

## Editorial

### Systematic Reform of Education Finance is Necessary and Not That Hard

Charlie Smith

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I am an ardent believer in universal public education but I fear that the sense of common purpose on which it is built will break with high cost growth and a funding formula that is easily manipulated and that few understand. In frustration, legislators are seizing on quick fix ideas to control costs and curtail property taxes: freeze rates; shift costs to a different tax base; force consolidation of small schools; impose regional governance; cap spending; mandate minimum staffing ratios; eliminate income sensitivity; overthrow equalized yield. The frustration is understandable, but these ideas do not systematically address the core issues and, being non-systematic, they won't work over the long run.

What follows is a ten point solution that builds on the existing school finance structure. It is not a menu from which to pick and choose, but rather a reform system in which each part is necessary. The specific goals are: a well-funded education system; rigorous spending discipline; property tax affordability; preservation of Brigham equity principles; preservation of local budget control; and encouragement of long term planning by school districts.

The leap of faith is that the Legislature must make and enforce a fundamental moral commitment to long term spending discipline and cost containment. For proof that such a commitment is possible, I would cite Vermont's capital debt affordability process. For decades, this brought rigor to Vermont's use of long term debt and yielded a stellar bond rating. Similarly, there seems to be new-found discipline around rehabilitating the teacher retirement finances. The same kind of consistent discipline can bring order and predictability to Vermont's education finances without massive upheaval.

Here's how we do it:

1. Contain total Education Fund expenditure growth to a specific, established, predictable value such as inflation plus 1%.
2. Contain the statewide average Education Spending growth per Equalized Pupil to a specific, established, predictable value such as inflation plus 1%.
3. Reduce and contain statewide Education Property Tax collections, over time, to a specific, established, predictable level such as 65% of total annual Education Fund expenditures.
4. Eliminate the Common Level of Appraisal (CLA) for homesteads and, instead, adjust a property's value on the grand list only when it is transferred or significantly improved.
5. Guarantee that the Non-Residential Education Property Tax rate will be hardwired to a predictable index, such as the statewide weighted average of residential rates, and never subjected to political manipulation.

6. End the time-worn legislative practice of adding unfunded responsibilities to the Education Fund which inevitably drive up property taxes beyond levels that are voted locally.
7. Preserve the core Brigham principle but recognize that the Education Spending payments to the highest spending towns may be curtailed based on 1 and 2 above.
8. Preserve the concept of Equalized Pupils to recognize the disproportionate cost of achieving educational parity with lower income and non-English speaking children.
9. Support local decision-making by not imposing consolidation or district spending caps and by allowing local voters, under certain conditions, to raise local money to augment the state education payment.
10. Provide multi-year funding commitments to school districts to facilitate long term planning.

With this framework in place the rest becomes fairly simple. School districts adopt their annual budgets with voter approval and submit them to Montpelier. Each school budget is translated into the Education Spending payment for the district. The amount, per equalized pupil, is then calculated for each district. The funding entitlements that flow outside the Education Spending structure (e.g. special education, income sensitivity, dual enrollment, the Corrections high school, etc.) are calculated and deducted from the Education Fund.

If the school budgets, collectively, are within the caps (points 1 and 2 above) all Education Spending payments go to the school districts without modification. If the school budgets, collectively, exceed one or both caps, the towns with the highest Education Spending per pupil will be progressively reduced (pancaked) until the Education Fund is in balance and both caps are satisfied. The high spending school districts whose payments are curtailed by the “pancaking” would be permitted to raise additional taxes locally. In towns whose payments are curtailed, every student is still, by definition, supported by a state payment that exceeds the statewide median and the Brigham mandate would be satisfied. This would do exactly what the “excess spending threshold” is intended to do – except that it would guarantee cost containment.

For any school district committing for 3 – 5 years to limit its spending growth (either per pupil or total) to no more than inflation plus 1%, the state would guarantee the corresponding payment amount for each year.

Under this plan, Vermont schools will continue to be among the best funded in the United States. School districts will have a strong incentive to contain spending. Property tax payers will be cushioned from major shocks. School boards and unions will have precise transparency as to the resources that are available as contracts are negotiated. School districts will have the opportunity for stable funding and be able to plan ahead three to five years for staffing, technology, equipment, consolidation or other strategic investments.

Politics aside, it is not too difficult to reform the education finance and school property tax systems and, by the way, preserve schools that are well-funded by national standards. We don’t need to start over. We don’t need to centrally impose school consolidation or new regional governance structures. We

don't need to centrally impose spending caps on local budgets that lock in inequities. And we don't need to re-litigate the core of the Brigham equity principles.

Ultimately, the more interesting and important question is how to achieve uniformly high education quality. Personally, I do not accept that high quality necessarily correlates to high spending, which is a subject for another day.