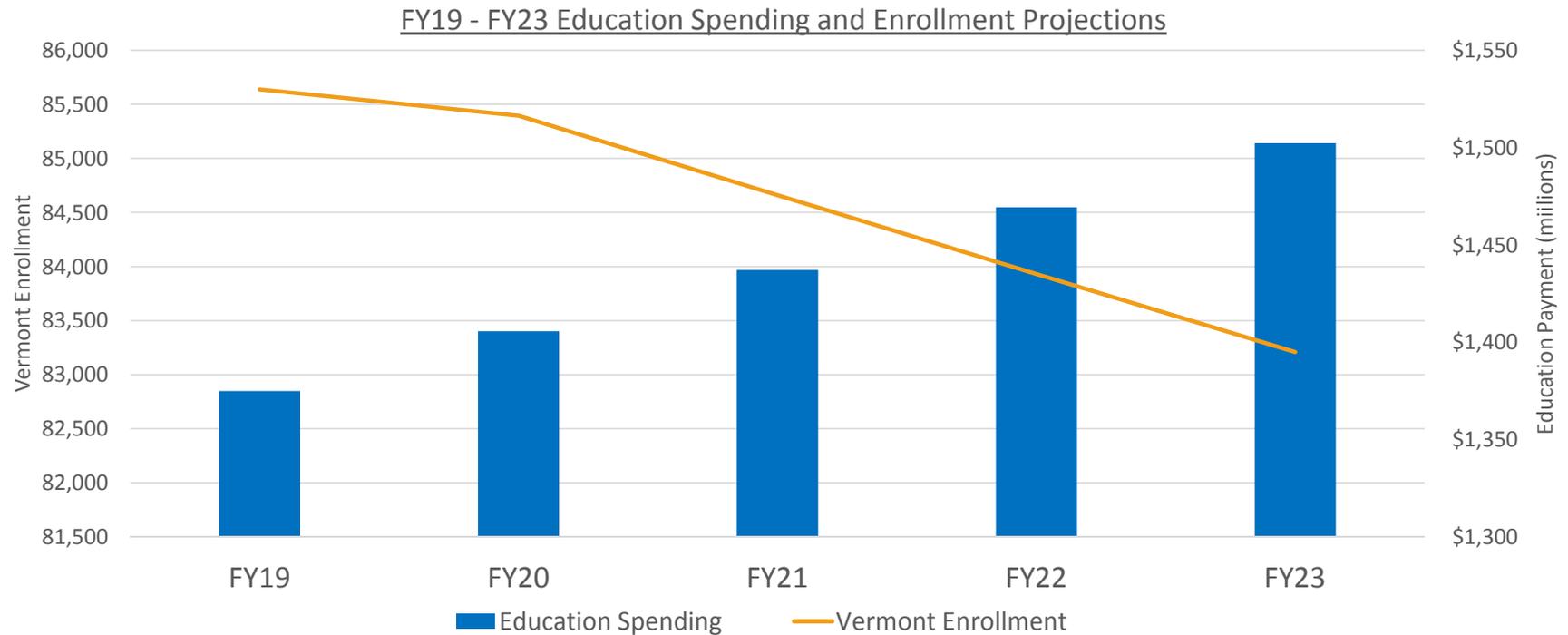


FY2019 Education Fund Outlook

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FY19- FY23 Education Spending Enrollment Projections



Enrollment projection is Consensus JFO and Administration Forecast through FY20, then grown by CAGR blended with VTNEA Economic Analysis CAGR . Education spending projection is FY19 "Education Payment" line from EF Outlook grown by FY15-FY19 CAGR (2.238%)

FY2019
Education
Fund Outlook
(April 2018 update)

Total Sources:	\$1,615.7 billion
Total Uses:	<u>\$1,664.3 billion</u>
Operating deficit:	(\$48.6 million)
Replenish reserve	(\$9.5 million)
Total Gap:	(\$58.1 million)

The Governor's Plan (part 1)

- Raise \$4 million directly from the Education Fund through carryforwards and a change in property tax adjustments (H.911).
- Use General Fund and special fund one-time money, and anticipated FY18 revenue surplus (H.924,) to raise \$54 million.
- Of that \$54 million, transfer \$27 million directly to the Education Fund.
- Use remaining \$27 million to pay off retired teachers' OPEB interfund loan and take out new interfund transfer of comparable size from the General Fund to the Education Fund.

Source of Funds

- \$19 million from the \$34 million received in tobacco settlement funds
- \$20 million in anticipated FY18 General Fund surplus revenues, as noted in H.924
- \$7 million from the General Fund Balance Reserve
- \$4 million in direct applications from special funds
- \$2 million in direct application from the Department of Financial Regulation non-smoothing
- \$2 million reversion from Pay Act and reclassifications appropriations
- \$2 million in anticipated Education Fund carryforwards
- \$2 million in savings from changes to our method of calculating property tax adjustments, as proposed in H.911.

The Governor's Plan (part 2)

Institute structural reforms and property tax reforms that will free up almost \$300 million over 5 years to:

- Pay off the interfund transfer from the General Fund to the Education Fund;
- Return all one-time money transferred from the General Fund and special funds;
- Invest in early education, higher education and technical education; or
- Return the money to taxpayers.
- We can do this with a stable property tax rate and a growing, sustainable investment in education based on the 5-year consensus forecast of 3.25% for grand list growth.

Structural Reforms

The Big 3:

- **Manage student/staff ratios:** Through attrition and voluntary departures we can achieve greater scale in our school districts. The Agency of Education will work with stakeholders to develop guidelines and attrition plans for implementation in 2020. Rightsizing our classrooms and staffing levels can save over \$70M annually.
- **Adopt a statewide school employee health care contract:** [The Legislature missed this opportunity last year and it cost Vermonters and school employees dearly](#), with almost \$15M in extra healthcare spending. We can expect annual savings of this magnitude in future years.
- **Move to a census-based method of payment for special education services:** Both the House and the Senate showed the way on this issue (H.897). We will enjoy better outcomes and save almost \$35M annually.

Property Tax Reform

- Lower the house site value that qualifies for property tax adjustment from \$500,000 to \$400,000, as proposed in H.911.
- Reform the property tax adjustment calculation for new homesteads established after July 1, 2018 to provide more focused assistance to those in need, reducing the cost of the program and adding simplicity and transparency.
- Lower the “excess spending threshold” gradually, over 5 years, to allow school districts adequate time to make adjustments, and to shift the financial responsibility for excess education spending to the high spending districts.

We can fix our property tax adjustment mechanism, make it simpler and more progressive, and save over \$45 million over 5 years.

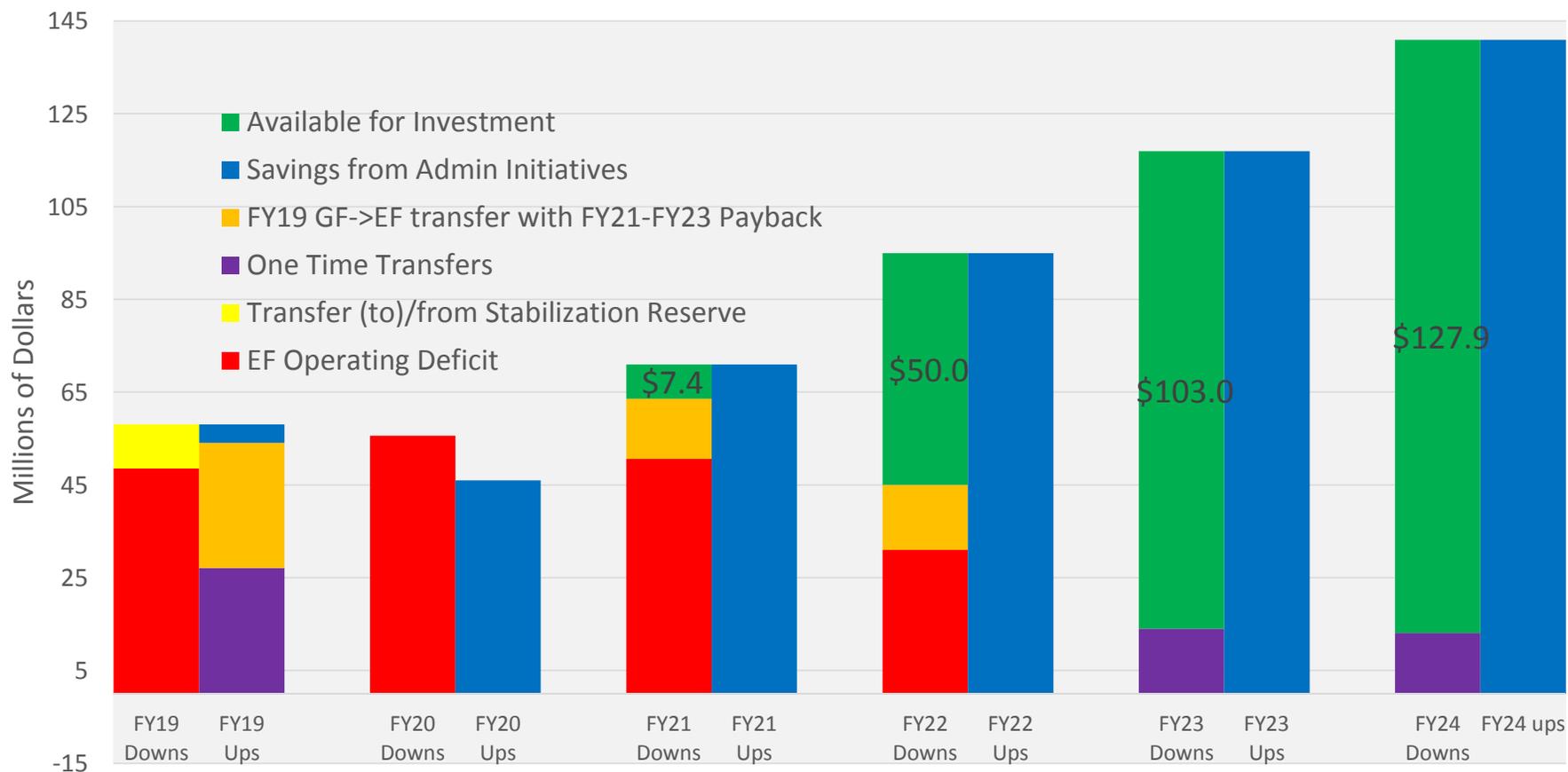
Educational Fund Savings Proposal

Education Fund Savings Proposals

(in \$millions)

	Background/Source of Proposal	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	Total
Revenue upgrade and carryforward	Favorable Revenues	\$2						\$2
Increase student/staff ratio*	Administration letter (January 18, 2018), VSBA Resolution, VTNEA projection		\$32	\$42	\$51	\$63	\$74	\$262
Transitions to statewide healthcare bargaining	2017 Governor Scott Proposal/VEHBC Recommendation, H.858		\$6	\$12	\$14	\$14	\$16	\$62
Transition to new SpEd payment method	H.897		\$2	\$8	\$17	\$25	\$34	\$86
Property Tax Adjustments changes to new homesteads established after July 1, 2018	Administration letter (January 18, 2018) discussed income sensitivity reform, including housesite value		\$1	\$1	\$2	\$3	\$4	\$11
Reduce excess spending threshold gradually over 5 years(beginning in FY20)	Administration letter (January 18, 2018) advanced a similar reduction in the threshold		\$3	\$5	\$8	\$9	\$10	\$35
House site value from \$500k to \$400k (H.911)	H.911 - House passed	\$2	\$2	\$3	\$3	\$3	\$3	\$16
Total savings (\$ millions)		\$4	\$46	\$71	\$95	\$117	\$141	\$474
Net investment (\$ millions)			-\$10	\$7	\$50	\$103	\$128	\$279

Projected Education Fund Money Available after Administration Cost-Saving Initiatives



A Transformative Plan

- Closes the FY19 Education Fund gap (currently estimated at \$58 million);
- Stabilizes statewide property tax rates for 5 years;
- Fully funds the school budgets local voters have approved for next year;
- Generates nearly \$300 million in total savings in 5 years that can be reinvested in early care & learning, K-12 education, technical education, higher education and lower tax rates.
- Allows education spending to grow sustainably each year, based on an average projected increase in grand list value of 3.25% annually; and
- Sets Vermont on a stable 5-year trajectory allowing local school districts to take full advantage of the governance changes made under Act 46.