Financing Education In Vermont

Until 1997, financing public education in Vermont was primarily the responsibility of each town, making use of its local property tax base. The state's role was to provide financial assistance to communities that had difficulty raising adequate funding on their own.

In 1997, the Vermont Supreme Court declared the existing state aid plan to be unconstitutional (*Brigham v. State*). In response, the Vermont General Assembly adopted a new system that ended the practice of general state-aid payments to local schools districts. Act 60 of 1997 (subsequently amended by Act 68 of 2003) vested the state with sole responsibility for funding education, instituted a new state property tax system, and created the Education Fund. All tax revenue to support public education in Vermont, except for some federal funds, is raised through state taxes. (State aid continues for special education, transportation, construction, and certain small schools)

The Education Fund

Homestead and non-residential school taxes cover about two-thirds of the cost of education in Vermont. Other taxes, net lottery proceeds, and an annual transfer from the state's General Fund make up the rest of the revenue going into the Education Fund.

Revenue by source:

- A transfer payment from the state General Fund (set by a statutory formula, increasing slightly each year): $282.3 million
- Non-residential property tax, levied on businesses, second homes, camps, and undeveloped land: $532.8 million. (The tax rate is set by the legislature—$1.38 per $100 of equalized value in 2013—and applies uniformly throughout the state.)
- Homestead school tax levied on a taxpayer's homestead property or household income: $389.4 million. (Tax rates vary from town to town with spending per equalized pupil, as explained below.)
- Revenue from one-third of the state's 6 percent sales and use tax: $117.6 million
- Revenue from one-third of the 6 percent motor vehicle purchase and use tax: $29.2 million
- Net proceeds of the Vermont lottery: $21.8 million.
- Total projected receipts for fiscal 2013: $1.38 billion.

Determining the Homestead School Property Tax Rate

The homestead school tax, levied on every primary residence and its contiguous land, is the only school revenue source that local voters can control. The property values are those on the equalized grand list prepared by the Vermont Tax Department's Property Valuation and Review Division, which adjusts local property values reported by town and city listers to reflect current fair market value. Local voters approve their local school budget.

The local homestead school tax rate is based on the district's spending per equalized pupil. Equalized
pupils are the number of pupils in a district's two-year Average Daily Membership (ADM), weighted by grade level: 0.46 for pre-K, 1.0 for grades K-6, and 1.13 for grades 7-12.

The weighted ADM numbers are then “normalized” so that for the entire state the number of equalized pupils equals the actual number of pupils in ADM. The effect is that districts with a greater proportion of high school students will appear to have more equalized pupils than the same size district with a greater proportion of grade school students.

Each year the legislature specifies a Base Education Spending Amount per equalized pupil ($8,723 in fiscal 2013). If a district happens to spend exactly that amount (or less), then the homestead property tax rate within that district will be the statutory minimum (89 cents per $100 of equalized value in fiscal 2013). However, all but four school districts spend more than this amount.

If voters vote to spend more than the Base Education Spending Amount, their homestead property tax rate increases proportionally. If a district votes to spend 10 percent more per equalized pupil than the base amount—$9,595 in fiscal 2013 instead of $8,723—its homestead tax rate will be 10 percent higher than the statutory minimum—97.9 cents per $100 equalized value in fiscal 2013 instead of 89 cents.

Example: The Aiken school district has 1000 equalized pupils. Its voters vote to spend $9,595,000 for the fiscal 2013 school year. This is $9,595 per equalized pupil.

This amount is 10 percent over the Base Education Spending Amount of $8,723 per equalized pupil. So the homestead property taxpayers of Aiken will pay at a rate 10 percent above the statutory rate, or 110 percent x 89 cents = 97.9 cents per $100 of fair market value of their property on their equalized grand list.

If a school district votes to spend more than 125 percent of the Base Education Spending Amount, the excess spending over that 125 percent amount is double counted in the formula to further increase the homestead tax rate in the district.

Income Sensitivity

Act 60 also introduced a mechanism to address a common criticism of the property tax: that it is not based on ability to pay. The mechanism, known as income sensitivity, allows qualified resident taxpayers to pay the school taxes on their primary residence based on their household income instead of their home’s property valuation.

If a taxpayer’s total household income is less than $90,000, the taxpayer may pay an income-based school tax rather than property taxes on the primary residence and up to two acres of land, which is the housesite. Currently, the base income tax rate is 1.80 percent of household income. However, as with the homestead property tax rate, the rate increases if local voters choose to spend more per pupil than the Base Education Spending Amount. In 2010, the Legislature voted to require households with incomes of less than $90,000 and a housesite valued at more than $500,000 to pay property taxes on the amount of the housesite value above $500,000 in addition to the school tax based on their income.
Using the example above, Aiken voters chose to spend 10 percent more per pupil than the base amount, so the income tax rate would be 110 percent x 1.80 percent, or 1.98 percent. Therefore, an Aiken resident with household income of $60,000 would pay 1.98 percent x $60,000 = $1,188. That would be the education tax on the housesite. If the taxpayer owned more than two acres of land beyond the housesite, the tax bill would include education property tax on the remaining acreage at the homestead property tax rate, which for Aiken, as calculated above, would be 97.9 cents per $100 of equalized value.

Taxpayers with household incomes of $90,000 or more can pay school taxes based on income, too. However, the taxpayer must also pay property taxes on the housesite value above $200,000 as well as any acreage beyond two acres.

In 2012, about 65 percent of Vermont resident homeowners paid school taxes based on income. They paid about $150 million less in school taxes than they would have if they had paid solely on the value of their property.

There is much more fine print in the education finance statutes (32 VSA Chapter 135), but this is the basic explanation: The more school district voters vote to spend per equalized pupil, the higher the homestead school tax rates for both property and income in their town.

**Other K-12 Education Spending**

Special education for children with disabilities is financed by state and federal funds. The Education Fund pays each district a percentage of the additional costs for special services. The money for these payments comes from a specific state appropriation and is distributed by a formula. Federal funds are distributed by a separate formula.

The Education Fund also makes payments to the school districts for a fraction of school capital construction costs. The fraction is generally 30 percent of the annual amortization payments.

**The "Two Vote" Provision**

The controversial Act 82 of 2007 provided that for certain high spending school districts, voters will face two school budget questions. The first vote is to approve a budget authorizing spending of the district's previous year spending per equalized pupil, increased by a state-set inflation factor. The second vote is to approve any proposed excess over that amount. This provision took effect for the first time in 2009. Only one town (Rockingham) voted in 2009 to approve the basic budget and reject the excess portion. The provision sunsets with the 2013-2014 school year.

**Conclusion**

Anyone who has read this far will appreciate that education finance is complex and difficult for anyone but an expert to comprehend. This capsule summary necessarily omits numerous details that may become important in their effects on a given school district and taxpayer.

Five salient facts to bear in mind:

- The historic idea of “state aid to local school districts” has been obsolete since 1997, other than for capital construction, transportation, special education, and small-school aid programs.
• The Education Fund pays whatever dollar amount each district's voters approve.
• The more a district's voters vote to spend per equalized pupil, the higher will be the district's homestead school tax rate.
• The homestead school tax rate determined by local spending decisions raises different amounts of money from different towns even when spending per pupil is the same because each town’s tax base is different. The money thus raised is pooled in the Education Fund, in compliance with the Brigham decision and Act 60, and distributed to school districts to cover their voted budgets.
• Thus the funds spent on public education in a school district are only indirectly related to the amount of homestead school taxes collected within the district.