

Vermont's Education Finance System

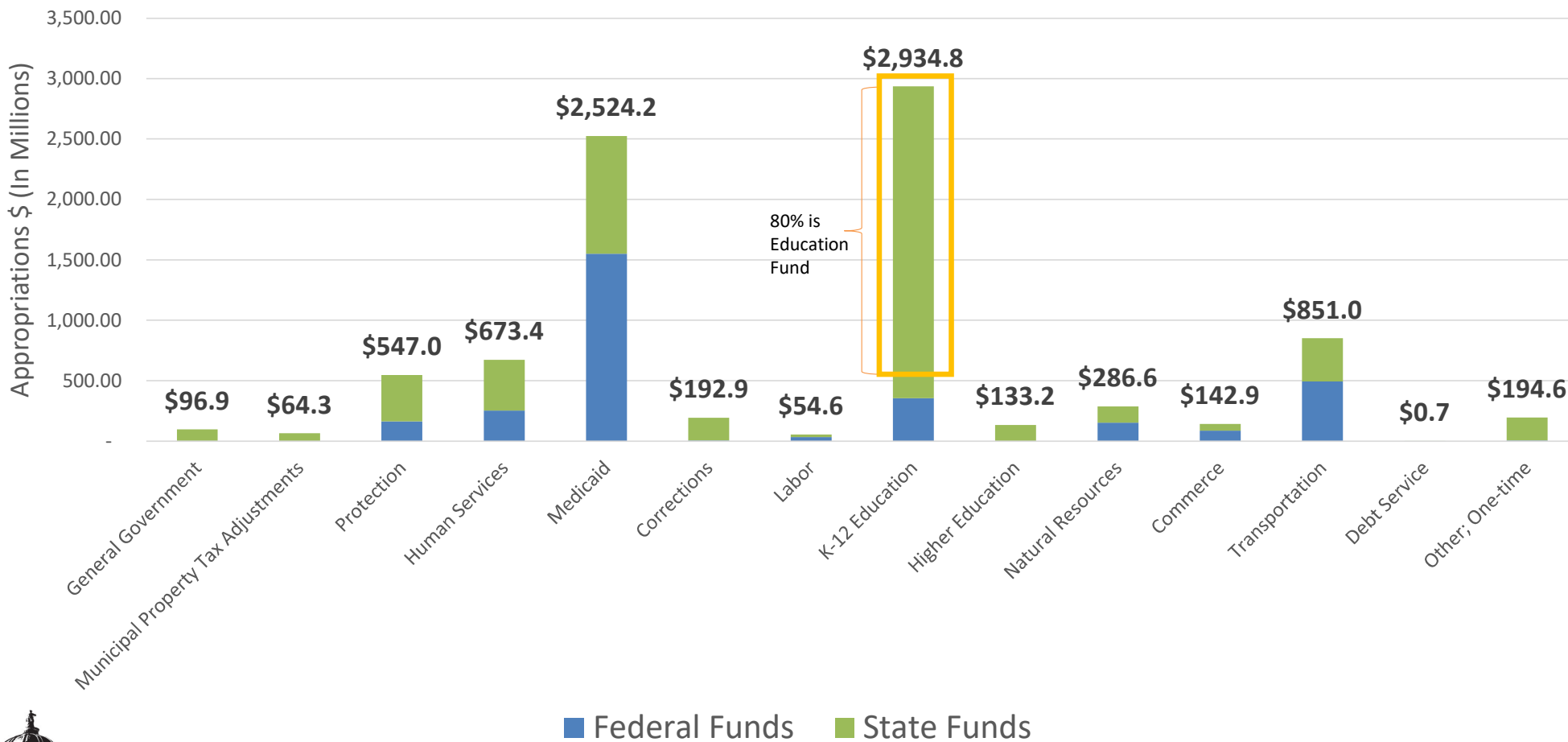
All Legislator Briefing
Julia Richter, Senior Fiscal Analyst
Joint Fiscal Office
December 4, 2024



JFO

1 Baldwin Street • Montpelier, VT 05633-5701 • (802) 828-2295 • <https://jfo.vermont.gov>

Fiscal Year 2025 Appropriations by Area of Government – \$8.7 Billion (Unduplicated)



Key Takeaways

- The December 1 Letter is the starting point for property tax and education finance discussions – it is in no way final
- Education Fund revenues and expenditures are interconnected
 - The Education Fund is a statewide fund; all spending decisions affect the entire system
- The General Assembly works throughout the session to set the yields and property tax rates to fully fund the Education Fund



A Few Notes

- This presentation does not cover federal funding
- This presentation provides a high-level look at education finance in Vermont
 - Please refer to the resources at the end of this presentation for a more comprehensive overview
- The Joint Fiscal Office is **nonpartisan** – this presentation provides neither policy recommendations nor evaluations



December 1 Letter

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



In eagerly anticipated ‘Dec. 1 letter’ Vermont’s tax department projects 5.9% property tax increase next year

Addressing the surging cost of education is expected to be the top topic when the Legislature convenes in January.

By Ethan Weinstein
December 2, 2024, 2:58 pm



Property Taxes Could Rise Another 5.9 Percent Next Year

The estimated increase, released by the Vermont tax commissioner, comes a year after property taxes for education spending rose by an average of 13.8 percent.

By KEVIN MCCALLUM

Published December 2, 2024 at 4:07 p.m.



New analysis predicts 5.9% hike in property taxes next year

Vermont Public | By Peter Hirschfeld
Published December 2, 2024 at 7:22 PM EST

Tax Department projects Vermonters to face 5.9% property tax increase

Last year's letter projected an 18.5% increase before the legislative session when it was brought down to 13.8%.




Updated: 4:24 PM EST Dec 2, 2024



Purpose and Context

- Helps school boards understand the general tax implications of their budgets
- Forecasts **potential** tax rates, average tax bill changes, and Education Fund parameters based on statutory modeling parameters



State of Vermont
Department of Taxes
131 State Street
Montpelier, VT 05633-1401
December 2, 2024

Rep. Krowinski, Speaker of the House
Sen. Baruth, President Pro Tempore
Vermont State House
115 State Street
Montpelier, VT 05633-0004

Agency of Administration

Dear Speaker Krowinski and President Pro Tempore Baruth:

The Commissioner of the Vermont Department of Taxes, after consultation with the Agency of Education, the Secretary of Administration, and the Joint Fiscal Office, is required by 32 V.S.A. § 5402b to calculate and forecast a property dollar equivalent yield, an income dollar equivalent yield, and a non-homestead tax rate by December 1. This letter fulfills that statutory obligation.


Key Considerations from the Administration's Point of View

Property taxes have been increasing at an unsustainable and unprecedented pace, even as new revenues have been added to the Education Fund, including a short-term rental tax and expansion of sales tax last year, and one-time money from both the Education Fund and General Fund have been used to buy down rates. Despite all of these additional revenue sources, Vermonters still faced a nearly 14% increase in the statewide average property tax bill this year. If the rates projected in this letter go into effect, Vermonters will have seen a 33% increase in education property taxes between FY23 and FY26.

This year, the projected 5.9% average property tax bill increase is comprised of a projected increase in education spending of nearly \$115 million, as well as pressure from the \$69 million of one-time money used last year. Helping to offset a portion of that pressure is about \$33 million projected to be available in the Education Fund as unreserved/unallocated revenue from FY25.

It is important to acknowledge the work school districts are doing to be thoughtful in budgeting knowing members of their communities are already struggling to pay their taxes (and other increasing costs of living). Therefore, it is paramount we pursue changes to reduce property taxes and restore long-term sustainability.

I encourage readers to review the recent [Agency of Education report](#) on Vermont's Education Funding system, and how it compares to other states. It outlines important considerations for the future.

www.tax.vermont.gov 

December 1, 2024
Page 2 of 3

The Administration believes achieving sustainability and reducing property taxes will require a strategy that focuses on how much we spend, and how we fund and deliver education services. The strategy will need to ensure high levels of accountability, transparency, and fairness for taxpayers and students across Vermont. The Administration will propose a framework for discussion during the legislative session that builds upon prior proposals and recent statewide discussions around the best path forward for Vermont in the short- and long-term. Modernizing our education funding system is complex and will take a multi-phased approach that will be challenging, but will be worth it when we achieve a world class educational system that taxpayers can afford.

The Administration and the Legislature will need to work together to further reduce the burden of next year's projected increase on Vermonters who are still grappling with how to pay for this year's increases in taxes.

§402b(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.

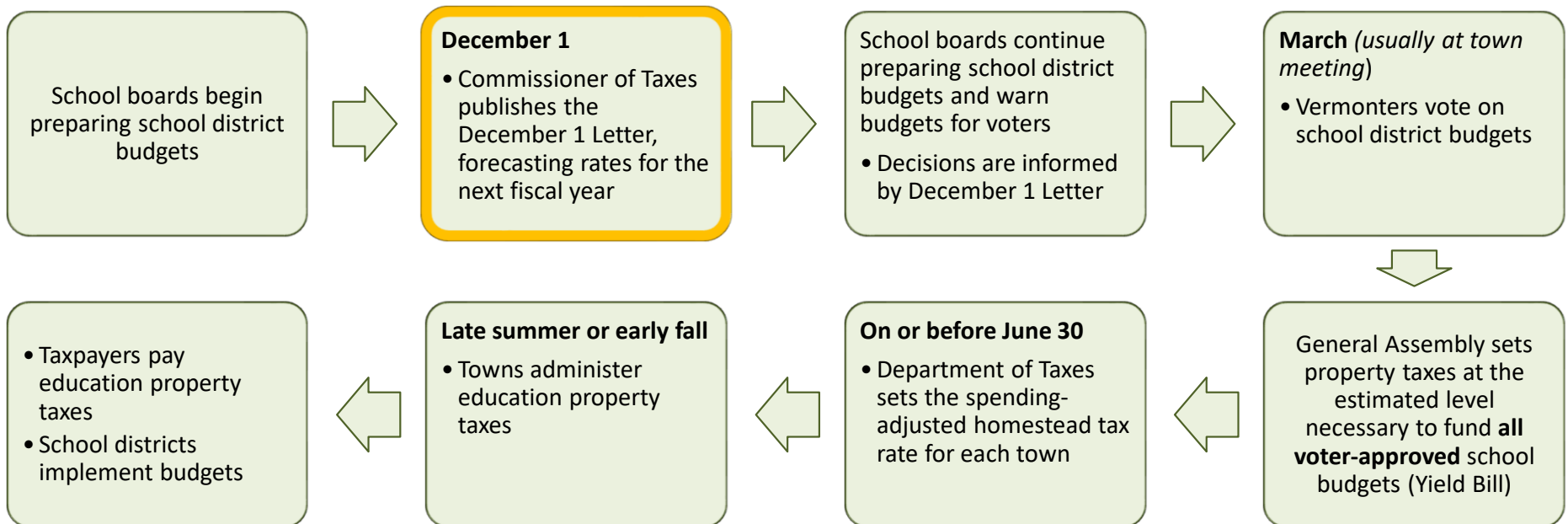
The values in the FY26 column in the following table meet the parameters of the required calculation. Vermont property owners would see an average increase of 5.9% in their education tax liabilities if these yields and non-homestead rate were adopted.

	FY25 (for reference)	FY26
Homestead Property Yield	\$9,893	\$8,553
Income Yield	\$10,110	\$12,240
Statewide Non-homestead Property Rate	\$1,391	\$1,791

Please note that the FY26 homestead property yield amount and statewide non-homestead rate shown in the table above reflect the new "statewide adjustment" calculation prescribed by Sec. 15 of Act 183 of 2024. Because of that, the homestead property yield and non-homestead rate forecast for FY26 are not directly comparable to the FY25 amounts. The new statewide adjustment component will not impact how much taxpayers owe in FY26 or how much property tax revenue the state will collect. More information about the statewide adjustment, along with preliminary estimates of FY26 statewide adjustment factors for all towns is available here: <https://tax.vermont.gov/statewide-adjustment>



Education Finance Timeline



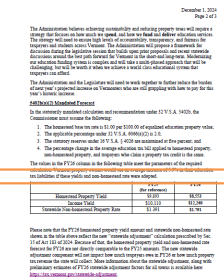
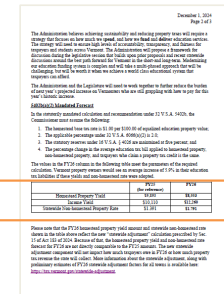
What the December 1 Letter Tells Us

- Provides preliminary projections for growth in education expenditures, pupil counts, and the grand list

	FY25 (for comparison)	FY26	Rate of Growth
Total Education Spending (\$Millions)	\$1,880.6	\$1,995.2	6.1%
Long Term Weighted Average Daily Membership (LTWADM)	142,810	141,596	-0.85%
Average Per Pupil Spending	\$13,169	\$14,091	7.0%

- Based on these projections, provides an estimate of property tax rates and average bill growth for the coming fiscal year

Vermont property owners would see an average increase of 5.9% in their education tax liabilities if these yields and non-homestead rate were adopted.



What the December 1 Letter Doesn't Tell Us

- It does not present final data for the coming fiscal year
- 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



Vermont's Unique Education Finance System



Vermont's Education Finance System Couples Local and State Decisions

- Expenditures are determined at the local and State level
- Property tax rates are then set to fully fund those expenditures
- All education property taxes are dedicated to the **statewide** Education Fund

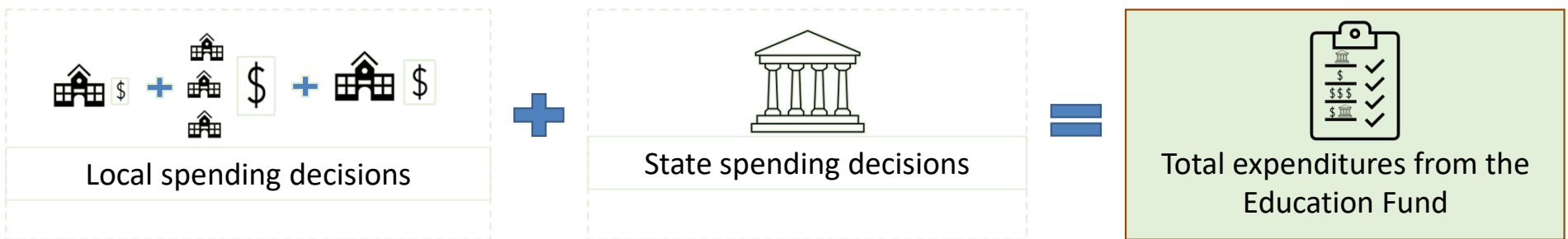


Education Expenditures



The Education Fund is the Total Cost of Public Education in Vermont

- Annually, local and State decisions determine total expenditures from the Education Fund
 - Local decisions:
 - School districts build budgets that must be approved by voters
 - State decisions:
 - Certain appropriations and categorical aid
 - Policies that impact local budgets



Fiscal Year 2026 Education Fund Expenditures are Forecasted at Approximately \$2.4 Billion

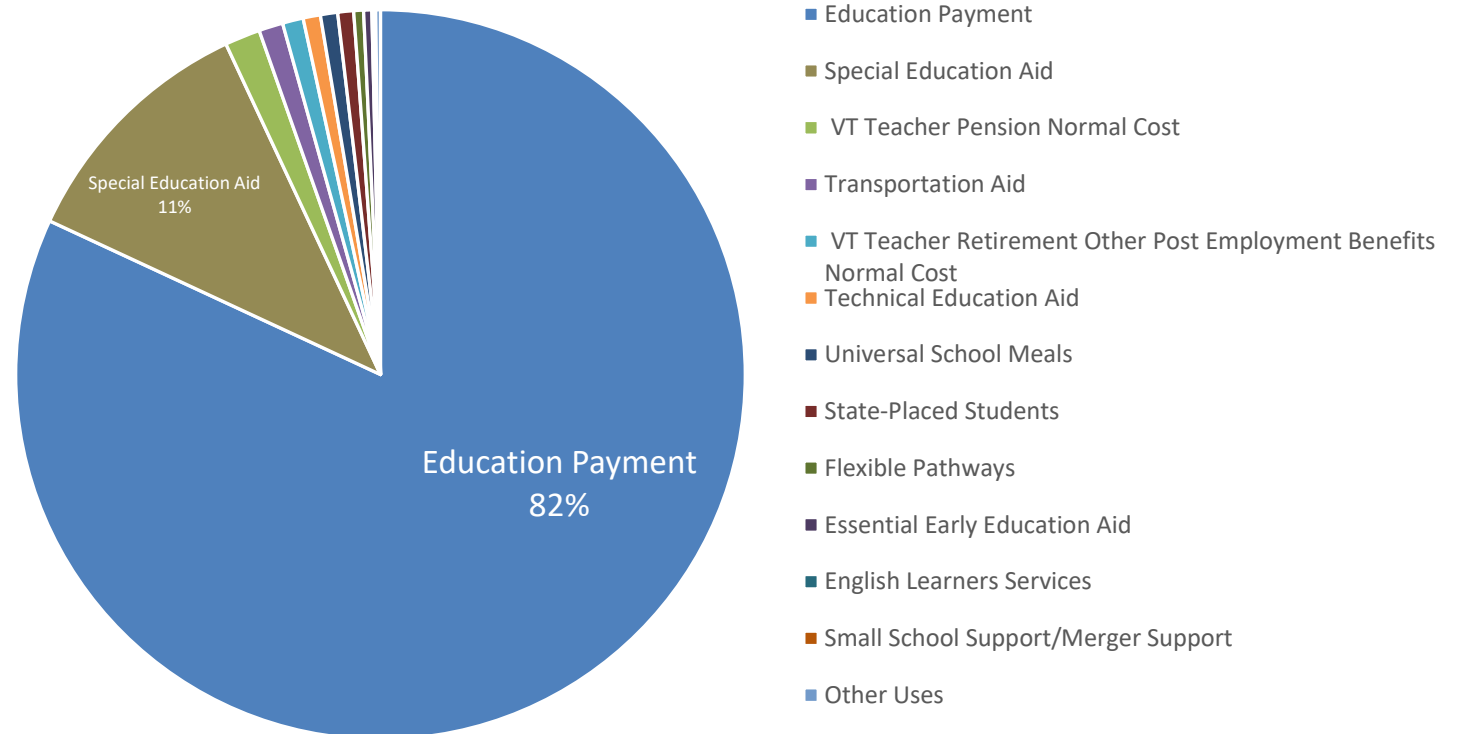
Forecasted FY 2026		
(As forecasted in December 1 Letter)		
	Expenditure (millions)	Percent of Education Fund
Appropriations		
1 Education Payment	\$ 1,996	82%
2 Special Education Aid	\$ 271	11%
3 VT Teacher Pension Normal Cost	\$ 38	2%
4 Transportation Aid	\$ 26	1%
5 VT Teacher Retirement Other Post Employment Benefits Normal Cost	\$ 22	1%
6 Technical Education Aid	\$ 19	1%
7 Universal School Meals	\$ 19	1%
8 State-placed Students	\$ 17	1%
9 Flexible Pathways	\$ 10	0%
10 Essential Early Education Aid	\$ 9	0%
11 English Learners Services	\$ 2	0%
12 Merger Support	\$ 2	0%
13 Other Uses	\$ 5	0%
14 Total Uses	\$ 2,437	100%

Note: numbers may not sum due to rounding



Fiscal Year 2026 Education Fund Expenditures are Forecasted at Approximately \$2.4 Billion

FY2026 Appropriations as Forecasted in the December 1 Letter

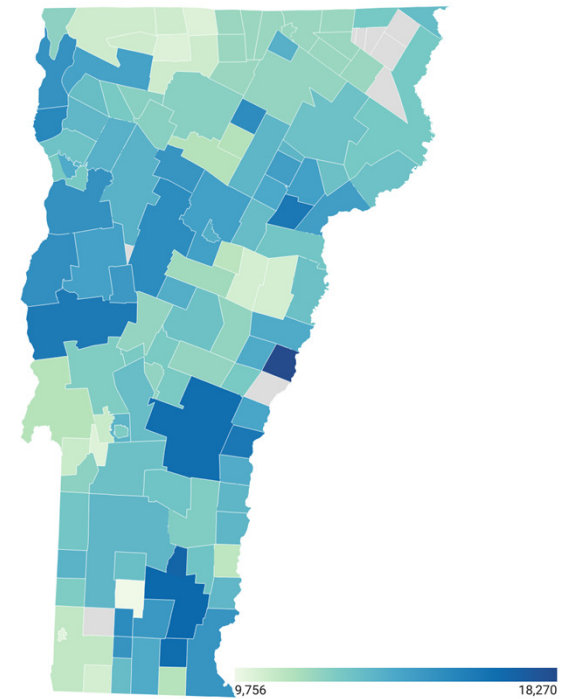


Per (Weighted) Pupil Spending

- Defined in statute and calculated by dividing a district's education spending by its weighted pupils
- Reflects local spending differences
- Impacts local property tax rates

FY25 Per Pupil Education Spending By District in Vermont

Vermont's Per Pupil Education Spending is calculated as a district's "education spending" divided by its Long-Term Weighted Average Daily Membership.



Map: Vermont Joint Fiscal Office • Source: Vermont Agency of Education • Created with Datawrapper

Note: for the current 2024-2025 school year (FY25), the range of per (weighted) pupil spending among districts that operate at least one school is \$10,135 to \$18,270.



JFO

1 Baldwin Street • Montpelier, VT 05633-5701 • (802) 828-2295 • <https://jfo.vermont.gov>

17

Education Funding

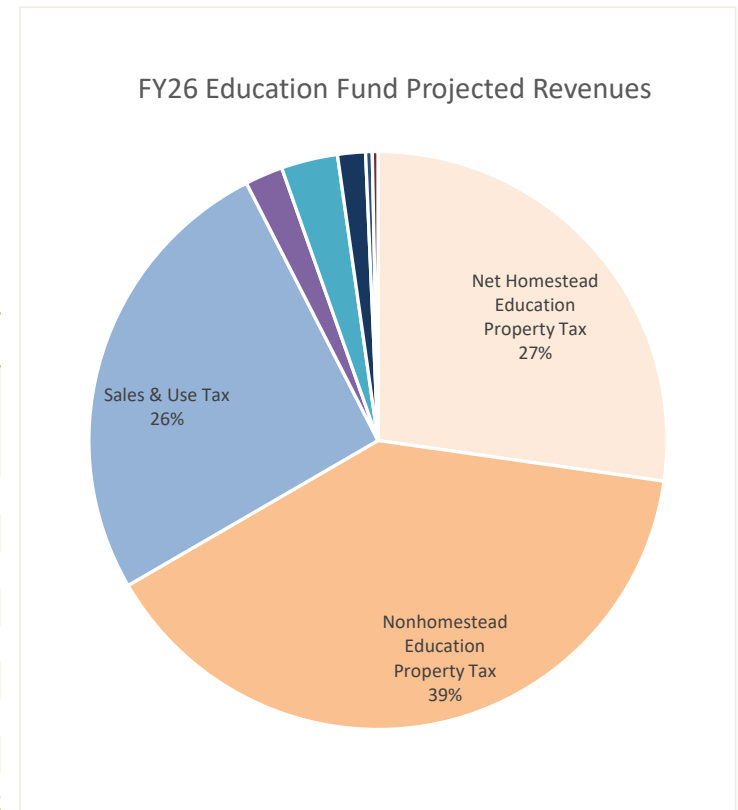


JFO

1 Baldwin Street • Montpelier, VT 05633-5701 • (802) 828-2295 • <https://jfo.vermont.gov>

The Education Fund Has Multiple Revenue Sources

- Education expenditures determine revenue needs of the Education Fund
- The Education Fund is supported by two revenue categories:
 - a. Property tax revenues
 - b. Non-property tax revenues



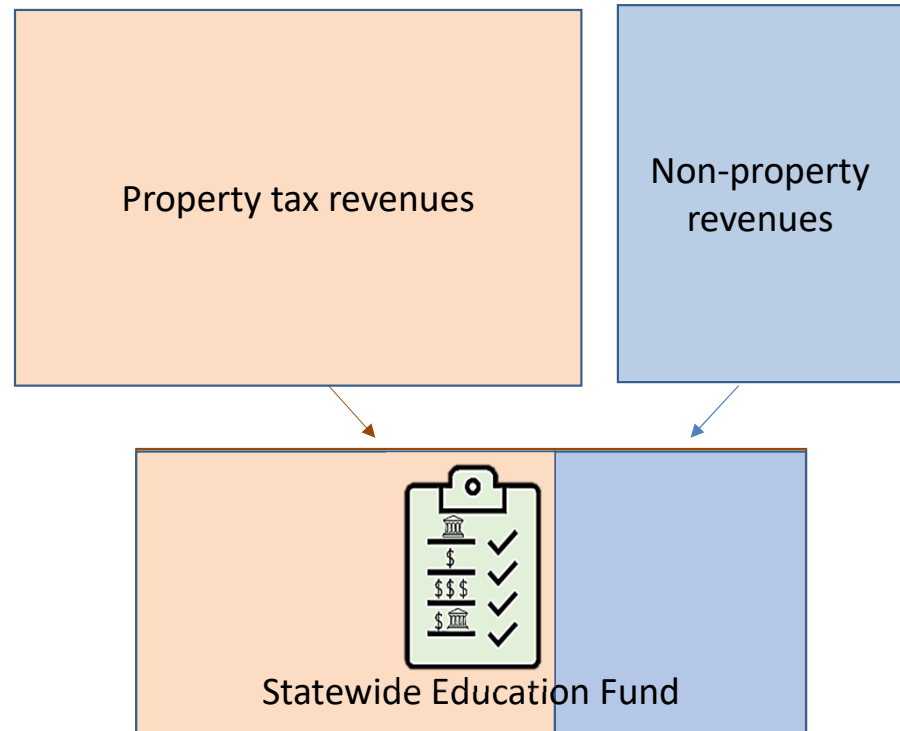
FY26 Education Fund Projected Revenues		
	Forecasted \$ (millions)	Forecasted Percent of Education Fund Revenues
1 Net Homestead Education Property Tax	\$ 656	27%
2 Nonhomestead Education Property Tax	\$ 948	39%
3 Sales & Use Tax	\$ 623	26%
4 Purchase & Use Tax – 1/3 of total	\$ 51	2%
5 Meals & Rooms Tax – 1/4 of total	\$ 76	3%
6 Lottery Transfer	\$ 37	2%
7 Medicaid Transfer	\$ 9	0%
8 Other Sources	\$ 8	0%
9 Total Sources	\$ 2,408	100%

Note: Numbers may not sum due to rounding



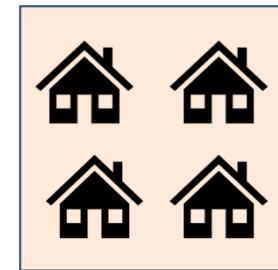
Annual Property Tax Rates Are Set to Fully Fund Vermont's Education System

- Education property tax rates are set each year to raise sufficient revenues to balance the Education Fund



Types of Property Taxes

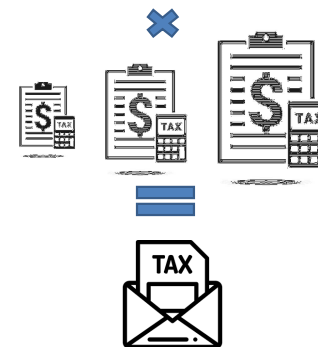
- There are two types of education property taxes:
 - **Homestead:** principal dwelling and surrounding acreage
 - **Nonhomestead:** all other taxable properties
- **Homestead tax rates** are proportional to district per pupil spending decisions and are income sensitized
 - The General Assembly sets the “yields” to calculate these rates
- **The nonhomestead property tax rate** is uniform across the state



Homestead

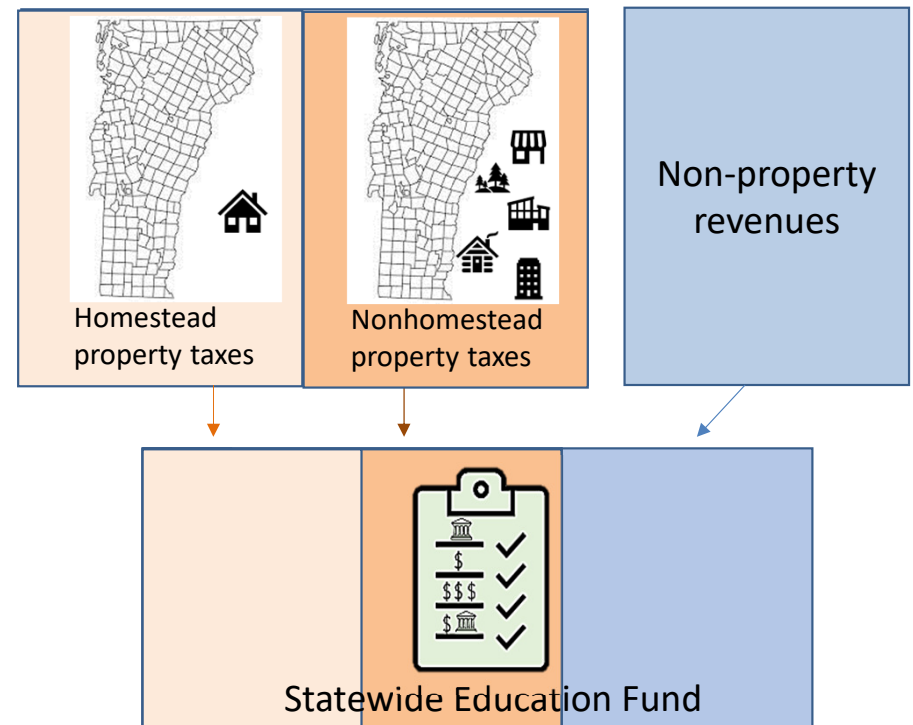


Nonhomestead



Property Tax Rates Are Set by the General Assembly

- The proportion that should be raised from **homestead** and **nonhomestead property** is a policy decision
 - This is done annually in the “Yield Bill”



Final Thoughts

- The December 1 Letter is the starting point for property tax and education finance discussions – it is in no way final
- Education Fund revenues and expenditures are interconnected
 - The Education Fund is a statewide fund; all spending decisions affect the entire system
- The General Assembly works throughout the session to set the yields and property tax rates to fully fund the Education Fund



Resources

- JFO – Education Resources
 - <https://ljfo.vermont.gov/subjects/education>
- JFO – Education Finance 101 Resources
 - <https://ljfo.vermont.gov/subjects/education/education-finance-101>
- Agency of Education – Data & Reporting
 - <https://education.vermont.gov/data-and-reporting>
- Department of Taxes – Education Property Taxes
 - <https://tax.vermont.gov/property/education-property-tax-rates#year>
- Department of Taxes – Property Owners
 - <https://tax.vermont.gov/property-owners>



Questions?

