

Education Fund and Appropriations

Senate Committee on Appropriations

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Outline

- Overview of Vermont's education finance system
- Expenditures and appropriations
- Revenues
- "Buying down rates"



Overview of Vermont's Education Finance System



Overview of Vermont's Education Finance System

- Vermont's total education costs are determined at the State and local level
 - School boards build budgets that must be approved by voters
 - The General Assembly makes policies that impact budgets and the State's Education Fund
- The General Assembly sets yields and property tax rates annually at the level necessary to fund education expenditures
- The homestead property tax rate is a function of district per pupil spending, not property wealth



Education Expenditures



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Education Expenditures – Local Level

- Each school district builds an annual budget
 - Budgets require local voters' approval
- From a financial perspective, school 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: the 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

December 2, 2024

Education Fund Outlook for FY 2026 Consensus forecast for the December 2 Letter

(millions of dollars)	FY2024 Actual	FY2025 Projected	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 ²	\$15,443	\$9,893	\$8,553
e Income Yield Per Pupil 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 (H/In/NHS)	Uniform: 4.3%	Uniform: 13.8%	Uniform: 5.3%
h Statewide Education Spending Growth	8.0%	10.7%	6.2%
i Statewide Education Grant List Growth	9.7%	14.3%	14.7%
Sources			
1a Homestead Education Property Tax	663.4	762.2	809.0
1b Property Tax Credit	(155.3)	(168.0)	(153.0)
2 Non-Homestead Education Property Tax	792.8	894.5	948.3
3 Sales & Use Tax	595.2	606.3	622.5
4 Purchase & Use Tax <i>one-third of total</i>	48.3	49.4	51.1
5 Meals & Rooms Tax <i>one-quarter of total</i>	61.5	72.1	76.1
6 Lottery Transfer	36.0	36.5	37.4
7 Medicaid Transfer	8.6	9.0	9.0
8 One-time GP transfer	-	25.0	-
9 Other Sources (Wind & Solar, Fund Interest)	9.0	8.4	7.5
10 Total Sources	2,058.9	2,295.4	2,408.0
Appropriations			
11 Education Payment	1,711.1	1,893.3	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	10.4	10.4
19 Universal School Meals	26.4	20.4	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	2,325.7	2,436.6
Allocation of Revenue			
27 Revenue Surplus/(Deficit)	(94.8)	(30.3)	(28.6)
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 attendance special fund	(2.9)	-	-
32 Transfer (to)/from Unreserved/Unallocated	106.2	(1.9)	32.1
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	-	-
38a 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	137.35	11.09	23.04
40 Current-Year Unreserved/Unallocated	31.09	33.04	0.93

Appropriations

11 Education Payment		1,711.1	1,893.3	1,996.2
12 Special Education Aid		235.3	264.6	270.7
13 State-Placed Students		19.0	20.0	17.2
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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
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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	2,325.7	2,436.6

Notes: 1) FY 2024 is the first year with the Statewide Adjustment CLA, so the FY 2024 property rates and yields cannot be directly compared to the prior years' property tax rates and yields.
2) FY 2024 was the first year with the elimination of the equalization ratio from Act 127. As such, the FY 2024 and FY2025 property yields and income yields cannot be directly compared to the yields prior to FY2024.

December 2, 2024
Prepared by JFO



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Appropriations from the Education Fund

- In general, all appropriations from the Education Fund are included in the Big Bill
- Some appropriations are formulaic while others reflect policy choices at the local and State level
- The education payment is the largest appropriation from the Education Fund
- In fiscal year 2025, it reflected 81% of total uses of the Education Fund
 - Most of the education payment is personnel costs

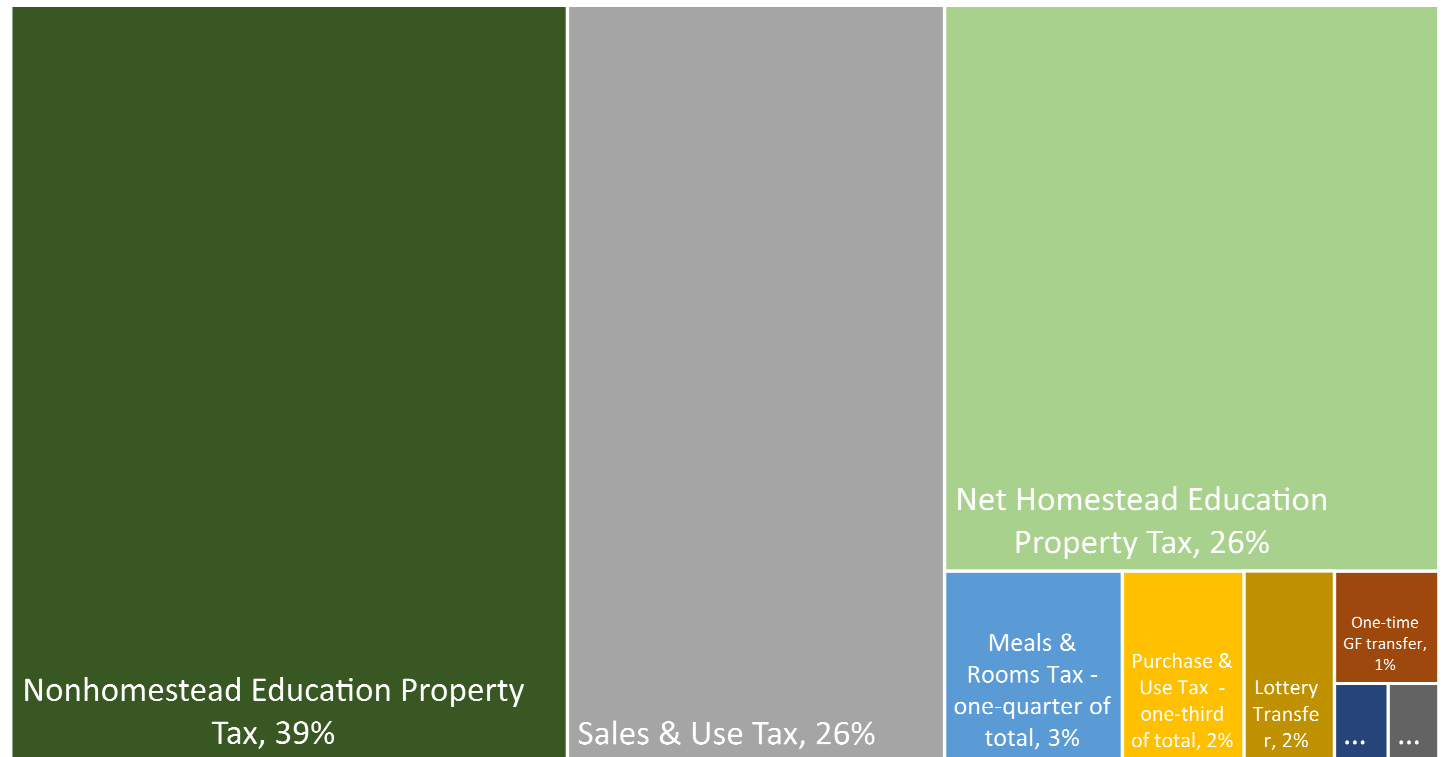


Education Funding



Education Fund Sources (Projected FY 2025)

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



Note: net homestead education property tax includes the cost of the property tax credit
 Data source: [Education Fund Outlook for the December 1 Letter. \(December 2024\)](#)



Revenues in the Education Fund Outlook

Education Fund Outlook for FY 2026 Consensus Forecast for the December 1 Letter

December 2, 2024

(millions of dollars)	FY2024 Actual	FY2025 Projected	FY2026 Forecast
a Average Homestead Property Tax Rate ¹	\$1.911	\$1.903	\$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/Ho/NHS)	Uniform: 4.3%	Uniform: 13.8%	Uniform: 5.9%
h Statewide Education Spending Growth	8.0%	10.7%	6.2%
i Statewide Education Grant List Growth	9.7%	14.8%	14.7%
Sources			
1a Homestead Education Property Tax	663.4	762.2	809.0
1b Property Tax Credit	(155.3)	(168.0)	(153.0)
2 Non-Homestead Education Property Tax	792.3	894.5	948.3
3 Sales & Use Tax	595.2	606.3	622.5
4 Purchase & Use Tax - one-third of total	48.3	49.4	51.1
5 Meals & Rooms Tax - one-quarter of total	61.5	72.1	76.1
6 Lottery Transfer	36.0	36.5	37.4
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	8.4	7.5
10 Total Sources	2,058.9	2,295.4	2,408.0
Appropriations			
11 Education Payment	1,711.1	1,893.3	1,996.2
12 Special Education Aid	285.3	284.6	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	8.3	1.8
17 Essential Early Education Aid	8.4	8.7	9.0
18 Flexible Pathways	9.3	10.4	10.4
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26 Total Uses	2,153.7	2,325.7	2,436.6
Allocation of Revenue			
27 Revenue Surplus/(Deficit)	(94.8)	(30.3)	(28.6)
28 Prior Year Reversions	9.7	24.3	-
29 Transfer (to)/from Stabilization Reserve	(5.2)	(5.0)	(5.5)
30 Transfer (to)/from Additional Reserves	(13.0)	13.0	-
31 RAA - One-time transfer to after-school special fund	(1.8)	-	-
32 Transfer (to)/from Unreserved/Unallocated	106.2	(1.9)	32.1
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	-	-
38a 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			
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40 Current Year Unreserved/Unallocated	31.09	33.04	6.93

Sources

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6 Lottery Transfer		36.0	36.5	37.4
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	8.4	7.5
10 Total Sources		2,058.9	2,295.4	2,408.0

Notes: 1) FY 2026 is the first year with the Statewide Adjustment COLA, so the FY 2025 property rates and yields cannot be directly compared to the prior years' property tax rates and yields.
2) FY 2025 was the first year with the elimination of the equalization ratio from Act 121. As such, the FY 2025 and FY 2026 property yields and income yields cannot be directly compared to the yields prior to FY 2025.

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Property Taxes

- There are two property tax bases subject to the statewide education tax and their rates differ
 - Nonhomestead property
 - Homestead property
- Education tax rates are set to keep the Education Fund balanced
 - Total uses minus non-property tax revenues gives the amount that needs to be raised from property taxes



“Buying Down Rates”

- All else equal, the General Assembly may decrease property taxes by decreasing uses or increasing non-property tax revenues
 - This is a policy choice
- The term “buying down rates” generally refers to the use of one-time money to decrease the overall property taxes that must be raised
- Because the setting of property tax rates considers all non-property revenue sources (including Education Fund surplus), funds used to buy down the rates are not always included in the Big Bill
- In some previous years, surplus has been used to buy down property tax rates



\$69 million was used to “buy down” fiscal year 2025 property tax rates

- For fiscal year 2025 the General Assembly used approximately \$69 million to “buy down rates”
- This consisted of:
 - A one-time transfer in the Big Bill of \$25 million from the General Fund to the Education Fund (*line 8*)
 - The use of \$13 million set aside in the Education Fund in the prior fiscal year (*line 38a*)
 - The use of \$31 million in Education Fund surplus (*line 39*)

December 2, 2024

Education Fund Outlook for FY 2026

Consensus forecast for the December 1 Letter

(millions of dollars)	FY2024 Actual	FY2025 Projected	FY2026 Forecast
a	\$1,311	\$1,303	\$1,677
b	2.33%	2.33%	2.38%
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e	\$17,537	\$10,110	\$12,250
f	-	142,810	141,596
g	Uniform: 4.3%	Uniform: 13.8%	Uniform: 5.9%
h	8.0%	10.7%	6.2%
i	9.7%	14.3%	14.7%
Source			
1a	663.4	762.2	809.0
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7	8.6	9.0	9.0
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15	17.0	17.9	18.7
16	8.3	1.8	1.8
17	8.4	8.7	9.0
18	9.3	10.4	10.4
19	26.4	20.4	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	2,325.7	2,436.6
Allocation of Revenue			
27	(94.8)	(30.3)	(28.6)
28	9.7	24.3	-
29	(5.2)	(5.0)	(3.5)
30	(13.0)	13.0	-
31	(2.8)	-	-
32	106.2	(1.9)	32.1
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	-	-
38a	(9.1)	-	-
38	13.0	13.0	-
39a	-	(13.0)	-
Available Funds			
39	137.25	31.09	33.04
40	31.09	33.04	0.93

Notes: 1) FY 2026 is the first year with the Statewide Adjustment CLA, so the FY 2025 property rates and yields cannot be directly compared to the prior years' property tax rates and yields.
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“Buying down rates” is a policy choice

- In previous years, surplus has been used to buy down property tax rates. For example:
 - \$20 million in fiscal year 2023
 - \$40 million in fiscal year 2024
 - \$69 million in fiscal year 2025
- Over the course of the legislative session, the General Assembly will grapple with various policy choices, including whether to use one-time funds to buy down rates



Questions?

