Understanding Property Valuation and Tax Increment in CHIP

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Property values are at the heart of Vermont's Community and Housing Infrastructure Program (CHIP). The value of a CHIP housing site before development creates the starting point. As development occurs and the property value grows, a portion of the new property tax revenue can be used for eligible CHIP infrastructure costs.

This makes accurate property information, good financial records, and strong communication important throughout the life of a CHIP project. Municipal staff do not need to become CHIP experts overnight. They do need to understand how their work connects and what information must be shared with others.

Start With the Basics

CHIP uses tax increment financing. The basic idea is that infrastructure can help make housing development possible. That development can increase the taxable value of property. CHIP allows a municipality to retain an approved portion of the property tax revenue generated by that increase and use it for eligible CHIP purposes.

A few terms are especially important:

- **Original Taxable Value (OTV)** is the taxable value of the property within the CHIP housing development site before the CHIP development occurs. It establishes the starting point used to measure future growth.
- **Incremental value** is the increase in the property's taxable value above the OTV.
- **Tax increment** is the property tax revenue generated from that increase in value.

Each year, the current taxable value of the CHIP property is compared with its OTV. If the value has increased, that increase creates the basis for calculating the tax increment.

For example, if a CHIP property's OTV is $500,000 and its current taxable value later becomes $750,000, the incremental value is $250,000. The approved retention percentage and applicable tax rates are then used to determine how much tax revenue the municipality can retain for CHIP.

Understand How Property Values Are Established

CHIP depends on Vermont's existing property assessment system. Municipal listers and assessors continue to value property using the same approved assessment methods they use for the grand list.

This distinction is important: assessing a property's value today is different from estimating what it might be worth after a future housing development is built.

Listers and assessors determine property values for the municipal grand list. Assessments reflect the property's status and condition as of April 1 and the municipality's approved assessment methodology. The role of listers and assessors is not to predict the future market value of a proposed development.

That means a developer's projected future value should not automatically be treated as an assessed value. Municipalities should understand who prepared a future value estimate, what assumptions support it, and how it will be reviewed for CHIP planning.

Protect the Original Taxable Value

The OTV remains an important reference point throughout the CHIP term.

At the beginning of a CHIP project, the parcels within the housing development site are identified and certified. The parcel information and values must be consistent with the municipality's final grand list.

Parcel changes later in the project need careful attention. For example, parcels may be combined, divided, renumbered, or made inactive. These changes should not cause the municipality to lose track of the original CHIP parcels or their OTV.

Municipalities should develop a process for identifying parcel changes and making sure the CHIP records remain accurate.

Know How CHIP Affects the Municipal Tax Rate

CHIP also affects municipal finance. Normally, a municipality determines how much property tax revenue it needs to raise and divides that amount by the grand list to calculate its municipal tax rate.

CHIP adds another step because an approved portion of the incremental value is dedicated to CHIP debt repayment. That portion is not available to support the municipality's regular tax levy.

When calculating the tax rate, the municipality therefore needs to account for the CHIP incremental value that has been dedicated to CHIP. If it does not, the tax rate may be set too low. The municipality could then end the year without enough general property tax revenue to support its approved budget.

This is one reason coordination between assessment and finance staff is so important. The people setting the tax rate need accurate CHIP property and increment information.

Keep CHIP Money Easy to Follow

Municipalities should establish their CHIP accounting structure before they need it.

Track the tax increment retained for CHIP and the project costs financed with CHIP debt separately. Clear accounting makes it easier to understand where money came from, how it was used, and whether municipal records agree with CHIP reports.

Municipalities should also separately track the municipal and education portions of the tax increment. A simple project spreadsheet can provide a long-term view of:

- municipal tax increment retained,
- education tax increment retained,
- amounts used for debt service or other approved purposes,
- remaining balances, and
- activity over the full CHIP term.

The tracking information should be reconciled with the municipality's accounting records, audited financial statements, and required CHIP reporting.

Build Your CHIP Team Early

There is no single staffing model for CHIP. One municipality may have a finance director handling several CHIP responsibilities. Another may divide those responsibilities among a manager, treasurer, clerk, listers or assessors, and other employees.

Before a CHIP project moves forward, identify who will be responsible for tasks such as:

- maintaining property and grand list information;
- monitoring CHIP parcels and changes;
- setting the municipal tax rate;
- producing tax bills;
- establishing and maintaining CHIP funds;
- posting and reviewing financial transactions;

- reconciling tax revenue;
- processing debt or other eligible payments;
- maintaining CHIP records; and
- completing required reports.

Also identify one person who can help keep the pieces connected. CHIP projects may last longer than individual employees remain in their positions, so responsibilities should belong to a municipal process - not only to one person's memory.

Create a Shared CHIP Calendar

CHIP brings together deadlines that may normally be managed separately. For example, property is assessed based on its condition as of April 1, but the grand list is not final that day. The abstract must be lodged and the grievance process completed. Tax-rate setting, billing, financial reporting, debt payments, and CHIP reporting each follow their own schedules.

Create a shared calendar that identifies important dates and who is responsible for each task. Include municipal deadlines as well as CHIP-related deadlines. Review the calendar as a team at least once each year so that one person's deadline does not surprise someone else.

Leave Good Records for the Next Person

CHIP projects can continue for up to 20 years. Staff, elected officials, listers, and other team members will change during that time. Build records so someone new can understand the project without having to reconstruct its history.

Consider maintaining a shared CHIP folder with:

- CHIP approvals and agreements;
- parcel identification information;
- OTV documentation;
- annual property values and value changes;
- retention percentages;
- tax-rate calculations;
- financial reports and reconciliations;
- debt information;
- important correspondence;
- annual reporting documents;
- key deadlines; and
- contact information for people involved with the project.

Municipalities may also want a simple tracking document for each CHIP property showing its parcel number, approval year, OTV, current value, annual value changes, and other information the municipal team needs.

Keep these records in a location that other authorized municipal staff can find and understand.

Verify the Numbers

One of the strongest practices a municipality can adopt is simple: verify important CHIP information against its source. Do not rely only on a number copied into an email, spreadsheet, or older report. When making an important CHIP calculation or completing a report, return to the source record and confirm what the number represents.

Ask questions such as:

- Is this the taxable value, assessed value, or another value?
- What year does it represent?
- Is the grand list final?
- Is this the OTV or the current value?
- Is this 100% of the increment or the amount the municipality may retain?
- Does this number represent the municipal or education portion?
- Does the accounting record agree with the CHIP report?

Documenting the source can make future reviews, reporting, and audits much easier.

Make Organization Part of CHIP Administration

Successful CHIP administration is not just about knowing the formulas. It depends on people working together and maintaining reliable records.

A few habits can make a major difference:

- **Know the team** - Make sure everyone understands their responsibilities and knows who to contact with questions.

- **Know the deadlines** - Maintain a shared calendar and understand how one person's work affects another person's timeline.
- **Stay organized** - Establish folders, financial accounts, tracking tools, and procedures before information begins to accumulate.
- **Communicate** - Share changes in property values, parcels, financing, schedules, and other important project information with the people who need it.
- **Leave a clear trail** - Keep records that allow someone else to understand what was done, why it was done, and where the information came from.
- **Verify** - Check important numbers and decisions against the source documents.

CHIP may be new, but municipalities already have many of the skills needed to administer it. The key is connecting assessment, finance, administration, and project management into one coordinated process.

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