

Aggregate CLA Legislative Study Committee of Act 132 of 2016

2016 Report

December 2016
Submitted by Douglas Farnham, Chair

All related Report items, including agendas, meeting minutes, and documents shared by committee members, can be found here: <http://tax.vermont.gov/municipal-officials/cla-study-committee>

Legislation

[Sec. 6 of Act 132 of 2016](#) established the Common Level of Appraisal (CLA) Study Committee to study the use of an aggregate common level of appraisal in a merged school district when determining the statewide education tax for each municipality in that district.

The Committee shall study the impact of aggregating the common level of appraisal in a merged school district, including the following issues:

- (1) how to determine and calculate the aggregate CLA; and
- (2) the potential impacts of aggregating the CLA, including any advantages or disadvantages.

On or before December 15, 2016, the Committee shall submit a written report to the House Committees on Ways and Means and on Education and the Senate Committees on Finance and on Education with its findings and any recommendations for legislative action.

Committee Members

The committee was composed of the following five members:

Douglas Farnham, Director, Property Valuation and Review, Vermont
Department of Taxes

Jon Mowry, Vermont School Boards Association representative

Tom Vickery, Vermont Assessors and Listers Association representative

Randy Viens, Vermont Assessors and Listers Association representative

Bill Shepeluk, Vermont League of Cities and Towns representative

Summary of Discussion

The Committee held monthly meetings between July 2016 and December 2016, all held in the Statehouse and with public invitations. All related Report items, including agendas, meeting minutes, and documents shared by committee members, can be found here: <http://tax.vermont.gov/municipal-officials/cla-study-committee>.

With the assistance of the Department of Taxes, the committee considered different scenarios for merging CLAs in various communities, to explore options that include the values of equity, fairness and clarity that the committee wanted reflected in any final recommendations. They also heard from representatives of the Agency of Education, Lawmakers, Vermont School Boards Association (in person and via survey), Vermont

Assessors and Listers Association, New England Municipal Resource Center, and Vermont League of Cities and Towns.

Recommendations

The committee makes the following recommendations for consideration:

1. That the municipal Common Level of Appraisal (CLA) generated by the Division of Property Valuation & Review (PVR) be displayed on all municipal property tax bills.
2. That legislation is enacted to encourage municipalities to merge for assessment purposes in alignment with school districts.

Explanation of Recommendations

The duties of listers and assessors in 2016 are complex, highly impactful, increasingly time consuming, and result in over \$1.5 billion of state and municipal revenue to Vermont every year. This is all money coming out of the pockets of owners of real property in Vermont, and that makes it exceptionally important that high standards are held for fairness, consistency, and accuracy. It is the belief of the committee that these recommendations will promote the improvement of those standards statewide without reducing the local control of the grand list.

The first recommendation of the committee is that the municipal Common Level of Appraisal (CLA) generated by the Division of Property Valuation & Review (PVR) during the annual equalization study be displayed on the municipal property tax bills. The CLA should be included in the calculation of tax on the bill that shows the school district tax rate, which is then divided by the CLA of the municipality to produce the education tax rate for the town. The education tax rate is then multiplied by the property value on the grand list to produce the education tax due. The calculation would also need to continue to show the homestead and nonresident calculations separately.

The committee is aware that this concept has been examined and discarded in the past, however, it is still the opinion of the committee that it should be easier for taxpayers to see the impact of the CLA on their bills and it should not be hidden behind displaying the education tax rate. This may alleviate some confusion and misunderstanding about tax rates following a merger.

The purpose of this recommendation is to bring clarity to taxpayers about the major factors which impact their tax bill every year. Brief explanatory language about the

CLA, its origin and purpose, as well as education spending calculations, would be included on the back of the property tax bill along with a reference to the Department of Taxes website where more in-depth information is available about education tax rates and how to understand the calculations.

The Department of Taxes is currently engaged in a public transparency initiative, and education, outreach, and easily accessible materials explaining the education tax rate process have already been identified as needs to be addressed in 2017. The committee believes that inclusion of the CLA on the municipal property tax bills should be addressed through statute to promote consistency statewide and that, if statutory language is adopted, the Legislature should strongly consider funding the municipal implementation costs for this change.

The second recommendation of the committee is to create enabling legislation which would allow municipalities to merge for assessment in alignment with school districts. Options are listed in order of preference by the committee.

Approach 1: Single Assessment District

Creating single assessment districts would treat the merged towns as a separate entity for assessment purposes, similar to the unified towns and gores of Essex County. 32 V.S.A. § 5405a. Municipalities electing to form a single assessment district would require a vote to be conducted by all towns within the proposed assessment district. The new districts would elect to merge completely and maintain a single grand list and a centralized office for property assessment. An election to merge completely could be made during the initial merger or later. If a new district elects to merge completely and create a centralized office for the property assessment purposes mentioned above, then that district should also create consolidated boards of listers, civil authority, and abatement with representation from each of the member municipalities. This is intended to ensure that appeal, abatement, and reappraisal decisions are made at the district level, but that local control over the grand list is maintained.

Authorizing statutory language and procedures would need to be established for recording the district grand list at each member town and identifying which town or merged district officer is responsible for lodging the district grand list with the state. It is the recommendation of the committee that this degree of consolidation be considered permanent due to the costs involved with a restructuring of that degree.

Approach 2: Assessment District for CLA only

This would treat the merged towns as a separate assessment district, similar to the unified towns and gores of Essex County, but ONLY for the purposes of the equalization study and the establishment of a shared CLA. While the municipalities would still be able to maintain independent grand lists at the town offices, the municipal grand lists would be merged for the purposes of the annual equalization study. Towns would be expected to maintain consistent assessment practices throughout the district and reappraise on a uniform schedule going forward. Merged assessment districts would be treated as a single assessment district where all relevant sales and property listings would be considered to produce a single CLA.

Under this model, the municipalities would remain independent for the purposes of hearing grievances, abatement requests, grand list filing, current use parcel management, reappraisal and financial interaction with the Agency of Education. Merging to an assessment district should be binding for a period of five years to prevent unnecessary administrative burden or confusion on the part of taxpayers which could result from short-term district creation.

Considerations

Although merging at the education district level is the preferred configuration of the committee, the committee acknowledges that this arrangement may not always be feasible and may prevent incremental progress towards a single assessment district. Therefore, subsets of towns within a school district should be allowed to merge (similar to a modified unified union education district). Towns that span two or more districts should not be allowed to merge because this would preclude a common district tax rate.

While it would be most equitable to Vermont property owners for merging districts to reappraise at the time of a merger, this may be cost prohibitive for some municipalities and should not be a requirement. Under the Tax Commissioner's discretion, an agreement could be reached that they would not be required to do a reappraisal if they have done one within a determined window of time (such as two years).

Possible Advantages and Disadvantages

The primary advantage of showing the CLA on the tax bill is that taxpayers in towns that have merged will see the same *district* education tax rate on their bills. The final town tax rates will differ, and taxpayers will see that that is a result of the town CLA, which comes from the State's equalization study. The school board will be able to point to the district rate on the bill which is a function of the district's per pupil spending (and any incentives). The disadvantage of this change is the

(re)introduction of a mathematical equation to the tax bill, and possible questions directed at state officials about the equalization study and the town CLA.

Producing an education district level CLA would allow for a much greater degree of consistency and transparency to property taxpayers within a school district, and allow them to vote on spending decisions from the same footing. Assessment consolidation would mean that all taxpayers within a district would feel the same impact from their decisions and have the same “bottom line.” Additionally, the larger district would mean a larger sample of sales for the equalization study, potentially leading to less variation in the CLA from year to year. State-level benefits of consolidation would include administrative savings through larger sampling sizes for equalization purposes. This would reduce the need for supplemental appraisals and a reduction in travel and coordination costs, and the formation of assessment districts should also promote the professionalism of listing in Vermont.

It should be noted that the formation of assessment districts has the potential to increase costs for smaller municipalities where limited resources have been applied to the maintenance of the grand list. Estimating the financial impact of consolidation statewide would be time consuming and of limited value as it would vary greatly depending on the circumstances found in each municipality. However, the committee agreed that the benefits of more equitable and accurate assessments for property taxes through more dedicated grand list maintenance were worth potential increases in costs.

Background information: What is the CLA and Why do we have it?

In 1997 the Vermont Legislature passed Act 60 to equalize education funding across the state. Before Act 60 was passed, the amount a town could raise to fund its schools was limited by the amount of property value in the town. Because of that, levels of school funding and therefore educational opportunity varied widely across the state. Act 60 shifted education funding to the state level, creating a statewide education property tax rate and a state “Education Fund” to collect the revenue.

This new arrangement of shared education funding responsibility made it necessary to check the accuracy of the town Grand Lists since they are maintained by town listers, not the state. If the Grand List in a town didn’t reflect fair market value, then the town would have ended up sending more or less tax revenue than its fair share to the statewide Education Fund. Since towns don’t reappraise every year, and real estate markets are constantly changing, a correction factor, or “Common Level of Appraisal” was developed to equalize what is paid in education property taxes across towns.

The Common Level of Appraisal (CLA) for every Vermont town is the primary result of the “Equalization Study” performed by the Tax Department every year. The study compares the ratio of Grand List value to sale price for all the arms-length sales in the town over the prior three-year period. The study considers sales price as the best measurement of fair market value. If Grand List values are generally less than sale prices for the recent sales, the town will end up with a CLA less than one hundred percent. If Grand List values are generally more than sale prices for the recent sales, the town will end up with a CLA of more than one hundred percent.

Once the CLA is determined, it is used to adjust the homestead and non-residential education tax rates. The CLA doesn’t change people’s property values, only the education tax rate in a town - an example of *indirect* equalization.

Example: The 2015 equalization study gave the town of Weston a CLA of .9589, indicating that property in the town is generally listed for 95.89% of what it is selling for. The “raw” education tax rate for FY17 in Weston is \$1.5797 (per \$100 of property value) and the non-residential rate is \$1.5350 (per \$100 of property value).

After the CLA is applied Weston’s final homestead education property tax rate will be:
$$\$1.5797 / .9589 = \$1.6474 \text{ (per \$100 of property value)}$$

After the CLA is applied Weston’s final non-residential education property tax rate will be:
$$\$1.5350 / .9589 = \$1.6008 \text{ (per \$100 of property value)}$$