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**TO:** House Committee on Ways & Means  
**FROM:** Doug Hoffer, Vermont State Auditor  
**DATE:** April 6, 2023  
**RE:** Borrowing period and tax increment retention period extensions for Hartford and Barre TIF districts in S.94

The current S.94 draft includes extensions for the Hartford and Barre City TIF districts among other changes to the TIF statutes. I have some specific observations and suggestions re: Hartford and Barre City, but first I'd like to offer a brief word for the newer members of the committee that might be obvious to longer-serving members.

The history of the TIF program is one of deliberate restraint, driven by a substantial percentage of legislators who did not favor using the Education Fund as a funding source for municipal infrastructure projects. TIF advocates argued that the Education Fund would not be losing money because projects would not proceed "but for" TIF. Opposing legislators declared that unprovable which even many advocates acknowledged to be the case.

In exchange for allowing some municipalities to utilize TIF, those in favor of restraint limited the number of allowable districts, ensured that it was the TIF municipality that bore the risk if projects didn't go as planned, and put limits on the length of time the municipality could withhold funds that would otherwise go to the Education Fund. *With each statutory accommodation the Legislature makes, these fiscal controls are eroded.*

I now offer the following observations specific to Hartford and Barre City:

- Hartford's total borrowing period would be 15 years (statute allows 10 years). The total tax increment retention period would be 22 ½ years (statute allows 20 years).
- Barre's total borrowing period would be 14 years (statute allows 10 years). The total tax increment retention period would be 25 ½ years (statute allows 20 years).

- As of June 30, 2022, Hartford has cumulative excess tax increment exceeding TIF debt and expenses of approximately \$1 million. This means Hartford has \$1 million sitting on the bottom line. In Senate testimony, a town staff person said this number was dated, but it is drawn from their most recent submission to VEPC, and the town has offered no subsequent financial information to support their assertion that they will have a problem without an extension of the tax increment retention period.
- Barre has not issued debt since 2015 so this TIF district appears to have stalled long before the COVID-19 pandemic. Barre testified that they intend to develop alternate plans to the original TIF district plan authorized by VEPC. Granting extensions to the borrowing period and the tax increment retention period gives Barre the ability to imagine a whole new TIF district plan via the substantial change process which, if approved by VEPC, has the effect of allowing a 'double TIF district.' Granting that is a policy choice for the Legislature, but nothing in statute or TIF rules was intended to permit a municipality from creating a 'double TIF.' In fact, the existing guardrails were meant to prevent such an outcome.

There are other issues that I'd like to highlight for you, and I offer some ways to address these issues.

### 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\(j\)](#) 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

### Suggestions to address issues

- 1.a Restrict total borrowing for public infrastructure improvements to the total that is currently authorized by VEPC and state these amounts in S.94. Hartford is authorized to borrow \$12.9 million, and Barre is authorized to borrow \$8.1 million.
- 1.b Nullify the extension to the tax increment retention period if no new permanent debt is issued prior to the end of the extended borrowing period. Exclude interfund loans from qualifying as new permanent debt (this avoids the use of a "token" interfund loan in order to extend the tax increment retention period).

- 1.c Make the extensions contingent upon VEPC's authorization of substantial change requests that incorporate these extensions.
2. Require retention of 100% of municipal tax increment, commencing in FY2024, through the end of any extension to the tax increment retention period and require all the municipal tax increment be applied to repay debt prior to any use of education tax increment.