Property Tax Reduction Proposal

*no cross border issues

At the end of 5 years, this proposal will:

- Decrease Property taxes $85 million annually
- Increase Renter Rebate for lower income renters $5 million annually
- Increase revenue available for Downtown and village tax credits $10 million annually
- Increase construction jobs by 500 in the weatherization field
- Increase jobs in the wood products industry by more than 200

The enactment of a 50 cent per gallon tax on heating oil (10 cents per year for 5 years) combined with an equivalent tax on propane and natural gas will result in revenues of about $100 million per year at the end of the 5 year implementation period. Those revenues will be used to reduce property tax burdens and supplement one program directed at low income renters and a program to enhance Vermont's efforts in strengthening the building stock in our downtowns.

Some background

The prices of heating oil and propane have decreased by about $1 per gallon over the past year. (The price of natural gas has declined about 10% during that period.) The price signal for fossil fuels has been one of the factors that has influenced the adoption of energy saving and fuel switching behaviors for the past ten years. This year's decline in price dilutes the market signal making it harder to meet the goals of the Comprehensive Energy Plan. While predicting future oil prices is fraught with uncertainty, the current sentiment is that oil prices will rebound slowly over the next few years.

There is significant discussion about a "Carbon Tax" to help send the proper price signals for Vermonters' future energy decisions. One of the biggest problems of a Vermont-only carbon tax is the border effect where Vermonters can cross state lines for lower cost fuels. Home heating fuels are delivered by licensed vendors who must currently remit the Fuel Gross Receipts Tax. Out-of-state vendors are only able to deliver to Vermont addresses when they are registered and will therefore, be required to remit this additional tax.

This proposal does not include transportation fuels. While those make up a greater volume of fossil fuel use in Vermont, the border effect is more difficult to counter and the opportunities for changing the use of gasoline and diesel for transportation are not as robust as current choices available in heating and domestic hot water. The consequence is that the expectation for behavior change in transportation should not be considered in the same way that building owners can consider changes for home heating.

Additional description of the impacts

This proposal reflects a principle embraced by carbon tax proponents. The tax revenues are largely returned to taxpayers yielding a revenue neutral policy. British Columbia has had a carbon tax in place for the past several years and that policy includes a 90% return to taxpayers. The logic of using the property tax in this proposal is that the source of increased tax revenues is from building owners paying for their fuel and the beneficiaries of the revenue return are also building owners. The Property Tax is a focus for individuals looking at tax reform and any proposal to reduce property taxes will have allies in the home and business owner arena.

Adding an enhancement to the Renter Rebate program is in recognition that renters do not directly pay property taxes but will have to bear some of the costs of complying with this fuel tax addition.

Enhancing the Downtown and village tax credit is a recognition that some portion of our transportation use of fossil fuels is the result of sprawl development. In the past few years, there is some evidence that the increased focus of development in Chittenden County contributes some portion to the trend that shows a decrease in statewide vehicle miles traveled. This enhancement will help overcome some of the economic challenges in restoring and revitalizing our downtowns.

Economic development will result from this proposal due to an acceleration of building owner decisions towards reducing their fossil fuel heating use. The current trajectory of building weatherization is only 3,000 housing units per year. The assumption in this proposal is to increase that number to 10,000 per year. The additional 7,000 weatherization projects will yield more than $70 million in construction activity, 35% ($25 million) of which is labor cost. In addition, the accelerated conversion to biomass (non-taxed) fuels will increase the activity in the forestry sector. Furthermore, the conversion of some buildings to heat pumps results in a conversion of energy dollars from fuel oil and propane that currently export 80% of those dollars to an electric supply that maintains 50% of the energy dollars in-state.

Finally, the $10 million in additional downtown and village tax credits leverages significant, additional dollars in building renovation with the secondary effects of strengthening the economic vitality of our cities and towns.

As with all tax proposals, there are winners and losers. Building owners that do not take steps to reduce fossil fuel use will see an increase in their fuel bill largely (but not entirely) balanced by a decrease in their property taxes. Building owners that take steps to reduce fossil fuel use will not only see a decrease in their fuel costs (to compensate their investment in the fuel reduction strategies) but also a decrease in the property tax.

Are the numbers real?

This proposal builds in the consequence that the success of this effort and other policies will tax base by decreasing in the use of fossil fuels for heating by about 15% over the next five years. Under today's fossil fuel consumption levels, the revenues available from this proposal would be more than $120 million. The 5-year 15% reduction will be necessary to meet the targets established in the Comprehensive Energy Plan for greenhouse gas reduction and meeting our energy needs with local resources.

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Property	Town	Tax Reduction – Year One	Tax Reduction – Year Five	FY 2015 Ed Tax rate
$250,000 homestead	Montpelier	$57	$286	$1.5263
$100,000 homestead	Orange	$21	$107	$1.4224
$400,000 homestead	South Burlington	$92	$460	$1.5325
$500,000 homestead	Stowe	$110	$550	$1.4668
$750,000 farm $150,000 house, $600,000 land	Orwell	TBD	TBD	$1.2611
Rental - $250,000 (equalized)	All towns	$57	$283	$1.515
Commercial - $500,000 (equalized)	All towns	$113	$568	$1.515

This table is based on a 1.5% reduction in both the Homestead and non-residential education property tax rates from a:

- *10 cent tax on a gallon of fuel oil (yielding $12 million)*
- *6 cents on a gallon of propane (yielding $6 million) and*
- *6 cents on 100 cubic feet of natural gas. (yielding $6 million)*

The revenues from the tax add $18 million to the Ed Fund ($1.2 billion currently raised through property taxes). An additional $3 million are used for Renter Rebate enhancements and an increase in the Downtown Tax Credit program. These figures assume a 10% reduction in heating fuel use from current levels as the result of the tax.

This does not address income sensitivity payments. The income sensitivity program can be adjusted to produce 1.5% decreases in tax bills for income sensitized households without changing the figures in this table.

Heating Fuel Tax Increase

2014-15 Use	Year One Fuel Tax	Year Five Fuel Tax	Reduction from 2012-2014 average cost
700 gallons heating oil	$70	$350	$700
1000 gallons propane	$60	$300	$1,000
1000 ccf natural gas	$60	$300	$150
250 gallons propane (hot water)	$15	$75	$250
500 gallons heating oil (small or efficient house)	$50	$250	$500
2000 gallons heating oil (big or leaky home)	$200	$1,000	$2,000
Heating with wood	$0	$0	$0
Heating with electricity	$0	$0	$0

This table assumes a 10 cent per gallon tax on fuel oil, 6 cent per gallon tax on propane and 6 cent per 100 cubic feet of natural gas in the first year with those rates increased to $0.50, $0.30 and $0.30 in year five.

The 700 gallon fuel oil, 1,000 gallon propane and 1000 ccf natural gas consumption levels are "typical" for homes using those fuels.

The "Reduction" column is based on the price reduction of heating fuels during the 2014-2015 heating season compared to the previous three years.