future of our state.

Tali Rausch, President

Summer Stinson, Vice President

John Freeman, Treasurer

Rebecca Vaux, Secretary

Dawn Bennett, Board Member at Large

Rita Green, Board Member at Large

Robert Cruickshank, Board Member at Large





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² See e.g., *Who Pays? A 50-State Report*, Institute on Taxation and Economic Policy (2015), <http://www.itep.org/who-pays/states/washington.php> ("Washington has the most unfair state and local tax system in the country.") (emphasis in the original); Jon Talton, *Washington suffers most regressive tax system in U.S.*, *The Seattle Times* (Mar. 3, 2015), <http://www.seattletimes.com/business/economy/washington-suffers-most-regressive-tax-system-in-u-s/> ("Poor residents here pay 16.8 percent of family income in state and local taxes while the wealthiest 1 percent pay only 2.4 percent. By comparison, the percentage spread in Alaska is 7 percent and 2.5 percent; Idaho, 8.5 percent and 6.4 percent, and Oregon, 8.1 percent and 6.5 percent."); Janet Novack, *State With World's Richest Man Has Most Regressive Taxes*, *Forbes*, <http://www.forbes.com/sites/janetnovack/2015/01/16/state-with-worlds-richest-man-has-most-regressive-taxes-but-dont-blame-bill-gates/#2ccef433f933> ("Washington State continues to have the most "regressive" tax system in the country—meaning its taxes hit poor families the hardest, compared to rich ones."); Carolyn Adolph, *This Portland Barista Pays Fewer Taxes Than Seattle Baristas*, *KUOW*, <http://kuow.org/post/portland-barista-pays-fewer-taxes-seattle-baristas> ("In Washington state, part-time minimum wage workers – like students – pay up to 24 percent of their earnings in state and local taxes according to the state revenue department.").

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⁴ *McCleary v. State*, 173 Wn.2d 477, 527, 269 P.3d 227 (2012) (quoting *Seattle School District No. 1 v. State*, 90 Wn.2d 476, 520, 585 P.2d 71 (1978)).

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⁶ See *McCleary v. State*, 173 Wn.2d 477, 484, 269 P.3d 227 (2012) ("Ample funding for basic education must be accomplished by means of dependable and regular tax sources.").

⁷ Michael Kranish, *A Question of Tax Cuts or Education*, *The Boston Globe* (Nov. 21, 2015), <https://www.bostonglobe.com/news/nation/2015/11/21/mother-battle-exposed-inequities-aren-injustices-state-held-contempt-court-flowing-corporations-save-their-tax-breaks-and-promised-education-dollars/SwEL04E3E7KYe6HaUvUjZP/story.html>.

⁸ *Id.*

⁹ *Id.*

¹⁰ The Seattle Times Editorial Board, *What's In A Tax Break? We Should All Know*, *The Seattle Times* (Dec. 5, 2015), <http://www.seattletimes.com/opinion/editorials/whats-in-a-tax-break-we-should-all-know/> ("To make informed decisions, the public must know the actual cost of special tax deals made by lawmakers. This is especially important as the state struggles to fund education and other unmet needs.").

¹¹ The 2013 tax-break disclosure provision in ESSB 5882 is commendable at providing transparency to new and extended tax breaks, but unfortunately, it does not apply to most current tax breaks. See e.g., Jim Brunner, *For First Time, Boeing Reveals state tax breaks: \$305 million in 2015*, *The Seattle Times* (April 29, 2016), <http://www.seattletimes.com/seattle-news/politics/boeing-saved-305-million-last-year-from-state-tax-breaks/> ("State Sen. Reuven Carlyle, D-Seattle, pushed for the tax-break transparency provision, approved in 2013, that requires savings from new or extended tax breaks claimed by companies to be disclosed. Previously such company-specific information has usually been deemed confidential. Carlyle said opening up the data on tax breaks is crucial for the public and policymakers to make informed decisions.") (emphasis added); Jim Brunner, *Boeing Must Disclose Tax-Break Savings, State Department of Revenue Rules*, *The Seattle Times* (Jan. 7, 2016), <http://www.seattletimes.com/seattle-news/politics/boeing-saved-305-million-last-year-from-state-tax-breaks/> ("In the past, taxpayer confidentiality laws have, with few exceptions, shielded disclosure of tax-break benefits enjoyed by individual companies. Instead, such information has been largely limited to estimates of how the tax breaks apply to broad industry sectors. The 2013 tax-break disclosure provision changed that, requiring tax savings claimed by individual businesses to be made public within two years for any new or expanded tax break passed by lawmakers.") (emphasis added).



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¹⁸ *Repeal Sales Tax Exemption on Bottled Water*, Office of Financial Management (Dec. 17, 2015), http://www.ofm.wa.gov/budget16/highlights/TaxChanges/2015_12_Repeal_sales_tax_exemption_on_bottled_water.pdf.

¹⁹ *Fiscal Impact of Initiative 1098*, Office of Financial Management (2010), <http://www.ofm.wa.gov/ballot/2010/1098.pdf>.

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²⁴ *McCleary*, Supreme Court No. 84362-7, Order at 7 fn.1 (Aug. 13, 2015), available at http://www.courts.wa.gov/content/publicUpload/Supreme%20Court%20News/843627_081315McClearyorder.pdf.

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