# Testimony to Senate Finance Committee Regarding Flood Bill, H.397, 5/21/25



Testimony to the Senate Finance Committee

Regarding Flood-Related Municipal Financing (H.397)

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# **July 10, 2024 Municipal Flood Damages**

- Examples of outstanding emergency debt pending FEMA reimbursement:
  - Lyndon: \$15M (2x the town budget)
  - o Moretown: \$8.25M
  - Middlesex: \$7M (3x the town budget)
  - Cavendish \$1.6M
  - o Barnet: \$1.5M
  - Bridgewater: \$3M (2x the town budget)
- Of the municipal entities impacted by the 2024 floods, one third (1/3) make up 91% of the total estimated damages.

• Two thirds (2/3) of the municipalities impacted were also impacted in July 2023, and 64% of those are towns with a population less than 2000.

# **Section 10: Unassigned Fund Balance**

We recommend action to allow municipalities to employ the prudent fiscal practice of providing for unassigned fund balance within the municipal general fund budget.

Establishing an Unassigned Fund Balance would:

- assist in cash flow management
- stabilize the tax rate
- improve emergency response
- significantly strengthen municipalities' financial resiliency in the case of unexpected negative economic trends
- improve grant readiness by making flexible monies available
- improve the municipality's borrowing position, saving taxpayers money on the cost of municipal debt.

# **Section 7: Emergency Borrowing**

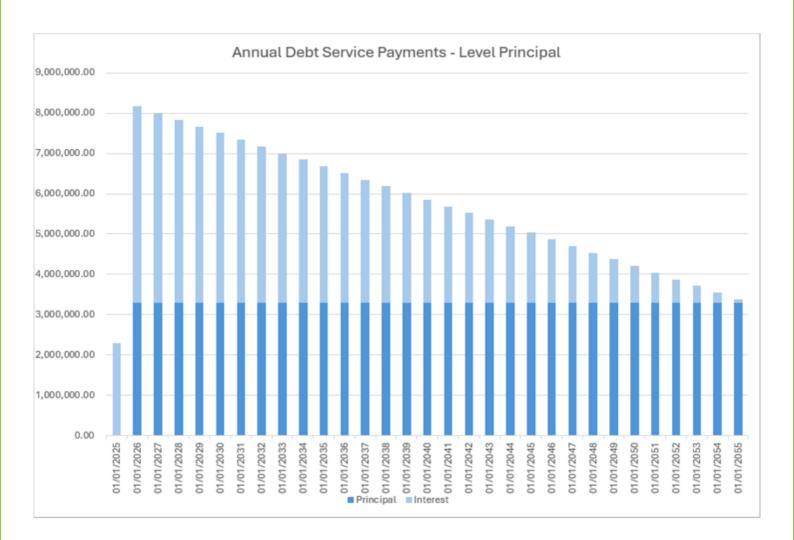
VLCT and the Vermont Bond Bank request a new authority to borrow for up to a five-year repayment period in the case of an all-hazards event.

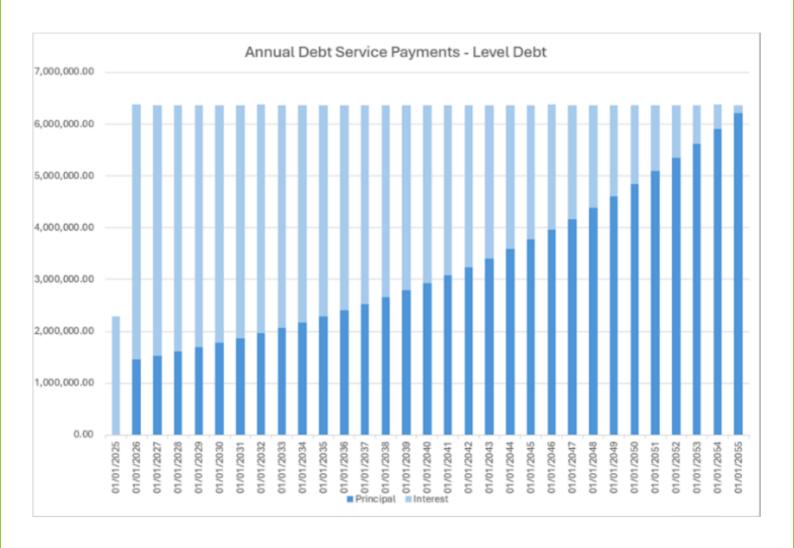
- Vermont municipalities have become increasingly familiar with complex and extensive processes required to access emergency funding and FEMA Public Assistance.
- In the wake of flooding and major weather events, municipalities cannot wait to rebuild vital town infrastructure or to restore municipal services.
- State law substantially limits the authority of local legislative bodies to acquire funding for emergency response as they can only take on debt for up to one year without a town vote.

### Section 8: Denominations; Payments; Interest; Level Debt Service

To improve predictability for municipalities and for taxpayers, VLCT and the Vermont Bond Bank request a change to allow for flexibility in bond repayments to include level debt option. Members of the Vermont School Board Association and Superintendents Associations have also expressed support for this change.

- Current statute requires municipal loans to be level principal.
- Debt payments for level principle borrowings start high and decrease yearly as the cost of interest goes down.
- Municipalities should have the option to structure level debt or level principle.
- This is more within the norms of government borrowing nationally.





## **Section 11: Local Option Taxes Change to 75/25**

## VLCT Supports an amended withholding ratio of 80/20

- Through FY25, 34 municipalities have acted to adopt LOT and five municipalities approved one or more LOT at their 2025 Town Meeting.
- Currently, all 34 LOT communities established this taxing authority through a charter process and most have **obligated these revenues** to support a range of local initiatives.
- There is a long history of legislative actions to revise the LOT program.
  - o Act 60 of 1997 authorized LOT for a limited time at 60/40.
  - Various Acts extended the sunset and modified criteria for municipalities.
  - Act 215 of 2005 established the current 70/30 split of LOT revenues between municipalities and the PILOT Special Fund and removed the sunset.

 In the 2024 Miscellaneous Tax bill, non-chartered municipalities were granted the authority to adopt LOT.

# 75/25 Maintains an Excessive Surplus

Assuming FY26 PILOT Fund Appropriations will be \$14.542 million (\$12.2 for PILOT payments). The FY24 end-of year surplus is \$10.3 million. The FY25 end-of-year surplus is projected to be over \$14 million.

Projected FY26 PILOT Surplus	\$14,200,000	Projected FY26 PILOT Surplus	\$14,200,000
Minus FY26 Appropriations	\$14,542,000	Minus FY26 Appropriations	\$14,542,000
Plus 75/25 state revenue share	\$14,000,000	Plus 80/20 state revenue share	\$11,200,000
Future PILOT Surplus retained	\$13,568,000	Future PILOT Surplus retained	\$10,858,000

### 80/20 LOT Formula is Sustainable

A \$10.8 million surplus provides a 3- to 5-year ramp for LOT revenues to catch up to expenses for statutory obligations for the PILOT Special Fund.

- 80/20 would create a ~\$3.3M delta between revenues and expenses in FY26.
- Prior to the law change for LOT eligibility, the State's share of LOT revenues increased by approximately \$6 million between FY21 and FY24.
- A substantial favorable change in the LOT formula is likely to encourage more towns to consider adding LOT.

- The factors driving increasing LOT revenues include:
  - o All towns are now eligible to create a new LOT by town vote
  - Wayfair Decision = online retail sales
  - Cannabis sales
  - The proliferation of short-term rentals
  - o General growth in consumption tax receipts, up over 40% post-pandemic

### Attachments

Presentation that Samantha Shehan used during this testimony