An Examination of the State of Vermont Tax Increment Financing Program

Presented by Graham Campbell

House Ways and Means Committee

January 24, 2018

Statutory Charge

Per 24 V.S.A. §1892, amended by Act 69 of 2017

The report shall include:

- (1) a recommendation for a sustainable statewide capacity level for TIFs or comparable economic development tools and relevant permitting criteria;
- (2) the positive and negative impacts on the State's fiscal health of TIFs and other tools, including the General Fund and Education Fund;
- (3) the economic development impacts on the State of TIFs and other tools, both positive and negative;
- (4) the mechanics for ensuring geographic diversity of TIFs or other tools throughout the State; and
- (5) the parameters of TIFs and other tools in other states.

- Completed with assistance from the Legislative Economist, the Department of Taxes, the State Auditor and Agency of Commerce and Community Development

What is TIF?

- Used to spur economic development in the wake of Federal cuts to economic development spending in the 1980s and 1990s
- Every state except Arizona has TIF laws on the books
- **Typical TIF process**

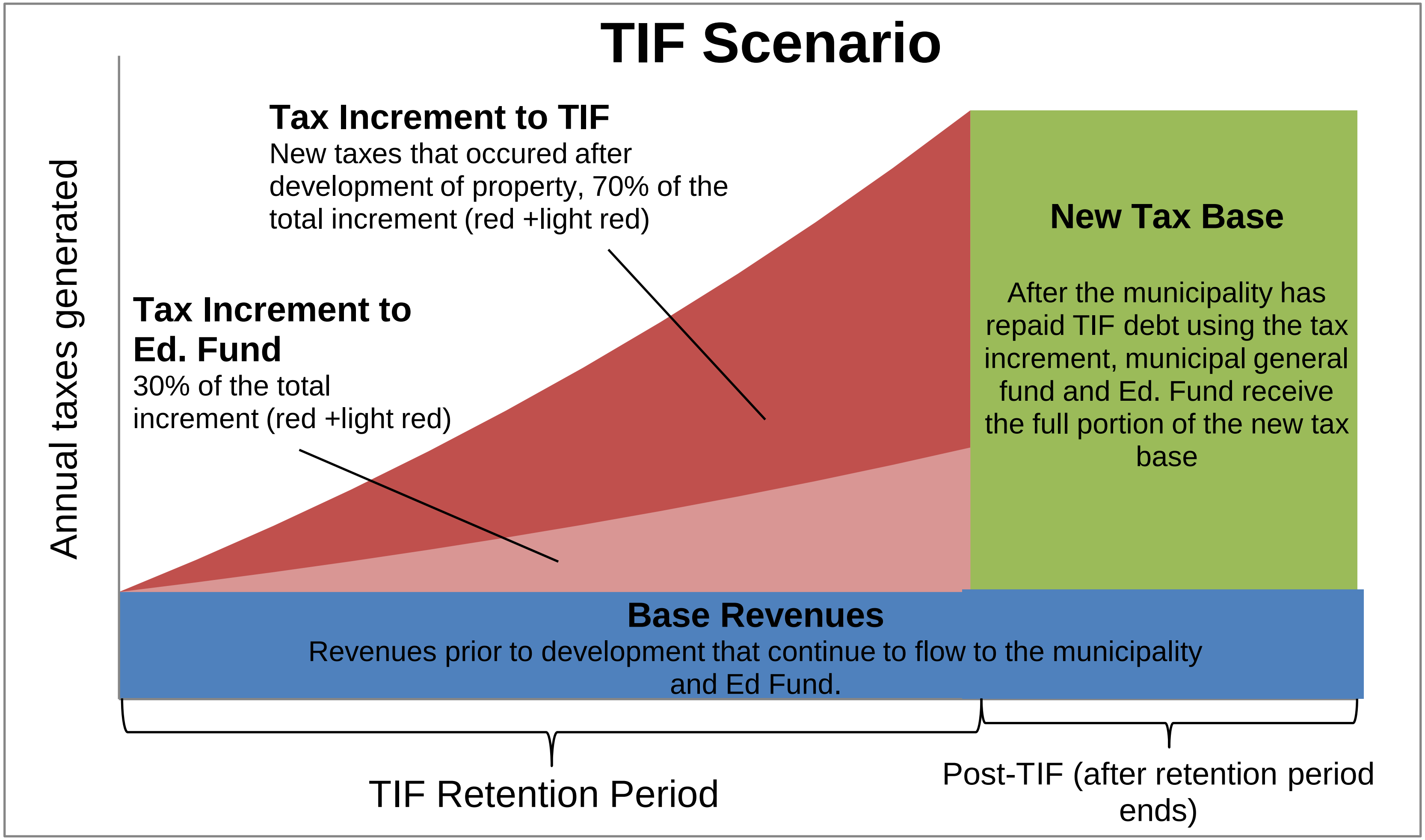
  1) Municipality seeks to improve a geographic area, through infrastructure development or other development

  2) Municipality borrows to build this improvement

  3) A portion of any new property tax revenues that result from the new construction are used to repay the debt.

  4) Once the debt is repaid, or the specified retention period ends, the municipality or state receives the full portion of the new property tax revenue.

What is TIF?


TIF Scenario
Annual taxes generated
Tax Increment to TIF
New taxes that occured after development of property, 70% of the total increment (red +light red)
Tax Increment to Ed. Fund
30% of the total increment (red +light red)
New Tax Base
After the municipality has repaid TIF debt using the tax increment, municipal general fund and Ed. Fund receive the full portion of the new tax base
Base Revenues
Revenues prior to development that continue to flow to the municipality and Ed Fund.
TIF Retention Period
Post-TIF (after retention period ends)

Quick overview of Vermont's TIF Program

- TIF authorized in statute in 1985
- Statute has changed significantly since then
  - Before 2006, TIF districts were essentially municipal constructs.
  - After 2006, State has a much bigger role in TIF rule creation and approval.
- 10 active districts, 1 retired
  - Districts were subject to different rules at time of their creation
    - Pre-2006 TIF districts: Burlington Waterfront, Milton North and South, Winooski
    - Act 184 (2006) TIF districts: Milton Town Core, Hartford, Burlington Downtown, St. Albans, Barre, South Burlington
    - Act 69 (2017) TIF districts: Bennington
  - 6 new districts created by Act 69 of 2017. 1 district has been formally approved since then (Bennington).
  - Newport TIF created in 1998, retired in 2015.

Vermont TIF Districts

Table 1: TIF Districts In Vermont						
	Year Created	**Increment Retention Period**	**Original Property Value at Creation**	**Education Fund Increment Split**	**Municipal General Fund Increment Split**	**Debt Incurred as of 2017**
Active TIF Districts						
Burlington Waterfront	1997	1996-2035[a]	$42,412,900	Original: 100% to TIF, 0% to Ed. Fund Beginning 2010: 75% to TIF, 25% to Ed. Fund	Original and post-2010: 100% to TIF, 0% to municipal general fund	$27,099,873
Milton North and South	1998	1999-2019[b]	$26,911,151	Original: 100% to TIF, 0% to Ed. Fund Beginning 2010: 75% to TIF, 25% to Ed. Fund	Original: 100% to TIF, 0% to municipal general fund Beginning 2010: 75% to TIF, 25% to municipal general fund	$9,295,300
Winooski	2000	2004-2024	$24,822,900	Original: 95% to TIF, 5% to Ed. Fund Beginning 2004: 98% to TIF, 2% to Ed. Fund	Original and post-2004: 100% to TIF, 0% to municipal general fund	$29,998,000
Milton Town Core	2008	2011-2031	$124,186,560	75% to TIF, 25% to Ed. Fund	75% to TIF, 25% to municipal general fund	$3,422,600
Hartford	2011	2014-2034	$31,799,200	75% to TIF, 25% to Ed. Fund	75% to TIF, 25% to municipal general fund	$900,000
Burlington Downtown	2011	2016-2036	$174,412,200	75% to TIF, 25% to Ed. Fund	75% to TIF, 25% to municipal general fund	$200,000
St. Albans	2012	2013-2033	$107,909,150	75% to TIF, 25% to Ed. Fund	75% to TIF, 25% to municipal general fund	$14,500,000
Barre	2012	2015-2035	$50,851,870	75% to TIF, 25% to Ed. Fund	75% to TIF, 25% to municipal general fund	$2,200,000
South Burlington	2012	2017-2037	$36,228,700	75% to TIF, 25% to Ed. Fund	75% to TIF, 25% to municipal general fund	$0
Newly-Approved TIF Districts						
Bennington	2017	2018-2037	$8,419,000	70% to TIF, 30% to Ed. Fund	100% to TIF, 0% to municipal general fund	$0
Retired TIF Districts						
Newport	1998	1997-2015	$48,500	100% to TIF, 0% to Ed. Fund	100% to TIF, 0% to municipal general fund	$300,000

Note: In 2017, 6 additional districts were approved by the Legislature.

[a] Act 134 of 2016 extended the period to incur indebtedness to 2020, and the increment retention period to 2035. This extension was made to accommodate the redevelopment of the Burlington Town Center

[b] In 2006, the Legislature enacted special provisions allowing the Milton North and South TIF Districts to be extended for an additional ten years

Major Findings: Operational

- **Vermont's TIF program is well-defined in statute and transparent relative to other states and cities, with some room to improve the approval, oversight, and evaluation process to ensure the program is maximizing statewide benefits.**
  - Legislative action over the past three decades has set limits on the potential downsides and excesses of TIF that have occurred in other states. These include:
    - The types of taxes eligible for TIF
    - The portion of State tax increments permitted to be captured for TIF debt
    - The types of projects eligible for TIF funds
    - The length of time a TIF district is entitled to tax increments
    - Public involvement and transparency
  - Room for improvement for the approval, monitoring, and evaluation processes
    - Approval: more emphasis on examination of potential statewide benefits, not just municipal ones
    - Monitoring: additional information in the Annual Report on current tax increment flows vs. projections, debt service progress.
    - Evaluation: Independent evaluation that needs to measure statewide benefits.

Major Findings: Fiscal Impacts

- **Using mid-range assumptions of TIF district growth into the future and what might have occurred absent the use of TIF, JFO estimates that Vermont's TIF program represents a negative cost to the Education Fund of between $3 million and $7 million annually from 2017 to 2030.**
  - Between 2017 and 2030, cumulatively $68 million in nominal dollars.
  - Education Fund returns from a TIF district will take over 50 years to break even with the same area without a TIF.
  - An additional $1 million - $4 million costs to municipal general funds.
  - Dependent upon assumptions
    - TIF district growth
    - Baseline, non-TIF growth
    - Debt accumulated by municipalities for TIF districts
  - JFO believes that the Consensus Administration/JFO Education Fund forecast estimates of $5 to $10 million should continue to be used for estimates of fiscal cost.

Major Findings: Fiscal Impacts

	Table 3: Fiscal Impacts to the State Education Fund (Using baseline growth of 20-year county average growth +/- 50 percentage points[a])		
	What it receives under TIF	**What it receives under no TIF**	**Difference (Negative=cost)**
2017	$9,816,447	$12,816,992	-$3,000,545
2018	$10,017,410	$13,475,088	-$3,457,678
2019	$10,923,772	$14,871,639	-$3,947,867
2020	$11,154,097	$15,615,939	-$4,461,842
2021	$11,391,001	$16,396,504	-$5,005,503
2022	$11,629,197	$17,215,131	-$5,585,934
2023	$11,855,820	$18,073,709	-$6,217,889
2024	$12,093,655	$18,974,219	-$6,880,564
2025	$12,719,116	$19,918,743	-$7,199,627
2026	$14,955,666	$20,909,468	-$5,953,802
2027	$15,959,226	$21,948,690	-$5,989,464
2028	$16,450,459	$23,038,822	-$6,588,364
2029	$21,162,518	$24,182,397	-$3,019,879
2030	$24,542,225	$25,382,076	-$839,851
Total	**$194,670,610**	**$262,819,417**	**-$68,148,808**

[a] If the district was in Chittenden County, 50 percentage points were added. If it was not, 50 percentage points were subtracted

Major Findings: Economic Impacts

- **The extent to which TIF has and will provide the expected economic benefits to the State is unclear.**
  - TIF could create indirect economic benefits
    - TIF may bring benefits associated with denser, downtown development (Smart Growth)
    - TIF could also help to bring in other types of economic development funding
  - TIF likely provides little direct economic benefits at a statewide level.
    - Demand substitution: new development in Burlington simply takes development away from South Burlington or Winooski.
    - Academic and non-academic research has found little to no economic benefit from using TIF.
  - Frequent use of non-TIF revenue often clouds the link between economic development and the use of TIF.

Major Findings: Economic Impacts
Non-TIF Revenue

Table 10: Comparisons of TIF District Revenue Sources, as of end-2016

	Barre	Burlington Waterfront	Hartford	Milton North and South
Total Revenue	$3,196,859	$24,942,271	$286,885	$534,157
of which: TIF Revenue	$313,299	$22,231,913	$48,938	$529,549
of which: Non-TIF Revenue	$2,883,560	$2,710,358	$237,947	$4,608
Percentage Non-TIF Revenue	90.20%	10.87%	82.94%	0.86%
Percentage TIF Revenue	9.80%	89.13%	17.06%	99.14%

Note: Data for South Burlington and Burlington Downtown were unavailable

Source: Indiviudal TIF district annual reports

Table 10 continued : Comparisons of TIF District Revenue Sources, as of end-2016

	Milton Town Core	St. Albans	Winooski
Total Revenue	$1,240,065	$2,239,799	$83,275,710
of which: TIF Revenue	$1,240,065	$1,464,589	$11,707,609
of which: Non-TIF Revenue	0	$775,210	$71,568,101
Percentage Non-TIF Revenue	0.00%	34.61%	85.94%
Percentage TIF Revenue	100.00%	65.39%	14.06%

Major Findings: Economic Impacts

- **Vermont's TIF districts have largely achieved their projections of property value growth, but have missed incremental tax revenue and private investment estimates by wide margins.**
- As of year-end 2016, total actual property investment in Vermont TIF districts has been less than one-half of what was projected in their applications

Table 7: Taxable Value and Tax Increment Performance		
	Taxable Value	**Tax Increment**
Median Percentage Miss	0%	42%
Average Percentage Miss	-6%	29%
Cumulative Projected	N/A	$10,608,907
Cumulative Actual	N/A	$5,447,900

Note: Excludes data from Burlington Waterfront TIF district

Source: TIF district annual reports to VEPC

Major Findings: Geographic Diversity

- **Vermont's TIF statute does not guarantee geographic diversity of TIF districts, especially to those areas of the State that are economically distressed.**
- Some geographic diversity ensured through Act 69 of 2017
  - No municipality that has a TIF district will be eligible for a new one
- Statute does not explicitly require that a TIF district be located in areas that are economically distressed
- TIF's complexity may preclude municipalities with less staff capacity and expertise
- Research has shown that if another government's tax revenues are eligible for TIF district debt (as in Vermont), municipalities with faster economic growth are more likely to create TIF districts.

Considerations for Legislators

1) Legislators may want to consider requiring municipalities to repay TIF district debt as incremental tax revenues accrue, rather than solely making the required bond payment.

- Under current statute, municipalities can, but are not required, to use surplus incremental tax revenues to repay TIF debt early.
- Repaying debt early shortens the TIF retention period.
  - State and municipality benefit from TIF growth sooner.
- Repaying debt also lessens the uncertainty associated with future tax increments.

Considerations for Legislators

2) Legislators may want to consider whether the current system of approval, monitoring, and evaluation ensures TIF district accountability for results.

- Since State tax dollars are used for the program, the program should be expected to generate statewide benefits, not just municipal ones.
- This focus should extend to various points in TIF approval and oversight:
  - Approval process: determine whether the development could have occurred elsewhere in the State. Potential use of VEGI Cost-Benefit model
  - Annual Reporting: VEPC Annual report should include information on statewide benefits and updates on how well tax increments have met projections.
  - Evaluation: State Auditor's evaluation should be supplemented with independent review of TIF district economic and fiscal impacts every five to seven years.
  - Oversight: Should a municipality bond against TIF incremental tax revenues, if they do not materialize, Legislature should consider recourse for VEPC and municipality to mitigate negative fiscal impacts.

Considerations for Legislators

3) Consideration should be given to whether TIF is the most effective way to achieve infrastructure development in downtowns.

- TIF is effectively a downtown infrastructure financing tool due to the location criteria.
- TIF has some advantages over other economic development tools
  - Could increase town ownership for their development.
  - Could draw in other types of financing
- TIF also has disadvantages
  - Complex: requires significant town capacity to apply and administer
  - Fiscal: if revenues fall short of projections, negative fiscal pressure.
  - Size of the tax expenditure difficult to control
- Consideration should be given to other tools that could achieve the same goal with fewer disadvantages.

Table 11: Alternative Downtown Infrastructure Development Tools

Financing Tool	What is it?	Pros	Cons	U.S. Examples
Metropolitan Area Projects (MAPS)	Multiple development projects submitted by citizens via request for proposals. Funded by a limited term sales tax increase.	Projects are funded without debt and are citizen-driven	State restrictions on sales tax uses	Oklahoma City
Tax Credits or Abatements	Exemptions on local or state taxes for development	Versatile and varied. Can be used for many types of projects	Companies may divest once the credits end. Discontent over preferential treatment. Difficult to evaluate.	Washington D.C. Baton Rouge, LA Tucson, AZ
Business Improvement Districts (BID)	Property owners in a specific area vote to initiate and manage supplemental services via a common area based on an assessment formula	Citizen-driven. Has been shown to increase property values in New York City.	Smaller BIDs are unlikely to make a major impact on overall economic development in a city	Philadelphia New York City Denver Madison, WI San Diego
Public Private Partnerships (PPP)	Contractual agreement between public agency and a private partner to support construction, development, ongoing operations, and/or maintenance of a public asset or function	Potential reduction in operating or construction costs. Can be used for many types of public projects or functions.	Some PPPs can be complex and require constant monitoring	30 states have some form of PPP legislation. However, more than one-half of all PPP projects have occurred in only 8 states.
Revolving Loan Funds (RLF)	Provides at or below market rate financing to fund projects in downtown areas or for specific developments	Provides competitive interest rates and flexible terms versus conventional lending. Lowers overall risk for other participating partners.	Loans must be able to generate enough of a return to replenish the fund. Requires an initial amount of capital.	Georgia: Downtown Development RLF Minneapolis, Two Percent RLF
Gap Financing	Funds that fill a gap in traditional funding for business, entrepreneurial, or commercial real estate development projects	Flexible; many types of development projects/costs are eligible. Reduces overall risk for other development partners.	Gaps in financing may be large. Incentive for other partners to reduce their funding share.	Florida Municipal Loan Council
Infrastructure Bank	Assists public and private entities in the construction or redevelopment of transit facilities	Low rate, fixed-term loans at favorable terms	Has not yet been fully proven as an effective tool for municipalities	Chicago
Targeted matching grants	State provides a matching grant to the municipality for use in building infrastructure	State has a clear understanding of the cost of the program	Subject to an annual appropriation, which could change with government priorities. May favor towns with higher capacity to complete grant applications.	

Source: Larkins, Stephanie. "Financing Downtown Redevelopment." Harvard University Data-Smart City Solutions. 5 March, 2014. http://datasmart.ash.harvard.edu/news/article/financing-downtown-redevelopment-408

Considerations for Legislators

4) The combination of Vermont's statewide property tax system and TIF raises equity issues among municipalities.

- The net cost to the Education Fund implies non-TIF municipalities are financing improvements in TIF municipalities.
  - Property tax rates are roughly one-half of a penny higher than if the State allowed no TIF districts.
  - Property taxes historically a local form of taxation: Vermonters may link it to Education or municipal spending, not to build infrastructure in other towns.
- In order to justify the use of statewide tax dollars, benefits that TIF districts provide to non-TIF municipalities would need to exceed between $3 million and $6 million per year.
  - Strong consideration should therefore be given to the types of developments being constructed in TIF districts.
- 6 of the 10 active TIF districts are located in one of the fastest growing counties in the State (Chittenden)

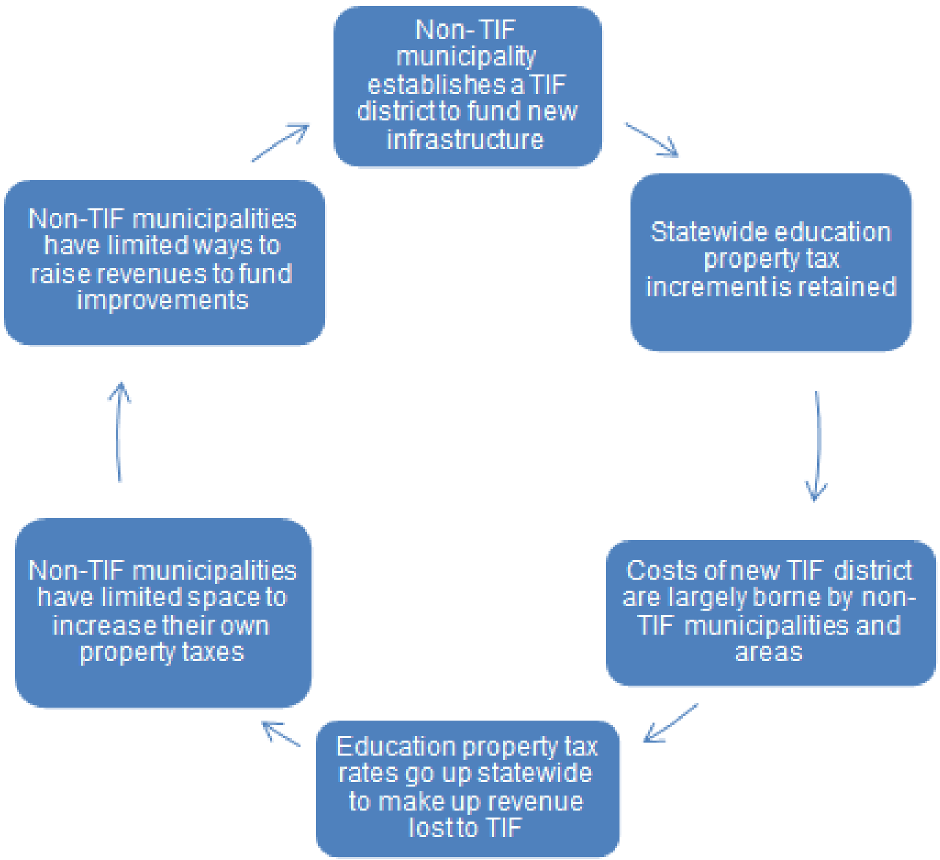
Considerations for Legislators

5) Because TIF allows municipalities to retain State education property tax revenues to fund their own infrastructure, there could be an incentive for nonparticipating municipalities to establish TIF districts.

- TIF represents a new revenue stream
  - If a municipality can capture another government's taxes (as in Vermont), it creates a new revenue stream.
  - Important in an economically distressed area where space to increase revenues is limited
- More TIF districts increases the cost burden on non-TIF municipalities.
  - More TIF districts=higher property tax rates Statewide
  - More TIF districts=less room for municipalities to increase their municipal tax rates to fund infrastructure improvements
  - Limited fiscal space makes TIF more appealing.
- This has occurred in other states (California, Maine)

Considerations for Legislators

Figure 3: Statewide TIF Expansion Cycle



Considerations for Legislators

6) Legislators need to be mindful that TIF involves considerable uncertainty.

- TIF could be subject to upside opportunities
  - If tax increments are greater than expected
  - If non-TIF revenue flows to the district
  - Unexpected development could lead to other benefits such as increased wages, non-property tax revenues.
- TIF involves downside risks and fiscal consequence
  - If tax increments fall short of projections it could put significant fiscal pressure on municipalities.
  - State may step in: Milton North and South TIF district, as an example
  - The only way to control TIF costs to the Education fund is to limit the number of TIF districts in the State.
- But-for claims are also uncertain
  - Knowing what might have occurred absent the use of TIF is impossible to say with full certainty.