

September 17, 2009

Committee on the Financing and Effectiveness
of the Vt Education System in the 21st Century

Dear Committee Members:

I attended your September 1st meeting as you tried to focus on the direction that the Committee should take to accomplish the tasks set for you by the legislature. You have a daunting task before you with only four meetings set aside to accomplish it. I would like to go on the record with insights that I have learned through studying this issue. Hopefully, these insights will be of help to the committee.

The Brigham decision, which was the impetus for the Act 60/68 funding policy, was a very thoughtful decision that tried to guide the Vermont Legislature to change to a better state aid funding policy. This decision highlighted the following points:

1.) "Public education is a constitution obligation of the State; funding of education through locally-imposed property taxes is not." "The state may delegate to local towns and cities the authority to finance and administer the schools within their borders; it cannot, however, abdicate the basic responsibility for education by passing it on to local governments, which are themselves creations of the state."

2.) Educational "costs" were not the problem, but that the disparity in grand list wealth was. A district that had a larger grand list per pupil (property-rich district) had the **opportunity** to spend more on education than a property-poor district.

3.) The State, and not the towns, has the constitutional responsibility to create and ensure educational **opportunity** for a child within the state regardless of the child's residence. "The distribution of a resource as precious as educational opportunity may not have as its determining force the mere *fortuity* of a child's residence."

I believe that the legislature failed in addressing the Brigham decision in adopting Act 60 and later Act 68. Both Acts do not equalize educational spending between the 280 school districts (as set by town lines), nor do they afford equal educational opportunity. Let me show you some examples of these failures. These examples are taken from a study based on the FY2008 education costs and subsequent education tax rates.

Example #1: Comparison of Waterbury and Burlington

For FY2008, Burlington's total spending per pupil was \$14,737 with net spending at \$8,962.
For FY2008, Waterbury's total spending per pupil was \$10,715 with net spending at \$10,639.

Burlington's average R1 value was \$261,600 & with Ed HS Tax Rate of \$0.9865 = \$2,637 tax burden.
Waterbury's average R1 value was \$239,300 & with Ed HS Tax Rate of \$1.1964 = \$2,863 tax burden.

Burlington's education grand list wealth per pupil was \$8,468 per pupil.
Waterbury's education grand list wealth per pupil was \$7,002 per pupil.

Waterbury, for FY2008, paid approximately 10% more in education tax burden on a dwelling that was worth approximately 10% less than Burlington. A dwelling in Waterbury valued at \$261,600 (the

same as Burlington) would have a tax burden of \$3,130 (20% more than Burlington's tax burden of \$2,637. Why?

The Act 68 formula is based on net spending. Burlington got over 39% in grants while Waterbury received less than 1%. It is noted here that the great majority of these grants are from state education fund sources and not from federal grants. **By basing Act 68 on net spending, Act 68 greatly favors those towns that receive additional money through grants from the education fund.**

The Brigham decision was very clear that a district that has a larger grand list per pupil had the **opportunity** to spend more on education than a district with a smaller grand list per pupil. The old state formula was changed because it did not address this **opportunity** issue fairly. Burlington's wealth per pupil is **20% greater** than Waterbury. Proponents of Act 68 would say, by having a base education tax rate the same throughout the state, that Act 68 tax burdens are equal on a property of the same value and thereby Act 68 satisfies the Brigham decision. This is not true. Act 68 has circumvented the grand list wealth issue by having the Act 68 formula based on net spending. Due to this failure, Burlington enjoys a 20% decrease in tax burden on a dwelling of the same value compared to Waterbury.

The above may indicate that Burlington may be receiving too much from the education fund in grants. If the average net spending state wide is \$11,000, why does a town or city receive grants that would allow its net spending to go below the state average? The difference ($\$11,000 - \$8,962 = \$2,038 \times 3,846$ pupils = \$7,838,148) could then be used to lower the base education rates. By limiting all grants from total cost not to go below the average net spending of the state, Burlington, for example, would then pay its fair share to the education fund. Food for thought.

The average **total** spending per pupil for FY2008 was in the \$13,500 range with the average **net** spending in the \$11,000 range. When looked at as town districts, the range spread is from \$8,000 to over \$18,000 for total spending and from \$8,000 to \$14,000 for net spending – more than a 30% spread from the averages. When looked at as districts similar to the county level, the range spread is from \$12,000 to \$15,000 for total spending and from \$10,000 to \$12,600 for net spending – a little more than a 10% spread from the averages.

The above indicates that by consolidating the 280 town school districts into Supervisory Unions will result in a better spread in cost analysis. Cate had suggested 60 Supervisory Unions. **Cate also suggested eliminating net spending as the base of a state formula.** Senator Bartlett has suggested 16 Supervisory Unions. I had looked at 12 Supervisory Unions in my study. The advantage of going to fewer Supervisory Unions is that the Brigham's decision emphasis on wealth per pupil as the basis of a state aid allocation could be better met. It would also **begin** the process of standardized curriculum, better efficiency, better chain of command in regard to management, and better accounting and fiscal management.

Example #2: Comparison of Bethel, Rochester and Stockbridge

For FY2008, Bethel's total spending per pupil was \$15,366 with net spending at \$12,973.

For FY2008, Rochester's total spending per pupil was \$17,550 with net spending at \$13,206.

For FY2008, Stockbridge's total spending per pupil was \$14,073 with net spending at \$10,266.

Bethel's average R1 value was \$133,000 & with Ed HS Tax Rate of \$1.4848 = \$1,975 tax burden.

Rochester's average R1 value was \$135,200 & with Ed HS Tax Rate of \$1.5238 = \$2,060 tax burden.

Stockbridge's average R1 value was \$163,900 & with Ed HS Tax Rate of \$1.1546 = \$1,892 tax burden.

Bethel's education grand list wealth per pupil was \$5,552 per pupil.

Rochester's education grand list wealth per pupil was \$6,996 per pupil.

Stockbridge's education grand list wealth per pupil was \$9,705 per pupil.

All 3 of the above town school districts are part of the Windsor Northwest Supervisory Union. Windsor NW Supervisory is made up of 6 towns that cross into three counties. It was a marriage of school districts for cost and location. Both Bethel and Rochester have town districts that are K-12. Stockbridge has a K-6 town elementary school with 7-12 pupils having school choice between 6 other school districts. Both Bethel and Rochester send buses to Stockbridge to pick up students if they choose to go to either of their schools. It is the parent's responsibility to get their child to the other chosen school districts.

The above really points out the failures of Act 68 with its reliance on net spending as its base for establishing education tax rates. Both Bethel and Rochester have had K-12 school districts forever. They are locked into "local" control, but have little control on spending due to the small size of their school populations (296 & 184). In fact they are very limited in curriculum due to their small size and cost needed to fulfill a good curriculum compared to a school district the size of Burlington. Stockbridge is able to avoid some of the high cost as it can tuition its students to other schools. Parents have "choice". This "choice" helps to account for its higher R1 value, as does its lower tax burden. Stockbridge's average R1 HS tax burden is lower than both Bethel and Rochester even though the value is over 20% higher. The education tax burden in Bethel or Rochester on a value of \$163,900 would be 30% higher than in Stockbridge.

When compared to Burlington, the education tax burden in Bethel and Rochester for a property worth \$261,600 is approximately 50% higher (\$2,637 versus \$3,884 and \$3,986).

There is no "**opportunity**" for a resident of Bethel or Rochester to escape the high education tax burden or to "choose" to send their child to a better school district if they should desire, without moving. I repeat: the Brigham decision stated that "the distribution of a resource as precious as educational opportunity may not have as its determining force the mere *fortuity* of a child's residence." Wealth per pupil should not be a hindrance to a child's education; nor should the barrier of a town line be a hindrance to a child's education. **Town Lines do not make good school districts.**

When looked at in regard to wealth per pupil which was the focus of the Brigham decision, this example really shows the failure of Act 68. Bethel's and Rochester's measure of wealth per pupil is much lower than Stockbridge's (\$5,552 & \$6,996 compared to \$9,705), yet Bethel and Rochester have much higher education tax rates and tax burdens. Should not the educational tax rate be the same throughout the district? This would then equalize the tax burdens within the district. When compared to Burlington (\$8,468 – state average for wealth per pupil in FY2008 was \$7,228), Bethel has one of the lower grand lists per pupil and Burlington has one of the higher grand lists per pupil, yet Bethel (\$1.4848) has one of the highest education tax rates while Burlington (\$0.9865) has one of the lowest. This does not make sense in light of the Brigham decision. Act 68 has done little to equalize tax rates due to its reliance of net spending as the determinant of tax rates. Bethel (\$15,366) has a slightly higher total cost per pupil than has Burlington (\$14,737), but a much higher net spending (\$12,973) than Burlington (\$8,962). Why? What is wrong with these numbers? Do you really think that the child in Bethel is getting a better education than the child in Burlington? Or has the better **opportunity**?

Act 68's reliance on net spending has favored the larger towns and cities in regard to tax rates. It is a fact that a smaller school district costs more to operate than a larger school district. A good equalization formula should account for this difference in cost between sizes of school district, but Act 68 punishes the small school districts. By a better defined consolidation plan, the small school districts would be melted into larger Supervisory Unions which hopefully would extinguish town lines. The Supervisory Union education tax rate should be the same throughout the district with a wealth per pupil aid distribution being made between districts. Changes, then, can be made over time to consolidate curriculums, teacher and support salaries, and find other cost and management efficiencies that would help to curtail costs. The state's fragmented organizational structure, the concept of "local control", and the failure of the legislature to address the problem has prevented any progress to education betterment or cost efficiency.

Proponents of Act 68 will say that the prebate/rebate system compensates for the inequities in the tax rates by lowering the education tax rates for the residents of the state. They are wrong. It does not lower the tax burdens for those who make over \$90,000. It greatly increases their tax burden. It greatly increases the education tax burden for those residents who own a camp or vacant land in the state. 30 years ago the Current Use Program was passed with one of the major arguments being that land does require services and therefore should not be burdened with high taxes. Today the argument is to tax those properties that do not require the services (non-residential properties that do not have children in the school system or any voting power). This is a 360 degree shift in thinking which greatly increases tax burdens on non-residential properties. Commercial and industrial properties are, and will be, leaving the state due to the cost of doing business here. Vacation property owners will go elsewhere or will suffer a declining market which is already happening. Unfortunately, lowered property values will not mean lower taxes, but will mean higher tax rates which will mean higher prebates/rebates which will mean even higher tax burdens for these non-residential property owners and residents who make over \$90,000 which will mean.... Act 68 is a bad funding policy. The state cannot keep the "contributors", those who pay taxes into the system, paying more and more taxes to support "takers" who pay less and less. The "contributors" will leave. The tax burden is becoming too heavy. The prebate/rebate system is not sustainable and must be corrected.

The real problem with the prebate/rebate system is the "cliff" at \$90,000 which goes immediately to a flat tax based on income. There is no moderation or slope that progresses the tax upward as incomes get higher. This needs to be fixed or the \$90,000 lowered back to \$50,000. Property is an asset, not an income. You cannot melt an income tax into a property tax unless you use a factor to the value and treat the reduction as an exemption. The income tax, based on earned income, is very volatile, is easy to circumvent by the taxpayer, and does not truly measure the wealth of a person. The asset of a property is measurable, is generally not volatile, and is generally consistent as a tax source. Act 68 has dramatically changed the concept of asset taxation and through this change is causing reactions that will hurt Vermont over time. Over 80% of the resident property owners now benefit by this system. In essence their vote has been bought, and there is now no effective check and balance to education cost increases. The prebate/rebate problem should be discussed and addressed by this committee.

Respectfully submitted,

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