

Senate Education Committee

January 29, 2014

Madame Chair and Vice-Chair, members of the committee, my name is Paul Cillo. I'm the president of Public Assets Institute. We're a nonpartisan, 501c3 nonprofit located here in Montpelier. We provide state tax, budget, and economic analysis from the perspective of ordinary Vermonters.

First let me say, I am not an expert on education policy. As I mentioned, Public Assets' work and our expertise is on tax, budget, and economic policy. So my remarks today will focus on fiscal issues with education in Vermont.

One thing that I think has been lacking in the current discussion of education, education funding and taxes has been context.

I handed out a copy of our annual State of Working Vermont report. I won't go through the entire report, but I'll highlight a few of the charts that should add some context to this discussion.

Vermont's economy is recovering. (p.4) In fact, we had the second fastest growing economy in New England since the bottom of the recession in June 2009. That's the good news.

The bad news is that during the same period real median household income dropped 6 percent. Poverty increased. (p.26) Homelessness increased. (p.28) And the number of Vermonters on food stamps increased. (p.29) In 2013, an average of more than 100,000 Vermonters a month needed the 3SquaresVT program to help them feed their families. That's nearly 1 in 6 Vermonters.

How could both of these be true? Relatively good economic growth and increasing hardship for tens of thousands of Vermonters? Do we have two simultaneous realities, two Vermonts?

An answer is on pages 6, 7, and 8. Our economy is growing, thanks in part to increased worker productivity, but those workers are not seeing the fruits of their labor in higher wages. The gains are going to those at the top, who are receiving more and more of the state's total income.

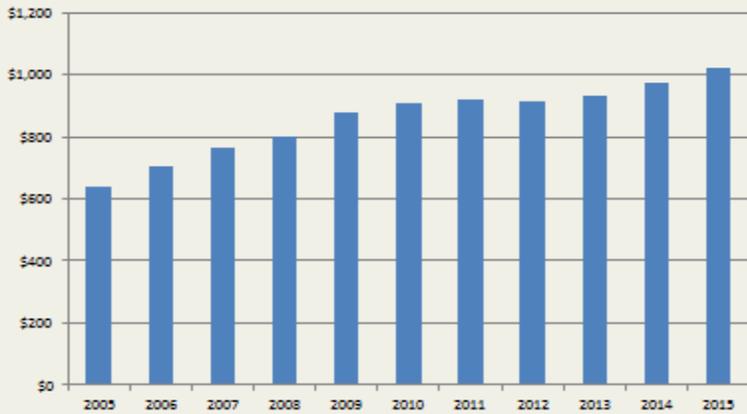
So yes, there are two Vermonts.

I'll come back to this State of Working Vermont report later as we look at education spending.

Context also have been lacking in much of the information you and the public have been getting around education spending and taxes. Almost every day you can read about the recent rise in property taxes.

Education Property Taxes, 2005-2015

In millions



Data source: Joint Fiscal Office

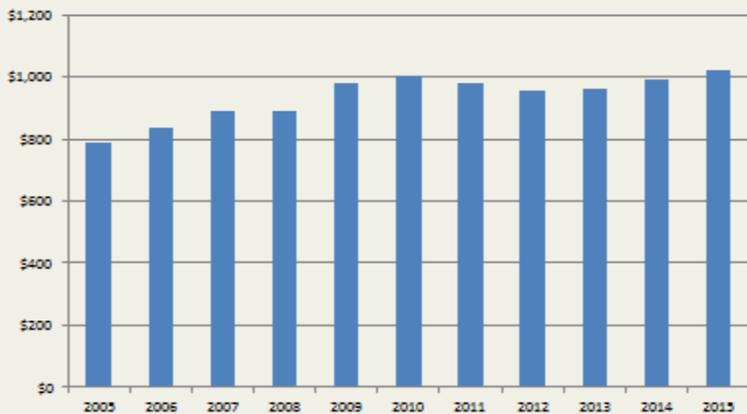
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You can see from this chart that property taxes were rising faster in the five years before the recession than they have in the last five years. Property taxes rose a little more than 12 percent between 2010 and 2015. Income taxes rose almost 44 percent during the same period. But property taxes are seen as the problem.

Here's some additional context: education taxes adjusted for inflation. Since 2010, there has been no real increase in school property taxes.

Education Property Taxes Adjusted for Inflation, 2005-2015

In millions

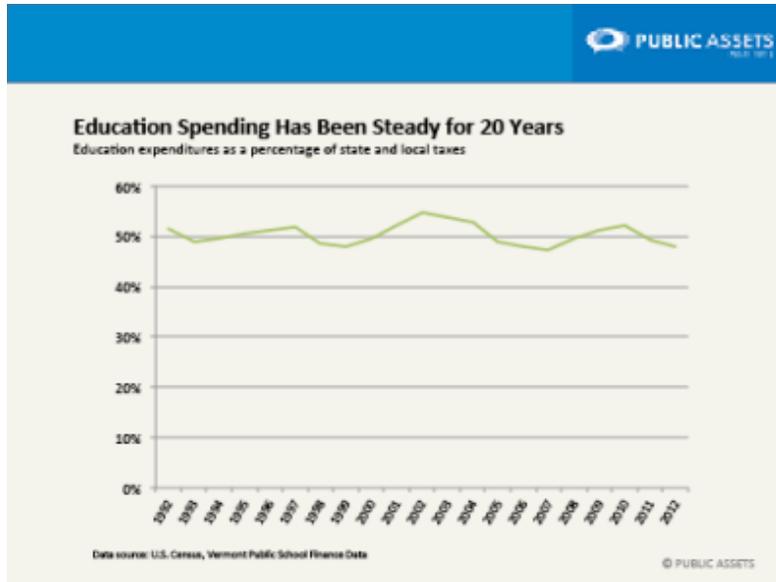


Data source: Joint Fiscal Office, U.S. Bureau of Labor Statistics (CPI-U)

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You probably saw the report issued last winter by the Vermont Realtors. One of the findings was: "47% of all taxes raised in Vermont went to support public education."

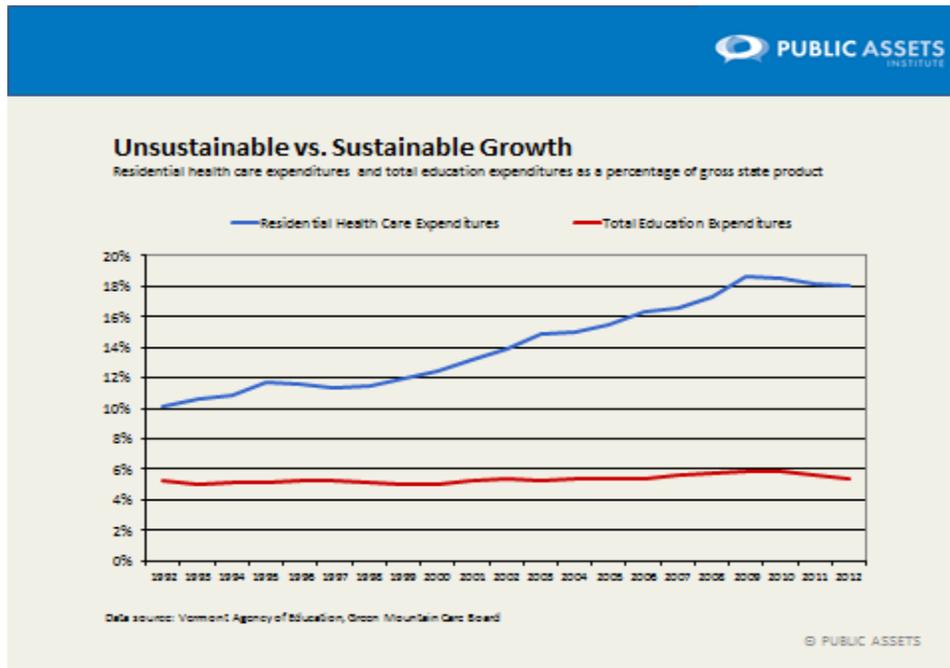
That sounds alarming. It's like education will soon be eating up all of tax dollars—until we look at things in context.



This chart uses the same measure used in the Realtors' report. About half of all taxes raised in Vermont have gone to support public education for more than 20 years.

"Affordability" and "sustainability" are two other terms we hear a lot in this education discussion. We all know per-pupil spending has gone up in Vermont largely because of declining enrollment. When we talk about affordability, we need to distinguish between the unit cost of education—spending per pupil—and the overall cost. As this chart shows, despite the rise in per pupil spending, the share of our taxes going to pre-K to 12 public education has been steady for at least 20 years.

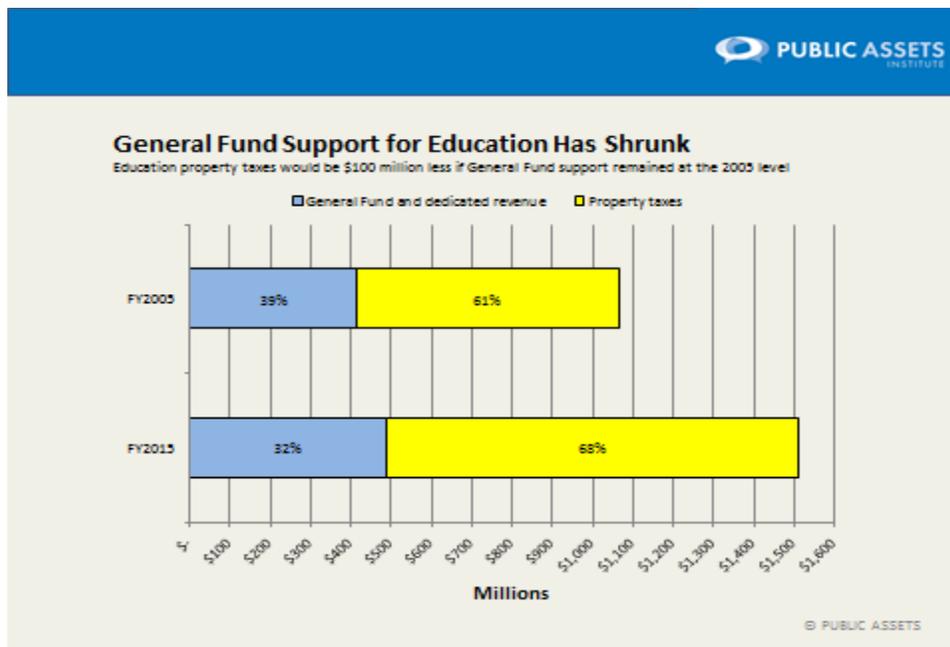
We know the rising cost of health care is unsustainable. This is what that looks like. Health care



expenditures went from 10 percent of gross state product in 1992 to nearly 20 percent in 2012.

By that same measure—a percentage of all economic activity, gross state product—education expenditures have been essentially flat. Our economy can sustain this kind of spending indefinitely.

That said, I don't mean to imply there are no problems with property taxes. In the last 10 years, as this chart shows, more of the cost of education has fallen on homestead and non-residential



taxes and a smaller share is coming from the General Fund and dedicated General Fund taxes. I want to go back to the State of Working Vermont and income inequality and look at education spending in that context.

The question everyone seems to be asking is: How can spending go up when the number of students keeps going down?

That question assumes that what schools do for students has remained constant. But we know that isn't true. Talk to any teacher or principal or school board member, and they'll tell you how much more schools have to do. They'll tell you about behavioral problems, mental health problems, kids coming to school hungry. Those problems can be tied back to the rise in poverty, homelessness, increased reliance on food stamps, and declining incomes.

Secretary Holcombe points out that while overall enrollment has declined, the number of special education students has not. The number of regular classroom teachers has actually declined in recent years. But at the same time there has been an increase in the number of special education teachers and para-educators, many of whom work with special education students.

As I said, I don't pretend to be an expert in education. But if there were a way to measure school output—a measure of all of the things that schools now do for students—I think we might begin to understand why fewer students doesn't translate into lower cost. We may even find that we're getting more for every dollar we spend in terms of school staff productivity.

Recommendations and improvement measures

Before I offer recommendations, I first want to answer the question about measuring improvements. Vermont's education funding system is built on some important principles. As you weigh possible changes, I would urge you to consider whether the proposed reforms would strengthen or undermine these principles.

Direct democratic decision-making. This is broader than local control. This is about acknowledging and respecting the ability of Vermont voters to determine how and how much they want to spend to educate their children. These are, after all, the same people who send you to the State House, so it's only fair to trust their decisions when it comes to schools and education.

Clarity and transparency. The funding system has gotten too confusing for many people, largely because changes were made over the years that didn't take into account the effects on the overall system. Voters deserve to see the clear connection between their budget votes and the effect on their individual taxes. There are changes that can be made so the system is more transparent and understandable. Which is not to say that we have to have a simple system. The internal workings can be complex so long as what the voter sees is straight-forward.

The analogy I use is the car. You don't need to know how the pistons move or the gears in the transmission work to drive the car. You need to understand how to steer, make the car go forwards or backwards, and what happens when you step on the gas or the brake. Voters need to

be able to steer the education system in the direction they think it should go, and they should know whether they're stepping on the gas or the brakes when they vote on the budget.

But even with the current confusion, we think voters are doing a pretty good job. Last Town Meeting was a case in point. That 34 school budgets were defeated the first time around wasn't a crisis. It was democracy in action. Going into Town Meeting, the governor and others were urging voters to scrutinize their budgets and hold their school boards accountable. We don't need to panic because voters heeded that advice.

Equal access for all to all educational resources. Vermont built a level of equity into its funding system that other states don't have. We need to appreciate what it means, and hang onto it. Unlike the old system, everybody is in one boat with the current funding system. That means when funding from Montpelier changes—and everyone knows those changes can't be avoided—all school districts and all children feel the consequences.

Ability to pay. More than 40 years ago, Vermont recognized that property taxes needed to take into account people's ability to pay. It created the homeowner rebate program. Vermont's current education funding system is more sophisticated, but is still based largely on the principle of ability to pay. We believe we could do more, which would also simplify the system, and require all Vermont residents to pay the local income-based homestead tax and eliminate the school property tax on primary homes. There are a number of advantages to doing this.

Recommendations

1. Develop an ongoing partnership with school districts as the governor suggested in his speech yesterday. Schools and school managers need support, not directives from Montpelier.
2. Establish clear system for management actions that state will take each year to reduce uncertainty for school districts. Things like setting the base amount and tax rates in January each year rather than May, after school districts have voted.
3. Address declining enrollment head on. Do we really want to build a system based on the past or do we what to look forward toward a state that we want? The number of school aged children in Vermont is not inevitable, we can do something about it.
4. Clean up income sensitivity to make it understandable to citizens. We think the best way to do this is to eliminate the school property tax on primary residences.