



Protecting Washington's Future

Revenue solutions for fully funding education from birth to graduation

July 2014

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Executive Summary

With no personal or corporate income tax, no capital gains tax, and a heavy reliance on an outdated, 1930s-style sales tax, Washington's tax system is the most regressive in the country.¹ This structure ensures not only that the richest residents do not contribute their fair share to state budgets, but also that the state misses revenue opportunities in rapidly expanding economic sectors. The state exacerbates the situation by giving away billions in tax breaks and indirect subsidies to corporations and the wealthy—with little to no accountability for the return on the taxpayers' investment. While corporate profits are at an all-time high in Washington, those profits flow into CEO compensation and stock owner windfalls and away from vital services such as education. The lowest-income residents are left shouldering the tax burden and feeling the most devastating effects of budget cuts.

This untenable system inevitably leads to insufficient investments and chronic budget cuts that perpetuate raging inequality at every level of education, from early learning through college. As a result, the state keeps falling further behind. For example:

- Washington ranks 47th out of 50 in average class size.²
- Washington ranks 41st nationally in education spending per student.³
- Inadequate funding for K-12 ensures that the state consistently ranks poorly on college preparation. A quarter of Washington's adults between 18 and 24 do not have a high school diploma.⁴ High school graduation rates are much lower for Latino students (55%) than white students (72%).⁵
- Decreased funding for higher education has led to decreased access for low income students, along with huge spikes in tuition rates (20% in 2010-2011 alone) and ever-increasing student loan debt for state students and families.
- Inadequate access to affordable, quality child care and early learning services keeps parents out of the workforce and perpetuates a cycle of poverty. Low child care subsidy rates and employment instability keep family child care providers living in poverty and drive out the most qualified providers in the industry.

And while Washington starves our education system of necessary funding, we give billions to profitable corporations who don't need the help. Boeing, which received the largest state tax break in the nation's history—\$8.7 billion—is just one example of the state's revenue problem. Boeing's biennial subsidy alone would cover any one of these costs:

- 35% of the funding required to implement required class size reduction in kindergarten through third grade in 2017-2018.
- 90% of the funding required to fully fund all-day kindergarten and implement the Career and College Ready Program.
- Nearly all of the University of Washington's *entire state budget* for one year.⁶

In the case now commonly known as "McCleary," the Washington Supreme Court ruled that the state has been not been meeting its constitutionally required obligation to amply fund basic education, and mandated billions in increased funding for K-12 education by 2018. The McCleary decision is, in essence, a mandate to create additional revenue streams to fund education. The untenable alternative would be siphoning funds from other vital services that are themselves already struggling from the underfunding crisis. Washington cannot achieve a thriving economy and healthy communities by forcing essential infrastructure programs into a death match over dwindling funds. Creating a revenue system that adequately funds what we need to thrive and to compete as a state is the clear and moral choice.

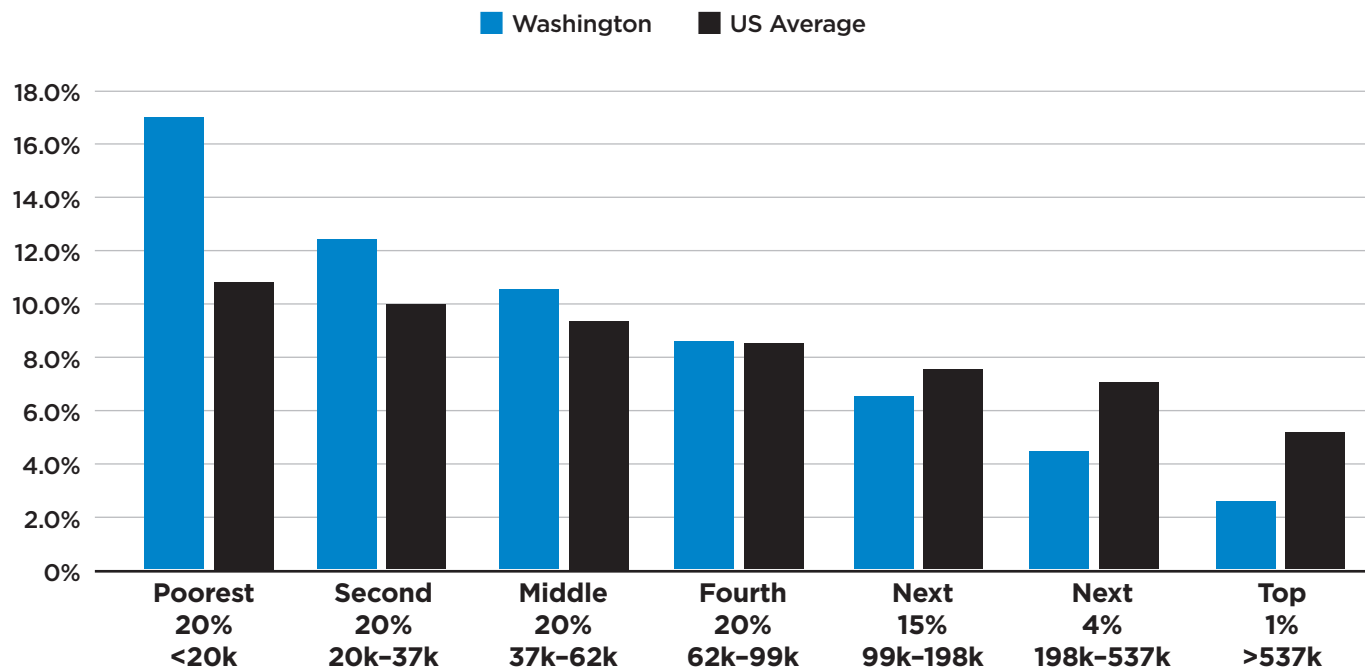
The Effects of the Systematic Underfunding of Education at Every Level

The absence of adequate, stable, and enduring revenue has created a crisis for education, and recent cuts worsen ongoing inequality throughout the system. Insufficient access to affordable, quality child care keeps parents out of the workforce and perpetuates the cycle of poverty. Low child care subsidy rates and threats to employment stability keep family child care providers impoverished and drive the most qualified providers out of the industry. Inadequate funding for K-12 ensures that Washington consistently ranks poorly for education outcomes, particularly among our Latino population. Decreased funding for higher education has led to decreased access for low income students, along with huge spikes in tuition rates and student loan debt, much of which goes to pay off university debt. This is far from a comprehensive list of the problems we have created by failing to invest in our education system.

Washington has the most regressive revenue system in the country.⁷ With no personal or corporate income tax and a heavy reliance on an outdated, 1930s sales tax system that doesn't include many modern services,⁸ the tax burden falls most heavily on the poorest residents. The bottom 20% of income earners pay six times as much of their income in taxes as the richest 1%⁹ (see Figure 1).

Figure 1

Income Tax Paid by Income Bracket, Washington and US Averages: 2010

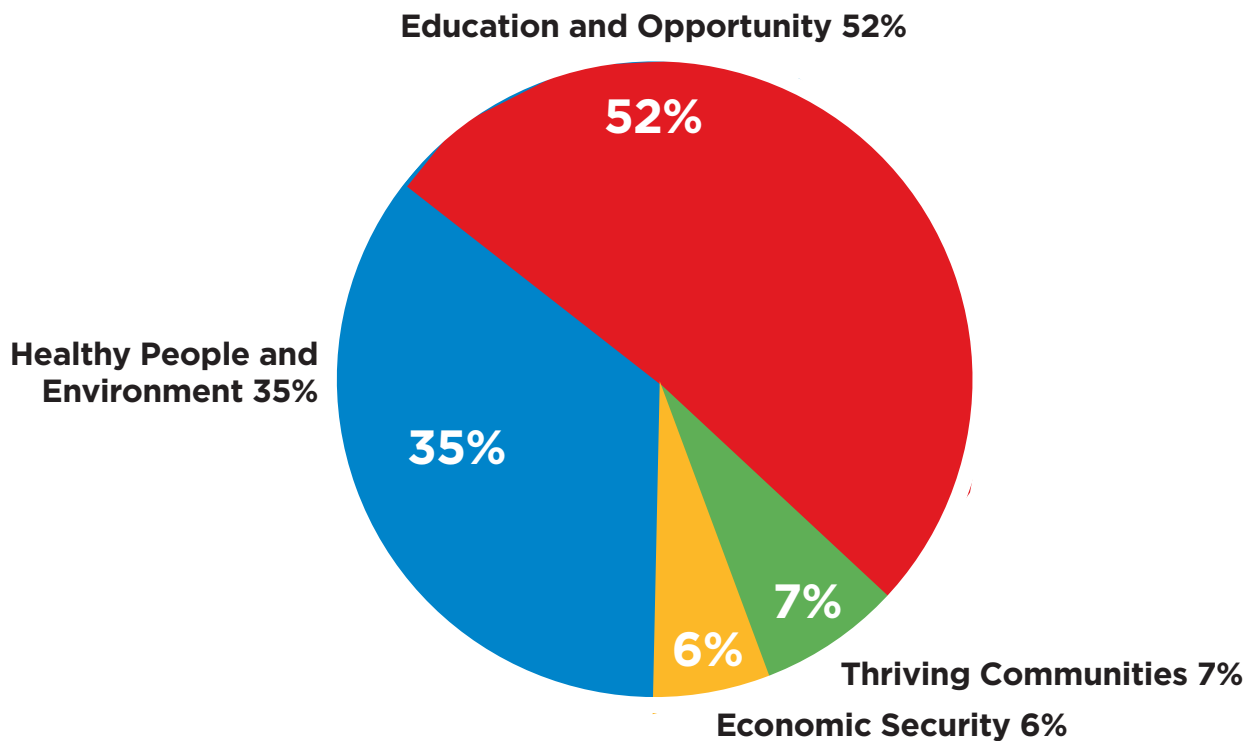


During the Great Recession, when the overreliance on sales tax meant that when many people were buying as little as possible, revenues fell drastically. In 2010, revenue collections fell \$2.7 billion below 2008 levels, and have recovered more slowly than in states with income and capital gains taxes.¹⁰ Washington's lack of personal income tax and capital gains tax also mean not only that the richest residents are not contributing their fair share, but also that the state misses revenue opportunities in rapidly expanding sections of the economy. The current revenue system cannot keep up with modern investment needs.

During the revenue crisis of the Great Recession, public budgets shrank and crucial services suffered huge cuts. An analysis from the Washington Budget and Policy Center identified \$10.2 billion in cuts between 2009 and 2011, with education and health hit hardest. Education alone carried over half of the losses (see Figure 2).¹¹

Figure 2

Health and Education Suffered Biggest Cuts— \$10.2 Billion 2009-2011



Such drastic cuts hurt education at every level. K-12 alone faced \$2.7 billion cuts from 2009-2011, leading to the loss of more than 7,000 jobs, plus the elimination of student achievement funds and teacher cost of living adjustments.¹² Although the number of children in K-12 increased by 12,135 between 2008 and 2010, the number of teachers in the classroom declined by nearly 3,000,¹³ further expanding already grossly inflated class sizes. In 2008, Washington ranked 42nd out of 50 states in class size,¹⁴ falling to 47th in 2012.¹⁵ Washington also has the fourth highest pupil to teacher ratio, at 19.7:1.¹⁶

The 2009-11 cuts only worsened already disturbing trends. Washington currently ranks 41st in state funding per student¹⁷ and fell from 20% above the national average in 1950 to 10% below it in 2010.¹⁸ Washington continually falls behind on many national measures of student preparation for higher education.¹⁹ In 2011, Washington had the 16th lowest high school graduation rates.²⁰ There are also substantial ethnic gaps in performance. High school graduation rates are much lower for Latino students (55%) than white students (72%), and there's a significantly lower level of Latinos (45%) than Blacks (60%), Whites (64%) and Asian Americans (71%) attending college a year after high school graduation.²¹ Increasing per student expenditures, particularly in lower grades, would result in higher graduation rates.²²

The state cut the early learning budget by \$29.4 million for 2009-11, leading to harsh consequences for thousands of families and child care providers. During this period, a decrease in the Working Connections

Child Care subsidy (WCCC) eligibility rate from 200% of the Federal Poverty Line to 175% reduced the WCCC caseload by 38% in just one year. Approximately 7,000 low-income working parents lost crucial child care support, which would have helped them remain in the workforce.²³ A coalition of labor unions, parent groups and other allies pressured the legislature into returning the WCCC eligibility threshold back to 200% of FPL a year later but enrollment levels have not returned to pre-2012 levels and the subsidy is under threat every legislative session.

When Family Child Care providers organized a union in 2006, they negotiated \$60 million in new funding and a significant child care subsidy rate increase by 2008—the first in a decade. But the continuing budget cuts ensured there would be no further rate increase until 2014, another six years.²⁴ Subsidy rates currently vary from a low of 10% of what a provider could make in the private market to a high of 84%.²⁵ This inconsistency disproportionately affects providers of color. In 2012, 29% of children in white Family Child Care homes were on state subsidies, while 79% of children at Latino Family Child Care homes and 84% of children at African American Family Child Care homes were on state subsidies.²⁶ Because providers of color care for more low income children and see significantly less revenue than white providers, deep cuts hurt these communities most.

The impact of subsidy cuts is unequally distributed, but high child care costs are a burden for all communities. Washington is the ninth most unaffordable state for infant care in the country.²⁷ Federal



recommendations suggest that families pay no more than 10% of their income in child care²⁸ but at an average cost of \$12,108 per child, infant care takes up 63% of income for those living at the federal poverty level for a family of three, and 32% of income for a family of three living at double the federal poverty level.

The problems caused by inadequate funding also are increasingly evident in higher education, where in 2010 over 20,000 Washington students did not receive financial aid due to insufficient state resources.²⁹ A 2012 University of Pennsylvania analysis, *State Policy Leadership Vacuum: Performance and Policy in Washington Higher Education*, found that Washington's higher education system is "adrift" with problems such as skyrocketing tuition during an economic downturn and a budget crisis that threatens to undermine the state's ability to meet its need-based financial

aid commitments. The report also found that college is becoming significantly less affordable in Washington. Between 1999 and 2009, median family income fell by 1.9% while tuition increased by 42.4% at Washington's two-year colleges and 39.5% at its public four-year schools.³⁰ Washington's flagship school, the University of Washington (UW), was hit especially hard.

The current state of higher education:

- Between 2007 and 2011, the average cost of a four-year college education for students rose 94% and 54% at technical and community colleges.³¹
- State funding for UW declined 45% between 2009 and 2012.³²
- State funding per UW student fell from \$11,270 per student in 2008 to \$4,820 per student in 2012.³³
- In 1990, the state covered 82% of UW cost per student, with the student paying 18%. In 2014, the state paid 30%, with the student paying 70%.³⁴

- For 2011-12 alone, the UW Board of Regents approved a tuition hike of 20%.³⁵
- In 2010, the average student paid \$900 per year—15% of their tuition—toward UW’s \$43 million interest payments.³⁶

Even before the most recent crisis, Washington systematically underfunded education. In 2007, two families of school-aged children filed a lawsuit that ultimately resulted in a 2012 Washington State Supreme Court decision commonly known as the McCleary decision. The Supreme Court held that the state had failed to meet its constitutionally mandated “paramount duty” to provide ample support to K-12 education.³⁷ Under McCleary, the state must fully fund K-12 education by 2018 and must use a formula that covers, at minimum, overhead, transportation, and staff salaries and benefits without relying on local levies or federal funding.³⁸ As the Budget and Policy Center notes, this mandate is almost impossible to achieve without significant new revenue solutions. The only alternative to new revenue is deep cuts to all other state services, particularly other areas of education, a course with potentially disastrous consequences for the Washington State economy and therefore not a viable option.³⁹



- Washington ranks 47th out of 50 in class sizes.⁴⁰
- Washington ranks 41st nationally in education spending per student.⁴¹
- Reducing class sizes in early grades improves learning in all subject areas, especially for children living in poverty.⁴²

Corporate Tax Giveaways:

Diverting Money from Our Communities to Line Corporate Pockets

While our communities face cuts to education and vital services, corporations increasingly benefit from tax breaks and other subsidies. A *New York Times* investigation found that Washington spends about \$2.35 billion a year—or 15 cents of each dollar in the budget—on corporate “incentive” programs, such as property tax abatements, sales tax refunds, and other tax rebates or reductions.⁴³ The state gives away three times as much per capita as California.⁴⁴ Good Jobs First’s Subsidy tracker project identified **more than \$13 billion** in subsidies for companies operating in the state since 2003, with the vast majority after 2007.⁴⁵ These tax breaks come in addition to the revenue lost because of Washington’s already highly regressive system of taxation.

Washington’s largest corporate tax subsidies since 2003:

- **Microsoft: 16 subsidies totaling \$70,620,865**
- **Amgen: 8 subsidies totaling \$19,696,967**
- **Weyerhaeuser: 20 subsidies totaling \$13,659,193**
- **ConAgra Foods: 27 subsidies totaling \$8,358,882**
- **Royal Phillips: 33 subsidies totaling \$6,165,388**
- **Orca Bay Seafoods: 6 subsidies totaling \$296,849,235**
- **National Frozen Foods: 8 subsidies totaling \$127,686,015**
- **CH2M Hill: 8 subsidies totaling \$10,661,017⁴⁶**
- ▲ **Total for 10 corporations receiving largest subsidies (including Boeing): \$12,504,171,690**

The Boeing Example

While investing in education pays off for Washington, Boeing exemplifies the growing problem of taxpayer giveaways to profitable corporations with little or no accountability for the “investment” of our money. Boeing has reaped billions of dollars in tax breaks by promising good jobs for Washingtonians. Historically, the corporation leverages its presence in the state to secure lucrative economic concessions and then breaks promises of creating good jobs and moves work overseas. Recently, Boeing announced thousands of layoffs.

In late 2013, Boeing secured an extension of an existing package of state subsidies originally granted in 2003. The extension totals nearly \$9 billion over a period ending in 2040 and brings Boeing’s subsidy total to nearly \$13 billion.⁴⁷ The Legislature granted the breaks after Boeing signaled it would move production of a new jet out of state if it didn’t get the deal. Boeing also solicited subsidy deals from other states and claimed that they’d received 22 offers, including some in the billions. Boeing’s maneuvering apparently also was effective in pressuring their machinists to accept a contract they previously voted down because of the severe concessions demanded from workers.⁴⁸

In February 2014, Boeing showed its gratitude for the state legislators’ capitulation by throwing a thank-you party in a private house across the street from the Capitol.⁴⁹ These legislators were the very same people



Boeing spent more than \$356,000 lobbying in 2013 (\$81,000 in October and November alone). Boeing also spent \$414,000 on lobbying in 2012 and \$523,000 in 2011. As one commentator noted, Boeing spent \$264,666 more on 2011-13 Washington state lobbying than it did from 2004-10 and had the sixth biggest lobbying expenditures in the state for 2012.⁵⁰ Viewed another way, Boeing received \$7,250 in tax breaks for every dollar they spent lobbying.⁵¹

Boeing used a similar tactic to extract huge economic concessions in 2003 when it first secured tax breaks for the production of its 787 airplane under “imminent threat” that the company would move production out of Washington.⁵² Shortly after the state gave Boeing that first deal, however, the company began manufacturing and constructing parts of the plane in Japan, Italy, Kansas, and South Carolina anyway.⁵³ Washington’s WARN (Worker Adjustment and Notification) data shows that

Boeing eliminated more than 6,000 jobs in the state since 2003, most of them since 2008, and nearly 700 just since November 2013 when they won the most recent subsidy extension.⁵⁴ In December 2013, just a month after securing the record-breaking subsidy deal, Boeing announced that it would transfer about 1,000 engineering jobs to California and another 1,000 research jobs to another state. More transfers are imminent.⁵⁵

According to an investigation by the *Seattle Times*, the aerospace tax incentives in 2003 that included Boeing’s deal have produced relatively few jobs, and many of these are low skill, low wage positions such as warehouse jobs that lack collective bargaining protections.⁵⁶ The accountability organization Good Jobs First also found that nationally the average cost per job created by subsidies like these is \$456,000, with some deals costing more than \$1 million per job created.⁵⁷

Here’s a closer look at some of the subsidies that taxpayers hand to Boeing:

- In 2013, Boeing received a \$199 million federal tax refund despite reporting profits of nearly \$6 billion.
- Boeing got \$1.6 billion in federal tax refunds over the last 12 years with an average federal tax rate of negative 3.8%. In this same period, Boeing made \$43 billion in profits.⁵⁹
- From 2008-12, Boeing was the country’s seventh largest recipient of federal tax subsidies⁶⁰ with refunds totaling \$822 million despite nearly \$15 billion in profits.⁶¹
- After the recent Washington tax break of \$8.7 billion, Boeing became the recipient of the biggest state tax break in United States history.



Profitable Corporations Find New Ways to Avoid Fair Contributions to Public Coffers

Negotiating deals from the state is just one way profitable corporations game the system. Another tactic is outright tax avoidance. Local companies as profitable as Microsoft and Amazon can be quite creative in avoiding paying their taxes.

Microsoft bases its sales operations in Nevada, a corporate revenue tax haven, to avoid paying licensing taxes in Washington, which has deprived Washington of almost \$1 billion in tax revenue. In 2010, Washington changed its definition of royalty taxes, effectively granting amnesty to Microsoft and exempting them from having to pay back taxes. Over the 13-year period, the estimated losses in state tax revenue range up to \$757 million.⁶² Although the loophole has since been closed and Microsoft can no longer use its Nevada subsidiary as a royalty shelter, these losses never will be recouped. That tax revenue could have gone to education, a cause supposedly championed by Microsoft Chairman Bill Gates and ex-CEO Steve Ballmer.⁶³ Meanwhile, Microsoft reported \$77.31 billion in revenue in 2013, with \$22.12 billion in net income.⁶⁴

Amazon has used similar tactics elsewhere, and even considered establishing themselves on an Indian Reservation to avoid taxes.⁶⁵ Perhaps most notoriously, they used extensive leverage to resist Minnesota and California efforts to implement internet commerce sales taxes (now frequently called the “Amazon Tax”) on their customers for in-state sales by out-of-state organizations. Amazon fought hard against the California taxes and even temporarily canceled their third-party sales operations in the state in protest.⁶⁶ In May 2013, the United States Senate passed the proposed “Marketplace Fairness Act” (MFA), extending these same taxes to every state. The MFA, which as of this writing has not yet been approved by the House, enjoys broad bipartisan support. Even free market economists support it, because they say it will benefit brick-and-mortar stores. Amazon has switched stances on the issue and now is a strong supporter. According to the conservative organization Foundation Watch, Amazon now believes the new taxes would crush their online competition, leaving them on top of the industry even if they have more administrative costs.⁶⁷ Amazon currently ranks ninth nationally in lobbying on Internet and computer issues, spending \$3.4 million in 2013 alone.⁶⁸



Washington also is affected by local corporations' failure to pay federal taxes. Citizens for Tax Justice reports that 26 Fortune 500 companies paid zero federal income taxes from 2008-12. These companies include not only Boeing but also Washington-based truck manufacturer PACCAR, whose total rate for the period was -1 %, with a net profit margin of \$1.5 billion. In 2009, their effective tax rate was -130.7%, with \$83.5 million in profits.

Companies also avoid federal income taxes by offshoring or hiding revenue. Microsoft avoids paying potentially hundreds of millions in taxes by claiming that only a quarter of its profits come from the United States even though more than half of its revenue comes from the U.S.⁶⁹ Washington-based Amazon ranks fifth in the country for the most tax savings using stock options at \$1.01 billion from 2008-12. Starbucks ranked 16th at \$341 million over the same period.⁷⁰ Starbucks also had only a 17.5% effective federal corporate income tax rate in 2011 and a 20% effective tax rate in 2012. In the same years, Amazon had rates of 4.7% and 15.1%, respectively.⁷¹

Indirect Subsidies: Another Way Corporations Profit at Taxpayer Expense

The problem of corporations skimming money from public coffers doesn't stop at corporate tax breaks and giveaways. Some of Washington's wealthiest companies also benefit from indirect subsidies. Employers offering low wages, few benefits and only part-time work to large workforces count on subsidies from taxpayers, both in our state and nationally. Two of the biggest costs to Washington taxpayers come from profitable corporations employing part-time, uninsured workers who must rely on Medicaid and other related medical expense funds, along with Working Connections Child Care subsidies, just to get by. In 2010, Washington passed House Bill 3079, creating an annual report tracking total expenditures per employer for any employer with workers receiving coverage under the Washington Health Care Authority's (HCA) Medicaid, SCHIP, pregnancy or disability programs, among others. No such tracking system exists for Working Connections, although a recent Public Records request and analysis suggests it is possible⁷² amid growing consensus that such tracking is needed, as demonstrated by recent transparency legislation.⁷³



The total monthly cost to taxpayers to subsidize healthcare at the 10 employers whose workers receive the most medical assistance, 2013.⁷⁴

	January Estimate	June Estimate	Rank
WAL-MART STORES INC	\$1,624,668	\$1,548,552	1
MCDONALDS CORPORATION	\$999,148	\$997,442	2
SAFEWAY	\$727,912	\$735,366	3
THE KROGER CO	\$585,187	\$559,727	4
YUM! BRANDS INC	\$450,034	\$451,812	5
ZIRKLE FRUIT COMPANY	\$360,340	\$418,521	6
JACK IN THE BOX	\$356,297	\$329,873	7
STEMILT GROWERS INC	\$285,917	\$295,355	8
SUBWAY RESTAURANTS	\$288,743	\$278,938	9
THE HOME DEPOT	\$297,628	\$323,243	10
TOTAL	\$5,975,874	\$5,941,809	
TOTAL TOP 100	\$18,512,845	\$18,362,245	

These months represent high- and low-use periods, making it possible to derive annual averages. Our analysis puts the total annual cost to taxpayers for the top 10 employers whose workers receive HCA medical benefits at more than \$59 million, with Wal-Mart alone costing over \$19 million a year.⁷⁵ It is not just national, low-road employers creating the problem but also Washington-based employers, some of whom are considered more respectable—such as Boeing. The estimated total annual cost for the top 10

Washington-based employers alone is \$15 million. As the largest non-agricultural employer with workers on HCA, Starbucks cost taxpayers an estimated \$2.4+ million a year.⁷⁶

The total one-month cost of subsidizing healthcare at the nine Washington-based employers with workers receiving the most medical assistance, 2013.⁷⁷

	January Estimate	June Estimate	Rank	WA-based Rank
ZIRKLE FRUIT	\$360,340	\$418,521	6	1
STEMILT GROWERS	\$285,917	\$298,355	8	2
STARBUCKS	\$211,734	\$201,590	17	3
DSHS	\$222,976	\$217,463	19	4
BROETJE ORCHARDS	\$172,455	\$191,338	22	5
COSTCO	\$221,466	\$204,530	24	6
BOEING	\$234,397	\$238,148	25	7
UW	\$157,011	\$153,976	27	8
YMCA	\$153,392	\$156,934	31	9
TOTAL	\$2,019,688	\$2,080,855		
TOTAL TOP 100	\$18,512,845	\$18,362,245		

There is a troubling lack of transparency around indirect subsidies, both in Washington and throughout the country. The national subsidy estimate of \$1 billion for Wal-Mart is most likely just the tip of the iceberg. In Washington, the passage of House Bill 3079 was a significant step toward improving transparency, yet more is needed, particularly in tracking distribution of indirect subsidies such as Working Connections and direct subsidies such as the Boeing tax break. The 2014 legislature considered such legislation in HB 2201, which passed in the House but died in the Senate. A recent Public Records request revealed the following employee counts for employers whose workers receive the Working Connections Child Care subsidy. The numbers are remarkably similar to those from HCA.⁷⁸

Largest 10 employers with workers receiving Working Connections Child Care subsidy, their number of employees on the subsidy, and their state size ranking

	Total Number of Employees	Rank
WAL-MART STORES INC	475	1
MCDONALDS CORPORATION	355	2
SAFEWAY	176	3
GOODWILL	164	4
FRED MEYER	146	5
KINDER CARE	118	6
ZIRKLE FRUIT	118	7
SUBWAY RESTAURANTS	116	8
JACK IN THE BOX	113	9
STEMILT GROWERS INC	111	10



What If Education Got The Boeing Tax Break Funds?

Boeing's existing Washington tax break averages out to just over \$200 million a year,⁷⁹ which could fund:

- ▲ Nearly all of the UW's entire state budget of \$212 million a year.⁸⁰
- ▲ Just under two-thirds of the Working Connections subsidy budget for 2012.⁸¹

The biennial Boeing subsidy of just over \$400 million would cover the following funding mandated under McCleary from 2017-18:

- ▲ 35% of the amount needed to implement class size reduction in kindergarten-third grade (\$1.15 billion)
- ▲ 90% of the amount needed to fully fund all-day kindergarten and implement the Career & College Ready Program (\$448 million)
- ▲ 25% of maintenance, supplies and operating costs (\$1.6 billion)
- ▲ 20-40% of projected faculty and staff salary increases (\$1-\$2 billion)

Starting in 2024, the Boeing tax break grows to \$350 million a year.⁸²

The Big, Quantifiable ROI for Fully Funding Education

No one invests money without expecting a return. Yet as the benefits resulting from many of the corporate subsidies paid by taxpayers remain unclear, it could not be clearer that cutting taxes on profitable corporations leaves less to invest in education. High corporate profits often benefit only the people at the top of the economy such as CEOs and shareholders, while all of Washington benefits from investments in education from early learning through college. A 2013 report by the Economic Analysis and Research Network shows an overwhelmingly strong correlation between educational attainment level and a state's median wages.⁸³ The report also found that "cutting taxes to capture private investment from other states is a race-to-the-bottom state economic development strategy that undermines the ability to invest in education."⁸⁴

The social benefits of early learning have been extensively researched and are well known. The first few years are extremely important in setting the foundation for the rest of a child's life.⁸⁵ Research by Nobel Laureate James Heckman, an economist at the University of Chicago, and other scholars confirms that investment in the early education of disadvantaged children yields extremely high long-term returns. A University of Wisconsin study found that taxpayers save more than \$7 for every dollar invested in pre-school.⁸⁶

High quality early education improves "not only [children's] cognitive abilities but also crucial behavioral traits like sociability, motivation and self-esteem."⁸⁷ Early education leads to lifelong benefits including college success, higher income levels, and lower incarceration rates.⁸⁸ And intervention in the first few years of life costs less than intervention later. For example, Heckman estimates that the cost of boosting the high school graduation rates of the most disadvantaged kids, from 41% to 64%, would be up to 50% cheaper if the intervention happened before age 6 rather than during the teen years.⁸⁹ The benefits of early education are well established. In fact, in his 2013 State of the Union address, President Barack Obama called for universal pre-K—a sign that the nation's leadership understands the culture-wide values of this kind of investment in our shared future.⁹⁰

With that in mind, it is instructive to again look at what Washington chooses to invest in, and how that money could benefit early education and childcare programs in the state. Washington's \$2.35 billion in annual corporate subsidies is almost seven times the state's 2014 Working Connections Subsidy budget of \$367.7million.⁹³ Working Connections reached an estimated 31,233 children in 2012, almost 42% of children



"We can gain money by investing early to close disparities and prevent achievement gaps, or we can continue to drive up deficit spending by paying to remediate disparities when they are harder and more expensive to close... The argument is very clear from an economic standpoint."⁹¹

—James Heckman

Nobel Prize winning University of Chicago economist and human development researcher

in Family Child Care and 20% of children in child care centers. Currently, about 7% of infants, 18% of toddlers, 25% of preschoolers, 13% of kindergarteners and 4% of school-aged children are in child care, with most centers and FCC providers reporting 20% vacancy.⁹⁴ Research suggests that prohibitively expensive child care keeps families out of the market and that a decrease in costs leads to increased use.⁹⁵ Higher subsidy rates and wider reach could dramatically expand market access and improve outcomes for thousands of families, which will happen only with significant new revenue.⁹⁶

A quality K-12 education system fuels a functioning economy. A high school diploma or higher degree identifies a worker who is able to participate in the job market, be productive, show up and complete tasks.⁹⁷ Higher levels of education correspond to “improved health, and lower rates of mortality, and lower rates of crime.”⁹⁸ Meta-studies commissioned by the Washington legislature suggest that increases in per student spending and decreases in class size lead to significant improvement in student outcomes across all ages, especially in younger years. For instance, a 10% increase in funding per student leads to significant outcome improvements for elementary school students and 3.7% higher on-time graduation rates.⁹⁹ Unfortunately, Washington’s per pupil expenditures slowly declined from roughly 20% above the national average in 1950 to almost 10% below it in 2010.¹⁰⁰

A genuine reinvestment in Washington’s K-12 education system goes well beyond the funding required by the state Supreme Court in the McCleary decision, but that decision is a good starting point. The Joint Task Force on Education Funding projects that fully funding education under McCleary will require approximately \$4.5-7 billion per biennium by 2017-19.¹⁰¹ Some estimates suggest 12,665 new teachers need to be hired just to bring Washington to the national average class size.¹⁰² Under new post-McCleary legislation, the state must reduce K-3 pupil to teacher ratios to 17:1,¹⁰³ a modest improvement essential to improving outcomes.

The returns on investment in higher education are well documented, and a college degree or higher is increasingly necessary in a world of precarious, post-globalized work. Nationally, people with master’s degrees earn an average of \$60,709 a year, while high school graduates earn \$28,659.¹⁰⁴ More importantly, this gap wasn’t always as large. As recently as 1979, many of the highly industrialized, lower educated manufacturing states had among the highest average wages, with Michigan ranking second nationally.¹⁰⁵ The premium for a college degree has grown significantly since then, largely because of the collapse of unionized work across the country. States with the highest educated residents now have by far the highest economic performance.¹⁰⁶ There is no similar correlation for low overall tax levels and high wages.¹⁰⁷ Higher education has numerous other directly measurable benefits for Washington. On average, residents with bachelor’s degrees or higher have a 5.1% unemployment rate, as compared to people with less than a high school diploma, at 15.5%.¹⁰⁸ The Great Recession only exacerbated this dramatic gap.

When at-risk children miss out on high-quality early childhood education they are:

- ▲ **25% more likely to drop out of school**
- ▲ **40% more likely to become a teen parent**
- ▲ **50% more likely to be placed in special education**
- ▲ **60% more likely never to attend college**
- ▲ **70% more likely to be arrested for a violent crime⁹²**



Our state's lead schools also are significant wealth generators. The main campus of the University of Washington had a 2013 annual Return on Investment (ROI) of 8.4% for in-state students without financial aid and 11.6% for in-state students with financial aid. Its 30-year net ROI was \$904,300 for students without financial aid and \$957,400 for students with aid. It ranks 115th out of almost 1,500 schools polled.¹⁰⁹ By another measure, UW had the fifth highest dollar-for-dollar return on investment in higher education.¹¹⁰ Washington State University fared well, too, with a 7.5% return for in-state students without aid and a 9.3% return for those with aid, ranking 235th.¹¹¹

Boeing's current annual subsidy of more than \$200 million is more than enough to restore the \$172 million (or 45%) cut from the University of Washington's state budget from 2009-12 and would nearly cover the \$43 million in interest on debt the university paid in 2012.¹¹² An injection of this kind would have a tangible effect on reversing tuition hikes, lowering student loan accumulation, and increasing general prosperity for the 43,762 students attending the university last year¹¹³ along with the thousands more in the state higher education system. It is difficult to estimate how much the expanded annual Boeing subsidy of roughly \$350 million between 2024 and 2040 would improve state funding for UW. Based on funding trajectories over the last 30 years, however, it is safe to say that it would be a significant improvement. This funding would undoubtedly dramatically reduce dependence on student loan debt, which, at a national total of over \$1.2 trillion, could produce the next great financial crisis in the United States—possibly similar to the housing market crash.¹¹⁴

There is a direct, strong and enduring correlation among our state's regressive tax system, corporate tax subsidies, and the crisis in education funding. Our state chooses to subsidize corporate profits that benefit a relative few while ignoring the need for real revenue solutions so we can invest adequately in an education system that benefits everyone. Washington's \$2.35 billion in annual, non-Boeing corporate subsidies alone could double the state's funding for the University of Washington and Working Connections Child Care subsidies and cover a large portion of McCleary-mandated education funding. This funding would be only maintenance-level yet a significant improvement over current levels. Reversing the Boeing break would undoubtedly help solve numerous other problems in the education universe with essentially no "new" revenue.

Ultimately, any viable solution requires new revenue generation. Unfortunately, our elected officials provide no recent good examples of progressive revenue solutions. For example, a massive state budget shortfall in transportation created a crisis for King County roads and metro bus service, forcing the county to create a new transportation district and have voters decide whether to raise vehicle tabs to \$60 a year and increase sales taxes.¹¹⁵ A wide variety of nonprofits, social service agencies and progressive organizations endorsed this regressive tax, only because they knew the alternative would be more devastating to King County's low income populations.¹¹⁶ County voters ultimately rejected the decision, which will now be put forth to Seattle



“Only two things can happen to the people in that state: either they have to pay higher taxes to cover the revenue that Boeing won’t be paying, if they want to maintain the same quality of public services, or they have to suffer lousier public services or some mix of the two.”

—Greg LeRoy
Good Jobs First.¹¹⁷

voters in the form of a property tax and much more limited service. While funding this service is crucial, it is disturbing to see it coming through further regressive tax options.

A truly progressive revenue solution for Washington requires significant restructuring of our tax system. Options that make good economic sense include introducing a capital gains tax, a fair share income tax on the wealthiest 1%, and a real corporate income tax. Washington is one of only six states in the country without capital gains taxes. The Washington State Budget and Policy Center estimates that a capital gains tax alone would raise more than \$700 million per year in new funding.¹¹⁸ A genuine fair share income tax would raise significantly more, and would allow reducing regressive sales and property tax rates to a much more manageable level.

In 2010, Washingtonians voted against Initiative 1098, which would have created an income tax for high income earners, but only after an intense media campaign against the tax by the state's wealthiest elite. The Washington State Office of Financial Management estimates the tax would have raised an average \$2.2 billion per year in annual funding, 50% of which was earmarked for education.¹¹⁹ By 2016, total revenue was set to increase to \$3.2 billion, with \$1.7 billion for education.¹²⁰ The total accumulated revenue over five years was estimated to be \$11.16 billion, which would have funded the majority of mandates from the McCleary decision.



Although Washington and the nation are both experiencing a stronger recovery now than in 2010, there is also a significantly greater public focus on inequality now. In his 2012 State of the Union Address, President Obama called inequality “the defining issue of our time.”¹²¹ Poll data also suggests more Americans than ever before want to see wealth more evenly distributed.¹²² Inequality is clearly rampant throughout Washington, and its effects are particularly evident in the state's education system. Without quick action, the issue will grow to potentially catastrophic levels by 2018, when McCleary mandates full funding for K-12 education. The time to act is now, and new revenue is the only viable solution to this crisis. A fair share tax for the wealthiest Washington residents and corporations is the only sustainable choice.

Conclusion

Washington has more than enough money for the entire state to thrive. The growing crisis in funding our education system is a matter of choices and priorities. To reverse the current crisis, we can no longer rely on unsustainable regressive taxes to solve the problems created by budget cuts, corporate tax loopholes and lack of overall funding. Corporations and the ultra-wealthy must be held accountable for paying their fair share into our revenue system and provide transparency on what they do with the billions in subsidies and giveaways they receive every year. While undoubtedly a long process, the conversation on the true value of investing in education must start today and must end with generating new revenue. It's time to fully fund education from birth to graduation and ensure a bright future for our children and our entire state.



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