

The current structure of the Education Fund is unsustainable. The basic cost control mechanism is that by approving a school district spending plan voters effectively set their own education property tax rates, modified by other factors. But there are so many costs that are beyond the control of school district voters, and the basic cost control mechanism has not been working effectively because support programs like the Homestead Property Tax Credit and Current Use mean that many voters do not actually pay the full costs of their property taxes as voted. In addition, those programs are not education, and their costs should not be paid for in the Education Fund. The overall complexity of the system makes it harder for voters to understand the full impact of their votes, given that the spending decisions of other districts and factors like the Common Level of Appraisal complicate the situation. Further, I believe that the design of the Homestead Property Tax Credit creates many inequities and inefficiencies, including an incentive to have smaller households.

Proposal:

The non-education costs of Current Use and the Homestead Property Tax Credit should be removed from the Education Fund and covered in the General Fund – this could be done over a period of four years, for instance. Since together these programs cost the EF about \$200 million, that would be about \$50 million per year. These programs are not education costs, they are not controlled by district voters, and before there was a statewide Education Fund their costs were covered in the General Fund.

Over time the Homestead Property Tax Credit program should be split into two programs. One would be a Refundable Housing Tax Credit for Vermonters below a certain income level. This credit would be based on income, not property taxes or rent, but the credit could be applied to a taxpayer's education property taxes, and a household with more than one person could combine their credits to cover housing costs, instead of having support reduced when there is a larger household with more income. The other program would be a continuation of the existing Homestead Property Tax Credit but only for certain lower income levels, and there would be a wealth test. The Current Use Program would be left as it is.

Result:

The gradual removal of the costs of the HPTC and the CU from the EF will lessen the current projected increases in education property taxes over the next few years.

The re-design of the HPTC would mean that support for education property tax payments would no longer necessarily go up automatically when property tax liabilities increase, so that voters would have a stronger incentive to control spending – they would be connected more closely to the consequences of their budget votes.

The re-design of the HPTC would also mean that each individual adult Vermonter would have a housing credit, so combining in a multi-person household would not result in reduction of the property tax credit as it does now. This would make it financially easier to have more multi-person households, possibly leading to a more intensive use of existing housing.

Caveats:

The state has to find \$50 m more in the General Fund to cover the CU and HPTC costs for each of the next four years.

In return for the shift in responsibility for the non-education HPTC and CU costs, the state should explore education cost control mechanisms, like some version of the "foundation" formula, and do what it can within the structure of current law to negotiate the stabilization of fast growing costs like teacher health care, teacher retirement, and teacher compensation.