

Vermont Legislative Joint Fiscal Office

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ISSUE BRIEF

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Structural Changes to the Education and General Funds in FY2019

Act 11 (H.16) made structural changes to the Education Fund (EF) and General Fund (GF) beginning in FY2019. At the time this legislation passed, the combined impact of these structural changes was intended to be revenue neutral. On or before January 1, 2024, the JFO shall report to the Legislature on the impact these structural changes on both funds.

1 - Education Fund Sources

The GF transfer to the EF was repealed and replaced with two dedicated revenue sources beginning in FY2019:

- 100% of the Sales & Use Tax (previously 36%)
- 25% of Meals & Rooms Tax

In prior years, annual growth in the statutory GF transfer to the EF was based on inflation regardless of the actual growth in GF revenues and 36% of the Sales & Use Tax was dedicated to the EF.

2 - Education Fund Uses

Four EF uses were transferred from the EF to the GF beginning in FY2019:

- State aid for Adult Education & Literacy
- State aid for the Community High School of Vermont
- Renter Rebate
- Reappraisal & Listing Payments

3 - Education Fund Stabilization Reserve

Prior to FY2019, the EF stabilization reserve target was 3.5% to 5% of prior-year “net appropriations.”¹ This range was established under Act 60 because both the GF and EF included a reserve against the GF transfer to the EF. With the repeal of the GF transfer to the EF, there is no longer any rationale for allowing the 3.5% to 5% range for the EF stabilization reserve. In FY2019, the Legislature fully-funded the EF stabilization reserve at 5%.

Note that in FY2019, the GF stabilization reserve was funded without taking any of these structural changes into account. On or before Oct 31, 2018, the JFO and the Department of Finance & Management shall review the statutory reserve requirements for the GF, the EF, and the State Health Care Resources Fund and make recommendations to the Legislature for changes to the existing statutory requirements.

¹ “Net appropriations” is determined by subtracting from total appropriations the amount of education tax revenue that is raised by municipalities and sent directly to school district(s). Municipalities that raise more education tax revenue than their school district(s) spend send the excess revenue to the EF.