To: Senate Committee on Finance
From: Elizabeth Jennings, President of Vermont Association of School Business Officials (VASBO)
Re: S.220, as introduced
Date: January 14, 2026

Introduction

Thank you for the opportunity to provide testimony on S.220, which proposes to limit the growth of per pupil education spending in school districts during fiscal years 2028 and 2029 through a formula-based "allowable growth percentage," with a minimum growth threshold of 3%.

VASBO's members—school business officials across Vermont—are responsible for developing and administering school budgets, managing taxpayer resources, and ensuring districts can meet statutory obligations and educational needs. Each year, school district officials and boards set budget targets to guide spending, often focusing on limits to expenditure growth, per-pupil costs, and tax impacts. These targets aim to balance fiscal responsibility with maintaining high-quality educational opportunities. However, when strict caps are imposed, the budget process shifts from exploring educational priorities to simply meeting financial limits, often reducing discussion of program quality, innovation, and long-term goals.

We share the Legislature's concern about education cost growth and taxpayer affordability. We agree that, during the transition period associated with Act 73—including the process of redistricting and the phased implementation of a foundation formula—a temporary funding mechanism will be necessary to ensure continuity and stability. The challenge in identifying an appropriate mechanism is significantly compounded by the uncertainty surrounding the law's ultimate implementation. At present, the structure and composition of the new districts remain unknown, and there is insufficient data to reliably estimate or model the fiscal impacts of the foundation formula. Given these unknowns, any interim funding approach must be flexible, prudent, and designed to maintain stability while the necessary details of Act 73 are fully developed and clarified.

VASBO is concerned that S.220 does not fundamentally address the underlying reasons school district budgets increase and that a spending growth cap, as proposed, will likely drive decisions that harm educational quality and student outcomes.

S.220 Does Not Address the Root Causes of Education Cost Growth

S.220 proposes a spending constraint mechanism without addressing the actual factors that drive rising costs in Vermont's education system. The principal cost pressures school districts face are well-known and largely structural and difficult to control, including:

- negotiated salary increases
- health insurance inflation, which are outside of local control and have experienced sustained growth well in excess of 3% annually
- rising tuition costs to independent schools, over which sending districts have no direct cost control
- costs associated with aging facilities

S.220 limits district per pupil spending increases in FY28 and FY29 regardless of whether districts are absorbing cost growth that is outside local control. If S.220 is enacted, it risks forcing districts to cut programs simply to comply—especially in years when the actual cost of maintaining services exceeds the cap.

If legislators are truly interested in moderating education cost growth and the resulting tax impacts, VASBO urges the Legislature to consider policies that directly address these costs, rather than imposing a blunt cap on total per-pupil spending.

Specifically, VASBO believes a more effective and transparent approach would include consideration of:

- A cap on the actuarial value of health insurance plans, which would address one of the fastest-growing and least controllable components of school budgets
- Reasonable growth parameters on salaries negotiated through collective bargaining, recognizing both fiscal sustainability and workforce stability
- A growth cap on tuition rates charged by independent schools, ensuring that tuition obligations grow in alignment with broader fiscal capacity

Targeting cost drivers directly would provide systemwide cost discipline without forcing districts to reduce instructional programs, staffing levels, or student services in order to comply with an overall spending cap.

By contrast, applying a per-pupil spending growth cap while leaving these drivers untouched simply shifts the burden onto local districts, where the only remaining levers are reductions in classroom instruction, student supports, and educational opportunity.

VASBO believes that cost containment policies should be aligned with the sources of cost growth, not imposed downstream in a way that undermines educational quality and student outcomes.

S.220 Creates Perverse Incentive to Maximize Spending

We do not need to look far for a cautionary tale around legislating caps. Under Act 127 (2022), Vermont instituted a temporary 5% cap on homestead property tax rate increases intended to smooth transition effects from pupil-weight reforms. The design and mechanics of that cap generated unintended consequences and destabilized outcomes across the system. Multiple credible analyses found that, under FY25 projections, nearly every district would have been capped, regardless of whether the cap was needed to protect taxpayers in that community.

Importantly, VASBO observed that the presence of the cap created a strong incentive for districts to spend up to the limit, even when doing so was not necessary to preserve programmatic needs. This occurred because districts correctly understood that:

- once capacity is lost, it is difficult to rebuild
- future years may become harder, not easier
- “unused” cap room might be unavailable later
- a district that stays artificially low may be disadvantaged in future comparisons

These dynamics are well documented in public finance: caps create incentives to spend to preserve future flexibility, rather than to spend only what is absolutely necessary.

This is the same perverse incentive structure that S.220 risks recreating—particularly because the allowable growth percentage is tied to district per pupil spending comparisons and includes a minimum growth allowance.

Conclusion

VASBO appreciates the Legislature's interest in cost containment and recognizes the urgency felt by Vermont taxpayers. However, S.220 does not address the root causes of education cost growth, and its spending cap approach is likely to force districts to reduce instructional programming while creating incentives to maximize spending, repeating the very distortions Vermont experienced under the FY25 tax rate cap structure.

We urge the Committee to focus on reforms that target the actual cost drivers and provide stability and predictability, rather than imposing constraints that will ultimately reduce educational opportunity and outcomes for Vermont students.

Thank you for your time. I am happy to answer any questions.