

# Vermont Legislative Joint Fiscal Office

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## *FISCAL NOTE*

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### **H.152 - An act relating to education property tax as passed by House**

#### **Bill Summary:**

- Sets the uniform nonhomestead property tax rate, the property dollar equivalent yield, and the income dollar equivalent yield for FY2022.
- Excludes spending on eligible school construction projects from the determination of “excess spending” if the project has received preliminary approval from the Agency of Education.
- Provides that no school district’s equalized pupil count shall be less than 96.5% of the actual number of equalized pupils in the school district in the previous year.
- Extends eligibility for merger support grants to all school districts including those districts that were not required to merge or were merged by the State Board of Education.

#### **Education Property Tax Rates for FY2022**

Section 1 sets the uniform nonhomestead tax rate at \$1.612 per \$100 of fair market value, the property equivalent yield at \$11,317 per equalized pupil, and the income equivalent yield at \$13,770 per equalized pupil.

The following table compares the average education property tax rates proposed in this bill to actual average education property tax rates in FY2021:

	<u>FY2021</u>	<u>FY2022</u>	<u>Change</u>
Average homestead property tax rate	\$1.538	\$1.523	-\$0.015
Average tax rate on household income	2.5%	2.5%	0.0%
Uniform nonhomestead tax rate	\$1.628	\$1.612	-\$0.016

The education tax rates proposed in this bill are set high enough to fully cover projected FY2022 education spending, to maintain the 5% stabilization reserve, and to carry a projected \$17 million surplus into FY2023.

An updated Education Fund Outlook for FY2022 is available here:

<https://ljfo.vermont.gov/assets/Subjects/Education-Fund-Outlooks-for-2021-Session/f90f5b7112/EF-Outlook-March-16.pdf>

## **Background Information on Sections 2-4 of H.152**

### **Section 2: Determination of “Excess Spending” and Capital Costs**

Under current law, “excess spending” is defined as that portion of a school district’s per-pupil education spending in excess of 121% of the statewide average per-pupil education spending increased by inflation. The homestead property tax rate of a school district with excess spending is adjusted by adding the per-pupil amount over the threshold to its actual spending, which increases the school district’s homestead tax rate.

Spending on school capital construction projects that have received final approval from the Agency of Education (AOE), and a number of other expenditures, are currently excluded from the definition of “excess spending.” This bill would add an exclusion for eligible school capital project costs that have received preliminary approval from AOE. “Eligible” school construction costs are enumerated in State Board of Education’s (SBE) Rule 6134.

An informal survey of school business managers was conducted by AOE in March 2021 to determine the amount of non-exempt capital costs in education spending. Eighty-one of 118 school districts responded to the survey as follows:

- 26 districts reported having non-exempt capital costs in their education spending
- 18 of the 26 responding districts are approaching or over threshold in FY2021
- 4 districts passed budgets that exceeded the threshold due to non-exempt capital costs

The ineligible school construction costs that were included in the calculation of excess spending in FY2021 raised per-pupil education spending and increased homestead property taxes in these four school districts by about \$330,000. This Education Fund revenue would be foregone in FY2022 if this section is enacted.

### **Section 3: Determination of the Equalized Pupil Count and the Hold-Harmless Provision**

Under current law, the equalized pupil count of a school district that merged voluntarily shall not be less than 96.5% of the actual number of equalized pupils in the school district in the previous year. School districts that did not merge voluntarily either because they were not required to merge or were required to merge by the SBE are not currently allowed to use this provision. Section 3 of this bill would extend the hold-harmless provision to all school district as of FY2022.

An analysis by the AOE indicates that 14 school districts would be able to count an additional 29 equalized pupils in FY2022 if this bill is enacted. The fiscal impact of this section on eligible school districts in FY2022 would be small and there would be no impact on the total amount of homestead property tax revenue raised statewide if this section is enacted.

#### **Section 4: Merger Support Grants**

Under current law, a voluntarily-merged school district that included a forming district that received a small schools support grant (SSG) prior to the merger shall receive a merger support grant (MSG) equal to the SSG grant received by the forming district two years prior to the merger. Unlike the SSG, the MSG does not vary annually with changes in enrollment. Section 2 of this bill would extend this provision to school districts that were not required to merge or were merged as of FY2021 by the State Board of Education.

The impact of this provision would vary between the affected school districts depending on the difference between each school district's SSG in FY2018 and FY2021. An analysis by the AOE indicates that these school districts would have collectively lost about \$16,000 in State aid if the bill have been in effect in FY2021:

- School districts in which the FY2018 SSG is less than the FY2021 SSG would have received a MSG that is \$300,000 lower; and
- School districts in which the FY2018 SSG is less than the FY2021 SSG would have received a MSG that is \$314,000 higher.

The fiscal impact of this section on affected school districts in FY2022 would not be large and there would be no impact on the total amount of homestead property tax revenue raised statewide if this section is enacted.