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Agency of Commerce and Community Development

Testimony on TIF Report, February 6, 2018

Chairman Botzow and members of the Committee,

Thank you for the opportunity to discuss the TIF report and your interest in this issue. As Executive Director of the Vermont Economic Progress Council, the independent board that reviews and approves applications to make use of state funds for tax increment financing, I want to take this chance to briefly summarize our detailed response to the report under discussion here today.

The statutory charge that prompted this report is clear in that it is meant to not just provide insight about the fiscal impact of tax increment financing in the state, but also to inform municipal infrastructure financing policy generally, by comparing its economic impact to other tools and similar programs in other states. I am concerned that this report focuses on the fiscal impact to the exclusion of the latter questions, and this focus has resulted in significant omissions and assumptions that in turn distort the fiscal analysis. I want to address just three of them here.

First, though they are called by the same name, TIF in Vermont is different from TIF in other states like Illinois and Indiana, where municipalities rely on borrowing against future revenue as a means of luring businesses away from neighbor communities or as a substitute for raising taxes. Neither happens in Vermont, by design. We have the most responsible tax increment financing policy in the nation; we are the only state with an independent, state-level review and approval process; and our municipalities exist in a different fiscal environment and incentive structure from other states. Yet other states' mistakes — mistakes we have already learned from — form the foundation of this report's theories and analysis, without any adjustment for how Vermont is different.

Second, measuring the economic impact of downtown revitalization is not so easy as counting dollars flowing into the Education Fund – but this report focuses on this question to the exclusion of other impacts. Investing in the infrastructure of Vermont's rural downtowns, encouraging density, discouraging sprawl, and giving our communities some control over their economic futures will make our development sustainable, protect our environment, and make more of our State livable for years to come in ways that cannot be quantified by an economist. In short, no accounting of a policy's fiscal impacts could ever be complete if it only tallied debits to the exclusion of credits. And yet that is exactly what has been done here.

And third, no program can hope to stand up to analysis that begins with an assumption that the program is superfluous. And yet that's where this report's analysis in fact starts: with an assumption that growth in our downtowns would be happening regardless.

The model that produces the report's estimate of cost to the Education Fund relies on an assumption that grand list values in these towns would be going up anyway. In the case of Bennington, to give one example, this figure used in the report is 3% annual growth, a slightly modified twenty-year average of grand list growth in the whole county. Yet in the last five years, Bennington County has seen negative growth — and that figure includes large swaths of homestead properties that are mostly missing from downtown Bennington, where its new TIF district is located. Meanwhile, that twenty-year average of 3% includes the huge spike in residential property values in the late 1990s and early 2000s, which is certainly driving up the figure so that it is not representative of downtown commercial properties.

When the Vermont Economic Progress Council approved Bennington's TIF district, space downtown above the first floor was mostly vacant. No significant commercial investment had been made in downtown Bennington in the

previous seven years – save a bed and breakfast and a dollar store, the latter of which is generally considered an indicator of financial anxiety, not growth.

I am not alone in being skeptical of such a rosy forecast. In yesterday's New York Times, Nobel-winning economist Paul Krugman wrote that "What the data say, I'd argue, is that at the very least America is heading for a downshift in its growth rate; the available evidence suggests that growth over the next decade will be something like 1.5 percent a year . . . There are also suggestions in the data that risky assets in general — stocks, but also long-term bonds and real estate — may be overpriced."

Now Mr. Krugman's essay was in the context of this week's stock market losses, not TIF. But it raises the question of how optimistic we are prepared to be. Are we so confident that market momentum will be a stronger force than the forces pushing in the opposite direction which make downtown revitalization difficult, like the challenges of place-making, brownfield remediation, historic preservation, and expensive infill construction? In other words, are we so confident in our communities' ability to fund needed infrastructure that we think we would be better off doing nothing?

The question is not meant as hyperbole: I ask it because of a lack of other viable options. In the report is a brief, one-page summary of alternative municipal infrastructure financing tools. If you look at them in detail, however, you'll notice a common theme. All of them work on the scale of a large city, and none of them have been successful at Vermont's scale.

In other words, even if you agree with the modeling and analysis in the report, the lack of viable alternatives can only lead to one conclusion, that TIF is still our best option for revitalizing our communities. To paraphrase Winston Churchill on democracy: TIF is the worst way to fund public infrastructure, except for all the other options we could try.

Finally, a note about the question of the statewide benefits of TIF. The report claims that TIF should have positive benefits statewide, relying on research on other states' drastically different programs to reach that conclusion. But statewide benefits are not required by Vermont's statute: one of the four goals of TIF is to "enhance the general economic vitality of the municipality, the region, *or* the State."

That point aside, the report questions the statewide benefits because, as noted earlier, it dismisses the wider positive economic impacts of TIF. Make no mistake: the impacts of TIF will be felt statewide. A Vermont with growth in not just Burlington but also in Bennington, St. Albans, and other towns is a stronger state than one with growth in one place and stagnation or depopulation everywhere else.

We all benefit from good roads throughout the state, regardless of whether our car drives on every mile of asphalt, because it is the network that supports the state economy. Everyone's property taxes go to the Education Fund, regardless of whether one has or will have children in Vermont schools, because we all agree that investing in education strengthens the state. The same is true with our downtowns. No matter where they live, all Vermonters would benefit from vibrant communities across the state that attract new families, promote walkability, create new housing stock, bring in and spread around tourism dollars, and give seniors opportunities to downsize while still staying in the communities they've been a part of for years.

Thank you for your time, and I would be happy to answer any questions about VEPC's response.

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