

# TIF 101/MINI TIFS

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Graham Campbell, Senior Fiscal Analyst

Joint Fiscal Office

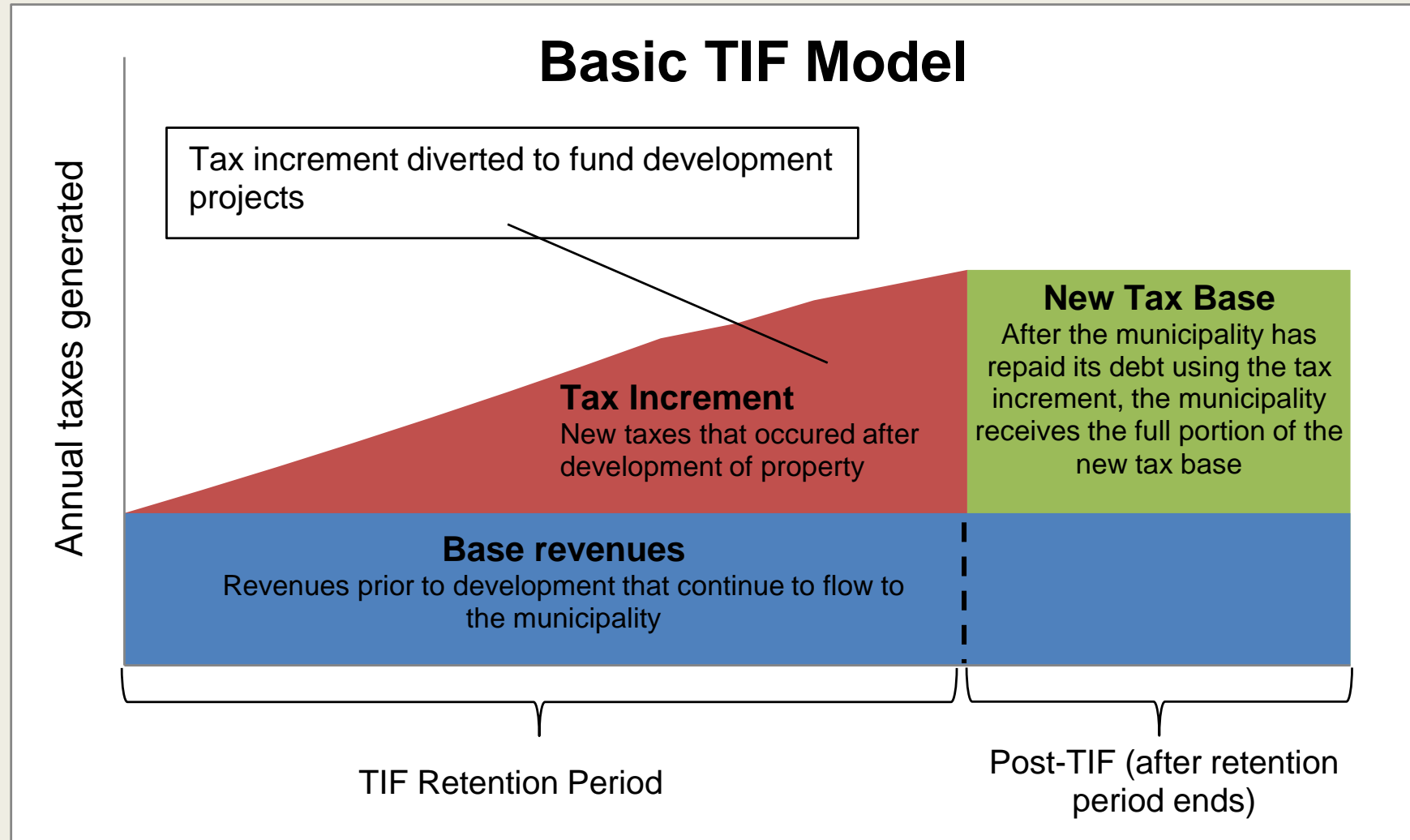


*Vermont Legislative*  
**JOINT FISCAL OFFICE**

# What is TIF?

- Used by municipalities and states to finance economic development by diverting a portion of the growth in future property tax revenues
- Steps to a TIF:
  - *1) Municipality seeks to improve a geographic area (downtown plot , blighted land, brownfield) by investing in new infrastructure (sidewalks, parking, streetlights, sewer)*
  - *2) These improvements stimulate private development of the area.*
  - *3) Municipality finances these infrastructure improvements with borrowed funds.*
  - *4) Municipality pays back the borrowing using a portion of the increased tax revenues as result of improvements to the area*

# What is TIF?



# TIF in Vermont

## ■ How much tax increment can a municipality retain?

- *Depends on when they were created. Current statute says least 85% of their municipal tax and no more than 70% of the statewide increment.*
- *Some older districts can retain more than 70% (Winooski can retain up to 98%, BTV Waterfront used to retain up to 100%).*

## ■ How long can towns retain increment?

- *20 years from when they first incur debt for the district*
- *Burlington Waterfront can retain longer for CityPlace project*

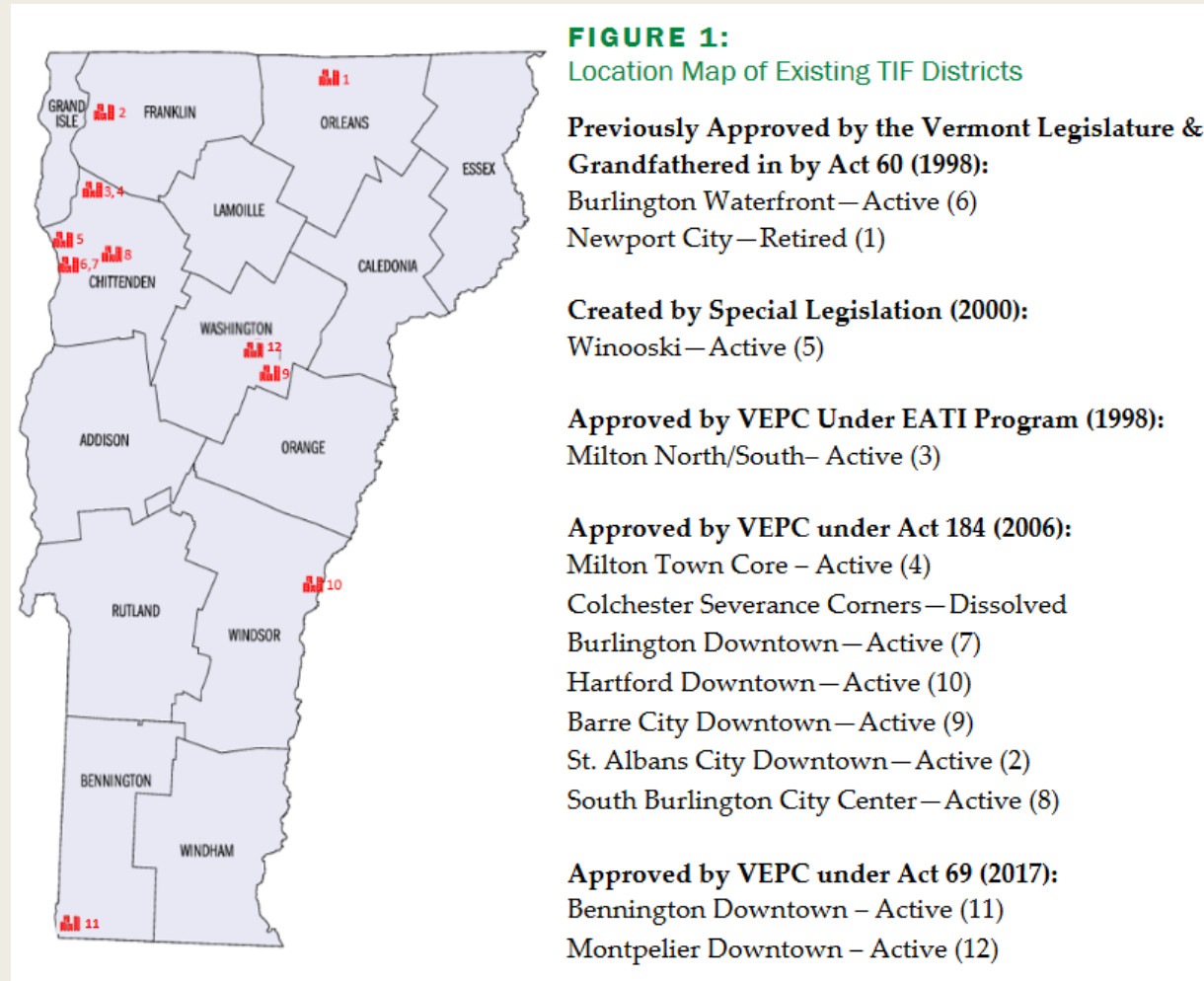
## ■ How can TIF money be used?

- *Largely infrastructure improvements. TIF money can not be used to subsidize private developer costs.*
- *Overall district improvements must include 3 of the following: development beyond municipal bonding or operating expenditures, new affordable housing, remediation of a brownfield, a new business or expansion of existing business, improvement of traffic or transportation.*

## ■ Where can TIF districts be established?

- *In 2 of the 3 criteria: high-density area, designated downtown, or an economically distressed area*
- *No new TIF districts can be established in a town that already has one.*

# Where are Vermont's TIF Districts?



Source: VEPC 2020 TIF Annual Report

# What does this cost the State?

- The but-for question: the development would not have occurred but-for the use of TIF
  - *If 100% true, then TIF does not cost anything.*
  - *If 0% true, then State and municipal dollars are being used needlessly.*
- According to the JFO 2017 report (does not include Montpelier):
  - *Cost to the Education Fund:*
    - \$3 to 6 million per year between 2017 and 2023, \$6 to 8 million per year between 2023 and 2028
  - *Cost to municipal general funds: \$2-5 million per year*
- January FY2020 Emergency Board Estimate (assumes 0% but-for assumption): \$6.39 million
  - *93% of this is from projects in the Burlington MSA*
- COVID has slowed the cost growth because construction has been delayed, but major projects are slated to be built (South Burlington, Winooski, Burlington CityPlace).

# Mini TIFs

- In general, there has been concern that smaller municipalities in Vermont have not benefitted from TIF districts.
- Mini TIF would be used to fund a single project, like a wastewater treatment plant, rather than a larger scale improvement of a downtown area.
- S.256 passed Senate Economic Development last year:
  - *Creates a 5 year pilot program with a maximum debt limit of \$1.5 million per project.*
  - *Restricts the size of the district to 10 parcels.*
  - *No more than 5 projects could be approved per year with a cap of 15 projects over the 5 year pilot period.*
  - *Same rules for district increment retention (70% of State education dollars, 20 year retention period).*
- **Note: Administration proposal has not been presented and could be different than discussed here.**

# Pros of Mini TIFs

- In general, the benefits to this program are not unlike those of the regular TIF program.
  - *Projects need to be located in village centers which encourages denser development and the associated positive economic and public health benefits.*
  - *Municipal “skin-in-the-game” theory*
    - Because TIF is complex and requires robust planning, it forces municipalities to be proactive and dedicated to certain economic development projects.
  - *Revenue certainty for municipalities*
    - TIF money is not subject to an annual appropriation. It is a guaranteed source of revenue for projects for up to 20 years.



# Cons to Mini TIFs

- Mini TIFs carry all the standard risks and issues that all TIF districts face:
  - *What if increment does not align with projections?*
  - *TIF is a complex tool and has been subject to frequent legislative action.*
  - *Long time horizons open the door for recessions and other events that can have a major impact on building, and therefore cash flow.*



# Cons to Mini TIFs

- In many areas, a mini TIF would exacerbate these risks:
- Smaller towns do not have the technical capacity of larger towns. Even the largest municipalities in Vermont have trouble implementing TIFs.
  - *State auditor audits have repeatedly found administration or statutory issues in existing TIF districts.*
  - *Existing TIF districts spend a significant amount of money preparing and administering their districts (\$50,000 or more)*
- Smaller towns do not have as large or as diversified a grand list as larger towns.
  - *Nor do they have the diversity of revenues to offset any potential shortfalls in tax increment (PILOTs, parking revenue, user fees).*
- Returns on investment (ie, growth in property value growth) are likely to be less in rural village centers but for many infrastructure investments, the cost to build them will be similar.

# Cons to Mini TIFs

- The restriction of the district to 10 parcels means the area available to generate increment is smaller and narrower than the existing TIF program.
  - *Note this is specific to S.256 and might be different in future proposals.*
- JFO is unaware of any other state that has a program similar to this.
  - *Other states use TIF for specific projects, but they are usually significant in size, and the district created around them hundreds of parcels.*
- Is TIF an appropriate tool for these types of projects?
  - *This program would really only be able to fund small projects or represent a small piece of financing in a larger capital stack.*
  - *Why is TIF the best tool for this purpose? Could a state revolving loan fund or grant achieve the same end?*