



MEMO

TO: House Ways and Means Committee

FROM: Karen Horn, Director Public Policy & Advocacy

DATE: March 25, 2020

Thank you for your consideration of issues that are compromising local government's capacity to provide services to constituents. Below is a list of issues as of today. I caution the committee this is not an exhaustive list. As governmental entities, cities and towns are experiencing the same crisis in funding and increased need to provide essential services as the state.

Reduced Revenues

Towns and cities are expecting reduced revenues from more than the normal number of

- Requests for abatement of property taxes and fees due to hardship and an argument that taxes are manifestly unjust in the face of the recession
- Late payment of taxes and fees
- Increased delinquencies with respect to property tax payments and fees for essential services such as wastewater and water supply
- Possibility that properties will meet qualifications for tax sale and how the town will address that in, or after this crisis. The selectboard may need to modify their general policy on tax sales.
- Grievances of property values due to recession.

Towns and cities also anticipate significantly reduced revenues from local option taxes to affect their revenues. Local officials have heard from small businesses that they will need to choose between making payroll or paying sales, meals, rooms and alcohol taxes for the previous month (February) and when they choose payroll, will be in arrears on taxes payable to the state.

Towns and cities anticipate increased grievances of property values if or when the market for real property takes a downturn. Hearings for grievances need to be heard by June 19 in towns of fewer than 5000 population and by July 9 for towns of more than 5000 population.

As a result of severely reduced revenues, towns and cities may need to borrow in anticipation of taxes, which is designed to be short-term borrowing. If borrowing in anticipation of taxes is necessary for an extended period of time, towns will need to repay those loans with interest and there will be significant ramifications for a municipality's budget at a time of reduced revenues. The municipal capital markets are shut down and so banks are the only option for towns – or anyone else. We do not know what the total municipal need might be for short term financing. We did have a meeting with Treasurer Pearce and Michael Gaughan, Executive Director of the Bond bank on this issue Tuesday afternoon. We are going to try to get an estimate of total need.

Increased Needs

Cities and towns are obligated to continue to provide water and wastewater services despite non-payment of bills. Law enforcement presence is recommended to be highly visible in communities as executive orders are issued and the emergency declaration wears on. Emergency medical services are incredibly stressed and costs will increase in order to provide the protective equipment, response to calls and additional staffing that will likely be needed. Cities and towns are enacting Mutual Aid Agreements for a wide range of essential services in order to help if staff

are reduced because they get sick. We have been asked what towns are doing currently when it comes to landlord tenant issues, which are likely to be exacerbated in this time. At the same time people expect the ordinary business of towns to continue albeit in different circumstances and payrolls need to be met. Towns and cities still need to meet their obligations for outstanding bond and lease payments, and matching funds for state and federal grants or loans. These are just a few of the problems that Vermonters turn to their local governments to solve.

Statutory Issues

As a result of filing deadlines for state and federal income taxes moving to July 15, the filing deadline for homestead declarations is also moved to July 15. As you heard from Commissioner Bolio and your staff, approximately 70 towns have filing deadlines remaining for this year. And quite a few towns have tax installments due in early July. Thus not only are revenues expected to be down significantly, but also the calendar for receipt of property tax revenues is confused.

The statute requires that towns and cities turn over one half of education property taxes to the agency of education June 1 and half December 1. There are significant penalties for not doing so – eight percent penalty per annum of the amount due and if a payment is more than 90 days overdue, any state funds due the municipality shall be withheld (32 VSA § 5409 (1)).

Should towns stabilize or abate taxes, they are obligated to make the Education Fund whole. That would be impossible for most towns given reduced revenues overall.

Bonding

Towns and cities that passed bond votes at Town Meeting Day have authority to borrow but are not time constrained as to when they would actually need to bond. As Michael Gaughan from the Bond Bank will tell you, the markets are highly unpredictable right now. As a result, municipalities will be very careful about borrowing from both the perspective of the long-term capacity to repay debt if local fee delinquencies increase, and the volatility of the market. Having said that, many of the projects for which bond votes were passed are projects that the Agency of natural Resources requires of towns and so there will need to be discussions with the agency regarding those obligations.

What To Do?

There needs to be flexibility to potentially change property tax due dates, to address the lack of complete information regarding homestead declarations in a helpful timeframe, and to abate or defer property taxes to some extent without needing to make the Education Fund whole.

One suggestion is to allow local boards to abate municipal taxes and education taxes in the same proportion and for the same period of time during the declared emergency. For example, if a town abates 10 percent of municipal taxes for six months, it may also abate ten percent of education taxes for six months.

If education property taxes are not paid due to delinquencies, the law makes emphasizes that the town is not obligated to make the education fund whole. (I believe this is the case now but would need assurance on that front.

Please find the link to VLCT's FAQs on Financial Issues during COVID 19 here:

<https://legislature.vermont.gov/Documents/2020/Docs/CALENDAR/sc200324a.pdf>

And the link to the VLCT COVID 19 page here:

<https://www.vlct.org/coronavirus#FAQs>

