

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

House Committee on Education
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The Joint Fiscal Office (JFO) is a nonpartisan legislative office dedicated to producing unbiased fiscal analysis – this presentation is meant to provide information for legislative consideration, not to provide policy recommendations



Outline

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



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



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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			
Education Expenditures <ul style="list-style-type: none"> • All expenditures at the school district. • Includes personnel costs, tuition payments, and construction costs 	-	Offsetting Revenues <ul style="list-style-type: none"> • State and federal categorical aid (Special Education census block, transportation aid, etc.) • Tuition revenues (to the school district) • Prior year surpluses/deficits and reserves (of the school district) 	=
Education Spending <ul style="list-style-type: none"> • All funds a school district spends, net of the offsetting revenues it receives • <i>This includes school district construction costs - both cash outlays and debt service payments</i> 			



Education Expenditures – State Level

- In general, there are two buckets of Education Fund 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• <i>Recall, this includes school district construction costs - both cash outlays and debt service payments</i>	All Other Expenditures <ul style="list-style-type: none">• Categorical aid (Special Education, transportation aid, etc.)• One-time appropriations• Other operating and administrative costs at the State level



Education Funding



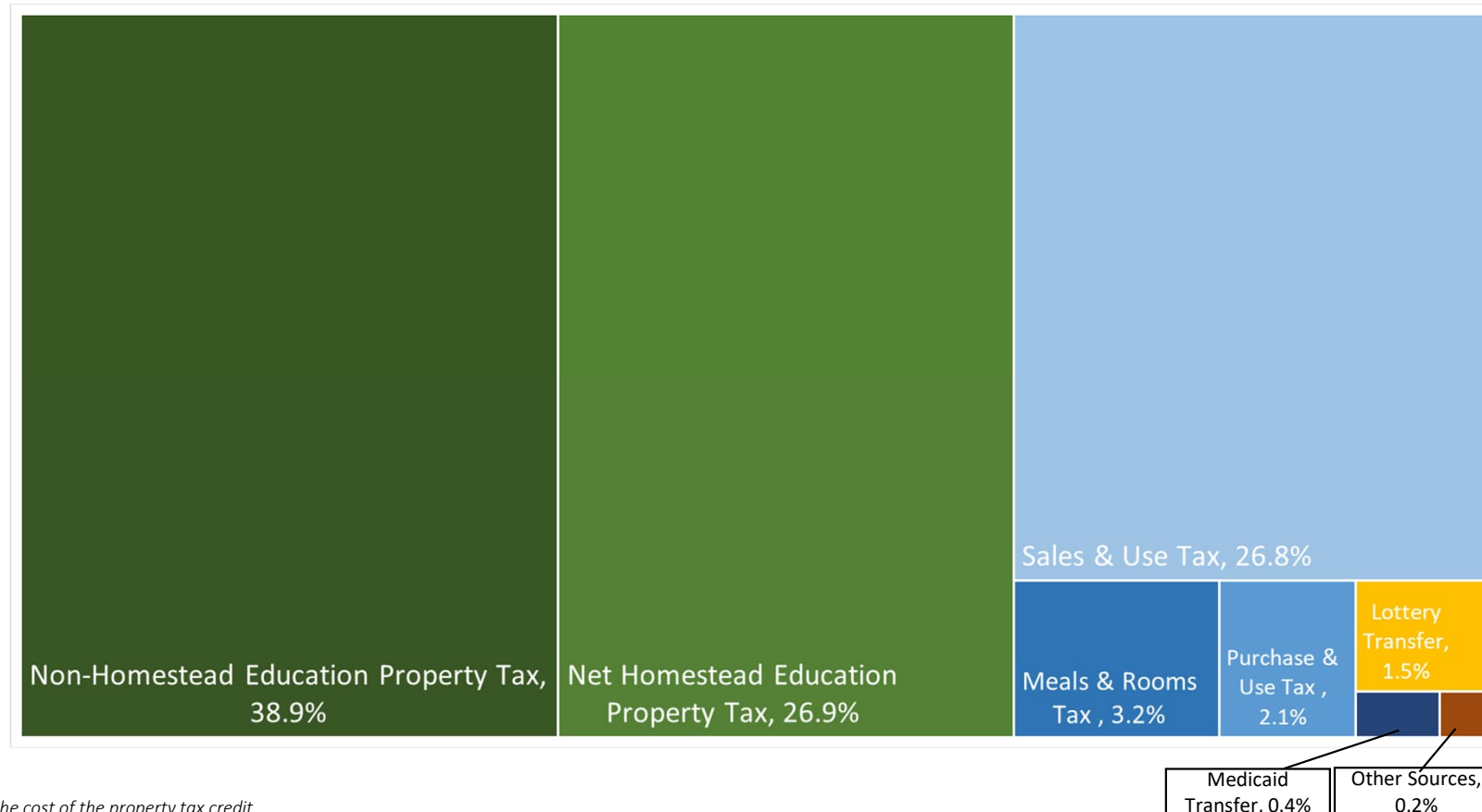
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Recurring Education Fund Sources (Fiscal Year 2026)

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



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



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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:

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



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:

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



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



Prior Legislation on School Construction

- 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\(12\)](#)

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



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Considerations



Considerations

- 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>

