VERMONT LEGISLATIVE
Joint Fiscal Office
1 Baldwin Street • Montpelier, VT 05633-5701 • (802) 828-2295 • https://ljfo.vermont.gov
Fiscal Note

April 20, 2026 Julia Richter, Principal Fiscal Analyst, and Patrick Titterton, Senior Fiscal Analyst

H.949 – An act relating to property tax yields, the nonhomestead property tax rate, and technical changes to education finance

As recommended by the Senate Committee on Finance, Draft 5.1[1i]

Bill Summary

This bill would set the property yield and rates at a level estimated to fully fund the Education Fund in fiscal year 2027, amend the excess spending adjustment, transfer funds to the City of Barre for an overpayment of education property tax increment, adjust the Special Education census grant for inflation, and temporarily expands the Vermont renter credit.

Fiscal Impact

The following sections would have a fiscal impact

- ***Section 1:*** Set the property dollar equivalent yield income dollar equivalent yield and nonhomestead property tax rate.[2] The Joint Fiscal Office (JFO) estimates that these yields and rates would correspond with an average increase of approximately 3.8% for all education property tax bills: homestead property, income education tax bills, and nonhomestead property. These yields and rates would be set at a level estimated to be sufficient to fully fund the Education Fund.

- ***Sections 2 and 2a:*** Amend the excess spending adjustment from 118% to 112%, exclude all voter-approved bond payments from education spending for the purpose of calculating excess spending, and include a hold-harmless provision for the excess spending threshold. The fiscal impact of this section is unclear. Section 2 would lower the excess spending threshold starting in fiscal year 2028. As a result, more school districts would need to adjust their budgets to account for the lower excess spending adjustment, either by reducing education spending or paying a double tax on the portion that exceeds the threshold. If the change to the excess spending threshold and the hold harmless provision had been in effect for fiscal year 2027, JFO estimates that approximately $21 million in education spending would have exceeded the excess spending threshold. In comparison, under current law there would be approximately $4.7 million in spending above the threshold, an approximate increase of excess spending of $16 million. This estimate is based on preliminary school budget information.

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[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.*

[2] For the purposes of this fiscal note, property tax refers to statewide education taxes and does not include municipal taxes.

(ID 405047)

These sections would also expand exclusions from the excess spending threshold and create a hold harmless provision as further explained below. JFO cannot estimate if these provisions would impact voter or school district behavior, including school district bonding decisions. Excluding all bond payments from the excess spending adjustment may increase future bonding costs to the Education Fund if school districts had previously forgone bonding due to those current law provisions.

- ***Section 4***: Transfer $150,576 from the Education Fund to the City of Barre to compensate for the overpayment of property taxes to the Education Fund resulting from miscalculations in its Tax Increment Financing (TIF) district in prior years.

- ***Section 5***: Set the Special Education census grant's uniform base amount at $2,350 for fiscal year 2027 and adjust the census grant for inflation in fiscal year 2028 and beyond.

- ***Sections 6-9***: Expand the Vermont renter credit by increasing the maximum credit amount to $3,250 and increasing the amount of U.S. Department of Housing and Urban Development (HUD) fair market rent that is used to calculate the credit to 12.5%. This would be estimated to increase the cost of the program by $4.0 million in fiscal year 2027. The yields and rates this bill would set do not use the entirety of the one-time transfer of $104.9 million from the General Fund to the Education Fund in the fiscal year 2027 appropriations act as passed by the House, meaning this change would not have an impact on the Education Fund and that the transfer in that bill could be reduced to accommodate that change.

Background and Details

Section 1: Setting of the Yields and Rates

Section 1 would set the property dollar equivalent yield at $9,395, income dollar equivalent yield at $12,942, and the nonhomestead property tax rate at $1.648 for fiscal year 2027. JFO estimates that these yields and rates would correspond with an average increase of approximately 3.8% for homestead property tax bills, income education tax bills, and nonhomestead property tax bills. These yields and rates would be set at a level estimated to be sufficient to fully fund the Education Fund.

The yields and tax rate were calculated to fund the Education Fund according to the most recently available school district budget data and according to the following parameters:

- $100.9 million of one-time General Fund is transferred to the Education Fund for fiscal year 2027; and
- The yields, tax rates, and reserve were calculated assuming changes associated with legislation that is still being considered by the General Assembly.

Sections 2 and 2a: Excess Spending Adjustment

The excess spending adjustment impacts education tax rates, so that districts spending above it are taxed doubly on the excess spending amount. Under current law, voter-approved bond payments toward principal and interest for bonds approved prior to July 1, 2024 are excluded from education spending for the purposes of calculating excess spending. Section 2 of this bill would repeal the deadline condition, so that all bond payments would be excluded from education spending for the excess spending calculation, regardless of when the bond was approved.

The excess spending adjustment is a tax mechanism that impacts the amount raised from certain homestead property taxpayers but does not impact the total amount to be raised. Bond payments would still be included in the calculation of education spending and would only be excluded for the purpose of calculating excess spending of a school district. This would result in school districts above the excess spending threshold not receiving a double tax penalty on bond payments, which absent any other changes in policy, would result in other school districts' tax rates increasing to make up for the lack of penalty.

In other words, this would spread more of the cost of a school district's debt service across all property taxpayers in the State and reduce the amount covered by property taxpayers in the school district spending above the threshold.

According to data from the Vermont Bond Bank, there is forecasted to be annually approximately $11.6 million in additional debt service across 11 school districts that would be eligible for exclusion under this bill. The impact of the exclusion of this debt service from the excess spending adjustment would depend on the school districts' education spending approved by voters.

Section 2a would amend the calculation of the excess spending threshold and create a hold harmless provision from the excess spending adjustment for certain school districts.

The excess spending adjustment is a tax provision that creates a double tax on the amount that a school district spends per weighted pupil above the excess spending threshold. Under current law, the excess spending threshold is calculated annually by increasing the fiscal year 2025 average per weighted pupil spending by inflation and then multiplying that figure by 118%. For fiscal year 2027, the excess spending threshold is $16,470 per weighted pupil.

Section 2a would amend the calculation of the threshold to be multiplied by 112% instead of 118%. If that percentage change were to have been implemented in fiscal year 2027, the excess spending threshold would have been $15,633.

Section 2a would also create a hold harmless provision from the excess spending adjustment if school districts did not increase their education spending or per pupil spending from the preceding year, or if the Secretary of Education deems the increase was for good cause or beyond the district's control. If the changes included in Section 2 had been in effect for fiscal year 2027, approximately $21 million would have exceeded the excess spending threshold, $16 million more compared to the estimated $4.8 million under current law.
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Section 3: Technical Correction for Statewide Adjustment

Section 3 includes a necessary technical correction for the application of Statewide Adjustment.

Section 4: Property Tax Overpayment Refunds to the City of Barre

Section 4 would appropriate $150,576 from the Education Fund to the Department of Taxes in fiscal year 2027 for a payment to the City of Barre to compensate for the city's overpayment of property taxes to the Education Fund resulting from miscalculations in its Tax Increment Financing (TIF) district in fiscal years 2021 through 2024.

This appropriation is estimated to have a de minis impact to the Education Fund and the current calculated yields and rates incorporate this cost.

Section 5: Inflation Adjustment to Special Education Census Grant

The Special Education census grant is statutory categorical aid that is funded annually from the Education Fund to supervisory unions based on their long-term membership. Section 5 would set the census grant's uniform base amount at $2,350 for fiscal year 2027 and would adjust it for inflation in future fiscal years. This would be consistent with the uniform base amount the Agency of Education (AOE) projected in the fiscal year 2027 Governor's recommended budget.

This section would also impact the Extraordinary Special Education Reimbursement calculation. In general, as the uniform base amount increases, the cost of the Extraordinary Reimbursement decreases.

The fiscal impact of this section in future years is unclear as the impact would be dependent on outstanding factors such as changing long-term membership (LTM) and inflation factors.

Sections 6-9: Expanded Vermont Renter Credit

Sections 6-9 would expand the Vermont renter credit temporarily in fiscal year 2027, before reverting to current law parameters in fiscal year 2028. Currently, income eligible renters can claim a refundable credit equal to 10% of the annualized HUD county fair market rent in their county. The current maximum credit a claimant can receive is capped at $2,500. This expansion would increase the percentage used to calculate the credit from 10% to 12.5% and increase the maximum credit amount from $2,500 to $3,250.

This is expected to increase the cost of the program by $4.0 million in fiscal year 2027. The yields and rates this bill would set do not use the entirety of the one-time transfer of $104.9 million from the General Fund to the Education Fund in the fiscal year 2027 appropriations act as passed by the House, meaning this change would not have an impact on the Education Fund and that the transfer in that bill could be reduced to accommodate that change.

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[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.*