



**STATE OF VERMONT
OFFICE OF THE STATE AUDITOR**

To: House Committee on Commerce & Economic Development
Re: S.127 – TIF sections
Date: 15 April 2025

The bill is a radical departure from the current TIF program, which is designed to help finance municipal infrastructure in hopes of promoting development. This proposal would pledge local and Education Fund property taxes to developers of private properties without specific obligations for public benefits. There are a number of risks in the proposal.

The Missing But For

The program contains no means test to ensure that taxpayer funds are not used for projects that would have happened without subsidies. The presumption that all housing projects *need* taxpayer funds is not accurate. Yet the program requires nothing to demonstrate need. As written, local and Education Fund tax revenue could be used to provide excessive development fees, or profits, to the developer. And since there are **no affordability requirements**, housing can serve higher income households for whom construction costs are not the barrier they are to lower and middle-income Vermonters. When that happens, tax dollars are transferred to the developers of profitable projects. The so-called “Missing Middle” could well be missing from this program.

Financing Risks

- If the tax increment generated by a project is not sufficient to meet debt service requirements, the host municipality would be liable rather than the developer.
- Tax-free municipal bonds can only be used for municipally owned property. Since the properties at issue will be privately owned, this is likely to increase borrowing costs.

Affordability & Access – Define the Public Good

- The program’s purpose is to “encourage the development of primary residences for households of low or moderate income” (§ 1907), but there are no requirements for any of the housing to be affordable. If developers produce high-end housing, there will be no benefit for low- or moderate-income Vermonters.
- The preference in the bill’s purpose statement for housing to be “primary residences” is welcome as so many Vermont housing units are converted to short-term rentals. But there are no requirements for covenants to prevent such conversions. The report back to the

Legislature concerning the program's success is not due until January 2035. In the intervening ten years, the bill's vagueness would allow for virtually no affordable housing to be built, but with tremendous cost and risk to taxpayers.

Unknown Fiscal Impacts

- State:
 - JFO could not perform a fiscal analysis of the bill. It is imprudent to consider such a potentially expensive program without such an analysis. What will be the cost to the Education Fund?
 - VEPC's responsibilities will expand significantly but no provision has been made to estimate such added costs.
- Local: The development plan required by the bill does not include any consideration of the costs of additional services incurred as a result of the new projects. This is noteworthy since the host municipality will retain 100% of the new tax increment to pay the debt and related costs. That leaves no new property tax revenue to pay for expanded local services, so taxpayers may see higher taxes. This should be analyzed and shared with voters.

Administration: There are few guardrails to ensure developers adhere to the rules and are accountable for what is promised.

- Developers should be required to commit to construct projects that will yield an assessed value that will generate tax increment sufficient to repay the debt issued by the town. And if tax increment is not enough to pay debt, developers should be required to make up the shortfall.
- The municipality should not issue debt until the developer provides evidence of an executed financing agreement for the project described in the materials provided in advance of the public vote.
- Developers should provide evidence that the funding from the municipality was used only for eligible housing improvements.
- The program is intended to help low- and moderate-income Vermonters, but the mandated annual report from VEPC doesn't require any such information.
- As with existing TIF statute, the bill authorizes the Secretary of ACCD to be responsible for enforcement of program rules and compliance with statute. As we learned with EB-5, there are risks in delegating authority for promotion and enforcement in the same agency. The Legislature has repeatedly expressed the need to stop creating such conflicts. We recommend that you consider assigning enforcement responsibility to the Tax Dept.

Finally, the complexity of the proposal argues strongly for VEPC to adopt rules before the program is launched.