

Vermont's tools for education funding equity: Weighting and categorical aid

Vermont's education funding system is built on fairness to taxpayers, to communities, and to students. It is a state-funded system that allows local communities to make their own spending decisions while giving every community equal access to the state pool of education resources. Rather than leaving each community to fend for itself, in Vermont we are all responsible for supporting all of the state's students, and we strive to ensure that all can succeed regardless of their needs.

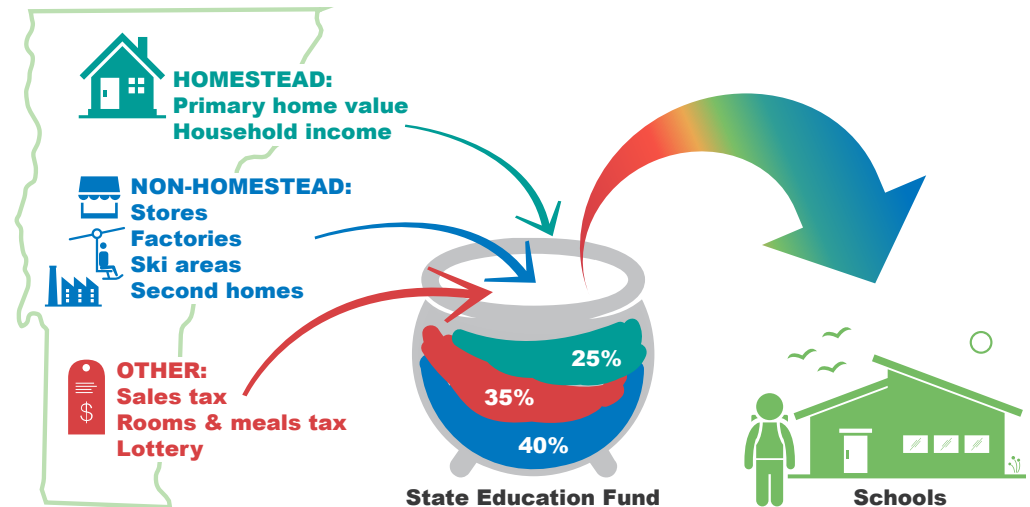
Two levels of equity

1. Basic equity

Vermont's system ensures that if districts have the same per-pupil spending, they have the same tax rates. Each district sets its own school budget. Local taxpayers vote on the budget. The Legislature sets a tax rate schedule so that homestead tax rates are higher or lower in a district proportional to its per-pupil spending.

All school taxes go into a single pot, the state Education Fund, and the Ed Fund sends districts the amount per pupil that they voted to spend. This means that all students have access to the same pot of resources. The system is also equitable for taxpayers: Most primary homeowners (whose taxes make up about a quarter of Ed Fund resources) may pay their school taxes based either on the value of their primary home or on their household income. Over the years, the Legislature has moved closer to the fairest kind of system, one that bases school taxes entirely on income.

Fig 1. All school taxes go into a single pot—the state Education Fund Resources available to a school are not based on the dollars generated by the community



Data source: Joint Fiscal Office
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2. Additional equity

Meeting the needs of all their students is a perpetual challenge for communities. Children's needs change, revenue streams ebb and flow, technology redefines necessary skills, and discrimination affects some students' ability to thrive. Because educating different students requires different levels of funding, those costs vary from district to district. Vermont recognizes the need for funding adjustments beyond what basic tax equity delivers. So the system provides additional equity with additional funding to support English language services, rural transportation, or other costs.

Adjustment tools for additional equity

The state has two tools to help mitigate these variable costs so that all schools can afford to educate all their students, regardless of need. These tools are **categorical aid** and **pupil weighting**. The Legislature sets and can change both the weights and the amounts for categorical aid as students' and districts' needs change. Lawmakers also determine the uses of these two mechanisms, their eligibility criteria, and reporting and evaluation requirements.

• Categorical aid

The Ed Fund provides categorical aid to districts facing particular education cost challenges beyond their control. Vermont has provided categorical aid to districts for decades, most notably for transportation and special education. In those cases, the state reimburses districts for a portion of the cost of services provided. Categorical aid doesn't have to be tied to specific costs, however. Districts have received aid for schools that meet the state's definition of "small." A district's categorical aid is not included in its school tax rate calculation.

• Pupil weighting

The other way the state provides more support to school districts facing educational challenges is by applying a standard set of weights to each district's student count. For the purposes of funding, the state counts a weighted pupil as more than one pupil. Vermont (along with many other states) has been adding weights for poverty, for example, to the student count for decades. Vermont also weights high school students slightly more than elementary students, and there is an extra weight for English language learners. Even if two districts have the same number of actual students, the state credits the district with kids in these categories as having more pupils and provides funding for the higher number of pupils without increasing the district's tax rates.

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• **Different effects**

Both categorical aid and pupil weighting are meant to achieve greater equity. But they have different effects, especially when fitted into Vermont’s uniquely equitable education funding system. Pupil weighting has a distorting effect that categorical aid does not. Per-pupil spending varies across districts, so the weights generate more funding in districts that spend more. If the Legislature increases the weights, that disparity between high-spending and low-spending districts also increases. To minimize the disparity, weighting tends to be used for smaller equity adjustments and categorical aid for larger.

The adjustment tools also affect taxpayers differently. Pupil weighting directly impacts only homestead taxpayers. Funding for categorical aid spreads the tax impact more widely, directly affecting both homestead and non-homestead school taxpayers. In fact, categorical aid could draw from any or all of the Ed Fund’s statewide revenue sources.

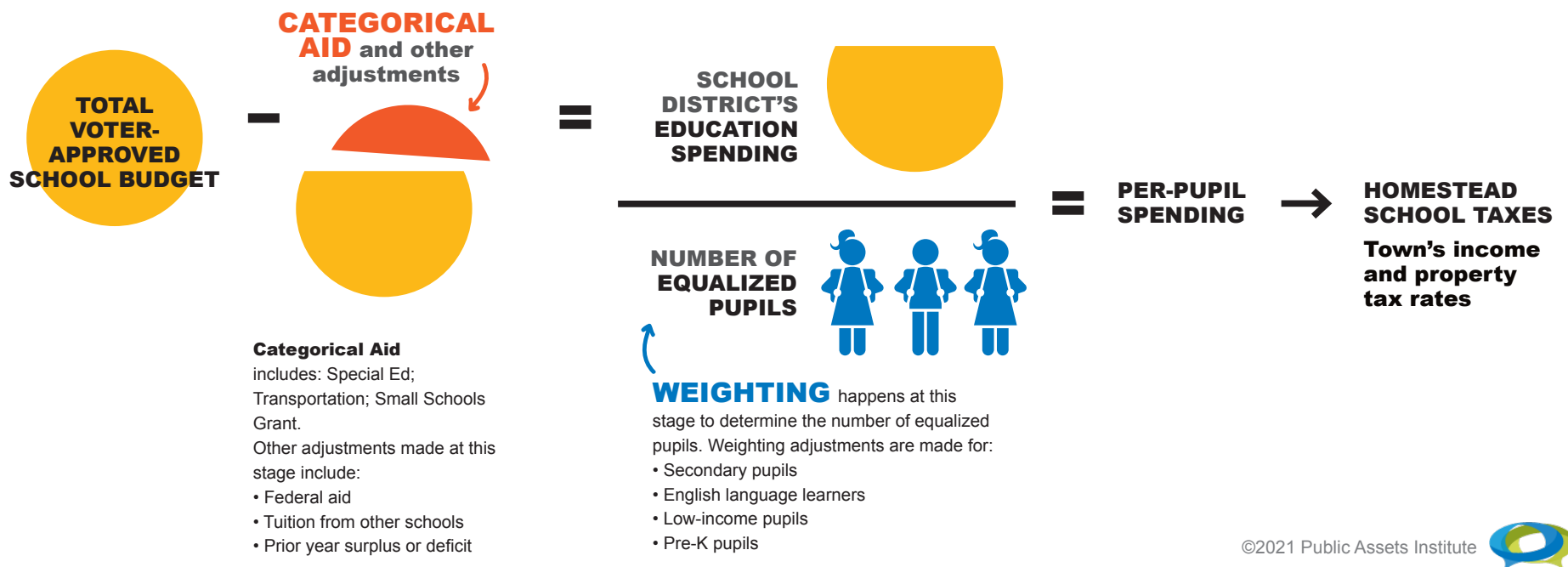
Fig 2. Comparing Vermont’s two education equity cost adjustment tools

	CATEGORICAL AID	PUPIL WEIGHTING
How they work	Provides specific funding for eligible expenses or categories of need	Adjusts the district pupil count for eligible expenses or categories of need
What they adjust for	Special ed, transportation costs, and small size	English language learners, economic disadvantage, and grade
How they impact tax rates	Directly affects both homestead and non-homestead school tax rates	Directly affects only homestead school tax rates
Funding limitations	Unrestricted funds to districts with eligible needs or reimbursement for specific eligible costs	Unrestricted funds to districts with eligible needs, based on per-pupil spending approved by voters
Differences between the tools	<ul style="list-style-type: none"> • A fixed amount, a share of costs, or a per-pupil amount • Amount does not vary with per-pupil spending 	<ul style="list-style-type: none"> • Not a fixed amount per pupil • Amount varies with per-pupil spending: The weight is worth more in higher-spending districts
What’s the same	<ul style="list-style-type: none"> • Voters decide how much to spend on the total school budget • The Legislature decides on eligibility criteria and reporting requirements 	

Using the tools for fair taxation and equitable education

In any Vermont district's school budget, education spending, not the total voter-approved school budget, determines the town's school tax rates. Education spending—on average about 85 percent of total budgets—is what is left after federal aid, tuition receipts, and categorical aid are subtracted from the total budget. The number of pupils a district is credited with after weighting adjustments is called its "equalized pupils." Education spending is divided by equalized pupils to arrive at the per-pupil spending number that determines the town's school tax rates.

Fig 3. How cost adjustment tools help determine a town's education tax rate



Vermont has created an integrated school funding system. Its components work together. If there has been a recurring criticism of the system, it has been that it's too complicated. But much of the complication results from legislative changes that have had unintended consequences. Seemingly minor adjustments can have disproportionately greater effects on the overall fairness built into the system. Any changes should preserve and build on the two levels of equity Vermont has achieved and make the system simpler and more transparent to voters.