

# Vermont's Education Funding System and School Construction Costs Under Current Law

School Construction Aid Task Force

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# Outline

- Overview of Vermont's Education Fund
- Education Expenditures (incl. school construction)
- Education Funding
- School Construction Costs and Impacts on Tax Rates



# Overview of Vermont's Education Fund

- Vermont's education finance system is a statewide fund that includes local spending decisions and local tax administration
- Education expenditure decisions are made at both the local level and the state level
- Property tax rates are set to ensure all education expenditures are fully funded
  - Of note, the amount of revenue raised is driven by total education expenses – not the other way around



# Overview of Vermont's Education Fund (cont.)

- Under current law, with an increase in construction costs, **all** statewide property tax rates must increase<sup>1</sup>
  - Nonhomestead property tax rates uniformly increase across the state
  - Homestead property tax rates increase across the state, but increases are **not** uniform
    - School districts with the increased construction costs see the most significant homestead property tax rate increases
- Vermont's education funding system is unique, making comparisons with other states' funding mechanisms challenging

Note:



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# Education Expenditures



# Education Expenditures – Local Level

- Each school district builds an annual budget which requires local voters' approval
- From a high-level perspective, budgets have two primary parts: offsetting revenues and education spending

Local School Budget	
<h3>Offsetting Revenues</h3> <ul style="list-style-type: none"><li>• State and federal categorical aid</li><li>• Tuition revenues (to the school district)</li><li>• Prior year surpluses or deficits (of the school district)</li><li>• Reserve funds (of the school district)</li></ul>	<h3>Education Spending</h3> <ul style="list-style-type: none"><li>• All funds a school district decides to spend, net of the offsetting revenues it receives</li><li>• <i>This includes school district construction costs - both cash outlays and debt service payments</i></li></ul>



# Education Expenditures – State Level

- Education Fund expenditures are statewide aggregated costs of public education
- In general, there are two buckets of EF expenditures: statewide education payment and all other expenditures

## Education Fund Expenditures

### Education Payment

- Aggregated amount of all school districts' **education spending**
- *This includes school district construction costs - both cash outlays and debt service payments*

### All Other Expenditures

- Categorical aid (Special Education, transportation aid, etc.)
- One-time appropriations
- Other operating and administrative costs at the State level



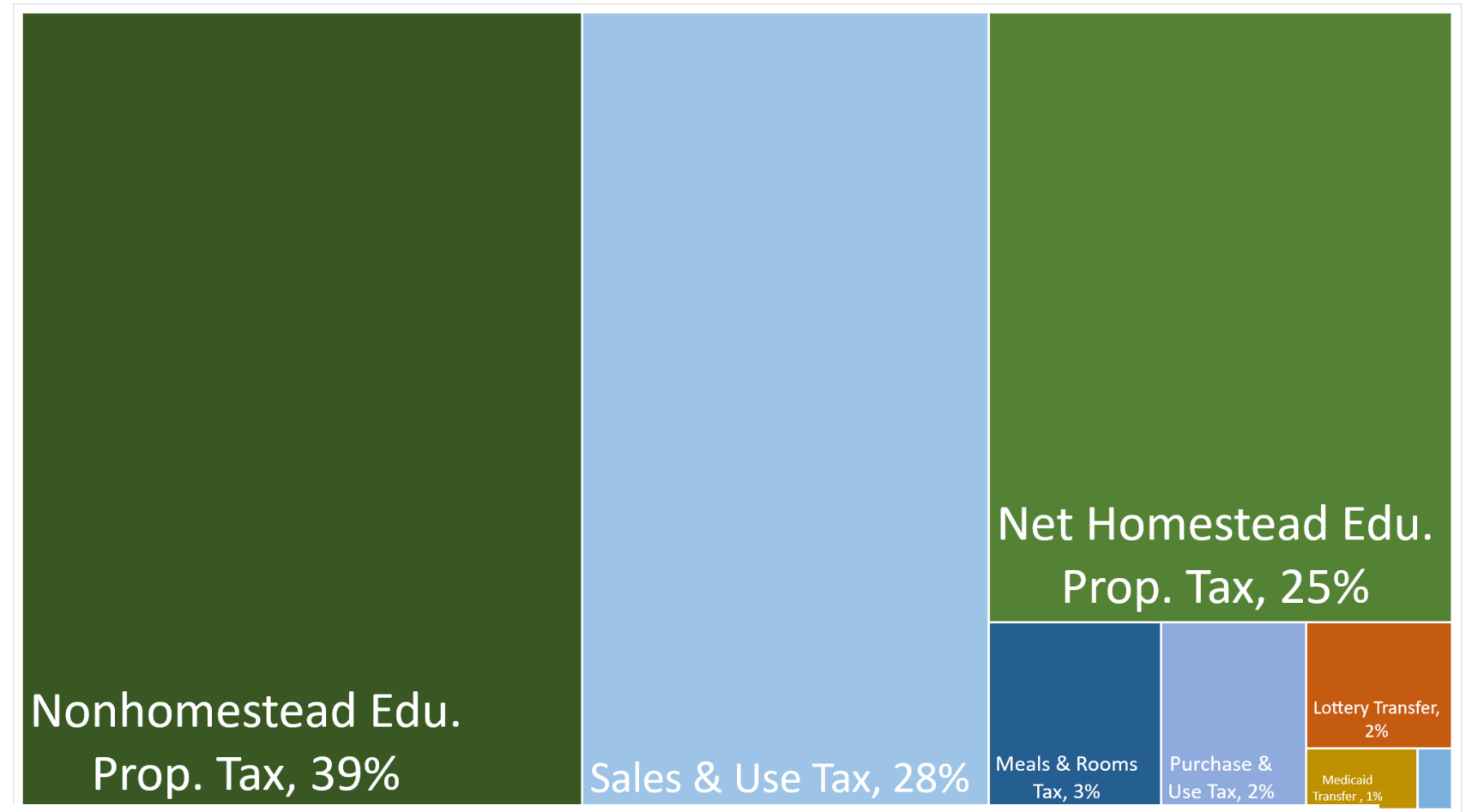
# Education Funding





# Education Fund Sources (2022)

- Vermont pays for education through the Education Fund
- 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](#)



# Nonhomestead Property Tax

- Tax on all taxable real property that doesn't qualify as a homestead or isn't exempt<sup>1</sup>
- The equalized nonhomestead property tax rate is uniform across towns<sup>2</sup>

*Notes:*



# Homestead Property Tax

- Tax on all taxable real property that qualifies as a homestead<sup>1</sup>
- The homestead property tax rate in each town is dependent on its **locally-approved education spending per pupil**
  - This includes the rate for the corresponding income-based property tax credit

*Note:*



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# Adjusting the Homestead Property Tax to Account for Per Pupil Spending

- By statute, the equalized tax rate is at least \$1.00/\$100 of homestead property value
- After voters approve the school budget, the homestead property tax rate is adjusted by education spending per equalized pupil
- Ultimately, the homestead property tax rate depends on 3 factors
  - District's education spending – locally driven
  - District's equalized pupils – locally driven
  - Statewide property yield – impacted by statewide decisions

$$\text{District's homestead property tax rate} = \$1.00 \times \frac{\left( \frac{\text{District's Education Spending}}{\text{District's Equalized Pupils}} \right)}{\text{Statewide Property Yield}}$$



# School Construction Costs and Impacts on Tax Rates



# Impact of an Increase in School Construction Costs on Statewide Property Tax Rates (*under current law*)

- Increasing district construction costs increases total education expenditures and therefore the amount that needs to be raised statewide
- To raise more funds, **all** statewide property tax rates must increase<sup>1</sup>
  - Nonhomestead property tax rates uniformly increase across the state
  - Homestead property tax rates increase across the state, but increases are **not** uniform
    - School districts with the increased construction costs see the most significant homestead property tax rate increases

*Note:*



# Impact of Construction Costs on Local Homestead Property Tax Rates in all Districts (*under current law*)

Increase in construction costs or debt service payments in another district

- Increasing district construction costs increases total statewide education expenditures

Decrease in statewide property yield

- To raise more funds, the statewide property yield must be lowered

Increase in all property tax rates

- A decrease in statewide yield increases the homestead property tax rate in all school districts

Recall:

$$\text{District's Property Tax Rate} = \frac{\text{District's Education Spending}}{\text{District's Equalized Pupils}}$$



# Impact of Construction Costs on Local Homestead Property Tax Rates in the District with the Project *(under current law)*

Increase in district's construction costs or debt service payments

- Increasing district construction costs *increases* the district's education spending

Increase in the district's education spending per equalized pupil

Increase in locally adjusted homestead property tax

- The school district's local homestead property tax rate increases to account for the increase in the district's education spending
- This increase is in addition to the increase created from the change in the statewide property yield

Recall:

$$\text{District's Local Homestead Property Tax Rate} = \frac{\text{District's Education Spending per Equalized Pupil} + \text{Statewide Property Yield}}{\text{District's Equalized Pupils}}$$





# Considerations



# Considerations

- There are two ways school construction costs could fit into the Education Fund as it is currently structured
  - Costs included in local budget (as under current law)
    - Costs have the greatest direct impact on the homestead property tax rate in the school district
  - Costs paid by the Education Fund as direct categorical aid
    - Costs are borne directly by all property taxpayers in the State
- Act 127 (2022) caps homestead property tax rate increases to a maximum of 5% over the next 5 years
- Vermont's education funding system is unique, making comparisons with other states' funding mechanisms challenging



# Questions?



# Additional Resources

- Introduction to Education Finance in Vermont
  - [https://ljfo.vermont.gov/assets/Subjects/2023-Session-Documents/f8ce800b5a/GENERAL-364387-v1-Ed\\_Finance\\_101\\_W+Ms.pdf](https://ljfo.vermont.gov/assets/Subjects/2023-Session-Documents/f8ce800b5a/GENERAL-364387-v1-Ed_Finance_101_W+Ms.pdf)
- Joint Fiscal Office Education Finance Resources
  - <https://ljfo.vermont.gov/subjects/education>
- 2008 Report on State Aid for School Construction
  - <https://ljfo.vermont.gov/assets/docs/reports/f12c1e69fc/2008-01-State-Aid-for-School-Construction.pdf>

