

# Vermont Legislative Joint Fiscal Office

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## ISSUE BRIEF

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### Vermont PILOT (Payment in Lieu of Taxes) Programs

Vermont has several PILOT programs to reimburse towns for state-owned properties that are exempt from municipal property taxes.<sup>1</sup> These programs are for state-owned buildings, Agency of Natural Resources' land, correctional facilities, and the City of Montpelier. The method of determining the state payments is different for each.

#### **A. State-Owned Buildings Pilot:**

The state-owned buildings PILOT program began in FY 1996 and reimburses towns through an annual budget appropriation. The annual appropriation has never covered the full cost of the program, and therefore the payments to the towns are prorated. To calculate the full PILOT payment, replacement cost (insured value) is multiplied by the municipal tax rate. In FY 2017 the appropriation was \$7.21 million and the full funding amount was \$9.68 million, therefore towns received approximately 74.5% of the total payment. Since FY 2004 the appropriation has increased from 43% to 74.5% of the full funding level (see Table 1). The impetus for the increase in payments is the revenue generated from the portion of the local option tax (30%) that is paid to the State and dedicated to this purpose through the PILOT Special Fund under 32 VSA § 3709. This appropriation rises as funds are available.

The source of funds is the 1% local option tax under 24 VSA § 138. This option tax can be on sales, or meals and alcoholic beverages, or rooms. Receipts from that tax are allocated: 70% to participating town, 30% to the state's PILOT program less a proportionately charged \$5.96 per return fee for administration or collection.

#### **B. Corrections Pilot:**

The Corrections PILOT program began in FY 1997. Five municipalities receive Corrections PILOT payments (see Table 3). This program supplements payments made to towns through the State-owned buildings PILOT. Building values are assessed at replacement cost, which is multiplied by the municipal tax rate to generate the full PILOT payment for each of the properties. The payments are prorated because the appropriation is less than the amount necessary to fully fund the program. In FY 2017 the total appropriation was \$40,000. This appropriation has remained constant since the program's inception in FY 1997.

In FY 2017 PILOT Special Funds were also used to fund special facility agreements in corrections in section B. 338. These amounted to an additional \$146,000 allocated from the PILOT Special Fund. Of this funding \$76,000 went to Newport and \$70,000 went to

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<sup>1</sup> There may be other payments related to state facilities made to towns through contractual agreements. Two identified ones involve the use of work crews and fire services.

Springfield and these payments are projected to increase annually based on an inflation index.

**C. City of Montpelier, State Buildings:**

The City of Montpelier began receiving PILOT payments in FY 1983, prior to the creation of the other statewide PILOT programs. This program is in addition to payments made to the City of Montpelier through the state-owned buildings PILOT. Since FY 1997, the appropriation has been \$184,000. As this appropriation is on top of the base PILOT appropriation, Montpelier is projected to receive just over 90% of its \$1,121,511 “replacement cost”

**Table 1: State-Owned Buildings PILOT Appropriations**

Fiscal Year	Full Cost	Appropriation	Funding Percentage
2017	9,679,530	7,211,000	74%
2016	8,715,218	6,400,000	73%
2007	\$6,335,549	\$3,300,000	52%
2006	\$6,081,049	\$3,100,000	51%
2005	\$5,742,284	\$2,500,000	44%
2004	\$5,669,506	\$2,450,000	43%

**Table 2: Corrections PILOT recipients:**

Town	FY 07 Amount	FY 16 Amount	FY 17 Amounts (Proj.)
City of Newport	\$15,496	\$15,978	\$15,145
Town of St. Johnsbury	\$7,202	\$5,876	\$8,039
City of Rutland	\$6,372	\$7,207	\$6,391
Town of Windsor	\$4,951	\$4,360	\$4,121
City of South Burlington	\$3,274	\$2,451	\$2,329
Town of St. Albans	\$2,705	\$4,158	\$4,005

**Table 3: Pilot Special Fund Expenditures**

Fiscal Year	General Pilot	Montpelier	Corrections Pilot	Corrections Supplemental Funding	TOTAL
2017	\$7,211,000	\$184,000	\$40,000	\$146,000	\$7,581,000
2016	\$6,400,000	\$184,000	\$40,000		\$6,624,000
2015	\$5,800,000	\$184,000	\$40,000		\$6,024,000
2011	\$5,650,000	\$184,000	\$40,000		\$5,874,000

Table 4: Pilot Special Fund Receipts

Fiscal Year	MR Receipts	Sales Receipts	Total Receipts	Pilot Fund Balance
2017				
2016	\$1,834,532	\$5,464,283	\$7,298,816	3,431,770
2015	\$1,764,809	\$5,146,826	\$6,911,636	1,742,402
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2011	\$1,408,863	\$4,309,048	\$5,717,912	

**D. Agency of Natural Resource PILOT payments:**

In FY 2017 there was change in the way the state makes PILOT payments to the 205 towns in which the Agency currently owns 1,025 parcels of land. In the several decades prior to 2017, the ANR PILOT payments were based on 1.0% of the current fair market valuation (FMV) established and updated periodically by the Division of Property Valuation (PVR) in the Department of Taxes. However, payments on some parcels were not based on FMV but on the much lower current use value (CU). The policy rationale for the different treatment in the parcel payments was not clear and appears to have been primarily a historical budget-driven decision.

As a result of the unequal treatment issue and a request for a large increase in program funding due to new valuations, the Legislature placed a moratorium on updated valuations on these parcels for FY15 and required a [Study of ANR PILOT which was submitted to the legislature in November 2014](#). That report identified two options, both of which continued to rely on FMV bases but would either make the payment on a reduced rate of 0.5% (the median of town tax rates) or on each town's actual municipal tax rate. The options eliminated the unequal treatment in parcel valuations and left the program cost roughly the same. Both options did, however, lead to large impacts on the payment level many towns would receive, with both significant financial 'winners and losers'. While the Legislature put the first option in place for FY 2017 it maintained the valuation moratorium for FY 2016 and required a second consideration in its search of a payment mechanism that would be less financially disruptive to the towns but also eliminate the unequal payment basis.

The [Second ANR PILOT Report was issued in November 2015](#) and made the recommendation to eliminate for the future the periodically updated FMV approach and instead establish a base payment for each parcel. The base payment for newly acquired ANR parcels would now equal the amount of revenue the parcel would generate for the town if it remained in private ownership in the year of acquisition. For existing parcels, the base payment would be based on each parcel's most current FMV and one set rate. The report provided two rate options, 0.55% or 0.60%, based on the Legislative appetite for program cost. The report also recommended a four-year phase-in period for towns to adjust to this new payment method.

The Legislature adopted the recommendations of the second report at the rate of 0.60% and included a provision that the Agency, in consultation with PVR, consider and recommend across-the-board inflationary adjustments to these payments every three to five years once the four year transition period was concluded. The payments made in FY 2017 through FY 2020 will follow the transition plan, in FY 2021 and thereafter the new base payment method will be fully implemented. The cost of the program will increase modestly over the transition period, which helps smooth the impact of the change for towns, and future cost will depend on funded increases. There is some savings to the State as PVR no longer has to maintain and update valuation and appeals systems specifically for the Agency-owned parcels.

Table 5: ANR Land PILOT Appropriations

<b>FY</b>	<b>General Fund</b>	<b>Inter- Departmental Transfer</b>	<b>Total</b>
2009	\$1,707,233	\$261,500	\$1,968,733
2010	\$1,707,233	\$421,500	\$2,128,733
2011	\$1,707,233	\$421,500	\$2,128,733
2012	\$1,707,233	\$421,500	\$2,128,733
2013	\$1,707,233	\$421,500	\$2,128,733
2014	\$1,732,233	\$421,500	\$2,153,733
2015	\$1,818,799	\$421,500	\$2,240,299
2016	\$1,863,799	\$421,500	\$2,285,299
2017	\$1,953,905	\$421,500	\$2,375,405