

# Commissioner Brighton's Points on Volatility and the Education Property Tax

## 1. Volatility from One Year to the Next

For most taxes, such as the sales tax or the income tax, the revenue depends on changes in the tax base, and budgets are developed to match the anticipated receipts. However, for the Education Property Tax the process is reversed; the budget determines the education property tax rate needed each year to raise the necessary amount. As a result, the Education Fund is not subject to insufficient revenue due to year-to-year changes in the tax base, unlike the General Fund.

However, this shifts the volatility to the taxpayer. The education property tax functions as the shock absorber that allows the Education Fund to be filled. The education property tax must be increased or decreased in response to changes in the tax base (especially due to the CLA), changes in education spending, changes in Uses such as Special Ed, and changes in the other revenue sources in the Education Fund including the Sales Tax, the Rooms and Meals Tax and one-time money like ARRA. In some years, education property tax bills have increased at a rate that exceeds the increase in school spending, frustrating voters. This is not unique to Vermont; local rates will rise to compensate for falling state aid in any state that relies on a combination of state and local funding for education. But Vermont's system has more moving parts. Some possibilities suggested for reducing the volatility in the tax bills are:

- Create a stabilization reserve, to be used to stabilize tax rates
- Eliminate the Property Tax Credit, or pay for it out of the General Fund rather than Education Fund
- Reduce disparity in increases in spending between districts
- Index state funding to some fair measure of spending growth
- Move to two-year budgeting
- Separate funding for capital construction from annual expenses
- Stabilize the yield at a certain spending level, shifting the volatility to higher spending districts
- Stabilize the adjustment of listed value to taxable value (CLA) if using a property tax
- If using an income tax, make it less progressive than the PIT
- Use categorical grants to offset uncontrollable costs or special programs
- Limit uses other than Education Spending from funding through the Education Fund

## 2. Volatility Between Budgeted Revenue and Collected Revenue

As state budgets are being approved, the revenue that most state taxes will raise is unknown and is estimated. In contrast, the property tax base is known and the rate is set to match the budget so there is little guesswork. Whether the Education Fund is filled as estimated depends mostly on whether or not the non-property tax revenues match the estimates.

Shifting from the current homestead Education Property Tax to an income-based tax would increase the chances that Education Fund tax revenue actually received would not match the estimates. However, an

income-based tax would not need to assume the same volatility of Vermont's PIT. Volatility could be mitigated by:

- Setting the rate annually to raise the required amount
- Basing the tax on the prior year's income so the revenue estimate would be more accurate
- Creating a stabilization reserve