

Analyzing and Transitioning Changes in Tax Capacity

House Committees on Ways & Means and Education

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Outline of talk

1. Analyzing changes in tax capacity from FY 2024 to FY 2025
2. Illustrative example of transition mechanism



Review of the Education Fund

- **Vermont’s education funding formula distributes money to schools using the statewide Education Fund.**
- **School districts’ homestead property tax rates are adjusted based on local education spending per pupil.**
 - Education spending per pupil is calculated by dividing district education spending by Long Term Weighted Average Daily Membership (LTWADM).
- **With the new pupil weights, some school districts will have increased tax capacity while others will have decreased tax capacity.**
 - “Tax capacity” is the total funding a school district will draw per pupil from the Education Fund for a certain tax rate.



Share of State's Long-Term Weighted Average Daily Membership (LTWADM) from FY 2024 to FY 2025



Determining Change in Tax Capacity

- District level changes in tax capacity can be analyzed by examining changes to a district's share of the statewide LTWADM across years.
- If a district experiences an *increase* in its share of the statewide LTWADM from year to year, it has an *increase* in tax capacity.
- If a district experiences a *decrease* in its share of the statewide LTWADM from year to year, it has a *decrease* in tax capacity.



Example – Calculating Districts’ Share of Statewide LTWADM Over 2 Years

- In this example, let’s assume Vermont has only 3 school districts: District A, District B, and District C
- We will analyze an example change in districts’ state share of LTWADM over two years and corresponding change in tax capacity through the following process:
 1. Calculate district’s share of statewide LTWADM in FY 2024
 2. Calculate district’s share of statewide LTWADM in FY 2025
 3. Calculate relative change by district from FY 2024 to FY 2025



Step 1 – Calculate Districts’ Share of Statewide LTWADM in FY 2024

- Let’s assume that Vermont has 100 LTWADM that are split across the three districts as follows:

Example District FY24 LTWADM

	FY24 LTWADM
District A	50
District B	15
District C	35
Statewide total	100

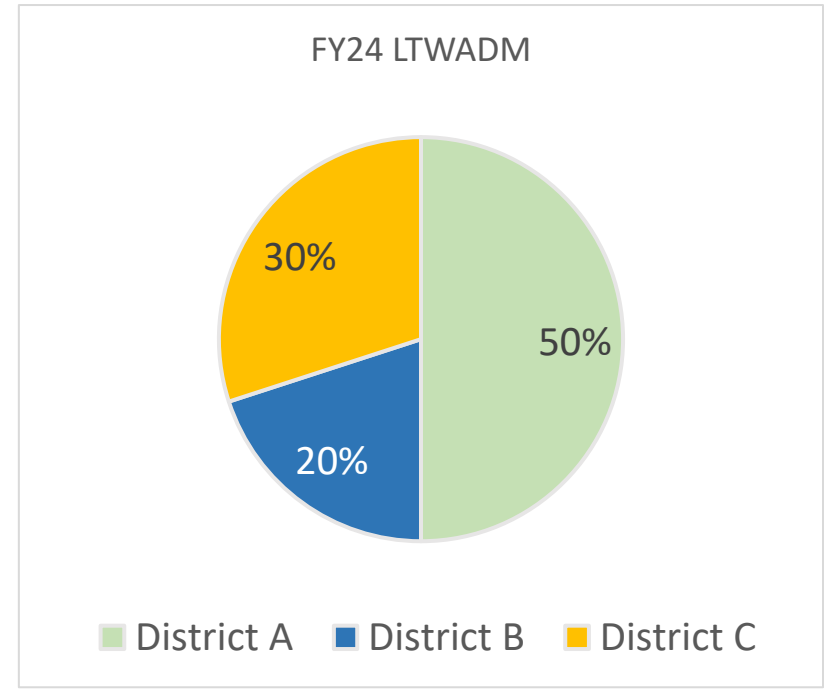


Step 1 – Calculate Districts’ Share of Statewide LTWADM in FY 2024

- To calculate the district’s share of statewide LTWADM, divide the district’s LTWADM by the statewide total

Example District FY24 LTWADM and statewide share

	FY24 LTWADM	FY24 share of statewide LTWADM
District A	50	50%
District B	20	20%
District C	30	30%
Statewide total	100	



Step 2 – Calculate Districts’ Share of Statewide LTWADM in FY 2025

- Now let’s assume that Vermont has a policy shift and demographic changes resulting in a statewide total of 200 LTWADM.
- These LTWADM are split across the districts in the following breakdown:

Example District FY25 LTWADM

	FY25 LTWADM
District A	100
District B	50
District C	50
Statewide total	200



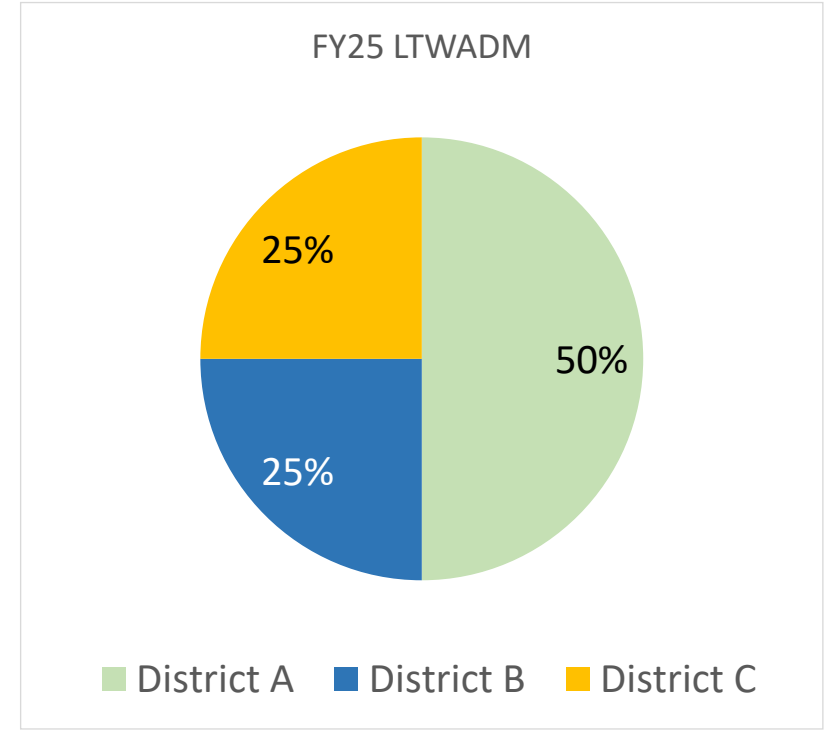
Example

Step 2 – Calculate Districts’ Share of Statewide LTWADM in FY 2025

- To calculate the district’s share of statewide LTWADM, divide the district’s LTWADM by the statewide total

Example District FY25 LTWADM and statewide share

	FY25 LTWADM	FY25 share of statewide LTWADM
District A	100	50%
District B	50	25%
District C	50	25%
Statewide total	200	



Step 3 – Calculate Relative Change of Districts’ Share of Statewide LTWADM from FY 2024 to FY 2025

- While the total number of statewide LTWADM increased from FY 2024 to FY 2025, the increase was not uniform.
 - This means that some districts saw an increase in tax capacity, while others saw a decrease in tax capacity



Step 3 – Calculate Relative Change of Districts’ Share of Statewide LTWADM from FY 2024 to FY 2025

- To determine the difference, calculate the relative change by comparing the FY 2025 LTWADM state share to the FY 2024 state share by district:

$$\text{Relative change} = \frac{(\text{FY25 Share} - \text{FY24 Share})}{\text{FY24 Share}}$$

Example Calculation of Relative Change in State Share by District from FY24 to FY25

	FY24 LTWADM	FY24 Share	FY25 LTWADM	FY25 Share	Relative change
District A	50	50%	100	50%	0.0%
District B	20	20%	50	25%	25.0%
District C	30	30%	50	25%	-16.7%
<i>State total</i>	<i>100</i>	<i>100%</i>	<i>200</i>	<i>100%</i>	<i>-</i>



Interpreting the Example

- In this example, every districts' LTWADM increased from FY 2024 to FY 2025, but not every district saw a corresponding increase in tax capacity.
- The change in tax capacity depends on how a districts' LTWADM increased (or decreased) compared to all other districts.
- By comparing the change in state share, tax capacity changes can be analyzed across districts.



Questions?

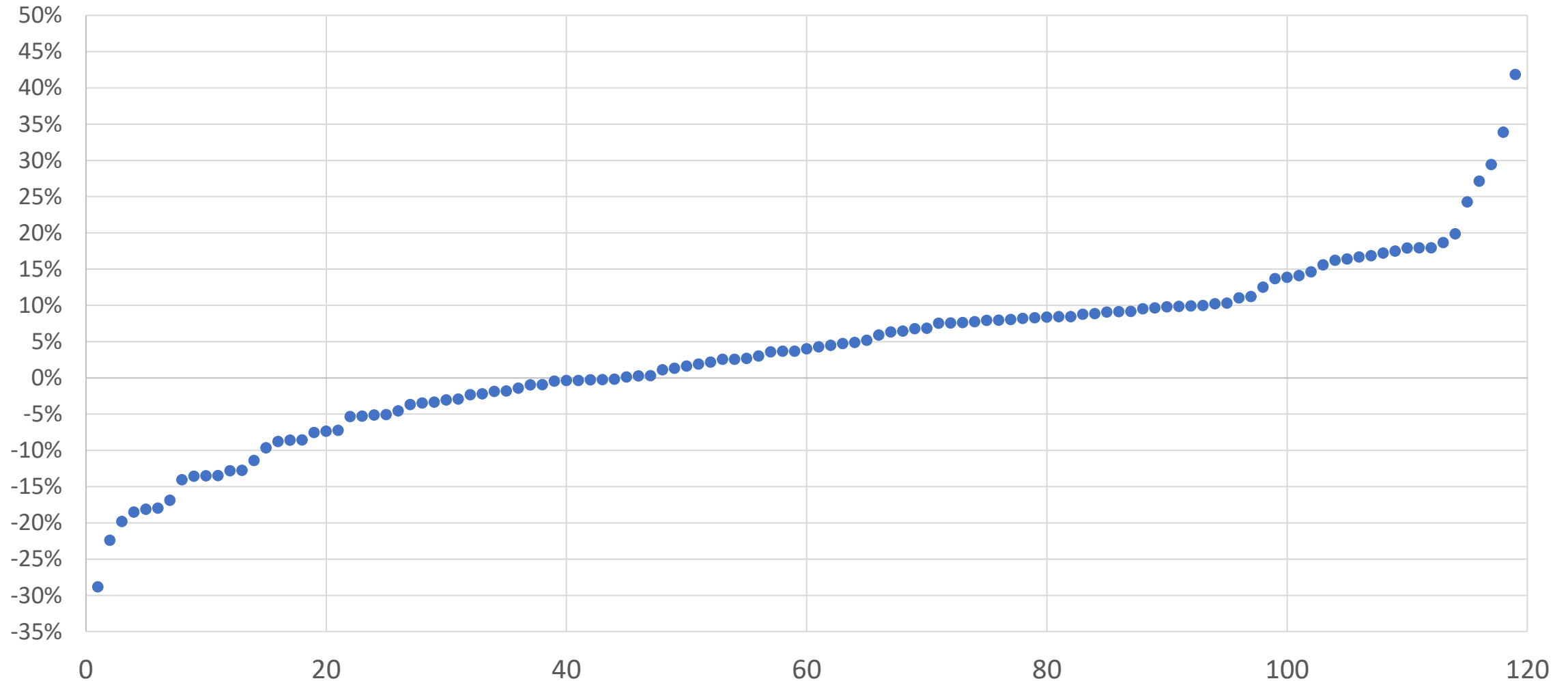


Interpreting Changes in Tax Capacity Across Vermont's Districts

- Comparing districts' state share of LTWADM from FY 2024 to FY 2025 will capture:
 - Changes to tax capacity based on the implementation of Act 127 (2022)
 - Changes in the demographics of districts from FY 2024 to FY 2025



Relative Change in District Share of State LTWADM from FY 2024 to FY 2025



Questions?



Illustrative Structure of Transition Mechanism

Please note these are illustrative slides, and should not be interpreted as policy recommendations from the Joint Fiscal Office.



General Structure of Transition Mechanism

- Districts would receive a penny discount on the equalized homestead tax rate equal to the decrease of their share of the state's pupils from FY 2024 to FY 2025, rounded to the nearest whole cent.
- For example, in FY 2025:
 - A district whose share relatively decreased by 12.1% would receive a twelve-cent discount on its HS ETR
 - A district whose share relatively decreased by 0.4% would not receive a discount on its HS ETR
 - A district whose share relatively increased would not receive a discount on its HS ETR



General Structure of Transition Mechanism

- Returning to the example from previous slides, the transition mechanism would apply to the illustrative districts as following:

Example Calculation of Transition Mechanism

	FY24 Share	FY25 Share	Relative change	Discount on FY25 HS ETR
District A	50%	50%	0.0%	\$0.00
District B	20%	25%	25.0%	\$0.00
District C	30%	25%	-16.7%	\$0.17



Considerations for Transition Mechanism

- The transition mechanism could be scaled down by 20% in a five-year transition.
- When all else is equal, this transition mechanism is estimated to cost approximately \$30 million to the Education Fund in FY 2025.
 - The homestead property yield and/or the nonhomestead property tax rate would need to be adjusted to cover the cost of the transition mechanism



Questions?

