

Review of Education Finance in Vermont

Income-Based Education Tax Study Committee

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JFO

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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
- Each school district's education spending is determined at a local level
 - School boards set budgets which must be approved by voters
- Annually, the Legislature sets education yields and property tax rates at the level necessary to fund education expenditures
 - There are two types of property taxes – homestead (including income credits) and nonhomestead
- Since the Brigham decision, the homestead property tax rate is a function of district per pupil spending
 - District rates are not a function of property wealth
 - Across districts, tax rates vary in proportion to per-pupil spending



Act 60 and Act 68

Prior to the Brigham decision, 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 Legislature to underfund the foundation formula to reduce state costs
- Property wealthy districts benefitted 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

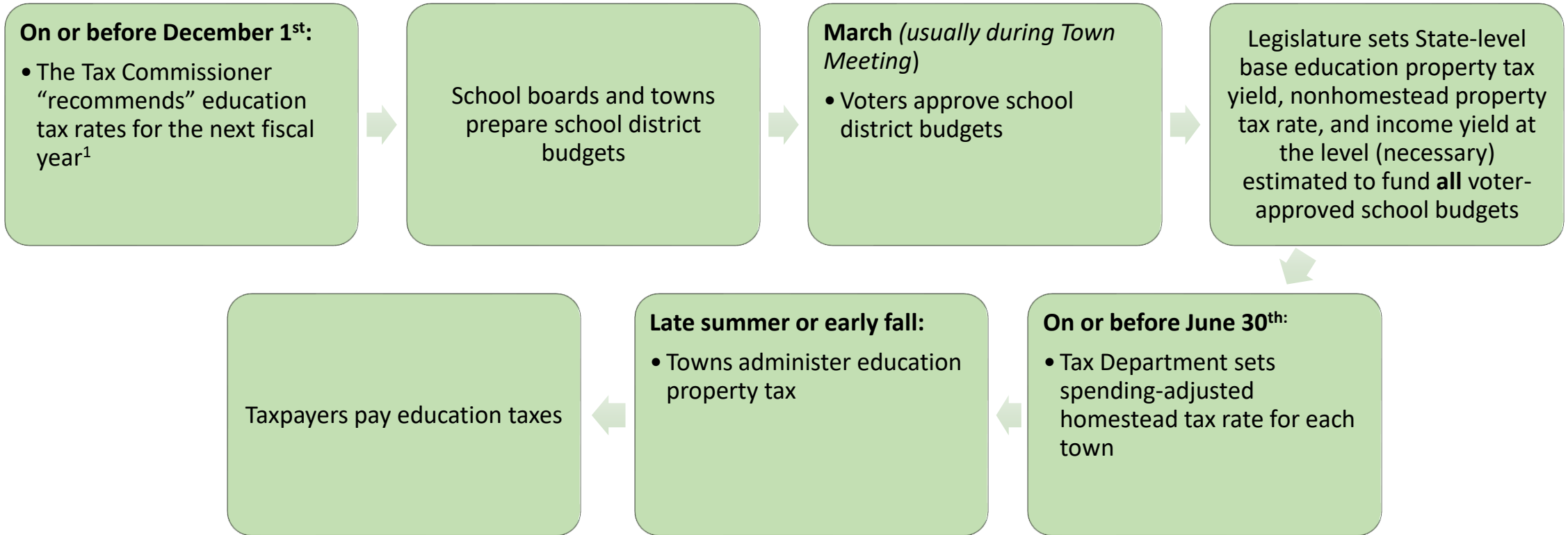
- This combination of reduced state appropriations and property tax rate inequities across towns led to the Brigham decision
- The Legislature responded with the passage of Act 60 in 1997

Now, a town's property wealth does not affect its base education tax rate

- Under Act 60, towns with the same per-pupil spending have the same homestead tax rate regardless of their property wealth
- Now, if the Legislature reduces state funds for education, all school districts, regardless of their property wealth, are adversely affected



Education finance timeline



Year round:

School districts receive education payments from the State based on their voter approved budget on September 10th, December 10th, and April 30th, other categorical aid payments are 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



Education Expenditures – Local Level

- Annually, each school district builds a budget which must be approved by local voters
- In general, there are two primary parts of local school budgets: offsetting revenues and education spending

Local School Budget	
<h3>Offsetting Revenues</h3> <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)	<h3>Education Spending</h3> <ul style="list-style-type: none">• All funds a school district decides to spend net of the offsetting revenues it receives



Education Expenditures – Statewide Level

- Education Fund (EF) expenditures are statewide aggregated costs of public education
 - This includes all school budgets
- In general, there are two buckets of EF 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 Education Fund Outlook

Preliminary Education Fund Outlook for FY2023 Emergency Board Meeting July 28, 2022

(millions of dollars)	FY2021 Actual	FY2022 Actual	FY2023 Forecast
a	\$1,538	\$1,523	\$1,385
b	2.50%	2.50%	2.32%
c	\$1,628	\$1,612	\$1,466
d	\$10,998	\$11,317	\$13,314
e	\$13,535	\$13,770	\$15,948
f	87,304	86,944	85,806
g	3.9%	1.3%	5.4%
h	2.7%	3.0%	7.5%
Sources			
1a	633.7	648.7	635.0
1b	(171.5)	(172.3)	(170.0)
2	735.2	752.4	727.1
3	507.6	545.2	563.2
4	44.7	45.7	47.1
5	36.0	54.2	57.1
6	32.5	30.8	31.8
7	7.4	11.5	10.2
8	2.9	3.6	2.5
9	1,828.5	1,919.7	1,903.6
Appropriations			
10	1,483.7	1,502.0	1,572.5
11	223.7	229.0	214.1
12	18.0	17.0	17.5
13	20.5	20.5	21.8
14	14.8	17.2	30.5
15	-	-	15.0
16	8.2	8.1	8.1
17	7.0	7.1	7.5
18	8.3	8.2	8.4
19	6.9	37.6	33.0
20	-	-	15.1
21	-	-	29.0
22	3.4	3.4	3.4
23	1,794.5	1,850.1	1,960.9
Allocation of Revenue Surplus/(Deficit)			
24	34.0	69.6	(57.3)
25	(14)	(11.7)	0.0
26	5.2	1.1	2.9
27	14.0	22.0	-
28	28.7	58.2	(60.2)
Stabilization Reserve			
29	33.0	38.2	39.3
30	38.2	39.3	42.2
31	5%	5%	5%
32	38.2	39.3	42.2
Additional Reserve			
33	14.0	14.0	-
33 a.	-	(13.3)	-
34	-	22.0	32.0
Available Funds			
35	0.0	28.7	76.9
36	28.7	86.9	16.8
36 a.	-	64.0	-
36 b.	-	22.9	16.8
36 c.	-	10.0	-
37	-	12.9	16.8

Appropriations

10	Education Payment	1,483.7	1,502.0	1,572.5
11	Special Education Aid	223.7	229.0	214.1
12	State-Placed Students	18.0	17.0	17.5
13	Transportation Aid	20.5	20.5	21.8
14	Technical Education Aid	14.8	17.2	30.5
15	One-Time CTE construction and rehab learning program	-	-	15.0
16	Small School Support	8.2	8.1	8.1
17	Essential Early Education Aid	7.0	7.1	7.5
18	Flexible Pathways	8.3	8.2	8.4
19	Teachers' Pensions (Normal Cost Only)	6.9	37.6	33.0
20	On-going Normal Cost of Teacher's OPEB	-	-	15.1
21	Universal School Meals	-	-	29.0
22	Other Uses (Accounting & Auditing, Financial Systems)	3.4	3.4	3.4
23	Total Uses¹	1,794.5	1,850.1	1,960.9

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

*Note: Education payment includes primarily personnel costs

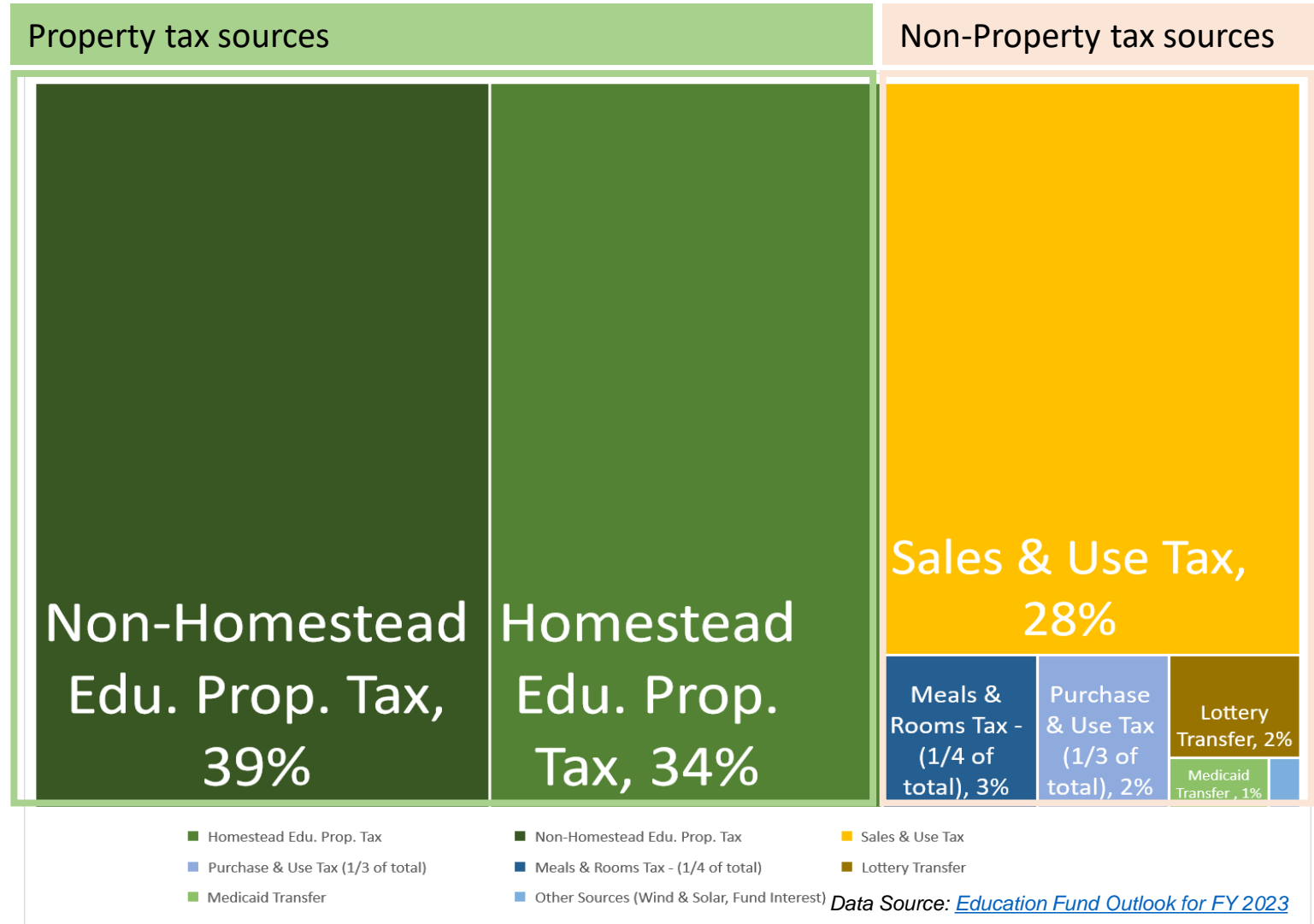


Education Funding



Education Fund Sources (2022)

- Vermont pays for education through the Education Fund (EF)
- The EF has 2 buckets of funding



Sources of Revenue in the Education Fund Outlook

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Sources

1a	Homestead Education Property Tax	633.7	648.7	635.0
1b	Property Tax Credit	(171.5)	(172.3)	(170.0)
2	Non-Homestead Education Property Tax	735.2	752.4	727.1
3	Sales & Use Tax	507.6	545.2	563.2
4	Purchase & Use Tax - one-third of total	44.7	45.7	47.1
5	Meals & Rooms Tax - one-quarter of total	36.0	54.2	57.1
6	Lottery Transfer	32.5	30.8	31.8
7	Medicaid Transfer	7.4	11.5	10.2
8	Other Sources (Wind & Solar, Fund Interest)	2.9	3.6	2.5
9	Total Sources	1,828.5	1,919.7	1,903.6



Property taxes

- Education tax rates are set so that the EF is in balance
 - Amount to raise statewide on 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 rates differ by base
 - Nonhomestead property
 - Homestead property
- “Homestead” property is defined in statute (32 V.S.A. § 5401(7)):
 - *“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 taxable real property that does not qualify as a “homestead” or that is not exempt¹
- The equalized nonhomestead property tax rate is uniform across towns
- The rate is set in statute², but the statute is annually not withstood by the Legislature
 - 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 education spending per pupil



Homestead Property Tax: *Adjusting to account for per pupil spending*

- By statute, the base homestead tax rate is \$1.00 for homestead property
 - The base tax rate effectively creates a floor on per-pupil education spending
- After voters approve the school budget, the base homestead property tax rate is adjusted by education spending per equalized pupil
- If a town belongs to more than one school district, the homestead tax rate is weighted by enrollment in each district

$$\text{Education spending per equalized pupil} = \frac{\text{Education spending}}{\text{Equalized pupils}}$$

$$\text{Spending adjusted equalized property tax rate} = \$1.00 \times \frac{\text{ed. spending per eq. pupils}}{\text{property yield}}$$



Homestead Property Tax:

Pupil weights and equalized pupils

- Pupil weights adjust student counts to address different student needs or circumstances
 - After Average Daily Membership (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
- After weights are applied to all school districts' pupil counts, the equalization ratio is used to make the number of state equalized pupils match the overall student count

Note: Act 127 (2022) added and adjusted pupil weights to Vermont's funding formula. Act 127 (2022) also eliminated the equalization ratio. Starting in FY 2025, no equalization ratio will be applied.



Homestead Property Tax: *Interpreting the “Property Yield”*

$$\text{Spending adjusted equalized property tax rate} = \$1.00 \times \frac{\text{ed. spending per eq. pupil}}{\text{property yield}}$$

- The property yield can be thought of as the per equalized pupil amount of spending that the fund can support with a uniform homestead tax rate of \$1.00 on homestead value
- In districts that spend more per equalized pupil than the property yield, the homestead property tax is increased proportionately
- In FY22, the property yield per equalized pupil was \$11,317
 - Districts that spent \leq \$11,317 per equalized pupil had an equalized tax rate of \$1.00
 - Districts that spent $>$ \$11,317 per equalized pupil had a higher equalized tax rate than \$1.00
 - For example, in any district that spent \$16,975 per eq. pupil, or 150% of the yield, the equalized homestead property tax rate was \$1.50

$$\$1.50 = \$1.00 \times \frac{\$16,975}{\$11,317}$$



Property Tax Credit: *Overview*

- The homestead tax is property tax with a credit based on income
- About 70% of Vermont households receive a “property tax credit” to their homestead property tax based on their income
- The credit is applied to tax bills in the following tax year
- Credit is limited by the income of the taxpayers:

Household income	Property tax credit parameters*
Less than \$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 - \$134,800	Property tax credit may be used on the first \$225,000 of the housesite value
Greater than \$134,800	Household will not qualify for a property tax credit

**Note: Further details and additional tax relief will be outlined on upcoming slides*



Property Tax Credit: *Interpreting the “Income Yield”*

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

- The income yield can be thought of as the per-pupil amount of spending that the fund can support with a uniform tax rate on income
- The tax rate on income in any district spending more than the yield is increased proportionally
- Whether a resident homeowner pays the education tax on homestead value or income, the homestead tax rate increases in proportion to per-pupil spending
- In FY22, the income yield per equalized pupil was \$13,770
 - Districts that spent \leq \$13,770 per equalized pupil had an equalized tax rate on income of 2%
 - Districts that spent $>$ \$13,770 per equalized pupil had higher equalized tax rate on income than 2%
 - For example, in any district that spent \$20,655 per pupil, or 150% of the income yield, the equalized homestead income tax rate was 3.0%

$$3.0\% = 2.0\% \times \frac{\$20,655}{\$13,770}$$



Property Tax Credit:

Further credits for incomes less than \$47,000

- Households with income under \$47,000 are entitled to additional tax relief 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: <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
	≥ \$400,000	$(income * income\ rate) + \left(\frac{HS\ value - \$400,000}{100}\right) * HS\ rate$	
\$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	$(income * income\ rate) + \left(\frac{HS\ value - \$225,000}{100}\right) * HS\ rate$	
> \$134,800	<i>Households above this income will never qualify for a property tax credit, and will always pay solely based on property value</i>		



Resources

Legislative 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>

