# Preliminary Overview of the Administration's Education Finance Proposal – Key Issues Joint Fiscal Office, January 26, 2017

#### - FY2018 -

## Adds \$135.9 million in expenses to the Education Fund, but increases the General Fund transfer to the Education Fund by only \$86 million – a difference of nearly \$50 million

- Existing General Fund expenses transferred to the Education Fund include: higher education \$83.7 million; retired teachers' health insurance \$27 million; and normal teachers' retirement \$8 million
- New spending added to the Education Fund includes: early education: \$9.6 million; higher education: \$6 million; and innovation grants \$1.6 million

### Balances the Education Fund by level funding school district spending, by requiring teachers to pay for 20% of their health insurance premiums, and through the use of one-time revenues

- Level funds spending at its FY2017 level
  - Many districts used one-time revenues to hold their FY2017 spending below the Act 46 allowable growth thresholds – this may create problems for these districts in FY2018
- Requires all teachers to pay at least 20% of their health insurance premiums reducing spending by an additional \$15 million statewide
- Uses \$31 million in one-time revenues: a \$26 million Education Fund surplus anticipated at the close of FY2017; and a \$5 million reversion to the Education Fund anticipated in FY2018

#### Allows school districts to fund up to 5% of additional spending on their local education grand list (FY2018 only)

- The ability of school districts to raise these additional funds varies widely because of disparities in local education grand lists
- No income sensitivity or homeowner rebate is available for this additional tax increasing education taxes for some low-income Vermonters
- These additional funds are a one-time revenue source these funds would not be included in a district's base spending in FY2019

### Dedicates 1% of total Education Fund revenues to early education and child care

 Statewide spending on early education and child care would increase by approximately \$16 to \$17 million beginning in FY2019

### Ties changes in spending in each school district to the percent change in student population

- School districts would be indefinitely locked into current spending levels that vary widely
- The administration assumes that statewide spending will be reduced by an additional 1% in FY2019 because of continuing loss of students

Reduces the maximum property tax adjustment from \$8,000 to \$5,000 per household increasing education taxes for a small number of low- and middle-income Vermonters

#### - Implementation -

# Postpones voting from March 7th to May 23rd to allow school boards to renegotiate teacher contracts and develop FY2018 budgets in compliance with the spending mandate

- Board-approved school budgets will be sent to printers and town meeting will warned very soon, if not already
- The Legislature would need to act quickly to provide guidance to school boards and enact the proposal
- It is unclear whether the May 23rd meeting would be in addition to, or in place of, town meetings scheduled in March if they are additional meetings, what would be the cost of the meetings and who would pay for them?

#### - Other Issues -

- Do the mandated spending limits comply with the <u>Brigham</u> decision?
- How would towns that tuition all of their students in grades K-12 comply with the spending limits?
- How would very small school districts deal with shocks to their budgets? (for example, a family with a child with extraordinary special needs moves into the district)