

# Vermont Legislative Joint Fiscal Office

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## *Draft* ISSUE BRIEF

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### Education Finance Issues Raised by COVID-19

#### Summary

- Non-property tax revenues in FY2020 are now expected to fall \$35 to \$45 million below the January forecast.
- Municipalities have already collected most of the education property taxes due in FY2020; however, 74 municipalities still have an estimated \$125 million outstanding.
- School districts will need to reallocate existing funds, use reserves, or run deficits to cover the cost of any COVID-19 related spending in the 2019-2020 school year.
- The Education Fund will run a significant operating deficit in FY2020 – the projected \$12.9 surplus and the most of the stabilization reserve will be depleted.
- The pending Federal COVID-19 stimulus package includes \$30 billion for schools; Vermont's share of this additional school aid should be available in the current fiscal year.
- Setting the education tax rate parameters for FY2021 prior to adjournment will be problematic given the current level of uncertainty.
- If education tax rate parameters are not set prior to adjournment, there are default parameters set forth in current law.
- COVID-19 related revenue losses are expected to be significantly higher in FY2021 for both education property taxes and non-property taxes; however, reliable estimates are not yet available.
- Voters have already approved school budgets that will increase education spending by \$73 million over FY2020 levels in FY2021.
- Voters defeated nine school budgets in March. Five school districts have votes scheduled in April or May. How and when these votes will take place now is uncertain.
- The property tax credit for FY2021 will be based on CY2019 income, so there will be no additional property tax assistance for taxpayers with COVID-19 related loss of income.
- Moving the filing deadline for the property tax credit to July 15<sup>th</sup> creates a potential problem for municipalities to issue timely education property tax bills in FY2021.

#### COVID-19 Related Loss of Education Fund Revenue FY2020

In the January revenue forecast, total Education Fund sources were estimated to be nearly \$1,711 million. Of this amount, education property taxes accounted for \$1,140 million or roughly two-thirds of total Education Fund revenue. Non-property taxes accounted for the remaining \$528 million, or roughly one-third of total Education Fund revenue.

Most of the education property taxes due for the current fiscal year have already been collected by municipalities. However, each municipality has its own billing schedule and at present many

municipalities still have outstanding tax payments due. How much of these outstanding taxes will not be paid in a timely fashion due to COVID-19 related layoffs or business losses is uncertain.

Number of Payments	Number of Towns	Net Education Property Taxes Collected (\$M)	Towns with Payments Due	Net Education Property Taxes Due (\$M)
1	108	\$288	0	\$0
2	62	\$251	21	\$32
3	19	\$192	8	\$16
4	45	\$229	45	\$76
No data	25	\$58		
Total	259	\$1,018	74	\$125
Percent of Total		89%		11%

As indicated in this table, there are currently 74 municipalities that have \$125 million in outstanding education property tax collections for FY2020 as of March 15<sup>th</sup>. The statewide cost of failure to collect one-percent of these outstanding property taxes would be only \$1.25 million; however, there are 21 municipalities that not yet collected one-half of their total education property tax collections.

Non-property tax revenues from the sale and use, purchase and use, and meals and rooms taxes were estimated to raise almost \$528 million in FY2020. Total revenues from these three non-property taxes are now expected to fall \$35 to \$45 million below the January revenue forecast as the economy slows due to layoffs and business losses and consumers reign in their discretionary spending. The loss represents about 2% to 2.6% of total Education Fund revenues in FY2020.

In addition, the Administration has proposed allowing businesses to defer payment of the meals and rooms taxes due in March, April, and May. Businesses would be required to make all deferred payments in addition to the normal June payment on June 25<sup>th</sup>. If businesses able to remit the total amount of outstanding tax due on June 25<sup>th</sup>, this will not result in an additional revenue downgrade for FY2020; however, collection of the full amount due after deferral is not a certainty.

### **COVID19-Related Spending by School Districts in FY2020**

In response to the COVID-19 pandemic, the Governor ordered the dismissal of all schools and the cancellation of all school-related activities through April 6<sup>th</sup>. During this period of dismissal, school employees are directed to report to work or to work remotely and school districts have been directed to continue to pay all school staff, including hourly employees, and to continue to make prekindergarten tuition payments to private providers.

Although guidance from the Agency of Education (AOE) indicates that during the initial dismissal period, regular educational services do not continue and students are not expected to make educational progress, other services will continue to be supported by school employees including:

- *District-based options for childcare for “essential” employees*
- *Meals services for those who need it*
- *Creating a plan for continuing services for students with disabilities and special needs*

- *Systems for ensuring the maintenance of education for students*
- *Cleaning and disinfecting school grounds*

The additional cost associated with the provision of these services may not be large. School districts remain eligible for certain Federal and State reimbursements for school meals and the Administration has indicated that school districts that require supplemental funding for child care services provided to essential workers will also be reimbursed, although the source and amount of this funding is uncertain.

If, as now seems likely, it becomes necessary to extend closure period beyond April 6<sup>th</sup>, school districts will be asked to provide more formal education services to students for the remainder of the school year. Schools will be required to create Continuing Education Plans for all students and all educational services, to the extent possible, must be offered to students through various remote and virtual means.

Since school budgets are set, any additional funding required to provide educational services during the 2019-2020 school year will require school districts to reallocate existing funds, use reserve funds, if available, or run a deficit that would carryforward into the next school year. However, this far into the current school year school districts have less flexibility to reallocate funds and districts are universally thin on reserves.

### **Cash Flow Issues in FY2020**

Prior to the COVID-19 outbreak, the Education Fund was projected to close FY2020 with a full stabilization reserve of \$36.4 million and a surplus of \$12.9 million. This surplus will reduce a portion of the anticipated \$35 to \$45 million revenue shortfall. However, without additional funding from some other source such as the pending Federal COVID-19 stimulus bill, the Education Fund will run a significant operating deficit in FY2020 and most of the stabilization reserve will be needed to cover statewide education spending.

Under current law, school districts receive three equal payments on September 10<sup>th</sup>, December 10<sup>th</sup>, and April 30<sup>th</sup>. For school year 2019-2020, the April 30<sup>th</sup> payment to school districts is still outstanding. This payment includes state categorical aid for special education, transportation, and small schools as well as the education payment. If these categorical aid payments to school districts are reduced, education spending will increase by the same amount.

Municipalities must be timely in their payments of statewide education property tax to the State even if property taxpayers are delinquent or fail to pay their taxes. Consequently, in addition to losing municipal property tax revenue, municipalities would need to remit the full amount of education property tax owed to the State. There is also an 8% penalty for late payments, but the Commissioner of Taxes likely can exercise his general authority to waive the penalty.

### **Setting Education Tax Rates for FY2021**

Prior to adjournment, the Legislature normally sets the property and income yields as well as the nonhomestead property tax rates for the upcoming fiscal year. Given the current level of uncertainty about the health of the Education Fund at the close of FY2020 and the magnitude of any FY2021 revenue shortfall, setting education property tax parameters for FY2021 will be problematic.

COVID-19 related revenue losses are expected to be significantly higher in FY2021 than they are in FY2020. At this point in time reliable estimates of how significant those revenue losses will be are not available. The Legislative economist is currently assessing likely FY2021 revenue impacts in the light of evolving epidemiological models; however, it is not clear given current uncertainties when reliable revenue estimates will be available for FY2021.

Education Fund spending is \$73 million higher than in FY2020. In March voters approved 94 school district budgets that increased education spending by \$62 million over FY2020 levels. Other Education Fund spending for State categorical aid as well as other uses is estimated to be up another \$11 million over FY2020 levels. Note that any reduction in State categorical aid for special education, transportation, or small schools will increase education spending by the same amount.

In March voters defeated nine school district budgets and in five school districts the vote is scheduled in April or May. When the municipalities that belong to these districts will be able to vote on their original or the revised school budget is uncertain. Note that if voters are unable to pass a school budget by June 30<sup>th</sup> there is a default in current law that will allow a school district to continue to operate by borrowing funds necessary to enable it to operate on a budget up to 87% of the most recently approved budget.

If the yields and nonhomestead tax rate are not set prior to adjournment, there are default parameters set forth in current law. The property and income yields would remain at their FY2020 level and the nonhomestead tax rate would remain at its statutory level of \$1.59. However, implementation of the default would result in a significant homestead education tax increase and reduced statewide education property tax revenues.

### **Other Issues**

The property tax credit for FY2021 (fall 2020) will be based on CY2019 household income filed in April-July. Consequently, there will be no additional property tax assistance for taxpayers who lose income due to COVID-19 related layoffs or business losses until FY2022 (fall 2021).

Under current law, the filing deadline for both the homestead declaration and the property tax credit claim is April 15<sup>th</sup>. That deadline has now been pushed back to July 15<sup>th</sup>. This creates a potential problem for municipalities to issue timely education property tax bills in FY2021.