Vermont Legislative Joint Fiscal Office

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Preliminary FISCAL NOTE

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S.138 An Act Relating to Promoting Economic Development
(as passed by the House Committee on Commerce and Economic Development)

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:

<u>Sec. A.4-A.16</u>
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.

<u>Sec. C.1-C.2</u>
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.

<u>Sec. C.4</u>
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.

<u>Sec. D.2</u>
This section would create 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 apply to FY17 and future years. There are several issues with this provision.

- It would create downward pressure on the overall General Fund revenue forecast. The revenue forecasting process is designed to balance risks across many revenue sources and isolated events. Limiting the benefit of strong performance in one area can weaken the overall general fund return; and
- It effectively pre-appropriates funds before any Appropriations Committee decisions can be made presupposing future legislative priorities;
- There is no historical relationship between State tourism spending and meals & rooms tax receipts given that state tourism and marketing expenditures represent roughly 3% of total advertising expenditures.

<u>Sec. D.4</u>
This provision establishes an appropriation in FY16 of $500,000 to the Department of Tourism and Marketing.

<u>Sec. G.1-G.4</u>
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. Due to the timing of VEGI application receipt and approval as well as projected expenses, it is expected that most of the costs of these provisions would not begin until early in FY2017.

** G.2(i) The most expensive provision still in this legislation is the so-called "enhanced employment incentive for value-added businesses." Per previous testimony to House W&M, had this been in effect previously, it would have included virtually every VEPC recipient to date and the vast share of expended State dollars for this program. If there are any businesses that VEPC thinks need a greater incentive than the model would otherwise calculate, they can approve such awards on a case by case basis under the $1 million "net negative" provision in the existing (and proposed) statute. If there are many such firms, the $1 million "net negative" cap can be increased by the E-Board. In the program's entire existence, no more than $400K has ever been needed in any year via this provision, and in many years, less than $100K has been spent. <u>This program change could raise the overall taxpayer cost of the program by about 20%.</u>* This provision was <u>not</u> in the Senate-passed version of the bill. The cost of this provision is estimated to be $800,000 to $1,000,000 to the General Fund starting in FY2017

** G.2(a) The change in the wage threshold, to 1.4x the minimum wage, could generate additional State cost to the program through added public benefit expenditures associated with such jobs. Without some provision such as those that have been explored by members of House W&M to require an explicit healthcare or other benefit with the 1.4x threshold, there should be a requirement (which was in previous drafts of this) that this change be accompanied by changes in the Cost-Benefit Model to account for such costs. Language could be similar to that used in the section of the bill extending award payouts, such as, "If the Council grants an award pursuant to this subdivision (b)(1) with the lower wage threshold, 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 lower wage threshold."* This provision was in the Senate-passed version of the bill and the cost is estimated to be $50,000 to $400,000 to the General Fund starting in FY2017.

** 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.

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 offset by increased property transfer tax (PTT) revenues that would not be received "but for" the availability of down-payment assistance loans. This offset has the greatest potential in FY16 as the Appropriations Bill currently has all PTT revenues above and beyond what was estimated in the January 2015 consensus revenue forecast earmarked for the General Fund. However, the offset would be diminished in future years assuming that the statutory PTT formula is followed.

Sec. G8

This provision exempts remotely prewritten software from the sales and use tax. The FY16 cost is estimated to be $1.5 million General Fund and $800,000 Education Fund.

Sec. G9

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. G10

This provision raises the Research and Development Tax Credit back to 30% of the federal tax credit from the current 27%. The estimated FY16 cost to the General Fund would be $250,000.

	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	(0.005)			
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		
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.2	Makes technical changes to name of DHCD; Expands Department of Tourism and Marketing mission to emphasize economic development marketing; creates funding formula in statute for marketing - 15% of M&R actual tax receipts above projection from previous July, capped at $750k. **Applies to FY17 and onwards with costs from $0 - $750,000 per year.**		N/A		(0.0-0.75)
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)			(1.0-1.5)
G.5	Employee Relocation Tax Credit Study	(0.003)			
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.8	Prewritten Software Accessed Remotely	(1.5)	(0.8)		(2.3)
G.9	Extends Wood Products Manufacturer Incentive through TY 2015		Carryforward from FY15		
G.10	Increases Research and Development Tax Credit from 27% to 30%	(0.25)			(0.25)
H. Effective Dates					
	FY16 est. Total	**(2.38)**	**(0.8)**		
	FY17 est. Total				**(3.8-5.0)**