

2011 Report on Act 3 Section 56
An Act Relating to Fiscal Year 2011
Budget Adjustment

Report/Recommendations to the House and Senate
Committees on Appropriations

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Submitted by:



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Introduction

We are submitting this report pursuant to Section 56 of Act 3. Our assignment was to “develop a plan by April 1, 2011 to assist Vermont schools to achieve at least \$23.2 million in reduced local education spending systemwide by fiscal year 2013,” and to include within it measures “needed by schools to achieve this goal,” including ways to encourage “innovation...to promote the goal of obtaining the best educational outcomes for students in a most cost-effective way.”

The department keeps track of school district spending through reports submitted annually by districts. Overall spending, in spite of the upward pressures on costs, was essentially flat this year, and based on preliminary budget data, overall changes from this year’s to next year’s budgets will be as well. This translates into schools having absorbed two full years of inflationary increases without additional spending.

The Challenges for Change exercise required districts to focus on “structural change” and “administrative efficiencies.” Act 3 does not so specify, but we have tried in this report to focus as much attention on those cost centers as is viable. In this context, we believe it is important to acknowledge that virtually every community voting on Town Meeting Day passed its own school budget. While it is always true that the vast majority do, this year was the first we know of where the budget pass rate topped 98% (246 of 249 budgets were adopted).

The department met with representatives of the Vermont Superintendents Association, Vermont School Board Association, Vermont Principal’s Association, and the Vermont National Education Association in meetings on March 3rd and March 21st to discuss ways to achieve the goals of this section. We appreciate the time and thoughtful discussions they brought to the project.

This report is submitted by the Department of Education but attempts to incorporate the ideas discussed in those two meetings. However, there are ideas in this report that are only attributable to the Commissioner as points for discussion.

Excerpt from Section 56 of Act 3

“The commissioner of education shall, in consultation with the Vermont school boards association, the Vermont superintendent’s association, the Vermont principals’ association, and Vermont-national education association, develop a plan by April 1, 2011 to assist Vermont schools to achieve at least \$23.2 million in reduced local education spending systemwide by fiscal year 2013. The plan would identify the technical assistance, facilitation, and adoption of best practices needed by schools to assist them in reaching this goal. To recognize the accomplishments of model supervisory unions and districts for actions in the past two fiscal years as well as the next two fiscal years, the plan would also include the ways incentives and awards for innovation could be used to promote the goal of obtaining the best educational outcomes for students in a most cost-effective way.”

Factors Driving Costs

It is difficult to know the specifics about why costs go up in a particular district without examining that district, but we do understand generally what the pressures are. Some of these are described below.

1. Increased demands on schools:

Examples are requirements from the state and federal levels to improve student performance and extend more services to students. Our schools have traditionally done an excellent job of educating all of their students, but as with other states, there are gaps in student achievement among certain groups of students. We know that students from low income households need additional support. To close this gap and do better than our schools are already doing takes additional resources.

2. Staffing patterns:

The most recent staff report shows a total staff reduction in our districts of 373 positions in FY 2011 over FY 2010. Until this year staff sizes have grown one percent or less since FY 2007. We do not know if the past increases resulted from increased demands. Regardless, these staffing increases contributed to rising costs.

3. Salary and benefit increases:

Negotiated salary and benefit increases, as well as the extension of those benefits to other staff, contribute to increased costs.

4. Administrative costs:

Administrative costs are largely driven by the number of units that need to be administered. The cost of administering 307 schools operated by 277 districts through 46 supervisory unions, 12 supervisory districts, and 2 interstate districts are considerable. These could be reduced by lowering the number of units that need to be administered as is being attempted through Act 153 of 2010.

Administrative costs are also driven by the amount of data required by state and federal governments. Demands for administrative savings are too often accompanied by requirements for additional information that can only be provided by administrators. The value of each request for information should be weighed against the resources required to produce it.

5. Operational and Energy costs:

Maintenance and operation of the physical plant adds spending pressure to school budgets. Deferring those costs is often the first attempt at reducing a budget but such savings are short term and fall under the “pay now or pay more later” category. Energy costs are increasing, especially those derived from fossil fuels. Energy efficiency programs can help lower these costs but often require initial investments difficult to come by in these tough economic times.

What Districts Have Already Done

Based on our preliminary budget collection, comparing the 266 (out of about 277) districts that have reported, total district expenditures are up about 0.34% or \$4.8 million in FY 2012 over FY 2011. Normal increases would be between 2 – 3%, or between \$28.2 and 42.3 million. The low increase of 0.34% therefore suggests districts actually made reductions. In FY 2011, districts reported a total staff reduction of 373 positions over FY 2010. Assuming an average compensation of \$50,000 would suggest an \$18.65 million reduction was achieved by these reductions.

The goal of this effort in Section 56 of Act 3 of 2011 is to reduce “education spending” by \$23.2 million. Education spending is a subset of a district’s adopted budget or total spending, about 80% on average. Based on the preliminary budget collection, a \$7.0 million reduction (-0.6%) in FY 2012 over FY 2011 education spending has occurred. Another way to look at this is by comparing this reduction to our FY 2012 projection for education spending. This was the method used in Act 146 of 2010 to determine that the FY 2010 Challenges for Change target had been met. Our most recent data indicates districts’ FY2012 education spending will be lower than our projection by \$9.5 million, leaving an additional balance of \$13.7 million to be reduced in FY 2013 to achieve a total reduction of \$23.2 million.

These are preliminary indications. Final results for FY 2012 will not be known until the official budget collection is completed by the department in June. In any event, state leaders must recognize the very hard work districts have been engaged in to reduce spending.

First, Build on What’s in Place – Act 153

Act 153 of 2010 provides the potential for increased learning opportunities and gaining increased efficiencies in providing those opportunities. The first eight sections of the Act lay out how districts can merge if they chose to do so and provides incentives for those that do choose to merge. This is a long term effort that will take a number of years before its benefits are realized (the Act provides merger incentives through July 1, 2017), but we are encouraged by the number of districts that are studying this option already.

Other sections of the Act assign some duties of school districts to supervisory union offices, attempting to increase the economies of scale and efficiencies of these efforts. We have also seen interest shown by supervisory unions to work toward accomplishing this goal. While several questions have come up, once worked through we believe these provisions will also help decrease costs.

The legislature can help by assisting the department and educational leaders to stay the course and remain focused on it as this work progresses. As districts work through some of the complexities of merging, we are uncovering portions of law where amendments will be needed to facilitate the process. Also, supervisory union boards need more authority to carry out their new centralized duties to ensure that all local boards within the supervisory union consistently work toward this effort. We will be providing those items to the legislature as they are developed.

Another area of support the legislature can provide is continued funding for technical assistance for districts pursuing mergers. The department managed to free up one position to serve as an Act 153 coordinator but this cannot begin to cover the demand required when districts undertake the options provided in this Act. Districts need help paying for attorneys and consultants to do the required analyses to form Regional Education Districts (REDs) and help with specific obstacles districts might encounter.

For more information on the status of this effort, see the report done jointly by the department of education and UVM's Jefford's Center found at:
http://education.vermont.gov/new/html/laws/legislative_reports.html#153.

Resist Adding New Burdens

Given this era of too few revenues for existing demands, policymakers at all levels should resist adding to the demands placed on school districts. Adding demands places a natural increased demand on resources. Efficiencies can help hold down cost increases but one way to realize decreases in spending is to lower the demands placed on school districts.

Learn from Successful Approaches of Others

Many districts have found ways to decrease or at least hold down costs. Support needs to be provided so that the professional organizations (VSA, VSBA, VPA, VT NEA) can form working groups to share and further develop these best practices and cost saving ideas.

Ideas submitted to us so far centered around the concept of virtual mergers described in Act 153. Supervisory unions are forming buyers groups for supplies and materials; they are finding more efficient ways to obtain photocopying; sharing information technology services among several supervisory unions; and centralizing auditing services. Many have reported they are working to consolidate transportation and special education at the supervisory union level.

Regarding staffing, one supervisory union reported replacing the assistant superintendent with a less expensive grant/curriculum coordinator. Districts are replacing paraprofessionals with a fewer number of teachers and are sharing teachers among schools within the district. Many are now reviewing staffing levels compared to enrollment trends and some have reported being able to reduce staff.

Some districts are evaluating whether to keep small schools with declining enrollments open. One district reported it will look for ways to rent a closed school building to produce revenue. Many are working to improve energy efficiency of buildings.

Given that these efforts happen within and by individual boards and the staff of those districts and many are innovative and effective, a process to further develop and distribute these ideas statewide would contribute greatly to meeting this challenge.

Understand the Effects of Current Funding System

With Vermont's statewide funding system, what one district does can be felt throughout the whole system, although the magnitude of this effect can range from negligible to significant. We need a better understanding of these effects. The following list gives examples of some of things that should be included in such a study:

1. How do the spending decisions made in one or a few districts affect other districts?
2. What is the effect of the equalized pupil Hold Harmless Provision?
3. What is the effect of the small school grant?

The legislature should consider providing resources to conduct this work.

Other Areas of Cost Savings

This charge was to offer ways to assist districts to reduce their education spending. Reductions can be realized statewide as well by changing some of the state funding policy.

1. The department has presented its report on restricting the small schools grant to those districts that are geographically isolated. We were required to prepare this report by Section 21 of Act 153 of 2010. If the recommendations in our report are adopted, the total grant would be reduced by \$1,770,000 in FY 2013. Actual savings would depend on how districts no longer receiving the grant responded to the loss of the funds.
2. The threshold for extraordinary special education aid has been \$50,000 per student since 1998. Districts receive 90% reimbursement per student beyond this amount. We recommend this threshold be increased to \$70,000. The amount available for total special education aid would remain at 60% of eligible costs but

we think this change would encourage districts to explore less expensive but equally effective alternatives for some of these students. Doing so could lower the total cost of special education.

3. Make the minimum class size policies required in Sections 15 & 16 of Act 153 of 2010, mandatory.
4. Refine the definition of education spending and consider excluding extracurricular activities from it. Certain or all of these activities can be provided locally through town or city recreation committees and departments. We do not believe the equity provisions of the Brigham decision extend to these programs.
5. If the voluntary school district provisions in Act 153 of 2010 are not creating significant change, give further consideration to the commissioner's report on the Challenges for Change offered in the spring of 2010.

Incentives and Rewards

We believe the incentive for districts to reduce spending should be the one that comes naturally with the state's funding system: lower tax rates. This is also the reward. The nature of "education spending" makes it very difficult to determine if a district should receive a reward. Some districts might have made significant reductions and then have these offset because of an unexpected but unavoidable cost increase. For example, emergency repairs need to be made, especially in an era encouraging deferred maintenance. Other districts might realize a reduced education spending amount because of an unexpected surplus in a prior year. There are any number of circumstances that will mask what actually occurs with education spending, making it very difficult to determine which efforts might or might not be deserving of recognition.

A more promising use of limited funds than incentives and rewards might be for the state to pay a portion of the initial costs for programs with clearly demonstrated savings over the intermediate and long term.

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