Economic Development and the Permit Process:
The Impact of Act 60 on the
Economics of Development in Vermont

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The Vermont Business Roundtable is a non-profit, non-partisan organization of 115 chief executive officers representing geographic diversity and all major sectors of the Vermont economy. The Roundtable is committed to sustaining a sound economy and preserving Vermont's unique quality of life by studying and making recommendations on statewide public policy issues.

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EXECUTIVE SUMMARY

In 1997, Vermont enacted a new law — Act 60 — that implemented dramatic changes in the way Vermont finances public education and raises taxes to support education. That law is now being phased in and will be completely implemented during the 2000-2001 school year. Act 60 provides that any town willing to pay a given tax rate will have the same amount of money per student as any other town in the state with the same tax rate.

This means that the education tax dollars accruing from new economic development in a town do not stay in the town. Instead, school tax dollars go into a pool of money that is administered by the state Department of Education and is redistributed to all towns in the state. This shift in school tax revenues generated from economic development from town to state government may have important implications for economic development projects reviewed under Act 250, Vermont's law that regulates development in the state. Several of Act 250's criteria deal with the economic impacts of new development, especially as they relate to schools and the town tax base, and towns' abilities to provide government services.

In the pre-Act 60 environment, all of the property tax benefits from economic development projects in the host town remained in the host town, while surrounding towns frequently experienced population growth from the new families who worked at the project. New families meant more children in the local schools, higher school budgets, and higher taxes. This secondary effect of economic development under Act 60, is no longer an issue. Now, if school enrollments increase as a result of a new development in a neighboring town, there will be no local school tax rate increase as long as per student spending in the host or neighboring towns is unaffected by the number of students in a school.

Act 60 also significantly changes the impact of development on statewide finances. Historically, the state has benefited from new development by receiving many different types of tax revenues — corporate profits tax from the business itself, income tax from the wages of workers, rooms and meals taxes from tourist and recreation-related development, and sales and other consumption taxes from the new spending generated by the business and its workers. That is still the case, but with Act 60 in place, the state now gains significant property tax revenues for schools that formerly remained in the local community.

This study examines the interrelationships between Act 60 and Act 250, and assesses the changes resulting from Act 60 by looking at the following four case studies: Husky Injection Molding in Milton, the Long Trail House Development at Stratton Mountain, a proposed expansion of Mad River Canoe in Waitsfield, and the relocation of Sears from its former location on Shelburne Road in Burlington to the University Mall in South Burlington.

The study leads to several important findings:

1. In most cases analyzed, Act 60 brings about modest changes in the net fiscal impact to towns hosting a new development. For towns that were not receiving foundation aid under the old state aid to education formula, Act 60 can reduce the net fiscal benefits to a town by up to 80%. For the towns that were receiving foundation aid to education, the net change is much smaller.

2. In all four cases, Act 60 significantly reduces the fiscal impacts of development on neighboring towns. This results from the guarantee of a fixed amount of revenue per student, or "block grant" in any town for a given tax rate. Thus, if more students enroll in a school in a town near where a development occurs, the town will not have to raise any new local school revenues to support those students so its tax burden will not change.

3. In all four cases the state fiscal benefits accruing from new development are far larger than the fiscal benefits to the host town or to surrounding towns. The state's fiscal benefits are approximately 10 times the net local benefits; in the case of Sears, the state's benefits are 100 times the local fiscal benefits.

Act 60 has changed the structure of benefits accruing from any project and increasingly directs them to the state via the new property tax that goes into the state education fund, in which all towns participate and from which all towns benefit. Historically, Act 250 has not considered statewide fiscal impacts in any of its economic criteria except, perhaps, criterion 9(h) relating to scattered development. Act 60 dramatically changes the economic landscape and fiscal policy environment in which development may occur, and raises important public policy issues concerning the ability of Act 250, as currently written and applied, to deal with these changes.

Act 60 has also changed the private sector cost structure of development projects, primarily in towns that used to be low-tax towns and, under Act 60, are now sending towns. In Stratton, for example, the monthly ownership costs of the Long Trail House condominiums will be raised by 32 percent as a result of Act 60. This may indeed have significant consequences for resort and other types of development in ski area towns, both in terms of sales and project location, and may become a factor in the decision to locate some development projects in neighboring towns with lower tax rates. To the extent that ski or resort towns are designated regional growth centers, Act 60 may be a factor in encouraging growth and development outside of these growth centers.

Finally, if the tax benefits to towns are reduced, growth center communities such as South Burlington, which has encouraged growth in order to diversify its tax base and increase school and town tax revenues, may be less favorably inclined to pursue new development, or invest in infrastructure improvements that could support future development within the growth center. This, too, may encourage growth to occur outside of designated growth centers and may also simply discourage growth or discourage public sector investments in infrastructure necessary to accommodate future economic development. If the latter occurs, Vermonters may have fewer job opportunities and overall economic growth may be reduced.

INTRODUCTION

In 1997, Vermont enacted a new law — Act 60 — that implemented dramatic changes in the way Vermont distributes state funds to support public education and raises taxes to fund education. Act 60 is now being phased in and will be completely implemented during the 2000-2001 school year. Tax policy always affects behavior, sometimes in obvious, immediate ways, but often in more subtle ways that result in long term changes and effects. Because Act 60 represents a major shift in Vermont tax policy, it is likely to have a variety of behavioral impacts. Act 60 is a complex law and its workings were not well understood by many in Vermont when it was enacted. In order to help Vermonters understand the new law and some of its impacts, the Vermont Business Roundtable began a multi-phased study of Act 60 shortly after it was signed into law in 1997. The Roundtable's first report described how Act 60 worked and what some of its likely impacts would be on school spending levels and individual tax burdens.[1]

Under Act 60, the state will now guarantee a minimum amount of spending per student (approximately $5,600) and any town that wants to spend more than $5,600 per student can do so by levying an additional local property tax. But that local property tax is structured in such a way that every town in the state is guaranteed to receive an identical amount of revenue per student per penny of property tax levied as every other town in the state.

No matter where a property is located, it will pay at a minimum the statewide property tax of $1.10 per $100 of value. Thus, a house valued at $100,000 in Stowe will pay the same statewide property tax ($1,100) as a house valued at $100,000 in nearby Morristown. It should be noted that the $100,000 house in both towns will be far different in quality and amenities since the house in Stowe has a higher value precisely because it is located in Stowe, which means that $100,000 will buy a bigger or nicer house in Morristown than in Stowe.

All properties will also pay a local share property tax if their town's school spending exceeds the basic block grant amount provided by the state. That part of the total property tax is based entirely on the level of per student spending in the town and is structured so that the local share tax rate will be the same in any two towns that have the same per student spending.

The guarantee of a fixed amount of revenue per student for any given tax rate has an important implication. It means that the school tax dollars accruing from new development in a town do not stay in the town. Instead, the tax dollars go into a pool of money at the state Department of Education that is redistributed by the state to all towns in the state, including the town hosting the development. That, in turn, has important implications for economic development and Act 250,

[1] The first phase of this project was a publication prepared by Richard Heaps and Arthur Woolf titled *Vermont's New Education Financing Law: How it Works, What it Means* (Vermont Business Roundtable, October 1997). The paper is available online at the Vermont Business Roundtable's web site <*www.vtroundtable.org*> That document is a detailed explanation of Act 60 written in a question and answer format.

Vermont's law that regulates development in the state. Several of Act 250's criteria have been interpreted and applied to evaluate economic impacts of new development, especially as they relate to schools and the town tax base, and towns' abilities to provide government services.

Under Act 60 the state collects local school tax revenues arising from any new development from the host town and redistributes those revenues to all towns in the state. That policy change raises a number of issues and questions. For example, what is the magnitude of the change in revenues and costs to the town hosting the development as a result of Act 60? How does Act 60 affect surrounding towns' revenues and costs? And how does it affect state revenues? Are there likely to be any behavioral responses on the part of town officials, developers, or other participants as a result of these fiscal and tax changes?

Since Act 60 was first proposed in the aftermath of the Brigham decision, much of the discussion and debate has been focused on the direct effect of this significant change in tax policy on individual sending and receiving towns. But, like any other major public policy shift, Act 60 will have significant secondary effects, beyond the "town versus town" conflict that has dominated the debate thus far. The Vermont Business Roundtable is continuing its effort to evaluate the impacts and consequences of Act 60, in an effort to inform the public policy debate. In this second phase of the Roundtable's study of Act 60, the Roundtable examines some of the implications of Act 60 on economic development and the changed incentives that towns and cities in Vermont face in the post-Act 60 environment.

Economic development in Vermont has been regulated in a public policy context through Act 250. In the nearly three decades since the law has been in effect, Act 250 has been interpreted as requiring developers to demonstrate that their projects would not have an undue fiscal impact on either the town hosting the development or on neighboring towns.

Act 60 has now shifted the lion's share of local tax revenues — school property taxes — away from the control of local voters and placed them into a state-controlled pool of money available for distribution to all towns. Thus, the fiscal impacts of economic development projects must now be considered not solely in a local or regional context, but in a statewide context. Fiscal impacts of economic development on local and regional school funding will be significantly less relevant under Act 60, since the costs of any additional students in schools can and will be financed in their entirety by the state education fund. To any town hosting a development or any nearby town, there will be no additional school costs to consider, nor any significant net new school revenues to be gained from a development project. New economic development will, however, make significant contributions to the statewide property tax that will be used to equalize spending, and presumably, improve educational opportunities throughout the state.

That raises the two following important questions:

- Will host towns still want development?

- Should the statewide fiscal benefits of a development project be considered under the Act 250 process?

This Roundtable report is an attempt to begin to address these and other issues. The report is not intended to either support or oppose Act 60. Rather, it is part of an ongoing effort by the Roundtable to develop and disseminate a thoughtful analysis of the effect of Act 60 on different dimensions of the Vermont economy, both now and in the future, to assist in developing public sector initiatives that will enhance the beneficial effects, and address and mitigate potentially adverse effects, of Act 60. It specifically focuses on tax and fiscal impacts associated with economic development, and does not attempt to address the impact of Act 60 on quality of life, educational quality, or other dimensions of Act 60.[2]

In order to examine these and other issues, this report — the second phase of the Roundtable's study of Act 60 — focuses on four case studies of actual and proposed development projects in Vermont. The case studies were chosen as examples of the Act 60-driven changes in fiscal impact on host communities, neighboring communities, and the State of Vermont, particularly as those changes may relate to Act 250 economic analysis.

The first is Husky, a large manufacturing facility in Milton, chosen for its size and because it is located in a town having low school spending per student (an important factor in the determination of tax rates under Act 60).

The second case study is The Long Trail House at Stratton Mountain Ski Area in Stratton. Because the recreation industry is important to the state's economy, the impact of Act 60 on this critical industry sector should be understood as policymakers consider changes to Act 60. The Long Trail House is a case study of a condominium development in a ski town that had a very low tax rate before Act 60 was enacted and will have a very high tax rate when Act 60 is fully implemented.

The third case study is Mad River Canoe, a small Vermont-based firm that is considering an expansion of their existing facility in Waitsfield. This company was selected in order to examine the impacts of Act 60 on a typical small firm in the state.

The fourth case study is the Sears relocation from its Shelburne Road location in Burlington to a larger location at the University Mall in South Burlington. Sears was studied because it is a large retail facility and because it moved to a town that received very little state school aid under the foundation aid formula. In the pre-Act 60 era, South Burlington consciously pursued an active

[2]The Vermont Business Roundtable has been and continues to be a strong advocate for improving educational quality and has published a number of policy papers on this subject. As part of its work on this topic, the Roundtable has been a strong advocate for high academic standards, for mandatory assessments of student performance, and for accountability to the public for the results.

economic development strategy in part to raise its grand list and in order to lower its residential school property tax burden.

What follows is a summary of the findings of the study. The analysis and economic data used to support the findings follow in detail in the Appendix.

HUSKY AND MILTON

Husky Injection Molding, a Canadian-based manufacturer of plastic injection molding equipment, purchased a 700-acre parcel in Milton and constructed a 250-employee facility that opened in July of 1998. Husky's investment in Milton stands at around $21 million and, if its growth plans are realized, it will increase its employment to 2,000, with even more investment over the next twenty years.

The town of Milton has a history of low school property tax rates and low school spending. The town has faced significant problems getting its school budget passed. Thus, the decision of a major new business to locate in Milton was seen by many in the town as a boon to the local economy and a significant source of new local school tax revenues that could help reduce the property tax burden on local residential taxpayers while, at the same time, increasing the amount of revenues available for the local schools.

The property taxes that Husky will pay, however, will be a mixed blessing for Milton. Under the foundation formula, the formula the state used to distribute state aid to education from 1986 through 1998, Milton's additional local property tax revenues from Husky would have been offset almost entirely by a decrease in state aid to education to the town. However, if Husky continued to grow and add property value to the town's grand list, and if Milton attracted additional commercial development, Milton could have become a property wealthy town. Eventually, Milton might have gained enough new property tax base and revenue so that it would have received no foundation aid to education. It would have had to finance all of its local educational needs through local sources. Milton, in essence, would have become a so-called "gold town," similar to towns that host ski areas or have a large amount of non-residential property. Ultimately, Milton would have benefited from this by being able to tax the additional non-residential property and lower residential property tax burdens.

Now, under Act 60, all of the school property taxes that Husky pays go to the state education fund to be redistributed under the new Act 60 formula. In that regard, there is little difference to Milton between the foundation formula and Act 60. But under Act 60, Milton never will have the opportunity to get "off the formula" and become a gold town, and be able to keep all of the new property tax revenues generated from new economic development projects in the town. Under Act 60, Milton's school tax rate (and the tax rate for every other town in the state) is entirely determined by its level of per student spending, not the amount of taxable property in town.

Two significant changes to the tax environment resulting from Act 60 are the impacts on neighboring towns and on the state. In the pre-Act 60 environment, towns often complained that economic development projects in a neighboring town gave the host town the tax revenues but surrounding towns frequently experienced population growth from the new families who worked at the project. Those new families meant more children in the local schools and hence led to higher taxes. This was frequently an issue in Act 250 hearings. Under Act 60, that should no longer be an issue. If school enrollments increase as a result of a new development in a neighboring town, there will be no local school tax rate increase as long as per student spending is unaffected by the number of students in a school.

The second important change that Act 60 has brought about is the fiscal impact on the state. Historically, the state has benefited from new development by receiving many different types of tax revenues — corporate profits tax from the business itself, income tax from the wages of workers, and sales and other consumption taxes from the new spending generated by the business and its workers.

That is still true under Act 60. But there is a significant new state tax under Act 60, the education property taxes that are collected by the state from the host town and distributed to all towns throughout the state. Under Act 60, this positive state fiscal impact far exceeds the local fiscal benefits received by the town hosting the new development. The total amount of revenue collected under the statewide property tax is large, but the amount that is distributed to any one town is very small, since in essence 100,000 students statewide each get a share of the property taxes generated by the new project. In the case of Husky, the state education fund will receive about a quarter of a million dollars from Husky's state property tax. Milton will receive about $35,000 in school revenues from this. The remainder will be shared statewide, which will mean about $2.00 per student, or an equivalently small change in local school tax rates.

Husky is a large project with a correspondingly large total impact on state education revenues. As the benefits and costs of new development projects are debated in Act 250 hearings and among the public at large, consideration should be given to these statewide fiscal educational benefits. And they should be examined as to their aggregate impacts, not by looking at per student impacts or impacts on town tax rates, for these are likely to be very small.

LONG TRAIL HOUSE AND STRATTON

The Stratton Corporation recently received approval to build 142 vacation housing units at its "Long Trail House" development, a $25 million project. Stratton Ski Area is located in the town of Stratton, a small town with few students but with a large amount of property wealth. Under the foundation aid formula, Stratton was a "gold town," with one of the lowest tax rates in the state. Under Act 60, Stratton will be a major contributor to the state education fund.

Before Act 60 was passed, the Long Trail House development would have given Stratton Town additional school and municipal tax revenues or, equivalently, would have led to lower school and municipal tax rates. It also would have generated new economic activity and new spending that would result in new tax revenues to the state general fund.

In the Act 60 environment the same new taxes will flow into the state general fund, but in addition, the state will benefit from the state education taxes generated by the project. That will amount to about $300,000 annually; funds that will be used to either lower local school tax rates statewide or for additional student spending. That choice is left to local voters in every town in the state.

The Long Trail House project will also generate about $700,000 in other state general fund taxes, which will be used for education and other state spending. These revenues are not affected by Act 60.

With Act 60 in place, the total school taxes that will be paid by the owners of the housing units at the Long Trail House will be significantly higher than they would have been had Act 60 not been passed. The housing units, which will cost about $190,000 each, will pay about $4,400 each in property taxes under Act 60, a 2,000 percent increase from the $200 they would have paid before Act 60. That tax increase alone will increase the monthly ownership cost (defined as the mortgage plus property taxes) by 32 percent. It is not clear at this time whether this tax increase will decrease the market value of the housing units, or discourage the construction of similar types of housing in ski area towns in the future. Nor is it clear whether, in the future, vacation housing developments may be built in other nearby towns with far lower school tax rates. If this happens, vacation housing growth may be dispersed across many towns rather than being concentrated at the ski area growth center.

MAD RIVER CANOE AND MAD RIVER VALLEY TOWNS

Mad River Canoe is a small Vermont-based company located in Waitsfield, Vermont. The company is growing and will probably be constructing either an entirely new facility or adding to its existing facilities. Mad River Canoe is a typical small Vermont manufacturing firm; it has about 60 employees, is located in a small town, its roots are in Vermont, and it faces competitive pressures from firms in other states.

In comparison to Husky and Long Trail House, Mad River Canoe’s expansion plans are modest, although they are important and significant to Mad River Canoe. It needs additional warehouse space and possibly a customer showroom, with a net gain in employment of between one and three new workers. The new building could be built on its existing site in Waitsfield or on adjoining land in Fayston. Or, the firm could move its entire facility to Waterbury or, indeed, anywhere in Vermont — even out of state. This analysis looks only at a possible move to Waterbury compared to adding on to its existing buildings in Waitsfield or Fayston.

The analysis finds that Mad River Canoe’s impact on any of the three towns (Waitsfield, Fayston, Waterbury) would be slight. There would be a modest gain in municipal revenues to each town and modest increases in municipal costs, but in general, each town would benefit financially from an expansion of the firm in the town. Similarly, the state would gain from the new education tax revenues that Mad River Canoe would pay, but these would also be relatively small, ranging from $9,000 to $20,000, depending upon the town in which the expansion is located.

The Act 60 impacts on Mad River Canoe's expansion plans are modest and the firm's taxes do not significantly change depending on where its expansion occurs — either in Waitsfield, Fayston, or Waterbury.

In summary, a small expansion of a small firm leads to modest fiscal benefits for any town hosting the expansion and small, but positive, gains to the state education fund and the general fund. Similar to the two previous cases, the tax revenue gains to the state are larger than the revenue gains to the local government involved.

SEARS AND SOUTH BURLINGTON

Sears, Roebuck and Company has relocated its Chittenden County store from a location on Shelburne Road in Burlington to the University Mall in South Burlington. The new Sears is about 60% larger than the old facility. The $8 million expansion in South Burlington makes this an interesting case study because the city of South Burlington has pursued a conscious effort, including significant infrastructure investment, for the express purpose of attracting non-residential development in order to diversify its tax base and to increase the share and size of its non-residential tax base. As a result, South Burlington received little or no foundation aid for its school costs prior to Act 60.

But South Burlington was also at a point where, under the foundation plan, every dollar of new property tax revenues represented net new dollars in school tax revenue to the city. Unlike Milton, South Burlington would not be penalized for new development by losing any more state aid. Thus any new economic development or new property in the town would continue to add new tax revenues for the city to use as it saw fit or the city could reduce everyone's property tax bill without reducing city services.

In this respect, South Burlington was a model for what towns like Milton strove to be like if they were successful in their economic development initiatives.

Under Act 60, this is no longer the case. All of the school property taxes that Sears pays now go to the state education fund and are distributed to schools throughout the state. The city of South Burlington now gets no more financial benefit to its school or to its school property tax base or rate than it would get if Sears (or any other development project) located in any other town in the state. The fiscal benefits of any new development in South Burlington are now far less under Act 60 than they were before Act 60. Whether that will deter South Burlington from seeking new economic development — whether it be retail, commercial, manufacturing, or any other — will only be seen over time.

The principal fiscal beneficiary of the Sears expansion under Act 60 is the state. South Burlington receives about $60,000 in new revenues from Sears, nearly all of that coming from municipal property tax revenues. The state will receive about $1.6 million from a variety of taxes associated with the Sears expansion, which clearly dwarfs the local tax revenues. The state property taxes will be used to support education throughout the state, although just like in the case of Husky, any one town will see only a tiny amount of new revenues from the project. South Burlington will still receive municipal (non-school) tax revenues from Sears, but those closely match the new municipal costs that South Burlington will incur to serve Sears and it is not clear whether the new revenues will be enough to persuade cities like South Burlington to host new projects in the future.

Some of the new state property tax revenue will go to towns in Chittenden County that will be home to some of the new employees of Sears. Under the foundation aid formula, towns often complained that the town hosting the development received all of the property tax revenues from the project but surrounding towns had to absorb many of the governmental costs, especially education costs, arising from the project. This happened because not all employees of any project live in the town where the project is located. This criticism was somewhat overstated since, under the foundation formula, surrounding towns that experienced an increase in their school enrollment would automatically receive more aid under the foundation formula.

FUTURE CONCERNS AND CONCLUDING NOTES

Economic development is important to the health and wellbeing of all Vermonters. Vermonters have historically shown a concern about the quality and type of economic development in their local communities; this concern has historically been the focus of the Act 250 permit process, that tries to balance environmental, economic, social, and other costs and benefits of development projects.

Act 250's fiscal analysis has historically been limited to local and regional impacts, with the region usually being defined as neighboring towns or the county. Act 60 changes the focus of concern about the fiscal impacts of new development. Property taxes comprise about 45 percent of the $1.4 billion in taxes raised by Vermont’s state and local governments. The $500 million of property taxes used for education purposes are about 70 percent of all property taxes raised. Act 60 has changed the tax landscape so that the host town no longer benefits from education property tax revenues, except to the extent that such revenues are shared across all towns.

If the fiscal benefit of new development now accrues to all towns in Vermont through the state education fund, the corresponding fiscal benefits to the host town are, in most instances, substantially diminished. Analysis of the impact of development projects in Vermont, through the formal procedures of Act 250 or the less formal analysis of developments' impacts in a variety of other venues, should take into account the overall fiscal change that Act 60 has brought to the Vermont landscape. That should include a wider discussion of the overall benefits of economic growth and development in Vermont, including a thorough discussion and analysis of the state and local issues involved, impacts of growth on jobs, wages, economic opportunity, housing availability, property values, and a wide variety of other topics. To the extent that these issues may not have, in the past been formally addressed in Act 250 analysis, and as the state appropriates a larger share of the fiscal benefits from new developments, public and regulatory policy consideration should be given to the broader impact and benefits of economic development in a regional and statewide context.

APPENDIX

Case 1: Husky Injection Molding and Milton

Husky Injection Molding Systems is a Canadian-based firm that manufactures plastic injection molding equipment. Those are the machines that other firms use to mold plastic products, such as milk containers. Husky is a rapidly growing firm that chose a site in Milton as its desired location for a U.S. operation. The 700-acre campus bordering Lake Arrowhead will initially host a large manufacturing/office building and 250 workers. Husky hopes to increase its workforce to 2,000 within two decades.

Husky received its Act 250 permit in 1997. That permit allowed Husky to construct its first building on its site in Milton. The economic analysis submitted to the District 4 Environmental Commission focused on the initial phase of the project, which will bring about 250 new jobs onto the site. The permit, and subsequent approval, were based on economic impacts and assumptions about taxes and revenues to local and state governments before Act 60 was passed.

The Husky analysis is based on the data and major assumptions about jobs, housing, migration of population, and number of new school children in local schools that appear in the analysis performed by Economic and Policy Resources, Inc. (EPR) and used in the Act 250 application. EPR is a Vermont-based economic consulting firm.

The methodology used in the Roundtable's study differs from the EPR methodology in that (in the interest of simplicity) this study focuses on only one representative year's impact. The EPR report looked at a cumulative 10-year impact. Examination of the project in this slightly different way is merely a different way of evaluating the economic impact of the project. It does not alter the basic conclusions of this study.

1. Impact of Husky on Milton

a. Impact of Husky on Milton — Pre Act 60

Table 1 abstracts from the EPR report and shows the fiscal impact of Husky on the Town of Milton. As a result of Husky and the new housing it brings into Milton, the town would receive $308,000 in new school and municipal tax revenues.[3]

Table 1.
Pre Act 60: Fiscal Impacts of Husky on the Town of Milton

Revenues			
Mun. non-school revenues to town	$98,500		From taxes on Husky and new houses
School revenues to town	$209,818		From taxes on Husky and new houses
Subtotal		$308,318	Total new tax revenues
Costs			
Municipal non-school town costs	$60,500		New municipal costs due to Husky and population growth
School costs	$33,726		6 new school children @ $5,621 each
Loss of state aid	$225,000		Reduction in foundation aid due to higher grand list
Subtotal		$319,226	Total new costs
Net School Impact		-$48,908	New school revenues - new school costs - loss of state aid
Net Non-School Impact		$38,000	New municipal revenues - new municipal costs
Grand Total: Net Fiscal Benefits		**-$10,908**	New school revenues + new municipal revenues - new school costs - new municipal costs

Husky would also increase municipal and school costs for the town. The EPR report estimates municipal costs would rise by about $60,000 and school costs would increase by $34,000 as a result of six new school children. The most dramatic increase in local costs would result from a decrease of about $225,000 in state aid. The foundation formula calculates state aid by examining the property wealth of a town. Husky will increase the property wealth in Milton, which will increase Milton's ability to spend on education based on its own resources. This would have reduced state aid to education for the town. Total municipal and school costs (including loss of state aid to education as a cost) increase by $319,000.

[3] In this report, municipal taxes will always refer to non-school tax revenues to the town.

Husky therefore has a negative net ongoing fiscal impact on Milton of $11,000. That means that Milton's tax rate would have to increase by less than a penny; about 0.27 cents. Taxes on a $100,000 house would rise by $2.70 as a result.

If the EPR assumptions are incorrect, this impact would be greater. For example, if non-school municipal costs increase by more than $60,000, the cost to the town and the increase in the tax rate would be greater. If enrollment in Milton schools increases by more than the six students projected by EPR, the cost would also be greater.

b. Impact of Husky on Milton — Post Act 60

What would happen to town finances in Milton if the Act 250 economic analysis for Husky had included the impact of Act 60? Table 2 shows the revenues and costs using the same assumptions as in Table 1 except that education taxes and education aid from the state are based on Act 60 if it had been fully implemented in 1997.

Table 2.

Post Act 60: Fiscal Impacts of Husky on Town of Milton

Revenues			
Mun. non-school revenues to town	$98,500		From Husky and new houses
School revenues to town	$33,700		6 new school children @ $5,621 each
Subtotal		$132,200	Total new revenues
Costs			
Municipal non-school town costs	$60,500		New mun. costs due to Husky and population growth
Municipal school costs	$33,700		6 new school children @ $5,621 each
Subtotal		$94,200	Total new costs
Grand Total: Net Fiscal Benefits		**$38,000**	New school revenues + new municipal revenues - new school costs - new municipal costs

Municipal revenues and costs are identical to the numbers in Table 1; Act 60 does nothing to change municipal costs or tax revenues. Under Act 60, school revenues are based on per pupil spending in the town. We assume that per student costs do not change in Milton as a result of Husky. Therefore, Milton receives an extra $33,700 to educate the six new school children. The total new revenues accruing to Milton amount to $132,200.

If spending per student did increase as a result of Husky, or for any other reason, the Milton tax rate would increase. Total new school revenues received from the state education fund would still equal the increased costs due to more students, but because per student spending rose, every property owner in Milton, including Husky, would pay higher taxes which would all go to the state Education Fund. Some amount of that new money would come back to the town in the form of increased education revenues.

Assuming no increase in per student spending, school costs will increase by precisely the same amount as the school revenues; Act 60 guarantees a fixed amount per student based on the average cost of educating each student. The total increase in costs to the town of Milton is therefore $94,200.

Under Act 60, Milton with Husky in place is slightly better off than it was with Husky in place under the foundation formula. The foundation formula penalized Milton by reducing its state aid by more than the increase in its taxes from Husky. Under Act 60, there is no net school impact — positive or negative — from Husky. Including both municipal and school impacts, Milton gains $38,000 as a result of the presence of Husky with Act 60 in place. That $38,000, if not spent, would lead to a tax rate reduction of $0.0095, or a tax cut of $9.50 on a $100,000 house. That is entirely due to the positive impact on the municipal side of the budget. If Milton has any additional municipal costs as a result of Husky, this positive impact would be reduced and could easily be negative.

2. Impact of Husky on Vermont State Finances

a. Impact of Husky on Vermont State Finances — Pre Act 60

The state of Vermont will gain additional tax revenues from the presence of Husky in Milton. These include corporate income taxes paid by the firm, personal income taxes paid by employees, sales taxes paid by Husky for its purchases of products and sales and other consumption taxes paid by Husky employees. The EPR report estimates a total of $531,500 in additional state revenues.

Table 3.
Pre Act 60: Fiscal Impacts of Husky on the State of Vermont

Revenues			
State general fund taxes	$531,500		Due to economic activity accruing from Husky
Statewide property tax	$0		No statewide property tax under foundation
Subtotal		$531,500	Total new revenues to state general fund
Expenses			
New state aid, non-Milton	$39,109		Foundation aid to towns
Savings on state aid to Milton	-$225,000		Milton loses foundation aid
Subtotal		-$185,891	Savings in state education expenditures
Total: Net Fiscal Benefits to State		**$717,391**	New general fund revenues plus savings on foundation cost

The seventeen new students coming from new families attracted by the jobs at Husky will cause state aid to education to rise by $39,100, which is an added expense to the state. But the state will reduce its state aid to Milton, which represents a savings to the state treasury (in Table 3 that is considered a negative additional expense to the state). Therefore, total state expenses are reduced by $185,900.[4] Subtracting the expenses from revenues gives a net fiscal benefit to the state under the old foundation formula of $717,000.

[4] This study does not consider any other additional expenses that may be incurred by the state as a result of Husky, including additional transportation or human services costs. It also does not consider transportation fund taxes or other state revenues other than those listed above.

b. Impact of Husky on Vermont State Finances — Post Act 60

Act 60 changes the costs and benefits accruing to the state of Vermont from the presence of Husky. As Table 4 shows, there is no change in the general fund taxes resulting from the presence of Husky, its employees, and ancillary economic activity compared to the pre-Act 60 case analyzed in Table 3. But there is now an additional source of revenue into the state education fund. These are the Act 60 property taxes (the statewide property tax and the local share property tax) paid by Husky and by the new houses built by new employees.[5] Those new taxes total about $250,000. The state therefore receives $781,000 in new revenues.

Table 4.
Post Act 60: Fiscal Impacts of Husky on State of Vermont

Revenues			
State general fund taxes	$531,500		Due to economic activity accruing from Husky
Property tax (state from Husky)	$229,950		Act 60 statewide property tax @ 1.1% of property value of Husky
Property tax (state from houses)	$19,907		Act 60 statewide property tax @ 1.1% of property value of new houses
Subtotal		$781,357	Total new revenues to state
Expenses: Cost to Ed Fund			
Milton new cost to state ed. fund	$33,726		Due to 6 new students in Milton
Other towns new cost to state ed. Fund	$103,132		Due to 17 new students in other towns
Subtotal		$136,858	Total new expenses to state
Total: Net Fiscal Benefits to State		**$647,456**	New revenues - new expenses

Costs also change for the state treasury. The new state education fund set up under Act 60 will have to pay out $34,000 more to the Town of Milton and $103,000 more to other towns that have increased school enrollment. The total additional costs to the state are therefore $137,000.

The net impact on the state treasury, including the impact on the state education fund, is a positive $647,000. This is somewhat less than the net positive impact pre-Act 60 but the differences are not major.

[5]The state general fund revenues listed in Tables 3 and 4 are based on tax rates prevailing in the pre-Act 60 environment. Act 60 raised corporate income taxes, sales taxes on cars and trucks, meals and rooms taxes, and a few others. Therefore, the revenues listed here understate the actual new revenues accruing to the state under Act 60.

3. Impact of Husky on Other Towns

a. Impact of Husky on Other Towns — Pre Act 60

One of the major criticisms of development projects in the pre-Act 60 environment is that the tax revenues from the project accrued to the host town but neighboring towns incurred new expenses. These expenses include traffic and highway impacts and increased school costs because the employees of the project do not always live in the town that receives the new tax revenue from the development project.[6] Act 250 decisions have, in the past, considered local impacts and some impacts on surrounding towns. But the extent to which these impacts should be considered in a broader regional or statewide context is unclear.

Neighboring towns in Chittenden and Franklin counties will have more population, housing, and 17.3 new school children as a result of Husky (this is in addition to the six new school children in the town of Milton). The new houses will pay property taxes and the towns would have received additional state aid to education if they enrolled more students. The combined additional revenues to neighboring towns total $70,700, as Table 5 shows.

Table 5.
Fiscal Impact of Husky on Other Towns — Pre Act 60

Revenues			
School tax revenues from new houses	$27,128		New houses @ local school tax rate
New state aid due to more students	$39,109		New foundation aid from state
Subtotal new school revenues		$66,237	Total new tax revenues plus foundation aid
New municipal tax revenues	$4,487		Non school tax revenues from new houses
Subtotal		$70,724	Total new taxes to neighboring towns
Expenses			
New school expenses at average per student cost	$103,132		Average cost @ 17.3 students
New non-school municipal expenses	$6,070		New municipal expenses
Subtotal		$111,132	Total new costs to towns
Total: Net Fiscal Benefits to Other Towns		-$40,408	New revenues - new expenses

These other towns would have an increase in their school costs of $103,100. This is not completely offset by the $39,000 in new state aid, so the new school children have a negative

[6]This simplifies the actual case. If a town has more students in its schools but no increased property tax base with which to fund the additional cost, the state foundation aid formula would automatically allocate more state aid to education funds to that town to mitigate the increased expense.

effect in these towns. After including all revenues and expenses, towns have $40,400 in added expenses as a result of Husky.

b. Impact of Husky on Other Towns — Post Act 60

Act 60 provides each town with as much new revenues as they need to educate as many new school children as they enroll with no adverse tax consequence for the town — so long as per pupil spending does not change. This study assumes it does not change. These towns receive $103,100 from the state education fund set up under Act 60 and about $4,500 in new municipal tax revenue, as Table 6 shows. The new school revenues exactly balance the new school expenses so the only net impact is on municipal services.

Table 6.
Fiscal Impact of Husky on Other Towns — Post Act 60

Revenues			
New receipts from education fund for 17 students	$103,132		Cost per student x number of students in each town
New municipal taxes	$4,487		From new houses
Subtotal		$107,620	Total new revenues to town and school
Expenses			
New education expenses	$103,132		Revenue per student x number of students in each town
New municipal expenses	$6,070		New municipal expenses
Subtotal		$109,202	Total new expenses
Total: Net Fiscal Benefits to Other Towns		**-$1,582**	New revenues - new costs

4. Total Impact of Husky

Development projects have local, regional and statewide fiscal benefits. In the case of Milton and Husky the net fiscal impacts of Husky on the town, the region, and the state are given in Table 7.

The table clearly shows that in both the pre- and post-Act 60 environments, the huge positive impact on the state treasury dwarfs the small impacts on the town of Milton and on neighboring towns.

Moreover, Act 60 has changed the fiscal impacts in Milton, the state, and in other towns, as Table 7 below shows. The Table merely summarizes the previous tables and shows that the fiscal impacts on Milton are greater with Act 60 than before it. The state impact is still very large with Act 60 in place, although smaller than it was before Act 60. And Act 60's benefit to other towns is a reduction in the cost of development to them.

Table 7.

Total Fiscal Impact of Husky Before and After Act 60

	Before Act 60	After Act 60
Milton	-$10,908	$38,000
State	$717,391	$647,456
Other Towns	-$40,408	-$1,582
Total	$687,891	$683,874

Act 60 also affects the taxes that the development, in this case Husky, will pay. In the pre-Act 60 environment, Husky would have paid approximately $300,000 in property taxes to Milton. In the post-Act 60 environment, Husky’s total property tax burden to Milton and the state would be $330,000, an increase, but not a large one, for the project.

One final consideration is the long-term impact on Milton. If Husky’s long range plans to employ up to 2,000 workers at its Milton site are borne out, the contribution of Husky to Milton’s grand list will be significantly larger than it is now. Under the foundation plan, Milton may have become a “gold town.” Milton may have been able to become so property rich that it would have been able to get no state aid and keep all tax revenues from new development. This would have allowed the town to reduce its tax rate while spending the same or more per student. Under Act 60, this is no longer an option. Any future tax revenue growth resulting from the growth of Husky will be shared by all towns.

Case 2: Stratton Corporation and The Long Trail House in Stratton

The Stratton Corporation, as part of its long-term master plan, proposed to build a 142-unit complex of studio, one-bedroom, and two-bedroom condominium units. The "Long Trail House" development received its Act 250 permit in the spring of 1998. Economic and Policy Resources (EPR) performed an economic impact analysis of the project and completed it before Act 60 was passed. Therefore, the Act 250 application assesses economic costs and benefits that are relevant for a school funding law that no longer exists.

1. Impact of Long Trail House on Stratton Town

a. Impact of Long Trail House on Stratton Town — Pre Act 60

Under the school funding and tax regime in place before Act 60, the 142 units at the Long Trail House would have added about $250,000 to the town of Stratton's grand list (an increase of $25 million in fair market value) and brought in about $116,000 in new tax revenues to the town. As Table 8 shows, approximately $27,000 would be for schools and $89,000 for non-school municipal revenues.

Table 8.
Pre Act 60: Fiscal Impact of Long Trail House on Town of Stratton

Revenues			
Mun. non-school revenues to town	$88,900		New town tax revenues from Long Trail House
School revenues to town	$27,100		New tax revenues to school from Long Trail House
Subtotal		$116,000	Total to town of Stratton
Costs			
Municipal non-school town costs	$34,300		New expenditures to municipal government
Municipal school costs	$0		No new students
Subtotal		$34,300	Total new expenses to Stratton
Grand Total: Net Fiscal Benefits		**$81,700**	New revenues - new costs

Based on the information in the Act 250 permit, the new development would not put any new students into the Stratton schools, since no new employees would live in the town of Stratton, nor would any of the Long Trail House units be occupied by year-round residents with children. Stratton receives no general state aid for education, so the increase in the town's grand list would have had no impact on state aid. That means that all $27,000 in new school revenues could have been used to either spend more for the current 20 students in Stratton or it could be used to lower school property taxes in Stratton and thus save all property tax payers a total of $27,000. The school property tax rate would decline by about one cent from its 1997 level of eleven cents per hundred dollars of value.

The new development would bring in $89,000 in new municipal tax revenues and, according to the EPR estimate, cost the town $34,000 for new town services.

Therefore, in the fiscal environment pre-Act 60, the town would receive a net fiscal benefit of nearly $82,000 from the project.

b. Impact of Long Trail House on Stratton Town — Post Act 60

Since the development would not lead to any new children that would have to be educated at taxpayer expense, under Act 60 there would be no new revenues accruing to the education portion of the town budget. As Table 9 shows, the municipal (non-school) revenues are identical to the revenues discussed above. Thus, there is a smaller gross revenue impact than under the situation before Act 60. Revenues to the town are now $89,000, a decline of about $27,000 from the earlier case.

There is no difference in school or municipal costs in the two cases; the town still has an additional $34,000 in municipal costs resulting from the development. Therefore, the total net benefits to the town have been reduced from $82,000 to $55,000, a decline of 33 percent, but still positive.

Table 9.

Post Act 60: Fiscal Impact of Long Trail House on Town of Stratton

Revenues			
Municipal non-school revenues to town	$88,900		New town tax revenues from Long Trail House
School revenues to town	$0		New tax revenues to school from Long Trail House
Subtotal		$88,900	Total to town of Stratton
Costs			
Municipal non-school town costs	$34,300		New expenditures to municipal government
Municipal school costs	$0		No new students
Subtotal		$34,300	Total new expenses to Stratton
Grand Total: Net Fiscal Benefits		**$54,600**	New revenues - new costs

2. Impact of Long Trail House on Vermont State Finances

a. Impact of Long Trail House on Vermont State Finances — Pre Act 60

The Stratton Long Trail House development would benefit state government finances only to the extent that its new employees paid state income taxes and the new tourists staying in the units paid sales and meals and rooms taxes on goods and services. The total state revenues were estimated by EPR to be $714,000. More than three-quarters of the taxes were due to the nine percent meals and rooms tax.

Table 10.
Pre Act 60: Fiscal Impacts of Long Trail House on State of Vermont

Revenues			
Income tax	$44,800		From employees
Sales tax	$94,000		From all spending
Meals and rooms tax	$576,600		From visitor spending
Property tax (state and local share)	$0		No statewide property tax
Subtotal		$714,400	Total state revenues
Costs			
Increased state aid to education	$0		No new students
Net Fiscal Benefit to State		**$714,400**	New revenues - new costs

As Table 10 shows, since the development does not lead to permanent increases in either population or school-aged children, there is no need for any increased state education aid so there is no increased cost to the state budget. And we assume that there are no other state costs that increase as a result of the development. Thus, the state of Vermont has $714,000 more net revenues each year as a result of the development.

b. Impact of Long Trail House on Vermont State Finances — Post Act 60

Act 60 changes the state fiscal impacts of the development. The general fund tax revenues resulting from the development are the same as in the pre-Act 60 case, as Table 11 shows. Under Act 60 there is a significant new state revenue source. The 142 new housing units will pay the basic statewide property tax rate of $1.10 per $1,000 of assessed value plus the local share tax rate, which in Stratton is an additional $1.09 per $1,000.[7] This means a total tax rate of $2.29. The total amount of school taxes that will be paid by the 142 units in the development is

[7]This assumes per student spending in Stratton does not change as a result of Act 60.

$576,000. Essentially none of these school tax revenues will remain in Stratton — they all go to the state education fund and are distributed throughout the state, effectively lowering all local share property tax rates in the state by a tiny amount.[8] The state therefore receives a total of nearly $1.0 million in annual tax revenues from the development.

Table 11.

Post Act 60: Fiscal Impacts of Long Trail House on State of Vermont

Revenues			
Income tax	$44,800		From employees
Sales tax	$94,000		From all spending
Meals and rooms tax	$576,600		From visitor spending
Property tax (state and local share)	$300,590		Statewide property tax
Subtotal		$1,015,990	Total state revenues
Costs			
Expenditures from education fund	$0		No new students
Net Fiscal Impact on State		**$1,015,990**	New revenues - new costs

Since there are no new school children in Stratton or anywhere in the state, there is no additional cost to the state and the gross revenue impact is also the net revenue impact.

Unlike the Milton case discussed in the first part of this report, there are no new children in any neighboring towns, so there is no fiscal impact in any neighboring town.

[8] By tiny, we mean less than one cent. The amount will differ in each town, depending on their per student spending levels.

3. Total Impact of Long Trail House

The Stratton Mountain development generates a moderate amount of new revenue for the Town of Stratton but significant new revenues for the state of Vermont, including the state education fund. The net revenue estimates are:

Stratton Town	$54,600
State	$1,015,990
Total Impact	$1,070,590

A comparison of the pre- and post-Act 60 impacts in Table 12 shows that the fiscal benefits to Stratton are modestly smaller after Act 60 than before. But the benefits to the state are significantly greater with Act 60 in place. That is entirely due to the high property tax that the development pays, with all of the money going to the state education fund.

Table 12.

Total Fiscal Impact of Long Trail House Before and After Act 60

	Before Act 60	After Act 60
Stratton	$81,700	$54,600
State	$714,400	$1,015,990
Total	$796,100	$1,070,590

4. Impact of Act 60 on Vacation Home Ownership Cost

The changes brought about by Act 60 also affect the economic viability of major developments in towns such as Stratton. The significant tax increase raises the cost to a potential buyer of the units by a large amount. The average cost of a unit at the Long Trail House is projected to be $192,439. The monthly ownership cost of a unit will rise by 32% as a result of Act 60, as Table 13 (below) shows.

Table 13.

Impact of Act 60 on Purchaser of a Unit at Long Trail House

	Pre-Act 60	Post-Act 60	Percent Change
Cost of unit	$192,439	$192,439	
Mortgaged amount (75% of cost)	$144,329	$144,329	
Monthly mortgage	$1,059	$1,059	
Monthly property tax	$18	$367	1,938%
Total monthly mortgage and tax payment	$1,077	$1,426	32.4%

There are three possible impacts of this change. The first is that it will have no impact on future sales or construction of new vacation homes in Stratton. This would occur if buyers were completely insensitive to price changes, a highly unlikely scenario. The second possible impact is that demand for these types of vacation homes will decline and construction activity and sales in allied parts of the local economy will be correspondingly lower.

The third possible impact is that vacation homes will be built in nearby towns with lower tax rates. As Table 13 makes clear, buyers could save a significant amount by buying a vacation home in a town with a far lower tax rate than Stratton. Of course, the drawback of this is that the home will not be immediately adjacent to the ski slope but it would be a short drive away. If this does indeed occur, builders and developers will respond to this demand and vacation developments will be built away from the ski area. Market conditions and consumer demand will determine whether this occurs, but if it does it would lead to development pressures away from ski towns and ski area growth centers.

Case 3: Mad River Canoe Expansion

Mad River Canoe Company has been located in Waitsfield, Vermont, for more than 25 years. The company is experiencing growing pains and is considering an expansion, which will consist of a warehouse and possibly a showroom. The firm currently owns land in Waitsfield and Fayston which it can build on. The Fayston property adjoins the existing Waitsfield location. For logistical reasons, the company could move to another location in Vermont or, indeed, outside of the state.

This study assumes that the new warehouse facility will be built at the Waitsfield or Fayston site, or the firm will move all of its operations to Waterbury. The new warehouse would add one new employee to the firm’s current total of 60 employees. If the expansion includes a showroom/ visitor center, the net gain in employment would be three.

Since this proposed expansion will take place some time in the future, the analysis differs from the preceding case studies in that it does not examine the pre- and post-Act 60 impacts. It assumes Act 60 is in effect and looks at the impact of Act 60 on the location decision of Mad River Canoe and on the impact to the state treasury.

1. Impact of Mad River Canoe Expansion on Local Government

Table 14 shows the impact on each of the three towns of an expansion of Mad River Canoe in the town. The expansion would bring in slightly more than $2,000 in new tax revenues to the town of Waitsfield, about $5,000 in Waterbury, and $1,400 in Fayston. Waterbury is significantly higher because an expansion in Waterbury would mean an entirely new facility, not just a warehouse. The revenue impact on each town is entirely on the municipal side of the budget since there would be no increase in the number of children in the school in any town and hence no additional school revenues from the state education fund.

Table 14.
Fiscal Impacts of Mad River Canoe Expansion on Towns

	Waitsfield	Waterbury	Fayston	
Revenues				
Mun. non-school revenues to town	$2,080	$5,080	$1,442	Taxes on new building
School revenues to town	$0	$0	$0	No new school children
Subtotal	$2,080	$5,080	$1,442	Total new revenues
Costs				
Municipal non-school costs	$252	$6,529	$906	New mun. costs due to expansion
Municipal school costs	$0	$0	$0	No new school children
Net Municipal (non-school) Impact	$1,828	-$1,449	$536	New mun. revenues - new costs
Net School Impact	$0	$0	$0	New school revenues - new costs
Total: Net Fiscal Benefit to Each Town	**$1,828**	**-$1,449**	**$536**	**New revenues - new costs**

The estimated new municipal costs are also given in Table 14, as are the net fiscal benefits. Fayston has a slight positive benefit, Waitsfield would realize about an $1,800 net fiscal gain, and Waterbury would see a slight negative impact on the municipal budget.

2. Impact of Mad River Canoe Expansion on Vermont State Finances

The state fiscal impact would be positive; it would receive state tax revenues from increased employment and, more importantly, more revenues to the education fund that is part of Act 60. The expansion in Waitsfield and Fayston would add about $8,500 to the state education fund and the Waterbury expansion would bring in about $20,000 in new property tax revenues to the state education fund, as Table 15 shows.

Table 15.
Fiscal Impacts of Mad River Canoe Expansion on State of Vermont

	Waitsfield	Waterbury	Fayston
Revenues			
State general fund taxes	$500	$500	$500
State education property tax revenues	$8,600	$19,750	$8,500
Subtotal	$9,100	$20,250	$9,000
Costs			
State education expenditures	$0	$0	$0
Total: Net Fiscal Benefit to State	**$9,100**	**$20,250**	**$9,000**

3. Fiscal Impact on Mad River Canoe

Finally, what would the expansion of Mad River Canoe in each town mean for the company itself? The property tax implications are entirely due to differences in property tax rates in the towns. There is a modest difference in the cost of expanding in each of the three towns, as Table 16 shows. The expansion in Waterbury would be the lowest cost alternative if only taxes are considered. Expanding in Waitsfield, the town with the highest tax rate among the three, would be the most expensive alternative.

It is worth noting that the difference among the three alternatives is less than $6,000 in annual costs. Whether that is significant enough to be important to the decision of where to expand is a question that only the decision makers at Mad River Canoe can make. One factor that would also be important to consider is whether it would be easier and cheaper to obtain regulatory approval, both state and local, to expand in its existing location rather than undertaking an entirely new expansion elsewhere.

Table 16.
Fiscal Impacts of Expansion on Mad River Canoe

	Waitsfield	Waterbury	Fayston
Property Tax Totals	$28,174	$22,142	$25,862

4. Total Impact of Mad River Canoe Expansion

Mad River Canoe's expansion would have a much more modest fiscal impact on local and state governments than either of the other two cases. This is not surprising, given the relatively small size of the project. But a similar pattern emerges when the total fiscal benefits of the project are analyzed. The local revenue impacts are small and the state impacts are significantly larger.

	Waitsfield	Waterbury	Fayston
Local	$1,828	-$1,449	$536
State	$9,100	$20,250	$9,000
Total	$10,928	$18,801	$9,536

Case 4: Sears Relocation and Expansion

The Sears, Roebuck and Company maintained a 77,200-square foot store on Shelburne Road in Burlington. Sears wanted to expand the store and move it to a location with a higher sales potential. Finard and Company, the owner of the University Mall in South Burlington, filed an application with the District 4 Commission in 1996 to build a new 111,000-square foot Sears, a 15,500-square foot automobile center, and a parking garage at the University Mall. Sears received its Act 250 permit in 1997 and construction began in the fall of 1997.

Northern Economic Consulting, Inc., was hired by Finard and Company to prepare an economic impact assessment of the expansion as part of its Act 250 application. This case study builds on the data and analysis presented in that report. The analysis assumed that the former Sears location would be used for other retail activities, as the Shelburne Road location is very desirable. All the analysis that follows looks at the net impact of the new Sears facility. The new Sears will add about 300 full- and part-time jobs to the local economy. That would mean about 30 new families would move to Chittenden County and the local schools would see a total increase of 21 new school-aged children.

1. Impact of Sears Expansion on South Burlington

a. Impact of Sears Expansion on South Burlington — Pre Act 60

Table 17.

Pre Act 60: Fiscal Impacts of Sears Expansion on City of South Burlington

Revenues			
Mun. non-school revenues to town	$48,700		From taxes on Sears and new houses
School revenues to town	$129,600		From taxes on Sears and new houses
Subtotal		$178,300	Total new tax revenues
Costs			
Municipal non-school town costs	$31,300		New municipal costs due to Sears and population growth
School costs	$12,800		1.7 new school children @$7,505 each
Loss of state aid	$53,500		Loss of all foundation aid due to higher grand list
Subtotal		$97,600	Total new costs
Net School Impact		$63,300	New school revenues - new school costs - loss of state aid
Net Non-School Impact		$17,400	New municipal revenues - new municipal costs
Grand Total: Net Fiscal Benefits		**$80,700**	New school revenues + new municipal revenues - new school costs - new municipal costs

Table 17 shows the fiscal impact of the Sears expansion on South Burlington. South Burlington is a city that was on the borderline of receiving state aid under the foundation plan. Depending on particular circumstances, such as the number of students enrolled, the grand list of the town, and the parameters of the foundation aid formula, during some recent years South Burlington received some state aid and in other years it received none. The new Sears, valued at about $8.5 million, would tip the scales so that under the foundation formula, South Burlington would receive no state aid to education. That means that all of the taxes paid by Sears, or any other new development in the future, would remain in the city and would represent a fiscal windfall to the city. The city had no state aid to lose so would not suffer the penalty of reduced state aid (as happened in Milton as a result of Husky) as the city continued to attract new development.

South Burlington, as a result, received significant new school revenues from Sears and the new houses that were projected to be built as a result of the project. South Burlington would gain $129,600 in new school tax revenues from Sears. It would lose the limited amount of state aid it received; about $53,000. It would also have some new school children, which would add $12,800 to its costs of education. The net result would be $63,000 in net new school revenues to South Burlington. It should also be noted that any future development would benefit South Burlington by the full amount of any new school tax revenues since it would have had no state aid to lose under the foundation aid formula.

On the municipal side of the budget, Sears would pay municipal property taxes and would increase the city's municipal costs. The overall municipal budget would see a net benefit of $17,400.

The total fiscal impact on the city's school and municipal budget would be a positive $80,700. That is small compared to the city's overall school and municipal budget that is financed by local taxes; about $23 million, but it is a positive fiscal impact.

b. Impact of Sears Expansion on South Burlington — Post Act 60

The Sears Act 250 economic analysis was completed before Act 60 passed. If Act 60 had been in place, South Burlington would not receive the school fiscal benefits of Sears. Sears' school tax revenues would be sent to the state education fund and would be shared by towns throughout the state. Table 18 shows that the city would have a net fiscal benefit of $17,500. That represents a decline of about $63,000 from the positive impact in the pre-Act 60 environment to the negative impact in the post-Act 60 environment.

As was true in the other case studies examined, the school costs and revenues to South Burlington are identical due to the way Act 60 is constructed. The sole fiscal benefit to the city of South Burlington in the post-Act 60 environment is on the municipal side of the budget where the fiscal benefits exceed the costs by $17,400.

South Burlington clearly benefited from the Sears expansion and anticipated future fiscal benefits from more development in the city. Whether the city will still seek out new development after Act 60 is in place can only be determined in time; but it is clear that the fiscal benefits accruing to South Burlington from new development are less now than they were before Act 60 was passed.

Table 18.

Post Act 60: Fiscal Impacts of Sears Expansion on City of South Burlington

Revenues			
Mun. non-school revenues to town	$48,700		From Sears and new houses
School revenues to town	$12,759		1.7 new school children @ $7,505 per child
Subtotal		$61,459	Total new revenues
Costs			
Municipal non-school town costs	$31,300		New municipal costs due to Sears and population growth
Municipal school costs	$12,759		1.7 new school children @ $7,505 each cost
Subtotal		$44,059	Total new costs
Grand Total: Net Fiscal Benefits		**$17,459**	New school revenues + new municipal revenues - new school costs - new municipal costs

2. Impact of Sears Expansion on Vermont State Finances

a. Impact of Sears Expansion on Vermont State Finances — Pre Act 60

Vermont state government receives fiscal benefits from the expanded Sears store, as Table 19 shows. First, Sears is projected to have sales of $30.6 million annually. That translates into $1.5 million in new sales tax revenues to the state. Second, the increased employment flowing from the new Sears will result in at least $73,000 in new income tax revenue to the state.

Table 19.

Pre Act 60: Fiscal Impacts of Sears Expansion on State of Vermont

Revenues			
State general fund taxes	$1,603,400		Due to sales and income taxes accruing from Sears
Statewide property tax	$0		No statewide property tax under foundation
Subtotal		$1,603,400	Total new revenues to state general fund
Expenses			
New state aid non-S. Burl.	$11,800		Foundation aid to towns
Savings on state aid to S. Burl.	-$53,000		So. Burlington loses foundation aid
Subtotal		-$41,200	Savings in state education expenditures
Total: Net Fiscal Benefits to State		**$1,644,600**	New general fund revenues plus savings on foundation cost

The state will gain $1.6 million in sales and income tax revenues. The state also benefits by not having to pay any state aid to South Burlington. This is entered as a negative $53,000 expense to the state in the table above.

The state does have some additional expenses due to higher state aid to education to other towns in the county, where new employees with school-aged children live. But the overall financial benefit to the state is significant, as the table shows. The state will have more than $1.64 million in fiscal benefits as a result of the expansion of Sears.

b. Impact of Sears Expansion on Vermont State Finances — Post Act 60

Table 20.
Post Act 60: Fiscal Impacts of Sears Expansion on State of Vermont

Revenues			
State general fund taxes	$1,603,400		Due to economic activity accruing from Sears
Property tax (state from Sears)	$136,850		Act 60 statewide property tax and local share tax
Property tax (state from houses)	$57,020		Act 60 statewide property tax and local share
Subtotal		$1,797,270	Total new revenues to state
Expenses: Cost to Ed Fund			
So. Burl. new cost to state ed. fund	$12,759		Due to 1.7 new students in South Burlington
Other towns new cost to state ed. fund	$131,095		Due to 19.5 new students in other towns
Subtotal		$118,336	Total new expenses to state
Total: Net Fiscal Benefits to State		**$1,678,934**	New revenues - new expenses

With Act 60 in place, the state receives even more revenues than it did in the pre-Act 60 environment because it now essentially receives all the school property tax revenues from Sears, which amounts to $136,850, as well as education revenues from all other new development. As the table shows, the net fiscal benefits to the state, even after new education spending is factored in, is $30,000 greater than it was in the pre-Act 60 environment and amounts to $1.68 million.

3. Impact of Sears Expansion on Other Towns

a. Impact of Sears Expansion on Other Towns — Pre Act 60

Table 21.
Pre Act 60: Fiscal Impacts of Sears Expansion on Other Towns

Revenues			
School tax revenues from new houses	$47,830		New houses @ local school tax rate
New state aid due to more students	$11,800		New foundation aid from state
Subtotal: New School Revenues		$59,630	Total new tax revenues plus foundation aid
New municipal tax revenues	$16,593		Non-school tax revenues from new houses
Subtotal		$76,223	Total new taxes to neighboring towns
Expenses			
New school expenses	$131,095		19.5 new students
New non-school municipal expenses	$13,384		New municipal expenses
Subtotal		$144,479	Total new costs to towns
Total: Net Fiscal Benefits (Costs) to Other Towns		**-$68,256**	New revenues - new expenses

In the pre-Act 60 environment, other towns in Chittenden County absorbed some of the new families that Sears attracted into the area. Those towns had more school-aged children and had higher education costs that were not offset by the combination of higher state aid to education under the foundation formula and increased tax revenues from the new houses the migrants purchased. The net impact on these towns was an increased net school cost of $68,300. This is not a huge amount, especially when it is spread over all the towns in Chittenden County (excluding South Burlington), but it is an additional cost to these towns. That cost is slightly less than the net fiscal benefits to South Burlington (see Table 17) and it is far less than the net fiscal benefits to the state of Vermont (see Table 19).

b. Impact of Sears Expansion on Other Towns — Post Act 60

With Act 60 in place, other towns have no additional educational expense no matter how many new students they have in their schools. The added expense is completely offset by additional funds from the state education fund — so long as per student spending does not change. The only net impacts come from the municipal side of the budget, which in this case brings in slightly more costs than revenues. The $3,209 in net costs is spread over all Chittenden County towns except for South Burlington.

Table 22.

Post Act 60: Fiscal Impacts of Sears Expansion on Other Towns

Revenues			
New receipts from education fund	$131,095		19.5 new students
New municipal taxes	$16,593		From new houses
Subtotal		$147,688	Total new revenues to town and school
Expenses			
New education expenses	$131,095		19.5 new students @ current cost/student
New municipal expenses	$13,384		New municipal expenses
Subtotal		$144,479	Total new expenses
Total: Net Fiscal Benefits to Other Towns		**-$3,209**	New revenues - new costs

4. Total Impact of Sears Expansion

Table 23 shows that Act 60 has reduced the net fiscal impact on the city of South Burlington from a modest amount to a negligible positive amount. Before Act 60, the benefits of Sears could have been used, for example, to hire two new school teachers. After Act 60, there is not enough new tax revenue to hire even one teacher. The state benefits from Sears were substantial before Act 60 and are still substantial after. The fiscal impacts on all of the other towns in Chittenden County were modestly negative before Act 60; after Act 60 there is nearly no impact.

Table 23.

Total Fiscal Impact of Sears Expansion Before and After Act 60

	Before Act 60	After Act 60
South Burlington	$80,700	$17,459
State	$1,644,600	$1,678,934
Other Towns	-$68,256	-$3,209
Total	$1,657,044	$1,693,184

CONCLUSION TO APPENDIX

Under Act 60, the Town of Milton will benefit financially more from Husky than it would have under the old foundation education aid plan. This is unusual and one reason this occurs is because of Milton's low level of per student spending. Milton is one of the lowest spending towns in the state. But under the foundation aid formula, Milton could have had even lower property taxes if it was successful at increasing its property tax base. This may have occurred if Husky's growth was as strong as it plans. Surrounding towns also benefit from Husky due to Act 60; under the foundation aid plan they did not receive sufficient revenues to cover their additional costs, although the level of benefits or costs under the two plans is minor. Finally, the state benefits are somewhat less under Act 60 because of the structure of the two state aid formulae.

The Stratton Long Trail House project is a different case than Milton because it has a tremendous amount of property wealth and very few students. It is also not projected to add to the school-age population in Stratton or any other town. Stratton's expansion benefits the town less under Act 60 than under the foundation formula but it provides much more fiscal benefit to the state treasury. This is entirely because of the statewide and local share property tax revenues. It should be noted that Act 60 does raise property taxes for all property owners in Stratton. The Long Trail House project itself will not raise taxes any higher for Stratton property owners but it will cause more tax dollars in total to be sent out of the Town of Stratton to the state education fund. The Long Trail House project would only raise tax rates in Stratton above their current Act 60 rates if per student spending rose in the town.

Mad River Canoe has much more modest impacts on both the host town and on the state; nonetheless it is clear from this analysis that the state gains the lion's share of the additional revenues accruing from this development as well.

The Sears expansion in South Burlington is a special case, not because it is unusual, but because South Burlington is a city that has actively sought development of all types, including retail, in the past. It has been so successful at this that is has moved itself off of the foundation formula. This means that had the foundation plan still been in effect, any future development would represent new tax revenues to the city. Under Act 60, South Burlington's benefits from new development are significantly reduced.

In all the case studies examined, the state fiscal benefits dwarf the local benefits and these state benefits are made even larger by Act 60. The added benefit to the state treasury of new development could be used in any Act 250 hearing as economic costs and benefits are considered. Because the state gains even more than before, some of the additional state revenue gains could be considered as mitigating any negative local or regional fiscal impacts of new development.

There are numerous consequences of and questions concerning Act 60 that are unanswered in this study. It is yet to be determined how town residents and town officials will perceive the relative costs and benefits of new development as a result of Act 60. The fiscal benefits accruing to a town from new development, especially in towns that have hosted most of the development in the past, is much less under Act 60 than it was before Act 60. If this reduces towns' incentives to seek new development, it may be much harder for new retailers, commercial or industrial firms to locate in towns.

In addition, the tax impact on businesses in what were formerly low tax towns is unclear. Business planning and purchasing decisions were made under one tax regime. The tax environment is now substantially different for those businesses. Some may weather the tax hike and others may not. Whether they do or not, the underlying value of those businesses, especially those where the value of the property assets is a large share of the business revenues, must be considered as changes are made to Act 60 to address its impacts.

Finally, the tax changes occurring throughout the state will affect local grand lists and hence state property tax collections. If underlying property values decline in what were low-tax towns, state property tax collections may be less than anticipated. That may be partially mitigated by increased property values in towns where property taxes decline, and a shift of responsibility and burden may occur.

These issues, and others, will need to be studied further to fully understand the fiscal impacts of Act 60 on state and local government and the economy of Vermont.

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