

Memo

To: Members, Legislative Pupil Weighting Task Force

From: Karen Horn, Director, Public Policy & Advocacy

Date: December 10, 2021

Re: Pupil Weighting Task Force Draft Report

Thank you for the opportunity to testify. The Vermont League of Cities and Towns has been concerned with education spending since the League's inception in 1967. As explained at the Legislative Briefing on December 8, the Education fund comprises 41 percent of FY22 budget state funds. Two thirds of total Education Fund revenues are raised on the Education Property Tax.

The property tax is the sole source of tax revenue for all except the 24 local option tax cities and towns. A town must pay owed property taxes to the Education Fund first, which demands the significant majority of property tax revenues in most towns. Thus, concern about the level of Education Fund reliance on property taxes and property tax capacity on the municipal side is a constant for local governments. This November, the VLCT Board reaffirmed our membership's support for "Legislation reforming Vermont's income, sales, cannabis, and property taxes to ensure sustainability, economic recovery, a stabilized cost of living and equity, particularly as those attributes relate to property taxes' contribution to the Education Fund."

A history of VLCT initiatives related to local revenue reform may be found at a link below.

The Vermont League of Cities and Towns has endorsed both the recommendations of the Tax Structure Commission, particularly as they relate to education funding, and the Pupil Weighting Factors Report of 2019. The Tax Structure Commission recommendations regarding moving to the income tax for all homestead property tax payers would address the imbalance on the revenue side of the Education Fund equation, illustrated in Deb Brighton's presentation on the Income Based Education Tax (September 13, 2021). The Pupil Weighting Report seeks to correct the long-term inequities with the way in which Education Fund dollars are distributed and spent, the expenditure side of the equation.

We believe that both revenue and expenditure inequities need to be corrected. With a \$90 million surplus in the Education Fund, there will be no better time to plan for and phase in implementation of new practices to correct longstanding problems with the way in which pre K – 12 education is funded and paid for in Vermont.

We continue to support the Tax Structure Commission recommendation to establish an ongoing Education Tax Advisory Committee as this draft report also recommends, and to move to an income tax basis for all homestead property tax payers.

We also believe it is imperative to implement the recommendations of the Pupil Weighting Factors Report, in a measured fashion and using a portion of the Education Fund surplus to accomplish the goal of equity for the long term.

The draft report raises the specter of voters who, when faced with a changed tax capacity due to employing pupil weights with Vermont's tax equalization school funding formula, might choose to reduce education tax rates or spend dollars on a number of different expenses rather than further investing in education needs highlighted by the Pupil Factors Weighting Report. Yes, in evaluating the universe of needs confronting voters, they may choose to shift their spending emphasis. That is, in fact the case today if you agree that voters actually have the final say over what a school budget funds and by how much. Such is not entirely the case, as the statutes mandate budgetary support for a wide range of pre K-12 education attributes. One need only read Title 16 to find those many requirements.

Conversely, lacking a cost containment mechanism, voters may decide to spend more on education if they gain tax capacity or continue current spending levels even if they lose tax capacity, leading as the report indicated, to a bigger pie – that is increased education spending overall. A bigger pie, which all taxpayers would pay for through the Education Funding formula, seems an unfortunate outcome as Vermont's spending per pupil is consistently one of the highest among the states and tax burdens contribute to people's assessment of overall affordability.

The proposed cost equity approach in the draft report contemplates instituting categorical funding categories to address poverty, rurality, middle and high school as well as English Language Learners. The difficulty with this approach is that each year, a new calculation would need to be made. Each year that calculation would be ripe for debate as not only cost factors change, and as the draft report mentions, the question of how much is left for base funding per pupil is debated, but also as statutory changes are made to the programs and legislative appetites for keeping financial support sufficient over time is likely to falter, particularly in lean times.

We urge you to take this unique moment in time, with significant federal dollars and an Education Fund surplus of approximately \$90 million, to phase in implementation of the Pupil Weighting Factors Report and the Tax Structure Commission Report regarding education taxes.

Testimony on Pupil Weighting Taskforce Legislation, S.13

<https://www.vlct.org/sites/default/files/2021%2004-28%20S13%20pupil%20weighting%20memo.pdf>

VLCT Letter to Pupil Weighting Taskforce, August 27, 2021

<https://www.vlct.org/sites/default/files/2021%2008-26%20pupil%20weighting%20factors%20report%20letter.pdf>

Deb Brighton Income Based Education Tax

<https://lifo.vermont.gov/assets/Meetings/Task-Force-on-the-Implementation-of-the-Pupil-Weighting-Factors-Report/2021-09-13/16eb53cf1c/Income-Based-Ed-Tax.pdf>

History of VLCT Initiatives on Local Revenue Reform

<https://lifo.vermont.gov/assets/Subjects/Public-Feedback/cedaf4690f/VLCT-local-revenue-reform.pdf>