VLCT TESTIMONY
89 Main Street, Montpelier, Vermont 05602

To: Members of the Senate Finance Committee
From: Karen Horn, Director, Public Policy and Advocacy, khorn@vlct.org www.vlct.org
Date: January 23, 2020
Re: S. 191 and S. 308, Tax Increment Financing

Thank you for the opportunity to testify about Tax Increment Financing districts (TIFs). With me today are Dominic Cloud, City Manager in St. Albans; Carol Dawes, City Clerk Treasurer in Barre; Kevin Dorn, City Manager in S. Burlington and Richard Haesler, Assistant City Attorney in Burlington.

The TIF program has stimulated significant economic growth in downtowns. That success furthers Vermont's longstanding goals of compact settlement surrounded by rural countryside and generating reinvestment in our downtowns. At the same time, the TIF program has been the subject of tremendous and unabated controversy that makes towns who might benefit from the TIF program wary of getting involved. There are eleven active TIF programs in place*. The Milton North South TIF is complete and the total increase in taxable value is $39,368,003 (146.3 percent) as reported in the VEPC 2019 Report on TIFs. The Winooski TIF will begin to send 100 percent of the new education tax increment to the Education Fund in 2024.

Thank you for taking up legislation to clarify the requirements of the TIF Program, make it a more effective tool in the sustainable economic growth toolbox, and provide a framework for all those who engage with the program. We have some suggestions for amendments to include in S. 191 and 308.

We believe the following provisions would improve the program and its administration.

Clarify that bond anticipation notes and revenues of the TIF may be used for financing for the first five or six year period respectively that a district incurs debt, and establish that the Vermont Economic Progress Council could extend that time frame for an additional five years. Please note that cities and towns pledge their full faith and credit when they bond for projects – the state is not liable in the event of failure to repay. The proposal to prohibit use of TIF debt to pay debt in the first few years would hurt distressed communities the most as they are unlikely have reserve funds for debt repayment purposes.

Allow boundaries of a district to be adjusted upon approval of VEPC within a certain number of years of the District's creation. Make clear that parcel and lot lines within the boundaries of a district may be adjusted to comply with current municipal comprehensive plans and bylaws.

At 24 VSA § 1892 (b), make the effective date of a new district April 1 of the calendar year in which voters vote to incur indebtedness.

At 32 VSA § 5404a (f) (4) clarify that if in any year the *cumulative* assessed valuation of *all* real property in a district decreases in comparison to original taxable value of *all* real property, the municipality shall pay that deficit amount to the Education Fund. If the value of a single property decreases due to demolition or reconstruction, the temporary decrease in value of that single property should not need to be paid to the Education Fund.

At 24 VSA 1894 add a section that clarifies that funds advanced on behalf of the TIF in any single year may be repaid by the TIF in subsequent years.

At 24 VSA § 1904 (l) establish that the State Auditor shall be paid by a municipality upon presentation of an itemized bill that describes the work performed and person hours spent on the audit. The final audit report shall include both the amount charged to the municipality and a copy of the itemized bill. An internal control best practice, and requirement in many municipalities, is that an invoice may not be paid without an itemized bill.

Statute requires that a municipality's segregated account for the TIF district be subject to the annual audit provisions of 24 VSA § 1690. The VEPC Program provides guidance to TIF districts on audit procedures, the "Independent Auditor' Agreed-Upon-Procedures"**.

We understand the difference between a financial audit and a performance audit. We suggest a most effective use of the public dollar would be for the State Auditor to review the statutorily required annual audits at five-year intervals and determine if there are gaps in information provided. If an additional audit is pursued, the reasons therefore would be stated in the body of the audit. The difference in cost for annual municipal wide audits and State Auditor TIF audits is substantial.

Barre City	TIF Agreed Upon Procedures (AUP)
	FY16 $4,598
	FY17 $7,379
	FY18 $5, 196
	Regular Annual Audits
	FY16 $25,015
	FY17 $27,450
	FY18 $59,444
	Barre has not yet had a State TIF audit
Milton	Annual audit/ AUP FY18
	$5,667 Town Core, $5,667 North South
	FY17 Town Core State TIF Audit $27,771
	FY 18 North South State TIF Audit $40,842
St. Albans City	2019 Annual Audit of three funds and federal single audit $30,000
	2019 State TIF Audit $50,000
South Burlington	Annual audit of General Fund, TIF, Single audit and three enterprise funds $31,000
Winooski	Annual city external audit including TIF revenues/ expenditures $27,200
	State TIF Audit Dec. 2019 $41,707

*Active TIFs: Barre City Downtown, Bennington Downtown, Burlington Downtown, Burlington Waterfront, Hartford Downtown, Milton North/South, Milton Town Core, Montpelier, St. Albans City Downtown, South Burlington City Center, Winooski Downtown. The City of Newport TIF is retired.

** Independent Auditors' Agreed-Upon-Procedures:
https://accd.vermont.gov/sites/accdnew/files/documents/DED/VEPC/Tiff/TIF-AUP.09.2019.pdf