

To: Senate Finance Committee  
From: Carol Dawes, Barre City Clerk/Treasurer  
(802) 477-1452  
[cdawes@barrecity.org](mailto:cdawes@barrecity.org)  
Date: January 23, 2020  
Re: Tax Increment Financing Districts

There are a number of bills being considered this year that would make changes to the statutes that control TIF. I'd like to address three of the issues being discussed.

### **USE OF BOND PROCEEDS TO PAY DEBT SERVICE/ REIMBURSEMENT WITH INCREMENT**

Barre City's TIF district was approved by VEPC in 2012. Voters approved \$2.2 million for projects in November 2013, and the district incurred its first debt in January 2014.

The focus of our district is parking and streetscape improvements in the heart of our downtown, and to date the infrastructure projects have been vital to the construction or redevelopment of two major commercial buildings and one affordable housing complex.

We took out a bond anticipation note (BAN) in January 2014, and converted it to a bond in August 2015. Our first interest payment on the BAN was due in January 2015, with the balance of the interest due when we converted to the bond in August 2015. The district hadn't generated any increment when the first BAN interest payment came due; therefore we paid the interest out of the BAN proceeds on a temporary basis. After converting the BAN to the bond, we made the final BAN interest payment out of the bond proceeds with the intention of reimbursing the bond for all interest payments when increment funds were available. This reimbursement has been completed.

There's a period of time between when a TIF district begins to incur debt and when increment is generated. There are certain expenses in the early years of the district that qualify to be paid by increment, including debt service; however increment funds are not yet available. Use of interfund borrowing or bond proceeds to make those early expense payments should be acceptable as long as it is clearly documented and accounted for. S.191 includes language that clarifies such past actions, but does not allow it going forward.

### **BOUNDARY ADJUSTMENTS**

The proposed language in S.191 prohibits boundary adjustments once a district has been finalized, but that isn't practical. In 2016 Barre City was granted substantial change requests for the following boundary adjustments:

1. It came to our attention that two parcels owned by the local Methodist Church had been left out of the district, creating an artificial divide between contiguous parcels owned by the same entity. None of the parcels is taxable, and it made sense to add the missing parcels to the district. This boundary adjustment had no effect on the original taxable values, or assessments going forward.
2. The boundary across Maple Avenue ran between two buildings with different owners. In 2014 the owner of the building in the district purchased the building next door, which was out of the district. After purchasing the building he made a boundary adjustment between the two properties – deeding a portion of the property out of the district to the property in the district. This added 0.08 acres of taxable property to the district. Through the substantial change process,

we adjusted the boundary and the original taxable value of the property in the district so that the increase in value did not create increment.

Both of these boundary adjustments allowed us to be sure the district is accurately cataloged in the OTV, which subsequently meant correct calculation of increment. VEPC should be allowed to consider boundary adjustments on a case-by-case basis throughout the life of a district to ensure continued accuracy in what can be a fluid environment.

### **FLUCTUATIONS IN PROPERTY VALUATIONS THROUGH THE LIFE OF THE DISTRICT**

There needs to be acknowledgement that property valuations fluctuate during the life of the district. Barre City has acquired certain parcels in the district that are vital to the TIF infrastructure projects. Once the City owns them they become tax exempt, thereby creating a negative increment situation for those parcels. Depending on the number of such parcels and the changes in property values in the rest of the district, there can be a cumulative negative increment for a particular year.

Similar situations can occur with private developments. If a developer needs to tear down a building to make way for a new one, there will be a time when the value of the property goes down, which will have a negative impact on increment until the project is completed.

Increment values should not be accounted for on an annual basis. Increment should be accounted for over the life of the district. By taking money away from the increment fund in those negative years, the districts are being shortchanged in their ability to complete the voter approved infrastructure projects, and their ability to see the district through to completion.

TIF districts need to be thought of holistically – through their entire life. These districts involve big projects, and the municipality and its voters have pledged the full faith and credit of their town on the successful completion of the projects – both public and private. At the completion of the district there is a significant increase in property values, which is good for both the city and the state. Without the leap of faith taken by the municipality, with the support of the TIF program and the state, such growth wouldn't happen. We must jointly take the long view over the life of the districts.