

1 H.889

2 Introduced by Committee on Ways and Means

3 Date:

4 Subject: Taxation; statewide education property tax; rates

5 Statement of purpose of bill as introduced:

6 This bill proposes to establish the statewide education tax base rates and
7 base education amount for fiscal year 2015. The bill also requires that the
8 Commissioner of Taxes, when formulating his or her rate recommendations
9 under statute for fiscal year 2016 and after, assume that the applicable
10 percentage base for the purpose of calculating income sensitivity is 1.94.

11 The bill also makes several changes to Vermont's education financing laws.
12 It requires that school budgets be voted in a form that provides information
13 about how spending and rates are linked. It alters the way average daily
14 membership is calculated by eliminating a provision that increased the
15 counting of pupils for fast growing schools. The bill adds language that,
16 starting in fiscal year 2019, eliminates small school support grants over three
17 years, except for geographically necessary schools. It alters the taxation of
18 municipally owned lakeshore property in another town so that the hosting
19 municipality can vote to exempt such property. The bill allows a homestead to
20 be rented for part of the year. The bill anchors excess spending increases to
21 inflation in a set year, as opposed to current law which ties the increase to the

1 previous year's spending. The bill lowers the calculation of allocable rent for
2 purposes of the renter rebate, and requires a report on how best to support
3 renters in Vermont. The bill extends the slope for people who phase out of
4 receiving income sensitivity payments, and it reduces the total cap on income
5 sensitivity payments from \$8,000.00 to \$6,000.00 for households that do not
6 have a member 65 years of age or older. The bill also requires that one-third of
7 any unreserved surplus over forecast be transferred to the Education Fund, and
8 requires the Emergency Board to determine how much of that amount can be
9 sustainably added to the General Fund transfer in the next year. The bill
10 provides a payment for the school district in Thetford to compensate that
11 community for an error in its excess spending calculation. It appropriates
12 \$6,000,000.00 from the Supplemental Property Tax Relief Fund to help lower
13 property tax rates. The bill creates a study to examine how a reduction in
14 listed property value affects towns, and the costs to towns of defending
15 property tax appeals. It expresses a commitment by the General Assembly to
16 incorporate an education income tax into the current education financing
17 system. And it requires the Agency of Education to file a report on school
18 tuition practices in Vermont.

19 An act relating to setting the statewide education tax base rates and base
20 education amount for fiscal year 2015 and making several changes to
21 Vermont's education financing laws

1 It is hereby enacted by the General Assembly of the State of Vermont:

2 * * * Statewide Education Property Tax Rates, Base Education

3 Amount, and Applicable Percentage * * *

4 Sec. 1. FISCAL YEAR 2015 EDUCATION PROPERTY TAX RATES AND
5 APPLICABLE PERCENTAGE

6 (a) For fiscal year 2015 only, the education property tax imposed under
7 32 V.S.A. § 5402(a) shall be reduced from the rates of \$1.59 and \$1.10 and
8 shall instead be at the following rates:

9 (1) the tax rate for nonresidential property shall be \$1.515 per
10 \$100.00; and

11 (2) the tax rate for homestead property shall be \$0.98 multiplied by the
12 district spending adjustment for the municipality per \$100.00 of equalized
13 property value as most recently determined under 32 V.S.A. § 5405.

14 (b) For claims filed in 2014 only, “applicable percentage” in 32 V.S.A.
15 § 6066(a)(2) shall be reduced from 2.0 percent and instead shall be
16 1.90 percent multiplied by the fiscal year 2015 district spending adjustment for
17 the municipality in which the homestead residence is located; but in no event
18 shall the applicable percentage be less than 1.90 percent.

19 Sec. 2. FISCAL YEAR 2015 BASE EDUCATION AMOUNT

20 As provided in 16 V.S.A. § 4011(b), the base education amount for fiscal
21 year 2015 shall be \$9,382.00.

1 ~~adding 80 percent of the actual increase, to a maximum increase of 45~~
2 ~~equalized pupils.~~

3 * * * Education Spending in Small Schools * * *

4 Sec. 6. 16 V.S.A. § 4015 is amended to read:

5 § 4015. SMALL SCHOOL SUPPORT

6 (a) In this section:

7 (1) “Eligible school district” means a school district which operates at
8 least one school, has been determined by the Secretary of Education to be
9 eligible due to geographic necessity; and

10 (A) has a two-year average combined enrollment of fewer than 100
11 students in all the schools operated by the district; or

12 (B) has an average grade size of 20 or fewer.

13 * * *

(7) “Eligible due to geographic necessity” means that the Secretary of
Education has determined, on an annual basis, that the driving times, distances,
and travel routes are an obstacle to transporting students, consistent with the
methodology used by the Secretary in response to 2009 Acts and Resolves
No. 153, Sec. 21(1). *The Secretary may also consider the available capacity of*
other neighboring schools to enroll additional students. A determination by
the Secretary of eligibility due to geographic necessity under this section shall
be final.

under subsection 6066(b) of this title, rented and occupied by a resident individual as the individual's domicile.

1 * * *

2 (H) A homestead does not include any portion of a dwelling that is
3 rented and a dwelling is not a homestead for any portion of the year in which it
4 is rented.

5 * * *

6 * * * Excess Spending Anchor * * *

7 Sec. 11. 32 V.S.A. § 5401(12) is amended to read:

8 (12) "Excess spending" means:

9 (A) the per-equalized-pupil amount of the district's education
10 spending, as defined in 16 V.S.A. § 4001(6), plus any amount required to be
11 added from a Capital Construction Reserve Fund under 24 V.S.A. § 2804(b);

12 (B) in excess of 123 percent of the statewide average district
13 education spending per equalized pupil ~~in the prior fiscal year~~ increased by
14 inflation, as determined by the Secretary of Education on or before November
15 of each year based on the passed budgets to date. As used in this
16 subdivision, "increased by inflation" means increasing the statewide average
17 district education spending per equalized pupil for fiscal year 2014 by the most
18 recent New England Economic Project cumulative price index, as of
19 November 15, for state and local government purchases of goods and services.

1 from fiscal year 2014 through the fiscal year for which the amount is being
2 determined.

3 Sec. 12. 2013 Acts and Resolves No. 60, Sec. 2 is amended to read:

4 Sec. 2. 32 V.S.A. § 5401(12) is amended to read:

5 (12) “Excess spending” means:

6 (A) the per-equalized-pupil amount of the district’s education
7 spending, as defined in 16 V.S.A. § 4001(6), plus any amount required to be
8 added from a Capital Construction Reserve Fund under 24 V.S.A. § 2804(b);

9 (B) in excess of ~~123~~ 121 percent of the statewide average district
10 education spending per equalized pupil increased by inflation, as determined
11 by the Secretary of Education on or before November 15 of each year based on
12 the passed budgets to date. As used in this subdivision, “increased by
13 inflation” means increasing the statewide average district education spending
14 per equalized pupil for fiscal year 2014 by the most recent New England
15 Economic Project cumulative price index, as of November 15, for state and
16 local government purchases of goods and services, from fiscal year 2014
17 through the fiscal year for which the amount is being determined.

18 * * * Electrical Generating Plants * * *

19 Sec. 13. 32 V.S.A. § 5402(d) is amended to read:

20 (d) A municipality which has upon its grand list an operating electric
21 generating plant subject to the tax under ~~section 5402a of this chapter~~ chapter

1 215 of this title shall be subject to the nonresidential education property tax at
2 three-quarters of the rate provided in subdivision (a)(1) of this section, as
3 adjusted under section 5402b of this chapter; and shall be subject to the
4 homestead education property tax at three-quarters of the base rate provided in
5 subdivision (a)(2) of this section, as adjusted under section 5402b of this
6 chapter, and multiplied by its district spending adjustment.

7 Sec. 14. EDUCATION TAXES IN VERNON

8 Notwithstanding any other provision of law, for the purposes of 32 V.S.A.
9 § 5402(d), the town of Vernon shall continue to be treated as if its grand list
10 included an operating electric generating plant subject to the tax under
11 32 V.S.A. chapter 215 until the end of fiscal year 2017, and shall be taxed as
12 follows:

13 (1) for fiscal year 2016, the town of Vernon shall be subject to the
14 nonresidential education property tax and the homestead education property
15 tax at 83 percent of the rate as calculated under subsection 5402(a) of this title;

16 (2) for fiscal year 2017, the town of Vernon shall be subject to the
17 nonresidential education property tax and the homestead education property
18 tax at 91 percent of the rate as calculated under subsection 5402(a) of this
19 title; and

20 (3) for fiscal year 2018 and after, the town of Vernon shall be subject to
21 the nonresidential education property tax and the homestead education

1 property tax at 100 percent of the rate as calculated under subsection 5402(a)
2 of this title.

3 * * * Renter Rebate * * *

4 Sec. 15. 32 V.S.A. § 6061(7) is amended to read:

5 (7) “Allocable rent” means for any housesite and for any taxable year ~~24~~
6 19 percent of the gross rent. “Gross rent” means the rent actually paid during
7 the taxable year by the individual or other members of the household solely for
8 the right of occupancy of the housesite during the taxable year. “Allocable
9 rent” shall not include payments made under a written homesharing agreement
10 pursuant to a nonprofit homesharing program, or payments for a room in a
11 nursing home in any month for which Medicaid payments have been made on
12 behalf of the claimant to the nursing home for room charges.

13 Sec. 16. RENTER REBATE REPORT

14 The Vermont Housing Council, with the assistance of the Department of
15 Taxes, the Joint Fiscal Office, and the Agency of Commerce and Community
16 Development, shall report to the Senate Committee on Finance and House
17 Committee on Ways and Means with recommendations on how to develop
18 programs to assist renters in lieu of the current renter rebate program at
19 32 V.S.A. § 6066(b). For purposes of the report, the Vermont Housing
20 Council shall be joined by a representative from the Vermont Low Income
21 Advocacy Council and the Vermont Community Action Directors’

1 Association. The report shall consider the current benefits to renters from the
2 renter rebate program, and propose alternative programs that also benefit
3 low-income renters. Any alternative proposals shall have approximately the
4 same eligibility parameters as the current renter rebate program, shall be
5 structured to deliver comparable results, and shall take into account the portion
6 of rent paid by renters that is attributable to property taxes. The report shall be
7 due on or before January 15, 2015.

8 * * * Income Sensitivity Slope; Housesite Value * * *

9 Sec. 17. 32 V.S.A. § 6066(a) is amended to read:

10 (a) An eligible claimant who owned the homestead on April 1 of the year in
11 which the claim is filed shall be entitled to an adjustment amount determined
12 as follows:

13 (1)(A) For a claimant with household income of \$90,000.00 or more:

14 (i) the statewide education tax rate, multiplied by the equalized
15 value of the housesite in the taxable year;

16 (ii) minus (if less) the sum of:

17 (I) the applicable percentage of household income for the
18 taxable year; plus

19 (II) the statewide education tax rate, multiplied by the
20 equalized value of the housesite in the taxable year in excess of ~~\$200,000.00~~
21 \$250,000.00.

1 ~~appropriations from the General Fund for the prior fiscal year without~~
2 legislative authorization. Monies from this Reserve shall be available for
3 appropriation by the General Assembly.

4 (1) The Emergency Board shall, at the end of each fiscal year ~~2013~~,
5 beginning at the end of fiscal year 2015, determine at its July meeting the
6 amount of available general funds that is greater than the amount of forecasted
7 available general funds most recently adopted by the Board for that fiscal year
8 ~~2013~~.

9 (2) Of the amount added to the General Fund Balance Reserve in each
10 fiscal year ~~2013~~, to the extent available, ~~one-half~~ one-third of the amount
11 identified in subdivision (1) of this subsection is hereby appropriated in the
12 fiscal year just concluded for deposit in the ~~Supplemental Property Tax Relief~~
13 ~~Fund established by section 6075 of this title~~ Education Fund. If the amount
14 added to the General Fund Balance Reserve is insufficient to support both the
15 appropriation in this subdivision and the appropriation in ~~subdivision (3)~~
16 subdivision (3) or (4) of this subsection, the appropriation in this subdivision
17 shall take precedence.

18 (3) Of the amount added to the General Fund Balance Reserve in each
19 fiscal year, to the extent available, one-third of the amount identified in
20 subdivision (1) of this subsection is hereby appropriated in the fiscal year just

1 ~~concluded to the State Teachers' Retirement System for payment of the retired~~
2 ~~teacher health care obligations.~~

3 ~~(4) Of the amount appropriated to the Education Fund under subdivision~~
4 ~~(2) of this subsection, the Emergency Board shall determine what portion of~~
5 ~~that appropriation represents sustainable growth in the General Fund transfer~~
6 ~~under 16 V.S.A. § 4025(a)(2), and that amount shall be added to the base~~
7 ~~amount used to calculate the General Fund transfer under 16 V.S.A.~~
8 ~~§ 4025(a)(2) for the next fiscal year.~~

Sec. 19. Sec. D.104, of H.885, as enacted, is amended in 32 V.S.A. § 308c(a)(2) by striking out subdivisions (A)–(C) in their entirety and inserting in lieu thereof the following:

(A) Of the amount in subdivision (2) of this subsection, upon the recommendation of the economists for the Executive and Legislative Branches, the Emergency Board shall determine what portion of that transfer represents sustainable growth in the coming fiscal year, and an amount not to exceed one-third of that sustainable growth shall be transferred to the Education Fund and an equivalent amount shall be added to the the General Fund transfer under 16 V.S.A. § 4025(a)(2). For the purposes of the recommendations of the economists under this subdivision, any increase in the sustainable growth shall be reduced by the total of any legislative action projected to increase General Fund taxes that result in additional revenue in

excess of \$1,000,000.00 over the revenue raised without legislative action in the current fiscal year.

(B) Second, the amount necessary to bring the balance of the Property Tax Relief Fund established under 32 V.S.A. § 6075 up to \$1,000,000.00 shall be transferred to that Fund.

(C) Any remaining amounts from the allocation in this subdivision (a)(2) shall be transferred into the Education Fund.

1 Sec. 20. THETFORD EDUCATION PROPERTY TAX RATES IN FY2014

2 In fiscal year 2015, notwithstanding 16 V.S.A. § 4025, there is appropriated
3 from the Education Fund to the Thetford School District the sum of
4 \$113,125.00 to be used for the sole purpose of reducing the homestead tax rate,
5 which was artificially too high in fiscal year 2014 due to a reporting error in
6 the district budget that caused the district to exceed the excess spending
7 threshold.

8 Sec. 21. PROPERTY TAX APPEALS STUDY COMMITTEE

9 (a) Creation. There is created a Property Tax Appeals Study Committee to
10 study two issues in regard to the statewide education property tax:

11 (1) how a reduction in listed property value affects towns; and

12 (2) the costs to towns of defending property tax appeals.

13 (b) Membership. The Committee shall have five members:

1 (1) one current member of the House of Representatives, who shall be
2 appointed by the Speaker of the House;

3 (2) one current member of the Senate, who shall be appointed by the
4 Committee on Committees;

5 (3) the Commissioner of Taxes or designee;

6 (4) a representative of local government appointed by the Vermont
7 League of Cities and Towns; and

8 (5) a representative of assessing officials appointed by the Vermont
9 Assessors and Listers Association.

10 (c) Powers and duties. The Committee shall study the following issues:

11 (1) The Committee shall analyze the process by which towns are
12 compensated for a reduction in listed value under 32 V.S.A. § 5412 and
13 suggest ways to make that process more equitable.

14 (2) The Committee shall analyze the current costs to towns of defending
15 property tax valuations that benefit the Education Fund and suggest ways to
16 make the cost of defending property tax appeals more equitable.

17 (d) Assistance. The Committee shall have the administrative, technical,
18 and legal assistance of the Office of Legislative Council, the Joint Fiscal
19 Office, and Department of Taxes.

1 (e) Report. On or before January 15, 2015, the Committee shall submit a
2 report to the Senate Committee on Finance and the House Committee on Ways
3 and Means with its findings and any recommendations for legislative action.

4 (f) Meetings.

5 (1) The Committee shall meet no more than six times. The Committee
6 shall select a chair and vice chair from among its legislative members at the
7 first meeting.

8 (2)(A) A majority of the members of the Committee shall be physically
9 present at the same location to constitute a quorum.

10 (B) A member may vote only if physically present at the meeting
11 location.

12 (C) Action shall be taken only if there is both a quorum and a
13 majority vote of the members physically present and voting.

14 (D) The Committee shall cease to exist on January 16, 2015.

15 (g) Reimbursement.

16 (1) For attendance at meetings during adjournment of the General
17 Assembly, legislative members of the Committee shall be entitled to per diem
18 compensation and reimbursement of expenses pursuant to 2 V.S.A. § 406 for
19 no more than six meetings.

20 (2) Other members of the Committee who are not employees of the State
21 of Vermont and who are not otherwise compensated or reimbursed for their

1 attendance shall be entitled to compensation pursuant to 32 V.S.A. § 1010 for
2 no more than six meetings.

3 Sec. 22. APPROPRIATION TO EDUCATION FUND

4 There shall be ~~appropriated and~~ transferred from the Supplemental Property
5 Tax Relief Fund a sum of \$6,000,000.00 to the Education Fund.

Sec. 22a. EDUCATION ANALYST

The establishment of one (1) new classified position – Education Analyst – in the Agency of Education is authorized in fiscal year 2015 for the purpose of working across the Agency to create tools and indicators for use by education decision makers at the State and local level. The analyst will correlate and otherwise explore connections among the various areas of work within the Agency such as student test scores, attendance, graduation and continuation rates, demographics, district expenditures by category, and staffing patterns. The analyst will assist local and State level decision makers to assess the return on education dollars based on analysis of opportunities provided, cost-effectiveness, and outcomes for a given level of expenditure.

Sec. 22b. BUSINESS MANAGER HANDBOOK

The Agency of Education shall hire a contractor or contractors through the State's procurement process to develop an updated, more comprehensive, business manager handbook that consolidates all the information a business manager would need to perform his or her function in one reference document.

This document should establish a uniform chart of accounts and financial reports that are GASB compliant, uniform business rules, a comprehensive section on federal funds and compliance, State funds and compliance, and a blank section for local board policies and internal procedures that each business manager can add to the State-issued handbook.

Sec. 22c. APPROPRIATION

The sum of \$82,500.00 is appropriated from the Supplement Property Tax Relief Fund in 32 V.S.A. § 6075 to the Agency of Education for the purpose of hiring the Education Analyst position in Sec. 22a of this act, and a sum of up to \$400,000.00 is appropriated from the Supplement Property Tax Relief Fund in 32 V.S.A. § 6075 to the Agency of Education to hire a contractor or contractors through the State's procurement process to develop the updated, more comprehensive, business manager handbook in Sec. 22b of this act.

1 Sec. 23. EDUCATION FINANCING REFORM

2 (a) By January 1, 2017, the General Assembly shall transition to a tax
3 system for financing education in Vermont that incorporates an education
4 income tax. This new education financing system shall have the following
5 components:

6 (1) a property tax structured on the current homestead and
7 nonresidential property categories, but with a much lower homestead property
8 tax rate than set in current law;

1 (2) an education income tax structured as part of the current income tax
2 system, paid by people who pay Vermont income taxes;

3 (3) the education income tax which shall be indexed to a taxpayer's
4 federal adjusted gross income and shall be calculated by dividing the
5 per-equalized-pupil amount of the district's education spending, divided by a
6 State base spending amount, multiplied by the statewide education income tax
7 base rate, and then multiplied by the taxpayer's federal adjusted gross income;

8 (4) the education income tax which shall be incorporated into Vermont's
9 current system for withholding and estimated tax payments; and

10 (5) adjustments for income sensitivity which shall be eliminated.

11 (b) It is the intent of the General Assembly to pass legislation in 2015 and
12 2016 to implement subsection (a) of this section so that the first year the
13 education income tax would be in effect would be calendar year 2017, and the
14 money raised would provide funding for schools in fiscal year 2018.

15 Sec. 24. TUITION REPORT

16 (a) The Agency of Education shall report to the General Assembly on the
17 current system of setting, paying, and receiving school tuition in Vermont.

18 The report shall be submitted to the General Assembly no later than
19 January 15, 2015.

1 (b) The report shall review:

2 (1) the historic practices of Vermont school districts in paying tuition to
3 other schools;

4 (2) the current law and practices for establishing tuition rates, including
5 how tuition is paid to different categories of schools inside Vermont and
6 outside Vermont, and how Vermont schools set, receive, and use tuition from
7 schools outside the State.

8 (c) The report shall examine the following issues:

9 (1) the impact, if any, of tuition rates and practices on the Education
10 Fund;

11 (2) any effects that would result from establishing a uniform tuition rate
12 to be paid for different categories of schools, both within and outside Vermont;

13 (3) the impact, if any, of tuition payments on the number of students
14 enrolled in Vermont schools.

Sec. 24a. 16 V.S.A. § 4028(d) is added to read:

*(d) Notwithstanding 32 V.S.A. § 502(b)(2), the Joint Fiscal Office shall
prepare a fiscal note for any legislation that requires a supervisory union or
school district to perform any action with an associated cost, but does not
provide money or a funding mechanism for fulfilling that obligation. Any
fiscal note prepared under this subsection shall be completed no later than the*

date that the legislation is considered for a vote in the first committee to which it is referred.

* * * Repeals * * *

1
2 Sec. 25. REPEALS

3 (a) 32 V.S.A. § 3802(18) (municipally owned lakeshore property) is
4 repealed on January 1, 2015.

5 (b) 2011 Acts and Resolves No. 162, Sec. D.103.1(a) is repealed.

(c) 32 V.S.A. § 6075 is repealed on July 1, 2017.

6 * * * Effective Dates * * *

7 Sec. 26. EFFECTIVE DATES

(a) This section and Secs. 13 (cross-reference), 14 (education taxes in
Vernon), 16 (renter rebate report), 19 (Rainy Day Fund), 20 (Thetford),
21 (property tax appeals study), 22 (appropriation), 22a (education analyst),
22b (business manager handbook), 22c (appropriation), 23 (education reform),
24 (tuition report), 24a (fiscal note), and 25 (repeals) shall take effect on
passage.

8 (b) Secs. 1 (statewide education tax base rates) and 2 (base education
9 amount) shall take effect on passage and apply to education property tax rates
10 and the base education amount for fiscal year 2015.

11 (c) Secs. 3 (applicable percentage) shall take effect on July 1, 2014 and
12 apply to the Commissioner's recommendations beginning for fiscal year 2016.

1 (d) Sec. 4 (form of budget) shall take effect on January 1, 2015 and apply
2 to budgets voted for fiscal year 2016.

3 (e) Sec. 5 (increased average daily membership) shall take effect on July 1,
4 2014 and shall apply to long-term membership calculations for fiscal year 2016
5 and after.

6 (f) Secs. 6 and 7 (small school spending) shall take effect on July 1, 2018
7 and apply to fiscal year 2019 and forward.

8 (g) Secs. 8 (town voted exemption) and 9 (education property tax
9 exemption) shall take effect on January 1, 2015 and apply to property
10 appearing on grand lists lodged in 2015 and after.

11 (h) Sec. 10 (occupancy of a homestead) shall take effect on January 1, 2015
12 and apply to homestead declarations for 2015 and after.

13 (i) Secs. 11 and 12 (anchoring excess spending) shall take effect on July 1,
14 2014 and apply to property tax calculations for fiscal year 2016 and after.

15 (j) Notwithstanding 1 V.S.A. § 214, Sec. 15 (allocable rent) shall take
16 effect retroactively on January 1, 2014 and apply to claims filed in calendar
17 year 2014 and after.

18 (k) Notwithstanding 1 V.S.A. § 214, Secs. 17 (housesite value) and 18
19 (adjustment limit) shall take effect retroactively on January 1, 2014 and apply
20 to claims filed for fiscal year 2015.