



VERMONT LEGISLATIVE
Joint Fiscal Office

1 Baldwin Street • Montpelier, VT 05633-5701 • (802) 828-2295 • <https://jfo.vermont.gov>

Fiscal Note

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Julia Richter, Principal Fiscal Analyst

S.220 – An act relating to addressing education spending in fiscal years 2028 and 2029

As recommended by the Senate Committee on Finance Draft 2.1¹

Bill Summary

This bill would amend the excess spending adjustment by lowering the excess spending threshold's calculation to 112%. It would also exclude all voter-approved bond payments toward principal and interest from education spending for the purpose of calculating excess spending. Finally, it would create a hold harmless provision from the excess spending adjustment if school districts did not increase their education spending or per pupil spending from the preceding year, or if the Secretary of Education deems the increase was for good cause or beyond the district's control.

Fiscal Impact

The fiscal impact of this bill is unclear. This bill would lower the excess spending threshold starting in fiscal year 2028. As a result, more school districts would need to adjust their budgets to account for the lower excess spending adjustment, either by reducing education spending or paying a double tax on the portion that exceeds the threshold. This bill's overall fiscal impact would depend on future local decisions that the Joint Fiscal Office (JFO) cannot estimate at this time. Because this bill would amend the excess spending threshold, it may impact the share of local homestead property taxes raised from each community.

If the change to the excess spending threshold and the hold harmless provision had been in effect for fiscal year 2027, JFO estimates that approximately \$21 million would have exceeded the excess spending threshold. This represents an approximate increase of excess spending of \$16 million compared to the estimated \$4.7 million in fiscal year 2027 under current law. This estimate is based on preliminary school budget information.

The bill also expands exclusions from the excess spending threshold and creates a hold harmless provision. JFO cannot estimate if these provisions would impact voter or school district behavior, including school district bonding decisions. Excluding all bond payments from the excess spending adjustment, may increase future bonding costs to the Education Fund if school districts had previously forgone bonding due to those current law provisions.

¹ *The Joint Fiscal Office (JFO) is a nonpartisan legislative office dedicated to producing unbiased fiscal analysis – this fiscal note is meant to provide information for legislative consideration, not to provide policy recommendations.*

Background and Details

The following sections have a fiscal impact.

Section 1: Excess Spending Adjustment Bonding Exemption Changes

The excess spending adjustment impacts education property tax rates, so that districts spending above it are taxed doubly on the excess spending amount. Under current law, voter-approved bond payments toward principal and interest for bonds approved prior to July 1, 2024 are excluded from education spending for the purposes of calculating excess spending. Section 1 of this bill would repeal the deadline condition, so that all bond payments would be excluded from education spending for the excess spending calculation, regardless of when the bond was approved.

The excess spending adjustment is a tax mechanism that impacts the amount raised from certain homestead property taxpayers but does not impact the total amount to be raised. Bond payments would still be included in the calculation of education spending and would only be excluded for the purpose of calculating excess spending of a school district. This would result in school districts above the excess spending threshold not receiving a double tax penalty on bond payments, which absent any other changes in policy, would result in other school districts' tax rates increasing to make up for the lack of penalty. In other words, this would spread more of the cost of a school district's debt service across all property taxpayers in the State, and reduce the amount covered by property taxpayers in the school district spending above the threshold.

According to data from the Vermont Bond Bank, there is forecasted to be annually approximately \$11.6 million in additional debt service across 11 school districts that would be eligible for exclusion under this bill. The impact of the exclusion of this debt service from the excess spending penalty would depend on the school districts' education spending approved by voters.

JFO cannot estimate if this bill will impact voter or school district behavior regarding school district bonding decisions. Expanding this exclusion may increase the amount of bonding (along with related costs) if school districts did not pursue a bond because of the excess spending penalty.

Section 2: Excess Spending Threshold and Hold-Harmless Provision

Section 2 would amend the calculation of the excess spending threshold and create a hold harmless provision from the excess spending adjustment for certain school districts.

The excess spending adjustment is a tax provision that creates a double tax on the amount that a school district spends per weighted pupil above the excess spending threshold. The excess spending threshold is calculated annually by increasing the fiscal year 2025 average per weighted pupil spending by inflation and then multiplying that figure by 118%. For fiscal year 2027, the excess spending threshold is \$16,470 per weighted pupil.

Section 2 would amend the calculation of the threshold to be multiplied by 112% instead of 118%. If that percentage change were to have been implemented in fiscal year 2027, the excess spending threshold would have been \$15,633.

Section 2 would also create a hold harmless provision from the excess spending adjustment if school districts did not increase their education spending or per pupil spending from the preceding year, or if the Secretary of Education deems the increase was for good cause or beyond the district's control. If the changes included in Section 2 had been in effect for fiscal year 2027, approximately \$21 million would have exceeded the excess spending threshold, \$16 million more compared to the estimated \$4.8 million under current law.

ⁱ The full fiscal note history is available on the fiscal tab of the bill page on the General Assembly website and can be pulled up through a bill number search on the JFO page.