

# Vermont's Education Funding System and School Construction Costs Under Current Law

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# Outline of Talk

- Review of Education Finance in Vermont
  - Overview
  - Education Expenditures
  - Education Revenues
- School Construction Impacts on Tax Rates

*Note: This presentation is focused on education funding in Vermont excluding Federal funding*



# Review of Education Finance in Vermont



# Vermont's Unique Education Funding System

## A Coupling of Local and State Decisions

- Vermont's statewide Education Fund includes local and State spending decisions
- Total education expenses drive revenue needs, not vice versa
  - Annual property tax rates are set to ensure all expenditures are fully funded
- Vermont's education funding system is unique and difficult to compare to other states
  - Unlike other states, Vermont's education funding system doesn't have a "state share" and a "local share"



# Education Expenditures

## *School District Budgets Must be Funded by the State*

- Each Vermont school district builds an annual budget that requires local voters' approval
  - While school district budgets are *built* at the local level, they are not *funded* at the local level – they are funded by federal and State funds
- Budgets generally consist of two parts: “*offsetting revenues*” and “*education spending*”



### Local Level (School District Budgets)

#### Offsetting Revenues

- State and federal categorical aid (e.g., Special Education grants, transportation aid, etc.)
- Tuition paid to the district
- District surpluses/deficits and reserves

#### Education Spending

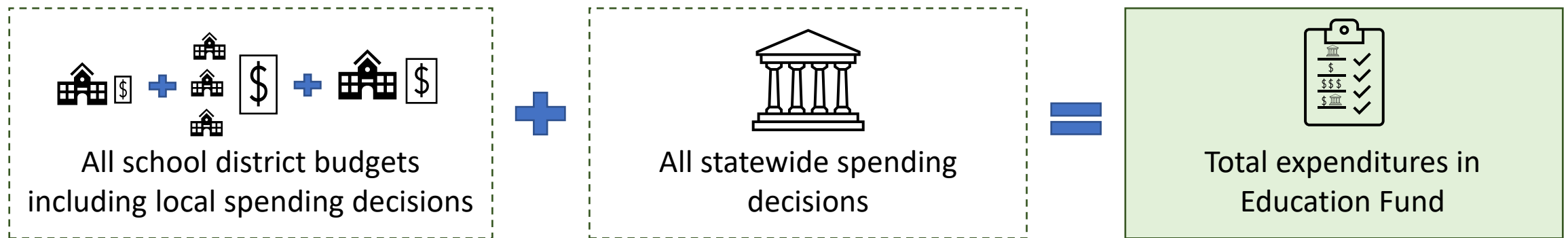
- All funds a district decides to spend, net of offsetting revenues
- ***This includes school construction***



# Education Expenditures

## *Decisions Are Made at the Local and State Level*

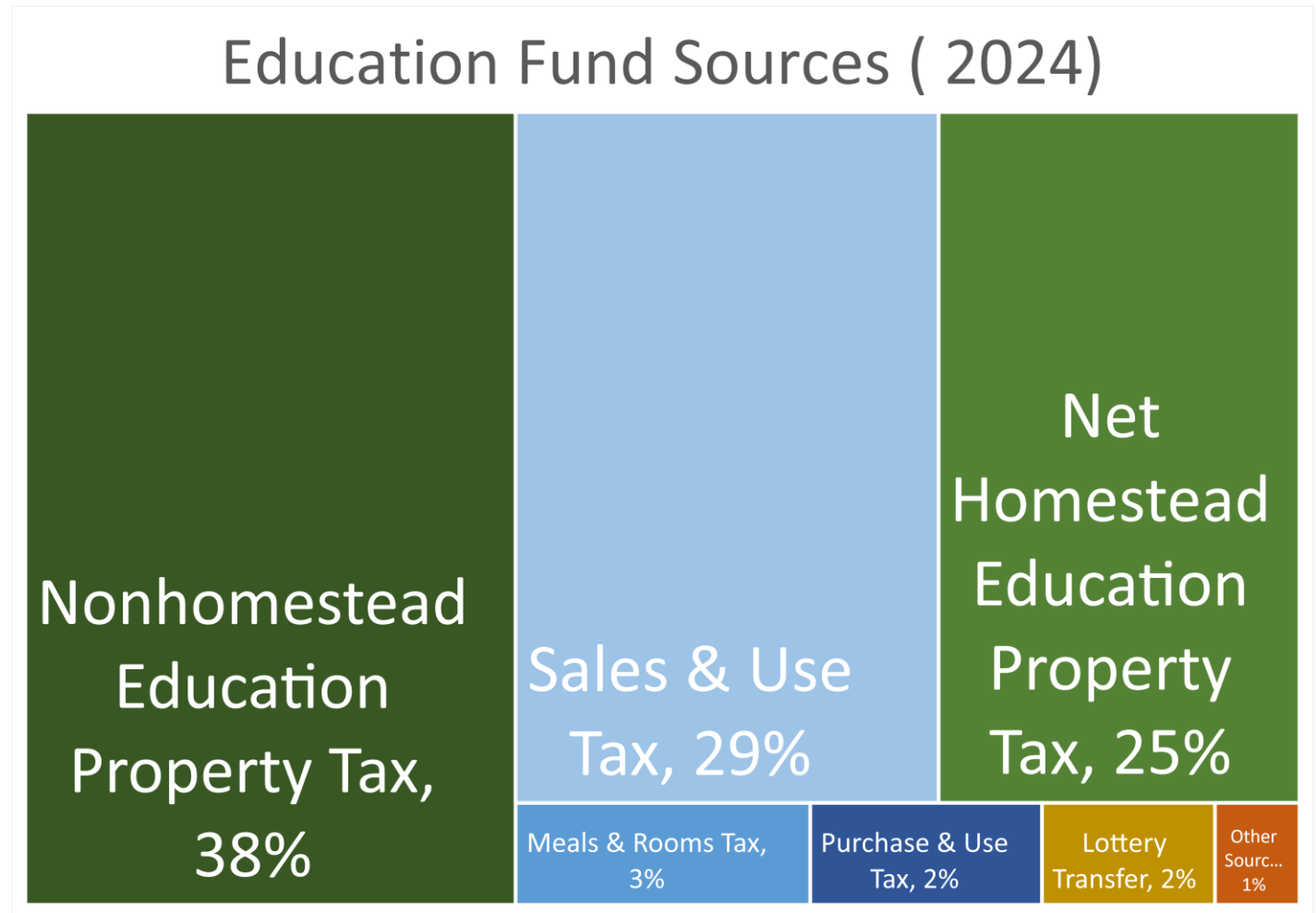
- After accounting for federal funds, school district budgets are funded from the statewide Education Fund
  - The State's Education Fund is the total cost of public education in Vermont
- Local and State decisions determine the total expenditures in the Education Fund – and the amount that must be raised from property taxes.



# Education Revenues

## *Education Fund Has Multiple Revenue Sources*

- Education expenses determine revenue needs
- The Education Fund has two “buckets” of funding
  - a. Non-property tax revenues
  - b. Property tax revenues
- Property tax rates are set each year to raise sufficient revenues to balance the Education Fund



# Education Revenues

## *Nonhomestead Property Tax Rate is Uniform Statewide*

- Nonhomestead property taxes are applied on all taxable *real* property that doesn't qualify as a homestead or isn't exempt
  - This includes commercial properties, second homes, and apartment buildings<sup>1</sup>
- The equalized nonhomestead property tax rate is uniform across towns<sup>2</sup>

### *Notes:*

1. See 32 V.S.A. § 5401(10) for full definition of nonhomestead property
2. Equalized tax rates are comparable across all towns and are prior to the application of the common level of appraisal





# Education Revenues

## *Homestead Property Tax Rates Vary by Town*

- Homestead property taxes are applied to all taxable *real* property that qualifies as a homestead<sup>1</sup>
  - Homestead means *“the principal dwelling and parcel of land surrounding the dwelling, owned and occupied by a resident individual as the individual's domicile...”*
- The homestead property tax rate in each town is dependent on its **locally-approved per pupil education spending**
- The equalized tax rate is at least \$1.00/\$100 of homestead property value
  - The rate is increased proportionately based on spending decisions of the local school district

Note:

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



# Education Revenues

## *Homestead Property Tax is Based on Per Pupil Spending*

- After voters approve the school budget, the homestead property tax rate is adjusted by per pupil education spending
- Ultimately, the homestead property tax rate depends on three factors:

<b>Factor impacting homestead property tax rate</b>	<b>Local or State</b>	<b>Basis of factor</b>
District's education spending	Local	Based on school district's budget and offsetting revenues
District's weighted pupils <sup>1</sup>	Local	Based on local student body and statewide pupil weights <sup>2</sup>
Statewide property yield	State	Based on State policy decisions, statewide spending decisions, and other statewide revenues

### Notes:

1. This is technically referred to as a district's Long-Term Weighted Average Daily Membership (LTWADM)
2. Pupil weights adjust student counts according to different student needs or circumstances. Pupil weights are added to a school district's pupil count to account for the potentially higher costs of educating these students.



# Education Revenues

## *Homestead Property Tax is Based on Per Pupil Spending*

- Recall, the homestead property tax rate is calculated using a district's education spending, its weighted pupils and the statewide property yield
- These are used to calculate the district's homestead property tax rate:

$$\text{District's homestead property tax rate} = \frac{\left( \frac{\text{Education Spending}}{\text{Weighted Pupils}} \right)}{\text{Statewide Property Yield}} = \frac{\text{District's Per Pupil Education Spending}}{\text{Statewide Property Yield}}$$



# School Construction Costs and Impacts on Tax Rates



# School Construction Costs Impact All Statewide Property Taxes

- Because school districts are funded from a *statewide* Education Fund, all property taxes are impacted by any school district's construction costs
- Under current law, an increase in construction costs results in an increase of ***all*** statewide property taxes <sup>1</sup>
  - Nonhomestead property tax rates uniformly increase across the State
  - Homestead property tax rates increase across the State, but increases are ***not*** uniform
    - School districts with increased construction costs see the most significant homestead property tax rate increases

*Note:*

1. This assumes all else equal and that there are no other changes to Vermont's funding formula



# Impact of Construction Costs on Local Homestead Property Tax Rates in All Districts

Increase in construction costs or debt service payments in another district

- Increases total statewide education expenditures

Decrease in statewide property yield

- To raise more funds the statewide property yield must be lowered

Increase in all property tax rates

- A decrease in statewide yield increases the homestead property tax rate in all school districts

*Recall:*

$$\text{District's homestead property tax rate} = \$1.00 \times \frac{\text{District's Per Pupil Education Spending}}{\text{Statewide Property Yield}}$$



# Impact of Construction Costs on Local Homestead Property Tax Rates in the District with the Project

Increase in district's construction costs or debt service payments

- Increases the district's education spending

Increase in the district's per pupil education spending

Increase in locally adjusted homestead property tax rate

- The school district's local homestead property tax rate increases to account for the increase in the district's education spending
- This is in addition to the increase created from the change in the statewide property yield

*Recall:*

$$\text{District's homestead property tax rate} = \$1.00 \times \frac{\text{District's Per Pupil Education Spending}}{\text{Statewide Property Yield}}$$



# Considerations

- Vermont's education funding system is unique and difficult to compare to other states
- Under current law, any "local share" will come from Vermont's Education Fund and impact property tax rates across the State
- If many districts pursued expensive projects simultaneously, it would lead to significant increases in statewide property taxes under current law





# Resources

- Joint Fiscal Office Education Finance Resources:
  - <https://ljfo.vermont.gov/subjects/education>
- Joint Fiscal Office Education Finance 101 Resources:
  - <https://ljfo.vermont.gov/subjects/education/education-finance-101>
- 2008 Report on State Aid for School Construction:
  - <https://ljfo.vermont.gov/assets/docs/reports/f12c1e69fc/2008-01-State-Aid-for-School-Construction.pdf>

