

Education Finance Update

All Legislative Briefing
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Joint Fiscal Office
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JFO

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Outline

- December 1 Letter and Education Fund Update
- Act 73 Review and Update



Key Takeaways

- The December 1 Letter is the starting point for property tax education finance discussions – it is not final
 - The General Assembly will work throughout the session to set the yields and property tax rates to fully fund the Education Fund in fiscal year 2027
- Passed last legislative session, Act 73 (2025) made numerous and significant changes to Vermont's statewide education system and education funding system
 - Many pieces of the Act require ongoing work, while others are contingently effective on future work



December 1 Letter

Setting the stage for education finance discussions at the local and State levels for fiscal year 2027



December 1 Letter Was Published Monday

Vermonters projected to see nearly 12% hike in property taxes next year

Vermont Public | By **Peter Hirschfeld**
Published December 1, 2025 at 5:20 PM EST



Nearly 12% property tax increase projected for next year

By Ethan Weinstein
December 1, 2025, 3:17 pm



Vermont Faces a 12 Percent Increase in Education Taxes

 by Kevin McCallum

SEVEN DAYS

Vt. property taxes set for another double-digit hike

By **Calvin Cutler**
Published: Dec. 1, 2025 at 2:14 PM EST



Purpose and Context of December 1 Letter

- Includes 2 pieces: mandated forecast and policy commentary
 - This presentation only discusses the mandated forecast required by 32 V.S.A. § 5402b
- Helps school boards understand general tax implications of their budgets
- Forecasts **potential** tax rates, average tax bill changes, and Education Fund inputs based on statutory modeling parameters

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5402b(a)(2) Mandated Forecast

In the statutorily mandated calculation and recommendation under 32 V.S.A. § 5402b, the Commissioner must assume the following:

1. The homestead base tax rate is \$1.00 per \$100.00 of equalized education property value;
2. The applicable percentage under 32 V.S.A. § 6066(a)(2) is 2.0;
3. The statutory reserves under 16 V.S.A. § 4026 are maintained at five percent; and
4. The percentage change in the average education tax bill applied to homestead property, non-homestead property, and taxpayers who claim a property tax credit is the same.

The values in the FY27 column in the following table meet the parameters of the required calculation. Vermont property owners would see an estimated average increase of 11.9% in their education tax liabilities if these yields and non-homestead rate were adopted. Please note that this statistic is only a statewide average and there is considerable variation from town to town based on district (per-pupil) education spending levels and the relationship of town grand list value to fair market value.

	FY26	FY27
Homestead Property Yield	\$8,596	\$8,849
Income Yield	\$12,172	\$12,154
Statewide Non-homestead Property Rate	\$1.703	\$1.785

To assist school districts with tax rate modeling for their member towns, the Tax Department has once again posted preliminary Common Levels of Appraisal (CLAs) and the statewide adjustment on its website at tax.vermont.gov/ed-rates. Of note, those districts that receive a “penny discount” from the pupil re-weighting transition laid out in Act 84 of 2024 will continue to receive a reduced discount in FY27.¹¹

Average Actual Education Tax Rates

The estimated average actual statewide 2026-2027 (FY27) education tax rates would be as indicated in the table below if the yields and nonhomestead rate in this letter were enacted. Again, these are statewide averages and there will be substantial variation from town to town based on levels of appraisal and per pupil education spending (for homestead rates). The income rate impacts the credit amount for those income-eligible homesteads who will receive credit to their FY28 property tax bills based on their FY27 property taxes and 2026 household income.

	FY26	FY27
Average Actual Homestead Property Rate	\$1.56	\$1.74
Average Actual Non-homestead Property Rate	\$1.62	\$1.81
Average Income Rate	2.27%	2.43%

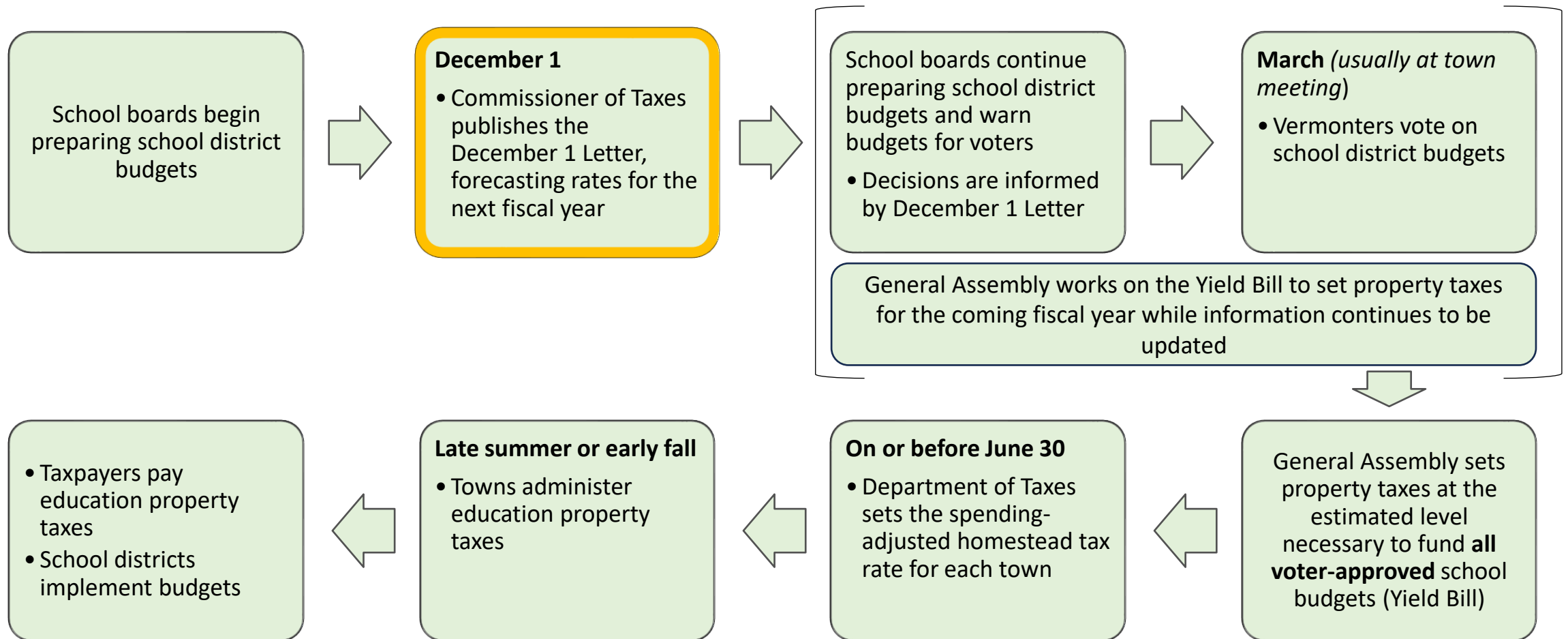


The December 1 Letter Provides Insight Into the Education Fund

- Provides first consensus estimate of the coming year's Education Fund and property tax changes
- Serves as a starting point for Education Fund deliberations
- Informs policymakers of pressures on the Education Fund and property taxes



Education Finance Timeline



What the December 1 Letter Does Tell Us

- Provides ***preliminary*** projections for growth in education expenditures, pupil counts, and the Grand List based on best estimates of budget pressures and growth
- Using these projections, provides an ***estimate*** – an average property tax bill increase of 11.9% for the coming fiscal year

Vermont property owners would see an estimated average increase of 11.9% in their education tax liabilities if these yields and non-homestead rate were adopted.

[illegible]

- Provides range of per (weighted) pupil spending of the prior fiscal year

For the current 2025-2026 school year (FY26), the range of per (weighted) pupil spending among districts that operate at least one school is \$10,846.46 to \$19,089.92.



What the December 1 Letter Does Not Tell Us

- It does ***not*** present:
 - Final property tax rates or property tax bill growth
 - Final education expenditures or appropriations
 - Final education revenues
- While it provides preliminary projections, final numbers depend on local and State decisions*



**Note: While Federal decisions also impact education funding decisions, this presentation is focused on the State level and does not explore Federal funds.*

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Inputs to the December 1 Letter

- December 1 Letter is the product of extensive consensus modeling between the Department of Taxes, the Agency of Education, and the Joint Fiscal Office
- Estimates for the Education Fund for fiscal year 2027, using many inputs including:
 - Non-property revenues
 - Education spending and appropriations
 - Grand List growth
 - Prior-year policy decisions
- The Joint Fiscal Office published a document outlining major inputs and assumptions used in this year's December 1 letter modeling



Education Fund Expenditures

- Annually, local and State decisions determine total expenditures from the Education Fund*
- Fiscal year 2027 Education Fund expenditures are forecasted at approximately \$2.6 billion
 - In fiscal year 2027, expenditures are forecasted to grow by approximately 5.4% from the prior year

Education Fund Appropriations	Fiscal Year 2027 Forecast (millions)	Percent of Total
Education Payment	\$2,105	82%
Special Education Aid	\$277	11%
State-Placed Students	\$18	1%
Transportation Aid	\$27	1%
Technical Education Aid	\$20	1%
Small School Support/Merger Support	\$2	<1%
Essential Early Education Aid	\$10	<1%
Flexible Pathways	\$11	<1%
Universal School Meals	\$18	1%
English Learners Services	\$3	<1%
VSTRS Pension Normal Cost	\$42	2%
VSTRS OPEB Normal Cost	\$28	1%
Other Uses	\$5	<1%
Total Uses	\$2,565	100%

**Note: while federal decisions also impact education funding decisions, this presentation is focused on the State level and does not explore federal funds*



Education Fund Non-property Tax Revenues

- The Education Fund is supported by two revenue categories: property tax revenues and non-property tax revenues
- Education property taxes are set each year to raise sufficient revenues to balance the Education Fund after accounting for non-property revenues
 - Generally, the higher the non-property revenues, the less that needs to be raised from property taxes
- In fiscal year 2027, non-property revenues are forecasted to grow by approximately 2.6% from the prior year

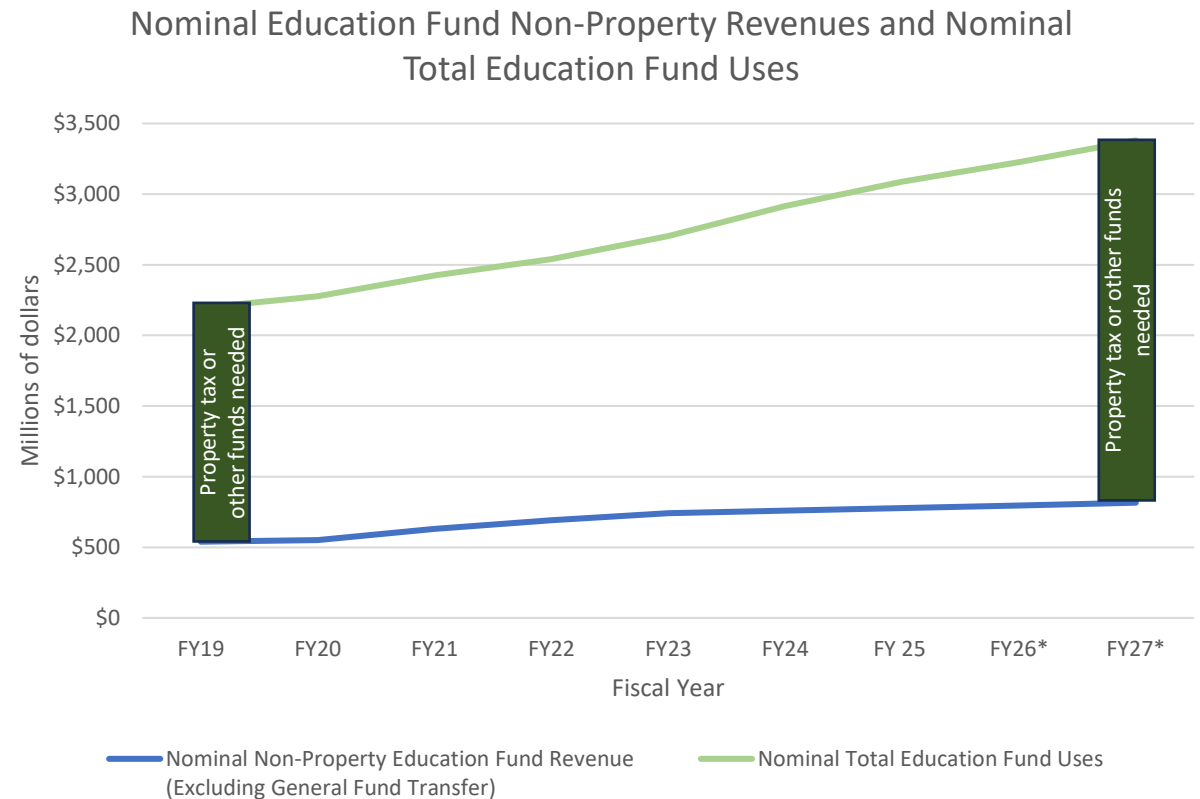
Education Fund Revenues	Fiscal Year 2027 Forecast (<i>millions</i>)	Percent of Total
Net Homestead Education Property Tax	\$ 720	28%
Nonhomestead Education Property Tax	\$ 1,013	40%
Sales and Use Tax	\$ 638	25%
Purchase and Use Tax - one-third of total	\$ 51	2%
Meals and Rooms Tax - one-quarter of total	\$ 77	3%
Lottery Transfer	\$ 35	1%
Medicaid Transfer	\$ 10	<1%
Other Sources (Wind and Solar, Fund Interest)	\$ 4	<1%
Total Sources	\$ 2,548	100%

**Note: forecasted revenues reflect the July Emergency Board's adopted forecast; revenues will be updated again at the Emergency Board in January*



Education Fund Uses Are Projected to Continue to Grow Faster than Non-property Revenue Sources

- As Education Fund uses continue to grow faster than non-property tax revenues, property taxes (or other funds) must increase to make up the difference

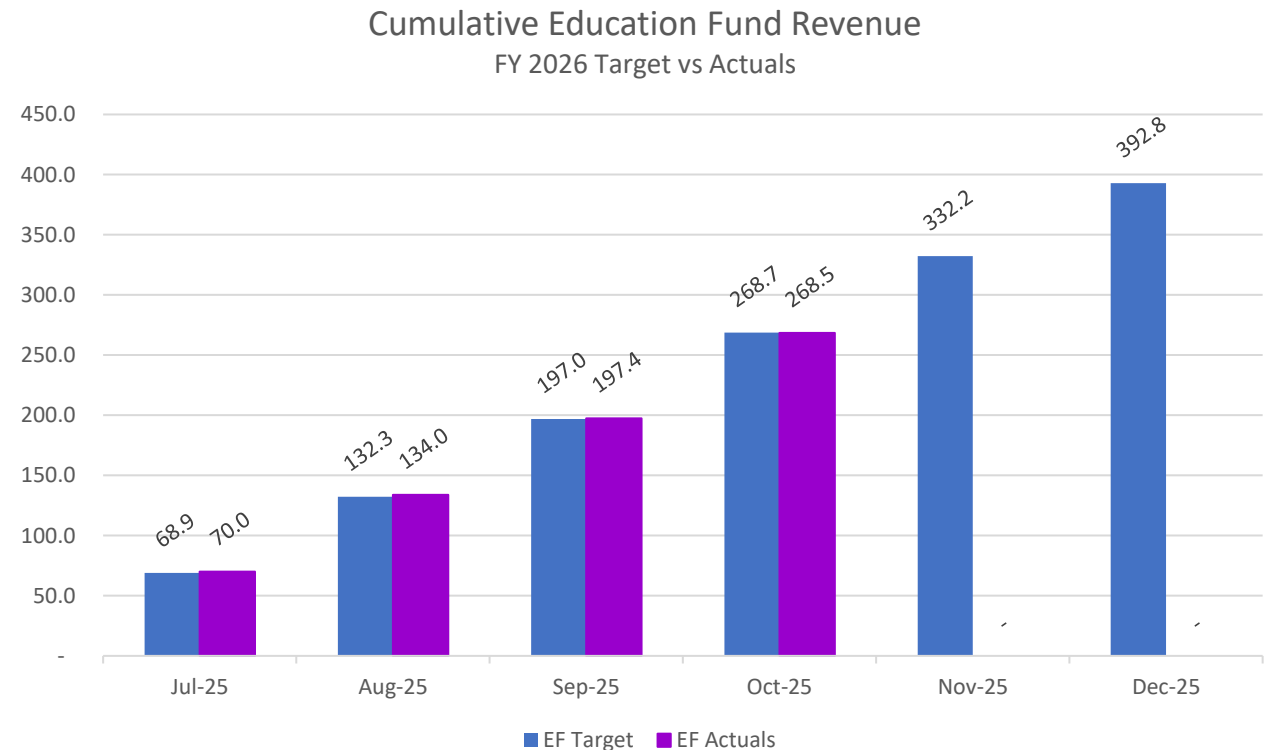


**Notes: figures have not been adjusted for inflation; fiscal year 2026 and fiscal year 2027 reflect forecasts*



Education Fund Non-property Tax Revenues: Current Performance

- As of October 2025, the Education Fund's non-property revenues are below forecast by \$0.2 million, or 0.1% for the year



Prior-year “Buy Down” of Property Taxes Puts Upward Pressure on Future Year Property Tax Changes

- In some years, including last year, the General Assembly used one-time money to “buy down” property taxes
- The more one-time money used to buy down property taxes in one year, the bigger the difference to make up the following year
- This year’s December 1 letter applies the Education Fund’s projected fiscal year 2026 surplus of \$21 million to uniformly lower tax bills in fiscal year 2027
- Last session, approximately \$118 million was used to buy down property taxes for fiscal year 2026:
 - \$77.2 million of one-time General Fund
 - \$41 million of Education Fund surplus



Why the December 1 Letter Matters

- Provides consensus estimate of the coming year's Education Fund and property tax changes
- Serves as a starting point for Education Fund deliberations
- Informs policymakers of pressures on the Education Fund and property taxes



Brief Review and Update on Act 73

Passed last session with varying effective dates and contingencies, Act 73 significantly changed Vermont's educational landscape



Brief Review of Act 73

- Act 73 made numerous and significant changes to Vermont's statewide education system and education funding system
- Major pieces of the Act included changes to education governance, education quality, and education finance
- Many pieces of the Act are contingently effective on future work, including the adoption of new school districts by the General Assembly

The following slides are intended to provide a high-level review and are not exhaustive of all that is in Act 73



Education Quality Changes in Act 73

- With varying effective dates and contingencies, the Act:
 - Implements class size minimums
 - Creates the structure of the State Aid for School Construction Program
 - Narrows criteria for independent schools that may receive tuition
 - Changes the appointing authority for two State Board of Education members
 - Appropriated funds to the Agency of Education to support education transformation and established 5 limited-service positions



Education Funding Changes in Act 73

- Contingently effective July 1, 2028:
 - Creates a foundation formula that will provide a base amount per student that is adjusted annually for inflation
 - Students and schools with additional needs will receive additional funding
 - The foundation formula replaces Vermont's existing education funding system
 - Allows for limited “supplemental district spending”
 - Districts can spend above the foundation amount if approved by local voters, and voters will know impact on tax rates when they vote
 - Changes general special education funding from a census block grant model to a weighted funding model
 - Implements transition mechanism to phase in school funding



Education Tax Changes in Act 73

- Contingently effective July 1, 2028:
 - Replaces the property tax credit with a capped homestead exemption
 - The exemption's parameters are adjusted by inflation and the exemption is forecasted to lower tax bills of Vermont households with lower household incomes
 - Establishes a new property tax classification
 - Creates Regional Assessment Districts for reappraisals across the state
 - Implements transition mechanism to phase in education tax changes



Act 73 Follow-Up Work

- Act 73 charged multiple entities with follow-up work
 - Follow-up work was required in the areas of quality, governance, and finance
- Some work will be available before the legislative session, while other work will continue in the coming years



Act 73 Follow-up Work Anticipated Before the Legislative Session

Graduation requirements:

- Recommended **standards for statewide graduation requirements** from AOE (*Section 9*)

Special education:

- Report on the “[Current State of Special Education Delivery](#)” from AOE (*Section 29*)
- **Three-year strategic plan for the delivery of special education services** in Vermont from AOE (*Section 30*)

District mergers:

- Proposals for **new consolidated district boundaries** from the School District Redistricting Task Force (*Section 3*)
- Progress report regarding **development of guidance for processes and transactions needed to facilitate mergers** from AOE (*Section 9*)

Governance:

- **Recommendations for the need of cooperative education services and oversight of therapeutic schools** within the school governance framework from AOE (*Section 9*)
- **Final findings and recommendations** from the Commission on the Future of Public Education (*Section 2*)



Act 73 Follow-up Work Anticipated Before the Legislative Session (*continued*)

Early care and Prekindergarten:

- Report on current **funding systems for early care and learning systems** from JFO (*Section 45*)

School construction:

- Recommendations for **school construction division** within AOE (*Section 9*)
- Recommendations for **addressing the transfer of any debt obligations** from current school districts to future school districts from the School Construction Advisory Board (*Section 14*)

Funding Formula:

- **Proposed standards for schools to be deemed “small by necessity” and “sparse by necessity”** from the State Board of Education (*Section 8*)
- Clear and equitable **guidelines for minimum transportation to be provided and covered by the transportation reimbursement grant** as part of education transformation from AOE (*Section 44*)
- Report analyzing **inflationary measures** appropriate to Vermont’s education funding system from JFO (*Section 45*)

Data quality:

- Proposed **implementation plan for statewide financial data and student information systems** from AOE (*Section 9*)



Act 73 Follow-up Work Anticipated During or After the Legislative Session

- Act 73 also requires follow-up work from various entities in the coming years
- Additional ongoing work on areas of educational quality, governance, and finance, including:
 - Special education
 - Statewide school calendar
 - School district voting wards
 - Recommended updates to the foundation formula
 - Homestead exemption
 - Property tax classification
 - Regional Assessment Districts



Closing

- There are parallel education finance conversations currently happening
- Following the December 1 letter, the General Assembly will work throughout the session to set the yields and property tax rates to fully fund the Education Fund in fiscal year 2027
- Act 73 made numerous and significant changes to Vermont's statewide education system and education funding system for future fiscal years



Questions?



Resources

- December 1 Letter Resources:
 - [December 1 Letter](#)
 - [December 1 Education Fund Outlook](#)
 - [December 1 Letter List of Assumptions](#)
- Act 73 Resources:
 - [Act 73 Bill Page](#)
 - [Act 73 Fiscal Note](#)
 - [Act 73 summary](#)
- [JFO Education Resources](#)

