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FISCAL NOTE

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H.361 Education Funding, Spending, and Governance
Senate Education Committee Strike All Amendment

Sec. 1. Findings
Section 1 has no measurable fiscal impact.

Sec. 2. Preferred Educational Governance Structure
Section 2 sets forth parameters for a preferred education governance structure that is a single district that is responsible for the education of all resident pupils; is its own supervisory district; has a minimum average daily membership of 900; and assumes one of four common structures.

Salaries and benefits paid to school teachers and staff in Vermont account for nearly 80% of current expenditures, so any significant long-term savings under this legislation would be achieved primarily through reductions in the number of teachers and staff made possible by consolidation.

In FY2011, the most recent year that comparable data are available, Vermont's pupil-to-staff ratio was 5.2, the lowest in the nation. In other New England states, pupil-to-staff ratios ranged from 5.8 to 7.8. In Maine and New Hampshire, pupil-to-teacher ratios were 5.8 and 5.9, respectively.

More recent data available from AOE indicate that Vermont's pupil-to-teacher ratio was 4.664 in FY2013. If the pupil-to-teacher ratio had been between 4.8 and 4.9, statewide education spending would have been $32 million to $54 million lower and the number of staff would have declined by 409 to 819 full-time equivalent positions. See the analysis here:
http://www.leg.state.vt.us/jfo/education/Impact%20of%20Pupil-to-Staff%20Ratios%20on%20Total%20Compensation.pdf

Vermont has extraordinarily small districts even when compared to Maine and New Hampshire, both rural and sparsely populated states. In FY2009, the most recent year that comparable data is available, nearly two-thirds of Vermont's districts had fewer than 300 pupils and more than one-quarter of Vermont's pupils belonged to districts with fewer than 300 pupils.

Vermont also has many small schools that may have higher fixed costs. In FY2009, the average number of pupils per elementary school was 200 pupils, the lowest average in New England and well below the national average of 475 pupils. The average number of pupils per secondary school was 575 pupils. In New England, only Maine had a lower secondary school average.

A 2014 report prepared by the Chittenden East Supervisory Union included an estimate of potential savings in the formation of a union district. Their estimate of potential savings from closing an

elementary school in the union district ranged from $0.5 million to $1.9 million depending on the size of the school. This report is available here:
http://www.leg.state.vt.us/jfo/education/FINAL%20DRAFT%20REPORT%20APPROVED%20%207-28-14%20%282%29.pdf

Sec. 3. Intent Language; Protections
Section 3 has no measurable fiscal impact.

Secs. 4-5. Regional Education District (RED) Incentives
Sections 4 and 5 allow a RED that has become operational by FY2021 to reduce its homestead tax rate and equalize the homestead tax rates of its members during the first four years after merger. The homestead tax rates in member municipalities may not change more than five percent in a single year and the merged districts equalized homestead property tax rate is reduced as follows:

- 8 cents in the first year
- 6 cents in the second year
- 4 cents in the third year
- 2 cents in the fourth year

There is a corresponding reduction in the tax rates on household income in the RED over this period.

These tax rate incentives would have a negligible fiscal impact in the short-term since any reduction in homestead taxes in districts that are part of a RED would be offset by an increase in those districts that are not yet part of a RED. However, these provisions would create an incentive for districts to merge sooner rather than later in the transition period.

Alternatively, during the first year of its operation, a RED could opt to receive an incentive grant from the Education Fund equal to $400 per pupil based on the combined enrollment of the combined enrollment of the participating districts in the year in which the vote to merge is taken.

In addition, a RED that meets current-law requirements may also be eligible for two grants: (a) a consulting services reimbursement grant and (b) a transition facilitation grant. The combined amount of both grants is paid from the education fund and may not exceed $150,000.

Sec. 6. Enhanced Incentives for SUs Becoming SDs – Operational by FY2018
Section 6 allows an existing Supervisory Union (SU) that becomes a Supervisory District (SD) by merging into a unified union school district (including merger with a neighboring SU), meets certain criteria, and becomes operational by FY2018 to receive incentives as follows.

First, the newly merged district would be able to choose one of the following two incentives: (1) reduced homestead property tax rates for the first five years of operation; or (2) an incentive grant during the first year of operation.

Under the first incentive, the merged district may reduce its homestead tax rate and equalize the homestead tax rate of its members during the first five years after merger. The homestead tax rates in member municipalities may not change more than 5 percent in a single year and the merged district's equalized homestead property tax rate would be reduced as follows:

- 10 cents in the first year
- 10 cents in the second year
- 8 cents in the third year
- 6 cents in the fourth year
- 4 cents in the fifth year

These tax rate incentives would have a negligible fiscal impact in the short-term since any reduction in homestead taxes in districts that are part of a newly-merged district would be offset by an increase in those districts that are not eligible for the incentive. However, these provisions would create an incentive for districts to merge sooner rather than later in the transition period.

Alternatively, during the first year of its operation, a merged district would receive an incentive grant from the Education Fund equal to $400 for each resident student in the new district in that year.

In addition, if the districts forming the merged district include at least one school district that is eligible for small schools support in FY2016, the new district would receive an annual merger support grant in each of the first five years after it becomes operation equal to the amount the eligible district received in FY2016.

Finally, after vote approval of the plan of merger the transition board of the new district would receive a transition facilitation grant from the Education Fund equal to the lesser of: five percent of the base education amount for each enrollee or the average daily member of the merging districts or $150,000.

If a new district that receives these incentives also meets the eligible criteria to receive incentive as a RED, the then district shall not receive the RED incentives.

Sec. 7. SU Boundary Changes
Section 7 has no measurable fiscal impact.

Sec. 8. Merger Support Grants – Operational FY2018 to FY2021
Section 8 provides that if a district receiving a small schools support grant under current law becomes a RED, the small schools support grant continues for five years.

Secs. 9-10. Small School Grants – FY2017 and After
Under current law, small school districts operating at least one school are eligible for (1) a support grant if their two-year average enrollment is less than 100 or if the average grade size is 20 or fewer and (2) a financial stability grant if there is a 10% decrease in the two-year average enrollment in any one year.

Section 9 repeals the requirement that a district's two-year average enrollment is less than 100, but requires an annual determination by the State Board of Education that the district remains eligible due to its geographic isolation beginning in FY2017. In addition, this section repeals the financial stability grant beginning in FY2017.

Section 10 phases out small schools support over two years for districts that are not deemed eligible due to geographical necessity as follows: in FY2017, the district would receive two-thirds of its FY2016 small schools support grant; and in FY2018, the district would receive one-third of its FY2016 small schools support grant.

The fiscal impact of these proposed changes to small schools support beginning in FY2020 would be very small, especially if affected districts vote to replace any lost grant revenue by increasing their locally-voted education spending. However, this provision would remove the potential loss of small schools support as an impediment to mergers.

In FY2015, ninety-five districts received small schools support grants amount to roughly $7.4 million and five districts received small schools financial stability grants amounting to roughly $90,000.

Secs. 11-14. 3.5% Hold Harmless Provision
Under current law, the loss of equalized pupils is limited to 3.5% annually. This provision was originally intended to help districts navigate annual swings in enrollment; however, after years of steadily declining enrollment, this provision has resulted in the inclusion of 773 so-called “phantom” pupils in the equalized pupil count in FY2015.

Sections 11 and 12 reduce the number of phantom pupils included in a district’s equalized pupil count in two ways:

(1) Sec. 11 requires districts with no phantom pupils to apply the hold-harmless provision to the *actual* number of equalized pupils in the prior year; and

(2) Sec. 12 requires districts with phantom pupils to reduce their equalized pupil count to no less than 90% of the prior year in FY2017 and 80% of the prior year in FY2018.

The statewide fiscal impact of eliminating most phantom pupils would be small; however, districts with phantom pupils might choose to reduce spending since their homestead tax rates would increase. Eliminating phantom pupils from the calculation of homestead tax rates would also allocate the homestead tax burden among districts more equitably.

Sections 13 and 14 repeal the 3.5% hold harmless provision on FY2021; however, the provision is grandfathered for districts that are eligible for merger incentives on or before FY2021.

Sec. 15. Other Existing Incentives for Other Joint Activity
Section 15 moves the deadline for other incentives in Act 156 for other joint activity back to December 31, 2015 from FY2018.

Sec. 16. SU is the LEA for federal accountability
This section has no fiscal impact.

Sec. 17. Failure to Comply with SU Duties to Provide Services to Districts
Section 17 would impose a 5% tax penalty on SUs and their member districts beginning in FY2018 if they fail to comply with current law regarding SU duties performed for districts. It only one district fails to comply, the tax penalty applies only to that district.

Sec. 18. Transitioning Employees
Section 18 has no measurable fiscal impact.

Sec. 19. Union School District Definition
Section 19 has no measurable fiscal impact.

Sec. 20. AHS / AOE Coordination
Section 20 has no measurable fiscal impact.

Sec. 21. Authorities of State Board of Education
Section 21 has not measurable fiscal impact.

Sec. 22. Quality Assurance Reviews and Reports
Section 22 has no measurable fiscal impact.

Sec 23. Optional Self-Evaluation, Meetings, and Declaration
Section 23 has no measurable fiscal impact.

Sec. 24. Transition to Sustainable Governance Structures
Section 24 has no measurable fiscal impact.

Sec. 25. Limit Service Technical Assistance Position in AOE
Section 25 provides that this position would be authorized only if funding solely through non-State sources.