

Get Ready for a Fight Over School Funding

The state's education financing law (Act 60/68) has given the appearance of working just fine this decade because its main source of revenue, the value of property in the state, soared upward as housing and commercial property value rose in an unprecedented fashion.

While most Vermonters were just concerned about their own school property tax bills, those who followed the growth of education spending in the state knew it was increasing at an unsustainable rate. From FY05 through FY09 total K-12 spending rose from \$1.07 billion to \$1.32 billion, a 23% increase in just four years. Total education property taxes rose from a net of \$651 to \$877 million during these years, a 35% increase.

But there was no real outcry from the voters. Economic times were good. In addition, the state changed the way its property tax adjustment program worked, making it difficult to figure out just how your school tax bill was changing. And with the declining number of school children throughout the state, there were fewer calls for costly, new school construction.

Easing Through FY2010

To the public, school financing in FY2010 (the current school year running through the end of June next year) appeared to be pretty easy. The school tax rate actually fell by a penny for both residential and non-residential properties. Total school spending rose only 2.2% — the lowest increase in a long time.

But in order to pay for this the legislature had to scramble. By law the General Fund was to transfer \$292 million to the Education Fund, but it didn't have the money. It could only cobble up \$241 million in order to keep the General Fund in balance. Total spending outpaced revenues by about \$60 million.

But Washington D.C. came to the rescue with the federal stimulus program. The gap was closed with more than \$39 million in stimulus money and by drawing down the Education Fund reserve by \$18 million.

Putting Together a Budget for FY2011

This winter the legislature will be putting together a budget to keep the Education and General Funds solvent in FY11. The task will be difficult. No one

knows how total education spending will increase (voted separately by all the state's individual school districts). The best guess is it will grow like last year — about two percent. Again in FY11 there will be fewer students in Vermont to educate. But historically there is little connection between education spending and the number of students.

Financing this spending will be tough without raising school tax rates. The education grand list applicable to this year will only grow slightly. (This seems counter-intuitive giving falling home values. But because of lags in the way the state prepares the equalized education grand list, the first grand list decline will not occur until FY2012).

The legislature will not meet its mandated transfer from the General Fund, which has its own problems. Instead it will likely hold the level steady at last year's amount, if not cut it more. This will leave a funding gap of about \$70 million or more. There's another dose of \$40 plus million in federal stimulus money for this year — closing the funding gap to \$30 million or more.

How will the legislature close this gap?

- It could finally raise property taxes. It hasn't had to do that yet with Act 60/68. It won't make the constituents back home happy in an election year.
- It could further raid the stabilization fund. But there won't be enough money there to cover the entire deficit.
- It could join what will be a growing chorus of states begging President Obama and Congress for a second round of stimulus money.
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Falling Off the Edge in FY2012

Just as with other state funds, FY2012 looks to be the year of really tough decisions for education finance. Under current law, the federal stimulus money dries up. And there will not be any extra money in the General Fund to close the budget hole.

The choice the legislature will either have to send more money to the Education Fund to keep property taxes down and raise income taxes to do so, or transfer less money to the Education Fund to an income tax increase but see school property taxes soar. Either way, get your check books out. ■