



# VERMONT LEGISLATIVE Joint Fiscal Office

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

## Issue Brief

Date: June 7, 2024

Author: Julia Richter, Senior Fiscal Analyst

# Fiscal Implications of No Yield Bill in Fiscal Year 2025

## Executive Summary

Vermont's Education Fund receives revenue from both property taxes and non-property tax sources. Typically, the property tax yields and rates are set annually at the level necessary to fund voter-approved school budgets and all other public education costs, net of non-property tax sources. For fiscal year 2025, these yields and rates were set in H.887, colloquially referred to as the “yield bill.”<sup>1</sup>

Per 32 V.S.A. § 5402, if no yield bill is enacted, the nonhomestead rate is set at \$1.59 and the property and income yields remain the same as the prior fiscal year. The fiscal year 2024 yields were set using the old pupil weights and do not reflect the current funding formula.

Without a yield bill, property taxes would not raise sufficient revenue for the Education Fund, leading to an estimated deficit of \$82 million. Act 113 (2024), the fiscal year 2025 appropriations act, includes a one-time transfer of \$25 million from the General Fund to the Education Fund. After this one-time transfer, the deficit is estimated to be approximately \$57 million.<sup>2</sup> This is larger than the Education Fund’s stabilization reserve, which is projected to be \$52 million in fiscal year 2025.

*Without a yield bill, in fiscal year 2025 the Education Fund would have a multimillion-dollar deficit.*

## Tax rates and tax bill implications and estimates

If no yield bill is enacted, from fiscal year 2024 to fiscal year 2025:

- the average bill for nonhomestead property taxpayers is estimated to increase by 30%,
- the average bill for homestead property taxpayers is estimated to decrease by 13%, and
- the average bill for income-sensitized property taxpayers is estimated to decrease by 11%.<sup>3</sup>

The difference in tax bill changes between the property classes is significant because the nonhomestead rate would be higher than what was passed in the yield bill while the homestead and income rates would be lower. Specifically, the homestead and income rates would be lower because they would use last year’s yields to calculate tax rates, which were calculated using both the old pupil weights and the equalization ratio.

Implications for fiscal year 2025 tax rates and tax bills are summarized in the table on the following page.

<sup>1</sup> H.887 – An act relating to homestead property tax yields, nonhomestead rates, and policy changes to education finance and taxation: <https://legislature.vermont.gov/bill/status/2024/H.887>

<sup>2</sup> Act 113 (2024) – An act relating to making appropriations for the support of government:

<https://legislature.vermont.gov/Documents/2024/Docs/ACTS/ACT113/ACT113%20As%20Enacted.pdf>

<sup>3</sup> This means rates and yields set pursuant to 32 V.S.A. § 5402.

**Implications of No Yield Bill in Fiscal Year 2025**

	<b>FY 2025 – H.887</b>	<b>FY 2025 – No Yield Bill</b>
Nonhomestead rate	\$1,391	\$1,590
Average nonhomestead bill change compared to FY24	13.8%	30%
Property yield per pupil*	\$9,893	\$15,443
Average equalized homestead property tax rate	\$1.311	\$1.002
Average homestead bill change compared to FY24	13.8%	-13%
Income yield per pupil	\$10,110	\$17,537
Average tax rate on household income*	2.6%	2.00%

*\*Fiscal year 2025 is the first year with the elimination of the equalization ratio from Act 127 (2022), so the yields are significantly different from prior years*

**Other revenue implications**

Further, H.887 expands the non-property revenue sources directed to Vermont’s Education Fund.

Specifically, it repeals the sales tax exemption for prewritten software accessed remotely. The Joint Fiscal Office (JFO) estimates this would generate an additional \$14.7 million in revenue for the Education Fund in fiscal year 2025. H.887 also imposes a 3% surcharge on short-term rentals and dedicates the revenue to the Education Fund. JFO estimates this would generate an additional \$11.8 million in revenue for the Education Fund in fiscal year 2025.

If H.887 is not enacted, this additional \$26.5 million in revenue will not be available to balance the Education Fund in fiscal year 2025.

**Other Education Fund implications**

If there is no yield bill in fiscal year 2025, the Education Fund stabilization reserve will be depleted, and the Education Fund will have a deficit. Per 16 V.S.A. § 4026, if the stabilization reserve is less than five percent of the prior fiscal year’s appropriations from the Education Fund, the Joint Fiscal Committee shall provide the General Assembly its recommendations for change necessary to restore the stabilization reserve to the statutory level of five percent. Further, 32 V.S.A. § 5402b requires the December 1 letter to assume the stabilization reserve is maintained at five percent.

This means that in addition to raising money for any other pressures in FY 2026 and replacing the \$69 million of onetime funds used to balance the fiscal year 2025 Education Fund, it is likely that based on recommendations from the Joint Fiscal Committee funds would need to be raised to restore the stabilization reserve to the statutory level of five percent.