

# Testimony Regarding Changes to Municipal Tax Sales

January 12, 2024



Testimony of the Vermont League of Cities and Towns

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to the House Ways and Means Committee

Regarding H.629 (Changes to Municipal Tax Sales)

January 10, 2024

Thank you for the opportunity to share some perspectives on how tax sales are used, their importance to ensuring a city, town or village meets its financial obligations, and concerns VLCT, the voice of all 247 Vermont cities and towns, has about H. 629.

First, a quick reminder that current law restricts most municipalities to exactly one source of revenue: the property tax. This funding is used to build and maintain 80 percent of Vermont's roads; to provide emergency services such as police, fire and EMS; to maintain parks and

forest land; to run recreation programs; and a list of other essential services that Vermonters depend on. And municipal budgets are small. Of the 182 municipalities that responded to our compensation and benefits survey last year, the median budget was just \$1.5 million. And there are a lot of towns with budgets of less than \$500,000, like Norton, Marlboro, Hancock, and Goshen.

When a property owner fails to pay their taxes, it has immediate ramifications. Not only does the town not receive the municipal portion of the property tax bill, they also don't receive the education tax. Despite not receiving the education tax, municipalities legally must pay the education fund whether a taxpayer pays their taxes or not.

Tax sales are the only way a town can compel a property owner to pay their bill. So amending the existing tax sale system – especially by extending the redemption period, putting new requirements on capacity-strapped small towns, and making tax sales less attractive to the already small investor pool – makes us very nervous. H. 629, as currently drafted, would likely reduce or eliminate the viability of tax sales.

VLCT has had several conversations with Vermont Legal Aid who we understand is championing the proposed changes. We've been working with them to better understand their perceived need for this bill. And we'll continue working with them to understand the problem they are trying to solve and any solutions we might be comfortable recommending to our membership. I only saw this bill about a week ago though, so I'm afraid I'm not ready to outline those solutions today.

One major concern I have about this bill is that it frames tax sales as a tool used against low income Vermonters to intentionally steal their properties. Most municipalities use the tax sale process judiciously and sparingly, as they can be costly, complicated, and unpleasant for everyone involved. As you'll likely hear in the coming weeks, clerks, treasurers, and delinquent tax collectors (sometimes one and the same) have little interest in initiating a legal process against their neighbors. Instead, they have countless conversations with property owners to understand what's happening. Perhaps the most obvious time municipalities use the tax sale process is to address a vacant or abandoned property. In the instances where a tax sale leads to a municipality owning a property, it's important to note that current Vermont case law prohibits a municipality from making a profit when they resell the property. Municipalities may recoup unpaid taxes and the costs of the tax sale, any additional funds go

to the original property owner.

The bill currently reduces the penalties for not paying property taxes. If the goal is to reduce the property tax burden and reduce the consequences for not paying property taxes for low income Vermonters, I'd recommend addressing the issue through alternative measures, not reducing the potency of tax sales. One such tool could be the establishment of a statewide delinquent tax mitigation fund that helps low income Vermonters catch up on their delinquent taxes. There are several examples of such funds in the pandemic relief programs that did exactly that.

I believe efforts to increase awareness of the tax abatement process could be beneficial. At VLCT, we encourage towns to notify tax payers of the abatement process when a notice of tax sale is issued. A Superior Court decision in Windsor County supports this concept. VLCT offers its members a tax abatement toolkit, which includes an abatement info sheet, model rules and procedures for a board of abatement, a model tax abatement notice and agenda, an abatement of homestead penalty info sheet, and a model request and response for abatement.

In the interest of coming to this committee as a partner, I will not outline all the concerns VLCT has with H. 629 in detail – as I hope we can find some common ground moving forward. However, I do want to raise a few thematic concerns that I hope you'll pay particular attention to:

- Care must be given when setting a threshold for allowing tax sales. Assuming the median annual property tax bill in Vermont is near \$3,000, it would be unwise to set a threshold that allows a tax payer to get several years behind on their taxes, as the current bill would, as it reduces the likelihood of a successful redemption.
- Overly burdensome and technical notification requirements are likely to unintentionally increase technical errors – increasing litigation without adding value to the process, to the tax payer or municipality. It also will drastically slow the tax sale process down of abandoned and vacant properties.
- Take caution in increasing the risk to municipalities of conducting a tax sale. Many properties subject to tax sale are in poor condition and pose health and safety risks. Requiring longer redemption periods may significantly increase the cost to taxpayers and put lien holders in legal jeopardy. VLCT has defended several lawsuits related to

tax sales.

- Beware of cooling the tax sale market by increasing redemption periods, reducing the value of a property, or complicating the process. Without tax sales, municipal budgets and the education fund are at risk of not being made whole.

Thank you for giving me an opportunity to speak today. I'd be happy to answer any questions.

Attachments

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