VERMONT LEGISLATIVE

Joint Fiscal Office

An Examination of Tax Increment Financing in Vermont

MARCH 24, 2025

Prepared in accordance with
24 V.S.A. § 1892

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Part I – Executive Summary

Tax increment financing (TIF) is a type of economic development program that uses the future growth of property tax revenues to finance bonded infrastructure projects. Vermont currently has eight TIF districts.

This report evaluates the three main statutory charges in Act 69 of 2017, including changes in Vermont's TIF program since the last report, the economic and fiscal impacts of the TIF program, and the affordability of TIF net indebtedness. This is the third such iteration of this report following this set of statutory requirements since 2018. Those reports contain a wealth of information and recommendations that are still relevant to Vermont's current TIF program. This report will summarize the findings of the previous reports, only updating and refining where additional data are available or new developments merit additional consideration.

Since the last report was published in 2022, Vermont TIF districts experienced many changes. Two districts, Barre and Hartford, received extensions to their education tax increment retention periods to deal with delays and changes to project goals caused by the COVID-19 pandemic. Two districts, Montpelier and Bennington, were discontinued. The major project envisioned for Montpelier, a hotel and a parking garage, was cancelled in the height of the pandemic. Bennington, on the other hand, was able to find federal funding to complete some envisioned projects and no longer needed to use bonded dollars supported by tax increment.

In addition to these changes, the major difference between earlier reports and this one is the policy context. Vermont's use of TIF fits within two current policy conversations: the health of the statewide Education Fund and Vermont's statewide development goals. In terms of the Education Fund, in fiscal year 2025, the TIF program resulted in as much as $7.14 million in forgone property tax revenue.

In line with previous reports, JFO finds that use of TIF Districts will result in forgone annual revenue to the Education Fund of between approximately $4.5 million and $8 million over the next five years.

For policymakers, the question at the heart of TIF is this: *is the potential cost in tax expenditure from TIF outweighed by advantages in infrastructure or economic development?* Unfortunately, the answer to that question is complicated by different analyses of the counterfactual conditions. To wade through these challenges, this report explores various models and measurements used to estimate the fiscal impacts of TIF in Vermont.

This report also updates findings from research on TIF programs in other states. In this research, TIF districts are generally linked with an increase in property values, although that growth in property values may come at the expense of property value growth in surrounding areas. Economic development outcomes, such as job growth, business formation, or sales tax growth find less support in the literature.

TIF also plays a role in the statewide conversation around land use and development. Previous reports acknowledged TIF districts' role in aligning development patterns with statewide goals to drive developments to compact downtowns. This report also explores the advantages of TIF in promoting infrastructure development. Few currently operating programs offer enough capital to build systems without putting large amounts of bonding pressure on municipalities. For example, the TIF district in Killington provided $47 million in bonded dollars to create a municipal water system. Infrastructure financing capacity will be even more limited after American Rescue Plan Act (ARPA) and other federal funds are expended, potentially allowing TIF districts to play a larger role in infrastructure development in larger Vermont municipalities.

Finally, the report investigates the amount of net indebtedness that can be prudently authorized by TIF districts. Only three districts, Barre, Hartford, and Killington are currently in their debt incursion period. Of these districts, Barre's increment generation has fallen short of projections, meaning that there is less revenue to service current debt than expected. The Killington TIF district has not started to generate increment from developments and, like other TIF districts at a similar early stage of development, may also face financial challenges if developments do not materialize as planned.

Part II – Introduction and Legislative History

Statutory Charge

Per 24 V.S.A. § 1892, as amended by the Legislature in Act 69 of 2017:

(e) On or before January 15, 2018, the Joint Fiscal Office, with the assistance of the consulting Legislative Economist, the Department of Taxes, the State Auditor, and the Agency of Commerce and Community Development in consultation with the Vermont Economic Progress Council, shall examine and report to the General Assembly on the use of both tax increment financing districts and other policy options for State assistance to municipalities for funding infrastructure in support of economic development and the capacity of Vermont to utilize TIF districts moving forward.

(f) The report shall include:

(1) a recommendation for a sustainable statewide capacity level for TIF districts or comparable economic development tools and relevant permitting criteria;

(2) the positive and negative impacts on the State's fiscal health of TIF districts and other tools, including the General Fund and Education Fund;

(3) the economic development impacts on the State of TIF districts and other tools, both positive and negative;

(4) the mechanics for ensuring geographic diversity of TIF districts or other tools throughout the State; and

(5) the parameters of TIF districts and other tools in other states.

JFO presented the initial report on January 15, 2018. It can be found on the JFO website. In addition to the 2018 report, Act 69 also required the following:

(g) Beginning in 2021 and every four years thereafter, on or before January 15, the Joint Fiscal Office, with the assistance of the consulting Legislative Economist, the Department of Taxes, and the Agency of Commerce and Community Development in consultation with the Vermont Economic Progress Council, shall examine the recommendations and conclusions of the tax increment financing capacity study and report created pursuant to subsection (e) of this section, and shall submit to the Emergency Board and to the House Committees on Commerce and Economic Development and on Ways and Means and the Senate Committees on Economic Development, Housing and General Affairs and on Finance an updated summary report that includes:

(1) an assessment of any material changes from the initial report concerning TIF districts and other tools and an assessment of the health and sustainability of the tax increment financing system in Vermont
(2) short-term and long-term projections on the positive and negative fiscal impacts of the TIF districts or other tools, as applicable, that are currently active or authorized in the State
(3) a review of the size and affordability of the net indebtedness for TIF districts and an estimate of the maximum amount of new long-term net debt that prudently may be authorized for TIF districts or other tools in the next fiscal year.

The first follow-up report was issued January 2022. That report was delayed by one calendar year due to staffing constraints. The submission of this report returns to the schedule mandated by Act 69.

Description of Vermont's TIF Program and Legislative History

At its core, TIF is an economic development tool that finances municipal revitalization and infrastructure projects by diverting a portion of the growth of property tax revenues in a specified district to pay for the debt incurred in completing projects. TIF originated in California in the early 1950s but proliferated nationwide during the 1980s and 1990s following the scaling back of federal funding for economic development. Currently, every state except Arizona allows some form of tax increment financing.

The TIF process generally goes as follows:

1. A municipality seeks to improve a geographic area by investing in new infrastructure (e.g., parking garages, new sidewalks, streetlights, water/wastewater systems, etc.) to encourage renewed investment in the area.
2. The municipality builds infrastructure with borrowed funds.
3. To repay these debts, some portion of any property taxes that result from increased property values within the TIF district is dedicated to repaying the infrastructure debt. These additional property taxes are called "tax increments." Vermont's statewide property tax means that a TIF district is entitled to two tax increments: one from the State education property tax and one from municipal property taxes.
4. Once the retention period ends, this split in revenues ceases and the municipality and State receive the full amount of tax revenue from the new developments.

Vermont's TIF program started in 1985. The original legislation permitted municipalities to establish TIF districts and individually set the parameters for their formation and operation, including project goals and the amount of increment retained.

Box 1: Definitions of 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.

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.

Related costs: Expenses incurred and paid by the municipality to finance and construct new infrastructure.

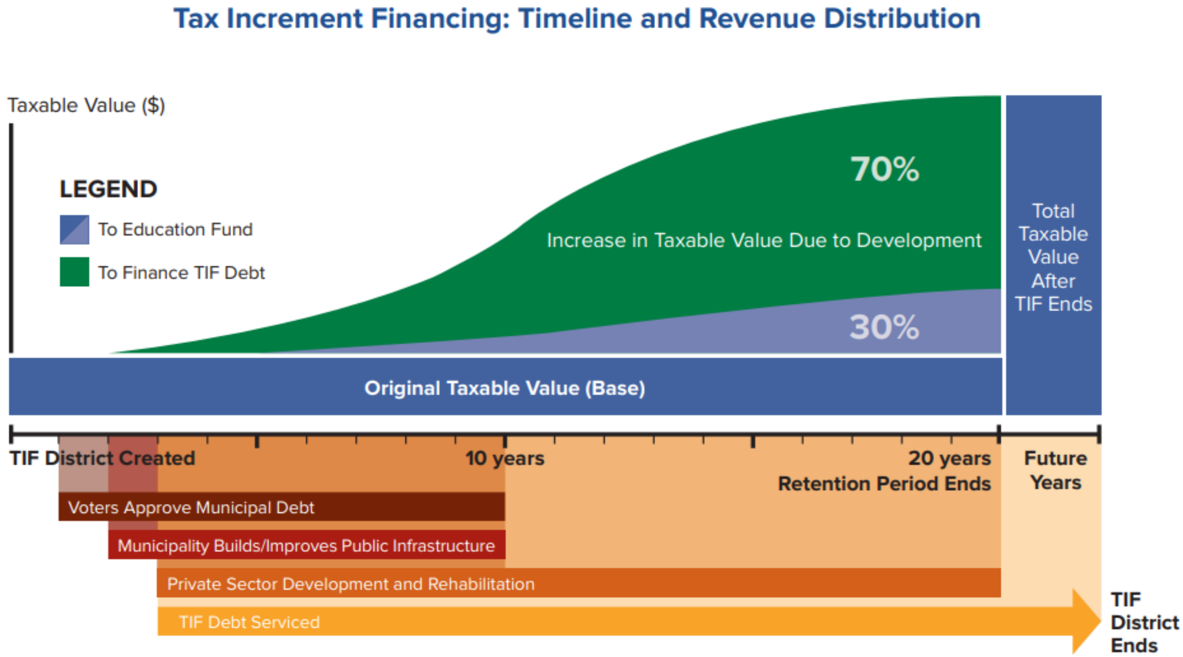
Incursion period: The period a municipality can incur debt after creation of the TIF district. The first incursion of debt starts the retention period

Retention period: The period of time a municipality is entitled to capture a portion of the total tax increment to finance infrastructure improvements.

Phase filing: Also called a substantial change request or amendment, is a formal application to the Vermont Economic Progress Council (VEPC) to update or alter aspects of a TIF district plan by adding additional improvements or bonding

Improvement: Statutorily defined as the installation, new construction, or reconstruction of public infrastructure for a TIF district and includes utilities, transportation, public facilities and amenities, land and property acquisition and demolition, site preparation, and some types of financing.

Figure 1: **Basic TIF Mechanics**



Source: Vermont Economic Progress Council (VEPC)[1]

After **Act 60 of 1997** created a statewide education property tax, TIF districts became eligible to retain two revenue sources: the statewide education property and municipal property tax increments. The addition of statewide education property tax dollars radically reshaped the potential scope of TIF district capacity and is arguably essential to Vermont's TIF program. In 2023, the statewide education fund generated roughly 68% of the overall revenue for TIF districts.

Act 71 of 1998 created a statewide body, the Vermont Economic Progress Council (VEPC), which reviews, approves, and oversees TIF districts and other economic development programs.

VEPC approved two TIF districts between 1997 and 2006. The Winooski district was successfully retired in 2024. In the Burlington Waterfront district, all but two parcels send 75% of education fund increment to district debt, but the district can keep 100% of the increment from the remaining two. Starting in fiscal year 2026, the Burlington Waterfront district will retire all parcels aside from those associated with the CityPlace development.

Act 184 of 2006 capped the number of possible TIF districts in Vermont at 10 and laid out new criteria for the allowable use of TIF districts:

- *Limits on the split of tax increment:* TIF districts could only keep 75% of municipal and education property taxes to fund district debt. The remaining 25% would go to municipal general funds and the statewide education fund.
- *New approval criteria*: VEPC was required to review whether the development would have happened without the tax incentive ("but-for" evaluation). Act 184 made VEPC responsible for reviewing town projections for property growth, tax increments, and tax increment splits.

[1]https://accd.vermont.gov/community-development/funding-incentives/tif

- *New location criteria:* TIF districts needed to be in one of the following areas: a high density or compact area, an approved downtown or growth center, or an economically distressed area.
- *New project criteria:* A new TIF district had to include at least three of the following five criteria:
  - The development must require substantial public investment beyond normal municipal operating or bonded debt expenditures.
  - The development includes new affordable housing for residents in the municipality.
  - The development includes the remediation of a brownfield site.
  - The development includes at least one entirely new business or the expansion of an existing business within the district.
  - The development will increase transportation by improving traffic flow or creating new public transit systems.
- *TIF district lifespan:* Any new district was eligible to retain property tax increments for no more than 20 years.

Five of Vermont's eight active TIF districts fall under these criteria. They include Milton Town Core (2008), Burlington Downtown (2011), St. Albans (2012), Barre (2012), and South Burlington (2012).

Act 69 of 2017 created clearer but also more strict criteria for new districts. In addition to continuing the rules for existing TIF districts, major updates included:

- New TIF districts could keep only 70% of the statewide education property tax increment, rather than the previous 75%.
- Municipalities had to commit at least 85% of the municipal property tax increment for the funding of TIF district debt, increasing the responsibility municipalities bear for their own development activities.
- Required a new TIF district application to meet two of the three location criteria outlined in Act 184, rather than one.
- Provided clearer definitions for what constitutes an economically distressed area.

Act 69 capped the creation of new TIF districts beyond those already listed in 24 V.S.A. § 1892 at six, which could be increased by Emergency Board approval. VEPC has approved three TIF districts, Montpelier, Bennington, and Killington since Act 69's passage, though the TIF districts in Montpelier and Bennington have since discontinued.

In summary, Vermont's TIF districts fall under three broad categories of legislation illustrated in Table 1:

Table 1: **Vermont TIF District Creation History**

Pre-Act 60 TIF Districts	**Act 184 of 2006**	**Act 69 of 2017**
Burlington Waterfront*	Milton Town Core	Killington
Winooski (retired)	Hartford	
Milton North/South (retired)	Burlington Downtown	
Newport (retired)	St. Albans	
	Barre City	
	South Burlington	

*Not including the three parcels associated with the Burlington Town Center development

Since Act 69, the General Assembly has changed debt incursion and retention periods and made technical corrections to the overall TIF program. Act 175 of 2020 and Act 73 of 2021 extended the debt incursion period for all TIF districts by two additional years except for cases where a district had already passed its 10-year debt incursion period. Act 111 of 2020 extended the incursion period for Hartford from 2021 to 2024.

Act 72 of 2023 extended the debt retention periods for Hartford and Barre from 2034 to 2036 and 2039, respectively. The implications of this extension will be discussed in further detail later in the report but were linked to lingering effects of COVID-19, both in project conception and implementation. Act 72 also made smaller changes to TIF statute, including the following clarifications:

- Allowed TIF districts to use bond anticipation notes as a method of financing
- Prohibited the adjustments of physical boundary lines of a TIF district after creation
- Specified that municipalities are required to send at least the original taxable value in the TIF district to the Education Fund, even if property values in the district decrease.

Table 2 on the following page shows basic data on each TIF district, including information about district creation, increment retention, and the amount of debt each district has incurred.

Table 2: **TIF Districts in Vermont**

	Year Created	Increment Retention Period	Original Property Value at Creation	Education Fund Increment Split	Municipal General Fund Increment Split	Debt Incurred as of June 30, 2023
Active TIF Districts						
Burlington Waterfront	1996	1996-2035[a]	$42,412,900	Original: 100% to TIF, 0% to Ed. Fund Beginning 2015: 75% to TIF, 25% to Ed. Fund For Burlington Town Center parcels: 100% to TIF	100% to TIF, 0% to municipal general fund	$20,689,489
Milton Town Core	2008	2011-2031	$124,186,560	75% to TIF, 25% to Ed. Fund	75% to TIF, 25% to municipal general fund	$9,582,600
Hartford	2011	2014-2036[c]	$33,514,500	75% to TIF, 25% to Ed. Fund	75% to TIF, 25% to municipal general fund	$11,159,528
Burlington Downtown	2011	2016-2036	$170,006,600	69% to TIF, 31% to Ed. Fund	100% to TIF, 0% to municipal general fund	$35,340,000
St. Albans	2012	2013-2033	$123,049,450	75% to TIF, 25% to Ed. Fund	100% to TIF, 0% to municipal general fund	$21,000,000
Barre	2012	2015-2039[c]	$51,046,870	75% to TIF, 25% to Ed. Fund	75% to TIF, 25% to municipal general fund	$2,200,000
South Burlington	2012	2017-2037	$35,387,700	75% to TIF, 25% to Ed. Fund	75% to TIF, 25% to municipal general fund	$10,429,962
Killington	2022	N/A	$12,529,045[d]	70% to TIF, 30% to Ed. Fund	85% to TIF, 15% to municipal general fund	$0
Retired TIF Districts						
Milton North and South	1998	1998-2019[b]	$26,911,151	Original: 100% to TIF, 0% to Ed. Fund Beginning 2010: 75% to TIF, 25% to Ed. Fund	Original: 100% to TIF, 0% to municipal general fund Beginning 2010: 75% to TIF, 25% to municipal general fund	$9,295,300
Newport	1998	1997-2015	$48,500	100% to TIF, 0% to Ed. Fund	100% to TIF, 0% to municipal general fund	$300,000
Winooski	2000	2004-2024	$25,065,900	Original: 95% to TIF, 5% to Ed. Fund Beginning 2008: 98% to TIF, 2% to Ed. Fund	100% to TIF, 0% to municipal general fund	$21,098,000

Source: 2024 Annual VEPC TIF Report
[a]The Waterfront district has a retention period of 1999 to 2025. However, Act 134 of 2016 extended the increment retention period to 2035 for only the Burlington Town Center parcels.
[b] In 2006, the Legislature enacted special provisions allowing the Milton North and South TIF Districts to be extended for an additional ten years.
[c] Act 72 of 2023 extended the retention period of the Hartford and Barre districts from 2034 to 2036 and 2039, respectively.
[d] The Killington Original Taxable Value (OTV) has not been certified. This figure reflects a revised OTV value submitted in March 2024.

Part III – Major Recent Changes to Vermont's TIF Program

Before launching into an investigation of the economic and fiscal impacts of TIF districts, the statutory charge in Act 69 requested "an assessment of any material changes from the initial report concerning TIF districts." Since the most recent report in 2022, there have been a few changes, many associated with the challenges and opportunities presented by the COVID-19 pandemic.

First, both in the number and retention periods of active districts changed. Two districts, Montpelier and Bennington, have been discontinued. The Montpelier City Council voted to dissolve their TIF district in late 2022 after a developer scrapped plans to build a new hotel and parking garage downtown and because the TIF district did not include property on Country Club Road that the City purchased in 2022. At the time of dissolution, the City Council left the door open for a reconstituted TIF district that included the new property.[2] Bennington was able to find alternative funding sources for the two main projects identified in original TIF plans and the Selectboard voted to dissolve the TIF district in December 2023.[3]

Two other districts, Barre and Hartford, requested and received extensions to their education tax increment retention periods as part of Act 72 of 2023. Both districts cited challenges related to the COVID-19 pandemic as the reason for requesting extensions to their increment retention period. As outlined by Barre City Treasurer Carol Dawes in March 29, 2023 testimony to the House Committee on Ways and Means:[4]

"The pandemic has had lasting effects on private development, availability of contractors and materials, and downtown employee work schedules and parking needs. Rather than move forward with the infrastructure projects outlined in the TIF plan, the City Council chose to review the changing environment…"

Both TIF districts were cited in the previous JFO TIF report as containing some risk due to the precarious nature of their financing plans. Before the extension of each district's retention period, both would have needed to use municipal funds to make bond payments at the end of each district's retention period. The extension of the retention periods reduces the risk to both TIF districts in a decade but will result in more than $3 million in total forgone Education Fund revenue from 2035 to 2039. The experience of both districts highlights that although TIF district risk is technically carried by municipalities, as a larger source of funds, the Legislature and the statewide Education Fund is an important part of the conservation when TIF plans are threatened by external events or construction delays.

While some TIF districts have experienced headwinds since the last report, two districts have moved forward by incurring debt or expanding their TIF plans. On Town Meeting Day in 2023, Killington voters approved incurring up to $47 million in debt to expand the town's water supply and reconstruct the Killington Access Road. The town broke ground on those projects in early 2024. Also in 2023, the City of St. Albans completed a substantial change request and residents voted to approve a $11.4

[2] https://www.timesargus.com/news/local/montpelier-moves-to-dissolve-tif-district/article_dfd565fd-4624-5568-a0d0-dfe264026c0e.html
[3] https://www.benningtonbanner.com/local-news/bennington-vermont-to-dissolve-its-downtown-tax-increment-financing-district-putnam-block-benn-high-project/article_e499741e-8e20-11ee-8565-cf8235727afc.html
[4] https://legislature.vermont.gov/Documents/2024/WorkGroups/House%20Ways%20and%20Means/Bills/S.94/W~Carol%20Dawes~Testimony%20to%20House%20Ways%20and%20Means~3-29-2023.pdf

million bond. This bond would primarily fund a housing development behind city hall that would add 90 housing units to St. Albans when completed.[5]

Rutland City is considering a new TIF district, which could take shape as soon as 2025. The preliminary plan includes eight public infrastructure projects that would support approximately 385 units of housing and a new hotel downtown.[6]

In addition to these changes, VEPC resolved the issue of the Champlain College Development Fee in the Burlington Downtown TIF district. The $260,000 annual fee is to be paid to the City of Burlington for 20 years starting in 2017 to assist in the repayment of debt associated with development of two Champlain College projects. Per a 2020 substantial change request, Burlington was supposed to deposit this annual fee in its TIF fund, which effectively decreased the amount of Education Fund dollars that would be used to pay for bonded debt over the life of the TIF district. To correct this error, VEPC decreased the City's education tax increment retention amount from 75% to 69%, effective fiscal year 2024 (the municipal retention percentage did not change). This new increment retention amount will be maintained throughout the rest of the life of the TIF district.

[5]https://vtdigger.org/2024/03/05/11-4m-bond-for-downtown-development-approved-in-st-albans/
[6]https://www.rutlandvtbusiness.com/wp-content/uploads/2024/10/Rutland-TIF-CED-Comm-Presentation-9-25-24.pdf

Part IV – Statewide Economic and Fiscal Impacts of TIF Districts

This section considers the economic and fiscal impacts of Vermont's TIF program in response to the statutory charge in Act 69. This analysis largely focuses on the statewide Education Fund by looking at three different assumptions about how TIF districts drive development. Although JFO does not have the ability to rigorously test or measure secondary impacts, such as increased sales, job creation, or other long-term indicators, this section also looks at academic research conducted in other states with more robust TIF programs to glean insights about the positive and negative economic outcomes associated with TIF districts.

Evaluation of the fiscal impacts of Vermont's TIF program requires some level of assumption about the overall counterfactual "but-for" circumstance of TIF district development. In other words, do TIF districts drive development that would not have occurred without the TIF, or are they attracting development that would have occurred elsewhere in the state? The answer to the question for each development has unique impacts on Vermont's statewide Education Fund.

For example, assume that a housing developer is looking to build a commercial/residential project somewhere in Chittenden County. If the project occurs in Williston, which does not have a TIF district, the Education Fund receives 100% of the tax benefit from the new development. However, if that project occurs in the South Burlington TIF district, the Education Fund receives only 75% of the property tax benefit from that development while the TIF district is in effect. If the only consideration for the developer was where to locate the project, the difference between the 100% the Education Fund would have received and the 25% it receives represents forgone revenue.

However, the calculation is different for a business or retailer looking to expand its operations in New England. If the project moves to Vermont instead of some other state because of a TIF district and locates within the boundaries of a TIF district, that project represents a benefit to the Education Fund, which gets to keep 25% of the incremental property tax revenues from the project. If the project occurred across the border in New Hampshire, those Education Fund revenues would be lost.

There are many potential outcomes between these two examples. TIF districts could speed up project timelines by enabling infrastructure development, bringing a positive benefit to the Education Fund in the near term but creating forgone revenue when the project would have been completed on a slower timeline. They also may encourage larger projects than what would have been possible without the support of infrastructure in the district, which could mean an outright positive to the Education Fund or forgone revenue depending on what would have happened without the TIF.

These examples are presented not to argue in support of or opposition to TIF districts, but rather to show the myriad complexities of the counterfactual but-for considerations, which make it challenging to quantify the overall economic and fiscal impacts of the TIF program without assumptions about the nature of this counterfactual development. Three such assumptions about the overall nature of development in TIF districts and how various economic models measure that assumption are presented below.

- **Assumption 1:** All development would have occurred elsewhere or not at all ***and*** there is no baseline growth in the TIF district.
- **Assumption 2:** Districts would have continued to grow at long-term averages absent TIF.
- **Assumption 3:** All development would have happened in the state anyway.

This section will explore each of these assumptions in turn.

Assumption 1: All development would have occurred elsewhere or not at all *and* there is no baseline growth in the TIF district

At face value, TIF districts seem to present substantial benefits to municipalities. The 2024 VEPC annual report lists nearly $600 million in increased taxable value from when TIF districts were created and $8.2 million of incremental education tax revenues in fiscal year 2023, of which $1.2 million went to the Education Fund.[7] If one believes that all development would have otherwise happened outside of the state or not at all, the TIF program is a benefit to the Education Fund.

This assumption underpins the basic mechanics of any TIF program. At the start of the district, property values are frozen at the Original Taxable Value (OTV), and any increase in taxable value becomes increment available to the Education Fund and to pay for debt incurred in support of the TIF district. In this situation, any additional growth of property values should get captured by the TIF district because without infrastructure improvements, additional development wouldn't occur, and property values in the district would stay constant.

However, as previous reports argued, this is a hard assumption to hold. Instead of creating new development, TIF districts often pull development from nearby areas that do not have a TIF. For a developer, it improves the cost sheet to have the municipality support necessary infrastructure development rather than having to incorporate it into the project cost. Also, the presence of a TIF program may signal to a developer that a municipality is committed to investing in that area, making it easier to move a project from conception to development.

The second part of this assumption requires holding property values for existing property within the TIF district fixed. However, TIF districts can include large amounts of property value from existing homes and businesses when created. For example, the OTV of the Burlington Downtown TIF district was over $170 million. When the value of that property grows independent of any developments or improvements in the TIF district, the incremental revenues flow to both the TIF district debt and the Education Fund, instead of solely to the Education Fund.

All TIF districts except Killington were experiencing some amount of Grand List growth before the TIF district went into effect. Some districts, such as Hartford and Burlington Downtown, grew at more than 5% per year in the seven-year period before implementation. Only one district, Barre, grew at less than 2%. These growth rates are likely low-end estimates of the current background growth occurring in TIF districts, as current property value growth in Vermont is quite strong. In fiscal year 2024, statewide average Grand List growth was 9.4%. In fiscal years 2025 and 2026, Grand List growth is estimated at 14.3% and 14.7%, respectively.

Determining a more accurate counterfactual requires attempting to compare existing background growth without a TIF district and the amount of incremental revenues that occur with a district, which is the basis of the next assumption.

Assumption 2: Districts would have continued to grow at long-term averages absent TIF

To counteract some of the weaknesses of this first assumption, this report will consider a second assumption to investigate the fiscal costs of TIF districts. Rather than holding property growth in TIF districts flat, this second assumption is that properties in the TIF district would continue to grow at

[7] https://legislature.vermont.gov/assets/Legislative-Reports/TIF-Annual-Report-FY23-Report-Year-2024_Final.pdf

the long-run average. Rather than the image of base revenue generation presented in Figure 1, this assumption creates an image that more closely resembles Figures 2 and 3 on the following page.

To test this assumption, used a methodology developed in previous reports and calculated the long-run average growth of parcels in each TIF district to understand the amount of naturally occurring Grand List growth that gets captured when a town sets the OTV of the TIF. This amount of incremental tax revenue was subtracted from the amount of revenue that is estimated to flow to the Education Fund from the TIF district each year. If the amount of revenue from this calculation is positive, it means that the TIF district generates more revenue to the Education Fund than it would have if it had simply been allowed to grow at its long-run average. Conversely, if the amount of revenue that would have been generated by this background growth is larger than the amount of revenue the TIF district is estimated to deliver to the Education Fund, the difference represents forgone revenue. These calculations are summarized in the equation below and in the figures that follow.

Equation:

Education Fund Receipts under TIF district – Estimated Education Fund Receipts without TIF District = Benefit or Cost to the Education Fund

Figure 2: **TIF Revenues Under Counterfactual Scenario – Forgone Revenue to Education Fund**

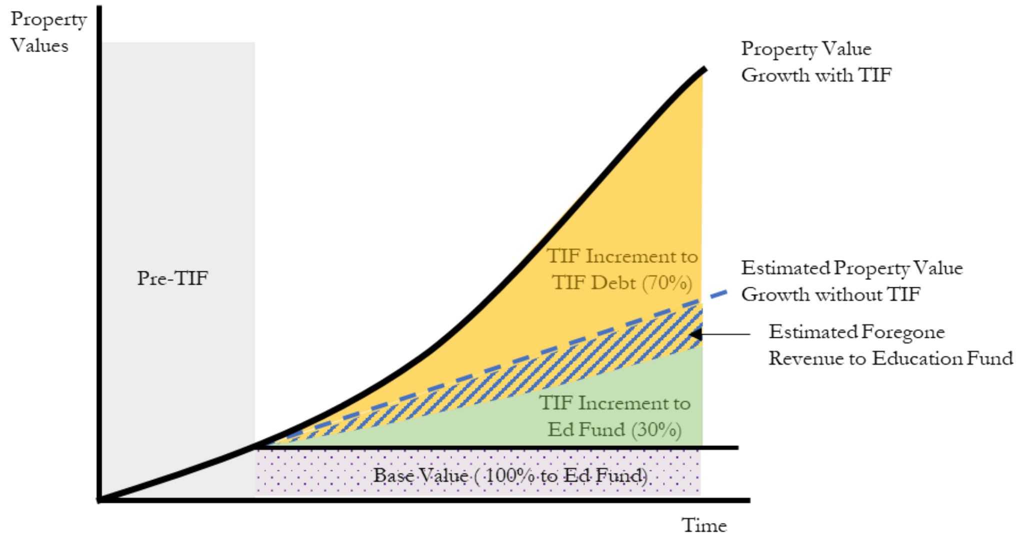
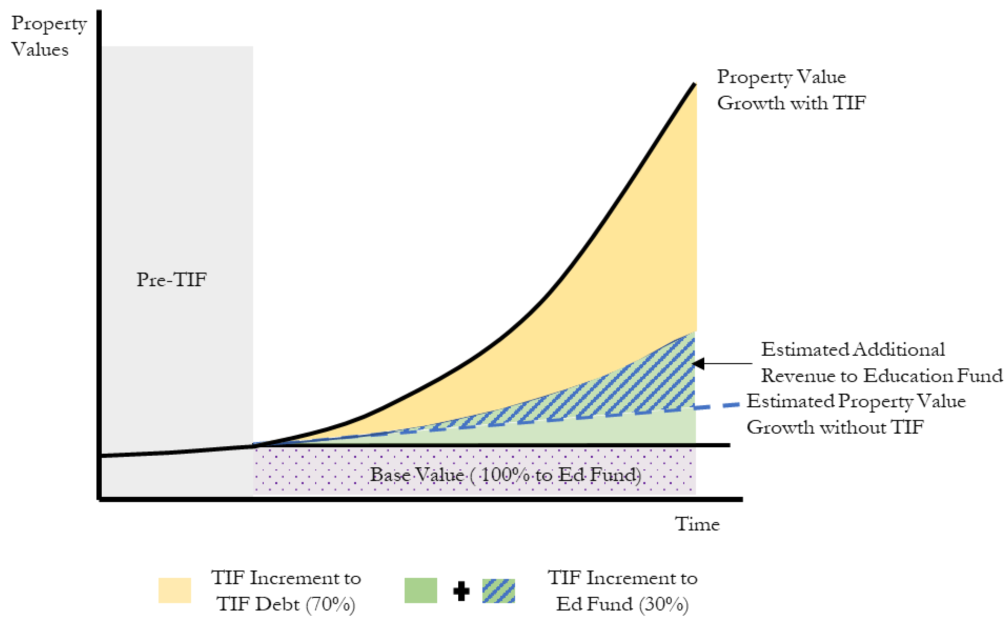


Figure 3: **TIF Revenues Under Counterfactual Scenario – Additional Revenues to Education Fund**



In some cases, the data were not available or did not represent a stable amount of value to compare against. For example, in Killington, the TIF district contains land parcels for the ski area that have widely changed in assessed value since 2005, and the overall value of the identified parcels decreased between 2007 and 2023. This analysis instead used overall growth in the Killington Grand List as a proxy for background TIF district growth. Second, the Burlington Waterfront TIF district was excluded from this analysis, as there are simply too many issues with determining a representative counterfactual for this district to include it in the modeling. The counterfacutal growth rates used in the model are shown in Table 3 on the following page.

Table 3: **Baseline Scenario Growth Assumptions**			
City	**Growth Rate**	**Period**	**OTV Year**
St. Albans	2.23%	2003 through 2011 CLA Adjusted Growth TIF District	2012
Milton Town Core	3.50%	JFO assumption. Data indicated an unexplainable significant increase in TIF district grand list in the pre-TIF years.	2008
South Burlington	2.00%	2003 through 2011 CLA Adjusted Growth TIF District	2012
Hartford	6.31%	2003 through 2010 CLA Adjusted Growth TIF District	2011
Burlington Downtown	5.11%	2003 through 2010 CLA Adjusted Growth TIF District	2011
Barre City	1.06%	2003 through 2011 CLA Adjusted Growth TIF District	2012
Burlington Waterfront	3.52%	Burlington 1987 through 1996 overall grand list growth	1997
Killington	2.89%	Killington 2006 through 2023 overall grand list growth	2022

Overall, the model shows an annual impact of between $4.4 million to $7.7 million from TIF districts to the Education Fund for the next five years – a similar impact as previous reports identified. Table 4 shows the results of the model going even further, all the way out to 2035. The difference in forgone revenue year to year is largely explained by the addition of various developments to grand lists in TIF district. However, the estimate of the forgone revenue decreases toward the end of the time frame investigated in the model, as the increment retention period of individual districts end and the full amount of increment gets allocated to the Education Fund. Note that this model only calculates the fiscal impact of current TIF districts; it does not make any assumptions about any potential TIF districts that might be approved in the future.

As in previous reports, most of the fiscal impact in this model comes from a few sources. First, a large amount of the forgone revenue comes from the Burlington and Milton TIF districts. These two districts have large OTVs, meaning that they are capturing a wider tax base to derive increment. Since both districts have high background growth rates in addition to large OTVs, the estimated background growth of their increment is higher than in other districts. Thus, development would have to occur at a rapid pace to beat the counterfactual background growth rate in the district.

Table 4: **Fiscal Impacts from the JFO Fiscal Model**	
Fiscal Year	**Education Fund Impact ($ millions)**
2025	-$6.85
2026	-$7.29
2027	-$7.63
2028	-$4.47
2029	-$4.64
2030	-$5.05
2031	-$5.82
2032	-$4.55
2033	-$5.31
2034	-$2.33
2035	-$1.51

However, different than previous reports, there are a few potential positives. First, once the increment retention periods of various districts end, the impact to the Education Fund usually becomes positive. This result indicates that if values increase as projected in TIF plans, TIF districts increase property values by more than the rate of growth in property values before the districts were created. Note that this does not necessarily mean that property values increased by more than what they would have occurred without use of TIF districts, which cannot be measured without statistical controls.

Second, although many TIF districts represent forgone revenue to the Education Fund while they are in their increment retention periods, the Killington TIF district offers the potential to deliver positive returns to the Education Fund throughout the life of the district. This difference is partly because it would be the first TIF district to deposit 30% of incremental taxes to the Education Fund, as required by Act 69, rather than the 25% share for TIF districts created under Act 184. This difference alone represents an estimated additional $200,000 to $300,000 per year for the Education Fund once all developments in the district are completed. Second, the TIF district has a relatively small OTV compared to other districts, which means that background growth has less of an influence.

Although this assumption exists somewhere in the middle ground, it does come with challenges. First, it may understate the forgone revenue losses that are associated with TIF because many district estimates are based on Grand List growth rates from the period of 2003 to 2010 or 2011. Those rates follow a full real estate cycle and best reflect long-term growth rates in those districts. However, recent statewide Grand List growth has been robust. As noted earlier, statewide annual Grand List growth is estimated to be 14.3% and 14.7%, in fiscal years 2025 and 2026 respectively. In practice, this means that the estimates of what the Education Fund is receiving with TIF reflects recent Grand List growth, but the baseline scenario reflects a more muted long-term average. Future estimates will need to account for that difference.

Second, it relies largely on estimates of project development provided by municipalities in their substantial change requests. Previous reports found that those projections are often far too optimistic. The previous report noted that actual increases in taxable value by the end of 2020 lagged values forecasted on TIF applications by more than half. One major cause was COVID-19, which caused major delays in the timelines of development and increased material costs. One note of caution: this is assuming that early forecasts for project timelines and assessed value in Killington are accurate. As noted, TIF applications tend to be quite optimistic. If Killington's experience ends up being dramatically different than what is projected, that could reduce the amount of estimated revenue generated for the Education Fund, though the result will still likely be positive.

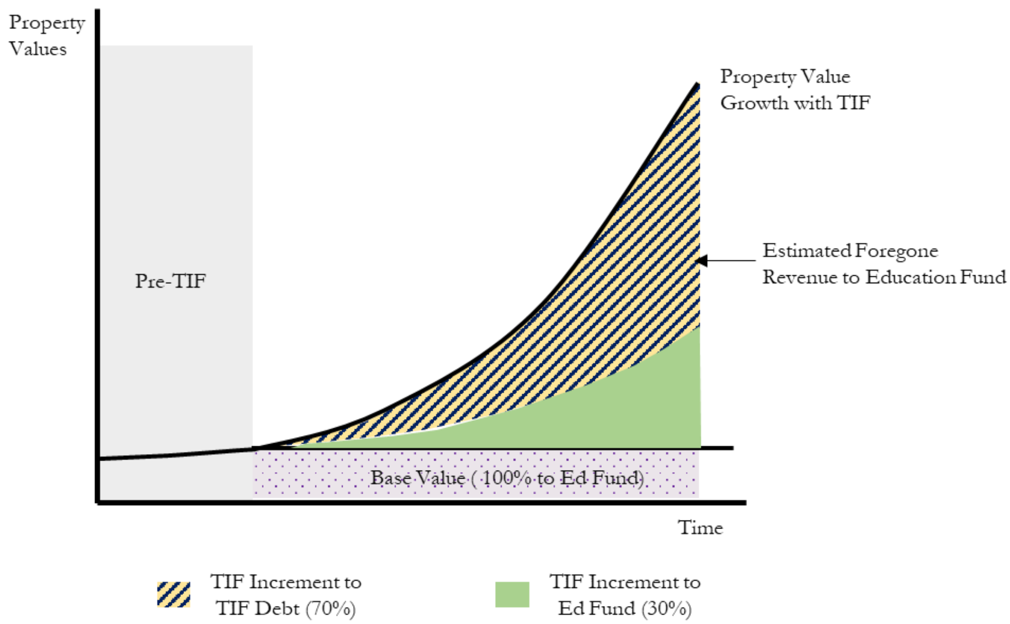
Finally, although this model attempts to understand the impact of a background growth rate, by considering incremental revenue delivered to the Education Fund by TIF districts as a positive, it does assume that development would not have happened without the TIF district, which may understate the forgone revenue from TIF districts. The final assumption offers another way to look at this part of the equation.

Assumption 3: All development would have happened in the state anyway

32 V.S.A. § 305b charges JFO and the Secretary of Administration with providing an estimate of the impact of TIF districts on the Education Fund to the Emergency Board. The model used to generate that estimate calculates current and future tax increments generated by TIF districts statewide. It then adds up the amount of tax increment that goes to TIF district debts and considers this the forgone revenue to the Education Fund. The framing of the model means that the estimate assumes that all

development that occurs in the TIF district would have happened elsewhere in the state – money that goes to TIF district debt is diverted from the Education Fund (see Figure 4).

Figure 4: **TIF Increment Estimates Under Assumption 3**



Traditionally, this estimate has been close to the figure produced under the model used for JFO TIF reports. The most recent estimate provided to the Emergency Board was a $6.5 million cost to the Education Fund in fiscal year 2026, compared to the forgone revenue estimate of approximately $7.2 million under the model used in the previous assumption.

Like the first assumption, this one is quite strict and may not reflect the actual counterfactual condition in all TIF districts. 32 V.S.A. § 5404a requires VEPC to evaluate applications and determine whether "the proposed development in the district would not have occurred in the district, or would have occurred in a significantly different and less desirable manner than as proposed in the application." Consequently, all TIF district applications comment on this element of "but-for" to some extent. The South Burlington application notes that the city was at the time primarily a suburban destination, and development without the TIF district would have created a less compact and less walkable core around Dorset and Market Street. The application also notes that stormwater improvements associated with the TIF district would similarly drive more compact development, leading to a greater density of higher value development that would not be possible without a stormwater system. The Killington application notes that the town Grand List has declined over the past 10 years and that without basic municipal infrastructure such as a road and water system, "this resort village [at the main Killington lodge] will not get started."

In absence of clear information about the counterfactual, this model is used to provide a potential full cost of the program for policymakers. This method is in line with how other tax expenditures are forecasted, so that the potential full impact allows for more careful consideration of a program or exemption.

Overall, the goal of this section is to cement two core considerations around the fiscal and economic impacts of TIF districts. First, the fiscal impacts of TIF districts largely depend on various assumptions one holds about the TIF program overall and any assumption that development would have happened anyway in the state carries a greater cost in forgone revenue. Second, while there may be economic development benefits associated with TIF districts, such as increased income tax revenue from new residents, these benefits are not a part of any modeling typically associated with the JFO. To explore the potential economic and fiscal impacts in more depth, the next section contains information from a range of studies and analyses about TIF districts in other states.

Findings from other states

As noted earlier in the report, JFO is unable to rigorously track economic development outcomes associated with TIF districts given the challenges in measuring what would have happened in absence of a TIF district in that area. Rather than analyzing those outcomes using available data in Vermont, this report will use evidence and research from other states to draw general conclusions that may be applicable to Vermont. Although it is likely that many of the findings from these studies are relevant, differences between Vermont's TIF program and the usage of TIF districts in other states may limit their applicability. Most importantly, Vermont's TIF program operates at a dramatically different scale than in other states. For instance, Iowa has 3,340 TIF districts and a population of 3.16 million – more than one district per thousand people. Vermont has one district per 81,000 people.

One substantial literature review, written by researchers at Boise State University and the University of New Hampshire, was published since the previous report.[8] The authors found that the "empirical evidence on the economic and fiscal effects of TIF is mixed," which echoes findings from previous JFO reports.

On the one hand, many studies have found that property values do increase because of a TIF district, even after controlling for selection bias to ensure that TIF districts are not just capturing existing growth rates in property values. However, that growth in property values may come at a cost. Numerous studies find that property value increases in a TIF district often occur while property values just outside of the district decrease. In effect, this means that TIF districts are capturing growth from nearby areas (Hicks et. al 2019). In Vermont, recent changes in Act 181, which will incentivize development in designated areas newly exempt from Act 250, only increase the potential for this type of pressure. This finding is important because any development that would have happened anyway in the state but instead gets sited in a TIF district represents forgone revenue to the Education Fund.

Although TIF districts may promote property value growth inside them, multiple studies found that they did not pass the "but-for" test and did not generate more economic development (measured through increased employment) than what would have been expected in their absence (Lester, 2014; El-Khattabi and Lester, 2019; Yadavalli and Landers 2017; Byrne 2018). One study of the TIF district in Polk County, Iowa found that private sector employment decreased after it was implemented, though this may be explained by the district's emphasis on residential development (Funderburg 2019).

While literature reviews in this and previous reports found that no firm conclusions about TIF districts can be drawn holistically, findings highlight a key question: are TIF districts being used to jumpstart a blighted area or simply capturing growth that otherwise would have happened?

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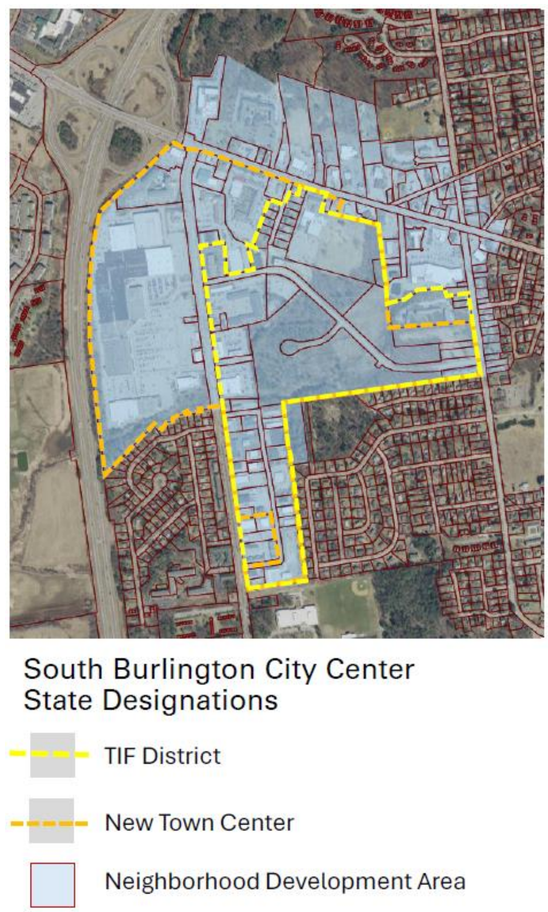
[8]The references in this section can all be found in Hartt, S. A., Nash, J., & Plante, C. (2024). TAX INCREMENT FINANCING (TIF): A REVIEW OF TIF'S ECONOMIC AND FISCAL EFFECTS. In *Advances in Taxation* (pp. 209-227). (Advances in Taxation; Vol. 31). Emerald Publishing. https://doi.org/10.1108/S1058-749720240000031007

Infrastructure Development and Land Use

Although the evidence on economic development outcomes is mixed at best, TIF districts can also be considered by their efficacy in promoting other goals that may be of interest to policymakers: infrastructure development and land-use goals. First, TIF districts are currently one of the largest infrastructure development programs in Vermont municipalities. Voters in active Vermont TIF municipalities have authorized over $200 million in project debt and municipalities have incurred over $100 million to complete various projects.

Infrastructure development in Vermont is especially challenging. Vermont municipalities must deal with high project costs, lengthy environmental reviews, and limited capacity to manage and report on diverse sets of funding. The complexity of monitoring and managing a TIF project does not necessarily solve the last problem, but the revenues from TIF can open up projects that are not feasible given town fiscal capacity. That is one of the central statutorily-required considerations VEPC evaluates when reviewing applications (would the project occur "but-for" the TIF district). One clear example is the project to bring a water system to Killington and make improvements to the Killington access road. Given that the project has been considered since the 1980s, it was unlikely to move forward without the additional revenues from TIF.

Although TIF districts represent a sizable source of infrastructure financing, they are usually not the sole source of financing for the projects identified in TIF plans. The presence of other sources of funding muddies the water on the overall impact of TIF districts and can mean that positive outcomes associated with the district, such changes to employment or an increase in development are linked to the wide range of funding sources in the capital stack.



Source: Courtesy of the City of South Burlington

This report echoes the finding of the most recent report that TIF usage may align with State development goals. 24 V.S.A. § 4302 states that municipalities should "plan development so as to maintain the historic settlement pattern of compact village and urban centers separated by rural countryside" and that "economic growth should be encouraged in locally designated growth area, employed to revitalize existing village and urban center, or both, and should be encouraged in growth centers designated under chapter 76A of this title." To the second statutory point, as the map on this page shows, South Burlington's TIF district almost exactly shares borders with its Neighborhood Development District. A similar overlap can be found in many TIF districts throughout the state.

This overlap is by design. For South Burlington, the TIF district gave the City a chance to craft a city center that helped change the area from a more dispersed suburban neighborhood to more compact residential and commercial development while increasing the City's Grand List.

Part V – Sustainability of TIF District Debt

The final part of this report concerns the statutory requirement that directs JFO to review both the size and affordability of the net indebtedness for TIF districts and estimate the maximum amount of new long-term net debt that may prudently be authorized for TIF districts or other tools in the next fiscal year.

Before launching into a more detailed consideration of this requirement, it is important to note that this charge is outside the purview of JFO, as this office does not have underwriting experience and does not play a formal role in TIF district monitoring or auditing. Instead, the ultimate authority for determining the affordability of net indebtedness and the amount of debt that can be issued for TIF projects statutorily resides with VEPC, as it approves municipal TIF district plans and later amendments to those plans. Rather than duplicating the efforts of VEPC, this section will instead look at municipal performance against projections and make general comments about the affordability of debt within the typical lifecycle of a TIF.

First, when a municipality goes to VEPC to receive formal approval for the creation or change to a TIF district, it must submit a wide range of financial information, including estimates of the additional increment that will be generated by new development projects, the type of debt and amortization schedules for what will be incurred, and any other revenues that will be used to service debt. These workbooks present a holistic picture of TIF district financial health in the near, medium, and long term. Then, if it is only an amendment to the TIF district plan, based on the information presented in the financial modeling, VEPC can either approve the amendment, deny it (which it rarely does), or ask for independent evaluation. If it is an initial application, VEPC has a much wider range of criteria to consider.

After VEPC approves changes, per 24 V.S.A. § 1894(h), each instance of borrowing requires a town-wide vote to approve the terms of the borrowing and certify that the legislative body (selectboard or council) can pledge the credit of the municipality. This pledging of municipal credit is important because although the statewide Education Fund helps pay for district debt, municipalities are on the hook for any shortfalls for debt service that may occur, unless the General Assembly intervenes and provides additional retention of Education Fund increment.

Overall, this process offers significant oversight to ensure that debt is affordable given available revenues. However, this evaluation is heavily dependent on projections provided in the financial modeling. Previous JFO reports have found that actual incremental values have not matched projections.

To evaluate the net affordability of TIF district debt, JFO examined the incremental revenues that were projected by municipalities in VEPC filings, and compared those to the actual value of incremental tax value growth in the TIF district. This analysis recognizes that TIF districts, particularly in the early stages, try to incur an amount of debt that can be supported by projected development in the district. If actual values are much greater than projected, that suggests that the municipality is generating more increment than is required to service its debt. In some cases, this additional revenue could theoretically support additional authorization of debt if the debt incursion period is still open. If actuals are less than projected, then the opposite is true, and a district does not have additional capacity to support debt payments.

There are a few caveats to this analysis. First, only three districts, Barre, Hartford, and Killington are still able to incur additional debt, but data on increment generation is provided for all districts that have completed at least some associated improvements. The data for districts outside of the incursion period is helpful to understand performance of these districts compared to previously submitted plans. Second, this analysis does not include other sources of revenue that can service district debt, such as parking garage fees or grants.

When evaluated through this lens, most TIF districts are well in advance of their projections, meaning that TIF district debt is likely to be more affordable given revenues. Most of this overage comes from the Milton TIF district, which is generating approximately $700,000 more in additional education property tax revenue than what was projected in 2017. This overage reflects the fact that Milton is the oldest active district and many of its identified developments are already completed, leading to increased increment generation.

Table 5: **Projected and Actual Education Property Tax Increment Generation**

District	Year of Most Recent Filing	Incursion Period End	Education Tax Increment to TIF District Debt - Projected	Tax Increment to TIF District Debt - Actual	Under/Overshoot
Barre	2019	2026	$189,269	$155,688	-$33,581
Burlington Downtown	2024	2023	$1,391,748	$1,373,799	-$17,949
Burlington Waterfront	2023	2023	$1,728,208	$1,814,792	$86,584
Hartford	2019	2026	$430,460	$531,885	$101,425
Milton Town Core	2017	2018	$604,499	$1,329,054	$724,555
South Burlington	2017	2024	$621,755	$870,680	$248,925
St. Albans	2023	2024	$881,532	$966,776	$85,244
Total			**$5,847,471**	**$7,042,674**	**$1,195,203**

There are two notable exceptions to this analysis. First, Barre's increment generation is currently below projections in their 2019 substantial change request. Although this shortfall is relatively small, Barre's financing plan only provided $50,000 of surplus revenues for fiscal year 2025. However, Barre did not bond for the full amount that was in its substantial change request and approved by voters in November 2022, instead deciding to complete a smaller scope of work. The smaller bond payments associated with this change could mitigate the impact of less than expected increment generation. In addition, a housing project proposed on Seminary Street expected to start construction in 2025 will provide additional increment for the district.

Second, the Killington district is absent from the table above because, as a new TIF district, it is not yet generating any major increment. However, newer districts often face risks when bond payments begin before associated developments complete. According to its most recent substantial change request, bonds incurred by Killington in 2023 would generate a deficit of approximately $580,000 in fiscal year 2025, and $1,225,000 in fiscal year 2026. According to the plan, the fiscal deficit would turn to a surplus in fiscal year 2027 with the completion of the first phase of the lodge development in Killington. However, Great Gulf, the developer of the project, announced that delays may push completion of the first set of buildings to 2028. Additional sources of increment are unlikely in the interim, so the forecasted deficit will likely continue through at least fiscal year 2028. That deficit could be more than $2 million each year, though a development agreement signed by Great Gulf and the

Town of Killington stipulated that after the first two fiscal years of the project (the "initial shortfall"), the Town could implement "additional value assessments" on developer lands to pay for municipal debt.[9]

Overall, this exercise highlights a few key points about TIF districts. First, TIF district finances get healthier as time goes on. At the end of a district, all the improvements in the district plan are completed, and so increment generation is at its peak, leaving a greater cushion between increment generation and debt service. Conversely, TIF districts are more precarious in the beginning or right after they have bonded for additional improvements. At this stage, debt payments will start before the projects are completed and begin to generate revenue.

[9] https://www.killingtontown.com/vertical/sites/%7BE4345A2E-9636-47A3-9B74-2E6220745729%7D/uploads/Killington_Forward_--_GG_Dev_Ag_with_Amendment_(003)-_Amended_10-28-22.pdf

Part VI – Conclusion and Considerations

Overall, measuring outcomes associated with TIF districts is deeply challenging without holding some assumptions about the development that occurs along with TIF districts. Rather than issuing firm conclusions about the exact revenue costs or benefits resulting from use of TIF districts, this report attempts to unravel some of the complexities of TIF district impact measurement, emphasizing key points for policymakers as they think about TIF within the State's policy goals and context. Like any other tool, the success or weakness of TIF is highly context dependent, offering policymakers the opportunity to focus on best practices and mitigate risks. In closing, this report offers two questions for consideration.

Are TIF districts currently needed to promote grand list growth?

As referenced in this report, property value growth in Vermont is currently quite strong, as measured by the equalized education grand list, and may remain so for the near term. TIF district creation in this environment creates greater risks to the Education Fund – rather than flowing exclusively to the Education Fund, some of the naturally-occurring property tax growth instead flows to servicing debt for district improvements. The larger the rate of growth before a TIF district gets created, the larger the potential impact to the Education Fund. For example, Rutland City's equalized education grand list grew by 6.47% between 2021 and 2022 and by 10.86% between 2022 and 2023. Although actual growth rates within the TIF district could be different, creation of a district in an area experiencing similar rates of growth will create forgone revenue for the Education Fund before and potentially after new developments generate increment.

These effects in total are shown by the JFO model used to estimate forgone revenue to the Education Fund, which showed that TIF districts result in the Education Fund receiving between $4.5 and $7.5 million less per year for the next five years.

To minimize potential impacts to the Education Fund, the location criteria in 32 V.S.A. § 5404a may need to be revisited to ensure that TIF districts focus on areas of the state that are truly stagnating, as under the current TIF program there is no explicit requirement that TIF districts need to be in areas with flat education grand list growth. The only criterion that comes close is in 32 V.S.A. § 5404a, which stipulates that the TIF district must be in an area where:

1. The Median Family Income is less than 80% of the statewide average;
2. The average unemployment rate is at least 1% higher than statewide average; or
3. House prices are less than 80% of the statewide average.

Although this potentially targets TIF districts towards economically depressed areas, VEPC can approve a TIF districts that meets two of the other location criteria in 32 V.S.A. § 5404a. The location criteria could be revised to place a limit on background growth that is occurring in a TIF district before creation or requiring growth to be less than a certain percentage compared to statewide growth.

What is the main value of the TIF program?

Proponents of TIF districts often extol the economic development potential of TIF districts. For example, the statement of purpose for the Rutland TIF district argues "the TIF district will catalyze economic growth in one of the State's most densely utilized and urban areas." However, a wide body of research into TIF districts challenges the idea that they have large impacts on economic development outcomes such as job creation or sales tax revenue generation.

Instead, the main benefit of TIF may be its ability to spur infrastructure development in larger Vermont municipalities, which is often a prerequisite to attracting construction and development at any meaningful scale. The challenges of funding infrastructure in Vermont are well-documented. Communities interested in completing large-scale infrastructure programs face strong headwinds between high project costs, limited capacity to manage complex grant requirements, and disparate local priorities. At the same time, federal funding is dwindling. As the federal largesse after COVID-19 dries up, TIF will be among the largest sources of funding for local large-scale infrastructure development.

Focusing on infrastructure development could also inspire changes to the location and project criteria listed in 32 V.S.A. § 5404a to focus on critical infrastructure such as water and sewer development alongside brownfield remediation and transportation improvements.