

**House Committee on Ways and Means
Summary of Working Education Finance Proposal for FY2019**

*Based on hypothetical education spending and other estimates from December 1 consensus
Base homestead tax rate, base education payment, and yield are subject to change
Homestead exemption and homestead value cap are subject to change
AGI brackets, tax rates and cap are subject to change*

1. Reduce the average homestead property tax rate from \$1.594 to \$0.833 by:

- a. Lowering the base homestead property tax rate to \$0.25
- b. Providing a base education payment of \$12,982 per equalized pupil
- c. Lowering the homestead property yield to \$5,000 (on above-base spending only)
Raises the tax cost of every \$1 of additional above-block spending per-pupil

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

- a. Replace the property tax adjustment and income yield with a school income tax
- b. Replace the homeowner rebate with a homeowner exemption

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

- a. Tax brackets, tax rates, and AGI cap for discussion purposes :

AGI	Tax Rate
\$0 to \$47,000	Exempt
\$47,001 to \$125,000	1.35%
\$125,000 to \$4,000,000	1.95%
Over \$4,000,000	Capped

- b. Exempts the first \$47,000 of AGI from the tax for all filers
- c. Resident renters and nonresidents with Vermont AGI would be subject to the AGI tax
- d. AGI is the measure of income closest to household income available

4. Eliminate the \$323 million GF transfer to the EF in a revenue-neutral fashion by a combination of:

- a. Dedicating GF revenues to the EF in lieu of the GF transfer:
 - * 100% of the sales & use tax
 - * 25% of the meals & rooms tax
- b. Transferring some EF uses that do not go directly to school districts to the GF:
 - * Adult education and literacy
 - * Flexible pathways
 - * Community HS of Vermont
 - * Renter rebate

5. Protecting homeowners with household income under \$47,000 by:

- a. Providing a variable homestead exemption for homeowners with household income under \$47,000
- b. Limiting the homestead exemption to the first \$400,000 of homestead value
- c. Consider separating the EF and GF cost of the homeowner exemption
Unlike under current law, all homeowners would have a stake in growth in their school budget

6. Separate the school and the municipal property tax bills by:

- a. Sending separate municipal and school property tax bills through the existing NEMRC system
- b. Using a portion of the existing fee paid to municipalities to cover administration costs
This may give voters a better understanding of the factors that determine their total property tax bills

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	\$0.833	48% reduction in tax rate
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	\$5,000	
f Income Yield Per Equalized Pupil	\$11,862	NA	Repealed

Sources (actual)

1 Base Homestead Property Tax	NA	99.2	25-cent base homestead property tax rate
2 Homestead Property Tax Based on Yield	634.1	234.9	Yield applied to spending in excess of base
3 Property Tax Adjustment and Rebate	(176.4)	NA	Repealed
4 Homestead Exemption (NA	(48.5)	Variable homestead exemption for low-income homeowners
5 Education Income Tax	NA	172.0	Graduated tax on AGI over \$47,000
6 Non-Homestead Education Tax	693.4	693.4	
7 Purchase & Use Tax	36.5	36.5	
8 General Fund Transfer	322.9	-	Repealed
9 Sales & Use Tax	144.1	400.9	Dedicates 100% of sales & use tax to EF
10 Meals & Rooms Tax	-	44.6	Dedicates 25% of meals & rooms tax to EF
11 Lottery Transfer	25.6	25.6	
12 Medicaid Transfer	8.6	8.6	
13 Other Sources (Wind & Solar, Other)	1.1	1.1	
14 Total Sources	1,689.9	1,668.3	

Uses (appropriations)

15 Education Payment	1,398.5	1,398.5	
16 Recapture of Teachers' Health Care Savings	(4.5)	(4.5)	
17 Special Education Aid	189.2	189.2	
18 State-Placed Students	16.7	16.7	
19 Transportation Aid	19.2	19.2	
20 Technical Education Aid	13.9	13.9	
21 Small School Support	7.6	7.6	
22 Essential Early Education Aid	6.6	6.6	
23 Adult Education & Literacy	3.0	-	Transferred to GF - \$21.6 million
24 Flexible Pathways	7.4	-	
25 Community HS of Vermont (Corrections)	3.3	-	
26 Renter Rebate (General Govt) - EF share	7.9	-	
27 Reappraisal & Listing (General Govt)	3.3	3.3	
28 Teachers' Pensions - normal cost	7.7	7.7	
29 Other Uses (Accounting fees, Other)	1.1	1.1	
30 Total Uses	1,681.0	1,659.3	

Operating Result

31	8.9	9.0	
----	-----	-----	--

Option for Repealing and Replacing the General Fund Transfer to the Education Fund
(millions of dollars)

Current Law		
Source	General Fund	Education Fund
GF transfer to EF	322.9	-322.9

Repealed

Proposal		
Source or Use	General Fund	Education Fund
100% Sales & Use Tax	(256.6)	256.6
25% of Meals & Rooms Tax	(44.6)	44.6
Education Fund Uses*	(21.6)	21.6
Net Change	0.1	(0.1)

Dedicated to EF

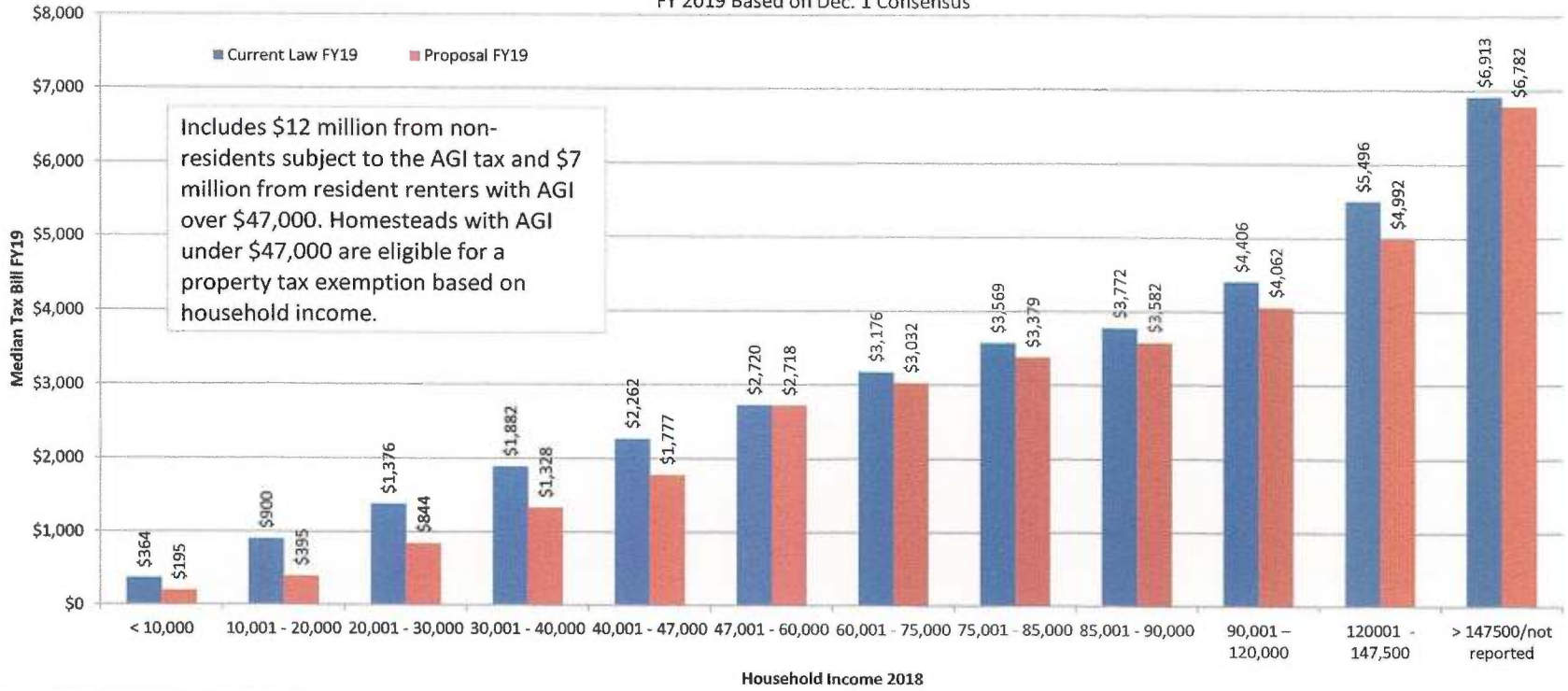
Transferred to GF

***Current Law Education Fund Uses Transferred to GF**

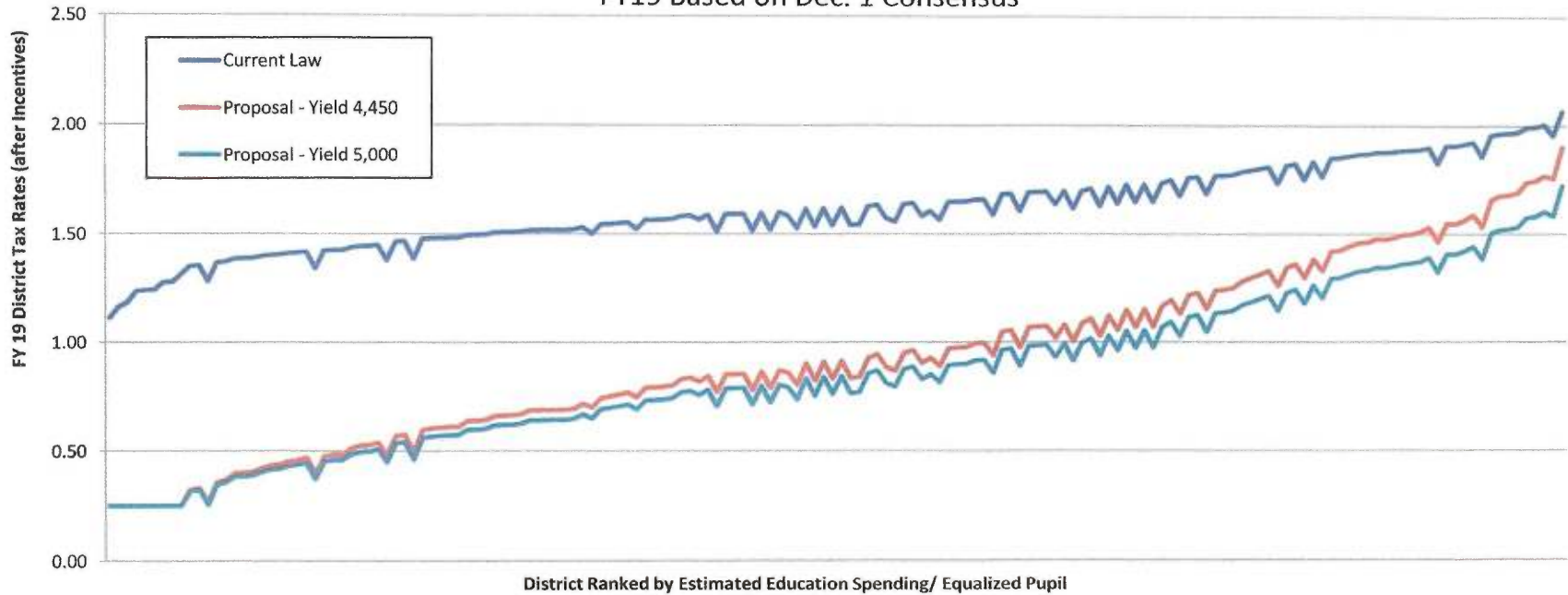
Adult Education & Literacy	3.0
Flexible Pathways	7.4
Community HS of Vermont	3.3
<u>Renter Rebate - EF share</u>	<u>7.9</u>
Total	21.6

HWM Committee Working Proposal

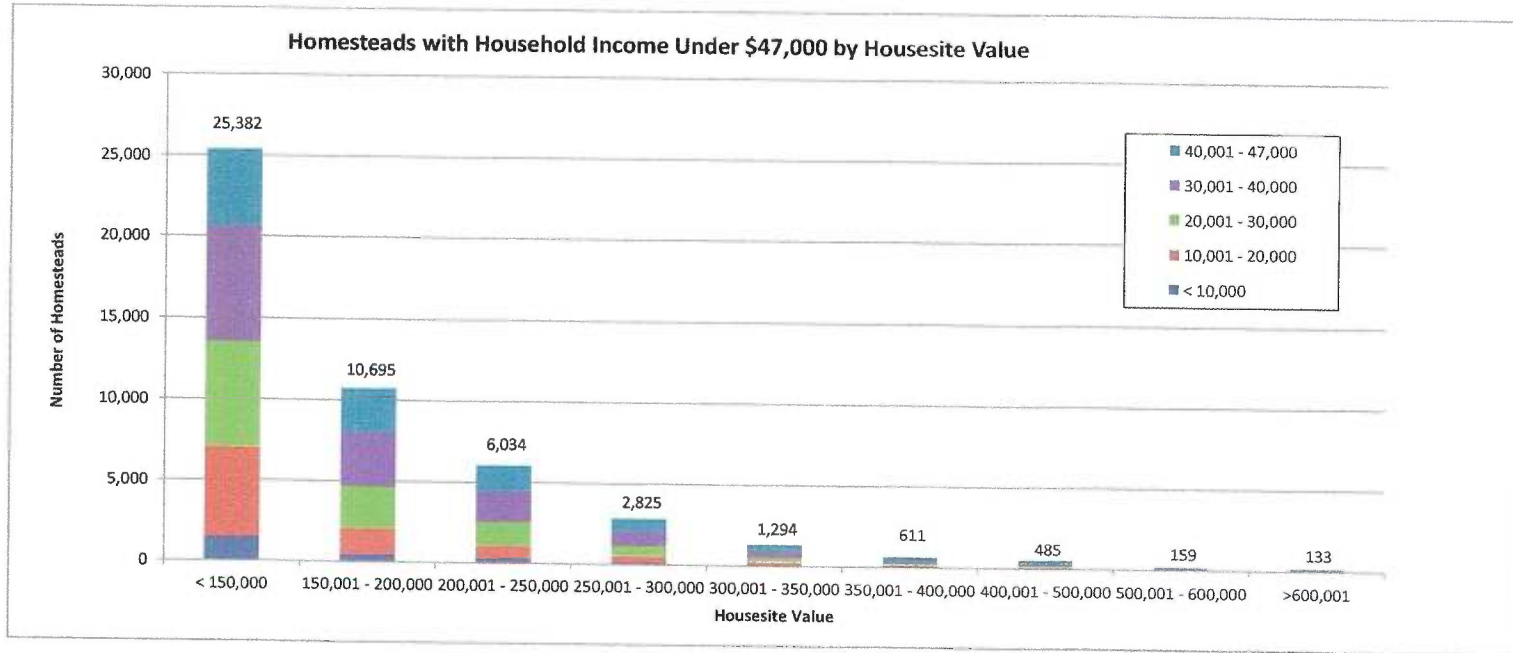
Median Education and Municipal Property Tax Bills and School Income Tax
FY 2019 Based on Dec. 1 Consensus



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



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



Distribution of Houseites by Housesite Income and Housesite Value

Household Income	Housesite Value									Total
	< 150,000	150,001 - 200,000	200,001 - 250,000	250,001 - 300,000	300,001 - 350,000	350,001 - 400,000	400,001 - 500,000	500,001 - 600,000	>600,001	
< 10,000	6%	4%	4%	4%	4%	4%	6%	5%	6%	11%
10,001 - 20,000	22%	16%	14%	14%	14%	16%	14%	9%	11%	11%
20,001 - 30,000	26%	25%	25%	24%	24%	25%	25%	25%	20%	20%
30,001 - 40,000	28%	31%	31%	32%	32%	29%	30%	30%	33%	33%
40,001 - 47,000	19%	25%	26%	26%	27%	25%	27%	30%	25%	25%
Total	25,382	10,695	6,034	2,825	1,294	611	485	159	133	47,618