A Citizen's Guide to the CLA

Vermont's Common Level of Appraisal Adjustment for School Taxes

Published by the

Vermont Childrens Forum

and the

Public Assets Institute

The purpose of this booklet is to provide an understandable explanation of the CLA (common level of appraisal) adjustment. This is a technical term used by the Department of Taxes and it affects every Vermont property owner's school tax calculation.

Understanding what the CLA is and how it works will help citizens participate in the ongoing public conversation about adequately funding schools for all Vermont children. This is one of our most important duties as citizens.

To help make the explanation as useful as possible, a glossary of terms is provided at the end of the booklet. Words shown in **bold** throughout the booklet are defined in the glossary.

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VERMONT'S COMMON LEVEL OF APPRAISAL ADJUSTMENT FOR SCHOOL TAXES

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What is a CLA?

CLA (common level of appraisal) is an adjustment to listed property values. The state calculates a CLA annually for each town to adjust the **listed value** of properties to reflect **fair market value** as nearly as possible. The CLA is printed on property tax bills.

How does the CLA ensure that all property is taxed at fair market value?

The best method for making sure that all properties are listed at fair market value is for the town to conduct a town-wide reappraisal. That's why the state pays every town $8.50 per parcel per year to help cover the cost. Towns pay nearly $100 per parcel to reappraise, so the state covers about half the cost of conducting a reappraisal every six years.

Since it is not practical or affordable to administer a town-wide reappraisal every year, the state has developed a system to adjust the listed values to assure that all properties are listed as close as possible to fair market value every year. This system produces the CLA.

The CLA adjustment is based on a **statistical analysis of recent real estate sales** for each town. While not as accurate as a town-wide reappraisal, this statistical analysis provides a reasonable way to ensure that all listed values are adjusted to be as close to fair market value as possible every year.

Here's how it works:

1. Town listers (or assessors) determine the fair market value for each piece of real estate. These become the listed values for properties in the town and the basis for the **grand list** used to calculate **property taxes**.

2. Real estate market prices change, sometimes very quickly, making the listed values out of date.

3. To correct for this, the state annually compares the listed values of a sample of properties sold in each town with their sale prices and develops a correction factor or adjustment (CLA) for each town.

4. The listed value divided by the CLA equals fair market value.

How does the CLA affect property taxes?

The CLA affects only the **school tax**, and it only applies to property. Any school taxes that are paid based on household income are not affected by the CLA. Local **municipal taxes** are not affected by the CLA.

Since the school tax is a state tax, every property in the state needs to be valued correctly so that property owners are taxed fairly. The CLA helps to do this.

Here's how the CLA affects your school taxes:

Suppose the state finds that a town's listed values are only 80% of fair market value. The CLA for that town would be 80% or 0.80.

That means that without the CLA adjustment the school property tax (grand list x state tax rate) would be only 80% of what it should be if a property were listed at fair market value.

Dividing *either* your grand list or tax rate by the CLA before calculating your tax will result in the correct tax amount. This is usually done on tax bills by dividing the tax rate by the CLA.

Example:

Single-family home in a town with listed values at 80% of fair market value

Home's listed value	$100,000
Grand list value(listed value/100)	$1,000
School tax rate	$1.50
CLA for this town	80% (.80)
Home's fair market value (listed value divided by CLA)	$125,000
Tax at fair market value (fair market value times tax rate)	$1,875

To apply the CLA adjustment to a tax bill:

Divide the grand list value by the CLA; then multiply by the tax rate

- 1,000 ÷ .8 = $1250
- $1250 X $1.50 = $1,875

OR

Divide the tax rate by the CLA; then multiply by the grand list value

- $1.50 ÷ .8 = $1.875
- $1.875 x $1,000 = $1,875

You get the same answer either way.

Why does the CLA seem to make school taxes go up faster than a town's school budget?

The CLA is not the cause of taxes rising faster than school budgets. It is simply a mechanism for making sure property is correctly valued.

There are three reasons why school taxes can go up faster than a town's school budget.

Reason #1: **The number of pupils in the school district decreases.**

This is the most common reason for taxes on primary residences (or homesteads) increasing faster than the town's school budget. School tax rates on homesteads are based on each town's spending per pupil. Higher spending per pupil results in higher homestead tax rates. It's not how much the school district spends that increases homestead taxes, it's how much it spends *per pupil.* Even if the overall school budget doesn't increase at all, fewer pupils means higher spending per pupil. A town's school spending does not affect the school tax rate on non-residential property in that town because there is one statewide tax rate for non-residential property.

Reason #2: **The town's property values are rising faster than the state average.**

School taxes in Vermont are state taxes. That means that tax rates are set based on the *state's* rather than the *town's* grand list.

If the state grand list increases, school tax rates go down throughout the state to raise the same amount of money.

Imagine four houses with total grand list value of $100 and a tax rate of $1.00. That would produce $100 in tax revenue.

$25 $25 $25 $25 X $1 tax rate = $100

If the grand list value of all of these houses doubled to $200, the tax rate would be cut to $.50 to raise the same revenue. All these properties will have the same tax *bill* as before.

$50 $50 $50 $50 X $.50 tax rate = $100

State tax rates will go down as grand list goes up to raise the same revenue. But, if property values in your area are increasing faster than in other parts of the state, the fair market value of your property can increase more than your tax rate decreases. This would make your tax bill go up faster than your school's budget.

Using the previous example, let's say total grand list value increases to $200, but not every property increases the same amount.

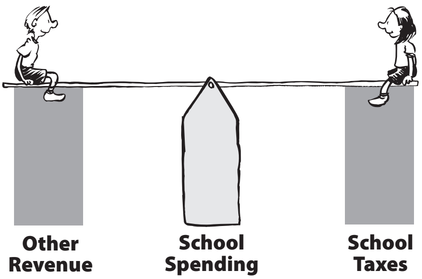
$25 $25 $25 $125 X $.50 tax rate = $100

Just as in the previous case, the tax rate went down to $.50 because the total grand list increased to $200. But in this case for the property that increased from $25 to $125, the tax bill will be higher than before (was $25, now $62.50). All the others will be lower (were $25, now $12.50). Revenue raised still equals $100.

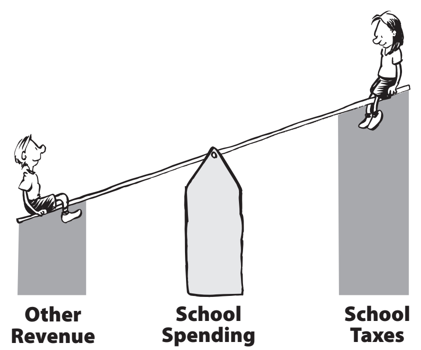
***Reason #3:* School spending is growing faster than non-school tax revenue to the Education Fund.**

The school tax provided 62% of school revenue in FY-06. The other 38% came primarily from the General Fund transfer to the **Education Fund** as well as from the sales tax and lottery proceeds. When this other (non-school tax) revenue does not keep pace with statewide school spending growth, the school tax (on both property and income) must go up faster to fill the gap. This is the third way that school taxes can go up faster than a town's school budget.

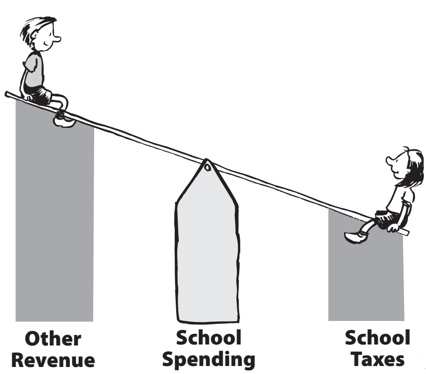
It works like a teeter-totter.



If other revenue grows at the same rate as statewide school spending, then the system is in balance and school taxes will grow at this rate, too. For example, if spending grows 5% and other revenue grows 5%, then school taxes will increase 5%.



If other revenue grows more slowly than school spending, then school taxes must grow faster to make up the difference. To stay with our example, if school spending grows at 5%, but other revenue grows at 3%, then school taxes must grow faster than 5%. In this example, they would grow 6.2%.



The opposite is also true. If other revenue increases faster than school spending, then school taxes go up less. So, with school spending growth at 5%, if other revenue grows 6%, then school tax growth would only need to be 4.4%.

Note: State law requires that beginning in FY-06 the amount transferred from the General Fund to the Education Fund each year be "adjusted by the percentage change in general fund base spending in the current fiscal year" [16VSA§4025(a)]. However, while General Fund base spending has grown faster than school spending in both FY-06 and FY-07 budgets, the state has held the General Fund contribution to the Education Fund to 4%, well below school spending growth. This has contributed to school taxes increasing faster than school spending.

Glossary of Terms

Education Fund: a state fund established in 1997 where all school tax revenues along with other revenues are deposited. The fund pays most of the annual cost of public education.

Fair Market Value: the price that a willing buyer would pay to a willing seller.

General Fund: the state fund where state taxes and other revenues are deposited to be used to pay for most state services.

Grand List: one percent of the listed value of real property.

Listed Value: the value of property recorded on a town's tax rolls.

Municipal Tax: local property tax used to pay for municipal services such as highways, libraries, recreation, police, and other town services.

Property Tax: Grand List x Tax Rate (in dollars)

School Tax: state tax that is collected by towns and sent to the Education Fund to pay for nearly two-thirds of K-12 public education (also called Statewide Education Tax).

Statistical Analysis of Recent Real Estate Sales: an analysis of property values that looks at a representative sample of recent sales in each town to estimate the market value of property town wide. The same method is used for every town in the state.

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For additional copies of *A Citizen's Guide to the CLA* contact:

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Also available is *A Citizen's Guide to School Funding, Vermont's Act 68*, a booklet to provide a basic understanding of how Vermont's school funding system works.

The Vermont Children's Forum (VCF) is the state's leading nonpartisan and independent voice for children and youth. VCF's mission is to promote public policy that enhances the lives of children and youth in Vermont. Through its research, education and advocacy, VCF is on the front line for Vermont kids of all ages.

A major effort of VCF is its Public Education Project. The goal of the project is to strengthen support for public schools and equal access to quality public education for all Vermont children. VCF believes that high quality public education is crucial for our young people and for our future.

The Public Assets Institute (PAI) is an independent, nonprofit research and education organization that analyzes and develops fiscal policy and facilitates informed discussion on the fiscal implications of important public policy initiatives. The institute seeks to balance individual and public interests, encourage democratic decision-making, and enlist the powers of government to enhance the well being of all citizens.

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