

The “Perfect” Education Finance System

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The perfect education finance system is one that meets the needs of all children while not taxing anyone! Too bad that’s not an option. Since there is no money tree, the next best solution is to tax the other guy. Elaborate rationales, lofty academese with economic arcana, and propelled with dire rhetoric can always be found to say my taxes are too high and the other guy’s are too low.

Fortunately, there are sound, nationally accepted and apolitical ways of measuring the degree of equity and fairness of education funding and tax systems. To be sure, there are disputes about methods and multiple claims of “inefficiencies.” However, analysts employing different methods almost universally show the nation does not fund schools adequately to meet the standards we require and the underfunding is most pronounced for our neediest children.¹ Vermont spends more than the average and gets better results.

Equity – The Department of Education has used standard equity measures for a number of years. As compared to the nation, Vermont has one of the most equitable systems. Recent research, however, has noted a fall-off in equity as poorer towns vote to spend less money. Further, as the guaranteed tax yield system is linear, it behaves like a flat tax. This has the effect of increasing the tax burden on poorer citizens and poorer towns spend less. Weak economic times will likely exaggerate this trend.

Adequacy - The science of measuring the adequacy of a school finance system is not as advanced. Nevertheless, four accepted methods have evolved. An adequacy study initiated by former Rep. Dick Marron (R-Stowe) when he was Chair of Ways and Means, and conducted by an independent out of state firm, found Vermont underfunds education by approximately 20%. The researchers used conservative methods.

While Vermonters consistently vote to spend at higher levels than the nation, there are two concerns. (1) Vermont academic standards and requirements are quite high. A number of researchers in different states have demonstrated that all students reaching high standards at current program and spending levels is an arithmetic impossibility. (2) In more practical terms, we know that our greatest needs are among our neediest children. Both the amount and ways in which we target this money both fall short. We do not fund at a sufficient level to reach the threshold of effectiveness and the programs are ill-defined and diffused. State monitored local action plans and targeted categorical programs are two methods that could be considered.

Taxes – Similar to funding equity, tax fairness is a somewhat well developed area of inquiry. The concepts of vertical and horizontal equity, stability, progressivity, regressivity, broad or narrow base, elasticity, neutrality, simplicity and the like provide generally accepted principles for a more perfect system.

Our education and tax systems are superior to most states due to a statewide funding system that assures horizontal equity, stability, a broad base, diversity of sources, and progressivity. Our income based property tax system, while reviled for complexity and by towns enjoying significant property wealth, is looked upon as a marvel by other

states due to the deft blending of the massive size and stability of the property tax base with income sensitivity.

To maintain the stability of the funding system, income protections should be expanded (not lowered) to include 90% or so of the state's tax-paying population. It should be indexed so that the systems' stability does not erode. Likewise, there is still a significant cliff at the upper ranges of income sensitivity that needs to be smoothed. A statewide appraisal system is an inevitable necessity if fairness is the goal. Likewise, a quicker and more responsive system is needed particularly in times of property value volatility.

While many contend that a more income based system would be more progressive, the stability of such a system (particularly in bad economic times) argues that the education tax system continue to be diversified and supported by statewide sales (with exemptions), income, and property taxes.

Conclusion – While every state has debates about taxing and funding, Vermont's system is considered superior. About 44 states have some type of a foundation plan. This was ruled unconstitutional in Vermont because of its “substantial dependence on local property taxes.”² An essential and unavoidable element of an equitable system is a high state share of expenditures. The lower the state share, the more inequitable the system. But a high share and high equity does not mean it is adequate (Like Vermont, 6-8 states have virtual full state funding systems). New Mexico and Hawaii are highly equitable while being inadequate. Rhode Island has a high state share but could not be said to have a coherent funding system.

Paraphrasing Winston Churchill's description of democracy, Vermont's school funding system is far from perfect but it is better than the alternatives. Simplifying complexities, reforming the appraisal system, and targeting resources more effectively are the major needs of the system.

Throughout the twentieth century, Vermont politicians of various persuasions have declared the finance system “broken.” The downfall of all the previous systems (Miller, Morse Giuliani, Foundation, etc) has been the systemic underfunding of these systems. It is this temptation to cut the state share, particularly when in difficult economic straits, which time after time, has proven to be the greatest failing of Vermont's educational finance system.

¹ There is a political movement that says “money doesn't matter” but this contention has been disproved in the scientific literature since about 1995 and the courts have consistently rejected the claim. The literature is replete with cost-productivity studies on this point. Nevertheless, variants of this thinking live-on in ideologically based think-tank reports.

² *“In this appeal, we decide that the current system for funding public education in Vermont, with its substantial dependence on local property taxes and resultant wide disparities in revenues available to local school districts, deprives children of an equal educational opportunity in violation of the Vermont Constitution.”* Brigham v. Vermont, 96-502