

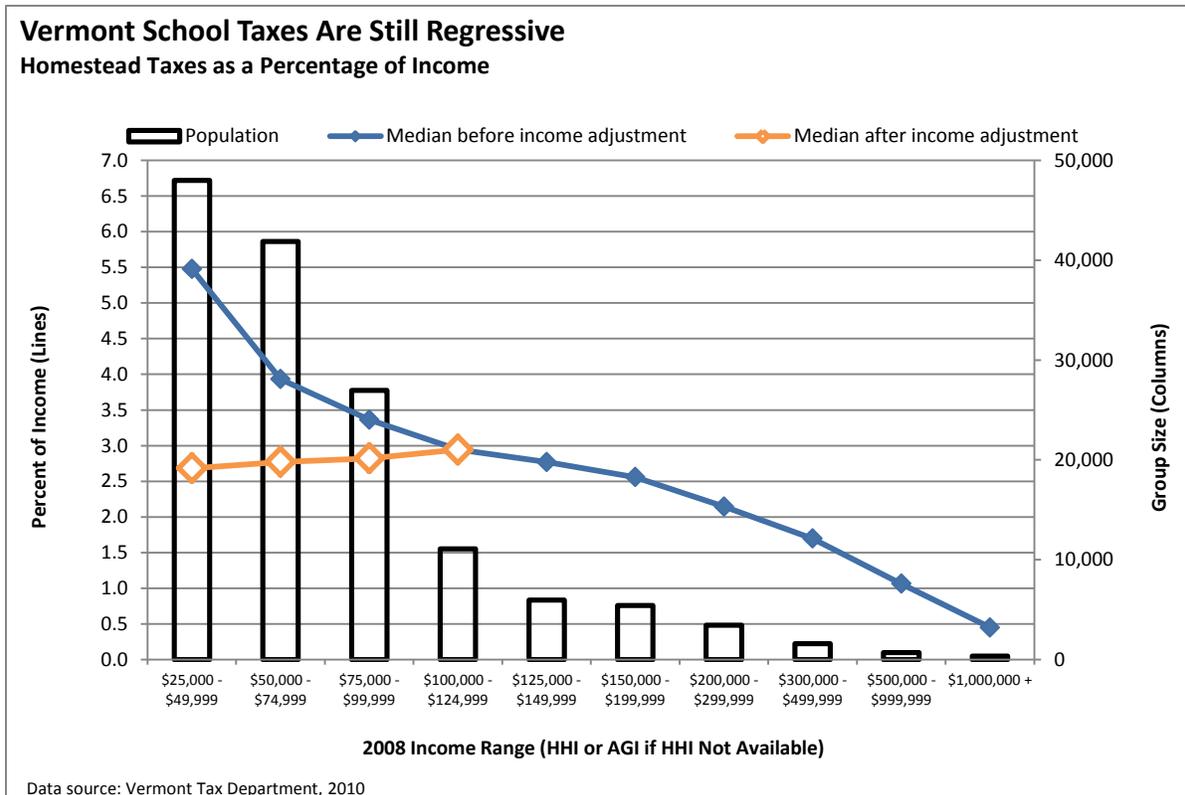
House Ways and Means

March 11, 2014

Good afternoon. My name is Jack Hoffman. I'm an analyst with Public Assets Institute, a non-profit, non-partisan organization based in Montpelier that focuses on state fiscal policy, including education finance. Thank you for the opportunity to be here today.

I don't know how many of you attended the education financing symposium in January, where there was a lot of discussion about "skin in the game." The analysis suggesting that people were voting higher school budgets because they didn't have enough skin in the game was flawed because it was focused on towns—how much a town paid into the Education Fund compared to how much it got back. Towns don't pay taxes; people do. And how much a town gets back from the Education Fund does not affect the tax rates paid by the taxpayers who are voting on the school budgets.

That's not to say you shouldn't be looking at skin in the game. But a fairer way to measure that is to look at how much individuals are contributing to the education of our children in relation to their ability to pay—that is, their income. This analysis done by the Vermont Tax



Department a few years ago shows that even with income sensitivity, many lower- and moderate-income Vermonters are paying a higher percentage of their income to support education than are wealthy residents who are paying property taxes.

Moving to an income-based system for all Vermont residents would make the education funding system fairer. As I understand H.164, it would have all residents pay a flat homestead property tax that would be lower than the current base rate. It also would require all residents to pay an income-based tax that's determined much the way the current income-based rate is calculated. The Legislature would set a base rate, and then the rate paid by residents of each school district would vary depending on per pupil spending. As happens now, the more you spend per pupil, the higher your tax rate would be.

We support the policy objective of moving to an income-based system for all residents. However, we would drop the property tax portion. Even with a lower homestead property tax rate, this system would require some people to pay a disproportionate share of their income in school taxes. More than 40 years ago, Vermont enacted the homeowners rebate system because property taxes were forcing seniors on fixed incomes out of their homes. This homestead property tax likely would do the same thing for seniors with low- to moderate-incomes and even a moderately priced home.

We believe that the majority of Vermonters would prefer that their school taxes were based on their ability to pay. You can achieve that by leaving the system as it is now, eliminate the option to pay the property tax or the income-based tax, and simply require every resident to pay the income-based rate. You can do away with the property tax on primary residences. As an added bonus, you wouldn't have to deal with the CLA anymore—at least for residential property.

In summary, we agree the financing system would be improved if we asked all Vermont residents to support education according to their ability to pay.