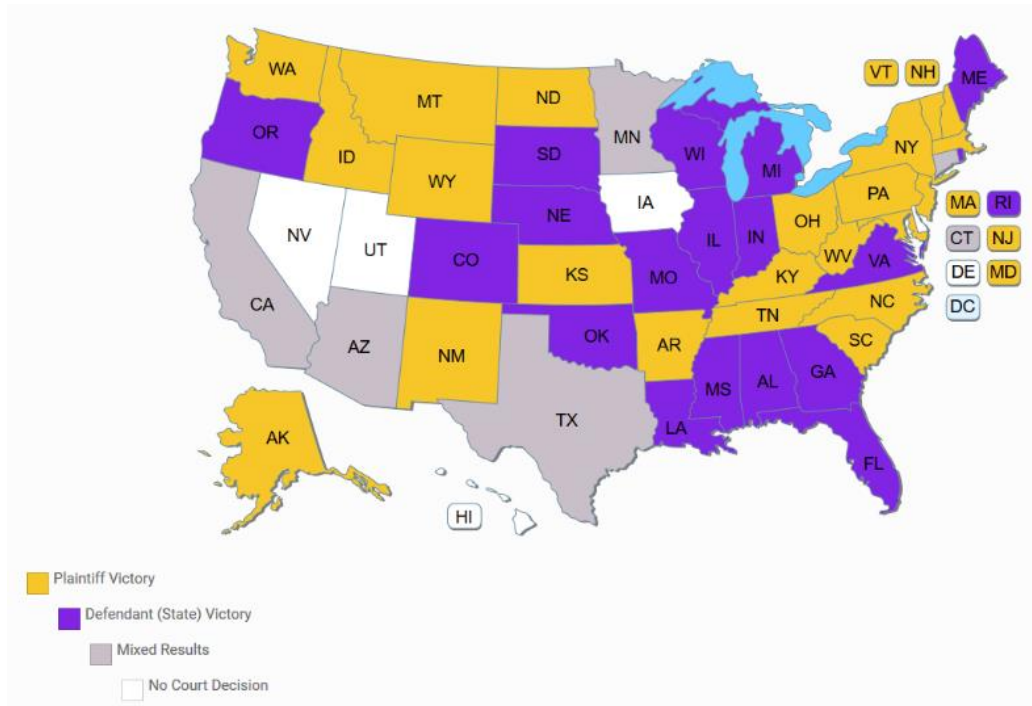


State Approaches to Statewide Funding for Education and Property Tax Relief

How Vermont is Similar and Dissimilar to Other States

Court Cases¹

- **Vermont is not unique in having court-ordered changes to education finance systems. Plaintiffs have won cases in 22 states.**
- **Vermont is unusual in that it had an equity-focused ruling in the 1990s.**
 - Most school-funding cases in the 1970s and early 1980s focused on equity, and the defendant states won about two-thirds of the cases.
 - Since the 1980s, plaintiffs have mostly focused on adequacy – pointing to academic content and graduation standards – and have won nearly 60% of such cases.



Graphic from <http://schoolfunding.info>

¹ Graphic and data from <http://schoolfunding.info/school-funding-court-decisions/>

Statewide Funding for Education

- **Most states use a foundation formula, but Vermont is far from alone in seeking a different path.**
- According to the Education Commission for the States, 32 states use a foundation formula, eight use a resource allocation system, three use a hybrid of those two systems, and the remaining seven (incl. VT) are hard to bucket.²
- Picus Odden and Associates classify systems slightly differently, referencing a 2011 study from Deborah Verstegen at the University of Nevada, Reno that distinguishes between foundation formula states and district power equalization states.³

Foundation formula – “[T]heoretically designed to pay for a basic or minimum education program. Local education agencies are required to contribute to the foundation amount -usually through a uniform tax rate. The state makes up the difference between local funding and the total foundation amount.”

District power equalization – Guarantee an equal tax base to every local education agency in the state. Vermont, Connecticut, Wisconsin.

Combination of formulas – Combine foundation formula, power equalization formula, flat grants and/or other types of funding methods. Eight states fall in this category

Property Tax Relief

- **Many states have income sensitivity programs to help senior citizens, low-income households, and other vulnerable populations with their property tax payments**
- **Vermont’s property tax credit program is unusual in its eligibility thresholds and benefit levels.**

Excerpt from Lincoln Institute of Land Policy on types of property tax relief programs:⁴

- **Homestead exemptions** make the property tax more progressive and have high participation rates, but are expensive.
- **Circuit breakers** target tax relief to households with least ability to pay, but outreach needed to increase participation.
- **Tax deferrals** help taxpayers who are housing-rich but income-poor with no long-term cost for other taxpayers.
- **Monthly taxes** help households break-up large payments into manageable expense, but don’t reduce tax bills.

² https://www.lincolnst.edu/sites/default/files/sources/events/parker_-_funding_k-12_education.pdf

³ Picus Odden and Associates, 2012, p.14. An Evaluation of Vermont’s Education Finance System. http://picusodden.com/wp-content/uploads/2013/09/VT_Finance_Study_1-18-2012.pdf

⁴ https://www.lincolnst.edu/sites/default/files/sources/events/langley_-_property_tax_relief_options.pdf

State Approaches to Statewide Funding for Education and Property Tax Relief

Examples of Other States' Features

Maine

Education Finance

General Purpose Aid

- State aims to pay 55% of Essential Programs and Services (EPS)
- Funding formula determines the EPS for each School Administrative Unit based on costs, weights, targets and other adjustments then subtracts required local share to determine state share
- Local share (minimum) determined by:⁵
 - Valuation by town (i.e. ability to pay) conducted annually by State
 - Percentage of students by town within combined district
 - Mil Expectation set by calculated recommended funding level each

Property Tax Relief and State/Local Interaction

- Homestead exemption
 - \$20,000 reduction
 - State provides partial reimbursement to town for lost revenue
- Property tax credits up to \$1,200 if ≥ 65 with income up to \$54,167 for married jointly (\$34,167 for singles), compared to \$750 if < 65
- Revenue-sharing program provides portion of sales tax revenue to municipalities

*Excerpt from Picus Report on Maine:*⁶

Equity Analysis

Maine has designed a school funding system that provides SAUs with an equitable distribution of resources. However, the differential ability of SAUs to raise funds above what the system requires somewhat reduces the fiscal neutrality and the equity of the system. The funding disparities appear to be based more on fiscal capacity than variation in student needs. Overall, two patterns consistently emerge from our equity analysis of the Maine school funding system. First, we found that the system, as designed, met (or very nearly) met all of the strict benchmarks established by Odden and Picus (2014) for fiscal neutrality and equity. This finding held when we used multiple measures of both property wealth per pupil and per capita income, and when we used both weighted and unweighted pupil counts in the analysis. The second important pattern relates to reductions in the equity and fiscal neutrality of the system when we included local revenue raised through property taxes above the level of EPS funding. The revenue equality statistics indicate that funding disparities in Maine arise to a large degree from wealth disparities across SAUs whether measured on the basis of property wealth per pupil or median per capita income.

⁵ School Funding – General Purpose Aid, Maine Department of Education. <https://www.maine.gov/doe/funding/gpa>

⁶ Picus Odden and Associates, 2013, p144. An Independent Review of Maine's Essential Programs and Services Funding Act: Part 2, <http://picusodden.com/wp-content/uploads/2013/08/Picus-and-Assoc.-Part-2-Final-Report-final-12-24-13a.pdf>

New Hampshire

*Education
Finance*

The formula (excerpt from Concord Monitor):⁷

- Adequacy is a per-pupil formula. The base amount is \$3,636 per student.... Schools get an additional \$1,818 for every low-income student, and \$1,956 for special education students. English language learners get \$711.
- To pay for adequacy, the state uses a collection of revenue sources – business taxes, the rooms and meals tax, for example. But the greatest share of adequacy’s cost – about 40 percent – is raised with the statewide property tax.
- In especially property-rich towns, where the statewide property tax raises more money than the local district would receive from the state in adequacy, the town gets to keep the excess.

Current News

New Hampshire’s education financing system was ruled unconstitutional in 2019 on the grounds that the base amount didn’t account for real costs and that the state’s formula is “clearly or demonstratively inadequate according to the Legislature’s own definition of an adequate education.”⁸

*Property Tax
Relief*

- Education property tax relief based on income (20-100%) for property owners with income up to \$40,000 for married and HoH (\$20,000 for singles).
 - Separate program for elderly exemption off assessed home value with income and asset thresholds set by municipality at three tiers: 65-74, 75-79, 80+.
-

Maryland⁹

*Education
Finance*

- Counties raise revenue for their share through both property tax and local income tax.
- State/local revenue split is roughly 50/50 statewide, but it is “wealth-equalized” based on both property tax base and income tax base so that the state share can be as much as 75% or as little as 22% for individual counties. County school systems then determine their own budgets and contribution. State requirements for local contribution largely limited to Maintenance of Effort.
- For example, in FY 2019, the State provided \$12,829 per pupil in Somerset

⁷ Duffort, Lola. Concord Monitor, 3/3/2018. “New Hampshire’s school funding formula explained.” <https://www.concordmonitor.com/How-does-NH-pay-for-schools-15954365>

⁸ Concord Monitor, 6/6/2019. “Judge rules N.H. school funding formula inadequate, unconstitutional.” <https://www.concordmonitor.com/Public-School-Funding-26086385>

⁹ Homeowners’ Property Tax Credit Application Form, <https://dat.maryland.gov/SDAT%20Forms/HTC-1.pdf>. Picus Odden and Associates, 2016. *Full Report and School Case Studies for the Evidence-Based Approach to Estimating a Base Spending Level and Pupil Weights for Maryland*. <http://picusodden.com/wp-content/uploads/2013/09/1c-EB-MD-Report-Final-11-30-16.pdf>

County and \$4,009 per pupil in Talbot County, both on Maryland’s eastern shore.

- Outside of Washington, D.C., Montgomery and Prince George’s Counties have nearly identical budgets (\$16,859 and \$16,664 per pupil, respectively), but State provides \$9,778 per pupil to Prince George’s and \$5,513 to Montgomery.

A workgroup known as the Kirwin Commission is currently working to “undertake an international standard in a rigorous way” and recommending changes in programmatic recommendations and formula. One change being explore involves direct aid to schools (not districts) with high poverty rates.

Property Tax Relief

Homeowners’ Property Tax Credit Program

- Circuit breaker is available to all ages, combined gross household income not > \$60,000 and “sets a limit on the amount of property taxes any homeowner must pay based upon his or her income.”¹⁰
- Tax credit effectively limits property taxes to: 0% of the first \$8,000 of the combined household income; 4% of the next \$4,000 of income; 6.5% of the next \$4,000 of income; and 9% of all income above \$16,000 (up to \$60,000).
- Credit based on \$300,000 of assessed value minus any homestead credit (another program provides tax credits that serve to limit taxable assessment increases)
- Unique in that it has an asset test: “Net worth, excluding the value of the property for which the credit application is being made and the cash value of IRAs or qualified retirement savings plans, must not exceed \$200,000”

Washington

Education Finance

- Primarily funded by two property taxes: 1) state school levy paid by all property owners, 2) special or excess levies approved by a district’s voters.
- State property tax rate is \$2.70 for 2020 and 2021, broken into two parts, one of which has a 1% growth limit.
- Dept. of Revenue conducts annual ratio study for equalization.

Property Tax Relief

- Senior Citizens and Disabled Persons Exemption Program available to homeowners >60 with income thresholds based on county median household income (range is \$40,000-\$58,423 for 2020-2024).¹¹
- Farm and agricultural machinery fully exempt from both parts of state levy.
- Taxpayers in Senior Citizens and Disabled Persons Exemption Program are fully exempt from Part 2 of levy, and partially or fully exempt from Part 1 (the growth limited part).

¹⁰ <https://dat.maryl>

and.gov/realproperty/Pages/Homeowners%27-Property-Tax-Credit-Program.aspx

¹¹ Property Tax Exemption Program for Senior Citizens and Disabled Persons, <https://dor.wa.gov/content/property-tax-exemption-program-senior-citizens-and-disabled-persons>

California

Property Tax Relief

Property Tax Postponement Program¹²

- Available to homeowners at least 62 years of age, or blind, or disabled
 - Principal residence (manufactured homes are eligible, house boats are not)
 - Total household income not > \$35,500
 - Equity in the property not <40%
 - Interest rate = 7 percent per year
-

- Excerpt from California legislative analysis:¹³

Summary of the Evaluation of the Property Tax Postponement Program

Advantage	Shortcoming
Eligibility	
<ul style="list-style-type: none"> • PTP provides guaranteed eligibility to homeowners who qualify. 	<ul style="list-style-type: none"> • PTP is not available to some homeowners who could benefit, including: younger homeowners and those with higher levels of income. • The PTP income threshold does not vary by household size, is not indexed for inflation, and does not vary geographically.
Participation	
	<ul style="list-style-type: none"> • PTP participation has been low historically and is even lower after reinstatement.
Affordability	
<ul style="list-style-type: none"> • PTP allows participants to indefinitely postpone repayments. • PTP loans are less costly than reverse mortgages. 	<ul style="list-style-type: none"> • PTP interest rate could be lower (while still keeping the program cost-neutral).
Budgetary	
<ul style="list-style-type: none"> • PTP does not carry a cost to taxpayers 	<ul style="list-style-type: none"> • PTP provides a General Fund benefit without justification. • PTP may have less long-term sustainability with General Fund sweep.
Administrative	
	<ul style="list-style-type: none"> • PTP has high administrative costs. • PTP participants subsidize the administrative costs associated with unapproved applicants.

PTP = Property Tax Postponement Program.

¹² Property Tax Postponement Fact Sheet, https://sco.ca.gov/ardtax_fact_sheet.html

¹³ Taylor, Mac. Evaluation of the Property Tax Postponement Program (2018). <https://lao.ca.gov/reports/2018/3885/property-tax-postponement-100818.pdf>

Wisconsin

Education
Finance

Equalization Aid

- One pot of money is split over 421 school districts based on district values, membership, and shared costs.
- Aid is inversely related to district property value per member.
- Aid allocated at three levels.
- 169 districts are negatively aided at the third level. Example: ¹⁴

	<u>District #1</u>	<u>District #2</u>
Shared Cost	\$ 12,000	\$ 12,000
Equalized Property	\$200,000	\$600,000
Equalization Aid		
Primary	\$ 900	\$ 700
Secondary	\$ 6,000	\$ 2,000
Tertiary	\$ 1,500	\$ - 1,500
Total	\$ 8,400	\$ 1,200

Property Tax

Monthly Installments

“Monthly installments are used in Milwaukee, Wisconsin, with every tax bill including the option to either pay in full or in monthly installments.”¹⁵

Hawaii

Education
Finance

Statewide school system

Property Tax

Homeowner Exemption¹⁶

- Basic exemption is \$40,000
 - Additional exemption of 20% of assessed value, not to exceed \$80,000
 - Age 60-69, exemption is \$80,000
 - Age 70+, exemption is \$100,000
-

¹⁴ Sliter, Derek. Wisconsin Department of Public Instruction, Equalization Aid & Revenue Limits (2019).
<https://dpi.wi.gov/sites/default/files/imce/sfs/ppt/WASBO-Rev-Lim-and-Equal-Aid-Dec-2019.pptx>

¹⁵ Lincoln Institute of Land Policy, Key Resources on Property Tax Relief (2019).
https://www.lincolnst.edu/sites/default/files/sources/events/key_resources_on_property_tax_relief_-_may_2019.pdf

¹⁶ County of Hawaii Real Property Tax Division, Explanation of the Real Property Tax Homeowner Exemption (2015).
<https://www.hawaiipropertytax.com/forms/Home%20Exemptions%20Brochure.pdf>