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Mr. Michael Obuchowski, Commissioner
Department of Building and General Services
2 Governor Aiken Ave.
Montpelier, VT 05633

Dear Commissioner Obuchowski,

I am writing you about a potential major reduction in the state's Payment in Lieu of Taxes (PILOT) to the Town and Village of Waterbury for the FY16 year. Due to the renovations and reconstruction occurring at the state complex, each of the municipalities could see PILOT payments drop by more than 30% from the amounts received in FY15. A revenue loss of this magnitude, especially in one-year's time, puts great pressure on Waterbury's property tax payers. You and I spoke about this issue a few weeks ago and I told you that I would follow up on that discussion if I thought the state, in general, and BGS, in particular, could provide some assistance to the town and village.

I believe BGS makes the PILOT payments to local communities on the state's behalf, so I wonder if you might consider this as a solution to Waterbury's concerns: "Hold-harmless" PILOT payments of \$120,855 to the Town of Waterbury and \$44,155 to the Village of Waterbury for FY16, and for future years, if necessary. I suggest the "hold-harmless payments" continue until the PILOT payments, as prescribed by the formula in use to determine those payments, return to the FY15 levels. In addition, once payments return to the FY15 levels, I suggest maintaining the PILOT payments at those levels until the state recoups the "advanced" payments made to the town and village.

Here are the facts and issues the town and village face: More than 20 buildings at the state complex that were damaged or are otherwise unnecessary for the state to meet its future mission in Waterbury have been de-constructed over the past year or so. As is understandable, the state has chosen not to insure for replacement purposes the buildings that have been torn down or are scheduled to be torn down. One of the major factors in the formula that determines the PILOT payment from the state to a municipality is the replacement value, carried for insurance purposes, of state owned buildings situated in any given municipality.

Between April 1, 2013 and April 1, 2014, the state lowered the insured replacement values of buildings located in the village (all but one located at the state complex) from about \$48.74m to about \$33.71m. While situated in the village, the state complex is within the town, as well, so the reduced values impact PILOT revenues of both municipalities.

The reduction in insured values of over \$15m could result in a \$37,465 loss in PILOT payments for the town and a loss of \$13,690 for the village in their calendar year 2015 budgets. Reductions of those magnitudes result in tax rate increases of 1.3% for the town and 4.6% for the village, even if all other budget factors for each municipality remained unchanged from last year to this.

The town is facing a total tax rate increase of about 8% in the best case scenario this year as it is beginning to pay debt service on its new municipal complex. In addition, the full costs of implementing programs related to our flood recovery and long overdue improvements to our infrastructure must be paid in the current year's budget. Given these facts, this is a tough year to suffer a major decline in non-property tax revenues.

Village property owners pay all the taxes levied by the town, plus their own property tax for services the village provides, police protection, for example. The village's Grand List has dropped by more than 3% since the flood and will likely not exceed its pre-Irene level until 2017. As property owners located in the village benefit from PILOT payments made to the town as well as the village, the loss of PILOT revenue in both municipalities amplifies the fiscal stresses that impact village residents and taxpayers.

The State of Vermont has a large presence in Waterbury. More than 40% of the town's land area is in state ownership, under the control of ANR in the Mount Mansfield and Putnam State Forests. In addition, the Department of Buildings and General Services controls buildings in Waterbury owned by the state, mainly at the state complex on Main Street and in Little River State Park.

No property tax revenue is generated on the value of those lands and improvements, but the town and village do benefit to a much greater degree than formerly from the PILOT programs in place for ANR controlled lands and BGS controlled buildings. For the purpose of this letter, I will concentrate on the PILOT program relating to BGS and the revenue it generates for Waterbury Town and Village.

Through its PILOT program, the state makes payments in lieu of taxes to Waterbury based on the insurance replacement values of the buildings that are controlled by BGS. In FY15, the state paid the Town of Waterbury \$120,854 on buildings that had insured values in excess of \$49 million. The overwhelming majority of that insured value existed at the state office complex campus in the village, but some \$715,000 of insured building value is located in the two state parks that are adjacent to the Waterbury Reservoir. The Village of Waterbury received a PILOT payment of \$44,155 in FY15 for the state's buildings located in the village.

As you know all too well, property taxes are far and away the largest revenue source for Vermont municipalities. In the Town of Waterbury 68% of the revenue necessary to run the town comes from the local property tax. In the village, the percentage of revenue from the property tax is about 73%. If these two municipalities that I manage lose non-property tax revenues, property tax increases or cuts in service are the only options. Last year the PILOT payment sent by the state to the town accounted for 19% of the town's non-property tax revenue. In the village, its receipt of \$44,155 from the state represented over 36% of its non-property tax revenue. As a percentage of non-property tax revenues, these amounts are very significant. More telling, however, is that these payments make up a very significant portion of all revenues for the town and village.

The PILOT payment of \$120,854 to town represents 6% of the total \$2.02m in revenue received by the town in calendar year 2014. In the village, the \$44,155 PILOT receipt equaled 10% of its total revenue amount of \$443,000. To put it in perspective, three property owners-Green Mountain Coffee Roasters, Ben & Jerry's and Pilgrim Partnership together paid \$106,930 in property taxes to the town in 2014 for municipal services. Very impressive, but that is still almost \$14,000 short of our PILOT receipts. Those three taxpayers all happen to own property located in the village, as well. Together they paid \$47,047 in village property taxes in 2014.

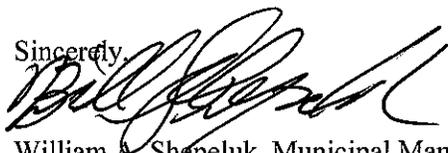
If all factors in the formula that determines the PILOT payments to be made to the town and village for FY16 remain constant except for the insured value of property owned by the state, the town's PILOT revenue this year will drop by about \$37,000. The revenue loss in the village will be nearly \$14,000. To

put that in perspective, it would be the equivalent of losing 3 times the tax revenue paid to the community by Ben & Jerry's or losing 85% of the tax revenue paid to the town and village by Green Mountain Coffee Roasters. I hope you agree, losing 30% of our PILOT revenue just compared to that received in FY15 would be considered a huge loss. The impact of this potential drop in revenue is more sobering when one considers that the PILOT revenue received by the town in in FY12 was nearly \$132,000. Since FY12, and including past losses attributable to the flood, the town has already suffered a \$12,000 drop in its PILOT revenue. If the FY16 payment to the town drops as low as the potential \$84,000 described above, that would be a total reduction of \$48,000, or 36 percent, in a four year span of time.

I hope you can give serious consideration to my request for "hold-harmless" PILOT payments of \$120,855 to the town and \$44,155 to the village in FY16. As stated above, if this request is granted, I suggest both parties agree that any PILOT payments made in excess of the amount prescribed by the present formula shall be considered as an "advanced payment" to the town or village. Such "advances" shall be returned to the state by the Town of Waterbury or the Village of Waterbury in a manner agreed to by the parties.

Thank you very much for reading my letter and for any consideration you may give it. I am open to any other suggestions you may have and I am willing to discuss any other options you may offer. Please feel free to share this letter with Secretary Johnson or with any other member of Governor Shumlin's administration who you believe may be of assistance or sympathetic to Waterbury's cause

Sincerely,



William A. Shepeluk, Municipal Manager
Town and Village of Waterbury

CC: Rep. Thomas Stevens
Rep. Rebecca Ellis