

TIF 101/MINI TIFS

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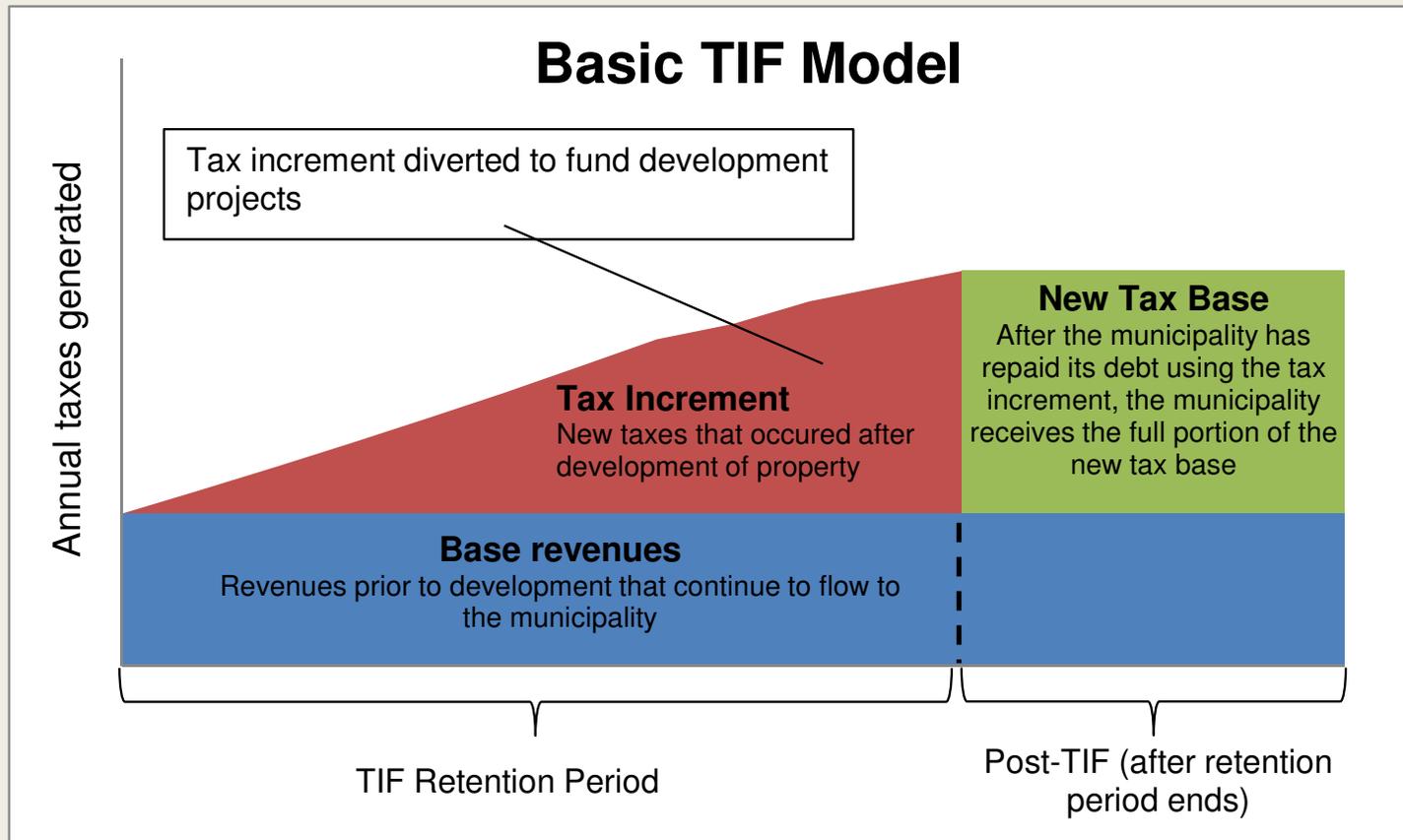


Vermont Legislative
JOINT FISCAL OFFICE

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?



TIF in Vermont

■ How much tax increment can a municipality retain?

- *Depends on when they were created. Current statute says least 85% of their municipal tax and no more than 70% of the statewide increment.*
- *Some older districts can retain more than 70% (Winooski can retain up to 98%, BTV Waterfront used to retain up to 100%).*

■ How long can towns retain increment?

- *20 years from when they first incur debt for the district*
- *Burlington Waterfront can retain longer for CityPlace project*

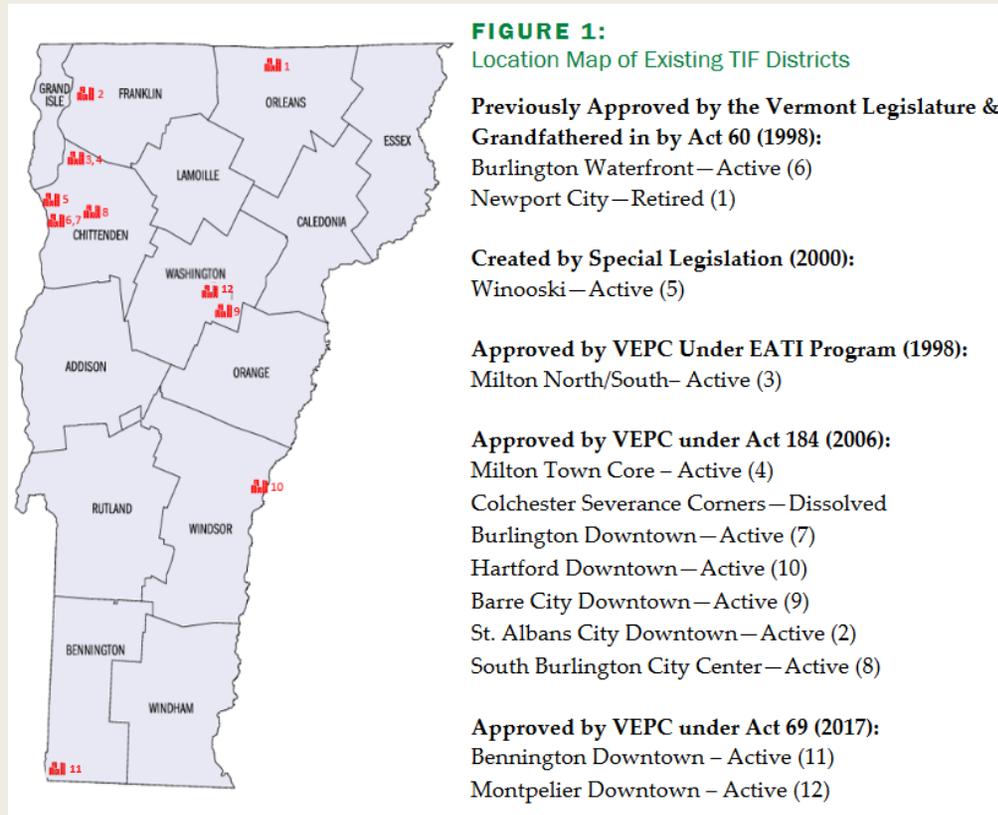
■ How can TIF money be used?

- *Only on “related costs” which generally means public infrastructure improvements*
- *Overall district improvements must include 3 of the following: development beyond municipal bonding or operating expenditures, new affordable housing, remediation of a brownfield, a new business or expansion of existing business, improvement of traffic or transportation.*

■ Where can TIF districts be established?

- *In 2 of the 3 criteria: high-density area, designated downtown, or an economically distressed area*
- *No new TIF districts can be established in a town that already has one.*

Where are Vermont's TIF Districts?



Source: VEPC 2020 TIF Annual Report

What does this cost the State?

- The but-for question: the development would not have occurred but-for the use of TIF
 - *If 100% true, then TIF does not cost anything.*
 - *If 0% true, then State and municipal dollars are being used needlessly.*
- According to the JFO 2017 report (does not include Montpelier):
 - *Cost to the Education Fund:*
 - \$3 to 6 million per year between 2017 and 2023, \$6 to 8 million per year between 2023 and 2028
 - *Cost to municipal general funds: \$2-5 million per year*
- January FY2020 Emergency Board Estimate (assumes 0% but-for assumption): \$6.39 million
 - *93% of this is from projects in the Burlington MSA*
- COVID has slowed the cost growth because construction has been delayed, but major projects are slated to be built (South Burlington, Winooski, Burlington CityPlace).

Mini TIFs

- In general, there has been concern that smaller municipalities in Vermont have not benefitted from TIF districts.
- Mini TIF would be used to fund a single project, like a wastewater treatment plant, rather than a larger scale improvement of a downtown area.
- S.256 passed Senate Economic Development last year:
 - *Creates a 5 year pilot program with a maximum debt limit of \$1.5 million per project.*
 - *Restricts the size of the district to 10 parcels.*
 - *No more than 5 projects could be approved per year with a cap of 15 projects over the 5 year pilot period.*
 - *Same rules for district increment retention (70% of State education dollars, 20 year retention period).*

Pros of Mini TIFs

- In general, the benefits to this program are not unlike those of the regular TIF program.
 - *Projects need to be located in village centers which encourages denser development and the associated positive economic and public health benefits.*
 - *Municipal “skin-in-the-game” theory*
 - Because TIF is complex and requires robust planning, it forces municipalities to be proactive and dedicated to certain economic development projects.
 - *Revenue certainty for municipalities*
 - TIF money is not subject to an annual appropriation. It is a guaranteed source of revenue for projects for up to 20 years.

Cons to Mini TIFs

- Mini TIFs carry all the standard risks and issues that all TIF districts face:
 - *What if increment does not align with projections?*
 - *TIF is an incredibly complex tool and has been subject to frequent legislative action.*
 - *Long time horizons open the door for recessions and other events that can have a major impact on building, and therefore cash flow.*



Cons to Mini TIFs

- In many areas, a mini TIF would exacerbate these risks:
- Smaller towns do not have the technical capacity of larger towns. Even the largest municipalities in Vermont have trouble implementing TIFs.
 - *State auditor audits have repeatedly found administration or statutory issues in existing TIF districts.*
 - *Existing TIF districts spend a significant amount of money preparing and administering their districts (\$50,000 or more)*
- Smaller towns do not have as large or as diversified a grand list as larger towns.
 - *Nor do they have the diversity of revenues to offset any potential shortfalls in tax increment (PILOTs, parking revenue, user fees).*
- Returns on investment are likely to be less in rural village centers but the cost of infrastructure is largely similar.

Cons to Mini TIFs

- The restriction of the district to 10 parcels means the area available to generate increment is smaller and narrower than the existing TIF program.
- JFO is unaware of any other state that has a program similar to this.
 - *Other states use TIF for specific projects, but they are usually significant in size, and the district created around them hundreds of parcels.*
- Is TIF an appropriate tool for these types of projects?
 - *This program would really only be able to fund small projects or represent a small piece of financing in a larger capital stack.*
 - *Why is TIF the best tool for this purpose? Could a state revolving loan fund or grant achieve the same end?*