



Report of the Vermont State Auditor

June 30, 2011

TAX INCREMENT FINANCING

CITY OF NEWPORT GENERALLY COMPLIED WITH STATUTES, BUT MISCALCULATED PAYMENTS TO STATE

On November 7, 2012, SAO reissued this report to update the total amount the City of Newport owes to the state and the amount reported in the example presented for fiscal year 2008. The revised total amount owed is on pages 3, 17, 19, 21, 25 and in the cover letter and appendix III and IV. The revised example is on pages 18 and 19.

Thomas M. Salmon, CPA
Vermont State Auditor
Rpt. No. 11-03

Mission Statement

The mission of the State Auditor's Office is to be a catalyst for good government by promoting professional audits, financial training, efficiency and economy in government and service to cities and towns.

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**THOMAS M. SALMON, CPA
STATE AUDITOR**



**STATE OF VERMONT
OFFICE OF THE STATE AUDITOR**

June 30, 2011

The Honorable Shapleigh Smith
Speaker of the House of Representatives

The Honorable John Campbell
President Pro Tempore of the Senate

The Honorable Peter D. Shumlin
Governor

Mr. John Ward
City Manager, City of Newport, Vermont

Dear Colleagues,

Act 45 of 2011 requires that the State Auditor's Office audit all active tax increment financing (TIF) districts every four years. Currently, Burlington, Milton, the City of Newport and Winooski have established TIF districts and financed improvements in their districts.

This report evaluates the City of Newport's TIF district. During the audit we assessed whether the City of Newport approved and administered the TIF district according to statutory requirements and the extent to which the City has established performance measures and monitors actual results in order to determine whether the TIF district is meeting its intended goals.

We found the City of Newport generally complied with state statutes, but the City miscalculated the total incremental property tax revenue generated by the TIF district and as a result owes the state's education fund \$37,041. In addition to recommending that the City arrange to pay the amount owed to the state's education fund, we also make recommendations designed to improve the City's administration of the TIF district. For example, we recommend that the City designate an official responsible for developing, documenting and implementing a system to calculate and report incremental property tax revenue and that a separate individual review this work.

I would like to thank the management and staff of the City of Newport for their cooperation and professionalism during the course of the audit. If you would like to discuss any issues raised by this audit, I can be reached at (802) 828-2281 or at auditor@state.vt.us.

Sincerely,

A handwritten signature in black ink that reads "Thomas M. Salmon CPA".

Thomas M. Salmon
State Auditor

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Abbreviations

CLA	Common Level of Appraisal
DOE	Vermont Department of Education
DOT	Vermont Department of Taxes
GAGAS	Generally Accepted Government Auditing Standards
GFOA	Government Finance Officers Association
FY	Fiscal Year

Contents

NEMRC	New England Municipal Resource Center
OTV	Original Taxable Value
SAO	State Auditor's Office
TIF	Tax Increment Financing
VEPC	Vermont Economic Progress Council
VSA	Vermont Statutes Annotated

Introduction

Since 1985, tax increment financing (TIF) districts have been available as a tool for Vermont municipalities to finance public infrastructure improvements in support of economic development. The TIF district approval process and administrative requirements largely are delineated in Vermont state statute. Typically, when a TIF district is established, certain real estate parcels within a municipality are designated as comprising the TIF district. Debt and other resources are utilized to finance public infrastructure improvements which support development in the district. Future incremental property tax revenue¹ within this designated district is utilized over a set time period to pay for the debt incurred to finance the improvements. TIF districts have been used in Vermont to finance public infrastructure improvements such as extending access to, or increasing capacity, of waste water treatment plants and modifying or adding roadways. The City of Newport (hereafter referred to as “City” or “Newport”) established a TIF district, locally referred to as the City Center Industrial Park, in June 1997 to extend a waterline to an area intended to be an industrial park.

TIFs not only affect the applicable municipality, they also have statewide tax implications. At the time municipalities were first granted authority to establish TIF districts, each municipality determined the amount of property taxes necessary to fund the local school system and the establishment of a TIF district in a municipality potentially impacted the amount of funding available for general municipal operations and that municipality’s school system. The method of funding public education costs for schools in Vermont changed dramatically with the passage of Act 60 in 1997 and the establishment of a statewide education property tax set by the state to fund public education. Because of the change to a statewide education property tax funding mechanism, municipalities with TIF districts retain monies that otherwise would have been directed to the state for funding public education throughout the state.

¹ Incremental property tax revenue is calculated based on the current property values of the TIF district less the TIF district property values at the time the TIF district was established, multiplied by the municipal and education property tax rate.

Act 190 of 2008 required the state auditor of accounts to audit all active TIF districts every three years.² Because requirements for establishment and administration of TIF districts are largely set out in state statute, we elected to focus our audit towards determining compliance with the statutes applicable to Newport's TIF district. Our audit objectives were to:

- Assess whether the City of Newport adhered to requirements in state statute governing establishment of the TIF district and any associated debt
- Ascertain whether since inception to FY2010, the municipality has administered the TIF district according to statutory requirements, including (a) retaining the appropriate incremental tax revenues, (b) utilizing the incremental tax revenues to pay for approved TIF district improvements and (c) timely and accurately reporting TIF district property values and incremental tax revenue to City officials or the legislature, as appropriate and
- Assess the extent to which the municipality has established and monitors actual results associated with performance measures that demonstrate achievement of the state and municipality's economic and fiscal goals.

The audit work for our first objective largely consisted of comparing the City's documentary evidence of activities and actions associated with establishing its TIF district to the statutory requirements governing establishment of a TIF district. Our methodology for the second objective included (1) recalculating the incremental tax revenue from inception of the TIF district through 2010 and verifying that the City retained only those amounts allowed per statute, (2) reviewing all of the expenditures the City claimed as TIF district improvements and evaluating whether the expenditures were for improvements as described in City meeting minutes and bond financing documents and (3) comparing reports of TIF district property values and incremental tax revenues to source documentation. To accomplish our third objective, we interviewed City officials and reviewed the City's processes and procedures related to monitoring results of the TIF district. Additional detail on our scope and methodology can be found in Appendix I.

² Per Act 45 of 2011, the frequency of audits is changed to every four years.

Highlights: Report of the Vermont State Auditor

Tax Increment Financing: City of Newport Generally Complied with Statutes, but Miscalculated Payments to State

(June 30, 2011, Rpt. No. 11-03)

Why We Did This Audit

Act 190 of 2008 requires the State Auditor of Accounts to audit all active TIF districts every three years. Our audit objectives were to (1) assess whether the City of Newport adhered to requirements in state statute governing establishment of the TIF district and any associated debt, (2) ascertain whether since inception to FY2010, the municipality has administered the TIF district according to statutory requirements, including (a) retaining the appropriate incremental tax revenues, (b) utilizing the incremental tax revenues to pay for approved TIF district improvements and (c) timely and accurately reporting TIF district property values and incremental tax revenue to City officials or the legislature, as appropriate, and (3) assess the extent to which the municipality has established and monitors actual results associated with performance measures that demonstrate achievement of the state and municipality's economic and fiscal goals.

What We Recommend

We recommend that the City develop comprehensive record retention procedures for its fiscal documents; arrange to pay \$37,041 to the state in identified excess incremental property tax revenue retained; designate a City official to be responsible for developing, documenting, and implementing a system to calculate and report incremental property tax revenue and a separate individual to review this work; and designate a City official to be responsible for monitoring the TIF's performance measures.

Findings

Newport substantially complied with statutory requirements in establishing and financing its TIF district. Public meetings about the TIF were properly warned, public hearings were held and the TIF district plan, including boundaries and properties were properly recorded in the City's records. However, City officials were not able to provide sufficient evidence that a financial plan was documented and provided for citizen review at a public meeting. The absence of a financial plan may increase the risk of improper administration of the TIF district by placing reliance on the institutional knowledge of elected officials and City personnel. In the event of turnover of elected officials or City personnel, missing documents such as the financial plan could impair the City's ability to administer the district correctly.

The City complied with some statutory requirements for administering the TIF district such as utilization of incremental property tax revenue to repay bonds that were issued to pay for authorized TIF district improvements and certain municipal reporting requirements. With respect to the retention of incremental property tax revenue, the City's calculation of the amount to retain did not comply with statutory requirements and the City retained \$37,041 that should have been paid to the state's education fund. In addition, the City did not meet a new state reporting requirement that was effective in 2008. Control weaknesses, such as reliance on a single individual to manage significant processes associated with TIF district administration, were the primary reason for noncompliance. The City Manager has indicated that Newport will remedy its noncompliance, most significantly by planning to pay amounts owed to the education fund.

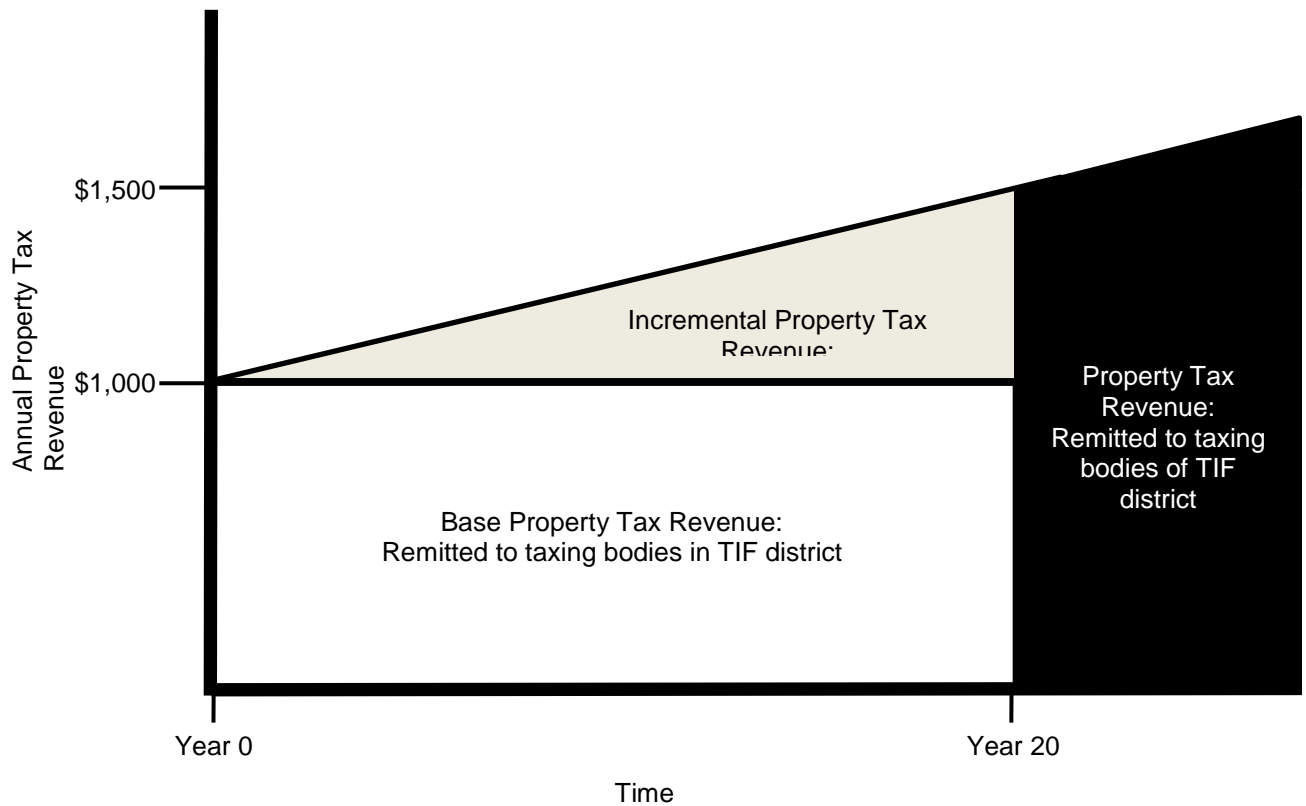
While the City established a performance measure for one of three state and municipal TIF district objectives when the district was created, it did not consistently track and monitor results. In addition, the City had not established targets (e.g. benchmarks) for the performance measure. As a result of these shortcomings, the City lacks a systematic mechanism to evaluate whether the TIF district is meeting its intended goals. This is primarily due to circumstances that existed at the time the Newport TIF district was established. Since tax increment financing was a municipal tool at that time, no state organizations provided guidance on administering the TIF district. Additionally, planning for other significant development activities was occurring and efforts to plan and identify funding for all development activities was the focus of City officials. Nonetheless, establishing performance measures for the objectives of the TIF district is essential to assessing whether TIF district outcomes were as intended.

Background

Establishment of a TIF district allows a municipality to designate an area for improvement and earmark expected future growth in property tax revenues (i.e. incremental property tax revenue) in the designated area to pay for debt incurred to finance the costs of improvements. In theory, the improvements lead to increased property values and the resulting increased property tax revenues fund the cost of development. For example, assume that existing property in a TIF district generates \$1,000 a year in tax revenues. The municipality obtains approval for the use of incremental property tax revenue for a new project in the district and issues 20- year bonds to finance the project's costs. Over time, the district's property values grow and annual property tax revenues increase to \$1,500. The taxing authorities, including the municipality and the state, continue to receive their respective portions of \$1,000 (i.e. the base property tax revenue), and the \$500 difference (i.e. the incremental property tax revenue) is used to pay off the bonds over 20 years.³ Once the bonds are paid off, the taxing authorities (municipality and state) receive all of the property tax revenues (\$1,500 per year). Figure 1 illustrates how this example works.

³ In the event that a TIF district's incremental property tax revenue exceeds the amount needed to make bond payments in a given year, this "excess" incremental revenue is distributed to the municipal and state taxing authorities using a statutory formula as established in 24 VSA §1900.

Figure 1: Illustration of How a TIF Can Generate Incremental Revenue



Statutory Requirements Governing the City of Newport's Administration of its TIF District

Newport established its TIF district when the authority to establish and administer TIF districts resided with municipalities and the retention of incremental property tax revenue to pay for improvements in the TIF district only impacted funding for local municipal operations and the local school district. With the passage of Act 60 (Equal Educational Opportunity) in 1997 and the state's migration to statewide funding for public education, the administration of TIF districts was complicated by the retention of incremental property tax revenue which now included statewide education property taxes and impacted statewide funding for public schools. Municipalities are responsible for administration of the TIF districts, including overseeing the construction of public infrastructure improvements, calculating

incremental revenues, and determining the amount of incremental revenue the TIF district may retain.

Acts 87 (1985) and 204 (1988) established the initial framework in Title 24 Chapter 53 Subchapter 5 for the formation and operation of TIF districts in Vermont. Since the passage of Act 60 in 1997, the statutes related to TIF districts have undergone numerous amendments. Per 1 VSA §214(b)(2), subsequent amendment to statute does not affect any right, privilege, obligation or liability acquired, accrued or incurred prior to the effective date of the amendment. Accordingly, many of the changes to TIF statutes that occurred subsequent to the establishment of the City of Newport's TIF district do not apply to Newport's TIF district. Thus, it is primarily the requirements delineated in Acts 87 and 204 that govern its formation and administration. The following is a summary of the original criteria in Acts 87 and 204 for establishing and administering TIF districts.

Establish, approve and record

- The purpose of TIF districts is to provide revenues for improvements⁴ located wholly or partly within the district which will encourage development, provide for employment opportunities, improve and broaden the tax base or enhance the general economic viability of the municipality, region or state. [24 VSA §1893]
- The municipality's legislative body⁵ determines that the TIF district will serve the public purpose and creates the TIF district. [24 VSA §1892(a)]
- At least one public meeting, duly warned, must be held on the proposed TIF plan with a description of TIF district boundaries and properties. [24 VSA§1892(a)]

⁴ Improvements means installations, construction, or reconstruction of streets, utilities, parks, playgrounds, land acquisition, parking facilities and other public improvements necessary for carrying out the objectives of the TIF district.

⁵ Legislative body means the mayor and alderboard, the City council, the selectboard and the president and trustees of an incorporated village.

-
- Upon adoption by the municipality's legislative body, the TIF district plan must be recorded with the municipal clerk and lister or assessor. [24 VSA§1892(b)]

Financial plan

- At least one public meeting, duly warned, must be held on a financial plan for proposed improvements. The elements of the financial plan shall include a statement of costs and sources of revenue, estimates of assessed values within the district, identification of the portion of assessed value to be applied to proposed improvements, tax increments for each year of the financial plan, amount of bonded indebtedness to be incurred, other sources of anticipated revenues and the duration of the financial plan. [24 VSA§1898(e)]

Allowable debt and period that debt may be incurred

- Incremental tax revenue may be pledged and appropriated for payment of principal and interest on bonds issued for improvements contained wholly or partially within the district. [24 VSA §1897]
- Bonds may take the form of general obligation bonds or revenue bonds and must be approved by a majority of registered voters at a duly warned special or annual meeting. [24 VSA §1898(b) and 24 VSA §1897]
- If revenue bonds are issued, they are payable solely from income proceeds, revenues, and tax increments resulting from the improvements in the TIF district. [24 VSA §1898(b)]
- The municipality may incur debt relative to the TIF district for a period of 10 years following creation of the TIF district. The ten-year borrowing period commences April 1 of the year the TIF district is created by the municipality's legislative body. [24 VSA §1894]

Establish original taxable value (OTV)

- OTV is the sum of the aggregate valuations of land and improvements in the TIF district on the date the district was approved. [24 VSA §1898(b)]

-
- On April 1 of the first year, the lister or assessor certifies the original taxable value (OTV) of the TIF district parcels as then most recently determined. [24 VSA§1895]

Calculation and utilization of tax increment revenues

- The tax increment revenue equals current assessed value of properties located wholly or partially within the TIF district less OTV multiplied by the current tax rates of the municipality, the school district and any other taxing authority.⁶ [24 VSA§1896, 24 VSA§1897 and 24 VSA§1898(b)]
- The municipality's legislative body may pledge and appropriate tax increments received from the TIF district for the payment of bond principal and interest. [24 VSA§1897]

Period that tax increment revenues may be retained for payment of debt

- Tax increment may be retained in each year subsequent to creation of the district for which the assessed valuation exceeds the OTV. The increment must be segregated in a special account of the municipality until all capital indebtedness of the district has been fully paid to the extent the increment is pledged and appropriated for payment of debt incurred to finance development in the district. [24 VSA §1896 and 24 VSA §1898(b)]
- The TIF district continues until all indebtedness incurred by the municipality to fund the improvements in the TIF district has been paid. [24 VSA §1898(b) and 24 VSA §1894]

Distribution of incremental tax revenue

- Incremental TIF revenue which in any tax year exceeds the principal and interest payments for the bonds issued for improvements in the district is required to be distributed to the municipality and school district in proportion that each budget bears to the combined total of both budgets unless otherwise negotiated. [24 VSA§1900]

⁶ TIF district taxable property shall be subject to the same total tax rate as other taxable property in the municipality, except as otherwise provided by law.

Reporting

- Each year of the life of the TIF district, the lister or assessor for the municipality shall certify and report to the legislative body the amount that the OTV has increased or decreased and the proportion that any increase or decrease bears to the total assessed valuation of real property for that year. [24 VSA §1895]

Certain changes to statute that occurred subsequent to the establishment of the City of Newport TIF district do apply to the TIF district since the amendments do not affect any right, privilege, obligation or liability acquired prior to the effective date of the amendment. See Figure 2 for a timeline of amendments to TIF legislation, their effective dates, and those changes impacting the City of Newport TIF district from 1997 through 2010. Items in grey do not apply to the City of Newport TIF district.

Figure 2: Timeline of Select Changes to TIF District Statutes and Applicability of Certain Amendments to the City of Newport, Based Upon Effective Dates and 1 VSA §214(b)(2) (appendix II contains greater detail)

A C T 6 0 (1 9 9) 7	Adds that the incremental value of TIF properties for districts established before 6/10/97 is exempt from the determination of the municipality's education property tax, to the extent the taxes generated on the incremental value are appropriated for repayment or prefunding of TIF district debt	A C T 1 5 9 (2 0 0) (Adds WINOOSKI TIF; excludes from selected TIF requirements
	Allows municipalities with existing TIFs to expand their districts if done by 6/30/97		Requires that at least 10% of housing in WINOOSKI TIF be affordable
			Requires WINOOSKI bonds to be issued by 7/1/2005 with 20 year maximum term
			Defines excess valuation for the WINOOSKI TIF
			Sets requirements for the use of incremental revenue of the WINOOSKI TIF, such as 5% of valuation of property taxes and the excess valuation should be paid to the State's education fund
			Excludes WINOOSKI's excess valuation from education property tax until bonds are paid or reserved

1/1/98 3/11/98 7/1/00 //

A C T 7 1 (1 9 9) 8	Extends exemption date in Act 60; TIFs established on or after 6/26/97 must obtain VEPC's approval for exemption of incremental value of TIF properties from the determination of the municipality's education property tax liability
	Requires that municipalities seeking TIF district expansion obtain VEPC approval
	Allows incremental revenue to be retained for up to 10 years with VEPC's approval

= not applicable to Newport TIF

Figure 2 (continued)

<p>A C T 1 8 4 (2 0 0 6)</p>	<p>Allows incremental revenue to be used to pay for related costs (as defined in act)</p> <p>Expands TIF goals and amends definition of TIF improvements</p> <p>Sets criteria for VEPC approval of TIF districts</p> <p>Allows 20-year debt borrowing period; must obtain VEPC approval if debt not incurred in first 5 years.</p> <p>Adds that OTV must be adjusted if >= 20% of properties in the municipality are reappraised</p> <p>Limits the retention of tax increment to 20 years commencing 4/1 of the year following VEPC approval</p>	<p>A C T 1 9 0 (2 0 0 8)</p>	<p>Allows more financing instruments</p> <p>Amends definition of improvements to include those that serve TIF district</p> <p>Adds that TIF districts are now created as of 4/1 of the year so voted</p> <p>Changes period of retention of tax increment to 20 years from the date the debt was first incurred</p> <p>Allows that an equal proportion of excess municipal and state education tax increments may be used for prepayment or escrowed for financing; any remaining excess state education tax increment must be distributed to the education fund</p> <p>Requires municipalities to report to VEPC and DOT</p> <p>Requires SAO audit every 3 years</p>	<p>A C T 1 9 0 (2 0 0 8)</p>	<p>Requires MILTON to proportionally apply state education property tax and municipal tax increments for repayment of debt incurred prior to 4/1/09 for Husky and Catamount TIFs; excludes these TIFs from proportionality rule</p>	<p>A C T 5 4 (2 0 0 9)</p>	<p>Allows MILTON more debt financing options (retroactive to 7/1/08)</p> <p>Authorizes MILTON to select date to start retaining tax increment; OTV must be recertified if retention of education tax increment starts more than 5 years after TIF creation^a (retroactive to 7/1/08)</p>
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7/1/06	6/6/08	7/1/08	7/1/09		
<p>A C T 1 8 4 (2 0 0 6)</p>	<p>Amends tax increment utilization so that no more than 75% of state education property tax increment and no less than 75% of municipal tax increment may be used to service debts and related costs</p> <p>Requires that distribution of excess municipal tax increment be in proportion to the budget; limited usage of excess state education tax increment to prepayment and escrow for debt</p> <p>Requires VEPC and DOT report to legislature</p> <p>Allows extensions to the life of the MILTON TIFs</p>	<p>A C T 1 9 0 (2 0 0 8)</p>	<p>Limits use of the tax increment to repaying the financing of improvements and related costs expenditures to the same proportion as the TIF benefits from these expenditures (proportionality rule)</p> <p>Sets WINOOSKI's FY 2008 common level of appraisal and directs that any overpayment of the education property tax be credited to fiscal year 2009 liability</p> <p>Requires that 2% of WINOOSKI's education property tax on the excess valuation of TIF properties be paid to the education fund</p> <p>Retroactively approves financing for BURLINGTON's TIF to 6/30/97</p>	<p>A C T 5 4 (2 0 0 9)</p>	<p>Extends the BURLINGTON TIF's borrowing period by 5 years</p> <p>Requires BURLINGTON to submit proposal to legislature for calculating amount due to the education fund on new revenue growth in the TIF</p>

^aAct 3 of the 2009 Special Session also allows MILTON to incur debt for up to 10 years from the creation of the TIF

State Role Relative to TIF Districts

The State of Vermont has an interest in monitoring the status of municipal TIF districts since a portion of the incremental property tax revenue retained by municipalities is generated by the statewide education property tax.⁷

The state determines (1) the tax rate for statewide education property taxes and (2) the amount the municipality must raise on behalf of the state for education property taxes. To support these processes, the state has developed mechanisms to collect data from municipalities regarding the value of municipal taxable property, including certain elements specific to TIF districts. Specifically, each year the Vermont Department of Taxes (DOT) collects information from the municipalities regarding taxable municipal properties, including property values via the 411 form.⁸ The 411 form also captures the incremental value of TIF district property which is exempt from statewide education property taxes. The incremental value for TIF district property is calculated as current assessed TIF district property value less original taxable value.

DOT provides the value of all taxable property for each municipality, net of exemptions reported in the 411 form, to the Vermont Department of Education (DOE). DOE utilizes this information to calculate the amount owed by each municipality for statewide education property taxes and provides each municipality with the Cash Flow Worksheet which shows the amount of statewide education property taxes owed by each municipality to the education fund. Although the state established an education fund and reports revenue sources and expenditures for public education in the fund, municipalities pay the statewide education property taxes directly to school districts on behalf of the state.

⁷ Prior to the passage of Act 60, the amount of property tax revenues needed to fund local school districts was determined at the municipal level and the local school district property taxes were augmented by state aid. With the passage of Act 60, the basis for funding public schools changed to a statewide property tax established by the state (i.e. a state funding system replaced a state aided local tax system).

⁸ The 411 form is a summary of the information contained in the municipality's grand list and includes exempt property such as TIF district real estate parcels. A municipality's Grand List is a list of the assessed value of all taxable property, including real estate parcels, and forms the basis for collection of property taxes in the municipality and for statewide education property taxes.

In addition to implementing data collection processes to facilitate administering statewide funding for public education, the state also made changes to statutory requirements related to the formation and administration of the TIF district. Specifically, the state required municipalities to obtain approval of the Vermont Economic Progress Council (VEPC) for TIF districts established subsequent to March 10, 1998. In addition, municipalities are now required to provide information to the DOT and VEPC each year regarding the status of TIF districts, including original taxable value and incremental property tax revenue.

City of Newport TIF District

The City of Newport's TIF District, locally referred to as the City Center Industrial Park, is a privately owned industrial park situated on the City's border with the Town of Derby Center. See figure 3 for a map of the area containing the TIF district. Originally a 47-acre area of undeveloped land, the property was owned by a developer (James R. Palin et al) and zoned by the City for commercial and industrial uses. The industrial park was undergoing planning and review prior to creation of the tax increment finance district, though no development had taken place on the site.

On March 4, 1997, at the City of Newport Annual Meeting, the voters authorized the City Council to make infrastructure improvements to the industrial park and to bond for \$300,000 to pay for these improvements. The source of the funds to pay for the bond (principal and interest) was a pledge of tax increments on the TIF parcels' property. The City Council subsequently approved the TIF district.

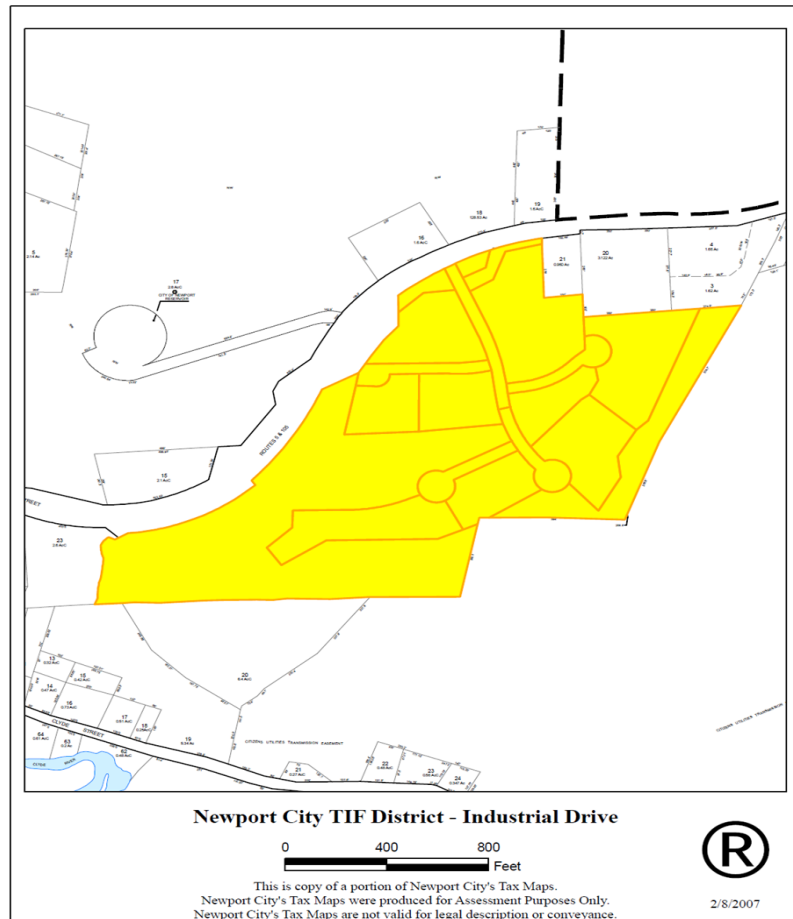
The major infrastructure improvement work required building a waterline connecting Newport's reservoir to Derby's waterline and then continuing the Derby waterline to the TIF (within Newport City) as the elevation of the properties within the industrial park was too high to be serviced solely by the Newport reservoir.

Since the TIF district was created and the infrastructure completed, three industrial buildings have been constructed. Two businesses share one structure—MSA Gillette and Fastenal. Harvest Equipment/John Deere is located in a second building. Another building is vacant. MSA Gillette and Harvest Equipment were both new companies to the City of Newport,

moving to the City Center Industrial Park after the creation of the TIF district.

From the TIF's inception to 2010, the TIF has generated over \$536,883 in total tax increment to the City. From these revenues, the City has used \$259,234 to pay its bonded debt on the City Center Industrial Park. According to our calculation, the TIF district is projected to generate an additional \$409,000 in incremental tax revenue from FY2011 until the end of the TIF's life in December of 2014, when its bonded debt is expected to be retired.

Figure 3: Map of Newport TIF District Indicating Border (- - - -) with Town of Derby (Source: City of Newport)



City of Newport Substantially Complied with State Statutes in Establishing its TIF District and Related Financing

The City largely complied with the statutory requirements associated with establishing its TIF district in 1997, including (1) holding publicly warned meetings to discuss formation and financing of the TIF district, (2) documenting approval of the TIF district by the City council and (3) having the legal voters of the City approve the TIF district's debt. In most instances, the City maintained documentary evidence demonstrating that required actions were taken to establish the TIF district and related debt. Specifically, the City provided evidence of holding multiple publicly warned meetings to discuss the purpose for, and the financing of, the TIF district. However, while the warning and minutes of these meetings demonstrate discussion of the financial aspects of the TIF district, they do not reflect that a formal financial plan⁹ was provided for citizen review, as required by 24 VSA §1898(e).

Table 1 presents our assessment of the City of Newport's compliance with the requirements for creating a TIF District and incurring debt to finance the district's improvements.

⁹ According to state statute, the financial plan must address certain financial considerations such as proposed improvements to be funded, cost of the improvements, proposed debt to finance development and anticipated growth in tax revenues within the district.

Table 1: Assessment of Newport's Compliance with Required Steps for Creating a TIF District and Authorizing Financing.

Statutory Requirements	Comments	Compliance
Hold publicly warned meetings on proposed TIF district plan, with a description of the TIF district boundaries and properties.	Meetings held on 1/27/97, 6/2/97 and 6/26/97	✓
Hold publicly warned meetings on a financial plan for proposed improvements.	Meetings held on 1/27/97 and 2/24/97	City officials unable to locate financial plan for SAO review
Obtain approval of majority of registered voters for general obligation or revenue bonds at a warned special or annual meeting	Approved 3/4/97	✓
Adoption of TIF district plan by legislative body of municipality (e.g. City council).	Minutes of 6/26/97 reflect resolution of City council to adopt TIF district	✓
Record TIF district plan with municipal clerk and lister or assessor.	Recorded 8/26/97	✓

State statute requires that a financial plan be developed and presented to City residents in order to provide financial information about the proposed TIF district such as the cost of TIF district improvements, amount of debt needed to finance the improvements and projected incremental property tax revenue. Current City officials could not produce the plan.

The inability of the City to produce the plan could be due to a lack of a record retention policy. The failure to retain significant records associated with complex transactions such as the formation and financing of a TIF district could cause the City to place undue reliance on the institutional knowledge of elected officials and City employees involved in the formation of the TIF district. Without retention of documentation such as the financial plan for the TIF district, when elected officials are replaced or there is turnover in City personnel, the institutional knowledge may not be carried forward and the City may be at risk of improper administration of the TIF district.

City of Newport Administered its TIF District According to Some, but not all, Statutory Requirements

The City met with mixed results with its attempts to administer the TIF district according to state statute. Specifically, the City's method of calculating incremental property tax revenue did not follow statutory requirements and as a result the City retained \$37,041 that should have been paid to the state's education fund. The City intends to work with the state's DOT and DOE to develop a plan to make restitution to the education fund. Although the City retained too much incremental property tax revenue, it managed its TIF bond proceeds appropriately, spending the proceeds for authorized improvements. In addition, it met some of the reporting requirements and for those it met, reported accurately. The primary cause of the City's noncompliance was reliance on a single individual to interpret state statute and establish processes for significant components of TIF district administration without a second level of review. A lack of documented processes and procedures for administering the TIF district and some unawareness of statutory requirements, also contributed to the City's difficulties with complying with state requirements for TIF district administration. Second levels of review, consultation with attorneys regarding interpretation of statute and documented processes and procedures are important elements of a framework to manage a complex arrangement like a TIF district.

City of Newport Inappropriately Retained \$37,041 of Excess Incremental Property Tax Revenue

State statute establishes the methodology municipalities are to use in calculating total incremental property tax revenue generated by TIF districts¹⁰ and the amount, if any, required to be distributed to the state's education fund.¹¹ Incremental property tax revenue is required to be calculated as

¹⁰ 24 VSA §1896, 24 VSA §1897 and 24 VSA §1898(b) establish the requirements for calculating incremental property tax revenue.

¹¹ 24 VSA §1900 establishes requirements for distributing excess incremental property tax revenue. Excess incremental property tax revenue is distributed to the municipality and the school district (i.e. education fund) in the same proportion that each budget bears to the combined total of both budgets, unless otherwise negotiated.

incremental property value growth (total current April 1 assessed value of TIF district properties less OTV) multiplied by the municipal and state education property tax rates. If, in any year, the amount of incremental property tax revenue raised exceeds what is needed to cover bond payments, the excess statewide education property tax revenue is required to be distributed to the state's education fund. However, Newport did not use this method. Instead, the former City Assessor first derived incremental growth in TIF district properties by taking the previous year's estimated annual bond payments and dividing the payments by the prior year's tax rates. The derived growth was then multiplied by the current year's tax rate to determine the amount of incremental property tax revenue. Next, according to the City Manager, the former City Assessor, in consultation with the state's DOT,¹² engineered the City's payment of excess incremental property taxes to the education fund by reporting lower than actual TIF district property values to DOT.¹³

The City's approach yielded sufficient incremental tax revenue to cover debt obligations from FY2003¹⁴ through FY2010 and the City made payments of \$124,028 to the education fund. However, it did not identify the extent to which the TIF district was generating excess incremental property tax revenue. See Table 2 for an illustrative year, 2008, showing the comparison of the City's methodology for calculating incremental property tax revenue and the education fund payment to the methodology described in statute. In 2008, the City underpaid the state's education fund by \$1,087 because of its flawed methodology for calculating incremental property tax revenue and amounts owed to the state.

¹² According to the Director of DOT's Property Valuation and Review group, DOT did not agree with the City's approach, but ultimately did not object to the City's method.

¹³ The City Assessor left Newport's employment in 2008.

¹⁴ Prior to 2003, the incremental growth in property values was not great enough to generate incremental tax revenue sufficient to cover the debt obligations and the City used other tax sources to cover debt payments.

Table 2: City of Newport's Fiscal Year 2008 Calculations Compared to the Method Required by State Statute.

Components of calculation	City of Newport	Per Statute
TIF district assessed value 4/1/07	N/A	\$2,954,200
Original taxable value (OTV)	N/A	\$48,500
Net increase in TIF district value	\$1,172,200 ^b	\$2,905,700 ^c
Tax rates:		
Education rate	1.4344	1.4344
Municipal rate	<u>1.0746</u>	<u>1.0746</u>
	2.5090	2.5090
Total incremental revenue ^d	\$29,410	\$72,904
Eligible debt service payment	\$27,508	\$27,508
Percent of incremental property tax revenue appropriated (\$27,508/\$72,904) ^e	N/A	37.7%
Statewide education increment	\$16,814 ^f	\$41,679 ^g
SAO calculation of statewide education increment that should have been retained (\$41,679 x 37.7 percent)	N/A	\$15,727
Amount owed to education fund (\$16,814 - \$15,727)	N/A	\$1,087

^a Any differences in calculations in the table are due to rounding.

^b Derived based upon amount of previous year's estimated debt payments divided by previous year's tax rates.

^c Calculated as TIF district assessed value at 4/1/07 less OTV.

^d Calculated as net increase in TIF district value multiplied by tax rates divided by 100.

^e Percentage of statewide education increment that may be retained is based on the percentage of total incremental property tax revenue used for debt repayment.

^f Newport's calculation of statewide education increment as a result of reporting lower than actual property values to DOT.

^g Statutorily required calculation of statewide education increment based on actual net increase in TIF district value multiplied by education rate divided by 100.

Between 2003 and 2010, the City retained a total of \$37,041 that should have been paid to the education fund. See appendix III for the calculation that yields the amount owed to the education fund on a year-by-year basis.

City officials believed the former City Assessor had crafted an approach for calculating incremental property tax revenue that would ensure the City (1)

retained sufficient increment to pay the TIF district debt obligations and (2) paid an appropriate portion of any excess incremental property tax revenue to the state's education fund. The errors were the result of the weaknesses in the City's design of processes and procedures for accounting and reporting of TIF district activity. Namely, the City relied on a key individual, the former City Assessor, to design and manage significant processes related to administering the TIF district. The City Clerk indicated that the former City Assessor was solely responsible for calculating incremental property tax revenue and for other calculations associated with administering the TIF district. Neither the initial design of the processes, nor the on-going operation of the processes, was subject to a second level of review. Without a second level of review, the risk of errors increases.

In addition, the controls weakness associated with over-reliance on one individual without a second level of review seem to have been exacerbated by a lack of awareness on the part of some City officials with regard to state statutes applicable to TIF districts. For example, the City Clerk has stated that he had no expertise with regard to TIF district administration and lacked familiarity with associated statutory requirements. Rather, he relied upon the former City Assessor to provide him with information related to incremental property tax revenue and how to account for it in the City's financial records. The Town Manager indicated that he has contacted state officials to negotiate a plan to pay amounts owed to the education fund.

Incremental Property Tax Revenue Was Used to Fund Approved TIF District Improvements

According to 24 VSA §1897, utilization of incremental property tax revenue is limited to paying for bonds issued to finance improvements located wholly or partially within the TIF district. In 1999, the City bonded for \$300,000 to pay for part of the infrastructure improvements needed to attract businesses to the City Center Industrial Park, including the extension of a waterline to the TIF district. There has been no further public investment by the City subsequent to completion of the project in 2001.

We found that the 1999 bond proceeds were used to make improvements in the TIF district and that the bond is being repaid with incremental property

tax revenue generated by the TIF district.¹⁵ Through 2010, the City has used approximately \$259,000 of incremental property tax revenue to repay debt incurred to finance TIF district improvements. The City had appropriate controls in place related to approval of the use of bond proceeds for expenditures related to TIF district improvements. For example, the director of public works supervised the work of the contractor hired to perform the work and the City Manager and the consulting engineers hired to oversee the project approved all of the invoices submitted. In addition, the bond proceeds were deposited in a separate account, segregated from other town resources.

TIF Property Value Growth Was Timely and Accurately Reported to Municipal Officials through 2008, but the City Did Not Report to State Organizations

In the first year of the TIF, the assessor was required to report to the City Council the assessed value of the property within the TIF district. In each year thereafter (until the end of the TIF's life), the assessor must certify to the City Council the amount by which the TIF's properties have either increased or decreased in assessed value in relation to the value reported in the first year. A legislative change in the TIF reporting requirements, effective in 2008, required the City annually to provide additional information about the TIF to DOT and VEPC, including scope of the planned improvements and development, the original taxable property, the annual tax increment, and the annual amount of tax increments utilized.

Prior to a change in assessors in 2008, City officials timely and accurately reported property value growth in the TIF district to city council members. However, City officials have not fulfilled reporting requirements to the City council subsequent to 2008, nor have they met reporting requirements to state officials that were effective in 2008. Turnover in personnel and a lack of awareness of the new state requirements may have led to the failure to report the status of the TIF to City councilors and state officials, respectively. In addition, the previous City Assessor had not documented the processes related to administering and reporting the TIF district. When the City hired an

¹⁵ Due to errors described in the previous section, the City retained \$37,041 in excess incremental property tax revenue that should have been paid to the state's education fund. The City used these funds for general operations, which is not a use allowed per statutory requirements. The City Manager has indicated that the City plans to pay the state for amounts owed to the education fund.

assessors' firm to manage the activities previously handled by the former City Assessor, there were no documented procedures related to the TIF district for the firm to use as a reference.

Timely and accurate reporting of the TIF district data to municipal and state officials facilitates monitoring of the status of the TIF district which is critical to ensuring that the TIF district operates as expected. Turnover in key personnel can have a significant impact on small municipalities if there is reliance on knowledge and experience held by these key individuals, particularly if there is a lack of documented written procedures and processes associated with the roles key individuals perform. In many small municipalities, there can be a heavy reliance on knowledge and experience held by a few key individuals. Combined with a lack of adequate written procedures and process documentation, risk to the organization's operations can increase.

City of Newport Established a Performance Measure, but Ceased Monitoring the Measure in 2009

The City's use and monitoring of performance measures to indicate the extent to which its TIF district was meeting municipal and state objectives was limited. Specifically, Newport did not establish measures for all TIF objectives and, in 2009, stopped monitoring the measure that was established.

Although the statutes governing TIF district creation and administration do not contain an explicit requirement for municipalities to establish and monitor performance relative to achievement of TIF district goals, benefits can accrue from the effective use of performance measurement. In addition, the state emphasizes performance measurement via its requirement for state organizations to annually submit a variety of performance measurement information to the General Assembly. According to the Government Finance Officers Association (GFOA), for every specific economic development incentive (e.g. tax increment financing), the economic benefit to the government, as well as the cost of the incentive, should be measured and compared against the goals and criteria that have been previously established for the incentive.

As Table 3 indicates, the City generally did not establish and monitor performance measures.

Table 3: Comparison of Objectives and Measures to Targets Established and Actuals Monitored

Objective	Measures	Targets Established	Actuals Monitored
Broaden the tax base	Growth in incremental property value	No	Yes, through 2008
Encourage development	None	No	No
Improve employment opportunities	None	No	No

The City did not consistently monitor the performance measure it had established due to turnover in the City Assessor position and a lack of documented processes and procedures for TIF district administration. In general, according to City officials, performance measures were not established for two of the TIF district objectives because they were not aware of a need to establish measures.¹⁶ Further, City officials also indicated that at the time the TIF district was created, there were multiple aspects associated with establishing the TIF district which required significant investment of City staff time, such as creating an agreement with the Town of Derby Center to extend a water supply line to the proposed industrial park and applying for a federal grant from the U.S. Department of Commerce Economic Development Administration for a major infrastructure improvement project in another section of the City (which was later combined with the Derby Center waterline into one single project).

City officials point to the fact that three new businesses have located in the TIF district as a measure of the objective to encourage development. However, without a definitive performance measure statement, targets and

¹⁶ VEPC has implemented requirements for additional performance measures, but only for those TIF districts that it has approved. This would not include the City of Newport's TIF district.

monitoring of actuals, it is difficult to discern whether this level of activity was the expected outcome. Further, without measures for all objectives and inconsistent monitoring for the measure that was established, the City lacks a mechanism to accurately determine whether the TIF district is operating as intended.

Given that the debt associated with the development of the TIF district is scheduled to be repaid in 2014, at which point the TIF district will terminate, it is not practical to suggest that the City implement additional performance measures at this time, nor that it establish targets for its measures. However, the City should consider reinstating the practice of tracking and reporting growth in TIF district incremental property values in order to ensure that City officials and City residents at least understand the impact of the TIF district on the state and municipal goal to broaden the tax base.

Conclusion

The City's creation and administration of the TIF district were largely in compliance with statutory requirements, such as restricting the use of TIF district bond proceeds to covering the cost of TIF district improvements. However, overall compliance could be improved by developing, implementing and documenting a methodology to calculate incremental property tax revenue that follows statutory guidelines. Such a methodology would make it less likely that Newport would continue to underpay the education fund as it has since 2003. The City could also improve its compliance with reporting requirements by assigning the responsibility to a specific individual. Furthermore, a second level of review over the incremental property tax revenue calculation and required reporting would provide assurance over accuracy and timeliness of these two significant compliance areas.

The TIF has been operating for a period of thirteen years and although a key performance measure was established, it was not consistently monitored and lacked targets so it is difficult to quantify whether the TIF district is a success relative to its original objectives. However, given the passage of time that has occurred since the TIF district was established and improvements originally occurred and the short timeline remaining until the debt is repaid, developing additional performance measures is not practical. However, tracking and

monitoring of the performance measure that the City tracked through 2008, growth in incremental property values, should be reestablished in order to allow at least a partial evaluation of the success of use of the TIF district.

Recommendations

We recommend that the City Manager of Newport:

- Develop and implement a comprehensive record retention policy for its fiscal and legal documents to ensure that records that have enduring value and relevance, particularly those associated with complex and on-going transactions, are preserved.
- Arrange to pay the \$37,041 owed to the education fund.
- Designate a City official to be responsible for developing, documenting and implementing a system to calculate incremental tax revenue and determining the appropriate amount of the increment that may be retained by the City according to statutory requirements. Designate a separate City official to annually review the calculation.
- Designate a City official with the responsibility to annually prepare the required municipal and state reports. Designate a separate City official to annually review the reporting.
- Designate a City official with the responsibility to monitor TIF district performance and require that individual to update the actual results for the performance measure that was previously tracked.

Management's Response and Our Evaluation

On June 24, 2011, the City Manager of the City Of Newport provided a written response to a draft of this report on behalf of the City, which can be read in its entirety in Appendix IV.

The City Manager stated that he is generally in agreement with the findings and conclusions within the report. He also indicated specific actions the City of Newport plans to take in response to certain recommendations.

The City Manager indicated that the City will fully implement three of our recommendations. Notably, the City will designate the city assessor as the official responsible for developing, documenting and implementing a system to calculate incremental tax revenue and determining the appropriate amount of the increment that may be retained by the city according to statutory requirements. The city assessor will also be responsible for preparing required municipal and state annual reports. The city manager will annually review the calculation of incremental tax revenue that may be retained by the City and will review the municipal and state report prepared by the city assessor.

With regard to our recommendation to arrange to repay incremental statewide education property tax revenue owed to the state education fund, the City Manager stated he agreed with the data presented in Table 5 of Appendix III which presents the data underlying the calculation of the amount owed to the state education fund. However, he did not agree that an amount is due to the state education fund because he believes that the City should be able to reduce this amount by (1) the portion of bond payments made between FY2000 and FY2002 that exceeded incremental tax revenues generated by the TIF district during that period¹⁷ and (2) the costs the City incurred for material and engineering oversight of the water and sewer extension within the TIF district. We will address each of these points in turn:

- Requirements for TIF district administration are delineated in statute, including the calculation for and allowed uses of TIF district incremental property tax revenue. We believe that the requirements as laid out in statute do not support the City Manager's contention that excess revenue generated from FY2003 to FY2010 may be offset in the manner he suggests. Specifically, 24 VSA §1900 requires that incremental property tax revenue which in any tax year exceeds the amounts paid for bonds issued for improvements in the district be distributed to the municipality and school district. Since this establishes an annual, not a cumulative calculation, the statutory

¹⁷ In his response, the City Manager stated this amount was \$78,090. However, the records we collected during our audit indicate the amount of debt repaid from FY2000 through FY2002 that exceeded the amount of incremental tax revenue generated during this period was approximately \$49,000.

language does not support the City Manager's suggestion that excess incremental property tax revenue generated from FY2003 to FY2010 may be offset to the extent incremental property tax revenue was insufficient to meet debt obligations from FY2000 to FY2002.

- According to 24 VSA §1897, the only allowed use of incremental property tax revenue generated by a TIF district is to repay debt incurred to finance TIF district improvements. According to the work we conducted, the City utilized all of the proceeds from its TIF district bond to fund improvements in the TIF district and the costs the City Manager references in his response are in addition to the improvements funded by the proceeds of the bond. Since the statute limits utilization of incremental property tax revenue to debt repayment, these costs would not be eligible to be paid with incremental property tax revenue generated by the TIF district.

Finally, the City Manager did not agree with our recommendation that City designate an individual to monitor the TIF district's performance. He stated that the City has not been tracking any performance since the initiation of the TIF and indicated that since the TIF district bond will be retired in 2014, the City does not plan on tracking performance. As we noted in the report, without clear performance measures, targets and monitoring of actual results, it is difficult to conclude whether the TIF district met expected results.

In accordance with 32 V.S.A. §163, we are also providing copies of this report to the Secretary of the Agency of Administration, Commissioner of the Department of Finance and Management, and the Department of Libraries. In addition, the report will be made available at no charge on the State Auditor's web site, <http://auditor.vermont.gov/>.

Appendix I

Scope & Methodology

To address our three objectives we performed an analysis of the legislative statutes related to the creation, financing, management and reporting requirements for tax incremental financing districts in Vermont (contained in Titles 24 and 32). This included researching numerous amendments and legislative acts since the original enabling legislation in 1985 (Act 87) to determine which statutes applied to the Newport TIF district. In addition, we met with officials from DOT to understand their statutory interpretation of TIF legislation and obtained authoritative opinions from the Office of the Attorney General regarding particular requirements of the original TIF district statutes and the applicability of certain requirements passed by the legislature subsequent to the establishment of the Newport TIF district.

To gain a general understanding of the purpose, use and administration of TIF districts, we also identified and reviewed a wide variety of published guidance and research on the use of tax increment financing as an economic development tool. This included the GFOA Research & Consulting Center's¹⁸ publication outlining the mechanics and general process for establishing and administering TIF districts, GFOA Best Practice reports, audit reports of TIFs in other states, and a 2009 study conducted jointly by the Vermont DOT and the legislature's Joint Fiscal Office which reported specifically on the existing TIF districts in Vermont.¹⁹

We considered internal controls and information systems only to the limited extent to which they related to our objectives. For example, we interviewed the Newport City Clerk's office staff to determine the levels of accounting controls (i.e. accounts payable invoice approval process and payment processing). Internal control audit reports for fiscal years 2007-2010 were also examined to determine if any control deficiencies were noted by the City's external auditors. We also interviewed the current City Assessor regarding general data controls within Vision²⁰ and requested from the City any security or information technology controls audits or reviews from prior

¹⁸ Tax Increment Financing by Nicholas Greifer of the GFOA Research & Consulting Center, published by the GFOA, 2005

¹⁹ 2009 Tax Increment Financing in Vermont.

²⁰ Vision Appraisal Ver. 6" is computer-assisted mass appraisal software which performs the calculations of the appraisal valuations of real properties and is used to maintain the lister records of each parcel within the City of Newport.

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years. We did not perform information system security and access control assessments for the information systems used by the City as we performed 100 percent testing of TIF district activity.

With respect to our first objective, we interviewed municipal officials and obtained available documentation for the initial establishment of the TIF district including public hearing warnings, City Council and Annual Meeting records and minutes, the City of Newport charter, zoning and environmental permits, tax maps, and the TIF district plan which included a description of the district and its boundaries. These documents and records were assessed against the requirements contained in 24 VSA§1891- §1898(e) to determine whether the municipality adhered to state statutes for the establishment of the TIF district. We reviewed the originating documents for the TIF's proposed debt financing including City council minutes and resolutions, City voter approvals, bonding proposals and associated legal opinions, bond anticipation notes and other supporting documentation.

In performing work in support of our second objective, we interviewed officials from the City, DOT and DOE regarding their processes, policies, and procedures. We verified 100 percent of the TIF's financial activity since inception and included all of the eight TIF parcels in our testing population. We performed a variety of tests related to these transactions, as follows:

- To ascertain the use of TIF incremental revenues to pay only for the approved build out of infrastructure improvements, we vouched and verified all infrastructure project revenues and expenditures to source documents, which included project accounting records, contractor invoices, and other funding sources utilized by the City. We traced the capitalized infrastructure to the City's externally audited annual financial statements since inception and noted no additions had been made since the project's completion in 2001.
- We reviewed bond payment schedules to assess whether payments were made from revenues generated by the TIF district in compliance with the bond agreements and were recorded properly in the City's accounting records.
- We obtained the City's Grand Lists from 1999 to 2009 which contain the attributes of the properties within the City of Newport, and traced the TIF district properties (parcel number, assessed values, current

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owner, acreage) to the lister records in Vision, to the yearly annual TIF district values report provided by the assessor and to the City tax map to ensure the TIF district parcels and corresponding assessed values were accurate and complete.

- To verify that the incremental tax revenue was accurately calculated and recorded, and the proper amount retained, we recalculated the property taxes collected within the TIF district parcels and traced these to the property owners' tax bills and to the City's financial records. We also recalculated the municipal and education portions of the tax increment from FY2000 to FY2010, comparing these with the amount of reported tax increment and traced the TIF's income reported each year in the City's accounting records to the annual audited financial statements.
- To determine the amount of excess tax increment generated we analyzed the amount of actual increment realized for each year (municipal and education portions) and compared these results to the amounts recorded in the City's accounting records and computed the annual excess tax increment amount due to the City and the state education fund.
- Through interviews with municipal officials, we determined whether the TIF district's financial and operational information was reported to the City Council, VEPC, or DOT as required by state statute. We obtained all the property value reports (1997-2008) which the previous assessor had provided to the City council members and verified the information to the TIF district parcels assessed values contained in the grand lists to ensure the reporting was timely and accurate. In addition, we met with the representatives of DOT Division of Property, Review, and Valuation and the Department of Education to discuss how Newport's TIF District values are reported on the 411 form (required to be filed each year by municipalities for state education tax reporting purposes) and how the annual education property tax rates are set and communicated back to Newport City officials. We did a walkthrough of

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the New England Municipal Resource Center (NEMRC)²¹ system to gain an understanding of the input and review process for the Form 411.

To address our third objective, we identified and reviewed sources of information for best practices related to performance monitoring of TIF district financing. These sources included (1) VEPC,²² (2) GFOA and (3) audit report recommendations from other states (e.g., Missouri, Minnesota, and Louisiana.). We made inquiries of municipal officials to determine if the City of Newport had established performance measures for the TIF district or if there were any periodic reviews or mechanisms in place to monitor the annual performance of their TIF district. We also reviewed the originating and plan documents to ascertain if there were performance measures considered during the TIF's establishment.

Our audit work was performed between January and May 2011 and included site visits to the Newport City Municipal Offices.

Except for the exception described below, 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. The standard that we did not follow requires that our system of quality control for performance audits undergo a peer review every three years. Because of fiscal considerations, we have opted to postpone the peer review of our performance audits. Notwithstanding this exception, we believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

²¹ NEMRC is an integrated fund accounting software used by the City to manage its fiscal activities in addition to being the system used to track and report the City's grand list property values. The City has used the NEMRC general ledger system and accounts payable module since 1998.

²² Performance measures for TIF Districts have been drafted by VEPC.

Appendix II

Summary of Select Additions and Amendments to State Statutes Relevant to Establishing and Administering TIF Districts

The following summarizes the additions and amendments to TIF statutes that were made subsequent to the enabling legislation. The enabling legislation is summarized in the background section of the report.

Act 60, 1997 session

EXEMPTION OF TIF DISTRICT INCREMENTAL PROPERTY VALUE FROM EDUCATION PROPERTY TAX LIABILITY

Added: The incremental value of TIF properties for those municipalities with TIF districts²³ established prior to June 10, 1997 is exempt from the determination of a municipality's education property tax, owed to the state, to the extent the taxes generated on the incremental property value are pledged and appropriated for repayment of bonded debt or prefunding future TIF district debt. [32 VSA §5401((10)(E)]

EXPANSION OF EXISTING TIF DISTRICTS

Added: Municipalities with existing TIF districts¹ may expand those districts by June 30, 1997 and collect all state and local property taxes on properties within the TIF district and apply those revenues to repayment of debt issued to finance improvements with the TIF district. [32 VSA §5404a(c)]

Effective date: 1/1/98

Act 71, 1998 session

EXEMPTION OF TIF DISTRICT INCREMENTAL PROPERTY VALUE FROM EDUCATION PROPERTY TAX LIABILITY

Amended: The incremental value of TIF district properties¹ is exempt from the determination of a municipality's education property tax liability to the extent approved by VEPC upon application by the district under procedures established for the approval of tax stabilization agreements under 32 VSA §5404a. [32 VSA §5401(10)(E)]

²³ Limited to TIF districts established under subchapter 5 of chapter 53 of Title 24.

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Summary of Select Additions and Amendments to State Statutes Relevant to Establishing and Administering TIF Districts

EXPANSION OF EXISTING TIF DISTRICTS

Amended: Municipalities with existing TIF districts must apply to VEPC for approval of the expansion those TIF districts following procedures used to approve tax stabilization agreements under 32 VSA §5404a . [32 VSA §5404a(f)]

RETENTION OF INCREMENTAL PROPERTY TAX REVENUE

Amended: To the extent approved by VEPC, the incremental revenue may be retained for the duration of the agreement up to a maximum of 10 years. [32 VSA §5404a(b)]

Effective dates: 32 VSA §5401(10)(E) is effective 6/26/97. 32 VSA §5404a(f) and 32 VSA §5404a(b) are effective 3/11/98.

Act 159, 2000 Session

TAX INCREMENT FINANCING – CITY OF WINOOSKI (Sec. 37 and 38 of Act 159 (2000).

APPROVAL AND AUTHORIZATION

Added: General Assembly found that a TIF district in the City of Winooski, when more particularly defined and created as a TIF district pursuant to 24 VSA §1892, will provide multiple public benefits including, revitalization and improvement of a significant downtown area and enhanced employment opportunities within the City of Winooski and surrounding region. [Section 37 of Act 159, 2000 Session]

EXEMPTION FROM VEPC APPROVAL REQUIREMENT

Provisions of 32 VSA §5401(10)(E) and 32 VSA §5404a shall not apply to the City of Winooski TIF district. The general assembly intended that Sec. 37 and Sec. 38 of Act 159 (2000) substitute for the provisions of 32 VSA §5401(10)(E) and 32 VSA §5404a. [Section 38 paragraph 5 of Act 159, 2000 Session]

PROJECT REQUIREMENTS

Added: At least 10% of the housing in the TIF district shall at the time of initial occupancy be affordable housing. [Section 38 paragraph 8 of Act 159, 2000 Session]

FINANCING

Added: Bonds must be issued pursuant to 24 VSA §1897 and within five years of July 1, 2000. Maximum term for repayment of bonds is 20 years. Total principal may not exceed \$30,000,000. [Section 38 paragraph 1 of Act 159, 2000 Session]

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Summary of Select Additions and Amendments to State Statutes Relevant to Establishing and Administering TIF Districts

EXCESS VALUATION

Added: Excess valuation means the difference between the current grand list value and the grand list value at commencement of development. [Section 38 paragraph 3 of Act 159, 2000 Session]

UTILIZATION OF TAX INCREMENT

Added: In addition to uses specified in 24 VSA §1897 (e.g. bond repayment), tax increment revenue shall be used to fund reserves and accounts necessary to repay or defease bonds. [Section 38 paragraph 2 of Act 159, 2000 Session]

Added: 5% of the education taxes imposed annually on the excess valuation of the residential property within the TIF district shall be paid to the education fund. [Section 38 paragraph 3 of Act 159, 2000 Session]

Added: Until bonds are paid in full or defeased through fully funded reserves, 100% of the municipal taxes assessed against the excess valuation of TIF district property shall be pledged and appropriated for debt service on bonds. [Section 38 paragraph 3 of Act 159, 2000 Session]

EXEMPTION FROM EDUCATION PROPERTY GRAND LIST

Added: Excess valuation of property within TIF district shall not be included in the education property grand list as taxable property under 32 VSA §5402 or 32 VSA §5404 until bonds issued to finance TIF district improvements are paid or fully reserved. [Section 38 paragraph 3 of Act 159, 2000 Session]

REPORT

Within 60 days of issuing bonds, the City of Winooski shall provide to the joint fiscal committee a comprehensive cost-benefit analysis and financing data. [Section 38 paragraph 9 of Act 159, 2000 Session]

Effective date: 7/1/2000

Act 184, 2006 session

DEFINITION OF IMPROVEMENTS

Amended: Includes brownfield remediation and infrastructure for transportation, telecommunications, wastewater treatment and water supply. [24 VSA §1891]

Appendix II

Summary of Select Additions and Amendments to State Statutes Relevant to Establishing and Administering TIF Districts

DEFINITION OF ORIGINAL TAXABLE PROPERTY

Added: All the taxable real property located within the district on the day the district was created. [24 VSA §1891]

DEFINITION OF RELATED COSTS

Added: Related costs are expenses, excluding actual cost of constructing and financing improvements, directly related to creation of the TIF district and to attaining the purposes and goals of the TIF district. Includes reimbursement of sums advanced by municipalities relative to creation of TIF districts. [24 VSA §1891]

PURPOSE

Amended: Includes generation of incremental revenue to pay for related costs and expanded one of goals to encompass redevelopment of TIF districts, rather than just development. [24 VSA §1893]

APPROVAL

Added: Established criteria for VEPC to approve TIF districts pursuant to 32 VSA §5404a(h).

BORROWING PERIOD

Amended: A municipality may incur debt against the revenues of the TIF district for a period of up to 20 years following the creation of the district. [24 VSA §1894(a)]

Added: If debt is not incurred within the first five years following the creation of the district, the district must request reapproval from VEPC. [24 VSA §1894(b)]

DEBT AGREEMENTS

Added: Municipality's debt financing agreements must specify that, in the event the tax increment received by the municipality from property taxes is insufficient to pay the principal and interest on debt in any year, the municipality shall remain liable for full payment of bond principal and interest. [24 VSA §1897(b)]

Appendix II

Summary of Select Additions and Amendments to State Statutes Relevant to Establishing and Administering TIF Districts

CALCULATION OF TAX INCREMENTS

Added: The original taxable value must be adjusted by a multiplier²⁴ upon a reappraisal of 20% or more of all parcels in a municipality. [24 VSA §1896(b)]

UTILIZATION OF TAX INCREMENT

Amended: For tax increment utilization approved pursuant to 32 VSA §5404a(g), no more than 75% of the state property tax increment from properties contained within the TIF district and no less than 75% of the municipal tax increment from properties contained within the TIF district may be used to service debt issued for improvements wholly or partly within the TIF district and for related costs. [24 VSA §1897(a)]

DISTRIBUTION OF INCREMENTAL TAX REVENUE

Amended: Any excess municipal tax increment²⁵ received in any tax year shall be distributed to the City, town or village in proportion that each budget bears to the combined total of budgets. Any excess state education tax increment received in any tax year shall be used only for debt prepayment, placed in escrow for bond payment or otherwise used for defeasance of bonds. [24 VSA §1900]

RETENTION OF INCREMENTAL PROPERTY TAX REVENUE

Amended: Allowed tax increments to be retained for payment of related costs. [24 VSA §1896(a)]

Amended: Municipalities that establish TIF districts²⁶ and obtain VEPC approval may apply no more than 75% of the state property tax increment, and no less than 75% of the municipal tax increment to repay debt issued to finance improvements and related costs for up to 20 years. The 20 year period commences April 1 of the year following VEPC approval. [32 VSA §5404a(f) and (g)]

²⁴ The denominator for the multiplier is the municipality's education property grand list *for the TIF district properties* in the year prior to the reappraisal and the numerator would be the municipality's reappraised education property grand list *for the TIF district properties*. Items in italics are an amendment in Act 66 of 2007 which was effective July 1, 2006.

²⁵ Excess means incremental tax revenue received in any tax year that exceeds amounts pledged for payment on TIF district bonds and related costs.

²⁶ Applies to municipalities that establish TIF districts under subchapter 5 of chapter 53 of Title 24.

Appendix II

Summary of Select Additions and Amendments to State Statutes Relevant to Establishing and Administering TIF Districts

EXPANSION OF TIF DISTRICTS

Deleted: Eliminated municipalities' ability to apply to VEPC for expansion of TIF districts. TIF districts may no longer be expanded. [Act 184 section 2h, 2006 session]

REPORTING

Added: VEPC and Department of Taxes shall report to certain legislative committees regarding existing TIF districts on or before January 15 each year. Report must include items such as year of approval, scope of planned improvements, original taxable value of TIF districts property, tax increments and annual amount of tax increments utilized. [32 VSA §5404a(i)]

EXTENSION OF MILTON TIF DISTRICT

Added: Upon application to VEPC, the Milton Husky and Catamount TIF districts may be extended for an additional ten years beyond the initial 10 years originally approved by VEPC. May use OTV established at the initial approval of the TIF district to calculate incremental tax revenue and may retain 75% of the incremental tax revenue to repay debt issued to finance improvements within the TIF district and for related costs. [Sec. 2j of No. 184 of the Acts of the 2005 Adj. Sess. (2006)]

Effective date: July 1, 2006

Act 190, 2008 session

TYPES OF DEBT

Added: Financing means bonds, Housing and Urban Development Section 108 financing instruments, interfund loans within a municipality, State of Vermont revolving loan funds, United States Department of Agriculture loans. [24 VSA §1891]

PURPOSE

Amended: Previously limited tax increment financing for those TIF districts improvements located wholly or partly within the TIF district. Amended to improvements that serve the TIF district. [24 VSA §1893]

APPROVAL OF FINANCING

Added: Prior to requesting municipal approval to secure financing, the municipality shall provide VEPC with all information related to proposed financing necessary for approval and to assure its consistency with the plan approved pursuant to 32 VSA §5404a(h). [24 VSA §1894(c)]

Appendix II

Summary of Select Additions and Amendments to State Statutes Relevant to Establishing and Administering TIF Districts

Added: Legal voters of a municipality, by a single vote, shall authorize the legislative body to pledge the credit of the municipality up to specified maximum dollar amount to be financed with state property tax increment pursuant to approval by VEPC. [24 VSA §1897(a)]

BORROWING PERIOD

Amended: The creation of the district shall occur on April 1 of the year so voted. [24 VSA §1894(a)(1)]

PERIOD THAT TAX INCREMENT MAY BE RETAINED BY MUNICIPALITY

Added: For debt incurred within the first five years after creation of the district, or within five years after reapproval by VEPC, the education tax increment may be retained for up to 20 years beginning with the initial date of the first debt incurred. [24 VSA §1894(b)]

UTILIZATION OF TAX INCREMENT

Amended: Municipal legislative body may pledge and appropriate, in equal proportion, state and municipal tax increments received from properties contained within the TIF district for financing improvements and related costs in the same proportion by which the infrastructure or related costs directly serve the district²⁷ at the time of approval of project financing by VEPC.²⁸ No more than 75% of the state property tax increment and no less than an equal percentage of the municipal tax increment may be used to service this debt from the TIF district properties. [24 VSA §1897(a)]

Amended: Tax increment utilizations approved pursuant to 32 VSA §5404a(f) shall affect the education property tax grand list commencing April 1 of the year following VEPC approval and shall remain available to the municipality for the full period authorized under 24 VSA §1894. [32 VSA §5404a(g)]

²⁷ The proportionality rule relates to the determination of the proportion of infrastructure improvements or related costs that directly serve the TIF district. Municipal and state tax increments may only be used to repay a proportion of debt incurred for infrastructure or related costs in the same proportion that the improvements or related costs directly serve the district.

²⁸ VEPC shall apply a rough proportionality and rational nexus test in cases where essential infrastructure does not reasonably lend itself to a proportionality formula. Per VEPC guidelines, this means VEPC will use available data from comparable situations to make a proportionality determination. The determination will utilize a matrix of factors, such as location, impact on TIF district and whether it is required for the broad TIF outcomes.

Appendix II

Summary of Select Additions and Amendments to State Statutes Relevant to Establishing and Administering TIF Districts

DISTRIBUTION OF INCREMENTAL TAX REVENUE

Amended: An equal proportion of any excess municipal tax increment and education tax increment²⁹ may be used for the prepayment of principal and interest on financing, placed in escrow for financing payment or otherwise used for defeasance of financing. Any remaining excess state education tax increment shall be distributed to the education fund. [24 VSA §1900]

AUDIT

Added: The state auditor of accounts shall audit all active TIF districts every three years. [32 VSA §5404a(k)]

REPORTING

Added: Municipalities with active TIF districts shall:

- (1) Report to VEPC and the Department of Taxes on or before December 1 of each year. Report shall include items such as year of approval, scope of planned improvements, original taxable value of TIF districts' properties, tax increments and annual amount of tax increments utilized. [24 VSA §1901]
- (2) Report tax increment financing actual investment, bond or other financing payments, escrow status and related cost accounting to VEPC according to the municipal audit cycle. [24 VSA §1901]

MILTON TIF DISTRICT

Amended: May apply no more than 75% of the state property tax increment and an equal percent of the municipal tax increment to repay debt issued to finance improvements that serve the TIF district and for related costs, upon application by Milton. Must apply equal percentages of the state property tax increment and municipal property tax increment to debt obligations incurred prior to April 1, 2009 for the Husky and Catamount TIF districts. Proportionality rule of 24 VSA §1897 does not apply to Husky and Catamount TIF districts. [Sec. 68 of No. 190 of the Acts of the 2008 Session]

²⁹ Excess means incremental tax revenue received in any tax year that exceeds amounts pledged for payment on TIF district financing and related costs.

Appendix II

Summary of Select Additions and Amendments to State Statutes Relevant to Establishing and Administering TIF Districts

CITY OF WINOOSKI - FY2008 COMMON LEVEL OF APPRAISAL ³⁰

Added: City shall use a common level of appraisal factor of 1.0952 for fiscal 2008 reappraisal. Overpayment of education property taxes from City of Winooski to the education fund in fiscal 2008 shall be credited against the City's 2009 education property tax liability. [Sec. 70 Act 190 (2008)]

CITY OF WINOOSKI –CALCULATION OF EDUCATION TAXES DUE TO THE EDUCATION FUND

Amended: 2% of the education taxes imposed annually on the excess valuation of the property within the TIF district shall be paid to the education fund. [Sec. 38(3) OF No. 159 of Acts of 2000]

CITY OF BURLINGTON - RETROACTIVE APPROVAL OF TIF FINANCING

Added: Retroactive approval to June 30, 1997 for Burlington's use of certificates of participation and HUD Section 108 loans from April 1, 1996 to March 31, 2006 to finance public improvements within the TIF district. Restricted retention of education property taxes for repayment of debt to 20 years from date debt was incurred, including any refinancing. [Sec. 72 of No. 190 of the Acts of the 2008 Session]

Effective dates: upon passage, June 6, 2008, except July 1, 2008 for amendment to Sec. 68

Act 54 of 2009

MILTON TIF DISTRICT (retroactive to July 1, 2008)

TYPES OF DEBT

Added: Milton is authorized to use types of debt financing, in addition to those specified in 24 VSA §1891(7) including conventional bank loans; certificates of participation, approved by the state treasurer; lease-purchase, approved by state treasurer; and revenue anticipation notes, approved by state treasurer.

³⁰ The Common Level of Appraisal is the ratio of a municipality's total grand list value to its corresponding "equalized" value derived through DOT's Property Valuation and Review estimate of market value study. In other words, it is a percentage that compares local assessments to Property Valuation and Review's estimate of market value. The Common Level of Appraisal is based on the relationship between the assessed value and the sale price of a property. For example, if a property is assessed for \$75,000 and sells for \$100,000, the ratio is 75%.

Appendix II

Summary of Select Additions and Amendments to State Statutes Relevant to Establishing and Administering TIF Districts

APPROVAL OF FINANCING

Added: Legal voters of Milton may authorize selectboard to pledge credit of Milton for all debt obligations pursuant to 24 VSA §1897(a) in more than one vote.

RETENTION OF EDUCATION TAX INCREMENT

Added: Tax increment may be retained for up to 20 years beginning with the initial date of creation of the district³¹ or on the date first debt incurred, at Milton's discretion. If Milton elects to start retaining education tax increment more than 5 years beyond initial date of creation, OTV shall be recertified.

BURLINGTON TIF DISTRICT (effective July 1, 2009)

DEBT BORROWING PERIOD

Added: Borrowing period for existing TIF district extended for additional 5 years, commencing January 1, 2010.

SUBMISSION OF INFORMATION TO JOINT FISCAL COMMITTEE

Added: Submit to Joint Fiscal Committee 10 days prior to September 2009 meeting (1) a business plan and projection of new incremental education property tax revenue growth anticipated to be financed by debt incurred during 5- year extension and (2) a proposal for payment to education fund in lieu of tax increment which would approximate 25% of new incremental education property tax revenue and the mechanism for payment and timing of payment by Burlington to the education fund. If Joint Fiscal Committee approves plan and Burlington incurs new debt in the 5- year extension, then Burlington will pay the education fund the amount approved by Joint Fiscal Committee.

³¹ Per 24 VSA §1894(a)(1) creation of a TIF district occurs April 1 of the year the municipal legislative body approved the creation of the district.

Appendix II

Summary of Select Additions and Amendments to State Statutes Relevant to Establishing and Administering TIF Districts

Special Session Act No. 3 (2009)

Technical Corrections of Act 54 of 2009 Session

MILTON TIF DISTRICT

BORROWING PERIOD

Added: Milton shall have ten years after the creation of the district to begin incurring debt.

Appendix III

Calculation of Amount City of Newport Owes to Education Fund

Taken together, Tables 4 and 5 demonstrate how SAO derived the amount the City of Newport owes to the education fund \$37,041. First, Table 4 presents the calculation of incremental property tax revenue according to statutory guidelines. Next, Table 5 shows the calculation of excess incremental property tax revenue and the total amount that should be distributed to the education fund according to statute.

Table 4: Calculation of Actual TIF Incremental Property Tax Revenue (education and municipal tax revenues) - per 24 VSA §1896, 24 VSA §1897, 24 VSA §1898(b)

Tax/Fiscal year	2003	2004	2005	2006	2007	2008	2009	2010
TIF District Increment Property Value	\$1,701,300	\$1,732,600	\$1,810,500	\$2,905,700	\$2,905,700	\$2,905,700	\$2,905,700	\$2,905,700
Grand List Value (property value/1,000)	\$17,013	\$17,326	\$18,105	\$29,057	\$29,057	\$29,057	\$29,057	\$29,057
Statewide Education Property Tax Rate	<u>1.6030</u>	<u>1.6660</u>	<u>1.2383</u>	<u>1.4100</u>	<u>1.4300</u>	<u>1.4344</u>	<u>1.5242</u>	<u>1.6447</u>
Incremental TIF Revenue (statewide education property tax portion)	\$27,272	\$28,865	\$22,419	\$40,970	\$41,552	\$41,679	\$44,289	\$47,790
Municipal Property Tax Rate	<u>1.179</u>	<u>1.197</u>	<u>0.9211</u>	<u>0.95</u>	<u>0.9894</u>	<u>1.0746</u>	<u>1.1833</u>	<u>1.171</u>
Incremental TIF Revenue (municipal property tax portion)	\$20,058	\$20,739	\$16,677	\$27,604	\$28,749	\$31,225	\$34,383	\$34,026
TOTAL INCREMENTAL TIF REVENUE	\$47,330	\$49,604	\$39,096	\$68,574	\$70,301	\$72,904	\$78,672	\$81,816

Appendix III

Calculation of Amount City of Newport Owes to Education Fund

Table 5: Calculation of Excess Incremental Property Tax Revenue and Determination of Amounts Owed to Education Fund (2003 - 2010) - per 24 VSA §1900^a

Tax/Fiscal year	2003	2004	2005	2006	2007	2008	2009	2010	Total
Statewide education increment	\$ 27,272	\$ 28,865	\$ 22,419	\$ 40,970	\$ 41,552	\$ 41,679	\$ 44,289	\$ 47,790	
Municipal increment	\$ 20,058	\$ 20,739	\$ 16,677	\$ 27,604	\$ 28,749	\$ 31,225	\$ 34,383	\$ 34,026	
Total tax increment (from table 4)	\$ 47,330	\$ 49,604	\$ 39,096	\$ 68,574	\$ 70,301	\$ 72,904	\$ 78,672	\$ 81,816	
Eligible debt service Payments	\$ 31,911	\$ 31,076	\$ 30,220	\$ 29,339	\$ 28,434	\$ 27,509	\$ 26,563	\$ 25,599	
Percent of tax increment appropriated for eligible purposes (debt service/ tax increment)	67.4%	62.6%	77.3%	42.8%	40.4%	37.7%	33.8%	31.3%	
Amount of statewide education increment retained	\$ 19,882	\$ 18,611	\$ 14,649	\$ 19,146	\$ 17,778	\$ 16,814	\$ 16,139	\$ 47,790	\$ 170,809
SAO calculation of statewide education increment that should have been retained ^b	\$ 18,387	\$ 18,083	\$ 17,329	\$ 17,529	\$ 16,806	\$ 15,727	\$ 14,954	\$ 14,953	\$ 133,768
Due to education fund ^c	\$ 1,495	\$ 528	\$ (2,680)	\$ 1,617	\$ 972	\$ 1,087	\$ 1,185	\$ 32,837	\$ 37,041

^a Any differences in calculations in the table are due to rounding.

^b The amount that should have been retained equals percent of tax increment appropriated for eligible purposes times statewide education increment.

^c The amount due to education fund equals the amount of statewide education increment retained less the SAO calculation of statewide education increment that should have been retained.

Appendix IV

Management's Response

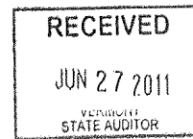
City Manager..... (802) 334-5136
334-3891
City Clerk / Treasurer..... 334-2112
334-3892
Public Works..... 334-2124
334-6992
Zoning Adm. / Assessor..... 334-6345
Recreation / Parks..... 334-5632
Fax..... 334-5632

June 24, 2011

Thomas Salmon, CPA
State Auditor
132 State Street
Montpelier, VT 05633-5101



City of Newport
222 Main Street
Newport, Vermont 05855



Dear Mr. Salmon:

Thank you for the opportunity to respond to the draft of the audit report of our Tax Increment Financing procedures and internal controls. I have reviewed the report and I am in general agreement with its findings, conclusions and recommendations. I have addressed each of your recommendations below.

Recommendation Develop and implement a comprehensive record retention policy for its fiscal and legal documents to ensure that records that have enduring value and relevance, particularly those associated with complex and on-going transactions, are preserved.

Response We accept this recommendation. In the near future we will develop and implement a comprehensive record retention policy.

Recommendation Arrange to pay the \$81,612 owed to the education fund.

Response We do not agree with this recommendation. We do agree with the data presented in Table 5 of Appendix III except for the amount due the education fund. We believe we should be able to recover the difference between our bond payment and the incremental TIF tax revenue for FY 2000 thru FY 2002. I believe this amount to be \$78,090. In addition to the TIF bond for the water line extension, the City has expended \$20,382.51 for material and engineering oversight of the water and sewer extension within the City Center Industrial Park to service the first new building.

Recommendation Designate a city official to be responsible for developing, documenting and implementing a system to calculate incremental tax revenue and determining the appropriate amount of the increment that may be retained by the city according to statutory requirements. Designate a separate city official to annually review the calculation.

Response The city assessor will be responsible for developing, documenting and implementing a system to calculate incremental tax revenue and determining the appropriate amount of the increment that may be retained by the city according to statutory requirements. The city manager will review the assessor's work product.

The amount owed was updated to \$37,041.

Appendix IV

Management's Response

Recommendation Designate a city official with the responsibility to annually prepare the required municipal and state reports. Designate a separate city official to annually review the reporting.

Response The city assessor will prepare the required municipal and state annual reports. The city manager will annually review the reporting.

Recommendation Designate a city official with the responsibility to monitor TIF district performance and require that individual to update the actual results for the performance measure that was previously tracked.

Response We have not been tracking any performance since the initiation of our TIF district. Currently there are at least eighty five employees who work in the City Center Industrial Park. These jobs would not have existed without the extension of the water line to feed the City Center Industrial Park. Since the bond payment for the TIF ends during 2014 we do not plan on tracking any performance. We do feel that the TIF district has been extremely successful in creating new jobs in the City of Newport.

I do want to thank you and your audit staff for their patience, understanding and helpful attitude shown our employees during the audit. While I am disappointed that we did not fully comply with all the requirements for the TIF, we appreciate your efforts to help us understand our financial and reporting obligations for the future.

Sincerely yours,



John O. Ward Jr.
City Manager

C: Newport City Council
James Johnson, Clerk/Treasurer
Spencer Potter, Assessor