

TIF Technical Changes: Considerations

Ways and Means Committee

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In brief...

- *Most* of the changes being considered here are technical and will not have significant impact on the Education Fund, or the program overall
- In TIF, clarity is king
 - Lack of clarity on these issues could result in difficult audits
 - TIF Rule hasn't been amended since 2015 and these issues would presumably be solved and included with Legislative clarification.
- There are consequences to not providing clarity.
 - Debt reserves issue
 - The boundary issue



Debt Service Reserves

- The cash-flow issue with TIF
 - 1) Municipality takes out bonds to construct new infrastructure
 - 2) Infrastructure takes years to build and private development comes after the infrastructure is built.
 - 3) No increment (sometimes negative increment) is generated during these years
- The problem: how does a district pay principal and interest on the outstanding debt and related costs when no increment exists/is not sufficient?
 - This issue exists with every TIF district in the country
- Right now, the municipality has two options:
 - Pay it out of existing resources
 - Interfund loans, existing reserves...
 - Raise property taxes to make the payments



Debt Service Reserves

- Potential Education Fund impact largely stemming from municipalities borrowing more than they need for infrastructure projects
 - This leads to additional financing costs.
 - Example: If a municipality has \$10 million worth of infrastructure projects, but borrows \$12 million instead of just \$10 million, the extra \$2 million leads to higher financing costs.
- Based upon St. Albans, this additional financing cost will impact the Education Fund by at least \$300,000 over its retention period.



Debt Service Reserves

- Other theoretical considerations:
 - TIF district plans were approved by VEPC and voters based on a certain promised amount of investment using debt.
 - Could take pressure off towns to start building as soon as possible.
 - Could make it easier for towns that are less stable financially to use TIF.
 - Reduces the early TIF risk for municipalities
 - Creates flexibility for towns to make the financial math work
 - Other state TIF districts use this method of solving the cash flow issues.



Bond Anticipation Notes

- What is a BAN?
 - Typically, it is a short-term debt instrument is less than a year in maturity.
 - A municipality will use BAN when they want to finance a long-term project using a longer term bond but there is a delay in getting the money.
 - The issuance of the long-term bonds may not be possible before the launch of the project because of legal, regulatory or compliance issues, so they use BAN to get the projected started.
 - Once the municipality receives the proceeds for the longer-term bond, they retire the BAN.
 - Often used as a means of kick-starting funding efforts for new projects.
- Considerations:
 - Gives towns flexibility to meet the debt incurrence deadline
 - Funding stacks for these infrastructure improvements are complex
 - Getting funding assurance in the form of a BAN could reduce project delays



Calculating Tax Increment

- Two potential issues that arise for municipalities when calculating the total tax increment:
 - 1) What happens if a parcel(s) in a district is also subject to a tax stabilization agreement?
 - 2) What happens if the value of a parcel(s) decreases instead of increases?
- Fundamental question: should towns always be responsible for remitting OTV taxes on parcels?
 - In other words, is the value of the parcel truly “frozen” for the purposes of calculating increment?
- 2) above is probably the bigger/more common issue
 - In the process of making improvements, developments will often tear down old property, creating decreases in property values.



Boundary Adjustments

- Should boundaries of TIF district allowed to be adjusted after the TIF plan is approved by VEPC?
 - Proposed legislation around this issue has generally not permitted this practice
- Allowing districts to expand could have significant Education Fund impacts.
 - Example: a district that expands its boundary to include a major development and its associated infrastructure improvements.
- Other considerations:
 - Complexity in understanding districts (Burlington Waterfront)
 - In theory, VEPC approves a TIF district based upon a plan presented at application.
 - VEPC considers impacts on Education Fund, need, and feasibility of the district based upon the district as it was designed at application. Expanding boundaries is major change to that calculus.
 - Changing the boundaries of a district is a significant change to the make up of a district and its development plans that is arguably beyond the normal Substantial Change process.

