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Issue Brief

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PILOT Appropriations are Fully Funded: What's Next?

Executive Summary

State-owned properties carry significant potential taxable value to Vermont's cities and towns, but because they are State-owned, municipalities cannot levy local taxes on the properties. In 2023, the insurance value of State-owned buildings alone totaled more than $3.6 billion. To compensate municipalities for the value of this property, the General Assembly created two Payment In Lieu Of Taxes (PILOT) programs: the General PILOT program, which compensates municipalities for the value of State-owned buildings, and a PILOT program the Agency of Natural Resources (ANR) administers to reimburse municipalities for the value of lands it owns.[1] This issue brief will only cover the trends in the General PILOT program.

After a history of partial funding, PILOT payments to towns were fully funded in fiscal years 2024 and 2025.

Municipalities started receiving PILOT payments through both programs starting in fiscal year 1996. Save for a one-year hiatus in fiscal year 1997, PILOT payments have been made through the annual budget process every year since. As established, towns are supposed to receive a payment based on the total taxable value of State-owned properties located in a municipality, calculated using insurance replacement value (more detail about PILOT payments can be found in the appendix of this brief). However, from the beginning of the program until fiscal year 2023, payments through the General PILOT program were prorated as outlined in statute because appropriations funded by 30 percent of all Local Option Tax revenue were insufficient to cover the full tax value of those properties.

Strong consumption tax revenues in the wake of the pandemic and an increase in the number of the towns with Local Option Taxes (LOTs) increased the amount of revenue available for the PILOT program. Revenue surpluses in the PILOT Special Fund started in fiscal year 2022, as LOT revenues outpaced session estimates. By fiscal year 2024, PILOT payments were fully funded for the first time. These excess revenues contributed to a large balance in the PILOT Special Fund, totaling $10.3 million in fiscal year 2024. These trends are likely to continue. Act 113 of 2024, the fiscal year 2025 budget, appropriated $12.05 million for General PILOT payments, 100 percent of the calculated obligation. This amount is likely to be at least $3 million less than

[1] Additionally, two separate appropriations are made to towns with correctional facilities and the City of Montpelier.

available revenues from LOTs, adding to the already sizable fund balance.

In addition to exploring the trajectory of revenues in the PILOT Special Fund, this issue brief presents possible options for addressing the large and increasing fund balance. Although the below is certainly not an exhaustive list, some options include:

1. Funding a municipal grant program to support communities dealing with natural disasters
2. Returning a larger share of LOT revenues to the municipalities with the taxes
3. Compensating towns for historical underpayments

History of the PILOT Special Fund

The first statewide General PILOT program payments for the replacement value of State-owned buildings were made through Act 63 of 1995, the fiscal year 1996 budget. Act 63 established the structure of the program and the formula for calculating payments to respective towns, though this initial iteration of the PILOT program included lands owned by ANR and made payments from the General Fund, Transportation Fund, and the Fish and Wildlife Fund. (For an in-depth look at how the Department of Taxes' Division of Property Valuation and Review (PVR) calculates PILOT payments, see the appendix at the end of this brief). Act 63 also established the current $750,000 cap on PILOT payments, starting in fiscal year 1997, for properties affiliated with the University of Vermont system.[2]

The initial PILOT program language sunset at the end of fiscal year 1996, so payments were not made in fiscal year 1997. The General Assembly reestablished and revised the program with Act 60 of 1997 – the same Act 60 that created Vermont's education funding system. The primary difference in the new PILOT structure was the source of funding. Instead of funding the PILOT payments from a variety of State funds, future PILOT payments would be pulled from 40 percent of LOT revenue, an additional 1 percent on sales, meals and alcohol, or rooms taxes that could be enacted by certain towns and cities.[3]

Act 60 authorized certain towns an option to enact LOTs in order to provide them with an alternative method of raising municipal revenues to facilitate the transition and reduce the dislocation that may be caused by its reforms to the education finance system. In Act 60, LOTs were available to municipalities with an education property tax rate of less than $1.10 per $100 of equalized education value, had to be implemented by July 1, 1998, and only would be in effect for the transitional fiscal years of 1999, 2000, and 2001.[4] Act 60 stipulated that 60 percent of LOT revenue be retained by the municipality and 40 percent be deposited in a newly established PILOT Special Fund. It appropriated $1 million from the General Fund in fiscal year 1998 for the purposes of making the first payments to municipalities under the PILOT program. Act 61 of 1997, the fiscal year 1998 appropriations act, made additional payments to Montpelier and municipalities hosting correctional facilities.

The PILOT program has gone through additional statutory changes since its establishment. Act 71 of 1998 changed the percentage of LOT revenue allocated to the PILOT Special Fund in calendar years 1999 through 2002. It also added additional eligibility criteria for municipalities to implement a LOT without going through

[2] http://www.leg.state.vt.us/DOCS/1996/ACTS/ACT063.HTM

[3] Although the use tax originally could be included in LOTs, Act 71 removed it.

[4] Note that after Act 60, municipalities could still adopt a LOT by amending their town charter, as outlined in 17 V.S.A. § 2645. Town charter changes require legislative approval, so Act 60 offered a shortcut for municipalities that met the criteria.

the charter amendment process and extended LOT authority through calendar year 2002. Act 68 of 2003 extended the LOT sunset through 2008.

Table 1: **LOT Allocation to PILOT Special Fund**

Calendar Year	Percent of LOT Revenue to PILOT Special Fund
1999	20
2000-2001	30
2002-2005	40
2006-Present	30

Act 215 of 2005 established the current 70/30 split of LOT revenues between municipalities and the PILOT Special Fund and removed the sunset on LOTs.

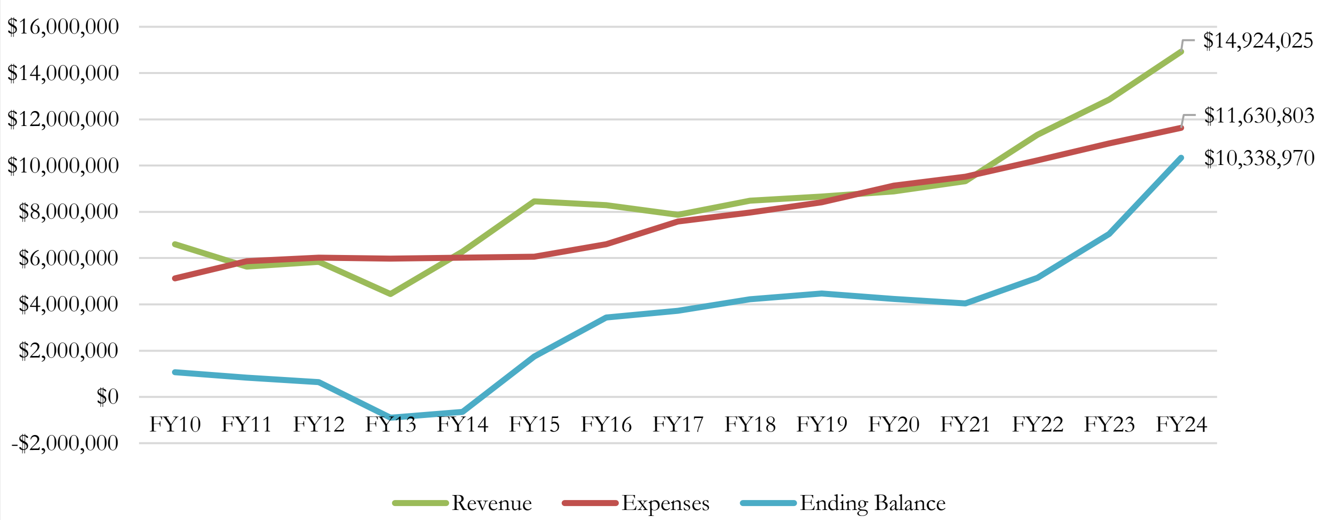
Act 160 of 2009 implemented a $9.62 per return fee to the Department of Taxes for the administrative costs of processing LOT returns and allocating funds. Act 128 of 2011 lowered this fee to $5.96 per return. The costs of return fees are charged against the revenues that would otherwise flow to both municipalities and the PILOT Special Fund.

Act 144 of 2024 removed the property tax criteria for municipalities to implement a LOT without going through the charter change process, which requires legislative approval. This means that municipalities now only need a local majority vote to enact a LOT. However, the Commissioner of Taxes can limit the number of applications for a LOT to five per year if certifying new LOTs would place an undue burden on tax administration.

PILOT Special Fund Revenues and Payments

The revenues and year-end balance of the PILOT Special Fund (#21485) have been on an upward trajectory since fiscal year 2013, when the fund ended the year nearly $900,000 in deficit, as shown in Figure 1. The balance increased substantially between fiscal years 2015-2017 and fiscal year 2022 through present. At the end of fiscal year 2024, the PILOT Special Fund had a balance of $10.3 million. The recent increases in PILOT revenues have come from two sources: an increase in the number of towns implementing LOTs and overall strong consumption tax receipts in the post-pandemic economy. PILOT appropriations have not kept up with these revenue increases, leading to large surpluses year over year.

Figure 1: PILOT Special Fund Since Fiscal Year 2010



Source: Department of Finance and Management Special Fund Reports

Over time, a growing number of municipalities have implemented LOTs. Between 2022 and 2024, the number of towns with a local sales tax option increased from 17 to 22 and the number of towns with a local meals and rooms tax option increased from 22 to 28. Approvals of various LOTs in the 2023 legislative session added an estimated $1.6 million of annual revenue for the PILOT Special Fund. JFO estimates that legislative approvals of LOTs in the 2024 session will generate approximately $660,000 in additional revenue for the PILOT Special Fund beginning in fiscal year 2025. The table below shows the number of towns with LOTs since fiscal year 2017.

Table 2: **Number of Towns with a Local Option Tax**

Tax Type	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
Meals and Rooms Tax[5]	17	18	19	20	21	22	24	28
Sales Tax	14	14	14	16	16	17	20	22

Source: Department of Taxes

Strong overall growth in consumption taxes has also buoyed PILOT Special Fund revenues. Overall, sales and use tax revenues for fiscal year 2024 of $595.2 million were about 44.3 percent higher compared to revenue before the pandemic. Although meals and rooms revenues experienced a dip during the pandemic, receipts from fiscal year 2022 surpassed pre-pandemic numbers. By fiscal year 2024, they were 31.1 percent higher than in fiscal year 2019. As measured by the Personal Consumption Expenditures (PCE) price index, inflation registered approximately 18.7 percent between the middle of fiscal year 2019 and the middle of fiscal year 2024, meaning that the revenue increase from both tax types far outpaced inflation.

Strong consumption tax revenues in Vermont after the pandemic reflect national trends. Consumer spending on durable goods (which are subject to the sales tax) after the pandemic rose sharply after the pandemic as federal fiscal stimulus increased household wealth and a shuttered economy pulled consumer spending away from services (which are not subject to the sales tax).[6] In addition, the 2018 U.S. Supreme Court decision *South Dakota v. Wayfair* extended sales tax collection to online sales. This meant towns with a LOT could collect revenue on purchases made online if the good is delivered to a resident buyer, expanding the number of purchases subject to the tax. During the pandemic, the percentage of retail sales made online increased from approximately 12 to 16 percent. While the percent change seems small, this growth is equivalent to billions of dollars of additional sales.[7]

This increase in revenues allowed for the gap between full PILOT payments for the replacement value of State-owned buildings and available revenues to close. As shown in Table 3, PILOT payments were approximately 75 percent of what would have been necessary to fully fund town allocations in fiscal year 2017 but by fiscal year 2024 they increased to 100 percent of town general PILOT value, with $3.3 million in additional funding to spare after funds were appropriated.

[5] The number of municipalities with a LOT in this tax type includes municipalities that assess LOTs on any combination of meals, rooms, and alcohol taxes.
[6] https://www.bls.gov/opub/mlr/2021/beyond-bls/covid-19-causes-a-spike-in-spending-on-durable-goods.htm
[7] https://www.census.gov/retail/mrts/www/data/pdf/ec_current.pdf

Table 3: **PILOT Payments and Proration**								
Fiscal Year	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
PILOT Payment ($ millions)	$7.17	$7.60	$8.04	$8.75	$9.25	$9.75	$10.58	$11.25
Proration (%)	74.7	75.6	76.3	81.1	81.1	85.8	94.8	100.0

Source: Department of Taxes

The map below shows the distribution of PILOT payments in fiscal year 2024. In addition to municipalities with State administrative offices, places hosting State colleges (Lyndon, Johnson, Castleton, and Randolph) also receive large PILOT payments.[8] Table 4 on the following page shows the top 10 municipal recipients of PILOT funds.[9] Outside of the top recipients, a wide range of municipalities receive relatively small PILOT payments for State park infrastructure or highway maintenance facilities. Ninety-six of the 135 municipalities receiving PILOT payments in fiscal year 2024 received less than $25,000.

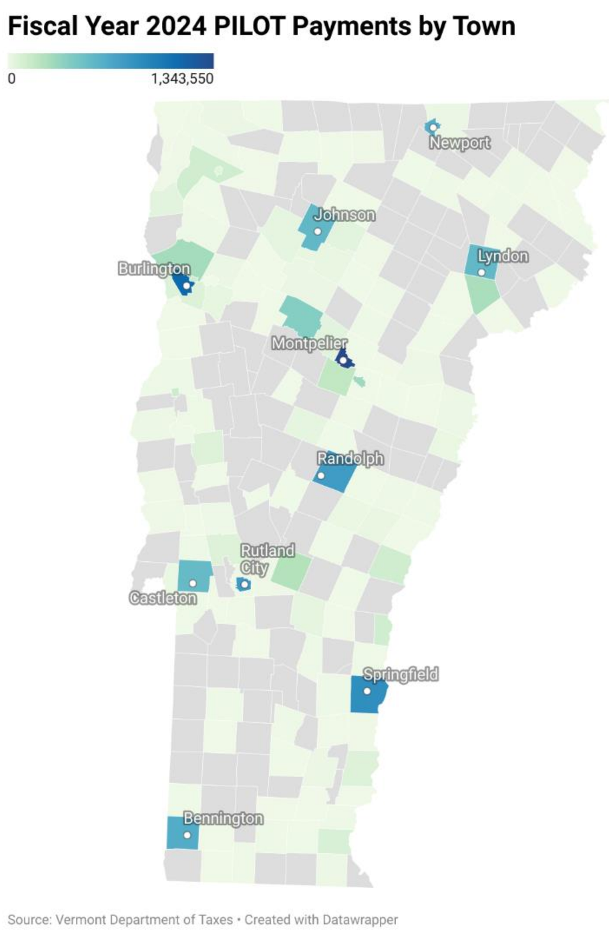


Table 4: **Top 10 PILOT Payments by Town**	
Town	**FY 2024 Pilot Payment ($)**
Montpelier	1,343,550*
Burlington	1,112,453
Springfield	854,719
Rutland City	770,102
Randolph	754,629
Bennington	634,035
Newport City	626,466
Lyndon	556,952
Johnson	551,702
Castleton	537,180

Source: Department of Taxes

*This amount includes the $184,000 PILOT appropriation to Montpelier in Sec. B.143 of Act 78 of 2023

[8] The Community College of Vermont (CCV) leases many of its sites, so communities hosting CCV do not always receive a PILOT payment. The State sends PILOT payments to four municipalities for CCV locations.

[9] Note that figures for both the table and map include all taxing districts in a municipality. For example, the figure for Randolph includes a payment of $745,527 to the Town and a payment of $9,102 to the Randolph Fire District, which operates a water system in Randolph Center.

The revenue available in the PILOT Special Fund is expected to continue to grow in future years. Although statewide sales tax and meals and rooms tax revenues are forecasted to grow more modestly in the next few fiscal years, the uptick in the number of towns approving LOTs is likely to continue. Prior to Act 144 of 2024 most municipalities were ineligible for a LOT without legislative approval of a charter change.[10] Now, municipalities only need a local vote to approve a LOT.[11] With an easier and shorter process, more towns may decide to put new LOTs before their voters, which would increase the base of revenues available for the PILOT Special Fund.

Policy Options

It is likely that PILOT Special Fund revenues will continue to exceed the anticipated costs of funding PILOT payments to municipalities, leading to a growing balance in the PILOT Special Fund. Legislators have several potential policy options, some of which include:

1. Funding a municipal grant program to support communities dealing with natural disasters
2. Returning a larger share of LOT revenues to the municipalities that have implemented the taxes
3. Compensating towns for historical underpayments

Option 1: Funding a municipal grant program to support communities dealing with natural disasters

The floods of 2023 and 2024 have elevated concerns about municipal fiscal capacity to repair damage and build the infrastructure necessary to address Vermont's long-term housing needs. Since 2011, Vermont has had the 7th most disaster declarations in the country despite a land area that ranks 45th out of all 50 states. Washington County alone is tied for 2nd most disaster declarations among all counties in the United States. Other Vermont counties were not far behind.[12]

The costs of conducting necessary repairs from these repeated disasters, as well as building more resilient infrastructure, far outstrip municipal budgets. In an article in *Seven Days*, Plainfield Town Clerk Bram Towbin estimated that infrastructure repairs resulting from catastrophic flooding in July 2024 would cost between $8 and $15 million, yet the annual town budget is only $1.4 million.[13] The Federal Emergency Management Agency (FEMA) designated the flooding of July 9-11, 2024 a federally declared disaster, meaning that federal sources will reimburse up to 75% of the bill for eligible repairs. However, even with federal assistance, the cost of repairs will exceed the town's annual budget.[14] Additionally, towns also often face cash flow challenges between the outlay for emergency and permanent repairs and the timing of federal reimbursements.

To help municipalities, both Act 87 (H.839), the fiscal year 2024 budget adjustment, and Act 113 (H.883), the fiscal year 2025 appropriations act, made a range of one-time appropriations for flood relief. In Act 87, these included $16.25 million for Emergency Relief and Assistance Fund (ERAF) contributions, which reduced local shares of FEMA assistance by over $6 million, and $6.25 million in local economic impact grants. Act 113 included allocating up to $36 million in unexpended American Rescue Plan Act (ARPA) funds to the Division of Emergency Management for FEMA match or municipal support for hazard mitigation, a $12.5 million General Fund appropriation for FEMA match, $5 million for a business grant program for flood

[10] The municipalities that qualified under the criteria in 24 V.S.A. § 138 are often referred to as "Gold Towns."
[11] https://Legislature.vermont.gov/Documents/2024/Docs/ACTS/ACT144/ACT144%20As%20Enacted.pdf
[12] https://vtdigger.org/2024/07/29/vermont-in-top-10-states-with-most-federal-disaster-declarations-new-study-says/
[13] https://www.sevendaysvt.com/arts-culture/qanda-plainfield-residents-recover-after-a-devastating-flood-41495356
[14] https://vem.vermont.gov/news/state-requests-damage-assessment-disaster-aid

recovery, a $3.5 million transfer to the Community Resilience and Disaster Mitigation Fund, and $1 million for local economic damage grants and a transfer to ERAF.

These transactions were possible thanks to a strong revenue environment buoyed by interest income and strong personal income receipts. In the future, disastrous flooding could occur in a tighter revenue environment, which would make it harder for the State to assist municipalities as they rebuild and recover.

To support these types of appropriations, additional revenues currently in the PILOT Special Fund could be leveraged, either on an annual or one-time basis, for a variety of uses ranging from municipal grants to funding programs specifically designated for disaster relief and recovery that currently do not have a revenue stream. On an annual basis, funding would be limited, as the additional revenue generated by LOTs currently outpaces PILOT appropriations by approximately $3 million per year. This level of funding would likely limit investments to smaller-scale grants.

This option, of course, presents a wide range of implementation questions – whether to use funds annually or periodically, determining what constitutes a reimbursable disaster, and how to promote funding equity after widespread events.

Option 2: Return a larger share of LOT revenues to the municipalities that have implemented the taxes

Table 5: **Adjusting Proportion of Local Option Tax Revenue to PILOT Special Fund** *($ millions)*

Fiscal Year 2024 - Total LOT revenue	30% Allocation to PILOT Special Fund (Current Law)	25% Allocation to PILOT Special Fund	Fiscal Year 2024 Base PILOT Appropriation
$50.95	$14.48	$12.06	$11.25

Historically, the percentage of LOT revenue allocated to the PILOT Special Fund has ranged from 20 percent to 40 percent. One straightforward way to expend the surplus in PILOT revenues would be to reduce the share of LOT revenue that flows to the fund from the 30 percent (the current law allocation) to 25 percent, thereby permitting municipalities that levy LOTs to retain a larger share of the revenue. The calculations below for fiscal year 2024 show that this revision would allow for some margin if revenues do not materialize as expected or if State-owned property values were to increase faster than LOT receipts.[15] This revenue would also still be able to support supplementary payments to Montpelier and municipalities hosting correctional facilities, which totaled $376,000 in fiscal year 2024.

Reducing the percentage allocated to the PILOT Special Fund would increase the revenue available for towns to pursue the local activities that the voters envisioned when authorizing LOTs, whether that be a capital fund, tax relief, or other use warned during the vote. The money that would be returned to towns could, in some cases, be substantial. For example, LOTs in Colchester generated $2.26 million for the town in fiscal year 2024, but this figure would increase to $2.42 million if the municipal allocation was raised from 70 percent to 75 percent, an additional $160,000.

[15] Large increases in the value of State-owned property are unlikely. Between fiscal year 2017 and fiscal year 2024, the value of the full PILOT increased by about 16.6%, less than inflation that occurred during that time.

Option 3: Compensating towns for historical underpayments

Option 3 involves addressing historical underpayments from the PILOT Special Fund, by either making payments to towns directly, or by adjusting payment amounts or caps that have not changed since program inception. One option would be to provide payments directly to towns that correspond to the amount of proration of PILOT payments over a certain time. For example, in fiscal years 2021 through 2023, prorated payments were short of the value required to fully fund payments by $2.15, $1.61, and $0.67 million. Supplemental payments from the fund balance could address some of these historical shortfalls and compensate towns for money they "should" have received had there been no proration.

Table 6: **PILOT Payments and Proration**

Fiscal Year	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
PILOT Payment ($ millions)	$7.17	$7.60	$8.04	$8.75	$9.25	$9.75	$10.58	$11.25
Proration (%)	74.7	75.6	76.3	81.1	81.1	85.8	94.8	100.0
Calculated Full PILOT Payment	$9.60	$10.05	$10.53	$10.79	$11.40	$11.36	$11.15	$11.25
Difference	**$2.43**	**$2.45**	**$2.50**	**$2.04**	**$2.15**	**$1.61**	**$0.58**	**$0.00**

Although the current fund balance could cover the shortfall incurred in more recent fiscal years, it is insufficient to address the full history of partial funding. Since the program's inception, PILOT payments were never sufficient to cover the full tax value of these properties until fiscal year 2024. Over that time, a substantial difference accrued between tax value of State-owned properties and PILOT payments received. The PILOT Special Fund's balance of $10.3 million at the close of fiscal year 2024 would only be able to support compensating payments for historic shortfalls back to fiscal year 2019.

If policymakers were to choose this option, the main decisions would be how far back to go in determining the size of payments and whether these payments would be one-time in nature and connected to the size of the PILOT Special Fund balance, a series of payments from additional revenues, or some combination of the two.

Another option that could help address historical underpayments would be to adjust the $750,000 cap on University of Vermont properties. Buildings in the higher education system are treated differently depending on whether buildings are a part of the State colleges or the University of Vermont. The PILOT program issues payments for the full value of buildings in the State college system but subjects University of Vermont buildings to a collective statutory cap of $750,000.[16] Like the $40,000 supplementary payment to towns with correctional facilities and the $184,000 payment to Montpelier, the current $750,000 payment cap has remained the same since the beginning of the program.

Due to the scale involved relative to available revenues, some amount of proration for University of Vermont properties is essential. The current statutory cap of $750,000 represents a proration of 8.5% against the full value of $8.85 million. If fully funded without proration, that $8.85 million would represent almost 79% of the entire fiscal year 2024 PILOT appropriation, removing the cap would mean that the statewide PILOT payment would need to be prorated again to account for the change.

Although the PILOT Special Fund would not be able to support payments that cover the full value of University of Vermont buildings, the $750,000 statutory cap could be adjusted for inflation or by some other criteria. If adjusted for inflation using the PCE, the $750,000 cap for University of Vermont properties would increase by 70%, bringing the statutory cap to approximately $1,282,500. Using alternative inflation measures,

[16] 32 V.S.A. § 3703

such as the Consumer Price Index (CPI), or the National Institute of Pension Administrators (NIPA) for state and local government expenditures, would result in an even larger inflation adjustment of 90 and 133 percent, respectively. PILOT Special Fund revenues would be sufficient to absorb this type of adjustment regardless of the metric chosen. The payments for Montpelier and correctional facilities could be adjusted similarly.

However, any change to the University of Vermont PILOT payment cap should be viewed in the context of the other fiscal and economic benefits University of Vermont provides to the greater Burlington area. The University currently makes an annual impact payment of $1.2 million to the City of Burlington to cover fire services and other impacts, and a $700,000 payment for real estate taxes, stormwater fees and other services, and additional Burlington Police patrols in neighborhoods with high student populations.[17] This additional $2 million in payments from the University does not include secondary fiscal benefits provided to Burlington by hosting the University, such as parents paying the City of Burlington's 9% gross receipts tax when staying in a hotel or short-term rental while visiting.

Decisions about how to allocate this surplus may depend on differing perceptions on the fairness or equity of the current system. At a surface level, delivering LOT revenues back to the towns where they were collected may seem like the most equitable solution, but some towns have far more capacity for LOT revenue than others - municipalities with LOTs generally either have a large commercial presence or tourism draws. This disparity means that not all towns receive funding from the current structure, even though residents in these towns may shop or dine in places that do have a LOT. This perspective may support a wider distribution of PILOT surplus funds. Although each of these options represent discrete policy choices, they do share one thing in common: each would send more PILOT funding to municipalities.

[17] https://www.uvm.edu/sites/default/files/media/UVM_and_the_City_Collaboration.pdf

Appendix: Pilot Payment Calculation

32 V.S.A. § 3703 outlines the process of calculating PILOT payment calculations for each town.

The amount of a grant to a municipality authorized by this subchapter shall be based on the ***total assessed value*** *of any State-owned property located in the municipality, multiplied by the* ***common level of appraisal*** *for the municipality as determined by the Division of Property Valuation and Review, multiplied by one percent, and multiplied by the* ***adjusted municipal tax rate*** *for the municipality in which the property is located.*

The **total assessed value** of State-owned property is defined in 32 V.S.A. § 3701(2) as the "estimation of the current cost of replacing a building, maintained for insurance purposes by the State agency or other entity responsible for insuring the building, depreciated by the age and condition of the building." Statute includes land pertaining to correctional facilities in the definition of "state-owned property."

In the context of the Education Fund, the **common level of appraisal** (CLA) adjusts locally assessed property values to the estimated fair market value. However, in the PILOT Fund, the calculation occurs in reverse – the valuations of State-owned properties must be adjusted to reflect locally assessed property values.[18]

The **adjusted municipal tax rate** can be found by taking the town budget and dividing by the adjusted municipal grand list, which includes the value of State-owned buildings. Putting this all together gives the following calculation steps:

1. $value\ of\ state\ buildings\ \times CLA\ \times\ .01 = state\ owned\ additions\ to\ grand\ list$
2. $total\ municipal\ property\ tax\ revenue\ raised \div adjusted\ municipal\ grand\ list = adjusted\ municipal\ tax\ rate$
3. $state\ owned\ additions\ to\ grand\ list\ \times adjusted\ municipal\ tax\ rate\ = PILOT\ Payment$

As an example, the steps above have been used to calculate the PILOT payment for the Town of Randolph using data for fiscal year 2024.

1. $127,939,502 (assessed value) x 84.55% CLA X .01 = $1,081,728 addition to Randolph's grand list.
2. $3,829,162 municipal taxes raised / $5,555,953 = $0.6892 adjusted municipal tax rate
3. $1,081,728 x .6892 = $745,527

Note that a separate PILOT calculation is performed for various special districts, such as villages, fire districts and highway districts on the value of State-owned property located within the district and the adjusted tax rate for the district.

[18] Mathematically, in Education Fund calculations, local valuations are divided by the CLA to adjust to fair market values.