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IF SCHOOL FUNDING IS FAR FROM 'BROKEN,' THEN WHAT ISN'T?

Op-Ed by David Coates, KPMG (retired managing partner) and member, Vermont Business Roundtable

Paul Cillo may be correct in his recent article (School Funding Far from "Broken") when he describes the Education Fund as "it ain't broke." But, I would suggest that the General and Transportation Funds are just about on life support due in large part to our high level of mandatory educational-related expenditures.

For opens the Transportation Fund currently sends around \$33 million to the General Fund and \$26 million to the Education Fund. If these amounts remained where they belong, then there would be no need for the proposed 5 cents-per-gallon tax.

The General Fund is currently responsible for the Teachers Pension and Other Post Employment Benefits (OPEB). This is despite the fact that the salaries and wages are negotiated at the local school district level; the bill is paid by the state. These are lifetime, guaranteed benefits the state must pay to the teachers. Another problem is that these generous benefits (which most private sector workers do not receive) are not being funded at the required level. If they were, then the General Fund would be in much worse shape than it currently is....if that is possible.

For instance, at December 31, 2008 the estimated unfunded liability for just the Teachers Pension Fund is \$653.6 million. The unfunded liability for OPEB at June 30, 2008 was \$863.6 million. Together they would require every working Vermonter, today, to make a one-time payment of just about \$5,000. If one combined the same obligations for the state workers, it would require a one-time payment, today, of over \$8,500 for every working Vermonter.

Unfortunately, these obligations will continue to grow as the General Fund does not have the revenues to pay the required contributions to make these plans fiscally sound. For example, the OPEB alone will be underfunded another \$300 million by 2015 and, if you really like numbers, by \$3.1 billion in 2039.

The sad part is that these unsustainable legacy costs are all being shifted to our children and grandchildren!

Back to the Education Fund. The most recent Joint Fiscal Office (JFO) projection shows that by 2010 the General Fund required transfer to the Education Fund will be up to \$297.8 million; an increase of \$48.5 million since 2005, or a compounded rate of nearly 4 percent. Meanwhile the income sensitivity portion (the rebate to residential property owners) has compounded at just under 10 percent. Under current rules, rebates can be as high as \$8,000. The only requirement is to meet an income test, which has no relationship to the value of the residence. For example in 2008, 39 residents received rebates of over \$6000 each with homes valued between \$500 thousand and over \$1 million. Eliminating rebates on homes valued over \$500 thousand would save the state at least \$6 million per year.

Another interesting fact about the Education Fund is that the income sensitivity provision actually reduces only the residential portion of the statewide education tax....at the expense of the non-residential group, which includes our businesses and second home owners; both important elements of our economic engine. In other words, they end up paying substantially more as a result of this cost shift.

Finally on the expense side of the Education Fund, one could say it is performing pretty much like a fixed annuity. The Fund has been pumping into our educational system, on average, five percent per year. Who wouldn't like a steady stream of income like that? So, no wonder "it ain't broke." But, for the working Vermonters paying into the system it is a much different story, especially in these tough economic times. And they certainly are not "celebrating" as the article suggests.

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