



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

Agency of Administration

November 30, 2017

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:

As required by 32 V.S.A. § 5402b, the Commissioner of Taxes, after consultation with the Agency of Education, the Secretary of Administration and the Joint Fiscal Office, shall forecast a property dollar equivalent yield, an income dollar equivalent yield, and a nonresidential 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) 2019 so that the required analysis could be performed. Many thanks go to the indispensable 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 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 percent; and
4. The percentage change in the median education tax bill applied to nonresidential property, homestead property, and taxpayers who claim a property tax adjustment is the same for all three types of payers.



The yields and non-residential rate that follow would support all forecasted FY19 education fund uses and restore the statutory reserves under 16 V.S.A. §4026 to five percent. Additionally, the percentage change in the median bills for non-residential property, homestead property, and those who claim an adjustment¹ under 32 V.S.A. §6066(a) is projected to be equal under these yields and the non-residential rate.

Homestead Yields and NR Rate	FY2018 (for comparison)	FY2019
Homestead Property	\$10,160	\$9,842
Income	\$11,990	\$11,862
Non-Residential Property	\$1.535	\$1.629

Average Rates

If the forecasted yields and rates in this letter were adopted, the average 2018-2019 (FY2019) property tax rates would be as follows:

	FY2018 (for comparison)	FY2019
Homestead Property	\$1.50	\$1.594
Income	2.55%	2.65%
Non-Residential Property	\$1.535	\$1.629

To put this into perspective, education property tax on a \$250,000 homestead would increase by an average of \$235. Those paying based on income would see a similar proportional increase.

Education Spending Growth

Total education spending is forecast to grow even as the number of pupils declines. On a per-pupil basis, the expected growth in spending is forecast to average about 3.9%.

	FY2018 (for comparison)	FY2019	Rate of Growth
Total Education Spending (\$Millions)	\$1,348.4	\$1,395.9	3.52%
Equalized Pupil Count	87,745	87,427	-0.36%
Average Per Pupil Spending	\$15,367	\$15,966	3.9%

¹ Those who claim an adjustment will pay FY19 taxes based on their 2018 household income. Economists for the legislature and administration provided consensus 2017 and 2018 household income growth factors for this analysis.

Education Funding Considerations

The projections in this letter are based on historical growth trends, historical pass/fail rates for local budgets, and district-level information available as of November 2017. The 3.52% overall growth in education spending is not inevitable, however, and of course will be influenced by decisions at the local level.

On November 15, Governor Scott sent a letter to education leaders urging districts to limit their growth in per pupil spending to 2.5 percent. The Governor's letter, in part, was to communicate early in the school budgeting process the projected shortfall in the education fund for FY 19 and the compounded impact on tax rates of per pupil spending growing faster than the economy or wages. If no districts exceed 2.5% per-pupil spending growth in the budgets that are currently under development, the average increase in property taxes could be at least 3 cents lower than what is presented above.

While well understood by school boards, here is some additional education funding information that Vermonters should keep in mind as we encounter a challenging landscape for FY19:

- Local homestead education tax rate is determined by a district's per-pupil spending, not its total education spending
- Those who pay based on income² will see the same (proportional) impact on their tax bills as those who pay based on property
- While the statewide homestead education property tax rate is ultimately driven by aggregate statewide spending, locally-voted spending amounts remain the primary determinant of a town's tax rate. For instance, in an average district, holding per pupil spending level could mitigate most of the projected 9 cent rate increase.

Please see the Department of Taxes' website for additional tax rate computation resources.

² Unless their household income is under \$47,000, in which case statutory caps on total property taxes including municipal taxes may apply. 32 V.S.A. § 6066.

As we continue to lose an average of three students from our schools every single day, this rate increase is a sobering indication that the cost of our education system will not adjust to our demographic trajectory absent other efforts and interventions.

I'd like to emphasize again that these projections are the product of a statutorily prescribed process and are not imminent. I look forward to working with you in the upcoming legislative session on common sense solutions to the challenges we all face.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Kaj Samsom', with a stylized flourish at the end.

Kaj Samsom
Commissioner, Department of Taxes

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