

A Citizen's Guide to School Funding

Vermont's Act 68

February 2006

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Vermont Children's Forum
with the
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Vermont Children's Forum

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The **Vermont Children's Forum** (VCF) is the leading voice for Vermont children and youth. VCF is the only statewide independent, nonpartisan, non-profit research, education and advocacy organization in Vermont focusing on a wide range of issues affecting young people. VCF's mission is to promote public policy that enhances the lives of children and youth in Vermont.

Public education in Vermont is a vital part of VCF's work. Our goals are to strengthen support for public schools and to assure equal access to quality public education for all Vermont children. We believe that good, strong public schools are crucial for our young people and for our future.

The **Public Assets Institute** is an independent, non-profit research and education organization that analyzes and develops fiscal policy and facilitates informed discussion on the fiscal implications of important public policy initiatives. The institute seeks to balance individual and public interests, encourage democratic decision-making, and enlist the powers of government to enhance the well being of all citizens.

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However, any errors or omissions in this booklet remain the responsibility of the author.

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For additional copies of *A Citizen's Guide to School Funding* contact Vermont Children's Forum at 802.229.6377
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Public Education is crucial to the well being of Vermont's children and communities, its democracy, and its economy. That's why we may have no more important job as citizens than seeing to it that our schools are reliably and fairly funded.

Citizens have a key role in overseeing public education. We not only pay the taxes to fund community public schools, but we also must approve annual school budgets before tax rates are set. We elect school board members to represent us in school policy decisions. We can participate in shaping the future of our local schools through local action planning. We can stay informed and make our voices heard at school board meetings.

This guide explains the basics of Act 68, Vermont's current school funding law. It will help you to:

- talk with your legislators about money for schools
- talk with your local school board about local spending decisions
- understand how your school budget affects your taxes

Citizen participation is critical to making the public education system work for our children and youth.

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School funding background

School finance would be simple if both running a school and raising the money to pay for it were controlled either by the state or by the towns. But a system of locally run schools dependent on local property taxes ends up treating children unequally. And one that allows the state to run schools using state tax revenue strips communities of local control and the richness of local participation.

Like most states, Vermont has tried over and over to use state aid to get the best of both worlds: fairly funded, locally controlled schools. But as Vermont communities changed, state aid was no longer enough.

From the 18th century, when the property tax was first used to fund schools, well into the 20th century, Vermonters lived, worked, and bought what they needed in the same town because commuting to a neighboring town was not practical. As a result, the tax base within a typical town tended to be diverse, with mills, factories, farms, and stores taxed along with homes to help pay for the education of the children who lived there.

As the automobile came to be used more widely in the 1960s, more Vermonters began to work out of town. Many towns became "bedroom communities," where people live, and commute elsewhere to work.

While the tax base statewide remains diverse, that diversity has largely disappeared from individual communities, especially rural communities.

We now have some towns that are mostly residential, with little tax base and many children to educate. Before the new school funding system, these towns' schools were often poorly funded even with high tax rates. Other towns have ski areas, large industrial plants, malls, or many second homes, and relatively few children in school. These towns could fund excellent schools at low tax rates.

As this trend grew over the last few decades, the state could no longer fix the inequalities simply by giving some towns more aid than others. It was this situation that Act 60, signed into law in 1997, sought to correct by giving every town the same taxing ability to fund their schools.

Act 60 has been amended several times since 1997. In 2003, Act 68 made the most significant changes to the original law.

This booklet describes how Vermont's school funding law works under Act 68.

How the funding system works

This system is built on three key principles:

- School district voters can choose to spend as much as they wish on their children's education.
- Higher spending per pupil in a district results in higher homestead taxes in that district.
- Any two districts in the state that spend an equal amount per pupil will have equal tax rates.

A district's voted spending per pupil affects that district's homestead school rates only. The rate for non-homestead property is the same for all districts (p. 14).

Vermont's school funding law defines a relationship between the local school districts and the state. Each has responsibilities in making the system work.

Local Districts	State
<ul style="list-style-type: none">▪ Set per-pupil education spending▪ Decide how money is spent▪ Set school policy and curriculum▪ Pay school expenses including teacher and staff salaries	<ul style="list-style-type: none">▪ Sets tax rates and state policy▪ Collects education taxes including statewide property tax▪ Transfers money from the General Fund to the Education Fund▪ Distributes money to school districts

Here are the steps in the school funding process:

1. Town voters approve their school budget -- setting the per-pupil* education spending for their town.
2. The state sets homestead tax rates for both property and income for each town based on the town's per-pupil education spending. Higher per-pupil spending increases both the property and income rates. The non-homestead rate is the same for all towns.
3. Towns bill taxpayers for both municipal and school taxes and collect school property taxes for deposit in the state Education Fund.
4. While the town collects homestead school taxes based on property value, a resident may pay based on household income. If the tax bill based on income is less than that based on property, the state sends the taxpayer a check for the difference (p. 22).
5. Money used to operate Vermont schools is paid to each school district from the Education Fund based on the per-pupil education spending approved by voters and the number of pupils in the school.

* "Pupil" in this booklet means "equalized pupil." The Department of Education adjusts the pupil count annually for each town. The adjustment accounts for various factors that affect the cost of educating different categories of students. For more information on the equalized pupils adjustment, go to www.childrensforum.org.

The Education Fund

The state collects and spends money for many public purposes and has many different funds to manage that money. Public education is Vermont's single largest expense – more than a quarter of the state's total spending. The money the state collects to fund schools is deposited in the Education Fund.

How the money is spent

School boards propose and voters must approve local school budgets in Vermont before a tax rate can be set. Money from the state's Education Fund is used to fund these budgets.

This money covers school expenses such as teachers' salaries, textbooks, soccer equipment, or heating fuel.

The Education Fund sends money to school districts for two basic purposes:

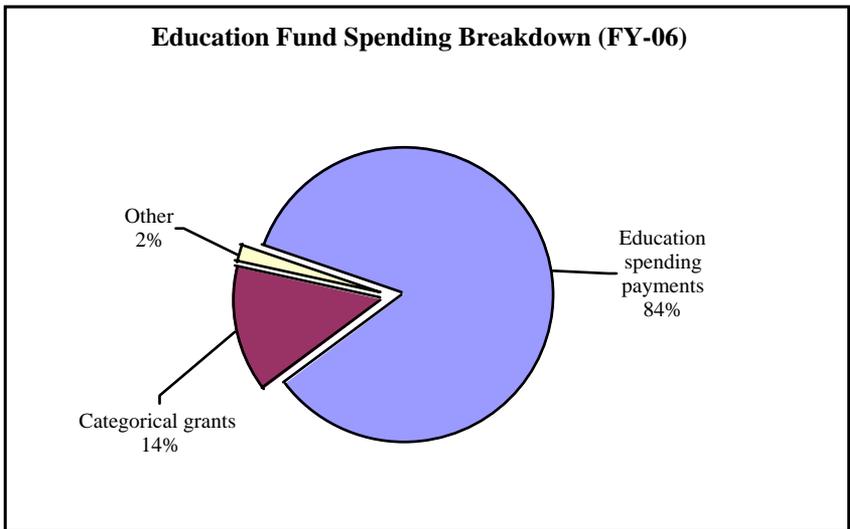
- **categorical grants**
- **education spending**

Categorical grants pay for a percentage of specific school costs that vary widely from district to district. These include special education (60%), student transportation (47%), and payments for state-placed students, small schools, and technical education.

The Education Commissioner subtracts categorical grant payments, as well as expenses paid with federal grants and non-tax revenue, from each town's school budget. The amount left over is called **education spending**. The Tax Commissioner sets the town's homestead tax rate on this amount.

A small amount of the Education Fund (about 2%) pays for state administration and other programs, including property tax rebates and town property reappraisals.

In fiscal year 2006 (July 1, 2005 to June 30, 2006), Education Fund spending is projected to be \$1.1 billion. This spending breaks down as noted in the chart below.

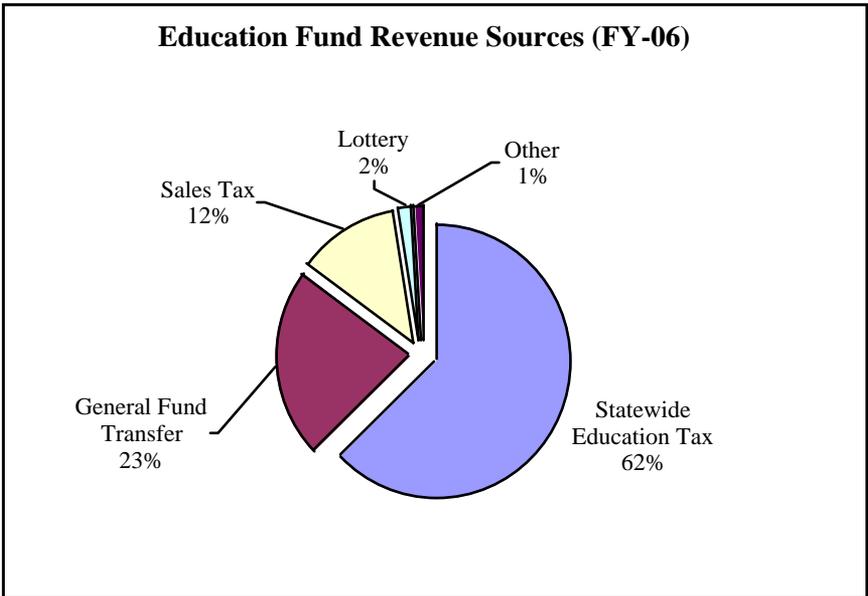


Where the money comes from

The largest sources of Education Fund revenue are:

- **Statewide education tax**
- **General Fund transfer**

Additional sources include all state lottery proceeds and one-third of state sales tax collections (from both sales and use and purchase and use taxes). 16 V.S.A. § 4025 (a) provides the complete list of Education Fund revenue sources.



Funding source: statewide education tax

The statewide education tax provides over 60% of the revenue for Vermont schools.

Prior to 1997, school taxes were local taxes. While property owners still write their checks to the town, the tax is now a state tax. Towns simply collect this tax for the state, just as businesses collect the sales tax.

Since school taxes are now state taxes, the state sets the tax rates. The rate is the same statewide for all non-homestead property.

For homestead property, the state-set rates vary from town to town based solely on how much town voters approve in education spending per pupil. Taxpayers in two towns with the same per-pupil education spending pay the same homestead tax rates.

How you are taxed

All property tax rates in Vermont are expressed as a dollar amount per \$100 of fair market value. Fair market value is the price a willing buyer would pay a willing seller for a piece of property.

Fair Market Value ÷ 100 x Tax Rate = Property tax bill

Example with \$100,000 home and \$1.50 tax rate:

$\$100,000 \div 100 \times \$1.50 = \$1,500$ tax bill

For school taxes, there are two classes of property:

1. Homestead* is an owner-occupied primary residence and the entire parcel of land that surrounds it, regardless of the number of acres. The portion of a homestead that includes the residence and up to two acres of land is called the **housesite**.

Homestead tax rates vary by town with voted education spending per pupil. Vermont residents may pay the school taxes for the housesite portion of their homestead based on income or property, whichever is less (p. 22).

The state sets homestead tax rates for both property and income based on the per-pupil education spending approved by voters. The minimum rates are \$1.10 on property and 2% of household income. Higher per-pupil spending results in higher tax rates (p. 23).

2. Non-homestead property is all other taxable property including land, second homes, apartment buildings, and businesses.

Owners of non-homestead property pay a fixed school tax rate of \$1.59 per \$100 of fair market value.

<p>Note: The 2005 legislature reduced these tax rates to \$1.51 on non-homestead property, \$1.02 on homestead property, and 1.85% of household income for FY-06.</p>
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* Every Vermont resident who owns a home must declare his or her homestead to the Tax Department by April 15th on form HS-131.

The state's role in appraising property

Town listers determine the **Fair Market Value** (the price a willing buyer would pay a willing seller) for each piece of real estate in their town.

Market prices can change quickly, making the listers' values out of date.

To correct for this, the state compares towns' listed values with market prices every year and develops a correction factor for each town.

This correction factor (expressed as a percentage) is called the **common level of appraisal** or **CLA**. The town's listed value, divided by the CLA, results in **fair market value** for each property.

Example: Single-family home in Town A

Town A's listed value for home:	\$100,000
State-determined CLA for town A:	80% (.80)
Fair market value for home:	\$125,000
	(\$100,000 ÷ 0.8)

Note: The method actually used to calculate the property tax on individual bills is to divide the tax rate, instead of the property value, by the CLA. Both methods produce the same property tax amount.

Funding source: State General Fund transfer

The General Fund pays for most of the services that state government provides, such as the state police or the Health Department.

Money transferred from the General Fund is the second-largest revenue source for Vermont schools. Of the many tax sources that are deposited in the General Fund, the largest is the income tax.

State law provides that the legislature and Governor must transfer a certain amount from the General Fund to the Education Fund each year. For FY-06 the amount to be transferred is \$259.3 million. This amount is adjusted each year, rising and falling at the same rate as total General Fund spending.

While the law provides the amount that will be transferred each year, the legislature and the Governor can change the law.

Every dollar the legislature transfers from the General Fund to the Education Fund is a dollar that does not need to be raised in property taxes.

Attempts to reduce this transfer to make money available for other uses end up increasing property taxes. Similarly, shifting costs to the Education Fund that previously had been funded from the General Fund also increases property taxes.

Keeping school funding secure

Just as our children need to be well fed and clothed every year of their lives, Vermont's public schools must be well funded every year of every child's life.

The school funding law builds stability into the system in several ways. Although these parts of the law may seem complex and bureaucratic, they are nonetheless important to safeguard.

- Taxpayer fairness. All non-homestead property owners pay the same school tax rate statewide. All homeowners in a town pay the same tax rate on their homestead or on their household income, as homeowners in any other town that spends the same amount per pupil.
- Education Fund budget stabilization reserve. 16 V.S.A. § 4026 provides for reserves of 3.5% to 5% of the previous year's Education Fund appropriations "to reduce the effects of annual variations in state revenues upon the education fund budget."
- General Fund transfers. 16 V.S.A. § 4025(a)(2) provides certainty about how much money will be transferred from the General Fund each year. This means that, unless legislators change the law, local school districts can know the tax impact of their budgets.
- Education tax rate adjustments. 32 V.S.A. § 5402b provides a procedure for annual review and adjustment of education tax rates to ensure that the Education Fund keeps enough reserves while not overtaxing Vermonters.

Who makes the system work

The school finance system is a partnership between citizens and state and local government officials. Each has specific annual responsibilities.

Citizens

- Approve local school budgets
- Pay school taxes
- Participate in action planning to help lay out the future of their community school
- Elect school board members, town officials, legislators, and the Governor

State government officials

Tax Commissioner: Heads the Tax Department, which does the annual market study of property to determine the CLA (p.15) and sets school tax rates statewide.

Education Commissioner: Heads the Education Department, which collects budget information from all school districts and reports each town's education spending per pupil to the Tax Commissioner.

Governor: Proposes the amount of General Fund transfer to and appropriations from the Education Fund.

Legislature: Appropriates money from the Education Fund and approves the General Fund transfer.

Local government officials

Selectboard: Bills taxpayers at the school tax rates set by the state. Homestead property rates are based on the town's voted spending per pupil and the non-homestead rate is the same for all towns statewide.

Town Treasurer: Collects school taxes from town property owners for deposit in the state Education Fund.

Listers: Review and establish an appraised value for each property in the town.

School board:

- Ensures that public education is available to every child in town
- Recommends school budget to town voters
- Oversees management of the community school

Annual school funding process

July

- Fiscal year begins on the 1st.

September

- One-third of state payments to school districts due to towns by the 10th.
- School districts begin the budgeting process for the next school year.

March

- Many school districts vote on their school budgets on Town Meeting Day (first Tuesday).

April

- Vermont homeowners must file homestead declaration by the 15th with the state Tax Department.
- One-third of state education payments due to school districts by the 30th.

December

- Town treasurers send one-half of collected education tax to the State Treasurer by the 1st.
- Final date for homeowners to file forms to pay based on income is the 1st.
- One-third of state payments to school districts due to towns by the 10th.
- Tax Commissioner makes recommendations for any changes to education tax rates.

May

- Nearly all school district budgets have been voted and the results filed with the Education Commissioner by the 30th.
- Town listers set the town grand list based on April 1st property values.

January

- Tax Department issues its annual equalization study with common level of appraisal (CLA) adjustment factors for each town (p. 15).

June

- Town treasurers send one-half of the collected education tax to the State Treasurer by the 1st.
- Checks to qualifying homeowners who file by the 1st to pay based on income arrive 30 days before property taxes are due (p. 22).
- Tax Commissioner sets tax rates for the next school year based on school district information from the Education Commissioner.
- Selectboards bill town taxpayers.
- Fiscal year ends on the 30th.

Paying school taxes based on income

Here's how the system works for Vermont residents to pay based on income using 2006 as an example:

1. You provide the state with your household income and housesite value (p. 14) for the previous year by filing HI-144 and HS-138 with the Vermont Tax Department by June 1, 2006. (These forms may be filed as late as December 1.)
2. The state calculates your 2006 school tax using the 2005 income and housesite information you provided and the 2006 school tax rates (both income and property) for your town.
3. If your school tax based on household income is less than if it were based on the housesite value and you filed by June 1, the state sends you a check for the difference 30 days before your property tax bill is due.
4. You pay your property tax bill to the town. The check from the state, when put toward your property tax bill, effectively reduces your school taxes to what they would have been if you had paid based on income.
5. Additional benefits are available to renters, households with incomes of \$47,000 or less, and homeowners with more than two acres of surrounding land. (Forms PR-141 and HS-139 are available from the Vermont Tax Department.)

Calculating homestead school tax rates

Homestead school tax rates vary with per-pupil spending. As a school district spends more per pupil, there is a proportional increase in both the income rate and the property rate (p.14).

While the minimum rates set in statute are \$1.10 on property and 2% of household income, the legislature has lowered the minimum rates for FY-06 to \$1.02 on property and 1.85% of household income.

These rates increase as education spending increases above a base amount per pupil set by the state (\$6,975 in FY-06). This is a reference, not a recommended amount. It increases annually with inflation (16 V.S.A. § 4011).

The chart below shows tax rates for any town with voted FY-06 spending in steps of 10% above the base amount.

Per-Pupil Spending and Homestead Tax Rates FY-06

Education spending per pupil	Income rate	Property rate
\$ 6,975	1.85%	\$ 1.02
\$ 7,673	2.04%	\$ 1.12
\$ 8,370	2.22%	\$ 1.22
\$ 9,068	2.41%	\$ 1.33

Note: Town spending (minus eligible construction costs) per pupil, that exceeds the previous year's state average by more than 30% (reduced to 25% by FY-07) is subject to a tax rate surcharge. FY-06 spending above \$11,347 is subject to this surcharge.

Additional information

The purpose of this booklet is to provide a basic understanding of how Vermont's school funding system works. There are many details about the system that are not included. More information is available at the Vermont Children's Forum website:

www.childrensforum.org

(Look for *A Citizen's Guide to School Funding*)

Other sources include:

- Legislative Joint Fiscal Office
www.leg.state.vt.us/jfo
- Vermont Department of Education
www.state.vt.us/educ
- Vermont Department of Taxes
www.state.vt.us/tax

For questions about your tax forms call:

Taxpayer assistance line at the Vermont Tax Department

1-866-828-2865 (toll free) or

828-2865 in the Montpelier local calling area.

For more information about how you can get involved in public education policy issues contact:

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