H.159: TIF Considerations

Senate Finance Committee
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Section 8: Project Based TIF Districts

- Hypothetical fiscal impact based upon regular TIF program: up to $880,000 per year sometime in the next 10 years
  - TIF districts take time to take on debt, build projects, and receive increment
    - Only once the district has increment is there an impact on the Education Fund.
- Projects are limited to $5 million in total financing costs
  - In the regular TIF program, financing costs account for anywhere between 25% and 50% of total debt costs.
  - $5 million in total financing costs means an actual principal debt of around $2-4 million in practice.
- Will this pilot project be a part of the JFO TIF report every four years?

Section 9: 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.
- Other considerations:
  - A municipality is in theory limiting the amount it is spending on actual infrastructure improvements in order to finance a debt reserve fund.

Section 11: Location Criteria

- Section affects current TIF statute by changing the location criteria.
- Current law: a TIF district must meet 2 of the 3 following:
  - The development is compact, high density, or located in an industrial area
  - Within a designated downtown, village center, or NDA
  - In an area that is economically distressed.
- This was passed into law 5 years ago. It used to be just 1
- Loosening the criteria will in theory make it easier for towns to create TIF districts, therefore affecting the Education Fund
- Note that number of districts is capped at 4 additional districts

Montpelier OTV Reset

- Overall, an OTV reset's impact on the Education Fund limited over the long term.
- Considerations for Legislators:
  - Reappraisals are not unusual in TIF districts.
  - In theory, tax rates come down so the overall taxes collected in the district should not vary significantly.
  - Districts cannot retain any increment until they incur debt.
  - Resetting OTV helps Education Fund and Municipal General Fund in short term but might be disadvantageous for the TIF district down the road:
    - Setting a "low" OTV plus a reappraisal generates "free" increment that can be used to make debt service payments in the future.
  - Resetting OTV runs counter to the theory that the value of properties in the TIF district would not grow over 20 years.

Montpelier OTV Reset: Hypothetical Example

OTV Year: 2020	2020	2021
Assessed Value of District	$50,000,000	$62,500,000
Original Taxable Value (OTV)	$50,000,000	$50,000,000
Property Value Increment	$0	$12,500,000
Municipal Tax Rate	$0.85	$0.68
Total Municipal Grand List	*$500,000,000*	*$625,000,000*
Total Municipal Budget	*$425,000,000*	*$425,000,000*
Education Tax Rate	$1.50	$1.50
CLA	0.8	1
Total Taxes Collected (Municipal and Education)	***$1,362,500***	***$1,362,500***

	2020	2021
Total Education Taxes Collected	**$937,500**	**$937,500**
Ed Tax Increment to Ed Fund *(30%)*	$0	$56,250
Ed Tax Increment to TIF Fund *(70%)*	$0	$131,250
Ed Tax on the OTV	$937,500	$750,000

	2020	2021
Total Municipal Taxes Collected	**$425,000**	**$425,000**
Municipal Tax Increment to GF	$0	$12,750
Municipal Tax Increment to TIF Fund	$0	$72,250
Muni Tax on the OTV	$425,000	$340,000

	2020	2021
Total Taxes to Ed Fund (Taxes on OTV plus Ed Fund Share)	$937,500	$806,250
Total Taxes to Muni Fund (Taxes on OTV plus Muni Fund Share)	$425,000	$352,750