



State Finance Reform Vignettes

Vermont

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Vermont operates a unique education funding system that couples local control over school spending levels with a statewide system for raising the revenues required to pay for these expenses. Local districts set their own budgets, while the state's role is limited to setting tax rates, collecting revenue, and redistributing funding to school districts. Differences in costs across school districts are addressed through (a) an "equalized pupil count" that adjusts district enrollment figures accounting for the needs of students served and reduces the tax burden of districts with higher costs¹ and (b) categorical grants, which provide additional state support for special education, transportation, and small schools. Vermont's system is designed to achieve *taxpayer equity*, and evidence suggests that it has largely achieved this goal. However, Vermont's system does not currently generate *spending equity* across school districts.

Background

Vermont's existing school funding system was put in place as a response to the 1997 Vermont Supreme Court ruling, *Brigham v. State of Vermont*. Prior to the Brigham decision, Vermont relied on a foundation program. Under this program, property-wealthy districts benefited from lower tax rates and higher per-pupil spending compared with property-poor districts, which had lower per-pupil spending despite higher tax rates.

The *Brigham* Court held that the state's education financing system, "with its substantial dependence on local property taxes and resultant wide disparities in revenues available to local school districts deprive[d] children of an equal educational opportunity in violation" of the state's constitution. The Court directed

¹ The Vermont Agency of Education (AOE) prefers to use the term "high-cost" rather than "high-need" to refer to economically disadvantaged students and English language learners (ELLs). Consequently, we adopt the terminology "high-cost" throughout this brief. As explained later in the brief, students who are economically disadvantaged, who are ELLs, and high school students are associated with higher costs according to Vermont's formula for calculating equalized pupils, while preschool students are associated with lower costs, relative to elementary students who are not economically disadvantaged or ELLs.

the legislature to develop a system that equalized *revenue-generating capacity* between towns with higher and lower property values. It did not, however, impose a standard for determining whether funding itself was sufficiently equitable, nor did it stipulate any specific level of spending or resources that might be used to evaluate whether educational opportunities available to students across school districts were adequate.

Vermont’s response to the *Brigham* ruling was designed to simultaneously resolve issues of taxpayer equity and disparities in per-pupil spending. In doing so, the state’s current funding system—implemented through Act 60 (1997), Act 68 (2004), and Act 130 (2010)—redefined the relationship between local school districts and the state. Prior to 1997, tax revenues for supporting schools were *local* taxes; however, after the passage of Act 60 (1997) tax revenues raised for education purposes became a *state* tax. And although property owners pay their tax bills to their town, towns simply collect these taxes on behalf of the state much like businesses collect sales and use taxes for the state. Because school taxes are state taxes, the state legislature sets tax rates according to procedures contained in statute. Overall, local districts are responsible for setting education spending levels and operating schools, while the state is responsible for setting tax rates and administering tax policy that pays for school spending (see Table 1). The state also administers categorical grants that provide additional funding for special education, transportation, and small schools (discussed further below).

Table 1. Responsibilities for Funding by Level of Government/Responsibility

State	Local Districts/Towns	Voters/Taxpayers
<ul style="list-style-type: none"> ▪ Sets tax rates and state policy. ▪ Collects education taxes, including statewide property taxes. ▪ Transfers money from the General Fund to the Education Fund. ▪ Distributes money to school districts. 	<ul style="list-style-type: none"> ▪ Local school boards prepare school district budgets, decide how money is spent, set school policies/curriculum, and pay school expenses. ▪ Towns administer the education property tax. 	<ul style="list-style-type: none"> ▪ Approve local school budgets. ▪ Pay education taxes.

Note: Responsibilities assigned to the state reside with both the Executive and Legislative branches of government, as well as the State Board of Education (e.g., Agency of Administration; Department of Taxes, Division of Property Valuation & Review; Department of Finance and Management; Agency of Education; and the Vermont General Assembly).

Vermont’s Education Quality Standards

Following on the funding legislation outlined above, in 2013 the Vermont State Board of Education approved a formal set of standards for school quality called the Education Quality Standards (EQS). The EQS updated rules for school quality standards and provide a common framework for the organization and operation of Vermont schools. These standards describe what a high-quality education should look like for students attending Vermont’s public schools and are intended to ensure that all students are afforded educational opportunities that are substantially equal in quality and enable them to achieve or exceed standards approved by the State Board of Education (see the box below).

Schools must submit Continuous Improvement Plans to AOE and undergo a peer review process (including site visits). Vermont statute requires AOE's secretary to determine whether students in each Vermont public school are provided educational opportunities substantially equal to those provided in other public schools (16 VSA Section 165(b)). If the Secretary of Education determines that a school does not meet standards, he or she may recommend actions the district must take and offer technical assistance. If a school fails to make sufficient progress by the end of a two-year period, the case is referred to the State Board of Education.

At present, however, there is no connection—in statute, rules, or practice—between Vermont's EQS and its school funding system. In addition, EQS guidelines do not provide specific resource parameters or requirements; rather, the EQS describes what a quality school should look like and provides for AOE review and intervention, where necessary.

The following sections provide more information on Vermont's Education Fund, as well as how the state accounts for differences in student socioeconomic status, English language status, and other cost factors across districts.

Vermont's Education Quality Standards (EQS)

The EQS describes a framework for ensuring that all students in Vermont public schools are afforded educational opportunities that are substantially equal in quality and that meet or exceed state standards. Each public school is required to meet standards for:

- Curriculum and instruction
- Curriculum content and coordination
- Offering flexible pathways for progression
- Personalized learning
- School leadership
- Staffing
- Staff professional development and evaluation
- Multi-tiered systems of support
- School facilities and learning environment

Schools are also required to participate in the state's comprehensive assessment system and develop and implement their own local comprehensive assessment system.

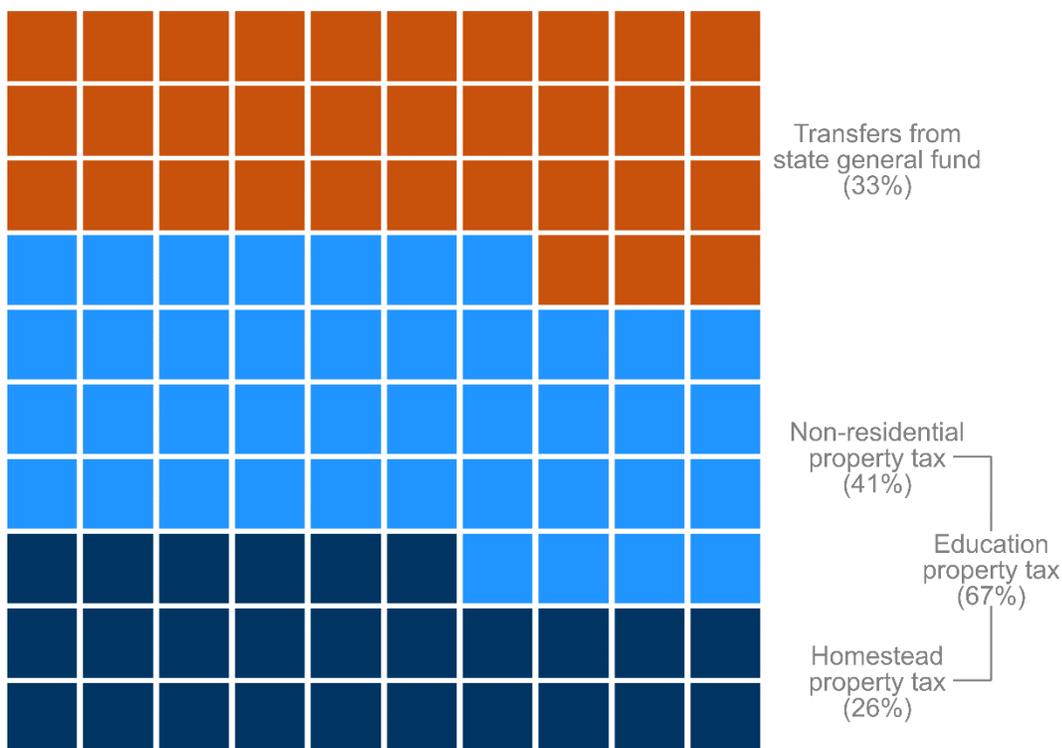
Source: Vermont State Board of Education. (2013). *Manual of rules and practices, Series 2000 – Education Quality Standards*. Retrieved from <https://education.vermont.gov/sites/aoe/files/documents/edu-state-board-rules-series-2000.pdf>

Vermont's Education Fund

Although school budgets are approved by local school district voters, local education spending is funded through a statewide Education Fund. Two primary revenue sources are deposited into the Education Fund: (a) proceeds from statewide education taxes (about two thirds of annual revenue) and (b) an

annual transfer from the state’s General Fund (about one third of annual revenue). The amount transferred from the state’s General Fund is provided for in statute and adjusted each year for changes in overall levels of general education spending (for all purposes). Changes in general education funding levels have implications for other education-related tax rates. For example, assuming no change in education spending levels, a reduction in general education funding translates to an increased education-related tax burden.

Figure 1. Vermont Education Fund Revenue Sources (FY 2020)



Notes: The education property tax consists of non-residential and homestead property taxes. The state General Fund revenues are generated through non-property tax sources, including sales tax, meals and rooms tax, and purchase and use tax.

The Education Fund is used to send money to schools for two basic purposes: (a) education spending and (b) categorical or special programs. Vermont’s school funding law includes three provisions intended to ensure revenue stability for the Education Fund.

1. **Education Fund stabilization reserve.** The state must maintain an Education Fund stabilization reserve “to reduce the effects of annual variations in state revenues upon the Education Fund budget” (16 VSA Section 4026). Statute provides for reserves of 3.5% to 5% of the previous year’s Education Fund’s net appropriations—that is, total appropriations minus that portion of the education tax that is collected at the town level and sent directly to school districts (about \$37 million for FY 2019).
2. **Statutory requirements for General Fund transfers.** Existing statutory provisions for calculating the amount transferred from the General Fund each year provides predictability and transparency in the

state's General Fund obligation (16 VSA Section 4025(a)(2)). In practical terms, this means that unless the General Assembly changes statute, local school districts can calculate the tax impact associated with specific budget decisions.

3. **Education tax rate adjustments.** Statute articulates a procedure for an annual review and, where necessary, adjustment to education tax rates to ensure that the Education Fund has sufficient revenue to pay for approved local school budgets, plus the required stabilization reserve (32 VSA Section 5402(b)).

Adjustments for Differences in Education Costs Across School Districts

Vermont's existing school finance policy largely relies on localities to adopt annual budgets that are sufficient to implement the state's EQS and then adjusts for differences in costs across districts through:

- *categorical grants* that provide supplemental funding for specific programs or services; and
- *weighting* a district's average daily membership for cost factors and then using districts' weighted membership to equalize local per-pupil spending for the purpose of calculating local tax rates.

In effect, the state's categorical grant programs adjust for differences in education costs across school districts by providing explicit, additional state aid that *offsets direct expenditures* in school district budgets. By contrast, the weighting incorporated in the state's funding formula implicitly adjusts for spending differences by equalizing per-pupil spending across districts according to differences in educational costs. This in turn impacts local tax burden to pay for the additional cost of ensuring that all students achieve common educational standards. In other words, at equivalent tax rates, districts with higher costs (as recognized by the weights) will raise more revenue.

Categorical Grants

Vermont's education funding system includes categorical grants that provide supplemental state aid to school districts and schools to offset specific types of educational costs. Most categorical funding programs have specific requirements that must be met to qualify for additional aid and have stand-alone state appropriations.

Three funding programs, in particular, are intended to adjust for specific types of costs through categorical grants: (a) special education, (b) transportation aid, and (c) small schools grants (Table 2).²

² Vermont districts and schools also received categorical grant funding for the following (share of total spending from Education Fund in FY 2019 in parentheses): (1) state-placed students (1%); (2) technical education (0.8%); (3) Early Essential Education (0.4%); and (4) Flexible Pathways (0.4%) (Vermont Agency of Education, 2019). In addition, AOE allocated to school districts approximately \$78.3 in federal grant dollars for categorical programs.

Special education

Given that only 6% of Vermont’s overall special education funding comes from federal grants, the bulk of funding for special education and related services for students with disabilities comes from state and local sources. In recent years, approximately 60% of a school district’s state and local special education costs have been funded by the state through a categorical grant that reimburses districts for allowable costs related to providing special education and related services as specified on a student’s individualized education program (IEP). For FY 2019, the total state appropriation was \$189,382,665.

Table 2. Vermont’s Categorical Grant Programs

Categorical Grant	Authorizing Statute	Description	FY 19 Appropriation
Special Education	16 VSA §2961-2963; 16 VSA §2950(a)	The special education finance program administers the state's special education funding laws. The current state funding formula for K–12 special education services is a reimbursement system.	\$189,382,665
Transportation	16 VSA §4016	Transportation aid is available to reimburse up to half of school district expenditures to transport students to and from school. Exact reimbursement percentages are limited by appropriated amounts and are determined by the amount of district expenditures.	\$9,551,507
Small Schools	16 VSA §4015	Small school districts operating at least one school are eligible for a small schools support grant if the two-year average enrollment is less than 100 or if the average grade size is 20 or fewer.	\$7,274,974

Notes: For FY 2019, Vermont school districts received an additional \$23,644,234 in federal aid for students with disabilities. A total of 148 Vermont school districts and SU/SDs received transportation aid that same year, and state aid was about 45% of allowable transportation costs. In addition, 25 schools received small schools grants in FY 2019, and in this year there were another 47 merger support grants from what used to be the small schools grant program; these grants represent 23 newly merged districts.

In 2017, a study of the state’s special education funding system (Kolbe & Killeen, 2017) found that (a) special education costs were rising, and average spending per IEP was nearly twice that of national benchmarks; (b) the existing reimbursement system may, at times, incentivize localities to overidentify students for special education and to provide services or out-of-district placements that may not be necessary; and (c) the finance mechanism was poorly aligned with the state’s other policy priorities for early intervention and district-based multi-tiered systems of support.

In response, to this study, the General Assembly passed legislation that adopted a new funding model. Starting in FY 2021, Vermont will migrate to a census-based funding model, in which state aid for special education will be allocated to school districts on a per capita basis. This change was intended to break the link between student identification, service delivery, and state aid and provide districts with new flexibility in how they develop systems of support for struggling students.

Transportation aid

The state also operates a transportation grant program, designed to offset spending by supervisory unions and school districts for the cost of transporting students to and from school for regular classroom services. Grantees are eligible to have up to 50% of their allowable expenditures reimbursed by the state.³ Overall, nearly half of transportation spending is funded by state categorical aid; for FY 2019, total state aid for transportation was \$9,551,507, equivalent to about 45% of allowable transportation expenditures statewide.

Small schools grant

Since 1997, Vermont has operated a grant program that provides supplemental funding to “small” districts and schools. This program is intended to offset the higher costs of operation because of limited economies of scale in small districts and schools. Specifically, the state provides formula grants to school districts operating schools with a two-year average combined enrollment of less than 100 students or in instances where the average grade size is 20 or fewer students. Districts that receive small school grants are also eligible for a supplemental stability grant in instances where there is at least a 10% decrease in its two-year average enrollment in any one year. For FY 2019, \$7,274,974 was allocated from the small school grants program to 25 school districts.

In 2015, as part of the state’s larger effort to encourage consolidation among Vermont’s small districts and schools, Vermont’s General Assembly put in place two additional criteria that schools must meet to qualify for a small schools grant (Act 26, Section 21). Specifically, schools must (a) be geographically isolated and (b) demonstrate that they are operating efficiently or are otherwise performing well. The law defined geographic isolation in terms of transportation routes, specifically “lengthy driving times or inhospitable travel routes between the school and the nearest school in which there is capacity” (16 VSA §4015(B)(i)). A school’s performance and efficiency were defined broadly as “measurable success in providing a variety of high-quality educational opportunities that meet or exceed” the state’s EQS, inclusive of outcomes for students from economically disadvantaged backgrounds. The law also required the use of student-to-staff ratios and participation in a merger study as part of its assessment of efficiency (16 VSA §4015(B)(I-IV)).

The State Board of Education was charged with the task of adopting the metrics used to determine eligibility. In its efforts to do so, the board noted that developing metrics that are “objective, comparable, and measurable” was a challenging task, especially measuring geographic isolation and the excess capacity of neighboring schools (Huling, 2018). As an interim measure, the board defined the metric for geographic isolation as a “school more than 15 miles from the nearest school in which there is capacity, or more than 5% of the applicant school’s students reside more than 15 miles from the nearest school in which there is capacity”. The board also recommended a system for using data from the AOE’s Annual Snapshot–Academic Proficiency category to evaluate school performance.

More recently, the Study of Pupil Weights in Vermont (Kolbe, Baker, Atchison, & Levin, 2019) recommended that the small schools grant program be abolished and instead pupil weights for school

³ It is important to note that not all Vermont school districts provide transportation, and some do so for only certain grade levels (e.g., students in the elementary grades).

size and population density be used in the formula to calculate a district's annual equalized pupil count, which gives higher weight to certain categories of students in proportion to their assumed costs. The equalized pupil count is explained further in the next section on pupil weighting.

Weighting

Vermont's use of pupil weights differs from how weights are used in most other state funding formulas. In more than 30 other states, weights are used to determine the amount of state aid a local school district receives as a part of a foundation formula (Augenblick, Palaich & Associates, 2018). By contrast, in Vermont, spending is first determined by the local school districts. The weights are then used to generate cost-adjusted spending figures that are used to calculate local tax rates with the intent of equalizing tax effort across school districts. As a result, the weights used in Vermont's formula are not applied in a comparable way to other state school funding formulas because they do not directly influence spending but, rather, influence tax rates. Hopefully, however, they indirectly influence spending by allowing higher cost school districts to spend more revenue at a given tax rate compared with lower cost districts. More specifically, the tax rate needed to achieve a given level of per-pupil spending is lower in districts with higher weighted pupil counts. More detail on how these weights affect education tax rates is provided in the Education Property Tax section below.

Currently, Vermont recognizes four categories of students who are presumed to have higher or lower costs (current weights are in parentheses and are centered around 1.00).⁴

1. **Economically disadvantaged students (1.25).** A district's membership is increased to adjust for the additional costs of educating students from economically disadvantaged backgrounds. Economically disadvantaged students are defined as students who reside with a family unit receiving nutrition benefits or for whom English is not the primary language. The current weight was established by Act 60 (1997) and has not been adjusted since that time.
2. **ELL students (1.20).** A district's membership is increased to adjust for the additional costs of educating students with limited English proficiency (i.e., ELL students). The current weight was established by Act 60 (1997) and has not been adjusted since that time. Because ELL students are also included in the definition of economically disadvantaged students, ELL students effectively receive a total weight of 1.45.
3. **Secondary students (1.13).** The weight for secondary students is used to adjust a district's long-term membership for the number of students enrolled in Grades 7–12.⁵ Prior to FY 2009, the secondary student weight was 1.25.

⁴ Centering around 1.00 means that weights larger than one increase the weighted pupil count, whereas weights less than 1.00 decrease the weighted pupil count. For example, the economically disadvantaged weight of 1.25 means that an economically disadvantaged student counts as 25% more than a non-economically disadvantaged student in the same grade in the calculation of weighted pupils.

⁵ The secondary student weight is applied to the actual average number of resident secondary students (Grades 7–12) during the two most recent school years.

4. **Prekindergarten students (0.46).** The existing formula deflates prekindergarten students when calculating a district’s long-term membership.

The weights are used to calculate a district’s long-term weighted PK–12 average daily membership (ADM). Statewide, the long-term weighted ADM exceeds the number of actual pupils in the state. An “equalization ratio” is then calculated to deflate the long-term weighted ADM back to the actual number of students in the state. This ratio is then applied to each school district’s long-term weighted ADM to generate an “equalized pupil count” for each Vermont school district. For districts with high costs, as defined by the pupil weights, the equalized pupil count will be greater than actual (unweighted) enrollment. For districts with low costs, the equalized pupil count will be less than actual (unweighted) enrollment.

Equalized pupil counts are used in the calculation of each district’s *equalized spending per-pupil* amount, which is subsequently used to calculate tax rates (described later in the brief). To calculate equalized per-pupil spending for a given fiscal year, AOE first calculates education spending in each district as the district’s approved budget less other revenues from federal and state categorical grants, deficit carryover spending from the prior year, and tuition it receives.⁶ Equalized per-pupil spending is then calculated by dividing education spending by the number of equalized pupils in a school district. Equalized spending per pupil is a key determinant of a district’s education tax rates, as detailed in the next section.

Education Property Tax

As previously described, about two thirds of recurring revenues deposited into Vermont’s Education Fund are raised from a statewide education property tax. The amount raised through this tax is equivalent to the amount needed to pay for approved school district budgets statewide, net available non-property tax revenues available for transfer from the state General Fund.⁷ The education property tax consists of two components: (a) non-residential property tax and (b) homestead property tax.

The non-residential property tax is applied to all taxable real property in the state that does not meet the statutory definition for a “homestead” (e.g., commercial and industrial, rental housing, second homes, and open land). The non-residential property tax rate is uniform across all Vermont towns.

The *homestead property tax* operates as a property tax with an adjustment for household income (Table 3). Individuals with low incomes (<\$47,000) pay their education property tax based solely on income with tax caps in place, whereas those with relatively high household incomes (>\$136,277) pay their education property tax based solely on homestead value. Those in between pay the regular income-based tax plus property tax on the property value in excess of a given threshold. The purpose of this structure is to ensure that individuals with low incomes do not face excessive tax burden from their property taxes.

⁶ As a result, tax rates that are calculated using total statewide education spending do not reflect the total level of spending across districts (i.e., the full budgeted amount). Rather, what is included is general payroll and operating costs that do not have specific funding sources, special education not covered by federal aid or state categorical grants, transportation costs not covered by state categorical aid, tuition owed by a district, and federal funding through its consolidated grant program.

⁷ The revenues that supply the state General Fund are from non-property tax sources including proceeds from (1) sales and use tax, (2) meals and rooms tax, (3) purchase and use tax, (4) state lottery transfer, (5) Medicaid transfer, and (6) wind and solar.

Table 3. Homestead Education Taxes by Household Income of Taxpayer

Household Income	Homestead Tax	Notes
<\$47,000	Pays a fixed (and capped) percentage of household income for the net homestead tax and the municipal property tax.	The tax rate is based on tax caps ranging from 0.5% to 2.0% based on income level.
\$47,001–\$90,000	Pay the tax based on household income using the regular income-based tax rate.	Limited to a homestead's value up to \$400,000; above that amount taxpayer pays the education property tax on housing value above \$400,000. Most people in this category pay only the income-based tax rate.
\$90,001–\$136,277	Pay the tax based on household income plus the education property tax based on homestead value over \$225,000.	Many homestead owners in this category pay a mix of income and property tax, causing overall rates to vary across individuals within this income category.
>\$136,277	Pays the education property tax on the full assessed homestead value.	

Notes: About 70% of Vermont resident homeowners are eligible for an income-based adjustment to their property tax.

Source: Vermont Legislative Joint Fiscal Office (2019; retrieved from https://lifo.vermont.gov/assets/Uploads/954aca7798/Introduction_to_Vermont_s_Education_Finance_System_-_January.pdf).

By statute, as a starting point, the base homestead property tax rate is set at \$1.00 per \$100 of assessed property value (or 1% of assessed property value) for homestead property and 2% of household income where income is used instead of property value.⁸ This rate is subsequently adjusted upward in proportion to a district's equalized spending per pupil. Specifically:

$$\begin{aligned}
 (1) \quad \text{Homestead property tax rate}_{\text{town}} &= \$1.00 \times \frac{\text{Equalized spending per pupil}_{\text{district}}}{\text{Statewide property yield}} = \\
 &= \$1.00 \times \frac{\text{Education spending}_{\text{district}}}{\text{Equalized pupil count}_{\text{district}}} \times \frac{1}{\text{Statewide property yield}}
 \end{aligned}$$

$$\begin{aligned}
 (2) \quad \text{Homestead income tax rate}_{\text{town}} &= 2\% \times \frac{\text{Equalized spending per pupil}_{\text{district}}}{\text{Statewide income yield}} = \\
 &= 2\% \times \frac{\text{Education spending}_{\text{district}}}{\text{Equalized pupil count}_{\text{district}}} \times \frac{1}{\text{Statewide income yield}}
 \end{aligned}$$

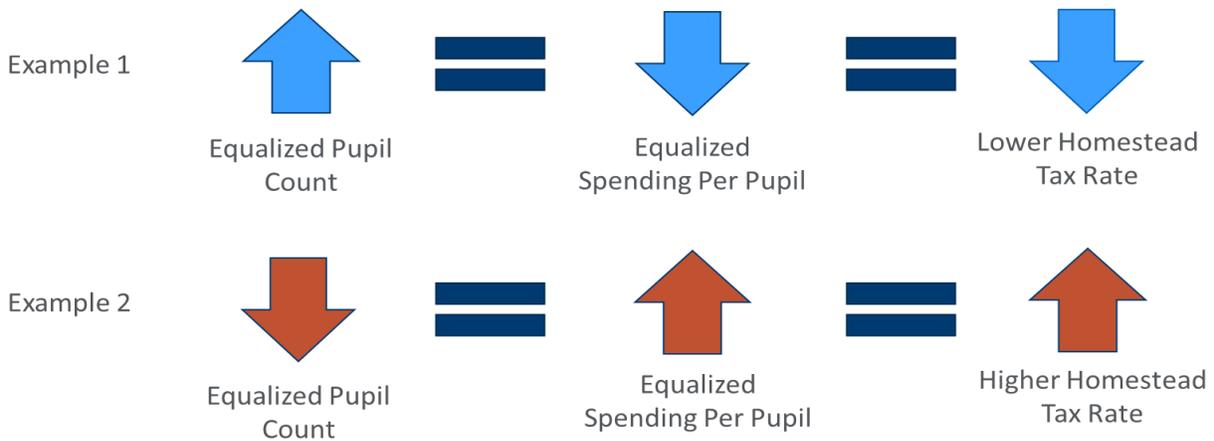
The concepts of *yield* and *equalized spending per pupil* are specific to Vermont's education finance formula. The property yield is the amount of per-pupil spending that the Education Fund can support with

⁸ Education tax rates are initially set so that the Education Fund is in balance. The Education Fund is considered in balance when (1) the Fund's stabilization reserve is funded at 5% of prior year net appropriations, (2) the percent change in the average tax bill on all classes of taxpayers is the same, and (3) the allocation of tax burden takes into account the rate of growth of the respective tax bases. The initial education tax rates are recommended by the Tax Commissioner; however, this is a starting point for the General Assembly's deliberation because the legislature is not bound by these constraints.

a uniform homestead tax rate of \$1.00 per \$100 of assessed property value on a homestead value and the income yield equal to 2% of household income. In other words, if district spending per equalized pupil was equivalent to the yield, their tax rates would be \$1 per \$100 of assessed value for homestead property taxes and 2% of household income for homestead income taxes. For FY 2019, the property yield was \$10,220 per pupil and the income yield was \$12,380. Property tax rates and income tax rates increase proportionally for school districts that choose to spend more than the yield. For example, in a school district spending \$15,330 per equalized pupil, or 150% of the property yield, the homestead property tax rate is \$1.50 per \$100 of assessed property value. Similarly, in a school district spending \$18,570 per equalized pupil, or 150% of the income yield, the tax rate is 3.0% of household income. The *yield* (both property and income) and the non-residential property tax are used to balance the Education Fund’s revenues and expenditures.⁹

For the purposes of setting tax rates, *education spending* by a school district is equal to the voter-approved budget amount *net* offsets for federal and state categorical aid, tuition revenues from other school districts, prior years’ surplus or deficit, and reserve funds. This spending amount is further adjusted for differences in costs across school districts by *equalizing* the number of pupils using a system of pupil weights, as described in the previous section. Districts with relatively high costs, as defined by the weights, will have more equalized pupils than their actual attendance, driving down equalized spending per pupil and the corresponding homestead property tax rate, as shown in Equation 1 above. In contrast, districts with relatively low costs will have fewer equalized pupils than their actual attendance, increasing their equalized spending per pupil and the corresponding homestead property tax rate (Figure 2). The result of this process is a set of town-specific tax rates that are tied to locally approved spending levels and are adjusted according to student costs. Tax rates are equivalent for towns that have the same adjusted per-pupil spending amount, regardless of local wealth.

Figure 2. Impact of Equalized Pupil Calculation on Tax Rates



Note: Examples assume a constant level of education spending.

⁹ By statute, the property and income yields are set so that the increase of average homestead tax rates, income tax rates, and non-residential rates are all at the same percentage and so that the Education Fund’s reserve is fully funded at 5%.

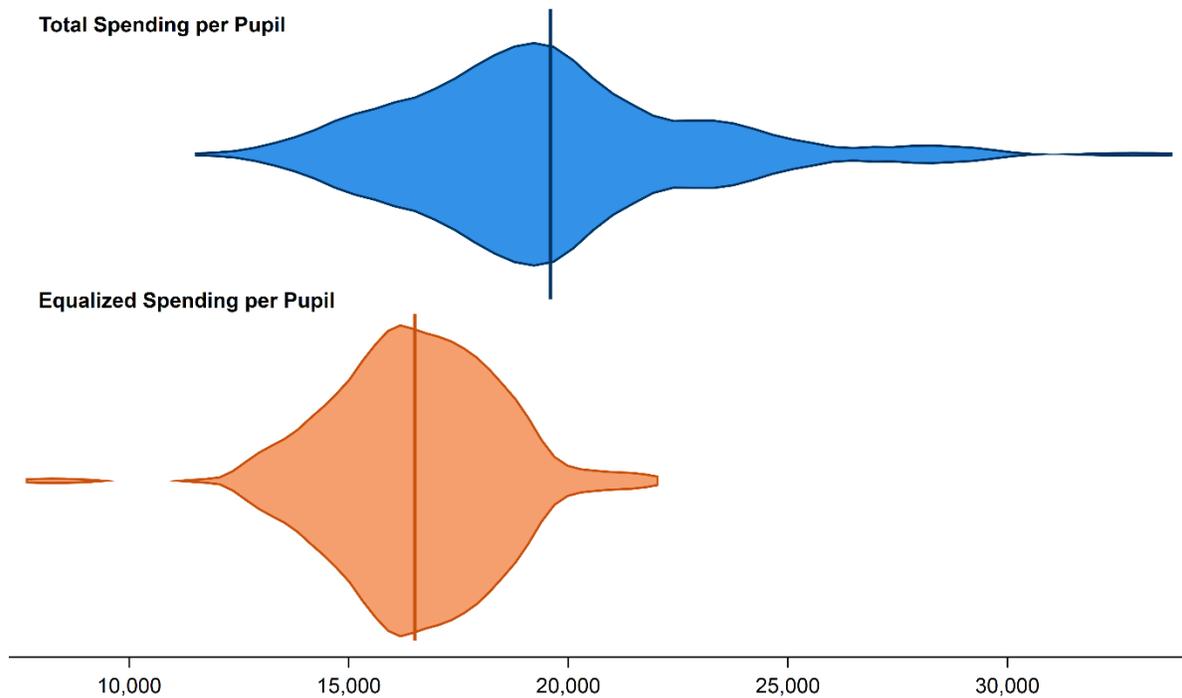
Vermont's Education Spending in Practice

Variation in Spending Across Districts in Vermont's Current System

Local discretion in school spending has resulted in considerable variation in school spending across the state's school districts. Figure 3 shows the distribution of both total spending per pupil (top panel) and equalized spending per pupil (bottom panel). The "thicker" portions of the plots indicate more common district spending levels. For FY 2020, the average per-pupil spending amount was approximately \$19,000; however, Vermont districts spent as little as \$12,349 and as much as \$32,903 (as shown by the leftmost and rightmost bounds of the blue density plot). In particular, there is a long "tail" of districts on the rightmost portion of the plot, showing that a few districts spend much more than the state average. Existing statute does provide for an upper-bound per-pupil spending amount, above which a school district is subject to a tax penalty. The intent underlying this threshold was to constrain high levels of spending, particularly for property-wealthy school districts with preferences for higher levels of educational investment that would be unattainable by their less wealthy peers. For FY 2020, the spending threshold was \$18,311. School districts that spent more than that amount were taxed at a higher rate for the additional spending increment—for example, a school district spending \$18,500 per pupil would be \$189 over the threshold, and as a penalty the state would double that overage so that instead of being taxed for \$18,500 per pupil the district would be taxed for \$18,689.

Equalized spending per pupil has a much tighter distribution compared to total spending per pupil (bottom panel of Figure 3, in orange). The vast majority of districts have equalized per-pupil spending between \$10,000 and \$15,000. The exclusion of spending from federal sources and state categorical aid (e.g., for special education) as well as transportation spending and others tightens the distribution. However, even when using equalized spending per pupil, some districts spend much more than others. In addition, there are a few districts where equalized spending per pupil is less than \$10,000, far below the state average. Recall that student weights affect the education tax rates districts pay but do not directly determine how much districts actually spend. If the distribution of spending across districts reflected the state's weighting for student costs, then there would be little variation in equalized spending across districts. Figure 3 suggests that the distribution of spending does not reflect the state's weighting of students; that is, not all students in the state receive education spending in proportion to their costs, as specified by the pupil weights.

Figure 3. Distribution of Per-Pupil Spending Across Vermont School Districts (FY 2020)



Note: These plots show the number of districts corresponding to different levels of total spending per pupil (blue distribution) and equalized spending (orange distribution). Vertical lines through each distribution represent the average. The distribution height is indicative of the number of districts with a given level of spending. Total spending per pupil by district is calculated as the total budgeted spending for FY 2020 divided by a school district’s two-year average for daily membership. Equalized spending per pupil by district is calculated as education spending for FY 2020 divided by a school district’s equalized pupil count. Spending from federal and state categorical aid, tuition revenues from other school districts, prior years’ surplus or deficit, and reserve funds are not included as part of equalized spending per pupil.

Source: Calculations provided by the Vermont Agency of Education (AOE).

Updating Education Cost Adjustments

In 2019, Vermont’s General Assembly and AOE commissioned a study to analyze its current policies that adjust for differences in costs across school districts (Kolbe et al., 2019). Stagnation in the state’s education funding policies has been a source of concern. Existing policies are widely viewed as outdated and falling short of equalizing educational costs across school districts and, by extension, opportunities to learn for students across the state.

The report recommended that the magnitude of the existing weights be increased, and new weights be added for small schools (<250 students) and schools operating in population-sparse areas. In addition, the study recommended a new categorical grant program that provides state aid to schools to offset the cost of paying for appropriate services and supports for students with critical mental health issues and who have experienced childhood trauma.

Summary

Vermont's school funding policy is unique among states. The state's existing policy prioritizes (a) local control over school budgets and (b) taxpayer equity. Districts set their own budgets, and the state equalizes the tax burden across towns using an income-adjusted homestead tax system, with a district's tax rate decreasing in its level of student costs.

Vermont's policy framework highlights several considerations for the design and adoption of school finance reform in New Hampshire.

- *In what ways, if at all, should New Hampshire's school funding policy seek to strike a balance between local decisions over spending and resource allocation and state responsibility for ensuring equal educational opportunities across all school districts?* In Vermont, there is currently no link (in statute, rules or practice) between the state's EQS and the school funding system. In addition, the state has limited authority over local spending decisions. That is, Vermont's system is designed to emphasize tax equity but not to guarantee that distribution of spending across districts reflects the costs the districts must incur to ensure equal educational opportunities, regardless of differences in student needs and other cost factors.
- *What does taxpayer equity look like in New Hampshire?* Vermont's current education tax was put in place as a response to the *Brigham* Court decisions, which found substantial education spending differences between communities with more and less wealth unconstitutional. In response, the state established the Education Fund that collects revenues from a statewide property tax and mandatory transfers from the state's General Fund. The Education Fund is balanced each year to pay for each district's education spending.
- *How might New Hampshire's school funding policy best adjust for differences in costs across school districts?* Vermont uses both pupil weights and categorical state aid programs to adjust for differences in costs across school districts. Pupil weights implicitly adjust spending levels for cost differences by allowing districts with relatively higher costs to raise more revenue at a given tax rate, while categorical aid programs provide additional state aid for targeted programs and services and come with spending requirements and restrictions.

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