Memo

To: Abbie Sherman, Executive Director Vermont Economic Progress Council
From: Matthew Cooper and Jeffrey Carr, Economic & Policy Resources, Inc.
Date: February 28, 2022
Re: Requested Support Discussion for VEPC Executive Staff Interim Review of the Town of Killington TIF Application

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The purpose of this memorandum is to convey the results of our "Interim" or "Preliminary" assessments of key criteria in our assigned area of responsibility relating to the application for a Tax Increment Finance (hereafter "TIF") by Town of Killington (hereafter "the applicant"). This is intended to supplement the interim VEPC staff assessment as set forth in the Executive Staff Interim Review memo dated March 3, 2022. These materials overall are intended to aid the Board of the Vermont Economic Progress Council (hereafter "VEPC") in conducting its review, of the Killington TIF application at this "interim stage." EPR staff has participated in discussions between the applicant and VEPC staff with respect to having this application reviewed as a Master TIF application with partial findings on the various TIF District review criteria—given the still developing nature of many aspects of the application. However, because the application has formally requested a full TIF District review EPR staff has still approached its review as if the Town has requested a formal TIF District application review. Given the interim nature of our findings to-date based on the still evolving TIF District application from the Town, a shift in focus from a traditional to a Master TIF District review could easily be done upon direction for the VEPC Board. As such, this memo sets forth the results of the EPR Team's interim analysis of the Town's application materials in our areas of review. This supplemental memo presents discussion, analysis and conclusions where information was complete (or nearly complete), and EPR was able to conduct a thorough review of the information and analysis provided.

As requested by the Executive Director of VEPC, the information provided in this memo is intended to assist the VEPC Board in its consideration and deliberation of the applicant's information that has been provided through this initial stage of review. Per the scope of services request, the EPR assessment team has been tasked with addressing the following TIF assessment criteria:

> **But For Criterion:** The EPR review team Has been asked to evaluate key aspects of the so-called "But For" question—or more specifically: whether or not the proposed infrastructure developments, and the subsequent real property developments, would occur "but for the approval of the TIF District and the use of the TIF District revenues, and/or would otherwise occur in a significantly different and less desirable manner.
>
> **Nexus:** The EPR review team was also asked to evaluate the so-called "nexus" issue—as to whether or not there are areas of the TIF district which are not served by the TIF-funded infrastructure improvements, and whether or not there are aspects of the proposed infrastructure development plan which were not intended to serve development within the TIF district area.

Proportionality: The EPR review team was asked to evaluate whether or not the applicant's project cost estimates for the proposed infrastructure and the proportions of infrastructure costs that are to be paid for with TIF revenues as proposed by the municipality were "reasonable and supported."

Criterion A: Need: The EPR team was asked to complete an evaluation of whether or not the municipality clearly requires substantial public investment over and above the normal operating and/or capital budgets (including any prospective expenditures to be supported by general obligation bonded debt) in order to build the public infrastructure that is intended to lead to the private sector development in the TIF District as planned under this criterion.

Criterion B: New or Rehabilitated Affordable Housing: The EPR team was asked to evaluate whether or not the private development will result in the new construction of and/or rehabilitation of existing affordable housing within the TIF District under this criterion.

The following items are listed according to the Executive Staff Interim Review document and where additional analysis and input was requested from EPR.

B. But For Criterion: 32 VSA §5404a(h)(1)

"(1)(A) Review each application to determine that the infrastructure improvements proposed to serve the tax increment financing district and the proposed development in the district would not have occurred as proposed in the application, or would have occurred in a significantly different and less desirable manner than as proposed in the application, but for the proposed utilization of the incremental tax revenues.
(B) The review shall take into account:
(i) the amount of additional time, if any, needed to complete the proposed development within the tax increment district and the amount of additional cost that might be incurred if the project were to proceed without education property tax increment financing;
(ii) how the proposed development components and size would differ, if at all, including, if applicable to the development, in the number of units of affordable housing, as defined in 24 V.S.A. § 4303, without education property tax increment financing; and
(iii)(I) the amount of additional revenue expected to be generated as a result of the proposed development;
(II) the percentage of that revenue that shall be paid to the education fund Education Fund;
(III) the percentage that shall be paid to the municipality; and
(IV) the percentage of the revenue paid to the municipality that shall be used to pay financing incurred for development of the tax increment financing district."

The Council must determine:

1. Whether the infrastructure development would occur without the utilization of the incremental property tax revenues; and

2. Whether the real property development would occur without the infrastructure development as presented in the TIF District plan.

Materials Reviewed:

TIF District Plan and Narratives
TIF Data Workbook – (unapproved) as of February 4, 2022
TIF District Plan Map
Affordable Housing Map
Transportation Improvements Map

EPR Interim Discussion-Commentary:

For consideration of the "But For" question with respect to the proposed infrastructure development to be funded by revenues from the TIF increment, a key component for analysis is whether or not the development activity within the proposed TIF District is likely to have otherwise occurred without the TIF District approval, and/or would have otherwise occurred in a substantially different and less desirable manner. The Killington TIF District plan narrative clearly states that the needed infrastructure investments would not otherwise occur (and indeed have not actually occurred in the past) without the upfront infrastructure development funding assistance that is to be provided through the approval of the TIF District application. The application cites as evidence the multiple previous unsuccessful attempts to execute on many past development plans in and around the base of the ski mountain since the 1980s—all of which have failed because of the substantial upfront financial costs associated with the building a municipal-like water system that would be capable of serving those developments. In particular, the narrative speaks to the lack of significant development at the base of the mountain and constrained on further development along the Killington access road down to the intersection of Route 4—primarily because of the lack of upfront and catalyzing infrastructure development. The application materials present information and analysis from the Town's most recent private development partner (S & P Land), which includes a multi-year, comprehensive, and already permitted ski village development plan which has identified the need for a municipal water system as the key up-front, private sector development catalyst for that under-developed area. The application also extends that same argument in support of the need for additional transportation infrastructure investments to be financed by the TIF District's prospective approval along the Killington Access Road all of the way down to U.S. Route 4.

The application does not yet contain a lot of specific information about the scale, nature and timing of additional private investments to be catalyzed by the infrastructure along the Killington Access Road other than to indicate that such development is likely of the TIF District timeline should the TIF District be approved. The application also emphasizes the substantial water quality enhancements that would occur with the catalyzed municipal water system along the Killington Access Road. The TIF District application also emphasizes the "complete streets," multimodal, and safety enhancing nature of the transportation infrastructure investments included in the TF District Plan—again assuming TIF District approval.

From the above and based on the information and analysis provided by the Town, EPR believes there is sufficient information and analysis in the application to preliminarily conclude that, without the significant infrastructure investments into water and transportation systems, the private development which would generate the incremental property tax revenue would not likely occur as envisioned. In the unlikely event that this development was able to proceed in an alternative manner without the approval of the TIF District, this development would in fact proceed in a materially different and very likely less desirable manner than is proposed in the TIF District application. In fact, without the municipal water system and transportation improvements, the only presently available alternative is for water requirements to be met though a system of on-site, individual wells (despite existing water quality issues), and for development to occur along the Town's major transportation corridor that already has safety issues, and includes a substantial amount of lower density, strip-like development. In addition, it also seems apparent that the proposed affordable housing developments that are proposed to occur in the later years of the TIF District timeline would not be financially and/or technically viable without access to the proposed TIF-District catalyzed municipal water system.

As a result of the above, EPR believes it is reasonable and appropriate for the Council to conclude, at least on an interim basis, that the infrastructure investments and the corresponding private developments, would not occur, or would occur in a significantly different and undesirable way "But For" the approval of the TIF District along the lines requested by the Town. This finding is preliminary in nature primarily because the specifics of the TIF District financial plan as presented by the Town are not yet final and are in fact still evolving as of the date of this memorandum.

C. Nexus: VSA 24 §1897

> ***"*** *The legislative body may pledge and appropriate in equal proportion any part or all of the state and municipal tax increments received from properties contained within the tax increment financing district* ***for the financing for improvements and for related costs in the same proportion by which the infrastructure or related costs directly serve the district at the time of approval of the project financing by the council, and in the case of infrastructure essential to the development of the district that does not reasonably lend itself to a proportionality formula, the council shall apply a rough proportionality and rational nexus test…"***

<u>The Council must determine:</u>

1. First, from the infrastructure perspective: What areas within the TIF District are being served by which infrastructure projects? If there is infrastructure proposed that does not serve the TIF District or would not have anything to do with causing the development to occur, the Council should question whether it be financed, in any proportion, by TIF revenues.

2. Second, from the TIF area perspective: Are there areas (Parcels included in the TIF District) that apparently are not being served by any of the infrastructure projects? Or are there areas that are already developed to their full market potential?

3. Finally, from the development perspective: Are there private development projects that are expected to occur regardless of the infrastructure improvements? If so, there may be an issue with the But For and the Council should ask whether there is truly any nexus between the infrastructure and the development project if the project is already developed or started.

Materials Reviewed:

TIF District Plan
TIF Data Workbook – (unapproved) as of February 4, 2022
TIF District Plan Maps
Form 7: Project Criteria
Affordable Housing Map
Transportation Improvements Map

EPR Interim Discussion-Commentary:

As noted in the Executive Director's Staff Interim Report, the actual location of the infrastructure improvements is not a consideration for the Nexus question. In the case of the TIF funded infrastructure development phases proposed by the applicant, there is a significant portion of the Water System project which is physically located outside of the TIF district area, while the entirety of the road improvements lie within the proposed TIF district. Even though this is the case, in considering the "nexus" of the infrastructure developments, the TIF application materials (including the narratives) do clearly state the nature and purpose of each type and phase of infrastructure developments and their connections to the anticipated private sector property value increment inside the proposed TIF district's boundaries which is expected to occur as a result of TIF funded infrastructure improvements. For example the TIF application narrative states:

> *"…The water system is essential at all three locations because individual wells are not sustainable or considered safe. The alternative to a municipal water system for Six Peaks Killington is a private water system. This is not only cost-prohibitive to any private developer, but it is also not the preferred planning objective for the Town as a whole. Housing Projects A and B also lack municipal water, which is required for affordable housing developers to consider. Individual wells are not a desirable or cost-effective option."*

> *"…Capacity, safety, and multimodal access on Killington Road are critical to building out these key parcels in Town. Six Peaks Killington will house residential homeowners and renters, host visitors, and employ service industry workers, office professionals, and maintenance staff. These users*

have varying needs for transportation – some in cars, some on bicycles, some who will walk from nearby lodging or housing (especially when the workforce and affordable housing projects are built), and some who will commute by bus from nearby communities. Without a road system to accommodate these users adequately and safely, the project cannot be built."

The wells, pumping, piping, and storage infrastructure which are part of Phase 1 are primary components of the water system which allow the subsequent phases to provide water services to the area within the TIF district, without which no additional private development is expected to take place under current conditions—even though most of that infrastructure is physically located outside of the proposed TIF district. The Phases 1-4 of the road infrastructure project are also necessary to improve capacity, safety, and access to and along the Killington Access Road, the main transportation artery in the immediate area of the district and one of the key transportation assets of the Town as a whole. As a result, the entirety of the area within the TIF district is to be served by both the water system and road infrastructure improvements included in the plan. The absence of both infrastructure improvement projects is also clearly represented by the applicants and supporting partners as the primary barriers to the parcels contained within reaching their full development potential.

For these reasons, EPR believes it is reasonable for the Council to conclude, on an interim basis, that the elements of the proposed TIF development plan, including all infrastructure projects and subsequent private development projects, do satisfy the Nexus requirements associated with a TIF District application.

D. Proportionality: 24 VSA §1897

" The legislative body may pledge and appropriate in equal proportion any part or all of the state and municipal tax increments received from properties contained within the tax increment financing district for the ***financing for improvements and for related costs in the same proportion by which the infrastructure or related costs directly serve the district at the time of approval of the project financing by the council, and in the case of infrastructure essential to the development of the district that does not reasonably lend itself to a proportionality formula, the council shall apply a rough proportionality and rational nexus test…"***

The Council must determine:

1. What proportion of proposed infrastructure costs can be financed with TIF revenue based on the portion that serves the TIF District? Remember that the proportionality you are determining is what proportion ***serves*** the TIF District, regardless of the non-TIF revenue that might be available to the municipality. The proportionality determined by the Council is the maximum level of total project cost that can be financed with TIF revenue.

Materials Reviewed:

TIF District Application Narrative

TIF Data Workbook – (unapproved) February 4, 2022
Infrastructure and Private Development Map
The Proportionality Matrix
Attachments 4E, 5A, and 8C

EPR Interim Discussion-Commentary:

The applicant has proposed that, for 7 out of the 8 total phases of infrastructure development projects (including the Water System Phases 1 through 4, and the Killington Road Improvements/Enhancements Phases 1 through 4), a total of 100% of the TIF District will be funded by incremental TIF revenues. For Phase 2 of the Water System project, the applicant has proposed that 82% of the infrastructure enhancements be funded by incremental TIF District revenue. This is estimated to be the portion of the Water System's Phase 2 expenditures-costs has been adjusted by the applicants to account for the proportion of the total expenditures that will be dedicated to building out the municipal water service for the Killington Elementary School. This part of the system is to be constructed from the Killington Road corridor along Miller Brook Road—corresponding to an area of the Town that is expected to be outside of the TIF District boundaries.

Under TIF District rules, three factors contribute to the calculation of the proportionality estimate: (1) percent of infrastructure that is constructed within the district boundaries; (2) the percent of use of infrastructure within the district; and (3) the percent of increased value that accrues to properties within the district. The first two factors can be determined objectively and, in both cases, the applicant's representation of the percent of the infrastructure investment both within the boundaries of the proposed TIF district and the percent of the proposed TIF district which will be served by the improvements appears to be reasonable and accurate. While a significant and vital portion of the Water System Phase 1 project, namely the water well, pumps, and storage components, is located outside of the district boundary, it is also true that 100% of the proposed TIF district's geography will be served by these improvements. In addition, it is also true that the other 3 remaining phases of the Water System are 100% dependent on the completion of the Phase 1 portion of the infrastructure development plan.

The third factor requires some subjective reasoning for a positive or negative determination on this criterion. However, it is worth noting that it is widely agreed upon, by both public and private stakeholders, that additional private sector development activity and corresponding property value increases, will be dependent upon the investments being made into public municipal water and transportation infrastructure improvements as presented in the TIF application's plan. In addition to the representations of the applicant in the TIF application narrative, there are also multiple attestations attached to the application from public and private stakeholders which clearly state that the lack of such municipal water and transportation infrastructure as a significant, if not insurmountable, barrier to development of the type, scale, and timing as envisioned by the TIF District plan. These attestations are further bolstered by the reality that the private sector development projects as envisioned within the TIF application have been "proposed "in various forms for multiple decades, with multiple public and private partners citing lack of upfront municipal water infrastructure development and an “inadequate “ Killington Access Road as the primary financial and operational barriers to the private investment activity envisioned by the TIF District plan.

For these reasons, EPR staff believes it is reasonable to conclude, at least on an interim basis, that the proposed infrastructure “proportionality values” within the TIF District application appropriately reflect reasonable proportionality values by phase for both the municipal water and transportation infrastructure enhancements.

G. Project Criteria: 32 VSA §5404a(h)(4)

> ***“Project criteria. Determine that the proposed development within a tax incentive financing district will accomplish at least three of the following five criteria:***
> ***(A) The development within the tax increment financing district clearly requires substantial public investment over and above the normal municipal operating or bonded debt expenditures.***
> ***(B) The development includes new or rehabilitated affordable housing as defined in 24 VSA §4303.***
> *(C) The project will affect the mitigation and redevelopment of a brownfield located within the district. For the purposes of this section, "brownfield" means an area in which a hazardous substance, pollutant, or contaminant is or may be present, and that situation is likely to complicate the expansion, development, redevelopment, or reuse of the property.*
> *(D) The development will include at least one entirely new business or business operation or expansion of an existing business within the district, and this business will provide new, quality, full-time jobs that meet or exceed the prevailing wage for the region as reported by the department of labor.*
> *(E) The development will enhance transportation by creating improved traffic patterns and flow or creating or improving public transportation systems.”*

The applicant is addressing Project Criteria A (Need), B (Affordable Housing), and E (Transportation). EPR is supplementing the Interim Report on Criteria A and B:

<u>Project Criterion A (Need) – the Council must determine:</u> Does the proposed infrastructure development within the TIF District clearly require substantial public investment over and above the normal budget of the municipality or the normal bonded debt service of the municipality?

Materials Reviewed:
Project Criteria Narratives
Narrative 4-But For
TIF Data Workbook – (unapproved) February 4, 2022
Housing Project Map
Rutland Housing Trust Housing Needs Assessment
TIF Data Workbook – (unapproved) February 4, 2022 (See Table 7C)
Transportation Map

EPR Interim Discussion-Commentary:

The applicant has presented their annual municipal budget, capital budget, and debt service budget as required, as part of the TIF District application materials. In addition, as noted in the Interim Report of the VEPC Executive Director, the application narrative states that the $66.4 million estimated total cost of the public infrastructure improvements is not affordable within the town's current and estimated future budget (see Table1 on the following page).

Table 1: Town of Killington Proposed TIF Infrastructure Development Costs by Year

		Total Real Infrastructure Costs*
Water Phase 1	2023	$26,675,811
Road Phase 1	2023	$11,872,043
Water Phase 2	2025	$2,237,496
Road Phase 2	2025	$5,823,168
Water Phase 3	2027	$3,221,114
Road Phase 3	2027	$6,874,119
Water Phase 4	2029	$3,850,149
Road Phase 4	2029	$5,822,835
	Total	**$66,376,734**
*Includes Annual 2.5% cost escalation as per applicant assumption		

Also, as part of our review, EPR compared the budget and estimated project costs and confirmed this statement, finding that the applicant's narrative on this issue is both reasonable and accurate in stating that the Town lacks the financial capacity within its current operating and capital budgets to undertake these proposed infrastructure enhancement investments according to all available information.

For illustrative purposes, Table 2 (below) shows the historical and prospective operating and capital budgets for the Town which clearly demonstrates that these proposed infrastructure development expenditures are well beyond the financial capacity of the applicant municipality—based on previous and current municipal and capital budgets dating back to the 2013 fiscal year—as well as prospectively as demonstrated through an examination of the estimated operating and capital budgets of the Town for the 2022 and 2023 fiscal years (as set forth in the TIF District application materials).

Table 2: Town of Killington Annual Municipal Budget Summary FY 2013 - 2023

	Year	Total Municipal Budget	General Operating Budget	Capital Plan	Total Annual Taxpayer Debt Service
Year of application	2022				
Next Budget Year	2023	$6,091,938	$4,441,401	$1,650,537	$883,943
Current Budget Year	2022	$5,463,186	$3,963,983	$1,499,203	$892,789
Current, -1	2021	$4,788,644	$3,401,220	$1,387,424	$524,881
Current, -2	2020	$4,676,767	$3,371,170	$1,305,597	$627,379
Current, -3	2019	$4,401,641	$3,533,055	$868,586	$654,480
Current, -4	2018	$4,508,505	$3,781,312	$727,193	$671,662
Current, -5	2017	$4,155,339	$3,570,190	$585,149	$679,209
Current, -6	2016	$6,336,139	$5,395,889	$940,250	$821,572
Current, -7	2015	$0	$0	$0	$0
Current, -8	2014	$4,042,016	$3,387,289	$654,727	$640,456
Current, -9	2013	$4,952,517	$4,537,017	$415,500	$690,063
AVERAGE BUDGET		**$4,492,427**		**Average Debt**	**$644,221**
NOTES:					
2016 is high because it contained 18 months of activity when switching fiscal year. 2015 is blank due to this change.					
2013 figures include $186,675 related to FEMA Flood Reimbursement, with a related FEMA Recovery Expense of $843,112					

In addition to the above finding that the aggregate infrastructure expenditure amounts would be significantly beyond the fiscal capacity of the Town, it also seems clear from the application materials that each sequential infrastructure development phase—for both the municipal water investments and for the transportation improvements—would likewise require substantial public investment over and above the normal operating and capital budgets of the municipality. Of additional importance to this discussion and analysis is the relative debt burden borne by the Town of Killington's taxpayers. Table 3 (below) shows the relative debt burden of the Town and selected peer municipalities, with data collected for the 2021 fiscal year from the relevant annual reports of each municipality (with fiscal year 2021 being the latest data available as of the time of this interim review draft.

Table 3: Total Bond Debt Burden of Selected Municipalities FY 2021

Debt Burden by Municipality	Total Long-Term Debt	Level of Municipal Debt Per Capita
Stowe	$ 31,524,461	$ 6,036
Newport Town	$ 5,108,170	$ 3,347
Hartford	$ 22,813,505	$ 2,135
St. Albans City	$ 37,481,308	$ 5,450
Bennington	$ 24,907,333	$ 667
Barre City	$ 13,410,492	$ 1,579
Killington	$ 883,943	$ 628

While the data does appear to indicate that the Town could take on some additional general obligation debt without being in a disadvantageous position, it seems clear that funding these expenditures through the issuance of general obligation debt would require a dramatic more than two-fold increase in the Town's municipal tax rate. This additional burden would be large relative to the applicant's selected peer municipalities, and would likely represent a significant increase in burden relative to its median household income (see tables 4 and 5 below). Table 4 below shows median household income levels of multiple peer geographic areas relevant for comparison to the applicant. Table 5 shows the comparative municipal tax rates for those peer communities as well.

Table 4: Median Household Income by Geography, 2019

Municipality	Median Household Income (2019; U.S. Census)
Stowe	$ 59,770
Hartford	$ 64,493
St. Albans City	$ 53,647
Bennington	$ 50,892
Barre City	$ 38,142
Killington	$ 64,231
Rutland County	$ 56,139
Chittenden County	$ 73,647
State of Vermont	$ 61,973

Table 5: Effective Municipal Tax Rate, FY 2021

Municipality	Effective Municipal Tax Rate
Stowe	0.3441
Newport Town	0.5503
Hartford	0.8904
St. Albans City	0.854
Bennington	0.6944
Barre City	1.811
Killington	0.4148

To further place the Killington municipal tax rate into the proper context, a 10 cent increase in the municipal tax rate for the Town would roughly result in an increase of available municipal revenues of close to $1.0 million per year. To fund these projected infrastructure investments via the Town's municipal tax rate would require a more than roughly 60 cent increase in the municipal tax rate—a more than doubling in the municipal tax rate to a level that would result in a tax rate in excess of $1.00. That would in fact appear to be a municipal tax rate level well above the Town's peers and correspond to a level that unacceptable and unsustainable. EPR staff therefore believes that the preponderance of these data indicate that the Council could make a preliminary, interim finding that levels the proposed infrastructure development expenditures within the proposed TIF District would clearly require substantial public investment over and above the normal operating and capital budgets of the municipality. These data also indicate that the above infrastructure development expenditures would also involve investment expenditures substantially over and above or the normal bonded debt service capacity of the applicant municipality. As a result, WEPR believes the Council could make affirmative, positive findings on the criterion—at least on an interim basis—as the TIF district application materials are being finalized by the applicant.

<u>Project Criterion B (Affordable Housing) – the Council must determine:</u> Will the real property development result in the new construction or rehabilitation of affordable housing as defined by 24 VSA 4303?

Materials Reviewed:
Project Criteria Narrative
Narrative 4 - "But For"
TIF Data Workbook – (Unapproved) February 4, 2022
Housing Project Map
Rutland Housing Trust Housing Needs Assessment (2012)
Rutland Housing Market Update (2019)
TIF Data Workbook – (Unapproved) February 4, 2022 (See Table 7C)
Transportation Map
VHB Killington Road Corridor Study Report

EPR Interim Summary Discussion-Commentary:

As per the Killington TIF application narrative, "…The TIF District development will provide needed affordable and workforce housing. The TIF District includes 2 parcels that will be suitable sites for multifamily housing once public water is available and Killington Road is reconstructed. The two sites can be developed for a total of 167 units – projections include 56 units (33%) of affordable housing and 111 units will be constructed as market rate housing designed to meet the needs to full time residents."

Within the TIF district application materials, the narrative seeks to demonstrate that the affordable housing is needed within the region and the Town, and would be particularly helpful to resort and resort-related employers who have been experiencing staff recruitment issues within the TIF district area. The application materials also indicate that 600 of the Town's rental properties have been converted to short-term rental properties since 2018, suggesting that that these units were diverted from the year-round housing unit pool to the seasonal unit pool that were targeted towards accommodating seasonal visitors to the region. The materials further indicate that these converted units were effectively taken out of the local residential rental housing market, which are typically units that accommodate the residential housing needs of the lower-household income part of the labor market, disproportionally affecting people working for the ski resort and hospitality industry. During the 2019 and 2020 time period, and likely closely associated with the COVID-induced housing market dynamics, data from the National Association of Realtors indicate that the median price for a single-family home increased from $258,000 to $439,000, corresponding to a 70% price increase over the period. Additionally, from the 2010 to the 2020 U.S. Census, the Town experienced a total population increase of 596 full-time residents, during a period where, according to the 2019 Rutland Housing Market Update, there were only 523 total vacant rental units in the entirety of Rutland County.[1] While this is an imprecise, indirect measurement of strain on the housing market for low-income or affordable housing for the area of the TIF district as of 2022 and following the impact of the Covid-related migration, these data do appear to demonstrate the difficult, long-term issues facing Town and regional residents competing for units in the regional rental housing market—which likely have only been made substantially worse over the past two calendar years which have been dominated by developments associated with the COVID-19 pandemic.

In addition to the application narrative, the application has multiple letters of support from local housing stakeholders in support of the TIF district's plans to include two affordable housing projects within the TIF district plan's timeline—although they are in the "out-years" of the application and these proposals lack specificity. Letters of support include correspondence form S & P Land Company (the primary developer of the Six Peaks Killington), the Chamber of Commerce and Economic Development of the Rutland Region, and the Housing Trust of Rutland County. At this point, EPR has been unable to affirm that the longer-term plans in the application for the two identified affordable housing projects have developed enough to enable the Council to make positive affirmative findings on this criterion. Because these projects are currently in the lowest and most speculative tier in the application's private development typology of projects (which could be as much as five years out into the future), we recommend at this point that the Council leave any statement of findings relative to this criterion "open and subject to further information-consideration" from the applicant at this time.

H. Market and Fiscal Viability:

While not a criterion directly required in statute for the TIF District application to meet, determining if the TIF District has market viability is an implied and prudent task for VEPC. In order to reach positive findings on "market and fiscal viability," a critical review of the viability of the TIF District's private development plan is an important consideration in assessing ability of the proposed TIF District to be financially successful under the assumptions employed in the applicant's TIF financial plan. The success of the financial

[1] This is according to 5-year American Community Survey data from 2017 used in the 2019 Rutland Housing Market Update.

plan is clearly directly tied to the success of the proposed private development plan that ultimately generate a sufficient level of new tax revenues to cover the forecasted infrastructure debt service costs in the TIF financial plan. The following section represents an initial review and comment on the key issues related to the question of viability. In undertaking this part of the TIF District application review, the EPR Team: (1) reviewed the data provided in the Town's TIF application, (2) reviewed all key assumptions made by the TIF District financing plan as set forth in the application, and (3) consulted data from reputable third-party sources that were relevant to this part of this viability assessment.

The Council must determine: Does the TIF Plan have market viability?

EPR Summary Discussion-Commentary:

Materials Reviewed:
Six Peaks Killington Development Master Plan
"Proprietary" Market Study for the Six Peaks Killington Development
TIF Data Workbook – (unapproved) February 4, 2022
January 24, 2022 Email - Killington TIF -- Data Workbook Update
January 26, 2022 Email - Killington TIF -- Road and Water Cost Estimate Calculations
VEPC Staff and Applicant Emails – With Additional Information as Provided relative to the prospective private sector development activity

EPR Interim Discussion-Commentary:

According to the projections provided by the applicant in the current version of the TIF Financing Plan, total infrastructure project cost is estimated to be $66.4 million. Even though there is the potential for State and Federal Grant allocations, the applicant's financing plan does not take these into account, and the addition of potential grant allocations would only decrease the amount of debt incurred and, correspondingly, decrease the financial risk of the plan to that degree. Total bond principle is then estimated in the application to be $66.8 million after rounding adjustments. In addition, financing costs will accrue to an estimated $21.1 million in interest payments, resulting in $87.8 million of total debt service costs incurred by the applicant. Related costs are allowed by statute, and total an estimated $850,150 in the application.

The total infrastructure costs, as presented in the applicant's financial summaries, includes an inflation factor which is reasonable given recent data for prices and behavior of construction and materials markets[2], but is perhaps appear to be relatively conservative with an overall long-term 2.5% inflation factor—when considering medium and long-term expectations within the infrastructure development. The issue has been raised that, with the more than $1.0 trillion Federal infrastructure spending bill passed at the end of 2021, will increased demand and competition for materials and supplies, labor, and potential scheduling delays result in cost increases for planned infrastructure projects locally, regionally, and nationwide that would significantly exceed the 2.5% long-term

[2] Looking at recent data on construction cost escalators.

construction cost escalator included in the current version of the TIF Financing Plan. As the State of Vermont has experienced with its planned broadband infrastructure expansion projects, the expectation that increased amount of available public funding for such projects nationwide will lead to a scarcity of inputs and corresponding cost and schedule overruns.

In the plan, the applicant proposes the issuance of four 20-year bonds at an average interest rate of 2.6% to finance the water system and road improvement spending, and that results in a sequence of annual debt service payments as presented in Table 6 (below).

Table 6: Town of Killington TIF Annual and Cumulative Cash Flow Summary

Year	TIF Revenue	TIF Debt Service	Related Costs	Annual Cash Flow - Cumulative
Base Year: 2022	$0	$0	$65,000	($65,000)
2023	$0	$394,918	$39,000	($498,918)
2024	$1,484,942	$940,748	$24,000	$21,276
2025	$3,393,596	$985,111	$39,000	$2,390,762
2026	$3,817,308	$1,108,167	$24,000	$5,075,903
2027	$4,030,048	$1,152,653	$49,000	$7,904,298
2028	$4,242,788	$3,557,258	$143,000	$8,446,827
2029	$4,242,788	$4,094,596	$39,000	$8,556,020
2030	$4,580,865	$4,661,678	$24,000	$8,451,206
2031	$5,063,667	$5,100,199	$24,000	$8,390,674
2032	$5,063,667	$5,046,345	$34,000	$8,373,996
2033	$5,124,028	$4,989,264	$10,000	$8,498,760
2034	$5,124,028	$4,928,922	$10,000	$8,683,867
2035	$5,124,028	$4,862,481	$133,150	$8,812,263
2036	$5,124,028	$4,787,642	$10,000	$9,138,649
2037	$5,124,028	$4,705,327	$10,000	$9,547,350
2038	$5,124,028	$4,616,466	$10,000	$10,044,912
2039	$5,124,028	$4,521,830	$10,000	$10,637,110
2040	$5,124,028	$4,422,452	$10,000	$11,328,686
2041	$5,124,028	$4,317,804	$10,000	$12,124,910
2042	$5,124,028	$4,208,385	$133,000	$12,907,553
2043	$1,360,742	$4,094,546	$0	$10,173,748
2044	$1,360,742	$3,976,546	$0	$7,557,943
2045	$0	$1,631,473	$0	$5,926,470
2046	$0	$1,589,734	$0	$4,336,736
2047	$0	$1,083,833	$0	$3,252,904
2048	$0	$1,055,016	$0	$2,197,888
2049	$0	$508,560	$0	$1,689,328
2050	$0	$494,544	$0	$1,194,784

On the revenue side, the Town's financing plan includes an increase in assessed value after the infrastructure improvements and redevelopment is $301.7 million, for a $297.4 million incremental value (comprised of a split of $71.4 million homestead and $226.1 million non-homestead). Summing the anticipated TIF revenues from the applicant's updated TIF application spreadsheets, the application includes an increase of $87.2 million in incremental TIF revenue that can be applied to the financial plan during the 20-year retention period covering 2024 to 2044. In the TIF application, the TIF revenues estimate includes the Town's proposal that the maximum allowable retention (at 85%) of the increment (both municipal and education property tax) go to servicing the TIF District debt, interest, and related costs. As has been the case with other TIF applications, any amounts collected by the value changes related to the private sector developments beyond that required to service debt and pay related costs would be returned to the municipal General Fund and the State Education Fund. The plan includes the expectation that there will be excess cumulative revenue in later years because the 85% maximum allowable increment is intended to cover the highest debt service years which tend to occur early in the municipal bond service timeline.

According to the Town's financial projections (see Table 2 above), the applicant is expected to incur an annual deficit starting in 2022 and 2023 in order to service the related costs (in this case upfront application and consultant fees), and the beginning of TIF-related bond servicing in 2023.[3] The financing plan next projects that the Town will return to solvency with the initiation of the increment retention period in 2024, beginning a cumulative revenue surplus from the increment that persists until the end of TIF-related debt repayment in 2050, which will reasonably cover all annual deficits anticipated during the remainder of the bond repayment period. The Town expects annual deficits for 3 years from 2030 through 2032, in the early stages of the fourth and final bond issue and while the increment benefits from the final property developments outlined in the plan generate revenues and 'catch-up' with debt repayments. Again, the cumulative surplus from incremental revenues is adequate during this period to maintain solvency of the plan. The financing plan shows that annual solvency will then be maintained until 2043, when the Education Property Tax retention period is expected to end, and the only annual increment retention amount comes solely from the Municipal Tax. At this point, the cumulative surplus begins to decline as TIF revenues taper off, ending completely in 2044, and the Town expects to retain $1.2 million from the TIF period after the final bond repayment in 2050.

With the exception of the first two years of the financial timeline presented by the applicant (2022 and 2023), which occurs prior to the initiation of the TIF retention period beginning in 2024, and includes only one year of debt service in 2023, the cumulative balance of proposed TIF District revenues as presented appears sufficient to "cover" any annual revenue shortfalls. This financing plan, as opposed to several applications the VEPC Board has seen in previous TIF applications, does not rely on other non-TIF revenue funding sources upfront to cover the debt service costs. However, the applicant does expect to be allocated State and Federal Grant money for various aspects if its re-development project. After 2024, annual surpluses rise significantly and progressively, reaching nearly $12.9 million in 2042—assuming that the TIF District's incremental revenues are generated according to the proposed timeline.

As mentioned above, this application is reliant on upfront revenues from the private development activities related to the Six Peaks Killington development plan, especially Phase A, which contributes roughly 57% of all incremental property value included in the TIF plan. Additionally, as noted in the application materials, the private development which funds the debt servicing can only occur with the completion of the infrastructure projects, according to the schedule laid out in the plan, and which must be financed by the debt. The financial plan thus depends on the execution of three simultaneous elements of the development plan, each of which depends on the other to be completed

[3] The application states that prior to the beginning of increment retention in 2024, Related Costs will be paid by the Town's general fund and subsequently reimbursed by the first debt incurred.

according to the presented scheduling sequence. As noted previously, the revenues estimated within the financial plan contains significant risk associated with Potential delays or cost overruns for the key elements of the plan, as currently envisioned, especially in the initial years where a majority of the costs are incurred.

This issue is not isolated to the inter-reliance of Phase A of Six Peaks Killington and Phase 1 of the Water System. Included in Phase 1 of the Water System plan is a connection at the junction of Killington Road and VT Route 4, which is necessary in order to provide water service to the planned private Housing Phases A and B developments, but does not connect this conduit to the well and pump infrastructure, also in Phase 1. Service will only be provided to Six Peaks Killington, in a different location at the other end of Killington Road, as a result of Phase 1. Water System Phases 2-4, in conjunction with Killington Road Phases 1-4, are represented as necessary in order to connect this element of the first Phase to actual water service. Thus, execution of each subsequent element of the infrastructure projects' Phases are required in order to successfully integrate this portion of Water System Phase 1, and thus to allow the private development of Housing Phases A and B and the associated revenue from the property tax increment.

The progression of the TIF finance plan—if achieved as the applicant has presented in the filing documents—indicates that there should be more than sufficient cumulative TIF revenue to cover all annual debt service and related costs after 2024 when the increment is first retained, if the 6 distinct private development phases (four for Six Peaks Killington and 2 for Housing) and 2 areas of infrastructure spending occur as presented in the application. Even so, the initial period of the financing plan is "right on the margin" in terms of being in "cumulative deficit," with the plan essentially being "in the red" for roughly $65,000 and $498,000 in 2022 and 2023, respectively, until revenues bring the cumulative negative balance back into a cumulative surplus by 2024.

The TIF financing plan also reports the likelihood of a cumulative surplus continuing to grow to a peak amount of $12,907,553 in 2042, then proceeds to decline to a final positive balance of $1,194,784 after the end of the proposed retention period. However, this includes the provision that the Town is authorized to extend the Municipal Increment retention period two years beyond the end of the Education Increment retention period. Even though the cumulative surplus grows to a substantial amount during the middle of the proposed TIF retention period, the initial years and the end years of the retention period show a very narrow cumulative TIF revenue surplus balance. While it is true that: (1) there will be a project by project assessment of each infrastructure bond offering at the municipal level that considers the market conditions at that time for the associated private sector development, and (2) there will also likely be an assessment undertaken by Town staff and the Town Selectboard as to the fiscal prudence of each infrastructure investment project and its associated bonding, there is still little margin for error in this financing plan, considering potential for cost increases and timing extensions beyond the assumptions built in to the plan as presented in the application—even though the applicant makes reference to the fact that the financing plan has been "conservative" by including only roughly 60% of the expected value of the private sector development to be completed in the Six Peaks Killington development activity. That 60% development percentage is thought by both the applicant community and its consulting professionals to be a level of activity during the TIF district timeline that will be exceeded by actual development activity—and in some years by a significant amount.

Part of the reasoning for the above private development assumptions is tied to the results of a confidential third-party market study that was conducted by a reputable real estate analysis firm which opined on the likely success of the private development activity tied to the TIF District financial plan. That confidential market study included a comprehensive analysis of the significant market opportunities available to S & P Land under the Six Peaks Killington development plan. The study also provided a set of specific estimates regarding the amount and timing of private sector development activity (including unit numbers by second home product type, prospective pricing of those planned units to be developed, and square footage estimates by type of the supporting commercial and retail development that would be needed to adequately sustain that expected second home unit development. These estimates were then translated into estimates of taxable municipal and education grand list value to be added for the Town over the period of the TIF District financing plan. The application states that only 60% of the taxable municipal and education grand list value increases were incorporated into the TIF district financing plan numbers—to be "conservative." During our discussions with the applicant and its consultants, it has been pointed out that at least some stakeholders and the Town believe that the market study has substantially under-estimated the amount of private development (and therefore the amount of additional municipal and education grand list value that will result from the provision of the catalyzing infrastructure envisioned under the TIF district financing plan.

Without disclosing any of the specifics of a confidential market study, EPR's review of that market study notes the following issues for consideration by VEPC staff and the Council with respect the key assumptions-underlying premises as set forth in the market study:

1. It is noteworthy that the market study is dated May 23. 2019 and was therefore completed prior to the onset of the COVID-19 pandemic. From recent real estate market experience since the onset of the COVID pandemic, we know that there have been some at least temporary, short-term changes in market preferences for second home product demand and pricing. There are some on-going questions and analysis about how long-term or permanent some of those changes are going to turn out to be. Because the study was completed prior to the onset of the COVID pandemic, there is no specific discussion as to how the COVID pandemic may have permanently or at least in the short term affected the market projections included in the study—and therefore how the pandemic may impact the dollar amount and timing of the municipal and education grand list additions in the Town. In effect, to make prospective positive findings with respect to this aspect of the "market viability," the Council would need to be satisfied that the "using 60% of the planned Six Peaks Killington planned development" assumption was sufficient to account for the possible financial uncertainty posed by the possible short-term and long-term impacts of the COVID pandemic on the Six Peaks Killington private sector development plan. This also again highlights the generally inherently riskier proposition of relying on the development plans of only a single private developer

to carry the burden of providing incremental real estate value and resulting revenues to carry the majority of the financing burdens to make the TIF Financing Plan work,

2. The market study's product development projections, planned unit absorption rates, unit pricing assumptions, and projected timeline are all tied to the actual development activities for a group of peer resorts (one in Vermont and two in the western U.S.) relative to their respective skier visit numbers (as compared to the visitation numbers for the Killington resort. The market study identified and focused on missing or under-served market segments for a resort of the scale and character of Killington and related those un- or under-served market segments to the skier visitation numbers and accommodation preferences for sufficiently resourced households located within a reasonable driving distance of the resort. The study also included the associated commercial development opportunities (e.g. retail and eating and drinking places) tied to those unit development numbers based on the peer resort areas' similar development activities. This implies the Council would need to accept the market study assumptions-premise that the actual unit development by product type, pricing, and timing at Six Peaks Killington development would in fact be consistent with the scale, type, and timing that has previously occurred at those peer resorts—adjusted for differential visitor (e.g. skier) visitation numbers. The Council would also have to accept the timeline and scale of the supporting commercial development would also follow a development paradigm related to those identified peers. At this time, while the above seems like a reasonable method to estimate the scale and timing of the TIF District Financial Plan's projections of additional private sector grand list growth, EPR staff suggests that the Council allow EPR staff to complete additional review and analysis regarding the above key assumptions-premises contained in the market study. The objective would be to develop a greater understanding the TIF Financing Plan's sensitivity to key assumptions-premises that may either not work out and/or transpire in a materially different way—both positive and negative. More specifically, this sensitivity would be evaluated within the context of the sufficiency of the "60% of the private sector market value addition" assumption as described above.

At this initial point in the TIF application evaluation process, EPR staff recommends that the Council not make positive findings on this aspect of viability at this time. We instead recommend that the Council leave any statement of findings relative to this criterion "open and subject to further information" from the applicant as the application process evolves further for a TIF Financing Plan that continues to evolve as of the date of this memo.