Education Legislative Report

May 19, 2017 – Issue # 13

Late last night, the 2017 legislative session concluded after the General Assembly passed a budget and an education finance bill. In his address to the legislature following adjournment, the Governor stated he will veto both bills because they do not include provisions that achieve savings through a uniform health insurance benefit for school employees. Legislators will likely return on June 21 for a veto session.

Budget Moves Teachers' Retirement to Ed Fund; Uses $35 M in One-Time Money

Despite two weeks of negotiations, House and Senate leaders were not able to reach a compromise with the Governor on school employees' health insurance. On Wednesday, House and Senate leaders declared impasse with the Governor, and on Thursday the House and Senate budget conferees wrapped up their negotiations on the budget bill, H.518.

The final budget creates several problems for school districts, the first being teachers' retirement. The Senate's original budget moved the normal cost (the projected cost for benefits in the current plan year) of the state teachers' retirement payment to the Education Fund. This year the normal cost is $7.9 million. In the final round of negotiations yesterday, the House agreed to move the retirement obligation from the General Fund to the Education Fund.

To cover a portion of the costs of this new obligation in FY 2018, the budget includes a $3.3 million one-time transfer from the General Fund to the Education fund and $600,000 in new sales tax revenue. The budget conferees also agreed to maintain current levels of General Fund support for the Community High School of Vermont and the Adult Diploma Program within the Education Fund, despite the fact that those programs do not cost as much as the General Fund allocation provides. Click here to view the Education Fund balance sheet from the Joint Fiscal Office.

Table of Contents

To pay for the new retirement obligation in FY2019 and beyond, the yield bill (H.509) allocates an additional percentage (a change of 35% to 36%) of the sales tax from the General Fund to the Education Fund. This additional percentage is estimated to yield $4 million annually.

An additional problem created by the budget is that it uses $35.3 million in one-time funding to lower property taxes in FY 2018. $26.1 million of these one-time funds come from a FY 2017 surplus; $9.2 million are taken from Education Fund reserves. This brings the Ed Fund stabilization reserve to the lowest possible level under current law, 3.5%. Because the law requires the December 1 letter from the Tax Commissioner to set yields that bring the Education Fund reserve to 5%, this means that the income and homestead yields for FY 2019 will decrease in order to make up close to $10 million to fill the depleted reserve.

The rationale for using $9.2 million in reserves is that districts will achieve savings by negotiating favorable health insurance benefits with school employees.

This is the second year in a row that the General Assembly has used substantial amounts of one-time money to lower property tax rates. Our associations believe that using $35 million in one-time funds is bad fiscal policy, and places school boards and communities in a very difficult position for FY 2019. Unless school districts end FY 2018 with surpluses to carry forward into FY 2019, reduce FY 2019 expenditures, or some other revenue source materializes, property tax payers will face a substantial rate increase next year.

Finally, the budget takes $1 million from unallocated Medicaid funding for special education out of the Education Fund and into the General Fund in order to increase, funding for childcare subsidies.

H.509 Sets Yields and Non-Residential Tax Rate, Imposes Time Restrictions on Collective Bargaining Agreements, and Studies Statewide Health Benefit

H.509 establishes the dollar equivalent yields for property and income payers as well as the uniform non-residential property tax. For FY2018, the property dollar equivalent yield is $10,160, the income dollar equivalent yield is $11,990, and the non-residential property tax is $1.55. The yields and rate compared to FY2017 and projections for Fy2018 are in the chart below. Higher yields result in lower average property tax rates.

Base Rates and Yields	FY 2017	FY 2018 - Projected	FY 2018 – Final
Homestead Property	$9,701	$10,076	$10,160
Income	$10,870	$11,875	$11,990
Non-residential property	$1.535	$1.550	$1.55

H.509 also includes the General Assembly's response to the Governor's proposal to negotiate health insurance statewide. The bill creates a "commission" to study a possible statewide school employee health benefit, and mandates that health care provisions within collective bargaining agreements must expire on or before September 1, 2019 in order to allow for implementation of a statewide benefit if the group advises. Collective bargaining agreements that have been settled as of July 1, 2017 are exempt from this time limit.

The "commission" is comprised of ten members, five representing labor and five representing management. Four of the labor members are allocated to Vermont-NEA one is allocated to another labor organization that represents school employees. Three management members are allocated to the Vermont School Boards Association (VSBA) and two are allocated to the Vermont Superintendents Association (VSA).

The "commission" is asked to study the advantages and disadvantages of establishing a single statewide health benefit plan for all school employees. The group must consider transition issues, potential savings from avoided negotiation expenses, whether to use income-sensitized premiums for employees, ways to address benefit disparities between bargaining units, ways to address disparities between districts, property tax implications, and issues related to uninsured school employees.

The "commission" has no staff support or technical experts and stakeholders including the State of Vermont, the General Assembly, or VEHI. Instead, it asks VSBA/VSA to come to an agreement with the VT-NEA on how to proceed with respect to negotiating health insurance. Without any support from the state or General Assembly, it is not clear how these groups can be compelled to meet or come to agreement on recommendations. The group will provide its finding to legislative committees on or before November 15, 2017.