

# Examples of Property Tax Rate Calculations and Average Tax Bill Changes

House Committee on Ways and Means

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# Outline of talk

- Example calculating and applying the 5% cap from Act 127
- Average bill change examples



## *A note -*

- All districts and examples in this presentation are fictional and are provided solely for illustrative purposes.
- For simplicity, examples in this presentation do not include income sensitivity.
  - The intuition presented in this presentation for homestead property tax bills aligns with the intuition for income sensitized property tax bills



# Example– Calculating and Applying the 5% Cap from Act 127

- The following example shows the calculation of homestead property tax rates when including the transition provision of Act 127.
- The following example uses fictional districts for illustrative purposes.



# Calculating Districts' Spending per Pupil

- A district's spending per pupil is calculated by dividing its education spending<sup>1</sup> by its long term weighted average daily membership (LTWADM).

$$\text{District's Education Spending Per Pupil} = \frac{\text{District Education Spending}}{\text{District LTWADM}}$$

- In this example, assume the following:

Metric	District A	District B	District C
Education Spending	\$ 14,950,000	\$17,100,000	\$17,100,000
LTWADM	1,150	1,150	1,315
<b>Education Spending per pupil</b>	<b>\$13,000</b>	<b>\$14,870</b>	<b>\$13,004</b>

Note: 1) Recall that Education Spending is the school district's budget minus offsetting revenues



# Calculating Districts' Equalized Tax Rates (when they are not capped at 5%)

- A district's homestead property tax rates are adjusted based on locally voted education spending per pupil.

$$\text{Spending adjusted equalized property tax rate} = \$1.00 \times \frac{\text{Per pupil education spending}}{\text{property yield}}$$

- In this example, let's assume the yield is \$9,629

Metric	District A	District B	District C
Education spending per pupil <i>(Calculated on previous slide)</i>	\$13,000	\$14,870	\$13,004
Statewide property yield	\$9,629	\$9,629	\$9,629
<b>Equalized homestead tax rate</b>	<b>\$1.350</b>	<b>\$1.544</b>	<b>\$1.350</b>

Note: In the [EF Outlook submitted to the Emergency Board](#), the average homestead property tax rate was estimated to be \$1.350 and the homestead property yield was estimated to be \$9,629



# Calculating Districts' Equalized Tax Rates When Capped at 5%

- Act 127 includes a transition mechanism that caps districts' equalized homestead property tax rates to a year-over-year increase of no more than 5% compared to the prior year.
- Over the following slides, the application of the cap to Districts A, B, and C will be applied.
- First, let's assume the following FY 2024 equalized HS rates:

Metric	District A	District B	District C
FY24 equalized HS rate	\$1.200	\$1.450	\$1.300



# Calculating Districts' Equalized Tax Rates When Capped at 5% (cont.)

- Next, calculate FY 2024 equalized rates if they were to be increased by 5%.
  - This will be the maximum equalized HS rate of each district for FY 2025
  - This is the maximum because once a district's rates increase above 5% from the prior year, they will be capped at this level.

Metric	District A	District B	District C
FY24 equalized HS rate	\$1.200	\$1.450	\$1.300
<b>FY24 equalized rate increased by 5%</b>	<b>\$1.260</b>	<b>\$1.523</b>	<b>\$1.365</b>





# Calculating Districts' Equalized Tax Rates When Capped at 5% (cont.)

- Next, calculate the growth of equalized rates from FY 2024 to FY 2025
  - This will show which districts need to have their tax rates capped

Metric	District A	District B	District C
FY24 equalized HS rate	\$1.200	\$1.450	\$1.300
FY24 equalized rate increased by 5%	\$1.260	\$1.523	\$1.365
Est. FY25 equalized HS rate <i>(Calculated on slide 6)</i>	\$1.350	\$1.544	\$1.350
<b>Growth of rate from FY24 to FY25</b> <i>(if rates were not capped)</i>	<b>12.5%</b>	<b>6.5%</b>	<b>3.9%</b>



# Calculating Districts' Equalized Tax Rates When Capped at 5% (cont.)

- Finally, determine districts' equalized HS rates after considering the cap:
  - If districts' equalized HS rates are *increasing* by more than 5% from FY 2024 to FY 2025, then they will hit the cap and have an equalized HS rate 5% higher than the FY 2024 equalized HS rate.
  - If districts' equalized HS rates are *not increasing* by more than 5% from FY24 to FY25, then they will have the equalized HS rate as usually calculated.

Metric	District A	District B	District C
FY24 equalized HS rate	\$1.200	\$1.450	\$1.300
FY24 equalized rate increased by 5%	\$1.260	\$1.523	\$1.365
Est. FY25 equalized HS rate <i>(Calculated on previous slide)</i>	\$1.350	\$1.544	\$1.350
Growth of rate from FY24 to FY25 <i>(if rates were not capped)</i>	12.5%	6.5%	3.9%
<b>Equalized rates after Act 127 cap</b>	<b>\$1.260</b>	<b>\$1.523</b>	<b>\$1.350</b>



# Calculating District's Actual Tax Rates by Applying the Common Level of Appraisal (CLA)

- The CLA adjusts both the homestead and nonhomestead education tax rates to ensure that each town is treated equally and uniformly – regardless of when they last appraised.
- The CLA is applied by dividing the equalized rate by the CLA:

$$\text{Actual Tax Rate} = \frac{\text{Equalized Tax Rate}}{\text{CLA}}$$

- In this example, let's assume the following CLAs are applied to equalized rates:

Metric	District A	District B	District C
Equalized homestead tax rate <i>(Calculated on previous slide)</i>	\$1.260	\$1.523	\$1.350
CLA	0.6	1	0.78
<b>Actual homestead tax rate</b>	<b>\$2.100</b>	<b>\$1.523</b>	<b>\$1.731</b>

Note: In the [2023 Equalization Study](#), the average CLA across towns was 0.78



# Considerations

- Districts that receive the 5% tax rate cap will not see the full increase in their homestead property tax rate corresponding with locally voted per pupil spending.
  - Unless other revenue sources are added to the Education Fund, this cost will need to be made up by homestead property taxpayers in districts without a capped tax rate and/or nonhomestead property taxpayers
- The transition provision in Act 127 caps the average HS tax *rate* increase, not the average *bill* increase.
- Property tax bills are comprised of two factors: property tax rates and property values.
  - While equalized HS property tax rates are capped, values are not.
  - Current estimates in Education Fund modeling forecast 14.3% growth in the education grand



# Average Bill Change Examples



# Example of a 17.3% Bill Increase in Districts

- Since overall property tax bills vary depending on multiple factors, analysis of “average” changes should be interpreted with caution.
- The following examples consider homestead and nonhomestead property in Districts A, B, and C.
  - For simplification, the following examples do not include income sensitivity.
  - Approximately two-thirds of homestead receive some form of income-sensitivity on homestead property tax bills.
  - The same intuition regarding homestead property taxes applies to income-sensitized taxpayers.



# Example of a 17.3% Bill Increase for Homestead in an “Average” District – District C

- Recall the parameters of District C:

	FY25 (Example)
Equalized HS rate	\$1.350
CLA	0.78
Actual HS rate	\$1.731

- Assuming an average bill change increase by 17.3%, homestead property taxpayers *who are not income sensitized* would see the following changes to their tax bill:

Homestead value	FY 24 Tax Bill	FY25 Tax Bill	Increase from FY24 to FY25
\$200,000	\$2,922	\$3,462	\$540
\$400,000	\$5,843	\$6,924	\$1,081
\$600,000	\$8,765	\$10,386	\$1,621
\$800,000	\$11,686	\$13,848	\$2,162



# Example of a 17.3% Bill Increase for Nonhomestead in an “Average” District – **District C**

- Recall that the equalized nonhomestead rate is uniform across Vermont
- Recall the parameters of District C:

	FY25 (Example)
Equalized NHS rate	\$1.432
CLA	0.78
Actual NHS rate	\$1.836

- Assuming an average bill change increase by 17.3%, nonhomestead property taxpayers would see the following changes to their tax bill:

Nonhomestead value	FY 24 Tax Bill	FY25 Tax Bill	Increase from FY24 to FY25
\$200,000	\$3,130	\$3,672	\$542
\$400,000	\$6,261	\$7,344	\$1,083
\$600,000	\$9,391	\$11,016	\$1,625
\$800,000	\$12,522	\$14,688	\$2,166





# Example of a 17.3% Bill Increase for Homestead in an “Above Average” District – **District A**

- Recall the parameters of District A:

	FY25 (Example)
Equalized HS rate	\$1.260
CLA	0.6
Actual HS rate	\$2.100

- Assuming an average bill change increase by 17.3%, homestead property taxpayers *who are not income sensitized* would see the following changes to their tax bill:

Homestead value	FY 24 Tax Bill	FY25 Tax Bill	Increase from FY24 to FY25
\$200,000	\$3,581	\$4,200	\$619
\$400,000	\$7,161	\$8,400	\$1,239
\$600,000	\$10,742	\$12,600	\$1,858
\$800,000	\$14,322	\$16,800	\$2,478



# Example of a 17.3% Bill Increase for Nonhomestead in an “Above Average” District – **District A**

- Recall the parameters of District A:

	FY25 (Example)
Equalized NHS rate	\$1.432
CLA	0.6
Actual NHS rate	\$2.387

- Assuming an average bill change increase by 17.3%, nonhomestead property taxpayers would see the following changes to their tax bill:

Nonhomestead value	FY 24 Tax Bill	FY25 Tax Bill	Increase from FY24 to FY25
\$200,000	\$4,070	\$4,774	\$704
\$400,000	\$8,140	\$9,548	\$1,408
\$600,000	\$12,210	\$14,322	\$2,112
\$800,000	\$16,280	\$19,096	\$2,816



# Example of a 17.3% Bill Increase for Homestead in a “Below Average” District – **District B**

- Recall the parameters of District B:

	FY25 (Example)
Equalized HS rate	\$1.523
CLA	1
Actual HS rate	\$1.523

- Assuming an average bill change increase by 17.3%, homestead property taxpayers *who are not income sensitized* would see the following changes to their tax bill:

Homestead value	FY 24 Tax Bill	FY25 Tax Bill	Increase from FY24 to FY25
\$200,000	\$2,597	\$3,046	\$449
\$400,000	\$5,194	\$6,092	\$898
\$600,000	\$7,790	\$9,138	\$1,348
\$800,000	\$10,387	\$12,184	\$1,797



# Example of a 17.3% Bill Increase for Nonhomestead in a “Below Average” District – **District B**

- Recall the parameters of District B:

	FY25 (Example)
Equalized NHS rate	\$1.432
CLA	1
Actual NHS rate	\$1.432

- Assuming an average bill change increase by 17.3%, nonhomestead property taxpayers would see the following changes to their tax bill:

Nonhomestead value	FY 24 Tax Bill	FY25 Tax Bill	Increase from FY24 to FY25
\$200,000	\$2,442	\$2,864	\$422
\$400,000	\$4,883	\$5,728	\$845
\$600,000	\$7,325	\$8,592	\$1,267
\$800,000	\$9,766	\$11,456	\$1,690



# Considerations

- Bill changes vary by district and taxpayer
  - All examples shown reflect an average bill change of 17.3%
  - In reality, bill changes will vary widely across the state based on multiple factors.
- CLAs are not the reason taxes are forecasted to go up in FY25
- Capping districts' equalized HS tax rates means that revenues not raised by the districts that hit the cap must be raised elsewhere



# Resources

- Department of Taxes' Equalization Study
  - <https://tax.vermont.gov/municipalities/reports/equalization-study#current>
- Emergency Board EF Outlook
  - [https://ljfo.vermont.gov/assets/Subjects/Education-Fund-Outlooks-for-2024-Session/1a498d04cb/GENERAL-373794-v1-FY25EFOutlook\\_EBoard.pdf](https://ljfo.vermont.gov/assets/Subjects/Education-Fund-Outlooks-for-2024-Session/1a498d04cb/GENERAL-373794-v1-FY25EFOutlook_EBoard.pdf)

