

Vermont

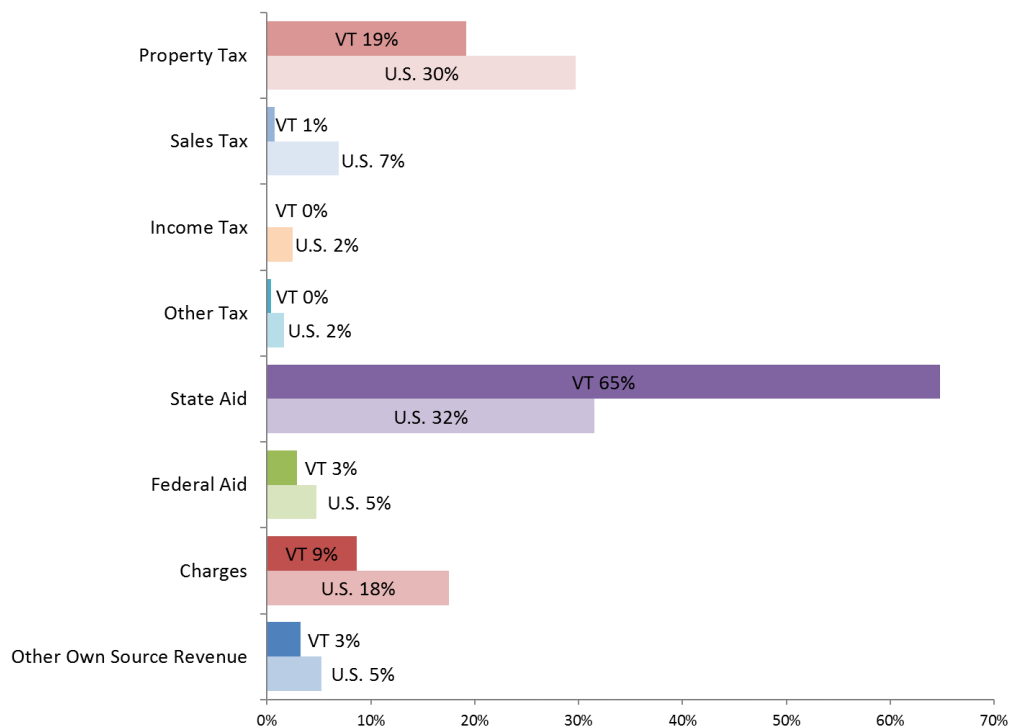
Highlights

Understanding policies and practices around property taxation in Vermont requires substantial attention to the state’s educational finance system. Almost all school budget expenses are funded by the state, with the state property tax, which is locally billed and collected, comprising the largest source of state funding (Vermont League of Cities and Towns 2014). It is important to note that state aid in Vermont appears to be twice the national average; but the majority of state aid originates from the statewide property tax, which is transferred to the state before redistribution (figure VT-1).

Vermont is unique in the degree to which its systemic property tax relief provisions in effect convert the property tax for some low- and moderate-income households into an income tax. One such provision, known as income sensitivity, is one of several provisions that make Vermont’s property tax system one of the most complex systems in the United States.

Vermont is one of only four states with no state-imposed limitation on property tax rates, levies, or assessments (Paquin 2015).

Figure VT-1
Sources of Local General Revenue, Vermont and U.S., 2013



Source: U.S. Census via Significant Features of the Property Tax

Property Tax Reliance

In 2013, Vermont had the third-highest property tax burden in the nation as measured by percentage of personal income. Property taxes accounted for more than 22 percent of all state and local revenue, a rate that places Vermont sixth from the top among all states in terms of total property taxation as a percentage of state and local revenue (table VT-1).

Table VT-1

Selected Vermont Property Tax Statistics, 2013¹

	Vermont	U.S. Average	Rank (of 51) <i>1 is highest</i>
Per capita property tax	\$2,333	\$1,441	6
Property tax percentage of personal income	5.2%	3.2%	3
Total property tax as percentage of state-local revenue	22.4%	16.9%	6
Median owner-occupied home value ²	\$216,800	\$176,700	17
Median real estate taxes paid for owner-occupied home ²	\$3,661	\$2,107	8
Effective tax rate, median owner-occupied home ³	1.7%	1.2%	9

Sources: U.S. Census via Significant Features of the Property Tax, American Community Survey

¹ All revenue numbers in this table include the state government as well as local governments.

² The statistics for median owner occupied home value and median real estate taxes paid for owner-occupied home are five-year average statistics for years 2009–2013.

³ Calculated as the median real estate tax paid on owner-occupied homes as a percent of the median owner-occupied home value.

Administration and Assessment

The education property tax is a state tax, although it is levied and collected locally. Its most important provisions are explained below. Property taxes used to fund local services other than education are controlled by local governments and administered similarly to those in other New England states. Vermont is not considered to have statewide classification of real property, as classification is used only for the education property tax (table VT-2).

With respect to the education property tax, there are two classes of property: homestead and non-homestead, with non-homestead property taxed at a higher rate. Assessment is done annually at the town level. Since the state relies on local assessments, it uses a measurement called the common level of appraisal (CLA) to mitigate assessment or appraisal differences from town to town. The CLA measures how close local assessments are to fair market values. Specifically, the CLA is the percentage of a district's average fair market value embodied in its assessed value. If the assessed values are less than the fair market value, the CLA will be less than 100 percent. If the assessed values are more than the fair

market values, the CLA will be over 100 percent. If a town's CLA drops below 80 percent (that is, if the average assessed value is only 80 percent or less of the fair market value), the state can withhold education and other funding (Huntington, VT).

Non-homestead and homestead base tax rates for the education property tax are set annually by the Legislature. Base spending levels in education, expressed as an average per-pupil spending level, are set annually by the Legislature. However, a significant feature of the education finance system is an excessive-spending threshold that works through a progressive tax rate adjustment to curtail spending in districts. Districts may opt to spend higher than the base; but in cases where districts opt to spend 25 percent above the average state education spending per pupil, they are subject to an additional prescribed property tax rate.

Limits on Property Taxation

There are no state limits on property taxation in Vermont.

Property Tax Relief and Incentives

Vermont has two circuit breaker programs. The first is the education property tax adjustment program, also known as income sensitivity because property taxes are adjusted based on the income of household members. The provisions are complex and vary depending upon income. As one example, for households with incomes of \$90,000 or more, homestead property taxes are limited to 1.8 percent of household income plus the statewide property tax on the value of the homestead in excess of \$200,000 (Hanlon 2015).

The second circuit breaker program is the homestead and renter property tax rebate, in which homeowners with incomes of \$47,000 or less are eligible for additional property tax relief if the income-sensitized education property tax liabilities combined with municipal property taxes are greater than a defined percentage of household income. Veterans and surviving spouses are eligible for property tax exemption if they are receiving disability or survivor's benefits.

Vermont has preferential property tax programs for specific land uses. It offers current-use valuation on land that is used in timber production, conservation, or forest land. Land used for hotels and airports is eligible for full or partial property tax exemptions if owners enter a multiyear commitment. Agricultural land and farmland is eligible as well and can also qualify for full or partial property tax exemptions.

The state also has a variety of property tax-related economic development programs. A tax increment financing (TIF) program has been in place, with ten municipalities currently having TIF districts; but in 2013, the State capped approval for any new districts to be created (Vermont Department of Housing and Community Development). Additionally, state law allows for extensive property tax stabilization agreements for property that is tied to increasing jobs, wages, or municipal redevelopments.

Table VT-2
Vermont Property Tax Features, 2013

Feature	Vermont	Count for 50 states plus DC
Statewide classification of real property	No	25
Assessment of property primarily by county	No	30
Limits on property tax rates or levies	No	45
Limits on the rate of growth of assessed value	No	19
Circuit breaker property tax relief program	Yes	34

Sources: Significant Features of the Property Tax

Key Property Tax History

Vermont's property tax reforms since the 1990s have revolved around key changes in how education is financed. *Brigham v. State*, initiated by the Vermont ACLU, claimed that the existing education funding system was unconstitutional because it created large disparities in education funding from town to town. Act 60, passed in 1997 in response to that school finance litigation, allowed the state to collect and equalize property tax revenues across school districts. Under this law, Vermont distributed education funding statewide in an attempt to mitigate funding inequities (Saas). Act 60 has narrowed those disparities (Saas 2007, Downes 2004). In 2003, Act 68 changed provisions of the Equal Education Opportunity Act regarding operations of the property tax while maintaining the key equalization features of that law (Schmidt and Scott, 2006).

Recent Developments

In recent years, demographic pressures have amplified growing public concern that Vermont's school district organizations are too numerous, often too small, and a leading contributor to excessive spending in education. Upwards of 70 percent of Vermont school districts have enrollments of 300 or fewer students, and nearly a quarter of all Vermont school districts have fewer than 100 students (Vermont Public Radio). Currently, Vermont has one of the highest average per-pupil expenditures in the country, at \$18,000.

Over the past decade, the Vermont Legislature attempted a variety of school consolidation initiatives in response to declining enrollments and the perception that inefficient school district organizations had led to excess spending and property tax burdens (Vermont Legislative Workshop). In 2015, the legislature passed Act 46, which gives tax breaks to districts that consolidate but imposes spending caps on districts that refuse to consolidate by 2017 (Burnette 2016). Recent research suggests that school

consolidation will lead to long-run cost savings and more accessible curricular and co-curricular resources for all students across the state (Baker & Geller 2015). This practice is facing backlash, though. Many citizens live in areas difficult to navigate due to mountains and rivers, and traveling longer distances to get to school can be impractical (Bidgood 2014). Local concerns also include a loss of a community identity if one small town doesn't have its own school. At the same time, many believe that larger schools have a negative impact on student performance (Vermont Legislative Workshop).

Resources

Baker, Bruce, and Geller, Wendy. "When Is Small Too Small? Efficiency, Equity & the Organization of Vermont Public Schools." *Vermont State Agency of Education and Rutgers University*, March 2, 2015. http://education.vermont.gov/documents/EDU-bbaker-vtconsolidation-march2_20152.pdf

Bidgood, Jess. "Vermont School Districts Consider Consolidation." *New York Times*, May 4, 2014. www.nytimes.com/2014/05/05/us/vermont-school-districts-consider-consolidation.html?_r=1

Burnette, Daarel II. "Consolidation Push Roils Vermont Landscape." *Education Week*, February 16, 2016. www.edweek.org/ew/articles/2016/02/17/consolidation-push-roils-vermont-landscape.html

Downes, Thomas. 2004. "School Finance Reform and School Quality: Lessons From Vermont." *Helping Children Left Behind: State Aid and the Pursuit of Educational Equity*, Ed. by John Yinger. Cambridge, MA: MIT Press. Pages 283—315.

Hanlon, Paul P. 2015. "Vermont Property Tax." In *ABA Property Tax Deskbook*, 20th Edition. Washington, DC: American Bar Association.

Paquin, Bethany. 2015. "Chronicle of the 161-Year History of State-Imposed Property Tax Limitations." Working Paper WP15BBP1. Cambridge, MA: Lincoln Institute of Land Policy. (April.) https://www.lincolninst.edu/pubs/2538_Chronicle-of-the-161-Year-History-of-State-Imposed-Property-Tax-Limitations

Saas, Darcy Rollins. 2007. "School Finance in Vermont: Balancing Equal Education and Fair Tax Burdens." *New England Public Policy Center*, January. Discussion Paper 07—1.

Schmidt, S.J., and Scott, K. (2006). Reforming reforms: Changing Incentives in Education Finance in Vermont. *Education Finance and Policy*, Vol. 1, No. 4: 441—464.

Significant Features of the Property Tax. <http://datatoolkits.lincolninst.edu/subcenters/significant-features-property-tax/>. Lincoln Institute of Land Policy and George Washington Institute of Public Policy.

Town of Huntington, Vermont. "What Is the Common Level of Appraisal (CLA)?" n.d. <http://huntingtonvt.org/documents/documents-forms-a-permits/reports-and-research/town-treasurer-1/taxes-information/845-what-is-the-common-level-of-appraisal-cla/file.html>

Vermont Department of Education, Finance and Administration. 2013. "Vermont's Education Funding System." (September.) <http://vlct.org/assets/Advocacy/Property-Tax-Reform/explanation-of-acts-60-68.pdf>

Vermont League of Cities and Towns. 2014. "Election 2014: Education Funding." Municipal Policy Paper No. 2. (September.) www.vlct.org/assets/Advocacy/2014-2_education_funding_web.pdf

Vermont Legislative Workshop. "School District Consolidation." *University of Vermont*, March 1, 2007. www.uvm.edu/~vlrs/Education/schooldistrictconsolidation.pdf

Authors

Kieran M. Killeen, Associate Professor, University of Vermont

Elizabeth Howes, Research Assistant, Lincoln Institute of Land Policy

Publication Date

November 2016