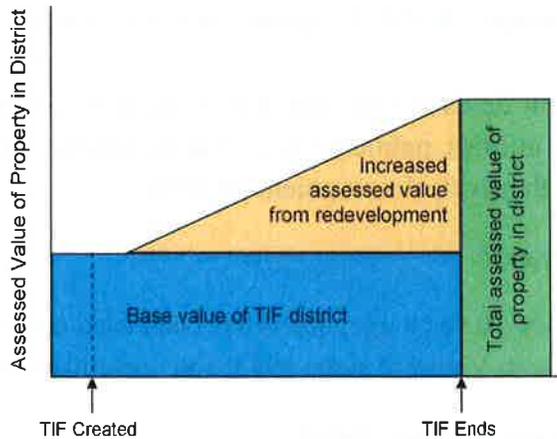


St. Albans
Tax Increment Finance District
November, 2012

FREQUENTLY ASKED QUESTIONS



Overview

1. What is a Tax Increment Finance (TIF) district?

A municipality establishes a TIF district within an area requiring public infrastructure to encourage public and private real property development or redevelopment.

When the municipality creates the district, the existing property values for properties within the district are recorded; this is the Original Taxable Value (OTV). These properties already generate a certain amount of tax revenue for both the municipality and the State Education Tax Fund. Revenues generated by the OTV will continue to go to the taxing entities (municipal and State) throughout the life of the TIF district. However, as the property value increases due to TIF-financed improvements, so does tax revenue generated by the district as a whole - this increase is called the increment. The municipality uses the increment to pay off debt on public infrastructure that allowed for the redevelopment to occur.

For twenty years, 75% of the incremental municipal property taxes generated by the private development can be used to pay down the infrastructure debt. The remaining 25% gets added to the City General Fund.

After a 20-year property tax retention period, 100% of the property taxes generated go to the taxing entities (City General Fund & State Education Fund).

The TIF district uses "new money" resulting from new private development to fund public infrastructure investments. Once the infrastructure debt is repaid with the incremental tax

revenue, new property tax revenue goes to the City General Fund and State Education Fund. Through this process, the tax base increases and the community experiences growth that includes public benefits.

2. What is the "Tax Increment?"

The tax increment is the share of new property taxes generated within the TIF district, based on the assessed value increases for TIF-related private development. These developments would not have occurred without the City's infrastructure investment.

The City uses Tax Increment funds to repay the debt incurred to invest in infrastructure, such as stormwater, streetscape, utilities, public parking, and transportation improvements, typically in conjunction with private development projects.

3. How long has TIF been around?

California first used TIF over 50 years ago, and it has been used consistently ever since. TIF districts have been available in Vermont since 1985, and currently exist in 47 states.

4. Aren't there some TIF districts that have failed?

All TIF districts are not created equally. Each state has its own unique TIF program, so the districts can vary tremendously in terms of size and type. In some states, TIF is a tool used to *create* areas of development. These are often seen as failures, as they do not stimulate the development envisioned. In other places, like Vermont, it is used for downtown growth center redevelopment - to revitalize an area of the city that still has significant development potential. TIF districts also vary in management and operations; the management and operations of the St. Albans TIF have been explicitly identified and crafted throughout the planning and application process.

5. Why is St. Albans pursuing TIF?

TIF is a tool in the City's economic development toolbox. It incents new development that might otherwise be feasible only in locations that do not require significant public infrastructure investment (such as greenfields and suburban areas). TIF is a tool that makes downtown development more feasible by addressing what could be costly infrastructure investments.

TIF is intended to enhance the Designated Downtown's attractiveness to potential developers, businesses, tourists, and residents. This, in turn, provides jobs and improves the local economy.

6. Wouldn't the development happen anyway?

No. State law requires that an application to create a TIF district must show that the new development would not have occurred or would have occurred in a significantly different and less desirable manner but for the proposed TIF financing mechanism. In planning this district, the City identified these development opportunities that are restricted by infrastructure limitations and challenges.

7. What if the development doesn't happen?

There is no harm done. TIF is a tool that the City can choose whether or not to employ. When considering an infrastructure investment, the City Council will examine the projected incremental tax revenue generation, whether it is sufficient to repay the debt, and will make a judicious decision as to whether this is the appropriate tool to use for achieving the desired outcome.

8. 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 "OTV". 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 pre-dating the creation of the TIF district are diverted from current uses.

The City has five years to make public infrastructure improvements. As development occurs in the district, total property value increases. 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 can create significant new revenues for the City to fund public infrastructure. When the district ends in 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, as depicted in the chart located above.

9. What projects will occur in this District?

The City has identified six public projects which can be paid for by the increment provided from new private development. The public projects are as follows:

1. Construction of a parking garage downtown to serve new office buildings.
2. Cleanup of environmental degradation at the former Fonda property.
3. Federal Street multi-modal connector.
4. Improvements to Taylor Park (like public restrooms).
5. Streetscape improvements to Lake and Kingman that are similar to those currently underway on Main Street.
6. Improvements to City stormwater infrastructure.

Impacts

1. How will TIF affect my taxes?

TIF is devised to use the incremental future property tax revenue, not additional taxes, to pay for the debt incurred to finance infrastructure improvements within the District. Incremental property tax revenue is calculated based on the increase of property values within the TIF District since the date of its creation. In other Vermont communities, there has been no impact on current taxes and the public improvements have led to new development that would not have occurred without the TIF.

2. What are the potential benefits of TIF to residents and businesses?

Seeing and enjoying the benefits of the TIF District will take time, but this tool is valuable for the continued vitality of St. Albans. The money generated to pay for TIF investments is not being taken from the City General Fund, will not increase residents' taxes, and is not decreasing investment in public infrastructure elsewhere. This money (the increment) is comprised of taxes on properties developed within the District that would not have occurred but for the infrastructure investments (and resulting growth) through TIF. Without development, the tax base does not grow, which ultimately creates upward pressure on property taxes.

3. Will TIF take away money from public services and the State Educational Fund?

No. By increasing tax revenues, TIF districts actually increase the amount of money available to public services (paid for out of the City General Fund) and the State Educational Fund. During the life of the TIF district, 25% of the new, incremental tax revenue will continue going to the taxing entities (the City General & State Education Funds). After repaying the debt, the City will distribute any remaining retained incremental tax revenue. After the TIF district is closed, 100% of the total property taxes generated by the development go to the taxing entities.

4. Won't new development cause additional strain to the City General Fund because new city services are not paid by the new, incremental taxes?

No. First, the increase in public services for new development should be minimal because the district is located within an already-developed area. This is different from stimulating new development in a completely undeveloped area. For instance, if a new development happens on Main Street, no new snowplowing costs occur because the roads already exist and are plowed today.

Furthermore, 25% of the new municipal tax increment will be added to the General Fund. As a result, the St. Albans TIF District will increase the amount of money available to public services. And once the debt has been repaid and the District is closed, 100% of the total property taxes generated by the development go to the City and State. Also, roughly two-thirds of the tax increment used to pay the City's debt service is revenue that would

otherwise go to the State and not be available to the City at all. So, TIF doesn't add strain to the City General Fund—it should ease it.

5. Do property tax revenues from the properties in the TIF district continue to support City services and schools?

Yes, the existing property tax revenues from the properties within the TIF district will continue to go to the City General Fund and State Education Fund as they do today. Seventy-five percent of the new property tax revenues within the District are used to repay the TIF infrastructure debt. However, 25% of the new property tax revenues within the District will be added to the City General Fund, as well.

6. Will this negatively impact schools?

No. The property taxes currently being contributed to the State Education Fund will continue to support the State Education Fund. The property taxes on the new development within the district that will be used to repay infrastructure investment debt are new taxes that would not otherwise be generated, but for that initial investment. In addition, during the life of the TIF District, 25% of the new, incremental State Education Fund taxes will go to the State Education Fund.

7. Will this result in new businesses or jobs?

The primary objective of the TIF District is to stimulate economic development, which means new businesses and jobs. We already have several job creating proposals that are awaiting the November authorization. One involves 60-80,000 square feet of commercial / light manufacturing space at the former Fonda property. Another involves an approximately 40,000 square foot downtown office building. And a third involves a four story commercial downtown.

8. What do these funds pay for?

The infrastructure investments are public improvements that will make the downtown more attractive and accessible for developers & businesses to locate where it would be otherwise impossible. This is not intended to subsidize developers. The infrastructure investments create public & private benefit and maximize St. Albans redevelopment potential.

Process and Operations

1. Do any other Vermont towns have TIFs?

Yes. Burlington, Newport, Milton, Colchester, and Hartford all have approved and active TIF districts. Please note that the TIF statute has changed over time, so some communities have different forms of TIF districts.

2. How is a TIF district created?

The City Council and a State board called the Vermont Economic Progress Council (VEPC) must approve a TIF district's creation. The City has gone through a lengthy and comprehensive planning and approval process over the past two years that has included extensive public hearings, ultimately resulting in approval by the City Council and the State of Vermont.

TIF districts cannot be arbitrarily created; numerous criteria must be met to show inclusion of transportation improvements, Brownfield redevelopment, transportation enhancements, and other infrastructure improvements that benefit the City and its residents.

3. How can we be sure the increment funds will be used as intended?

The City's Manager's office and the State Department of Taxes are responsible for overseeing the use and operation of the incremental tax revenue. TIF will be considered a special revenue fund and the City will have a distinct and separate fund that tracks both the TIF revenue and tracks all the payments of debt service. Only debt authorized by City voters for TIF investments is allowed to be expensed in this separate TIF fund. The City Manager's office keeps a list of approved TIF debt and records all debt service payments directly to the fund. Likewise, the Manager's office records the incremental property tax revenues to the TIF fund. From year to year, the revenue and debt service payments vary and do not equal each other, although they are usually close, so the fund has a running balance.

4. Who monitors the TIF district?

Both the City and State monitor the TIF district. The City's Treasurer's Office is responsible for managing the debt and incremental tax revenue. The City submits an annual report to the State Department of Taxes to report on property taxes and the incremental taxes withheld for TIF debt repayment.

5. How does the tax revenue accrue to the City and State Education Fund over a TIF district's lifetime?

To be clear, 100% of the original taxes prior to TIF continue to go to the taxing entities. The incremental tax revenue stimulated by TIF-funded infrastructure is tracked by the City's Manager's Office on a yearly basis. 75% of this incremental municipal tax revenue goes to the TIF fund to pay debt service on the TIF public investments. 25% of this increment gets added to the City General Fund.

The same is true of the State Education Fund - 75% of the incremental State Education Fund tax revenue from TIF-stimulated development goes to the TIF fund to pay debt service on the TIF public investments, but 25% of this increment gets sent to the State Education Fund in addition to the funds currently going there.

After the lifespan of the TIF - 20 years - 100% of the incremental municipal tax revenue will go to the City General Fund and 100% of the incremental State Education Fund tax revenue will go to the State Education Fund.

6. Does this allow development projects to avoid the permitting process?

No. All development projects must obtain permits from the City's Planning & Zoning and Public Works departments, and ultimately must go through the same process required of all proposed development projects.

7. Why is this a November ballot item?

This District is time-sensitive. Under current statutes, debt can only be incurred within the first five years of the District (five years from the City Council's vote). In Burlington, this means debt can only be incurred until 2017. The vote is required before any debt can be incurred, but had to occur after VEPC approval, so this issue was put on the ballot as soon as possible.

8. Why do we need to authorize \$43 million?

This vote does not authorize incurring debt of \$43 million - only the ability of the City Council to use the TIF tool up to \$43 million. Each proposed project will be reviewed extensively by the City Council and proposed to the voters only if incremental tax revenue streams can cover the debt service. And the voters always have the final say on whether a project is approved or denied.

According to current projections, the St. Albans TIF District has redevelopment potential of \$89.7 million that could generate \$46.9 million in tax revenue over the 20-year district. These projects have been analyzed by an independent economist as part of the Vermont Economic Progress Council review process. After receiving the economist's analysis, VEPC found that the City's proposal was viable and unanimously approved the TIF plan.

9. Am I voting on any specific development or infrastructure projects in November?

No. This vote is to authorize the municipality to use tax increment financing as a tool in the economic development toolbox. Each infrastructure investment will require its own authorization.

Common Misconceptions and Criticisms

1. How is risk being minimized in using this tool?

The City Council will review each proposed public project in real-time, closely linked to the development revenue source. It is the Council's responsibility to propose use of tax increment financing only when the economics of the deal are solid. But there is a check and balance in place because ultimately every project comes back before the voters.

TIF is a long-term tool that uses incremental tax revenue throughout the district over 20 years to repay debt. Unlike many TIFs, which rely on one predominate source of increment from one particular project, ours relies on many sources all of which can provide necessary

increment to pay the debt service. This is akin to a diversified investment portfolio that doesn't place all the eggs in one basket. Our TIF is particularly strong because some of our increment is already being created through the investments at Mylan and the St. Albans Co-op.

2. Won't this only benefit or subsidize wealthy private developers?

Absolutely not. The City incurs debt for badly-needed public infrastructure projects. This does not subsidize developers. Their taxes repay the City's debt for the public infrastructure. Without the public infrastructure, these developments would not have occurred or would have occurred in a less desirable manner (lower density, fewer public benefits, etc.). These public infrastructure investments stimulate economic development - both with big projects and smaller developments & businesses too.

3. Could this vote commit the City to projects that may not go forward?

No. This vote is not authorizing any one particular project. This vote is authorizing the City to use TIF to stimulate economic development. The City Council will review each investment when paired with private, real property development and if it passes muster, propose a public project to the voters.

For more information on the TIF plan and the Election Day vote, contact City Manager Dominic Cloud at d.cloud@stalbansvt.com or 524 – 1500, 254.