

To: Dave Sharpe, Chair
House Committee on Education
From: Mark Perrault, JFO
Date: November 18, 2015
Subject: Allowable Growth in Education Spending for Fiscal Years 2017 and 2018

As you requested, this memorandum outlines some possible alternatives to the education spending thresholds set forth in sections 37 and 38 of Act 46 (attached).

Current Law

Section 37 sets an allowable growth percentage (AGP) for per-pupil education spending in each district in FY2017 and FY2018. If growth in a district's per-pupil education spending exceeds the AGP, the amount over the limit is added to the district's per-pupil education spending for the purpose of determining its homestead tax rates.

The AGP is based on a sliding scale that ranges from 0% to 5.5% depending on each district's per-pupil education spending in the prior year. Districts with lower per-pupil education spending are allowed more growth under the threshold than districts with higher per-pupil education spending. The scale is set so that statewide education spending under the thresholds will be 2%.

For this purpose, "education spending" excludes certain categories of spending described in 16 VSA 4001(6)(B) including spending by districts that tuition all of their pupils and generally pay no more than the average announced tuition. In addition, section 38 of Act 46 exempts districts with an equalized pupil count that is greater than 110% of the actual count in FY2016 due to so-called "phantom" students.

Possible Alternatives

1. Repeal the AGP and return to the excess spending adjustment

Section 37 suspends the application of the excess spending adjustment in 32 VSA 5401(12) for two years beginning in FY2017 and replaces it with an AGP for each district. Consequently, if section 37 is repealed the underlying cost containment provision in 32 VSA 5401(12) would become effective for this period.

32 VSA 5401(12) defines "excess spending" in FY2017 and after as education spending over 121%¹ of the FY2014 statewide average education spending per-pupil increased by inflation, or \$17,303. If this provision became effective, any spending in excess of \$17,303 per equalized

¹ The Legislature has reduced the excess spending threshold from a high of 135% in FY2005 to 123% in FY2016. Starting in FY2017, the excess spending threshold is reduced again to 121%.

pupil would be added to a district's per-pupil spending for the purpose of determining its homestead tax rates.

The following table provides a preliminary estimate of the impact of the excess spending adjustment in FY2017:

Number of districts over the threshold	28
Amount over the threshold	\$2.6 million
Additional EF revenue	\$1.5 million

2. Allow districts to apply the AGP to total education spending

The AGP is based on per-pupil education spending. Consequently, districts that gain pupils in FY2017 may increase their total education spending by more than the AGP to account for additional pupils without incurring a penalty.

However, allowable growth in total education spending in districts that lose pupils in FY2017 will be less than their AGP. Depending on the number of pupils lost, some districts may have to reduce total education spending between FY2016 and FY2017 to avoid incurring a penalty.

Allowing districts to apply the AGP to either their per-pupil spending or their total education spending in FY2017 would provide additional room under the threshold for the xx districts that have lost pupils in FY2017.

3. Allow education spending in all districts to grow by a minimum percentage greater than 0%

The AGP ranges from 0% to 5.5% depending on each district's per-pupil education spending in the prior year. A minimum AGP could be established, so that those districts with the highest per-pupil spending and the lowest AGP would be allowed some additional growth in education spending under the thresholds.

Since the districts with the lowest AGPs tend to be small, the impact of this modification on statewide education spending would be small. For example, increasing the minimum AGP to 1.5% would affect 74 districts but allow statewide education spending under the thresholds to increase by only \$3.2 million in FY2017.

4. Allow statewide education spending under the AGP to increase by more than 2%

The sliding scale used to determine the AGP for each district was set so that statewide growth in education spending under the thresholds would be equal to 2%. There are two ways the sliding scale could be modified to allow statewide education spending under the thresholds to grow by more 2%.

(a) The AGP ranges from 0% to 5.5%. Substituting a higher maximum AGP would allow statewide education spending under the thresholds to grow by more than 2% in FY2017.

However, most of increase in the AGPs under this option would go to the districts with the highest AGPs FY2017 and they may not need it.

(b) A district's AGP is determined by the ratio of its prior year per-pupil education spending to per-pupil education spending in the highest spending district. Substituting a higher figure in place of per-pupil education spending in the highest spending district would allow statewide education spending under the thresholds to grow by more than 2% in FY2017.

5. Exclude the increase in teachers' health insurance costs from the AGP

Since the cost of health care it is expected to be a significant cost driver next year, it has been suggested that increased spending on teachers' health insurance be excluded from the spending thresholds. While this is possible, the Agency of Education does not collect spending data from districts at that level of detail and obtaining and verifying the information directly from districts in time to adjust the spending thresholds for FY2017 could be difficult.

In order to account for these additional costs without the need to collect data, a flat percentage equal to the statewide average impact of these costs on statewide education spending could be added to each district's AGP. This will overstate the impact on these costs in some districts and understate it in others. District expenditures for teachers' health insurance contributions are expected to grow by roughly \$22 million - a 1.7% increase in statewide education spending in FY2017.

6. Amend section 37 with some combination of options 2 to 5

Option 1 would repeal the AGPs entirely leaving an estimated 28 districts subject to an education spending constraint in FY2017. Some combination of the modifications described above in options 2 to 4 would make it possible to retain the AGPs for all districts while allowing more room for growth in education spending under the thresholds.

Act 46 of 2015**Sec. 37. ALLOWABLE GROWTH IN EDUCATION SPENDING FOR FISCAL YEARS 2017 AND 2018**

(a) Notwithstanding any other provision of law, for fiscal years 2017 and 2018 only, “excess spending” under 32 V.S.A. § 5401(12) means the per-equalized-pupil amount of the district’s education spending, as defined in 16 V.S.A. § 4001(6), plus any amount required to be added from a Capital Construction Reserve Fund under 24 V.S.A. § 2804(b), that is in excess of the district’s per-equalized-pupil amount of education spending in the prior fiscal year, plus the district’s allowable growth.

(b) For fiscal years 2017 and 2018, the “allowable growth” for any individual school district is an amount equal to the actual amount of per-equalized-pupil education spending in the district in the prior fiscal year, multiplied by the district’s “allowable growth percentage.” A district’s “allowable growth percentage” means a percentage that results from the following equation: the highest per-equalized-pupil amount of the education spending in any district in the State in the prior fiscal year, divided by the actual amount of per-equalized-pupil education spending in the district in the prior fiscal year, minus one, multiplied by five and one-half percent. For the purpose of the calculations made under this subsection, the term “education spending” refers to education spending as used to calculate excess spending under 16 V.S.A. § 4001(6), including all the adjustments under 16 V.S.A. § 4001(6)(B).

Sec. 38. TRANSITION

For fiscal years 2017 and 2018 only, if a district’s equalized pupils in fiscal year 2016 reflect an adjustment pursuant to 16 V.S.A. § 4010(f) that results in an equalized pupil count that is 110 percent or greater than the actual equalized pupil count for that year, then notwithstanding any other provision of law, the district’s spending adjustment under 32 V.S.A. § 5401(13) shall be calculated without any addition for excess spending.