



Tax Increment Financing District: City of Winooski

City Retained Correct Amount of Tax
Increment and Used It for Authorized
Purposes



Mission Statement

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Dear Colleagues,

A tax increment financing (TIF) district allows a municipality to incur debt to finance infrastructure improvements and earmark a portion of new education and municipal property tax revenues from the district to repay the debt. After the TIF district's establishment on October 2, 2000, the City of Winooski undertook district infrastructure improvements such as new sewer lines and parking. The City is no longer incurring new debt or undertaking TIF projects. Tax increment is being used to pay down the existing TIF debt.

This audit is the second of the City's TIF district as required by statute. Our audit objectives reflect the district's stage of life, and these were for fiscal years 2018 and 2019 to assess whether the City: 1) retained the appropriate amount of education and municipal tax increment in the TIF district fund and paid 2 percent of the education tax increment to the Education Fund as required, and 2) utilized tax increment for eligible purposes.

In FY2018 and FY2019, as allowed, Winooski retained education tax increment of \$1,245,069 and \$1,307,525 (98 percent), respectively, rather than send these tax revenues to the Education Fund. In these years, the City also retained municipal tax increment of \$815,758 and \$850,018 (100 percent) as required. The balance of 2 percent of the education tax increment was included in the City's payments to the Winooski School District. The City used the tax increment retained for eligible purposes of making TIF debt payments including for a \$17,000,000 revenue bond and a \$3,000,000 subordinate note.

Additionally, the audit illuminates one matter for legislative consideration, which is whether tax increment should be used for the payment of interest for financing arrangements that operate like interfund loans.

I would like to thank the management and staff at the City of Winooski for their cooperation and professionalism throughout the course of this audit. This report is available on our website: <http://auditor.vermont.gov>.

Sincerely,



DOUGLAS R. HOFFER
State Auditor

ADDRESSEES

The Honorable Mitzi Johnson
Speaker of the House of Representatives

The Honorable Tim Ashe
President Pro Tempore of the Senate

The Honorable Phil Scott
Governor

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Highlights

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 tax (municipal tax increment) and statewide education property tax (education tax increment). Thus, a portion of education property tax revenue is retained by the municipality for authorized purposes rather than remitted to the Education Fund.¹

The City of Winooski's TIF District was established on October 2, 2000, pursuant to Act 159 (2000). The City then issued debt in 2004 to finance TIF district improvements.² Although Winooski is now past the five-year period allowed for issuing debt, the City may retain municipal and education tax increment until 2024 for authorized purposes.

This audit is the second by the State Auditor's Office (SAO) of the Winooski TIF district, as required by 32 V.S.A. §5404a(l).³ The objectives for this audit reflect the current phase of the TIF district.

This audit's objectives were to assess for fiscal years (FY) 2018 and 2019 whether the City of Winooski:

1. Retained the appropriate amount of education and municipal tax increment in the TIF district fund and paid 2 percent of the education tax increment to the Education Fund as required, and
2. Utilized tax increment for eligible purposes.⁴

¹ 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.

² Act 159 (2000) Sections 37-38.

³ The first audit resulted in SAO Report #12-06, October 18, 2012 "Tax Increment Financing District: Winooski Made Errors in Administering the TIF District and Underpaid the State." <https://auditor.vermont.gov/sites/auditor/files/files/reports/performance-audits/Tax-Increment-Financing-District-City-of-Winooski-2012.pdf>

⁴ Appendix I details the scope and methodology of the audit. Appendix II contains a list of abbreviations used in this report.

Objective 1 Finding:

In FY2018 and FY2019, Winooski:

1. Retained 98 percent of education tax increment in the TIF district fund, as authorized, rather than send these tax revenues to the Education Fund.
2. Allocated 100 percent of municipal tax increment to its TIF district fund as required.⁵
3. Paid 2 percent of the education tax increment to the local school system as required.⁶

See Table 1 for the amounts retained in the TIF district fund and the amounts paid to Winooski’s school district.

Table 1: Education and Municipal Tax Increment Retained in the Winooski TIF District Fund and Paid to the Winooski School District in FY2018 and FY2019

Tax Increment Type	FY2018		FY2019	
	Retained in TIF District Fund	Paid to Winooski School District	Retained in TIF District Fund	Paid to Winooski School District
Education tax increment	\$1,245,069 ^a	\$25,410 ^b	\$1,307,525 ^a	\$26,684 ^b
Municipal tax increment	\$815,758 ^c	N/A	\$850,018 ^c	N/A
TOTAL	\$2,060,827	\$25,410	\$2,157,543	\$26,684

^a Equals 98 percent of education tax increment.

^b These amounts were included in the payments Winooski made to the school district and equaled 2 percent of education tax increment in FY2018 and FY2019.

^c Equals 100 percent of municipal tax increment.

A variety of factors contributed to Winooski retaining the appropriate amounts of tax increment. One factor was that the Vermont Department of Taxes (VDT) and the Vermont Economic Progress Council (VEPC) certified the original taxable value for TIF district properties used in the calculation of tax increment. Payment to the school district of the correct percentage of education tax increment is due, in part, to processes used by VDT and the Agency of Education (AOE) to determine statewide education property taxes owed by municipalities.

⁵ Act 159 (2000) Section 38 as amended by Act 190 (2008) authorized Winooski to retain 98 percent of education tax increment and required that 100 percent of municipal tax increment be used to pay TIF district bonds. 24 V.S.A. §1896(a) requires that tax increment be held in a special tax increment financing account. Winooski established a separate fund to account for TIF district activity.

⁶ Payments to school districts are effectively payments to the state Education Fund because municipalities work on behalf of the State to collect education property taxes and pay school districts the amount directed by the Agency of Education.

Objective 2 Finding:

In FY2018 and FY2019, Winooski used the tax increment retained in the TIF district fund - \$2,060,827 and \$2,157,543, respectively - for eligible purposes, which were to make payments on a \$17,000,000 revenue bond and a \$3,000,000 subordinate note.⁷ The finding about the revenue bond is consistent with our conclusion in a 2012 audit.⁸

Regarding two subordinate notes issued in 2004, we previously concluded the notes were not an allowed type of financing because Act 159 (2000) authorized Winooski to use bonds to finance TIF district improvements. At the time of the 2012 audit, Winooski had not used tax increment for payments on these notes. During the current audit, city officials provided SAO with a 2004 VDT ruling, which found that Winooski's HUD Section 108 loan was in substance a bond for purposes of Act 159 (2000). City officials argued that the ruling's analysis was applicable to the subordinate notes. We considered the VDT ruling and, given legislative changes to the types of allowed financing instruments, concluded the subordinate notes could be repaid with tax increment.

Matter for Legislative Consideration

24 V.S.A. §1891(7) and §1894(i) allow interfund loans to finance improvements in TIF districts.⁹ Tax increment can be used to repay the interfund loans, but no interest can be charged. During the Winooski audit, we observed that a \$1,098,000 subordinate note, which has a 7 percent interest rate, is held by a trust controlled by the city mayor and city council. Because of the control city officials have over the trust, the activity appears analogous to interfund transactions, where the activity is controlled by a single governmental entity (i.e., the City). No tax increment was used to repay this subordinate note in FY2018 and FY2019.

Prior to Act 80 (2013) when the Legislature prohibited interest charges for interfund loans, there was potential for overcharging interest to the benefit of the municipality and detriment of the statewide education fund.¹⁰ For that reason, the Legislature might consider whether tax increment should be used for the payment of interest for financing arrangements that operate like interfund loans.

⁷ In 2014, Winooski issued \$17,000,000 of revenue bonds to refinance its 2006 revenue bonds.

⁸ We concluded that revenue bonds issued in 2006 to refinance Winooski's original U.S. Department of Housing and Urban Development (HUD) Section 108 loan could be repaid with tax increment since the HUD Section 108 loan was interim financing and was used for TIF district improvements.

⁹ Generally, interfund activity is used to describe financial transactions between funds of one government (i.e., internal activity of a government).

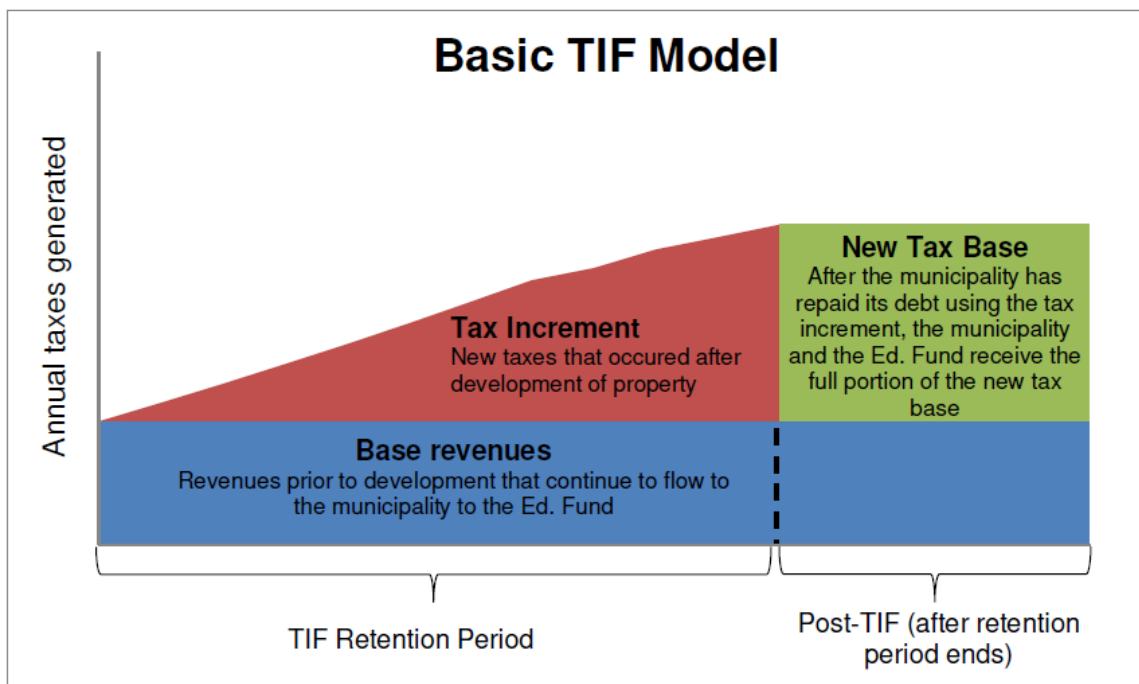
¹⁰ We highlighted this risk in our 2012 TIF Capstone audit report. <https://auditor.vermont.gov/sites/auditor/files/files/reports/performance-audits/Tax-Increment-Financing-Capstone-Report-12.31.12.pdf>

Background

VEPC has authority for approving TIF districts, rulemaking, oversight and enforcement. 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, 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. A portion of the incremental property tax revenue, also known as tax increment, is retained by the municipality, generally up to 20 years. 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. The taxing authorities also receive a portion of the incremental property tax revenue.

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

Figure 1: Basic TIF Model^a



^a Source: Vermont Legislative Joint Fiscal Office.¹¹

¹¹ An Examination of the State of Vermont Tax Increment Financing Program, January 24, 2018, Vermont Legislative Joint Fiscal Office. See: <https://lifo.vermont.gov/assets/docs/reports/79f1f110da/Final-TIF-Report-January-24-2018.pdf>

Winooski TIF District

The Winooski TIF district was authorized by legislative Act 159 (2000) and established by Winooski City Council on October 2, 2000.¹²

Winooski obtained loans in 2004 to finance TIF district improvements¹³ and issued refunding bonds in 2006 and 2014.¹⁴ The following is a list of Winooski's TIF district debt:

- \$24,250,000 federal government note, repaid with \$25,900,000 refunding bonds in 2006.¹⁵ \$17,000,000 bonds issued in 2014 for use in refunding the 2006 bonds. The bonds mature May 2024;
- \$3,000,000 privately-held subordinate promissory note payable through July 2024; and
- \$1,098,000 Winooski Community Development Corporation (WCDC) subordinate promissory note payable through July 2024.¹⁶

According to the City's records, the City made payments of \$34,052,885 for the three debt instruments through FY2019. The City's records also show that \$17,895,898 of tax increment was retained in the TIF district fund through FY2019 and per city officials all tax increment was used for debt payments.

The major infrastructure improvements of Winooski's TIF district include new sewer, parking, sidewalks and streets.

Title 24 Chapter 53 subchapter 5 "Tax Increment Financing" addresses requirements associated with statewide tax increment financing. With some exceptions, these provisions are applicable to the Winooski TIF district. For example, Act 159 (2000) specified the length of the indebtedness period and the percent of incremental property tax revenue due to the State Education Fund, and these provisions differ from those listed in Title 24.

¹² Act 159 (2000), Sections 37-38

¹³ The TIF district was a component of a broader downtown redevelopment project and additional funding was obtained including \$16.8 million in federal and state transportation grants and \$7.8 million from land sales, payments in lieu of taxes, leases and other sources.

¹⁴ According to the Municipal Securities Rulemaking Board, 'refunding' is a procedure where an issuer refinances outstanding bonds by issuing new bonds, usually to reduce interest costs or remove burdensome or restrictive terms.

¹⁵ The note was issued under the U.S. Department of Housing and Urban Development Section 108 Loan Guarantee Program.

¹⁶ The WCDC dissolved in 2008. The Winooski Community Development Trust was established and the note was transferred to the trust.

Objective 1: Appropriate Amounts Retained and 2 Percent Paid to Education Fund

In FY2018 and FY2019, Winooski retained 98 percent of education tax increment in the TIF district fund, as authorized, rather than send these tax revenues to the Education Fund as is required without a TIF district.¹⁷ Winooski also allocated 100 percent of municipal tax increment to the TIF district fund as required.¹⁸ Further, in these years, the City paid 2 percent of education tax increment to the Winooski School District.¹⁹ See Table 2 for the amounts retained in Winooski’s TIF district fund and paid to the Winooski School District.

Table 2: Education and Municipal Tax Increment Retained in the Winooski TIF District Fund and Paid to Winooski School District in FY2018 and FY2019

Tax Increment Type	FY2018			FY2019		
	TOTAL	Retained in TIF District Fund	Paid to Winooski School District	TOTAL	Retained in TIF District Fund	Paid to Winooski School District
Education Tax Increment	\$1,270,479	\$1,245,069 ^a	\$25,410 ^b	\$1,334,209	\$1,307,525 ^a	\$26,684 ^b
Municipal Tax Increment	\$815,758	\$815,758 ^c	N/A	\$850,018	\$850,018 ^c	N/A
TOTAL	\$2,086,237	\$2,060,827	\$25,410	\$2,184,227	\$2,157,543	\$26,684

^a Equals 98 percent of education tax increment.

^b These amounts were included in the payments Winooski made to the school district and equal 2 percent of education tax increment in FY2018 and FY2019.

^c Equals 100 percent of municipal tax increment.

The retention of the appropriate portion of tax increment is reliant on the accuracy of inputs to and the calculation of tax increment. Winooski’s tax increment arises from the growth in property values in the TIF district above the OTV on April 1 immediately preceding the date of bond issuance (April 1, 2004). Table 3 demonstrates the tax increment calculation for FY2018 and FY2019.

¹⁷ Act 190 (2008) Section 71

¹⁸ Act 159 (2000) Section 38

¹⁹ Payments to the school district are effectively payments to the state Education Fund because municipalities work on behalf of the State to collect education property taxes and pay school districts the amount directed by the Agency of Education.

Table 3: Education and Municipal Tax Increment Calculation for FY2018 and FY2019

Tax Increment Calculation	Homestead ^a	Non-Residential ^a	Education	Municipal	Total Tax Increment
FY2018					
Total Current Property Value	16,476,660	86,501,560		103,024,400	
- OTV	1,096,900	23,969,000		25,065,900	
= Incremental property value	15,379,760	62,532,560		77,958,500	
= Incremental property value × 1% ^b	153,798	625,326		779,585	
× Tax rate ^c	\$1.4914	\$1.6649		\$1.0464	
= Tax increment	\$229,374	\$1,041,105	\$1,270,479	\$815,758	\$2,086,237
FY2019					
Total Current Property Value	16,044,100	88,394,320		104,484,600	
- OTV	1,096,900	23,969,000		25,065,900	
= Incremental property value	14,947,200	64,425,320		79,418,700	
= Incremental property value × 1% ^b	149,472	644,253		794,187	
× Tax rate ^c	\$1.4777	\$1.7281		\$1.0703	
= Tax increment	\$220,875	\$1,113,334	\$1,334,209	\$850,018	\$2,184,227

- ^a Homestead and nonresidential properties (also known as non-homestead) are taxed at different rates for education property taxes. Homestead is the principal dwelling owned/occupied by a VT resident as the individual's domicile.
- ^b Per the Vermont Department of Taxes' Tax Glossary, 1 percent of the listed property value is used to determine municipal taxes and the state education property tax.
- ^c Yearly education tax rates for the homestead and nonresidential portion are established by the State. Municipal tax rates are voted on by the municipality as part of the budget process.

The following factors contributed to Winooski's accurate calculation:

- 1) OTV of properties in the TIF district was certified by the City Council, the VDT Property Valuation & Review division (PVR) and VEPC in 2017.
- 2) Winooski used NEMRC, the standard software package supported by VDT, to maintain its grand list and the NEMRC TIF module to calculate incremental property taxes.²⁰ Once a TIF district is set up in NEMRC, the field that contains the percentage that may be retained for education tax increment may only be changed with VEPC's authorization. Further, once the OTV is entered in the TIF set up by municipal staff and agreed to by VDT, the fields are locked by NEMRC and municipal staff do not have access to alter the OTV.
- 3) Winooski has policies and procedures in place to determine that all properties in the TIF district were identified and appropriately recorded within the NEMRC system. For example, a unique code in a miscellaneous

²⁰ Grand list is 1 percent of the listed value established by local officials, and the value used to determine municipal taxes. The education grand list is 1 percent of education property values and is the value used to determine the state education tax.

field in NEMRC is used to identify and track properties in the TIF district. Additionally, Winooski's parcel identification system is based on a two-letter street code and the number of the property. Management indicated that this makes it easy to determine any missing properties. Finally, Winooski contracts with a VDT-certified professional appraisal firm to assess property values. Work by various departments informs the contracted assessors of changes, such as applications for building permits, which prompt the assessors to monitor parcels and determine whether the parcel should be reassessed. The City Manager annually reviews changes to properties with the contracted assessor.

Winooski's payment of 2 percent of education tax increment to the school district is impacted, in part, by processes VDT and AOE use to determine statewide education property taxes owed by municipalities to school districts or the State. The PVR division of VDT uses grand list data submitted by the municipalities, including TIF district properties, to ascertain taxable education property values for each municipality. VDT then provides this data to the School Finance division of AOE. School Finance uses the data to calculate how much education property tax municipalities owe to school districts or the State. For those municipalities with TIF districts, the payments include the percent of education tax increment required to go to the Education Fund.

Objective 2: TIF District Debt Payments were an Eligible Use of Tax Increment

In FY2018 and FY2019, Winooski used tax increment of \$2,060,827 and \$2,157,543, respectively, for eligible purposes of making payments on a \$17,000,000 revenue bond and a \$3,000,000 subordinate note.²¹ In a previous audit,²² SAO concluded that tax increment could be used to repay the City's revenue bonds, but not to repay two subordinate notes²³ issued in 2004 because bonds were the only debt instrument Act 159 (2000) allowed for financing Winooski's TIF district improvements.²⁴ The Legislature has subsequently expanded the types of debt instruments that may be used to finance TIF district improvements. In addition, during the current audit city officials provided SAO with a 2004 VDT ruling which found Winooski's U.S. Department of Housing and Urban Development (HUD) Section 108 loan was in substance a bond for purposes of Act 159 (2000) and the officials asserted

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- ²¹ The \$17,000,000 revenue bond, issued in 2014, refunded Winooski's 2006 revenue bonds originally issued in the amount of \$25,900,000. The 2006 revenue bonds repaid a 2004 U.S. Department of Housing and Urban Development Section 108 loan which financed TIF district improvements.
- ²² SAO previously audited Winooski's TIF district activity through June 30, 2011.
- ²³ The notes are subordinate to the revenue bonds (i.e., tax increment must be used for repayment of the bonds prior to payment of the notes).
- ²⁴ Per the SAO 2012 audit, as of June 30, 2011, Winooski had not used tax increment to repay the subordinate notes.

that the ruling's analysis was applicable to the subordinate notes. As a result, we concluded that tax increment may be used to repay the subordinated notes.

Bond repayment is an eligible use of tax increment

In FY2018 and FY2019, the City used tax increment to make payments of \$1,964,390 and \$1,964,413, respectively, on Winooski's outstanding revenue bonds. These bonds were issued in 2014, in the amount of \$17,000,000, as part of refunding the outstanding balance of Winooski's 2006 revenue bonds.

In our previous audit, we concluded that the 2006 revenue bonds could be repaid with tax increment. We noted that to be eligible, the City's TIF district debt must be a general obligation or revenue bond and the proceeds could only be used to finance TIF district improvements. The 2006 revenue bonds refinanced the City's HUD Section 108 loan which was interim financing obtained in 2004 to fund the cost of development in a downtown project area that included the TIF district.²⁵ Development activities originally paid for with the HUD Section 108 loan ultimately were financed with the 2006 revenue bond.

The City has twice refinanced TIF district debt, which Act 159 (2000) allows, provided the maximum repayment term does not exceed 20 years from the date of original issue. Both refinancings met this requirement, as the 2006 revenue bonds were payable through 2024, which is 20 years from the time Winooski obtained the HUD Section 108 loan, and the current outstanding bonds are also payable through 2024.

Subordinate notes eligible to be repaid with tax increment

Per the City's records, after making payments on the revenue bonds, \$96,437 and \$193,130 of tax increment remained in FY2018 and FY2019, respectively. According to city officials, they used the remaining tax increment to make payments on a \$3,000,000 subordinate note. The City also made payments on a \$1,098,000 subordinate note but did not use tax increment for this purpose in FY2018 and FY2019.

We concluded in our 2012 audit that the two subordinate notes issued in May 2004 could not be repaid with tax increment because Act 159 (2000) only authorized Winooski to use bonds to finance TIF district improvements, and

²⁵ In the 2012 audit, we found that a portion was used for projects unrelated to the TIF district and for city administrative costs such as the city manager salary. The total spent for unrelated projects could not be identified due to inadequate city records. Per Act 80 (2013), the Legislature ordered Winooski to pay its TIF district fund \$62,000 from municipal non-increment sources and considered this as settlement of the issue. Winooski complied with this requirement

statute at that time limited the use of tax increment to repaying or prefunding bonds issued to finance TIF district improvements. Over time, the Legislature has expanded the types of debt instruments that may be used to finance improvements in TIF districts and that may be repaid with tax increment. Currently, municipalities aren't limited to specific types of debt for financing TIF district improvements.

During the current SAO audit, city officials referenced a 2004 VDT ruling in which VDT agreed with Winooski legal counsel's assessment that Winooski's HUD Section 108 loan constituted a bond within the meaning of Act 159 since the HUD Section 108 loan contained the same definitional elements of indebtedness and negotiability as a bond and there was no substantive difference between the two. The Winooski officials asserted that the subordinate notes contain the same elements of indebtedness and negotiability and therefore would be considered eligible financing instruments based on the VDT ruling.

Because of the Legislature's expansion of the types of debt instruments that may be used to finance TIF district improvements and are eligible to be repaid with tax increment and Winooski's position that the analysis in VDT's 2004 ruling is applicable to the subordinate notes, we concluded that tax increment may be used to pay the subordinate notes.

Matter for Legislative Consideration

24 V.S.A. §1891(7) and §1894(i) allow interfund loans to finance improvements in TIF districts, and the loans may be repaid with tax increment, but no interest shall be charged.²⁶ Prior to Act 80 (2013), which prohibited interest charges for interfund loans, there was potential for overcharging interest to the benefit of the municipality and detriment of the statewide education fund. We highlighted this risk in a 2012 audit report. During the current Winooski audit, we observed a financing arrangement that is analogous to an interfund loan. The Legislature might consider whether tax increment should be used to pay for interest on financing instruments that operate like interfund loans.

Winooski's \$1,098,000 subordinate note, which has a 7 percent interest rate, is currently held by a trust controlled by the city mayor and city council. Because of the control city officials have over the trust, the activity appears analogous to interfund transactions where the activity is controlled by a single governmental entity (i.e., the City).

²⁶ Generally, interfund activity is used to describe financial transactions between funds of one government (i.e., internal activity of a government).

Specifically, the note is held by the Winooski Community Development (WCD) Trust and the trustees are the city mayor and city council members. The Trust is accounted for as a component unit of the City, which means it is reported in the City's financial statements. An opinion from Winooski's external legal counsel, which addresses the tax treatment of payments from the Trust to Winooski, indicates that the Trust is an agency of Winooski under City Council's control.

Further, the Trust terms allow the trustees significant discretion over the use of trust assets. As a result, the City of Winooski has access to the funds from the repayment of the note. In FY2018 and FY2019, city officials acting as trustees of the WCD Trust donated the City's payments on the Trust note back to Winooski.

The City's payments on this subordinate note were not made with tax increment in FY2018 and FY2019. According to the City Manager, the WCD Trust note is subordinate to the revenue bonds and the \$3,000,000 note. So, tax increment will only be used for the WCD Trust note once payments on the other debts are made. A city forecast of tax increment through 2024, the end of the period that tax may be retained, shows that after payments for the revenue bonds and the \$3,000,000 subordinate note, less than \$700,000 of tax increment is projected to be available to repay the WCD Trust note. As a result, it's unlikely that there will be enough tax increment to pay more than the \$1,098,000 note principal of the WCD Trust note. Therefore, there is low risk that tax increment will be used to repay interest costs in the future.

Conclusions

In FY2018 and FY2019, Winooski's TIF district was about three-quarters of the way through the 20-year period that tax increment may be retained. In these years, Winooski retained the appropriate portions of municipal and education tax increment in the city TIF district fund and used the tax increment for repayment of TIF district debt, as allowed. In addition, Winooski paid 2 percent of education tax increment to the Winooski School District, as required.

We also noted that there may be other financing arrangements that are under municipal control like interfund loans for which there is a risk of interest being overcharged. We highlighted one such arrangement in Winooski for the Legislature to consider whether interest for similar financing arrangements should be paid with tax increment.

Management's Comments

On December 19, 2019, the City Manager for the City of Winooski provided comments on behalf of the City. The City Manager confirmed that they had reviewed the draft report and agree with the findings and conclusions but did not comment on the section "Matter for Legislative Consideration," noting this is within the purview of the Legislature. Appendix III contains a reprint of the comments.

Appendix I

Scope and Methodology

To address our objectives, we researched statutes, acts, session law and TIF Adopted Rules to gain an understanding of the requirements applicable to Winooski's TIF district relative to retention and eligible use of tax increment. We reviewed the 2012 Winooski TIF district audit report prepared by SAO, prior audit workpapers and subsequent recommendation follow-up. We also reviewed Winooski's annual report of TIF district activity to the VEPC and the audited financial statements for FY2018. We reviewed the TIF District Reconciliation approved by the City Council and submitted to VEPC in November 2015.

We read Winooski's financial and accounting policies and procedures and interviewed municipal officials regarding policies, procedures and internal controls over calculating tax increment and utilizing tax increment and other non-tax increment revenue. We inquired about Winooski's internal controls to ensure the accuracy of the tax increment calculation and the use of tax increment is consistent with statute and requirements specific to Winooski.

For our first objective, we recalculated education and municipal tax increment for FY2018 and FY2019 using data in the NEMRC TIF Parcel Value Reports and the NEMRC TIF Proceeds Report. We relied, in part, on audit work performed by Winooski's independent auditors for FY2018. To rely on this work, we evaluated the qualifications and independence of the audit firm and assessed the relevance of the work performed to our audit objective. For FY2019, we validated the education tax rates to the published rates available on the VDT website and the municipal tax rates to rates published in the City Council minutes and approved by voters and the audited financial statements. We verified that the percent of education tax increment retained was no greater than 98 percent and the municipal tax increment was 100 percent, as required. We corroborated the recalculated amounts with Winooski's TIF District Fund per the FY2018 audited financial statements and TIF District Fund general ledger accounts for FY2019.

We evaluated the processes used by VEPC and the PVR division to certify the OTV of properties in two TIF districts to determine whether we could rely on the certified OTV for Winooski that was used in the tax increment calculation. We compared Winooski's certified OTV to the OTV in the TIF Parcel Value Report.

To assess the reliability of the current values in the TIF Parcel Value Report, we interviewed city officials and the contracted appraiser to understand how the City'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 selected a sample of data parcels from the Winooski Billed Grand List TIF Parcel Value reports (education and municipal) for FY2018 and FY2019 from the TIF module of NEMRC and compared the values to the information contained in the grand list module of NEMRC to verify that the data in the TIF Parcel Value report reflected the values in the Grand List.

Appendix I

Scope and Methodology

To assess whether Winooski paid 2 percent of education tax increment to the Education Fund, we met with PVR to gain an understanding of the processes used by PVR and AOE to determine the education property tax payments municipalities owe to school districts. We obtained property value data submitted to VDT by Winooski for FY2018 and FY2019 and determined whether the reported amount of the TIF exemption for homestead and nonresidential properties was equal to 98 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 Winooski to the education list value used by AOE to calculate Winooski's education tax liability. We verified whether Winooski paid the Winooski School District the education tax liability calculated by the AOE for FY2018 and FY2019. We calculated the two percent amount of education tax increment required to be paid by Winooski to their local municipal school district.

For our second objective, we determined how tax increment was used and assessed whether Winooski's debt instruments were eligible to be repaid with tax increment. We reviewed conclusions from SAO's 2012 audit and we considered new evidence pertinent to the eligibility of the subordinate notes to be repaid with tax increment. We reviewed the bond and subordinate note agreements and amendments and agreed TIF debt payments per the general ledger in FY2018 and FY2019 to the debt repayment schedules in the bond and note agreements. We also evaluated the level of control Winooski asserts over the WCD Trust note and considered whether the note is analogous to an interfund loan.

We reviewed the FY2018 audited financial statements, and financial records and management reports for FY2018 and FY2019 for related costs reported in the TIF district fund. We assessed whether there was tax increment available, after debt repayment, to pay related costs in FY2018 and FY2019. We obtained confirmation from management that all tax increment was used to pay TIF debt.

We performed our audit between June 2019 and October 2019, which included visits to the city offices in Winooski, Vermont. 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.

Appendix II Abbreviations

AOE	Agency of Education
FY	Fiscal Year
HUD	U.S. Department of Housing & Urban Development
NEMRC	New England Municipal Resource Center
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
VSA	Vermont Statutes Annotated
WCD	Winooski Community Development
WCDC	Winooski Community Development Corporation

Appendix III Management's Comments

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

City of Winooski
Vermont's Opportunity City

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Winooski, Vermont 05404
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winooski.vt.gov

December 19, 2019

Douglas R. Hoffer
Vermont State Auditor
132 State Street
Montpelier, VT 05633-5101

Sent via email to Doug.Hoffer@vermont.gov and Tanya.Morehouse@vermont.gov

Dear Auditor Hoffer,

We are in receipt of your draft report entitled *Tax Increment Financing District: City of Winooski – City Retained Correct Amount of Tax Increment and Used It for Authorized Purposes*.

We have reviewed this document and are in agreement with the findings and conclusions detailed in the draft report. We withhold comment on the section "Matter for Legislative Consideration" as it falls under the purview of the elected officials. We would welcome the opportunity to discuss these considerations with the Legislature if they so choose.

We appreciate the efforts of the State Auditor's Office during this review.

Sincerely,



Jessie Baker
City Manager

