Vermont Legislative Joint Fiscal Office
One Baldwin Street • Montpelier, VT 05633-5701 • (802) 828-2295 • Fax: (802) 828-2483

FISCAL NOTE

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Prepared by: Graham Campbell

S.33 An act relating to project-based tax increment financing districts – As Passed by the Senate and Amended by the House Committee on Commerce and Economic Development

Summary

This bill makes changes to the existing tax increment financing (TIF) program. These include:

- Allowing the creation of debt service reserves for districts for up to 5 years from the creation of the district.
- Clarifies that municipalities with tax stabilized properties in their TIF districts must calculate tax increment based upon the assessed value and not the stabilized value.
- Clarifies that if the value of properties in a TIF district decreases, the municipality is responsible for remitting the tax on the original taxable value, not the decreased value.
- Adds language to specify that the remediation of a brownfield includes any improvements to prepare the site for eventual development.
- Allows bond anticipation notes (BAN) to count as a district's first debt incurrence and allows them to be used to meet statutory requirements that a district make all borrowing within five or ten years of creation, so long as the full debt is incurred within a year of the BAN.

Fiscal Impact

This bill is expected to have a small impact on the Education of under $100,000 per year for the next several years. This is due to the sections related to debt service reserves.

Section 3 of the bill allows municipalities to use bond proceeds to fund debt service for a period of up to 5 years from when the debt is first incurred. Practically speaking, municipalities borrow beyond what is needed for infrastructure projects alone and put the extra bond proceeds into a debt service reserve fund. This fund is then used to pay debt service on that same debt in the early years of the district when tax increment as not yet materialized.

There is the potential for a negative impact on the Education Fund from this practice, largely stemming from the fact the municipality is borrowing more than it needs for infrastructure improvements. The additional cost of arises from the increased interest payments on this extra debt.

Based only upon the case of the St. Albans TIF district, JFO estimates that this practice will cost the Education Fund no less than $300,000 over the next twenty years. JFO is aware that other TIF districts have used this practice, but it is unclear how many, and the size of these debt service reserves. This cost is directly related to the increased interest costs accrued to fund debt services using bond proceeds.

Additionally, to the extent that borrowed funds are being used for debt service reserves as opposed to infrastructure development, and therefore, increased property values, the cost could be higher. This is because the municipality is foregoing future tax increment by not using the proceeds for public infrastructure.

However, if debt service reserves were not permitted, it is difficult to know with certainty whether a) the municipality would use these bond proceeds for investment, b) if they did use them for investment, how much in private development would they leverage and c) whether redirected municipal general fund dollars used to pay debt service would result in lower investments elsewhere in the town.