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February 2015

Performance Audit  
Recommendations and  
Corrective Actions for Audit:  
12-06

TAX INCREMENT  
FINANCING DISTRICT

Winooski Made Errors in  
Administering the TIF District  
and Underpaid the State

Dated: October 18, 2012

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# Overview

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The SAO makes recommendations designed to improve the operations of state government. For our work to produce benefits, auditees or the General Assembly must implement these recommendations, although we cannot require them to do so. Nevertheless, a measure of the quality and persuasiveness of our performance audits is the extent to which these recommendations are accepted and acted upon. The greater the number of recommendations that are implemented, the more benefit will be derived from our audit work.

In 2010, the SAO began to follow-up on the recommendations issued in our performance audits. Experience has shown that it takes time for some recommendations to be implemented. For this reason, we perform our follow-up activities one and three years after the calendar year in which the audit report is issued. Our annual performance reports summarize whether we are meeting our recommendation implementation targets.

<http://auditor.vermont.gov/about-us/strategic-plans-and-performance-reports>

This report addresses the requirements of Act 155 (2012) to post the results of our recommendation follow-up work on our website. The report does not include follow-up on recommendations issued as part of the state's financial statement audit and the federally mandated Single Audit, which are performed by a contractor. However, our current contract for this work requires the contractor to provide the results of its recommendation follow-up.

Audit Number & Name	Rec #	Recommendation	Follow-Up Date	Status	Review Comments	
<a href="#">12-6 Tax Increment Financing District: Winooski Made Errors in Administering the TIF District and Underpaid the State</a>	1	Work with other city officials to approve and record an official list of TIF district properties.	2014	Partially Implemented	According to the draft TIF rules, Section 901, the properties and value to be included in Original Taxable Value (OTV) are to be worked out in an agreement between the City of Winooski, the Department of Taxes Property Valuation and Review (DTPVR) and the Vermont Economic Progress Council. The OTV will be effective as of the April 1 immediately following the agreement and will be applicable for the calculation of the tax increment for subsequent years.	
			2015	Partially Implemented	According to the City, data has been provided to Vermont Economic Progress Council (VEPC) in order to facilitate the determination of OTV and meetings have been held with DTPVR and VEPC. A final agreement is not in place, but the City anticipates that final agreement will be reached shortly.	
	2	Implement procedures to ensure that incremental property tax revenue is not used to repay the portion of the revenue bond that paid for city administrative costs and other costs not related to the TIF district, including developing a methodology to determine the dollar amount of the work orders for construction that occurred outside of the TIF district.	2014	No Longer Applicable	At the time of the audit, SAO concluded that the City risked using tax increment to repay the estimated \$1.35 million (5 percent) of its bond that was ineligible for payment with tax increment because the City had no procedures in place to ensure this portion of the bond was paid for with other sources. According to data provided by Winooski for the VEPC's 2014 TIF Report, Winooski's estimated total tax increment is \$16 million which represents about 62 percent of the bonds. Further, 10 years (50 percent) of the period that increment may be retained have passed and the total increment generated is only at 40 percent of the projected amount. As a result, it appears unlikely that Winooski will use tax increment to repay the portion of the bond that was used for purposes unrelated to the TIF district.	
			No further follow-up is required because the recommendation was implemented			
	3	Segregate the accounting for incremental property tax revenue and its related debt service from other types of revenue and costs to ensure that incremental property tax revenue is only used for payment of, or prefunding, eligible debt.	2014	Implemented	Act 80 (2013) clarified that segregated accounting, in a separate TIF account was required. Further, the draft TIF rules reinforce this in Section 1002. The City indicated that it has completed the majority of calculations necessary to segregate the accounting and that the new reporting will begin in the new fiscal year (FY2016).	
			No further follow-up is required because the recommendation was implemented			
	4	Direct the city assessor to make the following corrections to the OTV:				
	4.1	Include the two taxable properties and remove the three non-taxable properties.	2014	Partially Implemented	According to the draft TIF rules, Section 901, the properties and value to be included in OTV are to be worked out in an agreement between Winooski, the DTPVR and the VEPC. The OTV will be effective as of the April 1 immediately following the agreement and will be applicable for the calculation of the tax increment for subsequent years.	
			2015	Partially Implemented	According to the City, data has been provided to VEPC in order to facilitate the determination of OTV and meetings have been held with DTPVR and VEPC. A final agreement is not in place, but the City anticipates that final agreement will be reached shortly.	
	4.2	Eliminate the commercial adjustment.	2014	Partially Implemented	According to the draft TIF rules, Section 901, the properties and value to be included in OTV are to be worked out in an agreement between Winooski, the DTPVR and the VEPC. The OTV will be effective as of the April 1 immediately following the agreement and will be applicable for the calculation of the tax increment for subsequent years.	
			2015	Partially Implemented	According to the City, data has been provided to VEPC in order to facilitate the determination of OTV and meetings have been held with PVR and VEPC. A final agreement is not in place, but the City anticipates that final agreement will be reached shortly.	

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<a href="#">12-6 Tax Increment Financing District: Winooski Made Errors in Administering the TIF District and Underpaid the State</a>	4.3	Adjust the OTV to reflect the city-wide reappraisal.	2014	No Longer Applicable	Act 80 (2013) section 5 repealed the requirement to adjust OTV in the event of a reappraisal of property values.
	No further follow-up is required because the recommendation was no longer applicable.				
	5	Arrange to pay \$1.5 million of the state education property tax to the state education fund.	2014	Partially Implemented	Section 1 of Act 80 (2013) required Winooski to pay \$63,300 to the Education Fund. According to this section, the General Assembly considers these payments as final settlement of the sum identified as owed to the Education Fund through the period covered by the audit. The Director of VEPC confirmed that Winooski has made payments in accordance with the agree to schedule. As payments are not completed, this recommendation is partially implemented.
	5		2015	Implemented	Section 1 of Act 80 (2013) required Winooski to pay \$1,300 to the Education Fund by July 1, 2013 and \$62,000 to the Winooski TIF Fund from municipal non-incremental revenues in equal installments over a five-year-period. According to this section, the General Assembly considers these payments as final settlement of the sum identified as owed to the Education Fund through the period covered by the audit. The Director of the VEPC confirmed that Winooski repaid the Education Fund and the City of Winooski provided evidence that the first three installment payments were made to the Winooski TIF Fund. Since payments have been made according to schedule, SAO concludes this recommendation is implemented.
	6	Work with the city assessor to develop and document processes for calculating incremental property tax revenue, including ensuring a second review of the calculations is performed by another city official.	2014	Not Implemented	The City indicated that the Assessor, Treasurer and Accountant will be trained at the VEPC January 2015 workshop to ensure that multiple staff members understand the issues of compliance and final agreements with VEPC. While this will assist with the City understanding and complying with TIF district requirements, it does not directly address the recommendation which is to develop and document the processes Winooski will use to calculate incremental property tax revenue and to ensure a second review is performed by another city official.
	6		2015	Partially Implemented	According to the Winooski City Manager, the Treasurer and Accountant attended VEPC's January 2015 workshop on TIF compliance and accounting. The Treasurer has been tasked with oversight of the TIF district accounting and is responsible for reviewing the calculation of TIF increment. Once VEPC and Winooski have reached agreement on the OTV and VEPC agrees that Winooski has implemented appropriate segregation and accounting for the TIF Fund, the processes for accounting and reporting of TIF district activity will be documented.
	7	Direct the city assessor to appraise the municipally-owned parking garage, land under Spinner Place and the UVM-owned portion of Spinner Place.	2014	Partially Implemented	According to Winooski, the land under Spinner Place was appraised and listed in 2013. The City provided a copy of the tax bill for this property which shows that the land has been valued and taxes were charged during FY2014. No information was provided regarding the other two properties.
7		2015	Implemented	According to Winooski, the land under Spinner Place was appraised and listed in 2013. The City provided a copy of the tax bill for this property which shows that the land has been valued and taxes were charged during FY2014. The City is listing the portion of the municipally-owned parking garage used for long term leases as taxable. With regard to the UVM-owned portion of Spinner Place, the City has determined it will continue to treat this property as exempt. In a July 2015 email from the Vermont Department of Taxes (VDT) Commissioner to the Winooski City Manager, the Commissioner indicated that VDT will not pursue action to reclassify the building if the City chooses to classify it as	

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<a href="#">12-6 Tax Increment Financing District: Winooski Made Errors in Administering the TIF District and Underpaid the State</a>	8	Direct the city assessor to recalculate the incremental property tax revenue through June 30, 2011, including the three taxable properties the city incorrectly treated as non-taxable.	2015	Not Applicable	Section 500 of the rules indicates that outstanding issues from SAO's audit of Winooski and other pre-2006 TIF districts, which remain unresolved and continue to result in disputed underpayments to the Vermont Education Fund will cause an accumulation of underpayments commencing only upon adoption of the rules. Since the rules have been finalized, this recommendation is no longer applicable since it relates to a time period prior to adoption of the rules.
	No further follow-up is required because the recommendation was no longer applicable.				
	9	Designate a city official to be responsible for reviewing the statutory requirements for reporting and to document policies and procedures to ensure timely and accurate reporting.	2014	Implemented	Winooski has determined that multiple City staff should be responsible for the administration of the TIF district.
No further follow-up is required because the recommendation was implemented					
	10	Designate a city official to establish and monitor a set of performance measures, including numerical targets for all measures, for each of the objectives outlined in Act 159 (2000).	2014	Partially Implemented	According to the City, a meeting was requested with VEPC to establish a methodology, and if appropriate, targets. Further, Act 80 (2013) section 10 requires every municipality to develop a system for collection of TIF district data and information to fulfill the TIF reporting requirements, including performance indicators (24 V.S.A. §1901 (1)). Further, section 13 indicates that performance indicators will be developed by VEPC. The draft rules also address performance reporting in Section 1004.2 and Section 606.
		2015	Partially Implemented	Act 80 (2013) section 10 required every municipality to develop a system for collection of TIF district data and information to fulfill the TIF reporting requirements, including performance indicators (24 V.S.A. §1901(1)). Further, section 13 indicates that performance indicators will be developed by VEPC. The rules also address performance reporting in Section 1004.2 and Section 606. Winooski prepared the TIF Reconciliation Report, including proposed performance indicators, and provided this information to VEPC in November 2015. The report notes that the proposed indicators vary from the those listed in Act 159 (2000) which established the Winooski TIF. Targets for the indicators were not included with the inform provided to VEPC. The City plans to hold a meeting with VEPC to obtain concurrence on the performance indicators.	