



Colchester
VERMONT

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April 11, 2020

VIA EMAIL

Karen Horn
Vermont League of Cities & Towns
89 Main St, Suite 4
Montpelier, VT 05602

Re: Fiscal Year 20-21 State Education Taxes Collected by Cities and Towns

1) 8% City/Town Penalty on Late Payments for State Education Taxes

2) Required Borrowing to Pay State Education Taxes

Dear Karen:

I'm writing to ask that VLCT assist with information sharing about two significant issues related to Property Taxes Collected to Pay State Education Taxes for FY 2020-2021 (July 1, 2020-June 30, 2021). I would participate in the process personally but I am generally functioning as Emergency Management Director vs. my typical role as Town Manager.

The Town of Colchester and other cities and towns are required to pay to the State Education Taxes to School Districts REGARDLESS of whether we collect the taxes.

In addition to having to pay out the State Education Taxes regardless of whether we collect them, municipalities are:

a) Charged, by the State of Vermont, a daily penalty in the amount of an annual rate of 8%. This is required under [32 VSA § 5409 \(1\)](#) and [16 V.S.A. § 426](#).

b) Subject to withholding of State funds due to the Town for any purpose, presumably even fees for service and State provided federal funds as per [32 VSA § 5409 \(1\)](#).

Colchester collects \$3 in State Education Taxes for every \$1 in Town taxes for municipal services. In the current COVID-19 emergency with record numbers of people out of work and many businesses not producing goods and services, we are concerned about our ability to collect from taxpayers and in turn pay out the State Education Tax for FY 20-21.

The remedies the Town of Colchester is left with for non-payment of State Education Taxes are to:

- a) Not pay out State Education Taxes we do not have and be charged 8% penalty, and have State and Federal Funds withheld from the Town at a difficult time
- b) Tax sale our residents and businesses, potentially in large numbers, thus emptying the Town of the good people who make up the Town
- c) Borrow from the bank, potentially for years, triple what we would have to borrow to cover our annual municipal service costs.

Option a) makes no sense fiscally. Option b) makes no sense as a community. Option c) seems patently unfair as the Town does not determine education costs, education funding, or education tax mechanisms.

The Town of Colchester is prepared to reduce spending and/or borrow to cover the unbudgeted cost of covering unpaid municipal taxes. However, we have no capacity to do this for the State Education Tax which is three times (\$32M annually) the amount of the municipal tax (\$12M annually) other than to pledge the sale of the homes and businesses in our community. This places the municipality alone in an impossible situation.

We are requesting that the State of Vermont:

- 1) Eliminate the 8% municipal penalty and withholding of State provided funds for non-payment of uncollected State Education Funds;
- 2) Take the responsibility of borrowing to pay unpaid State Education Taxes until the economic emergency created by COVID-19 is over and the vast majority of taxpayers are able to repay unpaid education taxes; interest charges to taxpayers should match the rate the State is able to arrange for a statewide borrowing for the Statewide Education Tax, which is much less than the compounded rate the towns are forced to charge.

Please feel free to contact me with any questions.

Sincerely,



Aaron Frank
Colchester Town Manager



Julie Greater
Colchester Clerk/Treasurer