



Washington
West
Supervisory
Union

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To: The Waitsfield Town School Board
Kaiya Korb, WES Principal
Brigid Scheffert, WWSU Superintendent
From: Michelle Baker, WWSU Director of Finance
Date: December 12, 2014
RE: FY2016 Budget Draft #2

1. Summary of Proposed Budget Expenditure Changes Draft #1 to Draft#2
2. Preliminary Estimated FY2016 Local, State and Federal Revenues
3. Preliminary Calculation of the Homestead Tax Rate for FY2016-Note this is based on the current funding formula
4. Detailed Expenditures by Department
5. Detailed Expenditures General Fund – All Lines
6. Information from the VT Agency of Education regarding the FY2016 Budget Factors
7. Information from the Agency of Education on the delay of Act 166 (Pre-Kindergarten)
8. Tax Commissioner's Recommendations

I look forward to discussing these items with you at Monday's Board Meeting

Waitsfield Elementary School
Summary of Overall Changes in Expenses FY2015 to FY2016
12/12/2014

FY2015 Expenditure Budget	\$2,387,257	
All Changes, Including Salary & Benefits not listed below	\$37,999	1.59%
Pre-K Tuition (new legislation)	\$34,705	1.45%
Change in SpEd Contracted Services	\$27,676	1.16%
Technology Equipment	\$6,500	0.27%
Increase in Transportation (includes PK Route)	\$14,699	0.62%
FY 2016 DRAFT 1	\$2,508,836	5.09%
<u>Changes Draft 1 to Draft 2</u>		
Reduction of 1.0 Classroom Teacher	-\$59,703	-2.50%
Addition of 0.5% +/-Contingency	\$12,000	0.50%
Pre-K Adjustments (delay Implementation of Act 166, Increase School Program Cap)	-\$15,000	-0.63%
WWSU Assessment (Based on Proposed Budget)	\$2,894	0.12%
Technology Applications (Removed from SU Budget)	\$5,600	0.23%
Other Changes	-\$2,373	-0.10%
FY 2016 Expenditure Budget DRAFT 2	\$2,452,254	2.72%

Waitsfield Town School District - Local, State and Federal Revenues

Revised 12/13/2014

	Budget FY - 2014	Actual FY-2014	Budget FY - 2015	Budget Estimated FY - 2016 \$ Difference	%
Revenues:					
Local Revenue					
Interest Earnings	\$9,000	\$5,051	\$9,000	\$9,000	
Tuition (Pre-K)	\$0	\$3,432	\$0	\$0	
Town Rental	\$56,000	\$56,006	\$56,000	\$56,000	
MAC Subgrant	\$6,700	\$6,700	\$0	\$0	
Prior Year Fund Balance	\$22,079	\$0	\$0	\$0	
Other	\$0	\$83	\$0	\$0	
State Revenue					
Special Education Reimbursement	\$173,420	\$165,713	\$177,663	\$194,182	
Special Education Extra-Ordinary Reimbursement	\$0		\$0	\$0	
Special Education Main Stream Block Grant	\$47,290	\$47,290	\$46,684	\$52,867	
Essential Early Education PK Grant	\$19,295	\$19,295	\$16,287	\$18,096	
Transportation Reimbursement	\$23,882	\$23,849	\$22,634	\$23,000	
Federal Revenue:					
Title I/CFG (Schoolwide)	\$15,000	\$16,292	\$17,908	\$0	
IDEA B Grant	\$25,900	\$30,538	\$27,000	\$30,000	
IDEA B Grant Pre-School	\$2,000	\$2,000	\$2,000	\$2,000	
Subtotal - Local State and Federal Revenues	\$400,566	\$376,249	\$375,176	\$385,145	\$9,969 2.7%

References for Revenues:

<http://education.vermont.gov/special-ed-finance-and-medicaid>

Special Education Funding Information

Waitsfield Town School District - Preliminary Calculation of Homestead Tax Rate for WES Only (Revised 12/13/2014)

This is based on the Current Education Funding Formula, Estimates per the Information from Brad James and is WES Only-The Final Rate will be determined by HUHS Budget as well

	Calculation Reference	Budget FY - 2014	Budget FY - 2015	Budget Draft FY - 2016	\$ Difference	%
General Fund Expenses	A	\$2,297,853	\$2,387,257	\$ 2,452,254	\$ 64,997	2.7%
General Fund Revenues	B	\$400,566	\$375,176	\$385,145	\$9,969	2.7%
Education Spending (Expenses less Revenue)	A-B	\$1,897,287	\$2,012,081	\$ 2,067,109	\$ 55,028	2.7%
Equalized Pupils (Preliminary at 12/3/2014)-will change	C	131.10	136.50	135.95	-0.55	-0.4%
Education Cost per Equalized Pupil	(A-B)/C=D	\$14,472	\$14,741	\$15,205	\$464	3.2%
Base Rate (see information from Brad James)	E	\$9,151	\$9,285	\$9,459	\$174	1.9%
Spending Factor Adjustment	D/E=F	158.15%	158.76%	160.75%	1.99%	1.3%
Homestead Tax Rate (FY2016 is 12/1 Tax Commissioner Recommendation)	G	\$0.94	\$0.98	\$1.00	\$0.02	2.0%
Equalized Homestead Tax Rate	F*G=H	\$1.49	\$1.56	\$1.61	\$0.05	3.3%
Common Level of Appraisal	I	105.74%	107.07%	TBD		
Estimated Actual Waitsfield Elementary Homestead Tax Rate	H/I=J	\$1.41	\$1.45	TBD		
Non-Residential Tax Rate (FY2016 is 12/1 Tax Commissioner Recommendation)		\$1.44	\$1.52	\$1.535		

Waitsfield Elementary School
Summary Comparison FY2015 Budget to FY2016 Draft #2

	FY2015 Budget	FY2016 Budget	\$ Change	Teacher FTE's	Support FTE'S	Principal FTE	Total FTE's
Regular Education (K - 6 Classroom)	\$ 799,806	\$ 735,688	\$ (64,118)	7.00	0.40		
Early Education (Pre-K)	\$ 90,002	\$ 120,296	\$ 30,294	0.84	0.86		
Special Education, Speech and Special Education Support Svs (Eligible)	\$ 444,566	\$ 464,864	\$ 20,298	2.40	3.90		
Special Education (Pre-K Essential Early Education)	\$ 44,710	\$ 32,399	\$ (12,311)	0.30	0.70		
Compensatory Education (Ineligible Portion of SpEd)	\$ 25,888	\$ 47,639	\$ 21,751	0.30			
Interventionist & Schoolwide (SCW) Programs funded by CF	\$ 30,962	\$ -	\$ (30,962)				
Art	\$ 22,463	\$ 23,166	\$ 703	0.40			
Foreign Language (French)	\$ 22,268	\$ 23,336	\$ 1,068	0.40			
Physical Education	\$ 30,919	\$ 23,574	\$ (7,345)	0.50			
Music	\$ 74,028	\$ 82,000	\$ 7,972	1.00			
Technology	\$ 82,074	\$ 94,492	\$ 12,418	0.50			
Guidance	\$ 44,738	\$ 46,598	\$ 1,860	0.60			
School Nurse	\$ 55,468	\$ 63,045	\$ 7,577	1.00			
Health Education	\$ -	\$ 6,422	\$ 6,422	0.10			
Inservice/Workshops	\$ 8,000	\$ 10,000	\$ 2,000				
Library Media	\$ 42,059	\$ 46,977	\$ 4,918	0.50	0.14		
School Board	\$ 10,665	\$ 21,165	\$ 10,500				
School District Treasurer	\$ 1,292	\$ 1,272	\$ (20)				
WWSU General Assessment	\$ 56,924	\$ 58,916	\$ 1,992				
WWSU Fiscal Svs and Audit	\$ 34,607	\$ 39,637	\$ 5,030				
School Administration	\$ 162,804	\$ 169,458	\$ 6,654		1.00	1.00	
Operations & Maintenance	\$ 201,038	\$ 209,887	\$ 8,849		1.63		
Transportation	\$ 59,023	\$ 74,222	\$ 15,199				
Field Trips							
Food Service Contracted Service with Fayston	\$ 10,500	\$ 12,000	\$ 1,500				
Short Term Debt (Tax Anticipation-Less than 1 Year)	\$ 4,500	\$ 8,200	\$ 3,700				
FY2013 Deficit	\$ 6,000	\$ 1,500	\$ (4,500)				
Transfer Maintenance Reserve Fund	\$ 21,953	\$ 35,500	\$ 13,547				
Total Expenditures	\$ 2,387,257	\$ 2,452,254	\$ 64,997 2.72%	15.84	8.63	1.00	25.47

Information from Brad James, Agency of Education regarding
FY2016 Budget Factors and the Excess Spending Threshold

December 1, 2014

Morning, Folks.

Possible FY2016 data based on current statute and the New England Economic Project cumulative price index as of November 15, 2014 are below. The chain deflator used for NEEP (State & Local Government Deflator) was reindexed from 2005 as the base year to 2009.

I say “possible” because the Legislature has the option of overriding the calculation. The numbers in **bold red font and highlighted in yellow** are the statutory calculations. They are not necessarily the final figures that will be used in FY2016. **USE WITH THE UNDERSTANDING THEY MAY CHANGE.**

Base education amount (16 V.S.A. § 4011 (b)):

\$9,459

On-behalf payment to a technical center per FTE (16 V.S.A. § 1561(b)):

\$8,229

87% x \$9,459

Technical center transportation assistance (16 V.S.A. § 1563 (b)):

3.1%

\$2.57 per mile

Supplemental assistance grant to technical centers per FTE (16 V.S.A. § 1561(c)):

\$3,311

35% x \$9,459

Contract renewal growth limit without a public bid (16 V.S.A. § 559(e)(7)):

3.1%

Increase in the index from FY2015 = 3.1%

$(116.9 / 113.4) - 1$

However, if the total contract exceeds the original contract by 30% or more, a contract must be put out to public bid.

Excess Spending Threshold (32 V.S.A. § 5401 (12)(B)):

\$17,103

There was a statutory change to the calculation of the excess spending threshold for FY2016 and the following years (2013, No. 174 (Adj. Sess.), § 59). The calculation is now anchored to the FY2014 net education spending per equalized pupil amount (\$13,143) and inflated by the NEEP CPI from FY2014 through FY2016. See the attached language.

$\$13,143.01 \times (116.9 / 110.5) \times 123\%$

Exclusions for the excess spending calculation are found in 16 V.S.A. § 4001 (6)(B).

And that’s what I know for the time being.

Brad

Act 174, Miscellaneous Tax Bill (2014)

* * * Excess Spending Anchor * * *

Sec. 59. 32 V.S.A. § 5401(12) is amended to read:

(12) “Excess spending” means:

- (A) the per-equalized-pupil amount of the district’s education spending, as defined in 16 V.S.A. § 4001(6), plus any amount required to be added from a Capital Construction Reserve Fund under 24 V.S.A. § 2804(b);
- (B) in excess of 123 percent of the statewide average district education spending per equalized pupil ~~in the prior fiscal year~~ increased by inflation, as determined by the Secretary of Education on or before November 15 of each year based on the passed budgets to date. As used in this subdivision, “increased by inflation” means increasing the statewide average district education spending per equalized pupil for fiscal year 2014 by the most recent New England Economic Project cumulative price index, as of November 15, for state and local government purchases of goods and services, from fiscal year 2014 through the fiscal year for which the amount is being determined.

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

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

(12) “Excess spending” means:

- (A) the per-equalized-pupil amount of the district’s education spending, as defined in 16 V.S.A. § 4001(6), plus any amount required to be added from a Capital Construction Reserve Fund under 24 V.S.A. § 2804(b);
- (B) in excess of ~~123~~ 121 percent of the statewide average district education spending per equalized pupil increased by inflation, as determined by the Secretary of Education on or before November 15 of each year based on the passed budgets to date. As used in this subdivision, “increased by inflation” means increasing the statewide average district education spending per equalized pupil for fiscal year 2014 by the most recent New England Economic Project cumulative price index, as of November 15, for state and local government purchases of goods and services, from fiscal year 2014 through the fiscal year for which the amount is being determined.

**Excess Spending Anchor
FY2014 as base**

	A	B	C	D
	FY2014	FY2015 ^{a, c}	FY2016 ^{b, d}	FY2017 ^b
1. NEEP CPI forforstate and local government purchasesof goodsand services	<u>110.5</u>	<u>113.4</u>	<u>116.9</u>	<u>120.2</u>
2. Change in NEEP CPI, FY2014 as base		<u>1.026</u>	<u>1.058</u>	<u>1.088</u>
3. FY2014 Statewideed spend/eqpupnet of exclusionsinflated	13,143	13,485	13,905	14,300
4. Statutorymultiplier	<u>123%</u>	<u>123%</u>	<u>123%</u>	<u>121%</u>
5. Excess Threshold, FY2014 as base	16,166	16,587	17,103	17,303
6. annual percent change		2.6%	3.1%	1.2%

Notes:

- a. Statutorychange does not apply to FY2015. Data are shown for illustrative purposes only.
- b. NEEP CPI data used for FY2017 is a projection and will change.
- c. Excess spending threshold in FY2015 is \$16,166 as per current statute.
- d. Excess spending threshold for FY2016 was projected to be \$16,950.

2013, No. 174 (Adj. Sess.), § 59

MEMORANDUM

TO: Vermont School Boards and Superintendents

FROM: Rebecca Holcombe, Secretary, Agency of Education
Harry Chen, M.D., Secretary, Agency of Human Services

SUBJECT: Transition Relief Bulletin for Vermont School Districts Regarding the Implementation of [Act 166 of 2014](#) *An act relating to providing access to publicly funded prekindergarten education*

DATE: November 25, 2014

I. PURPOSE AND OVERVIEW

This notice provides transition relief to Vermont school districts for the 2015-2016 school year from the prekindergarten enrollment requirements set forth in [Section 5 of Act 166 of 2014](#). This transition relief will provide additional time for the adoption of administrative rules consistent with the effective implementation of the law. This is also intended to provide school districts, school board members and Town Meeting Day voters the necessary time to adapt their local school budgets, so that Act 166 will be fully effective prior to the adoption of local school budgets.

II. BACKGROUND

Act 166 of 2014 has an effective date for universal prekindergarten enrollments of **July 1, 2015**. The law was enacted on May 10, 2014. The implementation of the law requires the promulgation of administrative rules by the Vermont State Board of Education as follows:

“The Secretary of Education and the Commissioner for Children and Families shall jointly develop and agree to rules and present them to the State Board for adoption under 3 V.S.A. Chapter 25.” See Act 166 at Section 1, amending (generally) 16 V.S.A. § 829.

We expect final administrative rules to be adopted sometime in **June 2015**. The Agency of Education (AOE) and Department for Children and Families (DCF) are presently initiating formal rulemaking procedures on behalf of the State Board of Education. Here is the expected timeline and some background information moving forward:

- December 2014 — Filing of proposed rules with the Secretary of State.
- January 2015 — Online publication of the proposed rules by the Secretary of State.

- February 2015 — Public Hearings begin. AOE and DCF expect to hold about six (6) regional forums throughout Vermont in February and March 2015.
- April 2015 — Written public comment period followed by filing the Final Proposed Rules with the Secretary of State and the Legislative Committee on Administrative Rules.
- June 2015 — Legislative Committee on Administrative Rules (LCAR) votes on the proposed rules. If there are any objections by LCAR, AOE and DCF (on behalf of the State Board) must respond within fourteen (14) days.

After the final vote by LCAR, prekindergarten rules can be formally adopted by the State Board of Education.

III. SCHOOL DISTRICT BUDGETS FOR 2015-2016

Pursuant to 16 V.S.A. § 428, “at each annual town school district meeting, the electorate shall vote such sums of money as it deems necessary for the support of schools.” Without final administrative rules implementing Act 166, School Boards cannot assure voters on Town Meeting Day (on March 3, 2015) that their school district’s proposed budget will accurately reflect the sums of money deemed necessary for the support of schools. Final clarity on the necessary expenditures for universal access to prekindergarten will not be known, with reasonable certainty, until June of 2015 at the earliest. Accordingly, Vermont’s school boards will not be able to prepare proposed budgets to voters that reflect reliable prekindergarten costs until **Town Meeting Day 2016**. See 16 V.S.A. § 563(11)(A).

IV. SCHOOL DISTRICT BUDGETS FOR 2016-2017

Schools should plan to include funding for universal access in their 2016-2017 school year budgets.

V. WHAT DOES THIS MEAN FOR OTHER PROVISIONS IN ACT 166?

Answer: This transition relief through June 30, 2016 from Section 5 of Act 166 **does not impact** the effective date or application of any other provisions of Act 166.

VI. CAN SCHOOL DISTRICTS MAINTAIN CURRENT PRE-K PROGRAMS UNDER ACT 62 OF 2007 FOR 2015-2016 SCHOOL YEAR?

Answer: **Yes.** School districts that already provide access to pre-kindergarten under Act 62 of 2007 may continue to do so for the 2015-2016 school year. Districts that choose this option should plan and budget in the normal course for the 2015-2016 school year.

VII. CAN SCHOOL DISTRICTS START NEW PROGRAMS UNDER ACT 166 FOR THE 2015-2016 SCHOOL PRIOR TO THE ADOPTION OF FINAL RULES?

Answer: **Yes.** AOE and DCF will work with any school district that would like to move forward with providing universal access to prekindergarten on July 1, 2015. For any school district that decides to initiate enrollments on July 1, 2015, the AOE and DCF cannot provide any assurance that cost estimates contained in proposed budgets will reflect actual costs. This may cause some transition issues, but we will help school districts that may choose to plan now for the 2015-2016 school year. In the alternative, school districts can choose to wait one (1) year as set forth in this Bulletin.



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

Agency of Administration

December 1, 2014

Rep. Shap Smith, Speaker of the House
Sen. John Campbell, President Pro Tempore
Vermont State House
115 State Street
Montpelier, VT 05633-0004

Dear Speaker Smith and President Pro Tempore Campbell:

This letter is required by statute in order to publish the projected statewide education tax rates based on current law and forecasts. This statutory letter represents forecasts to date in order to inform school boards that must present budgets to local voters at Town Meeting and state policymakers who must set the tax rates in the next legislative session based on those locally-voted spending decisions.

Statutory Charge

The Commissioner of Taxes, after consultation with the Agency of Education (AOE), the Secretary of Administration, and the Joint Fiscal Office (JFO), is required by 32 V.S.A. §5402b to recommend adjustments to the statewide education tax rates by December 1. The Department of Taxes, Department of Finance and Management, AOE, and JFO have prepared consensus forecasts on various components of the Education Fund Operating Statement for Fiscal Year (FY) 2016 in order to perform this required analysis.

This letter is submitted in fulfillment of the statutory obligation. First, the letter examines the forecasts of the important components that determine the base rates. In a nutshell, overall spending and spending per pupil continues to exceed revenue growth. The Governor has been clear that the current growth in education spending is unsustainable in light of declining enrollment (Letter to Secretary of Education Holcombe, August 19, 2014). The Governor has charged the Secretary to work with the Vermont School Boards Association and local boards in understanding the challenges within districts, particularly as seen in state data, and assisting in crafting appropriate responses.



Second, the letter discusses the Section 5402b(a)(2) mandate on the Commissioner to project the increase in tax rates that would meet the current projected shortfall in the Education Fund if budgets and revenue come in as forecast. At present, it appears that a two penny increase on the homestead and nonresidential property rates may be necessary. This is significantly lower than the property rate increases in the previous two years, although any increase under the circumstances is unfortunate.

Third, the letter provides some background on how the projected base rates interact with the budgets and the locally adjusted rates that school boards will be presenting to their voters. While not the case every year, based on the forecasts in this letter, if a local district adjusts its budget next year to the same amount of education spending per equalized pupil as it had in the current school year, homeowners paying on property value will virtually have the same property tax rate as in the current year.

Current Forecasts of Components Underlying Base Rates

Under our funding system, the base rates are established each year to support a base education amount per equalized student, and the additional amounts needed statewide to cover all anticipated spending choices by local districts. The main education inputs are the number of pupils, the base amount, and additional local spending choices. The main revenue to fund education comes from education taxes on homeowners and non-residential property owners, as well as dedicated transfers from other revenue sources.

It is important to note that this letter assumes, pursuant to a bulletin issued by the AOE and the Agency of Human Services, that some districts will not fully implement Act 166, the Universal Pre-K legislation this year. Forecasts have been adjusted accordingly.¹

Education Components

There are three main education components impacting the base tax rate:

- *Equalized Pupil Count:* The projected number of equalized students for FY2016 is 88,626, which is 631 less than FY2015, continuing a long trend of enrollment decline. It is important to note that this overall decline has been experienced even as districts add Pre-K students in advance of the full implementation of the Universal Pre-K statute. Educating Pre-K students is a critical measure to reduce education costs over the long term. But this important achievement cannot be allowed to

¹ Based on estimates of Pre-K enrollment under the statute, \$0.03 on the property tax rates would have filled the reserve to 5.1% under the full implementation scenario. It also should be noted that there are ongoing discussions about payment for dual enrollment students; however these payments are not of a magnitude to have a material effect on the forecasts for the base rates.

obscure the fact that our K-12 enrollment continues to fall. As discussed in the Governor's letter to Secretary Holcombe, K-12 student population has declined over 20% between FY1997 and FY2014. The fact that Vermont employs more teachers and paraprofessionals than ever despite this decline is a major driver behind the increase in tax rates for the state as a whole, and some districts in particular.

- *Base Education Amount (16 V.S.A. §4011(b))*: When Act 68 passed; a base education amount was established, representing the amount per pupil that would be supported by the base homestead rates. Amounts spent over the base would trigger local spending adjustments (although the spending adjustment must be understood as solely a pricing mechanism since all revenue is raised and pooled statewide; in no case does a town raise what it spends). Section 4011(b) requires that the base education amount be reset annually incorporating inflation for all the intervening years since 2005 using the State and Local Government Price Index. For FY2016, the price index recalibration from 2005 forward results in an increase in the base rates to \$9,459, up from \$9,285 this year.
- *School Spending*: School spending increased approximately 3% in FY2013 and FY2015, and 5% in FY2014. At this time, projections from AOE suggest that spending will rise again next year 3.09%. The projected increase assumes that staffing levels at the K-12 grades are once again not lowered appreciably to reflect declining enrollment.

Nowhere is the dynamic nature of this statutory exercise to forecast rates more apparent than in the school spending assumptions. The base rates projected in this letter are premised on a growth rate that school boards can work to bring down during the budget process. If voted budgets result in a lower growth rate statewide, the Legislature will be able to set lower base rates.

Pursuant to the Governor's instructions, Secretary Holcombe has been meeting with school board officials on this challenge. Part of Secretary Holcombe's focus has been on our very low student-to-staff ratio; working with districts to understand what the data shows for trends in their populations, and how those trends should be addressed from the perspective of financial prudence and educational excellence. Even a slight increase in the statewide student-to-staff ratio can result in significant savings and a meaningful lowering of rates.

Education Tax Revenue

Our education fund revenue comes partly from taxes on property owners, and partly from other dedicated revenue sources. Property owners in Vermont pay education taxes in one of three ways: a uniform statewide rate on value for nonresidential owners (land, commercial, and second home

owners); a base rate on value for homestead owners that is adjusted for district spending; and finally, for qualified households, a base percentage of income that also is adjusted for district spending.

- *Grand List:* The statewide grand list is projected to increase slightly, up roughly 0.3%, in value from FY2015. An increase in value, even slight, is a welcome change from the decreases in the past few years reflecting the effects of the Great Recession.
- *Property Tax Adjustments for Income:* Nearly two-thirds of Vermont homeowners pay the bulk of their education tax on income rather than property value, and it can be misleading to characterize these payments simply as “property taxes”. Forecasting adjustments for income-sensitized taxpayers is complicated by year-to-year changes in the components of household income, fluctuations in the number and composition of households qualifying, and variations in the size of adjustments. For example, in FY2015 we are seeing an increase in the average size of adjustments but somewhat of a decline in the number of households that claimed an adjustment. An additional factor this year is that pursuant to Section 52 of Act 174, the 2014 Miscellaneous Tax Bill, the applicable percentage for the base homestead income tax rate is increased from 1.8% to 1.94% for claims paid in FY2016. It is forecasted that income sensitivity adjustments and homeowner rebates from the Education Fund will total \$157.2M in FY2016, an increase of \$5M.²
- *Other Revenue Sources:* Several other sources of revenue contribute to the Education Fund, including a sizeable transfer from the General Fund, transfer of all lottery proceeds, transfer of 35% of the sales and use taxes, and transfer of a third of the purchase and use taxes on vehicles. These revenues to the Education Fund are projected to total nearly \$497M, up over \$12M from FY2015.

The dedication of other revenue to the Education Fund is particularly significant in the context of Vermont’s total general purpose spending on all budget priorities. In FY2014, 30% of total General Fund revenues were sent to the Education Fund. That is, in addition to the revenue associated with property ownership, Vermont also devoted 30% of its general purpose revenue to education spending.

5402b(a)(2) Mandated Recommendation

² This letter assumes that the Legislature intends that the base homestead income rate remain at 1.94% for the claims paid in FY2017, with additional taxpayers over \$90,000 in income entitled to some measure of adjustments up to \$250,000 in housesite value. See Section 64 of Act 174, the 2014 Miscellaneous Tax Bill. The base income tax rate was originally set at 2% in statute, corresponding to a base homestead property tax rate of \$1.10; it was lowered in conjunction with the property tax rates until it hit the statutory floor of 1.8%. Under the original proportionality pursuant to §5402b(b), \$1.00 corresponds to a base income tax rate of 1.82%.

Given these factors, the consensus forecast is that the balance in the stabilization reserve would fall below three and one half percent, under current law, if the current statewide education tax rates of \$0.98 and \$1.515 were applied. Therefore, 32 V.S.A. §5402b(a)(2) requires me to project increases in the base homestead property tax rates.

An increase of \$0.02 in the base homestead property tax rate to \$1.00, and a commensurate increase in the uniform nonresidential property tax rate to \$1.535 would fill the reserve to 4.6%. As noted, the assumption is that the base homestead income rate remains at 1.94% for the claims paid in FY2017. At these rates, nonresidential properties (that is, any property not used for a principal home) would contribute 47.4% of total education spending. See Section 5402b(a)(3) (trigger if nonresidential rate fails to raise at least 34% of total education spending).³

Both the \$1.00 and 1.94% base homestead rates will be subject to adjustment based on local spending decisions. These adjustments must be understood as a pricing mechanism only; districts are *not* raising the amounts that they are spending over the base amount locally. Rather, the local rate is adjusted so that the district contributes to the Education Fund in proportion to its spending per pupil, providing a signal to voters of their district's spending per pupil relative to other districts. For FY2016, with a base rate of \$1.00, the projected average equalized homestead property rate is \$1.56. See Section 5402b(a)(4) (trigger if nonresidential rate is less than statewide average homestead rate). An increase of \$0.015 in the base homestead property tax rate to \$.995 and an increase of \$0.035 in the uniform nonresidential property tax rate to \$1.55 under current projections would result in a 5% reserve and an average statewide base homestead rate equal to the nonresidential rate.⁴

³ Given the statutory nomenclature "nonresidential", a common misconception is that these properties are not owned by Vermonters. However, in this context, "nonresidential" includes stores, offices, fishing and hunting camps, ski and lake cottages, and other second homes that are indeed owned by Vermonters. Vermonters pay both the residential and nonresidential tax rates.

⁴ As with any average, the adjusted rates will vary greatly from town to town. Whether the local rate on homes is greater than the rates on stores, offices and second homes in any given district depends on how much that district chooses to spend per pupil. At a \$1.00 base homestead property rate, the district would have to vote to spend more than 50% over the base amount for the locally adjusted rate on homes to exceed the standard statewide rate on other properties.

It should be noted that this letter largely discusses forecasted rates premised on equal penny increases on both homestead and nonresidential rates. This had been the practice initially under Act 60, both when rates were going down (resulting in greater proportional decreases on the homestead property rate) and rates were going up (resulting in greater proportional increases on the homestead property rate). The Legislature in the last two years has varied the penny increase on the two rates. There obviously are a number of combinations of increases in rates that would meet the currently anticipated increase in education spending for FY2016, thus satisfying the statutory charge underlying this letter.

A further discussion of the local homestead tax rates can help explain how the spending decisions in each district interact with the possible base rates discussed in this letter and the final bill received by taxpayers.

Local Homestead Tax Rates Determined After Budget Votes

As stated above, the projected base rates discussed in this letter are just that – projections. Many assumptions underlie the projections, and none is more important than the level of spending per pupil that local districts ultimately settle upon in budget votes this spring. The level of spending in each district rolls into the amount needed statewide – if cumulatively, districts hold down spending per pupil, then the statewide base rates can be set lower. Individually, districts that hold down spending per pupil will have a lower price adjustment on the local rate. The key is the *spending per pupil*.

At budget time there may be confusion as to why a flat budget results in a rate increase. There are three factors that can lead to this result – local spending, local appraisals and statewide spending. The key determinant in most districts in this situation is an increase in spending per pupil, resulting from either a drop in enrollment or outside sources of revenue. If spending per pupil has not increased, the rate increase might reflect an adjustment on the local property rate to mimic a common level of appraisal at 100% fair market value. Finally, in some years, a significant increase in the statewide base rates due to statewide spending might cause the local rate increase even with flat spending per pupil; however, that is not the case this year. With the base amount and base rates in this letter, school districts without increases in spending per pupil, will not have homestead property tax hikes.⁵

Spending Per Pupil

When we look at budgets year over year, we often compare overall spending amounts. So at budget time, many question why a flat budget in a school district may carry a property tax rate increase. The answer lies in the fact that we have a statewide funding system, and it is not meaningful to compare overall spending between districts unless we consider how many of the state's pupils are being educated in each. In the flat budget/rate increase scenario, it is important to consider two possibilities related to spending:

- *Are student counts falling in the district?* As discussed above, Vermont schools have had declining enrollments for years; experiencing a decline of over 20% from FY1997 to FY2014. The K-12 enrollment is expected to fall again this year. The failure to adjust staff ratios to match this decline has led to very low student-to-staff

⁵ As noted above, legislation established 1.94% as the base homestead income rate for claims paid in FY2016 and FY2017. Since this is an increase from the 1.8% used to calculate the adjustments paid in the current year, qualifying homeowners will experience lower adjustments even without an increase in spending per pupil.

ratio, 4.67 to 1, as well as low class size, with 20% of our elementary classrooms comprised of between only 2 and 9 children. Translated to the tax rates, if a district continues to spend the same amount on fewer students, it is contributing to the growth of the base tax rates statewide and it will experience a higher local adjustment. Secretary Holcombe is working with school districts to understand what the data shows about the trends in their student and staff counts, and to develop strategies to deal with them thoughtfully.

- *Has the district lost outside revenue?* Even if a district with a flat budget has not lost students, it may have lost outside revenue supporting staff and programming, for example, a grant. If the district does not adjust for the loss of the revenue, it will be drawing down more money from the Education Fund per pupil, and again, contributing to higher rates.

Spending per pupil is the lynchpin of our statewide funding system, and when most districts are losing pupils it means that flat budgets may well carry tax increases. That is why Secretary Holcombe has been working with school boards on understanding the demographic trends in their communities, and the strategies they might adopt to preserve fiscal responsibility and educational excellence.

Every district that spends the same amount per pupil starts with the same locally adjusted homestead property tax rate. It is important to emphasize that the local adjustment to the rate reflects the increased amount of *state* dollars spent in that community per student educated – communities do not raise the amount they spend within their borders.

The Common Level of Appraisal (CLA)

Another factor that may affect the locally adjusted rate in some towns actually has nothing to do with education spending, but instead reflects property appraisals. Our statewide system is designed so that every district that chooses the same amount of spending per pupil has the same locally adjusted homestead property tax rate. However, the tax rate is only half the equation in calculating the tax bill – the rate is applied to the homeowner's property value. Towns appraise their properties on different schedules and only those that have recently appraised are likely to have properties listed at 100% of fair market value. Even with the same tax rates, a homeowner in a town at 100% fair market value would pay significantly more in tax than a homeowner in a town at 80% fair market value.

Therefore, in addition to the adjustment for local spending decisions the rate is adjusted to tax as if the properties in each town were listed at current fair market value. The so-called "CLA" adjustment is a revenue neutral true up for fairness among homeowners in different towns paying on the property rate. This point is highlighted by the fact that the CLA has no bearing on the income sensitized rate, which is paid by roughly 65% of homeowners each year.

Interaction of Statewide Base Rates and Locally Adjusted Rates

Finally, in some years, a school district might experience a higher local rate than in the previous year even with the same amount of spending per pupil because of the magnitude of increase in the base rates reflecting overall spending statewide. However, this is not one of those years. Under the forecasts in this letter, including the increased base amount, a district which adjusts its budget to spend the same amount as it did in the current year per pupil, and which has no CLA increase, will see essentially no increase in its homestead property rate. Again, the key is the education spending *per pupil*. The Administration is committed to assisting school districts in right sizing programs and budgets to fit student populations in a fiscally and educationally sound way.

Conclusion

The forecasts at this early juncture suggest that once again the base statewide education tax rates will need to be raised in order to meet the projected spending statewide, albeit at a lesser amount than in recent years. The Administration continues to work with school boards and the Legislature on both short term and long term strategies to reverse this spending trend without sacrificing educational excellence, and to explore any alternative funding mechanisms.

As always, I extend my gratitude to staff at the Department of Taxes, Department of Finance and Management, AOE, and JFO for the enormous collaborative effort in assembling the data necessary for the projections that underlie the statutory recommendations herein.

Sincerely yours,



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