

# POSITION STATEMENT ON TAX AND FISCAL POLICY AND EDUCATION FUNDING

## Tax and Fiscal Policy

The Lake Champlain Regional Chamber of Commerce and GBIC strongly believe that the State of Vermont's tax system should be to prioritize economic and social investment, while maintaining fairness for all of its citizens. Furthermore, good public policy, as well as the long-term sustainability and the economic health of the system require that it function to the benefit of all Vermonters. Guiding principles to ensure predictable tax and spending policy include "fiscal restraint," "sustainability," "stability," "simplicity" and "prioritization of programs and funding."

According to comprehensive studies conducted by the Federal Reserve Bank of Boston, Vermont consistently ranks in the top quartile of states in the nation for percent of overall business profits that are claimed by taxes. In order for Vermont to remain competitive, the goal of our policy makers should be to reduce Vermont's tax burden to reflect the average tax burden in comparison with other states. It is not only Vermont businesses that are affected by Vermont's fiscal policy; every Vermonter experiences pressure from these burdens as they are reflected in our high cost of living. For example, housing costs in the Greater Burlington Area are 26% higher than the national average, utility costs are 16% higher, and the cost of miscellaneous goods and services is 10% higher. Specific recommendations to address these issues are outlined below:

- Evaluate and consider the impact of tax and fiscal policy and the overall tax burden on economic development and business activity in Vermont.
- Examine the overall structure of state government to identify opportunities for restructuring, streamlining or eliminating programs and processes to increase efficiency, reduce costs and enhance accountability, with the review to include examining the key findings of the Vermont Institute of Government Effectiveness, Inc. issued in 2005
- As a general rule, balance the state's budget by reducing or controlling costs rather than increasing the overall tax burden. If spending cuts are necessary to balance the budget, cuts should be made based on an evaluation and prioritization of programs rather than across-the-board cuts.
- Consistent with the items above, control spending so that any increase in overall spending is (a) limited to the extent necessary and (b) does not exceed the annual percentage rate increase in the gross state product or the Consumer Price Index, whichever is less. Within the overall spending limit, we support prudent allocations to budget items that represent investment spending (e.g., spending that provides a return to the state in terms of increased tax dollars and a higher gross state product).
- Establish a budget planning process that includes a three to five-year financial plan, similar to what was adopted for the Medicaid budget.

- Use state transportation fund revenues, which come from taxes and user fees derived from transportation activities, only to support the Agency of Transportation budget and transportation projects that are included in the State Transportation Capital Program.
- Support the direct coupling of the Vermont income tax to a federally determined tax system.
- A thorough review of the system and applicable rules of the new unitary corporate law is necessary to understand all impacts and recommend changes to encourage corporate investment in Vermont.
- Support changes to the tax increment finance provisions of state statutes to enable more flexibility and greater use of this financing technique and correct existing deficiencies in statute as have been identified by member municipalities.
- Consider the total capital needs of the state when the Capital Debt Affordability Advisory Committee establishes a bonding cap recommendation. The capital needs should be weighed along with factors such as maintaining the state's high bond rating as well as total outstanding debt, debt per capita and current market conditions. Additional bonding should be considered if the investment will result in a future economic benefit and a revenue source to retire the bond is identified.
- Accomplish the above goals while at the same time maintaining a high debt-rating and working to restore all of the "rainy day funds"—general fund, transportation fund and education fund reserve accounts—to five percent of budgeted expenditures. In the future, the goal should be to increase the rainy day funds to eight percent of budgeted expenditures so that a larger reserve is available in the event of an economic downturn. The dollars in those funds should only be accessed to balance the state's books if necessary at the end of any fiscal year and only after appropriate budget balancing measures are taken.
- Evaluate proposals giving regions or multi-jurisdictional entities the option to enact sales taxes, or rooms and meals taxes for regional investments that are deemed necessary and appropriate to improve infrastructure that will allow economic growth. Any tax increase must be tied to economic growth and stimulation, solely benefit the specific investment and have a sunset, where appropriate.

### **Education Funding**

The Lake Champlain Regional Chamber of Commerce and GBIC support access to a quality education for all Vermont children. The system for funding a quality education for our children should be fair and understandable. It should not cause divisiveness among communities or discourage economic development. In addition, the education funding system should include measures to control education costs and ensure cost-effective education tied to results.

In 2003, the Vermont Legislature passed a bill (Act 68) to revise the Act 60 education funding system. Some of our concerns with the Act 60 education funding system were not addressed in Act 68. Furthermore, Act 68 raised new issues. A summary of our concerns and recommendations are as follows:

- **Implement cost controls to address two key issues:**
  1. There is a disconnect between revenue sources and spending decisions. Act 60 created an education funding system under which revenues are collected by the state while decisions on spending are made locally. Because of the lack of connection between spending and how education is financed, education costs have increased dramatically since Act 60 was passed. Although Act 68 made some changes to address the disconnect, issues remain and efforts must be undertaken to control spending.
  2. Education spending continues to outpace revenues despite statewide enrollment reductions. A significant emphasis on cost control should be instituted including a thorough evaluation of the spending patterns of our educational system including administrative oversight, cost shifts from the federal and state levels as well as from human services, teacher and staff/pupil ratios and the increased services we are asking this system to provide. Approaches to controlling costs are outlined in more detail in the Chamber/GBIC Position Statement on Education Costs.
- **Oppose increases in the non-homestead property tax rate.** Beginning in fiscal year 2005, property taxes have been assessed based on a new split grand list system, with homestead and non-homestead property taxed at different rates. Although Act 68 has provided property tax relief in some communities, increased school costs (despite lower student numbers) and rapidly rising property values are outweighing the rate reduction, and contributing to a projected increase in non-homestead property taxes. The Chamber and GBIC support an annual decrease in the non-homestead property tax rate, corresponding to the increased value of the grand list. Requiring non-homestead property owners to pay a higher rate will undercut the cost control mechanism of the split grand list system. Any changes made to the property tax rates should be performed proportionately and not by an equal amount (i.e., five cents each).
- **Oppose increases in the income or other tax mechanisms to fund education.** We do not support adjustments to the income tax to fund education or a separate education income tax because of their negative impact on the economy. Many of our member businesses in the financial services sector observe taxpayers making decisions to migrate to other states because of Vermont's relatively high property and income tax rates. Furthermore, personal income is highly variable, making revenue projections difficult thereby resulting in the potential for unanticipated spending cuts when revenues do not meet projections. Finally, changing the education funding mechanism will simply leverage the same amount of money from a much more volatile pocket, and ignores the underlying causes of cost escalation. Therefore, identification of the root causes of these cost drivers and a reinforcement of the connection between education spending and how education is financed is critical.

- **Modify the excess spending cap to consider cost of living differences among regions.** Act 68 provides that school districts that spend over 125% of the previous year's statewide average spending per pupil (with the 125% phased in over 3 years) are assessed an excess spending surcharge. In order to make the excess spending penalty fair across regions, the penalty amount should incorporate cost of living differences among regions.
- **Address property valuation and other property tax issues.** The legislature needs to perform a detailed review of our property valuation and equalization system (the Common Level of Appraisal) to ensure that the system is statistically acceptable, fair and equitable. In addition, a permanent change in statute is needed in order to ensure that statewide education property tax rates are adjusted downward for any year that undesignated surpluses above the 5% reserve level occur (e.g., in times of rising property values and big common level of appraisal adjustments in communities).
- **Conduct further analysis.** Act 68 was enacted without a comprehensive analysis of the ramifications. The Legislature passed an education cost containment measure in 2007 which calls for a fiscal review of high and low special education districts as well as why districts exceed the 125% excess spending threshold. A thorough, independent review and analysis of our education funding system is required, including careful tracking of economic and other indicators to measure the short- and long-term impacts of our funding mechanisms before we embark on another substantial change to the taxation of income and property.
- **Examine additional modifications:** Additional modifications should be considered including the following: (1) incorporate cost of living differences among regions in the block grant amount, and (2) address inequities between districts in funding for transportation and special education. In addition, our Congressional delegation should be encouraged to initiate and support legislation that provides more federal assistance for special education

**NOTE:** The Chamber and GBIC have a number of other position statements that reference tax issues and spending policies, including position statements on economic development, transportation, education cost, and technology. Please refer to the Position Statement on Education Costs for a greater discussion of the need for cost effective education tied to results (including special education).

Adopted by the Chamber and GBIC Executive Committees on October 15, 2007.

Adopted by the Chamber Board on October 17, 2007.