



Commentary from the

Ethan Allen Institute

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St. Johnsbury VT *Caledonian-Record*, March 13, 2018

John McClaughry Struggling To Feed And Discipline The 'System'

Over the past six weeks the House Ways and Means Committee has diligently worked to produce a coherent bill to shift Education Fund spending from some people and districts to other people and districts, and erect a disincentive to excessive school district spending. This is a very intricate and difficult task that, frankly, probably 90 percent of the legislators don't readily understand.

Its proposals have included lowering school property tax rates in 2020, changing the parameters in the school property tax determination formula, eliminating the income sensitivity program that lets 70 percent of Vermonters pay school taxes on the basis of their incomes, creating a new \$59 million income tax education surcharge, and putting every school district into what up to now has been punitive excess spending territory.

Just reciting this abbreviated list illustrates how difficult it is to find a solution to educational finance that will satisfy even a bare majority of House and Senate members, plus the Governor.

Maybe it's time for the Governor and legislators to step back and examine why Vermont's K-12 education costs per pupil (\$18,066) are the fourth highest in the nation. Four of the reasons are easily understood: Vermont has the nation's lowest student to staff ratio (4.8:1), an oversupply of small schools and small class-

es, Universal pre-K that can claim little or no lasting educational value, and an enormous expenditure per pupil for special education services.

But beyond addressing these, we need to recognize that since 1971 we have steadily created a more centralized and expensive public school system. Maybe we should be looking for a new 21st century model.

Two early efforts were the Schoolchildren First and Education Freedom District proposals of 2001. The latter proposed to loosen the leash on districts interested in moving in more creative directions. Citizens could choose to opt their district out of the state-controlled public education system in favor of a new locally-controlled system characterized by competition, parental choice, opportunity, diversity of educational experience, and responsiveness to local citizens and voters.

Among the opportunities available to the new district would be:

- exemption from state mandates and required supervisory overhead (except for civil rights and financial accountability)
- parental choice, with educational funding paid out to parents for use in public, charter, alternative, parochial, work-study or other educational programs.
- voter approval of two district school budgets, one presented by the district school board covering



non-instructional costs, and the other presented by the teachers union, covering costs relating to the union contract.

- allowing home schoolers to take selected classes, make use of library resources, and participate in extracurricular activities at public schools.
- apprenticeship and community work study alternatives to classroom instruction
- exempting teachers from state certification requirements, and offering them merit pay.
- nationally recognized subject matter tests for students (such as ACT)
- contracting for instruction, maintenance, and management
- creating Florida-style McKay Scholarships for special education students

The idea behind the EFDs was to allow pioneering districts do creative things so that others would be motivated to do the same. Despite promotion by the Chair of the House Education Committee, the "education stakeholders" killed the EFD bill in committee.

Eight years later the report of the Commission on Rebalancing Education Cost and Value found that: a policy of creating an ever-enlarging system, populated with thousands of teachers, administrators and bureaucrats, controlling the annual expenditure of \$1.450 billion taxpayer dollars

jealously protective of the benefits enjoyed by the people employed in the 'system', and dismissive of the abilities and preferences of parents and children, is a policy headed off in a totally wrong direction... What is insupportable is the continuing and ever growing extraction of well over a billion tax dollars each year, to buy overpriced and undistinguished educational outcomes for Vermont children who need ever-better outcomes to live and compete in the 21st Century.

Not surprisingly, the "education stakeholders" wanted no part of the Commission's recommendations, because accepting many of them would threaten to disrupt their comfortable near-monopoly arrangement.

So today's legislators valiantly soldier on, trying to make a different collection of taxpayers feed the system and create more powerful disincentives to excessive school district spending. At the same time, the Governor, rightly concerned with "cost containment," seems to lean toward doing that by creating a Great Big Hammer to beat school districts into submission.

But wait a minute — maybe the overgrown public school system itself is the problem.

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St. Johnsbury Caledonian Record, March 11, 2003

Where's Theseus?

BY JOHN McCLAUGHRY

Once upon a time the King of Athens, owing tribute to the King of Crete, was forced each year to select seven each of the city's best young men and women. They were sent off to Crete on a ship with black sails. There the Cretan king sent the youths into the labyrinth to be devoured by the half-bull, half-human Minotaur.

For the Athenians the event was always a matter of great anguish, weeping, and civic humiliation. But it went on year after year until the hero Theseus, son of the Athenian king, volunteered to be one of the victims. It was not a death wish. Theseus took a sword with him, found and killed the monster, led the Athenian youths out of the labyrinth, and sailed home with them to Athens.

On Town Meeting Day this month a record 42 local school budgets went down to defeat. It's hard to refute the obvious argument that the wave of rejections is a direct result of taxpayer resentment with property taxes and Act 60. Taxpayers are tired of feeding the monster. But by voting down school budgets they have only postponed their day of reckoning. Eventually the state will force angry local taxpayers to adopt school budgets, as the Benson episode of 1994 so vividly showed. Benson voters rejected 12 successive school budgets. The Legislature authorized the school board to borrow money to operate at 87 percent of the previous year's budget until the voters caved in.

After Angry Tuesday Gov. Douglas

remarked "no matter what the school funding formula is, unless we contain the cost of public education, we are not going to get it under control." The governor's observation echoes similar remarks by Gov. Dean made over the past six years.

Meanwhile legislators, especially the House Ways and Means Committee, are struggling to find some different way to feed the monster. Since property taxes are the most important source of taxpayer outrage, their goal is to reduce the property tax burden and shift education costs to higher income and sales taxes.

Perhaps instead of just feeding the monster they should heed the remarks of the current and immediate past governors. Why are we spending over \$10,000 per child in Vermont's public school systems? What can we do about it? Here are some good places to look.

Vermont public schools have the lowest pupil-teacher ratio on the country. Instead of the "sage on the stage" teaching 25 in a class, Vermont teachers on average are teaching half that many. Bigger classes – and thus bigger schools – are an obvious answer, but rarely end up saving money (because transportation costs and the added bureaucracy soon eat up the savings from larger class sizes).

Converting teachers into learning men-



tors making full use of new educational technology may enable teachers to easily manage 40 or 50 diverse pupils – but of course the teachers will have to learn a whole different way of operating that they heard nothing about in education school.

Most public school teachers enjoy very costly "Cadillac" health insurance benefits. Why not create a statewide insurance pool, offer a choice of defined contribution plans, and give teachers incentives to choose budget-friendly high deductible plans with medical savings accounts?

The school board negotiates teacher's contracts, and then puts the price tag to the voters. The voters can accept the budget, but can't alter the contract. Why not let the voters vote on two budgets, one covering the costs of the teachers' contract, the other the cost of the building, school lunch, buses, books and administration?

Special education has become a major cost factor for many schools, as schools classify non-readers as "dyslexic" instead of what they all too often are, victims of instructional failure. Why not insist that schools use tax dollars to teach phonics-based reading, and get most of those "dyslexic" kids out of special education once and for all?

Similarly, why not make the placement

and extraordinary costs of special education a state responsibility, and make the state department defend the adequacy of individualized education plans against legal attacks?

Most independent schools in Vermont – especially faith based schools – educate children far more economically than public schools, and from all indications every bit as well. Why not assign the basic state support grant to parents, and let them choose among public and independent schools for their children? And why not offer a modest \$500 tax credit to encourage even more cost effective home schooling? Consumer choice and provider competition almost always produce better and more cost-effective results than top-heavy monopolies.

Legislators should quit looking for ingenious new ways to feed the public education monster. Vermonters need a Theseus who will demand that our tax dollars be used efficiently to produce good educational outcomes, and not merely preserve the power, pay and perquisites of an overly expensive Act 60-funded near-monopoly education system.

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Controlling Education Costs: Solution Five

BY JOHN MCCLAUGHRY

The biennial election season is upon us and there is no shortage of candidates keen on showing the voters that they feel the pain of soaring property taxes. When it comes to actually doing something about it, most candidates fall strangely silent.

In recent years state K-12 education spending has risen at roughly double the rate of inflation, and has now passed an astounding \$11,000 per pupil per year. All the while, the number of children in school has been edging downward from 105,793 in 1997 to an estimated 92,000 this September.

In 1997 the public schools employed 10,857 licensed teachers and aides, yielding a pupil/teacher ratio of 9.74 to one. In 2005, as the pupil count steadily dropped, there were 12,089 licensed teachers and aides, a ratio of 7.48 to one. This is by far the lowest ratio in the fifty states. No wonder education costs, and education property taxes, are shooting through the roof. So what can Vermonters do to curb education costs? Here are five proposed solutions.

Solution One: Keep on paying the increasing costs of our bureaucratic, centrally-controlled public school monopoly system. This is the favored solution of the teachers union, superintendents, school boards, and everybody else who has a piece of the education action. Their slogan is "whatever it takes for our kids."

When property taxpayers finally say

they can't bear the costs of

Solution One, its backers

shift to **Solution Two:**

Shift the costs of our bu-

reaucratic, centrally-con-

trolled public school mo-

nopoly system away from

the homestead property

tax, and onto broad based

taxes, primarily the in-

come tax (with

generous "income sen-

sitivity" provisions) but

also to the nonresidential property tax.

Under this solution, the rich

businesses and second home

owners will foot

ever more of the education bills. That can

work only until they figure out what is be-

ing done to them: dump their second

homes at fire-sale prices and take their

businesses and higher incomes away with

them to New Hampshire, Florida or Texas.

Then there is "Solution Three." Let's

make our bureaucratic, centrally-con-

trolled public school monopoly system

more efficient. The current focus of this

argument is on governance.

If we could consolidate the costly over-

lay of local school boards and supervisory

unions into 63 unified districts with uni-

fied tax bases, so the advocates say, we

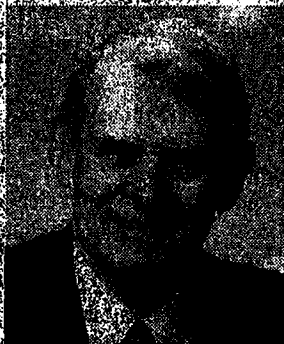
could shrink 284 school boards down to

63, and (supposedly) save lots of money.

This major structural change in public

education would make life much simpler

and easier for often-overworked superin-



tendents – but there would still be 63 of them. They would doubtless be more highly paid, and they would doubtless need a well-paid deputy superintendent. So where would the savings come from?

Any significant savings can only come from consolidation of small schools into large schools.

Whether large schools are

more efficient than small schools has been

hotly debated for decades. There is pre-

cious little evidence that they can get the

same results for fewer tax dollars. In any

case, this solution has always stimulated

serious local resistance.

Let's move on to **Solution Four,** the no-

nonsense business solution: fewer

schools, larger class sizes, fewer aides,

fewer sports teams, leaner salary sched-

ules, and less expensive high-deductible

health insurance similar to what private

sector businesses are adopting.

This common-sense solution runs up

against community support for local

schools and lots of sports teams. It is

fiercely opposed by the Vermont-NEA,

which isn't about to give up any benefit it

has managed to negotiate over the past

thirty years.

Solution Five is radical. Let's give up

on the bureaucratic, centrally-controlled

public school monopoly system, which

guarantees steadily rising taxpayer costs regardless of the number of pupils, and regardless of their mediocre achievement.

In its place, empower all parents with scholarship money to pay for their children's education at any of a wide range of competing programs: public schools, independent schools, faith-based schools, charter schools, Internet-based virtual schools, employer- and union-run schools, mentoring programs, career-study programs, early college programs, whatever arises to meet the demand in the marketplace, many of them at lower cost than the public school system.

That doesn't solve every problem, but competition in a real education marketplace will almost certainly restrain educational costs, improve efficiency, stimulate educational excellence, and increase student and parent satisfaction.

What's not to like? Nothing, unless you are part of, or wedded to, the bureaucratic, centrally-controlled public school monopoly system. If you are, you will join a shrieking chorus denouncing **Solution Five.**

But hard pressed taxpayers should remember this: **Solution One** will cost you more and more. **Solution Two** will destroy Vermont's economy. **Solution Three** won't work. **Solution Four** won't be tried.

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The Solution Legislators Can't See

BY JOHN McCLAUGHRY

The Legislature is well into its end game for this year. The biggest issue awaiting resolution is what is strangely called "Act 60 reform."

Act 60 of 1997 was the fifth school aid formula adopted since 1969 and the only formula whose operative principle was dictated by the Vermont Supreme Court. Since Act 60 was rushed through the 1997 Legislature, the reaction to it has gone through several stages.

First, not surprisingly, was resentment that the Five Supreme Legislators had forced the Legislature to abandon the long-held practice of sending general fund aid to help the poor districts while the rich districts took care of themselves. This was coupled with strong opposition to the first statewide property tax levied in living memory (actually since 1933).

Then came sending town outrage against the Act 60 sharing pool, and some of the most prominent rich towns charged the state funding to avoid the forced sharing. Then came several years of towns voting whipping increases in school budgets, the belief that the extra money would be extracted from the rich towns of the state or the "poor fairy." Overall education spending increased 40 percent from 1997 to 2004, while the number of students decreased by 4 percent.

Then, starting late in 2002, the House Ways and Means Committee determined to get rid of the much maligned property tax sharing pool by raising non-property taxes. That effort, at large-scale tax shifting, accelerated by the defeat of a record 42 school budgets on Town Meeting Day, is the one now entering its final phase.

As this process moved forward, House and Senate leaders of both parties have increasingly intoned that there has to be cost containment. Gov. Jim Douglas joined in declaring, "If we do not contain the increase in the cost of education, we'll find ourselves back in the same situation in the next few years."

Legislators appear to have finally grasped the fact that the state is now in complete control of education spending. That's progress. Only a couple of years ago the friends of Act 60 were writing open pieces bravely declaring that Act 60 had protected or even increased "local control."

What legislators have not yet grasped is that, by centralizing education finance through the state, and putting the state in charge of cost containment, they are well on the way to creating One Big School



System. They are now trying to make that system more efficient through local district consolidations, spending caps, system-wide teacher contracts, joint purchasing, combined facilities usage — all the techniques that people in charge of any big system employ to squeeze out inefficiencies and reduce costs.

Faced with a similar problem, the leaders of businesses (like, notably, General Electric, ABB, EDs, Ingersoll Rand, and Union Pacific) perceived that it is nearly impossible to profitably manage a far-flung and diverse business empire from the top. Trying to do that leads to one-size-fits-all rules, bureaucratic decision-making, expensive middle management deadwood, loss of employee initiative, slow response to competition, and less (or no) profit.

Vermont policymakers should start paying attention to what works in the business world. Instead of trying to centrally manage One Big School System modeled after the old Soviet economy, they should go to a tested and efficient market model: informed and empowered consumers choosing education services that meet their children's needs from the offerings of many competing providers.

That is the only real reform that promises education responsive to the diverse needs of all Vermont children. And since competing independent schools (not to mention homeschooling) are almost always less expensive than government-run schools, market-based education is the only reform that offers any real restraint on taxpayer costs.

That would, of course, mean ending the state's government-run education monopoly, and putting parents, not government employees, in the driver's seat. Regrettably, that is also the one solution that is not under active consideration in Montpelier.

Why? Because it attracts fierce opposition from the groups that have long been feeding off the government school monopoly. At some point — soon — legislators will need to decide whether they will start acting in the interests of school children and taxpayers, or whether they will go on meekly supporting the well-organized public education interest groups that are making out very well from a taxpayer-funded school monopoly, and are almost fanatically opposed to taxpayer-friendly consumer choice and provider competition.

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DUBIOUS REMEDIES FOR CONTAINING EDUCATION COSTS

Governor Shumlin and the legislative leadership have recently discovered that Vermonters are really, really unhappy about ever rising school property taxes. In a commentary published Dec. 3, the governor observed quite correctly "We all know that rising property taxes to fund education have put an unsustainable burden on Vermonters. Despite a steady decline in school enrollment over the last two decades, property tax payers have not seen a decline in their property taxes; they've seen the opposite."

He didn't think to mention that education property taxes do not just "rise," like cream to the top of a milk pail. Somebody has to "rise" them, and the signature on the bills that increased the homestead property tax rate from \$.89 to \$.98 per \$100 of fair market value – and will soon increase it to \$1.00 – is and will be Peter Shumlin's.

Recall, it was Sen. Peter Shumlin who in 1997 steered Act 60, the education finance "reform" law, to enactment. At the time, critics argued that the funding mechanism for that court-driven state takeover of public education would break the essential restraining link between voters and spending. Some of the supporters scoffed at that possibility; others welcomed the state takeover.

Eighteen years later we have come to a situation where not increasing the homestead school

property tax rate would be more painful than increasing it another two cents. Not raising the rate, by itself, would cause a \$42 million shortfall at a time when the General Fund is facing a deficit of \$100+ million. Either that shortfall has to be made up by other taxes – very painful – or the Agency of Education must be given the power to force school districts to reduce their voter-approved budgets. That "solution" has never been attempted in the past 227 years.

House Speaker Shap Smith created a working group to find an exit ramp from this politically dangerous highway. The 10-member bipartisan group has produced three exit ramps.

The first is the "renovation plan." The core of that plan is state mandates to increase local pupil-teacher and pupil-staff ratios, both of which are the lowest in the nation.

Or, alternatively, make local taxpayers financially liable for the high costs of a low pupil-staff ratio. That would violate the redistributive principle of the Brigham decision underlying Act 60.

The second model is a "variable income tax." This alternative features uniform state-set property tax rates. District voters who wanted to spend more than the state-provided amount would



BY JOHN
MCCLAUGHRY

have to raise the funds through a local income tax surcharge. This also flies in the face of Brigham and Act 60.

Then there's the "regional block grant" model advocated by Rep. Oliver Olsen. This is based on complete state responsibility for education spending.

The state would distribute the tax dollars it raises to "regional entities" (no further information available), through which it would flow to local school districts.

Doubtless unbeknownst to Olsen, in 1967 New Brunswick had a public school system almost identical to Vermont's in 1996. Then it started down Olsen's Highway by enacting its "Equal Opportunity Program."

The result (from my commentary of July 1998): "A province-wide education property tax... The installation of local 'Directors of Education' accountable to and removable by the Ministry. The statewide teachers' contract. The conversion of superintendents to state employees. Abolition of local school boards as wasteful overlapping bureaucracies. Reduction of "local control" to input sent to the Ministry from PTA meetings."

"The only curious part of this story is that it took New Brunswick 30 years to achieve the centralized, unitary school system

that is the inevitable result of full state funding of local schools. Barring a political revolution, the same results should be attained much more quickly in Vermont." We are now 18 years into Act 60, and – if Olsen is successful – it looks like we will reach New Brunswick's condition sooner than they did.

Fortunately, there is an alternative path for Vermont (from 2006): "Give up the bureaucratic, centrally controlled public school monopoly system, which guarantees steadily rising taxpayer costs regardless of the number of pupils, and regardless of their mediocre achievements."

"In its place, empower all parents with scholarship money to pay for their children's education at any of a wide range of competing programs: public schools, independent schools, faith-based schools, charter schools, Internet-based virtual schools, employer- and union-run schools, mentoring programs, career-study programs, whatever arises to meet the demand in the marketplace, many of them at lower cost than the public school system."

The "parental choice and provider competition" model is gradually becoming the future of 21st Century American education. Why not here?

John McLaughry is vice president of the Ethan Allen Institute (www.ethanallen.org).

Schoolchildren First



JOHN
McCLAUGHRY

By John McClaughry

What should the focus of Vermont education policy be? Schools? Or schoolchildren?

That's the question posed by an important new report published July 17 by the Ethan Allen Institute, entitled *Schoolchildren First*.

The goal of the report is to expand and improve high quality educational opportunities for all of Vermont's children. To achieve that goal, the report proposes to shift the focus of education policy

from "schools" to "schoolchildren." Its plan would, for the first time, empower all the parents of all of Vermont's children to choose the kind of education that they believe is best for their children.

Everyone's child is different. Some thrive in a disciplined environment. Some do better with student-centered learning. Some prefer traditional subject matter.

Some prefer a curriculum built around a theme, such as art, music, science, community service, or work opportunities. Some want moral and religious values integrated with their schoolwork.

About eight percent of Vermont's parents choose independent schools or homeschooling, as better for their children than public schools. If the parents are wealthy, this is easy. The parents of thousands of kids, however, make real sacrifices to make it possible for their children to attend what they think is the most suitable school, rather than saving the money and allowing the government to assign their child to a

public school.

For 132 years, parents in (today) 90 Vermont towns have had a choice of schools for their children to attend. In those towns, parents can send their children to any public or independent school, in or out of the state, except for sectarian schools.

Schoolchildren First proposes to expand that educational choice system to all parents and all children in all towns of the state. It also proposes a tax credit mechanism that will generate private contributions to underwrite scholarships for pupils wishing to attend faith-based schools not now eligible to receive public tuition payments.

Schoolchildren First proposes no major departure in school financing. There is no magic pot of money that will allow the repeal of the two state property taxes.

The report does propose to eliminate one of the state property taxes — the so-called sharing pool — by increasing the other state property tax. Much as most Vermonters would like to reduce the dependence on the property tax for the support of education, there appears to be no feasible way of doing so.

What about "local control"? "Local control" in education means to most Vermonters that local taxpayers vote local taxes to pay for local education. The Supreme Court put an end to that era with its Brigham decision. Despite some complicated accounting methods, the fact is that all the funds for education are now levied by the state and disbursed by the state.

Act 60 is leading the state into creating One Big School System. Running such a system from Montpelier is possible, but long distance management of a government education monopoly would not be good for Vermont's kids.

Schoolchildren First recognizes that the state will continue to levy all the taxes to support education. It proposes that, instead of the state paying out the funds to 251 captive local school districts, the state pay the funds out to parents to enable them to choose the educational opportunities they think are best for their

children. It replaces the disappearing "local control" at the town level with real "local control" at the family level.

Why all this now? Because, the report points out in detail, Act 60 is steadily running aground. Without the annual \$36 million sharing pool subsidy (voted by the legislature in each of the past three years), support for Act 60 will steadily dwindle. The current business slowdown, plus the escalating fiscal demands of the Medicaid program, mean that there is not likely to be any surplus to bail out Act 60 in years to come.

More and more Vermonters are realizing that it's time to find a replacement for Act 60.

Schoolchildren First is a well-conceived replacement. It's based on experience in other choice states like Florida and Arizona. It makes a strong case that the parental choice and competition among schools will go further to satisfy consumers — parents and their children — than a system where government makes the decisions for everybody's child. It complies with the equity requirement of the Supreme Court's Brigham mandate.

Not surprisingly, three liberal Democratic Senators (Shumlin, Rivers, and McCormack) called a news conference to denounce Schoolchildren First. They said that such a parental choice plan would undermine public schools, low income people would find that being able to choose their children's school is "fool's gold," and it looked (to Sen. McCormack) like this plan was the creation of the much-despised (by him) "Christian Right." It will be interesting to see how thoughtful Vermont parents respond to those attacks — especially parents who are unhappy with their child's education and wish they could afford to choose a more suitable one, public or independent, secular or religious.

John McClaughry is President of the Ethan Allen Institute. He was formerly vice chair of the Vermont Senate Education Committee. (The full text and the executive summary of Schoolchildren First can be found at www.ethanallen.org.)