

# Vermont Educational Reform: A Balanced Approach to Equity and Funding

Daniella Hall and Ian Burfoot-Rochford<sup>i</sup>

*Penn State University*

## Executive Summary

The State of Vermont’s educational system faces unprecedented challenges. Rising education costs, exacerbated by declining student enrollment, has led to an exponential growth in per pupil spending. Vermont schools are failing to consistently improve students’ academic achievement and close the income-based achievement gap. Vermont’s fiscal and educational challenges have prompted multiple reform proposals. However, extensive research shows that key recommendations such as consolidation could be counterproductive, producing negative unintended consequences for students, their families and their communities in this predominately rural state. In sum, the state needs fiscal and educational reform that is appropriate for Vermont.

### RESEARCH ON CONSOLIDATION

Drawing from over a century of research on the outcomes of district and school consolidation, we found **no evidence that consolidation will produce beneficial financial or educational outcomes for Vermont**. To illustrate the likely outcomes of mandated consolidation, we provide a case study of Maine’s recent district reorganization plan and current status.

We also found previous experiences that suggest **policies that eliminate or reduce the Small Schools Grant will undermine the economic and social stability in Vermont’s numerous small towns**. Such proposals fail to account for the critical role small schools play in sustaining their local communities. We assert that Vermont’s small schools are one of the state’s strengths, and can be leveraged to increase academic, economic, and community development.

### A BALANCED PROPOSAL FOR VERMONT

This proposal is designed to provide locally controlled, fiscally responsible, educationally sound reform that is informed by research and practice. The proposed reform has two components:

#### Reform Act 60/68 Funding Structures:

1. Establish parameters for school budget items funded through the education fund.
2. Lower the excess spending threshold, while also implementing size-based exemptions to ensure equity regardless of school size.

## Reform Small Schools Grants:

1. Restructure the Small Schools Grant to a competitive application process that incentivizes school partnerships with families, communities, and businesses.
2. Increase funding for the restructured Small Schools Grant as a means to promote economic development and academic innovation in rural communities.

## SUMMARY

Vermont faces a critical juncture in educational reform. Educational costs are rising while student populations are decreasing, and Vermont's schools have persistent achievement gaps. A century of research strongly suggests neither district consolidation nor the elimination of the Small Schools Grant will produce needed reforms. Instead, we recommend a balanced approach that revises current funding to decrease local school budgets and redesigns the Small Schools Grant to strengthen cultural and economic health in rural communities. Our plan honors local control, fiscal responsibility, and effective educational improvement. Now is the time to invest in the futuristic needs of students and rural communities. Our plan proposes a path forward, where public education makes living and working in rural communities a sustainable choice in Vermont.

This policy brief was co-authored by Daniella Hall and Ian Burfoot-Rochford, rural education researchers with expertise on Vermont's small schools. Collectively, the authors have researched and taught in rural New England communities for over 20 years. They have a strong vested interest in the state's schools, as well as a research-driven understanding of the complexities of Vermont's educational system.

# Vermont Educational Reform: A Balanced Approach to Equity and Funding

Daniella Hall and Ian Burfoot-Rochford<sup>1</sup>

*Penn State University*

The State of Vermont’s educational system faces unprecedented challenges. Rising education costs, exacerbated by declining student enrollment, has led to an exponential growth in per pupil spending. Furthermore, nearly all public schools are currently identified as “failing” under No Child Left Behind (NCLB). While many contend NCLB’s designations inaccurately represents Vermont’s school performance, educational leaders agree Vermont schools are failing to consistently improve student outcomes and close the income-based achievement gap.

Vermont’s fiscal and educational challenges have prompted multiple reform proposals. However, extensive research shows that key recommendations, such as consolidation or elimination of the Small Schools Grant, would do more harm than good in the state. The state needs reform that is *appropriate for Vermont*.

The purpose of this policy brief is three-fold. First, we identify the unique elements of Vermont’s educational system, as well as current challenges for schools and taxpayers. Second, we use research and case studies to analyze current legislative recommendations intended to resolve the state’s issues. Third, we offer an alternative proposal designed for Vermont that is locally controlled, fiscally responsible, educationally sound reform.

## VERMONT’S UNIQUE SYSTEM

**Local Control:** In contrast to many states, Vermont’s educational system is highly localized. Most school districts contain a single town, where educational decisions are determined by locally-elected school boards. The majority of school districts belong to Supervisory Unions and are overseen by superintendents. The superintendents have limited authority however, as the majority of educational control resides at the local level. Local control is fiercely protected by Vermonters, who view self-governance as a vital and historical right.

**Act 60/68:** Vermont implemented a new educational funding system, Act 60, in response to *Brigham v. State* (1997). Prior to Act 60, individual communities funded their schools through locally set homestead tax rates, which generated disparities in educational opportunities.<sup>2</sup> Revised in 2003 under Act 68, the legislation centralized education funding by collecting local taxes on the state level and redistributing them to communities per equalized pupil (PEP).<sup>3</sup> To offset inequalities generated by school size, the state also implemented Small Schools Grant, which provide additional funding for schools with small or rapidly decreasing student populations.

## VERMONT'S CURRENT CHALLENGES

**Funding:** Over the past fifteen years, Vermont's per pupil spending has drastically increased. Between 2000 – 2011, per pupil expenditures increased by 149.9%.<sup>a4</sup> Vermont currently ranks fifth in the country in per pupil spending, paying an average of \$16,788 per student in 2013.<sup>5</sup> Furthermore, this spending growth occurred at a much faster rate than the national average.

Growing education costs are attributable to rising educational expenditures and a drastic decline in statewide student enrollment. From 2000 – 2010, the state experienced an 18% decrease in student enrollment, which is projected to continue long-term.<sup>6</sup> Small schools and districts have felt the brunt of lower enrollments and rising costs. Many small schools and districts are now running below enrollment capacity and are facing extreme per pupil costs due to 'diseconomies of scale'.<sup>7</sup>

Other school level factors influenced rising education costs. Teacher salaries are one of the largest educational expenditures; Vermont increased its teacher population by 8% over the past five years, generating considerable growth in salary expenses.<sup>8</sup> Special education costs rose significantly over the past decade.<sup>9</sup> School district health care premiums rose to \$172 million dollars over the last school year alone.<sup>10</sup> These three factors – rising teacher salaries, special education expenses, and health insurance premiums – exacerbate already high per pupil expenditures statewide. The dramatic increase in educational funding has resulted in a similar increase in property taxes, which fund the state's local schools.

<sup>a</sup> 1999-2000 per pupil expenditures were \$6,981; 2010-11 per pupil expenditures rose to \$17,447 (Picus et al., 2012).

Property tax increases resulted in community upheaval and the rejection of 35 school budgets in 2014.<sup>11</sup> Statewide, residents are demanding change.

***We believe rural schools are a strength, not a problem, and should be capitalized to sustain local communities.***

**Academics:** Since implementation of Act 60/68, Vermont schools have made small gains on student achievement and educational equity measures, such as the New England Common Assessment Program.<sup>12</sup> While Vermont performs well on national and international measures, within-state academic progress is inconsistent across schools, and does not reflect outcomes predicted by Act 60/68 implementation. Frustration over rising education costs is compounded by the lack of progress towards educational goals. Furthermore, as there is no consensus regarding the underlying causes of school performance deviations<sup>13</sup> the state does not have a unified intervention plan.

We believe Vermont's current education system and proposed reforms undervalues inherent strengths of rurality and small schools and exacerbate inequities. We believe rural schools are a strength, not a problem, and should be capitalized to sustain local communities.

**Rural Education:** Vermont is one of the most rural states in the nation, second only to Maine, based on percentage of residents living in rural areas. Unsurprisingly, Vermont's educational system is also rural: over 70% of

schools in the state are located in rural communities.<sup>14</sup> The high number of rural schools has significant implications for the state, as rural schools play critical roles in the economic, political, and social stability of their communities.<sup>15</sup> Rural communities that close their local schools are more likely to experience outmigration of young families; which has devastating implications for Vermont's declining population.<sup>16</sup>

**Small Schools:** Typical of predominantly rural states, nearly 1/3 of Vermont's schools are identified as small. As previously noted, a major challenge to small schools is their diseconomies of scale<sup>17</sup>: small schools are far more expensive per pupil than larger schools. However, most small schools in Vermont are also rural schools; thus school costs are offset by the economic and cultural capital provided to their communities.<sup>18</sup> Research shows small schools are also more likely to eliminate poverty-based achievement gaps.<sup>19</sup> This is evident in small, rural community schools, such as Montgomery and Dover, which consistently demonstrate high student outcomes regardless of students' background.

## PROPOSED REFORMS

**Consolidation:** Last winter, responding to statewide frustration over financial and educational challenges discussed above, Vermont's House proposed mandatory district consolidation under the legislation H. 883. The legislation H. 883 was a direct response to rising concerns over the cost of education and perceived educational inequities. Although H. 883 generated support from educational and political groups around the state, it raised significant controversy, and ultimately failed to pass before the legislature adjourned.

Despite its failure during the 2014 legislative session, district consolidation remains a popular policy recommendation. Campaign For Vermont proposes reorganizing the state's supervisory unions into 17 Regional Educational Administrative Districts, asserting this move will increase efficiencies, lower costs, and preserve local control.<sup>20</sup> Other legislators have expressed support for consolidation as a means to improve educational innovation while reducing statewide expenses.

**Small Schools Grants:** A second proposed reform calls for the elimination or reduction of the Small Schools Grant. The reform has emerged periodically over the past several years as members of the legislature question the long-term fiscal viability of small schools. December 2014, the Education Finance Working Group recommended reducing the Small Schools Grant so that it would only apply to geographically isolated schools.<sup>21</sup>

## ANALYSIS OF PROPOSED REFORMS

**What Does the Research Say?** In the United States, district and school consolidation has been implemented as an educational and fiscal reform for over a century. A large body of research on the outcomes of consolidation therefore enables us to analyze the likely outcomes in Vermont. In this section of our brief, we review data on the financial and educational outcomes of consolidation, and conclude with a contemporary case study of district reorganization in Maine.

**Financial Outcomes of Consolidation:** Many economic studies have shown consolidation may create economies of scale and cost savings.<sup>22</sup> However, these studies are

theoretical; actual analysis finds consolidation does not decrease expenditures for the majority of school districts.<sup>23</sup> These studies show unanticipated costs associated with consolidation offset potential savings, and in some instances raise educational costs.<sup>24</sup> Leveling up and transition costs are unanticipated expenses, which lead to these mixed and often negative results. Leveling up costs occur when pay levels in centralizing districts are raised to the highest negotiated pay scale within a contract pool. For example, teacher salaries may be renegotiated during consolidation, bringing salaries in lower-wage schools up to the highest level within a district. Leveling up is a common source of increased expenditures in consolidated districts.<sup>25</sup>

Transition costs also offsets potential savings, often through drastic and unanticipated measures. During consolidation, transition costs are created by negotiating contracts, restructuring facilities, paying legal fees, and disseminating information.<sup>26</sup> Transition costs may continue for years after consolidation.<sup>27</sup> Financial benefits are the driving argument behind consolidation, yet research does not substantiate this claim.

In Vermont, initial research conducted on voluntarily consolidated REDs also found expected savings did not occur. The studies of Mountain Towns Red and Bennington Rutland SU consolidations found anticipated savings were offset by unanticipated transition and leveling up costs.<sup>28</sup> The outcomes were so disappointing that a Two Rivers Supervisory Union Transition Board member said, “if the board had been presented with more accurate numbers during the planning phase last year, a different decision may have been made with regard to the merger.”<sup>29</sup> Thus both national

and local research clearly shows consolidation does not produce financial savings or lower per pupil costs.

**Over a century of research strongly suggests consolidation will not resolve Vermont’s educational and economic challenges.**

### **Educational Outcomes of Consolidation:**

Research on the impact of district consolidation on student opportunities and outcomes has been mixed. Student achievement is lower on average in larger districts, and research shows student scores decline in consolidated districts.<sup>30</sup> Low-income and minority students are particularly sensitive to larger districts and schools, which can worsen achievement gaps.<sup>31</sup> In a large-scale literature review, Howley et al.<sup>32</sup> found that smaller schools and districts are most likely to improve student achievement for low-income and minority students. Benefits of district consolidation include greater range and diversity in course offerings and increased educational innovation.<sup>33</sup> Yet these transitions have unexpected costs, including greater teacher dissatisfaction, more reported student discipline problems, and increased staff attrition.<sup>34</sup> In short, the potential gains offered by district consolidation are offset by the negatives.

To conclude, over a century of research strongly suggests consolidation will not resolve Vermont’s educational or economic challenges.

## Maine District Reorganization: Implications for Vermont

Research on consolidation often strikingly contradicts claims made by proponents. Nonetheless, it can be difficult to interpret how the research applies in practice to a predominantly rural, locally-controlled state like Vermont. To illustrate the likely outcomes in Vermont, we provide a case study from Maine, also a rural, locally-controlled New England state.

In 1997, Maine passed the District Reorganization Law. The rationale was strikingly similar to that of H. 883: Maine wanted to improve educational opportunities and equity while minimizing educational costs. The plan proposed reducing 290 school districts to 80 regionalized districts.<sup>35</sup> After instituting a series of exemptions, the number of districts decreased to 164 by 2012.<sup>36</sup>

University of Maine faculty conducted a large-scale, multi-year study of district organization.<sup>37</sup> The authors found widespread community resistance to consolidation, which delayed implementation as towns struggled to resolve long-standing disputes within reorganized districts (i.e. leveling up). Education costs did not decrease in many districts; and complicated regional budgets made it difficult to communicate any cost savings. Student achievement showed minimal change. Finally, community resistance amplified as projected benefits failed to materialize.<sup>38</sup> Presently, over 42% of Maine's reorganized districts are in the process of reversing consolidation.

Maine's experience with consolidation offers an important illustration of the potential challenges of mandatory redistricting. While Vermont differs from Maine, particularly regarding current political trends, the contentious and unproductive outcomes of Maine's consolidation plan should give Vermont pause.

## VERMONT EDUCATIONAL REFORM: A Balanced Approach to Equity & Funding

We crafted a locally controlled, fiscally responsible, educationally sound reform plan for Vermont. The proposed reform has two components that reduce costs while strengthening local schools and communities.

### REFORMING ACT 60/68 FUNDING STRUCTURE

1. Establish parameters for school budget items funded through the education fund.
2. Lower the excess spending threshold, while also implementing size-based exemptions to ensure equity regardless of school size.

### REFORMING THE SMALL SCHOOLS GRANTS

1. Restructure the Small Schools Grant to a competitive application process that incentivizes school partnerships with families, communities, and businesses.
2. Increase funding for the restructured Small Schools Grant as a means to promote economic development and academic innovation in rural communities.

## REFORM ACT 60/68 FUNDING STRUCTURES

One of Vermont's most contentious issues is rising property tax rates. It is therefore critical that Act 60/68 is revised to reduce costs for property owners and local communities. This component contains 2 elements: establishing education fund parameters and revising the excess spending threshold in block grants.

**The Education Fund:** Vermont collects local property taxes for school budgets in the Education Fund. The Fund includes categorical grants: funding for special education, transportation, and other specific costs; and educational spending: funding for everything from health insurance to sports equipment.<sup>39</sup> The funds are redistributed to school districts per equalized pupil (PEP). Tax collection for the Education Fund has generated ongoing conflict between sending and receiving towns, particularly the lack of parameters on what elements of school budgets should be covered (e.g., athletic equipment, specialist teachers, facility improvements).<sup>40</sup>

We propose establishing school budget parameters for the Education Fund. Using a statewide task force, Vermont would collectively determine essential school budget items. Line items not included in the new parameters would not be covered by the Education Fund, but could be paid for at the local level. Delineating essential school budget items decreases statewide education costs, and increases transparency of education funding. Furthermore, it encourages greater local participation in school budgets, as districts must negotiate extra expenditures not covered by the Fund.

**The Excess Spending Threshold:** Some Vermont communities choose to spend more than the PEP rate. This is called "excess spending." To ensure a relatively equal distribution of spending, the state imposes an excess spending threshold tax. Communities who spend above the threshold pay increased taxes. Per legislative action, the excess spending threshold will decrease from 125% of PEP spending to 121% by 2017.

We support lowering the excess spending threshold, as it encourages fiscal conservatism statewide. However, it is necessary to include an exemption for small schools. Vermont's small schools play a critical economic role in their communities, yet they are undermined by diseconomies of scale and have higher per pupil costs.<sup>41</sup> Lowering the threshold therefore places greater burden on small, rural towns, perpetuating the inequities that Act 60/68 was designed to prevent. Therefore any reduction in the excess spending threshold must include small school exemptions to minimize size-based inequities.

Act 60/68 was designed to reduce school funding inequities while preserving local control. Our proposal sets parameters on education funding and introduces size-based exemptions for the excess spending threshold. These two reforms will reduce education costs, increase transparency, and maintain local participation in school budgets while stabilizing Vermont's community schools.

## REFORMING THE SMALL SCHOOLS GRANTS

The Small Schools Grant currently provides funding for all small schools and schools with significant decreases in student populations. The Grant protects small, mostly rural schools from funding inequities that would otherwise



persist under Act 60/68. We believe Vermont’s small, rural schools are an asset, not a problem, as research shows rural schools play a central role in sustaining their communities through social and economic development.<sup>42</sup> Rural communities with schools are more likely to have higher housing values, more professional workers, higher numbers of college graduates, and greater civic involvement than those without schools.<sup>43</sup> We therefore propose revising the Small Schools Grant to leverage the strength of these small schools to sustain and promote local communities through population growth, economic development, and cultural capital.

We propose restructuring the Small Schools Grant in three phases:

1. Restructure the Small Schools Grant and increase its funding.
2. Develop a competitive application process that promotes family, community and business/technology capacity building.
3. Implement a tiered funding system that leverages partnerships to expand economic expansion, workforce development, and academic innovation in local communities.

**Phase 1:** Monetary funds will be reinvested into the Small Schools Grant, and a restructuring working group will be established. Capital accrued from restructuring Act 60/68 will supply necessary fiscal support for redesign and reinvestment. A fraction of these monetary funds will be utilized to establish a grant-restructuring working group. The working group will develop the application process in Phase 2, and the funding formula in Phase 3 of this plan. The state will invest remaining funds into the Small Schools Grants. This will provide additional funding to the previously identified small schools,

immediately reducing per pupil spending, and providing tax relief for communities. Phase 1 will reduce size-based inequities embedded in the current system.

**Table 1: Small School Capacity Building**

Partnerships	Outcomes
<b>School-Family<sup>44</sup></b>	<ul style="list-style-type: none"> <li>• Retain current families</li> <li>• Recruit new families</li> <li>• Strengthen educational supports for students</li> </ul>
<b>School-Community<sup>45</sup></b>	<ul style="list-style-type: none"> <li>• Strengthen cultural capital in school and community</li> <li>• Increase community participation in school</li> <li>• Increase community awareness of school decisions and funding</li> </ul>
<b>School-Business or School-Technology<sup>46</sup></b>	<ul style="list-style-type: none"> <li>• Strengthen workforce development and economic capital in school and community</li> <li>• Recruit new businesses</li> <li>• Prepare students for post-secondary training</li> </ul>

**Phase 2:** Schools are transitioned from the current Small Schools Grants to a competitive funding system that incentivizes school partnerships. The overarching goal is to strengthen small schools’ ties with their encompassing communities, ensuring mutually beneficial relationships. In Phase 2, small schools must demonstrate steps towards building capacity through tiered partnerships in order to receive full funding (see Table 1). Examples of these partnerships could include local residents teaching lessons to students in their area of expertise, students completing community-service based lessons to meet a local need, internships with local businesses, etc. These capacity-building partnerships are the basis of the application because research shows they support rural schools and their communities while improving educational

outcomes. Furthermore, financial investment in the schools will benefit the local community through the collaborative partnerships (e.g., using school computers, students help develop websites for local non-profits and businesses). Rural education consultants, provided by the state, will work with schools to identify and develop capacity building, and will support the grant application process. Small schools that choose not to participate will not be eligible for funding. Initial funding will be equal, not tiered, as schools establish capacity-building partnerships. This process will support small schools reform and innovation, enhance taxpayer support, and improve the education of Vermont's students.

**Phase 3:** The Small Schools Grant will transition to a tiered funding system based on

the development of schools' partnerships. Schools that demonstrate highly-developed partnerships will be awarded more funds than those that do not. Funding is renewable each year; in order to qualify for specific tiers of funding, schools must demonstrate evidence of community-focused practices. This mechanism keeps total funding of the Grant relatively stable. Even if schools do not receive maximum funding, the school-community ties developed through the process will both strengthen student outcomes and support local community sustainability.<sup>47</sup> As taxes are reduced and education quality improves, families in and outside of the state may be enticed to move to these communities, curbing declining enrollment and potential diseconomies of scale.<sup>48</sup>

## CONCLUSION

Vermont faces a critical juncture in educational reform. Educational costs are rising while populations are decreasing, and Vermont's schools, among the best in the nation, have persistent achievement gaps.<sup>49</sup> A century of research strongly suggests neither district consolidation nor the elimination of the Small Schools Grant will produce needed reforms. In sum, a balanced and capacity-building strategy, rather than consolidation, offers the greatest potential to accomplish necessary economic and educational reforms. Our plan honors local control, fiscal responsibility, and effective educational improvement. Now is the time to invest in the futuristic needs of students and rural communities. Our plan proposes a path forward, where public education makes living and working in rural communities a sustainable choice in Vermont.

**Daniella Hall** is a Ph.D. candidate in Educational Leadership at Penn State University, and a former elementary teacher. She was a 2003 Island Institute Research Fellow, where she researched consolidation. To correspond, email: [DaniellaHall@psu.edu](mailto:DaniellaHall@psu.edu)

**Ian Burfoot-Rochford** is a Ph.D. student in Educational Leadership at Penn State University. He was a 2013 recipient of the Rural Global Teacher Fellowship, and a former elementary teacher in Cabot, Vermont. To correspond, email: [IBurfoot@psu.edu](mailto:IBurfoot@psu.edu)

## Authors' Note

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<sup>i</sup> Ian Burfoot-Rochford and Daniella Hall co-authored this brief; Daniella is the corresponding author.

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