

Taxation and Budgets: 2022 Municipal Action Paper

Introduction

Vermont consistently ranks close to the top of the 50 states in terms of tax burden per capita, as shown in [2022 Fiscal Facts](#), published by the Vermont Legislative Joint Fiscal Office (LJFO).

In 2020, Vermont ranked second in terms of total state tax burden per capita and fifth in terms of state and local property tax burden per capita. Thus, how we fund government at the state and local level, including paying for new legislative priorities, affects Vermonters in their pocketbooks every day.

Since its inception in 1967, the Vermont League of Cities and Towns, which represents all 247 cities and towns, has weighed in on the complex tax system in Vermont. The taxes and budgets that the state legislature passes and the priorities that are established therein result in significant consequences for local governments, some of them helpful, some of them unhelpful, and many of them unintended.

For most Vermont towns, the sole tax revenue source is the property tax. Nineteen towns have a local option sales tax; 23 have a local option meals, rooms, and alcohol tax; one (Elmore) has just a local option rooms tax; and Burlington and Rutland City have authority to adopt local option taxes through their city charters. No tax revenues from the new retail cannabis marketplace will accrue to cities or towns that do not have a local option sales tax. In order for municipalities to access any tax other than the municipal property tax, the legislature must specifically grant them permission to do so. To date, the legislature has declined to extend general authority to adopt local option taxes to municipal voters.

Property taxes also fund two-thirds of the Education Fund, which pays for pre-K–12 education, to the tune of \$1.2 billion in FY23. Schools are paid first, pursuant to statute. Thus, the capacity of the property tax to pay for necessary municipal services – road maintenance

and plowing, public safety, wastewater, recreation, zoning – has always been strained. Inflation, stressed individual and municipal budgets, increasing education fund taxes, and skyrocketing property values combine to make it more and more difficult to fund municipal services and necessary projects with the municipal property tax. Thus, more cities and towns are looking more frequently to local option taxes to fund essential operations.?

This paper (the third of VLCT's Municipal Action Papers for 2022) provides information on the budgeting and tax system in place in Vermont as well as the unique ways that the tax system – and Vermont's education funding structure in particular – constrains the ability of local governments to deliver vital services. VLCT Advocacy staff welcomes any questions you have regarding the issues your communities face, and we thank you for working to help our municipalities serve us all better.

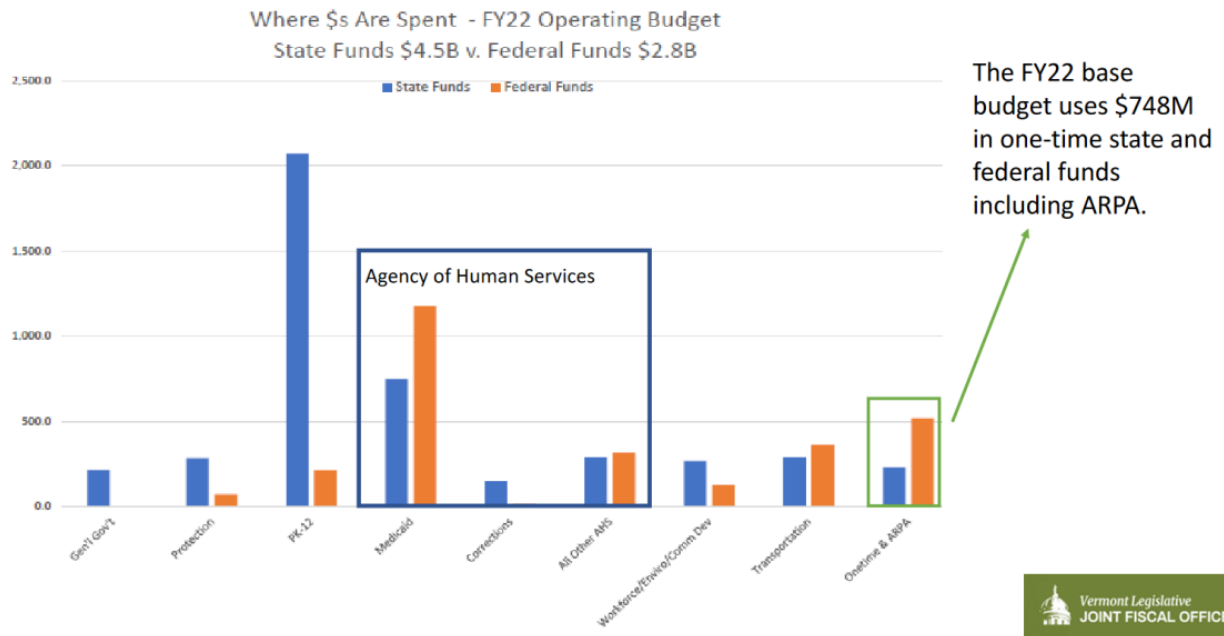
State Budget Adoption – Expenses

On May 12, 2022, the legislature passed Act 145, the budget for FY23. The bill includes \$566 million in federal American Rescue Plan Act (ARPA) State Fiscal Recovery and ARPA Capital Projects funds. With all legislation accounted for, the total state budget for FY23 (the current budget year) is \$8.3 billion, the largest budget ever passed in Vermont. By way of comparison, the total state budget in FY19 (before Coronavirus Relief Funds, ARPA, or ARPA Capital Projects funds were available) was \$5.9 billion.

The process for recommending and developing the state budget has already begun in the administration as it has in your cities, towns, and villages. In October, agency secretaries and department heads provide preliminary budget requests for the next fiscal year and budget adjustment requests for the current fiscal year to the Agency of Administration. Those requests, following an internal vetting process, form the basis of the Governor's budget recommendation to the legislature for a FY23 budget adjustment bill and FY24 full budget bill in January. From there, first the House and then the Senate appropriations committees take time during the session to hear from interested parties, including municipalities, and build a budget that implements priorities of the legislative committees of jurisdiction for specific policy areas. The appropriations bills represent the expenses side of the ledger.

The chart below shows where federal and state dollars are spent.

How is the Money Spent?



from LJFO presentation [All Legislative Briefing Budget and Federal Funding of December 8, 2021](#)

We are only three months into the new fiscal year. Despite predictions of a slowing economy due to inflation, revenues in the Education Fund are \$6.9 million (5.9 percent) ahead of projections year to date and 7.9 percent ahead of revenues at this time last year. Revenues in the General Fund are \$27 million (10 percent) ahead of projections. By a smaller percentage but still ahead of projections, the Transportation Fund is up \$1.2 million (2.5 percent).

State Budget Adoption – Revenues and Taxes

Two committees – House Ways and Means and Senate Finance – are responsible for raising the revenue required to meet the obligations established by policy committees and the appropriations committees. When large amounts of federal dollars are available, as they have been with CARES, ARPA, the Infrastructure Investment and Jobs Act (IIJA), and most recently the Inflation Reduction Act (IRA), priorities expand. By staying within the parameters

established by federal legislation and rules, programs can be paid for with the federal dollars while the obligation to raise state revenues may be reduced. At the same time, the state general fund, transportation fund, and education fund will need to cover the bulk of costs related to Vermont's many ongoing and long-term obligations. Altogether, crafting the state budget is a convoluted process!

Tax Structure Commission

Fortunately, people with considerable expertise have thought about Vermont's tax structure on several different occasions. In the 2018 special legislative session, the legislature established the Vermont Tax Structure Commission. That three-member commission spent two years to comprehensively analyze Vermont's tax structure including the education fund and education property tax. The commission recommended improvements to simplify Vermont's tax system; modernize and make it responsive to changes in the economy, technology, and environment; and to provide a long-term vision for Vermont's tax structure. The final report was submitted in February 2021, at the same time that the Vermont legislature was grappling with the effects of COVID and seeking to implement the Pupil Weighting Factors Study, which had been submitted to the legislature in January 2020.

This past legislative session, while the legislature did implement recommended new pupil weights, they left for 2023 the Herculean task of re-balancing and modernizing the state's education tax system. The Income-Based Education Tax Study Committee, with three members from the House and three from the Senate, held its first meeting on September 28. Advocates for VLCT reminded the committee that local officials have supported moving to an income-based homestead education tax for some time. A report is due from the committee with assistance of the Department of Taxes, the Agency of Education, and the Joint Fiscal Office in January 2023. This new report needs to recommend ways to implement an income-based education tax system to replace the homestead property tax system.

Recommendations should include restructuring the renter credit for paying into the education tax system, accurate modeling and transitioning to a new income-based system, and administration of the new system.

The Vermont League of Cities and Towns endorsed both the findings of the Tax Structure Commission as they pertained particularly to the Education Property Tax and local option

taxes, and the Pupil Weighting Factors Study Report. In its letter to the Tax Structure Commission in January 2021, VLCT Advocacy staff wrote: “the education property tax is endlessly complicated due to the many equalizers that are applied to it. In the view of the taxpayer, the tax one pays bears no relation to the school budgets that are voted at the local level. ... The issues of unaffordability, embedded weighting calculations that exacerbate inequities, and incomprehensibility on the education side, are significant issues for Vermonters that need to be remedied.”

Sustainably Funding Government in the Future

Local governments have urged the legislature to grant general authority to cities and towns to adopt local option taxes and to grant a portion of retail cannabis sale revenues to local governments that are hosting these new establishments starting October 1, 2022. Both of these initiatives were passed by the Senate and have consistently stalled in the House. As a result, the vast majority of municipalities remain entirely reliant on property taxes for all tax revenue. At the same time, the list of obligations expands – climate adaptation being but one looming example. Understanding that many but not all municipalities would benefit from adoption of local option taxes, we urge the legislature to consider a general revenue sharing program to help municipalities deliver the services and amenities that constituents expect from their local governments, from filling potholes to environmental resiliency to building vibrant and welcoming place-based economies. As we head into the next legislative biennium, local officials hope that the conversation may change and there might be space to discuss balanced revenue options for municipalities, both those that would benefit from local option taxes and those that would benefit from revenue sharing assistance from the state.

VLCT Legislative Policies for Taxation and Budgets

VLCT supports

- authority for each municipality to adopt local option taxes through a vote of the local voters;
- additional fiscal capacity, including consideration of a municipal revenue sharing program that provides sustainable and reliable annual funding to every municipality, to support the delivery of services, innovative programs, and maintenance of infrastructure for Vermonters;
- legislation to reform Vermont's tax system to ensure sustainability, affordability, equity, and balance;
- a transparent education finance system that reduces the education homestead property tax and more closely links voters' actions in approving budgets to the taxes they pay to fund their school districts;
- in light of skyrocketing residential property values, taking measures to ensure the capacity of Vermonters to stay in their homes.

Resources

- [Vermont Fiscal Facts 2022, Comparisons \(on pages 25-32\)](#)
- [Final Report of the Vermont Tax Structure Commission](#)
- [VLCT Testimony to Income-Based Education Tax Study Committee?](#)
- [VLCT History of Initiatives on Tax Reform? ?](#)
- [Education Fund Outlook FY23 from the Vermont Legislative Joint Fiscal Office \(LJFO\)](#)

- [FY2023 Homestead \(HS\) and Non-Homestead \(NHS\) Property Tax Rates by Town as of August 24, 2022](#)
- [Department of Taxes Education Tax Rate FAQs](#)
- [Monthly Revenue Tracking by the Vermont LJFO](#)

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