

Introduction to Vermont's Education Finance System –  
Senate Education Follow-up Questions  
JANUARY 2020



*Vermont Legislative*  
**JOINT FISCAL OFFICE**

## OVERVIEW

In this presentation we are going to go over the following components of Education Finance in Vermont:

1. How school budgets affect tax rates
2. How homestead property and homestead income taxes are calculated
3. Any other questions the committee raises

## NONHOMESTEAD PROPERTY TAX

- All taxable real property that does not qualify as a “homestead” – for example, commercial & industrial property, rental housing, second homes, etc.
- Nonhomestead property tax rates are uniform across the state. All nonhomestead properties contribute to the Education Fund equally.
- A store in Northfield will pay the same property tax rate as a store in Montgomery. The difference in amount of property tax paid will be the difference in the fair market value of property.
- The CLA (common level of appraisal) is applied locally to the statewide nonhomestead property tax rate to ensure that all nonhomestead property is being taxed at the fair market value.

Example: Assume both stores have approximately the same fair market value of ~\$336,000

	Store in Northfield	Store in Montgomery
Local Grand List Value	\$300,000	\$333,000
Date of Last Reappraisal	2005	2019
Local CLA	89%	99%
Statewide Nonhomestead Rate	\$1.58	\$1.58
Local Nonhomestead Rate (CLA adjusted)	$\$1.58/89\% = \$1.775$	$\$1.58/99\% = \$1.596$
Nonhomestead Property Tax	$\$300,000/100 * \$1.775 = \$5,325$	$\$333,000/100 * \$1.596 = \$5,315$

## WHAT IS THE COMMON LEVEL OF APPRAISAL (CLA)?

- Since the education property tax is administered locally, it is necessary to adjust property values to account for differences in appraisal levels across towns.
- The CLA is a measure of how close each town's local appraisals are to the actual fair market value (FMV) in that town.
- The CLA is determined annually through the *Equalization Study* prepared by Property Valuation & Review.

### Example:

- Town Y which sends all their students to district X has CLA of 89%
  - The grand list in Town Y is valued lower than the current fair market value (100%)
  - *The town may be considering reappraising*
- The tax rate experienced by tax payers in town Y is the calculated district rate adjusted by the CLA  $\$1.656/89\% = \$1.861$

## HOW DO HOMESTEAD TAX RATES VARY?

- The homestead property tax rate in each town varies directly in proportion to **education spending per equalized pupil**.
- Education spending per equalized pupil can be thought of as average spending per equalized pupil

Average education spending per equalized pupil =  
Education spending/number of equalized pupils

Budget = \$25,324,090

Categorical Grants and Federal Offsets = \$4,083,649

Education Spending = \$21,240,441

Equalized pupils = 1,255.03

Education Spending per equalized pupil =  $\$21,240,441 / 1,255.03 = \mathbf{\$16,924.25}$

## WHAT IS EDUCATION SPENDING?

- Voters approve **budgeted spending**.
- **Education spending** is budgeted spending minus the following offsets:
  - Federal aid
  - State categorical aid
  - Other expected revenues/offsets

## WHAT IS AN EQUALIZED PUPIL?

- The objective of calculating equalized pupils is to create an “average” student in terms of assumed costs for a given district
- Specific categories of students are presumed to have different costs than other categories
- Cost categories that are differentiated are: grade of study (pre-k, secondary students), economically disadvantaged students and English language learners
- Equalized pupils are based on a two years of Average Daily Membership data (ADM) – this is the number of full- time equivalent resident students whose education is paid by the district from the 11-30<sup>th</sup> day of the school year (October) plus the number of state placed students

## EXAMPLE – ANNUAL SCHOOL DISTRICT MEETING

Article X - Shall the voters of the school district adopt a budget of \$25,324,090 which is the amount the school board has determined to be necessary for the ensuing fiscal year? It is estimated that this proposed budget, if approved, will result in education spending of \$16,924.25 per equalized pupil. This projected spending per equalized pupil is 2.45% higher than spending for the current year.

Budget = \$25,324,090

Categorical Grants and Federal Offsets = \$4,083,649

Education Spending = \$21,240,441

Equalized pupils = 1,255.03

Education Spending per equalized pupil = \$16,924.25



## WHAT IS THE INTERACTION BETWEEN EDUCATION SPENDING PER PUPIL AND TAX RATES? THE YIELD.

- By statute, the base homestead tax rates are \$1.00 for \$100 of homestead property and 2% for household income.
- After voters approve their school budget, the base tax rates are adjusted by their education spending per equalized pupil and the yields:

$$\begin{aligned} \$1.00 \times (\text{per-pupil spending} / \text{property yield}) &= \text{homestead property tax rate} \\ 2\% \times (\text{per-pupil spending} / \text{income yield}) &= \text{tax rate on household income} \end{aligned}$$

- In FY2019, the property yield was \$10,220 per pupil. The income yield was \$12,380 per pupil.
- A way to think about the yields is that for every \$10,220 spent per equalized pupil the homestead tax rate will be \$1.00.
- Whether a resident homeowner pays the education tax on homestead value or income, the tax rate increases in proportion to per-pupil spending.

Back to our example, for the district spending \$16,924.25 per pupil:

The homestead property tax rate is:

$$\text{Per-pupil spending} / \text{yield} \times \$1.00 = (\$16,924.25 / \$10,220) \times \$1.00 = \$1.656$$

The income tax rate is:

$$\text{Per-pupil spending} / \text{yield} \times 2\% = (\$16,924.25 / \$12,380) \times 2\% = 2.73\%$$

## HOW ARE PROPERTY TAXES APPLIED TO HOMESTEAD PARCELS?

School District Homestead Property Tax Rate = \$1.656, Household Income Tax Rate = 2.73%

Local Common Level of Appraisal (CLA) = 89%

Local Homestead Property Tax Rate =  $\$1.656/89\% = \$1.861$

*(adjusted to account for fair market value of property)*

Homestead Property Value = \$450,000

**Housesite** Property Value = \$400,000 (principal dwelling and up to 2 contiguous acres)

Homestead Property Tax =  $\$450,000/100 * \$1.861 = \$8,375$

\$7,444 of which is attributable to the **housesite** property tax ( $\$400,000/100 * \$1.861$ )

- Property owning residents of Vermont are eligible for assistance/to pay property taxes based on their household income
- The property tax credit is limited to the housesite (home and two acres). The full homestead property tax rate is owed on additional contiguous acreage/value.
- There are value caps applied to the housesite that limit the amount of property value eligible for income adjustment

## HOW ARE PROPERTY TAXES APPLIED TO HOMESTEAD PARCELS?

School District Homestead Property Tax Rate = \$1.656, Household Income Tax Rate = 2.73%

Local Common Level of Appraisal (CLA) = 89%

Local Homestead Property Tax Rate =  $\$1.656/89\% = \$1.861$  (*adjusted to account for fair market value of property*)

Homestead Property Value = \$450,000 (*value reported on local grand list*)

**Housesite** Property Value = \$400,000 (*principal dwelling and up to 2 contiguous acres*)

Homestead Property Tax =  $\$450,000/100 * \$1.861 = \$8,375$

\$7,444 of which is attributable to the **housesite** property tax ( $\$400,000/100 * \$1.861$ )

Resident's Household Income = \$75,000

Maximum **housesite** property tax eligibility based on income =  $\$75,000 * 2.73\% = \$2,048$

But the resident paid = \$7,444 of housesite tax – the filer is eligible to receive:  $\$7,444 - \$2,048 = \$5,397$  in property tax credit

The filer must also pay the property tax on additional homestead value above the housesite:

which in this example is  $\$8,375 - \$7,444 = \$931$

## HOW ARE PROPERTY TAXES APPLIED TO HOMESTEAD PARCELS? – ANOTHER EXAMPLE

School District Homestead Property Tax Rate = \$1.656, Household Income Tax Rate = 2.73%

Local Common Level of Appraisal (CLA) = 89%

Local Homestead Property Tax Rate =  $\$1.656/89\% = \$1.861$  (*adjusted to account for fair market value of property*)

Homestead Property Value = \$250,000 (*value reported on local grand list*)

**Housesite** Property Value = \$250,000 (*principal dwelling and up to 2 contiguous acres*)

Homestead/**housesite** Property Tax =  $\$250,000/100 * \$1.861 = \$4,653$

Resident's Household Income = \$105,000

Maximum **housesite** property tax eligibility based on income =  $\$105,000 * 2.73\% = \$2,867$

But the resident paid = \$4,653 of **housesite** tax – \$4,187 ( $\$225,000/100 * \$1.861$ ) of which is eligible for adjustment

For filers with household income >\$90,000 they are eligible to pay a specified value of housesite property – \$225,000 based on household income – value above that they are eligible to pay the property tax

$\$4,187 - \$2,867 = \$1,320$  in property tax credit

The filer must also pay the property tax on additional value above the housesite cap (\$225,000):

which in this example is  $\$4,653 - \$4,187 = \$466$

## PROPERTY TAX CREDIT

- Property owning residents of Vermont are eligible for assistance/to pay property taxes based on their household income
- The property tax credit is limited to the housesite (home and two acres). The full homestead property tax rate is owed on additional contiguous acreage.
- The credit is calculated by comparing the housesite education property tax paid and the maximum amount the resident was eligible to based on a percentage of their household income in the calendar year.
- Property tax credits are applied to property tax bills in the following tax year.
- The income rate is adjusted each year based on local education spending in the same manor as the homestead education property tax (recall the income yield).

## PROPERTY TAX CREDIT TIMING

Property tax credits are applied to property tax bills in the following tax year.

Fall 2020 – FY21 Property Tax Paid

April 15, 2021 – CY 2020 income taxes due, household income for CY2020 declared

- The declaration states that Vermont was the filers primary residence for more than 182 days the previous year (same look back as income taxes)
- The household income form calculates household income for the previous calendar/income tax year = income available to pay FY21 (Fall 2020 property taxes)

Summer 2021 - The Tax Department calculates if the amount of property tax they paid in the previous calendar year (Fall 2020) was greater than the eligible percentage (~2.5%) of their reported household income for calendar year 2020.

Fall 2021– FY22 property tax paid, prior year credit received

If eligible based on CY2020 (FY21) the filer will receive assistance in the form of a credit applied to their property tax bill in the current year (year of filing) reflecting their prior year eligible assistance.

## HOMEOWNER REBATE

Resident homeowners with household income under \$47,000 are entitled to additional tax relief if their education and municipal town property taxes exceed a fixed percentage of income.

Household Income	Maximum Education Liability	Maximum Municipal Liability
0-\$10,000	0.5%	1.5%
\$10,000 -\$25,000	1.5%	3.0%
\$25,000-\$47,000	2.0%	3.0%
Maximum Adjustment	\$5,600	\$2,400

## 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 is separated into its education and municipal components
\$47,001 to \$90,000	Pay the lesser of the tax based on household income or property value	Limited to housesite value up to \$400,000; pay education property tax on “excess” value and additional acreage
\$90,001 to \$136,500	Pay the lesser of tax based on household income or property value	Limited to housesite value up to \$225,000; pay education property tax on “excess” value and additional acreage
Over \$136,500	Pay the education property tax	

*Household Income includes all income, taxable and nontaxable, of everyone who resided with you at any time during the tax year, including children and unrelated individuals.*



## THREE TAX BASES SUBJECT TO THE STATEWIDE EDUCATION TAX:

### Nonhomestead Property

- All taxable real property that does not qualify as a “homestead” – for example, commercial & industrial property, rental housing, second homes, etc.
- The nonhomestead property tax rate is uniform across towns.

### Homestead

- A resident’s home and all contiguous land.
- The homestead property tax rate in each town varies directly in proportion to per-pupil education spending.
- A housesite is a subset of the homestead – the housesite includes no more than two acres of contiguous acres. The property tax credit is linked to the housesite.

### Household Income

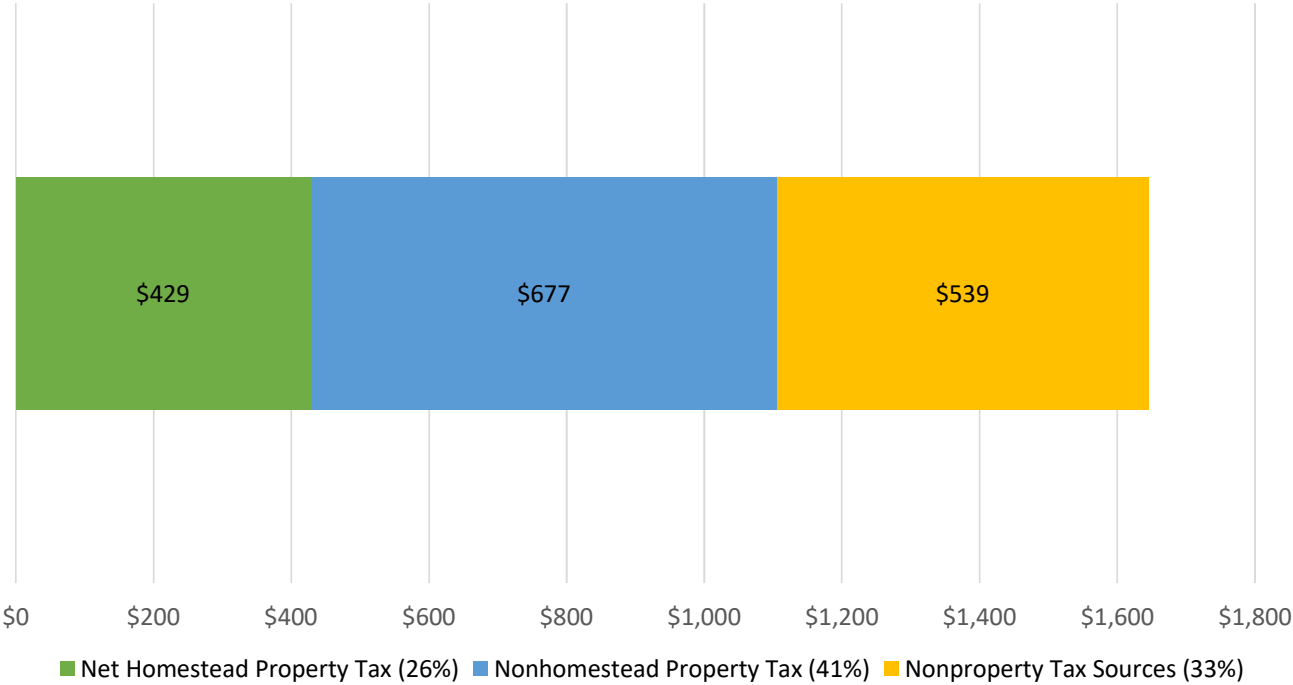
- Broadly defined to include all income, taxable and nontaxable, of everyone who resided in the household at any time during the tax year, including children and unrelated individuals.
- The tax rate on household income in each town varies directly in proportion to per-pupil education spending.

Yields/base tax rates are initially recommended so that all three types of property tax payers experience the same average increase in liability.

# EDUCATION FUND SOURCES

Two-thirds of total recurring sources are raised on the education property tax.

Education Fund Sources FY19

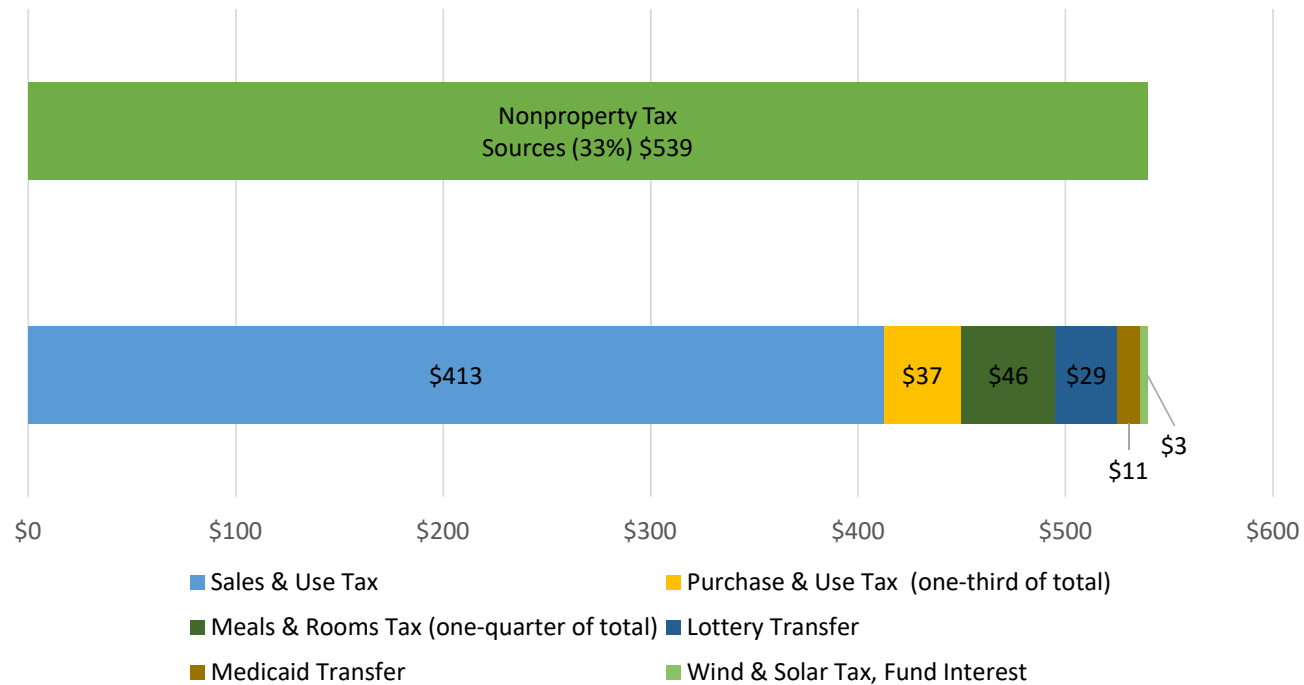


*The net homestead property tax is the gross homestead property tax less the property tax credit.*

## NON-PROPERTY TAX SOURCES

One-third of total recurring sources are non-property tax sources.

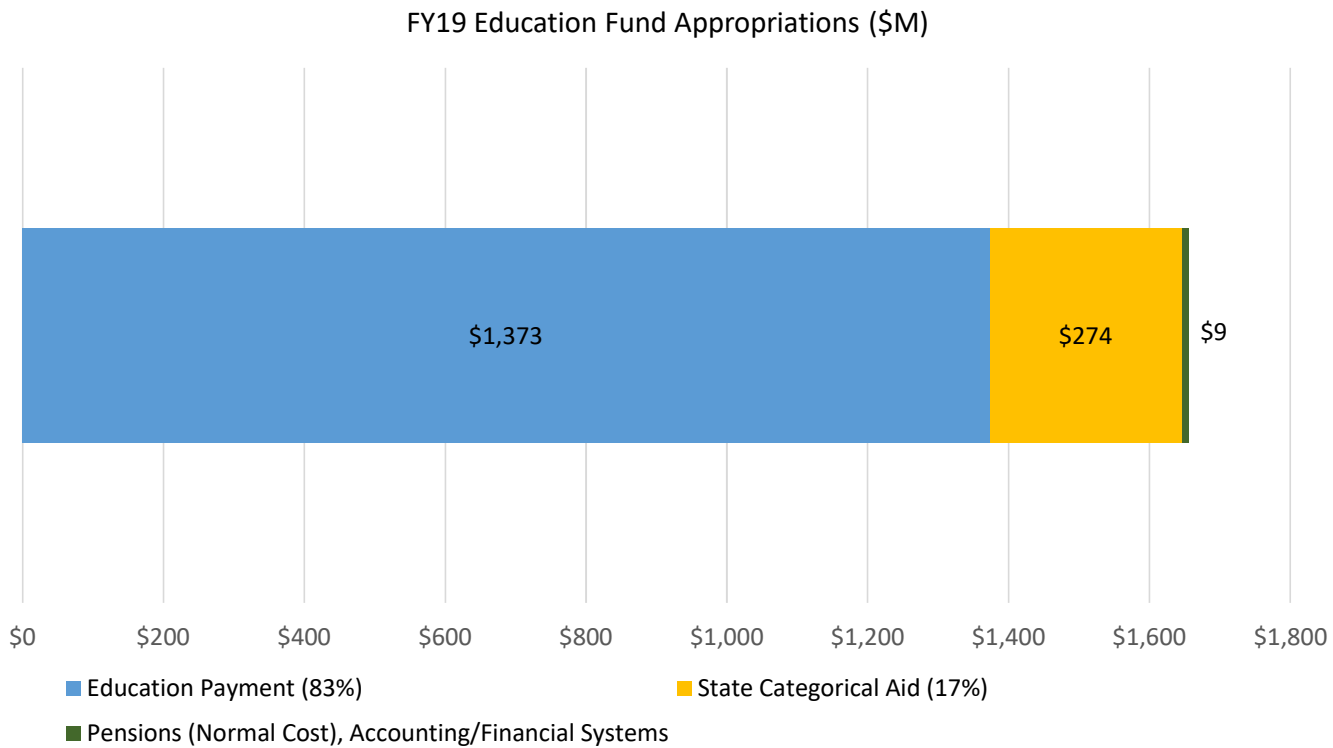
FY19 Education Fund Nonproperty Tax Revenues (\$M)



*Beginning in FY2019, the statutory general fund transfer to the education fund was replaced with dedicated revenue from the sales & use tax and the meals & rooms tax.*

## EDUCATION FUND USES

Nearly all uses are direct payments to school districts in the form of state categorical aid or the education payment.



*State categorical aid includes special education aid, technical education aid, transportation aid, state-placed students, small school support, and flexible pathways.*

## THE EDUCATION FUND OUTLOOK

<i>(millions of dollars)</i>	<b>FY2019 Actual</b>	<b>FY2020 Actual</b>
a Average Homestead Property Tax Rate	\$1.499	\$1.510
b Average Tax Rate on Household Income	2.48%	2.47%
c Uniform Non-Homestead Property Tax Rate	\$1.580	\$1.594
d Property Yield Per Equalized Pupil	\$10,220	\$10,648
e Income Yield Per Equalized Pupil	\$12,380	\$13,081
f Equalized Pupil Count	88,359	87,839

### Sources

1a Homestead Education Property Tax	594.9	609.5
1b Property Tax Credit	(165.9)	(165.8)
3 Non-Homestead Education Property Tax	676.7	700.3
4 Sales & Use Tax	412.5	432.5
5 Purchase & Use Tax - <i>one-third of total</i>	37.3	35.1
6 Meals & Rooms Tax - <i>one-quarter of total</i>	45.5	40.9
7 Lottery Transfer	29.5	26.8
8 Medicaid Transfer	11.3	10.6
9 Other Sources (Wind & Solar, Fund Interest)	3.4	5.1
10 <b>Total Sources</b>	<b>1,645.0</b>	<b>1,695.0</b>

### Appropriations

11 Education Payment	1,372.9	1,428.8
12 Special Education Aid	198.5	213.0
13 State-Placed Students	20.4	18.0

## SUMMARY – TAKE A DEEP BREATH!

1. Vermont has a unique education finance system - a statewide funding formula coupled with local administration.
2. School boards set budgets and submit them to voters for their approval, maintaining local control over education spending.
3. The Legislature sets the yields and base education property tax rates annually at the level necessary to fund voter-approved school budgets.
4. Our education system may be viewed as either an income tax system or as a property tax system with adjustments for income.
5. Whether assessed on property value or income, homestead tax rates vary with local per-pupil spending.
6. The nonhomestead tax rate is uniform statewide, not directly related to local per-pupil spending.

## ADDITIONAL RESOURCES

Legislative Joint Fiscal Office – Education Finance <https://lifo.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>