

Paul Cillo Testimony
House Education Committee
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11:30 am

Mr. Chairman and 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.

I was asked to speak today about how I thought equity has been served since Act 60 was initiated and whether I thought further progress is needed.

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 pre-K to 12 public education in Vermont.

The Vermont Supreme Court's 1997 *Brigham* decision states that equal educational opportunity "does not allow a system in which educational opportunity is necessarily a function of district wealth."

It might be helpful to review briefly the history that led to the Supreme Court's 1997 ruling. State law is often slow to catch up with societal changes. The 20th century change that had a big impact on equitable school funding was the automobile. I'm quoting from the "Citizens Guide to School Funding" that I wrote ten years ago and is available on our website: publicassets.org.

"From the 18th century, when the property tax was first used to fund schools, well into the 20th century, Vermonters lived, worked, and bought what they needed in the same town because commuting to a neighboring town was not practical. As a result, the tax base within a typical town tended to be diverse, with mills, factories, farms, and stores taxed along with homes to help pay for the education of the children who lived there.

As the automobile came to be used more widely in the 1960s, more Vermonters began to work out of town. Many towns became 'bedroom communities,' where people live, and commute elsewhere to work. While the tax base statewide remains diverse, that diversity has largely disappeared from individual communities, especially rural communities.

We now have some towns that are mostly residential, with little tax base and many children to educate. Before the new school funding system, these towns' schools were often poorly funded even with high tax rates. Other towns have ski areas, large industrial plants, malls, or many second homes, and relatively few children in school. These towns could fund excellent schools at low tax rates.

As this trend grew over the last few decades, the state could no longer fix the inequalities simply by giving some towns more aid than others. It was this situation that Act 60, signed into law in 1997, sought to correct by giving every town the same taxing ability to fund their schools."

Act 60 addressed two fundamental issues related to unfair distribution of educational opportunity based on the wealth of school districts prior to 1997: property wealth and income. Property wealthy districts could have low tax rates even with high per-pupil spending. Income wealthy districts could afford high property taxes and therefore could also spend more per pupil. Both contributed to unequal access to educational opportunity.

Act 60 addressed property wealth inequality by repealing authorization of the local property tax for schools and enacting a statewide property tax so that all of the state's property tax base would support the education of all of the state's children.

Even though it's been nearly 20 years since Act 60 became law, there are still some who believe that the taxes generated within a town's border should be used to educate only the children who live in that town. But the property tax is now a statewide tax, just like the sales tax. And just as the sales taxes collected in Burlington or Rutland or Stowe or Bennington all go into the General Fund or the Education Fund to support statewide services, school property taxes collected in this state are used to educate all Vermont students because we all have a stake in a well-educated population.

The law also addressed unequal access to educational resources based on district income by allowing most Vermonters to choose whether to pay the school taxes on their primary residence based on the value of their home or on the amount of their household income. Residential tax rates are set for both income and property for each town.

One of the guiding principles of Act 60 was the preservation of local control. School district voters still decide how much their school will spend per pupil and what it will be spent on. Any two towns with the same per-pupil education spending have the same income and property rates, except in fiscal 2017 when Act 46 spending thresholds will result in districts with the same per-pupil spending having different tax rates for the first time since Act 60 became law.

Based on our review, we find that the law has significantly improved the equity of access to educational resources across the state. The 2012 study completed for the Legislature by Lawrence Picus is consistent with our findings. It states:

“Our overall finding from this study is that the Vermont school funding system is working well and meeting the goals established in Acts 60 and 68.”

And further, the report notes:

“The state has designed an equitable system. We found virtually no relationship between district fiscal capacity (measured by either by district property wealth or personal income) and spending levels.

Disparities in per pupil spending across districts meet or nearly meet well established benchmark standards for school finance equity.”

In general, Act 60 and Act 68 have succeeded in distributing educational resources much more equitably. Nevertheless, the law can be improved. I have four suggestions:

- 1. Partnership with school districts.** Vermont's school funding system defines a relationship between statewide interests and local community interests. The state should set clear guidelines for the operation of Vermont schools and work with school district managers as they operate within these guidelines. The spirit of the relationship needs to be cooperation on behalf of Vermont children. Too much of the recent debates have been disrespectful of local control, suggesting that school districts have been irresponsible spenders, for example. This committee and the Legislature can provide leadership in fostering cooperation. An important step the Legislature could take to rebuild its relationship with local communities is to set tax rates—which now means setting the

yield for a \$1 homestead tax rate and the 2 percent income rate—in January before school budgets must be published. Local voters and local school officials deserve to know what taxes will be for the budget being voted on.

- 2. Clarity and transparency.** The funding system has gotten too confusing for most people, largely because of changes made every year since 1997 that haven't taken into account the effects on the overall system. Local democratic control is fundamental to the system and should not be compromised. Voters need 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 straightforward and readily understandable.

We recommend that the Legislature clear away much of the clutter that makes it difficult for voters to understand the tax consequences of their local spending decisions. The \$8,000 cap in income adjustments, the cap on house value for those paying based on income, various changes to household income all tend to undermine the logical underpinning of the financing system.

We also think that the Legislature should consider establishing a system for annual management actions to reduce uncertainty for school districts. The system could benefit from an Education Fund Advisory Committee from outside the Legislature that, similar to the Debt Affordability Advisory Committee, could be comprised of knowledgeable individuals who could advise the Legislature on base spending amounts, dealing with fund surpluses or deficits, and policy recommendations.

- 3. Per pupil weighting.** As I said, I don't consider myself an expert in what happens in the classroom, but I have heard enough from others who do have this expertise to believe that Vermont should re-examine the way it weights students for factors such as poverty, grade level, English proficiency, etc. Our funding system was designed to give all students equal access to educational resources, but we know that the cost of equal educational opportunity is not the same for all students. When Act 60 was passed, we simply carried forward the weighting system that was in place at that time. Now that the adequacy study has been completed, it would make sense to revisit the weighting system.
- 4. 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, by eliminating the school property tax on primary homes and leaving in place the local income-based homestead tax, which all Vermonters would pay. This would not only help to clean up the system so that it is understandable to citizens, but address unfairness in the system especially for those who are just above the income sensitivity threshold.

I'd be happy to answer any questions.