

## Vermont Tax Increment Financing District Independent Auditors' Agreed-Upon-Procedures Burlington Waterfront TIF District

The procedures below are presented as a guideline to assist independent auditors in their review of a District's TIF Fund as required by Vermont Statutes and further detailed in the TIF Rule, as adopted May 6, 2015.

### 24 VSA §1901

#### (3) *Annually:*

(A) *Ensure that the tax increment financing district account required by section 1896 of this subchapter is subject to the annual audit prescribed in sections 1681 and 1690 of this title. Procedures must include verification of the original taxable value and annual and total municipal and education tax increments generated, expenditures for debt and related costs, and current balance.*

#### TIF Rule (adopted May 6, 2015):

**1004.1. District Fund in Municipal Audit Cycle:** *Municipalities with an active District must ensure that the entity undertaking the annual municipal audit required by statute on behalf of the municipality is aware of the requirement to include the District fund in the audit. The audit procedures must include, at a minimum, verification of:*

- *The original taxable value and annual and total municipal and education tax increments generated;*
- *Expenditures for District debt and related costs; and*
- *The current balance of the District fund.*

*Because these requirements are not necessarily included in a normal municipal audit, the Council will develop and publish, in cooperation with representative municipal officials and accountants familiar with municipal audits, "agreed-upon procedures" for these audit engagements.*

**Background Information:** There are two subcategories within the Burlington Waterfront TIF District: the 2 Hotels (SPAN 114-035-20755 and 114-035-52634) and all other parcels. Calculations for the 2 Hotels is based on the 1996 OTV at 100% retention. All other parcels have two points in time that are verified: the 2010 increment (100% retention) and the post-2010 increment (75% retention). The Burlington Waterfront uses an additional municipal tax increment for commercial properties. The calculation for commercial properties is calculated outside of NEMRC based on an excel spreadsheet provided by the City Assessor.

#### 1. **Confirm original taxable value:**

**Note:** *This step only needs to be completed for newly certified OTV's and recertified OTV's (at which point changes will have been made in the NEMRC system).*

- a. Compare the VEPC-certified OTV Property Report to the NEMRC TIF Parcel Value Reports as of the date the final Grand List was submitted to PVR (December 31 of the Grand List year). Please note that TIF reports in NEMRC are set up as 2-part reports. Part 1 is OTV to 2010 values; part 2 is 2010 to current year. In Part 1, increment on ALL properties is calculated at

100%; in part 2, increment on two hotels is calculated at 100% and on all other properties at 75% within the same column. In Part 1 reports, 2010 values are stated in the column titles "Current Value", it should be read "Current Value as of 4/1/2010". In Part 2, the column labeled for base values should be read as the values as of 4/1/2010.

- b. Verify that the NEMRC TIF Parcel Value Reports agree to the VEPC certified OTV property report.
- c. Compare the current TIF properties included in the NEMRC TIF Parcel Value to the properties included on the VEPC certified OTV property report.
  - i. For those properties not included on the VEPC certified OTV property report, obtain the original TIF parcel map outlining the boundaries of the TIF district and confirm the property is within the original TIF district boundary.
  - ii. Ensure that any of the special situations described below are appropriately reflected in the NEMRC TIF Parcel Value Report. Additional explanation for each is provided in the TIF Rule adopted May 6, 2015.
    - Changes to a property's tax status--taxable to non-taxable or non-taxable to taxable.
    - Separation of a parcel into two or more parcels.
    - Combination of parcels.
    - Separation of a parcel or combination of two parcels not located wholly within the District.
    - Property changes use from homestead to non-residential.
    - Boundary adjustments.
    - Certain tax agreements or exemptions provided for in Vermont statute may affect the education property tax grand list. See 32 V.S.A. §5404a for guidance. If a tax agreement or exemption affects the education property tax grand list, verify that authorization was obtained when required by statute, and review the accounting for the property(ies) in NEMRC to verify that they are treated appropriately in the NEMRC TIF Parcel Value Report.
- d. Compare the 2010 values in Part 1 to the 2010 base values in Part 2 to ensure that the 2010 base values in Part 2 are correct. The 2010 Values in Part I should always equal the 2010 Base Value in Part II.
- e. Report any discrepancies to VEPC as outlined in Section 7. Report and Certification.

**2. Confirm new parcels and newly constructed buildings are reflected in the NEMRC TIF parcel value report:**

- a. Review the NEMRC grand list changes report and identify new parcels or new improvements with physical addresses that suggest they may be in the TIF District.
- b. For any parcels identified in step a, ask the municipal assessor to confirm whether the parcel is in the TIF district.
- c. For parcels that should have been included in the NEMRC TIF module, calculate the impact on tax increment and recommend an adjustment.
- d. Report any discrepancies or exceptions to VEPC.

3. **Verify completeness and accuracy of tax increment calculation and retention of tax increment:**

**Waterfront TIF:**

- a. Review the NEMRC TIF Parcel Value Report printed as of December 31 of the Grand List Year and check all inactive parcels to ensure the current property value is converted to zero in order to make the calculations. Do not update the property values in the Grand List module.
- b. Verify all tax rates used in the tax increment calculations agree with the rates as established by the city council for municipal taxes<sup>1</sup> and per the statutory rates for education (homestead and non-homestead<sup>2</sup>) Check that all municipal rates documented in the City Council's resolution are included in the calculation<sup>3</sup>.
  - i. **Municipal TIF Proceeds:**
    - a. Calculate the **municipal incremental property value** by subtracting the OTV municipal property value from the current municipal TIF property value.
    - b. Multiply the municipal incremental TIF property value by **all** municipal tax rates and then divide by 100. This is the total Municipal TIF Proceeds amount to be retained.
  - ii. **Commercial TIF Proceeds:**
    - a. The City of Burlington applies a 120% factor to commercial properties. The steps below will assist in verifying correct amount of tax increment retained for the properties where this factor has been applied.
      - a. Using the NEMRC Municipal TIF Parcel value report for Part 2 as a guide, obtain copies of each tax bill for parcels with non-homestead values.
      - b. Review each tax bill, saving those which show a 120% Commercial Tax was applied.
      - c. Obtain the Annual Budgeting Grand List workbook created by the City, or other workbook used by the City, where the City has determined the total Commercial TIF Proceeds to be retained.
      - d. Compare the tax bills saved in step b. above to those in the spreadsheet in step c. to ensure all parcels that were taxed for 120% Commercial are listed in the spreadsheet and that the taxable value matches the municipal taxable values. Report any discrepancies to VEPC as outlined in Section 7. Report and Certification.
      - e. Using the workbook provided in step c., review incremental value calculations and tax increment calculations to verify the total commercial tax increment.

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<sup>1</sup> [17 VSA § 2664](#)

<sup>2</sup> State homestead and non-homestead tax rates are located at the Department of Taxes website <http://tax.vermont.gov/research-and-reports/tax-rates-and-charts/education-tax-rates>.

<sup>3</sup> [24 V.S.A. § 1896](#)

- f. Calculate the amount retained by the TIF District by multiplying the total commercial tax increment by the retention percentage approved by VEPC.
- iii. **Education TIF Proceeds**
- a. Verify the Homestead and Non-Homestead tax rates for the municipality by comparing to the rates published on the Department of Tax website.
  - b. **Homestead TIF Proceeds:**
    1. Calculate the **2010 homestead incremental property value** by subtracting the OTV homestead TIF property value from the 2010 homestead TIF property value. Divide by 100.
    2. Calculate the **post-2010 homestead incremental property value** by subtracting the 2010 homestead TIF property value from the current homestead TIF property value. Divide by 100.
    3. Multiply the 2010 homestead incremental TIF property value by the applicable homestead tax rate. This is the **2010 homestead TIF Proceeds**.
    4. Multiply the post-2010 homestead incremental TIF property value by the applicable homestead tax rate. This is the **post-2010 homestead TIF Proceeds**.
  - c. **Non-Homestead TIF Proceeds:**
    1. Excluding the 2 hotel parcels, calculate the **2010 non-homestead incremental property value** by subtracting the OTV non-homestead TIF property value from the 2010 non-homestead TIF property value. Divide by 100.
    2. Excluding the 2 hotel parcels, calculate the **post-2010 non-homestead incremental property value** by subtracting the 2010 non-homestead TIF property value from the current non-homestead TIF property value. Divide by 100.
    3. Multiply the non-homestead incremental TIF property value by the applicable non-homestead tax rate. This is the **2010 non-homestead TIF Proceeds**.
    4. Multiply the post-2010 incremental TIF property value by the applicable non-homestead tax rate. This is the **post-2010 non-homestead TIF Proceeds**.
  - d. Sum the 2010 homestead TIF Proceeds and the 2010 non-homestead TIF Proceeds from steps b.3. and c.3. This is the **2010 TIF Education Proceeds**.
  - e. Sum the post-2010 homestead TIF Proceeds and the post-2010 non-homestead TIF Proceeds from steps b.4. and c.4.
    1. If the value shows a decrement, this is the **Post-2010 TIF Education Proceeds**. Please note that 100% of the decremental value must be applied to the amount calculated in step d.
    2. If the value shows an increment, multiply this amount by the post-2010 retention percentage (75%). This is the **Post- 2010 TIF Education Proceeds**.

- f. **Waterfront TIF - 2 Hotels:**
  1. Calculate the incremental property value of the 2 hotel parcels by subtracting the OTV property value from the current TIF property value. Divide by 100. Multiply the value in step i- Municipal TIF Proceeds by the applicable non-homestead tax rate. This is the amount of **2-Hotels Education Proceeds**.
  - g. Sum the TIF Education Proceed amounts from steps d, e, and f. This is the total **TIF Education Proceeds to retain**. Remember that if step e. shows a decrement the full decrement must be included here. Compare amounts to those reported in the TIF Annual Report and the amounts retained in the TIF District Fund. Check that the Education TIF Proceeds retained are not more than were generated.
  - h. Report any discrepancies to VEPC as outlined in Section 7 Report and Certification.
4. **Verify expenditures for District improvements and related costs:**

Refer to the VEPC-approved TIF District Finance Plan (for Post-Act 184 District) or the District Reconciliation (Pre-Act 184 Districts) and any Phase Filings or Substantial Change Requests for the following steps. All documents are available on the VEPC Bulletin Board. Please contact VEPC staff to receive access.

  - a. Obtain public warning documents and voter results of the public vote required for district financing, including information on related costs and direct payment for infrastructure improvements.
  - b. Obtain schedule that lists all improvement costs incurred, including total cost, and a breakdown of the cost factors (design, engineering studies, project management costs, actual construction costs, etc.), how the approved proportionality was applied to the improvement cost, and the amount of infrastructure work (including non-construction costs) that was performed by Vermont firms.
  - c. Obtain a schedule of all related costs incurred, including the amount, description, date incurred, and an explanation to substantiate how the cost relates to the creation, implementation, operation, or administration of the district, whether and when the cost was reimbursed or paid with TIF increment, and when the reimbursement or payment was included in a public vote.
  - d. Obtain cost tracking records that agree to the amounts being reported to VEPC in the annual report for improvement projects and related costs and ensure the municipality's records support the amounts being reported. Any discrepancies shall be reported to VEPC.
  - e. Test improvements and related costs
    - i. Select one expense from each of 1) the municipality's improvement projects from the development schedule and 2) the list of related costs to test for allowability.
    - ii. For improvement costs selected for testing, review corroborating documentation (invoices, contracts, change orders, municipal policies, etc.) and verify that all costs listed are allowable per TIF Rule and were for an improvement project approved by VEPC in the TIF district financing plan.

- iii. For related costs selected for testing, review corroborating documentation (invoices, contracts, change orders, municipal policies, etc.) and verify all costs listed on invoices are allowable per TIF Rule and were included in the public warning documents and approved by voters.
- iv. Based on review of corroborating documentation and comparison to VEPC and voter authorizations, assess whether expenditures are allowable according to statute and VEPC rules. Report any discrepancies to VEPC as outlined in 7. Report and Certification.

**5. Verify debt service payments:**

- a. Verify the debt service payments recorded in the TIF Fund agree and are consistent with the principal and interest payments per the amortization schedules and that these are according to the financing documents. Report any discrepancies to VEPC as outlined in Section 7. Report and Certification.

**6. Review of Prior Year's Findings and Review of Recommendations from Monitoring Visits:**

- a. Obtain a copy of the prior year's AUP report and certification to review any findings.
- b. Obtain a copy of VEPC's monitoring visit report and check the section entitled "Auditor Follow-Up" for any areas that may need review.
- c. Report any discrepancies to VEPC as outlined in Section 7. Report and Certification.

**7. Report and Certification:**

- a. Provide certification that the independent auditor has verified: (1) the original taxable value and annual and total municipal and education tax increments generated; (2) expenditures for District debt and related costs; and (3) the current balance of the District fund.
- b. Compile and report on any findings as a result of the verification process.
- c. Provide the calculations completed when verifying the completeness and accuracy of NEMRC TIF Proceeds Report for tax increment calculation and retention of tax increment as outlined in Section 3. Note amounts retained in the TIF Fund for municipal and education tax increment. Include detail on discrepancies, if any.
- d. Provide details on the improvement costs and related costs that were reviewed in Section 4, detailing discrepancies, if any.
- e. Provide details on the debt services payments made and amounts due per amortization schedules, detailing discrepancies, if any.