

VLCT TESTIMONY

89 Main Street, Montpelier, Vermont 05602

To: Members of the House Ways and Means Committee
From: Karen Horn, Director, Public Policy and Advocacy
Date: February 7, 2018
Re: Education Funding

Thank you for giving VLCT the opportunity to testify on the subject of education funding.

As you can see from the attached timeline which former VLCT Executive Director Steve Jeffrey dredged up for me last week (and which has been updated), we have been involved in this discussion for a very long time. A few themes emerge from the 45-year history of VLCT's involvement with property taxes and education funding issues. They include the constantly increasing costs of education, our concern that the 70 percent of the property tax that goes to education funding leaves insufficient municipal taxing capacity for municipal obligations, the long-standing practice of including non-K-12 costs in the education fund, and unfunded or underfunded mandates on school districts and cities and towns. Our primary interest is the effect on the property tax, which is a relatively stable source of revenue and the sole revenue source for most cities, towns and villages. We have long supported moving away from the state education property tax as the major funding source for K-12 education.

The VLCT 2018 Municipal Policy, which was adopted by the membership at the VLCT annual meeting last October and is similar to those of several preceding years, supports:

- 1.01 (1) municipal and school officials, state administration, and the legislature working as equal partners to create a new education finance system that reduces and reforms the property tax burden;
- (2) a legislative assessment to determine if Act 46 has resulted in cost reductions in school district budgets and per-pupil expenditures without affecting educational quality;
- (3) using Education Fund monies only for pre-K-12 education;
- (5) simplifying the education finance system to make it understandable, transparent, and reasonable to implement.

As we understand it, the proposal in the House Ways and Means Committee would:

- reduce the average homestead property tax rate from \$1.594 to \$0.909 by lowering the base homestead property tax from \$1.594 (projected) to \$0.25
- provide a base education payment of \$12,982 per equalized pupil
- lower the homestead property yield to \$4,450 on above-base spending only
- repeal the property tax adjustment, homeowner rebate, income yield and tax rate on household income
- establish a marginal education tax on adjusted gross income
- eliminate the General Fund transfer to the Education Fund (\$322.9 million) and replace with another revenue source, potentially the entire sales tax (\$400.3 million including \$144.1 million currently dedicated to the Education Fund. Net new dollars equal \$256.2 million, which is a \$66 million reduction from the General Fund transfer) or a similar revenue stream
- take adult basic education, corrections education, current use, flexible pathways, renter rebate, reappraisal and listing out of Education Fund obligations
- send separate bills from NEMRC for the education tax.

There are many unknowns about how this proposal, if enacted, would affect education spending or different groups of Vermonters. Currently, no one can say what the impact would be on the school budgets just lodged in advance of town meeting. It is clear that applying a wholesale reworking of the education property tax to FY19 school budgets would be fraught with unintended consequences.

We have a number of additional questions that prevent us from taking a position at this time. We understand that the issue of reducing expenses, measures which must accompany revisions to the current funding mechanism, is being taken up mainly in the House Education Committee. What kinds of cost containment measures will be enacted to synchronize declining student enrollments with school board obligations and increasing property taxes? Has Act 46 been effective in containing costs? Cost containment is particularly important and must accompany a revision of the education funding system if, in the short term, the pressure on the property tax is relieved but the property tax remains the revenue resource most likely to rise fastest if costs continue to escalate. The education property tax will resume its climb again as school budgets increase.

Given that it would be disruptive to apply any new funding system to the FY19 year budgets, what is being done to reduce the current projected \$1.681 billion Education Fund obligation and predicted 7-cent increase in education property taxes in FY19? School and town budgets have been finalized in advance of Town Meeting Day. Thus, we assume that any new Education Fund financing system would not affect FY19 school budget expenses. Non K-12 additions to the Education Fund could be eliminated this session, which would produce a reduction in education property taxes.

If the state is relieved of its statutory obligation to make a contribution from the General Fund, what assurance is there that the legislature will remain committed to funding K – 12 education? (16 VSA § 4025 (a) (2))

The sales tax is a slowly declining revenue source as its base has not been significantly broadened. The income tax is more volatile than the property tax. Again, we are concerned that when those revenue sources decline, it will once again be the property tax that is increased.

What is the impact of the federal tax reform law layered on this proposal to move more toward an income tax based system for education?

How would tax increment financing districts (TIFs) be handled? Those municipalities with TIFs in place will need assurance that their infrastructure improvement financing is somehow protected.

In conclusion, we look forward to seeing the specifics of your proposal and the answers to the questions we have and may well take a position at our next board meeting. We encourage the committee to work with us on technical issues, particularly those dealing with changes to administration of the education property tax. We look forward to active participation in your considerations.

Thank you for the opportunity to testify.