



State of Vermont
Vermont Department of Education
120 State Street
Montpelier, VT 05620-2501

To: School Superintendents, Principals, Business Managers and School Board Members

From: Armando Vilaseca, Commissioner of Education
Jim Reardon, Commissioner of Finance & Management

Re: Fiscal Year 2011 School Budget Recommendations

Date: November 10, 2009

We are writing you today to address some of the real financial challenges that Vermont and particularly our schools are facing this year as you work through your budget process. We also are writing to let you know of areas we will be discussing with legislators that could impact your local budgets. We realize that many of you are well into your budget work, but with most of you still having more than 10 weeks before finalizing your budgets, we wanted to put this information in your hands as soon as possible to help guide your budget work sessions over the next couple of months.

As you know, the current national and world recession has severely weakened the Vermont economy. National unemployment is at 10.2 percent, with Vermont's rate rising close to 7 percent, and in some areas, as high as 10 percent. Through the first quarter of fiscal year (FY) 2010, the state's General Fund revenues are down 10.6 percent, compared to the first quarter of FY 2009. Current General Fund projections for the rest of this fiscal year are expected to be well below those for FY 2006.

Further, federal American Recovery and Reinvestment Act (ARRA) funds, which gave both state programs and local school districts a one-time boost, will diminish entirely over the next two fiscal years. The Legislature's Joint Fiscal Committee projects a \$237 million General Fund operating deficit over the next two years without a change in course.

In addition, the recession has undermined current real estate values and stalled new investments in real estate, which will lead to a decline in the statewide Grand List. This means there will be an overall reduction in revenues to the state's Education Fund. Concurrently, school enrollment levels are projected to further decline next year by over 1.5 percent to below 90,000, reaching a low of 85,000 by FY 2013. In 1997, the pupil count was at 106,300.

During the past legislative session, lawmakers set the General Fund transfer to the Education Fund at \$240.8 million for FY 2010, and mandated that this level not be increased for FY 2011. The net result is a \$51.7 million decrease from FY 2009. Further, the Legislature mandated that the FY 2010 base Education Grant not be adjusted for inflation in FY 2011. At this time, we do not anticipate proposals to amend these legislative determinations because of the tremendous pressure on the state's General Fund. This combination of factors is part of a fiscal storm that is forcing us at all levels to constrain state and local education spending.

Without such constraint, state property taxes will rise to unacceptable levels and school district budgets may be rejected much more broadly than we have experienced in recent memory. We would rather see more modest school budgets passed rather than see budgets voted down, leaving local boards scrambling to make cuts.

Therefore, as the annual school budgeting season begins, it is essential to consider cost containment measures at the state and local level. As many of you are aware, the Department of Education has lost over 45 positions over the past 24 months and, like all departments across state government, has been given a budget target for FY 2011 that is 8 percent below our current budget. We are all in this together, and we encourage school boards and supervisory unions to reduce FY 2011 budgets in response to fiscal circumstances and declining student enrollment.

In order to help address the extraordinary challenges facing our state, we are considering a number of ideas to present to the Legislature in January:

- Phasing out the Small Schools Grant given the demonstrated need to encourage school consolidation;
- Scaling back the 3.5 percent enrollment decline “hold-harmless” provision to 5 percent;
- Repealing the recently passed 100-percent funding provision for mainstream costs for state-placed students, returning to the 60/40 split;
- Paying a portion of the annual contribution to the Teachers Retirement Fund from the Education Fund, exclusive of costs associated with an accrued liability;
- Requiring that all licensed education professional contracts require a minimum 20 percent health care premium contribution;
- Enhancing the commissioner’s powers to consolidate school districts, inclusive of funding incentives;
- Increasing the threshold for extraordinary special education costs from \$50,000 by an inflationary amount; and
- Requiring decisions such as transportation, food and contracts to be on the supervisory union level.

None of these recommendations will be made lightly. We understand the impact and challenges these reductions will create at the local level, creating more – not less – pressure on your local budget development. We recognize the hard work you have already done to trim budgets this past year as reflected by a 2 percent overall increase in spending. However, these are unprecedented times and we are asking you to do more. Last year, over 90 school districts had a zero or negative growth in their budgets. This type of work is required of more school districts in order to weather this financial storm.

The most meaningful forum to effect school spending and property taxes is at the local level. As you may have seen from the VSBA/VSA/VPA *Current Realities* presentation, our staffing numbers are the highest in the nation, and our student to adult ratio is 5:1. These are very difficult decisions, but as our student enrollment declines, our staffing numbers need to reflect this decline. Vermont is not immune to the impact of the national recession, and therefore difficult choices must be made. These recommendations come with the understanding that decisions at the local level have an impact across the state, and therefore require sacrifices to be made at the district and supervisory union level as well.

Vermont has an educational system that has proven to be a leader in the country. While all states are impacted by this recession, we are confident that Vermont will continue to be a leader in providing the high-quality education that parents expect and our students deserve. Thank you for your consideration of these points as you begin your important work of building next year’s budget.