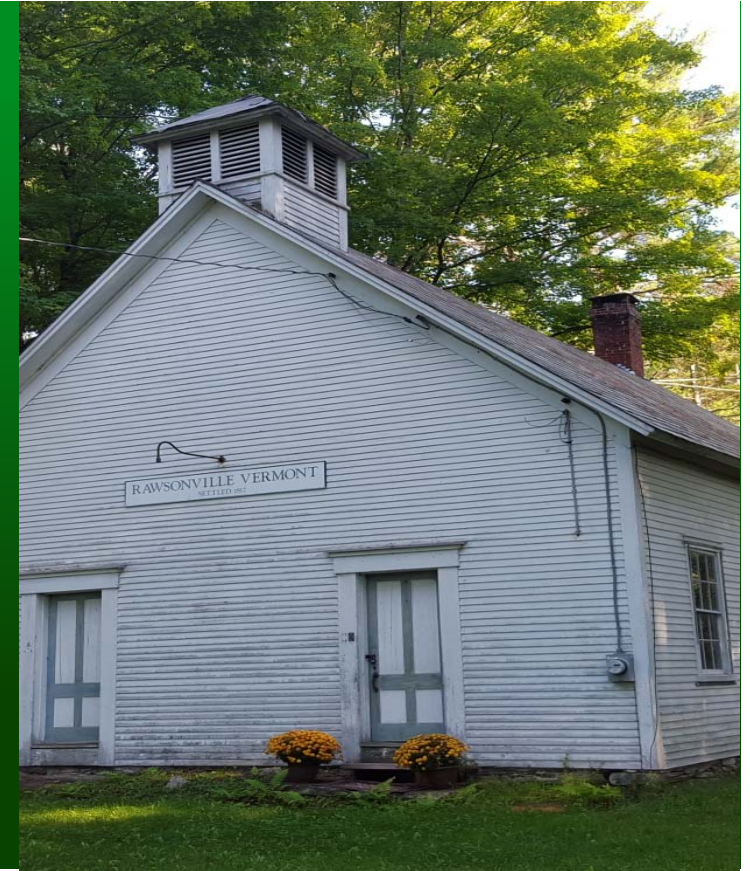


VT Education: Quality, Equity and Sustainability





Agenda

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



Why Have We Not Fixed the Funding System?

Don't tax you.

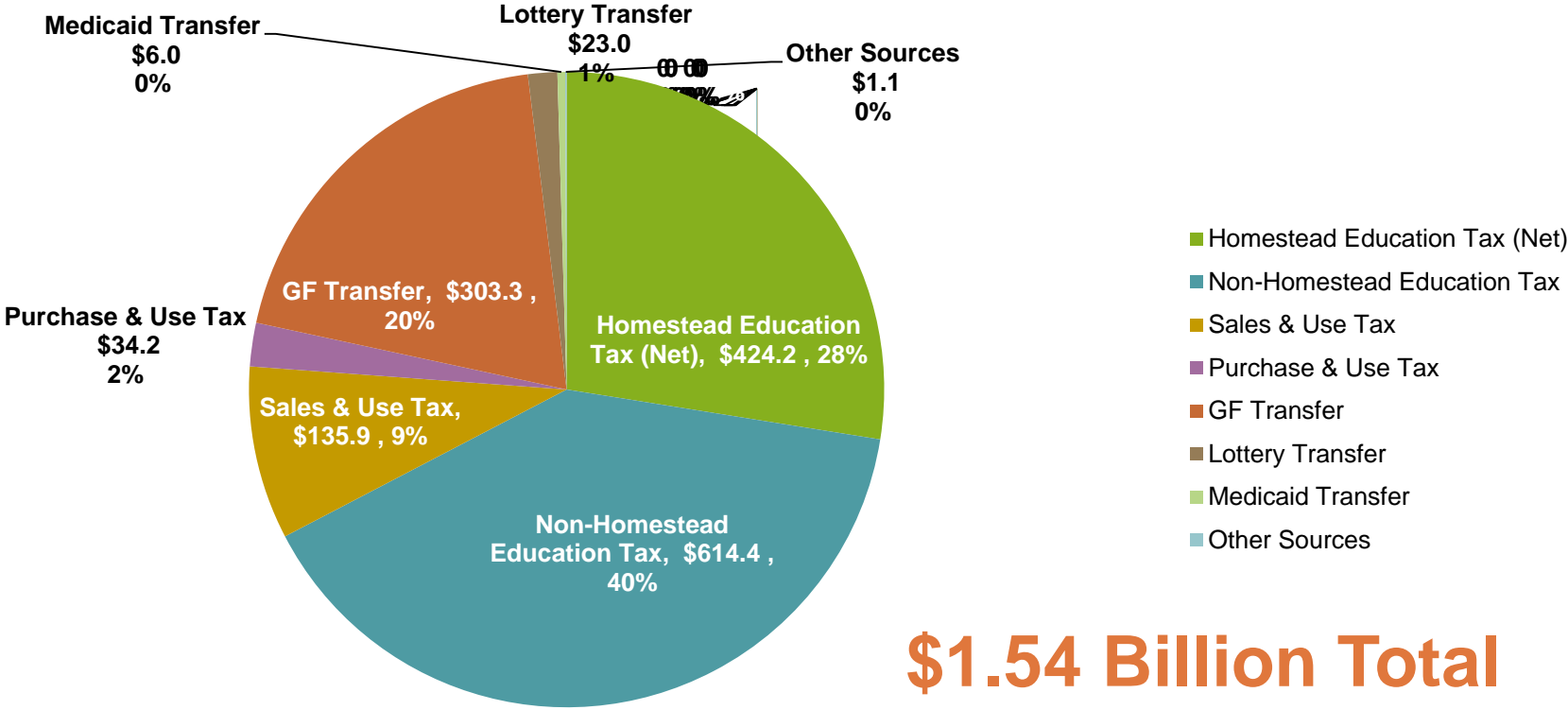
Don't tax me.

Tax that fellow behind the tree.

-- Russell B. Long, Former US Senator



State Education Fund: FY16 Revenue Sources



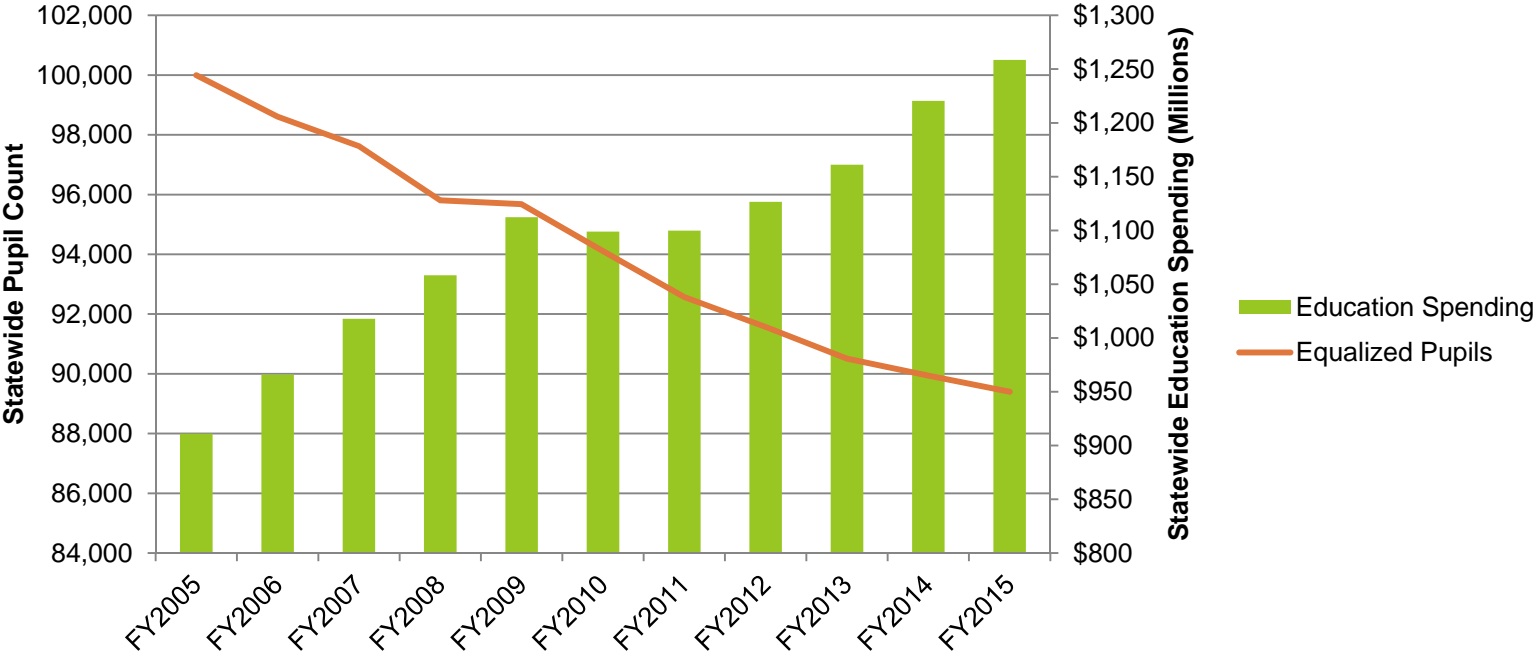
Preliminary Education Fund Outlook

Preliminary Education Fund Outlook			
(millions of dollars)			
		FY2015	FY2016
		Final	Preliminary
a	Base Homestead Property Tax Rate	\$0.98	\$0.99
	Average Homestead Property Tax Rate	\$1.50	\$1.53
b	Uniform Non-Residential Property Tax Rate	\$1.515	\$1.535
c	Base Tax Rate on Household Income	1.8%	1.8%
d	Base Education Amount Per Equalized Pupil	\$9,285	\$9,459
e	Total Equalized Pupil Count	89,257	89,163
f	Statewide Education Grand List Growth Rate	-0.5%	0.3%
g	Statewide Education Spending Growth Rate	3.1%	3.0%
Sources			
1	Homestead Education Tax	573.6	590.5
1a	Income Sensitivity Adjustment	(151.1)	(158.8)
1b	Homeowner Rebate - EF share only*	Included in line 1a.	(7.5)
2	Non-Homestead Education Tax	603.4	614.4
3	Sales & Use Tax	127.6	133.8
4	Purchase & Use Tax	32.4	34.1
5	General Fund Transfer	295.8	303.3
5a	Transfer from Rainy Day Reserve	1.8	0.0
6	Lottery Transfer	22.8	23.2
7	Medicaid Transfer	7.6	6.0
8	Other Sources (Wind & Solar Property Tax, Other)	1.1	1.1
9	Total Sources	1,515.1	1,540.1

Uses			
10	Education Payment	1,258.5	1,289.6
11	Special Education	173.3	179.8
12	State-Placed Students	16.9	16.4
13	Transportation	17.2	17.7
14	Technical Education	13.7	13.3
15	Small Schools	7.7	7.6
16	Essential Early Education	6.3	6.4
17	Adult Education & Literacy	5.8	5.8
18	Community HS of Vermont (Corrections)	3.8	3.6
19	Renter Rebate (General Gov't) - EF share only**	6.6	6.8
20	Reappraisal & Listing (General Gov't)	3.3	3.4
21	Other Uses (Accounting & Auditing, Other)	1.3	1.1
22	Total Uses	1,514.3	1,551.5
Allocation of Revenue Surplus/(Deficit)			
23	Revenue Surplus/(Deficit)	0.9	(11.4)
24	Prior-Year Reversions	(5.9)	(16.8)
25	Transfer to/(from) Stabilization Reserve	1.7	0.5
26	Transfer to/(from) Unreserved/Unallocated	5.1	4.9
Stabilization Reserve			
27	Prior-Year Stabilization Reserve	30.3	32.0
28	Current-Year Stabilization Reserve	32.0	32.5
29	Percent of Prior-Year Net Appropriations	5.00%	5.00%
30	Maximum Reserve Target @ 5.0%	32.0	32.5
31	Minimum Reserve Target @ 3.5%	22.4	22.8
Available Funds			
32	Prior-Year Unreserved/Unallocated	10.0	15.1
33	Current-Year Unreserved/Unallocated	15.1	20.0
		* GF share of homeowner rebate:	14.6 16.9
		** GF share of renter rebate:	2.8 2.9



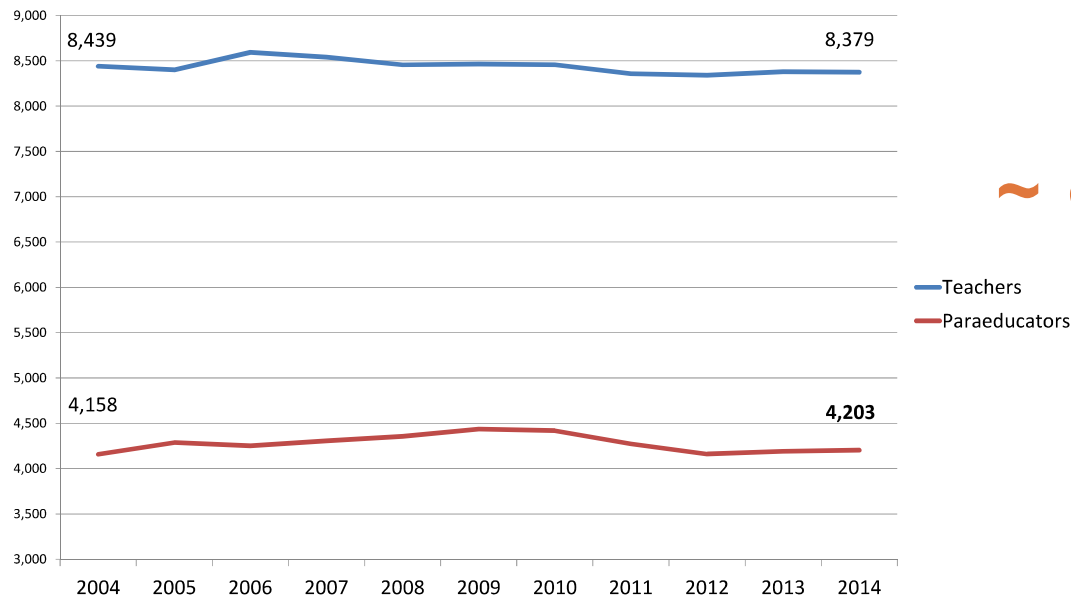
Enrollment Declines, Spending Increases...





...Staffing Levels Remain Constant

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



**Personnel
~ 80% of Cost**

Source: Vermont Agency of Education

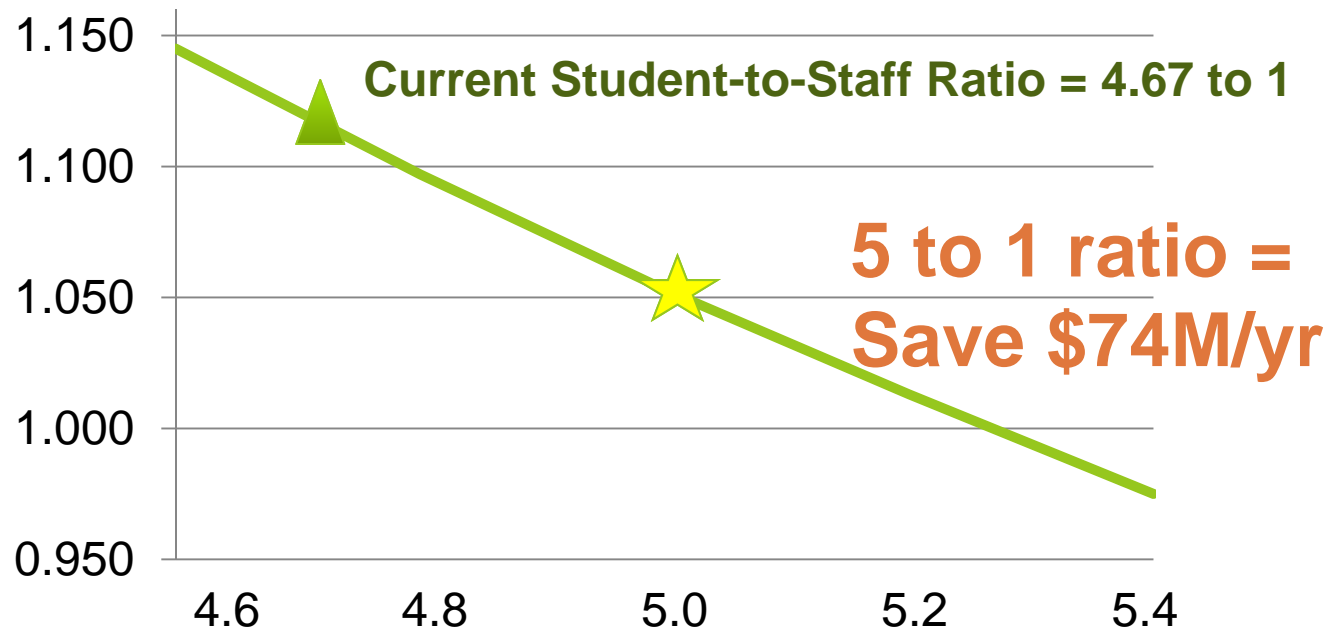
7



Student/Staff Ratio

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

\$ Billion
Estimated
expenditures
on salaries
and benefits

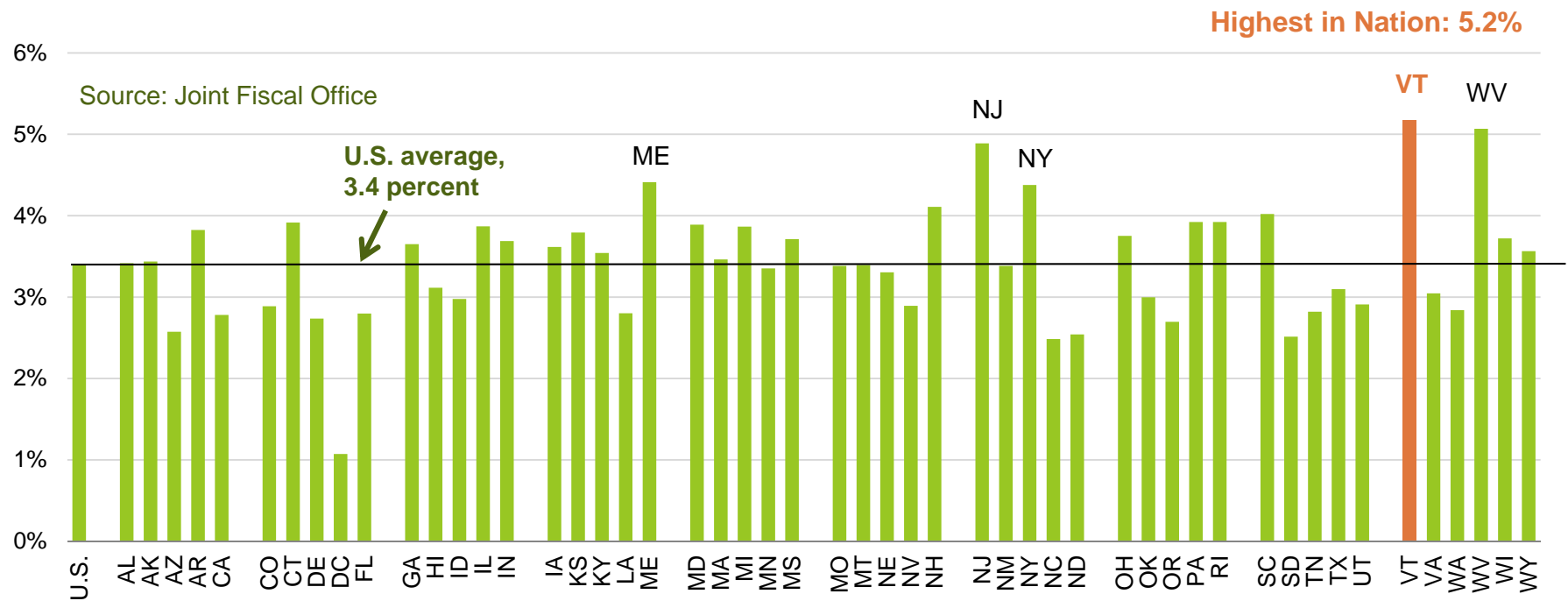


Source: Vermont AOE



Strained Capacity for Education Tax Revenue

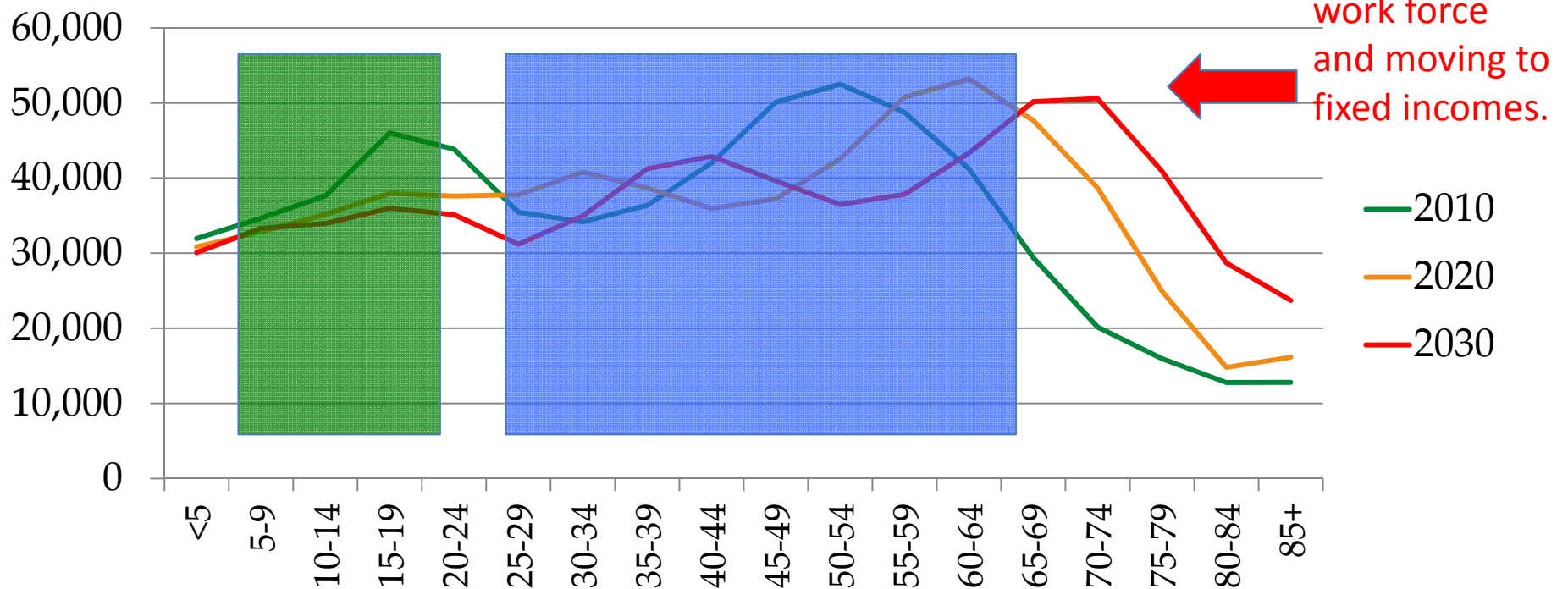
State & Local Revenues to K-12 Education as Share of GSP 2011-2012



Demographic Challenges: We are not just losing students

Vermont Population Projections. 2010 Census, 2020, 2030

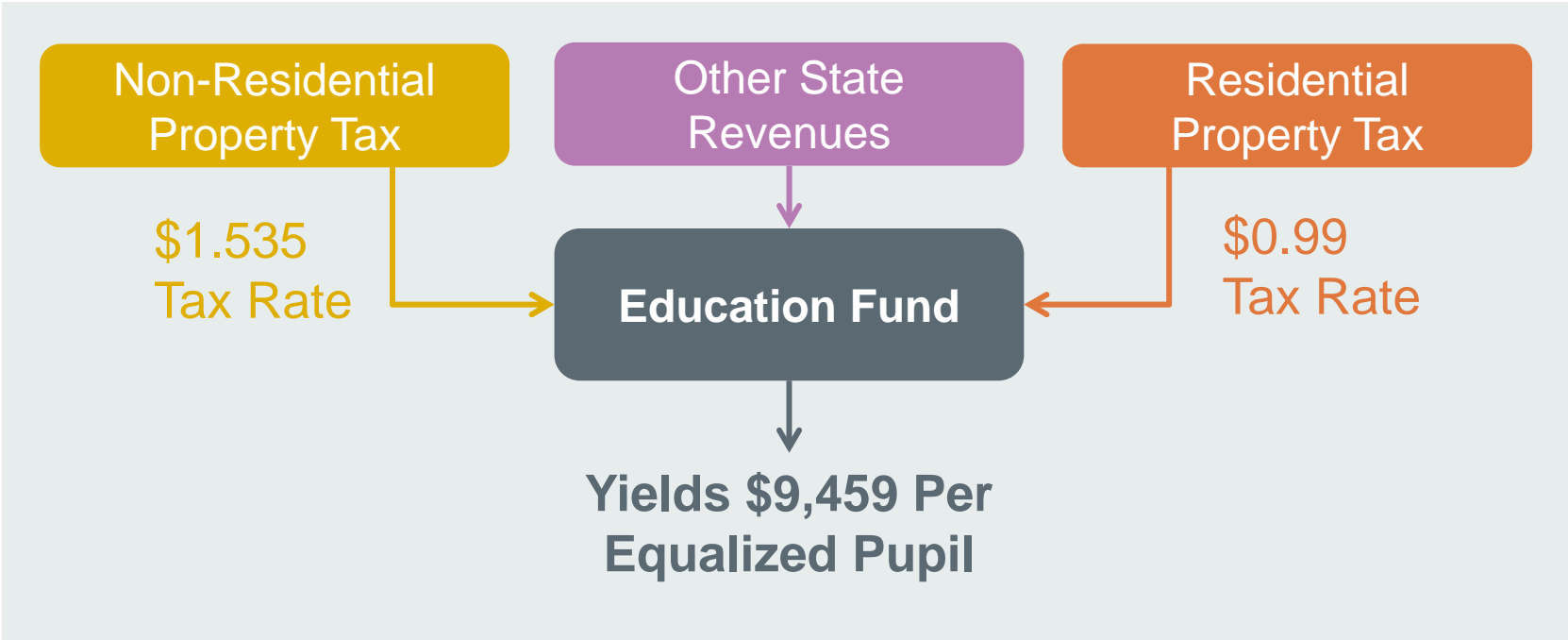
Ken Jones, Ph.D., Economic Research Analyst





High Level Overview

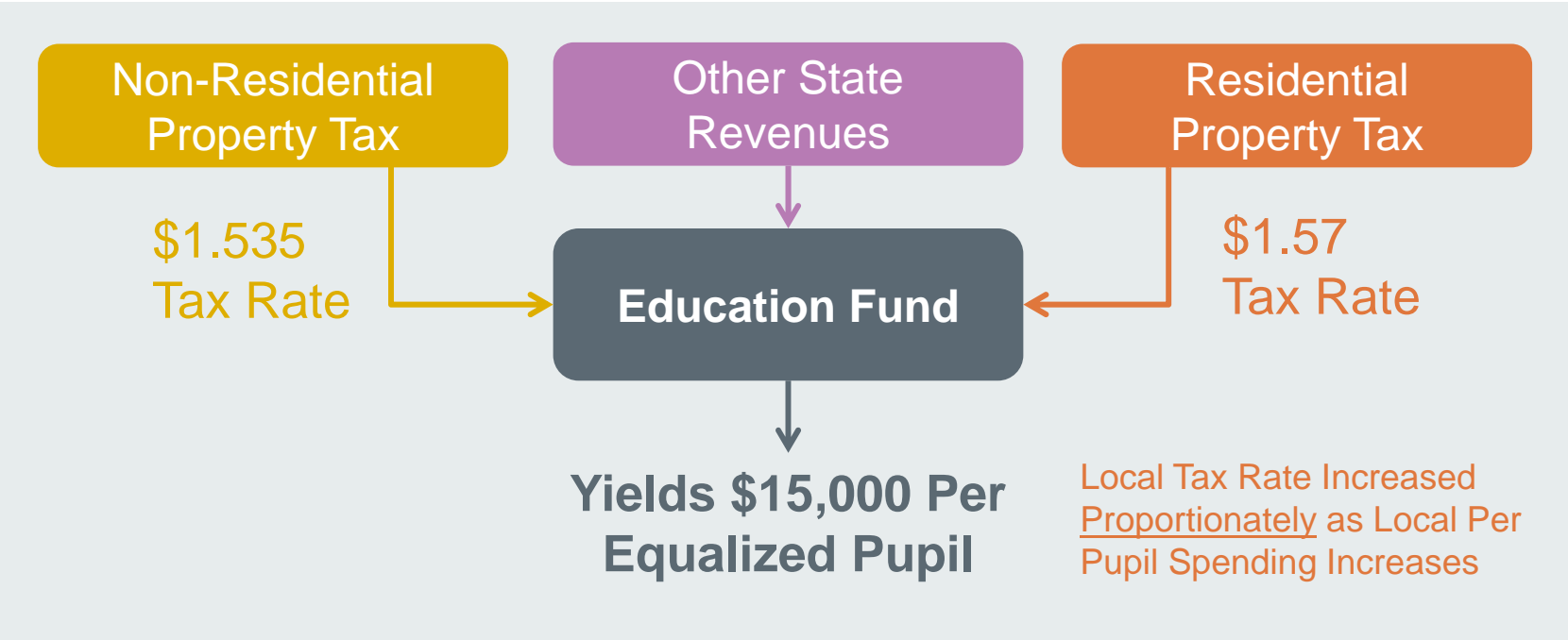
Vermont K-12 Education Baseline Finance Construct (FY16)





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	1,150 

**What the headline
doesn't tell you**



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	\$8,000,000
Equalized Pupils	1,200	1,150
Ed Spending per Eq. Pupil	\$16,071	\$17,275 7.5% 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.

Fewer Students

Per Pupil Spending Drives Tax Rates



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	\$8,000,000
Equalized Pupils	1,200	1,150
Ed Spending per Eq. Pupil	\$16,071	\$17,275 7.5% Increase

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

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

= Local Tax Rate

**7.5% Per Pupil Cost Increase
7.5% Tax Increase**



Impact of Property Value on Ed Tax Rates

Example: \$200K House

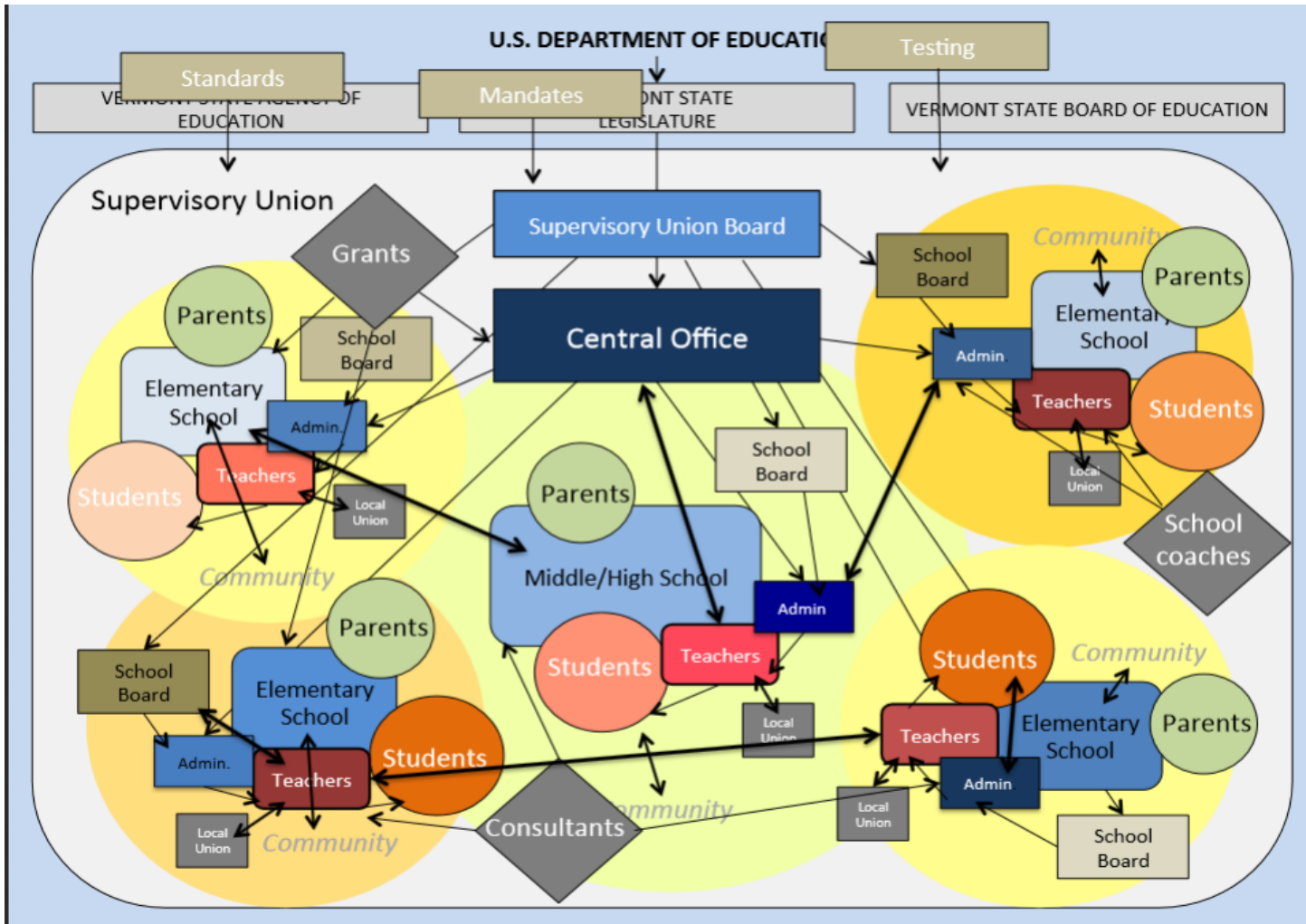
	2014 Tax Bill	2015 Tax Bill
Listed Value	\$200,000	\$200,000
Education Tax Rate	\$1.523	\$1.637 7.5% Increase
CLA	104.45%	97.55% 6.6% Change
Adjusted Tax Rate	\$1.458	\$1.678 12.2% Increase
Actual Tax Due	\$2,916	\$3,274 \$358 Increase



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 with 900+ students in aggregate

- Transition encourages local development of mergers
 - Initial phases are voluntary with three phases of tax incentives
 - Education 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)

- Small School Grants:
 - Converted into Merger Support Grants that remain in perpetuity unless school is closed and 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

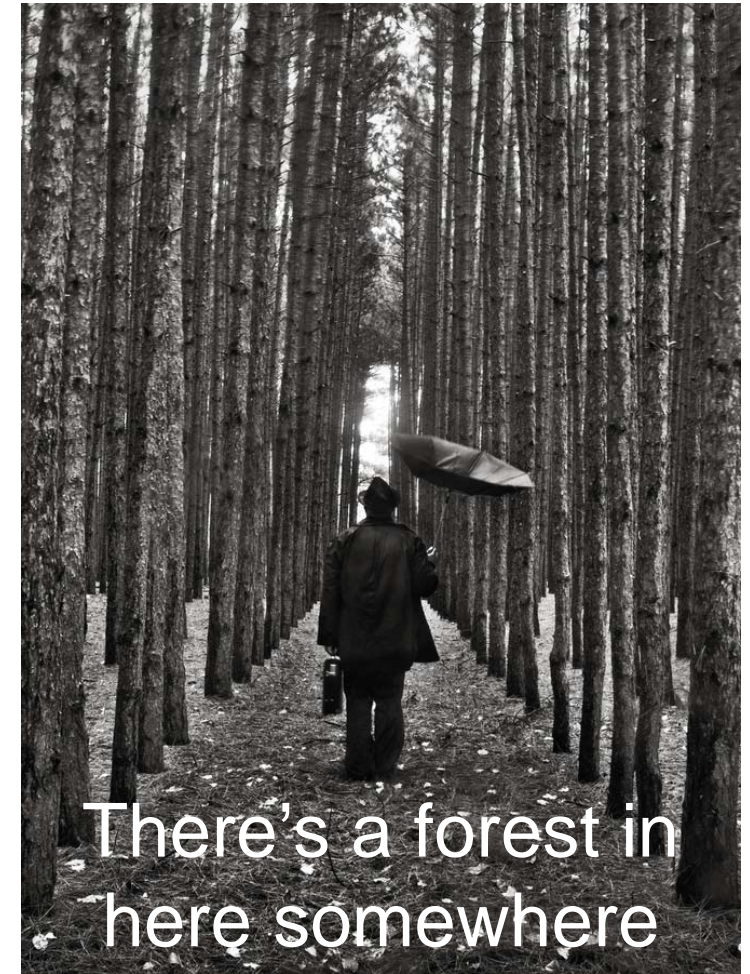
Cost Containment

- 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



OK, but why merge districts?

Where is the value in an expanded school district?



I'm sure glad the
hole isn't in our
end o o o



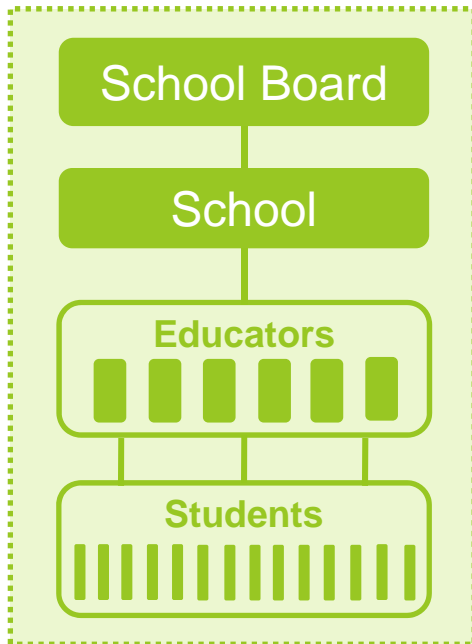
THE TIPPING POINT



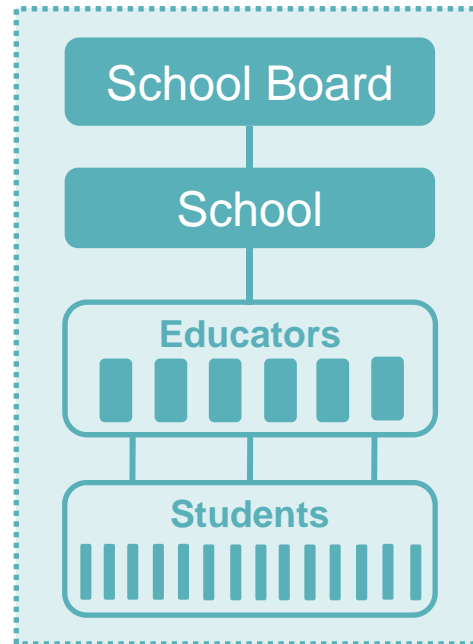
Traditional Governance Model

Aligned to Municipal Boundaries

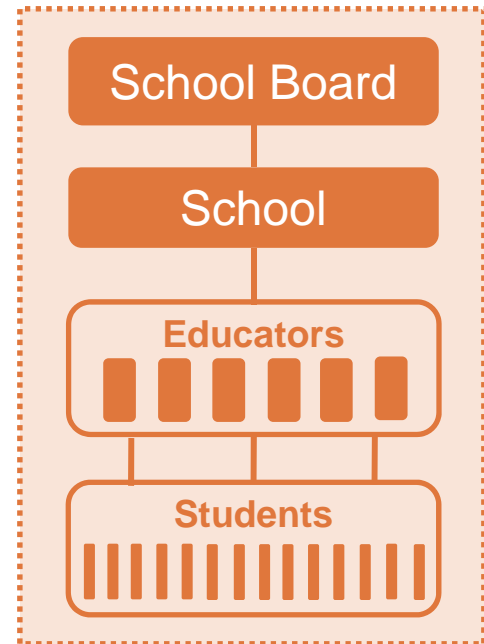
Green Town



Blue Town



Red Town

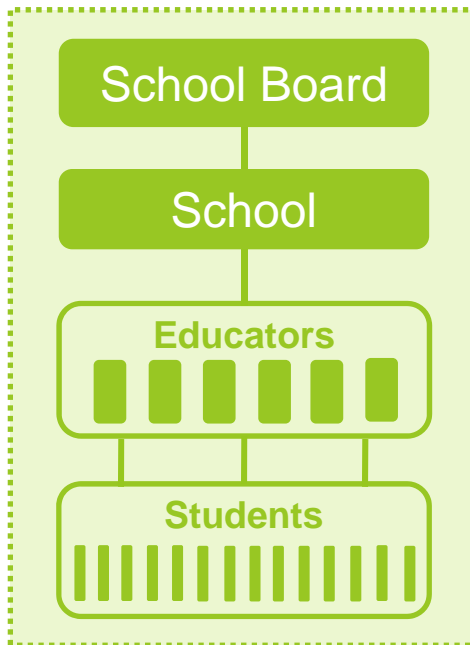




Traditional Governance Model

Response to Declining Enrollment & Staff Retirement

Green Town

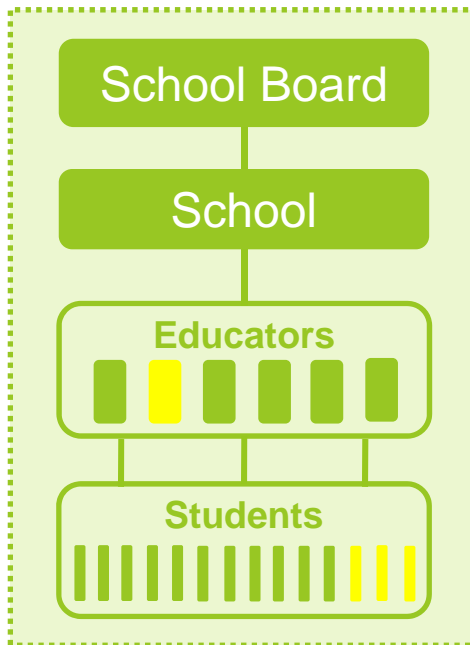




Traditional Governance Model

Response to Declining Enrollment & Staff Retirement

Green Town



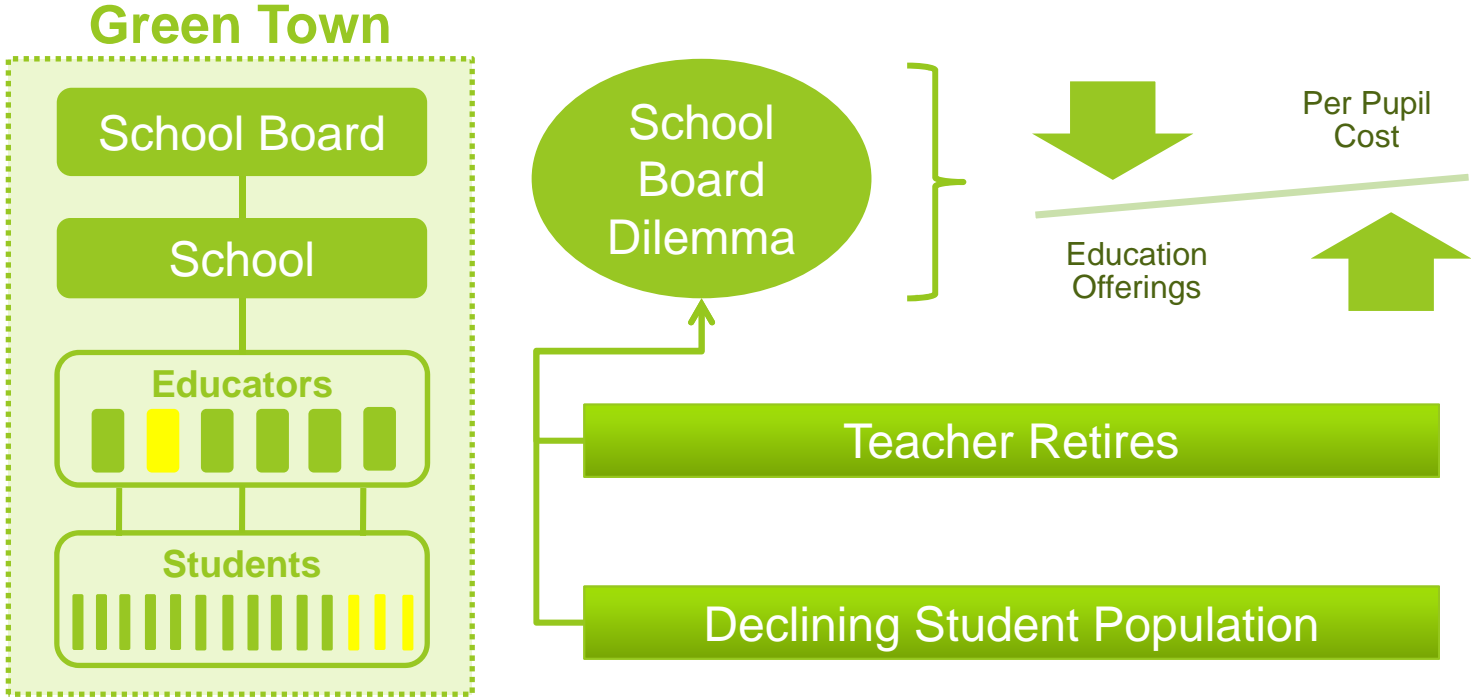
Teacher Retires

Declining Student Population



Traditional Governance Model

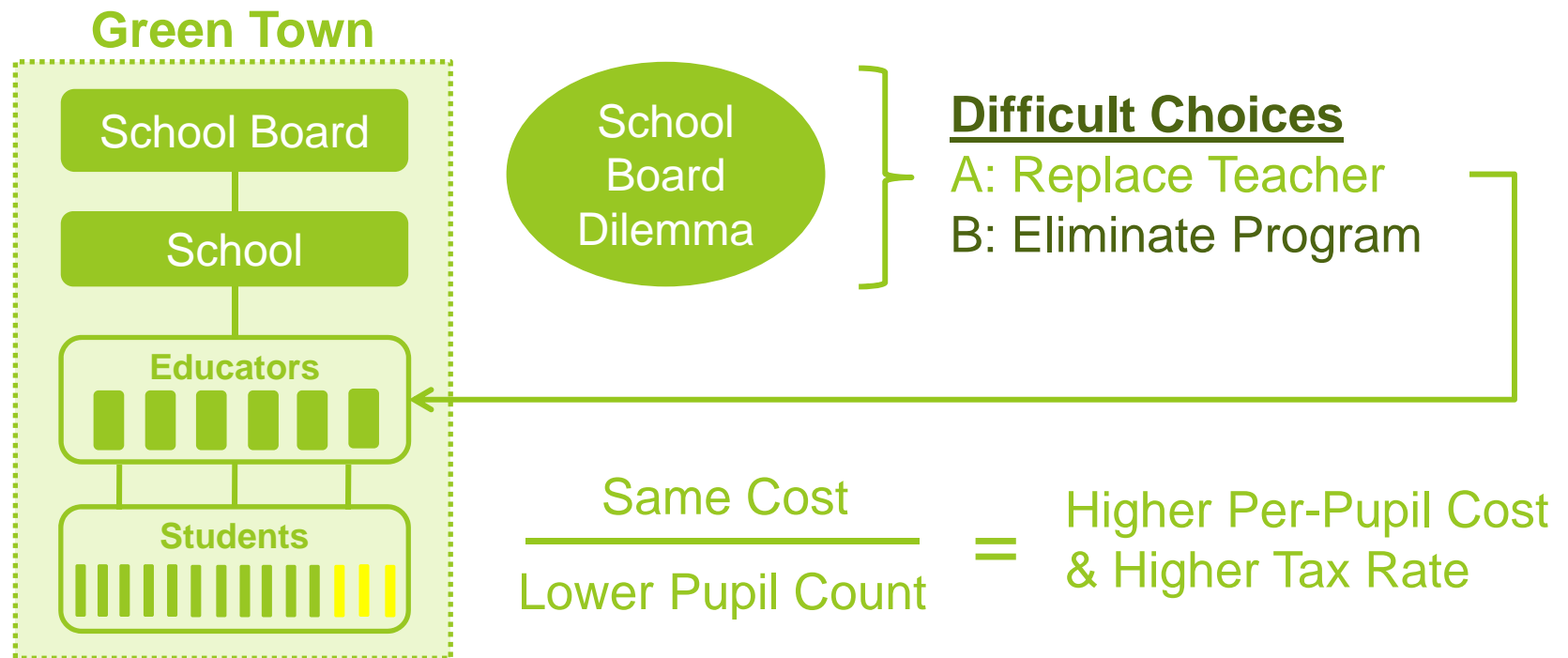
Response to Declining Enrollment & Staff Retirement





Traditional Governance Model

Response to Declining Enrollment & Staff Retirement





Traditional Governance Model

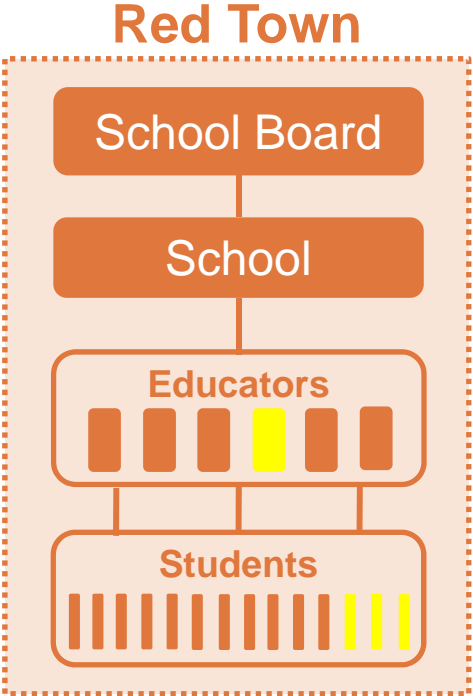
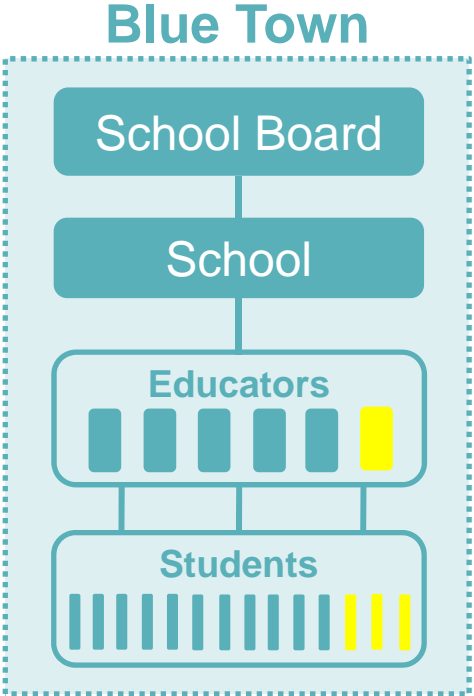
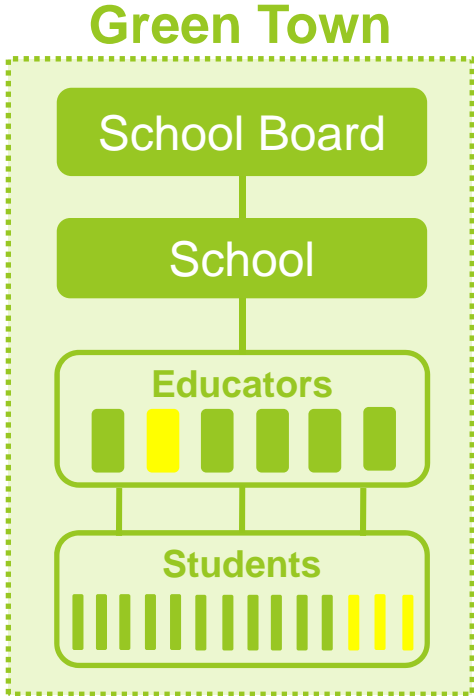
Response to Declining Enrollment & Staff Retirement





Traditional Governance Model

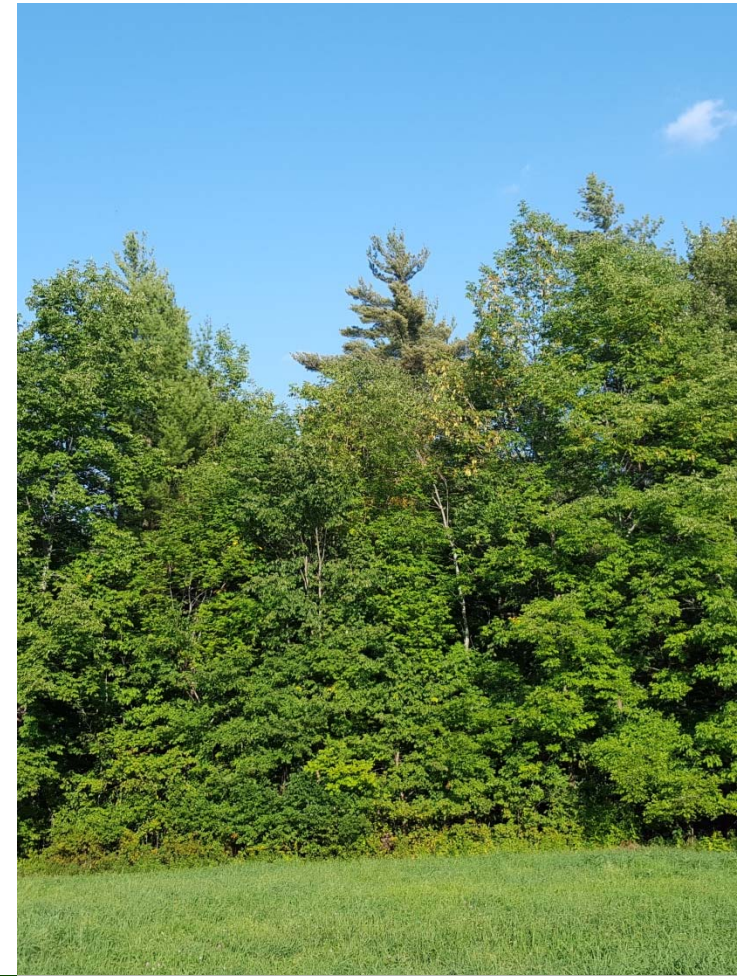
Shared Challenges; Individual Districts Trying to Solve in Silos





Expanded Governance

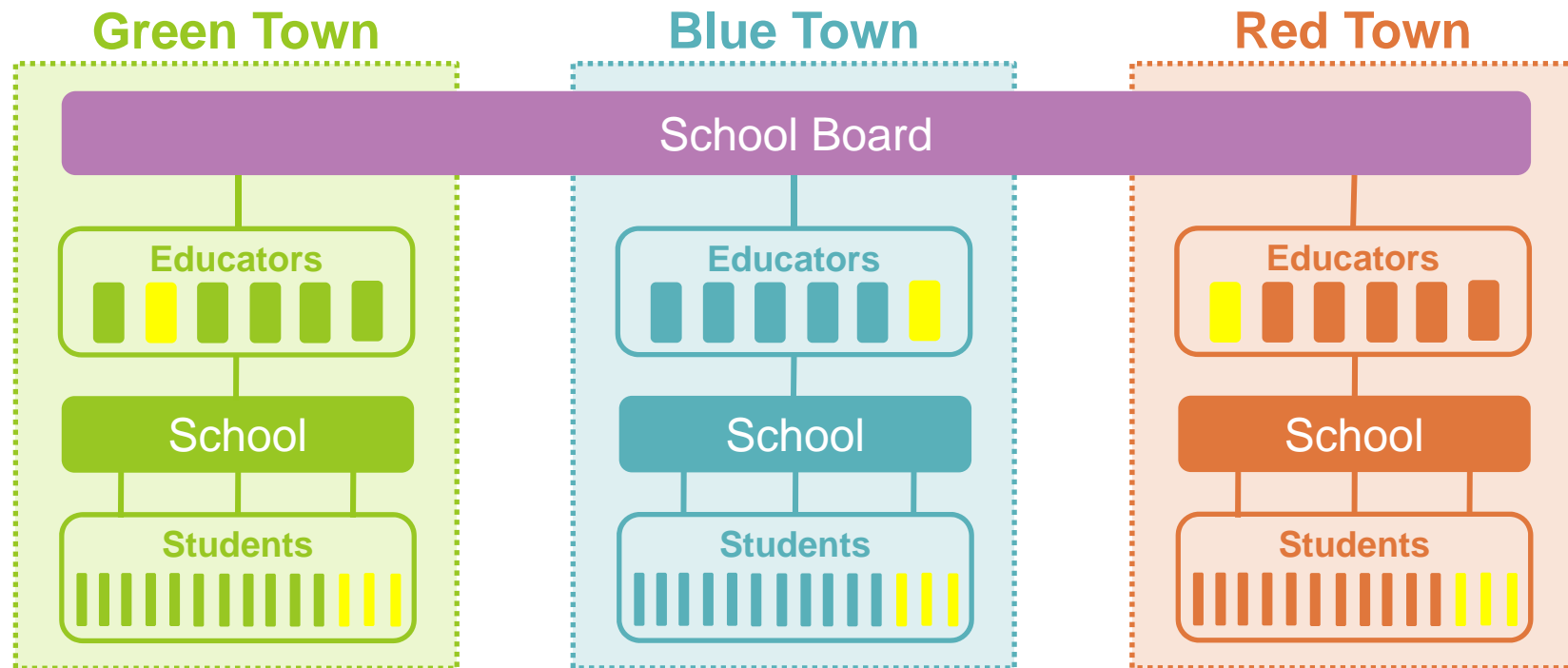
Broader Perspective





Expanded Governance Model Under Act 46

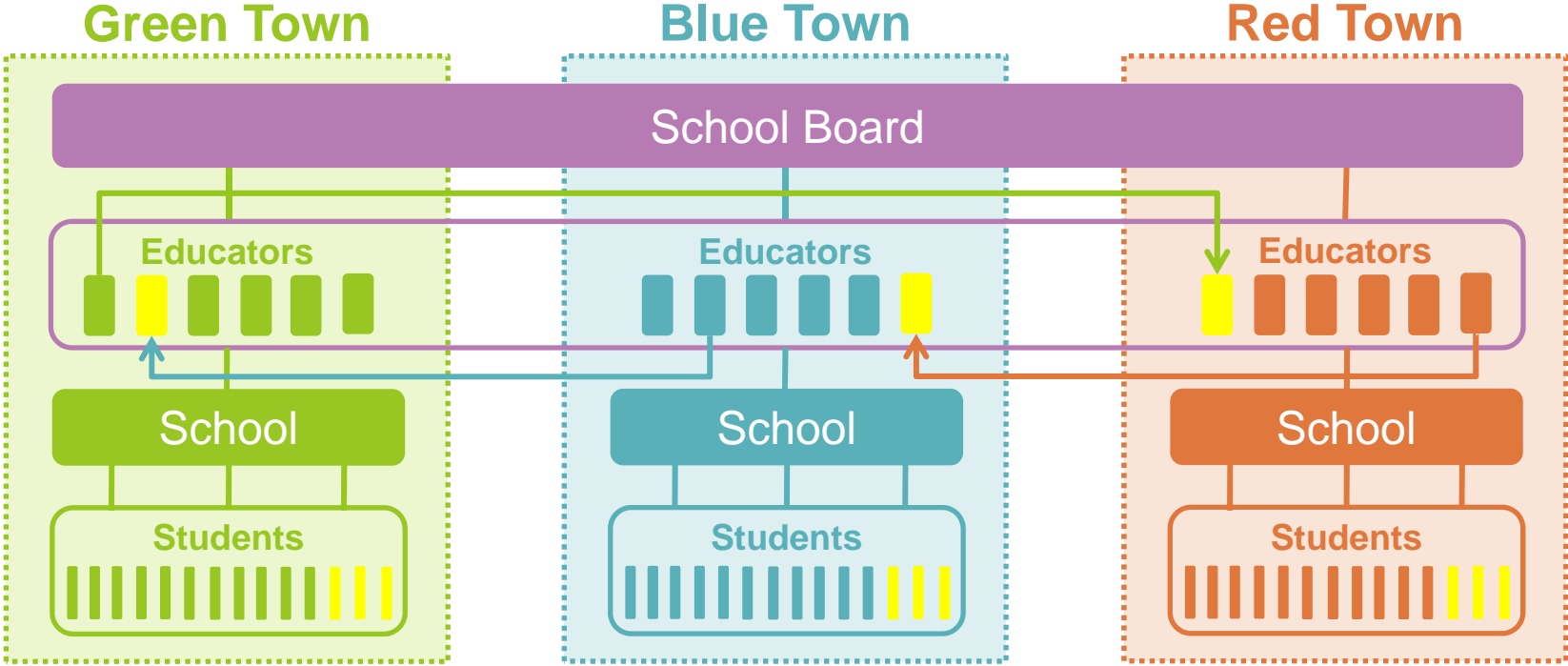
One District Collaborating to Maximize Value Across Boundaries





Expanded Governance Model Under Act 46

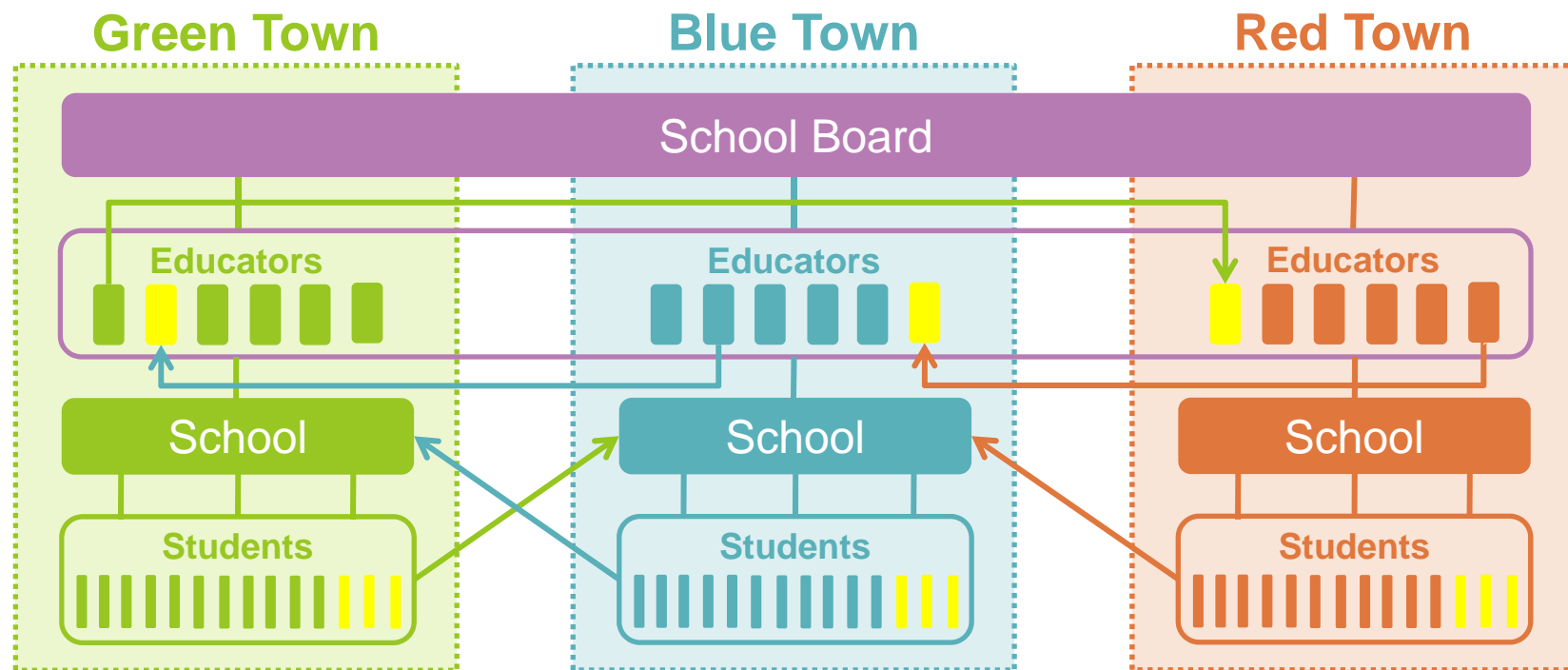
Expanded District Allows for Flexible Staffing to Meet Changing Needs





Expanded Governance Model Under Act 46

... And New Alternatives for Students





Expanded Governance Model Under Act 46

Scalable & Sustainable Educational Ecosystem

Limitless Possibilities to Organize the Delivery of World-Class
Education at a Cost We Can Afford



Expanded Governance Model Under Act 46

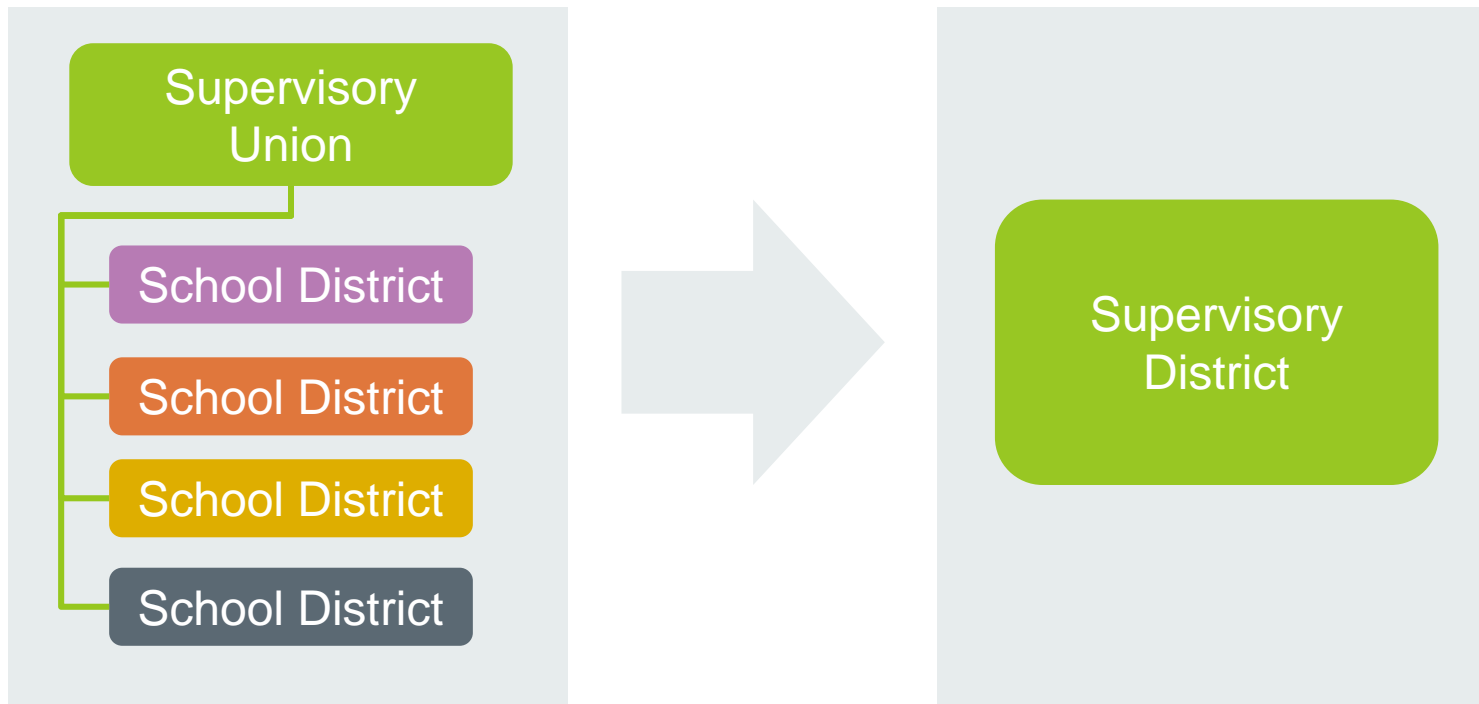
Act 46 Provides Catalyst & Incentive, Local Communities Drive Change

- 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

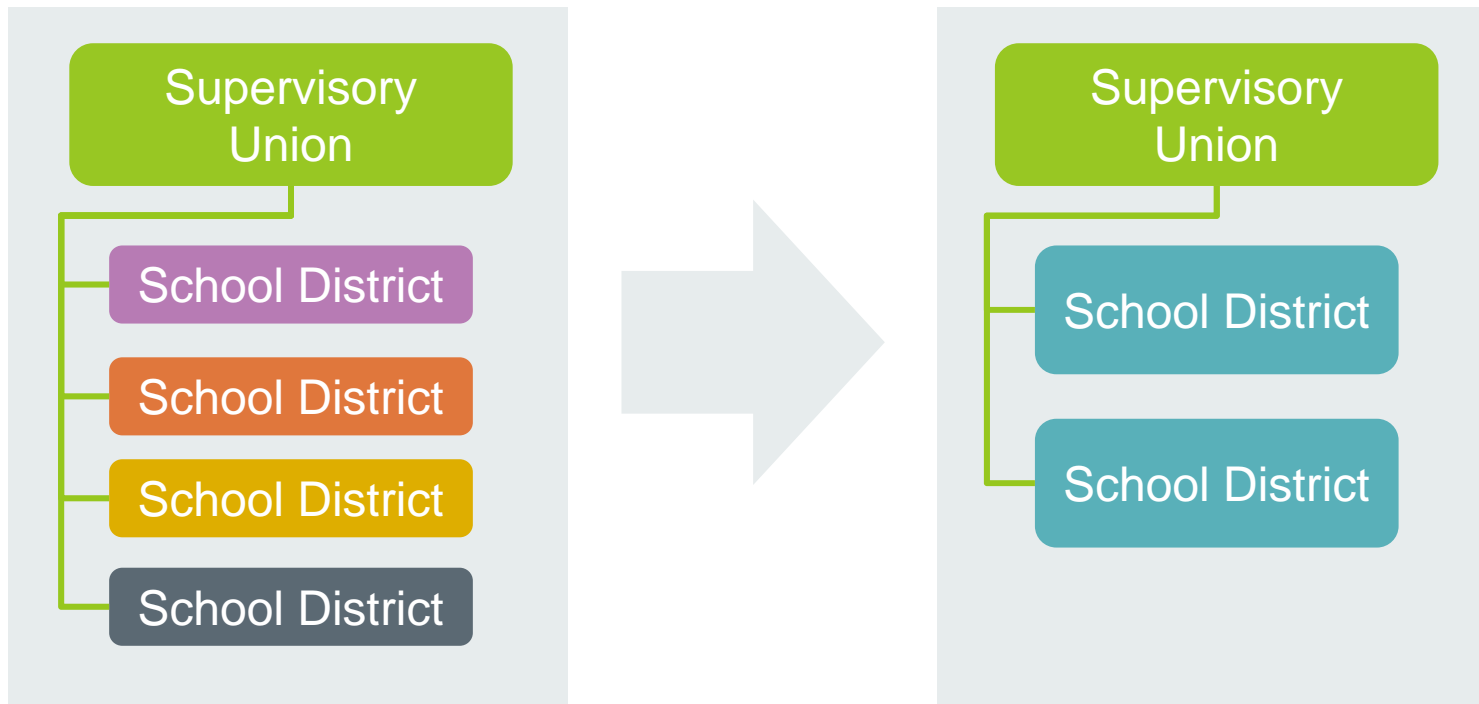
Merger from Current Structure to Preferred Model





Expanded Governance Model Under Act 46

Merger from Current Structure to Alternative Model

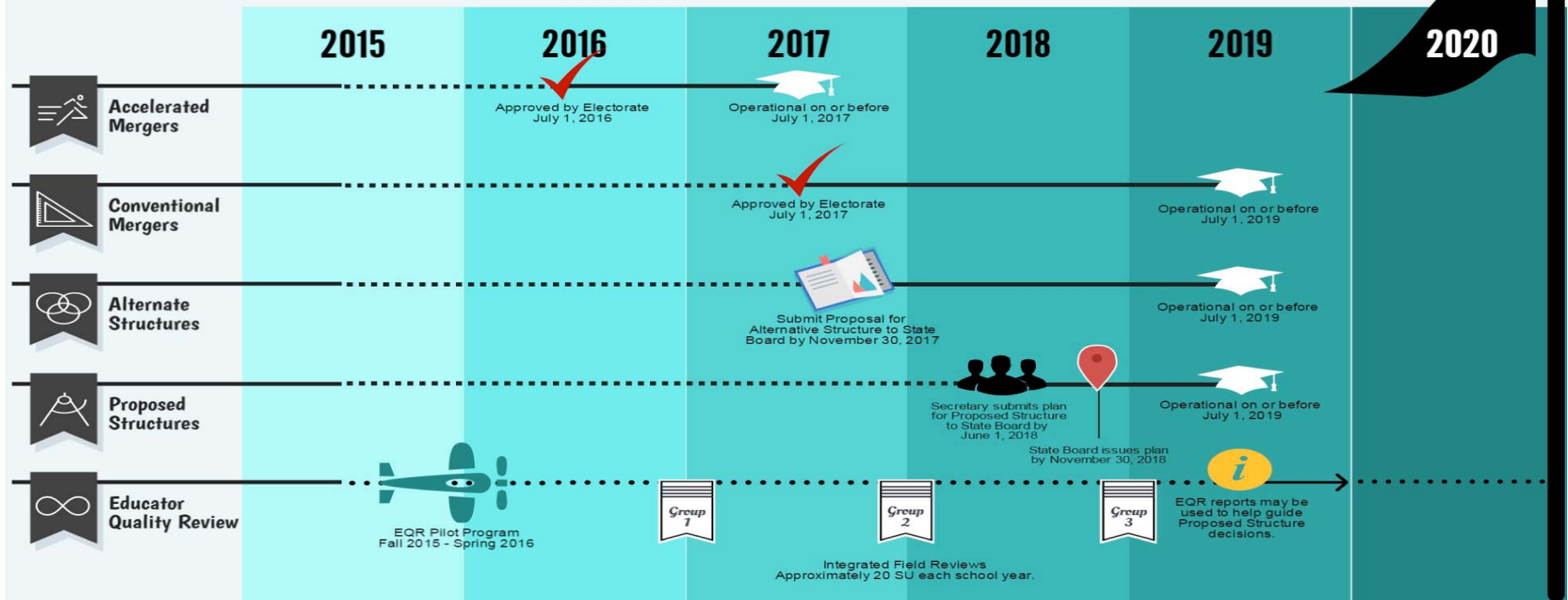


Act 46 Timeline

The Vermont Agency of Education, in cooperation with the Vermont State Board of Education, are dedicated to the implementation of Act 46 of 2015. The new legislation is an opportunity for school districts and supervisory unions to unify existing, disparate governance structures to preferred governance structure by 2020; while providing substantial equity in the quality and variety of educational opportunities statewide. This timeline visually represents actions needed by education entities.

Legend

- Local Education Agency Action
- State Board of Education Action
- Agency of Education Action



Olympic Gold Medal Winners in High Jump



William F. Achtmeyer Center for Global Leadership - Tuck School of Business at Dartmouth

Source: Pascale

Vijay Govindarajan, Tuck School of Business

Moving ahead:

- What limitations prevent us from making our system better?
- How can we change, break or bend those limits?
- What “how we’ve always done it” assumptions might be keeping us from finding ways to create a better set of opportunities for our children?

Discussion

Representative Dave Sharpe
dsharpe@leg.state.vt.us