



VERMONT LEGISLATIVE  
**Joint Fiscal Office**

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

## Fiscal Note

Date: April 22, 2022

Julia Richter

### **S.287 – An act relating to improving student equity by adjusting the school funding formula and providing education quality and funding oversight**

**As recommended by the House Committee on Appropriations**

**As recommended by the House Committee on Appropriations:**

<https://legislature.vermont.gov/Documents/2022/WorkGroups/House%20Appropriations/Bills/S.287/W~S.287%20-%20Improving%20Student%20Equity...~%20As%20Recommended%20by%20the%20House%20Committee%20on%20Appropriations~4-22-2022.pdf>

**As recommended by the House Committee on Ways and Means:**

<https://legislature.vermont.gov/Documents/2022/WorkGroups/House%20Ways%20and%20Means/Bills/S.287/S.287~James%20DesMarais~%20As%20Recommended%20by%20the%20House%20Committee%20on%20Ways%20and%20Means~4-21-2022.pdf>

**As passed by the Senate:**

<https://legislature.vermont.gov/Documents/2022/Docs/BILLS/S-0287/S-0287%20As%20passed%20by%20the%20Senate%20Official.pdf>

**As recommended by the Senate Committee on Appropriations:**

<https://legislature.vermont.gov/Documents/2022/WorkGroups/Senate%20Appropriations/Bills/S.287/S.287~none~As%20recommended%20by%20Senate%20Appropriations~3-18-2022.pdf>

**As introduced:**

<https://legislature.vermont.gov/Documents/2022/Docs/BILLS/S-0287/S-0287%20As%20Introduced.pdf>

### **Bill Summary**

This bill makes changes to Vermont's education financing system by adjusting and/or adding differing pupil weights for grade levels, students from economically deprived backgrounds, English learners, low population density districts, and small schools, beginning in Fiscal Year 2025. It also establishes categorical aid of \$25,000 for each school districts with one to five English Learning (EL) students enrolled, and categorical aid of \$50,000 for school districts with six to 25 EL students enrolled. Changes to these weights are made effective for FY 2025. Because these updated weights will impact schools' tax rates differently, there is a transition provision that limits a district's tax rate annual increase to five percent over a maximum of five years.

The bill also includes the creation of five positions within the Agency of Education. Additionally, the bill tasks the Agency of Education with the development of a universal income declaration form, and it outlines a number of reports for the Joint Fiscal Office (JFO) to complete.

### **Fiscal Impact**

In Fiscal Year 2023, JFO estimates this bill would result in a \$605,000 fiscal impact to the General Fund and

would have an unclear fiscal impact to the Education Fund in future years.

**General Fund:** In FY 2023, JFO estimates this bill would result in a \$605,000 fiscal impact to the General Fund. This fiscal impact is comprised of the following three appropriations from the General Fund in FY 2023:

- \$200,000 appropriated to the Agency of Education for the creation of the electronic universal income declaration form;
- \$200,000 appropriated to the Agency of Education for two new positions; and
- \$205,000 appropriated to JFO for the studies and reports required in this bill.

**Education Fund:** In FY 2025, if all EL categorical grants were to result in increased spending, JFO estimates this bill would result in an approximate \$1.75 million cost to the Education Fund, assuming there is no phase-in of EL categorical aid. This fiscal impact stems from categorical aid of \$25,000 provided to districts with one to five EL students, and \$50,000 categorical aid provided to districts with six to 25 EL students. Absent any other changes in policy, the homestead yield and/or non-homestead tax rate would need to be adjusted to account for the anticipated increase in categorical aid.

If, assuming constant spending, a district's tax rate is estimated to increase by more than five percent from the result of the updated weights, the bill includes a provision which would cap the tax rates' annual increase to a maximum of five percent. JFO estimates that in FY 2025, this will cost the Education Fund approximately \$17 million. Over the following years of this provision, this cost is estimated to be \$6 million in FY 2026, \$1 million in FY 2027, and \$0.25 million in FY 2028. Absent any other changes in policy, the homestead yield and/or non-homestead tax rate would need to be adjusted to account for these tax rate caps.

## Background and Details

The following sections have a fiscal impact.

### Section 4 – Determination of Weighted Long-Term Membership and Per Pupil Education Spending

Under current law, the pupil count is weighted for various demographic categories to account for the differing needs.

This section adjusts these pupil weights. Pupil weights will be added or adjusted for pupils in certain grade levels, pupils from economically deprived backgrounds, English learning pupils, school districts with low population density, and small schools.<sup>1</sup> With the adjustment of pupil weights, school districts are expected to be impacted because the change in the weights will affect their per pupil spending, which in turn, affects their tax rate. By changing the weights, this bill will change tax capacity for most school districts and towns, meaning that with constant education spending, some towns' tax rates would increase, while other towns' tax rates would decrease.

In other words, assuming all education spending remains constant, some districts will have higher tax rates (those that have fewer pupils with the new weights than they had from the prior weights); and some districts will have lower tax rates (those that have more pupils with the new weights). This will likely have an effect on the Education Fund, including the property and income yields, but will ultimately depend on local spending decisions.

Total education spending is determined by local votes. It is possible this spending could increase. Districts

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<sup>1</sup> These pupil weights were outlined in the Task Force on the Implementation of the Pupil Weighting Factors Report which can be found at: [https://jfo.vermont.gov/assets/Uploads/e11b031427/Final-Report-Weighting-Study-Task-Force-12\\_17\\_21.pdf](https://jfo.vermont.gov/assets/Uploads/e11b031427/Final-Report-Weighting-Study-Task-Force-12_17_21.pdf)

with increased tax capacity may increase education spending as a result. At the same time while districts with decreased weighted pupils, and thus, tax capacity, will face higher tax rates, they may not choose to decrease spending significantly.

### **Section 7: Calculation of Tax Rates; Tax Rate Review; Fiscal Years 2025 – 2029**

This section limits the tax rate impact of changes in pupil weights to 5% per year<sup>2</sup> for FY 2025 – FY 2029 to make the tax rate changes comparable. If a district's per pupil education spending increases by more than ten percent year over year when calculated using the same funding formula for both years, it will be subject to a Tax Rate Review performed by the Secretary of Education, three business managers, and three superintendents. If the Review determines this spending to be excessive than the annual increase of the homestead rate shall not have the five percent tax rate cap.

Assuming constant spending and the assumptions outlined in the next paragraph, JFO estimates that in FY 2025, this will cost the Education Fund approximately \$17 million. Over the following years of this provision, this cost is estimated to be \$6 million in FY 2026, \$1 million in FY 2027, and \$0.25 million in FY 2028. Absent any other changes in policies, these costs would be picked up through adjustments to the homestead yield and/or the non-homestead rate.

These estimates are based on a number of assumptions, any of which may greatly impact the fiscal estimate. The following assumptions and caveats were used in the analysis:

- All estimates are based on FY 2020 education spending with some minor adjustments made to reflect data corrections. Total education spending is determined by local votes, so future spending decisions and tax rates will likely differ from what has been modeled. In these estimates, education spending was held constant at the FY 2020 level, even when modeling out years.
- The yield is based on the sum of local education spending decisions as well as other revenues coming into the education fund. All additional revenues are FY 2020 numbers and have not been modeled to change in the future.
- Long-term average daily membership (LT ADM) counts are from FY 2020, with some minor adjustments made to reflect data corrections. This includes LT ADM within each cost factor category.
- FY 2020 data was used without Act 46 merger incentives. This led to higher equalized tax rates than would be needed to raise enough for education spending. As such, the yield was readjusted, which, in turn, lowered equalized tax rates.
- Free and Reduced Lunch was used as a measurement for poverty.
- The yield was adjusted for updated pupil weights to account for changes.
- Estimated pupil weighting rates have been calculated by AOE.

### **Section 8: Suspension of Laws**

This section suspends the excess spending penalty for fiscal year 2024 – 2029. Because spending is determined at the local level, the fiscal impact of this suspension cannot be estimated.

### **Section 9: Universal Income Declaration Form**

This section directs the Agency of Education to develop a universal income declaration form and appropriates \$200,000 from the General Fund to the Agency of Education in FY 2023 to fund operating expenses associated with the creation of the electronic universal income declaration form.

### **Section 10: English Learners Services; State Aid**

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<sup>2</sup> For relevant comparison in FY 2025, the tax rates from FY 2024 will be recalculated using the new funding formula established in Section 4.

In addition to the EL weight updated in Section 4, this section states that districts with one to five EL students enrolled shall also receive State aid of \$25,000 for that school year, and districts with six to 25 EL students enrolled shall receive State aid of \$50,000 for that school year.

In FY 2025, if these EL categorical grants were to result in increased spending, JFO estimates this bill would result in an approximate \$1.75 million fiscal impact to the Education Fund, assuming there is no phase-in of EL categorical aid. Absent any other changes in policy, the base homestead yield and/or base non-homestead tax rate would need to be adjusted to account for the anticipated increase in categorical aid.

### **Section 12: Agency of Education; Staffing**

This section creates five positions in the Agency of Education. Of these five positions, one is to provide guidance and support to school districts for English learner students, two are to develop and maintain the universal income declaration form and provide guidance to school districts on its use, and two are to provide financial and data analysis for the Agency of Education.

This section includes an appropriation of \$200,000 from the General Fund in FY 2023 to the Agency of Education for the salaries, benefits, and operating expenses for the two positions to develop and maintain the universal income declaration form and provide guidance to school districts on its use.

For the other three positions, by December 15, 2022, the Agency of Education shall submit the duties of each position and identify the funding source(s) of these positions as part of its budget process.

### **Section 20: Joint Fiscal Office; Appropriation**

This section appropriates \$205,000 from the General Fund in FY 2023 to the Joint Fiscal Office for the studies and reports required by the Joint Fiscal Office in this bill. These studies include examining the funding and governance structures of career and technical education in Vermont, methods for cost containment that create equity in school districts' ability to spend sufficiently on education to meet student needs, the mechanics for setting the yields in a manner that creates constitutionally adequate education spending amounts for school districts at a level determined by education funding experts to be sufficient to meet student needs, and funding similar school districts in an equitable manner regardless of their per pupil education spending decisions.

### **Section 26: Merger Support for Merged Districts**

This section restricts districts from receiving a merger support grant if they receive a small school weight. Because spending is determined at the local level, the fiscal impact of this section cannot be estimated.