TAX INCREMENT FINANCING

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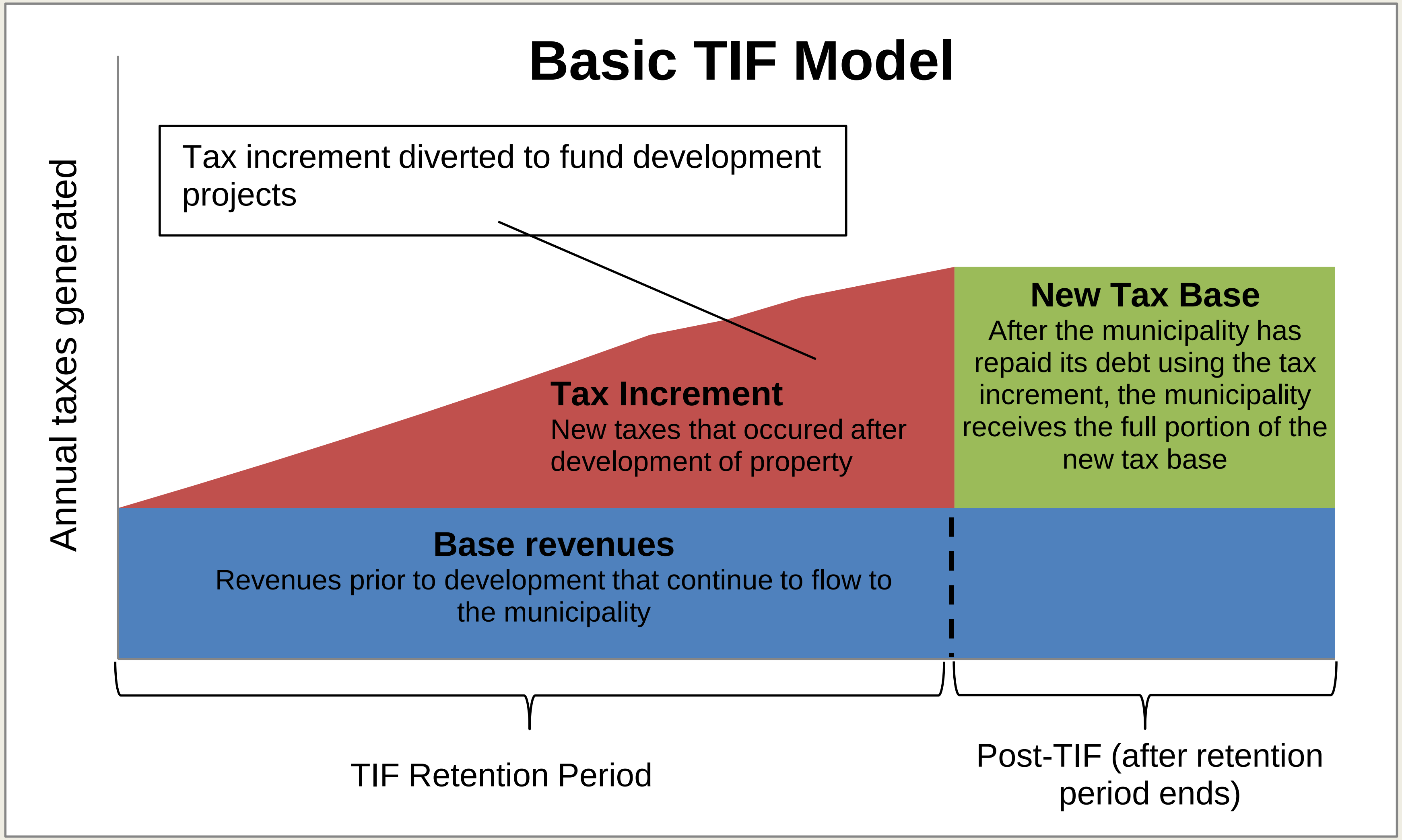
What is TIF?

- 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?


Basic TIF Model
Tax increment diverted to fund development projects
Annual taxes generated
New Tax Base
After the municipality has repaid its debt using the tax increment, the municipality receives the full portion of the new tax base
Tax Increment
New taxes that occured after development of property
Base revenues
Revenues prior to development that continue to flow to the municipality
TIF Retention Period
Post-TIF (after retention period ends)

Key TIF Terms

- **Taxable Value:** The assessed value of property that is subject to state, municipal, or other taxes.
- **Original Taxable Value:** The base taxable value of the property before the establishment of a TIF district.
- **Increment:** The difference between a property’s current value and original taxable value.
- **Tax increment (incremental revenue):** The difference between the property taxes due on the current taxable value and the property taxes due on the original taxable value.
- **Improvements:** Installation, construction, or reconstruction of infrastructure used for a public purpose. Includes utility improvements, transportation, land and property acquisition, and site preparation.
- **Related costs:** Expenses incurred and paid by the municipality to finance and construct new infrastructure. Exclusive of actual cost of construction of infrastructure.
- **Retention period:** The period of time a municipality is entitled to capture a portion of the total tax increment to finance infrastructure improvements.

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?

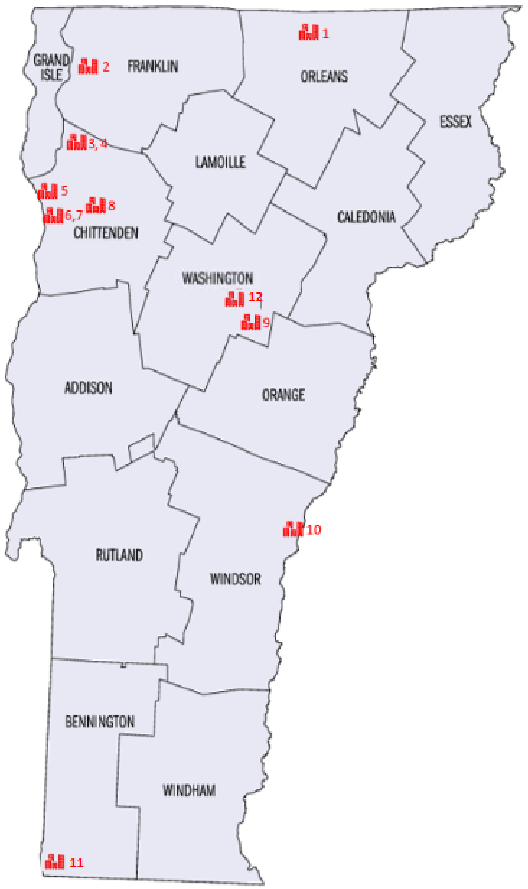


FIGURE 1:
Location Map of TIF Districts

Previously Approved by the Vermont Legislature & Grandfathered in by Act 60 (1998):
Burlington Waterfront—Active (6)
Newport City—Retired (1)

Created by Special Legislation (2000):
Winooski—Active (5)

Approved by VEPC Under EATI Program (1998):
Milton North/South—Retired (3)

Approved by VEPC under Act 184 (2006):
Milton Town Core—Active (4)
Colchester Severance Corners—Dissolved
Burlington Downtown—Active (7)
Hartford Downtown—Active (10)
Barre City Downtown—Active (9)
St. Albans City Downtown—Active (2)
South Burlington City Center—Active (8)

Approved by VEPC under Act 69 (2017):
Bennington Downtown—Active (11)
Montpelier Downtown—Active (12)

Source: VEPC 2021 TIF Annual Report

Fiscal Impacts on the State

- <u>The but-for question</u>: 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.*
  - *Key point: not just a question of but-for, but because of the Ed Fund, but a question of whether it would have occurred elsewhere in the state.*
- According to 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*
  - *These will be updated for 2022 Report*
- FY2022 maximum impact on the Education Fund: $6.3 million (Official Consensus estimate)
- If none of this would have occurred but for TIF, an estimated $840,000 in new Education Fund revenues were generated in 2020, growing to $2 million in 2021.
- COVID has slowed the cost growth
  - *Construction delays, cost increases mean municipalities do less with same amount of debt*
- Significant construction set to occur: Winooski, South Burlington, Burlington Town Center

Recent TIF Legislation

- Extensions of debt periods
  - *Act 111 of 2020 extended Hartford's debt incursion period three years (2011-2024)*
  - *Act 175 of 2020 extended all districts still in their debt periods by one year.*
  - *Act 73 of 2021 extended the debt period for those districts another year.*
- S.33: Passed the Senate, on the wall in W&M
  - *Allows for creation of debt service reserve funds*
  - *Requires tax stabilized parcels to remit on the assessed values, not stabilized.*
  - *Requires town to remit tax on the original taxable value if there is a drop in the parcel value, rather than on the less valuable parcel.*
  - *Clarifies the definition of brownfields improvements.*
  - *Allows bond anticipation notes (BAN) to count as a district's first incurrence of debt.*
- Note: S.33 as it left the Senate included Project TIFs (mini TIFs)