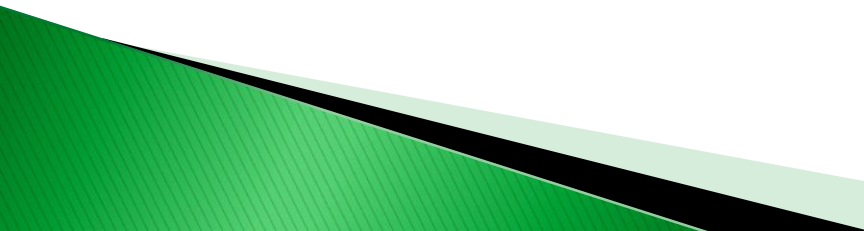


Full Review: Downtown and Village Center Tax Credit Program



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Overview of the Program

- ▶ Created in 1999, significantly changed in 2007
 - ▶ Provides three separate tax credits to assist individuals and developers rehabilitate and modernize older and historic buildings
 - Code Improvement Credit
 - Historic Rehabilitation Credit
 - Façade Improvement Credit
 - ▶ Designed for structures in downtown and village centers only.
 - ▶ Capped by statute per year at \$3 million
 - Some credits are carried forward or recaptured if the project isn't completed within 3 years of approval.
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Details of the Credits

▶ Code Improvement Tax Credit

- 50% credit for qualified code improvements with certain maximums depending on the type of code improvement
 - \$12,000 for the installation of a platform lift
 - \$60,000 for the installation of a limited use, limited application elevator
 - \$75,000 for the installation of an elevator
 - \$50,000 for the installation of a sprinkler system
 - \$50,000 for the combined cost of all other code improvements



Details of the Credit

▶ Historic Rehabilitation Tax Credit

- 10% credit for qualified rehabilitation expenses as defined by the Federal Historic Rehab Credit
- The building must either be listed or eligible for listing in the National Register of Historic Places to qualify.

▶ Façade Improvement Tax Credit

- 25% credit for qualified façade improvements- with a maximum credit equal to \$25,000.
- Defined as the rehabilitation of the façade of a qualified building that “contributes to the integrity of the designated downtown or designated village center.”

	Total Credits	Share
Code Improvement Credits	\$16.24	59%
of which: Sprinkler systems	\$4.70	17%
of which: Lifts	\$0.41	1%
of which: Elevators	\$2.95	11%
of which: Technology improvements	\$0.94	3%
of which: other Code improvements	\$7.22	26%
Façade Improvement Credits	\$6.79	25%
Historic Rehabilitation Credits	\$4.58	17%
Total	\$27.61	

Statutory History

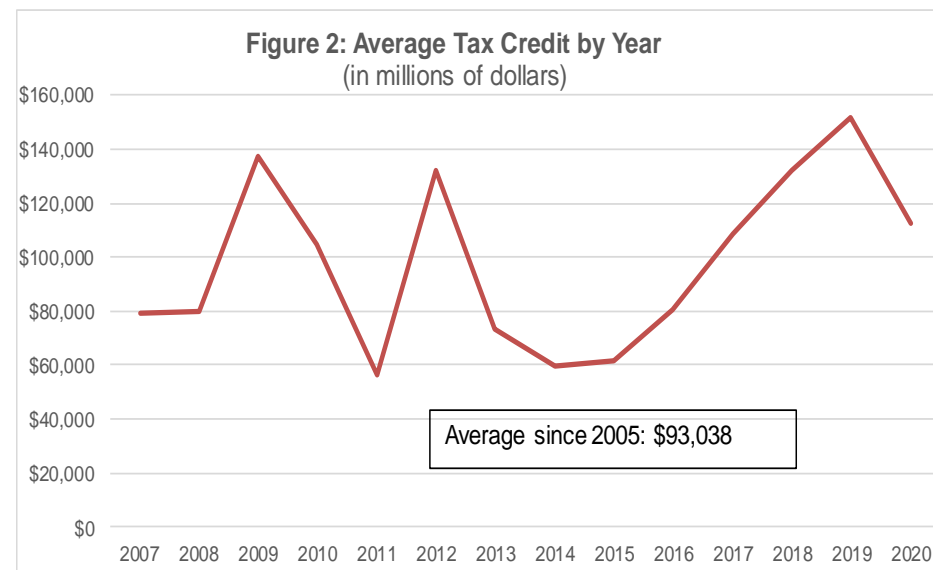
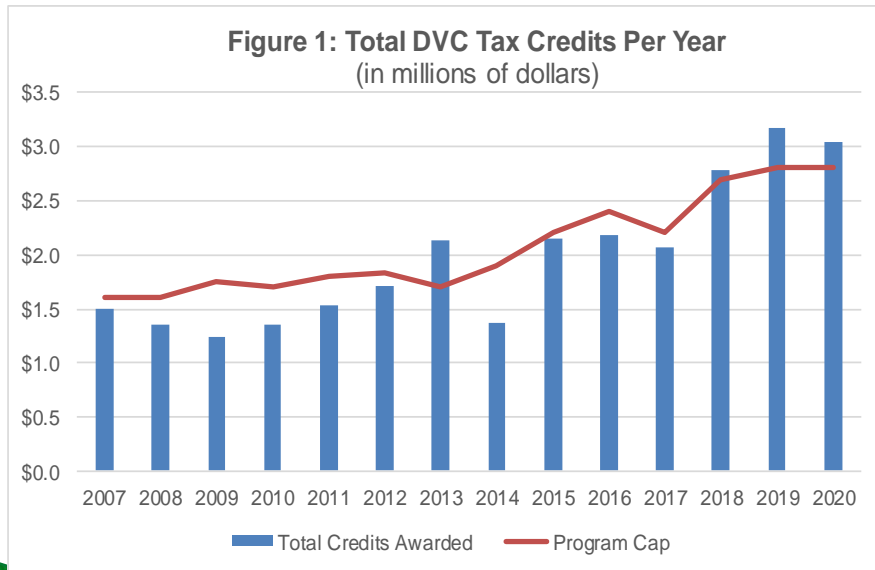
- ▶ Precursor program created in 1997 by Act 120.
 - Two tax credits for the rehabilitation of historic buildings are created.
- ▶ 2005, Act 183: First program is repealed and modern program is created with \$1.5 million cap
 - Downtown and village center designation created at same time
- ▶ 2007 through 2020: Many definitional and qualification changes.
- ▶ Cap has been increased almost every year since 2007

Statutory Purpose

- ▶ Statutory purpose for all three credit is the following:
 - “to provide incentives to improve and rehabilitate historic properties in designated downtowns and village centers”
- ▶ 24 V.S.A. § 2790 provides goals of the downtown and village center designation, including:
 - Supporting downtowns by providing funding, training and resources to increase economic growth and diversity.
 - Attracting new and existing residents to downtown by enhancing livability
 - Removing barriers for collaboration between local downtown organizations, developers, businesses, nonprofits, and municipal government.
 - Encouraging mixed use development in downtowns.
- ▶ This report evaluates the program against both statutory goals.

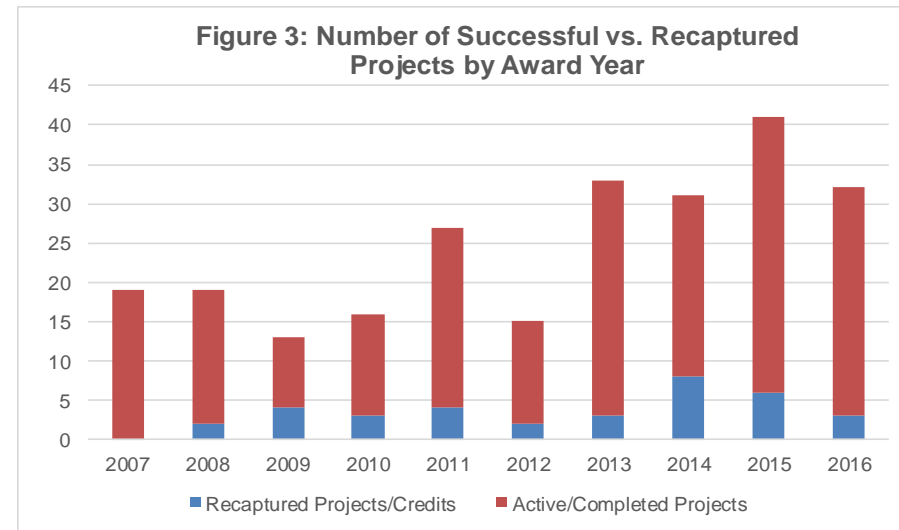
Main Findings: Operational

- ▶ **Downtown Tax 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.**



Main Findings: Operational

- ▶ **The tax credits have been successful at targeting shovel ready projects with a wider potential economic impact on their communities.**
 - 226 projects were awarded credits between 2007 and 2016, and only 35 have been subject to recapture.
- ▶ Projects have been chosen based upon wider economic benefits rather than mostly private benefits:



Major Findings: Operational

- ▶ **The tax credit program funds a diverse range of projects that all meet the statute's purpose.**
 - Program acts as almost two separate programs:
 - Small projects: Out of the 335 projects approved since 2007, 99 had total project costs less than \$200,000.
 - Significant, community changing projects: Fifty of the 335 projects had total project costs of greater than \$2 million.
- ▶ Larger projects claim more credits.

Table 3: Credits Received by Project Size, 2007-2020

Total Project Cost	Number of Projects	Total Credits Awarded
Less than \$200,000	93	\$2,407,695
\$200,000-\$500,000	67	\$3,889,923
\$500,000-\$1 million	52	\$4,962,782
\$1 million-\$3 million	48	\$5,691,507
\$3+ million	37	\$10,268,712
Total	297	\$27,220,619

Note: Includes only active and completed projects

- ▶ Almost all credits are used to promote economic activity and quality of life in downtowns
 - Since 2007, 66% of total awarded projects have some sort of retail or commercial purpose. 44% of the projects have stated an intention to either add or improve housing.

Major Findings: Operational

- ▶ **The tax credit program mostly provides funding to projects in areas of the State with slower economic growth.**
 - 65% of total credits awarded have been to projects in municipalities located in counties with below-average GDP growth
 - Compared with TIF: 8% of total dollars went to municipalities with slower than average growth
- ▶ Credits do not appear to only benefit high-income taxpayers
- ▶ Simplicity of the program allows for a wide range of taxpayers to use them:
 - Credits can be sold to banks for upfront financing
 - Credits can be carried forward for up to 9 tax years.
- ▶ This simplicity has led to the program being oversubscribed every year since at least 2007.

Table 2: Credits Awarded by Municipality, 2007 to 2020

	Total Credits	Total Projects	County Real GDP Growth, 2001-2018
Brattleboro	\$2,190,400	18	10%
St. Johnsbury	\$1,986,392	20	15%
Bennington	\$1,966,313	10	3%
Springfield	\$1,689,258	11	15%
Winooski	\$1,689,055	9	40%
Burlington	\$1,517,025	10	40%
St. Albans	\$1,491,894	14	33%
Montpelier	\$1,300,686	14	22%
Barre	\$1,178,835	19	22%
Bellows Falls	\$684,173	11	10%
Vergennes	\$676,544	10	37%
Middlebury	\$668,330	6	37%
Wilmington	\$636,287	15	10%
Hardwick	\$624,319	7	15%
Newport	\$601,914	8	41%
Morrisville	\$583,794	14	40%
White River Junction	\$557,393	6	15%
Windsor	\$463,575	7	15%
Others	\$7,489,777	127	
Total Vermont	\$27,995,964	336	25%

Major Findings: Economic Impacts

- ▶ **Likely positive in aggregate, but vary significantly based upon the circumstances of each project and could be offset by credit costs.**
- ▶ **Three approaches to analyze this question:**
 - Review of literature on other historic tax credits
 - An analysis of whether these projects would have occurred if not for the use of credits
 - A discussion of the scope of economic impacts by project.



Major Findings: Economic Impacts

- ▶ **In general, historic tax credits have been found to provide wider economic impacts.**
- ▶ **Caveats:**
 - Many of these studies take the credits as an input and then calculate economic benefits from it without regard to whether the projects would have occurred without the credit.
 - Economic benefits in most studies are projections based upon spending multipliers for industries rather than based upon actual data.
- ▶ Iowa Department of Revenue found that economic benefits varied significantly depending upon where the projects were located, indicating unrelated economic conditions likely determine the extent of benefits.

State	Summary of Results
Minnesota (2018)	Historic rehabilitation credits have generated over \$3 billion in economic impact since 2011.
Federal HTC (2017)	\$131.8 billion in Federal Historic Tax Credit (HTC) expense has created over 2.4 million new jobs and \$291 billion in economic output. However, only \$41.7 billion in tax revenues were generated.
Georgia (2017)	State historic tax credits were effective in generating economic growth and a state return on investment.
West Virginia (2015)	\$192 million in economic impact and 1,400 jobs were created or supported the state's historic tax credits
Indiana (2015)	Historic tax credits' effectiveness was limited by their cap, historic backlog, and inability to carryforward credits.
Maryland (2004)	Historic tax credits are self-financing and often generate positive fiscal impacts for the state.
Missouri (2010)	State historic tax credits were responsible for supporting over 43,000 jobs.
South Carolina (2000)	Home value appreciation is greater in areas designated in historic districts.

Note: References and links to articles can be found in the appendix.

Major Findings: Economic Impacts

- ▶ **JFO found that based upon grand list values, many of the projects appeared to continue with an improvement despite not receiving tax credits**
- ▶ Analysis from FY2016 and FY2017 applicants who were both funded and unfunded
 - Of 37 unfunded applications, 20 saw their grand lists grow from 2015 through 2019, indicating either an improvement went forward or there was a reappraisal during that time period.
 - 10 of the 37 properties saw their property values increase by 25% or more
 - Of these 10, the tax credit would have been 15% or less of the cost of the project in six of them, suggesting that the smaller the tax credit as a share of the project, the weaker the but-for argument.
- ▶ Project reliance on credits varies significantly so determinations of but-for likely vary significantly by project.

Table 5: Completed Projects by Share of Project Cost Paid by Tax Credits, 2007-2020

Share of Project Cost	Number of Projects	Share of Total Projects	Average Project Cost	Median Project Cost
Greater than 40%	29	10%	\$83,514	\$72,368
25% and 40%	45	15%	\$147,850	\$129,375
15% and 25%	74	25%	\$472,952	\$410,000
10% and 15%	48	16%	\$581,519	\$435,513
5% and 10%	52	17%	\$1,850,671	\$1,203,647
Less than 5%	50	17%	\$11,581,798	\$3,705,288

Major Findings: Economic Impacts

- ▶ **JFO found that based upon grand list values, many of the projects appeared to continue with an improvement despite not receiving tax credits**
- ▶ The applicants themselves do not often list the tax credits as an integral part of their funding stack.

	Own Funding/Private	Grant	Commercial Loan	Private Debt/Equity	VT Tax Credits	Federal Tax Credit	Total
Total Funding	\$6,621,128	\$3,034,732	\$8,453,383	\$18,002,780	\$1,450,431	\$4,142,446	\$41,704,900
Share of Total	16%	7%	20%	43%	3%	10%	100%

- ▶ Note: this analysis does not attempt to evaluate the Board's efficacy in rejecting applications that do not require the tax credits
 - A but-for requirement is not listed as an evaluation criteria for these tax credits, as it is for VEGI or TIF, but conversations with DHCD indicated that some qualitative review is made to determine whether the tax credit is integral to the project.

Major Findings: Economic Impacts

- ▶ **Notwithstanding whether these projects would have occurred without the tax credit, the economic benefits likely vary significantly from one project to the next.**
- ▶ Nearly one-third of all projects rewarded credits have a total project size of less than \$200,000 and are mostly code improvements
 - An improvement to a building's electrical or sprinkler system unquestionably makes a building more desirable for development and brings additional safety benefits.
 - However, the direct economic impacts of these smaller projects are likely limited.
 - Limited economic spillovers are possible with such small projects.
- ▶ **26% of total awardees went to projects greater than \$1 million in size.**
 - Major revitalizations carry greater direct economic impacts, but also greater spillover effects.
 - However, they usually have a weaker but-for argument.
- ▶ Larger projects are more likely to be funded by the Board indicating a desire for wider economic benefits.

	Funded	Unfunded	Total
All Projects	39	37	76
Less than \$500,000 in project costs	21	31	52
Greater than \$1 million in project costs	11	2	13

Major Findings: Economic Impacts

- ▶ **The Downtown and Village Center tax credit program likely creates economic benefits by driving development to denser, downtown areas.**
- ▶ **Smart growth benefits:**
 - Increased housing options for residents: in sprawling communities, zoning restrictions may be putting restrictions on the types of multi-family housing.
 - Transportation benefits: reduced transportation costs for residents, improved fitness, and reduced traffic incidents.
 - More efficient provision of public services: utilities, roads, and emergency services cheaper to provide in denser communities.
 - Environmental benefits: less need for cars results in fewer vehicles emitting pollution and fewer impervious surfaces.



Major Findings: Fiscal Impacts

- ▶ **Based upon an analysis of property value growth, the Downtown Tax 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.**
- ▶ Note: A fiscal return on investment is not a goal listed in statute but is typically analyzed when JFO reviews tax expenditures.
 - Also, some economic development programs are promoted as self-financing
- ▶ JFO analyzed grand list growth for projects in two ways:
 - 1) Evaluated the grand list growth for all approved projects from FY 2014 through FY2017
 - 2) Evaluated the grand list growth for funded versus unfunded projects from the FY2016 and FY2017 award years

Major Findings: Fiscal Impacts

- ▶ 107 projects were analyzed from awardees from FY2014 through FY2017.
- ▶ \$8.9 million in credits were awarded during this time period.
- ▶ Overall, from 2012 through 2019, a total of \$24.7 million in grand list growth was generated, which translates to roughly \$500,000 in annual property tax revenue
- ▶ 26 of the 107 projects did not experience any growth and 26 experienced decreases in value.

Table 8: Change in Grand List Growth FY2012 through FY2017 Tax Credit Awardees			
Tax Credit Award Year	Total Grand List Change	For Only Projects with Less than 10% Cost Share	For Only Projects with Greater Than 35% Cost Share
2014	\$7,996,375	\$1,016,900	\$877,090
2015	\$6,788,910	\$6,243,640	\$271,300
2016	\$5,517,200	\$3,016,830	\$23,120
2017	\$4,437,100	\$1,902,500	\$0
Total	\$24,739,585	\$12,179,870	\$1,171,510

Note: Analysis of Grand List Growth covered the years FY2012 through FY2019

Major Findings: Fiscal Impacts

- ▶ **Comparing the FY2016 and FY2017 funded versus unfunded projects, the funded projects generated only modestly more grand list growth over their unfunded peers.**
- ▶ The annual property tax benefit resulting from the \$4.6 million spent in tax credits is approximately \$100,149 per year
 - Put another way, for the average project, the State's \$117,948 average credit is generating approximately \$2,045 in new education property tax per year relative to the projects that did not receive any credit.

Table 9: Grand List Growth for 2016 and 2017 Funded vs Unfunded Applications				
	Funded Projects		Unfunded Projects	
Tax Credit Award Year	Grand List Growth	Tax Revenue Growth	Grand List Growth	Tax Revenue Growth
2016	\$5,753,030	\$112,331	\$2,475,590	\$74,023
2017	\$4,197,600	\$93,219	\$4,136,740	\$97,600
Total	\$9,950,630	\$205,550	\$6,612,330	\$105,401
Average Per Project	\$236,920	\$4,894	\$178,712	\$2,849

Major Findings: Fiscal Impacts

▶ Outstanding concerns and caveats:

- For many of these projects, post-credit improvements are not captured on the grand list because they are not reappraised.
- The time period analyzed could be too short to show the grand list benefit of the property improvements.
- These analyses do not account for other revenue streams (sales, meals and rooms, income taxes), although it seems implausible that they would be significant enough to make up the short-term difference in fiscal cost.



Considerations for Legislators

- ▶ **1) Clarify the program's statutory purpose**
 - **Current purpose is vague and without measurable goals**
 - Questions for the legislature to consider in better defining the statutory purpose:
 - Should the credits mostly focus on improving historic buildings in areas of the State with slower economic growth?
 - Should the Board only award tax credits that will maximize potential economic benefits?
 - Is it a purpose of the tax credits to generate a positive fiscal return on investment for the State?
 - Are there more efficient ways of achieving the goals laid out in 24 V.S.A. § 2790?

Considerations for Legislators

- ▶ **2) Consider ways to improve the State fiscal return in the near term**
 - Since many projects do not require reappraisal, the Legislature might consider doing so, so the benefit of the improvement shows up on the grand list sooner.
 - If a greater fiscal return on investment is a goal of these credits, the legislature might also want to consider whether nonprofit entities should remain eligible for the credits.
 - Many of these entities do not pay property or income taxes.
 - Some states (Mississippi, Rhode Island) have excluded nonprofits from their historic tax credits

Considerations for Legislators

- ▶ **3) Clarify the definitions of the type of building the program is intended to serve**
 - ▶ Current statute states that a building must be at least 30 years old at the time of application to be eligible for tax credits
 - ▶ Currently most of the credits go to buildings built before 1930, but more modern buildings are eligible.
 - ▶ One issue with the current statute is that it does not account for the pace of change in code regulations and the costs necessary to make code improvements.
 - ▶ An increasing number of modern buildings in downtowns will become eligible for these credits over time.
- 