An Assessment of the State of Vermont's Tax Increment Financing (TIF) Policy

A Research Brief Prepared for the Vermont League of Cities and Towns (VLCT)
by the University of Wisconsin Oshkosh and Rural innovation Strategies, Inc.

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UNIVERSITY OF WISCONSIN
OSHKOSH

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Strategies Inc.

Executive Summary

What is Tax Increment Financing in Vermont?

Tax Increment Financing, or TIF, is an economic development tool often referenced as either the most powerful economic development tool that municipalities across the U.S. have had at their disposal since the 1950s, or the riskiest debt financing model that communities employ to attract investment. In reality, neither is the case. TIF is a financing tool that municipalities are able to use to finance an economic development project with future tax revenues. It is based on the assumption that municipal spending on infrastructure projects in the present will stimulate future private development.

The state of Vermont first enacted TIF in 1985, however all but one of the 10 existing districts were created in the last 15 years. Additionally, the state's TIF legislation and related policies have experienced significant change over time. The most notable of these changes occurred:

1) After Vermont adopted a statewide education property tax in 1997
2) When Vermont established the current application and approval process in 2006
3) Following legislative changes in 2013 and 2017 that amended the public approval process for municipal debt, changed the municipal/state revenue split for value increment and added several reporting requirements

Assessment scope

It is in this context of shifting power dynamics and development priorities that the Center for Customized Research and Services at the University of Wisconsin Oshkosh (CCRS) and Rural Innovation Strategies, Inc. (RISI)) were asked by the Vermont League of Cities and Towns (VLCT) to examine the current state of Vermont's TIF program. Specifically, they were asked to assess Vermont's TIF policy against the following criteria:

- Whether the policy met the state's community and economic development goals
- The performance of each existing TIF district against those policy goals
- And to compare the performance of TIF's fiscal metrics against those of other economic development programs available to communities in Vermont

Assessment findings

This research brief presents the findings of this work. The project team has reviewed volumes of legislation, reporting, and performance reporting on the state's policy and has spoken with many of the communities that have both adopted and considered adopting TIF as an economic development and planning tool. While the analysis is not intended as a direct response to any of the previous studies produced by the Vermont Joint Fiscal Office, Office of the State Auditor, and others, the authors do call into question several of the conclusions of recent research. This brief is organized around a series of 10 findings:

1. Vermont's TIF policy (and its communities') clearly meets the state's community and economic development goals.
2. TIF serves as a powerful long-term planning tool.
3. Measuring the performance of TIF districts is complicated.
4. The revenue story is equally complex, but suggests TIFs generate net revenue growth to the Education Fund above naturally occurring growth.
5. TIF generates a clear rate of economic growth not recognized in previous analysis.
6. Forecasting a rate of return from TIF is complicated.
7. TIF produces conditions that allow communities to leverage other assistance.
8. The combination of safeguards built into Vermont's TIF statutes maximize its effectiveness and accountability while minimizing risk.
9. Comparing TIF to other state economic development programs emphasizes the economic and operational benefits of TIF.
10. Vermont's TIF policy must change to be utilized by its rural communities.

Conclusion

In summary, this analysis finds that TIF in Vermont facilitates significant downtown development. It meets statewide community and economic development goals, has unique benefits over other economic development programs in Vermont by serving as a powerful long-term planning tool, and contributes to net-growth in the Education Fund. Our findings also recognize that the safeguards built into state policy minimize fiscal risk to the Education Fund. However, these safeguards also make it difficult for some communities to utilize TIF to its maximum potential, particularly rural communities with fewer resources. These undue restrictions may be limiting utilization and economic growth.

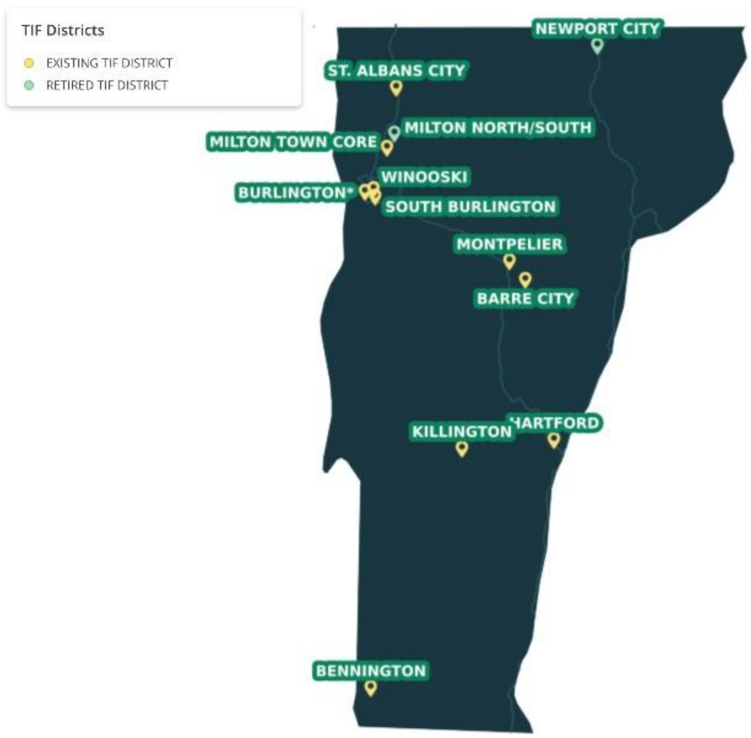
While our analysis supports these findings, we also recognize that key elements of the policy make measurement complicated and performance analysis difficult to draw firm conclusions. Therefore, to further validate these findings we have outlined a few suggestions for a future revision of the analysis later in the document.

Project Background & Scope

Vermont TIF districts

This research brief assesses the performance of Vermont's TIF policy from Fiscal Year 2014 to Fiscal Year 2020 (covering Grand List 2013 to 2019). This six-year timeframe encompassses the development and the performance of most of the state's active TIF districts. The places in Vermont who have participated in the TIF program are outlined in Figure 1 below, 10 of which are included in this analysis. Not included are Newport City, which was retired before the study period, Bennington and Montpelier, which have both been established but neither have incurred any debt, and Killington, which was only recently established. Finally, the combined Milton North/South district was retired in 2018 and only has partial performance to report.

Figure 1. Vermont TIF districts



**Burlington has two TIFs (Waterfront and Downtown)*

All TIF districts must meet the standard assessment criteria of:

- Need, which is interpreted as satisfying the "but for" clause common in urban planning
- Projected business growth, which relates both to the attraction of new businesses and employment growth

Additionally, eight of the ten districts in this analysis must also meet policy goals outlined in Act 184, passed in 2006, that were added to make TIF more consistent with broader economic development practice and to ensure the greatest return to the grand list in exchange for the deferred revenue. These are:

- Affordable housing, which meets a key need in many downtown cores
- Brownfields remediation, which uses municipal resources to restore property to the tax rolls
- Transportation enhancements, which has been specifically interpreted to expand public parking and to make roadway improvements in many communities that expand the viability and taxable value of all properties in a downtown

The responsibility for determining whether communities meet these goals in their application falls to the Vermont Economic Progress Council (VEPC). In addition to need and growth, districts approved after 2017 must show they address two of three location criteria (compared to earlier legislation which required one of the three) related to: density, growth centers, and economic distress. In addition, the project must meet three of five criteria in connection with: the need for substantial public investment, creation of affordable housing, rehabilitation of brownfield sites, business and job growth, and enhancement of transportation facilities.

Districts also operate under different fiscal rules as related to the share of increment retained by a municipality for debt service, the share retained by the municipality for district costs, and the share of revenue returned to the Education Fund.

These standard criteria, project criteria, location criteria and fiscal rules creates the patchwork of 10 districts that provide the background for this analysis.

TIF & the Education Fund

We should note here the important role that the Education Fund plays in TIF. In each state, TIF practice is facilitated by the consent of non-municipal taxing bodies to forgo their ability to levy taxes against growth that occurs within a TIF district over the life of the TIF. This increment is then used to service the debt incurred and provide for a variety of other district costs. In Vermont, two entities can levy property taxes: municipalities, and the state on behalf of the Education Fund. As such, the state legislature has agreed that some share of this incremental revenue, ranging from 70% to 75%, can be withheld from annual contributions, providing communities with significantly higher assets than they could otherwise levy on their own.

This leads to a misunderstanding common among previous fiscal analyses of the state's TIF policies that this investment does not yield either current returns or future yield sufficient to justify the commitment. This is where a net present value analysis, such as that which is included in this report, is so important. Similarly, it is also unfair to the communities to speak about the loss of Education Fund revenue when the program will return significant yields in the long run and is a commitment that has been reaffirmed by the legislature multiple times in the past two decades.

Assessment scope

The research brief attempts to address four issues related to the performance of these districts and the state's TIF policy:

1. What are Vermont's stated goals for community and economic development?

2. Evaluate whether TIF has helped meet these goals and answer the following questions:
    a. Has the TIF program met its legislative intent? 24 V.S.A. § 1893 defines that purpose as "…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."
    b. Have TIF projects met the project criteria outlined in statute and improved the conditions related to those project criteria of those communities?
    c. Does the TIF program further Vermont's community and economic development goals?
    d. Does the TIF program contribute to the growth of the Education Fund?
    e. How much non-property-tax-derived revenue does the TIF program generate (including but not limited to: sales and use tax, rooms and meals tax, payroll/income tax from new jobs, local option taxes, cannabis taxes, and miscellaneous fees)?

3. Conduct a comparative analysis of TIF communities and non-TIF communities to determine if the TIF program stimulates economic activity that would not occur otherwise or would occur in a substantially different manner or place than compact settlement in a designated area.

4. Evaluate whether other state community and economic development programs generate as much impact as the TIF program.

Key Findings

It is impossible to draw a concise assessment when examining a policy as large and as varied as Vermont's TIF policy. The state has a relatively brief experience with TIF despite initially authorizing the practice nearly 40 years ago. Similarly, few communities have lengthy experience with the policy, making many potential assessments of policy performance anecdotal, at best. As such, we have organized our analysis thematically around a series of key findings. This aligns both with the research plan initially proposed for the project as well as the diversity of issues that have surfaced over the course of our analysis.

The findings range in scope from clarifying the fiscal performance of TIF districts to highlighting the value of TIF as a municipal planning tool, and in particular Vermont's statutory protections which limit risk and maximize accountability, transparency, citizen participation, and overall effectiveness in reaching its goals.

These are our 10 findings, which we detail throughout this report:

Finding 1: Vermont's TIF policy (and its communities') clearly meets the state's community and economic development goals.

Finding 2: TIF serves as a powerful long-term planning tool.

Finding 3: Measuring the performance of TIF districts is complicated.

Finding 4: The revenue story is equally complex, but suggests TIFs generate net revenue growth to the Education Fund above naturally occurring growth.

Finding 5: TIF generates a clear rate of economic growth not recognized in previous analysis.

Finding 6: Forecasting a rate of return from TIF is complicated.

Finding 7: TIF produces conditions that allow communities to leverage other assistance.

Finding 8: The combination of safeguards built into Vermont's TIF statutes maximize its effectiveness and accountability while minimizing risk.

Finding 9: Comparing TIF to other state economic development programs emphasizes the economic and operational benefits of TIF.

Finding 10: Vermont's TIF policy must change to be utilized by its rural communities.

Finding 1: Vermont's TIF policy (and its communities') clearly meets the state's community and economic development goals.

Vermont authorized municipalities to utilize tax increment financing in 1985 in recognition of the policy's potential to provide a powerful economic development tool. Since then, the state has made significant changes to the policy — largely to improve its legislative accountability. Similarly, the legislature did introduce several stated policy objectives into its TIF program, asking communities to focus on affordable housing, brownfields redevelopment, business attraction, and transportation improvements. While none of these have been adopted as formal community or economic development goals, they do dovetail nicely with goals that have been articulated elsewhere.

For example, the statewide 2020 Comprehensive Economic Development Strategy (CEDS) includes the following objectives:

- Make financing accessible
- Educate a great workforce
- Build for the future
- Help businesses flourish
- Enhance the Vermont brand
- Preserve our working landscape
- Cultivate innovation
- Plan for resilience

We see that the TIF goals clearly align with many of the CEDS objectives and encompass the entirety of the objectives if considered more expansively. This represents a practitioner's perspective on economic development and prioritized growth and innovation.

We also see that the Vermont state legislature has codified several goals related to downtown redevelopment. This includes the following goals included in Vermont State Statutes Title 24, Chapter 76A, §2790, which establishes that the unique character of Vermont's historic downtowns requires that the state legislature prioritize investments that:

1. Support historic downtowns and villages by providing funding, training, and resources to communities designated under this chapter, to revitalize such communities, to increase and diversify economic development activities, to improve the efficient use of public investments, including water and sewer systems, and to safeguard working landscapes;
2. Improve the ability of Vermont's historic downtowns and villages to attract residents and businesses by enhancing their livability and unique sense of place; by expanding access to employment, housing, education and schools, services, public facilities, and other basic needs; and by expanding businesses' access to markets;
3. Coordinate policies and leverage funding to support historic downtowns and villages by removing barriers to collaboration among local downtown organizations, municipal departments, local businesses, and local nonprofit organizations and increasing

accountability and effectiveness at all levels of government to revitalize communities and plan for future growth;

4. Promote healthy, safe, and walkable downtown and village neighborhoods for people of all ages and incomes by increasing investments in those locations; providing energy efficient housing that is closer to jobs, services, health care, stores, entertainment, and schools; and reducing the combined cost of housing and transportation;
5. Encourage investment in mixed use development and provide for diverse housing options within walking distance of historic downtowns and villages that reinforce Vermont's traditional settlement patterns and meet the needs of community members of all social and economic groups;
6. Develop safe, reliable, and economical transportation options in historic downtowns and villages to decrease household transportation costs, promote energy independence, improve air quality, reduce greenhouse gas emissions, and promote public health; and
7. Reflect Vermont's traditional settlement patterns, and to minimize or avoid strip development or other unplanned development throughout the countryside on quality farmland or important natural and cultural landscapes.

The statute further defines these historic downtowns as “designated growth centers” where development should be focused. This summarizes development goals that promote access, density, preservation, and walkability through legislative intent and state incentives. It is therefore unsurprising, given these goals and preservation ethos, that TIF is focused on communities with historic downtowns. As such, the question of whether TIF meets established goals is somewhat self-fulfilling since development is focused on these centers and several incentives are targeted towards them. Similarly, we see that designated downtowns go through a significant state process to determine appropriate boundaries as opposed to being self defined by the local government.

Assessing the extent to which any community or a specific TIF district or project meets these objectives is more complex and nuanced. The communities contend that their role in TIF to stimulate development is more indirect or facilitative. This is evident in the district plans, where most of the public investment specified is focused on property assembly and improvement, including remediation, or infrastructure improvements, including parking developments. This provides a needed context for development in financing activities where a municipality would typically be asked to participate in a project.

Conversely, these same communities argue that, while there is an established relationship between this infrastructure spending and private development, much of the development that occurs within a district may not be identified within a specific project plan. Most districts are initially organized around one or a series of catalytic developments. However, the development that occurs beyond the context of this plan may be unanticipated but still benefits from the municipal investments and rigorous planning that TIF produces. As such, when assessing the performance of a district or answering whether a project meets specific goals, we must measure the performance of all investments and developments that occur through municipal intervention.

At this point, we can draw conclusions from a cursory review of the communities' TIF project plans and annual reporting that demonstrates there are several examples of privately developed affordable housing developments, brownfields remediation (most notably in Barre and St. Albans), and transportation improvements with a specific focus on parking capacity.

Finding 2: TIF serves as a powerful long-term planning tool.

A second realization evident through conversations with communities and through a review of district plans is that TIF serves as the most powerful and intentional long-term planning tool available to communities. Every community accrues infrastructure needs over time that it lacks the capacity to meet. Similarly, the realities of development in Vermont mean that projects take a fair bit of time to come to fruition as development agreements, environmental assessments, permits, and rezoning are completed. As such, urban planning practice in the state requires a longer-term perspective than may be the case in other states with more permissive statutes.

Similarly, the fact that the legislature has a stated preference for promoting density and infill development codified in statute means that several of the projects that are envisioned in historic downtowns require some degree of property assembly or are slated for more challenging sites. Such is the nature of redevelopment.

Given these realities, it is evident that the long-term nature of TIF is that which makes redevelopment in historic downtowns possible. Vermont offers no comparable frameworks outside of comprehensive planning processes that offer the same length of perspective. Other grant programs are allotted through the annual budget cycle and must be spent within that period. Similarly, most programs do not target core public infrastructure or property remediation, two of the centerpieces of the TIF program. Many communities view development within a continuum where the completion of any project is predicated on the development of supportive infrastructure. As such, the bonding capacity authorized under TIF enables larger projects than may not have been possible otherwise. This also demonstrates the significance of the Education Fund participation in TIF as communities would not have sufficient levy authority under their municipal share to service the level of debt incurred.

Further, the TIF program itself creates the need for long-term planning and foresight. The five-year window for initial expenditure incentivizes communities to launch districts with “shovel-ready” prospects. Similarly, the 10-year indebtedness window narrowly defines what can be spent and prioritizes investments that can be realized in this timeline. Finally, the 20-year district lifespan encourages communities to prioritize projects with large value increments.

Most of the Vermont communities that have created TIF districts over the past 20 years have met at least the first two criteria of need and business growth, though Bennington and Montpelier give pause as neither has issued its first expenditure despite nearing the end of their five-year windows. These communities have also neither witnessed significant incremental growth nor utilized any deferred revenue, so no Education Fund revenue has been allotted to date. This also points to the dependency of the general success of a TIF district on an initial catalytic project.

It is less clear whether the 20-year lifespan is well-suited, as only one district (Milton North-South) was retired during the study period and is only three years into retirement. We will address these concerns in later findings on TIF’s fiscal condition.

The extent to which communities can successfully employ TIF as a planning tool is heavily dependent on the capacity of their managers and professional staff. It is evident that the most successful communities thrive because of the presence of visionary leadership that can both effectively court development and steer projects through the TIF process. Similarly, several communities have benefitted from the assistance of real estate development firms with extensive history and practice in the state. Conversely, many communities lack this basic capacity or staffing, and have therefore found TIF practice to be either untenable or unapproachable.

Finding 3: Measuring the performance of TIF districts is complicated.

There are two markedly different perspectives on how Tax Increment Financing should be evaluated as a policy instrument:

- First, it can be viewed as a fiscal tool. Its performance is measured both in the value increment that is produced, and the ability of communities to service the debt incurred and provide a reasonable return on investment to the representative taxing jurisdictions.
- Second, it can be viewed as an economic development tool. States impose a variety of ancillary metrics on communities to demonstrate districts' worth.

We have chosen to focus on the latter first as the fiscal question requires a more extensive and nuanced discussion. Stated simply, TIF communities are measured on three dimensions:

1. The level of investment that occurs through the lifespan of the district
2. The number of jobs created within the district
3. The volume of construction and consulting work by Vermont firms within the district

The table below presents the sum of performance metrics reported by the 10 study districts within the annual reports filed with the state. The reader will note that the data is self-reported, and that no data is validated by state or other sources. It is also important to note that Total Development refers to the full assessed value of developed/redeveloped properties in the district as reported by the communities.

Figure 2. Self-reported performance measures (2014-2020)

TIF District	Performance			
	Total Infrastructure	Total Development	Jobs Created	Total Amount of Work Performed by VT Contractors
Burlington Waterfront	$ 11,430,483	$ 78,516,472	(13)	$ 27,463,064
Burlington Waterfront - 2 Parcels (100% to TIF)	$ -	$ -	65	$ -
Winooski (98%/2%)	$ 52,154,551	$ 5,193,000	193	$ 429,314
Milton Town Core	$ 2,441,245	$ 50,704,284	13	$ 1,751,431
Milton North South	$ -	$ 19,637,740	211	$ 5,667
Burlington Downtown	$ 5,474,548	$ 32,755,100	388	$ 4,431,373
Hartford	$ 2,079,364	$ 18,856,100	228	$ 14,853,343
St. Albans	$ 20,226,975	$ 84,478,200	124	$ 9,585,968
Barre	$ 11,552,884	$ 10,001,500	271	$ 9,036,449
South Burlington	$ 12,186,365	$ 61,601,700	71	$ 11,786,855
Totals	**$ 117,546,415**	**$ 361,744,096**	**1,551**	**$ 79,343,464**

One item that must be noted in the performance metrics is that communities were asked in the 2020 report to indicate employment changes both before and because of the COVID-19 pandemic in 2020. As such, the aggregate job creation numbers are deflated.

We see that the performance measures yield varying levels of success among communities, with few communities presenting as clear winners or losers. South Burlington stands out as a clear success with its relatively low infrastructure spend, high job creation, and high volume of contracted work in a short period of time. However, other communities generated more substantial development, such as St. Albans and the Milton Town Core. It is easy to discount the performance of the Burlington Waterfront and Winooski districts because of their relatively longer history. This points to the complexity of measuring TIF performance on multiple dimensions.

Communities are required to report levels of infrastructure and development spending as specified in their district plan. It is unclear as to whether all development occurring in a district is reported if not previously identified. Similarly, job creation is self-reported, and communities rely on a variety of means to collect this data, which is not validated.

The annual report required by VEPC also included data fields for housing units, but completion differs across communities. Similarly, districts generally only report out progress from projects developed during their indebtedness period. As such, communities outside of this window, such as Winooski, will infrequently update their performance metrics. This calls into question the wisdom of universal reporting requirements for all districts regardless of status or vintage.

Similarly, districts exist under several different statutory requirements. As such, annual reporting only includes project inventories of investments that meet policy objectives, such as brownfields remediation, or transportation improvement. There are no independent metrics to validate whether these investments improve the conditions they address.

What is notable here is that the performance metrics reported are more consistent with infrastructure incentive than economic development incentive programs. The metrics are primarily designed to monitor fiscal performance rather than the economic conditions of the district or community. Job creation measures do not account for the construction employment created to perform the district's work, for example. The metrics also do not account for new business creation even though it is a primary objective of the policy. As such, performance is assessed in a very narrow sense.

Each state measures TIF performance respective to defined policy goals. Every state measures spending and fiscal performance, though there is variation among states, such as Wisconsin, that cap the base value of TIF to a fixed share of equalized assessed value in a community. Job creation is another common metric, along with new business formation. Similarly, many other states, such as Illinois have adopted policy objectives similar to Vermont. However, because states are less likely to have the same level of fiscal exposure in TIF, reporting requirements tend to focus on fiscal transparency rather than economic development performance.

Finding 4: The revenue story is equally complex, but suggests TIFs generate net revenue growth to the Education Fund above naturally occurring growth.

Tax Increment Financing is a powerful economic tool that is primarily measured on its fiscal performance in Vermont. It enables communities to issue higher levels of debt obligations than otherwise possible by using a share of the incremental revenue generated by development activities to service that debt. This depends on the consent of any non-municipal taxing jurisdiction consenting to forgo this incremental revenue on the promise of a higher future return conditioned on the development that occurs.

We can see the impact of this growth as well as specific fiscal implications in several ways. First, we can consider the base contribution that is a constant in any TIF model. This is represented in Figure 3. Please note that these estimates were calculated using the base values and annual tax rates reported in the TIF annual reports collected by VEPC. These are not reflective of actual tax receipts as the project team was not able to access this information.

Figure 3. Estimated base annual contributions to the Education Fund

BASE TO EDUCATION FUND	Homestead	Non-Residential
Burlington Waterfront	$ 20,267	$ 849,172
Burlington Waterfront - 2 Parcels (100% to TIF)	$ -	$ -
Winooski (98%/2%)	$ 7,150	$ 439,078
Milton Town Core	$ 792,478	$ 1,163,566
Milton North South	$ 7,546	$ 365,638
Burlington Downtown	$ 82,469	$ 3,402,487
Hartford	$ 3,677	$ 526,196
St. Albans	$ 237,271	$ 1,624,181
Barre	$ 15,158	$ 809,492
South Burlington	$ 26,528	$ 590,797
Totals	**$ 1,192,543**	**$ 9,770,607**

We see that the TIF communities contribute an estimated aggregate of $11.5 million to the education fund each year. In aggregate, this represents more than $80.1 million in contributions over the study period. This is a base level of investment that assumes that no growth occurs in the district as of FY2020 reporting. We know that this is an unreasonable assumption since many districts have identified significant additional development and that the value of adjacent properties appreciated after development occurs, thereby stimulating further development.

Next, Vermont state law dictates that TIF districts created between 2006 and 2017 split any revenue generated from assessments on the value increment of property each year between 75% to municipal coffers and 25% to the Education Fund. This shifts to a 70% municipal share and 30% Education Fund share for districts created after 2017. One exception is Winooski, which retains 98%of incremental revenue due to a legislative exemption. As such, the level of increment contribution varies across communities, as is illustrated in Figure 4.

Figure 4. Aggregated incremental revenue split (2014-2020)

TIF District	Incremental Revenue Split		
	Total to TIF	Total to Education	Total to Municipality
Burlington Waterfront	$ 14,868,233	$ -	$ -
Burlington Waterfront - 2 Parcels (100% to TIF)	$ 1,865,139	$ -	$ -
Winooski (98%/2%)	$ 13,786,656	$ 169,400	$ -
Milton Town Core	$ 3,624,651	$ 907,003	$ 301,214
Milton North South	$ 2,598,190	$ 642,706	$ 223,357
Burlington Downtown	$ 6,224,081	$ 1,365,746	$ 708,948
Hartford	$ 1,272,146	$ 264,524	$ 159,525
St. Albans	$ 5,232,873	$ 1,107,240	$ 637,051
Barre	$ 1,362,149	$ 220,065	$ 233,984
South Burlington	$ 286,105	$ 45,596	$ 49,772
Totals	$ 51,120,222.58	$ 4,722,280.78	$ 2,313,850.64

We see that the aggregated incremental revenue split contributed $4.7 million in addition to the base contribution to the Education Fund over the study period. We see that these revenues vary widely across districts, with the Burlington Downtown and St. Albans districts, generating the most significant increment and contributions. As such, it may be somewhat unfair to assess them on the same criteria. This must be added to the base contribution to provide a full picture of the district's fiscal performance relative to the education fund.

It is again important to note that both the Burlington Waterfront and Winooski TIF districts operate under different revenue sharing arrangements with Burlington allotting all of its incremental revenue for growth that occurred prior to 2010 and Winooski only sharing 2% of incremental revenue to the state. This deflates the state share but will become less relevant over time as these districts are retired and new districts are created under the 30% state share.

We concede that there are differences among communities, both in their economic conditions and the specific intent of their TIF districts. St. Albans developed an aggressive plan for growth and executed on that strategy while Barre's TIF plan largely prioritizes parking improvements with some brownfields remediation. Similarly, we have noted on several occasions that it is difficult to assess these communities based on the degree to which they met the inventory of projects identified in their applications. Development and economic conditions change with opportunities rising and falling. It would be irresponsible to assume that community leaders should not remain responsive to these changes.

Finally, we must also consider the impact that development growth in aggregate will have on Education Fund revenues moving forward. If we assume that the incremental value of each district is fixed as of 2020 with no additional growth, we see the tax splits presented in Figure 5.

Figure 5. Forecasted tax contributions under existing growth

CONTRIBUTION TO EDUCATION FUND AT CURRENT VALUE	Homestead	Non-Residential
Burlington Waterfront	$ 262,107	$ 2,309,851
Burlington Waterfront - 2 Parcels (100% to TIF)	$ -	$ 606,512
Winooski (98%/2%)	$ 246,630	$ 1,606,650
Milton Town Core	$ 998,191	$ 1,676,704
Milton North South	$ 28,364	$ 1,222,856
Burlington Downtown	$ 146,289	$ 4,233,803
Hartford	$ 3,572	$ 962,533
St. Albans	$ 211,931	$ 2,782,177
Barre	$ 17,611	$ 905,925
South Burlington	$ 17,540	$ 746,188
Totals	**$ 1,932,236**	**$ 17,053,200**

We see that the expected future annual contribution from the districts based on property value growth (base plus increment) as of FY2020 to the education fund is forecasted at $18.9 million per year. This represents the payment that the education fund would expect to receive if all TIF districts in the state were retired as of FY2020. This represents a 73.2% increase in annual tax revenue over the base contribution that the education fund currently receives. This is significantly higher than the $13.6 million in annual contributions that would be yielded under the alternative model presented in the 2022 Joint Fiscal Office (JFO) analysis that assumes a 18.7% compounded annual growth rate. This growth rate was derived from the historical change in property values in each community and assumed no further development. Our contention is that the development that occurs through TIF creates a different, higher set of growth assumptions.

Finding 5: TIF generates a clear rate of economic growth not recognized in previous analysis.

The critical question at the heart of this analysis and the most important question offered by the VLCT in considering the current state of Vermont's TIF policy is whether it satisfies the "but for" clause of the needs statement central to that policy. Simply stated, TIF is predicated on the assumption that development within a downtown district would not occur but for the presence of TIF and the associated municipal investment. We contend that TIF both materially facilitates growth through this investment as well as creates a more conducive development climate. Similarly, this question is central to the ongoing debate about TIF, with opponents contending that much of the growth generated by TIF would have occurred elsewhere in the state. Proponents of the policy point, as we have in previous findings, to the benefits of TIF as a fiscal and planning tool.

In answering the "but for" question, we need to consider several economic principles, as they were expressed in previous analyses, and those that exist at the center of our work. We can first consider the "background growth" hypothesis central to a key aspect of the 2022 JFO analysis. In this, the author states that TIF performance can be measured against a presumption of historic growth in the TIF communities. We compare these compounded growth rates to the actual value increase in education fund-assessed property classes in Figure 6 below.

Figure 6. Comparison of JFO 2022 growth assumptions and change in assessed value

TIF District	Change in Value of Education Fund-Assessed Properties	Compounded JFO Annual Rate
Burlington Waterfront	197.2%	23.1%
Burlington Waterfront - 2 Parcels (100% to TIF)	0.0%	23.1%
Winooski (98%/2%)	320.8%	14.2%
Milton Town Core	36.2%	22.9%
Milton North South	180.5%	
Burlington Downtown	65.8%	34.9%
Hartford	82.3%	44.4%
St. Albans	59.8%	14.2%
Barre	12.0%	6.5%
South Burlington	23.6%	12.6%
Averages	97.8%	21.8%

We see that the growth in all communities outperforms the compounded annual growth rate assumed in the JFO analysis. The average 108.7% real growth suggests that TIF provides some inducement beyond historical growth, though it is difficult to say how much at this point in the analysis.

It is instructive to consider the example of Hartford, and specifically the village of White River Junction, that has experienced significant growth emanating from Dartmouth Hitchcock Medical Center and related spinoffs just over the border in New Hampshire. The proximity to the Granite State, however, provides an interesting case study. New Hampshire has a significantly different tax structure (no income, sales, or rooms/meals tax) and many fewer restrictions on commercial development. Residents of the Upper Valley seamlessly crossover for commerce, but most development for the last 40 years has taken place on the New Hampshire side of the river. Yet Hartford has both the highest compounded background growth rate in the 2022 JFO analysis at 44.4% and the highest change in Education Fund assessed properties of post-2012 TIF communities at 82.3% largely due to intentional development efforts to bring redevelopment to the community, particularly in downtown White River Junction where the TIF district is located.

Only 10 years ago, the South Main Street area of White River Junction was incredibly run down with abandoned houses, contaminated empty warehouses and vacant storefronts. With unlit streets, it also was the center of most of the crime in the area and many considered it unsafe to walk at night. Leveraging the arts and culture investments taking place in other parts of the village, significant investment catalyzed by the TIF addressed street lighting, drainage and safer pedestrian walkways and brought that part of the village back to life and provided significant housing, retail and amenity needs for the area. Harford is a community of less than 10,000 people and not affluent by any measure, so a capital investment of this kind would have been impossible without a TIF mechanism. History shows that without this kind of proactive effort, the development could easily have taken place across the river in Lebanon, New Hampshire, undermining the argument that the substantial increase in grand list growth would have simply gone to a different Vermont location. In fact, it would have likely gone to New Hampshire, meaning the Education Fund would have lost all of that additional value.

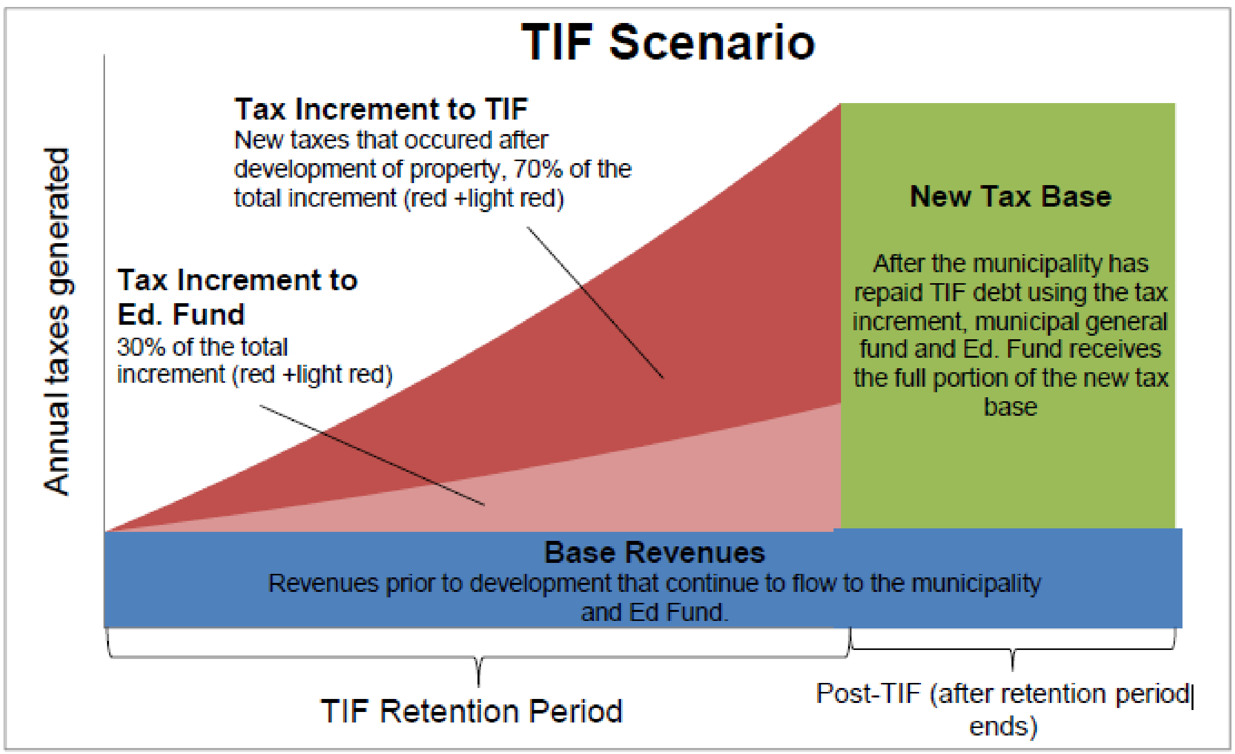
To fully assess the economic value of TIF as a fiscal and policy instrument, we need to consider two fundamental questions. First, how much development is both directly and indirectly attributable growth compared to that of a comparable community over the same time? Second, what is the return on investment generated by this development? We will consider these questions next, finding that the answers are more complicated than they appear.

Finding 6: Forecasting a rate of return from TIF is complicated.

One of the principal questions asked of the project team was whether the return on investment of the TIF program could be estimated. Supporters of TIF frequently suggest that the returns created through the value increment more than justify the investment of forgone tax revenues. Opponents of the program suggest that prohibiting the state from assessing the full value of developed properties for the Education Fund represents a real loss from $5 million to $7 million per year.

We have already demonstrated that the Education Fund sees considerable revenue from the state's TIF communities through the revenue split that is somewhat unique to the state. We have also demonstrated that the observed growth in valuation exceeds the background growth rates assumed in the 2022 JFO analysis. This demonstrates that the state unquestionably sees both a positive cash flow that is uncommon in TIF practice coupled with the promise of future revenue assessed against those higher levels of valuation.

The 2022 JFO analysis illustrates this model well.



The JFO analysis further argues that the difference between the incremental revenues that may be collected under a natural growth scenario and the state's share of incremental revenue represent the loss (or gain) from the state's investment in TIF. This further suggests that the between 70% and 98% of forgone revenue constitutes the investment in TIF, which is shared by the municipality and state.

We have already demonstrated that the combination of the base assessment and share of incremental revenue has returned more than $24 million to the Education Fund over the study period. This demonstrates a real return, but it does not equate a return on investment.

Rather, we could hypothetically determine the net present value (NPV) of the TIF program. Net present value estimates the value of an investment based on future years' returns under the assumption of an expected interest rate. First, we could estimate the NPV of the incremental revenue share to the TIF that accrues over the district's life. This represents cash flow designated for spending on development activities. Second, we can use the natural growth rates published in the JFO analysis as a proxy for interest. If the NPV of the expenditures exceeds that of the actual spending and compounded interest, we can conclude that the spending generates a positive rate of return.

However, the only estimates of future increments that are available are those included in each community's project plan. A cursory review of the forecasts prepared by the study communities compared to the incremental revenue reported in their annual reports suggests that forecasted incremental revenue during the study period was an average of 24% higher than what was actually collected.

This does not suggest that the communities and their TIF districts underperform. Rather, it suggests that greater precision is required in the preparation of growth forecasts.

Similarly, the forecasts do not account for the variability of tax rates across all property classes that are assessed each year. These are subject to equalization, which is a statewide rather than local process. As such, incremental revenue is not solely a product of the economic growth that occurs in a given year.

We do have one community — Winooski — that has produced sufficient real incremental revenue and whose expenditures have concluded that we can consider. Over the 13-year period between 2008 and 2021, the city reported $17.9 million in incremental revenue. This carries a net present value of $18.2 million, assuming an annual natural growth rate of 2.24%, as estimated by JFO. This yields a return on investment of 2 above natural growth.

A 2% rate of return may seem inconsequential, but expecting any positive economic return ignores the operational reality of Vermont's TIF program. Many of the eligible uses of TIF, ranging from brownfields remediation to infrastructure improvements have little opportunity to produce direct economic returns. Rather, the spending that occurs facilitates development throughout the district, yielding an indirect return. Similarly, communities are neither allowed to generate or retain any incremental revenue beyond that used for TIF purposes. As such, no return is assumed when the project plan is developed.

If any community generates a positive return, it would be reflected in a positive fund balance that could only be considered once a TIF district is retired. For example, Winooski reports having a positive fund balance of more than $250,000 at the end of 2021. However, we know that further debt repayment is needed, so it is impossible to forecast an ending fund balance. Similarly, the state's TIF policy is unclear as to how any excess fund balance is distributed.

The project team also considered the possibility of measuring the impact of specific infrastructure investments within each community. However, it became clear through conversations with several communities that it is difficult to decouple improvements funded solely by TIF revenue from those that also benefit from a variety of state and federal incentives. In fact, this capital stacking activity is among TIF's greatest strengths.

Finding 7: TIF produces conditions that allow communities to leverage other assistance.

The complexity of measuring the return on investment from TIF also conveys two of its greatest strengths as an economic development program. First, TIF requires extensive planning and forecasting as communities must compile an inventory of projects within a defined geography, determine which of these projects require municipal investment and meet stated policy goals, and finally forecast the impact these investments may have in stimulating development. We have demonstrated that each of these is an inexact science at best, with many communities lacking the technical expertise to develop project plans that meet state scrutiny.

Second, TIF produces significant municipal revenue used to facilitate infrastructure improvements. However, in many instances, this revenue is insufficient to fund any single project, let alone the extensive inventories included in most project plans. As such, we find that another notable strength is in using this revenue as the basis for leveraging infrastructure and economic development assistance.

We see an example of this capital stacking in St. Albans' 2020 annual report.

Non TIF Revenues (List Source and Year Awarded)	Total Secured	Total Expensed
US DOT TIGER (2011)	$ 1,291,623	$ 1,212,877
Downtown Transportation Fund Grant (2011)	$ 75,000	$ 75,000
Transportation Enhancements Grant (2011)	$ 300,000	$ 300,000
Transportation Enhancements Grant (2012)	$ 300,000	$ 299,999
Downtown Transportation Fund Grant (2012 - expend FY17/18)	$ 100,000	$ 76,643
Downtown Transportation Fund Grant (2013 - expend FY18)	$ 100,000	$ 100,000
Downtown Transportation Fund Grant (2014)	$ 100,000	$ 100,000
Transportation Alternatives Grant Program (2014)	$ 300,000	$ 300,000
Efficiency Vermont Credit (2015)	$ 17,050	$ 6,400
Housing & Community Development Grant (2015)	$ 125,000	$ 125,000
Downtown Transportation Fund Grant (2015)	$ 100,000	$ -
US DOT Transportation Alternatives Grant (2016)	$ 300,000	$ 296,000
VT Downtown Transportation Fund (2016)	$ 100,000	$ -
NRPC Brownfield Grant (2016)	$ 97,130	$ 97,882
VT ACCD Brownfield Grant (2016)	$ 200,000	$ 200,000
US DOT Transportation Community System Preservation Grant (2016)	$ 300,000	$ 271,731
US DOT Federal Street Multimodal Corridor Appropriation (2005)	$ 2,213,904	$ 1,667,031
Wal-Mart Act 250 Permit Condition	$ 44,250	$ 44,250
Vtrans Stormwater Mitigation Grant (2011)	$ 75,000	$ 75,000
USDA Green Streets Grant	$ 75,000	$ 75,000
US DOT Transportation Community System Preservation Grant (2009)	$ 355,680	$ 355,680
City Reserve Funds	$ 3,722,608	$ 3,722,608
VT Sales Tax Reallocation Grant 2016	$ 103,492	$ 103,492

The community has accrued an additional $11.8 million in state and federal assistance over the TIF's life, including an additional injection of municipal funds. We see that funding was acquired through formula funds and competitive awards, and include significant transportation funding along with nearly $300,000 in brownfield mitigation funding.

Critics may argue that much of this funding would otherwise flow to communities through formula allotments or normal planning cycles. However, communities argue that using TIF funds as a match against many of these funders both increased the size of the awards and enabled communities to develop projects that are more cohesive. Community leaders also contend that TIF provides a significantly more comprehensive planning structure than is otherwise required. This also increases their competitiveness for funding.

While this capital stacking again proves the benefit of TIF, it also complicates our ability to assess it on its merits. We can state with some confidence that many of the secondary funds communities obtain are critical to downtown and infrastructure development. However, TIF's role here does not entirely satisfy the "but for" clause. We are also unable to measure TIF's specific impact on many communities because of the presence of these significant non-TIF revenues.

Finding 8: The combination of safeguards built into Vermont's TIF statutes maximize its effectiveness and accountability while minimizing risk.

Vermont has amended its TIF laws several times since their inception in 1985, most significantly:

- in 2006 to provide for an approval process by the Vermont Economic Progress Council (VEPC) and cap districts at 10 with no more than one per town
- in 2013 to prohibit VEPC from approving districts other than those enumerated, delegate rulemaking authority to VEPC, and require information reporting and audits
- in 2017 to require an annual report on TIF districts by the Joint Fiscal Office, change the split of increment, cap the number of districts at six, and provide for stricter project criteria and location criteria
- several various technical amendments have also occurred in most years since 2006
- Under the existing statutes, five state entities can offer interpretation of TIF policy - the state legislature, Attorney General, State Auditor, Joint Fiscal Office, and VEPC. This creates a complex web of municipal carve outs and contradictory opinions

Of the 12 active districts, four were created prior to 2006 (Burlington Waterfront, Milton North/South, Winooski, and a since-retired Newport district), six were created under the 2006 amendment (Barre City, Burlington Downtown, Hartford, Milton Town Core, South Burlington, and St. Albans), and two have been created post-2017 amendment, although neither has incurred expenses nor issued debt (Bennington and Montpelier). None were created under the 2013 amendment.

How do we know whether Vermont's TIF legislation, as amended, creates a policy environment where TIF can be utilized effectively to meet policy objectives, while minimizing risk through safeguards? It is tempting to try to answer this question by comparing Vermont's TIF statutes to those of other individual states, but this can be misleading for two primary reasons. First, states differ in the policy objectives, political climate and risk tolerance. Second, it is difficult to ascertain whether one particular state has been "successful" in its use of TIF and whether that definition of success is consistent with what Vermont would define as success.

Instead, we have taken the approach of analyzing the comprehensive nature of the safeguards built into Vermont's statute in comparison to those employed by other states, collectively rather than individually. In addition, we note that safeguards suggested in source material relied upon in recent JFO reports have already been implemented in Vermont.

<u>In comparison, Vermont has more safeguards when taken collectively than most other states.</u>

State TIF statutes vary in many ways. Each of these represent a policy choice impacting level of risk, citizen involvement, accountability, transparency, and overall effectiveness.

The aspects in which state TIF statutes differ include:

- Whether area-wide or site-specific TIFs are allowed
- Eligible tax revenue sources
- Eligible public costs
- Eligible private costs
- District and project approval agencies
- Requirements for district creation
- Types of projects allowed
- Financing options
- Whether public hearings are required for district authorization
- Whether public hearings are required for deal approval
- Maximum length of districts
- Ongoing monitoring, reporting, and auditing

Below is a listing of some of the features which vary from state to state, and how Vermont compares. Unless otherwise noted, this data was compiled from the "TIF State by State Map" published by the Council of Development Finance Agencies (CDFA):

- The showing required for district creation or project approval, with all states requiring a finding of blight or "but for." Vermont requires the latter, but TIF applications also must show two of three location criteria, one of which is economic distress, and three of five project criteria, one of which is remediation of brownfield sites.
- The sources of taxes that are available, with property taxes eligible in all states due to the nature of TIF. Sales taxes are eligible in 16 states, primarily for retail TIFs, which can entail higher risk. Vermont does not make sales tax available, nor allow for retail TIFs.
- The maximum district length, with the largest percentage of states falling within the 20-29-year range. The next largest percentage is 30-39 years. Vermont is on the lower end of the overall spectrum at 20 years.
- Whether there are caps on the number of districts or the amount of land that can be included in TIF districts. Vermont is one of the few states that have placed a cap.
- The project costs that are eligible, including whether private developer costs are eligible. Almost half of the states (23) allow private developer costs to be part of the TIF project. It is important to note that many of the concerns about the use of TIF revolve around the allowability of private developer costs. See Kerth, Rob and Baxandall, Phineas, "Tax Increment Financing: The Need for Increased Transparency and Accountability in Local Economic Development Subsidies." Vermont is not one of them.

- The approvals required for districts and projects. Vermont is one of 10 states that require state approval for TIF projects.
- Whether public hearings are required for district creation and project approvals. All but two states require a public hearing when creating the district while only 19 states require a hearing before project approvals in all cases. Vermont is one of these 19 (and the only one the authors know of that has a state agency with rulemaking and enforcement power dedicated to this task).
- The approvals required for incurring debt, with a small minority of states requiring direct voter approval before a municipality may incur debt in a TIF district. Vermont is one of these few. In most states, debt is authorized through a joint review board composed of representatives of the taxing jurisdictions represented in the TIF.

States also vary in reporting and auditing requirements. Some require little in the way of reporting, with no audits. Others have significant requirements. Again, Vermont is on the leading edge in terms of state oversight, reporting requirements, and frequent audits.

<u>Many of the recommendations for safeguards contained in studies upon which the 2018 and 2022 JFO reports relied, are already present in Vermont law.</u>

There are hundreds of studies examining TIF from a fiscal, legal, and policy standpoint. The JFO reports cite a few of these studies. Of particular note is the "Tax Increment Financing: The Need for Increased Transparency and Accountability in Local Economic Development Subsidies" by Rob Kerth and Phineas Baxandall, published by MoPIRG Foundation, and "Improving Tax Increment Financing for Economic Development" by David Merriman, published by the Lincoln Institute of Land Policy.

Below are some of the safeguard recommendations that Vermont already has in place:

- Firmly fixing the maximum duration over which a TIF district can remain in place
- Requiring a "but for" analysis and a public interest rationale
- Requiring a finding of blight or economic stagnation
- Placing a cap on percent of land/number of districts
- Placing time limits for the commencement of redevelopment
- Requiring information about TIF proposals to be publicized beforehand
- Requiring local governments to conduct public hearings
- Giving voice to affected tax jurisdictions
- Making information about TIF easily accessible to the public including use, revenues, and expenditures
- Monitoring and tracking TIF use

Accordingly, the combination of safeguards contributes to the relative strength of Vermont's TIF statutes in terms of mitigating risk, enhancing transparency, accountability, and citizen participation. These safeguards, however, must be balanced against the benefits that are sought from TIF. Excessive risk mitigation may also minimize the ability of towns to utilize TIF and its potential to generate benefits. Furthermore, frequent amendments to TIF statutes may lead to a more confusing patchwork of requirements, decreased appetite of towns to use it, and difficulty in measuring effectiveness.

Finding 9: Comparing TIF to other state economic development programs emphasizes the economic and operational benefits of TIF.

The project team was finally asked to compare TIF to other state and federal economic development programs to determine whether TIF provides a better return on investment. Several communities highlighted the presence of a small number of state economic incentives, with the 2022 JFO analysis pointing out that TIF represents one of the few, and largest state-funded economic development programs. As such, it is somewhat difficult to assess TIF on common ground.

We have demonstrated that most of the TIF communities have observed significant increases in property values in their districts, with this growth generating incremental revenue needed to fund infrastructure improvements. Communities also use this revenue to leverage additional investment. As such, TIF acts similarly to another state assistance program: the Downtown Transportation Fund. This has been referenced by several communities in their annual reporting.

The Downtown Transportation Fund allocated 31 grants in 19 communities since 2017, totalling $2.1 million. These funds further leveraged $15 million in additional funding, including TIF revenue. This represents a significant investment of federal pass-through funding, but this pales in comparison to the $65 million in incremental revenue invested in these communities.

It is also important to note that the Downtown Transportation Fund generally does not pay for many of the core infrastructure expenses that TIF revenues finance. Eligible fund expenses include streetscape enhancements, bicycle and pedestrian safety improvements, parking facilities, rail or bus facilities, utility relocation, street lighting, and wayfinding signage. Many of these improvements are also found in TIF communities, but the fund's restrictions make it impractical to use for all infrastructure projects.

Opponents of the state's TIF program also point to a pair of other tax-funded incentives — the Vermont Employment Growth Incentive (VEGI) and the Downtown Sales Tax Reallocation program — as potential alternatives to meet aspects of the TIF program. VEGI works similarly to TIF by using deferred payroll tax revenue to finance employer incentives so long as certain job and wage growth measures are maintained. The program boasts significant utilization and generated $36.6 million in net new revenue to the state from 2007-2013. This yields a return on public investment of 3.6:1. However, the program's structure and intent is too dissimilar to TIF to be directly comparable.

The Downtown Sales Tax Reallocation also presents an interesting opportunity for private developers. The program provides a reallocation of sales tax on construction materials as incentive to municipalities to support development projects. The program has awarded six grants totalling $1.8 million from 2017-2021, supporting $134 million in private investment. Interestingly, the program highlights the $11 million Hampton Inn project in St. Albans, which received a $103,492 allocation of sales tax revenues to support the project. This is referenced in the capital stack the community reported in 2020.

The program is notable as it represents one of the few incentive programs, along with VEGI, that can be directly or indirectly awarded to private firms. This is one of the more notable distinctions of Vermont's TIF policy and general economic development posture compared to other states. As few options exist to provide direct or indirect developer assistance, communities must use TIF to create a more favorable development environment to attract developer interest.

In both instances, we see that the state's priority is to develop and promote incentive programs that leverage existing tax streams but can be administered within a fiscal year for accounting purposes. TIF meets one of these criteria, but not the other. The multi-year basis of TIF is among its most significant advantages.

As such, while other programs may be able to point to a larger return on investment or higher utilization, no state program demonstrates the cumulative impact of TIF in both facilitating infrastructure improvements and stimulating private development.

Finding 10: Vermont's TIF policy must change to be utilized by its rural communities.

As mentioned before, one of the challenges with TIF is the ability of communities with little finance and planning capacity to even consider engaging this kind of funding. This is a particular challenge for the rural communities of Vermont.

Many smaller Vermont communities have significant downtowns and potential for economically catalyzing public infrastructure in the downtown or cleanup of brownfield blighted properties with a much smaller capitalization than is typically used in the TIF program. But it is difficult to justify putting significant dollars into consulting on the front end and managing the compliance for the duration of the TIF period. Places like Bradford, Fair Haven, South Royalton, Wallingford, and Lyndon all have the potential to grow because of higher education assets and/or the economic expansion in nearby areas starting to spill over into their markets, but do not have the current resources to make the improvements to allow the development of those downtown amenities, businesses, or much-needed housing.

Many of the communities that both have TIF and have considered TIF mention the significant administrative burdens and technical knowledge required to effectively manage the program. This was also referenced as a significant barrier to entry in conversations with VEPC staff. As more of the state's large communities utilize (and exhaust) their TIF capacity, the sustainability of the program will increasingly depend on application in rural communities.

Three mechanisms could be used to all these communities to participate in the long term planning and capitalization that a TIF mechanism can provide.

1. Provide state funding for technical assistance for these communities to do the planning and financial projections needed to apply for a TIF, and a central resource for ongoing compliance.
2. Create a small community TIF program that is centralized in a single authority that can handle the bonding, revenue recognition, tracking, audits, and distribution of funds. By aggregating that capacity under one statewide enterprise, the state could create economies of scale for scoping, administering, and complying, and communities could capitalize qualified catalytic projects appropriate for the size and scale of the community.
3. The state could also partner with the VLCT and other supportive entities across the state to create technical assistance programs like the local finance managers program. This will facilitate peer learning and enable smaller communities to leverage their assets.

Conclusion

In summary, this analysis finds that TIF in Vermont facilitates significant downtown development. It meets statewide community and economic development goals, has unique benefits over other economic development programs in Vermont by serving as a powerful long-term planning tool, and contributes to net-growth in the Education Fund. Our findings also recognize that the safeguards built into state policy minimize fiscal risk to the Education Fund. However, these safeguards also make it difficult for some communities to utilize TIF to its maximum potential, particularly rural communities with fewer resources. These undue restrictions may be limiting utilization and economic growth.

While our analysis supports these findings, we also recognize that key elements of the policy make measurement complicated and performance analysis difficult to draw firm conclusions. To further validate these findings, several more detailed analyses could be done. First, we have demonstrated that it is difficult to measure the return on investment from TIF due to the relative imprecision of revenue forecasts. A future analysis could refine the forecasting methodology to update for actual costs and to reflect changes in grand list values. This could be updated through each community's debt authority period. This would provide a more accurate estimate of the revenue needed to service the debt incurred and a reasonable forecast of whether the direct TIF investment will generate excess incremental revenues by the time a district retires. This will measure the real return on investment to the community and state.

A second analytical approach could consider whether communities might benefit from a project-based TIF approach such as that currently under consideration. This would require a more direct correlation between municipal investments and private development than is possible with current reporting measures. We believe that a project-based approach represents the best opportunity for Vermont communities to leverage TIF's economic development benefits while balancing the need for fiscal responsibility. However, we were unable to perform a direct analysis of a project-based approach as the Vermont model still differs from other states in its policy and reporting requirements. A model that gives the community the power to pursue and participate in development opportunities as they arise is needed.