
City of St. Albans
Senate Finance Testimony on S. 191
Dominic Cloud, City Manager

The City of St. Albans is appreciative of the efforts to clarify the TIF statutes. As we have previously testified before this committee, tax increment finance is the single most powerful tool for reversing the demographic and economic challenges facing the state. It's the difference between years of declining tax revenues, and a 65 percent increase in tax revenues in five years. It's the difference between an eroding tax base, and \$60 million in increment in seven years. These changes are illustrated on the attached photos; and as you can see, they are transformative.

The City has three observations with the efforts this session to clarify the TIF statutes:

1. There is no policy distinction between using debt to pay debt and using increment to pay debt. So long as 100 percent of the risk always remains with the municipality, and it should, this issue is a red herring. We strongly support efforts to codify this essential practice.
2. Efforts to limit the length of time and flexibility a community has in using public finance tools such as a debt service reserve, bond anticipation notes, or any other interim financing tool, penalize the communities who need TIF the most. This is important because Need is one of the approval criteria. We encourage lifting the time limit entirely and do not object to requiring VEPC approval.
3. We encourage the Legislature to explicitly codify the obligation of the TIF to repay funds advanced on its behalf in the early years, if the increment and the revenues exist in the later years. If the revenues do not exist or are in insufficient, that remains the municipalities burden.

Debt Service Reserve / BANs / Debt Paying Debt

TIF districts are inherently front loaded. This is often shorthand to "if we build it, they will come." It is difficult to bring any single project from conception to increment generation in less than three years, usually more. In every project we have done, millions of dollars in expenses accrue for land acquisition, demolition, site work, and environmental remediation before the increment creators begin their work. And we can only generate increment from what is there on April 1 of the tax year. Our experience is that projects tend to have a relationship of two to one for increment to expense. So, on a \$10 million increment generator, we have spent \$5 million over the course of two or three years before the increment starts getting created.

This is the gap that must be funded. Whether you borrow a little more than you need and create a debt service reserve; or use a line of credit; or use a bond anticipation note, the instrument is immaterial. There needs to be a source of cash to cover those intervening years. Our job is to create increment for both the municipality and the State to use. That is our common interest. Where we borrow the money from is our problem. But limiting the use of debt service reserves and BANs makes a hard job harder and is counterproductive.

Need Based Approval

The suggestion that communities cannot borrow the funds they need to service the debt until the TIF begins producing increment is inconsistent with the need based approval criterion. When we applied for our TIF, we drained our last reserve fund of \$25,000 to hire a consultant to prepare our application so that we wouldn't be beat out by other communities for the last remaining TIF. It was the first of many "long passes into deep coverage", to use an analogy that is apt for this season. We passed the need criterion with flying colors. Then we used our lines of credit and tax anticipation notes to pay for the engineers and other consultants who would get us to the point of putting a proposal before the voters. We have continued to operate more like a business startup, pouring every profit back into the business, than a municipality, for the last seven years.

The distressed communities are impacted the most by limitations on the type and duration of public finance instruments because they have fewer reserves and it takes longer to generate economic activity.

Repayment of Funds Advanced

Current law (24 VSA 1894 (i)) requires voter notification that the municipality is liable for the annual payment of TIF funds if the increment is insufficient or if the statewide property tax is repealed. We have no concerns with this obligation to notify as it has always been viewed within the 20 year timeframe. During the St. Albans audit, SAO staff pointed to the notification language and suggested this meant that funds advanced on behalf of the TIF in one year, could not be repaid by the TIF in subsequent years. This is a threshold issue for TIF communities. We are willing to take risk and make the investments, but we need to be able to repay ourselves in future years if, and only if, the increment exists to do so. If I had to tell the voters that the millions of dollars we spent before increment existed could not be recovered when the increment was generated, I doubt they would not have approved the TIF.

We would encourage additional language be added to 24 VSA 1894 which reads something like:

Repayment of Funds. Notwithstanding 24 VSA 1894 (i), funds advanced on behalf of the TIF in any single year may be repaid by the TIF in subsequent years and/or over the remaining life of the district if there is sufficient increment to do so.

Response to Auditor's Testimony

Finally, I was flabbergasted by Mr. Hoffer's testimony that the provisions of S. 191 increase the exposure for the Education Fund. This does not stand up to scrutiny. It is the municipalities' full faith and credit that is pledged and all of the risk is always on the municipality. Nothing in S. 191 changes this.

However, recalling the view advanced by SAO staff during the St. Albans audit, that funds advanced on behalf of the TIF through vehicles such as BANs and debt service reserve funds cannot be repaid through increment, it makes sense that Mr. Hoffer would oppose S. 191. If BANs and debt service reserve funds are explicitly authorized, then funds advanced can be repaid with increment. This is the only reason I can think of for the Auditor's opposition to S. 191.

In conclusion, it is critical to the success of the TIF program that the above public finance tools are authorized and, most importantly, that the TIF is explicitly authorized to repay funds advanced if there is sufficient increment to do so.

As always, I appreciate the opportunity to testify and can be available for additional testimony as needed.