

TO: House Ways and Means Committee

FROM: Vermont School Boards Association
Vermont Superintendents Association

RE: Cost Drivers in School District Budgets/Strategies for FY2025 and Beyond

DATE: February 29, 2024

Thank you for inviting the VSBA and VSA to testify on education finance issues. We've been asked to cover four areas:

- (1) how to set the yield this year,
- (2) long-term reforms starting in fiscal year 2026 that would need to be passed this year,
- (3) long-term reforms in spending and taxation that could be passed next year and
- (4) changes to education spending to make it more efficient and effective.

We consider the topics of today's testimony to be critically important to the future of public education in Vermont. VSBA and VSA offer joint testimony today as many of our recommendations are overlapping. We will indicate in the testimony any places where a particular recommendation has not been properly vetted by one of the organizations.

Last week, VSBA and VSA testified separately in the House Education Committee on similar questions. That testimony is available to your Committee. We discussed the most significant education cost drivers and accompanying recommendations that we identified in collaboration with the Vermont Principals' Association and the Vermont Association of School Business Officials. We did not include inflation in the list (although it is a significant cost driver in school district budgets this year) because our national economy is largely outside of the control of any one state.

Setting the Yield This Year

Per the Committee's request, we'll start by providing our thoughts on setting the yield this year, including any actions you could take that would immediately affect fiscal year 2025. In [previous testimony to this committee](#), the presidents of our associations asked you to do all that you can to set the yield as high as possible - in a manner that reduces, rather than exacerbates the property tax challenges. This will necessitate finding

additional non-property tax revenues for FY2025. Their testimony made a compelling case for increased revenues to offset property taxes this year.

We appreciate your committee's work this week looking at the cloud tax as a possible source of new revenue for the education fund, and we offer the following additional ideas:

1. Universal Meals - When the Legislature made the Universal Meals Program permanent in [Act 64 of 2023](#), our Associations advocated for funding the program through the General Fund. We believe that the General Fund should support this type of expense. The cost of this program is estimated to be 26.5 million dollars. If it is to remain part of the Education Fund, please consider creating a dedicated source of funds that is not the property tax to support the program (for example the meals and rooms tax or taxes on sugary beverages and candy). Currently, the Universal Meals Program is contributing to a lower yield in the Education Fund and higher property taxes.
2. Along the same lines, the Legislature created a PCB program for schools, using the Education Fund to start the program, without a plan for funding the program. Whether completion of the program comes off the top of the Education Fund or is left to individual school district budgets, it will be a significant burden for property taxpayers. We recommend pausing the PCB testing program until such time as it can be fully wrapped into a school construction aid program. PCB remediation and other environmental program requirements should be integrated with the capital investment in school facilities in order to use taxpayer dollars efficiently and wisely. Even with an immediate halt to the program, school districts that have already been tested in the program should not be responsible for any additional testing or remediation costs in accordance with Act 78 of 2023. In addition, the funding must not be derived through the property tax.

The above actions, in addition to any adjustments that school boards make to district budgets, could help to increase the yield.

Regarding timing, the General Assembly should set the yield as soon as practicably possible. Many school district budget votes will happen next Tuesday. As soon as the Legislature returns to Montpelier the following week, we will have information for you about the passage rate of those budgets and how many budget votes remain. We hope the Agency of Education will be able to conduct a data collection so that you will have updated information on education spending based on the budget votes. With the best information it has available at the time, the House could set the yield sometime in the

two weeks following the Town Meeting Day break. This would send a signal to those districts with failed budgets about the direction of the yield.

As always, it's possible the Senate will adjust the yield based on updated information it receives later in the process. This year, more than ever, please be aware that board members and superintendents are watching your meetings, reviewing the Education Fund Outlooks you receive, and making decisions based on that information even though it is preliminary information.

Long-Term Reforms Starting in Fiscal Year 2026 That Need To Be Passed This Year

1. Healthcare Costs: Discussion around teacher healthcare costs and the dramatic increases over the last few years has typically been framed by the notion that this is a systemic healthcare issue and until that problem is solved there's nothing we can do about these rising healthcare costs.

That sentiment is only partially correct. There are aspects of the bargaining framework that were put in place that have contributed to year-over-year double-digit growth, and those are things that you can absolutely change in legislation this session. And they need to change this session in order to affect future years because the bargaining process begins again in April.

Approximately 80% of school district budgets are salaries and benefits. Health benefits, in particular, are a significant cost driver in school district budgets. The move to high deductible plans as well as the move to statewide collective bargaining was supposed to slow the rate of growth in the cost of these benefits. That did not happen, and the most recent increase is 16.4%.

The current level of HRA funding - which was determined through the statewide bargaining process - combined with the plan design means the health plans provided to public school employees by VEHI have actuarial values of between 92% and 98%. Described another way, public school employees are responsible for between 2% and 8% of their claim costs. The lion's share of the balance - over 90% - is paid for by taxpayers. Health plans are typically categorized in the industry by metallic levels. The VEHI health plans, with actuarial values over 92%, are considered Platinum Plans.

The statewide negotiations process, as currently structured, has not been successful in slowing the rate of growth of the cost of school employees' health benefits. Sue Ceglowski gave the House Education Committee testimony on the

existing negotiation process [on January 4, 2024](#). These are some of the proposals for changes to that process:

- In 2021 two competing bills for changes to the negotiations process came before the legislature for consideration. The VSBA supported [H.63 of 2021](#) which was not enacted. The Legislature enacted H.81 of 2021 which the Vermont-NEA championed. The proposals below originated in H.63 of 2021 and remain as needed changes to the negotiations process which begins again in April of this year.
 - *During arbitration, require each side to submit a full-cost estimate for the full term of the proposal with a breakdown of costs borne by employers and costs borne by employees on a statewide basis.* The language in current law (16 V.S.A. Section 2105(b)(3)(A)) does not require submission of this information on a statewide basis.
 - *Require the arbitrator or arbitrators to determine which of the two submissions most appropriately balances access to health care benefits and reasonable cost containment to ensure the financial sustainability of the plan.* The language in current law (16 V.S.A. Section 2105(b)(3)(B)) does not require the arbitrators to conduct this balancing analysis to ensure the financial stability of the plan.
 - *Require the arbitrator or arbitrators to give weight to the actuarial value of the health benefits for the full term of the award proposed by each party as compared to health plans available through Vermont Health Connect.* The language in current law (16 V.S.A. Section 2105(b)(3)(B)(i)-(v)) does not require the arbitrators to give weight to the actuarial value of the health benefits.
 - *Require the arbitrator or arbitrators to give weight to the percentage increase or decrease in education spending that is likely to occur under either party's proposal for the full term of the award compared to overall economic growth for the State of Vermont.* The language in current law (16 V.S.A. Section 2105(b)(3)(B)(i)-(v)) does not require the arbitrators to give weight to the percentage increase or decrease in education spending that is likely to occur as compared to the overall economic growth for the State of Vermont.
 - *Require the arbitrator's decision to include the full cost estimates for the full term of the award for each of the last best offers submitted by the parties, including a breakdown of costs borne by employers and costs borne by employees on a statewide basis.* The language in current law (16 V.S.A. Section 2105(b)(4)) does not contain this requirement.

- In addition to those suggested changes we also want to provide support to ideas presented by [The Employer Commissioners to the House Education Committee in January 2024](#).
 - We should restructure the bargaining Commission to create an engaged broader group of stakeholders who are interested in the outcome of these negotiations and who will work together toward sustainable, high-quality healthcare coverage and overall wellness for our public school employees at a cost affordable to our tax-paying public.
 - Alter the composition of the Commission to include more neutral voices, especially those with experience in healthcare. The Legislature has delegated authority to the VSBA and the VT-NEA to select commissioners. The Legislature could add other organizations to the process to achieve a more collaborative agreement rather than an arbitration award. The addition of neutral members to the Commission creates an incentive for the employer and employee commissioners to engage in meaningful deliberations and brings additional expertise to the table.
 - Allow the arbitration panel to create an award based on mixing and matching the two proposals presented as well as introducing any original thoughts the panel finds reasonable based on the evidence presented in the fact-finder’s report and during the arbitration hearings. The current law requires that the arbitrator select either the employee’s final offer or the employer’s final offer. This current “winner takes all” model impedes both sides from proposing meaningful changes for fear of losing everything.
 - Expand the Commission’s focus to include a collective response to the unsustainable growth in healthcare costs.
 - Since the creation of the Commission, premiums for the most popular healthcare plan, the Family Gold CDHP, have increased by 110%. The Consumer Price Index has risen by only 35% during that same period. The skyrocketing cost of healthcare benefits is unsustainable.
 - a. The total annual premium cost of the Family Gold CDHP in FY18 was \$17,394. In the following years, premiums have increased at an average annual rate of 11.2%. In FY25, the premiums for this same healthcare plan will cost \$36,548. At the current level of growth, the Family Gold CDHP in FY30 will rise to \$62,142 – a 257% increase in just 12 years. FY31’s

premium will be just shy of \$70,000. These numbers do not include HRAs, HSAs, or out-of-pocket payments for healthcare services.

2. Create an education finance joint oversight board composed of legislators, administration officials, and local school officials to provide year-round (ongoing) oversight of the administration of Education Fund dollars to ensure strong administration, management, and utilization of the Fund and any federal funds managed by the Agency of Education.

Long-Term Reforms in Spending and Taxation that Could Be Passed This Year Or Next Year

1. Mental Health Needs: The mental health needs of youth are growing. Mental health supports are critical for students to access their education. There is a decrease in the capacity of mental health organizations to keep up with the growing needs in schools. As a result, school districts have understandably responded by directly hiring limited mental health professionals when available, further exacerbating staffing levels at the designated agencies, and only benefiting those school districts who are able to hire them.

School administrators report the growing complexity and intensity of student needs. The ultimate goal of school districts in Vermont is inclusion. However, in some circumstances, students need alternative education placements. Currently, there are waitlists for students to get into these programs and for students who are able to be placed in or out of state, the cost for those programs has risen. Students who are on waitlists are supported by schools to the best of their ability, frequently requiring significant resources. Some school districts are building alternative programs in their school districts to address this critical need.

In some cases, ESSER funds supported programs and personnel designed to address increasing mental health needs during the pandemic. As the ESSER funds sunset, the needs of students persist. School districts had to make difficult decisions this year on whether to absorb these vital positions into their local budgets.

Mental health services are just one category of wraparound services that schools provide, which impact local education spending. Some school districts provide dental, medical clinics, and adult learning programs, to name a few. They provide breakfast and lunch, after-school programs, and summer learning opportunities.

Schools provide so much more than education during the hours of 8 and 3. As our state's broader needs grow, schools often step in to address those needs. All of these programs, while incredibly important, have costs.

To address the increasing costs associated with mental health needs and other wraparound services, we have the following recommendations:

- Determine the cost of mental health services and other wraparound services in schools and assign those costs and assign these costs to an alternative funding mechanism.
 - Examine and help to ameliorate the capacity challenges within mental health partners.
 - Ensure the use of federal dollars to support mental health needs and wraparound services are taken full advantage of (e.g. Medicaid).
 - H.630 - An act relating to boards of cooperative education services is an important policy step that can help with collaborative efforts to address alternative education placement needs. We ask that you support this bill from the Education Committee.
2. A Statewide Teacher Contract - Respondents mentioned a statewide teacher contract in a survey issued to VSA superintendents. We recognize that like with healthcare costs, this might not result in cost containment. However, we would be remiss not to mention it on the basis of potential equity considerations. VSBA has not developed a position on this topic.
 3. Attrition Mechanisms - The VSBA has a longstanding resolution recommending the creation of a stakeholder task force to explore the advantages and disadvantages of establishing a state-funded initiative in support of early or “on-time” retirement. Two conditions of a district’s participation in the initiative would be a commitment to reducing total personnel through the retirement program and sustaining these savings through future budgeting processes.
 4. Instruction at Scale - Class size and student-to-staff ratios are often considered in cost containment strategies but can be both nuanced and politically controversial (see [Report on Student-to-Staff Ratios](#) from a task force required by [Act 11 of the Special Session of 2018](#) for background on a prior legislative look at staff-to-student ratios). In her [testimony to House Education](#) yesterday, Superintendent Meagan Roy said the following, “I don’t think it’s hyperbole to say that we’re in an intractable financial challenge in education - but I think we will not move this conversation forward until and unless we ground those discussions in

what is good for students.” Superintendent Roy goes on to shift questions about class size and student-to-staff ratios from cost containment to quality instruction highlighting three primary categories – class sizes for quality instruction, expanded offerings at scale, and the need for trusted leadership and vision.

Why focus on class size rather than staff-to-student ratios? Increasing the staff-to-student ratios through policy mechanisms may disproportionately impact support personnel, such as mental health professionals and interventionists. We recommend looking at minimum class size because, as Superintendent Roy states in her testimony, “a look in this area shifts the focus to ensuring quality instructional experiences for students - something that can be negatively impacted by very small class sizes.”

It is important to note that the Education Quality Standards (Rule Series 2000) currently has some language to address optimum class size.

Section 2121.2 of EQS: "Classes in grades K-3, when taken together, shall average fewer than 20 students per teacher. In grades 4-12, when taken together, classes shall average fewer than 25 students per teacher. The total class roll of a teacher shall not exceed 100 students, except where the specific nature of the teacher's assignment (such as in certain art, music, or physical education programs) is plainly adaptable to the teaching of greater numbers of students while meeting the educational goals of the program. School boards must establish optimum class size policies as consistent with statutory guidance from the Agency of Education. Class size must comply with state and federal safety requirements."

The General Assembly could both examine how this particular Section of the Rules is implemented across the state and whether additional statutory changes are needed.

Superintendent Roy’s testimony goes on to address very small schools stating, “Very small schools make it difficult to offer the robust and quality education we know we want for Vermont students. When you don’t have scale, it limits what we can provide in terms of art, music, world language technology, etc. This is not just true for high schools - it is true for elementary schools. If you only have one or two students interested in band or chorus, you don’t have band or chorus. This is about changing the conversation about cost containment from one about reduction to one of expansion. What could we provide for students if we had scale? What can’t we do now in our very small schools?”

5. Central Offices - The Legislature contributes to significant reporting and training requirements for school districts. Those requirements grow each year. Proposed legislation contemplated this year would add to these. Central offices grow as a function of needing to meet these requirements and to the best of their ability to prevent more responsibility from being placed on building leaders and teachers. We ask that you take inventory of these requirements and determine what is most useful for the education, safety, and wellness of Vermont's students.

6. School Facilities - The House Education Committee has received detailed testimony from Jill Briggs Campbell and Bob Donahue on the condition of school facilities, the School Construction Aid Task Force Report, and the recommendations of the Task Force. Beyond safety, the modernization of our school buildings is critical to improving high-quality learning experiences for Vermont's students and attracting families to the state. Use state policy arising from the facilities condition analysis and school construction aid report to optimize investment in "newer and fewer" school buildings.

To begin addressing the most critical needs identified in the report and to take pressure off of school budgets, consider establishing a school facilities emergency grant fund with a minimum of 30 million dollars allocated and with the fund taking applications beginning on July 1. Such a grant program could address immediate capital needs and provide support to school districts in a manner that doesn't create property tax implications for the Education Fund or transfer that burden to other school districts.

7. Special Education Costs - In 2018, the Legislature passed Act 173 which changed special education funding based on studies of education funding and practice. Act 173 moved Vermont from a reimbursement model of funding special education to a census-based funding model. Act 173 cited the following limitations of the former reimbursement model: (1) it is administratively costly for the State and localities; (2) it is misaligned with policy priorities, particularly with regard to the delivery of a multitiered system of supports and positive behavioral interventions and supports; (3) it creates misplaced incentives for student identification, categorization, and placement; (4) it discourages cost containment; and (5) it is unpredictable and lacks transparency.

In addition to changing the funding model for special education, Act 173 changed the model for delivering services to struggling students based on the [DMG Report](#). Implementing these best practices was to happen before or in alignment

with the change in funding structure for the law to realize its intended benefits. A support mechanism, with accompanying funding to the Agency of Education, was meant to support the field in the implementation of these best practices. We believe this support has largely gone unmet.

Rule changes were also prescribed in the law, which were meant to provide greater flexibility in spending. Many practitioners would argue that this has not happened.

While Act 173 changed the funding model for public schools, private schools receiving public tuition continue to receive reimbursement for special education which is paid through school district budgets.

As stated in [the report from Nicole Lee](#) to your Committee on February 27, special education costs have gone up. A closer look at the reason for that increase, including the implementation of Act 173 for both the instructional and funding changes. Please bear in mind that some of this increase is likely related to the information we shared regarding mental health needs.

Changes to Education Funding to Make It More Efficient and Effective:

We are at a critical juncture for public education in Vermont. Impactful changes to education funding to make it more efficient and effective will not happen without state level leadership. We make the following recommendations:

1. Focus on shifts to the education funding system that increase transparency.
2. Consider whether a property tax system is the most equitable way to fund education in the context of whether property value is an appropriate proxy for the ability to pay.
3. Decouple the non-homestead property tax category so that more nuanced policy levers are available to the Legislature.
4. The General Assembly must lead by bringing Vermont's town tuition program into compliance with the U.S. Supreme Court's ruling in the Carson v. Makin without violating the Compelled Support Clause in Article III of Chapter I of the Vermont Constitution. Accountability for the use of public dollars matters not only to make a difference here in Vermont but to set an example for the country.
5. Establish a commission on the future funding and organization of Vermont's education delivery system. The commission should be composed of state and local officials, with a majority of members selected by the VSBA, VSA, VPA, VASBO, and Vermont-NEA.

6. Sufficiently fund and staff the Agency of Education in order to provide support schools need in the most effective manner possible.
7. The General Assembly must advocate for the immediate appointment of a Secretary of Education who is experienced, competent, and pro-public education.

Thank you for providing us with the time to highlight ideas for FY25 and beyond. VSBA and VSA are committed to working with you on these important issues.