TAX INCREMENT FINANCING (TIF) IN VERMONT

October 24, 2019
NCSL Tax Evaluators Roundtable
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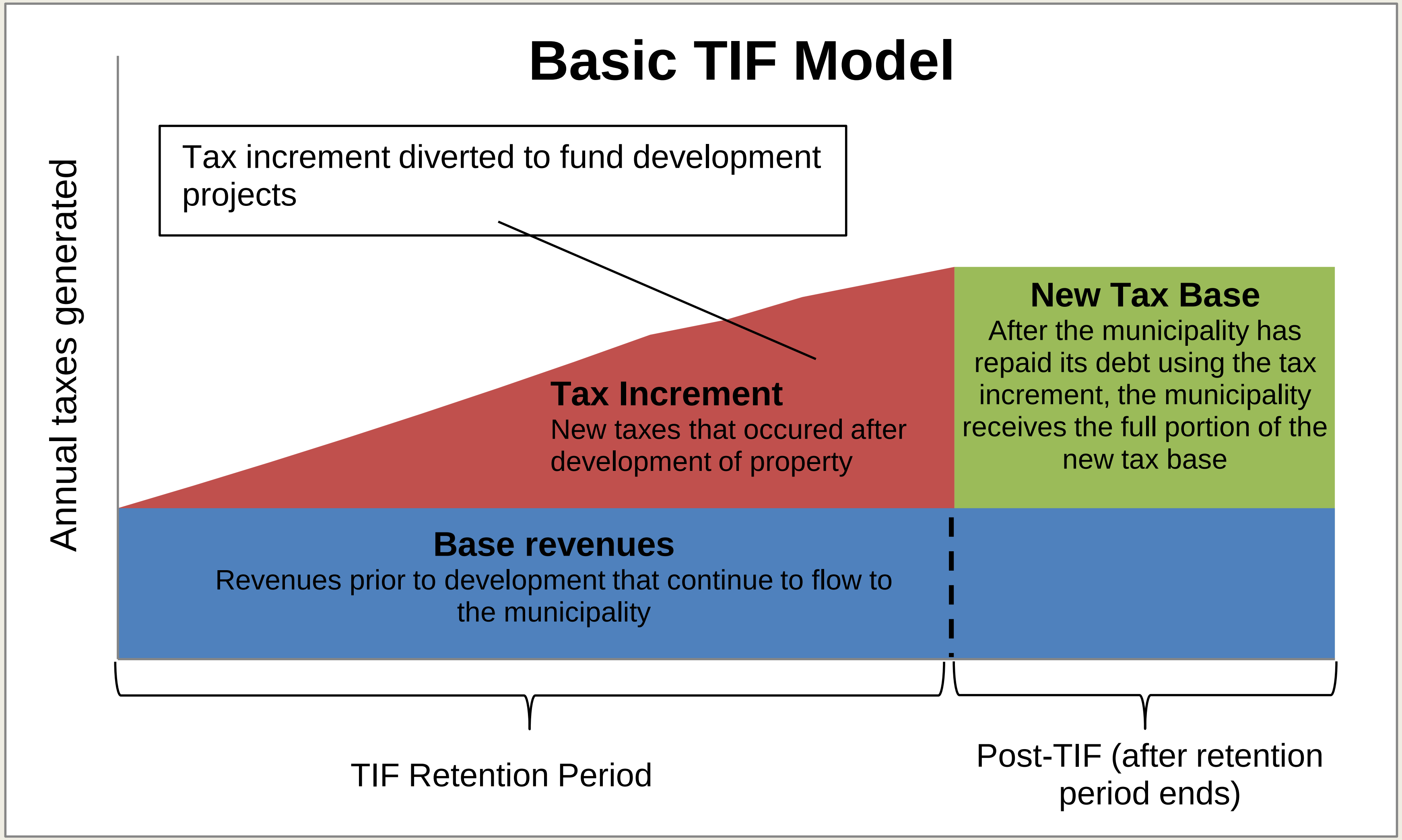
What is TIF?

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

What is TIF?


Basic TIF Model
Tax increment diverted to fund development projects
Annual taxes generated
Tax Increment
New taxes that occured after development of property
New Tax Base
After the municipality has repaid its debt using the tax increment, the municipality receives the full portion of the new tax base
Base revenues
Revenues prior to development that continue to flow to the municipality
TIF Retention Period
Post-TIF (after retention period ends)

Pre-2006 Vermont TIF Landscape

- TIF authorized in statute in 1985
- Prior to 1998, TIF districts in VT were municipal constructs
  - *All incremental tax revenues were municipal property taxes*
  - *No state involvement, other than establishing ability for towns to create*
- Act 60 of 1997 established a statewide property tax
  - *3 TIF districts existed before Act 60 takes effect*
  - *State creates Vermont Economic Progress Council (VEPC) to evaluate TIF applications, but Legislature had to approve each one*
- **Now, TIF districts could capture two types of tax increment:**
  - *Statewide Education Property Tax*
  - *Municipal Property Tax*

Post-2006 Vermont TIF Landscape

- Current Vermont landscape: Legislature takes a leading role:
  - *Establishes a percentage split for incremental statewide property tax revenues*
    - In 2006: 75% TIF district, 25% state
    - Post-2017: 70% TIF district, 30% state
  - *Establishes location criteria: TIF must be in two of the following:*
    - High density or compact area, approved downtown center, an economically distressed area
  - *Establishes specific project criteria for a TIF district to be established.*
  - *TIF districts could not retain more than 20 years of statewide tax property tax revenue from first debt*
  - *Beginning 2017 (Act 69):*
    - No municipality that has a TIF district is eligible for a new one
    - Municipalities must dedicate at least 85% of their municipal increment
    - Capped total TIF districts at 15 for the entire state (11 active, 4 up for grabs)

JFO’s TIF Report

- As part of Act 69 of 2017, the Legislature asked JFO to review Vermont’s TIF program on the following parameters:
  - *Operational: how does Vermont’s TIF requirements compare to other states?*
  - *Fiscal: what are the State fiscal impacts of the program?*
  - *Economic: are there any economic benefits to using TIF?*
  - *Geographic: is the State using TIF as a means to bring economic development to economically-distressed areas?*

Major Findings: Operational

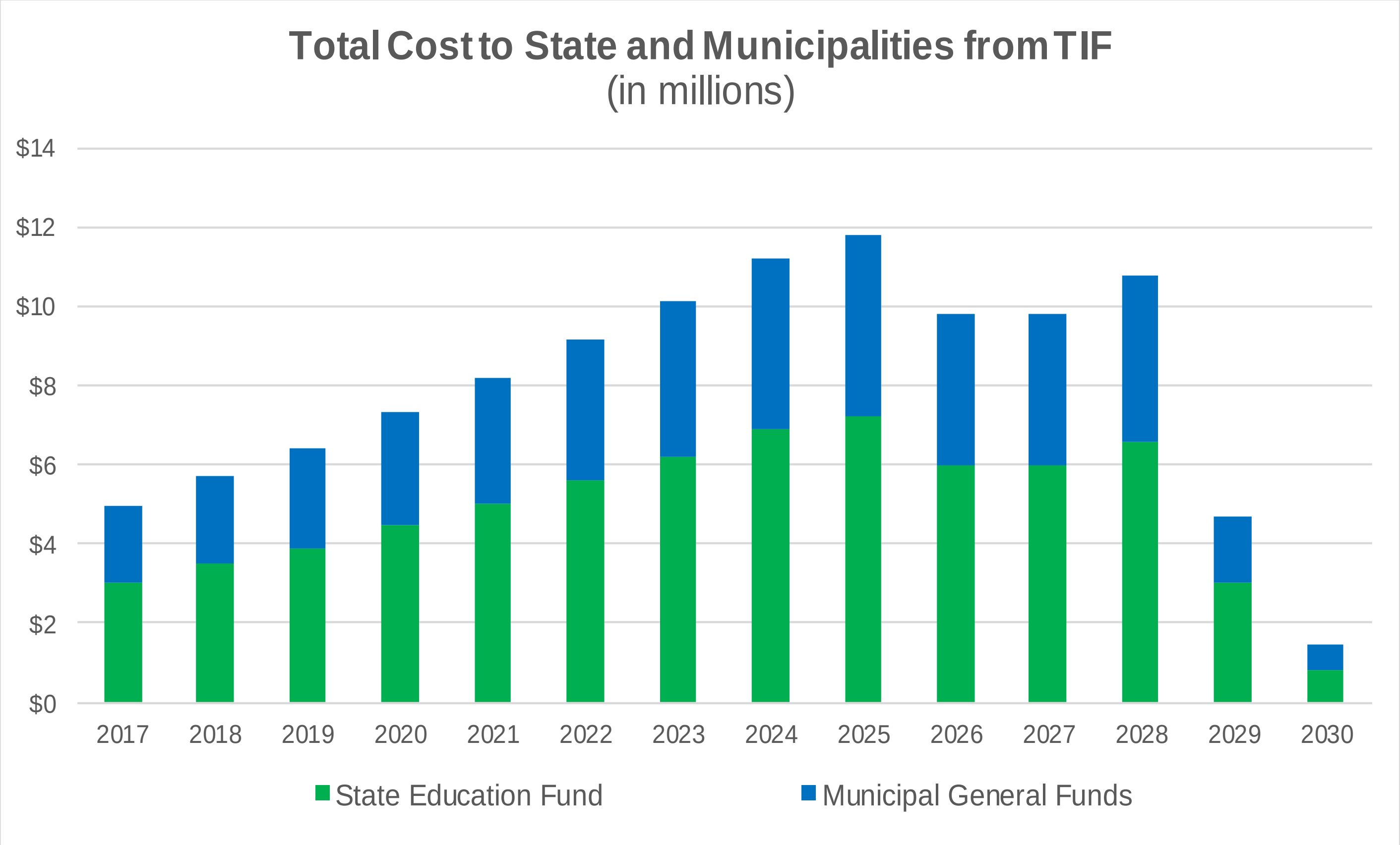
- **Vermont's TIF program is relatively well-defined in statute and transparent**
- Legislative action over the past three decades set limits on the potential downsides and excesses of TIF that have occurred in other states:
  - *No sales, income, meals, rooms, or PILOT revenues dedicated to TIF.*
  - *30% State share in incremental tax benefit means State sees some fiscal benefit immediately*
  - *Specific project and location criteria key gears TIF districts towards more publicly beneficial outcomes and State development objectives*
  - *20 year retention period could mean more credible forecasts of TIF tax increment and quicker benefits for State*

JFO Fiscal Impact Model

- Counterfactual model with two scenarios: baseline vs. TIF
  - *Baseline Scenario*
    - TIF grand list grows at the 20 year average growth rate +/- 50 percentage points if inside/outside Burlington metro area
    - State/municipality receives 100% of any property tax growth
  - *TIF Scenario*
    - TIF district grand list grows at 6% per year for first 10 years
    - Next 10 years grow at average of the county growth rate for the past 20 years
    - New incremental property tax revenues are split between State/municipality and TIF district
- Difference is the fiscal revenue/cost

Major Findings: Fiscal Impact

- **TIF is a cost to the State and municipal general funds**
  - ***Between 2017 and 2030:***
    - **$68 million to the State**
    - **$43 million to towns**
- Average breakeven point for the State: greater than 50 years
- Does not account for the following sources of new revenue:
  - *Sales or income taxes generated in the TIF district*
  - *Increased property values adjacent to the TIF district*



Major Findings: Economic Impacts

- **The extent to which TIF has and will provide the expected economic benefits to the State is unclear.**
  - *TIF could create indirect economic benefits*
    - Denser, downtown development (Smart Growth)
    - Magnet for other types of economic development funding
  - *TIF likely provides little direct economic benefits at a statewide level.*
    - Demand substitution/cannibalization
    - Academic and non-academic research has found little to no economic benefit from using TIF.

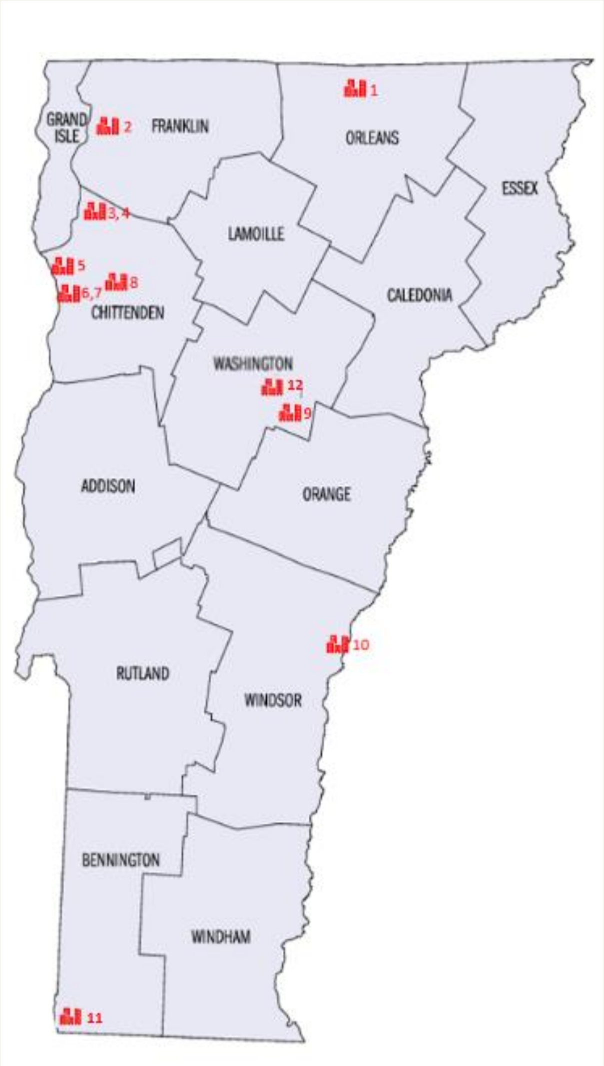
Economic Impacts

- Other monetary contributions (Federal grants, other loans) obfuscate the link between TIF and economic growth

Comparisons of TIF District Revenue Sources, as of end-2016	
	Winooski
Total Revenue	$83,275,710
of which: TIF Revenue	$11,707,609
of which: Non-TIF Revenue	$71,568,101
Percentage Non-TIF Revenue	85.94%
Percentage TIF Revenue	14.06%

Major Findings: Geographic Diversity

- **Vermont's TIF statute cannot guarantee that TIF districts are geographically diverse**
- Statute does not explicitly require that a TIF district be located in areas that are economically distressed
- TIF's complexity may preclude municipalities with less staff capacity and expertise
- Municipalities with faster growth are more likely to establish TIF districts
  - *Chittenden County area has 6 of 11 TIF districts*
- Some geographic diversity ensured as of 2017:
  - *No municipality that has a TIF district will be eligible for a new one*



Lessons for Legislators and Other States

- **State tax dollars in play should mean the program needs to demonstrate *statewide benefits***
  - Is economic development in one town coming at the expense of another?

- **Independent evaluation is critical**

- **If downtown infrastructure development is the goal, is TIF the best way to do it?**

Lessons for Legislators and Other States

- **Consider potential equity issues**
  - *TIF's net cost implies non-TIF municipalities are subsidizing TIF municipalities*
  - *Towns with greater capacity are better equipped to use TIF*

- **TIF involves considerable uncertainty**
  - *State and municipal costs are difficult to estimate*
  - *Projections of taxable value and tax increment are equally uncertain*

Thank you

- Full link to JFO's TIF report:

https://ljfo.vermont.gov/assets/docs/reports/79f1f110da/Final-TIF-Report-January-24-2018.pdf

- Vermont Economic Progress Council, TIF: https://accd.vermont.gov/community-development/funding-incentives/tif

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