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STATE AUDITOR



STATE OF VERMONT
OFFICE OF THE STATE AUDITOR

January 29, 2015

Director of Research and Technical Activities
Governmental Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: Project No. 19-20E

Dear GASB Director:

I am writing to express my support for the proposed "tax abatement" standard GASB is currently considering. As Vermont's elected State Auditor, it is my duty to audit the State's Comprehensive Annual Financial Report (CAFR) each year¹ and also to periodically audit each Tax Increment Financing (TIF) district. I support the proposed new GASB "tax abatement" disclosure standard because it reflects my approach to open and transparent government.

Historically, Vermont has been a leader when it comes to accounting for economic development spending and its impact on state finances. Beginning in 2007, we were among the first states to prepare and publish a Unified Economic Development Budget which accounted for the aggregate and program-specific amounts of development assistance granted in the prior fiscal year.² It is worth noting that our accounting included TIF expenditures, payroll tax credit-based subsidies, corporate income tax subsidies, grants, loans, training expenses, and other economic development tools. In that spirit, GASB's "tax abatement" standard ought to be as inclusive as possible.

I encourage you to expand the scope of your "tax abatement" definition to require state and local jurisdictions to report on future-year liabilities for all "tax abatements," including TIFs.

Vermont's experiences with TIF should serve to illustrate why the program belongs in your "tax abatement" standard. During my tenure as Auditor, the Vermont Legislature resolved many complex issues we were experiencing in the use of TIF. Critical problems with the program were brought to light in a series of audits conducted at the request of the Legislature. These included

¹ My office contracts with KPMG for the CAFR.

² http://finance.vermont.gov/reports_and_publications/uedb The UEDB has been discontinued but the state is pursuing other approaches for tracking expenditures and performance.

problems with how towns were administering the program and a lack of state oversight and enforcement. Because statewide property taxes support public education, Vermont takes a more active role than most states in administering, overseeing, and approving municipal TIF districts. Vermont currently has 11 TIF districts carrying some \$340 million in TIF debt.³

Having access to information about TIF expenditures is crucial in fulfilling the duties of my office. For example, in auditing TIF districts in Vermont, my office recently discovered a town had mistakenly withheld millions in TIF revenues from the state Education Fund. Unfortunately, the town had made a miscalculation, which my office worked with the town to correct.

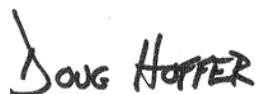
Vermont statutes also require municipalities to report to the state important details about their TIF districts, including the original assessed value, the local and state tax increments generated, annual and total expenditures, all indebtedness associated with the TIF district, including the initial debt, interest rate, terms, annual and total interest and principal payments— and the sources of revenue other than property taxes by dollar value.

Note also that Vermont currently reports future cost obligations for other “tax abatement” programs such as the now defunct Economic Advancement Tax Incentive (EATI) program. The program was discontinued in 2007, but continued to cost state government millions through income tax credits, sales and use tax exemptions, and property tax incentives for years after it was officially halted. Only by projecting out future cost obligations could we accurately capture the impact of EATI subsidies, which was replaced by another program that also carries significant fiscal impacts to the state.⁴

Vermont’s experience with reporting on TIF and other programs should serve to show that not only do these belong in GASB’s “tax abatement” definition, but also that there is no undue burden from such a requirement on state or local governments. This information, which is already reported to my office, is vital to enabling me to perform my duties.

Thank you again for the opportunity to weigh in on this important issue.

Sincerely,



Doug Hoffer

³ <http://accd.vermont.gov/sites/accd/files/pdf/TIF%20District%20Summary.pdf>

⁴ <http://accd.vermont.gov/business/start/vegi/reports>