Town of Middlebury
Economic Health Committee
Minutes of Meeting
October 10, 2019

Present: Fred Kenney, Becky Dayton, Karen Duguay, Ben Calvi, John Freidin and Mary Cullinane.

Absent: Farhad Khan, Steve Boyce, Scott Gemignani and ex-officio member, Jennifer Murray.

Kenney called the meeting to order at 12:08 p.m.

The minutes of 9/12/19 and 9/26/19 were approved as presented upon motion by Cullinane, seconded by Dayton.

Brennan Duffy, Executive Director, Rutland Redevelopment Authority (via phone)

Brennan Duffy began by saying they have a couple of programs they've developed over the last 8 years to try to spur small investment in properties or businesses. He said they have a Property Tax Stabilization process that is for commercial or industrial property that will be creating new jobs, that allows them to stabilize the municipal tax liability; and they have the same type of program for blighted properties that are not immediately going to be creating new jobs, but still need assistance. He said the city also has a robust water and wastewater capacity, so they are able to waive an allocation fee of $4/gallon and reduce the base rate for new businesses that are using over 1,000 gallons per day (gpd). He said that has been used by several restaurants. He said they also have a newer program that is a Business Incentive Assistance Program that is funded through Rutland's past solar initiatives. He said they take ½ of the new municipal tax revenue from the solar projects to fund the Assistance Program. Duffy said the assistance is through grants of up to $5,000 or collateralized loans up to $10,000, and they also partnered with Heritage Family Credit Union and they can offer collateralized loans up to $50,000.

He said they've had good usage of these incentives and actually loosened up the criteria a few years ago to make it more applicable for really small businesses, so even if they were adding 2 or 3 jobs they were still eligible to take advantage of the programs to help them get started

Cullinane asked Duffy how they had thought about programs that incentivize building development compared to programs that incentivize new business, which might not require them to buy a building, but are just looking for a way to make their business work in downtown, and have they programitized that differently. Duffy said they have a revolving loan fund for up to $30,000 that is focused on property owners wanting to develop a building in the downtown. He said this loan is specific to property owners making an investment in the building and not tied to a business, whereas the other programs he'd mentioned could be applied for by a renter and no property is needed for collateral for the program. He said Rutland has a Personal Property Tax, so the Tax Stabilization program can be applied to Personal Property if the applicant doesn't own the real estate.

Kenney asked if the tax stabilization was only on new value or can they ask for stabilization of existing value. Duffy said it's capped at the purchase price at the time the incentive is granted so they're not taking anything off the Grand List. It's stabilizing at the set value at the time the incentive is granted and extends for 5 years. He said at the end of the 5 years the property and any improvements is reassessed at current value and comes back onto the Grand List at the full value. He said the Redevelopment Authority Board makes a recommendation to the Alderman and they are the ones that grant or reject any of these requests.

Cullinane asked if they position these programs collectively from a marketing perspective, and how are they telling people that Rutland is friendly to business. Duffy said it isn't easy, it's on their website and they have some marketing pamphlets that highlight these programs.

Freidin asked if the various programs were available for non-profits and could they be used for affordable housing. Duffy said they have not had a non-profit apply, but they would need to meet the criteria and job creation involved, and these programs are not focused on housing. Freidin asked if these programs would work if someone wanted to build a childcare business, and he said they would.

Kenney asked about the volume of the incentive programs, and Duffy said they've had maybe a dozen since 2017. He said they've given out around $50,000 in grants or loans in the Buy-out Program. Cullinane asked which program had the most impact, and he said the Buy-out Program for sure, because it's flexible and can be used for anything, by any type of business. He said the loans are forgivable loans with a 3-year term, so at the end of the 3-years, if the business has met the eligibility, they are not required to repay the loan, so it becomes a grant. He said they have encouraged grants, since some of the loans they've granted to businesses were a little too ambitious at application time and have trouble justifying or meeting the new jobs targets, so the loan will need to be repaid.

Kenney asked what role the credit union had in the secured loans and other than underwriting, e.g. are they contributing funds. Duffy said the annual revenue from the solar project property tax was what was used to create this revolving loan fund through the Heritage Family Credit Union. He said this money was matched by the Credit Union money, so they take all the heavy lifting and the applicant has to be approved by the City and then meet all the Credit Union underwriting requirements.

Freidin asked how they deal with the "But for" question. Duffy said when this was first created it was an "incentive" program and they've morphed this into an "assistance" piece being a proponent of that, so the "but for" is the incentive to create the action you want to see. He said they aren't holding them to the "but for", because nothing would happen, so we assist them by offering the incentive program to them.

Freidin asked how much cash did Rutland need in order to begin these programs. Duffy said they didn't need funds for the Tax Stabilization or Waiver Program for connection fees, and the Incentive Program fund was created with Solar tax revenue, so without the new revenue from the solar generating facilities, he isn't sure they'd have these programs. Freidin asked how they collected on solar facilities other than property taxes, and Duffy said there is a program through the State that allows municipalities hosting the sites to collect a certain amount on an annual basis going out 20 years, so when these plants were created the City was able to enter into these contracts with the investors. Duffy estimated the revenue was somewhere in the $150,000 range annually, and half of that, $75,000 goes into the Business Incentive Assistance Program fund, and the other half goes into the General Fund.

Kenney asked if the City and Credit Union were able to offer a below-market rate on the loans. Duffy said the Credit Union offers a below-market rate, but they have to meet their underwriting criteria and one applicant made it through the loan process, but some others didn't.

Kenney asked if applicants for any of these incentives start in his office, and Duffy said yes and following their review, they make a recommendation to the Alderman for their approval. Duffy said based on what they plan to do, his office recommends which program would work for them.

Freidin asked what the staff time involved with these programs, and Duffy said they deal with them as they come in, so it's a significant amount of resources to administer this. He said their office consists of himself and a grants administrator.

<u>David White, President, White and Burke Real Estate Investment Advisors (via phone)</u>

David White said he is founder and President of White & Burke, a 29-year-old company involved in economic development and business growth in Vermont. He said they work a lot with growing companies, both large and small, helping them meet their real estate need and in economic development downtown revitalization. He said one of the things they've been involved with in recent years is establishing Tax Increment Finance (TIF) Districts, and they have been involved in 6 of the 7 TIF Districts approved in Vermont. Kenney told White a TIF District is one of the things the Selectboard asked the Committee to look into as a viable option for downtown Middlebury.

Freidin asked if, in his experience, White thought it was necessary for a town the size of Middlebury to get the kind of expert assistance his firm provides. White said he thought it was necessary, because the process is complex with a lot of subtleties, and while he's not saying it couldn't be done, it might waste a lot of time trying to have an internal staff person do it. Freidin asked how they charged for the service, and White said typically there is a feasibility phase that is an assessed price, but once it's determined to be feasible and it goes to process, it's done on an hourly basis. Freidin asked for a range, but White said he didn't want to answer without further research. Freidin said if he did have the time to do the research, if he could send it to Kenney as a follow-up it would be useful, and White agreed to do it.

When asked by the Committee what made a town eligible, White said there are certain things that are Statutory to even be eligible, and then there are more of the practical matters on deciding whether to do a TIF. He said the core item is referred to as a "but for…", which means you have to be able to show that without a TIF the Town couldn't afford or finance the infrastructure the Town needs to build to incentivize private development, and the second part of that "but for" is that the private development couldn't happen without the infrastructure being paid for outside of the project cost. He said Middlebury would have to look to see if they have the capacity to finance and issue bonds without having to use the TIF mechanisms. He said some towns are so stretched that they couldn't afford to put the burden on their taxpayers to do the work. He said those are really the first two thresholds a town needs to look at. White said he wasn't sure about Middlebury's capacity to finance, he does know that in Middlebury's market it's difficult, if not impossible, to build a new building, like the one behind the Library down by the river that was proposed a few years ago, and that the rental rates are such that it's difficult to finance a project, especially for something like a parking structure.

(12:55 p.m. Dayton leaves the meeting.)

Freidin asked about the nature of the nexus between the public project and private project. White said they have to have a very direct relationship and that is one of the things they look at. Freidin asked if the entire downtown of Middlebury could be in the TIF District. White said you have to draw a boundary around the TIF and they look very closely at the properties that are in or out of the District, so if there is a property that is already scheduled for redevelopment on the edge of the District, the State will probably not allow that structure as part of the TIF.

White said there are two criteria the State looks at; location criteria and project criteria. He said he thinks Middlebury would readily comply with the location criteria. He said a town needs to meet 2 of the 3 location criteria: it needs to be in a designated area, such as a designated downtown, and Middlebury has that; second, it needs to be an area that is compact and high-density, which Middlebury meets; and thirdly it has to be an economically stressed area, and while he hasn't studied the data for Middlebury, he would guess we would not comply with that.

White said under project criteria, it needs to meet 3 of the 5 criteria to qualify. The first is there needs to be a substantial public investment that's beyond what is normal for the town and beyond the town's ability to pay for investment; secondly it needs to provide affordable housing; thirdly it could involve cleaning up a Brownfield; fourth is that there will be new or expanding businesses that pay higher than the standard salary in the area; and fifth that the project enhances transportation and transportation alternatives.

(1:00 p.m. Calvi leaves the meeting.)

White said when it comes to a timeline, it is not expected that everything happens at once, and typically in a TIF District there are multiple private projects that are occurring and one of the key things to remember is that there is a 5-year window from when you first create the TIF District to when you need to incur the first debt or else the TIF District goes away. He says 5 years may sound like a long time, but in the finance world it isn't, so you want to wait until you're very close to beginning your first project before you establish the District. White said if you do incur your first debt in that 5-year period, the period extends to 10-years, and then you have a 20-year time frame when you can retain the incremental portion of the State taxes. He said to remember you will only retain the incremental portion of the state taxes for 20 years, whereas the bond for the investment may be for 30. He said he doesn't think it's worth setting up a TIF District unless you're assured of multiple private projects, even if they aren't all guaranteed, but one has to be ready to go within 12 to 18 months. He said then you need to estimate what the incremental taxes will be on these projects and you can retain up to 70% of the incremental State education taxes and a minimum of 85% of the Town taxes, and what portion will be retained and over what time period and what will the cash flow look like.

Kenney said these projects proposed all have to rely on the infrastructure being developed.

Freidin asked if the so-called EDI Project was built behind the Ilsley Library, the revenue from that could build a parking garage elsewhere. He said he wondered if you destroy one public infrastructure in order to build a building, is the Town justified by saying now we need to replace what we just took away and we want the advantages of a TIF. White said one way to look at that is if the EDI Project is deemed to provide greater benefit than a parking lot and the benefit justifies building a parking garage elsewhere, but from a regulatory perspective they're going to want to know could if the Town could afford to do it on their own anyway, then he didn't think the State would have a problem with it since they're in favor of increasing density downtown.

Freidin asked if condominiums provided more revenue to the Town through property taxes than apartments, and does the State have a say if they're apartments or condominiums. White said he'd never seen the State step into that, and then went on to describe the three ways of appraising property: Cost Approach taking replacement cost less depreciation; Market Approach using comparable sales; and finally Income Approach using gross rent income less operating expenses (not including debt service) and applying a Cap Rate determined by the market. He doesn't think there's a generic answer to whether condos are valued higher than rental for various market reasons, because it depends on the circumstances.

Kenney said from the TIF plan perspective, he used to make municipalities know they're responsible for what happens in the future, so he recommended they do development agreements, so if the development doesn't go as described in the TIF plan, they have their agreement to fall back on that the developer has to pay the taxes, whether developed or not and the taxpayers are protected. He said TIF plans can be readjusted if details of the project change greatly. White said don't incur debt until you know it's going to happen, so absolutely have a development agreement. Kenney said ultimately the Town is responsible.

White said one thing they’ve done is to put into the agreement that parties hereto agree that the municipality will use normal and standard procedures to assess the post construction value of the property, provided it is agreed the value is no less than a certain amount.

Kenney asked how many TIFs were still available, and White said he believed there were 3 still available, but Springfield, St. Johnsbury and Newport are looking into applying.

Following the phone discussion with White, the meeting adjourned at 1:28 p.m.

The next meeting of the Economic Heath Committee will be on Thursday, October 24, 2019 at 12 noon in the Town Offices at 77 Main Street.

Respectfully submitted,
Beth Dow