



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

To: Senator Sirotkin, Chair, Senate Committee on Economic Development, Housing and General Affairs
Date: 4 February 2021
Re: S.33 – use of TIF debt proceeds to pay for interest on the same debt

S.33 proposes a definition of improvements that includes “funding of debt service interest payments,” which means borrowed TIF dollars can be used to pay for interest on those same borrowed dollars.

The State Auditor’s Office (SAO) provides this memo to make two points:

- Use of TIF debt proceeds to pay for interest on the same debt will reduce the amount of debt proceeds available for investment in the municipal infrastructure improvement project.
- Other than St. Albans, SAO’s TIF district audits haven’t found that municipalities used TIF debt proceeds to pay for debt service.

What we’ve learned from TIF district audits

The issue of using TIF debt to make payments on debt, rather than investing in infrastructure improvements, arose during SAO’s audit of the St. Albans TIF district. St. Albans’ tax increment was not sufficient to cover its debt payment obligation, so the City used about \$1 million of debt proceeds to make payments on the debt instead of investing in infrastructure improvements.

Based on other TIF district audits completed by SAO, this issue is limited to St. Albans.¹ Our recent audit of Hartford’s TIF district showed that VEPC required the Town to seek its approval for each phase of the TIF district prior to borrowing and making the related infrastructure investments. This strategy worked well and through June 30, 2019, cumulative tax increment exceeded the amount used to repay TIF district debt. As a result, Hartford had over \$240,000 of tax increment for future use (TIF debt repayment, direct payment for improvements, or related costs).

This approach seems to offer a prudent alternative to the debt-for-debt scenario. Therefore, I am not sure the existing statutory provisions regarding TIF debt-for-debt should be changed. There are bills in both chambers dealing with this issue for all TIF towns and we plan to offer testimony at a later date. For now, we encourage you to drop this provision until you and your colleagues can have a more informed discussion about the pros and cons.

¹ Tax increment for Winooski’s TIF district is less than debt service on the TIF debt but Winooski uses other revenues such as PILOTs paid by Vermont Student Assistance Corporation and Community College of Vermont and parking garage revenues to meet the debt service obligation.