

The Education Fund and Education Finance

The Education Fund and education finance in general is extremely complex, making policy change and decisions equally complex. The Vermont Tax Department has assembled the following facts to help interested Vermonters be better equipped to understand the financial underpinnings of many of these important issues.

Education Fund Revenues and Expenses

The Education Fund's revenue and expenses total over \$1.6 billion, making it significantly larger than the General Fund.

Property Taxes

Property taxes contribute 67% of the total Education Fund revenues, broken down as follows:

- \$429M (26%) of total revenue comes from the Homestead Property Tax
- \$673M (41%) comes from the Non-homestead property taxes
- Only the homestead property tax rate is affected by local school board spending. The non-homestead rate is set at the statewide level and not locally adjusted by school district spending.
- Most properties taxed at the "non-residential" rate are owned by Vermont residents.

Other Revenue Sources

Here are the other major Revenue Sources for education fund costs (dollar amount going to education in parenthesis):

- 100% of Vermont's Sales and Use Tax is now dedicated to the Education Fund (\$416M)
- 33% of Vehicle Purchase and Use Tax (\$38M)
- 25% of Meals/Rooms and Alcohol Tax is now dedicated to the Education Fund (\$45M)
- 100% of lottery revenue (\$26M)

Expenses

Total expenses might not match total revenues in any given year because of the presence of balancing items, such as payments into the statutory reserve, and carryovers from the prior fiscal year.

- The single largest cost in the Education Fund is the Education Payment: \$1.37B, funding the voter approved school spending of all local budgets.
- Next largest cost is the Special Education Aid to local schools, at \$198M.
- Transportation Aid, Small School Support and Technical Education Aid to districts total about \$41M combined.
- The annual "Normal" pension contribution is paid out of the Education Fund. However, over \$140M of educator retirement cost (pensions and post-employment benefits) is paid out of the General Fund annually to close the gap of the unfunded liability.

Local Spending and Decision Making

- An analysis by the Vermont League of Cities and Towns reported that less than 18% of registered voters voted on Town Meeting.
- Widely disparate per pupil spending: Local needs and decisions have produced widely disparate levels of per pupil spending throughout the state. The highest spending school districts spends around \$22,000 per pupil, while the lowest districts spend around \$12,000 per pupil.
- A school district's total budget increase or decrease has little predictive value in determining the effect on the property tax rate. Among items under local control, it is the Per Pupil Spending that has the biggest impact on the district's property tax rate.
- A typical income-sensitized property tax payer might pay approximately 2.5% of their income in education property tax. For instance, a family with household income of \$60,000 (just above the median tax filer income in Vermont) could expect to pay around \$1,500 in annual property tax. This generally holds true whether they live in a \$200k home or a \$400k home.
- For homeowners with household income below \$47,000, an extra adjustment is available to offset the cost of municipal taxes as well. This cost is an expense of the General Fund and is roughly \$17M for FY20. A homeowner with \$20,000 of household income living in a \$300,000 home is likely to pay no more than \$900 in total property taxes.

Vermont's Income Sensitivity Program

- There are up to 24 steps necessary for a taxpayer to determine the impact of their district's school budget on their individual homestead property tax bill.
- Vermont's income sensitivity program effectively divides education property taxpayers into four groups: Those whose property taxes are capped by law, those who pay based on their income, those who pay on a combination of income and property value, and those who pay purely based on their property value.
- Most homeowners (68%) pay an income-sensitized property tax, meaning their total property tax bill is reduced by a state payment, called a property tax adjustment (PTA).
- PTAs are capped at \$8,000 (\$5,600 towards education property taxes and \$2,400 towards municipal taxes).
- The total Education Fund foregone revenue of the income sensitivity program is approximately \$170M, which equates to over 40 cents of the \$1.50 statewide average homestead education property tax rate of \$1.50.
- The 32% of Vermont homestead owners who are not income sensitized pay over half (53%) of the Homestead Property Tax. Those receiving PTAs (68%) pay 47% of the total homestead property tax.

Most of this data is based on the [FY19 Education Fund Outlook](#) (published June 2018), which is available on the JFO website. Other information is based on analysis of tax information by the Vermont Tax Department.