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POLICY NOTE

Economic model shows Superintendent Dorn's proposed tax increases would cost 18,500 jobs

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Key Findings

1. *Superintendent of Public Instruction Randy Dorn is proposing a bill to impose large increases to state sales and property taxes.*
2. *These tax increases seek to increase state education funding from $15.2 billion to $22.7 billion by the 2019-21 biennium, an increase of 49 percent, or $7.5 billion.*
3. *The Washington STAMP economic model estimates Superintendent Dorn's tax increases would result in approximately 18,500 in total job losses.*
4. *The McCleary Court decision requires reforms to the way education dollars are spent.*
5. *Superintendent Dorn's proposal includes no reforms or basic changes to the way education services are provided to children.*

Introduction

Superintendent of Public Instruction Randy Dorn has proposed a bill that would impose two major tax increases on residents in Washington to raise more money for public education. Calling his proposed tax increases a "blunt but necessary instrument," Dorn says the new taxes are needed to provide "full funding" for K-12 public education, in response to the supreme court's January 2012 *McCleary v. State of Washington decision*.[1]

In 2013, the legislature added $1.6 billion, or 11.4 percent, to education funding in the current state budget, raising state spending to $15.2 billion. Total education spending from all sources is about $11,300 per student, the highest in state history, and about twice as much as many private schools charge for tuition. In addition, the proposed bill would enact the following tax increases:[2]

- Sales Tax: Superintendent Dorn wants to increase the state-imposed sales tax by one percentage point from 6.5 percent to 7.5 percent, giving Washington the highest state sales tax rate in the country, tied with California.[3]

  The change would raise the sales tax in Seattle to 10.5 percent. The sales tax in Spokane would increase to 9.7 percent.

- Property Tax: Superintendent Dorn wants to raise the state portion of the property tax to $3.60 per thousand dollars of valuation.[4]

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1 *McCleary, et.al. vs. The State of Washington*, Washington state Supreme Court, Case No. 84362-7, January 5, 2012, at www.courts.wa.gov/opinions/pdf/843627.opn.pdf.

2 "Amending the tax structure to make ample provision for the program of basic education," Bill Request, Office of the Superintendent of Public Instruction, January 2014, https://www.k12.wa.us/Communications/PressReleases2014/Z-0681_4.pdf.

3 "State and Local Sales Tax Rates Midyear 2013," The Tax Foundation, Washington, D.C., August 13, 2013, at http://taxfoundation.org/article/state-and-local-sales-tax-rates-midyear-2013. Washington currently has the ninth highest state sales tax rate in the country.

4 "Amending the tax structure to make ample provision for the program of basic education," Bill Request, Office of the Superintendent of Public Instruction, January 2014, https://www.k12.wa.us/Communications/PressReleases2014/Z-0681_4.pdf.

At the same time, the maximum amount a local district could impose in property tax would be reduced by the amount of new revenue generated by the increase in the state property tax.

- Local spending ban: Superintendent Dorn wants to ban school districts from spending local tax money on basic education services in local public schools. Local taxpayers would only be allowed to fund "supplemental contracts" that pay staff for work beyond core teaching.

The Superintendent estimates his bill would increase state education spending from the current level of $15.2 billion to $22.7 billion by the 2019-21 biennium, an increase of 49 percent, or $7.5 billion.[5]

Economic analysis of tax policy changes

To understand the effects of Superintendent Dorn's proposed tax increases, Washington Policy Center requested the Beacon Hill Institute at Suffolk University evaluate the proposed policy changes using the State Tax Analysis Modeling Program (STAMP) economic model. STAMP is a comprehensive model of the Washington economy, designed to assess the principal effects of state tax changes on the economy. Washington STAMP is a computable general equilibrium (CGE) tax model.

The model provides a mathematical description of the economic relationships among producers, households, government and the rest of the economy. It is an equilibrium model because it assumes that demand equals supply in every market (goods and services, labor and capital); this is achieved by allowing prices to adjust within the model (i.e. they are endogenous).

It is computable because it can be used to generate numeric solutions to concrete policy and tax changes, with the help of a computer. And it is a tax model because it pays particular attention to identifying the role played by different kinds of tax and different tax rates.[6]

Higher taxes and job loss

Washington STAMP model estimates that tax increases proposed by Superintendent Dorn would have the following job-loss effects on Washington's economy. The model first estimates the effects of sales and property tax changes separately, then estimates the total impact of the proposed bill:

- $1 billion a year sales tax increase would result in approximately 9,800 in total job losses;

5 "Dorn Unveils Proposal To Move Washington Toward Full Funding of Basic Education," Press Release, Office of Superintendent of Public Instruction, January 9, 2014, at www.k12.wa.us/Communications/PressReleases2014/FullFundingProposal.aspx.

6 For a clear introduction to CGE tax models, see John B. Shoven and John Whalley, "Applied General-Equilibrium Models of Taxation and International Trade: An Introduction and Survey," *Journal of Economic Literature*, XII (September, 1984),1008. Shoven and Whalley have also written a useful book on the practice of CGE modeling entitled Applying General Equilibrium (Cambridge: Cambridge University Press, 1992).

- $1 billion a year property tax increase would result approximately 12,700 in total job losses;
- Superintendent Dorn proposed bill (sales tax plus property tax changes): would result in approximately 18,500 in total job losses.

Conclusion

Superintendent Dorn says his tax increase is necessary for the state to comply with the supreme court's decision in McCleary, yet this view shows a selective understanding of what the decision says. In the decision the judges clearly said that simply adding more money to the current unreformed system is not enough to comply with the court's ruling.

> "Fundamental reforms are needed for Washington to meet its constitutional obligation to its students. Pouring more money into an outmoded system will not succeed."[7]

Since 1990, state lawmakers have increased per-student spending on traditional public schools by 28 percent, adjusted for inflation, yet graduation rates are consistently low, at about 77 percent, and student academic achievement levels remain flat.[8] The graduation rate at private schools teaching similar students is typically over 90 percent.

Superintendent Dorn's proposed bill includes no reforms or basic changes in the way education services are provided to children, nor does it provide guidance about how new funding should be used to improve the quality of learning in public classrooms. The proposed bill would not serve the public interest in Washington because it would significantly increase the financial burden lawmakers impose on citizens, would lead to significant job losses and would do little to improve graduation rates and educational outcomes for children.

7 *McCleary, et.al. vs. The State of Washington*, Washington state Supreme Court, Case No. 84362-7, January 5, 2012, at www.courts.wa.gov/opinions/pdf/843627.opn.pdf.

8 See "Does increasing public school spending improve learning outcomes for children?" by Liv Finne, Legislative Memo, Washington Policy Center, February 2014, at www.washingtonpolicy.org/publications/legislative/does-increasing-public-school-spending-improve-learning-outcomes-children.