

## VSA / VPA / VSBA Legislative Bulletin - May 22, 2009

### ***Governor Will Veto Budget; Proposes Alternative Budget; Teachers Retirement would be shifted to Education Fund***

Less than 10 days after the General Assembly adjourned the 2009 session, the Governor announced his intention to veto H.441, the Legislature's comprehensive budget and tax bill. Tuesday, Governor Douglas released his latest concepts for a fiscal year 2010 state budget for the Legislature to consider when it reconvenes in a special session scheduled for June 2.

The Legislature has scheduled a hearing for Wednesday, May 27<sup>th</sup> at the Statehouse for the public to comment on the Governor's proposal to increase property taxes. The hearing will be from 1:00 to 4:00 p.m. in Room 11, a large, central meeting room on the ground floor. Persons interested in testifying are encouraged to sign up in advance by calling Theresa at the Joint Fiscal Office (802-828-5767).

The Governor's education concepts are similar to the education finance proposals he made in his budget address in January, with some notable adjustments. In brief, his proposal does the following: 1) Imposes a hard cap on school spending in fiscal year 2011 at 2010 per-pupil amounts; 2) Eliminates income sensitivity eligibility for homestead property taxpayers with households earning more than \$75,000 per year (affecting more than 13,000 households statewide with an average tax increase of \$605 per household); 3) Shifts retirement fund costs of approximately \$75 million<sup>1</sup> to the Education Fund in fiscal year 2010 and \$96 million<sup>1</sup> in 2011 and 4) eliminates Small Schools Grants in their entirety by fiscal year 2012.

What follows is the Governor's plan, in as much detail as has been provided. Legislative leadership has requested that the Governor put his plan into bill form which should clarify his proposal further.

- Level-fund education spending in fiscal year 2011 at 2010 per pupil amounts (i.e., the two-thirds of Vermont districts that have declining enrollment would receive less money in total in 2011 than in 2010). This is a hard cap on education spending for one fiscal year.
- Freeze categorical grants in 2011 at 2010 amounts (e.g., special education and transportation reimbursements).
- Shift the state's share of the teachers' retirement system to the Education Fund. The retirement system obligation is rapidly increasing due to prior under-funding by the State and poor market performance during the recession period. The state share is a \$40 million expense in 2010 and is expected to be 50 percent higher in 2011, about \$60 million. Due to the rapidly growing cost of retiree healthcare, which is not yet being funded directly from state coffers although it is paid out of the teachers' retirement fund, the actual annual obligation is estimated to be at least \$75 million in 2010 and \$96 million in 2011.

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<sup>1</sup> Includes retirement health care obligation as well as the current and accrued liabilities for the teachers retirement system.

- Phase out the Small Schools Grants (\$7 million statewide in 2010) by funding it at 50 percent in 2011 and \$0 in 2012.
- Prohibit districts from receiving reimbursement for mainstream costs for state-placed students.
- Increase the base education amount<sup>2</sup> by 1.1 percent from fiscal year 2010 to 2011 (from \$8544 to \$8640). Current law would increase the amount by inflation. The Legislature has approved freezing the amount at \$8544 for 2011.
- Decrease the maximum household income eligible for income sensitivity from \$90,000 to \$75,000.
- Expresses intent to identify a specific plan to target over \$60 million in education cost containment for FY2012.
- Transfer \$274.8 million from the General Fund to the Education Fund in both fiscal years 2010 and 2011, and restore the school-based Medicaid reimbursement to the Education Fund (\$4.6 million in 2010). These transfers are less than existing statutes require (\$302.5 million combined). Although the Governor's proposed transfer is greater than the Legislature's (\$240.8 million), the difference between the two proposals is not sufficient to cover the cost of teachers' retirement that Douglas has proposed be shifted to the Education Fund.
- Decrease base education property tax rates to 85¢ for residential property and \$1.34 for nonresidential property in fiscal year 2010. Decreasing the number of households that benefit from income sensitivity provides much of the revenue that allows for these tax rates, which are one cent lower than proposed by the Legislature.

The Legislature's budget bill contained cost-shifts that are meant to be temporary; shifting teachers' retirement would obligate property tax payers to support a large and rapidly increasing obligation that has previously been paid by the State. The Governor contends that property taxes will not increase because of the freeze in per pupil spending for fiscal year 2011, and \$60 million in cost containment for the following years. However, Douglas' plan contains no detail as to how his plan would achieve these cost savings.

The Governor's package would raise the same total dollar amount in property taxes in fiscal year 2010 as the Legislature's package. Individual payers would see different bills because the rates would be one cent lower but fewer Vermonters would qualify for income sensitivity.

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<sup>2</sup> *Base education amount* is the new name for the *base education payment*.