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

Agency of Administration

November 30, 2023

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

Dear Speaker Krowinski and President Pro Tempore Baruth:

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 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. 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 2025 (FY25) so that the required analysis could be performed. I extend my thanks to the collaborative multi-agency team who gathered and analyzed the data to be able to publish this forecast.

5402b(a)(2) Mandated Forecast

In the 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 FY25 column in the following table satisfy the mandated parameters of the recommendation. As required by statute, the FY25 column assumes the nearly $24 million in forecasted unreserved/unallocated funds from FY24 as well as $13 million that was reserved in Sec. 2 of Act 52 of 2023 are applied towards offsetting FY25 property tax rate increases. Taxpayers would still see an average increase of 18.5% in their education tax liabilities if these yields and non-homestead rate were adopted.

	FY24 (for comparison)	FY25
Homestead Property Yield	$15,443	**$9,452**
Income Yield[1]	$17,537	**$10,300**
Non-homestead Property	$1.391	**$1.442**

Please note the significant decrease in the homestead property and income yields from FY24 to FY25. A large part of that decrease is driven by the new pupil weighting formula. That formula not only changes the weights, but it also stops using equalized pupils as the pupil count for the tax rate calculation and uses long-term weighted average daily membership ("LTWADM") instead. Because LTWADM is a much larger number than equalized pupils, district per pupil spending amounts will be much lower than last year. For that reason, the yield needs to be lowered to raise enough revenue for the Education fund.

Average Homestead Rates

If the forecasted yields and rate in the table above were adopted, the average 2024-2025 (FY25) 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.

	FY24 (for comparison)	FY25
Average Homestead Rate (equalized)[2]	$1.31	**$1.36**
Average Income Rate	2.33%	**2.67%**

Average Actual Property Tax Rates

The average actual 2024-2025 (FY25) 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 locally voted school budget (for the homestead rate) and the adjustment factor for the town level of appraisal.

	FY24 (for comparison)	FY25
Average Homestead Rate[2]	$1.54	**$1.80**
Average Non-homestead Rate	$1.60	**$1.86**

[1] Income yield and rates are calculated without regard to the 5% rate cap limitation in Act 127

[2] Homestead rates do reflect the 5% district level cap limitation in Act 127

Education Spending Growth

On a per-pupil basis, the expected growth in spending is forecast to be 12.8%, on average.

	FY24 (for comparison)	FY25	Rate of Growth
Total Education Spending ($Millions)	$1,709.7	$1,915.0	12.01%
Long Term Average Daily Membership[3]	84,009	83,433	-0.68%
Average Per Pupil Spending	$20,351	$22,953	12.8%

Key Considerations from the Administration's Point of View

For Vermonters and policymakers concerned about property taxes, housing affordability, or overall tax burden, this letter should sound a major alarm.

Even applying a projected $37 million surplus (including $13 million set aside from last year's surplus) to help offset rates this year in the Education Fund, **this forecast indicates average property tax bills will increase by approximately 18.5 percent for FY25.** Without the surplus, average property tax bills would be projected to increase by about 20 percent.

It is driven predominately by an estimated 12% increase in school spending. Information gathered by the Agency of Education in its survey of school districts indicates this estimated increase in school spending can primarily be attributed to:

1. The ending of one-time Federal ESSER funds – Many districts used those one-time funds to add new services and personnel to recover from the pandemic. A large portion of those districts believe these services continue to be necessary. That requires replacing those one-time federal dollars with state education funds.

2. A 16%+ increase in health care benefits – The vast majority of school employees receive health benefits. An increase of that magnitude in the cost of those benefits is approximately 3% in overall education spending for a district alone.

3. Overall inflation increasing the price of operating, living, and working in Vermont – fuel, electricity, buses, equipment, supplies, etc.

4. Debt service to new capital projects or renovations – Vermont's aging fleet of schools is becoming more expensive to maintain and repair as they continue to age.

[3] Long Term Average Daily membership is an unweighted count of students. This figure is comparable to "equalized pupils," which was used to calculate per pupil spending and tax rates prior to Act 127 of 2022. Starting in FY25, long term weighted average daily membership will be used for calculating per pupil spending and tax rates.

For comparison, between FY19-22, the highest single year rate of growth in actual education spending was 4%. In FY23, we saw an increase in education spending of 5.35%. Last year in the December 1 letter, school spending was projected to increase by 8.5%, and increased by 8.44%.

	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Ed. Spending ($Millions)	1,371.4	1,426.2	1,482.0	1,496.6	1,576.7	1,709.7	1,915.0
Rate of Growth	1.70%	4.00%	3.91%	0.98%	5.35%	8.44%	12.01%

Last year's prediction of an 8.5% increase rightfully generated affordability concerns among policymakers. Offsetting such increases in school spending over the last two fiscal years, however, were unprecedented $78 million and $137 million surpluses in the Education Fund, respectively. In last year's December 1 letter, I wrote that such enormous surpluses were extraordinary and therefore could not be taken for granted as a long-term solution to affordability challenges. This year, over the first four months of the fiscal year, the non-property tax Education Fund revenues are tracking close to forecast, and we do not have reason to anticipate a large revenue upgrade at the January Emergency Board meeting. The current trend of increasingly large spending growth while revenues cool is not sustainable.

This year is also the first year of using the new pupil weights from Act 127 of 2022.[4] When Act 127 became law, one of the concerns the Governor and Administration flagged was that the bill would increase overall costs in the Education Fund at a time when other substantial cost pressures were already being placed on it. Certain districts would gain tax capacity (the tax rate for a given level of per pupil spending) because of the pupil reweighting, and they were expected to use it. Meanwhile, those districts that lost tax capacity were not expected to be able to reduce spending enough to offset the new spending in the "winner" districts. Not surprisingly, based on current estimates from the Agency of Education, this dynamic appears to be playing out. In addition, consensus modeling suggests that the majority of school districts are projected to trigger the five percent equalized rate cap put in place to phase-in Act 127's reweighting impacts, which may have further education spending ramifications going forward.

If the forecasts in this letter come to pass, the property taxes on a $250,000 home would increase by about $650 next year. The increase in the non-homestead rate will likely put upward pressure on rents as well. Keep in mind that most taxpayers who get an income-based credit pay an income rate that moves proportionally with property tax rates, and all credits applied to FY25 tax bills are based on prior year income and taxes paid. Because of this lag in property tax credits, all Vermont property taxpayers would experience the increases forecast in this letter in FY25 should it come to pass – regardless of income.

The Governor has long been concerned about Vermont's demographics. Among the most significant impediments to reversing our demographic trends is access to quality, affordable homes for working families. While this is an issue that the Administration and Legislature have discussed before, the Administration recently highlighted for the Joint Fiscal Committee the

[4] More information about pupil weights and the impacts of Act 127 are available in this issue brief from the Joint Fiscal Office

scope of the housing unit gap Vermont is experiencing, and Secretary Kurrle and Secretary Samuelson have outlined the Administration's perspective on how to move forward.

Coupling a historically unaffordable housing market with an 18.5% average property tax increase will only worsen the housing affordability problem for Vermonters. At a time when residents are paying more for everything, the Governor has tasked the Administration with working with the Legislature to address our housing affordability problems and to find ways to restore sustainable growth and transparency in the Education Fund.

Sincerely,

Craig Bolio
Commissioner, Department of Taxes

cc: Kristin Clouser, Secretary, Agency of Administration
Heather Bouchey, Secretary, Agency of Education
Adam Greshin, Commissioner, Department of Finance and Management
Rep. Emilie Kornheiser
Sen. Ann Cummings
Rep. Peter Conlon
Sen. Brian Campion
Catherine Benham, Joint Fiscal Office
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