

Vermont in Transition:

A Summary of Social Economic and Environmental Trends

A study by

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for the

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Chapter 5: AFFORDABILITY



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Chapter 5:

AFFORDABILITY

A 2008 poll commissioned by the Council on the Future of Vermont and conducted by the University of Vermont's Center for Rural Studies asked Vermonters to rate their level of concern with twenty-four challenges faced by the state. Affordability or the cost of living was the number one concern.¹ Few should be surprised by this result. 2008 has been a difficult year in Vermont as it has for the rest of the country. The products that we depend on the most—fuel to heat our homes and to drive our cars, food, taxes, health care and education—have all become more expensive, and some significantly so. At the same time, our ability to pay for these goods has become more difficult with the combination of rising unemployment and falling portfolio balances. And when Vermonters need a loan, the conditions have become more restrictive and the rates higher. While Vermont has not seen the torrent of foreclosures seen elsewhere in the country, they are still occurring at a comparatively high rate.

Traditionally, the question of affordability has focused on whether the middle class and those with fewer financial resources can afford to buy a home or rent an apartment, purchase health insurance or a college education, or afford a nutritionally adequate diet. The tax burden in Vermont has also become part of the debate. Fortunately, government programs and private charities help lessen the financial burden for many people on the margins. Some programs provide income-tested assistance (e.g., food stamps, school lunches, tax rebates, welfare payments, heating assistance, rent subsidies, public housing, Medicaid, Catamount Health Insurance, subsidized educational loans and grants, earned income tax credit) while other forms of mitigation are more universally available (e.g., the state colleges, and tax deductions for mortgages and property taxes). Programs such as these complicate the statistical analysis of affordability since most measures of income and the cost of living fail to account for the value of the services offered by these programs.

¹ *Looking Ahead: Vermonter's Values and Concerns*. Moser, Hyman, Schmidt. Center for Rural Studies, University of Vermont. August 11, 2008

Affordability is a surprisingly complex concept to define. Some define affordability as being able to purchase the necessities of life, but what is seen as a necessity today may have been thought of as a luxury just a few years earlier. For example, in 1996 and 2006, the Pew Research Center asked Americans what they considered “necessities.” Even within this short period of time, the percentage of Americans who felt that home air conditioning was a “necessity” rose from 51% in 1996 to 70% in 2006, and this belief has been put into practice. In 1970, 49% of new single-family houses in the U.S. had air conditioning. Just 20 years later, 90% were built with air conditioning.² Anyone living with teenagers realizes that cell phones are now seen as a necessity. This trend can also be seen in the increase in the size of homes; in 1973, nearly one-third of all new homes built in the U.S. were less than 1,200 square feet, by 2007, only 4% of all new homes built were this small while 26% were over 3,000 square feet (see Appendix, chart 5-1).³

Affordability raises the question of whether the incomes of Vermonters are high enough to cover the basic costs that are associated with life in the state. The following analysis will not try to measure the size of any potential gap, but instead will highlight the major trends that are affecting affordability and whether these trends are unique to the state. Two areas that have been at the center of this debate, the cost and access to health care and the price of higher education are addressed in more detail in Chapters 11 (Education) and 12 (Health and Health Care).⁴ These chapters

² U.S. Census, *Characteristics on New Housing Index*: <http://www.census.gov/const/www/charindex.html#singlecomplete>

³ *Ibid.*

⁴ A recent report issued by the College Board indicated that in 2007-2008, Vermont had the second most expensive published rates for two-year public colleges, the most expensive four-year public institutions, and the 10th most expensive private four-year colleges in the country. These national rankings are not adjusted, however, for financial aid grants. The College Board, *Trends in College Pricing 2007*. http://www.collegeboard.com/prod_downloads/about/news_info/trends/trends_pricing_07.pdf

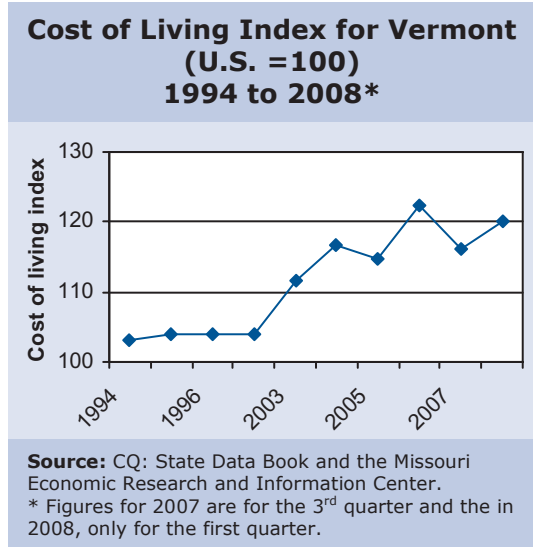
make it clear that the cost of these two items have been rising much more rapidly than the incomes of Vermonters. Trends in the cost of living, incomes, wages, and welfare are addressed first, followed by an examination of food adequacy and hunger, housing and taxes.

Trends in Affordability in Vermont

Trend number 1: The cost of many essential consumer goods has been increasing in recent years, while the overall cost of living in Burlington (the only area of the state where it is systematically tracked) has increased more rapidly than in other areas of the country.

There are a number of agencies in the U.S. that provide comparisons of the cost of living in various cities. Each rely on different methodologies and provide statistics only on the cost of living in a handful of cities in each state. In Vermont, this becomes particularly problematic since the data, while often being reported as for the state as whole, measures living costs only in the Burlington area, an excessively narrow focus.⁵ The Missouri Economic Research and Information Center (MERIC) publishes a yearly cost of living index for all 50 states in which the U.S. average is indexed at 100.⁶ The data suggests that Hawaii and California are the two most expensive states with index levels of 165.3 and 139.4 respectively. Vermont comes in as the ninth most expensive state with an index of 120.1, although all states in New England are above the national average (see Appendix, 5-2 and 5-3). Utilities and housing costs are estimated to be particularly high in Vermont; the only category where we are close, but still higher to the national average is in health care costs.⁷

Congressional Quarterly Press has been publishing annual cost of living indices for all 50 states for over a decade.⁸ According to this source, Vermont (or what is really the Burlington area) is becoming an increasingly expensive place to live. In 1993, Vermont's index was just above the national average at 103. By 2008, Vermont's index had risen to 120.1.



The U.S. Department of Labor publishes the consumer price index (CPI), a measure of the change in average prices of consumer goods and services purchased by typical urban households. While the CPI is not a true cost of living index (it does not take into account the value of public goods and how much consumers would need to spend to reach a certain standard of living), the index still reflects changes in the cost of buying essential and non-essential goods and services. The CPI is not calculated for Vermont, but a selection of items from the index for the Northeast appears in the following chart. Since 2003, many costs have increased dramatically. As we can see, prices for college tuition, home heating oil, gasoline and medical care have increased 33%, 40%, 74%, and 18% respectively over the last four years.⁹

⁵ Some of the sources report the cost of living in selected cities only, and when they do, Boston usually comes out as the most expensive city in New England, largely due to its high cost of housing. Sperling's Best Places ranks Burlington as the second most expensive city among the six major cities compared in New England (i.e., Boston, Burlington, Portland, Providence, Manchester, and Hartford). CNNMoney.Com and Bankrate.Com rank Burlington as the 4th most expensive city within this group of 6 cities.

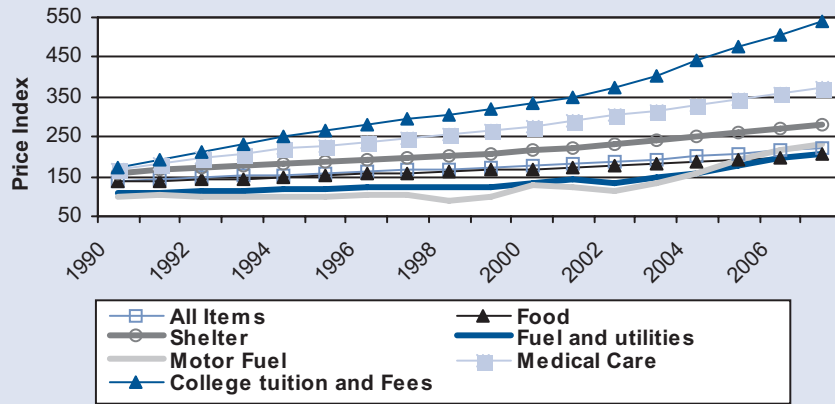
⁶ The basis for the cost of living measures published by MERIC are from proprietary data collected by the Council for Community and Economic Research (ACCRA).

⁷ Housing costs represents an index of new home prices, rent and mortgage rates.

⁸ The data reported by Congressional Quarterly, like the data used by MERIC, is based on information provided by ACCRA.

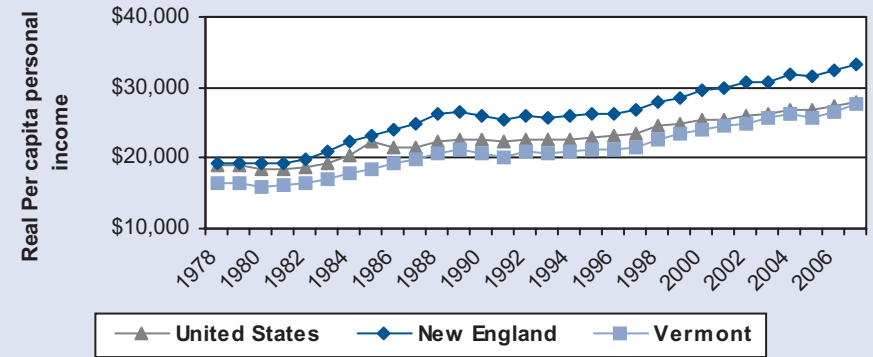
⁹ Not all essential items have become more expensive. Landline telephone charges have remained virtually unchanged, while cell phone charges have declined considerably.

**Selected Items from the Consumer Price Index
Northeast Urban (1982-84 = 100)
1990 to 2007***



Source: U.S. Department of Labor. Bureau of Labor Statistics. Consumer Price Index.
* College tuition and fees comes from the CPI for the country, all other items reflect price changes in the Northeast.

**Real Per Capita Disposable Personal Income
Vermont, New England, U.S.
(in 2000 constant dollars)
1978 to 2007**



Source: U.S. Department of Commerce, Bureau of Economic Analysis
Nominal per capita disposable income is reported in chart 5-4 in the appendix

Trend number 2: The incomes and earnings of many Vermonters have struggled to keep up with inflation in recent years.

The rising cost of living reflects only one half of the affordability equation. The other half is determined by the trends in incomes and earnings. There are multiple measures that track household or individual income, but one of the more comprehensive is per capita real disposable personal income published by the U.S. Bureau of Economic Analysis.¹⁰ Over the last 30 years, Vermont, New England and the nation have all experienced inflation adjusted long-term growth in per capita disposable personal income. Prior to the 1990s, per capita disposable income in Vermont had tracked closely with the nation, but in more recent years, Vermont has begun to fall behind New England as a whole.

Statistics on disposable income represent the financial situation for Vermonters as a whole. While there are individuals and households throughout the income spectrum that struggle to pay their bills (the rash of foreclosures for middle and upper income individuals is one such example),

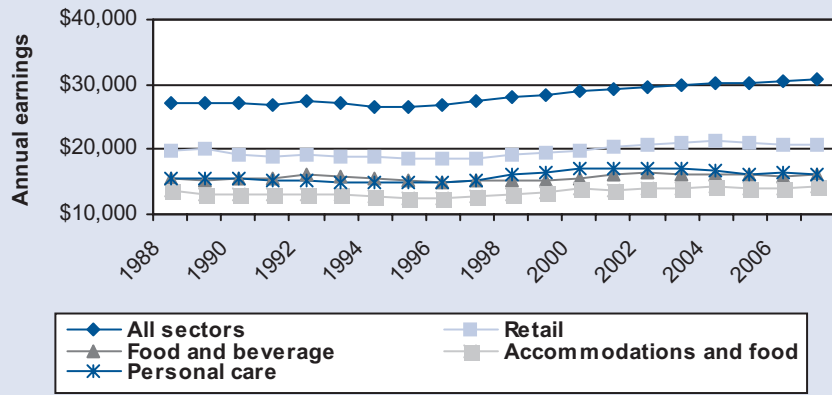
traditionally the focus of attention has been on the earnings of those at the lower end of the income distribution. In the chart on the next page, average earnings adjusted for inflation are displayed for all Vermont workers, and for a sampling of low wage jobs.¹¹ In total, the selected low wage jobs depicted account for just under one-quarter of all covered employees in the state.¹² The data shows that average real earnings in Vermont have been rising slowly for the last decade (see Appendix, Chart 5-5 for non-inflationary adjusted trends in earnings). However, the growth rates in the four lower wage areas have fallen behind the state average as a whole. Average earnings in these areas have virtually remained constant. For example, between 1988 and 2007, real annual earnings for personal care and laundry workers only rose from \$15,618 in 1988 to \$16,062 in 2007 (in 2000 dollars), an increase of just under \$500 during this 20 year period.

¹⁰ This measure includes labor and non-labor income minus taxes. Trends in nominal as opposed to real per capita disposable income are included in the appendix.

¹¹ The average annual incomes include both part and full-time workers.

¹² As noted earlier, covered employees are workers whose quarterly earnings are reported to the Department of Labor for purposes of determining eligibility for programs such as unemployment insurance. Most Vermont workers are included on the survey.

Average Inflation Adjusted Annual Earnings in Select Industries in Vermont (in 2000 year dollars) 1988 to 2007



Source: Vermont Department of Labor, Economic and Labor Market Information. U.I. Covered Employment and Wages: <http://www.vtlmi.info/indnaics.htm>

Trend number 3: The gap between the earnings of Vermonters and a State-defined “basic needs budget” for households appears to be increasing.

The fact that Vermont is one of 30 states with its own minimum wage that is higher than the federal level (\$8.06 vs. \$6.55), suggests that the state recognizes the value of work and the economic difficulties faced by its lowest paid workers.¹³ In 2008, Vermont had the sixth highest minimum wage rate in the country. It is also one of only three states to link its minimum wage to changes in the CPI.¹⁴ Researchers from the Vermont Department of Labor estimate that just over 11,000 Vermonters were paid at or below minimum wage in 2007, or just under 4% of all covered employees. Since 1997, the minimum wage in Vermont has increased from \$5.25 to just over \$8.00 per hour, an increase well above the rate of inflation. Before this period, the minimum wage rate in Vermont largely tracked national levels.

¹³ Vermont has a separate minimum wage for those who earn tips.

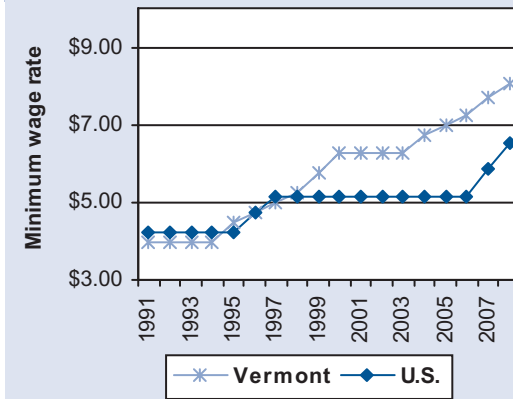
¹⁴ U.S. Department of Labor, Employment Standards Administration, Wage and Hours Division. <http://www.dol.gov/esa/minwage/america.htm#Vermont>

If a Vermonter worked full-time at a minimum wage job throughout 2007, their earnings alone would still be too low, at just under \$16,000 a year, to raise a family of three with two children above the poverty line.¹⁵ Data on poverty trends highlighted in Chapter 4 reveal little progress, both within Vermont and the nation as a whole, towards significant poverty reduction (see Appendix, Table 5-6). The poverty rate rises and falls with the fortunes of the economy, but remains within

a fairly narrow spectrum.¹⁶ In 2007, the poverty rate in Vermont was 10.1%, the twelfth lowest rate in the country.¹⁷ In recent years, Vermont has maintained one of the lowest poverty rates in the country, but within New England, three states were lower in 2007.

The idea that a Vermonter could work full time for a year on a minimum wage job and still not earn enough to pay for basic living expenses was an important driving force in the campaign to implement a “livable wage,” the amount that is estimated to meet the basic economic needs of a household. While the State has not passed such legislation (the City of Burlington has a limited Livable Wage ordinance), the Joint Fiscal Office of the Legislature nevertheless estimates basic living budgets and the associated wage levels needed to meet these costs every two years.¹⁸ It is not our purpose to assess the impact that a “livable wage” law might have

Minimum Wages Vermont and U.S. 1991 to 2008



Source: U.S. Department of Labor, Employment Standards Administration, Vermont Department of Labor, Economic and Labor Market Information

¹⁵ U.S. Census Bureau, <http://www.census.gov/hhes/www/poverty/threshld/thresh07.html>

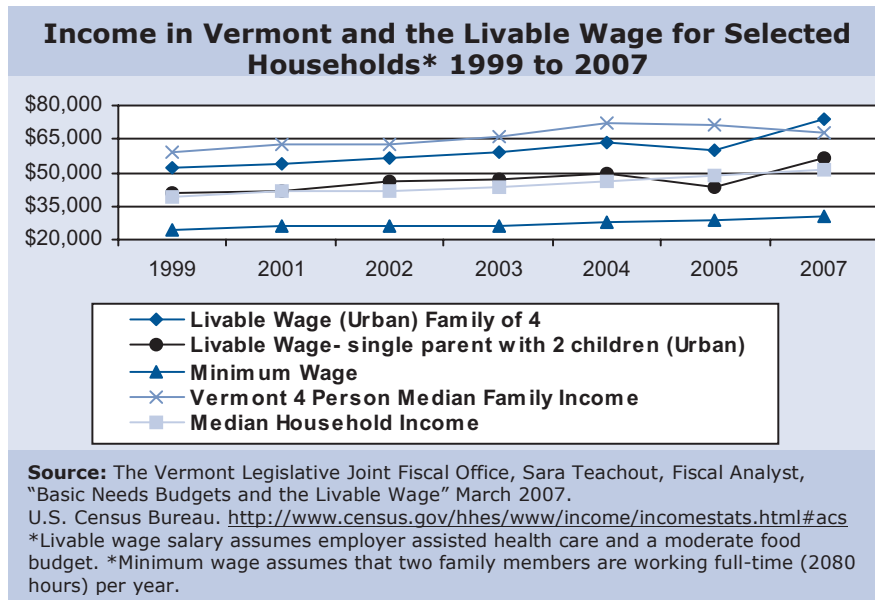
¹⁶ Between 1984 to 2007, the lowest recorded rate of poverty in Vermont was 7.6% in 1994, and the highest rate was 12.6 reported in 1984, 1991 and 1996. U.S. Statistical Abstracts 1992, 1994, 2000, and 2008. U.S. Census Bureau. Historical Poverty Tables. American Community Survey, 2006 and 2007

¹⁷ US Census Bureau, American Community Survey, 2007.

¹⁸ The methodology used to estimate the livable wages can be traced back to a series of Vermont Job Gap studies published by Vermont Peace and Justice Center.

on the state, but simply to compare income trends to the standards established by the Legislature’s research office.¹⁹

The Joint Fiscal Office estimates that in 2007, a single parent with two children would need to earn just over \$27 per hour to achieve the standard set by the livable wage, a rate that is higher than 75% of all hourly earnings in the state (see Appendix, 5-7 for trends in the livable wage for different subgroups).²⁰ Vermont is not unique in this regard as analysts from other states have also uncovered large gaps between existing wage levels and the estimated livable wage.²¹ How do Vermonters cope with such a large shortfall? Many households have multiple wage earners, while others work second jobs to supplement their income. Others simply forgo some of what society considers the necessities of life. However, the figures do not take into account financial assistance provided by the government, help from family and friends, or a person’s own assets. With



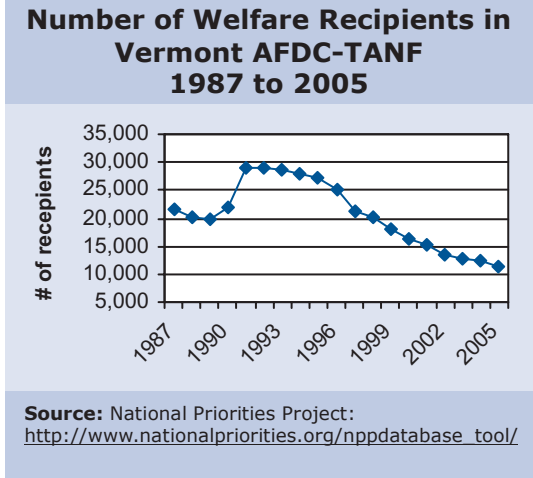
¹⁹ The topic of the livable and minimum wage laws is among the most contentious in the field of economics. See *Modern Labor Economics: Theory and Public Policy* (2006, 9th edition, Pearson) by Ehrenberg and Smith for a discussion of these issues.

²⁰ Vermont Department of Labor, Vermont Economic and Labor Market Information Center, *Vermont Wage Distribution*. <http://www.vtlni.info/oessummary.htm>

²¹ University of New Hampshire, Casey Institute, Daphne Kenyon and Allison Churilla, *Many New Hampshire Jobs Do Not Pay a Livable Wage*, Fall 2008.

these caveats in mind, the data in the chart on the left shows that the earning levels necessary to meet the livable wage standard is considerably higher than minimum wage or even the median household income of a family of four in 2007. Vermont’s median family income for a family of four is higher than the livable wage standards for every year except 2007. Within the last few years, the gap between incomes and basic needs seems to be increasing.

The analysis thus far indicates that meeting the “basic needs budget” established by the state is becoming more of a challenge, especially for people with limited financial resources. In response, many turn to the government for financial help. For families with children, one choice is welfare. The number of welfare recipients in the state, as is true nationally, has diminished steadily since the early 1990s. Is this a sign that some of the poorest or once poor Vermonters are doing better? On the one hand, the strong economy of the 1990s, undoubtedly reduced the welfare caseload as more people found jobs. But, analysts also point to the passage of the Welfare Reform Act of 1996 as an even more significant explanatory factor.²² Even during the last recession, the number of welfare recipients in Vermont continued to fall. Additionally, nearly one half of a sample of Americans who left the welfare program in 2002 were not working, and those who had jobs earned a median hourly wage of \$8.00, and only one-third of these jobs provided employer based health insurance.²³

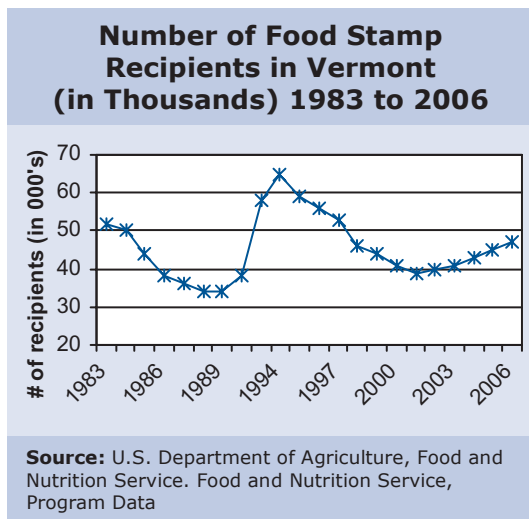


²² The Welfare Reform Act of 1996 created the Temporary Assistance for Needy Families (TANF) program, which replaced the older Aid to Families with Dependent Children (AFDC), and includes a five-year lifetime limit, work requirements and stricter eligibility standards.

²³ The Urban Institute: *A decade of Welfare Reform: Facts and Figures, Assessing the New Federalism*, June 2006.

Trend number 4: Over the last decade, more Vermonters are relying on food stamps and are classified by the federal government as being hungry.

For many, life in Vermont is made more affordable though the food stamp program. In 2008, an average of 56,000 persons each month received food stamps, 40% of whom were children.²⁴ Vermont has a high rate of program participation with nearly 70% of eligible residents enrolled. During the 1990s, there was sharp reduction in food stamp participation due to the expanding economy and the passage of the Welfare Reform Act.²⁵ Since 2000, the number of participants has steadily increased, although it is difficult to determine the extent to which the numbers reflect administrative changes in implementation, greater need, or both.



During the 1990s, there was sharp reduction in food stamp participation due to the expanding economy and the passage of the Welfare Reform Act.²⁵ Since 2000, the number of participants has steadily increased, although it is difficult to determine the extent to which the numbers reflect administrative changes in implementation, greater need, or both.

Even with food stamps, there are still many families in the state who, according to surveys conducted for the U.S. Department of Agriculture, either lack adequate financial resources to purchase enough food or are going hungry. The government estimates that just under 10% of the state's population faced a problem of "food insecurity" in 2006, a rate that has changed little over the last decade.²⁶ Hunger, the most extreme measure of food insecurity, has risen in Vermont from its low of 2.2% in 2000 to 3.9%

in 2005.²⁷ In 2000, Vermont had the lowest rate of hunger in New England, but since then, Vermont's rate has risen above rates found in New Hampshire, Connecticut, and Massachusetts (see Appendix, 5-8).

Trend number 5: Housing prices rose faster than income from 1999-2006, reducing the ability for Vermonters to safely purchase a home. Overall, housing availability and affordability continues to be a problem for low-income residents, although the percent of owner occupied housing in Vermont is consistently higher than the national average.

Housing costs have been rising for many years, especially in the Northeast. According to the Missouri Economic Research and Information Center, housing costs in the Burlington area are the 14th highest in the U.S.²⁸ Yet, depending on the level of analysis and the data examined, Vermonters seem at least as well off, in terms of home ownership, as those in most other states. Nevertheless, there is an agreement that especially for lower income residents, housing affordability problems are quite real. The sharply rising house prices of the first five years of the 21st century have made it particularly difficult for first time homebuyers. Those who owned houses during this period saw their housing values increase considerably, but the recent rupture of the housing bubble has hurt many, even while falling prices has made housing more affordable, at least for those who have jobs.

Vermont ranks very high in terms of the rate of home ownership. This statistic reflects the lack of urban areas with the attendant network of apartments. The information in the table below suggests that housing is not as significant a problem as it is in many other areas of the country. The state is near the top of the U.S. in the percent of owner occupied shelter and has the least crowded housing. According to Statemaster.Com, the percentage of Vermonters spending more than 30% of their income on rental housing places the state among the lowest 10 states.

²⁴ The Vermont Campaign to End Childhood Hunger: <http://www.vtnohunger.org/info/foodstamp.php>

²⁵ The Welfare Reform Act of 1996 eliminated food stamps for most legal immigrants and non-disabled adults without children.

²⁶ The United States Department of Agriculture defines "food insecurity" as not being able to access enough basic food due to a lack of financial resources.

²⁷ The United States Department of Agriculture defines "hunger" when children go hungry on a regular basis or an adult's food intake is severely reduced.

²⁸ Missouri Economic Research and Information Center, *Cost of Living Data Series*, 1st Quarter, 2008. http://www.missourieconomy.org/indicators/cost_of_living/index.stm

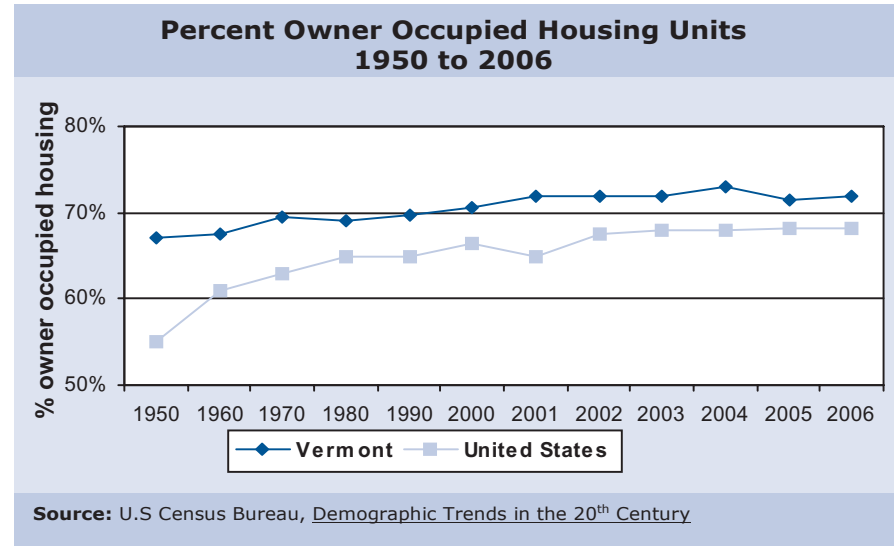
On the negative side, the percent of *homeowners* paying more than 30% of their income for housing is higher than the national average. This should not be surprising, as housing costs in Vermont are well above national averages and household income is just below the national average. Many Vermonters may own their own homes, but some are “house poor” in that they may not have enough money for repairs, taxes or fuel.²⁹ Our housing stock is older than the national average with a high percentage of pre-1939 housing and a very low percentage of houses built after 2000. The age of the housing stock is related to the fact that New England is the oldest part of the country and a slow growth region.

Housing in Vermont in 2004			
	Vermont	Vermont's National Rank*	U.S.
Housing owner occupied	73%	5	68.1%
Mobile homes	7.2%	27	8%
Housing built 2000 or later	3.3%	45	5.1%
Housing built before 1939	30.5%	8	15.7%
Owners spending 30% or more of household income on housing	32.2%	18	30.1%
With more than 1 occupant per room	1%	48*	2.4%
Renters spending 30% or more of household income on rent and utilities	38.8%	41*	41.5%
Median monthly rental costs	\$674	22	\$653
Source: www.Statemaster.com * Rank of 1 is highest.			

In the last fifty years, the percent of residents owning their own home has risen from 67% to 72%. The ownership rate has consistently been above the national average, but from 1950 to 1980, the gap between Vermont and the U.S. narrowed dramatically. The ownership rate has leveled off during the last decade in response to the sharp increase in housing prices in Vermont as elsewhere.

A simplistic view of housing prices can be misleading given the changes in home quality and size per unit. Between 1973 and 2007, for example, the size of new one-family houses in the Northeast grew by a surprising 60%. Beginning in the early 1990s, the size of houses in the Northeast began to increase more than houses in the nation as a whole (see

²⁹ According the U.S. Census, American Fact Finder, over 1,600 house units in Vermont either lacked plumbing or adequate kitchen facilities in 2000.



Appendix, 5-1).³⁰ The chart on the next page shows that the inflation adjusted cost of housing in Vermont rose by 62% between 1995 and 2007, well above changes in income or earnings. The rate of inflation in home prices in Vermont was less than the 81% average increase in New England. It was also considerably less than the increases of 90%+ in New Hampshire, Massachusetts, and Rhode Island.

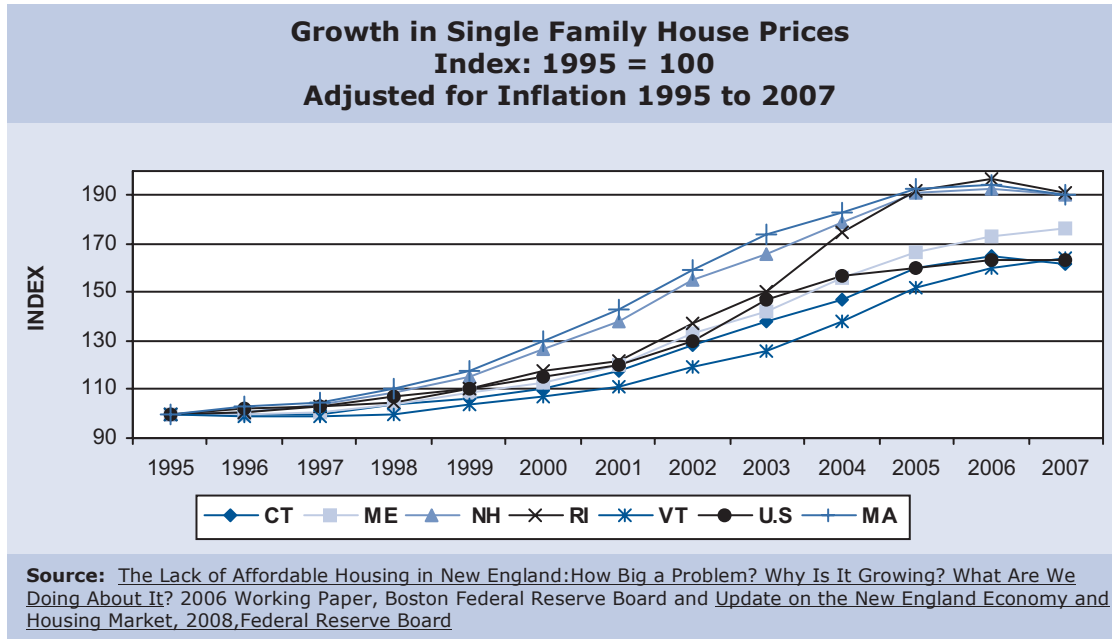
Housing economists have established a housing affordability index based upon a comparison of median household income to median house prices. A ratio of “1” suggests that household income is sufficient to safely purchase a property.³¹ As the ratio rises, it becomes financially safer to make the purchase. A falling ratio, as we see in the next chart, is worrisome and the ratio has been falling since the turn of the 21st century. On the other hand, Vermont’s ratio is currently the best in New England, not falling below a ratio of 1 until 2006. Of course, this data is based on averages, which can easily mask great differences between income classes and geographic location within the state. These findings are conservative for two reasons. First, household income, and not the higher family

³⁰ Why Have Housing Prices Gone Up?, Glaser, Gyourko, Saks, *NBER Working Paper No. W11129* February 2005, provides the reader with an example of the level of analysis typically used when studying housing. It also provides a useful bibliography.

³¹ The standard definition of affordability is that a household should not pay more than 30% of its income for rent and utilities or for mortgages, taxes, and insurance.

income, is used in the analysis. Second, mortgage interest rates, which have been declining for much of the past 15 years, are not taken in account. Lower mortgage rates make what might have previously been an unaffordable house in earlier years, affordable.

When we combine the fact that housing prices are rising faster than incomes with the facts of looser credit standards, we have a better understanding of the factors leading to the current housing and financial crisis. The data also hints at the reason why the crisis has had a smaller impact



on Vermont than its neighbors. The real estate boom was not as dramatic in Vermont as elsewhere and as noted in Chapter 4 on the Economy, Vermont had one of the lowest proportions of subprime housing loans in the nation in 2007.³²

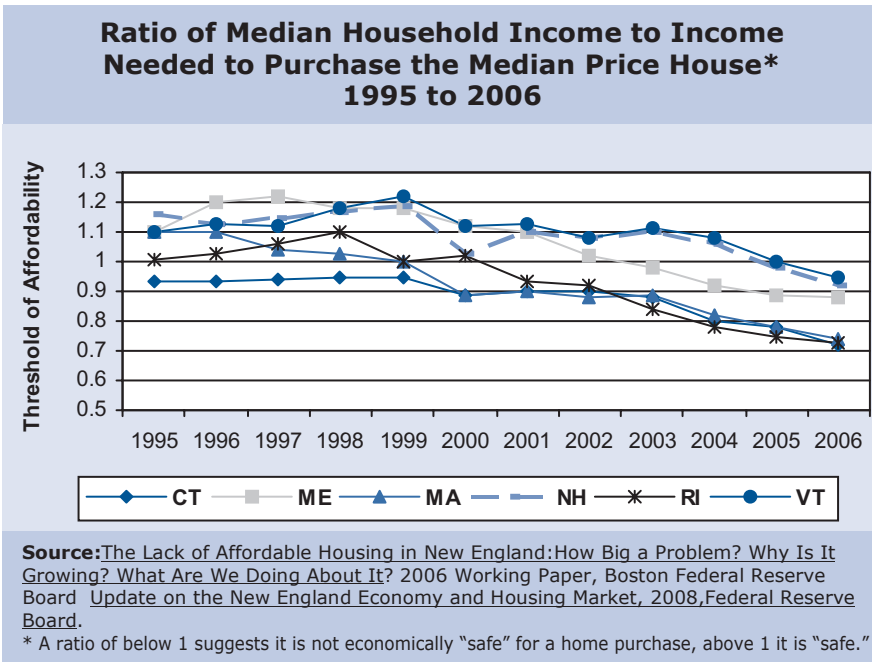
The problems of housing affordability and availability extend beyond the lowest quintile and presents problems for renters as well (see Appendix, charts 5-10

through 5-14). According to the Vermont Housing and Finance Agency, "In 2006, 47 percent of Vermont's renter households were paying more than 30 percent of their incomes for rent and utilities in 2006, and one-fifth of renter households were paying more than 50 percent of their incomes for rent and utilities."³³ In 2007, the state had the second lowest rental vacancy rate in the country, with 3.8 low-income households for every available affordable rental unit.³⁴ The low vacancy rate contributes to the relatively high rental rates. Meeting housing expenses sometimes causes other needs to go unmet, including health care, education or even food.

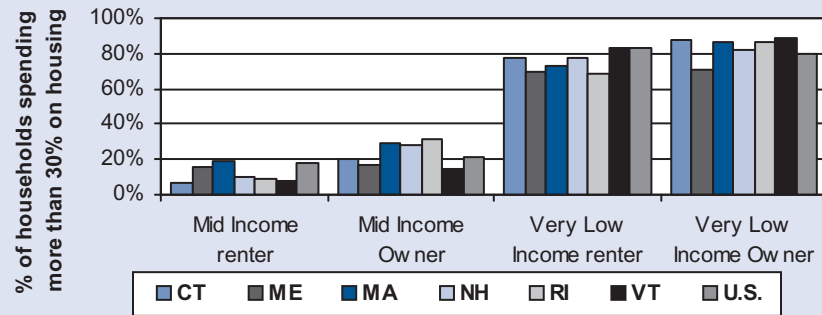
³² Local Banking Helps Keep Subprime Lenders Out of Vermont, Kevin Kelley, *Seven Days*, May 23, 2007 and Vermont Banks Reported in Good Shape, Bruce Edwards, *Barre Times Argus*, Oct. 5, 2008

³³ *Between a Rock and a Hard Place, Housing and Income in Vermont 2008*, <http://www.housingawareness.org/publications/housing-wages-2008.pdf>. For a critical analysis of this study on housing affordability refer to the Vermont Economy Newsletter, March 2006 Vol. 16 No. 3 Their conclusion is that housing has always been costly, but no more so in 2005 than in earlier years.

³⁴ *Housing Vacancies and Homeownership, Annual Statistics: 2007*. U.S. Census Bureau, Washington, D.C. www.census.gov/hhes/www/housing/hvs/annual07/ann07ind.htm



Cost Burden of Rentals in New England States Share of Households Spending More than 30% of Income on Housing in 2006*



Source: Policy Brief 07-01 NEPPC, Federal Reserve Bank of Boston, January 2007
* Very low income is the bottom quintile of the income distribution

For one segment of the population, the homeless, gaining access to any shelter is a challenge³⁵ By all accounts, the trend in Vermont homelessness has been increasing, especially for families. The following table shows the number of people using homeless shelters in Vermont. Few think this is an accurate measure as it only captures people who actually use the shelters, and shelter capacity is very limited. There are also homeless people and families not using shelters who may be “couch surfing” with friends and

Homelessness in Vermont 2000-2007								
Year	2000	2001	2002	2003	2004	2005	2006	2007
Total homeless	4,897	4,510	4,380	3,940	3,779	2,898	3,880	3,463
Homeless families	429	433	391	416	451	435	452	516
Homeless children	1,037	1,077	914	993	993	767	870	888
Average stay (in days)	12.9	22.9	15.2	22.0	26.5	26.0	25.0	32.5

Source: Family Homelessness in Vermont FOURTH IN A SERIES OF VHFA ISSUE PAPERS June 2008

³⁵ Homelessness is not only the result of the lack of inexpensive housing options and affordability, but it is also a consequence of unexpected family dislocations, illnesses, personal challenges and institutional changes (e.g., new welfare reform legislation, deinstitutionalization).

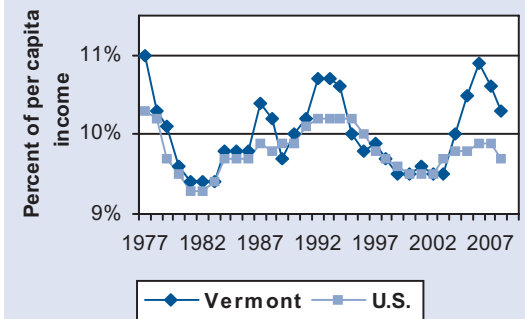
relatives, living in campgrounds, rundown motels, vehicles and abandoned buildings. The number of families using shelters increased by 20% between 2000 and 2007, while the average length of stay more than doubled. The total number of homeless people using shelters has declined, reflecting longer stays.

The problem of housing affordability raises a host of complex issues related to the level and distribution of income and many government policies, including those that either encourage or discourage the building of housing units.

Trend number 6: State tax revenues, in constant dollars, have been steadily increasing over the last 30 years, but taxes as a percent of per capita personal income shows no clear trend. Vermont continues to rank among the higher taxed states in the nation, but the progressivity of the state’s tax regime lowers the impact for Vermonters at the lower end of the income scale.

Every analysis of Vermont’s tax structure is fraught with difficulties, especially those attempting to identify trends over time. State, country and local governments levy a variety of different taxes, fees and the complex administrative systems between states make simple comparisons problematic.³⁶ The fact that the burden of a tax may be shifted from one individual to another

State and Local Taxes as a Percent of Per Capita Income 1977 to 2008



Source: www.taxfoundation.org

³⁶ For example, tax rebates or prebates complicate the analysis of interstate comparisons. Should these be considered as government expenditures or a subtraction from the revenues raised from property taxes? If it’s the former, tax levels will appear higher than if it’s the latter.

compounds the difficulty, especially when those paying part of the tax are from outside of the state.³⁷ Nearly 20 different Vermont taxes are identified in Chapter 14, Governance, Civic Engagement and Quality of Life.

There are a number of measures that suggest that Vermont's state and local revenue system creates one of the highest tax burdens in the United States. In contrast, Vermont legislative studies, which are reviewed below, indicate that Vermont's tax burden is quite similar to those of the states that Vermont competes with for business.

Since 2000, the State of Vermont has ranked between the top 5 and top 12 in overall tax collections as a percent of per capita income in the nation (see Appendix, 5-15). In 2008, according to the Tax Foundation, Vermont ranks 8th worst in the "business climate" in the U.S., in part because of its tax structure. In various tax categories, Vermont was assigned the following national rankings in which a high score was bad for the business climate: corporate taxes: 31st, individual income tax: 45th, sales tax: 15th, property tax: 42nd.³⁸ Statemaster.com, using U.S. Census data, concluded that Vermont's per capita tax burden was the 6th highest in the nation (2004) and 38% above the national average. It also contends that Vermont's tax burden per dollar of gross state product (GSP) is the highest in the nation at \$0.80 per \$10.00 compared to the weighted average for the country of \$0.54 per \$10.00 GSP.³⁹

These are compelling statistics, and while greater efficiencies are always desirable, three additional facts should be kept in mind. First, tax burdens are likely to be relatively high in a state with a small population needing to maintain statewide infrastructure; economies of scale are important. Second, tax dollars pay for the many services that Vermonters expect, which often may be taken for granted. Finally, the passage of Act 60 has caused an increasing share of property tax revenues to be shifted from local governments to the state. As stated in a 2007 Vermont Tax Department report:

...the establishment of the statewide education property tax has profoundly altered the overall tax structure of Vermont. The single largest source of state tax revenue is now the education property tax...The 2005 census survey of state-only government tax collections ranked Vermont the highest nationally in its comparison of state tax collections per capita. The high ranking is primarily the result of education property tax collections at the state level. Vermont is the only state with a significant statewide property tax, and therefore the state-level tax base appears artificially high by the amount collected for education at the state level, while the local tax base appears artificially low by an equivalent amount.⁴⁰

In this respect, Vermont is an anomaly among the 48 contiguous states. The table below shows the impact of shifting tax revenue pre and post Act 60 compared to the national average. This means that studies like Statemaster.com, which include Vermont's property tax as part of the state's tax burden, but fail to do so for other states, will be highly misleading. Vermont's tax collections per person are still higher than the national average, but the difference diminishes considerably when property taxes are not included.

State Tax Collections per Capita			
	Vermont	Vermont's National Rank	U.S.
2005	\$3,600	1	\$2,190
2005 (without property taxes)	\$2,405	13	\$2,154
1995	\$1,370	32	\$1,522
1975	\$397	18	\$377
Source: Vermont Tax Study, Volume I, Comparative Analysis, January 16, 2007. http://www.leg.state.vt.us/jfo/Reports/2007-01%20Vermont%20Tax%20Study%20-%20Volume%201.pdf			

In 2007, the Vermont Legislative Joint Fiscal Office produced a two-volume comprehensive report analyzing Vermont's state and local tax system.⁴¹ Compared with a selected group of "peer" states in 2004, Vermont's state and local per capita taxes were in the middle of the pack.⁴² Vermont's business and income taxes, on a per capita basis, were the third and fifth lowest, respectively, among the 12 states.

³⁷ For example, Vermont has the second highest percent of second homes per capita in the country. Therefore, nonresidents are paying a significant percent of Vermont's property taxes. In 2006, nonresidents paid approximately \$244 million in Vermont property taxes (Vermont Legislative Joint Fiscal Office: *Issue Brief*, April 9, 2007).

³⁸ 2009 State Business Tax Climate Index (Sixth Edition) by Josh Barro Background Paper No. 5 www.taxfoundation.org

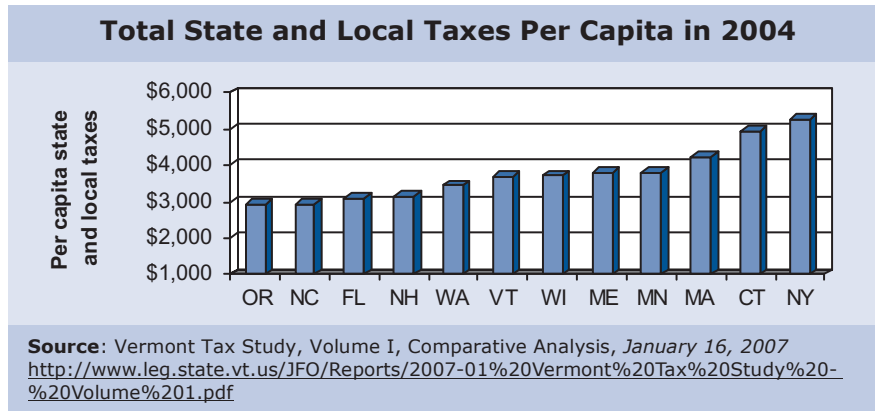
³⁹ Statemaster.com: and U.S. Census 2004

⁴⁰ Vermont Tax Study Volume I Comparative Analysis January 16, 2007

⁴¹ Source: <http://www.leg.state.vt.us/jfo/Reports/2007-01%20Vermont%20Tax%20Study%20-%20Volume%201.pdf>

⁴² The data in the following section comes from two 2007 Vermont tax studies conducted by the Vermont Legislative Joint Fiscal Office: *Vermont Tax Study, Volume I, Comparative Analysis, January 16, 2007, Vermont Tax Study, Volume II, Case Studies, October 2007.*

Vermont per capita sales and property and sales tax rates places the state in the middle of this group (see Appendix, charts 5-16 through 5-20). The 11 states were originally chosen based upon a 1993 Vermont Business Roundtable study that identified states with which Vermont competed. It's important to remember that the states selected for comparison will heavily impact the findings.



The Vermont's Legislative Joint Fiscal Office study also included the results from 24 case studies, each examining how Vermonters with different incomes, assets and tax deductions would fare in the group of 12 different states.⁴³ One of the main conclusions was as follows:

Vermont has a highly progressive overall state tax structure. This is largely the result of relatively low taxes on lower-income taxpayers and relatively higher taxes on upper-income taxpayers in Vermont. Driving this finding is the individual income tax, which comprises a majority of the overall tax liability calculated for most taxpayers. Although many of the other comparison states have progressive tax structures, Vermont's tends to be the most progressive.⁴⁴

⁴³ As noted earlier, all comparative tax studies face serious methodological problems. One such problem with the case studies conducted by the Joint Fiscal Office was the question of how to handle property taxes. The peer group of states had local, not statewide property taxes. Because of the complexity of this issue, property taxes were not considered in the analysis. The impact of this omission is not clear.

⁴⁴ Vermont Tax Study, Volume II, Case Studies, October 2007, page 1. <http://www.leg.state.vt.us/jfo/Reports/2007-01%20Vermont%20Tax%20Study%20-%20Volume%201.pdf>

Vermont is a moderate income state with a small population. While the progressivity of the tax structure has somewhat eased the affordability problem for lower income Vermonters, it remains a problem in a state with a fairly high cost of living and incomes that struggle to keep up with inflation. Issues of affordability are not unique to Vermont, and many are reflections of regional and national trends. Indeed, while many struggle, the state has one of the lower rates of poverty in the country, one of the highest percents covered by health insurance, and a high proportion of Vermonters owning their own homes. The picture is a mixed one. Lacking significant economies of scale and the challenges of geography suggests that the state will continue to face difficult choices in how best to raise and spend money to make Vermont more affordable.

In summary, the most notable trends in affordability are as follows:

1. The cost of many essential consumer goods has been increasing in recent years and the overall cost of living in Vermont has increased more rapidly than in other areas of the country.
2. The incomes and earnings of many Vermonters have struggled to keep up with inflation in recent years.
3. The gap between the earnings of Vermonters and a State-defined "basic needs budget" for households appears to be increasing.
4. Over the last decade, more Vermonters are relying on food stamps and are classified by the federal government as being hungry.
5. Housing prices rose faster than income from 1999-2006, reducing the ability for Vermonters to purchase a home. Overall, housing availability and affordability continues to be a problem for low-income residents, although the percent of owner occupied housing in Vermont is consistently higher than the national average.
6. State tax revenues, in constant dollars, have been steadily increasing over the last 30 years, but taxes as a percent of per capita personal income shows no clear trend. Vermont continues to rank among the higher taxed states in the nation, but the progressivity of the state's tax regime lowers the impact for Vermonters at the lower end of the income scale.

For the appendices and for pdf versions of this report, please visit the Council on the Future of Vermont's website: www.futureofvermont.org. or visit Vermont Council on Rural Development at www.vtrural.org.

The Appendix for this chapter contains the following charts:

1. Average Square Feet of Floor Area of New One-Family Houses, Northeast and U.S., 1973 to 2007
2. Cost of Living: Vermont and the Other New England States in 2008
3. Cost of Living in the Largest Cities in Each New England State
4. Per Capita Disposable Personal Income, Vermont, New England, U.S., 1970 to 2007
5. Average Nominal Earnings in Select Industries in Vermont, 1988 to 2007
6. Percent of People in Poverty, New England States, 1985 to 2006
7. Basic Needs – Livable Wage, 1999 to 2007
8. Hunger in New England, % Lacking Enough Food, by State, 1997 to 2005
9. Median Prices of Primary Residences Sold in Vermont, 1988 to 2006
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11. Vermont Fair Market Rent - 2 Bedroom, Monthly Price, 1983 to 2005
12. Percent of Renters Unable to Afford a 2 Bedroom Apartment, New England, 1998 to 2003
13. Housing Wage in Vermont, 1983 to 2005
14. Percentage of Households Experiencing Any Housing Burden, (Moderate or Severe: All Households), 1980 to 2005
15. Vermont State and Local Tax Collections as a Percent of per Capita Income, National Rank, 2000 to 2006
16. Combined Vermont Fund Revenues, Excluding Education Property Tax, 1975 to 2005
17. FY 2004 State and Local Property Tax Revenues per Capita, (State and Local) 12 State and U.S. Comparisons
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Vermont in Transition:

A Summary of Social Economic and Environmental Trends

A study by

Center for Social Science Research at Saint Michael's College

Vince Bolduc, Ph. D. and Herb Kessel, Ph. D.

for the

Council on the Future of Vermont

December 2008

Chapter 5:

AFFORDABILITY ~ APPENDIX

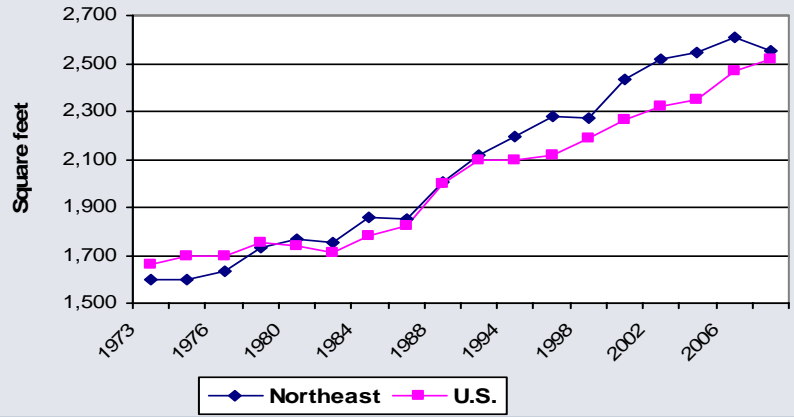
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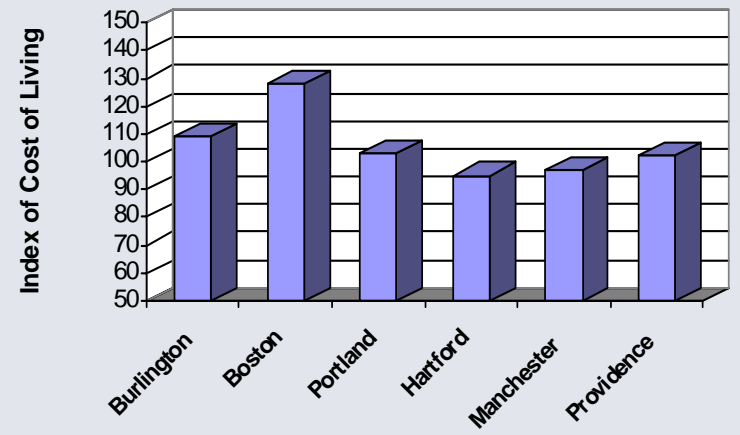
**Vermont Council on
Rural Development**
43 State Street., PO Box 1384
Montpelier, VT 05601-1384
(802) 223-6091
vcrd2@sover.net;
<http://www.vtrural.org>

Chart 5-1: Average Square Feet of Floor Area of New One-Family Houses Northeast and U.S. 1973 to 2007



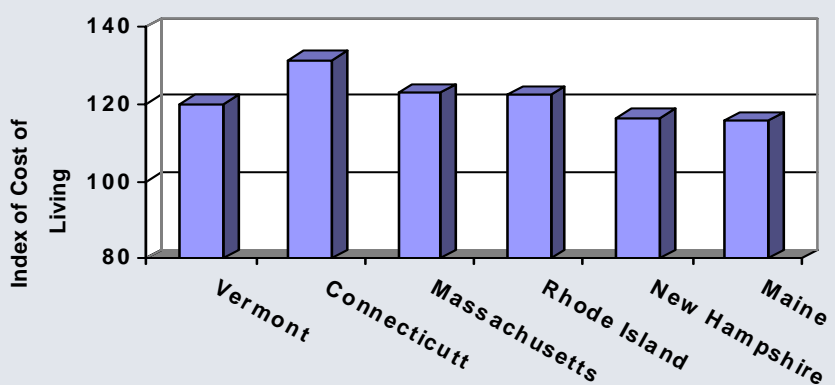
Source: U.S. Census, *Median and Average Square Feet of Floor Area in New One-Family Houses Completed by Location*: <http://www.census.gov/const/C25Ann/sfttotalmedavgsqft.pdf>

Chart 5-3: Cost of Living in the Largest Cities in Each New England State (U.S. = 100) 2007



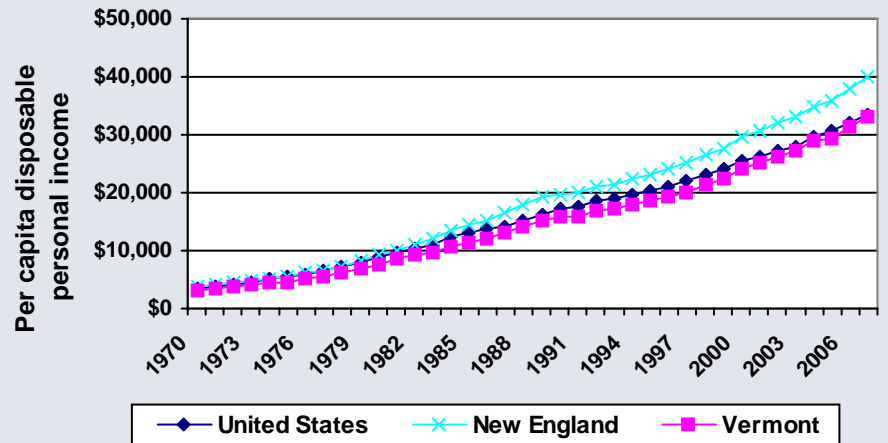
Source: Sperling's Best Places: <http://www.bestplaces.net/col/>

Chart 5-2: Cost of Living Vermont and the Other New England States in 2008



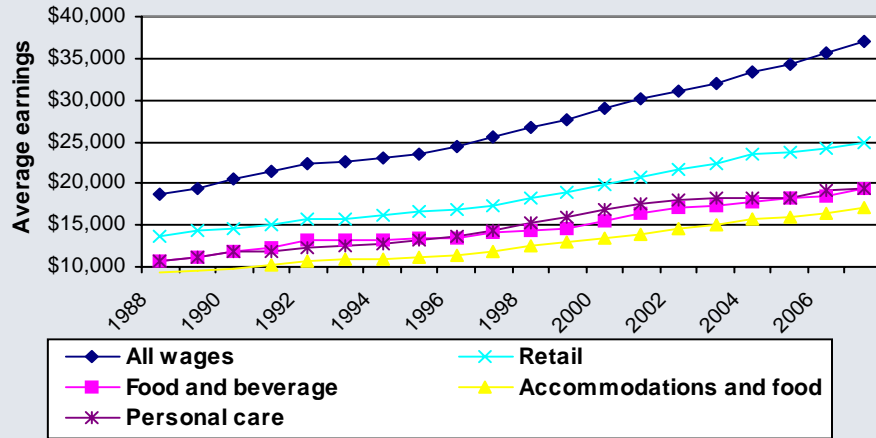
Source: Missouri Economic Research and Information Center. http://www.missourieconomy.org/indicators/cost_of_living/index.stm

Chart 5-4: Per Capita Disposable Personal Income Vermont, New England, U.S. 1970 to 2007



Source: U.S. Department of Commerce, Bureau of Economic Analysis

Chart 5-5
Average Nominal (Non-Inflationary Adjusted)
Earnings in Select Industries in Vermont
1988 to 2007



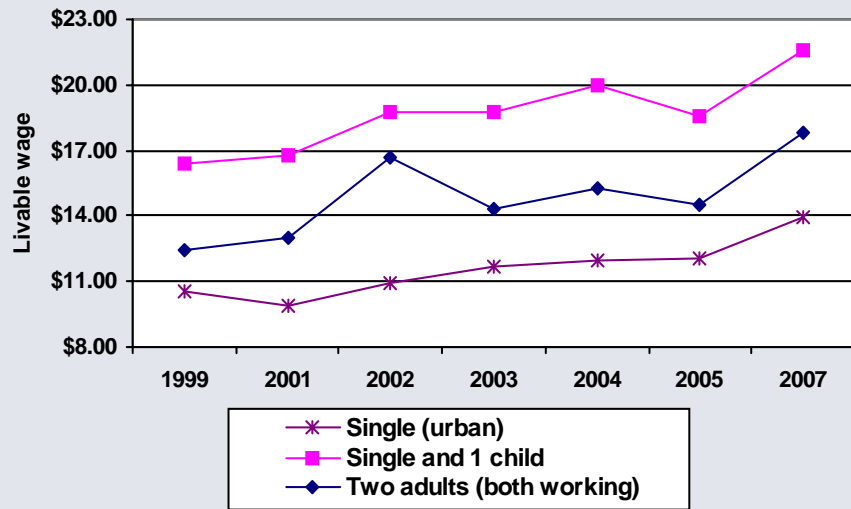
Source: Vermont Department of Labor, Economic and Labor Market Information. *U.I. Covered Employment and Wages*: <http://www.vtلمي.info/indnaics.htm>

Table 5-6
Percent of People in Poverty
New England States
1985 to 2006

	CT	ME	MA	NH	RI	VT
1985	7.76%	12.43%	8.60%	7.06%	12.10%	12.46%
1986	6.83	11.70	9.10	5.60	10.30	10.93
1987	6.73	11.26	8.86	4.83	8.73	9.83
1988	5.53	11.70	8.63	5.06	9.00	9.46
1989	4.50	11.76	8.50	6.40	8.20	8.46
1990	4.30	12.23	9.33	6.90	8.00	9.00
1991	5.83	12.53	10.16	7.10	8.20	10.50
1992	8.13	13.56	10.66	7.43	10.10	11.33
1993	8.96	14.33	10.66	8.63	11.33	11.03
1994	9.70	12.76	10.23	8.76	11.30	9.36
1995	9.66	12.00	10.46	7.63	10.70	9.30
1996	10.73	10.60	10.26	6.46	10.63	10.16
1997	10.00	10.83	11.10	6.93	11.43	10.73
1998	9.93	10.56	10.33	8.43	11.76	10.60
1999	8.43	10.36	10.90	8.83	11.43	9.60
2000	8.13	10.36	10.10	7.30	10.60	9.83
2001	7.53	10.26	10.46	5.53	10.13	9.86
2002	7.90	11.20	9.86	4.93	10.46	9.96
2003	8.03	11.70	10.03	5.36	10.90	9.46
2004	10.11	11.88	9.29	5.57	11.57	8.01
2005	9.32	12.25	10.04	5.77	11.84	8.13
2006	9.15	11.48	10.48	5.46	11.38	7.76

Source: National Priorities Project:
http://www.nationalpriorities.org/nppdatabase_tool/

**Chart 5-7
Basic Needs – Livable Wage*
1999 to 2007**



Source: The Vermont Legislative Joint Fiscal Office, Sara Teachout, Fiscal Analyst, "Basic Needs Budgets and the Livable Wage"
*With employer assisted health care and moderate cost of food plan

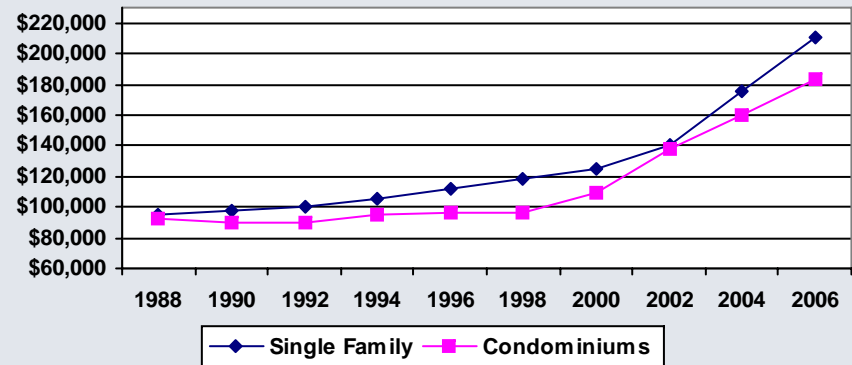
**Table 5-8
Hunger in New England % Lacking Enough
Food* By State
1997 to 2005**

	CT	ME	MA	NH	RI	VT
1997	4.44%	4.25 %	3.25 %	1.38 %	2.53 %	2.98%
1998	4.10	4.00	2.10	3.10	2.70	2.70
1999	3.74	3.35	2.14	2.35	1.94	2.05
2000	2.90	3.03	2.37	2.47	2.73	2.17
2001	2.60	3.10	2.00	1.90	2.50	1.80
2002	2.80	2.80	2.10	2.10	3.40	2.40
2003	3.00	2.90	2.30	2.10	3.60	3.00
2004	3.00	3.10	2.70	2.40	4.20	3.60
2005	2.60	4.60	3.00	2.20	4.10	3.90

Source: National Priorities Project: http://www.nationalpriorities.org/nppdatabase_tool/

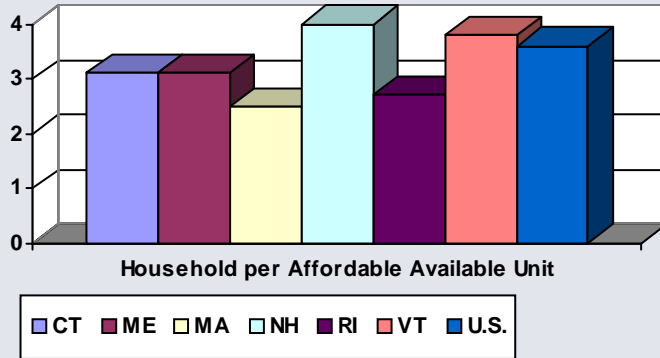
* of households who lacked enough food for all members of the household and where at least one family member at least one family member experienced hunger at some point for the year.

**Chart 5-9: Median Prices of Primary Residences
Sold in Vermont
1988 to 2006**



Source: U.S. Census: *Demographic Trends in the 20th Century*

**Chart 5-10: Number of Very Low-Income Households per Affordable and Available Rental Units
New England
2006***



Source: Policy Brief 07-01 NEPPC, Federal Reserve Bank of Boston, January 2007 *Very low income is the bottom quintile of the income distribution

**Table 5-11
Vermont: Fair Market Rent
- 2 Bedroom
Monthly Price
1983 to 2005**

1983	\$ 406
1984	N/A
1985	\$ 422
1986	\$ 414
1987	\$ 440
1988	\$ 459
1989	\$ 502
1990	\$ 525
1991	\$ 554
1992	\$ 581
1993	\$ 591
1994	\$ 556
1995	\$ 544
1996	\$ 563
1997	\$ 574
1998	\$ 608
1999	\$ 615
2000	\$ 620
2001	\$ 661
2002	\$ 687
2003	\$ 706
2004	\$ 717
2005	\$ 698

Source: National Priorities Project:

http://www.nationalpriorities.org/nppdatabase_tool/

Table 5-12

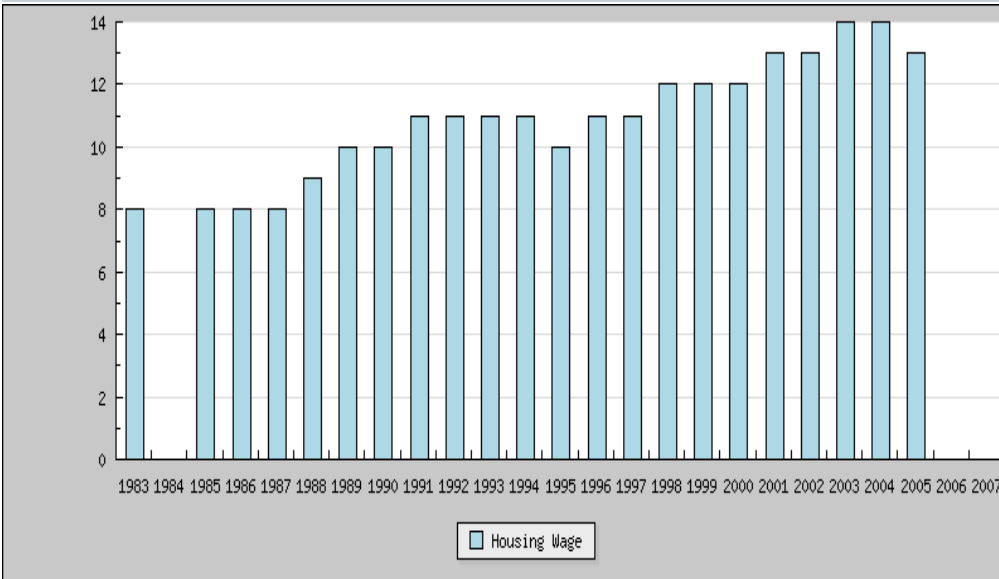
**Percent of Renters Unable to Afford a 2 Bedroom Apartment
New England States*
1998 to 2003**

	VT	CT	ME	MA	NH	RI
1998	44%	39%	41%	40%	39%	43%
1999	53	43	45	48	39	51
2000	48	42	46	46	44	46
2003	49	50	52	61	48	50

Source: National Priorities Project: http://www.nationalpriorities.org/nppdatabase_tool/

* Estimates from HUD of the renters who cannot afford fair market rent for a 2 bedroom apartment. Affordable rent is defined as paying no more than 30 of income for rent and utilities.

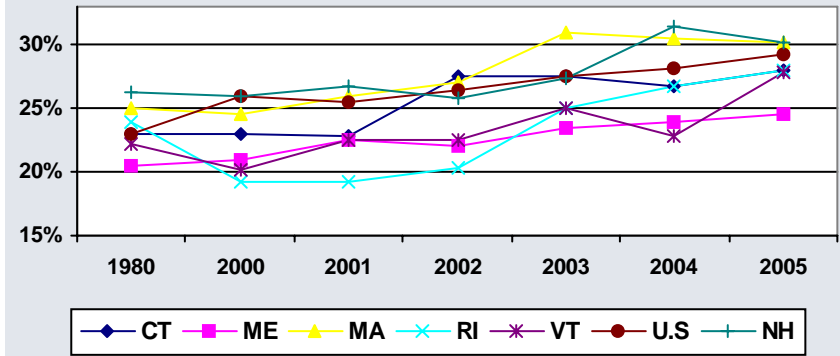
**Chart 5-13
Housing Wage in Vermont*
1983 to 2005**



Source: National Priorities Project: http://www.nationalpriorities.org/nppdatabase_tool/

* The wages necessary to afford only a fair market rent for a 2 bedroom apartment assuming full-time, year round work.

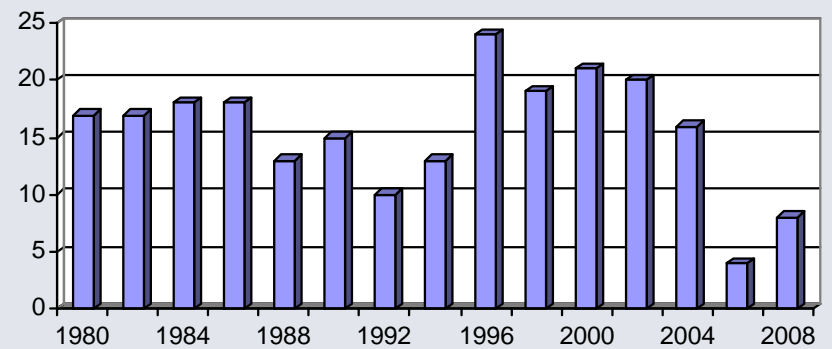
**Chart 5-14
Percentage of Households Experiencing Any Housing Burden (Moderate or Severe: All Households)
New England
1980 to 2005**



Source: *The Lack of Affordable Housing in New England:*

How Big a Problem? Why Is It Growing? What Are We Doing About It?

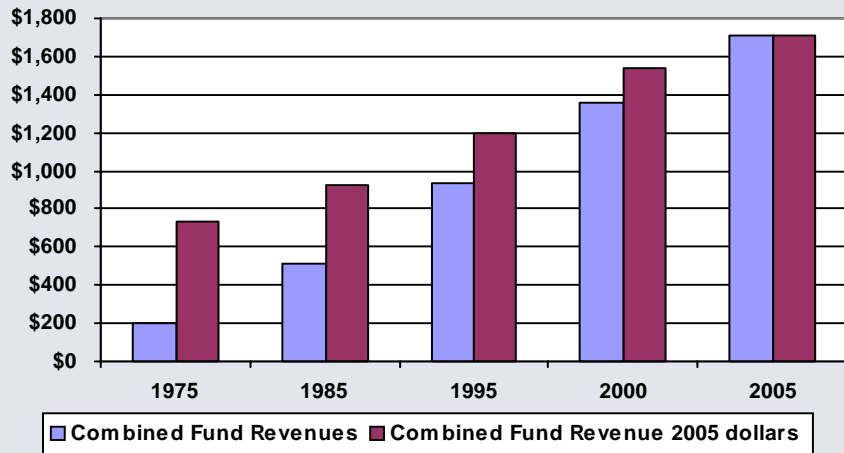
**Chart 5-15: National Vermont Rank:
State and Local Tax Collections
as a Percent of Total State Income*
1980 to 2008**



Source: Tax Foundation: http://www.taxfoundation.org/files/sl_burden_vermont-20080807.pdf

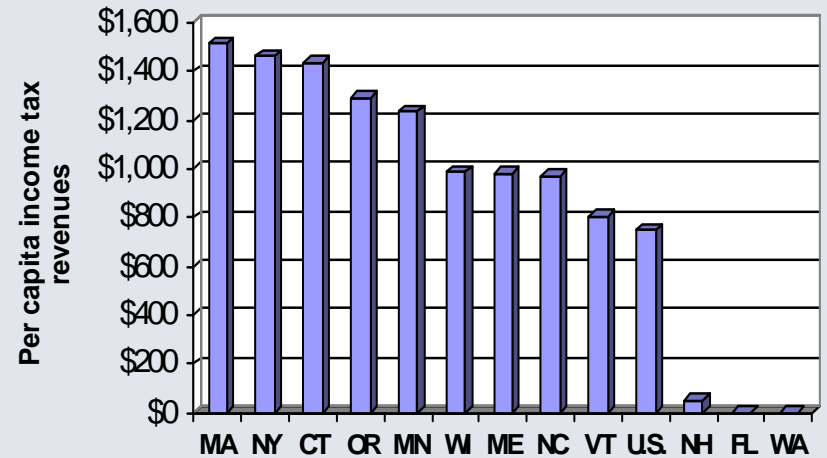
*The lower the rank, the higher the tax relative to income.

**Chart 5-16
Combined Vermont Fund Revenues
Excluding Education Property Tax, 1975 to 2005**



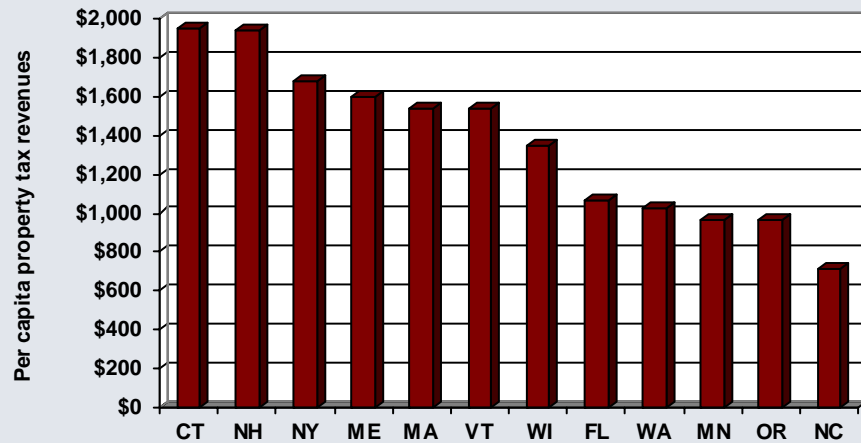
Source: Vermont Legislative Joint Fiscal Office 2007 Vermont Tax Study

**Chart 5-18
2005 Individual Income Tax Revenues per Capita,
12 State and U.S. Comparisons**



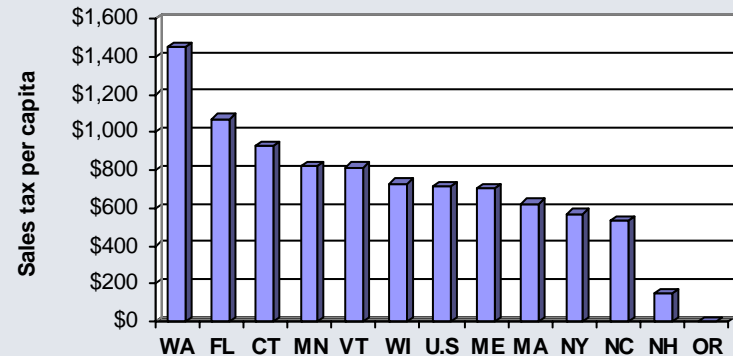
Source: Vermont Legislative Joint Fiscal Office. 2007 Vermont Tax Study
<http://www.leg.state.vt.us/jfo/Reports/2007-0120Vermont20Tax20Study20-20Volume201.pdf>

Chart 5-17: FY 2004 State and Local Property Tax Revenues Per Capita (State and Local) 12 State Comparisons



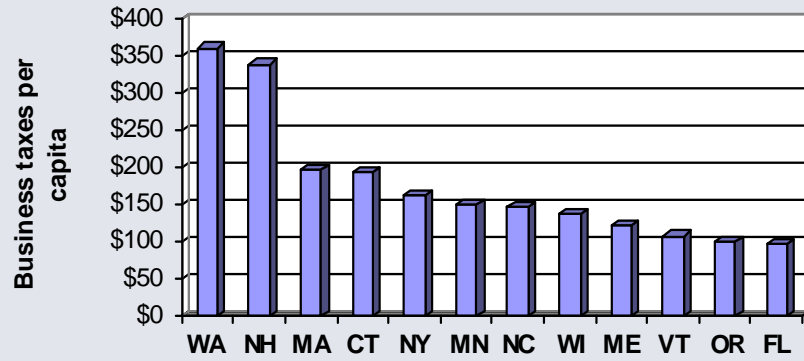
Source: Vermont Legislative Joint Fiscal Office. 2007 Vermont Tax Study
<http://www.leg.state.vt.us/jfo/Reports/2007-0120Vermont20Tax20Study20-20Volume201.pdf>

**Chart 5-19
2005 State Sales Tax Revenue per Capita
12 State and U.S. Comparisons**



Source: Vermont Legislative Joint Fiscal Office. 2007 Vermont Tax Study
<http://www.leg.state.vt.us/jfo/Reports/2007-0120Vermont20Tax20Study20-20Volume201.pdf>

Chart 5-20
2005 Business Taxes per Capita
12 State Comparisons



Source: Vermont Legislative Joint Fiscal Office. 2007 Vermont Tax Study
<http://www.leg.state.vt.us/jfo/Reports/2007-0120Vermont20Tax20Study20-20Volume201.pdf>