

# Vermont Legislative Joint Fiscal Office

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

## *FISCAL NOTE*

Date: June 4, 2018

Prepared by: Mark Perrault and Chloe Wexler

### **Analysis of the Beck Amendment to H.13**

#### **An act relating to making appropriations for the support of government**

The Beck Amendment to H.13 adopts the Conference Committee Report on H.911 with some significant changes that are discussed below. Supporting documents are available from the Joint Fiscal Office.

#### **1. Sets Education Tax Rates in FY2019**

- a. Uses non-recurring revenue to maintain the *average* homestead property tax rate, the *average* tax rate on household income, and the nonresidential tax rate at their FY2018 levels in FY2019:

<i>Average</i> homestead property tax	\$1.500
<i>Average</i> tax rate on household income	2.49%
Nonresidential property tax rate	\$1.535

Maintaining *average* homestead tax rates in FY2019 increases the homestead property tax rates in 127 municipalities and reduces the homestead property tax rates in 124 municipalities.

- b. Provides a loan of **\$33.8 million** from an FY2018 General Fund (GF) surplus to the Education Fund (EF) to fill the stabilization reserve to 5% in FY2019. This account for most of the \$34.5 million surplus available in FY2018 in H.13.
- c. Requires repayment of this loan with Act 46 tax incentive capacity from FY2020 to FY2023. "Act 46 tax incentive capacity" is defined as the difference between the highest annual cost of the merger incentives in FY2019 - **\$14 million** - and the lower cost of the incentives in future years.
- d. Although this loan lowers education tax rates in FY2019, between FY2020 and FY2023 education tax rates will be higher than they would be otherwise since an additional \$33.8 million will have to be raised to repay the loan. *See the graph on Act 46 merger incentives.*

## 2. Modifies the Calculation of Homestead Tax Rates

- a. Shifts the homestead property tax burden between municipalities over a 10-year period
  - i. In FY2019, homestead property tax rates would be similar to those tax rates under the Governor's plan because the proposed yields are close. However, as the proposal is phased in, homestead tax rates will *increase* in higher-spending districts and will *decrease* in lower-spending districts, redistributing the current-law statewide homestead property tax burden among municipalities.
  - ii. In FY2019, at full implementation the break-even point is **\$15,800** per equalized pupil. Homestead tax rates increase in 147 districts and decrease in 104 municipalities based on FY2019 spending. *See the spreadsheet with a comparison of homestead tax rate under H.911 and the Beck Amendment.*
- b. Creates potential for cost containment
 

Over time, the tax cost of each additional dollar of per-pupil spending will be higher for all districts compared to current law, possibly reducing statewide spending. However, spending capacity will be created in low-spending districts, possibly increasing spending in these districts. Sixteen districts currently spend less than the \$13,200 base payment per pupil.
- c. Moves to a single property and income yield
 

Create a single multiplier for homestead tax rates whether the resident homeowner's education tax is based on homestead value or household income. For the December 1st recommendation, the base tax rate on household income would float to account for changes in the respective tax bases.
- d. Repeals the excess spending penalty
 

Homestead tax rates increase significantly in high-spending districts once the proposal is fully phased in, so the excess spending penalty may be unnecessary.

## 3. Reduces the Property Tax Adjustment

- a. Reduces the property tax adjustment (PTA), which increases EF revenue by raising the homestead property tax on certain resident homeowners. *See the spreadsheet showing changes to the property tax adjustment by household income class.*
- b. Adopts two provisions included in H.911 that reduce the PTA retroactively by **\$13.2 million** in FY2019:

- i. Lowers the maximum housesite value eligible for a PTA for resident homeowners with household income under \$90,000 from \$500,000 to \$400,000 in FY2019. This change reduces the PTA by **\$1.8 million**.
- ii. Lowers the maximum housesite value eligible for a partial PTA for resident homeowners with household income over \$90,000 from \$250,000 to \$200,000 beginning in FY2019. This change reduces the PTA by **\$11.4 million**. The maximum household income for a partial PTA drops from \$147,813 to \$118,010.
- c. Further reduces the maximum housesite value eligible for a PTA from \$400,000 to \$300,000 over five years. Based on FY2019 data, this change would reduce the PTA by an *additional* **\$7.5 million** compared to H.911 once fully implemented.

#### **4. Requires Supermajority Voting**

Beginning in FY2020, requires a 60% supermajority vote to approve their school budget if a district spends more than 110% the statewide average increased by inflation. Based on school budgets passed in March, 120 municipalities (61 districts) would have been subject to this provision in FY2019.

#### **5. Retains Additional Provisions from H.911**

- a. Repeals the GF transfer to the EF and replaces it on a revenue-neutral basis by:
  - (1) Dedicating revenue from the sales & use tax and the meals & rooms tax to the EF
  - (2) Transferring some existing EF uses to the GF.
- b. Separates the homeowner rebate into its separate homestead property tax and municipal property tax components.
- c. Creates a Vermont Tax Structure Commission.
- d. Creates a Staff-to-Student Ratios Task Force.
- e. Reschedules the JFO's Tax Increment Financing Report to 2021 and every four years thereafter.