

Report to the General Assembly

Joint Legislative Education Cost Containment Study Committee

January 15, 2004

Joint Legislative Education Cost Containment Study

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I. Summary

Section 70(c) of Act 68 established the Joint Legislative Education Cost Containment Study Committee (the Committee). The enabling legislation provides that the Committee's report to the general assembly shall include recommendations for: (a) education cost containment; (b) key indicators of cost effectiveness; and (c) an inflation index for the base education payment which more accurately reflects the components driving school costs. The Committee's recommendations are summarized below and discussed in more detail in Part V of this report.

Cost containment measures related to school governance issues are intentionally not addressed extensively here. The Council on Education Governance, which was also established by Act 68, is charged with investigating "effective governance structures for delivery of public education with consideration of the need to address rising costs." The Committee believes that modification of existing governance structures may offer substantial opportunities for education cost savings. The Council will submit its own findings to the general assembly in January of 2004 and 2005.

The Committee has also decided to refer consideration of measures of cost effectiveness to the appropriate standing committees since it is necessary to consider educational outcomes when determining whether an educational service is cost effective. The Department of Education has contracted with the National Conference of State Legislatures to ascertain what range of funding levels is necessary and sufficient to enable a Vermont school district to provide a sound education to its students in compliance with state educational quality standards. Its report is scheduled to be available in January of 2004.

Recommendations

The Committee makes the following recommendations to contain the cost of public education in Vermont. It is the Committee's hope that these recommendations will be considered by the appropriate standing legislative committees as soon as possible.

1. Promote effective cost containment efforts system-wide:
 - a. Develop a focused campaign on the importance of containing the costs of education throughout the school finance system.
 - b. Assist effective school consolidations with appropriate incentives and ways to facilitate such efforts.
 - c. Remove unnecessarily burdensome or redundant requirements imposed on school districts by the state.
2. Examine ways to make the teacher contract negotiation process work more effectively for all parties involved.
 - a. Encourage school districts to conduct contract negotiations that go beyond individual districts.
 - b. Identify ways that additional technical assistance can be provided to school boards.
3. Create a statewide education calendar to enable cross-registration and to make joint activities between school districts feasible.
4. Require state-level review of extraordinarily high-cost special education service plans and analysis of the cost-effectiveness of service plans.
5. Prepare an independent analysis of trends in school staffing patterns that identifies areas of growth and the factors driving that growth.
6. Encourage school districts to consolidate professional development, long-range planning, and business services.
 - a. Maintain an on-line market clearinghouse for school business managers to facilitate joint purchasing.

- b. Develop appropriate standardized qualifications for school finance managers.
 - c. Encourage the Department of Education to develop a plan to expand the use of regional educational collaborative programs.
7. Promote the adoption of energy-efficiency measures in school buildings by providing assistance to school districts with high up-front costs.
 8. Continue to inflate the base education payment annually by the state and local government price index.

Since it is not the intent of the Committee to impose any additional costs on school districts, the Committee further recommends that costs incurred by school districts as a result of the adoption of any of these recommendations be fully borne by the state. Furthermore, the Committee encourages the general assembly to be sensitive to cost when considering legislation that imposes additional responsibilities on school districts.

II. Analysis of Education Spending in Vermont

This section briefly examines education spending in Vermont using data from the Annual Statistical Report of Schools prepared by the Department of Education. It includes the history of current education expenditures between FY1996 and FY2002 (in both nominal and inflation-adjusted terms) and a breakdown of total education spending in FY2002 by function and object. More detailed tables, notes, and sources are included in the Appendix.

A. Recent History of Education Spending

Overall, education spending in Vermont is growing faster than inflation despite a declining student population. Current expenditures, which includes spending on instruction-related costs and also non-instructional expenditures for food service and other enterprise operations, increased from \$684.9 million in FY1996 to \$979.6 million in FY2002 for a growth rate averaging 6.1% annually. When adjusted for inflation, current expenditures increased at an average annual rate of 3.7%.

Current Expenditures (millions)

	FY1996	FY2002
Nominal Dollars	\$684.9	\$979.6
Average Annual Percent Change	--	6.1%
Constant Dollars	\$684.9	\$852.9
Average Annual Percent Change	--	3.7%

B. Composition of Education Spending

Current expenditures by function in FY2002 are presented in the following table. Direct instructional services, which account for nearly two-thirds of all costs, include activities dealing directly with the interaction between teachers and

students. Costs associated with employing teachers and paraprofessionals as well as the costs of equipment and supplies used in the classroom are included.

Current Expenditures by Function (millions)

Category	FY2002	Percent
Direct Instruction	\$626.3	64%
Support Services for Students	\$70.6	7%
Support Services for Instructional Staff	\$34.3	4%
Other Support Services	\$221.4	23%
Food Service and Other	\$27.0	3%
Total	\$979.6	100%

Current expenditures by object (type of resource purchased) in FY2002 are presented in the following table. Salaries and benefits alone account for more than three-quarters of all spending.

Current Expenditures by Object (millions)

Category	FY2002	Percent
Salary	\$589.4	60%
Benefits	\$164.9	17%
Purchased Services	\$120.7	12%
Unduplicated Tuition	\$34.4	4%
Supplies	\$64.1	7%
Other	\$6.1	1%
Total	\$979.6	100%

III. Education Spending in Vermont Compared to Other States

This section compares education spending in Vermont to other states using data recently published by the US Census Bureau and the National Center for Education Statistics. It includes a comparison of current spending per pupil, teacher salaries, pupil-teacher ratios, administrative costs, school size, and special education. More detailed tables, notes, and sources are included in the Appendix to this report.

A. Current Spending Per Pupil

Current spending includes payments for salaries, employee benefits, purchased services, and supplies and excludes capital spending. In FY2001, current school spending per pupil in Vermont was \$8,706 per pupil, ranking Vermont eighth highest in the nation. This amount is well above the national average of \$7,284 per pupil. However, among the New England states, only Maine and New Hampshire spent less per pupil.

States Ranked According to Per Pupil Expenditure

	Current Spending in FY2001	National Rank
US Average	\$7,284	-
Connecticut	\$9,236	4
Maine	\$8,178	11
Massachusetts	\$9,038	6
New Hampshire	\$7,065	23
Rhode Island	\$8,776	7
Vermont	\$8,706	8

When each state's ability to pay for education is accounted for, Vermont ranks even higher because of relatively low personal income. In FY2001, current spending in Vermont amounted to \$56.41 per \$1,000 of personal income, ranking Vermont second highest in the nation. This amount is well above the national average of \$41.59. Among the New England states, only Maine was close to Vermont in its level of support for public education.

States Ranked According to Relation to \$1,000 of Personal Income

	Current Spending in FY2001	National Rank
US Average	\$41.59	-
Connecticut	\$38.25	39
Maine	\$52.25	4
Massachusetts	\$38.07	40
New Hampshire	\$35.81	46
Rhode Island	\$46.54	12
Vermont	\$56.45	2

B. Teacher Salaries

In FY2002, the average teacher salary in Vermont was \$38,931. This amount is comparable to the average teacher salary in the rural New England states of Maine and New Hampshire, but it is significantly lower than the average teacher salary in other New England states. It is also well below the national average of \$44,604 ranking 30th nationally. Significantly, teacher salaries in Vermont have also increased at a slower rate than in other states since FY1990.

Average Annual Salary

	FY1990	FY2002	Percent Change
US Average	\$31,361	\$44,604	42.2%
Connecticut	\$40,461	\$53,626	34.2%
Maine	\$26,881	\$37,100	38.0%
Massachusetts	\$34,712	\$50,293	44.9%
New Hampshire	\$28,986	\$38,911	34.2%
Rhode Island	\$36,057	\$49,332	38.0%
Vermont	\$29,012	\$38,931	33.7%

C. Pupil-Teacher Ratios

In the fall of 2000, Vermont had only 12.1 pupils per full-time equivalent (FTE) teacher, including kindergarten teachers. This pupil-teacher ratio places Vermont well below the national average of 16 pupils per FTE teacher and is the lowest pupil-teacher ratio among the New England states. Only Maine is comparable to Vermont in terms of pupil-teacher ratios. As discussed below, current

population forecasts indicate that school-aged population in Vermont will continue to fall for the foreseeable future.

Pupil-Teacher Ratios

	Fall 1995	Fall 2000
US Average	17.3	16.0
Connecticut	14.4	13.7
Maine	13.9	12.5
Massachusetts	14.6	14.5
New Hampshire	15.7	14.5
Rhode Island	14.3	14.8
Vermont	13.8	12.1

D. Administrative Costs

Administrative services include (a) establishing and administering policy for operating the school system (general administration); and (b) overall administrative responsibility for individual schools (school administration). As the following table for FY2001 illustrates, administrative costs per pupil in Vermont are high for both general and school administration. High administrative costs in Vermont are due, at least in part, to small school size.

Administrative Costs Per Pupil

	General Administration	National Rank	School Administration	National Rank
US Average	146	-	413	-
Connecticut	195	17	523	6
Maine	169	25	469	11
Massachusetts	159	28	423	21
New Hampshire	247	6	407	27
Rhode Island	137	33	455	13
Vermont	226	9	600	1

E. School Size

The mean number of students per school in Vermont, particularly at the primary and middle-school instructional levels, is well below the national average. In FY2002, the average size of primary schools in Vermont was only 204 students, less than one-half the national average of 441 students. Among the New England states, only Maine, another rural New England state, has comparably small size schools.

Average School Size

	Instructional Level			
	Primary	Middle	High	Other
US Average	441	612	753	267
Connecticut	424	643	890	168
Maine	218	375	556	197
Massachusetts	389	643	888	570
New Hampshire	318	530	795	346
Rhode Island	344	667	963	115
Vermont	204	389	674	255

Another measure of relative school size compares the percent of each state's schools falling within fixed size categories. In FY2002, more than 28% of Vermont's 359 schools had fewer than 100 students. This is well below the national average of 11% of schools in the smallest size category. Maine and New Hampshire, two other rural states with low population density, had only 18% and 12% of their schools in this size category, respectively.

Percent of School in School-Size Category

	School-Size Category				
	1-99	100-299	300-749	750-1,499	1,500 and over
US Average	10.8%	21.3%	48.6%	15.7%	3.7%
Connecticut	5.3	16.8	60.3	15.8	1.9
Maine	18.1	42.3	34.1	5.6	0.0
Massachusetts	3.7	24.8	52.6	16.9	7.2
New Hampshire	12.1	28.8	46.2	10.6	2.3
Rhode Island	4.9	27.3	50.3	14.7	2.8
Vermont	28.1	37.6	27.3	6.7	0.3

The percentage of students enrolled in very small schools in Vermont is also quite high. As the following table illustrates, Vermont has 4.9% of its students enrolled in schools with fewer than 100 pupils and another 26% enrolled in schools with between 100 and 299 pupils. The national average for schools with fewer than 300 students is only 9.3%. Among the New England states, only Maine has similar percentages of its students enrolled in such small schools.

Percent of Students in School-Size Category

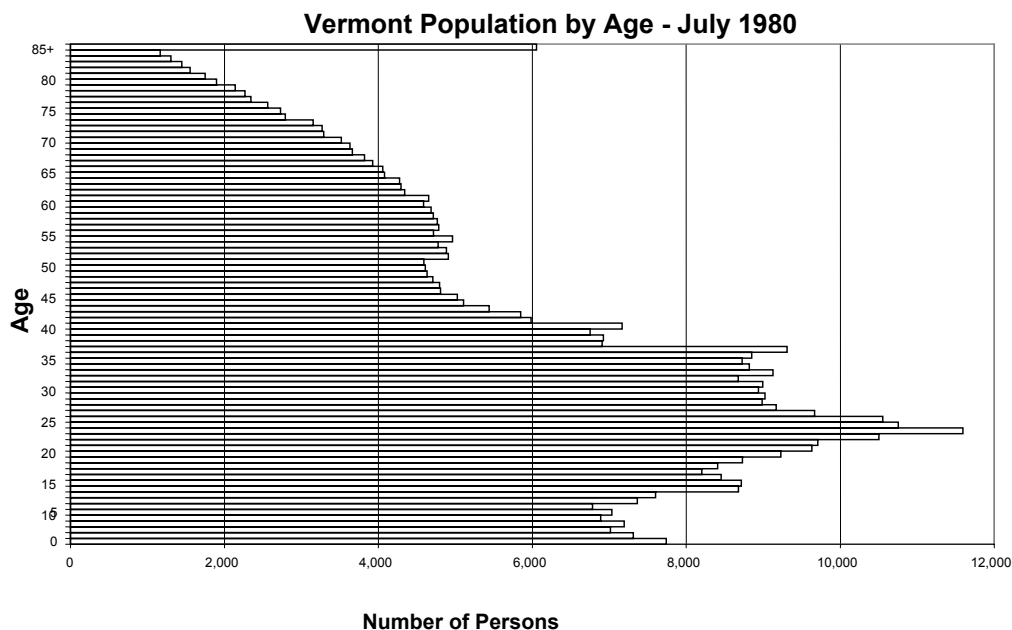
	School-Size Category				
	1-99	100-299	300-749	750-1,499	1,500 and over
US Average	0.9%	8.4%	46.1%	29.6%	14.6%
Connecticut	0.5	7.2	55.3	29.9	7.1
Maine	3.5	28.0	50.4	18.0	0.0
Massachusetts	0.4	10.3	49.8	32.3	7.2
New Hampshire	1.7	12.9	50.1	24.3	11.0
Rhode Island	0.6	12.5	47.7	29.6	9.6
Vermont	4.9	26.0	43.9	23.6	1.5

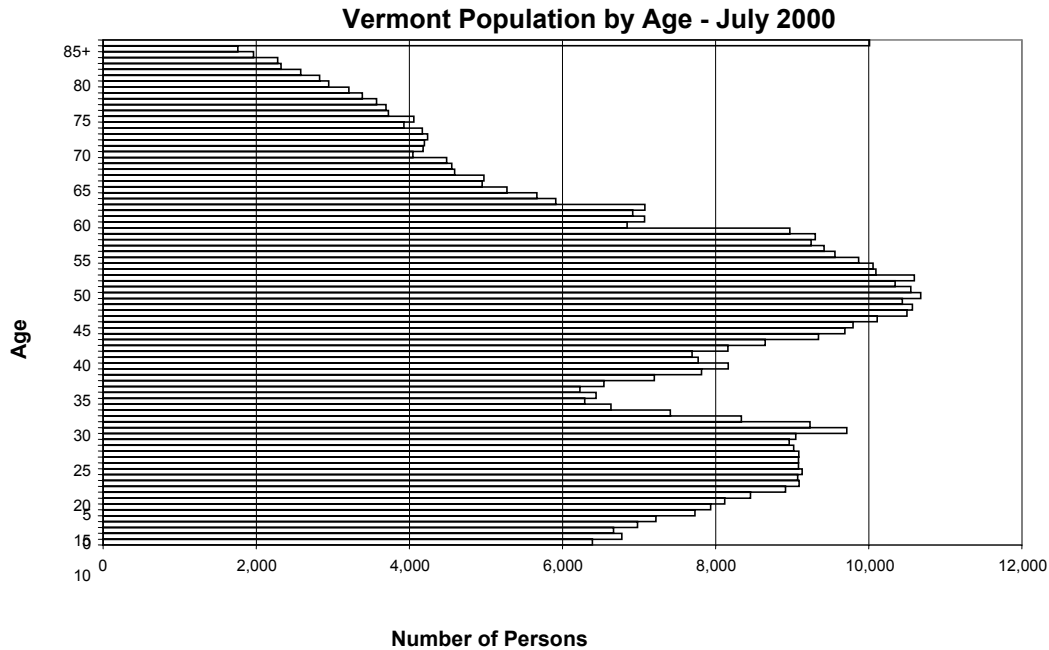
IV. Trends Affecting the Future Cost of Education in Vermont

This section identifies some of the economic, demographic, cultural, and policy factors that will likely affect the cost of education in Vermont over the next few years. It briefly discusses underlying trends in school-aged population, pupil-teacher ratios, teacher retirement, school size, the cost of special education and technical education, health insurance premiums, inflation, and the cost of implementing the federal No Child Left Behind Act.

A. School-Aged Population Is Declining

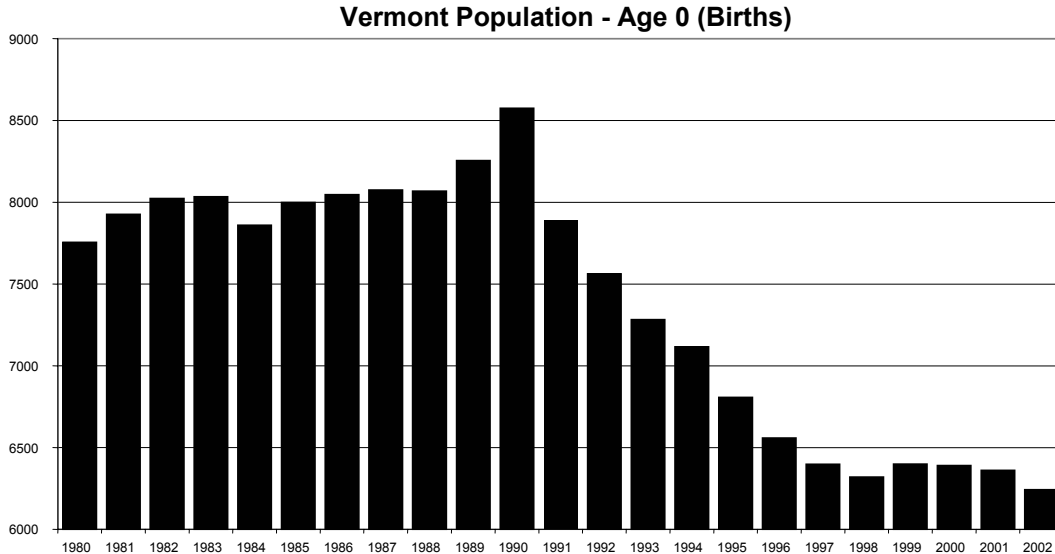
The dominant demographic event now affecting both the state and the nation is the general aging of the population. As the huge post-WWII “baby-boom” population has aged, the median age of the Vermont population has risen steadily. As illustrated below, the largest single-age cohort in 1980 was about 20 years old. As depicted in the second graph, by 2000 it was about 40 years old and will soon pass beyond the maximum age normally associated with child-bearing potential (age 44).





Although there is an echoing population group consisting primarily of the children of baby-boomers that swelled public school enrollments in the early part of the last decade, the fertility rate associated with baby-boomers has dropped to the lowest on record since 1880. After peaking at more than 120 live births per 1,000 women ages 15-44 in the 1950's and early 1960's, the fertility rate in Vermont has plunged to about half this level in the 1980's and 1990's and now stands at about 50 live births per 1,000 women.

These extremely low fertility rates have translated into declining total state births through the 1990's, which, in turn, have caused aggregate public school enrollments to decline during the past few years. These declines are likely to continue, until there is another "echo" from the children of baby-boomers toward the end of the current decade as the age composition of the population in 2010 supports a slight increase in the fertility rate.



Trends in school-aged population are likely to have a significant, but mixed, impact on future education costs in Vermont. In the long term, fewer students should result in lower education costs statewide. School districts may be able to reduce administrative and teaching staffs. Consolidation of schools or school districts may also be possible in some cases. However, in the near-term, declining enrollment will likely drive down pupil-teacher ratios and further reduce school size.¹ Both these outcomes are likely to drive the costs of education upward.

Source: Tom Kavet, Property and Related Education Fund Forecasts, October 2003.

B. Pupil-Teacher Ratios Are Falling

Pupil-teacher ratios in Vermont have been steadily declining at least since fall 1995 when Vermont had 13.8 pupils per FTE teacher. Given the demographic trends summarized above, it is likely that pupil-teacher ratios are likely to decline further. The Committee heard conflicting testimony about the educational impact of small classes on students. Some argued there is an advantage in smaller

¹ There are two provisions in current law that mitigate the impact of declining enrollment on per pupil costs. First, average daily membership (ADM) is based on two-year average enrollment. Consequently, in school districts with declining enrollment, the two-year average ADM will be higher than the actual current-year ADM. Second, no school district may lose more than 3.5% of its weighted and equalized ADM in any one school year.

class sizes while others felt classes below 15-17 students do not have a critical mass for good classroom discussion. Regardless of the possible advantages of low pupil-teacher ratios from an education viewpoint, low ratios increase the cost of education per pupil.

C. Teachers Are Reaching Retirement Age

The number of teachers in Vermont reaching retirement age will accelerate over the next decade. This trend may work to reduce the cost of total teacher salaries and benefits for two reasons.

First, teacher retirements may make it possible for school districts to reduce the size of their teaching staffs through attrition rather than having to implement difficult reduction-in-force provisions of teacher contracts.

Second, teacher retirements will serve to reduce the total cost of teacher compensation by reducing average teacher salaries. In FY2003, the average age of all Vermont teachers was 45.4 years. Average age will continue to increase because many of these teachers may not be replaced by new hires. Over 43% of all teachers in Vermont are currently 50 years of age or older. Older, more experienced teachers are generally at or near the upper end of the salary scale. Teachers in the 50- to 64-year age group on average earn nearly twice the salary that a starting teacher earns.

In addition to normal retirement, an increasing number of school districts is offering older teachers an early retirement incentive. In FY2003, 56.7% of school districts offered early retirement incentives; in FY2002, only 38.8% of school districts offered early retirement incentives. To the extent that older teachers take advantage of early retirement incentives, the trend toward a less expensive teaching force may be accelerated.

Active Members of the Teachers Retirement System

Age Group	Number of Teachers	Average Salary
Under 24	134	\$24,814
25 to 29	697	\$29,645
30 to 34	980	\$34,007
35 to 39	970	\$36,792
40 to 44	1,277	\$40,279
45 to 49	1,819	\$43,575
50 to 54	2,438	\$46,986
55 to 59	1,545	\$48,535
60 to 64	434	\$48,942
65 and Over	61	\$45,191
Total	10,355	\$42,225

D. School Size is Declining

Small schools cost more per pupil to administer. As the school-aged population in Vermont continues to decline throughout the end of this decade, school size is likely to decrease even further. In the longer term, some cost savings may be possible through the consolidation of schools or by the merger of some school districts. However, these are politically difficult decisions for communities to make. Vermont is a small, rural state where many communities want their own school. This is particularly true at the primary school level, since many parents do not want their young children transported long distances to neighboring communities. In addition to the difficult nature of the decision from a community school perspective, the loss of small schools grants and debt service issues may create financial barriers to consolidation.

E. Growth in Special Education Costs May Be Moderating

In FY2002, special education in Vermont accounted for about 17% of total education spending. In FY1998, total special education expenditures amounted to nearly \$106 million. Total special expenditures in FY2005 are estimated to be \$193 million, an average annual increase of more than 11% over this period. Recently, special education costs have been held down in Vermont for two rea-

sons. First, the rate of increase of the cost of special education service plans submitted to the state has moderated. Second, recently federal aid for special education has increased.

Special Education Costs in Vermont (millions)

	Total Expenditures	Federal Aid	Formula-Eligible Costs
FY1998	\$105.7	\$4.2	\$101.5
FY1999	\$117.1	\$5.2	\$111.9
FY2000	\$132.0	\$6.1	\$125.9
FY2001	\$145.3	\$7.6	\$137.7
FY2002	\$161.7	\$10.2	\$151.5
FY2003	\$174.1	\$13.0	\$161.1
FY2004 (est.)	\$185.6	\$16.2	\$169.4
FY2005 (est.)	\$193.0	\$18.6	\$174.4
Average Annual Percent Change	11.8%	49.2%	10.3%

F. Technical Education Costs Are Growing

In FY2002, technical education in Vermont accounted for only about three percent of total spending. Nevertheless, growth in technical education enrollment is likely to be a driver of education costs in the future in Vermont for several reasons.

First, although overall enrollment is declining, enrollment at technical education centers is increasing. Since FY2000, technical education center enrollment has increased by 11.6%, while average daily membership (ADM) has decreased by nearly 3.9%.

ADM and Technical Education Center Enrollment

	Average Daily Membership	Annual Change	Tech Center Enrollment (FTE)	Annual Change
FY2000	105,071	-0.6%	2,140	
FY2001	104,151	-0.9%	2,227	4.1%
FY2002	103,348	-0.8%	2,270	1.9%
FY2003	102,275	-1.0%	2,319	2.2%
FY2004	101,022	-1.2%	2,388	3.0%

Second, students enrolled at technical education centers are generally more expensive to educate than students enrolled in regular education. The following table presents current expenditures per full-time equivalent (FTE) pupil in technical education centers in FY2002. Current expenditures per FTE pupil in FY2002 for all pupils was \$9,747.

Total Current Expenditure Per FTE Pupil in FY2002

Technical Education Center	
P. A .H. Career Development Center	\$16,329
Barre Regional Vocational/Technical Center	\$9,210
Burlington Technical Center	\$10,033
Essex Technical Center	\$12,365
Cold Hollow Technical Center	\$13,289
Hartford Area Career/Technical Center	\$8,694
Lamoille Area Vocational Center	\$7,698
River Bend Career and Vocational Center	\$9,615
Randolph Area Vocational Center	\$9,750
North County Career Center	\$6,553
Stafford Technical Center	\$10,171
Southwest Vermont Career/Dev. Center	\$12,333
River Valley Technical Center	\$18,253
Southeastern Vermont Career Ed. Center	\$11,764

Third, since many school districts may already be underutilized due to declining school-age population, the per pupil costs at these schools may be driven upward to the extent that school districts lose students to technical education centers. As discussed above, this trend will drive education costs per pupil upward at least in the near-term since it will be necessary for these schools to allocate their fixed costs over a smaller student population.

G. Health Insurance Premiums Are Rising

In FY2002, employee benefits were significant, accounting for about 14% of total education spending. One of the major drivers of employee benefit costs in recent years has been health insurance premiums for teachers. As indicated in the following table, monthly premiums have increased over the past ten years at a compound average annual increase of 8.9%. Over the past five years, that rate of increase has accelerated to 15.8%

Vermont Health Insurance Trust Health Premiums
Monthly Rates – Dual Option Family

Year	Premium	Percent Increase
1995	\$379.42	-4.0%
1996	\$397.63	4.8%
1997	\$435.41	9.5%
1998	\$417.97	-4.0%
1999	\$447.25	7.0%
2000	\$514.63	15.1%
2001	\$627.85	22.0%
2002	\$717.00	14.2%
2003	\$781.53	9.0%
2004	\$930.00	19.0%
Compound annual increase – last 10 years		8.9%
Compound annual increase – last 5 years		15.8%

In FY2003, 18.5% of school districts covered the entire health insurance premium for at least one health insurance option. However, this percentage has declined from 27.5% in FY2002 and from 34% in FY2001 through negotiations between school boards and the teachers union. By contract, state employees contribute 20% of the cost of their health insurance premiums.

H. The Cost of Implementing the No Child Left Behind Act

The 2003 General Assembly passed a resolution declaring that, pursuant to Sec. 9527 of the No Child Left Behind Act, neither the state of Vermont nor any Vermont school districts should pay for the costs of implementing the law out of state or local funds. Consequently, the NCLB Oversight Committee has been working to determine the potential state and local costs of the law.

Although the NCLB Oversight Committee has not completed this work, it has reviewed two studies conducted by other states of the potential state and local costs. These two states, Connecticut and Hawaii, found that their costs would increase by more than the amount that would be provided by the federal government to pay for these services. Recently, personnel from the Vermont Department of Education met with personnel from the federal Department of Education and learned that Vermont will be expected to carry out all provisions of the act or lose all Federal monies allocated under the act.

The NCLB Oversight Committee has begun to study waivers and provisions other states have negotiated with the federal government and is beginning to understand some techniques we might use to reduce costs. For example, the committee recently learned that a few states have negotiated a technique for calculating Annual Yearly Progress that has the potential to identify fewer schools in need of costly technical assistance from the state, and which are therefore required to pay for supplemental services and transportation for those students choosing to attend another school.

The Cost Containment Committee recommends that the Education Committee work with the National Conference of State Legislatures to identify all currently negotiated cost saving techniques and to direct the Department of Education to negotiate the same waivers and techniques for Vermont.

I. The Rate of Inflation Is Low

Inflation is unlikely to be a significant driver of education costs for the foreseeable future. One relevant measure of inflation, the State and Local Government Index, is expected to grow at about 2.0% in 2003 and 2004. The base education payment, which is set at \$6,800 per equalized pupil in FY2005, is tied to this cost index. A number of categorical or block aid payments is also tied to this cost index. These include transportation aid, small schools aid, and technical education center grants. Longer-term inflation, as measured by the Consumer Price Index, is expected to be about 2.5% annually.

Source: Tom Kavet, Property and Related Education Fund Forecast, October 2003.

V. Recommendations - Discussion

1. Promote effective cost containment efforts system-wide:

- a. Develop a focused campaign on the importance of containing the costs of education throughout the school finance system.
- b. Assist effective school consolidations with appropriate incentives and ways to facilitate such efforts.
- c. Remove unnecessarily burdensome or redundant requirements imposed on school districts by the state.

Discussion:

a. Develop a focused campaign on the importance of containing the costs of education throughout the school finance system.

The cost-effective provision of educational services must be an ongoing multi-level process. With over 250 school districts and their volunteer boards and diverse school officials, cost containment must be an ongoing concern. As part of this effort, the Council on Education Governance is collaborating with the Commissioner of Education to apply for a \$600,000.00 grant from the Wallace Foundation. They intend to use the grant to provide funds for a few communities engaged in these discussions with the expectation that the communities will use these funds to help them to understand their legal options and the consequences of various options, to gather and analyze information that will help them understand the fiscal and other consequences of various options, and to carry out an effective public engagement process around various options. By the spring of 2005, the Council expects to report to the General Assembly its recommendations for:

- Removal of legal barriers to effective community discussion about governance and other changes that could result in more effective and efficient use of education resources.
- Changes to Vermont's education governance structure, and materials such as workbooks and videos, and technical assistance teams that could help more communities engage in productive discussion about changes to

their education structures for more effective and efficient use of education resources.

The Vermont School Boards Association with the Department of Education has been holding a series of workshops and conferences on cost containment and educational finance issues. The Committee recognizes the importance of these efforts and recommends that the legislature support their continuance.

b. Assist effective school consolidations with appropriate incentives and ways to facilitate such efforts.

The Committee is concerned that some elements of the education finance law may provide disincentives to consolidation. As Act 68 is reviewed and modified, these disincentives should be removed and incentives put into place. Some examples of these disincentives and possible incentives are as follows:

- Merged schools may jeopardize existing small school grants. The law might be modified to continue small school grants for a limited period subsequent to the merger.
- The per-pupil payment adjustment with school mergers may need to be reviewed. Initial year costs may be abnormally high, meriting a transition payment.
- Closing facilities which may have outstanding debt service obligations may be a barrier to mergers. The legislature should review the debt service issues involved with school consolidation.
- Due to Vermont's geography, consolidation is not always practical. It is important that the school finance system reflect an awareness of the geographic issues confronting Vermont school districts.
- Considerable work takes place prior to a merger. Where the consolidations may be merited due to long-term trends in student counts, research on these trends by school districts becomes increasingly important to making a case for consolidations. Financial assistance grants early in the process could facilitate the long-term studies and analysis needed to carry out consolidations.

c. Remove unnecessarily burdensome or redundant requirements imposed on school districts by the state.

In accordance with Sec. 43 of Act 68, the Vermont School Boards Association, the Vermont Principals Association, and the Vermont Superintendents Association have developed a list of all requirements placed on school districts which they believe to be burdensome or redundant. This list is currently available online from the Vermont School Boards Association at www.vtvsba.org.

Section 43 provides that for each burdensome or redundant requirement listed by these associations, the Commission of Education shall: (a) remove or revise the requirement administratively; (b) state that the requirement is statutory and recommend legislative change which would remove or revise the requirement; or (c) state that the requirement should remain because it serves a fundamental need. Any recommendations forthcoming from the Commissioner should be reviewed by the appropriate legislative committee.

2. Examine ways to make the contract negotiation process in schools work more effectively for all parties involved.

- a. Encourage school districts to conduct contract negotiations that go beyond individual districts.
- b. Identify ways that additional technical assistance can be utilized in the negotiation process.

Discussion: Collective bargaining has an impact on a large part of school budgets through wages and benefits. For school districts with volunteer school boards and limited resources, the costs and research need for effective bargaining may be an issue. Increasingly, school districts are looking at multi-district bargaining. The Department of Education and the Legislature should look for ways to encourage multi-district bargaining and explore ways to provide other assistance to school districts in the bargaining process.

3. Create a statewide education calendar to enable cross-registration and to make joint activities between school districts feasible.

Discussion: Consistent school calendars would enable much more effective course sharing, cross registration, combined sports activities, statewide internet or distance-learning based courses, and other efforts which can increase opportunities for Vermont students and produce economies of scale. Currently, schools within technical center areas are supposed to use consistent calendars; however, this does not always occur. A statewide education calendar would be an important step in increasing educational opportunities and making cost-related improvements.

4. Require state-level review of extraordinarily high-cost special education service plans and analysis of the cost-effectiveness of service plans.

Discussion: While special education cost increases have diminished in the past few years, these costs continue to be a large part of school and state education budgets. The Committee is interested in three initiatives to address these costs.

First, the Legislature should consider creation of a two- to three-year experimental case manager position for the 60 or so extraordinary expense children. These individuals represent roughly \$5 to \$6 million of special education costs and currently the only case management that occurs happens on the special education district level. Individual districts may be competing for out-of-state service slots or providing the most cost-effective services from their local perspective. These services might be handled in a more cost-effective manner if these cases were treated as a group. A state-level case review specialist may be able to identify savings that can be achieved.

Second, the Committee expressed concern that the data on special education service cost-effectiveness was not fully developed. The department could benefit from increased capacity for statistical analysis of the special education caseload.

Third, the Committee would like to encourage the Department of Education to continue the work undertaken over the past four years by the Fiscal Review Panel. This panel was involved in a data collection effort involving policy analysis and program evaluation with 60 schools across Vermont.

5. Prepare an independent analysis of trends in school staffing patterns that identifies areas of growth and the factors driving that growth.

Discussion: The Committee recommends that an independent analysis of school staffing be prepared. This analysis should examine trends in staffing levels and the reasons underlying these trends. This analysis should also be build on a recent study on education expenditures, prepared by the Department of Education, that addresses this issue. The Committee recommends that the appropriate legislative committees, the Department of Education, and the school associations publicize the results of this study and develop some regular reporting standards in this area.

6. Encourage school districts to consolidate professional development, long-range planning, and business services.

- a. Maintain an on-line market clearinghouse for school business managers to facilitate joint purchasing.
- b. Develop appropriate standardized qualifications school finance managers.
- c. Encourage the Department of Education to develop a plan to expand the use of regional educational collaborative programs.

Discussion: The Committee heard considerable testimony on potential savings through administrative consolidation. Professional development, business services, and long-range planning are all areas that could benefit from economies of scale. The Department and the Department of Buildings and General Services do operate some form of on-line information services or information clearinghouses, but these efforts could be improved and made more accessible to schools. As the services are improved information exchange on prices received by various business managers could further result in savings.

The financial operations of school districts are increasingly complex. Exploring educational levels, financial experience requirements, and continuing education for school finance personnel should help.

7. Promote the adoption of energy-efficiency measures in school buildings by providing assistance to school districts with high up-front costs.

Discussion: Several factors contribute to school energy inefficiency. School budgets usually are divided between capital and operating expenses. To keep capital costs low, many school districts build schools as inexpensively as possible. Unfortunately, many energy-efficient technologies (heating, lighting, and so forth) often fall by the wayside in such an environment. Moreover, some energy-efficient technologies exhibit a higher up-front cost than standard practices. Standard, low-cost schools are usually energy-inefficient and can be more expensive in the long run.

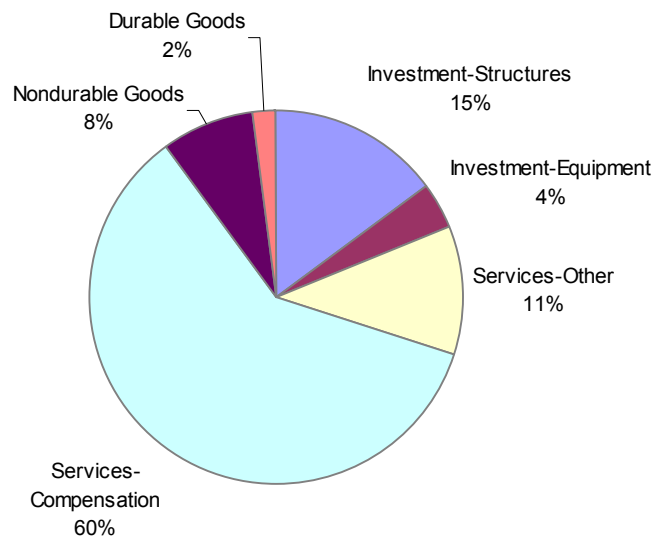
One energy-efficiency program that offers promise is performance contracting. Performance contracting allows schools to enter multi-year financing agreements whereby an energy services company installs energy-efficient equipment. The company then receives payment from the resulting savings. State legislation is required to allow schools to use performance contracting. Existing law regarding state aid for school construction projects may need to be amended to make projects financed with performance contracts eligible for state aid.

There is legislation pending this session that would authorize schools to use performance contracts and address that capital construction aid issue. The Committee recommends that the appropriate legislative committees consider this legislation as well as other options for reducing the high up-front costs school districts face when attempting to lower long-term costs through the implementation of energy-efficiency measures.

8. Continue to inflate the base education payment annually by the state and local government price index.

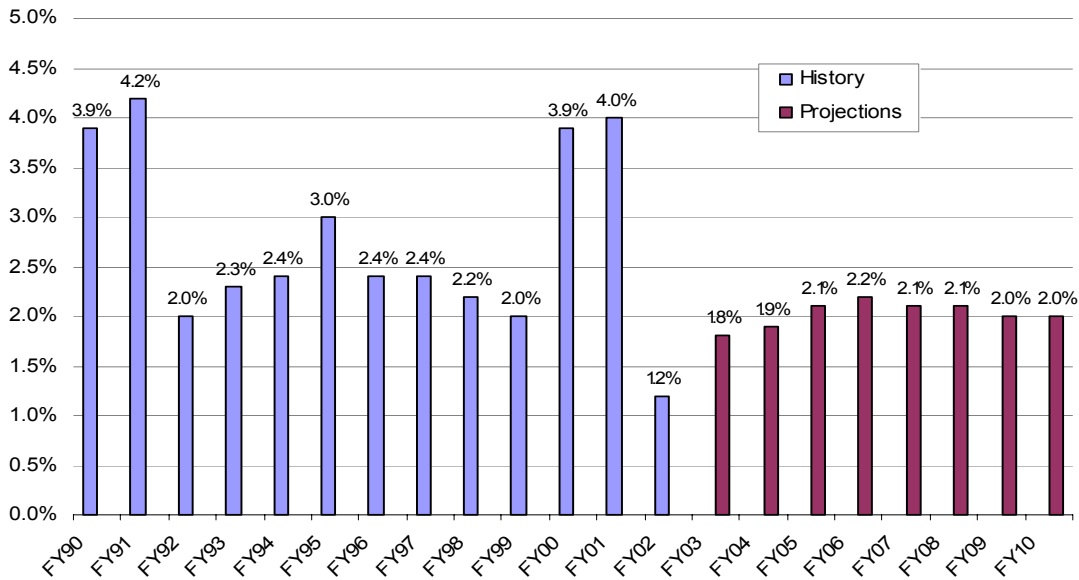
Discussion: The inflation index currently used to adjust the base education payment annually is the state and local government price index. More than 60% of this index is driven by service compensation expenditures that are linked to educational employee compensation, adjusted for education level, experience and hours worked. However, since it is a national index, there may be Vermont-specific events or conditions that it does not adequately capture.

Composition of US State and Local Government Price Index



Over the past twenty years, the index has ranged as high as 4.2% and as low as 1.2%; however, in recent years, the index has hovered around 2% annually. Although there are many events that could ignite higher rates of inflation, most analysts now foresee an extended period of low inflation. The index is not expected to exceed 2.2% over the next several years.

**Percent Change in US State and Local Government Price Index
Consensus Forecast - February 2003**



In spite of its limitations, the state and local government price index is considered by economists to be the best overall measure of education inflation that is regularly forecast by major econometric consulting firms. Although it would be possible to develop independently a Vermont-specific measure of education inflation, the cost of developing and maintaining such an index would be prohibitively expensive. Consequently, the Committee recommends that use of the state and local government price index be continued.

VII. Appendices

A. Enabling Legislation: Section 70 of Act 68 of the Acts of 2003

JOINT LEGISLATIVE EDUCATION COST CONTAINMENT STUDY

(a) To create a sustainable education funding law, the state is committed to work with school boards to target cost drivers and reduce the cost of education. Accordingly, there is created a joint legislative committee, to be known as the Joint Legislative Education Cost Containment Study Committee to consider ways to contain education costs throughout the system of education finance. The joint committee shall take testimony on the cost drivers facing public education and the impact of future trends on these cost factors. The joint committee's review shall include but not be limited to the following:

- (1) special education uniform standards of service and litigation reduction strategies;
- (2) review of district size to identify opportunities for economies of scale in administrative services;
- (3) review of teacher-student ratios and class size;
- (4) potential for savings through coordinated staff and teacher recruitment and screening and possible state funded assistance with teacher and staff bargaining support;
- (5) costs savings resulting from a review of state and local mandates;
- (6) opportunities for joint purchasing of services or centralized services including insurance products, supplies, materials, uniform computer systems;
- (7) review of health insurance and workers compensation as to budget impacts, including levels of premiums, co-payments and plan quality as compared to that provided to other public sector employees including the state employees;
- (8) potential for technology related savings, including use of remote communication and video technology to increase class offerings and other initiatives;
- (9) opportunities for improved facilities utilization strategies including program co-location or other initiatives;
- (10) opportunities for efficiencies in funding technical education facilities and programs, and alternatives for payment of technical education costs;

(11) various costs, incentives and disincentives through the interplay of current state funding provided to special education, technical education, and local schools; and

(12) alternatives for an inflation index to be applied to the base education payment.

(b) The joint committee shall be comprised of four members of the House, not all from the same political party, appointed by the Speaker from each of the House Committees on Ways and Means, Education, and Appropriations, and one additional House member appointed at large; and four members of the Senate, not all from the same political party, appointed by the Senate Committee on Committees, from the Senate Committees on Finance, Appropriations, Education, and one additional Senator appointed at large.

(c) The joint committee shall meet no more than eight times and hold at least one public hearing. The joint committee shall seek comment and participation from the Vermont Association of School Business Officers, the Vermont N.E.A., the Associations of School Superintendents, Principals, School Boards and Directors of Special Education, from representatives of the business community, and the public at large. It shall submit a report by January 15, 2004, to the Clerk of the House and Secretary of the Senate. The report shall contain recommendations for education cost containment; no more than 10 key indicators of cost effectiveness; and an inflation index for the base education payment which more accurately reflects the components driving school costs. For purposes of this subsection, a "key indicator" is a measurement which enables analysis of the cost effectiveness of education services. Members of the joint committee shall be entitled to compensation and expenses as provided in 2 V.S.A. § 406. The joint committee shall be entitled to the services of the legislative council and the joint fiscal office, and shall be assisted, upon request, by other state agencies.

B. List of Witnesses and Interested Parties

Legislative Education Cost Containment Study Committee Witnesses and Interested Parties

	Title	Organization
Kari Arfstrom	Associate Director	American Association of Educational Service Agencies
Michael Bertrand	Commissioner	Department of Labor and Industry
Martha Bothfeld	Director of Education Services	Montpelier Public Schools
Richard Cate	Commissioner	Department of Education
Bruce Chattman	Superintendent	South Burlington School District
Diane Cleary		Vermont School Boards Insurance Trust
Jeanne Collins	Director of Special Services; Past President	Burlington School District; Vermont Council of Special Education Administrators
Laura Collins	Deputy Commissioner	Department of Labor and Industry
Scott Cameron	Attorney	Montpelier
Joel Cook	Director and Counsel	Vermont National Education Association
Kimberly Coville	Program Director/Community Liaison	Champlain ARC
Howard Crawford	Co-chair, No Child Left Behind Committee	Representative
Connie Curtin	Director	Vermont Parent Information Center; Parent
Mike Deweese	Superintendent	Chittenden Central Supervisory Union
Angelo Dorta	President	Vermont National Education Association
Gillian Eaton	Schools Initiative	Efficiency Vermont
Kathy Finck	Director	Center for Technology Essex
Dick Flies		Vermont Technical College
Jeff Francis	Director	Vermont Superintendents Association
Winton Goodrich	Associate Director	Vermont School Boards Association
Laura Hall	Workers' Compensation Division	Department of Labor and Industry
Blair Hamilton		Efficiency Vermont
Susan Hasazi, Ed.D.		University of Vermont
Steve Hier	Business Manager; President	Springfield; Vermont Association of School Business Officials
Cathy Hilgendorf	School Construction	Department of Education
Brad James	School Finance Team	Department of Education
Steve Jeffrey	Director	Vermont League of Cities and Towns
Lorna Jimmerson		
Dennis Kane		Department of Education
Steve Kappel		Joint Fiscal Office
Bill Kimball	Information Technology Director	Lamoille South Supervisory Union
Louise Koss	Chair	Feasibility Coimmittee
Dave Larsen	Commissioner	Department of Education

Kathy LaVoie	Co-chair, Council on Education Governance	Representative
William Mathis	Superintendent	
Mark Maxwell	Chief Financial Officer	Florida Virtual School
Steve Metcalf	Principal	Randolph Elementary School
Edie Miller	Director (as of December 15 no longer director, look at John Nelson)	Vermont School Boards Association
Georgiana O. Miranda	School District Attorney	Montpelier
Elaine Morin	Vice-Chair Member	North Country Union High School Board; Career Center Advisory Board
Mike Murphy	Chair	Orleans Essex North Supervisory Union Board
John Nelson	Director	Vermont School Boards Association
Barbara Nye, Ph.D.	Professor	Tennessee State University
Tom O'Brien	Superintendent	Addison Northwest Supervisory Union
Patti Page	Attorney	Stitzel, Page and Fletcher, P.C.; Burlington
Ray Pellegrini	Director	Vermont Principals Association
Elaine Pinckney	President; Principal	Vermont Principals Association; Williston Central School
John Poljacyk	Superintendent	Grand Isle Supervisory Union
Bill Reedy	Counsel	Department of Education
Deb Robbins	Human Resources Director	Chittenden Central Supervisory Union
Bill Samuelson	Business Manager	Franklin Northeast Supervisory Union
Greg Scieszka	Superintendent	Bennington-Rutland Supervisory Union
Lana C. Seivers	Commissioner	Tennessee Department of Education
David Sichel		Vermont League of Cities and Towns
Chris Smith	Chair, Education Cost Committee	Lake Champlain Regional Chamber of Commerce and Greater Burlington Industrial Corporation
Steve Smith	Senior Policy Specialist	National Conference of State Legislatures
Andy Snyder	Legislative Liason	Department of Education
Laura Soares	School Board	Randolph Elementary School
Bill Talbott	Chief Financial Officer	Department of Education
Nancy Thomas	Director of Special Services; President	Washington Central Supervisory Union; Vermont Council of Special Education Administrators
Tom Torti	Commissioner	Department of Buildings and General Services
Rod Weston	Superintendent	Orleans Essex North Supervisory Union
Matthew Wicks	Director of Virtual Learning	Illinois Virtual High School

Frank Wingate		Vermont Coalition of Municipalities
David Yacovoni	Director of Administrative Services	Agency of Human Services
Peter Young	Chief Financial Officer	American Association of Educational Service Agencies
Peter Youngbaer	Director	Vermont Coalition for Disability Rights
Joseph Zimmerman	Trust Administrator	Vermont School Boards Insurance Trust

C. Statistical Tables

