

Notes on State Aid for Education

1782 Statute

- Each school district provided funding for its own schools.
- Fees were levied on a per-pupil basis to those families that had school-aged children.

1864 Statute

- Property taxes, payable to the local school, were made compulsory for all landowners regardless of whether they had children in the school district.
- School districts set the property tax rate and their school was funded solely by that revenue.
- In 1860, there were 2,951 school districts; between 1850 and 1860 enrollment fell from 99,110 to 75,691.
- Rural school districts paid extraordinarily high property tax rates and were only able to support inadequate spending on education.

1890 and 1892 Statutes

- 1890 statute created a five-cent statewide property tax to address perceived problems.
- Statewide property tax revenue was distributed according to the number of school in each municipality, not according to the number of pupils.
- Effect was to redistribute state aid from wealthy to poorer districts – but at the time the wealthy districts were urban and the poor districts were rural.
- 1892 statute required all municipalities to consolidate into one town district – over 2,000 to 251.
- Intent was to force consolidation of school districts to make them more efficient and to lower costs.

1931 Statute

- Replaced statewide property tax with a state income tax.
- Education costs once again reverted largely to municipal property taxes.

1935 Commission

- A study commission recommended that state aid for education should be based on the concept of equal education opportunity for students regardless of where they lived.
- In order to do this the report recommended that state aid should be based on the number of students and differences in the ability to raise revenue in each municipality.
- The Commission also introduced the concept of ‘equated pupils’ – rural and secondary students were considered to cost 1.7 times the cost of non-rural and elementary students.
- Under the formula adopted to implement the report, state aid was distributed in inverse proportion to the amount of each school district’s property wealth. Since grand lists were not comparable, the formula also contained an “equalizing” factor.
- The formula was never fully funded – the first year appropriation was \$700,000; the amount required to fully-fund the formula was \$864,000.

The Hunt-Simpson Formula

- Under the Hunt-Simpson formula, state aid was intended to fund a required program based on the number of pupils in each school district and the school district’s ability to support that program based on its equalized property value per pupil.
- Initially, the required program was \$307 per elementary pupil and \$454 per secondary pupil. State aid was calculated as the difference between what a \$1.25 property tax rate on the school district’s equalized grand list would raise and the required program costs. However, regardless of its property wealth no school district received less than 10% of its required program cost.
- An extra \$175,000 of discretionary money was allocated to the State Board of Education to assist school districts with uncommon costs or tax effort.

The Miller Formula

- Under the Miller formula, state aid was distributed in inverse proportion to each school district's per-pupil property wealth. School districts with equal per-pupil wealth received the same percentage of their "current expenditures" in state aid.
- The original intent was to distribute aid in such a way that a school district of average per-pupil wealth received 40% state funding; however, state aid leveled off at a time when the cost of education continued to climb.
- In FY1974, 172 (of 247) school districts received state aid via the Miller formula, while 75 school districts received only the minimum amount of state aid. By 1979, a district of average per-pupil wealth received only 17% state funding.
- In response to growing dissatisfaction with the formula, it was modified to include minimum aid - a flat grant of \$50 per pupil regardless of per-pupil wealth and a "tilting floor" that provided between \$51 and \$125 per pupil to certain school districts.

The Morse-Giuliani Formula

- The Morse-Giuliani formula included several refinements to the Miller formula; however, the underlying principles were similar. The most significant change to the Miller formula was the inclusion of an income factor in determining a school district's per-pupil wealth.
- The income factor compared each school district's median adjusted gross income per return to the statewide average. The property factor compared each school district's equalized per-pupil property value to the statewide average. Both indices were averaged over a three-year period and multiplied to determine a "melded wealth index."
- The formula also included a "listing penalty" to encourage municipalities to maintain their grand lists near fair market value by withholding a portion of state aid from those school districts in which the grand list fell below a fixed percentage of fair market value.
- Although the Morse-Giuliani formula attempted to improve the measure of ability to pay, state funds allocated to education were not sufficient to overcome the

differences in school spending related to disparities in the fiscal resources available to school districts.

Foundation Formula

- The Foundation formula was enacted with the goal of assuring that every school district has the ability to provide its students with a good basic education regardless of the school district's fiscal resources.
- Unlike previous formulas, which based state aid on the amount each school district spent, the Foundation formula based aid on a set per-pupil level of spending. This "foundation cost" was based on the actual median per-pupil expenditures for elementary students.
- The formula was based on the principle that state aid should equal each school district's need minus its resources. "Need" equaled the foundation cost multiplied by the count of pupils weighted for secondary students, students in poverty, and student transportation.
- "Resources" equaled each school district's equalized property value multiplied by a standard tax rate. This uniform tax rate was modified slightly to account for differences in each municipality's adjusted gross income per exemption.
- School districts with resources equal to more than 150% of need received no state aid; school districts with resources between 100% and 150% of need received a flat grant of \$50 per pupil; and in school districts in which need exceeded resources state aid equaled the difference.
- In addition, all school districts that received foundation aid were eligible for "supplemental aid" for capital debt service expenditures on approved construction projects as well as aid for above average per-pupil spending.
- Finally, the formula included a "maximum loss" provision the limited reductions in foundation and supplemental state aid to eligible school districts to \$150 per pupil.
- Fluctuations in the state's fiscal status led the Legislature to adjust the standard tax rate so that state aid was reduced. Consequently, the share of education spending covered by aid varied between 20% and 37% and was falling in the period immediately prior to the *Brigham* ruling.

- Property wealthy school districts were able to increase spending above the foundation cost with a lower incremental tax rate than property poor school districts. This allowed property wealthy school districts to have both lower property tax rates and higher per-pupil spending.

Act 60 – the Equal Education Opportunity Act

- Enacted in response to the *Brigham* decision, Act 60 dramatically changed the way Vermont funded its schools by eliminating the relationship between a school district's property wealth and its spending on education.
- Brigham was the last education finance decision based on the concept of "equity"; subsequent court interventions in state education finance have been based on the concept of "adequacy."
- Act 60 established a two-tiered funding system. The first component was a base amount of per-pupil spending for all school districts, financed in part by a statewide property tax. The property tax rate was set at \$1.10; the base amount was set at \$5,200 and indexed to inflation.
- The second component, for education spending above the base amount, was funded by an additional property tax. The above-base property tax rate was set in proportion to the level of each school district's per-pupil spending and set high enough to fully fund spending above the base amount.
- Setting proportionate above-base property tax rates meant that property wealthy school districts would raise more revenue at the same tax rate than property poor districts with the same per-pupil spending. In this way, property wealthy school districts funded a disproportionate share of above-base spending.
- To avoid this so-called "sharing pool", some property wealthy school district chose to fund education spending above the base amount through private donations. Privately-raised funds were not included in education spending for the purpose of setting property tax rates.
- An income adjustment was enacted to limit the tax liability of individual households. In school districts spending only the base amount, tax liability was limited to the lesser of the property tax or two percent of income; in school districts spending more than the base amount, the percentage of income was increased proportionally.

Act 68 – Modifications to Act 60

- Act 68, which has been the basis for our education finance system since FY2005, modified Act 60 in several ways. First, Act 68 eliminated the two-tiered system of funding education combining all funds for education into one large pot and eliminating the sharing pool.
- In addition, Act 68 split the property tax base between homestead and non-residential property. The non-residential tax rate is now set by the state and is uniform across all municipalities. Under Act 60, this tax rate had varied between municipalities based on per-pupil spending.
- Regardless of the level of per-pupil spending approved by the voters of each municipality, taxpayers with homesteads of the same market value or the same household income in school districts with the same per-pupil spending have equal education tax bills.
- Other modifications include increasing the income level at which individual households may pay the education tax based on their income rather than the homestead value to \$90,000 and numerous other small changes to the operation of the education funding system.