

The policy goals for these recommendations are: (1) to ensure a more equitable and efficient distribution of Education Fund resources to districts by basing per pupil student weights on empirical evidence concerning cost differences; and (2) to cushion the impact of the changes in weights by ensuring that additional resources are available to the Education Fund.

SUMMARY OF RECOMMENDATIONS:

***** Substantially increase the per pupil weights as recommended by the UVM study.**

***** Use categorical grants as well to increase resources to previously underweighted districts to ensure that resources are available for key investments in educational opportunity.**

***** Cushion the initial impact of the change in weights on previously overweighted districts and cover the cost of Categorical Grants by directing that the General Fund begin to re-imburse the Education Fund for the lost revenue due to the Current Use Program just as municipalities are re-imbursed, supplemented by a one-time transfer from the General Fund if needed.**

DISCUSSION OF RECOMMENDATIONS.

Change the Weights and Use Categorical Grants.

The recommendations of the UVM study must be substantially implemented. This will increase the weights for rurality, poverty, English learners, and higher grades. These are significant changes that could have an impact one way or another on many school districts in Vermont. But this is the change that is justified by the best empirical study of differential costs of education at this time that we have. We must base student weights on those differing costs in order to facilitate equitable distribution of resources and substantial equality of educational opportunity. The current weights were not based on contemporary cost differences. To object to changing these weights now that we have better evidence because the change is too large is unacceptable. The changes could be phased in if that is considered best.

It would make sense to also use Categorical Grants as another way to provide added resources to targeted districts characterized by rurality, poverty, and students for whom English is a second language. At least initially such grants could ensure that it is possible to make key investments to increase education quality. Such grants could also help to avoid the possibility that for some previously underweighted districts the effects on property tax rate calculation from factors like the Common Level of Appraisal or Coefficient of Dispersion might offset the effects of changes in weights, so that voter approved spending does not rise sufficiently to improve educational opportunities. These grants might only be necessary temporarily.

Financing the Transition to Greater Equity and Efficiency.

The effect on the changes in weights in the education property tax liabilities in currently overweighted districts must be cushioned and the categorical grants must be financed. The students in the overweighted districts and the voters in those districts did nothing wrong, and they do not deserve to experience an undue negative impact from the change in weights. The State has historically determined the per pupil weights, and now that the inequity and inefficiency of the current weights has been revealed

the state must update them to provide sufficient resources to underweighted students, while also ensuring that the education of students of overweighted districts is not adversely impacted. In order to achieve this the State should begin to re-imburse the Education Fund for the cost of the Current Use Program in whole or in part.

The Current Use Program is an important and valuable program, and the General Fund could reimburse the costs of it to the Education Fund without changing the program in any way. This program provides tax reductions for eligible owners of agricultural and forestry land so that they pay property taxes based on the use of their land rather than the assessed market value. It is a key part of Vermont's environmental and resource management. But it is not education. Despite that it cost the Education Fund \$48.7 million in lost education property taxes in 2020 to cover tax savings to enrolled owners of agricultural and forestry land. That is almost 5 cents on the education property tax rates. The state could simply begin to re-imburse the Education Fund for the cost in lost revenue from the General Fund just as it already re-imburses municipalities for the lost property tax revenue from the program. I don't know the estimated magnitude of the shift in resources due to the change in the per pupil weights, or how a reduction of 5 cents on the property tax rate would compare to the effects of the changes in weights on currently overweighted districts.

If additional funds are needed beyond the \$48 million cost of the Current Use Program, especially to cover the categorical grants initially, a one-time transfer from the General Fund could be done as well.

In evaluating the condition of the Education Fund, it is important to note that the cost of Teacher Pensions paid for within the EF has risen from \$6 m to \$38 m from 2020 to 2021. The possibility of imposing even more of the Teachers Retirement costs on the EF has been listed as an item for consideration by the Pension Reform Task Force. This added cost will tend to drive up property tax liabilities and may partially or wholly offset the desired resource allocation effects of changing the weights for underweighted districts. I would not argue that teacher retirement costs are not related to education, but the fact that the state has had control of these programs and that their structure and costs have never been approved by school districts makes the imposition of added costs questionable. But it clearly makes the re-imburement for lost revenue to Current Use even more important, since that is clearly a non-educational cost and continual imposition of new costs on the Education Fund will damage education.

More Background on the Current Use Program.

Before Act 60, before there was an Ed Fund, the cost of this program was covered by the state as a line item in the General Fund budget. Reimbursements were made to municipalities and to school districts to cover the cost of the reduction in property tax revenue as property tax payments by owners of enrolled agricultural and forestry land were lowered. Instead of being taxed on assessed value enrolled property owners are taxed on a calculation of use value related to income from the productive use of the land.

At the time of Act 60 with the creation of the state wide education fund, the cost in lost municipal property tax revenue continued to be borne by the Towns, and it continued to be re-imbursed by the state as annual cost to the General Fund. But the cost of the support to Current Use in tax savings or lost revenue was now a cost to the Education Fund, not to particular school districts. The state stopped re-imbursing that cost. This cost is imposed on the Ed Fund despite having nothing to do with education and never having been approved by district voters. The 2020 cost to the Ed Fund is \$48.7 million and the current cost to municipalities is \$17.3 million. These figures can be found on p.22 of the Annual Report of the Division of Property Valuation and Review, VT Dept. of Taxes. The cost to the EF is also listed in the

Biennial Report on Tax Expenditures. But it is not listed on the Education Fund Outlook, the primary accounting tool for policy makers.

While the state has dedicated substantial non-property tax revenues to the Education Fund since its creation, none of these transfers are defined as re-imbursement for the cost of the Current Use program, nor do they necessarily rise as those costs rise. The existing situation in effect allocates education resources away from students to the costs of Current Use, which makes it more expensive for all districts, whether overweighted or underweighted, to raise money to cover education costs.

This arrangement is inefficient as well as inequitable, because having the Current Use cost in the Education Fund actually drives up property tax rates, which means that the program will cost more since it provides subsidies to property tax liability. If the state re-imburses the cost of this program to the Education Fund the cost of it will decrease, which is better for taxpayers overall.

The Current Use tax savings are a real cost to the Education Fund just as they were a real cost when it was in the General Fund budget. The cost is re-imbursed to the municipalities. Just not to the students. It is both inefficient and inequitable to establish an Education Fund that is dedicated to providing a quality education to all Vermont children and then divert some of the funds to a program that is unrelated to support of education. It makes sense to correct this inequity and inefficiency at the same time as the inequity and inefficiency of the per pupil weights is corrected.

COMMENT ON PROPOSAL FOR AN EDUCATION INCOME TAX.

I note that the activities of this task force have included a presentation from a member of the Tax Structure Commission about the concept of creating an Education Income Tax instead of the Homestead Education Property Tax. I am not sure what role this proposal has in the deliberations of the committee, but I must comment briefly on what I consider a deeply flawed proposal.

While the principle that income is the best measure of ability to pay is key, it is not the only principle that must come into play. There must be some degree of horizontal and vertical equity when home values are taken into account. To base support for education by Vermont resident homeowners only on income omits crucial variation in home values and thereby introduces substantial inequity. A person with an income of \$60,000 who owns a \$150,000 home is not in the same financial position as a person with an income of \$60,000 who owns a \$300,000 home, or a \$500,000 home. They should not pay the same amount towards education. Part of a house's value is connected to the quality of educational opportunities available in the local area.

Another problem with this proposal is that it would create a new income tax instead of using the income tax system we already have. This is redundant and inefficient. There are also substantial complexities of timing in order to adjust the income tax rates to reflect voter approved school budgets.

I believe that this proposal might also introduce substantial and unexplored shifts of the burden of supporting schools because it uses Adjusted Gross Income instead of the Household Income calculation, and it includes renters.

There are numerous problems with the current structure of the Homestead education property tax rates combined with the Property Tax Credit (aka Income Sensitivity). But I don't think replacing this system with an Education Income Tax that introduces new inequities and new complexities makes sense. Instead I would recommend creating a new refundable housing tax credit available to all Vermonters below a certain income tax level within the income tax system. This housing tax credit could allow the Property Tax Credit program to shrink back down to the kind of circuit breaker for low income Vermonters to help with the property tax burden that it was when the Education Fund was established. The program would also cost less, thereby allowing education property tax rates to fall.