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TO: Senate Committee on Finance
FROM: Doug Hoffer, State Auditor, Vermont State Auditor
DATE: February 16, 2023
RE: S.35 An act relating to the Town of Hartford's tax increment financing (TIF) district

I understand that the Town of Hartford is lobbying the Legislature for another 2 years to borrow money for TIF district improvements and to keep tax increment for an additional 2 ½ years, counter to the 20-year limit established in Title 24. The Legislature already extended the borrowing period for all municipalities with TIF districts in recognition of the impact of COVID-19, including three years for Hartford's White River Junction TIF District.

There are several issues with this request that I'd like to highlight for you. In addition, Hartford provided no information regarding the extent to which tax increment was expected to fall short of covering debt service payments. As it may be useful for the Committee to understand the magnitude of Hartford's problem prior to approving exceptions to established program requirements, I've provided a list of questions/data for the Committee to consider requesting from the Town.

Issues

1. Extending the time that tax increment may be kept by a municipality lengthens the time that funds are diverted from the Education Fund and erodes the promise made to taxpayers that the maximum time these funds will be diverted is 20 years.
2. The TIF statutes are clear that there is risk to municipalities with this program. Per [24 V.S.A. §1894\(i\)](#) if tax increment is not sufficient to pay for the debt used to finance improvement projects, the risk is borne by the municipality. Lengthening the time to keep tax increment unfairly shifts this risk from the municipality to the Education Fund.
3. Providing special exemptions and extensions to municipalities makes existing parameters in statute less meaningful and increases the complexity of administering and monitoring the program.

Magnitude of the Problem

According to Hartford's FY2021 annual TIF district report, tax increment retained from FY2015 through FY2021 exceeded debt service payments by almost \$800,000. This means the Town has this amount in the bank to cover future debt payments.

The memo submitted to the Committee and testimony by Hartford officials did not provide financial data so it's not clear that the requested extension of tax increment is needed for the Town to be able to repay its TIF district debt. Town officials cited lingering impacts of COVID-19 on improvement project timelines and real property development as the reason for the request but I'm not aware of other communities making similar requests for extensions.

See the following list of questions/requests the Committee could make to better understand the problem that Hartford believes it is facing.

1. What is the forecasted shortfall of education and municipal tax increment to debt service? Please provide forecasts of tax increment for FY2022 through FY2034 and debt service for FY2022 through the end of debt repayment (for issued and anticipated debt). An update to Schedule 6Q – Cash Flow submitted to VEPC for the 2020 phased filing could satisfy this request assuming debt service for future anticipated debt instruments is added to schedule.
2. If the 2 ½ year extension of tax increment retention is not provided, what would be the impact on the municipal tax rate in each year that the Town anticipates it would have to pay TIF district debt service from its own general operating funds? In other words, how much would the shortfall in tax increment impact the municipal tax rate each year?
3. How much education property taxes would the Education Fund forego for the 2 ½ year period if the tax increment retention extension is authorized by the Legislature?