

## Testimony of Allen Gilbert on House Ways & Means Education Funding Proposal

The bill you are proposing argues against itself. Its goal is to move to a straight income tax for funding a state block grant -- but then it turns back to the property tax for funding above-block spending. Homeowners' income won't matter for this second-tier tax.

I urge you to build on the reform promise of the bill. Move all residential taxpayers to a system where all school taxes are based only on income. That would create a more equitable school tax system, and likely raise more school revenue.

This should not be hard to do. Vermont already has a school tax system that's 70 percent income-based. That's the percentage of Vermonters who currently have their school tax bills adjusted to reflect their incomes. The remaining 30 percent of Vermonters pay based on their property.

The proposal's "above block" funding mechanism is supposed to act as a financial cudgel to tamp down school spending. Turning a major portion of education revenue that has been coming from income-adjusted dollars to straight property-based dollars introduces a new question of taxpayer fairness. I also question the fairness of punishing taxpayers when certain expenses may be beyond their school's control.

Over time, as any of a number of other education funding schemes have shown, there will be more and more reliance on this above-block portion of school funding to make ends meet. Because the property tax is regressive, the burden for paying these higher above-block amounts will not be spread fairly – as it would be through a straight income tax or an income-sensitive tax system.

There is another downside to having two pools of money. The formula will be difficult to explain. It would be much better to have one system that uses one form of tax.

The education reform legislation passed after the *Brigham* decision addressed two issues – student fairness and taxpayer fairness. The distribution of school funds was made equal – a penny on the tax rate raises the same amount of money per

student in all towns. That is the student equity that *Brigham* demands. No one has disagreed, then or now, with that requirement.

The taxpayer fairness issue is what has twisted us in knots. That has been true for a very long time, going back to the administration of Gov. Dillingham in 1890 when Vermont enacted its first statewide school property tax (it was repealed in 1931). Gov. Ernest Gibson Sr. told legislators in 1947 that one of the greatest problems facing the state's education system was "distributing the costs as equally as possible among the towns and school districts of the State."

We stumbled through a succession of formulas during the 1960s, 70s, 80s, and 90s – Morse, Miller-Giuliani, and Foundation. None was satisfactory. Their failure led to the *Brigham* lawsuit and Act 60. With its subsequent tweaks, Act 60 has served us well for 20 years. But, as before, pressure on state spending, and a perception that taxpayers aren't being treated fairly, have led to calls for reform.

The elimination of income-sensitivity would be a major policy shift. We would move from 20 years of an important chunk of taxpayer equity to a new dose of regressive inequity. This is a very important issue we can't lose sight of. We cannot ignore the widening inequality, particularly income inequality, in this state as well as the rest of the country.

This bill is described as a major reform that will be fairer to taxpayers. It is, I feel, the opposite. It chips away at the current, admittedly clunky, system of paying school taxes based on income. The current system isn't broken – it just isn't designed and implemented in an elegant way. I urge you to focus on that problem. Do not decrease taxpayer equity. Base school funding on the income tax.