

Independent Accountants' Report on Applying Agreed
Upon Procedures and Reporting Template for the Tax
Increment Financing District

City of South Burlington, Vermont

June 30, 2017



Proven Expertise and Integrity

TAX INCREMENT FINANCING DISTRICT FOR THE
CITY OF SOUTH BURLINGTON, VERMONT

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JUNE 30, 2017

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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON-PROCEDURES

City Council
City of South Burlington
South Burlington, Vermont

We have performed the procedures enumerated in Attachment A, Independent Accountants' Agreed-Upon-Procedures and Reporting Template for TIF Districts, which were agreed to by the Vermont Economic Progress Council (VEPC) and the Vermont State Auditor's Office (SAO) solely to assist the specified parties in evaluating the City of South Burlington's compliance with requirements related to the original taxable value, calculation of tax increment, retention of the proper tax increment by the municipality, distribution of the proper tax increment to the State, allowability of expenditures and items categorized as related costs, and debt service payments during the period ended June 30, 2017. See Attachment A for cross references to applicable Vermont statute and TIF District Rules. Management is responsible for compliance with these requirements. This agreed-upon-procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in Attachment A either for the purpose for which this report has been requested or for any other purpose.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Matters, if any, that came to our attention as a result of performing the procedures enumerated in Attachment A have been documented and reported to the City of South Burlington and VEPC. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The procedures and findings are presented in Attachment A.

This report is intended solely for the information and use of City of South Burlington, VEPC, and SAO and is not intended to be used and should not be used by anyone other than those specified parties.

RHR Smith & Company

Buxton, Maine
Vermont Registration No. 092.0000697
March 28, 2018

APPENDIX A

Appendix A includes:

- Independent Accountants' Agreed-Upon-Procedures and Reporting Template for Tax Increment Financing Districts



**Vermont Economic Progress Council
Tax Increment Financing (TIF)
District**

National Life Building – North, 6th Floor | One National Life Drive | Montpelier, VT 05620-0501

Phone: 802-828-3230 | Fred.Kenney@Vermont.gov |
http://accd.vermont.gov/strong_communities/opportunities/funding/tif

Independent Accountants' Agreed-Upon-Procedures and Reporting Template for TIF Districts

1. Confirm Original Taxable Value (OTV)

- a.** Obtain the VEPC certified OTV property report. The certified report will include the original property values, parcel owners, parcel IDs, addresses, taxable and non-taxable designation, homestead or non-residential designation, and any tax agreements or exemptions under 32 V.S.A. §5404a that effect the Education or Municipal OTV. **TIF Rule 902**
- b.** Obtain the NEMRC TIF property report from the municipality as of April 1 of the fiscal year under audit used for its tax increment calculation. The listing should include current period property values, parcel owners, parcel IDs, addresses, taxable or non-taxable, and homestead or non-residential designations. **TIF Rule 907**
- c.** Verify that the total OTV per the NEMRC TIF property report agrees to the VEPC certified OTV property report.
- d.** Compare the current TIF properties included in the NEMRC TIF property report to the properties included on the VEPC certified OTV property report. **TIF Rule 902**
 - i.** Match OTV, tax designation (homestead or non-residential), taxable or non-taxable, and number of parcels.
 - ii.** 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.¹
 - iii.** Ensure that any of the special situations described in TIF Rule 905 are appropriately reflected in the NEMRC TIF property report.
- e.** Compile unexplained differences and note below.

¹ TIF parcels may be separated into two or more parcels or multiple TIF parcels may be combined into one parcel. See TIF Rule 905 for special situations.

No unexplained differences were noted.

2. Verify completeness and accuracy of NEMRC TIF property report tax increment calculation

- a.** Utilize the report obtained for step 1.b to test completeness and accuracy of the municipal and education tax increment calculations.
- b.** Confirm that TIF property data is electronically transferred from the NEMRC Grand List to the NEMRC TIF module and that the only data point manually entered into the NEMRC TIF module is the OTV.
- c.** Determine whether parcel values and other data are manually entered into the NEMRC Grand List or electronically updated from Computer Assisted Mass Appraisal (CAMA) software. If manually entered, for 20 percent of the properties, vouch the appraised value in the NEMRC TIF property report to assessor reports or other records such as lister cards. If electronically updated, obtain a list of TIF properties from the CAMA software application and match the property data, including current appraised value, to the NEMRC TIF property report.
- d.** Verify the municipal rates used in the tax increment calculation agree with the rates per the municipality's voter approved tax rates. Check that all municipal rates are used in the calculation. **TIF Rule 904(b)(i)**
- e.** Verify the education homestead and non-residential tax rates used in the tax increment calculation agree to applicable statutory rates.²
- f.** Verify that the municipal tax increment was appropriately calculated using the NEMRC TIF module. **TIF Rule 904(b)** Select 10 properties on a haphazard basis:
 - i.** Calculate the incremental property value by subtracting the municipal OTV property value from the total current assessed municipal TIF property value.
 - ii.** Multiply the incremental municipal TIF property value by all municipal tax rates and compare to amounts in the NEMRC TIF property report.
- g.** Verify that the education tax increment was appropriately calculated using the NEMRC TIF module. **TIF Rule 904(c)** Select 10 properties on a haphazard basis:
 - i.** Calculate the incremental property value by subtracting the homestead OTV property value from the current homestead TIF property value.

² State homestead and non-homestead rate are located at the Department of Taxes website <http://www.state.vt.us/tax/pvredtaxrates.shtml>.

- ii.** Calculate the non-homestead incremental property values by subtracting the non-homestead OTV property value from the TIF current non-homestead property value.
- iii.** Multiply the incremental homestead TIF property value by the applicable homestead tax rate.
- iv.** Multiply the incremental non-homestead TIF property value by the applicable non-homestead tax rate.
- v.** Compute the education tax increment by totaling the homestead and non-homestead increments calculated in steps (iii) and (iv).
- vi.** Compare the recalculated tax increment amounts to amounts in the NEMRC TIF property report.
- h.** Obtain an electronic extract of the NEMRC TIF property report in Excel format and use Excel to recalculate the total balance of the education tax increment and municipal tax increment.
- i.** Compile unexplained differences and note below.

No unexplained differences were noted.

Below is a list of special situations associated with TIF properties which impact the calculation of tax increment. See TIF rule for details.

- Changes to a property's tax status--taxable to non-taxable or non-taxable to taxable. **TIF Rule 905.1 & 905.2**
- Separation of a parcel into two or more parcels. **TIF Rule 905.3**
- Combination of parcels. **TIF Rule 905.4**
- Separation of a parcel or combination of two parcels not located wholly within the District. **TIF Rule 905.5**
- Property changes use from homestead to non-residential. **TIF Rule 905.6**
- Boundary adjustments. **TIF Rule 905.7**

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 tax increment calculation.

3. Confirm proper tax increment was retained by municipality and remitted to State. Verify municipality is within the allowed retention period

- a.** Obtain the date that municipality commenced retention of tax increment revenue from the annual VEPC TIF Report. The retention period commences in the calendar year the municipality first incurs debt or makes direct payment for improvements approved by voters, and incremental revenue may be retained for up to 20 years (education increment) or until the debt is retired and related costs are paid (municipal increment). **TIF Rules 712 & 713**
- b.** Obtain the District Plan approved by VEPC, which outlines the maximum share of education property tax increment and minimum share of municipal tax increment the municipality is required to allocate to the TIF.
- c.** If the District has triggered its retention period:

- i.** Verify the correct portion of the education tax increment was retained by the municipality and remitted to the State or school district.

Portion of education tax increment retained by municipality:

- a.** Multiply the approved education retention percentage by the education tax increment calculated in step 2(h). **TIF Rule 711**
- b.** Examine TIF fund account transactions and verify this amount was properly recorded to the TIF fund. **TIF Rule 908**

Portion of education tax increment remitted to the State or school district:

- a.** Multiply the education tax increment calculated in step 2(h) by 1 minus the approved education retention percentage.
- b.** Agree to amount reported as owed to the Education Fund on the Act 68 Cash Flow Final Data Report from the Agency of Education.
- c.** Review bank statements and verify this amount was remitted to the State or school district.
- ii.** Verify the correct portion of the municipal tax increment was recorded in the TIF fund by the municipality.
 - a.** Multiply the approved municipal retention percentage by the municipal tax increment calculated in step 2(h). **TIF Rule 711**
- d.** Calculate effect of differences and include unexplained differences below.

No unexplained differences were noted.

4. Verify expenditures and related costs are allowable

- a. Obtain TIF district finance plan approved by VEPC which includes project descriptions and a development schedule that includes a list, cost estimate, and a schedule for public improvements. Obtain Substantial Change requests related to improvements approved by VEPC, if any. **32 V.S.A. 5404a(h)(2)(B); TIF Rule 603; TIF Rule 607 and 1003.2.1**
- b. Obtain the statutory definitions of TIF district improvements and related costs. **24 VSA §1891(4)(6) – Definitions**
- c. Obtain VEPC TIF rule guidance outlining allowable improvements and related costs. **TIF Rule 704 & 705**
- d. 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. **24 VSA §1894(i); TIF Rule 705 & TIF Rule 718**
- e. Obtain schedule that lists all improvement costs incurred. **TIF Rule 1002**
- f. 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. **TIF Rule 705 & TIF Rule 1002**
- g. 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, verify that the improvement was approved by VEPC in the TIF district financing plan.
 - iii. For related costs selected for testing, verify the type of related cost was outlined in the public warning documents and approved by voters. **TIF Rule 705 & 718**
 - iv. For each item selected for testing review corroborating documentation (invoices, contracts, change orders, etc.).
 - v. Based on review of corroborating documentation and comparison to VEPC or voter authorizations, assess whether expenditures are allowable according to statute and VPEC rules.

- h.** Scan the TIF fund transactions in the general ledger accounting system to identify any improvements or related costs paid directly from the TIF fund. Inquire of finance official to determine whether improvements or related costs paid directly from the TIF fund were included in the schedules obtained in 4.e and 4.f.
- i.** For any improvements or related costs identified in step 4.h, select one expense item and perform the steps in 4.g.ii to 4.g.v.
- j.** Compile unexplained differences and note below.

No unexplained differences were noted.

5. Verify TIF fund transactions/balance. TIF Rule 908

General procedures:

- a.** Confirm the year-end cash balance recorded in TIF Fund. If a separate cash account is maintained, obtain screen shot of year-end TIF Fund bank balance. If pooled cash accounts are utilized, obtain screen shot of year-end pooled cash bank balance and verify that allocation of cash to TIF Fund is appropriate.
- b.** Agree the beginning TIF fund balance to the prior year audited financial statements.
- c.** Agree the ending TIF fund balance per the general ledger to current year financial statements.
- d.** Scan TIF fund transactions for transactions other than tax increment revenue, debt service payments, TIF fund interest income, direct payments for improvements and related cost payments, and education and municipal tax payments.
- e.** Obtain understanding of transactions that are not listed in step 5d.

Verify debt service payments:

- a.** Obtain VEPC-approved TIF district financing plan, documents related to voter approval of financing, and the approval of financing by vote or resolution of municipal legislative body. **TIF Rule 300; TIF Rule 1003.2.2; & TIF Rule 801**
- b.** Obtain TIF debt service schedule from municipality, including the total debt amount, type of debt, and repayment schedule.
- c.** Obtain any TIF loan or other financing documents for outstanding debt.
- d.** 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.

- e. Confirm that debt being paid with TIF proceeds is reported on the debt schedule included with the annual report to VEPC.
- f. Compile unexplained differences and note below.

No unexplained differences were noted.

6. Report template

- a. Accountant should complete reporting template and compile any findings or questioned costs.
- b. Submit reporting template to municipality with a copy to the Executive Director of VPEC.