

Vermont Education Reform & Act 46

Legislative Forum
October 14, 2015





Agenda

- Introductions
- Big Picture: Statewide Demographic & Fiscal Pressures
- Overview of Education Finance Mechanism
- Act 46 and Future of Education in Vermont



Introductions





Big Picture: Statewide Fiscal Situation





Why Have We Not Fixed the Funding System?

Don't tax you.

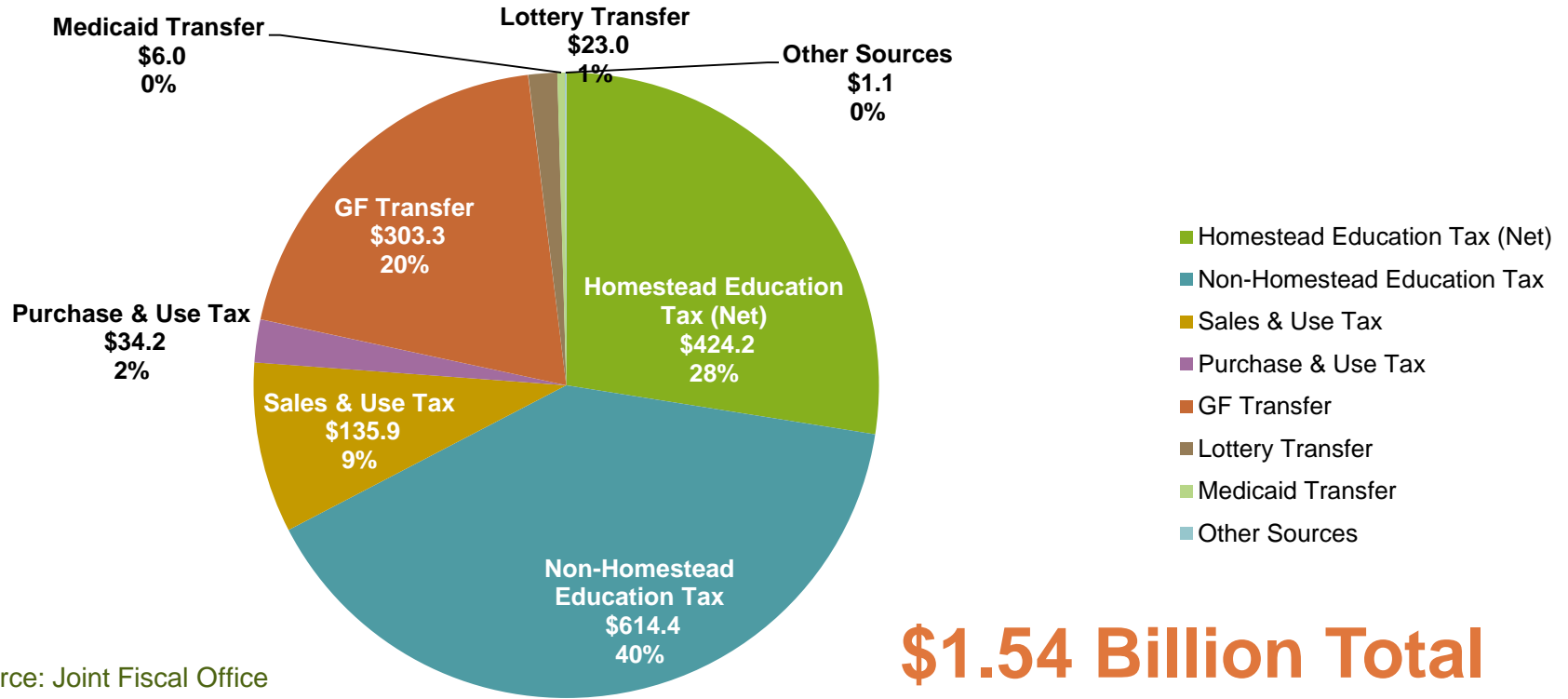
Don't tax me.

Tax that fellow behind the tree.

-- Russell B. Long, Former US Senator



State Education Fund: FY16 Revenue Sources

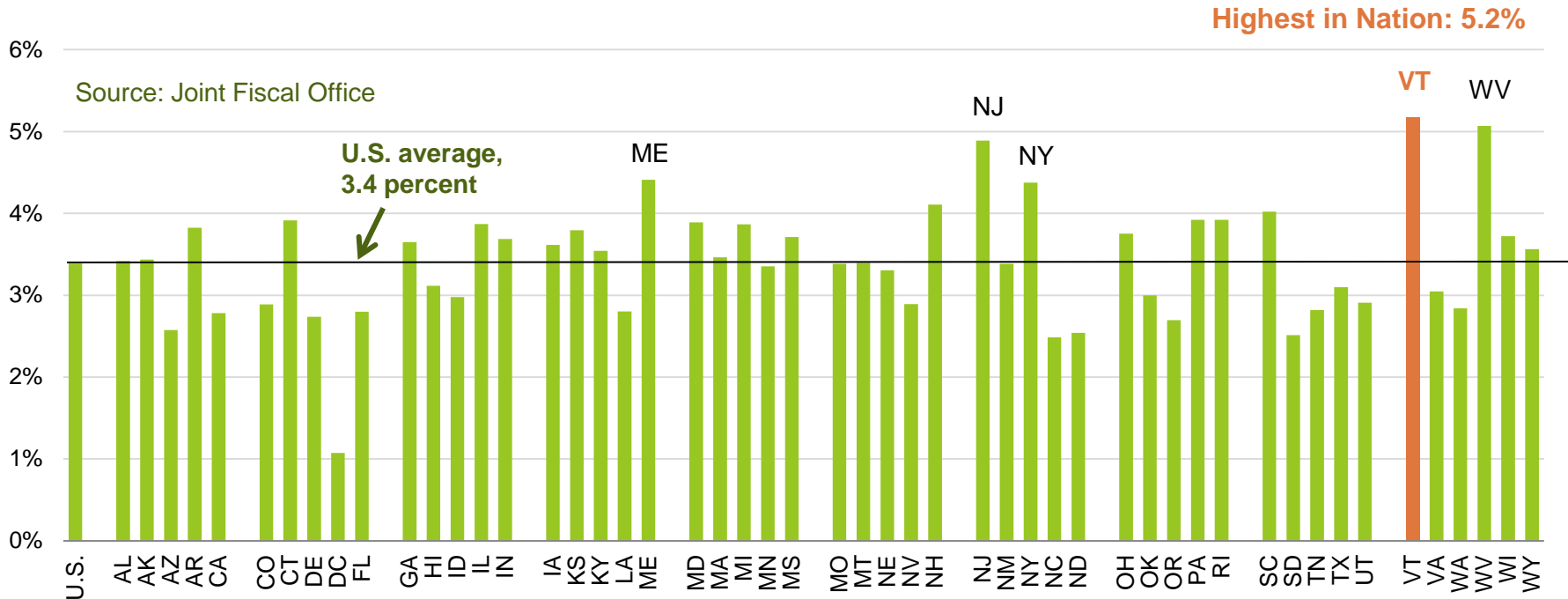


Source: Joint Fiscal Office



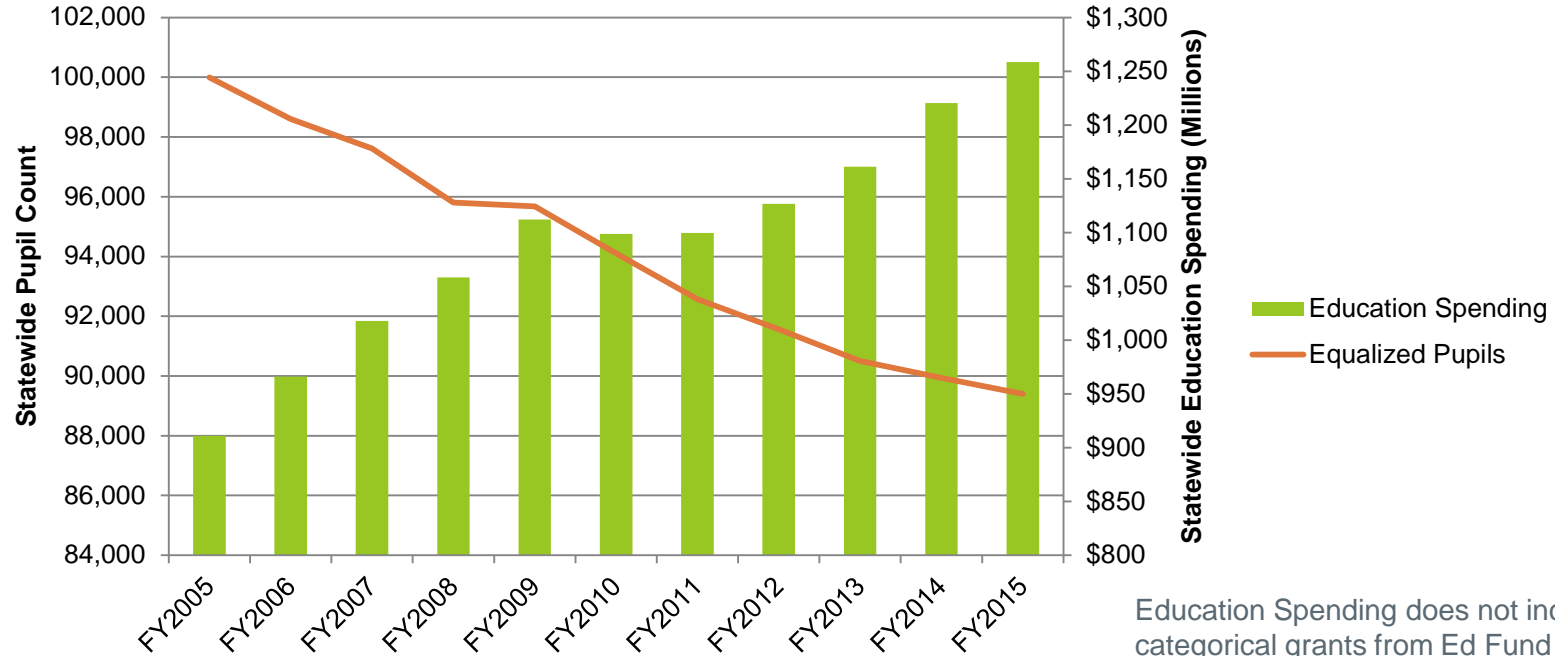
Strained Capacity for Education Tax Revenue

State & Local Revenues to K-12 Education as Share of GSP 2011-2012





Enrollment Declines, Spending Increases...

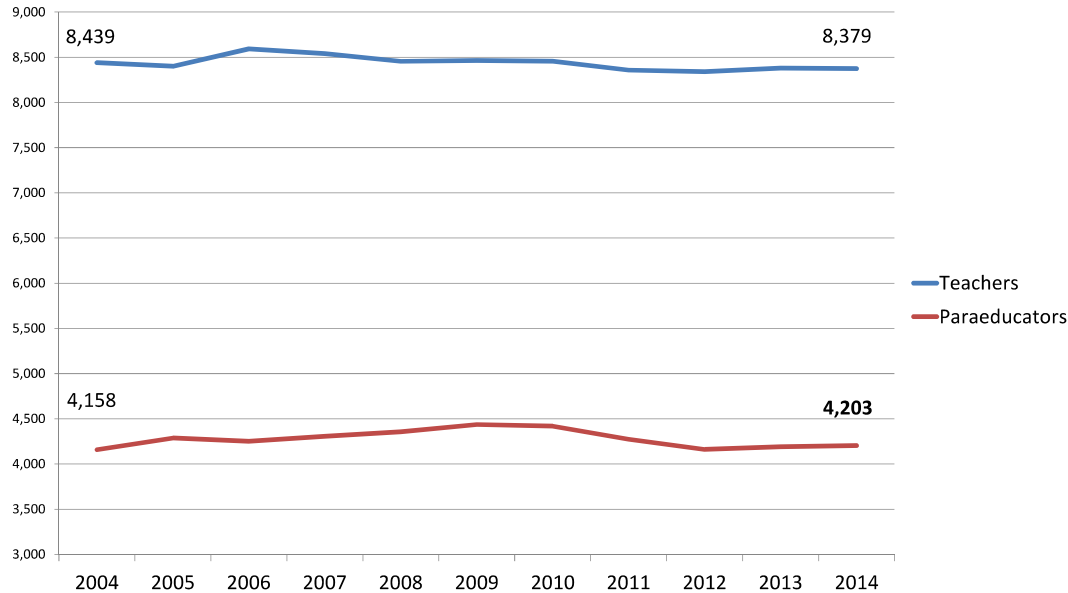


Education Spending does not include categorical grants from Ed Fund for SPED, small schools, transportation, etc.



...Staffing Levels Remain Constant

**Public School FTE Teachers and Paraeducators:
FY 2004 – FY 2014**



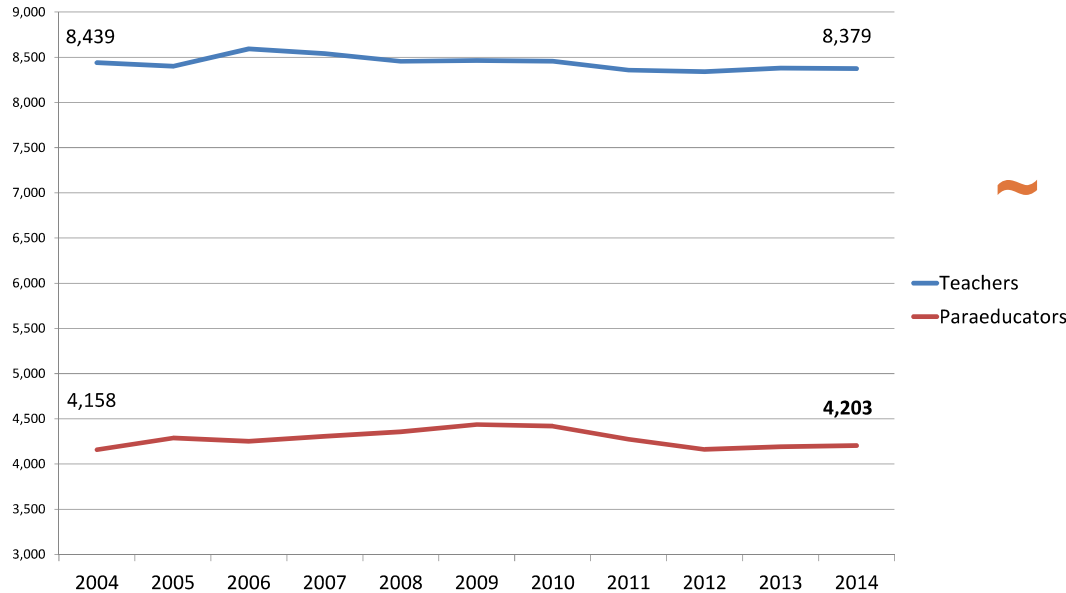
Source: Vermont Agency of Education

7



...Staffing Levels Remain Constant

Public School FTE Teachers and Paraeducators:
FY 2004 – FY 2014



**Personnel
~ 80% of Cost**

Source: Vermont Agency of Education

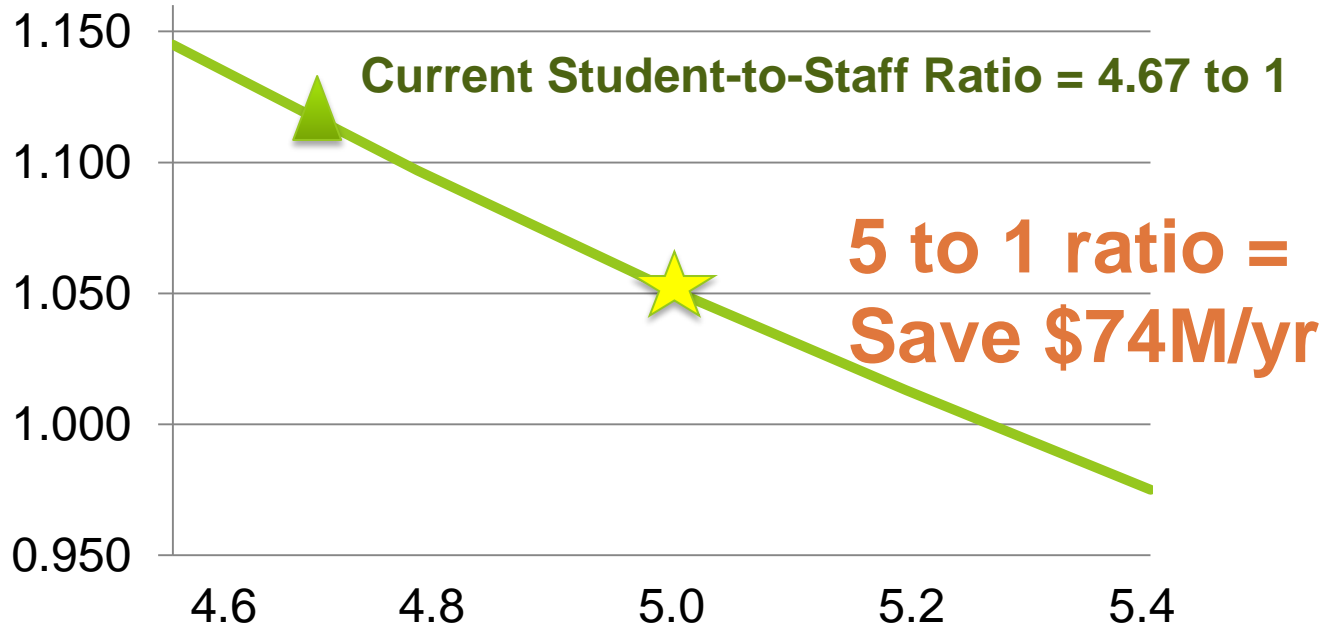
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Student/Staff Ratio

Hypothetical Costs Savings Through Staff Attrition (Retirements, etc.)

\$ Billion
Estimated
expenditures
on salaries
and benefits



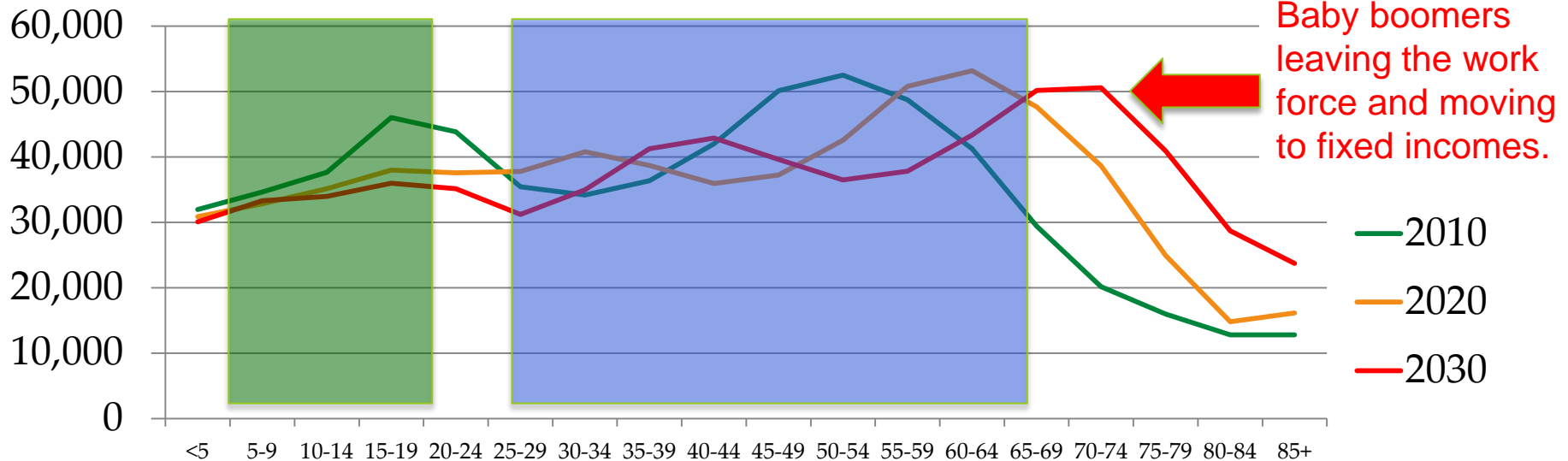
Source: Vermont AOE



Demographics – It's Not Just the Kids

Vermont Population Projections: 2010 Census, 2020, 2030

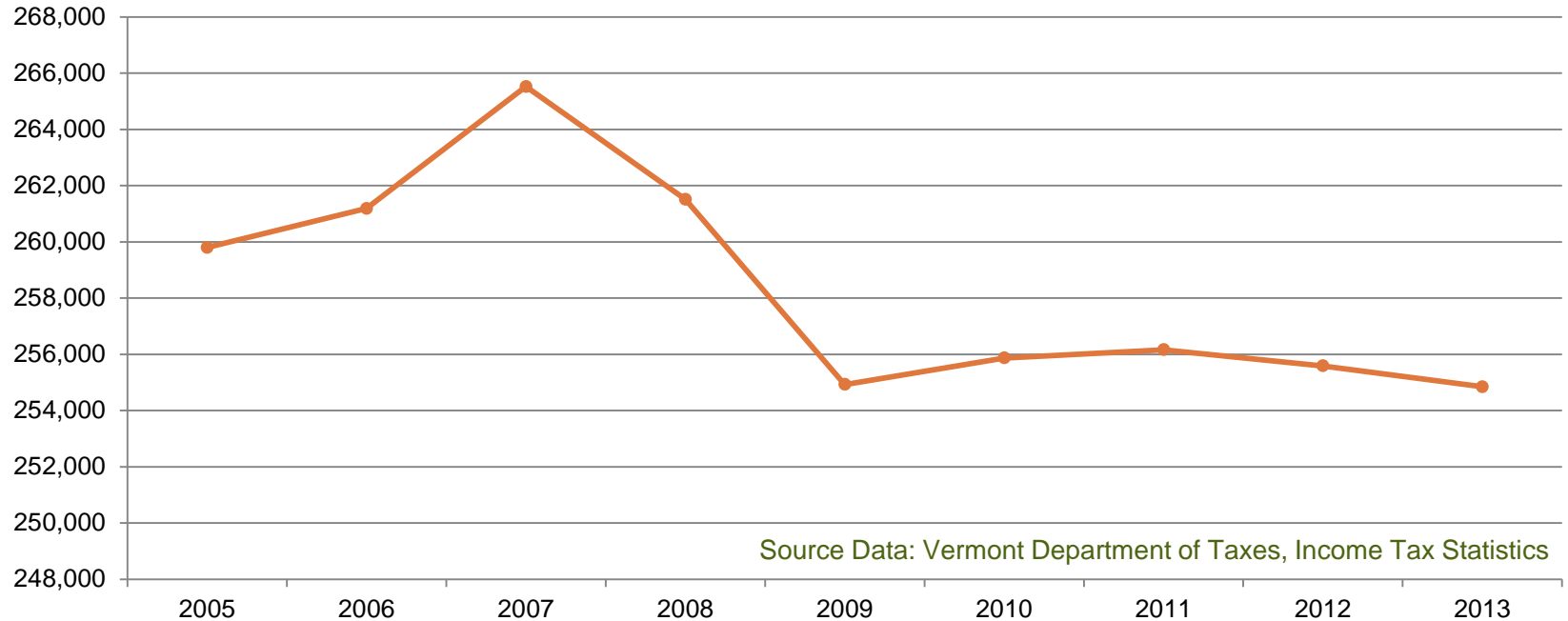
Source: Ken Jones, Ph.D., Economic Research Analyst





Demographic Headwinds Impact Tax Base

State Income Tax Returns for Resident Taxpayers Under Age 65



Source Data: Vermont Department of Taxes, Income Tax Statistics



Q&A





How the System Works (Cliff Notes Version)





Education Funding 101

Cliff Notes Version

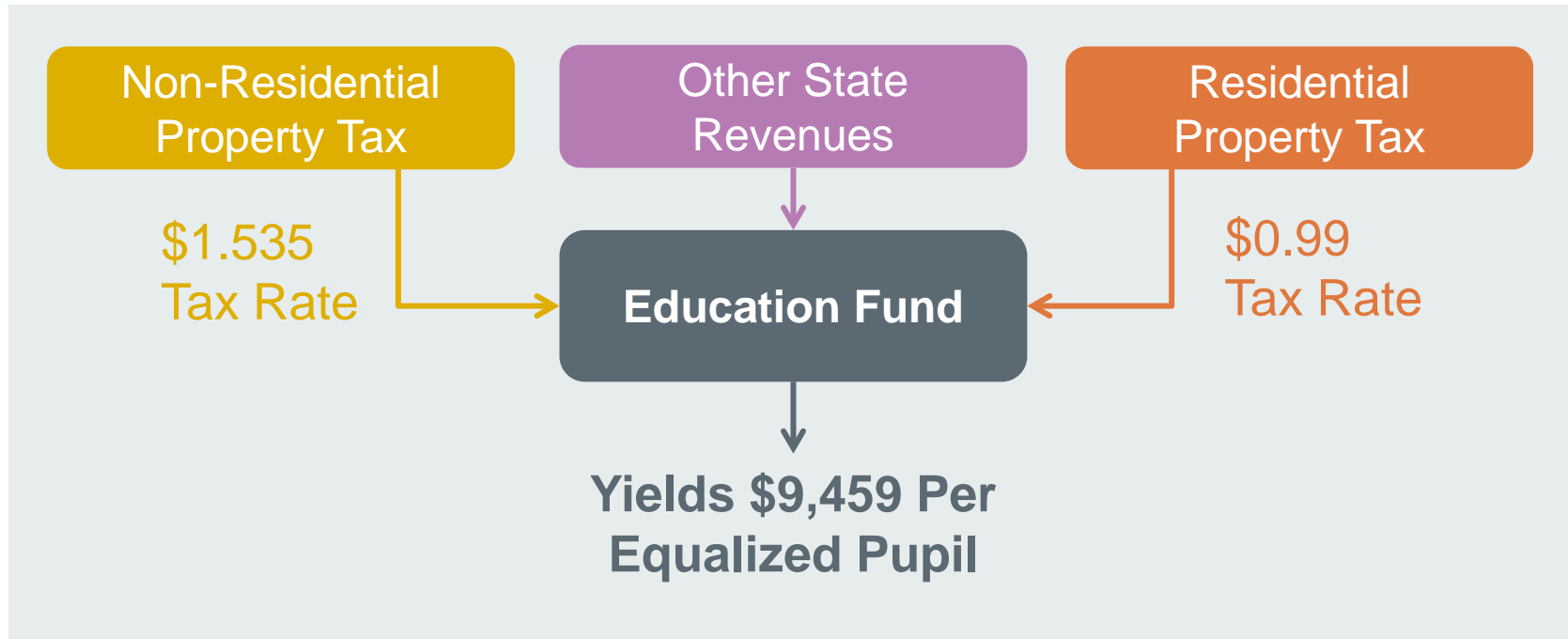
- Key Local Variables:
 - Total budgeted expenses
 - Equalized pupils (rolling weighted average of pupil counts)
 - Local non-property tax revenues (e.g. private donations/endowments, federal funds, small school grant and other categorical grants, etc.)

- Size of grand list has NO impact on budget or tax rate!



High Level Overview

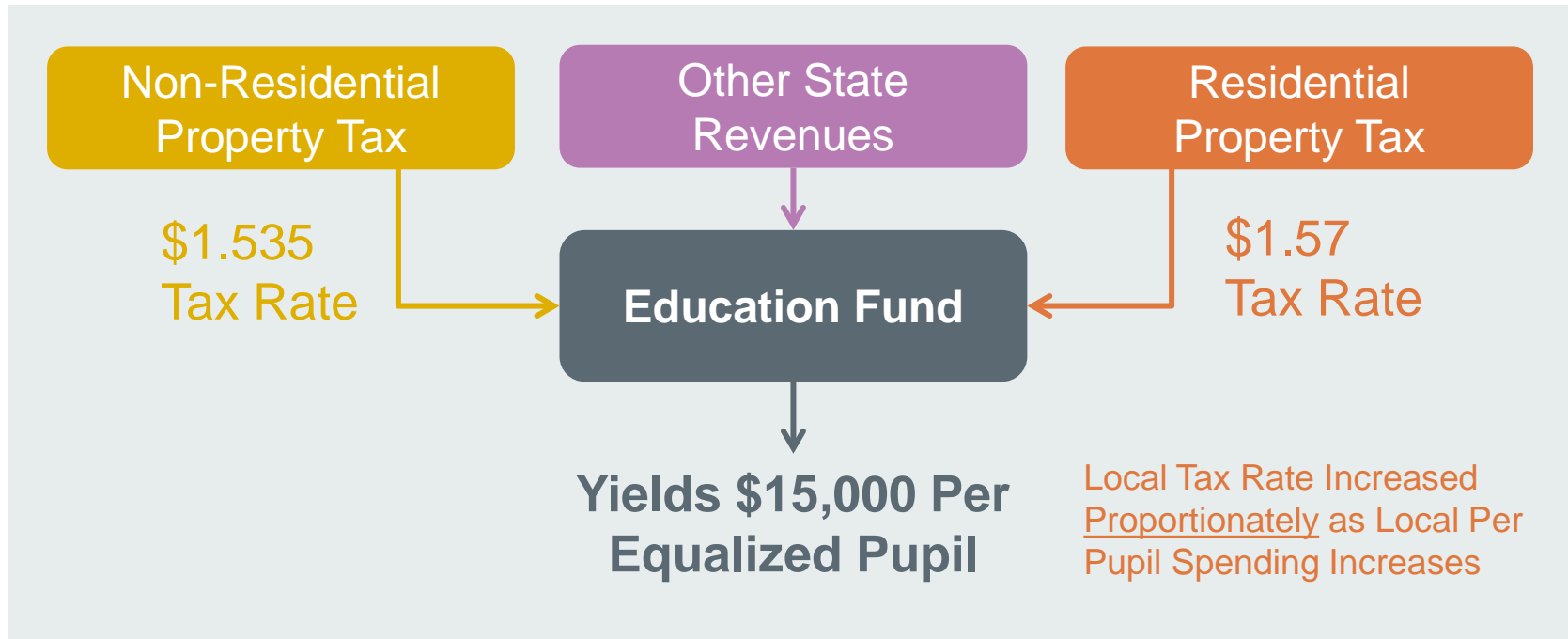
Vermont K-12 Education Baseline Finance Construct (FY16)





High Level Overview

Vermont K-12 Education Finance Construct (FY16 Example)





Budget vs. Per Pupil Spending

Going Beyond the Newspaper Headline

School budget up less than 1 percent

Less than 1%
increase...

... So why are my taxes
going up more than
10%?





Budget vs. Per Pupil Spending

Going Beyond the Newspaper Headline

School budget up less than 1 percent

| | FY14 | FY15 |
|-----------------------|--------------|--------------------------------------|
| Total Expenses | \$27,687,316 | \$27,866,206 0.6% Increase |

Caution: Simplified example for illustration purposes



Budget vs. Per Pupil Spending

Going Beyond the Newspaper Headline

School budget up less than 1 percent

| | FY14 | FY15 |
|------------------|--------------|-------------------------------|
| Total Expenses | \$27,687,316 | \$27,866,206 0.6% Increase |
| “Local” Revenues | \$8,401,747 | \$8,401,747 |
| Equalized Pupils | 1,200 | 1,079 |

What the headline
doesn't tell you





Budget vs. Per Pupil Spending

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| Ed Spending per Eq. Pupil | \$16,071 | \$18,039 11% Increase |

“Local” Revenue is typically federal and state grants, e.g. SPED and small school grants. These revenues are NOT counted towards per pupil spending used to set tax rate.

Per Pupil Spending Drives Tax Rates



Budget vs. Per Pupil Spending

Going Beyond the Newspaper Headline

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$$\frac{\text{Ed Spending Per Pupil}}{\text{State Base Spending Amount}} = \text{District Spending Adjustment}$$

$$\text{District Spending Adjustment} \times \text{Statewide Base Tax Rate}$$

= Local Tax Rate

11% Per Pupil Cost Increase
11% Tax Increase



Tax Rates in Context of Local School Budget

| Expenditures | | FY2013 | FY2014 | FY2015 | FY2016 |
|--------------|---|--------|----------------------|----------------------|----------------------|
| 1. | Adopted or warned union district budget (including special programs and full technical center expenditures) | - | \$8,178,562 | \$8,363,626 | \$9,547,397 |
| 2. | plus Sum of separately warned articles, passed at union district meeting | + | \$25,000 | \$33,000 | |
| 3. | Adopted or warned union district budget plus articles | - | \$8,203,562 | \$8,396,626 | \$9,547,397 |
| 4. | plus Obligation to a Regional Technical Center School District if any | + | - | - | |
| 5. | plus Prior year deficit repayment of deficit | + | - | - | |
| 6. | Total Union Budget | - | \$8,203,562 | \$8,396,626 | \$9,547,397 |
| 7. | S.U. assessment (included in union budget) - informational data | - | \$123,012 | \$150,891 | \$163,646 |
| 8. | Prior year deficit reduction (if included in union expenditure budget) - informational data | - | - | - | - |
| Revenues | | | | | |
| 9. | Union revenues (categorical grants, donations, tuitions, surplus, federal, etc.) | - | \$1,905,405 | \$1,684,896 | \$2,210,831 |
| 10. | Total offsetting union revenues | - | \$1,905,405 | \$1,684,896 | \$2,210,831 |
| 11. | Education Spending | - | \$6,423,261 | \$6,678,730 | \$7,336,566 |
| 12. | Mountain Towns RED equalized pupils | - | 411.48 | 438.64 | 458.20 |
| 13. | Education Spending per Equalized Pupil | - | \$15,610.90 | \$15,225.99 | \$16,011.71 |
| 14. | minus Less eligible net construction costs (see 100% per equalized pupil) | - | \$144,900 | \$280,000 | \$256,560 |
| 15. | minus Less share of SpEd costs in excess of \$50,000 for an individual | - | \$127.12 | \$154.46 | \$159.82 |
| 16. | minus Less amount of deficit if deficit is SOLELY attributable to tuitions paid to public schools for grades the district does not operate for new students who moved to the district after the budget was passed | - | - | - | - |
| 17. | minus Less SpEd costs if excess is solely attributable to new SpEd spending if district has 20 or fewer equalized pupils | - | - | - | - |
| 18. | minus Estimated costs of new students after census period | - | - | - | - |
| 19. | minus Total tuitions if tutoring ALL K-12 unless electorate has approved tuitions greater than average announced tuition | - | NA | - | - |
| 20. | minus Less planning costs for merger of small schools | - | - | - | - |
| 21. | minus Teacher retirement assessment for new members of Vermont State Teachers' Retirement System on or after July 1, 2015 | - | NA | NA | - |
| 22. | plus Excess Spending per Equalized Pupil over threshold (if any) | + | Threshold = \$14,841 | Threshold = \$15,456 | Threshold = \$16,166 |
| 23. | Per pupil figure used for calculating District Adjustment | - | \$15,611 | \$15,226 | \$16,011.71 |
| 24. | Union spending adjustment (minimum of 100%) (\$16,012 / \$9,459) | - | 170.592% | 163.985% | 169.275% |
| 25. | Anticipated equalized union homestead tax rate to be prorated (169.275% x \$1.00) | - | \$1.5236 | \$1.5471 | \$1.6928 |

Look for this page in your annual report

“Education Spending per Equalized Pupil” Controls Tax Rate



Q&A





Where We Go From Here

AKA: Act 46





Act 46: Goals

- Move state towards sustainable education governance models
- Encourage local decisions and actions that:
 1. Provide substantial equity in the quality and variety of education opportunities
 2. Lead students to meet or exceed state Educational Quality Standards
 3. Maximize operational efficiencies through greater flexibility to manage, share, and transfer resources, with a goal of increasing district-level student-to-staff ratios
 4. Promote transparency and accountability
 5. Are delivered at a cost valued by parents, voters, and taxpayers



Act 46: Major Components

Governance Reform

- Merger of school districts and supervisory unions into expanded districts
 - *Preferred governance* model is a Supervisory District resulting from the merger of an SU and its member school districts with 900+ students
 - *Alternative governance* model is one with a Supervisory Union and a small number of merged school districts (1,100+ students in aggregate preferred)
- Transition encourages local development of mergers
 - Initial phases are voluntary with three phases of tax incentives (incl. for alternative model, through process for REDs and their exceptions)
 - Ed Secretary will propose a plan to merge remaining districts, as necessary to achieve goals
 - In November 2018 State Board of Education will issue final plan to merge remaining districts



Act 46: Major Components

Realignment of Financial Support to Achieve Goals

- Phases out “phantom students” (effective FY21) except for merged districts
- Small School Grants:
 - Converted into Merger Support Grants that remain in perpetuity unless school is closed if merger complete by FY20
 - Beginning FY20, other school districts receive small school grant if average grade size is 20 or fewer **and** the district is eligible because it:
 - Is geographically isolated from a school with excess capacity **or**
 - Has demonstrated academic excellence and operational efficiency



Act 46: Major Components

Cost Containment

- Temporary cost control mechanism to moderate spending growth
 - Replaces “Excess Spending” penalty for FY17 and FY18 budgets
 - Applies fairly to **all** school districts (large and small)
 - Higher spending districts allowed smaller increases in education spending
 - Allows for more growth in low spending districts
 - Spending penalty triggered for spending in excess of allowable growth threshold



Expanded Governance Model Under Act 46

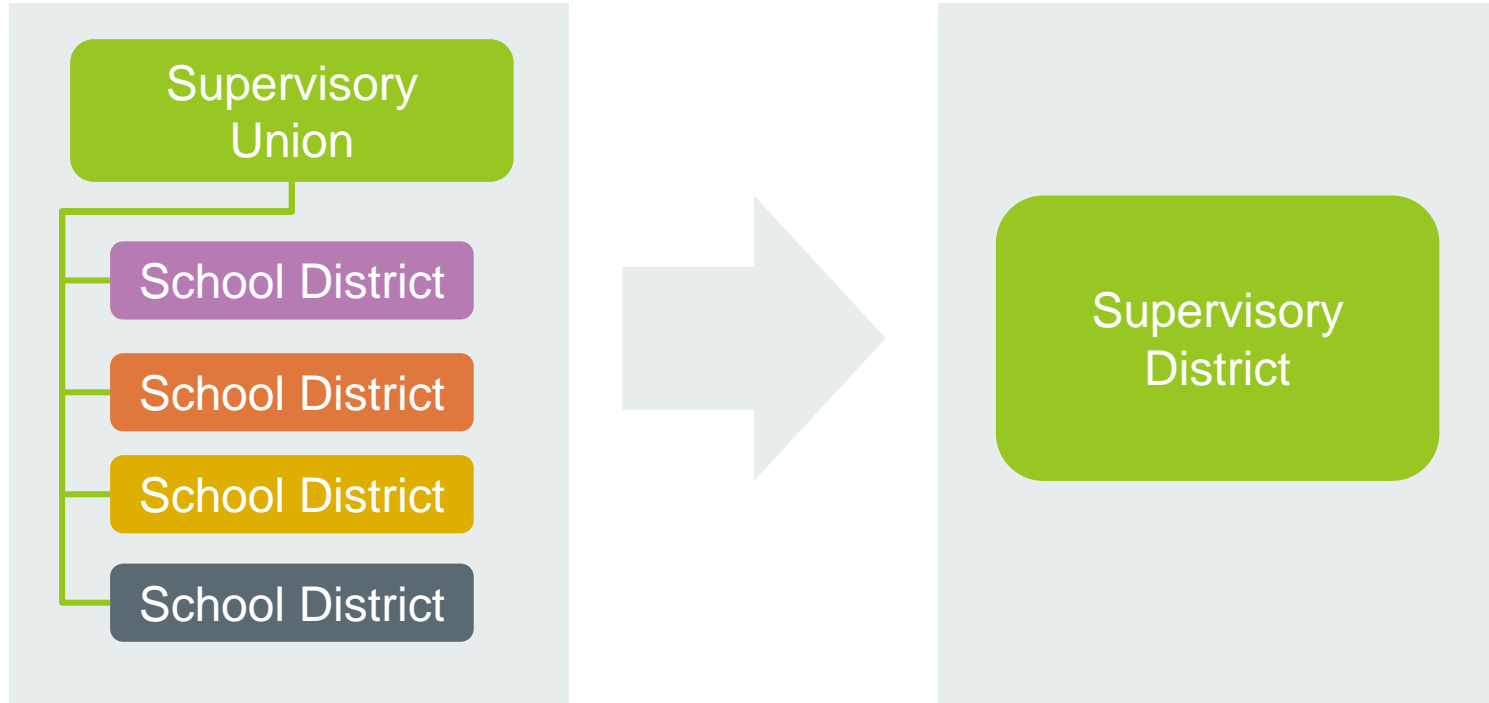
Act 46 Provides Catalyst & Incentive, Local Communities Drive Change

- Flexibility with how expanded districts are formed
 - Local communities choose their own destiny
 - Options to merge districts inside and outside an SU (except for Phase 1 mergers)
- Merger agreements are developed locally and outline key details:
 - Representation on expanded school boards (consistent with one person, one vote constitutional requirement)
 - School choice arrangements
 - Budgets and voting
- Guarantees continued school choice if local voters want it to continue **and** allows for expansion of choice for those that wish to adopt choice



Expanded Governance Model Under Act 46

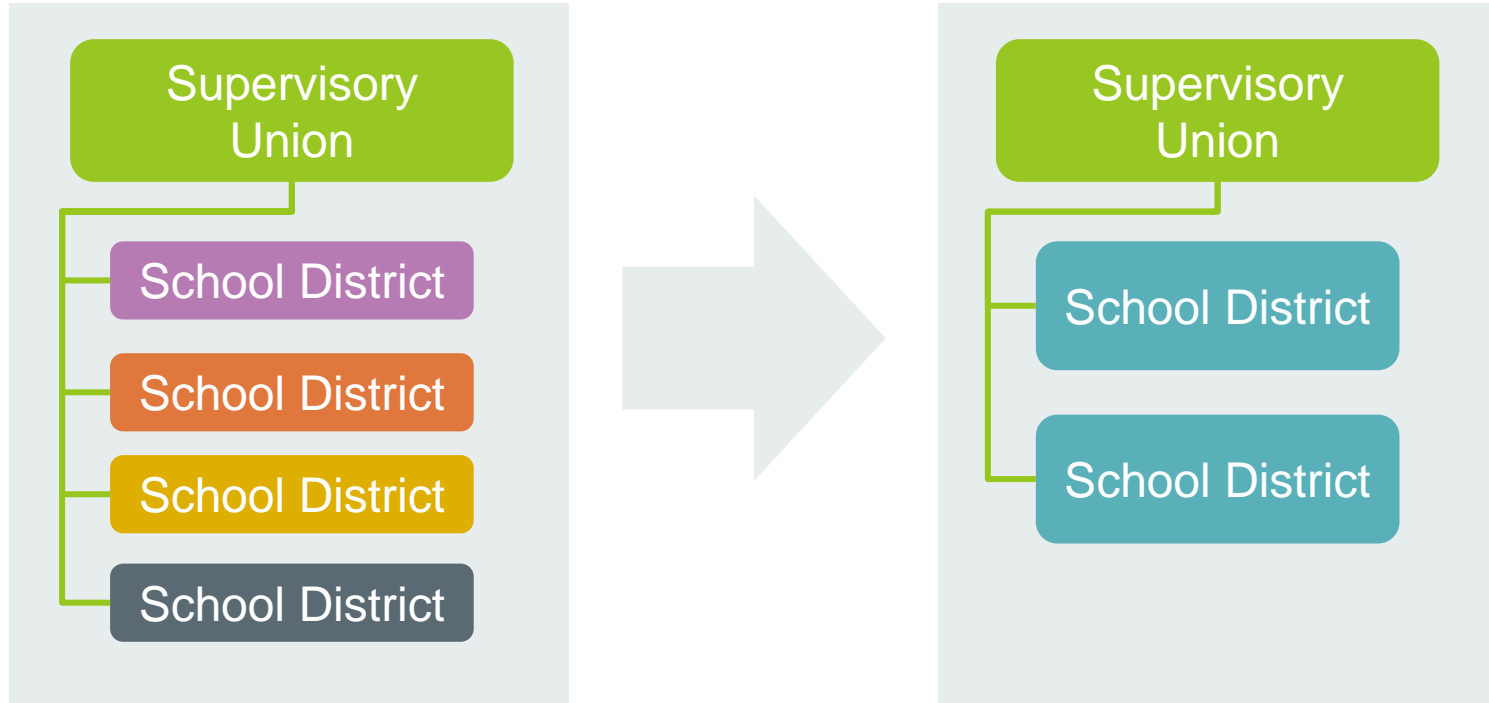
Merger from Current Structure to Preferred Model





Expanded Governance Model Under Act 46

Merger from Current Structure to Alternative Model





Act 46 Merger Timeline

Voluntary Mergers

| Phase | Criteria | Approval By | Operational By | Incentives Include |
|---|---|-------------|----------------|--|
| <u>Phase 1</u> <i>Preferred Model</i> | <ul style="list-style-type: none">• PK – 12 Supervisory District• 900+ Students (ADM)• Meets stated goals | 6/30/2016 | 7/1/2016 | Year 1: \$0.10 Year 2: \$0.08 Year 3: \$0.06 Year 4: \$0.04 Year 5: \$0.02 |
| <u>Phase 2</u> <i>Alternative Model</i> | <ul style="list-style-type: none">• PK – 12 RED• 1,250+ Students (ADM) <u>or</u> merger of 4 districts | 7/1/2017 | 7/1/2019 | Year 1: \$0.08 Year 2: \$0.06 Year 3: \$0.04 Year 4: \$0.02 |
| <u>Phase 3</u> <i>Preferred Model</i> | <ul style="list-style-type: none">• PK – 12 Supervisory District• 900+ Students (ADM)• Meets stated goals | No Deadline | 7/1/2019 | Year 1: \$0.08 Year 2: \$0.06 Year 3: \$0.04 Year 4: \$0.02 |



OK, but why merge districts?

Where is the value in an expanded school district?

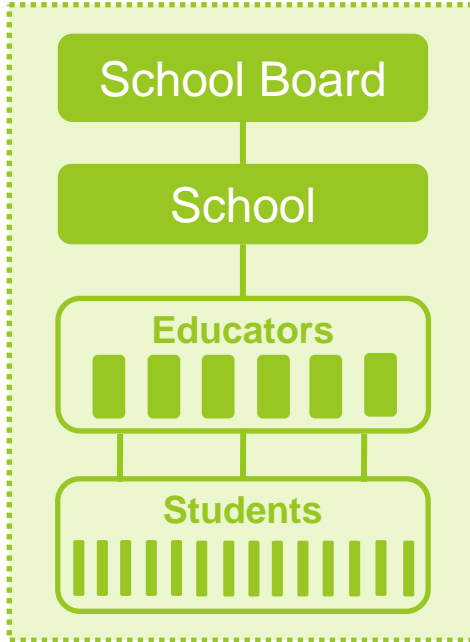




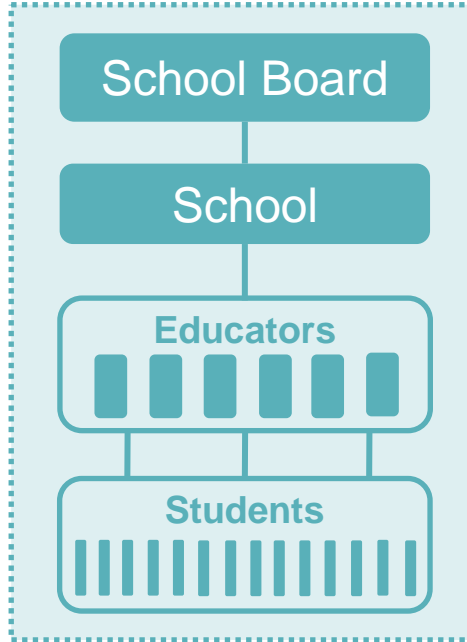
Traditional Governance Model

Aligned to Municipal Boundaries

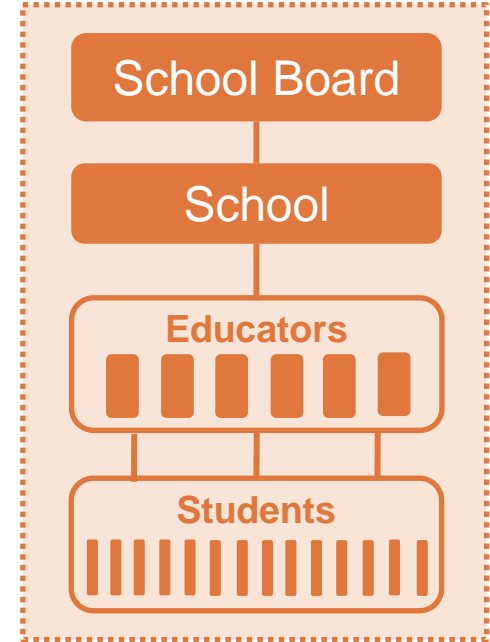
Green Town



Blue Town



Red Town

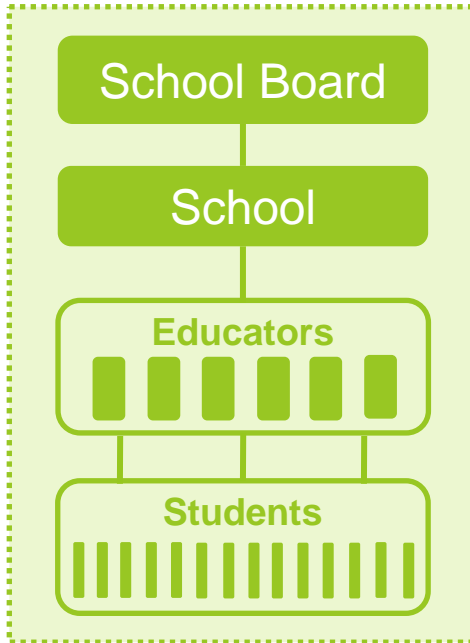




Traditional Governance Model

Response to Declining Enrollment & Staff Retirement

Green Town

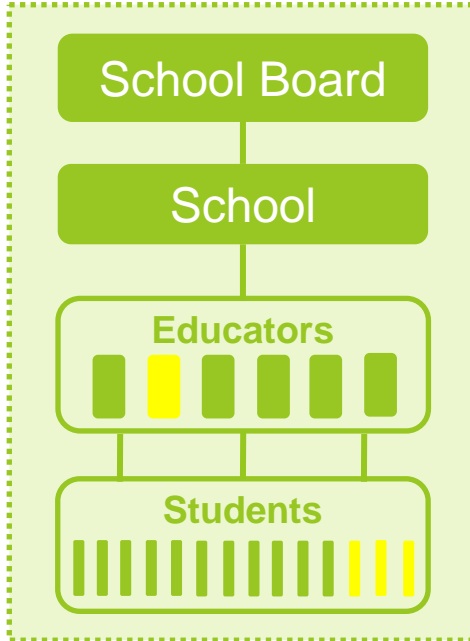




Traditional Governance Model

Response to Declining Enrollment & Staff Retirement

Green Town



Teacher Retires

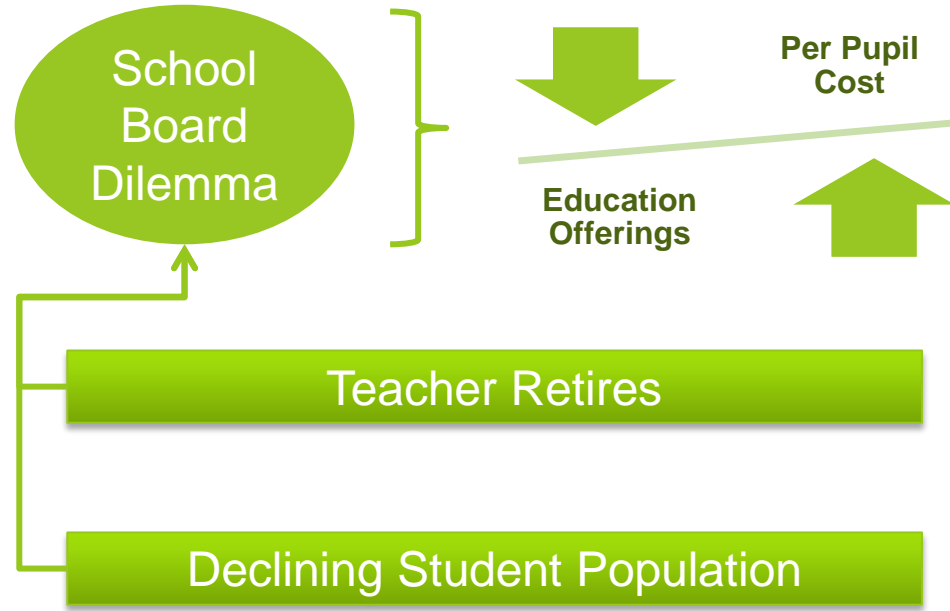
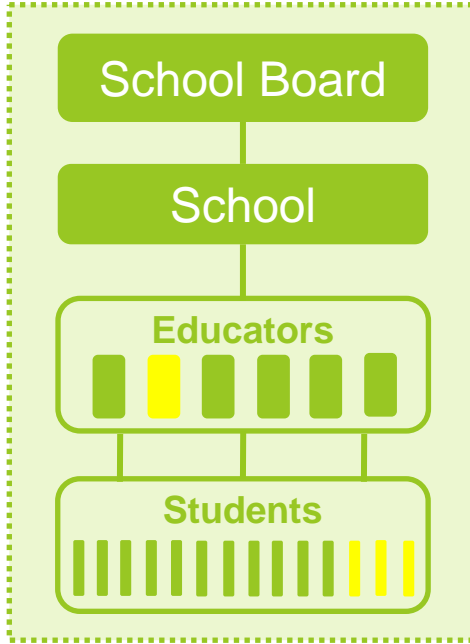
Declining Student Population



Traditional Governance Model

Response to Declining Enrollment & Staff Retirement

Green Town

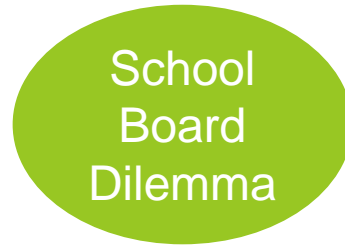
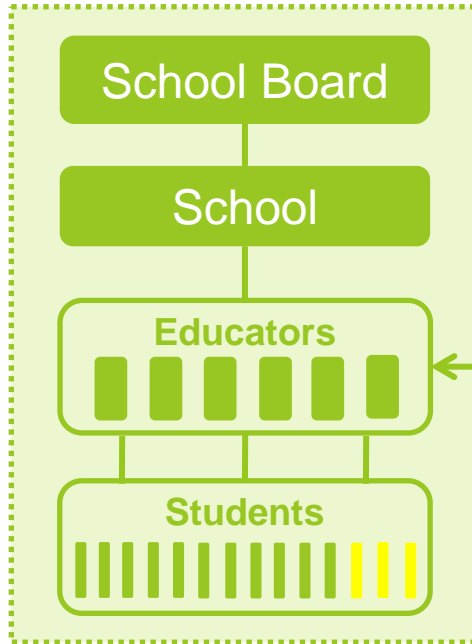




Traditional Governance Model

Response to Declining Enrollment & Staff Retirement

Green Town



Difficult Choices

- A: Replace Teacher
- B: Eliminate Program

$$\frac{\text{Same Cost}}{\text{Lower Pupil Count}} = \text{Higher Per-Pupil Cost \& Higher Tax Rate}$$



Traditional Governance Model

Response to Declining Enrollment & Staff Retirement

Green Town

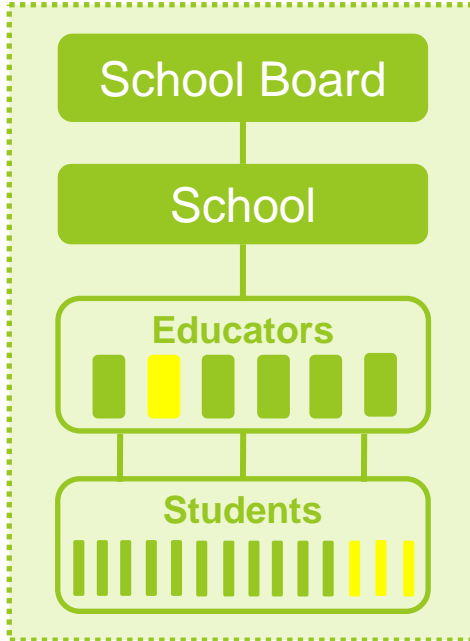




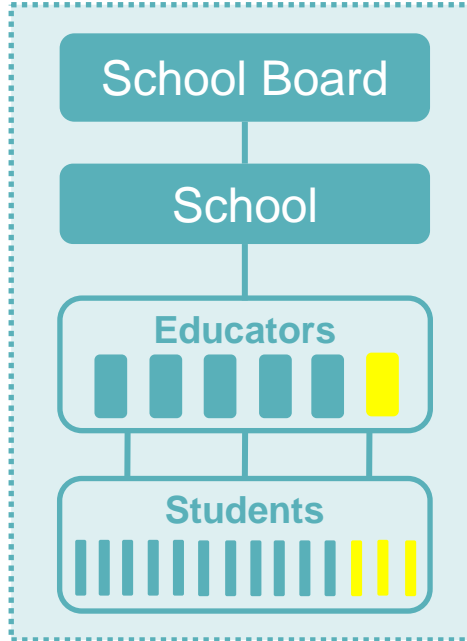
Traditional Governance Model

Shared Challenges; Individual Districts Trying to Solve in Silos

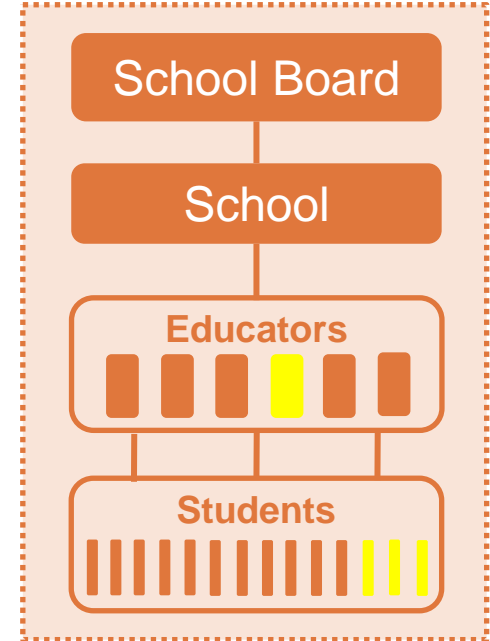
Green Town



Blue Town



Red Town





Expanded Governance

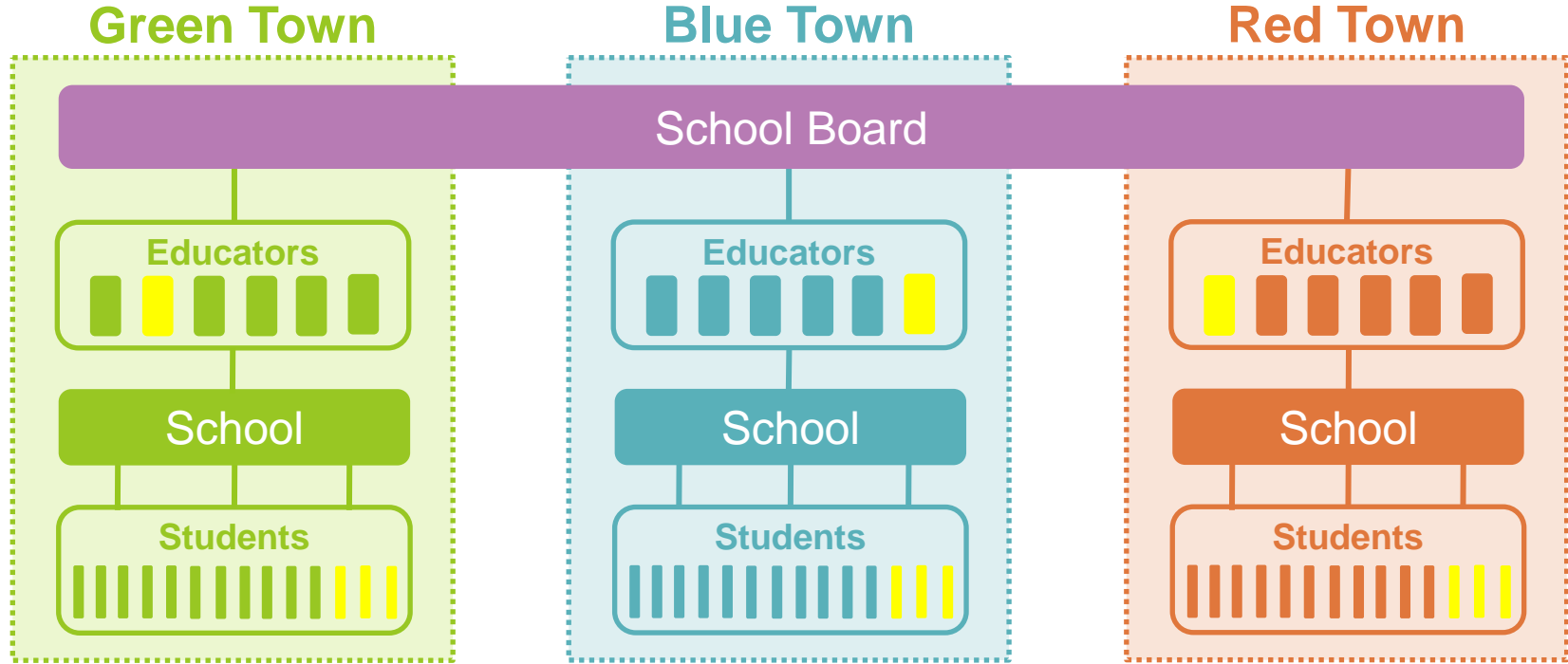
Broader Perspective





Expanded Governance Model Under Act 46

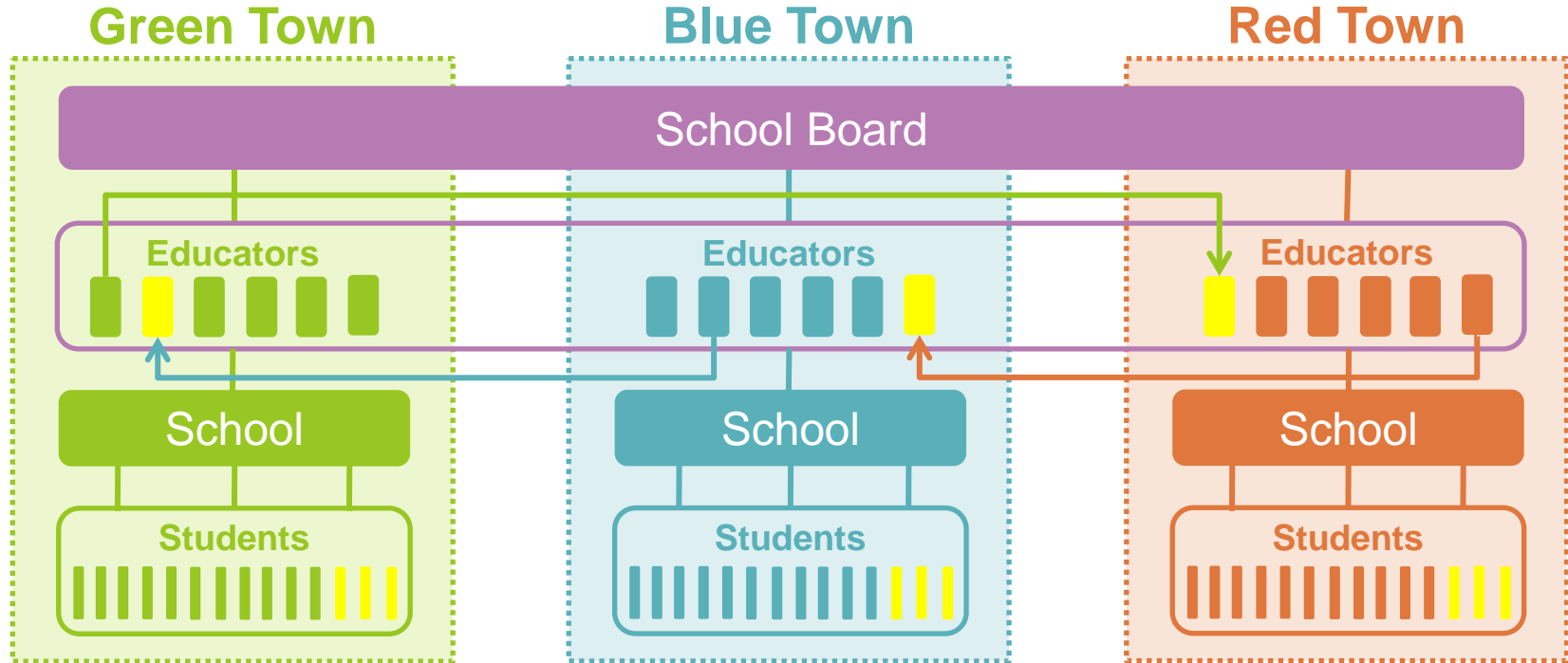
One District Collaborating to Maximize Value Across Boundaries





Expanded Governance Model Under Act 46

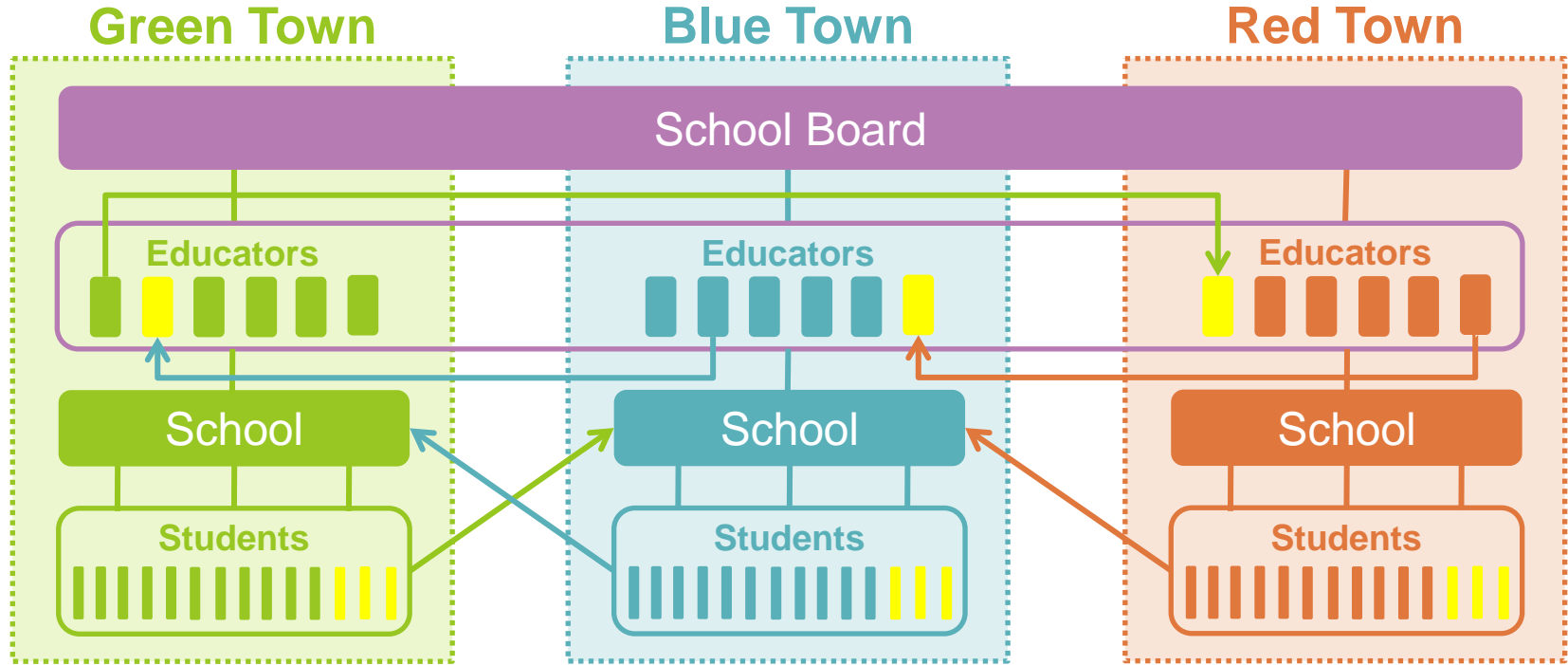
Expanded District Allows for Flexible Staffing to Meet Changing Needs





Expanded Governance Model Under Act 46

... And New Alternatives for Students





Expanded Governance Model Under Act 46





Challenges & Opportunities in the Real World:

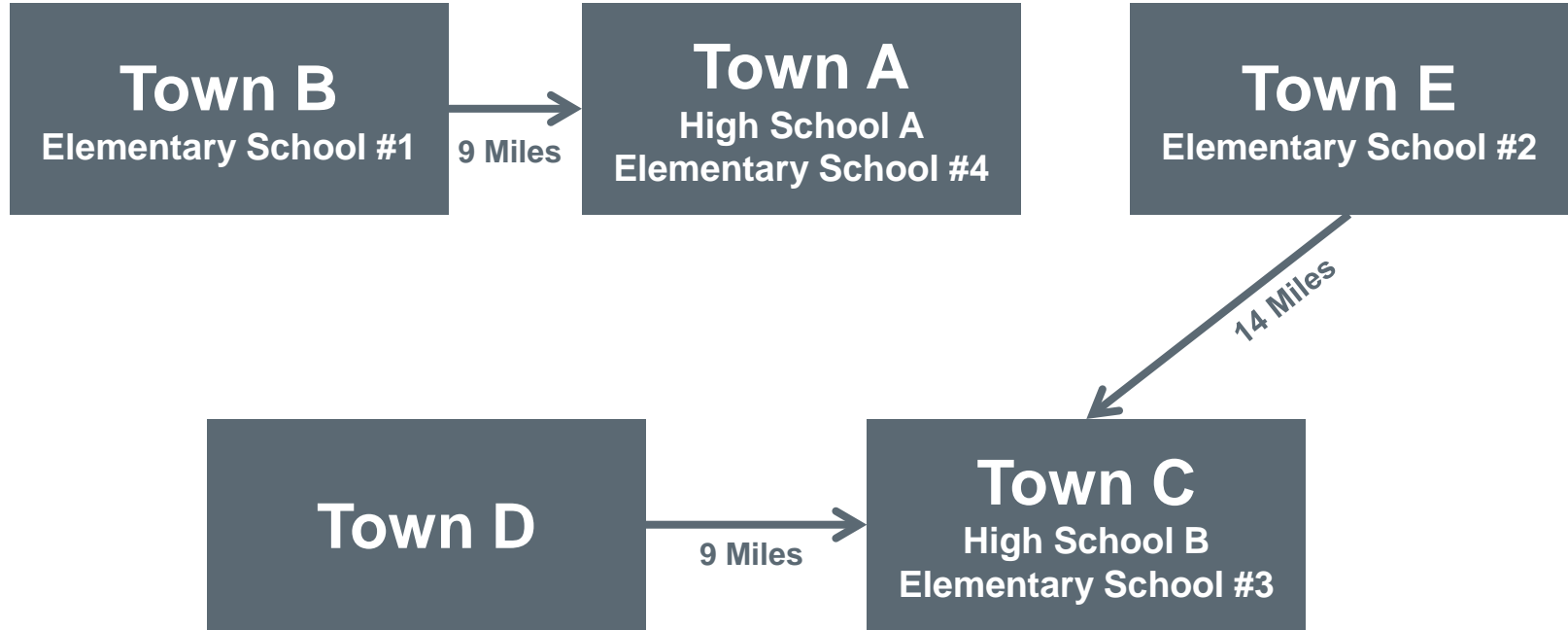
A Tale of 5 Towns (Outside our Region)





Five Towns: Challenges & Opportunities

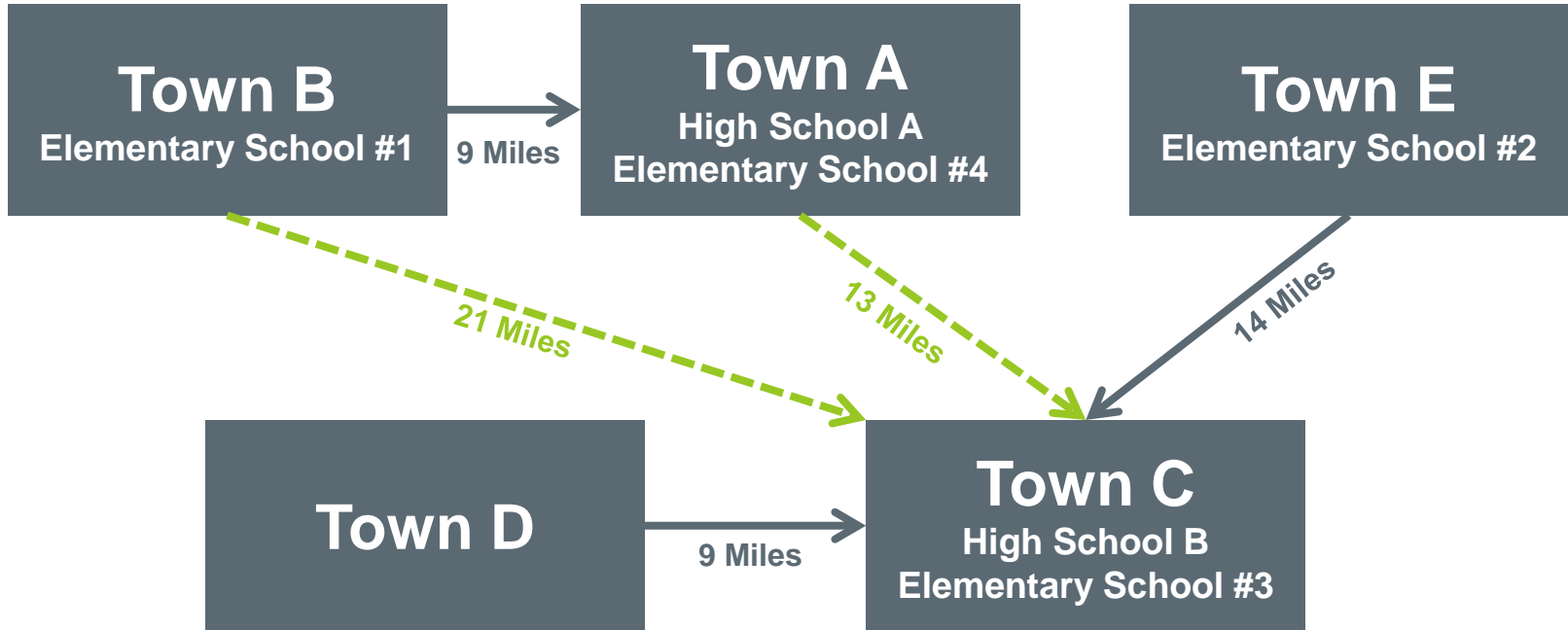
Five Towns within Same Supervisory Union, but Different School Districts





Five Towns: Challenges & Opportunities

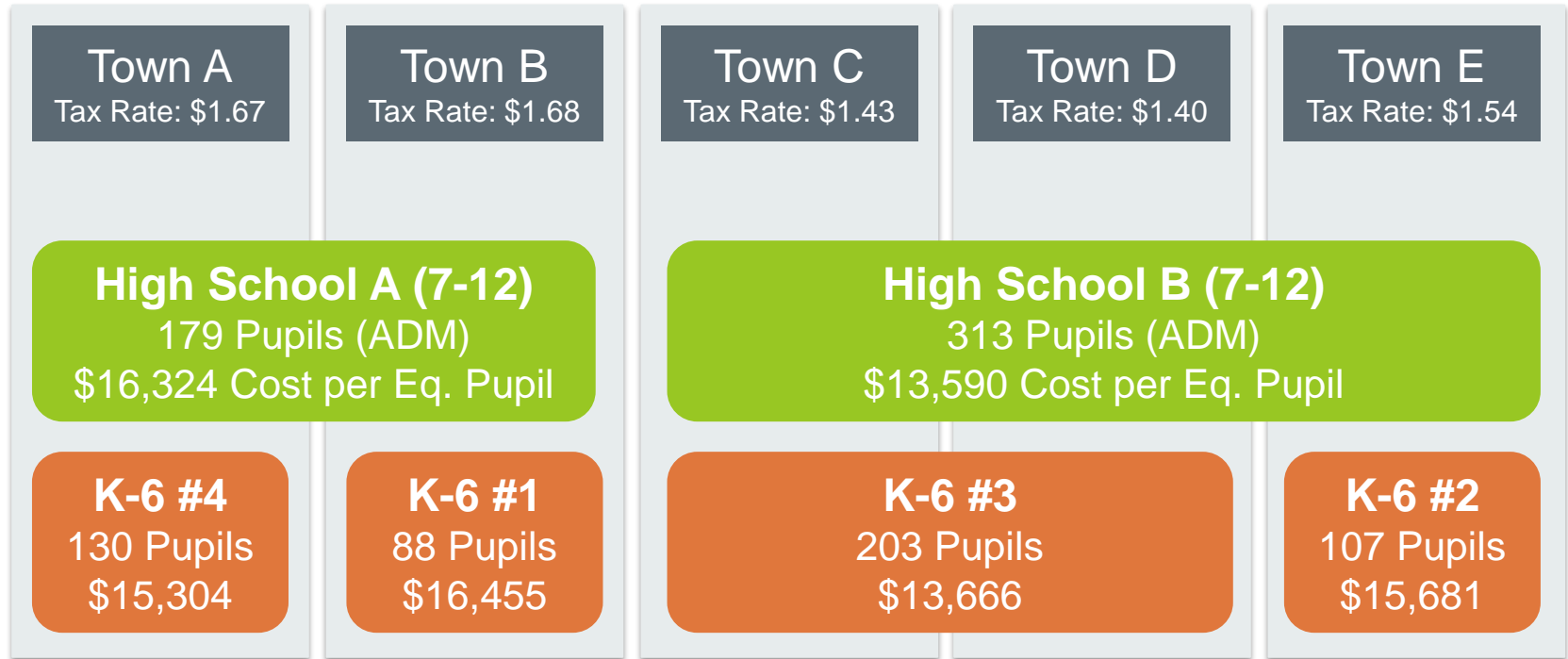
Five Towns within Same Supervisory Union, but Different School Districts





Five Towns: Challenges & Opportunities

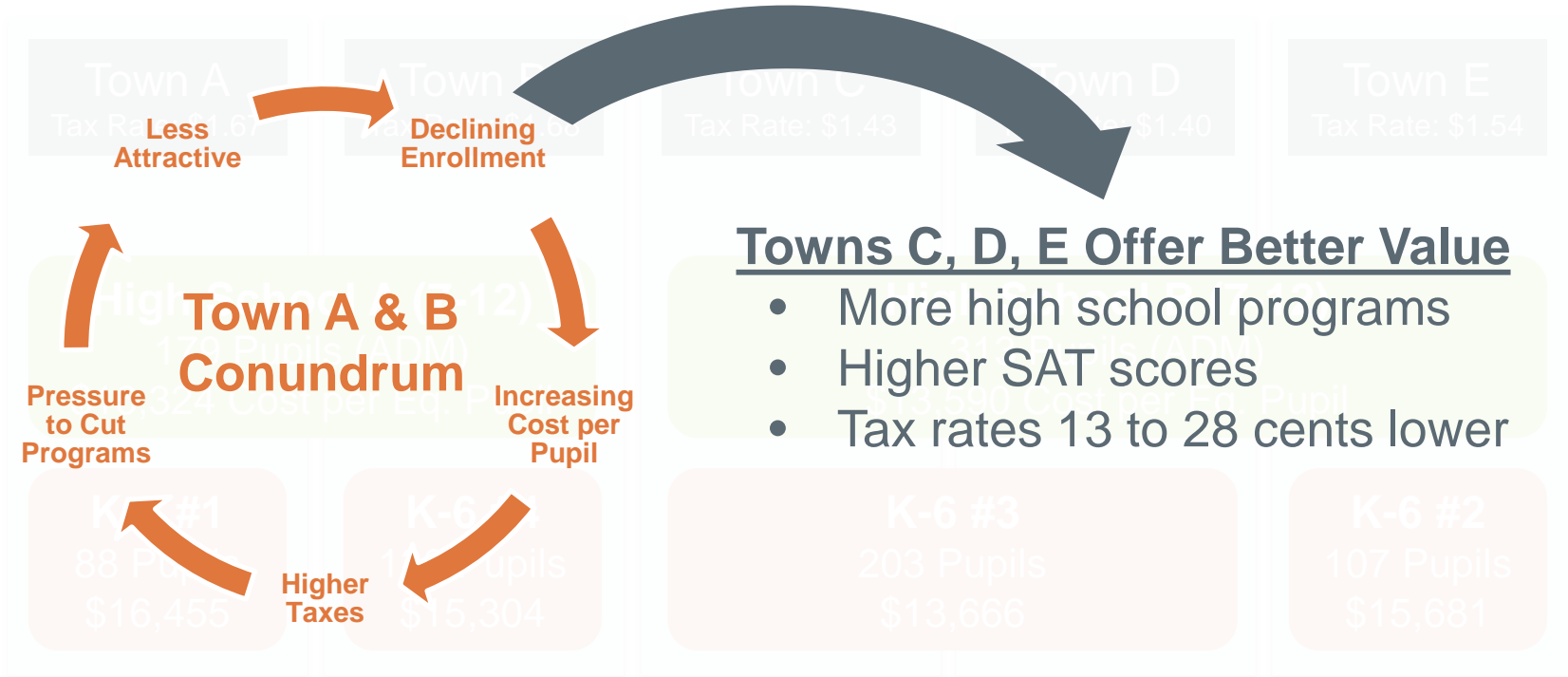
Structure of Actual Local School Districts in FY15 (Not in Our Area)





Challenges & Opportunities

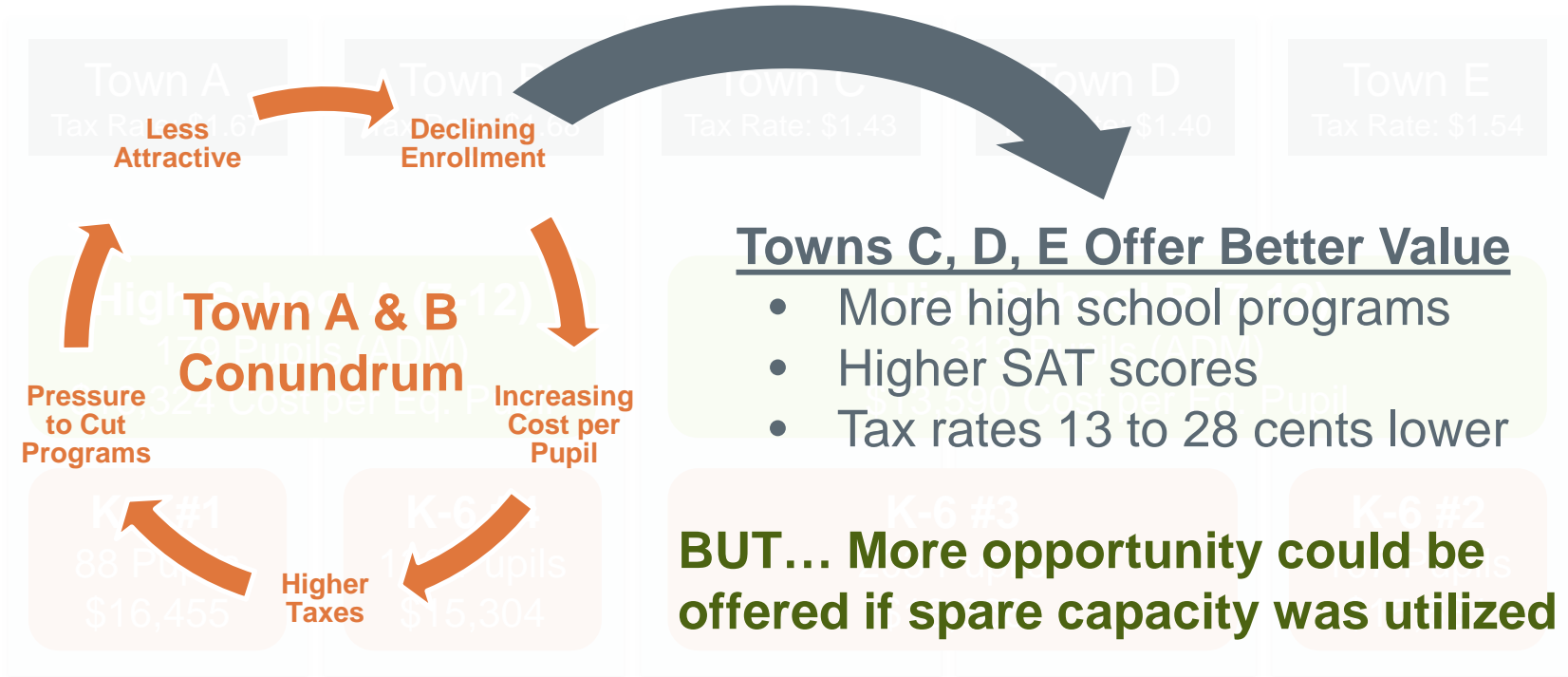
Towns A & B Struggling; Towns C, D, E Offer More for Less





Challenges & Opportunities

Towns A & B Struggling; Towns C, D, E Offer More for Less





Challenges & Opportunities

Leveraging Shared Economies of Scale to Improve Opportunity for All

Equalize Opportunity & Do More For ALL

- Eliminate redundancy of core high school programs
- Reinvest savings to provide more high school AND elementary programs in ALL five towns
- Reduce or hold tax rates for ALL five towns

K-6 #1

88 Pupils

\$16,455

K-6 #4

130 Pupils

\$15,304

K-6 #3

203 Pupils

\$13,666

K-6 #2

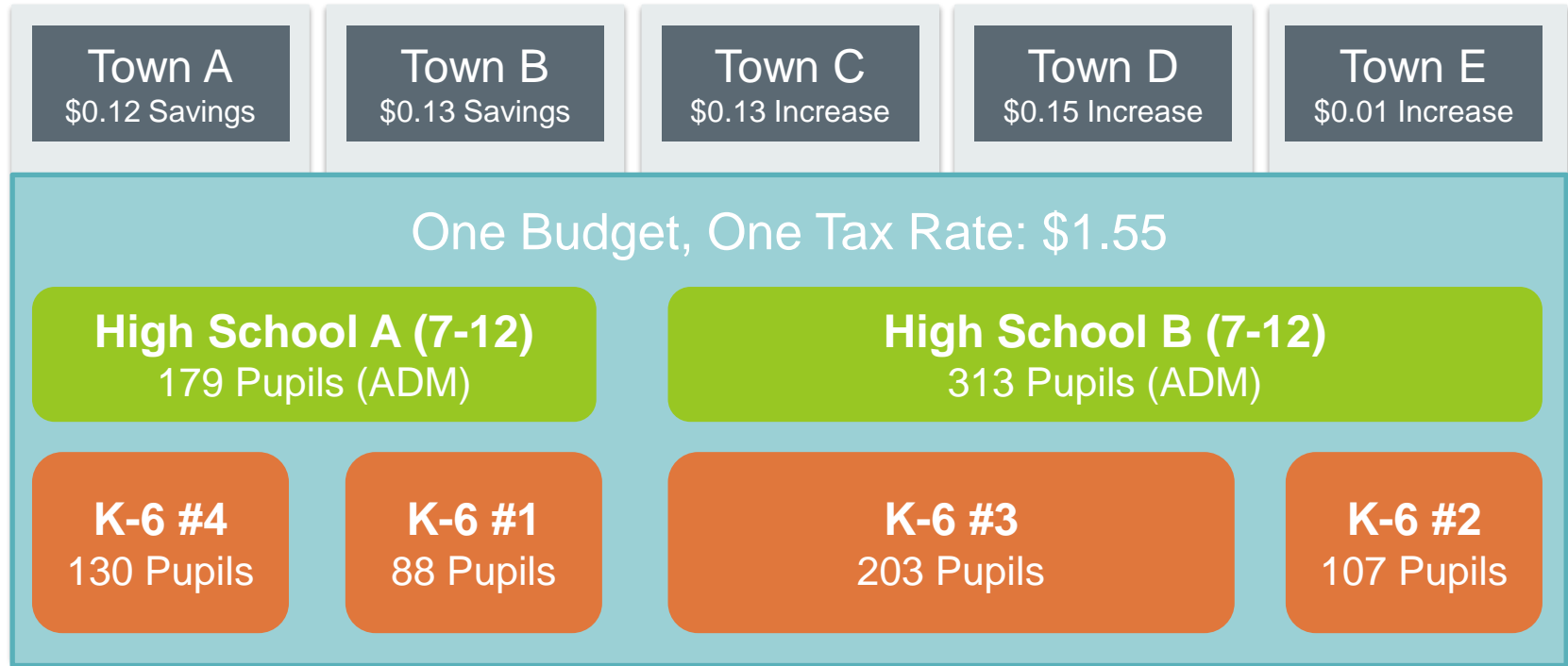
107 Pupils

\$15,681



Expanded Governance Model Under Act 46

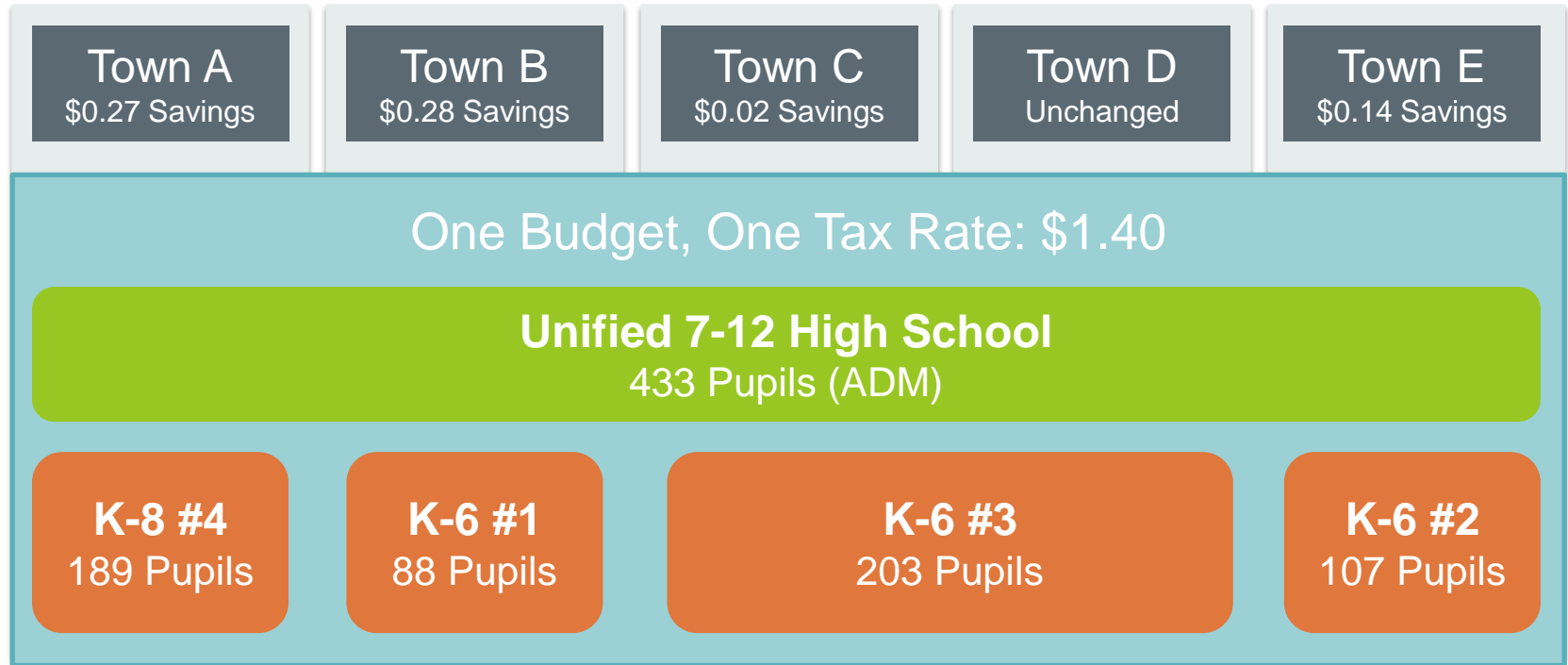
Governance Merger ONLY – No Operational Change (before incentives)





Expanded Governance Model Under Act 46

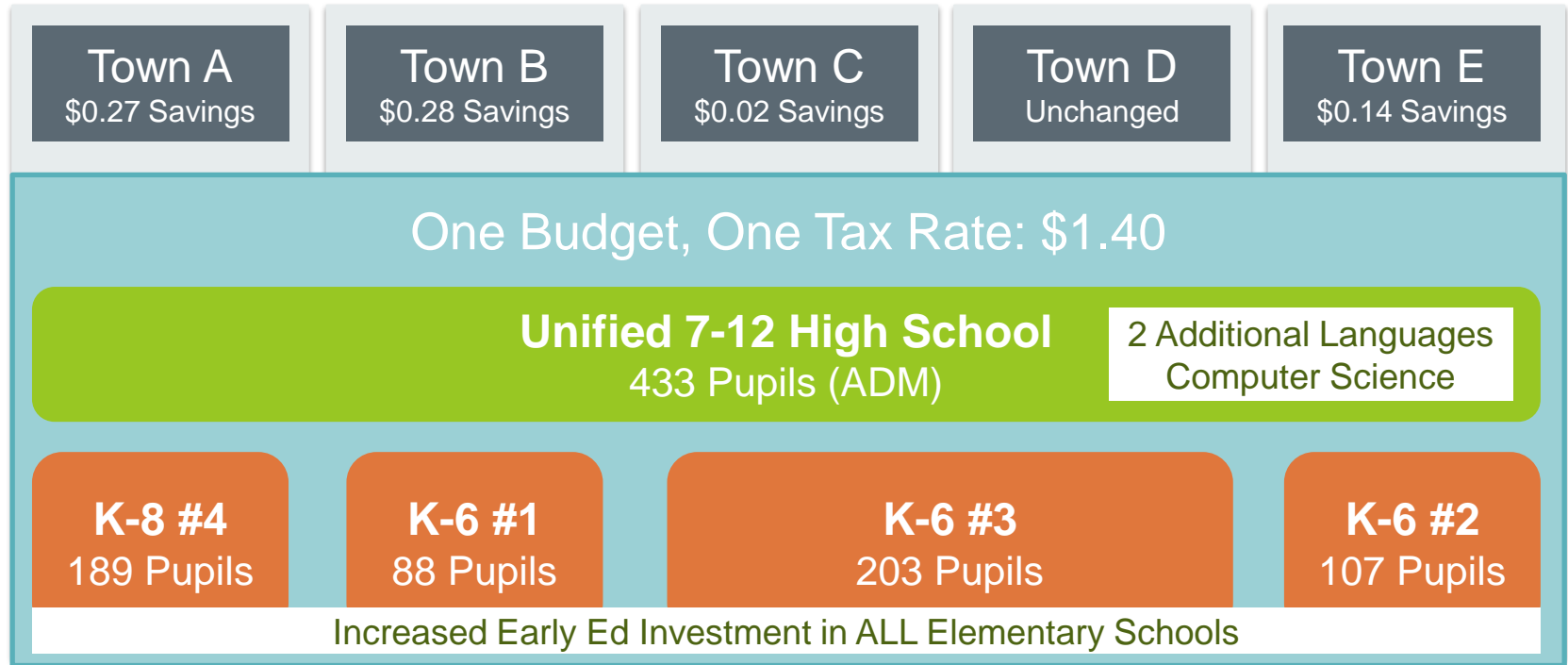
Governance Merger & Consolidation of High School (before incentives)





Expanded Governance Model Under Act 46

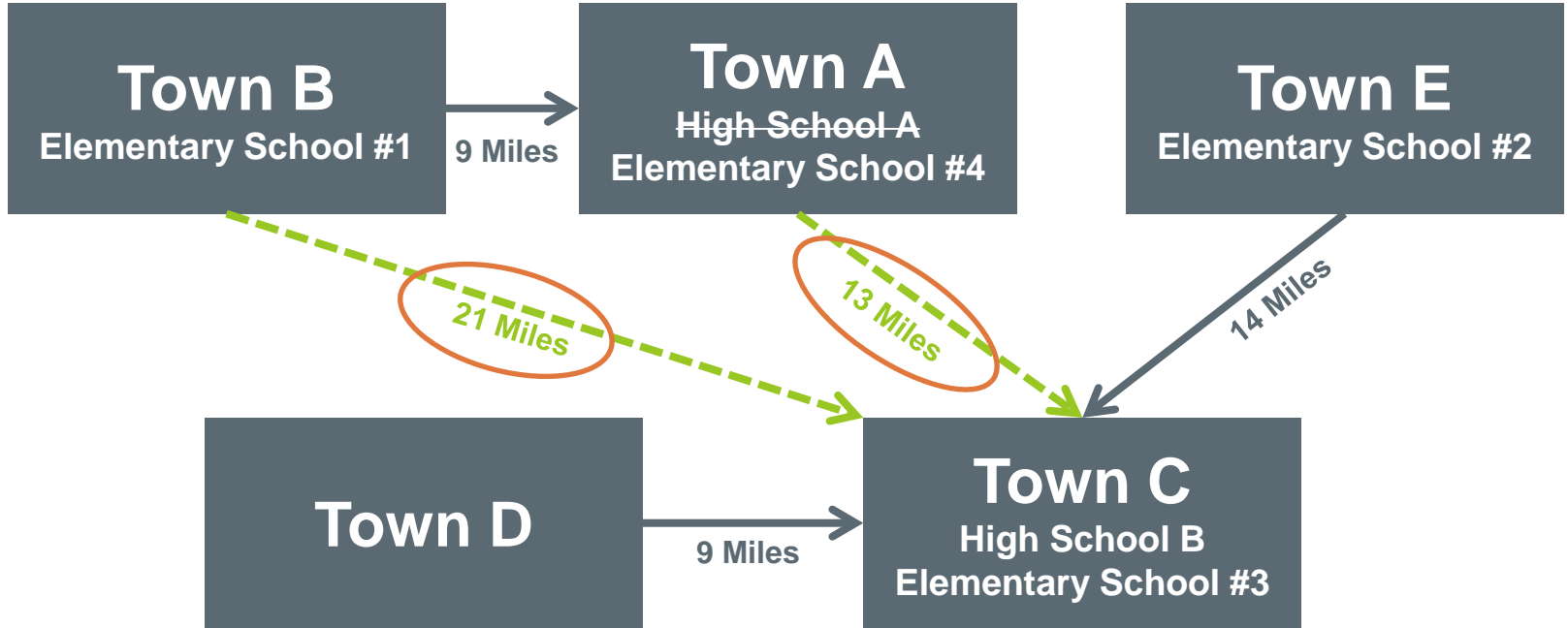
Governance Merger & Consolidation of High School (before incentives)





But What About Increased Travel Distance?

Impact to Local Communities





How Can We Attract Families Without a School?

Putting the Question into Perspective

Town B

Town A

+ 13 Miles

- Town A has experienced the largest percentage decline in students within its county over the past 20 years
- High school serving Town A & B has SAT scores below state and national averages
- Education property taxes in Town A & B are much higher than other towns within the same SU (and higher than state average)



How Can We Attract Families Without a School?

Comparison with two other Vermont towns

Town X

Town Y

26 Miles
15 Miles

- Town X and Y have experienced the largest and second largest % increase in students, within the state over the past 20 years
- High school serving Town X & Y – 26 and 15 miles away – has SAT scores above state and national averages
- Education property taxes in Town X & Y are 9 to 25 cents lower than tax rates in Town A & B in FY16.



Q&A





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