Friday, November 3, 2017

Dear CEF Members:

I. Tax Reform Information

- **Aggregating information on tax reform implications for education** – Per the conversation this morning, we are pulling together information from CEF members and others about the implications of tax reform on education funding, and related advocacy efforts. Below is a preliminary list.

- **Calls and webinars**

  - **Senate HELP Committee Democratic staff conference call today at 3pm** – Dial-in information: Call (855) 428-0808, Conference ID: 249050

  - **Webinar on "The Hugely Important Upcoming Tax Cut Battle: Why it Matters" –** The Food Research and Action Center along with the Coalition for Human Needs is hosting a webinar aimed at informing organizations that are not normally involved in tax policy. Register here for the webinar on Wednesday, Nov. 8, 1-2pm.

- **Fact sheets**

  - **Center on Budget and Policy Priorities' fact sheet on tax cut implications for education funding** – The Center on Budget and Policy Priorities has published a fact sheet on what it calls a two-step tax and budget agenda and how it could lead to deeper cuts to education funding in the future.

  - **Tax policy primers** – Attached are two items we shared already on Monday: a memo written by Sarah Cohen with AFT and Noelle Ellerson Ng with AASA outlining key tax provisions, many of which were included in the tax reform bill introduced in the House this week, and the National Governors Association description of tax benefits related to education.

II. CEF Board Nominations and Schedule

- **Nominations for CEF's 2018 Board are due on Thursday**– 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 –**

  - **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 Law Center 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.

  - **Friday, Dec. 1, 9-11am**: At NEA, 1201 16th St NW, Chanin Auditorium. Guest speaker: TBD

My best,

Sheryl

Sheryl V. Cohen, Executive Director

C E F

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CEF Nominations and Elections Procedures
2017 Elections

1) Eligible CEF members wishing to be considered for the offices of President, Vice President or Treasurer, or for one of the eight elected seats on the CEF Board of Directors – four of which come up for election this year -- shall complete the attached "Candidate Profile" and submit it to the Committee on Nominations and Elections via the CEF office, ***by Close of Business (COB) on Thursday, November 9, 2017***.

2) Individuals serving on the Committee on Nominations and Elections may not file a candidate profile, nor may other individual employed by or representing an organization that is represented by a member of the committee.

3) Individuals may file a Candidate Profile for more than one office. However, they may not appear on the final ballot for more than one office, so if they are recommended for one office but choose to pursue their candidacy for another, they will not be included on the slate for the original office.

4) Please send the candidate profile as a word attachment, or as a pdf file, to Jonathan Widjaja at CEF: Widjaja@cef.org. Candidates for election are free to campaign in any appropriate manner at any time during the nominations and elections process.

5) The Committee on Nominations and Elections will review the submitted candidate profiles and develop a slate to be presented to the CEF membership. The slate will include candidates for President, Vice President, Treasurer and the four elected seats on the CEF Board of Directors that are up for election (four Board members were elected last year to 2-year terms). The Nominations and Elections Committee will develop a slate that contains at least one candidate for President, Vice President, and Treasurer and no less than four candidates for the CEF Board of Directors to be elected by the CEF membership. The Committee on Nominations and Elections may solicit additional candidate profiles to ensure an appropriately balanced slate that is representative of the dues categories and education sectors within CEF's membership.

6) Before the slate is presented to the full CEF membership, the Committee on Nominations and Elections shall contact those members who submitted profiles but who were not included on the slate to determine if they wish to maintain their candidacy and appear on the ballot. **In compliance with the CEF bylaws, the recommended slate, all additional candidates, and the Candidate Profiles of all those up for election**

will be presented to the full membership by email on December 1, 2017, which is two weeks prior to the CEF Annual Meeting.

7) **Elections will take place during the business session of the CEF Annual Meeting to be held on December 15, 2017.**

   a) Each CEF member organization in good standing and also present at the annual meeting shall cast one vote. Proxy voting is not allowed.
   b) Any CEF member who participates in the annual meeting by means of a conference telephone or similar means of communication which allows for those attending the meeting to simultaneously hear each other and participate in the meeting shall be deemed present in person at the meeting.
   c) The order of elections will be: President, Vice President, Treasurer, and then the Board of Directors.
   d) Voting will be by secret ballot.
   e) If a candidate is unopposed for an office, the election may take place by voice vote if such a motion is approved by unanimous consent. Nominations from the floor are not permitted.
   f) To the extent that paper or secret ballots are used for voting, those who participate by means of a conference telephone or similar means of communication may cast such ballot electronically.
   g) Candidates for the offices of President, Vice President, and Treasurer shall be permitted to address attendees of the business meeting for three minutes. Officers shall be elected by a majority of the votes cast by secret ballot. If a runoff is required during any election for officers, the membership shall vote again on the two candidates who received the highest number of votes in the preceding vote.
   h) Candidates for the Board of Directors will be permitted to address attendees of the business meeting for 90 seconds. Candidates receiving the four highest vote totals in rank order shall be elected to the Board of Directors. If candidates are tied for the last seat, a runoff will be held to determine a candidate with the most votes.

8) The Officers and elected Board members take office at the end of the annual meeting.

Committee for Education Funding

2017 Committee on Nominations & Elections

Official Candidate Profile

Deadline: Due to CEF by COB on November 9, 2017

E-mail: Widjaja@cef.org

Name: _____ Title: _____

Organization: _____

Phone: _____ E-mail: _____

Address:_____

Position(s) sought:

_____ President

_____ Vice President

_____ Treasurer

_____ Two-Year Membership to Board of Directors

Other CEF Organizations you represent:

_____

Candidate Statement:

Please submit a candidate statement, preferably in 500 words or fewer, providing relevant information about your background, qualifications, experience in education, and your vision for CEF and specific goals you would like CEF to accomplish during your term. You may also include any other information you feel will advance your candidacy. This statement will be considered by the Committee on Nominations and Elections and distributed to the CEF membership prior to the Annual Meeting.

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.