

1 Introduced by Committee on Ways and Means

2 Date:

3 Subject: Taxation; statewide education property tax; rates

4 Statement of purpose of bill as introduced:

5 This bill proposes to establish the statewide education tax base rates and
6 base education amount for fiscal year 2015. The bill also requires that the
7 Commissioner of Taxes, when formulating his or her rate recommendations
8 under statute for fiscal year 2016 and after, assume that the applicable
9 percentage base for the purpose of calculating income sensitivity is 1.94.

10 The bill also makes several changes to Vermont's education financing laws.
11 It requires that school budgets be voted in a form that provides information
12 about how spending and rates are linked. It alters the way average daily
13 membership is calculated by eliminating a provision that increased the
14 counting of pupils for fast growing schools. The bill adds language that,
15 starting in fiscal year 2019, eliminates small school support grants over three
16 years, except for geographically necessary schools. It alters the taxation of
17 municipally owned lakeshore property in another town so that the hosting
18 municipality can vote to exempt such property. The bill allows a homestead to
19 be rented for part of the year. The bill anchors excess spending increases to
20 inflation in a set year, as opposed to current law which ties the increase to the
21 previous year's spending. The bill lowers the calculation of allocable rent for

1 purposes of the renter rebate, and requires a report on how best to support
2 renters in Vermont. The bill extends the slope for people who phase out of
3 receiving income sensitivity payments, and it reduces the total cap on income
4 sensitivity payments from \$8,000.00 to \$6,000.00 for households that do not
5 have a member 65 years of age or older. The bill also requires that one-third of
6 any unreserved surplus over forecast be transferred to the Education Fund, and
7 requires the Emergency Board to determine how much of that amount can be
8 sustainably added to the General Fund transfer in the next year. The bill
9 provides a payment for the school district in Thetford to compensate that
10 community for an error in its excess spending calculation. It appropriates
11 \$6,000,000.00 from the Supplemental Property Tax Relief Fund to help lower
12 property tax rates. The bill creates a study to examine how a reduction in
13 listed property value affects towns, and the costs to towns of defending
14 property tax appeals. It expresses a commitment by the General Assembly to
15 incorporate an education income tax into the current education financing
16 system. And it requires the Agency of Education to file a report on school
17 tuition practices in Vermont.

18 An act relating to setting the statewide education tax base rates and base
19 education amount for fiscal year 2015 and making several changes to
20 Vermont's education financing laws

21 It is hereby enacted by the General Assembly of the State of Vermont:

1 * * * Statewide Education Property Tax Rates, Base Education
2 Amount, and Applicable Percentage * * *

3 Sec. 1. FISCAL YEAR 2015 EDUCATION PROPERTY TAX RATES AND
4 APPLICABLE PERCENTAGE

5 (a) For fiscal year 2015 only, the education property tax imposed under
6 32 V.S.A. § 5402(a) shall be reduced from the rates of \$1.59 and \$1.10 and
7 shall instead be at the following rates:

8 (1) the tax rate for nonresidential property shall be \$1.515 per
9 \$100.00; and

10 (2) the tax rate for homestead property shall be \$0.98 multiplied by the
11 district spending adjustment for the municipality per \$100.00 of equalized
12 property value as most recently determined under 32 V.S.A. § 5405.

13 (b) For claims filed in 2014 only, “applicable percentage” in 32 V.S.A.
14 § 6066(a)(2) shall be reduced from 2.0 percent and instead shall be 1.90
15 percent multiplied by the fiscal year 2015 district spending adjustment for the
16 municipality in which the homestead residence is located; but in no event shall
17 the applicable percentage be less than 1.90 percent.

18 Sec. 2. FISCAL YEAR 2015 BASE EDUCATION AMOUNT

19 As provided in 16 V.S.A. § 4011(b), the base education amount for fiscal
20 year 2015 shall be \$9,382.00.

1 ~~adding 80 percent of the actual increase, to a maximum increase of 45~~
2 ~~equalized pupils.~~

3 * * * Education Spending in Small Schools * * *

4 Sec. 6. 16 V.S.A. § 4015 is amended to read:

5 § 4015. SMALL SCHOOL SUPPORT

6 (a) In this section:

7 (1) “Eligible school district” means a school district which operates at
8 least one school, has been determined by the Secretary of Education to be
9 eligible due to geographic necessity; and

10 (A) has a two-year average combined enrollment of fewer than 100
11 students in all the schools operated by the district; or

12 (B) has an average grade size of 20 or fewer.

13 * * *

14 (7) “Eligible due to geographic necessity” means that the Secretary of
15 Education has determined, on an annual basis, that the driving times, distances,
16 and travel routes are an obstacle to transporting students, consistent with the
17 methodology used by the Secretary in response to 2009 Acts and Resolves
18 No. 153, Sec. 21(1). A determination by the Secretary of eligibility due to
19 geographic necessity under this section shall be final.

20 * * *

1 Sec. 7. EDUCATION SPENDING IN SMALL SCHOOLS

2 Notwithstanding 16 V.S.A. § 4015, for fiscal year 2019, any school that was
3 eligible for small school support of its education spending under 16 V.S.A.
4 § 4015 in fiscal year 2018 but is not eligible in 2019 because the school is not
5 eligible due to geographic necessity shall, upon application, receive small
6 school support that is two-thirds of the support it received in fiscal year 2018.
7 Notwithstanding 16 V.S.A. § 4015, for fiscal year 2020, any school that was
8 eligible for small school support of its education spending under 16 V.S.A.
9 § 4015 in fiscal year 2018 but is not eligible for a small school grant in 2020
10 because the school is not eligible due to geographic necessity shall, upon
11 application, receive small school support that is one-third of the support it
12 received in fiscal year 2018.

13 * * * Municipally Owned Lakeshore Property * * *

14 Sec. 8. 32 V.S.A. § 3839 is added to read:

15 § 3839. MUNICIPALLY OWNED LAKESHORE PROPERTY

16 (a) Notwithstanding section 3659 of this title, a town may vote to exempt
17 from its municipal taxes, in whole or in part, any parcel of land, but not
18 buildings, that provides public access to public waters, as defined in 10 V.S.A.
19 § 1422(6), and that is also:

20 (1) owned by the Town of Hardwick, and located in Greensboro,
21 Vermont; or

1 (2) owned by the Town of Thetford, and located in Fairlee and West
2 Fairlee, Vermont.

3 (b) An exemption voted by a town under subsection (a) of this section shall
4 be for up to ten years. Upon the expiration of the exemption, a town may vote
5 additional periods of exemption not exceeding five years each.

6 Sec. 9. 32 V.S.A. § 5401(10)(K) is added to read:

7 (K) Any parcel of land, but not buildings, that provides public access to
8 public waters, as defined in 10 V.S.A. § 1422(6), and that is also:

9 (i) owned by the Town of Hardwick, and located in Greensboro,
10 Vermont; or

11 (ii) owned by the Town of Thetford, and located in Fairlee and West
12 Fairlee, Vermont.

13 * * * Occupancy of a Homestead * * *

14 Sec. 10. 32 V.S.A. § 5401(7) is amended to read:

15 (7) “Homestead”:

16 (A) “Homestead” means the principal dwelling and parcel of land
17 surrounding the dwelling, owned ~~and occupied~~ by a resident individual as the
18 individual’s domicile for a minimum of 183 days out of the year, or for
19 purposes of the renter property tax adjustment under subsection 6066(b) of this
20 title, rented and occupied by a resident individual as the individual’s domicile.

21 * * *

1 Sec. 12. 2013 Acts and Resolves No. 60, Sec. 2 is amended to read:

2 Sec. 2. 32 V.S.A. § 5401(12) is amended to read:

3 (12) “Excess spending” means:

4 (A) the per-equalized-pupil amount of the district’s education
5 spending, as defined in 16 V.S.A. § 4001(6), plus any amount required to be
6 added from a Capital Construction Reserve Fund under 24 V.S.A. § 2804(b);

7 (B) in excess of ~~123~~ 121 percent of the statewide average district
8 education spending per equalized pupil increased by inflation, as determined
9 by the Secretary of Education on or before November 15 of each year based on
10 the passed budgets to date. As used in this subdivision, “increased by
11 inflation” means increasing the statewide average district education spending
12 per equalized pupil for fiscal year 2014 by the most recent New England
13 Economic Project cumulative price index, as of November 15, for state and
14 local government purchases of goods and services, from fiscal year 2014
15 through the fiscal year for which the amount is being determined.

16 * * * Electrical Generating Plants * * *

17 Sec. 13. 32 V.S.A. § 5402(d) is amended to read:

18 (d) A municipality which has upon its grand list an operating electric
19 generating plant subject to the tax under ~~section 5402a of this chapter~~ chapter
20 215 of this title shall be subject to the nonresidential education property tax at
21 three-quarters of the rate provided in subdivision (a)(1) of this section, as

1 adjusted under section 5402b of this chapter; and shall be subject to the
2 homestead education property tax at three-quarters of the base rate provided in
3 subdivision (a)(2) of this section, as adjusted under section 5402b of this
4 chapter, and multiplied by its district spending adjustment.

5 Sec. 14. EDUCATION TAXES IN VERNON

6 Notwithstanding any other provision of law, for the purposes of 32 V.S.A.
7 § 5402(d), the town of Vernon shall continue to be treated as if its grand list
8 included an operating electric generating plant subject to the tax under
9 32 V.S.A. chapter 215 until the end of fiscal year 2017, and shall be taxed as
10 follows:

11 (1) for fiscal year 2016, the town of Vernon shall be subject to the
12 nonresidential education property tax and the homestead education property
13 tax at 83 percent of the rate as calculated under subsection 5402(a) of this title;

14 (2) for fiscal year 2017, the town of Vernon shall be subject to the
15 nonresidential education property tax and the homestead education property
16 tax at 91 percent of the rate as calculated under subsection 5402(a) of this
17 title; and

18 (3) for fiscal year 2018 and after, the town of Vernon shall be subject to
19 the nonresidential education property tax and the homestead education
20 property tax at 100 percent of the rate as calculated under subsection 5402(a)
21 of this title.

1 low-income renters. Any alternative proposals shall have approximately the
2 same eligibility parameters as the current renter rebate program, shall be
3 structured to deliver comparable results, and shall take into account the portion
4 of rent paid by renters that is attributable to property taxes. The report shall be
5 due on or before January 15, 2015.

6 * * * Income Sensitivity Slope; Housesite Value * * *

7 Sec. 17. 32 V.S.A. § 6066(a) is amended to read:

8 (a) An eligible claimant who owned the homestead on April 1 of the year in
9 which the claim is filed shall be entitled to an adjustment amount determined
10 as follows:

11 (1)(A) For a claimant with household income of \$90,000.00 or more:

12 (i) the statewide education tax rate, multiplied by the equalized
13 value of the housesite in the taxable year;

14 (ii) minus (if less) the sum of:

15 (I) the applicable percentage of household income for the
16 taxable year; plus

17 (II) the statewide education tax rate, multiplied by the
18 equalized value of the housesite in the taxable year in excess of ~~\$200,000.00~~
19 \$250,000.00.

20 * * *

1 legislative authorization. Monies from this Reserve shall be available for
2 appropriation by the General Assembly.

3 (1) The Emergency Board shall, at the end of each fiscal year ~~2013~~,
4 beginning at the end of fiscal year 2015, determine at its July meeting the
5 amount of available general funds that is greater than the amount of forecasted
6 available general funds most recently adopted by the Board for that fiscal year
7 ~~2013~~.

8 (2) Of the amount added to the General Fund Balance Reserve in each
9 fiscal year ~~2013~~, to the extent available, ~~one-half~~ one-third of the amount
10 identified in subdivision (1) of this subsection is hereby appropriated in the
11 fiscal year just concluded for deposit in the ~~Supplemental Property Tax Relief~~
12 ~~Fund established by section 6075 of this title~~ Education Fund. If the amount
13 added to the General Fund Balance Reserve is insufficient to support both the
14 appropriation in this subdivision and the appropriation in ~~subdivision (3)~~
15 subdivision (3) or (4) of this subsection, the appropriation in this subdivision
16 shall take precedence.

17 (3) Of the amount added to the General Fund Balance Reserve in each
18 fiscal year, to the extent available, one-third of the amount identified in
19 subdivision (1) of this subsection is hereby appropriated in the fiscal year just
20 concluded to the State Teachers' Retirement System for payment of the retired
21 teacher health care obligations.

1 (4) Of the amount appropriated to the Education Fund under subdivision
2 (2) of this subsection, the Emergency Board shall determine what portion of
3 that appropriation represents sustainable growth in the General Fund transfer
4 under 16 V.S.A. § 4025(a)(2), and that amount shall be added to the base
5 amount used to calculate the General Fund transfer under 16 V.S.A.
6 § 4025(a)(2) for the next fiscal year.

7 Sec. 20. THETFORD EDUCATION PROPERTY TAX RATES IN FY2014

8 In fiscal year 2015, notwithstanding 16 V.S.A. § 4025, there is appropriated
9 from the Education Fund to the Thetford School District the sum of
10 \$113,125.00 to be used for the sole purpose of reducing the homestead tax rate,
11 which was artificially too high in fiscal year 2014 due to a reporting error in
12 the district budget that caused the district to exceed the excess spending
13 threshold.

14 Sec. 21. PROPERTY TAX APPEALS STUDY COMMITTEE

15 (a) Creation. There is created a Property Tax Appeals Study Committee to
16 study two issues in regard to the statewide education property tax:

17 (1) how a reduction in listed property value affects towns; and

18 (2) the costs to towns of defending property tax appeals.

19 (b) Membership. The Committee shall have five members:

20 (1) one current member of the House of Representatives, who shall be
21 appointed by the Speaker of the House;

1 (2) one current member of the Senate, who shall be appointed by the

2 Committee on Committees;

3 (3) the Commissioner of Taxes or designee;

4 (4) a representative of local government appointed by the Vermont

5 League of Cities and Towns; and

6 (5) a representative of assessing officials appointed by the Vermont

7 Assessors and Listers Association.

8 (c) Powers and duties. The Committee shall study the following issues:

9 (1) The Committee shall analyze the process by which towns are
10 compensated for a reduction in listed value under 32 V.S.A. § 5412 and
11 suggest ways to make that process more equitable.

12 (2) The Committee shall analyze the current costs to towns of defending
13 property tax valuations that benefit the Education Fund and suggest ways to
14 make the cost of defending property tax appeals more equitable.

15 (d) Assistance. The Committee shall have the administrative, technical,
16 and legal assistance of the Office of Legislative Council, the Joint Fiscal
17 Office, and Department of Taxes.

18 (e) Report. On or before January 15, 2015, the Committee shall submit a
19 report to the Senate Committee on Finance and the House Committee on Ways
20 and Means with its findings and any recommendations for legislative action.

1 (f) Meetings.

2 (1) The Committee shall meet no more than six times. The Committee
3 shall select a chair and vice chair from among its legislative members at the
4 first meeting.

5 (2)(A) A majority of the members of the Committee shall be physically
6 present at the same location to constitute a quorum.

7 (B) A member may vote only if physically present at the meeting
8 location.

9 (C) Action shall be taken only if there is both a quorum and a
10 majority vote of the members physically present and voting.

11 (D) The Committee shall cease to exist on January 16, 2015.

12 (g) Reimbursement.

13 (1) For attendance at meetings during adjournment of the General
14 Assembly, legislative members of the Committee shall be entitled to per diem
15 compensation and reimbursement of expenses pursuant to 2 V.S.A. § 406 for
16 no more than six meetings.

17 (2) Other members of the Committee who are not employees of the State
18 of Vermont and who are not otherwise compensated or reimbursed for their
19 attendance shall be entitled to compensation pursuant to 32 V.S.A. § 1010 for
20 no more than six meetings.

1 Sec. 22. APPROPRIATION TO EDUCATION FUND

2 There shall be appropriated and transferred from the Supplemental Property
3 Tax Relief Fund a sum of \$6,000,000.00 to the Education Fund.

4 Sec. 23. EDUCATION FINANCING REFORM

5 (a) By January 1, 2017, the General Assembly shall transition to a tax
6 system for financing education in Vermont that incorporates an education
7 income tax. This new education financing system shall have the following
8 components:

9 (1) a property tax structured on the current homestead and
10 nonresidential property categories, but with a much lower homestead property
11 tax rate than set in current law;

12 (2) an education income tax structured as part of the current income tax
13 system, paid by people who pay Vermont income taxes;

14 (3) the education income tax which shall be indexed to a taxpayer's
15 federal adjusted gross income and shall be calculated by dividing the
16 per-equalized-pupil amount of the district's education spending, divided by a
17 State base spending amount, multiplied by the statewide education income tax
18 base rate, and then multiplied by the taxpayer's federal adjusted gross income;

19 (4) the education income tax which shall be incorporated into Vermont's
20 current system for withholding and estimated tax payments; and

21 (5) adjustments for income sensitivity which shall be eliminated.

1 (b) It is the intent of the General Assembly to pass legislation in 2015 and
2 2016 to implement subsection (a) of this section so that the first year the
3 education income tax would be in effect would be calendar year 2017, and the
4 money raised would provide funding for schools in fiscal year 2018.

5 Sec. 24. TUITION REPORT

6 (a) The Agency of Education shall report to the General Assembly on the
7 current system of setting, paying, and receiving school tuition in Vermont.
8 The report shall be submitted to the General Assembly no later than
9 January 15, 2015.

10 (b) The report shall review:

11 (1) the historic practices of Vermont school districts in paying tuition to
12 other schools;

13 (2) the current law and practices for establishing tuition rates, including
14 how tuition is paid to different categories of schools inside Vermont and
15 outside Vermont, and how Vermont schools set, receive, and use tuition from
16 schools outside the State.

17 (c) The report shall examine the following issues:

18 (1) the impact, if any, of tuition rates and practices on the Education
19 Fund;

20 (2) any effects that would result from establishing a uniform tuition rate
21 to be paid for different categories of schools, both within and outside Vermont;

1 (e) Sec. 5 (increased average daily membership) shall take effect on July 1,
2 2014 and shall apply to long-term membership calculations for fiscal year 2016
3 and after.

4 (f) Secs. 6 and 7 (small school spending) shall take effect on July 1, 2018
5 and apply to fiscal year 2019 and forward.

6 (g) Secs. 8 (town voted exemption) and 9 (education property tax
7 exemption) shall take effect on January 1, 2015 and apply to property
8 appearing on grand lists lodged in 2015 and after.

9 (h) Sec. 10 (occupancy of a homestead) shall take effect on January 1, 2015
10 and apply to homestead declarations for 2015 and after.

11 (i) Secs. 11 and 12 (anchoring excess spending) shall take effect on July 1,
12 2014 and apply to property tax calculations for fiscal year 2016 and after.

13 (j) Notwithstanding 1 V.S.A. § 214, Sec. 15 (allocable rent) shall take
14 effect retroactively on January 1, 2014 and apply to claims filed in calendar
15 year 2014 and after.

16 (k) Notwithstanding 1 V.S.A. § 214, Secs. 17 (housesite value) and 18
17 (adjustment limit) shall take effect retroactively on January 1, 2014 and apply
18 to claims filed for fiscal year 2015.