Preliminary Analysis of a Proposal to Finance Education Spending in FY2021
Prepared by the Joint Fiscal Office
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DRAFT – Updated on April 29th

This proposal is intended to limit the COVID-related increase in education property taxes in FY2021 with a portion of the Federal CARES Act allocation to Vermont.

1. Determine the *total increase* in the education property tax that is needed to finance voter-approved spending in both FY2020 and FY2021.[1] In FY2021, the following amount must be raised on the education property tax:

    - $4.5 million to cover a projected FY2020 Education Fund deficit[2]
    - $38 million to fully restore the FY2021 Education Fund stabilization reserve
    - $72 million to fully fund the voter-approved increase in school budgets for FY2021
    - $113 million shortfall in non-property taxes (Kavet, 4/29)

2. Set the "normal" education property tax rates for FY2021 based on the December 1st parameters. School boards prepared, and voters approved, spending increases based on these tax rates. Total education property tax revenues would increase by $79.8 million at the "normal" tax rates.

    - Raises the *average* homestead tax rate by 4.8 cents
    - Raises the uniform nonhomestead tax rate by 6.0 cents
    - Raises the *average* tax rate on household income by 0.8%

3. Determine the *additional increase* in the education property tax in both FY2020 and FY2021 that is solely attributable to the impact of the COVID-related recession.

4. Set the "COVID-19" education property tax rates for FY2021 at the level needed to raise sufficient revenue to balance the Education Fund. This would result in an unprecedented increase in education property tax rates.

5. Use a portion of Vermont's $1.25 billion allocation from the Federal CARES Act to offset the increase in "COVID-19" education property taxes by providing taxpayers with a flat credit per parcel of taxable property.

6. The Coronavirus Relief Fund Guidance for State Governments issued on April 2nd is problematic for the use of CARES Act funds for this purpose.

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[1] The COVID-related loss of consumption tax revenue in FY2020 is now estimated to be about $54 million. This assumes $20 million in consumption taxes, which have been deferred until May 25th, will be fully remitted to the State by July 31 and credited to FY2020. We have no reliable estimates of the need for addition education property tax revenue in FY2021 at this time.

[2] The projected Education Fund deficit for FY2020 was revised $4.5 million on April 29th due to an update and technical changes in the revenue forecasting model.