Preserving Property-Based Funding for Sustainable Education Finance
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The Vermont Chamber of Commerce represents businesses of all sizes and industries from every region of Vermont. We understand what it takes to help businesses grow and thrive, thereby building strong and vibrant communities. Businesses trust us to place stewardship at the center of our mission of advancing the Vermont economy. Thank you for the opportunity to share our perspective.

The Vermont Chamber strongly supports preserving and refining a property-tax based model for funding education rather than transitioning to an income-based education tax. Our position is based on several critical factors:

1. **Vermont's High Overall Tax Burden:** Vermont already ranks third in the nation for per-capita tax collections, according to the U.S. Census Bureau.
2. **Property Taxes are Stable Source:** Property taxes can be levied on immovable or "real" property (e.g. land and buildings). When properly structured, property taxes can be relatively economically efficient and transparent. Grand list are substantially more stable than income.
3. **The Need to Address Underlying Cost Drivers in Education:** Shifting to an income-based model does not tackle the fundamental issues driving rising education expenses.

Retaining a property-tax based system—with targeted refinements—remains the most prudent and sustainable approach for Vermont.

Income Taxes Will Not Address the Root Causes of Rising Education Costs
A core challenge in our education system is not merely how costs are funded but the overall rising cost of education. Transitioning the tax base from property to income:

- **Does Not Contain Costs:** Replacing one tax source with another does not inherently lower overall education costs; it simply redistributes the burden.
- **Risks Creating an Extra Tax Obligation:** Without concrete cost-containment measures, an income-based model could become an additional tax rather than a solution for managing education expenses.

Without specific strategies to manage rising education costs, switching to an income-based tax is unlikely to ease the affordability challenges currently faced by Vermonters.

Greater Volatility for Vermonters and Businesses
Income-based revenue naturally fluctuates with changes in wages, business profits, and investment returns:

- **Unpredictable Funding:** Overreliance on income taxes could leave school budgets vulnerable to economic downturns or abrupt job losses.
- **Year-to-Year Instability:** Small business owners, seasonal workers, and retirees—whose incomes can vary significantly—would experience considerable uncertainty under an income-based education tax.

This inherent volatility threatens the stability of school funding and places additional stress on taxpayers with unpredictable incomes.

Insights from The Pew Charitable Trusts on Tax Revenue Volatility

A recent analysis by The Pew Charitable Trusts underscores the risks of shifting to an income-based funding model:

- **Revenue Volatility Analysis:** Pew calculated both short-term and long-term volatility scores for overall state tax revenue and major tax revenue streams (those contributing at least 5% on average over the past decade). The scores are based on the year-over-year percentage changes over five- and 15-year periods ending in fiscal 2023, with higher scores indicating more dramatic fluctuations.
- **Vermont's Position:** Vermont ranks 42nd in overall tax revenue volatility over the past 15 years and 33rd over the past 5 years. However, Vermont's personal income tax revenues are notably more volatile—6th most volatile over the past 15 years and 4th over the past 5 years.
- **Fiscal and Demographic Concerns:** Relying on volatile income tax revenue for education funding would make school budgets susceptible to economic fluctuations. With an aging population and a projected wave of retirements in the coming decade, Vermont's income tax base is likely to shrink. This contraction would place an increasing burden on a diminishing pool of working-age residents, potentially undermining our ability to recruit and retain the workforce essential to our economic sustainability.
- **Need for a Balanced Strategy:** Long-term sustainability and affordability demand a mix of effective cost containment and expansion of the tax base—not merely a change in funding mechanisms that shifts the tax burden.

Potential Administrative Complexity and Competitive Concerns

Introducing a separate, progressive tax structure specifically for education would further complicate matters for employers, taxpayers, and state administrators:

- **Increased Compliance Burden:** Many Vermont businesses are structured as pass-through entities, with owners already paying personal income tax on their share of profits. Adding an additional tax would create significant compliance challenges and extra costs.
- **Reduced Competitiveness:** Higher marginal rates could deter businesses, entrepreneurs, and skilled workers from investing in or relocating to Vermont, impacting our long-term economic vitality.

Conclusion
The most prudent path forward is to maintain and refine our established property-tax based model for education financing. By directly addressing rising education costs and implementing thoughtful financial reforms, Vermont can:

- **Secure a Stable Revenue Stream:** Ensure predictable funding for our schools.
- **Reduce Volatility:** Protect both taxpayers and school districts from the fluctuations inherent in income-based revenue.
- **Target Relief Effectively:** Provide focused relief for those most in need without sacrificing the structural benefits of property-based financing.
- **Promote Fiscal and Demographic Sustainability:** Combine cost containment with efforts to expand our tax base, rather than merely shifting the tax burden.

We ask this Committee to continue exploring cost-containment strategies rather than enacting a new, income-based education tax. Thank you for your time and consideration; the Vermont Chamber looks forward to continuing to be a resource and engaging in dialogue.