

**DATE:** May 17, 2021

**TO:** The Honorable Gavin Newsome, Governor of California

**FROM:** Brandon Sepulveda

**SUBJECT:** Policy Proposal for Increasing Starting Teacher Pay

### **Purpose and Structure**

The purpose of this memorandum is to propose an increase in starting teacher pay in the state of California. The goal is to attract higher qualified teachers into the profession and thus increase student achievement. The memorandum structure describes how California teachers' are paid, the effects the policy could have on student achievement, and an overview of how schools are funded. The proposed policies to fund the increase in starting teacher pay are as follows:

- (1) Corporate Income Tax Reform
- (2) Create a tax on services

### **California Teacher Pay**

The California statewide average for starting teacher annual salary in unified school districts is \$44,318. At minimum, California teachers must have a bachelor's degree from an accredited university and complete a teacher education program approved by the Commission on Teacher Credentialing. Typically, California school districts use a "step and ladder" schedule when it comes to determining teachers' salaries. Steps refer to the incremental raises you get year over year. Teachers eventually reach a maximum number of steps, and usually stop receiving raises after many years on the job. California teacher salary is also largely determined by where teachers are located. School districts in higher cost of living areas have higher salaries. The largest factor in local cost of living is the cost of rent, which varies considerably in different parts of the state. Consequently, compensation for teachers with similar credentials and experience can vary widely depending on their region and school district. Over the long-term, average teacher pay has risen, even when adjusting for basic measures of inflation. However, since 1980, teacher pay in America has lagged behind comparable employment. That is jobs with comparable requirements and education have had larger increases in pay. This has created a teacher wage gap in America that has been expanding for years. National data shows that in terms of weekly wages, teacher pay has trailed comparable work by 21.4%. When including the value of benefits, the annualized total compensation gap reached a record 13.1%.

### **Effects of Increasing Teacher Pay on Student Achievement**

The goal of the policy is to increase student achievement by increasing beginning teacher pay to attract and hire more qualified teachers into the profession. In the most recent National

Assessment of Educational Progress administered in 2019, California students scored 40<sup>th</sup> in 4<sup>th</sup> grade reading and 44<sup>th</sup> in 4<sup>th</sup> grade math. Scores for math and reading in 8<sup>th</sup> grade were marginally better. It is clear that when compared to other states, California's students are behind. Early studies of teacher pay have attempted to determine whether and how student achievement was impacted by teacher salaries. A 2010 working paper from the National Center for the Analysis of Longitudinal Data in Education Research showed schools can leverage higher salaries to attract teachers with the strongest qualifications. The study examined data from North Carolina public schools between 1995 and 2004 and found that offering better pay improves a school's chance of hiring teachers who earned high scores on their teacher certification exams. Further, Linda Darling Hammond argued that states interested in improving student achievement may want to concentrate, on the qualifications of the teachers they hire. It is likely that student learning is enhanced by the efforts of teachers who are more knowledgeable in their field and are skillful at teaching. Her research indicated that the effects of well-qualified teachers on student achievement can be stronger than the influences of student background factors, such as poverty, language background, and minority status. And while smaller class sizes appear to contribute to student learning, particularly in fields like elementary reading, the gains occasioned by smaller classes are most likely to be realized, as they were in the Tennessee experiment, when they are accompanied by the hiring of well-qualified teachers. The next question to these findings is if teachers who score higher on certification exams or are more prepared perform better as teachers. A study by Eric Hanushek finds that an increase in teacher cognitive skills of one standard deviation is associated with an increase in student performance of as much as 15 percent of a standard deviation in the PISA test. This solidifies the argument that by attracting smarter teachers through higher starting salaries the State of California can improve educational outcomes.

### **California School Funding Overview**

In 2018–19, California public schools received a total of \$97.2 billion in funding from three sources: the state (58%), property taxes and other local sources (32%), and the federal government (9%). For most of California's history, school finance was a local concern where districts financed their operations with local property tax revenue supported by small amounts of state and federal funding. However, because property values and tax rates varied across the state, this created large differences in per pupil funding across districts. In 1971, the California Supreme Court ruled the system unconstitutional and ordered the state to equalize district funding. After Proposition 13 reduced the local property tax revenues available to schools, the state became the primary funder of K–12 education. In 1988, voters approved Proposition 98, which requires the state to dedicate a minimum of roughly 40% of its General Fund to K–14 education each year. In 2013, California implemented the Local Control Funding Formula, shifting from a complex system with more than 50 funding categories to a multi-tiered formula that directs extra funding to economically disadvantaged, English Learner, or foster youth students. However, the goal of the Local Control Funding Formula was not increasing funding

for education but a more equitable allocation to struggling districts. After falling during the Great Recession, per pupil funding for education has increased by more than 23% over the past five years. Nevertheless, California's per pupil spending remains lower than the national average through 2015, per pupil spending statewide of \$10,786 was almost 13% below the average level of spending in the rest of the nation at \$12,346.

### **Recommended Reforms**

Several issues need to be addressed to improve educational outcomes in California. The main issue is that local property taxes cannot be used as an adequate source for school funding. To compensate the state legislature raised state income tax rates but California still commits relatively little of its economic wealth toward education compared to other states and the cost of supplying education is incredibly high in the state. Personal income tax is the largest state revenue source, with most of that revenue coming from taxes on wages and salaries. Personal income tax also includes taxes on capital gains, business income, dividends, and retirement income. In 2016, 46 percent of personal income tax revenues came from the top 1 percent of income earners. Personal income tax is also volatile, since high-income earners' taxes are largely based on capital gains. This means that fluctuations in the state's revenues are more pronounced than fluctuations in the state's economy. Education funding is heavily reliant on the General Fund and therefore on personal income tax, state education funds are highly susceptible to economic fluctuations and vulnerable during a recession. To diversify the revenue base and guard against economic shocks, the policies proposed focus on increasing taxes on corporations to increase funding for education.

### **Corporate Tax Reform**

The corporate income tax is a flat tax on the taxable income of any corporation, although the flat tax rate usually varies depending on the type of corporation. The share of California corporate income paid in state taxes declined by more than half during the past three decades. In the early 1980s, corporations that reported profits in California paid more than 9.5% of this income in state corporation taxes. In contrast, corporations paid just 4.2% of their California profits in corporation taxes in 2017. For 2020 the estimated revenue generated from corporate income tax is \$16 billion, a rather small amount when compared \$80 billion generated by the personal income tax. This indicates potential to reform the corporate income tax to increase its effectiveness in generating revenues. California has several corporate tax breaks that if ended could generate new revenue. The most significant is that multistate businesses get a choice between the three-factor formula, and the "single sales" factor formula for calculating income. The "single sales" factor looks to the proportion of a business' sales in California to sales across the nation. Businesses can choose either method in any given year. This substantially changes the amount of large multistate corporations are required to pay. Second is the use of operating losses in which corporations are allowed to carry losses back two years prior to the year the loss

occurred and apply them against income to receive a refund. It is estimated that by eliminating these corporate tax breaks revenues would increase by \$5.7 billion annually.

### **Tax on Services**

An alternative to an increase in property tax is creation of a tax on services. California's sales and use tax generally does not apply to services. A tax on services would apply to transactions where no transfer of tangible personal property or intangible personal property takes place. There are two relevant arguments in support of a tax on services. First, there has been an increase in the consumption of nontaxable services relative to the consumption of taxable goods, and this change has impacted the trend of sales and use taxes collected by the state. California has a huge market for business services, some estimates place estimate of the taxable base for California business services at close to \$1 trillion. Furthermore, since business services in California are untaxed economic activity, taxing these services would promote fairness and most likely be progressive because generally lower income citizens do not utilize services as much as high income individuals or businesses. Second, the personal income tax has significantly overtaken the sales and use tax as the most important revenue source for the California state budget, as stated previously, California education currently relies heavily on income taxes that are not always stable funding sources. As with any new tax, if implemented there would be consequences, the most significant of which is compounded cost increases caused by pyramiding. Pyramiding is where the same services are taxed multiple times as they move through production to final retail sale. A sales tax on business services would result in higher costs and unintended consequences for consumers, workers, and businesses even if they were not intended targets of the tax. A report estimated that a 5% sales tax on business services would generate from \$10.5 billion in 2019-20 to \$27.2 billion in 2024-25. These funds could go towards increasing teachers' starting pay.

### **Conclusion**

Increasing teacher pay in California will allow the state to hire more qualified teachers. Quality of teachers is key in increasing student achievement. If better qualified teachers are entering the profession because of a more competitive starting salary, then student achievement can increase. Of the two proposed policies the most feasible is the more frequent reassessment of commercial property. Historically voters in California have been unwilling to overturn the majority Proposition 13 but they have been open to reforms. Although the tax on services could generate substantial revenue for the state, it would most likely face intense opposition from business who have funds to lobby and run campaigns against it. I recommend the State strongly consider using more frequent commercial reassessment to raise funds to implement a policy that increases starting teacher pay.

## Annotated Bibliography

California Department of Education. (2020). *Statewide Average Salaries and Expenditure Percentages: 2018–19*. <https://www.cde.ca.gov/fg/fr/sal/cefavg salaries.asp>

The main purpose of this website is to enumerate the salaries for teachers in California. The data shows average teacher salaries for districts of different sizes and the beginning teacher annual salary. The intended audience is for researchers, policy analysts, and general educational stakeholders. This data was extremely useful as it formed the basis of my argument. It allowed me to illustrate that annual starting pay for teachers is low in areas of the state where cost of living is high. The data is reliable because it comes from the official website of the state.

Ransom, E. A., Jr. (2013). *An exploration of teacher support for performance pay in southern california* (Order No. 3612020). Available from ProQuest Central; ProQuest Dissertations & Theses Global. (1504843060).

The main focus of this article is to describe how teachers are compensated in the state. The article shows that teachers have extensive educational requirements, and they paid on a step and ladder schedule. The intended audience is for researchers and academics. This source was useful as it gave context for the requirements teachers need in California before they can enter into the classroom. When requirements are high it can improve quality but can also dissuaded people from entering the professions when barriers exist and pay is quite low. The source is reliable although it was not peer-reviewed it was only used it for the context and background information.

Allegretto, S., & Mishel, L. (2020). *Teacher pay penalty dips but persists in 2019*. Economic Policy Institute. <https://www.epi.org/publication/teacher-pay-penalty-dips-but-persists-in-2019-public-school-teachers-earn-about-20-less-in-weekly-wages-than-nonteacher-college-graduates/>

The key emphasis of this article is to describe how teachers are highly educated and must face high requirements to enter into field they are not compensated when compared to other professions. The article shows that even though teachers are highly skilled and highly qualified they are not paid enough. The intended audience is for policy analysts and the general public. This source was useful as it gave background for considering if teachers are paid according to their education. When pay is low people may choose other professions. The source is reliable because it comes from a think-tank.

National Assessment of Educational Progress. (2019). *The Nation's Report Card NATIONAL AND STATE AVERAGE SCORES*. <https://www.nationsreportcard.gov/highlights/reading/2019/>

The use of this website is to show that students in California are not performing as well as their peers in other states. The data shows on average that they are performing poorly on this standardized test. The intended audience is for researchers, policy analysts, and general educational stakeholders. This data was extremely useful as it formed the basis of my argument that the education system in California is not performing well and changes

need to be made. It allowed me to illustrate that children in California are not meeting standard. The data is reliable because it comes from the official website of the federal government's department of education.

*Clotfelter, C., Ladd, H., & Vigdor, J. (2010). Teacher Credentials and Student Achievement in High School: A Cross-Subject Analysis with Student Fixed Effects. The Journal of Human Resources, 45(3), 655-681. <http://www.jstor.org/stable/25703472>*

This was a 2010 working paper from the National Center for the Analysis of Longitudinal Data in Education Research. The main reason for the use of this article is to show schools can leverage higher salaries to attract teachers with the strongest qualifications. In turn teachers with the strongest qualifications are most likely to perform better as teachers. Consequently, if schools want to hire better teachers they should think about raising pay. The intended audience is for researchers, policy analysts, and academics. This paper was tremendously useful as it formed a key point of my argument that higher pay can lead to better student outcomes. The data is reliable because it comes from a peer reviewed journal.

*Darling-Hammond, L., Holtzman, D. J., Gatlin, S. J., & Vasquez Heilig, J. (2005). Does teacher preparation matter? evidence about teacher certification, teach for america, and teacher effectiveness. Education Policy Analysis Archives, 13, 42. <https://doi.org/10.14507/epaa.v13n42.2005>*

The key determination in the use of this article is to show schools can improve student outcomes by hiring better prepared teachers. It is widely cited as showing the most important input to improving student outcomes is quality of teachers. Consequently, if schools want better teachers, they should raise pay and this could lead to better outcomes. The intended audience is for researchers, policy analysts, and academics. This paper was particularly valuable as it supported a key point of my argument that better teachers can lead to better student outcomes. The source is reliable because it comes from a peer reviewed article and is well known in the annals of education policy.

*Hanushek, E. A., Piopiunik, M., & Wiederhold, S. (2018). The value of smarter teachers: International evidence on teacher cognitive skills and student performance. The Journal of Human Resources, , 317. <https://doi.org/10.3368/jhr.55.1.0317.8619R1>*

The focal point of this article is to show smarter teachers are often times better teachers in an international setting. If districts want to improve outcomes they could focus on hiring who score higher on certification tests. Consequently, if schools want better and smarter teachers, they should raise pay and this could lead to better outcomes. The intended audience is for researchers, policy analysts, and academics. This paper was exceedingly handy as it supported a key point of my argument that smarter and better teachers can lead to better student outcomes. The source is reliable because it comes from a peer reviewed journal.

*Public Policy Institute of California. (2020). Financing California's Public Schools. <https://www.ppic.org/publication/financing-californias-public-schools>*

The main use of this article is to show how money comes into the state's budget to fund schools. Unlike most states schools in California raise only half of their revenues from

local communities with the rest coming in the form of funding from the state. This provides background and context for readers of this policy proposal. The intended audience is for researchers, policy analysts, and academics. This information was useful as it framed the context of California educational funding. The source is reliable because the institute is a well-respected think tank in California.

Policy Analysis for California Education. (2020). *California's Education Funding Crisis Explained in 12 Charts*. <https://edpolicyinca.org/publications/californias-education-funding-crisis-explained-12-charts>

The main purpose of this article is to show that the money comes into the states is currently not enough and we lag states who have higher per student funding levels. Unlike most states schools in California raise only half of their revenues from local communities with the rest coming in the form of funding from the state. This provides background and context for readers of this policy proposal. The intended audience is for researchers, policy analysts, and academics. This information was suitable as it framed the context of California educational funding. The source is reliable because the institute is a well-respected think tank in California focusing on education.

CalMatters. (2020). *The open secret about California taxes*.

<https://calmatters.org/explainers/the-open-secret-about-california-taxes/>

CalMatters is a nonprofit, nonpartisan newsroom committed to explaining California policy and politics. The main purpose of this article is to show that corporations are currently not adding much in the form of taxes to the state. California is currently generating most of their revenues from income and sales taxes. This provides a key point in my plan to raise more revenue in schools by closing corporate tax loopholes. The intended audience is for the general public. This information was useful as introduced a way to increase funding. The source is reliable because CalMatters is a well-respected source in California on policies and politics.

California Budget & Policy Center. (2019). *Corporations Pay Far Less of Their California Income in State Taxes Compared to the Early 1980s*.

<https://calbudgetcenter.org/resources/corporations-pay-far-less-of-their-california-income-in-state-taxes-compared-to-the-early-1980s/>

The reason for the use of this article is to show that corporations have historically been able to decrease their corporate tax rates for decades. It suggests ways to increase the portion of taxes collected from corporations. This provides a key point in my plan to raise more revenue in schools by looking at how corporations are taxed in the state. The intended audience is for researchers, policy analysts, and academics public. This information was useful as introduced a way to increase funding. The source is reliable because California Budget & Policy Center is a well-respected think tank in California on taxes and budget.

State of California Department of Finance. (2021). *California Budget 2020-21*.

<http://www.ebudget.ca.gov>

The point of this website is to enumerate the amount of money generated from corporate income taxes. The intended audience is for researchers, policy analysts, and general educational stakeholders. This data was extremely useful as it formed the basis of my proposal that corporate taxes can be reformed to increase revenues for education. The data is reliable because it comes from the official website of the state finance department.

University of the Pacific, McGeorge School of Law. (2010). *Proposition 24: Repeal Corporate Tax Loopholes Act. Initiative Statute.*

<https://archive.mcgeorge.edu/documents/Publications/CIR-prop24.pdf>

The main purpose of this article is to show that corporate taxes have potential for reform particularly in the area of closing tax breaks and loopholes. It suggests ways to increase the portion of taxes collected from corporations. This provides a key point in my plan to raise more revenue in schools by looking at how corporations are taxed in the state. The intended audience is for researchers, policy analysts, and academics public. This information was useful as introduced a way to increase funding. The source is reliable because the University of the Pacific, McGeorge School of Law is a well-respected law school in California specializing in legislation and state policies.

California Foundation for Commerce and Education. (2019). *An Analysis of Sales Taxes on Business services in California.* <https://cfce.calchamber.com/wp-content/uploads/2019/05/Encina-Advisors-Business-Services-Tax-Report-CFCE-May-2019.pdf>

The main purpose of this article is to show that the state can generate substantial revenue from a sales tax on business services. It suggests ways to implement a tax on business services and the effects this could have on corporations and state funds. This provides a key point in my plan to raise more by taxing business services. The intended audience is for researchers, policy analysts, and academics public. This information was useful as introduced a way to increase funding.