

# Education Finance in Vermont

House Committee on Appropriations

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**JFO**

*This presentation is an updated version of a presentation originally created by Mark Perrault and Chloe Wexler*

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# Outline

- Background and overview
- Property tax rates
- Education spending
- Pupil weights and equalized pupils



# Introduction to Vermont's Education Finance System

- Vermont's education finance system is different from other states
  - Statewide funding formula coupled with local property tax administration
- Each school districts' education spending is determined at a local level
  - School boards set budgets which must be approved by voters
- The Legislature sets education property tax rates annually at the level necessary to fund voter-approved school budgets
  - The nonresidential tax rate is uniform statewide
- Since the Brigham decision, the homestead property tax rate is a function of district per pupil spending
  - Not a function of property wealth
  - Tax bills of homeowners vary in proportion to per-pupil spending



# Act 60 and Act 68

## Prior to the Brigham decision, Vermont relied on a foundation program to fund its education system

- A foundation formula relies on a base level of revenue for each school district
- State aid is provided to districts that are unable to raise the full foundation amount on their own

## Inequities in towns' tax rates and per-pupil spending

- Fluctuations in the state's fiscal status led to the Legislature to underfund the foundation formula to reduce state costs
- Property wealthy districts benefitted from low tax rates and high per-pupil spending while property poor districts faced high tax rates and low per-pupil spending

## Passage of Act 60

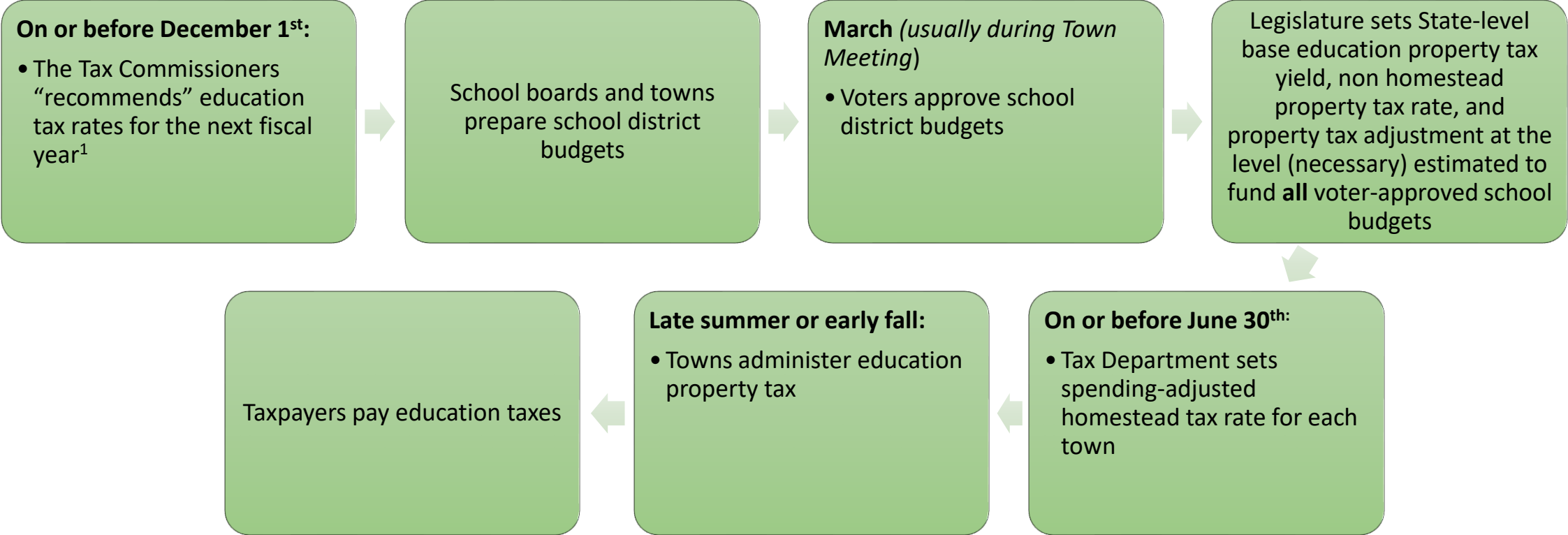
- This combination of reduced state share and property tax rate inequities across towns led to the Brigham decision
- The Legislature responded with the passage of Act 60 in 1997

## Now, a town's property wealth does not affect its base education tax rate

- Under Act 60, towns with the same per-pupil spending have the same homestead tax rate regardless of their property wealth
- Now if the Legislature reduces state funds for education all school districts, regardless of their property wealth, are adversely affected



# Education finance timeline



September 10<sup>th</sup>, December 10<sup>th</sup>, and April 30<sup>th</sup>  
School districts receive education payments based on their voter approved budget

1: This is largely a ministerial task because of statutory constraints on the Commissioner's recommendation; however, the recommendation is based on a consensus Education Fund Outlook and provides timely guidance for school board budget deliberations



# Education Fund Outlook

## Preliminary Education Fund Outlook for FY2022 - December 1, 2021 Consensus forecast for FY2023

(millions of dollars)	FY2021 Actual	FY2022 Current Year	FY2023 Forecast
a Average Homestead Property Tax Rate	\$1.538	\$1.523	\$1.308
b Average Tax Rate on Household Income	2.50%	2.50%	2.19%
c Uniform Non-Homestead Property Tax Rate	\$1.628	\$1.612	\$1.385
d Property Yield Per Equalized Pupil	\$10,998	\$11,317	\$13,846
e Income Yield Per Equalized Pupil	\$13,535	\$13,770	\$16,705
f Equalized Pupil Count	87,304	86,944	86,595
g Statewide Education Spending Growth	3.9%	1.3%	4.3%
h Statewide Education Grand List Growth	2.7%	3.0%	7.6%
<b>Sources</b>			
1a Homestead Education Property Tax	633.7	649.3	598.2
1b Property Tax Credit	(171.5)	(172.0)	(170.0)
2 Non-Homestead Education Property Tax	735.2	747.7	687.1
3 Sales & Use Tax	507.6	538.6	551.2
4 Purchase & Use Tax (one-third of total)	44.7	46.5	47.4
5 Meals & Rooms Tax (one-quarter of total)	36.0	45.0	48.4
6 Lottery Transfer	32.5	31.2	32.3
7 Medicaid Transfer	7.4	10.0	10.2
8 Other Sources (Wind & Solar, LUCT, fund interest)	2.9	2.2	2.2
9 Total Sources	1,828.5	1,898.5	1,807.0
<b>Appropriations</b>			
10 Education Payment	1,483.7	1,502.0	1,561.7
11 Special Education Aid	223.7	229.0	208.1
12 State-Placed Students	18.0	17.0	17.5
13 Transportation Aid	20.5	20.5	21.8
14 Technical Education Aid	14.8	15.5	15.5
15 Small School Support	8.2	8.1	8.1
16 Essential Early Education Aid	7.0	7.1	7.5
17 Flexible Pathways	8.3	8.2	9.3
18 Teachers' Pensions (normal cost only)	6.9	37.6	40.8
19 Other Uses (accounting & auditing, financial systems)	3.4	3.4	3.4
20 Total Uses	1,794.5	1,848.4	1,893.7
<b>Revenue Surplus/(Deficit)</b>			
21 Current-Year Revenue Surplus/(Deficit)	34.0	50.2	(86.7)
22 Prior-Year Reversions	14.0	11.7	0.0
23 Total Surplus/(Deficit)	48.0	61.9	(86.7)
<b>Allocation of Surplus/(Deficit)</b>			
23 Transfer to/(from) Stabilization Reserve	5.2	1.1	2.9
24 Transfer to/(from) Additional Reserve	14.0	-	-
25 Transfer to/(from) Unreserved/Unallocated	28.7	60.8	(89.5)
<b>Stabilization Reserve</b>			
26 Prior-Year Stabilization Reserve	32.9	38.1	39.2
27 Current-Year Stabilization Reserve	38.1	39.2	42.2
28 Percent of Prior-Year Net Appropriations	5.0%	5.0%	5.0%
29 Reserve Target	38.2	39.3	42.2
<b>Additional Reserve</b>			
30 Additional Reserve for Other Post Employment Benefits	14.0	14.0	14.0
<b>Available Funds</b>			
31 Prior-Year Unreserved/Unallocated	0.0	28.7	89.5
32 Current-Year Unreserved/Unallocated	28.7	89.5	0.0

Prepared by the Joint Fiscal Office

1-Dec-21

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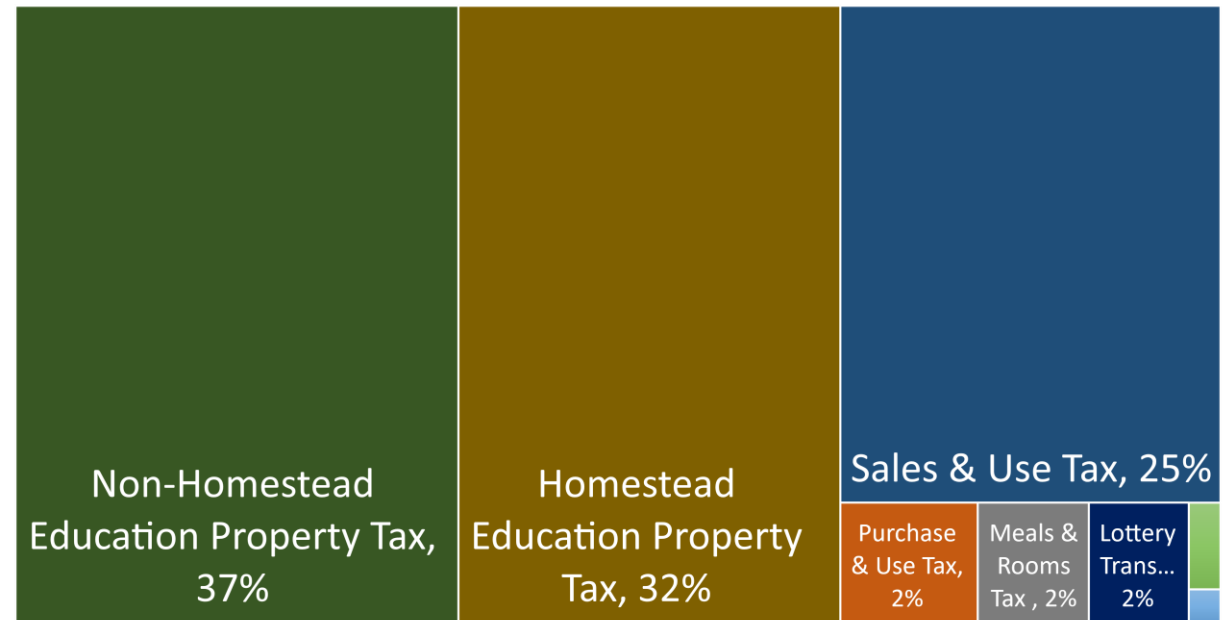
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# How is education currently funded in Vermont?

- Vermont pays for education through the Education Fund (EF)
- Sources of funding:
  - Non-Homestead Education Property Tax
  - Homestead Education Property Tax
  - Sales & Use Tax
  - Purchase and Use Tax (one-third of total)
  - Meals & Rooms Tax (one-quarter of total)
  - Lottery Transfer
  - Medicaid Transfer
  - Other Sources
- Amount to raise statewide on education property tax is determined by subtracting non-property tax revenues from total uses, and include:
  - Recurring non-property tax revenue; reversions; and prior-year surplus or deficit

2021 Vermont Education Fund Sources



- Homestead Education Property Tax
- Non-Homestead Education Property Tax
- Sales & Use Tax
- Purchase & Use Tax
- Meals & Rooms Tax
- Lottery Transfer
- Medicaid Transfer
- Other Sources (Wind & Solar, LUCT, fund interest)

Data Source: [Education Fund Outlook for FY2022](#)



# How are property tax rates determined?

- Education tax rates are set so that the Education Fund is in balance
- Rates set in the December 1 letter are according to statutory constraints
  - They serve as a starting point for annual deliberations
  - The Legislature is not bound by these constraints
- There are 2 property tax bases subject to the statewide education tax, and rates differ
  - Non-homestead property
    - All taxable real property that does not qualify as a “homestead”
    - The nonresidential property tax rate is uniform across towns
  - Homestead property
    - The homestead property tax rate in each town is dependent on its locally approved education spending per pupil





# How are homestead property taxes adjusted to account for per pupil spending?

- By statute, the base homestead tax rate is \$1.00 for homestead property
  - The base tax rate effectively creates a floor on per-pupil education spending
- After voters approve the school budget, the base homestead property tax rate is adjusted by per-pupil education spending
- If a town belongs to more than one school district, the homestead tax rate is weighted by enrollment in each district

$$\text{Per pupil spending} = \frac{\text{Education spending}}{\text{Equalized pupils}}$$

$$\text{Spending adjusted equalized property tax rate} = \$1.00 \times \frac{\text{per pupil spending}}{\text{property yield}}$$



# What is the “property yield”?

$$\text{Spending adjusted equalized property tax rate} = \$1.00 \times \frac{\text{per pupil spending}}{\text{property yield}}$$

- The property yield can be thought of as the per pupil amount of spending that the fund can support with a uniform homestead tax rate of \$1.00 on homestead value
- In districts that spend more per pupil than the property yield, the homestead property tax is increased proportionately
- In FY21, the property yield per equalized pupil was \$10,998
  - Districts that spent  $\leq$  \$10,998 per equalized pupil had an equalized tax rate of \$1.00
  - Districts that spent  $>$  \$10,998 per equalized pupil had a higher equalized tax rate than \$1.00
  - For example, in any district that spent \$16,482 per pupil, or 150% of the yield, the equalized homestead property tax rate was \$1.50

$$\$1.50 = \$1.00 \times \frac{\$16,482}{\$10,998}$$



# How do some Vermonters pay education taxes based on income?

- The homestead tax is property tax with an adjustment based on income
- The property tax adjustment is used to adjust the tax bill based on income within a system that uses local billing and collection of the homestead property tax
- Adjustment is limited by the income of the taxpayers
  - Taxpayers with income under \$90,000 can use the property tax adjustment on the first \$400,000 of the house site value
  - The adjustment is applied to tax bills in the following tax year
- Almost 70% of Vermont resident households typically qualify for the property tax adjustment



# What is the “income yield”?

$$\text{Spending adjusted equalized income tax rate} = 2\% \times \frac{\text{per pupil spending}}{\text{income yield}}$$

- The income yield can be thought of as the per-pupil amount of spending that the fund can support with a uniform tax rate on income
- The tax rate on income in any district spending more than the yield is increased proportionally
- Whether a resident homeowner pays the education tax on homestead value or income, the homestead tax rate increases in proportion to per-pupil spending
- In FY21, the income yield per equalized pupil was \$13,535
  - Districts that spent  $\leq$  \$13,535 per equalized pupil had an equalized tax rate on income of 2%
  - Districts that spent  $>$  \$13,535 per equalized pupil had higher equalized tax rate on income than 2%
  - For example, in any district that spent \$20,303 per pupil, or 150% of the income yield, the equalized homestead income tax rate was 3.0%

$$3.0\% = 2.0\% \times \frac{\$20,303}{\$10,998}$$



# Homeowner rebate

- Resident homeowners with income under \$47,000 are entitled to additional tax relief if their net education tax exceeds a fixed percentage of household income
- About 30% of homesteads eligible for income sensitivity are also eligible for a homeowner rebate
- The cost of the municipal homeowner rebate is borne by the General Fund

Net Education Tax		Municipal Property Tax	
<u>Household Income Class</u>	<u>Tax Cap as % of Income</u>	<u>Household Income Class</u>	<u>Tax Cap as % of Income</u>
Under \$9,999	0.5%	Under \$9,999	1.0%
\$10,000 - \$24,999	1.5%	\$10,000 - \$47,000	3.0%
\$25,000 - \$47,000	2.0%		



# Overview of homestead education taxes by household income of taxpayer

Household income	Homestead Tax	Notes
Under \$47,000	Pay a fixed percentage of household income for the net homestead tax and the municipal property tax	Beginning in FY2020, the homeowner rebate was separated into its education and municipal components
\$47,001 to \$90,000	Pay the tax based on household income	Limited to housesite value up to \$400,000; pay education property tax on “excess” value
\$90,001 to \$136,277	Pay the tax based on household income plus the education property tax based on homestead value over \$225,000	This provision, often referred to as the “slope” provides a declining adjustment that begins at \$90,001 and ends at \$136,277
Over \$136,277	Pay the education property tax	



# Education Fund Uses

- School districts receive money from the Education Fund in two ways:
  - Education Payment
  - Categorical Aid
- In FY21, the education payment was approximately 83% of Education Fund appropriations
- School districts receive education payments dependent on their education spending per equalized pupil
  - Education spending is voter approved budgeted spending minus the following offsets:
    - Federal aid, state categorical aid, tuition revenues from other school districts, prior-year surplus or deficit (if any), and other offsets



# Pupil weights

- Pupil weights adjust student counts to address different student needs or circumstances
- After an overall student count, or average daily membership (ADM) is reported, weights are applied to certain types of students to account for the potential higher costs to school districts to educate these students

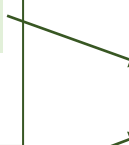




# Equalized pupils

- Equalized pupils play a major role in determining a districts' tax rates
- Weights are applied to adjust all school districts' pupil counts, and then an equalization ratio is used to make the number of state equalized pupils match the overall student count
- Keeping education spending constant, the higher a district's number of equalized pupils, the lower its tax rate

Recall:

$\text{Spending adjusted property tax rate} = \$1.00 \times \frac{\text{per pupil spending}}{\text{property yield}}$	
$\text{Spending adjusted income tax rate} = 2\% \times \frac{\text{per pupil spending}}{\text{income yield}}$	

$$\text{Per pupil spending} = \frac{\text{Education spending}}{\text{Equalized pupils}}$$

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# Additional information

Legislative Joint Fiscal Office – Education Finance

<https://ljfo.vermont.gov/subjects/education>

Agency of Education – Data & Reporting

<https://education.vermont.gov/data-and-reporting>

Department of Taxes – Property Owners

<https://tax.vermont.gov/property-owners>

