

Testimony of Nathan Lavery
Burlington School District
June 7, 2017

Witness Information

1. What is your name and position with the Burlington School District?
 - Nathan Lavery
 - Senior Director of Finance (since October, 2014)
2. What was your role prior to your current position?
 - Legislative Joint Fiscal Office
 - About 8 years
 - Served as Senior Fiscal analyst and Business Manager
 - City of Burlington Public Works Commission
 - Chairman
3. What is your educational background?
 - Bachelor of Economics and Government from Clark University
 - Master of Public Policy from Georgetown University
4. What are your principal duties for BSD?
 - Oversight of all accounting and budgeting operations for the District
5. Who do you report to?
 - Directly to the Superintendent.

SALARY

6. What is the estimated cost of each 1% increase in salary to all bargaining unit members?
 - \$298,926 (\$277,683 in wages, plus \$21,243 in FICA taxes)
7. What is the estimated cost of providing a 1.75% increase (inclusive of step movement) to all bargaining unit members, in accordance with the Board's supposal of 3:10pm on 5/31/2017?
 - \$523,121 (\$485,946 in wages, plus \$37,175 in FICA taxes)
8. What is the estimated cost of providing a 5.28% increase (inclusive of step movement) to all bargaining unit members, in accordance with the Union's supposal on 5/31/2017?
 - \$1,578,330 (\$1,466,168 in wages, plus \$112,162 in FICA taxes)

HEALTH INSURANCE

9. What is the total annual premium cost, by family size, for the current VHP health insurance plan?

	Single	Parent/Child(ren)	2 Person	Family
Total Premium	9,029	17,748*	17,748	23,792
Board Share	7,494	14,731*	14,731	19,747
Employee Share	1,535	3,017*	3,017	4,045

*Currently, a single parent with one child must select the 2 person plan. A single parent with multiple children must select the family plan. The new VEHI plans will add the Parent/Child(ren) tier.

10. What are the total annual premium costs, by family size, for the new VEHI plans?

	Single	Parent/Child(ren)	2 Person	Family
Platinum	7,891	13,194	15,781	22,322
Gold	7,475	12,510	14,951	21,161
Gold CDHP	6,279	9,708	11,793	17,394
Silver CDHP	5,476	9,231	10,952	15,583

11. What is the current distribution of plan participants by coverage size?

Coverage Level	Count
Single	92
Parent/Child(ren)	22
2 Person	54
Family	168
TOTAL	336

12. Will the premiums associated with the new VEHI plans (effective January 1, 2018) be more or less expensive than the current plan? What is the implication of this change?

- All four new plan options have lower premiums than the current plan, however, they will have higher “out-of-pocket” costs (costs incurred at the point of service, although in many cases they are not actually paid at that time)
- Premium savings resulting from the plan changes could be used to offset some of the “out-of-pocket” cost increases, increase salaries, invest in additional programmatic expenditures for students, or provide relief to taxpayers.

13. What would be the Board’s annual contribution to these premiums under the Board’s supposal of 3:10pm on 5/31/2017?

Coverage Level	Board Annual	Employee Annual
Single	4,835.20	1,444.28
Parent/Child(ren)	7,475.34	2,232.90
2 Person	9,080.61	2,712.39
Family	13,393.47	4,000.65

14. Would employees face higher or lower premiums under the Board's supposal of 3:10pm on 5/31/2017?

Coverage Level	Employee Cost: VHP	Employee Cost: Board Supposal	Employee Savings
Single	1,534.92	1,444.28	90.64
Parent/Child(ren)	3,017.14	2,232.90	784.24
2 Person	3,017.14	2,712.39	304.75
Family	4,044.63	4,000.65	43.98

15. What are the estimated premium savings to the Board under the Board's supposal of 3:10pm on 5/31/2017?

- \$1,184,535 would be saved over the 2017-2018 contract year on premium costs alone. Note that these savings represent only the portion of the year during which the new plans and premiums would be in effect.

16. What would be the Board's annual contribution to these premiums under the Union's supposal on 5/31/2017?

Coverage Level	Board Annual	Employee Annual
Single	5,211.97	1,067.51
Parent/Child(ren)	8,057.84	1,650.40
2 Person	9,788.19	2,004.81
Family	14,437.12	2,957.00

17. What are the estimated premium savings to the Board under the Union's supposal on 5/31/2017?

- \$1,010,521 would be saved over the 2017-2018 contract year on premium costs alone. Note that these savings represent only the portion of the year during which the new plans and premiums would be in effect.

18. Summarize and compare the final supposals of both parties on 5/31/2017 with respect to health insurance premiums.

Board Savings	Union Savings	Difference
1,184,535	1,010,521	174,014

19. What is a Health Reimbursement Arrangement (HRA) and how is an HRA funded?

- A Health Reimbursement Arrangement is mechanism that can be used to reimburse employees for out-of-pocket medical expenses. HRAs are funded 100% by the employer; employees cannot contribute to an HRA.
- Because HRAs operate on a reimbursement basis, no funds are expended until qualifying expenses are incurred by someone covered by the HRA. Consequently, the actual cost to the employer is a function of the total risk assumed by the employer and the expenses actually incurred by each covered life.

20. What is the Board’s total HRA liability under the Board’s supposal of 3:10pm on 5/31/2017?
- \$433,440 per plan year.
21. What is the Board’s total HRA liability under the Union’s supposal on 5/31/2017?
- \$2,204,000 (worst case) to \$1,377,500 (best case) per plan year
 - Unlike the Board’s proposal, the Union’s proposal is subject to variation based on which plan (Silver CDHP, Gold CDHP, Gold, Platinum) each employee selects, since each plan has a different out-of-pocket maximum. In order to ensure the HRA funding level is sufficient to cover the full liability.
22. Is a specific dollar contribution to an HRA or a percentage contribution to an HRA preferable?
- A specific dollar contribution is preferable because of the wide variation in potential total liability associated with a percentage contribution. A specific dollar contribution allows both parties to negotiate with a full understanding of the HRA exposure, whereas a percentage contribution makes this exposure subject to a debate without the benefit of any actual experience with which to draw conclusions.
 - The Union’s proposal increases the risk of a very high level of exposure to the District because it provides virtually no incentive for employees to minimize out of pocket costs (since employees pay only 5% of them). To ensure adequate HRA funding is available, it would be necessary for the District to presume costs will approach the “worst case” assumption level.
23. What is the combined impact on the Burlington School District of the Board’s health insurance premium and HRA supposal of 3:10pm on 5/31/2017?

Board’s Supposal		Budget Impact
Premiums Savings	+	1,184,535
HRA Liability	-	433,440
Total BSD Savings	=	751,095

24. What is the combined impact on the Burlington School District of the Union’s supposal on 5/31/2017, under the most conservative HRA liability estimate?

Union’s Supposal		Budget Impact
Premiums Savings	+	1,010,521
HRA Liability	-	2,204,000
Total BSD Cost	=	-1,193,479

25. What is the combined impact on the Burlington School District of the Union’s supposal on 5/31/2017, under the assumption that the HRA liability would fall between the most conservative and least conservative HRA liability estimate?

Union’s Supposal		Budget Impact
Premiums Savings	+	1,010,521
HRA Liability	-	1,790,750
Total BSD Cost	=	-780,229

26. What conclusion would you draw from the estimated health insurance and HRA supposals of both parties?
- The Board's supposal reinvests over 37% of the premium savings back into employee health coverage and still yields an additional \$750,000 in savings.
 - The Union's supposal is likely to consume all premium savings and result in the need to substantially increase spending on health coverage – requiring reductions from other spending areas.

SCHOOL DISTRICT BUDGET

27. What is the size of the BSD annual budget?
- The BSD budget is about \$85.5 million in Fiscal Year 2018 (July 1, 2017 – June 30, 2018).
28. Of BSD's total amount, what percent is your General Fund, that is, the fund that is not subject to programmatic restrictions and could be used to pay for additional compensation?
- The General Fund is approximately 86% of the District's total budget. The General Fund is the district's general operating fund and is used to account for the vast majority of all District spending. It is primarily composed of Education Fund revenues and thus drives our local tax rate.
 - Other funds, such as special revenue funds, capital funds, debt service sinking funds, and enterprise funds, are restricted in their uses. These funds are not generally available to provide broad-based increases in compensation to teachers or other employees.
29. Outline in descending order the top 5 expenditure categories for BSD and what each includes.
- Teacher salaries are far and away the top category – accounting for more than three times as much spending as the second most expensive item, which is health insurance (for all employees combined). Salaries for paraprofessionals are third, followed by FICA taxes for all. Debt service (principal and interest) is fifth.
30. How do you respond to claims that the District is proposing to spend less on teacher salaries, as a percentage of the total budget, than it did in FY16?
- In FY18, the District will spend more on teacher salaries than it has ever spent in the past.
 - Teacher salaries as a percentage of the total budget is not a logical way to measure changes in teacher compensation.
 - This misguided approach implies that that part of every new dollar the district receives should go to teachers, even if the source of funding was not intended for, or cannot legally be used for, teacher salaries.
 - The following examples illustrate the flawed logic of BEA's approach to measuring teacher compensation.
 - If the District receives a federal grant to provide nutritious meals to students, should teachers get a raise?
 - If the District makes long-overdue investments in its physical infrastructure, should teachers get a raise?
 - If a student with special needs requires expensive new services, should teachers get a raise?
 - If parents donate funds for the installation of new playground equipment, should teachers get a raise?

31. What is a reasonable way to compare spending on teacher salaries over time?

- Teacher salaries per FTE is a simple way to review expenses on teacher salaries over time because it controls for changes in the number of teachers, allowing for a simple measure of whether or not the District’s commitment has changed.
- The following table summarizes the change in the amount of money budgeted for teacher salaries since FY16.

Fiscal Year	Teacher Salaries*	Teacher FTEs	Amount per FTE
FY16	27,655,225	400.5	69,052
FY17	27,894,650	390.6	71,415
FY18	28,663,947	395.5	72,475

Spending per teacher FTE has increased 5.0% since FY16

*FY18 figure includes base teacher wages, 1.75% salary increase, funding for additional contractually required teacher raises resulting from the accumulation of graduate credits, summer school and other teacher salaries that are in addition to base salaries salary (such as additional work days on top of the contractually required amount), spending on teacher salaries for new positions that were part of the budget, and funding for teachers returning from unpaid leaves.

32. How much has the BSD school Board budgeted for compensation increases for staff across the district in the coming fiscal year?

- The budget includes \$750,000 for all staff. This amount is sufficient to provide a 1.5% raise without requiring deficit spending or cuts to other planned expenditures. Savings from health insurance changes or changes to operational constraints in collective bargaining agreements could be used to increase this amount.

33. Does BSD spend an inordinate amount of money on administrative expenses? Do you believe this to be true? Why or why not?

- No. It is difficult to compare across districts because of the variety of structures, but given the size and complexity of our district and the unusually high number of collective bargaining agreements, I am surprised that we don’t spend more on administrative functions.
 - We’ve seen some reflection of our needs in this area as we struggle to meet the community’s demand for information on a timely basis.

OPERATIONAL ISSUES

34. What is the intent of the District’s proposal in section 18.5 that would change the notification timing for teachers that accumulate graduate credits?

- By contract, when teachers accumulate graduate credits in certain amounts, they are entitled to raises over and above those associated with step movement. These raises are the product of moving from one salary column (such as BA) to another (such as BA+15).
- Current language requires BSD to provide these raises retroactively. Teachers that submit sufficient documentation by September 30 can get a raise effective back to September 1.

Teachers that submit sufficient documentation by March 1 can get a raise effective back to February 1.

- In both instances, there is no way to precisely budget for this expense because notification (by September 30 or March 1) occurs during the year in which the raise must be paid, rather than prior to that year, allowing for accurate budgeting.
- Other school districts require this notification during the budget development process to ensure that sufficient funds are available to meet this obligation.

35. What is the intent of the District's proposal in section 19.8(a) that would change timing of teacher payrolls?

- This proposal is intended to allow the District to move to a standard payday for all employees. Current language requires teachers to be paid "on the Wednesday of the first duty week." This District is seeking to establish a single payday and does not want to be bound by contractual language in making this choice.
 - We understand the Union to be amendable to this element of the proposal.
- This District also sought to eliminate the requirement to advance pay prior to vacations. This language reflects a prior era when paper checks could not be collected during vacation. Direct deposit allows us to pay during vacation even when employees are not on site. Additionally, changing pay days has caused confusion among employees who struggle to understand when they will be paid.
 - We understand the Union to be amendable to this element of the proposal.
- The final element of the District's proposal would delay the first paycheck until a full pay period has been worked "...for work already performed."
 - We understand the Union to object to this element because it could result in up to two weeks before the first paycheck of the new school year.
 - We understand that the union would be amendable to language that allows for flexibility in the timing of this first paycheck, provided that it occurs not later than August 31. The Board is willing to accept this compromise.

OTHER SUPPORTING INFORMATION

36. What is the principal source of revenue for BSD annual budget and how is this funding source derived?

- The state Education Fund is the primary source of revenue.
- The state Education Fund is primarily supported by education taxes levied on residential and non-residential property.
 - Vermont allows qualifying taxpayers to pay their homestead education tax on the basis of income rather than the value of their property.
 - The State of Vermont also contributes General Fund revenues to this fund, as well as a portion of sales and use tax revenue, plus a number of smaller sources.

37. Explain those expenditure categories that may be substantially more significant at BSD than in other VT school districts.

- Based on the well documented demographic differences between Burlington and the vast majority of Vermont schools, I'd expect to see higher expenditures in areas related to students with complex traumas and English language learners. I would also expect to see some expenses

that are higher because the community has chosen to retain some of its smaller schools rather than consolidate them with larger campuses.

38. Does BSD spend an inordinate amount of money on Diversity staff and programs? Do you believe this to be true? Why or why not?

- I do not believe this to be true. The District has faced significant challenges in this area that have drawn concern from the Office of Civil Rights, and therefore we are required to address these challenges. Given Burlington's diverse student body (which is highly atypical of Vermont), we would expect to spend money on this area that other school districts can largely ignore.

39. Do you believe that there is any category of expenditure at BSD that is excessive? Please explain.

- No. Reductions have been made at all levels of the past few years, while the demand for services and support has not decreased.