



SOUTH BURLINGTON SCHOOL BOARD

500 DORSET STREET
SOUTH BURLINGTON, VT 05403

PROPOSALS FOR ADDRESSING EDUCATION FUNDING CHALLENGES

Vermont has a high-performing educational system. The State ranks near the top on educational outcomes. But the delivery system is facing challenges, primarily because it is costing more to educate fewer students with an increasing share being borne by those paying property taxes. The primary goal for our educational system is to prepare all students for their next steps at a cost that the State and each community can afford and is willing to pay.

In the following paper, the South Burlington School Board considers two aspects of the school funding issue: what it costs to provide a quality K-12 public education and how to pay for it. The paper offers the Board's views on each aspect of the issue, to provide guidance to the District's legislators going into the next biennium.

In addressing the issues facing the State's education system, the Board has considered not only ideas that may provide short-term relief to the community's taxpayers but also longer-term strategic priorities for improving and sustaining educational excellence in the District and across Vermont. This paper first sets forth these ideas in brief then discusses the issues in further detail.

SUMMARY

Ideas for Obtaining Immediate or Near-Term Relief to Property Tax Payers

- Use the Education Fund only for costs associated with the educational delivery system mandated by *Brigham* and those over which local school boards have control.
- Increase reliance on broad-based taxes as revenues for the Education Fund by increasing the transfer from the General Fund to

the Education Fund to cover 39% of the Education Fund revenue, the amount covered by the transfer in 2005.

- Impose a moratorium on unfunded mandates until the legislature has identified a sustainable funding mechanism for recent mandates.
- Do not enact legislation banning strikes and imposition or mandating binding arbitration. Instead, the legislature should reform collective bargaining by (1) modifying guidelines for fact finding, and (2) providing that pay or benefit increases should not occur without agreement.
- Do not exempt the education community from statewide changes to health care.
- Phase out small school grants.
- Amend Act 129 such that resources follow a school-choice student to the receiving district, thereby linking student learning with funding for the delivery system.

Ideas for the Longer-Term Reform of Delivery of Educational Services

- Provide incentives and disincentives that encourage consolidation with the goal of improving educational opportunities and promoting more cost-effective and efficient delivery of those opportunities.
- Proposal: Require the Agency of Education to identify the costs of social services incurred by schools.

These ideas are discussed in more detail and with specific proposals for action in what follows.

DISCUSSION

COSTS

Approximately 80% of the cost of education goes to teacher and staff salary and benefits. There are three main avenues to manage the cost of total compensation: (1) reduce or hold constant salaries, (2) reduce or hold constant benefit costs such as healthcare, and/or (3) reduce the number of teachers and staff. The following addresses these three avenues, and then offers thoughts on other potential areas for cost savings.

Salary: As a state-wide average, Vermont is not paying its teachers as much as most other New England states. Thus salary is not necessarily the best place to reduce costs if we want to stay competitive in attracting the best teachers. But there are districts, such as South Burlington, with average salary costs that are much higher than the average for Vermont. In such districts, state-wide savings could be achieved by reducing the upward pressure on salaries.

The recent strike in South Burlington, however, shows the difficulty of containing salary costs. In the negotiation leading to the strike, the School Board sought to manage total compensation, proposing a reduced-cost health care plan. When the Board eventually acceded to the Educators Association's demand to allow teachers to retain their current health care benefit, it instead sought concessions in salary. A five-day strike ensued. In the end, the Board agreed to an increase of over eight percent new salary money over three years, which represented over two percent less than the Association sought, but still resulted in a continuing upward trend in salary costs. That trend is not only felt in each operational year of a contract, but also in the ensuing pension obligations that result from salary actions. In either case, local and statewide taxpayers fund these obligations.

There have been calls to eliminate the ability of the Educators Association to strike and the authority of school boards to impose contract terms. Such proposals have also called for the use of binding arbitration to resolve

impasse between boards and the Association. Although there is some merit in outlawing strikes and imposition, binding arbitration has serious drawbacks. In arbitration, it is likely that the status quo would continue and creative proposals would be discouraged because arbitrators would have a tendency to compromise and look to precedent to guide their decisions. Further, arbitration would take effective control of schools out of the hands of school boards. We note that the Vermont Statutes on Labor Relations for Teachers and Administrators already provide for binding arbitration with the agreement of both parties.

Rather than moving toward a system with binding arbitration, modifications to the laws governing the collective bargaining process should be considered. The Vermont legislature should consider providing specific guidelines for fact finders to use in addressing education sector disputes, restricting terms that remain in place when a contract expires and have not been replaced by a superseding contract, and lengthening the contract term that a school board may impose.

One of the factors affecting the outcomes of collective bargaining is the "fact finding" process that occurs if the sides reach impasse and have tried unsuccessfully to mediate their differences. Fact finding involves both sides presenting their positions to a neutral fact finder, who issues a fact finding report. The statutory provisions governing labor relations for teachers and administrators (16 V.S.A. Chapter 57) do not include any specific guidelines for fact finding. 16 V.S.A. 2007. Accordingly, fact finders look to the guidelines governing municipal and state employees, or to other provisions of Chapter 57 relating to binding interest arbitration. 16 V.S.A. 2025. Neither party is obligated to abide by the resulting recommendation(s), but the process serves as an "audit" of current local practices and an opportunity for parties to justify their positions to each other and the public.

There are several disadvantages to this procedure, however. The guidelines that fact finders generally follow have a tendency to perpetuate the status quo. One of the factors that fact finders consider now is "comparisons of wages, hours, and conditions of employment of the employees in dispute

with the wages, hours, and conditions of employment of other employees performing similar services in public schools in comparable communities or in private employment in comparable communities.” 16 V.S.A. 2025(b)(3). Indeed, fact finders tend to rely heavily on a too-narrow conception of so-called comparables, namely the terms of other recently-settled contracts in like districts. For example, a fact finder may note that comparable districts have provided certain percentage increases in new money and will suggest application of the same percentage increases without considering the relative wages among the districts. A three percent increase on an \$80,000 salary costs less to the taxpayer than a three percent increase on an \$86,000 salary, for example. Over-emphasis on comparables often leads to neighboring districts marching in lock-step in providing percentage salary increases.

Further, a fact finder may consider “the interest and welfare of the public and financial ability of the school board to pay for increased costs of public services including the cost of labor.” 16 V.S.A. 2025(b)(3). Again, consideration of this factor is often overly narrow. To determine a board’s financial ability, the fact finder often looks only to whether the district’s community has passed recent budgets rather than at underlying economic factors affecting the community’s ability to pay, as well as any future commitments that might encumber taxpayers, such as pension shortfalls, unfunded state mandates, and rising healthcare premiums. Moreover, the fact finder may narrowly look at the local community only, although in Vermont, all the property tax payers in the state are affected by local decisions in collective bargaining. Another drawback to this process is that fact finders are conservative and do not push creative solutions, particularly if a party is opposed to such solutions. Not all aspects of compensation, including benefits, are necessarily given equivalent attention in the fact finding process.

- Proposal: Provide specific guidelines for fact finding in the education sector that emphasize ability to pay, taking into account broader economic indicators such as property tax burdens, recent statewide increases in property taxes, changes in median income,

unemployment rates, and increases or decreases in property values. Deemphasize comparability of salaries and, to the extent they are taken into account, consider comparability of tax burdens and total money per pupil in absolute dollar increases as opposed to percentage increases. Provide a platform for thorough consideration of creative proposals that may not adhere to strict status quo guidelines.

Other disadvantages to school boards are inherent in the collective bargaining process. As often happens, negotiations continue into a school year after a contract has expired and, by that point, teachers have already received their step increases. Further, once settlement is reached, even if a strike occurs, teachers will receive their full annual pay because districts must teach the required number of days. Re-balancing negotiations to address this issue could provide boards with more leverage in containing costs.

- Proposal: No pay increases should occur without agreement. In other words, teachers should remain on step after a contract expires until a new agreement is finalized.

In summary, mandating binding arbitration is not the best approach to address the downsides of work stoppages, nor will it lead to negotiation outcomes that are necessarily favorable to the community that school boards represent. Rather, modifications to collective bargaining can lead to more fair outcomes and can assist local school boards in containing the costs of salaries and benefits.

Moreover, although not necessarily a legislative concern, local school boards can undertake other proactive steps to encourage a more transparent and productive negotiation process. For example, following impasse, boards should hold negotiations in public and the terms of each parties' proposals should be presented for discussion and justification. The public should weigh in when asked to value their support for sustaining ongoing educational programs. Teachers and staff should have specific knowledge of proposed terms, particularly if there is a general

belief that those terms are inferior to current total compensation and a work stoppage is threatened as a result.

Healthcare: Teachers currently have what might be considered a Cadillac healthcare plan (which may be subject to a "Cadillac" tax), unavailable to most Vermonters. Teachers pay no deductibles and are provided broad benefits. They also pay a lower percentage of the premiums than is common to employees outside of the education community. As recently demonstrated in South Burlington, changing teachers' healthcare plans, even if more money is put in their pockets, may not be possible through collective bargaining. To the extent that Vermont moves towards a single-payer healthcare plan, or modifies provision of healthcare short of a single-payer system, teachers should be included in the legislative solution.

- Proposal: The education community should not be exempt from state-wide changes to healthcare.

Staffing Levels: In most districts, the only feasible place to realize cost reductions is through reducing staffing levels. Vermont has one of the lowest student:teacher ratios and student:staff ratios in the nation. The student:teacher ratio is a bit under 10:1 and the student:staff ratio is about 4.67:1. Increasing these ratios would help reduce the per pupil costs in our system. For example, increasing the staff:student ratio to 5:1 from 4.67:1 could save \$74 million annually.

School boards should be encouraged to examine and justify staffing levels. Also, to achieve reduced staffing levels statewide, incentives should be provided for both inter- and intra-district consolidations that lead to more cost efficient schools. In addition to potentially lowering costs through reductions of staff, consolidation may, perhaps counterintuitively, increase learning opportunities for students. Many Vermont schools do not offer opportunities such as advanced math and science, art, music, or languages—consolidating schools or combining resources either between or within districts can make such offerings financially feasible. Particularly at the high school level, schools should be encouraged to use technology to improve

teaching coverage across a broader geographic base of students in areas such as AP classes, classes with low enrollment, and classes requiring specialized teaching certifications.

Incentives that perpetuate inefficient schools should also be eliminated. Currently, “small school grants” provide incentives for staying small. The amount of the grants, while part of the Education Fund, are not included in calculating a school’s per pupil cost, which artificially deflates the cost of educating students at such schools. Over \$7,000,000 is provided annually in small school grants, which is the equivalent of one cent on the statewide homestead property tax rate.

Further, the Agency of Education should identify those schools that have higher than average per pupil costs and those that are not providing robust learning opportunities. If corrective response is not forthcoming, imposing disincentives for such schools to continue in their current configurations should be considered.

If schools are consolidated, the buildings would not necessarily be shuttered, but could find new community purposes. They could still potentially serve as the heart of small towns as community centers for seniors, youths, and the general population, for instance. Remote and adult learning may be considered as new uses.

- Proposal: Phase out small school grants.
- Proposal: Consider redirecting funds from small school grants to support innovative cost reduction programs such as collaboration using technology to share teaching resources.
- Proposal: Continue to provide incentives for inter- and intra-district consolidation and collaboration, including funds for construction and repurposing of facilities. In addition, have the Agency of Education help districts determine where consolidation can produce cost savings and improvements in student learning opportunities.

In addition, current policy related to school choice is likely perpetuating schools that are unable to offer equal educational opportunities. Act 129 purportedly allows broader school choice, but it in fact limits such choice. Under Act 129, money does not follow school-choice students from their school district of residence. Tuition is not paid to the receiving school and the students are not counted in the receiving district's average daily membership. Without the funds following out-of-district students, schools have no incentive to receive school-choice students because they must incur costs without obtaining additional resources from the sending district. Thus, for example, South Burlington is accepting only a fraction of school-choice students who wish to attend its schools. Accordingly, students who wish to leave a district that is not offering equal educational opportunities may not be able to do so. By not allowing funds to follow school-choice students, smaller schools that are unable to offer full educational opportunities will continue to exist because their students have little choice but to attend those schools.

- Proposal: Amend Act 129 such that resources follow a school-choice student to the receiving district, thereby linking student learning with funding for the delivery system.

Other Potential Cost Savings: While 80% of the cost of education is incurred from staff and teacher salaries and benefits, there may be potential cost savings to be had in the remaining 20% of education cost. Cost savings can be achieved through consolidation or through inter-district cooperation short of consolidation. For example, encouraging districts to unify purchasing of supplies or acquisition of services (such as building maintenance, snow plowing, etc.), or to consolidate business practices such as accounting and/or payroll, could provide cost savings. Standardizing financial management, reporting, HR systems and student databases would add value to the current system.

Unfunded Mandates: The legislature should enact a moratorium on imposing any new or increased unfunded mandates on local school districts.

Further, the legislature or Agency of Education should provide support in fulfilling current unfunded mandates, such as dual enrollment, pre-K stipends, agency fees and employer assessments to subsidize the retired teachers' healthcare fund. We note that the increase in the number of staff and teachers is often necessary in order to fulfill the educational goals as well as the health and social service mandates set by the legislature.

- Proposal: Impose a moratorium on unfunded mandates until the legislature has identified a sustainable funding mechanism for recent mandates.

Spending Threshold: Unless the State provides local boards with the tools to contain costs, primarily through enhancing school boards' bargaining positions in collective bargaining, it should not further adjust the spending threshold.

- Proposal: Leave the spending threshold as is.

REVENUES

Revenue Sources of the Education Fund: In 1997, the Vermont Supreme Court held in *Brigham v. State* that the existing state aid plan for education was unconstitutional. In response, the Vermont General Assembly enacted Act 60, which instituted a new state property tax and created the Education Fund (Act 60 was later amended by Act 68). Homestead and non-residential property taxes now cover about two-thirds of Vermont education costs. Other taxes, lottery proceeds, and a transfer from the State's General Fund make up the balance of revenue in the Education Fund. Notably, the transfer from the state's General Fund has declined from 39% in 2005 to 33% in 2014, putting increased pressure on the property tax revenue stream for the Education Fund.

- Proposal: Increase the transfer from the General Fund to the Education Fund to cover 39% of the Education Fund revenue, the amount covered by the transfer in 2005.

Misuse and Erosion of the Education Fund: As background, each year, the legislature specifies both a Base Education Spending Amount per equalized pupil and the base homestead tax rate. School boards formulate budgets, from which a district's cost per equalized pupil is determined. The base homestead tax rate is the starting point for determining the tax rate at the local level needed to raise the revenues to cover the Base Education Spending Amount and any additional spending a local district may decide to fund. To the extent that a school district is spending more than the Base Education Spending Amount, it must raise the additional money through an increase to the state-set base homestead tax rate. For example, in FY14 South Burlington spent \$14,893 per student, and the Base Education Spending amount was \$9,285. Accordingly, it was spending 60% more than the base amount. The local property tax, in turn, was 60% higher than the homestead base rate (before taking into account any adjustments based on the Common Level Adjustment).

Under Act 60, the Education Fund was originally to be used "to make payments to school districts and supervisory unions for the support of education," and for certain other costs directly associated with the support of education by districts and supervisory unions. 16 V.S.C. 4025. The legislature has since added other draws on the Education Fund that do not go to districts and supervisory unions to support education. For example, in FY15, \$3.8 million from the Education Fund is being used to pay for the Community High School of Vermont, which is run by the Department of Corrections; \$5.8 million of Education Fund money is paying for adult basic education; and \$375,000 is funding retired teachers' healthcare (over the next decade funding from the Education Fund for retired teachers' healthcare is projected to grow to \$5.8 million). These draws from the Education Fund are not required by the *Brigham* decision. Local school boards did not decide to set up these programs or entitlements and have no control over their costs, although the State's decision to fund them through the Education Fund increases the property taxes that the boards must request of taxpayers for their budgets. Although these are important programs, their cost should not be hidden in the base homestead tax rate.

- Proposal: Remove draws from the Education Fund that are not required by the Brigham decision, Act 60, or Act 68 and that are not controlled by local boards.

One of the drivers of the increase in Vermont's cost per pupil is the additional social services that school districts are providing. Unfortunately, the amount that schools spend on such social services is not transparent to school boards or to the community that pays for them, in large part through property taxes. Many of these services may, indeed, be necessary to achieve the equality of education that *Brigham* envisions. Those that are not, however, should not be funded through the education fund. At a minimum, there should be a better understanding of the extent of the costs of social services funded through schools.

- Proposal: Require the Agency of Education to identify the costs of social services incurred by schools.

ADDITIONAL ISSUES

The foregoing is not a comprehensive discussion or list of ideas related to education delivery and funding. The following briefly lists other issues that could be raised in the upcoming biennium on which the South Burlington School Board may want the opportunity to comment.

Should teacher pay be restructured? Part of the rising cost of teacher compensation may be attributed to the current pay structure, whereby all teachers receive pay increases based solely on additional years of experience and on teacher attainment of additional credit hours or a master's degree. Other pay structures including robust pay-for-performance programs should be considered. For example, a board could consider implementing a detailed job description that reflects the increasing complexity, responsibility, and accountability of teaching assignments, with pay commensurate with the skills

necessary for each assignment – i.e., adopt a pay structure that pays for the job performed. The pay structure could incorporate stipends or a varied structure tied more closely to market supply and demand characteristics.

Should the proxy for determining equality of education that the Brigham decision requires be changed from the current proxy of equivalent per pupil funding to school districts to a measure of equivalent learning opportunities in school districts?

Should there be adjustments to income sensitivity?

Should the “last-in, first-out” reduction in force (RIF) model be re-evaluated along with the certification and licensure process associated with “calling” positions in order to link skills and proficiency associated with graduation requirements to hiring and retention?

Should metrics such as college graduation be included in assessing improved student outcomes?

Should there be a statewide teacher’s contract and/or statewide school board “steering” committee?

How can the State improve attraction, development and succession planning for business managers and administrators?

Should there be a shift to an income tax from the Homestead Property Tax?

Can the non-residential tax rate be some standard fractional percentage higher than residential tax rates?