



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

Agency of Administration

December 1, 2020

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

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 non-homestead tax rate by December 1. 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)2022 so that the required analysis could be performed. Many thanks go to the gifted staff who performed this important work.

Key Considerations from the Administration's Point of View

It is important to note that this forecast is calculated as prescribed in statute with the information available to date. There are always variables, concerns and opportunities that lead to uncertainty in the forecast. These uncertainties are significantly amplified this year and Governor Scott and the Administration are committed to mitigating the impact of these uncertainties on property taxpayers, to the greatest extent possible. Absent any intervention, **this forecast predicts education property tax bills will increase 9 percent**, on average, for all payers. The Governor and Administration do not believe this is a tenable tax increase for Vermonters who are working hard to recover from the pandemic, nor for the Vermont economy which continues to struggle due to the pandemic-related disruption.

Non-property tax revenue forecasts, for example, are impacted by the local and national path of the virus, and potential for recovery is contingent on positive outcomes with a vaccine, treatments, and prevention efforts moving into next year. It is unclear if, and when, additional



federal stimulus may arrive, and what shape that stimulus may take to help alleviate pressures in the Education Fund to offset what the Administration views as the unacceptably high burden these pressures would impose on taxpayers. All of this will make for a very difficult landscape in FY22, and we look forward to working collaboratively and creatively with the Legislature to address these challenges.

Additionally, while this forecast is specific to our K-12 schools, we must not forget that our state, to be more competitive and provide better outcomes for children, must build a comprehensive cradle to career education system. To this end, we will need to grapple this year with substantial funding requests from our public higher education institutions totaling \$138 million, as well as the need to continue to invest in expanding early care and learning programs. While student enrollment trends downward in our K-12 schools, and in our state colleges, our education system as a whole continues to require unsustainable increases in spending, year after year. The Administration would welcome opportunities to collaborate with the Legislature on reforms to strengthen and transform the system, so more money is going directly to students and into classrooms, instead of underutilized overhead.

Here are a few key items impacting property tax rates and general thoughts for consideration:

- Despite the trend of stagnant or declining enrollments, and some districts reducing programs and services that benefit children, district budgets continue to increase – in the aggregate – by between 3 and 5 percent every year. While this structural imbalance existed prior to the pandemic, it has continued this year. The rate of growth in total cost of education is outpacing growth in property values, which is the primary contributor to why Vermonters face tax rate pressure every year.
- Due to the economic downturn from COVID-19, the FY22 forecasts for non-property tax revenue sources to the Education Fund were downgraded from \$590.9 million to \$552.1 million earlier this year. Non-property tax revenue sources include: 100% of Sales and Use Tax, 25% of Meals and Rooms Tax, 33% of Purchase and Use Tax, and lottery proceeds. This downgrade alone accounts for over 4 cents on the forecasted rate below.
- This year the projected cost of teachers' retirement to the Education Fund is \$38.9m, up from \$6.9 million, or more than 5 times the amount from last year. This unprecedented increase accounts for approximately 3.5 cents of the forecasted tax rate increase.
- These rates do not include consideration of the \$58 million deficit in the Education Fund for FY21 because Act 154 of 2020, Sec. E.111.1 directed the Department to disregard the deficit. The Legislature had previously outlined, in Act 122, a variety of options to address this deficit that avoid a spike in property taxes. We look forward to the continued work with the Legislature to help address that deficit in a way that is affordable for Vermonters.

- 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.
- The Tax Department is planning to publish a calculator on our website in February that districts and individuals can use to calculate how different per pupil spending amounts will impact tax rates at a variety of income and property value levels. We hope that this calculator helps illuminate the ways in which local spending decisions impact a district's and individual's education property taxes.
- Most taxpayers in a town will experience an increase on their FY22 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.
- Penny rule of thumb for FY22: One penny on the tax rate translates to \$20 on a \$200,000 house and one penny on both homestead and non-homestead rates raises about \$9M. Roughly 2/3rds of residents pay based on income, and absent intervention, their rates move proportionally with property rates.
- Short-term relief: while we do not know what Congress will do regarding additional stimulus funding, school districts have received considerable federal funds through the Elementary and Secondary School Emergency Relief Fund (ESSER), Governor's Emergency Education Relief Fund (GEER), as well as state allocated Coronavirus Relief Funds (CRF) to help with managing the variables of this virus on their operations. We expect many schools will carry a budget surplus from FY20 and FY21 into the coming fiscal year, which could be used to offset the property tax impacts forecasted below.

The forecasts in this letter prove to be quite serious for Vermont's affordability. This letter forecasts one of the largest single year increases in the average homestead rate in the last decade. And, as noted above, Governor Scott and the Administration are committed to mitigating the impact of these uncertainties on property taxpayers, to the greatest extent possible.

Clearly, there is still a lot of challenging work ahead as we continue to navigate the effects of this pandemic on Vermont, our students, and our taxpayers. We look forward to working with the Legislature to meet these challenges and ensure we are all doing our best to both serve our students and manage Vermont's ability to meet these rising costs.

5402b(a)(2) Mandated Forecast

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

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 percent¹; and
4. The percentage change in the average education tax bill applied to homestead property, non-homestead property, and taxpayers who claim a property tax credit is the same.

Applying these statutory assumptions, the yields and non-homestead rate in the table below would support all forecasted FY22 education fund uses and maintain the statutory reserves under 16 V.S.A. §4026 at the FY21 level. 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 non-homestead rate.

Homestead Yields and NH Rate	FY2021 (for comparison)	FY2022
Homestead Property	\$10,998	\$10,763
Income	\$13,535	\$12,825
Non-homestead Property	\$1.63	\$1.73

Average Rates

If the forecasted yields and rate in this letter were adopted by the Legislature the average 2021-2022 (FY2022) equalized property tax rates would be as follows:

	FY2021 (for comparison)	FY2022
Homestead Property	\$1.54	\$1.635
Income	2.51%	2.74%
Non-homestead Property	\$1.63	\$1.73

¹ Except for FY22, “the Commissioner shall assume the stabilization reserve... is maintained at the FY21 amount” (Act 154,2020)

² Those who claim a credit will pay FY22 taxes based on their 2021 household income

These rate increases, in conjunction with forecasted appreciation in property value, would lead to an average increase of roughly 9% in education property taxes for all payers.

Education Spending Growth

On a per-pupil basis, the expected growth in spending is forecast to be 3.75% on average.

	FY2021 (for comparison)	FY2022	Rate of Growth
Total Education Spending (\$Millions) ³	\$1,482.0	\$1,538.1	3.79%
Equalized Pupil Count ⁴	87,304	87,332 ⁵	0.03%
Average Equalized Per Pupil Spending	\$16,975	\$17,612	3.75%

In closing, I would like to thank everybody who plays a role in the education of Vermont's students. While all areas of life have been impacted by COVID-19, public education has had a unique spotlight on it, due to how critical in-person learning is to children and families. School boards, teachers, school support staff, and students have all worked hard, learning to be nimble and innovative, while ensuring the safety and health of kids throughout this year.

I'd also like to thank the teams at the Department of Taxes, Agency of Education, Department of Finance and Management, and the Joint Fiscal Office for the extensive and thoughtful collaborative work it takes to gather and analyze the data necessary to publish this forecast.

Sincerely,



Craig Bolio
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. Jill Krowinski
Sen. Becca Balint
Rep. Janet AnceI
Sen. Ann Cummings
Rep. Kathryn Webb
Sen. Philip Baruth
Stephen Klein, Joint Fiscal Office
Luke Martland, Legislative Council

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

⁵ FY22 equalized pupils are calculated in accordance with Act 154 (2020) limitation on average daily membership (ADM) declines