COMMITTEE FOR EDUCATION FUNDING

Monday, October 30, 2017

Dear CEF Members:

I. Advocacy

- **FYI, AACTE letter on need to raise spending caps –** CEF member the American Association for Colleges of Teacher Education (AACTE) is asking organizations to sign the attached letter to Congressional leadership in support of education funding. The letter urges Congress to raise the non-defense discretionary spending cap by the same amount as the defense cap, and to then ensure that the Labor-HHS-Education appropriations bill receive its fair share of the additional funding. To sign your organization on, please email Zach VanHouten (zvanhouten@aacte.org) by COB today.

II. Policy Intelligence and Education News

- **Implications of tax reform on education** – At Friday's CEF meeting Sarah Cohen with AFT and Noelle Ellerson Ng with AASA led an informative discussion of some ways tax reform could impact education funding at the federal and state level. Attached are two documents they mentioned: 1) their memo outlining key points, and 2) the National Governors Association's description of tax benefits related to education and proposals to change them. For those interested, Noelle and Sarah also provided two links for additional background information about:

  - The state and local tax deduction at http://www.americansagainstdoubletaxation.org/

  - The progressive community view of broader tax reform at http://stoptrumptaxcuts.org/

- **Staffing changes in the education world** –

  - **Denise Forte, House Committee on Education and the Workforce**– We have learned that Denise Forte is leaving her position as Staff Director for the Democratic staff of the House Education and the Workforce Committee, which she has held since January 2015. No word yet on who will replace her.

- **Buyouts at the Department of Education's (ED's) Office of Federal Student Aid** – the Washington Post reported Friday that ED will offer incentives for employees of the Office of Federal Student Aid to take early retirement or voluntarily leave. Those who are eligible will be informed this week, and will have two weeks to decide whether to accept the offer. ED is continuing the hiring freeze put in place early this year.

- **Kenneth Marcus, ED's Assistant Secretary for Civil Rights** – On Thursday, the White House announced the President's intention to nominate Kenneth Marcus to serve as ED's Assistant Secretary for Civil Rights. He served in that role (without Senate confirmation – his title was "Delegated the authority of the assistant secretary") under President George W. Bush, and is currently President and General Counsel of the Louis D. Brandeis Center for Human Rights Under Law.

- **Douglas Webster, ED's Chief Financial Officer –** EdWeek reports that Douglas Webster is the nominee to be ED's chief financial officer. He is currently the director of risk management at the U.S. Agency for International Development.

- **ED rescinds guidance for about 600 pieces of regulatory guidance** – ED's Regulatory Reform Task Force just issued a second status report (attached) listing its actions to reduce regulatory burdens. The report identifies guidance that ED intends to withdraw or archive, including: 398 guidance documents that the Office of Postsecondary Education identified as out of date; 9 guidance documents that the Office of Career, Technical, and Adult Education will withdraw; 97 guidance documents that the Office of Elementary and Secondary Education identified as unnecessary; 2 that the Office of Innovation and Improvement will rescind; 72 guidance documents that the Offices of Special Education and Rehabilitative Services will withdraw; and 5 that the Office of the Chief Financial Officer will withdraw. The Task Form will continue to review comments from stakeholders and provide additional recommendations to the Secretary.

III. Events

- **First-Generation College Celebration on November 8** – the Council for Opportunity in Education and NASPA-Student Affairs Administrators in Higher Education are holding an event to highlight achievements of first-generation college students on November 8 – the 52nd anniversary of the Higher Education Act of 1965. The event begins with a continental breakfast at 9:30 m, with the program from 10-11:30am in the Capitol Visitor Center's Congressional Meeting Room South. Please RSVP here. You can also watch the celebration live on Facebook here.

- **Nominations for CEF's 2018 Board –** If you are interested in serving on CEF's Board next year, please email your nomination form by November 9 to Jonathan

Widjaja at Widjaja@CEF.org. The explanatory memo and nomination form are attached.

- **CEF's upcoming schedule –**
  - **Friday, Nov. 3, 9-11am:** At NEA, 1201 16th St NW, Chanin Auditorium. Guest speaker: Bo Morris, Senior Legislative Assistant, Rep. Jared Polis (D-CO).
  - **Thursday, Nov. 9** – deadline for nominations to run for a seat on CEF's Board.
  - **Friday, Nov. 10** – no meeting.
  - **Friday, Nov. 17, 9-11am**: At Georgetown University near Union Station, 600 NJ Ave, NW, Room 200 McDonough Hall. Guest Speaker: Erica Navarro, Director of Budget Service, U.S. Department of Education.
  - **Friday, Nov. 24** – no meeting.

My best,

Sheryl

Sheryl V. Cohen, Executive Director

C E F

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EDUCATION FUNDING

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[Letter to Senate & House Leadership – addresses to be inserted later]

Dear Leader McConnell, Speaker Ryan, Democratic Leaders Schumer and Pelosi:

Our organizations are deeply concerned about our nation's commitment to the education of its young people. We urge you to ensure an adequate funding level for education moving forward and to facilitate that investment by raising the budget caps on federal spending that are currently in place.

Federal education funding is an investment in the future of our nation. Our economic strength and vitality are dependent upon having a citizenry that is fully participating in our economy. Education is the path for each child to become a contributing member of our society.

In 2015, when Congress passed the bipartisan Every Student Succeeds Act, it recognized that the foundation each child needs to achieve the American dream is education. The current cuts to education are in direct conflict with the commitment Congress has made to our nation's youth, their teachers, classified school employees and principals, and our world-renowned higher education system. In addition, as state budgets continue to be tightened—with 23 states being forced to make midyear cuts last year—states increasingly depend on the Congress to stay committed to investing in elementary, secondary, postsecondary, and adult education.

We urge to come together and craft a budget deal that raises both the defense and non-defense discretionary caps by the same dollar amount. Education programs, as well as other services that support the most vulnerable here at home, need to be at least level-funded at the Fiscal Year 2017 levels, and preferably higher.

In addition, we urge you to ensure that the additional funds from a budget deal are appropriately distributed. In particular, please work to ensure that the Labor, Health and Human Services, Education, and Related Agency bill receives its proportional share—about one third—of any increase in non-defense discretionary funding.

Thank you for your leadership on this critical matter.

Sincerely,

TO: Education Community
FROM: Sarah Cohen, AFT
Noelle Ellerson Ng, AASA
DATE: October 27, 2017
RE: Tax Reform and Impact on Education

As the president and Congress move forward with their efforts to overhaul the federal tax code, it is important to have an understanding of how the proposed reforms will affect education. Tax reform and related changes may not affect education as directly as changes in annual federal funding (appropriations), but the potential consequences are significant. This memo is designed as a quick overview and introduction to a select handful of federal tax policies that are under consideration in the federal tax reform conversation.

Tax Reform and Impact on Education

Background: Adequate and fair taxes support our nation's communities, neighborhoods and schools. In discussing the ways that tax policy affects our schools, the most obvious examples are those directly related to education expenses and funding, such as property taxes, the Qualified Zone Academy Bonds program, and the teacher tax credit. Beyond these more visible and direct tax policies, there are federal tax policies that have an impact on and shape education and educational opportunity. As Congress prepares for its most recent effort to revise the tax code, we must understand not only those tax policies that directly affect schools, but also how broader tax policies help enable states, communities and neighborhoods to support their schools.

Federal tax reform will affect education funding in multiple ways:

- By changing education-specific tax provisions;
- By enacting non-tax changes to pay for tax changes;
- By changing the state and local tax deduction, which will affect state and local governments' ability to raise revenue to fund education and will also affect property values; and
- By reducing state revenues as a result of federal tax changes.

Impact of tax plan "pay-fors": In addition to the select tax policies referenced below, the decision of how tax reform will be paid for—or not—may have a significant impact on federal funding for education. One example includes paying for tax reform with cuts to Medicaid, which would be devastating to school systems and the students they serve. Such a proposal could ration the healthcare America's most vulnerable children receive and undermine districts' ability to meet the educational needs of students with disabilities and students in poverty. Children represent 46 percent of all Medicaid beneficiaries yet the services for children represent only 19 percent of Medicaid costs. Currently, $4 billion in Medicaid funding flows to school districts every year so they can make sure students with disabilities can get the help they need from therapists, and students who can't get to a doctor regularly can get basic medical care. Large cuts to Medicaid funding would lead to layoffs of school personnel, the potential for new taxes to compensate for the Medicaid shortfall, and further shifting of general education dollars to special education programs.

If tax reform is deficit-financed and adds to the federal debt, recent congressional history has shown that an increased debt is likely to result in pressure for Congress to curb discretionary spending. For example, the current Budget Control Act sequester caps, which are a driving force behind congressional proposals to cut billions of dollars from the Department of Education's federal programs, are the result of Congress' attempts to address the increased debt caused by the last decade's deficit-financed tax cuts. As a result of the Budget Control Act's spending caps, fiscal year 2017 nondefense discretionary spending, which includes education

funding, is 13 percent below 2010 levels when adjusted for inflation. After adjusting for population growth over the same time period, funding is 18 percent lower than it was in 2010.[1]

Impact on state and local governments' ability to raise revenue to fund education: Taxes do not occur in isolation. And when it comes to schools, it is the confluence of local, state and federal taxes that generate the revenue that supports those schools. State and local governments must balance their budgets annually, and any change that disrupts this stability will negatively affect the ability of state and local governments to fund essential services, including schools. Funding for education is often the largest or second-largest portion of a state's budget, so any negative impact on state revenues will almost certainly lead to cuts in funding for education. While it varies by state and district, approximately 90 percent of funding for public K-12 schools comes from state and local governments. As proposed changes to federal tax policy will affect state and local budgets, so too will those changes affect education. For example, the current congressional tax plan is projected to lower home values by 10 percent.[2] Since many school districts use property taxes as the basis for education funding, this would lower the available funding for schools.

State and local tax deduction (SALT): A second pay-for being considered by Congress is the elimination of taxpayers' ability to deduct state and local taxes (SALT) on their federal tax returns. Eliminating the SALT deduction would affect nearly one-third of taxpayers from all 50 states and across all income brackets. The ability to deduct SALT is an important element in preserving stability in state and local tax revenues. As the Center on Education Policy explains, "Education receives indirect subsidies from a variety of special tax deductions, exclusions, and credits for individual taxpayers in the federal tax code. … While most of these special provisions target higher education, the greatest financial benefits to education come from the provision that allows taxpayers who itemize their federal deductions to deduct payments made for state and local taxes." Because state and local taxes are the primary source of funding for education, the federal deduction for state and local taxes effectively benefits public K-12 education.[3]

In fact, the Center on Education Policy finds, "Public K-12 education receives benefits worth billions of dollars through the deductibility of state and local taxes. The subsidy to K-12 education from this deduction amounted to roughly $16.5 billion to $17.1 billion in 2009."[4] And specific to education, the center finds, "If the individual income tax deduction for state and local taxes were to be reduced or eliminated, state and local government expenditures for public K-12 education would likely decrease over time. Taxpayers who itemize would perceive an increase in the net 'cost' of their state and local tax payments because a portion of these payments would no longer be offset by the federal deduction. The result might well be increased resistance to state and local taxation among some taxpayers, although this resistance might be focused primarily on proposed increases in the amount and rate of state and local taxes."[5]

As state and local governments continue to rely on the SALT deduction, in part, to bolster their ability to raise revenues, any change at the federal level would mean state and local governments could suddenly find it much harder to raise revenues for public education. Over time, it is very likely that a change in this tax provision would

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[1] Center on Budget and Policy Priorities, "Unmet Needs and the Squeeze on Appropriations: Policymakers Should Continue Bipartisan Sequestration Relief" (May 19, 2017), www.cbpp.org/research/federal-budget/unmet-needs-and-the-squeeze-on-appropriations.

[2] PricewaterhouseCoopers, "Impact of Tax Reform Options on Owner-Occupied Housing" (May 15, 2017), https://view.publitas.com/p222-14698/pwc-report/page/4-5.

[3] Center on Education Policy, "How Public Education Benefits from the Federal Income Tax Deduction for State and Local Taxes and Other Special Tax Provisions" (2011), http://files.eric.ed.gov/fulltext/ED518387.pdf.

[4] Center on Education Policy, "How Public Education Benefits."

[5] Center on Education Policy, "How Public Education Benefits."

erode funding for public education at a level deep enough to mirror a direct cut in federal, state and/or local funding.

Reduction in state revenue from reduced tax base: Most states base their tax code on the federal code, so changes that shrink the federal tax base will result in a similar reduction in the state revenue base. This is true on both the individual and corporate sides of the tax code. Below are two examples of proposed changes that will have a large negative impact on state revenues.

Full expensing: Full expensing is a change in the way a business deducts the costs of its investments. Current tax law requires a business to deduct the cost of equipment purchases over the life of the equipment. The proposed change would allow a company to deduct the full cost of the equipment immediately in the year purchased. Most states and the District of Columbia assess taxes on business income and piggyback off the federal code's definition of income. Full expensing is a policy to watch from an education perspective because it affects the stability of state revenues and, at least initially, may also significantly reduce state revenues. Compared with current law in which equipment costs are depreciated and deducted ratably over time, full expensing significantly reduces a business taxpayer's taxable income in the first year but increases taxable income in succeeding years. For the government, there is a corresponding drop in business income tax revenue in the first year and an increase in succeeding years. Theoretically, over the life of the equipment, the revenue should equalize, but it may not, due to the time value of money. In any event, full expensing represents a significant hit to the federal budget in the short run. And a hit to the federal budget could mean a hit to federal investments in education. To the extent that a state uses the federal definition of taxable income to impose its own state business income tax, state revenues would take a short-term hit, as well. Full expensing increases the likelihood that states will have to raise money to cover the shortfall (through either a new tax or increasing an existing tax) or make cuts to the budget. If the change in federal policy translates to cuts at the state level, it could mean increased pressure on local tax coffers, with communities finding themselves forced to increase their tax liability or make staffing/programmatic cuts.

Estate tax: The federal estate tax is a tax on inheritances of $5.49 million (per person) or more. Currently, 14 states plus the District of Columbia maintain their own estate taxes, while six states have a tax on large inheritances. These estate taxes will raise an estimated $3 billion this year for these states, which is funded by the very wealthiest estates—about 2.5 percent of the estates in these states. This is in addition to the $23 billion per year the federal estate tax raises, which only the wealthiest inheritances—about 0.2 percent of estates, or 1 in 500 estates—are subject to. As a result, the estate tax is a very progressive tax policy that raises important funds for public services such as education. However, Republican leaders in Congress have stated their desire to abolish the federal estate tax as part of their tax reform effort. Repeal of the federal estate tax would lead to loss of revenue at the state level, as well. Most states rely on the federal estate tax, including the complicated process of valuing an estate, federal forms and definitions, as the basis of their own estate tax. Without the federal estate tax, these states would need to create their own processes, which would itself consume valuable state resources, or they may feel pressure to abandon their estate tax as a result of the additional state burden. (States with an estate tax are Connecticut, Delaware, Hawaii, Maine, Maryland, Massachusetts, Minnesota, New Jersey, New York, Oregon, Rhode Island, Vermont, Washington and the District of Columbia.)[6]

[6] For more information on the impact of a federal estate tax repeal on state budgets, see Center on Budget and Policy Priorities, "Repealing Federal Estate Tax Would Likely Deprive States of Needed Revenues and Tilt Tax Systems Toward Wealthy" (May 2, 2017), www.cbpp.org/research/state-budget-and-tax/repealing-federal-estate-tax-would-likely-deprive-states-of-needed.