



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

Agency of Administration

December 1, 2010

Governor-Elect Peter Shumlin, President Pro Tempore
Rep. Shap Smith, Speaker of the House
Vermont State House
Montpelier, VT 05633-0004

Dear Governor-Elect Shumlin and Speaker Smith:

This year, the annual requirement of setting the statewide education tax rate, in accord with 32 V.S.A. §5402b, must be placed in the context of targeted savings and efficiencies outlined in Challenges for Change.

Act 146 of the 2010 Legislative session set out the Education Challenge goal of reducing education spending by \$23.2 million in fiscal year 2012 and directed the Commissioner of Education to determine individual budget reduction targets. In early August, the department mailed reduction targets to each supervisory union, supervisory district and the three technical centers. School boards are directed to notify the Commissioner of Education by December 15th whether they will meet their recommended reduction. As it is every year, the amount of property taxes raised to fund education is largely determined by how much schools spend; more spending generally means higher property tax bills.

Assuming all budget reduction targets are met for FY 2012, the estimated surplus in the Education Fund is \$9.58 million in excess of the maximum budget stabilization reserve. Although this large estimated surplus falls just below the target for a full penny rate reduction, it is sufficient to warrant a fractional reduction of 9/10 of a penny to return the surplus to taxpayers. Therefore, under this scenario, I would recommend a reduction in the statewide education property tax rates, from their current level of \$0.86 and \$1.35 to \$0.851 and \$1.341.

However, in light of the uncertainty whether schools will meet targets, I directed staff to consider the budget implications if no schools meet their targets. Under that scenario, the surplus is eliminated entirely and the fund stabilization reserve is reduced to 4.5 percent. That outcome would require me to recommend a freeze at the current tax rates. Even if some, but not all, school boards were able to achieve the targeted budget reductions, the surplus would be inadequate to reduce the rates by a full penny.

Under current law, the General Fund transfer will increase 20 percent in FY 2012. One-time federal recovery funds were used to reduce the General Fund transfer in FY 2010 and FY 2011 along with other reductions enacted by the Legislature. By statute, for the coming fiscal year, the



transfer reverts to the statutory amount based on inflationary growth, which requires an increased commitment of \$60 million, less the General Fund portion of the Education Challenge.

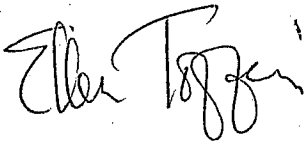
Although outside the scope of my recommendation based on current law, lawmakers should consider the effect on education spending and tax rates from the \$19 million in one-time federal aid recently awarded to Vermont as part of the Education Jobs Fund Program. If this amount were distributed to school districts in 2012 and in combination with the achievement of Challenge for Change targets, statewide tax rates could be reduced by an additional two cents to \$0.831 for the residential rate and \$1.321 for the non-residential rate. If the \$19 million was distributed in lieu of the \$23.2 million Challenges for Change target, statewide tax rates would remain at current levels:

This year the Legislature added additional information requirements to the commissioner's recommendation on the statewide education tax rates. Pursuant to Section 50 of Act 160 of the 2010 legislative session, the FY 2011 year-to-date total amount of education property tax adjustments is \$164,951,664, inclusive of the municipal portion of the homeowner rebate, which is a General Fund appropriation. The percentage of Vermont homesteads receiving an adjustment is 67 percent; the percentage for FY12 is expected to be unchanged. Therefore, I recommend no change in the dollar limitations provided for in 32 V.S.A. §6066.

The department has no data on the number of Vermont households that rent, but the latest data on Vermont from the 2009 American Community Survey (ACS) on occupied units paying rent, coupled with department data on the 2010 year-to-date number of renter rebates results in 20 percent coverage. However, the ACS data includes renter households that probably would not qualify for a renter rebate, e.g., college students who maintain domicile at their parents' home out of state. The ACS data are not updated annually, and therefore any estimate of FY12 is based on the 2009 data. Even with the changes to the renter rebate program included in Act 160, the number of program recipients is expected to change little. Therefore, I recommend no change in the dollar limitations provided for in 32 V.S.A. §6066.

As the Legislature and new administration work together to address these issues, the impact on the education fund balance will need to be carefully watched for FY 2012 and beyond.

Sincerely,



Ellen Tofferi
Acting Commissioner of Taxes