# WLR Mar 22: Municipal Ethics, Taxes & Spending, and Housing

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It's crossover week for all bills that spend and raise money. This week will be very hard on Vermonters' wallets as legislation raises over $130 million in new tax revenue advances.

**Read more about what happened this week below, and don't miss our latest post to Advocacy Updates: Municipal Capacity, Revenue, and Governance**(opens in a new tab) about the **ethics bill** which includes

- new municipal training related to ethics
- reporting requirements related to ethics
- a new right of civil action against municipalities related to whistleblower protections

**This week VLCT provided testimony about:**

- **BE Home Act**(opens in a new tab)

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## Committee Passes Dramatic Increases in Personal & Corporate Income Tax, Plus More

The House Ways and Means Committee this week pulled the trigger on about $130 million from increases in personal income, corporate income, property transfer tax, and fees for those selling securities.

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- You might assume that these taxes are to close the over $200 million gap in the education fund, and you'd be wrong. These increases are aimed at various housing programs and Medicaid expansion, so more pain is coming…

## Corporate Tax Changes

Citing recommendations from the Vermont Businesses for Social Responsibility that run counter to the rest of the business community, the committee decided to raise $40 million more in corporate income taxes to pay for H.721, a Medicaid expansion and H.880 an act relating to increasing access to the judicial system.

- This bills would **increase the corporate tax rate to 10% from 8.5%.** JFO estimates that this tax rate increase will generate $17.7 million.
- The bills would also add back the amount of **Foreign Derived Intangible Income (FDII) and Global Intangible Low-Taxed Income (GILTI) deducted at the federal level and increase reported net income to Vermont** for those corporations with those types of income. This move would make Vermont an extreme outlier, but it would raise $15 million.
- Finally, it would **increase securities registration fees for filing, initial notice fees, and renewal fees** by paying the issuers of securities $6.2 million in annual General Fund revenue.
- The Committee was considering worldwide combined reporting, however, with that proving infeasible, this is where they landed.

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## Income and Property Transfer Tax Increases

The Committee also followed the direction of Vermont Businesses for Social Responsibilities' founders and board members to raise taxes on the top marginal bracket to some of the highest in the country and used the endorsed proposal to pay for items in H.829.

- Under the bill, the personal income tax would add a new bracket of **11.75%, starting at $500,000 of income,** making Vermont's top bracket one of the highest in the country and with a lower start to the top bracket than even high-tax states. This would raise about $75 million.
- If you were hoping to avoid paying your over 20% increase in property taxes this year by selling your home, the Committee has found a way to still take some tax dollars from you. The Committee advanced increases in the property transfer tax that would make it the **highest in the country, raising** about $18 million.
    - The property transfer tax was already tapped in the Senate to fund proposals in S.311, their housing bill.

The Commissioner of Taxes pushed back on the last-minute additions to these bills. While not accomplished this week, a $47 million short-term rental surcharge is being considered.

- Depending on how much the committee seeks to raise to bridge the education spending gap, there also is a potential tax on cloud-based services.
- When the Governor signed the BAA last week, his message to legislators was, "I'm deeply concerned this bill exceeds my proposed

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budget adjustment by almost $15 million. As the House Appropriations Chair has said herself, this leaves a $15 million gap in the fiscal year 2025 budget."

- The Legislature will also need to find $15-30 million in tax revenue to replace the revenue that comes from flavored tobacco, which they stand to ban very soon.
- Certainly, don't consider this session done in May at the fall of the gavel; they will need to return for a veto session.

## Housing Legislation Consideration Continues; Accountability Bill Passes

The Senate Committee on Natural Resources and Energy began by walking through S.311 and hearing from its sponsor.

- The bill is being considered in the context of H.687, which is making its way from the House, and this week, it lost its benefits afforded to designated centers and tax increment financing in the Ways and Means Committee.
- Besides the starting frame of reference, the major difference between the two bills is how they address the tiered jurisdictional system proposed by this summer's working group convened by the NRB.
    - S.311 would seek to create interim regulations to allow us to quickly address the urgent need to build new housing that would sunset as new tiers are designated and implemented. However, S.311 proposes to further restrict municipality's ability to manage local

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zoning and growth. Please see VLCT Testimony this week on S.311 in Sen Natural Resources.
    - H.687 would wait until the tiers could be completely constructed, which would come in July 2026 or later.
- Additionally, the two bills differ on appeals and administrative structure;
    - S.311 would continue appeals going through the court and include funding for a new judge.
    - H.687 changes the Natural Resources Board to the Environmental Review Board, shifts appeals to this Board, and omits the court moving forward.
    - Appeals of jurisdictional opinions and permit decisions now go to the Board.
    - Ironically, environmental groups are advocating to go back to a system in H.687 they previously undid.

## H.687 SUMMARY | S.311 SUMMARY

This week, the House approved H.639, a bill related to flood disclosures, and language lifted from H.686.

- The language outlines procedures and requirements for measuring and reporting progress toward statewide and regional housing targets in Vermont.
- The Department of Housing and Community Development, in collaboration with regional planning commissions, is tasked with developing metrics to measure progress, including setting timelines, tracking investment rates, and taking actions recommended in regional

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plans.

- The Department will use these metrics to set annual goals and publish progress reports, assessing whether progress is satisfactory and making recommendations for improvement if necessary.
- Much gratitude is due to the members of the House Committee on General and Housing for this, particularly Reps. Elder, Krasnow, and Bartley.

## Education Spending

Testimony in the House Education Committee this week from the Lake Champlain Chamber discussed Big Picture Education Spending Challenges.

- The sprawling, overly complicated education funding system is too complex for constituents and voters to understand and meaningfully engage with.
- Vermont's system of allowing local school funding decisions with centralized, statewide funding means that communities' choices are not directly tied to their tax rates and creates perverse incentives akin to a tragedy of the commons.
- The property tax credit system, which means that over two-thirds of Vermonters pay property taxes on their income, further distorting the impact of community decisions.
- Education property policies are inherently housing and development policies, as they drive markets.

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- The policies of the last two decades have stagnated the flow of housing stock while disincentivizing communities from making improvements in their tax base or grand list because re-venue growth is sent to Montpelier to be redistributed across the state.
- Data to show that real grand list growth across the state has only increased by about 1.25% for the last decade, with only a few towns bringing up that statewide average.
- Data shows that those municipalities with grand list growth were, in turn, those that voted down their school budgets, as well as the schools with lower per-pupil spending, has taken the hint from the legislature over the past decade to merge and find efficiencies.
- Understanding that a lack of growth in our housing stock is a large part of the education problem and breaking down silos to advocate for housing and economic development would help pay for the education system.
- We do not need to spend our way out of the current crisis and that there are levers they requested from their Joint Fiscal Office that can be pulled to lower spending this year.
- You can watch the full conversation here.

## Elsewhere In The State House

Hundreds of hours of committee discussion each week culminate into our advocacy update, so not everything makes it into the overall update;

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however, we often cover what is left on the cutting-room floor here for our most dedicated readers.

- Read updates from Week 1, Week 2, Week 3, Week 4, Week 5, Week 6, Week 7, Week 8, Week 9, Week 10, and the last session's recap.
- The House gave unanimous approval of H.121, a data privacy bill that we've covered throughout the session. The concerns of businesses and nonprofits have not been addressed in its final version, especially around the private right of action created.
- The Senate Committee on Health and Welfare began work this week on H.72, a bill that would create a safe injection site in Burlington and possibly a mobile site. SevenDays traveled to a site in operation in New York City for a piece this week. Read that story here.
- Prop 3. will be on the Senate Floor within the next week and is a sure thing given the number of cosponsors the bill has. The proposed constitutional amendment "no law shall be adopted that interferes with, negates, or diminishes the right of employees to collectively bargain." The measure would also create a constitutional protection for workplace agreements that require workers to join a union as a condition of their employment.' Proponents say this language would prevent the future passage of "right-to-work laws," which was already unlikely.
- The House gave approval to the Renewable Energy Standard changes this week. A new analysis presents that the cost of implementing such a change may not be as high as expected; however, the Governor is still pushing back, citing cost pressures across the economy. Additionally, the Governor and members of the legislature are worried about the looming Clean Heat Standard.

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- Governor Phil Scott today announced his appointment of Zoie Saunders to serve as Vermont's next education secretary.
- One of two **Vermont Employment Growth Incentive** bills was killed this week in the Senate Committee on Appropriations. The Committee decided not to advance S.247 after the auditor cast doubt on the legislation before a committee that was already uncomfortable with a forgivable loan track being added to the program. The Committee understood that H.10 was on its way over from the House, and they would discuss the program's impending sunset when considering that legislation.
- Attorney General Charity Clark and others filed a civil antitrust lawsuit against Apple for monopolizing smartphone markets, alleging violations of the Sherman Act. The lawsuit accuses Apple of maintaining a monopoly through contractual restrictions on developers and withholding critical access points. This behavior harms consumers, developers, and small businesses by limiting choices, inflating costs, and hindering innovation in apps, cloud streaming services, messaging apps, smartwatches, and digital wallets. The lawsuit seeks to restore competition and hold Apple accountable for anticompetitive practices. A copy of the complaint can be found here.
- The Economic and Labor Market Information Division (LMI) of the Vermont Department of Labor (VDOL) surveyed Vermont firms about various benefits, including healthcare, leave, and retirement. Employers were also asked about other topics, such as employee retention, remote work, and in-demand skills. This 2023 Employer Survey is an evolution of the Fringe Benefit Survey conducted by The Department in the past. All information presented is based on employer-provided responses to a voluntary survey, even if not explicitly stated. Read it here

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- Nearly 100 Vermont businesses from various industries completed the 2024 annual economic survey assessing the outlook of Vermont's small- to medium-sized businesses. The survey, presented by Davis and Hodgdon CPAs and the Vermont Chamber of Commerce, demonstrated that business owners are more optimistic about the U.S. economy than they are about the Vermont economy. This is the opposite of attitudes displayed in survey results from the same timeframe in 2023. Read it here

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