

## **H.129 Considerations for Legislators**

### **Background:**

H.129 creates a new program within the existing tax increment financing program (TIF) specifically for a single project. Details include:

- Program would allow municipalities to retain education and municipal property tax increments for up to 20 years.
- Money can be used for “improvements” which means infrastructure that will serve a public purpose.
- Maximum debt ceiling per project is \$1.5 million, including principal and interest costs.
- Three-year pilot program, with not more than 6 projects approved and not more than 1 per municipality.
- 70%/30% education tax increment split between TIF and Ed. Fund.
  - At least 85% of municipal increment must go to debt.

### **Considerations for Legislators:**

#### ***Pros:***

- Benefits of this program are not unlike that of the traditional TIF program
  - Projects need to be 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.
- Some municipalities may not be able to bear cost of improvements through user fees, particularly for town-run utilities.

#### ***Cons:***

- Program would carry all the risks associated with the traditional TIF program:
  - 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.
- Capacity issues in smaller towns are a concern. TIF is complex and requires a lot of staff capacity. Even larger municipalities have had issues.
  - Relatedly, administration costs, as a proportion of the infrastructure investment, are likely to be greater than regular TIF districts.

Prepared by the Joint Fiscal Office  
February 24, 2021

- Smaller towns do not have as large or as diversified a grand list, nor do they have as diversified of revenue streams, as larger towns.

**Additional Considerations:**

- In Sec.1, the bill puts the Bennington and Montpelier TIF districts in the existing TIF districts list but does not amend the 6 TIF limit that was passed a couple years ago.
  - In effect, this allows VEPC to approve two additional TIF districts beyond what was passed in Act 69 of 2017.
- Are there limits on the size of the district?
  - TIF rule requires that the project to have nexus with the properties counted as part of the original taxable value.
- Why is TIF the best tool for this issue?
  - The borrowing limit is very small.
    - \$1.5 million including debt service costs means about \$1.2 million in total capital available.
  - Why is traditional municipal borrowing not an option here?

**Municipal Borrowing Impact of \$1.5 million loan:**

<b>Grand List Assumption</b>	\$2.4 million
<b>Grand List Growth Assumption</b>	1.5%
<b>Borrowed Amount</b>	\$1.25 million
<b>Total Debt Service Over 20 Years</b>	\$1.545 million

	<b>Annual Debt Service</b>	<b>Grand List</b>	<b>Effect on Municipal Tax Rates</b>	<b>Tax Increase on a \$250,000 Home</b>
6/30/2022	\$26,919	\$2,440,000	\$0.011	\$27.58
6/30/2023	\$83,863	\$2,476,600	\$0.034	\$84.66
6/30/2024	\$83,600	\$2,513,749	\$0.033	\$83.14
6/30/2025	\$83,306	\$2,551,455	\$0.033	\$81.63
6/30/2026	\$82,969	\$2,589,727	\$0.032	\$80.09
6/30/2027	\$82,569	\$2,628,573	\$0.031	\$78.53
6/30/2028	\$82,094	\$2,668,002	\$0.031	\$76.92
6/30/2029	\$81,538	\$2,708,022	\$0.030	\$75.27
6/30/2030	\$80,779	\$2,748,642	\$0.029	\$73.47
6/30/2031	\$79,734	\$2,789,872	\$0.029	\$71.45
6/30/2032	\$78,462	\$2,831,720	\$0.028	\$69.27
6/30/2033	\$77,016	\$2,874,195	\$0.027	\$66.99
6/30/2034	\$75,428	\$2,917,308	\$0.026	\$64.64
6/30/2035	\$73,728	\$2,961,068	\$0.025	\$62.25
6/30/2036	\$72,102	\$3,005,484	\$0.024	\$59.98
6/30/2037	\$70,575	\$3,050,566	\$0.023	\$57.84
6/30/2038	\$69,002	\$3,096,325	\$0.022	\$55.71
6/30/2039	\$67,511	\$3,142,770	\$0.021	\$53.70
6/30/2040	\$66,116	\$3,189,911	\$0.021	\$51.82
6/30/2041	\$64,691	\$3,237,760	\$0.020	\$49.95
6/30/2042	\$63,234	\$3,286,326	\$0.019	\$48.10