VERMONT LEGISLATIVE
Joint Fiscal Office
1 Baldwin Street • Montpelier, VT 05633-5701 • (802) 828-2295 • https://ljfo.vermont.gov
Fiscal Note
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Ted Barnett, Senior Fiscal Analyst; James Duffy, Fiscal Analyst

S.127 – An act relating to housing and housing development

As recommended by the House Committee on General and Housing[1,i]

Bill Summary

This bill would establish various policy directives and new programs aimed at increasing the supply, affordability, and accessibility of housing in Vermont. The bill would also establish a tax increment retention program for housing infrastructure projects.

Fiscal Summary

The bill proposes a program that would have impacts on the statewide Education Fund:

- Sections 25 and 26 would create a new, project-based tax increment financing (TIF) program, called the Community and Housing Infrastructure Program (CHIP). The proposed program would allow municipalities to retain up to 100% of incremental municipal property tax revenues and 70% – or 80% if at least 20% of the units in the housing development are affordable – of incremental education property tax revenues for 20 years to support financing of local projects. There are too many unknowns to provide a fiscal estimate of the cost of this proposal to the Education Fund. The fiscal impact depends on the amount of debt incurred, the total size of project districts, and future growth in property tax revenues. The impact also depends on the number of projects that are made possible by CHIP versus the number of projects that would have happened in some capacity anyway.

The bill would also authorize the creation of the Residential Universal Design Study Committee, the State Housing and Residential Services Planning Committee, and the CHIP Board. Certain members of all three groups would be eligible for per diem compensation and expense reimbursement.

Background and Details

Section 1: Vermont Rental Housing Improvement Program (VHIP)

VHIP provides 5-year grants or loans and 10-year forgivable loans to rehabilitate existing vacant units or structural elements affecting multiple units, build accessory dwelling units (ADUs), build new residential units in an existing or new structure, and complete repairs necessary for code compliance. Under the current program, property owners are eligible to receive $30,000 per unit for rehabilitation of 0-2 bedroom units, and $50,000 per unit for 3+ bedroom units or creation of new units.

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[1] *The Joint Fiscal Office (JFO) is a nonpartisan legislative office dedicated to producing unbiased fiscal analysis – this fiscal note is meant to provide information for legislative consideration, not to provide policy recommendations.*

Section 1 would remove tenant selection requirements for the 10-year loans and replace them with a requirement that rent payments including utilities not exceed fair market rent. This section would also direct the Department of Housing and Community Development (DHCD) to establish a minimum allocation of annual VHIP funding to be set aside for 5-year grants or forgivable loans. The amount of this set-aside would be developed in consultation with the Agency of Human Services (AHS) but would not be less than 30% of annual VHIP funding. Funds set aside but not used after nine months would then become available for 10-year forgivable loans as well. This section also creates the VHIP Revolving Fund, which would receive funds repaid or returned to DHCD from VHIP grants or forgivable loans and allow DHCD to use these funds for VHIP expenditures and administrative costs.

Section 2: Vermont Manufactured Home Improvement and Repair Program

The Vermont Manufactured Home Improvement and Repair Program (MHIR) provides funding to improve existing manufactured homes, incentivize new slab placement, and for infill of more new homes. Up to $20,000 can be awarded for small-scale capital needs to help infill vacant lots with new homes. Up to $15,000 per grant can be awarded to pay for approved slabs or other site preparation, skirting, tie-downs or utility connections. This program was originally funded through $4 million in American Rescue Plan Act (ARPA) funding. Section 2 would permanently place the program in statute.

Section 3: Vermont Infrastructure Sustainability Fund

Section 3 would create a revolving loan fund administered by the Vermont Bond Bank. Loans would be available to fund:

- preliminary engineering and planning;
- engineering design and bid specifications;
- construction for municipal water and wastewater systems;
- transportation investments; and
- other eligible activities to be required.

Applications would have to demonstrate that a project would create reserve capacity necessary for new housing unit development, have a direct link to housing unit creation, and be owned by a municipality throughout its useful life.

Section 5: Residential Universal Design Study Committee

Section 5 would create a Residential Universal Design Study Committee to explore implementation of statewide universal design standards for all residential buildings. "Universal design" refers broadly to design practices that make built environments usable by people of different ages, abilities, and physical or cognitive characteristics without additional customization. The Committee would meet for not more than six meetings, submit a report to various committees of jurisdiction by November 1, 2025, and cease to exist on December 1, 2025. This report would review opportunities and challenges for the residential building industry to meet universal design standards, the costs and benefits of adopting universal design standards for residential buildings, existing best practices and standards for home accessibility and adaptability, and related topics.

Members serving in their capacity as a legislator when the General Assembly is not in session would be entitled to per diem compensation and expense reimbursement pursuant to 2 V.S.A. § 23, paid from funds appropriated to the General Assembly. The Joint Fiscal Office (JFO) estimates that legislator per diems and expense reimbursements would cost up to $3,000 in fiscal year 2026. Non-legislative members who are not otherwise compensated or reimbursed for their attendance would be entitled to per diem compensation and expense reimbursement pursuant to 32 V.S.A. § 1010. JFO estimates this would cost up to $11,500 in fiscal year 2026.[2]

[2] The fiscal year 2026 appropriations bill as passed by the Senate contains an appropriation for this purpose.

Section 6: State Housing and Residential Services Planning Committee

Section 6 would create the State Housing and Residential Services Planning Committee to generate a State plan to develop housing for individuals with developmental disabilities. The Committee would create a plan that includes: a schedule for the creation of at least 600 additional units of service-supported housing, a description of the support needs of individuals with developmental disabilities, any anticipated funding needs, and any recommendations for changes to State laws or policies that are obstacles to the development of housing for individuals with Medicaid-funded home and community-based services. The Committee would meet for not more than six meetings, submit a report to various committees of jurisdiction by November 15, 2025, and cease to exist on November 30, 2025.

Members serving in their capacity as a legislator when the General Assembly is not in session would be entitled to per diem compensation and expense reimbursement pursuant to 2 V.S.A. § 23, paid from funds appropriated to the General Assembly. The Joint Fiscal Office (JFO) estimates that legislator per diems and expense reimbursements would cost up to $3,000 in fiscal year 2026. Non-legislative members who are not otherwise compensated or reimbursed for their attendance would be entitled to per diem compensation and expense reimbursement pursuant to 32 V.S.A. § 1010. JFO estimates this would cost up to $6,300 in fiscal year 2026.[3]

Sections 25 and 26: Community and Housing Infrastructure Program (CHIP)

Sections 25 and 26 would create CHIP, a TIF program that would allow municipalities to retain growth in incremental property tax revenues to finance housing development. Municipalities would be able to retain 100% of the municipal increment and 70% – or 80% if at least 20% of the units created are affordable – of the education property tax increment for 20 years after the first incursion of debt. Under current law, TIF districts can retain 70% of education property tax increment and 85% of municipal property tax increment.

As proposed, tax increment could be used for direct payment of financing incurred to support the project, and related costs, and for any direct costs of housing infrastructure. Use of increment for direct payments would be subject to the same public vote provisions as municipal debt incursion for the project. To qualify, projects would need to meet process, project, and location criteria:

- *Process:* the project must show it has created a project site, executed a housing infrastructure agreement with a developer or sponsor, and pledged incremental tax revenues to the project.
- *Project:* the Vermont Economic Progress Council (VEPC) will determine whether the development includes housing.
- *Location:* the project would also need to be in a Tier 1A, 1B, or Tier 2 area as designed on State land use or development plans or located within ½ mile of an existing settlement area as defined in 10 V.S.A. § 6001(16). Other areas in Tier 2 could also be included if the project, upon completion, would otherwise make them eligible to become Tier 1 or if the housing development is a low or moderate income housing development. Starting July 1, 2028 the location criteria would be further expanded to include projects that have secured all required Act 250 permits and those that are located in Tier 2 areas with permanent zoning and subdivision bylaws delineated as Transition or Infill areas.

The fiscal impact of this program to the Education Fund cannot be estimated at this time, since the scope of program utilization, the intended size of projects, and the amount of development that would otherwise occur in its absence is unknown. The following bullets reflect several fiscal costs and considerations:

- As recommended, projects located in Tier 1A, 1B, or Tier 2 that include housing would be able to retain incremental property tax revenues – the program does not include a "but-for" test to understand if the project would have happened absent the use of incremental property taxes. Without that but-for test, the program will incentivize developments that would have occurred anyway, resulting in foregone revenue to the Education Fund.

[3] There is no appropriation in the bill for this purpose.

- The bill would expand the types of projects that would be eligible to retain property tax increment compared to current law for TIF districts. Under current law the definition of "improvements" means "the installation, new construction, or reconstruction infrastructure that will serve a public purpose … including utilities, transportation, public facilities and amenities, land and property acquisition and demolition, and site preparation." This bill would expand that definition to include "the installation or construction of infrastructure that will serve the public good," and add digital infrastructure, public recreation, commercial and industrial facilities, and flood remediation and mitigation to the above list of permitted infrastructure projects. This provision, along with a lack of a but-for test increases the number of projects that could qualify for this program and the potential amount of education property tax increment that could be retained.
- The program would retain a larger percentage of incremental education property tax revenues compared with the current tax increment financing program, which retains only 70% of incremental revenues. With a higher retention percentage, potential costs to the Education Fund are also higher.
- Statewide Grand List growth is currently high. In fiscal year 2025 and 2026, equalized Grand List growth is expected to be approximately 14%. If project sites are large enough to capture property value growth from adjacent parcels with existing development, the growth from those parcels would be retained in service of CHIP project costs instead of going to the Education Fund. This capture of existing growth would represent foregone revenue to the statewide Education Fund.

As recommended, Section 25 would also create the CHIP Board to assist VEPC with evaluating municipal housing infrastructure project applications. The Board would meet upon the request of VEPC and be composed of five members, all of whom would be entitled to per diem compensation and expense reimbursement pursuant to 32 V.S.A. § 1010. JFO estimates that this could cost up to $2,400 per meeting, depending on expenses such as mileage.

[i] *The full fiscal note history is available on the fiscal tab of the bill page on the General Assembly website and can be pulled up through a bill number search on the JFO page.*