The Governor's Proposal - Education - Issues for discussion DRAFT
JFO initial review 5/08, 12:30PM

Overview

The Governors Education Proposal uses one time funds for ongoing expenses. It also assumes sustained low spending and substantial cost reductions to achieve savings and balance the fund. These assumptions are questionable. There are minimal incentives or requirements for this to occur.

We received a five year outlook from the administration on May 7 which contains some major technical errors and other characteristics which reduce savings between $100 -$160 million. These include double counting special ed savings, overstating health care savings, and not filling reserves.

1. **Uses one-time general fund revenue to avoid the statutory increase in education tax rates in FY19. The proposal considers $58 million) to be a loan to be paid back to the GF FY21-24.**
    a. **There will be an additional need for another $10-$40 million one-time money in FY20.** The amount needed will depend on the reality of the projected savings. This will show up as an unfunded stabilization reserve in FY20
    b. **The general fund revenues have other alternative uses that would also help VT taxpayers**. These including: reducing pension fund obligations, meeting current Medicaid obligations, addressing other liabilities, and shoring up general fund reserves
    c. **The proposed general fund payback is theoretical at best.** Have not seen language requiring the pay back nor language ensuring the funds exist to make it happen

2. **Savings are critical to this proposal, but are built on assumptions with little to make them likely or achievable**
    a. **Assumes major savings beginning in FY20**
        - with little opportunity for implementation of any changes to bring about those savings

    b. **Levels education tax rates for five years**
        - Leveling education tax rates reduces a key control on spending as increased spending does not directly impact tax rates.
        - Voter resistance to higher education tax rates is the key signal available to school boards under current law that spending needs to be reduced.
        - Barring new controls, statewide education spending may actually increase once districts understand that average homestead tax rates will remain flat and that any shortfall in future years will be covered with other sources of revenue

c. **Assumes that the staff/pupil ratio would increase from 5.15 to 5.74 by FY24 with no mechanisms – (biggest portion of savings and critical to plan)**
   - There are no mechanisms in place to require or incentivize districts to eliminate staff.
   - Assumes immediate FY20 savings of $46 million
   - Assumed savings may be duplicative of other savings assumed in the proposal (eg excess spending penalty and special education)
   - Savings estimates are built assuming 76,000 students. 60% of the savings come from reduced paraprofessionals and 40% from other staff reductions. Depending on how this proposal is constructed, as actual students continue to decline staff reductions to achieve those ratios could be higher creating more pressure on districts. Or the ratio needed to achieve the savings could be 5.5%

d. **Assumes Teachers' health insurance savings – likely there will be increased costs instead**
   - JFO's analysis of H.858 indicates that the Governor's assumed savings from moving to statewide bargaining for public education are unlikely.
   - JFO estimates that H.858 costs for professional staff health insurance is approximately $10 million higher than current plans.

e. **The Special Education Savings – Some savings may be achieved through H.897 but not as quickly as counted**
   - H.897 replaces current-law reimbursement with census-based aid and encourage districts to adopt best practices; however, if districts are unwilling or unable to reduce special education spending these "savings" will show up as higher education spending.
   - There are two new positions authorized for AOE to help districts adopt best practices and there is also some federal funds available for this purpose.
   - If flat payments do not cover costs, additional costs would migrate into base budget
   - Unlikely to achieve savings in FY20

3. Other

a. **Savings from splitting homesteads into two classes raises legal concerns**
   - Assumes savings start in FY19.

b. **Savings from lowering excess spending threshold**
   - May double count savings from increasing staff ratio

c. **Increased property tax bills**
   - Many Vermonters $90,000-147,000 income will pay increased taxes