

Vermont School Boards Association
Information Bulletin
February 3, 2014

FACTORS CONTRIBUTING TO THE INCREASE IN EDUCATION TAX RATES FOR 2014-15 AT A RATE HIGHER THAN BUDGET INCREASES

School boards are charged with governing a system that assures high quality education for students and good value for taxpayers. Every year, they work hard to find the right balance, striving to provide a quality education while managing the cost pressures of health care, employee compensation, and various new Federal and State requirements in a time of shrinking student enrollment. Voters on Town Meeting Day will be asked to consider the efforts school boards have made on their behalf.

Voters understand that if the spending they are asked to approve is rising, they will likely have higher taxes. However, this year, more dramatically than at any time in the recent past, many communities face a particular challenge that complicates the process--property taxes are generally slated to rise at a rate substantially greater than that of school budgets. This situation deserves an explanation.

The following variables are affecting all districts:

- **A \$19.3 million Education Fund surplus was available in FY2014;** however, these one-time funds are not available for FY2015. Even if education spending did not increase statewide, school tax rates would have to increase for 2015 just to compensate for that additional \$19.3 million.
- **Non-property tax revenues, primarily the General Fund transfer to the Education Fund, have not kept pace with school spending.** Vermont continues to see a greater and greater percentage of the Education Fund being covered by property tax rather than broad-based taxes. Slower growth in broad-based taxes, combined with the reduction in the General Fund transfer during the recession, has resulted in the percentage of the Education Fund provided by property taxes increasing from 61% in 2005 to 68% in 2015.
- **The statewide education grand list is projected to decline for the fourth consecutive year (by about 0.4% this year)** due to continuing depreciation and a lack of new construction. Consequently, tax rates must rise in order to raise even the same amount of revenue from a smaller tax base.
- **Overall education spending statewide is projected to rise 3.9%.** Statewide increases in education spending will push taxes up in every district given that we are all linked.

These four variables combined are projected to cause all local tax rates to increase approximately 4.8% even before considering the specifics of your local budget.

In addition, the following will affect local tax rates beyond the increases above:

- **Proposed *education spending* is rising faster than *budget* in some districts as a result of reduced revenue from sources other than the Education Fund.** Budget is the amount the town authorizes the school board to spend. Many budget increases this year are quite modest. However, *education spending* is the primary amount which comes from the Education Fund, and it is what drives taxes. It is calculated by subtracting from the budget a number of specific revenue line items. The rise in *education spending* in a number of districts is affected by lost revenues. Those losses include reductions related to the federal “sequestration”, loss of dollars that were part of ARRA or the federal “JOBS money” that have now been fully spent, or the fact that local surpluses from previous years have been fully exhausted.
- **Many districts continue to face declining enrollments.** Local tax rates are affected by spending per equalized pupil. In small districts, even a small reduction in the number of pupils can have a significant impact on education tax rates by raising the cost per student despite a level-funded budget.
- **The status of property appraisal may affect the local tax rate.** If property has not recently been appraised, the state-calculated Common Level of Appraisal (CLA) can result in a property tax adjustment in order to ensure that you and your neighbor in the next town pay the same amount of education tax on properties of equal value.

It is hoped that this information sheet will help in educating the community about your budget situation. As all Vermonters know, our current education finance system is very fair in assuring all students have access to resources to support education. It is also very complex. The specific circumstances present in your community may require additional analysis and explanation.

