

## Commissioner Brighton's Notes for July 23<sup>rd</sup> Education Finance Discussion

This is based on Sean's list of problems, somewhat rearranged. Below each problem are some ideas to begin the discussion. This is not an exhaustive list; it is just a starting point to help us move from hearing problems to crafting recommendations.

1. State responsibility but local control
  - a. State responsible for provision of schools and equal protection, but relies on districts to provide them.
    - i. True in most states; not a function of tax structure
  - b. State can't control spending
    - i. Could move to state control of spending and therefore of tax rates
    - ii. For more state control while maintaining some local control: state could set clear, specific standards; move more to categorical aid; make the link between budgets and tax bills clearer and more direct; create a different inflection point in the yield; make the locally voted tax more progressive.
2. Property (Education) Taxes are too high
  - a. Property tax is more burdensome than other taxes
    - i. Could move more revenue into EF from GF
    - ii. Could move more to income tax
  - b. Given budgets are approved, ed taxes may be too high for lower-income people but not for higher-income people.
    - i. Could make the locally voted education tax more progressive.
  - c. Education taxes are too high because education spending is too high
    - i. To what extent is spending a function of the tax structure (or within the scope of the TSC)?
3. Link between local spending and local tax bill is not clear
  - a. Voters don't understand the tax increase that would result from a budget increase when they vote.
    - i. Could eliminate the adjustment so that voters can estimate their tax bill given the budget.
    - ii. Could be clear that a spending increase of X means a tax bill increase of Y%, for either property or income.
  - b. At town level, the rate can increase even if the budget doesn't. This is true in any system in which a portion of the funds come from another source (eg. State aid) that may go down; the locally raised tax is the shock absorber.
    - i. The likelihood could be reduced by:
      1. a stabilization reserve,
      2. keeping the EF fund only for costs that districts can control,
      3. directing non-homestead revenue at stabilizing the cost of an "adequate" education, making the tax for additional spending more expensive (and volatile).

4. Complexity
  - a. Voters don't understand what their tax bill will be, and they don't understand the adjustment.
    - i. Could eliminate the PTA and vote directly on the lesser of income and property
    - ii. Could eliminate the PTA and vote directly on income
    - iii. Could eliminate the local vote entirely and have a uniform state education rate
  - b. Household income calculation cumbersome and error-prone.
    - i. Could replace household income with AGI, VT Taxable Income, or VT tax.
  - c. Adjustment is processed by state, sent to towns, added to local tax bill creating extra work at the town level.
    - i. Could eliminate adjustment and its local processing.
  - d. CLA causes confusion.
    - i. Could adjust the house value instead of the tax rate to account for appreciation
    - ii. Could use a uniform state appreciation factor between reappraisals
  
5. Perceptions of Unfairness—Taxpayer Equity
  - a. Perception that some people get "subsidy" instead of paying full share
    - i. Could get rid of the PTA and determine what is a fair amount to pay (rather than what is a fair amount to not pay).
  - b. Whether a fair amount to pay should consider family size
    - i. Could use VT Taxable income
    - ii. Could apply exemptions to income for each family member
  - c. Whether a fair amount to pay should consider both income and assets
    - i. Could research ways to inventory and value assets to see if and how this could be approached.
  - d. Tax bills increase sharply as income rise above \$47K and again at \$90K
    - i. Could eliminate the housesite caps, or have only one, higher cap
    - ii. Could re-examine the circuit breaker; move toward a sliding scale rather than a circuit breaker.
  - e. Renters and Owners are treated differently
    - i. Could move to income tax for both homeowners and renters, so all voters could see the direct link between their vote and their tax bills. (With a credit to renters for ed tax paid through rent).
    - ii. Could restructure a renter program to parallel the homeowner tax, covering all renters—not just those earning less than \$47K.
    - iii. Could set up system for listing apartments individually and having renters declare their home. This would enable research, analysis, and development of a fair approach.
  
6. Need a plan for capital expenditures
  - a. Need more state funding
    - i. Could reinstitute capital support program
  - b. Need to control flow of projects and state debt level
    - i. Could require standards, prioritization, review by AOE

- c. Wealthy districts have greater ability to have better facilities
  - i. May need separate calculation of yield for Local share, depending on the extent to which student weighting or taxpayer progressivity are used to address poverty.

7. Student Equity

- a. Not a clear way to measure this
  - i. May need more research on how to measure student outcomes to monitor our progress
- b. Not a clear way to provide equity through the tax structure
  - i. Weighting study indicates students from poverty cost about 4X average, but weighting may not be the best approach
  - ii. Could use weighting, categorical aid, or partnership with other service providers, along with a more progressive tax, or a combination (in all proposals)
  - iii. May need more research into what programs are entailed before proposing changes to the tax

\*Goldilocks structure: perfect mix of categorical aid and costs that are raised on the local tax based on perfect weighting of students; locally voted tax that equalizes pain for individual people (not just individual districts) to raise an equal amount per weighted student; that provides an adequate amount for all districts; that makes it harder but possible to raise amounts greater than the adequate amount.