Downtown and Village Center Tax Credit Program
JFO Full Review
Executive Summary

The Downtown and Village Center tax credit program provides tax credits to assist individuals and developers rehabilitate and modernize older and historic buildings in Vermont's designated downtowns and village centers.[1] The program is made up of three separate credits (Code Improvement, Façade Improvement, and Historic Rehabilitation), claimable either on the individual's personal income tax or sold to banks and insurance companies who can claim it against their Bank Franchise Tax or Insurance Premiums Tax liabilities. In FY 2020, these credits resulted in $1.72 million in foregone State tax revenue, most which was taken against the Bank Franchise Tax.

Since its creation in 1999, the Downtown and Village Center tax credit program has awarded approximately $29.5 million worth of tax credits.[2] A statutory cap limits the amount of credits issued each year. In the past 20 years, the legislature gradually increased the cap from $300,000 to $3 million today to respond to demand.

JFO conducted a full review of these credits as part of the 2021 Tax Expenditure Report and made the following major findings:

1) Operationally, the Downtown and Village Center tax credit program appears to be achieving its statutory purpose of simply and effectively channeling public funds into projects that improve and revitalize Vermont's historic centers with the greatest economic development needs.

- The program, particularly in more recent years, targets a diverse set of projects that are "shovel ready" and are more likely to have a wider potential economic impact in their communities, such as housing, mixed-use, and commercial projects.
- Of the roughly $28 million in credits awarded since 2005, $18.3 million, or 65%, has been awarded to projects in municipalities located in counties with below-average GDP growth. According to data from personal income tax claimants, the credits also do not disproportionately benefit high-income taxpayers and developers, although those credits sold to banks could potentially provide more to benefit high-income taxpayers indirectly.
- Compared to other economic development programs in the State, the simplicity and flexibility of the program allows program recipients to quickly and easily obtain cash for projects.

While not a part of the statutory purpose, JFO also analyzed whether the program was generating economic and fiscal impacts for the state. In these areas, JFO made the following conclusions:

2) While the economic benefits of the Downtown and Village Center tax credits are likely positive in aggregate, they vary significantly based on the unique circumstances of the project and could be offset by the cost of the credits.

- Based upon an analysis of property values of unfunded applications from 2016 and 2017, it appears as though many projects moved forward without State tax credits. Almost one-third of the unfunded

[1] As of December 2020, there are 23 designated downtowns and over 208 designated village centers.

[2] Although the program was created in 1999, the current version of the program was codified in statute in 2005, and earlier statutes were repealed. This review covers the time period of 2005 to the present.

properties saw property value growth of 25% or more, indicating some improvements and subsequent economic impacts do occur without tax credits.

- The program helps finance many smaller projects where the tax credit is a significant portion of the funding stack (greater than 35% of the project's total cost). Based upon an analysis of grand list growth for these smaller projects from 2012 through 2019, property value growth was negligible. While property value growth is not a complete measure of economic impacts, the limited grand list growth for the building itself is suggestive of limited widespread economic impact elsewhere.
- The tax credits regularly help finance large, community-impactful developments (greater than $2 million in project size) that, based upon grand list analyses, generate greater property value growth and potential economic impact. However, these projects only rely on the credits for a very small portion (often less than 10%) of their total cost, which raises questions about whether the project could have occurred without them.
- The program does drive development to downtown, denser areas, which leads other positive benefits such as increased community vitality, lower transportation costs for residents, greater access to housing, and environmental benefits.

3) Based upon an analysis of property value growth, the Downtown and Village Center Tax Credit program is unlikely to be generating a positive fiscal return on investment for the State, at least in the near and medium term.

- Based upon analysis from the 2016 and 2017 award years, projects funded by the tax credits do appear to generate modestly higher grand list growth than their unfunded peers, but the tax benefit is not enough to justify the expense: the annual property tax benefit resulting from the $4.6 million spent in tax credits during this period is approximately $100,000 per year.
- Awardees from 2014 through 2017 experienced an increase in value of $27.4 million from 2012 through 2019, generating about $400,000 in new education property tax per year. Based on this sample, this means it will take over 20 years (even before adjusting for inflation) to recoup the State's $8.9 million in credits and sales tax allocations issued over that time period.
- This analysis does not quantify additional fiscal returns from other tax streams, although it seems implausible that their inclusion would make the fiscal return positive in the medium term. It is also possible that absent credits, buildings would fall into disrepair and the associated revenue streams would decline over time, though JFO did not confirm the extent to which this is true of the properties that received the credits.

JFO highlighted three minor areas for legislators to consider should they decide to alter the program:

- Clarifying the statutory purpose to include measurable goals.
- If a State short-term fiscal return is a goal of the tax credits, legislators could consider ways to improve the return on investment. Possible solutions could include:
    - Requiring projects to be reappraised upon completion. Many of the projects that receive Code Improvement tax credits feature upgrades to systems that, while beneficial to the health and safety of occupants and undoubtedly improving the building, do not trigger a reappraisal by the town.
    - Limiting the eligibility of the credits for tax-exempt entities. Examples of nonprofits that have used these credits include museums, grange halls, and affordable housing entities. Because these entities are exempt from most taxes, the fiscal return on investment is limited to the indirect benefits of the project. Some states have either limited (Rhode Island) or made nonprofits ineligible (Mississippi) for the credits.
- Review the age requirement for buildings eligible for the credits. The requirement that a building be at least 30 years old does not, with some exceptions, reflect the higher costs of improving a

building built 100 years ago versus one from 35 years ago. Related to this, the legislature could also consider the following:

- Whether more modern buildings built in the 1980s and 1990s reflect the initial intent of the program, or whether it should focus on significantly older buildings.
- Whether the State should consider providing tax credits to improve other aspects of buildings aside from health and safety, such as energy efficiency.