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Susanne R. Young, Secretary

December 2, 2019

Rep. Johnson, Speaker of the House
Sen. Ashe, President Pro Tempore
Vermont State House
115 State Street
Montpelier, VT 05633-0004

Re: 2019 Education Tax Rate Forecast

Dear Speaker Johnson and President Pro Tempore Ashe:

Attached you will find the annual letter from the Commissioner of the Vermont Department of Taxes. As you know, the Commissioner, after consultation with the Agency of Education, the Secretary of Administration and the Joint Fiscal Office, is required by 32 V.S.A. § 5402b to annually calculate and forecast a property dollar equivalent yield, an income dollar equivalent yield, and a non-homestead tax rate.

One of the key performance indicators we use to measure how effectively State government is helping to make Vermont more affordable for families is the percent of household income (HHI) spent on state taxes and fees. It is our view that if the percent of a household's income captured by government is increasing, government is having a regressive economic impact on households. The fact that projected education cost increases continue to exceed the rate of growth in education fund revenues – and the rate of growth in household income – remains a cause for significant concern, particularly as the number of students in Vermont's schools continue to decline.

This is why the Governor devoted much time and attention to this challenge in his first legislative biennium. As you no doubt recall, there was a great deal of conversation around the structural sources of the ongoing tax pressures, including health care costs. One of the bigger pressures on education spending for FY21 is the cost of health care for district employees. Of the expected \$72 million increase in the education payment, about \$28 million would cover local school districts' portions of premium increases. That figure won't be finally determined until the conclusion of the negotiations of a statewide teachers' health benefit.

To be clear, the Governor supports increasing education spending where we can demonstrate that it yields added value, and equity, for students. Given the state of Vermont's declining student population and performance scores, it's difficult to argue the escalating tax rates do much more than maintain a status quo

of rising costs and growing inequity. We need to work together to ensure the investment Vermonters are making is yielding more equitable opportunities and better outcomes for our kids.

The Governor continues to believe that structural reform is essential to making our education system better for kids, and more affordable for taxpayers. We are very open to working with you to address these challenges and making Vermont's education system the very best in the country.

Respectfully,



Susanne Young
Secretary of Administration



State of Vermont
Department of Taxes
133 State Street
Montpelier, VT 05633-1401

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Rep. Johnson, Speaker of the House
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Dear Speaker Johnson and President Pro Tempore Ashe:

The Commissioner of the Vermont Department of Taxes, after consultation with the Agency of Education, the Secretary of Administration and the Joint Fiscal Office, is required by 32 V.S.A. § 5402b to calculate and forecast a property dollar equivalent yield, an income dollar equivalent yield, and a nonhomestead tax rate annually. This letter is submitted in fulfillment of the statutory obligation. The Department of Taxes, Department of Finance and Management, Agency of Education, and the Joint Fiscal Office prepared consensus forecasts on various components of the Education Fund Operating Statement for Fiscal Year (FY)2021 so that the required analysis could be performed. Many thanks go to the exceptional staff who performed this essential work.

5402b(a)(2) Mandated Forecast

In the statutorily mandated calculation and recommendation under 32 V.S.A. 5402b, the Commissioner must assume the following¹:

1. The homestead base tax rate is \$1.00 per \$100.00 of equalized education property value;
2. The applicable percentage under 32 V.S.A. 6066(a)(2) is 2.0;
3. The statutory reserves under 16 V.S.A. § 4026 are maintained at five percent; and
4. The percentage change in the average education tax bill applied to homestead property, nonhomestead property, and taxpayers who claim a property tax credit is the same.

¹ And for FY21, "the Commissioner shall disregard any undesignated surplus in the Education Fund" (Act 46, 2019)



Applying these statutory assumptions, the yields and non-homestead rate in the table below would support all forecasted FY21 education fund uses and maintain the statutory reserves under 16 V.S.A. §4026 at five percent. Additionally, the percentage change in the average bills for non-homestead property, homestead property, and those who claim a credit² under 32 V.S.A. §6066(a) are projected to be equal under these yields and nonhomestead rate.

Homestead Yields and NH Rate	FY2020 (for comparison)	FY2021
Homestead Property	\$10,648	\$10,883
Income	\$13,081	\$13,396
Nonhomestead Property	\$1.594	\$1.654

2.21%↑

3.76%↑

Average Rates

If the forecasted yields and rate in this letter were adopted, the average 2020-2021 (FY2021) equalized property tax rates would be as follows:

	FY2020 (for comparison)	FY2021
Homestead Property	\$1.512	\$1.567
Income	2.47%	2.55%
Nonhomestead Property	\$1.594	\$1.654

These rate increases, in conjunction with forecast appreciation in property value and growth in income, would lead to an average increase of more than 6% in education property taxes for all payers.

Education Spending Growth

Total education spending is forecast to grow while the number of pupils continues to decline. On a per-pupil basis, the expected growth in spending is forecast to be 5.53% on average.

	FY2020 (for comparison)	FY2021	Rate of Growth
Total Education Spending (\$Millions) ³	\$1,426.1	\$1,497.6	5.01%
Equalized Pupil Count ⁴	87,839	87,412	-.49%
Average Equalized Per Pupil Spending	\$16,235	\$17,133	5.53%

² Those who claim a credit will pay FY21 taxes based on their 2020 household income

³ Projected total education spending for property tax rate purposes as defined by 16 V.S.A. § 4001 (6)

⁴ "Equalized pupils" is a weighted number. Actual student enrollment is lower

Other Considerations

This forecast is calculated as prescribed in statute with the information available to date. There are always variables, concerns and opportunities to consider when we look beyond the prescribed forecast above. We face a challenging landscape for FY21, and I hope the following points will provide policymakers and voters information to make their best decision:

- Per pupil spending is what determines homestead tax rates, not total spending. Locally voted spending amounts are still the primary determinant of a town's tax rate. The more per pupil spending goes up, the more tax rates will go up.
- Virtually all taxpayers in a town will experience an increase on their FY21 bills if the town's education property tax rates go up versus the current year. Even taxpayers who receive a property tax credit the following year would experience property tax rate increases from higher school spending because an increase in per pupil spending increases the income percentage taxpayers are expected to pay before a property tax credit is applied.
- If all districts could restrain budget growth to about 1.4% cumulatively (1.9% per pupil), average statewide rates could stay the same as the current year. Average tax bills would still increase 2.16% under that scenario due to rising property values and incomes. The yields going up mean that a single (small) district could increase per pupil spending by 2.2% and have the same equalized (before the common level of appraisal⁵ is applied to a town) tax rate as the current year even if all other districts increase per pupil spending by the forecasted 5.53%.
- Penny rule of thumb for FY21: One penny on the tax rate translates to \$20 on a \$200,000 house and one penny on both homestead and nonhomestead rates raises about \$8.7M. Roughly 2/3rds of residents pay based on income, and absent intervention, their rates move proportionally with property rates.

⁵ The CLA is the measure of how close a municipality's local appraisals are to the actual Fair Market Value. The CLA is used to equalize education taxes statewide with the goal of having properties of equal value pay equal amounts of school taxes.

The 6% forecasted growth in education property tax is almost double the expected grand list growth of 3% and more than double the expected income growth of 2.5%. If these forecasted yields are ultimately adopted, it would result in the largest education property tax increase in the past 10 years. However, while the forecast is concerning, it is not inevitable. In the 2017 letter, the FY19 rates were forecasted to increase by over 9 cents, but school districts passed budgets that helped the state avoid such a significant increase. There is work ahead for all of us to help get Vermont on a more sustainable path, and this Administration is ready to work collaboratively with you to make our education system both more efficient and more valuable and equitable for our children.

Sincerely,



Craig Bolio
Acting Commissioner, Department of Taxes

cc: Susanne Young, Secretary, Agency of Administration
Daniel French, Secretary, Agency of Education
Adam Greshin, Commissioner, Department of Finance and Management
Rep. Janet Ancel
Sen. Ann Cummings
Rep. Kathryn Webb
Sen. Philip Baruth
Stephen Klein, Joint Fiscal Office
Luke Martland, Legislative Council

The Education Fund and Education Finance

Dec. 1, 2019

The Education Fund and education finance in general is extremely complex, making policy change and decisions equally complex. The Vermont Department of Taxes has assembled the following facts to help interested Vermonters be better equipped to understand the financial underpinnings of many of these important issues.

Education Fund Revenues and Expenses

The Education Fund's revenue and expenses total over \$1.7 billion, making it significantly larger than the General Fund.

Property Taxes

Property taxes contribute just 67% of the total Education Fund revenues, broken down as follows:

- \$447M (26%) of total revenue comes from the homestead property tax.
- \$694M (41%) comes from the nonhomestead property tax.
- Only the homestead property tax rate is affected by local education spending decisions. The nonhomestead rate is set at the statewide level and not locally adjusted by school district spending, although it does reflect total spending statewide.
- Any property not occupied as a principal residence is classified as "nonhomestead." That term was changed from "nonresidential" because many people thought it was property owned by individuals who are not residents of Vermont, which is incorrect.

Other Revenue Sources

Here are the other major Revenue Sources for Education Fund costs (dollar amount going to education in parenthesis):

- 100% of Vermont's Sales and Use Tax is now dedicated to the Education Fund (\$436M)

- 33% of Vehicle Purchase and Use Tax (\$38M)
- 25% of Meals/Rooms and Alcohol Tax is now dedicated to the Education Fund (\$48M)
- 100% of lottery revenue (\$29M)

Expenses

Total expenses might not match total revenues in any given year because of the presence of balancing items, such as payments into the statutory reserve or carryovers from the prior fiscal year.

- The single largest cost in the Education Fund is the Education Payment: \$1.43B, funding the voter approved school spending of all local budgets.
- Next largest cost is the Special Education Aid to local schools, at \$213M
- Transportation Aid, Small School Support and Technical Education Aid to districts total about \$42M combined.
- The annual "Normal" pension contribution is paid out of the Education Fund. However, over \$140M of educator retirement cost (pensions and post-employment benefits) is paid out of the General Fund annually to close the gap of the unfunded liability.

Page 1 of 2

Local Spending and Decision Making

- An analysis by the Vermont League of Cities and Towns reported that less than 18% of registered voters voted on Town Meeting.
- Local needs and decisions produce widely disparate levels of per pupil spending throughout the state. The highest spending school districts spend around \$22,000 per pupil, while the lowest districts spend around \$12,000 per pupil.
- A school district's total budget increase or decrease has little predictive value in determining the effect on the property tax rate. Among items under local control, it is the per pupil spending that has the biggest impact on the district's property tax rate.

Vermont's Income Sensitivity Program

- Analysis by the Department of Taxes showed there are up to 21 steps necessary for taxpayers to determine the impact of their district's school budget on their individual homestead property tax bills.
- Vermont's income sensitivity program effectively divides education property taxpayers into four groups:
 1. Those whose property taxes are capped by law
 2. Those who pay based on their income
 3. Those who pay on a combination of income and property value
 4. Those who pay purely based on their property value
- Most homeowners (68%) pay an income-sensitized property tax, meaning their total property tax bill is reduced by a state payment, called a property tax credit (PTC).
- PTCs are capped at \$8,000 (\$5,600 towards education property taxes and \$2,400 towards municipal taxes)
- A typical income-sensitized property tax payer might pay approximately 2.5% of their income in education property tax. For instance, a family with household income of \$60,000 (just above the median tax filer income in Vermont) could expect to pay around \$1,500 in annual property tax. This generally holds true whether they live in a \$200K home or a \$400K home.
- For homeowners with household income below \$47,000, an extra PTC is available to offset the cost of municipal taxes as well. This cost is an expense of the General Fund and is roughly \$17M for FY20. A homeowner with \$20,000 of household income living in a \$300,000 home is likely to pay no more than \$900 in total property taxes.
- The total Education Fund foregone revenue of the income sensitivity program is approximately \$170M, which equates to over 40 cents of the statewide average homestead education property tax rate of \$1.51.
- The 32% of Vermont homestead owners who are not income-sensitized pay over half (53%) of the homestead property tax. Those paying based on income (68%) pay 47% of the total homestead property tax.

Most of this analysis is based on anticipated fiscal year 2020 totals as they appear in the Dec 1, 2019, Education Fund Outlook.



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Agency of Administration

For Immediate Release

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Commissioner of Taxes Releases FY2021 Education Yield Letter

Montpelier, Vt.,— Acting Commissioner of Taxes Craig Bolio has released the statutorily required education tax rate letter which forecasts the education tax yields for resident homeowners and the nonhomestead tax rate (formerly called “nonresidential”) for the upcoming fiscal year (FY) 2021. Using statutorily prescribed calculations, the Agency of Education, Department of Taxes, Department of Finance and Management, and Joint Fiscal Office collaborate to establish the yields and rate.

The forecasted FY21 homestead property yield is \$10,883 compared to \$10,648 for FY20 (the current property tax year). The forecasted FY21 income yield is \$13,396 compared to \$13,081 for FY20 and impacts credit claims submitted in the spring of 2021. The increase in the forecasted homestead property yield would result in an average homestead tax rate increase of 5.5 cents. The statewide base nonhomestead tax rate is forecast to be \$1.654 in FY21, a six-cent increase from FY20.

Statewide education spending is forecast to grow by \$71.5 million while the equalized pupil count is projected to decline by 427, creating a 5.53% increase in average equalized per pupil spending. This rate of growth is nearly double the expected growth in tax year 2020 property values (3%) or income (2.5%), and is the primary cause of the projected rate increase. Because of the forecasted increases to education spending, coupled with property value appreciation and income growth, the average bill across the state would increase by more than 6%. Moreover, as in all years, changes in each district’s per pupil spending will result in very different property tax impacts across the state, as locally voted spending amounts are still the primary determinant of a town’s homestead education tax rate.

The forecast this year leads to challenges for affordability. However, if districts can restrain budget growth to less than 1.4% cumulatively (1.9% per pupil), average rates could stay the same as last year. Additional resources for understanding education tax rates are available on the department’s website at <http://tax.vermont.gov/property-owners/understanding-property-taxes/education-tax-rates> and from the Vermont school boards association at <http://www.vtvsba.org>.



