VLCT LEGISLATIVE ACTION ALERT

SERVING AND STRENGTHENING VERMONT LOCAL GOVERNMENTS

Date: **April 27 2017**
To: **Vermont Local Officials**
From: **Karen Horn, Director, Public Policy and Advocacy** (khorn@vlct.org)
Re: **Senate Budget Bill Presented: H. 518 Passes 30-0.**

Virtually every legislator campaigned for office in 2016 with a promise of **no new property tax increases**. They seemed to understand that Vermont tax payers, whose property tax burden is the fourth highest in the nation, were played out. So what happened? The Senate passed an appropriations bill that transfers new obligations to the Education Fund, which will require increased property taxes to pay for them, both this year and in the future. **Your legislators need to hear from you.**

On Monday, April 24, our Legislative Alert asked you to contact your senators and urge them to oppose the Senate Appropriations Committee's proposal to move a portion of the Teachers' Retirement from the General Fund to the Education Fund, where increases in the education property tax would pay for it.

On Tuesday, the governor, the Vermont School Boards Association, and the Vermont Superintendents Association held a press conference to discuss the opportunity presented this year to negotiate health insurance benefits for school employees at the state level as a result of the Affordable Care Act and to recognize the substantial cost savings in that complex negotiation without adversely affecting health insurance benefits of school employees. The proposal would provide for the secretary of the Agency of Administration to negotiate health insurance benefits with the Vermont National Education Association (NEA). Salary, benefits, and other working conditions would continue to be bargained locally.

On Wednesday, the Senate Appropriations Committee presented the appropriations bill, H.518, including the new burden on property taxes. The full Senate discussed and passed the bill on a vote of 30-0. As complicated as the budget is on the printed page, it is even more complex than it appears. Items of interest for local officials are in the table at the end of this article. Education funding is, as always, a major and justified concern. The Senate priorities are summarized here.

The issues of teachers' retirement, support for early childhood and higher education, and school employees health insurance are connected. Statewide, K-12 school costs continue to rise as student counts decline. Act 46, the school district unification law, is not necessarily expected to result in reduced K-12 education costs. The governor is committed to providing funding for early childhood education and post secondary education, a need that is recognized by everyone. Vermont has a unique opportunity now to re-evaluate a significant cost driver of K-12 school costs – that of school employees' health insurance – but the legislature may decline to seize the moment.

Teachers' Retirement and Increased Education Property Taxes. In the Senate-adopted version of H.518, the money comes largely from dollars freed up in the General Fund because teachers' retirement "normal contributions" (i.e., that portion of the cost of projected benefits allocated to the current plan year) are transferred to the Education Fund. This proposal has been made many times before and is also a pared down version of Governor Scott's original budget proposal last January. The entire teachers' retirement obligation for normal and actuarial liability is $83,809,437. Because the normal retirement obligation of $7,896,621 is transferred without General Fund money, it is the property tax that will increase to pay for that new Education Fund obligation in 2018 and in the future as the required amount increases.

Some historical context is in order. The teachers' retirement system was established by state legislation in 1947. On numerous occasions since then, benefits have been enhanced in statute by the legislature. The teachers' retirement system is governed by a board of six trustees – the secretary of education, the state treasurer, the commissioner of financial regulation, two trustees who are members of the system, and one trustee who is elected by the Board of Directors of the Association of Retired Teachers of Vermont (16 V.S.A. Chapter 55) – who establish the rules and administer the system in accordance with the statute. The requirements of that system are state creations.

In our second *Weekly Legislative Report* of **2009**, we wrote that "the governor [Jim Douglas] also proposed to require the Education Fund to assume the responsibility for paying for the state teachers retirement system (projected at over $40 million for the upcoming state fiscal year), an increase of $7 million for early education programs and $16 million in new funding for the University of Vermont and the state colleges." A proposal to shift teachers' retirement to the Education Fund also occurred in 2006. It is interesting to note that the state teachers' retirement system cost, projected at over $40 million in 2009, is projected at $83.8 million for FY18. As we reported in 2009, "There is no way that the $41 million figure bandied about as the new cost to property taxpayer is anywhere close to the future annual obligations it will have to shoulder." That statement is as true in 2017 for both normal and actuarial liabilities as it was in 2006 and 2009.

Today, according to the Joint Fiscal Office's Education Outlook, total Education Fund dollars for FY18 are $1.6 billion. Of that amount, $1.1 billion is raised from the homestead and non-residential property tax. The FY18 General Fund transfer is projected at $315 million. Lottery proceeds, sales and use, purchase and use, and a small variety of other taxes make up the balance. By far, the education property tax sustains K-12 education, as well as adult education and Community High School, both of which were late additions to the Education Fund. When other funding sources are reduced – as the legislature did to General Fund transfers in 2010 and 2011 – the property tax is left holding the bag. (See this link.)

The chair of the Senate Appropriations Committee, in her summary of the transfer to the Education Fund, noted that the legislature had taken on an obligation for retired teachers' health care. Act 74, which the legislature passed in 2010, mandated the Teachers' Retirement System Board of Trustees to provide health and medical benefits for retired teachers. It directed the board to "determine the total costs of the applicable standard plan for a retired member and spouse and the board shall pay the following portion of those costs." The legislation (16 V.S.A. §§ 1942 (p), 1944 (c) (12)) stipulated the percentage of cost shall be paid based upon a retired member's years of creditable service. Thus, in paying retired teachers' health care, the legislature is only funding the mandate it imposed in 2010.

It is *absolutely unacceptable* that the legislature transfer any portion of its teachers' retirement responsibility, which it has owned ever since 1947, to the Education Fund. It is also absolutely unacceptable to suggest – as was stated to the Senate caucus yesterday – that growth in the grand list will cover the cost of new obligations. **Increased grand list growth and level property tax rates equal higher tax payments.**

School Employees' Health Insurance. The potential to negotiate health benefits for all school employees at the state level in 2017 could be a way to ensure multiple benefits, equity in health care coverage available to all school employees, no increased payments for school employee health care premiums, savings of up to $26 million, and the use of those savings to support early childhood and higher education initiatives, and to pay for the teachers' retirement benefits.

This year, every school negotiations council in the state is at the bargaining table to discuss health care as a result of Affordable Care Act requirements. In 2015, the "inexorable growth in health care costs" was identified by teachers during the course of debates on Act 46 (the school district unification statute) as a driving force in the growth of school budgets. According to the School Boards Association, 21 of 61 school contract negotiations in the state are presently at an impasse; only seven contracts have settled.

Section B. 1102 of H.518 calls for the administration to find $5 million in savings for the General Fund by eliminating exempt positions; improving business processes, contractual reductions, and state employee health care costs; improved oversight and fiscal controls at the Agency of Human Services; and reviewing statewide operating expenses. That section should be expanded to include the Secretary of Administration negotiating health care benefits for school employees with the Vermont NEA, given the current opportunity provided by re-negotiations.

The appropriations bill now will go to conference committee, with three House and three Senate members being appointed today to hammer out the differences between the House and Senate versions of H.518.

Contact your legislators. Urge them to oppose the transfer of any portion of the General Fund obligation for teachers' retirement to the Education Fund, and to support the House-passed bill as it pertains to the Education Fund. Urge them to consider the potential for savings that may be realized through single state negotiation of school employees' health insurance in 2018.

To contact your legislators, find their email on the legislative website (http://legislature.vermont.gov) or call the Sergeant at Arms at 802-828-2228 to leave a message.

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See page 4 for Appropriations table.

H.518: The Appropriations (big) Bill (in millions)				
Budget Line Item and Section Number	**FY17 Final As Passed**	**FY18 Governor's Recommend**	**FY18 House Recommend**	**FY18 Senate Recommend**
(GF) Homeowner Rebate, Municipal[1] (B 137)	$16.2	$16.60	$16.60	16.60
(GF) Renter Rebate, Municipal[2] (B 138)	3.42	10.50	10.50	10.50
(EF) Reappraisal and Listing Payments (B 139)	3.43	3.43	3.43	3.50
(GF) Current Use – Municipal[3] (B 140)	15.02	15.28	15.28	15.28
(LOT) PILOT State Buildings [4](B 142, E 142)	7.20	7.20	7.60	7.60
(LOT) PILOT Montpelier [4] (B 143, E 143))	0.18	0.18	0.18	0.18
(LOT) PILOT Corrections Facilities[4] (B 144, E 144)	0.04	0.04	0.04	0.04
(GF) Special Investigative Units (B 206)	1.84	2.00	2.00	2.00
(GF) Transfer to Education Fund [5] (B 513, E 513)	305.9	400.72	314.72	314.71
(GF) Teachers' Retirement System[6] (B 514)	78.56	84.7	83.8	83.8
(GF) Retired Teachers' Health Benefits[7] (B 515)	22.4	26.66	27.56	27.56
(GF, inter-dept. transfer) PILOT – ANR Lands[8] (B 701, E 701)	2.38	2.49	2.49	2.49
Municipal Planning Grants (D 100)	0.46	0.46	0.46	0.46
(TF) Town Highway Structures (B 911)	6.33	6.33	6.33	6.33
(TF, federal funds) Local Technical Assistance (Vt. Better Roads) (B 912)	0.39	0.40	0.40	0.40
(TF) Class 2 Paving and Rehabilitation[9] (B 913)	7.65	7.25	7.25	7.85
(TF, TIB, federal funds) Town Bridge Grants[10] (B 914)	20.0	15.75	15.75	15.75
(TF) Town Highway Aid Program (B 915)	25.98	25.98	25.98	25.98
(TF) Town Highway Aid Program – Class 1 Supplemental (B 916)	0.13	0.13	0.13	0.13
(TF) State Aid for Nonfederal Disasters (B 917)	1.15	1.15	1.15	1.15
(federal funds) State Aid for Federal Disasters (B 918)	1.28	0.18	0.18	0.18
(TF, special, federal funds, inter-dept. transfer) Municipal Mitigation Grant Program (B 919)	2.91	8.18	8.18	7.78
Total Local Highway Aid	65.82	65.3	65.3	65.57
TOTAL	**522.85**	**635.47**	**549.97**	**550.35**

Sources of funds noted are General Fund (GF), Education Fund (EF), Local Option Taxes (LOT), Transportation Fund (TF), and Transportation Infrastructure Bond (TIB).

1. Homeowner Rebates as passed in 2016 equaled $16.2 million. That amount was reduced to $15.6 in the Budget Adjustment Act, Act 3.
2. Renter Rebate as passed in 2016 equaled $3.1 million GF and $7.3 million EF. That number was increased in Act 3 to $3.4 million GF and $8.0 million EF. The recommended EF contribution for FY18 is $7.4 million.
3. Municipal Current Use as passed in 2016 equaled $15.32 million GF. That number was reduced in Act 68 to $15.02.
4. Amounts are all from local options tax sharing (PILOT Special Fund) and no state monies.
5. GF transfer is required by statute to increase by New England economic project cumulative price index for government purchases (16 V.S.A. § 4025(a)(2)). The House and Senate reduced the Governor's recommend figure by $86 million as higher education obligations will not be transferred to the Education Fund.
6. The Governor's recommend to transfer Teachers' Retirement to the EF and pay $8.3 out of the EF was rejected in the House. The Senate would take $7.9 million from the Education Property Tax to pay "normal contribution" Teachers' Retirement. Accrued liability contribution of $80,063,176 would continue from General Fund.
7. The Governor's recommend to transfer retired teachers' healthcare to the EF was rejected except for $100.00, keeping that funding source potentially on the table.
8. The new calculation is the result of a summer study committee recommendation looking at long term and equitable funding for ANR Lands PILOT payments.
9. Senate redirected $400,000 from municipal Mitigation Grants to Class 2 Paving as $400,000 is funded in the Capital Bill, H.519.
10. Includes state and federal aid only, no local match.