

Tax Incentives for Housing Growth in S.311

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Tax Incentives for Housing Growth

- **Property value freeze:** reduce property taxes by freezing the value of qualifying newly constructed or rehabilitated residential dwellings at their pre-improvement value for 5 years
- **Property transfer tax exemption:** exempt buyer from transfer tax when purchasing blighted property for rehabilitation within 3 years

Property Value Freeze – What is it?

Five-year value freeze on the education grand list for eligible new residential construction and rehabilitation

– Note: The version of S.311 that came out of Senate Economic Development was only two years.

If towns opt in, freeze will also apply to the local grand list

Property Value Freeze – What Are the Rules?

The freeze is only available for eligible properties. Eligibility rules include restrictions on:

- Use: properties must be used for owner-occupied homesteads or long-term rentals. Non-residential property, second homes, and short-term rentals do not qualify.
- Location: properties must be in designated downtowns, village centers, neighborhood development areas, or federal new market tax credit areas.
- Income: Multi-family units must be mixed income, which means at least 20% of housing units must be considered affordable.

Property Value Freeze – What Are the Rules?

- This is a time-limited program. The program sunsets so no new applications could be accepted after 2027.
- Qualifying property owners must apply for the freeze with the Agency of Commerce and Community Development and the freeze will not begin until the property is *in use* as an owner-occupied homestead or long-term rental.
- Recipients must certify annually with ACCD that their use of the property continues to qualify. Tax will look for Homestead Declarations or Landlord Certificates.
- If the property is ever disqualified after receiving the freeze, recipients must pay back all previously exempted taxes (even if they qualified at the time) plus interest.

Property Value Freeze - Examples

- Land purchased for \$700,000 in Winooski with a \$2.5 million 39-unit commercial apartment complex
 - Annual savings: \$36,300
 - Five-year savings: \$182,000
- Land purchased for \$500,000 in Barre where a \$6.5 million 79-unit apartment complex is constructed
 - Annual savings: \$100,800
 - Five-year savings: \$504,000
- A blighted property in Craftsbury purchased for \$100,000 that is restored to a value of \$275,000 and utilized as a Homestead
 - Annual savings: \$1,400
 - Five-year savings: \$15,450

Property Value Freeze – What Could Impacts Be?

- The value of the freeze represents 7-8% of construction costs when only freezing education property tax value; higher when towns opt in
- If this cost reduction results in a 7-8% increase in units, it translates into about 200 additional units per year that don't exist today
- Each dollar of public investment would generate \$12-13 of private investment
- New units would come online at approximately \$80,500 of public funding per unit
- Tangential benefits: demographic and workforce improvements, community revitalization, additional tax revenues from new residents, increase in construction-related jobs in Vermont, increased surrounding property values

Property Value Freeze – What Does it Cost?

Consensus forgone revenue estimates with JFO and Tax

Forgone Revenue Estimates	FY25	FY26	FY27	FY28	FY29	FY30
Education Fund	1M	1.8M	3.7M	7.7M	15.4M	16.2M

Important: The projected property tax increase for FY25 from this proposal is 0.41% over the current projection.

Property Value Freeze – Will it Work?

City of Philadelphia (10-year value freeze scaling from 100% to 0% over 10 years) [study](#) indicates eliminating or reducing the benefit of their program would all carry risk of loss of development (executive summary “all alternatives result in less revenue and fewer jobs in the long term, compared to the existing program”)

City of Cleveland (15-year value freeze) [study](#) indicates “Tax Abatements were associated with substantial economic activity in Cleveland... providing an additional \$2.2 million, \$7.7 million, and \$2.3 million per year to the City”

We’re aware of jurisdictions in at least 12 states who utilize a similar program to incentivize certain types of development: CA, CT, DC, IA, MO, NH, NJ, NY, OH, OR, PA, TX.

Important: A 5-year freeze as the Administration proposed would be among the most conservative in the country. Most are 10-15 years. Some are as long as 35 years (NJ).

Property Value Freeze – Will it Work?

Prior Legislatures in Vermont seemed to think so:

- Existing Vermont locally voted property tax exemptions
 - Tax stabilization agreements
 - Towns may approve property-specific contracts to reduce State and local property taxes for certain properties, including commercial rental properties. 32 V.S.A. § 5404a(a)(6) and 24 V.S.A. § 2741.
 - Neighborhood housing improvement programs under 32 V.S.A. § 3847
 - 5-year exemption for value of improvements to affordable principal dwelling units with funds provided by certain nonprofits.
 - Blighted Properties under 32 V.S.A. § 3850
 - 5-year exemption for value of improvements to blighted property.
 - Property may either both owner-occupied principal residences and long-term rental units.
 - Exemption for Homes, Dwellings, and Farm Buildings under 32 V.S.A. § 3836
 - 3-year exemption for up to \$75,000 of appraised value of buildings used and occupied exclusively as homes, dwelling houses, or farm buildings whether for sale or rent, when recently constructed or in the process of constructed.

Questions/Concerns We've Heard

- Concern: The Education Fund has too many cost pressures this year to consider another one
 - Current estimate for the increase in property taxes for FY25 is \$241.8 million.
 - The value freeze would represent an increase of \$1 million or 0.41% over the current estimate
 - Administration & Legislature recently worked together on Act 82 (S.160) to help relieve flood victims of property taxes at an estimated Ed Fund cost of \$1.1 million
 - **Important**: Shortening the freeze from 5 to 2 years does not reduce the FY25 or FY26 cost

Questions/Concerns We've Heard

- Concern: The freeze will hurt town revenues from loss of municipal taxes
 - By default, the value freeze in S.311 freezes the education property tax value only, *not* the municipal value
 - The language provides an *option*, not a requirement, for towns to enact a municipal equivalent value freeze program

Questions/Concerns We've Heard

- Concern: This freeze proposal will result in rich people getting big property tax breaks building luxury homes or making luxury improvements
 - For the value freeze related to rehab, the original property must be blighted (substandard structural, housing, or unsanitary conditions), and the investment must meet certain thresholds (minimum 15% of value or \$75,000)
 - For mixed used and multi-unit properties, the property must be considered mixed-income where a portion of units are considered affordable
 - For single-family homes, the Administration is open to either a cap on the value of the freeze itself, or a cap on the value of the property that is eligible for a freeze

Questions/Concerns We've Heard

- Concern: We should take this money and offer grants or do other direct investment instead of these tax incentives
 - The Administration believes all tools available need to be part of the solution – regulatory reform, direct investment, and tax incentives
 - Why should tax incentives be part of the equation?
 - Research indicates tax incentives may have a larger behavioral impact than direct investment for some recipients.
 - Related to psychological impact of “loss aversion” people feel losing something more than they feel gaining something of equal value.

Value Freeze - Conclusion

- Vermont has a severe housing crisis, and we need a variety of tools available to help jumpstart the creation of new housing units
- New housing units are one of the long-term solutions to the problems in our Education Fund whereby our tax base cannot keep up with the rate of spending and declining enrollment
- The freeze is one tool in the box that is already used around the country, carries reasonable investments of public funds, and leverages significant private investment for each dollar of public investment
- Would encourage the Committee to speak with Commissioner Farrell and Commissioner Winters to understand how these incentives fit into the broader housing package put forward by the Administration to help address the broad challenges in Vermont's housing market, and speak to local builders and developers who can help articulate the value of this proposal.

Property Transfer Tax Exemption

- Proposed property transfer tax incentive would exempt buyer from tax for the purchase of blighted property that buyer rehabilitates for primary residence within 3 years of purchase
- Buyer must show that rehabilitation of property has been completed and property is occupied as a principal residence within 3 years of purchase
- Occupancy as a principal residence may be as a homestead (owner-occupied) or as a long-term rental (Landlord Certificate), not a short-term rental
- Available statewide, not just in designated areas
- No sunset

Property Transfer Tax Exemption

- Estimate this will result in cost savings of 1-3% of investment required to rehab units
- Commensurate increase in units is approximately 10 per year
- Consensus forgone revenue estimate is \$400,000
- If estimate is correct, units would come online at \$40,000 of public investment per unit with \$3-4 dollars of private investment for each dollar of public investment

Other Provisions in S.311 Related to Tax Department

- Property Transfer Tax rate increase for certain residential properties
 - Mixed use definitions remain a concern

- Landlord Certificates
 - Appreciate the Senate Economic Development Committee's commitment to return confidentiality to Landlord Certificate data.
 - Tax asks for thoughtful consideration on additional fields to add to the certificate.
 - Requiring rent from all units is a step back from one of the big streamlining wins from the Renter Credit reform
 - The Tax Department will not ultimately be a great department to be the keeper of rental registry data.