

# VERMONT



## SCHOOL BOARDS ASSOCIATION

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*Great Governance, Excellent Education, Strong Communities*

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To: Senate Finance Committee  
From: Nicole L. Mace, Executive Director  
Re: H. 911  
Date: April 20, 2018

Thank you for the opportunity to weigh in as the Committee considers H.911.

Since the conclusion of the 2018 legislative session, our Associations have expressed an interest in working collaboratively with our members, the General Assembly and the Governor to take responsible steps to address FY 2019 fiscal concerns while preserving a strong public education system. In October, our members adopted a slate of resolutions on cost-containment, which are as follows:

**COST CONTAINMENT** - The VSBA offers the following recommendations to respond to concerns about costs while maintaining education quality:

- *Statewide health insurance benefit for school employees*
- *Create a task force to establish target equalized pupil/teacher/support staff ratios*
- *Study of state-funded retirement buy-out that conditions rehires on achieving ratios*
- *Establish standards for fact-finders in the collective bargaining process*

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In November, Governor Scott issued a letter to education leaders outlining his view of the challenges facing the state's education fund this budget cycle. The Governor asked for school districts to hold FY 2019 growth in spending per equalized pupil to no more than 2.5%.

On December 1, the Commissioner of Taxes issued the statutorily required letter announcing the non-residential tax rate and the income and property dollar yields for FY2019. The Tax Commissioner predicted a 9.4 cent increase in the average homestead property tax rate. While the letter acknowledged a deficit in the education fund for FY2019, it emphasized that the majority of

the tax rate increase is due to school budgets and education spending at the local level.

School boards responded to the state's call for fiscal restraint. FY 2019 board-approved budgets increased education spending per equalized pupil by less than 1%. Overall education spending growth is at 1.73%. This is an extraordinary accomplishment and one not replicated in state government.

Unfortunately, although budget growth is lower than the Governor's targets, statewide property tax rates are still expected to increase by roughly 5 cents in FY 2019. This is due to state policy decisions, including the use of one-time money and shifting teachers' retirement payments to the Education Fund. Even if education spending was level in FY 2019, we would still see a tax rate increase of between 3.5-4.5 cents.

School boards presented FY 2019 budgets to communities in the context of current law – which included an average tax increase of 5 cents – and 97% of school budgets were approved.

With respect to H.911, it is not clear what problem is solved by making these changes. It is not apparent that the proposal will respond to concerns about K-12 education costs – to the contrary, this bill could increase education spending in districts that have average per-pupil spending. These districts tend to be larger – Burlington, Rutland, Winooski, Brattleboro – and increases in spending in those districts could have a significant impact on the Education Fund over time.

Cost containment applied to high spending districts – which tend to be small, rural districts – will not lead to lower K-12 costs statewide. Many of our high spending districts pay tuition because they do not operate all grades, which makes the notion of cost-containment on those districts extremely problematic. We risk further eroding programming in some of our more vulnerable communities, while having little meaningful impact on Education Fund uses.

**If cost containment policies are going to have an impact on overall education spending growth, they need to apply to all districts, not just the handful of districts at the high end of education spending per pupil.**

The problem being solved here appears to be a political one. The Governor has called upon the General Assembly to take action to ensure there are no statewide property tax rate increases for FY 2019. H.911 provides a path for the General Assembly to raise revenue from an income tax surcharge and lower statewide property tax rates. To some, this may be an elegant solution to a thorny political problem. But the VSBA fears that H.911 could create significant unintended consequences that will result in the need to rewrite the education funding formula again in a few years.

The VSBA board has the following specific concerns about H.911:

- **Timing:** We have serious concerns that it would apply to FY 2019 budgets. Our Association is asking the General Assembly to acknowledge the work of school boards and administrators – who clearly have the support of their communities – and take no action to affect the education funding formula or school district budgets for FY 2019.
- **Clarity:** Early in the session, lawmakers had a goal of simplifying the funding formula and making it easier for voters to understand the connection between budgets and tax rates. This proposal makes that connection more difficult to see, since the income tax surcharge has no relation to education spending in a district. Terms such as base spending amount are similarly confusing as is the application of the yield.
- **5% Incentives:** Since Act 46 passed in 2015, Vermont's school board members have risen to the challenges posed by declining enrollment, rising costs, leadership turnover, and growing inequity in student opportunity, and have charted a positive course forward for public education in Vermont. It has taken hundreds of hours of work on the part of boards and administrators. This work included building trust that changing governance is in the best interests of the students and communities. Changing the incentives available to districts now places school boards in the untenable position of explaining to their communities that some of the benefits of consolidation they described are no longer available. This erodes trust in the entire process and could jeopardize Act 46's final phase of implementation.
- **Teachers' Retirement:** This type of change requires far more deliberation and analysis than it has received to date. The proposal

takes the policy adopted by the General Assembly last year one step further and requires school district budgets to reflect the cost of teachers' retirement. It is not clear how this proposal interacts with the requirement that districts pay \$1,000 per new hire, nor is it clear how the state will assign responsibility to specific districts. We strongly oppose this proposal. To make school districts responsible for the cost of a benefit they had no role in creating or managing is unacceptable.

Features of H.911 that the VSBA board supports include:

- **New Revenue Sources:** The VSBA supports the inclusion of alternative funding sources for our education system that are more equitable and sustainable, rather than continue a system that predominantly relies on the property tax for revenue. Although we have a statewide property tax system, when we compare ourselves to our New England neighbors and the U.S., Vermont is more reliant on homestead and non-residential property tax revenue to fund education.
- **Transfer of Certain Uses to the General Fund:** The VSBA opposes any diversion of funds raised through the statewide property tax to programs not within the jurisdiction of public school districts or supervisory unions. We support the transfer of the costs of adult education, flexible pathways, community high school of VT and the renter rebate program to the General Fund.

Vermont's education funding formula has not been substantially modified in over a decade. Our association is not opposed to adjusting the education funding formula. However, we believe that adjustments to the formula ought to reflect a commitment to equity and fairness, be coupled with long-term cost-containment provisions, and have an implementation schedule that respects the local budget making process.