Tax Increment Finance in Vermont: Lessons for Other New England States

Graham Campbell

Senior Fiscal Analyst, Vermont Legislative Joint Fiscal Office

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Key takeaways

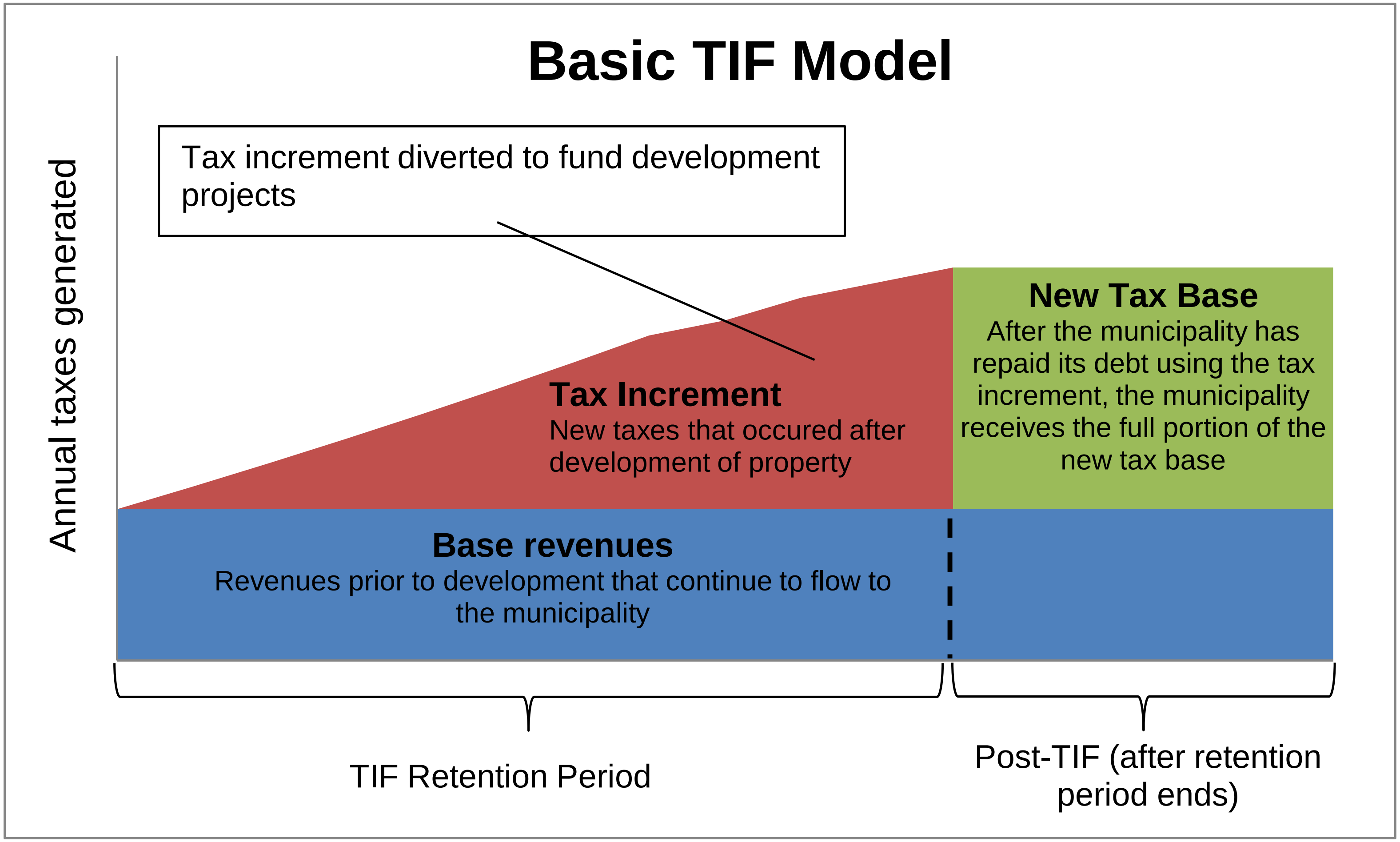
- Vermont's TIF program…
- …is relatively well-defined and operated compared to other states
- …does not pay for itself (i.e. fiscal cost to municipal and State governments)
- …likely does not provide much direct economic impact but could indirectly be promoting State development policies.

- TIF is a highly uncertain development tool that creates equity issues between municipalities

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
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
Tax Increment
New taxes that occured after development of property
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

- 2006: Legislature takes a leading role
  - Establishes a percentage split for incremental statewide property tax revenues (75% TIF, 25% state)
  - Establishes location criteria: TIF must be in one of the following:
    - A high density or compact area
    - An approved downtown center
    - An economically distressed area
  - Establishes project criteria: TIF projects must include 3 of the following:
    - Development beyond normal municipal operating or bonding expenditures
    - New affordable housing project for residents
    - Remediation of a brownfield
    - One entirely new business or expansion of an existing business
    - Improve transportation by improving traffic flow or creating public transit systems
  - TIF districts could not retain more than 20 years of statewide tax property tax revenue from first debt

Act 69 of 2017- Further Legislative Involvement

- Statewide portion of incremental tax revenue increased to 30% from 25%
- Municipalities: more skin in the game
  - At least 85% of incremental property tax revenue must be used for TIF projects
- TIF districts must meet 2 of 3 location criteria from 2006, not just one
  - High density area, designated downtown, economically distressed area
- No municipality that has a TIF district is eligible for a new one
- Capped the number of new TIF districts at six
  - 9 existing under old rules, so a maximum of 15

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 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

Fiscal Impact

- <u>The but-for question</u>: the development would not have occurred but-for the use of TIF
  - If 100% true, then TIF is no fiscal cost to anyone!
  - If 0% true, then State and municipal dollars are being used needlessly.

100% but-for assumption

0% but-for assumption

JFO Fiscal Impact Model

- 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

Results: JFO Model

- **TIF is a cost to the State**
  - $3 to 6 million per year between 2017 and 2023
  - $6 to 8 million per year between 2023 and 2028
  - $68 million from 2017 to 2030
- **TIF is a cost to Vermont municipalities as a whole**
  - $2 to 5 million per year from 2017 to 2030
  - $43 million from 2017 to 2030
- Average breakeven point for the State: greater than 50 years

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.
  - Other monetary contributions (Federal grants, other loans) obfuscate the link between TIF and economic growth (see Appendix)
  - Tax increment growth was often well-short of projected (Appendix)

Major Findings: Geographic Diversity

- **Vermont's TIF statute cannot guarantee that TIF districts are geographically diverse**
- Some geographic diversity ensured through Act 69 of 2017
  - No municipality that has a TIF district will be eligible for a new one
- 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

Lessons for Legislators and Other States

- State tax dollars in play should mean the program needs to demonstrate *state-wide benefits*
- 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

- Contact info
  - Graham Campbell, gcampbell@leg.state.vt.us

Appendix: Outside Funding and TIF districts

Outside funds clouds the link between TIF and economic impact

Table 10: Comparisons of TIF District Revenue Sources, as of end-2016				
	Barre	**Burlington Waterfront**	**Hartford**	**Milton North and South**
Total Revenue	$3,196,859	$24,942,271	$286,885	$534,157
of which: TIF Revenue	$313,299	$22,231,913	$48,938	$529,549
of which: Non-TIF Revenue	$2,883,560	$2,710,358	$237,947	$4,608
Percentage Non-TIF Revenue	90.20%	10.87%	82.94%	0.86%
Percentage TIF Revenue	9.80%	89.13%	17.06%	99.14%

Note: Data for South Burlington and Burlington Downtown were unavailable

Source: Indiviudal TIF district annual reports

Table 10 continued : Comparisons of TIF District Revenue Sources, as of end-2016			
	Milton Town Core	**St. Albans**	**Winooski**
Total Revenue	$1,240,065	$2,239,799	$83,275,710
of which: TIF Revenue	$1,240,065	$1,464,589	$11,707,609
of which: Non-TIF Revenue	0	$775,210	$71,568,101
Percentage Non-TIF Revenue	0.00%	34.61%	85.94%
Percentage TIF Revenue	100.00%	65.39%	14.06%

Appendix: Tax Rate Projections

Municipalities have consistently overestimated property tax rates in the past

Table 8: Projections of Non-Homestead Tax Rates vs Statewide Actual

	Statewide Actual		South Burlington	Milton Town Core	St. Albans
2011	$1.35			$1.35	
2012	$1.36			$1.36	
2013	$1.38			$1.39	$1.53
2014	$1.44			$1.43	$1.60
2015	$1.55			$1.48	$1.67
2016	$1.54			$1.53	$1.75
2017	$1.54		$1.57	$1.58	$1.82
2018	$1.54		$1.60	$1.65	$1.91
2019			$1.63	$1.73	$1.99
2020			$1.67	$1.81	$2.08
2021			$1.70	$1.91	$2.18
2022			$1.74	$1.99	$2.27
2023			$1.77	$2.07	$2.38
2024			$1.81	$2.15	$2.48
2025			$1.74	$2.23	$2.59
2026			$1.88	$2.32	$2.71
2027			$1.92	$2.41	$2.83
2028			$1.95	$2.50	$2.96
2029			$1.99	$2.59	
2030			$2.03	$2.69	
2031			$2.07		
2032			$2.11		
2033			$2.16		
2034			$2.20		
2035			$2.24		
2036			$2.29		

Source: TIF District Applications, data provided by VEPC