



Vermont
Superintendents
Association



To: House Ways & Means Committee
From: Nicole Mace, VSBA Executive Director & Jeffrey Francis, VSA Executive Director
Re: FY 2017 Tax Rate Bill
Date: February 23, 2016

Thank you for the opportunity to testify regarding the committee's FY 2017 tax rate bill. Section 2 of the bill sets the property dollar equivalent yield at \$9,701.00 and the income dollar equivalent yield at \$10,870.00. The amount is lower than previous estimates due to education spending increasing by 1.5% and growth to the grand list. However, the yields continue to rely upon the use of \$19.7 million in surplus funds, which we have believe should not be used in a single year.

Last week, we testified that local districts appeared to rely on substantial amounts of fund balance in their FY 2017 budgets in order to stay below their allowable growth thresholds. We believe that the amount of surplus funds used at the local level could approach \$17 million. If the state uses the entire \$19.7 million in surplus funds to inflate the yield and districts used surplus funds to stay below their threshold targets, then over \$35 million in one-time funds will have been used to cover operating expenses that will need to be made up next year.

Sections 3-5 of the bill purport to eliminate unfunded mandates by directing the General Assembly to identify the costs of any legislative requirement and require a General Fund appropriation to cover the costs of the requirement in a subsequent year. This provision is designed to prevent "unfunded mandates" from being imposed on school districts.

The process outlined in the bill calls for the Joint Fiscal Office and the Secretary of Administration, in consultation with the Secretary of Education, to estimate the unfunded education mandate amount within 30 days of the conclusion of the legislative session when the mandate was enacted. The Joint Fiscal Office and Secretary of Administration shall then present the total unfunded mandate amount to the Emergency Board. The Emergency Board then presents the unfunded mandate amount to the Governor, and recommends that the Governor include a transfer of that amount from the General Fund to the Education Fund in the following fiscal year.

There are compelling reasons to stop the proliferation of requirements passed without resources to support implementation at either the state or local level. Both of our Associations have raised concerns about the costs of implementing new programs like universal pre-k, dual enrollment, early college, concussions management, and green cleaning. These initiatives, while worthwhile, have caused significant cost pressures at the local level, leading to uneven implementation across the state.

That stated, we have several observations about the proposed process in the committee's bill. The first is that it may be problematic to calculate the costs associated with implementing any legislative requirement due to the variability in our education delivery systems statewide. The second is that even though the calculation may be challenging to complete, it ought to be done before the legislation is passed, not in a subsequent session. The interplay between the legislative process for considering whether to pass a mandate and the administrative process for calculating the cost seems disjointed and unclear. It could also further politicize the deliberations around the General Fund transfer, particularly if the situation involves legislation passed in a prior biennium under different legislative and gubernatorial leadership.

A better approach may be to ensure implementation of 16 VSA 4028(d) prior to any bill's passage. Under this approach, the joint fiscal office would calculate a fiscal note for any new legislation that requires a supervisory union or district to perform any action with an associated cost. If the cost cannot be easily calculated due to the complexity of the requirement or the complexity of the delivery system, that should signal that the mandate should not pass. If the cost can be calculated, that amount ought to be included within the General Fund transfer in the year in which the mandate is enacted.

Section 6 of the bill allows a study committee report developed pursuant to 16 VSA 706b to include terms for transferring the ownership of capital assets, and the liability for any associated debt, from the merging school districts to the towns where the assets are located. The bill contemplates the new merged district leasing the capital assets from the towns.

While we understand that this may appear to create additional space for local Act 46 conversations, we think this approach could create some unintended consequences that could lead to greater divisiveness regarding real property issues and discourage mergers. First, it undermines the ability of a unified district to maximize assets such as school buildings for the purpose of fulfilling its educational mission. In the event the new district wishes to modify or improve existing school facilities, it would need to obtain the permission of the town in which the asset is located in order to do so. It also raises questions about the long-term investments that will need to be made in properties

that are used by the district. How does one operate a district long term with leased school facilities from a landlord who has no underlying investment in the property? Why would the remaining towns/voters ever vote to incur debt for such a facility?

16 VSA 706b already provides the opportunity for study committees to discuss whether and to what extent assets and liabilities will be acquired by the newly formed district. Most study committee reports transfer all assets and liabilities to the new district, and include a provision that requires a unified district to transfer any assets back to the town for \$1 in the event the unified district decides not to use the facility for educational purposes.

Finally, our Associations support the study of the use of an aggregate common level of appraisal in a merged school district called for in Section 7 of the committee's bill.