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Poor towns aren't gaming Act 68 system

By JACK HOFFMAN

How and how much we pay for schools is never far from the top of the list of public policy discussions. That's a good thing. In Vermont, we're spending about \$1.3 billion to educate our kids. That much money for such an important priority should be a hot topic.

The thread of this conversation has been that education budgets are getting out of control and that Vermonters are spending beyond their means. Accepting for a moment that this might be true, there are two possible causes. Either local school boards and voters are deciding that they need or want to spend this much to support their kids, or there is some flaw in the school funding system that is driving up spending despite the best efforts of voters to keep it in check.

If voters are deciding, even reluctantly, that this is what they need to spend, it's difficult to argue that they're wrong or that they're spending too much for their own good. We are a democracy, after all where voters have the responsibility to make these decisions. If we can't blame the voters, then it must be "the system."

But a recent study by Public Assets Institute, "School-budget Voters Are Minding Their Own Purse Strings," found no evidence that Vermont's school funding system leads voters to irrational or reckless behavior. In fact, there are strong disincentives against gaming the system in the ways that some had feared would occur. Local voters have not become spendthrifts simply because their community gets more support through the Education Fund than some other towns.

Vermont's current education funding system has been in place for just over a decade – longer than any school funding plan since 1982. Act 60 was passed in 1997 not long after the state Supreme Court ruled that the previous funding system was unconstitutional because it deprived Vermont schoolchildren of equal educational opportunity. The old system was based on local property taxes and created what the court called "gross inequities" in the money available to schools in property-rich and property-poor towns.

Act 60 – and the refinements that came later with Act 68 – established a statewide property-tax base on which all towns could draw. While this new system addressed the inequities cited by the Supreme Court, it also raised questions: Would the system encourage some communities to vote higher budgets because they knew the bulk of the money would come from taxpayers in other towns? Would the towns that benefited the most from Act 60 – and used to be the low spenders – become the biggest spenders? Would lower-income taxpayers end up shifting the burden onto their better off neighbors and thus drive up overall spending?

Public Assets Institute, which analyzes state tax and spending policies and provides non-partisan research, decided to examine these questions to see whether the skewed spending incentives of the old system had been replaced with new ones.

We found no evidence that they have. In fact, there are strong disincentives against gaming

the system as some had predicted. Here are the major findings of the report we released last week:

- u Towns that get more do not spend more. In fiscal 2008, there was a negative correlation between a district's return from the Education Fund and its per-pupil spending. On average, the more a town received compared with what it paid in, the lower its per-pupil spending. (See Figure 1 on this page.)

- u The consequences of higher spending fall on the people who approved that spending. When a town chooses to increase per-pupil spending, the tax consequences are, on average, more than 200 times greater on the homestead taxpayers in that town than on property taxpayers in other towns.

- u High per-pupil spending was linked to high resident income. Towns with more high-income residents voted higher school budgets than those with lower-income residents.

By establishing a statewide tax base for education, Act 60 created a system in which a penny or percentage point on the tax rate raised the same amount in every town. This funding system maintained local control by giving communities the freedom to determine their own level of spending. However, it also required that in all towns with the same level of per-pupil spending, taxpayers had to make the same effort – that is, pay the same tax rates.

This mechanism that provides equal resources for equal effort has helped to increase equity among towns. But it also has proved to be a check on spending in towns that might appear to have an incentive to approve higher school budgets because they get back much more from the Education Fund than their local homestead taxpayers pay in.

Certain towns get a bigger return from the Education Fund, but individual taxpayers – and they are the people who approve the school budgets – are treated the same whether they live in a community that gets a big return or small return. Our analysis showed that the towns that get the best return, in fact, spend the least per pupil. Residents in these towns tend to be in the lower income brackets – as measured by adjusted gross income per exemption. It stands to reason, therefore, that they could not afford to vote for big spending increases.

Another question that has been raised about Act 60 and Act 68 is how much spending decisions in one town affect taxpayers in other towns. Our study showed the effect is slight. And again, the fact that higher spending means higher tax rates appears to discourage taxpayers from trying to game the funding system.

Our study did not find evidence that "the system" has built-in incentives to push up spending, so that brings us back to the local voters. Clearly, they are under pressure to try to balance the demands of feeding a family, paying for health care, keeping gas in the car and providing an education for their kids. But maybe they're doing the best they can under the circumstances and spending what they think they need to on education even though it's a struggle.

Jack Hoffman is a senior policy analyst at Public Assets Institute. The report, "School-budget Voters Are Minding Their Own Purse Strings," can be found at www.publicassets.org.
