

## **H.361 – Education Funding, Spending, and Governance**

### **As Passed by the House (4/2/15) Section by Section Summary**

#### **Sec. 1. Education Policy Goals; Performance Measures; Guidelines**

Subsection (a) states that the intent of the legislation is to move the State toward integrated education systems responsible for equitable delivery of high quality education through revised governance structures that lead students to meet or achieve the State's Education Quality Standards, increase transparency and accountability, and are delivered at cost parents, voters, and taxpayers value.

Subsection (b) states that the legislation is designed to encourage and support local decisions leading to identified goals.

Subsection (c) requires that the State Board of Education will adopt performance measures by 12/31/15 for each policy goal as part of the Agency's ongoing work to develop indicators for the State's Education Quality Standards.

Subsection (d) requires that, based on the adopted performance measures in Sec. 1(c), the State Board of Education will issue guidelines by 12/31/15 to assist:

- (1) districts to develop governance proposals; and
- (2) the State Board of Education to evaluate the proposals.

#### **Secs. 2–5. Yield; Dollar Equivalent**

These Sections replace the base education amount currently used to calculate base tax rates each year with a different “dollar equivalent yield” for two groups:

- (1) taxpayers who pay on the value of their property; and
- (2) taxpayers who receive an income sensitivity adjustment.

The “dollar equivalent yield” is the amount of per pupil spending that could be supported each year by a fixed homestead base tax of \$1.00 for property payers, and by a fixed applicable income percentage of 2.0 for income payers.

The Tax Commissioner would propose each dollar equivalent yield annually, but it would be the General Assembly's responsibility to establish each dollar equivalent annually.

Sec. 2: In a dollar equivalent yield system, the base education amount is replaced by either the property dollar equivalent yield or the income dollar equivalent yield. The changes in Sec. 2 make it clear that the base education amount is no longer used to calculate tax rates.

Sec. 2a replaces the current district spending adjustment with an education property tax spending adjustment and an education income tax spending adjustment. Both of these spending adjusters incorporate the dollar equivalent yield number as the denominator, rather than using the base education amount. The section creates new definitions for “property dollar equivalent yield” at \$1.00, and “income dollar equivalent yield” at 2.0%.

Sec. 3 sets the base homestead rate at \$1.00 and applies the new education property tax spending adjustment to that base rate.

Sec. 4 applies the new education income tax spending adjustment to the applicable percentage for determining property tax adjustments.

Sec. 4a authorizes Legislative Council to rename the “applicable percentage” used to calculate property tax adjustments as the “income percentage”.

Sec. 4b makes a conforming change in the language that specifies how property taxes are calculated for the unorganized towns and gores.

Sec. 5 strikes the current law that requires the Commissioner of Taxes to recommend a base homestead and nonresidential rate for the upcoming year, and inserts language requiring the Commissioner to recommend a property dollar equivalent yield and an income dollar equivalent yield. The section also specifies that the General Assembly must set the property dollar equivalent yield and an income dollar equivalent yield each year.

*Effective Date: July 1, 2015; applies to fiscal year 2017 and after*

### **Secs. 6–7. FY16 Property Tax Rates, Applicable Percentage, and Base Education Amount**

Sec. 6 establishes the fiscal year 2016 property tax rates at \$1.525 and \$0.98.

Sec. 6 also sets the applicable percentage at no less than 1.94 percent.

Sec. 7 sets the base education amount at \$9,459.00.

*Effective Date: July 1, 2015; applies to fiscal year 2016*

### **Secs. 8–9. Ballot Language; Per Pupil Spending**

Sec. 8 requires the warning for a school district’s proposed budget to state (1) the total budget in terms of per equalized pupil spending and (2) the percentage increase or decrease of per equalized pupil spending in relation to the previous year.

Secs. 8 and 9 repeal language that is no longer in effect regarding presenting budgets by means of a divided vote. (The requirement applied solely to budgets for 2009–2010 through 2013–2014, but did not include a provision to repeal it from the statutes.)

*Effective Date: July 1, 2015*

### **Secs. 10–11. Merger Support Grants (for Districts Receiving Small School Grants)**

Current law provides small school grants based on numbers calculated in relation to district size. If an eligible district merges with another district, then it may become ineligible for small school grants. As an incentive to create a Regional Education District (RED), Act 153 of 2010 permitted a newly created RED (or any one of its variations) to continue to receive the small school grant for five years as a Merger Support Grant in an amount equal to the small school grant received two years prior to merger.

Sec. 10 removes the five year limitation from the Merger Support Grants provided to REDs and their variations, allowing the grant to continue unless and until a merged district closes the school that created the original eligibility for the small school grant. If closure of the school is connected with the consolidation of schools into a new building or into an existing building that needs renovation, however, then the grant is paid until the bonded indebtedness is retired.

#### Sec. 11:

Subsection (a) provides Merger Support Grants, as amended by Sec. 10, to districts that merge pursuant to Sec. 17 of this act, provided that the merger receives final approval of the electorate in all “necessary districts” by 11/30/17 and the new district is operational by 7/1/19.

Subsection (b) provides Merger Support Grants, as amended by Sec. 10, to districts that enter into a contract to operate a school or schools jointly, provided that the electorate of all affected districts vote favorably for the terms of the final contract by 11/30/17.

*Effective Date: On passage*

### **Secs. 12–12a. Small Schools Support; FY 2020 and after**

Sec. 12 amends current small school grants beginning in FY2020 by limiting grants to districts:

- with an average grade size of 20 or fewer students,
- that participated in a merger study committee, and
- that the State Board of Education determines to be eligible annually due to:
  - the school’s high student-to-staff ratios;
  - lengthy driving times or inhospitable routes to the nearest school(s) with excess capacity; and
  - success in meeting State education quality standards.

In addition, in FY2020 the section repeals the additional small schools financial stability grant provided to districts with rapidly declining populations. It also repeals obsolete language.

Sec. 12a requires, by 7/1/18, that the State Board of Education to adopt and publish metrics by which it begin to measure requests for small school grants under Sec. 12 beginning on 7/1/19.

*Effective Date:* Sec. 12: July 1, 2019; applies to fiscal year 2020 and after  
Sec 12a: July 1, 2015

### **Secs. 13–14. Declining Enrollment; 3.5% Hold Harmless Provision**

Under current law, the 3.5 % hold harmless provision is applied to the prior year’s *inflated* equalized pupils.

Sec. 13 removes the “tail” by applying the 3.5% to the district’s *actual* equalized pupils from the prior year, so a district’s percentage of “phantom pupils” is never more than 3.5%. This would begin to apply beginning in FY2017.

Sec. 14 transitions districts that currently have inflated equalized pupils to the new system over a three year period (so Sec. 13 applies to these districts in FY2019).

*Effective Dates:* Sec. 13: July 1, 2016  
Sec. 14: July 1, 2015

### **Secs. 15–16. Publicly Funded Tuition; Out-of-State Schools**

[Deleted.]

## Sec. 17. Integrated Education Systems

Subsection (a) requires that by 7/1/19 the State shall provide educational opportunities through integrated education systems:

- that are responsible for the education of all prekindergarten through grade 12 students;
- that are designed to improve transparency and accountability;
- that promote stable, affordable education costs; and
- that advance the goals set forth in Sec. 1.

Subsection (b) requires each district to form a study committee with one or more other districts within or outside its supervisory union, including those with similar patterns of school operation and tuition payment. The committee prepares a study report (Report) pursuant to 16 V.S.A. chapter 11 proposing how best to create an integrated education system that provides for the education of resident prekindergarten through grade 12 students by realigning with neighboring districts. Integrated education systems will fall into one of two categories: either a new prekindergarten–grade 12 education district { *see* (c)(2) below } or an integrated education system with more than one district { *see* (c)(3) below }.

As provided in chapter 11, once approved by the State Board of Education and subsequently approved by the electorate of each district, the Report becomes the new entity's articles of agreement.

Reimbursement of planning costs and other forms of financial assistance for transition are available as provided in Act 156 of 2012.

Subsection (c) addresses the size and structure of integrated education systems under the bill.

*Size – ADM:*

Subdivision (1) requires that each integrated education system has a minimum average daily membership of 1,100, unless it is granted a waiver by the State Board of Ed.

*Structure – PreK–12 District or Supervisory Union:*

(*PreK–12 District*) Subdivision (2) states that, in order to promote flexibility, transparency, and accountability, the *preferred* structure for an integrated education system is a single Education District (which is a supervisory district responsible for PK–12) that falls into one of four common structures:

- operates PK/K–12
- operates PK/K–6 and pays tuition for grades 7–12
- operates PK/K–8 and pays tuition for grades 9–12
- tuitions all students in grades PK–12

(*Supervisory Union*) Subdivision (3) acknowledges that a single PreK–12 Education District:

- may not be the best way to achieve the State’s goals in all regions of the State; or
- that another structure might be necessary:
  - to meet the minimum ADM requirements {see subdivision (1) above};
  - to protect tuition-paying and operating districts {see subsection (h) below}; or
  - otherwise.

As a result, groups of districts may propose and the State Board may authorize the creation, expansion, or continuation of a supervisory union with member districts, each of which has its own board.

SUs proposed under this subdivision are encouraged, but are not required, to include the smallest number of districts practicable.

The State Board may approve an SU proposal only if the proposal provides for transparency and accountability, including in relation to the SU budget.

Subsection (d) requires the State Board of Education to evaluate the Reports pursuant to chapter 11 and determine whether the proposal is designed to create an integrated education system capable of achieving the goals and requirements set forth in the section.

In addition, it requires the State Board to be mindful of districts that might be isolated if they are not included in the proposal. The State Board may direct the Secretary to work with the districts to achieve a proposal that meets the requirements without isolating a district. It authorizes, but does not require, the State Board to withhold approval from a proposal that isolates a district.

Subsection (e) permits (i) an existing supervisory district or (ii) a supervisory union in which it would be structurally simple to merge into a supervisory district to present a proposal without first convening a study committee. The district or districts would still be required to submit a Report as in (b) above and the State Board would evaluate the proposal exactly as it evaluates all proposals (including being mindful of isolating a district).

Subsection (f) addresses districts that don’t complete the process outlined above, or are unable to get a favorable vote of all “necessary” districts by 11/30/17.

Subdivision (1) requires the Secretary of Education to review those districts and submit a proposal by 7/1/18 to the State Board to realign any of those districts to the extent realignment is possible and necessary to achieve the goals and requirements of the section.

Subdivision (2) requires the State Board to approve the Secretary’s proposal, as presented or in an amended form, and to publish an order realigning the districts included in the approved proposal by 9/1/18.

Subsection (g) excludes interstate districts from the requirements of the section.

*(protection for tuition-paying and for operation of schools)* Subsection (h) ensures that districts that pay tuition for resident students in some or all grades will not be required to stop paying tuition for their students. The subsection provides the same assurance to districts that choose to provide for the education of resident students in some or all grades by operating schools – nothing requires them to pay tuition for those students.

*Effective Date: On passage*

### **Sec. 18. Tax Incentives; Integrated Education Systems**

Provides RED tax incentives (described explicitly) in FY 2020–2023 to any preK–12 district (Sec. 17) that receives final voter approval by 11/30/17 and is operational by 7/1/19. A new district that also meets RED criteria cannot combine this tax incentive and the RED tax incentive.

*Effective Date: On passage*

### **Secs. 19–19b. Repayment of State Construction Aid**

Sec. 19 *exempts* union school districts, including REDs, and joint contract schools, from the statutory requirement that school districts repay a portion of State construction aid upon sale of a school building.

Sec. 19a directs the Agency of Education to conduct a review and submit a *report* on the school districts that are subject to the statutory requirement to repay a portion of State construction aid upon sale of a school building, including the amount of aid received and refunded to the State and the number of school districts that are not in use for any purpose. *Due: December 1, 2015*

Sec. 19b *repeals* the exemption from the repayment upon sale requirement for union schools districts, including REDs, and joint contract schools, in Sec. 19 on 11/30/17.

*Effective Date: On passage*

### **Secs. 20–21. REDs – Dates and Technical Corrections**

Current law provides RED incentives to REDs and the three variations if they are fully *operational* by 7/1/17. In addition, the current section authorizing the incentives is mistakenly repealed on 7/1/17, although in most instances a new district wouldn't begin to receive them until that date.

Sec. 20 extends RED incentives to districts that receive *final approval* of the electorate in all “necessary districts” by 11/30/17.

Sec. 21 replaces the repeal date with a reference to the dates determining eligibility.

*Effective Date: On passage*

### **Sec. 22. Recently Merged Districts; Articles of Agreement**

Provides that if a RED or other district that is eligible to receive RED incentives received final electorate approval before the effective date of the section and if the merged district's electorate-approved articles of agreement specifically identified the manner in which another district may join the merged district in the future, then nothing in the act abrogates or alters that provision.

*Effective Date: On passage*

### **Sec. 23. Statewide Integrated Financial Reporting and Accounting System; Statewide Integrated Longitudinal Student Data System**

Requires the Agency of Education to fully implement the statewide integrated financial reporting and accounting system and the statewide integrated longitudinal student data system by 7/1/17.

*Effective Date: July 1, 2015*

### **Sec. 24. Contract Imposition; Strikes; Binding Interest Arbitration**

[Deleted.]



### **Sec. 25. Employee Transition to Newly Created Employers**

Codifies as a new chapter 53, subchapter 3 in Title 16 several new statutory sections relating to the orderly transition of employees to a newly created district or to the supervisory union level, including protection of the interests of non-licensed employees in the Vermont Municipal Employees' Retirement System. The General Assembly has enacted variations of this language as session law several times in the last few years in connection with specific situations.

*Effective Date: On passage; applies to a new employer that begins operations after that date*

### **Sec. 26. Unfunded Mandates; General Fund**

Requires JFO to determine the total amount of any new undefended education mandates annually. That amount would be added to the General Fund transfer to the Education Fund in the next fiscal year and in each subsequent year unless the General Assembly repeals the mandate.

*Effective Date: On passage*

### **Secs. 27–28. Education Spending Cap; Trigger**

Sec. 27 caps a school district's allowable growth rate in education spending at the greater of: (1) the total district education spending amount adopted in the previous year's budget, or (2) the district education spending per equalized pupil amount adopted in the previous year's budget multiplied by the district's equalized pupil count in the current year.

A district's allowable growth rate is indexed so that the cap is higher for a low-spending district than the cap for a higher-spending district.

The section sets a separate cap amount for nonoperating and partially operating school districts by basing the nonoperating portion of a budget on the highest amount of tuition paid for a student by the district in the current fiscal year, increased by the district's allowable growth rate.

If a budget that exceeds the cap is approved by the voters, it would be deemed to have failed.

A school district is permitted to appeal the amount of the cap to the Secretary of Education.

Sec. 28 provides that the Sec. 28 cap will apply only in FY2018 and FY2019, EXCEPT:

- For FY2018, the cap will apply only if total statewide education spending in FY2017 exceeds total statewide education spending in FY2016 by more than 2.95%.
- If there is no cap in FY2018, then the cap applies in FY2019 only if total statewide education spending in FY2018 exceeds that amount in FY2017 by more than 2.95%.

*Effective Date: July 1, 2015*

**Sec. 29. Special Education Funding; Study**

Requires the Secretary of Education to develop a proposal for an alternative method of funding special education services, which might be based in part on payments per average daily membership. *Due: January 15, 2016*

*Effective Date: On passage*

**Sec. 30. Superintendents and Principals; Study**

Requires the Secretary of Education, in consultation with other entities, to develop a proposal to clarify the roles and responsibilities of superintendents and principals. *Due: January 15, 2016*

*Effective Date: On passage*

**Sec. 31. Property Tax Adjustment Lag; Study**

Requires the Commissioner of Taxes to report on the steps that would be required to transition to calculation of the property tax adjustments under 32 V.S.A. chapter 154 on a current year basis. *Due: January 15, 2016*

*Effective Date: On passage*

**Sec. 32. Adequacy Funding; Study**

Directs the Joint Fiscal Office, in consultation with the President Pro Tempore, Speaker of the House, and Chairs of the House and Senate Education Committees to develop requests for proposals to hire, by 7/15/15, a consultant to conduct a study of adequacy-based funding models.

Sets forth the standards and methods that should be used by the consultant to conduct the adequacy study. It also requires the consultant to incorporate certain data and studies into the adequacy study and to conduct public participation activities with interested stakeholders.

Provides the consultant with technical assistance from the Agency of Education, Department of Taxes, Joint Fiscal Office, and Office of Legislative Council.

Authorizes transfer to the Joint Fiscal Office of up to \$300,000 from FY2015 Education Fund appropriations, prior to reversion, to pay for the study and related expenses.

*Due: January 15, 2016*

*Effective Date: On passage*

**Secs. 33–34. Joint Legislative Education Oversight Committee; Transition**

Creates a Joint Legislative Education Oversight Committee in a new 2 V.S.A. chapter 29, consisting of three members from the House and three from the Senate, to monitor, evaluate, research, oversee, and provide a continuing review of matters concerning education policy, education funding, and student outcomes and the intersections of each with corrections, economic development, health care, and human services issues. The Committee would also provide information and assistance to other legislative committees and report at least once annually.

*Effective Date: On passage*

**Sec. 35. Health Care Costs; Study**

Requires the Director of Health Care Reform to consider alternatives available to school districts, supervisory unions, and their employees to address the high cost of health care. Among other options, the Director is required to consider the possibility of transitioning to plans offered through Vermont Health Connect, the Vermont Education Health Initiative, and other mechanisms. *Due: November 1, 2015*

*Effective Date: On passage*

**Sec. 35a. Authorization; Fiscal Year 2015 Appropriation; Existing Incentives**

Authorizes use by the Agency of Education of \$620,000 from FY2015 Education Fund appropriations, prior to reversion, for reimbursement of expenses and other financial incentives authorized by current law for REDS and other types of joint activity by districts or SUs.

*Effective Date: On passage*

**Sec. 35b. Designation of Public or Independent High School**

Currently, districts that don't operate high schools may designate one public or approved independent school to be the high school for the district. Sec. 35b authorizes a nonoperating district to designate three or fewer schools.

*Effective Date: July 1, 2015*

**Sec. 36. Effective Dates** (various – each listed above with its respective substantive section)