



Aggregate CLA Legislative Study Committee of Act 132 of 2016 – Kickoff Meeting
July 20, 2016 Room 10, Statehouse 2-4 p.m.
Via Conference Call: (Toll-free): 1 877 309 2070 Access Code: 464-788-181

Agenda

1. Introductions
2. Overview of Act 132 and Charge to the Committee (Jill Remick)
3. Overview of Vermont’s CLA and Tax Rates (Jake Feldman)
4. Current State of Affairs and Impressions (Douglas Farnham)
5. Committee Discussion
 - a. Do you or your representative organizations have opinions, statements, or positions you wish to share up front?
 - b. What are the issues we are trying to address?
 - c. What else do we need to know to make an informed recommendation?
 - d. What questions do we still have?
6. Adjourn

Next meetings:

- Thursday, August 18 from 2-4 p.m.
- Wednesday, September 21 from 2-4 p.m.
- Wednesday, October 26 from 2-4 p.m.
- Wednesday, November 9 from 2-4 p.m.
- Friday, December 9 from 2-4 p.m. IF NEEDED.

Committee Members:

Douglas Farnham, Director, Property Valuation and Review, Vermont Department of Taxes
Jon Mowry, Vermont School Boards Association representative
Tom Vickery, Vermont Assessors and Listers Association representative
Randy Viens, Vermont Assessors and Listers Association representative
Maura Carroll, Executive Director, Vermont League of Cities and Towns (representative)

Tax Department Staff:

Jake Feldman, Research Statistician
Jill Remick, PVR Analyst
Kirby Keeton, Policy Analyst

Per [Act 132 \(H.853\) of 2016](#), a Common Level of Appraisal (CLA) Study Committee has been created to study the use of an aggregate common level of appraisal in a merged school district to determine the statewide education tax for each municipality in that district. “On or before December 15, 2016, the Committee shall submit a written report to the House Committees on Ways and Means and on Education and the Senate Committees on Finance and on Education with its findings and any recommendations for legislative action.”

Overview: What is CLA and Why do we have it?

In 1997 the Vermont Legislature passed Act 60 in an effort to equalize education funding across the state. Before Act 60 was passed, the amount a town could raise to fund its schools was limited by the amount of property value in the town. Because of that, levels of school funding and therefore educational opportunity varied widely across the state. Act 60 shifted education funding to the state level, creating a statewide education property tax rate and a state “Education Fund” to collect the revenue.

This new arrangement of shared education funding responsibility made it necessary to check the accuracy of the town Grand Lists since they are maintained by town listers, not the state. If the Grand List in a town didn’t reflect fair market value, then the town would have ended up sending more or less tax revenue than its fair share to the statewide Education Fund. Since towns don’t reappraise every year, and real estate markets are constantly changing, a correction factor, or “Common Level of Appraisal” was developed to equalize what is paid in education property taxes across towns.

The Common Level of Appraisal (CLA) for every Vermont town is the primary result of the “Equalization Study” performed by the Tax Department every year. The study compares the ratio of Grand List value to sale price for all the arms-length sales in the town over the prior three-year period. The study considers sales price as the best measurement of fair market value. If Grand List values are generally less than sale prices for the recent sales, the town will end up with a CLA less than one hundred percent. If Grand List values are generally more than sale prices for the recent sales, the town will end up with a CLA of more than one hundred percent.

Once the CLA is determined, it is used to adjust the homestead and non-residential education tax rates. The CLA doesn’t change people’s property values, only the education tax rate in a town - an example of *indirect* equalization.

Example: The 2015 equalization study gave the town of Weston a CLA of .9589, indicating that property in the town is generally listed for 95.89% of what it is selling for. The “raw” education tax rate for FY17 in Weston is \$1.5797 (per \$100 of property value) and the non-residential rate is \$1.5350 (per \$100 of property value).

After the CLA is applied Weston’s final homestead education property tax rate will be:
 $\$1.5797 / .9589 = \1.6474 (per \$100 of property value)

After the CLA is applied Weston’s final non-residential education property tax rate will be:
 $\$1.5350 / .9589 = \1.6008 (per \$100 of property value)

The highest CLAs and lowest CLAs for FY17 property taxes (the 2016-2017 property tax year):

Town	CLA	Homestead Ed. Tax Rate	Non-Res Ed. Tax Rate	Last Reappraisal	Town	CLA	Homestead Ed. Tax Rate	Non-Res Ed. Tax Rate	Last Reappraisal
Readsboro	121.70	0.97	1.26	2010	Burlington	84.52	1.72	1.82	2005
Andover	120.59	1.20	1.27	2009	Holland	87.54	1.65	1.75	2006
Pittsfield	117.79	1.61	1.30	2009	Monkton	87.74	1.81	1.75	2005
Fair Haven	117.68	1.21	1.30	2009	Newport City	87.78	1.61	1.75	2004
Danby	117.33	1.45	1.31	2006	Waterville	88.35	1.82	1.74	2010
Grafton	116.69	1.21	1.32	2009	Barre Town	89.36	1.41	1.72	2004
Leicester	115.88	1.26	1.32	2012	Williamstown	89.65	1.60	1.71	2005
Chester	115.87	1.26	1.32	2008	Hinesburg	90.31	1.68	1.70	2006
Clarendon	115.70	1.32	1.33	2009	Bristol	91.85	1.70	1.67	2005
Tunbridge	114.93	1.38	1.34	2010	Middlebury	92.08	1.81	1.67	2005

How could the CLAs of neighboring towns be aggregated?

With some exceptions, most towns still have their own school district with its own board, its own schools, and its own per-pupil spending which determines its own tax rate. Act 46 was passed to encourage those towns to merge with their neighbors into a single district with one board that is responsible for the education of all PreK-12 students in the merged district. If they do merge, the merged district’s per-pupil spending is what determines the common tax rate for *all* the towns in the district which would all be identical if it wasn’t for the CLA adjustment. This situation can cause confusion and consternation for school board officials and taxpayers in the merged district.

Here’s an example from a group of towns that voted to form a type of merged district called a “Regional Education District” (RED) in 2012. In this merger the towns of Londonderry, Landgrove, Peru and Weston voted to unite and form the Mountain Towns RED. Instead of individual town tax rates, all four towns got the same base rate starting in FY14, but the rate taxpayers actually end up paying in the four towns ends up being different because it’s adjusted by the CLA of the town. To illustrate this point, here’s what those four towns will see for rates in FY17:

Town	FY17 District Ed. Tax Rate	FY17 CLA	Homestead Ed. Tax Rate	Non-Res Ed. Tax Rate
Landgrove	1.58	101.54	1.56	1.51
Londonderry	1.58	100.86	1.57	1.52
Peru	1.58	98.83	1.60	1.55
Weston	1.58	95.89	1.65	1.60

Weston’s tax rates end up being nine cents higher than Landgrove’s because of the CLA. That nine-cent difference translates to an extra \$225 per year in property taxes on a \$250k house. The CLAs in these four towns aren’t that far apart (CLAs can range from .80 to more than 1.20). The five towns that make up the Addison Northeast Supervisory Union are considering merging into a single district and there’s an even wider CLA difference there: from a high of 104.27 in Lincoln to a low of 87.74 in Monkton. If they do merge, a CLA difference that big would mean a tax rate difference of 30 cents between Lincoln and Monkton, which translates into a \$750 difference in property taxes on a \$250k house.

There are many ways the CLAs of merging towns could be aggregated, each with its own advantages and disadvantages. One straightforward way is to simply treat the towns that merge as a single town for the purposes of the equalization study. In fact, this is how the unified towns and gores of Essex County (Warren Gore, Avery's Gore, Averill, and Lewis) are currently treated; the only towns that are treated this way. The parameters of this arrangement are laid out in statute: "...the unified towns and gores of Essex County may be treated as one municipality for the purpose of determining an equalized education property grand list and a coefficient of dispersion if the Director determines that all such entities have a uniform appraisal schedule and uniform appraisal practices." (32V.S.A. § 5405a).

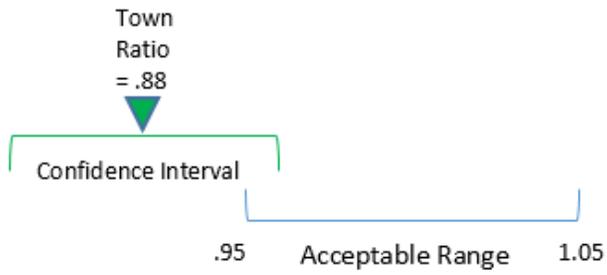
Statute does not specifically prescribe the statistical methods used to determine a town's CLA, saying only, "Any determination of fair market value made by the Commissioner under this section shall be based upon such methods, as in the judgment of the Commissioner, and in view of the resources available for that purpose, shall be appropriate to support that determination" (32V.S.A. § 5405d). The methods used by the department follow the best industry practices as laid out in the International Association of Assessing Officers (IAAO) "Standard on Ratio Studies." Vermont is extremely consistent with these practices, except in cases where adopting an IAAO standard would make the Vermont study unnecessarily complex or greatly add to year-to-year CLA volatility.

One possibility

One notable area of departure from IAAO standards relevant to any conversation about aggregating CLAs is that for indirect equalization (what Vermont does), the IAAO standards recommend that the only time equalization should occur (CLA actually gets applied) is when the confidence interval for a ratio does not overlap at all with the interval from 95% to 105%, i.e. the true ratio is far from 100% (sections 11.1.2 and 11.1.4). The ratios produced in an equalization study are statistics based on samples and so they naturally have some error associated with them (because a sample is only a portion of the total population). Using the error estimate, a statistician creates a "confidence interval," that basically says, "I am 95% confident that true ratio is between ____ and ____." The IAAO standards say to only equalize if that interval does not overlap with a 95% to 105% level of appraisal. But Vermont **always** equalizes (applies the CLA). In the case of the Mountain Towns RED cited above, if Vermont followed the IAAO Standards recommendation no CLAs would have been applied and all four towns would have truly shared a common tax rate. In the 2015 study (which affects FY17 tax rates) only 37 towns had a town-wide ratio with a confidence interval that did not overlap 95% to 105%.

The following illustration shows how this policy change would work in practice:

No CLA applied:



CLA applied (full computation done):

