Tax Increment Financing – An Effective Economic Development Tool

- **What is Tax Increment Financing?**

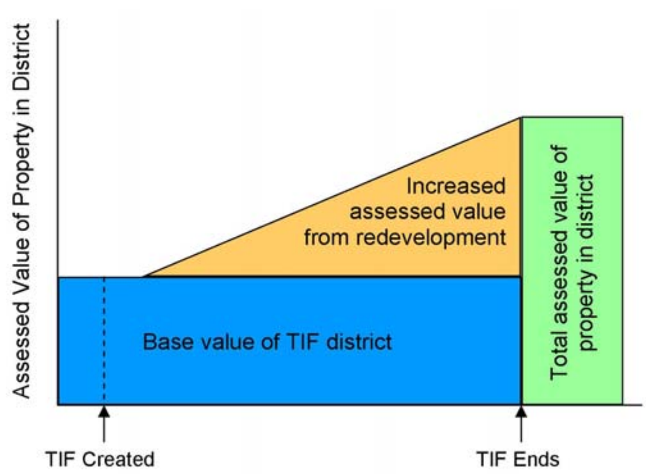
Tax increment financing (TIF) is a local financing tool used to stimulate revitalization of blighted areas, promote economic development, and create employment opportunities. TIF allows municipalities to finance **public infrastructure improvements** that support **private development**, by earmarking future property tax revenues generated within a designated district to finance those improvements.

First adopted in California in 1951, 49 states and the District of Columbia have TIF statutes, including Vermont. There are, or have been, thousands of TIF districts across the country, including Winooski, Milton and Newport, Vermont. TIF is popular because it is an effective self-financing economic development tool (it utilizes locally-generated revenues), and a proven land use development tool (it allows municipalities to target specific areas for revitalization).

- **How does TIF work?**

At the creation of a TIF district, the total value of property in the district is determined; this is referred to as the "original taxable base" (or more simply, *base value*). All of the property taxes generated by the base value continue to go to the City and the State education fund—thus, no tax revenues predating the creation of the TIF district are diverted from current uses.

The City has a period of time (usually five years) to make public infrastructure improvements. As development occurs in the district, total property value increases (the orange triangle, below). The property tax revenues generated by that new development is the "tax increment," which is used to pay the debt service on the public improvements. Both the municipal *and* education property tax increments are available to service TIF debt – thus, the use of TIF as an economic development tool creates significant new revenues for the City to fund public infrastructure. When the district ends (usually twenty years), all property taxes are once again collected by the City and State education fund, just like before (but, now there is a significantly higher total property value, see the green box, below).



- **Burlington's TIF district**

In January 1996, the Burlington City Council established a TIF district encompassing the downtown waterfront plus the 45-acre "Urban Reserve." In March 1996, 58% of Burlington voters approved a referendum ratifying the use of TIF for waterfront revitalization projects. The approved referendum explicitly mentioned using TIF for HUD 108 financing, rebuilding Lake Street and redeveloping the Moran plant.

The City Council expanded the TIF district in June 1997 to include a block-wide strip extending from Battery Street up to Church Street, to build public improvements to attract an anchor retail store at the Burlington Square Mall and to develop the last remaining vacant parcels from the city's Urban Renewal district.

- **How has TIF been used in Burlington?**

Burlington has policies that ensure proper consideration and selection of tax increment-financed projects. All projects must meet certain thresholds–primarily that the project would not proceed "but for" the tax incremental financing. Since the district was created, Burlington has utilized tax increment financing to help finance six public infrastructure projects, totaling $16.8 million:

Project	Description	Date	Type of Financing	Amount of TIF Debt
Lake Street Reconstruction	Reconstruction of roadway, infrastructure upgrades, and new pedestrian amenities along Lake Street	1999	HUD Section 108	$ 1,148,350
Urban Reserve Acquisition	Refinance of 45 acres of former railroad land, put aside by City Council for future generations	1999	Certificates of Participation	$ 1,390,000
Lakeview Parking Garage	Construction of 401-space parking facility in conjunction with redevelopment of Burlington Square Mall	1999	Certificates of Participation	$ 5,500,000
Waterfront Fishing Pier	Construction of public fishing pier, and upland and shore-side improvements.	2000	Certificates of Participation	$ 407,000
Lake Street Extension Waterfront Housing	Extension and upgrade of Lake Street to Waterfront Housing – 40 units of affordable housing	2004	HUD Section 108	$ 495,000
Lakeview, Westlake & College Garages	Two level expansion of Lakeview, construction of Westlake (Marriott), rehab of College St. garages.	2005	Certificates of Participation	$ 7,870,000
			TOTAL	**$ 16,810,350**

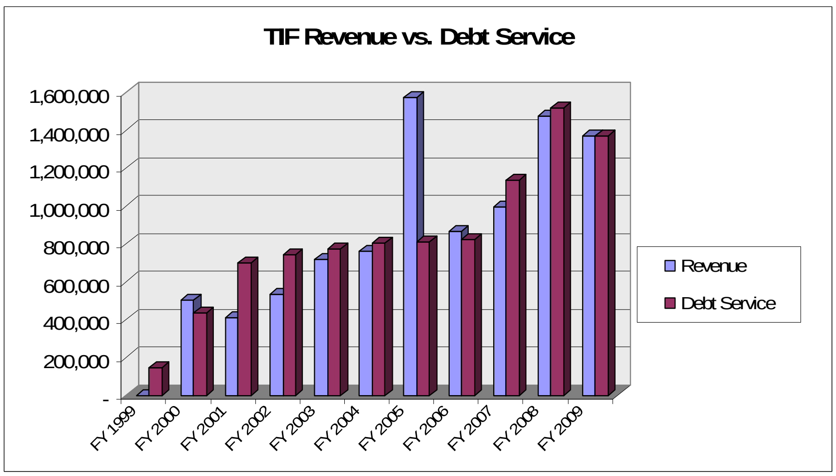
- **Has TIF succeeded in spurring revitalization and economic development?**

Two of the six projects do not directly result in increased property taxes: the Urban Reserve and the fishing pier. However, they most certainly contribute to the quality of life for Burlington residents, and they generally enhance the economic vitality of the waterfront district. Together with the other four projects, they have helped stimulate tens of millions of dollars of private investment, including 40 units of affordable housing, market rate condos on Lake and Battery Streets, the College and Battery commercial development, attraction of Filenes (now Macy's), the complete rehabilitation of the Burlington Square Mall (Burlington Town Center), and the construction of the Marriot Hotel. They are also widely credited for spurring the $17 million renovation of the Hilton Hotel, located just outside the district.

When created in 1996, the base value of all property in the district was $42.2 million. Today, the total assessed value is almost triple that amount: $119.5 million. This will likely rise to $140 million shortly, as there are $20.3 million of projects in the pipeline: the Marriot is currently expanding; a second hotel is planned for 41 Cherry Street; plus the Moran redevelopment itself will add to the value of taxable property.

- **Does Burlington's TIF revenue cover TIF debt payments?**

Typically, incremental tax revenues do not fully cover debt payments early in the life of a TIF district because there is a lag between when the public improvements are made and when the private development occurs. Since Burlington's district is ten years old, revenues now cover debt payments both on an annual basis and cumulatively. In fact, from now until the end of the district in 2026, revenues are projected to significantly exceed debt payments.



- **Authority and capacity to incur new debt**

Although TIF has been very successful at stimulating economic development in Burlington, the City's authority to incur new TIF debt ended in March 2006. Yet, some of the City's greatest public infrastructure needs, as well as some of the best opportunities for TIF-incented private development, continue to be located in the waterfront area.

This past May, the Vermont General Assembly extended Burlington's authority to incur new TIF debt for five years beginning January 1, 2010. This provision, which was included in the "Vermont Recovery and Reinvestment Act of 2009," re-established a powerful economic development tool for the City. In fact, CEDO estimates that current tax increment surpluses plus increment from projects already underway or in the advanced planning stages can support up to an additional $8 million in tax increment financed debt. Any additional development and/or background growth in the district will only increase that capacity even further.

- **TIF in the Moran project**

Earlier this year, the Moran project received a $1 million grant through the Brownfields Economic Development Initiative (BEDI) – one of just seven projects in the country chosen under this highly competitive program. The federal government requires BEDI recipients to utilize a "Section 108" federally-guaranteed loan along with the grant funds.[1] In June 2009, the City Council authorized a $2 million Section 108 application, with the understanding that TIF revenues would service the debt. At this point, the Section 108 loan is the only TIF-supported debt in the Moran project.

Previously the City proposed using TIF as a back-up for financing the Waterfront North project – the extension of Lake Street to the Moran property and construction of surface parking. With the recent award of the TIGER grant ($3,150,000), Waterfront North is fully funded and TIF will not be needed. This opens up the possibility of using TIF in other ways to support redevelopment of Moran. TIF-supported debt could finance a portion of the Moran project itself (beyond the $2 million Section 108 loan). In that scenario, TIF could provide a revenue stream external to the project, which would reduce the risks of borrowing to the City.

Some final thoughts about TIF:

- Only new property taxes are captured by the TIF district. No tax revenues predating the creation of the TIF district are diverted from Burlington's General Fund.

- Approximately 70 cents of every TIF dollar is *new revenue to the City,* since the City retains education property taxes that would otherwise be sent to Montpelier.

- The incremental taxes are not diverted from other city services; they are simply being used on a temporary basis to retire specific public debt.

- TIF is not a tax break. Property owners pay the same tax rates irrespective of whether or not they are located in the TIF district.

- TIF is not a developer subsidy. While the whole idea of TIF is that public infrastructure improvements are needed to stimulate private development, TIF revenues only support public sector debt.

- The TIF district only captures real property tax increment. Burlington's General Fund still receives all business personal property tax, local sales tax, and rooms & meals tax revenues generated from within the TIF district.

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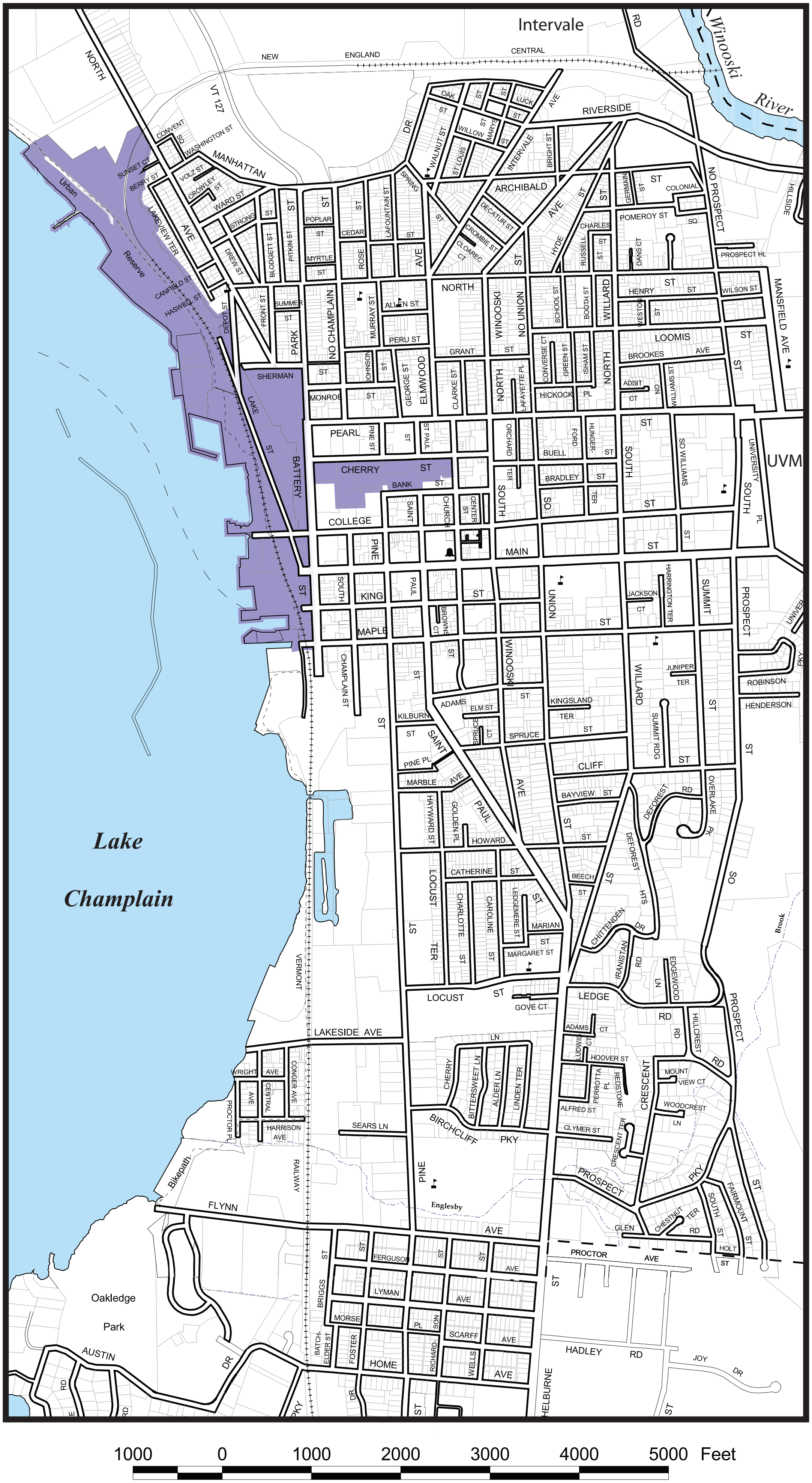
[1] "Section 108" is the loan guarantee provision of the Community Development Block Grant (CDBG) program. Section 108 provides communities with access to federally guaranteed loans to finance economic development, housing rehabilitation, public facilities, and large-scale physical development projects. The 1996 referendum language ratified use of "HUD Section 108 financing or another equivalent financing source" for waterfront revitalization projects, including reconstruction of Lake Street and redevelopment of Moran.

CEDO

Community and Economic Development Office
Burlington, Vermont



TIF District (Tax Increment Financing)