

Excess Spending Adjustment

Senate Committee on Education

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January 28, 2026



JFO

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Outline of Talk

- Brief review of property taxes
- Excess spending adjustment under current law
- History of excess spending adjustment and threshold



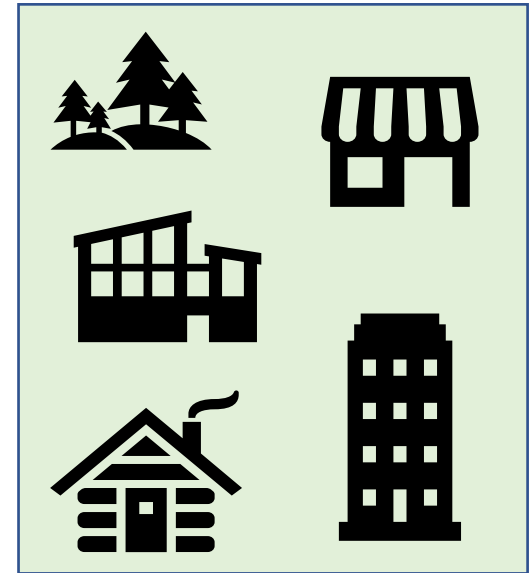
Property Taxes

- 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 [...]"*



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)

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 per pupil spending and the statewide property yield
- **“Per pupil spending”** is a technical term that is defined as Education Spending divided by Long-Term Weighted Average Daily Membership (LTWADM)
 - **LTWADM** is the total weighted pupil count
 - This captures total number of students as well as their weighting categories
 - **Education spending** is a school district’s total budget minus its offsetting revenues



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

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

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



Excess Spending Adjustment Under Current Law



Overview of Excess Spending Adjustment Under Current Law

- Vermont's "excess spending adjustment" increases a district's tax rate if it spends above the "excess spending threshold"
- The excess spending adjustment creates a double tax on the amount that a school district spends per weighted pupil above the excess spending threshold
- The excess spending threshold is calculated annually
 - For fiscal year 2027, the excess spending threshold is \$16,470



Calculation of Excess Spending Threshold

- The excess spending threshold is calculated by increasing the fiscal year 2025 average per pupil spending by inflation (NIPA), and then multiplying that figure by 118%

- The calculation can be seen in the following equation

$$\text{Excess spending threshold} = \text{FY 25 per pupil spending} * (1 + \text{NIPA}) * 118\%$$

- In fiscal year 2025, the average per pupil spending was \$13,168



Exemptions to Excess Spending Adjustment Under Current Law

- Under current law, there is only one exemption from the excess spending adjustment
 - The exemption is all principal and interest payments for any voter-approved bonds that were approved prior to July 1, 2024
- This exemption does *not* decrease general education spending used to calculate homestead property tax rates
 - The exemption only adjusts the amount *over* the threshold to determine the amount that is double taxed
 - Specifically, any amount that qualifies under the exemption is not subject to a double tax



Application of the Excess Spending Adjustment to Tax Rates

- If a school district's per pupil spending is greater than the excess spending threshold, the per pupil amount over the threshold (after accounting for exemptions) will be counted twice in the district's per pupil spending when calculating its tax rate
- Using the excess spending adjustment, tax rates are calculated as follows:

$$\text{Equalized homestead property tax rate} = \frac{\text{Per pupil education spending} + \text{per pupil excess spending}}{\text{Property yield}}$$



Example of Applying the Excess Spending Adjustment

- Assume 2 districts
- Step 1: calculate excess spending threshold
 - In this example, assume the excess spending threshold = \$16,000 per pupil
- Step 2: calculate per pupil amount over threshold
- Step 3: add excess per pupil amount to per pupil education spending to calculate tax rate
- Step 4: calculate homestead property tax rate
 - Assume yield = \$9,000

Row #		District A	District B
1	Assume: Per pupil education spending of:	\$15,000	\$17,000
2	Step 1: Calculate excess spending threshold	\$16,000	\$16,000
3	Step 2: Calculate amount over threshold (Row 1 – Row 2)	\$0	\$1,000
4	Step 3: Add per pupil excess spending to per pupil education spending (Row 1 + Row 3)	\$15,000	\$18,000
5	Step 4: Calculate tax rate (Row 4 divided by yield)	\$1.67 = \$15,000 / \$9,000	\$2.00 = \$18,000 / \$9,000
6	Tax rate if there were no excess spending adjustment	\$1.67 = \$15,000 / \$9,000	\$1.89 = \$17,000 / \$9,000

$$\text{Equalized homestead property tax rate} = \frac{\text{Per pupil education spending} + \text{per pupil excess spending}}{\text{Property yield}}$$



Excess Spending in Fiscal Year 2026

- In fiscal year 2026, the excess spending threshold was \$15,926
- Across the state, a total of six school districts exceeded the excess spending threshold
- The amount that school districts exceeded the threshold by varied
 - District excess spending per pupil ranged from \$429 to \$1,582



History of Excess Spending Threshold



General History of Excess Spending Adjustment

- Act 127 (2022) froze the excess spending threshold from fiscal year 2025 through fiscal year 2029
- Act 183 (2024) unfroze the excess spending threshold and amended its calculation and exemptions
 - With the changes to the excess spending threshold's calculation and exemptions, as well as the methodology for weighting pupils, the excess spending thresholds pre- and post- Act 183 cannot be compared



Calculation Prior to Act 183

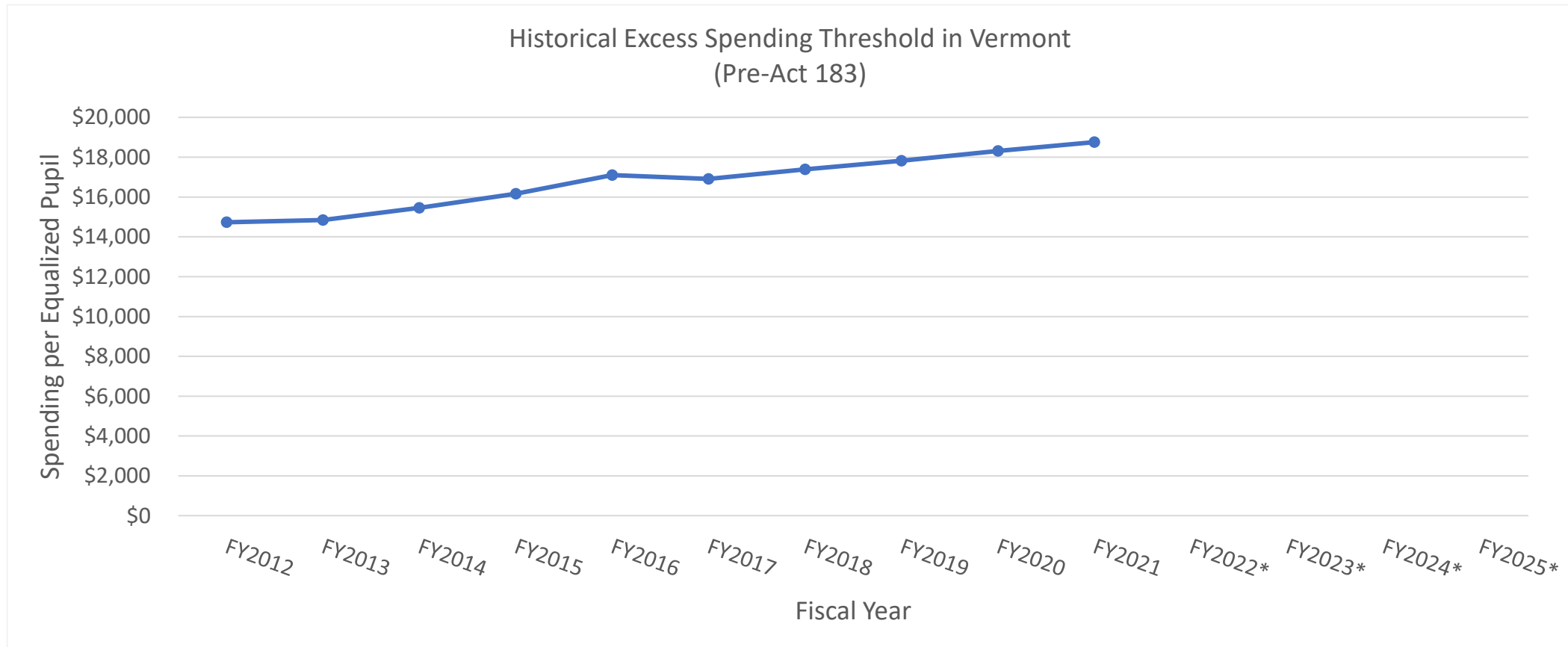
- Prior to Act 183, the excess spending threshold was calculated by increasing the FY 2015 average education spending per equalized pupil by inflation (NIPA), and multiplying that figure by 121%
 - This was calculated as follows:

$$\text{Excess Spending Threshold} = \text{FY 15 Education Spending Per Equalized Pupil} * (1 + \text{NIPA}) * 121\%$$

- Prior to Act 183, there were also a number of exemptions
 - A list of exemptions prior to July 1, 2024 is available on Slide 4 of Legislative Counsel's [Ed Spending 101](#) presentation



Excess Spending Threshold Fiscal Year 2012 – Fiscal Year 2025



**Note: Act 127 suspended the excess spending adjustment from fiscal year 2022 to fiscal year 2029.*

Data available on AOE's website: [Historical Excess Spending Threshold FY12-FY25](https://www.ljfo.vermont.gov/historical-excess-spending-threshold-fy12-fy25)



Questions?



Resources

- [Excess Spending 101](#) (Legislative Counsel)
- [Historical Excess Spending Threshold FY12-FY25](#) (AOE)
- [Excess Spending Threshold Summary and Tax Rate Impact](#) (AOE)

