



# Joint Fiscal Office

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## AN EXAMINATION OF THE STATE OF VERMONT TAX INCREMENT FINANCING PROGRAM: UPDATE

January 17, 2022

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### Statutory Charge

Per 24 V.S.A. § 1892, as amended by the Legislature in Act 69 of 201

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### Executive Summary

Tax increment financing (TIF) is an economic development financing tool that has been used in Vermont since the late 1990s. TIF, a property-tax based incentive, provides infrastructure funding to select municipalities in the hopes of spurring future private development (See Box, “What is tax increment financing?”). Vermont’s program operates at the municipal level but is approved, monitored, and regulated by the Legislature and the Vermont Economic Progress Council (VEPC). Currently there are 10 active TIF districts in Vermont. Two districts have also been created and retired since the mid-1990s. Four additional TIF districts are eligible to be created in statute.

24 V.S.A. §1892 required JFO to produce a report in 2018 examining the TIF program from an operational, as well as fiscal and economic impacts perspective. That same section of statute requires JFO to examine the conclusions made in that initial report and update its findings every four years. The update also requires a review of the sustainability of TIF district debt burdens

and the maximum debt TIF districts can bear in the long-term. The following report fulfills these statutory requirements.

As with the last report, JFO examined the program across four main parameters: operational performance, fiscal impacts, economic impacts, and geographic diversity. In accordance with the statute, JFO also analyzed the debt burdens of municipalities and examined TIF relative to other tools. A summary of these findings are as follows:

**Vermont's TIF statute continues to limit the downsides and excesses of TIF, but administratively, challenges remain in dealing with the unpredictability of TIF.**

- From a statutory perspective, Vermont's TIF statute continues to compare favorably to other states. It lays out clear public goals for the program and ensures TIF districts conform to them. Statute also limits the downside uncertainty associated with TIF by only committing State and municipal property tax dollars.
- From an operational perspective, JFO believes the current structure for TIF administration is appropriate. Relative to other states, VEPC and its staff provide significantly more information, transparency, and oversight on the Vermont's TIF program. This system has been successful in helping municipalities administer TIF, as evidenced by lack of serious malpractice in TIF that have plagued other states and a track record of clean audits for most TIF districts. Even though JFO puts forth ways to improve this system, it is not clear to JFO that moving VEPC's TIF administrative functions to another state body would result in better state outcomes.
- The independent audits performed by the Office of the State Auditor are a strength in the system. These audits ensure that towns are adhering to statute and VEPC TIF rules and encourage them to maintain detailed records for their TIF districts. The audits also build state capacity for the program. Vermont appears to be the only state that requires state-level performance audits of each of its TIF districts on a regular basis.

**JFO estimates TIF will cost the Education Fund between \$5.5 and \$7.5 million plus \$3 to 5 million to municipalities annually relative to a counterfactual where TIF districts grow at their historical average.**

- JFO estimates that TIF will cost the Education Fund approximately \$5.5 million in 2022, growing to roughly \$6 to \$7 million per year by the mid-2020s. Because of Vermont's statewide system for funding education, this means that the average homestead property tax rate will be roughly a penny higher to fund development in TIF towns.
- JFO further estimates that municipal general funds will incur an additional \$3 to \$4 million in costs through the 2020s, growing to above \$5 million in 2030.
- JFO also concludes the core theoretical assumption upon which tax increment calculations are based is flawed and unsupported by the data and economic theory. In reviewing property value growth of parcels within existing TIF districts over a pre-TIF time horizon, JFO found that no district experienced zero or negative property value growth.
- JFO's model attempts to provide legislators with a theoretical understanding of costs by comparing the fiscal impacts relative to a counterfactual where TIF districts grow as they had been prior to their creation. For the purposes of estimating the tax expenditure to the Education Fund, JFO recommends that the consensus estimates generated for the Emergency Board, which range from \$6 to \$8 million per year in the short term, should continue to be used.

**The overall economic impacts of TIF on the state are mixed.**

- Updates to the academic literature find that on balance, TIF has not been successful in driving economic growth in other states. While each state's TIF programs are different, there is compelling evidence to believe this literature is generally applicable to Vermont's program.
- JFO concludes that the main economic benefit of the TIF program may be that it is driving development to denser, downtown areas. Such development is recognized as a desired public policy objective in Vermont, leading to higher qualities of life, transportation and environmental benefits, cheaper provision of public services, and tourism benefits.
- It is inaccurate for towns or VEPC to attribute all growth in property values, jobs, wages, or any other economic variable solely to TIF if there are substantial outside subsidies flowing into a district. In some districts, outside funds accounted for more than 50% of total dollars used for infrastructure improvements.
- If economic growth impacts are evaluated relative to what was projected in their applications, TIF districts have not delivered the promised impacts. Total property value growth as of end-2020 was approximately \$275.6 million below what was forecast in TIF applications.

**The characteristics of TIF will likely prevent the existing TIF program from being widely used in economically distressed or rural parts of the state.**

- Research generally has shown that TIF districts are more likely to be created in areas with underlying level of economic growth, rather than generating new economic growth in distressed areas. Vermont's TIF program appears to show these characteristics since five of the ten active districts are in Chittenden County and no new TIF has been created since 2018. In fact, almost 80% of the Education Fund tax dollars flowing to TIF districts in 2022 are projected to flow to districts in Chittenden County. This raises equity concerns as lower income areas of the state are effectively subsidizing higher income ones.
- The scale of improvements and the staff capacity needed for TIF might preclude smaller and more rural towns from using the program. Stakeholders JFO spoke to expressed concern that the scale of planning needed for the current TIF program makes it untenable for smaller communities, beyond the actual complexities of the tool itself.

**The current amount and approach to debt in TIF districts is conservative, but some districts are in riskier positions than others.**

- As in the last report JFO was unable to make a firm conclusion about whether the level of debt incurred for TIF districts was sustainable overall. This is because the question of debt sustainability is largely based upon the circumstances of each TIF-participating municipality.
- JFO believes the Legislature will likely need to intervene to provide support to some districts in the future. Delays, rising construction costs, and the effects of the pandemic on private development could make the TIF financing plans for some districts untenable.

In light of these findings and conclusions, JFO identified 3 broad, salient areas that merit deeper legislative consideration. Rather than focusing on issues about whether TIF is creating economic impacts or fiscal costs, these considerations are more practicable, and Legislature could act upon them if it so desired:

*VEPC's Role as an Approval, Monitoring, and Regulatory Agency*

**Statute could be improved by requiring a formal analysis of statewide economic and fiscal impacts.** As in the last report, JFO continues to recommend the use of a cost-benefit model, similar to the Vermont Economic Growth Incentive (VEGI) or the new Capital Investment Grant Program, to guide a determination of statewide economic benefits to a given application. Analysis of economic impacts in current TIF district applications appears to be largely pro forma in nature.

**Statute or TIF rule could be improved to require certain conditions for feasibility studies.** JFO's review of VEPC feasibility analyses showed an inconsistent approach on the level of conservative assumptions applied to applications, substantial change request, and phased filings. The Legislature or VEPC might consider adopting some baseline assumptions or requirements for feasibility studies, such as using flat tax rates, or requiring scenario analyses using different assumptions to stress-test district financing plans.

**Statute or TIF rule could be improved to require a more rigorous evaluation of whether municipalities need to use TIF for these infrastructure improvements.** VEPC has done this in the past with more precarious financing plans, retaining an independent consultant to analyze a town's debt burden, tax rate, budget, and service provision relative to other towns. This could be made a requirement across all applicants. Alternatively, towns considering TIF might first be required to put a debt issue vote to their voters to determine their towns capacity or desire to bear additional tax burden. Current analysis of need in applications is largely based upon town statements.

**The Legislature may want to consider requiring VEPC to provide more detailed updates on district developments.** Information that would be useful on an annual basis could include whether district tax increments are flowing according to their latest financing plans, whether there were any delays in infrastructure or private development that may impact tax increment, and/or any additional information that would impact the financial viability of a TIF district.

**The Legislature or VEPC could consider requiring districts to create contingency plans if town tax increments do not materialize as planned.** A contingency plan would require towns to exhaust all avenues for remedying the situation before approaching the Legislature. Also, if a town needed to utilize its contingency plan, it would provide the Legislature notice of a potential issue in the state's TIF districts.

*The administrative process for handling issues within the TIF program.*

**The unpredictability and complexity of TIF makes administering the program challenging since statute cannot address all ambiguous issues.** The Legislature could consider creating a more formal process for determining what requires legislative action, and what can be administratively determined by VEPC. If granting more administrative ruling power to VEPC is undesirable, it might also consider if anything can be done to make such an arrangement more workable. For instance, would requiring more legislative seats on VEPC make it more representative of the Legislature's intent on TIF issues?

Opportunities for providing direct financial resources for municipal infrastructure construction.

**Legislators should ask whether TIF's complexity and administrative burden to the State and towns are clearly more beneficial than some other means of providing the same level of funding for downtowns.** In other words, is there something intrinsically beneficial about TIF, *beyond the money that it provides to towns*, that would make it more effective than another tool? In consultations with stakeholders, it was not clear to JFO that TIF had any major specific benefits for downtown infrastructure funding beyond the fact that it was a steady source of funding for 20 years.

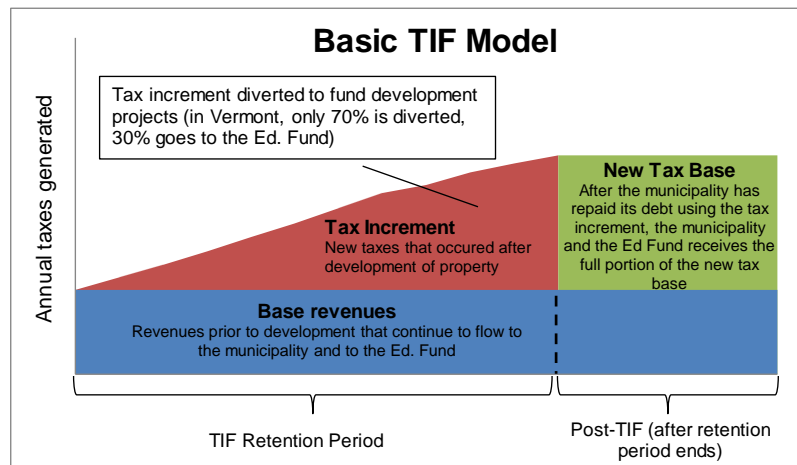
**In light of large State surpluses in revenue and Federal largesse, strong consideration should be given to other economic development tools that could finance infrastructure improvements in towns.** These once-in-a-generation resources could be used to achieve infrastructure development in downtowns. Notwithstanding the pros and cons of other tools, direct support from the State would save municipalities considerable money in financing costs. For example, the Montpelier district plans on borrowing \$15.8 million to fund infrastructure but will incur an additional \$10.6 million in financing costs. These other tools must be weighed against the advantages of using TIF, which include assured long-term funding to municipalities, and the benefits that accrue from tying long-term development planning to a financing tool such as TIF.

### What is tax increment financing (TIF)?

Tax increment financing (TIF) was originally developed as an economic development tool to stimulate real estate revitalization in blighted neighborhoods, where little if any new investment was considered likely. It has since been adopted by both municipalities and states to spur economic development in targeted geographic areas. 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, albeit in substantially different forms.

At its core, TIF is an economic development tool that allows for an entity to finance new construction by diverting a portion of the growth in future property tax revenues. The TIF process generally goes as follows:

- A municipality seeks to improve a geographic area, such as a downtown or plot of land that has seen little or no growth over an extended period, by investing in new infrastructure (e.g., parking garages, new sidewalks, streetlights, septic systems, etc.). These infrastructure improvements, in theory, will stimulate private investment that would not otherwise have occurred in the designated TIF area. The combination of both public and private investment is expected to increase property values, generating property tax revenue. The municipality subsequently designates this area a “TIF district.”
- The municipality builds the promised infrastructure with borrowed funds. To repay these debts, the municipality agrees to split future property tax revenues from the TIF district. The municipality agrees to keep the property taxes that existed prior to any development. This is called the “base revenue” or “original taxable value.” Some portion of any property taxes that result from increased property values is dedicated to repaying infrastructure debt. These additional property taxes are called “tax increments.”
- The municipality defines what portion of the tax increment goes to pay debt. In some states, cities and states are entitled to use 100% of the tax increment, while in others, such as Vermont as of 2021, a TIF district can retain only 70% of the tax increment.
- Once the retention period ends, this split in revenues ceases and the municipality and state receive the full amount of tax revenue.



Vermont granted municipalities the right to create TIF districts in 1985, although the program has undergone substantial changes over the past three decades. Vermont’s 10 TIF districts were created at various points in time and are thus subject to different statutory requirements. Vermont’s statewide property tax means that a TIF district is entitled to two tax increments: the tax increment from the State education property tax and the tax increment from the municipal property tax. Because the Education Fund is a system where all property taxpayers share the burden of school spending, if there is a diversion of property tax growth to fund development, this must be made up by taxpayers in non-TIF areas of the state.

**Table 1: 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, 2020
<b>Active TIF Districts</b>						
<b>Burlington Waterfront</b>	1996	1996-2035 <sup>a</sup>	\$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	\$32,509,873
<b>Winooski</b>	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	\$29,998,000
<b>Milton Town Core</b>	2008	2011-2031	\$124,186,560	75% to TIF, 25% to Ed. Fund	75% to TIF, 25% to municipal general fund	\$9,652,600
<b>Hartford</b>	2011	2014-2034	\$31,799,200	75% to TIF, 25% to Ed. Fund	75% to TIF, 25% to municipal general fund	\$3,026,000
<b>Burlington Downtown</b>	2011	2016-2036	\$170,006,600	75% to TIF, 25% to Ed. Fund	100% to TIF, 0% to municipal general fund	\$5,420,000
<b>St. Albans</b>	2012	2013-2033	\$123,049,450	75% to TIF, 25% to Ed. Fund	100% to TIF, 0% to municipal general fund	\$19,500,000
<b>Barre</b>	2012	2015-2035	\$51,046,870	75% to TIF, 25% to Ed. Fund	75% to TIF, 25% to municipal general fund	\$2,200,000
<b>South Burlington</b>	2012	2017-2037	\$35,387,700	75% to TIF, 25% to Ed. Fund	75% to TIF, 25% to municipal general fund	\$5,000,000
<b>Bennington</b>	2017	20 Years from First Debt	\$41,883,500	70% to TIF, 30% to Ed. Fund	100% to TIF, 0% to municipal general fund	\$0
<b>Montpelier</b>	2018	20 Years from First Debt	\$59,354,009	70% to TIF, 30% to Ed. Fund	100% to TIF, 0% to municipal general fund	\$0
<b>Retired TIF Districts</b>						
<b>Milton North and South</b>	1998	1998-2019 <sup>b</sup>	\$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
<b>Newport</b>	1998	1997-2015	\$48,500	100% to TIF, 0% to Ed. Fund	100% to TIF, 0% to municipal general fund	\$300,000

<sup>a</sup>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

<sup>b</sup> In 2006, the Legislature enacted special provisions allowing the Milton North and South TIF Districts to be extended for an additional ten years

Source: 2021 Annual Report produced by VEPC

## 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 TIFs or comparable economic development tools and relevant permitting criteria;

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

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

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

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

(g) Beginning in 2019 and annually thereafter, on or before January 15 of each year, 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 TIFs 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

**On January 15, 2018, the Joint Fiscal Office presented the initial report. It can be found on the [Joint Fiscal Office's website](#).**

In addition to the 2018 report, Act 69 of 2017 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 TIFs 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. or other tools in the next fiscal year.

**This report fulfills the requirement of subsection (g) above.** The report was delayed by one calendar year due to staffing constraints in the wake of the COVID-19 pandemic in 2020.

## Introduction and Background

Tax increment financing (TIF) is an economic development tool that allows municipalities and states to fund development or infrastructure. In many municipalities around the country that face slow economic growth or aging infrastructure (or both), TIF offers a way to finance these improvements. Supporters of TIF argue that making these improvements will drive private investment to the area.

TIF is not a new program; California pioneered the first TIF program in 1952. However, it was not until the 1980s and 1990s, following the scaling back of federal funding for economic development, that TIF proliferated substantially. Currently, every state except Arizona allows TIF, albeit in significantly different forms.

## Description of Vermont's TIF Program and Legislative History

Like most TIF programs around the country, Vermont's program allows municipalities to retain the growth in property tax revenues to fund economic development. Unlike other states, however, the State's Education property tax provides funding for districts in addition to municipal property tax growth. Because of this heavy state involvement, the Legislature has placed boundaries on several TIF parameters, including but not limited to:

- The types of projects that TIF dollars can be used to finance
- The areas of the state where districts are eligible
- The share of state and education tax increment that districts can retain
- The time period during which districts can retain education tax increments.

Vermont's TIF program has undergone several statutory changes since its creation. Because Vermont's ten active districts were created at different points in time, they are subject to different rules and approval criteria.

TIF was created in Vermont under 24 V.S.A, subchapter 5. This legislation permitted municipalities to establish TIF districts and set up basic parameters for their formation. Four TIF districts were established under the rules set by this legislation: Burlington Waterfront, Milton's Husky and Catamount district (now combined to form the Milton North-South TIF district, which is now inactive), Winooski, and Newport (now inactive). Since no formal State program existed for these districts at their formation, the project criteria and tax increment split were decided on a district-by-district basis.

In 1998, the Vermont Economic Progress Council (VEPC) was delegated the authority to review and approve new TIF districts. Currently, VEPC is charged with approving and administering the TIF program in Vermont. After Act 60 of 1997 created a statewide education property tax, TIF districts became eligible to retain two revenue sources: the statewide education property tax increment and the municipal property tax increment. Since statewide revenues were being used, a statewide body (VEPC) was charged with reviewing, approving, and overseeing TIF districts.

Act 60 greatly increased State involvement in the program by providing an additional revenue source for municipalities. Recognizing this, the legislature passed **Act 184 of 2006** which, in addition to capping TIF districts at 10, laid out new approval criteria for VEPC:

### **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.

**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, reconstruction of infrastructure for a public purpose, including utilities, transportation improvements, site preparation and acquisition.

**Related costs:** Expenses incurred by municipality, exclusive of construction costs, related to creation and administration of TIF district.

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

- Limits on the split of tax increment: For the statewide education property tax increments, a municipality could retain only 75% of the tax increment for TIF debt, remitting 25% of it to the State. The municipal property tax increment was also set at 75/25; 75% of the tax increment would be kept to pay down TIF debt, while 25% went to municipal general funds.
- New approval criteria: VEPC was required to review whether the development would have happened without the tax incentive (“but-for” evaluation). It was also now responsible for reviewing town projections for property growth, tax increments, and tax increment splits.
- New location criteria: A new TIF district would now only be approved if it was 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:<sup>1</sup> A new TIF district must 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 ten active TIF districts fall under these Act 184 of 2006 legislative criteria. They include Milton Town Core (2008), Burlington Downtown (2011), St. Albans (2012), Barre (2012), and South Burlington (2012).

The most recent major change to TIF legislation was **Act 69 of 2017** which created clearer but also stricter criteria for new districts. In addition to grandfathering the rules for existing districts, major updates included:

- New districts are now entitled to keep only 70% of the statewide education property tax increment, rather than the previous 75%.
- Municipalities are required to commit at least 85% of the municipal property tax increment for the funding of TIF district debt, effectively increasing the share municipalities bear for their own development.
- Requires the TIF district to meet two of the three aforementioned location criteria, rather than one.
- Provides clearer definitions for what constitutes an economically distressed area.

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<sup>1</sup> Henceforth in this report, “project criteria” will refer to the rules governing what types of development are eligible for TIF. “Location criteria” will refer to the areas of the state that are eligible to use TIF.

Act 69 capped the creation of new districts at six, which could be increased by Emergency Board approval. Only the Montpelier and Bennington TIF districts have been approved since Act 69’s passage.

In summary, Vermont’s TIF districts fall under three broad categories of legislation illustrated in Table 2 below:

<b>Table 2: Major Vermont TIF Legislation and Districts Falling Under Each Set of Rules</b>		
<b>Pre-Act 60 TIF Districts</b>	<b>Act 184 of 2006</b>	<b>Act 69 of 2017</b>
Burlington Waterfront*	Milton Town Core	Bennington
Winooski	Hartford	Montpelier
Milton North/South (retired)	Burlington Downtown	
Newport (retired)	St. Albans	
	Barre City	
	South Burlington	

\*Not including the 3 parcels associated with the Burlington Town Center development

Since Act 69 and the 2018 report produced by JFO, the Legislature has passed minimal TIF legislation. Act 175 of 2020 and Act 73 of 2021 extended the debt incursion period for 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 to 2024 from 2021.

A complete list of statutory changes can be found in Appendix Table A1.

## Report Analysis

Act 69 of 2017 requires JFO to update the January 2018 TIF report. This update is to include:

- An assessment of any material changes in TIF districts in Vermont since the first report, including updates on the health and sustainability of TIF districts.
- An update to the fiscal impacts of TIF on the state and municipalities.
- A review of the size and affordability of indebtedness for TIF districts and an estimate of the maximum amount of long-term debt that is sustainable for TIF districts.

In this report, JFO will address the first two parameters above in the same structure as the last report; updating new data, addressing material changes in the program, and highlighting

newfound issues discovered since the last report. These updates will be discussed across four evaluation areas:

A. Operational Evaluation: How well does Vermont define and administer its TIF program relative to other states and cities?

B. Fiscal Impacts: What are the positive or negative fiscal impacts of the TIF program on the State?

C. Economic Impacts: Has the TIF program created real economic benefit for the State?

D. Geographic Diversity: Does the current program promote geographic diversity of TIF districts in the State?

Following updates to these four areas, JFO will address the final requirement in Act 69 which is the review of the size and affordability of new debt for TIF districts. The report will close with considerations for legislators and a discussion of other tools that may achieve the same goals as TIF.

### **(a) Operational Evaluation: Vermont's TIF statute continues to limit the downsides and excesses of TIF, but administratively, challenges remain in dealing with the unpredictability of TIF.**

#### i. Statutory Evaluation

Since the last report, legislative changes in Vermont's statutory requirements for TIF have changed slightly, but not across the evaluative criteria used in the last report. As a reminder, those parameters were:

- The types of taxes eligible for TIF: While every TIF program allows for the retention of incremental tax revenues, states vary on the types of taxes (property, sales, income, other revenues) that are eligible for paying TIF debt.
- The portion of the tax increment eligible for TIF: When incremental tax revenues are generated, they are split: some percentage is used to pay TIF debt and some percentage flows to the municipality or state. States vary on this division of revenues.
- The types of projects eligible for TIF funds: Across the country, incremental tax revenues from a TIF district could be used to finance a variety of projects: infrastructure, new housing, retail buildings, and office complexes. States have different laws specifying the types of projects that are eligible for these funds.
- The length of time a TIF is entitled to retain tax increment: In most states, a TIF district is entitled to collect incremental tax revenues for only a certain period of time. Once that time period is over, all incremental tax revenue flows to the municipality and/or state.
- Voter approval and public hearings: When a potential TIF district's application is under review, states may hold public hearings on the plan. Moreover, some might require that voters approve the district or debt a municipality incurs for its TIF district.

- Feasibility tests or cost-benefit analyses: Before approving a new TIF district, a municipality or state may want some level of justification for using the incentive, either by examining whether it is likely to generate incremental tax revenues and/or by determining whether the project will bring new economic growth and public benefit.

After reviewing changes in other states, JFO concludes that Vermont's TIF statute still compares favorably with those in other states across all of these areas.

This is particularly true with respect to the types of taxes eligible for TIF, the length of time municipalities are eligible to retain tax increment, and the portion of tax increment eligible for TIF. For these three areas, the State's relationship with municipalities with TIF districts can be described as regulatory in nature. The State sets strong limits around them and enforces them with no exceptions. In other states, the relationship is considerably more complementary. The state typically supplements the benefit provided to municipalities to a greater extent. In other words, other states with involvement in TIF tend to try to make the benefits to developers or municipalities more generous. For instance, in Vermont, the only state resource available for TIF is the sharing of education property tax increments. In other states, additional tax subsidies in the form of tax abatement, incremental sales and income tax revenues, and direct subsidy are often involved in TIF.

- In Kentucky, TIF districts are eligible to retain property, personal income, corporate income, and sales tax revenues. These revenues are also eligible for direct subsidy to the developer.<sup>2</sup>
- In Missouri, in addition to 100% retention of local property tax increments, the TIF district is eligible to retain 50% of incremental sales and utility taxes.<sup>3</sup>
- Kansas TIF districts can retain property tax, sales tax, and economic activity tax increments. They are also eligible to retain guest/lodging taxes and PILOT payments within the district.<sup>4</sup>

In JFO's consultations with municipalities and stakeholders for this report, some expressed concerns that the relatively limited scope of the state's financial commitment could be negatively constraining the potential of TIF. Limiting the amount of revenue available for TIF districts does constrain the amount and size of the projects achievable by municipalities and/or private developers. Given the uncertain nature of projecting future tax growth in the long term, Vermont's relatively modest commitment to TIF districts relative to other states limits the downsides of TIF. While other states may see larger projects being constructed with TIF because the state provides additional funding beyond property tax increments, they also risk significant fiscal pressure should the associated tax increments not achieve their projections.

## ii. Administrative Evaluation

**In general, JFO believes the current structure of TIF administration is appropriate.** Administering a TIF district in Vermont is largely the responsibility of the municipality: the town assesses all properties each year, taxes the properties, calculates tax increments, and

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<sup>2</sup> KRS 65.7041-65.7083, 65.490-65.499 and KRS 65.680-65.699

<sup>3</sup> Missouri Revised Statutes, Chapter 99, Sections 800 - 865

<sup>4</sup> Kansas Revised Statutes, Chapter 12, section 1170

services the debt of the TIF district. While many towns hire a consultant to help prepare their applications for TIF approval, none uses consultants to fully administer their programs.

In addition to VEPC's initial role in approving the districts, VEPC also assumes an ongoing monitoring role. Districts are required to submit annual reports to VEPC, including information on development progress, incremental revenues, jobs created, and other performance measures.

Relative to other states, VEPC and its staff provide significantly more information and transparency and oversight on the Vermont's TIF program. The Annual Reports contain updated information on all key parameters for each TIF district in Vermont, including debt voted, incurred, and outstanding; current taxable values and tax increments; and relevant timelines. In addition to this, all applications and TIF plans for each district are readily available on VEPC's website. Municipalities contacted by JFO for this report also expressed a high level of satisfaction with VEPC's monitoring role.

Generally, VEPC's current system of monitoring has been successful in helping municipalities administer TIF, a complicated economic development tool. In recent years, the majority of State Auditor audits of TIF districts have found limited or minor issues, as evidenced by the clean audits for the Milton Town Core, Barre, and Winooski TIF districts.

It is not clear to JFO that moving VEPC's TIF administrative functions to another state body would guarantee better outcomes. Two suggestions made to JFO during consultations included:

- Creating a new independent body outside of the Agency of Commerce and Community Development, with equal number of appointed positions for the Legislature and the Governor.
- Returning TIF approval and substantial change requests back to the Legislature.

Either of these suggestions might address any given concern in the current system but would likely generate further issues. For instance, if the Legislature were charged with approving TIF districts, it might ensure better evaluation of statewide benefits, but it would be far less nimble to confront issues within TIF districts. It is also unclear who would perform the monitoring function that VEPC is currently providing.

As further sections in this report will detail, JFO does have concerns about the VEPC's evaluation of but-for claims, feasibility, or economic impacts and makes recommendations for improvement. Despite these concerns, JFO still concludes that rather than replacing the current administrative structure, improvements can be made within the existing statutory structure.

**The auditing of TIF districts by the State Auditor is a strength in the system.** 32 V.S.A. § 5404a requires the State Auditor of Accounts to provide performance audits of the TIF districts. This level of accountability is unique in the United States: based upon a survey of other states, Vermont is the only state that requires state-level performance audits of each of its TIF districts on a regular basis.

The primary benefit of these audits is that they ensure that towns are correctly adhering to statute and VEPC TIF rule. The audits also provide the indirect benefit of forcing towns to maintain accurate and complete records. The benefits of this system are clear: in 2012 and 2013, these

audits found numerous issues within districts. Some of those districts were audited a second time in 2019 and 2020 and very few issues were found.

A major benefit of the state audits is that it builds state capacity of TIF outside of VEPC and the participating municipalities. As noted, TIF districts in the state operate under different rules and timelines. Understanding the program as a whole often requires very micro-level knowledge, such as knowing the major private developments within each district. As is the case with all State programs, having multiple individuals and groups with an in-depth understanding of the program leads to more constructive policy deliberations if or when changes are being considered.

In consultations with stakeholders, JFO heard suggestions about allowing VEPC or towns to hire independent auditors to perform performance audits, with one common concern being the cost of State Auditor audits. While it is in theory possible outside auditors could provide a level of detail that the State Auditor's office does, JFO does not believe it would be as effective as the current system:

- At the very least, the indirect benefits of State TIF capacity would not be achieved, namely, TIF expertise across more than one government entity.
- It raises potential questions of conflicts of interest if towns themselves can choose who audits them.
- In the event of ambiguous issues within TIF districts, outside audit firms would not have access to legal interpretations of the Attorney General's office.

As to the issue of costs, State audits are considered a related cost, and therefore, an eligible use of tax increment. As the state body charged with regulating the TIF program, if VEPC concludes the costs of the audits are excessive, the appropriate remedy would appear to be through legislation.

**(b) Fiscal Impacts: Using a counterfactual model that attempts to estimate what might have occurred in the absence of TIF, JFO concludes that over the next five years, TIF will cost the Education Fund between \$5.5 and \$7.5 million plus \$3 to 5 million to municipalities each year.**

Determining the fiscal impact of TIF hinges upon the strength of the but-for condition.

The but-for condition states that no comparable development would happen in the proposed TIF district area without the incentive. If examining fiscal impacts at the State level, then the but-for condition states that no comparable development would have occurred anywhere else in the State. If this but-for condition is correct, then TIF would never be a fiscal cost to the State or the municipality under current statute.

Currently, in Vermont's TIF program (and all other programs nationwide), incremental tax revenues are calculated from the assumption that the base value of the properties in the TIF district would not grow at all (0% year-over-year), but for the use of TIF.<sup>5</sup> To calculate incremental revenues, a municipality takes the difference between the value of property in a

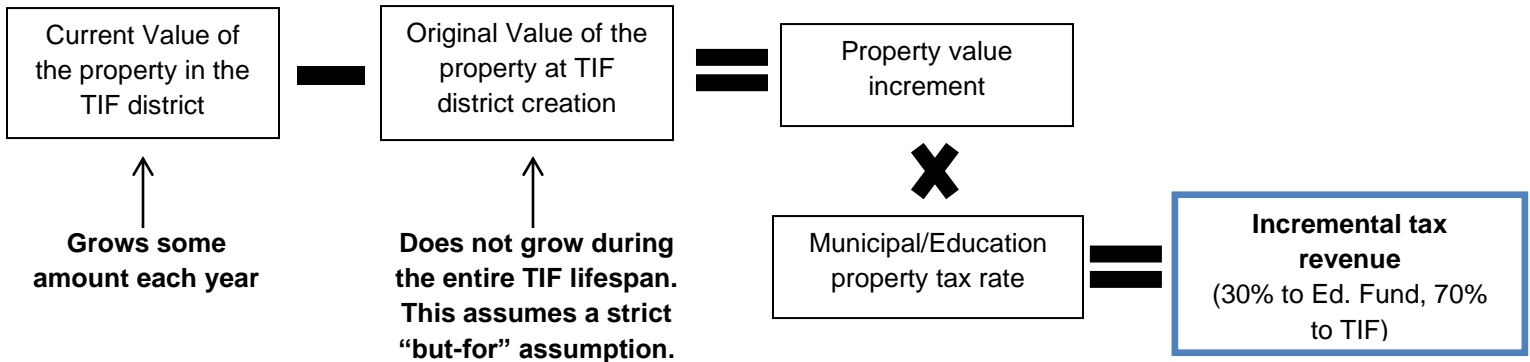
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<sup>5</sup> See 24 V.S.A. § 1896



given year (current taxable value) and the value of the property when the TIF was established (base value). The base value in this calculation does not experience any growth over the course of the TIF lifespan. As the value of the property grows, the size of the incremental tax revenue grows. Figure 1 illustrates this calculation.

**Figure 1: Current calculation of incremental tax revenue**



Similar to the last report, JFO estimates fiscal costs by employing a model that asks the question: “what might have occurred absent the use of TIF?” and compares the revenue generated for the Education Fund and municipal governments under different assumptions.

It is important to note that these estimates differ from the official maximum impact on the Education Fund from TIF that JFO presents for the Emergency Board per 32 V.S.A. § 305b. For the purposes of estimating the cost of the tax expenditure from TIF, JFO continues to recommend those estimates be used. JFO’s model for this report is an attempt to demonstrate the fiscal impacts under varying assumptions of what might have occurred absent the use of TIF.

i. Explanation of the JFO Fiscal Impact Model

All Vermont (and nationwide TIF district) applications rely on the premise that the baseline property value growth of the parcels in the district would be flat for 20 years if not for the use of TIF. JFO’s model, instead of keeping the base value of the property flat into the future, assumes some level of baseline growth; that some growth would have occurred absent the use of TIF. The model compares the Education and Municipal tax revenues from this hypothetical scenario to the revenues accrued to the Education Fund and Municipal General Funds under TIF.

In effect, the model creates two scenarios and compares the revenues accruing to the Education and Municipal Fund:

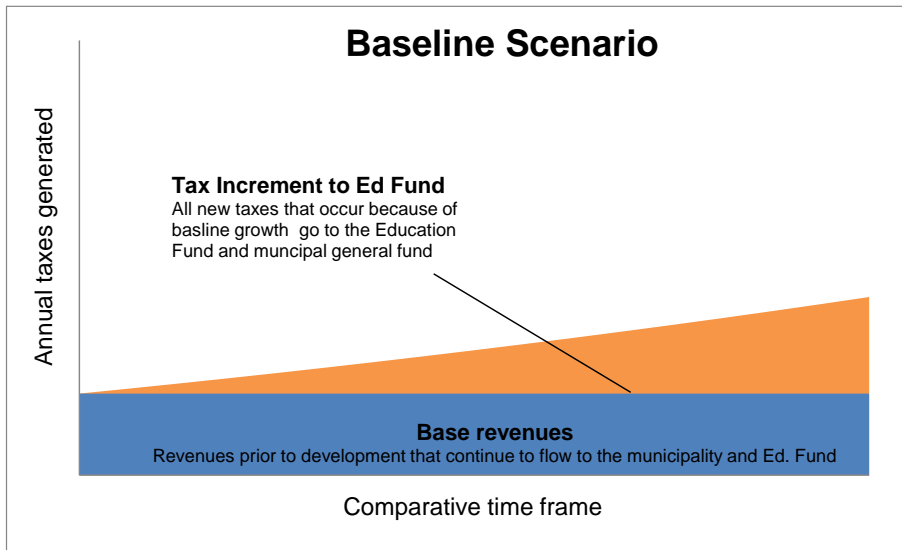
- **Baseline scenario:** No TIF is used. The value of the parcels in the district will grow (or decrease) at some assumed growth rate for the next twenty years. 100% property tax revenue is sent to the Education or Municipal General Funds.
- **TIF scenario:** TIF is used, possibly generating greater grand list growth than would be expected without TIF. However, only 25-30% of the new revenues generated will accrue to the Education Fund, and only 15%-0% of new municipal tax revenues will accrue to

their respective general funds for the next twenty years. The remaining share is used to finance TIF debt.

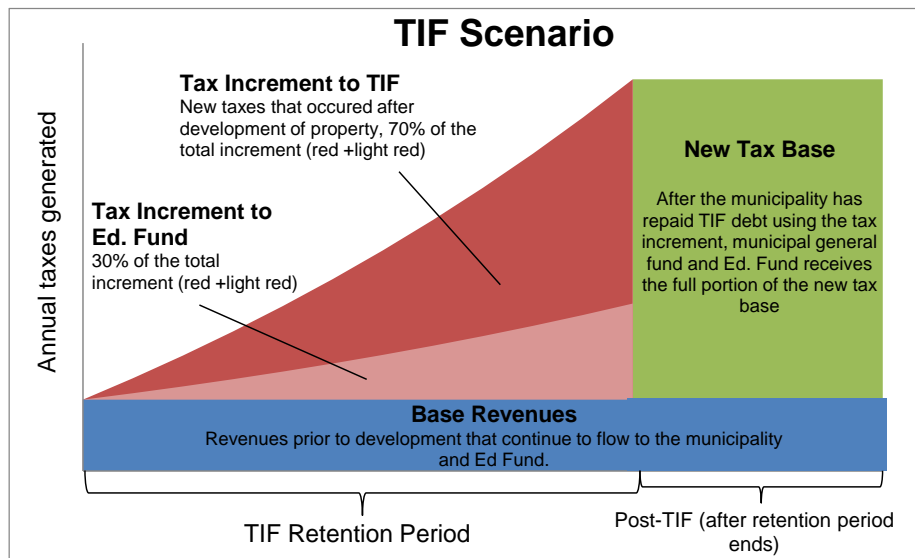
If the baseline, no-TIF scenario provides greater revenues to the Education Fund than using TIF, then using TIF is a cost. If TIF provides greater revenues, the difference in the tax revenues to the Education Fund under a TIF and the baseline scenario is the fiscal benefit of using TIF.

Figure 2 illustrates this calculation:

**Figure 2: Comparing Baseline vs. TIF Scenarios**



Under the baseline scenario, with no TIF, the orange portion is the amount of new tax revenue going to the Education Fund from maintaining historical average growth. In the TIF scenario, the light red portion represents the return to the Education Fund; however, it is only 30% of the total tax increment (the dark and light red combined). If the orange portion is larger than the light red portion, it is a hypothetical fiscal loss to the State over that time period. Note that these charts would look the same if considering Municipal General Funds, albeit with different increment share percentages between the TIF and the Municipal General Fund.



An important update since the last report is that JFO has changed the assumptions for baseline and TIF district growth. In the last report, JFO assumed the properties in the TIF districts would grow at the 20-year average growth rate of the county they were in, plus or minus 0.5% if the town was in Chittenden County or not. It also assumed that in the TIF scenario, the value of properties in the districts would grow at 6% year-over-year.

In this report, both assumptions are changed. In the baseline scenario, for most districts, the value of the properties in the district are projected to grow based upon the actual historical year-over-year assessed value growth of the parcels located in that district prior to the TIF being approved. For example, there are 286 parcels in the Burlington Downtown TIF district. JFO tracked the value of these parcels from 2003 (when parcel-level data are first available from the Tax Department) through 2011 (the district was created in 2012). The compound annual growth rate of those parcels, after being adjusted by the common level of appraisal (CLA), was 5.1%. Put another way, JFO’s model assumes that assessed values of the parcels in the TIF district would simply keep growing as they had been on average in the period prior to the city designating them as part of a TIF district.

Table 3 lays out the baseline growth assumptions used for the model, and the period of evaluation used. For the Burlington Waterfront and Winooski TIF districts, since they were established before 2003, JFO used the CLA-adjusted growth of the city’s grand list.

City	Growth Rate	Period	OTV Year
Bennington	0.48%	2003 through 2016 CLA Adjusted Growth TIF District	2017
Montpelier	2.77%	2004 through 2017 CLA Adjusted Growth TIF District	2018
St. Albans	2.23%	2003 through 2011 CLA Adjusted Growth TIF District	2012
Milton Town Core	3.50%	JFO assumption. Data indicated a 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
Winooski	2.24%	Winooski 1990 through 1999 overall grand list growth	2000

OTV = *Original Taxable Value*

On the assumption of future growth in TIF districts, rather than assuming 6% for all TIF districts as in the last report, JFO used projections from VEPC, which are derived from the towns themselves.<sup>6</sup>

<sup>6</sup> The only exception was for the city of South Burlington, whose projection is based upon the January 2022 estimate for the Emergency Board. This was because South Burlington’s projections were from 2012 and do not reflect a more known timeline for private development.

To summarize the changes in assumptions from the 2018 report:

2018 Report	2022 Update
<p><b>Baseline Growth Assumption:</b></p> <p>County average historical growth rate from past 20 years, +/- 0.5%. Plus 0.5% if in Chittenden County, minus 0.5% otherwise.</p>	<p><b>Baseline Growth Assumption:</b></p> <p>Actual compound annual property value growth of parcels in districts in years prior to TIF creation.</p>
<p><b>TIF Scenario Growth Assumption:</b></p> <p>6% year-over-year growth in each district</p>	<p><b>TIF Scenario Growth Assumption:</b></p> <p>VEPC projections of property value growth</p>

Caution should be taken when referring to estimates from JFO’s model. Rather than referring to *actual* cost of TIF, this model provides a hypothetical construct for legislators to understand the *potential* fiscal impacts of TIF. In short, this model tells legislators what the cost of TIF would be if the parcels in the district simply grew at their historical average, rather than assuming they would not grow for the twenty years after creation, as is the construct when calculating tax increments under TIF.

It should be noted that the analysis of historical growth is hampered by three issues. First, data on parcel-level grand list data are only available from the Department of Taxes back to 2003. As such, for a measurement of pre-TIF historical growth, most of the Act 184 TIF districts have seven or eight years of data, while the Act 69 districts have thirteen years. JFO acknowledges that having more data would yield a more accurate measure of historical growth as it would cover a more complete real estate cycle. This being said, for those districts that only have 7 or 8 years of pre-TIF data, those years correspond to the buildup in the real estate cycle, and the immediate decline in property values.

Second, to calculate a figure for pre-TIF historical growth, the CLA adjusted growth rate was used. The CLA was applied to the assessed values to smooth significant jumps in assessed values that occurred if there was a reappraisal that occurred pre-TIF. If the CLA were not applied, pre-TIF historical growth would be higher in some districts where a reappraisal occurred. For instance, suppose a district created in 2012 had a total assessed value of \$10 million in 2003. Suppose also in 2010, it was part of a town-wide reappraisal that increased values by 50%, even though none of the parcels experienced any year-to-year development. The measure of compound annual growth will be biased by this significant spike in one year. For this reason, JFO believes the CLA adjusted growth figure is a more accurate reflection of underlying historical property growth.

Third, the CLA is calculated by the Department of Taxes comparing the fair market value of recent sales to assessed sales for an entire town. Applying the CLA, which is a broad measure for an entire town, to a small geographic area within a town like a TIF district could inflate the growth of those parcels. However, this would only be true if the TIF parcels are undervalued less than the town as a whole. It is not clear that this is the case across downtown areas in Vermont. Indeed, the opposite could be true.

## ii. Results of the JFO Counterfactual Fiscal Impact Model

### Analysis of Pre-TIF Growth in TIF District Grand Lists

Prior to comparing the baseline and TIF scenarios for the model, one significant result of this exercise was the discovery that no TIF district experienced zero or negative growth in their pre-TIF eras. In some districts, the growth prior to TIF creation was 5% per year or more (Hartford, Burlington Downtown). Only Bennington, whose growth in the 13 years prior to TIF creation was 0.24%, approaches validating TIF's theoretical underpinning that the geographic area selected in the TIF district would experience zero or negative property value growth for the next twenty years. If data shows the parcels in a TIF district were growing in the years prior to TIF, it seems unreasonable to assume they would suddenly stop growing.

It is important to note that assumptions of but-for may or may not rely upon a different understanding of "growth." It may refer to the value of so-called "sticks and bricks," or actual construction or improvement of buildings. It is possible that this narrow definition of growth would not have occurred but for the use of TIF, but the data do not agree with the statement that the overall values of the properties would not grow. Regardless of whether or not new physical development would have occurred, for the existing TIF districts it appears the value of the underlying land would have continued to grow over time, generating tax base growth.

This underlying growth can be reflected in town-wide reappraisals. Between town-wide reappraisals, it may appear that a downtown area has had no development and no growth in value. However, upon reappraisal, this growth can become more apparent. Hartford is a particularly good example in this analysis, where absent a reappraisal in the pre-TIF period, year-over-year property value growth was less than 2% a year. A reappraisal in 2005 that increased total TIF property value by over 70% reflects the idea that the value of these parcels had been growing in theory, but the town's grand list had not reflected that growth.

**JFO concludes that the theoretical assumptions upon which tax increment calculations are based in current TIF districts are flawed, particularly for those districts in Chittenden County.** The City of Burlington itself appears to recognize this when calculating its tax increment projections. In a 2021 substantial change request, for projections of tax increment, the Burlington Downtown TIF district books \$39.9 million of incremental value growth attributable to "background growth." This background growth is expected to generate \$574,900 in annual tax increment to service debt by the end of the projection horizon. To put that into perspective, the district expects to add \$203.9 million in value to its grand list as a result of the TIF, meaning almost 20% is attributable to background growth not directly attributable to actual development.

### Fiscal Impacts to the Education Fund

**JFO estimates that relative to a counterfactual where TIF districts grow at their historical average, the existing ten TIF districts will cost the Education Fund between \$5.5 and \$7.5 million annually over the next 5 years.** Costs are expected to grow over the next 5 to 10 years as the Act 184 TIF districts increasingly make large investments. The scale of the impact across districts is varied, although most represent a cost to the Education Fund. Within this conclusion, JFO made the following observations:

Table 4: JFO Model Fiscal Impact Estimates (in millions of dollars)			
	What the Education Fund receives under TIF	What the Education Fund receives if the district grew at its historical average	Difference (negative = cost)
2021	\$13.80	\$18.40	-\$4.60
2022	\$12.70	\$18.40	-\$5.70
2023	\$13.30	\$19.10	-\$5.80
2024	\$13.40	\$19.70	-\$6.40
2025	\$13.50	\$19.60	-\$6.10
2026	\$12.90	\$20.30	-\$7.40
2027	\$15.30	\$21.00	-\$5.70
2028	\$15.60	\$21.80	-\$6.20
2029	\$16.10	\$22.60	-\$6.50
2030	\$16.60	\$23.40	-\$6.80
2031	\$17.10	\$24.30	-\$7.20
2032	\$15.00	\$20.60	-\$5.50
2033	\$15.90	\$21.30	-\$5.40
2034	\$14.50	\$18.60	-\$4.10
2035	\$13.40	\$15.90	-\$2.50

- Districts where the historical average growth rate was high pre-TIF generate a higher fiscal cost to the Education Fund.** The Burlington Downtown district alone is estimated to cost the Education Fund between \$1 and \$3 million per year, largely because the parcels in this district were growing at a compound annual growth rate of 5.1% in the 8 years prior to TIF. Hartford’s TIF district is also expected to cost the State disproportionately: By 2027, Hartford is expected to account for 15% of the cost to the Education Fund despite representing only about 6% of the total taxable value of TIF districts.
- Districts with large taxable values at creation also tend to cost the Education Fund more.** This includes towns like St. Albans and Milton Town Core. For example, the Milton Town Core taxable value at creation was \$123 million. At the time, that represented close to 10% of the town’s total grand list. Because JFO’s model relies upon a year-over-year growth rate for its baseline scenario, a larger base generates greater growth in taxable value. This means that the TIF scenario must generate significant property value growth to avoid a cost to the Education Fund. This is despite the fact these large districts benefit from “casting a wider net,” generating increment on more properties that did not see physical development.
- Districts with slow historical average growth, if they achieve the growth they forecast, will generate new money for the Education Fund even during their retention periods.** Bennington, with its historical average growth of 0.24%, is expected to generate positive revenues for the Education Fund over the projection horizon. South Burlington is expected to generate positive revenues for the Education Fund by the end of its retention period but that is more because it projects its taxable value to increase at unprecedented scale: from \$35 million in 2012 to over \$300 million in 2037.

Even though districts may cost the Education Fund during their retention periods, once the retention period is over, the Education Fund will benefit from the permanent increase in tax base. However, within the JFO fiscal impact model, if a district is costing the Education Fund money during the 20-year span of its retention period, even when that TIF district generates a higher taxable base than a baseline historical average scenario, it often takes decades for the Education Fund to break even on its investment.

These Education Fund fiscal impact estimates are relatively small, representing less than half of 1% of the total annual revenues to the Education Fund, and would have only marginal impact on statewide property taxes. Nevertheless, this puts TIF as the largest economic development incentive offered by the State which does not rely upon Federal funding. It is now larger than the cost of the Vermont Economic Growth Incentive (VEGI), which costs the State approximately \$2 to \$5 million per year.<sup>7</sup> The TIF program is also considerably larger (in terms of annual costs to the State) than comparable town incentives the State offers (Downtown and village tax credits, and the Downtown Transportation Fund).<sup>8</sup>

**For the purposes of a formal cost estimate of TIF, JFO will continue to reference consensus estimates made for the Emergency Board, which assume that property value growth in districts would have occurred anyway, either in the district itself or elsewhere in the state.** Those estimates are higher than JFO’s model, primarily because they assume any growth in TIF districts would have occurred elsewhere in the state or within the district itself (Table 5). These estimates are in line with the 2021 VEPC Annual Report, which notes the amount of Education Fund dollars retained by districts (Table 6)

Table 5: Consensus Estimates of the Impact of TIF on Grand List and Education Fund (in millions of dollars)		Table 6: Education Fund Dollars Retained by Districts from VEPC 2021 Annual Report (in millions of dollars)	
Year	Fiscal Impact	Year	Fiscal Impact
2021	-\$6.33	2021	-\$9.28
2022	-\$6.63	2022	-\$10.25
2023	-\$7.31	2023	-\$10.82
2024	-\$7.79	2024	-\$11.45
2025	-\$6.30	2025	-\$9.75

*Fiscal Impacts to Municipalities*

The statutory charge of this report does not require an estimate for fiscal impacts on municipalities. However, since the Education Fund is not the only source of funding for TIF districts, JFO felt it appropriate to estimate the additional impact on municipalities of using TIF. In some cases, of the total dollars being used to fund debt service in a district, the Education

<sup>7</sup> Vermont Employment Growth Incentive Program. Annual Report 2021  
[https://accd.vermont.gov/sites/accdnew/files/documents/DED/VEPC/VEGI/2021.VEGI\\_Annual.Report-FINAL.pdf](https://accd.vermont.gov/sites/accdnew/files/documents/DED/VEPC/VEGI/2021.VEGI_Annual.Report-FINAL.pdf)

<sup>8</sup> The Vermont Community Development Block Grant program is program that provides grants for community development. The money for this program, however, originates at the Federal level from the Department of Housing and Urban Development. The program itself is not entirely funded by state money.

Fund is only close to half, with municipal tax increment and other sources of funding composing the other half.

**Using the historical baseline, JFO estimates that municipalities will contribute approximately \$3 to 5 million per year towards their districts in aggregate.** The scale of the impact, like those for the Education Fund, varies by TIF district. One different dynamic that can cause additional cost to municipalities is there is more flexibility about how much municipal tax increment a town can contribute towards TIF debt servicing. Act 69 of 2017 required districts to contribute at least 85% of total municipal tax increment. Prior to that, the requirement was 75%. As such, some districts only contribute 75% of their municipal tax increment, while others contribute 100%. Those districts with a higher percentage naturally result in higher costs to their general fund.

**Table 7: JFO Model of Impacts on Municipalities (in millions of dollars)**

	Fiscal Impact
2021	-\$3.12
2022	-\$3.43
2023	-\$3.58
2024	-\$3.89
2025	-\$3.90
2026	-\$4.06
2027	-\$4.17
2028	-\$4.46
2029	-\$4.73
2030	-\$5.02
2031	-\$5.31
2032	-\$4.55
2033	-\$4.76
2034	-\$4.99
2035	-\$4.16

A final note on the costs to municipalities: in some municipalities, JFO observed financial commitments beyond a straightforward twenty-year retention of municipal tax increment:

- Some municipalities since updating their TIF plan through a substantial change request, have pledged municipal tax increment beyond the statutorily limited 20-year retention period for Education tax increment.
- JFO also observed the commitment of municipal revenues not related to TIF for the repayment of TIF bonds. For example, the Burlington Downtown district, as part of a VEPC request, utilizes \$260,000 per year from a development fee from Champlain College for debt service.

These types of extra commitments create a fiscal opportunity cost because they divert funds away from other areas that could require municipal resources.

iii. Other Fiscal Costs

*Administration Costs*

One characteristic of Vermont’s TIF program is that there are multiple layers of administration and monitoring:

- *The municipality*: develops the long-term TIF plan and administers the TIF district including but not limited to tracking parcel values, calculating tax increment, making debt service payments.
- *VEPC and its staff*: responsible for approval and monitoring of TIF districts. VEPC also provides a regulatory and dispute resolution role for districts.



- *The Office of the State Auditor*: statutorily required to audit TIF districts on a set schedule.
- *The Department of Taxes*: responsible for tracking TIF parcels at the state level and verifying tax increment calculations.

Finally, the Joint Fiscal Office is statutorily required to evaluate the program every four years.

While not estimated by JFO, municipalities with TIF districts devote significant staff time to administering their TIF districts. On top of this, municipalities will often retain consultants to prepare TIF applications and help administer TIF districts. These costs can also be sizable. For instance, the City of Burlington reported \$191,000 in costs paid to consultants and other related costs in 2020 for its Waterfront district. This is addition to \$84,000 in staff salaries and benefits paid to city economic development staff.

The Office of the State Auditor (SAO) also spends significant staff time in its audits of TIF districts. While the SAO has been auditing districts since 2013, there appear to be only minor economies of scope achieved over time. Based upon data provided by the SAO, billed hours are less for second audits than their first. They are also less for districts late or closing out their lifespans. These limited efficiency gains are due to municipalities having different quality financial record keeping. Staff turnover at the municipal level also requires additional effort on the part of the SAO.

Based upon the data provided by SAO, SAO staff have devoted almost 5,000 hours of staff time to TIF audits since 2018 and have billed municipalities over \$320,000. The costs of the audits are considered a related cost and therefore eligible for TIF tax increment.

VEPC administers TIF, but also the Vermont Economic Growth incentive (VEGI) so it is unclear how much of the council and staff time is dedicated solely to TIF. In FY 2022, VEPC's total budget for operating expenses was \$286,000.

#### *TIF District Debt Financing Costs*

Municipalities that use TIF usually bond through the Municipal Bond Bank and pay interest rates of between 3% and 5% per year. These financing costs can be significant.

Based upon data provided by the Office of the State Auditor pulled in the process of their audits, TIF districts, active and retired, have authorized borrowing of up to \$258 million in principal as of November 2021. However, this debt comes with an additional \$107 million in financing costs, meaning financing costs will account for 30% of total borrowing. In South Burlington alone, the financing costs of their projected \$38 million in anticipated debt issuances were projected to be more than \$14 million. In Montpelier's application, \$15.8 million worth of debt to build infrastructure came with \$10.6 million in additional financing costs.

It should be noted that these significant financing costs are not necessarily specific to TIF. They are a result of municipal borrowing for infrastructure improvements in TIF districts.

#### iv. Other considerations for estimating fiscal impacts

**JFO's models do not estimate the fiscal costs associated with the downside risk that tax increments do not materialize as projected.** The failure of tax increments to hit their projected targets could result in both the State and municipality incurring additional fiscal loss.

Furthermore, if increments continue to fall short of projections, then the town will be forced to repay the debt through other resources in its budget or raise property taxes.

**Some of these costs to the Education Fund or municipal general funds could be offset by any TIF benefit to other tax types.** This model does not estimate secondary dynamic impacts to other tax types, including sales, income, or meals and rooms taxes. A survey of the types of developments that have occurred and will occur in TIF district leads JFO to conclude that these ancillary revenues will likely not be sufficient to fully offset the Education Fund cost. While there are commercial developments that occur in TIF districts (a new hotel in Montpelier and St. Albans, a new retail/restaurant space in Burlington), housing and office space appear to account for the majority of private development within districts.

There is no question these are worthwhile developments from an economic development perspective. From a fiscal perspective, these housing and office space developments themselves do not directly generate significant non-property tax revenues. This said, more people being able to live in Vermont's downtowns will generate retail and hospitality growth, creating new tax revenue for the State. Of course, if all development would have occurred without TIF, any ancillary tax streams would not offset any Education Fund costs.

### **(c) Economic Impacts: The overall economic impacts of TIF on the state are likely mixed.**

This section will overview the economic impacts of TIF on the state level.

This emphasis on the state level is important. While TIF may generate positive economic growth within its district, that does not necessarily mean it is generating economic benefits across a wider geographic area: a new retail store built within a TIF district does not generate significantly more economic impact than had the retail store set up 3 blocks away outside the TIF district. If the development would have occurred anyway or elsewhere in the state, there are no associated economic benefits to providing state tax dollars through TIF.

This section is organized as follows: it first reviews the academic literature on the economic benefits of TIF and summarizes new research since the last report. Next, it overviews the theoretical, but unquantifiable benefits of downtown development. It concludes with some further analysis by JFO of potential economic impacts.

#### i. Literature on the Economic Impacts of TIF

**A review of the most recent academic literature finds TIF does not clearly provide broad economic impacts.** The 2018 TIF report found that the academic and non-academic literature drew mixed conclusions of the economic impact on TIF.

Since the 2018 report, Merriman (2018)<sup>9</sup> produced a full review of all the academic studies on TIF. This includes a summary of 31 empirical studies of TIF and its impact on numerous economic measures: employment, retail sales, property values, growth in median home value, household incomes, and building permits. As Merriman points out, these studies attempt to compare changes in these variables in TIF districts relative to areas with no TIF districts, trying to control for the fact that TIF districts are not necessarily randomly assigned. Put simply, the main hurdle to quantifying the economic benefits to TIF is determining whether the geographic areas designated for TIF districts are more likely to be created *because* they are dynamic areas in the first place, or whether TIF is actually driving the growth.

Merriman's summary of the 31 studies reviewed found that 13 showed positive results on some economic variable, while 18 showed either negative, mixed, or neutral results. The conclusion of this review was "rigorous evaluation literature suggests that in most cases, TIF has not accomplished the goal of promoting economic development."

Most of the literature in this review was from midwestern states, so it is possible the results may not apply to Vermont. In other words, TIF may work in some states but not others. However, within the research, studies of multiple states show that even within states, the results are not clearly positive or negative: studies of Indiana, Wisconsin, and Illinois show results across the spectrum. This mixed record of results across states implies that no State TIF program can uniformly claim their program has positive or negative economic impact.

There is a body of academic literature that examines not only the economic impacts of TIF, but the overall impacts on municipalities, with conclusions that may be relevant for Vermont policymakers:

- Kashian and Skidmore (2011)<sup>10</sup> find that TIF districts have longer lifespans when municipalities pay smaller shares of the cost of the development, as measured by municipal taxes as a share of total TIF revenues.
- TIF districts tend to have longer lifespans if they experience a recession during their retention periods.<sup>11</sup>
- Merriman (2010)<sup>12</sup> shows that TIF adoption and dissolution creates significant volatility in municipal budgets, making them more difficult to manage.
- Hall and Bartels (2014)<sup>13</sup> find that in Dallas TIF districts, certain management methods such as tracking public versus private development, costs, and success indicators lead to better outcomes. However, at the same time, risk-mitigating methods such as detailed and

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<sup>9</sup> Merriman, David. "Improving Tax Increment Financing for Economic Development" <https://www.lincolnst.edu/sites/default/files/pubfiles/improving-tax-increment-financing-full.pdf>

<sup>10</sup> Kashian, Russ, and Mark Skidmore. 2011. "A Duration Analysis of Tax Increment Finance District Lifespan: The Case of Wisconsin." Working paper. Lincoln Institute for Land Policy.

<sup>11</sup> Dye, Richard F., David F. Merriman, and Katherine Goulde. 2014. "Tax Increment Financing and the Great Recession." *National Tax Journal* 67(3): 697.

<sup>12</sup> Merriman, David F. 2010. "Does TIF Make It More Difficult to Manage Municipal Budgets? A Simulation Model and Directions for Future Research." In *Municipal Revenues and Land Policies*, Ed. Gregory Ingram and Yu-Hung Hong. Cambridge, MA: Lincoln Institute of Land Policy.

<sup>13</sup> Hall, Jeremy L., and Christopher E. Bartels. 2014. "Management Practice Variation in Tax Increment Financing Districts: An Empirical Examination of the Administrative Theory of Performance." *Economic Development Quarterly* 28(3): 270–282.

explicit projections of increment, did not significantly improve the performance of TIF districts.

## ii. Economic Benefits of Downtown Development

**As in the last report, JFO concludes that TIF may be generating long-term economic impacts by driving development to denser, downtown areas.** Vermont requires TIF districts be located in downtown or dense areas. Even if the development would have happened elsewhere without it, TIF could still be a worthwhile incentive if the State and/or municipality are seeking to promote economic development within their downtowns as opposed to elsewhere.

Economic development to promote more population density is one of the tenets of “Smart Growth” for urban centers. Smart Growth, which is promoted by the American Planning Association<sup>14</sup> and the Environmental Protection Agency<sup>15</sup>, advocates for compact urban development, reducing sprawl, varying housing choices, and creating walkable communities.<sup>16</sup>

Smart Growth could lead to benefits that result from building more compact communities. These include:

- Increased housing options for residents: in sprawling communities, zoning restrictions may be putting restrictions on the types of multi-family housing.
- Transportation benefits: these include less money spent on transportation by residents, improved fitness, and reduced traffic incidents.
- More efficient provision of public services: utilities, roads, and emergency services cheaper to provide in denser communities.
- Environmental benefits: less need for cars results in fewer vehicles emitting pollution and fewer impervious surfaces.<sup>17, 18</sup>

There is also a body of academic literature that has found that increased density leads to increases in productivity, wages, and innovation.<sup>19</sup>

TIF is one of a variety of tools used to drive development in Vermont’s downtowns. The State offers tax credits for rehabilitating historic buildings in designated downtowns and village centers, helps fund downtown transportation improvements using the Downtown Transportation Fund, and allows for a more streamlined Act 250 process for Designated Downtowns. JFO believes this policy coherence is beneficial for the State as a whole.

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<sup>14</sup> <https://www.planning.org/policy/guides/adopted/smartgrowth.htm>

<sup>15</sup> <https://www.epa.gov/smartgrowth/about-smart-growth>

<sup>16</sup> “APA Policy Guide on Smart Growth.” Updated April 14, 2012.

<https://www.planning.org/policy/guides/adopted/smartgrowth.htm>

<sup>17</sup> Robert Burchell, et al. (2002), The Costs of Sprawl 2000, TCRP Report 39, Transportation Research Board ([http://onlinepubs.trb.org/onlinepubs/tcrp/tcrp\\_rpt\\_74-a.pdf](http://onlinepubs.trb.org/onlinepubs/tcrp/tcrp_rpt_74-a.pdf))

<sup>18</sup> Todd Litman (2008), Understanding Smart Growth Savings: What We Know About Public Infrastructure and Service Cost Savings, And How They are Misrepresented By Critics, Victoria Transport Policy Institute ([www.vtpi.org/sg\\_save.pdf](http://www.vtpi.org/sg_save.pdf)).

<sup>19</sup> Glaeser, Edward L., José A Scheinkman, and Andrei Shleifer. "Economic growth in a cross-section of cities." *Journal of monetary economics* 36.1 (1995): 117-143.

At the same time, while TIF may be generating these indirect economic benefits, the Legislature may want to consider whether certain infrastructure projects more closely align with the longer-term goal of downtown vitality. For instance, will public space beautification (upgrading sidewalks, parks, lighting) or brownfield remediation bring more vitality to a downtown area than a structured parking facility? While current statute requires certain project criteria to be met, within those categories, there are projects that would better fulfill the Legislature’s purpose of downtown development; it could be appropriate to consider those nuances. VEPC, in its application review, may currently be considering these questions but there is no formal policy or statute that requires them to do so.

iii. Further JFO Analysis of Economic Impacts

District Use of Outside Revenue Sources

**Large amounts of outside TIF money obscure the analysis of economic impacts related to TIF.** In the last report, JFO remarked on the level of outside revenues deployed in TIF districts. In general, municipalities use TIF dollars as part of an overall funding scheme for major downtown improvement plans. TIF is but one source to help make improvements. Outside revenues can include state and federal grants for transportation, brownfield cleanup, or beautification in addition to private contributions.

**Table 8: Use of Outside Revenues in Vermont TIF Districts**

District	TIF Tax Increment	Outside Revenues	Notes:
Barre	\$834,668	\$2,829,573	\$1.3 million from Federal Housing and Community Development \$600,000 from the Environmental Protection Agency \$442,415 from the VT Department of Environmental Conservation
Bennington	0	\$156,088	\$50,000 in Downtown Transportation Fund Grant
Burlington Downtown	\$3,432,381	\$323,113	
Burlington Waterfront	N/A	\$2,710,358	\$2.5 million from Vtrans \$305,000 from VT Sales Tax Allocation program
Hartford	\$1,265,965	\$941,093	~\$175,000 in Downtown Transportation Grants
Milton Town Core	3627788	\$743,123	\$681,000 from Vttrans grant
Montpelier	\$0	\$828,903	Non-TIF resources provided by City
South Burlington	313269	\$6,761,654	\$5.5 million in Federal Grants
St. Albans	\$5,846,963	\$13,429,761	Almost \$4 million in various Federal grants \$950,000 in State Downtown Transportation Grants
Winooski	N/A	\$32,865,712	

Source: 2020 Annual Reports for TIF Districts

Table 8 shows the various districts in Vermont, and the corresponding sources of revenue as of end-2020. TIF revenue means tax increment used to finance infrastructure debt. Outside revenues could be State and/or federal grants, non-TIF municipal resources, private donations, or other state sources such as Downtown Tax Credits or sales tax allocations. Some towns, such as St. Albans, Barre, and Winooski have made significant use of outside funds to make improvements to their downtowns.

It is prudent for towns to seek as many outside resources as they can for major downtown revitalization projects and avoid financing the entire development on their property tax. In fact, statute requires VEPC to analyze the outside sources of funding for a municipality in addition to

TIF when it considers an application. Outside revenue sources also diversify revenue streams for the town if tax increments do not materialize as projected.

At the same time, it is inaccurate for towns or VEPC to attribute all growth in property values, jobs, wages, or any other economic variable solely to TIF if there is substantial outside money flowing into a district. For instance, in the St. Albans TIF district, there has been a major revitalization of the downtown core since the TIF district was created. This revitalization could not be accurately attributed fully to TIF: in addition to the \$19.5 million in TIF-related debt, the town has put over \$13 million into the district, of which \$6.8 million is State or Federal grants and loans. As a result of all this public investment, the district has seen growth in taxable values of \$49 million. Not all of this, however, is the result of creating a TIF district. Further, despite the \$13 million in outside money flowing into the district, tax increment is calculated as if all property value growth is attributable to TIF.

Projected vs Actual Development

**If economic growth impacts are evaluated relative to what was projected in their applications, TIF districts have failed to deliver the promised impacts.** Regarding the evaluation of economic impacts, JFO found the statutory charge to be somewhat unclear. In the above sections, JFO evaluated the economic impacts of TIF relative to the absence of TIF. However, another type of evaluation of economic impacts could be relative to what was projected by municipalities at the time of application.

By this measure, TIF districts in Vermont are dramatically underperforming. For districts where readily available applications exist, Table 9 shows the amount of projected taxable value increases they expected by end-2020 in their applications compared to what was realized. Amongst the districts created post-2010, total projected property value growth was expected to be \$454.3 million through 2020. In reality, only about 40 percent, or \$178.6 million, was generated. As a rough approximation, JFO estimates that had districts performed as they predicted, an additional \$4.4 million in Education Tax increment would have been generated, and almost \$1.1 million would have been sent to the Education Fund.

Table 9: Taxable Value Changes by End-2020: Projected at Application v. Actuals			
District	Projected at Application Taxable Value Increase by End-2020	Actual Projected Taxable Value Increase by End-2020	Under/Overshoot
Barre	\$23,535,350	\$5,974,670	-\$17,560,680
Bennington	\$9,486,100	-\$970,840	-\$10,456,940
Burlington Downtown	\$81,626,808	\$43,791,843	-\$37,834,965
Hartford	\$62,852,200	\$26,179,700	-\$36,672,500
Milton Town Core	\$104,425,510	\$44,934,231	-\$59,491,279
Montpelier	\$6,949,400	\$0	-\$6,949,400
South Burlington	\$81,160,300	\$9,373,866	-\$71,786,434
St. Albans	\$84,294,600	\$49,405,337	-\$34,889,263
<b>Total</b>	<b>\$454,330,268</b>	<b>\$178,688,807</b>	<b>-\$275,641,461</b>

Source: VEPC TIF Districts Applications and 2020 Annual Reports

Property value growth is not the only measure of economic growth. What is clear from this data is that the amount of private development that was expected at the time of application has not occurred, which can reasonably be extrapolated to other types of economic growth: if private development has not materialized as expected, the benefits of that development (job growth, payroll growth, sales tax growth, for instance) are unlikely to have materialized either.

Property value growth could miss their projections for a number of reasons. Construction and permitting delays are a significant reason for delays. The COVID-19 pandemic virtually prevented building during the year 2020 and is impacting the availability and cost of construction in 2021 and in the near-term. However, overly optimistic projections of private development in TIF districts existed well before the COVID-19 pandemic, as noted in the 2018 report.

In practice, there is no significant downside to these missed projections. But they do raise some concerns:

- If these projections are part of the basis for approving applications or substantial change requests, VEPC should be mindful of past district performance in this regard when considering the financial viability of a district.
- There may be an incentive for municipalities to show extensive, but unrealistic, development in their applications. As JFO showed in its review of the Downtown and Village Center Tax Credits review, larger, more visible projects are more likely to be approved.<sup>20</sup>
- VEPC should encourage towns not to take on debt unless the associated private development is essentially shovel-ready. Moreover, if a town is relying on its private development plan to go exactly as projected to meet debt service obligations, VEPC should issue heavy caution or require contingency plans if those projections do not materialize.
- It may be worth reconsidering the utility of projections made in applications beyond the shortest of terms. VEPC and towns in recent years have wisely begun doing phased application filings or identifying certain developments which are closer to reality than others.

For the purposes of evaluation, if comparing what actually occurred in TIF districts relative to their applications or recent substantial change requests is not considered appropriate, the Legislature may want to establish formal performance benchmarks for TIF districts and evaluate against them. In the absence of benchmarks, TIF could be deemed an economic success just by doing any development at all.

**(d) Geographic Diversity: The characteristics of TIF will likely prevent the existing TIF program from being widely used in economically distressed or rural parts of the state.**

**Research has shown that TIF districts are created in areas with some underlying level of economic growth, rather than generating economic growth in distressed areas.** JFO noted in the last report that studies of economic growth resulting from TIF have adjusted for a

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<sup>20</sup> 2021 Tax Expenditure Reviews Report. Joint Fiscal Office. <https://jfo.vermont.gov/assets/Subjects/Tax-Expenditure-Reports/b6a0cbf3dc/2021-Tax-Expenditure-Review-Report-FINAL.pdf>

phenomenon called “selection bias.” When a municipality establishes a TIF district, the usual claim is that they do so to increase the property values in economically distressed areas. However, it has been shown in other states that municipalities who establish TIF do so because they are growing anyway and use TIF to enhance that growth or capture tax revenues from another governmental entity, like the state.

In 2018, JFO pointed to evidence that this could be happening in Vermont, as six of the eleven districts at the time were in Chittenden County, the fastest growing area of the state. Since the retirement of the Milton North-South district in 2019, five of the ten active districts are in Chittenden County and account for over 80% of the FY 2022 cost to the Education Fund. As was the case in 2018, the Bennington TIF district is the only modern TIF district in the state established within a county experiencing below-average grand list growth within the past 20 years.

This theory of TIFs requiring underlying growth to be viable appears to also be reinforced by the fact that no new TIF districts have been established since 2018, and it appears that no towns are imminently close to establishing them. Stakeholders JFO spoke to also expressed concern that TIF may not be viable for many towns beyond those who already have used it.

To summarize, it is possible that the factors that are preventing the current TIF program from being used in economically distressed areas may not be easily remedied by changing statute. To truly drive economic growth in areas that are economically distressed, the Legislature may need to use a different tool.

**The complexity and scale required for the current TIF program may preclude smaller towns from using it.** In the 2018 report, JFO suggested that the complexity of applying and administering a TIF district meant that towns with limited staff capacity may not see it as an accessible financing tool. JFO still believes this to be true.

However, since that report, JFO has spoken to stakeholders who have expressed the idea that the scale of planning needed for the current TIF program makes it untenable for smaller communities, beyond the actual complexities of the tool itself. TIF tends to be used almost as part of a broad, long-term planning exercise for municipalities, where long-term visions of downtowns are backed by the long-term financing that TIF offers. The effort and staff time needed to create and follow through on these long-term planning exercises may not be worth the State dollars that TIF provides. While this may not be strictly true for every Vermont town without a TIF, it could be a reason limiting the geographic proliferation of TIF in Vermont. If this is truly a barrier to using TIF, an argument can be made that a simpler financing tool would be better for these municipalities.

### **(e) TIF Debt Burdens: The current amount and approach to debt in TIF districts is conservative, but some districts are in riskier positions than others.**

#### i. Analysis of TIF District Debt Sustainability

Act 69 of this update asks JFO for a review of the size and affordability of indebtedness for TIF districts and an estimate of the maximum amount of long-term debt that is sustainable for TIF



districts. Unfortunately, this is not a straightforward task. The level of sustainable debt should not be considered on an overall TIF program basis, but rather, on a town-by-town basis. Since towns are responsible for servicing the debt on infrastructure projects, the question about sustainability of that debt is really a question of whether any given town can adequately make payments using tax increment.

As of June 30, 2020, total TIF district debt outstanding stood at just over \$61 million. A total of \$107 million had been incurred by municipalities out of \$158 million of voter-approved debt. While districts anticipate incurring \$262 million in debt, it is not clear to JFO how realistic a number this is: some districts, such as Milton Town Core, who is beyond their last year to incur debt, anticipated \$23 million in debt, but have only incurred about \$9.6 million. South Burlington anticipated \$54 million worth of debt in its application, but it is unlikely they will incur an additional \$49 million beyond what they have currently incurred before 2024 (see Table 10). In Act 73 of the 2021 Legislative Session, the Legislature provided districts still within their period to incur debt an additional year to do so. This is in addition to Act 175 of the 2020 session which extended those periods a year.

**Table 10: TIF District Debt as end of FY2021**

	Anticipated	Voted	Incurred	Outstanding Balance	Last Year To Incur Debt
<b>Burlington Waterfront</b>	\$55,602,263	\$54,415,873	\$32,509,873	\$12,923,084	2023, but only for 3 parcels
<b>Winooski</b>	\$30,000,000	\$30,000,000	\$29,998,000	\$10,687,470	2005
<b>Milton Town Core</b>	\$23,766,263	\$9,945,000	\$9,652,600	\$7,642,943	2018
<b>Burlington Downtown</b>	\$33,387,500	\$10,000,000	\$5,420,000	\$4,820,000	2023
<b>Hartford</b>	\$13,000,000	\$11,869,600	\$3,026,000	\$2,588,400	2024
<b>St. Albans</b>	\$23,109,922	\$19,500,000	\$19,500,000	\$15,600,294	2023
<b>Barre City</b>	\$6,836,575	\$2,200,000	\$2,200,000	\$1,848,000	2024
<b>South Burlington</b>	\$54,998,596	\$10,268,985	\$5,000,000	\$5,000,000	2024
<b>Bennington</b>	\$5,690,518	\$0	\$0	\$0	2029
<b>Montpelier</b>	\$15,813,020	\$10,500,000	\$0	\$0	2030
<b>Total</b>	<b>\$262,204,657</b>	<b>\$158,699,458</b>	<b>\$107,306,473</b>	<b>\$61,110,191</b>	

Source: VEPC TIF Annual Report, 2021

**In the last report, JFO was unable to make a firm conclusion about whether the level of debt incurred for TIF districts was sustainable. For this report, JFO makes this same conclusion on a program-wide basis.** Generally, TIF districts in Vermont have conservatively not incurred debt for infrastructure improvements until they have firm confirmation of related private development. For example, Montpelier voters have approved a \$10.5 million debt issue. But the city has delayed incurring it, primarily because the main infrastructure project for this money, a structured public parking facility for a new hotel and public parking, is not yet finalized, as the hotel developer has since put their plans on hold. This is a conservative approach that JFO believes is prudent and VEPC should continue to encourage.

**The concepts of debt sustainability and the viability of a town to support its debt with tax increment are different.** If a town’s projections show that its tax increment will be unable to support the debt it is incurring, that does not necessarily mean the debt is unsustainable. Towns have several options outside of TIF to service this debt:

- Towns can retain municipal tax increment beyond the 20-year retention period for state Education tax dollars. Several districts appear to be planning to do this: Barre and Hartford to name two.
- Towns can make debt service payments using other resources besides tax increments. A town could simply direct general fund dollars to assist in making debt service payments.
- Towns can generate additional non-TIF related revenue sources such as property taxes. For most non-TIF towns, this remains the primary means for financing capital projects.
- Towns may be able to seek refinancing of their debt. This may not be available for all towns, but it has been used before where a district has foreseen not being able to sufficiently cover debt service payments with tax increment (Winooski).

JFO is not best positioned to make determinations of TIF district debt viability. Since the last report and examining TIF district cash flows, JFO does have concerns that certain districts are in a more precarious position than others.

### Burlington Waterfront

JFO's concern with the Burlington Waterfront district relates to the three parcels associated with the Burlington Town Center (BTC) project, also known as CityPlace. The Burlington Waterfront district was created in 1996 and was originally entitled to retain Education tax increment until 2025. In 2016, Act 134 of the General Assembly expanded the Waterfront TIF district to include three new parcels specifically for this major development project. These three BTC parcels were entitled to incur debt until June 20, 2021 and retain municipal and Education tax increment until 2035. Act 73 of 2021 allows these three parcels until 2023 to incur debt. These exceptions require a private construction contract of at least \$50 million to be executed on the three parcels. As of writing this report, that contract has not been signed.

The non-BTC parcels, which compose the majority of the Waterfront district and whose retention period ends in 2025, are generating sufficient, even surplus, increment to service the debt on those parcels. JFO believes the debt on these non-BTC parcels will be retired without issue.

For the three BTC parcels, the timeline for construction is unclear. At the moment, the three parcels are generating negative tax increment, meaning their current value is less than their original taxable value. In 2016, the city projected incurring debt of \$20 million to fund infrastructure improvements for these three parcels. Voters have approved \$21.6 million for infrastructure improvements for the site. Since then, the project has been scaled back, and total infrastructure improvements are estimated in the \$8 to \$10 million range.<sup>21</sup> The City of Burlington has not formally incurred any of this debt but has until 2023 to do so.

News reports of the project state that it will be completed by 2026. Even if that deadline is achieved, that would mean the city would have, at most, 9 years of Education tax increment retention. JFO could not find concrete specifics of the total size of the private development and the projected tax increment. VEPC's public and internal files did not contain updated information on current plans for the three parcels. Media reports state the total cost of private

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<sup>21</sup> "Burlington announces settlement with CityPlace developer." VT Digger. February 5, 2021 <https://vtdigger.org/2021/02/05/burlington-announces-settlement-with-cityplace-developers/>

development will be between \$45 and \$55 million.<sup>22</sup> It's unclear whether that figure includes only the private development or also the public improvements.

Using an amortization schedule provided by the City of Burlington to VEPC for a 2021 substantial change request for its other Downtown district, a 10-year maturity bond would require between \$1 and \$1.2 million annually in debt service payments. To make those annual debt services payments, the total value of those parcels would need to increase by at least \$40 million, assuming 2020 tax rates. However, with a 2023 payment commencement date and a 2026 construction completion date, the City will not generate tax increment until tax year 2027, which means \$3.4 million would need to be repaid even before any increment is generated at all. Of course, the city may opt for a longer-term bond, but that would mean they would be making debt service payments beyond 2035 using some other resources.

To summarize JFO's conclusions on the district, for the infrastructure improvements to be financed entirely by TIF, the scale of the development and its impact on the grand list would need to be significant, perhaps unrealistic based upon what has been reported publicly. Further delays in the timeline make this situation even more precarious.

In December 2019, Burlington updated VEPC on the progress of the Waterfront TIF district. At that meeting, VEPC staff noted the difficult situation of the district: first, the amount of increment generated was well below what was predicted in 2016, the last time the city provided updated financial projections. Secondly, the delays in construction meant the city would have even less increment to finance debt. The Council voted to defer action until the city provided updated information on improvements, debt incurrence, and debt service. As of writing of this report, the city has not provided an update.

### Barre City

The Barre TIF district was established in 2012, and at the time, projected \$23 million in property value growth as a result of \$8.4 million in public infrastructure improvements, \$4.5 million of which was a parking garage. \$6.8 million of the \$8.4 million was to be funded by TIF revenues. At the time, VEPC retained an outside consultant to review the application.

In 2019, Barre approached VEPC with a substantial change request due to changes in their timelines and cost projections. The city now expected \$12 million in infrastructure costs, \$8 million of which would be funded by TIF. The projects themselves remained unchanged. VEPC, at the time, expressed concern with the viability of the district. TIF revenue projections were just enough to satisfy debt servicing requirements.

JFO, like VEPC did, has concerns about the town's ability to make debt service payments solely using tax increment. The city is relying heavily upon a development of the Rouleau Plant, estimated to increase property values by \$8.6 million, generating almost \$350,000 a year in tax increment to fund debt service payments. This tax increment accounts for almost 50% of its required debt payments beyond 2025. The concern lies first on such a reliance on a single private development to generate tax increment. As VEPC notes in its analysis, the supporting documentation does not suggest this development will generate the scale of increment Barre

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<sup>22</sup> "CityPlace Burlington to build out smaller and slower." Vermont Business Magazine. April 25, 2021. <https://vermontbiz.com/news/2021/april/25/cityplace-burlington-build-out-smaller-and-slower>

says. Second, the town's earlier projects have generated much less increment than initially thought. As of 2019, Barre's taxable values were \$4 million below what had been initially projected in the application. Finally, the tax increment projections in the substantial change request rely upon escalating tax rates, an assumption that is far from guaranteed.

VEPC approved the 2019 substantial change request but also required Barre to submit substantial change requests when it was ready to proceed on the two projects. This would prevent Barre from incurring any additional debt via TIF without an approved financing plan from VEPC.

Even if all goes as planned, the town expects to retain municipal tax increment well beyond 2034, which is the last year to retain Education tax increment.

### Burlington Downtown

In 2011, the Burlington Downtown TIF district was created with the promise of constructing \$33.4 million in public infrastructure to generate property value growth of \$81.6 million. In November 2021, the City of Burlington submitted a substantial change request to VEPC, with total infrastructure costs changing to \$36.9 million. The City also requested a change to its district by substituting two blocks in the district for another two.

VEPC, in its review of the financial viability of the TIF district noted that by the end of the life of the district, the district would have a surplus of \$6 million after making all required debt services payments. It also concluded that the estimated projections of property value growth were reasonable.

JFO's concern with this district lies in the assumptions used to generate tax increment. The City incorporated a 1% background growth rate assumption of its TIF district grand list each year from 2024 through 2036, something not observed in other TIF district financing plans. While this does not sound significant, it generates \$39.9 million in grand list growth over the retention period. Each year, this background growth rate adds \$66,000 in available debt service funding. Cumulatively, this assumption generates \$6 million in available debt service payments from 2024 through 2036, which is almost exactly the surplus in cash flow at the end of the district's life.

It should also be noted that in this substantial change request, at the request of VEPC, the City diverted an additional \$260,000 annual development fee from Champlain College to make debt service payments. This diversion allowed for another source of revenue to make debt service payments, thereby reducing the amount of Education Tax dollars needed to make debt service payments.

While JFO cannot make definitive conclusions about the sustainability of Burlington Downtown's TIF district debt, absent the 1% background growth, the financing plan becomes much more tenuous. In other words, JFO has concerns that the financing plan is reliant on unconventional methods rather than actual development-driven tax increment.

As an aside, VEPC advises districts to use a flat tax rate when making projections of tax increment. If districts can build in background growth rate assumptions into their applications, it is in effect nullifying this conservative assumption.

### Hartford

The Hartford TIF district was established in 2011. At the time, \$13 million in public infrastructure improvements were expected to create increases in assessed values of \$73 million by 2034. The district has since struggled to maintain its timeline. In particular, private development has not materialized as planned, so the town has wisely waited to issue new debt. As of 2021, the town has received voter approval for \$11.8 million worth of TIF debt but had only incurred \$3.02 million.

In 2019, Hartford, in the second phase of its application filing, requested VEPC permission to borrow an additional \$5.48 million for infrastructure improvements. Documentation provided by the town projected incremental property value growth of \$15 million related to this public infrastructure investment.

In its analysis of Hartford's filing, VEPC staff noted that the \$15 million in property value increment was insufficient to cover debt service payments, even though Hartford used escalating tax rates in its application. As noted earlier in this report, VEPC staff concluded the district financing plan was viable despite both these issues, remarking that the district could expect a catalytic effect with respect to private development. At the same time, VEPC staff pointed out that the district would require tax increment beyond what was projected in its phased filing.

JFO's concern about the debt sustainability of the Hartford district is the result of several overlapping pieces of information:

- The district approached the Legislature in 2020 for a three-year extension of its debt incursion period, but not an extension of its retention period. The district has until March 2024 to incur debt, meaning it is possible that upon completion of its last infrastructure project, the town may only have 10 years to retain Education tax increment since its retention period ends in 2034.
- The town, even prior to the COVID-19 pandemic related delays, was projecting a need to retain municipal tax increment beyond 2034.
- When Hartford was approved for a TIF district, VEPC staff retained Economic Policy Resources to review the application. They found the "development timeline remains aggressive and that, while reasonable, the cost projections are still subject to considerable uncertainty."<sup>23</sup> To help mitigate this uncertainty, VEPC staff recommended Hartford complete a phased filing and update the council on new financial developments over time.

Because of these circumstances, JFO agrees with VEPC staff that continued close monitoring of the Hartford TIF district is warranted.

**Based upon analysis of district financing plans and the uncertainty surrounding TIF and outside factors, JFO believes the Legislature will likely need to intervene to provide support to some districts in the future.** This level of support could vary by district, and to some extent, has already occurred. TIF districts in 2020 and 2021 asked and were given for

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<sup>23</sup> VEPC Hartford TIF Writeup-Council Findings from July and Staff Determinations. October 27, 2011.

extensions of their debt incursion periods because of the COVID-19 pandemic. This judgement is based upon the following factors:

- As noted above, the financing plans of some TIF districts do not allow for much margin for error.
- At the moment, the risks to TIF districts are, on balance, tilted towards the negative. The costs and availability of construction are likely to put strain on towns and their infrastructure plans.
- For some districts who are relying on private development in the retail, hospitality sectors, or office space, the value of those developments could be negatively impacted by the COVID-19 pandemic.

The Legislature could intervene to assist a TIF district by extending the tax increment retention period or allowing a town to retain a higher percentage of Education Fund tax dollars. Both options would result in additional and prolonged costs to the Education Fund. Alternatively, the Legislature could appropriate one-time General Fund dollars directly to a town as a bail out although there is no precedent in Vermont for that kind of support for a TIF district.

Legislature could also choose *not* to intervene and provide relief to a TIF municipality in a difficult debt position. In that event, the municipality, if it cannot refinance with its lenders, would be forced to raise property taxes, cut spending/services, and/or find other resources to make the needed debt service payments. While there is the prospect of a municipality defaulting on TIF debt, practically speaking, it does not appear as though financially stressed TIF cities nationwide have ever reached this dire point. Usually, the troubled city is either rescued by the state or the municipality refinances or uses another loan to make TIF payments. If a town in Vermont defaulted on debt, one predictable impact would be significantly higher interest rates for *all* Vermont municipalities who were seeking to borrow in the future, since most towns do not borrow on the open market, but rather through the Municipal Bond Bank.

## Considerations for Legislators

As in the last report, this section will overview some areas of considerations for Legislators to make improvements to the TIF program. JFO still believes the considerations in that report to be applicable to this evaluation of the program.

During the analysis of this report, JFO identified three broader, salient areas that merit deeper legislative consideration. Rather than focusing on issues about whether TIF is creating economic impacts or fiscal costs, these considerations are more practicable, and Legislature could act upon them if it so desired:

- 1) VEPC's role as an approval, monitoring, and regulatory agency.
- 2) The administrative process for handling issues within the TIF program.
- 3) Opportunities for providing direct financial resources for municipal infrastructure construction.

Within each one of these broader issues, JFO will highlight specific areas of improvement or consideration.

### *VEPC's Role as an Approval, Monitoring, and Regulatory Agency*

**Statute could be improved by requiring a formal analysis of statewide economic and fiscal impacts.** In the last report, JFO identified that the VEPC process for cost-benefit and but-for analysis could be improved. Under current law, VEPC and its staff review whether the development at the municipal level would have occurred, or occurred in a significantly different way or timeline, without the use of TIF. VEPC requires municipalities to produce projections of development, property value growth, tax increment, and debt repayments. As in the last report, JFO continues to believe this area could be improved by statutorily requiring VEPC to analyze whether a given TIF district's improvements would provide statewide, not just municipal benefits.

While it is possible that a broader evaluation of statewide benefits is discussed in VEPC meetings, it does not appear they are a primary consideration, nor is there any formal quantitative requirement. Since the last report, only Montpelier has been approved for a TIF district. Within its application, Montpelier provided a narrative that highlights only the economic benefits to the town and broader Washington county with no discussion of why private developments in the district would have statewide economic impacts. Bennington's TIF application narrative does include a brief discussion of state benefits but only insofar as stating growth in Bennington is good for Vermont as a whole. JFO's review of assessments of statewide economic impacts within applications or substantial change requests found that most were brief and qualitative in nature.

As JFO recommended in the last report, the use of a cost-benefit model would clarify the economic growth impacts of TIF statewide. Formal evaluation of economic benefits of the use of an economic development tool is not a unique concept for Vermont. The Vermont Economic Growth Incentive (VEGI) uses a cost-benefit model to determine whether new capital investment or jobs provide a *net* economic benefit to the state as a whole. Act 74 of 2021 established a new

Capital Investment Grant Program awards grants based on a cost-benefit model which examines whether eligible projects genuinely create new economic growth or simply cannibalize existing growth. As with these two programs, an applicant for TIF would be required to show some level of net positive economic impact.

**Statute or TIF rule could be improved to require certain conditions for feasibility studies.**

During its analysis, JFO noted potential issues in the feasibility analysis of TIF districts for both initial and phased applications as well as substantial change requests. The first issue is that these analyses rely heavily upon the assumptions of the municipalities. VEPC staff review these plans for accuracy, provide commentary, and recommendations to VEPC. A potential concern with this process is that municipalities have a poor track record of accurately projecting development in the district beyond the very short term.

Moreover, there appear to be inconsistencies in the level of prudence or conservative assumptions applied to feasibility. In some cases, VEPC requires conservative assumptions for the feasibility analysis and in other cases, does not. For example, in 2019, in the second phase of Hartford's phased filing, it projected an additional \$15 million in incremental property value to support debt service for a \$5.48 million bond. This incremental property value would not be enough to support the debt service on the bond itself, but the feasibility analysis determined the change was viable because a catalytic effect of the development associated with that investment would follow. In other words, development would lead to more development. If this were true, Hartford could have projected more than \$15 million in incremental property value. Instead, the VEPC analysis determines viability by implicitly assuming more property value growth than the town itself. Moreover, in that same request, VEPC allows for an escalating tax rate to be used in the town's projections, even though VEPC has for several years asked towns to use flat tax rates. The use of less conservative assumptions in this case was even more curious given the fact that when Hartford was approved in 2011, VEPC retained a third party to evaluate the district's financial viability.

This contrasts with a more conservative approach to the 2019 substantial change request by Barre. The city proposed the construction of a parking garage for \$5.95 million supported by TIF tax increment. VEPC staff were significantly more hesitant about viability, noting a high degree of caution. The analysis pointed out that all projected private development in the request would need to occur to make the parking garage viable with tax increment, and the early projects in the TIF district had a history of not reaching their increment projections.

The Legislature or VEPC could consider adopting some baseline assumptions and parameters for all feasibility studies. These include:

- Requiring every application and substantial change request to require flat tax rates.
- Adopting a policy for considering underlying or dynamic growth in TIF districts.
- Requiring clear determinations and conclusions on financial feasibility. For instance, VEPC could require applicants to file in phases or require more frequent check-ins for applicants whose feasibility case is more tenuous.
- In some cases, requiring the retention of an independent third party such as the State economist for the Administration to weigh in on town assumptions where viability is not clear.



The Legislature or VEPC could also require TIF applicants to submit scenario analyses of their feasibilities. For instance, applicants might be required to apply using statutorily defined assumptions of tax rates and background growth. This could be compared to financing plans using more relaxed assumptions to see how sensitive the district would be to different assumptions. If the feasibility were highly sensitive to even minor adjustments in assumptions, it might flag a more precarious TIF district financing plan.

**Statute or TIF rule could be improved to require a more rigorous evaluation of whether municipalities need to use TIF for these infrastructure improvements.** Current statute requires VEPC to evaluate an applicant's "statement and demonstration that the project would not proceed without the allocation of a tax increment." However, no formal guidelines exist for making this evaluation.

In JFO's conversations with municipalities, most relayed that the construction of infrastructure was not possible without the use of TIF. Towns suggested that residents would be unable or unwilling to burden the property tax increase associated with debt service costs. Some towns told JFO they had an obligation to request State dollars to limit the tax burden on its residents, notwithstanding the willingness of its residents to shoulder greater property tax burdens in exchange for development. This is traditionally not a criterion used for evaluating whether the State should provide fiscal support to municipalities. In the absence of formal analysis, statements about need largely become pro forma.

The Legislature or VEPC might consider requiring a level of formal analysis of a town's capacity to make infrastructure improvements on its own. VEPC, for its part, has done this in the past. Hartford and Barre's applications included a very detailed analysis by a consulting firm (Economic Policy Resources) which evaluated, among other areas:

- The town's budget and service provision relative to peer towns in Vermont
- The town's debt burden per capita relative to its peers.
- The town's property tax burden per capita relative to its peers
- A comparison of the town's tax rate relative to its peers.

VEPC also appears to have incorporated this type of analysis in its review of recent applications. For the Bennington and Montpelier TIF districts, the towns themselves provided a largely qualitative assessment of their need to use TIF revenues. In addition to this, VEPC staff reviewed some of the need parameters listed above, similar to how Economic Policy Resources had done for Barre and Hartford. The Legislature should encourage this level of analysis, and it may be useful for VEPC to adopt formal policies requiring this for every application and substantial change request.

Only after looking at these parameters was a determination made that the town would be unable to support infrastructure improvements without state assistance. Another way to prove need might require towns considering TIF to first put a debt issue vote to their voters for the infrastructure proposals being considered. A failed vote would demonstrate a need for more than pro forma statements or assumptions.

**The Legislature may want to consider requiring VEPC to provide more detailed updates on district developments.** This could include various levels of reporting beyond what is in VEPC's Annual Reports:

- Whether district tax increments are flowing according to their latest financing plans.
- Whether there were any delays in infrastructure or private development that may impact tax increment.
- Any additional information that would impact the financial viability of a TIF district.

The Annual Reports from VEPC do not include this information. The audits by the State Auditor do not evaluate the viability of a TIF district. This report from JFO will be issued every 5 years and will include JFO's examination of these areas. VEPC, who is the day-to-day regulator of the program, is probably best positioned to report this information in an accurate and timely manner.

Additionally, the Legislature might consider requiring the Executive Director to provide updates each legislative session on the parameters above. Moreover, this information should be provided on a district-by-district basis since the trajectory of each TIF district is different. The Legislature should also be informed about substantial change requests that significantly alter the financial plans of a district relative to its application.

**The Legislature or VEPC could consider requiring districts to create contingency plans in the event their tax increments do not materialize as planned.** At the moment, if a TIF district were to enter a situation of financial distress, it would be treated on a case-by-case basis by VEPC and/or the Legislature. When it became clear that the now-retired Milton North-South district would be unable to cover debt service payments with tax increment, the Legislature extended the retention period for an additional ten years in Act 184 of 2006. This puts the Legislature in a difficult position because by the time the district approaches the Legislature, the situation basically necessitates immediate legislative action. A contingency plan would at least require towns to exhaust all avenues for remedying the situation before approaching the Legislature. Also, if a town needed to utilize its contingency plan, it would at least provide the Legislature notice of a potential issue in the state's TIF districts.

*The administrative process for handling issues within the TIF program.*

**The unpredictability and complexity of TIF makes administering the program challenging since statute cannot address all ambiguous issues.** Unlike many states, Vermont has chosen to tightly regulate its TIF program at the State-level. This includes setting up statute with many boundaries and an organization charged with approving, monitoring, and regulating TIF districts.

Unfortunately, state statute, no matter how strong, cannot predict the issues and ambiguities that will inevitably occur in TIF districts. These are both circumstantial and regulatory in nature:

- *Circumstantial:* outside factors that prevent a town from carrying out its TIF as planned could include:
  - A recession depresses private development or deteriorates a town's balance sheet.
  - A developer upon which the town is relying for a centerpiece development goes bankrupt.

- Cost estimates for a project are significantly higher than planned, requiring a town to change its building timelines.
- *Regulatory*: ambiguous issues that arise within TIF districts where statute or TIF rule does not provide a clear direction could include:
  - A district uses debt proceeds to fund a debt service reserve fund to make bond payments during the early stages of a TIF district where no increment is being generated by private development.
  - A town uses bond proceeds to finance a project that is potentially private in nature, such as elevators from the town-built parking garage to a private office complex.

Since the last report, there are several examples of these types of concerns. In some case's VEPC's substantial change process can address them. With issues of legality or changes that run counter to statute, VEPC, or in some cases the State Auditor's Office or towns, have sought legislative action to remedy these situations. This presents several issues that have been noted since the last report:

- The Legislature is not designed to act quickly to make rulings on regulatory issues that come up in TIF districts, either discovered by VEPC or the State Auditor's Office.
- Relatedly, the TIF statute and the rules governing each TIF district are complex and nuanced, requiring legislators to become well-versed in TIF to understand the smallest of issues. All for legislation that is arguably very niche in nature.
- Remediating issues in individual towns with legislation creates carve outs or nuances in statute that make the program even more difficult to understand and administer.

The Legislature could consider creating a more formal process for determining what requires legislative action, and what can be administratively determined by VEPC. For instance, the Legislature could decide that matters that would impact Education Fund revenues over a certain dollar amount would require legislative action. Alternatively, matters that affect the lifespan or size of the district could require legislative action.

If the Legislature does not feel it is appropriate to delegate more administrative determination power to VEPC, it might also consider if anything can be done to make such an arrangement more workable. For instance, would requiring more legislative seats on VEPC make it more representative of the Legislature's intent on TIF issues? Would enhanced staffing on the monitoring and regulatory functions improve perceptions of VEPC's independence? Could ambiguous issues on TIF require both the agreement of the Agency of Commerce and Community Development's general counsel *and* the Attorney General?

Regardless of a solution, in the meantime, to be conservative, VEPC might consider advising towns to administer their TIF districts in a way that limits ambiguities and avoids putting VEPC in a difficult position of making a ruling of legality. In other words, VEPC could advise towns that unless a certain action is clearly written in statute or TIF rule as allowed, towns should not move forward with it.

Opportunities for providing direct financial resources for municipal infrastructure construction.

**Legislators should ask whether TIF's complexity and administrative burden to the State and towns are clearly more beneficial than some other means of providing the same level of funding for downtowns.** During the consultation process, JFO was directed to many case studies of major private developments that had occurred in downtown areas. The improvements in TIF downtowns are no question a benefit to those communities. However, in analyzing whether TIF is the best tool to achieve this development, the question is not whether TIF made this development happen. Rather the question is, if the same amount of funding was provided through another means, would TIF provide a better outcome? And if so, are those better outcomes worth the administrative costs and complexity of TIF?

For instance, suppose the State were to create an annual matching grant program for towns who are seeking to fund infrastructure improvements downtown. If this grant program were funded with approximately \$5 to \$10 million per year, it would provide the same amount of State support as TIF. The question Legislators should consider is whether such a program would generate better outcomes than the TIF program. **In other words, is there something intrinsically beneficial about TIF, beyond the money that it provides to towns, that would make it better than another tool?**

TIF is a tool for municipalities that provides steady, long-term funding for downtown infrastructure projects. It may also drive towns to take a more active approach to development in their downtowns and foster relationships with private developers. These benefits need to be weighed against the downsides of TIF, including but not limited to:

- The complexity and cost of administration, both for the towns and the State.
- The uncertainty of aligning debt service payments with the assessments of future property values.
- The fact that smaller towns are generally not in a position to use it, largely because of the scale of their development plans, but also because of town capacity.
- The uncertainty about the actual costs to the State and towns since it is not a budgeted appropriation subject to annual scrutiny.

**In light of large State surpluses in revenue and Federal largesse, strong consideration should be given to other economic development tools that could finance infrastructure improvements in towns.** Since the 2018 report, there have been major changes in the State's financial position.

The first is that the State is realizing greater revenues than forecasted for FY2020 and FY2021. The January 2022 Consensus revenue estimate forecasts that strong revenues are likely in FY2022 and FY2023, particularly in the General Fund, driven by strong Personal and Corporate income tax revenue. The second is the State has received extraordinary direct and indirect fiscal support from the Federal government. The majority of this is due to the COVID-19 pandemic, but also the recent passage of the Federal infrastructure bill.

There will be demands on these resources for innumerable State initiatives. Indeed, much of these funds are already spoken for. A large portion of the Federal dollars, particularly in the Infrastructure Bill, are only allocable to projects for which there is an existing Federal program.

However, Legislators may want to consider whether it is worth creating a program using State surplus or, to the extent possible, Federal funds that could fund infrastructure improvements in downtowns. Examples of this could include a revolving loan program, a grant program, or providing greater funding to the State Infrastructure Bank program through VEDA. A more complete suite of financing options is available below:

**Table 11: Alternative Downtown Infrastructure Development Tools**

<b>Financing Tool</b>	<b>What is it?</b>	<b>Pros</b>	<b>Cons</b>	<b>U.S. Examples</b>
Metropolitan Area Projects (MAPS)	Multiple development projects submitted by citizens via request for proposals. Funded by a limited term sales tax increase.	Projects are funded without debt and are citizen-driven.	State restrictions on sales tax uses	Oklahoma City
Tax Credits or Abatements	Exemptions on local or state taxes for development.	Versatile and varied. Can be used for many types of projects	Companies may divest once the credits end. Discontent over preferential treatment. Difficult to evaluate	Washington D.C., Baton Rouge, LA, Tucson, AZ
Business Improvement Districts (BID)	Property owners in a specific area vote to initiate and manage supplemental services via a common area based on an assessment formula	Citizen-driven. Has been shown to increase property values in New York City	Smaller BIDs are unlikely to make a major impact on overall economic development in a city	Philadelphia, New York City, Denver, Madison, WI, San Diego
Revolving Loan Funds (RLF)	Provides at or below market rate financing to fund projects in downtown areas or for specific developments	Provides competitive interest rates and flexible terms versus conventional lending. Lowers overall risk for other participating partners.	Loans must be able to generate enough of a return to replenish the fund. Requires an initial amount of capital.	Georgia: Downtown Development RLF, Minneapolis, Two Percent RLF
Gap Financing	Funds that fill a gap in traditional funding for business, entrepreneurial or commercial real estate development projects.	Flexible; many types of development projects/costs are eligible. Reduces overall risk for other development partners	Gaps in financing may be large. Incentive for other partners to reduce their funding share.	Florida Municipal Loan Council

**Table 11 continued: Alternative Downtown Infrastructure Development Tools**

<b>Financing Tool</b>	<b>What is it?</b>	<b>Pros</b>	<b>Cons</b>	<b>U.S. Examples</b>
Infrastructure Bank	Assists public and private entities in the construction or redevelopment of transit facilities	Low rate, fixed-term loans at favorable terms.	Has not yet been fully proven as an effective tool for municipalities	Chicago
Targeted matching grants	State provides a matching grant to the municipality for use in building infrastructure.	State has a clear understanding of the cost of the program.	Subject to an annual appropriation, which could change with government priorities. May favor towns with higher capacity to complete grant applications.	

Notwithstanding the pros and cons of TIF relative to other economic tools, having an infrastructure funding mechanism through the State would save municipalities a significant amount of money in financing costs.

**This being said, TIF itself may act as a catalyst for town long-term planning and coordination with private developers relative to other funding streams.** In JFO’s consultations with stakeholders, a specific benefit to TIF appeared to be that it forces towns to create long-term strategic development plans for their downtowns. Since the financing provided by TIF is long-term and the developments in a downtown area are directly linked to that financing, towns are forced to create plans for their downtowns and stick with them despite changes in administrations. It was also relayed to JFO that TIF is unique in its ability to force towns to work directly with private developers, since tax increment is reliant upon private development occurring. This relationship building could yield long-term benefits for a town.

In addition to this advantage, TIF could also be used to draw in other types of outside funding. In many cases, TIF district designation has led to an influx of outside money. These funds are used to make additional improvements within the TIF district. Stakeholders suggested to JFO that outside sources of funding were more likely to invest in a project because of the creation of a TIF district. The theory is that the use of TIF acts as a signal to developers that a town is dedicated and invested in making improvements to their downtown. Also, if TIF is used, the available source of funding from the State and municipality is assured for 20 years and not subject to an annual appropriation process.

## Appendix

**Table A1: TIF Districts – Legislative History**

Act No.	Overview of Legislation
1985 Acts and Resolves No. 87	<ul style="list-style-type: none"> <li>• First TIF enabling legislation</li> <li>• Burlington (waterfront) authorized under this legislation in 1996, and the city voted to expand the TIF in 1997</li> <li>• Newport TIF authorized under this legislation in March 1997</li> </ul>
1997 Acts and Resolves No. 60	<ul style="list-style-type: none"> <li>• Changes in education financing to statewide property tax</li> <li>• TIF districts in Burlington (waterfront) and Newport grandfathered to allow for utilization of the new state education property tax</li> </ul>
1998 Acts and Resolves No. 71	<ul style="list-style-type: none"> <li>• Authorizes VEPC to approve additional TIFs as part of the Economic Advancement Tax Incentive program (requiring job creation)</li> <li>• Milton (North/South) TIF district approved under this authority</li> </ul>
2000 Acts and Resolves No. 159	<ul style="list-style-type: none"> <li>• Creates a TIF district in Winooski through special legislation</li> </ul>
2003 Acts and Resolves No. 68	<ul style="list-style-type: none"> <li>• Amendment to Winooski TIF district relating to calculation of “excess valuation” of property</li> </ul>
2006 Acts and Resolves No. 184	<ul style="list-style-type: none"> <li>• Sets out VEPC approval process and framework for new TIF districts</li> <li>• Caps TIF districts at 10 and no more than 1 per town for a five year period ending June 30, 2011.</li> <li>• Milton (town core), Burlington (downtown), Colchester, Harford, St. Albans and Barre approved under this authority and subject to VEPC process</li> </ul>
2008 Acts and Resolves No. 190	<ul style="list-style-type: none"> <li>• Caps TIF districts at 6</li> <li>• Limits no more than 1 TIF per town for a five year period ending June 30, 2013</li> <li>• Changes what type of financing available</li> <li>• Inserts reporting/auditing requirements</li> <li>• Changes when debt can be incurred</li> <li>• Retroactively approves type of debt used for Burlington</li> </ul>
2009 Acts and Resolves No. 54	<ul style="list-style-type: none"> <li>• Reopens Burlington (waterfront) TIF for debt purposes</li> <li>• Applies different requirements to Milton (town core) TIF district, including different types of financing available and length of time increment can be retained</li> </ul>
2011 Acts and Resolves No. 45	<ul style="list-style-type: none"> <li>• Changes audit requirements</li> <li>• Treats Milton (North/South) TIF as one district for auditing and reporting requirements</li> <li>• Amends Burlington’s formula for payment to the education fund</li> </ul>
2013 Acts and Resolves No. 80	<ul style="list-style-type: none"> <li>• Prohibits VEPC from approving additional TIF districts other than the following: Burlington (Downtown), Burlington (Waterfront), Town of Milton (North and South), City of Newport, City of Winooski, Town of Colchester, Town of Hartford, City of St. Albans, City of Barre, and Town of Milton (Town core)</li> </ul>

**Table A1: TIF Districts – Legislative History**

Act No.	Overview of Legislation
	<ul style="list-style-type: none"> <li>• Permits the approval of the City of South Burlington if approval granted by December 31, 2013</li> <li>• Delegates rulemaking authority to VEPC</li> <li>• Imposes certain information reporting and auditing requirements</li> <li>• Clarifies how tax increment may be used</li> <li>• Permits the City of Burlington to incur indebtedness in its waterfront TIF district for an additional five years beginning January 1, 2015</li> <li>• Various technical amendments</li> </ul>
2014 Acts and Resolves No. 174	<ul style="list-style-type: none"> <li>• Various technical amendments including removing a redundant reporting requirement for the Burlington TIF, clarifying when related costs may be taken, clarifying the listing practices for calculating original taxable value, clarifying who calculates the increment and how it is accounted for at the municipal level</li> <li>• Clarifies what information must go into an audit report, and the amends the schedule for audits to harmonize the timing for all districts</li> </ul>
2015 Acts and Resolves No. 57	<ul style="list-style-type: none"> <li>• Removes certain special assessments in a municipal charter from the property tax for the purpose of assessing property values and tax increment in a TIF district</li> </ul>
2016 Acts and Resolves No. 134	<ul style="list-style-type: none"> <li>• Delays the audit of the Milton Town Core district by one year</li> <li>• Extends the time period that the City of Burlington can incur debt on certain parcels in the Burlington Waterfront TIF district, and the time period that Burlington can retain municipal and education tax increment</li> </ul>
2017, Acts and Resolves No. 69	<ul style="list-style-type: none"> <li>• Requires annual JFO report on TIF districts</li> <li>• Changes education property tax increment split to 70%, from 75%</li> <li>• Requires municipalities to send no less than 85% of the municipal property tax increment to TIF district related costs.</li> <li>• Caps the number of TIF districts at six but Emergency Board can increase</li> <li>• Stricter location and project criteria</li> <li>• Grandfathers all TIF districts approved before 2017 under 2013 Act 80 statutory guidelines.</li> </ul>
2020, Acts and Resolves No. 111	<ul style="list-style-type: none"> <li>• Extended the debt incursion period for the Hartford TIF districts by three years</li> </ul>
2020, Acts and Resolves No. 175	<ul style="list-style-type: none"> <li>• Extended the debt incursion period for all TIF districts who were not already past their debt period by 1 year due to the Covid-19 pandemic</li> </ul>
2021, Acts and Resolves No. 73	<ul style="list-style-type: none"> <li>• Extended the debt incursion period for all TIF districts who were not already past their debt period by 1 additional year due to the Covid-19 pandemic</li> <li>• Amended the audit schedule for the Burlington Waterfront TIF District.</li> </ul>