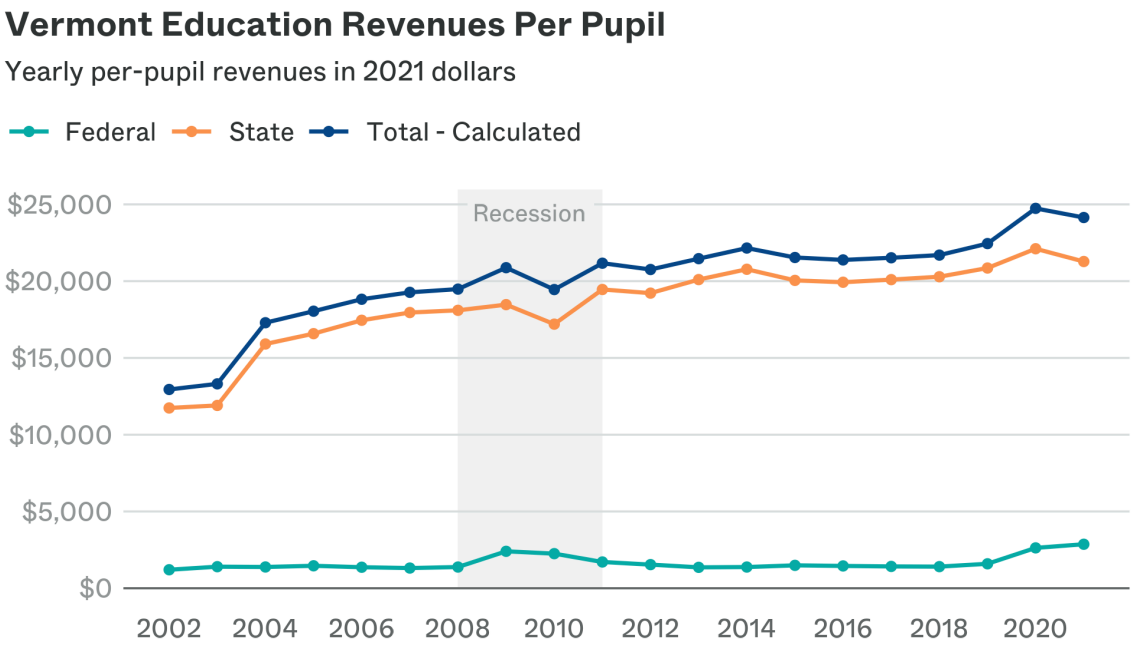
VERMONT

Lessons from the Great Recession

1. How did the Great Recession affect education spending?

The Great Recession provides some indication of how Vermont's education budget may fare during a future recession. Overall, Vermont showed remarkable resiliency in maintaining its education budget. This speaks to both state and voter commitment, as local voters could have pushed for smaller education budgets to reduce property taxes in light of the recession. The state cut education spending by roughly 7 percent between the 2009 and 2010 school years, with reductions somewhat offset by federal funding through the American Recovery and Reinvestment Act (ARRA). State spending surpassed pre-recession funding levels in 2011. Between 2011 and 2012, it was one of only nine states to see inflation-adjusted increases in spending per student.[1] While this analysis doesn't capture how funds were spent, it does indicate that the Education Fund and funding policy structure worked to preserve school funding during a period of significant economic stress.

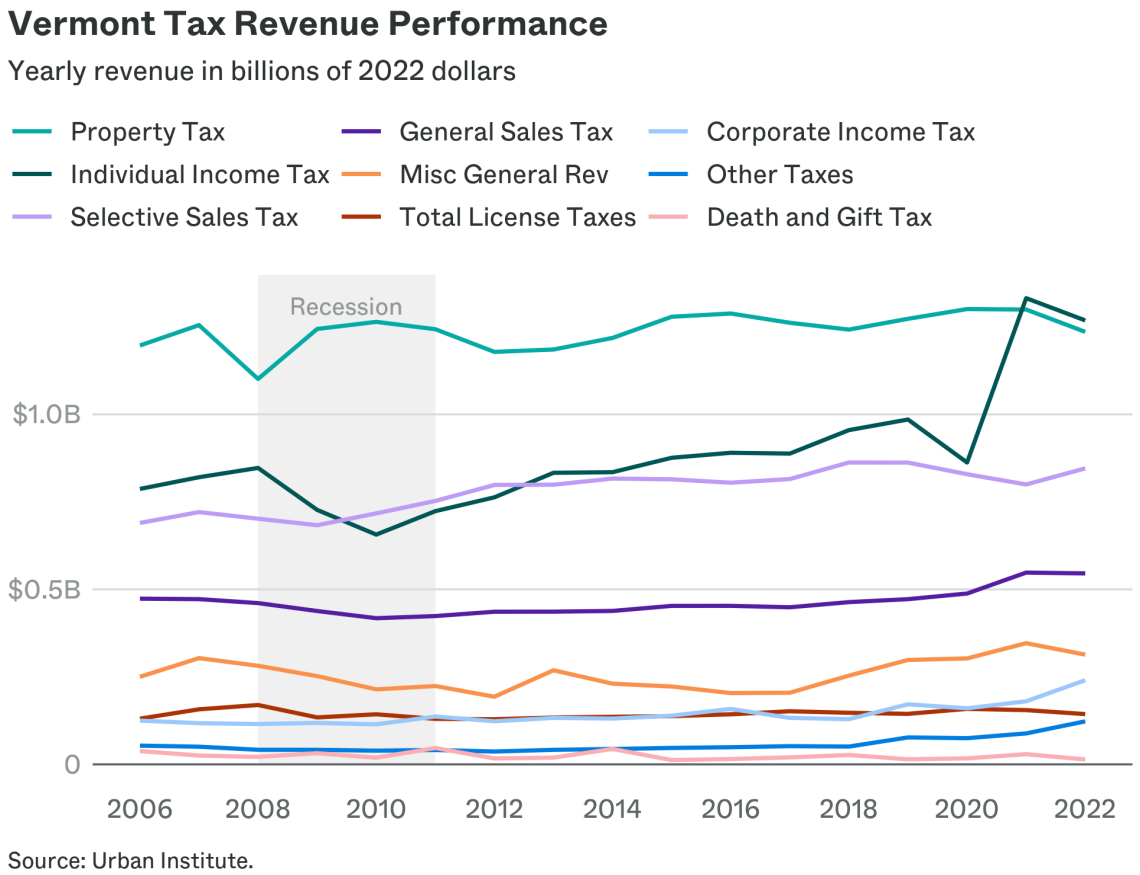


Source: National Center for Education Statistics.

2. How did the state's revenue base perform during the Great Recession?

The property tax, general sales tax, and selective sales taxes are the primary sources of education revenue. In the immediate aftermath of the Great Recession, property tax revenues sharply declined, but then quickly bounced back because of the unique structure of Vermont's education finance system. Property tax rates are determined based on districts' approved education budgets, so the state was able to increase tax rates to maintain education spending.[2] Selective sales taxes initially declined during the recession, but they saw steady growth beginning in 2010, buoyed by new cigarette taxes.[3] General sales taxes remained stable, supported by a policy change extending the sales tax to include liquor and digital downloads.

It took roughly three years for Vermont's tax revenues to fully recover from the Great Recession, shorter than the national average state recovery time of 4.5 years.[4] A future recession may be driven by different types of economic shocks. But this analysis does suggest that Vermont's education funding structure—its reliance on a mixture of fairly stable revenue sources and the ability to adjust property tax rates to maintain spending levels—provides some degree of revenue resiliency.



Source: Urban Institute.

Notes

1. Phil Oliff and Michael Leachman, *New School Year Brings Steep Cuts in State Funding for Schools* (Center on Budget and Policy Priorities, October 7, 2011), https://www.cbpp.org/research/new-school-year-brings-steep-cuts-in-state-funding-for-schools.
2. Sara Teachout, Joyce Manchester, and Chloe Wexler, *The Vermont Tax Study: 2005–2015 Summary Report* (Vermont Joint Fiscal Office, January 17, 2017), https://ljfo.vermont.gov/assets/docs/reports/7988191a80/2017-VT-Tax-Study-Summary-1-17-2017.pdf.
3. Nicholas Johnson, Catherine Collins, and Ashali Singham, *State Tax Changes in Response to the Recession* (Center on Budget and Policy Priorities, March 8, 2010), https://www.cbpp.org/sites/default/files/atoms/files/3-8-10sfp.pdf.
4. Barb Rosewicz, Justin Theal, and Alexandre Fall, "Decade After Recession, Tax Revenue Higher in 45 States," Pew, January 9, 2020, https://pew.org/39AxqhJ.