



Tax Increment Financing District: South Burlington

City Managed TIF District According to
Requirements



Mission Statement

The mission of the Auditor's Office is to hold State government accountable by evaluating whether taxpayer funds are being used effectively and identifying strategies to eliminate waste, fraud, and abuse.

This report is a work of the Office of the State Auditor, State of Vermont, and is not subject to copyright protection in the United States. It may be reproduced and distributed in its entirety without further permission from the State of Vermont or the Office of the State Auditor. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately. Please contact the Office of the State Auditor if you have questions about reproducing this report.

Dear Colleagues,

Municipalities with a tax increment financing (TIF) district incur debt to finance infrastructure improvements and earmark a portion of incremental education and municipal property tax revenues (i.e., tax increment) from the district to repay the debt, rather than send the education property tax revenues to the State's Education Fund.

Our office is required to audit all TIF districts according to a timeline established in law. This is our first audit of the City of South Burlington's City Center TIF District.

Through June 30, 2022, South Burlington issued \$10.4 million of general obligation bonds for TIF district improvements as authorized by Vermont Economic Progress Council (VEPC) and approved by municipal voters and utilized this debt to finance eligible TIF district improvements such as a municipal building, roadways, and streetscape. From fiscal year (FY) 2018 to FY2022, the City kept almost \$1 million of education and municipal tax increment and used the tax increment to pay interest on the bonds issued to finance TIF district improvements. The City elected to structure the bond payment terms as interest-only in the early years of the tax increment retention period to match incremental education and municipal property tax revenue projected to be available for bond payments. As of June 30, 2022, the bond interest payments have not exceeded cumulative tax increment.

The City's compliance with TIF district requirements is due to processes implemented by the City including close communication and cooperation between program management and finance management teams, consistent project oversight practices, and procedures that ensure completeness of property records and accuracy of the tax increment calculation.

The Joint Fiscal Office (JFO) is required by law to periodically assess the fiscal impact of TIF, if any, on the Education Fund. In its 2022 report, JFO indicated that the fiscal impact hinges upon the strength of the "but for" condition (baseline property value growth of the parcels in the district would be flat for 20 years if not for the use of TIF) which is assessed when a municipality applies to VEPC for a TIF district. JFO concluded the no-growth assumption was flawed and estimated that if the existing 10 TIF districts were to grow at their historical average, they will cost the Education Fund between \$5.5 and \$7.5 million annually over the next five years. South Burlington is one of the municipalities with TIF districts that JFO estimated would generate positive revenues for the Education Fund by the end of its retention period which JFO largely attributed to South Burlington's projections of unprecedented increases to taxable value (\$35 million to over \$300 million).

I would like to thank the management and staff at the City of South Burlington for their cooperation and professionalism throughout the course of this audit.

Sincerely,



DOUGLAS R. HOFFER
State Auditor

ADDRESSEES

The Honorable Jill Krowinski
Speaker of the House of Representatives

The Honorable Phil Scott
Governor

Mr. Adam Greshin
Commissioner, Department of Finance and Management

The Honorable Philip Baruth
President Pro Tempore of the Senate

Ms. Kristin Clouser
Secretary, Agency of Administration

Ms. Jessie Baker
City Manager of South Burlington

Contents

	Page
Introduction	1
Background	2
Objective 1: \$10.4 Million of Authorized Debt Issued and of \$6.8 Million Examined, 100 Percent was Used for Eligible Improvements	7
GO Bond Issuances Authorized by VEPC and Municipal Voters	7
City Financed Eligible Public Improvement Costs from FY2017 - FY2022	9
Objective 2: 75 Percent of Tax Increment Kept and Used for Debt Repayment as Allowed; 25 Percent Paid to Education Fund as Required	10
City Kept About \$1 Million of Tax Increment and Paid Approximately \$250,000 to Education Fund as Required	10
Tax Increment Used Exclusively for Debt Repayment as Permitted	12
Conclusions	12
Management's Comments	13
Appendix I: Scope and Methodology	14
Appendix II: Abbreviations	17
Appendix III: South Burlington TIF Improvement Project Costs	18
Appendix IV: Comments from Management	20
Appendix V: SAO Observation on Management's Comments	21

Introduction

Tax increment financing (TIF) is a tool that municipalities can use to finance public infrastructure, such as streets, sidewalks, and storm water management systems. In Vermont, establishing a TIF district allows a municipality to designate an area for improvement, incur debt to finance public infrastructure, and retain a portion of growth in property tax revenues, called incremental property tax revenue. Incremental property tax revenues are used to repay the debt, and they include municipal property taxes (municipal tax increment) and statewide education property taxes (education tax increment). Thus, in a municipality with a TIF district, a portion of state education property tax revenue is kept by the municipality to pay for infrastructure and debt. Normally these funds would be sent to the State's Education Fund to pay for public education.

The City of South Burlington City Center TIF District was approved by the Vermont Economic Progress Council (VEPC) on July 25, 2013, subject to the submission of a TIF Financing Plan. The City's Financing Plan was approved by VEPC in 2015. In total, VEPC has authorized \$29.7 million of public improvements and related costs to be funded with tax increment financing. As of the end of fiscal year (FY) 2022, South Burlington had issued \$10,429,962 of bonds to be repaid with tax increment and voters had authorized an additional \$4,002,550 of borrowing.¹ Subsequently, the voters authorized another \$15,086,430. The City is authorized to issue debt until March 31, 2024 and to keep 75 percent of education tax increment through FY2037 for debt repayment and other allowed uses.

We performed this first audit of the City Center TIF District as required by the Legislature. The audit's objectives were to determine:

1. For the period from 2012 to 2022, whether the City of South Burlington obtained required authorizations to issue debt for the City Center TIF district and used such debt to finance eligible improvement projects and related costs; and
2. For the period from 2017 to 2022:
 - a) whether the City retained the appropriate amount of education and municipal tax increment in the City Center TIF District Fund and remitted the required amount to the State's Education Fund, and
 - b) whether the City used tax increment for allowable purposes.²

We found that South Burlington received the required approvals to issue debt and used the debt to finance eligible improvement costs and related expenses. We also found that the City retained the correct amounts of municipal and education tax increment and used the increment for allowed purposes.

¹ South Burlington's fiscal year is July 1 to June 30.

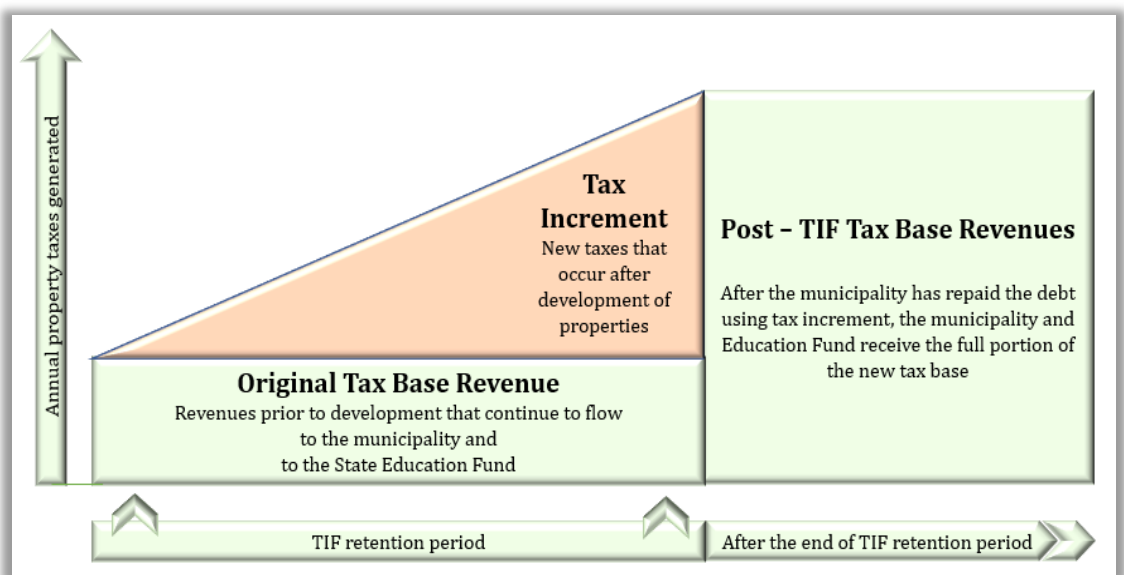
² Appendix I details the scope and methodology of the audit. Appendix II contains a list of abbreviations used in this report.

Background

The purpose of a TIF district is to fund public infrastructure and stimulate economic development. A municipality designates a geographical area where it wants to encourage private sector development, and where the municipality thinks public infrastructure improvements are needed for that development. The municipality incurs debt to finance the needed public infrastructure improvements in the TIF district, which in theory stimulates private investment that would not otherwise have occurred in the designated TIF area. The combination of both public and private investment is expected to increase property values, generating property tax revenue. The expected growth in property tax revenues (i.e., incremental property tax revenue) in the designated area is used to pay debt incurred to finance the cost of improvements. The incremental property tax revenue is retained by the municipality for the period authorized by the municipal legislative body or until all financing and related costs are retired, beginning the year in which the first debt obligation is incurred. Taxing authorities, like the municipality and the State (i.e., the Education Fund), continue to receive property tax revenue on the original taxable value (OTV) of all the properties located within the TIF district throughout the 20-year period.

Exhibit 1 below shows the basic TIF model, including the anticipated tax increment.

Exhibit 1: Basic TIF Model^a



^a Based on the figure presented in [“An Examination of the State of Vermont Tax Increment Financing Program” January 24, 2018, Vermont Legislative Joint Fiscal Office](#)

The Legislature’s non-partisan Joint Fiscal Office (JFO) is required by law to periodically assess the fiscal impact of TIF, if any, on the Education Fund.

[JFO's 2022 report](#) indicated that the fiscal impact of TIF hinges upon the strength of the “but-for” condition which is assessed when a municipality applies for a TIF district. According to JFO, all Vermont TIF district applications rely on the premise that the baseline property value growth of the parcels in the district would be flat for 20 years if not for the use of TIF (e.g., the “but-for”). JFO noted that if the “but-for” condition is correct, then TIF would never be a fiscal cost to the State or the municipality.

To understand the potential fiscal impacts of TIF, JFO modeled a hypothetical construct. The model shows the cost of TIF if the parcels in the district simply grew at their historical average, rather than assuming they would not grow for 20 years after creation, as is the construct when calculating tax increment under TIF.

"[O]ne significant result of this exercise was the discovery that no TIF district experienced zero or negative growth in their pre-TIF eras. In some districts, the growth prior to TIF creation was 5% per year or more (Hartford, Burlington Downtown)... If data shows the parcels in a TIF district were growing in the years prior to TIF, it seems unreasonable to assume they would suddenly stop growing... **JFO concludes that the theoretical assumptions upon which tax increment calculations are based in current TIF districts are flawed...**"

Having challenged the no-growth assumption underlying the “but-for” analysis, JFO estimated that if the existing 10 TIF districts were to grow at their historical average, they will cost the Education Fund between \$5.5 and \$7.5 million annually over the next five years and will cost municipalities \$3 to \$5 million each year.

TIF District Authorization and Oversight

The Legislature designated VEPC as the State body responsible for approving or disapproving a TIF district when a municipality applies for one.

Since 2006, to use incremental education property tax to finance TIF district improvements, municipalities are required to seek VEPC's authorization of a TIF district plan and a district finance plan.³

VEPC's approval is also required before the municipality seeks a public vote to pledge the credit of the municipality (i.e., issue debt).

According to [statute](#) and the [TIF Rule 1100](#), VEPC conducts oversight and non-compliance enforcement of all districts.

TIF District Debt and Tax Increment

Upon VEPC's authorization and municipal voter approval to incur debt to build public infrastructure improvements and pay for related costs, a municipality may issue debt for up to ten years from the creation date of the district. The first debt is to be issued before the fifth anniversary of the district creation date. For the purposes of this report, the phrase "TIF district debt" refers exclusively to debt that will be repaid with tax increment.

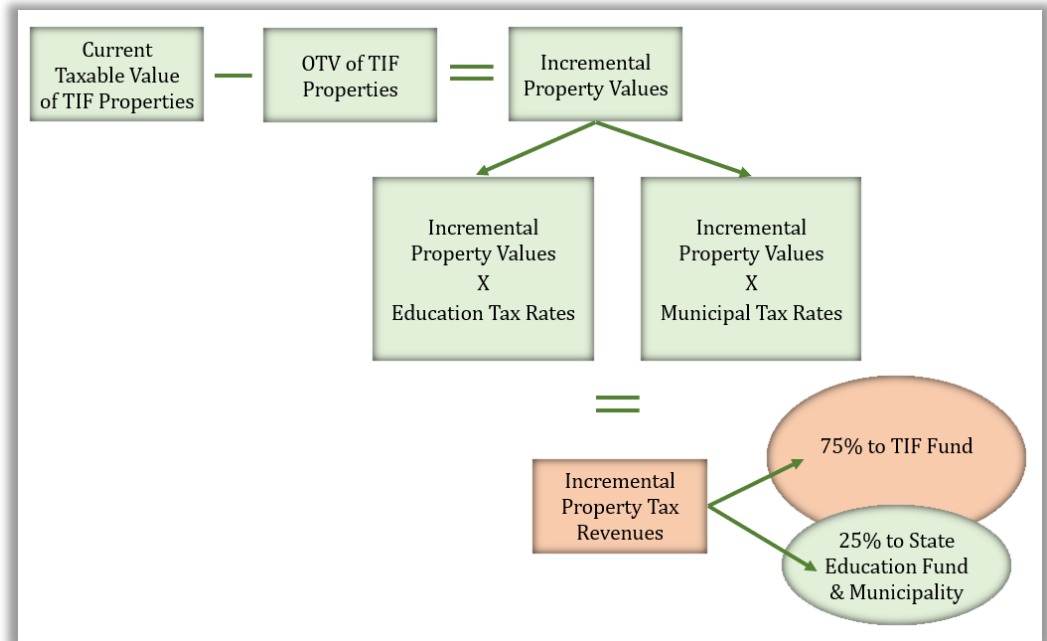
Tax increment may be used to pay TIF district debt and to directly pay for improvements and related costs. The term "improvements" is defined in [statute](#) as the installation, new construction, or reconstruction of infrastructure that will serve a public purpose and fulfill the purpose of the district. According to [TIF Rule 704](#), improvements may include, but are not limited to: transportation (e.g., public roads, parking lots, garages, streetscapes, and sidewalks), land and property acquisition, property demolition, site preparation, and utilities, such as wastewater, storm water, water dispersal and collection systems.

Related costs are defined as expenses incurred and paid by the municipality, exclusive of the actual cost of constructing and financing improvements, that are directly related to the creation and implementation of the TIF district. Municipalities with TIF districts approved by VEPC are authorized to retain 75 percent of the state education tax increment and are required to allocate at least the same proportion of municipal tax increment for repayment of TIF district financing.⁴

Exhibit 2 illustrates the calculation of incremental property tax revenue.

⁴ In accordance with changes enacted by [24 V.S.A. §1894\(b\) and \(c\)](#), TIF districts, approved by VEPC in FY2018 forward, may retain 70 percent of the education tax increment and are required to allocate 85 percent of the municipal tax increment to repay TIF district debt. A municipality may retain more than 85 percent of the municipal tax increment in the TIF district.

Exhibit 2: Calculation of Incremental Property Tax Revenue



TIF Districts and Statewide Education Funding

Municipalities, acting as agents of the State, collect state education property taxes and pay local schools the education property tax liability determined by the Agency of Education (AOE). As a result, payments from municipalities to local schools are in effect payments to the Education Fund.

Municipalities are statutorily required to provide the Vermont Department of Taxes (VDT) with grand list data. The grand list data forms the basis for the collection of property taxes for all the municipalities in Vermont and includes the owner's name and assessed value for all real estate parcels, all taxable personal estates, and tax-exempt properties. VDT uses this data to determine the taxable education property value (EPV), which for municipalities with TIF districts, excludes 75 percent of the incremental education property value of the TIF district, as allowed. Conversely, 25 percent of the education tax increment is included in the amount of education property taxes owed to a local school district or to the Education Fund, per the AOE calculation.

New England Municipal Resource Center (NEMRC®), the grand list software program, used by municipalities, includes a TIF Module, which is used to account for TIF district properties and to perform the tax increment calculation.

Accuracy of the automated tax increment calculation directly or indirectly depends on the completeness and accuracy of the numerous information components, including:

- Property assessment values, listed on the grand list of the municipality,
- Certified TIF OTV,
- State Education Property Tax Rates,
- Municipal Property Tax Rate, including local agreement components.

These information elements originate at the municipal level and are reflected in various NEMRC® reports.

South Burlington City Center TIF District

Improvements authorized by VEPC include City Center Park, Market Street, and construction of a municipal building to house a public library, city hall, and a senior center. The use of tax increment for each of the projects is set by VEPC proportionally to the portion of the improvement costs that will serve the TIF district.

Some of the City Center TIF district improvements are TIF debt financed at 100 percent, while others are limited to a proportion of costs. For example, the City may use TIF debt financing to cover 30 percent of the library improvement costs, and 10 percent of the city hall improvement costs.

According to City records, City Center TIF district improvement projects will also be funded with federal and state grants, impact fees and a Capital Improvement Plan (CIP) Reserve Fund. See [Appendix III](#) for descriptions of the VEPC-approved improvements and costs anticipated to be financed with TIF district debt.

The City Center TIF District Fund is used to account for the financial resources used for City Center projects. The Fund is used to record all expenditures for costs of improvements (financed with TIF and non-TIF resources), debt proceeds, debt service (principal and interest), related costs, and tax increment revenues. All debt issued for City Center TIF District improvement projects is recorded in the fund, including debt that will be repaid with non-TIF resources such as the CIP Reserve Fund.

Objective 1: \$10.4 Million of Authorized Debt Issued and of \$6.8 Million Examined, 100 Percent was Used for Eligible Improvements

As of June 30, 2022, the City of South Burlington had issued \$10.4 million of general obligation (GO) bonds for TIF district improvements out of \$14.4 million of tax increment financing that has been authorized by VEPC and approved by municipal voters in three separate public votes.

We examined 67 percent of the \$10.2 million of TIF improvement project costs financed with the GO bonds and concluded the costs were eligible to be financed with TIF district debt, as they were: 1) authorized by VEPC and municipal voters as required by statute and 2) for improvements such as a municipal building, roadways, and streetscape which meet the definition of infrastructure improvements established in statute and the TIF Rules.

GO Bond Issuances Authorized by VEPC and Municipal Voters

VEPC approved the City of South Burlington's TIF district plan on July 25, 2013 and the financing plan in 2015. The list of TIF district improvement projects authorized by VEPC was amended in substantial change requests of 2018 and 2021.⁵ As of the most recent 2021 substantial change request, total improvements and related costs authorized by VEPC for tax increment financing were \$29,123,995 and \$603,100, respectively.

As of the end of FY2022, the City had held three municipal votes to obtain municipal voter authorization for tax increment financing for \$14.4 million for TIF improvements and related costs. Debt authorized in the 2016 and 2018 votes has been issued and is detailed in Exhibit 3.

⁵ [24 V.S.A. §1901\(2\)\(B\)](#) requires any proposed substantial changes to the approved TIF district plan and approved TIF financing plan be submitted to VEPC for review.

Exhibit 3: City Center TIF District Debt Issued as of FY2022

Year Voted	Year Issued ^a	Type	Improvement Project	Amount
2016	2017	GO Bond	City Center Park Phase I and Market Street	\$5,000,000
2018	2020	GO Bond	City Hall, Library, Senior Center	\$5,000,000
2018	2022	GO Bond	City Hall, Library, Senior Center	\$429,962
			TOTAL	\$10,429,962

^a The interest rates on the tax increment finance bonds are 3.39%, 1.92% and 2.03%, respectively.

In March 2021, municipal voters authorized another \$4,002,550 of TIF District debt, but no debt has been issued under this authorization. The City has until March 31, 2024, to issue additional TIF district debt to finance remaining planned improvements.

South Burlington's public votes held in 2016, 2018, and 2021 were in accordance with [24 V.S.A. §1894\(h\)](#) and [TIF Rule Sections 1003.1 and 1003.2.2](#). Prior to every instance of obtaining voter approval for TIF tax increment financed debt, South Burlington held public meetings and properly disclosed information that is required to be provided to the City's voters in advance of the public vote, such as the type of debt to be issued, term of the debt, improvements, and related costs that will be financed with the debt and expected private development.

In advance of issuing its first TIF bond in August 2017, the City obtained an interfund loan in February 2017 to provide temporary project financing. GO bond proceeds were used to pay off the interfund loan. The City appropriately disclosed the potential for the use of an interfund indebtedness to the municipal voters prior to the public vote on TIF debt issuance held in November 2016, in accordance with [TIF Rule 801 and 1003.2.2](#) disclosure requirements pertaining to interim financing. The interfund loan was issued interest free.

On March 7, 2023, City voters approved another \$15,086,430 of tax increment financed debt. Since this occurred after the period covered by the audit, we did not assess compliance with statutory and TIF Rule requirements.

City Financed Eligible Public Improvement Costs from FY2017 - FY2022

We examined \$6,872,568 of infrastructure improvements financed with TIF district debt from FY2017 to FY2022 (67 percent of \$10.2 million TIF financed costs) and concluded the costs were eligible TIF district infrastructure improvements. Specifically, the costs align with the descriptions and total costs estimated for improvements described in the 2015 TIF district plan and the City's subsequent substantial change requests approved by VEPC. The costs are also consistent with those disclosed in public notices provided to municipal voters in advance of public votes authorizing the City of South Burlington to incur TIF district debt. Further, the costs were for construction of a municipal building, roadways, streetscape, stormwater, and activities such as engineering that fit within the [statutory](#) and [TIF Rules definitions](#) of improvements and related costs. An additional \$227,528 of the debt issued had not yet been used for improvement projects.

Exhibit 4 lists improvement costs for the City Center TIF district from FY2017 to FY2022 and the amounts we tested.

Exhibit 4: Improvement Costs and Amounts Tested FY2017 – FY2022

Improvement Projects ^a	Total Costs ^b	Total Costs Tested	Percent Costs Tested to Total Costs
Market Street	\$3,720,566	\$2,124,462	57%
City Center Park Phase I	\$1,051,896	\$734,816	70%
Library	\$4,456,809	\$3,477,061	78%
City Hall	\$542,474	\$331,911	61%
Senior Center	\$431,801	\$204,319	47%
	\$10,203,546	\$6,872,569	67%

^a Appendix III contains a list of improvement projects and descriptions.

^b This table presents only the portion of improvement costs financed by TIF debt.

According to the City's records, the total cost for the combined City Hall, Library, and Senior Center project was about \$21.7 million. The City's use of TIF district debt for the construction of the City Hall (10 percent), Library (30 percent) and the Senior Center (30 percent) was appropriately limited to the proportion of total costs authorized by VEPC for tax increment financing.

All tested costs were reviewed, approved, and authorized by the City's program development and finance officials. The goods and services included in the testing were provided by vendors competitively selected in accordance with the City Procurement Policy and authorized by the City Council. The City

tracked and accurately documented all TIF improvement project expenditures by project and source of financing.

South Burlington's compliance with TIF requirements for debt authorization and improvement cost eligibility was due to multiple factors such as the following:

- Close communication and cooperation between program management and finance management teams.
- Knowledge of and strict adherence to TIF statutes and regulations.
- Communication of changes to VEPC.
- Consistent project oversight practices.
- Institutional knowledge of the City Community Development Director, who has overseen the TIF district since its creation.

Objective 2: 75 Percent of Tax Increment Kept and Used for Debt Repayment as Allowed; 25 Percent Paid to Education Fund as Required

Beginning in FY2018 through FY2022, the City kept a total of \$999,239 of education and municipal tax increment, equivalent to 75 percent of tax increment as permitted by [24 V.S.A. §1894\(b\) and \(c\)](#). An additional \$253,299 (25 percent) of education tax increment was remitted to the State Education Fund as required and \$79,781 of municipal tax increment was directed to the City's General Fund.

In this same period, consistent with [24 V.S.A. §1894\(b\) and \(c\)](#), the City used education and municipal tax increment to pay \$944,019 of interest on the three bonds issued to finance TIF district improvements. As of June 30, 2022, the cumulative balance of tax increment available for future use is \$55,220.

City Kept About \$1 Million of Tax Increment and Paid Approximately \$250,000 to Education Fund as Required

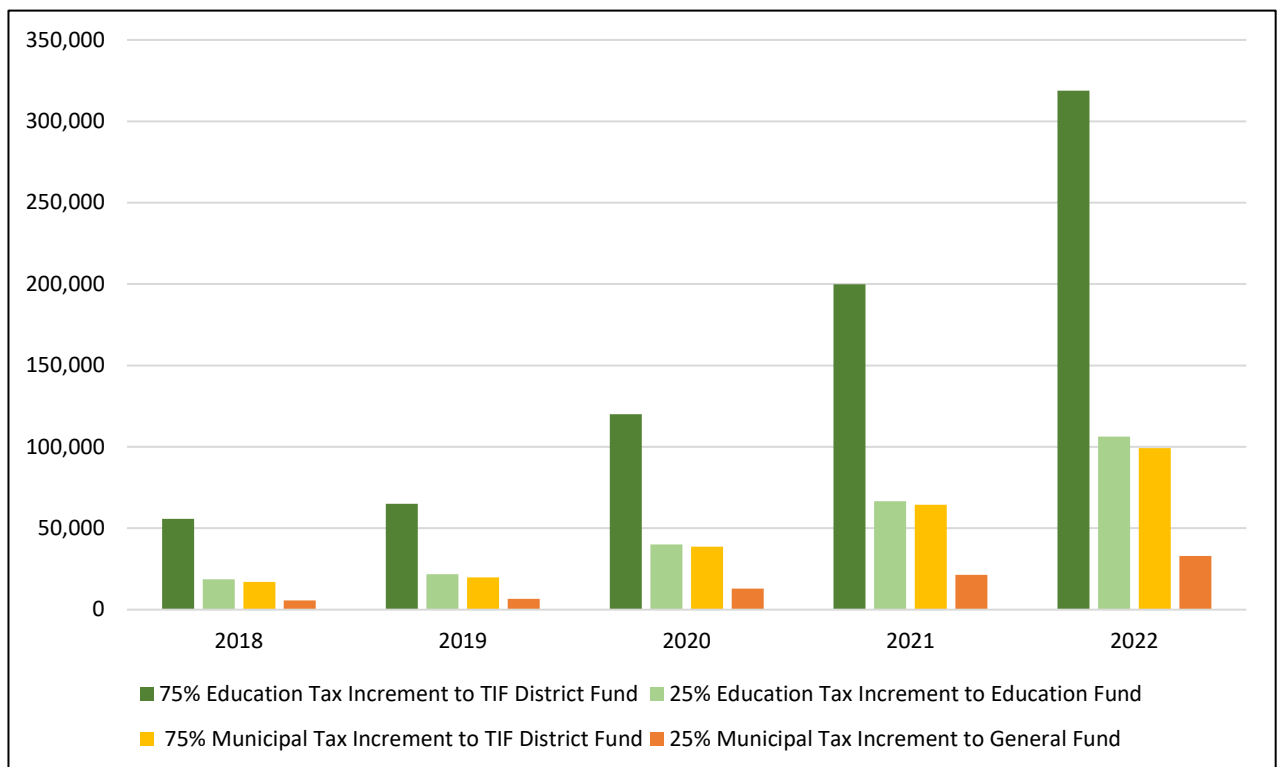
Through five fiscal years (FY2018 to FY2022), the City kept \$759,897 of education tax increment and \$239,342 of municipal tax increment in the City Center TIF District Fund (equivalent to 75 percent of total tax increment). We

recalculated education and municipal tax increment for FY2020 to FY2022 and concluded that the City's calculation and the amount kept in these years was appropriate.

The City remitted \$253,299, representing 25 percent of education tax increment, to the State's Education Fund from FY2018-FY2022 as required by [24 V.S.A. §1896](#) and [24 V.S.A. 1894\(f\)](#). In this same period, according to the City's records, \$79,781, representing 25 percent of the municipal tax increment, was directed to the City's General Fund.

Exhibit 5 shows these amounts across the five-year period.

Exhibit 5: Tax Increment Kept in City Center TIF District Fund and to Taxing Authorities FY2018 – FY2022



The City described its procedures for ensuring the grand list is complete and the tax increment calculation and amount retained is accurate. For example, the City explained that changes to the grand list were input by the City's Assessor and reviewed by a second individual. In addition, the Finance Officer uses Excel to verify the amount of tax increment the City was authorized to keep per reports from the NEMRC® TIF module.

Per [24 V.S.A. §1894\(b\)](#) and [TIF Rule 712](#), the City has twenty years to retain education tax increment based on the date of the first debt issued for improvements. The City first issued debt February 21, 2017, so the City's education tax increment retention period began in FY2018 and concludes in FY2037. Therefore, the City has 15 years remaining to retain education tax increment. According to [TIF Rule 300 and 802](#), municipal tax increment may be retained for the period authorized by the municipal legislative body or until debt and related costs are repaid. The City Council authorized retention of municipal tax increment for the legal life of the TIF district which ends when all TIF district debt and related costs are retired per [TIF Rule 719](#). Thus, municipal tax increment may be retained for a period greater than 20 years if debt repayment extends beyond FY2037.

Tax Increment Used Exclusively for Debt Repayment as Permitted

[Statute](#) limits the use of any education tax increment held in the designated District Fund to pay district debt financing and related costs.

The City utilized \$944,019 of tax increment for interest payments on three general obligation bonds out of the total \$999,239 tax increment accumulated from FY2018 through FY2022. According to the City's records, principal repayment commences in FY2024. As of the end of FY2022, the City reported an available balance of \$55,220 remaining in the City Center TIF District Fund.

[Statute](#) and the [TIF Rule 705](#) also allow tax increment to be used to pay for the cost of implementing and administering the TIF District (i.e., related costs). From FY2012 through FY2022, the City has incurred \$111,789 of related costs such as VEPC filings/TIF application, legal, and audit but has not used tax increment to pay for these costs. In the future, if tax increment is greater than the amount needed for debt principal and interest, the City will also use tax increment for related costs.

Education and municipal tax increments are recorded annually in separate general ledger accounts. The City uses an Excel spreadsheet to track the use of tax increment. The spreadsheet details the annual TIF debt service, tax increment retained to pay for TIF debt service, and the projected interest and principal payments to be paid with tax increment through fiscal year 2038.

Conclusions

As of the end of FY2022, South Burlington had issued \$10.4 million of general obligation bonds for TIF district improvements out of \$14.4 million of tax increment financing authorized by VEPC and approved by municipal voters in

three separate public votes. South Burlington has until March 31, 2024, to issue additional debt to finance remaining planned improvements.

As of FY2022 South Burlington completed five improvement projects, authorized by VEPC, using \$10.2 million of TIF district debt proceeds for these improvement projects. About \$228,000 remains available for use on authorized improvement projects.

The City Center TIF District is approximately one quarter of the way through the 20-year period that education tax increment may be retained, and the City had a balance of \$55,220 remaining in the City Center TIF District Fund as of June 30, 2022. Since issuance of the first debt on February 21, 2017, South Burlington has retained \$999,239 of tax increment and used it to make interest payments of \$944,019 for three bonds.

Management's Comments

On May 19, 2023, the City Manager for the City of South Burlington provided written comments on a draft of this report. The City Manager agreed with the report findings and conclusions. Appendix IV contains a reprint of the comments.

Appendix I

Scope and Methodology

For our first objective, we identified the statutory provisions and TIF Rules that address authorization and issuance of TIF district debt; allowable uses of TIF debt; and the allowable period to incur debt.

We interviewed South Burlington City officials to gain an understanding of their role in administering the TIF district and the City Council's oversight of the TIF district. We inquired about policies, procedures, and internal controls in place for 1) authorizing, issuing, and tracking TIF debt; 2) ensuring costs financed with TIF district debt are for TIF infrastructure improvements approved by VEPC and municipal voters; and 3) recording TIF related transactions in the TIF Fund.

We prepared a schedule for TIF debt authorized and issued from FY2017 through FY2022, by reviewing audited financial statements, certified voting results, and financing documents. We validated that the first debt was incurred within the first five years following creation of the district and determined the period during which South Burlington was allowed to borrow debt to finance the TIF improvements and related costs.

To assess whether the City adhered to statutory criteria for incurring TIF debt, we reviewed the ballots, warnings, City Council meeting minutes, and information presented at TIF public hearings. To determine whether TIF debt was for improvements authorized by VEPC, we examined the TIF district's original and revised financing plans, and substantial change requests approved by VEPC.

Next, we identified the statutory provisions and TIF Rules that address the criteria applicable to determining the eligibility of TIF infrastructure improvements and related costs eligible for tax increment financing.

We interviewed City officials about policies, procedures, and internal controls in place for authorization and payment of infrastructure improvements and related costs and we reviewed South Burlington's procurement policy and accounts payable procedures.

We reviewed the audited financial statements, general ledger TIF account detailed transaction records, and South Burlington's TIF district project cost detailed documentation for FY2017 to FY2022.

We judgmentally selected a sample of infrastructure improvement costs from the general ledger TIF account detailed transaction records for FY2017 through FY2022 for the five highest-paid vendors. We evaluated whether the costs were for infrastructure improvements or related costs authorized by VEPC and approved for financing by municipal voters. We reviewed documentary evidence provided by South Burlington, such as invoices and contracts to determine whether the costs met the definition of improvement or related costs in statute and TIF Rules. We also assessed whether the documentary evidence demonstrated that the City officials had adhered to procurement policies and accounts payable procedures.

Appendix I

Scope and Methodology

For our second objective, we identified the statutory and TIF Rules relevant to the calculation and retention of tax increment. We interviewed City officials regarding policies, procedures and controls over monitoring the grand list and properties in the TIF district and calculating tax increment. Using the pertinent criteria and date of the first debt, we calculated and documented the beginning and end of South Burlington's tax increment retention period.

We recalculated the City's education and municipal tax increment for FY2020 through FY2022. We compared the education tax rates to the published rates available on the Vermont Department of Taxes (VDT) website. We verified whether the City included all municipal tax rates for its tax increment calculation. Next, we verified that the municipal tax rates were approved by the City Council and recorded in the meeting minutes.

TIF Proceeds reports and TIF Parcel Value reports from New England Municipal Resource Center (NEMRC®), the software package used to maintain the City's grand list, along with the education and municipal tax rates, were used 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 tax increment was no less than 75 percent. We traced and agreed the recalculated amounts to the City's general ledger and audited financial statements.

We obtained the 2012 certified OTV signed by VEPC, and municipal representative and verified that the FY2020 grand list TIF parcels in the education and municipal parcel value reports included all the parcels from the 2012 certified OTV. Then we traced the TIF parcels from the City's online parcel viewer to the certified OTV report and the FY2017 education parcel value report.

We verified that the values for homestead and non-homestead per the AOE-EPV report provided by Property Valuation and Review (PVR)⁶ to AOE agrees to the Education Grand List line on the Form 411 submitted by the City for FY2020, FY2021, and FY2022. Next, we traced the totals from the AOE-EPV reports to the Cash Flow reports for FY2020, FY2021, and FY2022. Lastly, we verified that the City paid the school district the amount directed by AOE in the Cash Flow Reports for FY2020-FY2022 by tracing the payments to the bank statements.

We identified and documented the statutory and TIF rules applicable to the City's TIF that address allowable uses of tax increment. We interviewed City officials and obtained policies and procedures pertinent to calculating and tracking tax increment. We prepared a schedule detailing the amount of tax increment used from FY2017 through FY2022 to pay debt service and

⁶ The Division of Property Valuation and Review (PVR) oversees the administration and municipal coordination of the statewide education property tax system.

Appendix I

Scope and Methodology

corroborated that this amount is equal to the debt payments in the debt amortization schedules.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards, which requires that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II Abbreviations

AOE	Agency of Education
CIP	Capital Improvement Plan
EPV	Education Property Value
FY	Fiscal Year
GO	General Obligation
HS	Homestead
JFO	Joint Fiscal Office
NEMRC	New England Municipal Resource Center
NHS	Non-Homestead
OTV	Original Taxable Value
PVR	Property Valuation and Review
TIF	Tax Increment Financing
VDT	Vermont Department of Taxes
VEPC	Vermont Economic Progress Council
V.S.A.	Vermont Statutes Annotated

Appendix III

South Burlington TIF Improvement Project Costs

The following exhibit shows the improvement projects and related costs authorized by VEPC to be financed with tax increment financing as of the VEPC – approved November 2021 substantial change request.

Exhibit 6: Improvement Projects and Related Costs Authorized by VEPC for Financing by Tax Increment

Projects	Infrastructure Improvements and Related Costs Descriptions	TIF Debt Proportion	Amounts Authorized by VEPC	Actual TIF Bond Proceeds Used	Project Status
Market Street	A section of roadway between Dorset Street and Hinesburg Road inclusive of all intersections, including streetscape, stormwater treatment, utility, lighting and transportation upgrades.	100%	\$3,741,978	\$3,720,566	Completed Remainder bond proceeds balance \$21,412
City Center Park Phase I ^a	Dumont Parcel: Site improvements to create a natural area park, including pathways, water quality improvements, landscaping, wetland protection, learning and play exploration areas and signage.	95%	\$1,279,434	\$1,051,896	Completed Remainder bond proceeds balance \$206,126
City Center Park Phase II ^a	(Boardwalk connection): being the construction of new paved pathways and an elevated boardwalk between Barrett Street, Market Street and Garden Street and related amenities.	95%	\$1,148,082	--	Not Completed
Library	Public Library: children's and adult collections, activity-specific spaces such as story-time and digital lab, areas for quiet reading or active knowledge sharing and learning for small to large groups, with outdoor reading space above the main entrance.	30%	\$4,508,127	\$4,456,792	Completed
City Hall	City Clerk, Planning & Zoning, Finance, City Manager, Human Resources, Customer Service areas: administrative offices and meeting rooms, service counters, and vault for land, vital and other records with a shared lobby for voting and other public uses.	10%	\$549,822	\$542,474	Completed
Senior Center	A large activity room, a living room, and kitchen for daytime programming for older adults including onsite meals, social events and casual conversation, exercise and arts and other enrichment activities, that may be programmed for all ages in the evenings.	30%	\$438,204	\$431,801	Completed
Garden Street & Intersections	Construction of roadway segments: <ul style="list-style-type: none"> Dorset Street through the bridge – between Trader Joe's and Healthy 	100%	\$11,792,560	--	Not Completed

Appendix III

South Burlington TIF Improvement Project Costs

Projects	Infrastructure Improvements and Related Costs Descriptions	TIF Debt Proportion	Amounts Authorized by VEPC	Actual TIF Bond Proceeds Used	Project Status
	<p>Living. Includes utilities, streetlights, walking and bicycling facilities, curb work, intersection signal work and landscaping.</p> <ul style="list-style-type: none"> Connector - northern edge of existing Garden Street roadway north of Market Street to Midas Drive connecting to Williston Road, including full roadway construction southeast of Midas Drive and curb, utility, streetlight, walking and bicycle facilities, and landscaping on Midas Drive. Improvements to the Williston Road White Street/Midas Drive and the Hinesburg Road/Patchen Road intersections. 				
Williston Road Streetscape	Williston Road Streetscape: being the installation of a shared-use path on the south side of Williston Road between Dorset Street and Midas Drive and related utility and transportation upgrades.	50%	\$1,298,388	--	Not Completed
Pedestrian-bicycle Bridge over I-89	East-West Crossing: being a walk-bike bridge over I-89 at Exit 14.	30%	\$4,367,400	--	Not Completed
Related Costs	Legal, audit, market studies, TIF related voter education, etc.	NA	\$603,100	--	No TIF funds have been used for related costs
Total Costs			\$29,727,095	\$10,203,529	

^a VEPC authorization for the City Center Park for Phase I and Phase II combined totaled \$2,427,516.

Appendix IV

Comments from Management

The following is a reprint of management's response to a draft of this report.



southburlington
VERMONT

May 19, 2023

The Honorable Douglas R. Hoffer
State Auditor
Office of the State Auditor
132 State Street
Montpelier, Vermont 05633-5101

Dear Mr. Hoffer,

Thank you for the opportunity to review and provide comments on the draft Report of the Vermont State Auditor Tax Increment Financing District: South Burlington – City Managed TIF District According to Requirements. I agree with the draft report's findings and conclusions. I especially enjoyed reading the recognition of the efforts of South Burlington staff to manage and track the City's TIF program.

On behalf of our staff, I would like to convey how greatly we have appreciated your office's partnership in auditing the TIF District program in City Center. Your staff's professionalism, attention to detail, availability, and guidance throughout the process made it clear what expectations were and the information that was sought, greatly facilitating the audit process.

This City Center TIF District has been our most important economic development tool. It has enabled us to realize our community's long held goals to develop a downtown - one that serves as a community gathering place and creates identity. The program, the potential for funding, and commitment required at all levels galvanized our leadership and staff. This enabled us to marshal local, state and federal resources to reach all of our shared goals.

The City has, since the 1980's, actively sought a downtown through zoning and roadway improvements. In the early 2000's the City even secured a monumental grant for Market Street. However, little development occurred. Between 2006 (the first year for which the City has NEMRC Grand List data) and 2012 (the first year of the TIF District), the TIF District grew by an average of 1% per year above the 2006 grand list. Since the start of and due to the TIF District, however, between the 2012 and 2022 grand lists, the TIF District grand list value has grown by an average of 9% per year.

This TIF District growth and planned future growth funds public improvements supporting development. This development in turn transforms a suburb into a downtown community center *and* returns 25% of the tax revenue on the growth to the Education fund and the Municipal General Fund.

Again, we appreciate the work that you do in support of our and the State's future! Thank you.

Sincerely,

Jessie Baker
City Manager

180 Market Street, South Burlington, Vermont 05403 | 802-846-4107 | www.southburlingtonvt.gov

See observation
in Appendix V.

Appendix V

SAO Observation on Management's Comments

The City Manager commented on growth in the TIF District prior to and after creation of the TIF District in 2012.

According to JFO's 2022 report examining the TIF program, "districts with slow historical average growth, *if they achieve the growth they forecast* [emphasis added], will generate new money for the Education Fund even during their retention periods."

JFO calculated historical growth in the South Burlington TIF district as two percent from 2003 through 2011 and indicated that the TIF District is expected to generate positive revenues for the Education Fund by the end of its retention period primarily because of the City's projections that taxable value will "increase at unprecedented scale: from \$35 million in 2012 to over \$300 million in 2037."

By 2022, the TIF District taxable value was about \$65 million, an increase of \$30 million. The City Manager indicated that after establishment of the TIF District, between 2012 and 2022, average annual growth is nine percent. However, the City Manager did not comment on how nine percent average annual growth compares to expected growth. Thus, it isn't clear whether the TIF District is on track to achieve an increase in taxable value of over \$265 million by 2037 as forecast.