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# What Happens When a School Budget Doesn't Pass?

Vermont has a unique education finance system with a statewide funding formula and local school budget decisions. School boards set budgets and submit them to voters for their approval. The legislature sets property tax rates based on voter approved school budgets. All of these budgets draw money from the statewide education fund to fund education spending.

This handout is intended to answer frequently asked questions about Fiscal Year 2025 budgets that have not yet passed as of May 2024.

## School Districts Without a Passed a Budget

When a school district doesn't pass a budget in time for a new fiscal year to start (July 1), several laws provide for interim funding. The intent of these laws is to give school districts enough money to keep operating until a budget passes. However, this money does not equal a district's total operating budget and is not enough to allow the district to operate schools for a full year. At some point, your district must have a budget.

## What is Missing Without a Budget?

Without a budget, your school district's authority to draw money from the Education Fund is limited. Education spending is defined as the district budget, minus local revenue, categorial aid, and other sources of funding available to the district.

If your district budget doesn't pass, many sources of funding may still be available to help your school district operate in the short term. This includes some payments from the education fund. However, there may be a gap between what your district receives from the education fund and other sources and the cost to operate for a full year.

## Incoming Revenue

Even without a budget, districts have some funding available to support operations.

## Education Fund Payments

School districts receive payments from the Education Fund three times a year, that payment is one third of their total education spending. When a district doesn't pass a budget, those payments are based on a formula and are likely lower than what would be paid out once a budget passes.

If a district doesn't pass a budget by September, the district will receive one third of the base education amount per student in September, December and April.



Once the district does pass a budget, future payments make up any difference between what it has already received in stopgap funding, and what is due from the Education Fund. In most cases, districts will receive additional money, however some low spending districts may owe money back. ([16 V.S.A. § 4028](#))

## Categorical Aid

Categorical aid is state aid to school districts for specific purposes such as transportation, state placed students, Career Technical Education, Flexible Pathways, Special Education and English Language Learners.

Categorical aid is given to districts whether they pass a budget or not. It is revenue contributing to a school budget and offsets a districts education spending paid out of the Education Fund.

## Tax Rates and Borrowing

When there is no district budget, the correct tax rate cannot be set to fund your district's share of statewide education spending. The law provides for an interim tax rate for the district and the towns to raise some tax revenues. The true up of tax bills, after a budget passes, is administratively burdensome.

### Tax Rates

For districts without a passed budget, tax bills of \$1.00 adjusted for the common level of appraisal will go to member towns as an interim tax rate. Tax rates are released annually on June 30. Taxpayers will likely see an increase in tax bills when the revised bills are sent out once a budget is approved. ([32 V.S.A. § 5402](#))

### Temporary Budget

School districts without a budget can borrow up to 87% of the prior year's budget. This borrowing is intended to be a bridge to keep districts operating. Once a budget passes the district will use Education Fund dollars to pay back the borrowed amount. A district may be able to borrow to cover operating expenses in the early part of the year, however borrowing may become more difficult as time passes without an approved budget. ([16 V.S.A. § 566](#))

## Other Considerations

Borrowing has a cost and that debt will be paid by taxpayers. As districts explore further budget cuts, we must acknowledge how challenging these decisions are.

These are always tough decisions, and the "right" decision will be different for every district. Keep in mind how changes may impact academic programming and district and school operations. When considering what to prioritize, it is important to stay focused on what is in the best interest of students.

