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Fiscal Note

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H.454 – An act relating to transforming Vermont’s education governance, quality, and finance systems

Senate Proposal of Amendment^{1,i,ii}

Bill Summary

This bill would make numerous changes to Vermont’s statewide education system and education funding system. It would create a School District Redistricting Task Force, establish transitional school boards for future districts, require a review of the State Board of Education’s rules, implement the State Aid for School Construction Program and Advisory Board, and require the Agency of Education (AOE) to draft a three-year Special Education Strategic Plan. It would also implement a transition of tuition eligibility and amend statute to recalculate the amount of tuition that can be paid to a receiving school.

This bill would make numerous and significant changes to Vermont’s statewide education system and education funding system.

The bill would repeal most of Vermont’s statewide education finance formula and establish a new funding formula and statewide property tax structure. This would include the creation of a foundation formula with supplemental district spending, a statewide uniform homestead education property tax and a statewide uniform nonhomestead education property tax, a repeal of the property tax credit, and the implementation of a homestead exemption. The bill would also establish Regional Assessment Districts.

The bill also contains several administrative provisions related to minimum thresholds for tax sales (as recommended by the Act 106 (2024) Working Group on Vermont’s Abatement and Tax Sale Processes), property valuation hearing officer compensation, and a technical correction regarding property tax credits

The bill as recommended by the Senate would appropriate funds to support the School District Redistricting Task Force, establish a new permanent position at AOE, support the transition of school boards to new governance models, consultant work, and five limited service positions.

Fiscal Impact

As recommended by the Senate Committee on Appropriations, the bill would appropriate a total of \$4 million in fiscal year 2026 from the General Fund. Since much of the bill is effective on July 1, 2027 and rests on future policy decisions, the overall fiscal impact is unclear. However, many provisions will likely have fiscal impacts in future years. Known fiscal impacts of the bill are shown in Table 1.

¹ *The Joint Fiscal Office (JFO) is a nonpartisan legislative office dedicated to producing unbiased fiscal analysis – this fiscal note is meant to provide information for legislative consideration, not to provide policy recommendations.*

Table 1: Fiscal Year 2026 Fiscal Impacts in H.454

Sections	Description	FY 2026 Cost	Source of funds
<u>Fiscal Year 2026 Appropriations made in the Bill</u>			
<u>Section 3:</u> School District Redistricting Task Force	Appropriation to hire one or more consultants; appropriation to provide per diems for the eleven legislative task force members	\$100,000	One-time General Fund appropriation of \$100,000 to Legislative Counsel for one or more consultants
<u>Section 26:</u> State Board of Education rules review	Appropriation to facilitate the revision of the Board's rules	\$200,000	One-time General Fund appropriation to AOE to contract for resources to support the rules review
<u>Sections 19 and 20:</u> AOE Special Education Strategic Plan (AOE staff)	Appropriation for a new, permanent position at AOE to support Strategic Plan development. This is an on-going cost.	\$150,000	Base General Fund appropriation to AOE
<u>Sections 32 and 33:</u> AOE transformation appropriation; AOE pool positions	Appropriation for AOE to support education transformation. Section 56b includes five limited service positions from the Agency's position pool.	\$3,400,000	<ul style="list-style-type: none"> • One-time General Fund appropriation of \$200,000 to AOE to support school board transitions; • One-time General Fund appropriation to AOE of \$562,500 for positions established in Section 56b; • One-time General Fund appropriation of \$2,637,500 to AOE for contracted services
<u>Section 45a:</u> JFO foundation formula report	Appropriation to JFO to contact for a cost-factor foundation formula report	\$150,000	<ul style="list-style-type: none"> • One-time General Fund appropriation of \$150,000 to JFO to hire a consultant for this report
Total Appropriations		\$4,000,000	
<u>Additional Anticipated Costs Not Appropriated in the Bill</u>			
<u>Section 3:</u> School District Redistricting Task Force	Per diems for the	\$13,000	Cost to Agency of Digital Services (no appropriation made in bill)
<u>Section 10:</u> State Aid for School Construction Program (AOE staff)	Estimated cost for three AOE positions to staff the program (hired prior to program start). These costs require an on-going appropriation	\$450,000	Neither positions nor appropriations made in bill
<u>Section 11:</u> School Construction Advisory Board	Per diems for the eight board members for a maximum of six meetings	\$3,000	Cost to AOE (no appropriation made in bill)
Total Anticipated Costs Not Appropriated in the Bill		\$466,000	
<u>Costs already in Existing Appropriations</u>			
<u>Section 55:</u> Property Valuation hearing officer compensation	Compensation adjustment for part-time hearing officers.	\$20,000	Base cost to Department of Taxes (covered with existing funding)

Background and Details

The following sections may have a fiscal impact or fiscal considerations. The following is organized by section number of the bill.

Section 3: School District Redistricting Task Force

Effective on passage, Section 3 would create the School District Redistricting Task Force. The Task Force would be charged with proposing new districts, each with no more than 8,000 PreK-12 students. Each district would have at least one career and technical education (CTE) center within its boundaries. The Task Force would propose at least three new school district boundary options and submit a written report by November 1, 2025, to the House and Senate Committees on Education and on Government Operations and Military Affairs.

The Task Force would consist of 11 members, including the Director of the Vermont Center for Geographic Information, the Chair of the Vermont School boards Association, the Secretary of Education, the Chair of the Vermont Superintendent's Association, and the Chair of the Vermont Association of planning and Development. There would also be two members appointed by the Speaker of the House (one current member of the House of Representatives, and one individual with experience in education data analysis who is not a current member of the House of Representatives). A further two members would be appointed by the Senate Committee on Committees, (one current member of the Senate and one individual with experience in Geographic Information System (GIS) analysis who is not a current member of the Senate). The final two members would be the chair of the Commission on the Future of Public Education and the Executive Director of the Vermont Association of School Business Officials.

The Task Force would have the assistance of the Agency of Digital Services' (ADS) Vermont Center for Geographic Information. The Task Force could choose to retain the services of one or more independent third parties to provide additional services as needed.

The Task Force would convene for up to eight meetings. The Chair of the Vermont School Boards Association would call the first meeting, which would occur on or before July 15, 2025. Per diem and expense reimbursement would be made from monies appropriated to the Agency of Digital Services and are estimated to be approximately \$13,000.

Section 3 would appropriate \$100,000 from the General Fund in fiscal year 2026 to the Office of Legislative Counsel for the hiring of one or more consultants.

Section 3a: Transitional School Boards

Effective July 1, 2026, Section 3a would establish transitional school boards for each new school district that would be created by the General Assembly during the 2026 session. The transitional school boards would be formed on or before January 1, 2027 and assume all responsibilities of current school boards until new school district school board members are sworn in following initial elections in March 2028.

Each transitional school board would be eligible to receive a transition facilitation grant from the Education Fund that would be calculated as the lesser of 5% of the base amount multiplied by the student count of the forming districts as of October 1, 2026, or \$250,000.

The fiscal impact of this section would depend on the configurations of new school districts and cannot be estimated until they are formed.

Section 5: Class Size Minimums

Effective July 1, 2026, Section 5 would establish class size minimums for grades K-12 in Vermont public schools. These sizes would apply to most school classes, but there would be multiple exclusions for certain

types of courses and subjects. The State Board of Education could also grant a waiver if it determines that a school cannot meet the standards due to geographic isolation or if it's developed a plan to meet them.

The average minimum standards would be as follows:

- Kindergarten and Grade 1: 10 students;
- Grades 2-5: 12 students;
- Grades 6-8: 15 students;
- Grades 9-12: 18 students; and
- Multiage classrooms for grades K-8 would be limited to two grades per classroom.

If the Secretary of Education determines a school is not meeting class size minimums, the Secretary *may* recommend an action to the State Board of Education.

The fiscal impact of this section cannot be estimated. While implementing average class size minimums may reduce the number of teachers, the extent to which this would take place is unclear and will vary on a case-by-case basis. Class size minimums apply to the number of students within a class and don't necessarily affect student to teacher ratios. The fiscal impact is further unclear due to the potential exemptions to the minimum standards along with the flexibility of enforcement.

Section 7: State Board of Education Rules

Effective July 1, 2025, Section 7 would require the State Board of Education to amend, by August 1, 2026, its Education Quality Standards and the Independent School Program Approval rules as they relate to the class size minimums laid out in Section 5. Section 7 would also require the Board to submit, by December 1, 2025, a report to the House and Senate Committees on Education with proposed standards for schools to be considered "small by necessity."

Section 8: Prohibition on School Closure and Transition to Paying Tuition

Effective July 1, 2025, Section 8 would prohibit a school district from closing an existing public school and then tuitioning all of its students to a public or independent school of their parent's choosing. If a school district is unable to educate its students at another school operated by the district, then the district must designate up to three public schools to serve as the schools of the district. If the closed public school is determined to be in a geographically isolated area as defined by the State Board of Education, then the district may educate its students through the provision of tuition.

Sections 10 – 14: State Aid for School Construction

Sections 10 through 14 pertain to State aid for school construction. Act 149 (2024) created a State Aid for School Construction Working Group to study and design a plan for a statewide school construction aid program. These sections reflect many of the Group's recommendations. They would:

- Create a State Aid for School Construction Program administered by AOE to provide grants to schools within the range of 20% to 40% of debt service costs for eligible construction activity, plus emergency aid grants (up to 30% of a project costing \$300,000);
- Create a State Aid for School Construction Advisory Board to advise the Agency on the Implementation of the School Construction Program. The Board would sunset on July 1, 2035;
- Create a School Construction Aid Special Fund;
- Transfer rulemaking authority pertaining to school construction from the State Board of Education to AOE; and
- Repeal the existing, dormant school construction aid program that was previously funded with general obligation bonds through the Capital Bill.

Section 14 would revise the State Aid for School Construction Program by adopting a debt service subsidy model, where the State would provide grants of 20% to 40% of a school's annual debt service amortization payments (principal plus interest) for eligible construction expenses. This would shift a portion of the costs associated with school construction financing out of local school budgets.

Like a similar program in Rhode Island, the proposed aid program would generally work as follows:

- A school issues bonds to finance school construction activity and is responsible for paying debt service costs;
- The State provides grants to a school as a percentage of each year's debt service payments for the proportion of the cost attributed to eligible projects;
- Grants would reduce cost of debt service that would otherwise be reflected in local school budgets and paid for through property taxes; and
- Grants would be funded through appropriations from the School Construction Aid Special Fund, not through general obligation bonds.

Additionally, Section 14 would permit the Secretary of Education to grant aid for a project deemed to be an emergency in the amount of 30% of eligible project costs, up to a maximum eligible total project cost of \$300,000 (for a maximum grant of \$90,000). Under current law, the maximum total project cost is \$100,000.²

AOE has indicated that administering the School Construction Aid Program would likely require three full-time positions, which JFO estimates would likely cost the General Fund approximately \$400,000 to \$450,000 annually, plus potential additional resources to fulfill the responsibilities assigned to the Program. Section 21 would require AOE to submit a report by December 1, 2025 that would include, among other things, recommended position descriptions and job duties related to school construction. A needs survey that would be required to be conducted at least every five years would also likely represent a cost to the General Fund, although this amount is not currently known. The bill neither creates nor funds the positions and associated administrative costs to implement the program. It also does not carry any appropriations for State aid for school construction.

AOE would be responsible for administering this program. Section 16 would transfer rulemaking authority pertaining to school construction and capital outlay from the State Board of Education to AOE. Among other powers, AOE would have the authority to adopt rules that specify a point prioritization methodology and bonus incentive structure for the Program. Section 10 outlines numerous administrative responsibilities for AOE, including conducting the aforementioned needs survey at least every five years to ascertain construction, reconstruction, maintenance, and other capital needs for all public schools.

Section 11 would create an eight-member State Aid for School Construction Advisory Board charged with advising AOE on the implementation of the Program, including the adoption of rules, setting of statewide priorities, criteria for project approval, and recommendations for project approval and prioritization. Four ex-officio members (or their designees) would serve on the Advisory Board: the State Treasurer, the Commissioner of Buildings and General Services, the Executive Director of the Vermont Bond Bank, and the Chair of the State Board of Education. Additionally, four public members serving four-year terms would be appointed by the General Assembly. The Board would meet not more than six times per year and would be supported administratively by AOE. Section 12 would repeal the Board on July 1, 2035.

Board members would be entitled to per diem compensation and reimbursement of expenses as permitted under 32 V.S.A. § 1010. This would result in an estimated annual cost of up to \$3,000 to AOE. There is no appropriation for this cost in the bill.

² See 16 V.S.A. § 3448(d)

The School Construction Advisory Board would be established on July 1, 2025, while the State for School Construction Program would resume on July 1, 2026.

Section 13 would create a School Construction Aid Special Fund, to be administered by AOE. Monies from the Fund would be used to support:

- Aid to school construction projects as outlined in the bill;
- Grants through the Facilities Master Plan Grant Program;
- Administrative costs for the State Aid for School Construction Program; and
- Emergency aid as outlined in Section 14 of the bill.

The Special Fund would be funded by any amounts transferred to it by the General Assembly, the excess funds from the Supplemental District Spending Reserve, and any interest it earns.

Monies from the Fund would support aid grants and program costs. There are no transfers made to or from the Fund in this bill; those would be made in future annual appropriations acts (“Big Bills”). Sections 10 and 14 would, among other things, require AOE to submit an annual school construction funding request as part of its budget submitted to the Governor.

Future costs for State aid for school construction will be determined by the specific projects that are awarded aid through the Program and the cost and structure of the bond amortization schedules to finance specific projects. The overall needs of school facilities, however, are substantial and significant. The 2024 School Construction Aid Taskforce Report estimated that the current portfolio of school facilities required \$300 million per year of investment for 20 years to replace systems that have reached the end of their useful life.⁴

Section 18 and 19: Tuition to Approved Schools

Effective July 1, 2025, Section 18 would add qualifiers for permitted payments of tuition – a school district would not pay tuition to any entity unless it is:

- a public school located in Vermont;
- an approved independent school located in Vermont that:
 - has at least 25% of its student enrollment composed of Vermont-resident students attending on a district-funded tuition basis during the 2023/2024 school year and complies with the minimum class size requirements (independent schools remain eligible for the same geographic isolation waiver as public schools);
- an independent school meeting education quality standards;
- a tutorial program approved by the State Board;
- an approved education program;
- a public school located in another state; or
- a therapeutic approved independent school located in Vermont or another state or country and is approved under the laws of that state or country.

Section 19 would permit the payment of tuition for students currently enrolled in all independent schools to continue until those students graduate.

Because any fiscal impact would depend on future behavior and decisions, JFO cannot estimate the potential costs or savings of this section.

³ See 16 V.S.A. § 3441

⁴ <https://legislature.vermont.gov/assets/Legislative-Reports/edu-legislative-report-school-construction-aid-taskforce-2024-1.pdf>

Section 21: Agency of Education Report

Effective July 1, 2025, Section 21 would require AOE to submit a report and recommended legislative language by December 1, 2025 to the House and Senate Committees on Education. This report would cover:

- A proposal for statewide financial data and student information systems;
- Recommendations for a school construction division within AOE – this would include a description of the duties, salaries, and number of positions needed and the role AOE would fill in the State Aid for School Construction program;
- A progress report regarding the development of the guidance that AOE would provide to school officials and board members to accomplish district mergers – this would include a description of how AOE will provide support and assistance with consolidations and an estimate of the costs for this work; and
- Recommendations for the need of cooperative education services and oversight of therapeutic schools within the school governance framework.

Section 26: State Board of Education Review of Rules; Appropriation

Effective July 1, 2025, Section 26 would require the State Board of Education to submit a report by December 1, 2026 to the House and Senate Committees on Education with its recommendation for rules to eliminate and a plan for updating rules that are still necessary. This would include the order in which the Board proposes to update the rules and any associated estimated costs.

Section 26 would also appropriate \$200,000 from the General Fund to AOE in fiscal year 2026 to provide the Board with the contracted resources needed to perform the rule review.

Section 27: Tuition Calculation

Section 27 would amend the determination of the amount tuition a district pays to a receiving school. The tuition would be equal to the base amount multiplied by the weighted pupil count attending the school.⁵

JFO cannot estimate the fiscal impact of this section due to data limitations and outstanding policy decisions. The fiscal impact would depend on future district configurations and the number of students tuitioned to receiving schools.

Sections 29 – 31: Development of Special Education Strategic Plan

Section 29 would require AOE to submit a report to the House and Senate Committees on Education, the House Committee on Ways and Means, and the Senate Committee on Finance by September 1, 2025, on the factors contributing to growth in extraordinary Special Education costs. The report would also include information regarding the current state of special education within Vermont and recommended changes to, among other things:

- Improve the delivery of special education and managing extraordinary costs in preparation for the transition from a census block grant to special education weights,
- Ensure better, more inclusive services,
- Respond to challenges and lessons learned from implementing Act 173,

Section 30 would require AOE to develop a three-year strategic plan on Special Education in consultation with the State Advisory Panel on Special Education. The strategic plan would have to include unambiguous measurable outcomes, a timeline for implementation, and be designed to ensure successful implementation of Act 173 (2018)⁶. It would also need to outline the supports and processes necessary for the transition to a

⁵ Sections 34 and 35 of the bill outline the base amount and the pupil weights.

⁶ Act 173 of 2018:

https://legislature.vermont.gov/Documents/2018/Docs/ACTS/ACT173/ACT173%20As%20Enacted.pdf?_gl=1*lk496*_ga*NzQyOTcxNDM5LjE3Mjk1MTg4OTI.*_ga_V9WQH77KLW*MTc0NDAA0MTA0NC4xNjguMC4xNzQ0MDQxMDA2LjA1uMC4w

weighted funding formula for Special Education to succeed, including a suggested transition timeline and benchmarks for success.

The plan would have to be submitted by December 1, 2025. On or before December 1 of 2026, 2027, 2028, and 2029, AOE would be required to submit a detailed update on the strategic plan's implementation and any recommendations for legislative changes needed to ensure a successful transition to a weighted funding model and continued successful implementation of Act 173.

Section 31 would establish one new permanent, classified position at AOE to support the development and implementation of the strategic plan. \$150,000 is appropriated from the General Fund to AOE in fiscal year 2026 to fund this position.

Section 32: Agency of Education Transformation Appropriation

Section 32 would appropriate \$3,400,000 from the General Fund to AOE in fiscal year 2026 to support education transformation work.⁷ Of those funds, \$200,000 would be to support school boards transitioning to future governance models, \$562,500 would support nine months of funding for five new positions⁸, and \$2,637,500 would be for contracting services to support school districts with consolidation..

Funds appropriated for contractual services to support school districts with consolidation could include accounting and budget practices and the alignment of curriculum and teaching activities. AOE estimates the cost of contractual services to support school district consolidation to be \$3,050,000 in fiscal year 2026.⁹

Section 33: Agency of Education Transformation Pool Positions

Section 33 would establish five limited-service classified positions at the AOE to support education transformation work. These positions would be taken from the position pool. These positions would support each of the following areas: business operations, data integration, curriculum and education quality standards, learning and teaching integration, and school facilities. AOE estimates these positions to cost \$750,000 for a full fiscal year. Given the timing of hiring and onboarding the positions, in fiscal year 2026, only \$562,500 is appropriated¹⁰ from the General Fund, to fund these positions for nine months.

⁷ Note, subtotals below do not add to the presented appropriation of \$3,517,000 due to drafting error.

⁸ Positions detailed in Section 33.

⁹ <https://legislature.vermont.gov/Documents/2026/Workgroups/Senate%20Appropriations/FY%202026%20Budget/General%20Education/W~Zoie%20Saunders~FY26%20Budget%20Request%20Spreadsheet~5-6-2025.pdf>

¹⁰ Appropriation detailed in Section 32.

Sections 34 – 66: The Establishment of the New Education Finance Formula and Restructure the Statewide Property Tax

Sections 34 through 66 would repeal most of Vermont's statewide education finance formula and establish a new funding formula and statewide property tax structure.

In the new funding formula, school districts would receive an “Educational Opportunity Payment,” which would be calculated by multiplying the base amount by a district's weighted long-term membership (WLTm).

Statewide education property taxes would continue to fund the Education Fund. Amending current law, a uniform homestead property tax rate and a uniform nonhomestead property tax would be set to fund the Education Fund. Taxes to submit a report about the establishment of a system for property tax classifications that would allow for different tax rates on different classes of property. The current law property tax credit would be repealed and replaced with an income-based homestead exemption.

Effective July 1, 2029, sections 34 through 66 would establish a new statewide education funding formula and restructure the statewide education property tax.

School districts would be permitted to spend above their educational opportunity payment if approved by local voters, referred to as “supplemental district spending.” This would be raised through a local supplemental district spending tax rate that would be calculated in a manner so that all districts could raise the same amount above the foundation formula at the same rate, regardless of their property wealth. This equalization of taxing capacity would result in excess revenues for school districts with greater tax capacity. Those excess revenues would be “recaptured” and held in a reserve for eventual deposit in the School Construction Aid Special Fund.

The fiscal impact of these changes is unclear and will be impacted by multiple outstanding policy decisions and future demographic and economic changes.

Sections 34 and 35: Weighted Long-Term Membership (WLTm) and Education Opportunity Payments

Sections 34 and 35 would repeal current-law pupil weights and the definitions of “education spending” and “per pupil spending.”

Section 34 includes a base amount of \$15,033 per pupil. The base amount would be adjusted for inflation annually. The base amount would be used to calculate the education opportunity payment, by multiplying it by a school district's WLTm.

Under current law, pupil weights are applied to each district's Long-Term Membership (LTm) to account for potentially higher costs associated with differing demographic and district circumstances. In Vermont's current-law funding formula, these weights are “tax capacity” weights meaning they impact the amount of funding a school district can raise at a specific tax rate, rather than the amount of funding a school district receives. In the funding formula changes in the bill, the pupil weights established in Section 35 would be foundation formula weights and *would* impact the amount of funding a school district received.

Section 35 would repeal all current-law pupil weights and establish new pupil weights used in the calculation of WLTm. It would also repeal certain weighting categories in current law, amend certain weighting categories, and add new weighting categories. The pupil weights included in the bill would be foundation formula weights that would be applied against the base amount and would be used to determine the amount of funding a school district receives through its education opportunity payment. Like current law, the weights would be additive.

Specifically, the bill repeals weights applied to grade levels, sparse districts, and small schools. The bill amends weights applied to English Learner (EL) pupils, and students from economically disadvantaged backgrounds. The bill adds weights for special education, identified for children with a disability, and distinguishes between categories of disabilities¹¹.

Table 2 outlines the pupil weighting categories and pupil weights that would be used in the foundation formula.

Table 2: Pupil Weighting Categories and Weights in H.454

General Pupil Weighting Category	Specific Pupil Weighting Categories ¹²	Additional Weighting Amount
English Learner (EL) <i>(Across levels, English language proficiency weights are mutually exclusive. Newcomer or SLIFE weights are additive to level weights)</i>	English language proficiency – Level 1	2.11
	English language proficiency – Level 2 or 3	1.41
	English language proficiency – Level 4	1.20
	English language proficiency – Level 5 or 6	0.12
	Newcomer or SLIFE	0.42
Child with a disability <i>(Across costs, disability weights are mutually exclusive)</i>	Category A	0.79
	Category B	1.89
	Category C	2.49
Students from economically disadvantaged backgrounds	Family at or below 185 percent of Federal Poverty Level (FPL)	1.02

Section 35 would direct the Secretary of Education to annually determine each school district's educational opportunity payment by multiplying the school district's WLTM by the base amount.

The fiscal impact of this section is unclear for multiple reasons, including data limitations and outstanding policy decisions. Future district configurations are still to be determined, and educational opportunity payments would be calculated based on district-specific parameters. Further, this funding change would not be implemented until fiscal year 2030, and future pupil demographics and characteristics cannot be estimated at this time.

Section 37: Support Grants for Necessary Small Schools and Sparse School Districts

Section 37 would establish support grants for small schools and sparse schools.

This bill charges the State Board of Education with creating standards for determining schools that are "small by necessity." Districts with schools that are small by necessity in accordance with these standards would receive a small schools support grant as established in this section. The small schools support grant would be calculated by multiplying the two-year average enrollment of an eligible small school by \$3,157 adjusted for inflation annually. This small school grant would be paid to the district.

If a school is located in a zip code that has a population of less than 55 people per square mile, it would receive a sparsity grant. The sparsity grant would be calculated by multiplying the two-year average enrollment of the sparse school by \$1,954, adjusted for inflation annually. The sparsity grant would be paid to the district.

The fiscal impact of this section depends on outstanding policy decisions, including the standards for determining small by necessity schools.

¹¹ Section 42 of the bill repeals the Special Education census block grant when the weights for students with disabilities come into effect.

¹² Section 35 of the bill includes definitions for each of these specific weighting categories.

Section 38: Education Fund Revenues

Section 38 would amend the Education Fund revenue sources to include revenue from the supplemental district spending tax outlined in Sections 46 and 47 of the bill.

Section 41: Ballot Language for Supplemental District Spending

Section 41 amends ballot language to align with the new funding formula and what is voted on locally. As outlined in Sections 46 and 47, school districts are permitted to spend more than what is allocated to them by the State if the spending is approved by local voters – supplemental district spending. Section 41 outlines the ballot language for votes on supplemental district spending.

The fiscal impact of the section is unclear. JFO cannot estimate if or how this ballot language may impact local voting decisions on supplemental district spending.

Section 42: Repeal of Special Education Census Block Grant

Section 42 would repeal education finance provisions of current law that would no longer be applicable in the new funding formula.¹³

Section 42 would also repeal the Special Education census block grant in 16 V.S.A. § 2961 on July 1, 2029, the effective date for the implementation of the weights for students with disabilities. This reflects a shift in the calculation for funding of students receiving Special Education.

In fiscal year 2025, the Special Education census block grant from the Education Fund is estimated to be approximately \$191 million¹⁴. JFO assumes the cost of the grant in fiscal year 2030 will be greater than in fiscal year 2025. Its repeal must be considered along with the implementation of Special Education funding through pupil weights for children with a disability.

Section 43: Supplemental District Spending Reserve

Section 43 would establish the “Supplemental District Spending Reserve” within the Education Fund. This reserve is funded through recapture, as outlined in Section 43 and defined in Section 46.¹⁵

The Reserve would be used by the Commissioner of Finance and Management in cases when a district’s supplemental district spending tax does not raise enough to fully cover its supplemental district spending.¹⁶

At the close of a fiscal year and after ensuring all districts receive the appropriate supplemental district spending, all funds remaining in the Reserve would be deposited into the School Construction Aid Special Fund.

The fiscal impact of the Reserve and the amount it contributes to the School Construction Aid Special Fund will depend on future district configurations, including taxing capacity and spending decisions.

Sections 44 – 45a: Reports

Section 44 would require AOE to submit a report about transportation and the transportation reimbursement grant by December 15, 2025.

¹³ Specifically related to unorganized towns and gores and the suspension of excess spending penalty, hold harmless provision and the associated ballot language requirements.

¹⁴ Page 9 of AOE’s testimony on May 9, 2025:

<https://legislature.vermont.gov/Documents/2026/Workgroups/House%20Education/Special%20Education/W~Zoie%20Saunders~Special%20Education%20Spending%20and%20Education%20Service%20Delivery~5-9-2025.pdf>

¹⁵ Recapture refers to revenues raised through the supplemental district spending tax that are greater than the district’s supplemental spending.

¹⁶ This situation is only anticipated to result from calculations based on incomplete data, faulty assumptions, or any miscalculations.

Section 45 would require JFO to submit a report analyzing inflation indices to be used in Vermont's education funding system. It would also require JFO to submit a report regarding PreK education, the Child Care Financial Assistance Program (CCFAP), and any other early care and learning systems. Both reports would be due by December 15, 2025.

Section 45a. would require JFO to contract for a report to develop a cost-factor foundation formula. The section would appropriate \$150,000 from the General Fund to JFO in fiscal year 2026 to hire a consultant for the report.

Section 45b: Transition to Educational Opportunity Payments

Section 45b would establish a transition mechanism to phase in educational opportunity payments from fiscal year 2030 through fiscal year 2033. Each fiscal year of the transition, the “transition gap” would be calculated for each school district by subtracting the educational opportunity payment from the school district's education spending in fiscal year 2025 adjusted for inflation. Depending on the year of the transition, the school district's transition gap would be multiplied by 0.8, 0.6, 0.4, or 0.2. During each year of the transition, a school district would receive its educational opportunity payment plus its factor-adjusted transition gap.

The fiscal impact of this section is unclear, as it will depend on policy decisions like district boundaries.

Section 45c: Education Fund Advisory Committee

Section 45c. would change the date for the first meeting of the Education Fund Advisory Committee from July 1, 2025 to July 1, 2027. This would eliminate per diem costs for the Committee in fiscal year 2026.

Sections 46 – 47: Statewide Education Property Tax and Supplemental District Spending Tax Rate

Sections 46 through 47 would repeal many current law calculations and adjust education property tax calculations. These sections would implement new structures for the statewide education property tax and a supplemental district spending tax rate.

Under the proposed structure, the General Assembly would annually set a statewide uniform homestead property education tax rate and a statewide uniform nonhomestead education property tax rate at levels sufficient to ensure the Education Fund is fully funded after accounting for non-property tax revenue sources.

Under the new funding formula, school districts would have the option for voters to approve supplemental district spending. Upon approval, a school district would be permitted supplemental district spending up to 10% of its long-term membership multiplied by the base amount of the same fiscal year.¹⁷

Supplemental district spending would be raised through a local supplemental district spending tax rate. This rate would be calculated in a manner so that all school districts could raise the same amount above the foundation formula at the same tax rate, regardless of their property wealth. As a result, the rate would be set so that all districts have the same taxing capacity as the district with the lowest property wealth.

Specifically, the supplemental district spending tax rate would be calculated by dividing a district's per pupil supplemental district spending by the supplemental district spending yield. This yield would be calculated as the amount of property tax revenue per LTM that would be raised in the school district with the lowest taxing capacity at a rate of \$1 per \$100 of equalized education property value¹⁸. Outlined in Section 32,

¹⁷ Interstate districts are exempt from the 10% cap of supplemental district spending.

¹⁸ The district with the lowest taxing capacity is defined as the school district anticipated to have the lowest aggregate equalized education property tax grand list of its municipal members per LTM.

revenue raised from the supplemental district spending tax rate above the approved supplemental district spending would go to the Supplemental District Spending Reserve.

Like the collection of education property taxes under current law, municipalities could retain 0.00225% of the tax collected to cover the administrative costs of tax collection on behalf of the State.

The fiscal impact of these sections is unclear and will depend on outstanding policy decisions regarding district configurations and supplemental district spending.

Section 48: December 1 Letter

Section 48 would amend the required contents of the December 1 letter to reflect the new education funding formula. The December 1 letter would have to include the statewide uniform homestead property education tax rate and a statewide uniform nonhomestead education property tax rate, the supplemental district spending yield, and school district specific data. This would allow school districts to understand the estimated upcoming tax rate, as well as calculate a supplemental district spending tax rate at any level of supplemental district spending.

This section has no direct fiscal impact.

Section 48a: Tax Rate Transition

Section 48a. would establish a transition mechanism to phase in the uniform homestead property tax rate from fiscal year 2030 through fiscal year 2033. The “transition gap” for each school district would be the difference between the homestead property tax rate in fiscal year 2029 and fiscal year 2030 without any discount. Depending on the year of the transition, the transition gap would be multiplied by 0.8, 0.6, 0.4, or 0.2. This will result in a number of cents that will be used to increase or decrease each districts’ uniform homestead tax rate.

Section 51 – 52: Homestead Exemption

Sections 51 and 52 would repeal the statewide education property tax credit and implement a homestead property tax exemption based on household income. The municipal property tax credit would remain unchanged.

The homestead exemption would exempt a certain portion of a claimant’s housesite value from the homestead property tax. All else equal, this would decrease the overall tax liability for a household by decreasing the property value that the tax rate would be applied to. The homestead exemption would only be permitted to be applied against a certain amount of housesite value and depend on household income.

Table 3 shows the structure of the homestead exemption. Household income groups listed in the table and the bill are in fiscal year 2025 amounts but would be adjusted for inflation.

The fiscal impact of this section is unclear and depends on outstanding policy decisions, as well as changes to Grand List values and household incomes between fiscal years 2025 and 2030.

Preliminary estimates using fiscal year 2025 data indicate the homestead exemption would cost approximately \$1.6 million less than the current law property tax credit in fiscal year 2025. Absent any other changes in policy, these savings may slightly decrease property taxes overall.

Table 3: Homestead Exemption in H.454

Household Income	Exemption	Cap on Housesite Value Exemption is Applied Against
\$0 to \$10,000	99%	\$425,000
\$10,000 to \$15,000	97%	\$425,000
\$15,000 to \$25,000	95%	\$425,000
\$25,000 to \$40,000	90%	\$425,000
\$40,000 to \$45,000	85%	\$425,000
\$45,000 to \$50,000	80%	\$425,000
\$50,000 to \$55,000	75%	\$400,000
\$55,000 to \$60,000	65%	\$400,000
\$60,000 to \$65,000	55%	\$400,000
\$65,000 to \$70,000	45%	\$400,000
\$70,000 to \$75,000	35%	\$400,000
\$75,000 to \$80,000	25%	\$400,000
\$80,000 to \$85,000	20%	\$400,000
\$85,000 to \$90,000	15%	\$400,000
\$90,000 to \$95,000	10%	\$400,000
\$95,000 to \$100,000	5%	\$400,000
Above \$100,000	0%	-

Section 53: Homestead Declaration Form

Section 53 would require the Department of Taxes to suggest changes to the homestead declaration form for the purposes of implementing the homestead exemption.

There is no estimated fiscal impact of this section.

Section 53a: Homestead Exemption Report

Section 53a would require the Department of Taxes, in consultation with JFO, to submit a proposal to the General Assembly designing a homestead exemption structure that would minimize property tax impacts for homestead property owners, benefit cliffs, and the aggregate fiscal impact.

There is no estimated fiscal impact of this section.

Sections 58 and 59: Evidence Based Foundation Formula

Contingent on a number of aspects outlined in the bill, Sections 58 and 59 would adjust the foundation formula amounts from a cost-factor amount to an evidence-based amount. The bill does not include evidence-based amounts, and only includes placeholders.

The fiscal impact of this section would depend on the numbers included in the evidence-based foundation formula, as well as other outstanding policy decisions.

Section 61: Property Classifications Study

Section 61 would require the Department of Taxes to submit a report about the establishment of a system for property tax classifications that would allow for different tax rates on different classes of property.

There is no estimated fiscal impact of this section.

Sections 62 – 64: Regional Assessment Districts

Section 62 would establish 12 Regional Assessment Districts. The member municipalities of each Regional Assessment District would be required to contract jointly with one or more third parties to conduct full reappraisals of their grand lists every six years.

The Director of Property Valuation and Review (PVR) would be required to establish standard guidelines and procedures, and could adopt rules, for Regional Assessment Districts. The Director would also be required to establish a reappraisal schedule for each Regional Assessment District, which they could alter for a particular district or for one or more of its member municipalities if necessary.

Section 63 would establish transition parameters to a regionalized reappraisal system. The section also requires the Commissioner of Taxes to submit a report every January 15 from 2027 to 2030 regarding the progress made in preparing the implementation of the Regional Assessment Districts to the House Committee on Ways and Means and the Senate Committee on Finance.

Section 64 would require the Department of Taxes, in consultation with relevant stakeholders, to submit recommendations to the House Committee on Ways and Means and the Senate Committee on Finance on the implementation of the Regional Assessment Districts by January 15, 2026.

The estimated fiscal impact for these sections cannot be estimated. If this section increases the frequency of reappraisals, additional costs may occur in future years. If this section increases efficiency of reappraisals, there may be savings.

Section 65: Minimum Threshold for Tax Sale

Section 65 proposes to add a provision to statute to require a \$1,500 minimum amount of tax debt for town or municipal tax collectors to begin the tax sale process. This is consistent with a recommendation of the Act 106 (2024) Working Group on Vermont's Abatement and Tax Sale Processes, which was created "to assess how Vermont may balance fairness for delinquent taxpayers with the needs of municipalities."¹⁹

This provision would protect delinquent property owners who owe relatively small amounts of tax debt (e.g., mobile homes, camps, lots) from the possibility of tax sale. There is no minimum amount in current law, which has led to inconsistent treatment of nominal tax delinquencies among towns.

Due to data limitations, the fiscal impact of this section cannot be forecasted but is likely to be minimal due to the relatively small amounts and narrow scope of applicability involved – most towns do not currently initiate tax sales over such small amounts.

Section 66: Property Valuation Hearing Officer Compensation

Section 66 would update the pay for property valuation hearing officers. Current law sets this pay at a sum not to exceed \$150 per day wherein hearings are held. This section would change the pay to \$38 per hour plus a cost-of-living adjustment (COLA) in an amount equal to any adjustment approved for exempt employees by the Secretary of Administration. This provision would apply to three to four part-time hearing officers in any given year, at an additional cost of approximately \$20,000. The Department of Taxes has factored this expense into its operating budget.

¹⁹ <https://legislature.vermont.gov/assets/Legislative-Reports/Act-106-2024-Report-Tax-Abatement-and-Tax-Sales.pdf>

Appendix 1: Summary of Effective Dates

(a) On Passage		
	Findings and Intent	Sec. 1; Findings, Intent, Plan
	Commission on the Future of Public Education	Sec. 2; Updates to the commission
	School Districts	Sec. 3; School District Redistricting Task Force
	Education Transformation Appropriations	Sec. 32, 33; Appropriation to AOE and AOE Limited Service Positions
	Education Transformation Reports	Sec. 44, 45, 45a.; AOE Report on Transportation, JFO Reports on Inflationary Measures and Prekindergarten Funding, JFO Foundation Formula Report and Appropriation
	Education Fund Advisory Committee	Sec. 45c; Delay first meeting until July 1, 2027
	Statewide Property Tax Credit; Homestead Exemption	Sec. 53, 53a; Homestead Declaration Sample Form, and Tax Department Homestead Exemption Report
	Grand List Classification	Sec. 61; Report and Study on Property Tax Classification
	Transition to Regional Assessment Districts	Sec. 63, 64; RAD Transition and Working Group
	Miscellaneous Tax	Sec. 65, 66, 68, 69; Miscellaneous Tax Law Updates
	Effective Dates	Sec. 70; Effective Dates
(b) July 1, 2025		
	Findings and Intent	Sec. 4, 20, 22; Scale Intent, Consolidation Intent, Governance Intent
	Rules	Sec. 7, 26; SBE Rules and Report, Appropriation
	Tuition	Sec. 8, 18, 19; Tuitioning Requirements, Transition, Repeals
	School Construction	Sec. 11, 12; School Construction Advisory Board
	Reports	Sec. 21; AOE Reports
	State Board of Education	Sec. 23, 24, 25; SBE Appointment, Transition
	Special Education	Sec. 29, 30, 31; Special Education Report, Plan, Position and Appropriation
	Grand List Parcel Data	Sec. 60; Definitions
	Miscellaneous Tax	Sec. 67; PVR Hearing Officer Pay
(c) July 1, 2026		
	School Districts	Sec. 3a; Transitional School Boards
	Rules	Sec. 5, 6; Class Size Minimums
	School Construction	Sec. 9, 10, 13-17; School Construction Program, Fund
(d) July 1, 2027		
	Tuition	Sec. 21; Tuition Calculations
	State Funding of Public Education	Sec. 23, 24, 26, 26a, 27-32; Transition to a Foundation Formula
	Education Property Tax Rate Formula, Statewide Property Tax Rate	Sec. 36, 37, 39, 40; Statewide Education Tax, Supplemental District Spending Tax
	Statewide Property Tax Credit Repeal; Homestead Exemption Created	Sec. 41, 42, 45-47; Creation of Homestead Exemption
(e) January 1, 2027 – contingent on legislation amended the CTE weight		
	State Funding of Public Education	Sec. 25; CTE weight
(f) July 1, 2028		
	December 1 Letter	Sec. 48; December 1 Letter
(g) July 1, 2029 – contingent on new school districts		
	Repeals	Secs. 27 and 28; Repeals
	Transition to Cost-Factor Foundation Formula	Secs. 34-43; Transition to Cost-Factor Foundation Formula
	Educational Opportunity Payment Transition	Sec. 45b; Educational Opportunity Payment Transition
	Statewide Education Tax	Secs. 46, 47, 49, and 50; Statewide Education Tax
	Homestead Property Tax Rate Transition	Sec. 48a; Homestead Property Tax Rate Transition

Property Tax Credit Repeal	Secs. 51, 52, 54, 55, and 56; Property Tax Credit Repeal
Education Fund Advisory Committee	Sec. 57; Education Fund Advisory Committee
(h) Contingent on evidence-based formula compliance	
	Secs. 58 and 59; transition to evidence-based foundation formula
(i) January 1, 2030	
Regional Assessment Districts	Sec. 62; Intent to Establish Regional Assessment Districts

ⁱ The full fiscal note history is available on the fiscal tab of the bill page on the General Assembly website and can be pulled up through a bill number search on the JFO page.

ⁱⁱ Relevant modeling and slide decks can be found on JFO's website at the following link: <https://ljfo.vermont.gov/subjects/education/h-454-education-transformation-bill-materials>