



VERMONT LEGISLATIVE
Joint Fiscal Office

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Fiscal Note

May 10, 2023

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H.505 (Act M-13) – An act relating to approval of an amendment to the charter of the City of Rutland

As passed by the General Assembly¹

Bill Summary

This bill would approve an amendment to the charter of the City of Rutland that would allow the City to collect a one percent local option sales tax.

Fiscal Impact

JFO estimates the bill would increase Special Fund revenues by approximately \$685,000 in fiscal year 2024. Of this amount, approximately \$630,000 would go to the Payment in Lieu of Taxes (PILOT) Special Fund and approximately \$55,000 would flow to the Tax – Local Option Process Fees Special Fund. Any administrative costs necessary to create and administer the new local option tax would be covered by the Tax – Local Option Process Fees Special Fund. These fiscal impacts are summarized in Table 1.

Table 1: Fiscal Impacts of H.505

Fund Name	Purpose	Estimated Revenue Increase
PILOT Special Fund	Reimburses municipalities for State-owned properties that are exempt from property taxes	\$630,000
Tax – Local Option Process Fees Special Fund	Supports administration of local option taxes by the Department of Taxes	\$55,000
Total		\$685,000

These estimates are based on information provided by the Department of Taxes. In the case of internet sales or sales by large retailers, sales tax returns may not correctly reflect where a customer took possession

¹ <https://legislature.vermont.gov/Documents/2024/Docs/BILLS/H-0505/H-0505%20As%20Passed%20by%20Both%20House%20and%20Senate%20Official.pdf>

of a product and may incorrectly allocate tax revenues to the wrong municipality. These issues potentially influence the estimates presented above.

Background and Details

24 V.S.A. §138 allows municipalities that meet certain property tax criteria to collect an additional 1 percent local option tax on sales, meals and rooms, or alcohol tax in addition to statewide tax rates. The City of Rutland voted to approve a one percent local option sales tax, increasing the sales tax rate from 6 percent to 7 percent.

Quarterly, the Department of Taxes pays 70 percent of revenue generated by a local options tax to the municipality. Revenues can only be used for municipal services (not for education expenditures). The remaining 30 percent of revenue goes to the PILOT Special Fund.² Since the State does not pay property taxes, the PILOT Special Fund makes an annual appropriation to municipalities based on the replacement value of buildings owned by the State within municipal borders. In fiscal year 2022, the PILOT Special Fund received \$11.3 million in revenue from all local options taxes administered around the state.³

Finally, the Department of Taxes issues a \$5.96 per-return processing fee, divided between municipalities and the PILOT Special Fund with the same 70/30 split to support the cost of administering and collecting local option taxes. These return fees are deposited in the Tax – Local Option Process Fees Special Fund. In fiscal year 2022, the Tax – Local Option Process Fees Special Fund received \$1.98 million in revenue.

² Sale of aviation jet fuel is exempt from this allocation. Returns for aviation jet fuel sales are not assessed the \$5.96 return processing fee, and instead of sending 30 percent of local option tax revenue to the PILOT Special Fund, 30 percent of local option tax revenues are sent to the Transportation Fund.

³ <https://ljfo.vermont.gov/assets/Meetings/Joint-Fiscal-Committee/2022-11-09/a8d3823012/Special-Fund-Report-FY2022.pdf>