

Education Finance in Vermont

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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 General Assembly sets yields and property tax rates annually at the level necessary to fund education expenditures
 - There are two types of property taxes – homestead and nonhomestead
- Since the Brigham decision (1997), the homestead property tax rate has been 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 General Assembly 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 (1997)

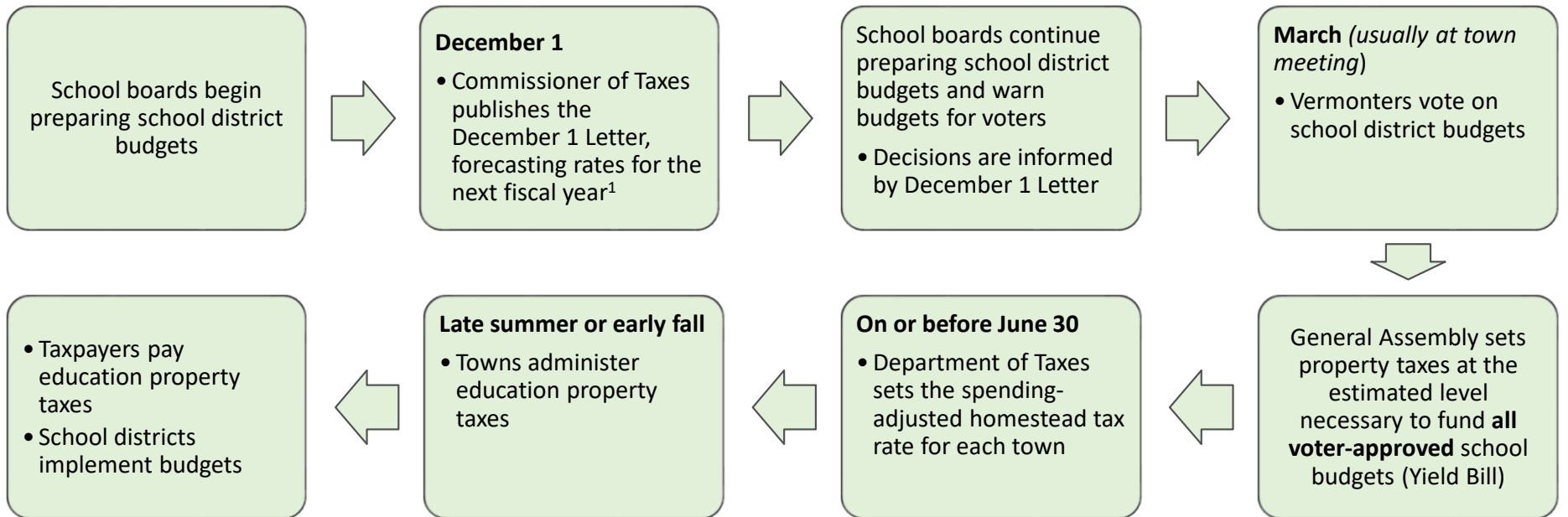
- The combination of reduced State appropriations and property tax rate inequities across towns led to the Brigham decision in 1997
- In response, the General Assembly passed Act 60 the same year

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 General Assembly 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 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



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Education Expenditures – Local Level

- Each school district builds an annual budget
 - Budget requires local voters' approval
- From a financial perspective, budgets have two primary parts: offsetting revenues and education spending

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



Education Expenditures – State Level

- Education Fund expenditures are the statewide aggregated costs of public education
 - This includes all school budgets
- 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	All Other Expenditures <ul style="list-style-type: none">• Categorical aid• One-time appropriations• Other operating and administrative costs at the State level



Expenditures in the Education Fund Outlook

Preliminary Education Fund Outlook for FY 2026 - Emergency Board

Sources reflect the January 2025 Consensus Revenue Forecast

(millions of dollars)	FY2024 Actual	FY2025 Gov. Rec. BAA	FY2026 Forecast
a Average Homestead Property Tax Rate ¹	\$1.311	\$1.303	\$1.677
b Average Tax Rate on Household Income	2.33%	2.33%	2.38%
c Uniform Non-Homestead Property Tax Rate ¹	\$1.391	\$1.391	\$1.791
d Property Yield Per Pupil ^{1,2}	\$15,443	\$9,893	\$8,553
e Income Yield Per Pupil ^{1,2}	\$17,537	\$10,110	\$12,260
f Total Long Term Weighted Average Daily Membership (LTWADM)	-	142,810	141,596
g Average Percentage Bill Change Compared to Prior Year (HS/Inc/NHS)	Uniform: 4.3%	Uniform: 13.8%	Uniform: 5.9%
h Statewide Education Spending Growth	8.0%	10.7%	6.2%
i Statewide Education Grand List Growth	9.7%	14.3%	14.7%
Sources			
1a Homestead Education Property Tax	663.4	762.2	809.0
1b Property Tax Credits	(155.3)	(168.0)	(153.0)
2 Non-Homestead Education Property Tax	792.3	894.5	948.3
3 Sales & Use Tax	595.2	601.9	619.0
4 Purchase & Use Tax - one-third of total	48.3	50.7	52.5
5 Meals & Rooms Tax - one-quarter of total	61.5	71.2	75.0
6 Lottery Transfer	36.0	35.6	36.7
7 Medicaid Transfer	8.6	9.0	9.0
8 One-time GF transfer	-	25.0	-
9 Other Sources (Wind & Solar, Fund Interest)	9.0	6.7	6.3
10 Total Sources	3,068.0	3,388.8	3,408.8
Appropriations			
11 Education Payment	1,711.1	1,882.3	1,996.2
12 Special Education Aid	235.3	264.6	270.7
13 State-Placed Students	19.0	20.0	17.2
14 Transportation Aid	23.5	25.3	26.1
15 Technical Education Aid	17.0	17.9	18.7
16 Small School Support/Merger Support	8.3	1.8	1.8
17 Essential Early Education Aid	8.4	8.7	9.0
18 Flexible Pathways	9.3	10.7	10.4
19 Universal School Meals	26.4	17.5	18.5
20 English Learners Services	-	2.3	2.3
21 PCB Remediation Grants	29.7	-	-
22 VSTRS Pension Normal Cost	42.5	36.0	38.3
23 VSTRS OPEB Normal Cost	15.4	19.1	22.3
24 One-time COLA payment	3.0	-	-
25 Other Uses (Accounting & Auditing, CMF transfer, Financial Systems)	4.8	6.0	5.0
26 Total Uses	2,153.7	2,312.1	2,436.6
Allocation of Revenue			
27 Revenue Surplus/(Deficit)	(94.8)	(23.3)	(33.7)
28 Prior-Year Reversions	9.7	24.3	-
29 Transfer (to)/from Stabilization Reserve	(5.2)	(5.0)	(3.5)
30 Transfer (to)/from Additional Reserves	(13.0)	13.0	-
31 BAA - One-time transfer to afterschool special fund	(2.8)	-	-
32 Transfer (to)/from Unreserved/Unallocated	106.2	(9.0)	37.3
Stabilization Reserve			
33 Prior-Year Stabilization Reserve	41.8	47.0	52.1
34 Current-Year Stabilization Reserve	47.0	52.1	55.6
35 Percent of Prior-Year Net Appropriations	5.0%	5.0%	5.0%
36 Reserve Target	47.0	52.1	55.6
Additional Reserve			
37 Current-Year Reserve for Future COLA provisions	9.1	-	-
37a Use of Current-Year Reserve for Future COLA provisions	(9.1)	-	-
38 Current-Year Tax Rate Offset Reserve	13.0	13.0	-
38a Use of Tax Rate Offset Reserve towards FY25 tax rates	-	(13.0)	-
Available Funds			
39 Prior-Year Unreserved/Unallocated	137.25	31.09	40.07
40 Current-Year Unreserved/Unallocated	31.09	40.07	2.80

Appropriations

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24 One-time COLA payment	3.0		-	-
25 Other Uses (Accounting & Auditing, CMF transfer, Financial Systems)	4.8		6.0	5.0
26 Total Uses		2,153.7	2,312.1	2,436.6

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

*Note: Education payment is primarily composed of personnel costs.



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Education Funding

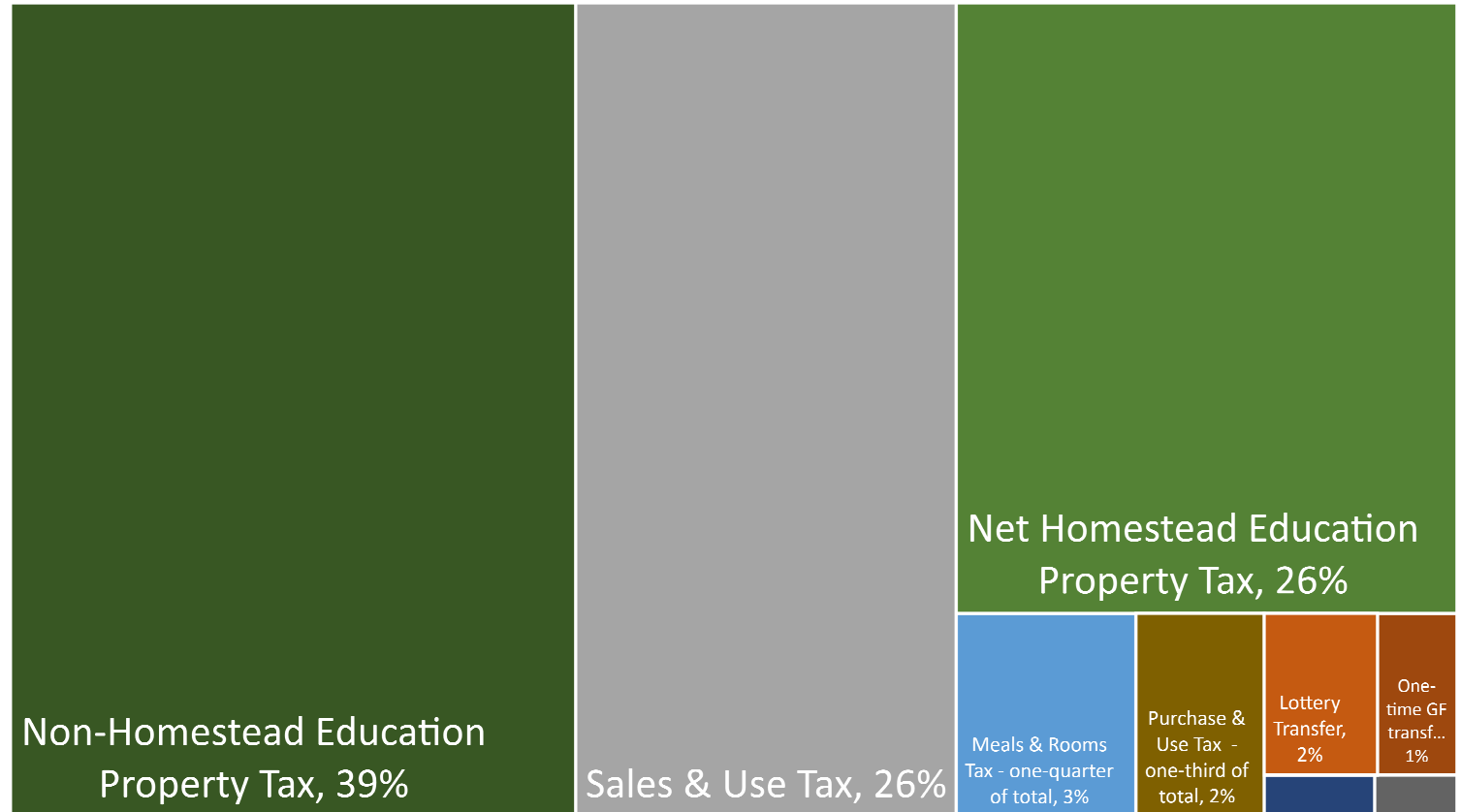


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Education Fund Sources (Projected FY 2025)

- The Education Fund has 2 buckets of funding:
 - Property tax sources
 - Non-property tax sources



Source: https://lifo.vermont.gov/assets/Subjects/Education-Fund-Outlooks-for-the-2025-Session/EFOutlook_EBoard_012125.pdf



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Revenues in the Education Fund Outlook

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(millions of dollars)	FY2024 Actual	FY2025 Gov. Rec. BAA	FY2026 Forecast
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c	\$1,391	\$1,391	\$1,791
d	\$15,443	\$9,893	\$8,553
e	\$17,537	\$18,110	\$12,260
f	-	142,810	141,596
g	Uniform: 4.3%	Uniform: 13.8%	Uniform: 6.2%
h	8.0%	10.7%	6.2%
i	9.7%	14.3%	14.7%
Sources			
1a	663.4	762.2	809.0
1b	(155.3)	(168.0)	(153.0)
2	792.3	894.5	948.3
3	595.2	601.9	619.0
4	48.3	50.7	52.5
5	61.5	71.2	75.0
6	36.0	35.6	36.7
7	8.6	9.0	9.0
8	-	25.0	-
9	9.0	6.7	6.3
10	2,058.9	2,288.9	2,402.8
Appropriations			
11	1,711.1	1,882.3	1,996.2
12	235.3	264.6	270.7
13	19.0	20.0	17.2
14	23.5	25.3	26.1
15	17.0	17.9	18.7
16	8.3	1.8	1.8
17	8.4	8.7	9.0
18	9.3	10.7	10.4
19	26.4	17.5	18.5
20	-	2.3	2.3
21	29.7	-	-
22	42.5	36.0	38.3
23	15.4	19.1	22.3
24	3.0	-	-
25	4.8	6.0	5.0
26	2,153.7	2,312.1	2,436.6
Allocation of Revenue			
27	(94.8)	(23.3)	(33.7)
28	9.7	24.3	-
29	(5.2)	(5.0)	(3.5)
30	(13.0)	13.0	-
31	(2.6)	-	-
32	106.2	(9.0)	37.3
Stabilization Reserve			
33	41.8	47.0	52.1
34	47.0	52.1	55.6
35	5.0%	5.0%	5.0%
36	47.0	52.1	55.6
Additional Reserve			
37	9.1	-	-
37a	(9.1)	-	-
38	13.0	13.0	-
38a	-	(13.0)	-
Available Funds			
39	137.25	31.09	40.07
40	31.09	40.07	2.80

Sources

1a	Homestead Education Property Tax	663.4	762.2	809.0
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6	Lottery Transfer	36.0	35.6	36.7
7	Medicaid Transfer	8.6	9.0	9.0
8	One-time GF transfer	-	25.0	-
9	Other Sources (Wind & Solar, Fund Interest)	9.0	6.7	6.3
10	Total Sources	2,058.9	2,288.9	2,402.8



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Property Taxes

- Education tax rates are set to keep the Education Fund 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 their rates differ
 - 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 [...]"*



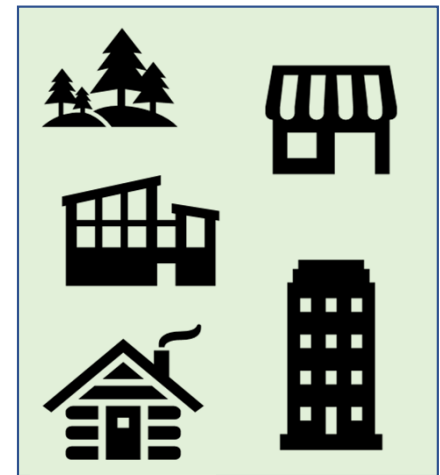
Property Taxes and the Common Level of Appraisal

- Vermont has a statewide Education Fund but not a statewide reappraisal system
- The Common Level of Appraisal (CLA) is used to account for different appraisal schedules across the state
- When discussing tax rates, we generally use the term “equalized” to refer to the tax rate if the property were to be appraised at fair market value
 - The term “*actual*” is used for tax rates after the CLA has been applied



Nonhomestead Property Tax

- Tax on all real property that doesn't qualify as a homestead or isn't exempt¹
- The equalized nonhomestead property tax rate is uniform across towns
- The rate is set in statute, but the statute is annually notwithstanding by the General Assembly²
 - 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)



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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 and the statewide property yield



Pupil Weights and Long Term Weighted Average Daily Membership (LTWADM)

- Pupil weights are in statute and are used to adjust student counts to address different student needs or circumstances
- After Long Term Average Daily Membership (LT 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
- These weights are added to the LT ADM to calculate the Long Term *Weighted* Average Daily Membership (LTWADM)

Current Law Pupil Weights by Weighting Category

Weighting category		Weight
Grade level weights	PreK/Essential Early Education (EEE)	-0.54
	K-5	0
	6-8	0.36
	9-12	0.39
Economically deprived background weight		1.03
English language learners (EL) weight		2.49
Sparsity weight (<i>Number of people in district</i>)	< 36 persons	0.15
	36 – 54 persons	0.12
	55 – 100 persons	0.07
Small school (<i>Only applicable for districts also receiving sparsity weight <55 persons</i>)	< 100 pupils	0.21
	100 – 249 pupils	0.07



Homestead Property Tax

Adjusting to Account for Per Pupil Spending

- By statute, the homestead property tax rate is \$1.00 per \$100.00 of property value, and then adjusted for local per pupil education spending
- The homestead property tax rate is adjusted by the locally-approved per pupil education spending
- If a town belongs to more than one school district, the homestead tax rate is weighted by enrollment in each district

$$\text{Per pupil education spending} = \frac{\text{Education spending}}{\text{Long Term Weighted Average Daily Membership (LTWADM)}}$$

$$\text{District equalized homestead property tax rate} = \$1.00 \times \frac{\text{per pupil education spending}}{\text{property yield}}$$



Property Tax Credit Overview

- The homestead property tax has a credit based on income
- About two-thirds 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

Household income	Property tax credit parameters
Less than or equal to \$47,000	<ul style="list-style-type: none">• Property tax credit may be used on the first \$400,000 of the housesite value• Additional tax relief based on household income is available
\$47,001 - \$90,000	Property tax credit may be used on the first \$400,000 of the housesite value
\$90,001 - \$115,000*	Property tax credit may be used on the first \$225,000 of the housesite value
Greater than \$115,000*	Household will not qualify for a property tax credit

**Note: The figure of \$115,000 is not included in statute and is calculated annually*



Resources

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>



Appendix



Homestead Property Tax

Interpreting the “Property Yield”

$$\text{District equalized homestead property tax rate} = \$1.00 \times \frac{\text{per pupil education spending}}{\text{property yield}}$$

- The property yield can be interpreted as the per pupil spending amount of a district that would result in an equalized tax rate of \$1.00 on homestead value
- In districts that spend more per pupil than the property yield, the homestead property tax increases proportionately
- In fiscal year 2025, the property yield was \$9,893
 - Districts spending up to \$9,893 per (weighted) pupil have an equalized tax rate of \$1.00
 - Districts spending more than \$9,893 per (weighted) pupil have an equalized tax rate greater than \$1.00
 - For example, any district spending \$14,839 per (weighted) pupil, or 150% of the yield, the equalized homestead property tax rate is \$1.50*

$$\$1.50 = \$1.00 \times \frac{\$14,839}{\$9,893}$$

*Note: this assumes the district does not receive a tax rate discount according to [Act 84 \(2024\)](#)



Property Tax Credit

Interpreting the “Income Yield”

$$\text{Spending adjusted equalized income tax rate} = 2\% \times \frac{\text{per pupil education spending}}{\text{income yield}}$$

- The income yield follows the same principle as the homestead property yield
 - Like homestead property tax rates, income tax rates increase in proportion to per pupil spending
- In fiscal year 2025, the income yield was \$10,110
 - Districts spending up to \$10,110 per (weighted) pupil have a tax rate on income of 2%
 - Districts spending more than \$10,110 per (weighted) pupil have a tax rate on income higher than 2%
 - For example, in any district that spent \$15,165 per (weighted) pupil, or 150% of the income yield, the homestead income tax rate was 3.0%

$$3.0\% = 2.0\% \times \frac{\$15,165}{\$10,110}$$



Property Tax Credit

Further Credits for Incomes Less Than \$47,000

- Households with income under \$47,000 are entitled to a further tax credit 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"> The amount that would be paid based on income OR <ul style="list-style-type: none"> The statewide education tax rate multiplied by the equalized value of the housesite, reduced by \$15,000, in the taxable year
\$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	$(income * income\ rate) + \left(\frac{HS\ value - \$225,000}{100}\right) * HS\ rate$	
>\$115,000*	<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

