VERMONT ECONOMIC PROGRESS COUNCIL

Application for Authorization to Utilize Incremental Municipal Property Tax and Incremental State Education Property Tax Revenue for a Tax Increment Financing District:

CITY OF MONTPELIER

Type of Review: **Final Staff Review**

Note to Board: All documents for this TIF District application are available on the Sharepoint site. Hyperlinks are imbedded in this document wherever you see blue underlined text. If you use the hyperlinks to the TIF District Sharepoint site, you will need to log in the first time you access Sharepoint. There are also hyperlinks to other sites on the Internet in this write-up.

Disclaimer: This is a Final Staff Review, not a decision. Any and all descriptions, interpretations, and recommendations herein are staff recommendations and are subject to presentation to the VEPC Board and review, consideration, and determination by the VEPC Board.

TIF Application Analysis: On behalf of the Council, staff has engaged Ken Jones, ACCD Economic Research Analyst, to review certain aspects of this application. His analysis focused on fiscal viability, market viability, proportionality, and one of the Project Criteria addressed: Need. VTrans provided analysis of transportation infrastructure costs and ANR/DEC provided analysis of water, wastewater, and storm water infrastructure costs.
Ken Jones, ACCD
Joe Segale, VTrans
Lynette Claudon, DEC

Public Comment: The Council toured the TIF District, heard a presentation by the City of Montpelier, and took public comment on June 28, 2018. Additional comments were offered to the Council at their July 26, 2018 meeting. The City's presentation and the public comment are posted on the TIF Website and in Sharepoint.

Write Up Contents

I. Project Summary

A. Introduction to Montpelier

The City of Montpelier was originally chartered in 1781 as a grant to settlers from Massachusetts. The first settlement was established along the North Branch in 1787, during the time Vermont was an independent republic. The settlement grew quickly and by 1805 had a population of 1,200. That same year the State Legislature sought a permanent home and Montpelier was selected to be the capital of Vermont. In 1811, it was further selected to serve as the shire town for Washington County.

For nearly its entire history, Montpelier has played host to all levels of government. Its economy has been based on a mix of public and private employers, industrial and professional businesses, and urban and rural jobs. It continues to hold the distinction of the smallest state capital in the United States.

Since 1960, the population has declined steadily from 8,782 to 7,855 while the number of jobs has only recently started to approach what existed prior to the 1988 recession (UI yearly data 1988 – 2016). Thus, 30 years later, Montpelier is still looking to fully recover the jobs lost in that recession.

At first glance, Montpelier appears to be a total success: it has good paying jobs, a vibrant downtown, and a diversity of residents. But the 2016 EDSP looked at employment trends and compared Montpelier, Waterbury, and Barre for 5 years between 2009 to 2014. During that time, Waterbury added 294 private sector jobs, Barre added 394, while Montpelier added only 10. In the 2 years since that report was completed, total employment (including both public and private jobs) has decreased by 139 in Montpelier but increased an additional 236 in Barre and 228 in Waterbury.

Sales tax data tell a similar story. Gross and retail receipts increased 25% state-wide between 2009 and 2017. In Barre City, the increases were 37% and 21% respectively, and Waterbury the increases were 27% and 21%. Montpelier, by comparison, decreased 18% and 25% respectively in that same period.

Housing is also a problem area for the City. Typically, housing markets with vacancies of less than 5% for rentals and less than six months' supply of houses available for purchase are considered tight. In Montpelier, rental vacancies have been close to zero percent for years and for-sale housing is at 3.7 months' supply (Sept 2017 Vermont Realtors).

B. TIF District Description

On May 23, 2018, the Montpelier City Council voted to adopt the TIF District Plan and create a Tax Increment Financing District. After a warned public hearing on August 22, 2018, the Montpelier City Council approved a revised TIF District Finance Plan.

The 130 properties in the TIF District total approximately 182 acres and approximately $80 million of assessed value, which equates to 2.8% of City's area and 8.2% of the City's Grand

List assessed value. The District is comprised of 130 parcels, and it is located mostly within the Designated Downtown and entirely within the Designated Growth Center. The following compares the TIF District to the total town in more detail:

Table 3 -- TIF District and Townwide Attributes

		TIF District		Total Town		TIF District as Percent of City
Acres	Total	182.00		6,597		2.8%
Parcels	Total	148		2,519		5.9%
Assessed Value	Total	$82,304,400		$866,457,755		9.5%
Ed Fund Taxable Value	Total	$58,246,300	***% of TIF GL***	$829,724,000	***% of Ttl GL***	7.0%
	Homestead (#)	26	18%	1,951	77%	1.3%
	Homestead ($)	$3,472,245	6%	$409,818,690	49%	0.8%
	Non-Residential (#)	109	74%	969	38%	11.2%
	Non-Residential ($)	$54,774,055	94%	$419,905,310	51%	13.0%
	Non-Taxable (#)	15	10%	106	4%	14.2%
	Non-Taxable ($)	$23,271,700	40.0%	$201,420,800	24%	11.6%

The TIF focus is infill of the downtown area. The focal points will be the development of a new $10.6 million hotel on State Street, a $1 million mixed-use development at Governor Davis and State Streets, and housing on land owned by VT College of Fine Arts.

C. Potential Private Development Activity

TIF Plan and Development Project Map
TIF Data Workbook (See Tables 5K and 5L)

The City has assessed and ranked potential development opportunities within the TIF District using a three-tier analysis based on impact, planning stage, financing and design.

Tier 1 includes five of the most likely projects to proceed in the near term.

Tier 2 includes properties which have owner-investor interest in pursuing the obvious development potential of the buildings and land located in the Downtown and within the proposed TIF district. These Tier 2 projects can possibly move forward independent of other development initiatives, but will certainly benefit from the economic momentum, which will accrue with the Tier 1 projects.

Tier 3 properties include buildings and land which have development potential identified within the planned collective vision for Montpelier. Each has the potential for re-development in a ten-year window.

For the purposes of evaluating District potential, the City Assessor has developed estimated post-development values based on known factors and possible build-out scenarios. While Tiers 2 and 3 are speculative, these are reasonable estimates of what could result as investment builds and the market strengthens.

Tier 1

- **Capitol Plaza Hotel**

The Capitol Plaza Hotel and Conference Center sits at 100 State Street, a roughly 3-acre property that serves as the only downtown hotel for the capital city. The conference venue includes a large parking lot with spaces reserved primarily for hotel guests with some leased to the City for public access.

The Capitol Plaza owners have a contract with Hilton to build an 80-plus room Hampton Inn and Suites, which would bring up to 60 new jobs to the downtown and generate up to $300,000 annually in rooms and meals taxes for the State. This new facility would be located directly behind the existing hotel and conference center on the parking lot.

To do this project, however, Capitol Plaza needs replacement parking. If a garage could be built in partnership with the City, as this Plan proposes, construction of the hotel could begin late 2018 or early 2019.

Project Name	Projected sq ft	Baseline value	Start year	Build Duration	Est Assessed Value	Est Value Change
Capitol Plaza	120,870	$4,106,000	2018	1 year	$10,600,000	+$6,494,000

- **State and Governor Davis**

A regional developer has purchased the gas station on the corner of State Street and Governor Davis Avenue. This underdeveloped parcel is prime for re-development, but would require nearby parking, such as that provided by a parking garage.

Project Name	Projected sq ft	Baseline value	Start year	Build Duration	Est Assessed Value	Est Value Change
State & Gov Davis	3,900	$216,800	2019	1 year	$1,000,000	+$783,200

- **VCFA Housing**

The Vermont College of Fine Arts approached the City and the City Council in Fall 2017 about building housing units on part of property abutting Barre Street (details above).

While the VCFA project is actively being discussed, Barre Street lacks the water, sewer, stormwater, road, and sidewalk infrastructure necessary to make this project viable.

Project Name	Projected sq ft	Baseline value	Start year	Build Duration	Est Assessed Value	Est Value Change
VCFA Housing Phase I	13,500	$0	2019	1 year	$2,400,000	+$2,400,000

Project Name	Projected sq ft	Baseline value	Start year	Build Duration	Est Assessed Value	Est Value Change
VCFA Housing Phase II	34,500	$0	2022	1 year	$6,100,000	+$6,100,000
VCFA Phase III	19,500	$0	2023	1 year	$3,600,000	+$3,600,000

- **Christ Church**

Christ Church was built on its current State Street location in 1868, sitting adjacent to the Capitol Plaza complex. The Church has been in talks in recent years with Downstreet, the Central VT affordable housing non-profit organization, about adding 30 units of affordable housing to the back of their building. These plans were temporarily put on hold while Downstreet oversees two other housing projects, but Church officials have appeared before City zoning and development committees to stress their intention to move forward in the next two years or so. To do this, however, they would need access to designated parking. In addition, there is an old water main running under the Christ Church property that would need to be relocated and replaced in order to build the new structure.

Project Name	Projected sq ft	Baseline value	Start year	Build Duration	Est Assessed Value	Est Value Change
Christ Church	24,000	$0	2021	1 year	$1,000,000	+$1,000,000

- **Barre Street Granite Sheds**

Montpelier's Barre Street was historically home to several active granite sheds, most of which are now closed and vacant. One shed is still operational, although going out of business; another is currently a storage site for granite blocks and is also closing. There has been interest in developing these sheds, including consideration of a housing development on one parcel and an office complex on the other. This would likely occur as two separate projects – housing on one site (possibly in 2020) and commercial on the other (possibly in 2022).

Project Name	Projected sq ft	Baseline value	Start year	Build Duration	Est Assessed Value	Est Value Change
Granite Shed Housing	40,000	$420,700	2020	1	$3,900,000	+$3,479,300
Granite Shed Commercial	30,000	$362,300	2022	1	$3,500,000	+$3,137,700

Tier 2

- **Vermont Mutual**

The Vermont Mutual building at 89 State Street, its parking lot located directly behind the State Street building, and the abutting State parking lot that serves 109 State Street all comprise what is called the "Vermont Mutual Site" for the purposes of this Plan. This property has long been eyed for development. In addition, Vermont Mutual needs expanded office space and additional parking, and there has been concern the business might relocate outside of the core downtown.

Conversations between the State, City, Vermont Mutual, and potential developers have begun, but would rely on TIF investment to fix existing infrastructure issues that make any development impossible.

Project Name	**Projected sq ft**	**Baseline value**	**Start year**	**Build Duration**	**Est Assessed Value**	**Est Value Change**
Vermont Mutual Site	236,500	$3,634,100	2021	1 year	$12,300,000	+$8,665,900

- **Sabins Pasture**

The Sabins Pasture parcel is located at the very east of the TIF District boundary. The Council chose to re-zone the strip along Barre Street (adjacent to the VCFA parcel) as Riverfront District to allow more development. The projections included in this Plan are based on 225 units of housing at this site.

Similar to the VCFA housing, Barre Street requires significant upgrades to allow the volume of traffic that would be generated by this new housing.

It is expected that this project would need to be done in phases and that the second Phase would likely rely on the upgrade of the Barre / Main Street intersection.

Project Name	**Projected sq ft**	**Baseline value**	**Start year**	**Build Duration**	**Est Assessed Value**	**Est Value Change**
Sabins Phase I	150,000	$274,800	2021	1	$15,000,000	+$14,725,200
Sabins Phase II	140,000	$0	2024	1	$14,000,000	+$14,000,000

Tier 3

- **Capital Cleaners**

The Capital Cleaners building is a small brick building located on the corner of Barre and Main Streets that is prime for re-development. Located at a key intersection, it could be converted to three stories of office space, should the Barre / Main Street intersection be upgraded and additional development in the area flourishes.

Project Name	**Projected sq ft**	**Baseline value**	**Start year**	**Build Duration**	**Est Assessed Value**	**Est Value Change**
Capital Cleaners	20,000	$262,200	2022	1	$2,400,000	+$2,137,800

D. Infrastructure Improvements
TIF Plan and Development Project Map
TIF Data Workbook (see tables 5I, 5J, 5K and 5L, and Infrastructure by Type)
Garage Clarification Memo

Montpelier's TIF District Plan includes Infrastructure projects totaling approximately $17.03 MM (including soft costs, contingency, and a 2% inflation value) for the following general categories:

- Brownfield remediation ($0.52 MM)
- Public facility/Amenities ($9.87 MM)
- Water improvements ($0.27 MM)
- Transportation enhancements ($1.62 MM)
- Combined miscellaneous transportation, water, and wastewater improvements ($4.76 MM)

The following have been identified in close connection to the above private developments. The projects are clustered by area and include multiple types of infrastructure that will be needed to encourage and support the private developments as described. Estimated costs are present value (no inflation factor included).

- **Downtown Parking Garage**

The Plan originally proposed to build a 250-space garage, with significant investment by private developers, to meet the needs of various local uses. A revision approved by City Council on August 22, 2018 proposes to build a 350-space garage, with the total project costs being fully bonded by the City. Parking leases and public parking fees would provide revenue which would then be used to repay a significant portion of the debt for this project. This would be a City-owned garage that would serve those properties and would also have some spaces that the City could use entrepreneurially to incentivize other development as it emerges. Although the Hotel & Conference Center needs 200 spaces at times, they would not be using that many spaces routinely. With innovative parking technology, the City could operate the garage optimally and use all spaces in myriad ways.

Cost: The cost of structured parking is $9,871,250, including contingency.

- **Taylor Street Water**

Before construction can occur at Christ Church, the City needs to remove an underground main and install roughly 350 feet of new 12" water line piping.

Cost: $267,750.

- **"The Pit"**

"The Pit" is the common name for the Vermont Mutual/State Parking lot area. As stated above, to support the re-development, the City needs to upgrade the existing sewer and potable water lines, upgrade stormwater, and make traffic improvements at Court Street, Governor Davis Avenue, Elm Street, and State Street. The re-development of this site is also dependent on structured parking, which is extremely costly. The intent is that the City could reduce the barriers to development by upgrading the other infrastructure, understanding that the private project will need to bear the cost of the parking.

Cost: $1,890,000.

- **Barre Street Phase 1**

Water, sewer and stormwater, as well as new road and sidewalk construction are needed to enable housing developments on the VCFA parcel on Barre Street.

Cost: $984,300

- **Barre Street Phase 2**

Similar to Phase 1, the larger development discussed for Sabins Pasture and the later phases of the VCFA project will require a new road, culvert, and sidewalk, upgrades to the water and sewer lines, and a pump station.

Cost: $1,880,970. This project will likely be eligible for transportation funding.

- **Barre/Main Street Intersection**

This Main Street-Barre Street intersection is currently considered "failed" by State and Federal Transportation officials. Additional significant development along Barre Street will exacerbate the congestion, dangerous pedestrian/bicycle crossing, and turning access.

Cost: $1,620,000. This project will likely be eligible for federal transportation funding.

- **Barre Street Brownfield Cleanup**

The re-development of the Barre Street granite sheds will require mitigating the environmental issues that have been on site for several generations. To support this remediation and incentivize that area to develop, the City could assist in the brownfield cleanup. Environmental testing is currently ongoing at one site which will be followed by the second site.

Cost: $520,000. This project will likely be eligible for State brownfield funding.

E. TIF Debt and Revenue

TIF Data Workbook (See Tables 5L – 5R)

The City estimates the cost of improvements at $17.03 million (including soft costs, contingency, and inflation factor). None of the improvements will directly serve or are being built to serve other municipalities or major portions of Montpelier. All the improvements are completely within the District, are directly related to, and serve the TIF District. Therefore, the City is proposing 100% proportionality for all improvements.

The municipality estimates the potential availability of $1.85 million in other resources that could be used to help pay for improvement costs. Additional revenue is expected from parking garage leases/fees in the amount of $9.33 million over the life of the debt. The approximate debt principal to be financed will be $15.8 million. The municipality plans to issue five bonds, starting in 2018, with total interest costs of $10.15 million and a total debt service of $25.95 million.

Montpelier estimates that the increase in the grand list due to the projected private sector developments will generate $26.85 million in incremental property tax revenues during the 20-year retention period ($11.1 million municipal and $15.75 million education).

The municipality has pledged 100% of the municipal increment to the TIF District debt and is requesting the maximum 70% of the education increment. If approved, these retention percentages will yield incremental revenues of $22 million.

The estimates indicate a difference of $5.5 million between revenues and debt.

F. TIF Revenue and Debt Summary

CITY OF MONTPELIER TIF District Summary of Revenue and Debt	
Original Taxable Value (2018):	
Total Base Taxable Value (Original Taxable Value)	**$58,246,300**
Homestead	($3,472,245)
Non-Homestead	($54,774,055)
Total Base Annual Property Tax Revenues	**$1,617,696**
Municipal	($668,784)
Education Total	($948,912)
Homestead	($56,368)
Non-Homestead	($892,543)
Projected Revenue:	
Total Estimated Incremental Property Tax Revenue	**$26,849,212**
Municipal	($11,098,486)
Education Total	($15,750,726)
Homestead	$0
Non-Homestead	($15,750,726)
Incremental Revenue Split	
Total Incremental Revenue to Service TIF Debt	**$22,123,994**
Municipal to TIF (100%)	($11,098,486)
Education Homestead to TIF (70%)	$0
Education Non-Homestead to TIF (70%)	($11,025,508)
Total Incremental Revenue to Municipal General Fund (0%)	**$0**
Total Incremental Revenue to Education Fund	**$4,725,218**
Homestead (30%)	$0
Non-Homestead (30%)	($4,725,218)
Other Revenue Sources Used to Pay Debt	**$9,334,895**
Parking Garage Leases/Fees	($9,334,895)
Total Projected Revenue	**$31,458,889**
Projected Improvement Costs:	
Total Estimated Improvement Costs (with contingency)	**$17,034,270**
Related Costs	$55,000
Estimated Non-TIF Sources of Revenue	$1,850,000
Total Improvement Costs to be Financed (Principal)	**$15,813,020**
Total Estimated Cost of Financing (Interest)	$10,150,671
Total Debt Service	**$25,963,671**
Potential Excess Revenue (Project Revenue – Debt Service):	**$5,495,218**

G. Timeline to Date

Municipal Notice of Intent to Apply Filed:	March 19, 2018
Municipal Notice of Hearing on TIF District Plan:	May 22, 2018
Municipal Hearing(s) on TIF District Creation and Plan:	May 23, 2018
Municipal Legislative Body Vote on TIF District Creation:	May 23, 2018
Municipal Legislative Body Vote on TIF District Plan:	May 23, 2018
TIF Plan Filed and Recorded with City Clerk:	May 25, 2018
Assessed Values Certified by City Assessor:	May 24, 2018
Life of TIF District Starts:	April 1, 2018
TIF District Application Filed with VEPC:	May 25, 2018
Application Certified as Administratively Complete:	May 31, 2018
Preliminary Review by VEPC:	June 28, 2018
Public Comment:	June 28, 2018
Continued Review of Application:	July 26, 2018
Approval of Revised Financing Plan by City Council	August 22, 2018
Final Review of Application:	Expected to occur: August 30, 2018

II. TIF District Application Review Criteria - Summary

A. Purpose: The Montpelier TIF Plan and application, as presented, appears to meet the statutory purpose of a TIF District: Provide revenues for improvements that serve the District, which will stimulate development, provide employment opportunities, improve and broaden the tax base or enhance the general economic vitality of the municipality, region, or state. Staff recommends that the Council determine that the Montpelier TIF District Plan, as presented, fulfills the statutory purpose of a TIF District as required by 32 VSA §1893. This determination should be condition on annual reporting that includes job creation data with detailed information on employers such as type of business, number of employees, and previous location (if any), for tracking purposes only.

B. But For: The evidence and analysis provided indicate that the proposed infrastructure would not be built without the utilization of the incremental municipal and education property tax revenue and without the use of incremental property tax revenue. Further, without the public provision of certain infrastructure, the expected private development would not occur or would occur in a significantly different and less desirable manner, and therefore, the But For is met. Staff recommends that the Council determine that the Montpelier TIF District Plan, as presented, meets the But For criteria as required by 32 VSA §5404a(h)(1).

C. Nexus: Montpelier provides narrative evidence, studies, and information in the data workbook describing the relationships between the infrastructure and real property developments. There appears to be nexus between the proposed infrastructure and the projected private sector developments and with the overall goals of the TIF District. Staff recommends that the Board determine that nexus is established between the proposed infrastructure projects and the real property development projects as required by 24 VSA §1894(e).

D. Proportionality: Montpelier proposes 100% proportionality for all infrastructure improvements. None of the infrastructure is being built to service other municipalities or purposefully to serve other parts of Montpelier outside the District. Of course, any built infrastructure will be utilized by people from outside the District. However, the express purpose of each infrastructure project is to serve, encourage, and enhance the expected private sector developments within the District and serve the overall goals of the District. The City plans to pursue non-TIF revenues totaling about $1.85 million and there may be the opportunity to pursue further grants. The district further estimates receiving approximately $9.33 million in other revenues to be used in additional to TIF funds to retire debt. As required by 24 VSA §1894(e), based on the Council's matrix, evidence provided, and analyst findings, staff recommends 100% proportionality for all infrastructure projects, with the condition that the City pursue all appropriate and available non-TIF funding sources.

E. Process Criteria: Based on the evidence provided, staff recommends that the Council determine that the Montpelier TIF District has met the Process Criteria as required by 32 VSA

§5404a(h)(2) and approve a 70% share of education property tax increment, as requested, and 100% share of the municipal property tax increment, as proposed.

F. **Location Criteria:** The TIF District is mostly within the City's designated Downtown approved under 24 VSA §2793 and is entirely within the Montpelier Designated Growth Center approved under 24 VSA §2793c. Based on the evidence submitted, staff analysis of compact development review, and an analysis of the TIF boundaries by GIS professionals, staff recommends that the Council find that the TIF District meets two of the three Location Criteria under 32 VSA §5404a(h)(3), specifically (A) and (B). This determination should be with the condition that TIF funds only support infrastructure improvements for those private development projects that take place in the high density zoned portion of the parcel(s) known as Sabin's Pasture.

G. **Project Criteria:** Montpelier states that the application and proposed development meet Project Criterion A regarding Need, Project Criterion B regarding affordable housing, and Project Criterion E regarding transportation enhancements. Based on the evidence provided and analyst findings, staff recommends that the Council determine that the Montpelier TIF District meets three of the five Project Criteria required by 32 VSA §5404a(h)(4), specifically A, B, and E.

H. **Market and Fiscal Viability:** While not a criterion directly required in statute for the application to meet, determining if the TIF District is fiscally viable and has market viability is an implied and prudent task for VEPC to undertake. Based on the evidence provided and analyst findings, staff recommends that the Council determine that the Montpelier TIF District has reasonable market viability. Additionally, as submitted, the TIF District Plan appears to be fiscally viable. Staff further recommends inclusion in the general approval of a statement by the Council requiring the pursuit of appropriate non-TIF revenue such as state and federal grants.

I. **Financing Plan:** Montpelier has requested that the Council consider the TIF Financing Plan concurrent with the TIF District Plan. City Council approved a revised TIF Financing Plan at their August 22, 2018 meeting. VEPC requested clarification as to whether leased spaces would be subject to property taxes. Montpelier provided an opinion from J. Paul Giuliani stating that the parking garage would not be taxable. Staff recommends that the Council find that the TIF Financing Plan is consistent with the TIF District Plan.

III. TIF District Application Review Criteria - Detail

A. Purpose

Per 24 VSA §1893, the purpose of a TIF District is:
"…to provide revenues for improvements that serve the district and related costs, which will stimulate development or redevelopment within the district, provide for employment opportunities, improve and broaden the tax base, or enhance the general economic vitality of the municipality, the region, or the state."

Evidence:
Statement of Purpose
Public Testimony
TIF Data Workbook

Determination to be made:
Will the District generate incremental revenues sufficient to finance public infrastructure that serves the District and which stimulates real property development that will add jobs, broaden the tax base, or enhance the general economic vitality of the municipality, region, or state?

"provide revenues:" The municipality projects that during the 20-year retention period (estimated to be 2019-2039), the development that is expected to occur will generate a total of $26.85 million in incremental property tax revenues. The municipality proposes to split the incremental Education Property Tax revenues 70%/30% and the municipal increment 100%/0%. With these shares, and based on the projected build out schedule, $22 million in incremental property tax revenue would be generated to service TIF infrastructure debt and pay related costs. The City further estimates $9.33 million in other revenues generated from parking leases and fees. Total infrastructure costs are estimated at $17.03 million and the City projects about $1.85 million in non-TIF revenue. The City intends to incur $15.81 million in principal debt, plus $10.15 million in interest for total debt of $25.46 million to be covered by the expected TIF revenue and other revenues (parking fees/leases) with a margin of $5.87 million. The City's projections appear to generate revenues sufficient to service the debt the City plans to finance with TIF revenues.

"improvements that serve the District:" All of proposed public investments are located entirely within the TIF District and serve the District. City officials, developers, and others providing comments to the Council have stated that the investments are necessary to encourage, and in most cases enable, the projected private developments within the TIF District. The infrastructure projects appear to serve the District and evidence indicates that the private real property development is dependent on the infrastructure being built.

"stimulate development and redevelopment within the District:" The expected development includes a mix of retail, service, commercial, and residential. The application includes letters from developers, a cross-reference of the infrastructure that is required for each project and testimony was also provided at the June hearing regarding the need for public infrastructure to stimulate and encourage these projects to occur. Evidence shows the potential creation of employment, an enhanced tax base, and an improvement to the economic vitality of the municipality and region, if the development proceeds as planned. As with all TIF applications, the possibility exists that the private sector development will not occur or will be delayed, or commercial and retail space, and residential space, could be developed and remain unfilled. There is also the further concern, as with any TIF District, that existing businesses and jobs could move into the District to the detriment of another part of city or another municipality.

"**<u>provide for employment opportunities</u>:**" According to data provided by the applicant (See Table 7K in the TIF data Workbook), there are currently about 300 businesses within the TIF District with about 14,136 jobs, primarily in insurance, retail, finance, legal, hospitality, and government. The development projects will provide additional jobs in hospitality, retail, and other office space.

"**<u>improve and broaden the tax base and enhance general economic vitality of the municipality, the region, or the state</u>.**" As a result of the implementation of the TIF District and the resultant private real property development, the tax base will expand considerably over the next twenty years. Montpelier and the State will realize incremental tax revenues. Prior to the TIF, the annual base of property tax revenue from the TIF District going to Montpelier and the Education Fund is $1.617 million per year ($668,784 municipal and $948,912 education). During the 20-year TIF retention period, because of the 70/30 share of the increment, the 30% share of the education increment will send an estimated $4.725 million in total incremental property tax revenues to the Education Fund. After the retention period, the annual property tax revenue to the municipality and the education fund will increase by $1.848 million annually. The added commercial and retail activity will also provide additional state tax revenues through income, sales and use, and payroll taxes. The plan will also re-vitalize the region's a hub of economic, social, and cultural activity.

Staff Recommendation - Purpose:
Staff recommends that the Council find that the TIF District and application meet the TIF District Purpose as stated by statute. However, this determination should be conditioned on annual reporting that includes job creation data with detailed information on employers such as type of business, number of employees, and previous location (if any), for tracking purposes only.

B. But For Criterion

Per 32 VSA §5404a(h)(1), the Council must find:

"…that the infrastructure improvements proposed to serve the tax increment financing district and the proposed development in the district would not have occurred as proposed in the application, or would have occurred in a significantly different and less desirable manner than as proposed in the application, but for the proposed utilization of the incremental tax revenues.

The review shall take into account:
(i) 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;
(ii) how the proposed development components and size would differ, if at all, including, if applicable to the development, in the number of units of affordable housing, as defined in 24 V.S.A. § 4303, without education property tax increment financing; and
(iii) (I) the amount of additional revenue expected to be generated as a result of the proposed development;
(II) the percentage of that revenue that shall be paid to the education fund Education Fund;
(III) the percentage that shall be paid to the municipality; and
(IV) 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."

Evidence:
Narrative 4-But For
TIF Data Workbook
Ken Jones, ACCD

Determination to be made:
This determination is very similar to the VEGI But For. A positive But For determination means that the state is getting infrastructure and development, and more importantly, the resulting incremental revenues, which would not have occurred without the ability of the applicant to utilize incremental property tax revenue. One of the major differences, however, is that the But For determination is two-fold. The Council must determine:

- Whether the infrastructure development would occur without the utilization of the incremental property tax revenues; and
- Whether the real property development would occur without the infrastructure development.

Both findings can also be met if the development would occur in a significantly different and less desirable manner.

Can the City build this level of infrastructure without the incremental property tax revenues?

The current annual municipal budget (FY19), which includes general operating, parking, water, sewer, cemetery, district heat, and capital plan is $26.74 million and averaged $21.73 million over the past ten years (See Table 4B, omitting the school district). The current level of annual debt service paid by Montpelier voters is $2.37 million and has averaged $2.6 million per year since 2009 (See Table 4D, omitting the school bond payments).

The total infrastructure costs in the application that the City plans to finance with TIF revenue and other revenues, plus the cost of financing, are $17.03 million. Average annual debt service would be about $801,412 per year for 20 years (actual payments would be graduated from $67,744 to $1,052,569 per year). If added to the annual city budget or debt service, the debt costs outlined in the TIF application would add 2.9% to the City's annual budget or 25% to the normal debt service.

The Montpelier application cites lack of improved or expanded public infrastructure, aging underground pipes, brownfield contamination, inadequate parking as major barriers to development of private projects. In addition, the City notes that private sector development has been almost non-existent for many years. They maintain that these projects exceed the City's financial ability to undertake and are too costly for private developers to undertake.

In his analysis, Ken Jones reviewed Montpelier's capacity to raise funds from local taxes based on a comparison in three areas: current debt, median household income, and current municipal tax rates. The following table outlines data with comparable municipalities in Vermont:

Municipality	Long Term Debt	Per Capita Debt	Median Household Income	Municipal Tax Rate
Montpelier	$31,000,000	$3,858	$60,347	$1.0572
Bennington				$0.6747
Brattleboro	$36,822,565	$3,067	$45,436	$1.2195
Hartford	$25,948,870	$2,503	$59,365	$0.956
Barre	$15,900,000	$1,711	$36,992	$1.7781
Rutland	$14,576,053	$843	$41,502	$1.5898
Newport City	$7,400,296	$1,479		
Middlebury			$51,184	$0.9805
Waterbury			$59,564	$0.45
Washington County			$58,171	
Chittenden County			$66,414	
Vermont			$56,104	

Montpelier's bond debt is higher than comparable towns, but their ability to assume debt is also somewhat higher based on median household income. Montpelier's existing tax rate is in the median range as compared to other towns. Ken Jones noted that a $0.10 increase in the tax rate for Montpelier would raise $850,000 per year.

Overall, the data supports the Town's contention that the required TIF District infrastructure expenditures are beyond the capacity of the City to undertake within their annual operating budget or as additional debt service. The data indicate the City does have relatively high expenditure burden levels, and debt levels. As such, the evidence supports a conclusion that the applicant does not appear to be in a position to undertake investments of this scale without placing a very large additional fiscal burden on the City's taxpayers. Considering those relatively high debt levels and high tax rate burdens, infrastructure development expenditures on this scale would in fact represent a substantial public investment over and above the normal municipal or bonded debt expenditures without approval of the TIF District.

Would the private development and redevelopment occur without the proposed infrastructure?

The City has included specific information on several of the larger potential development projects:

Barre Street Corridor
In 2018, the City re-zoned the open land on the eastern end of Barre Street, an area that had previously been somewhat neglected but had enormous potential to grow. Projects along this corridor will require the extension of water, sewer and stormwater infrastructure, roads, sidewalks, culverts and a bridge. Additionally, improvements will need to be made at the Barre and Main Street intersection due to permitting concerns with increased vehicular traffic. Montpelier states that "TIF suddenly made these long-discussed projects feasible after years of no activity." Without TIF, the proposed developments would either stall or be scaled back significantly, reducing the potential for new housing and new jobs, and causing continued stagnation of this neglected area.

Capitol Plaza Hotel
As Montpelier has been developing their TIF Application, the Capitol Plaza has been concurrently pursuing a hotel expansion which would add 80 new rooms. A key component of this expansion is a partnership with the City to build a parking garage using TIF financing. Montpelier states that "the Capitol Plaza project and the City's development of structured parking are co-dependent. One cannot happen without the other. In the absence of TIF, the Capitol Plaza would either substantially downsize their development project or be unable to proceed altogether – both resulting in a loss of up to 60 potential jobs, additional tax revenue, and general downtown and regional vibrancy."

The development of the parking garage would include public parking spaces which would catalyze downtown vitality. Lack of available parking has hindered the volume of patrons in Montpelier shops, restaurants, and other businesses.

Montpelier notes that the proposed infrastructure improvements will also likely open the door to unanticipated projects, as well.

Staff Recommendation – But For:
Staff recommends that the Council determine that it is very unlikely that most of the proposed infrastructure would be built without the use of incremental property tax revenue and without the public provision of certain infrastructure, the expected private development would not occur or would occur in a significantly different and less desirable manner, and therefore, the But For is met.

C. Nexus

VSA 24 §1897
" The legislative body may pledge and appropriate in equal proportion any part or all of the state and municipal tax increments received from properties contained

> within the tax increment financing district for the ***financing for improvements and for related costs in the same proportion by which the infrastructure or related costs directly serve the district at the time of approval of the project financing by the council, and in the case of infrastructure essential to the development of the district that does not reasonably lend itself to a proportionality formula, the council shall apply a rough proportionality and rational nexus test…"***

Evidence:
TIF District Overview
TIF Data Workbook
Infrastructure and Private Development Map

Determination to be made:
The actual location of expected infrastructure improvements does not matter. Infrastructure can be located outside the TIF District, providing that the Council determines that there is nexus to the projected real property development and/or the purpose and goals of the TIF District. However, the portion of the infrastructure costs that can be paid with TIF revenues must be in proportion to the extent that the infrastructure ***serves*** the District. There must be nexus or connection between the proposed infrastructure and the development that is expected to occur.

Nexus can be viewed from several perspectives:

First, from the infrastructure perspective: What areas within the TIF District are being served by which proposed infrastructure projects? If there is infrastructure proposed that does not serve the TIF District or would not have anything to do with causing the development to occur, the Council should question whether it be financed, in any proportion, by TIF revenues.

Second, from the TIF area perspective: Are there areas (parcels) included in the TIF District that apparently are not being served by any of the infrastructure projects? Or are there areas that are already developed to their full market potential? If so, the Council asked why those areas are included in the TIF District.

Finally, from the development perspective: Are there private development projects that are expected to occur regardless of the infrastructure improvements? If so, there may be an issue with the But For and the Council should ask whether there is truly any nexus between the infrastructure and the development project if the project is already developed or started.

Montpelier provides narrative evidence and information in the tables describing the relationships between the infrastructure and real property developments. There appears to be nexus between most of the proposed infrastructure and private sector developments and with the overall goals of the TIF District.

None of the infrastructure is being built to service other municipalities. Most of the other proposed infrastructure projects are directly linked to the development and redevelopment of properties for commercial and residential uses.

All the projected infrastructure projects would be located entirely within the TIF District and serve primarily the expected development within the TIF District. The application details the relationship between each infrastructure improvement and the expected private development and includes details on the dependence of the private development on the infrastructure improvements.

There do not appear to be any areas already developed to their full market potential or which would not benefit from the infrastructure to be built. All areas have the potential for some level of development or redevelopment. Likewise, none of the expected real property developments appear to be occurring despite the TIF District. The exception is Capitol Plaza development, which is proceeding prior to approval of the TIF. Development of the hotel is reliant on the completion of the public parking garage by the City.

Staff Recommendation- Nexus:
Staff recommends that the Board determine that nexus is established between the proposed infrastructure projects and the real property development projects.

D. Proportionality

> **24 VSA §1897**
> " The legislative body may pledge and appropriate in equal proportion any part or all of the state and municipal tax increments received from properties contained within the tax increment financing district for the ***financing for improvements and for related costs in the same proportion by which the infrastructure or related costs directly serve the district at the time of approval of the project financing by the council, and in the case of infrastructure essential to the development of the district that does not reasonably lend itself to a proportionality formula, the council shall apply a rough proportionality and rational nexus test…"***

Evidence:
TIF District Overview
TIF Data Workbook
Infrastructure and Private Development Map
Proportionality Matrix (Staff Document)
Ken Jones - ACCD

Determination to be made:
What proportion of proposed infrastructure costs can be financed with TIF revenue based on the portion that serves the TIF District? Remember that the proportionality you are determining is what proportion ***serves*** the TIF District, regardless of the non-TIF revenue that might be available to the municipality. The proportionality determined by the Council is the maximum level of total project cost that can be financed with TIF revenue.

Montpelier has proposed that all infrastructure improvement be approved with 100% proportionality.

Ken Jones used three factors to determine the calculation of the proportionality estimate: (1) Percent of infrastructure that is constructed within the District; (2) Percent of use of infrastructure within the district; and (3) Percent of increased value that accrues to properties within the district.

For the first factor, as noted in the Montpelier application, and further confirmed by Ken Jones, is 100% since all of the infrastructure investments are within in the TIF District. For the third factor, Ken Jones noted that "100% of the value of the investment is assigned to the increases in property value."

For the second factor, there is one property that may be less than 100% proportionality, that being the proposed improvements to the intersection of Barre and Main which will serve other parts of the City outside the District. As noted in Ken Jones memo, "The corner of Main and Barre has adjacent properties that are not in the TIF district, it may be that some of these properties will have significant impacts from TIF-supported investments."

The Council's scoring matrix (Sharepoint) shows the following:

- Level 1: **Inter Municipal** – Except in the sense that the Montpelier downtown serves as a regional hub for the residents of several surrounding communities and municipalities in the region, the infrastructure will serve only the City of Montpelier.
- Level 2: **Location** – All of the infrastructure projects are physically located entirely within the TIF District.
- Level 3: **Utilization** – This criterion is the most uncertain. To some extent, some of the infrastructure improvements will benefit and be utilized by developers, local and transient public, and residents other than the clients, residents, and persons utilizing the specific real property projects expected to be developed because of the TIF. This is especially true for parking lots, parks, and roadway and sidewalk improvements.
- Level 4: **Scoring** – Using the Council's informal scoring matrix, all projects fall within the scores (9-16) that the Council determined could be considered for 100% proportionality.

The memo from Ken Jones states, "it is fair to assign 100% of the value of the infrastructure improvements."

Staff Recommendation - Proportionality:
Staff recommends that the Council set 100% proportionality for all infrastructure improvements with the condition that the City seek any available and appropriate funding sources to offset TIF revenue.

E. Process Criteria

24 VSA §1892

"(a) Upon a finding that such action will serve the public purposes of this subchapter, the legislative body of any municipality may create within its jurisdiction, special district or districts to be known as tax increment financing districts. They shall describe the district by its boundaries and the properties therein and shall show the district boundary on a plan entitled "Proposed Tax

Increment Financing District (municipal name), Vermont." The legislative body shall hold one or more public hearings, after public notice, on the proposed plan.
(b) When adopted by the act of the legislative body of that municipality, the plan shall be recorded with the municipal clerk and lister or assessor."

And…
32 VSA §5404a(h)(2)

"Process requirements. Determine that each application meets all of the following four requirements:
(A) The municipality held public hearings and established a tax increment financing district in accordance with 24 V.S.A. §§ 1891-1900.
(B) The municipality has developed a tax increment financing district plan, including: a project description; a development financing plan; a pro forma projection of expected costs; a projection of revenues; a statement and demonstration that the project would not proceed without the allocation of a tax increment; evidence that the municipality is actively seeking or has obtained other sources of funding and investment; and a development schedule that includes a list, a cost estimate, and a schedule for public improvements and projected private development to occur as a result of the improvements.
(C) The municipality has approved or pledged the utilization of incremental municipal tax revenues for purposes of the district in the same proportion as the utilization of education property tax revenues approved by the Vermont economic progress council for the tax increment financing district.
(D) The proposed infrastructure improvements and the projected development or redevelopment are compatible with approved municipal and regional development plans, and the project has clear local and regional significance for employment, housing, and transportation improvements."

Evidence:

- ✓ Copy of municipal finding of purpose.
- ✓ Copy of municipal public hearing notice, agenda, resolution, and minutes.
- ✓ Physical description and a map of TIF District, and listing of properties (Table 5H) within District.
- ✓ Copy of minutes of municipal legislative body meeting at which TIF District plan was adopted.
- ✓ Copy of certification of original taxable value including date and time established and certified.
- ✓ Certification that plan was recorded including a copy of TIF District Plan, which must include:
  - ✓ A map of the municipality with the TIF District indicated.
  - ✓ A description of the district by its boundaries and properties located within the District.
  - ✓ Statement of costs and sources of revenue, including sources other than incremental tax revenues.
  - ✓ Estimates of assessed values within the District.
  - ✓ Estimated tax increments in each year.
  - ✓ Amount of bonded indebtedness to be incurred.

- ✓ Duration of the plan.
- ✓ Amount of additional revenue expected to be generated as a result of the proposed development, and:
  - The percentage of that revenue that will be paid to the education fund.
  - The percentage of that revenue that will be paid to the municipality.
  - The percentage of that revenue that will be paid to the municipality and used to pay the municipal tax increment bonds.
- ✓ A general project overview.
- ✓ A detailed project description, including:
  - Bonding and other debt instrument approval and financing schedules.
  - Infrastructure development schedule including description, costs, and build out schedule.
  - Development and redevelopment schedule including description, costs, and information on who will accomplish development.
- ✓ Pro forma projection of related costs that will be paid for by incremental tax revenues including description and amounts. Should include any payments to a designated coordinating agency and any costs incurred prior to approval that will be recouped by the municipality.
- ✓ Evidence that the municipality is seeking or has obtained other sources of funding and investment.

- ✓ Written statement from top municipal official stating whether the projected development and/or redevelopment are compatible with municipal plan.
- ✓ Copies of relevant sections of municipal plan with which project is compatible.
- ✓ A written explanation from top municipal official describing how the project has clear local significance for employment, housing, and transportation improvements.
- ✓ Written confirmation by appropriate regional planning commission explaining how the projected development and/or redevelopment is compatible with approved regional plan and an explanation of how the project has clear regional significance for employment, housing and transportation improvements.
- ✓ Copies of relevant sections of the regional plan.
- ✓ Written explanation from top municipal official indicating whether additional local or state permits will be required for the project, which permits will be required and a timeline for approval of the permits.

Application Revisions:
- ✓ Copy of municipal public notice and agenda.
- ✓ Copy of minutes of municipal legislative body meeting at which revised TIF District Finance Plan was approved.

Determination to be Made:
Were statutory steps taken by municipality to create a TIF plan and a TIF District, including public input? Are all required elements included in the TIF Plan? Does the TIF Plan adhere to the local and regional plans? Did the municipality propose an appropriate share of municipal increment and shall the requested level of education property tax increment be approved?

Based on the evidence provided in the application, as indicated above with a checkmark, staff has determined that all process criteria were met. Following the preparation of a TIF Plan and presentation of the plan at a public hearing on May 23, 2018, the municipality voted on a finding of purpose, voted to create the TIF District, certified a municipal share, and approved application to VEPC. The Original Taxable Value and TIF District Plan were appropriately certified and recorded by the City Clerk.

The TIF District Plan includes all required elements. The municipality has certified that it is pledging 100% of incremental municipal property taxes. The municipality and regional planning commission certify, and the plans submitted support, that the proposed infrastructure improvements and the projected development are compatible with the approved municipal and regional development plans[1].

Also, the municipality and regional planning commission certify, and the plans submitted support, that the District has clear regional significance for employment, housing and transportation improvements.

At their August 22, 2018, a publicly warned meeting, City Council received public comment and voted to amend the TIF District Financing Plan to include revisions made to the larger parking garage design.

Staff recommendation – Process Criteria:
Staff recommends that the Council make a determination that the Process Criteria for a TIF District application have been met. Further, staff recommends approval of the proposed 100% share of municipal property tax increment. Finally, staff recommends that the Council find that the requested 70% share of education property tax increment is supported by the data and increment required for viability.

F. Location Criteria

32 VSA §5404a(h)(3)

"(3) Location criteria. Determine that each application meets at least two of the following three criteria:

(A) The development is:

(i) compact;

(ii) high density; or

(iii) located in or near existing industrial areas.

(B) The proposed district is within an approved growth center, designated downtown, designated village center, or new town center, or neighborhood development area.

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[1] As part of Montpelier's original TIF application, the Central Vermont Regional Planning Commission (CVRPC) stated that TIF District is compatible with the 2016 Regional Plan, but "may not completely align with the Future Land Use Map." VEPC staff requested clarification on this matter. In a letter dated July 11, 2018, the CVRPC advised that the misalignment is in reference to the Sabin's field area. They stated that the "pattern and form of development for these planning areas do not correspond to that imagined for the TIF district." CVRPC anticipates that this area will be revisited during the next revision of the Regional Plan beginning in 2019 to "de-conflict the Region's goals, policies, and Future Land Use Map."

(C) The development will occur in an area that is economically distressed, which for the purposes of this subdivision means that the municipality in which the area is located has at least one of the following:

(i) a median family income that is not more than 80 percent of the statewide median family income as reported by the Vermont Department of Taxes for the most recent year for which data are available;

(ii) an annual average unemployment rate that is at least one percent greater than the latest annual average statewide unemployment rate as reported by the Vermont Department of Labor; or

(iii) a median sales price for residential properties under six acres that is not more than 80 percent of the statewide median sales price for residential properties under six acres as reported by the Vermont Department of Taxes."

Evidence:
Designations Map
Designated Downtown Documentation
Growth Center Documentation
White & Burke 8/23/18 Memo

Determination to be made:
Does the TIF District meet two of the three statutory location criteria?

Montpelier has chosen to address Location Criteria A and B.

For Location Criteria A, VEPC uses Act 250 Criterion 9(L) Guidance to help determine if the proposed development is compact and high density. "Compact, high density" refers to the individual development and redevelopment projects that are expected to occur, not the overall district. New construction is predominately vertical rather than horizontal, and configured to make efficient use of land and resources, is consistent with neighboring characteristics and scale and preserves green space. Densities are greater than existing and allowed densities in comparable areas of the municipality that are outside the TIF District, or, in cases of municipalities characterized predominately by areas of existing dense urban settlement, in-fill development and redevelopment of historic districts is encouraged.

All development projects in the City's application meet the Act 250 Criterion 9(L) Guidance since they are all located in a state designated center. Staff noted that most of the proposed private sector development is in the Urban Center and Riverfront districts, and certainly meet the meaning of "compact, high density." However, the Vermont College of Fine Arts and Sabin's Pasture parcels are zoned for much less density. At the July 26 meeting, Montpelier clarified that zoning in the area of Sabin's Pasture was intentionally revised to force development to happen along Barre Street within the riverfront district. According to TIF Rules, a TIF district cannot bisect a property based on zoning districts so the entire parcel was included in the TIF boundary. Ken Jones recommended to the Council that because the TIF district includes the entire parcel, the TIF should support only the development that takes place in the high density portion, and not the rural zoned portion. This suggestion is supported by the City according to the August 23 memo from White & Burke, which states that, "the City would be comfortable limiting TIF investment to infrastructure that served only the Riverfront zoned area."

For Location Criteria B, Staff and GIS professionals at ACCD have confirmed that the proposed TIF District is mostly within the boundaries of the State Designated Downtown approved in 2008 and renewed in 2015 and entirely within the State Designated Growth Center approved in 2009.

Recommendation- Location Criteria:
Staff recommends that the Council determine that the Location Criteria is met, with the condition that TIF funds only support infrastructure improvements for those private development projects that take place in the high density zoned portion of the parcel(s) known as Sabin's Pasture.

G. Project Criteria

> **32 VSA §5404a(h)(4)**
> ***"Project criteria. Determine that the proposed development within a tax incentive financing district will accomplish at least three of the following five criteria:***
> ***(A) The development within the tax increment financing district clearly requires substantial public investment over and above the normal municipal operating or bonded debt expenditures.***
> ***(B) The development includes new or rehabilitated affordable housing as defined in 24 VSA §4303.***
> ***(C) The project will affect the mitigation and redevelopment of a brownfield located within the district. For the purposes of this section, "brownfield" means an area in which a hazardous substance, pollutant, or contaminant is or may be present, and that situation is likely to complicate the expansion, development, redevelopment, or reuse of the property.***
> ***(D) The development will include at least one entirely new business or business operation or expansion of an existing business within the district, and this business will provide new, quality, full-time jobs that meet or exceed the prevailing wage for the region as reported by the department of labor.***
> ***(E) The development will enhance transportation by creating improved traffic patterns and flow or creating or improving public transportation systems."***

Montpelier is addressing Project Criteria A (Need), B (Affordable Housing), and E (Transportation Enhancements).

Evidence:
Ken Jones - ACCD
Joe Segale, VTrans
Project Criteria Narrative
Narrative 4-But For
TIF Data Workbook (See Table 7C)
Housing Project Map
Transportation Map
Transportation Study

White & Burke 08/23/2018 Memo
Parking Garage Memo to City Council 08/21/2018
Parking Garage Presentation 08/22/2018

Project Criteria A: *"The development within the tax increment financing district clearly requires substantial public investment over and above the normal municipal operating or bonded debt expenditures."*

Determination to be made:
Does the proposed infrastructure development within the TIF District clearly require substantial public investment over and above the normal budget of the municipality or the normal bonded debt service of the municipality?

Montpelier states that its adopted policy is that: "direct debt service for principal and interest payments will not exceed 8.2 percent of budgeted revenues for Governmental Activities, or 15 percent of total revenue for the City as a whole. Excluding debt that is pending or unissued, Montpelier will fall under those limits. Direct debt service for 2018 for governmental activities will be 6.82 percent and 10.54 percent for the entire city. The limits are self-imposed and are considered best practice (State statute allows municipalities to borrow up to 10 times the last grand list; Montpelier's grand list was $867 million x 10 = $8.6 billion).

"The bond funds cover largely the nuts and bolts of Montpelier's capital needs: paving, sidewalk replacement, water and sewer main repair and upgrade, etc. In addition, Montpelier's wastewater treatment plant will require a multi-million-dollar bond for an upgrade in the next few years, forcing the City to ask voters for additional bonding capacity. In addition, the Recreation Center on Barre Street is not ADA compliant or energy efficient, and it is expected that the City will require additional bonding to cover the $1 million to $3 million estimated costs of basic upgrades. These will push Montpelier's bonding level up against the City's limit."

Additional information is in the staff determination above relative to the But For and the analysis completed by Ken Jones. In summary, Ken Jones found that "it is fair to conclude that Montpelier has a need to raise revenues for infrastructure projects that will spur private sector economic development activities."

Project Criteria B: ***(B) The development includes new or rehabilitated affordable housing as defined in 24 VSA §4303.***

Determination to be made:
Will the real property development result in the new construction or rehabilitation of affordable housing as defined by 24 VSA 4303?

As a result of the City's Economic Development Strategic Plan, Montpelier has set a goal of 150 new housing units, to include affordable housing for young singles and others. The Christ Church project would help meet this goal by adding 30 affordable housing units in the downtown core.

Additional market-rate and mixed income housing is expected to be developed on property owned by the Vermont College of Fine Arts and at Sabin's pasture.

Project Criteria E: ***"The development will enhance transportation by creating improved traffic patterns and flow or creating or improving public transportation systems."***

Determination to be made:
Will the public infrastructure projects and the overall TIF development create improved traffic patterns and flow or create improved public transportation systems?

Montpelier states that "transportation enhancements are a critical component of the City's TIF application and proposal, in large part due to the lack of robust new and expanded housing and economic growth linked to Montpelier's aging and in some cases dangerous transportation infrastructure."

The location of the proposed parking garage is in close proximity to the City's ADA accessible recreation path. When this recreation path is complete, it will connect from the eastern side of the City at Junction Road to the western side at Gallison Hill. The combination of the parking garage and the recreation path will improve and expand ADA accessible pedestrian and bicycle access from one end of the City to the other.

The proposed parking garage is also located adjacent to the new Transit Center, Montpelier's public bus station that will provide service within the City, as well as connecting to Burlington, St. Johnsbury, White River Junction and other parts of the State. Since the garage is centrally located in Montpelier's core downtown, it enables walkability to businesses, restaurants, shops, the grocery store, and more.

Improvements to the hazardous and heavily used "T" intersection at Barre and Main Street are proposed as a necessary infrastructure project within the TIF District. This is additionally supported in the review conducted by Joseph Segale at the Agency of Transportation. He noted the location constraints of the intersection, which includes a rail crossing. As housing and other private development projects proceed along Barre Street, the need to correct this intersection is even more apparent in order to accommodate the increased traffic burden. Montpelier is currently undertaking a study, results anticipated in November, which is intended to recommend improvements to this intersection and will include vehicular, pedestrian, and bicycle enhancements through that intersection and down Barre Street.

Staff recommendation – Project Criteria:
Based on the evidence submitted, expert analysis, and the additional evidence and testimony provided, staff recommends that the Council find that Project Criteria A, B, and E are met.

H. Market and Fiscal Viability

While not a criterion directly required in statute for the application to meet, determining if the TIF District has market viability is an implied and prudent task for VEPC.

Evidence:
Ken Jones Memo
Joe Segale, VTrans
Lynette Claudon, DEC
TIF Data Workbook
Market Viability Reports
White & Burke 08/23/2018 Memo
Parking Garage Memo to City Council 08/21/2018
Parking Garage Presentation 08/22/2018

Determination to be made:
Does the TIF Plan have fiscal viability? That is, will the proposed private sector development generate sufficient tax revenues to cover the costs of infrastructure? Does the TIF Plan have market viability? That is, what is the likelihood that the proposed development/redevelopment will occur at the scope and on the timeline presented, thereby generating sufficient incremental revenue during the retention period?

Montpelier's projections - based on their assumptions regarding the scope and schedule of the real property development, tax rates, revenue split percentage (70/30% Education and 100/0% municipal), infrastructure costs, and financing costs and terms – ***do*** appear to generate enough incremental revenues when combined with parking garage leases and fees to service the debt to be incurred to build the proposed infrastructure projects which the City plans to finance with TIF revenue. As with most TIFs, there will be deficits in the early years which will have to be covered by inter-fund loans or short-term debt until sufficient increment is generated. By year 6, the City will see a positive revenue flow and by the end of the retention period, will have a large excess.

Under the current plan, the City relies on $1.85 million in non-TIF revenues from state and federal grants. Additional revenue is anticipated from parking fees/leases to assist with repayment of debt. There are other funds that VTrans and ANR have identified that might be appropriate for the projects the City is undertaking.

Regarding market viability, the Council heard several witnesses testify to the readiness and willingness of some developers to begin and implement projects in the District if the infrastructure is developed. In addition, the application includes several feasibility reports and market studies supporting the viability and market readiness of specific projects that are planned.

Testing market viability involves checking the reasonableness of the assumptions in the City's application for private sector investments. Montpelier included several documents to support its assumptions. As part of his review, ACCD analyst Ken Jones considered factors that influence the market for commercial and residential properties. A major factor in Montpelier's proposal is that there is an unmet need for higher quality rental housing. Ken Jones noted that "A low vacancy rate compounded by trends in the demographics of the area support this assertion." Reviewing the value of residential apartments is based on the rents that will be paid. Montpelier has an extremely tight rental market, which implies that rents for the rental properties will be sufficient to attract demand. In summary, Ken Jones found the assignment of increased value to be consistent for new or improved residential or commercial property. He states "…the application provides significant support for the assumptions that the redevelopment of the parcels within the district will result in increases in property value that support the repayment of bond debt.

Testing fiscal viability requires a review of the proposed revenues to ensure they are sufficient for repayment of debt for infrastructure improvements. Ken Jones noted that a "factor that influences the fiscal viability of the application is the cost for the public infrastructure projects…" Staff relied on analysis from the Vermont Agency of Transportation and the Agency of Natural Resources of the proposed infrastructure projects. Both Agencies found the projected improvement costs to be reasonable, with the exception of the Barre/Main Street Intersection. Joseph Segale noted that if Montpelier chooses to construct a roundabout at that location, it may require acquisition of rights-of-way. He compared Montpelier's project to actual costs to construct a roundabout in three other towns, where costs ranged from $2.5 to $5.7 million. Montpelier currently has a study underway to consider design options for this intersection. If the cost of the project should increase significantly, Montpelier will need to submit a substantial change request to the Council with a revised finance plan in accordance with Statute and TIF Rule in place at that time.

The parking garage was the primary focus of the analysis conducted by Ken Jones since it is the most shovel-ready project, as well as being the largest infrastructure project. The assumptions made by the City included using parking fees and long-term leases, which are a more significant source of revenue than TIF increment. For comparison of expenses, Ken reviewed a similar-sized parking garage and found Montpelier's assumptions to be in reasonable agreement with regard to operation, management, and bond repayment.

In summary, analysis of market and fiscal viability conducted by Ken Jones, Joseph Segale, and Lynnette Claudon, found Montpelier's proposal to be consistent and reasonable when compared to other data.

Staff Recommendation – Market and Fiscal Viability:
Staff recommends that the Council determine that the TIF District Plan has reasonable market viability and acceptable fiscal viability with the condition regarding that the City continue to pursue non-TIF revenue sources.

I. TIF Financing Plan

24 VSA §1894(d)

"(d) Approval of tax increment financing plan. The Vermont Economic Progress Council shall approve a municipality's tax increment financing plan prior to a public vote to pledge the credit of that municipality under subsection (h) of this section. The tax increment financing plan shall include all information related to the proposed financing necessary for approval by the Council and to assure its viability and consistency with the tax increment financing district plan approved by the Council pursuant to 32 V.S.A. § 5404a(h). The tax increment financing plan

may be submitted to and approved by the Council concurrently with the tax increment financing district plan. If no indebtedness is incurred within five years after the creation of the district, the municipality may submit an updated executive summary of the tax increment financing district plan and an updated tax increment financing plan to the Council to obtain approval for a five-year extension of the period to incur indebtedness; provided, however, that the updated plan is submitted prior to the five-year termination date of the district. The Council shall review the updated tax increment financing plan to determine whether the plan has continued viability and consistency with the approved tax increment financing plan. Upon approval of the updated tax increment financing plan, the Council shall grant an extension of the period to incur indebtedness of no more than five years. The submission of an updated tax increment financing plan as provided in this subsection shall operate as a stay of the termination of the district until the Council has determined whether to approve the plan.

Evidence:
Ken Jones Memo
Joe Segale, VTrans
Lynette Claudon, DEC
TIF Data Workbook
White & Burke 08/23/2018 Memo
Parking Garage Memo to City Council 08/21/2018
Parking Garage Presentation 08/22/2018
J. Paul Giuliani Memo RE: Parking Garage Taxation

Determination to be made:
Is the TIF Financing Plan viable and consistent with the TIF Plan.

Staff Determination:
Montpelier has requested that the Council consider the TIF Financing Plan concurrent with the TIF District Plan.

Refer to the reviews made by the Agency of Transportation (VTrans), Agency of Natural Resources (ANR), and Ken Jones, and discussed in other sections throughout this review. VTrans found the unit costs for the estimates to be reasonably consistent with the data they had available. VTrans did note that that estimate for the Barre/Main Street Intersection was not sufficient if they City intends to construct a roundabout. Montpelier indicated in the July 13 memo from White & Burke, that a study will commence this fall which will provide options for improvement to this area. The Agency of Natural Resources suggested an increase in contingency for the Taylor Street water project, which Montpelier has reflected in their revised data workbook.

Montpelier has stated that they will provide "parking rights" to lessees and a smart system will be used to allow the City to manage parking flexibility. VEPC requested clarification on the question as to whether or not leased spaces would be subject to property taxes. The memo from attorney J. Paul Giuliani states his opinion that parking garage would not be taxable.

Recommendation – TIF Financing Plan

Staff recommends that the Council find that the TIF Financing Plan is consistent with the TIF District Plan.

IV. Recommended Conditions

If approved, staff recommends the following conditions:

- Annual reporting shall include job creation data with detailed information on employers such as type of business, number of employees, and previous location (if any), for tracking purposes only.
- Montpelier shall seek any and all appropriate non-TIF revenue sources, such as state and federal grants, parking revenue mechanisms, impact fees, and other sources.
- TIF funds will only support infrastructure improvements for those private development projects that take place in the high density zoned portion of the parcel(s) known as Sabin's Pasture
- If the cost of the Main/Barre Street Intersection project should increase significantly, submit a substantial change request to the Council, following the Vermont Statute and TIF Rule in place at the time of the change.