

The Effect of Non-Residential Development on Town Revenue and Cost Streams

Executive Summary

(REVISED 12/12/11)

The first interim report from the Lot 15 Committee detailed the effect of commercial, or non-residential, property on Hinesburg's municipal tax rate but did not offer any insight into a number of additional tax and cost structure questions posed by either the Hinesburg Selectboard or the community at large. In order to answer these questions, Hinesburg resident and interested party in the Lot 15 committee's activity, John Roos, has provided independent research which probes Hinesburg and Williston town reports and information sources, as well as the Vermont State Department of Taxes to provide a more complete picture of the relationship between non-residential development on town revenue and cost streams. With this latest information, John Roos and the Lot 15 committee have provided answers to four questions on revenue and cost impacts of development:

What affect would each of the various possibilities for Lot 15 have on property tax revenue and tax rates?

Currently, the **accessed** valuation of lot 15 is \$180,000 and the tax revenue realized from the vacant commercial lot is \$3,362 with a municipal portion of \$789. This accounts for 0.035% of the taxes to be raised. If a commercial build-out which brought the value of lot 15 to \$3 million were completed, the effective tax rate at constant-budget would decrease \$0.0024, reducing the tax assessment \$2.40 for a residential property in Hinesburg assessed at \$100,000. Alternatively, if the town were to purchase lot 15 several different scenarios were analyzed. Assuming a purchase price equal to the **appraised accessed** value, a one year line item would raise the taxes on a \$100,000 residential property by \$35.20 for one year. Twenty year bonding at 4% would yield a tax increase of \$2.70 for the same property for 20 years. If the purchase was fully funded by non-municipal sources, the tax increase, due to reduction in the grand list by the assessed value would be \$0.20 for the same property. Additional calculations indicated that given the current grand list, every \$10,000 the town of Hinesburg spends would result in an additional \$1.95 in taxes for a \$100,000 residential property. In conclusion, the effect of either development or municipal use of lot 15 under constant-budget assumptions has only a marginal effect on the tax assessments for other Hinesburg properties.

What effect does commercial development have on the educational tax rate?

Under Vermont's educational funding reform acts, non-residential property in all 251 towns is taxed at a state-set base tax rate with a common-level-of-assessment factor applied on a town-by-town basis to equalize the revenue for differences in appraisal baseline. All non-residential real estate taxes are forwarded to the state, pooled, and redistributed to the towns in proportion to each town's percentage of the state-wide grand list. As a result any tax revenue from new commercial development in Hinesburg is

shared with all other towns. The practical effect is that for fiscal year 2012, one million dollars of new non-residential development in Hinesburg would **only** reduce the educational tax burden 2 cents (\$0.02) for each One hundred thousand dollars (\$100,000) of assessed value. The conclusion is that commercial development of any realistic size will not provide a **significant** educational tax benefit.

What effect does commercial development have on municipal costs?

Interviews with Williston town employees as well as analysis of Williston budgets which detail municipal spending growth through the commercial build-out as well as a review of a study commissioned by the town of Williston have been conducted by John Roos. The conclusion of this effort is that municipal costs in the areas of fire, police and town planning / administration have increased due to the build-out and that local sales tax in Williston, which brings in \$2.2 million per year, roughly covers these expanded costs. Using a conservative figure of \$300 million of commercial expansion during the build-out, an average municipal cost of \$7,333 for every \$1 million of commercial development has been calculated. Applying this calculation linearly, every \$3 million dollars of commercial development drove \$22,000 in new Williston town expenditures which would have to be weighed against the municipal tax expectations for the development. Analysis also indicated that these costs were not instantaneous and matured in a five year period following the development. As a caution, the figures derived cannot definitively account for only the sales-tax bearing development in Williston, nor can they take into account quantization or steps in the municipal cost structure. Actual costs realized from a smaller development may be larger or smaller than the \$7,333 per \$1 million of development calculated. Drawing a general conclusion from the Williston experience, Hinesburg, on average could expect a municipal cost increase of greater than \$7,000 for every \$1,000,000 of commercial growth.

Does commercial development play a critical role in decreasing the municipal tax rate of a town?

In comparing municipal tax rates between multiple towns in Chittenden County, the town of Williston is often used as an example of a town with high levels of service supported by a low municipal tax rate. One possible explanation for Williston's enviable position is the large level of commercial development in the town. Analysis of budget history for the town of Williston was provided by John Roos in an effort to ascertain whether commercial development explains Williston's tax rate. The conclusion of this analysis is that Williston has several distinct advantages which when combined result in a municipal tax rate lower than Hinesburg's. When looked at as a percentage of the grand list, Williston's municipal budget is slightly smaller than Hinesburg's; however, a much larger percentage of Williston's budget is funded by non-property-tax sources. In short, Williston is much less dependent on the property tax. Williston's local 1% sales tax, which is believed to offset additional costs to municipal government driven by large-scale retail, is just one example of an alternate funding stream and removal of sales tax revenue would elevate the property tax rate \$0.14 to \$0.17 per \$100 dollars of assessed value. Factoring in several other prominent differences in the two town's revenue streams, grand

list content and increased residential property valuations in Williston, the two town's property tax rates are competitive. A conclusion could be made that commercial development does not drive low municipal tax rates, and could in fact drive increased municipal tax rates in the absence of a sales tax revenue stream