

Serving and Strengthening Vermont Local Governments January 19, 2021

Tax Structure Commission c/o Sean Sheehan, Staff Director Vermont Legislative Joint Fiscal Office One Baldwin Street Montpelier, VT 05633-5301

## **Dear Commissioners:**

Thank you for the comprehensive body of work you have completed in the most disruptive of circumstances during the COVID 19 pandemic. I am writing on behalf of the 246 cities and towns of the Vermont League of Cities and Towns to provide comments on the draft Tax Structure Commission Report. We concur with your assessment that the COVID-19 pandemic accelerated – sometimes enormously so – the transition to on-line learning, commerce, governing, and service delivery, not least of which has been medical services. At the same time, the pandemic has jarringly laid bare the many inequities, inadequacies, and unaffordability of our current systems of governance and infrastructure, including the tax structure in Vermont that funds those systems.

Yet on the plus side, many people from away have decided that Vermont is a safe place to live and that they can work remotely from here while contributing to our economy. We should certainly encourage those decisions. Thus, we welcome your recommendations to ensure that rural areas have the broadband infrastructure to support remote workers and students because such infrastructure investments will help people make those decisions. We also recommend a review of when people need to pay taxes in Vermont if they are working remotely for a non-Vermont employer, giving particular consideration to the extraordinary circumstances that spurred people to work remotely during the COVID-19 pandemic.

We hope the many hard learned lessons of the COVID confined environment will be implemented in the post pandemic world. Regarding your commitment to a "healthy post-COVID Vermont economy", we endorse your recommendations to simplify tax laws, expand the sales tax, and eliminate the education property tax on homesteads, replacing it with an income-based education tax for all homesteads with a rate that is clearly derived from local votes on school district budgets. It is true that the legislature has considered these issues many times in the past. It is also true, as Commissioner Kleppner said to the Ways and Means Committee on January 15, that things change over time. What were true and intractable problems ten or even one year ago may not be true anymore, while new issues continually arise. Part of the change involves the people who are making decisions in the legislature, and we note that there are four new members on the House Ways and Means Committee and one new member on the Senate Finance Committee.

As your report explains, property value is not a good proxy for wealth. The education property tax is the revenue source that is left holding the bag when other revenue sources contributing to the Education Fund fall short. Thus, there is no ceiling in terms of what an education property tax could be in any given year. The check on skyrocketing increases in 2020 was the legislature's assessment that the projected education property tax increase was untenable coupled with the

availability of Coronavirus Relief Fund dollars to fund some of the extraordinary COVID-related expenses that would otherwise fall to the education property tax.

Additionally, the education property tax is endlessly complicated due to the many equalizers that are applied to it. In the view of taxpayers, the tax they pay bears no relation to the school budgets that are voted at the local level. One equalizer has been the methodology for establishing per-pupil weights that are then applied to the number of pupils in each school district. The Pupil Weighting Factors Report (December 24, 2019), determined that the weighting methodology used for years in Vermont was, simply put, wrong. The issues of unaffordability, embedded weighting calculations that exacerbate inequities and incomprehensibility of the education funding system are significant issues for Vermonters that need to be remedied, as your report discusses.

The Joint Fiscal Office publishes a Tax Expenditures Report every two years, with the most recent report being issued on January 15 The section on property tax expenditures, which begins on page 48, identifies and assesses statutory tax exemptions associated with the property tax and describes the reasons for those exemptions. It also includes tax increment financing districts, which arguably are not tax expenditures but rather re-allocations of property taxes to a different purpose for a finite period of time. The report also identifies entities whose properties are taxed via a methodology apart from the traditional determination of fair market value or which benefit from tax stabilization agreements. While exceedingly difficult to change the list of those who benefit from a tax exemption, the reasons for that special treatment and the impact on the remaining pool of taxpayers should be revisited on a regular basis.

The 2019 Tax Expenditures Report stated that 519 parcels claimed the public, pious, or charitable exemption. The total value of the properties exempted equaled \$409.8 million, resulting in a tax expenditure of \$6.44 million in that year. Using a substantially different methodology and including both 3,234 tax-exempt parcels of all sorts (2,167 claiming the public, pious, and charitable exemption), and parcels subject to alternative taxing structures or stabilization agreements, property tax expenditures in the current report are projected to total \$102,829,000 in FY22. On the municipal side at least, many of those organizations utilize municipal services in the same manner and to the same extent as all the remaining property taxpayers.

Vermonters' experience has been that property taxes are significantly out of balance with other tax revenue sources. While this is glaringly true for education, where property taxes make up two thirds of the Education Fund, it is also true on the municipal side of the equation where property taxes are the sole taxing revenue source, except in the 16 towns that the legislature has allowed to assess local option sales taxes and the 21 towns that have been given permission to assess local option meals, rooms and alcohol taxes. It should be noted that only those municipalities with a local option sales tax are authorized to assess a local option sales tax on retail cannabis establishments. This is an economic disincentive to host such facilities and is completely insensitive to the costs that municipalities – not just those hosting communities – will incur as the commercial cannabis marketplace takes shape in this state.

In recognition of the need to broaden the tax base beyond property taxes at the local level we recommend that in addition to revising the homestead property tax on the education side, you recommend that in those cities and towns whose voters have approved a one percent sales, meals and rooms, or alcohol, local option tax, the tax become effective upon that approval. Last session, we strongly supported a two-percent local option sales tax on the retail sales of cannabis products, however that provision supported by the Senate, was opposed by the House and is not in the as-passed version of Act 164.

On several occasions, the Vermont League of Cities and Towns has recommended expanding the sales tax base to consumer-level purchases of goods and services. We recognize that the sales tax is regressive. Per your recommendation, it would be a lower tax on a larger basket of goods, including services that are sometimes more frequently accessed by those who are not low-income. As well, you recommend ensuring that benefits and

services are distributed to support lower income Vermonters. One result of a lower tax assessed on a broader range of goods, even at a reduced rate, could be to reduce the contribution of property taxes to the Education Fund – because as the law is currently written, 100 percent of the sales tax goes to the Education Fund.

We strongly support the establishment of an ongoing Education Tax Advisory Committee that is outside the legislative process to develop a program for the appraisal of large or complicated properties, and to study alternatives to the common level of appraisal. We believe, however, that all those mechanisms related to establishing the equity of the Education Property Tax contribute to its impenetrable complexity and divorce from the budgets that are voted at town meetings. Candidates for revision in order to contribute to transparency would be the coefficient of dispersion, the effective tax rate, and the definition of homestead as it relates to a portion of a home used for business purposes in the new remote working post-COVID world.

Thank you for the tremendous amount of work you undertook over the last two years, your commitment to listening to all perspectives even during the pandemic, and this comprehensive report.

Sincerely,

Karen B. Horn

Director, Public Policy & Advocacy

Karen B. Horn