

# Education Finance in Vermont

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Senate Committee on Education  
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# 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

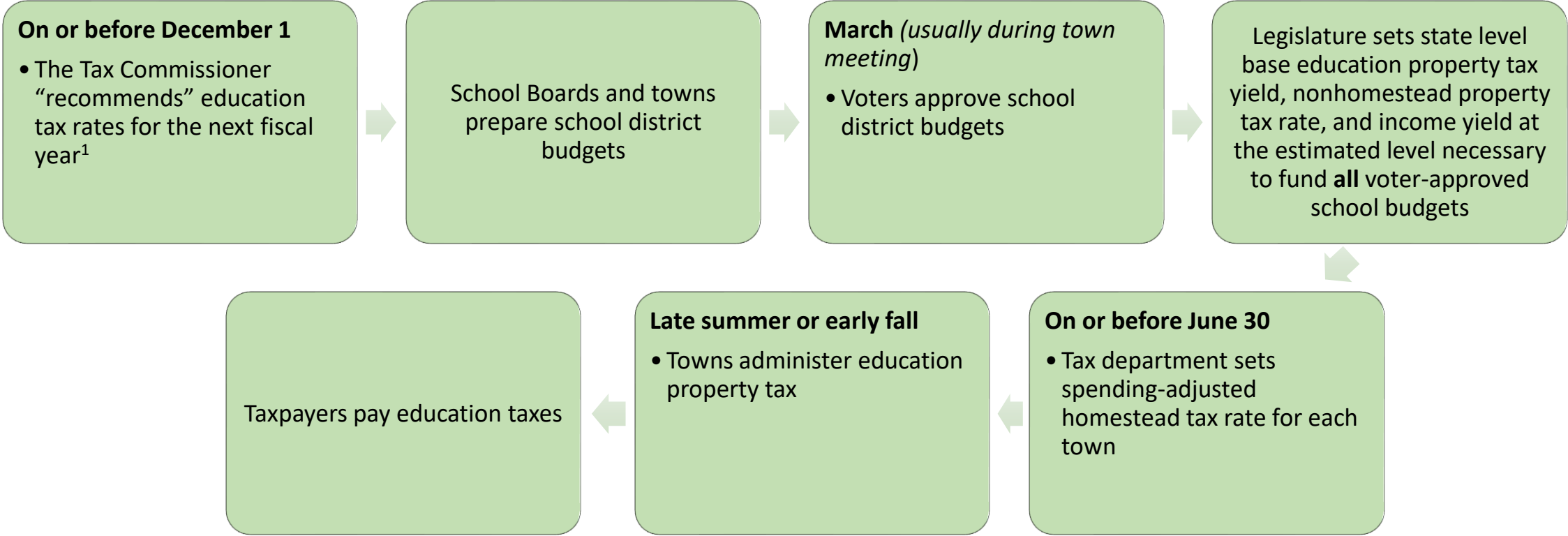
- This combination of reduced state appropriations and property tax rate inequities across towns led to the Brigham decision
- The Legislature responded with the passage of Act 60 in 1997

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



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





# Expenditures in Education Fund Outlook

30-Nov-23

## Preliminary Education Fund Outlook for FY 2025 Consensus forecast for the December 1st Letter

(millions of dollars)	FY2023	FY2024	FY2025
	Actual	Projected	Forecast
a Average Homestead Property Tax Rate <sup>1</sup>	\$1,386	\$1,311	\$1,359
b Average Tax Rate on Household Income <sup>2</sup>	2.32%	2.33%	2.67%
c Uniform Non-Homestead Property Tax Rate	1,466	\$1,391	\$1,442
d Property Yield Per Pupil <sup>3</sup>	\$13,314	\$15,443	\$9,452
e Income Yield Per Pupil <sup>3</sup>	\$15,948	\$17,537	\$10,300
f Total Long Term Average Daily Membership (LTADM)	85,806	84,009	83,433
g Total Long Term Weighted Average Daily Membership (LTWADM)	-	-	141,196
h Average Percentage Bill Change Compared to Prior Year (HS/Inc/NHS)	-	Uniform	Uniform
i Statewide Education Spending Growth	6.2%	8.0%	12.0%
j Statewide Education Grand List Growth	7.5%	9.7%	14.3%
<b>Sources</b>			
1a Homestead Education Property Tax <sup>1</sup>	628.3	668.2	789.3
1b Property Tax Credit	(163.7)	(155.0)	(158.3)
2 Non-Homestead Education Property Tax	738.6	792.2	924.9
3 Sales & Use Tax	584.0	585.2	597.4
4 Purchase & Use Tax - one-third of total	47.4	48.8	50.9
5 Meals & Rooms Tax - one-quarter of total	59.4	60.5	62.2
6 Lottery Transfer	32.1	32.3	33.0
7 Medicaid Transfer	10.3	10.8	11.2
8 Other Sources (Wind & Solar, Fund Interest)	9.0	9.4	8.9
<b>Total Sources</b>	<b>1,943.9</b>	<b>2,032.4</b>	<b>2,319.4</b>
<b>Appropriations</b>			
10 Education Payment	1,576.5	1,710.7	1,916.0
10a E-Board Release of Funds for PCB remediation	1.1	-	-
11 Special Education Aid	208.1	226.2	249.1
12 State-Placed Students	17.5	19.0	20.0
13 Transportation Aid	21.8	23.5	25.3
14 Technical Education Aid	31.3	17.0	17.1
15 Small School Support	8.2	8.3	3.0
16 Essential Early Education Aid	7.5	8.4	8.7
17 Flexible Pathways	8.3	9.3	8.6
18 Universal School Meals	29.0	29.0	26.5
19 English Learners Services	-	-	3.0
20 Afterschool grants	-	4.0	6.5
21 PCB Remediation Grants	-	29.7	-
22 Teachers' Pensions (Normal Cost Only)	34.4	34.1	37.8
23 On-going Normal Cost of Teacher's OPEB	15.1	15.4	21.6
24 One-time COLA payment	-	3.0	-
25 Other Uses (Accounting & Auditing, Financial Systems)	3.4	4.8	3.5
<b>Total Uses</b>	<b>1,961.2</b>	<b>2,141.4</b>	<b>2,347.0</b>
<b>Allocation of Revenues</b>			
27 Revenue Surplus/(Deficit)	(15.3)	(89.0)	(27.5)
28 Prior-Year Reversions	45.5	2.9	0.0
29 Transfer (to)/from Stabilization Reserve	(2.5)	(5.2)	(8.6)
30 Transfer (to)/from Additional Reserves	32.0	(22.1)	13.0
31 Transfer (to)/from Unreserved/Unallocated	(59.7)	113.4	23.1
<b>Stabilization Reserve</b>			
32 Prior-Year Stabilization Reserve	39.3	41.8	47.0
33 Current-Year Stabilization Reserve	41.8	47.0	55.6
34 Percent of Prior-Year Net Appropriations	5%	5%	5%
35 Reserve Target	41.8	47.0	55.6
<b>Additional Reserve</b>			
36 Current-Year Reserve for Future COLA provisions	-	9.1	9.1
37 Current-Year Tax Rate Offset Reserve	-	13.0	13.0
37a Use of Tax Rate Offset Reserve towards FY25 tax rates	-	-	(13.0)
<b>Available Funds</b>			
38 Prior-Year Unreserved/Unallocated	77.58	137.25	23.82
39 Current-Year Unreserved/Unallocated	137.25	23.82	0.76

### Appropriations

10	Education Payment		1,576.5	1,710.7	1,916.0
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18	Universal School Meals		29.0	29.0	26.5
19	English Learners Services		-	-	3.0
20	Afterschool grants		-	4.0	6.5
21	PCB Remediation Grants		-	29.7	-
22	Teachers' Pensions (Normal Cost Only)		33.4	33.1	37.8
23	On-going Normal Cost of Teacher's OPEB		15.1	15.4	21.6
24	One-time COLA payment		-	3.0	-
25	Other Uses (Accounting & Auditing, Financial Systems)		3.4	4.8	3.5
26	<b>Total Uses</b>		<b>1,961.2</b>	<b>2,141.4</b>	<b>2,347.0</b>

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

Note: 1.) Homestead rates have been capped to reflect the US district level cap limitation in Act 127.  
2.) Non-homestead rates are calculated without the 5% rate cap limitation in Act 127.

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\*Note: Education payment includes primarily personnel costs



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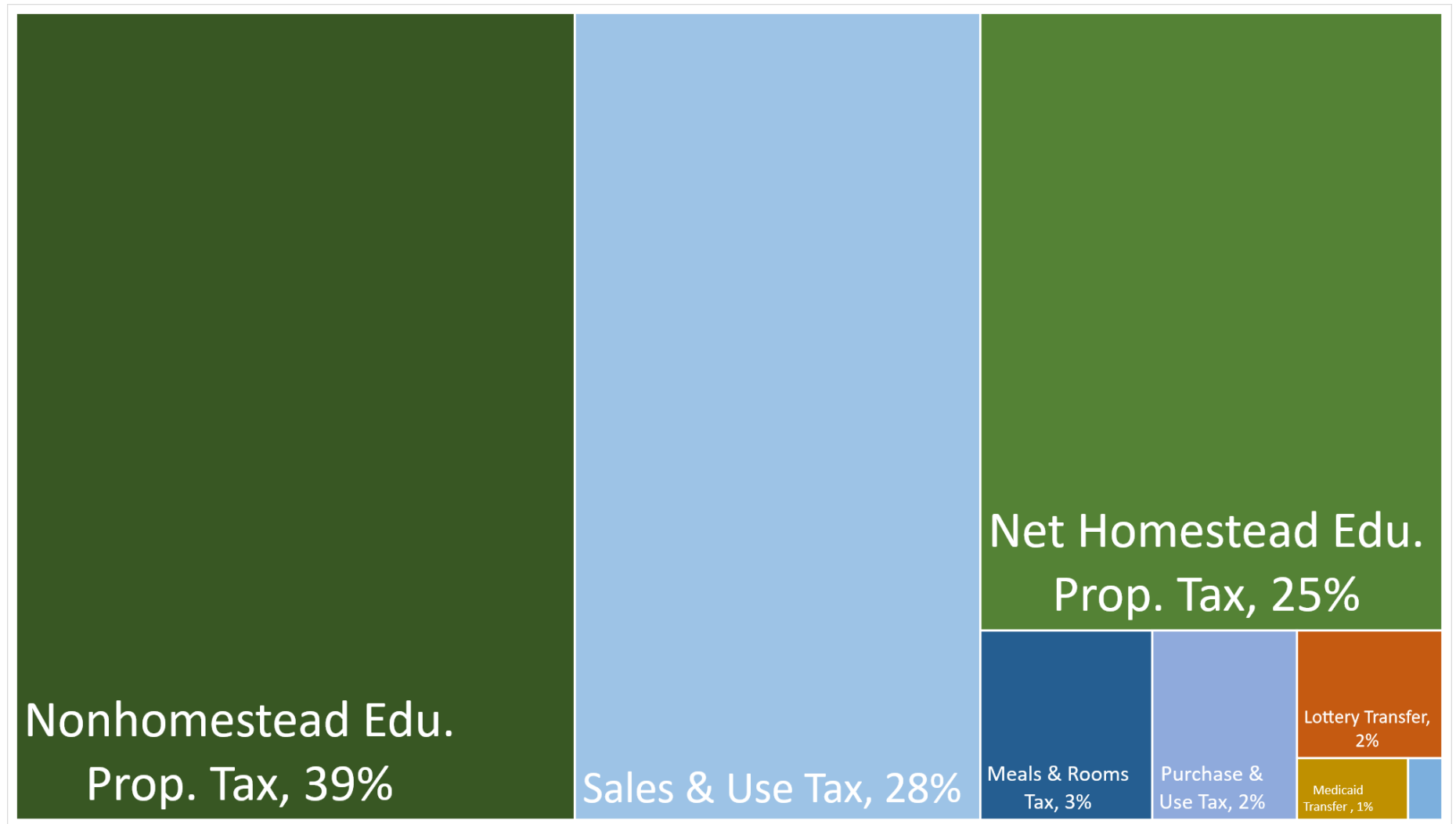
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# Education Funding



# 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

30-Nov-23

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h Average Percentage Bill Change Compared to Prior Year (HS/Inc/NHS)	-	Uniform 4.27%	Uniform 18.50%
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j Statewide Education Grand List Growth	7.5%	9.7%	14.3%
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Note: 1.) Homestead rates have been capped to reflect the US district level cap limitation in Act 127.  
2.) Secondary and rates are calculated without the 6% rate increase in Act 127.

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# 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 exempt<sup>1</sup>
- The equalized nonhomestead property tax rate is uniform across towns
- The rate is set in statute, but the statute is annually notwithstanding by the Legislature<sup>2</sup>
  - 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

<b>Household income</b>	<b>Property tax credit parameters*</b>
Less than or equal to \$47,000	<ul style="list-style-type: none"><li>• Property tax credit may be used on the first \$400,000 of the housesite value</li><li>• Additional tax relief based on household income is available</li></ul>
\$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



# 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>



# 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"> <li>The amount that would be paid based on income</li> </ul> OR <ul style="list-style-type: none"> <li>The statewide education tax rate multiplied by the equalized value of the housesite, reduced by \$15,000, in the taxable year</li> </ul>
\$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

