

**HWM Committee
Working Education Finance Proposal**

Based on hypothetical education spending estimates from December 1 Consensus

1. Reduce the average homestead property tax rate from \$1.594 to \$0.909 by:

- Lowering the base homestead property tax rate to \$0.25
- Providing a base education payment of \$12,982 per equalized pupil
- Lowering the homestead property yield to \$4,450 (on above-base spending only)
- Raises the tax cost of every \$1 of additional per-pupil spending

2. Simplify administration and compliance with the education tax system by:

- Repealing the property tax adjustment
- Repealing the homeowner rebate (see item 6)
- Repealing the income yield and tax rate on household income
- Eliminating the filing and processing of over 120,000 household income forms

3. Create a marginal education tax on adjusted gross income (AGI):

AGI	Tax Rate
\$0 to \$47,000	0.0%
\$47,001 to \$100,000	0.75%
\$100,000 to \$2,000,000	1.4%
Over 2,000,000	Capped

4. Eliminate the GF tranfer to the EF in a revenue-neutral fashion by some combination of:

- Dedicating GF revenues to the EF in lieu of the GF transfer
- Transferring some EF uses that do not go directly to districts to the GF
- Creating a GF transfer to cover the Use Value Appraisal tax expenditure

5. Provide tax relief to homeowners currently eligible for the homeowner rebate by:

- Targeting the \$23 million current-law cost of the rebate to homeowners with household income under \$47,000
- Providing a refundable income tax credit to low-income homeowners who remain overburdened

6. Separate the Education and the Municipal Property Tax by:

- Sending homeowners separate property tax bills through existing NEMRC system
- Using a portion of the existing fee paid to municipalities to cover administration costs

Current Law Compared to HWM Working Proposal - Based on December 1st Consensus

(millions of dollars)

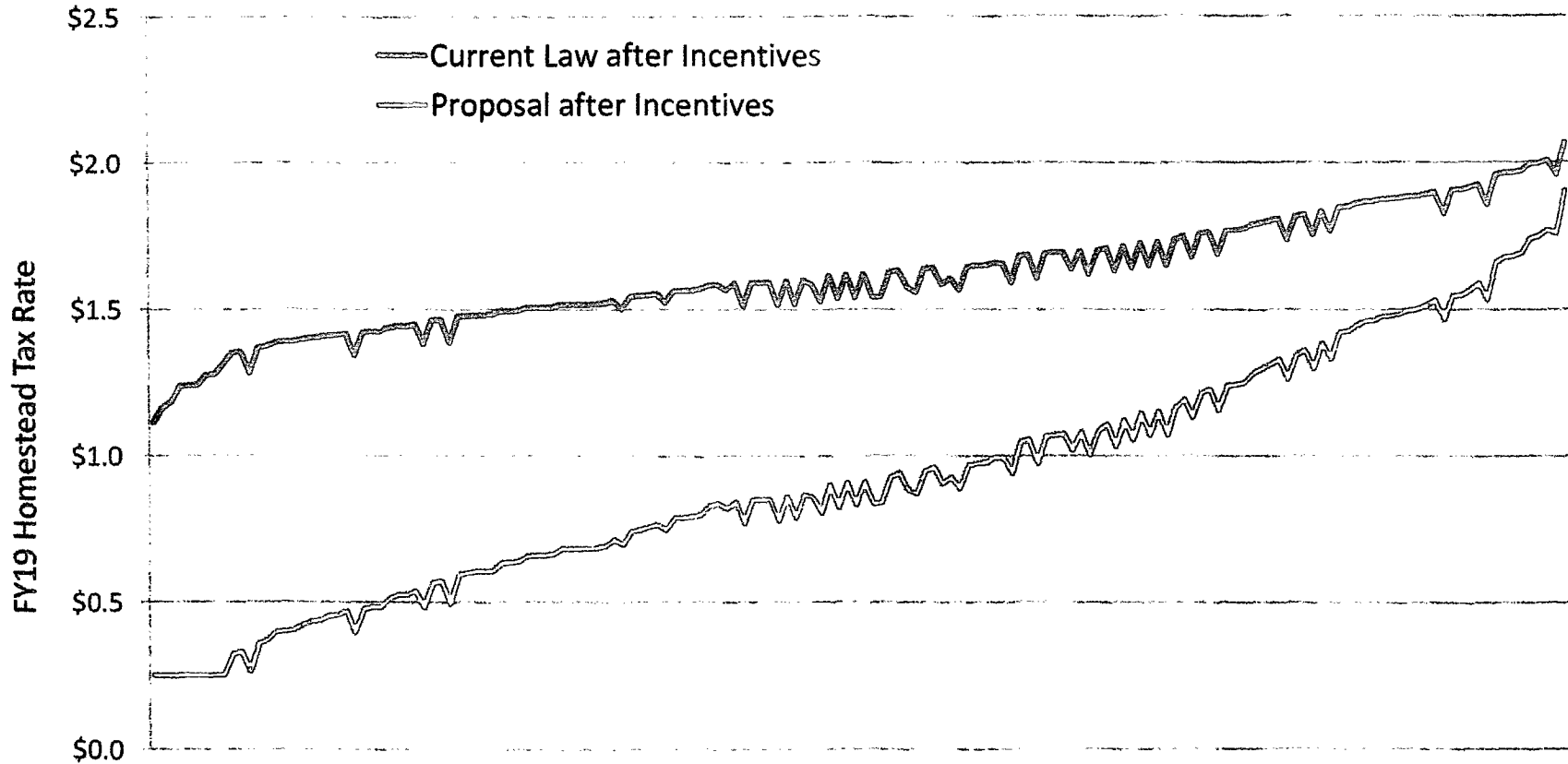
	Current Law	Proposal	
a Average Homestead Property Tax Rate	\$1,594	\$0.909	
b Average Tax Rate on Household Income	2.65%	NA	Repealed
c Uniform Non-Homestead Property Tax Rate	\$1,629	\$1,629	
d Base Education Payment	NA	\$12,982	See attached worksheet for calculation
e Property Yield Per Equalized Pupil	\$9,842	\$4,450	
f Income Yield Per Equalized Pupil	\$11,862	NA	Repealed
Sources (actual)			
1 Base Homestead Education Property Tax	NA	99.1	25-cent base homestead property tax rate
2 Homestead Education Tax Based on Yield	634.1	265.7	Yield applied to spending in excess of base
3 Education Income Tax *	NA	99.3	Tiered tax on AGI - see table
4 Property Tax Adjustment and Rebate**	(176.4)	(6.4)	Repeals adjustment; retains funds
5 Non-Homestead Education Tax	693.4	693.4	
6 Purchase & Use Tax	36.5	36.5	
7 General Fund Transfer	322.9	NA	Replaces GF transfer with other GF sources
8 Sales & Use Tax	144.1	400.3	Dedicates 100% of sales & use tax to EF
9 Additional Dedicated GF Source or Use	NA	66.7	To be determined - see attached worksheet
10 Lottery Transfer	25.6	25.6	
11 Medicaid Transfer	8.6	8.6	
12 Other Sources (Wind & Solar, Other)	1.1	1.1	
13 Total Sources	1,689.9	1,689.9	
Uses (appropriations)			
14 Education Payment	1,398.5	1,398.5	
15 <i>Recapture of Teachers' Health Care Savings</i>	<i>(4.5)</i>	<i>(4.5)</i>	
16 Special Education Aid	189.2	189.2	
17 State-Placed Students	16.7	16.7	
18 Transportation Aid	19.2	19.2	
19 Technical Education Aid	13.9	13.9	
20 Small School Support	7.6	7.6	
21 Essential Early Education Aid	6.6	6.6	
22 Adult Education & Literacy	3.0	3.0	
23 Flexible Pathways	7.4	7.4	
24 Community HS of Vermont (Corrections)	3.3	3.3	
25 Renter Rebate (General Govt) - EF share	7.9	7.9	
26 Reappraisal & Listing (General Govt)	3.3	3.3	
27 Teachers' Pensions - normal cost	7.7	7.7	
28 Other Uses (Accounting fees, Other)	1.1	1.1	
29 Total Uses	1,681.0	1,681.0	

Calculation of the Base Education Payment

(millions of dollars)

1,689.9	Total EF sources
<u>(457.7)</u>	Less net homestead tax
1,232.2	
1,681.0	EF uses
<u>8.9</u>	Plus FY2019 transfer to stabilization reserve
1,689.9	
1,689.9	Total EF uses
<u>(1,394.0)</u>	Less total education payment
295.9	
1,232.2	Available Education Fund sources
<u>(295.9)</u>	Less EF uses except for education payment
936.3	
936.3	Available net EF sources
99.3	Education tax on AGI
<u>99.3</u>	Homestead tax with base tax rate at \$0.25
1,134.9	Total base payment
\$1,134,900,000	Total base payment
87,427	Equalized pupils
\$12,981	Base payment per equalized pupil

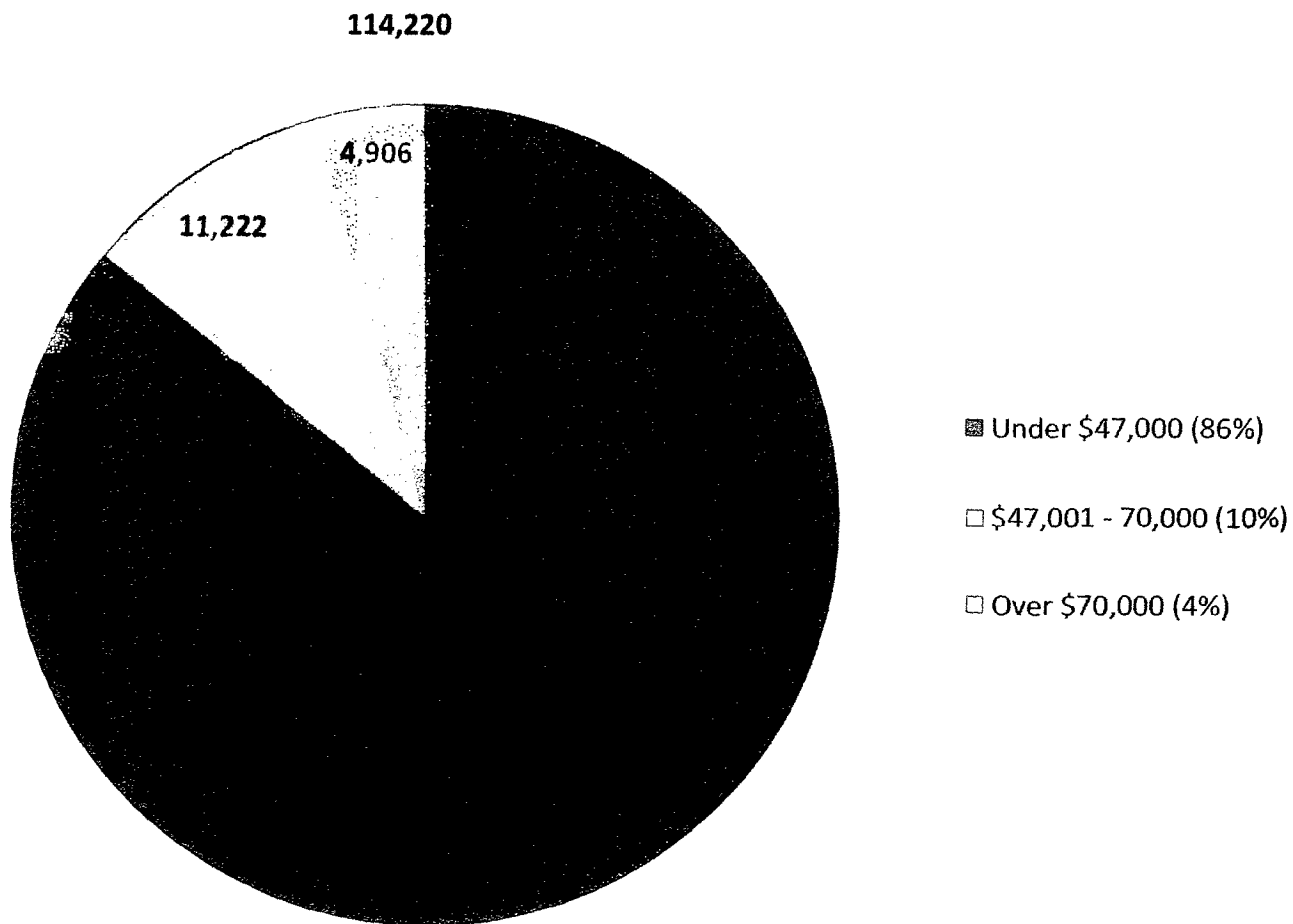
HWM Committee Working Proposal
FY19 Preliminary (Estimated) District Tax Rates
Based on December 1st Consensus



District Ranked by Estimated Education Spending/ Equalized Pupil

Education Spending by district is estimated until school budgets are released and voted on at Town Meeting. Act 46 Incentives are taken into account for the proposed district rates - but the throttles on the town level rates (+/- 5%) are not included in the current analysis as the bounds tied to FY18 are no longer valid.

Number of Vermont Renters Age 18 and Over by 2015 Income
American Community Survey



Option for Repealing and Replacing the General Fund Transfer to the Education Fund

(millions of dollars)

General Fund				Education Fund			
GF Source	Current Law	Change	Proposal	Current Law	Change	Proposal	
	(322.9)	322.9	-	322.9	(322.9)	-	Repealed
Sales Tax Allocation	256.6	(256.6)	-	144.3	256.6	400.9	100% of sales tax to EF
Liquor	20.1	-	20.1	-	-	-	
Insurance	58.4	(58.4)	-	-	58.4	58.4	Dedicated to EF
Beverage	7.2	(7.2)	-	-	7.2	7.2	Dedicated to EF
Bank Franchise	11.5	-	11.5	-	-	-	
Total	30.9	0.7	31.6	467.2	(0.7)	466.5	

Use Value Appraisal Program	<u>Homestead Property</u>	<u>Nonresidential Property</u>
Tax Expenditure from EF:	\$12.8	\$32.6
	<i>This tax expenditure is reduced when homestead property taxes are reduced</i>	<i>No change to this tax expenditure since the nonresidential property tax would not change</i>

Current Law Education Fund Uses	
Adult Education & Literacy	3.0
Flexible Pathways	7.4
Community HS of Vermont (Corrections)	3.3
Renter Rebate (General Govt) - EF share	7.9
<u>Reappraisal & Listing (General Govt)</u>	<u>3.3</u>
Total	24.9