

## Vermonters' Incomes Outpaced School Taxes (1996-2006)

by Paul Cillo and Jack Hoffman

### School districts' spending increases are slowing.

Even before the Legislature passed a law last session designed to pressure communities to curb the growth of education spending, Vermonters had started to act on their own. Data from the Vermont Education Department show that school spending growth has been slowing for the past four years. In the 2005 fiscal year, total education spending — which is the key variable that determines towns' tax rates — rose by 6.6 percent over the previous year. For the current year, fiscal year 2008, the growth rate has dropped to 4.1 percent (Figure 1).

At the insistence of the governor, the Legislature approved a new process for the adoption of local school budgets. The new rules, which do not take effect until fiscal 2010, will require a two-part vote by local residents in some instances if the proposed budget increase exceeds a certain inflation index.

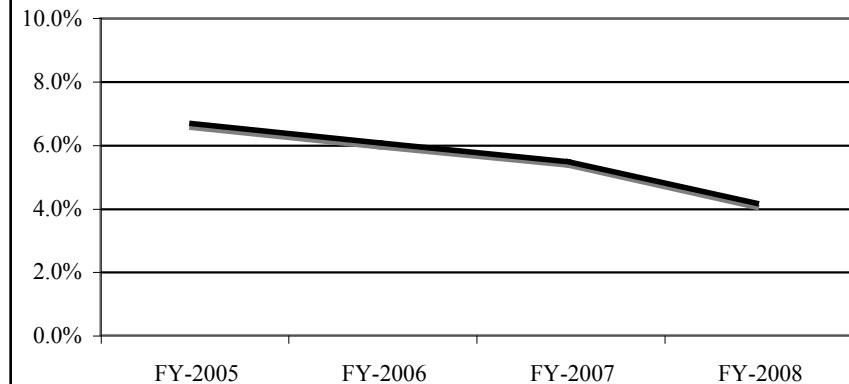
The law intends to cap school budget increases at a little higher than the inflation rate. (If the law were in effect now, growth would be capped at about 4.3 percent.) Without a preview of the index for the next two years, it is difficult to know how individual school districts will be affected. However, if the recent trend continues, the overall growth rate of school budgets could fall below the proposed cap even before it takes effect.

Despite the focus last session on school budget growth, that isn't the major factor driving local school tax rates in many towns.

Since 1997, per-pupil spending has been used to determine each town's tax rate. While spending is part of the equation, student enrollment is also a critical factor in determining per-pupil spending. Under Vermont's current school funding system, a school district that was adding students could have a substantial budget increase and no increase in tax rates. The flip side of this formula, which has been the case in many Vermont communities, is that local residents may see relatively big jumps in the tax rates even though school spending rises only slightly. That is because the school-age population has been shrinking in towns across the state; with fewer children in a school, even if the budget stays the same, per-pupil spending — and therefore the tax rate — is driven up.

But even against this wave of declining enrollment, the growth in per-pupil spending has been slowing. For the 2005 fiscal year, per-pupil spending rose by 7.7 percent. This year the rate of increase was 5.8 percent.

**Figure 1. Vermont Education Spending Annual Growth Rate Trend**



Data source: Vermont Dept. of Education

<sup>1</sup> July 1, 2004 to June 30, 2005

## School taxes as a percentage of income are dropping.

Vermont ended its reliance on local property taxes to fund education with the passage of Act 60 in 1997. Since then, property has been taxed on a statewide basis, and a majority of Vermont homeowners have had the option of paying all or most of their school taxes based on their household income rather than the value of their homesteads. Critics of Act 60 – and a companion law, Act 68, passed in 2003 – have alleged that the new funding system has led to runaway education spending that Vermonters simply cannot afford.

The available data paint a different picture, however. **Figure 2** shows the growth in Vermonters' adjusted gross income (AGI) between 1996 and 2006. On the next line, it shows the growth in net school taxes paid by Vermont residents over the same period.

Vermonters' net school taxes represent the final amount state residents collectively paid in school taxes. Until this year, many Vermonters first paid their property tax bills and then received a refund from the state after calculating their school taxes as a percentage of their income. "Net school taxes" was the amount residents paid after the refund. Beginning in 2007, town tax bills reflected the net school tax amount without the need for a refund.

As **Figure 2** shows, since the passage of Act 60, Vermonters' incomes have grown at a faster rate than their school taxes. Additionally, the percentage of Vermonters' incomes that they collectively spend on school taxes has dropped from 3.7 percent in fiscal 1996 to 3 percent in fiscal 2006.

**Figure 2. Ten-Year Change in Vermonters' AGI and Net School Taxes**

	FY1996	FY2006	Annual Avg. Compound Growth
Vermonters' adjusted gross income	\$8,485,164,142	\$14,626,285,918	5.6%
Vermonters' net school taxes	\$309,488,719	\$436,680,180	3.5%
School taxes as percentage of AGI	3.7%	3.0%	

Source: Public Assets Institute analysis of Vermont Dept. of Taxes data