CONFIDENTIAL

TAX LEGISLATIVE BILL REVIEW FORM: 2015

Bill Number: H.361 **Name of Bill:** An act relating to making amendments to education funding, education spending, and education governance

Agency/ Dept: Tax **Author of Bill Review:** Candace Morgan

Date of Bill Review: 05/20/2016 **Related Bills and Key Players:** AOE, VSBA, VT Principals, VT Superintendents, VLCT, VALA

Status of Bill: (check one): _____Upon Introduction _____ As passed by 1st body __X__As passed by both

Recommended Position:

__X__Support _____Oppose _____Remain Neutral _____Support with modifications identified in #8 below

Analysis of Bill

1. **Summary of bill and issue it addresses.** *Describe what the bill is intended to accomplish and why.*
   - This bill establishes incentives for smaller districts to become PreK-12 supervisory districts with their neighboring districts. These incentives include tax incentives for the districts that complete their merger within a certain amount of time.
     - For districts that become operational before July 1, 2017, their tax incentives will be a decrease in their homestead property tax by 10/8/6/4/2 cents per year.
     - For districts that become operational after July 1, 2017, but before July 1, 2019, their tax incentives will be a decrease in their homestead property tax by 8/6/4/2 cents per year.
   - Sec. 20 of the bill makes changes to the small school support under 16 VSA § 4015.
     - Beginning in FY2020, small school support eligibility will mean a district must operate at least one school with an average grade size of 20 or fewer students and meets the eligibility as determined by the State Board.
     - This eligibility stipulates the school district must either be geographically isolated or achieve academic excellence and operational efficiency.
   - Secs. 26-30 of this bill establishes the "yield" model for education rates. Current law has the legislature setting both base homestead property tax rate and the base education amount annually. The new model would have the legislature setting the yield annually. The base homestead property tax rate is fixed at $1.00 and the base education income tax rate is fixed at 2.00%.
     - This section is effective for FY2017 property taxes and the December 1, 2015 Commissioner's letter.
     - The Commissioner's letter will need to set the two yields (instead of the base homestead rate and the base education amount) and the nonresidential tax rate.
     - Provides additional guidance for how to determine the setting of each rate:
       - Homestead is $1.00 per $100.00 of equalized education property value;
       - Applicable percentage is 2.00%;
       - Statutory reserves are maintained at 5%; and
       - The percentage change in the median education tax bill applied to nonresidential property, homestead property, and those who are claiming a property tax adjustment are equal.

- Secs. 35 and 36 contain the FY2016 tax rates are included in this bill. Both the nonresidential and homestead rates are an increase from last year.
  - Homestead: $0.99
  - Nonresidential: $1.535
  - Applicable percentage (income sensitized rate): 1.8%
- Sec. 37 creates allowable growth for FY2017 and FY2018. If a district exceeds its allowable growth, then any spending above the allowable growth will be counted twice for the purposes of calculating tax rates. Allowable growth is determined on a sliding scale, from zero to 5.5%, depending on how much the district spent in the prior year. The more a district spent in the prior year, the less allowable growth.
- Sec. 48 creates for a "lag" study. Asks the Commissioner of Taxes to report on the steps that would be required to transition to calculation of property tax adjustments on a current year basis. Requires input from VLCT and VALA. Report is due Jan. 15, 2016.

2. **Is there a need for this bill?** *Please explain why or why not.*
   - The shift to larger districts has been presented as a way to create economies of scale in our education system. This bill establishes a path towards achieving that goal with a combination of incentives and penalties for not complying.
   - This bill contains the FY2016 tax rates, which are a must pass to lower them below the underlying statutory rates of $1.10 (homestead), $1.59 (nonresidential), and 2.0% (applicable percentage).

3. **What are likely to be the fiscal and programmatic implications of this bill for this Department?**
   - Changing the applicable percentage for FY2016 from 1.94% to 1.80% created a lot of process change internally as the property tax adjustments for FY2016 were already re-run a few months ago when we realized the percentage was set last year at 1.94%. We were able to rerun the adjustments for FY2016 over the long weekend.
   - The "yield" model will create a change in the way we approach the Commissioner's Letter. We will need to work closely with JFO and AOE the first few years as we get used to this new approach.

4. **What might be the fiscal and programmatic implications of this bill for other departments in state government, and what is likely to be their perspective on it?**
   - This bill creates a lot of new reporting and duties for AOE. However, they have been involved throughout the process and are likely to be supportive of the changes.

5. **What might be the fiscal and programmatic implications of this bill for others, and what is likely to be their perspective on it?** (f*or example, public, municipalities, organizations, business, regulated entities, etc)*
   - Municipalities have been pretty supportive of this along the way – the original proposal included getting rid of the lag this year, which would have upset a lot of their processes. Turning it into a study was something they supported and something we will work closely with them to ensure we capture the complete picture.
   - The public has had mixed reactions to the bill, with some seeing it as an attempt to close their small, community schools. The language in the bill makes very clear that that is not the intent, and in fact this will provide the support needed to the small schools to continue to exist, but within a larger district.

6. **Other Stakeholders:**

   6.1 Who else is likely to support the proposal and why?

   6.2 Who else is likely to oppose the proposal and why?

7. **Rationale for recommendation:** *Justify recommendation stated above.*
   - This bill balances the desire to create economies of scale while still maintaining local control. It is less of top-down approach and more of an opportunity for districts to come together on their own terms – with there being penalties after a certain period of time.

8. **Specific modifications that would be needed to recommend support of this bill***:* *Not meant to rewrite bill, but rather, an opportunity to identify simple modifications that would change recommended position.*

9. **Gubernatorial appointments to board or commission?**

Secretary/Commissioner has reviewed this document: Mary Peterson ***Date: 06/01/2015***