Comments to House Ways & Means Committee on proposed school funding changes
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I have been a Norwich resident since 1975. As a member of the Norwich Finance Committee and other volunteer groups during the 1990's and early 00's, I participated in statewide discussion of taxpayer-equity issues before, during, and after passage of Act 60 and many subsequent changes large and small. I retired as an engineer and software developer in 2006, but have remained active in community projects, especially rural broadband deployment.

There are some excellent ideas in this proposal, such as dedicating all sales tax revenue and a statewide progressive income tax to the Ed Fund. I also applaud returning expenditures such as Adult Education to the General Fund, where they belong. However, school property tax without income sensitivity will be disastrous for many communities, with ripple effects spreading across the state. Far better would be a income tax proportional to local per-pupil spending, with a maximum dollar amount of that tax per household no matter how high the income. (As proposed some years ago by the late Bud Otterman.)

Before discussing the destructive effects of a pure property tax for above-base local education spending, I'd like to "call out" and refute three frequently repeated fallacies about income sensitivity.

<u>Fallacy 1</u>: "Anyone claiming income-based adjustment on a high-value home 'must be' hiding substantial income and/or other assets."
For a newly purchased home, there typically has to be a high correlation between income and home value. (Mortgage lenders make sure of that.) However, when a family owns the same home over years, decades, or generations, real estate transactions in that town or neighborhood may dramatically increase its resale value without any action by the homeowner. Meanwhile, the owners' income too may be changed by events such as promotions, layoffs, or retirement. When suspicions arise about the legitimacy of an income-based adjustment claim, I would suggest looking first at how many years the residence in question has been owned by the same person or family.

<u>Fallacy 2</u>: Quoting a recent VTDigger article, "Income-sensitivity insulates 70% of homeowners from consequences of school spending:" As I'm sure all members of the Committee realize, that is patently <u>untrue</u>. The net percentage of Household Income that substitutes for school property tax on the housesite is directly proportional to that school district's per-pupil Education Spending. Income-sensitivity shields homeowners from the tax effects of <u>property-value inflation</u> ; it does <u>not</u> insulate them from consequences of their school budgets. (If voters do not understand that, then the State and some School Boards may not be explaining it adequately.)

<u>Fallacy 3</u>: "Well, maybe not <u>all</u> taxpayers are insulated, but all below 47K are because of the Super Circuit Breaker:" Actually, even if we assume that every "Super Circuit Breaker" claimant cheerfully voted for higher school budgets, SCB claimants represented only <u>29%</u> of all 2017 claims, not 70%. But does anyone have statistically valid opinion survey data to support the assumption that these "insulated" voters support untrammeled spending? In most school budget discussions I've witnessed over many years, many of the loudest voices against higher spending have self-identified as lower-income residents.

Please remember that even towns with very high average AGI and/or high median housesite value have many residents at low or moderate income levels. In my own town of Norwich, at least 30% of families and single adults reported income less than $50,000, while at the same time 39% of income tax returns reported more than 100K of income. Thanks in part to inflation, the <u>median</u> housesite value is

$417,900. That helps to explain why almost <u>40</u>% of our 1200 homesteads qualified for at least some income-based property tax adjustment in 2017.

In recent years, the net income percentage for Norwich has been around 3.1% (it is even higher in nearby Thetford and Strafford.) If I have read the graph correctly, our school property tax under your current proposal would be about $1.30, for a <u>median</u> school tax bill of $5433. Imagine what that means for households who have previously paid a net 3.1% of household income:

Household Income	Sch Tax @3.1%	Proposed Sch Tax	Increase
45,000	1395	5433	4038
50,000	1550	5433	3883
60,000	1860	5433	3573
80,000	2480	5433	2953

Changes of this magnitude will radically alter Norwich and many other towns, forcing many long-time middle-income residents to sell and leave. These are people who have freely given their time and energy over many decades to fire departments, town government, non-profits of all kinds. Returning to an unadjusted property tax will force dozens of retirees and middle-class families to leave the communities whose traditions they've helped build. The destabilizing effect will spread across the state, too, as people who had to sell a high-value property are able to buy homes elsewhere – driving up property values in their new towns of residence (if they choose to stay in Vermont.)

Nor will this process of displacement stabilize school spending, as higher-income newcomers who outnumber lower and middle-income residents more willingly vote for higher budgets.

Before closing, I'd like to suggest a possible <u>moral</u> fallacy: supposed non-volatility of a property tax.

Yes, property value is less volatile than income, and a property tax is less volatile because it is not related to ability to pay. Ultimately, however, we can only depend on property tax revenues to be "stable" if we are willing to force homeowners to sell their homes and move.

In summary, I believe that an income tax proportional to local education per-pupil spending above the base would be a tremendous step toward greater taxpayer equity. Conversely, a "pure" residential property tax with the same driver but unadjusted for income would be a tragic step backward.