



March 9, 2018

**Board of Directors**

Paul Cillo  
*President & Executive Director*

Tiffany Bluemle

Jared Duval

Carlen Finn  
*Treasurer*

Steve Gold  
*Vice-Chair*

Larry Mandell  
*Chair*

Scudder Parker

Sheila Reed, Esq.  
*Secretary*

Gaye Symington

Sarah Waring

**Staff**

Jack Hoffman  
*Senior Policy Analyst*

Sarah Lyons  
*Operations & Communications  
Manager*

Stephanie Yu  
*Policy Analyst*

The Honorable David Sharpe, Chair  
House Education Committee  
Vermont State House  
115 State Street  
Montpelier, VT 05633

Dear Representative Sharpe,

As you know, Public Assets has been following the House's work this session on education funding. I'm writing today about the Ways and Means Committee bill, H.911, which is now in the Education Committee. This letter addresses the "Education Financing Changes" portion of bill that begins with Sec. 7.

The bill proposes a number of changes, but does not indicate what the changes are intended to accomplish. Reportedly, the committee wants "to simplify the funding process and strengthen the connection between voters and the cost of supporting local schools." (vtdigger, Jan. 26, 2018)

While the bill has provisions that would improve the current system, it also unfortunately makes the school funding system more complicated for voters and consequently weakens the connection between voters and the tax consequences of their votes on school budgets.

**Direct democracy local control**

Like the state's municipal governments, school districts are governed locally. School boards propose budgets and district voters must approve them before a school tax rate is set each year. Tens of thousands of Vermonters in public meetings and at ballot boxes across the state make the decisions each year about how much to spend to educate Vermont children in the state's pre-K to 12 public education system.

For this direct-democracy system to work, voters need to see a clear link between the school budget they approve in the spring and the tax bills they receive a few months later. There are steps the Legislature could take to make the relationship clearer between school spending and taxes, but H.911 mostly muddies the picture. The bill:

**1. Creates an irrational relationship between spending and tax rates:** There is currently a disconnect between changes in a district's education spending and changes in the district's tax rates. The Common Level of Appraisal and the legislatively set yield often have a bigger impact on homestead tax rates than changes in a school district's education spending. This leaves voters unsure what they are paying for and school boards frustrated that their efforts at cost control

have little impact on tax rates. Local voters have control over the budgets they pass, but not over the tax rates they face.

H.911 re-introduces a mechanism, like that in the original Act 60, that provides a base payment per pupil to every district and then creates a sharing pool among all the towns that spend more than that amount. This means that towns in the pool face tax rates that will grow disproportionately faster than their spending increases. This provision of Act 60 was repealed a few years after passage largely because it was confusing voters. H.911 reverts to the repealed system, worsening the disconnect between spending and tax rate increases.

**2. Sets an arbitrary base payment amount each year:** The base payment amount per pupil that each school district would receive under H.911 has no connection to the amount school districts require to meet the needs of their students or to achieve any particular scholastic standard. Nor is it tied to any pool of revenue that can be easily described to the typical voter. It is just a number that will come out of a black box each year to allocate available revenue and meet the prescribed ratios for the homestead and non-residential tax rates.

The fact that the bill creates more severe tax consequences for districts that spend above the base payment suggests that the authors intend the base payment to be viewed as adequate to provide the quality of education that Vermont children need. But that amount is not universally adequate. In some cases, individual students require more than the base amount to get an adequate education. School districts have different needs at different times.

The Education Fund is set up to support the spending decisions of all local school districts, which are in the best position to decide what their children need. The current system already requires that tax rates increase proportionally as education spending increases. Imposing punitive tax rates for spending above an arbitrary threshold undermines equity and pushes Vermont toward a system where all students are allotted the same, fixed amount.

### **3. Doesn't solve the biggest problems with the existing system**

Income-adjustment lag: The two-thirds of Vermont homeowners who pay school taxes based on their household income receive an adjustment to their property taxes that is based on prior-year data. Because of this lag, it is difficult for them square their tax bills with the tax rates associated with the current school budget. Whether the Legislature chooses to move to income-based school taxes for all Vermont residents or continues with the current system, the lag needs to be eliminated. When voters are given a projected income-based homestead rate at Town Meeting, they need to know that will be the rate they will pay when school tax bills are due a few months later. H.911 does nothing to address the lag.

Common Level of Appraisal (CLA): Another major source of confusion for voters is the CLA adjustment in each town. As town-wide property values change, school property tax rates get adjusted. Since these changes have nothing to do with changes in spending in the town, they create voter confusion. H.911 leaves the homestead property tax in place and with it the confusion related to the CLA, which will continue to undermine the connection between spending and tax rates.

**4. It makes more system changes that may not be permanent.** Any change to the financing system undermines its stability and makes the system more confusing for school boards and voters. Making changes year after year exacerbates this confusion. School finance changes made as part of Act 46 and then repealed the following year is the kind of change to avoid. It would be better to resist changing the financing structure until there is a high level of certainty that the reforms accomplish the Legislature's policy goals and are durable, so that voters can count on the changes to remain in place for a long time. Changes like many included in H.911 need to be thoroughly analyzed and vetted to ensure that the bill doesn't produce unintended consequences that will require more changes next year.

#### Key design principles

Vermont's education funding system is built on five principles: local control, fairness for students, fairness for taxpayers, simplicity and transparency for citizens, and taxes based on ability to pay. Proposed changes to the system should advance these principles. It is our assessment that while H.911 increases the amount of taxes that are collected based on ability to pay, it detracts from local control and simplicity and transparency for citizens.

The introduction of a progressive income tax surcharge dedicated to the Education Fund would reduce the amount of regressive school taxes collected and base more of Vermonters' school taxes on their ability to pay. This is a positive step that would lower property taxes even without the other changes in the bill. However, similar to the previous Ways and Means plan, H.911 retains the homestead property tax with all the confusion related to the CLA and adds to the confusion by introducing a new disproportionate tax-to-spending relationship. As we have indicated in our communication to the Ways and Means Committee previously, the Legislature and the public should see a tax-incidence analysis that shows how various taxpayers, not just towns, will be affected over the next several years before this plan moves forward.

As I also have indicated previously, we think there's a better approach to improving the education funding system that would advance these principles: eliminate the education property tax on primary residences and leave in place a 100 percent income-based system for residents. In addition to relieving Vermonters of the current problems with school property taxes on homes, such a system would be simpler and easy to understand, would be based on ability to pay, and it would ensure that everyone paid their fair share of educating Vermont's children while continuing to provide all kids equal access to resources.

Sincerely,



Paul A. Cillo  
President

CC: House Education Committee members, Marjorie Zunder  
Speaker Johnson, Katherine Levasseur  
Rep. Janet Ancel