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2023 Report on Vermont's Education Financing

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Introduction

In 2022 the General Assembly enacted and the Governor signed Act 127, “an act relating to improving student equity by adjusting the school funding formula and providing education quality and funding oversight.” Section 19 of the act notes that certain aspects of Vermont’s current system of equalized pupils within a shared education fund distort or prevent a fully equitable and progressive education finance system. Section 19 tasks the Joint Fiscal Office (JFO) with examining and providing alternative options for structuring the following aspects of Vermont’s education finance system:

1. methods for cost containment that create equity in school districts’ ability to spend sufficiently on education to meet student needs,
2. in collaboration with the Department of Taxes and the Agency of Education, the mechanics for setting the yields in a manner that creates a constitutionally adequate education spending amount for school districts at a level that is determined by education funding experts to be sufficient to meet student needs, and
3. funding similar school districts in an equitable manner regardless of their per pupil education spending decisions.

In accordance with Act 127 (2022), this report is presented to the House Committees on Education and Ways and Means and the Senate Committees on Education and Finance. The report examines Vermont’s education costs, potential options for cost containment, and the mechanics for setting the yields so similar school districts are funded in an equitable manner regardless of their per pupil education spending decisions. The report provides options but does not include any recommendations.

In its review of third-party materials, JFO identified possible options that may contain Vermont’s education costs. These options include:

1. adjusting staffing ratios,
2. encouraging or mandating more mergers,
3. consolidating administrative services,
4. reinstating and/or adjusting the excess spending threshold,
5. implementing education spending caps, and/or
6. moving education spending decisions to a statewide level.

When considering the mechanics for setting yields, JFO identified two ways they could be set to include a “constitutionally adequate education spending amount.” It is outside of JFO’s legislative charge to determine what this amount would be. As such, methods for setting yields are discussed at a high level. It would require more analysis to determine the associated impacts of these methods. The two ways to set yields JFO identified are:

1. set a formal base amount per pupil, or
2. establish a state level funding amount for school districts with corresponding uniform rate.

The first part of this report is an overview of Vermont’s education system, including a brief background of its development and past reform efforts. The report reviews the structure of the

Education Fund's (EF) revenues and expenses before examining recent trends in Vermont's education spending and comparing spending to other states. The report then describes past legislative efforts to contain education costs and reviews cost containment options.

The second part of this report begins with a background and overview of Vermont's current education spending and yields. The report then highlights some key factors for legislators to consider when changing the yield-setting mechanics before reviewing the yield-setting options JFO identified.

Pursuant to the legislative charge, this report makes no recommendations regarding cost containment or changes to Vermont's education financing structure. This report presents options based on research and analysis and should not be interpreted as recommendations or guidance.

Overview and Background of Vermont’s Education Finance System

Vermont’s education funding formula is unique and complex when compared to other states. The State’s education finance system uses a statewide funding formula coupled with local spending decisions and state education property tax administration at the local level. Each school district’s education spending is determined at a local level, where school boards set budgets that must be approved by voters.

The current system is a product of multiple legislative reforms aimed at adjusting inequities in the funding system. These reforms include Act 60 (1997), Act 68 (2003), Act 130 (2004), and Act 127 (2022).

Prior to Act 60, Vermont relied on a “foundation” program to fund its education system. A foundation formula ensures a base level of revenue for each school district. State aid is provided to districts that are unable to raise the full foundation amount on their own. Fluctuations in Vermont’s fiscal status led to underfunding of the system, which forced school districts to make up the funding through local taxation. This generally meant that districts with high property wealth benefitted from low tax rates and high per pupil spending, while districts with low property wealth faced high tax rates and low per pupil spending.

In 1997, the Vermont Supreme Court found this funding system to be unconstitutional in the *Brigham* decision.¹ The Court ruled that, because a town’s property wealth affected its education tax rate, the foundation formula violated the Vermont Constitution.² The Court stated that the State is responsible for providing a public education to its citizens and for ensuring substantial equality of educational opportunity.³ The Court further clarified that the Vermont Constitution is silent on how these constitutional rights must be financed and does not mandate any specific system of education funding. In particular, the Vermont Constitution does not require an education funding system to be based on property taxes or designed to promote local control.⁴ The Court emphasized that the specific means of discharging the State’s constitutional duty to “make educational opportunity available on substantially equal terms” is left to the discretion of the General Assembly.⁵

In response to the *Brigham* decision, the Legislature passed Act 60 in 1997. This law, and further reforms with Act 68 in 2003, adjusted the education funding formula so that a town’s property wealth would not affect its education tax rate. Act 60 is the foundation of the current education financing system. In the current system, towns with the same per pupil spending have the same homestead equalized tax rate regardless of their property wealth.⁶ This means that all school districts, regardless of property wealth, are equally impacted by education funding decisions from district to

¹ *Brigham v. State*, 166 Vt. 246 (1997).

² For a more detailed legal analysis, see, Office of Legislative Council, *Memorandum to House and Senate Committees on Education, Vermont General Assembly*, available online: <https://lifo.vermont.gov/assets/Uploads/f74892d194/WDonna-Russo-SavageBrigham-v.-State-166-Vt.-246-19972-5-2015.pdf>

³ *Brigham*, ¶ 268; Vt. Cons. Ch. I, Art. 7 and Ch. II, § 68.

⁴ *Id.*, ¶ 267.

⁵ *Id.*, ¶ 268.

⁶ Equalized tax rate refers to the tax rate *prior* to the application of the common level of appraisal (CLA). After the CLA is applied, towns with the same equalized tax rates will likely have differing “actual” tax rates. Actual tax rates are rates which have been adjusted by the CLA.

district.

As in most funding structures, Vermont's education expenditures and education funding are linked. But unlike other Vermont funding structures, such as in the State's General Fund Operating Budget, expenditures in the Education Fund are *not* a function of revenues. Instead, property tax rates are adjusted each year to fund education expenditures. This unique system will be explained in the following section.

Given the complexities in Vermont's education funding formula, it is important to understand the structure of the system before analyzing potential changes to it. The following sections provide an overview of Vermont's education finance system by first reviewing education expenditures and then examining how these education expenditures are funded.

Education expenditures

Vermont’s education finance system is a statewide funding formula coupled with local budget decisions and state education property tax administration at the local level, and therefore it must be examined on both the local level and the state level.

On a Local Level

Every year, each school district in Vermont builds a budget that must be approved by local voters. These budgets ultimately determine the amount of funding their schools will receive from the Education Fund. Some of the components (both revenues and expenditures) within school districts’ budgets are predetermined. These sources, also known as “offsetting revenues,” include state and federal categorical aid,⁷ tuition revenues to the school district, prior year surpluses or deficits of the school district, and the school district’s reserve funds.

After subtracting all offsetting revenues from the locally-voted education budget, the remainder of the total voter-approved budget is referred to as “education spending.” This term describes the amount that a school district decides to spend net of its offsetting revenues.⁸ A school district’s education spending per pupil drives the education tax rate paid by the member town(s) of the school district.

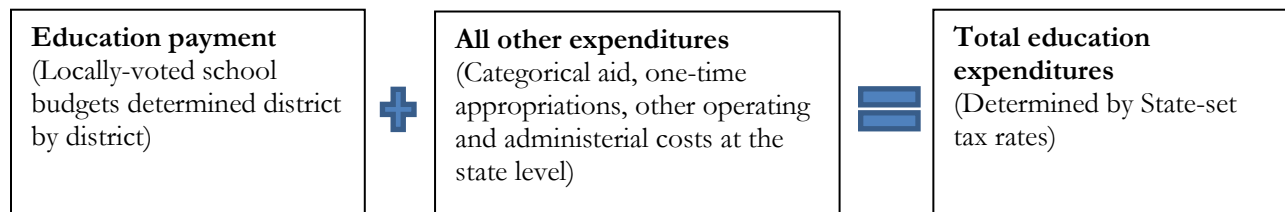
On a Statewide Level

All school budgets are funded through Vermont’s Education Fund (EF). The expenditures in this statewide fund are the total aggregated costs of public education in Vermont. In general, Vermont’s education expenditures can be sorted into two different categories – the statewide education payment and all other expenditures.

The education payment is the aggregated amount of all school districts’ education spending. Recall that education spending is the amount that each school district decides to spend net of offsetting revenues, including the state and federal categorical aid it will receive.

All other EF expenditures include the state share of categorical aid, one-time appropriations, and other operating and administrative costs at the state level.

Figure 1: Breakdown of Education Expenditures



Recent Legislative Changes to Education Fund Expenses

Legislation over the last five years has impacted the EF by creating new funding obligations. Changes include those made to the Vermont State Teachers' Retirement System (VSTRS), the

⁷ Existing examples of State categorical aid includes state placed students, transportation, technical education, small school support, essential early education, flexible pathways, and special education aid.

⁸ This is a simplified definition. See, 16 V.S.A. § 4001(6) [definition of “education spending”].

Retired Teachers' Health and Medical Benefits Fund (VSTRS OPEB), special education funding, funding for universal school meals, and updates to pupil weighting. Other reserves, studies, and reports regarding future funding options were enacted during the 2021-2022 legislative biennium, notably regarding polychlorinated biphenyls (PCBs) in schools and career technical education (CTE).⁹

⁹ See, 32 V.S.A. § 312.

Education Fund

Vermont's Education Fund (EF) is funded through both non-property tax sources and property tax sources. The amount funded through property tax is the amount of funds needed to support education expenditures net of non-property tax sources.

Necessity of Adjustable Tax Rates

School district budgets are determined locally, which in turn determines the total amount of funds that must be raised for the EF. Under the current structure, adjustments are made to respond to changing financial demands on the EF. Currently, the mechanism to ensure that revenues coming into the EF equal expenditures going from the EF to school districts is the annual setting of the homestead yield and the nonhomestead tax rate. The homestead yield and the nonhomestead tax rate may be adjusted up or down, depending on the performance of non-property tax revenue sources and the size of appropriations out of the EF, to raise sufficient revenue to fund education spending decided at the local level.

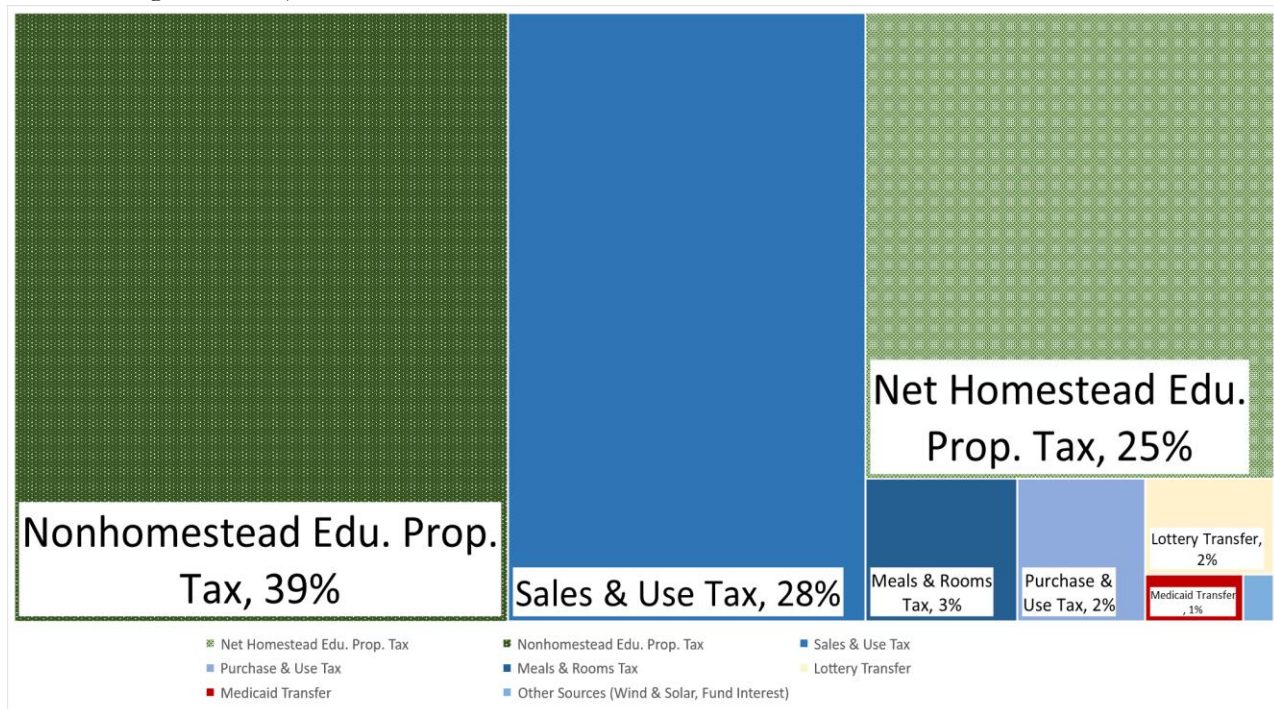
Non-Property Tax Sources

There are multiple non-property tax sources that contribute to the EF. These include all revenues from the Sales and Use Tax, one-third of Purchase and Use Tax revenues, one-quarter of Meals and Rooms Tax revenues, all revenues from the State lotteries, Medicaid reimbursement funds, and other miscellaneous revenue sources.¹⁰ Together, these non-property tax revenue sources generally account for approximately 35% of EF revenue.

The remainder of the revenues are raised through property taxes. The homestead property yield and the nonhomestead tax rate are set annually by the Legislature at the level necessary to fund voter-approved school budgets and all other public education costs. The breakdown of all revenue sources for the Education Fund in FY 2022 can be seen in the following chart (Figure 2).

¹⁰ 16 V.S.A. § 4025.

Figure 2: Projected Revenue Sources for Vermont's Education Fund in FY 2023



Source: FY 2023 Education Fund Outlook, Analysis by JFO

As seen in Figure 2, approximately two thirds of EF revenue is derived from net property taxes, which includes the two green areas in the chart.¹¹ The property taxes are broken into two distinct categories, homestead and nonhomestead, each with a distinct tax rate and rate design. Approximately 39% of the EF is funded by the nonhomestead property tax and 25% funded by the net homestead education property tax. Each type of property tax is discussed in more detail below.

Nonhomestead Education Property Taxes

Nonhomestead property taxes apply to all taxable real property that does not qualify as a “homestead.” This includes everything from commercial and industrial property to second homes and rental units. The equalized nonhomestead property tax rate is uniform across all towns (although each town is subject to its own common level of appraisal to account for differences in valuation practices). The nonhomestead property tax rate is set in statute at the rate of \$1.59 per \$100.00 of property value.¹² Generally, however, this statutory rate is set each year in session law, and the Legislature imposes a different rate for a given fiscal year. This single rate applies across the state, although the actual rate shown on a taxpayer’s property tax bill varies by town depending on the town’s common level of appraisal. For example, in FY 2023, the statewide nonhomestead property tax rate before adjustment by the common level of appraisal was \$1.466 per \$100.00 of property value.¹³ The uniform rate set in session law is traditionally increased or decreased to match the average tax liability change of the homestead education tax rates to prevent distortions.

¹¹ Net homestead education property tax is the gross homestead property tax less the property tax credit.

¹² 32 V.S.A. § 5402(a)(1).

¹³ Act 178, Sec. 1 (2022)

Calculation of Homestead Education Property Taxes

The homestead property tax rate in each district is directly related to the locally voted school budget. Additionally, the homestead property tax system includes adjustments based on income and property value.¹⁴ Due to these complexities, this section will outline the calculation of district-level homestead property education tax rates.¹⁵ The report will then present the household-level property tax credit for homestead owners in the next section.

Each district's homestead property tax rate is a function of two primary factors:

1. education spending per equalized pupil of the district where the homestead is located, and
2. statewide property yield, which is the per pupil spending amount the state can support with a \$1.00 tax rate.

Together these factors are used to calculate the district-level tax rate according to the following equation:

$$\text{District's homestead property tax rate} = \$1.00 * \frac{\text{Education spending} / \text{Equalized pupils}}{\text{Statewide property yield}}$$

Education Spending Per Equalized Pupil

Homestead education property tax rates depend on district education spending per equalized pupil.¹⁶ Recall that education spending is defined as locally-voted school budgets after offsetting revenues are taken into account.

Vermont's education funding formula aims to address the differences in the cost of educating certain student populations through "pupil weights." Pupil weights adjust student counts according to different student needs or circumstances. Each district reports its overall student counts. Weights are applied to certain types of students to account for potentially higher costs to the school districts educating these students. After weights are applied to adjust all school districts' pupil counts, an equalization ratio is used to make the number of statewide equalized pupils match the overall statewide pupil count. These are referred to as "equalized pupils."¹⁷ The equalized pupil count will vary from district to district based on its total number of students and its proportion of weighted pupils in comparison to the proportions for the State as a whole.

Next, each district's education spending is divided by its total equalized pupils. This results in the education spending per equalized pupil, one of the primary factors for determining a district's

¹⁴ Lawrence O. Picus and Associates. (2012). "An Evaluation of Vermont's Education Finance System". <https://lifo.vermont.gov/assets/docs/Education-RFP-Page/518fd42be2/Picus-and-Assoc-VT-Finance-Study-1-18-2012.pdf> (p. 4)

¹⁵ See, 32 V.S.A. ch. 135.

¹⁶ Recall that education spending is the total additional funds a school district includes in its budget after accounting for its offsetting revenues.

¹⁷ Act 127 of 2022 adjusted the education funding formula and current weights. Per Act 127, starting in FY 2025, there will be no equalization ratio applied to weighed pupil counts.

homestead property education tax rate. This component of the homestead tax calculation ties the tax bills of a district's town or towns to the voter-approved per pupil spending and not the district's property wealth.

Statewide Property Yield

In addition to the education spending per equalized pupil, district homestead property tax rates are determined by the statewide property yield, which is set annually by the Legislature and is the same across all school districts.¹⁸ The property yield can be thought of as the amount of per pupil spending that would result in a \$1 equalized tax rate in that year.¹⁹ Another way to think about the yield is, if the district has education spending pre equalized pupil equivalent to the yield, the homestead tax rate for the district is \$1.00. In districts that spend more per pupil than the property yield, the homestead property tax rate is increased proportionately.

For example, in FY 2023, the property yield per equalized pupil was \$13,314.00.²⁰ This means that districts with education spending per equalized pupil equal to or less than \$13,314.00 had an equalized tax rate of \$1.00. Districts that voted to spend more than \$13,314.00 per equalized pupil had an equalized tax rate higher than \$1.00.

Calculation of the Homestead Property Tax Credit

In Vermont, approximately 70% of households' property taxes are adjusted based on their income through an adjustment referred to as a "property tax credit," formerly known as the "income sensitivity property tax adjustment."²¹ This property tax credit is set according to an income tax percentage based on the income yield, which is annually determined by the Legislature.²² A district's income education tax rate starts at 2%, and is calculated much like the calculation of a district's homestead property education tax rate. The equation used for calculating district rates is the following:

$$\text{District's income education tax rate} = 2\% * \frac{\text{Education Spending} / \text{Equalized Pupils}}{\text{Statewide income yield}}$$

In essence, the property tax credit represents the difference between the education property taxes paid based on the housesite's value and the education taxes that would be owed if they were paid based on income. The property tax credit is calculated from the prior year's income data for the household. This means that the taxpayer's overall tax liability reflects whichever would be less – a property tax or an income tax.

Not all Vermont households receive a property tax credit, primarily because of income level restrictions. Household income both determines if a household may use the credit, and, if so, the

¹⁸ The actual rate shown on a taxpayer's property tax bill varies by town depending on the town's common level of appraisal.

¹⁹ This means \$1.00 tax rate per every \$100.00 of property value. See, 32 V.S.A. § 5401(15).

²⁰ Act 178, Sec. 1 (2022)

²¹ 32 V.S.A. ch. 154.

²² 32 V.S.A. §§ 5401(16) and 6066(a)(2).

value of the home on which the credit can be used.

Household income determines the amount of housesite value that may be applied to calculate the property tax credit. Households with incomes under \$90,000 may use the property tax credit on the first \$400,000 of their equalized housesite value. Households with incomes over \$90,000 may use the property tax credit on the first \$225,000 of their equalized housesite value. The following table outlines the different calculations of the property tax credit for different levels of household income.

Table 1: Calculation of Property Tax Credit by Income Level

Household income	Equalized Housesite value	Calculation of amount that would be paid under income	Calculation of the property tax credit
< \$47,000	< \$400,000	$income * income\ rate$	The property tax credit is the amount paid for property taxes minus the lesser of: <ul style="list-style-type: none"> The amount that would be paid under income OR <ul style="list-style-type: none"> The statewide education tax rate multiplied by the equalized value of the housesite in the taxable year reduced by \$15,000
	\geq \$400,000	$(income * income\ rate)$ + $(\left(\frac{HS\ value - \$400,000}{100}\right) * HS\ rate)$	
\$47,001 - \$90,000	< \$400,000	$income * income\ rate$	The property tax credit is the difference between the amount paid for property taxes and the amount that would be paid under income
	\geq \$400,000	$(income * income\ rate)$ + $(\left(\frac{HS\ value - \$400,000}{100}\right) * HS\ rate)$	
\geq \$90,000	< \$225,000	$income * income\ rate$	The property tax credit is the difference between the amount paid for property taxes and the amount that would be paid under income
	\geq \$225,000	$(income * income\ rate)$ + $(\left(\frac{HS\ value - \$225,000}{100}\right) * HS\ rate)$	

Recent Legislative Changes Increasing Education Fund Revenues

Legislative amendments over the last five years have changed the sources of EF revenue by removing the General Fund transfer and adding larger percentages of existing revenue source allocations or expanding the tax base of existing revenue sources. These include changes to funding sources and revenue stream allocations, as well as increases to the tax bases of the revenue streams dedicated in whole or in part to the EF (notably to Sales and Use tax following the U.S. Supreme Court decision in *South Dakota v. Wayfair* which increased tax revenues from internet sales).

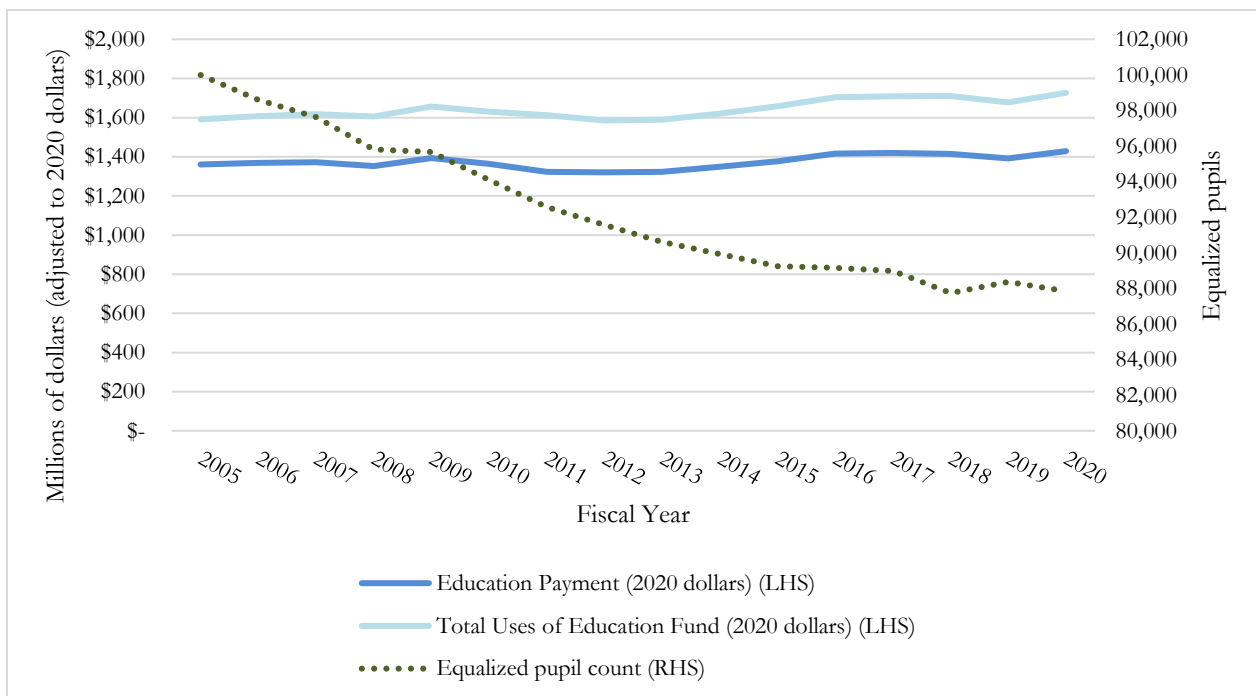
Vermont’s Education Costs and Potential Options for Cost Containment

Section 19 of Act 127 (2022) charges JFO with exploring methods for cost containment that create equity in school districts’ ability to spend sufficiently on education to meet student needs. The following section first explores Vermont’s public education costs, then outlines legislative actions to contain costs, and finally discusses further potential cost containment methods. All cost containment methods have been derived through review of methods, materials, and reports from other states, third-party organizations, and Vermont stakeholders. These potential cost containment methods are not policy recommendations.

Background of Education Costs in Vermont

For more than 15 years, both the inflation-adjusted education payment and total uses of the EF have increased steadily despite a statewide decline in equalized pupils and despite an increase in mergers. These trends can be observed in Figure 3 which outlines changes in Vermont’s inflation-adjusted education fund appropriations and equalized pupil count from 2005 to 2020.

Figure 3: History of Vermont's Education Fund Appropriations and Equalized Pupil Count



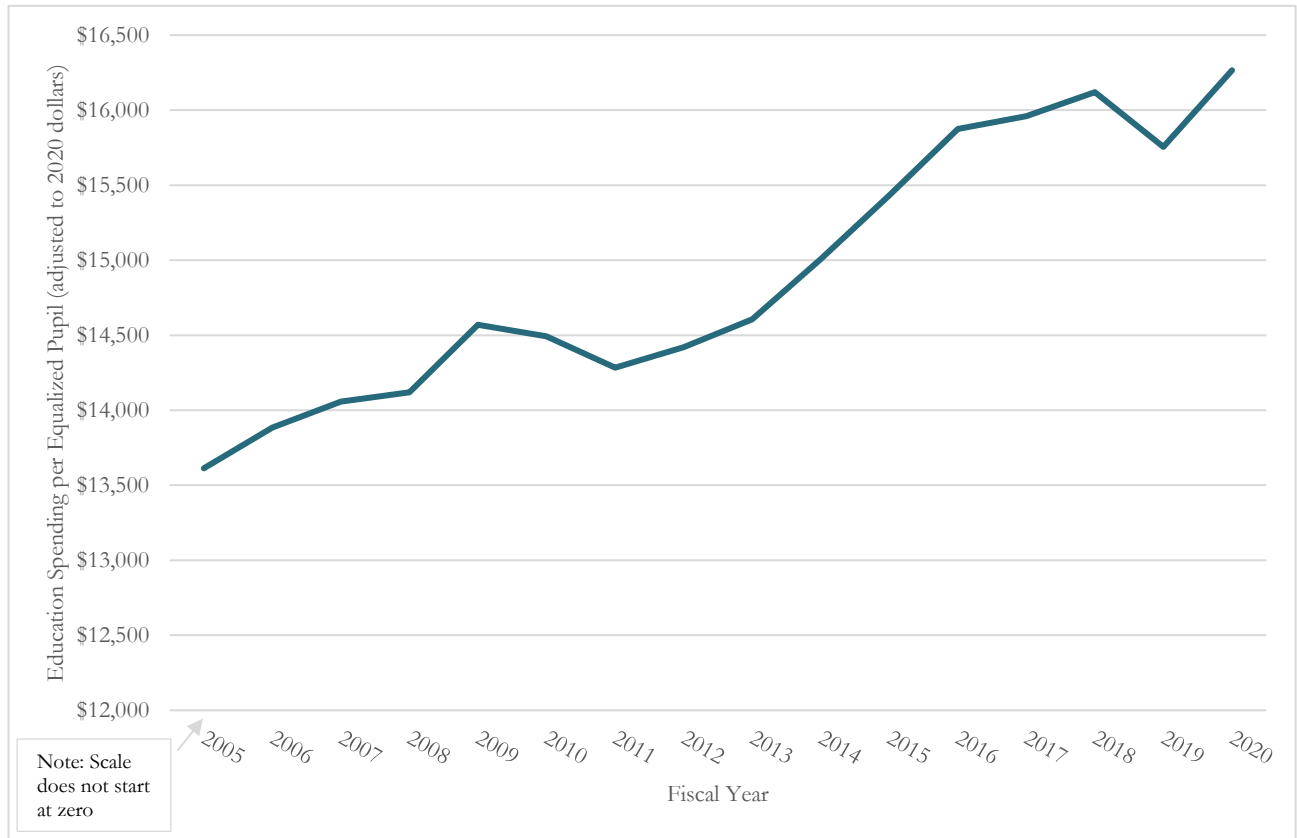
Note: LHS refers to the variable on the left-hand side y-axis. RHS refers to the variable on the right-hand side y-axis.

Source: Data from Education Fund Outlooks 2005 – 2020; Analysis by JFO

The graph above shows education spending and equalized pupils over time. As outlined in the previous section these are the two metrics used to calculate education spending per equalized pupil, which is used to calculate local homestead property tax rates. As visible in Figure 3, the growth in real equalized per pupil spending is primarily due to a significant decline of equalized pupils over time, rather than an increase in real spending. From 2005 to 2020, equalized pupils have declined by over 12,000 equalized pupils., Figure 4 shows the growth in Vermont’s statewide real education

spending per equalized pupil.

Figure 4: Vermont's Statewide Education Spending Per Equalized Pupil Over Time



Source: Data from Education Fund Outlooks 2005 – 2020; Analysis by JFO

The National Assessment of Education Progress (NAEP) is a national assessment used to measure educational achievement. As observable in Figure 5, Vermont students' average assessment scores in the NAEP have been relatively steady over time.²³ According to a report from Picus Odden & Associates, this outcome is consistent with the literature that there is no direct linkage between funding and student performance.^{24,25} The continued increase in education expenditure per pupil (as seen in Figure 4) does not necessarily equate to improved student performance over time.

²³ The NAEP is a national assessment that is used to measure educational achievement.

(National Assessment of Education Progress. (2022). "Intended Meaning of NEAP".

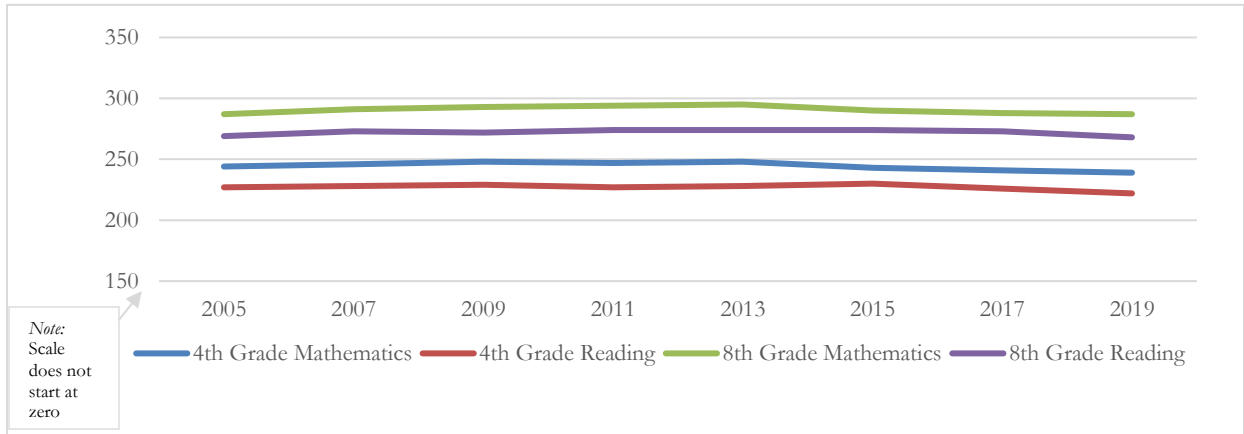
<https://nces.ed.gov/nationsreportcard/guides/>)

²⁴ Picus Odden & Associates (2016). "Using the Evidence-Based Method to Identify Adequate Spending Levels for Vermont Schools". <https://ljfo.vermont.gov/assets/docs/education/adequacy/17e5b10a4a/VT-EB-Analysis-20.1.pdf> (p. ii)

²⁵ National Assessment of Educational Progress. (2022). "Vermont Overview".

https://www.nationsreportcard.gov/profiles/stateprofile/overview/VT?cti=PgTab_OT&chort=1&sub=MAT&sj=VT&fs=Grade&st=MN&year=2019R3&sg=Gender%3A%20Male%20vs.%20Female&sgv=Difference&ts=Single%20Year&tss=2019R3&sfj=NP

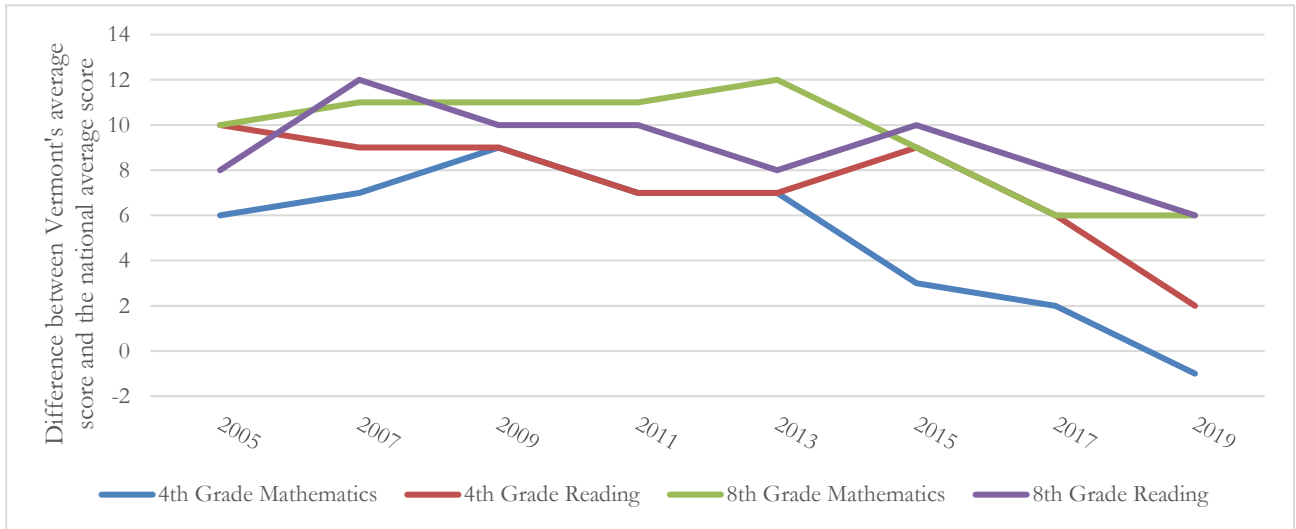
Figure 5: Vermont's Average NAEP Scores Over Time



Source: Data from NAEP; Analysis by JFO

Furthermore, when comparing Vermont’s performance to the national average, the State’s performance not kept pace with other states. Figure 6 shows the difference between Vermont’s average NAEP scores and the national average scores.²⁶ If Vermont were performing at the national average, it would be a “0”; as seen in Figure 6, while Vermont has traditionally been better than the national average, over time it is moving down and closer to the national average.

Figure 6: Difference Between Vermont's Average NAEP Score and the National Average NAEP Score Over Time



Source: Data from NAEP; Analysis by JFO

These figures are particularly striking when considering the continued increase in education expenditures per pupil in Vermont without a commensurate change in student performance when compared to national trends. Because this is a comparison between states, interpretation of Vermont’s performance must also consider performance changes in other states.

²⁶ National Assessment of Educational Progress. (2022). “Vermont Overview”. https://www.nationsreportcard.gov/profiles/stateprofile/overview/VT?cti=PgTab_OT&chort=1&sub=MAT&sj=VT&fs=Grade&st=MN&year=2019R3&sg=Gender%3A%20Male%20vs.%20Female&sgv=Difference&ts=Single%20Year&tss=2019R3&sfj=NP

Education Spending in Vermont Compared to Other States

Despite differences across states – including education funding formulas, demographics, and geographies – examining education spending across other states in comparison to Vermont allows for a broader understanding of costs and how they may (or may not) be excessive.

The Northeast has generally higher student expenditures than the rest of the country.²⁷ This is true in Vermont, which has ranked relatively high in student expenditures in previous years, with its ranking increasing over time. In 2001, Vermont was nationally ranked eighth for its expenditure per student, currently it is ranked second.

In 2020-2021, Vermont’s expenditure per student was \$23,299, compared to a national average expenditure of \$14,360 per student (over 60% more than the average) or compared to a Northeast average of \$21,535.²⁸ The following table outlines current expenditures per student based on school year 2020-2021 fall enrollment figures by Northeast states and the national average.²⁹

Table 2: Public School Current Expenditures per Student in Fall Enrollment (2020-2021)

	Expenditure (\$/student)	National Rank
US Average	\$ 14,360	-
Northeast Average	\$21,535	-
Connecticut	\$ 22,153	5
Maine	\$ 17,293	14
Massachusetts	\$ 21,584	6
New Hampshire	\$ 19,062	7
New York	\$ 28,704	1
Rhode Island	\$ 18,651	10
Vermont	\$ 23,299	2

Data source: National Education Association³⁰; Analysis by JFO

²⁷ Interestingly, this does not correspond with all Northeastern states having significantly better student performances. Depending on the grade level and subject matter, Northeastern states varied in relation to their student performance compared to the national average - some states performed significantly above national average, others performing significantly below national average, and other did not significantly vary from the national average.

Source: National Assessment of Educational Progress. (2022). “State performance Compared to the Nation”. <https://www.nationsreportcard.gov/profiles/stateprofile?chort=2&sub=MAT&sj=AL&sfj=NP&st=MN&year=2019R3>

²⁸ NAEP defines current expenditures to be “The expenditures for operating local public schools, excluding capital outlay and interest on school debt. These expenditures include such items as salaries for school personnel, fixed charges, student transportation, school books and materials, and energy costs.” National Education Association. (2022). “Rankings of the States 2021 and Estimates of School Statistics 2022”. <https://webpubcontent.gray.tv/wcax/docs/2022%20Rankings%20and%20Estimates%20Report.pdf> (p. 68).

²⁹ Joint Legislative Education Cost Containment Study Committee (2004). “Report to the General Assembly”. <https://ljfo.vermont.gov/assets/docs/archives/education/2dff48ff95/Education-Cost-Containment-Study-01-2004.pdf> (p. 8)

³⁰ National Education Association. (2022). “Rankings of the States 2021 and Estimates of School Statistics 2022”. <https://webpubcontent.gray.tv/wcax/docs/2022%20Rankings%20and%20Estimates%20Report.pdf> (p. 68).

As education spending per pupil has increased over time³¹, research has been done to gain a better understanding of Vermont’s education financing trends. The General Assembly commissioned studies to analyze the dynamics driving increasing costs and to determine strategies for cost containment. This work highlighted multiple factors that may contribute to Vermont’s increasing education costs. For example, a report from Picus Odden & Associates (2016) hypothesizes multiple explanations for the higher spending levels in Vermont’s system. The report suggests potential cost drivers include pupil teacher ratios, costs associated with special education and English Learner (EL) students, efficiency of supervisory union and district organization, system design of PreK programs, prevalence of instructional aides, and number of administrators.³²

Because multiple factors potentially drive education costs, and likely vary based on local district conditions, no statewide policy has decreased the trend of increasing education costs. As the next section outlines, a few cost containment strategies were adopted since the establishment of the statewide funding formula in attempts to contain costs. Despite these attempts, inflation-adjusted education spending per equalized pupil continues to grow in Vermont.

Previous Legislative Attempts to Contain Costs

Cost containment of Vermont’s education spending has been a point of continued policy discussion aiming to understand and manage Vermont’s increasing education costs. The following section outlines some of the policy measures adopted with the intent to contain costs.³³

Vermont’s Excess Spending Adjustment

Since Act 68 (2003), Vermont’s education finance statute includes an “excess spending adjustment” which is used to discourage school district spending that is significantly higher than other school districts by increasing a district’s tax rate if it spends above a certain level. Specifically, the excess spending adjustment creates an additional tax for the amount a school district’s education spending per equalized pupil is greater than the excess spending threshold after accounting for allowable exclusions. The excess spending threshold is calculated annually and is based on the statewide average education spending per equalized pupil in FY 2015 increased by inflation and multiplied by 121 percent.³⁴

Despite a desire to keep school districts spending in alignment with other districts around the state, in recent years the General Assembly has enacted policy to suspend the excess spending adjustment because of the Covid-19 pandemic as well as other upcoming changes to the funding formula. In 2021, the passage of Act 59 (2021) suspended the excess spending adjustment for FY 2022 and FY 2023 due to the Covid-19 pandemic. Act 127 (2022) further suspended the adjustment due to upcoming changes in pupil weights. Currently, the excess spending penalty is

³¹ Recall that the increase in education spending per equalized pupil can be largely attributed to as slight increase in inflation-adjusted education spending and a more significant decline in the number of pupils.

³² Picus Odden & Associates (2016). “Using the Evidence-Based Method to Identify Adequate Spending Levels for Vermont Schools”. <https://ljfo.vermont.gov/assets/docs/education/adequacy/17e5b10a4a/VT-EB-Analysis-20.1.pdf>

³³ This is not intended to serve as an exhaustive list. Furthermore, JFO cannot estimate the counterfactual of how costs may have changed if these measures had not been introduced.

³⁴ 32 V.S.A. § 5401(12)

suspended through FY 2029.^{35,36}

Due to the array of recent changes and competing dynamics across school districts and within the EF, JFO cannot estimate impacts of the excess spending penalty (and its suspension) on district-level spending decisions and overall statewide education expenditures.

Merging of School Districts

In 2004, the Joint Legislative Education Cost Containment Study Committee published a report with recommendations for education cost containment.³⁷ One action recommended by the report was to “assist effective school consolidations with appropriate incentives and ways to facilitate such efforts.”

Since the publication of the 2004 report, the Vermont Legislature has passed several initiatives encouraging, and at times requiring, the merging of school districts. Act 153 of 2010, Act 156 of 2012, and Act 46 of 2015 all played a role in merging and consolidating school districts. Through these mergers, 206 districts in 185 towns have been condensed to form 50 new union school districts. This was a reduction of 156 districts across the state.³⁸ According to the Vermont Agency of Education (AOE), the mergers were anticipated to increase schools’ ability to share staff, resources, and programs.³⁹

Restructuring of funding structure for special education

The 2004 education cost containment study also recommended a “state-level review of extraordinarily high-cost special education service plans and analysis of the cost-effectiveness of service plans”.

In 2016, Act 148 required AOE to review current practices of the delivery of special education services and make recommendations regarding best practices for its delivery. At the time of the report, special education was funded through a reimbursement model where the state reimbursed school districts for a certain percentage of their special education expenditures. The Act required a study which included a funding report assessing different funding models of special education and a report assessing the delivery of special education services.⁴⁰

In 2018, following publication of the reports, Act 173 was passed. This Act adjusted the funding

³⁵ Act 59 of 2021.

<https://legislature.vermont.gov/Documents/2022/Docs/ACTS/ACT059/ACT059%20As%20Enacted.pdf>

³⁶ Act 127 of 2022.

<https://legislature.vermont.gov/Documents/2022/Docs/ACTS/ACT127/ACT127%20As%20Enacted.pdf>
(Sec. 8)

³⁷ Joint Legislative Education Cost Containment Study Committee (2004). “Report to the General Assembly”.

<https://ljfo.vermont.gov/assets/docs/archives/education/2dff48ff95/Education-Cost-Containment-Study-01-2004.pdf>

³⁸ Vermont Agency of Education. (2018). “Act 46: State Board of Education's Final Report of Decisions and Order”. <https://education.vermont.gov/vermont-schools/school-governance/act-46-state-board-final-plan>

Act 46 of 2015.

<https://legislature.vermont.gov/Documents/2016/Docs/ACTS/ACT046/ACT046%20As%20Enacted.pdf>

³⁹ Vermont Agency of Education. (2019). “Report on Act 46 of 2015”.

<https://education.vermont.gov/sites/aoe/files/documents/edu-legislative-report-act46-merger-activity-2019.pdf>

⁴⁰ Act 148 of 2016.

<https://legislature.vermont.gov/Documents/2016/Docs/ACTS/ACT148/ACT148%20As%20Enacted.pdf>

of special education to a census block grant funding model. In the census block grant model, supervisory unions receive a census grant based on average state appropriations for special education grants divided by the statewide long-term membership (adjusted for inflation). While the previous reimbursement model reimbursed school districts for actual special education expenditures incurred, the census block grant funding model provides an annual payment based on the enrollment at the school.

Since the passage of Act 173 in 2018, the implementation of this funding structure has been delayed. Assuming no other delays are implemented in the future, the funding structure will be fully transitioned after FY 2027.⁴¹ Because this change to special education funding hasn't been fully implemented, the impact of the adjustment on cost containment cannot be estimated.

⁴¹ Act 173 of 2018.

<https://legislature.vermont.gov/Documents/2018/Docs/ACTS/ACT173/ACT173%20As%20Enacted.pdf>

Options for Cost Containment in Education

Despite attempts to contain costs, overall education expenditures per pupil continue to increase. Pursuant to the charge set forth in Act 127 (2022), the following section explores different options for cost containment through a lens of funding school districts in an equitable manner. While this report presents methods for cost containment, it does not address the policy question of which costs should (or should not) be contained, nor does it recommend the best manner for containing costs. These options have been compiled through review of methods, materials, and reports from other states, third-party organizations, and Vermont stakeholders.⁴²

In its review of third-party materials, JFO identified the following possible options that may contain Vermont's education costs:

- adjusting staffing ratios,
- encouraging or mandating more mergers,
- consolidating administrative services,
- reinstating and/or adjusting the excess spending threshold,
- implementing education spending caps,
- strengthening the connection between budget votes and tax bills,
- restructuring education spending decisions to a statewide level.

While these options may reduce the cost of education in Vermont, they will likely have other impacts on the public education system. The following sections outline each of these options in more detail and provide some initial considerations for legislators. For any of these options to be implemented more analysis would be needed.

Adjustment to Staffing Ratios

Across the country, the cost of public education is primarily driven by the cost of staff. Staffing costs make up a about 80% public education expenditures nationally.⁴³ Staffing costs generally encompass the salary, employee benefits, training, and other expenses for staff including teachers, school support staff, librarians, custodial staff, and food service workers and administrators.

Staffing patterns are often analyzed by comparing

- the number of staff per pupil (staff include, but are not limited to, teachers, school administrative staff, librarians, custodial staff, and food service workers) or,
- the number of teachers per pupil (teachers include elementary and secondary teachers).

The higher the number of personnel per pupil, the higher the per pupil expenditure.

According to the Digest of Education Statistics, Vermont has more staff per pupil than any other state, and the second lowest pupil to teacher ratio nationally. This is consistent with other Northeastern states, which all fall below the national average pupil to staff and pupil to teacher

⁴² This list is not meant to serve as an exhaustive list for all cost containment options.

⁴³ National Center for Education Statistics. (2022). "Public School Expenditures Fast Facts". <https://nces.ed.gov/fastfacts/display.asp?id=66>

ratios. This can be attributed, in part, to the prominence of small schools which require minimum staffing levels regardless of the number of students.⁴⁰

The student to staff ratio is defined as the average number of students per staff member. In the fall of 2020, Vermont had the lowest ratio in the country. In other words, Vermont has more staff per student than any other state. (See Table 3).

Table 3: Pupils enrolled per staff in the public school system (2019)

	Count (#)	National Rank
US Average	7.45	-
Northeast Average	6.1	-
Connecticut	5.3	48
Maine	4.8	50
Massachusetts	6.9	36
New Hampshire	5.5	47
New York	6.2	43
Rhode Island	6.9	35
Vermont	4.4	51

Data source: Digest of Education Statistics⁴⁴; Analysis by JFO

Compared to the national average of 7.45 students per staff member, Vermont's ratio of 4.4 pupils per staff member was the lowest in the country, followed by Maine at 4.8 in school year 2019-2020.^{45,46} It was also lower than the Northeast average of 6.1 pupils per staff member.

According to the Digest of Education Statistic, in 2019, Vermont school districts employed approximately 18,700 staff members. If Vermont had the same pupils per staff as the national average, schools would employ approximately 7,700 fewer staff members. If Vermont had the same pupil to staff ratio as the Northeast average, schools would have employed approximately 5,060 fewer FTE, or a reduction of about 43 staff per school district on average

In addition to having the highest pupil to staff ratio, Vermont had the second lowest pupil to teacher ratio in the United States in the 2020-2021 school year. All Northeastern states also have pupil teacher count below the national average. Pupil to teacher ratio is defined as the average number of students enrolled per teacher.

Vermont's pupil to teacher ratio of 10.1 was second to New Hampshire's ratio of 10. The national and Northeast averages were 15.3 and 11.5 pupils per teacher, respectively.

⁴⁴ National Center for Education Statistics (2019). "Digest of Education Statistics, Table 203.72, Table 213.2". https://nces.ed.gov/programs/digest/current_tables.asp

⁴⁵ This the latest data available.

⁴⁶ Agency of Education (2021). "Teacher and Staff FTE Report FY2020-FY2021". <https://education.vermont.gov/sites/aoe/files/documents/edu-teacher-staff-fte-report-fy20-fy21.xls>

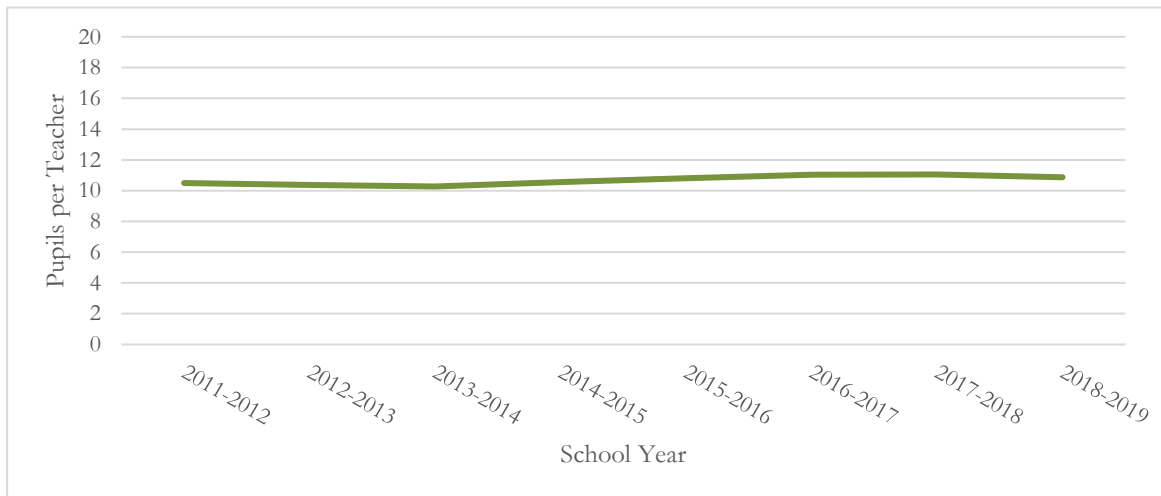
Table 4: Pupils enrolled per teacher in public schools (2020-2021)

	Count (#)	National Rank
US Average	15.3	-
Northeast Average	11.5	-
Connecticut	12.3	41
Maine	11.7	45
Massachusetts	12.1	43
New Hampshire	10	51
New York	11.5	47
Rhode Island	13	38
Vermont	10.1	50

Data source: NEA Research⁴⁷; Analysis by JFO

Vermont's low pupil to teacher ratio has been relatively consistent over time. According to data from AOE, between the 2011-2012 school year and the 2018-2019 school year, Vermont's pupil to teacher ratio remained relatively constant (Figure 7).

Figure 6: Vermont's Pupil to Teacher Ratio Over Time



Data source: Vermont Agency of Education⁴⁸; Analysis by JFO

Multiple entities have cited staffing ratios in Vermont as a point of discussion for education cost containment and funding considerations, including previous Vermont General Assemblies, the Vermont State Board of Education, the Education Commission of the States, and other analyses.

One of the methods proposed for adjusting staffing ratios was published in the Vermont State Board of Education's 2018 memorandum regarding its views on cost containment in education.

⁴⁷ Analysis by JFO using data from: NEA Research. (2022). "Rankings of the States 2021 and Estimates of School Statistics".

⁴⁸ Vermont Agency of Education. (2021). "Teacher and Staff FTE Report FY2020-FY2021". <https://education.vermont.gov/data-and-reporting/school-reports/teacher-staff-fte-report>

One of the memorandum’s proposed recommendations was to “reduce student-staff ratio thoughtfully.” Specifically, the Vermont State Board of Education recommended adjusting the student to staff ratio by creating statewide staff reduction guidelines for local governing bodies to adjust to.⁴⁹

The General Assembly has also demonstrated interest in staffing patterns in public education. For example, in 2018 the General Assembly was interested in the optimum staff to student ratios and if any student to staff ratios should be included in statute. In Act 11 of the Special Session of 2018, the General Assembly instructed the Vermont Agency of Education to constitute a taskforce to deliberate and prepare recommendations regarding this concept.⁵⁰ In response to this legislative charge, the Staff-to-Student Ratio Task Force, published the Report on Student-to-Staff Ratios in 2019 which recommended that state-specific staff to student ratios should *not* be included in statute for FY 2021, and instead recommends its report be used as a starting point for deliberations. The Task Force also recommended an annual reporting of these ratios and additional research. While these recommendation may provide guidance in the future, the report provided limited policy recommendations for the General Assembly to change the trajectory of Vermont’s low pupil to teacher ratio.⁵¹

Further Merging of Supervisory Unions, School Districts, and/or Schools

Another potential way to adjust pupil to staff ratios and contain costs is through the further merging of schools, school districts, and/or supervisory unions. Ultimately, while Vermont has a unique, rural landscape, the number of districts and supervisory unions is a policy decision and could be adjusted. For example, another geographically varied state, Hawaii, has one school district that is divided into seven smaller districts.

When considering merging schools and school districts, policy makers could consider the economies of scale in relation to Vermont’s school and school district sizes. According to a legislative report published in 2016 by Picus Odden and Associates, “in Vermont, which has scores of schools – and even districts – with 150 or fewer students, school mergers could produce significant cost savings.”⁵² In other words, the more schools and school districts, the more people are needed to staff those schools and school districts, driving costs up. A reduction in the numbers of supervisory unions, school districts, and/or schools would likely reduce the number of staff, and staffing costs, needed to support the system of schools.

Policy makers could weigh the considerations of mergers and cost containment against other policy goals, such as quality of education impacts on learning. The 2016 legislative report examined various studies regarding the optimal school size for schools. A review of the literature found that consolidating schools to certain sizes (outlined in the next paragraph) would likely

⁴⁹ Vermont State Board of Education (2018). “State Board of Education View on Cost-containment in Education Memorandum”.

https://education.vermont.gov/sites/aoe/files/documents/edu-state-board-item-n-cost%20containment-02_21_18.pdf

⁵⁰ Act 11 of the Special Session of 2018, Sec. H.16:

<https://legislature.vermont.gov/Documents/2018.1/Docs/ACTS/ACT011/ACT011%20As%20Enacted.pdf>

⁵¹ Staff-to-Student Ratio Task Force (2019). “Report on Student-to-Staff Ratios”.

<https://legislature.vermont.gov/assets/Legislative-Reports/edu-legislative-report-student-to-staff-ratios-2019.pdf>

⁵² Picus Odden & Associates (2016). “Using the Evidence-Based Method to Identify Adequate Spending Levels for Vermont Schools”. <https://ljfo.vermont.gov/assets/docs/education/adequacy/17e5b10a4a/VT-EB-Analysis-20.1.pdf> (p. 16)

create cost savings with “little negative and perhaps even positive impacts on learning.”

The literature differentiates between optimal size of elementary schools and high schools, finding the most efficient size elementary school to be between 300 and 500 students and the optimum high school size to be between 600 and 900 students.⁵³ These ranges are rarely reflected in Vermont’s schools. According to data from AOE, less than 10% of elementary schools fall within this range; the average elementary school size in Vermont for the 2021-2022 school year was 158 students. High schools in Vermont are also much smaller on average than recommended by the literature. Approximately 25% of high schools fall within the recommended range. In the 2021-2022 school year the average high school size was well below the lower end of the range, at 447 students. However, as noted in Vermont State Board of Education’s 2018 report, “due to structural variations and geographic anomalies, some existing school districts cannot merge to form a unified governance structure unless they or their neighbors choose to change their current operating and tuitioning structures.”⁵⁴

As mentioned earlier, this is not new policy idea, as there have already been several policy initiatives directed at merging school districts in Vermont. Most recently, Act 46 (2015) created a net reduction of 34 districts. When the impact of Act 46 is combined with that of earlier legislation (Act 153 (2010) and Act 156 (2012)), there has been a reduction of 156 school districts since 2010.⁵⁵

AOE’s report on Act 46 (2015) and Act 153 (2010) expected savings to result from mergers due to “sharing staff among schools, staff attrition, grade-reconfiguration, facility repurposing, and centralized maintenance services and training.”⁵⁶

Encourage or Mandate School Districts to Consolidate Administrative Activities such as Professional Development, Long-range Planning, and Business Services

One of the recommendations published by the 2004 Joint Legislative Education Cost Containment Study Committee was to “encourage school districts to consolidate professional development, long-range planning, and business services.” Specifically, the report recommended “maintain[ing] an on-line market clearinghouse for school business managers to facilitate joint purchasing, develop appropriate standardized qualifications for school finance managers, and encourage the Department of Education develop a plan to expand the use of regional educational collaborative programs.”⁵⁷

⁵³ Picus Odden & Associates (2016). “Using the Evidence-Based Method to Identify Adequate Spending Levels for Vermont Schools”. <https://ljfo.vermont.gov/assets/docs/education/adequacy/17e5b10a4a/VT-EB-Analysis-20.1.pdf> (p. 16)

⁵⁴ Vermont State Board of Education (2018). “Final Report of Decisions and Order on Statewide School District Merger Decisions Pursuant to Act 46, Sections 8(b) and 10”. <https://education.vermont.gov/sites/aoe/files/documents/sbc-act46-final-report-order-statewide-school-district-merger-decisions.pdf> (p.29).

⁵⁵ Agency of Education (2018). “Act 46: State Board of Education’s Final Report of Decisions and Order”. <https://education.vermont.gov/vermont-schools/school-governance/act-46-state-board-final-plan>

⁵⁶ Agency of Education (2018). “Reports under Acts 46 (2015) and 153 (2010)”. <https://education.vermont.gov/sites/aoe/files/documents/edu-legislative-report-act46-act153-merger-activity-2018.pdf> (p. 10)

⁵⁷ Joint Legislative Education Cost Containment Study Committee (2004). “Report to the General Assembly”. <https://ljfo.vermont.gov/assets/docs/archives/education/2dff48ff95/Education-Cost-Containment-Study-01-2004.pdf>

This recommendation highlights an area where schools may achieve cost savings – through economies of scale by consolidating administrative and overhead functions. Consolidating administrative services and processes does not necessarily directly impact teachers, students, or education outcomes. The more school districts consolidate administrative and business services, the greater likelihood that cost savings could be realized. This recommendation is not unique to the Legislative Cost Containment Study Committee, nor is it unique to Vermont. In fact, Picus Odden and Associates published central office staffing recommendations for multiple states, including Maine.⁵⁸

In its report under Act 46 (2015) and Act 153 (2010), AOE anticipated consolidation of administrative services and programs due to merger activity would lead to:

- “Increased ability to share staff, resources, and programs among schools.
- Elimination of bureaucratic redundancies and centralization of supports so that administrators are able to focus on their roles as educational leaders.
- Creation of a unified program of educator recruitment, induction, and mentoring, including for paraprofessionals and substitute teachers.”⁵⁹

Reinstitute and/or Adjust the Excess Spending Threshold

One cost containment strategy employed by many states is to limit taxes, thereby restricting government revenues to a fixed amount or a certain growth rate. According to the Tax Policy Center, Vermont and New Hampshire are the only states that do not limit property taxes.⁶⁰ Because property tax rates are currently used as a balancing mechanism to ensure EF revenues sufficiently fund expenditures, implementing property tax limits would introduce new considerations for the balancing of the EF and ensuring school districts have sufficient revenue to meet the obligations of their adopted budgets.

While not a tax limit, Vermont’s excess spending threshold is a similar mechanism designed to disincentivize high spending. The excess spending adjustment is an additional tax liability for school districts that choose to spend above the excess spending threshold. The calculation of the threshold is written into statute⁶¹ and is determined annually by multiplying the FY 2015 statewide average district education spending per equalized pupil (adjusted for inflation) by 121 percent. Historically, school districts generally tried to keep their spending below the threshold to avoid the additional tax liability on local homestead property owners. However, the excess spending provisions have been inoperative since the start of FY 2022 and will not provide a mechanism for cost containment until the suspension expires at the end of FY 2029. This suspension is due to both the Covid-19 pandemic and the changes in pupil weighting that will be implemented in FY 2025. Recall that the excess spending threshold suspension was connected to

⁵⁸ Picus Odden & Associates (2016). “Using the Evidence-Based Method to Identify Adequate Spending Levels for Vermont Schools”. <https://ljfo.vermont.gov/assets/docs/education/adequacy/17e5b10a4a/VT-EB-Analysis-20.1.pdf> (p. 66)

⁵⁹ Agency of Education (2018). “Reports under Acts 46 (2015) and 153 (2010)”. <https://education.vermont.gov/sites/aoe/files/documents/edu-leg5060islative-report-act46-act153-merger-activity-2018.pdf> (p. 9)

⁶⁰ Tax Policy Center (2020). “The State of State (and Local) Tax Policy”. <https://www.taxpolicycenter.org/briefing-book/what-are-tax-and-expenditure-limits>

⁶¹ 32 V.S.A. § 5401(12)

major changes and transitions to Vermont’s education funding formula, including Act 127’s (2022) changes to pupil weights. These weighting changes will take effect in FY 2025.⁶²

The General Assembly could decide to reinstitute the excess spending adjustment and resume using it as a cost containment method, effectively penalizing districts who have high per pupil spending amounts with higher tax rates. Reinstating the adjustment during the transition to changes made in Act 127 (2022) would require additional considerations with respect to the relationship of the excess spending threshold with the transition mechanism of capped tax rates. Reinstating the adjustment after transition to changes made in Act 127 (2022) would require adjustments to account for the Act’s elimination of the equalization ratio.

In addition to reinstating the adjustment, policy makers could lower the excess spending threshold. Under current law (when not suspended), the excess spending threshold creates additional tax liabilities for education spending per equalized pupil greater than 121 percent of the inflation-adjusted FY 2015 statewide average district spending per equalized pupil. Decreasing the excess spending threshold from 121 percent to a lower percentage would move the penalty for higher spending closer to the statewide average.

Implement Education Expenditure Caps

Another cost containment strategy other states employ is spending caps on expenditures for certain services. Other states have enacted K-12 spending caps on different services including special education, and administrative and support services. As is true across all cost containment strategies, policy makers may choose to consider impacts of spending caps beyond cost containment.

Thirteen states have state level special education funding caps which vary in structure and limitations.⁶³ In Vermont, special education spending is capped at the state level, but not at the district level. Vermont is currently transitioning to a census block grant funding model for special education. This is a funding cap in categorical aid, but, in theory, school districts could spend more and make up the difference in their education spending.⁶⁴

Some other states also cap expenditures on administrative and support services. For example, California has a statutory administrator to teacher ratio. According to the Education Commission of the States, California’s “maximum ratio of administrative employees to each 100 teachers is nine in elementary school districts, eight in unified school districts, and seven in high school districts.” Virginia also limits the number of support staff positions based on a funding ratio methodology in its appropriation act. According to a review by the Commonwealth Institute, the capping of support staff positions in Virginia decreased state investments in those positions, but also led to inequitable impacts on students from low-income families.⁶⁵

The Vermont General Assembly could explore the implementation of education expenditure

⁶² 2021 Acts and Resolves, No. 59, Sec. 5; 2022 Acts and Resolves, No. 127, Sec. 8(a).

⁶³ Education Commission of the States (2021). “K-12 and Special Education Funding 50-State Comparison”. <https://reports.ecs.org/comparisons/k-12-and-special-education-funding-04>

⁶⁴ 16 V.S.A. § 2961

⁶⁵ The Commonwealth Institute. (2019). “The Vital Role of Non-Instructional Staff in Promoting Successful Learning Environments and the Critical Need for Funding”. <https://thecommonwealthinstitute.org/wp-content/uploads/2019/06/Ten-Years-Behind-Vital-Role-of-Non-Instructional-Staff.pdf>

caps. There are different ways that education expenditures could be capped. Like California and Virginia, policy makers could consider capping the number of support and/or administrative staff in schools. Further, the general assembly could consider a cap on education spending per equalized pupil.

Strengthen the Understanding and Connection Between School Budget Votes and the Property Tax Bill

Some stakeholders have critiqued the Vermont’s education property tax system for its complex connection between budget votes and tax liability. For instance, in 2020, a memorandum from the Vermont League of Cities and Towns described the system as “endlessly complicated, confusing and disconnected from the education budgets that voters adopt at the local level”.⁶⁶

If the connection between school budget votes and property tax liability is not clear to all voters, then legislative action to clarify the connection may impact voter decisions regarding local budgets and cost containment.

Restructure Education Spending Decisions to a Statewide Level

Under current Vermont law, every school district ultimately determines the amount that should be spent on public education. The previously presented options may create some cost containment, but education spending, and therefore total education costs, would still be decided at the local level. The State would still not have direct control over the majority of school expenditures despite being responsible for raising the appropriate amount of revenue.

Another way policy makers could contain costs would be to restructure Vermont’s education finance system so that education spending decisions are made at the state level instead of the local level. Determining funding amounts at the state level is not unprecedented. For instance, in Hawaii, education funding allocations are determined at the state level. Schools or school districts can choose to supplement those funds with fundraising efforts, but not with property taxes.⁶⁷

One way this method could be implemented was outlined in AOE’s 2019 Report “Designing our Future: A Blueprint for Transforming Vermont’s Education System, v 2.0”. According to the report, the system, also referred to Greatly Simplified School District (GSSD), “would consist of a single, statewide school district” in which students would have school choice across the state. In this system, the Secretary of Education would create an overall education budget which would be submitted to the General Assembly. there would be a statewide, uniform rate.⁶⁸

If the education funding formula were restructured so that education spending decisions are made at the state level, the State would have greater control over total education costs but some of the mechanics of the education funding formula would need to change. Moving education spending decisions to the State level would be a significant change both culturally and fiscally that would require further discussion and analysis regarding the tradeoffs.

⁶⁶ Karen Horn, Vermont League of Cities and Towns. (2020). “Memorandum RE: Billing and Collection of Education Property Tax”. <https://ljfo.vermont.gov/assets/Meetings/Tax-Structure-Commission/2020-12-14/3469f27a5d/Billing-and-Collecting-Property-Taxes-11-20-2020.pdf>

⁶⁷ Conversations with the Hawaii Legislative Research Bureau (2023). <https://lrh.hawaii.gov/>

⁶⁸ Vermont Agency of Education (2019). “Designing our Future: A Blueprint for Transforming Vermont’s Education System, v. 2.0”. https://education.vermont.gov/sites/aoe/files/documents/edu-state-board-sbe-item-m-designing%20our%20future%20v2-03_20_19.pdf

Mechanics for Setting the Yields

In addition to the examination of cost containment, Act 127 of 2022 also required the JFO to examine the inclusion of a “constitutionally adequate education spending amount for school districts at a level that is determined by education funding experts to be sufficient to meet student needs.”

It is beyond the scope of this report to determine a specific constitutionally adequate spending level. This report focuses on the mechanics to include a formal base amount in Vermont’s education finance formula. To examine this question, this section provides overview and background, examines general policy considerations, and presents options for adjusting the yield.

This section is in response to a legislative charge and should not be interpreted as a policy position or recommendation from JFO.

Background and Overview

29 states have an education funding formula that includes a “base amount” per pupil. A base amount per pupil is the minimum guaranteed dollar amount per pupil that the state must provide to each school district, and it is not synonymous with total education spending per pupil. The calculation of the base amount and how it is applied in the education funding formula varies by state.⁶⁹

Vermont’s education funding formula does not include a formal base amount per pupil. Instead, there is a minimum base property education tax (\$1.00) and a minimum base income education tax (2%). Because of these base tax rates, the homestead property yield serves as an informal base amount per pupil spending for a school district. In other words, while a school district may spend less per pupil than the homestead property yield, there is no incentive to do so because of the minimum tax rate. This means that Vermont’s informal base amount is not a function of what is deemed to be sufficient by school finance experts, but instead is a function of all factors impacting the amount of property tax revenues that need to be raised.

Furthermore, it is worth reiterating that while all Northeastern states having higher expenditures per student than average, Vermont is second-only to New York in per pupil expenditures nationwide. As such, it is possible that an “adequate education spending amount” may be lower than current education expenditure levels, and lower than the property yield.

General Considerations When Changing the Mechanics to Set the Yields

Because of the nuances in the Education Fund, when considering structural changes, policy makers may consider the following general considerations:

- Vermont’s current pupil weights and funding formula adjust district taxing capacity and do not adjust the amount of education spending,
- Vermont school districts may already be meeting the spending level deemed constitutionally adequate by experts,

⁶⁹ Across these 29 states, the base amount per pupil in the 2021-2022 school year ranged from \$2,489 to \$11,775. The median base amount per pupil was \$6,160.

Source: Education Commission of the States. (2021). “50-State Comparison K-12 and Special Education Funding 2021”. <https://reports.ecs.org/comparisons/k-12-and-special-education-funding-2021>

- changing the structure of the homestead property yield may impact the income yield and the nonhomestead rate,
- Vermont’s current education finance system requires revenue adjustments to sufficiently fund expenditures,
- inclusion of a formal base amount would not necessarily align with cost containment strategies.

These considerations will be addressed in more detail in the following section.

Vermont’s Current Pupil Weights and Funding Formula Adjust District Taxing Capacity and Do Not Adjust the Amount of Education Spending.

Most states that use a weighted student funding formula do so to “provide higher levels of funding for certain types of students who need additional support”. Under most weighted student funding formulas, schools receive a base amount for each pupil, and then funding adjustments based on school-specific characteristics and demographics.

However, while Vermont’s education funding formula includes pupil weights, its pupil weights neither correspond with a specific amount of funding nor the amount of funding weighted students will receive. Unlike other states, Vermont’s education finance system functions with weights that adjust school districts’ tax capacity to account for higher costs associated with specific pupil categories, not specific levels of funding. Increasing taxing capacity represents the ability of a school district to decrease its tax rate without reducing its spending or to raise additional tax revenue without increasing its tax rate.

When considering a change to Vermont’s education funding formula, policy makers should consider the intention of including pupil weights. If the intention of the weights is to adjust taxing capacity so that school districts can determine the level of funding needed for different types of students, then the current system is reflective of that goal. If the weights are intended to provide certain levels of funding for different types of students, the current system does not achieve that goal. To remedy this, policy makers may explore adjusting the system so that funding targets students who may require additional support.

Vermont School Districts May Already Be Meeting the Spending Level Deemed Constitutionally Adequate by Experts

As noted previously, Northeastern states have higher public-school expenditures per student compared to the national average, and Vermont had the second highest public-school expenditures per student in the country in the 2020-2021 school year. As mentioned earlier, there may be no direct linkage between funding and student performance. With such high public-school expenditures and relatively level student performance in comparison to other states, Vermont school districts may already be spending at or above a constitutionally adequate base level determined by experts.

Furthermore, there is a wide discrepancy between education spending per equalized pupil across the state. For example, in FY 2023 the lowest education spending per equalized pupil was \$13,314 while the highest was \$25,738. Depending on the level deemed adequate by experts, some districts may already spend an adequate level and others may not.

Additionally, the Brigham decision of 1997 ruled that the foundation formula was unconstitutional as it did not provide equal opportunity to raise dollars above the adequate amount. With adjustments to the statewide funding formula, the constitutionality of equitable funding must be considered.

Changing the Structure of the Homestead Property Yield May Impact the Income Yield and the Nonhomestead Rate

As mentioned earlier in this report, the education funding formula includes three statewide figures that are determined annually by the legislature – the uniform nonhomestead rate, the homestead property yield, and the income yield. In the solving for the December 1 letter requirements, these three factors are set so that the percentage change in the average tax bill across all three classes is equal.⁷⁰ In the setting of the yields and the nonhomestead rate, the relationship is ultimately up to the discretion of the General Assembly.

Depending on changes made to the system, the relationship between the homestead property yield, income yield, and nonhomestead rate will be impacted. For example, adjusting the manner of setting the yields would likely impact the relationship between the different tax classes (homestead property tax, non-homestead property tax, and income sensitivity). Specific impacts, however, will depend on policy decisions.

Vermont’s Current Education Finance System Requires Adjustable Tax Rates

School district budgets are determined locally, which in turn determines the total sum of funds that must be raised for the EF. Due to the current system’s structure, there needs to be an adjustable mechanism to respond to changing financial demands on the EF. Currently, the mechanism to ensure that revenues coming into the EF equal expenditures is the annual setting of the homestead yield and the nonhomestead tax rate. Depending on the performance of non-property tax revenue sources and the size of appropriations out of the EF, the yields and nonhomestead tax rate can be adjusted up or down to raise sufficient revenue to fund education spending decided at the local level.

When considering the options for the setting of the yields to include a base level of spending, it is important to note that unless the education finance system is significantly adjusted, some form of adjustments will need to be included to ensure the appropriate level of funding can be raised. Depending on the changes to the mechanics of the yields, the yields may continue to serve as an adjustment, or a different revenue source may need to be chosen to address changes in the level of funds required to be raised.

If Vermont Includes a Formal Base Amount, It May Need to be Adjusted for Inflation and Other Cost Changes

If Vermont includes a formal base amount to reflect the “constitutionally adequate education spending amount for school districts at a level that is determined by education funding experts to be sufficient to meet student needs,” the formal base amount would likely vary based on spending power and inflation. The formal base amount may also need to be flexible. For instance, the base amount during the years of the COVID-19 pandemic may have needed to increase to allow for the transition to remote learning. The adjustment of this base amount for inflation could be written into statute and modified in accordance along a specific timeline, such as annual or biannual, and the calculation of the adjustment could also be written into statute. Revisiting the constitutionally

⁷⁰ 32 V.S.A. § 5402b

adequate base amount could also be at the discretion of the General Assembly.

Adjustments to the base amount reflect the conflicting areas presented in this report. On one hand, adjusting the base amount for inflation may help school districts maintain a consistent and equitable level of expenditures, impacting programs, staffing, and services. On the other hand, adjusting the base amount for inflation would likely increase the base amount, and thus overall education spending.

Inclusion of a Formal Base Amount May Not Necessarily Align with Cost Containment Strategies

As mentioned in the previous cost containment section, Vermont's education spending per equalized pupil has grown over time. Implementing a base amount per weighted pupil explicitly sets a minimum base of education spending. In other words, this means that if there are districts that are currently spending less than the base amount, those districts would need to increase their spending, which would likely increase in overall education spending. Ultimately, the relationship between a base amount and the cost containment strategies discussed earlier is dependent on both factors and their inclusion in the education finance system and may be in contradiction.

Options for Setting of the Yields

As outlined in the previous section, the current education funding system requires a mechanism that can be adjusted to ensure sufficient revenues are raised to fund expenditures. If the yield becomes fixed, then a new mechanism would need to be used to ensure sufficient revenues are raised.

JFO has identified two primary methods the education finance system could be adjusted to include a specific, formal “constitutionally adequate education spending amount for school districts at a level that is determined by education funding experts to be sufficient to meet student needs”. These are high level options and do not account for the size of the base amount. The size and scope of the base amount will introduce additional considerations.

Option 1: Include a Formal Base Amount Per Pupil in Statute

One option to adjust the system is to set a formal base amount per weighted pupil in statute. This formal base amount would serve as a floor for education spending per weighted pupil and could be set at a level determined by education funding experts to be constitutionally adequate. This is different from the current education financing system because it creates an explicit *spending* floor, whereas the current system has a *tax rate* floor. Under this option, every district would be required to spend a minimum specific dollar amount for every weighted pupil in their district. Unlike in the current system, in which the informal base amount is dependent on revenue performance, this formal base amount would be determined by experts.

There are several different ways this option could be structured in Vermont’s funding formula. Three different options and corresponding considerations to include a formal base amount in Vermont’s funding formula are outlined below.

Option 1a: Set a Formal Base Amount Per Pupil, and Do Not Adjust the System Further

In this option, school districts could still spend above this minimum base amount and their tax rates would be adjusted proportionately (in accordance with current practice). In other words, tax rates would still be calculated by dividing district education spending per pupil by the yield. The only difference would be that districts would not be allowed to spend below the base amount.

In this option, all else within the education funding structure would remain the same.⁷¹

Option 1b: Set a Formal Base Amount Per Pupil with a Corresponding Uniform Rate; the Percentage a School District Pays Over the Base Amount is the Percentage its Tax Rate is Increased

Another option to adjust the funding formula to include a formal base amount per weighted pupil in statute would be to calculate a tax rate annually so sufficient revenues would be raised to fund the base amount and all other expenditures outside of education spending. Districts that spend more per weighted pupil than the formal base amount would have an increased tax rate proportional to their spending decisions. In other words, annually, a minimum homestead property rate would be set for school districts that do not spend more per weighted pupil above the formal base amount. For districts that spend above the formal base amount, tax rates are increased by the same percentage

⁷¹ American Institutes for Research, Plus Alpha Research & Consulting LLC, and U.S. Department of Education. (2019). “Districts’ Use of Weighted Student Funding Systems to Increase School Autonomy and Equity: Findings From a National Study”. <https://www2.ed.gov/rschstat/eval/title-i/weighted-funding/report.pdf>

that districts spend above the base amount per weighted pupil.

Option 1b. May Result in a Fluctuating Minimum Tax Rate

Because of outstanding policy decisions regarding this system, including the size and scope of the formal base amount, the minimum tax rate cannot be estimated at this time. This size of the base amount and the frequency of its adjustment for inflation (or lack thereof) play a significant role in determining the minimum tax rate. However, this variance in minimum tax rate is further compounded by a growing and changing grand list. The size of the grand list as well as the base amount would impact the change in the minimum tax rate.

Option 1c.: Set a Formal Base Amount Per Pupil with Corresponding Uniform Rate, Use Yield for School Districts with Funding Greater than Base Amount

A third option to adjust the education funding formula to include a formal base amount per pupil in statute would be to calculate a tax rate annually so sufficient revenues would be raised to fund the base amount and all other expenditures outside of education spending. In other words, the uniform rate would not fund the education spending above the base amount.

Districts would decide locally the amount they choose to spend above the base amount. A yield would be set to account for spending above the base level amount. Only school districts that have education spending per weighted pupil above the formal amount would have tax rates increased proportionately by this yield. District tax rates would increase proportionately according to what they are spending above the base amount. Policy makers would need to decide if the weights should be also applied at this level.

This could also be thought of as providing a categorical grant to each school district of the base amount. A uniform tax rate would be calculated at a level sufficient to fund all categorical grants, including the base payments.

School districts that choose to spend over the base amount would be accountable to a “secondary yield.” This yield would proportionately adjust the district’s tax rate in accordance with the amount it chooses to spend over the base amount.

Under Option 1c., There Would be Increased Volatility in Tax Rates for Districts Spending Above the Base.

Under this option, the secondary yield would be responsible for raising much less than the yield in the current system. Because fewer dollars would be raised with this yield, the impact of a district’s decision to spend above the formal base amount may greatly affect other district tax rates.

Because there would be fewer dollars raised by this yield, the property wealth of the districts participating in the secondary yield would greatly affect the scope of the proportional tax changes.

Option 2: Establish a State Level Funding Amount for School Districts with Corresponding Uniform Rate

Another option would be to establish a statewide level of funding for school districts with a corresponding uniform rate and remove total spending decisions from the local level. To do so, a base amount per pupil would be set in statute. In other words, districts would no longer have varied education spending per weighted pupil. This base amount would be set at a level determined by education funding experts to be constitutionally adequate. The weights would also be applied at this

level. This means that school districts would receive the base amount per weighted pupil. It may be written in statute that the base amount per pupil would be adjusted for inflation.

A uniform base tax would be calculated so all categorical aid and base level spending could be funded through the uniform base tax. This base tax rate would flexibly adjust depending on the performance of non-property tax revenues, changes to categorical aid appropriations, inflation, and other factors.

Option 2 Would Ensure All Weighted Pupils Receive Equal Base Funding

As outlined in the previous section, education spending per pupil is highly varied across the state. This system would bring spending decisions to the state level, so that school districts would no longer draft school budgets that need to be approved locally. School funding would be determined at the state level according to the base amount established by education experts and pupil weights.

This change would be a significant deviation from Vermont's current education funding system, and would require additional analysis if it were to be pursued.

Appendix 1: Enabling Legislation

No. 127. An act relating to improving student equity by adjusting the school funding formula and providing education quality and funding oversight. (S.287)

* * *

Sec. 19. REPORTS; PROPERTY TAX RATES; JOINT FISCAL OFFICE

Vermont's system of equalized pupils within a shared education fund creates significant opportunities to meet the needs of schools and students. However, certain aspects of the current system distort or prevent a fully equitable and progressive education finance system. Therefore, the Joint Fiscal Office shall explore the issues set forth in this section. On or before January 15, 2023, the Joint Fiscal Office shall examine and provide options to the House Committees on Education and on Ways and Means and the Senate Committees on Education and on Finance for structuring the following:

(1) methods for cost containment that create equity in school districts' ability to spend sufficiently on education to meet student needs;

(2) in collaboration with the Department of Taxes and the Agency of Education, the mechanics for setting the yields in a manner that creates a constitutionally adequate education spending amount for school districts at a level that is determined by education funding experts to be sufficient to meet student needs; and

(3) funding similar school districts in an equitable manner regardless of their per pupil education spending decisions.

Appendix 2: Glossary of Education Finance Terms

Average Daily Membership (ADM)

Average daily membership is “[...] [t]he full-time equivalent enrollment of students, as defined by the State Board by rule, who are legal residents of the district or municipality attending a school owned and operated by the district, attending a public school outside the district under section 822a of this title, or for whom the district pays tuition to one or more approved independent schools or public schools outside the district during the annual census period. The census period consists of the 11th day through the 30th day of the school year which is actually in session.” 16 V.S.A. § 4001(1)(A). State placed students and pre-kindergarten students are counted differently. *See* 16 V.S.A. § 4001(1)(B) and (C).

Common Level of Appraisal

Common level of appraisal (CLA) means the ratio of the aggregate value of local education property tax grand list to the aggregate value of the equalized education property tax grand list. The CLA is applied to property tax rates as a measure to ensure property values reflect fair market value. A town's CLA is determined through the annual Equalization Study, which uses real estate sales data from the past 3 years. 32 V.S.A. § 5405. The Department of Taxes determines the tax rate actually seen on a property tax bill by dividing a town's school district(s) tax rate by the town's CLA. 32 V.S.A. §§ 5401(3) and 5402(b)(1).

December 1 Letter

The December 1 letter is a statutorily required letter from the Commissioner of Taxes, prepared in consultation with the Secretary of Education, the Secretary of Administration, and the Joint Fiscal Office, which calculates and recommends a property dollar equivalent yield, an income dollar equivalent yield, and a nonhomestead property tax rate for the following fiscal year. In making these calculations, the Commissioner is required to assume: (1) a homestead tax rate of \$1 per \$100 of property value; (2) an income percentage of 2%; and (3) that Education Fund stabilization reserves are maintained at 5% of prior year appropriations. 32 V.S.A. § 5402b(a)(3); 16 V.S.A. § 4026.

District

A town school district, union school district, interstate school district, city school district, unified union district, and incorporated school district, each of which is governed by a publicly elected board. 16 V.S.A. § 11(10).

Education Fund

The Education Fund is established under 16 V.S.A. § 4025 and receives revenue from the following sources:

- all revenue paid to the State from the statewide education tax on nonhomestead and homestead property under 32 V.S.A. chapter 135
- revenues from State lotteries under 31 V.S.A. chapter 14 and from any multijurisdictional lottery game authorized under that chapter
- 25% of the revenues from the meals and rooms taxes imposed under 32 V.S.A. chapter 225
- 30% of the revenues raised from the purchase and use tax imposed by 32 V.S.A. chapter 219, notwithstanding 19 V.S.A. § 11(1)
- all revenue raised from the sales and use tax imposed by 32 V.S.A. chapter 233

- Medicaid reimbursement funds pursuant to 32 V.S.A. § 2959a(f)
- Wind-powered electric generating facilities tax under 32 V.S.A. § 5402c
- Uniform capacity tax (on solar renewable energy) under 32 V.S.A. § 8701)

Revenues in the Education Fund are used for the following:

- Education payments to school districts and supervisory unions under 16 V.S.A. chapter 133 and 32 V.S.A. chapter 135
- Homestead property tax credit (formerly known as the income sensitivity adjustment or homestead rebate) under 32 V.S.A. § 6066
- Teachers' pensions, normal cost only under 32 V.S.A. § 1944(c)
- Special education aid under 16 V.S.A. chapter 101 and § 4028(b)
- State-placed students under 16 V.S.A. § 4012
- Transportation aid under 16 V.S.A. § 4016
- Technical education aid under 16 V.S.A. chapter 37 and § 4028(b)
- Small schools support grants under 16 V.S.A. § 4015
- Essential early education aid under 16 V.S.A. §§ 2948 and 2956
- Flexible Pathways Initiative under 16 V.S.A. § 941
- Other uses (accounting and auditing, financial systems and reporting) 16 V.S.A. § 4025(b)(2) and (b)(5)

Education Spending

Education spending is “the amount of the school district budget, any assessment for a joint contract school, career technical center payments made on behalf of the district under subsection 1561(b) of this title, and any amount added to pay a deficit pursuant to 24 V.S.A. § 1523(b) that is paid for by the school district, but excluding any portion of the school budget paid for from any other sources such as endowments, parental fundraising, federal funds, nongovernmental grants, or other State funds such as special education funds paid under chapter 101 of this title.” 16 V.S.A. § 4001(6).

Education Spending Adjustment

- (1) *Education income tax spending adjustment* is “[...] the greater of one or a fraction in which the numerator is the district’s per pupil education spending plus excess spending for the school year, and the denominator is the income dollar equivalent yield for the school year, as defined in subdivision (16) of this section.” 32 V.S.A. § 5401(13)(B).

$$\text{(education spending + excess spending)} \quad (/) \quad \text{(income dollar yield)}$$

- (2) *Education property tax spending adjustment* is “[...] the greater of one or a fraction in which the numerator is the district’s per pupil education spending plus excess spending for the school year, and the denominator is the property dollar equivalent yield for the school year, as defined in subdivision (15) of this section.” 32 V.S.A. § 5401(13)(A).

$$\text{(education spending + excess spending)} \quad (/) \quad \text{(property dollar yield)}$$

Equalized Education Property Tax Grand List

Equalized education property tax grand list means “one percent of the aggregate fair market value of

all nonhomestead and homestead property that is required to be listed at fair market value as certified during that year by the Director of Property Valuation and Review under section 5406 of this title, plus one percent of the aggregate value of property required to be listed at a value established under a stabilization agreement described under section 5404a of this title, plus one percent of the aggregate use value established under chapter 124 of this title of all nonhomestead property that is enrolled in the use value appraisal program.” 32 V.S.A. § 5401(6).

Equalized Pupils

“Equalized pupils’ means the long-term weighted average daily membership multiplied by the ratio of the statewide long-term average daily membership to the statewide long-term weighted average daily membership.” 16 V.S.A. § 4001(3).

Excess Spending

The per-equalized-pupil amount of the district's education spending, plus any amount required to be added from a capital construction reserve fund under 24 V.S.A. § 2804(b). Excess spending is spending above 121% of the statewide average district education spending per equalized pupil increased by inflation, as determined by the Secretary of Education on or before November 15 of each year based on the budgets passed to date. 32 V.S.A. § 5401(12)(A).

Excess spending has many exclusions that do not count toward the calculation of spending, which are listed under 32 V.S.A. § 5401(12)(B).

The excess spending provisions have been inoperative since the start of FY 2022 and will remain ineffective through FY 2029. See, 2021 Acts and Resolves, No. 59, Sec. 5; 2022 Acts and Resolves, No. 127, Sec. 8(a).

Homestead

“Homestead” means the principal dwelling and parcel of land surrounding the dwelling, owned and occupied by a resident individual as the individual's domicile or owned and fully leased on April 1, provided the property is not leased for more than 182 days out of the calendar year or, for purposes of the renter credit under subsection 6066(b) of this title, is rented and occupied by a resident individual as the individual's domicile.” 32 V.S.A. § 5401(7)(A).

The homestead tax rate is a base rate of \$1.00, multiplied by the education spending adjustment, per \$100.00 of equalized education property value. 32 V.S.A. § 5402(a)(2). The education spending adjustment takes into account the education spending in the particular school district.

Household Income

The property tax credit allowed against the current year's homestead property tax liability is computed based on the prior year's household income. 32 V.S.A. § 6066. Household income means modified adjusted gross income, which is federal adjusted gross income with certain additions and subtractions intended to capture the amount of income a household has available to pay property taxes. 32 V.S.A. § 6061(4) and (5). The definition of “household income” for the property tax credit is different from the definition of “income” for the renter credit. 32 V.S.A. § 6061(4), (5), and (18).

Housesite

“Housesite” means the dwelling and as much of the land owned by the claimant surrounding the dwelling as is reasonably necessary for use of the dwelling as a home, up to two acres per dwelling unit; and in the case of multiple dwelling units, no more than two acres per dwelling unit up to a maximum of 10 acres per parcel. 32 V.S.A. § 6061(11). Only the property taxes imposed on the housesite are eligible for a property tax credit.

Income Percentage

Income percentage is “[...] two percent, multiplied by the education income tax spending adjustment under subdivision 5401(13)(B) of this title for the property tax year which begins in the claim year for the municipality in which the homestead residence is located.” 32 V.S.A. § 6066(a)(2).

Long-Term Membership

“‘Long-term membership’ of a school district in any school year means the mean average of the district’s average daily membership, excluding full-time equivalent enrollment of State-placed students, over two school years, plus full-time equivalent enrollment of State-placed students for the most recent of the two years.” 16 V.S.A. § 4001(7).

Nonhomestead

Nonhomestead property is everything other than homestead property, exempt property, and other statutorily named properties, particularly those subject to other taxes. Nonhomestead property includes secondary residences and commercial properties. 32 V.S.A. § 5401(10). The nonhomestead tax rate is a default statutory rate \$1.59 per \$100.00 of equalized education property value. This rate is typically subject to a notwithstanding clause, and the General Assembly sets a different, uniform statewide rate each year.

Property Tax Credit

Prior to 2019, the property tax credit was known as the income sensitivity property tax adjustment or the homeowner rebate. See 2019 Acts and Resolves No. 51, § 33. The credit is available to income-eligible taxpayers who own their homestead as of April 1, were domiciled in Vermont for the full prior calendar year, are not claimed as a dependent of another taxpayer, and timely file a homestead declaration. 32 V.S.A. chapter 154.

Tax Capacity

The ability of a group of taxpayers to pay taxes imposed on a tax base before experiencing hardship or the ability of a taxing authority to raise revenues to fund services. Also referred to as “taxable capacity” or “taxing capacity”. Tax capacity is to be distinguished from “fiscal capacity,” which is the government’s ability and willingness to meet its financial obligations as they come due on an ongoing basis.

Weighted Long-Term Membership

“‘Weighted long-term membership’ of a school district in any school year means the long-term membership adjusted pursuant to section 4010 of this title”. 16 V.S.A. § 4001(12). To obtain this number, student groups are broken into grade-level categories: pre-kindergarten, elementary or kindergarten, and secondary students. A long-term membership is determined for each category by using the actual average membership (ADM) over two consecutive years for each group, the latter year being the current school year. The long-term membership for each of those categories is multiplied by the statutory weights associated with each grade-level category. Those results are then added together. The final number is the weighted long-term membership. The weights are meant to reflect the additional (or lower) costs associated with educating students in each category.

Yields

There are 2 yields: one for taxpayers who pay based on property value and one for those who pay based on household income and property value. The yields are the amount of spending per

equalized pupil that could be supported by the statutory tax rate or income percentage and maintaining the Education Fund reserves at 5%. 32 V.S.A. § 5401(15) and (16).

(1) *Income dollar equivalent yield* is “the amount of spending per equalized pupil that would result if the income percentage in subdivision 6066(a)(2) of this title were 2.0 percent, and the statutory reserves under 16 V.S.A. § 4026 and section 5402b of this title were maintained.” 32 V.S.A. § 5401(16).

(2) *Property dollar equivalent yield* is “the amount of spending per equalized pupil that would result if the homestead tax rate were \$1.00 per \$100.00 of equalized education property value and the statutory reserves under 16 V.S.A. § 4026 and section 5402b of this title were maintained.” 32 V.S.A. § 5401(15).

The yields are typically set each year by the General Assembly in session law, but if not, the prior fiscal year's yields will apply by default. 32 V.S.A. § 5402b(b).