Vermont Legislative Joint Fiscal Office

One Baldwin Street • Montpelier, VT 05633-5701 • (802) 828-2295 • Fax: (802) 828-2483

FISCAL NOTE

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Prepared by: Mark Perrault

H.361 Education Funding, Spending, and Governance
As Passed the House

Overview

Education Tax Rates – Secs. 6 and 7
Section 6 sets the base education tax rates for FY2016 at $1.521½ for nonresidential property, $0.98 for homestead property, and 1.94% for household income. Section 7 sets the base education amount at $9,459. In FY2015, the base education tax rates are $1.51½, $0.98, and 1.80%, respectively, and the base education amount is $9,285.

At these rates, statewide education taxes will increase by $16 million. Note that the $16 million increase in statewide education taxes is attributable to the 2.95% increase in education spending next year and not any provision of H.361. Under Act 68, the legislature must set the education tax rates and base education amount annually.

Education Spending Cap – Secs. 27 and 28
Section 27 potentially limits annual growth in education spending to 2% in FY2018 and FY2019. Each district's allowable growth rate is adjusted based on its education spending per equalized pupil in the prior year and is applied to either its prior year total education spending or education spending per equalized pupil, whichever results in a higher cap.

Section 28 provides that the cap for FY2018 applies only if growth in statewide education spending in FY2017 exceeds 2.95% over FY2016. If the cap does not apply in FY2018, then section 28 provides that the cap applies in FY2019 only if growth in statewide education spending in FY2018 exceeds 2.95% over FY2017.

Integrated Education Systems – Secs. 10-12a, 17, 18-22, 25
Section 17 requires districts to merge into "integrated education systems" offering prekindergarten through grade 12 instruction to no fewer than 1,100 pupils by FY2020. If efficiencies achieved through consolidation enable districts to collectively increase the State's average pupil-to-staff ratio from 4.7 to between 4.8 and 4.9, statewide education spending could be reduced by $32 to $54 million annually.

The other sections provide incentives for, or remove potential impediments to, the formation of larger districts. Following a successful merger, sections 10 and 11 allow small school grants to continue; section 18 reduces homestead tax rates and provides grants; section 19 forgives the repayment of school construction aid upon the sale of a school building; and section 22 provides that recently merged districts may retain their articles of agreement.

Education Oversight Committee – Secs. 33-34
Sections 33 and 34 create a Joint Legislative Education Oversight Committee and authorize the payment of per-diem compensation and reimbursement of expenses for members of the committee.

Unfunded Mandates – Sec. 26
Section 26 requires the Joint Fiscal Office to estimate the cost of any new unfunded education mandates and provides that the cost of these mandates be added to the General Fund transfer to the Education Fund in the next fiscal year and in each subsequent year unless the mandate is repealed.

Transparency – Secs. 2-5, 8-9, and 13-14
These sections have no measurable fiscal impact, but provide information intended to help schools boards and voters better understand the relationship of per-pupil education spending to their homestead tax rates.

Sections 2-5 replace the base education amount with “dollar equivalent” yields; sections 8-9 require that a district states its board-approved budget in terms of spending per equalized pupil; and sections 13-14 reduce the number of so-called “phantom” pupils.

Financial, Accounting, and Student Data – Sec. 23
Section 23 requires the Agency of Education to fully implement statewide systems to maintain financial and accounting data and longitudinal student data by FY2018.

Studies – Secs. 29-32 and 35
Sections 29-31 and 35 require several executive branch studies. Section 32 provides an appropriation of $300,000 to the Joint Fiscal Office for a study of an adequacy-based education finance system in Vermont from funds appropriated by not expended from the Education Fund in FY2015.

Appropriation – Sec. 35a
Section 35a authorizes the use of $620,000 from funds appropriated but not expended from the Education Fund in FY2015 for financial incentives authorized under current law for Regional Education Districts and other types of joint activity by districts or supervisory unions.

Section by Section Analysis

Sec. 1. Policy Goals

Section 1 has no measurable fiscal impact.

Secs. 2-5. Homestead Education Tax Yields – FY2017

These sections replace the base education amount used to calculate spending-adjusted homestead tax rates with two yields that state the amount of per-pupil education spending that can be supported with base tax rates fixed at $1.00 for homestead property and 2.0% for household income.

This provision has no measurable fiscal impact; however, fixing the base homestead tax rates at $1.00 and 2.0% would have advantages. First, since the base homestead tax rates would remain constant, it might become more apparent to school boards and voters that their collective spending decisions determine homestead tax rates rather than the legislature.

Second, it would be easier for homeowners to estimate their homestead tax when presented with board-approved budgets. For example, if a school board proposed spending per-equalized pupil that was 50% more than the yield, the spending-adjusted homestead tax rate would be 50% higher than the base homestead tax rate of $1.00 or $1.50.

Last, using two yields in lieu of the base education amount would eliminate any shift in the education tax burden between classes of taxpayers due solely to different rates of growth between household income and property value.

For a comparison of the yield or “dollar equivalent” compared to current law see:

Secs. 6-7. Education Tax Rates for FY2016

Sections 6 and 7 sets the set the education tax rates and the base education amount for FY2016 as follows:

- Nonresidential property - $1.52½ per $100 of equalized value
- Homestead property - $0.98 per $100 of equalized value
- Household income - 1.94%
- Base education amount - $9,459

FY2016 statewide education taxes will increase by about $16 million over FY2015 at these tax rates. See the Education Fund Outlook at: http://www.leg.state.vt.us/jfo/education/EF%20Outlook%20-%20H_361.pdf

Secs. 8-9. Ballot Language

Sections 8 and 9 repeal the so-called “two-vote” provision and require that the Warning for a district’s proposed budget states the total budget in terms of spending per equalized pupil and the percentage change in spending per equalized pupil from the prior year.

Additional ballot language would have no measurable fiscal impact; however, since homestead tax rates are based on per-pupil education spending rather than budgets, this additional information might help homeowners better understand the tax consequences of their vote.

Secs. 10-11. Merger Support Grants for Small School Districts

Sections 10 and 11 allow a district to retain its small schools support after merging with another district even if that district is no longer eligible to receive small school support under current law:

(1) Sec. 10 allows the support grant to continue unless the merged district closes the school that created the original eligibility. However, if closure of the school is tied to consolidation, the support grant continues until the bonded indebtedness is retired.

(2) Sec. 11 allows the support grant to continue as provided in section 10 in districts that merge under section 17 of this bill as long as the merger receives final approval by November 30, 2017 and becomes operational by FY2020.

The cost of continuing to provide the support grant to small schools after merger would be small; however, this provision would remove the potential loss of small schools support as an impediment to mergers. See sections 12 and 12a.

Secs. 12-12a. Small Schools Support

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 12 repeals the requirement that a district's two-year average enrollment is less than 100, but requires participation in a merger study and an annual determination that the district remains eligible due to its high student-to-staff ratios, geographic isolation, and success in meeting EQS. In addition, this section repeals the financial stability grant beginning in FY2017.

Section 12a requires that the State Board of Education adopts and publishes metrics by which it will measure requests for small school support by July 1, 2018.

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. 13-14. Equalized Pupils 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 13 and 14 reduce the number of phantom pupils included in a district's equalized pupil count in two ways:

(1) Sec. 13 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. 14 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.

Secs. 15-16. Publicly Funded Tuition Paid to Out of State Institutions.
Sections 15 and 16 were deleted.

Sec. 17. Integrated Education Systems
Section 17 requires existing districts to merge into "integrated education systems" (IES) offering prekindergarten through grade 12 instruction to no fewer than 1,100 pupils by FY2020. Currently, only fifteen districts have over 1,000 pupils.

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. 18. Tax Incentives for Integrated Education Systems

Section 18 allows an Integrated Education System (IES) that is created before FY2020 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 IES's 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 IES 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 an IES would be offset by an increase in those districts that are not yet part of an IES. However, these provisions would create an incentive for districts to merge sooner rather than later in the transition period.

In addition, an IES 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.

Districts that are eligible for both the current-law incentives available to Regional Education Districts and the incentives available in this section may not combine the incentives.

Sec. 19-19b. Repayment of School Construction Aid

Sections 19 and 19b exempt union school districts and joint contract schools from the statutory requirement that districts repay a portion of school construction aid upon the sale of a school building until November 30, 2017. Section 19a directs the Agency of Education to conduct a review and submit a report on the repayment of school construction aid. The loss of school construction aid refunds would be small, but forgoing this future revenue would remove a potential impediment to consolidation into larger districts.

Secs. 20-21. Dates and Technical Corrections

Sections 20 and 21 have no fiscal impact.

Sec. 22. Articles of Agreement in Recently Merged Districts

Section 22 has no fiscal impact, but it removes a potential impediment this bill might introduce into the operation of recently merged districts with articles of agreement specifying the manner in which another district may join the merged district in the future.

Sec. 24. Financial, Accounting, and Student Data

Section 23 requires the Agency of Education to fully implement statewide systems to maintain financial and accounting data and longitudinal student data by FY2018. The Agency has sufficient funds to cover the cost of this ongoing work.

Sec. 24. Contract Imposition

Section 24 was deleted, but there is a separate bill pending in the House with the similar provisions.

Sec. 25. Employee Transition

Section 25 has no measurable fiscal impact.

Sec 26. Unfunded Mandates

Section 26 requires the Joint Fiscal Office to estimate the amount of any new unfunded 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 mandate is repealed.

Secs. 27-28. Education Spending Cap

Section 27 potentially limits annual growth in education spending to 2% in FY2018 and FY2019. Each district's allowable growth rate is adjusted based on its education spending per equalized pupil in the prior year and is applied to either its prior year total education spending or education spending per equalized pupil, whichever results in a higher cap.

Section 28 provides that the cap for FY2018 applies only if growth in statewide education spending in FY2017 exceeds 2.95% over FY2016. If the cap does not apply in FY2018, then section 28 provides that the cap applies in FY2019 only if growth in statewide education spending in FY2018 exceeds 2.95% over FY2017.

Education spending in non-operating or partially operating districts is capped by basing the non-operating portion of the budget on the highest amount of tuition paid for a student by the district in the prior year, increased by the district's allowable growth rate.

If the education spending cap applies in either FY2018 or FY2019, districts may appeal the amount of the cap to the Secretary of Education no less than three months prior to the date that the district votes on its budget. The Secretary's decision is final.

Secs. 29 – 32, 35. Studies

These sections authorize executive branch studies on special education funding, the roles of superintendents and principals, current-year property tax adjustments, and health care costs. Section 32 provides an appropriation of $300,000 to the Joint Fiscal Office for a study of an adequacy-based education finance system in Vermont. This expenditure is covered with funds appropriated but not expended from the Education Fund in FY2015.

Secs. 33-34 – Joint Legislative Education Oversight Committee

Sections 33 and 34 create an oversight committee and authorize the payment of per-diem compensation and reimbursement of expenses for members pursuant to 2 V.S.A. §406.

Sec. 35a. Appropriation for Existing Merger Incentives
Section 35a authorizes the use of $620,000 from funds appropriated but not expended from the Education Fund in FY2015 for financial incentives authorized under current law for Regional Education Districts and other types of joint activity by districts or supervisory unions.

Sec. 36 – Effective Dates