



VERMONT LEGISLATIVE  
**Joint Fiscal Office**

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## Fiscal Note

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

As reported by the Committee of Conference<sup>1i</sup>

#### **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, and adjust the Special Education census grant for inflation.

This bill would also temporarily expand the Vermont renter credit, while permanently expanding the circuit breaker for homestead and municipal property taxes and the maximum property tax credit a claimant could receive. Finally, this bill would place a cap on the tuition paid to a public or independent school.

#### **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.<sup>2</sup> The Joint Fiscal Office (JFO) estimates that these yields and rates would correspond with an average increase of approximately 3.5% 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.
- **Section 2:** Amend the temporal condition for the excess spending so that voter-approved bond payments toward principal and interest for bonds approved prior to July 1, 2026 would be excluded from education spending for the purposes of calculating excess spending.
- **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.
- **Section 6 and 7:** Amend the excess spending threshold starting in fiscal year 2028 by decreasing the

<sup>1</sup> 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.

<sup>2</sup> For the purposes of this fiscal note, property tax refers to statewide education taxes and does not include municipal taxes.

percentage used in calculating the t threshold from fiscal year 2028 through fiscal year 2032.

- **Sections 9 - 14:** Expand the Vermont renter credit one-time and expand the circuit breaker in perpetuity.
  - The renter credit would be expanded 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. This increase in cost has been included in the fiscal year 2027 appropriations act as reported by the Committee of Conference.
  - The circuit breaker and Housesite exemption thresholds would be expanded by increasing the maximum household income to \$50,000 and increasing the maximum credit amounts. JFO estimates that in fiscal year 2028, these changes would result in an additional expenditure to the Education Fund of approximately \$400,000, and an additional expenditure to the General Fund of approximately \$1.4 million. This would be an ongoing increased obligation to both the Education Fund and the General Fund.
- **Section 15:** Cap the tuition paid to a public or approved independent school for fiscal year 2028 through fiscal year 2032.

## Background and Details

### Section 1: Setting of the Yields and Rates

Section 1 would set the property dollar equivalent yield at \$9,401, income dollar equivalent yield at \$12,960, and the nonhomestead property tax rate at \$1.643 for fiscal year 2027. JFO estimates that these yields and rates would correspond with an average increase of approximately 3.5% 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.

### Section 2: Excess Spending Exemption

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 amend the temporal condition for the excess spending so that voter-approved bond payments toward principal and interest for bonds approved prior to July 1, 2026 would be excluded from education spending for the purposes of calculating excess spending.

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 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 minimis 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 and 7: Excess Spending Adjustment**

Sections 6 and 7 would amend the excess spending threshold starting in fiscal year 2028. The excess spending adjustment is a tax provision that creates a double tax on the amount 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 6 would set the excess spending threshold so that starting in fiscal year 2032, the threshold would be calculated annually by increasing the fiscal year 2025 average per weighted pupil spending by inflation and then multiplying that figure by 112.5%.

Section 7 would transition in the new excess spending threshold calculation by decreasing the percentage used in the calculation of the threshold from fiscal year 2028 through fiscal year 2032 as follows:

- In fiscal year 2028, the threshold would be calculated by multiplying the fiscal year 2025 average per weighted pupil spending by inflation by 115.5%,
- In fiscal year 2029, the threshold would be calculated by multiplying the fiscal year 2025 average per weighted pupil spending by inflation by 114.5%,
- In fiscal year 2030, the threshold would be calculated by multiplying the fiscal year 2025 average per weighted pupil spending by inflation by 113.5%,
- In fiscal year 2031, the threshold would be calculated by multiplying the fiscal year 2025 average per weighted pupil spending by inflation by 113.0%, and
- In fiscal year 2032 and beyond, the threshold would be calculated by multiplying the fiscal year 2025 average per weighted pupil spending by inflation by 112.5%.

JFO cannot estimate the impact of these changes to the calculation of the excess spending threshold. School districts may reduce their overall education spending to stay below the threshold which would result in lower education spending. School districts spending above the excess spending threshold would be subject to a double tax on the amount over the threshold.

**Sections 8 - 14: Expanded Vermont Renter Credit and Expanded Property Tax Circuit Breaker**

Sections 8-14 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 one-time expansion of the renter credit is expected to increase the cost of the program by \$4.0 million in fiscal year 2027. This increase in cost has been accounted for in the fiscal year 2027 appropriations act as reported by the Committee of Conference.**

Sections 9 – 14 would also permanently expand the upper income threshold for the municipal property tax circuit breaker, the education property tax circuit breaker, and the maximum credit amount.

Under current law, if a household's income is below a certain figure, they receive a credit so that they effectively only pay a certain portion of their income on property taxes. Currently, the upper income threshold is \$47,000 for both circuit breakers. The cost of the municipal circuit breaker is borne by the General Fund, and the cost of education circuit breaker is borne by the Education Fund. The total amount of these credits is limited under statute – the municipal credit is limited to \$2,400, and the education property tax credit is limited to \$5,600. Finally, households with incomes below \$47,000 are also eligible to exempt \$15,000 from the housesite value for the purpose of calculating their education property tax liability.

These sections would amend statute to expand the upper threshold for household income for the circuit breaker so it would apply to a household with income up to \$50,000. The threshold for the housesite exemption would also be expanded to \$50,000. These sections would also amend the maximum credits to be \$2,600 for the municipal credit and \$6,000 for the education property tax credit.

Because the cost of the municipal circuit breaker is borne by the General Fund, and the cost of the education circuit breaker is borne by the Education Fund, these sections would have an impact on both the General Fund and the Education Fund in fiscal year 2028. **JFO estimates that in fiscal year 2028, these changes would result in an additional expenditure to the Education Fund of approximately \$400,000, and an additional expenditure to the General Fund of approximately \$1.4 million. This would be an ongoing increased obligation to both the Education Fund and the General Fund.**

**Section 15 – Tuition Caps**

Section 15 would cap the tuition paid to a public or approved independent school for fiscal year 2028 through fiscal year 2032. Tuition would not be permitted to increase from the prior year by more than the relative percentage change in statewide education spending between the previous fiscal year and the fiscal year preceding that.

Total statewide education spending is estimated to increase by approximately 3.8% from fiscal year 2026 through fiscal year 2027. Assuming this increase does not change, tuition will not be permitted to increase by more than 3.8% in fiscal year 2028. JFO cannot estimate the impact of this section as it will depend on tuition decisions by both sending and receiving schools.

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<sup>i</sup> 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.