

TESTIMONY PROVIDED TO: House Ways and Means, Senate Finance, House Education and Senate Education.

FROM: Mark Tucker, Superintendent, Caledonia Central Supervisory Union

TOPIC: Act 127

Date: January 25, 2024

I am Mark Tucker, Superintendent for Caledonia Central SU. Thank you for the opportunity to speak to you today regarding how the Act 127 implementation has impacted the districts I serve in CCSU in this, the first budget year under the new pupil-weighting formula.

Much of the attention is being paid to Districts that read Section 7 of Act 127 as an opportunity to increase their education spending upward to just below the 10% Per-Pupil Ed Spending increase level to avail themselves of a 5% cap on their pre-CLA tax increase. This form of Ed Fund *arbitrage* results in a greater draw against the Ed Fund, without a proportional increase in the Homestead Tax Rate for those districts. Every example I heard was connected in some way to funding long-delayed infrastructure needs. This was not the intent of Section 7, and ironically, and anecdotally, this use of Section 7 may actually have the effect of increasing funding inequities that Act 127 was meant to address.

As our understanding of the implications of the Section 7 caps has evolved, I have heard some of the same lamentations you hear about districts “gaming” the system. I don’t like that term – gaming – because it suggests nefarious intentions that I do not think fairly apply to any of my colleagues or the Boards that they serve.

My purpose in testifying today is to point out – without judgment of others – that not all of the school districts in Vermont have used Section 7 to add spending to their budgets, and to ask that in addressing your concerns over the spending cap loophole, you not penalize those of us who saw the 10% PPES increase limit as encouragement to *lower* spending. I offer the following from our experience in CCSU.

Overly optimistic hopes from the summer that improved pupil-weighting would bring in additional revenue that we could use for our students and for building maintenance were largely dashed by the effects of inflation on our local district budgets. As I look at the year-to-year comparisons in my five district budgets, I see that on average 95% of the district budget increases are attributed to the same five or six factors –

1. Health care premium increases (+16.4%), 80% of which fall on district budgets
2. Salary increases from contracts negotiated during the pandemic and peak inflation
3. Increased special education costs, in part due to increased spending for mental health services, that continue to overwhelm our efforts to contain costs with our MTSS system
4. Shifting the cost of after-school programs from ESSER to the local budgets
5. Cost-shifting a few remaining positions from ESSER funding to local budgets (mostly accomplished in FY24).
6. For my choice districts (Peacham and Caledonia Cooperative), a \$1545/student average tuition rate increase

My point in calling out these inflationary factors is that this is why spending is up so much in my districts; but I can assure you that the remaining 5% average increase in Ed Spending is *not* disguising any additional spending intended to sock away money for long-term infrastructure needs.

As I said, our strategy in CCSU, vis a vis the 5% cap, has been to qualify for the cap by *reducing* Per-Pupil Ed Spending increases below the 10% threshold where needed to qualify for the 5% cap. Some might fairly view this as a slight perversion of the intent of the 5% cap, but I view it more as reverse-engineering the cap with fiscal responsibility in mind. As I said, all of my districts should have benefitted more from the new weighting changes, and by definition should be spending more dollars on student needs. If only . . .

Here is what happened in my five districts:

- Peacham's PPES increase initially was over the 10% threshold. With some handwringing and soul searching, the Peacham Board agreed to additional spending cuts that resulted in a PPES increase of 9.9%; as a result they get the 5% cap and are "only" seeing a 20-cent increase in the Homestead Tax Rate instead of a 40-cent increase that would have resulted without the benefit of the 5% cap;
- Danville's PPES spending increase was 7% and they qualified for the 5% cap. As reported in the local press, the Danville Board did discuss the feasibility and wisdom of an additional spending increase, right up to the 9.9% level – to be socked away for building needs, which are many – but an analysis of the impact of this additional spending showed that while it had little to no effect on the Homestead Tax Rate, it did raise the income-sensitive rates. The Board opted not to add the spending, putting the burden on its lower-income taxpayers, and passed a budget that reflected inflationary cost increases only;
- Twinfield's PPES increase was actually less than zero, so the 5% cap was not needed. Twinfield is facing the same inflationary pressures as the other districts; additionally, the two towns that comprise this union district, Marshfield and Plainfield, are facing significant town spending increases resulting from the July flooding. The Board did not add any additional spending over the inflationary increases;
- Cabot's PPES increase is well above 10%. Cabot is facing some immediate deficit costs related to a failed campus heating system – a wood chip plant failure – that forced additional spending to the tune of \$100K on oil heat last year and the beginning of his year. The only way to get the PPES increase below 10% would be to change from operating PK-12 to PK-6, along with a favorable negotiated tuition rate under designation. The Board did not take that path and is presently trying to "sell" a 37-cent Homestead Tax Rate increase to the community in hopes that they can use the additional year to more thoughtfully plan for a configuration change in the future.
- Caledonia Cooperative SD (3 towns, 3 schools), is facing an \$800K increase in special education costs, in part related to additional costs for students with significant mental health challenges, and a nearly-\$300K increase in high school tuition costs related to high school choice. With the same inflationary pressures others face, total Ed Spending increases in CCSD are more than \$2M but increases in the LTWADM are significant, limiting the overall increase in year-to-year PPES to an unmanipulated 7% pre-CLA increase. We are still looking at some infrastructure projects but these will be funded by existing Capital Reserves. Caledonia Coop votes in April and will approve its FY25 budget at its February meeting.

To be clear, none of the five districts in CCSU have added monies to their budgets to take advantage of Section 7 of Act 127.

What I am concerned about, as you look at possible changes to Act 127, either to clarify the purpose of the caps, or eliminate them entirely, is that you not lump all school districts into the same pool of behavior and as a result penalize those districts that used the language in Section 7 as a guideline to *limit* spending wherever possible.

Navigating the rollout of Act 127 has been difficult in other respects. Logistical challenges related to the late release of, and several revisions to, Long-term Weighted ADM by AOE, and the release of final CLA numbers on January 2nd, with average drops in CLA of 10-15 points, has made it difficult to calculate tax impacts for my four districts that vote on Town Meeting day. We were unable to start modeling the Act 127 rollout until December. Now, as you ponder what to do about that problem, the fear out here is that you will make a decision that will have consequences to our districts that have already approved and warned budgets for a March 5th vote. While there may be time within the statutory window to make additional late changes and re-warn, we are also constrained by the fact that we have publishing deadlines for our district annual reports that cannot be pushed out if we are to meet our statutory requirement to provide these reports ahead of Town Meeting. In fact, we sent packets to the printer for the March 5th districts this week. Our annual reports included tax impact illustrations that are based on how Act 127 works now. I guess that is a longwinded way of me saying that any changes you might be considering should be FY26 changes.

While you may be seeing different reactions and approaches to the implementation of Act 127, I respectfully would like to bring the discussion back to what Act 127 was meant to do – namely to address inequities in the distribution of available monies from the closed system we all know as the Ed Fund. A fairer distribution of this fund is long overdue and appealing to my districts, all of which have been historically underfunded under the prior weighting model. I do sympathize with those 20 or so districts that find that the new weights are challenging their ability to fund the level of services and supports for their students that they have become used to over the years since Act 60 was implemented. I do not begrudge them the relief intended in Section 7 of the act, but I also do not think we should be penalized for using the cap when we didn't try to leverage it by increasing spending. In one sense, the cap gave back to us some of the revenue that we should have received but lost to inflation and the continuing downward spiral of CLAs.

In closing, the spending pressures that are driving up education costs this year are not unique to our public schools; we see those pressures reflected in the tuition rate increases from the independent schools that serve choice students in the NEK. It is too simplistic to say that the solution is to just reduce spending. I would welcome a conversation with anyone who has realistic ideas of how to meet the increased emotional support needs of students in my schools, stemming from the effects of school absence during the Covid-19 pandemic, along with the mounting mental health costs that come with this. But that is for another day.

Thank you.