VERMONT LEGISLATIVE
Joint Fiscal Office

Financing Public Infrastructure in Vermont Municipalities

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Contents

Executive Summary

The historic floods of 2023 and the pressing housing crisis necessitate significant investments in the infrastructure of Vermont's cities and towns. While a wide range of funding sources exist, many are not readily accessible to Vermont municipalities.

According to the Agency of Administration (AOA), more than 100 towns in Vermont do not have a manager or an administrator. The financing of projects is challenging because there is usually more than one source of funding, which are assembled into a capital stack for the project.[1] The different sources of funding often require balancing different performance periods and reporting requirements of State and federal grants, which is immensely challenging even with a municipal manager and staff. An additional challenge is that the state's municipal infrastructure gaps are significant. For example, only 50% of Vermonters are served by municipal direct discharging wastewater treatment facilities, one of the lowest rates in the country.[2] Lack of available water treatment systems precludes development including higher density housing, making it more challenging to develop in Vermont town centers.

This report investigates:

1. Existing funding sources for public infrastructure in Vermont, including local, State, and federal funds.
2. The challenges faced by different sized towns in Vermont in funding and implementing infrastructure programs.
3. A lensed approach looking at different entities in Vermont that could shoulder some of the burden of finding and implementing funding
4. Other states' public infrastructure funding programs that could be implemented in Vermont.

More analysis and modeling would be needed to assess the size of the financing needs of Vermont municipalities and the possible revenue streams that could bridge the gap. This report aims to present the general issues and offer broad considerations.

These considerations include:

- Many cities and towns need additional capacity to implement infrastructure projects. The magnitude of need, and the complexities of finding funding sources and completing program monitoring can be beyond the scope of staff and volunteers in small towns.
- A wide variety of local, State, and federal resources already exist, making it complicated to build and manage a capital stack.
- Even if local capacity and resource issues were solved, complex local decision making further complicates project timelines and feasibility. These considerations require thinking about Vermont's collective vision of its future and the overall tax burden faced by property owners and renters.
- Other states have responded to these challenges in a variety of ways:
  - New Mexico has a revolving loan fund program specifically designed for local infrastructure programs. The program offers subsidized loans for communities in disadvantaged areas. Well-capitalized loan fund programs can offer more resources to municipalities, however if the State implemented a revolving loan program in Vermont it would need to determine the best way to leverage funds and not further complicate a wide-ranging funding landscape.
  - Massachusetts has consolidated 12 programs in three agencies into a common application portal and approval process called the "Community One Stop for Growth." After awards are announced, recipients work with each agency to manage their specific grant. Common applications can help lessen the burden of finding and applying for different program separately; grant funded programs usually have different requirements and application formats.

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[1] A capital stack refers to the layers of different capital or funding sources that jointly finance a construction or renovation project.

[2] "2023 Report Card for Vermont's Infrastructure." *Vermont Section of the American Society of Civil Engineers*. https://infrastructurereportcard.org/wp-content/uploads/2016/10/Report-2023-VT-IRC-FINAL-WEB.pdf

- Minnesota has two fiscal disparity programs, one including communities within the Twin Cities metro area and one in the northeastern region of the state. This program automatically shares a portion of the commercial and industrial tax base between participating communities, promoting a more equal distribution of property tax wealth. Communities with an increased tax base can use a portion of these proceeds to develop local infrastructure.

Determining which policy options to pursue requires answering questions about the main issues facing municipalities. If policymakers determine the main challenge facing Vermont towns in developing new infrastructure is capacity, attention could focus on continuing programs that build local capacity or bolstering the contribution of RPCs, which serve as conduits between municipalities and the State. The State could also play a role by consolidating grant applications and offering uniform applications for different subject areas, such as recreational trails, water infrastructure, or site preparation and remediation, following the example of Massachusetts with its One Stop for Growth Program.

Expanding resources for infrastructure development could follow the examples of the states mentioned above, either by developing mechanisms that deliver funding to towns automatically or by creating programs that fund infrastructure more broadly, since many project areas already benefit from a variety of funding options.

Regardless of the path taken, policymakers will still need to weigh fundamental issues inherent in any funding decision - How much investment is enough? What should be the source of funds? What level of match is appropriate? Who should pay and who should benefit?

Statutory Language

Act 72 of 2023, Sec. 32:
On or before January 15, 2024, the Joint Fiscal Office shall submit a report to the House Committee on Ways and Means and the Senate Committee on Finance on financing public infrastructure improvements in Vermont municipalities. The report shall include the following:

(1) a review of public infrastructure financing programs in other states and municipalities that may be implemented in Vermont;
(2) recommendations for aligning State and federal assistance for public infrastructure; and
(3) recommendations for harmonizing or expanding existing infrastructure improvement programs and distribution of funding.

What Do We Mean by Public Infrastructure?

The traditional definition of infrastructure includes a long list of activities that rely on a wide variety of funding sources and implementing agencies. These include the core activities traditionally thought of as infrastructure, such as drinking water, wastewater, sewer systems, and road networks. More recently, in the *Build Back Better Framework*, the Biden Administration designated activities like elder care and child care as human powered infrastructure.[3] Localities have also used an expanded definition of local infrastructure. For example, the city of Madison, South Dakota used a Tax Increment Financing District, which is more commonly used to fund road and sewer improvements, to support the construction of a 14,000 square foot child care center that has room for up to 140 children.[4]

This report will limit the definition of public infrastructure to the improvement activities listed in the definition of improvements in 24 V.S.A. Subchapter 5 (§ 1891 and 1893), which governs Tax Increment Financing Districts:

> "'Improvements' means the installation, new construction, or reconstruction of infrastructure that will serve a public purpose … including utilities, transportation, public facilities and amenities, land and property acquisition and demolition, and site preparation."

As used in this report, these activities are defined as follows:

- *Utilities:* Within this report, utilities primarily refer to the development of water and sewer infrastructure. Although broadband is often included within the definition of utilities and essential infrastructure, Vermont's broadband infrastructure rollout has mostly been paid for with State funds and federal Broadband Equity, Access, and Deployment (BEAD) funds. Because of this, broadband will not be included as a utility in this report.[5]
- *Transportation:* Transportation will be limited to streetscaping, multi-modal (pedestrian and bike access) projects and improvements, and similar changes primarily intended to promote investment and economic development. Transportation largely does not include paving projects, bridge construction or repair, or other projects that facilitate the movement of people or goods. For more information on this type of transportation funding, please visit the transportation section of the Joint Fiscal Office website and the 2023 Transportation Committee Primer.[6]
- *Public facilities and amenities:* Public facilities and amenities include libraries, town halls or public safety buildings, community and senior centers, parks and more. For the scope of this report, schools are not considered public facilities, as they have their own financing source – the statewide Education Fund.
- *Land and Property Acquisition and Demolition:* Cities and towns may consider acquiring property so that a project can be eligible for certain types of funding. They may also assist with the demolition of blighted or unsafe properties to support new development.
- *Site preparation:* Land in village downtowns and other areas that were previously developed may be contaminated and in need of remediation. While not traditionally considered infrastructure, cleaning up

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[3] "The Build Back Better Framework." *The White House.* Accessed January 8, 2024. https://www.whitehouse.gov/build-back-better/

[4] Huber, Makenzie. "City leaders fund child care center with tax district typically used for roads, sewer." *South Dakota Searchlight.* November 22, 2023. Accessed January 8, 2024. https://southdakotasearchlight.com/2023/11/22/madison-south-dakota-funds-child-care-center-tif-tax-increment-financing-district-roads-sewer/.

[5] Wertlieb, Mitch. "Vermont to receive $229 million in federal funds to expand broadband access." *Vermont Public.* June 28, 2023. Accessed January 8, 2024. https://www.vermontpublic.org/local-news/2023-06-28/vermont-to-receive-229-million-in-federal-funds-to-expand-broadband-access.

[6] https://ljfo.vermont.gov/subjects/transportation;
Rupe, Chris. "Transportation Committee Primer (2023)." *Vermont Legislative Joint Fiscal Office.* December 9, 2022. https://ljfo.vermont.gov/assets/Subjects/Transportation-Notices-and-Issues/5561bf39ed/2023-2024_Transportation_Committee_Primer.pdf.

environmental contaminants is often cost-prohibitive for private investors. Municipalities may be able to pave the way for housing or commercial development by handling the costs of such projects.

Even this narrowed list is a wide-ranging collection of activities that cut across numerous implementing and funding agencies. This report focuses on water infrastructure. Although this type of infrastructure is a necessary condition for new housing and commercial development in designated downtowns, 200 Vermont towns do not have a municipal wastewater system, and more than 100 do not have a public water system.[7]

This report generally uses the definition of "municipality" found in 1 V.S.A. § 126, which includes a "city, town, town school district, incorporated school or fire district or incorporated village, and all other incorporated units." In accordance with the exceptions to the definition of "improvements" above, this report will not cover town school districts or incorporated schools.

[7] "Village Water and Wastewater Initiative." *Vermont Agency of Natural Resources*. Accessed January 8, 2024. https://anr.vermont.gov/special-topics/arpa-vermont/village-water-wastewater-initiative.

Current Sources of Infrastructure Funding in Vermont

There is a wide range of existing public infrastructure funding sources, from $20,000 grants to programs that offer millions in bonds or forgivable loans. Capturing the complete set of funding available to municipalities is not within the scope of this report. Rather than providing an exhaustive list, this section will include major sources of funding in each area and link to resources that provide a more thorough accounting of different programs and opportunities.

Funding opportunities described in this report are mostly categorized based on the implementing agency – local, State, federal – rather than the source of the funds. For example, some projects are primarily federally funded, but recipients work with the state to access these funds. In this case the program would be considered a state source.

Local Sources of Funding

Localities currently have three main sources of infrastructure funding – local tax revenues, bonding, and American Rescue Plan Act (ARPA) Local Fiscal Recovery Funds. Generally, local tax revenues are recurring in nature while ARPA funds are one-time. Bonding is a tool to advance future cash flows for more immediate use, but does it not represent "new money" – bonds must be paid back with interest in future years.

Local Tax Revenues: These funds can come from municipal general funds or from special district revenue captured through an additional surcharge on property tax rates in a town. As an example of how a city or town may allocate revenue through a municipal budget, the City of Montpelier proposed spending $94,079 for capital improvements to storm drains and culverts and $658,232 for capital improvements to streets in its proposed fiscal year 2025 budget.[8]

In addition to municipal general funds, tax revenues can be directly collected through a village district or through certain types of "special purpose districts" authorized in statute – such as consolidated water districts, consolidated sewer districts, and fire districts.[9] These structures allow for investments and revenues to be geographically aligned. For example, in 2022, the Poultney Village District generated $343,500 in property tax revenue to pay for a wide range of village services in the Poultney town center. The Barton water and sewer districts collectively generated $119,837 from property taxes.[10]

Local Bonding: Bonds (long-term loans) are commonly used to support the initial implementation and construction of a project. Bonds commonly come in two forms, either as a General Obligation or Revenue bond. General obligation bonds are collateralized by the general tax revenues and taxing authority of the town issuing the bond. Revenue bonds, on the other hand, are paid from revenues generated from a particular project or funding source. For example, a revenue bond supporting a new wastewater project would likely be paid back from the fees and charges paid by users of the wastewater system.

Vermont Bond Bank – Pooled Loan Program: A major source for local funds is the Vermont Bond Bank (VBB), formerly the Vermont Municipal Bond Bank. VBB was created by the General Assembly to "foster and promote by all reasonable means" access to low-cost capital for municipalities, counties, and

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[8] "Budget Book." *City of Montpelier.* Accessed January 8, 2024. https://city-montpelier-vt-budget-book.cleargov.com/14120/capital-improvements/capital-improvements-one-year.

[9] Note that other districts can receive allocations of municipal revenues; Horn, Karen. "Special Purpose Districts." *Vermont League of Cities and Towns.* Accessed January 8, 2024. https://legislature.vermont.gov/Documents/2018/WorkGroups/Senate%20Finance/TIFs/W~Karen%20Horn~S.135~Special%20Purpose%20Districts~4-13-2017~2-14-2018.pdf.

[10] "2022 Annual Report Taxes and Tax Rates." *Vermont Department of Taxes.* Accessed January 12, 2024. https://tax.vermont.gov/sites/tax/files/documents/TaxRates2022.pdf.

school districts.[11] VBB provides affordable access to the bond market via pooled bond issues for municipalities and projects that may otherwise be too small to easily access the market independently. In total, 116 local governments have an outstanding balance of $341,193,320 through the pooled loan program. Focusing on infrastructure, VBB financed over $1.2 billion in local projects between 2000 and 2022.[12] This figure includes projects like the Barre City "Wastewater Biosolids Project," a renovation project which cost $913,000 in 2019, and the $1.68 million renovation of the sewer system in Chester. In addition to bonding, VBB also offers loans through the State Drinking and Clean Water Revolving Loan Fund programs listed in the 'State Sources of Funding' section below.

ARPA Local Fiscal Recovery Funds: In 2021, Vermont cities and towns received over $200 million in ARPA funds. Towns had wide latitude to determine the use of these funds, with many setting up ARPA committees to collect ideas for projects from taxpayers. In some places, towns have used or plan to use their local ARPA allotments to improve infrastructure. For example, Colchester has plans to use ARPA funds for the Malletts Bay Sewer Project. Hartford has reported that it will use funds to move a water main away from a failing retaining wall. Warren is planning to use funding for "infrastructure grant matches."[13] ARPA funds are one-time in nature - towns must obligate the funds before December 31, 2024 and spend these funds by the end of 2026. The Vermont League of Cities and Towns (VLCT) is working with municipalities to make sure as many dollars as possible are obligated before the deadline.

State Sources of Funding

This section will review available funding opportunities for municipalities offered through State agencies. As in other sections of this report, the intent is not to capture every available opportunity, but rather to present a sample of the various sources of funding. In addition to standing programs offered by State agencies, the State allocated a large share of the $1 billion in ARPA State Fiscal Recovery funds towards programs for municipalities. These programs are documented in "ARPA State Fiscal Recovery Fund: Programs Available to Municipalities" from the AOA.[14]

Water and Wastewater:

At the State level, a variety of programs exist through the Water Investment Division of the Department of Environmental Conservation (DEC). DEC also has a variety of resources for communities implementing water systems, including planning and financial templates.[15]

- *Clean Water State Revolving Loan Fund:* The Clean Water State Revolving Loan Fund (CWSRF) is a partnership between the EPA and State implementing agencies that offers low-cost loans to control pollution, address municipal water infrastructure, and conduct stormwater mitigation. The fund has distributed over $108 million to clean water projects in Vermont from fiscal year 2016 to 2022.[16] The annual Capital Bill allocates State matching funds and loans through this program are funded through the Vermont Bond Bank and the Vermont Economic Development Authority (VEDA).

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[11] "2022 Annual Report." *Vermont Bond Bank.* Accessed January 8, 2024. https://www.vtbondbank.org/sites/default/files/2023-03/VBB-AnnualReport-2022-V4_low%20res.pdf

[12] The $1.2 billion figure also includes school construction and some roadway improvements not within in the scope of the report.

[13] Basic information about projects funded through Local ARPA funds can be found through annual reporting submitted by Vermont cities and towns to the U.S Treasury, available here https://www.vlct.org/topics/federal-funding/american-rescue-plan-act.

[14] "ARPA State Fiscal Recovery Fund: Programs Available to Municipalities." *Vermont Agency of Administration.* October 2022. Accessed January 8, 2024. https://finance.vermont.gov/sites/finance/files/documents/VT_ARPA_SFRF_Municipal_Programs_Oct22_vF.1.pdf

[15] "Water Infrastructure Financing Programs." *Department of Environmental Conservation*. Accessed January 8, 2024. https://dec.vermont.gov/water-investment/water-financing.

[16] "Vermont Clean Water Initiative 2022 Performance Report." *Vermont Agency of Administration.* January 13, 2023. Accessed January 8, 2024. https://dec.vermont.gov/sites/dec/files/WID/CWIP/Vermont%20Clean%20Water%20Initiative%202022%20Performance%20Report.pdf.

- *Drinking Water State Revolving Loan Fund (DWSRF):* This revolving loan fund supports privately-owned community and nonprofit public water systems recommended by the Agency of Natural Resources (ANR) for funding. Funding can be used to support every stage of a water system's development, from planning to construction. Instead of interest rates, receiving entities pay an administrative fee that ranges from 0% to 2.75%, depending on the type of loan and the average income of system clients.[17] The annual Capital Bill also allocates State matching dollars to the DWSRF and loans through the program are offered through VEDA and the Vermont Bond Bank.
- *Pollution Control Grants and State Revolving Fund*: Pollution control grants can contribute between 10% and 35% of the cost of qualifying water pollution projects. In the fiscal year 2024 budget (Act 69 of 2023) the General Assembly appropriated $4 million to the grants program for "pollution control projects and planning advances for feasibility studies."[18] The Pollution Control State Revolving Fund (SRF) is not always capitalized. Since the Pollution Control Fund does not use federal dollars, funding is not subject to the full set of federal Clean Water State Revolving Fund (CWSRF) rules and regulations, but generally follow the CWSRF process.[19]
- *State ARPA:* State ARPA funds have been allocated to a wide range of infrastructure projects and initiatives. Of the $1.05 billion of State ARPA funds available, over $200 million is for "water, sewer, and wastewater infrastructure."[20] This funding includes the Village Water and Wastewater Initiative, which will spend $30 million to help ten towns develop water systems and four cities mitigate sewer outflows.[21]

Transportation:
The Agency of Transportation (AOT) provides a range of funding programs for alternative and multi-modal transportation programs:

- *Transportation Alternatives Program:* The Transportation Alternatives Program offers funding to municipalities for pedestrian and bicycle facilities, and infrastructure projects that improve access to public transit, environmental mitigation, and safe routes to schools. In fiscal year 2023, grant amounts ranged from $40,000 to $375,000.[22]
- *Bike and Pedestrian Program:* This program provides funding for projects that improve bike and pedestrian infrastructure. In fiscal year 2023 the AOT awarded close to $4.3 million in federal funds for the largest projects and $189,000 for small scale grant awards through this program.[23]
- *Recreational Trails Program:* The Department of Forest, Parks, and Recreation (DFR) allocates an annual $500,000 of Federal Highway Administration funding to construct and maintain motorized and non-motorized recreational trails and associated infrastructure.
- *Municipal Park and Ride Program:* Provides funding for preliminary engineering and construction of park and ride systems of larger than ten spaces in municipalities. In fiscal year 2024, $150,000 in grant funding was allocated to the program.[24]

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[17] "Vermont DWSRF Guidance Document 10." *Vermont Department of Environmental Conservation*. Accessed January 8, 2024. https://anrweb.vt.gov/DEC/IronPIG/DownloadFile.aspx?DID=201746&DVID=0.

[18] Act 69 of 2023. *Vermont General Assembly*. https://legislature.vermont.gov/Documents/2024/Docs/ACTS/ACT069/ACT069%20As%20Enacted.pdf.

[19] "VT Pollution Control Grants." *Department of Environmental Conservation*. Accessed January 8, 2024. https://dec.vermont.gov/water-investment/water-financing/vt-pollution-control-grants.

[20] "Governor Scott's Transformational Investments for American Rescue Plan Funds." https://governor.vermont.gov/arpa.

[21] "Village Water and Wastewater Initiative." *Vermont Agency of Natural Resources*. https://anr.vermont.gov/special-topics/arpa-vermont/village-water-wastewater-initiative.

[22] "SFY 2023 Transportation Alternatives Program – Grant Awards." *Vermont Agency of Transportation*. Accessed January 12, 2024. https://vtrans.vermont.gov/sites/aot/files/highway/documents/ltf/TAP%20APPLICATION%20AWARDS%20-%202023.pdf.

[23] "2023 VTrans Bicycle and Pedestrian Program Federal Grant Awards." *Vermont Agency of Transportation*. Accessed January 12, 2024. https://vtrans.vermont.gov/sites/aot/files/highway/documents/ltf/2023%20BP%20Projects%20awarded%20pdf.pdf.

[24] "Park-And Ride Grant Demonstration Program." *Vermont Agency of Transportation*. July 1, 2022. Accessed January 8, 2024. https://vtrans.vermont.gov/sites/aot/files/highway/documents/ltf/2024%20Park-and-Ride%20Grant%20Program.pdf.

Note that while AOT grants more than $28 million in Transportation Fund dollars to towns annually for Town Highway Aid based on road mileage, and offers several grant programs for specific town infrastructure projects like culverts and bridges, constructing and maintaining local roads is primarily a municipal responsibility. Most of the road and bridge projects undertaken by AOT leverage federal funds and are targeted to improvements on the federal-aid highway system, interstates, and bridges based on project prioritization criteria and the rules and regulations for the respective federal programs.

The State Infrastructure Bank (SIB) provides revolving loan funds for work on highways, roads, and bridges. Loans can be capitalized through federal-aid surface transportation funds or State matching funds. States can also implement rural infrastructure funds by capitalizing with Transportation Infrastructure Finance and Innovation Act (TIFIA) funding. A SIB can borrow anywhere between $10 and $100 million through TIFIA at below market interest rates and pass this funding to rural projects, which can fund 80% of total cost. Electric vehicle (EV) charging stations are also eligible for funding. The Vermont SIB provides funding through loans with a fixed 1% interest rate. Borrowers must provide between 10% and 20% equity for projects. VEDA offers loans through the SIB.

Economic Development and Site Preparation:
Vermont Agency of Commerce and Community Development (ACCD): ACCD manages a wide variety of grants and programs available to help infrastructure in local towns, including:

- *Downtown Sales Tax Allocation:* Projects located in State designated downtowns can apply to have sales tax revenue from certain project expenses invested in the project rather than being directed to the Education Fund. Since 2019, seven projects in five communities have been awarded $2.1 million in sales tax revenues. One of the projects, the Hampton Inn development project in St. Albans, reallocated $103,492 of sales tax from project expenses to pay for municipal utility and stormwater improvements, and streetscaping projects.[25]
- *Tax Increment Financing (TIF) Districts*: Tax increment financing allows towns to capture the value of future property tax growth to pay for infrastructure improvements. Currently, nine cities and towns have a TIF district.[26] While they can be a tool for catalyzing investment, TIF districts require extensive program and financial monitoring and documentation, putting them out of the reach of many smaller towns.
- *Brownfields Revitalization Fund Loan Program*: A program jointly administered by ACCD and ANR that provides environmental remediation funding to sites that are abandoned or unusable due to the presence of contaminants, hazardous substances, or pollutants.[27] ACCD administers the program and ANR handles site management and mitigation work plans. Act 74 (2021) allocated $25 million to the program, and Act 183 (2022) added an additional $6 million.[28]

Federal Sources of Funding

The federal government is a major source of funding for local infrastructure development, especially with current grants and funding opportunities available through local ARPA funds and the Investment, Infrastructure, and Jobs Act (IIJA). For more information about the full breadth of federal funding opportunities, please see the *Vermont Federal Funding Guidebook* produced by the VLCT.[29] That resource

[25] "Downtown Sales Tax Reallocation." Vermont Agency of Commerce & Community Development. Accessed January 8, 2024. https://outside.vermont.gov/agency/ACCD/ACCD_Web_Docs/CD/CPR/Funding-and-Incentives/CPR-SalesTax-Annual-Report.pdf.

[26] Please see the 2022 TIF Report from the Joint Fiscal Office for more information about TIF districts. https://ljfo.vermont.gov/assets/Subjects/Reviews-and-Reports/e8869e3072/GENERAL-358816-v8-2022_TIF_Report.pdf.

[27] "Brownfields Revitalization Fund." *Agency of Commerce and Community Development.* Accessed January 8, 2024. https://accd.vermont.gov/economic-development/funding-incentives/brownfields.

[28] "Brownfields Revitalization Fund- State Program." *Vermont Agency of Commerce and Community Development.* Accessed January 8, 2024. https://accd.vermont.gov/economic-development/funding-incentives/brownfieldrevitalizationfundstateprogram.

[29] https://www.vlct.org/sites/default/files/uploads/federal-funding-assistance-program/vlct-vt-ff-guidebook-v-1.0-121522.pdf

serves as a "roadmap to the available funding – not just the IIJA [sic] but other new and existing federal funding opportunities" and will be updated as federal guidance for funding programs is issued. This section will briefly introduce recent pieces of major legislation and their relevance to public infrastructure development. It will also discuss federal agencies that play a large role in this area.

Two recent pieces of federal legislation will have a large impact on communities throughout the country—State and Local Fiscal Recovery Funds through the American Rescue Plan Act (ARPA), and the Infrastructure Investment and Jobs Acts (IIJA).

ARPA: Became law in March of 2021 in response to the COVID-19 pandemic. The $1.9 trillion package offered direct payments taxpayers, expansions of the earned income tax credit (EITC), child tax credit, and child and dependent care credit.[30] It also allocated $1.25 billion of funding directly to Vermont municipalities, counties, and the State. These funds have been (or will be) appropriated for various eligible projects, including infrastructure investment outlined in earlier sections of this report. Funding allocations to counties were reallocated to towns.[31]

Infrastructure, Investment, and Jobs Act (IIJA): The IIJA allocated $1.2 trillion in funding, of which $550 million was to remain outside of the normal formula funding process. Some examples of infrastructure funding in the IIJA include:

- *Brownfields:* $1.5 billion to across the country to assess and remediate brownfields.
- *Clean and Drinking Water State Revolving Funds:* $44 billion for state revolving loan fund programs. In Vermont, these funds augment the existing revolving loan programs implemented by DEC, the Vermont Bond Bank and VEDA.
- *Geographic Programs:* A portion of the approximately $1.78 billion allocated to help geographic programs make improvements for water quality and habitat restoration will flow to projects in the Lake Champlain region.
- Note: There are many restrictions on IIJA transportation funds, which can only be used for eligible projects, have extensive prioritization/planning requirements, and the State has many existing needs and state of good repair priorities it must meet.

In addition to these one-time investments, two federal agencies routinely invest in Vermont municipal infrastructure:

Northern Border Regional Commission (NBRC): The NBRC provides federal funding for economic and community development projects in northern Maine, New Hampshire, Vermont, and New York. Each state in the region received approximately $5.8 million in federal fiscal year 2022 through the State Economic and Infrastructure Development Investment Program. Some examples of grants in Vermont include $460,020 in NRBC funding and $451,000 in matching funds to add an additional well to the Town of Hinesburg's drinking water system, and $817,908 to the Town of Montgomery to construct the Montgomery Gateway, a project involving streetscaping and multi-modal improvements along Route 118 to connect the municipal recreation center and the Village center.[32]

U.S. Department of Agriculture (*USDA):* The USDA has a Rural Development mission area, which provides loans and grants through a few core programs. The Rural Utilities Service Water and Environmental Programs (WEP) provide financing for drinking water and waste disposal systems. The USDA has also established a Rural Partners Network that works with communities and other federal

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30 "American Rescue Plan." *The White House*. Accessed January 8, 2024. https://www.whitehouse.gov/american-rescue-plan/.

31 "NEWS: Sanders, Leahy, Welch: Treasury To Release Funding For Vermont Counties Secured Through The American Rescue Plan." July 30, 2021. Accessed January 8, 2024. https://www.sanders.senate.gov/press-releases/news-sanders-leahy-welch-treasury-to-release-funding-for-vermont-counties-secured-through-the-american-rescue-plan/.

32 "2022 Annual Report." *Northern Border Regional Commission.* Accessed January 12, 2024. https://www.nbrc.gov/userfiles/files/Annual%20Reports/NBRC-2022-Annual-Report_Final-Web.pdf

agencies to provide one-stop assistance for rural programs, funding announcements, and technical assistance.[33] Between 2014 and 2023, the USDA Office of Rural Development has invested on average about $130 million per year in Vermont. These funds support water and wastewater infrastructure, energy investments, and high-speed internet access. WEP invested roughly $18.4 million per year in drinking water and wastewater facilities in Vermont between 2013 and 2022.

Building a Capital Stack

Funding sources for complex projects are rarely leveraged on their own. Most significant infrastructure projects build a capital stack, which is a collection of different funding sources that meet a specific funding goal. Capital stacks vary widely depending on the size of the project and the type of infrastructure getting built. A project putting in recreational trails will use a different set of sources than a multi-modal improvement to pedestrian infrastructure, even though both projects involve similar types of work.

Within capital stacks, funds can be managed in two separate ways. *Braided* funding brings together multiple funding sources for a project, but agencies track and report on funding sources separately. *Blending* comingles the funding from multiple different sources, and the reporting agency does not track sources separately. Whether funds can be blended or braided depends on the guidance and policies of the funding source.

Below is an example of the capital stack assembled for the water system implementation and improvements to the access road in Killington. This project uses TIF for the bulk of its funding, but also leverages a wide range of other federal and state sources.

Table 1: Killington Water System and Access Road Improvements[34]

Source	Funding Amount	Funding type	Implementing Agencies
Tax Increment Financing (TIF)	$47 million	Bond	Agency of Commerce and Community Development (ACCD)
ARPA – Village Water and Wastewater Initiative	$2.3 million	Grant	Department of Environmental Conservation (DEC)
State Drinking Water Revolving Loan Fund	$3.7 million	Forgivable Loan	DEC, VT Bond Bank, or VEDA
Northern Border Regional Commission (NBRC) – Catalyst Program	$2.25 million	Grant	NBRC
NBRC and the U.S. Economic Development Corporation (USEDA)[35]	$750,000	Grant	NBRC, USEDA
Total	**$56 million**		

What are the challenges?

Although a wide range of funding opportunities are available to towns, many communities face significant challenges when looking to undertake an infrastructure project.

[33] "Topics: Rural." *U.S. Department of Agriculture.* Accessed January 8, 2024. https://www.usda.gov/topics/rural.

[34] Weinstein, Ethan. "Killington cuts ribbon on town water project, projects $285 million in grand list growth." *VTDigger.* October 4, 2023. Accessed January 8, 2024. https://vtdigger.org/2023/10/04/killington-cuts-ribbon-on-town-water-project-projects-285-million-in-grand-list-growth/.

[35] "Northern Broder Regional Commission – U.S. Economic Development Administration Partner to Award $3 million in Maine, New Hampshire, New York & Vermont." *Northern Border Regional Commission.* October 26, 2023. Accessed January 8, 2024. https://www.nbrc.gov/userfiles/files/Announcements/NBRC-EDA%20Awards%20Press%20Release%20October%202023.pdf.

Capacity

Infrastructure projects require a considerable investment of time and resources to move a project from conceptualization through implementation, especially if the project ends up using federal funding. Projects are often evaluated against town plans and reviewed by town planning commissions, which are often comprised of volunteers (though some boards receive stipends). Town treasurers would play a role in grant and financial management, yet in smaller towns, the role may not be full-time. A town manager or administrator would play an organizing and leadership role in building out the many sources of funding required to build a capital stack, however, according to data from AOA, more than 100 towns simply do not have this position.

Capacity does not necessarily correlate with town size. A small town might have a dedicated volunteer base who can plan for and implement grants. The example of Communication Union Districts (CUDs) shows the potential of largely volunteer boards when funding gets connected with purpose. Another town of the same population may not have a robust pool of willing volunteers. Successful grant administration requires both strong project and financial management skills. A larger town may have staff, but staff expertise may lie in other areas – public safety, maintaining records and the grand list, etc. – and their ability to apply for and implement federal funding may be limited.

Even if towns were able to expand their capacity, many are not the right size or fit for federal grant opportunities. VLCT staff noted that many federal funding opportunities are geared towards larger municipalities and county governments, both in subject area and capacity. Vermont municipalities are not a great fit for many federal programs that address housing or high-density poverty. Federal funding also tends to go toward "shovel-ready" projects, which puts these resources out of reach for cities and towns that struggle to advance projects to that stage.

Scale

The relatively small scale of many Vermont infrastructure projects can mean that technically feasible or optimal systems are cost prohibitive to implement. Information from a "Water and Wastewater Feasibility Study" presentation for a proposed wastewater system in Grafton in Vermont illustrates this problem. The presentation forecasted a cost of $8 million to build a system for 97 equivalent residential units (ERU).[36] Of that $8 million, nearly $4 million would be financed through the State ARPA-funded Village Water and Wastewater Initiative, leaving approximately $5 million to be financed, including an additional amount for construction contingency. This level of debt would place the system well outside of EPA Sewer Affordability Criteria, which aim for an ERU to pay no more than 2% of area median household income. In Grafton, that threshold is $1,363 per year. When operational, the system in Grafton would have an estimated cost of $3,548 per ERU per year, assuming funding from the Clean Water State Revolving Fund at 2% interest. That cost is more than double the affordability threshold. To bring costs to an affordable level per EPA affordability guidelines, the project would have to be 100% grant funded.[37]

Building and managing a capital stack

The challenges of building a capital stack occur at every stage of the project. First, finding funding sources requires navigating through a vast landscape of available opportunities. For example, in May 2022 the Government Accountability Office (GAO) identified 133 federal funding programs for broadband that were administered by 15 separate agencies. Once a grant is secured, getting the funding to line up to the project timelines is an additional challenge. Grants have rigid application and performance periods, so a capital stack

[36] An equivalent residential unit is roughly equal to a single-family home.

[37] Moore, Erin and Kortright, Kyle "Educating and Engaging the Public on Water & Wastewater Feasibility Study." September 11, 2023. Accessed January 8, 2024. https://graftonvt.org/wp-content/uploads/2023/09/2023-09-06-60-Grafton-Public-Meeting-Presentation-Slides.pdf.

that lines up one year may fall out of the performance period if the project experiences any delays. Unfortunately, construction projects can, and often do, experience setbacks.

Finally, funding sources require careful monitoring and reporting during the implementation period and beyond. The complexity of managing a capital stack depends on the extent to which funding sources can be blended and managed jointly. Each additional source of braided funding can increase the complexity of grant management substantially, especially if funds are from federal sources and require compliance with federal regulations or different sourcing requirements.[38]

Political Economy

Public infrastructure financing must also address real political economy challenges. Before putting together funding, infrastructure projects must pass through planning discussions and get requisite permits. Funding packages often include some bonding, which must go to a vote among town citizens. At many points throughout this process, voters can air their concerns about the size, scope, or cost of a project. If projects do not respond to these concerns they can get voted down, negating the work to build a plan and funding structure.

Westford is one recent high-profile example of these challenges. In his 2022 State of the State Address, Governor Scott mentioned that completing the 16-year in the making plan to bring wastewater treatment to Westford was necessary so that "the town can move forward on new housing and bring small businesses to its town center."[39] The project would be well-funded by State ARPA funds and grant funding. Documents provided by the town show that available grants of $4,008,997 exceed the total project cost of the $3,867,000.[40] However, to provide adequate contingency for the project, the town proposed taking out a $400,000 bond at 2% interest. In a November 2023 ballot, the bond was defeated by a narrow margin – 488 for and 532 against.[41]

The results for the no votes were varied. Some were concerned about the ongoing maintenance costs of the system. Others were concerned that the system was too large and could promote development and change the character of the town green area. This case shows that voters may ultimately decide that a project is not the right fit for their community, even when the cost of the new system is highly subsidized.

[38] For example, the Davis-Bacon Act requires certain federally funded projects to pay a prevailing wage to contractors or subcontractors and provide extensive documentation that these provisions are being met. See https://www.dol.gov/agencies/whd/government-contracts/construction for more information.

[39] Scott, Phillip. "2022 State of the State Address." Montpelier, VT. January 5, 2022. https://vtdigger.org/2022/01/05/phil-scott-2022-state-state-address/.

[40] "Westford Community Wastewater Project: Wednesday, September 13 Community Meeting." (Slides, Westford, VT, September 13, 2023). https://www.westfordsfuture.com/uploads/1/3/8/4/138498261/_vermont_westford_community_presentation_for_presentation_9-13-23__3_.pdf.

[41] "Westford residents vote down new wastewater treatment system." *WCAX News*. November 8, 2023. Accessed January 8, 2024. https://www.wcax.com/2023/11/08/westford-residents-vote-down-new-wastewater-treatment-system/.

Finding Solutions at the Local, Regional, and State Levels

The challenges facing towns highlight a need for extra resources – capacity, funding, and expertise. Below is an overview of some programs that address these needs at the local, regional, and State level.

Local solutions

Leveraging Existing Taxing Districts

Vermont already has independent taxing structures used to pay for infrastructure and related services – the incorporated village and special purpose districts. Incorporated villages are designed areas of concentrated development within a larger town area. According to the Secretary of State, 34 incorporated villages exist in the state, including Ludlow Village in Ludlow, Bellows Falls in Rockingham Town and the newly created Westbury Village in Colchester, which encompasses a 500-resident manufactured home park.[42] In many cases, these villages provide extra services, including water and wastewater or sidewalk clearing, and levy additional taxes on all properties within the village designation for these services.

Special purpose districts are not limited to a general village or downtown designation. In Vermont, consolidated water, sewer, and fire districts can use property taxes to fund infrastructure projects. Other special purpose districts can also coordinate activities without the power to leverage property taxes, including CUDs and mass transit authorities, which apportion costs to member municipalities.

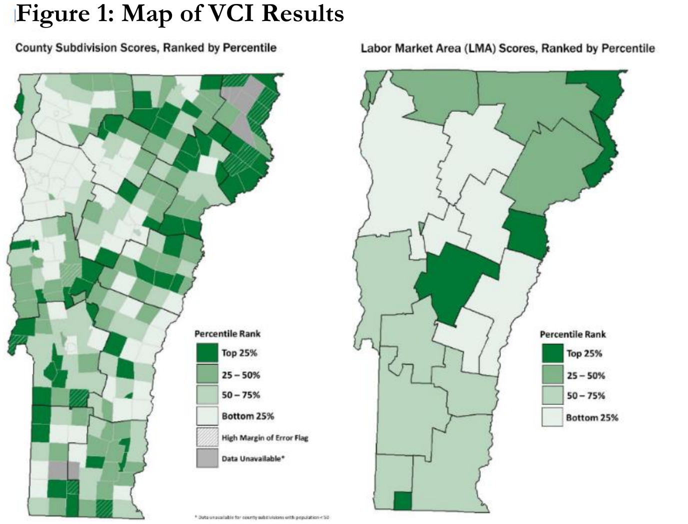
The clearest advantage of an incorporated village or special taxing district is the direct geographic connection between infrastructure development and the people paying for those services. A user of the sewer system in downtown Poultney pays the village tax rate, but someone who lives outside of the village in Poultney Town, who does not have access to the wastewater system, does not. However, these districts face many of the same challenges outlined earlier, particularly the challenges of scale. They may not always have the necessary revenue base to shoulder the costs necessary to build new systems or catch up on deferred maintenance, especially without additional outside assistance. Creating a new district may also be politically challenging. Voters in a proposed district area may not wish to incorporate as a village or join a consolidated district, due to concerns about how their tax bill might change or because they do not feel they need additional services.

Capacity Building at the Municipal Level

The General Assembly appropriated $3 million for the Municipal Technical Assistance Program (MTAP) in the fiscal year 2023 budget adjustment act (Act 3). These funds are intended to "assist those communities with a high need for state and federal grants but lower capacity for accessing and applying or those sources."[43]

To assess community need, the AOA worked with a consultant to develop the Vermont Community Index (VCI), which evaluates communities according to both capacity and needs. At the town level, the VCI shows considerable disparities within regions, even

Figure 1: Map of VCI Results



Source: Vermont Community Index User's Guide
https://finance.vermont.gov/sites/finance/files/documents/VCI%20User%20Guide%20-%20MTAP.pdf

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[42] The Mobile Home Task Force created by Act 47 (2023) met during the summer and fall of 2023 in part to study "the condition and needs for mobile home park infrastructure" among the 240 mobile home parks in Vermont. The task force will issue their report on January 15, 2024.

[43] "Municipal Technical Assistance." *Department of Finance and Management*. Accessed January 8, 2024. https://finance.vermont.gov/content/municipal-technical-assistance.

among neighboring towns. When zoomed out to the Labor Market Area (LMA), as determined by the Vermont Department of Labor, LMAs in the Northeast Kingdom, as well as the Newbury and Randolph LMAs, show the greatest need.[44]

To implement the program, AOA has partnered with the Twin Rivers-Ottauquechee Regional Commission, VLCT, VHCB, and the Vermont Council on Rural Development (VCRD). Currently, eligibility of the MTAP program is limited to communities scoring higher than the 50th percentile in the needs portion of the index and communities in the 25-50 percentile range that were impacted by flooding in the summer of 2023. In its most recent report, AOA noted that the July 2023 flooding event spurred resiliency discussions among impacted communities, one of the stated goals of the MTAP program. As of November 30, 2023, the program provided $112,833 of direct administrative support in the form of needs assessments, and $168,788 to fund community projects that met program goals. Funds are expected to be fully drawn down by the end of fiscal year 2024.[45]

Regional Planning Commissions
Regional Planning Commissions (RPCs) primarily focus on planning and coordinating resources for towns within their service area. This planning assistance can include transportation and watershed planning, environmental quality (including brownfields), water runoff, and public safety planning. RPCs also help with grant writing. The website of the Vermont Association of Regional Planning Commissions (VARPC) notes that because Vermont counties only provide limited judiciary and public safety resources, RPCs help serve as a link between municipalities and the State.

In many ways, RPCs could help provide increased capacity for municipalities since they already have strong relationships with towns, particularly on areas of developing town plans and associated planning needs. Sec. B1102 of Act 78 (2023) provided $300,000 of grants to the Vermont Association of Planning and Development Agencies (VADPA) to hire housing resource navigators to connect municipalities and housing organizations with housing opportunities, funding opportunities and project management support. Similar investments in capacity for rural infrastructure at the RPC level could help under-resourced municipalities find and apply for grant opportunities, especially within areas of RPC comparative advantage.

Vermont Housing and Conservation Board (VHCB) Rural Economic Development Initiative (REDI)
Provides technical assistance for rural communities and businesses looking to apply for significant funding sources ($50,000 to $1 million). Funds from the initiative can be used to hire a grant writer or create an engineering or fundraising plan. REDI focuses on working lands projects, outdoor recreation, community economic development – including community infrastructure – and projects with federal grant applications. Funding from REDI helped catalyze the development of an unused school building in Bridgewater into a community center with child care and local business space.[46]

Other State Programs

This report summarizes the current sources of funding and capacity building offered by various Vermont State agencies. In this section, the report presents examples of revolving loan funds, tax base sharing, and structural innovations in other states as starting points to consider additional ways infrastructure

[44] "The Vermont Community Index: User Guide." *Department of Finance and Management*. Accessed January 8, 2024. https://finance.vermont.gov/sites/finance/files/documents/VCI%20User%20Guide%20-%20MTAP.pdf; Information about Vermont Labor Market Areas can be found at http://www.vtlmi.info/lmadef2015.pdf.

[45] Act 3 (2023), Sec. 95 Status Report (Municipal Technical Assistance). *Vermont Agency of Administration.* January 15, 2024. Accessed January 21, 2024. https://legislature.vermont.gov/assets/Legislative-Reports/Act-3_Sec.-95_Status_Report_Municipal-Technical-Assistance_01-15-24.pdf.

[46] Rural Economic Development Initiative. *Vermont Housing & Conservation Board.* Accessed January 21, 2024. https://vhcb.org/redi.

development could be supported and funded in Vermont.

Revolving Loan Funds

Revolving loan funds are often referenced as an alternative to TIF districts and are currently used to implement clean and drinking water infrastructure programs, as well as various projects funded through the SIB. Revolving loan funds first must be capitalized, which means providing a source of funds to serve as the initial funding.[47] Sources of revolving loan funds often use general tax revenues, appropriations, bonds, or State lottery funds for capitalization.[48] Principal and interest payments on existing loans are used to make new loans, which is the source of the "revolving" part of this funding type.

New Mexico has a variety of lending and financing programs available to small communities through the New Mexico Finance Authority. One is the Public Project Revolving Fund (PPRF), which can fund equipment, buildings, infrastructure, and solid waste projects. Loans are available either at market rate or at a 2% subsidized rate for disadvantaged communities.[49] The PPRF is capitalized through annual contribution of 75% of the Governmental Gross Receipts Tax, which is levied on water, sewer, and trash services. In fiscal year 2022, this contribution totaled $37.4 million. This capitalization, combined with interest and principal repayments of existing PPRF funds, allowed for funding 92 projects totaling $249.6 million in fiscal year 2022.[50]

The main questions for implementing more revolving loan funds in Vermont concern the source of funds for capitalization and the size and scope of investments made through the fund. To give a prospective revolving loan fund program enough capital, policymakers would need to find a new revenue source, routinely set aside General Fund dollars, or divert proceeds from another existing tax type.

The ultimate size of capitalization will determine the amount, size, and types of projects that can be funded. For example, if focused on wastewater infrastructure, $20 million in initial capitalization can either provide a fraction of the funding required to support projects in 20 communities or more comprehensively fund projects in a few towns. The size of the fund would need to be quite large to create an accessible pool of flexible funds. The large upfront cost of capitalization would come with a significant opportunity cost and potentially preclude other forms of infrastructure financing, whether in the form of direct grants to municipalities, assisting with bonding through the Vermont Bond Bank, or augmenting technical capacity to find and implement capital stacks on behalf of municipalities.

In addition, a new revolving loan program by itself may not simplify the picture for municipalities. As the sources section of this report shows, there are already many available opportunities for municipalities and a revolving loan program would add another application to the mix. Towns with limited capacity may not be able to access the resources available through a new funding source, increasing existing inequalities in infrastructure development across the state. Unlike grants, revolving loan funds must also be paid back through future revenues.

Tax Base Sharing

Minnesota created the Fiscal Disparities Program to share a portion of the growth of the commercial and

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[47] "Revolving Loan Fund Overview." *CDFA*. Accessed January 8, 2024. https://www.cdfa.net/cdfa/cdfaweb.nsf/pages/revolving-loan-funds.html.

[48] "Economic Development Revolving Loan Funds (ED-RLFs)." *Congressional Research Service.* November 2, 2020. Accessed January 8, 2024. https://crsreports.congress.gov/product/pdf/IF/IF11449.

[49] "Public Infrastructure & Capital Financing." *New Mexico Finance Authority*. Accessed January 8, 2024. https://www.nmfinance.com/public-infrastructure-capital-financing/.

[50] "2022 Annual Report." New Mexico Finance Authority. Accessed January 8, 2024. https://www.nmfinance.com/wp-content/uploads/2022/12/NMFA-FY-2022-Annual-Report.pdf

industrial tax base (C/I tax base) since 1971 between municipalities in the Twin Cities area.[51] While the exact implementation is complicated, the basic procedure is as follows:[52]

1. **Contribution:** Each taxing jurisdiction (counties, cities, towns, school districts, etc.) contributes up to 40% of the growth in its commercial and industrial tax base since 1971 to the "areawide tax base," which is comprised of the same contributions of C/I tax base from all other communities participating in the Fiscal Disparities Program.
2. **Distribution:** Municipalities receive a portion of the areawide tax base based on their population and relative property tax wealth. Areas with higher population and/or low relative property tax wealth receive higher distributions while areas with lower population and/or higher relative tax wealth receive less from the program. This net distribution from or contribution to the areawide tax base, plus the existing local tax base from residential properties and the unshared C/I tax base, comprise the new tax base for the municipality.
3. **Calculating Property Tax:** Commercial and industrial properties pay three property tax rates: a local rate, which pays for local services; an areawide rate to fund disbursements through the Fiscal Disparities Program; and a statewide general rate that applies to business owners.
    a. *Calculating the local rate:* A local taxing entity must determine how much money it needs to raise from its new base to pay for services. The taxing entity applies the same tax rate to the collective value of all property within the new tax base to raise the amount needed. Taxing entities within a municipality that receives additional tax base from the program would need to set lower tax rates than they would have had to in absence of the program.
    b. *Calculating the areawide rate:* The sum of revenues to be distributed to municipalities through the Fiscal Disparities Program determines the amount of money that must be raised, which in turn determines the areawide tax rate.
    c. *Statewide General Tax Rate:* Applies to 100% of the value of the commercial property and is not subject to adjustments through the Fiscal Disparities Program.

Funding through the Fiscal Disparities Program does not have explicit ties to infrastructure development; communities receiving additional tax base through the program can spend the proceeds on projects of their choosing. This funding has the possibility to unlock projects that would not be possible for communities with limited property tax wealth per capita.

Advocates of the Program list two main goals.[53] First, it aims to reduce inequalities and competition between regional municipalities for commercial development. Inequalities can be caused by differences in wealth between communities, as areas with relatively low property tax wealth must use higher rates to raise enough money for services in a budget. These higher rates may discourage investment and economic development, making it hard for those communities to break the cycle of low investment and high tax rates. In addition, commercial and industrial properties generally bring in more revenue than they cost in services. This mentality can lead to towns competing against each other for investment with tax breaks and other incentives to lure a company to locate in their area.

The second major goal is to promote more regional cooperation. Since all towns have a shared interest in

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[51] The Fiscal Disparities Program expanded to a group of communities in the Iron Range (northeastern) region of Minnesota in the 1990's. The program in the Iron Range is much smaller than the program in the Twin Cities metro area, so this section will refer to the original program unless otherwise noted.

[52] The following explanation of Fiscal Disparities Program mechanics heavily references the primers in the following documents: https://citizensleague.org/wp-content/uploads/2017/08/PropertyTaxFiscalDisparities-Sharing-Wealth.pdf; https://www.house.mn.gov/hrd/pubs/fiscaldis.pdf

[53] Swanson, Jared. "The Fiscal Disparities Program: Commercial-Industrial Tax-Base Sharing." *MN House Research.* December 2020. Accessed January 8, 2024. https://www.house.mn.gov/hrd/pubs/ss/ssfisdis.pdf; Ohm, Brian W. "Understanding Tax Base Sharing." *Perspectives on Planning.* Volume 2, Number 7. October, 1996. Accessed January 8, 2024. https://dpla.wisc.edu/wp-content/uploads/sites/1021/2017/06/TaxBaseSharing.pdf

commercial and industrial property development, they may be more likely to work together to develop infrastructure and promote sustainable development across the region. For example, if a manufacturing plant is looking to locate in the area covered by the Fiscal Disparities Program, they have greater flexibility on where to locate, reducing pressures on flood plains or other ecologically important regions that may have lower taxes in a different taxing regime.

Program critics note the formula is focused on population and property tax base per person, and the relative share a community receives is not necessarily connected to its needs.[54,55] For example, a community could experience minimal changes in population and relative property tax wealth but experience a huge increase in need for services. Despite the change in need, the community would not receive additional revenues from the Program because its underlying fundamentals did not change.

In 2023, the Fiscal Disparities Program shared $531 million in tax base and $710 million in taxable value between seven counties in the Twin Cities metro area. This amount represented 34% of the commercial, industrial, and utility tax base and 9% of the total tax base. This significantly narrowed the gap between the communities with the highest and lowest property tax base per person from 16 to 1 to 6 to 1.[56] However, it is not clear that the Fiscal Disparities Program generated more tax revenue that what would have occurred in absence of the program. A 2012 evaluation by an outside consultant found that there was essentially no overall difference between the tax base with the Program in place compared to a counterfactual computer simulation of the tax base without it.[57] So, while the program may not have increased the size of the regional tax base, evidence shows that the program successfully reduced disparities between different towns.

Implementing any sort of tax base sharing program like Minnesota's has two main obstacles. First, such a program is technically complicated to implement. An entity would need to calculate the size of tax base sent to the areawide pool, the size of net contributions and disbursements to member communities and the areawide tax rate needed to generate sufficient revenues for the program, a role that is filled by local county auditors in Minnesota. This process resembles the calculation of property tax rates through the statewide Education Fund in Vermont.

In addition, some communities end up contributing more tax base to the areawide pool than they receive through the program. This distribution may lead communities to focus on their status as a net "winner" or "loser." The program's impact on individual tax bills shows these differences. A 2018 study from the Minnesota House Research Department found that the average homestead tax in one of the largest net beneficiary jurisdictions of the program was 18% lower than it would have been absent the program, but the average homestead tax in one of the largest net contributors was 4.6 % higher than it otherwise would have been.[58]

State Infrastructure Specific Agencies and Common Applications

Some states have specific agencies dedicated to infrastructure development. In South Carolina, the Rural Infrastructure Authority (RIA) implements APRA funding, a common application for state grants, administers state revolving loan funds, and provides funding for emergency repairs of water systems.[59] RIA funding is explicitly for water (drinking, waste, and stormwater) infrastructure. This structure is like the Water Investment Division at the Vermont DEC, except the RIA manages a common application for water

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54 Herlands, Julie. "Study of the Metropolitan Area Fiscal Disparities Program." *TischlerBise.* February 13, 2012. Accessed January 8, 2024. https://www.revenue.state.mn.us/sites/default/files/2018-11/fiscal-disparities-study-full-report.pdf.

55 Ohm, Brian W. "Understanding Tax Base Sharing." *Perspectives on Planning.*

56 "Fiscal Disparities." *Metropolitan Council.* Accessed January 8, 2024. https://metrocouncil.org/Communities/Planning/Local-Planning-Assistance/Fiscal-Disparities.aspx.

57 Herlands, Julie. "Study of the Metropolitan Area Fiscal Disparities Program."

58 Swanson, Jared. "The Fiscal Disparities Program: Commercial-Industrial Tax-Base Sharing."

59 "South Carolina Rural Infrastructure Authority – Creating water solutions. Improving communities statewide." Accessed January 8, 2024. https://ria.sc.gov/.

infrastructure grants. Overall, the RIA has distributed $1.469 billion in ARPA funding to 219 projects at local governments and public water and sewer systems in South Carolina.

Massachusetts has consolidated the application and review of infrastructure grantmaking within a single program, the Community One Stop for Growth. The Community One Stop for Growth implements 12 programs from the Executive Office of Economic Development, the Executive Office of Housing and Livable Communities, and MassDevelopment shown in *Table 2*. In the first two rounds of the program, One Stop issued a total of $231.9 million in funding through 532 grants to 205 communities.[60]

Table 2: Programs Participating in the Community One Stop for Growth Program

Executive Office of Economic Development	MassWorks Infrastructure Program
	Urban Agenda Grant Program
	Massachusetts Downtown Initiative
	Rural and Small Town Development Fund
Executive Office of Housing and Livable Communities	Housing Choice Grant Program
	Community Planning Grant Program
	HousingWorks Infrastructure Program
MassDevelopment	Brownfields Redevelopment Fund
	Site Readiness Program
	Underutilized Properties Program
	Collaborative Workspace Program
	Real Estate Services Technical Assistance
	Commonwealth Places Program

Source: https://www.mass.gov/guides/community-one-stop-for-growth

In addition to providing a common application system, the One Stop program also serves as a resource for cities and can guide applicants toward programs that are the best fit for their needs. The key for evaluating fit with the One Stop is the Development Continuum shown below – a conceptualization of the 5 stages of community development from preparing for growth to catalyzing specific projects.

Figure 2: Community One Stop for Growth Development Continuum

Source: https://www.mass.gov/doc/fy24-one-stop-nofa/download

To implement a similar type of program in Vermont, the State would need to identify a structure like the Development Continuum, which would determine the types of assistance the program would support. In Massachusetts, the Development Continuum is designed to support planning and infrastructure for housing development but policymakers could identify other community development goals to prioritize within this structure. A program that brings together different water infrastructure programs, for example, would have a different project continuum and would bring together different resources.

[60] "Notice of Funding Availability." *Community One Stop for Growth.* Accessed January 8, 2024. https://www.mass.gov/doc/fy24-one-stop-nofa/download.

Final considerations

Thanks to State allocation of unprecedented federal funding, municipalities have been given opportunities to make substantial progress toward installing water systems, improving transportation infrastructure, creating recreational trail opportunities, and improving public buildings and facilities. Continuing this investment requires answering major questions about both the main challenges facing municipalities and who should bear the cost burden.

If policymakers determine the main challenge facing Vermont towns in developing new infrastructure is capacity, attention could focus on programs like the Municipal Technical Assistance Program or bolstering the contribution of RPCs. The State could also play a role by consolidating grant applications and offering uniform applications for different subject areas, such as recreational trails, water infrastructure, or site preparation or remediation.

If the challenge is viewed as a lack of available funding, this suggests building new sources of funding or augmenting the resources already available. Designing a new program or bolstering funding available to current programs requires first thinking through a whole other set of questions: which municipalities should receive funding and for what type of projects? How much funding is enough? Does the program want to make small contributions to a wide set of projects or catalyze the development of a select few? Should the investment be sourced at the local level, or leverage with statewide General or Education Fund dollars? What level of match is appropriate? Who should pay and who should benefit?

In either case, existing programs in Vermont and other states have shown novel approaches to helping towns access new funding opportunities and provide more resources.