



# ***Tax Increment Financing District: Town of Hartford***

Tax Increment Appropriately Used but  
Slightly Too Much Retained



## Mission Statement

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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 from the district to repay the debt. The Vermont Economic Progress Council (VEPC) approved the Town of Hartford's White River Junction TIF district on December 8, 2011. Hartford is authorized to issue TIF district debt through March 31, 2024 and to retain tax increment through fiscal year (FY) 2034.

This is the first audit of Hartford's TIF district as required by statute. Our audit objectives were to determine 1) how tax increment was utilized in fiscal years 2018 and 2019 and whether it was used to repay TIF district debt that a) was authorized by VEPC and municipal voters and b) financed eligible improvement project costs or related costs; and, 2) whether Hartford retained the appropriate amount of education and municipal tax increment in the TIF district fund and paid the balance to the taxing authorities for fiscal years 2018 and 2019.

In FY2018 and FY2019, the Town used tax increment to repay TIF district debt that had been authorized by VEPC and Hartford's municipal voters. From FY2016 to FY2019, Hartford used about \$915,000 of TIF district debt to finance eligible TIF district improvements such as stormwater systems, water systems, roadways, streetscape, and parking.

Hartford retained slightly too much education and municipal tax increment in its TIF district fund in FY2018 and FY2019 and, as a result, underpaid the State Education Fund by a total of \$2,175. These errors occurred because eight parcels were inadvertently excluded when Hartford determined which parcels were within the TIF district boundaries at the time the district was created in 2011. We made recommendations to resolve this matter, including amending the list of parcels that comprise the original taxable value for the TIF.

I would like to thank the management and staff at the Town of Hartford for their cooperation and professionalism throughout the course of this audit. This report is available on the state auditor's website, <http://auditor.vermont.gov/>.

Sincerely,



DOUGLAS R. HOFFER  
State Auditor

ADDRESSEES

The Honorable Mitzi Johnson  
Speaker of the House of Representatives

The Honorable Phil Scott  
Governor

Mr. Adam Greshin  
Commissioner, Department of Finance and Management

Ms. Lori Hirshfield, Director, Planning & Development,  
Town of Hartford

The Honorable Tim Ashe  
President Pro Tempore of the Senate

Ms. Susanne Young  
Secretary, Agency of Administration

Mr. John MacLean  
Interim Town Manager, Town of Hartford

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## 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, a portion of state education property tax revenue is retained by the municipality for authorized purposes rather than remitted to the State's Education Fund.<sup>1</sup>

The Town of Hartford's (Hartford) White River Junction TIF District (Hartford TIF District) was approved by the Vermont Economic Progress Council (VEPC) on December 8, 2011. Through fiscal year (FY)<sup>2</sup> 2019, Hartford issued \$3,026,000 of bonds for public improvements. Hartford is authorized to issue debt until March 31, 2024<sup>3</sup> and to retain 75 percent of education tax increment through FY2034.<sup>4</sup> Hartford is required to allocate 75 percent of municipal tax increment for repayment of TIF district debt for the same period.

This audit is the first by the State Auditor's Office (SAO) of the Hartford TIF District, as required by [32 V.S.A. §5404a\(1\)\(2\)](#). The objectives for this audit reflect the early stage of the TIF district.

This audit's objectives were to determine:

1. How tax increment was used in fiscal years 2018 and 2019 and whether it was used to repay TIF district debt that a) was authorized by VEPC and municipal voters and b) financed eligible improvement project costs or related costs; and
2. Whether Hartford retained the appropriate amount of education and municipal tax increment in the TIF district fund and paid the balance to the taxing authorities for fiscal years 2018 and 2019.<sup>5</sup>

Audit findings and recommendations may be found on report pages 6 – 13.

<sup>1</sup> Education funding is statewide and accounts for all the education taxes collected and spent in communities across the State. Municipalities collect statewide education property taxes on behalf of the State and remit the taxes collected to their local school systems, or to the state directly, depending on the amount collected relative to the amount required to fund the local school system.

<sup>2</sup> Hartford's fiscal year is July 1 to June 30.

<sup>3</sup> Per [Act 111 \(2020\) Sec. 1](#), Hartford's authority to incur debt for its TIF district was extended for three years beginning March 31, 2021.

<sup>4</sup> [24 V.S.A. §1894\(b\)](#) and [Rule 802](#), TIF Adopted Rules (May 6, 2015).

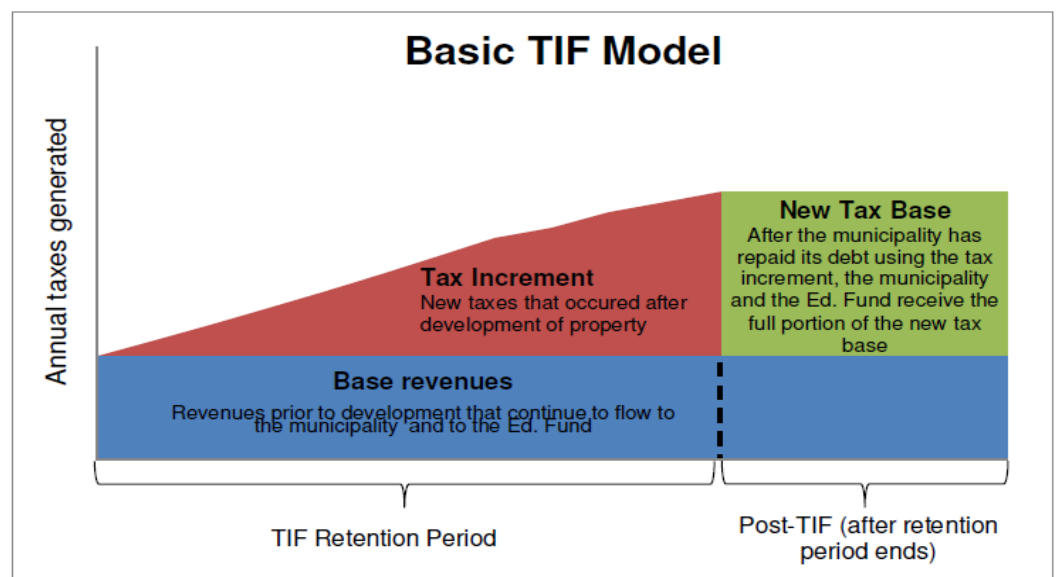
<sup>5</sup> Appendix I details the scope and methodology of the audit. Appendix II contains a list of abbreviations used in this report.

## Background

The purpose of a TIF district is to fund public infrastructure and stimulate economic development. A municipality designates a geographic area where it wants to encourage private sector development and where municipal officials think public infrastructure improvements are needed for that development. The municipality incurs debt to finance the 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 incremental property tax revenue. The expected growth in property tax revenues (i.e., incremental property tax revenue or tax increment) in the designated area is used to pay debt incurred to finance the cost of improvements. A portion of tax increment, comprised of education and municipal increment, is retained by the municipality for a maximum period of 20 years beginning the year when the first debt obligation is incurred. Taxing authorities, like the municipality and the State, continue to receive property tax revenue on the original taxable value (OTV) of the properties during this time and also receive a portion of incremental property tax revenue.<sup>6</sup> Figure 1 below shows the basic TIF model, including the anticipated tax increment.

**Figure 1: Basic TIF Model<sup>a</sup>**



<sup>a</sup> Source: [An Examination of the State of Vermont Tax Increment Financing Program](#), January 24, 2018, Vermont Legislative Joint Fiscal Office.

<sup>6</sup> Per [24 V.S.A. § 1891\(5\)](#), OTV is the total valuation of all taxable real property located within the TIF district as of the creation date.

### TIF District Authorization and Oversight

The Vermont Legislature designated VEPC as the State body responsible for approving a TIF district.<sup>7</sup> VEPC must authorize a municipality to use incremental education property tax to finance TIF district improvements.<sup>8</sup>

Since 2006, a municipality desiring to use incremental education property tax to finance TIF district improvements must file an application with VEPC. The application must contain both a district plan that has received prior approval from the municipal legislative body and a district finance plan. The district finance plan, which includes plans for debt financing, must be approved by VEPC before the municipality seeks a public vote to pledge the credit of the municipality (i.e., issue debt). Prior to seeking VEPC approval, a municipality must have held public hearings and established a tax increment financing district.

According to statute and the Adopted TIF Rule, VEPC is charged with oversight and non-compliance enforcement of all districts. On May 6, 2015, VEPC adopted rules as required by statute to address issues related to creating, implementing, administering, and operating TIF districts.<sup>9</sup> The [TIF District Adopted Rules](#) (TIF Rules) address VEPC's oversight and monitoring of the TIF districts' compliance with rule and statute, and enforcement of any aspects of non-compliance and resolution.

### TIF District Debt and Tax Increment

After VEPC approves the use of incremental education property tax to finance TIF district improvements, the municipality must seek 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 if the first debt is issued before the fifth anniversary of the district creation date. Specifically, if a municipality issues debt within the first five years following district creation, they may issue debt for a total of 10 years following the creation date.

The term "improvements" means the installation, new construction, or reconstruction of infrastructure that will serve a public purpose and fulfill the purpose of the district.<sup>10</sup> 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,

<sup>7</sup> [32 V.S.A. § 3325\(a\)\(2\)](#) and [32 V.S.A. § 5404a\(f\)](#)

<sup>8</sup> [32 V.S.A. § 5404a\(f\)](#)

<sup>9</sup> [32 V.S.A. § 5404a\(j\)](#)

<sup>10</sup> [24 V.S.A. § 1891\(4\)](#)



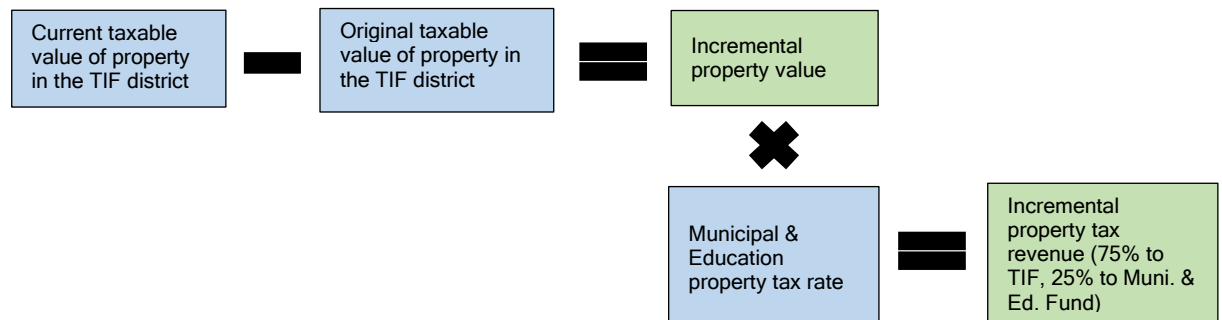
property demolition, site preparation, and utilities, such as wastewater, storm water, water dispersal and collection systems.

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.<sup>11</sup> Per [TIF Rule 705](#), examples of related costs include: 1) professional services incurred during preparation of a district plan, district finance plan, district application, or substantial change request; 2) costs of providing public notification about, and obtaining public approval for, a district plan, district finance plan, application or filing with VEPC; and 3) consulting, design, architects, engineering and other similar professional services costs directly related to the implementation and construction of eligible TIF district improvements.<sup>12</sup>

Tax increment may be used to pay TIF district debt and to directly pay for improvements and related costs. 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.<sup>13</sup>

Figure 2 illustrates the calculation of incremental property tax revenue.

**Figure 2: Calculation of Incremental Property Tax Revenue**



<sup>11</sup> [24 V.S.A. § 1891\(6\)](#)

<sup>12</sup> Per [TIF Rule 300](#), a substantial change is “an amendment to an approved District Plan or District Finance Plan which may result in a significant impact with respect to any of the criteria for approval by VEPC specified in [32 V.S.A. §5404a\(h\)](#) and [24 V.S.A. Chapter 53, subchapter 5](#), or a request for an extension of the five-year period to incur indebtedness...” A request for substantial change must be submitted to VEPC for review.

<sup>13</sup> TIF districts approved by VEPC subsequent to 2017 ([Act 69 \(2017\) Sec. I.3, 24 V.S.A. §1894\(b\) and \(c\)](#)) 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.

### TIF Districts and Statewide Education Funding

Municipalities, acting as agents of the State, collect state education property taxes. Rather than remit the taxes to the State Education Fund, municipalities 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.<sup>14</sup> VDT uses this data to determine the taxable education property value (EPV) and provides the EPV for each municipality to AOE. For municipalities with TIF districts, EPV excludes a proportion of the incremental education property value of the TIF district as allowed. The School Finance division of AOE uses EPV to calculate the amount of education property taxes each municipality owes its local school district and informs municipalities of their education property tax liability.

For those municipalities with TIF districts, EPV includes the portion of incremental education property value that corresponds to 25 percent of the education tax increment, which is required to be paid to the Education Fund.<sup>15</sup>

### Hartford White River Junction TIF District

VEPC<sup>16</sup> conditionally approved the Town of Hartford's White River Junction TIF District<sup>17</sup> on December 8, 2011, authorizing the Hartford TIF District to use incremental property taxes to finance infrastructure improvements and requiring Hartford to submit filings for development project phases to VEPC for review and approval.

Pursuant to VEPC's approval of the TIF district, the maximum dollar amount of debt obligations to be paid with incremental property tax revenues, including the cost of financing, is approximately \$18 million.

Hartford submitted and received VEPC approval of four phased project filings through FY2019. These phases included improvements such as stormwater and wastewater lines, new road construction, and parking lot reconstruction

<sup>14</sup> 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.

<sup>15</sup> For municipalities with TIF districts approved by VEPC subsequent to 2017 ([Act 69 \(2017\) Sec. J.3, 24 V.S.A. §1894\(b\) and \(c\)](#)), EPV includes 30 percent of the education tax increment.

<sup>16</sup> Per [32 V.S.A. § 3325\(a\)\(2\)](#) and [32 V.S.A. § 5404a\(f\)](#), VEPC is the state body responsible for approving a TIF district and authorizing a municipality to use incremental education property tax to finance TIF district improvements.

<sup>17</sup> The Town of Hartford includes the unincorporated Villages of Hartford, West Hartford, Quechee, Wilder and White River Junction.

and resurfacing. See Appendix III for descriptions of the VEPC approved improvements and costs anticipated to be financed with TIF district debt.

Hartford uses its TIF District Fund to record costs of improvements and related costs financed with incremental property tax revenues. Debt proceeds, as well as debt repayment, are recorded in the fund.

## Objective 1: Tax Increment Was Used to Repay Authorized Debt That Funded Appropriate District Costs

In FY2018 and FY2019, the Town of Hartford used tax increment of \$359,222 to repay TIF district debt that 1) had been authorized by VEPC and Hartford's municipal voters and 2) financed \$915,666 of TIF district costs from FY2016 to FY2019. We examined 86 percent of these costs and concluded the costs were eligible to be financed with TIF district debt because the costs: 1) were approved by VEPC and municipal voters and 2) were for activities such as road construction and parking, which meet the definition of infrastructure improvements or related costs.<sup>18</sup>

### Hartford Used Tax Increment Exclusively to Repay Authorized TIF District Debt

In FY2018 and FY2019, Hartford used tax increment to pay annual debt service of \$121,960 and \$237,262, respectively, for authorized TIF district debt. According to Hartford's records, since commencing retention of tax increment in FY2015, Hartford has used increment solely for debt repayment. Through June 30, 2019, cumulative tax increment exceeded the amount used to-date to repay TIF district debt. As a result, the TIF District Fund had \$244,105 available to repay TIF district debt or for direct payments of TIF district improvements.

VEPC conditionally approved Hartford's TIF district plan in December 2011, requiring Hartford to submit phased filings that identified infrastructure projects and type and amount of debt that will be incurred for the phase. These filings require VEPC's approval prior to issuing TIF district debt.<sup>19</sup>

<sup>18</sup> We selected a non-statistical sample of costs greater than \$4,000 in Hartford's general ledger project cost accounts to obtain sufficient evidence about whether costs in FY2016 to FY2019 were eligible to be funded with TIF district debt. See Table 2 for the dollar amount of costs selected for FY2016 to FY2019.

<sup>19</sup> See Appendix III for the improvements and financing approved in 2011 and in subsequent phased filings.

Through FY2019, VEPC approved Hartford improvements and debt financing in four phased filings.

As required by [24 V.S.A. §1894\(h\)](#), Hartford held a public vote and obtained municipal voter approval for each instance of TIF district debt prior to borrowing to pay for TIF improvements.

Table 1 shows general obligation (GO) bonds approved and issued through FY2019.<sup>20</sup>

**Table 1: GO Bonds Approved by VEPC and Voters and Issued as of June 30, 2019**

Year Approved	Amount Approved	Date Issued	Amount Issued
2014	\$900,000	7/1/2014	\$900,000
2016	\$900,000	8/1/2017	\$200,000
2017	\$1,926,000	8/1/2017	\$1,926,000
2019	\$5,477,000	—	—
<b>TOTAL</b>	<b>\$9,203,000</b>		<b>\$3,026,000</b>

Prior to obtaining voter approval for TIF district debt, Hartford held public meetings and generally included required information in the official ballot language and provided information in advance to municipal voters.

Hartford did not disclose the total outstanding TIF debt to municipal voters in the official ballot for the 2016 bond vote as required.<sup>21</sup> The Director of the Department of Planning and Development believes the omission was the result of a transcription error in the Selectboard meeting minutes and subsequent preparation of the warrant ballot document because the language provided to the Selectboard for approval included the total outstanding TIF district debt. Further, Hartford did provide the information at two public information bond hearings that preceded the vote. For subsequent votes regarding TIF district debt, Hartford included total outstanding debt in the official ballot language.

Per statute and the [TIF Rules](#), public information notices to voters in advance of the vote must include: 1) the new amount of debt proposed, 2) total outstanding debt, 3) types of debt, 4) interest and fees, 5) term of debt, 6)

<sup>20</sup> General obligation bonds typically refer to a bond issued by a state or local government such as a municipality. Most general obligation bonds entail the full faith and credit (and in many cases the taxing power) of the government issuing the bond, depending on applicable state or local law.

<sup>21</sup> [24 VSA 1894\(h\)](#).

improvements and related costs to be financed, and 7) expected development.<sup>22</sup>

We identified two instances of noncompliance pertaining to the public information notices.

- For the 2016 bond vote, Hartford disclosed types of related costs such as legal, engineering, and consulting services, but did not disclose the estimated amount as required.<sup>23</sup> For the 2017 and 2019 bond votes, these costs were disclosed as required.
- For the 2019 bond vote, Hartford informed voters that redevelopment would occur on certain streets in the TIF district as a result of public improvements but did not specify the expected redevelopment. VEPC staff informed Hartford that the public notice requirements had been satisfied. We disagree, as statute and the TIF Rules require disclosure of estimated development and/or redevelopment.<sup>24</sup> Hartford had specified anticipated private development projects for previous bond votes. In its request for VEPC's approval of the 2019 bond, Hartford cited two future private redevelopments to include retail and commercial space, condos, a performing arts center, and a hotel, but did not include these details in the public information notices to voters.

The TIF statutes and the TIF Rules do not address consequences associated with deficiencies in ballot language or public information notices so it is not clear, what, if any, effect these limited examples of noncompliance have on Hartford's TIF district debt.<sup>25</sup>

## Debt Financed Eligible TIF District Costs from FY2016 to FY2019

We examined \$790,215 of infrastructure improvements and related costs financed with TIF district debt from FY2016 to FY2019 (86 percent of total costs financed) and concluded that costs during this period were eligible TIF district infrastructure improvements and related costs. Specifically, the costs aligned with those described in the phased filings approved by VEPC and costs disclosed in public notices provided to municipal voters in advance of public votes authorizing Hartford to incur TIF district debt. Further, the costs were for road construction, streetscape, stormwater, wastewater,

<sup>22</sup> [24 VSA 1894\(j\)](#) and [TIF Rule 1003.2](#).

<sup>23</sup> [24 VSA 1894\(j\)](#) and [TIF Rule 1003.2](#).

<sup>24</sup> [24 VSA 1894\(j\)](#) and [TIF Rule 1003.2](#).

<sup>25</sup> [24 V.S.A. Chapter 53, Subchapter 5](#) and [TIF Rules](#).

parking lots and activities such as engineering that fit within the statutory and TIF Rules definition of improvements and related costs.

Table 2 describes improvements and related costs for the TIF district from FY2016 to FY2019 and the amounts we tested.

**Table 2: Infrastructure Improvements and Related Costs: FY2016 - FY2019**

Projects	Description of Improvements and Related Costs	FY2016	FY2017	FY2018	FY2019	TOTAL
<b>Currier Street Construction, Engineering</b>	New road construction in a right of way, including water systems, streetlights, streetscape and related costs.	–	\$102,486	\$549,088	\$14,444	<b>\$666,018</b>
<b>Prospect Street-Admin., Engineering, Construction</b>	Includes stormwater, water, wastewater, curbing, sidewalks, lighting and landscaping.	\$99,306	\$6,597	–	\$987	<b>\$106,890</b>
<b>South Main St</b>	Water systems, road, sidewalk, and retaining wall.	–	–	\$24,165	\$63,804	<b>\$87,969</b>
<b>North Main-Bridge-Reed Sidewalk</b>	Sidewalk, landscaping, streetlights, streetscape improvements and related costs, and pedestrian accessibility.	–	–	\$25,319	–	<b>\$25,319</b>
<b>WRJ Parking-Construction, Engineering</b>	Parking lot reconstruction and resurfacing, striping and lighting improvements.	–	\$2,775	\$5,232	\$9,300	<b>\$17,307</b>
<b>North Main-Church St</b>	Water main design and engineering for construction.	–	\$4,596	\$240	\$7,326	<b>\$12,162</b>
	<b>TOTAL COSTS</b>	<b>\$99,306</b>	<b>\$116,454</b>	<b>\$604,044</b>	<b>\$95,862</b>	<b>\$915,666</b>
<b>Total Costs Tested</b>		\$93,301	\$93,436	\$561,227	\$42,287	<b>\$790,251</b>
<b>Percent Costs Tested to Total Costs</b>		94%	80%	93%	44%	<b>86%</b>

SAO believes Hartford’s practices for administering the TIF district and its procurement policies in conjunction with the requirement to obtain VEPC’s approval for each phase of TIF district improvements ensured that TIF district debt financed improvements and related costs that were authorized and consistent with the definitions for allowed costs per statute and the TIF Rules.

We did note that in one instance, town personnel deviated from Hartford's established practice of documenting the terms of a vendor arrangement. Specifically, in FY2018 Hartford reimbursed the developer of the Villages at White River Junction, a private development, for \$279,191 of costs pertaining to engineering and construction work for the Currier Street TIF district improvement.

The Selectboard and municipal voters had authorized reimbursement of a developer and invoices and other documentary evidence demonstrated that the costs reimbursed were for the Currier Street TIF district improvement. However, Hartford did not have a documented agreement that addressed the types of costs and total dollar amount to be reimbursed even though the Town's purchasing policy and practices suggest that a documented agreement is generally obtained for procurements greater than \$20,000. Further, the lack of a documented agreement is not consistent with the Town's rationale for having a purchasing policy, which indicates that the purchasing system provides clarity for what is being purchased, avoids disputes with vendors, provides a full audit trail, controls spending, and enhances public trust. Without a documented agreement, risk exists that the purchasing policy intends to mitigate.

## Objective 2: Slightly Too Much Tax Increment Retained and Too Little Paid to Education Fund

In FY2018 and FY2019, Hartford retained education tax increment of \$82,458 and \$291,520, respectively. Hartford retained municipal tax increment of \$51,469 and \$173,626, respectively, in the TIF District Fund. However, these amounts were overstated. The education tax increment was overstated by \$1,062 and \$1,119 in FY2018 and FY2019, respectively and municipal tax increment by \$655 and \$665 in FY2018 and FY2019, respectively. Hartford also underpaid the State Education Fund by approximately the same amount of excess education tax increment retained in the TIF District Fund in FY2018 and FY2019 – \$1,059 and \$1,116, respectively.<sup>26</sup>

These errors occurred because eight parcels were inadvertently excluded when Hartford determined which parcels were within the TIF district

<sup>26</sup> These amounts have been adjusted for a fee that municipalities may retain. Municipalities act as agents of the State, collecting education taxes. For this service, they may retain 0.225 of 1 percent (i.e., 0.225 percent) of the education taxes collected. See [32 V.S.A. §5402\(c\)](#).

boundaries at the time the district was created in 2011.<sup>27</sup> According to municipal officials, the 2011 boundaries were determined using Hartford’s Geographic Information System (GIS), but the eight excluded properties were not represented on the Hartford GIS maps. In 2017, VEPC staff, the Department of Taxes’ Property Valuation and Review division (PVR), and Hartford officials, certified a list of parcels comprising the TIF district, but the eight parcels weren’t included in this list either. Because the parcels weren’t identified as TIF district parcels, they were excluded from the calculation of tax increment. As of FY2018 and FY2019, the parcels had decreased in value by a total of \$91,200 and thus correcting the calculation of tax increment results in lower incremental property value and lower tax increment.

Table 3 shows the current assessed value for Hartford’s TIF district parcels in FY2018 and FY2019 less the original taxable value (OTV), adjusted for the eight parcels that were excluded.

**Table 3: FY2018 and FY2019 Education and Municipal Incremental Value Adjusted for Eight Excluded Parcels**

	FY2018		FY2019	
	Education	Municipal	Education	Municipal
<b>Current Assessed Value</b>	38,881,500	39,006,100	55,550,700	55,644,300
<b>Less Original Taxable Value</b>	(31,799,200)	(31,842,000)	(31,799,200)	(31,842,000)
<b>Incremental Value</b>	<b>7,082,300</b>	<b>7,164,100</b>	<b>23,751,500</b>	<b>23,802,300</b>
<b>Incremental Value of the Eight Excluded Parcels</b>				
<b>Current Value of Eight Parcels</b>	1,624,100	1,624,100	1,624,100	1,624,100
<b>Less Original Taxable Value of Eight Parcels</b>	(1,715,300)	(1,715,300)	(1,715,300)	(1,715,300)
<b>Net Adjustment</b>	<b>(91,200)</b>	<b>(91,200)</b>	<b>(91,200)</b>	<b>(91,200)</b>
<b>Incremental Value After Adjustment</b>				
<b>Adjusted Incremental Value</b>	<b>6,991,100</b>	<b>7,072,900</b>	<b>23,660,300</b>	<b>23,711,100</b>

The effect of the exclusion of the eight parcels is small, amounting to less than one percent of education and municipal tax increment in FY2018 and FY2019 combined. However, statute requires that the tax increment calculation include all TIF district properties. Further, Hartford is authorized to retain tax increment through FY2034 and on a cumulative basis, the exclusion of these properties could have a greater effect.

<sup>27</sup> Parcel is defined as the base unit to be reported in the Grand List book and defined as “all contiguous land in the same ownership, together with all improvements thereon” ([32 V.S.A. § 4152\(a\) \(3\)](#)).



## Conclusions

Hartford’s TIF district is approximately one quarter of the way through the 20-year period that tax increment may be retained. In FY2018 and FY2019, Hartford used \$359,222 of tax increment solely to repay outstanding TIF district debt. Through June 30, 2019, cumulative tax increment exceeded the amount used to-date to repay TIF district debt. As a result, the TIF District Fund had \$244,105 for future use.

In FY2018 and FY2019, Hartford was authorized to retain 75% of education and municipal tax increment. Hartford inadvertently excluded eight properties from their TIF district, and this resulted in a calculation error. It ultimately led to Hartford retaining slightly too much education and municipal tax increment. Hartford will need to reduce tax increment retained in the TIF District Fund by \$3,501 in total for FY2018 and FY2019 and pay an additional \$2,175 to the State Education Fund to rectify the total underpayment arising for FY2018 and FY2019.

## Recommendations

We make the recommendations in Table 4 to the Town Manager of the Town of Hartford:

**Table 4: Recommendations and Related Issues**

Recommendation	Report Pages	Issue
1. Consult with legal advisors to determine what, if any, actions should be taken to remedy the limited instances in which Hartford did not provide all required information to voters in advance of public votes for TIF district debt.	8	Hartford did not consistently provide all required information to municipal voters. The exceptions were limited. Since statute and the TIF Rules do not address consequences associated with deficiencies in ballot language or public information notices, it is not clear what, if any, effect the exceptions have on Hartford’s TIF district debt.
2. For agreements to reimburse the cost of TIF district public improvements paid for by a private developer, document the terms of the arrangement, including the types of costs and total amount to be reimbursed.	10	Hartford reimbursed the developer of the Villages at White River Junction, a private development project, for \$279,191 of costs the developer paid for pertaining to engineering and construction work for the Currier Street TIF district improvement. Hartford did not have a documented agreement that addressed the types of costs and total dollar amount to be reimbursed even though the Town’s purchasing policy and practices suggest that a documented agreement is generally obtained for procurement of goods and services greater than \$20,000.

Recommendation	Report Pages	Issue
3. Reduce tax increment retained in the TIF District Fund in FY2018 and FY2019: education tax increment by \$1,062 and \$1,119, respectively; and municipal tax increment by \$655 and \$665, respectively.	10-11	In FY2018 and FY2019, education tax increment retained in the TIF District Fund was overstated by \$1,062 and \$1,119, respectively, and municipal tax increment was overstated by \$655 and \$665, respectively. The overstatement was caused by the exclusion of eight parcels that had decreased in value by \$91,200. The eight parcels were inadvertently excluded from the original listing of parcels in the TIF district determined when the TIF district was created in 2011. The exclusion of the eight parcels from the tax increment calculation also impacted Hartford's payment to the State Education Fund, as the Town underpaid the State Education Fund by the amount of excess education tax increment retained in the TIF District Fund in FY2018 and FY2019 - \$1,059 and \$1,116, respectively.
4. Pay the Education Fund amounts owed for FY2018 and FY2019.	10-11	See recommendation 3 issue.
5. Revise the tax increment calculation for FY2015 to FY2017 to account for the eight excluded parcels and make necessary adjustments to tax increment retained in the TIF District Fund.	10-11	See recommendation 3 issue.
6. Consult with PVR, AOE, and VEPC staff to determine whether additional payments are owed to the Education Fund for FY2015 to FY2017. Pay amounts owed, if any.	10-11	See recommendation 3 issue.
7. Revise the Town's records to add the eight parcels to the list of parcels that comprise OTV and consult with VEPC staff to determine the process that should be used to officially amend OTV.	10-11	See recommendation 3 issue.

## Management's Comments and Our Evaluation

On December 21, 2020, the Town of Hartford's Interim Town Manager and Director of Planning and Development provided comments on a draft of this report on behalf of the Town. This letter is reprinted in Appendix IV. The Town agreed to implement all but one of our recommendations and disagreed with one of our findings. Our evaluation of their comments is in Appendix V.

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## Appendix I

### Scope and Methodology

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To gain an understanding of Hartford's TIF district, we reviewed the TIF application materials, VEPC's Final Determination, and Hartford's phased filing submissions. We also reviewed Hartford's annual reports of TIF district activity submitted to VEPC for fiscal years (FY) 2016 to 2019, and Hartford's audited financial statements for FY2014 to 2019. We interviewed Hartford officials to gain an understanding of the Selectboard's oversight of the TIF district and the municipal staff responsible for administering the district, including authorization of phased filings and debt financing, review of annual reports submitted to VEPC, and approval of payments to the school district.

For our first objective, we identified the statutory provisions and TIF Rules that address eligible uses of tax increment, types of allowed debt, authorization to issue debt, and time period allowed for debt issuance. We interviewed town officials to gain an understanding of Hartford's policies, procedures, and controls pertinent to ensuring that tax increment is used for eligible purposes and for authorizing, issuing and tracking debt. We inquired of town officials about how Hartford accounts for cumulative tax increment that has not been used for debt payment or TIF district costs.

In order to validate that tax increment was used solely for TIF debt payments in FY2018, and FY2019, we verified an analysis prepared by Hartford's Finance Director which showed the TIF Fund revenues, interest income, and disbursements for TIF bond payments.

We corroborated the debt payment amounts recorded in the TIF Fund to the repayment schedules in the bond agreements and to the audited financial statements.

We obtained explanations from town officials pertaining to a transfer of sales tax allocation revenue, a non-TIF revenue, out of the TIF Fund into Hartford's General Fund in FY2019. We verified that the revenue was associated with the State's Downtown Sales Tax Reallocation program.

We reviewed the phased filings approved by VEPC to identify the infrastructure improvements and debt financing. We compared the amount of debt issued through FY2019 to the total amount authorized by VEPC in the 2011 TIF District Plan, and the amount of each individual debt issue in the subsequent phased filings. We obtained ballots, public notices, and Selectboard and bond hearing meeting minutes for the TIF district debt instruments issued since the start of the TIF district to determine whether debt issuances were approved by municipal voters. 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.

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## Appendix I

### Scope and Methodology

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We validated that the first debt was incurred within the first five years following creation of the district and determined the period during which Hartford may borrow to pay for TIF improvements. We created a debt history for the debts outstanding in FY2018 and FY2019 by reviewing the audited financial statements, annual reports to VEPC, and Selectboard and bond hearing meeting minutes.

We identified the statutory provisions and TIF Rules that address infrastructure improvements and related costs eligible for tax increment financing. We interviewed town officials to gain an understanding of the policies, procedures, and controls in place to ensure costs financed with TIF district debt are for TIF infrastructure improvements approved by VEPC and municipal voters and that the improvements or related costs are consistent with definitions in statute and the TIF Rules. We reviewed Hartford's purchasing policy and the finance and accounting procedures for the TIF district for information pertinent to authorization of infrastructure improvements and related costs.

We reviewed the audited financial statements, and financial records and project cost reports from the general ledger for FY2016 to FY2019 for expenditures reported in the TIF Fund. We verified that the total costs for FY2016 through FY2019 recorded in the TIF Fund agreed to the amount of costs recorded as expenditures per the audited financial statements.

We judgmentally selected a sample of infrastructure improvement costs and related costs from the project cost reports from the general ledger for FY2016 through FY2019. We reviewed documentary evidence provided by Hartford such as invoices, contracts, requisitions for payment, and master purchase orders to assess whether the costs met the definition of improvement or related costs in statute and TIF Rules. We evaluated whether the costs were for infrastructure improvements or related costs described in the phased filings authorized by VEPC and approved for financing by municipal voters. We evaluated the documentary evidence to assess whether the steps for incurring the selected costs were consistent with Hartford's purchasing policy and practices.

For our second objective, we identified the statutory provisions and TIF Rules relevant to the calculation and retention of tax increment. We interviewed town 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 Hartford's tax increment retention period.

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## Appendix I

### Scope and Methodology

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We reviewed the method used by VEPC and VDT's PVR division to certify the OTV of properties in the TIF district. We confirmed the certified OTV was applied by Hartford as the baseline OTV for the TIF district for the purpose of calculating tax increment.

We reperformed Hartford's calculation for tax increment for FY2018 and FY2019. We compared the education tax rates to the published rates available on the Vermont Department of Taxes (VDT) website and the municipal tax rates to rates published in Hartford's annual town reports and in the Selectboard minutes. We used TIF Proceeds reports and TIF Parcel Value reports from New England Municipal Resource Center (NEMRC), the software package used to maintain Hartford's grand list, 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 Town 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 Hartford's general ledger and audited financial statements.

To assess the reliability of the current values in the TIF Parcel Value Report, we interviewed town officials to understand how the Town's Grand List is maintained and the source of data in the grand list. We also discussed how changes in property values were identified and adjusted in the grand list to ensure completeness and accuracy of properties in the TIF district. We reviewed VDT's Property Valuation and Review division introductory guide to the procedures used to ensure the list values in the Grand List approximate fair value (equalization study). We performed data testing for FY2018 and FY2019 to verify that all TIF district parcels were included in the tax increment calculation.

To assess whether the Town paid 25 percent of education tax increment to the school district, we obtained property value data, including education list value, submitted to VDT by Hartford for FY2018 and FY2019. We determined whether the reported amount of the TIF exemption for homestead and non-homestead properties was equal to 75 percent of the incremental property value in the TIF district. We assessed whether the TIF exemption was excluded from the education list value and compared the education list value per the data submitted by Hartford to the education list value used by the Agency of Education (AOE) to calculate Hartford's education tax liability.

We compared the amounts Hartford paid to their municipal school district from cancelled checks and bank transfer reports and verified that the amounts agreed to the education tax liability calculated by AOE.

Generally accepted government auditing standards (GAGAS) require that we identify internal control components and principles that are significant to our

## Appendix I Scope and Methodology

audit objective and perform procedures to evaluate those that are significant. The Department of Finance and Management recommends to State entities that they use the Committee of Sponsoring Organizations of the Treadway Commission (COSO) model,<sup>28</sup> so we used this same model in our consideration of internal control. As required by GAGAS, Table 5 identifies the internal control components and principles that we determined were significant to our audit objectives and briefly describes the work we performed.

**Table 5: Summary of Internal Control Work**

Objective #	Internal Control Component	Internal Control Principles	Description of Work Performed
1 and 2	Control Environment: The set of standards, processes, and structures that provide the basis for carrying out internal control across the organization.	<ul style="list-style-type: none"> <li>The oversight body demonstrates independence from management and exercises oversight of the development and performance of internal control.</li> </ul>	As previously described in this appendix.
1 and 2	Control Activities: Actions established by policies and procedures to help ensure that management directives to mitigate risks to the achievement of objectives are carried out.	<ul style="list-style-type: none"> <li>The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.</li> <li>The organization deploys control activities through policies that establish what is expected and procedures that put policies in action.</li> </ul>	As previously described in this appendix.

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.

<sup>28</sup> 2013 Internal Control – Integrated Framework© Committee of Sponsoring Organizations of the Treadway Commission (COSO). All rights reserved. Used with permission. COSO is a joint initiative of accountants, financial executives, and internal auditors dedicated to providing guidance to improve organizational performance.

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## Appendix II Abbreviations

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AOE	Agency of Education
EPV	Education Property Value
FY	Fiscal Year
GO	General Obligation
JFO	Joint Fiscal Office
OTV	Original Taxable Value
PVR	Property Valuation and Review
SAO	State Auditor's Office
TIF	Tax Increment Financing
VDT	Vermont Department of Taxes
VEPC	Vermont Economic Progress Council
WRJ	White River Junction

## Appendix III Improvements and Financing Approved by VEPC

The table below contains the infrastructure improvements, related costs, and estimated TIF financed costs approved by VEPC in December 2011.

**Table 6: Summary of Infrastructure and Other Costs Per the Final Determination Authorized by VEPC to be Funded from TIF Debt**

Cost Category	Estimated TIF Financed Costs
Streetscapes	\$119,572
Sidewalks	\$954,108
Roadway/Parking	\$6,792,644
Water	\$1,360,901
Hardscape	\$1,099,998
Northern Area <sup>a</sup>	\$2,631,488
<b>Subtotal - infrastructure improvements</b>	<b>\$12,958,711</b>
Related costs	\$45,000
Financing	\$4,993,362
<b>Total improvements costs, related costs and financing costs</b>	<b>\$17,997,073</b>

<sup>a</sup> Hartford's TIF district application Attachment 6I 'Infrastructure Cost, by Type,' identified the infrastructure projects included in the Northern Area as Prospect Street, Pine Street, and Maple St. & Prospect St. intersection. These projects include streetscape, parking lot, sidewalks, lighting, utilities, stormwater and intersection improvements.



## Appendix III Improvements and Financing Approved by VEPC

The table below contains the infrastructure improvements and financing amounts from four phased filings submitted by Hartford and approved by VEPC through June 30, 2019.

**Table 7: Hartford Phase Filings and Projects Authorized by VEPC**

Phase and Date VEPC Approved	Improvement Project and Description	Financing Amount
Phase 1 / January 2014	Prospect Street design, engineering and reconstruction of a public road including stormwater, water, wastewater, curbing, sidewalks, lighting and landscaping.	\$900,000
Phase 2 / January 2016	Parking lot improvements for the lot behind the former American Legion building.  Wastewater projects for North Main, Church and Currier Streets - Engineering, permitting and construction of stormwater systems and separation of stormwater and drainage systems.	\$900,000
Phase 3 / January 2017	Currier Street Extension – Design, engineering and construction of new road in the right of way and parking lot from Gates Street through South Main Street; including work on water systems, streetscape; and related costs.  North Main Street, Bridge Street to Joe Reed Drive - Sidewalk, streetscape, landscape improvements and related costs.  Gates Street, Church Street to Joe Reed Drive; North Main Street, Bridge Street to Joe Reed Drive; South Main Street, Joe Reed Drive to Nutt Lane - Water main design and engineering work, upgrades and replacement.  South Main Street, Joe Reed Drive to Nutt Lane – Wastewater, storm water, road, sidewalk and retaining wall engineering.	\$1,926,000
Phase 4/ February 2019	South Main, North Main & Gates St Construction of engineering work approved in 2017 phased filing. Rehabilitate or replace underground water infrastructure systems. Install green stormwater infrastructure, landscaping. Reconstruct roadway, replacement sidewalk, curbing, lighting, bike lanes, crosswalks.  <ul style="list-style-type: none"> <li>• South Main Street: ~2,200 ft</li> <li>• North Main Street: ~200 ft</li> <li>• Gates Street: ~920 ft</li> <li>• South Main Street Retaining Wall repairs</li> </ul>	\$5,477,000
	<b>TOTAL</b>	\$9,203,000

## Appendix IV Management's Comments

The following is a reprint of management's response to a draft of this report. Our evaluation of these comments is contained in Appendix V.

### TOWN OF HARTFORD

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White River Junction, Vermont 05001  
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December 21, 2020

Douglas R. Hoffer  
Vermont State Auditor  
State of Vermont  
Office of the State Auditor  
Montpelier, Vermont

Re: Hartford TIF District 5-Year Audit

Dear Mr. Hoffer:

On December 7, 2020 the Town received your Draft Report entitled *Tax Increment Financing District, Town of Hartford: Tax Increment Appropriately Used but Slightly Too Much Retained*. We recognize this was a large and complex undertaking for the Town and your office and appreciate the professional and cordial working relationship we have mutually shared.

As requested, we have reviewed the report and provide the following Management Comments.

**Audit Objective 1 - How tax increment was used in fiscal years 2018 and 2019 and whether it was used to repay TIF district debt that a) was authorized by VEPC and municipal voters and b) financed eligible improvement project costs or related costs.**

Page 10 – Public Information Notices. The Audit states:

For the 2016 bond vote, Hartford disclosed types of related costs such as legal, engineering, and consulting services, but did not disclose the estimated amount as required.<sup>23</sup> For the 2017 and 2019 bond votes, these costs were disclosed as required.

For the 2019 bond vote, Hartford informed voters that redevelopment would occur on certain streets in the TIF district as a result of public improvements but did not specify the expected redevelopment. VEPC staff informed Hartford that the public notice requirements had been satisfied. We disagree, as statute and the TIF Rules require disclosure of estimated development and/or redevelopment.<sup>24</sup> Hartford had specified anticipated private development projects for previous bond votes. In its request for VEPC's approval of the 2019 bond, Hartford cited two future private redevelopments to include retail and commercial space, condos, a performing arts center, and a hotel, but did not include these details in the public information notices to voters.

*Town Management's Comments - The Town became aware of the need to specifically estimate the related cost as opposed to including it in the project cost estimates. As a*

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## Appendix IV Management's Comments

*result, the Town included language in 2017 and all subsequent public notices to identify the total estimated related costs in aggregate.*

*It is the Town's understanding and confirmation from VEPC that the Town met the requirement of TIF statute and the TIF Rule for the 2019 Bond vote relative to public notice about expected redevelopment. However, the Town also acknowledges the guidance provided by this audit and will address Recommendation # 1 for more specific information in future public information notices.*

Page 12 – Procurement. The Audit states:

The Selectboard and municipal voters had authorized reimbursement of a developer and invoices and other documentary evidence demonstrated that the costs reimbursed were for the Currier Street TIF district improvement. However, Hartford did not have a documented agreement that addressed the types of costs and total dollar amount to be reimbursed even though the Town's purchasing policy and practices suggest that a documented agreement is generally obtained for procurements greater than \$20,000. Further, the lack of a documented agreement is not consistent with the Town's rationale for having a purchasing policy, which indicates that the purchasing system provides clarity for what is being purchased, avoids disputes with vendors, provides a full audit trail, controls spending, and enhances public trust. Without a documented agreement, risk exists that the purchasing policy intends to mitigate.

*Town Management's Comments - The Town believes it was not outside the bounds of the Town's Purchasing Policy as this was a reimbursement not requiring a procurement process. The Town also appreciates the audit comment regarding reimbursements of costs for public improvements paid for by a private developer. However, the Town raises the question if this comment should be an audit finding as it is not specific to the TIF Audit Objective 1, if increment "was used to repay TIF district debt that a) was authorized by VEPC and municipal voters and b) financed eligible improvement project costs or related costs." Therefore, the Town suggests not categorizing it as a finding with a recommendation (#2)*

**Audit Objective 2 - Whether Hartford retained the appropriate amount of education and municipal tax increment in the TIF district fund and paid the balance to the taxing authorities for fiscal years 2018 and 2019.**

Page 12 - Eight parcels inadvertently excluded from TIF District resulting in too much Tax Increment retained and too little paid to the Education Fund (Recommendations 3-7)

*Town Management's Comments – The Town appreciates that the audit identified the inadvertent exclusion of these eight parcels due to use of the state GIS mapping that had not captured these parcels. The Town has consulted with VEPC in accordance with TIF Rule 1003.3 regarding the procedure for rectifying the increment retention and OTV correction. The Town currently is collecting the information that must be sent to VEPC*

Page 2 of 3

Comment 1

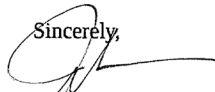
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## Appendix IV Management's Comments

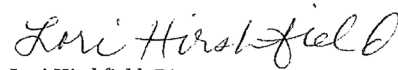
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*and PVR for that state agency to review the OTV correction and calculate the impact on tax increment from FY2014 through FY 2021 and any payments owed to the Education Fund. Once PVR provides this information, the Town will follow the established procedures between VEPC, PVR and AOE for filing OTV corrections and any payments owed to the State Education Fund following a schedule agreed to by all parties.*

We appreciate all the time and effort you and your staff have put into this large undertaking. Please let us know if you require any additional information or clarification.

Sincerely,  


John MacLean  
Interim Town Manager



Lori Hirshfield, Director  
Department of Planning and Development

## Appendix V

### SAO Evaluation of Management's Comments

In accordance with generally accepted government auditing standards, the following table contains our evaluation of management's comments when they disagreed with our finding.

Comment #	Management's Response	SAO Evaluation
1	<p><i>The Town also appreciates the audit comment regarding reimbursements of costs for public improvements paid for by a private developer. However, the Town raises the question if this comment should be an audit finding as it is not specific to the TIF Audit Objective 1, if increment "was used to repay TIF district debt that a) was authorized by VEPC and municipal voters and b) financed eligible improvement project costs or related costs." Therefore, the Town suggests not categorizing it as a finding with a recommendation (#2)</i></p>	<p>Generally accepted government audit standards require that we consider internal control so our audit methodology for objective 1 included reviewing the Town's purchasing and contracting practices and assessing whether the Town followed them. Based on our testing, we noted the Town did not have a documented agreement for the reimbursement of a private developer for costs of TIF district public improvements paid for by the developer. Since the dollar amount of the reimbursement was significant to the total costs we reviewed, \$279,191 of \$790,251 (35 percent), we included the finding in the audit report and recommended that the Town document the terms of these arrangements in the future, including the types of costs and total amount to be reimbursed.</p>