

Testimony of Paul A. Cillo
House Ways and Means Committee
January 16, 2018

Good afternoon Madame Chair, members of the committee. My name is Paul Cillo. I'm the president of Public Assets Institute, a non-profit, non-partisan organization based in Montpelier that focuses on state fiscal and economic policy including education finance. Thank you for giving me the opportunity to talk with you today.

I was asked to discuss some of the education finance reform ideas that the committee is considering and will, based on my understanding of these ideas, give you my thoughts about them.

However, since the committee is considering reforms to the existing education funding system, I'd like to first provide some context for thinking about education funding reform.

There are five key principles that were involved with the development of Act 60 and that have guided many of the changes to the law over the past 20 years and that we use in assessing reform ideas. The five principles are: local control, fairness to students, fairness to taxpayers, simplicity and transparency, taxes based on ability to pay.

You heard from Joyce Manchester recently about the six principles of good tax policy. You'll notice there is a lot of overlap between those principles and these that are focused specifically on Vermont's school funding system. And as Joyce noted, it's a balancing act: you generally cannot get a tax system to perfectly address all of the principles. But it's important to decide which ones are most important.

The second thing I would point out is that the Brigham decision and Act 60 brought a big change to Vermont: all Vermonters are now responsible for the education of all the state's children. Before 1997 Vermont had vast inequalities in education and tax bills from town to town. The quality of a child's education was directly related to the property wealth of the town they lived in.

Under Act 60 and 68, any two towns that vote to spend the same amount per pupil have the same tax rate on primary residences. The system delivers resources to locally controlled schools in a way that's fair to both students and taxpayers.

Now with that context, let me review the reform ideas that I'm aware of as listed by Mark Perrault:

- Replace the current General Fund (GF) transfer with sales tax and other revenue source
I'm not clear on the point of doing this, but it seems that this idea would have certain revenue sources be dedicated to the Education Fund (EF). This would mean that the EF would have to cope with whatever volatility resulted from the dedicated revenue source(s).

The share school spending paid for with non-property tax revenue (GF transfer + dedicated revenue) has declined in the last 10-12 years, which has meant that more of the cost has been shifted onto the property tax. If the Legislature's goal is to reduce reliance on the property tax, reducing the GF contribution will make matters worse.

- Rep. Beck's proposal to change the GF transfer formula from total to per pupil
There is a similar problem here. When the number of students is dropping, this will reduce the GF contribution to the EF, which will shift more cost to the property tax. I would also note that it's generally a bad idea to put in place a policy to address movement of one factor, in this case student count, in one direction. Currently student count is dropping; if it were to start going up, would the Legislature be inclined to increase its GF contribution? I doubt it.

- Rep Beck's proposal to change calculation of homestead tax rates, no adjustment
This is a plan to frontload the base grant and return to the "shark pool" for towns that spend more than the base. Although this plan leaves the split grand list—homestead and non-residential—it's really a step backward. We tried this years ago and didn't like the result mainly because it was too complicated for voters to understand.

- Rep Wright's proposal (spending in excess of per-pupil limit raised on local grand list)
This proposal would likely run afoul of Brigham because property wealthy towns will have an easier time raising the excess spending. (See Peter Griffin's [presentation](#), which explains the equity problems of the Foundation Formula and that Act 60 created the system of equal tax rates for equal spending.)

- Rep Browning's proposal (changes to income tax, education tax, use value appraisal)
I confess I don't understand this proposal and didn't have time to figure it out for today. It seems to suggest that reducing pre-bates, rebates, etc. are costs to the EF. They aren't. If you look at the EF Outlook prepared by JFO, total uses still add up to \$1.6 billion.

- Reps Condon/Young (homestead exemption with income cap)
I'm not sure exactly how this would work. But you create problems for town clerks with homestead exemptions that are connected to income. And you run into equity problems if homestead exemptions don't have income tests. The point of income sensitivity is to create an education funding system that is tied to ability to pay and it does a better job than a homestead exemption.

- Rep Baser's proposal (income tax credit in lieu of adjustment)
I couldn't find details on this, but this would seem to put us back into issuing rebates. People would pay their property taxes and sometime later claim a credit about their income taxes? We tried this and moved on to something better.

- Rep Sharpe's proposal (income tax)
If this is a proposal to eliminate the school property tax on primary residences and leave in place the income tax that we already have, we think this is the best option.

- Education tax as a percentage of homestead value
This is a property tax. How does it relate to ability to pay? It seems to assume that property wealth is a good measure of ability to pay and we know that it isn't.

I'd be happy to answer any questions.