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To: Senate Committee on Finance
From: Doug Hoffer, Vermont State Auditor
Re: S.127 - CHIP housing bill
Date: 18 March 2025
Cc: Senate Committee on Economic Development

We offer the following comments on the CHIP housing bill and request the opportunity to testify.

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 bill.

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. In its current form, local and Education Fund tax revenue could be used to provide excessive development fees, or profit, to the developer. And since the housing can serve households at any income level, the projects could 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 merely being transferred from all taxpayers to profitable development. The so-called "Missing Middle" could well be missing from this new TIF program.

Financing Risks

- According to the Municipal Bond Bank, 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.
- It is possible that the tax increment generated by a project may not be sufficient to meet the debt service requirements. As written, the host municipality would be liable rather than the developer.

Affordability – Defining the Public Good

- The affordability standard is high (150% of median). If developers produce housing at the high end of the affordability spectrum, there may be no benefit for low-income

Vermonters. This new definition of affordable housing is also in conflict with how it has been defined elsewhere in statute (120% of median).

- The program does not include a requirement for a specific percentage of affordable units, referring only to "one building." Here too, this could limit the public good.
- The program does not require the "affordable" units to be preserved. Therefore, they may no longer be "affordable" when sold.
- This bill is purportedly about housing, but it allows the subsidies to be used for almost unlimited commercial and industrial development. Is there a need for such subsidies?

Unknown Fiscal Impacts

This proposed expansion of TIF has not been subjected to a fiscal analysis by JFO. It seems imprudent to consider such a potentially large program without such an analysis. What will be the cost to the Education Fund?

Administration

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

- Affordability is defined by reference to income. Unlike non-profit developers that routinely assess income eligibility, VEPC is not equipped to handle this administrative task.
- Developers should be required to commit to construct a project that will yield an assessed value that will generate tax increment sufficient to repay the debt issued by the municipality.
- If tax increment is not enough to pay debt, developers should be required to make up the shortfall.
- The municipality will only issues debt once the developer provides evidence of an executed financing agreement for the project described in the materials provided in advance of the public vote.
- Require developers to provide evidence that the debt was used for eligible housing infrastructure costs.
- **The complexity of the proposal argues strongly for VEPC to adopt rules before the program is launched.**