

Transforming our Education System for the 21st Century

“Act 60 and Act 68 are fundamentally broken and beyond repair. Piecemeal changes cannot mend a system that is so far out of balance. Only a wholesale transformation will return control to communities and put education funding on a sustainable course for the future.”

- Governor Jim Douglas, Inaugural Address, Thursday, January 8, 2009

Our current education funding system is failing taxpayers and local voters. For over a decade, Vermonters, in every corner of the state, have borne the heavy burden of rising property taxes under Act 60. It is wrong for one third of all tax dollars to be spent on a system only a handful can explain. When enrollments decline but property tax bills increase – and when communities are forced to vote budgets without knowing the real consequence of those decisions, it is clear that our system does not work.

Now is the time to build a new system – one that is fair and equitable, and respects the voice of voters, the pocketbooks of taxpayers and the potential of our students. Too often, politics has stood in the way of change to this system. That is why, with a sincere commitment to progress, the Governor has asked the Legislature to establish a collaborative process for fresh ideas – a process that brings together thoughtful individuals with a broad range of perspectives to design an educational funding system that is simple, transparent and sustainable. We must also be prepared to examine school consolidation, governance, special education costs, and other opportunities to achieve efficiencies.

While launching this process is essential to rebuilding our education finance system, property taxpayers cannot wait another year for relief. In order to create a funding bridge until a new system is established, the Governor proposes a common-sense measure to freeze per-pupil spending for schools and categorical grants at current levels.

Fairness and the Distribution of Resources among Public Services

Vermont’s economy is being pulled into the current national economic malaise. Unemployment is rising, retirement portfolios have lost value as equity markets decline, and the housing market is experiencing significant weakness. Not surprisingly, revenues into state coffers are far below original expectations as the recession ripples through Vermont’s economic landscape.

State public services are supported by three major funds: the General Fund, the Transportation Fund and the Education Fund. The reach of the General Fund is broad. It supports services ranging from Vermont’s environmental programs to the court system to our higher education institutions. However, its major focus is the funding of essential human services programs. Its next largest focus is funding the Education Fund. In 2009, over \$291 million was transferred to the Education Fund. The General fund is supported primarily by the income tax as well as two-thirds of the state’s sales tax receipts. The Transportation Fund supports Vermont’s highway and public transit systems and is funded by fuel taxes and other vehicle related fees such as automobile registrations and licenses. The Education Fund finances Vermont’s K-12 education system through the distribution of resources to local school districts. In addition to General Funds, the Education Fund receives revenues from the sales tax, about \$106 million in 2009, and the Purchase and Use tax on vehicles, about \$23 million in 2009. However, its biggest source of

revenue is the property tax, which in 2009 provided \$876.9 million, out of \$1.45 billion in total revenues.

As the extent of the recession has grown in Vermont, public services funded by the General and Transportation Funds have been severely reduced, with more reductions anticipated during the current legislative session. In contrast, programs funded by the Education Fund have not experienced any reduction in funding levels. For FY 2010, it is expected that General Fund programs will again experience significant reductions of 8% or more.

Basic fairness calls the question of whether the Education Fund should be a more active partner in the solution to Vermont's current fiscal problems, especially in view of the fact that \$428 million of Education Fund revenues come directly from the General Fund or revenue sources once directed to the General and Transportation funds such as the sales tax and purchase and use tax.

Status of Education Fund Programs

The most recent data from the National Education Association reveals that Vermont's K-12 system is in a preferred position relative to other states. Vermont ranks first in the ratio of pupils to teachers at 10, and 35% better than the national average ratio of 15.4. Further, funding levels in Vermont are also among the highest in the nation. Vermont ranks 4th in current expenses per student at \$14,336. This level is 44% higher than the national average of \$9,963.

In the five-year period from fiscal 2005 through the current fiscal year, Vermonters have spent generously through the Education Fund. The following profiles this spending growth.

<u>Expenditure</u>	<u>FY 2005 Amount</u>	<u>FY 2009 Amount</u>	<u>Annual Change Rate</u>
Education Payments	\$ 910,971,991	\$ 1,111,855,604	5.11%
Payment per Pupil	\$ 9,110	\$ 11,621	6.27%
Special Education	\$ 105,256,030	\$ 142,457,975	7.87%
State-Placed Students	\$ 11,642,880	\$ 16,367,500	8.89%
Technical Education	\$ 9,656,923	\$ 12,411,841	6.48%
Income Sensitivity	\$ 92,311,600	\$ 120,700,000	6.93%
Total spending	\$1,156,674,422	\$ 1,442,166,934	5.67%
Pupil Count	99,994	95,676	1.10%

To support the above level of spending growth, property taxes have increased substantially as other sources of revenue grow at slower rates, more reflective of underlying economic growth.

<u>Property Taxes</u> <u>Change Rate</u>	<u>FY 2005 Amount</u>	<u>FY 2009 Amount</u>	<u>Annual</u>
• Residential(net)	\$254,248,176	\$341,777,918	7.68%
• Residential (Gross)	\$346,559,776	\$462,477,918	7.48%
• Non-Residential	\$385,815,067	\$462,477,918	8.53%

Note: net is inclusive of property tax adjustment payments

Clearly, the above factual profiles reveal that Vermont's K-12 education infrastructure has been strongly supported and experienced spending growth well above the rate of inflation, despite a decline in the number of pupils in the system. Vermont ranks very highly when compared to other states, many of which have higher per capita incomes than Vermont.

We Are In This Together

The Governor believes all areas of state government must share in the difficult effort to respond to recessionary pressures. While the Governor will propose additional reductions in General Fund spending in 2009 and 2010, the Governor has proposed no reduction in Education Fund spending in 2009 and is proposing essentially level fund spending for fiscal 2010. In the context of the above national rankings and the 5-year history of a very healthy expansion in public funds for K-12 education, level funding from the Education Fund is reasonable and fair.

Proposal Details

The Governor's fiscal 2010 Education Fund proposal incorporates the following changes:

- Level fund local education spending in each school district at fiscal 2009 levels
- Level fund education categorical grants at fiscal 2009 levels
- Eliminate eligibility for property tax adjustments for households with incomes greater than \$75,000

The "Consensus" current law operating statement for fiscal 2010 yielded an operating surplus of \$2.2 million, which combined with the projected fiscal 2009 projected operating surplus of \$18.3 million allows a 2-cent reduction in statewide property tax rates.

With the Governor's proposal, residential property taxpayers will benefit by a \$20 million property tax cut as capping education spending at 2009 levels negates spending increases that cause local tax rates to rise. Additionally, the Governor's above proposals would result in a fiscal 2010 operating surplus of \$69.5 million in the Education Fund in addition to the \$18.3 operating surplus projected for fiscal 2009. The Governor proposes to allocate this \$87.8 operating surplus as follows:

- A reduction of at least 2 cents in statewide school property taxes at \$24.8 million. The Governor's proposal thus keeps the residential property tax burden for fiscal 2010 at the same level as fiscal 2009.

- Directing the Education Fund to support the annual contribution to the teacher's retirement fund, projected at over \$40 million in fiscal 2010. Currently, this cost is carried by the General Fund, effectively allows schools to set salaries detached from the true cost of the benefits that flow from those salaries. Placing these costs in the Education Fund will more truly reflect the cost of our education system – marrying the funding source for both salaries and benefits. This change will also lessen the level of reduction in general fund programs in fiscal 2010, especially those in human services, thus bringing a higher level of equity between funds as Vermont responds to recessionary pressures.
- To increase equity across our educational spectrum, the Governor will propose a 20% increase in early (\$7 million increase) and higher education (\$16 million increase) as a first step to address spending disparities and prepare Vermonters, young and old, for future success. A close examination of spending for public education reveals a startling imbalance among our funding levels for early education, K-12, and higher education. We spend relatively little on early education – are among the highest in the nation for primary and secondary education – and near the bottom for higher education. We must begin to reshape this skewed distribution of resources.

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