Review of Excess Spending in Draft 1.1

House Committee on Ways and Means

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Outline

- Overview of the structure

- Example calculation of the excess spending yield

- Examle of districts spending above the foundation formula

Overview of the Structure

- Draft 1.1 creates a system where all school districts can raise the same amount above the foundation formula at the same tax rate, regardless of their property wealth
    - Corresponds with the amount that could be raised on 80% on the Grand List of the school district with the lowest taxing capacity

Example Calculation of the Excess Spending Yield

Calculation of the Excess Spending Yield

- The excess spending yield would be calculated by the Department of Taxes in the December 1 letter
- The following slides are an illustration of how that yield would be calculated
  - Districts would not need to calculate the yield themselves

Step 1 – Calculate Each Districts' Grand List Per Pupil

- A district's Grand List per pupil is calculated by dividing its equalized Grand List by its long term average daily membership (LT ADM)

$$District's\ Grand\ List\ Per\ Pupil = {District\ Equalized\ Grand\ List}/{District\ LT\ ADM}$$

- In this example, assume the following:

Row #		District A	District B	District C
1	**Total Equalized Grand List**	$100,000,000	$200,000,000	$100,000,000
2	**LT ADM**	100	100	50
3	**Grand List per pupil** *(Calculated as Row 1/Row 2)*	$1,000,000	$2,000,000	$2,000,000

Step 2 – Determine the School District with the Lowest Taxing Capacity

- Draft 1.1 defines "school district with the lowest tax capacity" as *"the school district anticipated to have the lowest aggregate equalized education property tax grand list of its municipal members per long-term membership"*

- In this example, District A would be the school district with the lowest taxing capacity:

Row #		District A	District B	District C
1	Total Equalized Grand List	$100,000,000	$200,000,000	$100,000,000
2	LT ADM	100	100	50
3	Grand List per pupil (Calculated as Row 1/Row 2)	$1,000,000	$2,000,000	$2,000,000

Step 3 – Calculate the Excess Spending Yield

- The excess spending yield is the amount of property tax revenue per LT ADM that would be raised in the school district with the lowest taxing capacity at a $0.80 tax rate per $100 of property value

Row #		Calculation	District A
1	Total Equalized Grand List Value	Assumed on Slide 7	$100,000,000
2	Tax Rate per $100 of equalized property value	In Draft 1.1	$0.80
3	Total revenue raised	(Line 1/$100) * Line 2	$800,000
4	LT ADM	Assumed on Slide 7	100
5	Property tax revenue per LTADM	Line 3 / Line 4	$8,000

- In this example, the District A could raise $8,000 under this definition, so the excess spending yield would be $8,000

Example of Districts Spending Above the Foundation Formula

The Excess Tax Rate Would Depend on a District's Excess Spending Per Pupil

- If districts spend above the foundation amount, their "excess" tax rate is calculated based on two factors:
  1. The district's excess spending per pupil; and
  2. The excess spending yield

- Let's assume the same parameters from earlier slides:

Example districts

Row #		District A	District B	District C
1	**Total Equalized Grand List**	$100,000,000	$200,000,000	$100,000,000
2	**LT ADM**	100	100	50
3	**Grand List per pupil** *(Calculated as Row 1/Row 2)*	$1,000,000	$2,000,000	$2,000,000

Excess spending yield= $8,000

Calculating a District's "Excess Spending Per Pupil"

- Let's assume each district decided to spend an additional $2,000 per pupil:

Row #		District A	District B	District C
1	**Excess spending**	$200,000	$200,000	$100,000
2	**LT ADM**	100	100	50
3	**Excess spending per pupil** (Calculated as Row 1/Row 2)	**$2,000**	**$2,000**	**$2,000**

Note: while all districts have the same excess spending <u>per pupil</u>, District C has lower total excess spending than District A and B. This is because District A has fewer pupils.

Calculating an Excess Spending Tax Rate

- To calculate the excess spending tax rate, a district's excess spending per pupil is divided by the excess spending yield
  - Because each district has the same excess spending per pupil, each district has the same excess spending tax rate

Row #		District A	District B	District C
1	**Excess spending**	$200,000	$200,000	$100,000
2	**LT ADM**	100	100	50
3	**Excess spending per pupil**	$2,000	$2,000	$2,000
4	**Excess spending yield** *(Calculated on slide 9)*	$8,000	$8,000	$8,000
5	**Excess spending rate per $100 of property value** *(Calculated as Row 3/Row 4)*	$0.25	$0.25	$0.25

Calculating the Amount Raised by the Excess Spending Tax Rate

- To calculate the amount raised by the excess spending tax rate, the rate would be applied to the district's total equalized Grand List

Row #		District A	District B	District C
1	Excess spending rate per $100 of property value	$0.25	$0.25	$0.25
2	Total Equalized Grand List	$100,000,000	$200,000,000	$100,000,000
3	Amount raised from excess spending rate	$250,000	$500,000	$250,000

Determining the Amount That Stays in the Excess Reserve

- Recall that each district decided to spend an additional $2,000 per pupil.
  - This meant each district had the same tax rate
  - Because of the equalization and the penalty, districts raised *more* than their total excess spending

Row #		District A	District B	District C
1	Amount raised from excess spending rate	$250,000	$500,000	$250,000
2	Excess spending	$200,000	$200,000	$100,000
3	**Amount remaining in the excess reserve** *(Calculated as Row 1 – Row 2)*	**$50,000**	**$300,000**	**$150,000**

This returns to districts as their excess spending

This stays in the excess reserve

Questions?

Resources

- Education Finance Proposal Draft 1.1
    - https://legislature.vermont.gov/Documents/2026/Workgroups/House%20Ways%20and%20Means/Bills/DR%20HWM%20Education%20Finance/W~Jon%20Gray~House%20Ways%20and%20Means%20Education%20Finance%20Proposal,%20Draft%201.1~3-28-2025.pdf