

## Amid federal and state funding questions, more Vermont municipalities are turning to local option taxes

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Ludlow is set to join three-dozen other Vermont communities in supplementing property taxes with a 1% local option charge on some combination of rooms, meals, alcohol and sales. Photo by Kevin O'Connor/VTDigger

Ludlow Municipal Manager Brendan McNamara isn't the only local administrator questioning the future of state and federal funding and unforeseen budget-breakers such as flooding.

"A lot of towns are looking for ways to increase revenue," said McNamara, whose community is still awaiting \$2.2 million in reimbursement from the Federal Emergency Management Agency after a historic [July 2023 storm](#).

That's why Ludlow and the communities of Marlboro, Pittsfield and Putney are set this summer to join more than 30 others in supplementing property taxes with a 1% local option charge on some combination of rooms, meals, alcohol and sales.

"Our population swells from 2,000 during slow times of the year to upward of 30,000," McNamara said of the town that's home to the Okemo Mountain Resort. "We want to be able to provide the highest level of services, but our infrastructure has to be able to handle that. This gives us a chance to capitalize on visitors helping pay for what they use."

Ludlow leaders have long known Vermont charges a state tax of 6% on sales, 9% on rooms and meals and 10% on alcohol. Then they learned how a subset of municipalities reaped a collective \$50.9 million this past year by approving an additional 1% fee of their own.

In a plan approved by voters in March, Ludlow expects to pocket nearly \$700,000 annually from a local tax on meals, rooms, alcohol and sales beginning July 1. Of that, residents will pay less than \$40,000, town leaders estimate, while visitors will pick up the rest.

"We're one of the last resort towns in the state to try this," said McNamara, who plans to funnel the new money into flood rehabilitation and resilience projects, fire equipment replacement and water system upgrades.

A total of 37 Vermont municipalities have approved some sort of local option tax since Manchester became the first in 1999, [the state reports](#). The smallest — the lakefront town of Westmore, population 357 — only taxes rooms. The largest — the city of Burlington, population 44,743 — taxes all the options of meals, rooms, alcohol and sales.

Different places cite different purposes for the additional money.

"Some want to control property taxes and bring in new revenue, while others may be considering substantial new infrastructure projects or other initiatives," said Samantha Sheehan, a municipal policy and advocacy specialist with the Vermont League of Cities and Towns.

Prior to last year, communities had to create or change local charters to enact local option taxes. Then the state Legislature voted to extend the opportunity to the nearly 200 cities and towns without charters. That led six municipalities to approve new local option taxes during Town Meeting voting last month.

Montpelier, for example, approved a 1% tax on sales to supplement its already established charges on rooms, meals and alcohol. The new add-on is estimated to collect another \$500,000 a year.

Not all communities are sold on the concept. In Royalton, local leaders told this year's Town Meeting that a proposed tax on rooms, meals and alcohol could reap an estimated \$24,000 annually. But after some residents questioned if it would hurt local households and businesses, they blocked passage in a 51-51 vote, minutes show.

Whitingham, for its part, rejected local taxes on rooms, meals, alcohol and sales after some Town Meeting attendees expressed concern it could deter tourists, leaders there said.

Under the long-standing law, local option tax money is collected by the state, which returns 70% to the sending community and keeps the remaining 30% for processing fees and a special [Payment In Lieu Of Taxes \(PILOT\)](#) fund that compensates municipalities for the value of state-owned property.

The Vermont League of Cities and Towns is pushing the Legislature to increase that municipal draw to 75% or 80%.

"Even a 5% shift is really substantial," Sheehan said.

Hartford, for example, would take in about \$150,000 more with a 5% increase, while Williston could see an additional \$500,000, each municipality estimates.

The league is also lobbying for the creation of a new local short-term rental tax separate from that on rooms. But the Legislature, facing growing uncertainty about federal revenue to the state, has yet to commit to returning more local option tax money to the communities that collect it.

"Municipal government in Vermont delivers many of our most important and most relied-on services," Sheehan said. "The needs of those budgets are becoming more difficult to manage through property taxes alone. Getting money back to those local option towns would be a real wind in the sails."