

Vermont's School Finance Law Is Still the Best

As the Vermont Legislature opened earlier this month, school taxes were once again on every leader's lips. That makes sense. Vermonters care a lot about our schools. We recognize that public education may be the state government's most important responsibility. In fact, it is the only public service the framers felt compelled to include in Vermont's Constitution.

We expect public schools to prepare our children to be well-adjusted, competent citizens with an understanding of their own culture and the world. That challenge is formidable -- and it costs money. And there's the dilemma: We care about schools, but we also care about our pocketbooks

Financing education would be simple if both running a school and raising the money to pay for it were controlled either by towns alone or by the state. But a system of locally run schools funded by local taxes ends up treating children and taxpayers unequally across the state. And one that lets the state run the schools using state revenues strips communities of local control.

Act 68, signed by Gov. Douglas in 2003, is a complicated law because it addresses this complicated problem. Like its predecessor, Act 60, it provides equal educational opportunity to all of Vermont's children, it does so in a way that is fair to taxpayers, and it keeps control of schools in local hands.

Most people would agree that these are good goals. They are proud of Vermont's schools and want to keep them excellent. They want all of our children to have a shot at a successful future. And they know that local control is not only the best way to manage a public education system, it is also central to the cohesion of our communities.

Still -- understandably -- they are concerned about increasing taxes. But is all the news bad? The answer is no. Here's why:

School taxes as a percentage of personal income is dropping. Yes, school costs have gone up significantly, and with them taxes. But so has personal income -- and it is growing faster than those taxes. The result: School taxes as a percentage of personal income in Vermont have gone down over the past 10 years. From 1996 -- the year before Act 60 — to 2006, that percentage has dropped from 5.4 percent to 4.8 percent.

Most Vermonters are not getting hammered by rising property taxes. That is because most households -- 60 percent of taxpayers in owner-occupied homes -- are paying school taxes based on their incomes, not on the value of their homes. That's what the income-sensitivity provisions of Act 68 do. As property values go up, if their incomes are stable, or even if they drop, Vermonters don't have to fear losing their homes because of rising school taxes.

The confusing system is about to get a little simpler. Unfortunately, many people don't know how much they are paying in school taxes, or on what basis. The system requires that those who want to pay based on income must first pay their property taxes, then wait for a check from the state. These taxpayers do not connect the two parts of the system, so they feel as if they are paying a huge property tax bill. In fact, the amount they're paying is the bill to the town *minus* the amount of the refund (or “prebate”). To solve this problem, the Legislature got rid of that two-step process. Starting this summer towns will bill taxpayers the actual amount they owe.

There's more money due from state coffers for education than is being spent. Under Act 68, money is transferred from the General Fund to the Education Fund each year. The law requires that the amount of the

transfer grow at the same rate as General Fund base spending (anticipated year-after-year spending). Over the past two years, however, the General Fund transfer was \$25 million less than required by law. To make up the difference, property taxes grew. If Montpelier plays by the rules, the burden on property taxes will be lighter.

Every state has wrestled for decades with funding public education. They all know the money has to come from somewhere -- and schools in every state continue to rely on property taxes. Act 68 is fairer and more sustainable than an all-property-tax system. It balances the needs of all of Vermont's children with those of its taxpayers, and it trusts local communities to manage their schools best. Our system needs refinement. But the bottom line is, Vermont's Act 68 is still the best school financing law in the nation.

Paul Cillo

The writer is president of the Public Assets Institute, a nonprofit that analyzes state tax and budget issues (www.publicassets.org). He is a former majority leader of the Vermont House and co-authored the Equal Educational Opportunity Act, also known as Act 60, in 1997.

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