February 18, 2022

Senate Committee on Finance
Vermont State House
115 State Street
Montpelier, VT 05633-5301

Dear Senators,

Thank you for the opportunity to offer comments on S. 212, legislation to shift from a property-based education tax to an income-based education tax. As always, we appreciate the efforts of this Committee and your clear recognition of the critical role that quality public education plays in a creating just, equitable Vermont economy.

Vermont Businesses for Social Responsibility is a statewide, nonprofit business association with a mission to leverage the power of business for positive social and environmental impact. For over 30 years, our organization has promoted the opportunity and responsibility of the business community to set a high standard for protecting the natural, human, and economic environments of our citizens.

Most of our members are small employers. Roughly 35% employ 10 Full time employees (FTEs) or less, 65% employ 50 FTEs or less, and only about 6% (or 40 companies) employ 300 or more FTEs.

A strong education system is essential for a strong economy. There are few other mechanisms as effective as the public education system in increasing personal and intergenerational wealth, addressing poverty and crime, and equipping the future workforce with the skills and knowledge necessary to succeed.

Overall, states that make significant investments in education as a workforce development tool have higher median family incomes and higher employee productivity. Investing in education not only attracts high-wage employers to a region, but it also has a longer-term effect of increasing state tax revenues through bolstered wages and increased opportunities for workers. For example, a U.S. worker without a high school diploma on average earns about $20,000 a year, about $10,000 less than a worker who graduated high school. Workers with bachelor's degrees on average earn roughly $55,000 a year. These increased worker earnings grow the tax base and in doing so reduce pressure on tax rates.

A strong educational system also strengthens Vermont businesses, by creating a highly qualified workforce and equipping them with the skills that are commensurate with the needs of employers. This allows businesses to excel and grow, leading to the creation of additional high quality, family sustaining jobs.

How to fund Vermont's education system adequately and fairly is one of the most difficult challenging public policy questions facing the State. In voting on school budgets, Voters and officials will consistently point to the growing burden of property taxes as their main reason to oppose school budgets. Vermont's current funding system also pins municipalities and school systems against each other with a limited funding pool and a complicated tax scheme.

Income vs. Property Based Education Taxes

Historically, the overreliance on property taxes meant that Vermont's more rural, sparsely populated regions with disproportionately small taxes bases could not generate the income necessary to provide residents with a quality education. To reduce these disparities our state employed a host of different changes to our tax system including taxing all non-homestead properties at a unform rate and sharing that revenue across school districts; tying education tax rates to districts' voter-approved spending per pupil; and adjusting education property taxes for homes with up to 2-acres to better reflect household income.

VBSR recognizes the critical and hard-fought advances made in reducing disparities between school Vermont districts, and in keeping our education tax from being overly regressive, however property taxes are no longer an adequate method of funding Vermont's schools. Property taxes are regressive and the burden of paying for local schools through this source too often falls on lower-to-middle class Vermonters.

As you well know property does not adequately reflect a household's ability to pay their taxes and afford other critical goods and services. According to the Federal Reserve's 2017 assessment, low net worth households typically own homes that exceed 100% of their net worth as they do not have many other assets and mortgage their homes. For middle income families their home typically represents roughly 88% of their net worth, and 25% of the net worth of the high-income families. Under current law, a Vermont family making $125,000 a year would pay roughly 3% of their total income in homestead school taxes meanwhile a family making more than $1 million each year pays about 0.5% of their total income in school taxes.

To give a more practical example, under previous models, a taxpayer who suddenly found themselves unemployed did not see a change in their property tax bill, even though her ability to pay had greatly diminished.

VBSR's "Tax and Fiscal Policy Statement" calls for a tax system that is fair, simple, transparent, accountable, sustainable, and competitive. Vermont's overly complex use of an amalgam of property-based and income-based taxes to fund schools fails these goals and the changes as proposed in S. 212—namely to move from a predominantly property-based tax to an income-based tax—would simplify our education funding system and allow for more participation in school budgeting across the state.

Non-homestead Education Property Taxes

Currently, property taxes contribute about two-thirds of all revenues to the state's $1.8 billion Education Fund. Of which, the homestead tax provides about a quarter of all revenues and the non-homestead tax applied to second homes, rentals, and commercial properties, brings in about 40%. VBSR strongly supports retaining the non-homestead tax, especially considering Vermont's abundance of second homeowners and the booming short term rental market.

That being said, it is imperative that we also retain the tax credit for renters to offset the costs that will continue to be passed down to them by their landlords. We are concerned that these expenses in concert with the new income-based education tax will create an undue burden for Vermont's renters at a time when rental prices are at an all-time high. According to the annual 'Out of Reach' report from the National Low Income Housing Coalition, the average Vermonter needs to earn nearly $24 per hour to afford a safe, decent place to live in Vermont, however the average renter makes less than $14 per hour—marking the sixth-largest affordability gap in the nation. The Committee should consider both circuit breaker credits and more robust withholding options or Vermont taxpayers to ensure these changes are not overly burdensome on renters.

Education Fund Volatility

Presently, our property-based education funding system is relatively stable and predictable. Our budget informs the property tax rate to allow our state to raise the necessary dollars and the property tax base is a known quantity going into this process. However, the shift to an income-based model means some volatility is passed on to the taxpayer. To avoid significant shifts in tax rates and to increase predictability, we encourage the Committee to create a robust education stabilization fund and employ other cost control mechanisms as recommended in the Vermont Tax Commission's most recent report—including the creation Education Tax Advisory Committee.

As always, thank you for your tireless work to allocate state l funds to the maximum benefit of our businesses, communities, and families. VBSR appreciates the opportunity to offer comments on S. 212 and we are available for further questions and testimony at your convenience.

Sincerely,

Jordan Giaconia

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