



CHIP

Comments on Proposed Statute Changes

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Overall SAO Perspective

Proposed changes:

- Either remove existing constraints or increase developer flexibility;
- Increase chances CHIP projects will not serve legislative intent and/or provide public benefit, including by allowing taxpayer support for second homes and short-term rentals;
- In all respects, lower guardrails currently in place.

Public Good Criteria

- Removes public good criteria which is one of two guardrails relative to infrastructure improvements that ensure using public funds to support private development results in desired outcome.

(11) “Improvements” means:

(A) the installation, construction, or reconstruction of infrastructure

that will serve a public good ~~and fulfill~~ by fulfilling the purpose stated in section 1907 of this subchapter; and

(B) the funding of debt service interest payments for a period of up to

four years, beginning on the date on which the debt is first incurred.

Public Good Criteria

- Guardrail that remains in part relies the “but for” (i.e., the project wouldn’t occur but for the infrastructure improvements funded by CHIP). Based on our experience with economic development programs, it is difficult to validate whether a public subsidy is necessary or critical.

§ 1907. Purpose

The purpose of the Community and Housing Infrastructure Program is to encourage the development of new primary residences for households of low and moderate income across both rural and urban areas of all Vermont counties that would not be created but for the infrastructure improvements funded by the Program. (Added 2025, No. 69, § 20, eff. July 1, 2025.)

Public Good Criteria

➤ Nullifies VEPC's guidelines on what is meant by public good.

- **Public Good:** The public good will be considered met for improvements that directly support the housing development and are:
 - publicly owned and publicly accessible; or
 - privately owned and publicly accessible; or
 - privately owned and privately accessible improvements may be eligible so long as they can demonstrate a community benefit from the CHIP-supported infrastructure project. The municipality shall articulate with evidence how the community needs or desires the planned improvements and that they are mutually beneficial for the municipality and developer. (i.e., private septic systems for a development in a community that does not have a municipal wastewater system, and/or the cost of connecting the development to an existing system would be cost-prohibitive for the developer and town.

Public Good Criteria

➤ Implication or Risk

- Market rate housing projects which have no requirement to set aside units for low income and moderate-income households could receive public funds but provide no public good and only be subject to a but for test that is difficult to validate.
- Opens the floodgate to allow any of a developers' infrastructure costs to be paid for with public funds.

➤ Suggestion

- Defer consideration until there is experience to inform discussion.

Related Costs

- Expands the universe of related costs in statute to those incurred and paid by a sponsor or developer.
- VEPC CHIP guidelines include related costs of sponsors and developers as an eligible related cost.
- Implication or Risk
 - Not clear that developer and sponsor related costs would be subject to VEPC authorization and municipal validation.
 - VEPC CHIP guidelines are explicit about the expectation that municipalities will implement procedures to validate infrastructure improvement costs but do not address developer/sponsor related costs.

Related Costs

➤ Implication or Risk cont'd

- SAO experience with TIF districts indicates related costs are a higher risk area.

➤ Suggestions

- Remove sponsor and developer related costs from VEPC CHIP guidelines
OR
- Request VEPC modify the guidelines to specify that sponsor and developer related costs require VEPC authorization and that municipalities must obtain documentary evidence from sponsors/developers to substantiate the costs are eligible to be paid with tax increment.

Primary Residence

- Proposes that the requirement to maintain units as primary residences only applies to those “offered” by the sponsor.
- Effect is that the requirement to maintain the units as primary residences would not apply to any subsequent transactions which could be immediate upon project completion.
- Implication or Risk:
 - Appears inconsistent with purpose of the program.
 - Could significantly shorten or eliminate the period that units are preserved as primary residences.

Primary Residence

➤ Implication or Risk cont'd:

- Increases risk that public funds are used for projects that do not produce intended outcomes.

➤ Suggestion

- Defer consideration until there is experience to inform discussion.

Use of Tax Increment

- Proposes to expand use of tax increment to reimburse taxes already paid or as a credit against taxes due.
- Implication or Risk
 - Eliminates verification guardrail that currently exist.
 - Existing law requires sponsors to provide an invoice as evidence to substantiate that debt payment is due and to confirm once tax increment has been applied to that use. Ensures that the tax increment goes to permissible use.
 - Proposed change does not address evidence required to be provided that would prompt payment.

Use of Tax Increment

➤ Implication or Risk:

- Could be complicated to operationalize in municipal and state property tax systems.
 - Has the appearance of a tax abatement or tax exemption which could impact local taxpayers' property tax obligations.
 - Generally, when tax abatements or tax exemptions are granted by a municipality, the municipality still owes the state education fund taxes.
 - For tax exemptions, municipalities add a “local agreement rate” to the municipal tax rate which is sufficient to raise the state education funds not being paid by the property owner(s) with tax exemptions. Thus, the municipal tax rate is higher for all taxpayers.
- Suggestion: consult with Director of Property Valuation and Review about operationalizing and the potential impact on local taxpayers.