Property Tax Expenditures in the Education Fund

House Committee on Ways and Means

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Tax Expenditure Report

- Every two years, the Joint Fiscal Office (JFO) and the Department of Taxes publish an inventory of the various tax expenditures in existence
- Tax expenditures are statutory provisions that reduce the amount of revenue that would otherwise be collected to encourage a particular activity or limit the amount of taxes collected from certain persons
- Tax expenditures essentially have the same fiscal effect as direct appropriations
- Four items not considered tax expenditures
  - Revenue outside the taxing power of the State
  - Provisions outside the normal structure of a particular tax
  - Revenue forgone as unduly burdensome to administer
  - Revenue excluded for the purpose of avoiding taxing the State itself

Property Tax Expenditures

- Property tax expenditures are estimated to reduce State revenues by $115.5 million in fiscal year 2026
- This is compared to $94.3 million in fiscal year 2023 (actual value)
- Increases in property taxes drive the estimated increase in value from fiscal year 2023 to fiscal year 2026
- The largest tax expenditures are:
  - Public, pious, and charitable property (estimated $72.3 million - fiscal year 2026)
  - University of Vermont (estimated $15.7 million – fiscal year 2026)
  - Vermont State Colleges (estimated $8 million – fiscal year 2026)
  - Tax Increment Financing Districts – ($7.14 million in fiscal year 2025)
- Current Use or the Use Value Appraisal Program is also a tax expenditure out of the Education Fund but is not part of the Tax Expenditure Report

Public, Pious, and Charitable

- The statutory purpose of the exemption for public, pious, and charitable property in sections 3832 and 3840 and subdivision 3802(4) of this title is to allow these organizations to dedicate more of their financial resources to furthering their public-service missions
- These exemptions have been in effect for a long time
  - The exemption in section 3802(4), which includes public and pious property has been around in some version as long as Vermont has been a state
  - Provisions of section 3832, which provides clarity to this exemption, have been on the books since 1880

Public, Pious, and Charitable

- Certain property tax exemptions require a town wide vote:
  - Fraternal organizations, volunteer fire, rescue organizations (32 V.S.A. § 3840)
  - Property owned or kept by an orphanage, home, or hospital, including a diagnostic and treatment center not used for the purpose of such institution but leased to others for income or profit (32 V.S.A. § 3832 (6))
  - Real and personal property of an organization when the property is used primarily for health or recreational purposes (32 V.S.A. § 3832 (7))

Higher Education

- The statutory purposes of these property tax exemptions is to allow institutions providing higher education to deploy more of their financial resources to their educational missions
- University of Vermont exemption enacted in 1802
- Vermont State Colleges exemption enacted in 1961
- Municipalities are compensated for these exemptions through the PILOT program, which is funded through a portion of Local Option Tax (LOT) receipts
  - Municipalities are reimbursed at 100% of the taxable insurance value of State College buildings
  - Payments for UVM properties limited to $750,000 statutory cap in 32 V.S.A. § 3703

Remaining Tax Expenditures

- Four property tax exemptions listed earlier represent almost 89% of estimated overall property tax expenditures
- Remaining expenditures include those for cemeteries, libraries, and snowmaking equipment
- Each remaining exemption is estimated at less than $3.5 million in fiscal year 2026

Property Tax Expenditure Summary

Item Number	Property Tax Expenditure	FY2022 Actual	FY2023 Actual	FY2026 projected
5.001	Non-Profit Medical Service Corporations	148,000	154,000	194,000
5.002	Local Development Corporations	109,000	108,000	185,000
5.003	Vermont Housing Finance Agency (VHFA)	49,000	45,000	56,000
5.004	Vermont State Colleges	6,823,000	6,512,000	8,000,000
5.005	VSAC	45,000	43,000	54,000
5.006	University of Vermont	13,700,000	12,608,000	15,730,000
5.007	Cemeteries	537,000	504,000	622,000
5.008	Libraries	938,000	897,000	1,123,000
5.009	Housing Authorities	1,980,000	1,831,000	2,302,000
5.01	Congressionally Chartered Organizations	913,000	864,000	1,000,000
	Personal estate property in another state			-
5.011	Public, pious and charitable property	61,103,000	58,039,000	72,289,000
5.011	PPC - Charitable	7,089,000	6,879,000	9,124,000
5.011	PPC - College	16,432,000	15,212,000	19,410,000
5.011	PPC - Pious	13,575,000	12,974,000	15,000,000
5.011	PPC - School	7,097,000	6,999,000	8,548,000
5.011	PPC - Hospital	16,910,000	15,975,000	20,207,000
5.012	College fraternities and societies	Repealed	Repealed	Repealed
5.013	YMCA and YWCAs	401,000	374,000	467,000
5.014	Owned by agricultural societies	570,000	545,000	650,000
5.015	Water pollution abatement property	1,000	1,000	1,000
5.016	Humane societies	143,000	140,000	175,000
5.017	FQHC and RHCs	560,000	550,000	698,000
5.018	Whey processing fixtures	-	-	-
5.019	Ski lifts and snowmaking equipment	1,933,000	2,653,000	3,475,000
5.022	Municipalities hosting large power plants	-	-	-
5.101	$10,000 for veterans	509,690	492,580	650,000
5.102	Qualified Housing	1,056,000	1,025,000	1,296,000
5.103	Tax Increment Financing Districts	6,262,546	6,881,870	6,500,000
5.104	VEPC Approved Stabilization Agreements	19,000	-	-
5.201	Permanent Session Law Exemptions	58,000	56,000	49,000
	Total	**97,858,236**	**94,323,450**	**115,516,000**

Tax Increment Financing (TIF) Districts

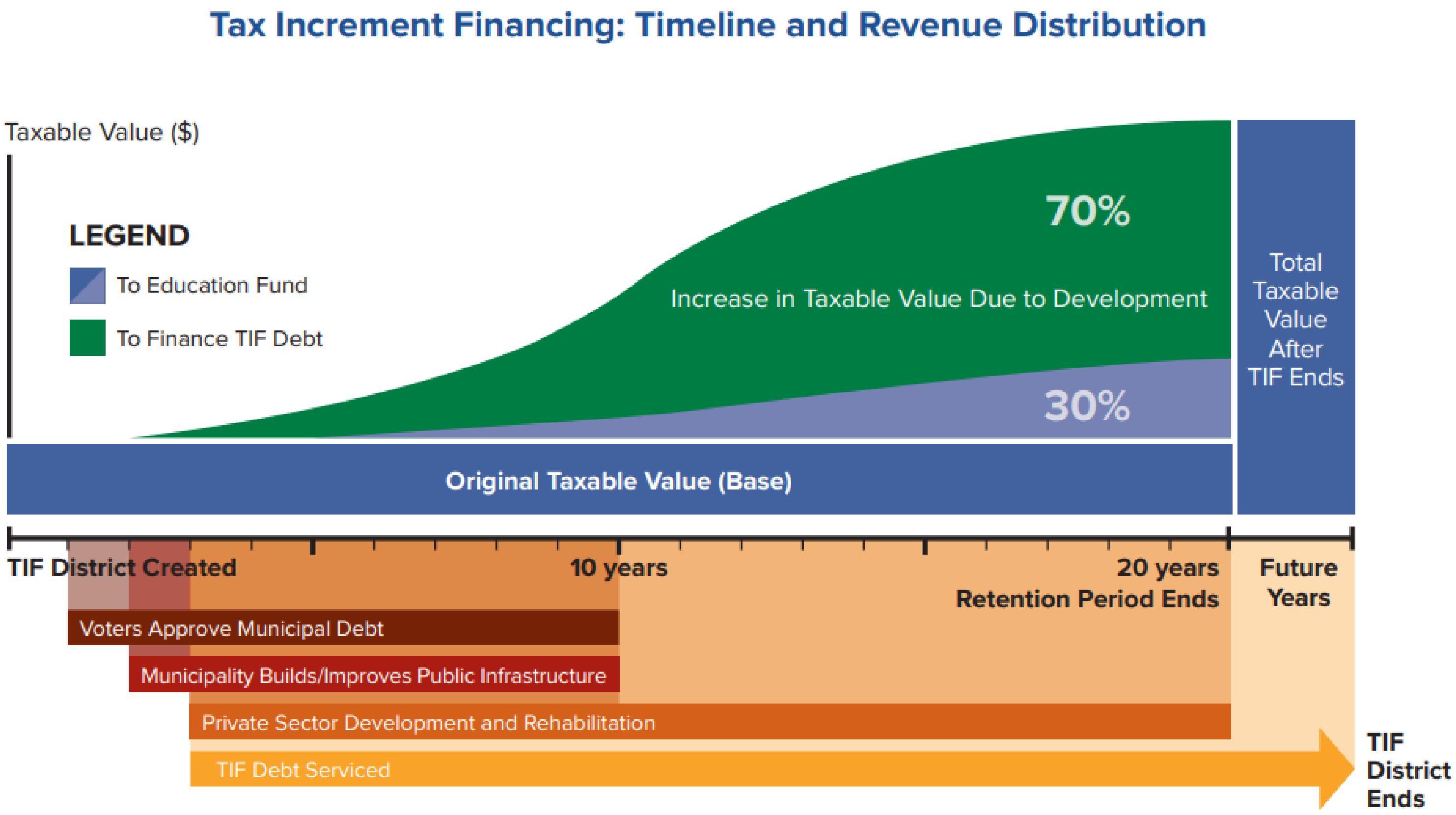
Key TIF Terms

- **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 value 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

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 these infrastructure improvements with borrowed funds
  3. These improvements stimulate 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

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 education tax increment
- Older districts can retain more than 70%
  - Burlington Waterfront used to retain up to 100%
  - Most other districts can retain 75%

How Can TIF Money Be Used?

- Largely infrastructure improvements
- “Improvements” 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

- 5 years after creation of district; municipality can ask for and receive 5-year extension
- Various legislative actions during COVID-19 to extend districts

Debt retention

- 20 years from when a district first incurs debt
- Burlington Waterfront can retain longer for CityPlace project (3 parcels), until 2035

District	Year Created	Ty pe	Stat us	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

Where are Vermont’s TIF Districts?

- 3 out of 8 TIF districts are in Chittenden County
- Any new TIF district has to meet 2 of the 3 criteria:
    1. high-density area,
    2. designated downtown, or
    3. an economically distressed area
- No new TIF districts can be established in a town that already has one
- 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 location criteria in 32 VSA § 5404a
  - Capped number of new districts at 6
- 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 retention periods of Barre by 2 years and the Hartford TIF district by 4 years

Fiscal Impacts to the State

- Statutory "but-for" requirement (32 V.S.A. § 5404a)
  - (A) 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

Fiscal Impacts to the State – Counterfactual

- The counterfactual question: the development would not have occurred elsewhere in the state without 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
- 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
  - Many situations exist beyond these two examples
    - A TIF allows a program to move forward more quickly than it would have without the district
    - A TIF changes the scope of projects within the district

Three Perspectives on Fiscal Impacts

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

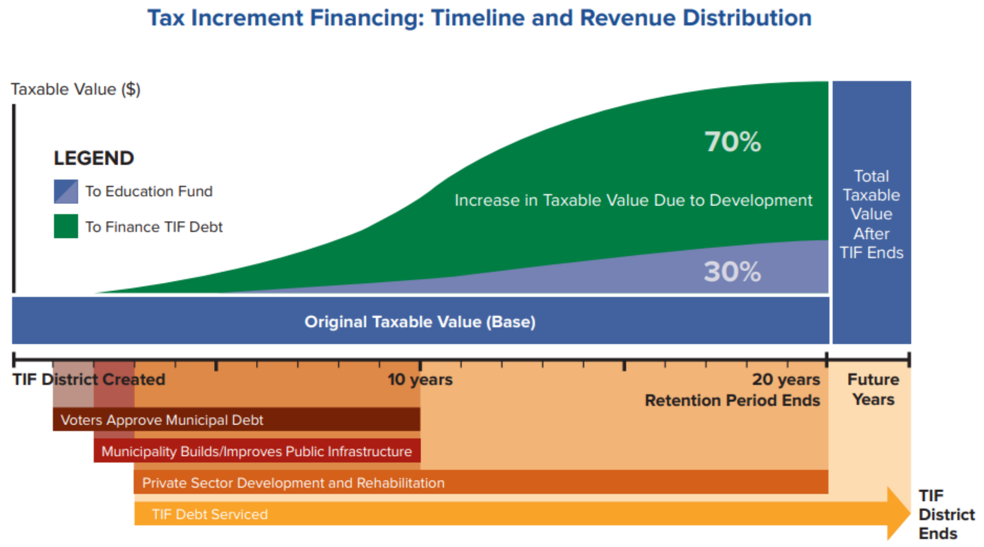
- Three perspectives, three results:
  1. Vermont Economic Progress Council (VEPC) Annual Report: If none of this would have occurred but for TIF, an estimated $1.2 million in new Education Fund revenues were generated in 2021, growing to $1.7 million in 2023
  2. JFO model: attempts to answer question: "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
  3. FY 2025 maximum impact on the Education Fund: $7.14 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

<u>VEPC Annual Report</u>:

- 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

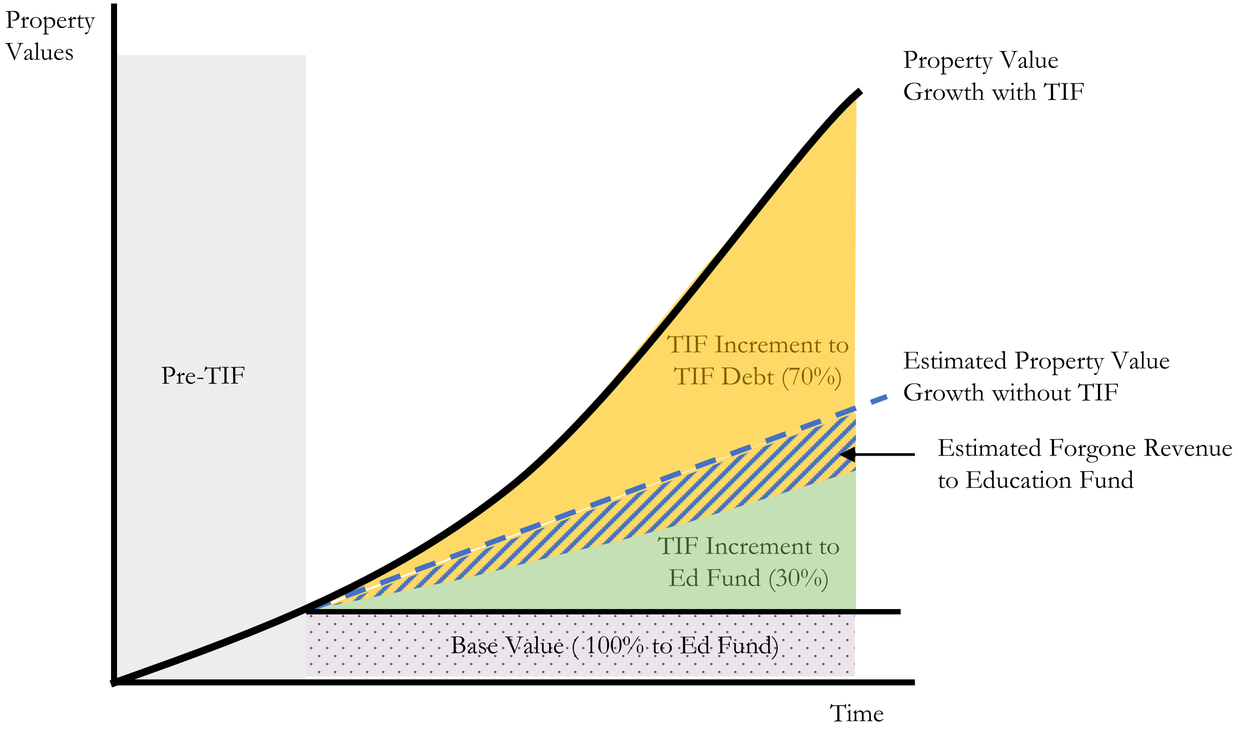
- Using these statistics as the impact of the TIF program requires assuming that grand list growth is flat before creation of the TIF district
- However, all active TIF districts were growing in the years before creation
- Current Grand List growth statewide is high – 9.7% in fiscal year 2024



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:

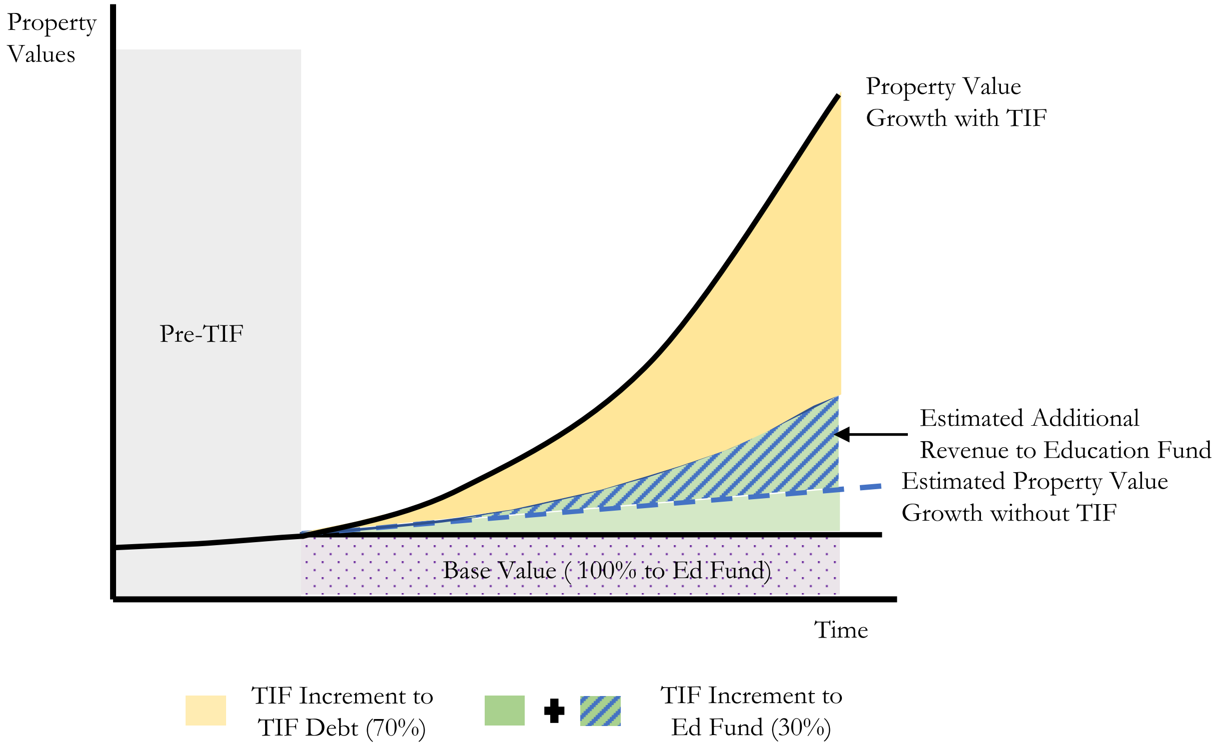
- The figure to the right shows an example of a TIF district that is creating forgone revenue to the Education Fund
- In this district, 30% of incremental revenues are not more than the revenues that would have been generated without the usage of TIFs
- Districts with high original taxable values (OTV)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

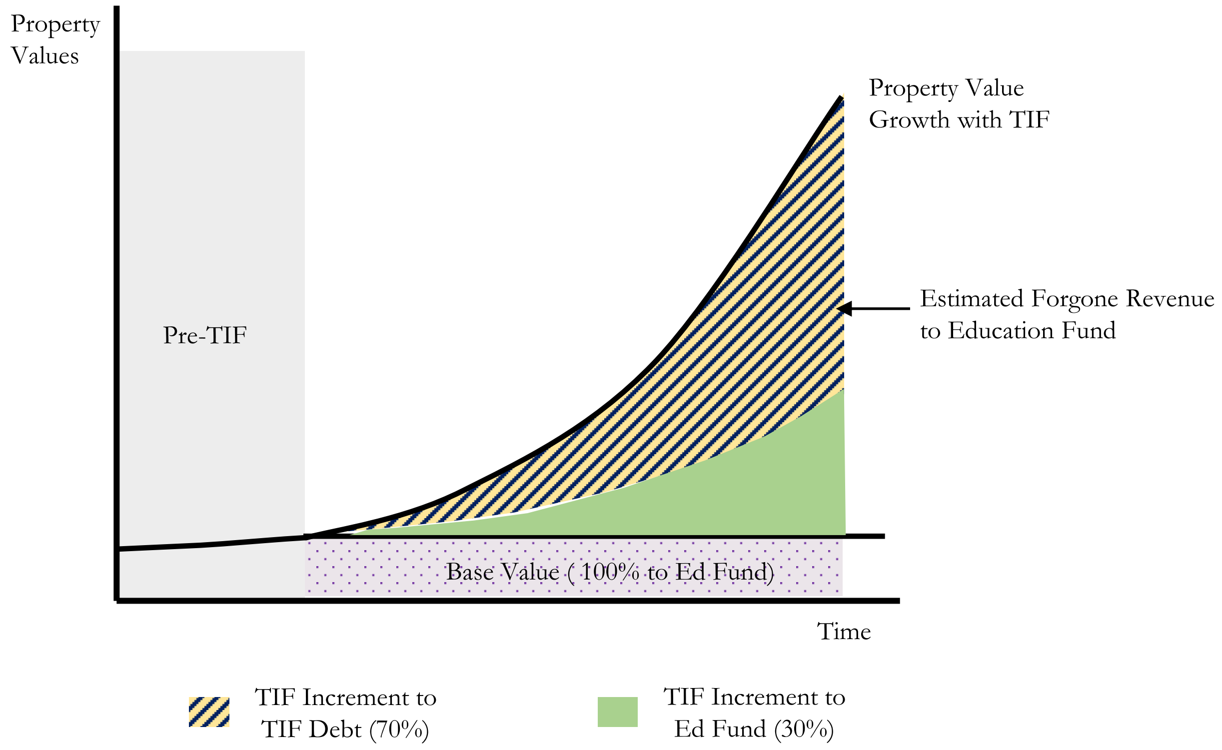
- The figure to the right shows an example of a TIF district that is creating additional revenues for the Education Fund while active
- In this district, 30% of incremental revenues are more than the revenues that would have been generated without the usage of TIFs
- Districts with low original taxable 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 2025 maximum impact on the Education Fund</u>: $7.14 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
  - Or, that 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, TIF districts 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 occurring 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?

Little support in published research conducted in other states for TIFs as an economic development tool:

- Merriman (2018): “Rigorous evaluation literature suggests that in most cases, TIF has not accomplished the goal of promoting economic development”
- Hartt, S. A., Nash, J., & Plante, C. (2024): “Empirical evidence on the economic and fiscal effects of TIF is mixed.” The collected research suggested that TIF may increase property values in a district but job creation or increased economic activity was more elusive.

- Lots of interest in whether TIFs “work” – however, TIFs could have value in their ability to complete infrastructure development and support Vermont’s land use goals

Challenges in Implementing Infrastructure Projects

- 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

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
Total	$56 million		

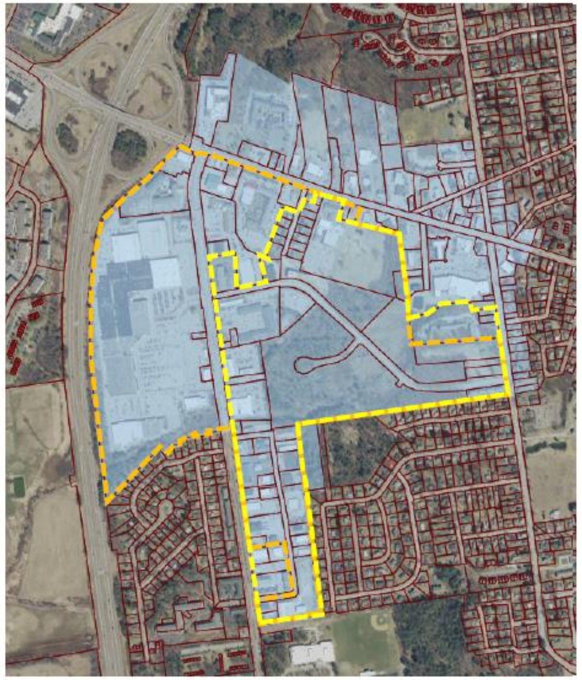
- The capital stack above funded the construction of a new water system in the Town of Killington

TIFs and Statewide Development Goals

- 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 two of the three 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
      - Median sales price residential properties under 6 acres that is not more than 80% of the 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 these benefits in infrastructure development and alignment worth the resulting forgone tax revenue?

Questions?