

Initial Considerations and Questions for the SPARC Proposal in the Governor’s Omnibus Housing Bill

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Overall, given the early stage of the proposal, JFO is unable to provide an exact estimate of the fiscal costs to the statewide Education Fund beyond noting that 100% retention of Education Fund increment in this proposal would result in forgone property tax revenue. More information about the number and size of Strategic Projects for Advancing Rural Communities (SPARC) sites would be needed to understand the scope and scale of the proposal. In the interim, JFO has provided the following considerations and open questions.

Considerations:

- Statewide grand list growth is currently high. Fiscal year 2024 actual growth averaged 9.7% statewide. Growth is forecasted to be at least 14% in fiscal years 2025 and 2026. Use of increment retention programs such as the proposed SPARC or current TIF is predicated on a declining or stagnant grand list, which is likely not the case for much of Vermont with current growth rates.
 - a. As shown on Table 1, 161 towns experienced education grand list growth of more than 10% between 2023 and 2024.
 - b. Under the SPARC proposal, municipalities could retain 100% of the Education Fund increment, which could include double-digit background growth that is already occurring in the project area and would be delivered to the Education Fund without a SPARC.
 - c. Research conducted in other states has found that areas with higher rates of property value growth are more likely to implement a TIF. If this finding is true for SPARC, higher amounts of forgone revenue will be diverted from the Education Fund.

Table 1: Education Grand List Growth (2023-2024) by Town

Equalized Grand List Growth Rate (2023-2024)	Number of Towns
Less than 0%	2 ¹
Between 0% and 5%	15
Between 5% and 10%	39
Between 10% and 20%	161
Between 20% and 30%	33
Between 30% and 40%	5

¹ The two towns that experienced decline in equalized grand list value were Somerset (pop. 6) and West Haven. Although West Haven experienced a decrease between 2023 and 2024, the town had an education grand list increase of 2.12% between 2022 and 2024

Towns would only need to meet one of six criteria to form a “SPARC project,” compared to three of five criteria in the current TIF program.

- a. These criteria would considerably expand allowable projects and uses of TIF in Vermont.
- b. The current statewide TIF program location criteria are not required of SPARC sites in the draft version. This means that one of the benefits of TIFs – their ability to concentrate development into compact downtown and village centers – would be lost.
- The language in the draft defines a SPARC site as “an area and adjoining parcels where approved development and redevelopment are happening.”
 - a. Is there enough revenue from increment if the project scope is narrowly constrained to project site?
- The typical considerations with a project-based TIF mechanism apply:
 - a. Construction projects are frequently modified. If increment relies on a single development, delays and changes to the project can carry fiscal risk to the municipality.
 - b. Smaller towns do not have other revenue sources to absorb any shortcomings in increment generation.
 - c. Tradeoffs between administrative ease/flexibility, municipal capacity, and rigorous accounting of Education Fund dollars.
- Disparities in TIF usage may continue even with the smaller scale of the proposed SPARC projects due to disparities in administrative capacity. More than 100 towns in Vermont do not have a manager or administrator, and many town treasurer positions are part-time.
 - a. One element of the proposal may assist with capacity differences by designating “coordinating agencies” that can assist with setting up the SPARC, reporting requirements, and maintaining adherence to statute.
- The proposal creates incentives to use longer-term and more expensive instruments with indefinite length of retention period. Those additional financing costs would be borne, in part, by the Education Fund.
- Private developers cannot receive increment under current TIF statute, but could under the SPARC program.
 - a. These projects offer an incentive for developers to shop around between different municipalities to find the most advantageous community agreement. As drafted, the various criteria are not strong enough to limit where a project can occur.

General questions:

1. What does this program provide for municipal infrastructure development beyond what can be provided by other policy tools? For example, a revolving loan program, which is also proposed in this bill, has a clearer fiscal impact and achieves similar policy goals.
 - a. After years of elevated federal funding, how many critical infrastructure projects are left? Are the remaining projects feasible from a technical or political economy standpoint (i.e., do residents want them?)

2. If the concern is more that developer costs do not “pencil out” – why are Education Fund dollars needed to provide these subsidies? Should the State be acting as an investor of Education Fund dollars if benefits do not accrue in the near term? Are there other tools that can help improve the cost/benefit analysis for these projects?