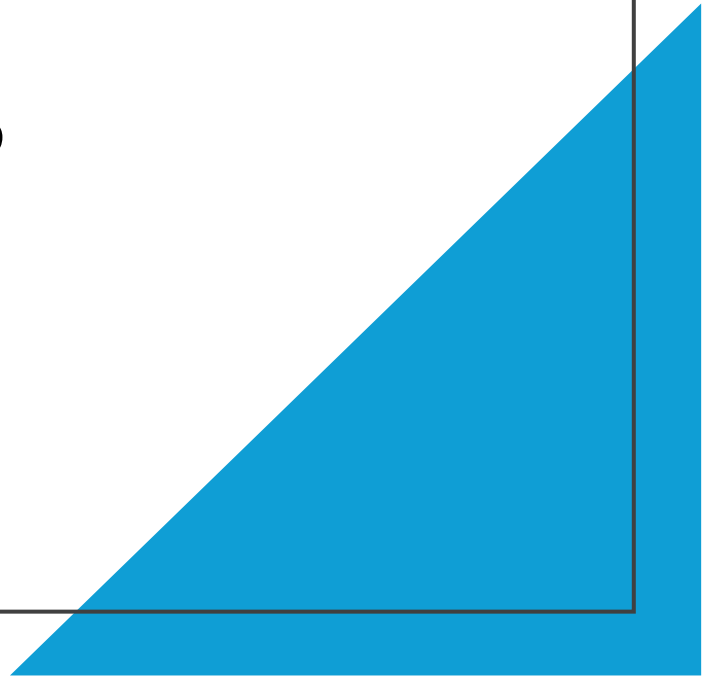


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# Thoughts on Vermont's Property Tax System

Austin Davis, Director of Government Affairs



# Brief Acknowledgment of Limitations

- The Lake Champlain Chamber is not an expert on education policy
- Have a long history of advocacy on economic development, tax, and workforce policy
- Greatly concerned about our members ability to operate due to affordability
- *We're big picture.*





## Introduction to the Lake Champlain Chamber

1. Seeking economic opportunity for all.
2. Celebrating business ownership and entrepreneurship.
3. Promoting a robust, diversified visitor economy.
4. Cultivating community leadership.
5. Nurturing emerging talent.



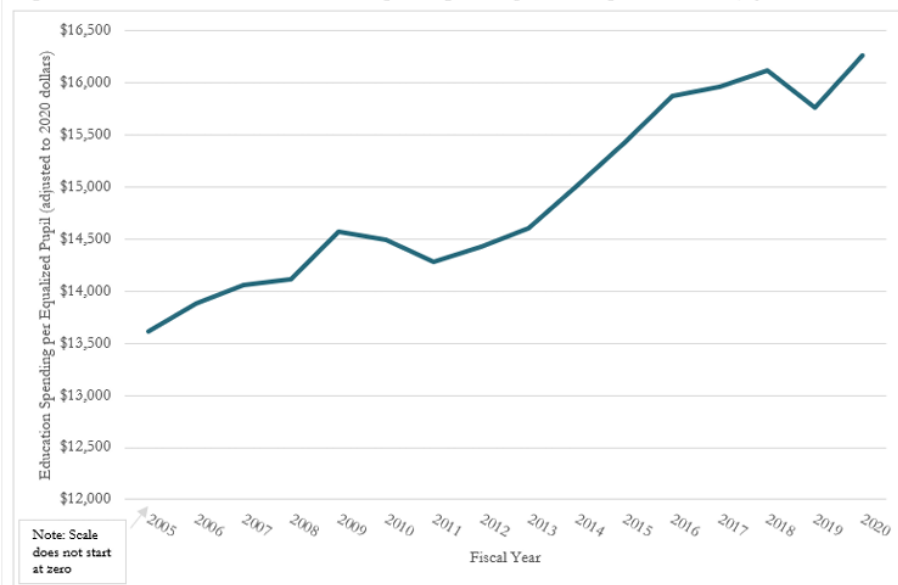
# Levers in Vermont's Education Fund

- In its review of third-party materials, JFO identified possible options that may contain Vermont's education costs. These options include:
  - Adjusting staffing ratios
  - encouraging or mandating more mergers
  - consolidating administrative services
  - reinstating and/or adjusting the excess spending threshold
  - implementing education spending caps
  - moving education spending decisions to a statewide level
- Not here to recap that or tell you what to do

# Didn't Happen Overnight

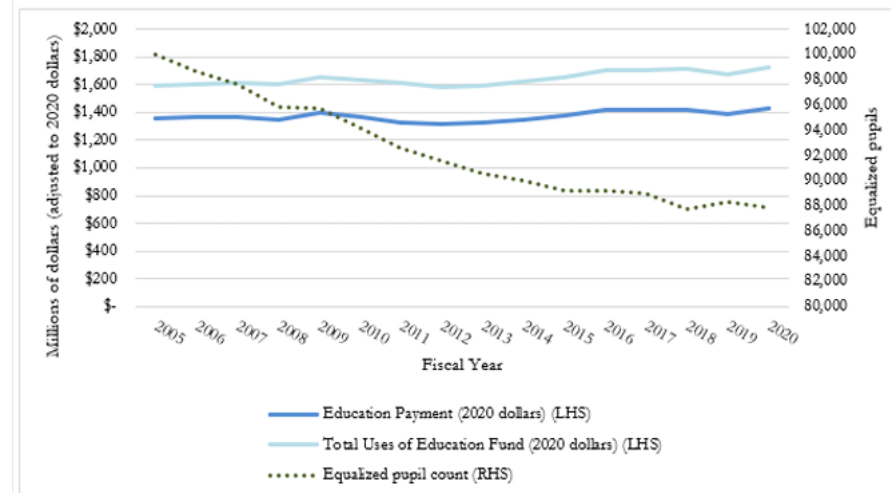
- While there were multiple attempts to bring down cost, raising new revenue has been the primary response
  - Adding sales tax
  - Additional rooms and meals tax
  - *South Dakota Vs. Wayfair* Decision brought in online sales
- Ending general fund transfer further decoupled

Figure 4: Vermont's Statewide Education Spending Per Equalized Pupil Over Time (adjusted to 2020 dollars)



Source: Data from Education Fund Outlooks 2005 – 2020; Analysis by JFO

Figure 3: History of Vermont's Education Fund Appropriations and Equalized Pupil Count



Note: LHS refers to the variable on the left-hand side y-axis. RHS refers to the variable on the right-hand side y-axis.

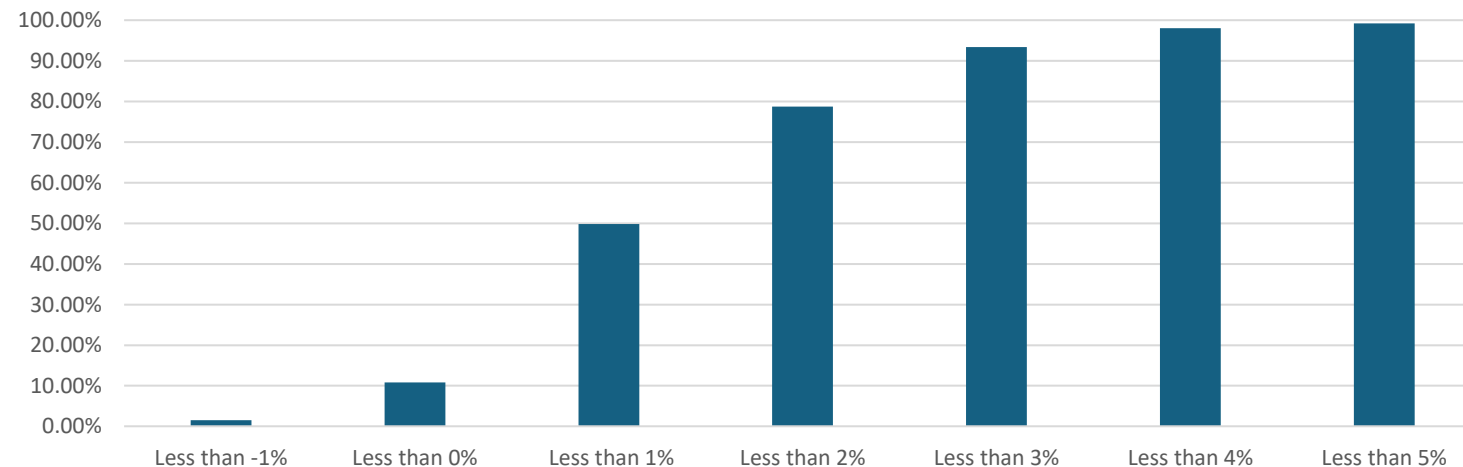
Source: Data from Education Fund Outlooks 2005 – 2020; Analysis by JFO

# We've Grown Tax Reach, Not Tax Base

- You often hear about growing the tax base, however, what you are actually doing in growth the reach
  - For example: a tax on cloud based internet services being added to our sales tax rolls is often discussed as growing the base
- Growing the base involves more people paying the tax or more paid in taxes as a result of improved economic conditions, not new taxes or pulling something into the definition of taxed.

# Vermont Has Not Seen Grandlist Growth Needed to Sustain Education Funding Trends

Municipalities Grand List Growth Rate Between 2011 and 2021 - Excluding Utilities or Appreciation



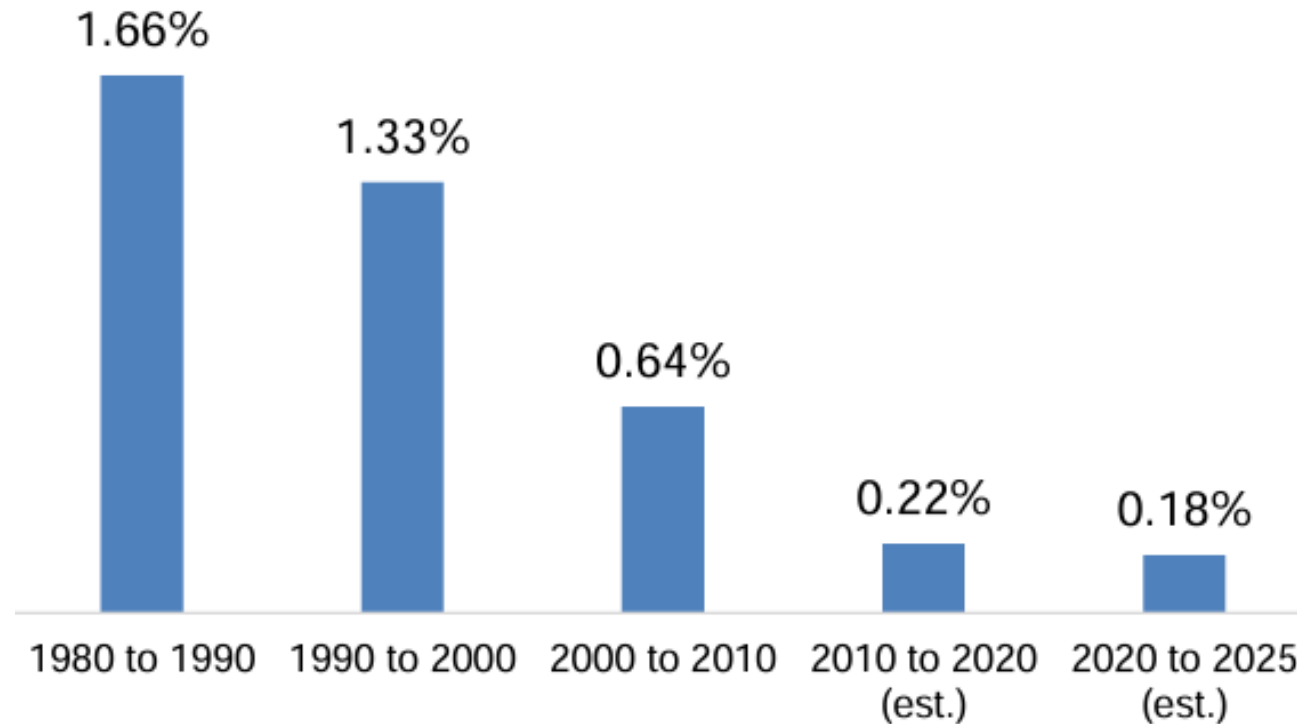
Top 20 Communities for Grandlist Growth

Essex Town	9.2%
Jericho	5.9%
Coventry	4.8%
Underhill	4.5%
St. George	4.3%
Winooski	3.8%
Baltimore	3.7%
South Burlington	3.4%
Burke	3.3%
Williston	3.3%
Burlington	3.3%
Stowe	3.3%
Colchester	3.3%
Georgia	3.2%
Elmore	3.1%
Fairfax	3.1%
St. Albans City	3.1%
Fairfield	3.0%
Milton	2.9%
Hinesburg	2.9%

Average	1.25%
Median	1.10%

# Cont. Vermont Has Not Seen Grandlist Growth Needed to Sustain Education Funding Trends

Average annual growth of Vermont's year-round housing stock

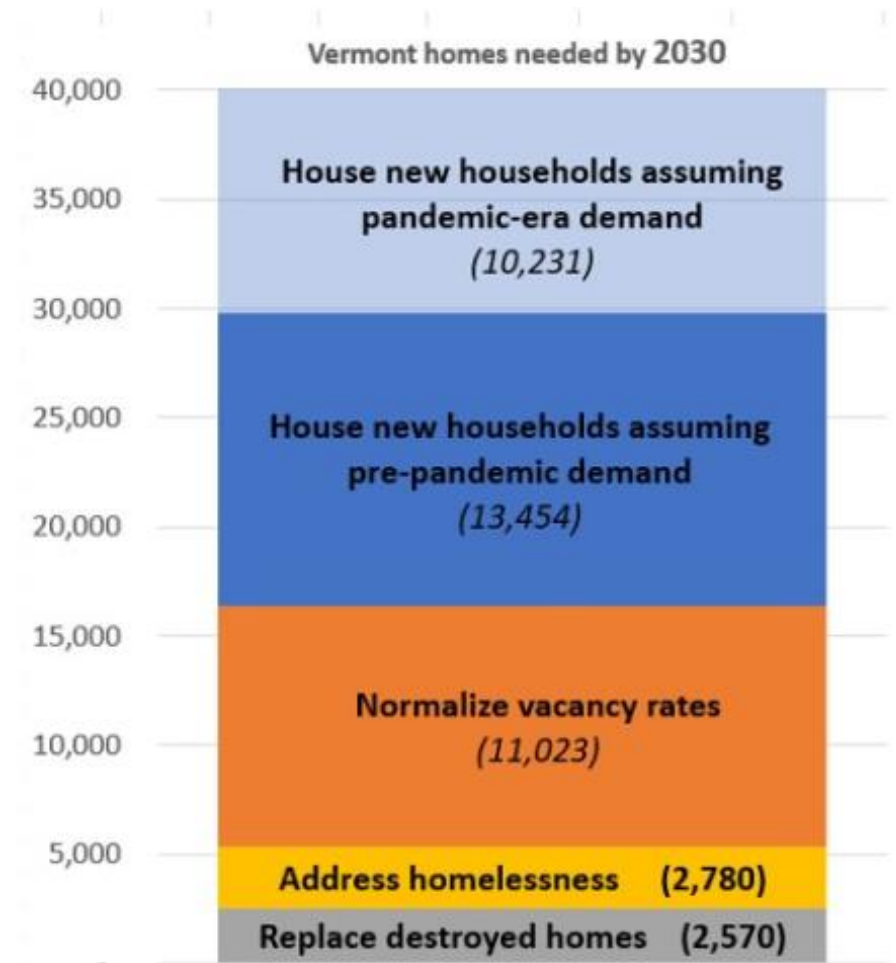


Source: U.S. Census Bureau from [housingdata.org](https://www.housingdata.org) and Claritas.



# Housing Growth is Essential

- If we had 11,023 new homes, we acutely need
- Costing the median price of about \$400,000
- Paying an anticipated state education tax bill of at least \$5,250
- We'd have about \$58 million less to find in the education fund this year
- Not to mention, the economic multiplier effect seen in sales & use, rooms & meals, personal income, and corporate tax



# Observations of Failed Budgets

	Count	Failed	%
1000 < very large	29	15	51.72%
500 <= large < 1000	21	8	38.10%
100 <= medium < 500	53	5	9.43%
Small < 100	25	1	4.00%
	128	29	

	Average	Median
FY2024 Education Spending per Equalized Pupil	\$19,627.55	\$ 19,148.80
State Rank of Education Spending Per Equalized Pupil (high-to-low)	74.83	83
Equalized Homestead Tax Rate	1.27	1.24

- Larger districts, with lower per-pupil costs voted down their budgets
- Those who have undergone mergers are now being penalized for statewide decisions, pulling what lever they have, however, they are not the source of cost

# Understanding Property Tax is Nearly Impossible

- Fully educated decisions from voters are impossible
- Easiest to walk through the formula at it's most simple to

PAYABLE TO:  
MAIL TO: **SAMPLE** TOWN OF ANYTOWN  
55 MAIN ST  
ANYTOWN VT 05555  
(555) 555 5555

**TAX BILL**

**D** This is the only bill you will receive. Please forward to new owner if property has sold.

PARCEL ID	BILL DATE	TAX YEAR
00105-6789	07/21/2019	2020

Taxes unpaid after due date are subject to 1% interest for the first 3 months and 1.5% per month thereafter. 8% penalty added on any Unpaid taxes after final due date.

**B** Location:  
Description:

**C** OWNER SMITH ROBERT AND MARY  
123 MAYBERRY LANE  
ANYTOWN VT 05555

**E** HOUSESITE TAX INFORMATION

SPAN # 003-252-12345	SCL CODE: 252
TOTAL PARCEL ACRES	10.17
HOUSESITE VALUE	494,300.00
HOUSESITE EDUCATION TAX	4,743.00
HOUSESITE MUNICIPAL TAX	1,901.92
HOUSESITE TOTAL TAX	6,644.92
FOR INCOME TAX PURPOSES	

# Understanding Property Tax is Nearly Impossible

$$\text{District's homestead property tax rate} = \$1.00 * \frac{\overset{1}{\text{Education spending}} / \overset{2}{\text{Equalized pupils}}}{\underset{3}{\text{Statewide property yield}}}$$

We won't bring CLA into this for the sake of time and confusion

# 1. Education Spending

- Decided at the local level, with an expectation of statewide distortion of these choices
- Pre-Brigham, desired growth in local spending spurred an effort to grow the grandlist
  - Bringing in a new employer,
  - Expanding housing stock, or
  - Revitalizing
- These efforts are not rewarded now...
  - Grandlist growth goes to Montpelier to be redistributed
  - If you are already leaning towards saying “no,” what incentive is there now to say “yes?”
    - **If grandlist growth is everyone’s job, it end’s up being no one’s job...**

## 2. Equalized Pupils

- Weights under Act 127 can be used to buy-down the tax rate and “move the lever the wrong way”
  - Works in opposition to school consolidation attempted by Act 153 (2010), Act 156 (2012), and Act 46 (2015)
  - Small, rural schools might still need aid, however, categorical aid might be appropriate for sparsity and small school weights to avoid the districts buying down tax rates and perverse incentives.
- Categorical aid might still not be appropriate for;
  - ELL as those require special accommodations
  - Economically deprived background weights, as those are reflective of the communities’ ability to pay

**Table 1: Pupil Weights by Weighting Category**

Weighting category		Weight
Grade level weights	PreK/Essential Early Education (EEE)	-0.54
	K-5	0
	6-8	0.36
	7-12	0.39
Economically deprived background weight		1.03
English language learners (EL) weight		2.49
Sparsity weight <i>(Number of people in district)</i>	< 36 persons	0.15
	36 – 54 persons	0.12
	55 – 100 persons	0.07
Small school <i>(Only applicable for districts also receiving sparsity weight &lt;55 persons)</i>	< 100 pupils	0.21
	100 – 249 pupils	0.07

# 3. The Yield

- Everything fits together via the yield
- Driving down yield (denominator) would make money more expensive for districts and thus make money more expensive
  - Could also bring back Vermont's excess spending adjustment that is suspended through 2029

$$\text{District's homestead property tax rate} = \$1.00 * \frac{\text{Education spending} / \text{Equalized pupils}}{\text{Statewide property yield}}$$

# 4. Homestead Declaration & PTC

- Because we income sensitize taxes with property tax credits, if one of your constituents could manage to work through all that, they then might need to consider their income.
  - Distorts decisions further
  - Over 2/3rds of Vermonters pay based on income already
  - Not truly reflective of an individual's ability to pay





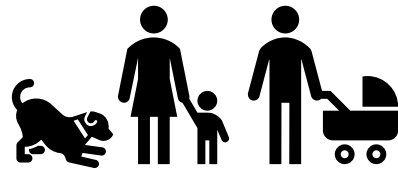
# Homestead Declaration

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- Same house site value for a 3-bedroom home in South Burlington ([pulled from Zillow](#))
- All three individuals of working age and make the [median salary of South Burlington High School Teachers](#), however, they are dispersed differently.



- Two teachers making \$65k each with two children (+ a dog)
- exceed property tax credit income cap



- one teacher making \$65k with no children (not even a dog)
- Property tax credit of \$3,675

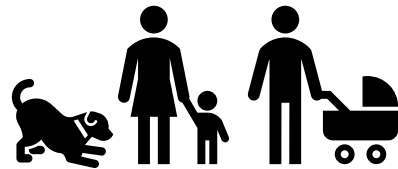


# Homestead Declaration

- Same house site value for a 3-bedroom home in South Burlington ([pulled from Zillow](#))
- all three individuals of working age and make the [median salary of South Burlington High School Teachers](#), however, the single individual is retired
  - Worth noting that if this example was in another, cheaper region, they would see higher PTC



- Two teachers making \$65k each with two children (+ a dog)
- exceed property tax credit income cap



Net assets:

- \$50k in student loans debt
- 3 yrs into a mortgage for \$400,000 with 3.5% down

- drawing \$65k from investments with no children (not even a dog)
- Property tax credit of \$3,675



Net assets:

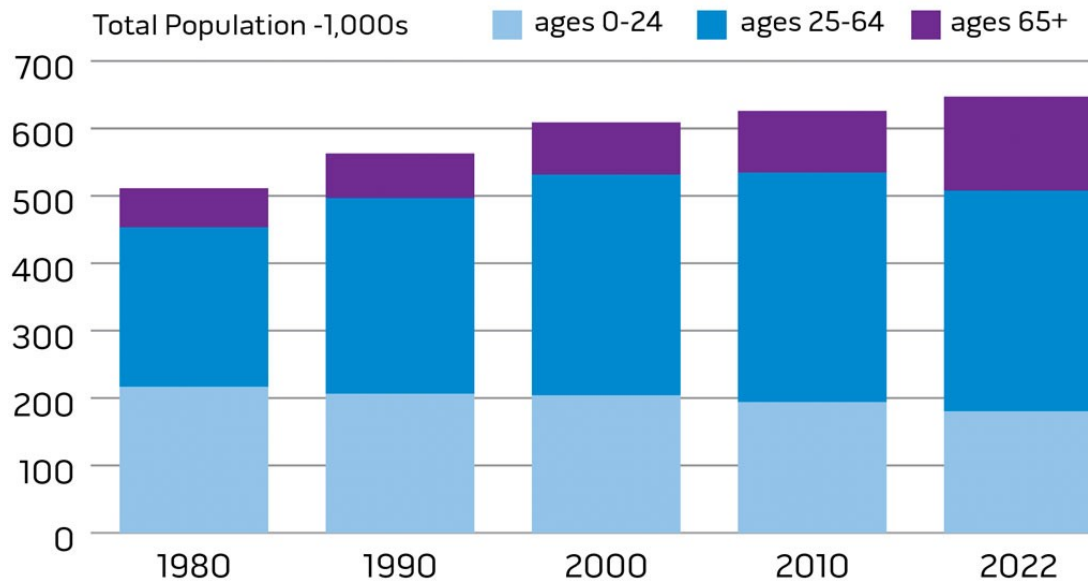
- sitting on \$4 million nest egg
- NO mortgage – owned outright

# To Put a Finer Point on This

- But for a large amount of wealth, one cannot qualify for a mortgage on a median-priced home in this state, *unless they* have an income (\$133,886) that renders them ineligible for the PTC.
- So, who is served by the PTC?
  - People who have homes at incomes lower than what is needed if they were on a mortgage
  - People who don't need to worry about the barrier to entry
- The PTC is an over \$160 million revenue expenditure

# Vermont is “Over-Housed”

- We’ll need to put more burden on:
  - Bigger households with
  - Multiple earners
  - Not protected by PTC

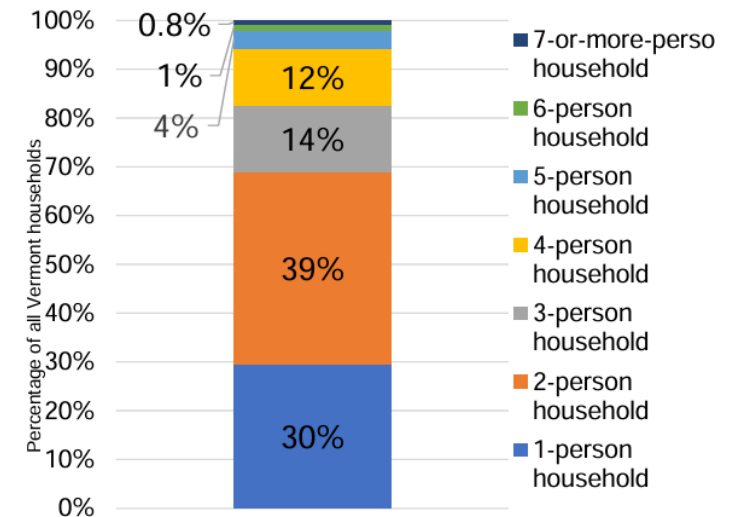


The portion of Vermont households comprised of 1-2 people reached 69% in 2017 and the average household size fell to 2.32 from 2.57 in 1990.<sup>1</sup> Only 18% of Vermont households have four or more people, as of 2017 Census Bureau estimates.

### Now the norm, small households are growing at fastest pace

Since 2010, the number of one-person households in Vermont has expanded faster than any other household type. Between 2010 and 2017, the number of 1- and 2-person households in Vermont grew by nearly 9,000. The population of households with 3 to 6 people contracted by nearly 7,000.

Household sizes in Vermont



Source: U.S. Census Bureau 2017 American Community Survey 5-year estimates from [housingdata.org](https://www.housingdata.org)

# Suggestions

- The state ethos of “one’s ability to pay” is lost in the myopic use of income as a proxy
- Consider Homestead declarations and renter rebate:
  - Should they include an attestation of household net wealth
  - Should they be reflective of household make up and not penalize multiple earners, using housing more efficiently, from sharing one roof?
  - Should we consider a “deferral” program for those senior who would like to age in place, such as Maine or Minnesota?
- It’s been reported over the years that Vermont has one of the most “overhoused” populations in the country and this system is likely a contributing factor
  - The marginal utility of an additional bedroom to a single retiree is very small compared to a family of four with two earners. Should the system should reflect?
  - We see the secondary impacts of this in deferred maintenance when housing stock is finally back on the market
  - Look at a sellers’ credit such as what President Biden has pitched or preferable capital gains treatment for those who downsize
- Need a CLA equivalent for homestead taxes, as areas of growth, with higher property values, hit cap more easily than other areas.

# Overview

- Our system is growing unsustainably and we've most mostly mitigated this with the addition of new revenue
- Attempts at equity have diluted decisions for communities and helped stagnate grandlist growth
- Our attempts to mitigate the expensive property taxes have created more perverse incentives and directed the burden to,
  - Education property tax conversations are housing discussions
  - The few communities growing their tax base
  - Vermonters in larger households with multiple earners (including children)
- As you look at “newer and fewer for schools” it could be a good perspective for tax base – do we need county-level tax and budgets to better connect decisions while accommodating economic diversity of communities?

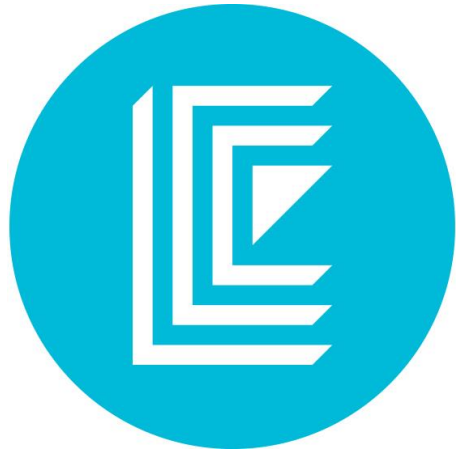
# Overview – continued

- Vermont's education system is growing unsustainably, mitigated by adding new revenue streams and a few “miracles.”
- Local decisions funded through statewide mechanisms create disconnects between choices and tax rates, resembling a tragedy of the commons scenario.
- The complexity of Vermont's education funding system hinders public understanding and engagement.
- Real grandlist growth remains minimal, except for in municipalities focused on efficiency that reject school budgets.
- Collaboration across housing and economic development sectors is crucial to support the education system financially.
- Exploring fiscal levers and potentially adopting county-level tax and budget structures could better connect decisions with economic diversity considerations within communities.

# Overview – continued

- The property tax credit system, impacting over two-thirds of Vermonters, further distorts community decisions.
- Attempts at equity and/or mitigation of expensive property taxes have diluted community decision-making and contributed to stagnating grandlist growth.
- Whether we like it or not, education property tax policy is housing policy. Education property policies significantly influence housing and development markets, stalling housing stock growth and discouraging tax base improvements.
- These efforts have also created perverse incentives and unfairly shifted burdens to Vermonters in larger households, including those with multiple earners.





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# Questions?

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