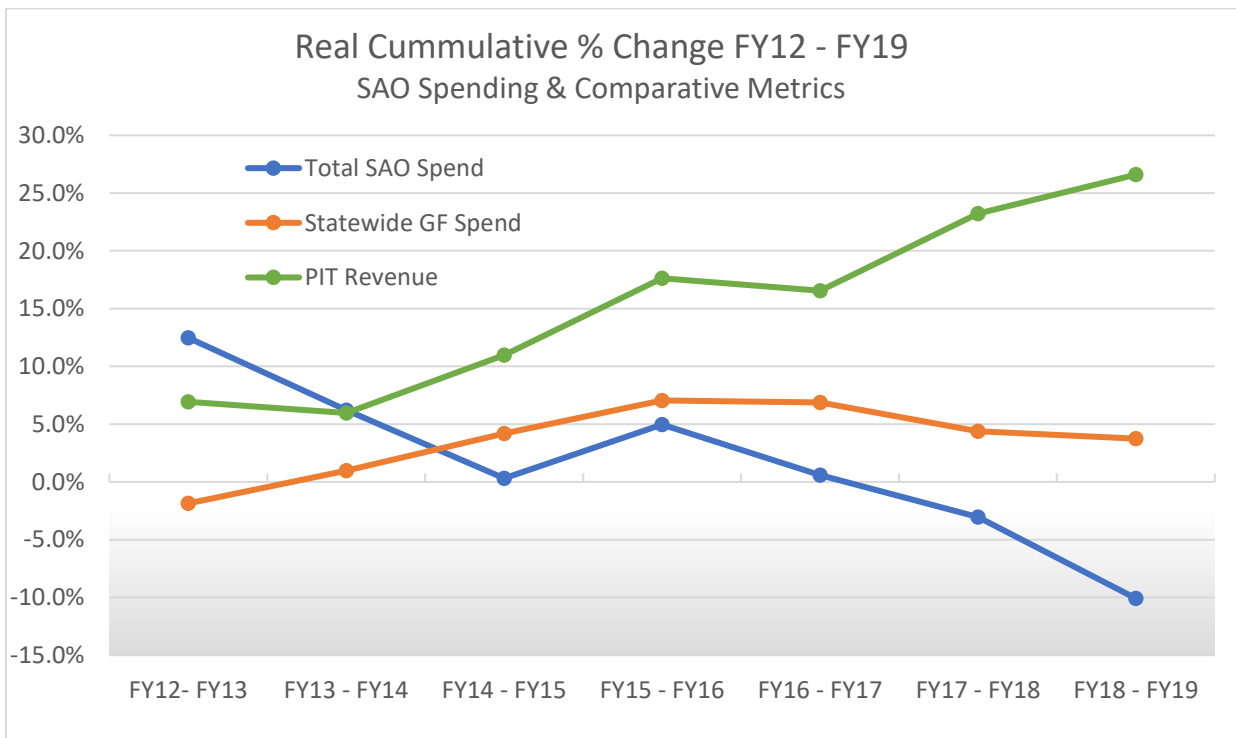




STATE OF VERMONT
OFFICE OF THE STATE AUDITOR

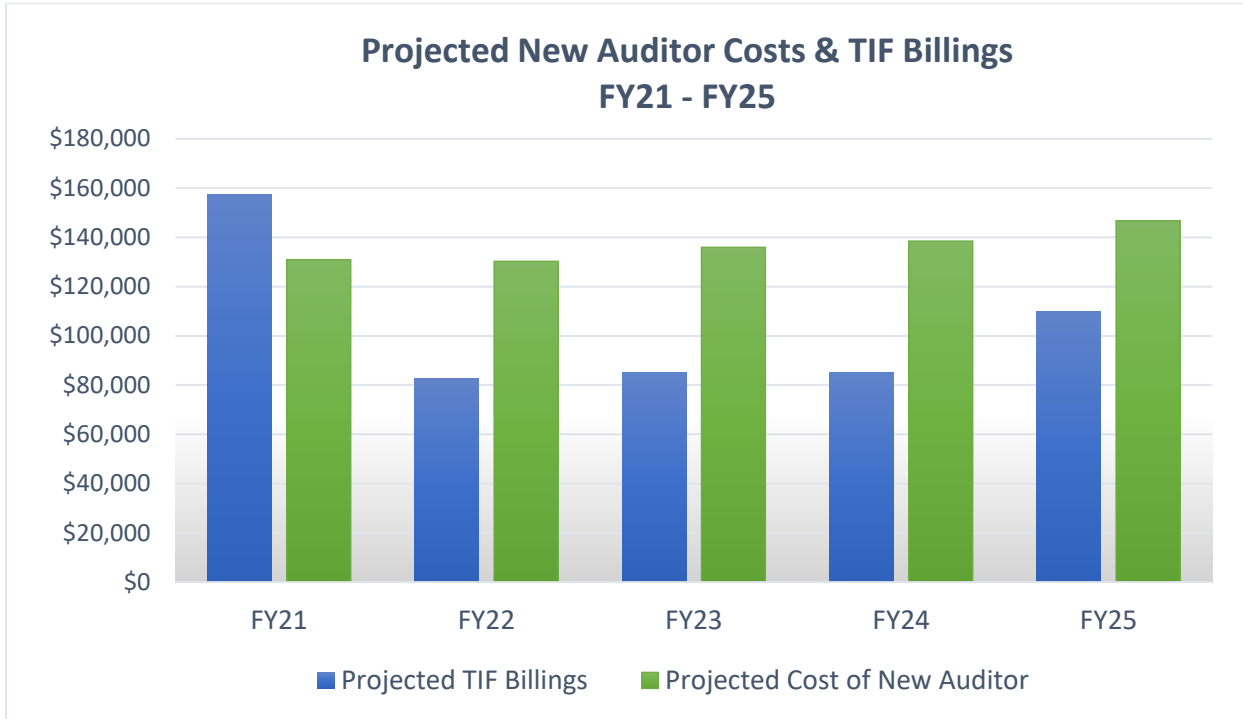
From Fiscal Year (FY) 2012 to 2019, spending at the State Auditor’s Office (SAO) declined 10.1% when adjusted for inflation. The below graph compares inflation-adjusted SAO spending with statewide GF spending and Personal Income Tax Revenues.



As outlined in Auditor Hoffer’s September 19, 2019 memo, the statutorily mandated audits of TIF districts require considerable SAO resources. The SAO is therefore requesting a new senior auditor position – the cost of which can be offset in large part by revenue from TIF Audit bills.

Over the next five FYs, the average estimated cost of the new position when offsetting expenses with TIF billings is \$32,000 annually. That \$32,000 is less than 1 percent of the SAO’s draft FY21 budget. Furthermore, FY22 is the first year that the costs of the position would outweigh the funding amounts from the TIF billing.

The below graph shows the projected costs from FY21 – FY25 of a new senior auditor at the SAO and the annual TIF billings that would be accounted for in that FY. The average annual difference highlighted below is \$32,000.



The projected cost of the new position assumes hiring of an experienced auditor at a Pay Grade 25, Step 4, with benefits for a two-person family. The estimate also accounts for initial and ongoing operational costs associated with the new position. The TIF billings accounted for in a given FY are based on the billings collected in the previous FY. The SAO and the Department of Finance and Management have agreed that accounting for TIF billings in this manner provides the State with greater certainty and stability.

The SAO plans to propose a change this legislative session that streamlines and improves the transparency of the TIF billing process by allowing the SAO to bill for TIF expenses from the Single Audit Revolving Fund. Since this fund rolls over annually, the anticipated surplus (from TIF billings compared to new position costs) for FY21 could be used to cover expenses in FY22.



**STATE OF VERMONT
OFFICE OF THE STATE AUDITOR**

To: Susanne Young, Secretary of Administration
Date: 19 September 2019
Re: Request for new position
Cc: Adam Greshin, Commissioner Finance & Management
Kittie Toll, Chair, House Committee on Appropriations
Jane Kitchel, Chair, Senate Committee on Appropriations
Brad Ferland, Deputy Secretary of Administration

Summary: The TIF audits mandated by statute are consuming a considerable amount of staff resources at the State Auditor's Office (SAO). The opportunity cost is significant and justifies a new position, the cost of which can be offset in large part by revenues received from the TIF towns, which are required to pay for these audits.

In response to audits conducted by the SAO in 2011 and 2012, the Legislature adopted Act 80 (2013), which, among other things, requires the State Auditor's Office to "*conduct performance audits of all tax increment financing districts [TIF] according to a schedule, which will be arrived at in consultation with the Vermont Economic Progress Council*" [32 V.S.A. § 5404a (I)].

The first of these TIF audits (Milton Town Core) was done in FY2018, and the second (St. Albans) was completed in FY2019.¹ We are currently conducting two others (Winooski and Milton North/South) and have a third (Hartford) slated for later this fiscal year.

The issues identified during these audits reinforces the Legislature's judgment that these compliance audits² are a necessary element of the TIF program. And, this work will grow in importance, now that VEPC has approved new towns that can benefit from these findings.

Not surprisingly, there is a price for all this. Twenty-two percent of our limited staff time³ was devoted to TIF audits in FY19. Unfortunately, the Legislature's directive to conduct the audits was not accompanied by new resources, so there is a significant opportunity cost, as we are unable to devote those resources to other important matters that help the State run more efficiently and effectively.

¹ <https://auditor.vermont.gov/reports/performance-audits>

² "Audits conducted pursuant to this subsection shall include a review of a municipality's adherence to relevant statutes and rules adopted by the Vermont Economic Progress Council pursuant to subsection (j) of this section, an assessment of record keeping related to revenues and expenditures, and a validation of the portion of the tax increment retained by the municipality and used for debt repayment and the portion directed to the Education Fund."

³ We have only ten professional auditors to conduct performance audits of state government.

The statute and schedule agreed upon with VEPC obligate us to conduct TIF audits for over 20 years. The next four audits will be the first for Hartford, Barre City, Burlington Downtown, and South Burlington and are expected to be resource-intensive. After that, there will be one or two audits almost every year, though it seems likely that the number will grow because the Legislature authorized VEPC to approve more TIF districts. At least two towns have already expressed interest (St. Johnsbury and Springfield).⁴ To understand the timeline, please see the schedule outlined below and note that the dates for Bennington and Montpelier are estimates.

Agreed Upon Schedule for TIF District Audits		
2019	Hartford	5 years after first debt
2020	Barre City	5 years after first debt
2021	Burlington - Downtown	5 years after first debt
2022	South Burlington	5 years after first debt
2024	Milton - Town Core	7 years after first audit
	Winooski	Final audit – end of retention period
2025	St Albans	7 years after first audit
	Burlington - Waterfront	Final audit – end of retention period
2026	Hartford	7 years after first audit
2027	Barre City	7 years after first audit
	Bennington	5 years after first debt
2028	Burlington - Downtown	7 years after first audit
	Montpelier	5 years after first debt
2029	South Burlington	7 years after first audit
2032	Milton - Town Core	Final audit - end of retention period
2033	St Albans	Final audit - end of retention period
2034	Hartford	Final audit - end of retention period
	Bennington	7 years after first audit
2035	Barre City	Final audit - end of retention period
	Montpelier	7 years after first audit
2036	Burlington - Downtown	Final audit - end of retention period
2037	South Burlington	Final audit - end of retention period
2042	Bennington	Final audit - end of retention period
2043	Montpelier	Final audit - end of retention period

To return to our modest capacity to conduct performance audits of state government, we need an additional audit position, which I am requesting as part of the Budget Adjustment Act, and the FY21 budget. The former may not require new funds. If we do not receive this position, TIF work will effectively reduce the resources of my office by 10 - 25% annually, which I doubt was the Legislature’s intent.

Fortunately, the TIF audits generate revenue, which we can use to help pay for the new position.

“The cost of conducting each audit shall be considered a “related cost” as defined in 24 V.S.A. § 1891(6) and shall be billed back to the municipality” [32 V.S.A. § 5404a (l)].

⁴ 32 V.S.A. § 5404a(f)

Depending on when the audits are conducted in the lifecycle of each TIF and the variables associated with those districts,⁵ the amounts billed to the towns will vary. Over the next six fiscal years, we estimate aggregate annual TIF billings associated with those audits will range from \$75,000 - \$160,000. Salary and benefits for an additional auditor would be about \$120,000 annually. Therefore, we anticipate this revenue will offset much of the cost of a new position over time.

I don't make the request for a new position lightly, and my record in office shows my commitment to tightly managing public dollars. Since FY12, annual spending by the SAO has decreased roughly 10% when adjusted for inflation. But, the TIF audits paired with my office's limited resources greatly inhibit our ability to add the level of quantitative and qualitative value Vermonters have come to rely on from the SAO. Adding this position would help to restore that value.

Finally, I am requesting action through the BAA because we have learned from experience how long it can take to fill these Senior Audit positions. If we are required to wait until the FY21 budget is approved, we may not be able to fill the position until the end of the next calendar year.

I appreciate your consideration.

⁵ Factors that influence cost: Municipal staff turnover, quality of record keeping, municipal staff responsiveness, and the extent and complexity of non-compliance.