

House Education Committee
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Testimony of Paul A. Cillo, President
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Good afternoon, Mr. Chairman, members of the committee.

My name is Paul Cillo. I'm the president of Public Assets Institute here in Montpelier. We're a nonprofit, nonpartisan, public policy think tank that was established in 2003.

For those of you who don't know about Public Assets Institute, we analyze Vermont fiscal policy—tax, budget, and economic policy— with the average Vermonter in mind. In addition to our general state fiscal policy work, we focus on three issue areas: education finance, health care finance, and family economic security.

We regularly publish reports, fact sheets, and blog posts on our website at publicassets.org. If you're not on our list to receive notices of our new publications and would like to be, please let me know.

Thank you for inviting me to testify today on H.911, the Ways and Means Committee bill. I am addressing the portions of the bill that relate to education funding.

I appreciate that you have a difficult task. I've been deeply involved in education funding for 30 years. It's complicated; not just in Vermont, but everywhere in the country. There are lots of interactive moving parts to the system. For that reason, I've found it's helpful and important to identify the problem you're trying to solve and understand the cause of the problem.

A common complaint about the current system is that few people can understand it. While I believe that most people can grasp the basic concepts and logic behind Act 60 & 68, I do think the current law is more complicated than it needs to be and consequently confusing especially for school officials and school district voters.

I support the goal of the Ways and Means Committee, which was "to simplify the funding process and strengthen the connection between voters and the cost of supporting local schools."

Unfortunately, the bill misses the mark. As I outlined in my March 9 letter to the committee, the bill:

1. Creates an irrational relationship between spending and tax rates.
2. Sets an arbitrary base payment amount each year.
3. Doesn't solve the biggest problems with the existing system
 - a. Income-adjustment lag
 - b. Common Level of Appraisal (CLA)
4. It makes more system changes that may not be permanent.

I would like to go back to a point I made earlier about identifying the problem you're trying to solve. We've heard and read recently about the assertion that low-spending towns are subsidizing high-spending towns under the current system.

This is not the case. No homestead taxes raised in any town are being used to subsidize spending in another town. No town generates enough homestead taxes—that is, the taxes paid by resident homeowners either on the property value of their homes or on their household income—to cover the education spending for its own students. All towns need some of the money generated from non-homestead tax revenue to augment homestead taxes in order to cover the cost of educating their kids. Statewide, only about one-third of the revenue needed to support education spending comes from homestead taxes.

And students from low-spending towns tend to rely the most on the non-homestead revenues from the Education Fund. If you rank students by education spending per pupil and divide them into 10 equal groups, the lowest-spending decile relies on non-homestead tax revenue for about 75 percent of their education spending. Because all towns need to be subsidized by the Education Fund, there are no homestead taxes flowing between towns.

Currently, the non-homestead tax revenue in the Education Fund is used to support the decisions of local voters and school boards, which decide how much is the right amount to spend for the education of their children. How those non-homestead revenues are distributed allows us to have a system where towns with the same education spending per pupil have the same tax rates. And towns that spend more—or less—than other towns have proportionally higher—or lower—tax rates. If Town A spends 10 percent more than Town B, Town A's tax rates are 10 percent higher than Town B's.

What H.911 proposes to do is make a fundamental change in how the non-homestead tax revenue is distributed. The non-homestead funds would be used to subsidize per pupil spending up to about \$13,000—at least in the first year—but none of that money could be used to support spending above \$13,000.

This would be a return to the original Act 60 “sharing pool.” Although this would be more vulnerable to ups and downs than the original because it would have a smaller tax base. The original tax base included homestead and non-residential property of towns in the pool; H.911 only includes homestead property of pool participants.

I understand that redistributing non-homestead revenue would make more money available to towns with relatively low per-pupil spending. But it is likely that voters will interpret this \$13,000 threshold—or whatever the base amount is in the future—as the “right” amount or “adequate” amount to be spending per pupil. And given the diversity of the schools in our state, it's hard to imagine that a single base amount would be adequate for all students.

Before you settle on a fixed amount like this, I would urge you to articulate the problem you are attempting to solve and to gather more information to understand what's causing the problem. If the gap in per-pupil spending in Vermont's schools is the problem, what's the cause? What's behind the low spending? Is it a lack of resources? A lack of commitment to education? Or are they actually able to provide a good education for less money. And it's just as important to understand what's driving the high-spending schools.

There are no easy, dramatic stats. But in our analysis of FY2017 education spending, we found that of the 20 towns that tuitioned all of their students, 8 were in the top 15 percent of per-pupil spending. To be sure, there were low-spenders in that group, too. But the point is, it would be good to understand what's driving the disparity in per-pupil spending before attempting to design a solution.

I'd like to reiterate that regardless of the revision the Legislature makes to the system, if voters cannot understand it, it will not have the desired effect. Voters cannot behave rationally if they cannot understand the system. I think the most important challenge facing the Legislature about school funding in 2018 is how to simplify the system for voters.

Finally, based on decades of thinking about this system, as I said in my letter my conclusion is that the best way to simplify the system for voters, make the system more progressive, and meet the Brigham requirements would be to eliminate the education property tax on primary residences and leave in place an income-based system for residents. In addition to relieving Vermonters of the current problems with school property taxes on homes, such a system would be simpler and easy to understand, would be based on ability to pay, and it would ensure that everyone paid their fair share of educating Vermont's children while continuing to provide all kids equal access to resources.