

CITY OF RACINE

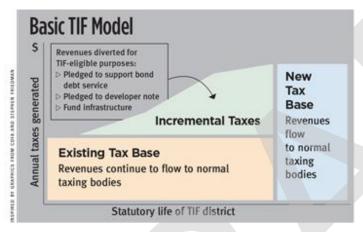


DEPARTMENT OF CITY DEVELOPMENT



What is TIF?

Tax Incremental Financing (TIF) is a special funding tool available to municipalities to spur economic development which otherwise would not occur. When a **Tax Incremental District** (TID) is created, property owners within the district continue to pay the same property tax rates as those outside the district. The difference is with the TID, the tax collections from each taxing body (City, County, etc.), over and above the "base value" are placed into a special fund that is used to incentivize development. Once all costs incurred by the creation of the TID are recouped by the additional tax increment created, the TID is closed and the additional property taxes created are then shared by all taxing bodies.



The use of TIF varies from project to project and from TID to TID. In some cases, the City of Racine uses TIF to promote redevelopment in the downtown and in older areas of the City. In other cases, the City uses TIF to incentive industrial development through brownfield clean up or construction of infrastructure. In all cases, increased property tax collections is used to pay down debt or expenses associated with project costs.

In shales

TIF Authority

The authority and regulations for Tax Incremental Financing and the establishment of Tax Increment Districts are found in Wis. Stats 66.1105. The City of Racine reserves the right to be more restrictive than provided for under the statutes.

Policy Purpose

The purpose of this policy document is to articulate to developers and businesses the City of Racine's desire to promote economic development activity consistent with the City's Plans (*Comprehensive Plan, Downtown Plan, Rootworks Area Wide Plan, Uptown Plan, Redevelopment plans*). The City of Racine also wishes to ensure that every TIF incented project provides a community benefit that will ultimately be shared by all taxing entities - City, County, Racine Unified School District, Gateway Technical College - that are impacted by the establishment of TIDs.

The provision of TIF assistance to a project is a policy choice to be evaluated on a case-by-case basis by the City's Redevelopment Authority and the Common Council. The burden of establishing the public value of TIF is on the applicant and the application must substantially meet the criteria explained within this document.



Meeting statutory requirements, policy guidelines, and other criteria listed in this policy document does not guarantee the provision of TIF assistance nor does the approval or denial of one project set precedent for approval or denial of another project.

and all all a

What Type of Development is Eligible for TIF?

The type of development that the City of Racine will consider eligible for TIF funding includes:

- 1. Business development (attraction, retention, expansion). TIF assistance is based upon the project's impact on existing local markets and job creation.
- 2. Catalytic projects that provide positive impact to the community through the creation of jobs, economic development, and quality of life.
- 3. Mixed-use developments that creatively integrate commercial and retail projects into residential development.
- 4. Revitalization of historically significant buildings, deteriorated buildings, or functionally obsolete buildings.
- 5. Projects that promote Downtown or neighborhood district (Uptown, West Racine) residential or retail development.
- 6. Projects that promote neighborhood stabilization and revitalization.
- 7. Projects consistent with the approved TID project plans or approved redevelopment plans.
- 8. Projects that involve environmental cleanup, removal of slum or blighting conditions.
- 9. Projects that contribute to the implementation of other public policies, as adopted by the City in its strategic plans, such as the promotion of high quality architectural design, green development and infrastructure, or the provision of quality, affordable housing.

What Type of Development is Ineligible for TIF?

The City will not favor use of TIF funding to help support the following types of development:

- a. Relocation for a business (of any type) for purposes other than substantially expanding the business, expanding or retaining jobs;
- b. Projects that are not consistent with the Comprehensive Plan or a redevelopment plan or adopted TID Project plan.



What Project Expenses are Eligible for TIF?

TIF eligible expenditures are defined by Section 66.1105(2)(e) of Wisconsin Statutes, which the City of Racine may further limit on a project-by-project basis. The following are typical eligible costs:

- 1. Capital costs, including the actual costs of:
 - a. Construction of public works or improvements;
 - b. Construction of new buildings, structure or fixtures;
 - c. Demolition, alteration, rehabilitation, repair or reconstruction of existing buildings, structures, and fixtures other than historic buildings and structures;

in stales

- d. Acquisition of equipment, such as street furniture or lighting, to serve the district;
- e. Restoration of soil or groundwater affected by environmental pollution; and
- f. Clearing and grading of land
- 2. Real property assembly costs
- 3. Professional service costs (planning, architectural, engineering, and legal)
- 4. Relocation costs
- 5. Environmental remediation
- 6. Organizational costs (environmental and other studies, publication, and notification costs)
- 7. Development incentives in the form of loans or grants

What are the City's Policies on TIF Assistance?

All requests for TIF Assistance are reviewed against the following policies:

- 1. Eligible Costs. Any request for TIF assistance must meet the requirements for eligible project costs set forth in Wisconsin statutes and within the adopted TID project plan for the district.
- 2. **TIF Request Cap.** The total amount of requested assistance should not exceed 30% of the proposed total project costs. This cap may be waived if the project involves redevelopment of existing or historic structures or the assembly, brownfield clean-up, or clearance of land upon which existing structures are located. TIF assistance for land purchase or assembly is capped at 10% of fair market value of the land. There is no waiver of this cap.
- 3. **Minimum Developer Equity.** The developer must provide a minimum 15% equity of total project costs.
- 4. **Maximum Increment Sharing.** The maximum amount of generated annual tax increment that will be available to share with a developer is based upon the type of incentive that is requested. For "**pay-as-you-go**" annual cash incentive requests, up to 90% of the generated annual tax increment can be made available if financial need is demonstrated and there are no other public infrastructure projects planned in the district.



For **loans or bonds**, no more than 75% of the net present value of the tax increment generated by the private development will be made available.

Antehn al

- 5. **Payback Period.** Ten years is the maximum payback or payout period. If the project is catalytic in nature and if there is a convincing demonstrated need, the payback period for a loan could match the amortization period. In no case should the payback/payout period exceed twenty years or the statutory life of the TID, whichever is less.
- 6. **Self-Supporting Projects**. Each project requesting assistance should generate sufficient tax increment within property owned by the developer to cover the requested tax increment assistance and a portion of any public infrastructure costs planned within the district. The increment from other private development projects within the district should not be used to supplement another project's inability to generate sufficient tax increment to cover project costs.
- 7. Internal Rate of Return. The amount of assistance provided to a developer will be limited to the amount necessary to provide the developer a reasonable rate of return on investment. A reasonable rate of return is dependent on the project, but usually ranges from 12-15%. The developer's internal rate of return exceed 20% when subsidized by tax increment sharing, unless the project is in an unproven market or contains high risk potential.
- 8. **"But For" & Demonstrated Need.** The fundamental principal is that the project would not occur "but for" the assistance provided through the TID. The burden is on the developer to make a case for the City to provide an incentive. Should this "but for" determination not be made, TID financing/incentive cannot be recommended.
- 9. **Good Faith.** The City of Racine enters into negotiations for TIF Assistance for all qualified project in good faith and with the understanding that if an applicant is behind in taxes to the City or County or if there is lawsuit pending by the developer against the City of Racine, the City will not continue discussions or negotiations.

How are Agreements for TIF Assistance Structured?

Each project or development proposal that receives TIF Assistance will have a development agreement implemented between the City of Racine and the developer. The structure of the agreements includes:

- 1. TIF Assistance may be provided by the City of Racine as a "pay-as-you-go" annual assistance or by the proceeds of a bond using the tax increment to pay the bond. Requests for up-front financing (via a bond) may be considered on a case-by-case basis if the increment generation is sufficient to meet initial financing and debt service costs and is not the first dollars spent on a project.
- 2. Developer and property owner shall agree to pay all outstanding City of Racine and Racine County property tax bills prior to the disbursement of any pay-as-you-go annual payments by the City of Racine.



3. For "pay-as-you-go" annual tax increment incentives, the tax increment will be calculated as of September 30 of each calendar year. The incentive amount will be a percentage of the gross annual tax increment collected in such calendar year attributable to the gross annual tax increment produced by the project (on property within a TID owned by the developer) the immediately preceding calendar year

in adalat

- 4. The City of Racine will not provide mortgage guarantees.
- 5. The City of Racine will require a personal guarantee for receiving up front TIF assistance or bonding relating to TIF assistance. Amount and form will be in an amount acceptable to the City.
- 6. The developer agrees that if they challenge or protest the Assessors' determination of the property value to the Board of Review or Circuit Court for the property owned by developer for which the incentive is requested (anytime during the life of the development agreement), the developer will reimburse the City for all of the annual tax increment incentive that was paid to the developer during the year the assessment was challenged. Further, the developer will agree that the development agreement will, thereafter, be null and void.
- 7. The development agreement may contain a provision requiring the developer to provide financial data to the City (or its financial advisor), such as certified financial statements, rent roll, personal property list on an annual basis (and, as requested for situations like a sale of the property or a change to the project). These requirements are less likely to be required for "pay-as-you-go" incentives and more likely to be required for incentives that require that the City bond or provide upfront assistance.
- 8. The developer will ensure that "hard" project expenses indicated in the project pro formas are equal to the amounts equal to the City building permits issued for the project. We would expect that the certification of project expenses would occur by verifying the project costs listed on building permits. "Soft" costs can be verified through the provision of invoices to the City.
- 9. The City may require the applicant to submit an independent market analysis or assessment of specific market conditions.
- 10. All project must submit project pro formas to assist the City of Racine (or its financial advisor) in determining the market worthiness of the TID investment and the project's ability to meet a "but for" standard prior to the final approval of the development agreement by Common Council.
- 11. Fees for the review of TIF Assistance will be set as a percentage of the TIF Assistance request, calculated as 1% of assistance requested (e.g., \$100,000 TIF Assistance request x .01 = \$1,000 fee). The maximum fee will be \$25,000. The fee is based upon the City's costs to engage a financial advisor and legal counsel project reviews and due diligence checks. Small projects can be reviewed administratively by City staff with lower fees. Larger projects must be reviewed by third party consultants who advise the City on such matters. Fees must be paid at the time of application and are not refundable.



Exceptions to the TIF Policy

The City reserves the right to amend, modify, or withdraw these policies or require additional statements or information as deemed necessary. Any party requesting waiver from these policies may do so within the burden being on the developer/applicant to demonstrate that the exception to these policies is in the best interest of the City of Racine.

in states

Fee Schedule

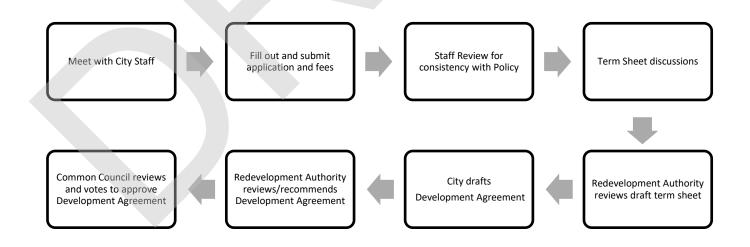
PAY AS YOU G	0	
TIF Request	Reviews	Fee
\$0-\$50,000	Administrative review Project proforma Analysis of financial need	\$25,000 or 1% of TIF Request, whichever is less.
\$50,000- \$100,000	Administrative review Project proforma Analysis of financial need Open files/docket review	
\$100,000-\$1M	Administrative review Project proforma Analysis of financial need Open files/docket review Judgement and lien search	
\$1M and above	Administrative review Project proforma (also a professional review) Analysis of financial need Open files/docket review Judgement and lien search Detailed internet search	
BONDING		
TIF Request	Reviews	Fee
Any Amount	Administrative Review Project proforma (also a professional review) Analysis of financial need Open files/docket review Judgement and lien search Detailed internet search Certified financial document review Bond counsel review	\$30,000 or 1.5% of TIF Assistance Request, whichever is less.



an stale in the

Process for Requesting TIF Assistance

- 1. Meet with the City Staff to review your project and ensure that the project minimally qualifies for TIF Assistance.
- 2. Fill out the TIF Application forms and submit a complete application, including fees.
- 3. The Department of City Development will review the application and create a staff report comparing the application to the TIF Policies of the City of Racine.
- 4. If the project meets the policies of the City, City staff will create a "term sheet" for consideration by the applicant.
- 5. If the parties agree to the term sheet, the Director of City Development will bring a term sheet agreement to the Redevelopment Authority for Consideration. The RDA will vote to direct staff to create a development agreement based upon the term sheet or will direct staff to develop a different term sheet.
- 6. The development agreement will be developed by the City of Racine and will be presented to the developer for their review.
- 7. One it is in final form, the agreement will be presented to the Redevelopment Authority for review and recommendation (to Common Council).
- 8. The development agreement will then be presented to the Common Council for their review and approval.



730 WASHINGTON AVENUE RACINE, WI 53403 WWW.CITYOFRACINE.ORG