VERMONT ECONOMIC PROGRESS COUNCIL

TAX INCREMENT FINANCING DISTRICTS IN VERMONT

GENERAL TIF DISTRICT DESCRIPTION

- Tax Increment Financing is a tool to finance public infrastructure improvements required to ensure the development of an area defined by a municipality.
- TIFs are considered a “public-private partnership” because they rely on public action to stimulate private investment.
- TIF finances projects through the repayment of municipal debt incurred to build/improve public infrastructure associated with the redevelopment of an identified area.
- A municipality identifies an area requiring re-development, draws the TIF District around the area, and freezes the base tax of the District. All of the taxes on the frozen base value continue to go to the taxing authorities.
- Private developers, enticed by the improved infrastructure, build within the District.
- The property tax revenues that were flat or declining now increase. A portion of the tax increment is captured and set aside to help retire the debt that funded the infrastructure improvements, for a specified length of time. Once all TIF District debt is retired, the tax increment reverts to the taxing authorities.

PROS AND CONS

- Taxpayers benefit from added value to the grand list once the debt is retired and may receive more wage and other tax revenue because of the development project. However, taxing authorities have to wait until the debt is retired to pay for any increased service needs within the district. Also, municipalities have to cover any shortfall if debt is incurred and projected tax increment and other anticipated revenue fails to materialize or does not fully cover the cost of the debt.
- Taxpayers benefit from the improvements to blighted areas and infrastructure improvements and they may see lower taxes in the long run because of the project. On the other hand, taxpayers are underwriting a development deemed too risky by private investors and they have to cover any increased service needs of the TIF District until the debt is retired.

WHAT ARE TIF DISTRICTS

- Financially: A financing tool to build public infrastructure needed to encourage private sector development. The private development then generates new tax revenue to pay for the infrastructure
- Geographically: A district, designated by a municipality, where the municipality would like to encourage private sector development

WHAT IS THE PURPOSE OF A TIF DISTRICT

- Generally: To provide revenue, beyond normal municipal budgets and debt load, to develop public infrastructure that will encourage private sector development and/or redevelopment.
- Statute specifically requires:
    - Infrastructure improvements must serve the TIF District and stimulate private sector stimulate development or re-development;
    - Development must provide employment opportunities;
    - Development must improve and broaden the tax base; and
    - Development must enhance economic vitality of the municipality, region or state.

WHEN IS TIF THE APPROPRIATE FINANCING TOOL

- There is a need for substantial real property development or redevelopment to improve the economic viability of a defined area.
- The development/redevelopment requires a substantial scale of new public infrastructure or infrastructure improvements.
- Normal and available financing mechanisms are not available or are insufficient to ensure the public infrastructure improvements.
- The development/redevelopment will generate incremental real property taxes sufficient to help finance infrastructure debt.
- There are parties interested in developing the real property within the District if the infrastructure is built/improved.
- There is commitment of municipality to champion project through process.
- Project can meet statutory approval criteria and outcomes will meet statutory purposes:
    - Stimulate development
    - Provide employment opportunities
    - Improve/Broaden tax base
    - Enhance general economic vitality of municipality, region, state

HOW IS A TIF DISTRICT CREATED

- Municipality undergoes local planning and study of proposals and needs, with public input.
- Municipality develops TIF District Plan and Finance Plan.
- Municipal Legislative Body (MLB) creates District and approves TIF District Plan:
    - Hold one or more properly warned public hearings on TIF District Plan
    - At a properly warned public meeting, MLB:
        - Adopts a Finding of Purpose
        - Votes to adopt TIF District Plan
        - Votes to create TIF District
        - Pledges minimum of 85% of municipal incremental property tax revenue to TIF District debt
        - Authorizes staff to prepare and file application with VEPC
        - Designates coordinating agency (if desired)

- Town clerk records adoption of TIF District Plan and creation of TIF District Plan
- Lister/Assessor Certifies Original Taxable Value

[Note: Vote by MLB starts five year clock to incur TIF debt]

HOW IS A TIF DISTRICT APPROVED BY STATE

- Meet with VEPC staff
- Submit Letter of Intent to file (Application can only be submitted after 60 days)
- File Application (By first Friday of month)
- TIF District Plan/Application considered by VEPC
- TIF District Financing Plan considered by VEPC before municipality seeks public vote on debt

WHAT IS VEPC CONSIDERING

- **Not** creation of TIF District
- Authorizing municipality to utilize incremental Education Property Tax to finance TIF District debt based on determination that project/application meets statutory approval criteria.

STATUTORY APPROVAL CRITERIA CONSIDERED BY VEPC

- **Purpose Criteria**: Does the TIF District Plan meet the purpose for TIF as stated in statute?

- **But For Criteria**: Is use of TIF required to finance infrastructure and get private development? Specifically, VEPC must determine that the infrastructure improvements proposed to serve the District and the proposed development in the District would not have occurred as proposed or would have occurred in a significantly different and less desirable manner than proposed but for the utilization of the incremental tax revenues. The review takes into account:
    - the **amount of additional time**, if any, needed to complete the proposed development within the tax increment district and the amount of additional cost that might be incurred if the project were to proceed without education property tax increment financing;
    - **how** the proposed **development components and size would differ**, if at all, including, if applicable to the development, in the number of affordable housing, without education property tax increment financing; and
    - the amount of **additional revenue expected** to be generated as a result of the proposed development; the percentage of that revenue that shall be paid to the education fund; the percentage that shall be paid to the municipality; and the percentage of the revenue paid to the municipality that shall be used to pay financing incurred for development of the tax increment financing district.

- **Process Criteria** (must meet all):
    - Public hearings held and correct process of creation of District by MLB.
    - Complete TIF District Plan and TIF District Finance Plan developed.
    - Pledge of at least 85% of incremental municipal property tax revenues.
    - Compatibility with local and regional plan and clear local and regional significance for employment, housing and transportation improvements.

- **Location Criteria** (must meet two of three):
    - Development will be compact and high density ***or*** located in or near existing industrial area;
    - TIF District is ***within*** State-designated Growth Center, Downtown, Village, New Town Center, or Neighborhood Development Area;
    - Development will occur in an economically distressed area, which means the TIF is within a municipality that for the year of application has:
        - A median family income at 80% or lower of statewide median;
        - An average unemployment rate at least one percent greater than statewide average; or
        - A median sales price for residential properties at 80% or lower of statewide median.

- **Project Criteria** (must met three of five)
    - **Need**: Requires substantial public investment over and above normal municipal operating or bonded debt;
    - **Affordable Housing**: Private development includes new or rehabilitated affordable housing as defined by 24 VSA 4303.
    - "**Brownfields**:" Infrastructure improvements or private development will result in brownfield remediation/redevelopment, which means:
        - A hazardous substance, pollutant, or contaminant is or may be present; and
        - Situation ***is likely*** to complicate development.
    - At least one entirely **new business or a business expansion**:
        - New business must be from outside Vermont.
        - New business or business expansion will create new, quality jobs that meet or exceed prevailing wage for region.
    - The development will **enhance transportation**, meaning:
        - Improved traffic patterns and flow; or
        - Create or improve public transportation systems.

- **Nexus Criteria:** Infrastructure can be located anywhere within municipality, but…
    - It must serve the TIF District;
    - There must be a linkage, connection, impact on the real property development that is expected to occur;
    - Real property development expected in District must be linked to projected public infrastructure; and
    - Parcels included must have nexus to infrastructure or have expected development.

- **Proportionality Criteria:** If new infrastructure or infrastructure improvement will serve areas other than the TIF District, VEPC will determine the proportion of the cost that can be financed with TIF revenue:
    - Proportion proposed by applicant in application.
    - To determine proportion, VEPC will use actual data, if available or "rational" formula, based on subjective descriptors and data analysis.

- **Financial and Market Viability:**
  - Analysis of infrastructure cost and debt assumptions, real property development and property tax revenue generation assumptions.
  - Availability of other sources of revenue.
  - Analysis of revenues - generated through property taxes, grants received, other sources - and ability to service debt.
  - Analysis of existing stock and marketability and absorption of proposed development.
  - Availability of market studies.

- **Share of Education Property Tax Increment:**
  - No more than 70% can go to service TIF debt/related costs.
  - VEPC does not assume 70% is required.
  - Financial analysis will determine share and VEPC approval will set share.

- **TIF District Financing Plan**
  - Approved concurrent with TIF Plan or after approval.
  - Must be approved by VEPC ***before*** municipality seeks first public vote on debt.
  - Details debt instruments, rates, terms, and debt schedule

APPROVAL LIMITATIONS

- **No more than six new Districts**
  - No municipality with an existing District can apply for a new one until debt retired.
  - If the cap is met and VEPC receives an application that “would otherwise qualify,” VEPC can present the application to the Emergency Board, who may “in its discretion,” increase the cap.
  - General Assembly must authorize VEPC to approve more Districts beyond six, subject to reporting and determination of “amount of new long-term debt that prudently may be authorized.”
- **No more than 2 per county**
  - Existing Districts do not count against county.
  - If a County has one approved new TIF and VEPC receives 2 applications at once for that county, VEPC shall approve the application that, in its discretion, “best meets the economic development needs of the county.”
  - If a municipality with a new District does not proceed or does not incur debt, VEPC can consider and approve another District in its place.