



Presentation to Vermont Tax Structure Commission  
August 29, 2019

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# Vermont education funding past & present

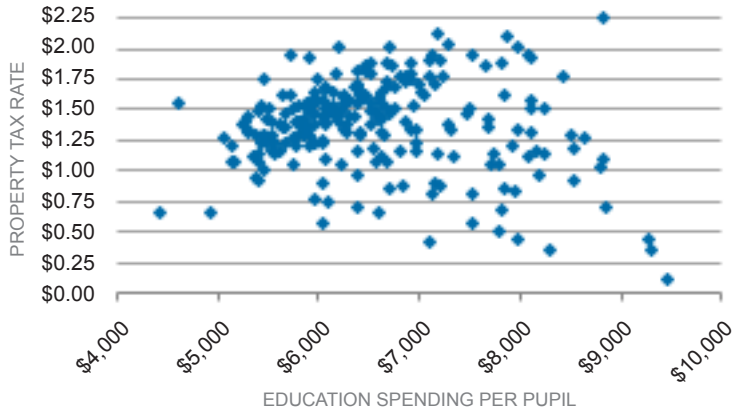
## Connecting spending and tax rates

Before Act 60, towns could have low school tax rates and still spend a lot per pupil, or towns could have high tax rates and not a lot of money to spend, and everything in between.

After Act 60, towns with the same per-pupil spending have the same tax rates, and those rates are proportional to their spending. If Stowe spends the same per pupil as Rutland and half as much as Bennington, their rate would be the same as Rutland's and half of Bennington's.

## Before Act 60: Little correlation between taxes and spending

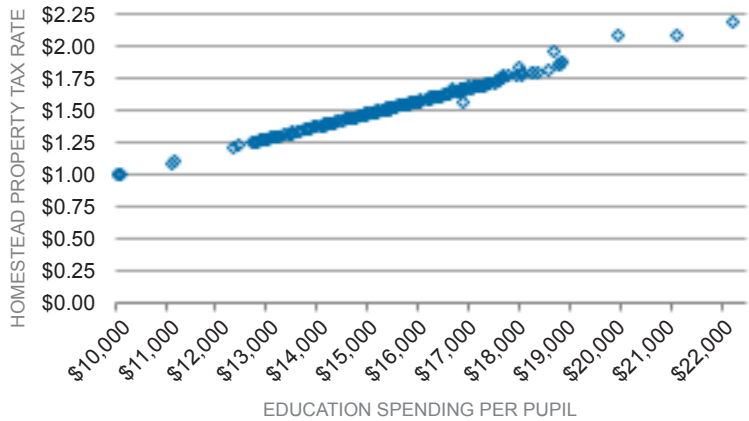
Per pupil spending and equalized school property tax rates by town, FY1997



Data source: Vermont Agency of Education  
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## After Act 60: Towns with the same spending per pupil have the same tax rate

Per pupil spending and equalized school property tax rates by town, FY2018



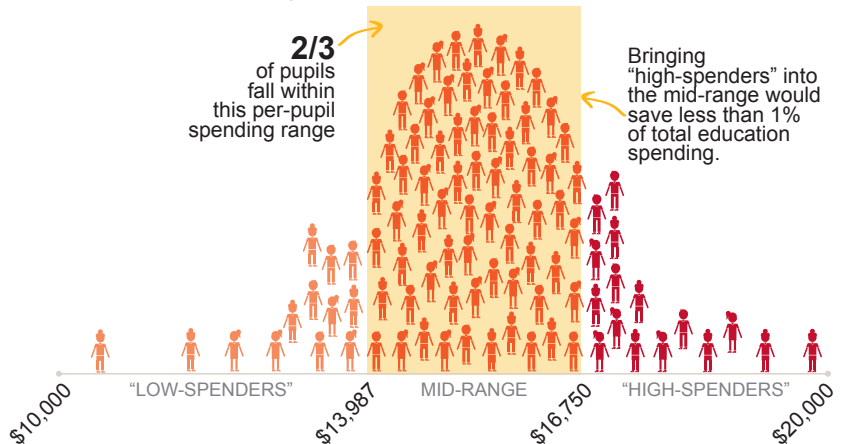
Data source: Vermont Agency of Education  
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## Meeting students' needs

We've eliminated the unfairness of the old funding system. While it appears there is still a big gap in spending per pupil, in fact most students fall within a pretty narrow band. In FY2018, average spending was about \$15,400 per pupil, and two-thirds of students were within \$1,400 of that—plus or minus. That band, where two-thirds of students fall, has narrowed by 35 percent since passage of Act 60.

## Existing cost controls keep most spending in the mid-range

FY2018 per-pupil spending



Data source: Vermont Agency of Education  
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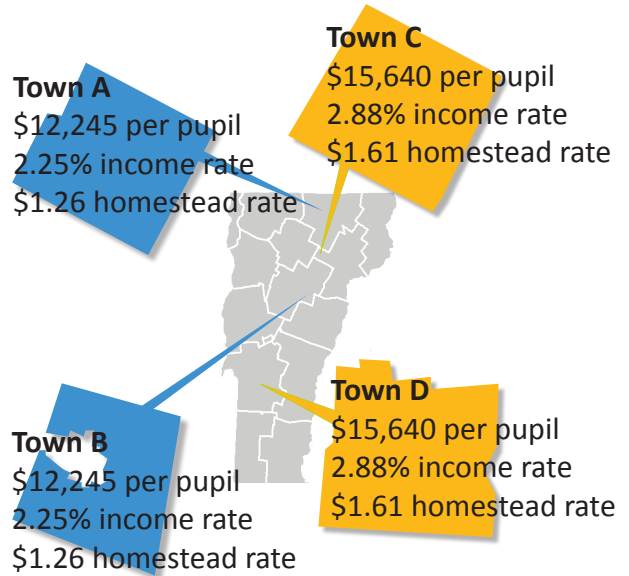
# Five principles of Vermont school funding

## and five questions to evaluate proposed changes

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### Fairness for taxpayers

Same spending per pupil, same tax rates



**Q:** Does the proposal maintain, reduce or increase fairness for taxpayers?

1

### Local control



Local school boards develop budgets



District voters decide school budgets

**Q:** Does the proposal maintain, reduce, or increase local control?

2

### Fairness for students

Equal access to educational resources

BEFORE ACT 60/68:

A student's hometown tax base determined the resources available for their education

\$ LOCAL HOMEOWNER TAXES



A rural or bedroom community town like Walden or Topsham

\$ LOCAL HOMEOWNER TAXES

\$ RETAIL AND SMALL MANUFACTURING TAXES



A commercial and industrial center like Rutland Town

\$ LOCAL HOMEOWNER TAXES

\$ RETAIL TAXES

\$ SECOND HOME TAXES

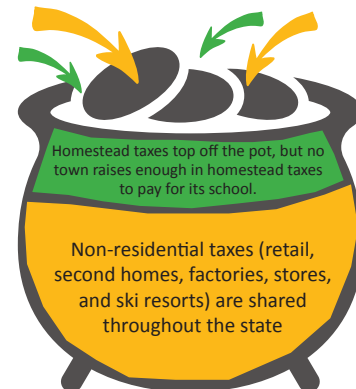
\$ SKI RESORT TAXES



A ski town like Stowe or Killington

AFTER ACT 60/68:

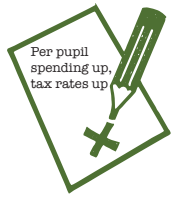
All Vermont's students have the same opportunity to access funding



**Q:** Does the proposal maintain, reduce or increase fairness for students?

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## Simplicity and transparency for citizens



There are tax consequences for spending decisions

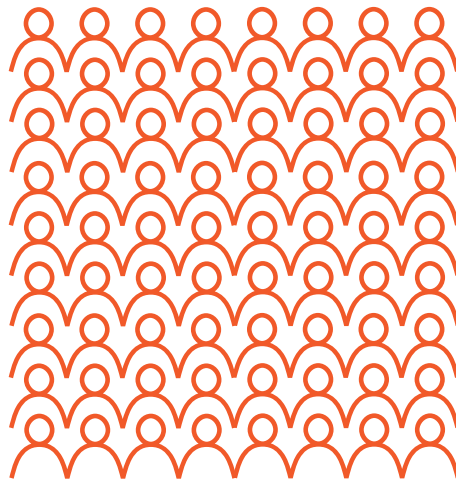


The tax consequences are clear to the voter at the time of their vote

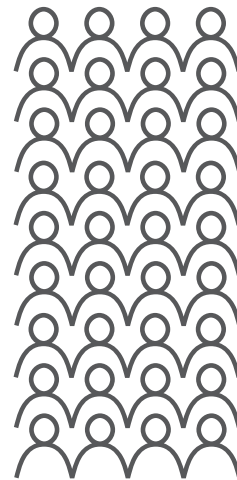
**Q:** Does the proposal increase or decrease simplicity and transparency from the citizen's point of view?

5

## Taxes based on ability to pay



**2/3** of Vermonters pay homestead taxes based on income (Most have household incomes of **\$90,000** or less)



**1/3** of Vermonters pay based on property value (Most have household incomes of **\$90,000** +)

**Q:** Does the proposal increase or decrease the share of taxpayers paying by ability to pay? Does it increase or decrease progressivity of education taxes?

# 20 years ago, Act 60 fundamentally changed the way Vermont pays for public education

## What problem were we trying to solve?

Before 1997 Vermont had vast inequalities in education and tax bills from town to town. Towns with ski resorts, lakes, lots of stores, or high-value homes enjoyed well-funded schools with low tax rates. Property-poor towns had to tax themselves at high rates to afford barely adequate schools. For Vermont's children, geography was destiny. The quality of a child's education was directly related to the property wealth of the town she lived in.

## What did we do, and does it work?

Vermont enacted the Equal Educational Opportunity Act—Act 60—which equalized education funding across the state. Under the law, any two towns that vote to spend the same amount per pupil have the same tax rate. The system delivers resources to locally controlled schools in a way that's fair to both students and taxpayers.

## What changed?

- **Town property wealth no longer determines a child's fate.** Schools remain locally controlled, but we now all share responsibility for funding them. Instead of thinking about "our kids" as only those in our own town, we recognize that "our kids" includes all the children in Vermont.

- **We redesigned the school tax collection and distribution system.** In the past a town's tax revenue stayed in that town to support its school. Now we have a statewide system, where all school tax money goes into the state Education Fund and is equally accessible to every school. Today's system is more like the Transportation Fund. We all appreciate that the state's roads and bridges need to be in good shape to benefit the whole state—so all taxpayers contribute to the fund that improves infrastructure in any town where it's needed.

## What's the next challenge?

Funding equity is necessary, but it's not enough to ensure that every child succeeds in school. We also need to address the obstacles of poverty, racism, sexism, and ableism.

## Vermont leads the way

When Vermont took the step 20 years ago to solve its education funding problem, nearly all the states were struggling with the same issue. We were not the only state whose Supreme Court said we had to fix the problem, but we are one of the only states that really fixed it.

## We all have a stake in every child's future

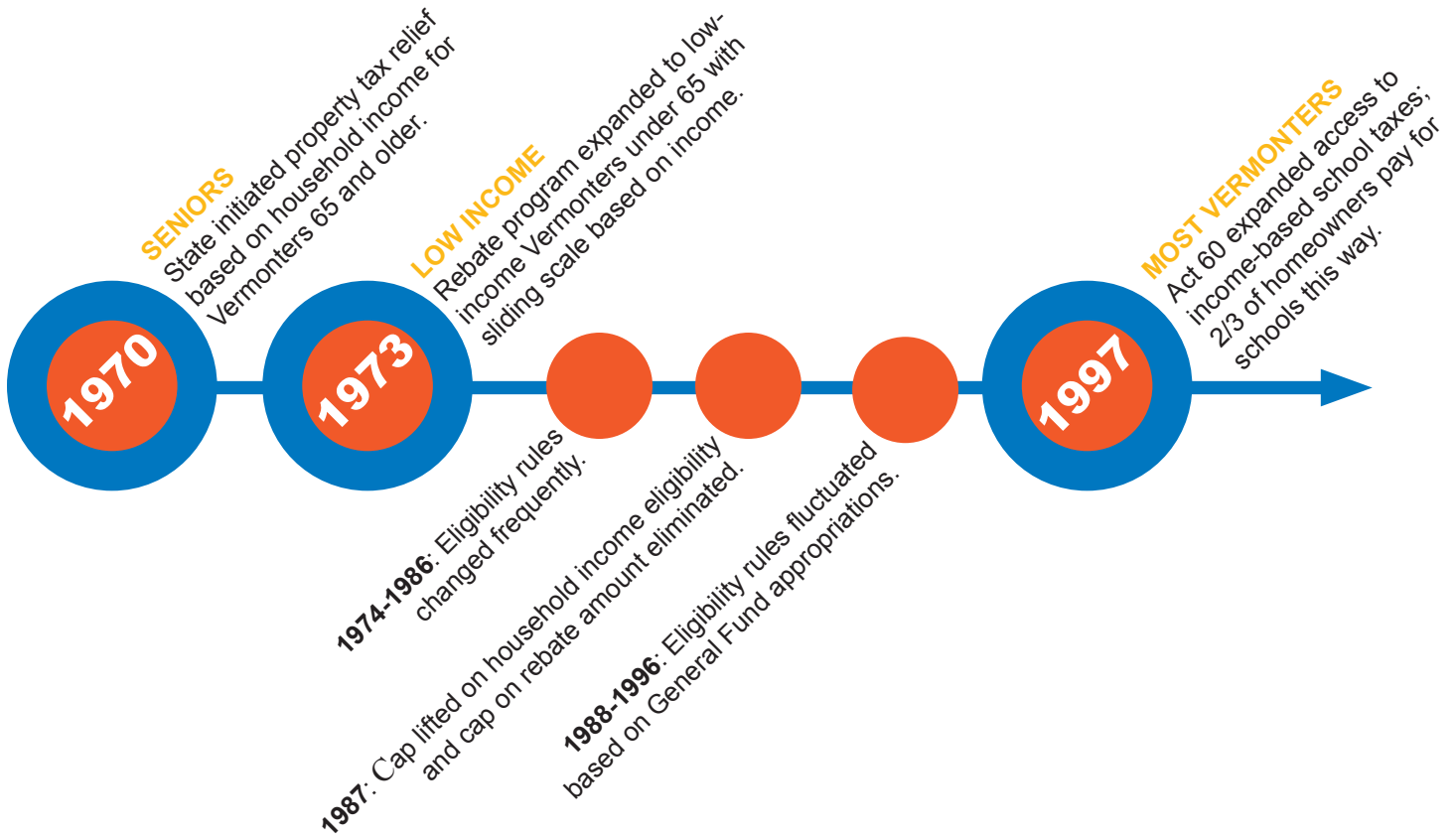
**Before Act 60** 'our kids' meant the kids in our own town



**Since Act 60** 'our kids' includes all the children in Vermont



# Vermont has been moving toward income-based school taxes for 50 years



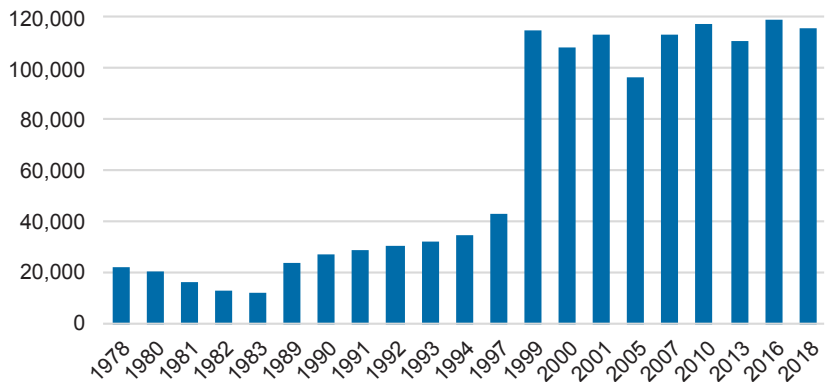
Data source: Joint Fiscal Office  
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## Moving to income

Demand for property tax relief based on income grew from 1970 into the 1990s, when Vermont passed Act 60. The law allowed eligible Vermont homeowners to pay school taxes based on household income rather than the value of their home. About two-thirds of Vermont homeowners pay income-based school taxes—approximately 116,000 households in 2018.

## More and more Vermonters take advantage of income-based school taxes

Households paying by income, selected years 1978-2018

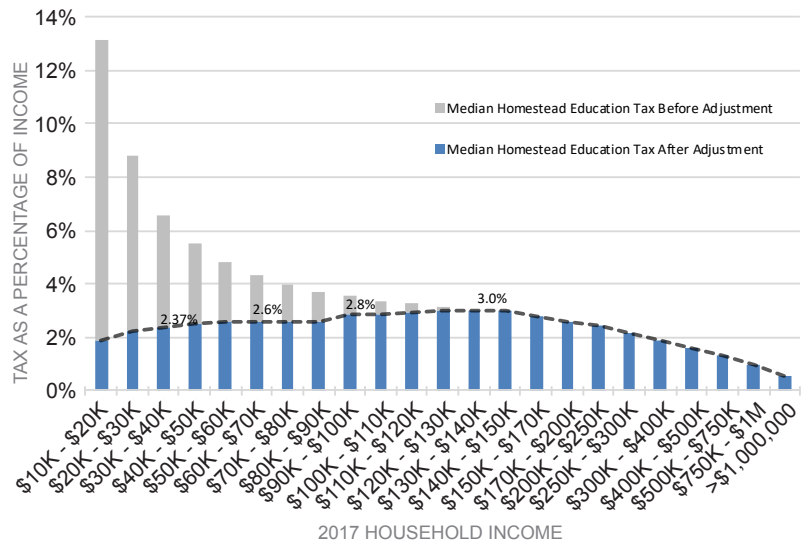


Data source: Vermont Department of Taxes  
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### A regressive tax

School taxes are currently regressive, meaning higher-income Vermonters pay a smaller share of their income to support schools than lower-income taxpayers. In 2017, Vermonters with incomes over \$1,000,000 paid 0.55 percent of their income in school taxes, while middle-income Vermonters paid between 2 percent and 3 percent.

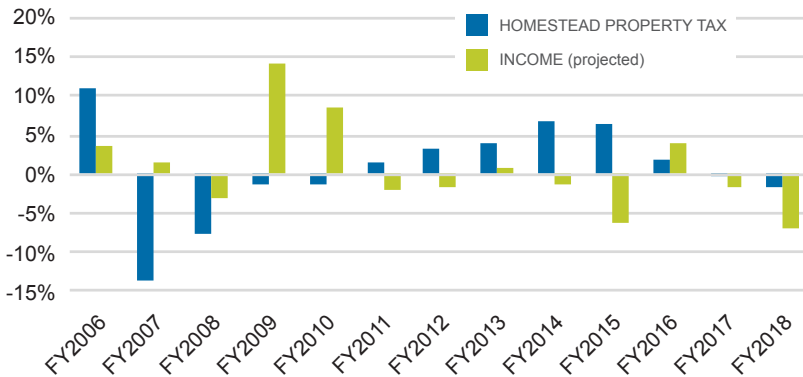
Education tax as a percentage of household income CY 2017



Source: Joint Fiscal Office

### Income-based rate would have been less volatile than property rate

Percentage change in actual homestead property tax rate and projected income rate to raise the same money, FY2006-FY2018



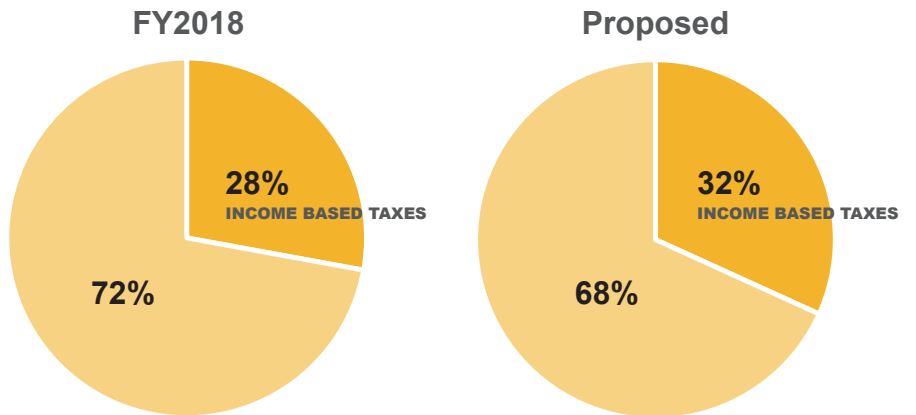
Data sources: Vermont Department of Taxes, Joint Fiscal Office ©2019 Public Assets Institute

### Volatility

Education tax rates under an income-based system would not be more volatile than the current system. In both the current and proposed systems, rates get adjusted every year to meet schools' needs. Looking back, the rates actually would have been less volatile—meaning rates would have changed less from year to year—had there been an income-based system in place over the last decade and a half.

### State-only revenue distribution

Changing to an income-based system would not have a big effect on the overall balance between revenue sources for the state. Currently, income-based taxes account for 28 percent of total non-federal state revenue. Under the proposed system this would increase to 32 percent.



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