Vermont Legislative Joint Fiscal Office

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FISCAL NOTE

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S.191 An act relating to tax increment financing districts

https://legislature.vermont.gov/Documents/2020/Docs/BILLS/S-0191/S-0191%20As%20Introduced.pdf

Summary

This bill makes changes to Vermont's Tax Increment Financing (TIF) program. The bill clarifies statutory language surrounding the following areas:

- The bill allows for TIF district municipalities to establish interest-only debt reserve funds using TIF bond proceeds. During the first few years of a TIF district, a municipality often does not have tax increment available to pay debt service because no private development has been completed. Debt service reserve funds allow the municipalities to pay for the debt service in those years with bond proceeds.
- Allows the use of bond anticipation notes (BAN) to count as an incurrence of debt. TIF districts have up to 10 years to incur debt for public infrastructure. Often, in the tenth year, a municipality is unable to incur debt due to timing issues with the Vermont Bond Bank, so they will use a BAN to start a project before the full bond is issued.
- Allows previously established TIF districts to alter the boundary lines of their districts until July 1, 2021.
- Clarifies statute to state that if a TIF district includes tax stabilized properties, the original taxable value shall be the assessed value, not the stabilized value.
- Clarifies statute to state that if the value of properties in a TIF district decrease as compared to the original taxable value, the municipality is responsible for paying the statewide education taxes on the deficit between the assessed value and the original taxable value.

Fiscal Impact

JFO estimates that the primary fiscal impact will originate from two provisions of the bill. Both would be on the Education Fund:

- Allowing municipalities to establish debt service reserves
- Allowing existing TIF districts to alter their TIF district boundaries.

In the case of debt service reserves, based only St. Albans TIF district, JFO estimates that this practice will cost the Education Fund no less than $300,000 over the next twenty years.

JFO is aware that other TIF districts have used this practice, but it is unclear how many, and the size of these debt service reserves. This cost is directly related to the increased interest costs accrued to fund the debt service reserves.

Additionally, to the extent that borrowed funds are being used for debt service reserves as opposed to infrastructure development, and therefore, increased property values, the cost could be higher. This is because the municipality is foregoing future tax increment by not using the proceeds for public infrastructure.

However, if debt service reserves were not permitted, it is difficult to know with certainty whether a) the municipality would use these bond proceeds for investment, b) if they did use them for investment, how much in private development would they leverage and c) whether redirected municipal general fund dollars used to pay debt service would result in lower investments elsewhere in the town.

Finally, allowing existing TIF districts to expand their boundaries could have significant, but indeterminate costs to the Education Fund. To the extent that municipalities expand their boundaries to include significant private developments between now and July 1, 2021, if the development would have occurred without the use of TIF, the Education Fund forgoes up to 75% of the new statewide tax increment for up to 20 years. This loss in revenue will depend on the number of TIF districts that expand their boundaries and the size of the developments that would occur within these expanded districts.