

Tax Structure Commission testimony, September 23, 2019
Rep. Scott Beck, St. Johnsbury

At least part of the reason for the creation of this Tax Structure Commission is the dissatisfaction by some with how Pk-12 education is funded in Vermont. As I am sure you already know, not many people understand how Vermont's funding system works, much less the rationales behind it.

In my first year in the House, then Speaker Shap Smith, asked for Vermonters to send him ideas of how to reform education funding. I reviewed those ideas, none of which were helpful. My big takeaway was that very few understand how Act 60 works, much less able to put into context their frustrations with rising property tax bills, questions about equity, and understandability.

My opinion is that Act 60 has been a huge help to Vermont, its schools, and students. The idea that any district has access to the same funding no matter their grand list property wealth, income, or any other measure of means was a tremendous improvement over previous funding models and should be a roadmap for other states to follow.

My opinion on Act 60 does nothing to alleviate the frustrations many Vermonters have with education funding. I don't think understandability by the masses can be achieved as long as some homestead taxes are based on household income, others property value, some a combination of the two, and in some cases divided up among housesite, non-housesite, and non-homestead – sometimes all three are in play. Vermont is not ready to eliminate income sensitivity, and we may have to accept that in the interest of fairness, much of Act 60 is not simple enough for casual observers to understand.

But on the questions of district rate equity and property tax increases that exceed inflation, economic growth, and State grand list growth there are solutions, but first we have to understand the cause.

Act 60 has a fundamental error that works against district rate equity and encourages spending increases that are increasingly unsustainable. **Act 60 uses a district's equalized pupil spending to determine tax rates when only about 30% of this spending is supported by homestead property tax payers.**

This has created the undesirable affect of increasing homestead property tax rates for the lowest spending districts and reducing rates for the highest spending districts. While not technically a violation of *Brigham*, it is an affront to district equity, and it encourages spending while discouraging savings and efficiency.

The best way to demonstrate this is by example.

In FY20, if a district spent \$13,877 per equalized pupil, then their homestead tax rate would have been \$1.30 according to the property yield and non-homestead rate set by the Legislature. If every district had spent \$13,877, every district would have received a homestead tax rate of \$1.00. In this example a district spending \$13,877 paid an extra \$0.30 to support levels of spending that they did not take part in.

If we use the FY20 non-residential rate of \$1.594 as a constant and remove the excess spending threshold and merger tax incentives from rate calculations, we can examine what happens on the other end of the spending spectrum.

If a district spent \$18,595 per equalized pupil in FY20, then their rate would be \$1.75. If every other district had spent \$18,595, everyone's rate would have been \$2.00. This district paid \$0.25 less than what would have been required to support their level of spending.

This inequity that favors "high spending" districts over "low spending" districts leads to rapidly increasing education spending as well. In essence, the more a district spends, the more value it receives.

I am not implying that Vermont school district boards are nefariously acting on this reality; I doubt they understand it. But, I think it is fair to argue that these boards are trying to get the best value for their children, schools, and taxpayers. If more value is received for more spending, I think I know where the long-term trend is likely to go. Compound this dynamic over 20 years and Vermont's current predicament is understandable.

H.198 provides a solution by making three changes.

1. Create a base spending amount (BSA) supported by a \$1.00 homestead property tax rate, JFO determined this would be \$13,877 in FY20. Districts spending less than the BSA would still receive a rate of \$1.00.
2. Redefine the homestead property and income yield to only apply to district equalized pupil spending in excess of the BSA.
3. Eliminate the excess spending threshold and penalty.

District Examples

District A

Per Pupil Spending \$14990

Property Yield 4695

HS Property Tax Rate $\$1.00 + (14990 - 13877) / 4695 = \1.24

District B

Per Pupil Spending \$17550

Property Yield 4695

HS Property Tax Rate $\$1.00 + (17550 - 13877) / 4695 = \1.78

This change would nearly eliminate the district inequity that exists and make education dollars that exceed the BSA more expensive than they currently are, slowing the growth in education spending without using the excess spending threshold as a penalty. It would also encourage districts to more carefully consider whether to redeploy found savings and efficiencies, or return them to taxpayers.

Thank you for your time. I am available to answer questions.