Municipal Revenue Sources

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Municipal Authority and Dillon’s Rule

The Vermont Constitution does not vest municipalities with any express or inherent power. Instead, Vt. Const. Ch. II, §§ 6 and 69 grant the General Assembly the authority to “constitute towns, borroughs, cities and counties” and grant charters of incorporation for municipal corporations “as are to be and remain under the patronage or control of the State.”

Accordingly, Vermont courts have adopted “Dillons Rule,” which states that municipalities have “only those powers and functions specifically authorized by the legislature, and additional functions as may be incident, subordinate[,] or necessary to the exercise thereof.” *City of Montpelier v. Barnett*, 191 Vt. 441, 452 (2012).

Municipal authority is subject to strict construction and “whatever is not unequivocally granted in [an act] is taken to have been withheld.” *E.B. & A.C. Whiting Co. v. City of Burlington*, 106 Vt. 446 (Vt. 1934).

Fees

Municipalities may assess certain fees as provided by law. Primarily, fees are assessed for the issuance of licenses or for the performance of a service by a municipal officer. For example, a town clerk may collect fees for:

- the recording of real property records;
- first-, second-, and “standalone” third-class alcoholic beverage licenses;
- tobacco licenses;
- certified copies of vital records (marriage licenses, birth certificates, and death certificates); and
- dog and wolf-hybrid licenses.

Municipalities may apply zoning and development review fees, impact fees, and certain building inspection fees.

In some instances, a municipal corporation may assess a fee that is associated with the provision of a utility service. (For example, connection fees under 24 V.S.A. chapter 129).

Property Tax

At its annual meeting, a town is required to vote either the specific amount of money to be raised or the tax rate on a dollar of the grand list "to be appropriated for laying out and repairing highways and for other necessary town expenses." 17 V.S.A. § 2664.

- If a town votes a specific amount in lieu of a tax rate, the selectboard sets the tax rate needed to raise the amount voted. *Id*.
- A town's budget must be "necessary for the interest of its inhabitants and for the prosecution and defense of the common rights." *Id*.

State Aid to Municipalities

Examples of State aid provided to municipalities relating to property tax:

- Retention of a percentage (0.225%) of property tax collected when timely remitted. 32 V.S.A. § 5402(c)(2).
- Per grand list parcel fees. 32 V.S.A. §§ 4041a(a) and 5405(f).

Local Option Tax (LOT)

At the annual meeting or a special meeting warned for this purpose, towns may vote to impose a 1% local option tax on sales subject to one or more specific State tax types:

- sales tax
- meals tax
- rooms tax
- alcoholic beverages tax

Vendors, operators, or restaurants collect the LOT and remit it to the Vermont Department of Taxes (VDT), which administers the tax and distributes the revenues.

Local Option Tax (LOT)

- Administrative fee
  - Per return fee to compensate VDT for costs of administration and collection, paid:
    - 70% by town where tax was collected
    - 30% by State Payment in Lieu of Taxes (PILOT) special fund
- Revenue allocation
  - After payment of administrative fee, remaining revenue is split (with the exception of aviation jet fuel):
    - 70% to municipality where tax was collected, to be expended for municipal services only; not for education
    - 30% to State PILOT special fund

Debt Incurrence

- A municipality may incur debt (typically, through bond issuance) to fund a public "improvement"(e.g. construction/renovation of a building or purchase of a capital asset).
- Requires voter approval at an annual or special meeting warned for the purpose.
- In general, incurrence of debt limited to not more than 10 times amount of the most recent grand list.
- Municipality repays debt through principal and interest payments from operating budget.

Tax Increment Financing (TIF):
What is TIF?

- Economic development financing tool using municipal bonding and property taxes.
- Allows a municipality to borrows funds to invest in new infrastructure (e.g., parking garages, sidewalks, septic systems, etc.) that will stimulate private investment in the area that would not otherwise have occurred.
- The combination of public and private investment is expected to increase property values and generate property tax revenues.

Tax Increment Financing (TIF): How does it Work?

- For a 20-year “retention” period, the municipality may repay the borrowed funds used for the new infrastructure by splitting future property tax revenue by:
  - Keeping the property tax revenue that existed prior to development (“original taxable value”)
  - Using the portion of property taxes from the increased property values to repay the infrastructure debt (“increment”)

- For most TIF districts, Vermont authorizes a municipality to retain:
  - up to 70% of the education property tax increment to repay debt (the remaining 30% goes to the Education Fund); and
  - not less than 85 % of municipal property tax increment to repay debt.

- The municipality and State receive the full amount of property tax revenue at the end of the retention period.