

VDT Testimony on H. 887 the “Yield Bill”

Senate Committee on Finance 05/02/2024

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Yield Bill Section by Section

Section 1: The Commission on the Future of Public Education

- 23 members
- Can it achieve its goals?
- Is it realistic that the group will get to consensus?
- Larger focus on education policy than education *finance* policy

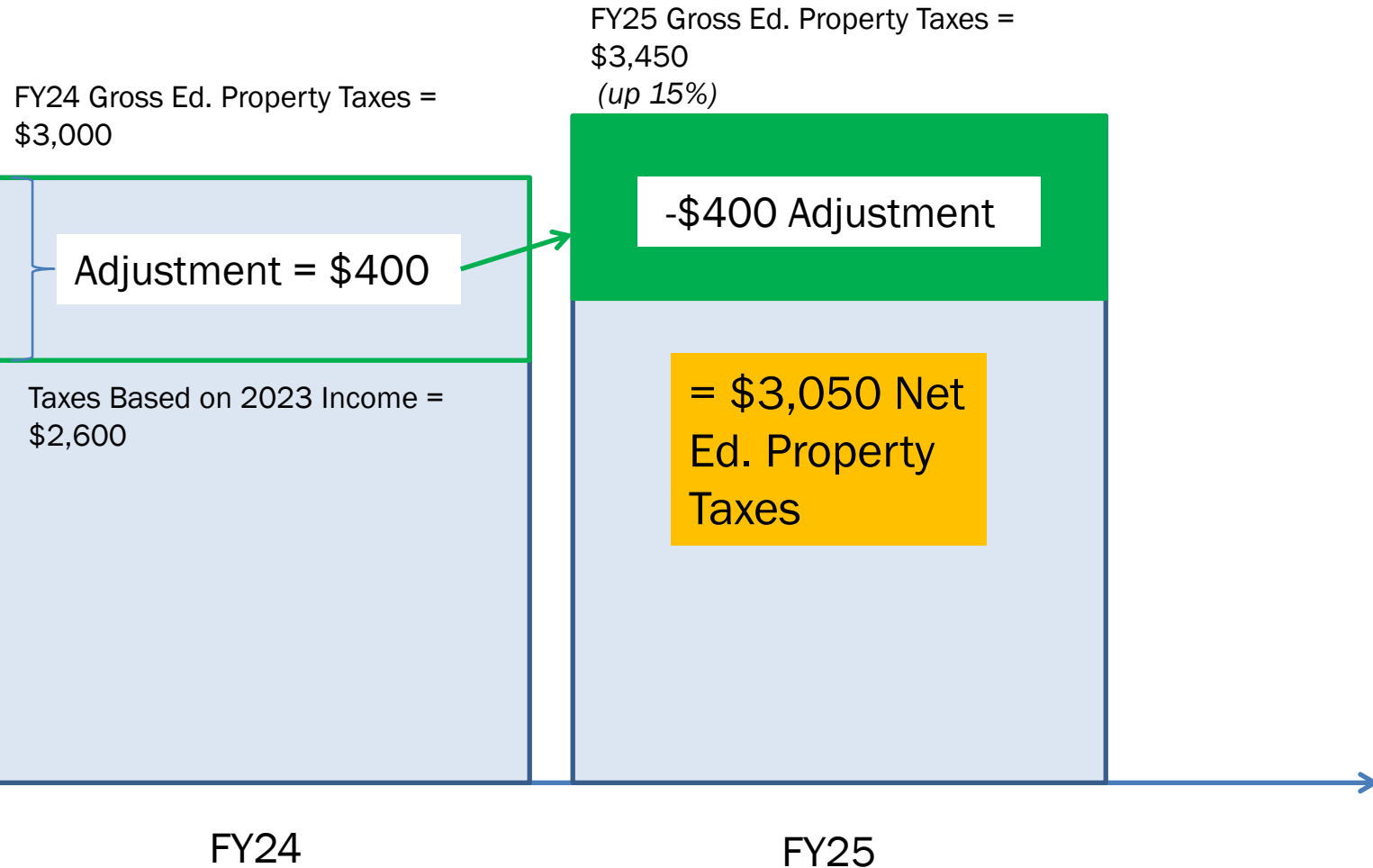
Yield Bill Section by Section

Section 2: FY25 one-time property tax credit bump of 14.97%

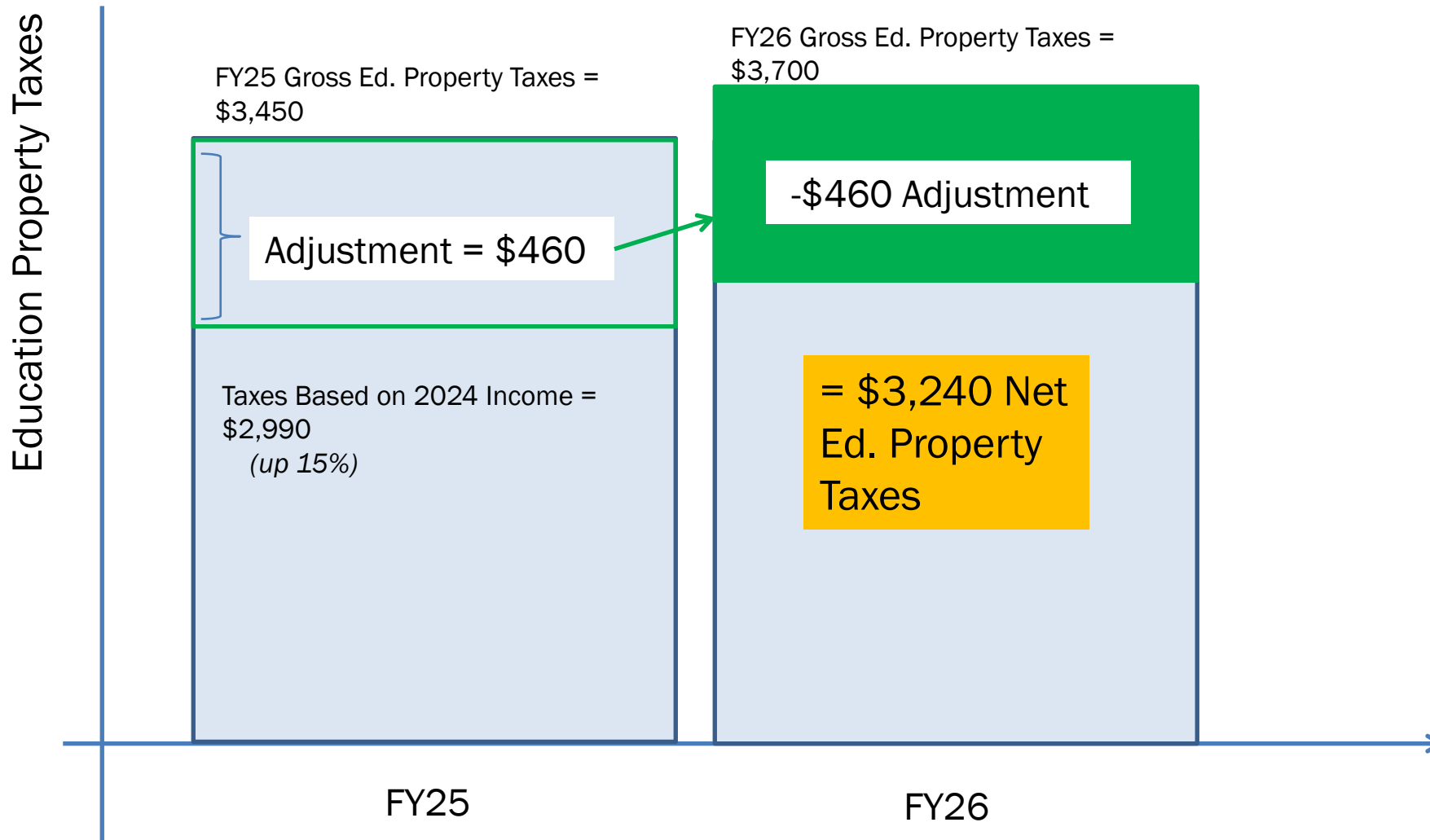
(4)(A) For bills issued for fiscal year 2025, the Commissioner of Taxes shall increase the property tax credit determined pursuant to 32 V.S.A. § 6066a by 14.97 percent for each claimant.

Property Tax Credit Lag - Example

Education Property Taxes



Property Tax Credit Lag Example (Cont.)



Yield Bill Section by Section

- Section 2: One-time property tax credit bump of 14.97%
- This is not an overall reduction in property taxes
- It shifts costs from homeowners to long term renters and businesses
- Will the Legislature start adjusting the PTC more frequently?
- Technical questions:
 - Is this intended to be just for the Ed portion of PTC, or Muni too? (GF Impact)
 - Is this language intended to increase the PTC cap? (\$5600 Ed, \$2400 Muni)

Yield Bill Section by Section

Section 9: Ballot Language please add →

The _____ District estimates that this proposed budget, if approved, will result in per pupil education spending of \$_____, which is _____% higher/lower than per pupil education spending for the current year. School district tax rates are based on per pupil spending.

Yield Bill Section by Section

Section 11: Education Advisory Committee

- 12-member committee, 10-year sunset with an annual Dec 15 requirement (Tax is just wrapping from the December 1 letter workflow)
- Concerns about the capacity and expertise to do things like updated weights. Act 127 already calls on AOE & JFO to do this every 5 years.
- What happens if the group can't get to consensus?

Yield Bill Section by Section

Section 13: CLA change “statewide adjustment”

- Not obvious to all stakeholders how CLA impacts the yield
- This adjustment doesn’t change the distribution of which town pays how much
- But does reduce the yield if statewide CLA is moving down

- In a more “normal” housing market, the change is less impactful
 - Yield might go up if statewide CLA is going up
- Adds complexity to a complex concept

- Either way: Tax is taking some steps to try to increase transparency with CLA

Yield Bill Section by Section

Section 18: Excess Spending Threshold

- Excess spending threshold currently suspended, has been since FY2022, and would continue to be suspended until 2029 without this change
- Prior version of excess spending threshold impacted about 10% of districts (about a dozen)
- Don't expect a significant change in the number of districts impacted under this proposal
- One of the few “bright lines” for cost containment in the Ed Fund

Yield Bill Section by Section

Section 21: Property Tax Credit Study

- Happy to talk about ways to improve PTCs
- Asset declaration challenges
 - How do we verify?
 - How do you value private assets?

High-Level Considerations on Ed Finance

The system is way too complicated

- Excess spending threshold
- Income sensitivity
- Circuit breaker
- Common level of appraisal
- Weighted long-term average daily membership
- Income dollar equivalent yield

Who believes voters have a fair shot at understanding all of these?

High Level Considerations on Ed Finance

- Nearly impossible to tell somebody who is income sensitized what will happen to their taxes based on their vote.
- Yield timing
- How can anybody think it's fair if nobody can understand it?

High Level Considerations on Education Fund

Incentive problems with the formula

- If you spend above average, you shift more spending to others, if you spend below average you have more of other's spending shifted to you
 - If you level spend and everybody else spends more (all else held equal), you pay more
- 75% of Ed Fund revenue is *not* homestead property taxes
 - Almost no districts fully pay for an additional dollar of spending with their HSD base
 - Easiest way to tap into more of that revenue is spend another \$1
- Not every district is actively trying to take advantage of this, but the “tragedy of the commons” can create upward pressure on spending

What Does the Governor Want Done?

- FY25 relief
- Short-term cost containment
- Long-term funding formula reform
- Reforms to address actual cost pressures for districts
- Build houses

Raising Taxes Without Reform

- Raising new tax revenues in place of property taxes doesn't necessarily reduce the overall tax burden on Vermonters
- It *does* reduce the statewide taxing capacity for non-property tax revenues
- New ongoing revenue might stop us from having the difficult discussions we need to have about sustainability in the Education Fund
- Historical "normal" education spending growth has been 3-4% but FY23 was 5.34%, FY24 was 8.43%, and FY25 is forecasted to be 10.7%. What happens next year if this trend doesn't reverse?
- Governor generally opposes tax and fee increases