Vermont Housing Finance Agency

Vermont Housing & Conservation Board

To: Senator Ann Cummings, Chair of Senate Finance
From: Maura Collins, Executive Director of Vermont Housing Finance Agency; and Gus Seelig, Executive Director of Vermont Housing & Conservation Board
Re: Non-homestead property tax increase on affordable housing residents
Date: May 3, 2024

As Angie Harbin, Executive Director of Downstreet Housing and Community Development, testified to yesterday afternoon, there are approximately 14,750 publicly subsidized apartments across Vermont, and we estimate they are facing an average 12.4% property tax increase as proposed by H.887. To address this, **the state should reduce the tax rate on publicly subsidized housing down to 5% for this year paid for by a one-time transfer from the General Fund,** as explained below.

Unlike most low-income homeowners who pay an income sensitized property tax, renters in these properties are not eligible for income sensitivity, yet we know that the average income of tax credit housing residents is $16,800. (Federal tax credits is the largest program in the state and is the primary funding source of over half of the affordable apartments in the state.)

We are hearing that the network of affordable housing providers are concerned about the impacts of the proposed increases as envisioned in H.887. While some tenants will be protected because the rules that govern a property's housing funding do not allow for a sharp tax increase to be directly passed on through higher rent, a sharp increase can threaten the stability of the whole housing development's operations. The federal funding for these units is set in statute and does not adjust annually based on actual operating costs – meaning that a tax increase cannot be covered directly by public sources.

Properties have reported that the impact of all of the other inflationary pressures (such as double-digit insurance cost hikes largely due to climate change) have already added up to a 10.4% increase in operating expenses. Adding another 12.4% increase to property tax bills puts properties at risk.

One non-profit partner, Evernorth, has data on approximately 25% of all the affordable apartments in the state and their initial analysis shows that the increased rate could be about 12.4% and result in an extra $2.15 million due in property tax bills. This creates a destabilizing fiscal situation that could lead to many properties operating at a loss, which can cause low-income residents to suffer and community housing agencies unable to step up at a time the State is asking for more.

Recommendation

We were excited last year when the legislature passed Act 68, tasking the Tax Department to examine the various inequities in the property tax system and potentially consider refining the non-homestead rate to provide more granularity of property uses. In light of that coming report in December 2024, **we ask you to adjust the tax rate on publicly subsidized housing (as defined in 32 V.S.A. § 5404a(a)(6)) down to 5% for this year, which would be, by our calculations, a reduction in Education Fund revenues by $1.25 million, paid for by a one-time transfer from the General Fund.** The issue could be further examined next year in light of the Tax Department study, yet it would ensure these properties could continue to operate while still paying an increased tax to support the Education Fund. VHFA already certifies which properties fall under this definition on behalf of the Tax Department and we are willing to work with the Tax Department on this one-year interim fix.