**State Auditor Doug Hoffer**

**Press Release**

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**City of St. Albans Makes Unauthorized Use of TIF District Debt and Understates Tax Increment; City Owes TIF District and State Education Fund**

MONTPELIER, VT – Vermont State Auditor Doug Hoffer today released the findings of an audit that details the City of St. Albans’ level of compliance with Vermont Tax Increment Financing (TIF) laws and rules. A TIF district allows a municipality to designate an area for development, incur debt to finance infrastructure improvements, and earmark a portion of new state and municipal property tax revenues from that district to repay the debt.

These incremental revenues would otherwise pay for public schools and municipal operations. In the case of the City of St. Albans, incremental property tax revenues have been insufficient to pay off the City’s debt, which precipitated some of the City’s non-compliance with Vermont statute.

The State Auditor’s Office (SAO) is required by law (32 VSA §5404a(l)) to audit Vermont TIF districts for: 1) adherence to Vermont statutes and rules, 2) record keeping related to revenues and expenditures, and 3) retaining the correct amount of tax increment for municipal debt repayment and disbursements to the State Education Fund. In auditing the St. Albans TIF district, the SAO found multiple instances where St. Albans did not comply with Vermont law and rules.

“The errors that our team identified in St. Albans can be fixed; they are not fatal,” Auditor Hoffer said. “But instead of seeking to cure the problems, the City’s response has been to deny wrongdoing and seek absolution by requesting the State’s regulator to sanction their actions — sometimes after the fact. Many of the problems we identified stem from City administrators’ expansive and flexible view of statutes and rules to serve their interests.”

For example, St. Albans:

1. Used TIF district debt proceeds (borrowed money) to pay debt service (principal and interest) of TIF district debt (on the same borrowed money), which is not allowed;
2. Used TIF district debt for site improvements of a private hotel development that were not authorized, as the costs were not in the description of the core brownfield improvement approved by The Vermont Economic Progress Council (VEPC) and were not described in materials made available in advance of a public vote. This situation also raises questions about the extent to which public financing may be used for private development, rather than for public infrastructure aimed at attracting that development;
3. Treated the parking garage constructed in the TIF district as tax-exempt when it should have been treated as taxable, which improperly limited the amount of incremental revenue for debt service and reduced the amount available to the Education Fund; and
4. Did not seek the Vermont Economic Progress Council’s (VEPC) approval as required by statute for significant departures from the VEPC-approved TIF district plan prior to this audit’s finding that approval should have been obtained.

St. Albans responded to these findings by challenging the objectivity and professionalism of the SAO audit process.

“There is no basis for that and, perhaps intentionally, it diverts attention away from the report’s findings and conclusions,” Auditor Hoffer said.

The SAO’s Chief Auditor and staff conducted the audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). The office’s independence and use of these standards undergo a rigorous peer review. In the 2018 peer review, the SAO received the highest attainable rating.

In addition to St. Albans’ comments, the SAO also received management responses from the Vermont Economic Progress Council (VEPC), which is charged with overseeing and enforcing the laws and rules of the TIF program. VEPC expressed concern that the report’s title “encourages a negative perspective and “does not embody a constructive approach.”

But Auditor Hoffer explains that this comment represents a fundamental misunderstanding of the purpose of GAGAS audits.

“My office is charged in statute with conducting an independent evaluation of St. Albans’ compliance with TIF law and rules — not collaborating with them,” he said. “It is not the job of this office to gauge public perception when choosing a report title. The title is derived from the findings and conclusions of the audit.”

“What’s troubling to me at a structural level is that the entity charged with overseeing the program is concerned with the public perception of individual districts. It raises questions for me about the independence and arm’s length nature of this entity’s oversight.”

The SAO makes numerous recommendations to the City related to compliance with TIF district statutory and rule requirements, and the office makes recommendations to VEPC that include clarifying certain TIF rules and requirements. To view the full report, please [click here](https://auditor.vermont.gov/sites/auditor/files/documents/St.%20Albans%20TIF%20-%20Final%20Report%20with%20Bookmarks%20v.3_0.pdf).