

- 2.6 We already have carbon taxes lest somehow you don't consider fuel taxes and sales taxes on home heating fuel carbon taxes. Continuing the solar and wind incentive credits will assist in addressing climate change. Starting an expensive program to regulate and maintain, cap and trade is just plain unnecessary and just give polluters an easy way out.
- 2.7 As it is now, those receiving the property tax reduction are NOT paying their fair share. If you can't afford to buy a house and pay the property taxes as assessed, then you shouldn't own a house.
- 2.8 The current income level of about \$140,000 for "income sensitivity" is ridiculously high.
- 2.9 Given the low mortgage rates of the last 10 years, the monthly cost of servicing a mortgage have gone down. Thus as education taxes have gone up, the household should have had more money to pay property tax.
- 2.10 We have a fail in public policy where homeowners whine to their representatives about taxes instead of addressing school costs in a more realistic manner. No one will control school budgets until they feel the tax impact which income sensitivity does not allow them to feel.
- 2.11 This is a huge negative impact to high income earners if it's anything like proposals from the last legislative session.

2.7-2.11

The main objective of our recommendation to change the homestead education tax is to make it fair and simple. We focus on determining each resident's fair share, and we do away with the income sensitivity adjustment. Yes, people will continue to pay the education tax, and they will need to budget for the annual expense as they do now. The chart on page X will give you an indication of the current homestead average education property tax paid by different categories of earners. Although the parameters for the recommended income-based tax have not been set at this time, you can get an idea of the income categories that would likely see an increase or decrease.

We have received several comments suggesting state spending is too high and/or increasing too rapidly. While we understand the concern, our assignment is to look at the tax structure itself and not to determine the level of state spending.

- 3.2 Restructuring the Homestead Education Tax is an important conversation that should accompany a thorough review on education spending. Implementing a tax

incidence study, as recommended by the Vermont Futures Project, is needed to fully understand the full impact of the homestead education tax.

We agree with the need for an incidence study as well as a thorough and ongoing review of our education system (recommendations X and Y). We understand your concern about education spending, but the spending level is not this commission's scope.

4.1 People who have children should bear the brunt of the education cost as opposed to just asking those who have the most income to bear the brunt of it.

Vermont has long considered public education to be a fundamental right, available to all of Vermont's children. The Brigham decision refers to "the right to education as integral to our constitutional form of government." The first sentence of Act 60 is: "The right to public education is integral to Vermont's constitutional form of government and its guarantees of political and civil rights." Funding for public education in Vermont comes from many sources including the non-homestead education property tax, the locally voted homestead property tax, the sales and use tax, the Purchase and Use Tax, the Lottery, the Meals and Rooms Tax, federal government, and a few other programs.

Browning response:

Yes, the report does not have enough information to enable an accurate comparison between the recommendation and current law. There was not staff capacity, during the covid emergency, to do extensive modeling and analysis. The issues raised in this letter are exactly the types of analysis that should be done so that the Legislature has a clear picture of the implications of the recommended changes.

Recognizing the lack of data, we can offer some general responses to some of the comments and questions.

The primary residence and the < 2-acre site account for about 95 percent of the value of what is currently Homestead Property; additional acres surrounding the residence account for the remaining 5 percent. Under our recommendation, this 5 percent would be subject to the uniform non-residential rate rather than the locally voted current homestead rate. On average, the current non-homestead rate is slightly higher than the homestead rate, but this varies from district to district and from year to year, depending on the district's spending.

The reason for basing the tax on Adjusted Gross Income rather than Household Income is really simplicity. Most people have a good idea of their AGI, so they would be able to estimate their tax bill when they consider the school budget. The

Household Income form is complicated and error prone. Finally, if renters pay the education tax, there would be no reason to compile all the people living in the house in order to pay the school tax. Your education tax would not be linked to your house. In terms of tax shift, AGI is more often lower than household income at lower-income levels, while AGI is usually close to household income at higher income levels.

The plan you favor, a fixed progressive education income tax surcharge and a variable voter determined homestead property tax at a lower level, is intuitively appealing to us. The main issue, though, is that the regressivity of the property tax is difficult to overcome. The regressivity can be reduced by reducing the reliance on the property tax, as suggested, but it is still regressive. Since the locally voted tax is really the shock absorber in the system, it has to make up the difference when other funds fall short. And, it is responsible for the distribution of education funds to districts. A regressive tax is probably the least appropriate tax to use in this role.

We agree that hidden costs should not be hidden. Property Valuation and Review annually reports statistics on the Use Value Appraisal Program showing, town by town, the revenue that would have been raised absent the program. We agree that it would be helpful to give a more detailed accounting of TIFs and the Act 46 incentives. But perhaps not in the Education Fund Outlook.

But we do not agree that the Current Use Program should be considered an expense of the Education Fund. Act 60, in establishing the Education Fund in 1997, stated that “all revenue paid to the state from the education property tax under chapter 135 of Title 32” should go into the Education Fund (Sec. 18). The Act added this Chapter 135 of Title 32, specifically listing the components of the Education Grand List to include the fair market value of all property that is required to be listed at fair market value and the use value established under Chapter 124 of Title 32 (Sec. 45). It was clear that the use value was the correct value on which to tax the enrolled land for education.

- 6.2 Regarding the proposal to replace the homestead education tax with an income-based tax on all residents - From an economic sense, there needs to be some tax on homestead property to create rent, and therefore opportunity cost. Without such price-signals, individuals do not have incentives to find efficient use of the property or “right-size” properties. Vermont is one of the most “over-housed” populations in the country, perhaps because we do not efficiently or effectively create the proper price signals.
- 6.3 It would seem that the Commission took the position that income is a better indicator of a person’s wealth than property... Making an assessment of a person’s wealth based on income is still not as helpful and will often serve those well situated in life to the detriment of those who are trying to accumulate wealth through high incomes... The paradox here is that a person of wealth could invest that wealth in the property only to then not be taxed because they have the privilege of choosing to not fully participate in seeking taxable income, unlike their less wealthy counterparts who need income to pay down the balance of their property in an attempt to accumulate wealth.
- 6.4 An education fund supported by an income and sales tax would be highly susceptible to the economic conditions of the day, and in a typical recession (reminder, our current recession is far from typical) both revenues would be greatly depressed.
- 6.10 With regard to employee health insurance, we respectfully disagree for similar reasons, as these costs are another component of the total remuneration of our state’s educators, and therefore an important component of the total cost of delivering education in this state. Thus the revenue to pay for that cost must be part of the education fund and to do otherwise is to deceive voters of the true cost of these services.
- 6.11 Regarding using tax policy to address climate change, Vermont boasts one of the first efficiency utilities in the country and has a robust Tier-III system to its Renewable Portfolio Standard. Before anything new is created, it would behoove the state to see if the resources in those programs need to be merely re-directed. We feel it is likely those efforts are adequate for the task.
- 6.12 In addition to taking care to prevent any such price on carbon from being regressive, Vermont cannot take such a trajectory alone must be done as a regional or national effort. Regional solutions are needed for this global issue, as local carbon pricing would likely drive economic inequality within the state or achieve a false sense of emission reductions as Vermont’s environmental externalities would just adjust to this price signal by moving into neighboring states.

As you suggest, net worth is an important part of a household's ability to pay. We agree, in concept, with using a more complete accounting of ability to pay in order to direct and evaluate the equity of our tax structure. However, we have not found a good way to do this, so we are recommending further research and reporting to help us understand the different ways to define ability to pay, how to measure it, and how our tax structure can be aligned to fairly tax based on the ability to pay.

We certainly agree that a regional, or national, or global approach to reducing carbon are preferable—not just economically, but also ecologically.

We understand the logic that employee health insurance is part of the employee remuneration, and therefore part of the education budget. Although we're all used to it, if you take a step back, basing access to health care on employment is strange and incoherent – we don't pay for employees' car insurance or home insurance, so why do we pay for health insurance? Health insurance for teachers is not an inherent part of the cost of education, the way a teacher's salary is. Rather, it's an odd, unintended consequence of price and wage control decisions made many, many decades ago in Washington, DC. And the rapid growth in health care costs makes it seem as if education costs are going up much faster than the actual growth rate of the education part of education costs. If we are looking to the locally voted education tax as a way for voters to control spending, we feel we should remove this cost that the local voters have no control over.

(Note: Tim Denny's emails needs an explanation of what is actually being proposed)

7.1 An exception for residence and first two acres would drastically reduce the tax base for towns with large numbers of non-homestead properties.

I emailed him with an explanation and asked him to get back to me if I misunderstood his concern.

- 8.1 Burlington fails to properly assess its commercial property values, particularly multi-family and large residential properties. Several multi-family properties are assessed at multiples below the last, and current, sales price. I brought this issue to the attention of Burlington's property assessor several years ago who's basic response was they are understaffed. Nothing has changed in the several years hence.
- 8.2 Tax-exempt properties should contribute to education funding, either by classifying the school budget as something other than a "tax" or by only exempting a portion or set amount of land associated with tax-exempt entities (similar to the 2-acre limit on homesteads).
- 8.3 Dollars should be reallocated from various social services that formerly provided services to school-aged children to the schools, at a minimum, in proportion to the decreased services provided to this group.
- 8.5 If the school funding is switched to income from property tax, towns will increase the property taxes on the basis that the school funding tax has been eliminated versus switched to income. The end result will be higher over-all taxes for Vermonters.
- 8.6 I think the school funding should be a combination of property tax, income tax and sales tax. I would not recommend foreclosing the property tax funding. Perhaps implement new sales and income tax for a certain percentage of school funding and reduce the property tax funding accordingly. In any given year, each of the taxes will have ups and downs and so having multiple funding sourcing will smooth out the fluctuations.

Although we think we are funding education through our school tax bill, that is actually only part of the picture. Funding for public education in Vermont comes from many sources including the non-homestead education property tax, the locally voted homestead property tax, the sales and use tax, the Purchase and Use Tax, the Lottery, the Meals and Rooms Tax, federal government, and a few other programs.

We have received several comments suggesting that local property taxes will go up if school funding is moved off of the property tax. Yes, this is possible, but it is also possible for the voters to keep municipal budget increases in line. We doubt that voters will be fooled into thinking their education tax has disappeared.

9.2 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.

9.4 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.

I think our main comment to Karen should be about the local option tax, especially in light of the sales tax proposal.

11.2 Scrap the whole section on tax subsidies to defeat climate change. I know you can't, but this is pure corporate welfare for the renewable industrial complex, and no amount of tax credits and depreciation etc. will have the slightest detectable effect on climate.

11.5 Income tax for schools with protection for our Jurassic era school system looks good at first, and we've been moving that way with Income Sensitivity, but the ravenous demands for maintaining our system will run up against the equally ravenous demands for Medicaid and for the two underfunded retirement funds, and the battle is likely to be settled by a "fiscal crisis" followed by income tax increases, followed by economic stagnation as high income Vermonters think better of being robbed by this state, and move to Florida, Texas, Tennessee or NH.

I regret that I can't give you a well developed single-state consumption tax plan, but as we discussed , a) it's completely unfamiliar b) too much innovation – no other state has attempted one c) it's hard to see who would jump up and cheer d) I'm not well rehearsed in facing pointed interrogatories and above all e) it's a growth booster in a state where gentry/enviros do not want any kind of growth (except in the state revenues).

Comments for John:

We have received several comments suggesting that the demands for state spending are ravenous, although perhaps the wording was slightly different. While we understand the concern, our assignment, as you noted, is to look at the tax structure itself and not to determine the level of state spending.

We were intrigued by the possibility of a different approach: a single-state consumption tax plan. We even read *Progressive Consumption Taxation* by Robert Carroll and Alan D. Ward. When you figure it out, please let us know.

12.3 The carbon tax would be terrible for lower income folks who can't afford the electric/hybrid vehicles, and in Vermont you really need a vehicle. Same talk as of sales tax of redirecting some of that revenue back to low income, but I personally am very skeptical that that would happen to the extent needed.

We acknowledge that returning revenue through a credit is a risk, particularly over time, but we feel that the benefits of the credit are clear enough that we need to make sure it is adequate, put it in place, and protect it.

15.1 The fact that the tax infrastructure required to collect non-homestead taxes will remain the same does nothing to reduce the cost and challenges to collect this revenue. This also creates the appearance that non-homestead property owners are being singled out, because they will be the only people paying a property tax for education services that they do not utilize.

I think the comment to his letter should be about the double tax on transfer and not this point 15.1