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## **Introduction**

I am Karen Lafayette, and I represent the Vermont Low Income Advocacy Council - a statewide advocacy group that has been representing the interest of low-and moderate-income Vermonters for 53 years in the State of Vermont.

I am a resident of the City of Burlington and also served as the City's lobbyist for many years in the 2000s. I was a member of the VT Legislature serving in the Ways and Means Committee when we passed Act 60, the Equal Education Opportunities Act.

That was some 30 years ago and there have been a number of adjustments over the years. It seems that every few decades education financing becomes a very pressing affordability issue for Vermonters, trying to balance increasing costs, provide quality education, and create a fair measure of taxation, but we find ourselves here again.

I will comment on the Education bill H.454 as passed by the House as it relates to the Property Tax Credit/Homestead Exemption now being considered by the Senate but strongly urge the Senate and the Legislature to maintain and update the income sensitivity and taxpayer equity achieved under act 60 and subsequent legislation.

## **It's important to remember the key components of Act 60.**

Before Act 60, property wealthy towns had well-funded schools with low rates of taxation and property poor towns struggled to fund their schools with high rates of taxation. The Brigham decision said it was the State's responsibility to provide equal educational opportunities for all Vermont Children.

The Legislature passed Act 60 to provide that equal educational opportunity to all Vermont Children by providing equal access to education financing no matter what town your school was in.

Every school district would have the same ability to raise the same amount of money, with the same rate of taxation, no matter the property wealth of your town.

Additionally, Vermonters were able to pay their education property taxes based on their income, and not the value of their property. Equal spending per pupil, meant equal tax "burdens" either on your property or a percentage of your household income.

## **Vermont has had Income Sensitivity for 55 years.**

Even before Act 60 Vermont provided income sensitivity for both municipal and education taxes for seniors and for low-income households – If you were below a certain amount of income you could pay a certain percentage of your income for your property taxes.

The “break” on municipal taxes continued under Act 60, called the “super circuit breaker” for seniors and low-income Vermonters (under \$47,000 of household income).

Act 60 also allowed for moderate income Vermonters to pay for their education taxes based on their income.

As complicated as it was to deliver income sensitivity through the different town spending, tax rates, household income, and providing rebates, pre-bates and tax credit payments to towns – the vast majority of Vermonters (70 percent) were able to pay based on their income, and it has worked for 30 years.

Across the state - equal per pupil expenditure, locally voted on, meant an equal tax rate against your property value, or equal income tax rate. It not only allowed people to pay their education taxes based on their ability to pay, but it also allowed households to pay on the value of their property if that was lower.

## **Income Sensitivity has not been updated.**

Although we have increased the income eligibility ceiling over the years for income sensitized education taxes, we have not updated the income sensitivity components of act 60 for moderate and low- income households to also receive municipal tax credit, or updated the maximum value of a house that can be income sensitized to reflect the dramatic increases in the value of residential real estate. In fact, income sensitivity has been diminished over the years with a reduced cap on the amount of house that is income sensitized, and artificial caps on the amount of property tax credits that are allowed.

The effect of these “caps” on certain groups of people, especially lower income persons living in higher value properties (over \$400K), is that even though their town’s income rate for education financing might be 2.5 % of their income and 3% of their income for municipal taxes, they are often paying double that percentage for their property taxes because of cap on the value of the house that is income sensitized and/or the amount of a credit allowed.

## **Property values have soared – reappraisals and COVID.**

As an example, after Burlington reappraised in and the market demands during the COVID Pandemic, many homeowners saw a doubling of their property values.

Of the thirty-five houses on my street, only two homes remained under \$500,000. Although the tax rate was adjusted over the years to reflect the market values (CLA) before the City reappraised, the

reappraisal shifted values from commercial properties to residential and from some neighborhoods to other, so the increase value, coupled with the income sensitivity restrictions brought substantial tax increase to many homeowners.

A typical home in the south end has increased in value from under \$300K to over \$500K. The property taxes on a house of \$525,000 are just short of \$13,000 - \$8,400 for education taxes, and \$4,400 for municipal taxes. A person of lower income in Burlington living in this \$525K house is going to pay 2.5 % of income rate on the first \$400K of value and the assigned property tax rate against the remaining \$125K of assessed value. Even if that person qualified for maximum credits, they would always pay at least \$5,000 because of the overall cap of \$8,000 in credits - a cap \$2,400 for municipal taxes and \$5,600 for Education Taxes, even if they qualify for a bigger credit.

With \$60K of household income the total taxes (municipal and education) on this taxpayer would be 11% of income (no break on municipal taxes). With a household income of \$40K qualifying for the municipal credit as well as education they would be paying 11.6% of their income.

Higher taxes in Burlington mirror the increases not only in Chittenden County, but also in many other parts of the state, where property values have risen over the past 5 years.

### **Taxpayer Equity**

Without updates to the current income sensitivity provisions, it is no longer true that the same spending equals the same tax burden or that Vermonters will be taxed at the income tax rates that are intended under the law. Once again, what you pay on your taxes will be determined by where you live and property values in that town and not on your ability to pay.

### **Many Seniors are Aging in Place – No availability of lesser value homes.**

Some years back it might have been the normal progression for seniors to sell their larger homes and downsize to something smaller, so that these homes become available for growing families. There have been suggestions that we should encourage or incentivize these moves so that we do not have to provide larger credits to seniors living in higher value homes that are “underutilized.”

Even if seniors wish to move, the problem is that there are no affordable options, especially if they want to stay in a neighborhood that they have lived in for a long time or even stay in the same town. Although their homes have risen in value and they can sell their house for a decent price, every other home in the area has most likely risen in value as well, and it most likely take all of the proceeds from the sale to purchase something smaller, especially if they still have a mortgage. Condominium fees (HOA) coupled with property taxes can amount to a mortgage payment, leaving little money to supplement their social security income and that's if you can find this housing.

For those reasons, many seniors that are needing to age in place, in a home that has increased in value and may require renovations to accommodate their aging needs.

### **Property values *do not* always reflect the ability to pay.**

Many Vermonters who live in Houses over \$400K (where were income sensitivity stops) do not have other substantial assets – maybe some savings and a small IRA. Some may still have mortgages. These seniors, in order to access their main asset – the equity in their house – are probably going to do something like reverse mortgage or borrow from family to have the funding to make necessary repairs, pay their property taxes, and supplement their social security income to pay living expenses.

I'm sure there are some retired seniors, who have lower incomes on paper, but have substantial assets, but so far, the state has *not done* that asset determination. So, in order to prevent those persons of greater means with “low incomes and substantial assets from benefiting from a property tax reduction, we have placed restrictions on income sensitivity, and caps on credits that end up penalizing those with the least ability to pay. That means that moderate and lower-income Vermonters continue to pay a higher percentage of their income than those with the most ability to pay.

### **Cost of updating current income sensitivity system**

According to Public Assets the cost to update income sensitivity and provide taxpayer equity based on ability to pay for education financing is \$50-\$60 million.

### **Basing your taxes on ability to pay is the fairest measure of taxation.**

Property taxes are regressive. We have recognized the value income sensitized property taxes for lower income Vermonters for over 50 years in this state and Act 60 extended that income sensitivity to for education taxes to moderate income Vermonters. Seventy percent of Vermonters are able to pay based on their ability to pay. Those income sensitivity provisions have not kept up with current education costs and increasing residential property values.

### **A different direction**

Although the state has been considering moving to an income-based system for education property taxes for years the legislation that passed the House moves away from that general direction for education financing along with many other structural reforms and funding formula changes. The comments below are related to the property tax credit and homestead exemption portions of H.454

### **H.454 as passed by the House, moves away from income sensitivity.**

The initial proposal from the administration for education reform and financing introduced and the final version of H.454 as passed by the House both move away from income sensitivity for education property taxes and base your education property taxes on the value of your property with a homestead exemption (exempting a certain portion of that value from taxation). Both would maintain

a property tax credit based on a person's income for municipal tax relief for those under \$47K of household income.

Some of the reasons stated for the move to a property value exemption is that it is easier to administer and is *perceived* as more transparent for people to understand their tax liability when making spending decisions. I'm not sure how you determine that transparency "improvement" if there is one, but generally I believe most Vermonters understand what they pay in property taxes and changes to the financing system including the move to homestead exemption brings its own set of complications especially if you are trying to make it more equitable.

### **Homestead Exemption with maximum exemption**

The initial proposal from the administration that utilizes the exemption by proposing an exemption of 60% of house value with an additional 10% for seniors under \$47K of income, 50% \$47K to \$90K and 10% from \$90K to \$125K with a maximum exemption of \$200K for taxpayers under \$90K and \$50K for taxpayers from \$90K to \$125K. All of the charts for this proposal presented at the time show that the exemption at those levels, with a cap of \$200K, would increase the taxes of moderate and low-income people across the board if they live in houses above the \$300K level. The increases in taxes for the lowest income Vermonters living in houses over \$400K would be upwards of \$1,900 in education taxes – over their existing tax burden with the current income sensitivity.

### **Flat homestead exemptions do not account for the difference in town-to-town property values.**

Using the same value home of \$525K and the current tax rates in the City of Burlington as in the previous example a person with income of \$60K pay would be paying 14% of their income and those at the \$40K level qualifying for municipal credit would be paying upwards of 16% of their income, because they would be paying the tax rate against \$325K of property value and no income sensitivity. People in other towns with the same spending and same income, may only be paying on \$100K value of their property dependent on where they are located.

### **Homestead exemptions with greater income sensitivity and no maximum cap on the exemption as passed by House.**

The House passed H.454 did move to the property tax exemption system for education taxes as well but made it more reflective of "ability to pay" by creating smaller steps of income sensitive brackets with declining exemptions with amounts ranging from a high of 95% at the lowest level of income to 10% at the maximum level of income that can benefit. It also puts no maximum cap the amount of the exemption one can receive, which is the only way to make this regressive tax somewhat based on ability to pay.

## **CAPs are the ENEMY of Equity.**

Even with maximum exemptions increased to \$300K or \$400K, with a more significant levels of exemption based on income, you are still setting up a situation where two households of equal income, spending the exact same amount per pupil, but living in different towns with disparate property values will be paying very different amounts in property taxes, some overburdensome. We would still be providing equal access to education financing for all Vermont students but no longer providing taxpayer equity from town to town.

## **Cost of Property tax exemptions**

The cost of the administration's property tax exemption with a maximum cap of \$200K costs the same as current income sensitivity. In effect, it saves no money and increases the taxes for those with the least ability to pay, especially for those in areas of the state where residential property values are high.

The house passed exemption version costs \$45 million and does provide significantly more property tax relief and any of the flat exemption maximums being considered. however, each time you implement a maximum cap on the amount of the exemption to save money, or other arbitrary caps, the people paying for that savings are the lowest income Vermonters in higher value properties with the least ability to pay, and you don't capture any more from higher income earners.

## **Choices taken away.**

Additionally, for the lowest income Vermonters under \$47K of household income no longer have the choice to pay their property taxes based on their income for education, which we have had for 50 years for both education and municipal taxes. Even under Act 60, those who have higher income could choose to pay based on income or on the value of their property, whichever is lower. Moving to a property tax exemption for education takes away that choice for those with the least ability to pay.

## **The Municipal Tax Credit stays the same but still has a cap on the amount of credit.**

Both exemption proposals do keep the existing property tax credit for municipal taxes, the "super circuit breaker" for those under \$47,000 of household income, with a fixed rate (%) of income they should be paying, but with the existing cap \$2,400 on the amount of the credit, persons in high municipal tax towns in higher value homes are paying more than 3% of their income stated in law. This cap should be eliminated or increased, as it has not kept up with municipal taxes and property value increases.

**Income based taxes are the fairest in keeping with taxpayer equity.**

We hope that the legislature consider updating and keeping one of the main pieces of taxpayer equity from Act 60 – income sensitivity; and one that we have valued for over 50 years for lower income families and seniors for both education and municipal taxes.

If you *are* moving in the direction of switching to a homestead exemption for education taxes, please consider the House passed version with the more sensitive income brackets, more significant exemption amounts, and with no maximum caps.

There are many other pieces of the education reform legislation passing through the legislature that move away from the progress achieved in Act 60 and our local decisions. It remains to be seen whether or not the reform will achieve any desired “savings” or other outcomes we hope to affect, but evidenced by the 77 million we are sinking into bringing down property tax rates, it seems that to investments will need to be made provide ongoing equity and relief to taxpayers as we provide equal Educational Opportunity to all Vermont children.

Thank you for your consideration.

Respectfully,

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