Introduced by Representatives Beck of St. Johnsbury, Burrows of West Windsor, Conlon of Cornwall, Donahue of Northfield, Graham of Williamstown, Gregoire of Fairfield, Martel of Waterford, Mattos of Milton, McCoy of Poultney, Savage of Swanton, Strong of Albany, Sullivan of Dorset, and Toof of St. Albans Town

Referred to Committee on

Date:

Subject: Taxation; statewide education property tax; rate calculation

Statement of purpose of bill as introduced: This bill proposes to eliminate the excess spending penalty and change the way the homestead property tax rate is calculated. Under this bill, the Agency of Education is required to make three separate recommendations on pupil weighting factors, an adequacy amount for all school districts’ education spending, and education quality standards, including mechanisms for enforcing those standards. This bill would also amend the definition of education spending to include the normal contributions to the Vermont Teachers’ Retirement Fund that are attributable to the employer.

An act relating to changing the education property tax rate calculations
It is hereby enacted by the General Assembly of the State of Vermont:

**Elimination of Excess Spending**

Sec. 1. **EXCESS SPENDING PENALTY REPEALS**

The following are repealed:

1. (1) 16 V.S.A. § 4001(6)(B) (definition of education spending for the purpose of excess spending);
2. (2) 16 V.S.A. § 4028(c) (district use of high spending penalty to reduce future education spending); and
3. (3) 32 V.S.A. § 5401(12) (excess spending penalty).

Sec. 2. 16 V.S.A. § 4011(i) is amended to read:

(i) Annually, by on or before October 1, the Secretary shall send to school boards for inclusion in town reports and publish on the Agency website the following information:

1. (1) the statewide average district spending per equalized pupil for the current fiscal year and 125 percent of that average spending; and
2. (2) a statewide comparison of student-teacher ratios among schools that are similar in number of students and number of grades.

Sec. 3. 24 V.S.A. § 2804(b) is amended to read:

(b) If a reserve fund is established under subsection (a) of this section to pay a school district’s future school capital construction costs approved under 16 V.S.A. chapter 123, any funds raised by the district as part of its education...
spending to pay for those future costs shall be considered “approved school capital construction spending” in calculating excess spending under 32 V.S.A. § 5401(12). Districts shall submit to the Agency of Education annually a report of deposits into and expenditures from a school capital construction reserve fund. If the Agency of Education determines that any amount in the reserve fund has not been used for approved school capital construction within five years after deposit into the fund, then 150 percent of that amount shall be added to the district’s education spending in the then-current year for purposes of calculating the excess spending penalty. The definitions in 16 V.S.A. chapter 133 shall apply to this subsection.

* * * Calculation of Education Property Tax Rates * * *

Sec. 4. 32 V.S.A. § 5401 is amended to read:

§ 5401. DEFINITIONS

As used in this chapter:

* * *

(13)(A) “Education property tax spending adjustment” means the greater of: one or a fraction in which the numerator is the district’s education spending plus excess spending, per equalized pupil, for the school year; and the denominator is the property dollar equivalent amount of the school district’s education spending per equalized pupil in excess of the adequate education spending amount, as defined in subdivision (17) of this section, per
equalized pupil for the school year, divided by the yield for the school year, as
defined in subdivision (15) of this section.

(B) “Education income tax spending adjustment” means the greater
of: one or a fraction in which the numerator is the district’s education spending
plus excess spending, per equalized pupil, for the school year; and the
denominator is the income dollar equivalent yield for the school year, as
defined in subdivision (16) of this section.

* * *

(15) “Property dollar equivalent yield Yield” means the amount of
education spending per equalized pupil that would result if the adequate
homestead tax rate were $1.00 per $100.00 of equalized education property
value sufficient to meet the adequate education spending amount, and the
statutory reserves under 16 V.S.A. § 4026 and section 5402b of this title were
maintained.

(16) “Income dollar equivalent yield” means the amount of spending per
equalized pupil that would result if the income percentage in subdivision
6066(a)(2) of this title were 2.0 percent, and the statutory reserves under
16 V.S.A. § 4026 and section 5402b of this title were maintained. [Repealed.]

(17) “Adequate education spending amount” means the total statewide
education spending amount per equalized pupil for the school year that is
determined annually by the Secretary of Education to be adequate to meet the

State education quality standards.

(18) “Adequate homestead tax rate” means the property tax rate
determined to be sufficient to meet the adequate education spending amount
for the fiscal year.

Sec. 5. 32 V.S.A. § 5402 is amended to read:

§ 5402. EDUCATION PROPERTY TAX LIABILITY

(a) A statewide education tax is imposed on all nonhomestead and
homestead property at the following rates:

(1) The tax rate for nonhomestead property shall be $1.59 per $100.00.

(2)(A) The tax rates for homestead property shall be $1.00 as
follows:

(i) for the property rate, the adequate homestead tax rate
multiplied by the education property tax spending adjustment for the
municipality per $100.00 of equalized education property value as most
recently determined under section 5405 of this title, plus the adequate
homestead tax rate; and

(ii) for the income rate, the income percentage as defined in
subdivision 6066(a)(2) of this title, plus the income percentage as adopted by
the General Assembly for the fiscal year.
(B) The homestead property tax rate for each municipality which is a member of a union or unified union school district shall be calculated as required under subsection (e) of this section.

* * *

d) A municipality which has upon its grand list an operating electric generating plant subject to the tax under chapter 213 of this title shall be subject to the nonhomestead education property tax at three-quarters of the rate provided in subdivision (a)(1) of this section, as adjusted under section 5402b of this chapter; and shall be subject to the homestead education property tax at three-quarters of the base rate provided in subdivision (a)(2) of this section, as adjusted under section 5402b of this chapter, and multiplied by its spending adjustment under subdivision 5401(13) of this title. [Repealed.]

* * *

Sec. 6. 32 V.S.A. § 5402b is amended to read:

§ 5402b. STATEWIDE EDUCATION TAX YIELDS;

RECOMMENDATION OF THE COMMISSIONER

(a) Annually, not later than December 1, the Commissioner of Taxes, after consultation with the Secretary of Education, who shall provide the estimated adequate education spending amount, the Secretary of Administration, and the Joint Fiscal Office, shall calculate and recommend a property dollar equivalent yield, an income dollar equivalent yield percentage,
an adequate homestead tax rate, and a nonhomestead property tax rate for the
following fiscal year. In making these calculations, the Commissioner shall
assume:

(1) the homestead base tax rate in subdivision 5402(a)(2) of this title is
$1.00 per $100.00 of equalized education property value adequate homestead
tax rate is sufficient to meet the adequate education spending amount for the
fiscal year pursuant to subdivisions 5401(17) and (18) of this title;

(2) the applicable percentage in subdivision 6066(a)(2) of this title is
2.0; [Repealed.]

(3) the statutory reserves under 16 V.S.A. § 4026 and this section were
maintained at five percent; and

(4) the percentage change in the average education tax bill applied to
nonhomestead property and the percentage change in the average education
tax bill of homestead property and the percentage change in the average education
tax bill for taxpayers who claim a credit under subsection 6066(a) of this title
are equal.

(b) For each fiscal year, the property dollar equivalent yield and the income
dollar equivalent yield percentage under subdivision 6066(a)(2) of this title
shall be the same as in the prior fiscal year, unless set otherwise by the General
Assembly.

* * *
Sec. 7. 32 V.S.A. § 6066(a)(2) is amended to read:

(2) “Income percentage” in this section means two percent the income percentage adopted by the General Assembly for the fiscal year, multiplied by the education income tax spending adjustment under subdivision 5401(13)(B) of this title for the property tax year which begins in the claim year for the municipality in which the homestead residence is located.

** * * * AOE Recommendations * * * **

Sec. 8. PER PUPIL ADEQUENCY AMOUNT RECOMMENDATION

On or before December 15, 2021, the Agency of Education shall recommend to the House and Senate Committees on Education, the House Committee on Ways and Means, and the Senate Committee on Finance a per pupil adequate education spending amount for all school districts starting in fiscal year 2023. The recommended adequacy amount shall take into consideration the study titled “Using the Evidence-Based Method to Identify Adequate Spending Levels for Vermont Schools” dated January 28, 2016, conducted by Picus Odden and Associates. The Agency shall include a suggested inflator for measuring and comparing spending over time as part of its recommendation.

Sec. 9. PUPIL WEIGHTING FACTORS RECOMMENDATION

(a) On or before December 15, 2021, the Agency of Education shall recommend to the House and Senate Committees on Education, the House
whether and how a change to pupil weighting factors should be implemented.

The Agency shall base its recommendation on all available sources, including the Pupil Weighting Factors Report dated December 24, 2019 produced by a University of Vermont-led team of researchers. In making its recommendation, the Agency shall include:

(1) a potential timeline for phasing in any proposed equalized pupil weighting changes;

(2) a suggested implementation design that is sensitive to the effect on property taxes and budgets in all of Vermont’s school districts; and

(3) consideration of the new formula’s interaction with other provisions of existing law, including the effect on nonoperating districts and the districts to which they pay tuition, small school grants, and incentives created under 2015 Acts and Resolves No. 46.

Sec. 10. EDUCATION QUALITY STANDARDS RECOMMENDATION

On or before December 15, 2021, the Agency of Education shall recommend to the House and Senate Committees on Education, education quality standards for Vermont schools, including recommended enforcement mechanisms and frequency of school compliance controls. In making its recommendation, the Agency shall consider and advise the General Assembly on the feasibility of following the New England Association of Schools and
Colleges’ enforcement method and whether compliance controls should be
funded through a fee for service charged to the school districts.

* * * Teachers’ Normal Retirement * * *

Sec. 11. 16 V.S.A. § 4001 is amended to read:

§ 4001. DEFINITIONS

As used in this chapter:

* * *

(6) “Education spending” means the amount of the school district
budget, any assessment for a joint contract school, career technical center
payments made on behalf of the district under subsection 1561(b) of this title,
and any amount added to pay a deficit pursuant to 24 V.S.A. § 1523(b) that is
paid for by the school district, and the portion of the payments to the Vermont
Teachers’ Retirement Fund for the normal contribution made in accordance
with subsection 1944(c) of this title, which is attributable to the employer, but
excluding any portion of the school budget paid for from any other sources
such as endowments, parental fundraising, federal funds, nongovernmental
grants, or other State funds such as special education funds paid under
chapter 101 of this title.

* * *
Sec. 12. EFFECTIVE DATES

(a) This section and Secs. 8–10 (AOE recommendations) shall take effect on passage.

(b) Secs. 1–3 (excess spending threshold) and 11 (teachers’ normal retirement) shall take effect on July 1, 2022 and shall apply to fiscal years 2023 and after.

(c) Secs. 4–7 (homestead tax rate calculation) shall take effect on July 1, 2023 and shall apply to fiscal years 2024 and after, provided, however:

(1) for fiscal year 2024, the adequate education spending amount shall be only 84 percent of the amount otherwise calculated under 32 V.S.A. chapter 135;

(2) for fiscal year 2025, the adequate education spending amount shall be only 88 percent of the amount otherwise calculated under 32 V.S.A. chapter 135;

(3) for fiscal year 2026, the adequate education spending amount shall be only 92 percent of the amount otherwise calculated under 32 V.S.A. chapter 135;

(4) for fiscal year 2027, the adequate education spending amount shall be only 96 percent of the amount otherwise calculated under 32 V.S.A. chapter 135; and
(5) for fiscal years 2028 and after, the adequate education spending amount shall be 100 percent of the amount otherwise calculated under 32 V.S.A. chapter 135.