

Education Finance

A few draft questions for discussion purposes

What are the problems we have heard related to Vermont's Education Property Tax?

- 1) Disconnect of control and accountability – State can't control spending, towns can't completely control tax rates
- 2) High tax burden – Taxes are too high, particularly property taxes
- 3) Insufficient brakes on spending (school budget incentive) -- Complex and opaque relationship between budgets that voters approve and what they pay
- 4) Inadequate support for capital expenditures -- The lack of a dedicated revenue source or solution for funding capital expenditures leads to unequal and inadequate facilities
- 5) Student inequity - Lack of clarity or data around student outcomes, but persistent perception that educational quality is still dependent on where you live
- 6) Tax complexity – Current system with property tax credits, lag, and CLA produces taxpayer confusion, high error rate, and administrative burden for state and local officials
- 7) Perceptions of unfairness – At town level, voters can vote to cut spending but see tax increase; issues with assessments and the CLA; at taxpayer level, high eligibility thresholds and generous benefit levels (relative to other states) create perception that only a small minority pay full share; owners whose homes appreciate can't afford taxes; no wealth test for receiving tax credits; property tax credits don't link income to household size or filing status
- 8) Benefit cliff (income incentive) – Taxpayers who earn slightly more than \$47,000 or \$90,000 have spike in tax burden
- 9) Horizontal inequity between owners and renters – Owners with higher incomes (and wealth) can qualify for larger benefits than renters; renters aren't as impacted by voted budgeted increases

Four options (from Commissioner Brighton)

Assuming Local Tax Rate Depends on Locally Voted Spending Decision

Assuming Uniform State Tax for Education

1) Eliminate the property tax adjustment

- Budget presented to voters with estimated property rate and income rate; property rate applies to housesite value and income rate applies to household income; homeowners pay the lesser of the two to the state, final payment/refund due the following April.
- Local tax bills for education include only the property tax on non-housesite property

2) Tax on all owner-occupied housesites based on income

- Budget presented to voters with estimated income rate; homeowners pay the income tax to the state, final payment/refund due the following April.
- Local bills for education include only the property tax on non-housesite property

3) Education tax is tax on income of all VT residents (including renters)

- Budget presented to voters with estimated income rate; all residents pay the income tax to the state, final payment/refund due the following April.
- Local bills for education include only the property tax on non-housesite property
- Renters receive a state credit

4) Uniform Income Tax for Education

- Budgets compiled and submitted by AOE and approved by Legislature; Legislature sets rates for income and property
- Income tax rate for residents would be the same in all districts; for this reason it could be progressive without being overly complicated
- AOE would distribute revenue to districts/schools based on weighting, programs, policies; districts would be free to meet needs with the amount received.

- All must be Brigham compliant
- All of these changes apply to the housesite portion of current law; non-homestead property taxation is not changed except that homestead property that is not part of the housesite would probably be classified as non-housesite so there would only be one property tax rate.
- All would probably be best served by multiple, rather than lump-sum, payments.
- Housesite could be defined as house + up to 2 acres (or other), with or without a maximum value
- Income could be household income as currently defined, AGI, or VT Taxable income (or other). An education income tax could also be calculated as a percentage of VT Income Tax
- There could be a maximum payment in any of them

1. Disconnect of control and accountability

Does TSC see Question as in or out of scope?

Out of scope?

Key Question A Should towns/districts be allowed to set their own school budgets? (i.e. raise/spend more than they are allocated through student weighting, categoricals, etc.)

Possible Answers

No. This leads to unequal education and/or unsustainable spending.

Yes, but there should be features in place to keep local skin in game, rein in spending, and/or contribute to equity efforts.

Yes.

Relevance of Four Options

Option #4

Options #1-3 seem to be similar to the status quo in this regard?

How?

State controls overall levels of district funding

Similar to status quo?

Other Possible Ways to Address

- Rep. Beck's proposal to increase access to "free" funds up to adequacy level, then tie additional spending to local tax
- Have a consistent statewide property tax rate to fund adequacy and/or tie level of local support for additional spending to district wealth

Relevant State Examples

Hawaii

Washington, Maryland, Wisconsin

2. High tax burden

Does TSC see Question as in or out of scope?

Out of scope?

Key Question A	Is tax burden (i.e. spending level) too high?		
Possible Answers	Yes, we need to stem the growth of education spending	Yes, we need to ensure the Ed Fund only pays for education	No
Relevance of Four Options	Option #4 (State control) could be used to drive down costs, but if spending is driven by adequacy standards it may not	N/A	N/A
How?			
Other Possible Ways to Address		<ul style="list-style-type: none"> Move land preservation costs (ie current use) to General Fund Move home affordability costs (ie PTC) to General Fund Move social services costs out of school budgets 	
Relevant State Examples		<ul style="list-style-type: none"> ME (splits costs w/ munis) Various state models States differ, but generally complex 	

2. High tax burden

Does TSC see Question as in or out of scope?

In scope?

Key Question B Is the homestead property tax's 26% share (net, after Property Tax Credits) of the Education Fund too high relative to other sources?

Yes

No

Possible Answers



Options #1-4



Option #1 is closest to status quo in this regard

Relevance of Four Options

Shifting current hybrid system to be more of an income tax

Consideration of income and property liability would be basically the same as under the Property Tax Credit system

How?



Other Possible Ways to Address

Look at whole tax structure and/or reestablish GF transfer

Rep. Browning - reverse income tax cuts for top brackets and use revenue to lower property tax

Move to property tax with homestead exemption

Keep status quo

Move to traditional education property tax

Relevant State Examples

DC, HI, ME, others

N/A

Most states

3. Insufficient brakes on spending (school budget incentive)

Does TSC see Question as in or out of scope?

In scope?

Key Question A Is the relationship between what voters approve and what they pay as clear and direct as it should be?

Yes

No

Possible Answers



Option #4 is N/A because voters wouldn't vote on local budget levels.

Options #2-3 might be easier to calculate than #1 or the status quo, but the cost of the marginal dollar of spending wouldn't change

How?

Voters would only be doing the income tax (and potentially non-homestead) calculations, not both income and property

Other Possible Ways to Address

Keep status quo

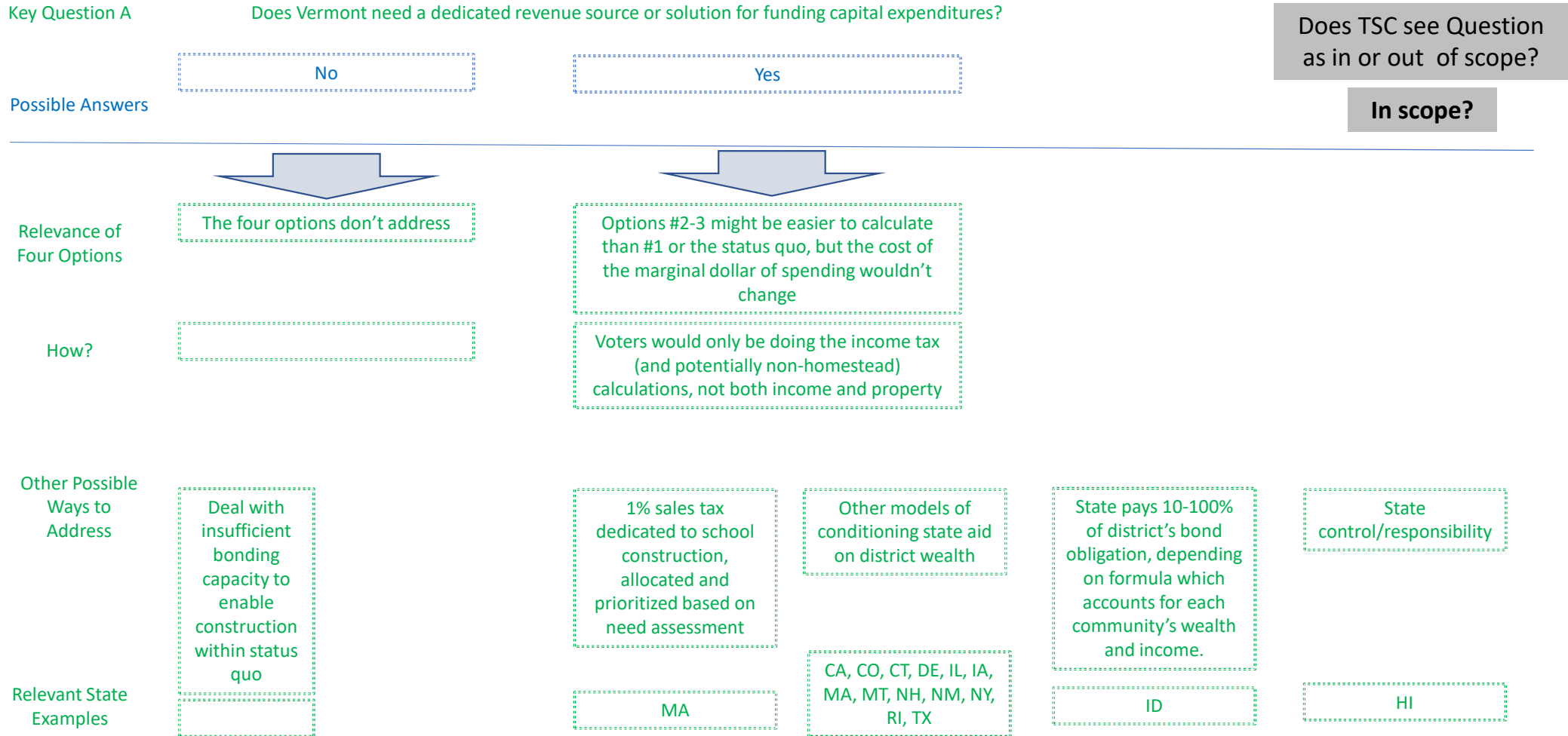
Rep. Beck's proposal to tie additional spending to local tax

Statewide education tax to fund adequacy, local responsibility for additional spending

Relevant State Examples

Many states, with various versions, definitions, and levels of quality and equity

4. Inadequate support for capital expenditures



5. Student inequity

Does TSC see Question as in or out of scope?

Out of scope?

Key Question A Does Vermont need better data on student outcomes to allow for evaluation of educational equity beyond per pupil spending?

Possible Answers

No

Yes



Relevance of Four Options

N/A

N/A

How?

Other Possible Ways to Address

Keep status quo

Research best practices in other states and jurisdictions and collect data to enable future analysis

Relevant State Examples

Various – refer to previous national studies

6. Tax complexity

Does TSC see Question as in or out of scope?

In scope?

Key Question A	Are the complexities we've heard about homestead property tax – the taxpayer confusion, high error rates, and administrative burden – the result of the multitude of steps to calculate the tax, the lag, having four different ways of paying homestead tax*, the CLA, or something else?				
Possible Answers	The multitude of steps, and outside information needed, to calculate tax from budget	The lag	An income sensitivity program that effectively divides education property taxpayers into four groups	CLA	Something else
Relevance of Four Options	All four would impact	All four would impact	Option #2 would reduce # of groups; Option #3 would too but would add renters as a new group, Options #1&4 would keep status quo	N/A	Depends
How?	By moving to estimate with true-up and, with #2 and #3, take property tax out of the equation for the house site portion of homestead tax. We would need Dept. of Taxes (and possibly local officials) to weigh in on logistical impacts and expected results of each.		#2&3 take property tax out of the equation for the house site portion of homestead tax	Tom Vickery - look to Almy recommendations	
Other Possible Ways to Address	Move away from hybrid property/income system and/or toward a uniform statewide tax	Separate property tax relief program	Rep. Browning - transfer income tax revenue into EF from GF and reduce property tax rates, rather than having additional income tax	Rep. Kimbell - eliminate CLA, move to adjusted basis value	Rep. Beck – present CLA as adjustment to value
Relevant State Examples	Most states with statewide ed tax	Multiple states, including ME	All other states? (in that our hybrid system is unique)	WA's annual ratio study; HI, DC, others stay close to market value	

7. Perceptions of unfairness

Does TSC see Question as in or out of scope?

In scope?

Key Question A	Why do people think the education property tax is unfair?						
Possible Answers	Voters can vote to cut spending but see tax increase	Issues with assessments and CLA	<1/3 of homeowners "pay full share"	Increasing home values lead to high taxes lead to cash flow challenge	Wealthy homeowners/expensive homes qualify for large tax credits	Individuals earning 11x federal poverty level qualify for credits, couples do not	
Relevance of Four Options	#4	N/A	#2-4	#2-4 could alleviate	#2-4 could make worse	Possibly #2-4	
How?	#4 would eliminate local vote (on total local budget)		could be seen as better (fewer taxpayer groups) or worse (everyone getting income sensitivity)	Moving tax away from property value	Moving tax away from property value	Options raise possibility of changing definition of income	
Other Possible Ways to Address	Rep. Beck – More closely connect district spending decisions to their tax rate	Tom Vickery - look to Almy recommendations	Lower eligibility threshold	Property Tax Postponement Program	Lower cap on home value that is subject to relief	Institute asset test	Institute different tax credit eligibility levels per filing status or household size
Relevant State Examples			All states with property tax relief programs	CA	Several states	MD	Several states, including ME

8. Benefit cliff

Does TSC see Question as in or out of scope?

In scope?

Key Question A Is it a problem if the benefit cliffs at \$47,000 and \$90,000 incentivize taxpayers to control income and/or do the cliffs create fairness issues?

No

Yes

Possible Answers



N/A



#2-4 would presumably eliminate \$90,000 cliff

Relevance of Four Options

By moving to single maximum house site value

How?

Keep status quo

Adjust formula to create a smoother phase-out

Other Possible Ways to Address

Relevant State Examples

9. Horizontal inequity b/w owners & renters

Does TSC see Question as in or out of scope?

In scope?

Key Question A Does Vermont want to incentivize home ownership by giving larger benefits to owners or is it more important for tax burden to align with ability to pay?

Possible Answers	More important to incentivize home ownership	More important for tax burden to align with ability to pay
Relevance of Four Options	#2 (and possibly 3&4) could cut in different directions	#2 (and possibly 3&4) could cut in different directions
How?	Depending on tax and benefit levels, could incentivize higher income taxpayers to rent primary residence; could incentivize lower/moderate income homeowners considering a downshift to stay in larger home	Better aligns; potentially leads to greater misalignment to the extent that ability to pay is measured by wealth
Other Possible Ways to Address		Consider renter rebate eligibility thresholds and benefit levels in context of property tax credit thresholds and levels
Relevant State Examples		

What are the problems you are trying to solve (or at least improve)?

Which issues do you feel are in the commission's scope and are priorities?