To: Commission on Future of Public Education

From: Oliver Olsen

Date: 10/21/2024

RE: Short-Term Cost Containment Solutions

Per Section 1(f) of Act 183, the Commission on the Future of Public Education (the "Commission") is required to submit recommendations for short-term cost containment considerations, on or before December 15, 2024, to the General Assembly for its consideration during the 2025 legislative session.

On October 18, 2024, the Vermont School Boards Association (VSBA), the Vermont Superintendents Association (VSA), and the Vermont Association of School Business Managers (VASBO) submitted a memorandum with its recommendations for cost containment for the Commission to consider.

This memorandum offers observations to the VSBA/VSA/VASBO recommendations, and provides other cost containment options for the Commission's consideration.

An overarching and consistent refrain is the dire need for a short term cost containment strategy that emphasizes a focus on financial controls. This is the most efficient and effective approach to bend the cost curve, as an interim bridge to long-term structural reform. With this approach, the State should impose high level financial controls, while local communities - through their school boards and educational leaders - should implement cost containment strategies that can be most effectively implemented in their districts. One size does not fit all, but <u>everyone</u> must be held to reasonable financial constraints.

Approaches that focus on mandating particular operational practices within school districts do not guarantee cost containment, and will likely lead to new challenges, future liabilities, and greater inequity across districts.

VSBA/VSA/VASBO Recommendation #1
Revise the Non-Homestead Tax Category
While the stratification of the non-residential grand list into multiple components would provide new options for differential property tax rates, it is fundamentally a tax lever - not a cost containment mechanism. Additionally, there would be considerable time and expense associated with a statewide classification effort (both upfront and for ongoing

maintenance and validation) that would likely fall on local municipalities and the Tax Department, i.e. it is not a short-term effort. This isn't to say that this suggestion shouldn't be considered, only that it is not a cost containment proposal.

VSBA/VSA/VASBO Recommendation #2
Base Excess Spending Penalty on Cost Drivers
In theory, the concept of narrowing the focus of the excess spending penalty to those costs that are within a district's control is appealing and also merits further investigation. The challenge is in defining and quantifying objective classifications and definitions of "controllable expenses" that could be applied uniformly and equitably across the wide variety of school districts we have in Vermont. This would touch on many of the same complex issues addressed in recent efforts to revise pupil weightings. Getting this right would almost certainly require an investment of time and resources that would put this outside the scope of what could be accomplished in time for FY26 budgeting.

VSBA/VSA/VASBO Recommendation #3
Make a General Fund Transfer for Added Costs to the Education Fund
A transfer from the General Fund to the Education fund to pay for costs would require a prioritization of other state spending and tax revenue as an offset, which may or may not be possible in the upcoming legislative session. As an alternative, the General Assembly could allocate these additional costs on proportional basis (LTWADM) to school districts, with a separate line item on property tax bills for these legislative mandates. This would transparently identify the tax impact of decisions made by the General Assembly vs. those made by local school districts. Neither of these ideas, however, will actually contain cost.

VSBA/VSA/VASBO Recommendation #4
Set Minimum Class Sizes
Class sizes and staff-to-student ratios are an example of a potential lever that districts already have available to control costs. But as the VSBA/VSA/VASBO memo acknowledges, a statewide mandate would need to consider exceptions related to the impact of rurality on economies of scale, while also factoring in the impact of sparsity in the new pupil weights.

The inherent challenge with cost containment strategies that mandate particular educational practices - like class sizes and staff ratios - is that they are difficult to implement uniformly. What may work well for one school district, may not work at all for another. And just like trying to tie excess spending limits to particular local decisions about financial expenditures, there will always be unique factors that quickly devolve into an onion peeling exercise when trying to establish a uniform practice.

VSBA/VSA/VASBO Recommendation #5
Apply Equitable Accountability and Cost Containment for Private Schools (sic)[1] Receiving Public Dollars

Recommendation 5(a) - Limit tuition payments to the "Average Announced Tuition" rate

It is unclear whether VSBA/VSA/VASBO's recommendation to limit tuition payments to Average Announced Tuition (AAT) would apply to all schools or just independent schools. Under current law, school districts that tuition students are required to pay other public school districts (both in and out of state) the full cost of tuition, which can be much higher than AAT.

Based on AOE tuition data for FY23[2], over 75% of Vermont's publicly funded students attending independent schools come from 8 rural school districts (36 towns) supporting a sparsely populated area of over 1,300 square miles. None of these districts operate a public school for the grades tuitioned out, and owing to a lack of viable public school options, an overwhelming majority of tuition students from these districts are served by independent schools, many of which have tuition rates that are above the AAT and are fully paid for by the sending district under various statutory provisions. None of these districts have designated an independent school to function as a public school.

If this concern is being framed in relation to a concern about spending in these school districts, there needs to be an examination of per pupil spending to determine whether independent school tuition is actually translating into higher education spending in those districts. A good place to start is the most recent AOE data on fY25 per pupil spending, published on October 14, 2024[3].

This data shows that for FY25, these eight districts collectively have average Per Pupil (LTWADM) Education Spending that is lower than the FY25 state average ($13,226):

[1] "Private School" is an antiquated term now used as a pejorative, which educators, students, and families in Vermont's independent school community view as offensive. Vermont's independent schools are called "independent schools", which is also how they are defined and described in Vermont State Statutes and Regulations.
[2] AOE Report on Tuition Paid to Independent Schools FY18 - FY23, Received from AOE on April 3, 2024
[3] FY25 AOE Per Pupil Spending Report: https://education.vermont.gov/data-and-reporting/financial-reports/pupil-spending

School District	FY23 Students Tuitioned to Independent Schools	FY25 Spending per LTWADM	% Difference from State Average
Taconic & Green Regional USD	604	$13,366	1.06%
Kingdom East USD	477	$12,878	-2.63%
St. Johnsbury	352	$12,939	-2.17%
Winhall	182	$13,023	-1.53%
Caledonia Cooperative USD	178	$14,454	9.29%
Northeast Kingdom Choice USD	142	$12,555	-5.07%
North Bennington ID	132	$13,525	2.26%
Mettawee School District	86	$12,672	-4.19%
Total / Average	**2,153**	**$13,163**	**-0.47%**

The VSBA/VSA/VASBO recommendation to limit tuition to AAT would have a profoundly negative impact on students and their families. By limiting a school district's ability to pay the full tuition, educational opportunity and equity would be seriously compromised for students in some of the state's most rural communities.

In the spirit of equitable accountability, this proposal should be evaluated in the same light as any proposal that might hold school district spending per LTWADM to the statewide average. For comparison, the following table summarizes FY25 spending per LTWADM[4] in each of the school districts associated with the authors of the VSBA/VSA/VASBO memo:

School District	FY25 Education Spending per LTWADM	% Difference from State Average ($13,266)
Washington Central UUSD	$14,380	8.73%
Winooski	$13,462	1.79%
Colchester	$12,818	-3.08%
Harwood	$15,250	15.30%

[4] Ibid

Essex Westford	$13,630	3.05%
Addison Northwest	$15,132	14.41%

The fiscal fallacy in the VSBA/VSA/VASBO recommendation is that it suggests that AAT reflects the actual cost of educating a student. It does not. Any consideration of AAT as a measure must start with an understanding of how AAT is calculated. Quite quickly, one will find the problems that limit its usefulness as a meaningful benchmark.

AAT is an average of tuition rates that school districts "announce" before the start of a new fiscal year. In fact, school districts can arbitrarily set any number as their "Announced Tuition" rates, which are then used to calculate AAT. Data shows that unrealistically low numbers are often announced by public school districts that receive little or no tuition revenue (i.e. the impact of setting tuition rates has virtually no impact on their budget). These practices lead to significant distortions in AAT rates. The actual cost per pupil can only be calculated after the close of the school year, in what is known as "net cost per pupil", described in 16 VSA § 825. AOE data show a clear pattern of lower AAT rates being published as compared to the actual net cost per pupil rate (also referred to as the Allowable Tuition Rate).

Because there is a billback provision under current law (16 VSA § 836), which requires any shortfall between the two tuition rates to be reconciled, school districts can strategically publish a low "announced tuition" number, knowing that there is a mechanism to recapture the difference once the true cost becomes known. A consequence of current law is that it creates an incentive to "low ball" the announced tuition rate to avoid a surprise billback.

This can best be demonstrated using examples from FY23. In that year, the AAT for Secondary School Tuition was $17,278[5]. But the net cost per pupil calculated by the AOE at the close of FY23 was $18,999[6] - *10% higher than AAT*. In FY23 there were 61 school districts that announced a lower secondary tuition rate than the actual cost that was ultimately realized, including the Winooski School District, which announced a secondary tuition rate of $13,900, but ultimately realized a net per pupil cost of $29,297 - <u>more than double what was announced</u> at the start of the year.

[5] FY23 AOE Announced Tuition Report:
https://education.vermont.gov/data-and-reporting/financial-reports/tuition-rates
[6] FY23 AOE Allowable Tuition Report, Received from AOE January 11, 2024

A review of current year (FY25) announced tuition rates[7] suggests that the pattern of underestimating announced tuition rates continues. For example, the Winooski School District - for the third year in a row - has announced a secondary tuition rate of $13,900. There was not a single district in the state that had a secondary net cost per pupil of $13,900 or lower in FY23, let alone Winooski. After two years of historically high inflation, this same announced tuition rate is clearly not realistic, yet it contributes to the continued suppression of AAT to artificially low levels, negatively impacting students and families in rural communities.

Historically, the underestimating of announced tuition by school districts has had a real impact on students from non-operating (tuitioning) districts. Unless the electorate votes to authorize payment of tuition in excess of AAT or one of the other statutory provisions applies (as in the case of Lyndon Institute, St. Johnsbury Academy, Thetford Academy, and Sharon Academy), families are forced to pay the difference between the somewhat arbitrary AAT rate and the actual tuition rate at an independent school. The VSBA/VSA/VASBO recommendation would take this problem to a whole new level and create chaos in these rural districts.

Recommendation 5(b) - Prevent tuition payments from leaving Vermont

Again, it is not clear whether this recommendation applies to all schools out of state, or just independent schools. An analysis of recent AOE data shows that most of these students are attending public schools in the border regions. It is also not clear whether this recommendation would apply to students with disabilities served by out of state schools. There are students with significant disabilities, including students who are medically fragile, attending school out of state who cannot be served by public or independent schools in Vermont due to their complex needs. Potential cost savings in this area - which are small to begin with - are going to be limited by the geographic realities of some border communities and the rights of students under IDEA.

Recommendation 5(c) - Require districts that reduce the number of grades they operate to designate up to three schools to serve as the public schools for the district

Designation is an option that has been available for school districts to use for over 50 years. A number of school districts have attempted to use designation over the years, and all but one district have abandoned it. Any evaluation of designation as a tool - particularly a cost containment measure - should start with an inquiry into the past and current experience that school districts have with designation, and a comparison of Education Spending in districts that designate vs. those that do not.

[7] FY25 AOE Announced Tuition Report: https://education.vermont.gov/data-and-reporting/financial-reports/tuition-rates

Recommendation 5(d) - Align payment for special education services so that public and private schools (sic) are based on the uniform base amount of the census block grant calculation for that fiscal year and require private schools to uphold the best practices outlined in Act 173.
While the details are unclear, this proposal appears to suggest that school districts should only pay a fixed rate for special education (SPED) services based on what the school district has received as a block grant from the state, which would be approximately 60% reimbursement of the actual SPED cost incurred by the independent school. This would imply that school districts would retain the 40% difference that has historically been raised through the local budgeting process.

Since SPED costs are not included in the general education tuition rate (and specifically excluded from the state's definition of net cost per pupil), independent schools would be left without any way of providing required SPED services (while at the same time VSBA/VSA/VASBO is advocating for limiting general education tuition to an artificially low rate).

It is also unclear how this would apply to independent schools that exclusively (in the case of therapeutic schools) or predominately serve students with special education needs. There is clear consensus that demand for the services of these schools exceeds available capacity by significant margins. Any proposal that would impose dramatic (e.g. 40%) cost reductions on these schools would have a chilling effect on planning for future capacity.

The VSBA/VSA/VASBO will need to provide further information about this proposal before it can be fully considered.

Independent schools that are eligible to receive public tuition already adhere to legal requirements and are responsible for providing these services according to state law and regulations.

Options for Short-Term Education Cost Control

The following options are intended to provide State-level financial controls, while helping to identify and promote opportunities for cost containment in the short-term (i.e. over the next three years). These short term measures are designed to bend the cost curve, providing a bridge to long-term structural reform of Vermont's education system.

Rather than focus on a one-size fits all operational mandate (that may or may not yield financial results), these options emphasize the use of financial levers as direct, efficient and equitable means of delivering cost containment.

1. Implement statewide allowable growth limits for per pupil (LTWADM) education spending for FY26, FY27, and FY28
2. Require a supermajority vote in FY26, FY27, and FY28 if spending growth exceeds limits, coupled with a requirement that the school board publish an alternative (smaller growth) budget that would be adopted by default in case of a failed budget vote
3. Establish a waiver process for school districts to opt out of costly state mandates

Option 1: Implement Allowable Growth Controls for FY26 FY28 (Three Years)

Limit the annual growth of Education Spending per LTWADM based on FY25 average Education Spending per LTWADM. As a baseline, school districts that spent less than 110% of the FY25 state average, could not increase Education Spending per LTWADM by more than 8%. The allowable growth limit would decrease incrementally for districts with high LTWADM spending in FY25, according to the following table.

Percent of FY25 Education Spending of State Average	< 110%	110% - 115%	115% - 120%	120% - 125%	> 125%
Allowable Annual Growth for Education Spending per LTWADM in FY26, FY27, FY28	8%	4%	3%	2%	1%

Key points:

- Baseline growth target of 8% is based on FY24 actual Education Spending growth. This is for preliminary discussion only - the target could be set to some other index based on overall fiscal goals.

- A joint legislative / administration review committee and a process would be established to adjudicate hardship waiver requests from districts that are unable to work within growth parameters.

- The challenge of meeting these fiscal restraints would be equally shared by public school districts and independent schools serving publicly funded tuition students. School districts would pay tuition to independent and public schools at a rate not to exceed each school's prior year tuition rate adjusted by the same maximum education spending growth rate that the sending school district is held to.

- Assuming no waivers are granted (pursuant to the review committee process) and there is no growth in LTWADM, the growth of statewide education spending would not exceed 7% in FY26, FY27, or FY28, and could come in lower depending on local budget decisions.

- FY24 to FY25 Education Spending increased by 10.7%. If that trend were allowed to continue in FY26 without any limits, statewide Education Spending would increase by $196M. Compared to FY25 Education Spending growth, implementation of allowable growth limits would result in cost avoidance of at least $69M in FY26.

Option 2: Supermajority Vote Electorate for Budgets with Excessive Spending Growth
As an alternative to Option 1, this option would require school districts to obtain a supermajority vote (60%) for any budget that results in Education Spending per LTWADM that exceeds 8% for districts whose FY25 Education Spending was less than 110% of state average. Any proposed budget in excess of a 4% growth threshold would trigger the supermajority vote requirement for districts that had FY25 Education Spending at or above 110% of the state average.

Any school district proposing a budget with growth exceeding its target would also be required to present an alternative "default budget" that would automatically be adopted if the initial budget vote failed to secure a supermajority. The alternative budget would be limited to an increase equal to the 2024 annual Consumer Price Index (CPI) increase (or some other index set in law).

Key points:

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Option 3: Establish a Waiver Process for State Mandates
Establish a process that would allow school districts to identify and quantify the cost impact of specific state mandates that they wish to be relieved of. A joint committee of members from the legislature and administration would be authorized to waive any mandates with a finding that such waiver would result in demonstrable cost savings without jeopardizing educational quality, equity, or the health and safety of students.