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**STATE AUDITOR**



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**TO:** Senator Ann Cummings, Chair, Senate Committee on Finance  
**DATE:** January 24, 2020  
**RE:** State Auditor's Office (SAO) TIF district audit bills

I'm aware that municipalities have expressed concern about SAO TIF district audit bills. Per 32 V.S.A. §5404a(1), SAO bills municipalities for TIF district audits that we are statutorily-required to conduct.

Since the statutory changes in 2013, we have audited Milton Town Core, Winooski Downtown, Milton North/South, and St. Albans. In FY2020, we will audit Hartford's White River Junction TIF district and Barre's TIF district. SAO's audits are conducted in accordance with generally accepted government auditing standards for performance audits.

There are significant differences between a performance audit and a financial statement audit, and I'm not surprised that some municipal officials are unfamiliar with them. See the following table for a comparison of SAO's TIF district performance audits and municipal financial statement audits. In addition, see the attachment that describes in detail the audit plan for the St. Albans TIF district audit. The two audits are not apples to apples.

<b>Characteristic</b>	<b>TIF District Performance Audit</b>	<b>Financial Statement Audit</b>
Scope	Audit covers multiple years	Audit covers one year
Objective(s)	Audit addresses multiple objectives, such as whether the municipality: 1) retained the authorized amount of education and municipal tax increment; 2) utilized tax increment for eligible purposes; and 3) used TIF district debt to construct eligible improvements or for allowed related costs. <sup>a</sup>	Audit provides an opinion on whether amounts and disclosures in the financial statements are fairly presented.
Audit Approach	SAO-developed audit plan tailored to each TIF district.	Standard audit plan developed by the American Institute of Certified Public Accountants that is repeated for each audit.
Cost	\$20,771 - \$51,764	Based on limited information available, we observed a range of \$27,000 - \$42,000.

<sup>a</sup> Some of the audits covered periods when TIF districts were not constructing improvements and as a result did not include an assessment of project costs.

Respectfully,

A handwritten signature in black ink that reads "Doug Hoffer".

Doug Hoffer

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## Appendix I

### Scope and Methodology

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To gain an understanding of the City of St. Albans TIF district, we reviewed the City's TIF application materials, VEPC's Final Determination, VEPC's Annual Reports for 2016 and 2017, and the City's audited financial statements from FY2013 to FY2017.

For our first objective, we identified the statutory provisions and TIF Rules that address infrastructure improvements and related costs eligible for TIF financing. We obtained guidance from the AGO addressing whether related costs may be financed with TIF district debt. We reviewed the City's finance and administrative accounting procedures and financial policy handbook for information pertinent to authorization and/or eligibility of infrastructure improvements and related costs. We interviewed the director of administration to determine whether a system of policies, procedures and controls was in place to ensure costs financed with TIF district debt are for TIF infrastructure improvements approved by VEPC and are for improvements or related costs as defined in statute and the TIF Rules.

We verified that the total costs for FY2016 and FY2017 per the City's TIF Summary of Expenses agreed to the amount of costs recorded as expenditures in the TIF Capital Projects Fund and any transfers from this fund to other city funds per the audited financial statements. We judgmentally selected a sample of infrastructure improvement costs and related costs from the TIF Summary of Expenses. We reviewed documentary evidence - such as: invoices, contracts, and request for proposal documents provided by the City - to assess whether the costs were for an improvement or related costs in the 2012 TIF District Plan approved by VEPC or through a substantial change request. We also assessed whether the costs met the definition of improvements and related costs in statute and the TIF Rules. We also compared the amount of costs per the TIF Summary of Expenses for FY2013 to FY2017 to the City's annual reports submitted to VEPC for these fiscal years.

To assess whether the City was required to submit a substantial change request to VEPC for changes from the 2012 VEPC-approved TIF District Plan, we reviewed the City's TIF Summary of Expenses for previous fiscal years and noted whether there were costs for improvements not included in the Final Determination and whether there were limited costs or no costs for improvements approved by VEPC in the Final Determination. Using the City's records, we compared actual costs of improvements and related costs to the estimated costs for improvements and related costs approved by VEPC. At our request, the AGO provided guidance about whether departures from the VEPC-approved TIF District Plan constituted a substantial change that would require review by VEPC.

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We utilized the audited financial statements to identify TIF debt proceeds transferred from the TIF Capital Projects Fund to the TIF Debt Service Fund in FY2016 and FY2017, and cumulatively since FY2013, to determine the amount of TIF debt proceeds used for TIF district debt service. We requested that the City consult with an attorney about which provisions of Title 24 Chapter 53, subchapter 5 allows the City to use TIF district debt proceeds to pay debt service. The City provided a legal opinion. We obtained guidance from the AGO.

For our second objective, we identified the statutory provisions and TIF Rules relevant to the calculation and retention of tax increment. We reviewed the method used by VEPC and PVR to certify the OTV of the district. We evaluated the certification of the OTV by VEPC and PVR by comparing the property list the district submitted with the application, including amendments to the certified OTV. Using TIF district maps, we identified the location of parcels added during certification. We calculated the effect of using the OTV (at the time the TIF district was created) to determine the tax increment for FY2017 instead of using the OTV certified by VEPC and PVR in February 2017. Using the date of the first debt, we calculated and documented the beginning and end of the tax increment retention period.

We validated the education tax rates to the published rates available on the Vermont Department of Taxes website and the municipal tax rates to published rates in the City's annual report. We obtained the NEMRC TIF Proceeds Report and TIF Parcel Value Reports and used this information, along with the education and municipal tax rates, to recalculate the education and municipal tax increment. We verified that the percent of education increment retained by the City was no greater than 75 percent, and the municipal increment was no less than an equal percentage. We traced and agreed the recalculated amounts to the City's general ledger and audited financial statements.

We requested the City provide its rationale for treating the municipal parking garage as tax-exempt and reviewed the information provided by the City's attorney. We also obtained a Vermont Department of Taxes document that addressed the tax status of parking garages. Based on the City's documented rationale and information provided by PVR, we consulted with the AGO regarding the tax status of the municipal TIF district parking garages. Using the value of the parking garage in the City's grand list, we calculated an estimate of the amount due to the state Education Fund and St. Albans TIF Debt Service Fund due to the impact of excluding the parking garage from the tax increment calculation.

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For objective three, we identified the statutory provisions and TIF Rules relevant to the types of allowed debt and the authorization and issuance of debt.

We validated that the first debt occurred within the first five years following creation of the district and determined the period during which St. Albans may borrow to pay for TIF improvement.

We verified that tax increment was used for debt payments in FY2017 by reviewing the City's audited financial statements. To assess whether the debt is eligible to be paid with tax increment, SAO verified that debt was approved by VEPC and town voters. We also corroborated the debt payment amounts in the audited financial statements with the bond amortization schedules and to the general ledger accounts.

We obtained copies of loan agreements, accompanying schedules, a copy of the actual bond and registration, the tax certificate, legal opinion, and the city council resolution of intent for all debt instruments on which payments were made in FY2017. We documented the amount of debt outstanding for each bond as of FY2017 and the total amount of principal and interest payments in FY2017. Furthermore, we created a debt history for the debts outstanding in FY2017 by reviewing the audited financial statements, annual reports to VEPC, and city council meeting minutes.

To determine whether the TIF district debt outstanding in FY2017 was approved by VEPC, we reviewed the 2012 TIF District Plan approved by VEPC to confirm that the amount of debt did not exceed the total authorized by VEPC.

To determine whether a debt ceiling and each bond were approved by municipal voters, we obtained ballots, public notices, and city council meeting minutes for the debt instruments on which payment was made in FY2017. We compared the disclosures in the ballots, public notices, and meeting minutes to the statutory criteria in effect when public approval was sought for each debt.

We performed our audit between May 2018 and February 2018, which included visits to the city offices in St. Albans City, Vermont. We conducted this performance audit in accordance with generally accepted government auditing standards, which require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.