

Understanding the Levers in Vermont's Education Fund

House Committee on Ways and Means

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Outline

- Review of Education Fund and general levers
- 2023 Report on Vermont's Education Financing
 - Vermont's education costs and potential options for cost containment
 - Mechanics for setting the yields
- Revenue considerations and example levers



Review of the Education Fund

- **Vermont’s education funding formula distributes money to schools using the statewide Education Fund.**
- **Each year, property tax rates are set to ensure all education expenditures are fully funded.**
 - The amount of revenue raised is driven by total education expenses – not the other way around.
- **Because of the structure of the Education Fund, multiple factors impact property tax bills.**
 - This can be thought of as “pushing on the balloon.”
 - Factors impacting property tax bills generally fall into 2 categories: expenditures and revenues.



Levers Impacting Property Tax Bills: *Expenditures*

- Under current law, education expenditure decisions are made at the statewide and local level.

All else equal –

- Increasing expenditures requires increasing revenues to ensure expenditures are fully funded.
- Decreasing expenditures requires less money to be raised from property taxes.



Levers Impacting Property Tax Bills: *Revenues*

- **The Education Fund is funded from multiple revenue sources:**

- Non-property tax revenues:
 - Sales & Use
 - Meals & Rooms (25%)
 - Purchase & Use (1/3)
 - Lottery, etc.
- Property taxes:
 - Homestead
 - Nonhomestead

All else equal –

- **Increasing non-property tax revenues decreases the amount that needs to be raised from property taxes.**
 - Conversely, decreasing non-property tax revenues increases the amount that needs to be raised from property taxes.
- **Increasing the amount of revenues that are raised from one property tax base decreases the amount that needs to be raised from the other.**



2023 Report on Vermont's Education Financing

- Section 19 of Act 127 (2022) tasked JFO with examining and providing alternative options for structuring the following aspects of Vermont's education finance system:
 1. *“methods for cost containment that create equity in school districts' ability to spend sufficiently on education to meet student needs,*
 2. *in collaboration with the Department of Taxes and the Agency of Education, the mechanics for setting the yields in a manner that creates a constitutionally adequate education spending amount for school districts at a level that is determined by education funding experts to be sufficient to meet student needs, and*
 3. *funding similar school districts in an equitable manner regardless of their per pupil education spending decisions.”*



Please Note

- This report was in response to the legislative charge and makes no recommendations regarding cost containment or changes to Vermont's education financing structure.
- This report presents options based on research and analysis that should not be interpreted as recommendations or guidance.



Vermont's Education Costs and Potential Options for Cost Containment

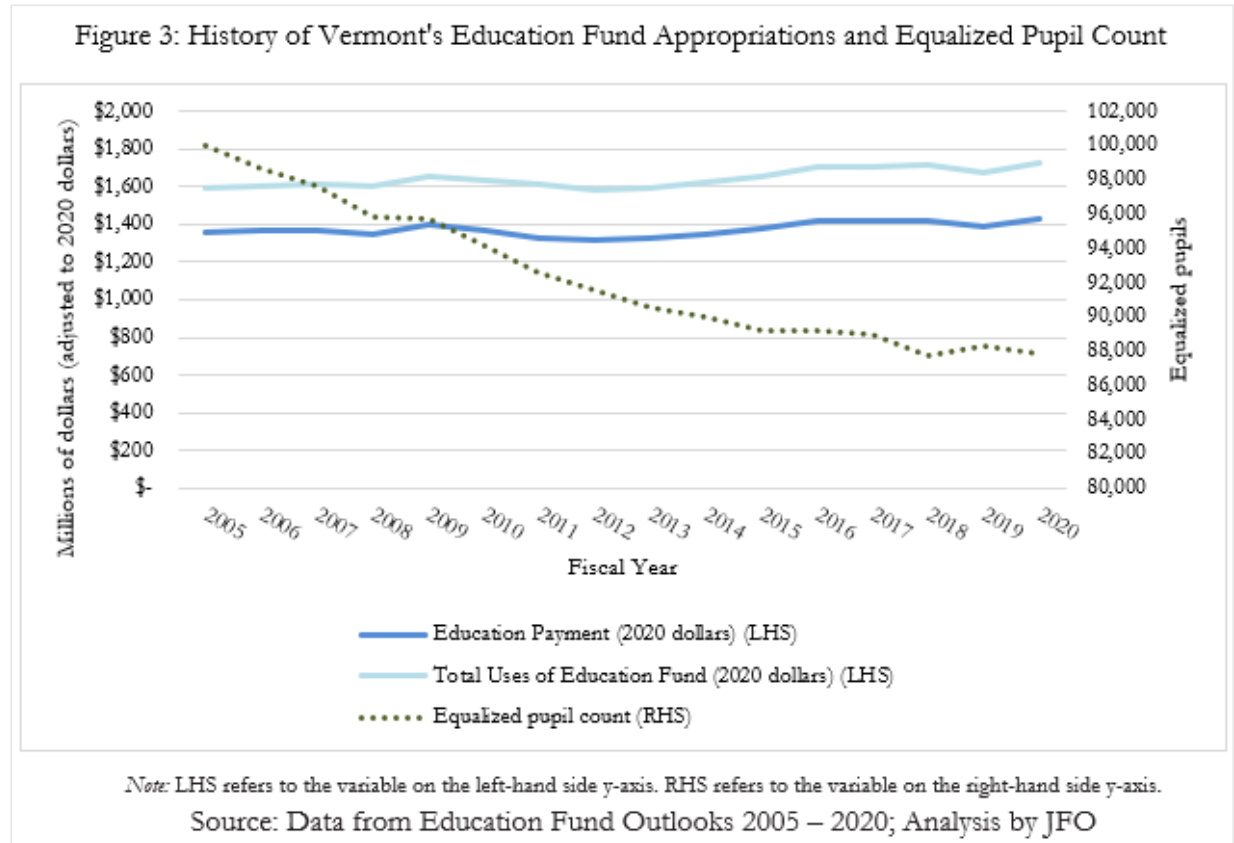
- *Background of education costs in Vermont*
- *Previous legislative attempts to contain costs*
- *Possible options for cost containment*

For further information and context to this section, see the full report "[2023 Report on Vermont's Education Financing](#)"



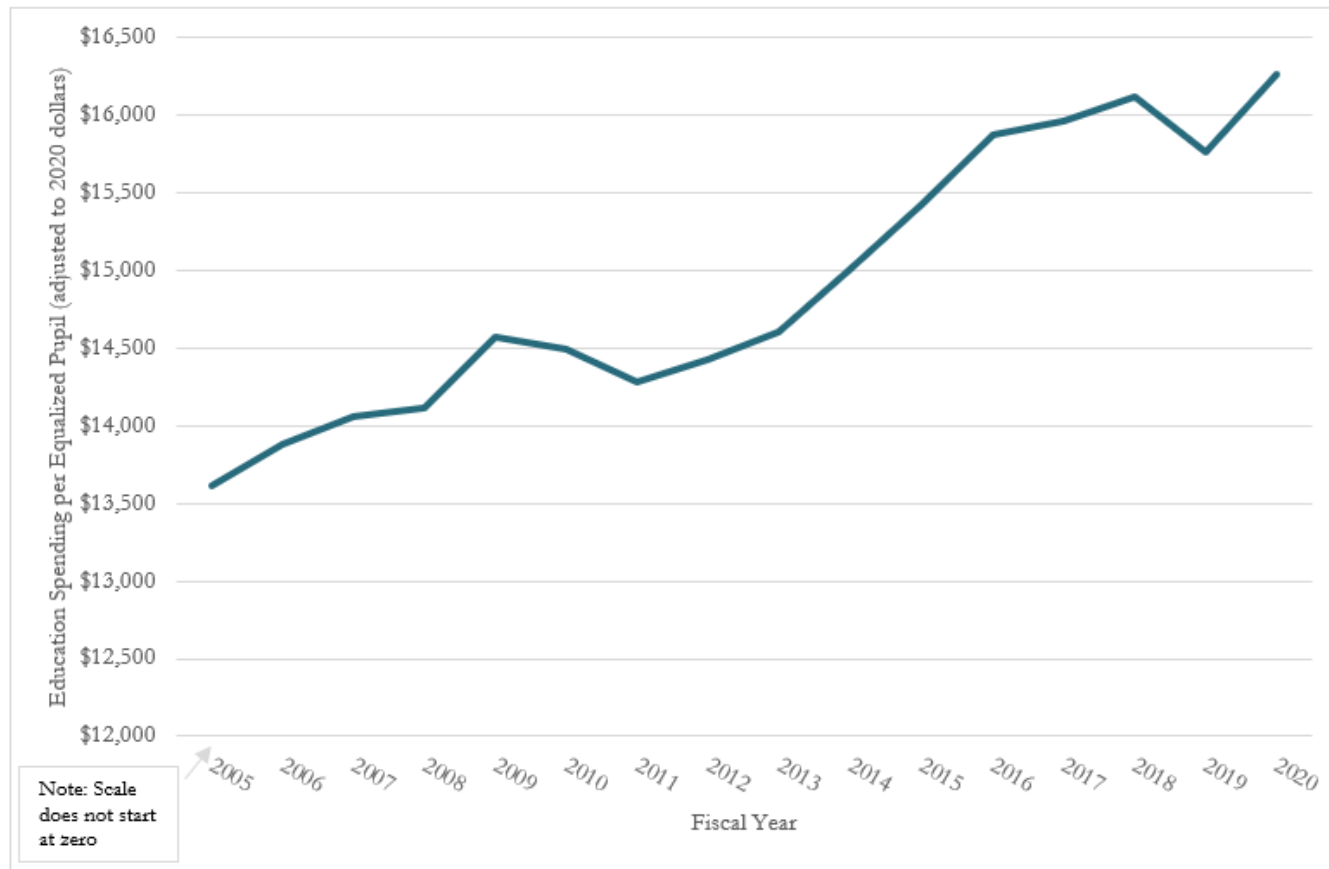
Background of Education Costs in Vermont

Over time, both the inflation-adjusted education payment and total uses of the EF have slightly increased despite a statewide decline in equalized pupils.



Background of Education Costs

Figure 4: Vermont's Statewide Education Spending Per Equalized Pupil Over Time (adjusted to 2020 dollars)



Source: Data from Education Fund Outlooks 2005 – 2020; Analysis by JFO



Education Spending in Vermont Compared to Other States

- The Northeast has generally higher student expenditures than the rest of the country.
- In 2001, Vermont was nationally ranked eighth for its expenditure per student, currently it is ranked second.

Table 2: Public School Current Expenditures per Student in Fall Enrollment (2020-2021)

	Expenditure <i>(\$ / student)</i>	National Rank
US Average	\$ 14,360	-
Northeast Average	\$21,535	-
Connecticut	\$ 22,153	5
Maine	\$ 17,293	14
Massachusetts	\$ 21,584	6
New Hampshire	\$ 19,062	7
New York	\$ 28,704	1
Rhode Island	\$ 18,651	10
Vermont	\$ 23,299	2

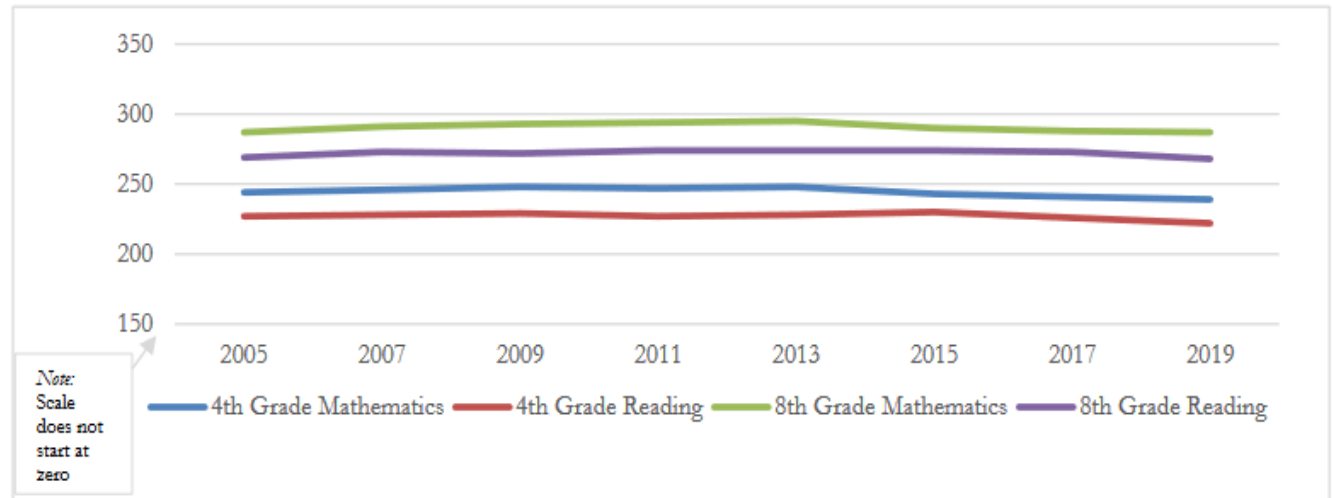
Data source: National Education Association ³⁰; Analysis by JFO



Education Performance in Vermont

- The National Assessment of Education Progress (NAEP) is a national assessment used to measure educational achievement.
- Vermont students' average assessment scores in the NAEP have been relatively steady over time.
 - This outcome is consistent with the literature that there is no direct linkage between funding and student performance

Figure 5: Vermont's Average NAEP Scores Over Time



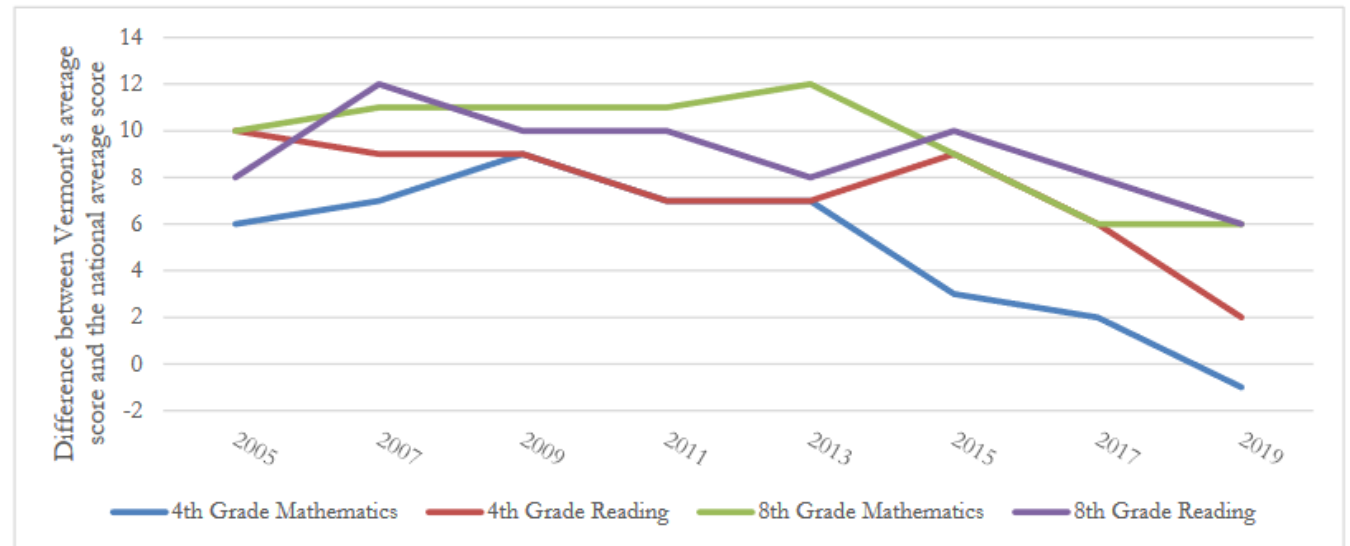
Source: Data from NAEP; Analysis by JFO



Education Performance in Vermont

When comparing Vermont's performance to the national average, the State's performance has not kept pace with other states.

Figure 6: Difference Between Vermont's Average NAEP Score and the National Average NAEP Score Over Time



Source: Data from NAEP; Analysis by JFO

Note: In this graph, a positive value means that Vermont's score is higher than the national average



Previous Legislative Attempts to Contain Costs

- **Cost containment of Vermont's education spending has been a point of continued policy discussion.**
 - Recall the increase in education spending per equalized pupil can be largely attributed to a slight increase in inflation-adjusted education spending and a decline in the number of pupils.
- **Policy measures that have been adopted in Vermont include:**
 - Vermont's Excess Spending Adjustment
 - Merging of school districts
 - Restructuring funding structure for special education



Vermont's Excess Spending Adjustment

- **Vermont's Excess Spending Adjustment*** increases a district's tax rate if it spends above a certain level.
 - The excess spending adjustment creates an additional tax for the amount a school district's education spending per equalized pupil is greater than the excess spending threshold after accounting for allowable exclusions.
 - The excess spending threshold is calculated annually and is based on the statewide average education spending per equalized pupil in fiscal year 2015 increased by inflation and multiplied by 121 percent.
- **In recent years, the General Assembly has enacted policy to suspend the excess spending adjustment.**
 - Currently the excess spending penalty is suspended through fiscal year 2029.

* 32 V.S.A. § 5401(12)



Merging of School Districts

- **Act 153 (2010), Act 156 (2012), and Act 46 (2015) all played roles in merging and consolidating school districts.**
 - Through these mergers, 206 districts in 185 towns have been condensed to form 50 new union school districts.
 - This was a reduction of 156 districts across the state.
- **According to AOE, the mergers were anticipated to increase schools' ability to share staff, resources, and programs.**



Restructuring the Funding for Special Education

- **Act 173 (2018) adjusted the funding of special education to a census block grant funding model.**
 - Under the census block grant model, supervisory unions receive a census grant based on average State appropriations for special education grants divided by the statewide long-term membership (adjusted for inflation).
- **The previous model reimbursed school districts for actual special education expenditures incurred.**
- **For context, Special Education Aid was \$208 million in fiscal year 2023**



Possible Cost Containment Options

- **In its review of third-party materials, JFO identified possible options that may contain Vermont's education costs. These options include:**
 - adjusting staffing ratios
 - encouraging or mandating more mergers
 - consolidating administrative services
 - reinstating and/or adjusting the excess spending threshold
 - implementing education spending caps
 - moving education spending decisions to a statewide level
- **Across all cost containment strategies, policymakers may consider impacts beyond cost containment.**



Adjusting Staffing Ratios

- **Staffing costs comprise approximately 80% of public education expenditures nationally.**
 - Staffing costs generally encompass the salary, employee benefits, training, and other expenses for all school staff
- **The higher the number of personnel per pupil, the higher the per pupil expenditure.**
- **In previous years, multiple entities have discussed staffing ratios in Vermont during education cost containment and funding considerations.**



Adjusting Staffing Ratios – Student to Staff Ratio

- The student to staff ratio is defined as the average number of students per staff member.
- In the fall of 2020, Vermont had the lowest ratio in the country.

Table 3: Pupils enrolled per staff in the public school system (2019)

	Count (#)	National Rank
US Average	7.45	-
Northeast Average	6.1	-
Connecticut	5.3	48
Maine	4.8	50
Massachusetts	6.9	36
New Hampshire	5.5	47
New York	6.2	43
Rhode Island	6.9	35
Vermont	4.4	51

Data source: Digest of Education Statistics⁴⁴; Analysis by JFO



Adjusting Staffing Ratios – Student to Teacher Ratio

- Student to teacher ratio is defined as the average number of students enrolled per teacher.
- Vermont had the second lowest student to teacher ratio in the United States in the 2020-2021 school year.

Table 4: Pupils enrolled per teacher in public schools (2020-2021)

	Count (#)	National Rank
US Average	15.3	-
Northeast Average	11.5	-
Connecticut	12.3	41
Maine	11.7	45
Massachusetts	12.1	43
New Hampshire	10	51
New York	11.5	47
Rhode Island	13	38
Vermont	10.1	50

Data source: NEA Research⁴⁷; Analysis by JFO



Further Merging of Supervisory Unions, School Districts, and/or Schools

- Ultimately, while Vermont has a unique, rural landscape, the number of districts and supervisory unions is a policy decision and could be adjusted.
- According to a legislative report published in 2016 by Picus Odden and Associates, “in Vermont, which has scores of schools – and even districts – with 150 or fewer students, school mergers could produce significant cost savings.”
- As mentioned earlier, this is not new policy idea, as there have already been several policy initiatives directed at merging school districts in Vermont.



Encourage or Mandate School Districts to Consolidate Administrative Activities

- **One of the recommendations published by the 2004 Joint Legislative Education Cost Containment Study Committee was to “encourage school districts to consolidate professional development, long-range planning, and business services.”**
- **In its report under Act 46 (2015) and Act 153 (2010), the Agency of Education (AOE) anticipated consolidation of administrative services and programs due to merger activity would lead to:**
 - *“Increased ability to share staff, resources, and programs among schools.*
 - *Elimination of bureaucratic redundancies and centralization of supports so that administrators are able to focus on their roles as educational leaders.*
 - *Creation of a unified program of educator recruitment, induction, and mentoring, including for paraprofessionals and substitute teachers.”*



Implement Education Expenditure Caps

- **Other states have enacted K-12 spending caps on different services including special education and administrative and support services.**
- **In Vermont, special education spending is capped at the State level.**
 - Vermont is currently transitioning to a census block grant funding model for special education.
 - This is a funding cap in categorical aid, but, in theory, school districts could spend more and make up the difference in their education spending.
- **Some other states also cap expenditures on administrative and support services.**



Strengthen the Understanding and Connection Between School Budget Votes and Property Tax Bill

- Some stakeholders have critiqued the Vermont's education property tax system for its complex connection between local school budget votes and property tax liability.
- If the connection between school budget votes and property tax liability is not clear to all voters, then legislative action to clarify and tighten the connection may impact voter decisions regarding local budgets and cost containment actions.



Restructure Education Spending Decisions at a Statewide Level

- Under current Vermont law, every school district ultimately determines the amount that should be spent on public education.
- The previously presented options may create some cost containment, but education spending, and therefore total education costs, would still be decided at the local level.
- Another manner to contain costs would be to restructure Vermont's education finance system so that education spending decisions are made at the State level instead of the local level.
- Moving education spending decisions to the State level would be a significant change both culturally and fiscally that would require further analysis.



Mechanics for Setting the Yields

- *Overview and background*
- *General policy considerations*
- *Options for adjusting the yield*

For further information and context to this section, see the full report “[2023 Report on Vermont’s Education Financing](#)”



Overview and Background

- Act 127 (2022) required the JFO to examine the inclusion of a *“constitutionally adequate education spending amount for school districts at a level that is determined by education funding experts to be sufficient to meet student needs.”*
- This section of the report focused on the mechanics to include a formal base amount in Vermont’s education finance formula.



Base Amount Per Pupil

- **29 states have an education funding formula that includes a “base amount” per pupil.**
- **A base amount per pupil is the minimum guaranteed dollar amount per pupil that a state must provide to each school district.**
 - It is not synonymous with total education spending per pupil.
- **Vermont’s education funding formula does not include a formal base amount per pupil.**
 - Instead, there is a minimum base property education tax (\$1) and a minimum base income education tax (2%).
 - Because of these base tax rates, the homestead property yield serves as an informal base amount per pupil spending for a school district.



General Considerations When Changing the Mechanics to Set the Yields

- Vermont's current pupil weights and funding formula adjust district taxing capacity and do not adjust the amount of education spending.
- Vermont school districts may already be meeting the spending level deemed constitutionally adequate by experts.
- Changing the structure of the homestead property yield may impact the income yield and the nonhomestead rate.
- Vermont's current education finance system requires revenue adjustments to sufficiently fund expenditures.
- Inclusion of a formal base amount would not necessarily align with cost containment strategies.



Options for Setting the Yields

- **The current education funding system requires a mechanism that can be adjusted to ensure sufficient revenues are raised to fund expenditures.**
- **If the yield becomes fixed, then a new mechanism would need to be used to ensure sufficient revenues are raised.**
- **The report identifies two general methods for how the education finance system could be adjusted to include a specific, formal “constitutionally adequate education spending amount [...]”**
 - These are high level options and do not account for the size of the base amount.
 - The size and scope of the base amount will introduce additional considerations.



Option 1: Include a Formal Base Amount Per Pupil in Statute

- **This formal base amount would serve as a floor for education spending per weighted pupil and could be set at a level determined by education funding experts to be constitutionally adequate.**
 - This is different from the current education financing system because it creates an explicit *spending* floor, whereas the current system has a *tax rate* floor.
- **There are several ways this option could be structured in Vermont's funding formula...**



Option 1a: Set a Formal Base Amount Per Pupil in Statute

- In this option, the General Assembly would set a formal base amount per pupil in statute.
- School districts could still spend above this minimum base amount and their tax rates would be adjusted proportionately (in accordance with current practice).
- In this option, all else within the education funding structure would remain the same.



Option 1b: Set a Formal Base Amount Per Pupil with a Corresponding Uniform Tax Rate - Percentage

- **The percentage a school district pays over the base amount is the percentage its tax rate is increased.**
- **This option could be structured as followed:**
 1. Adjust the funding formula to include a formal base amount per weighted pupil in statute;
 2. Calculate a tax rate annually so sufficient revenues would be raised to fund the base amount and all other expenditures outside of education spending; and,
 3. For districts that spend above the formal base amount, increase tax rates by the same percentage that the districts spend above the base amount per weighted pupil.
- **In other words, districts spending more than the formal base amount would have an increased tax rate proportional to their spending decisions.**
- **This option may result in a fluctuating minimum tax rate.**



Option 1c: Set a Formal Base Amount Per Pupil with Corresponding Uniform Rate - Yield

- **Use yield for school districts with funding greater than base amount.**
- **This option would be structured as followed:**
 - Adjust the funding formula to include a formal base amount per weighted pupil in statute;
 - Calculate a tax rate annually so sufficient revenues would be raised to fund the base amount and all other expenditures outside of education spending; and,
 - Districts decide locally the amount they choose to spend above the base amount.
 - A yield would be set to account for spending above the base level amount.
 - Only school districts that have education spending per weighted pupil above the formal amount would have tax rates increased proportionately by this yield.
- **There would be increased volatility in tax rates for districts spending above the base.**



Option 2: Establish a State Level Funding Amount for School Districts with a Corresponding Uniform Rate

- Another option would be to establish a statewide level of funding for school districts with a corresponding uniform rate and remove total spending decisions from the local level.
- This would mean that school districts would receive the base amount per weighted pupil.
- A uniform base tax would be calculated so all categorical aid and base level spending could be funded through the uniform base tax.



Revenue Considerations and Example Levers



Necessary Adjustment of Property Tax Rates and Bills

- **Property taxes are adjusted based on the difference between total expenditures and non-property tax revenues.**
- **The average bill change for one property class also depends on the average bill change for another property class.**
 - All else equal, if the average bill change is not uniform, one property class will see a larger increase to offset the other class' tax relief.
- **For the Dec. 1st letter's modeling, the average bill change must be uniform across nonhomestead, homestead, and income.**
 - After the Dec 1st letter, this is a policy decision.



Considerations for the Property Tax Credit

- In Vermont, about two-thirds of households receive a property tax credit based on their income.
- The property tax credit is on a lag, meaning that it is applied to the following year's tax bill.
- Because of the lag, changes in the average bill impact households that are income-sensitized differently than households that are not income-sensitized.



Example Revenue Levers

- Increasing non-property tax revenues decreases the amount that needs to be raised from property taxes.
- Because of the transition provision in Act 127 (2022), there is no linear relationship between additional revenue and corresponding change in average tax bill change.

Lever	Preliminary Revenue Estimate
Larger levers	
1% Increase in Statewide Sales and Use Tax Rate	\$88.7 million (first year) \$96.7 million (subsequent years)
Adding a Limited Set of Services to the Sales Tax Base	\$100.3 million (first year) \$109.4 million (subsequent years)
Adding an Extended Set of Services to the Sales Tax Base	\$136.6 million (first year) \$149.0 million (subsequent years)
Smaller levers	
Note: estimated revenues for the options below are for a full-year implementation	
Repeal Clothing and Footwear Exemption from Sales Tax	\$38.3 million
\$110 cap	\$7.4 million
\$125 cap	\$6.1 million
\$175 cap	\$4.8 million
Repeal Cloud Tax Exemption	\$22.2 million
Expanded Cloud	Approximately \$22 million
Sugar Sweetened Beverages	\$16.6 million for a \$0.01 per ounce tax; \$32.5 million for a \$0.02 per ounce tax
Apply Sales Tax to Candy	\$4.0 million
1% Increase in the P&U Tax Rate	\$8.4 million to Ed Fund; \$17.1 million to T Fund
1% increase in the M&R Tax Rate	\$6.6 million (as currently allocated) \$26.3 million (if total increase allocated to the Education Fund)

Note: Examples are illustrative and are not a policy recommendation from JFO; estimates for expanding the sales tax base to include services come from RAND: [“Vermont Early Care and Education Financing Study”](#)



Resources

- 2023 Report on Education Financing:
 - https://ljfo.vermont.gov/assets/Subjects/2023-Session-Documents/5c1b5b9886/GENERAL-366459-v2-2023_Report_on_Education_Financing.pdf
- JFO Education Resources:
 - <https://ljfo.vermont.gov/subjects/education>
- JFO Revenue Resources:
 - <https://ljfo.vermont.gov/subjects/revenue-and-tax>

