

September 12, 2017

To: The Act 46 Project, VSBA, and VSA

This letter is to confirm our phone conversation on the 12th of September 2017 of an error in the financial analysis of four completed merger reports/studies, specifically in the projected tax savings for a town of a school district electing to merge with another school district. The projection in most cases overestimated the total tax savings for a town over the first five years of a new unified school district. These overestimates were caused by using mistaken grand list figures from a particular tax report from the State of Vermont's dated January, 2016.

The education grand list figure I used was correctly calculated and reported by the tax department, but in using this particular report to transcribe grand list numbers into Morgan Daybell's financial model, I did not realize these particular grand list figures were the total of both the residential and non-residential grand lists, not simply the residential grand list. (Figures that are broken out in another report from the tax department for that same year that used to both identify and correct the error where possible.)

The studies impacted were:

Northfield/Williamstown
Orange/Washington
Cabot/Danville/Twinfield
Barnet/Walden/Waterford

The error was discovered on the 11th of September 2017, while in the process of updating the previous financial analysis undertaken for the Caledonia Cooperative Study (Barnet, Walden, and Waterford). That new district is now in discussion with Cabot over a potential merger moving forward. In preparing new projections for the district, I realized that the grand list figures I was inputting into the model from the correct report, did not match the previous figures used for those same communities in earlier studies. I then went back and examined the other studies I completed to determine if and where that error might have occurred as well.

In examining the impact of inputting the wrong grand list figure into the financial model used in these four studies, it is important to note that the core of the financial analysis remains unchanged – the projection of future homestead tax rates/trend lines in merged and unmerged scenarios and the projection of the tax impact on a \$150k home in a merged vs. unmerged scenario were not impacted by this error. The only figure in these reports that was impacted was the projected savings/increase in the total taxes of a town in the merged vs. unmerged scenarios. (Note: All of these figures were projected out over five years - 4 years of incentives and 1 year post incentives).

Here are the differences in those figures for each of the effected studies:

Differences in total tax savings reported for each town (over 5 years) originally reported in final reports vs, corrected projections:

	Original Projection using combined grand list figure.	Corrected Projection using residential grand list figure
Northfield	\$2,114,726	\$1,224,416
Williamstown**	(\$108,565)	(\$102,679)
Orange	\$521,164	\$366,506
Washington	\$723,255	\$449,076

Cabot	\$1,541,426	\$800,841
Marshfield	\$638,678	\$438,385
Plainfield	\$621,552	\$406,390
Danville	\$1,045,940	\$558,650
Barnet	\$1,642,176	\$712,925
Walden	\$191,970	\$100,793
Waterford	\$1,169,990	\$572,906

** In Williamstown, the town was facing an increase in its total tax burden over 5 years due to merging. Using the correct residential grand list reduced this liability somewhat.

It is also important to note, that the way the financial findings were communicated in each study, differentiated between savings due to changes in the new unified tax rate and the impact of tax incentives (the model), and the specific operational savings identified by the committee due to proposed changes in the operational structure of the new unified district – e.g. the closing of a central office, the restructuring of educational programs, etc. Those savings were substantial in most studies and reported separately and correctly.

I would also note, that the report clearly identifies all of the tax projections from the financial model used in the report as just that – projections. In fact, the financial section opens with the following caveat: “These models were created for purposes of comparative illustrations, and under no circumstances should be relied upon to forecast future actual tax rates resulting, if and when, a merger occurs or does not occur.” Each of the committees I served clearly understood the number of assumptions that went into the model – that the model could only give a general picture of projected difference in future tax trend lines. It could not predict actual rates or savings. There were simply too many unknowns.

In presentations to community members, these caveats were clearly explained and none of committees I served argued that a decision to merge or not merge should be based upon the

financial projections in the report. Rather, they emphasized the educational benefits of unification identified in the report to improve student learning as the most significant issue for their citizens in considering whether to unify their school districts.

Upon finding the error, I immediately contacted the Act 46 project for whom I work as a consultant and spoke directly with Nicole Mace (VSBA) and Jeff Francis (VSA). In addition, I immediately alerted Donna Russo Savage and Brad James at the Agency of Education. In addition, I have taken steps to alert the committees and communities whose reports were impacted by this specific error in their financial projections.

To date, I have notified the superintendents of Washington Northeast (Cabot and Twinfield), Caledonia Central (Barnet, Danville, Walden), Washington South (Northfield) and Orange North (Williamstown, Orange, and Washington).

In addition, I have directly notified committee and board members from Cabot, Barnet, Walden, and Waterford of the error in the process of delivering to them a set of updated financials for their merger discussions.

In addition, I also corrected the projections currently being examined by the Windsor Southeast representatives of Windsor and West Windsor for their potential merger and informed them of the situation at a committee meeting held on the 12th of September 2017. The superintendent was also at that meeting. Representatives from Hartland and Weathersfield will be informed of the corrected financials at our next meeting.

I deeply regret this error. Let me know if you need additional clarification of the issues raised in this letter. Please advise me of any additional steps you want me to take over this matter.

Sincerely,

Peter A. Clarke
Act 46 Project Consultant