



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

Agency of Administration

November 30, 2018

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 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)2020 so that the required analysis could be performed. Many thanks go to the talented staff in both branches who performed this vital 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 average 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.



Applying these statutory assumptions, the yields and non-residential rate in the table below would support all forecasted FY20 education fund uses and maintain the statutory reserves under 16 V.S.A. §4026 at five percent. Additionally, the percentage change in the average bills for non-residential property, homestead property, and those who claim an adjustment¹ under 32 V.S.A. §6066(a) are projected to be equal under these yields and non-residential rate.

Homestead Yields and NR Rate	FY2019 (for comparison)	FY2020
Homestead Property	\$10,220	\$10,666
Income	\$12,380	\$13,104
Non-Residential Property	\$1.58	\$1.58

Average Rates

If the forecasted yields and rates in this letter were adopted, the average 2019-2020 (FY2020) equalized property tax rates would be as follows:

	FY2019 (for comparison)	FY2020
Homestead Property	\$1.50	\$1.50
Income	2.49%	2.45%
Non-Residential Property	\$1.58	\$1.58

It is important to note that level rates do not mean bills will stay the same. Although the forecasted rates remain level, the average property tax bill would increase by 1.52% due to projected growth in education spending (3.24%), property values (2.5%) and household income.

Education Spending Growth

Total education spending is forecast to continue to grow while the number of pupils continues to decline. On a per-pupil basis, the expected growth in spending is forecast to be 4.1% on average.

	FY2019 (for comparison)	FY2020	Rate of Growth
Total Education Spending (\$Millions) ²	\$1,371.4	\$1,415.9	3.24%
Equalized Pupil Count ³	88,359	87,621	-0.84%
Average Equalized Per Pupil Spending	\$15,520	\$16,159	4.1%

¹ Those who claim an adjustment will pay FY20 taxes based on their 2019 household income

² Total education spending for property tax rate purposes as defined by 16 V.S.A. § 4001 (6)

³ "Equalized pupils" is a weighted number. Actual student enrollment is lower.

Other Considerations

This forecast is calculated as prescribed in statute with the information available to date. There are always variables, concerns and opportunities to consider when we look beyond the prescribed forecast above. In addition to the thoughts shared below, an information sheet with some fiscal facts from the education fund and our financing system is attached. I think you will find these facts thought-provoking and perhaps enlightening.

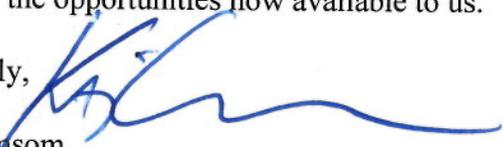
As noted above, this forecast assumes 3.24% growth in education spending in conjunction with the loss of over 700 equalized pupils. Notwithstanding the rate stability possible this year, these are not sustainable trends for Vermont taxpayers. The lack of rate pressure this year is best attributed to grand list growth, anticipated one-time carry forward and expected growth in other education fund revenue, such as the sales and use tax and rooms and meals tax.

Act 11 of the 2018 Special Session set the homestead yields and non-residential property tax rate for FY19 prior to the July sales and use tax upgrade that included consideration of the decision by the Supreme Court of the United States in *Wayfair v. South Dakota*. This decision effectively broadened Vermont's sales and use tax base to more e-commerce sales. The Governor has called for transforming Vermont's education continuum from its current K-12 focus to a cradle-to-career system that is the best in the nation. To that end, he has proposed dedicating this windfall revenue to support greater investments in early care and learning initiatives. For FY20, the consensus revenue forecast for *Wayfair*-related revenue is \$6.6 million.

When I wrote this letter last year, we were looking at nearly 10-cents in property tax rate pressure using a similar forecast for education spending growth. However, the hard work of school boards held overall education spending growth to 1.7%. If districts can collectively limit the statewide spending increase to that same 1.7% this year, it would allow for 2.5% per pupil spending growth and still free up over \$21M, which could be used to both lower tax rates and make the crucial investment in our youngest students mentioned above. Said plainly, this year we have an opportunity to both lower the non-residential and average homestead rates and increase investment in our children's early care and learning.

I look forward to working with you in the upcoming legislative session as we work to make the most of the opportunities now available to us.

Sincerely,


Kaj Samsom
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. Janet Ancel
Sen. Ann Cummings
Sen. Philip Baruth
Stephen Klein, Joint Fiscal Office
Luke Martland, Legislative Council