To All Interested Persons

We are considering changes to the school funding law that are intended to:

- reduce reliance on the residential property tax by moving to a tax that is more closely related to ability to pay
- more closely link decisions on school budgets to the actual homestead tax paid
- move to a simpler system by shifting from income sensitivity for the majority of taxpayers to a direct school income tax based on adjusted gross income
- provide for greater transparency by eliminating the general fund transfer and substituting 100% of the sales tax and 25% of the meals and rooms tax and by moving responsibility for 4 programs that do not go directly to K-12 education to the general fund
- provide for greater transparency by separating the municipal and education tax bills and by creating a separate municipal rebate program
- continue to assist low income residents and property owners by creating a homestead exemption, using a progressive tax structure for the school income tax, and retaining the renter rebate program
- consistent with the requirements set out by the Vermont Supreme Court in State v. Brigham, change the way homestead property tax rates are calculated to create a stronger connection between spending decisions and tax rates
- strengthen mechanisms for cost containment

No decisions have been made and different committee members will likely emphasize different goals. Our hope is that we will be able to move to a system that is simpler, more transparent, fair to taxpayers and fair to students and that gives school leaders better tools for cost containment.

Your comments and suggestions are welcome and they will make a difference as we continue this work.

Rep. Janet Ancel
Chair, House Ways and Means Committee

For information about the format of the public hearing or to submit written testimony, please contact Sorsha Anderson at sanderson@leg.state.vt.us
House Committee on Ways and Means
Summary of Working Education Finance Proposal for FY2019
February 16, 2018

Estimates only

Based on board-approved school budgets submitted to AOE to date

**Subject to change:**
- Base homestead tax rate, base spending amount, and property yield
- AGI brackets, income tax rates and cap
- Homestead exemption and homestead value cap

1. Reduce the *average* homestead education property tax rate in FY2019 from $1.554 to $0.820 by:
   a. Lowering the base homestead property tax rate to $0.25
   b. Providing a base spending amount of $12,253 per equalized pupil
   c. Raising the homestead property yield to $5,600 (on above-base spending only)
      
      > Homestead tax rates increase faster than under current law for every $1 of additional above-base spending per-pupil

2. Maintain the nonresidential property tax rate at its current-law amount - $1.591

3. Simplify administration and compliance with the education tax system by:
   a. Replacing the property tax adjustment and income yield with a school income tax *(see item 4)*
   b. Replacing the homeowner rebate on the education property tax with a homeowner exemption *(see item 5)*
   c. Replacing the homeowner rebate on the municipal property tax *(see item 6)*

4. Create a marginal school tax on adjusted gross income (AGI):
   a. Tax brackets, tax rates, and AGI cap:
      
      | AGI Bracket       | Tax Rate |
      |-------------------|----------|
      | $0 to $47,000     | Exempt   |
      | $47,001 to $125,000 | 1.20%    |
      | $125,000 to $4,000,000 | 1.65%    |
      | Over $4,000,000   | Capped   |

   b. Resident renters and nonresidents with Vermont AGI would be subject to the AGI tax
   c. AGI is the measure of income closest to household income available
   d. AGI tax may be collected through wage withholding *(no penalty for underwitholding in CY2018)*

This proposal is being considered by the House Ways & Means Committee, but it has not been adopted.
5. Assist low-income homeowners with their education property bills by:
   a. Providing a variable housesite exemption for homeowners with household income under $47,000:

<table>
<thead>
<tr>
<th>Household Income Bracket</th>
<th>Housesite Value Exemption</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0 to $10,000</td>
<td>93%</td>
</tr>
<tr>
<td>$10,001 to $20,000</td>
<td>82%</td>
</tr>
<tr>
<td>$20,001 to $30,000</td>
<td>61%</td>
</tr>
<tr>
<td>$30,000 to $40,000</td>
<td>40%</td>
</tr>
<tr>
<td>$40,000 to $47,000</td>
<td>22%</td>
</tr>
</tbody>
</table>

   b. Limiting the housesite exemption to the first $400,000 of housesite value
   c. Applying the tax value of the education property tax exemption directly to education property tax bills

   *Unlike under current law, all homeowners would have a stake in the growth of their school budgets*

6. Create a municipal property tax rebate program:
   a. Tax brackets, tax limits based on household income, and cap:

<table>
<thead>
<tr>
<th>Household Income Bracket</th>
<th>Household Income Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0 to $10,000</td>
<td>1.20%</td>
</tr>
<tr>
<td>$10,001 to $24,999</td>
<td>3.15%</td>
</tr>
<tr>
<td>$25,000 to $47,000</td>
<td>3.50%</td>
</tr>
</tbody>
</table>

   b. Limits maximum rebate on the municipal property tax to $2,400 per homestead
   c. Applying the municipal property tax rebate directly to the municipal property tax bill

7. Retain the existing renter rebate program

8. 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 High School of Vermont
      * Renter Rebate

9. 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*
Estimated Homestead Property Tax Rates
Current Law Compared to HWM Working Proposal as of February 16
FY2019

District spending is based on board approved budgets. As of Feb. 13, 2018, 89% of board approved budgets were available. Spending is subject to voter approval on Town Meeting Day.
Estimated Median Total Taxes on Homesteads
Current Law Compared to HMW Working Proposal as of February 16
FY2019

This analysis includes school income tax on Vermont AGI over $47,000 of $10.8 million on nonresidents and $8.7 million on resident renters.