

Act 127 and Other Fiscal Dynamics for FY25 Budgeting: An Update for School Boards and Superintendents

VSBA/VSA/VASBO Collaborative Webinar
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Webinar Logistics

Questions

- Questions and comments are encouraged
- Please use the Q&A function for questions (not chat)

Evaluation

- After the webinar

Email follow-up

- Link to the video
- Presentation slides
- Other resources

Archived

- VSBA website (Webinar Archive page)

Reminder:

The VSBA Website is mostly password protected now. Request a password in the upper left corner of the homepage.

Session Learning Objectives

1. Review the roles and responsibilities of school boards and superintendents in the budgeting process.
2. Consider potential FY25 fiscal pressures impacting school districts with a focus on Act 127.
3. Understand the mechanics and vocabulary of the updated education funding system in Vermont.

Session Agenda

1. Roles and Responsibilities of Boards and Superintendents
2. Current and Upcoming Fiscal Pressures
3. Act 127 Overview
4. Panel Q & A

Financial Oversight: The Board's Role

Accountability to Taxpayers

- A good return on their education investment
- Efficient, ethical operations of the school district

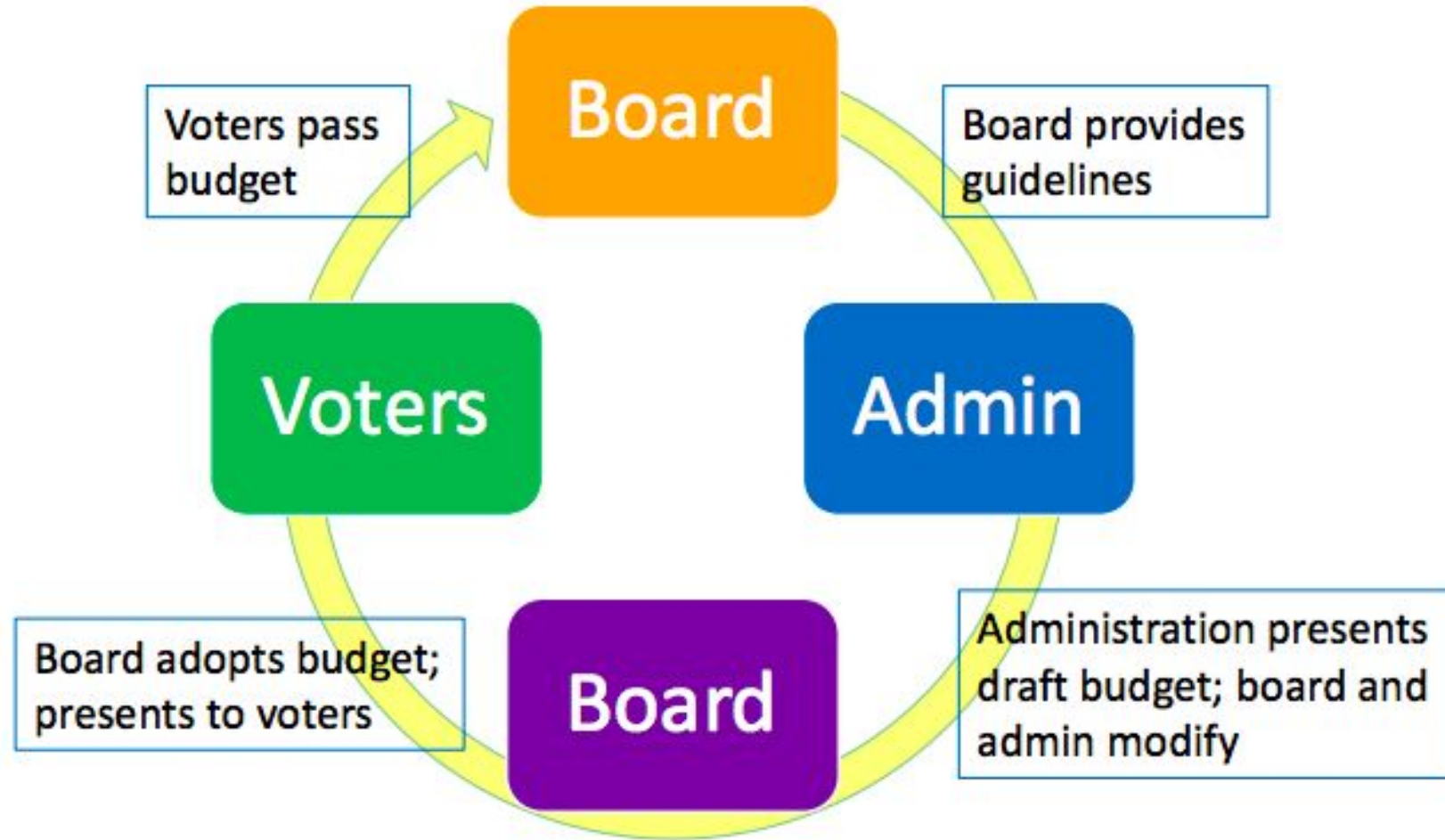
Budgeting

- Ensure adequate resources to accomplish goals and progress toward vision

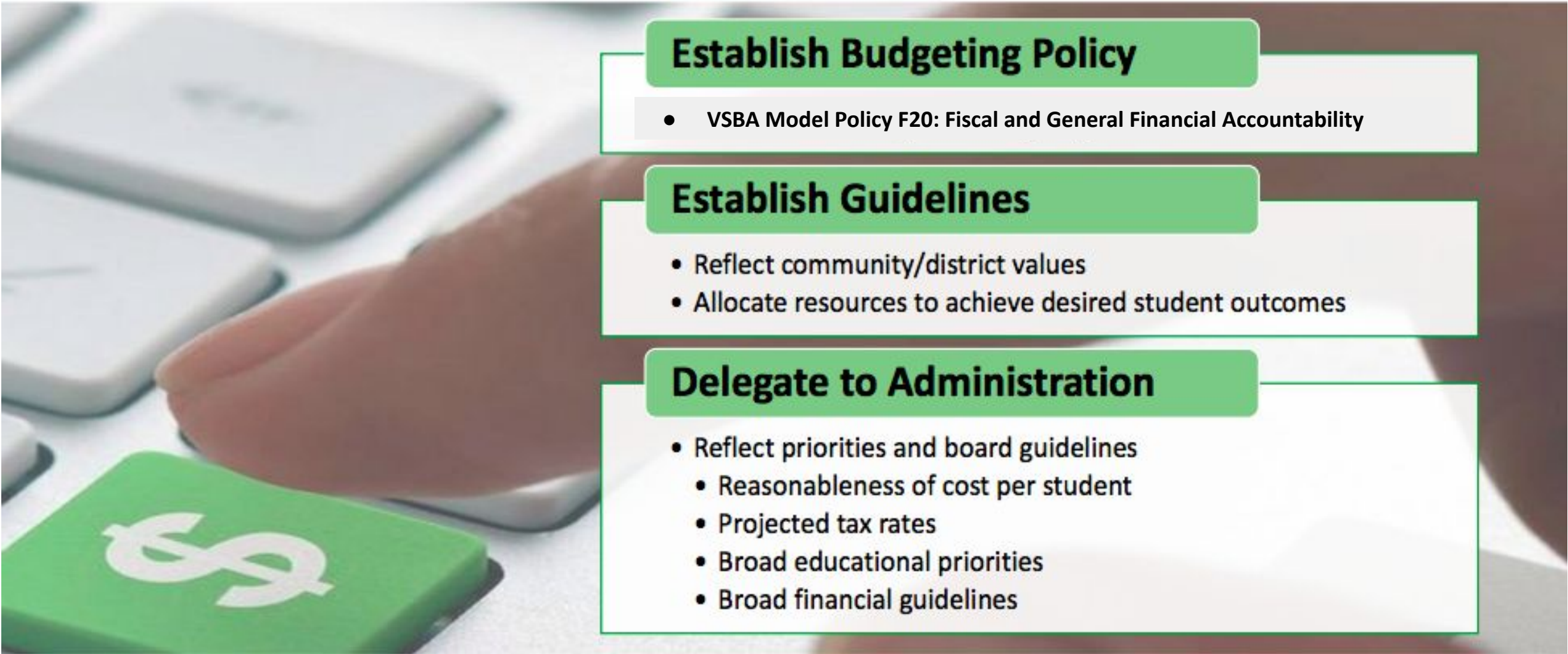
Monitoring

- Ensure focused and responsible management of financial resources
- Assure adequate internal controls have been put in place by administration
- Conduct financial monitoring
- Be a good consumer of the annual audit

The Budget Cycle – Part 1



Budgeting: The Board's Role



Establish Budgeting Policy

- VSBA Model Policy F20: Fiscal and General Financial Accountability

Establish Guidelines

- Reflect community/district values
- Allocate resources to achieve desired student outcomes

Delegate to Administration

- Reflect priorities and board guidelines
 - Reasonableness of cost per student
 - Projected tax rates
 - Broad educational priorities
 - Broad financial guidelines

Essential Questions for Board Members to Administrators

- 1) Is the budget aligned with the priorities of the district?
- 2) Is it within the general budget parameters the board set(s) for the administration?
- 3) Does the budget comply with all laws and regulations?

Budgetary Pressures

Federal Relief Funds

Inflation

Declining Enrollments

School Facilities

Act 127

EDUCATION

Inflation, wages, debt: What's pushing Vermont's school budgets up?

By Peter D'Auria
Mar 2 2023

The letter this year also projects an 8.5 percent overall growth rate in school spending, essentially double last year's projected growth rate, and it would be higher than any growth rate in at least the last decade. We also know that continued inflationary pressures, policy initiatives such as changes to the pupil weighting formula, and capital maintenance and remediation costs, will continue to create cost pressures for the Education Fund.

December 1, 2022
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Federal Relief Funds: Considerations

- Districts had an unprecedented influx of federal funding but will end abruptly 9/24
- Districts using ESSER for recurring financial commitments will likely experience greater budgetary challenges after 9/24 (Roza, Edunomics)
 - Hiring new employees
 - Larger salary increases; impacting the already strained pension system
 - New technologies that require annual fees
 - Facilities expansions/renovations with coinciding ongoing utilities costs
- The increased challenges associated with the pandemic (e.g. mental health, learning recovery) will likely persist when funds run out

Inflation

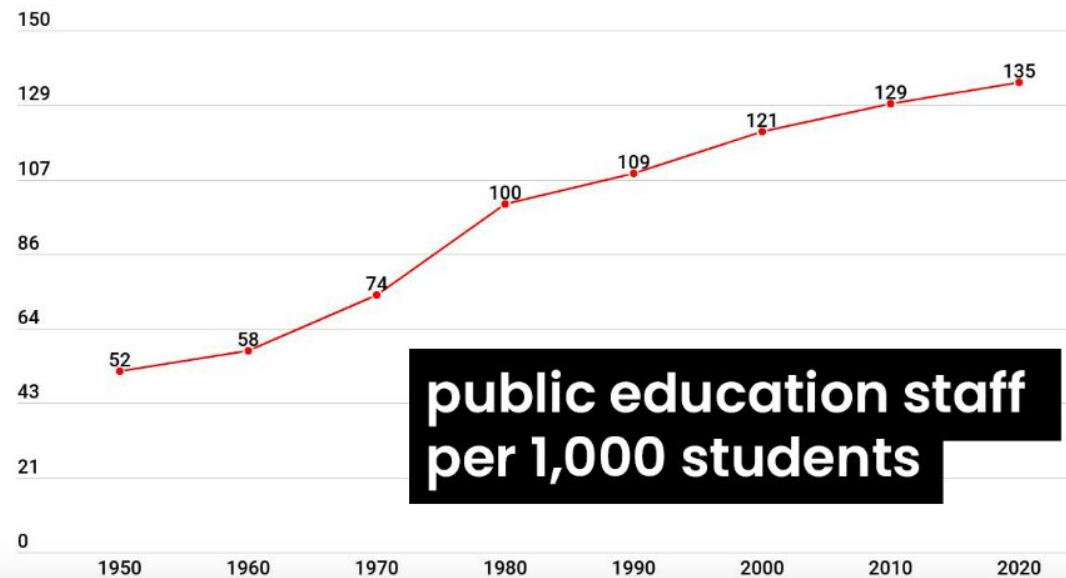
- Rising costs of non-labor costs plays a role
 - Fuel costs, utilities, food, and maintenance costs
- Proportionally larger impact is the role of inflation in contract negotiations
 - Educators, like everyone else, are paying higher costs of living and see adjustments in the private sector
 - Harder hit if increased of federal funds already increased pay scales
 - Healthcare Bargaining and Collective Bargaining
- Labor market scarcity drives wages up as well; competition between districts; concerns for statewide equity
- Families will rely on schools more during times of economic uncertainty

Declining Enrollment

- Federal funds have masked the longer term impacts of declining enrollments
- Staff to student ratios may have decreased additionally due to relief funds
- Staff to student ratios are impacted by increased student needs; exacerbated by the pandemic; contending with availability of mental health services

On a Per-Student Basis, School Staffing Levels Are Hitting All-Time Highs

Aldeman: Schools in 46 states effectively lowered their teacher-student ratios by continuing to hire while enrollment has dropped



<https://www.the74million.org/article/on-a-per-student-basis-school-staffing-levels-are-hitting-all-time-highs/>

School Facilities

- December 1, 2022 Tax Letter: Tax Commissioner Bolio points to capital maintenance and remediation as key cost drivers presently and to come
- No state capital construction aid since 2007
- Major news coming this fall when the State completes and releases the comprehensive school facilities assessment - purpose: understand what is facing us in terms of condition and cost - Assessment is to inform prioritization
- Legislature has created a School Construction Aid Task Force - co-chaired by Treasurer and AOE Secretary
- We have examples of what modern facilities can be
- Trends for environmental safety policy initiatives (e.g. lead in water, PCB, radon, etc.)
- Trends for increasing school safety (Act 29)

Act 127 - Why?

- Constitutional requirement for equal access to funding
- Weighting is the method that state policy makers have established to ensure that access - pupil weights adjust student counts to support education students with different needs or circumstances
- Act 60 weights were not empirically derived
- Act 127 was enacted to address/correct that deficiency
- Effects of adjustments to weights are being addressed by a phased-in approach to implementation (over the next five years)

Act 127 - Intent per AOE (December 9, 2022)

- For a given level of spending, a district advantaged by the new weights and categories in terms of pupil counts will have lower spending per pupil and subsequently, a lower homestead tax rate.
- The district should be able to increase its overall spending to provide additional support to students in the various categories. This will raise spending per pupil and also the homestead tax rate, but a district should be able to fund more services for its students at or below the homestead rate it would have had without the new weights.
- The intent was not to have districts take the additional tax capacity solely as a tax break.
- For a district disadvantaged by the new weights, a higher tax rate will be required to maintain the same level of spending per pupil.

Weights in 24 - 25 (FY25)

	Weight
EEE/PreK	-0.54
Middle (6-8)	0.36
Secondary (9-12)	0.39
Poverty	1.03
English Language Learners (ELL)	2.49
Sparsity (< 36 pop/sq. mile)	0.15
Sparsity (36 ≤ pop/sq. mile < 55)	0.12
Sparsity (55 ≤ pop/sq. mile < 100)	0.07
Small School (≤ 55 pop/sq. Mile, enrollment ≤ 100)	0.21
Small School (≤ 55 pop/sq. Mile, enrollment > 100, ≤ 250)	.07

Act 127

- Act 127 modifies the calculation of education spending per pupil by changing the student count from equalized pupils to long-term weighted membership
 - From Education Spending/Equalized Pupil = Per Pupil Spending
 - To Education Spending/Long-Term Weighted Membership = Per Pupil Spending
- Districts gaining tax capacity under the new weights will experience the benefit immediately in year 1 (FY25)
- Suspends the excess spending threshold, hold harmless provision, and the school budget ballot language requirement in 16 VSA § 563(11)(D) for fiscal years 2024 through 2029
- Specific supports for English Learners including some categorical aid in addition to weighting as well as technical support and evaluation

Act 127: Impact on Mountain District

	FY24 Approved	FY24 Act 127	FY24 Act 127
Education Spending	\$15,000,000	\$15,000,000	\$16,252,112
÷ Pupils	825	1425	1425
= Per EqPup Ed Spend	\$18,182	\$10,526	\$11,405
÷ Property yield	\$15,443	\$9,687	\$9,687
= Homestead Rate	\$1.1774	\$1.0866	\$1.1774

Mountain District
can spend \$1.2m
more for the same
residential tax rate

Act 127: Impact on Valley District

	FY24 Approved	FY24 Act 127	FY24 Act 127
Education Spending	\$15,000,000	\$15,000,000	\$13,658,306
÷ Pupils	775	1125	1125
= Per EqPup Ed Spend	\$19,355	\$13,333	\$12,141
÷ Property yield	\$15,443	\$9,687	\$9,687
= Homestead Rate	\$1.2533	\$1.3764	\$1.2533

Valley District must spend \$1.3m less to keep the same residential tax rate

Act 127 + CBG: Impact on Mountain District

	FY24 Approved	FY24 Act 127	FY25
Education Spending	\$15,000,000	\$15,000,000	\$14,850,000
÷ Pupils	825	1425	1425
= Per EqPup Ed Spend	\$18,182	\$10,526	\$10,421
÷ Property yield	\$15,443		\$9,687
= Homestead Rate	\$1.1774		\$1.0758

\$150k increase to CBG
cuts 1¢ from the tax
rate

Act 127 + CBG + Inflation: Impact on Mountain District

	FY24 Approved	FY24 Act 127	FY25
Education Spending	\$15,000,000	\$15,000,000	\$15,600,000
÷ Pupils	825	1425	1425
= Per EqPup Ed Spend	\$18,182	\$10,526	\$10,947
÷ Property yield	\$15,443		\$9,687
= Homestead Rate	\$1.1774		\$1.1301

5% inflation adds 5.5¢
to the rate

Act 127 + CBG + Inflation + ESSER: Impact on Mountain District

	FY24 Approved	FY24 Act 127	FY25
Education Spending	\$15,000,000	\$15,000,000	\$15,800,000
÷ Pupils	825	1425	1425
= Per EqPup Ed Spend	\$18,182	\$10,526	\$11,088
÷ Property yield	\$15,443		\$9,687
= Homestead Rate	\$1.1774		\$1.1446

Bringing two positions in from ESSER adds 1.5¢ to the rate

Act 127 + CBG: Impact on Valley District

	FY24 Approved	FY24 Act 127	FY25
Education Spending	\$15,000,000	\$15,000,000	\$15,250,000
÷ Pupils	775	1125	1125
= Per EqPup Ed Spend	\$19,355	\$13,333	\$13,556
÷ Property yield	\$15,443		\$9,687
= Homestead Rate	\$1.2533		\$1.3994

\$250k decrease to
CBG adds 2.3¢ to the
tax rate

Act 127 + CBG + Inflation: Impact on Valley District

	FY24 Approved	FY24 Act 127	FY25
Education Spending	\$15,000,000	\$15,000,000	\$16,000,000
÷ Pupils	775	1125	1125
= Per EqPup Ed Spend	\$19,355	\$13,333	\$14,222
÷ Property yield	\$15,443		\$9,687
= Homestead Rate	\$1.2533		\$1.4682

5% inflation adds 7¢
to the rate

Act 127 + CBG + Inflation + ESSER: Impact on Valley District

	FY24 Approved	FY24 Act 127	FY25
Education Spending	\$15,000,000	\$15,000,000	\$16,500,000
÷ Pupils	775	1125	1125
= Per EqPup Ed Spend	\$19,355	\$13,333	\$14,667
÷ Property yield	\$15,443		\$9,687
= Homestead Rate	\$1.2533		\$1.5141

Bringing five positions in from ESSER adds 4.7¢ to the rate

Act 127

- If the increase in homestead rates from FY24 to FY25 is greater than 5%, there is a maximum applied increase of 5%
 - Can last up to 5 years, but once they are at the actual rate, the 5% provision is no longer available
- Tax rate review process for per pupil spending increases of more than 10% from year to year
 - Districts that do not pass the rate review process will lose the 5% cap
 - Tax rate review will happen after budgets are passed
- The Education Fund must cover the cost of the capping provision; how precisely to do so will be a policy decision for the General Assembly; presumably property tax payers from ALL Districts will be contributing to revenues needed to cover those costs.

Act 127: Caps and Rate Reviews - Valley District

- If the increase in homestead rates is greater than 5%, the increase is capped at 5%
- The cap can recur for up to 5 years, but once a district doesn't use the cap, it is no longer available going forward

	FY24 Approved	FY24 Act 127	FY25
Education Spending	\$15,000,000	\$15,000,000	\$16,500,000
÷ Pupils	775	1125	1125
= Per EqPup Ed Spend	\$19,355	\$13,333	\$14,667
÷ Property yield	\$15,443		\$9,687
= Homestead Rate	\$1.2533		\$1.5141

Valley District's rate
would actually be
\$1.3160

Act 127: Caps and Rate Reviews - Valley District

- If the Per Pupil Ed Spending increases =>10%, the budget will trigger a Tax Rate Review
- If the Secretary determines the increase is not justified, the district will lose the cap

	FY24 Approved	FY24 Act 127	FY25
Education Spending	\$15,000,000	\$15,000,000	\$16,500,000
÷ Pupils	775	1125	1125
= Per EqPup Ed Spend	\$19,355	\$13,333	\$14,667
÷ Property yield	\$15,443		\$9,687
= Homestead Rate	\$1.2533		\$1.5141

A 10% increase in PPES triggers a Tax Rate Review. Failing the Review causes the cap to go away

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