

What is the Common Level of Appraisal and What is it Doing to my Property Tax Rates?

Summary

Because Vermont reappraises property very infrequently, it uses an adjustment factor called the Common Level of Appraisal (CLA) to adjust property taxes to the levels that people would have seen if their property was assessed at fair market value. This is done using a study of the last three years of property sales. This causes different towns in the same district to have different property taxes and different changes in their property taxes in a given year.

What is the CLA?

- The CLA is a measure of how different the actual value of property in a town is from its appraised value. It is calculated by looking at the past three years of property sales, dividing appraised value by the sales price for the properties sold during that time period.
- The CLA is functionally a reappraisal: it adjusts the total dollar amount of the tax that you pay so that everyone is being taxed on the estimated fair market values of their property.
- While the CLA is functionally a reappraisal of the property value, it is calculated as an adjustment to the tax rate, but the results in terms of the total dollars that you pay in taxes are equivalent.

For example, consider someone with a house appraised at \$100,000 that is actually worth \$150,000. If we had a tax of \$1.00 per \$100 of property value (1% of the total value) and applied it to the actual value, the tax bill would be \$1,500. Instead, the CLA adjusts the tax rate: because the property value has increased by 50%, it increases the tax rate by 50%, and applies it to the appraised value. In this case, the tax rate will now be 1.5% (\$1.50 per \$100), but this higher rate is applied only to the appraised value of \$100,000. This still produces a total tax bill of \$1,500.

Why do we make these adjustments?

Vermont reappraises property very infrequently. Worcester was last appraised in 2007, and a reappraisal should be completed this year. East Montpelier was last appraised in 2009, but doesn't expect to have its reappraisal completed until 2029. If we didn't have a mechanism for accounting for the divergence of assessed value from real value, people in towns where the assessed values are closer to the true ones could end up paying significantly more in taxes.

Consider what we expect to happen in our school district as towns reappraise at different times. In 2026, after their reappraisal is complete, we would expect a house in Worcester that is appraised at \$300,000 to actually sell for \$300,000, but a house in East Montpelier that would also actually sell for \$300,000 might only be appraised at \$200,000 because they are still using the 2009 appraisal. If both were taxed the same rate on the appraised value, the Worcester family would pay 1.5 times as much in taxes on a house that, in reality, is worth the exact same amount. To account for this, the CLA will adjust the East Montpelier tax rate up by a factor of 1.5 so that the total taxes paid on each property will be the same.

If my property value is going up, why is the CLA going down (and why does a lower CLA produce a higher tax rate)?

The state has chosen to calculate the CLA as the appraised value divided by the actual value. The appraised value stays constant (until there's a reappraisal), so as the true value of the property increases the CLA will decrease. To then get the adjusted tax rate, we need to divide the tax rate by the CLA. As the CLA gets smaller, the adjusted tax rate gets larger.

Why do the different towns in the district pay different tax rates, why are they changing at different rates, and why are some towns seeing tax increases while others are seeing decreases?

All towns in the district start at the same base education tax rate, but property values are changing at different rates so the adjusted tax rates end up being different to account for the changes in property value. The CLA can cause the adjusted tax rate to decrease even in towns where the property values are still going up if they are increasing at a slower rate than other towns. As property values increase the tax base for the state as a whole increases, so a lower tax rate applied to the larger tax base will yield the same total amount of funding.

It can be easier to think of this in the context of a town trying to raise a consistent amount of money as the property values change. Consider a case where, prior to reappraisal the average house is worth \$200,000 and the tax rate is \$1.00 per \$100 of value (1% of the total), which would result in total taxes on the average house of \$2,000. If the average home was then reappraised at \$250,000, the town would only need to impose a tax of \$0.80 (0.8%) to raise the same \$2,000 in taxes from the average house (and the same amount from the entire town). Not all homes will appreciate by the same amount, though, but all would see the same reduced tax rate. A home that appreciated from \$200,000 to \$225,000 would see its tax bill drop to \$1,800, while one that increased to \$275,000 would see its bill increase to \$2,200.

Because the CLA is recalculated every year, we also see shifts based on when different towns see the most significant growth in their property values. Berlin saw the highest property tax increase last year, but this year will see a decrease. This is likely because of the timing of changes in property value: Berlin's increases happened earlier than in other towns, so it saw a larger effect last year, and this year other towns are catching up so Berlin's increases were smaller than in many other places. In Worcester we are seeing the opposite - a single large property had a very significant impact on the CLA calculations in prior years, holding the tax rate lower, and now that that sale is too far in the past to be included in the calculations the tax rate suddenly rebounded.

What will happen when a town reappraises?

The 5 towns in WCUUSD are all scheduled to complete appraisals in the coming years, but the timing will vary. Worcester is expected to complete its reappraisal this summer (2025), Calais in 2026, Middlesex in 2027, East Montpelier in 2029, and Berlin is not expected to be completed until 2030.

Once a reappraisal is completed, the new appraised values will be used in the CLA calculation. This will bring the tax rate down significantly, but that lower tax rate will be applied to the higher appraised

property values, so it is unlikely that, in aggregate, the dollar value of taxes will be lower, though some will be lower and others higher depending on how relative property values have changed.

For a comparison, when East Montpelier reappraised in 2009 its grand list (the value of all property in town) increased by 82% and the tax rate decreased by 43%, but this netted out so that a property that had increased in value by 82% due to the reappraisal would have seen its total tax bill increase by a total of 3.74% (which included the impact of any spending increases that year).

What happened in Worcester this year?

Because the tax increase in Worcester this year will be such an outlier, we want to address the dynamics of the CLA calculation there specifically.

The CLA is calculated based on three years of sales data, and each year a new study is done dropping the oldest year of sales out of the study and adding the most recent year in. In very small towns, this still isn't a lot of sales.

Last year's study included the sale of one property worth \$1.4 million, which sold for almost exactly its appraised value at a time when property values were starting to rise. This one property made up almost 18% of the appraised value included in the study, despite being around 3% of the total sales. This held the CLA fairly steady in Worcester as CLAs were dropping in most other towns (which is why Worcester saw a smaller tax increase last year than other WCUUSD towns). When this property dropped out of the study for this year's CLA, in an environment where property values were increasing very rapidly, it produced an extreme swing in the CLA, which is driving the very high tax increase this year.

It is also possible that Worcester saw larger than normal percentage increases in home values because they were starting, on average, from a lower level than in other towns. If values across the board went up by \$50,000, that's a larger percentage increase on a house that went from \$200,000 to \$250,000 (25% increase) than on a house that went from \$300,000 to \$350,000 (16.7% increase). We haven't been able to confirm this, but it is a plausible addition to what we know happened with the properties included in the study.