

Good Government: VLCT/VBB Suggested Amendments Related to Municipal Finance

- Given the various unique charter authorities in some communities, these provisions are most likely to help rural towns
- These proposal have been broadly socialized across the legislature this session and are well received, other committees where we have testified include Senate Appropriations, House and Senate Government Operations, and House and Senate Transportation
- They are supported by VLCT, Vermont Bond Bank, Clerks and Treasurers, School Business Officials, and Governmental Finance Officials and UAFB is recommended by numerous auditors
- These provisions will improve emergency responsiveness for municipalities, create stabilizing factors for local property taxes, and improve grant readiness for towns and cities as we approach an increasingly volatile period for federal funding



July 10, 2024 Municipal Flood Damages

- Examples of outstanding emergency debt pending FEMA reimbursement:
 - Lyndon: \$15M (x2 the town budget)
 - Moretown: \$8.25M
 - Middlesex: \$7M (x3 the town budget)
 - Cavendish \$1.6M
 - Barnet: \$1.5M
 - Bridgewater: \$3M (2x the town budget)
- Of the municipal entities impacted by the 2024 floods, one third make up 91% of the total estimated damages.
- Two thirds of the municipalities impacted were also impacted in July 2023, 64% are towns with a population less than 2000.



Approaches to Funding Flood Resiliency

Financing strategies must be paired with appropriate technical assistance for grants management and municipal finance, and with expanded municipal authorities to exercise best practices for government finance.

- Grants are competitive and require local matches
- FEMA reimbursement is complex and time consuming
- Through MTAP, VLCT continues to assist 2023 and 2024 flood affected towns to manage their flood debts, grants, and reimbursements. VLCT provides this assistance through direct, one-on-one assistance to municipal officials (free to the towns) as well as through workshops and online resources. Over 200 registrants have joined these online flood related trainings.



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 munis financial resiliency in the case of unexpected, negative economic trends
- **improve grant readiness** by making flexible monies available
- improve the municipalities' **borrowing position, saving taxpayers money** on the cost of municipal debt.



Section 11: 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.



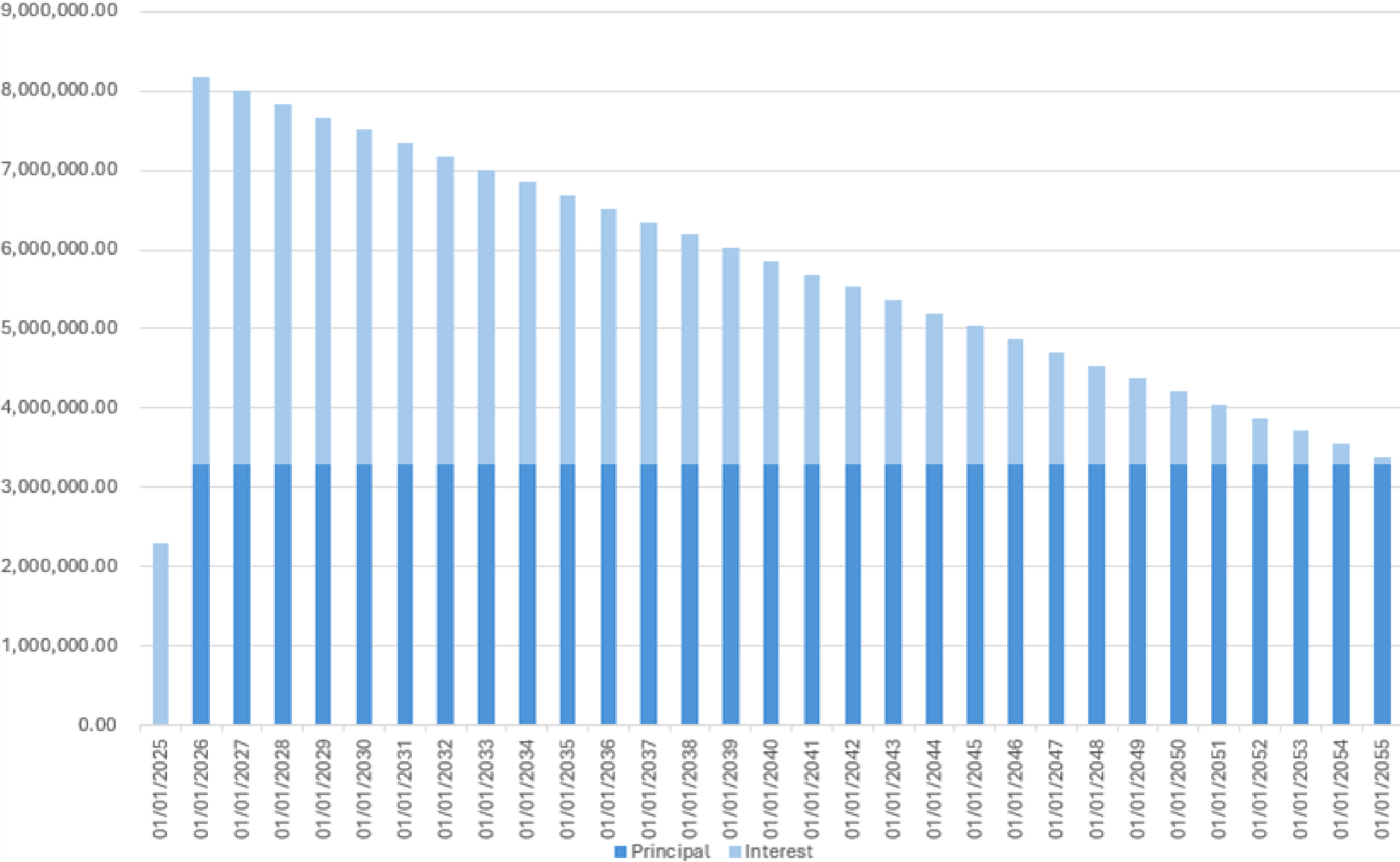
Proposal: Level Debt Service

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.

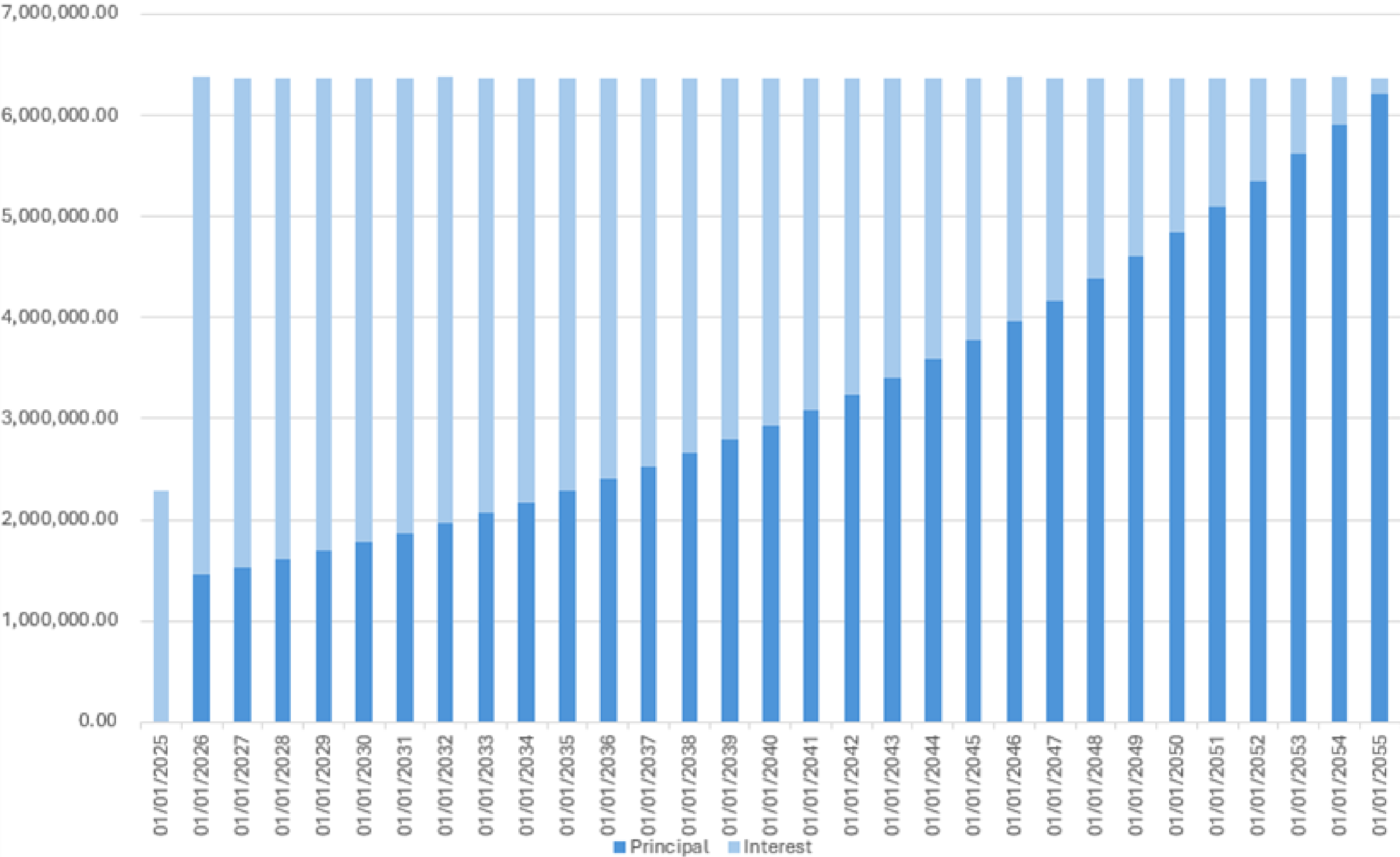
- Current statute requires municipal loans to be **level principal**.
- Debt payments for level principle borrowings start high and decrease yearly as the cost of interest goes down.
- Municipalities should have the option to structure level debt or level principle.
- This is more within the norms of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



Annual Debt Service Payments - Level Principal



Annual Debt Service Payments - Level Debt



Level Debt Service and TIF

Of the 11 TIF Districts, only 9 are active. Only Hartford and Barre could leverage level debt service within the TIF through 2026 and only Killington beyond 2026. Killington is projected a 2277.63% increase in taxable value, providing ample capacity within the new district to responsibly manage debt.

- The debt capacity of the TIF is regulated by VEPC
- The municipal debt authority requires voter approval, including "Estimated amount and types of financing that will be serviced or paid using District increment, including principal, and estimated interest, and fees, and terms of the debt."
- Revenues from the original taxable value is retained by the Education Fund and Municipality respectively, plus a portion of tax increment revenue to the Education Fund

District	Year Created	Type	Status	DT, GC, OR NTC	Debt Period	Retention Period	Acres	Parcels	Original Taxable Value (OTV)
Burlington Waterfront	1996	1	1	N/A	1999-2023	1996-2035	104.91	116	\$42,412,900
Newport City	1998	1	3	N/A	1997-2007	1997-2015	47	19	\$48,500
Milton North/South	1998	2	3	N/A	1998-2008	1998-2018	1044.7	67	\$26,911,147
Winooski Downtown	2000	3	1	DT	2000-2005	2004-2024	138.92	163	\$25,065,900
Milton Town Core	2008	4	1	N/A	2008-2018	2011-2031	845.84	745	\$124,186,560
Burlington Downtown	2011	4	1	DT	2011-2023	2016-2036	61.27	287	\$170,006,600
Hartford Downtown	2011	4	1	DT/GC	2011-2026	2014-2036	129.11	135	\$33,514,500
St. Albans Downtown	2012	4	1	DT/GC	2012-2024	2013-2033	304.45	469	\$123,049,450
Barre City Downtown	2012	4	1	DT	2012-2026	2015-2039	90.57	221	\$51,046,870
So. Burlington Town Center	2012	4	1	NTC	2012-2024	2017-2037	103.37	59	\$35,387,700
Killington	2022	5	2	N/A	2022-2032	N/A	577	27	\$12,989,730
TOTALS							3447.1	2308	\$644,619,857

Section 13a: Local Option Taxes:

VLCT supports an amended withholding ratio of 80/20

- Through FY25, 34 municipalities have acted to adopt LOT and at least 4 municipalities approved one or more LOT at their 2025 Town Meeting
- With the proliferation of short-term rentals and online commerce, an increasing number of municipalities may benefit from LOT.
- Presently, 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. 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.

Section 5: Flood Buy-Out Program

- VLCT's 2025-2026 Municipal Policy includes: Ensure ongoing funding for the state flood impacted property buy-out program including relocation and rebuilding of municipal properties in flood danger.
- 51 municipalities have at least one buy-out property
- 9 out of the 34 LOT municipalities have at least one buy-out property and several are PILOT eligible including Barre, Montpelier, Berlin, and Waterbury
- A \$1M appropriation should be adequate to compensate the municipal portion of lost property taxes due to buy outs for all 51 municipalities for a period of 5 year.



Proposal: PILOT Special Fund Surplus \$10.3M and growing

The PILOT Special Fund revenues are local revenues, created by a process of local control. In consultation with the current 34 LOT towns, VLCT advocates that the majority of current surplus monies should be returned to those communities which generated the revenues.

- The surplus is driven by a growing list of municipalities choosing to add LOT and quickly growing consumption tax receipts, which are up about 44% since the pandemic.
- At the end of FY24 the fund carried a \$10.3M surplus and is likely to generate a nearly \$4M surplus in current FY25.
- On Town Meeting Day 2025: Ludlow, Marlboro, Montgomery, and Montpelier all approved new LOTS which projected to add about \$530,000 to the fund in FY26.
- In order to prorate PILOT payments at 100%, a moderate surplus should be maintained in the special fund.
- If no appropriations were made other than PILOT, and the LOT ratio stayed at 70/30, the FY26 end of year surplus would be about **\$14,830,000**

Example Surplus Appropriation

Assuming FY26 PILOT Appropriations ballpark \$12,130,000 (\$500k over FY24)

Option A:
Reserve 15% Surplus

Projected FY26 PILOT Surplus	\$14,380,000
Minus Reserve for Flood Buyout Municipal Tax Reimbursement	\$1,000,000
Return Surplus balance to 34 LOT Munis	\$12,010,000
15% PILOT FY26 Surplus retained	\$1,820,000

Option B:
Return FY24 Surplus only

Projected FY26 PILOT Surplus	\$14,380,000
Minus Reserve for Flood Buyout Municipal Tax Reimbursement	\$1,000,000
Return FY24 Surplus to 34 LOT Munis	\$10,300,000
25% PILOT FY26 Surplus retained	\$3,080,000