Memorandum

To: Trustees; Selectboard; Evan Teich, Unified Manager
From: Sarah Macy, Finance Director/Assistant Manager
Re: Introduction to Taxation Plan
Date: September 9, 2019

Sarah Macy

Issue
The issue is to introduce key concepts in a taxation plan that would be included in the plan of merger to bring the community to one tax rate over time.

Discussion
In anticipation of the November 2020 merger vote, one of the critical decision points is deciding how and over what period of time we propose moving from the current taxation structure to a structure that applies one single rate to the entire community.

The current tax rate structure appears as follows. This chart is broken down into the Town Outside the Village (TOV) and the Village, with Town-wide tax rates shown in both columns.

	TOWN OUTSIDE VILLAGE (TOV)	VILLAGE
TOWN GENERAL TAX	0.5067	0.5067
TOV HIGHWAY TAX	0.0110	
TOWN CAPITAL TAX	0.0200	0.0200
TAX AGREEMENTS	0.0019	0.0019
VILLAGE GENERAL TAX		0.3206
VILLAGE ECONOMIC DEV.		0.0100
TOTAL	**0.5396**	**0.8592**

To get to one tax rate, the rates in this chart that only appear in one column must be eliminated or distributed across the entire community. That includes the TOV Highway Tax, the Village Economic Development Tax, and the Village General Tax.

To start the discussion, the following assumptions apply:

1. First merged year is FY2023
2. TOV Highway Tax and the Village Economic Development Tax are both eliminated in the first merged year.
3. The two budgets become one budget with multiple funding sources in FY2023
4. The amount previously raised by the Village General Tax is frozen and integrated incrementally over time into the Town General Fund. This amount, annually, is raised on the Village-only grand list until it is phased out.
5. Village debt remains with the Village only grand list until it is paid in FY2035
6. In all models, regardless of other assumptions, the projected future expenses for debt are actual debt numbers based on current outstanding debt for the Town and Village. These steadily decrease over time and sunset in FY34 for the Town and in FY35 for the Village.

Zero-Growth Model (Merger Only Model)

In an effort to isolate just the effects of merger, the first model to review is the zero-growth or merger only model. By freezing FY20 grand list and budget figures and assuming that there is 0% annual growth in either the grand list or the annual budgets, the incremental redistribution of the Village general fund tax revenue can be separated out to specifically answer the question "how much will my taxes change as a result of merger?".

Using FY20 numbers, in order to eliminate the Village General Tax, $3,242,862 would be incrementally absorbed into the town-wide tax rate. Note: $3,242,862 is less than the total amount raised by the Village General Tax of $3,556,422. Of the total, $313,560 in FY20 number is Village debt which will remain with the Village taxpayers until paid in FY35. The total impact of absorbing that amount into the entire grand list is as follows:

Property Value	Town Outside the Village	Village
$280k	$329	($487)
$350k	$412	($609)
$500k	$588	($871)
$1M	$1,176	($1,741)

This is the amount that will need to be spread out over one or more years. The following table shows the average annual increase/(decrease), for different property values, in the TOV and the Village, assuming transition periods of 3, 5, 7, 10, or 12 years. Twelve years is included because it aligns nicely with the termination of debt payments.

	Town Outside the Village					Village				
Value	3 Years	5 Years	7 Years	10 Years	12 Years	3 Years	5 Years	7 Years	10 Years	12 Years
$280k	$109	$65	$46	$32	$26	($164)	($100)	($72)	($51)	($43)
$350k	$136	$81	$57	$40	$33	($205)	($125)	($90)	($64)	($54)
$500k	$194	$115	$82	$56	$46	($294)	($178)	($129)	($91)	($77)
$1M	$388	$231	$163	$113	$93	($587)	($356)	($257)	($183)	($154)

As you can see, the longer the transition period the less the annual impact is even though the overall impact is the same.

I recommend the boards use this data as a basis for deciding the period of time over which to equalize taxes. Once normal operating assumptions and grand list growth assumptions are layered in, it becomes more difficult to differentiate between what is normal growth and what is due to merger.

Summary of the basic impact of the two primary unknown factors:

1. Grand list growth in the absence of budget growth would decrease these averages. Meaning, the average increase for the TOV would go down and the average decrease for the Village would be more.
2. Budget growth in the absence of grand list growth would increase these averages. Meaning, the average increase for the TOV would go up and the average decrease for the Village would be less.

What other variables are there?

1. The introduction of new revenues that could decrease the reliance on the property tax would free up capacity in the existing property tax rate to absorb more of the transition without increasing taxes.
    a. Local option tax. Instituting a local option tax to replace the operating transfers to capital would eliminate $760k in the Village budget and $394k in the Town budget. The decreased reliance on property taxes would then be used to help ease the transition. Staff does not recommend pursuing a local option tax as part of the merger plan, but hopes the boards will bear it in mind for a separate initiative to consider.
2. Examine existing non-tax revenues such as fees for services – are there areas that need revision? I expect this would not make a noticeable difference as fees for services are a small part of the revenue budget.
3. Reduce expenditures or keep budget increases to a bare minimum. There is a certain budget increase that can be expected each year as a result of contractual obligations, the cost of winter road materials, the cost of paving, and the cost of utilities.

Summary: Whether the process is short (3-5 years) or more gradual (7-12 years), the Town and Village coming together means the two different levels of taxation meet somewhere in the middle. This requires the lower of the two rates to rise as the higher of the two rates falls. A decision about the period of time over which to spread this change is an important one, but a decision doesn't change the total impact, it just makes it either steeper or more gradual.

Cost
No cost at this point

Recommendation
No recommendation at this point, for informational and discussion purposes.