



VERMONT LEGISLATIVE Joint Fiscal Office

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Fiscal Note

April 3, 2024

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H.801 – An act relating to approval of the adoption of the charter of the Town of Waterbury

As passed by the General Assembly

Bill Summary

This bill would approve an amendment to the charter of the Town of Waterbury that would allow the Town to collect a 1% local option tax on sales, meals, rooms, and alcoholic beverages. This charter proposal was approved by voters on December 5, 2023.¹

Fiscal Impact

JFO estimates the bill would generate a *de minimis* increase in State special fund revenues in fiscal year 2024 and a \$370,000 annual increase starting in fiscal year 2025. The increase would be split between the Payment in Lieu of Taxes (PILOT) Special Fund, which receives 30% of local option tax revenue and the Tax – Local Option Process Fees Special Fund, which receives revenue from return processing fees. Of the additional revenue starting in fiscal year 2025, \$360,000 is estimated to flow to the PILOT Special Fund.

Background and Details

A local option tax adds an additional 1% to the statewide sales, meals and rooms, or alcohol tax rate. Table 1 shows both statewide tax rates and tax rates with a local option tax:

Tax Type	Statewide Rate	Rate with Local Option
Sales Tax	6%	7%
Meals and Rooms Tax	9%	10%
Alcohol Tax	10%	11%

Quarterly, the Department of Taxes remits 70% of revenue generated from a local option tax to the municipality that levies it. Revenues can only be used for municipal services (not for education expenditures). The remaining 30% of revenue goes to the PILOT Special Fund.² Since the State does not pay property taxes on State-owned real estate, the PILOT Special Fund makes an annual appropriation to

¹ https://www.timesargus.com/news/local/waterbury-voters-handily-pass-charter-measures/article_fa6a871f-298f-5083-aa39-3ba872d3cc88.html

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.

municipalities based on the replacement value of buildings owned by the State within municipal borders. In fiscal year 2023, the PILOT Special Fund received \$12.8 million in revenue.³

Finally, the Department of Taxes issues a \$5.96 per-return processing fee. Municipalities pay for 70% of the fee and the remaining 30% is paid out through the PILOT Special Fund. Revenues from the fee support the cost of administering and collecting local option taxes. These return fees are deposited in the Tax – Local Option Process Fees Special Fund.

³ <https://ljfo.vermont.gov/assets/Meetings/Joint-Fiscal-Committee/2023-11-07/aecb85d0cc/Special-Fund-Report-FY2023.pdf>