Vermont Legislative Joint Fiscal Office

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FISCAL NOTE

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S.256 An act relating to creating the New Vermont Employee Incentive Program – As Amended by the Senate Committee on Finance.

Bill and Fiscal Summary

This bill creates or alters economic development programs in the State. It includes the following:

- Creates a New Vermont Employee Incentive Program, largely codifying and making permanent a single grant program for new Vermont employees comprised of the former New Remote Worker Program and the New Worker Relocation Incentive Program (created in 2018 and 2019 respectively).
  - **This section creates a statutory structure for an on-going program with some level of expenditures. In FY 2021, this could be up to $375,000 if last year's appropriations continued unchanged.**
- Creates a new supplemental tax increment financing (TIF) pilot program for 3 years specifically designed for smaller projects, with a maximum debt for each project limited to $1.5 million. Similar to Vermont's existing TIF program, these small districts would be entitled to retain Education property and municipal tax increment for up to 20 years.
  - **The cost of this program on the Education will be limited in the near term but will likely reach between $100,000 to $350,000 per year in the longer term.**
- Directs a study by the Agency of Commerce and Community Development on whether future expansions of the Downtown and Village Center tax credit program would dilute the effectiveness of the credits.
- Appropriates $1 million in funding from the General Fund to the Secretary of State to complete work on the one-stop business portal for information on starting and operating and business in Vermont.

A detailed look into specific sections follows:

<u>Sections 1-3: New Vermont Employee Incentive Program</u>

This section of the bill creates a new program called the "New Vermont Employee Incentive Program," the purpose of which is to provide grants to individuals who establish residency in Vermont and work. The grant is equal to $5,000 for most individuals, however, a grant of $7,500 is awarded to individuals who relocate to areas of greater economic distress. Individuals who apply for the grant are eligible to claim expenses such as relocation costs, computer software or hardware costs, broadband access upgrades or membership to coworking space costs.

While the bill does create a new program, functionally, it creates a statutory structure for an on-going program with subsequent appropriations for two programs that were previously one-time or pilot programs.

It combines and makes permanent the existing Vermont New Remote Worker Grant Program and the New Worker Relocation Incentive Program into a single program. The appropriation for these two programs was $125,000 for the New Remote Worker Program in FY 2021 and $225,000 for the New Worker Relocation Incentive Program for FY20, which was one-time. Both of these would be from the General Fund and this bill does not increase overall funding for the new combined program. **Therefore, the creation of this program does not necessarily increase new spending, but rather, sets up a new program with the potential for ongoing appropriations. In FY 2021, this is estimated at up to $375,000 per year.**

<u>Section 5: Project-Based Tax Increment Financing</u>

This section of the bill proposes to create a supplemental smaller version of the existing Vermont TIF program whose focus would be on financing smaller projects that are too narrow in scope for the existing TIF program. This new program is similar to the broader TIF program with notable exceptions:

- It is a pilot program for 3 years beginning January 1, 2021 and ending December 31, 2023.
- The pilot program has a limit of 6 total projects.
- Each project has a debt limit of $1.5 million.
- Any project must incur debt within 3 years of creation (as opposed to 5 in the existing TIF program).
- Projects only have to meet 1 of 4 statutory project criteria (as opposed to 3 in the existing TIF program).
- Projects do not require an audit by the State Auditor's Office.

Like Vermont's existing TIF program, these projects would be eligible to retain up to 70% of Education property tax increment and at least 85% of municipal property tax increment to financing related infrastructure costs.

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.

Forecasting the exact cost is impossible because there are several unknown variables including:

- The number of municipalities that will use this program
- 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 $1.5 million and the total overall number of projects VEPC is permitted to approve is capped at 6districts over the 3-year pilot period. Therefore, the maximum debt that these districts could incur is limited to $9 million.

In Vermont's existing TIF districts, $274 million of debt is expected to be incurred, yielding projected grand list growth of $985.5 million, for an average return on investment of $3.60 for every $1 of debt incurred.[1] 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.

To get a sense of scale of the potential impact on the Education Fund, assuming a ROI of $3.50 and maximum take-up of the program, total grand lists within these districts could increase by up to $31.5 million. Because much of the building of these projects would occur between 2021 and 2025, it is likely that this $31.5 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 and 2045).

Assuming also that most of the development in these districts will be non-residential (as is the case in existing districts), using FY 2020's nonresidential tax rate of $1.594 for the next 25 years (as is the practice for existing TIF district applications) would imply that once the districts fully realize their growth increments, just over $500,000 in Education Fund tax increment would be generated per year. 30% of this ($150,000) would be remitted to the Education Fund and 70% ($351,000) would be retained for the district. Using the assumption that most of the development would have occurred anyway, as is the methodology used for the Emergency Board estimate for TIF, this $351,000 is the foregone revenue, and therefore, a cost to the Education Fund.

As such, in all likelihood, this program will likely result in a cost to the Education Fund of between $100,000 and $350,000 per year once the districts are matured (sometime around 2030), ramping up slowly to this level from 2021 through 2026, 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.

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[1] VEPC 2020 TIF Annual Report: https://accd.vermont.gov/sites/accdnew/files/documents/DED/VEPC/Tiff/AnnualReports/2020%20TIF%20Annual%20Report-FINAL.pdf