Memo

To: City Plan Commission

From: Todd Taves, Ehlers

Cc: Amy Connolly, AICP, Director of City Development

Date: November 7, 2018

Subject: Tax Incremental Financing Actions – November 14 Agenda

At the November 14 City Plan Commission meeting, the Commission will be asked to consider approval of amendments to five existing Tax Incremental Districts (TID) as well as creation of a new TID.

As additional background, the first two sections of the Wisconsin Department of Revenue's (DOR) Tax Incremental Financing Manual are attached and provide a brief overview of the program's history and how this taxing mechanism works. The complete manual can be accessed on the DOR's website.

Creation of a TID, or amendment of a TID, requires the approval of the City Plan Commission, the Common Council, and the Joint Review Board. The Joint Review Board is a multi-jurisdictional body that includes representatives from each taxing jurisdiction.

Under Wisconsin statute, the specific role of the Plan Commission in the TID creation or amendment process is:

1. To hold a public hearing to provide interested parties a reasonable opportunity to express their view.

2. To designate the boundaries of a TID and to submit those boundaries as a recommendation to the Common Council. (This applies only in cases of a TID creation, or amendments that involve the addition or removal of territory from a TID).

3. To prepare and adopt a Project Plan and submit that plan to the Common Council. (Ehlers has prepared draft Project Plans for each currently contemplated TID action).

The TID statutes do not provide specific criteria for the Plan Commission to apply when considering approval of a TID or TID amendment. It may be helpful, however, to consider the criteria that the Joint Review Board must apply in considering their approval:

1. Whether the development expected in the tax incremental district would occur without the use of tax incremental financing. (Also known as the "but for" test.)

2. Whether the economic benefits of the tax incremental district, as measured by increased employment, business and personal income and property value, are sufficient to compensate for the cost of the improvements.

3. Whether the benefits of the proposal outweigh the anticipated tax increments to be paid by the owners of property in the overlying taxing districts.

In addition to the foregoing, the Plan Commission should consider whether the activities planned within TIDs are in general conformance with the City's Master Plan and other applicable studies and documents detailing objectives for land use and economic development.

The TID Plan amendments currently proposed are largely centered around providing resources to other TIDs via increment sharing, or better positioning TIDs that have lost value for future redevelopment by resetting base values. In these cases, applying the criteria noted above is more abstract and needs to take into consideration the longer-term prospects for the impacted TIDs.

City staff and Ehlers will provide an overview of each TID item at the Plan Commission meeting and can answer any specific questions related to the purpose of the proposed new TID and the various amendments.

1.1 What is TIF?

Basic Function of TIF

Tax Incremental Finance (TIF) is a financing option that allows a municipality (city, village or town) to fund infrastructure and other improvements, through property tax revenue of newly developed property. A municipality identifies an area, the tax incremental district (TID), as appropriate for a certain type of development. The municipality identifies projects to encourage and facilitate the desired development. Then as property values rise, the municipality uses the property tax paid on that development to pay for the projects. After the project costs are paid, the municipality closes the TID. The municipality, school(s), county, and technical college are able to levy taxes on the value of the new development.

TIF use varies depending on the project and the municipality. In some cases, the municipality chooses an area it would like to develop or that is unlikely to develop without assistance. Then the municipality designs improvements (ex: roads, sidewalks, sewer systems) to attract growth. In other cases, a developer or company identifies a site where they might locate. A developer may also negotiate with the municipality to use TIF to fund some improvements (ex: demolition, soil clean up, roads, water) the developer needs. Either way, an area facing development challenges receives help to grow. This creates a larger tax base for the municipality and the overlying taxing jurisdictions. Generally, when the tax base grows and spending is stable, tax rates go down, decreasing the property taxes for everyone.

Important: One key basis for the use of TIF is the "but for" test. As part of <u>all</u> creation resolutions, a municipality must affirm that the development would not happen "but for" the use of TIF. The municipality must believe that without TIF the development would never happen. This test is important to ensure TIF assists development projects needing help, but that it is not a gift of tax dollars to private developers or property owners.

TIF Law Background

Wisconsin adopted TIF legislation in 1975 to eliminate blighted areas in urban neighborhoods. Interest rates were high, making government borrowing expensive and municipal investment in infrastructure and redevelopment unattractive. In addition, the cost was high for redeveloping blighted areas compared to developing open areas. This was due to demolition, alteration, remodeling or repairing existing buildings, removing environmental contamination from soil or groundwater or other site work. Before TIF law was enacted, if a municipality wanted to expand its local tax base, the municipality alone would pay the cost but the overlying taxing jurisdictions would also benefit from the growth. The Legislature saw this situation as unfair and TIF as a way to remedy the problem and encourage cooperation between local government.

Since TIF law was first adopted, changes have been made to expand the ways municipalities can use TIF and increase the involvement of the overlying taxing jurisdictions and local residents.

The chart below shows the law reference and creation year. Review Section 1.4 for recent TIF law changes.

Eligible Municipality	Wis. Statute/Year Created	TID Type
City or Village	66.1105/1975	Blight, Rehabilitation or Conservation, Industrial
City or Village	66.1105/2004	Mixed-use
City or Village	66.1105/2017	Environmental Remediation
Town	66.1105/2005	Any of the above as part of an annexation/cooperation agreement
City, Town, Village or County	66.1106/1997 (ended 2017)	Environmental Remediation (now in 66.1105)
Town	60.85/2004	Agricultural, Forestry, Manufacturing, or Tourism
Town	60.23/2014	Same as created under 66.1105

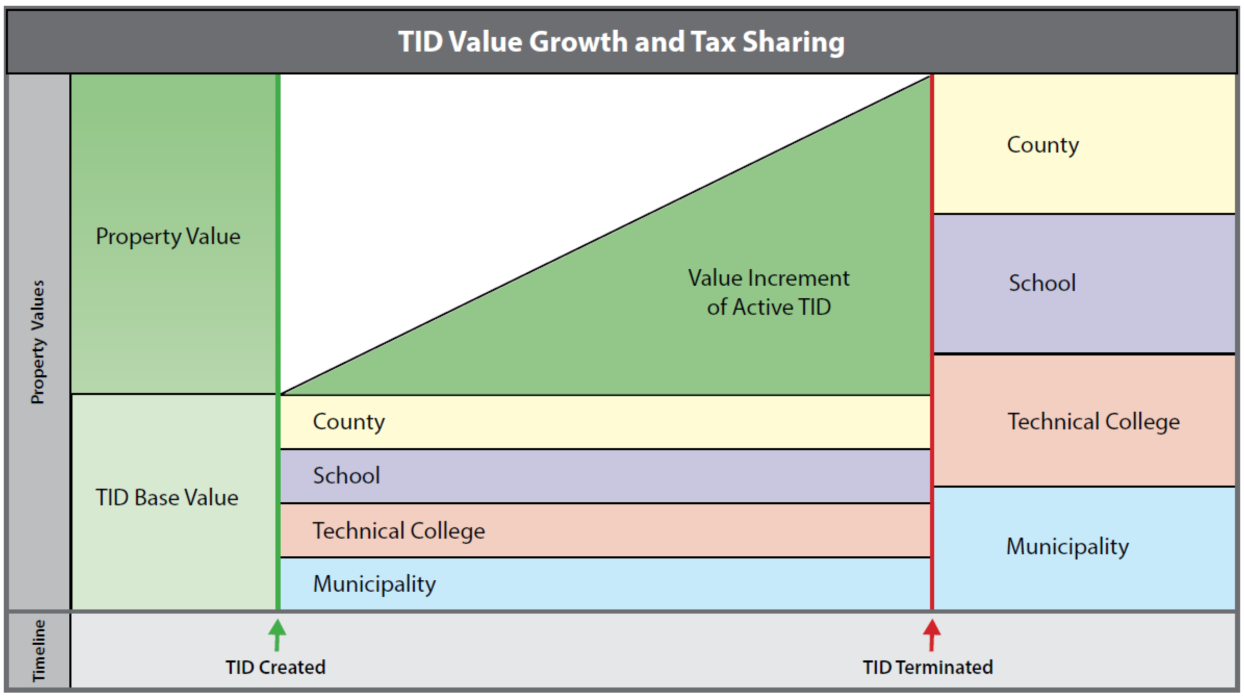
Section 1.3 provides more details on the trends in numbers and types of TIDs.

1.2 How Does TIF Work?

Tax Incremental Financing (TIF) allows municipalities to promote tax base expansion. The municipality identifies an area for development; this is the Tax Incremental District (TID). The municipality funds the necessary infrastructure and other projects to attract private development. Then as the property value increases, the municipality uses the taxes from that increase to pay the project costs. The municipality can only use TIF to fund infrastructure investment and other eligible projects that facilitate development.

When a municipality creates a TID, the municipality and other taxing entities agree to support their operation from the existing tax base within the TID. They agree the municipality will use the taxes on the value increase in the TID to pay for the investment.

Sharing the Tax Base



When the municipality creates a TID, it establishes the base value of all the taxable property within the defined boundaries. The county, school, technical college and municipality in the chart above, make up the overlying taxing jurisdictions for the parcels in the base value. The overlying taxing jurisdictions share the tax revenue collected on this portion of the property value. After the TID is created, this tax revenue is allocated the same way as before the TID was created. In the chart, the county, school, technical college and municipality collect taxes on the property in the TID base. In areas with special taxing districts (ex: sanitary district or lake rehabilitation district), this district would appear in a row below the municipality.

Any agreement to use TIF depends on the "but for" concept, explained in Sec. 5.1

Any new construction or investment in the TID property increases the value. The municipality collects the taxes on the growth in value of the property (the "value increment") as "tax increment" revenue. The municipality can only use this revenue to pay for the improvements it made to the property in the TID according to the approved project plan.

The municipality must terminate the TID at the end of the maximum life, or when the tax increments collected exceed the approved project costs. At termination, the entire value of the property in the TID returns to the tax rolls of the overlying taxing jurisdictions. In the chart on page 1, the column on the right represents the increased property value subject to taxes.

At termination, if the tax increment revenue exceeds the project costs, the municipality must return the surplus revenue to the overlying taxing jurisdictions in proportion to overlying taxing jurisdictions respective tax levy without TIF

While the TID exists, tax revenue for each overlying jurisdiction is limited to the base value of the TID parcels. After terminating the TID, all the overlying taxing jurisdictions share the tax base; tax rates can be lowered to generate the same amount of revenue for the jurisdiction. Without the development encouraged by TIF, the base value would be the only value available for the jurisdictions to tax. Partnering to facilitate development helps all the overlying districts increase their tax base.

If the TID property value does not increase as expected, the municipality may not receive enough tax increment to pay its expenditures. In this case, when the TID terminates, the municipality is responsible for the unpaid debts.

Tax Increment Calculation

The Tax Increment Worksheet (Form PC-202) calculates the amount of taxes for the TIF fund. The worksheet uses the apportionment of each overlying taxing jurisdiction to determine the share of each district's tax revenues that will be part of the municipality's tax increment.

Example

This example shows how the county levy is apportioned and how the tax increment is calculated. The same process is used to determine the tax increment added to each of the other levies, including the municipality's that created the TID.

Assumptions

1. Entire county consists of four municipalities. Only municipality A has a TIF district.
2. 2017 equalized property value in the four municipalities, including the TID increment are:

Municipal Values								**Total**
A	$400,000,000*	B	70,000,000	C	20,000,000	D	10,000,000	$500,000,000
** Includes $30,000,000 increment value*								

3. Municipality A has a tax incremental district (TID #1) with values of:

   2000 Base Value $20,000,000
   2017 Current Value................ 50,000,000
   Value Increment..................... 30,000,000

4. The county needs $1,500,000 from property taxes for its budget

Note: Values of the taxing entity and any municipality with one or more TIDs, are reduced by the value increment in any of the TIF districts. This is referred to as **TID/OUT** in the charts below.

Step 1 Formula to determine each municipality's percent of the county's value:
Value of Municipality ÷ Value of County = % of the County's Value

Municipality	TID/OUT Municipality Value		TID/OUT County Value		Percentage County Value
A	$ 370,000,000	÷	$ 470,000,000	=	.787234
B	70,000,000	÷	470,000,000	=	.148936
C	20,000,000	÷	470,000,000	=	.042553
D	10,000,000	÷	470,000,000	=	.021277
Totals	**$ 470,000,000**		n/a		**1.000000**

Step 2 Formula to determine the county tax apportioned to each municipality:
Percentage County Value x County Levy = Apportioned Tax

Municipality	Percentage County Value		County Levy		Apportioned Taxes
A	.787234	x	$ 1,500,000	=	$ 1,180,850
B	.148936	x	1,500,000	=	223,405
C	.042553	x	1,500,000	=	63,830
D	.021277	x	1,500,000	=	31,915
Totals	**1.000000**		n/a		**$ 1,500,000**

Step 3 Formula to determine the county mill rate for each municipality: **County Apportioned Tax ÷ (Municipality Equalized Value – Increment) = County Mill Rate for Municipalities**

Municipality	Apportioned Municipality Taxes		Municipality TID/OUT Equalized Value		County Mill Rate for each Municipality
A	$1,180,850	÷	$ 370,000,000	=	.0031915
B	223,405	÷	70,000,000	=	.0031915
C	63,830	÷	20,000,000	=	.0031915
D	31,915	÷	10,000,000	=	.0031915
Totals	**$1,500,000**		**$ 470,000,000**		n/a

Step 4 Formula to determine the county tax each municipality will collect, including the TID increment. (Referred to as **TID/IN** on the chart below): **Mill Rate x Total Equalized Value of All Municipal Property = County Tax Collected** (includes the tax increment for TID #1 in Municipality A)

Municipality	Mill Rate		Total Equalized Value Municipality (TID/IN)		County Taxes Collected
A	.0031915	x	$ 400,000,000	=	$ 1,276,600
B	.0031915	x	70,000,000	=	223,405
C	.0031915	x	20,000,000	=	63,830
D	.0031915	x	10,000,000	=	31,915
Totals	n/a		**$ 500,000,000**		**$ 1,595,750**

Total county taxes collected from Municipality A	$ 1,276,600
Total county apportioned taxes for Municipality A	$ 1,180,850
Tax increment retained by Municipality A	**$ 95,750**

Step 1- 4 Explanation

- County tax collected is apportioned to individual property owners in each municipality based on the assessed value of each parcel
- Amount of the tax apportioned by the county is $1,500,000. Step 2 shows the amounts apportioned to each municipality.
- Tax increment of $95,750 is the difference between the amount Municipality A collected by the county ($1,276,600 shown in Step 4) and the amount apportioned for Municipality A ($1,118,850 shown in Step 2)
- $95,750 is the **county portion** of Tax Increment kept by Municipality A and deposited into the TID #1 fund for the TID's project costs

Step 5 Effect on the county mill rate if the TID in Municipality A terminates in 2017 and the county's levy and each municipality's values remain the same		
County Levy	**County Equalized Value**	**Mill Rate**
$ 1,500,000	$ 500,000,000*	.0030000
** Includes TID value increment in TID #1, Municipality A*		

Step 5 Explanation

- There is a difference in the tax rate of 19.15 cents per thousand dollars of equalized value **without** the TID in Municipality A (.0031915 shown in Step 3), compared to the rate **with** the TID (.0030000 shown in Step 5)
- This would result in a $19.15 tax difference for the county portion of taxes on a property valued at $100,000

When a municipality has no TIDs, the municipal apportioned levy is the same as the county taxes collected. If there are no TIDs in a county, the county mill rate is lower for everyone; however, if there are TIDs, every taxpayer in the county pays a higher rate to generate the increment paid to the municipality operating the TID. All taxpayers in the county share this cost because they will all share the expanded tax base once the TID terminates.