

Testimony of Paul A. Cillo
Senate Education Committee
January 19, 2018

Good afternoon Mister Chairman, 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 history of Act 60 & 68, specifically how the hybrid income/property tax came about, and thoughts about moving to an income-based school tax in Vermont at this point. As you may know, I was a member of Vermont House in 1997, and as majority leader and chair of the House-Senate conference committee shepherded H.527 through the legislative process until it was signed by Gov. Howard Dean on June 26 of that year and became Act 60.

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 in general.

First, there are five key principles that were involved with the development of Act 60 that have guided many of the changes to the law over the past 20 years and that guide Public Assets' assessment of reform ideas. The five principles are: local control, fairness to students, fairness to taxpayers, simplicity and transparency for citizens, taxes based on ability to pay.

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.

Many states still struggle to solve this problem of rich town versus poor town and unequal access to educational resources. Vermont deserves a lot of credit for what it has achieved in making education resources available to children throughout the state. There is still work to be done. We recognize now, for example, that some students require more resources than others. But however much Vermonters decide to spend on education, we have a system that fairly distributes across the state the responsibility for raising that money.

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

With that context, I'll discuss the history of the hybrid income/property tax component of the law.

H.527, which passed the House on March 20, 1997, separated the nonresidential and homestead grand lists and levied an equalized local income tax that varied from town to town based on per-pupil spending voted in each town. The administration at the time opposed the idea of a local income tax for education and the Senate removed that provision, staying with income-based rebates for households with incomes of \$47,000 or less.

The House was committed to the idea of an income-based school tax for all Vermonters and would not accept a bill that eliminated that provision and simply provided a rebate for low-income Vermonters. To break the logjam in conference committee, the House proposed to give Vermont homeowners the option of paying their school taxes based on property or on income. In the end, this was acceptable to the Senate and the administration, so it was enacted.

Part of the negotiation was about who would be eligible for the income option. The House wanted all homeowners to be eligible, the Senate wanted to limit those who were eligible. We settled on household income of \$75,000 as the threshold for eligibility. Households with income below this level could opt to pay based on income. That \$75,000 would be over \$115,000 in today's dollars.

There was also negotiation about the level of the local income tax. The data on income and property taxes at the time showed that filers with incomes over about \$80,000 or \$90,000 were paying, on average, 2 percent or less in school property taxes. The goal was to try to get everybody else down to about 2 percent so we established 2 percent as the base amount which corresponded with \$1.10 on property. Both the 2 percent of income and the \$1.10 on property went up as spending per pupil exceeded the base grant per pupil. Under Act 60, these rates applied to all property. It wasn't until Act 68 was passed in 2003 that the state split the grand list into homestead and nonresidential property

The hybrid structure was a political compromise that made the system more complicated than it would be if it were simply based on income. Vermont began to recognize in the 1970s that income was a better measure of ability to pay than property value when the Legislature enacted the first property tax rebate, initially for those 65 and older. Since then state policy has been moving more and more in this direction. Act 60 was the latest move in the direction of paying for schools based on income, but it is still cumbersome for taxpayers.

An income tax with rates set for each town based on spending per pupil would allow Vermont to maintain locally controlled schools and taxes for all Vermonters based on their ability to pay. Under this system, Vermonters would pay no school property tax on their primary residence and up to two acres of adjacent property. Renters would be rebated or credited with the total amount of the portion of their rent attributable to the school property tax.

It would be an easy step to end the hybrid homestead system, do away with the property tax on primary residences, and simply say all Vermont residents will pay the income-based homestead rate for their town—the income rate that's determined, as it is now, by education spending per pupil.

There are benefits to eliminating the residential school property tax:

- It makes the system fairer when school taxes are tied to ability to pay.
- It eliminates confusion, especially over the Common Level of Appraisal—at least with regard to residential school taxes. As we're seeing in Burlington this year, for example, 40 percent of the projected school tax increase is due to increased property values and lowering of the CLA.
- It simplifies the system: no more caps or limits on the income adjustment. Everybody simply pays the school income rate.

Simplifying the system so that it is readily understandable to voters acting on their school budget each year would make for better overall decisions and less misunderstanding about tax consequences for voters' spending decisions. We think this would be a move in the right direction. I'd be happy to answer any questions.