VERMONT LEGISLATIVE
Joint Fiscal Office
1 Baldwin Street • Montpelier, VT 05633-5701 • (802) 828-2295 • https://ljfo.vermont.gov

Fiscal Note

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Julia Richter, Senior Fiscal Analyst

H.850 – An act relating to transitioning education financing to the new system for pupil weighting

As passed by the General Assembly[1]

Bill Summary

This bill would repeal the transition mechanism established in Sec. 7 of Act 127 (2022)[2], which included the five percent capping of homestead property tax rates and the Tax Rate Review. It proposes for a new tax rate transition mechanism to be implemented between fiscal years 2025 and 2029. The proposed transition mechanism would grant a discount to some district homestead property tax rates for those who experience a decrease tax capacity, which are the result of changes between the fiscal year 2024 pupil weighting calculation and the fiscal year 2025 pupil weighting calculation. The overall fiscal impact of these changes to the Education Fund is unclear. The bill would appropriate $500,000 from the General Fund to the Secretary of State in fiscal year 2024 to offset election costs incurred by school districts due to rewarning and/or postponing budget votes.

Fiscal Impact

The Joint Fiscal Office (JFO) cannot estimate the overall fiscal impact to the Education Fund in fiscal year 2025 from this bill. Specifically:

- JFO cannot estimate the fiscal impact of repealing the original transition mechanism because of its complex circular nature. The effect of potential behavioral shifts associated with its repeal is unknown, as well.
- When all else is equal, JFO estimates the new transition mechanism will cost the Education Fund $30 million in fiscal year 2025. Absent any other changes in policy, the homestead yield and/or nonhomestead property tax rate will need to be adjusted to cover this cost.

This bill appropriates $500,000 from the General Fund to the Secretary of State in fiscal year 2024 to offset election costs incurred by school districts as a direct result of rewarning or postponing school district budget votes.

[1] https://legislature.vermont.gov/Documents/2024/Docs/BILLS/H-0850/H-0850%20As%20Passed%20by%20Both%20House%20and%20Senate%20Official.pdf

[2] Act 127 (2022): https://legislature.vermont.gov/Documents/2022/Docs/ACTS/ACT127/ACT127%20As%20Enacted.pdf

Background and Details

The following sections have a fiscal impact.

Section 2

This section would repeal the transition mechanism established by Sec. 7 of Act 127. The repeal of the transition mechanism includes the repeal of the five percent capping of tax rates, as well as the Tax Rate Review.

JFO cannot estimate the fiscal impact associated with the repeal of the mechanism for two reasons. First, the transition mechanism has a complex and circular nature within the Education Fund – capping one school district's rate shifts costs back onto the Education Fund, requiring that the yield be adjusted in turn. Second, because school district budgets are built at the local level, JFO cannot estimate the impact of any behavioral shifts and associated budget changes that may occur in response to the repeal.

Section 3

This section would establish a new transition mechanism, to take place between fiscal years 2025 and 2029. The mechanism would apply a cent discount to some district tax rates, based on changes in tax capacity due to pupil weighting changes between fiscal years 2024 and 2025. Those most impacted who have a reduced tax capacity due to the weights will have this transition discount for up to 5 years

To calculate the cent discount, the Agency of Education (AOE) must first calculate the change in tax capacity for each district:s

1. First, the district's Long Term Weighted Average Daily Membership (LTWADM) for fiscal year 2025 is calculated using the weighting identification and calculation from fiscal year 2024 and the identification and calculation that will be used in fiscal year 2025.
2. Then, the district's percentage share of the statewide total LTWADM is determined for both weighting calculations.
3. Finally, the change in a district's percentage share of the statewide total LTWADM from the fiscal year 2024 weighting calculation to the fiscal year 2025 weighting calculation is calculated. This is used as a measure for changes in tax capacity. For example, when all else is equal, districts that saw their share of the total statewide LTWADM increase would see an increase in their tax capacity and vice versa.

In fiscal year 2025, the homestead property tax rate for districts that experience a decrease in tax capacity, as calculated in step 3, would decrease by $0.01 for each percent decrease of their share of the statewide LTWADM, rounded to the nearest cent. For example, if a district's share of the statewide LTWADM decreases by 12% between fiscal year 2024 and fiscal year 2025, it would receive a $0.12 decrease on its homestead property tax rate.

If implementing the rate reduction would cause a district's homestead property tax rate to fall below $1.00, the rate would be adjusted to $1.00 instead.

In fiscal years 2026 through 2029, districts would receive decreasing reductions to their tax rates compared to the decrease received in fiscal year 2025 – 80% in 2026, 60% in 2027, 40% in 2028, and 20% in 2029.

Section 4

This section proposes to allow school districts to cancel a district vote on the fiscal year 2025 budget, amend the proposed budget, and hold a vote at a later date on or before April 15 2024.

This section also appropriates $500,000 from the General Fund to the Secretary of State in fiscal year 2024 to offset election costs incurred by school districts as a direct result of rewarning and/or postponing of a school district budget vote.