

Education Fund Reformation
Cynthia Browning

The Vermont Legislature has not yet finalized this year's education property tax rates, but it looks as if education property taxes may go up from twelve to eighteen percent. One of the reasons that they are so high is that the state is using the Education Fund to cover the costs of certain housing and conservation programs, despite the fact that the Education Fund is supposed to be used only for educating our children.

The non-education Current Use and Homestead Property Tax Credit programs that are covered in the Education Fund cost about \$200 million or about 20 cents on the education property tax rate. Current Use pays part of the property taxes for land that is actively managed for forestry and agriculture. The Homestead Property Tax Credit pays part of the education property taxes for Vermonters at certain income levels, so that it subsidizes housing. Both these programs are important and worthwhile, but they are not education. Significantly, before there was an Education Fund these state programs were paid for in the General Fund.

These non-education programs could be removed from the Education Fund (EF) and covered in the state's General Fund (GF) over a period of time. For instance, \$50 million of the total \$200 million cost could be removed each year for four years, which would allow time for the GF to absorb the extra costs. If the legislature began this process this year, education property tax rates would be about five cents lower than they now will be. Since the programs subsidize property tax payments, when their costs are removed from the EF and education property tax rates are lower than they otherwise would be, these programs will actually cost less in the GF than they would in the EF.

When paid for in the GF the Current Use program should be left as it is. But the Homestead Property Tax Credit program should be re-designed because the current system creates inequities and inefficiencies. When a homeowner is eligible for a Homestead Credit, that credit will be reduced if anyone else joins their household because the total household income will be higher. So there is an incentive to have smaller households and thus less efficient use of our housing stock. In addition, a household with a very valuable house can end up getting a larger credit than households with the same income but less valuable houses, which doesn't seem fair.

The State has probably been using the Education Fund to cover non-education state costs because of convenience. In other state funds the tax rates are fixed and seldom changed, and planned spending is limited by expected revenue. But with the EF spending is set first, and then education property tax rates are set to cover that spending, which is more flexible form of cost control. We should aim for education property tax rates that stay about the same, with growth in revenue that comes from growth in the Grand List over time. Removing the state costs from the EF alone would not relieve all of us from our responsibility to control education costs with our school district votes as best we can.

Current legislation would establish a study committee to evaluate Education Finance, including the question of what state costs can legitimately be covered in the Education Fund. But we already know the answer to that, don't we? Only education costs should be covered in the Education Fund.

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