Vermont Legislative Joint Fiscal Office

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FISCAL NOTE

Date: April 28, 2014
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S.220 – AN ACT RELATING TO FURTHERING ECONOMIC DEVELOPMENT
(As amended by the House Committee on Appropriations)

Bill Summary: The bill proposes to expand opportunities for economic development in Vermont.

Fiscal Impacts:

Summary
This fiscal note quantifies only the direct fiscal impacts of the provisions of this bill on the State budget and does not attempt to estimate the potential positive or negative impacts of the bill on the overall Vermont economy. While the goal of the bill is to stimulate economic growth, there are assumptions that must be made when attempting to determine how the economy might respond to policy decisions. There are also questions regarding what uses of State resources might result in the strongest economic impacts. This document outlines the direct costs of the proposed economic development policies and acknowledges that, if successful, these policies could spur long-term economic growth that outweighs the immediate fiscal costs.

The following table lists the major costs associated with the provisions of this bill.

Section	**Detail**	**Source**	**Gov. budget**	**House budget**	**FY15 Cost**	**Out-Year Costs**
34	Vermont Strong Scholars-Loan Forgiveness	General Fund[1]	no	no	-	$200,000[2] (FY18) Up to $900,000 in future FY's
				Total GF	-	**$200,000-$900,000**
34	Vermont Strong Scholars-Internship Initiative	Next Generation Funds[3]	yes	yes	$250,000	$250,000 ongoing
				Total	**$250,000**	**$450,000-$1,150,000**

There are potential other fiscal pressures associated with the following provisions.

1) The bill proposes for any FY14 General Fund surplus up to $5 million to be dedicated in the following manner:
   a) The first $500,000 to the Vermont Economic Development Authority (VEDA) for loan loss reserves described in sec. 2-3 of this bill.
   b) The remaining $4,500,000 to a newly established Vermont Enterprise Fund for use by the Governor to provide resources to businesses facing uncertain circumstances.

   Any balance remaining in the Enterprise Fund at the end of FY15 would revert back to the General Fund.

[1] Some funding for loan forgiveness would come from VSAC through its own resources.
[2] Estimates were calculated using 2014-15 comprehensive tuition rates for Vermont State Colleges and do not reflect future tuition increases.
[3] The Department of Labor would use budgeted FY15 workforce education and training monies from the Next Generation Fund to administer the internship initiative.

2) The bill would require the Agency of Commerce and Community Development to establish a domestic export program (Sec. 8) but would not provide funding to the Agency. The funding would be considered as part of the FY15 Budget bill but if it is not ultimately approved then the Agency would be required to comply with an unfunded mandate. The Agency has testified that it does not have sufficient resources or staffing to comply with this provision of the bill.

3) The Agency of Commerce and Community Development (ACCD) would be required to perform or participate in numerous studies and reports per the provisions of this bill, while utilizing its existing resources. This could potentially lead the Agency to prioritize the provisions of this bill at the expense of its current statutory requirements, or could lead to dilution of the overall quality of the Agency's outputs.

4) The Vermont Strong Scholars Program provisions (Section 33-35) would create a loan forgiveness program and an internship initiative. Language within the bill limits the payment of loan forgiveness awards to the amount of money, if any, appropriated by the Legislature for such purpose each fiscal year. The following fiscal pressures would be incurred for the administration of this program.
    a) ACCD would be required to establish the organizational framework of the loan forgiveness program upon the passage of this bill. ACCD has stated that this program is a priority and they would not require any further resources to set up the organizational details, although the Agency would also be concurrently performing numerous studies required in this bill on top of its normal workload.
    b) The loan forgiveness program would go into effect in FY16 for students enrolled in post-secondary programs on or after July 1, 2015. Therefore, the earliest that loans might begin to be forgiven would be FY18 with a potential cost up to $200,000 using 2014-15 tuition rates. In future years the cost could be up to $900,000. The Vermont Student Assistance Corporation (VSAC) would be able to offset some of these costs with its own funds up to approximately $100,000 per year. These estimates are based on loans being forgiven over a 3-year period for individuals receiving an associate's degree and over a 5-year period for individuals receiving a bachelor's degree with a limited participation rate of 100 new graduates per year. The participation limit would be imposed by the Administration although it is not specifically identified in the bill.
    c) The Department of Labor has indicated that can utilize approximately $250,000 of its FY15 Next Generation funds for workforce education and training to implement the internship initiative. The Department would hire an Internship Program Intermediary and administrative support staff, and would perform marketing, outreach, and provide some internship stipends.

<u>Section-by-Section</u>

Sec. 1 – One-Stop Shop Web Portal

FY15 Cost: The Secretary of State has already performed work on this process with some of the other government agencies and departments as part of an informal committee. To date, ACCD has not been heavily involved but estimates that it can perform this work with its current resources. The Attorney General's office has expressed concern about what would be required from them and whether they could meet the requirement with their current resources.

The bill would require ACCD, the Secretary of State, the Agency of Administration, Department of Taxes, Department of Labor, and the Attorney General to work with other relevant agencies and partners to create a "one-stop shop" website to simplify and expedite business creation and growth. The team would be required complete the project over 4 phases with a completion deadline of June 30, 2015.

Sec. 1A and 1B – Vermont Enterprise Fund

FY15 Cost: Up to $5 million of any FY14 General Fund surplus would be dedicated in the following order: (1) $500,000 to the Vermont Economic Development Authority for loan loss reserves described in sec. 2-3 of this bill, and (2) $4.5 million to the Vermont Enterprise Fund. Aside from the provisional appropriation of FY14 surplus funds, the Vermont Enterprise Investment Fund would not have a dedicated funding source. There would be a FY15 fiscal impact to the extent that these leftover FY14 funds would not be available to cover any unbudgeted FY15 expenses.

The bill proposes to establish a Vermont Enterprise Fund for the purpose of making economic and financial resources available to businesses facing circumstances that necessitate State government support. The Governor would be authorized to use amounts in this fund subject to approval by the Emergency Board. The Governor would be required to submit a detailed request to the Emergency Board with information about the company and about how resources from the fund would be used.

Sec. 2-3 – Vermont Entrepreneurial Lending Program
FY15 Cost: $1,000,000 from VEDA funds or eligible federal funds to establish a loan-loss reserve fund.

The bill proposes to establish an entrepreneurial lending program to be administered by the Vermont Economic Development Authority (VEDA). The program will be aimed at securing capital for start-up, early stage, and growth-stage businesses with innovative products, whose capital needs exceed current financing capacity, or whose primary assets are nontangible and difficult to collateralize. VEDA would establish a loan loss reserve using a combination of its own funds and an appropriation of State funds in order to secure reasonable interest rates for borrowers.

Sec. 4 – Vermont Agricultural Credit Program
FY15 Cost: No direct impact to the State, only to VEDA.

The bill proposes to adjust the language concerning aggregate borrowing by farm operations from VEDA so that borrowers would be limited in their borrowing by the *greater* of either current maximum Farm Service Agency loan guarantee limits *or $2,000,000*. The bill also proposes to include forest products and forestry to certain statutory definitions regarding the Agricultural Credit program.

Sec. 5 – Networking Initiatives
FY15 Cost: Staff time and resources of the Agency of Commerce and Community Development. No additional appropriation would be requested.

The bill would require the Agency of Commerce and Community Development (ACCD) to support networking events offered by regional economic development providers designed to connect capital providers with Vermont entrepreneurs, and to facilitate outreach and matchmaking opportunities for investors and entrepreneurs. ACCD would report to the House and Senate economic development committees on steps taken to support networking events and make recommendations for moving forward.

Sec. 6 – Vermont Downtown and Village Center Tax Credit Program
FY15 Cost: $250,000 would be allocated from the GF for qualified projects as per the Governor's proposed FY15 Budget and increase to $500,000 per year starting in FY16. The language authorizing the increase in funding for this program is in H.884 (misc. tax bill).

The bill proposes to expand code improvement tax credits falling within the Downtown and Village Center Tax Credit program to include qualified technology improvements. Installations and improvements of data or network wiring, or heating, cooling, or ventilation systems reasonably related to data or network installations or improvements would qualify for tax credits of up to $30,000.

Sec. 7 and 7a – Energy Rates for Businesses
FY15 Cost: Staff time of the Public Service Department, ACCD and the Public Service Board. No additional appropriation has been requested.

The bill proposes to require the Commissioner of Public Service and Secretary of Commerce and Community Development, in consultation with the Public Service Board (PSB) and other stakeholders, to conduct a study on how to achieve energy costs for "energy-intensive businesses" that are competitive with other locations. As part of the study, the Commissioner and the Secretary would look at the impact of energy costs on business competitiveness, administration of the energy efficiency program, evaluations of the Energy Savings Account and Customer Credit programs, retail choice program evaluations, as well as how any potential new programs and policies might impose cost shifts onto other customers. The Commissioner and the Secretary would be required to provide opportunities for public input during the study process and would be required to submit a status report to the General Assembly no later than December 15, 2014 and a final report no later than December 15, 2015.

Sec. 8 – Domestic Export Program
FY15 Cost: The bill would require the Secretary of ACCD to establish this program, but ACCD has testified that it would need additional funding that is not appropriated within this bill.

The bill proposes that a Domestic Export Program Pilot Project be created to market Vermont products within the region and the country. One feature of the proposed program would be to provide one-time matching grants of up to $2,000 per business for businesses to attend annual trade shows and other events in order to expand their market presence, if funds are available.

Sec. 9-11 – Computer Crimes and Trade Secrets
FY15 Cost: There could be some additional State costs and revenues if the number of prosecutions of computer crimes increases.

The bill proposes to increase the fines for computer crimes, increase the statute of limitations for prosecuting a misappropriation of trade secrets, and to amend the language of 9 VSA Ch. 143 regarding the protection of trade secrets to allow courts to award successful complainants the costs and fees arising from misappropriation of the complainant's trade secret.

Sec. 12 – State Contracting
FY15 Cost: Staff Time of Buildings and General Services (BGS) and the Agency of Administration to draft language. No additional appropriation has been requested.

The bill proposes to add provisions to Administrative Bulletin 3.5 for State procurement contracts that would allow contractors to use intellectual property that they have developed for the State for additional commercial purposes provided the State retains all rights to the property and the contractor has paid any necessary royalties, license fee or other payments to the State.

Sec. 13 – Small Business Access to Capital
FY15 Cost: Staff time and resources of the Department of Financial Regulation. No additional appropriation has been requested.

The Department of Financial Regulation (DFR) would be required to perform a crowdfunding study and report its findings and recommendations to the House and Senate economic development committees. DFR would be required to conduct two educational events highlighting opportunities for small businesses to access capital in Vermont. The Commissioner would be required to review and revise the Vermont Small Business Offering Exemption to reflect the evolution of capital markets and to ensure that Vermont remains competitive in its securities regulations.

Sec. 14 – Lender Requirements Study
FY15 Cost: Staff time and resources of the Department of Financial Regulation. No additional appropriation has been requested.

The bill proposes to require the Department of Financial Regulation (DFR) to report to the Legislature on statutory and regulatory changes to the State's licensed lender requirements that could be made to open private capital markets in Vermont and remove unnecessary barriers to business investment.

Sec. 15 – Licensed Lender Requirements
FY15 Cost: The Department of Financial Regulation (DFR) has stated that any fiscal impact from this policy would be minimal.

The bill proposes to add exemptions from the requirements to register with DFR for a lender license, mortgage broker license, sales finance company license or mortgage loan originator license. The exemption would cover those individuals who make no more than 3 mortgage loans in any consecutive 3-year period.

Sec. 16 – Investment of State Monies
FY15 Cost: No direct impact to the State, only to VEDA.

The bill proposes to make a language change to 2013 Session Laws (Act 87, Sec. 8) as follows:
The Treasurer is hereby authorized to establish a ~~short-term~~ credit facility for the benefit of the Vermont Economic Development Authority in an amount up to $10,000,000. Removing "short-term" would serve to clarify the intent of the original bill as VEDA makes 5-7 year loans and "short-term" implies a loan life of 1 year or less.

Sec. 17-18 and 18a – Local Investments and Local Investment Advisory Committee
FY15 Cost: The Treasurer already invests some State money and this bill would not add substantially to the amount that may be invested. There would be some increased risk that the State would incur losses from bad investments but the risk is minimal as the Treasurer is required to act according to the Uniform Prudent Investor Act requirements. The Treasurer has indicated that any per diem costs stemming from Local Investment Advisory Committee meetings can be met with current resources. There are not estimated to be any fiscal impacts in FY15 from this policy.

The bill proposes to grant authority to the Treasurer to establish a credit facility of up to 10% of the State's average cash balance for purposes to be determined by the Treasurer with advice from an advisory committee. The Treasurer currently invests up to $25 million, or 7% of the average cash balance, in various initiatives. This bill would statutorily increase the amount of potential investment by $10 million, or 3%, and would establish a Local Investment Advisory Committee to advise the Treasurer on funding priorities. The Committee would be chaired by the Treasurer and would consist of 11 members who would meet regularly to review and recommend funding priorities to the Treasurer for the purposes of increasing local investment in Vermont. Sections 17 and 18 of this bill would sunset on July 1, 2015.

Sec. 19 – Unlicensed Loan Transactions
FY15 Cost: No fiscal impact.

The bill proposes to define an "interbank clearinghouse" for the purposes of 9 V.S.A. §2481w and to exempt them from the requirements within subsections (d) of §2481w

Sec. 20 and 20a-e – Telecommunications Facilities
FY15 Cost: There could be some costs incurred by the Department of Public Service (Department) to attend public meetings. Any costs associated with retaining experts to consider applications for certificates of public good (Certificate) would be passed back to the applicants. Staff time from the Department and from the Public Service Board would be needed to draft the guide to telecommunications facility reviews and for order revisions.

The bill proposes to amend the requirements for a Certificate for communications facilities under 30 V.S.A. §248a. The amendment would require an applicant for Certificate, as well as the Department, to attend a public meeting upon request of a municipality. The Public Service Board (Board) would be required to consider the comments and recommendations made by a municipal legislative body and planning commission in regards to a Certificate request and to issue a detailed written response to the recommendation when making a decision to issue or deny a certificate. The Department would be authorized to retain experts in considering an application for Certificate and allocate the costs to the applicant. The Department and Board would be required to create a guide to the process of reviewing telecommunications facilities by Sept. 1, 2014 and the Board would be required to draft an order revision that defines the terms "good cause" and "substantial deference." The Department would be required to submit a report to the Legislature by Oct. 1, 2015 assessing the telecommunications facility review process.

Sec. 21 – JFO ACCD Demographic Study
FY15 Cost: Staff time of ACCD. No additional appropriation has been requested.

The bill proposes to require the Agency of Commerce and Community Development to perform an economic impact analysis of proposed development projects in the Northeast Kingdom with review and consultation provided by the Legislative economist and the Joint Fiscal Office.

Sec. 22 – Tourism Funding Study
FY15 Cost: The study is ongoing; therefore no additional fiscal impact is estimated.

The bill proposes to require the Secretary of Commerce and Community Development to report to the Legislature any findings and recommendations based on the results of the performance-based funding pilot project for the Department of Tourism and Marketing.

Sec. 23 – Assistance for Industrial Parks from VEDA
FY15 Cost: No direct impact to the State, only to VEDA.

The bill proposes to add statutory provisions regarding industrial parks that would increase access to loans and assistance from the Vermont Economic Development Authority (VEDA).

Sec. 24 – Definition of Industrial Park
FY15 Cost: No fiscal impact to the State.

The bill would add a definition for 'industrial parks' to Ch. 151 of Title 10 for the purposes of State land use and development planning.

Sec. 25-26 – Review of Master Plan Policy and Primary Agricultural Soils
FY15 Cost: The Natural Resources Board (NRB) estimates that it would cost approximately $2,000 to perform a review of its master plan, which it can pay for with its current resources. They do not anticipate any additional costs associated with the easing of requirements for mitigating the loss of primary agricultural soils.

The bill language proposes for the NRB to be required to review its master plan policy and add provisions for industrial park permitting. Additionally, the bill would ease requirements for industrial parks expansion as they relate to the mitigation for loss of primary agricultural soils.

Sec. 27 – Affordable Housing
FY15 Cost: The NRB believes that these provisions would have impacts on its Act 250 fee revenues over the long-term that could presently be absorbed, but there could be larger impacts from year-to-year depending on the timing of large development projects that would be exempt from Act 250 under the proposed bill.

The bill would seek to encourage growth within centers designated under 24 V.S.A. chapter 76A, by reorganizing statutory provisions regarding "development" under a new definition titled "priority housing projects," which would include projects that meet the criteria necessary to be exempt from Act 250 jurisdiction. The maximum number of housing units a project may have in order to avoid Act 250 jurisdiction would be increased and the determination of jurisdiction would only take into consideration the number of housing units within a discrete project and not cumulative housing units from other projects. The Natural Resources Board states that there currently a limited number (approximately five over a two year period) in designated centers of Vermont on an annual basis that are large enough to trigger Act 250 jurisdiction. The bill also proposes to amend the definition of mixed income housing projects for the purposes of determining Act 250 jurisdiction by revising the ceiling for affordable rental housing from 60 to 80 percent of median income and by reducing the required duration of affordability from 30 to 20 years. This has been done to allow greater flexibility in the income mix of projects qualifying for an exemption from Act 250 and align the affordability requirements for "mixed income housing" to those of "affordable housing."

Sec. 28 – Workforce Education and Training
FY15 Cost: The Department of Labor currently has funding in place to perform workforce education and training as proposed under this section.

The bill proposes to enumerate the duties and authority of the Department of Labor in regards to workforce education and training. The bill would also establish the Workforce Investment Board to replace the current Workforce Development Council with language that specifies the duties and statutory requirements of the new Board. The bill would establish protocols by which State agencies would be required to assist and coordinate with the Workforce Investment Board and the Department of Labor.

Sec. 29 – Vermont Training Program
FY15 Cost: Staff time and resources of ACCD to draft the annual report. No additional appropriation has been requested.

The bill proposes to rename the Employment Training Program in 10 V.S.A. §531 to the Vermont Training Program. The bill would reorganize some of the existing policy within the program and delete some language. The Secretary of Commerce and Community Development would be required to submit a report annually to the Legislature regarding workforce development efforts in concert with the reporting requirements under 10 V.S.A. §540.

Sec. 30 – Repeal
FY15 Cost: No fiscal impact to the State.

The bill proposes to repeal sections from prior session laws dealing with workforce training and the Workforce Development Council.

Sec. 31 – Statutory Proposals
FY15 Cost: Staff time. No additional appropriation has been requested.

The bill would require the Commissioner of Labor to submit a proposal for statutory changes to §543 of 10 V.S.A. and the Secretary of Commerce and Community Development to submit a proposal for statutory changes to §531 of 10 V.S.A. The proposals would be presented to the House and Senate Economic Development committees.

Sec. 32 – Internship Opportunities for Young Persons
FY15 Cost: The Department of Labor estimates that the study can be performed with its current resources.

The bill proposes to require the Commissioner of Labor to report to the Legislature on internship opportunities for Vermonters between 15 and 18 years of age and how those opportunities might be expanded.

Sec. 33-35 – Vermont Strong Scholars
FY15 Cost: The loan forgiveness program would begin in FY16 for students beginning a post-secondary program on or after July 1, 2015. Per the bill, the availability and payment of loan forgiveness would be subject to available funding. If fully funded by the Legislature, the loan forgiveness program could cost up to $200,000 in FY18 and up to $900,000 in future fiscal years, not including amounts that VSAC could contribute from its own funds. The Department of Labor estimates that it would use approximately $250,000 per year from its current Next Generation funding to pay for its costs to implement and run the internship initiative.

The bill would create the Vermont Strong Scholars and Internship Initiative to encourage students to attend school and work in Vermont.

Loan Forgiveness – The Secretary of Commerce and Community Development (Secretary), in consultation with other agencies, would identify economic sectors that are critical to the Vermont economy on an annual basis. The Secretary would then use those sectors, along with the anticipated number of eligible students, to submit a cost estimate for the loan forgiveness program to the Legislature. Only loans provided by the Vermont Student Assistance Corporation (VSAC) would be forgiven. Students awarded an associate's degree would be forgiven an amount equal to 15 credits at the comprehensive tuition rate at the Vermont State Colleges prorated over a 3-year period. Students awarded a bachelor's degree would be forgiven an amount equal to 30 credits prorated over a 5-year period. The Secretary would develop the organizational details of the loan forgiveness program and the Vermont Student Assistance Corporation (VSAC) would manage the program.

Internship Initiative – The Commissioner of Labor (Commissioner) would work with the Secretary to develop the internship program. The Commissioner would hire a Program Intermediary to identify postsecondary internships, cultivate relationships with employers and post-secondary institutions, and provide support to students. Most internships would be funded by individual employers but the Commissioner would have limited funding to pay internship stipends in the event that the employer is unable to pay. The Commissioner has indicated that funds for the internship initiative could come from existing Next Generation/Workforce Education and Training funding, provided that the funding continues at its current level.

The Secretary would submit a report to the Joint Fiscal Committee on the organizational and economic details related to the program in November 2014, including funding mechanisms and anticipated costs.

Sec. 36 – Vermont Products Program Study
FY15 Cost: Staff time and resources of the Agency of Commerce and Community Development, Agency of Agriculture, Food and Markets, and the Attorney General's office.

The bill proposes that the Secretaries of Commerce and Community Development and Agriculture, Food and Markets work with the Attorney General to harmonize the Vermont origin rule, Made in Vermont initiative and the proposed Vermont Products Program in order to help Vermont businesses promote Vermont products. A report would be due to the Legislature on September 1, 2015.