



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

Agency of Administration

December 1, 2022

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

Dear Speaker Krowinski and President Pro Tempore Balint:

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 2024 (FY24) so that the required analysis could be performed.

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 average education tax bill applied to homestead property, non-homestead property, and taxpayers who claim a property tax credit is the same.

The values in the FY24 column in the following table satisfy the statutorily mandated parameters of the recommendation. As required by statute, the FY24 column assumes the nearly \$64 million in forecasted unreserved/unallocated funds from FY23 are applied towards lowering FY24 property tax rates. Taxpayers would see an average increase of 3.7% in their education tax liabilities if these yields and non-homestead rate were adopted. If the projected FY23 reserve were not applied to lowering FY24 tax rates, taxpayers would see an average increase of 8.3%.



	FY23 (for comparison)	FY24
Homestead Property Yield	\$13,314	\$15,479
Income Yield	\$15,948	\$17,600
Non-homestead Property	\$1.466	\$1.386

Average Homestead Rates

If the forecasted yields and rate in the table above were adopted, the average 2023-2024 (FY24) education tax rate for resident households would be as indicated in the table below. Equalized property rates are before the adjustment factor for the town level of appraisal.

	FY23 (for comparison)	FY24
Average Homestead Rate (equalized)	\$1.38	\$1.31
Average Income Rate	2.31%	2.31%

Average Actual Property Tax Rates

The average actual 2023-2024 (FY24) education property tax rates would be as indicated in the table below. Actual property rates are what taxpayers see on their bills and reflect both the voted school budget and the adjustment factor for the town level of appraisal.

	FY23 (for comparison)	FY24
Average Homestead Rate	\$1.50	\$1.57
Average Non-homestead Rate	\$1.57	\$1.64

Education Spending Growth

	FY23 (for comparison)	FY24	Rate of Growth
Total Education Spending (\$Millions)	\$1,576.7	\$1,711.0	8.52%
Equalized Pupil Count	85,813	84,890	-1.08%
Average Equalized Per Pupil Spending	\$18,373	\$20,155	9.70%

The forecasted year over year rate of growth in education spending of 8.52% would be substantially higher than the actual rate of growth over the last several fiscal years.

	FY18	FY19	FY20	FY21	FY22	FY23	FY24
Ed. Spending (\$Millions)	1,348.5	1,371.4	1,426.2	1,482.0	1,496.6	1,576.7	1,711.0
Rate of Growth	3.40%	1.70%	4.00%	3.91%	0.99%	5.35%	8.52%

Key Considerations from the Administration's Point of View

This forecast is calculated as prescribed in statute and with the information that is available to date. Because of this, there are always variables or uncertainties that might result in a different outcome than what is forecasted. I extend my appreciation to the teams at the Department of Taxes, Agency of Education, Department of Finance and Management, and Joint Fiscal Office for collaborating on the extensive and complex work to gather and analyze the data that is required to publish this forecast.

This letter forecasts equalized Homestead rates to drop from \$1.38 to \$1.31, which on the surface would appear to be great news. However, this drop in equalized rates does **not** tell the entire story, and the Common Level of Appraisal, Education Fund surplus, and projected growth in education spending (all detailed below) should be considerations for policymakers and voters this coming year. In fact, **despite the projected decline in equalized rates, and the fact that we have a sizable surplus which is statutorily required to reduce rate pressure in this letter, taxpayers should expect that if the yields calculated from the forecast come into effect, they will still pay, on average, close to four percent more in their property tax bills this year. If the surplus were not used to buy down rates at all, taxpayers would see an average increase of over eight percent in this year's property tax bills.**

- **Common Level of Appraisal:** The equalized property tax rate is adjusted by the Common Level of Appraisal (CLA) in each town, which helps ensure uniform property values around the state. When fair market property values increase in a town, it decreases the town's CLA, which causes the town's tax rate on bills to increase. Because of the increases in value in real estate in Vermont over the last couple of years, the CLA has been reduced significantly in many communities across the state, and the actual tax bills taxpayers see in those communities may be higher than what is indicated by the average equalized rate forecasted in this letter. Property value appreciation, on top of higher-than-normal school spending growth, are the main reasons the average property tax bill is projected to increase by 3.7 percent.
- **Surplus:** Statute requires for the forecasted calculation of tax rates, the entirety of any Education Fund surplus is used to "buy down" the forecasted property tax rate, and this year the letter projects a surplus of over \$63 million, which buys down equalized rates approximately six cents. While this projected surplus is significantly lower than the never-before-seen surplus of over \$95 million from last fiscal year, it is still extraordinary considering surpluses were generally in the \$10-15 million range prior to FY22. For this coming year, even after applying the surplus, the average tax bill is likely to still rise by 3.7 percent. And, as we move forward, it would be prudent to recognize that the substantial surpluses of the last two fiscal years are extraordinary, and not likely to reoccur annually in the future. We should be thoughtful in how we invest them and ensure we do not take them for granted as a given each year.

The letter this year also projects an 8.5 percent overall growth rate in school spending, essentially double last year's projected growth rate, and it would be higher than any growth rate in at least the last decade. We also know that continued inflationary pressures, policy initiatives such as changes to the pupil weighting formula, and capital maintenance and remediation costs, will continue to create cost pressures for the Education Fund.

Because of all these pressures - including those on Vermont property taxpayers, who are also facing inflationary pressures in a variety of areas - the Administration is eager to work with the Legislature to apply the current projected surplus to reduce property tax rates in FY24. It is important to note, the projected surplus may increase after the January E-Board meeting. Should that additional surplus materialize, the Administration hopes to work with the Legislature to consider other investments that help reduce tax rate increases in the future.

It has been a challenging few years for students and others involved in our education system. We have more change ahead with the pupil weighting formula adjustment coming in fiscal year 2025, so it is important to be thoughtful this year as we set the landscape for a more affordable future. My thanks go out to all of those who dedicate their lives and careers to the education and wellbeing of Vermont's children.

Sincerely,



Craig Bolio
Commissioner, Department of Taxes

cc: Kristin Clouser, Secretary, Agency of Administration
Daniel French, Secretary, Agency of Education
Adam Greshin, Commissioner, Department of Finance and Management
Rep. Janet AnceI
Sen. Ann Cummings
Rep. Kathryn Webb
Sen. Brian Campion
Catherine Benham, Joint Fiscal Office
Jennifer Carbee, Office of Legislative Counsel