

Education Finance Reform Ideas for Consideration

Submitted to Rep. Shap Smith, Speaker of the Vermont House of Representatives

Prepared by Oliver Olsen

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Introduction & Overview

This document summarizes a few additional ideas that the House Education Committee may want to consider as it begins to look at options for reforming Vermont's education finance system in 2015.

- Voter participation thresholds to consider spending increases above growth targets;
- Retain small schools grant program, but institute a competitive application process;
- Set a cap on the growth of statewide education spending, with limited funding available to support extraordinary excess spending needs;
- Use local voting process to set local education tax rates instead of education spending; and
- Financial incentives for school districts and union employees who adopt contracts that contain model reduction in force (RIF) policies that do not exclusively consider tenure as a factor in RIF decisions.

Some of these ideas have been brought up in the past, while some are new or are refinements of other ideas that have been proposed before. Some may have promise, some may not; all require further analysis and vetting.

Establish Voter Participation Thresholds for Large Budget Increases

Under this proposal, a school district budget could be approved with a simple majority vote, regardless of the level of voter participation, as long as the percentage increase in per pupil spending was below a specific target established by the state.

However, if a proposed school budget would increase per pupil spending by a percentage in excess of the state target, the amount of the budget in excess of the target would only be approved with a majority vote of a minimum percentage of registered voters within the district.

The following example (albeit oversimplified) illustrates how this could work:

School district proposes a budget of \$10,000,000, which represents a per pupil increase of 5%, vs. a state target of 3% (example only). A budget of \$9,500,000 would represent a 3% per pupil increase. If the state required 20% (example only) of registered voters to participate in a vote to approve a budget with excess spending, but only 15% of registered voters voted on the budget (even if 100% of those voting voted in the affirmative), only the first \$9,500,000 of budget would be approved - not

the \$500,000 excess. However, if 21% of the electorate voted on the budget, the full \$10,000,000 would be approved if the majority of those voting supported it, even if the vote was in the affirmative by the slimmest of margins.

A variation of this concept could require even higher voter participation, proportional to the size of the proposed spending increase.

Collectively, Vermont voters are entrusted with the power of deciding how Vermont spends more than \$1B on K-12 education. Unfortunately, very few Vermonters actually participate in this process, even though it directly impacts our growing property tax burden. While Vermont does not formally track voter participation on school budget decisions across the state, the Secretary of State's office does have some informal data that tracks voter participation on Town Meeting Day, which is a reasonably good indicator of the level of participation on school budget votes. This data shows that we have about 13% of registered voters participating on Town Meeting Day¹.

Requiring a greater level of voter participation to consider higher levels of spending would provide an effective cost control mechanism, while providing more local accountability over the most direct lever we have to manage property tax growth. This is not an alien concept; under Vermont's constitution, a quorum of $\frac{2}{3}$ ² of the members of the Vermont House of Representatives is required before consideration can be given to raising a state tax.

Award Small Schools Grant on a Competitive Basis

With this proposal, the state would establish a fixed budget for the small school grant program, and gradually ratchet the funding for this grant down year over year. This would no longer be a categorical grant, but would require a competitive application process through the Agency of Education, State Board of Education, or some other central authority. Considerations such as staff to student ratios, excess capacity in neighboring school districts, geographic proximity to districts with excess capacity, and any in-progress consolidation plans would be evaluated as part of the decision-making process.

This approach would make more efficient use of state resources by addressing conflicting financial incentives (consolidation vs. retaining small schools) on a case by case basis, while ensuring that small schools that are not well-suited for consolidation and those that are in transition are held harmless.

Cap on Statewide Education Spending Growth

This proposal would cap the growth of statewide education at some nominal figure indexed to CPI. School districts would be able to vote for increases to their per pupil spending without

¹ 2014 Town Meeting Turnout Statistics, Vermont Secretary of State Website: <https://www.sec.state.vt.us/elections/town-meeting-local-elections.aspx>

² An earlier version of this document incorrectly identified the quorum requirements as $\frac{3}{4}$ of the members. The correct number is $\frac{2}{3}$ (see Vermont Constitution, Chapter II, Section 14).

state intervention, so long as they stayed within set parameters. Parameters could be designed on a sliding scale, allowing different percentage increases based on current per pupil spending levels vs. state averages. For example, a school district with a relatively high per pupil spending amount would have less headroom to increase their per pupil spending in percentage terms than a district with lower spending.

A small portion of the education fund would be set aside and available for the State Board of Education (or other appropriate entity) to award funding on a competitive basis to school districts requesting higher levels of spending (outside the applicable thresholds). Any funding allocated to districts would be counted towards the overall per pupil spending within that district - increasing the tax rates, just as if the budget had been increased without state intervention. The intent of this funding allocation would be to address inequities and anomalies that “fall through the cracks” of the funding formula. When awarding these “excess spending grants”, the State Board of Education would consider a variety of factors to prioritize funding allocations, including available opportunities for cost reduction through consolidation, sudden and unpredictable fluctuations in student needs, student to staff ratios, etc.

The net result would be a cap on the aggregate growth rate of education spending across the state. Many school districts would experience no change to current practice, there would still be variability in education tax rates based on local decisions, but some districts would need to justify extraordinary increases in per pupil spending.

Use Local Voting to Set Education Tax Rates Rather than Budgets

Under the current system, local communities vote on school budgets, which ultimately dictate the tax rates (both property tax rates and percentages used to calculate income sensitivity adjustments) required to support the budgeted per pupil spending. If we flipped this around, so that voters could decide the tax rates they were willing to support, there would be greater accountability and a much more direct connection between voting and tax rates. This approach would likely require the statewide base rates to be fixed ahead of any local voting, would likely require a larger stabilization reserve to keep the state Education Fund in balance.

Incentives to Move Away from Tenure-Based RIF Policies

As the decline in student enrollment continues to decline, reductions in staff levels are inevitable. Many reductions will be possible through natural attrition, including retirements. However, where more difficult decisions come into play, we should look for ways to retain our best educators. Staff contracts that mandate reduction in force (RIF) policies based exclusively on seniority are an impediment to right-sizing an organization, as they can lead to unintended consequences - namely the loss of high performing, high-potential staff.

Under this proposal, the state would implement a system of incentives to encourage school districts and staff to adopt RIF policies that look at multiple factors, particularly staff performance and subject matter expertise, when implementing a RIF.