Affordable Rental Property Tax Reduction

(A Provision of Act 68)

Background

The landmark education tax law, Act 68, split grand lists into two categories (homestead and non-homestead) with separate school property tax rates. Only owned primary residences are homesteads, and all rental housing pays the higher, non-homestead, rate. To protect the affordability of subsidized housing, Act 68 allowed certain developments to lower their assessed value by up to 10% based on the number of eligible units. Statute directed Vermont Housing Finance Agency (VHFA) to certify eligible developments, which then submitted the completed tax reduction certification to the Town Clerk's office annually. More information is on VHFA's website.

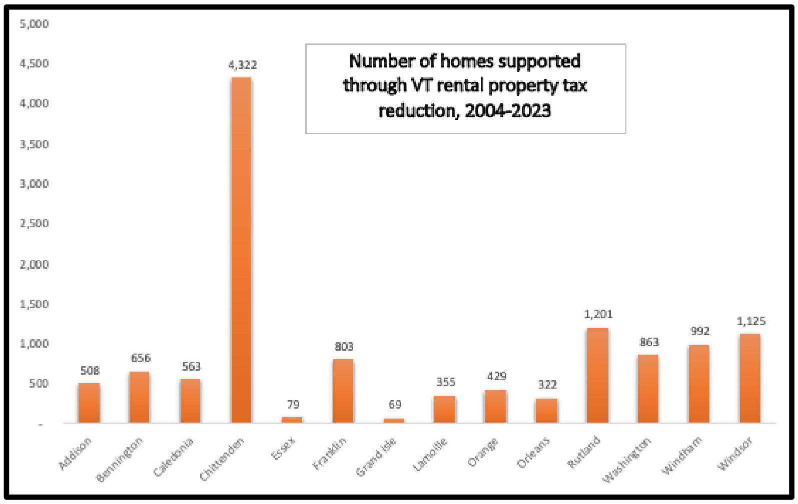
The Problem

The first developments to receive this tax reduction did so in FY2004 after Act 68 went into effect. Under statute, a certificate of exception may last for 10 years and be renewed *only once*. Meaning, the first developments will lose this property tax reduction benefit in FY2024 (beginning April 1, 2024).

The ability for subsidized housing to lower their assessed value is not ending. Without legislative action, all new projects **and** existing housing that receives a new funding award to rehabilitate the property are still eligible to receive this reduction for up to 20 years. It is only older properties that have managed their operations and met the building's physical needs ***without*** requesting additional government funding that are slated to lose this benefit in FY2024, which will increase their property taxes.

Any development that changes owners, including those that applied for additional funding under a new corporate structure, restarted the 20-year clock. **That leaves 5,096 affordable apartments in 203 properties at risk of increased property taxes in 2024.** By 2028, 6,655 apartments will no longer have this benefit.

The Impact



Tenants in eligible properties include those funded with federal tax credits. The typical Vermonter living in buildings affected by expiring property tax reductions has an income of about $17,000, has tenant-paid monthly rent of $423, and is 41 years old.

Since 2004, an estimated 477 properties, consisting of 12,287 units benefited from this tax policy.

An analysis of audited financials of these properties between 2019 and 2021 shows that 11% of total operating expenses went towards property taxes. This percentage will increase for those properties if this legislation is not remedied, putting further strain on already tight operating budgets. This reduction allows homes to remain affordable and encourages vital building improvements, which supports our communities statewide.

Increasing taxes on these projects has a more severe impact because they are older and likely need to increase their replacement/repair reserves as the buildings age. Meanwhile, the benefit to the community and their residents remains the same.

The Request

In recognition of the critical role subsidized housing plays in supporting the essential workforce of our economy, strike the word "once" from 32 V.S.A. § 5404a(a)(6):

> *(6) An exemption of a portion of the value of a qualified rental unit parcel. An owner of a qualified rental unit parcel shall be entitled to an exemption on the education property tax grand list of 10 percent of the grand list value of the parcel, multiplied by the ratio of square footage of improvements used for or related to residential rental purposes to total square footage of all improvements, multiplied by the ratio of qualified rental units to total residential rental units on the parcel. "Qualified rental units" means residential rental units that are subject to rent restriction under provisions of State or federal law, but excluding units subject to rent restrictions under only one of the following programs: Section 8 moderate rehabilitation, Section 8 housing choice vouchers, or Section 236 or Section 515 rural development rental housing. A municipality shall allow the percentage exemption under this subsection upon presentation by the taxpayer to the municipality, by April 1, of a certificate of education grand list value exemption obtained from the Vermont Housing Finance Agency (VHFA). VHFA shall issue a certificate of exemption upon presentation by the taxpayer of information that VHFA and the Commissioner shall require. A certificate of exemption issued by VHFA under this subsection shall expire upon transfer of the building, upon expiration of the rent restriction, or after 10 years, whichever first occurs. The certificate of exemption may be renewed ~~once~~ after 10 years if VHFA finds that the property continues to meet the requirements of this subsection.*