Vermont Legislative Joint Fiscal Office

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Revised FISCAL NOTE

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S.138 An Act Relating to Promoting Economic Development

(as amended by the House Committee on Ways and Means, May 7, 2015)

Summary: This bill aims to establish statutory and non-statutory provisions aimed at growing the economy of Vermont. Some provisions of this bill have direct costs to the State in FY2016 and future years with the intent that the provisions would provide a boost to economic activity in the short- and long-term to offset State costs. Below are the sections that could or will have a direct economic impact to the State in FY16 and future years.

Sections:

Sec. A.4-A.16

These sections deal with fortified wines. A definition of fortified wine is established that separates these beverages from spirituous liquors. Holders of a second-class beverage license would be allowed to purchase fortified wine permits for $100/permit to sell these beverages in locations other than State liquor stores. The number of special events permits obtainable by a manufacturer in a given year would be increased from 36 to 104. These permits cost $35 each. Fortified wines would be taxed on the same tiered scale as spirituous liquors with the receipts going to the Liquor Control Fund. The net revenue increase in FY16 is estimated to be negligible.

Sec. C.1-C.2

These sections deal with the Vermont Strong Scholars program, which was established in Act 199 of 2014. The new language primarily serves to clarify what was enacted in the prior year. While the existing statute says that repayments under the Vermont Strong Scholars program will only take place if State funds are available, the potential costs to the State range from $200,000 to $1 million based on repayments starting in FY18 and increasing participation in future years.

Sec. C.4

This provision establishes a Youth Employment Working Group to study work-experience opportunities for 16 and 17 year olds in Vermont. The group will report its findings to the Legislature on January 15, 2016. The estimated cost for per diems and Legislative pay is estimated to be approximately $5,000 in FY16.

Sec. C.9

The income and asset changes for eligibility for Medicaid for Working People with Disabilities are estimated to have a modest impact on enrollment and cost in the buy-in program. The report from 2009 found that "With the current employment pattern among individuals with SSA-defined disabilities, the potential eligibility pool for WPWD Medicaid in Vermont, under current rules, is estimated to be about 956 individuals. Given a current actual monthly enrollment level of about 651 individuals, the potential unmet demand for WPWD at this time would appear to be between 153 and 305 individuals". However several of these folks may already be receiving state coverage and or with may have lower intensity cost impact - it is assumed that the folks with greater need for the buy-in coverage who are at or near eligibility would seek to adjust their income and assets to qualify.

The low end of the unmet demand range is estimated to be the likely universe for potential caseload impact. At current match rates, $227,000 could be the FY16 impact to State funds. However the uptake is likely to be significantly below the 100% level, and to the extent this means a move from one Medicaid eligibility group to another the cost could be neutral or even negative. At a 50% uptake and 50% cost level overall the cost impact annually (post-CMS approval of changes) the impact would be $50 to $60k on state funds in FY17.

Sec. D.2

This section in the House Commerce version was eliminated by House Ways and Means. It would have created an automatic annual appropriation to the Department of Tourism and Marketing of 15%, not to exceed $750,000, of the amount that meals and rooms tax revenues exceed the preceding July's consensus revenue forecast. This section would have applied to FY17 and future years.

Sec. D.4

This provision establishes an appropriation in FY16 of $500,000 to the Department of Tourism and Marketing.

Sec. G.1-G.4

The comments (in italics) below were submitted by Tom Kavet in regards to the VEGI provisions. The language would set the enactment date of the changes retroactively to January 1, 2015.

** G.2(i) The version of this bill that passed the Commerce committee contained a broad definition for a value-added firm and would have expanded the costs of the VEGI program by approximately 20%.The Ways and Means committee gave a narrower definition of a "value-added" firm (which was oddly defined in the first place, since all firms add value to products) and targeted the geographic areas that could be recipients of such rewards to those with an unemployment rate 0.5 percentage points[1] above the Statewide average. The expected costs of this provision with the Ways and Means' changes will be approximately $100,000 to $150,000 starting in FY2017.* This is a reduction from the $800,000 to $1,000,000 earlier estimate.

** G.2(a) The change in the wage threshold, as passed by the Commerce Committee, to 1.4x the minimum wage, would have generated additional State cost to the VEGI program through added public benefit expenditures associated with such jobs. The inclusion of the language on page 3, lines 13-17, of the Ways and Means amendment (that directs adjustment of the Cost-Benefit Model to offset higher costs with lower award levels) would negate all fiscal costs noted in Section G.2(a) (previously estimated at $50K to $400K). The addition of specific benefit requirements associated with the wage threshold change will also minimize the extent to which the Cost-Benefit Model will need to be changed in order to offset added costs associated with this provision and reinforce the program objective of incenting higher-than-average quality jobs.* No fiscal impact is expected from this provision as amended by Ways and Means.

[1] Current language may need to be improved to be more technically correct. *The language regarding the unemployment rate differential should read "0.5 percentage points higher" rather than "0.5 percent higher." If the State unemployment rate is 4.4%, the former would result in a threshold of 4.9%, the latter, 4.422%.*

** G.2(h) This change, though relatively minor in terms of cost, still adds State cost to the program unnecessarily. In previous drafts, this change was also accompanied by a change in the Cost-Benefit Model, such as the above, to account for this added cost (i.e., faster payment of awards changes the net present value calculation of the award). A suggested language change would be: "If the Council grants an accelerated payment pursuant to this subsection (h), the Council shall recalculate the value of the incentive using the cost benefit model and adjust the amount of the award as is necessary to account for the accelerated award payment."* This provision was in the Senate-passed version of the bill and the cost is estimated to be from $0 to $100,000 to the General Fund. Some of these costs may begin to occur in FY2016, as the benefit could be applied to outstanding projects. It was the intent of the Ways and Means committee to amend this language to require an adjustment of the cost-benefit model, but the language did not make it into the draft that was voted on by committee.

Sec. G.5

An interim committee would be established to study the viability of an employee relocation tax credit. The committee would submit a report to the Legislature on January 15, 2016. If the credit is enacted, there would be potential costs to the State in FY17 as individuals who have relocated to Vermont file their tax year 2016 income tax returns. The cost for per diems and Legislative pay is estimated to be approximately $3,000 in FY16.

Sec. G.6-G.7

These provisions would enable the Vermont Housing Finance Agency to allocate affordable housing tax credit for the purposes of allowing the Agency to finance down-payment assistance loans for eligible home buyers. The provisions would require the Agency to use loan proceeds to fund future loans. The Agency would be allowed to allocate first-year tax credits in increments of $125,000 per year over a five-year period starting in FY16 up to a maximum of $625,000 in FY20. Some of the State cost could potentially be partially offset by increased property transfer tax (PTT) revenues that would not be received "but for" the availability of down-payment assistance loans.

Sec. G.9

This provision extends the Wood Products Manufacturer Incentive, established in 2014, through tax year 2015. There is no estimated FY2016 cost as the funding appropriated in FY15 to pay for the incentive is still available.

Sec. G.11-G.12

This provision establishes a six-week tax amnesty program to expire no later than October 2, 2015. The program is estimated to bring in $600,000 to the General Fund in FY16. This estimate is based on a review of the current accounts receivable information at the Tax Department and the experience from the Amnesty held in 2009. There is no departmental cost estimate at this time.

*Sections G.8 on Cloud, and G.10 on Research and Development Tax Credit were removed.

	S.138 Fiscal Note - Attachment I	FY 2016 Costs/Benefits (in millions)			FY2017 (est.)
Sec #	**Brief Provision Description**	**GF**	**EF**	**SF**	**All Funds**
A. General Commerce					
Sec. A.1	Business Rapid Response to Declared State Disasters	N/A			
Sec. A.2	Manufacture of Gun Suppressors	N/A			
Sec. A.3	Study and Report; Blockchain Technology	N/A			
Secs. A.4-A.16	Establishes a definition of fortified wine separate from spiritous liquor but maintains the same tax schedule as for a spiritous liquor. Allows second-class licensees to purchase a fortified wine permit. Some additional licensing revenue potentially to Liquor Control Fund.			negligible	
B. Uniform Commercial Code					
Sec. B.1	Update to Article 4A	N/A			
Secs. B.2-B.9	Update to Article 7	N/A			
C. Workforce Education, Training, and Development					
C.1-C.2	Vermont Strong Scholars Program and Internship Initiative; Graduates with a 2-yr degree would be eligible to receive loan repayment benefits starting FY18 or potentially earlier if program completed before 2 yrs. Loan repayment will only occur as State funds are available. **Potential FY18 cost: $200-300k, up to $1m in future yrs.**	N/A			
C.3	Amendments to WET Fund Provisions; 10 V.S.A. §§ 543-544	N/A			
C.4	Youth Employment Working Group	negligible			
C.5	Vermont Governor's Committee on Employment of People with Disabilities	N/A			
C.6-C.8	Vermont ABLE Savings Program	N/A			
C.9	Medicaid for Working People with Disabilities	N/A			(0.05-0.06)
C.10	Vermont Career Technical Education; Study and Report	N/A			
D. Tourism and Economic Development Marketing					
D.1	Findings and Purpose	N/A			
D.3	Directs Department of Tourism and Marketing to deliver a legislative proposal and report to identify the goals, targets, performance measures, and results of its economic development marketing programs.	N/A			
D.4	$500,000.00 appropriation for economic development marketing	(0.5)			
D.5-D.6	Domestic Export Program	N/A			
E. Access to Capital					
E.1-E.2	Vermont Entrepreneurial Lending Program; VEDA Lending	N/A			
E.3	Treasurer's Credit Facility for Local Investments; Extension of Sunset	N/A			
E.4	Exemption from Lender License Requirements for Commercial Loans	N/A			
F. Natural Resources, Land Use, and Planning					
F.1	Economic Development Strategy; Deference to Regional Plans	N/A			
F.2-F.4	Southern Vermont Economic Development Zone	N/A			
F.5	Act 250; Implementation of Criterion 9(L)	N/A			
F.6-F.7	Municipal Land Use; Vermont Neighborhood Development Area	N/A			
F.8	Acquisition of Land by Public Agencies; Conservation Easements	N/A			
F.9	Certificate of Public Good; Methane Digesters	N/A			
G. Tax Credits and Business Incentives					
G.1-G.4	Vermont Employment Growth Incentive Provisions. *See fiscal note for explanation of costs*	(0.0-0.1)			(0.1-0.2)
G.5	Employee Relocation Tax Credit Study	negligible			
G.6-G.7	Downpayment Assistance Program. **Tax credits issued in increasing increments of $125k per yr up to a maximum of $625k in FY20**. Some costs may be offset by increased property transfer tax revenues.	(0.125)			(0.25)
G.9	Extends Wood Products Manufacturer Incentive through TY 2015	Carryforward from FY15			
G.11-G.12	Tax Amnesty Program	0.6			
H. Effective Dates					
	FY16 est. Total	**(0.125)**			
	FY17 est. Total				**(0.4-0.5)**

**** There is currently a balance of $2.54 million in the Vermont Enterprise Fund (created in Act 199 of 2014)***