

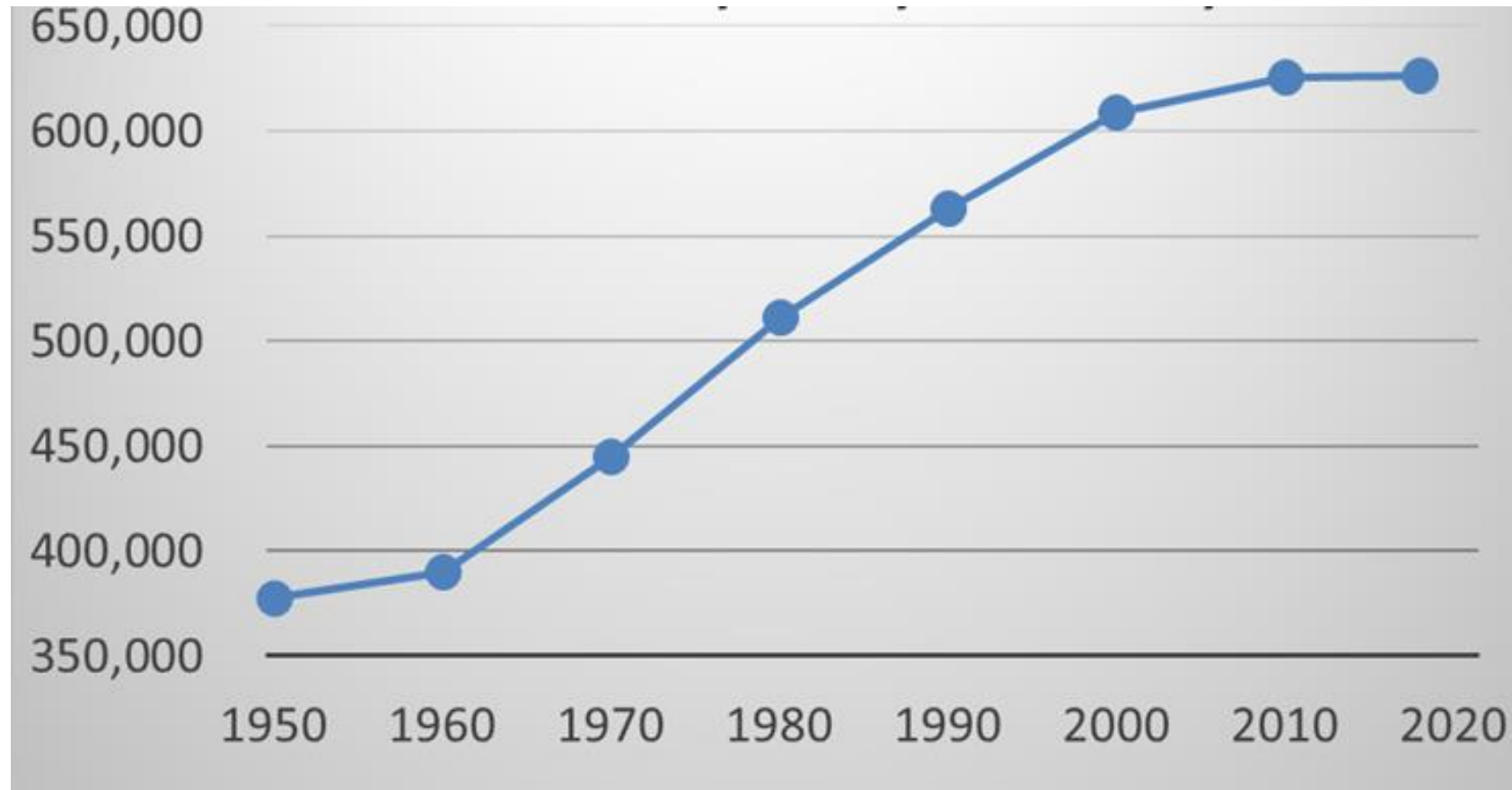
Population Changes and Vermont State Revenue

PRESENTATION TO HOUSE APPROPRIATIONS

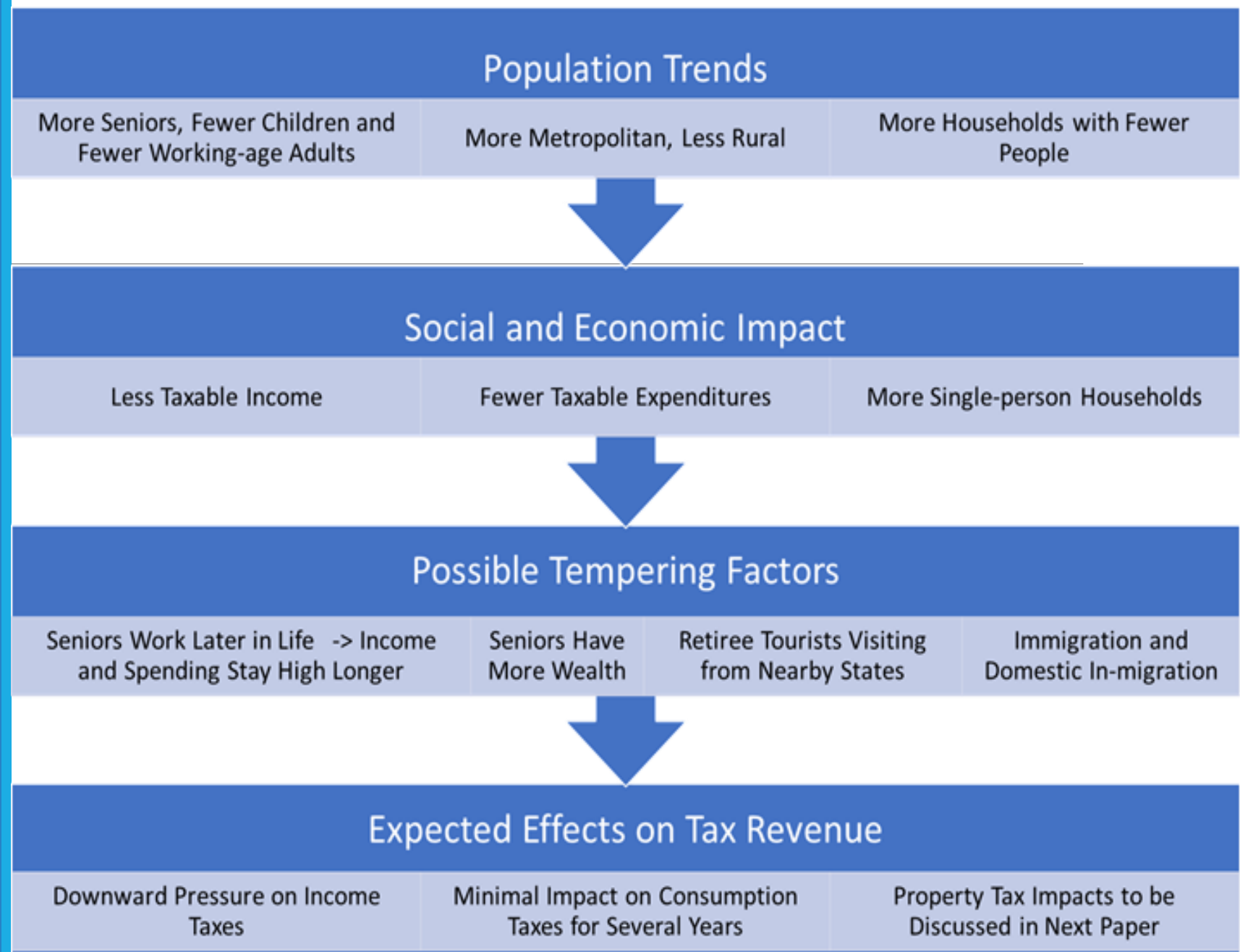
DECEMBER 16, 2019

SEAN SHEEHAN, STAFF DIRECTOR, TAX STRUCTURE COMMISSION

After decades of growth, Vermont's total population has barely changed over the last dozen years



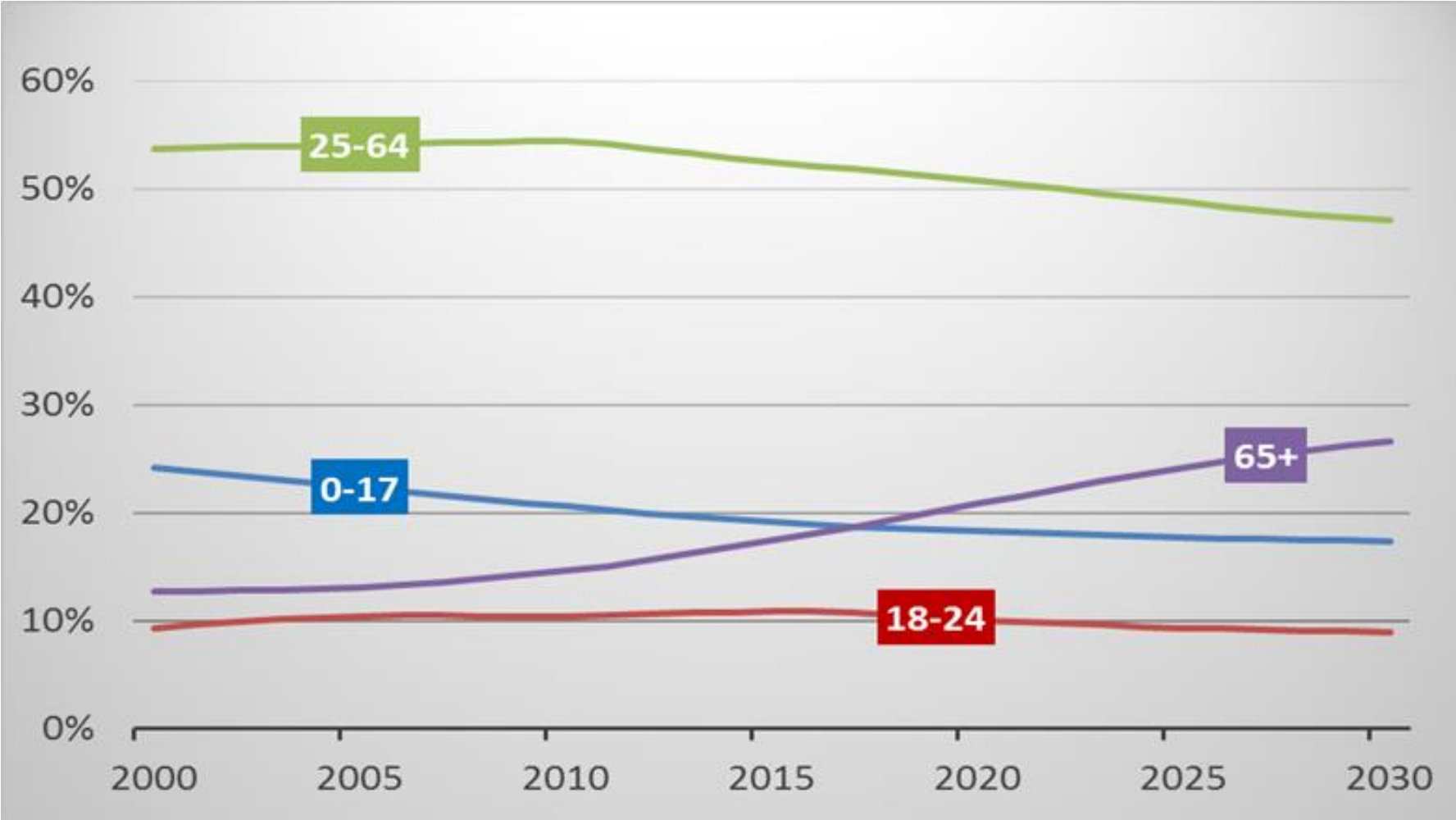
Presentation Overview



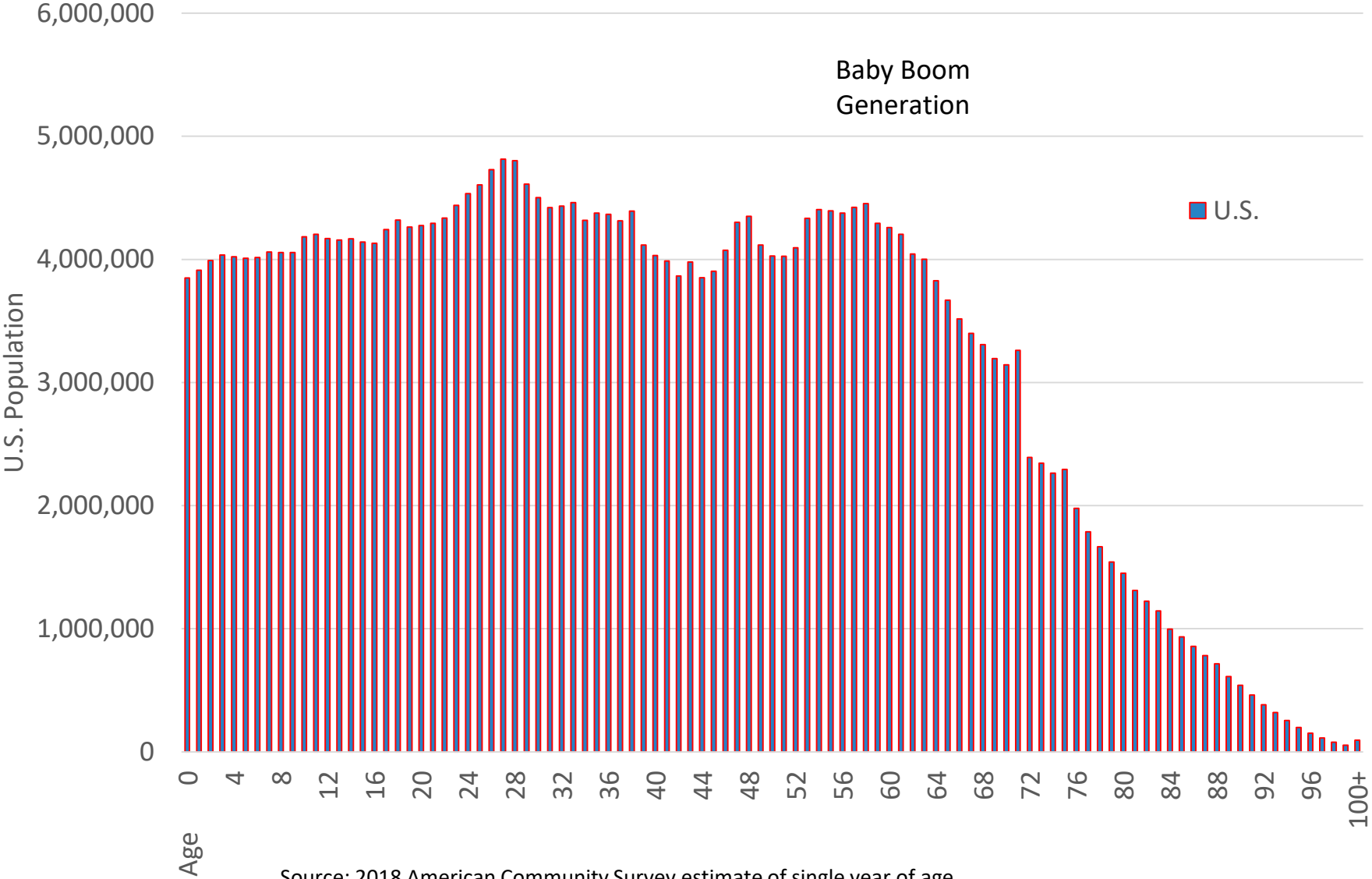
More Seniors, Fewer Children, and Fewer Working-age Adults

TREND #1

Share of Vermont Population by Age Group

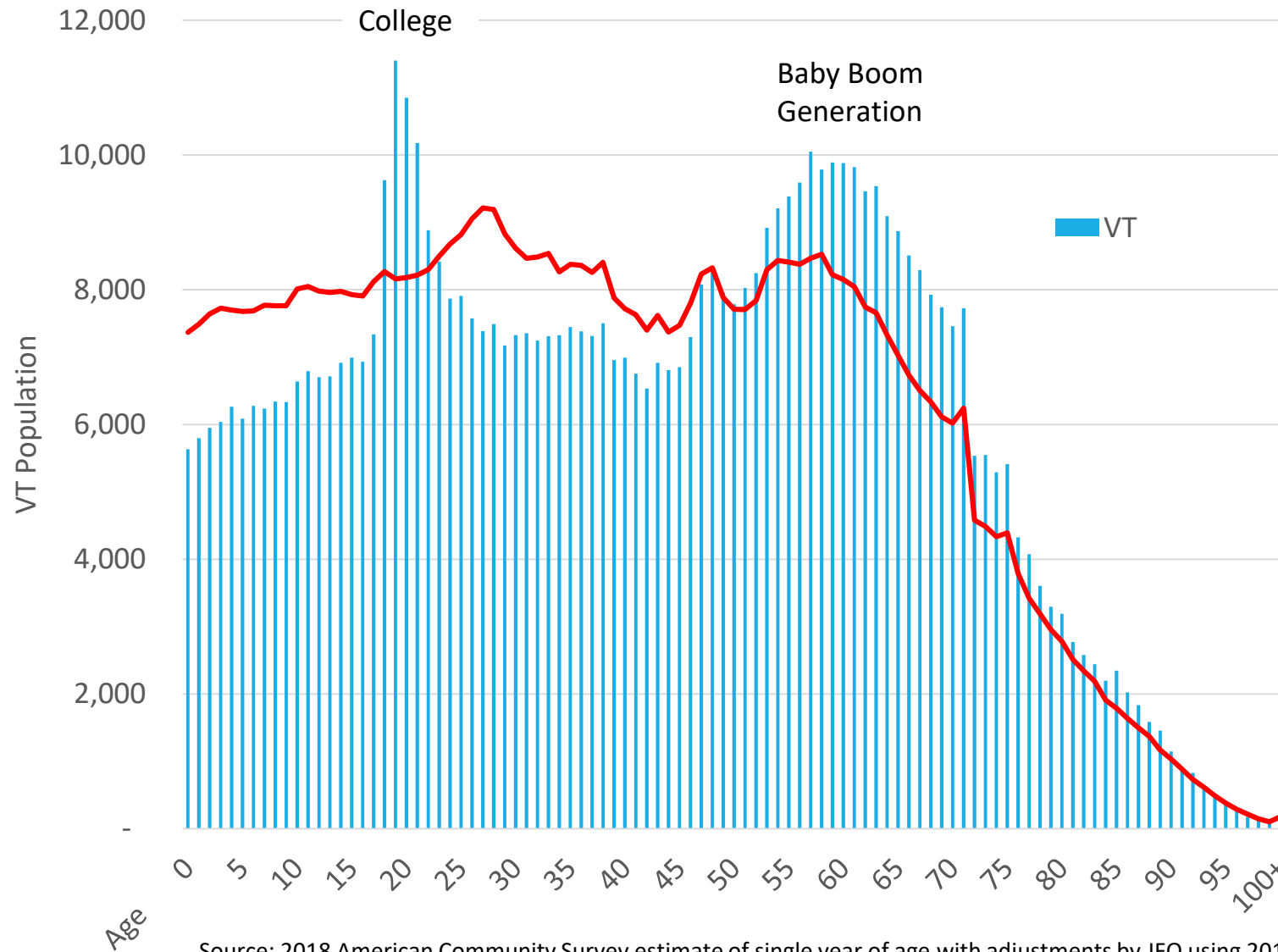


U.S. Population by Single Year of Age, 2018



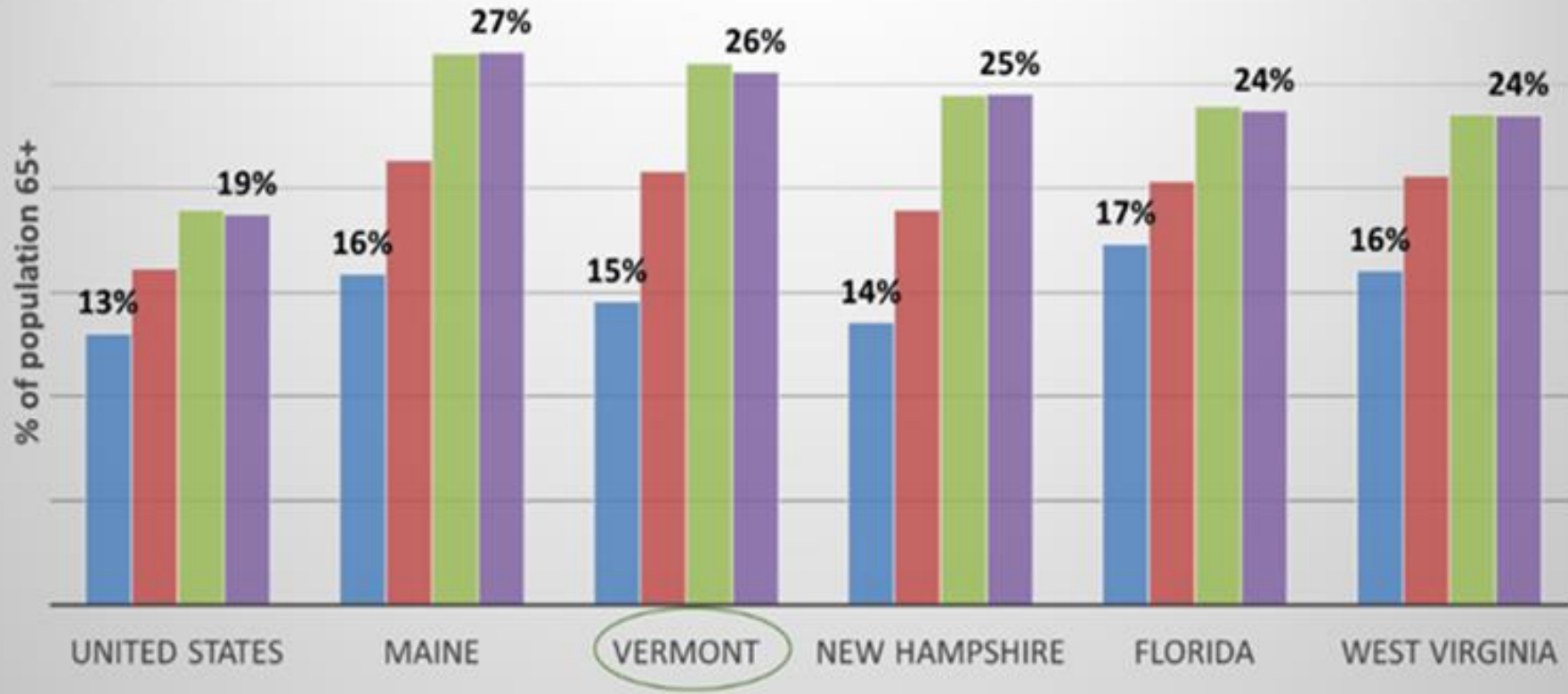
Source: 2018 American Community Survey estimate of single year of age.

Vermont's Population by Single Year of Age



Source: 2018 American Community Survey estimate of single year of age with adjustments by JFO using 2010 proportions of single year of age for VT ages 85 through 100+.

By 2030, one in four northern New Englanders will be 65 or older, up from one in seven in 2010



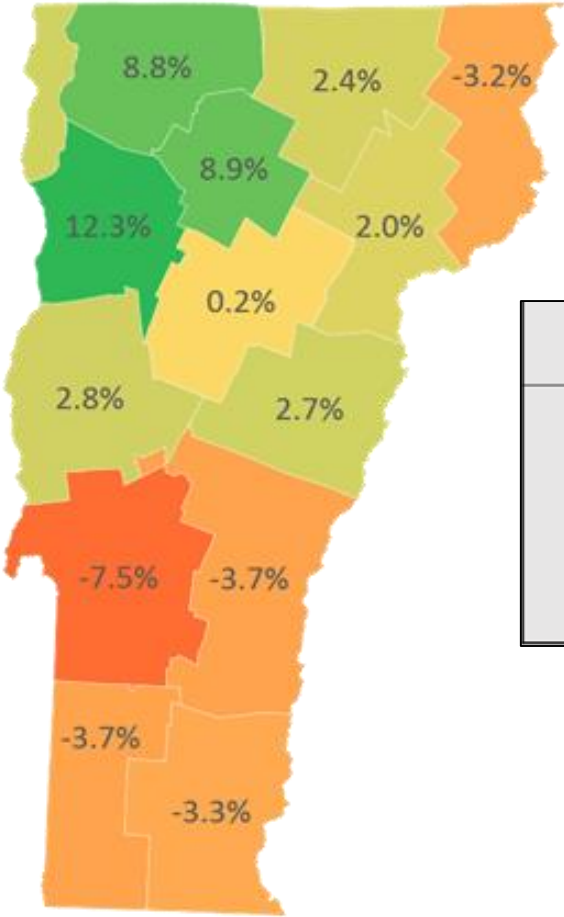
Source: UVA Cooper Center

■ 2010 ■ 2020 ■ 2030 ■ 2040

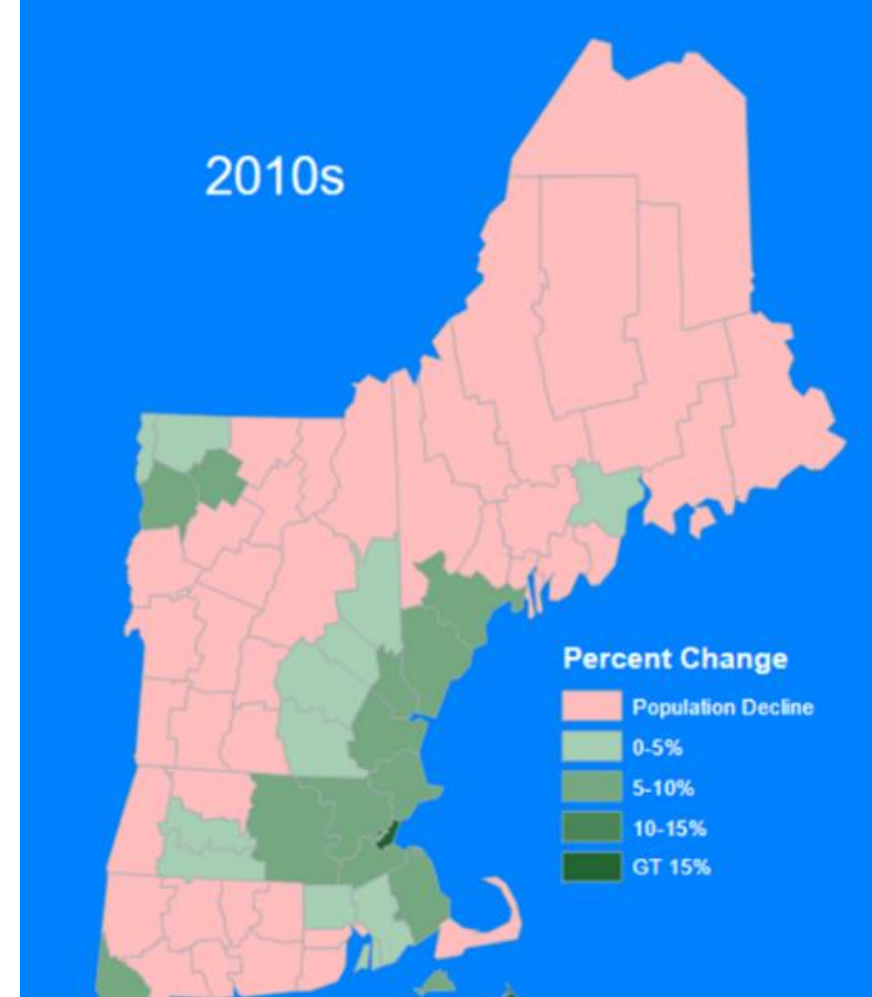
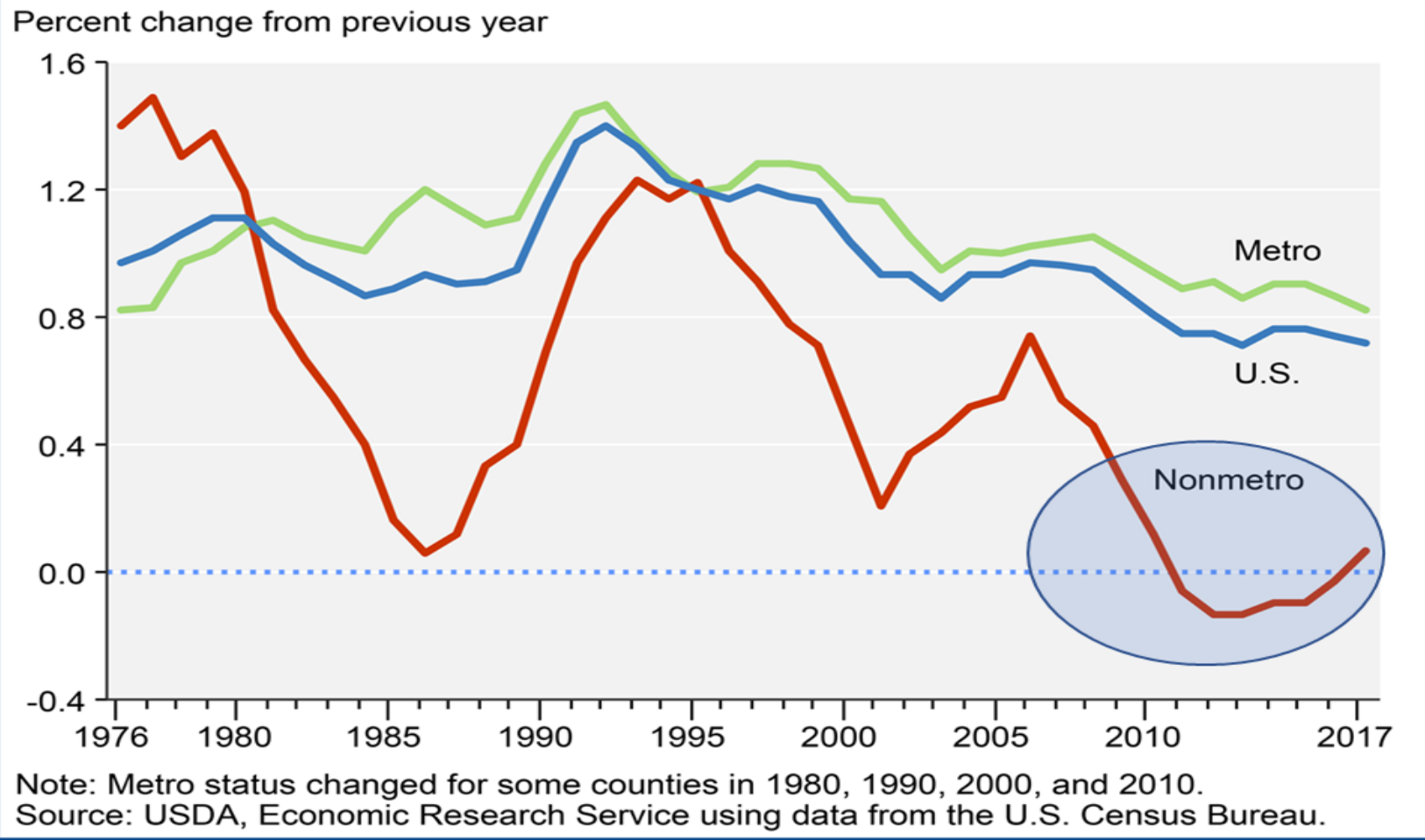
More Metropolitan, Less Rural

TREND #2

Change in County Population from 2000 to 2018



Grew >8%	Virtually Unchanged	Shrunk >3%
Chittenden, Franklin, Lamoille	Addison, Caledonia, Grand Isle, Orange, Orleans, Washington	Bennington, Essex, Rutland, Windham, Windsor

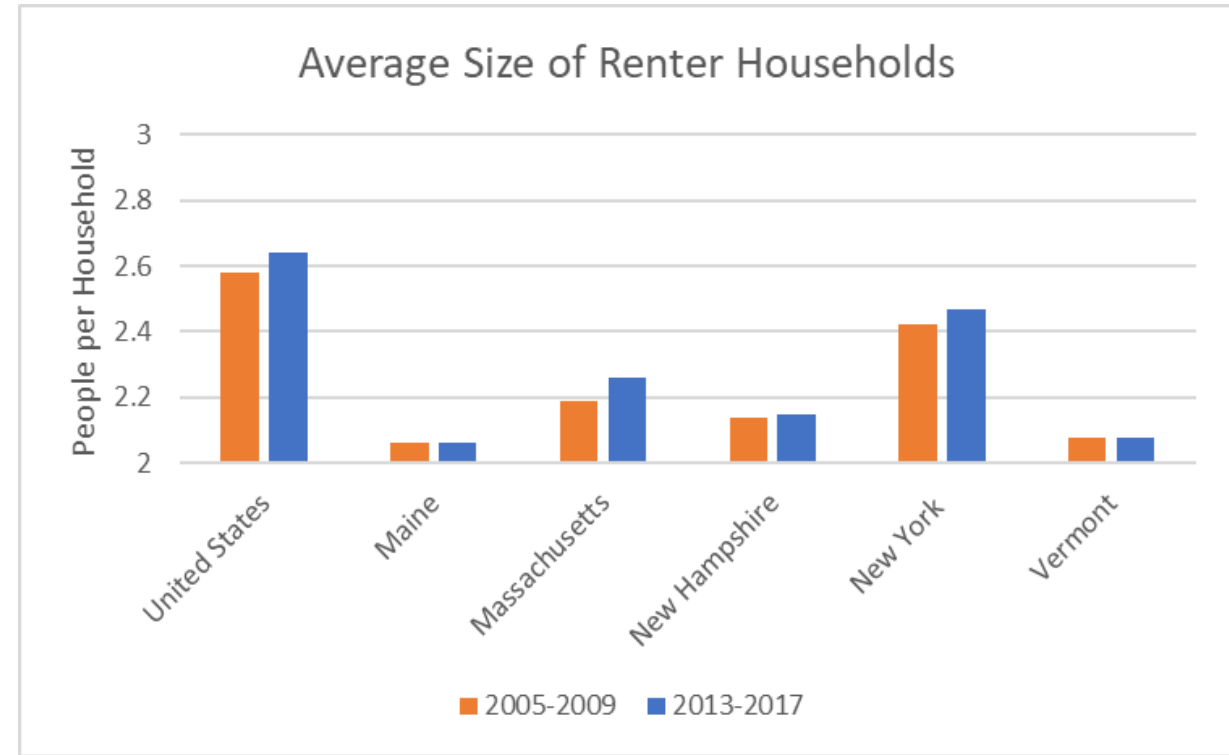
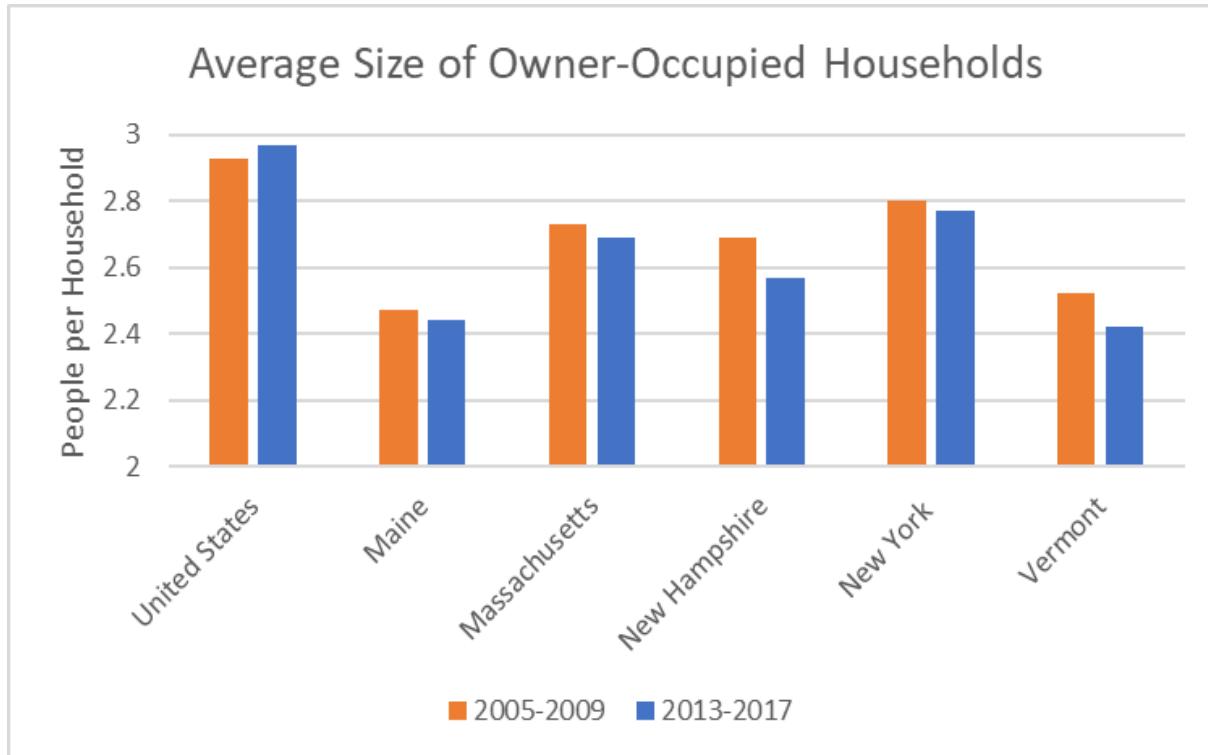


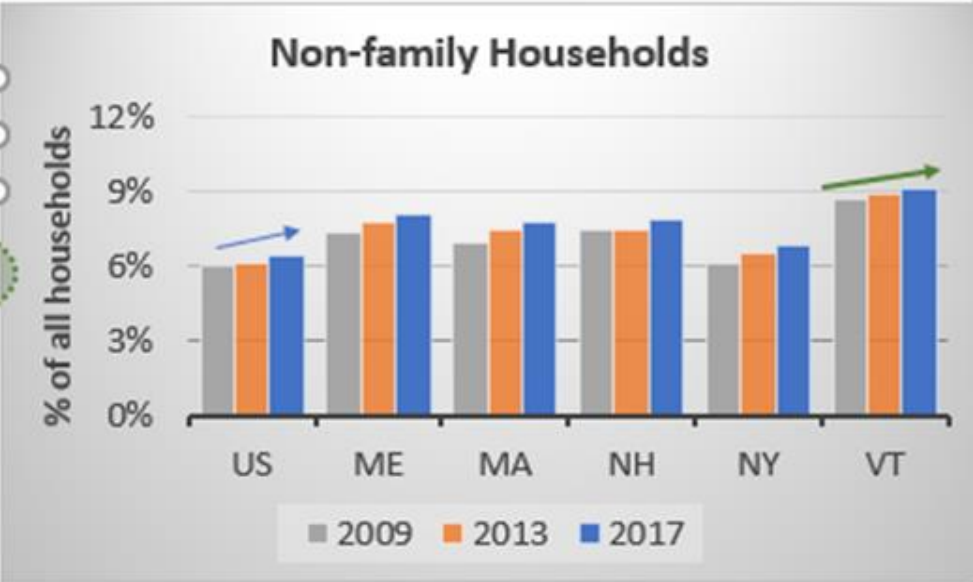
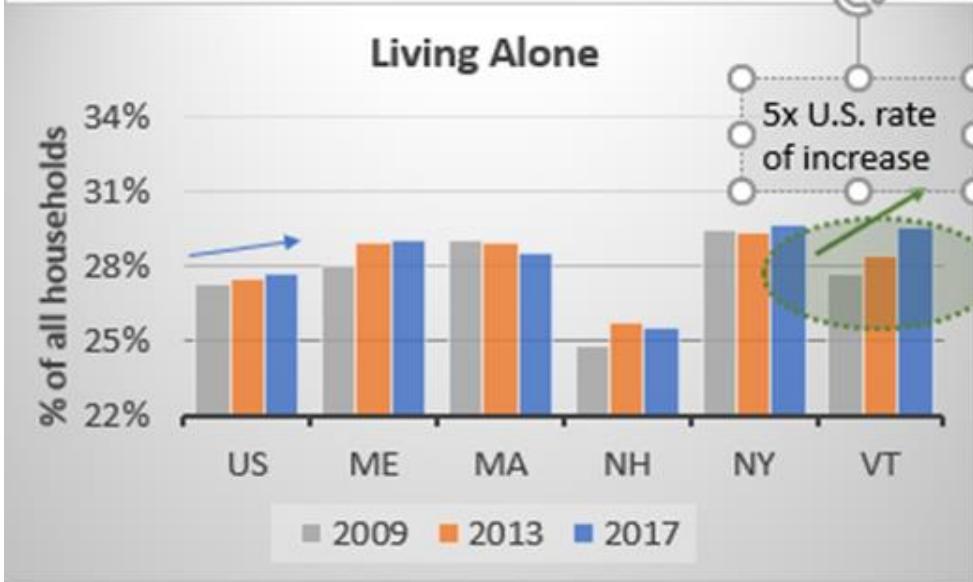
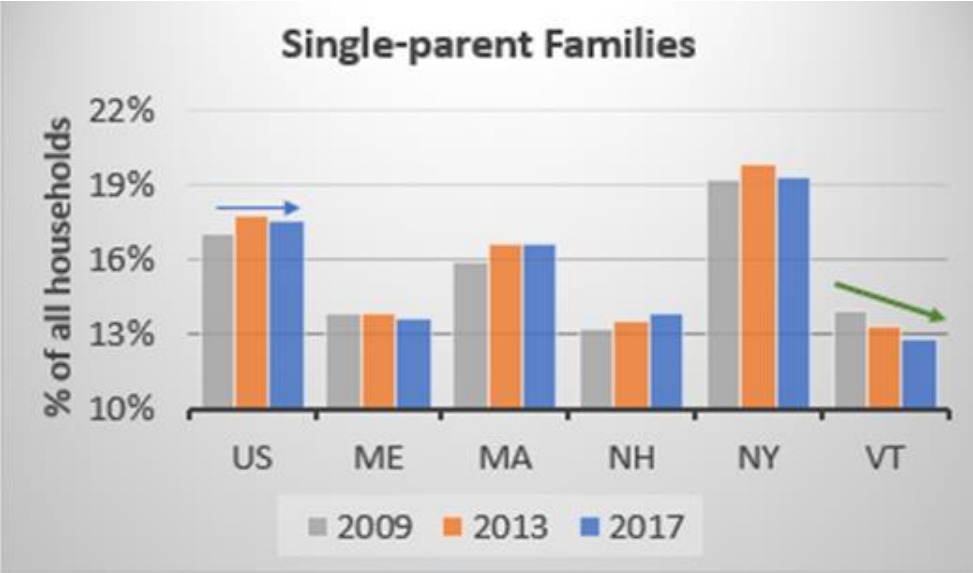
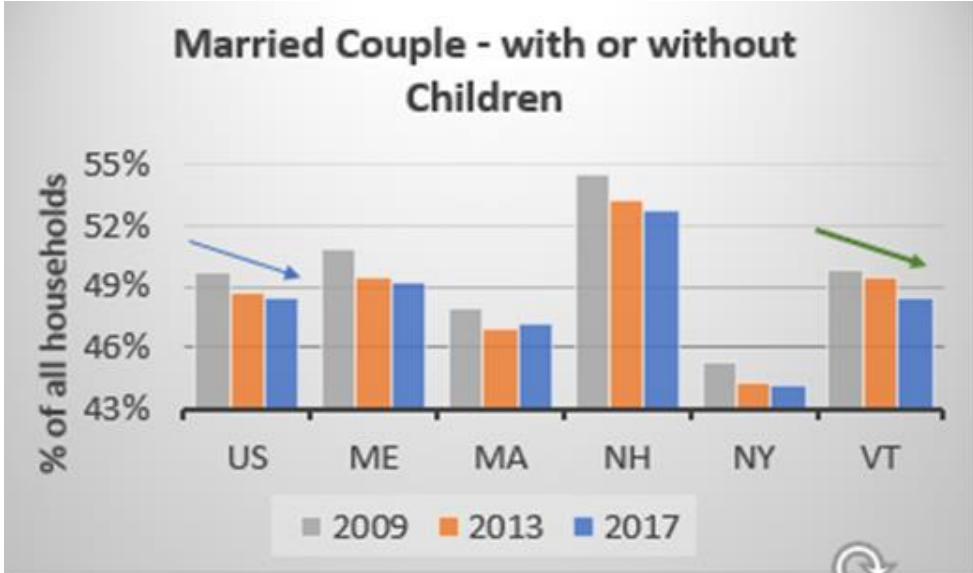
Vermont's population shift into its metro area is consistent with regional and national trends. As the nation's two most rural states, Maine and Vermont are particularly impacted.

More Households with Fewer People

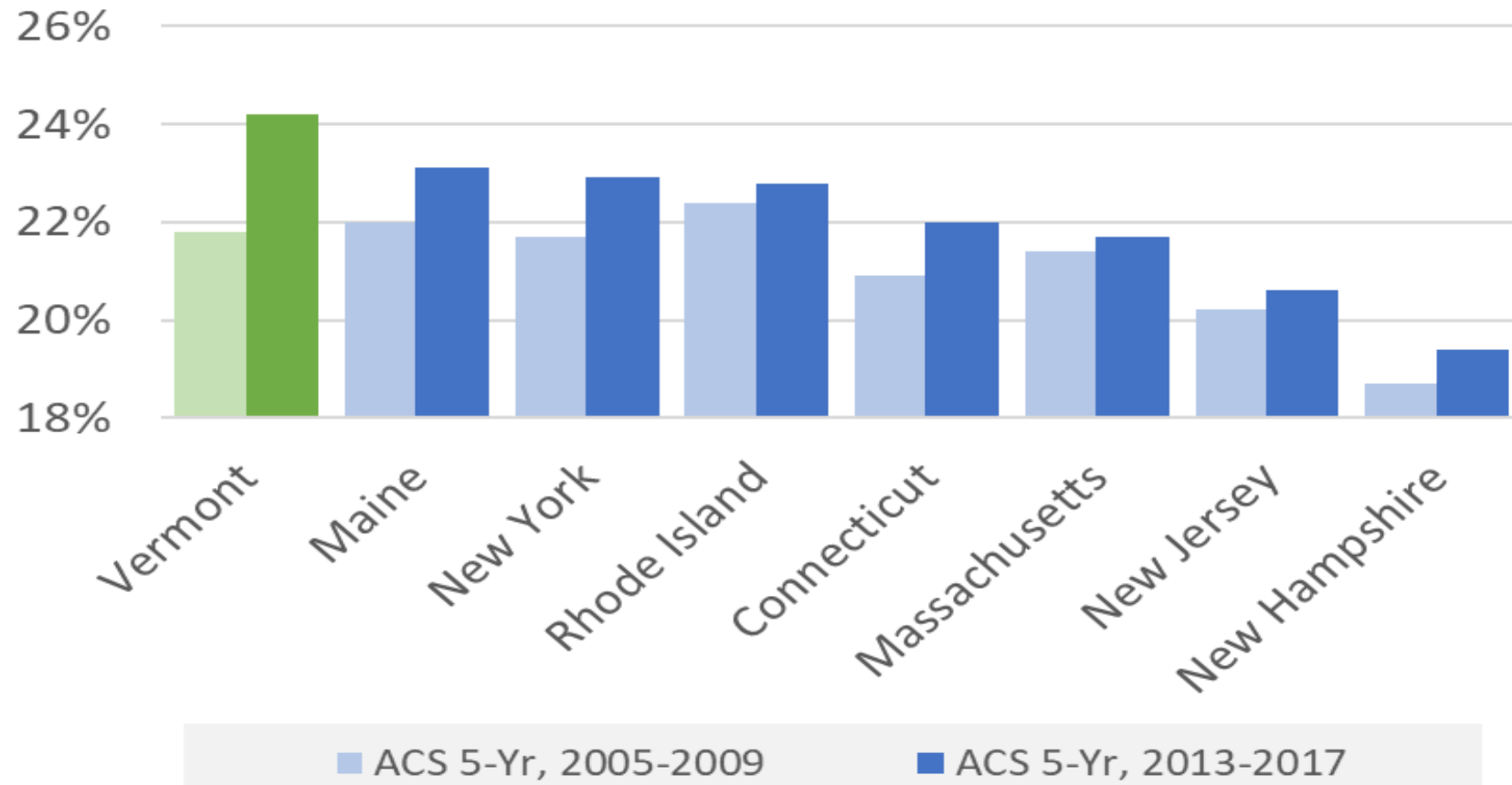
TREND #3

The average Vermont household is five percent smaller than it was in 2000 and is statistically tied with Maine and North Dakota as the smallest in the nation.





One-person households as % of all owner-occupied households



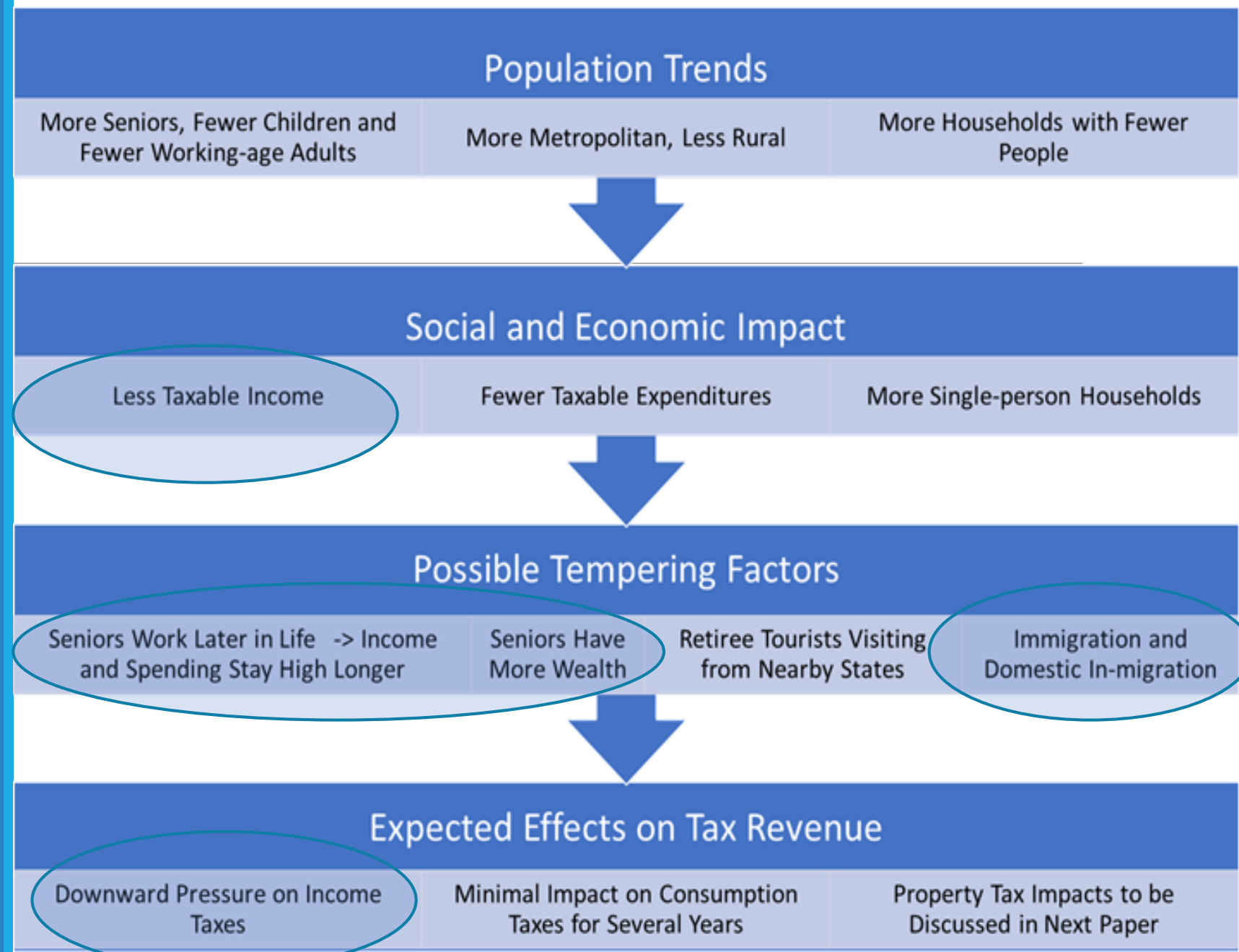
Impacts

Vermont's three largest sources of state revenue include:

- **Personal Income Tax** is the largest source of revenue in Vermont, accounting for nearly two-thirds of General Fund dollars.
- **Consumption Taxes** support both the Education Fund (100% of Sales and Use and 25% of Meals and Rooms revenue) and General Fund (75% of Meals and Rooms).
- **Education Property Tax** accounts for two-thirds of Education Fund dollars, with non-homestead property taxes accounting for 41% of the Fund's revenue and the homestead education tax accounting for 26%.

We expect all three sources to be impacted by demographic trends.

Personal Income Tax Impacts



Income tax revenue faces downward pressure due to:

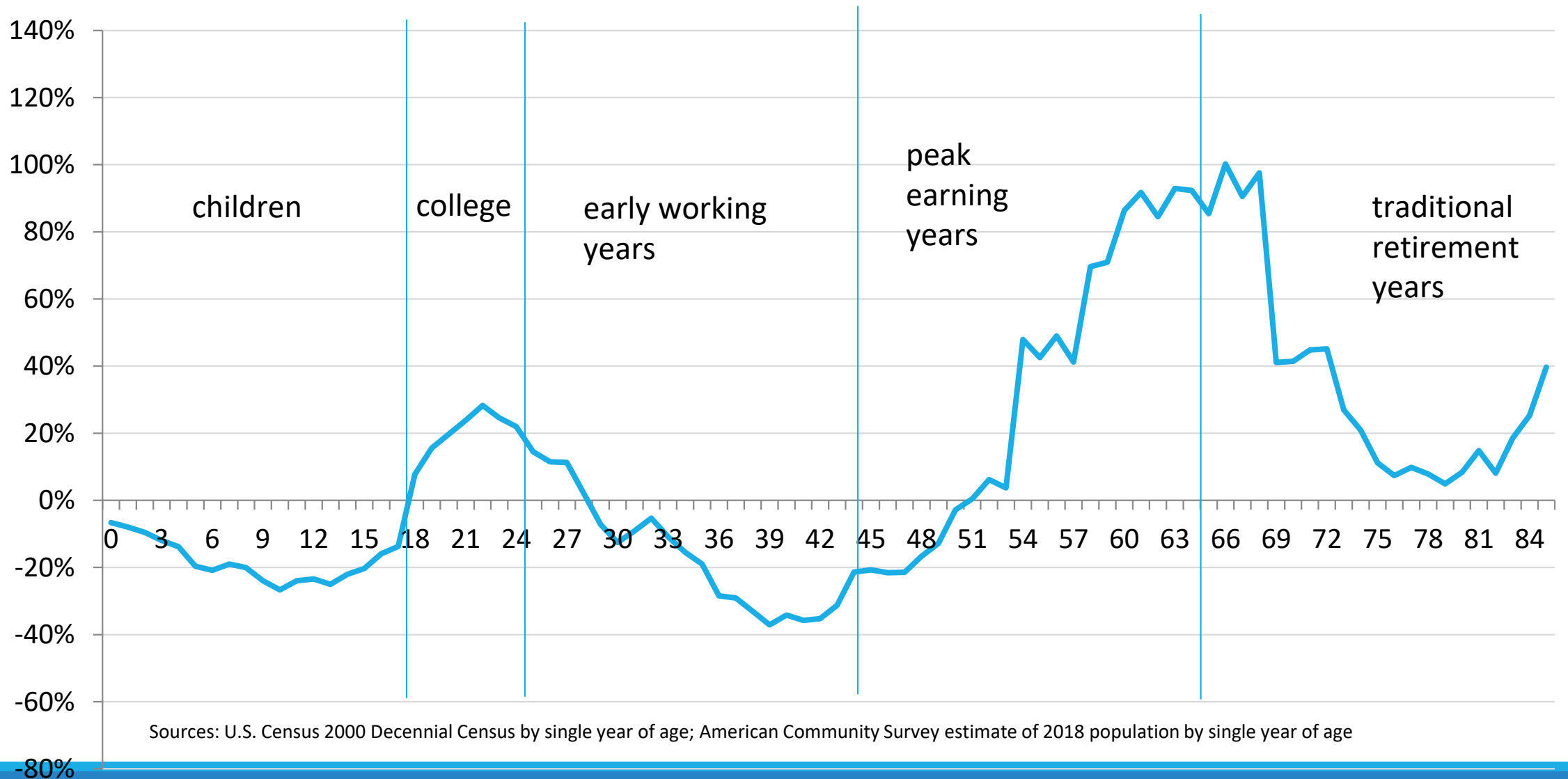
- 1) Fewer workers;
- 2) Seniors' income less likely to be taxable;
- 3) Lower incomes in retirement and early working years.

Fewer workers

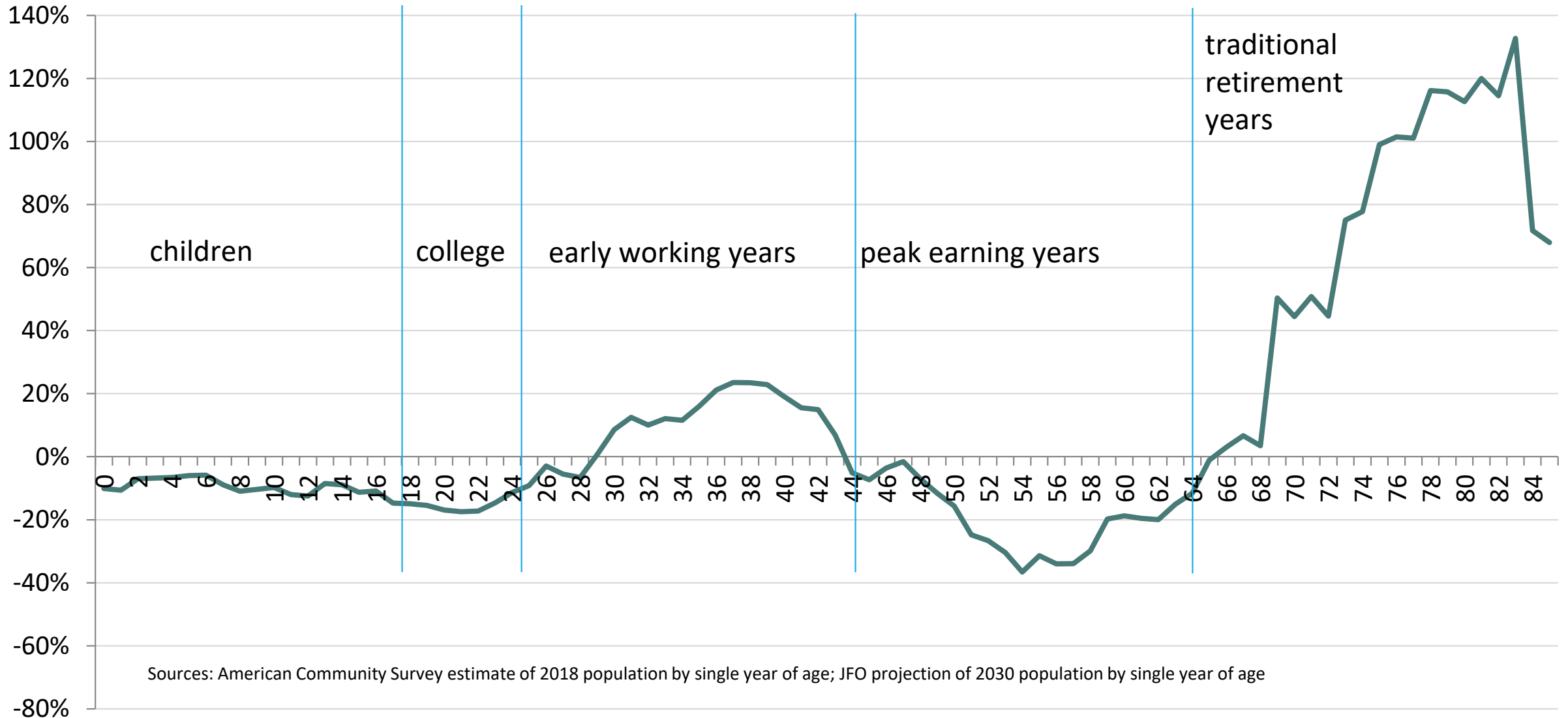
“[W]orking age populations are projected to decline approximately 0.5% between 2017 and 2026. This trend will strain economic growth....with knock-on implications for revenue growth prospects”

-- Fitch Ratings, 2018

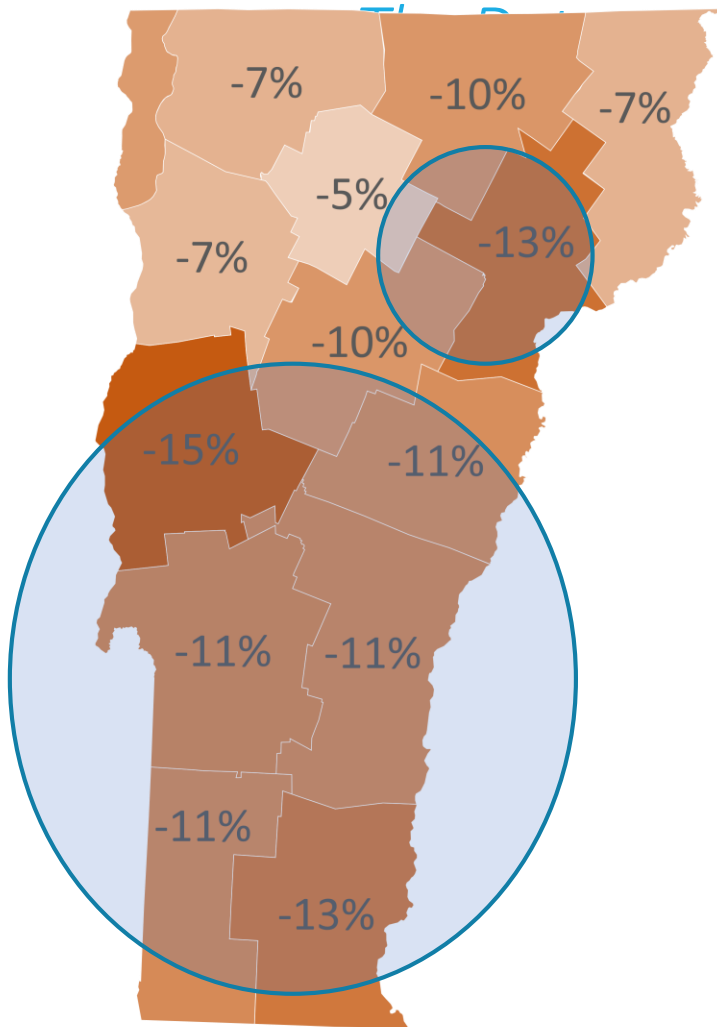
Last decade, Vermont benefited from a large increase in workers in the midst of their peak earning years



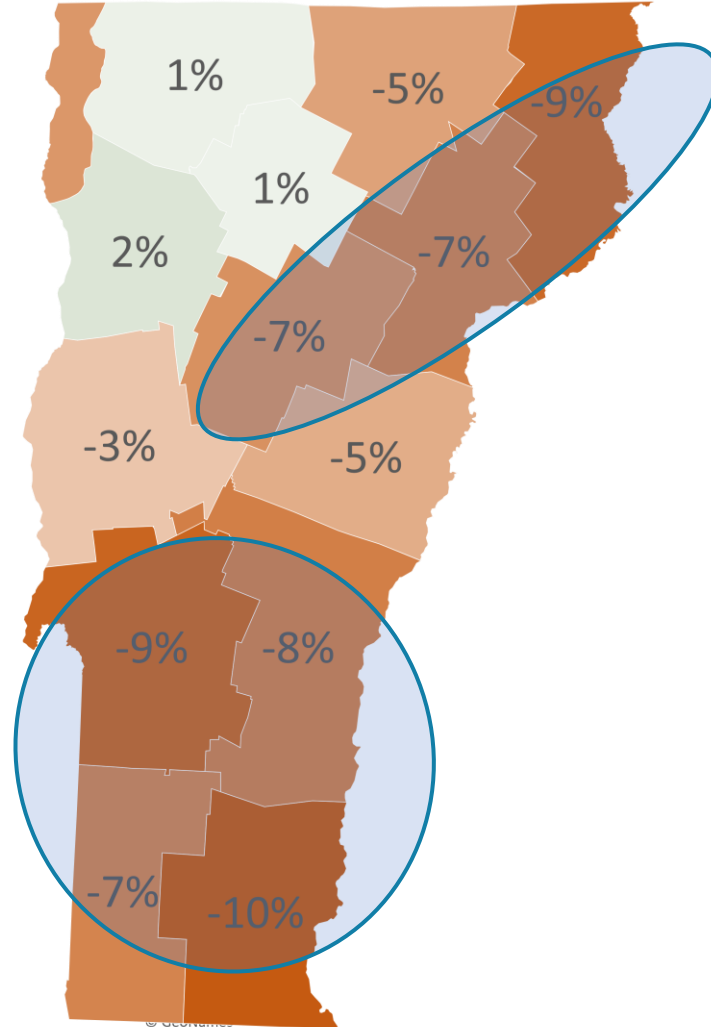
Over the next decade, Vermont will see a decrease of peak earners and increase of retirees and workers in their early years



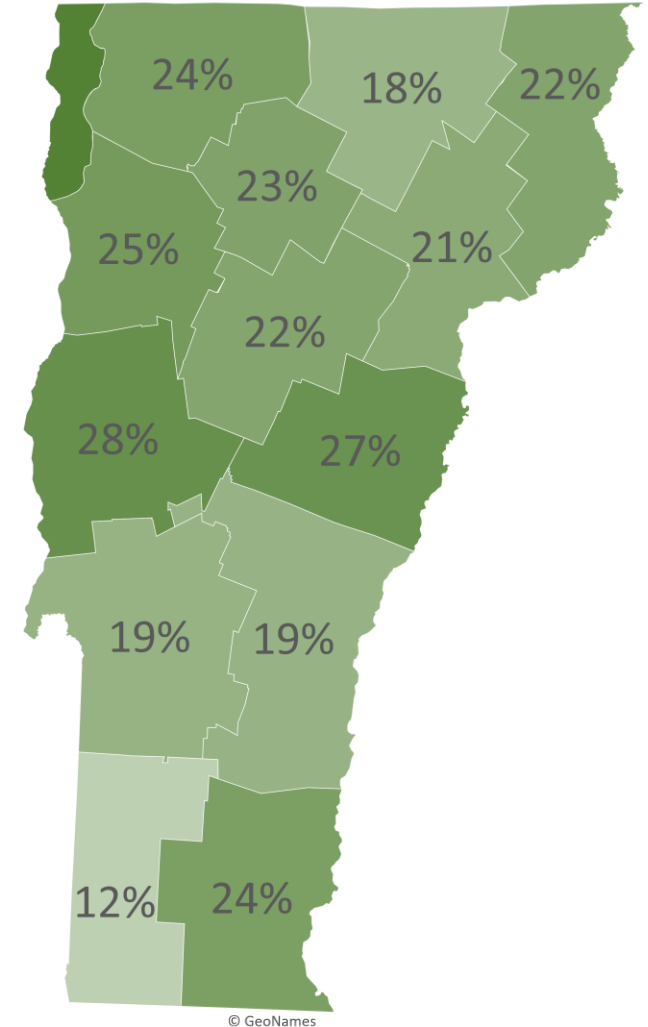
Counties outside of the Burlington metro area are losing working age adults and children at a more dramatic pace.



<18, Statewide: -10%



18-64, Statewide: -4%



65+, Statewide+22%

Lower incomes in retirement and early working years.

- Younger baby boomers (age 55-64) are the largest age group in the state - they account for more than a fifth of tax returns and more than a quarter of all income tax dollars.
- Vermonters age 45-65 pay the most income tax relative to population size.
- As baby boomers transition into retirement and paying less income tax, the smaller generation that follows can be expected to not cover the full gap, creating downward pressure on income tax revenue.

Proportion of Vermont population, tax returns, and taxes paid, 2018

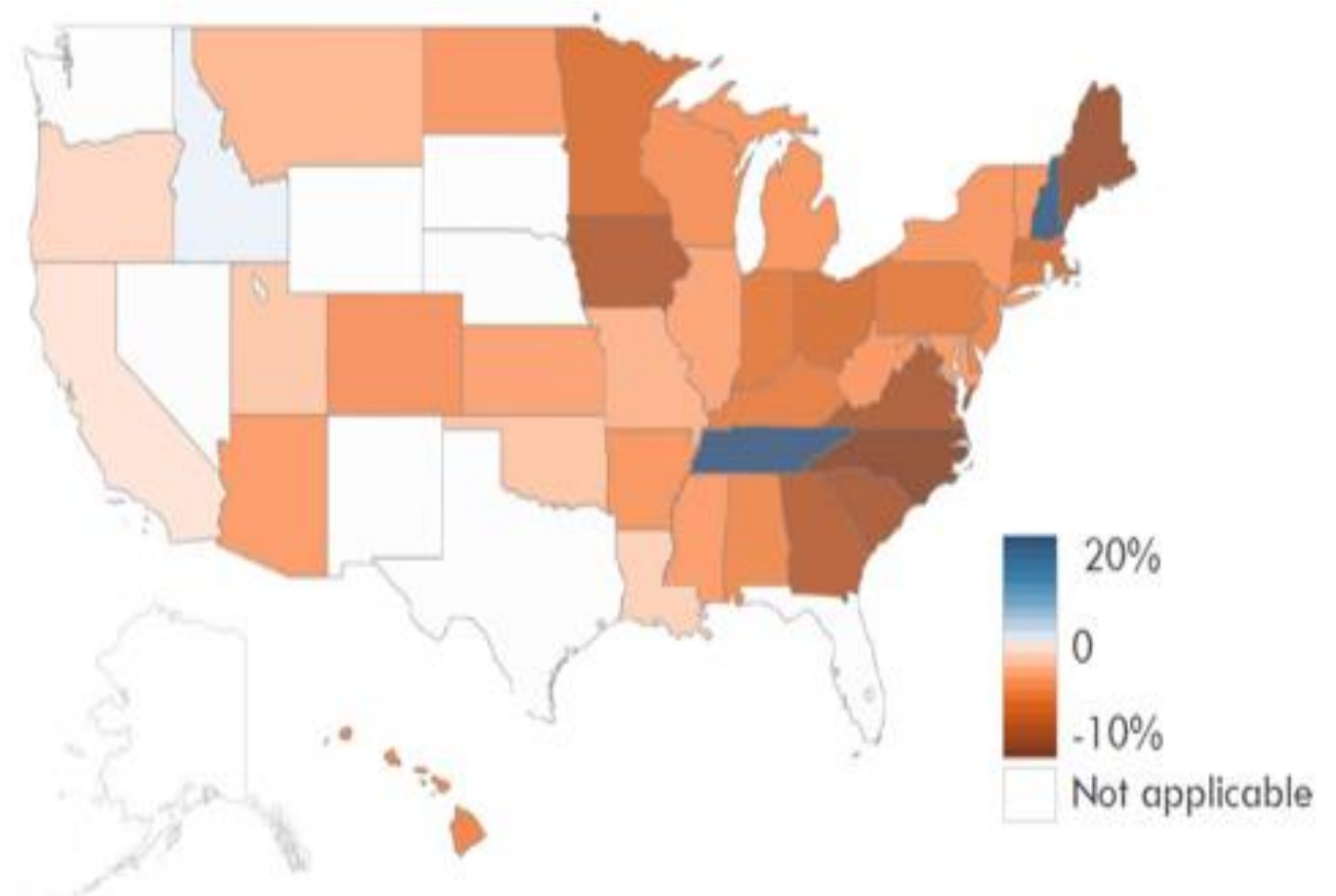


Source: 2018 estimated income tax by age group, residents only, using Chainbridge model. Population from U.S. Census estimates.
VERMONT TAX STRUCTURE COMMISSION

A 2013 report by the Federal Reserve Bank of Kansas City projected that Vermont's income tax revenue per capita would fall 4% by 2030.

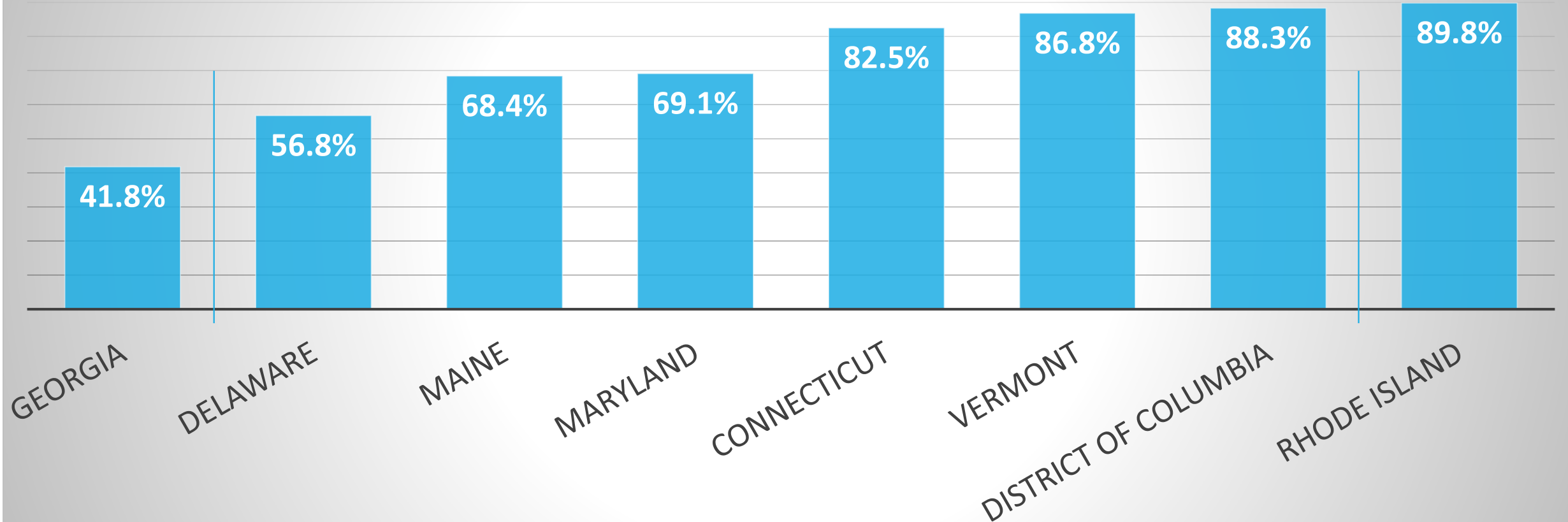
Several less aged states, particularly those with extensive tax breaks for retirement income, projected larger drops.

Projected change in income tax per capita, 2011-2030



Graph from Mullis, data from Federal Reserve Bank of Kansas City (Felix and Watkins)..

Elderly Income Tax Liability as Percent of Non-Elderly Liability in 2013



As of 2013, depending on the state, seniors could pay as little as 42% of the income tax they would have paid on the same income as a non-senior (in Georgia), or nearly 90% (in Rhode Island). Seniors in six states had less than 50% of the liability of non-seniors, while seniors in ten states (plus the District of Columbia) paid over 80%.

Social and Economic Impact

How We Earn

How We Spend

How We Live



Revenue Result

Income Taxes

Consumption Taxes

Property Taxes

Income tax revenue faces downward pressure due to:

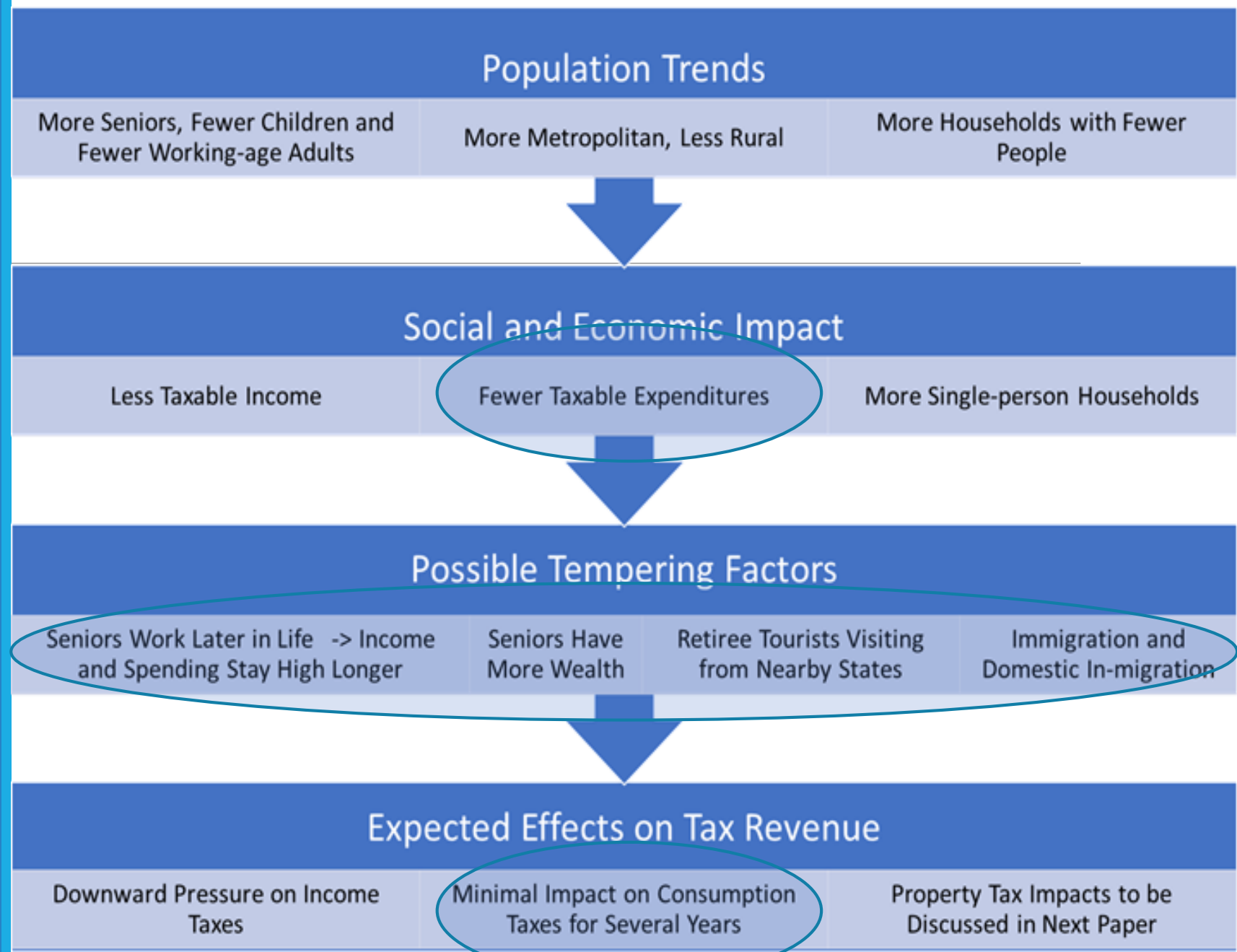
- 1) Fewer workers;
- 2) Seniors' income less likely to be taxable;
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Revenue decreases could be partially offset to the extent the following occur:

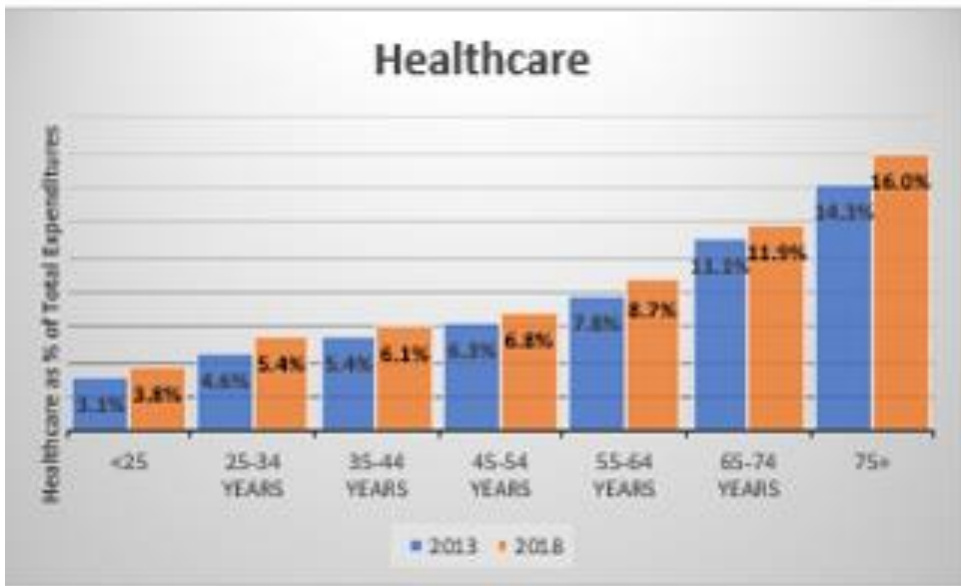
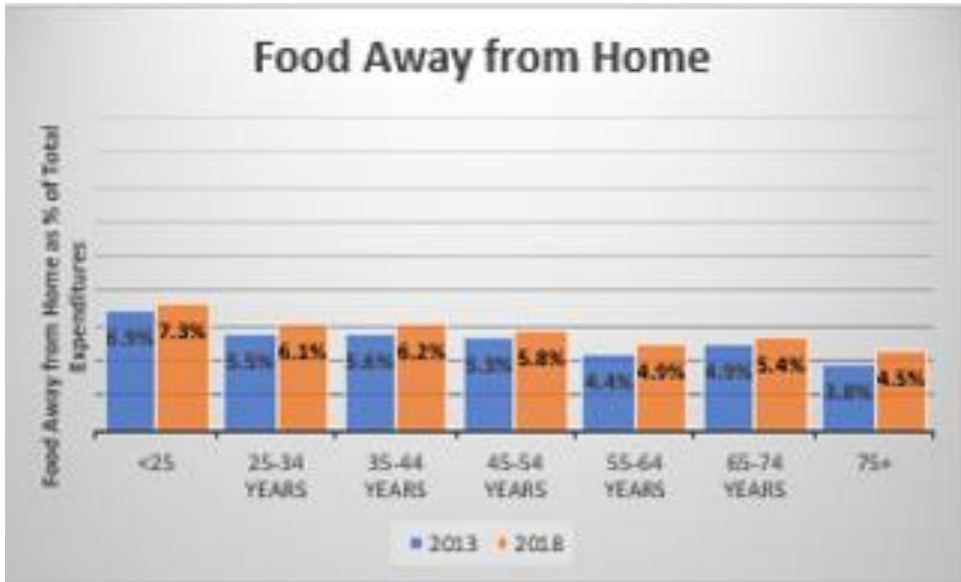
- Workers retiring later.
- Higher salaries paid to workers moving into more senior positions at a younger age.
- In-migration to fill job vacancies, including jobs taking caring of seniors.

Recap

Consumption Tax Impacts



Example of Spending by Age Group



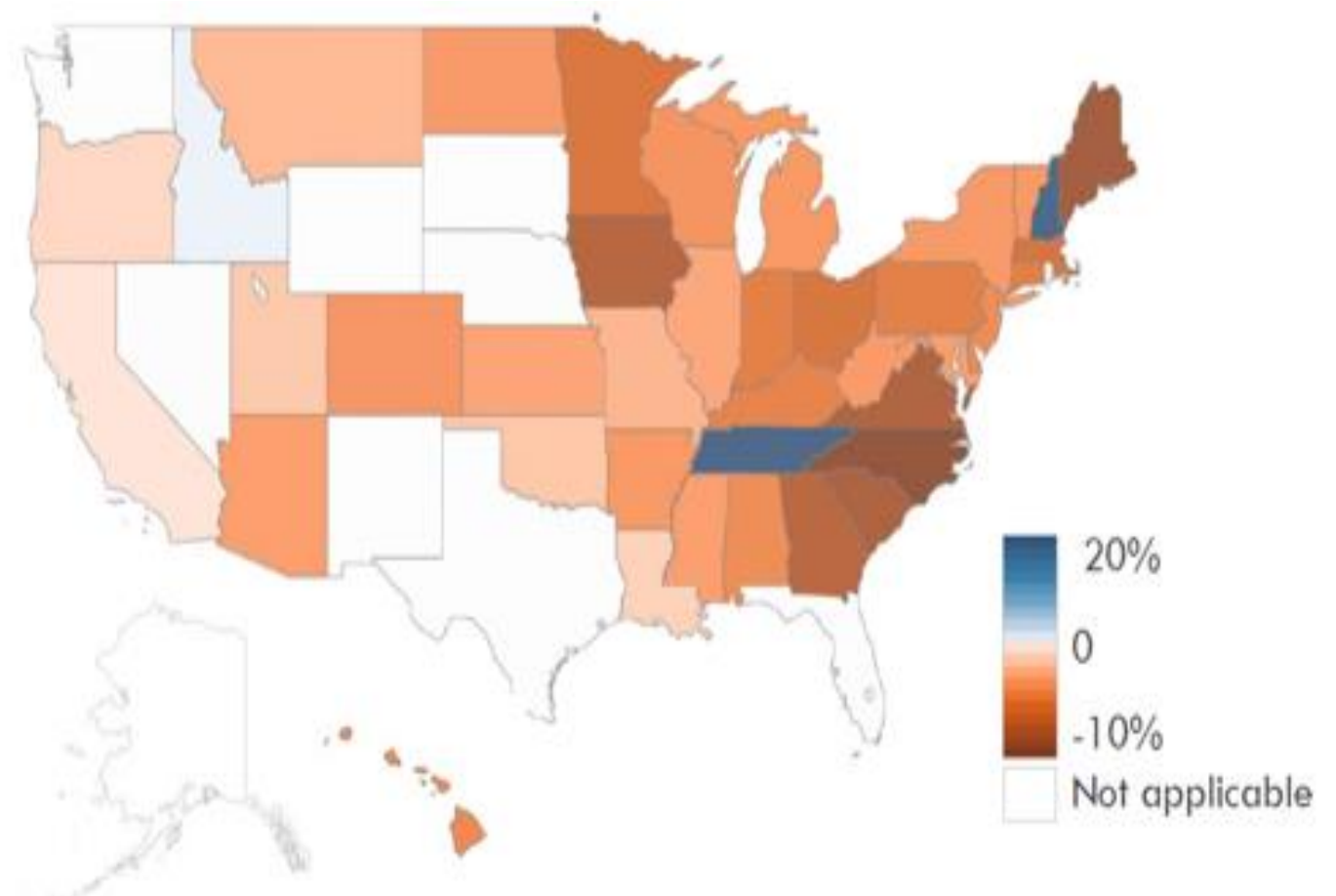
Consumption tax revenue faces downward pressure due to:

- 1) Lower overall income (fewer peak earners) leads to lower overall spending;
- 2) Seniors' spending typically shifts from goods (generally taxable) to services (generally not taxable)

A 2013 report by the Federal Reserve Bank of Kansas City projected that Vermont's sales tax revenue per capita would fall 1-2% by 2030.

Several less aged states, particularly those with extensive tax breaks for retirement income, projected larger drops.

Projected change in income tax per capita, 2011-2030



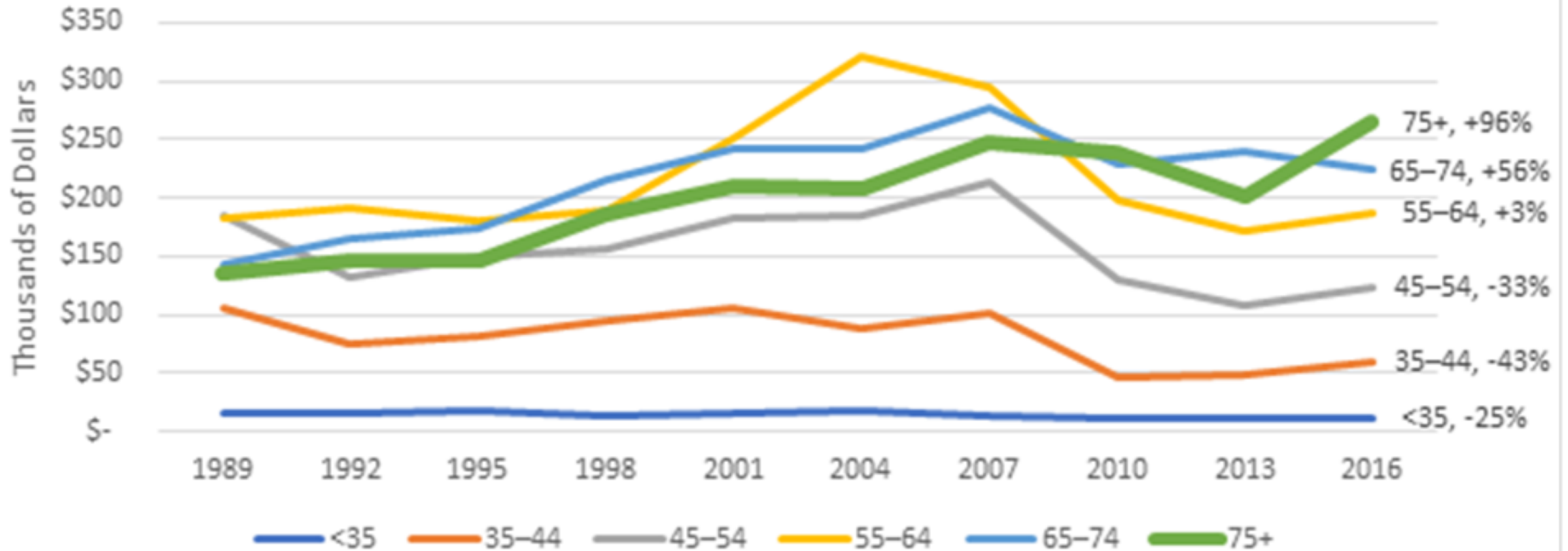
Graph from Mullis, data from Federal Reserve Bank of Kansas City (Felix and Watkins)..

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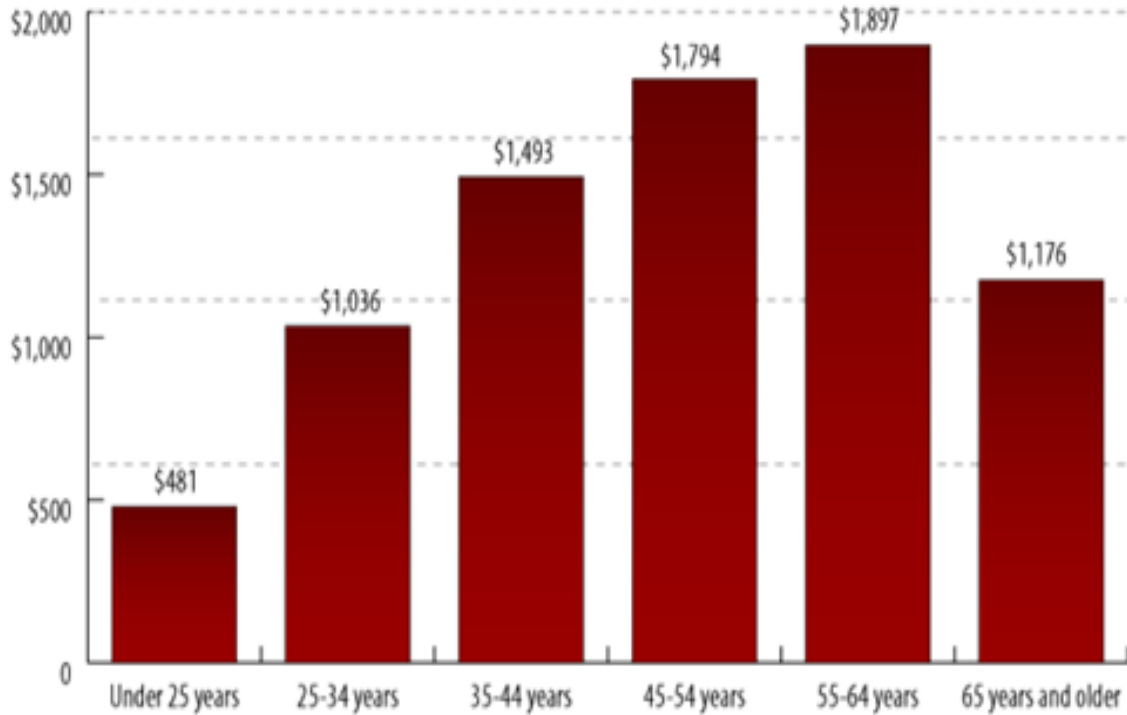
- Incomes stay high due to older workers retiring later and younger workers being promoted earlier, and then spending follows suit
- Higher wealth enables higher spending
- Tourism increases
 - Vermont's Agency of Commerce and Community Development estimates that out-of-state visitors account for roughly 50 percent of meals and over 95 percent rooms
 - Empty nesters and recent retirees from northeastern states are an important source of tourism for northern New England

U.S. Family Median Net Worth by Age Group

Inflation-adjusted (2016 dollars) with % change from 1989 to 2016

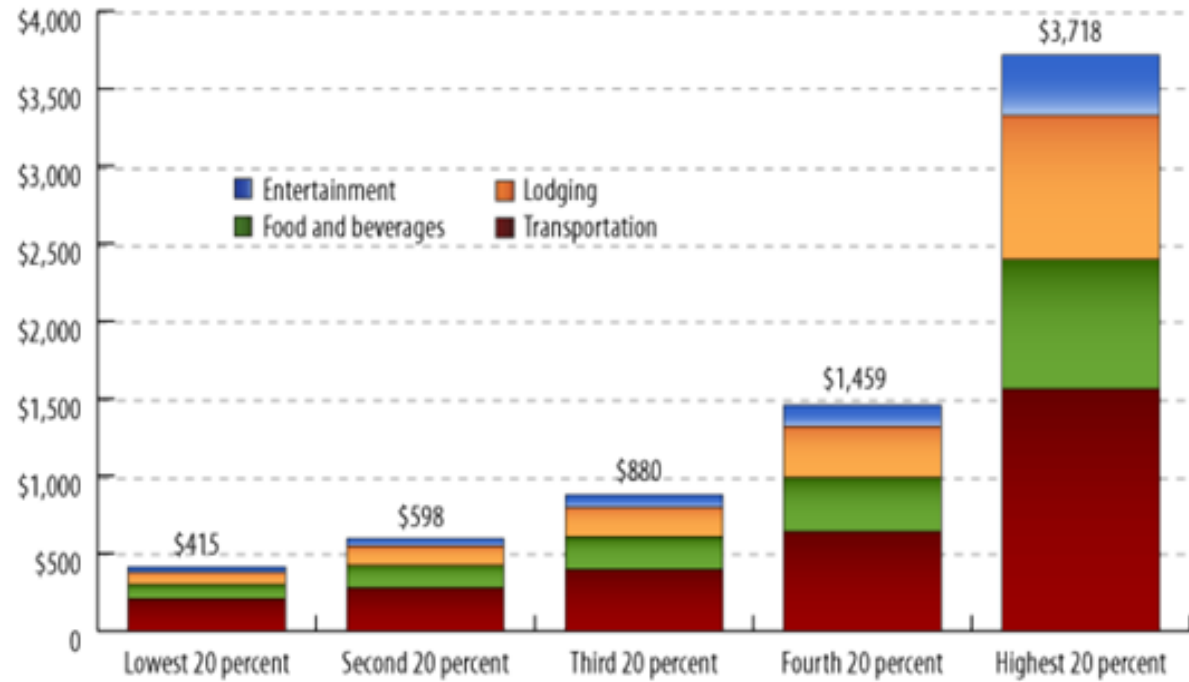


Average annual travel expenditures by age of head of household, 2008



Average annual travel expenditures as a function of household income

Average annual travel expenditures by quintiles of income before taxes, 2008

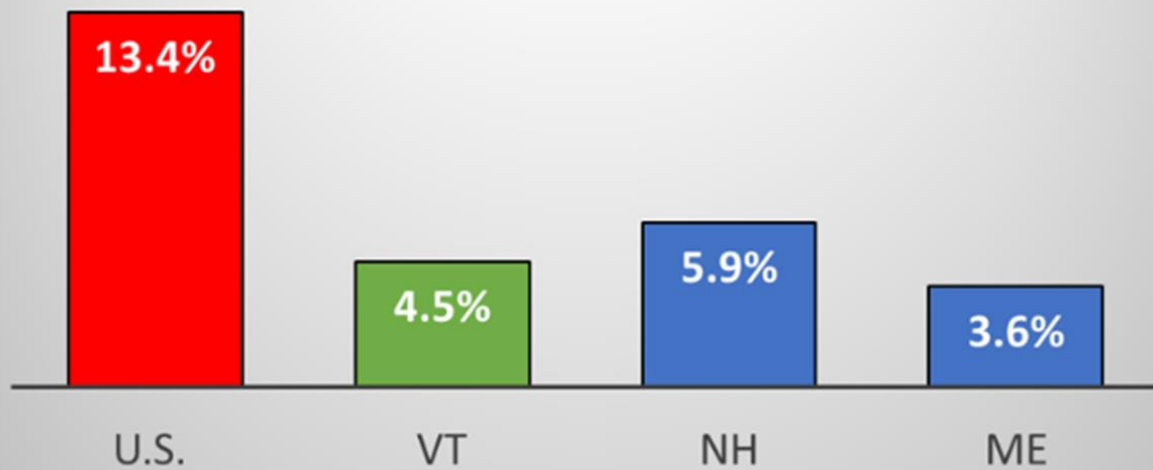


Wildcards

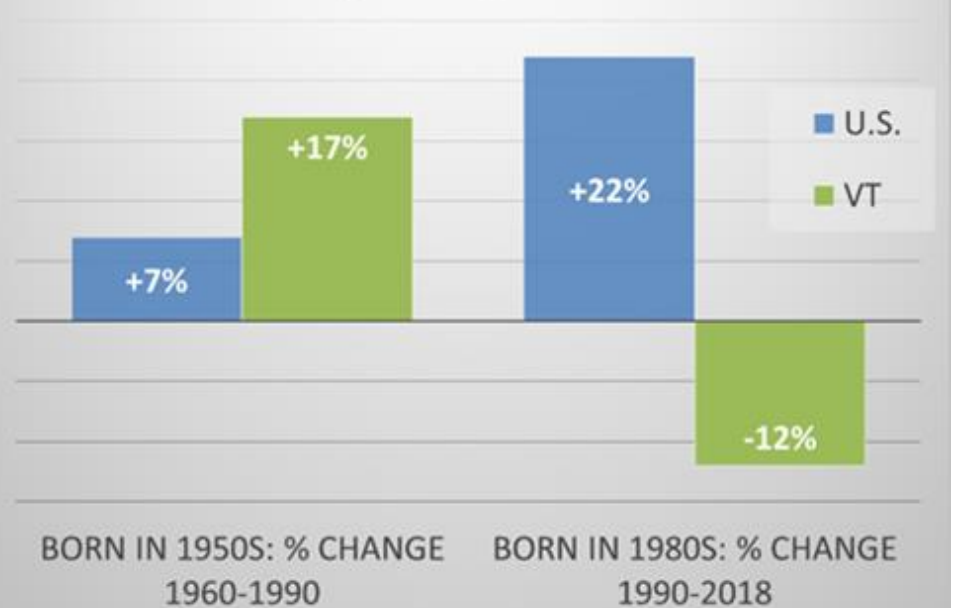
The Wildcards

- Trends Can and Do Change
- Housing – A Population Constraint or Impending Boom?
- In-migration – Both Domestic and International

Northern New England has less than half the proportion of immigrants as the national average



Change in Population Size from Childhood through Young Adulthood



Population Changes and Vermont State Revenue

Executive Summary – Full Report

Tax Structure Commission website:

<https://ljfo.vermont.gov/committees-and-studies/tax-structure-commission>