

MEMORANDUM

TO: House Education Committee

FROM: Joel D. Cook, Executive Director, Vermont-NEA

DATE: November 18, 2015

SUBJECT: "Affordable growth" thresholds

Introduction

The excess spending threshold mechanism (along with the several % adjustments to it over time) was designed to tamp down spending in the very highest spending districts. At this time last year, the finance workgroup floated a "surcharge" on local spending above the statewide average. This was our sentiment then – it certainly applies to consideration of the "allowable growth" concept:

"As a public policy device, it may be reasonable to establish some threshold, but this proposal is the latest in the incessant drive to decrease the threshold and increase the consequence. The specific underlying policy, particularly regarding education merit, is, as yet, unclear."

The "affordable growth" threshold hits all districts, those below average and those above average. It is bad for our children and their education and it is bad for taxpayers. It is reminiscent of the excise tax within the Affordable Care Act (See Attachment A).

What follows

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It's still all about health care inflation

In addition to mandates imposed by the state without funding (see Attachment B), it is the inexorable growth in health care costs that is at the root of any "excess" growth in per pupil spending.¹ It is simply unfair to punish school districts and their employees, and our children, for necessary spending. Attachments C and D show that:

- Health care inflation, not within the control of employers and employees, affects employers and employees in like fashion;
- Health care inflation, along with unfunded state mandates, is the largest contributor to rises in school district spending; and
- Had health care inflation, since FY 2002, increased at the same rate as the general cost of living, schools would have spent \$71 million less in FY 2014 alone and nearly \$450 million less between FY 2002 and FY 2015.

Basic tenets

- The governance provisions of Act 46 need a fighting chance to demonstrate they will lead to improved educational opportunities. The strictures associated with applying the allowable growth provisions these next two years will undoubtedly diminish educational opportunities.
- It is fundamentally wrong to impose mandates with cost, and then not provide the funds necessary to meet them.
- It is worse then to turn around and blame school districts for "overspending" and punish their taxpayers for it with higher taxes.
- Vermont's tradition of having local electorates – the same people who send Representatives to this building – adopt school budgets is not common. School budgets in most states are the product exclusively of their school boards. Here, the people have a direct voice and direct control over any board seeking to spend more than its community approves.

Basic recommendations

- Scrap the "allowable growth threshold" altogether. School districts – boards, employees, and voters – can and do reach good judgments about what they have to spend.
- Fund mandates now on the books. Doing that would keep just about all districts' budgets within their threshold anyway.
- If you insist on retaining the "allowable growth threshold," we will make further recommendations consistent with this testimony.

¹ We continue to insist on measuring school costs on a per pupil basis. Because we've been in an era of such pronounced annual decline in the number of school-aged Vermonters, the resulting fraction (total spending/# of pupils) makes almost any cost increase look outsized.

Attachment A: Excise taxes compared **(The ACA and Act 46)**

Congress, in the Affordable Care Act (ACA), and this Legislature, in Act 46, each enacted a tax on spending above thresholds. How do they compare?

Tax amount

- The **ACA** imposes a **40% tax** on "excess" spending on the cost of employee health coverage.
- **Act 46** imposes a **100% tax** on "excess" spending on the cost of our children's education.

Those affected

- The **ACA** is dubbed a "**Cadillac**" tax, but it extends to nearly two-thirds of employer-provided health coverage now and, **ultimately**, to every "vehicle" on the road.
- **Act 46** is dubbed a "cap" by some organizations and others, although it isn't, but, far from a tax on Cadillacs, it hits **every "vehicle" on the road immediately**.

When in effect

- The **ACA** provided **years** before the excise tax would take effect.
- **Act 46** provided **no time** before the excise tax would take effect.

Purpose

- The **ACA** excise tax is supposed to affect the **rate of increase** in health care costs **and raise revenue** at the same time.
- The **Act 46** excise tax is supposed to affect the **rate of increase** in per pupil spending and not increase taxes.

Effect on our school budgets

- The **ACA** excise tax, even if unchecked, will have either no or just minimal effect on school budgets (or most other budgets) until at least the early 2020's.
- The **Act 46** excise tax, if unchecked, will result in unavoidable increases in school taxes in each of the next two years. Because of its timing, unless repealed, it will increase "school" taxes.

Buyer's remorse

- The **ACA** excise tax is the current object of "buyer's remorse," as thousands of employers and employee groups have sought its repeal and 100s in Congress are now sponsoring a bill to do just that.
- The **Act 46** excise tax appears to be experiencing something akin to buyer's remorse.

Attachment B:
A sampling of (unfunded) State acts that have increased property taxes
2006-2015

2006

- Annual audits for tech centers

2007

- Moratorium on school construction state aid

2008

- Increased school district payment to teen parent education programs

2009

- General Fund transfer to Education Fund frozen for 2 years
- Community High School of Vermont costs taken from Education Fund

2010

- Teacher retirement changes induce long-serving teachers to postpone retirement

2011

- "Permanent" reduction in General Fund transfer to Education Fund (>\$23 million/year)
- Community High School of Vermont funding brought permanently within Education Fund (>\$4 million/year)

2012

- Restrictive regulations regarding use of physical restraint

2013

- Dual enrollment
- Personalized learning plans
- Early college

2014

- Prekindergarten education
- Retired teachers health benefit payment

Attachment C: Vermont school districts' health insurance costs as portion of total school districts' spending

Fiscal years 1997-2015

Fiscal year	Total school spending	Health insurance premiums for active employees paid to VEHI				HAD PREMIUMS REMAINED 8.81% OF TOTAL SCHOOL SPENDING			
		Total	By employEes assume: 14%	By EmployERs	Employer-paid health insurance premiums as % of total school spending	Total school spending less employer-paid premiums was:	Employer-paid premiums would have been:	Total school spending would have been: 1.0966 1.0881(b-e)/(b-e)	Total spending would have been <u>LOWER</u> than it was by:
a	b	c	d	e	f	g	h	i	j
	(From AOE)	(From VEHI)	(.14 x c)	(c- d)	(e/b)	(b - e)	(i - g)	or (1.0966 x g)	(b - i)
1997		\$49,809,196	\$6,973,287	\$42,835,909	#DIV/0!				
1998		\$51,791,190	\$7,250,767	\$44,540,423	#DIV/0!				
1999		\$62,158,582	\$8,702,201	\$53,456,381	#DIV/0!				
2000		\$66,925,091	\$9,369,513	\$57,555,578	#DIV/0!				
2001		\$82,757,354	\$11,586,030	\$71,171,324	#DIV/0!				
2002	\$923,175,625	\$94,543,170	\$13,236,044	\$81,307,126	8.81%	\$841,868,499	\$81,324,497	\$923,192,996	(\$17,371)
2003	\$972,232,509	\$104,239,427	\$14,593,520	\$89,645,907	9.22%	\$882,586,602	\$85,257,866	\$967,844,468	\$4,388,041
2004	\$1,027,831,358	\$123,259,665	\$17,256,353	\$106,003,312	10.31%	\$921,828,046	\$89,048,589	\$1,010,876,635	\$16,954,723
2005	\$1,086,057,298	\$134,441,903	\$18,821,866	\$115,620,037	10.65%	\$970,437,261	\$93,744,239	\$1,064,181,501	\$21,875,797
2006	\$1,155,642,452	\$148,508,435	\$20,791,181	\$127,717,254	11.05%	\$1,027,925,198	\$99,297,574	\$1,127,222,772	\$28,419,680
2007	\$1,200,652,855	\$159,175,172	\$22,284,524	\$136,890,648	11.40%	\$1,063,762,207	\$102,759,429	\$1,166,521,636	\$34,131,219
2008	\$1,257,153,372	\$165,216,603	\$23,130,324	\$142,086,279	11.30%	\$1,115,067,093	\$107,715,481	\$1,222,782,575	\$34,370,797
2009	\$1,313,344,042	\$180,051,884	\$25,207,264	\$154,844,620	11.79%	\$1,158,499,422	\$111,911,044	\$1,270,410,466	\$42,933,576
2010	\$1,356,914,686	\$181,536,729	\$25,415,142	\$156,121,587	11.51%	\$1,200,793,099	\$115,996,613	\$1,316,789,712	\$40,124,974
2011	\$1,358,006,220	\$189,981,320	\$26,597,385	\$163,383,935	12.03%	\$1,194,622,285	\$115,400,513	\$1,310,022,798	\$47,983,422
2012	\$1,375,270,354	\$194,352,589	\$27,209,362	\$167,143,227	12.15%	\$1,208,127,127	\$116,705,081	\$1,324,832,208	\$50,438,146
2013	\$1,414,424,021	\$201,305,348	\$28,182,749	\$173,122,599	12.24%	\$1,241,301,422	\$119,909,717	\$1,361,211,139	\$53,212,882
2014	\$1,444,003,421	\$223,305,198	\$31,262,728	\$192,042,470	13.30%	\$1,251,960,951	\$120,939,428	\$1,372,900,379	\$71,103,042
2015		\$229,889,215	\$32,184,490	\$197,704,725	#DIV/0!				
								TOTAL:	\$445,918,929

The bottom line(s): If health insurance costs had remained 8.81% of total school spending,

- 1. We would have spent \$71 million less in FY 2014 alone, and**
- 2. Between FY 2002 and FY 2015, school spending cumulatively would have been nearly \$450 million less than it was.**

Attachment D: The portion of school spending growth attributable to health care inflation

Fiscal years 1997-2015

Fiscal year	School spending			Health insurance premiums for <u>active</u> employees paid to VEHI						Effect of health care inflation on total school spending	
	Total	annual increase		Total premiums paid			Annual increases in premiums paid*				
		\$	%	Total	By employEes assume: 14%	By EmployERs	Total	By EmployERs	%	as % of total spending	as % of annual growth
a	b	c	d	e	f	g	h	i	j	k	l
	(From AOE)	(b - b')	(c/b')	(From VEHI)	(.14 x e)	(e - f)	(e - e')	(g - g')	(i/g')	(g/b)	(i/c)
1997				\$49,809,196	\$6,973,287	\$42,835,909				#DIV/0!	
1998				\$51,791,190	\$7,250,767	\$44,540,423	\$1,981,994	\$1,704,515	3.98%	#DIV/0!	
1999				\$62,158,582	\$8,702,201	\$53,456,381	\$10,367,392	\$8,915,957	20.02%	#DIV/0!	
2000				\$66,925,091	\$9,369,513	\$57,555,578	\$4,766,509	\$4,099,198	7.67%	#DIV/0!	
2001				\$82,757,354	\$11,586,030	\$71,171,324	\$15,832,263	\$13,615,746	23.66%	#DIV/0!	
2002	\$923,175,625			\$94,543,170	\$13,236,044	\$81,307,126	\$11,785,816	\$10,135,802	14.24%	8.81%	
2003	\$972,232,509	\$49,056,884	5.31%	\$104,239,427	\$14,593,520	\$89,645,907	\$9,696,257	\$8,338,781	10.26%	9.22%	17.00%
2004	\$1,027,831,358	\$55,598,849	5.72%	\$123,259,665	\$17,256,353	\$106,003,312	\$19,020,238	\$16,357,405	18.25%	10.31%	29.42%
2005	\$1,086,057,298	\$58,225,940	5.66%	\$134,441,903	\$18,821,866	\$115,620,037	\$11,182,238	\$9,616,725	9.07%	10.65%	16.52%
2006	\$1,155,642,452	\$69,585,154	6.41%	\$148,508,435	\$20,791,181	\$127,717,254	\$14,066,532	\$12,097,218	10.46%	11.05%	17.38%
2007	\$1,200,652,855	\$45,010,403	3.89%	\$159,175,172	\$22,284,524	\$136,890,648	\$10,666,737	\$9,173,394	7.18%	11.40%	20.38%
2008	\$1,257,153,372	\$56,500,517	4.71%	\$165,216,603	\$23,130,324	\$142,086,279	\$6,041,431	\$5,195,631	3.80%	11.30%	9.20%
2009	\$1,313,344,042	\$56,190,670	4.47%	\$180,051,884	\$25,207,264	\$154,844,620	\$14,835,281	\$12,758,342	8.98%	11.79%	22.71%
2010	\$1,356,914,686	\$43,570,644	3.32%	\$181,536,729	\$25,415,142	\$156,121,587	\$1,484,845	\$1,276,967	0.82%	11.51%	2.93%
2011	\$1,358,006,220	\$1,091,534	0.08%	\$189,981,320	\$26,597,385	\$163,383,935	\$8,444,591	\$7,262,348	4.65%	12.03%	665.33%
2012	\$1,375,270,354	\$17,264,134	1.27%	\$194,352,589	\$27,209,362	\$167,143,227	\$4,371,269	\$3,759,291	2.30%	12.15%	21.78%
2013	\$1,414,424,021	\$39,153,667	2.85%	\$201,305,348	\$28,182,749	\$173,122,599	\$6,952,759	\$5,979,373	3.58%	12.24%	15.27%
2014	\$1,444,003,421	\$29,579,400	2.09%	\$223,305,198	\$31,262,728	\$192,042,470	\$21,999,850	\$18,919,871	10.93%	13.30%	63.96%
2015				\$229,889,215	\$32,184,490	\$197,704,725	\$6,584,017	\$5,662,255	2.95%	#DIV/0!	#DIV/0!

*These numbers reflect actual annual costs, not annual premium rate increases.

The bottom line(s):

- 1. Neither school districts nor their employees are responsible for health care inflation;**
- 2. They are both, along with the rest of us, equally affected by it; and**
- 3. Health care inflation is the largest contributor to rises in school spending.**