

To: Board of Finance, City Council, & Mayor Weinberger  
From: Rebecca Sameroff, Special Advisor for Finance and Technology  
Beth Anderson, Interim CAO & CIO  
Date: April 16, 2018  
Re: Report - December 18, 2017 City Council Resolution

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**On December 18, 2017, City Council resolution passed the following resolution:**

City Council requests the Administration report to the Board of Finance and then to the full City Council on ways to implement and costs associated with these items:

- I. Providing low- and moderate-income seniors with a reduction in their property taxes and what options we can consider to achieve that goal;
- II. Whether there should be an overall reduction in the municipal tax rate;
- III. A review of all fees charged to residents of Burlington for a variety of different programs with an eye toward introducing income-sensitivity into fees paid by individuals and families.

This memo serves to outline our response to this request.

**I. Providing low- and moderate-income seniors with a reduction in their property taxes and what options we can consider to achieve that goal**

**Burlington's Senior Population**

The City of Burlington considers the affordability of housing an important priority, and one of its most significant challenges. Census data from the American Community Survey 2012-2016 suggests that Burlington's seniors are indeed more vulnerable to housing affordability issues:

- ) Burlington's senior (age 65+) population was 4,588 in 2016, representing 10.8% of the population. The median household income in homes owned by seniors is about \$35,000, 25% below the median income for all Burlington homes.
- ) The percentage of Burlington *homeowners* who are housing cost-burdened<sup>1</sup> is 40% for seniors and 25% for non-seniors.
- ) The percentage of Burlington *renters* who are housing cost-burdened is the same (55%) for the senior and non-senior populations.
- ) About 43% of seniors are homeowners, 24% rent, and the remaining 33% are in other living situations (e.g. living with a family member or in a nursing home).

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<sup>1</sup> Housing cost burdened is defined as spending more than 30% of income on housing costs.

## **Existing State property tax & renter assistance programs**

### **Homeowner Rebate**

The Vermont Department of Taxes administers a statewide income sensitivity program that reduces the education property taxes for most Vermonters, and additionally caps the *total* property tax bill (including municipal tax) for residents with household income below \$47,000. Under this additional program the total tax bill is capped at between 2%-5% of household income, depending on how far income falls below the \$47,000 eligibility threshold.

For FY18 1,222 of the 6,044 Burlington homestead taxpayers (20%) will have their total property tax bill (including municipal taxes) capped, with the State covering about \$769,000 of the municipal property tax liability. State data do not isolate the program impact on Burlington seniors, but note that the median household income for Burlington's senior homeowners (\$35K) is well below the eligibility threshold, indicating that a majority of the City's senior homeowners are eligible to have their combined municipal and state tax bill capped at a small percentage of their income.

### **Renter Rebate**

The State also administers a complimentary, income-based credit program for renters based on the assumption that the full amount of property tax is passed on to tenants through their rental rate. The Renter Rebate uses the same household income tiers and caps as the Homeowner Rebate. Another 1,588 Burlington renters receive an income tax credit for rent support through this complimentary program.

## **Challenges of administering an income-based property tax reduction program**

Vermont's existing income sensitivity system provides an example of how a municipal-level program could be designed to make a uniform property tax more affordable for qualifying residents. From program design to program implementation, the State's experience also illustrates the political, philosophical, and administrative complications of this undertaking.

Defining eligibility is a crucial aspect of program design. Eligibility is subject to regular debate and modification in the Legislature due to longstanding disagreements about fairness and new questions that arise from constituent circumstances. Annual proposals and debate revolve around the following eligibility questions:

How do you define "income" for the purposes of program eligibility? Does it include Social Security and retirement income, investment income, capital gains, or other assets? Is income the right measure of ability to pay? Accounting for myriad types of unearned income and assets would add complexity to the program. A simple eligibility threshold, however, would allow someone with plenty of "unrecognized" income to qualify for a tax reduction that could be quite large if they own high-value property.

How do you best design eligibility to avoid a “cliff” where one dollar of income can determine who benefits and who does not? One of the more complicated pieces of the State program is the phase-out designed to avoid such a cliff.

How could you design age-based eligibility in a way that feels fair? Would there be a set age for eligibility, or a phase-in based on age to allow more benefit to older seniors? This could add additional complexity.

Further, the staff time necessary to implement State income sensitivity makes it one of the most time consuming programs to administer at the Vermont Tax Department, an organization that is already structured to collect and manage confidential income information.

Administering a municipal level income sensitivity program would require considerable new procedures and practices for City staff, and could be quite costly to implement at the outset. The City does not currently maintain income information for Burlington residents. The State is not permitted to share resident income information with municipalities. A municipal income sensitivity program would therefore rely on self-reported income information from program participants. This would require a host of new processes at the City for collecting and maintaining this information, determining program eligibility, and ensuring confidentiality. Adding a rent subsidy component to a municipal-level property tax reduction program would increase its budgetary impact and administrative needs.

Finally, a legal opinion from our City Attorney's office clarified that the most legally defensible method to enact income sensitivity for seniors would be through a voter approved Charter Change, which will also then be subject to Legislative and Governor approval. There may be other methods to enact some type of income sensitivity for seniors, but Charter approval would seem to be provide the City with the most protection in case of a law suit or other legal objection.

### **Budgetary considerations**

Initiating a municipal property tax relief program for seniors commits the City to a swiftly growing programmatic expenditure for years to come. The senior population of Chittenden County is projected to continue growing in the coming decades, at least doubling by 2030 compared to its 2010 levels. Nationwide, the Joint Center for Housing projects that the number of senior-owned households will increase by 62% by 2035. The negative revenue impact of a senior tax reduction program would increase every year as this demographic story plays out in Burlington.

In addition, the City would need to make the new one-time and ongoing investments in program staffing, materials, and procedures discussed above. These significant administrative “overhead” expenditures would not go directly to reducing the housing cost burden of lower-income seniors.

## **Recommendation**

We do not recommend a property tax reduction for low- to moderate-income seniors, as the benefit would be limited to only those seniors who own homes (only 43% of the City's 65+ population); the State offers programs that allow income-sensitivity to property taxes; implementing the program would require adding staff to manage the program and require the City to take on new and challenging income verification duties; and it would ultimately shift the tax burden to other taxpayers.

### **Existing City programs focused on seniors**

There are other means by which the City can, and does, support the entire population of Burlington's lower-income seniors. In 2016 the City of Burlington's Parks Department permanently took over the ownership and management of the Champlain Senior Center (CSC) when financial troubles threatened its closure. Through the CSC, the City provided 5,468 nutritious meals to seniors last year, in addition to social activities, recreational trips, fitness and arts classes, and transportation assistance. The CSC has grown under the City's management, moving to a larger location in the Old North End and seeing increased service utilization. The City also provides annual support to the Heineberg Community Senior Center, which provides similar services (including daily meals) in the New North End.

## **II. Whether there should be an overall reduction in the municipal tax rate**

With modest grand list growth, no new revenue sources, and anticipated yearly increases for salaries, health insurance, and facility updates, the City is not expecting much budgetary flexibility in next few fiscal years. Reducing the overall municipal tax rate would therefore mean finding other sources of funding to cover lost revenues. Shifting burden off of one of the City's broadest tax bases – the municipal property tax – would necessitate shifting the burden onto a subset of Burlington taxpayers (e.g. businesses), or cutting services.

We do believe there is opportunity to invest one time monies (e.g. unassigned fund balance) into initiatives that would result in longer term cost efficiencies or create revenue sources that would benefit all taxpayers. While those opportunities might not lead to future rate reductions, they would likely minimize the need for municipal tax rate increases in future years. City leadership has been exploring these opportunities, and anticipates discussing them with the Board of Finance and City Council during the budget process. These opportunities include: energy efficiency, incentives to reduce health insurance costs, new revenue-generating facilities, hiring a grant writer to ensure the City is taking advantage of grant opportunities, funding consultant recommendations for fire station consolidation, and overall asset management.

**III. A review of all fees charged to residents of Burlington for a variety of different programs with an eye toward introducing income-sensitivity into fees paid by individuals and families**

Certain City departments –Parks, Recreation and Waterfront, Fletcher Free Library, and Burlington City Arts all offer voluntary programs to the public. While programming at FFL is free, Parks and BCA do charge fees, but offer need-based scholarships. These are in addition to the services provided free to seniors at the Champlain Senior Center, discussed above.

Overall, the City provides over \$80,000 in scholarships to residents each year through these programs, and seeks to increase these figures annually.

**Department of Parks, Recreation and Waterfront** has one of the more comprehensive income sensitivity practices for their program fees. At Parks, all programs are eligible for scholarship funding. Through the third quarter of FY18, the Department spent \$40,500 in program scholarship support for 213 Burlington households. Scholarships are awarded at 50% of the program cost to Burlington residents who are either under the age of 18 or over 65 and fall under 185% of the poverty line.<sup>2</sup> For certain youth programming (Champ Camp and school vacation camps), City scholarships are applied on top of State child care subsidy to further reduce the program cost.

Parks staff may accommodate individual requests for further assistance if the program in question can absorb additional support into their program budget. There are other less formalized income sensitivity processes at Parks, such as free parking passes at City parks and scholarships to cover up to half the cost of community garden plots. These benefits are available by request and conversation with staff, without the burden of formally documenting need.

Because of the Department’s internal practice of not turning anyone away based on ability to pay, Parks does not believe there is currently an unmet need among their program users for fee support. That practice, however, does create need within the Department itself; Parks expects to exceed program budgets due to scholarships in FY18.

**Burlington City Arts** offers many activities free for all, but approximately 4,000 people per year participate in programs that require a fee. BCA maintains a scholarship program that provides

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<sup>2</sup> Scholarship applicants can fill out a [form](#) annually and provide proof of income such as a pay stub, tax return, or documentation of Social Security. Alternatively, applicants can go to The Miller Center and show quick scholarship qualifiers such as an EBT card. Miller staff have access to the State’s Child Care Financial Assistance program site and state-registered applicants automatically qualify for City scholarships.

between \$30,000-\$35,000 of education scholarships (full and partial) per year for over 200 individuals.<sup>3</sup> Programs where full and partial scholarships are available include:

- ) Adult Art Classes – Approx. 15% of adult students receive scholarships to attend.
- ) Youth Classes – Approx. 30% of youth receive scholarships to attend.
- ) Summer Camps (ages 6-18) – Approx. 16%-18% of our campers receive scholarships to attend
- ) Gallery Education (SEE.THINK.DO) group programs –84% of groups received partial or full scholarships to participate in program (43 out of 51 groups)

The only paid programming that is not scholarship eligible are drop-in classes and regular studio access adult membership.

As with Parks, BCA's internal policy is never to turn anyone away who needs a scholarship, so there is no unmet need from program users. However, there is always need to cover the cost of providing subsidized programming and BCA makes that story a focus of their fundraising appeals.

**Fletcher Free Library** does not charge fees for any of its materials or programming in adherence with the American Library Association's core values of free access to information in any format. During FY17, the Library offered more than 600 enrichment and literacy programs, benefiting over 15,000 of our community's early learners, youths, teens, young adults, adults, and seniors. Of this programming, 335 programs were offered to early learners, youths, and teens, benefiting over 11,500 kids.

A further reduction to program fees for certain demographics would create a budgetary challenge similar to the municipal rate reduction discussion above. Department programs have fixed costs that are currently supported by program user fees. A reduction in fees would need to be paired with a reduction in services or a new revenue stream.

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<sup>3</sup> BCA uses a simple [scholarship form](#) that relies on more qualitative information about the applicant's ability to pay. The form does ask some demographic information including whether household income is above or below \$50,000