Washington Research Council

Policy Brief

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Gov. Inslee's Teacher Shortage Proposal: Good Policy, Bad Timing?

Briefly

- Gov. Inslee proposes increasing salaries for teachers and other school staff.
- Newer teachers would get the largest salary increases.
- A survey of principals shows there is a shortage of teachers in Washington.
- Focusing salary increases on newer teachers is a good idea within the current salary schedule.
- The proposal would complicate efforts to reform teacher pay required by McCleary.
- The proposal would apply the use tax to extracted fuel (except hog fuel).
- It would require nonresidents to apply for a sales tax refund rather than receive an immediate exemption.
- It would apply the sales tax to bottled water.
- It would apply the real estate excise tax to certain foreclosures.

To address a shortage of teachers in Washington, Gov. Inslee has proposed increasing salaries for teachers and other school staff, with a focus on the salaries of beginning teachers. New revenues would be raised to pay for it. (This proposal is in addition to his 2016 supplemental budget proposal, which we wrote about in "Gov. Inslee's 2016 Supplemental Operating Budget Proposal Would Increase 2015–17 Spending by 1.4 Percent.")

Under this proposal, the minimum teacher salary would increase to $40,000 in school year (SY) 2016–17. (The minimum salary funded in the 2015–17 operating budget for SY 2016–17 is $35,700.) Additionally, salaries of all other teachers would increase by at least 1 percent, as shown in Table 1. Salaries for administrative and classified staff would also increase by 1 percent.

Table 1: Increase in state salary allocation in Gov. Inslee's proposal, compared to that enacted in the 2015-17 budget, SY 2016–17

Years of Service	BA	BA+15	BA+30	BA+45	BA+90	BA+135	MA	MA+45	MA+90 or Ph.D.
0	12.0%	10.2%	8.3%	6.6%	1.0%	1.0%	1.0%	1.0%	1.0%
1	11.7%	9.8%	8.0%	6.1%	1.0%	1.0%	1.0%	1.0%	1.0%
2	11.4%	9.5%	7.7%	5.7%	1.0%	1.0%	1.0%	1.0%	1.0%
3	11.1%	9.2%	7.4%	5.4%	1.0%	1.0%	1.0%	1.1%	1.0%
4	10.8%	8.9%	7.1%	5.0%	1.0%	1.0%	1.0%	1.0%	1.0%
5	10.5%	8.6%	6.8%	4.6%	1.0%	1.0%	1.0%	1.0%	1.0%
6	10.2%	8.4%	6.6%	4.2%	1.0%	1.0%	1.0%	1.0%	1.0%
7	8.8%	7.1%	5.3%	2.9%	1.0%	1.0%	1.0%	1.0%	1.0%
8	6.5%	4.8%	3.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
9		2.4%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
10			1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
11				1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
12				1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
13					1.0%	1.0%	1.0%	1.0%	1.0%
14					1.0%	1.0%	1.0%	1.0%	1.0%
15					1.0%	1.0%	1.0%	1.0%	1.0%
16+					1.0%	1.0%	1.0%	1.0%	1.0%

Note: BA = bachelor's degree, MA = master's degree, Ph.D. = doctorate, "BA+(N)" = number of credits earned post-BA

Gov. Inslee also proposes providing $5.0 million for the Beginning Educator Support Team mentoring program. State appropriations would total $84.7 million. Additionally, this proposal would increase costs to school districts (even as the state Supreme Court's McCleary decision requires a shift of local costs to the state). Some teachers receive compensation from local or federal sources; when the state increases the salaries it pays, these teachers must receive the same increase, but that money comes from the local district. In a Senate Ways and Means Committee hearing, Office of Financial Management (OFM) director David Schumacher said they have not calculated the costs to local districts (SWM 2016).

New Revenues

Gov. Inslee proposes paying for the compensation increases by closing or limiting four tax preferences:

- *Apply the use tax to extracted fuel (except hog fuel)*. Currently, refinery fuel and hog fuel (wood byproducts) are exempt from use tax when they are used by their manufacturers or extractors. The Joint Legislative Audit & Review Committee (JLARC) and the Citizen Commission for Performance Measurement of Tax Preferences recommended in 2011 that the Legislature review and clarify the objective of this preference. (One possible objective is to keep refinery jobs in our state by maintaining tax competitiveness. Compared to other industries in our state, refineries are highly taxed, even accounting for this use tax preference. Further, only 14 states apply the use tax to refinery gas.) Gov. Inslee would apply the use tax to such refinery fuel (but not wood byproducts). OFM estimates it would increase revenues by $17.7 million in 2015–17 and by $40.9 million in 2017–19.
- *Require nonresidents to apply for a sales tax refund rather than receive an immediate exemption*. Under current law, nonresidents who live in areas that do not have a sales tax (or have a low sales tax rate) may make purchases in Washington tax-free. In 2011, JLARC recommended keeping this preference in place (because it "is meeting its implied public policy objective of removing a disincentive for residents from states with a sales tax of less than 3 percent to purchase goods in Washington"), but the Citizen Commission recommended that the Legislature review and clarify the objective of the preference. Under the governor's proposal, nonresidents would have to apply for a refund of the state sales tax they paid; refunds could only be requested once a year and they would only be allowed for amounts of $25 or more that are supported by receipts. According to OFM, this change would increase revenues by $23.9 million in 2015–17 and by $55.4 million in 2017–19.
- *Apply the sales tax to bottled water*. Currently, bottled water is not subject to the sales tax. (JLARC has not reviewed this item.) OFM estimates that applying the sales tax to bottled water would increase revenues by $25.3 million in 2015–17 and by $57.6 million in 2017–19.
- *Apply the real estate excise tax to certain foreclosures*. Currently, transfers of property in foreclosure are not subject to the real estate excise tax (REET). JLARC recommended that the Legislature continue this preference, and the Citizen Commission endorsed that recommendation. Under the governor's proposal, REET would have to be paid on transfers in certain foreclosure proceedings (e.g., when property is sold at a foreclosure auction). OFM estimates that it would increase revenues by $34.4 million in 2015–17 and by $72.3 million in 2017–19.

These tax increase proposals are not new. The Legislature applied the sales tax to bottled water in 2010, but voters

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Table 2: Increased Revenue to the General Fund (Dollars in Millions)

	2015-17	2017-19
Apply use tax to extracted fuel	$17.7	$40.9
Change nonresident sales tax exemption to a refund	$23.9	$55.4
Apply sales tax to bottled water	$25.3	$57.6
Apply REET to certain foreclosures	$34.4	$72.3
Total	**$101.3**	**$226.2**

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repealed the provision as part of Initiative 1107 that year. The House-passed 2014 supplemental would have narrowed the extracted fuel tax exemption, applied the sales tax to bottled water, and changed the sales tax exemption for out-of-state residents to a refund program. However, these provisions were not enacted. In 2015, as part of his 2015–17 budget proposal, Gov. Inslee proposed the same three items, but they were again not enacted.

Teacher Compensation Background

School districts are not required to pay teachers exactly what the state salary allocation schedule indicates, but the actual minimum salary for a new teacher with a bachelor's degree must be at least the minimum on state schedule. Additionally, the actual average salary in a district can't be more than the average salary on the state schedule (SWM 2014). School districts often provide supplemental pay to teachers that is funded by local levies.

This could change in the future. Last fall Gov. Inslee convened a legislative workgroup to come up with a plan to address the state Supreme Court's contempt order and fine in the McCleary case. The group has proposed a plan (ESHB 2366 and SB 6195) and it has been passed by the House. If the bill is enacted, a task force would be established whose duties would include recommending compensation for teachers and school staff (including whether the salary allocation model would take into account local labor markets and whether it would include a system for future salary adjustments). The task force would also have to make recommendations regarding local school district collective bargaining. Task force recommendations would be due January 9, 2017. Additionally, the Washington State Institute for Public Policy would be required to collect K–12 staff compensation data, identify market rate salaries, and consider local labor market adjustment factors.

Within the current salary allocation model, the Legislature has previously tried to increase pay for beginning teachers. The 1999–01 budget increased pay for teachers with zero to five years of experience. But instead of providing those funds to teachers in their second year of teaching and beyond, some districts distributed the funds to more experienced teachers (Brooks 1999). The 2003–05 budget similarly increased pay for teachers in their first seven years on the job, but it specified that the funds appropriated for the increase "shall not be used to supplant any other state or local funding for compensation for these staff." Gov. Inslee's proposal does not include this language.

Why Increase Beginning Salaries?

In making his proposal, Gov. Inslee referenced a November 2015 survey of principals done by the Office of Superintendent of Public Instruction and the Association of Washington School Principals (OSPI/AWSP 2015). (35 percent of principals responded to the survey.) The survey indicated that a teacher shortage exists in Washington. Some highlights:

- 44.8 percent said they could not fill all teacher positions in fall 2015 with fully -certified teachers meeting the job qualifications.
- 68.9 percent said they are finding candidate teachers "but it is a significant challenge."
- 23.8 percent said they can't find qualified certificated candidates.
- 43.7 percent said they are finding substitutes "but it is a significant challenge."
- 54.0 percent said they cannot find enough substitutes most days.

Regardless of how serious or long-lasting the teacher shortage may be, focusing pay increases on beginning teachers may be a good idea. The current salary schedule rewards teachers with more pay based on their number of years of experience and level of education. That back-loading of pay is compounded by defined benefit retirement plans, which are also dependent on years on the job (McGee and Winters, 2015).

But studies have shown that when student achievement gains are associated with teacher experience, they typically occur in the teacher's first few years of teaching (Clotfelter et al. 2007, Hanushek and Rivkin 2007). After those first few years, productivity gains plateau (Rice 2010). Additionally, newer teachers are more likely to leave schools than those with more experience (Hanushek and Rivkin 2007). Thus, within the current salary structure, it would seem to make sense to focus salary increases on teachers in their first years of the profession.

That said, how much and in what manner teachers are compensated will be addressed by the Legislature in the next biennium, as the proposed McCleary workgroup plan shows. Reforming the salary allocation model itself may be on the table. Research has also shown that, just as having more experience after a certain point does not translate to better student outcomes, having a teacher with a graduate degree is not tied to higher student achievement (Clotfelter et al. 2007, Hanushek and Rivkin 2007). As the U.S. Department of Education notes, "Every decision around compensation—and around education expenditures as a whole—should be focused on improving student achievement" (DOE 2016).

Comment

It is important to have good teachers in classrooms, and the idea to increase salaries for new teachers is a good one—if carried out by local districts. But now may not be the best time. Legislators will need to address teacher compensation pursuant to the McCleary decision in the next legislative session. In the governor's press conference announcing this proposal, a reporter asked Gov. Inslee if it would "exacerbate the problem of coming up with a statewide compensation model and actually make it more difficult and more expensive to resolve?" Inslee answered, "Yes."

Additionally, Gov. Inslee proposes paying for these salary increases by closing or limiting four tax preferences. JLARC recommended keeping one of them; the governor and legislators have tried to change the others previously, to no avail. They are not "antiquated loopholes," as the governor suggested at his press conference. Instead, as we wrote in 2014, many tax preferences "serve to offset disincentives that our tax system would otherwise create against economic development" (WRC 2014).

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