TIF Update

House Ways and Means Committee

Emily Byrne

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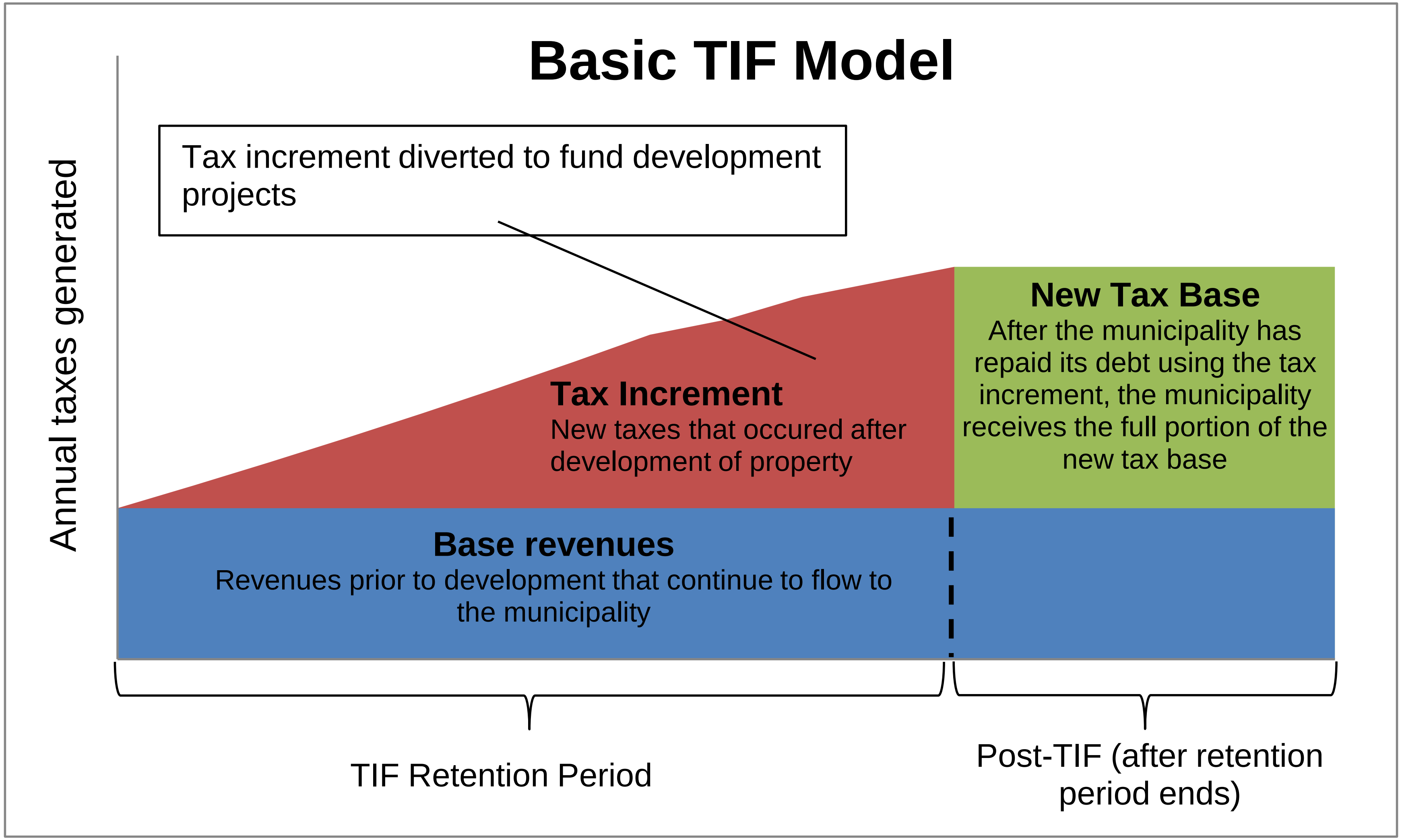
JFO TIF Report

- Per 24 V.S.A. § 1892 JFO is required to provide a report to the Legislature every 4 years.
- JFO Published the most recent TIF study on January 17, 2022
  - Report can be found on the JFO website:
    - https://ljfo.vermont.gov/assets/Subjects/Reviews-and-Reports/e8869e3072/GENERAL-358816-v8-2022_TIF_Report.pdf

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
Tax Increment
New taxes that occured after development of property
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
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

- **<u>Taxable Value</u>**: The assessed value of property that is subject to state, municipal, or other taxes.
- **<u>Original Taxable Value</u>**: The base taxable value of the property before the establishment of a TIF district.
- **<u>Increment</u>**: The difference between a property's current value and original taxable value.
- **<u>Tax increment (incremental revenue)</u>**: The difference between the property taxes due on the current taxable value and the property taxes due on the original taxable value.
- **<u>Improvements</u>**: Installation, construction, or reconstruction of infrastructure used for a public purpose. Includes utility improvements, transportation, land and property acquisition, and site preparation.
- **<u>Related costs</u>**: Expenses incurred and paid by the municipality to finance and construct new infrastructure. Exclusive of the actual cost of construction of infrastructure.
- **<u>Retention period</u>**: 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 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:
    1. development beyond municipal bonding or operating expenditures,
    2. new affordable housing,
    3. remediation of a brownfield,
    4. a new business or expansion of an existing business,
    5. improvement of traffic or transportation.

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 (3 parcels), until 2035

FIGURE 2: TIF DISTRICT SUMMARY INFORMATION (Through June 30, 2021)

DISTRICT	YEAR CREATED	TYPE	STATUS	DT, GC, OR NTC*	DEBT PERIOD [1]	RETENTION PERIOD	ACRES	PARCELS	ORIGINAL TAXABLE VALUE (OTV)
Burlington Waterfront [2]	1996	1	1	N/A	1999-2020	1996-2025	104.91	116	$42,412,900
Newport City	1998	1	3	N/A	1997-2007	1997-2015	47	19	$48,500
Milton North/South	1998	2	3	N/A	1998-2008	1998-2018	1044.7	67	$26,911,147
Winooski Downtown	2000	3	1	DT	2000-2005	2004-2024	138.92	163	$25,065,900
Milton Town Core	2008	4	1	N/A	2008-2018	2011-2031	845.84	745	$124,186,560
Burlington Downtown	2011	4	1	DT	2011-2023	2016-2036	61.27	287	$170,006,600
Hartford Downtown	2011	4	1	DT/GC	2011-2024	2014-2034	129.11	135	$33,514,500
St. Albans Downtown	2012	4	1	DT/GC	2012-2024	2013-2033	304.45	469	$123,049,450
Barre City Downtown	2012	4	1	DT	2012-2024	2015-2035	90.57	221	$51,046,870
So. Burlington Town Center	2012	4	1	NTC	2012-2024	2017-2037	103.37	59	$35,387,700
Bennington Downtown	2017	5	2	DT/GC	2017-2029	N/A[3]	70.49	156	$41,883,500
Montpelier Downtown	2018	5	2	DT/GC	2018-2030	N/A[3]	176.6	162	$59,354,009
						TOTALS	**3117.23**	**2599**	**$732,867,636**

* DT = Designated Downtown; GC = Growth Center; and NTC = New Town Center

TYPE
1. Pre-Act 60; Use of Educ Property Tax grandfathered; No State approval
2. Approval by VEPC as part of Economic Advancement Tax Incentive Program
3. Approved by General Assembly
4. Approval by application to VEPC post Act 184 (2006)
5. Approval by application to VEPC post Act 69 (2017)

STATUS
1. Active; debt incurred; improvements made/being made
2. TIF Plan and Finance Plan approved by VEPC; no debt incurred yet
3. Life of TIF ended

Where are Vermont's TIF Districts?

- Where can TIF districts be established?
  - Area must meet 2 of the 3 criteria:
    1. high-density area,
    2. designated downtown, or
    3. an economically distressed area
       - Economically distressed defined as one of the following: 80% or less of state median income, average annual unemployment 1% higher than state, median home sales price 80% less than state average

- No new TIF districts can be established in a town that already has one.

Where are Vermont’s TIF Districts?

Burlington has two TIFs (Waterfront and Downtown)

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 2022 TIF Annual Report, 2022 Report prepared for VLCT
(since the report was published the Montpelier TIF was retired)

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.
- Updated TIF Rule forthcoming

Fiscal Impacts on the State

- The but-for question: 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 don't need to be diverted
- Three perspectives, three results:
  1. VEPC Annual Report: If none of this would have occurred but for TIF, an estimated $944,000 in new Education Fund revenues were generated in 2021, growing to $1.7 million in 2023.
  2. JFO model: attempts to answer question: "if the parcels in the TIF districts continued to grow as they did pre-TIF, how much would have been generated?" versus what is being generated with TIF:
     - Cost to the Education Fund:
       - $5.5 to 7.5 million per year between 2023 and 2028, $4.0 to 7.2 million per year between 2029 and 2034
     - Cost to municipal general funds: $3-5 million per year
  3. FY2024 maximum impact on the Education Fund: $7.84 million (Official Consensus estimate)
     - Assumes all grand list growth would have occurred somewhere in the state without the use of TIF

Fiscal Impacts to Municipalities

- The Ed Fund increment retained is only a portion of the funding used to pay the debt service incurred to improve the district.
- Although Act 69 of 2017 required municipalities to contribute at least 85% of total tax increment, some districts contribute 100%
- In some TIF district financing plans, contributions will go beyond the required 20-year retention period

Table 7: JFO Model of Impacts on Muncipalities (in millions of dollars)

	Fiscal Impact
2021	-$3.12
2022	-$3.43
2023	-$3.58
2024	-$3.89
2025	-$3.90
2026	-$4.06
2027	-$4.17
2028	-$4.46
2029	-$4.73
2030	-$5.02
2031	-$5.31
2032	-$4.55
2033	-$4.76
2034	-$4.99
2035	-$4.16

Considerations from JFO's TIF Report

- Vermont's TIF statute continues to limit the downsides and excesses of TIF, but administratively, challenges remain in dealing with the unpredictability of TIF.
  - Compares favorably to other states and is largely appropriate to the job
  - Independent audits by State Auditor are a strength
- In the report, JFO estimates TIF will cost the Education Fund between $5.5 and $7.5 million plus $3 to 5 million to municipalities annually relative to a counterfactual where TIF districts grow at their historical average.
- The overall economic impacts of TIF on the state are mixed.
  - Drives development to downtowns
  - Cannot necessarily attribute all growth to the existence of the TIF district
- The characteristics of TIF will likely prevent the existing TIF program from being widely used in economically distressed or rural parts of the state.
  - Half the TIFs are in Chittenden County
  - Scale of improvements and administrative capacity may not exist in small towns
- The current amount and approach to debt in TIF districts is conservative, but some districts are in riskier positions than others.
  - TIF districts construction assumptions were all pre-covid

VEPC’s Role as an Approval, Monitoring and Regulator Agency

- Statutory/Rule Improvements:
  - More formal analysis of statewide economic and fiscal impacts.
  - Require feasibility studies.
  - Require a more rigorous evaluation of whether municipalities need to use TIF for infrastructure improvements.
- The Legislature may want to consider requiring more detailed updates on district developments.
- The Legislature or VEPC could consider requiring more frequent reporting from districts if town tax increments do not materialize as planned.

Administrative Process for Handling Issues Within the TIF Program

- The unpredictability and complexity of TIF makes administering the program challenging since statute cannot address all ambiguous issues.

Opportunities for Providing Direct Financial Resources for Municipal Infrastructure Construction

- Are the complexities and administrative burden of TIF to the State and towns more beneficial than some other means of providing the same level of funding for downtowns?
- Given State surpluses in revenue and Federal largesse, should consideration be given to other economic development tools that could finance infrastructure improvements in towns?
    - Is TIF the best way to get money to towns for infrastructure?