



State of Vermont
OFFICE OF THE GOVERNOR

Components of Governor's Property Tax Relief Plan
January 5, 2006

Strategic Objectives

- ❖ The State must provide property tax relief for Vermont families who are straining under the burden of ever-increasing tax bills.
- ❖ State government and local school districts must work to enhance local control and give real power back to local voters and school boards.
- ❖ State government and local school districts must keep school spending and property tax burdens at sustainable levels.

Background

- Rising spending, soaring taxes, shrinking enrollment

- ❖ Education Fund spending has grown by 6% annually since 1999 and is projected to grow by over 8% in 2007. High rates of spending have caused property taxes to increase at a nearly 8% since 1999 and are projected to rise by 11% in 2007. These increases have occurred despite an 8% reduction in school enrollment.
- ❖ Such growth rates are extraordinarily high and unsustainable. Vermont's economy is only growing at a 4.7% rate and inflation is running at a 3.5% rate. Vermont's taxpayers and economy cannot sustain an education spending growth rate that is 75% greater than the growth rate of Vermont's economy.
- ❖ Vermont's schools are well funded. Our pupil to teacher ratio is the best in the nation at 10.9, a level 31% more favorable than the national average. Our spending per pupil ranks 5th in the nation at 10,630, or 30% higher than the national average.

Property Tax Relief Through More Community Control

- Create an "Affordability Zone" for School Budget Approvals

- ❖ The State needs to help voters control property tax growth that is rising at an unsustainable rate.
- ❖ If voters keep school spending within the "Affordability Zone", statewide education tax rates can be lowered by 4 cents, to \$.98 residential and \$1.47 non-residential in 2007. Further, in 2008, the rates can be lowered an additional 10 cents, to \$.88 for residential and \$1.37 for non-residential.

- ❖ For fiscal year 2008, a school district budget greater than 4.5% will require a 60% voter approval level.
- ❖ For fiscal year 2009 and beyond, the state and local government inflation index (approximately 3.5%) shall be used as the benchmark for requiring a 60% voter approval level.

Lowering Statewide Property Tax Rates Through Reforms in the Prebate Program

- Close loopholes and reconnect voters to tax bills

- ❖ Close loopholes that allow relatively wealthy households to access prebates and rebates by capping prebates at \$4,000 and rebates at \$6,000 (inclusive of any prebate) unless non-housesite assets are below \$300,000.
- ❖ Fix the percentage of income associated with prebates at 2%
 - This provision passed the Senate last session and is recommended by the Summer Study Committee on Income Sensitivity.
- ❖ Limit prebates to an amount based on the average statewide per pupil spending level
 - Property tax payers in school districts with below average spending support high prebates in school districts with high spending per pupil. Given that Vermont's average spending per pupil is among the highest in the nation, it is not necessary to subsidize spending levels above the average.
- ❖ Rescind the expansion of income sensitivity to incomes greater than \$75,000
 - This expansion is expensive for all taxpayers. It is better to keep statewide property taxes lower for all property tax payers rather than expand the subsidy to this relatively upper income group.
 - But for the \$6,000 cap, those Vermonters eligible for rebates will not be affected.

Common Level of Appraisal (CLA) Cap

- Temper rapid changes in tax burdens due to rapid increases in property values

- ❖ Dramatic increases in property values result in similar changes in local CLA's and resulting tax burdens. For districts not experiencing a reappraisal in the prior year, CLA's will be capped at the level of increase at the 90th percentile of rank ordered CLA increases.

Enhanced Voter Awareness and Involvement in School Spending Decisions

- Add transparency and enhance community involvement in budget process

- ❖ Each year, prior to school budget votes, the Department of Education will publish comparative data regarding teacher pupil ratios, spending per pupil, spending per capita and the relationship of spending to student outcomes.

- ❖ The Department of Education will develop a best practices manual and model contract language that both supports school quality and encourages cost containment.
- ❖ Prior to engaging in contract negotiations, school districts and/or supervisory unions will develop Strategic Outcomes for negotiations that shall be subject to public input and comment. Issues to be addressed include the incomes and income growth of district voters, desired outcomes relative to teacher/pupil ratios and per pupil spending, and the implementation of best practices and model contract language, among others
- ❖ In addition to contract imposition and binding arbitration, school boards and union negotiators may agree to take contract differences to a binding vote of the voters.

Tax Equity for Working Farms

- ❖ Beginning in fiscal 2008, farmland owned by farmers who meet the 50% income test will be exempt from school property tax.
 - With the passage of Act 60, fixed assets such as machinery and equipment were eliminated from the property tax base, saving business owners \$23 million. Farmers fixed assets are substantially land resources, thus they could not benefit substantially from the elimination of the machinery and equipment tax. Farmers will still be required to pay school property taxes on their house site.
 - Approximately 1,700 farmers will receive an average benefit of \$3,500.

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