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Susanne R. Young, Secretary

**MEMORANDUM, S.13, AN ACT RELATING TO THE IMPLEMENTATION OF
THE PUPIL WEIGHTING FACTORS REPORT**

TO: Honorable Brian Campion, Chair, Senate Committee on Education
Honorable Ann Cummings, Chair, Senate Finance

FROM: Susanne Young, Secretary, Agency of Administration
Daniel French, Secretary, Agency of Education
Craig Bolio, Commissioner, Department of Taxes

SUBJECT: S.13 and the Moratorium on the Excess Spending Threshold

DATE: May 17, 2021

CC: Honorable Janet Ancel, Chair, House Committee on Ways & Means
Honorable Kate Webb, Chair, House Committee on Education

Last week, the House Committee on Ways and Means recommended to amend S.13 to implement a moratorium on the excess spending threshold for fiscal years 2022 and 2023. The Administration asks the Legislature to reconsider the moratorium, carefully examining the possible future impacts of this decision on property tax rates. Removing the excess spending threshold would make it especially crucial to consider other cost containment measures or propose other reforms to the education finance system.

The excess spending threshold is a key cost control mechanism in Vermont's education funding landscape. The relationship between budget votes and property tax bills is extremely complex, and a perennial source of confusion for Vermonters, but school district officials know with certainty that any spending over the excess spending threshold (that doesn't qualify for an exemption of the threshold) will be counted twice in determining their education tax rates. In the past, the Administration has suggested the excess spending threshold be tightened, but the Administration was not asked to testify on this specific issue this year.

The fiscal impact of the moratorium will be that a handful of high-spending districts will pay about \$1.4M less to the education fund than they otherwise would have in FY22, according to the Joint Fiscal Office.



All else held equal, that money will come out of the bottom line "unreserved/unallocated" amount for FY22 - money that is normally used to lower rates for all districts in the subsequent year. In other words, in FY23 all other districts will need to absorb the penalty that would have been paid by the districts spending over the threshold. But the fiscal impact in FY23 is not limited to \$1.4M, because without the threshold in place, other districts that would ordinarily take care not to exceed it could add additional spending to their budgets in FY23. The impact of that could be substantial, and is unknown.

For the next two years all districts will be helped by two things: the infusion of substantial federal money and the provision enacted in Act 154 of 2020 [Sec. B.1118](#) that average daily membership for FY21 cannot decrease from the prior year. Because of the two-year lookback in the equalized pupil calculation, this will help districts who experienced pupil declines during the pandemic avoid spikes in their per pupil spending figures in both FY22 and FY23. This means that in FY24, when the moratorium is set expire, there will be substantial pressure on the Legislature to repeal the excess spending threshold entirely because of the stark difference between the FY24 budgeting landscape and the one from the prior two years. For that reason, a two- year moratorium is tantamount to a full repeal.

We appreciate the Legislature's willingness to explore potential changes to the excess spending threshold as part of the task force established in S.13, and the Administration hopes the Legislature will propose any changes with an eye toward affordability for Vermonters. However, we believe that implementing a moratorium on the excess spending threshold as part of the bill establishing the task force is premature. The excess spending threshold is one of the few "bright lines" there is in the education finance system, and we risk making Vermont less affordable without it.

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