



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

Agency of Administration
COMMISSIONER'S OFFICE

December 29, 2008

Honorable Gaye Symington
Speaker of the House
State House
Montpelier, Vermont 05609

Honorable Peter Shumlin
President Pro Tempore
State House
Montpelier, Vermont 05609

Re: Attached Technical Addendum

Dear Hon. *Gaye* Symington and Hon. *Peter* Shumlin:

Attached is a Technical Addendum to my letter to you of December 1st. I have crafted the attached in order to forestall any further waste of taxpayer funds on an inconsequential legal action sponsored by the Vermont School Boards Association. As you know and as reaffirmed in the Addendum, the Tax Commissioner does not set statewide property tax rates. It is the Legislature that determines these rates and only the Legislature can offer local school boards any certainty regarding rates to guide them during their budget deliberations.

However, while I make the attached recommendation as a technical matter, I urge you not to accept it. It is a fiscally unsound public policy choice that would result in a \$31.2 million property tax increase at a time when Vermonters are struggling to cope with a severe recession.

Consider the following structural realities:

1. Vermont, the nation and foreign economies currently suffer the effects of a recession with experts claiming that the worst is yet to come. Unemployment is on the rise. Retirement funds and family savings have seen 40% to 50% drops as equity markets decline while short term savings rates are near zero. Housing appreciation, at best, is stalled. In this deteriorating economy, increased property taxes only exacerbate the struggles of Vermont households.
2. The fiscal 2010 current law operating statement reveals a 2 cent reduction opportunity in statewide school property tax rates, **but results in a \$31.2 million property tax increase**, even with the benefits of income sensitivity factored in. I think you'll agree that in these times, Vermonters will not welcome, nor should they, a \$31.2 million increase in property taxes. Given the fiscal 2010 increases in equalized grand list values and the recession's effects on other education fund revenues, under current law the property tax is the default provider of support for increases in education spending. This means that the property tax will bear the burden of the Education Department's projected 6.1% increase in per pupil spending.

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3. Over the past 5 years, Vermont's primary and secondary school system has experienced a spending expansion funded primarily by property tax increases. Assuming the fiscal 2010 current law projections, spending from the education fund will have increased by \$319.7 million since 2005. This increase represents an annual growth rate of 5.4% and includes a per pupil education spending growth rate of 6.2% annually. During this same period, property taxes will increase by \$268.1 million, net of income sensitivity, which represents an annual growth rate of 7.2%. The remainder of the increase is covered primarily by increased sales taxes and transfers from the general fund.
4. According to Governing Magazine's most recent annual rankings, Vermont's primary and secondary school system is among the best funded in the nation. We rank 3rd in spending per pupil (40% above the national average), 2nd in pupil teacher ratio (31% better than the national average) and 2nd in the percentage of personal income spent on K-12 education. Vermont Department of Education data reveals that while Vermont's school enrollment has dropped by almost 10,000 students since 1997, school staffs have increased by 3,500 positions, or 22%.
5. In fiscal 2009, public services funded by the general fund have undergone severe budgetary reductions with more likely when the legislature convenes. These reductions have included the elimination of hundreds of positions. At the same time, education spending has been spared rescissions by the Governor and the Legislature. For fiscal 2010, additional cutbacks in general fund appropriations are anticipated with some projections at 8% less relative to 2009 levels. Yet current law education fund projections show no such restraint; in fact, they call for spending increases of near 5% and 6.1% per pupil.

It is understandable, though hardly laudable, that the Vermont School Boards Association would fight to preserve their privileged financial position. Given the complexities of Act 68, they make it sound as if a 2 cent reduction is good news to property tax payers. Yet, as we've seen these past years, even though property tax rates go down, tax bills go up to cover their significant spending increases. In some school districts, members of the Vermont School Boards Association are floating budget increases of 11% (Barre), 7.9% (Burlington), 7.7% (Stowe) and 4.9% (Rutland).

In the context of today's economy, the financial pressures faced by Vermont's citizens and their public servants funded by the general fund have increased severely. Yet, those funded from the education fund seek immunity from our economic woes. Vermont's best in the nation spending on K-12 education provides a very reasonable basis to ask the education lobby to temper their exuberant self-interest and to work with others to find a more balanced response to Vermont's current economic and fiscal concerns.

Finally, the urgency expressed by the VSBA relative to the school budgeting process is without basis. In only one of the last four years has the Legislature set tax rates equal to those I've recommended, and the dates of passage were generally well after town meeting day at 2/14/05, 5/25/06, 6/11/07 and 6/2/08.

Sincerely,


Tom Pelham
Commissioner of Taxes