VERMONT LEGISLATIVE
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Fiscal Note
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H.397 – An act relating to miscellaneous amendments to the statutes governing emergency management and flood response

As recommended by the House Committee on Ways and Means, Draft 2.2[1,i]

Bill Summary

This bill proposes numerous amendments to the statutes governing emergency management. As recommended by the House Committee on Ways and Means, the bill would (among other things):

- Enact the Voluntary Buyout and Municipal Grand List Stabilization Programs for flood-prone properties;
- Create two additional positions at Vermont Emergency Management;
- Create the Vermont Community Radio Grant Program;
- Grant additional fiscal authority to municipalities;
- Modify the allocation of Local Option Tax revenue between municipalities and the State;
- Expand eligibility for flood abatement of education property taxes; and
- Make appropriations.

This bill would appropriate $1,705,000 from the General Fund and cost $550,000 to the PILOT Special Fund and approximately $520,000 to the Education Fund in fiscal year 2026.

Fiscal Impact

Section 14 would appropriate $1,705,000 from the General Fund in fiscal year 2026 to support two new positions at Vermont Emergency Management, provide funding to the Urban Search and Rescue Team and the Vermont Community Radio Grant Program, and for the Agency of Natural Resources (ANR) to procure a fire apparatus.

The Municipal Grand List Stabilization Program in Section 5 would cost $550,000 to the PILOT Special Fund in each of the initial five years, beginning in fiscal year 2026.

Section 13b would extend the eligibility for reimbursement for flood-related abatement of education property taxes to include eligible properties lost or destroyed in federally declared disaster areas between July 1, 2023 and December 21, 2024. A similar abatement reimbursement enacted in Act 82 (2024) covered eligible properties lost or destroyed between July 1, 2023 and October 15, 2023 and cost approximately $520,000 in forgone revenue to the Education Fund in fiscal year 2025. Pending further analysis, JFO assumes the impact of this extension would follow a similar scale.

[1] *The Joint Fiscal Office (JFO) is a nonpartisan legislative office dedicated to producing unbiased fiscal analysis – this fiscal note is meant to provide information for legislative consideration, not to provide policy recommendations.*

Background and Details

The following sections of the bill have a fiscal impact:

Sections 3-5: Voluntary Buyout Program and Municipal Grand List Stabilization Program

Section 3 would direct Vermont Emergency Management and the Agency of Commerce and Community Development (ACCD) to establish and maintain the Voluntary Buyout Program for flood-prone properties. The Program would allow a municipality, at the request of the owner of a flood-prone property, to apply for funding to cover the purchase price (full fair market value) of the property. A municipality may transfer or redevelop the acquired property for purposes of constructing flood-resilient housing.

Section 5 would establish the Municipal Grand List Stabilization Program to reimburse municipalities for the value of forgone municipal property taxes associated with the flood-prone properties acquired by a municipality through the Voluntary Buyout Program created in Section 3, or a prior voluntary buyout program operated by Vermont Emergency Management. Section 4 would amend Title 32 to enable the Municipal Grand List Stabilization Program to be funded from the PILOT Special Fund.

On or before September 1 of each year, the Commissioner of Public Safety would be required to certify eligible properties to the Commissioner of Taxes along with any other information required by the Commissioner. To be eligible for reimbursement, a municipality must have acquired an eligible property on or after July 1, 2023 and preserved the property as public open space with a deed restriction or covenant prohibiting development of the property.

The Commissioner of Taxes would be required to certify payment amounts to the Secretary of Administration, who would then make an annual payment to each municipality for each eligible property to compensate for the loss of municipal property tax. The payment would be calculated using the grand list value of the acquired property for the year during which the property was either damaged by flooding or identified as flood-prone by the Commissioner of Public Safety, multiplied by the municipal tax rate, including any submunicipal tax rates, in effect each year. This payment would be made on or before January 1 of each year for five years, after which a municipality would be eligible for payments equal to one-half of the initial annual payments for up to five subsequent years. A property would not be eligible for reimbursement payments for more than 10 years.

Payments for the Municipal Grand List Stabilization Program would come from the PILOT Special Fund and be disbursed only after all other requirements of subchapter 4 are met (the payment of PILOT funds to municipalities for State-owned properties). If the PILOT Special Fund balance is insufficient to pay the full amount of all payments authorized under the Program, then payments would be reduced proportionately.

Section 6: Division of Emergency Management Positions

Section 6 would create two full-time, exempt positions at Vermont Emergency Management:

- Municipal Grant Liaison: dedicated to grant research, grant applications support, coordination between municipal corporations and the Federal Emergency Management Agency (FEMA), and direct assistance to municipal corporations for the acquisition of grants and other funding sources for all-hazard relief and recovery efforts.

- All-Hazards Mitigation Technician: dedicated to providing or supporting engineering analyses for all-hazard mitigation projects, oversight of municipal remediation and recovery projects, and managing technical assistance to municipal corporations for all-hazard recovery.

Section 14 would appropriate $275,000 from the General Fund to the Department of Public Safety (DPS) in fiscal year 2026 to support these two positions.

Section 9: Vermont Community Radio Grant Program

Section 9 would establish the Vermont Community Radio Grant Program to provide one-time funding to community radio stations for the purpose of:

- Upgrading equipment and infrastructure necessary for reliable emergency broadcasting;
- Procuring and installing backup generators; and
- Enhancing operational sustainability through software improvements and technical training.

The Program would be administered by the Commissioner of Public Safety or designee, in collaboration with the Vermont Association of Broadcasters.

Grants would be allocated as follows:

- Up to $25,000 per station for seven active community radio stations; and
- Up to $10,000 per station for three upcoming stations currently under construction.

To be eligible for a grant, an applicant must:

- Be a nonprofit, noncommercial community radio station licensed in Vermont;
- Demonstrate a history of providing emergency broadcasting services or show the capacity to provide those services upon funding; and
- Submit a detailed implementation plan for the proposed use of grant funding.

Community ratio stations that receive a grant would be required to report to the Commissioner of Public Safety on or before June 30, 2026 detailing the use of grant funds, improvements achieved in emergency readiness and operational capacity, and impact on community service and engagement.

Section 14 would appropriate $205,000 from the General Fund to DPS in fiscal year 2026 to fund the Program.

Sections 10-11: Municipal Finance and Indebtedness

The following sections pertain to municipal finance but do not have a direct impact on the State budget:

<u>Section 10: Unassigned Fund Balance</u>

Section 10 would amend Title 24 to stipulate that funds in a voter-approved municipal budget that remain unexpended at the end of the fiscal year shall be under the control and direction of the legislative body of the municipality and may be carried forward from year to year as an unassigned fund balance. Unassigned fund balances could be invested and reinvested and expended for any public purpose as established by the legislative body of the municipality. This language could give municipalities greater flexibility and ability to establish reserves to meet future emergency or other needs. Unassigned fund balances are generally viewed as credit positives and fiscal best practices.

<u>Section 11: Emergency Borrowing Authority</u>

Section 11 would amend Title 24 to permit municipalities to borrow money by issuance of its notes or orders for the purpose of paying municipal expenses or public improvements associated with an all-hazards event or a declared state of emergency. The notes or orders shall be for a period of not more than five years or a term not to exceed the reasonably anticipated useful life of the improvements or assets financed by the notes or orders. Under current law, municipalities are limited to borrowing for up to one year without a town vote. This language would give municipalities the ability to borrow, on a limited basis, in emergency situations for up to five years without requiring voter approval in advance.

Section 13a: Local Option Tax Revenue Share

Under current law, local option tax (LOT) revenue is allocated 70 percent to the municipality and 30 percent to the PILOT Special Fund.[2] The cost of the $5.96 per-return fee paid to the Department of Taxes is similarly allocated 70/30. Section 13a would amend the revenue allocation and per-return fee cost from LOTs to increase the share allocated to municipalities to 75 percent, and reduce the share allocated to the PILOT Special Fund to 25 percent.

Section 13b: Flooding Education Property Tax Abatement Program

Section 13b would extend reimbursement to municipalities for certain State education property tax payments if the municipality granted State education property tax abatements to property owners for damage caused by severe storms and flooding. For a municipality to qualify, it must have abated, in proportion to the municipal tax it abated, the State education property taxes assessed on eligible property after the application of any property tax credit. Under current law, eligible property refers to property lost or destroyed by severe storms and flooding in an area that was declared a federal disaster between July 1, 2023 and October 15, 2023. This section would extend this reimbursement to property damaged in an area declared a federal disaster through December 31, 2024.

For a property to be eligible for reimbursement, the storm or flooding must have resulted in at least one of the following:

- 50% or greater loss in value to the primary structure on the property;
- Loss of use by the property owner of the primary structure on the property for 60 days or more;
- Loss of access by the property owner to utilities for the primary structure on the property for 60 days or more; or
- Condemnation of the primary structure on the property under federal, State, or municipal law.

The section would also extend a current provision of law that reimbursed flood impacted municipalities for unanticipated interest expenses on funds borrowed to make State education property tax payments, up to an eight percent interest rate. This provision would be extended to areas with federal disaster declarations through December 31, 2024.

Section 14: Appropriations

Section 14 would appropriate $1,705,000 from the General Fund in fiscal year 2026. DPS would receive $1,430,000; appropriated as follows:

- $275,000 to support the two positions at Vermont Emergency Management. This would be an ongoing base expense in future years.
- $950,000 to support the Urban Search and Rescue Team created pursuant to 20 V.S.A. § 50.
- $205,000 to fund the Vermont Community Radio Grant Program.

The bill would also appropriate $275,000 to ANR to procure a fire apparatus.

Summary of Fiscal Impacts

<u>Municipal Grand List Stabilization Program</u>

According to data from Vermont Emergency Management, since July 1, 2023, 227 properties have been submitted on applications for the State-managed buyout process. The approximate municipal property tax value of those properties is estimated at approximately $550,000 per year in the initial five-year period of the program when municipalities would be reimbursed at the full tax value of buyout properties as proposed. Two

[2] The revenue from LOT on jet fuel sales is allocated 70% to the municipality and 30% to the Transportation Fund. Federal regulations restrict the use of revenues on aviation fuels to aviation-related purposes. The bill does not propose to change the current allocation of LOT revenue on aviation jet fuel sales.

competing pressures could influence this estimate. First, the buyout program is voluntary and some applicants may drop out of the program before the municipality closes on the transfer of property. This would decrease the annual cost of the program. On the other hand, municipalities may offer to buy out additional properties once lost property tax value is reimbursed through the proposed program. This pressure could drive up the cost of the program in future years, but it is unlikely in the near term, as the program only reimburses municipalities once they own flood-prone property and it takes time to complete transfers under federal grant programs.

As recommended by the Committee on Ways and Means, the bill does not appropriate or transfer any funds to support this Program. However, the Governor's recommended fiscal year 2026 budget proposes to appropriate $1 million from the PILOT Special Fund for a substantially similar proposed program. Under current law, the PILOT Special Fund, which makes payments to municipalities for the value of State-owned buildings, receives revenue from 30% of LOT collections. Broader macroeconomic trends and an increase in the number of municipalities adopting LOTs have substantially increased revenue going into the Fund. In fiscal year 2024, the difference between Fund revenue ($14.9 million) and expenses ($11.6 million) was over $3.3 million. The Fund had a balance of $10.3 million at the end of fiscal year 2024.

Positions and Appropriations

The two positions created in Section 6 would be an ongoing base expense in future years. It is possible that additional funds will be required in future years to continue supporting the Urban Search and Rescue Team and Vermont Community Radio Grant Program.

Local Option Tax

The proposed shift in revenue and per-return fee cost allocation between municipalities and the PILOT Special Fund would result in an increase of revenue allocated to municipalities with LOTs by approximately $2.8 million, and a corresponding reduction of revenue to the PILOT Special Fund (see Table 1).

Table 1: **Estimated FY 2026 LOT Revenue with Proposed Allocation Changes**
($ in millions)

	Total LOT Revenue	Municipal Revenue Share	PILOT Fund Share	Return Fee to Tax Dept
Current – 70% Allocation to Towns	$59.18	$39.24	$16.82	$3.13
Proposed – 75% Allocation to Towns	$59.18	$42.04	$14.01	$3.13

The Governor's recommended fiscal year 2026 budget appropriates $12.2 million from the PILOT Special Fund for base PILOT appropriations. Due to recent legislative changes, more municipalities could adopt LOTs in the future which would lead to continued growth in LOT revenues, which would increase revenue to municipalities and the PILOT Special Fund. The reduced allocation to the PILOT Special Fund, therefore, is expected to still result in sufficient revenues to fully fund base PILOT payments.

Flooding Education Property Tax Abatement Program

According to data from the Department of Taxes, when the original program was enacted in 2024, the cost of the abatement was approximately $520,000 to the Education Fund in fiscal year 2025. Pending further analysis, JFO assumes the impact of the extension included in this bill would be of similar scale to the original cost of the abatement. Absent any other changes in policy, this expense will need to be accounted for when calculating the statewide homestead property yield and/or the nonhomestead property tax rate.

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[i] *The bill as introduced can be found here: https://legislature.vermont.gov/Documents/2026/Docs/BILLS/H-0397/H-0397%20As%20Introduced.pdf The full fiscal note history is available on the fiscal tab of the bill page on the General Assembly website and can be pulled up through a bill number search on the JFO page.*