

**TESTIMONY OF
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VERMONT LEAGUE OF CITIES AND TOWNS
HOUSE EDUCATION COMMITTEE
WEDNESDAY, JANUARY 14, 2015
"EDUCATION STRUCTURE AND FINANCE"**

Thank you for the opportunity to testify to the committee this morning.

I am not naturally an optimistic person and nothing in my experience of advocating for municipal government before the legislature for now thirty-four years has cured me of that disposition. However this summer and fall, I began feeling some unfamiliar pangs of what could only be optimism. There was hope that the 2015 legislative session would actually come up with solutions to our education funding problem. Finally, after the 35 school budget defeats this spring and the almost universal message heard from the voters on the campaign trail this fall, they have finally gotten the message -- there is a problem and it needs to be solved when the legislature comes back to the State House in January.

Fast forward two short months and here we are. All I hear now is "We need to figure out what the problem is" or "Is there really any problem at all?"

The Revenue Problem

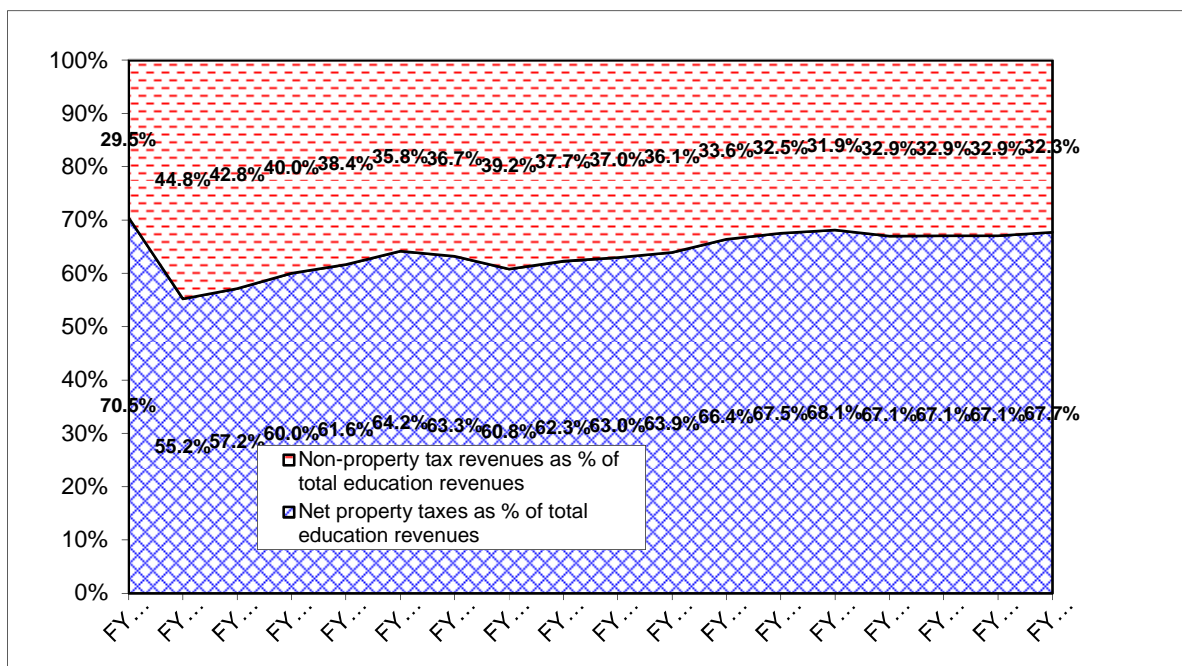
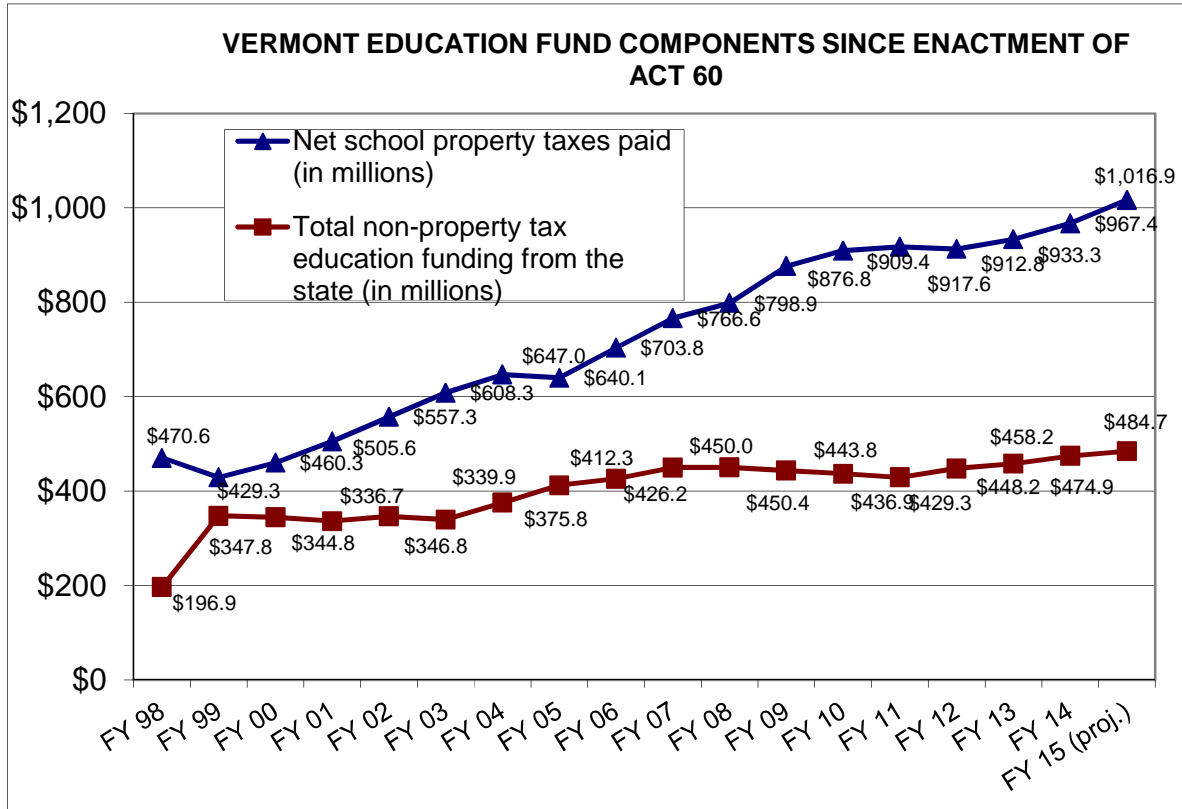
If you need a refresher, let me remind you -- the problem is the state education property tax. First, we will deal specifically its size and its trajectory. That single state tax, net of property tax adjustments totals over \$1.02 billion for FY15. That compares to the entire state General Fund with its 15 or so taxes and other sources that total \$1.33 billion.

Not only is it large, it's pitch is at a hair-raising pitch. The problem is that total net education property taxes have risen 58.9 percent since the implementation of Act 68 just ten years ago. That was over a period during which the consumer price index rose only 25 percent. During that same period, all state assistance for the education fund from sources other than the property tax rose by just 17.6 percent, just 70 percent of what the consumer price index went up. Total General Fund spending increased by 32.3 percent since FY05, according to the Joint Fiscal Office's 2014 Fiscal Facts, twice the growth rate of state support for education.

Over that time, the non-property tax support of education fell from 39.2 percent of the total bill to 32.3 percent. It has never been anything to write home about, with the average state supporting education to the tune of about fifty percent from sources other than the property tax.

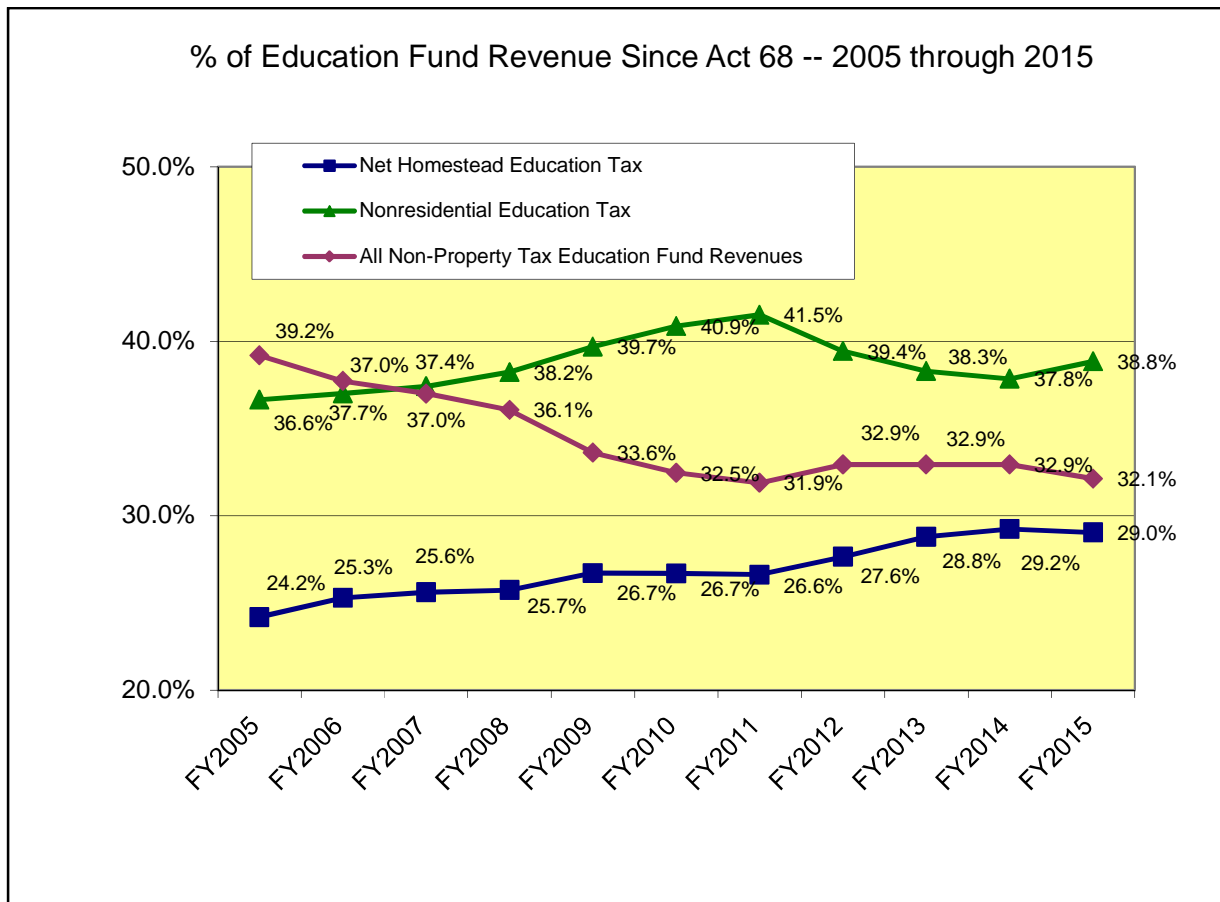
This most recent trend simply mirrors past practices of the legislature. If we start from FY99, the first full year Act 60 was phased in, state education property taxes rose 136.9 percent. During the same period, state non-property tax education fund revenues rose by just 45 percent,

barely outstripping the CPI that rose 39.4 percent. The charts below show this divergence of support for education graphically.



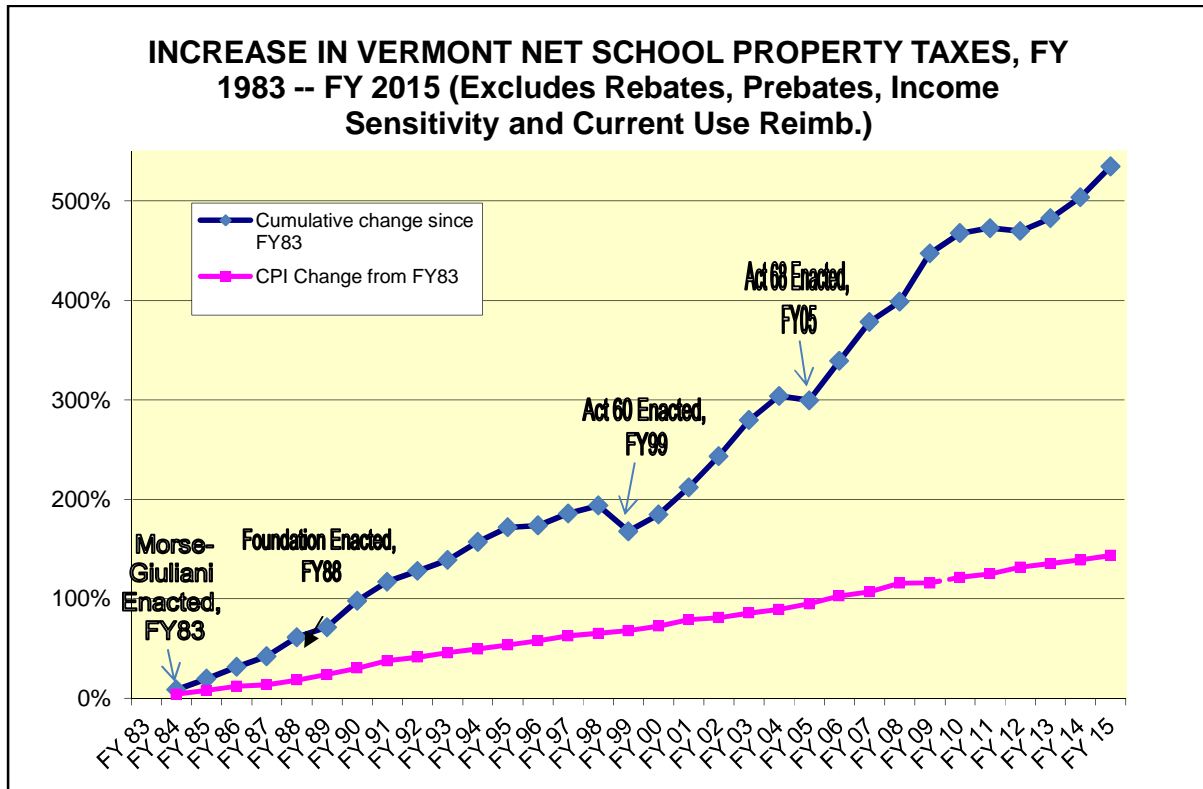
This pattern goes back even before the Brigham decision and Act 60. Pre-Act 60, state aid to education, or what we would consider the non-property tax sources for what became the education fund, peaked in FY91 at \$196.3 million. In the next six years, while little Amanda Brigham grew up and went to school in Whiting, but was denied an equal education, the state did its share to equalize opportunity by lowering state aid to \$188.3 million by FY97, the year of the Brigham decision. It is no wonder we developed an equitable funding system.

So, back to today, who is paying more as the state shrinks the share of what it calls education costs from sources other than the property tax? As the graph below shows both non-residential and homestead owners are paying more property taxes -- the share of the total paid by residents has increased by 20 percent since the inception of Act 68 and non-residents are paying a 6 percent larger portion while the state non-property tax portion dropped by 18 percent.

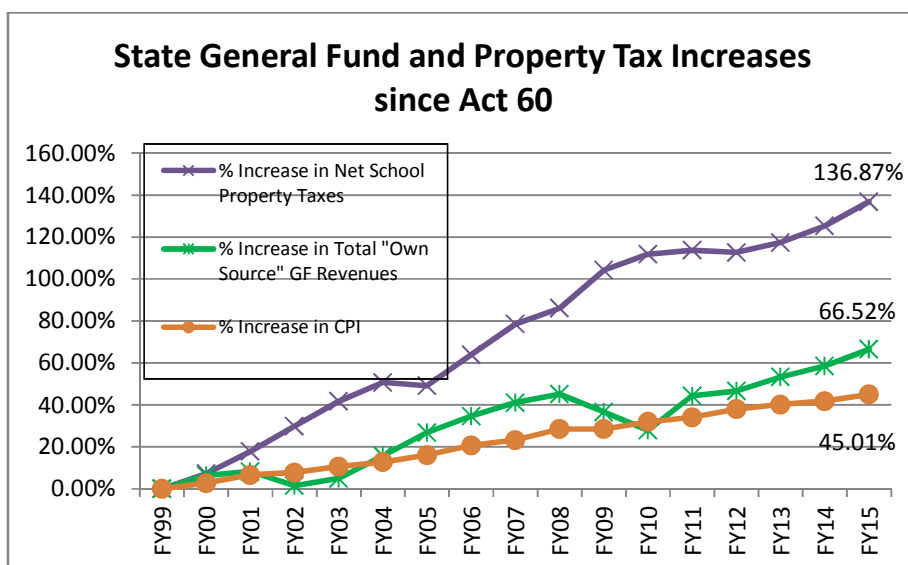


The only times in the past 35 years where the legislature has committed to paying anywhere close to what its fair share should be for adequately providing for education without crushing property taxes has been when it decided to throw out the old education funding formula and replace it with a new one that it would soon underfund. The graph on the next page shows that

the only time that the legislature "bent the curve" of escalating property taxes was when it was rewriting the formula.



We have heard much in the past several years how the state has not raised "broad-based taxes". In reality, according to Fiscal Facts, state General Fund taxes have barely exceeded the increase in the cost of living over the past ten years. During the same period, property taxes have grown by double the state tax burden and three times the CPI.



My point with all this is that we do indeed have a revenue problem. State education property taxes have grown at an astronomical rate, and, during some time periods, education revenue sources other than the property tax have not even kept up with the CPI, let alone the escalating cost of education. The legislature and the administration owe it to education and to the property taxpayers to replace some of those property tax dollars with some other tax source. Whatever revenue solution is found, it must be designed not to worsen our second problem area.

The Spending Problem

Which brings me to the spending side of things. Yes, we certainly have a spending problem. Some of it might actually be the fault of local school boards, local voters and motivated local special interest groups. Before or while you chastise and rein in local boards and voters, please look in the mirror and do here what you can do directly and immediately to address the "education spending problem". Stop shifting state costs to the property tax. Since 2005, adult basic education, essential early education, corrections department education, state education agency computer programs, teen pregnancy counseling programs and several other cost centers got redefined as local education costs and paid for mainly by property taxes. Move these back to the General Fund where they belong and honestly and openly raise the taxes necessary to fund them.

Stop mandating new local district expenses. I realize the champion of mandated pre-K is here at the table and don't wish to argue over the merits of this new expense or how it is supposed to pay off sometime in the future. It is a new expense that will be paid for from nothing other than property taxes when it is imposed, because there is no new sustainable state money that came with that mandate. Nor is it apparent that the property taxpayers will be the ones who realize this payback used to impose the mandate. The same goes for dual enrollment and the myriad of mandated programs and services that our schools are now forced to provide. Try as they may, summer study after summer study has tried to quantify the costs of these compounding mandates -- all with honorable intentions -- to no avail. We know they cost something and without another source, we know they add to the increase in the burden on the property tax.

These are two essential parts of the spending puzzle that can and must be addressed here and now. If the aforementioned are essential services, find a way other than the property tax to provide them to those that need them. It is disingenuous for the legislature and administration to bury these costs in the Education Fund or local district budgets and then blame local boards and voters for having an insatiable appetite for spending.

The Complexity Problem

A person very knowledgeable in Vermont tax structures and policies recently said that there is a continuum of tax structures. At either ends are two qualities that tax structure developers should strive for. "Simplicity" lies at one far end of the straight line continuum. At the other end lies "Fairness". Unfortunately, it appears never the twain shall meet. I can assure you that of the two qualities, our current system comes very close to the Fair end but is light years away from the

Simplicity end. If your tax system lacks simplicity and transparency, people have a tendency to distrust it and the government that constructed it.

Speaking with no disrespect for those wonderful public servants who work diligently governing school districts and administering the property tax, few of them could pass an Act 60 exam. Income sensitivity -- the atrial side of the fairness heart of Act 60 (the ventricle side is the equal property tax rate for equal spending) -- is the chief target, though the CLA, phantom students and other certainly draw their share of puzzled looks. It is based on household income, it is figured on past years' income reports, it requires all sorts of forms to be filed in a timely fashion. Some tax bills are public documents in town offices and others aren't. I have no specific recommendations at this time, but would be happy to work with the committee along with listers and town treasurers to see if there are some improvements in simplicity that don't cost too much in fairness.

Those are three problems I had no problem identifying that can and must be addressed by the 2015 legislature. There may be others. The Vermont League of Cities and Towns and the municipal officials who administer the property tax and share in the meager leftovers (currently 27.6 percent of the total property tax take) look forward to supporting you in work solving these problems.