H.304

Achieve education cost containment by eliminating the excess spending threshold and changing how education homestead tax rates are assigned, while remaining *Brigham* compliant.

H.304, as amended, would change education funding in four ways:

1. Eliminate the excess spending threshold beginning in FY18
2. Move toward fair assignment of education homestead and income tax rates based on district spending beginning in FY19, with full implementation in FY23
3. Provide increased education spending cost containment beginning in FY19
4. Replaces the two yield method currently used, with one yield in FY19

● H.304 does not change the relationship between non-residential, homestead, and income education tax payers. The existing shared burden between the three would remain unchanged.

● H.304 does not change income sensitivity.

● H.304 does not limit how much a district may spend.

● H.304 does not use employee ratios to control spending

● H.304 does not use a penalty to control district education spending

● H.304 does not change existing grants or pupil weighting

Currently, the assignment of Vermont's education homestead and income tax rates is unfair, rewarding districts with higher levels of pupil spending and assigning a premium to districts with lower levels of pupil spending. By assigning the yield to a district's entire education fund spending, the current yield process would only lead to fair rates if there were no other revenues in the Education Fund. Of course, there are many other revenues in the Education Fund. This disparity is expressed by our homestead and income payers in a complaint that I often hear, "our tax rate does not seem to be connected to our level of spending".

H.304 much more closely connects districts to their tax rate by establishing a base education fund spending amount supported by a $1.00 homestead tax rate, and then assigning additional rate by applying a yield on an equalized basis to district spending beyond the base spending amount. In FY18 the base spending amount would have been $13,111. If a district spent this amount their district tax rate would be $1.00. For districts spending more than $13,111 they would pay an additional rate for dollars spent beyond $13,111.

FY23 District Spending (in FY18 dollars) -

District spends the base spending amount, $13,111
District Tax Rate = $1.00 ($1.30)

District spending MORE than the Base Spending Amount

Ex. District spends $14,000
$1.00 + 889/4557 = $1.20 ($1.39)

Ex. District spends $17,000
$1.00 + $3889/4557 = $1.85 ($1.69)

Joint Fiscal Office
In the FY17 Education Funding Bill, a report was ordered on my proposal. JFO issued key findings:

● In FY2017, the proposal would have increased homestead tax rates in 46% of districts and reduced homestead tax rates in 54% of districts.

● The average homestead tax rate in the highest-spending decile would have increased by $0.33 and the average homestead tax rate in the lowest-spending decile would have decreased by $0.26.[3]

● There are several intrinsic transition issues that would need to be addressed before the proposal could be implemented.

● The ongoing implementation of Act 46 and related legislation would complicate the implementation of the proposal in FY2020.

● While it is not possible to know with certainty, it is not likely that the proposal would result in a significant change in education spending statewide.

Transition
H.304 includes a five-year transition beginning in FY19. There would be no change in how FY18 homestead and income tax rates are calculated other than the removal of the excess spending threshold.

FY19	84%
FY20	88%
FY21	92%
FY22	96%
FY23	100%

Why Now?
●In FY19 and FY20 many districts will unify under Act 46 and determine their fiscal trajectory. It is imperative that they choose this fiscal trajectory knowing the rules going forward.
●Yields in the next 5-6 years will be artificially high due to the continued decrease in our student population. If districts take advantage of these artificially high yields, they will be in for a rude awakening when the student population bottoms out and yields going forward are based solely on economic growth. **In FY18 per pupil district spending increased 4.97%.**
●H.304 does not hinder or prevent any future work on education funding: weighting, grants, income sensitivity, other revenue sources etc….