VERMONT LEGISLATIVE
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Fiscal Note
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S.94 – An act relating to the City of Barre tax increment financing district

House proposal of amendment[1]

Bill Summary

This bill makes various changes to the Vermont Economic Growth Incentive (VEGI), and Tax Increment Financing (TIF) programs, which are administered by the Vermont Economic Progress Council (VEPC).

Vermont Economic Growth Incentive (VEGI):

- Requires VEPC to contract with the Executive Branch State Economist to conduct a cost-benefit analysis when the value of a potential incentive is greater than $1 million or when the business is in a qualifying labor market area.
- Changes the reporting requirements for the VEGI program.
- Extends the sunset of the VEGI program by one year, from January 1, 2024 to January 1, 2025.

Tax Increment Financing (TIF) districts:

- Would allow TIF districts to fund debt service interest payments for two years after the first occurrence of debt.
- Clarifies that bond anticipation notes can be used as a method of financing TIF districts, but bond anticipation notes are not considered a first occurrence of debt.
- Increases the number of maximum active TIF districts in statute to 14.
- Disallows TIF districts from adjusting the boundaries of a TIF district after the approval of the TIF district's plan.
- Clarifies that the original taxable value of parcels in the TIF district shall be used to calculate the aggregate tax due, even if property values decrease or are subject to a stabilization agreement.
- Disallows VEPC from approving TIF district substantial change requests that would extend the date a TIF district could incur debt or retain property tax increment.

The bill would also create a Task Force on Economic Development Incentives and a Study Committee on Financing Public Infrastructure Improvements. The task force would study current State-funded economic

[1] https://legislature.vermont.gov/Documents/2024/Docs/BILLS/S-0094/S-0094%20House%20proposal%20of%20amendment%20Official.pdf

development programs while the study committee would study and make recommendations for new programs to fund infrastructure improvements.

Fiscal Impact

The bill creates the Task Force on Economic Development Incentives, which would be allocated an unspecified General Fund appropriation in fiscal year 2024 to fund consulting services, per diem compensation, and expense reimbursement. A separate Study Committee on Financing Public Infrastructure Improvements created in Section 12 of the bill would be eligible for per diems and expense reimbursement, which will have impacts to the budget of the General Assembly ($4,400) and the Agency of Commerce and Community Development ($4,500). Given existing summer projects and commitments, JFO would not be able to effectively assist the study committee created in Section 12 without additional staffing or funding.

The bill's overall fiscal impact to the Education Fund in fiscal year 2024 is *de minimis*. These provisions will incur costs in the long term, however. The extensions of the increment retention period for the Barre and Hartford TIF districts will have a $2.8 million cost to the Education Fund in fiscal years 2034 through 2039.

Background and Details

The following sections either have a direct fiscal impact or a potential fiscal impact.

Section 5

Section 5 would add debt service interest payments to the list of improvements that are considered allowable uses for property tax increment. This provision allows TIF districts to fund interest payments on borrowed funds for a period of two years before increment is available. The potential cost of allowing TIF districts to fund interest payments in the first two years after debt incursion comes from the counterfactual of the extra increment that could have been generated over the 20-year retention period if debt had been used for concrete improvements rather than debt service.

Only two TIF districts are new enough to qualify for this provision; Bennington and Killington. (Note that extensions to debt incursion and increment retention periods in Sections 13 and 14 apply to the Barre and Hartford TIF districts). JFO has previously estimated a *de minimis* cost to the Education Fund for similar debt-to-debt financing in TIF districts and estimates a similar potential cost if the Bennington and Killington TIF districts also use debt-to-debt financing within the first two years of their debt incursion period. However, if other newly created districts incur debt to cover interest payments, the cost to the Education Fund could increase.

Section 6

Section 6 changes the maximum number of active TIF districts in statute to 14. While the provision does not have a fiscal impact in the near term, the change reflects a potential long-term expansion of the TIF program. Currently, 24 V.S.A. § 1892(d) and 32 V.S.A. §5404a(f) authorize 11 TIF districts – two of which are retired – and allows VEPC to approve 6 total additional districts if certain criteria are met. Three districts (Bennington, Montpelier, and Killington) have been approved, leaving room for 3 additional TIF districts. Once these additional 3 districts have been approved, no further TIF districts could be created. Since this bill allows for 14 active districts at any time, the number of TIF districts in the future could be larger than current statue allows for. This change will have a long-run impact on the costs of the TIF program to the Education Fund.

Section 7

Section 7 prevents municipalities from adjusting TIF district boundaries after the approval of the TIF district plan. This section is a clarification of existing statute, so it would prevent any potential costs could occur if a TIF district were to change its boundaries.

Section 11

Section 11 creates a Task Force on Economic Development Incentives. The Task Force would study the VEGI program, similar programs in other states, and other types of economic development financing. The task force would report their findings by January 15, 2024. The Task Force shall be subject to a General Fund appropriation of an unspecified amount in fiscal year 2024 for consulting services authorized by the task force and per diem compensation and expense reimbursement for task force members.

Section 12

Section 12 creates a study committee to study and make recommendations for financing public infrastructure improvements. The study committee would report these recommendations to the General Assembly and Governor by December 15, 2023. The study committee would receive per diem compensation and reimbursement of expenses for up to 5 meetings. The costs of per diems and expenses would be borne by the budgets of the General Assembly ($4,400) and Agency of Commerce and Community Development ($4,500). This section also includes administrative, fiscal, and legal support for the committee from the Office of Legislative Operations, Office of Legislative Counsel, and the Joint Fiscal Office. As already noted, JFO would not be able to effectively assist the study committee without additional staffing or funding.

Sections 13 and 14

Section 13 allows the City of Barre to extend the increment retention period of their TIF district from 2034 to 2039. JFO estimates that the total cost of this extension to the Education Fund will be between approximately $275,000 and $290,000 per year between 2034 and 2039 and $1.5 million in total.

Section 14 allows the Town of Hartford to extend the increment retention period of their TIF district from 2034 to 2036. JFO estimates that the extension will cost approximately $650,000 per year in 2035 and 2036, and $1.3 million in total.

Forecasting costs to the Education Fund this far in advance is challenging and these estimates reflect the costs if projects in the TIF district are completed on schedule. Costs could be lower if increment generating projects or improvements in the TIF districts are delayed and the amount of increment generated in the near term is less than expected. Changes in property values and tax rates could also influence these estimates. If property values or tax rates increase, the costs of these increment retention period extensions will increase but decreases in either of these variables would decrease the cost of the extensions to the Education Fund.

Section 15

Section 15 extends the repeal date of the VEGI program by one year, from January 1, 2024 to January 1, 2025. Extending the sunset of the program continues an existing tax expenditure. The value of VEGI ranged from almost $4 million in 2016 to $2.5 million in 2020. The cost to the General Fund in that extra year is expected to be approximately within that range.