

Excess Spending Adjustment

House Committee on Ways and Means

Julia Richter, Principal Fiscal Analyst, Joint Fiscal Office

May 13, 2026



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



Outline

- Excess spending adjustment under current law
- Aligning the excess spending threshold with the Act 73 base amount



Excess Spending Adjustment Under Current Law



Overview of Excess Spending Adjustment Under Current Law

- Vermont’s “excess spending adjustment” increases a district’s tax rate if it spends above the “excess spending threshold”
- The excess spending adjustment creates a double tax on the amount that a school district spends per weighted pupil above the excess spending threshold
- The excess spending threshold is calculated annually
 - For fiscal year 2027, the excess spending threshold is \$16,470



Calculation of Excess Spending Threshold

- The excess spending threshold is calculated by increasing the fiscal year 2025 average per weighted pupil spending by inflation (NIPA) and then multiplying that figure by 118%

- The calculation can be seen in the following equation:

$$\text{Excess spending threshold} = \text{FY25 per weighted pupil spending} * (1 + \text{NIPA}) * 118\%$$

- In fiscal year 2025, the average per weighted pupil spending was \$13,168
- In fiscal year 2027, the average per weighted pupil spending increased by inflation is \$13,958



Excess Spending in Fiscal Year 2026

- In fiscal year 2026, the excess spending threshold was \$15,926
- Across the state, a total of six school districts exceeded the excess spending threshold
- The amount that school districts exceeded the threshold by varied
 - District excess spending per weighted pupil ranged from \$429 to \$1,582



Aligning the Excess Spending Threshold With the Act 73 Base Amount



Review – Act 73 Base Amount

- Act 73 (2025) contingently established a foundation formula that included a base amount of \$15,033 per weighted pupil in fiscal year 2025 that would be increased annually by NIPA
- The base amount would be \$15,936 in fiscal year 2027 after adjusting for inflation



Calculating the Excess Spending Threshold to Equal the Act 73 Base Amount

- If the policy goal is to calculate the excess spending threshold to equal the Act 73 base amount, it could be done in two different ways:
 - a. The percentage used in the calculation of the excess spending threshold could be amended to mathematically reach the base amount, or
 - b. The overall calculation of the excess spending threshold could be replaced with the base amount adjusted by inflation
- While the methodologies would differ, the resulting threshold from either methodology would approximately equal the inflated base amount



Recall – the excess spending adjustment is contingently repealed in Act 73

Percentage Used to Calculate the Excess Spending Threshold to Mathematically Reach the Base Amount

- *Recall:*

- In fiscal year 2027, the average per weighted pupil spending increased by inflation is \$13,958
- The fiscal year 2027 Act 73 base amount would be \$15,936
- Under current law:

*FY25 per weighted pupil spending increased by inflation * 118% = Excess spending threshold*

- To reach an excess spending threshold equal to the base amount of the same year, the inflated average per weighted pupil spending would need to be increased by 14.2%

- For example, for fiscal year 2027:

$$\$13,958 * 114.2\% = \$15,936$$



Calculating the Excess Spending Threshold to Equal the Act 73 Base Amount

	Fiscal Year					
	2025	2026	2027	2028	2029	2030
Inflation-adjusted FY25 Average Per Pupil Spending	\$13,168	\$13,497	\$13,958	\$14,340	\$14,710	\$15,081
Current Law Excess Spending Threshold Using 118%	-	\$15,926	\$16,470	\$16,921	\$17,358	\$17,795
Approximate Excess Spending Threshold Percentage Needed to Get to Base Amount	-	114.2%	114.2%	114.2%	114.2%	114.2%
Act 73 Base Amount	\$15,033	\$15,456	\$15,936	\$16,371	\$16,794	\$17,217



Transitioning the Current Law Excess Spending Threshold to a Threshold that Equals the Act 73 Base Amount

- The transition mechanism to a new calculation for the excess spending threshold could be structured in a couple of ways:
 - The current law excess spending threshold's percentage could be decreased over time
 - The new excess spending threshold equal to the base amount could be phased in over time
- Mathematically, the same approximate results could be achieved through either method



Transitioning the Current Law Excess Spending Threshold to a Threshold that Equals the Act 73 Base Amount

Transition from current law methodology of 118% to 114.2%

- If the policy goal is to transition from the current law percentage of 118% to a percentage of 114.2% over two years, the percentage could be stepped down by 1.9% over two years:

	2027	2028	2029	2030
Percentage in Current Law Excess Spending Methodology	118.0%	116.1%	114.2%	114.2%
Threshold	\$16,470	\$16,648	\$16,799	\$17,222

Transition to base amount from current law methodology

- If the policy goal is to transition from the current law excess spending threshold to the base amount over two years, the base amount could be increased by a percentage over two years:

	2027	2028	2029	2030
Percentage in Base Amount Methodology	103.4%	101.7%	100.0%	100.0%
Threshold	\$16,470	\$16,648	\$16,794	\$17,217



Questions?



Exemptions to Excess Spending Adjustment Under Current Law

- Under current law, there is only one exemption from the excess spending adjustment
 - The exemption is all principal and interest payments for any voter-approved bonds that were approved prior to July 1, 2024
- This exemption does *not* decrease general education spending used to calculate homestead property tax rates
 - The exemption only adjusts the amount *over* the threshold to determine the amount that is double taxed
 - Specifically, any amount that qualifies under the exemption is not subject to a double tax



Application of the Excess Spending Adjustment to Tax Rates Under Current Law

- If a school district's per pupil spending is greater than the excess spending threshold, the per pupil amount over the threshold (after accounting for exemptions) will be counted twice in the district's per pupil spending when calculating its tax rate
- Using the excess spending adjustment, tax rates are calculated as follows:

$$\text{Equalized homestead property tax rate} = \frac{\text{Per pupil education spending} + \text{per pupil excess spending}}{\text{Property yield}}$$



Example of Applying the Excess Spending Adjustment Under Current Law

- Assume two districts
- Step 1: calculate excess spending threshold
 - In this example, assume the excess spending threshold = \$16,000 per pupil
- Step 2: calculate the per pupil amount over threshold
- Step 3: add excess per pupil amount to per pupil education spending to calculate tax rate
- Step 4: calculate homestead property tax rate
 - Assume yield = \$9,000

Row #		District A	District B
1	Assume: Per pupil education spending of:	\$15,000	\$17,000
2	Step 1: Calculate excess spending threshold	\$16,000	\$16,000
3	Step 2: Calculate amount over threshold (Row 1 – Row 2)	\$0	\$1,000
4	Step 3: Add per pupil excess spending to per pupil education spending (Row 1 + Row 3)	\$15,000	\$18,000
5	Step 4: Calculate tax rate (Row 4 divided by yield)	\$1.67 = \$15,000 / \$9,000	\$2.00 = \$18,000 / \$9,000
6	<i>Tax rate if there were no excess spending adjustment</i>	\$1.67 = \$15,000 / \$9,000	\$1.89 = \$17,000 / \$9,000

$$\text{Equalized homestead property tax rate} = \frac{\text{Per pupil education spending} + \text{per pupil excess spending}}{\text{Property yield}}$$

