

The Education Fund and Education Finance

Dec. 1, 2019

The Education Fund and education finance in general are extremely complex, making policy change and decisions equally complex. The Vermont Department of Taxes has assembled the following facts to help interested Vermonters be better equipped to understand the financial underpinnings of many of these important issues.

Education Fund Revenues and Expenses

The Education Fund's revenue and expenses total over \$1.7 billion, making it significantly larger than the General Fund.

Property Taxes

Property taxes contribute just 67% of the total Education Fund revenues, broken down as follows:

- \$447M (26%) of total revenue comes from the homestead property tax.
- \$694M (41%) comes from the nonhomestead property tax .
- Only the homestead property tax rate is affected by local education spending decisions. The nonhomestead rate is set at the statewide level and not locally adjusted by school district spending, although it does reflect total spending statewide.
- Any property not occupied as a principal residence is classified as "nonhomestead." That term was changed from "nonresidential" because many people thought it was property owned by individuals who are not residents of Vermont, which is incorrect.

Other Revenue Sources

Here are the other major Revenue Sources for Education Fund costs (dollar amount going to education in parenthesis):

- 100% of Vermont's Sales and Use Tax is now dedicated to the Education Fund (\$436M)

- 33% of Vehicle Purchase and Use Tax (\$38M)
- 25% of Meals/Rooms and Alcohol Tax is now dedicated to the Education Fund (\$48M)
- 100% of lottery revenue (\$29M)

Expenses

Total expenses might not match total revenues in any given year because of the presence of balancing items, such as payments into the statutory reserve or carryovers from the prior fiscal year.

- The single largest cost in the Education Fund is the Education Payment: \$1.43B, funding the voter approved school spending of all local budgets.
- Next largest cost is the Special Education Aid to local schools, at \$213M
- Transportation Aid, Small School Support and Technical Education Aid to districts total about \$42M combined.
- The annual "Normal" pension contribution is paid out of the Education Fund. However, over \$140M of educator retirement cost (pensions and post-employment benefits) is paid out of the General Fund annually to close the gap of the unfunded liability.

Local Spending and Decision Making

- An analysis by the Vermont League of Cities and Towns reported that less than 18% of registered voters voted on Town Meeting.
- Local needs and decisions produce widely disparate levels of per pupil spending throughout the state. The highest spending school districts spend around \$22,000 per pupil, while the lowest districts spend around \$12,000 per pupil.
- A school district's total budget increase or decrease has little predictive value in determining the effect on the property tax rate. Among items under local control, it is the per pupil spending that has the biggest impact on the district's property tax rate.

Vermont's Income Sensitivity Program

- Analysis by the Department of Taxes showed there are up to 21 steps necessary for taxpayers to determine the impact of their district's school budget on their individual homestead property tax bills.
- Vermont's income sensitivity program effectively divides education property taxpayers into four groups:
 1. Those whose property taxes are capped by law
 2. Those who pay based on their income
 3. Those who pay on a combination of income and property value
 4. Those who pay purely based on their property value
- Most homeowners (68%) pay an income-sensitized property tax, meaning their total property tax bill is reduced by a state payment, called a property tax credit (PTC).
- PTCs are capped at \$8,000 (\$5,600 towards education property taxes and \$2,400 towards municipal taxes)
- A typical income-sensitized property tax payer might pay approximately 2.5% of their income in education property tax. For instance, a family with household income of \$60,000 (just above the median tax filer income in Vermont) could expect to pay around \$1,500 in annual property tax. This generally holds true whether they live in a \$200K home or a \$400K home.
- For homeowners with household income below \$47,000, an extra PTC is available to offset the cost of municipal taxes as well. This cost is an expense of the General Fund and is roughly \$17M for FY20. A homeowner with \$20,000 of household income living in a \$300,000 home is likely to pay no more than \$900 in total property taxes.
- The total Education Fund foregone revenue of the income sensitivity program is approximately \$170M, which equates to over 40 cents of the statewide average homestead education property tax rate of \$1.51.
- The 32% of Vermont homestead owners who are not income-sensitized pay over half (53%) of the homestead property tax. Those paying based on income (68%) pay 47% of the total homestead property tax.

Most of this analysis is based on anticipated fiscal year 2020 totals as they appear in the Dec. 1, 2019, Education Fund Outlook.