Sen. Kitchel 4/21/2107 Draft

RATIONALE TO CONSOLIDATE NORMAL TEACHERS' RETIREMENT PAYMENTS WITH OTHER EDUCATION EXPENDITURES

The Normal Cost represents the portion of the cost of projected benefits allocated to the current plan year. The employer normal cost equals the total normal cost of the plan less employee contributions. Teachers are hired and their salaries are negotiated at the local level. These local decisions drive costs but this is currently hidden. Placing this cost in the Ed Fund makes the full annual cost of general education more transparent. The normal cost has been shrinking as a percent of total local education payroll to the level of 1.33% or $8.35m in FY18. Modest growth is projected for this cost in FY2019 based on estimated payroll but local wage decisions and investment returns could impact this estimate.

Since the inception of Act 60/Act68, the state has provided broad based tax support for the Education Fund by initially dedicating a third of the sales taxes and all lottery proceeds. The state also transfers 20% of the GF over to the Ed Fund which is indexed for annual growth. Summarized below is the recent total non-property tax support for education.

Total Non-Property Tax Sources for Education Fund	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019 p	
General Fund Transfer	284.4	290.2	295.8	303.3	305.9	314.7	323.7	
Sales & Use Tax	115.6	123.8	127.6	129.8	133.7	138.8	142.5	
MV Purchase & Use Tax	27.9	30.6	32.4	33.4	34.4	35.6	36.8	
Lottery Profits	22.9	22.6	22.8	26.4	24.6	24.8	25.0	
Other Sources	7.5	7.4	8.7	10.9	10.7	11.2	11.2	
Total	458.2	474.6	487.3	503.8	509.3	525.1	539.2	
GF For Retired Teachers' Pension and Health Care	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	
Pension - Normal Cost	10.3	11.3	11.1	10.4	8.3	**8.3**	**8.6**	**Move to EF**
Pension - Amortized liabilities	53.3	60.5	61.7	62.7	70.6	76.4	83.0	
Health Care - Retired Teachers'	corpus	corpus	8.3	15.6	22.0	27.6	34.0	
Total GF	63.6	71.8	81.1	88.7	101.0	112.3	125.6	
Grand Total	521.8	546.4	568.4	592.4	610.3	637.4	664.8	
IF Normal Cost within Ed Fund	521.8	546.4	568.4	592.4	610.3	**629.0**	**656.2**	

Included in the amounts above are specific, recent increases in support from the GF budget. First a greater share of sales tax up from 33.33% to 35% began in FY14. The GF year end construct, when triggered by surpluses has provided both onetime and ongoing support. In FY12 $4.3m of GF was transferred to the EF for the Community High School of Vermont CHSVT since then the cost of CHSVT has dropped to $3.1m. The summary below shows that in FY18 this extra ongoing support now totals $11.3m. This more than covers the FY18 normal pension cost.

Additional GF support to the EF	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Additional 1.67% Sales Tax	$0.0	$5.9	$6.1	$6.2	$6.4	$6.6	$6.8
Increased GF from GF surpluses							
SFY 13 Yr end GF Surplus		$1.25	$1.25	$1.25	$1.25	$1.25	$1.25
SFY15 Yr end GF Surplus				$1.8	$2.3	$2.3	$2.3
CHSVT - net GF difference	($0.0)	$0.40	$0.52	$0.44	$1.22	$1.14	$1.14
Total	**($0.0)**	**$7.5**	**$7.9**	**$9.7**	**$11.1**	**$11.3**	**$11.5**

Finally, The EF has been held harmless from GF revenue downgrades over this same period. In FY15 the July GF revenue was downgraded by over $31m or -2.0%, and in FY17 July GF revenue was downgraded by $21m or -1.4%. The EF was held harmless from any impact despite its significant share of GF spending, while the impact of this revenue reduction was borne in other state programs and services.

Property Tax impact? Why Now?

The small tax rate impact of this proposal will likely be moderated in the near term by:

1) New lower cost Health Care plans present the opportunity for districts to maintain equivalent value for local school staff and faculty and to lower system costs by up to $28m annualized. Districts may be able to achieve a win-win for both the teachers and the taxpayers.

2) Grand list – After several years of shrinking or roughly even state grand list value, we have had modest positive growth recently with more robust growth projected over the next three years from 2.7% to 4.3%. This means that the consolidation of retirement normal costs with other education salary and benefits can occur with negligible property tax impact.

3) Act 46 provides the opportunity for lower system costs over the long term.

4) Moving the normal cost to the Ed Fund will reduce the risk of future underfunding of the ARC.

GF commitment remains

This proposal does not shift the obligations and pressures of past decisions onto the Ed Fund. The GF budget remains committed to meeting the obligations of:

1) The unfunded liability: the GF is fully funding that portion of the Actuarially Required Contribution or ARC.

  a) FY18 is $76.4 million.

  b) FY20 GF will experience and additional $5m cost to accelerate the amortization of these costs in order to reduce overall out year budget impacts.

2) Retired Teachers; Health Care – FY18 $27.5 GF

  a) GF assumed in FY15 this expense from the retirement trust fund.

  b) First use of GF surpluses reduces the internal loan balance. Additional $3.6m was applied with FY15 GF surplus funds

Other Considerations

When Acts 60/68 passed, the costs of Teachers' Retirement were not included in Education Fund expenditures. This is difficult to re-construct. Some suggest that it was to keep the tax rate at or below $1.10. Others because the ARC had been underfunded for several years and there may have been reluctance to move this liability to this new fund. Others, suggest it was because payment of these benefits got transferred to the State in the late 1940's.