Tax Increment Financing (TIF) Districts

House Committee on Commerce and Economic Development

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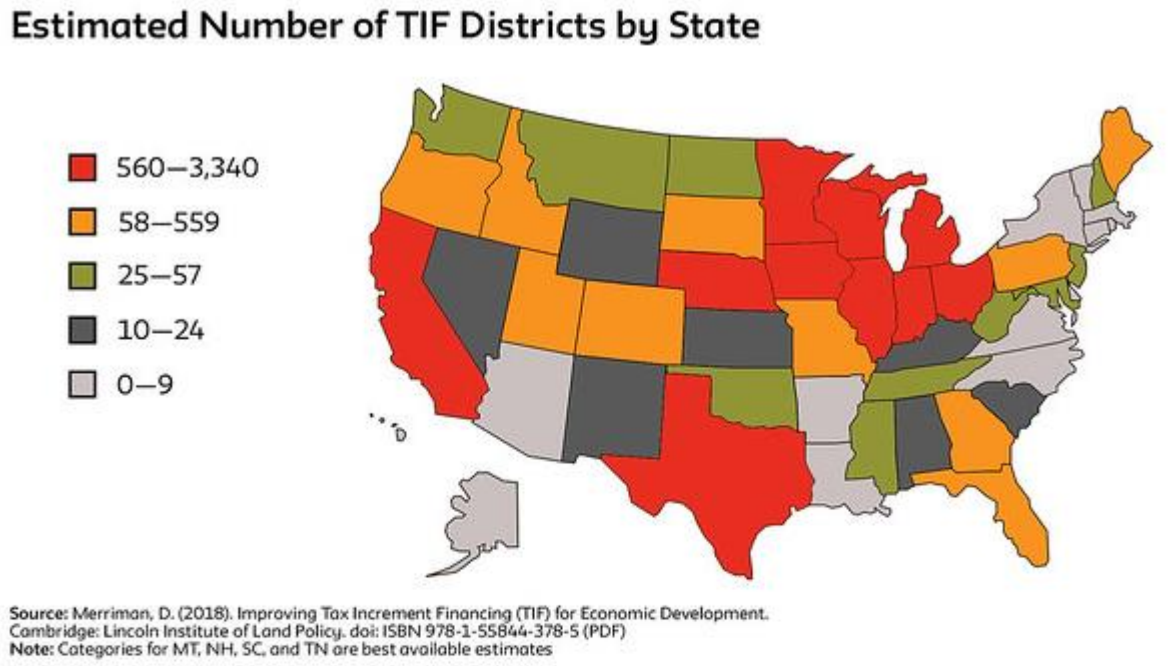
TIF Use Nationally and General Background

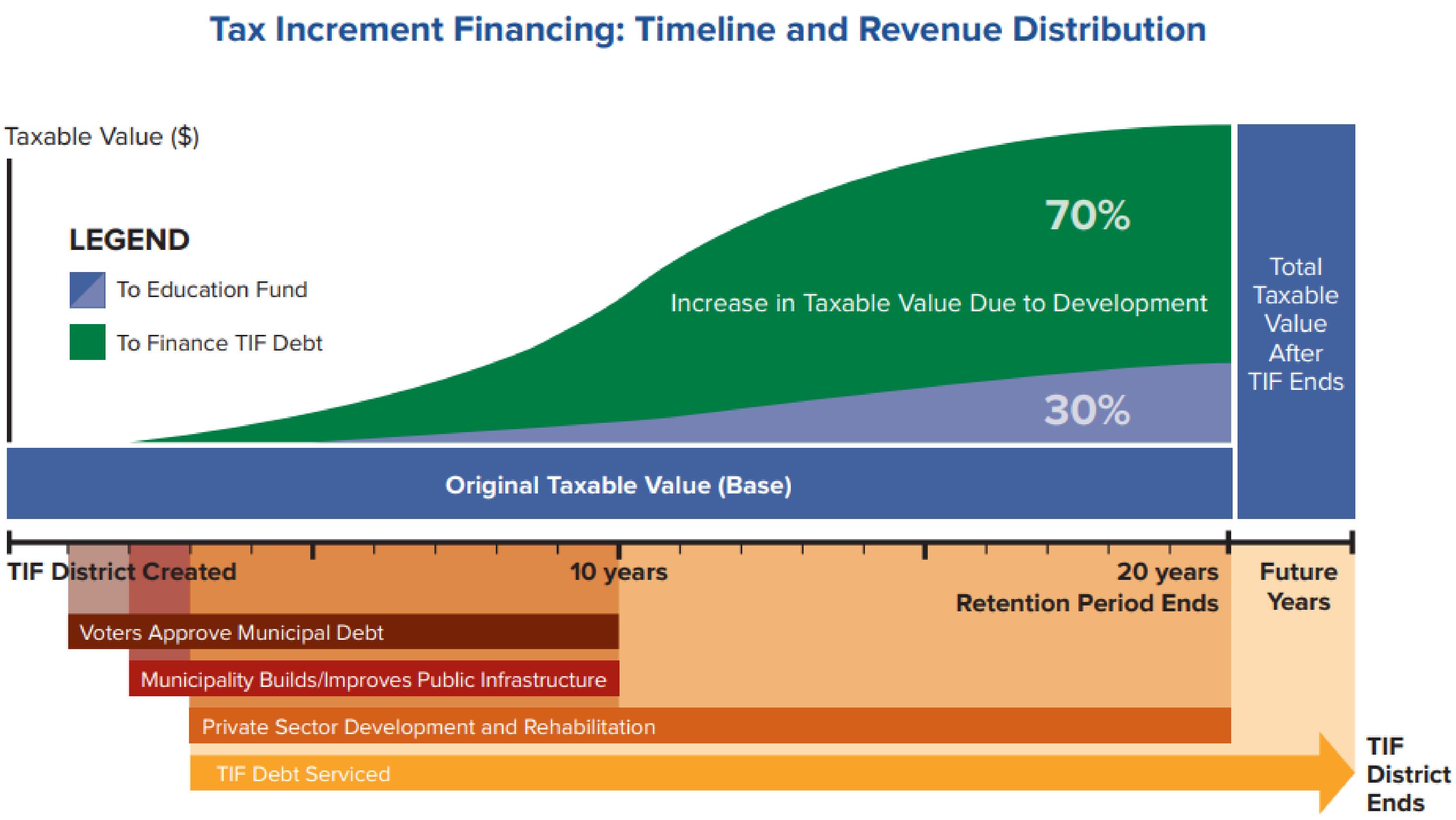
- Started in California in 1952
- Use increased in the 1970’s because of declining federal funds
- All states but Arizona have some form of TIF
- “The most widely used local government program for financing economic development in the United States” (Biffault 2010)
- Vermont’s statewide Education Fund complicates TIF usage – municipal decisions to implement a TIF impact taxpayers throughout the state.



What is TIF?

- Used by municipalities and states to finance economic development by diverting a portion of the growth in future property tax revenues within a specific area
- Steps to a TIF:
    1. Municipality seeks to improve a geographic area (e.g., downtown plot, blighted land, brownfield) by investing in new infrastructure (e.g., sidewalks, parking, streetlights, sewer)
    2. Municipality finances this infrastructure improvement with borrowed funds
    3. The improvement stimulates private development of the area
    4. Municipality pays back the borrowed sum using a portion of the increased tax revenues as result of improvements to the area

What is TIF?



Source: VEPC 2024 TIF Report

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 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, site preparation, and some financing
- **Related costs**: expenses incurred and paid by the municipality to finance and construct new infrastructure – exclusive of the 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

How Can TIF Money Be Used in Vermont?

- Largely infrastructure improvements
- “Improvements” (24 V.S.A. § 1891) means the installation, new construction, or reconstruction of infrastructure that will serve a public purpose and fulfill the purpose of tax increment financing districts … including utilities, transportation, public facilities and amenities, land and property acquisition and demolition, and site preparation
- “Improvements” also means the funding of debt service interest payments for a period of up to two years, beginning on the date on which the first debt is incurred.
- Unlike in other states, in Vermont TIF money can not be used to subsidize private developer costs

How Long Can Towns Incur Debt and Retain Increment?

Debt incursion

- Must occur within 5 years after district creation before the district is dissolved; municipality can ask for and receive 5-year extension if they have not incurred debt after 5 years
- Once debt is incurred, districts have 10 years after creation to incur debt
- Various legislative actions during COVID-19 extended incursion periods

Debt retention

- 20 years from when a district first incurs debt
- Barre and Hartford received extensions for their increment retention periods in Act 72 of 2023
- Burlington Waterfront can retain longer for CityPlace project (3 parcels), until 2035

District	Year Created	Type	Status	DT, GC, OR NTC	Debt Period	Retention Period	Acres	Parcels	Original Taxable Value (OTV)
Burlington Waterfront	1996	1	1	N/A	1999-2023	1996-2035	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	2011-2026	2014-2036	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	2012-2026	2015-2039	90.57	221	$51,046,870
So. Burlington Town Center	2012	4	1	NTC	2012-2024	2017-2037	103.37	59	$35,387,700
Killington	2022	5	2	N/A	2022-2032	N/A	577	27	$12,989,730
TOTALS							3447.1	2308	$644,619,857

Source: VEPC 2024 TIF Report

How Much Tax Increment Can a Municipality Retain?

- Depends on when they were created
- Current statute says least 85% of their municipal tax increment and no more than 70% of the statewide education tax increment
- Older districts can retain more than 70%
  - Burlington Waterfront used to retain up to 100%
  - Most other districts can retain 75% as they were created before Act 69 of 2017

Where are Vermont's TIF Districts?

- 3 out of 8 TIF districts are in Chittenden County
- Any new TIF district must meet 2 of the 3 location criteria:
    1. high-density area,
    2. designated downtown, or
    3. an economically distressed area
- No new TIF districts can be established in a municipality that already has one
- No more than 2 TIF districts per county
- Only 6 TIF districts beyond the ones already listed in 24 V.S.A § 1892 can be established

Source: VEPC 2024 TIF Annual Report

Recent TIF Legislation

- Act 69 of 2017
  - Set the current increment retention percentages
  - Required new districts to meet two of the three location criteria in 32 VSA § 5404a
  - Capped number of new districts at 6 beyond what is listed in 24 VSA § 1892
- 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
  - Act 72 of 2023 extended the incursion and retention periods of Barre and Hartford TIF districts

Fiscal Impacts to the State

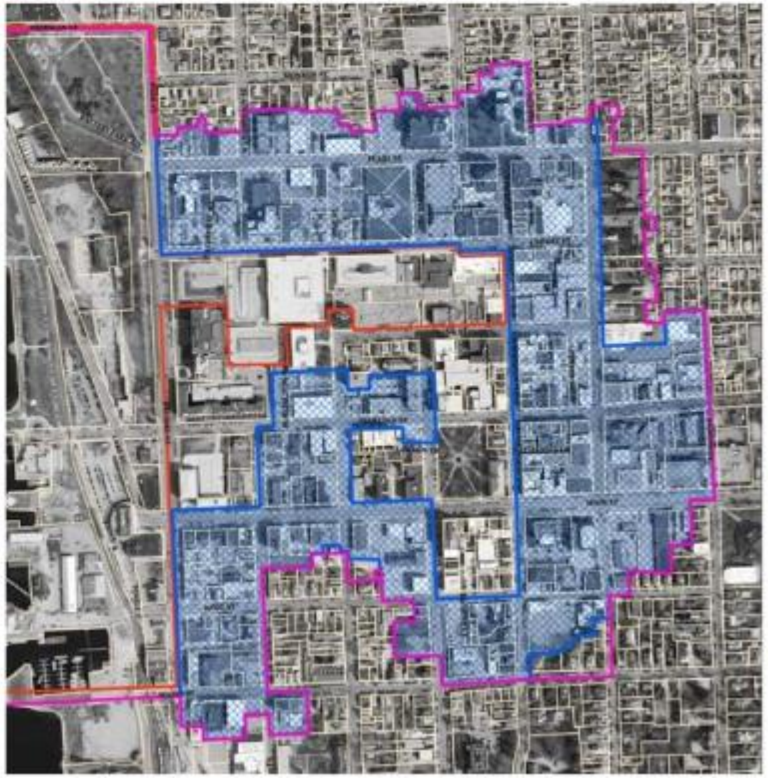
- Statutory “but-for” requirement (32 V.S.A. § 5404a)
    - Review each application to determine that the **infrastructure improvements** proposed to serve the tax increment financing district **and the proposed development** in the district would not have occurred as proposed in the application, or would have occurred in a **significantly different and less desirable manner** than as proposed in the application, ***but for*** the proposed utilization of the incremental tax revenues
- Two counterfactual questions:
    - How much development have occurred *elsewhere in the state* without the use of TIF?
    - What level of background growth would have occurred in the TIF district without any of the associated TIF developments?

Fiscal Impacts – Counterfactual

- How much development would have occurred *elsewhere in the state* without the use of TIF?
    - If 100% would have occurred elsewhere, then use of TIF represents forgone revenue for the Education Fund
    - If 0% would have occurred elsewhere, then use of TIF generates benefits to the Education Fund
- Some examples
    - Housing developer going to build in Chittenden County
        - Builds in Winooski = 100% benefit to Education Fund
        - Builds in South Burlington TIF District= only 25% benefit to Education Fund but 75% goes to TIF district debt
    - Manufacturer looking to locate a new facility in New England
        - Builds in Hartford TIF district = 25% benefit to the Education Fund
        - Builds in New Hampshire = no change to Education Fund; 25% represents forgone revenue to the Education Fund
    - Many situations exist beyond these two examples
        - A TIF district allows a program to move forward more quickly than it would have without the district
        - A TIF district changes the scope of projects within the district (e.g., the project would have created 4 units without a TIF but is able to create 12 units due to the infrastructure associated with the TIF)

Fiscal Impacts – Background Growth

- What level of background growth would have occurred in the TIF district without any of the associated TIF developments?
- TIF districts include more than just developments – the Burlington Downtown TIF district started with $170.0 million in education taxable value in 247 parcels over 61.27 acres.
- Parcels in the Burlington Downtown district grew by a CLA-adjusted 5.11% per year between 2003 and 2011 (the district was created in 2011)
  - With TIF, if parcels in the district were to grow at the same background growth rate and nothing else happens, the Education Fund only receives 25% of the increase
  - Without TIF, Education Fund would have received 100% of the increase



Source: Downtown Burlington TIF District Plan

Three Perspectives on Fiscal Impacts

Impossible to know the true impact of TIF districts on the Education Fund across these different dimensions

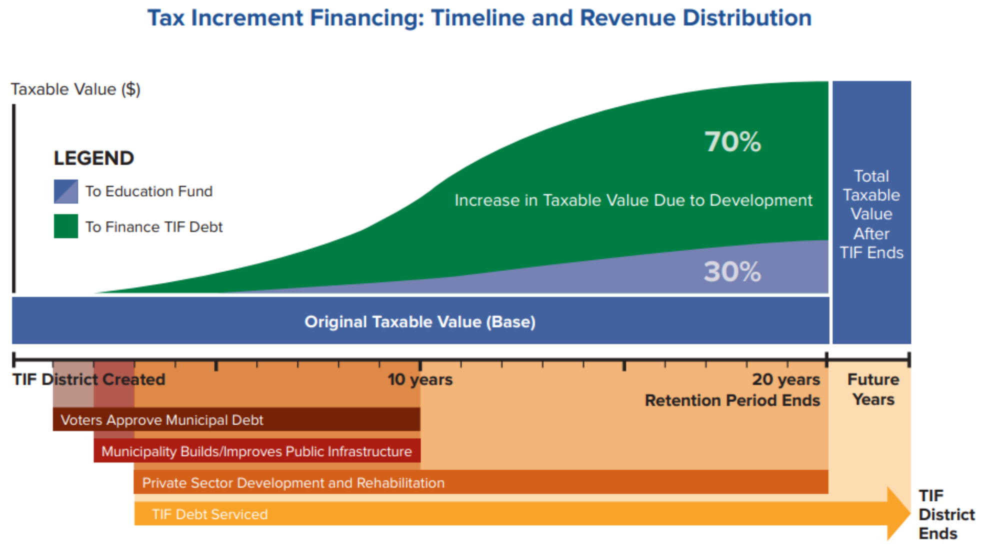
- Three sources of information, three results:
  1. Vermont Economic Progress Council (VEPC) Annual Report: If none of the growth in the TIF district would have occurred but for TIF, nearly $1.4 million in new revenue for the Education Fund in fiscal year 2023
  2. JFO model: attempts to answer question: "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
  3. FY 2026 maximum impact on the Education Fund: $6.5 million (Official consensus estimate)
     - Assumes all grand list growth would have occurred somewhere in the state without the use of TIF

Fiscal Impacts to the State – VEPC Annual Report

VEPC Annual Report:

- Reports on various TIF district statistics as required by statute, including additional increment generation
- Shows $1.4 million in increment from TIFs allocated to the Education Fund in fiscal year 2023

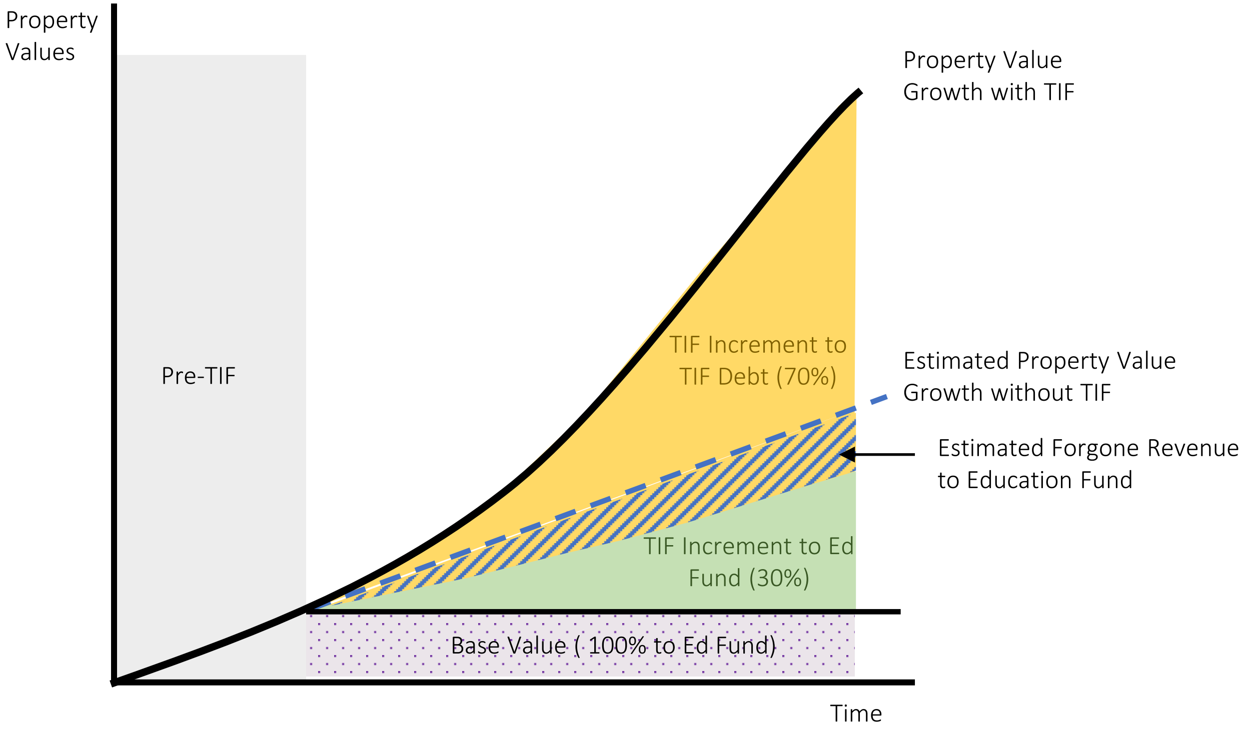
- Using these statistics as the impact of the TIF program requires assuming that grand list growth is flat before creation of the TIF district
- However, all active TIF districts were growing in the years before creation
- Current Grand List growth statewide is high – 9.7% in fiscal year 2024



JFO Model – Forgone Revenue

The JFO model attempts to answer the 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:

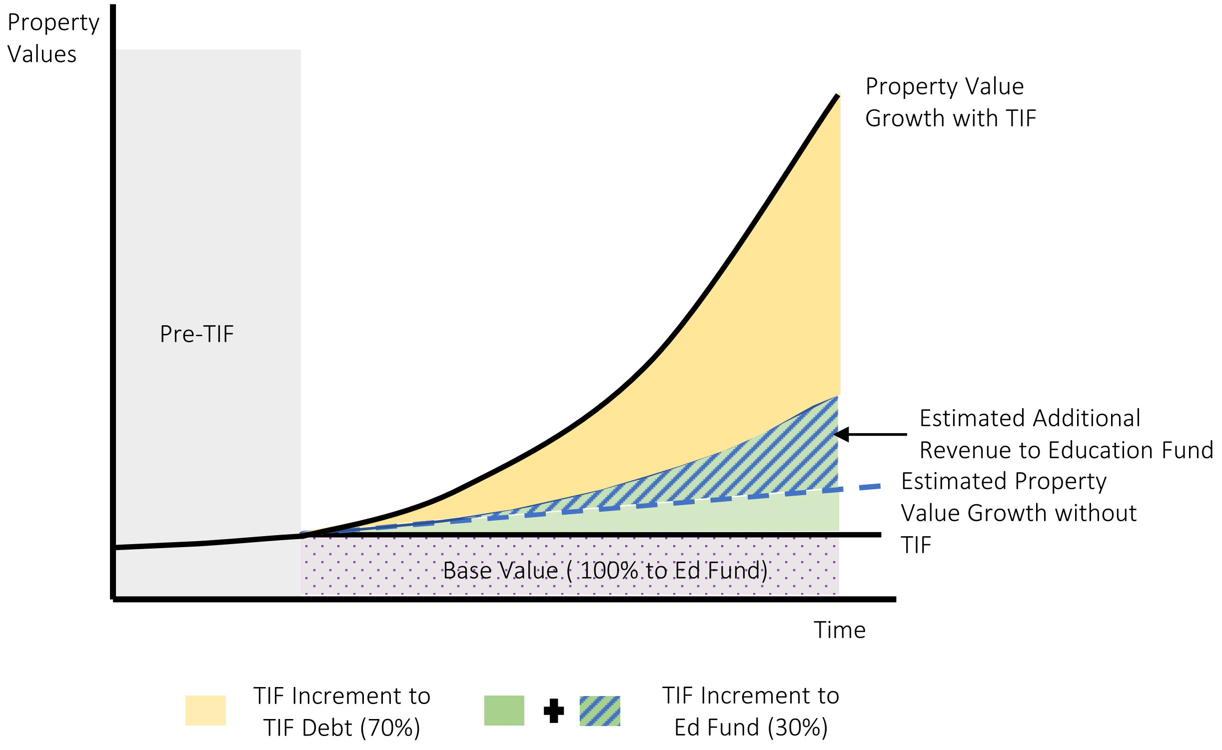
- The figure to the right shows an example of a TIF district that is creating forgone revenue to the Education Fund
- In this district, 30% of incremental revenues are not more than the revenues that would have been generated without the usage of TIF
- Districts with high original taxable values (OTV) or high counterfactual or "background" growth rates are more likely to fall into this category



JFO Model – Education Fund Benefit

The JFO model attempts to answer the 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:

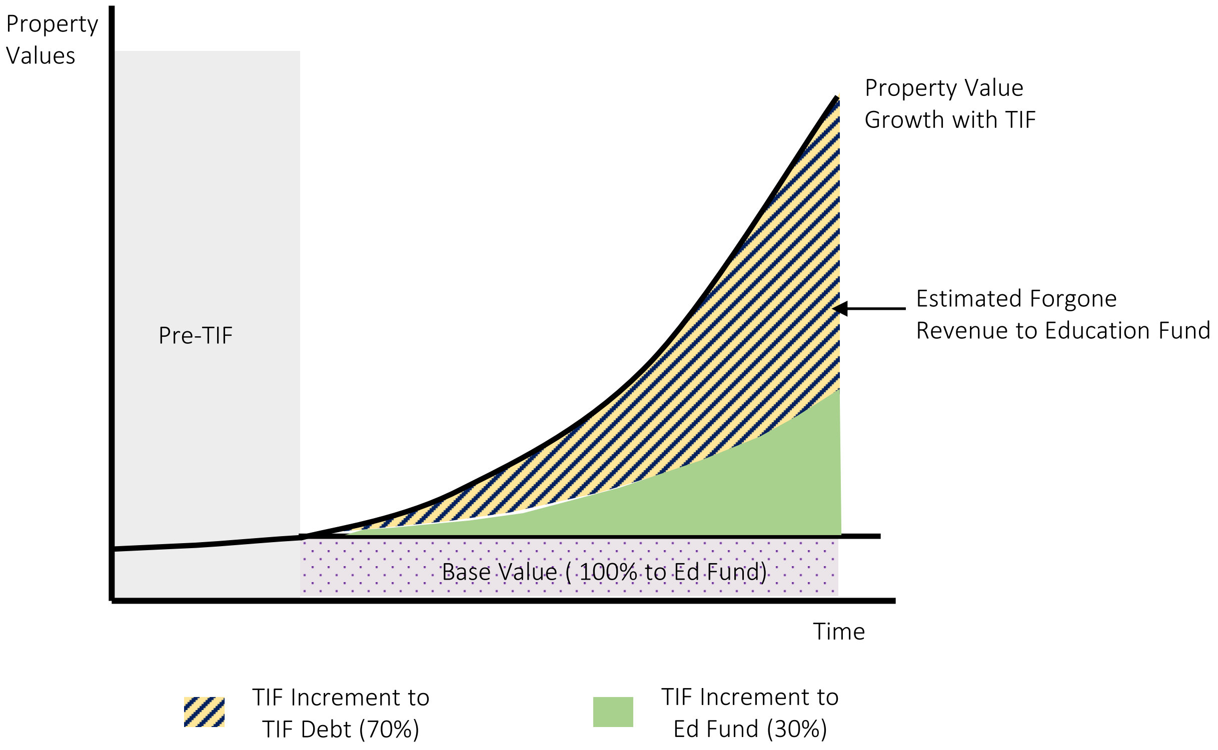
- The figure to the right shows an example of a TIF district that is creating additional revenue for the Education Fund while active
- In this district, 30% of incremental revenue is more than the revenue that would have been generated without the usage of TIF
- Districts with low original taxable values (OTV), low counterfactual growth rates, and large increases in taxable value through improvements can fall into this category



Consensus Estimate of TIF Impact

<u>Fiscal Year 2026 maximum impact on the Education Fund</u>: $6.5 million (Official Consensus estimate)

- JFO and the Department of Taxes are required by 32 V.S.A. § 305b to provide an estimate of the impact of TIFs on the Education Fund
- This model assumes that increment dedicated to TIF district debt is forgone revenue
  - Meaning that it assumes the development occurring in TIF districts all would have happened somewhere else in the state
- That assumption is also hard to hold 100% of the time
  - Killington water system in the works since the 1980's
  - South Burlington's City Center might have looked different without TIF



Fiscal Effects Summary

- Different ways of looking at the counterfactual (or "but-for") delivers different answers on the success of the TIF program
- Under the JFO model, TIFs usually represent forgone revenue to the Education Fund while active and a benefit after the district is retired
- The Consensus Estimate should continue to be used as the official estimate of the tax expenditure – as it represents the most conservative estimate of the fiscal impact of the TIF program

These fiscal effects motivate two main questions for consideration:

1. **How does TIF interact with the high rates of grand list growth?**
2. **What is the main value of the TIF program?**

How Does TIF Interact with the High Rates of Grand List Growth?

- Substantial grand list growth in Vermont
  - 9.7% actual fiscal year 2024
  - 14.3% projected in fiscal year 2025
  - 14.7% projected fiscal year 2026
- These high rates of growth create a higher risk that any newly created TIF districts will fall into the first category of TIF districts under the JFO model, in which a TIF district creates forgone revenues for the Education Fund while active
- These risks increase as the size of the original taxable value or size of the district increases

What is the main value of the TIF program?

- Different ways to look at the value of TIF districts
  - Is TIF an economic development tool?
  - Is TIF an infrastructure development tool?
  - Is TIF a planning tool?

What About TIFs and Economic Development?

- Research conducted in other states investigated TIF as an economic development tool – three sources below are literature reviews
- Many studies come from the Midwest, which has high overall use of TIF; results may not reflect outcomes of TIF districts in Vermont
    - Merriman (2018):
        - Evaluated a wide range of studies, which investigated a wide range of outcomes, including TIF's impacts on employment, retail sales, assessed values, etc.
        - Of the 31 studies investigated, 13 found positive results, while the remainder showed neutral (8), mixed (5), or negative (5) results
        - More recent studies have found weaker results than earlier ones
        - Some evidence that TIFs take growth from surrounding areas
        - "Rigorous evaluation literature suggests that in most cases, TIF has not accomplished the goal of promoting economic development"

What About TIFs and Economic Development?

Katz (2019):

- TIFs are used more often in communities with higher growth rates in property values
- TIF may have positive impacts on property values
    - Values outside of the TIF district are less likely to experience a positive effect
- More research needed to determine regional economic impacts

Hartt, Nash, and Plante (2024):

- Also finds that TIF may positively impact property values
- Multiple studies find that retail development from TIFs shifts retail development from non-TIF areas, though this is not always true
- “The preponderance of evidence on the relation between TIF and economic development suggests that TIF district designation has either no effect or a negative effect on economic development”

Research Evidence in Summary

- On nearly every outcome, one can find evidence that either supports or rejects usage of TIF
  - Mixed, at best, impact on economic development outcomes such as employment, retail activity, etc.
- TIFs may increase property values relative to what would have occurred
  - Does that increase generate enough incremental revenue to beat what would have been generated with the counterfactual growth rate in the district?
- TIF may pull development from nearby areas that do not use TIF
  - The Education Fund receives a portion of the increase in values in a TIF district, rather than the full increase outside of it

Challenges in Implementing Infrastructure Projects

- What about TIF as an infrastructure development tool?
- Vermont municipalities face many challenges in improving local infrastructure
- Capacity
  - More than 100 towns do not have a manager or administrator
  - Even towns with administrative staff have capacity challenges
    - A project with 5 different braided sources of funding has 5 different reporting requirements and grant/financial management requirements (e.g., Davis-Bacon wage requirements)
  - Vermont capacity limited by small town size – many federal funding opportunities for municipalities are designed for communities with more than 50,000 people
  - TIFs share these capacity constraints – generally only available to larger municipalities
- Resources

Example Capital Stack

- Tax increment financing can play an important role in a project capital stack
- The capital stack below funded the construction of a new water system in the Town of Killington
  - TIF responsible for over 80% of project funding

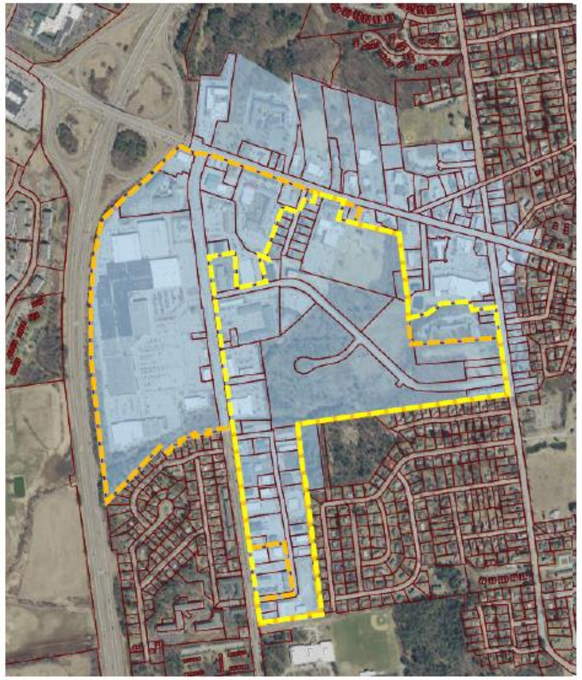
Source	Funding Amount	Funding type	Implementing Agencies
Tax Increment Financing (TIF)	$47 million	Bond	Agency of Commerce and Community Development (ACCD)
ARPA – Village Water and Wastewater Initiative	$2.3 million	Grant	Department of Environmental Conservation (DEC)
State Drinking Water Revolving Loan Fund	$3.7 million	Forgivable Loan	DEC
Northern Border Regional Commission (NBRC) – Catalyst Program	$2.25 million	Grant	NBRC
NBRC and the US Economic Development Corporation (USEDA)	$750,000	Grant	NBRC, USEDA

TIFs and Statewide Development Goals

- TIFs can be an effective land use planning tool
- TIFs have a role in promoting statewide development goals in 24 V.S.A. § 4302
  - Specific goals include:
    - To plan development so as to maintain the historic settlement pattern of compact village and urban centers separated by rural countryside
    - Economic growth should be encouraged in locally and regionally designated growth areas, employed to revitalized existing village and urban centers
    - Public investments, including the construction or expansion of infrastructure, should reinforce the planned growth patterns of the area
- These goals line up with location criteria for TIFs in 32 V.S.A. § 5404a
  - TIF districts must have 2 of the 3 criteria to qualify for the program:
    - The development is 1) compact, 2) high density, 3) located in or near existing industrial areas
    - The proposed district is within an approved growth center, designated downtown, designated village center, new town center, or neighborhood development area
    - The development will occur in an area that is economically distressed:
      - Median family income not more than 80% of statewide median family income
      - Annual average unemployment rate at least 1% greater than the latest statewide rate or
      - Median sales price for residential properties under 6 acres not more than 80% of statewide median sales price

TIFs and Statewide Development Goals

Source: City of South Burlington



South Burlington City Center
State Designations

TIF District

New Town Center

Neighborhood Development Area

- TIF districts end up overlapping with designated areas, which can help drive development to compact downtowns
- Are infrastructure development and potential planning benefits worth the resulting forgone tax revenue?

Questions?