VERMONT LEGISLATIVE
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Fiscal Note
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H.397 – An act relating to miscellaneous amendments to the statutes governing emergency management and flood response

Senate Proposal of Amendment[1,i]

Bill Summary

This bill proposes numerous amendments to the statutes governing emergency management and contains several fiscal provisions related to municipalities. As proposed by the Senate, the bill would:

- Grant additional fiscal authority to municipalities;
- Modify the allocation of Local Option Tax (LOT) revenue between municipalities and the State;
- Refund prior year overpayments of education property taxes associated with the Barre and Milton Tax Increment Financing (TIF) districts; and
- Extends the indebtedness incursion period for the City of Barre TIF District by two years, from March 31, 2026 to March 31, 2028.

This bill would shift approximately $2.8 million of Local Option Tax revenue annually from the PILOT Special Fund to municipalities with LOTs, effective October 1, 2025.

The bill would transfer $621,479 from the General Fund to the Education Fund in fiscal year 2026 to refund prior year overpayments of education property taxes associated with the Barre and Milton TIF districts.

Fiscal Impact

Section 11 would modify the allocation of LOT revenue from 70% municipality/30% PILOT Special Fund to 75% municipality/25% PILOT Special Fund, beginning October 1, 2025. By increasing the share of revenue retained by municipalities with LOTs, this change is expected to reduce revenues to the PILOT Special Fund by approximately $2.8 million annually. With this change, the PILOT Special Fund is anticipated to still have sufficient cash flow in future years to fully fund PILOT payments to municipalities.

Section 21 would, in fiscal year 2026, transfer a total of $621,479 from the General Fund to the Education Fund, then appropriate those funds to the Department of Taxes to compensate the City of Barre ($437,028) and Town of Milton ($184,451) for prior year overpayments of education property taxes due to insufficient retention of tax increment by those municipalities' respective TIF District funds.

[1] *The Joint Fiscal Office (JFO) is a nonpartisan legislative office dedicated to producing unbiased fiscal analysis – this fiscal note is meant to provide information for legislative consideration, not to provide policy recommendations.*

Background on Fiscal Sections

The following sections of the bill have a fiscal impact or pertain to fiscal matters:

Section 3: Community Resilience and Disaster Mitigation Grant Program Amendment

Section 3 would amend 20 V.S.A. § 48 to make voluntary buyouts for flood-impacted or flood-prone properties a permissible use of the Community Resilience and Disaster Mitigation Grant Program, which was previously created by Act 143 (2024). This section has no direct fiscal impact; the extent to which voluntary buyouts will place future demands on this grant program are not currently known.

Sections 6-8: Municipal Finance and Indebtedness

The following three sections pertain to municipal finance but do not have a direct impact on the State budget:

<u>Section 6: Unassigned Fund Balance</u>

Section 6 would amend Title 24 to stipulate that funds in a voter-approved municipal budget that remain unexpended at the end of the fiscal year shall be under the control and direction of the legislative body of the municipality and may be carried forward from year to year as an unassigned fund balance. Unassigned fund balances could be invested and reinvested and expended for any public purpose as established by the legislative body of the municipality. This language could give municipalities greater flexibility and ability to establish reserves to meet future emergencies or other needs. Maintaining unassigned fund balances is generally viewed as credit positive and fiscal best practice.

<u>Section 7: Emergency Borrowing Authority</u>

Section 7 would amend Title 24 to permit municipalities to borrow money by issuance of its notes or orders for the purpose of paying municipal expenses or public improvements associated with an all-hazards event or a declared state of emergency. The notes or orders shall be for a period of not more than five years or a term not to exceed the reasonably anticipated useful life of the improvements or assets financed by the notes or orders. Under current law, municipalities are limited to borrowing for up to one year without a town vote. This language would give municipalities the ability to borrow in emergency situations for up to five years without requiring voter approval in advance.

<u>Section 8: Debt Service</u>

Section 8 would permit municipalities to issue bonds with level debt service payments – annual payments that reflect principal and interest are level throughout the amortization period. Under current law, municipalities are required to structure their bond payments with *level principal* payments. This leads to higher payments in the initial years, which then decline over time. Level principal payments lead to more rapid amortization of principal, and lower total interest cost to municipal taxpayers over time. Level debt service payments cost less in the initial years than level principal payments and stay at the same amount over time, but typically at higher total interest costs over the repayment period.

This change could have potential, though relatively limited, impacts to debt incurred in Tax Increment Financing (TIF) projects, which are supported by incremental tax revenues forgone from the Education Fund. Any fiscal impacts would depend on the size and type of financing chosen by districts that are still able to incur debt and any new districts authorized by the Vermont Economic Progress Council (VEPC).

Section 11: Local Option Tax Revenue Share

Under current law, LOT revenue is allocated 70% to the municipality and 30% to the PILOT Special Fund. [2] The cost of the $5.96 per-return fee paid to the Department of Taxes is similarly allocated 70/30. Section 11 would amend the revenue allocation and per-return fee cost from LOTs to increase the share allocated to

[2] The revenue from LOT on aviation jet fuel sales is allocated 70% to the municipality and 30% to the Transportation Fund. Federal regulations restrict the use of revenues on aviation fuels to aviation-related purposes. The bill does not propose to change the current allocation of LOT revenue on aviation jet fuel sales.

municipalities to 75%, and reduce the share allocated to the PILOT Special Fund to 25%, effective October 1, 2025. Sections 12, 13, 14, and 15 would make conforming amendments to four municipal charters (Burlington, Montpelier, Middlebury, and Williston) to reference the revised 75/25 allocation.

The proposed shift in revenue and per-return fee cost allocation between municipalities and the PILOT Special Fund, effective October 1, 2025, would result in an increase of revenue allocated to municipalities with LOTs by approximately $2.4 million in fiscal year 2026, and a corresponding reduction of revenue to the PILOT Special Fund (see Table 1). The full-year increase in LOT revenues for municipalities as a result of the change in allocation is estimated at $2.8 million.

Table 1: **Estimated FY 2026 LOT Revenue with Proposed Allocation Changes**

($ in millions)

	Total LOT Revenue	Municipal Revenue Share	PILOT Fund Share	Return Fee to Tax Dept
Current – 70% Allocation to Towns	$59.88	$39.70	$17.02	$3.16
Proposed – 75% Allocation to Towns	$59.88	$42.07	$14.65	$3.16

Even with the reduced allocation, the PILOT Special Fund would still have sufficient revenues to fully fund base PILOT payments. The fiscal year 2026 budget (H.493) appropriates a total of $12,392,000 for the general PILOT program and correctional facilities' PILOT payments. The fiscal year 2026 budget also makes one-time appropriations from the PILOT Special Fund for the Municipal Grand List Stabilization Program ($1 million) and for town highway aid for non-federal disasters ($1.15 million). The Municipal Grand List Stabilization Program is expected to have an annual cost of up to approximately $550,000 in each of the initial five years, which will likely require additional appropriations from the Fund in future years. Any unexpended appropriations for town highway aid for non-federal disasters will revert to the Fund at the close of fiscal year 2026. Due to recent legislative changes, more municipalities could adopt LOTs in the future. This would lead to continued growth in LOT revenues, increasing revenue to municipalities and the PILOT Special Fund.

Section 21: Property Tax Overpayment Refunds to the City of Barre and Town of Milton

Section 21 would transfer $621,479 from the General Fund to the Education Fund, then appropriate those funds from the Education Fund to the Department of Taxes to compensate the City of Barre and Town of Milton for overpayments of education property tax increment from TIF districts in prior years. The City of Barre would receive $437,028 for overpayments of education property taxes in fiscal years 2016 through 2020 due to insufficient retention of tax increment by the City's Tax Increment Financing District fund. The Town of Milton would receive $184,451 to compensate for overpayments of education property taxes in fiscal years 2017 through 2023 due to insufficient retention of tax increment by the Town's Tax Increment Financing District fund. Both issues arose in recent audits of the respective TIF districts and are related to administrative and software errors.

These refunds are funded through a fiscal year 2026 transfer from the General Fund to the Education Fund, as they were not factored into the yield calculations set forth in H.491 (yield bill). Therefore, they have no impact on property tax rates and are net neutral to the Education Fund.

Section 22: City of Barre TIF District – Extension of Indebtedness Incursion Period

Section 22 would extend the authority of the City of Barre to incur indebtedness related to its TIF district by two years, from March 31, 2026 to March 31, 2028. Act 72 (2023) previously extended Barre's debt incursion period by two years, from March 31, 2024 to the current 2026 deadline. The debt incursion period in a TIF district refers to the period when a TIF district can incur new debt to pay for infrastructure improvements within the district. Since this provision could allow Barre to incur additional debt, it could also increase the amount of education property tax increment used to pay for district debt and the size of property tax increment generated as a result of financed improvements. However, the magnitude of the impact on the statewide Education Fund cannot be estimated and depends on the scope and structure of the debt, and education property tax growth before the Barre TIF is retired. This section makes no change to the authority of the City of Barre to retain municipal and education tax increment until June 30, 2039.

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[i] *The bill as introduced can be found here: https://legislature.vermont.gov/Documents/2026/Docs/BILLS/H-0397/H-0397%20As%20Introduced.pdf. The full fiscal note history is available on the fiscal tab of the bill page on the General Assembly website and can be pulled up through a bill number search on the JFO page*.