Education Finance in Vermont

Julia Richter, Fiscal Analyst, JFO
House Committee on Ways and Means
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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

• School district spending is determined at the local level
  • School boards set budgets that must be approved by voters

• The Legislature sets education yields and property tax rates annually 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 (1997), the homestead property tax rate is a function of district per pupil spending
  • District rates are not a function of property wealth
  • Tax rates vary in proportion to per pupil spending across districts
Prior to 1997, 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 benefited 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

A town’s property wealth no longer affects its education tax rate

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

On or before December 1
- The Tax Commissioner “recommends” education tax rates for the next fiscal year¹

School Boards and towns prepare school district budgets

March (usually during town meeting)
- Voters approve school district budgets

Legislature sets state level base education property tax yield, nonhomestead property tax rate, and income yield at the estimated level necessary to fund all voter-approved school budgets

Late summer or early fall
- Towns administer education property tax

On or before June 30
- Tax department sets spending-adjusted homestead tax rate for each town

Year-round
- School districts receive education payments from the state based on their voter-approved budget on September 10, December 10, and April 30, with 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

• Each school district builds an annual budget
  • Budget requires local voters’ approval
• In general, budgets have two primary parts: offsetting revenues and education spending

<table>
<thead>
<tr>
<th>Local School Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Offsetting Revenues</strong></td>
</tr>
<tr>
<td>• State and federal categorical aid</td>
</tr>
<tr>
<td>• Tuition revenues (to the school district)</td>
</tr>
<tr>
<td>• Prior year surpluses or deficits (of the school district)</td>
</tr>
<tr>
<td>• Reserve funds (of the school district)</td>
</tr>
</tbody>
</table>
Education Expenditures – State 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

<table>
<thead>
<tr>
<th>Education Fund Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Education Payment</strong></td>
</tr>
<tr>
<td>• Aggregated amount of all school districts’ education spending</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>
Expenditures in Education Fund Outlook

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:
  - Property tax sources
  - Non-property tax sources

Note: Homestead Education Property Tax includes the cost of the property tax credit
Data Source: Education Fund Outlook for FY 2023
## Revenues in Education Fund Outlook

<table>
<thead>
<tr>
<th>Source</th>
<th>FY2022 Actual</th>
<th>FY2023 Projected</th>
<th>FY2024 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>1a. Homestead Education Property Tax</td>
<td>$44.7</td>
<td>$65.0</td>
<td>$65.7</td>
</tr>
<tr>
<td>1b. Property Tax Credit</td>
<td>(17.3)</td>
<td>(16.4)</td>
<td>(15.1)</td>
</tr>
<tr>
<td>2. Non-Homestead Education Property Tax</td>
<td>752.3</td>
<td>727.1</td>
<td>789.9</td>
</tr>
<tr>
<td>3. Sales &amp; Use Tax</td>
<td>545.2</td>
<td>563.2</td>
<td>567.6</td>
</tr>
<tr>
<td>4. Purchase &amp; Use Tax &amp; in-kind gifts</td>
<td>45.7</td>
<td>47.1</td>
<td>48.1</td>
</tr>
<tr>
<td>5. Meals &amp; Parents Tax</td>
<td>54.2</td>
<td>57.1</td>
<td>58.8</td>
</tr>
<tr>
<td>7. Lottery Transfer</td>
<td>35.9</td>
<td>35.0</td>
<td>35.7</td>
</tr>
<tr>
<td>9. Other Sources (Wind &amp; Solar, Fund Interest)</td>
<td>1.3</td>
<td>2.5</td>
<td>3.0</td>
</tr>
<tr>
<td><strong>Total Sources</strong></td>
<td>$1,397.3</td>
<td>$1,350.5</td>
<td>$1,316.1</td>
</tr>
</tbody>
</table>

### Source Breakdown

- **Homestead Education Property Tax**: $44.7, $65.0, $65.7
- **Property Tax Credit**: (17.3), (16.4), (15.1)
- **Non-Homestead Education Property Tax**: 752.3, 727.1, 789.9
- **Sales & Use Tax**: 545.2, 563.2, 567.6
- **Purchase & Use Tax & in-kind gifts**: 45.7, 47.1, 48.1
- **Meals & Parents Tax**: 54.2, 57.1, 58.8
- **Lottery Transfer**: 35.9, 35.0, 35.7
- **Other Sources (Wind & Solar, Fund Interest)**: 1.3, 2.5, 3.0

### Total Sources

- 2022: $1,397.3
- 2023: $1,350.5
- 2024: $1,316.1

### Additional Sources

- **Homework Income (NH02)**
- **Advance Budgeting (NH04)**
- **Business Expenditures (NH05)**
- **Other Legislative Appropriations (NH06)**

### Sources

1. **Homestead Education Property Tax**
2. **Property Tax Credit**
3. **Non-Homestead Education Property Tax**
4. **Sales & Use Tax**
5. **Purchase & Use Tax & in-kind gifts**
6. **Meals & Parents Tax**
7. **Lottery Transfer**
8. **Other Sources (Wind & Solar, Fund Interest)**
9. **Total Sources**

### Total Sources

- 2022: $1,397.3
- 2023: $1,350.5
- 2024: $1,316.1
Property Taxes

• Education tax rates are set to keep the EF balanced
  • Amount to raise statewide 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 as defined in statute (32 V.S.A. § 5401):
  • "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 doesn’t qualify as a homestead or isn’t exempt\textsuperscript{1}

• The equalized nonhomestead property tax rate is uniform across towns

• The rate is set in statute, but the statute is annually notwithststanden by the Legislature\textsuperscript{2}
  • 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 tax rate is $1.00 for homestead property
  - The tax rate effectively creates a floor on per pupil education spending
- After voters approve the school budget, the 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

\[
\text{Spending adjusted equalized property tax rate} = \$1.00 \times \frac{\text{ed. spending per eq. pupils}}{\text{property yield}}
\]
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 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 ≤ $11,317 per equalized pupil had an equalized tax rate of $1.00.
  - Districts that spent > $11,317 per equalized pupil had an 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.

\[
\$1.50 = \$1.00 \times \frac{\$16,975}{\$11,317}
\]
The homestead tax property tax has 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 the following year’s tax bills

The credit is limited by the taxpayers’ income

<table>
<thead>
<tr>
<th>Household income</th>
<th>Property tax credit parameters*</th>
</tr>
</thead>
</table>
| Less than or equal to $47,000 | • 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 |
Property Tax Credit: 
*Interpreting the “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 up to $13,770 per equalized pupil had an equalized tax rate on income of 2%
  - Districts that spent more than $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%

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

<table>
<thead>
<tr>
<th>Household Income</th>
<th>Tax Cap as % of Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $9,999</td>
<td>0.5%</td>
</tr>
<tr>
<td>$10,000 – $24,999</td>
<td>1.5%</td>
</tr>
<tr>
<td>$25,000 - $47,000</td>
<td>2.0%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Household Income</th>
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</thead>
<tbody>
<tr>
<td>Less than $9,999</td>
<td>1.0%</td>
</tr>
<tr>
<td>$10,000 – $47,000</td>
<td>3.0%</td>
</tr>
</tbody>
</table>
# Review of Calculating Property Tax Credits

<table>
<thead>
<tr>
<th>Household income</th>
<th>Housesite (HS) value</th>
<th>Calculation of amount that would be paid under income</th>
<th>Calculation of the property tax credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>≤ $47,000</td>
<td>&lt; $400,000</td>
<td><em>income</em> <em>income rate</em></td>
<td>…The lesser of:</td>
</tr>
<tr>
<td></td>
<td>≥ $400,000</td>
<td><em>(income * income rate) + ((\frac{HS\ value-400,000}{100})\ * HS\ rate)</em></td>
<td>• The amount that would be paid based on income OR • The statewide education tax rate multiplied by the equalized value of the housesite, reduced by $15,000, in the taxable year</td>
</tr>
<tr>
<td>$47,001 - $90,000</td>
<td>&lt; $400,000</td>
<td><em>income</em> <em>income rate</em></td>
<td>…The amount that would be paid based on income</td>
</tr>
<tr>
<td></td>
<td>≥ $400,000</td>
<td><em>(income * income rate) + ((\frac{HS\ value-400,000}{100})\ * HS\ rate)</em></td>
<td></td>
</tr>
<tr>
<td>≥ $90,000</td>
<td>&lt; $225,000</td>
<td><em>income</em> <em>income rate</em></td>
<td>…The amount that would be paid based on income</td>
</tr>
<tr>
<td></td>
<td>≥ $225,000</td>
<td><em>(income * income rate) + ((\frac{HS\ value-225,000}{100})\ * HS\ rate)</em></td>
<td></td>
</tr>
<tr>
<td>&gt;$134,800*</td>
<td></td>
<td></td>
<td>Households above this income will never qualify for a property tax credit, and will always pay solely based on property value</td>
</tr>
</tbody>
</table>

*Note: This amount is not set in statute, but is determined as a mathematical exercise after the yields have been set*
Resources

Legislative Joint Fiscal Office – Education Finance

https://ljfo.vermont.gov/subjects/education

Agency of Education – Data & Reporting


Department of Taxes – Property Owners

https://tax.vermont.gov/property-owners