

Testimony on Project-Based Tax Increment Financing

February 22, 2023



To: Senate Finance Committee

From: Ted Brady, Executive Director

Date: February 21, 2023

Re: S.83 – Project-Based Tax Increment Financing

Good afternoon, and thank you for giving me an opportunity to speak to you today about the importance of legislative authorization of project-based tax increment financing.

The Vermont League of Cities and Towns represents all 247 cities and towns in Vermont. We exist to serve and strengthen local government. Increasingly, this means focusing beyond helping local officials govern, and more on ensuring communities remain viable enough to justify being governed. Declining grand lists, aging populations, and aging infrastructure keep us up at night as much as ensuring local officials follow open meeting law, have good insurance, and attract and retain good talent by offering good benefits.

Every year since becoming Executive Director in 2021 I have conducted a survey of local officials to find out what they want their League working on. Housing is at the top of the list every year. We're eager to partner to build more housing.

The problem? Not all communities have the tools they need to enable them to reinvest in themselves. More than 50 communities have amended their zoning in the past two years using bylaw modernization grants – implementing inclusive zoning that says yes to development. They've bonded for hundreds of millions of dollars in new water and wastewater systems or upgrades in the past decade. They've formed Housing Trust Funds and more. But of the 247 cities and towns in Vermont, only about a dozen have had access to the most effective housing development tool Vermont has – tax increment financing.

Housing is happening in places like Bennington, St. Albans City, South Burlington, Winooski, and Burlington in part because of location, but also because of tax increment financing. It has helped them build the public infrastructure that has attracted developers, new residents, and the housing needed to house them. Project-based tax increment financing is a right-sized tax increment financing program that allows small communities to do this too.

This program is significantly different than the existing tax increment financing district program. The existing program allows for multiple infrastructure projects. This program allows just one. The existing program pledges the increased revenue from hundreds of parcels. The project-based program contemplates limiting it to a dozen or so parcels in each community. These big changes mean small towns could rely on the program to help pay for the infrastructure we need to build housing and improve the quality of life in rural Vermont.

Despite the Local Fiscal Recovery Fund money our community received last year and the federal and state competitive funding available, I anticipate every one of our members will come up short on any major infrastructure project that could catalyze housing growth. Three hundred dollars a resident (which is how much local fiscal recovery funding each town received), is enough for a down payment on a project at best. Most towns received just a couple hundred thousand dollars from the federal government. Even the smallest water and wastewater project is several million dollars. Waitsfield recently received a wastewater feasibility study recommending a \$23 million project. That town received \$500,000 in Local Fiscal Recovery Funding. The State is writing grants using infrastructure dollars, but not that large. Towns like Waitsfield will need to bond and scramble to complete federal grant

applications that make TIF applications look like child's play.

Two weeks ago, the League reached out to about two dozen communities we knew had small to medium sized infrastructure projects in their pipelines, and asked them if they'd like to see Project-Based TIF implemented. Since then, the selectboards in Fair Haven, Highgate, Middlebury, Poultney, St. Johnsbury, and Westford have sent letters to their legislative delegations supporting the initiative. I anticipate many more to follow suit in the coming days.

Unlike larger TIF districts, I believe this program will be within reach of even the smallest communities. They'll be able to access assistance from regional planning commissions and regional development corporations as well as private consultants to help complete the required planning, implementation, and compliance for these new tax increment projects. The existing program requires a complex network of consultants, accountants, and experts that has led to the program being inaccessible.

Opponents of TIF like to point out the warts of Vermont's TIF program. That criticism has made Vermont's program stronger – reducing risk and improving results. Project-Based TIF would be another improvement to Vermont's TIF program. In 2022, the League commissioned a study of Vermont's Tax Increment Financing system. We asked the consultant if the existing TIF program was meeting its intent of spurring development and growing tax revenues. The report had ten key findings:

- TIF serves as a powerful long-term planning tool.
- Measuring the performance of TIF districts is complicated.
- The revenue story is equally complicated, but suggests TIF districts generate net revenue growth to the Education Fund above naturally occurring growth.
- TIF generates a clear rate of economic growth not recognized in previous analyses.
- Forecasting a rate of return from TIF is complicated.
- TIF produces conditions that allow communities to leverage other assistance.
- The combination of safeguards built into Vermont's TIF statutes maximize its effectiveness and accountability while minimizing risk.
- Comparing TIF to other state economic development programs emphasizes the economic and operational benefits of TIF.
- Vermont's TIF policy must change in order for rural communities to use the program.

TIF drives development where we want it (in our downtowns), it allows the state and towns to spur development that grows grand lists, creates new housing, and does so with less risk and more guardrails than just about any other TIF program in the country. I hope you'll consider providing this important tool to every town in Vermont interested in investing in its future.

Attachments

[Brady Project Based TIF Testimony_0.pdf](#)

[VLCT_TIF Report 05-2022_1.pdf](#)