

Introduction to Vermont's Education Finance System

January 26, 2018

Mark Perrault and Chloe Wexler
Joint Fiscal Office

Presentation Overview

- The Role of the State:
 - The Education Fund Outlook and the Equalization Study
- The Role of Municipalities and School Districts:
 - Property Tax Administration and School Budgets
- The Role of Voters and Taxpayers:
 - Approval of School Budgets and Payment of Education Taxes

Education Finance Timeline

- School boards develop their budgets and submit them to voters for their approval in March at Town meetings
- The Legislature sets education property tax rates at the level necessary to fund school budgets
- Municipalities send education property tax bills to property owners on local schedules (typically in the fall)
- School districts receive three education payments: September 10, December 10, and April 30

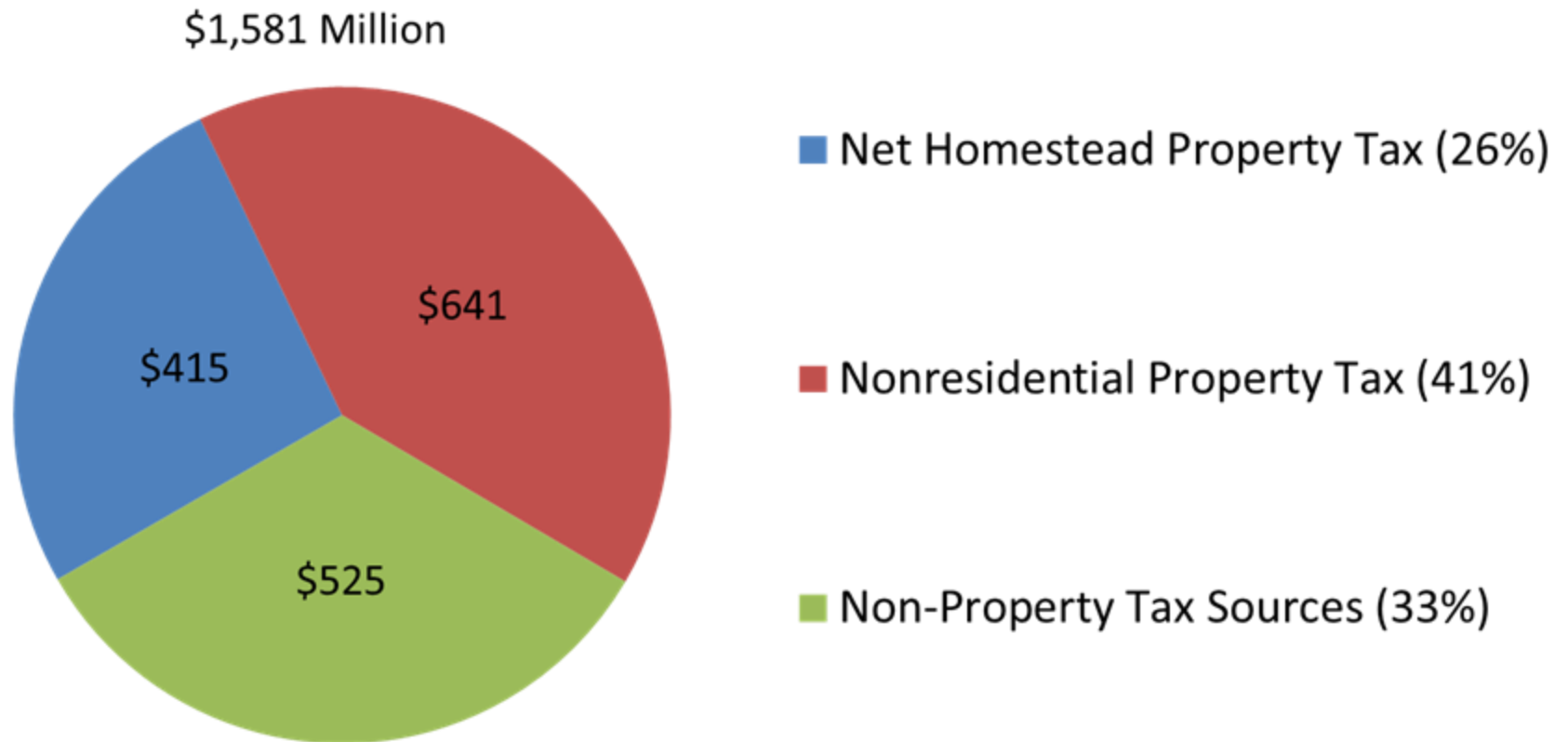
The Education Fund Outlook

The Education Fund (EF) outlook is a tool that allows legislators to evaluate policy changes and determine the amount of revenue that must be raised through education property taxes each year

- What are the sources of EF revenue?
- How are these EF revenues used?
- What is the EF stabilization reserve?
- How is the amount of revenue to be raised through education taxes determined?
- How is the amount to be raised through education taxes allocated among classes of taxpayers?

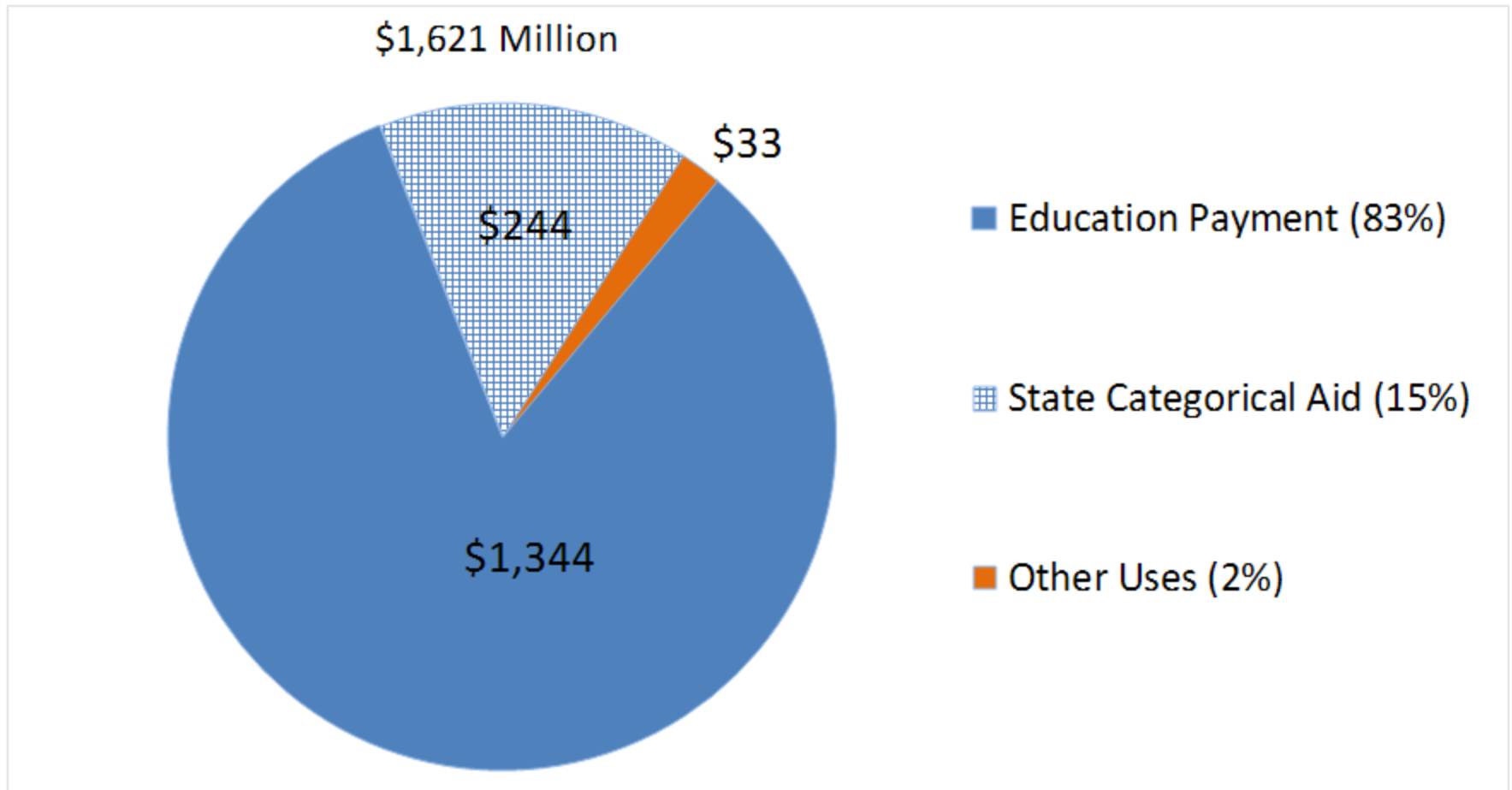
Education Fund Sources FY2018

Two-thirds of EF sources are raised on the education property tax - the remainder is raised from non-property tax sources including the GF transfer to the EF



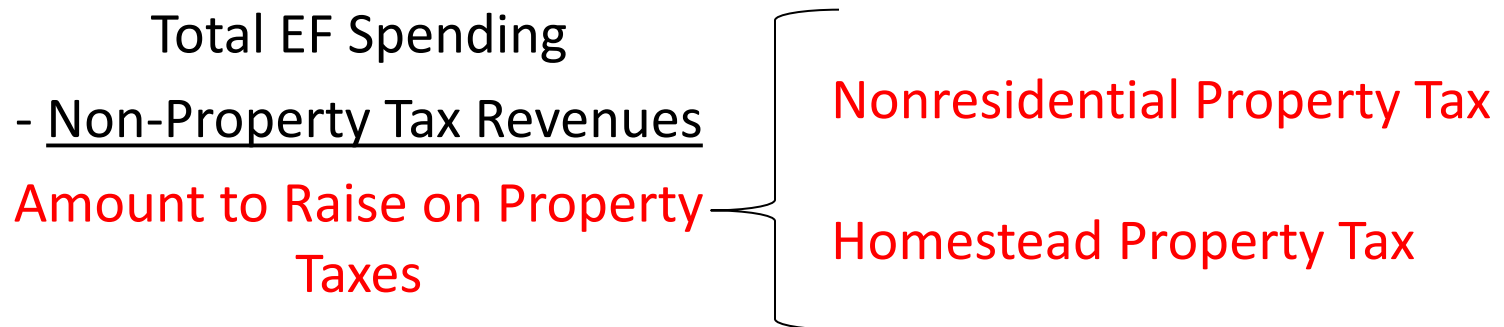
Education Fund Uses FY2018

Nearly all expenditures from the EF are paid directly to school districts – categorical aid reduces school budgets and the education payment covers statewide education spending



How does the Legislature determine the amount of education taxes to raise each year?

- The amount to be raised statewide on the education property tax is determined by subtracting EF non-property tax revenues from total EF uses



Property Classes – Split Grand List

Nonresidential Property

- Includes all taxable real property that does not qualify as a homestead – commercial and industrial property, rental housing, second homes, etc.
- The nonresidential property tax rate is uniform statewide – it does not vary with per-pupil education spending

Homestead Property

- A Vermonter's primary residence and all contiguous land
- The homestead property tax rate in each municipality varies directly with per-pupil education spending

How is the education property tax allocated among property classes?

- Subject to the following constraints, the nonresidential property tax rate and the homestead property yield are adjusted so that the EF is in balance
 - The EF stabilization reserve is funded to 5% of prior-year appropriations
 - The percent change in the average bill on nonresidential property and homestead property is the same
- Note that the Legislature is not bound by these constraints – they are the starting point for annual deliberations

What is the “Property Yield”?

- The yield is the per-pupil amount that the Education Fund can support with uniform homestead tax rates of \$1.00 on homestead value
- In FY2018, the property yield was **\$10,160** per equalized pupil
- In a district spending \$16,000 per equalized pupil, the property tax rate is \$1.57:

$$(\$16,000 / \$10,160) \times \$1.00 = \$1.57$$

- The education property tax rates on homestead value in any district spending more than the yield are increased proportionally

What is the “Income Yield”?

Whether a homeowner pays the education on homestead value or household income, the tax rate applied to either base increase in proportion to per-pupil spending over the yield

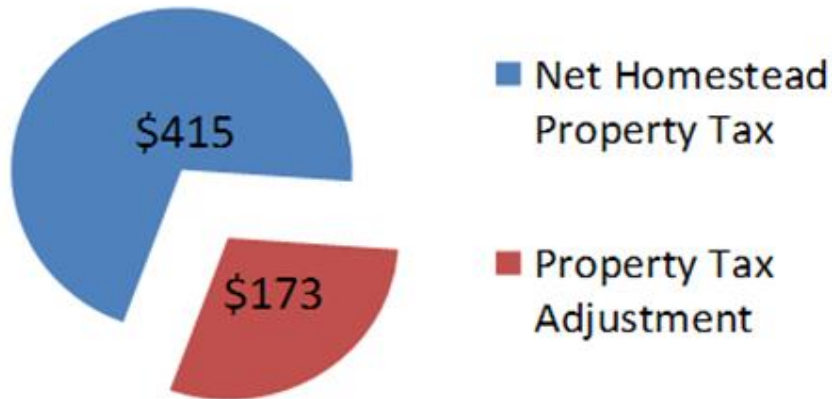
- Household income – modified Federal adjusted gross income - is a broad definition of income that generally includes the income of all individuals residing in a homestead
- In FY2018, the income yield was **\$11,990** per equalized pupil
- In a district spending \$16,000 per equalized pupil, the property tax rate is 2.67%:

$$(\$16,000 / \$11,990) \times 2\% = 2.67\%$$

Property Tax Adjustment FY2018

About 70% of resident homeowners are eligible for a property tax adjustment*

Gross Homestead
Property Tax:
\$588 Million



Adjustments are applied to property tax bills in the following year:

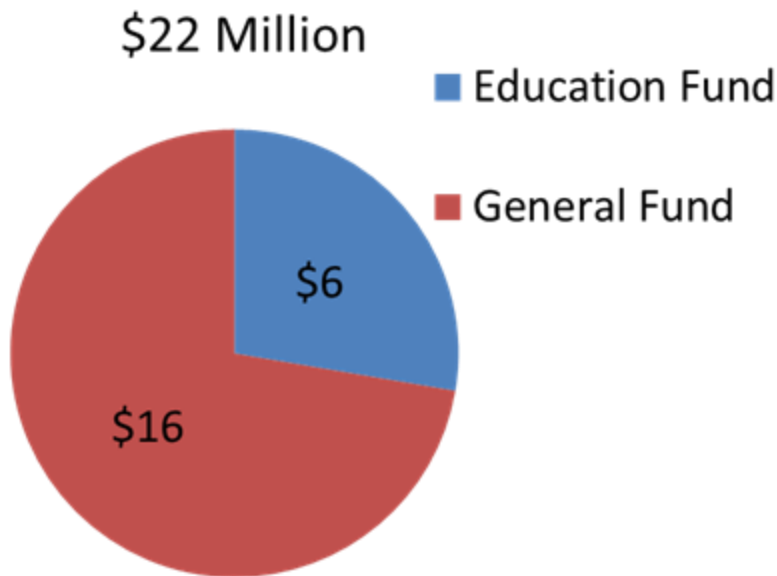
FY2017 Property Tax
- FY2017 Income Tax
Property Tax Adjustment

FY2018 Property Tax
- Property Tax Adjustment
Net Tax Due in FY2018

*Note that the property tax adjustment applies only to the “housesite” – a primary residence and up to 2 acres of contiguous land

Homeowner Rebate FY2018

Homestead taxpayers with household income under \$47,000 are entitled to additional tax relief if their total taxes paid exceeds a percentage of their income.

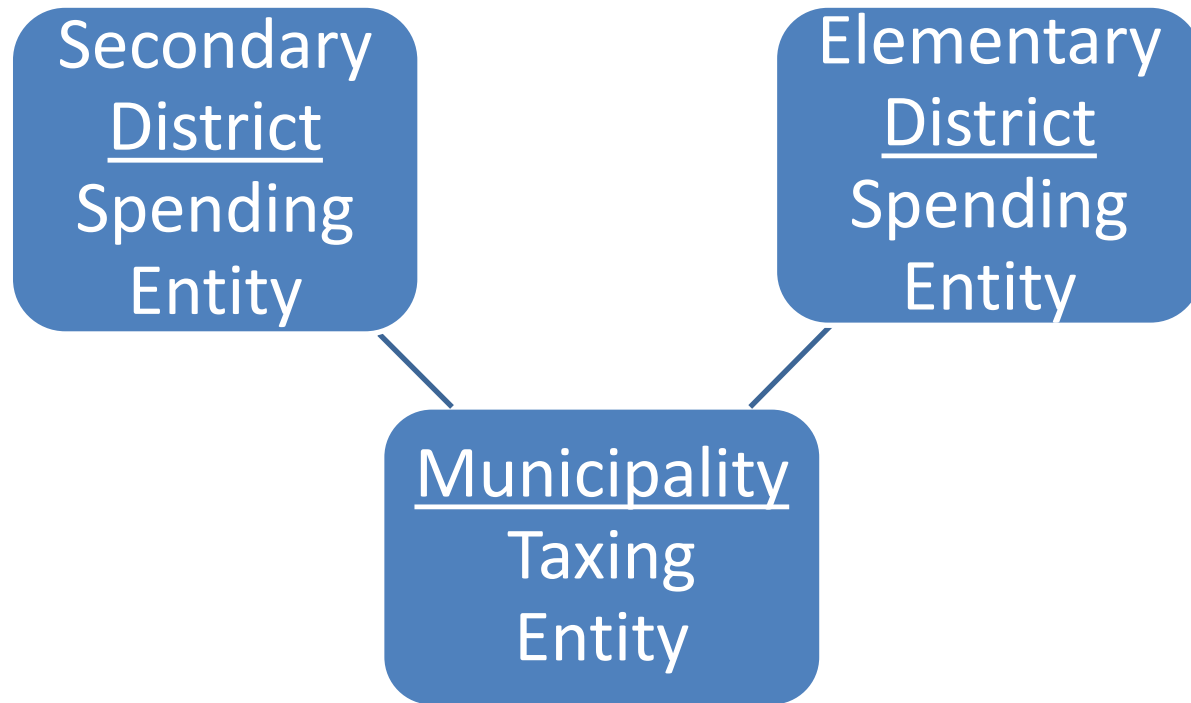


Net Education Tax
+ Municipal Property Tax
 Total Property Tax

Income Class	Total Property Tax Cap
Under \$9,999	2.0%
\$10,000 - \$24,999	4.5%
\$25,000 - \$47,000	5.0%

Typical Relationship Between Municipalities and School Districts

Most municipalities belong to more than one school district, so education tax rates are weighted based on enrollment



How are the base homestead tax rates adjusted to account for per-pupil spending in each municipality?

- Budgets are developed by school boards and submitted to voters for approval in March at Town Meeting
- Although voters approve the school budget, a district's homestead tax rates are determined by its *education spending per equalized pupil*
- Both education spending and equalized pupil are terms of art in Vermont education finance

What is Education Spending?

To determine education spending, school budgets are reduced by:

- Federal aid
- State categorical aid
- Tuition revenues
- Reserve fund
- Other offsets

What is an Equalized Pupil?

- Average daily membership is determined through a census conducted in the fall
- Average daily membership is then weighted to account for higher-cost students:
 - High school students
 - English language learners
 - Low-income students
- Pre-kindergarten students receive a fractional weight
- Weighted long-term ADM is a two-year average
- 3.5% hold-harmless provision to protect from steep declines in equalized pupils - “Phantom” Students (phasing out through Act 46)

Education Tax Bills in a District Spending \$16,000 per Equalized Pupil at FY2018 Average Tax Rates

- Resident homeowners with household income over \$147,500 pay the homestead property tax:

$$(\$300,000 / 100) \times \$1.57 = \$4,710$$

- Resident homeowners with household income under \$90,000 pay the education income tax:

$$\$75,000 \times 2.67\% = \$2,003$$

- Resident homeowners with household income between \$90,000 and \$147,500 pay the tax on household income plus the homestead tax on the homestead value in excess of \$250,000

What is the Common Level of Appraisal (CLA)?

The CLA is a statistic that estimates the relationship between assessed value (AV) and fair market value (FMV) – determined through the Tax Department's annual Equalization Study

Town A

AV	\$900,000
FMV	\$1,000,000
CLA	$\$900,000/\$1,000,000 = .90$

Per-Pupil Spending - \$15,240
Eq. Tax Rate - $\$15,240/\$10,160 = \$1.50$

Tax Rate on Bill - $\$1.50 / .90 = \underline{\$1.67}$
 $\$1.67 \times \$900,000 = \$1,500,000$

Town B

AV	\$1,000,000
FMV	\$1,000,000
CLA	$\$1,000,000/\$1,000,000 = \mathbf{1.00}$

Per-Pupil Spending - \$15,240
Eq. Tax Rate - $\$15,240/\$10,160 = \$1.50$

Tax Rate on Bill - $\$1.50 / \mathbf{1.00} = \underline{\$1.50}$
 $\$1.50 \times \$1,000,000 = \$1,500,000$

Conclusion

- Vermont has a unique education finance system with a statewide funding formula coupled with local administration
- School boards set budgets and submit them to voters for their approval – maintains local control
- The Legislature sets education property tax rates at the level necessary to fund school budgets
- Education property tax rates are a function of district spending per equalized pupil to comply with Brigham