

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

House Committee on Education  
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# Outline

- Overview of Vermont's Education Fund
- Education expenditures (including school construction)
- Education funding
- School construction costs and impacts on tax rates



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# Overview of Vermont's Education Fund

- 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"
  - Vermont's statewide Education Fund is a statewide fund is affected by statewide *and* local spending decisions
- Property tax rates are set to ensure all education expenditures are fully funded after accounting for non-property revenues
  - In other words, the amount of revenue raised is driven by total education expenses – not the other way around



# Overview of Vermont's Education Fund (continued)

- Under current law, all else equal, an increase in education spending means ***all*** statewide property tax rates must increase
- 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



# Education Expenditures

# Education Expenditures – Local Level

- Each school district builds an annual budget that requires local voters' approval
  - While built at the local level, budgets are funded with State and federal funds
- From a high-level perspective, budgets have two primary parts: education expenditures and offsetting revenues
  - The *net* of these two parts results in a district's education spending

Local School Budget		
<b>Education Expenditures</b> <ul style="list-style-type: none"><li>• All expenditures at the school district.</li><li>• Includes personnel costs, tuition payments, and construction costs</li></ul>	-	<b>Offsetting Revenues</b> <ul style="list-style-type: none"><li>• State and federal categorical aid (Special Education census block, transportation aid, etc.)</li><li>• Tuition revenues (to the school district)</li><li>• Prior year surpluses/deficits and reserves (of the school district)</li></ul>



# Education Expenditures – State Level

- In general, there are two buckets of Education Fund expenditures: statewide education payment and all other expenditures.

Education Fund Expenditures	
<p><b>Education Payment</b></p> <ul style="list-style-type: none"><li>• Aggregated amount of all school districts' <b>education spending</b></li><li>• <i>Recall, this includes school district construction costs - both cash outlays and debt service payments</i></li></ul>	<p><b>All Other Expenditures</b></p> <ul style="list-style-type: none"><li>• Categorical aid (Special Education, transportation aid, etc.)</li><li>• One-time appropriations</li><li>• Other operating and administrative costs at the State level</li></ul>

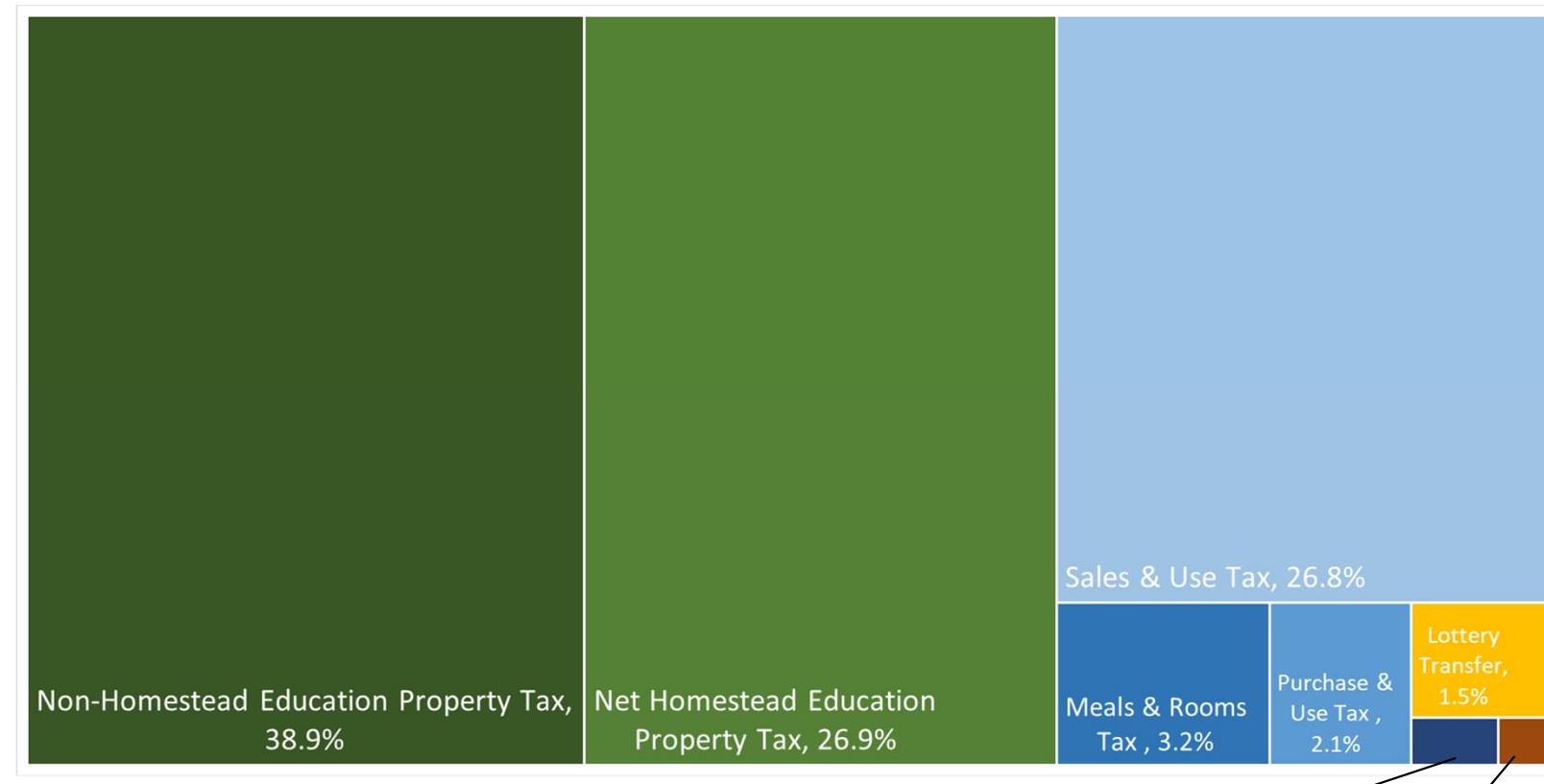


# Education Funding

# Recurring Education Fund Sources (Fiscal Year 2026)

- Vermont pays for education through the Education Fund
- The Education Fund has two primary buckets of funding
  - Property tax sources
  - Non-property tax sources
- In recent years, the General Assembly has used one-time funding to buy down property tax rates
  - In fiscal year 2026, \$77 million was used from the General Fund
  - This was excluded from this analysis

Recurring Education Fund Sources, Fiscal Year 2026



Note: net homestead education property tax includes the cost of the property tax credit  
Data Source: [Education Fund Outlook for FY 2026](#)



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# Nonhomestead Property Tax

- Tax applied to all taxable real property that doesn't qualify as a homestead or isn't exempt\*
- Properties are varied and include parking lots, commercial buildings, apartment buildings, etc.
- The equalized nonhomestead property tax rate is uniform across towns\*\*

*Notes:*

\*see 32 V.S.A. § 5401(10) for full definition of nonhomestead property

\*\*equalized tax rates are comparable across all towns and are prior to the application of the common level of appraisal

# 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**
  - By statute, the minimum equalized tax rate is at least \$1/\$100 of homestead property value
- Ultimately, the homestead property tax rate depends on three factors:
  1. District's education spending – local budget, offsetting revenues
  2. District's weighted pupils – local enrollment, statewide weights
  3. Statewide property yield – local decisions, aggregated statewide

 Note: \*Homestead means “*the principal dwelling and parcel of land surrounding the dwelling, owned and occupied by a resident individual as the individual's domicile...*”

# Calculating a District's Homestead Property Tax Rate

- As discussed, the homestead property tax rate is calculated based on the district's education spending, weighted pupils, and the statewide property yield
- The homestead property tax rate is calculated as follows:

$$\text{District's homestead property tax rate} = \$1.00 \times \frac{\left( \frac{\text{District's Education Spending}}{\text{District's Weighted Pupils}} \right)}{\text{Statewide Property Yield}}$$



# School Construction Costs and Impacts on Tax Rates

# Impact of School Construction Costs on Statewide Property Tax Rates

- As districts are funded from the statewide Education Fund, construction costs increase total education expenditures and therefore the amount that needs to be raised statewide
- If funding increases, *all* statewide property tax rates must increase\*
  - 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 the increased construction costs see the most significant homestead property tax rate increases

 Note: \*this assumes all else equal

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

Increase in construction costs or debt service payments in another district

- Increasing district construction costs increases total statewide education expenditures

Decrease in statewide property yield

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

Increase in homestead property tax rates

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

*Recall:*

$$\text{District's homestead property tax rate} = \$1.00 \times \frac{(\text{District's Education Spending} / \text{District's Weighted Pupils})}{\text{Statewide Property Yield}}$$



# 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

- Increasing district construction costs *increases* the district's education spending

Increase in the district's education spending per weighted pupil

Increase in locally adjusted homestead property tax

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

Recall:

$$\text{District's homestead property tax rate} = \$1.00 \times \frac{(\text{District's Education Spending} / \text{District's Weighted Pupils})}{\text{Statewide Property Yield}}$$



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# Challenges of Modeling an Illustrative Example of School Construction Costs on Statewide Property Tax Rates

- Illustrating the hypothetical impact of school construction is challenging for several reasons, including:
  - No two school districts are the same
    - Districts differ in spending, weighted pupils, property values, etc.
    - These differences make hypothetical examples unreflective of the actual impact of construction on the Education Fund
  - Districts build their own budgets that must be passed by voters
    - Some districts have an easier time passing bonds than others
    - This reality makes hypothetical scenarios difficult to present
  - Districts do not make decisions in a vacuum
    - Districts across the state make decisions that impact each other's tax rate



# Prior Legislation on School Construction

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- The Excess Spending Adjustment\* exempts principal and interest from voter approved bonds prior to July 1, 2024
  - The excess spending adjustment double counts spending per weighted pupil above the excess spending threshold. With this exemption, prior approved bonds can be covered without incurring a penalty
- In the past, the State funded school construction aid through the Capital Bill\*\*
  - In the past, grants worth 30% of eligible project costs (up to 50% for consolidations or 75% for certain renewable energy projects) were funded in two payments to schools. These were funded through the Capital Bill at about \$10 million a year
  - The Capital Bill is funded through general obligation bonds paid back by the General Fund, so these costs were removed from the Education Fund
    - Schools may have used additional funds from the Education Fund for school construction in addition to Capital Bill funding
  - The acceptance of new projects for State aid was suspended in 2007 due to lack of funding capacity in the Capital Bill
  - Capital Bill sometimes supports emergency projects (approx. \$50,000 annually)
  - This program will be revamped under Act 73, and a funding source has yet to be determined

Notes: \*more information can be found: [32 V.S.A. § 5401\(12\)](https://www.vermontlegislature.gov/legislative-reports/32-v.s.a.-§-5401(12))

\*\*more information can be found: <https://legislature.vermont.gov/assets/Legislative-Reports/edu-act-73-state-aid-for-school-construction-advisory-board-2025.pdf>

# Considerations

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- School construction costs have an impact on the Education Fund, and the extent of the impact varies by district
- Costs are included in local budgets, and are funded statewide
  - Costs are borne by all property taxpayers in the state
- Costs have the greatest direct impact on the homestead property tax rate in the school district doing construction
- Vermont's education funding system is unique, making comparisons with other states' funding mechanisms challenging



# Questions?

# Additional Resources

- Introduction to Education Finance in Vermont
  - <https://ljfo.vermont.gov/subjects/education/education-finance-101>
- Joint Fiscal Office Education Finance Resources
  - <https://ljfo.vermont.gov/subjects/education>
- State Aid for School Construction Report, 2025
  - <https://legislature.vermont.gov/assets/Legislative-Reports/edu-act-73-state-aid-for-school-construction-advisory-board-2025.pdf>
- State Aid for School Construction Working Group
  - <https://legislature.vermont.gov/committee/document/2024/403/Date#documents-section>