

To: Members, House Ways and Means Committee

From: Karen Horn, Director Public Policy & Advocacy

Re: Tax Increment Financing

Date: March 29, 2023

Thank you for the opportunity to testify in support of giving towns a tool to help local officials to reinvest in their communities, keeping them viable and vibrant.

The Vermont League of Cities and Towns represents all 247 cities and towns in Vermont. We exist to serve and strengthen local government. Increasingly, this means focusing beyond helping local officials govern. We need to work to ensure our iconic cities and towns serve the evolving and unique needs of their constituents. Declining grand lists, aging populations, and aging infrastructure keep us up at night as much as ensuring local officials follow open meeting law, have access to EMS services, and attract and retain good talent.

The legislature needs to acknowledge the lack of tools at the local level to implement projects that achieve state goals and meet Vermonters needs, such as adequate housing, infrastructure development and development in compact centers surrounded by rural countryside.

When VLCT conducts its annual survey of local officials to find out what they want VLCT to work on, housing is at the top of the list.

The problem? Not all communities have the tools they need to reinvest to facilitate housing and economic development where state policy says it needs to occur. More than 50 communities have amended their zoning in the past two years using bylaw modernization grants – implementing inclusive zoning that says yes to development. They’ve bonded for hundreds of millions of dollars in new water and wastewater systems or upgrades in the past decade. They’ve formed Housing Trust Funds and even bought land to dedicate to housing development. But of the 247 cities and towns in Vermont, only about a dozen have had access to the most effective housing development tool Vermont has – tax increment financing.

Housing and revitalization is happening in places like Barre City, Hartford, Bennington, St. Albans City, South Burlington, Winooski, and Burlington in part because of location, but also because of tax increment financing (TIF). TIF has helped them build the public infrastructure to attract developers, new businesses and residents, and the homes they need. They pay increased education property taxes while the TIF is active and will pay significantly increased education property tax revenues to the Education Fund upon retirement of the TIF districts.

Project-based tax increment financing is a right-sized tax increment financing program that allows small communities to use this tool. You may have heard from one or more of eleven communities that have written their legislators urging implementation of a project-based tax increment financing program. They are from around the state: Fair Haven, Highgate, Hyde Park, Middlebury, Poultney, Richmond, St. Johnsbury, Waitsfield, Westford, Wilmington, and Windsor. Additionally, the towns of Berlin, Middlesex, Hinesburg, Randolph and Windsor have projects that could move ahead with a project-based TIF program. Next week I am visiting with the Brattleboro selectboard to discuss the potential.

This program is significantly different than the existing tax increment financing district program. The existing program allows for multiple infrastructure projects. This program allows just one. The existing program pledges the increased revenue from hundreds of parcels. The project-based program would limit the TIF to a dozen or so parcels in each community. These big changes mean small towns could rely on the program to help pay for the infrastructure we need to build housing and improve the quality of life in rural Vermont.

Some of the purposes to which project based TIF would be used include stormwater, wastewater and water supply, housing, street reconstruction and street scaping, and even broadband.

Despite the Local Fiscal Recovery Fund money our community received last year and the federal and state competitive funding available, we anticipate every one of our members will come up short on any major infrastructure project to catalyze housing growth. Three hundred dollars a resident (which is how much local fiscal recovery funding each town received), is enough for a down payment on a project at best. Most towns received just a couple hundred thousand dollars from the federal government. Even the smallest water and wastewater project is several million dollars. Waitsfield recently received a wastewater feasibility study recommending a \$23 million project. That town received \$500,000 in Local Fiscal Recovery Funding. The State is writing grants using infrastructure dollars, but not that large. Towns like Waitsfield will need to bond and scramble to complete federal grant applications that make TIF applications look like child's play.

Unlike larger TIF districts, we believe this program would be within reach of many of our smaller communities. They'll be able to access assistance from regional planning commissions and regional development corporations as well as private consultants to help complete the required planning, implementation, and compliance for these new tax increment projects. They may, in the future, utilize the expertise initially enabled in the Budget Adjustment Act, through the Rural Infrastructure Assistance Program.

In 2022, the League commissioned a study of Vermont's Tax Increment Financing system. We asked the consultant if the existing TIF program was meeting its intent of spurring development and growing tax revenues. The report had ten key findings:

- TIF serves as a powerful long-term planning tool.
- Measuring the performance of TIF districts is complicated.

- The revenue story is equally complicated, but suggests TIF districts generate net revenue growth to the Education Fund above naturally occurring growth.
- TIF generates a clear rate of economic growth not recognized in previous analyses.
- Forecasting a rate of return from TIF is complicated.
- TIF produces conditions that allow communities to leverage other assistance.
- The combination of safeguards built into Vermont's TIF statutes maximize its effectiveness and accountability while minimizing risk.
- Comparing TIF to other state economic development programs emphasizes the economic and operational benefits of TIF.
- Vermont's TIF policy must change in order for rural communities to use the program.

TIF drives development where we want it (in our downtowns), it allows the state and towns to spur development that grows grand lists, creates new housing, and does so with less risk and more guardrails than just about any other TIF program in the country. We hope you'll consider extending this important tool to smaller towns in Vermont interested in investing in their futures.

TIF Annual Report Summary 2022

https://outside.vermont.gov/agency/ACCD/ACCD_Web_Docs/ED/TIF/2022TIFAnnualReportSummary.pdf

TIF Annual Report 2022

https://outside.vermont.gov/agency/ACCD/ACCD_Web_Docs/ED/TIF/2022TIFAnnualReportFinal.pdf