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Vermont League of Cities and Towns Community Housing and Infrastructure Program (CHIP)

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Agenda:

1. Review: Why CHIP? Why now?
2. CHIP vs. 'Big' TIF
3. What project types are eligible for CHIP?
4. CHIP guidelines
5. Eligible improvements and costs
6. What Vermonters need to know

How Does a Grand List Grow?

To understand the benefit of tax increment financing programs we must understand grand list growth.

Housing scarcity + Property Revaluation = Increasing Property Values

$$$

Housing Development + Property Revaluation = New Property Tax Revenue

CHIP is a New Tool for Adding Tax Capacity to the Grand List

Home Improvement

10 acre lot
Single family home
Low density residential district
Subject to Act 250

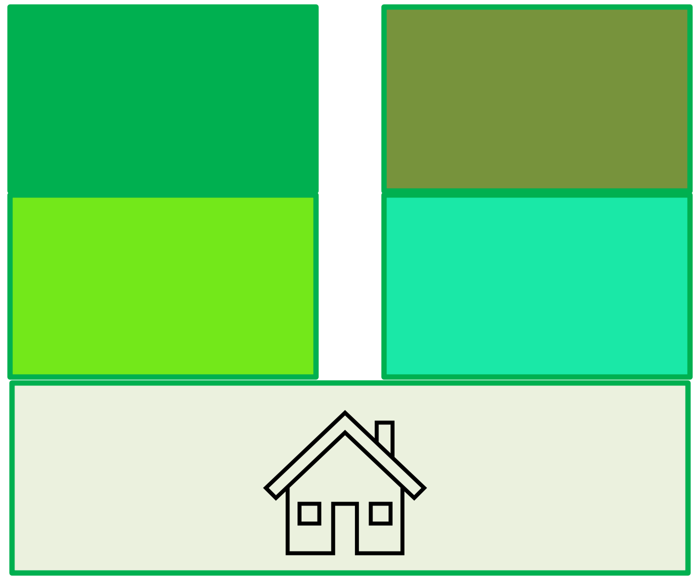
- ✓ Property Owner

Land Use Regulation

Tier 1a
Act 250 Exempt
High Density
Mixed Use
Small Lot Minimum

- ✓ State
- ✓ Town
- ✓ Voters

Subdivision, Transfer

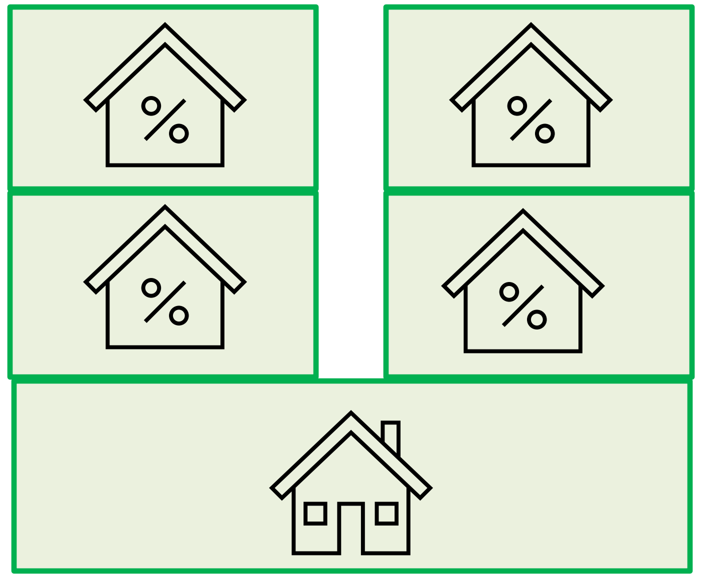


- ✓ Property Owner

Infrastructure, Site Improvement

- ✓ Town
- ✓ Voters
- ✓ CHIP

Building New Homes



- ✓ Developer

Why do municipalities want CHIP?

- Equalized grand list growth is projected to be 14% (market factor)
- Real annual municipal grand list growth from all development is .8% - 3%
- Real annual statewide growth from housing is 0.4% annually
- CHIP does not use any state appropriation through grants, tax credits, etc.
- CHIP does not require an increase in municipal tax rates or water rates
- CHIP grows other non-property tax state and local revenues
- CHIP increases state and local tax capacity by growing the grand list

Vermont's $2 Billion Plan: The Community Housing and Infrastructure Program (CHIP)

CHIP represents the most significant public investment in municipal infrastructure and housing in state history. If fully utilized, it could drive billions of dollars of investment and help to create thousands of new homes.

- The Vermont Economic Progress Council is granted authority and oversight over the CHIP program
- VEPC may approve up to $200 million per year of state tax increment for CHIP developments
- There are no location-based eligibility criteria; any municipality may use CHIP for projects that otherwise meet program requirements
- VEPC anticipates that first applications could be submitted as early as January 2026
- The program is initially planned to sunset after 10 years

CHIP versus 'Big' TIF

Like in the existing TIF program, CHIP allows municipalities to fund necessary public improvements and other eligible expenses using future, new tax revenue. CHIP has some significant differences to 'big' TIF that enable it to be used by communities of all sizes, and to specifically encourage the creation of affordable, year-round housing.

- CHIP can only be used for a single development site, more than one parcel may be included but must be contiguous
- 60% of the floor area must be housing
- "But for" test is required for market rate projects only
- all housing units must be primary residents
- debt may be acquired by the municipality, the developer, OR a fiscal sponsor
- public improvements do not need to be municipally owned but do need to provide a public good (i.e., community septic, parking facilities, recreational facilities)

How is CHIP "better" than Big TIF?

Faster: Incentivizes municipality to pay down the debt and take back its own new increment as soon as possible

Smaller: achievable for small, rural, and low-resource communities that are experiencing grand list loss (eligible costs includes technical assistance)

Leaner: doesn't require long-term, ambitious growth strategy (towns that don't want to "grow" still need to "build")

More Flexible: the developer or a sponsor can issue the debt; preserves municipal debt capacity, could be more favorable to voters

'OTV' : original taxable value

Tax Increment: the property tax revenue created from the <u>new</u> assessed property value minus the OTV

Housing Type	State Tax Retained	Municipal Tax Retained	Units Required	Area Median Income (AMI) Limit	"But For" Test
Affordable: Rental (Total annual cost ≤ 30% of gross income)	Up to 85%	85% to 100%	At least 15% of units must be affordable	≤ 80% AMI	Not required
Affordable: Owner-Occupied (Total annual cost ≤ 30% of gross income)	Up to 85%	85% to 100%	At least 15% of units must be affordable	≤ 120% AMI	Not required
Moderate-Income	Up to 85%	85% to 100%	At least 25% of units must be affordable	≤ 150% AMI	Required
Market Rate	Up to 75%	85% to 100%	N/A – No requirement	No cap	Required

All municipalities can use CHIP!

However, not all projects will be eligible or feasible.

But For Test : CHIP is established under 24 V.S.A. Chapter 53, Subchapter 7 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."

VEPC may consider factors such as would the development:

- occur significantly later than it could with CHIP financing
- include fewer units without CHIP financing
- be significantly less affordable to owners or renters than could occur with CHIP financing

CHIP Guidelines

The draft program guidelines have been created by a VEPC subcommittee to meet statutory requirements and are expected to be adopted by the full council before Nov. 15

- Eligible applicants are municipalities (cities, towns, and villages)
- Eligible projects include public infrastructure improvements that directly support the development of a housing development project
- 60% of the floor area ratio of the development must result in new or rehabilitated housing for primary residences, or the development must meaningfully address the purpose of the program
- Market rate projects must meet the but-for test
- Must hold one or more public hearings on the proposed housing infrastructure project
- Upon VEPC approval, debt must be incurred within 5 years
- Increment may be retained for up to 20 years or until the debt is retired
- Annual audits and reports to VEPC are required

Eligible Improvements: According to the draft program guidelines eligible costs related to improvements include but are not limited to:

- utilities
- drinking water, wastewater, and storm water
- transportation improvements
- site preparation for development or redevelopment including acquisition, demolition, environmental remediation and flood mitigation of a flood-prone area.
- soft costs: professional services directly related to the implementation and construction of eligible Site Improvements
- privately owned publicly accessible improvements that meet the purpose of the CHIP program, public good definition, and directly support the housing development project

<u>Eligible Costs:</u> costs associated with the creation, implementation, and administration of the CHIP site may include, but are not limited to:

- Plans, studies, or reports that are specific to preparing for, or for the public notification or approval of, a CHIP Plan, Finance Plan, VEPC application or amendment
- Costs such as consulting, design, architects, engineering, accounting, legal, project management, or other professional services incurred during preparation or implementation of a CHIP Plan, Finance Plan, CHIP application, or CHIP amendment
- Application fees charged by the Council for third-party analysis
- CHIP-related costs of the independent annual municipal audit
- Municipal employee and staff costs directly related to the administration and implementation of the CHIP Site. These costs may only be paid with municipal tax increment.

What do Vermonters need to know about CHIP?

VLCT has long supported this new fiscal authority for municipal government in Vermont, which exists in most states. In the past, similar concepts have been called "Project based TIF" or "Performance Based Contracts".

- CHIP is a financing authority of the municipality created by local process.
- CHIP does not use **any** state appropriation. It is not an expense of the Ed-fund.
- CHIP does not require an increase in municipal taxes
- CHIP will grow non-property tax revenues in the short term, and property tax revenues in the long-term
- CHIP spends public money on public infrastructure.

Homes and Infrastructure are for the public good!

What can you DO to make sure CHIP works for every Vermont community?

Building Municipal Workforce Capacity
The CHIP Need

- CHIP is a complex financing tool
- Legislative bodies, listers, assessors, and treasurers (at minimum) play a CHIP role
- 87% of Vermont’s municipalities have populations <5,000; 76% have <2,500
- Capacity = knowledge, skills, and staff
- Limited municipal capacity ➔ CHIP struggles
- VLCT is a trusted training partner

Compact centers cannot exist without the infrastructure to support them.

Building Municipal Workforce Capacity
VLCT’s CHIP Proposal

- **Host webinars** to raise awareness of and confidence in CHIP use, program elements, and requirements
- **Assess project types** that might be feasible and best suited for CHIP
- **Build municipal skills** for pre-development and project management activities
- **Offer a high-touch consultancy** and cohort model training
- **Develop a CHIP resource library** with model documents that drive efficiency

VLCT will provide trusted information, tools, and support the municipal workforce needs

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Questions???

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