



To: The Ways & Means Committee
From: Nicole L. Mace, Executive Director
Re: The Allowable Growth Provision of Act 46
Date: January 13, 2016

Thank you for the opportunity to testify regarding the allowable growth provision of Act 46. The allowable growth provision was designed to respond to very real and legitimate concerns about rising school costs and associated property tax rates. The General Assembly modeled different approaches to cost containment before the current provision was negotiated in the H.361 conference committee during the final days of the session. However, due to the rushed nature of the negotiation, the effects this provision were not analyzed or well-understood at the time.

The Vermont School Boards Association believes that the allowable growth provision of Act 46 is flawed public policy, the application of which could jeopardize local efforts to implement the governance provisions and accomplish the goals of the Act.

In October, our members passed a resolution calling for the repeal of the allowable growth rate: **The General Assembly should repeal the “allowable growth” provision of Act 46 and replace it with a system or formula that more equitably controls costs and creates efficiencies, while preserving educational quality.**

In November, Jeff Francis of the Vermont Superintendents Association joined me in testifying on behalf of our Associations before the House Education Committee, emphasizing our concern that the mechanism designed to provide immediate taxpayer relief could result in the perverse outcome of tax *increases* in many communities, while at the same time worsening, rather than improving, the state’s growing challenges around equity, quality and cost-effectiveness. The Joint Fiscal Office is currently predicting that 127 districts will exceed the threshold this year, resulting in \$9.5 million in tax *increases* in communities across the state.

In December, the tax commissioner released the base property and income tax rates and corresponding yields as required by Act 46. As a result of the \$9,955 yield recommended by the tax commissioner, the impact of the allowable growth provision is less substantial in some communities than initially feared. This is because under the rates/yields proposed by the commissioner, districts could spend 4.19% more per equalized pupil and have the same equalized tax rate as in the current fiscal year.

The yield proposed by the commissioner is higher than expected because the calculation relies upon the use of \$21 million in surplus (surplus created because special education spending was significantly less than projected in two prior year budgets), growth in the grand list, and projected education spending growth of less than 3% statewide. Boards and administrators have developed FY 2017 budgets and projected tax rates using the \$9,955 yield, because that is the best information they had available to them during the budget development phase. However, the General Assembly has the ultimate responsibility to establish the yield this session. Using one-time money in order to inflate the yield will no doubt require substantive analysis and deliberation.

Furthermore, the revised numbers provided by the Joint Fiscal Office last week illustrate how uncertain the final yield amount will be even if the surplus is used. While some boards may be anticipating tax relief due to the inflated yield calculation, many others are faced with making extremely difficult choices in order to avoid the allowable growth threshold. Because of the variability of our districts I cannot sit here and share with you a neat summary regarding the impacts of the allowable growth provision statewide. Instead, I will share with you some examples, starting with some districts that are holding merger votes in 2016:

- In a small district in Rutland county with one K-6 school, where enrollment has dropped significantly over two years, the board is cutting a .5 teacher, retiring a long term teacher, cutting the principal back 20%, and it is still likely that they will be slightly above the threshold. They are part of a group of districts proposing a merger plan to their voters in the next few months.
- In another group of Rutland county districts pursuing a merger this year, one district is proposing to decrease their budget by over 5% but is still \$260,000 over the threshold. Another has cut 2% of their budget but is nevertheless in a position of exceeding the threshold by over \$100,000.
- A group of Addison county districts headed for a vote on Town Meeting Day will have to cut \$1.5 million from their collective budgets in order to stay under the allowable growth threshold. One of the districts has reduced 11 positions in the last 2 years and does not believe that sustaining more staffing cuts is responsible in terms of educational quality and opportunity.

The next several examples come from communities that are not pursuing merger votes in 2016 but are actively participating in merger study committees:

- One small district in the Northeast Kingdom experiencing an extremely challenging economic climate has reduced staffing and opportunities for its students in recent years. This year, in order to stay below the allowable growth threshold, the board will have to severely limit what opportunities remain, reducing Music, Art, and Physical Education offerings, which are already limited. They are delaying upgrades to more modern technology and investments in building maintenance. The board is reluctant to present a budget to voters that includes those kinds of cuts.
- In another very small Windsor county district engaged in a merger study committee, the district is looking at a 33 cent tax increase just to maintain current programming. Doing so puts them \$220,000 over the cap. Because it is such a small school, there is no way to responsibly cut \$220,000 in a single year and they anticipate exceeding the threshold.
- Another group of Windsor county districts is relying entirely on using surplus funds to offset expenses and stay under the threshold. This is not an uncommon approach among districts, and one that poses significant risks in terms of districts' position heading into the FY 2018 budget season.

Next, I want to address the prospects of increasing the allowable growth threshold by .9% in order to respond to concerns about higher health care premium costs that we shared with you in November. We appreciate the gesture by the House Education Committee, and are concerned that while it buys some relief it does not sufficiently address the flaws in the underlying allowable growth mechanism. As indicated in my examples above, the allowable growth provision plays out differently depending on a district's circumstances. To provide an allowance for increased health care premium costs does not address that underlying issue.

Furthermore, we know that health care premiums are both a function of the composition of the workforce and negotiated agreements. These factors vary from district to district. To provide an across-the-board bump of .9% to address health care premiums does not consider those local factors and in some cases may inadvertently exacerbate the inequity of the allowable growth mechanism.

Finally, the predictions of the Joint Fiscal Office reveal that the .9% increase to the allowable growth provision still results in a \$7.1 million tax increase on Vermont communities.

Timing presents a serious challenge. Addressing the underlying flaws of the allowable growth provision is not work that can be accomplished in two weeks. If lawmakers rush to modify the allowable growth provision without the benefit of sufficient testimony and analysis, it is likely that an alternative will emerge with equal or greater problems than the current provision.

At the same time, boards need clarity within the next week before budgets are warned and sent to the printers. We urge the General Assembly to act immediately to either repeal or delay implementation of the allowable growth provision and spend the remainder of the 2016 session developing a replacement provision that adequately addresses the concerns we and others have raised.

Act 46 advances the goals of equity, quality and sustainability. The application of the allowable growth percentage is in conflict with those goals. On behalf of school boards in Vermont, I urge this body to take immediate action to address these concerns.