The Effect of Commercial Development on Educational Tax Rates

The effect of commercial development on Lot 15, or alternatively, the use of Lot 15 for municipal purposes, on the Hinesburg municipal tax rate was discussed in the first interim report to the Hinesburg Select Board from the Lot 15 committee. At that time[1], additional information was requested on how commercial development affects the school tax rate for the town. The information on commercial real estate educational tax accounting provided below has been independently researched and compiled by John Roos and shared with the Lot 15 Committee in order to answer the Selectboard's questions. While the calculations presented below are specific to the present valuation of Lot 15 and that of a possible commercial development scenario, the equations provided are generic and equally applicable to other commercial lots and commercial development activity.

According to Terry Gildersleeve of the Vermont State tax department, prior to the inception of Act 60, non-residential and residential properties were treated identically in the calculation of the municipal and school rates, that is, that the effective tax rate for either educational funding or town services funding was reached by the following three equations

Grand List = Total Town residential property Value + Total Town non-residential property value

Municipal Tax Rate = (Municipal Budget – Any Surplus or Other Funds to be Applied) / Grand List

School Tax Rate = (School Budget – Any Surplus or Other Funds to be Applied) / Grand List

Thus, whether development was residential or non residential, the effect of increasing the grand list was a linearly proportional decrease in the tax rate.

With the passage of Act 60 in 1998 and later, Act 68, however, the relationship between residential and non-residential valuations within the grand list, educational budgets and educational tax rates has become more complex. These educational funding reforms establish state-wide base tax rates for residential and non-residential properties and a common level of appraisal (CLA) in order to insure that properties of equal fair market value in different towns can yield equivalent tax revenue despite different appraisal baselines. Further, these reforms treat non-residential property, including commercial property differently than residential property. While residential and non-residential property values affected the grand list and the school tax rate in the same way prior to 1998, post-Act 60, non-residential property valuations are pooled state-wide and the educational tax revenue realized from these properties is redistributed by the state. Act 60 introduced additional complexity into the residential rate calculation with introduction of the school district's spending adjustment and homestead exclusion. Only the non-residential educational tax calculations, which are the subject of this report, will be detailed below

The educational tax rate for non-residential property, which is defined as any property that is not a homestead, with certain exceptions, in Hinesburg can be calculated with the following equations:

SBTR = State base tax rate for non-residential property

CLA = Common Level of Assessment for Hinesburg in percent

STRNRP = School Tax Rate for Non-Residential Property in Hinesburg

STRNRP = SBTR / CLA

For the 2012 Fiscal Year:

SBTR = $1.36 per $100 of assessed value

CLA = 94.9%

STRNRP = 1.36 / 0.949 = $1.433 per $ 100 of assessed value for non-residential property in Hinesburg

State Educational Tax Yield for Non-Residential Development in Hinesburg
$1,000,000 Development = $14,330.87 Tax Revenue
$3,000,000 Development = $42,992.61 Tax Revenue

Thus, for the 2010 tax year, for every $1,000,000 of non-residential property in Hinesburg, the State of Vermont collects $14,330.87 of education tax revenue for redistribution to towns throughout the state. With CLAs varying from town to town based on their different appraisal baselines; the state should be able to realize the same revenue from properties of equal fair market value anywhere in the state. The revenue collected from non-residential educational real-estate taxes throughout the state is pooled by the tax department and re-distributed to towns in proportion to the town's grand list relative to the state's grand list. Because non-residential development in any town within Vermont increases the revenue to the state, development in Hinesburg will to some small extent provide a tax rate benefit to all other towns in the state and likewise, non-residential development in any other town will provide some small tax rate benefit to Hinesburg.

The following example calculation provides the educational tax rate benefit to Hinesburg of a $1,000,000 non-residential development in Hinesburg

NETR = New Educational Tax Revenue due to the non-residential development

STRNRP = 1.433 per $100 of assessed value for non residential property

HGL = Hinesburg Grand List Prior to the development, roughly ~= $500,000,000

NRDGLA = Non-Residential Development Grand List Adder = $1,000,000 in this example

VGL = Vermont Grand List prior to the development activity, roughly $80,000,000,000

Hinesburg's property is 0.625% of the state's grand list

NETR = STRNRP * (NRDGLA/100)

TO = Tax Offset = the tax dollars associated with the new development sent back from the state based grand list proportions

TO = NETR * ((HGL + NRDGLA) / (VGL + NRDGLA))

ETRO = Education tax rate offset = TO / ((HGL + NRDGLA) / 100)

NETR = 1.433 * (1,000,000/100) = $14,330

TO = 14,33 0 * ((500,000,000 + 1,000,000) / (80,000,000,000 + 1,000,000)) = $89.74

ETRO = 89.74 / ((500,000,000 + 1,000,000) / 100) = $0.0000179 per $100 of assessed valuation

Or ETRO = $0.018 per $ 100,000 of assessed value
Or ETRO = $0.179 per $1,000,000 of assessed value

Given the above example, Hinesburg's benefit due to $1,000,000 of non-residential development would be less than $0.02 for a property valued at $100,000 or roughly $0.06 for a $300,000 property. If the new development was valued at $3,000,000 the tax benefit to the town of Hinesburg would roughly treble and the owner of a property listed at $300,000 would save $0.18 on his or her educational tax bill. In any event, remaining 250 towns within Vermont would split the remaining 99.375% of the additional tax revenue realized from the development.

Relying on the above calculations, the statement can be made that non-residential development does not provide an educational tax rate reduction benefit. Likewise, removal of non-residential property from the tax roles would not impact the educational tax rate. Given the insensitivity of the educational tax rate to non-residential development, tax rate impacts due to the addition or removal of non-residential property from the town's grand list is limited to the municipal tax rate.