

Education Finance in Vermont

Julia Richter, Fiscal Analyst, JFO

Tax Workshop

January 16, 2023



JFO

1 Baldwin Street • Montpelier, VT 05633-5701 • (802) 828-2295 • <https://ljfo.vermont.gov>

Outline

- Overview
- Education Expenditures
- Education Funding
 - Non-property tax sources
 - Nonhomestead property tax
 - Homestead property tax and income credits



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
- School district spending is determined at the local level
 - School boards set budgets that must be approved by voters
- The Legislature sets education yields and property tax rates annually at the level necessary to fund education expenditures
 - There are two types of property taxes – homestead (including income credits) and nonhomestead
- Since the Brigham decision (1997), the homestead property tax rate is a function of district per pupil spending
 - District rates are not a function of property wealth
 - Tax rates vary in proportion to per pupil spending across districts



Brief History of Education Finance in Vermont

Prior to 1997, Vermont relied on a foundation program to fund its education system

- A foundation formula relies on a base level of state funding 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 the Legislature to underfund the foundation formula to reduce state costs
- Property wealthy districts benefited 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

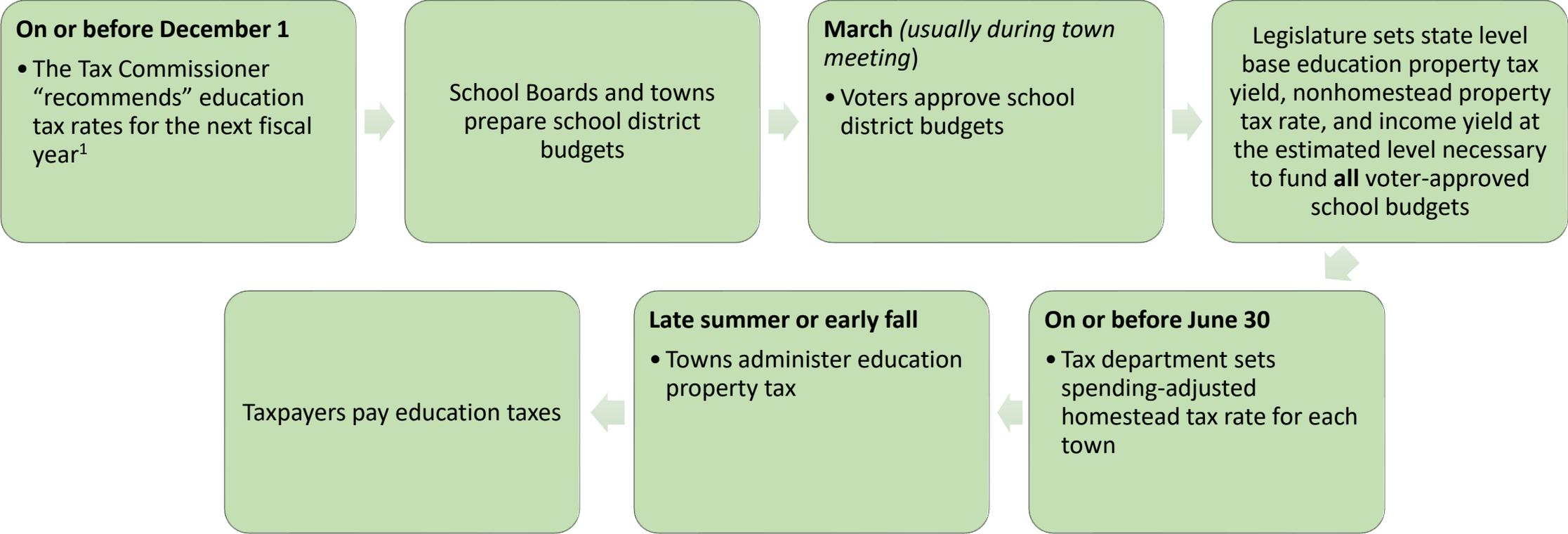
- This combination of reduced state appropriations and property tax rate inequities across towns led to the Brigham decision
- The Legislature responded with the passage of Act 60 in 1997

A town's property wealth no longer affects its education tax rate

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



Education Finance Timeline



Year-round

- School districts receive education payments from the state based on their voter-approved budget on September 10, December 10, and April 30, with other categorical aid payments are made throughout the year

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 Expenditures



Education Expenditures – Local Level

- Each school district builds an annual budget
 - Budget requires local voters' approval
- In general, budgets have two primary parts: offsetting revenues and education spending

Local School Budget	
<h3>Offsetting Revenues</h3> <ul style="list-style-type: none">• State and federal categorical aid• Tuition revenues (to the school district)• Prior year surpluses or deficits (of the school district)• Reserve funds (of the school district)	<h3>Education Spending</h3> <ul style="list-style-type: none">• All funds a school district decides to spend net of the offsetting revenues it receives



Education Expenditures – State Level

- Education Fund (EF) expenditures are statewide aggregated costs of public education
 - This includes all school budgets
- In general, there are two buckets of EF expenditures: statewide education payment and all other expenditures

Education Fund Expenditures	
Education Payment <ul style="list-style-type: none">• Aggregated amount of all school districts' education spending	All Other Expenditures <ul style="list-style-type: none">• Categorical aid• One-time appropriations• Other operating and administrative costs at the state level



Expenditures in Education Fund Outlook

Consensus Education Fund Outlook for FY 2024 - December 2022

(millions of dollars)	FY2022 Actual	FY2023 Projected	FY2024 Forecast (from December 1st letter)
a	\$1,523	\$1,386	\$1,307
b	2.50%	2.32%	2.31%
c	1.612	\$1,466	\$1,386
d	\$11,317	\$13,314	\$15,479
e	\$13,770	\$15,948	\$17,600
f	86,944	85,806	84,890
g	1.3%	6.2%	8.5%
h	3.0%	7.5%	9.7%
Sources			
1a	648.7	635.0	665.7
1b	(172.3)	(164.0)	(151.0)
2	752.3	727.1	780.9
3	545.2	563.2	567.6
4	45.7	47.1	48.1
5	54.2	57.1	58.3
6	30.8	31.8	32.7
7	11.5	10.2	10.8
8	3.6	2.5	3.0
9	1,919.7	1,910.0	2,016.1
Appropriations			
10	1,502.0	1,577.7	1,712.0
11	229.0	214.1	226.2
12	17.0	17.5	19.0
13	20.5	21.8	23.5
14	17.2	30.5	16.3
15	8.1	8.1	8.3
16	7.1	7.5	8.4
17	8.2	8.4	8.6
18	37.6	33.0	34.8
19	-	15.1	15.6
20	-	29.0	-
21	3.4	3.4	3.4
22	1,850.1	1,966.1	2,076.1
Allocation of Revenue Surplus/(Deficit)			
23	69.6	(56.2)	(60.0)
24	(11.7)	(45.5)	0.0
25	1.1	2.9	2.8
26	32.0	-	-
27	48.2	(13.6)	(62.8)
Stabilization Reserve			
28	38.2	39.3	42.2
29	39.3	42.2	45.0
30	5%	5%	5%
31	39.3	42.2	45.0
Additional Reserve			
32	14.0	-	-
32 a	(13.3)	-	-
33	32.0	32.0	29.5
33 a	-	(2.5)	-
Available Funds			
34	28.7	76.9	63.4
35	76.9	63.4	0.5

Appropriations

10	Education Payment		1,502.0	1,577.7	1,712.0
11	Special Education Aid		229.0	214.1	226.2
12	State-Placed Students		17.0	17.5	19.0
13	Transportation Aid		20.5	21.8	23.5
14	Technical Education Aid		17.2	30.5	16.3
15	Small School Support		8.1	8.1	8.3
16	Essential Early Education Aid		7.1	7.5	8.4
17	Flexible Pathways		8.2	8.4	8.6
18	Teachers' Pensions (Normal Cost Only)		37.6	33.0	34.8
19	On-going Normal Cost of Teacher's OPEB		-	15.1	15.6
20	Universal School Meals		-	29.0	-
21	Other Uses (Accounting & Auditing, Financial Systems)		3.4	3.4	3.4
22	Total Uses		1,850.1	1,966.1	2,076.1

The education payment is generally about 80% of all appropriations in the Education Fund*

*Note: Education payment includes primarily personnel costs

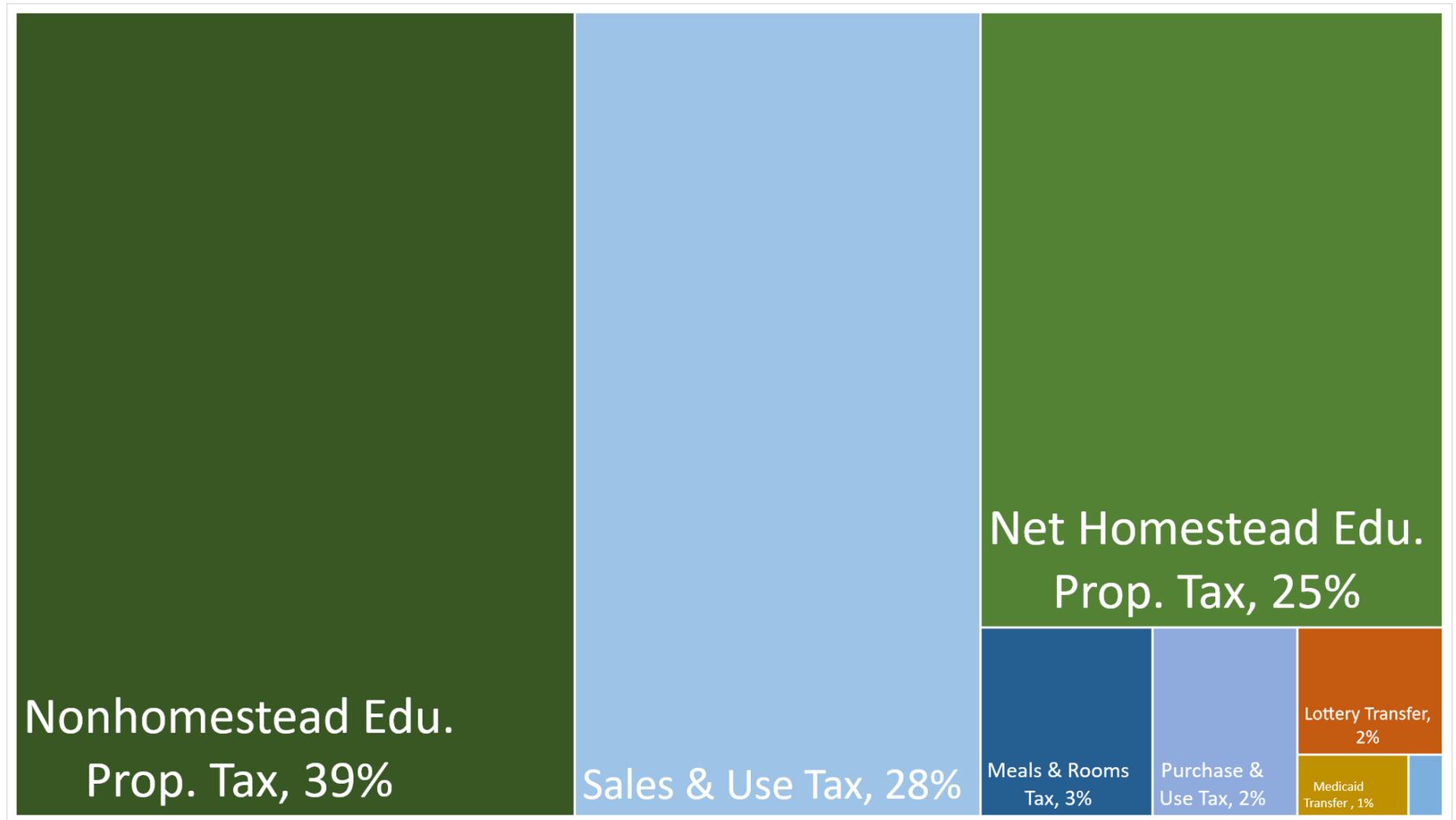


Education Funding



Education Fund Sources (2022)

- Vermont pays for education through the Education Fund (EF)
- The EF has 2 buckets of funding:
 - Property tax sources
 - Non-property tax sources



Note: Homestead Education Property Tax includes the cost of the property tax credit

Data Source: [Education Fund Outlook for FY 2023](#)



Revenues in Education Fund Outlook

Consensus Education Fund Outlook for FY 2024 - December 2022

(millions of dollars)	FY2022 Actual	FY2023 Projected	FY2024 Forecast (from December 1st letter)
a	\$1,523	\$1,386	\$1,307
b	2.50%	2.32%	2.31%
c	1,612	\$1,466	\$1,386
d	\$11,317	\$13,314	\$15,479
e	\$13,770	\$15,948	\$17,600
f	86,944	85,806	84,890
g	1.3%	6.2%	8.5%
h	2.0%	7.5%	9.7%
Sources			
1a	648.7	635.0	665.7
1b	(172.3)	(164.0)	(151.0)
2	752.3	727.1	780.9
3	545.2	563.2	567.6
4	45.7	47.1	48.1
5	54.2	57.1	58.3
6	30.8	31.8	32.7
7	11.5	10.2	10.8
8	3.6	2.5	3.0
9	1,919.7	1,910.0	2,016.1
Appropriations			
10	1,502.0	1,577.7	1,712.0
11	229.0	214.1	226.2
12	17.0	17.5	19.0
13	20.5	21.8	23.5
14	17.2	30.5	16.3
15	8.1	8.1	8.3
16	7.1	7.5	8.4
17	8.2	8.4	8.6
18	37.6	33.0	34.8
19	-	15.1	15.6
20	-	29.0	-
21	3.4	3.4	3.4
22	1,850.1	1,966.1	2,076.1
Allocation of Revenue Surplus/(Deficit)			
23	69.6	(56.2)	(60.0)
24	(11.7)	(45.5)	0.0
25	1.1	2.9	2.8
26	32.0	-	-
27	48.2	(13.6)	(62.8)
Stabilization Reserve			
28	38.2	39.3	42.2
29	39.3	42.2	45.0
30	5%	5%	5%
31	39.3	42.2	45.0
Additional Reserve			
32	14.0	-	-
32 a	(13.3)	-	-
33	32.0	32.0	29.5
33 a	-	(2.5)	-
Available Funds			
34	28.7	76.9	63.4
35	76.9	63.4	0.5

Sources

1a	Homestead Education Property Tax	648.7	635.0	665.7
1b	Property Tax Credit	(172.3)	(164.0)	(151.0)
2	Non-Homestead Education Property Tax	752.3	727.1	780.9
3	Sales & Use Tax	545.2	563.2	567.6
4	Purchase & Use Tax - one-third of total	45.7	47.1	48.1
5	Meals & Rooms Tax - one-quarter of total	54.2	57.1	58.3
6	Lottery Transfer	30.8	31.8	32.7
7	Medicaid Transfer	11.5	10.2	10.8
8	Other Sources (Wind & Solar, Fund Interest)	3.6	2.5	3.0
9	Total Sources	1,919.7	1,910.0	2,016.1



Property Taxes

- Education tax rates are set to keep the EF balanced
 - Amount to raise statewide education property tax is determined by subtracting non-property tax revenues from total uses
- There are 2 property tax bases subject to the statewide education tax, and rates differ by base
 - Nonhomestead property
 - Homestead property
- Homestead property as defined in statute (32 V.S.A. § 5401):
 - *"Homestead" means the principal dwelling and parcel of land surrounding the dwelling, owned and occupied by a resident individual as the individual's domicile [...]"*



Nonhomestead Property Tax

- Tax on all taxable real property that doesn't qualify as a homestead or isn't exempt¹
- The equalized nonhomestead property tax rate is uniform across towns
- The rate is set in statute, but the statute is annually notwithstanding by the Legislature²
 - The rate is set in session law (usually as part of the yield bill)

Notes: 1) See 32 V.S.A. § 5401(10) for full definition of nonhomestead property

2) The rate is \$1.59 per \$100.00 in 32 V.S.A. § 5402(a)(2)



Homestead Property Tax

- Tax on all taxable real property that qualifies as a homestead
- The homestead property tax rate in each town is dependent on its locally-approved education spending per pupil



Homestead Property Tax: *Adjusting to Account for Per Pupil Spending*

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

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

$$\text{Spending adjusted equalized property tax rate} = \$1.00 \times \frac{\text{ed. spending per eq. pupils}}{\text{property yield}}$$



Homestead Property Tax: *Pupil Weights and Equalized Pupils*

- Pupil weights adjust student counts to address different student needs or circumstances
 - After 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
- After weights are applied to all school districts' pupil counts, the equalization ratio is used to make the number of state equalized pupils match the overall student count

Note: Act 127 (2022) added and adjusted pupil weights to Vermont's funding formula. Act 127 also eliminated the equalization ratio. Starting in FY 2025, no equalization ratio will be applied.



Homestead Property Tax: *Interpreting the “Property Yield”*

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

- The property yield can be thought of as the per equalized 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 equalized pupil than the property yield, the homestead property tax is increased proportionately
- In FY22, the property yield per equalized pupil was \$11,317
 - Districts that spent \leq \$11,317 per equalized pupil had an equalized tax rate of \$1.00
 - Districts that spent $>$ \$11,317 per equalized pupil had an equalized tax rate than \$1.00
 - For example, in any district that spent \$16,975 per eq. pupil, or 150% of the yield, the equalized homestead property tax rate was \$1.50

$$\$1.50 = \$1.00 \times \frac{\$16,975}{\$11,317}$$



Property Tax Credit: *Overview*

- The homestead tax property tax has a credit based on income
- About 70% of Vermont households receive a property tax credit to their homestead property tax based on their income
- The credit is applied to the following year's tax bills
- The credit is limited by the taxpayers' income

Household income	Property tax credit parameters*
Less than or equal to \$47,000	<ul style="list-style-type: none">• Property tax credit may be used on the first \$400,000 of the housesite value• Additional tax relief based on household income is available
\$47,001 - \$90,000	Property tax credit may be used on the first \$400,000 of the housesite value
\$90,001 - \$134,800	Property tax credit may be used on the first \$225,000 of the housesite value
Greater than \$134,800	Household will not qualify for a property tax credit



Property Tax Credit: *Interpreting the “Income Yield”*

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

- 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 FY22, the income yield per equalized pupil was \$13,770
 - Districts that spent up to \$13,770 per equalized pupil had an equalized tax rate on income of 2%
 - Districts that spent more than \$13,770 per equalized pupil had higher equalized tax rate on income than 2%
 - For example, in any district that spent \$20,655 per pupil, or 150% of the income yield, the equalized homestead income tax rate was 3.0%

$$3.0\% = 2.0\% \times \frac{\$20,655}{\$13,770}$$



Property Tax Credit:

Further Credits for Incomes Less Than \$47,000

- Households with income under \$47,000 are entitled to additional tax relief if their net education tax exceeds a fixed percentage of household income
- This is often referred to as the “circuit breaker”
- 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 State Education Tax

Household Income	Tax Cap as % of Income
Less than \$9,999	0.5%
\$10,000 – \$24,999	1.5%
\$25,000 - \$47,000	2.0%

Municipal Property Tax

Household Income	Tax Cap as % of Income
Less than \$9,999	1.0%
\$10,000 – \$47,000	3.0%



Review of Calculating Property Tax Credits

Household income	Housesite (HS) value	Calculation of amount that would be paid under income	Calculation of the property tax credit
			<i>The property tax credit is the amount paid for property taxes minus...</i>
≤ \$47,000	< \$400,000	$income * income\ rate$...The lesser of:
	≥ \$400,000	$(income * income\ rate) + \left(\frac{HS\ value - \$400,000}{100}\right) * HS\ rate$	<ul style="list-style-type: none"> The amount that would be paid based on income OR <ul style="list-style-type: none"> The statewide education tax rate multiplied by the equalized value of the housesite, reduced by \$15,000, in the taxable year
\$47,001 - \$90,000	< \$400,000	$income * income\ rate$...The amount that would be paid based on income
	≥ \$400,000	$(income * income\ rate) + \left(\frac{HS\ value - \$400,000}{100}\right) * HS\ rate$	
≥ \$90,000	< \$225,000	$income * income\ rate$...The amount that would be paid based on income
	≥ \$225,000	$(income * income\ rate) + \left(\frac{HS\ value - \$225,000}{100}\right) * HS\ rate$	
>\$134,800*	<i>Households above this income will never qualify for a property tax credit, and will always pay solely based on property value</i>		

*Note: This amount is not set in statute, but is determined as a mathematical exercise after the yields have been set



Resources

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>

