



City of Burlington, VT

History of City – School District Collaboration on PILOT Funds

January 19, 2018

In 2014, the Agency of Education and the Burlington School District (BSD) reached an Agreement acknowledging BSD would no longer receive any payment in-lieu of taxes (PILOT) funding from the City of Burlington. The budget the BSD is considering now will be the fourth budget since this agreement was signed.

In the agreement, the State asserted the PILOT payments were in violation of State law intended to ensure equitable education funding for all Vermont children. State law is built on Vermont's constitutional principle that Vermont children are entitled to equality in education funding. To ensure that per pupil funding does not vary dramatically as a result of disparities in local wealth, city or town funds cannot be used "directly or indirectly" for education expenses. Per the law, the City's PILOT revenues cannot be used for educational expenses by the BSD because this revenue stream is not available to, or shared with, other school districts.

Following the BSD's agreement with the Agency, the City worked with the BSD and Agency to find legal ways to spend as much of the municipal PILOT funding as possible in a manner that would address goals related to the children of Burlington without improperly using municipal funding for education expenses. The City, Agency, and BSD were able to find ways to appropriately allocate about \$400,000 of the \$1.4 million in PILOT revenues in such a manner, and the City continues to make these payments every year. At the time of this work, then BSD-interim Superintendent Howard Smith was complimentary and appreciative of the efforts of the City in reducing the impact of the Agency ruling on the school budget.

For the next two years, the City saved the remainder of the PILOT revenue. These savings were a small part of the broader improvement of the City's balance sheet that has resulted in multiple credit rating increases. These upgrades have ongoing direct value to the schools. The net present value savings of the reduced interest costs for municipal and BSD bonding has been about \$12.6 million so far, and this figure will rise every year as the City and District take on additional debt.

In 2016, the City partnered with the BSD, Spectrum, and Community Health Centers of Burlington in an effort to re-allocate even more PILOT funding to directly benefit the School District. The CAO and the City Attorney each personally spent many hours making this request as strong as possible in the hope of securing State approval. The Agency of Education rejected these new proposals as inconsistent with State law.

Following the definitive rejection of these proposals, the City invested the remaining FY18 PILOT funds in Burlington's new Early Learning Initiative for infants and toddlers, library investments that benefit young children and teens, the effort to combat the opioid crisis and other youth programming. These investments are consistent with state education law, help

Burlington kids, and indirectly strengthening the BSD by addressing challenges that impact our schools. The City expects to continue these investments in future budgets. Thus, the PILOT funds previously being provided to the District are being spent to support Burlington's children, in a manner that is consistent with State education law.

In the late spring of 2017, the BSD came forward with four new proposals for PILOT spending which the City agreed to review as part of the FY19 budget process. After extensive programmatic and legal review by the City, the City has advised the BSD that it has identified approximately \$30,000 to \$68,000 of previously unanticipated transportation and potentially some recreational costs that it may be able to assume using PILOT funds (the recreational costs require further confirmation).

Recently, as the BSD has been attempting to address FY19 budget challenges, the City has been asked to consider new, alternative uses of the PILOT funds. While it is unlikely that any further uses of the PILOT funds can be found that will help address the BSD's budget challenges, the City is willing to continue to work collaboratively on this issue with the BSD.