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Act No. 73 (H.454). An act relating to transforming Vermont's education governance, quality, and finance systems

Subjects: Education; school districts; taxation and finance; education property tax; State Board of Education; State funding of public education; education finance; Agency of Education

This act makes changes to Vermont's education policy and finance systems. It states the General Assembly's intent to, in the 2026 session, enact updates to the career and technical education (CTE) system and prekindergarten system, as well as enact new, larger school districts that would become operational on July 1, 2028. This act limits the changes of the Commission on the Future of Public Education, creates the School District Redistricting Task Force to recommend new school district boundaries to the General Assembly, and also creates the School District Voting Ward Working Group to make recommendations to the General Assembly for proportionally representative voting wards within new school districts. It requires public schools and approved independent schools that are eligible for public tuition to comply with class size minimums and requires the State Board of Education (SBE) to update rules to reflect class size minimum requirements and statewide graduation requirements. It also requires the SBE to recommend standards for schools to be deemed small by necessity and sparse by necessity. This act requires the Agency of Education (AOE) to create a statewide school calendar to be effective for the 2028–2029 school year, as well as report back to the General Assembly regarding several topics, including the state of special education delivery and funding. It requires the SBE to review their rules and make recommendations to the General Assembly regarding updating rules. This act creates the State Aid for School Construction Program that will be administered by the AOE with advice from the State Aid for School Construction Advisory Board. It requires approved independent schools to meet certain criteria in order to be eligible to receive public tuition, including being located in a nonoperating district or supervisory union with nonoperating districts and complying with class size minimums. It also permits the General Assembly to appoint two members of the SBE. This act also requires school districts, under the new foundation formula that will contingently take effect on July 1, 2028, to pay tuition in an amount of the base amount plus any applicable weights to a receiving school. It also allows receiving schools to charge an additional five percent fee for secondary students if certain criteria are met and requires school districts to pay the full tuition charged its students attending an approved independent school in Vermont functioning as an approved area career and technical center. It requires the AOE to create a three-year strategic plan for the delivery of special education services and establishes one new permanent classified position within AOE to support the development of the strategic plan. This act also appropriates \$2,865,000.00 to AOE to support education transformation and establishes five limited service positions within AOE to support education transformation work.

As contingently effective July 1, 2028, this act replaces Vermont's existing education finance system that fully funds locally voted school budgets, accounting for local variation in spending through varying homestead property tax rates, with a foundation formula that provides school districts with a fixed, inflation-adjusted base amount of \$15,033.00 per pupil, as adjusted for student weighting. It amends Vermont's student weighting provisions to provide weights for prekindergarten, economic disadvantage, English learners distinguished by both proficiency level and formal education level, and special education distinguished by disability cost. It replaces existing sparsity and small-school weights with small schools and sparse schools support grants. In conjunction with these changes, this act repeals certain existing education finance provisions, such as census block grants for special education, categorical aid for English learners' services, and merger support for merged districts. This act finances the foundation formula payouts to school districts, known as "educational opportunity payments" (EOP), through the imposition of a statewide education tax on homestead and nonhomestead property that may be adjusted by statutory factors based on the new tax classification system and that will be set each year by the General Assembly. This act authorizes school districts to vote additional funds beyond their EOPs (supplemental district spending), subject to a cap of five percent of the product of the school district's unweighted pupil count and the base amount, which funds are raised through a locally imposed supplemental district spending tax. This act creates a supplemental district spending yield to equalize this local tax rate for any locally voted spending that results in the application of the rate that would be required to raise that spending in the school district with the lowest taxing capacity, regardless of property wealth. This act recaptures any locally raised funds in excess of the school district's supplemental district spending resulting from use of the supplemental district spending yield and holds those funds in a newly established Supplemental District Spending Reserve within the Education Fund to be used to buy down statewide education property tax rates in the following fiscal year. This act amends the provisions governing the December 1 letter to require the Commissioner of Taxes to annually recommend the statewide education property tax rate and supplemental district spending yield. It additionally provides for transitional measures in the first years of the foundation formula rollout to gradually move school districts from Vermont's existing education finance system and onto the new foundation formula. This act tasks the Joint Fiscal Office (JFO) with contracting with an expert in Vermont's education funding system to recommend updates to the foundation formula, including related to sparsity measures, secondary student costs, and CTE, on or before December 1, 2026. The act's provisions governing the new foundation formula are effective July 1, 2028, contingent upon operationalization of new school districts and receipt of this foundation formula report.

As contingently effective July 1, 2028, this act repeals the statewide property tax credit and replaces it with a capped homestead exemption that reduces the portion of housesite value subject to the statewide education tax and supplemental district spending tax. It establishes income sensitivity measures for households that do not exceed \$115,000.00 in household income that provide an increasing homestead exemption as household income declines, with households at or below \$25,000.00 in household income entitled to a homestead property tax exemption of 95 percent of the first \$425,000.00 of housesite value. This act makes conforming changes to provide the benefits of the homestead exemption to households that indirectly pay property taxes as is currently

done for the statewide property tax credit. It additionally tasks the Department of Taxes with submitting an alternative homestead exemption structure proposal to committees of jurisdiction on or before December 15, 2026, that includes appropriate inflationary measures and analyzes the implications of moving to income sensitivity measures that provide benefits to households with household income of up to \$175,000.00.

As contingently effective July 1, 2028, this act creates a new property tax classification for nonhomestead residential properties. The new classification will be repealed on July 1, 2028, if the General Assembly does not create a new tax rate multiplier for tax classifications before that date. This act requires the Department of Taxes to study the implementation of a new tax classification and report back for the 2026 legislative session.

As contingently effective January 1, 2029, this act creates regional assessment districts for the purpose of full reappraisal of grand list properties in a designated region, which will replace the current system of having individual municipalities responsible for full reappraisals. It further creates a stakeholder working group, to be managed by the Department of Taxes, to recommend future changes to the regional assessment district system. This act makes further technical and policy adjustments to property valuation and property tax statutes.

Multiple effective dates, beginning on July 1, 2025