TAX INCREMENT FINANCING (TIF) IN VERMONT

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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

- **Base revenues**: Revenues prior to development that continue to flow to the municipality.
- **Tax Increment**: New taxes that occurred after development of property.
- **Tax increment diverted to fund development projects**.
- **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.

Annual taxes generated

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

<table>
<thead>
<tr>
<th>Comparisons of TIF District Revenue Sources, as of end-2016</th>
<th>Winooski</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenue</td>
<td>$83,275,710</td>
</tr>
<tr>
<td>of which: TIF Revenue</td>
<td>$11,707,609</td>
</tr>
<tr>
<td>of which: Non-TIF Revenue</td>
<td>$71,568,101</td>
</tr>
<tr>
<td>Percentage Non-TIF Revenue</td>
<td>85.94%</td>
</tr>
<tr>
<td>Percentage TIF Revenue</td>
<td>14.06%</td>
</tr>
</tbody>
</table>
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:

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

- Contact info
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