VERMONT LEGISLATIVE
Joint Fiscal Office
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Fiscal Note
April 11, 2022

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H.159 – An act relating to community and economic development and workforce revitalization

As recommended by the Senate Committee on Finance, Draft 1.4

https://legislature.vermont.gov/Documents/2022/WorkGroups/Senate%20Finance/Bills/H.159/Drafts,%20Amendments%20and%20Legal%20Documents/H.159~Rebecca%20Wasserman~As%20Recommended%20by%20the%20Senate%20Committee%20on%20Finance~4-8-2022.pdf

Bill Summary

The bill addresses the negative economic impacts of COVID-19 on Vermont's economy, employers, workers, and families and establishes opportunities to grow Vermont's economy. The bill includes appropriations for new and existing programs that are aimed at recruiting out-of-state workers, supporting businesses, reimbursing paid leave related to COVID-19, and boosting unemployment benefits. The bill also includes task forces to study the sports betting and film industries in Vermont and how to support them.

Fiscal Impact

The bill carries $100.9 million in appropriations. Of that amount, $20.0 million occurs in FY 2022 and the remaining $80.9 million occurs in FY 2023. The bill also creates a new project-based tax increment financing (TIF) program and makes changes to Vermont's existing TIF program that will have, on net, a negative fiscal impact of uncertain size on the Education Fund. The bill also raises the minimum wage, likely to have a small positive fiscal impact on the General Fund. Some provisions for per diems in the bill do not have an explicit appropriation attached to them. JFO estimates that the per diems will cost approximately $6,000 in FY 2023.

Background and Details

The bill appropriates $100.9 million overall. The appropriations are from two different sources. $16.2 million are General Fund appropriations and $84.7 million are American Rescue Plan Act State Fiscal Recovery (ARPA SFR) appropriations.

- Of the $84.7 million in ARPA SFR Funds, $20.0 million occur in FY 2022 and $64.7

million occur in FY 2023.
- The $16.2 million in General Fund appropriations occur in FY2023.

Additionally, JFO estimates two sections will incur per diem expenses that are not appropriated for in the bill which will cost approximately $5,900 in FY 2023. The bill also includes new programs and changes relating to Tax Increment Financing (TIF) districts that will have a negative fiscal impact on the Education Fund. Further details on the TIF provisions can be found below.

Overview of Appropriations

Table 1. Summary of Appropriations

Section	Program	Appropriation Amount	Source	Fiscal Year
2	New Relocating Employee Incentives	$6,000,000	General Fund	2023
3	Think Vermont Regional Recruitment and Relocation Network	$4,200,000	General Fund	2023
4	Capital Investment Grant Program	$40,000,000	ARPA SFR	2023
5	VEDA Short-Term Forgivable Loan Program	$20,000,000	ARPA SFR	2022
14a	COVID-19-Related Paid Leave Grant Program	$16,500,000	ARPA SFR	2023
14c	Paid Family and Medical Leave; Task Force; Report	$200,000	ARPA SFR	2023
14d-j	Unemployment Insurance Supplemental Benefits	$8,000,000	ARPA SFR	2023
15	Brownfields Revitalization Fund	$6,000,000	General Fund	2023
Total Appropriations		**$100,900,000**		
Total General Fund Appropriations		**$16,200,000**		
Total ARPA SFR Appropriations		**$84,700,000**		

The following programs have fiscal impacts and are described briefly here:

New Relocating Employee Incentives
Section 2 of the bill appropriates $6.0 million in General Fund din FY 2023 to the Agency of Commerce and Community Development for worker recruitment activities. This includes $1 million to the base budget of the Relocating and Remote Worker program established in 10 V.S.A. § 4 and $5 million in one-time funding for the program in FY 2023. It also removes the criteria that relocating workers must work in an occupation on the Vermont Department of Labor's list of "Occupations with the Most Openings" in its "Short Term Employment Projections 2020-2022."

Think Vermont Regional Recruitment and Relocation Network
Section 3 of the bill appropriates $4.2 million in General Fund dollars in FY 2023 to the Department

of Tourism and Marketing to expend over the course of two years. Of the total, $1.2 million will support a regional relocation network to facilitate recruitment and relocation of individuals to Vermont. The remaining $3 million is for marketing to promote Vermont as a relocation destination, attract new residents and generate leads for the regional relocation network.

Capital Investment Grant Program

Section 4 appropriates $40.0 million in ARPA SFR funds to the Agency of Commerce and Community Development to administer the Capital Investment Program created in Act 74 of 2021. The Agency will reallocate any remaining funds appropriated to the Economic Recovery Grants program in Act 74 of 2021 to the Capital Investment Program. Grantees must be able to comply with the Department of Treasury Final Rule and meet certain criteria to be deemed eligible. Grants cannot exceed the lesser of $1.0 million or 20 percent of the total project cost.

The bill removes the net fiscal impact data model from the program established in Act 74 and instead requires that the Agency of Commerce and Community Development develop guidelines in coordination with the Joint Fiscal Office and approved by the Joint Fiscal Committee. The Agency may also designate one or more sectors for priority consideration in the application process including arts and culture, travel, lodging, tourism, agriculture, and childcare.

VEDA Short-term Forgivable Loan Program

Section 5 of the bill appropriates $20.0 million in ARPA SFR funds to the Vermont Economic Development Authority in FY 2022 to operate the VEDA Short-Term Forgivable Loan Program. Eligible borrowers must have fewer than 500 employees located in Vermont and must identify economic harm caused by the COVID-19 pandemic. Economic harm will be measured by a material decline in annual adjusted net operating income from before the COVID-19 pandemic to after it.

To be eligible for a loan, a business needs to have experienced a 25 percent reduction in its adjusted net operating income in 2020 and 2021 combined when compared to 2019. Further, at least 50 percent of the reduction in net operating income must have occurred in 2021.

The Agency will consider previous State or federal assistance in connection with the pandemic, reasonable owner's compensation, noncash expenses, and other adjustments deemed appropriate. Loaned amounts will be used for eligible fixed or operating expenses, and the loan is not to exceed the lesser of $200,000, six months of eligible cost, or the amount of cumulative decline in adjusted net operating income in 2020 and 2021. VEDA will consult with the Joint Fiscal Office to establish guidelines.

COVID-19-Related Paid Leave Grant Program

Section 14a establishes the COVID-19-Related Paid Leave Grant Program in the Agency of Administration. The Agency will administer and award grants to employers to reimburse part of the cost of providing COVID-19-related paid leave provided to employees during calendar year 2022. Grants also may be used to reimburse employers for unpaid leave for COVID-19-related reasons.

$16.5 million is appropriated from ARPA SFR funds to the Agency of Administration in FY 2023; not more than five percent of that appropriation may be used for expenses related to program administration and outreach. Reimbursement of COVID-19-related paid leave or unpaid leave is equal to 67 percent of the greater of minimum wage or the employee’s regular hourly wage times number of hours reimbursed. The number of hours reimbursed cannot exceed the lesser of 80 hours or two times the employee's average weekly hours. The maximum hourly reimbursement for an employee cannot exceed $27.50.

Paid Family and Medical Leave

Section 14c creates the Paid Family and Medical Leave Insurance Task Force to examine best practices and implementation possibilities for potential enactment of a paid family and medical leave insurance program in Vermont. The Task Force is composed of three members of the House of Representatives and three members of the Senate, all of whom are eligible to receive the legislative per diem and expenses for Task Force meetings outside of the usual legislative session. The meetings will begin in September 2022 and conclude prior to January 15, 2023 when the report is due.

$200,000 is appropriated to the General Assembly from ARPA SFR funds in FY 2023 for expenses related to modeling and actuarial projections and for per diem compensation and reimbursement of expenses for members of the Task Force. The per diem compensation and reimbursement of expenses is expected to be about $8,000.

Unemployment Insurance Supplemental Benefits

Section 14f provides a COVID-19 Supplemental Benefit of $25.00 per week to each recipient of Unemployment Insurance benefits beginning July 1, 2022. An earlier section of the bill (Section 14e) repeals a supplemental benefit created by Act 51 Sec. 11 of 2021, which was set to expire October 7, 2021. The new Supplemental Benefit established here will be repealed on July 1, 2024.

Section 14g establishes the Unemployment Insurance COVID-19 Supplemental Benefit Special Fund from which the Supplemental Benefit will be paid.

Section 14h appropriates $8.0 million from ARPA SFR funds to the Unemployment Insurance COVID-19 Supplemental Benefit Special Fund. Not more than five percent of the amount appropriated maybe used for administrative costs related to implementation and payment of the Supplemental Benefit.

Brownfields Revitalization

Section 15 appropriates $6,000,000 in General Fund dollars to the Agency of Commerce and Community Development in FY 2023 to use in the same manner as the Brownfields Revitalization Fund without the limitation that projects supported are limited to $200,000 in grants per parcel.

Increase in the Minimum Wage

Minimum Wage

Section 13 proposes raising the minimum wage from $12.55 in 2022 to $13.75 in 2023 and $15.00 in 2024.

The Joint Fiscal Office was unable to update the 2020 State economic and fiscal impact model used to analyze the proposed increase without a complete analytic re-run because labor markets, particularly for low-wage jobs, have changed significantly since the most recent wage survey in early 2021. Anecdotally, fast food restaurants, hospitality, and childcare providers, for example, currently offer substantially higher wages to hire and retain workers—often at or above $15 per hour. The nationwide Employment Cost Index for calendar year 2021 reported that compensation for workers in Accommodation and Food Services increased 8.1 percent and in Nursing Services and Residential

Care Facilities 5.9 percent. Using those statistics to illustrate wage increases for low-wage workers, the inflation-adjusted increases in the minimum wage would be less in 2023 and 2024 than was the case in 2021 and 2022.[1] Smaller inflation-adjusted increases suggest smaller fiscal impacts on the State than in 2021 and 2022. Similarly, a relatively small number of jobs will likely disappear in the short term. In the long term, both the number of jobs and the level of GDP in Vermont will be a bit lower.

Using an average of the 8.1 percent and 5.9 percent wage increases cited above as an indicator of tight labor markets and wage inflation at the lower end of the wage scale would result in real increases in 2023 and 2024 that are about half as large as the real increases in 2021 and 2022. Hence, a cursory estimate would render the fiscal impacts about half as large as was the case in 2020 when the prior analysis was performed. As a rough guesstimate, the net fiscal impact would likely be less than $1 million to the good in FY 2023 and less than $3 million to the good in FY 2024. Direct fiscal impact to the State arises from 1) increased State revenue coming from income taxes paid by some workers who earn higher wages as well as increases in other taxes and fees, 2) the cost of higher wages paid to some State workers and contractors, and 3) possible impacts on State program benefit levels arising from changes in eligibility.

Per Diems

Film and Media Industry Task Force

Section 12 establishes the Vermont Film and Media Industry Task Force which will consult relevant stakeholders in the film and media industry in order to write and submit a report to the legislature by January 15, 2023. The report will review the history of State efforts to cultivate the film and media industry in Vermont and what financial and other support the State could provide to revitalize the industry. Task force members will be entitled to per diems and expenses which will be an estimated $2,300 in FY 2023.

Sports Betting Study Committee

Section 17 creates the Sports Betting Study Committee which will examine whether and how to regulate legal sports betting in Vermont. The study committee will examine the sports betting study conducted by the Office of Legislative Counsel and Joint Fiscal Office. The report will be submitted to the legislature by December 15, 2022. Members of the study committee will be eligible to receive per diems and expenses which will incur an estimated $3,600 in expenses in FY 2023.

While the bill does not appropriate funding for per diems of these task forces, the table below lays out JFO's estimates in FY2023 for required per diems and expenses.

Table 2. Summary of Per Diem Costs

Task Forces and Study Committee	Total Per Diem Expenditure
Film Commission Task Force	**$2,300**
Sports Betting Study Committee	**$3,600**
Total	**$5,900**

[1] For more detailed results pertaining to the minimum wage increases in 2021 and 2022, see the January 2020 Fiscal Note available at https://ljfo.vermont.gov/assets/Subjects/Minimum-Wage-Other/be595b0153/S_23_Minimum_Wage_Fiscal_Note_CoC_Jan_23_2020.pdf.

Tax Increment Financing Districts

Tax Increment Financing Project Development Pilot Program

Section 8 creates a new project-based tax increment financing pilot program running from January 1, 2023 to December 31, 2027. Like Vermont's existing TIF program, the program allows municipalities to retain the growth in Education and municipal taxes that result from private development spurred on by a public investment.

In the existing TIF program, TIF dollars can be used to finance numerous public infrastructure projects in a TIF district. The new program in section 8 is designed for a single public infrastructure improvement with no more than $5 million in total debt costs. The bill states that no more than four such projects can be created, and the program is set to sunset in 2027. Like the TIF program in current law, municipalities are eligible to retain up to 70 percent of Education tax increment for up to 20 years.

Forecasting the exact Education Fund impact[2] is not possible because there are several unknown variables including:

- The size (and therefore, original taxable value) of the corresponding districts that they create.
- The projected growth in tax increment that could occur as a result.
- The change in tax rates over the course of 20 years.

The maximum debt each project can incur is $5 million and the total overall number of projects VEPC is permitted to approve is capped at 4 projects. Therefore, the maximum debt that these districts could incur is limited to $20 million.

According to VEPC's 2021 Annual TIF Report, $243 million of TIF debt is expected to be incurred for the existing TIF program, yielding projected grand list growth of $950.3 million, for an average return on investment of $3.91 in grand list growth for every $1 of debt incurred.[3] The return on investment for the projects in this bill are likely to be lower because the existing TIF program benefits from very large projects in the Chittenden County area (such as the Winooski TIF District, the Burlington Waterfront and Downtown districts). It is also likely the districts themselves will be smaller.

As an approximation of potential impact on the Education Fund, assuming a return on investment of $3.91 and maximum take-up of the program, total grand lists within these districts could increase by up to $78.2 million. Because much of the building of these projects would occur between 2023 and 2028, it is likely that the $78.8 million increase would be fully realized sometime closer to 2030. Therefore, the fully realized Education Fund impact occurs for around 15 years (or between 2030

[2] The fiscal impact of this new program depends on whether projects would have occurred but for the use of this tool. Because 32 V.S.A. Sect 305b requires the Joint Fiscal Office and Department of Taxes to treat the impact of the regular TIF program as a cost to the Education Fund, that same methodology will be used here.

[3] VEPC 2021 TIF Annual Report: https://accd.vermont.gov/sites/accdnew/files/documents/DED/VEPC/Tiff/AnnualReports/2021%20TIF%20Annual%20Report-FINAL.pdf

and 2045).

Assuming also that most of the development in the new districts will be non-residential (as is the case in existing districts), using FY 2022's average nonresidential tax rate of $1.612 for the next 20 years (as is the practice for existing TIF district applications) would imply that once the districts fully realize their growth increments, just over $1.26 million in Education Fund tax increment would be generated per year. 30 percent of this ($378,000) would be remitted to the Education Fund and 70% ($882,000) would be retained for the district.

Accordingly, the program could result in a cost to the Education Fund of up to $882,000 per year once the districts have matured (sometime around 2030), ramping up slowly to this level from 2022 through 2030, although the actual cost may be moderately lower or higher than this range.

Administrative costs to VEPC are expected to be minimal, although it is likely some administrative costs will be borne by participating municipalities.

Debt Service Reserves for TIF Districts

Section 9 of the bill allows municipalities to use bond proceeds to fund debt service for a period of up to 5 years from when the debt is first incurred.

There is the potential for a negative impact on the Education Fund from this practice, largely stemming from the fact the municipality is borrowing more than it needs for infrastructure improvements. The additional cost arises from the increased interest payments on the extra debt.

Based only upon the case of the St. Albans TIF district, JFO estimates that the practice will cost the Education Fund no less than $300,000 over the next 20 years. JFO is aware that other TIF districts have used this practice, but how many districts and the size of those debt service reserves are unclear. The cost is directly related to the increased interest costs accrued to fund debt services using bond proceeds.

Additionally, to the extent that borrowed funds are being used for debt service reserves as opposed to infrastructure development, and therefore, increased property values, the cost could be higher. This is because the municipality is foregoing future tax increment by not using the proceeds for public infrastructure.

However, if bond proceeds were not permitted to fund debt service, it is difficult to know with certainty whether a) the municipality would use those bond proceeds for investment, b) if they did use them for investment, how much in private development would they leverage and c) whether redirected municipal General Fund dollars used to pay debt service would result in lower investments elsewhere in the town.