

10. Local Government Finance

The City of Montpelier operates on an annual budget of approximately \$16 million. The public schools budget comprises approximately 63% of the total budget, while the City's municipal services constitute approximately 32%. The remaining 5% is comprised of the Recreation Department (3%), Green Mount Cemetery (.07%), Senior Center (.03%), and contributions to the outside agencies (1%) (Figure 12). For fiscal year 2000 the City's primary source of revenue is the property tax which accounts for 76.1% of the city's budget. The remaining 24% is comprised of Intergovernmental (8%), fees (10.5%), and fund transfers (5.8%) (Figure 13). The heavy dependence on the property tax as the primary revenue source for Montpelier is a trend that is increasing as state and federal revenue assistance decreases. The percentage of state and federal assistance, particularly to the public school system has declined dramatically from 31.2% in 1984 to 20.6% in 1995. Paradoxically, as aid has diminished mandated programs have grown. While the demand for revenues has grown the city's Grand List of property is declining (Table 10-1 and 10-2.)

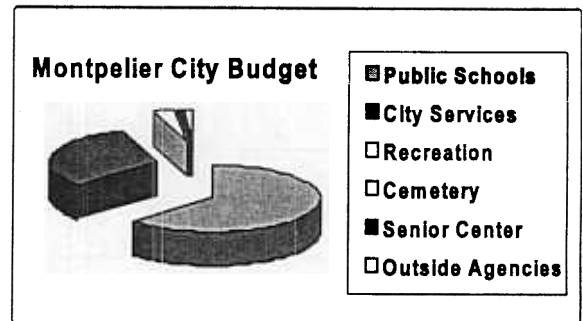


Figure 12. Montpelier City Budget

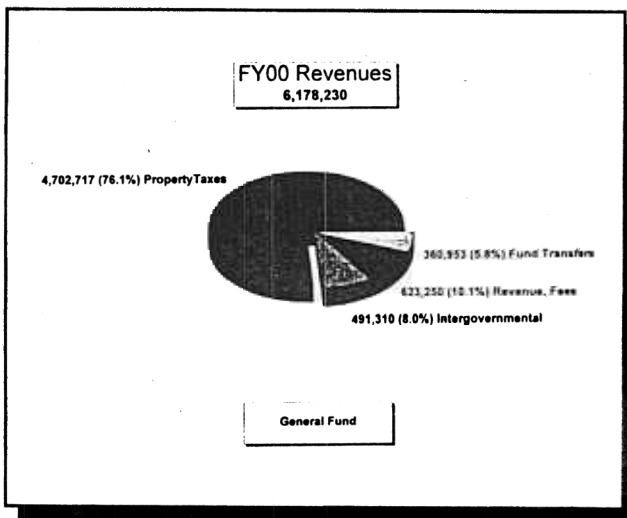


Figure 13. FY00 Revenues

Table 10-1 does not include tax exempt properties. Table 10-2 reflects the equalized value which is the assessed value multiplied by the common level of appraisal. The equalized value allows a comparison over time taking inflation into account.

Tax Exempt Property

Declining Grand List values and increasing tax burdens on residential and non-residential properties is a problem exacerbated by the presence of the state government and other tax exempt entities in Montpelier. State law provides property tax exemption for churches, schools. In addition, the City may exempt non-profit owned property. There are currently 120 tax exempt properties in Montpelier, with \$101,236,093 in exempt value based on their

insured value not necessarily the current market value. The State of Vermont is the single largest property holder with 42 properties valued at approximately \$64 million and constituting 63% of the value of all tax exempt property in the City of Montpelier (Montpelier Annual Report, 1999). Almost all of the tax exempt properties are statutory exempt properties.

**TABLE 10-1
Montpelier Grand List and Assessed Value***

Year	Grand List Value	% Change	Assessed Value	% Change
1990	\$3,352,322		\$335,232,197	
1991	\$3,362,132	0.29%	\$336,213,180	0.29%
1992	\$3,357,886	-0.13%	\$335,788,620	-0.13%
1993	\$3,334,633	-0.70%	\$333,463,339	-0.70%
1994	\$3,319,177	-0.47%	\$331,917,677	-0.47%
1995	\$4,077,267	18.59%	\$407,726,728	18.59%
1996	\$4,103,296	0.63%	\$410,329,629	0.63%
1997	\$4,095,678	-0.19%	\$409,567,759	-0.19%
1998	\$4,097,924	0.05%	\$409,792,395	0.05%
1999	\$4,108,934	0.27%	\$410,893,400	0.27%

Source: City of Montpelier Assessor's Office, 2000
*Not adjusted for inflation.

State Government Contribution

To compensate the city for services rendered to state properties and employees, in fiscal year 1998 the State of Vermont made a Payment in Lieu of Taxes (PILOT) amounting to \$184,000--0.2% of the assessed value of the property or roughly 8% of what their actual tax bill would have been. The disparity between the demand for services created by State offices and employees, and the amount of their PILOT payments has long been a point of conflict between the State and the City, which must be resolved in the future.

Local Tax Funding

Diminished outside funding and increased need for services and capital maintenance have driven the City and School budgets to higher levels. Because of this growth, in 1999 the City of Montpelier has the highest effective tax rate in the State of Vermont.

While the tax rate has increased in the past ten years, the City has had a difficult time keeping up with the demand for capital maintenance. Thus the city is currently faced with three bridges that need substantial renovation or complete reconstruction, as well as a variety of other street and facility maintenance projects. The consequence of deferred capital maintenance is increased costs for capital investment in the future.

**TABLE 10-2
Equalized Montpelier Grand List**

Year	Grand List Value	% Change
1990	\$412,376,005	
1991	\$452,997,776	9.0%
1992	\$452,997,776	0.0%
1993	\$408,873,778	-10.8%
1994	\$408,873,778	0.0%
1995	\$410,403,857	0.4%
1996	\$410,403,857	0.0%
1997	\$422,206,640	2.8%
1998	\$416,633,391	-1.3%
1999	\$410,483,900	-1.5%

*Source: City of Montpelier Assessor's Office, 1999
2000 *Reappraisal*

The growth in the tax rate has created tremendous pressure to find alternative or additional sources of revenue to effect a reduction in the rate. One of the most frequently cited potential sources of tax relief is increased development and the concurrent addition of value to the city's Grand List. While this approach makes intuitive sense, the reality is that it would require an enormous amount of additional development to achieve a minimal reduction in the tax rate.

In order to achieve a \$0.20 reduction in Montpelier's tax rate, it would be necessary to add approximately \$29 million dollars to the City of Montpelier's Grand List. This amount of new construction is equivalent to all of the existing buildings on Main and State Streets in the downtown business district, would only result in a 6% reduction in the total 1997 tax rate, and does not account for new municipal infrastructure and services that may be required to support the new development.

Other alternative sources of tax relief that the City can pursue, with better results, are property tax reform, establishing local option taxes, and regionalization of services. Property tax reform, initiated at the state level, would likely result in substantial tax relief for Montpelier residents.

The creation of some local option taxes, such as rooms and meals taxes, are a potential revenue source that has long been favored by the City of Montpelier. Currently, the City is lobbying the Ways and Means Committee in the legislature for authority to implement a local meals and alcohol option tax.

Regionalization of services, particularly public safety services, is an option that has been long discussed and studied. This approach to service delivery hold great potential for achieving economies of scale, and cost reductions in operations and personnel.

Local Tax Burden

With the passing of Act 60 (Equal Educational Opportunity Act) the City is no longer disadvantaged in the ability to raise education taxes because of the large amount of State property.

Act 60 sets a Statewide property tax rate of \$ 1.10 (beginning in 2000, it was 1.11 for 1999) and gives each school district approximately \$5,200 per pupil. If a community can not raise this amount based on their grand list and the \$1.10 tax rate, the state makes up the difference.

For communities such as Montpelier who spend more than the block grant amount, an additional local share tax needs to be assessed. This tax is equalized throughout the state so that all towns who spend the same on education will have the same tax rate. (In FY 2000 Montpelier's local share tax rate is estimated to be \$.63, spending of \$2,253 above the block grant tax). For each \$40 per pupil above the block grant, a local share 1% is required. Revenue not generated by the City's Grand List will be paid out of a sharing pool made up of funds from the state (for 2000 & 2001), and other communities who spend more than the block grant amount per pupil and can raise more through their local share tax rate.

In short education taxes will be based on per pupil spending and not dependent on the Grand List values. The City of Montpelier will still need to raise its municipal taxes without the ability to tax state-owned property and must work towards maintaining and improving PILOT payments from the State of Vermont.

10.1 Local Government Finance Goals and Recommendations

- 1. Enhance the fiscal ability of the City to deliver essential services and to fund physical improvements at a level of excellence, in order to maintain and improve the quality of life enjoyed by Montpelier residents.**

2. Accomplish the foregoing while keeping constant or reducing the tax burden on the residents of Montpelier.

Recommendations:

- a. Encourage forms of investment which will increase City revenues to benefit residents consistent with the ability to provide facilities and services with minimal environmental impact.
- b. Aggressively lobby the legislature to protect property tax reform, and alleviate the significant tax burden borne by the residents of Montpelier.
- c. Aggressively lobby the legislature to set annual PILOT payments at a level that more accurately reflects the amount and value of property held by the state, and the high level of services delivered to the state by the City of Montpelier.
- d. Aggressively lobby the legislature to permit the City of Montpelier to implement local option taxes, enabling the City to broaden and diversify its revenue stream.
- e. Explore opportunities to regionalize City and School services, to achieve economies of scale that will translate into lower annual budgets and tax relief for the citizens of Montpelier.
- f. Consider the feasibility of a special tax or tax increment district to fund downtown revitalization, economic development issues, and economic strategies.
- g. Recognize the importance of short term maintenance schedules in saving costs for the long term.
- h. Consider life cycle costs in capital expenditures.

Ensure tax stabilization and abatement policies of the City reflect the goals and priorities of this Master Plan.