Tax Incremental Financing – Use & Eligible Activities

Opportunity Zone Workshop

2/6/2019

Tax Incremental Financing in Wisconsin

- Since 1976 has been the most powerful economic development tool available to local government

- Intent:
  - Promote economic development and redevelopment
  - Address lack of other incentives and financial resources
  - Promote cooperation between public and private sectors
  - Counteract economic downturn (mid 70’s recession)

- Terminology
  - Tax Incremental Financing (TIF) – refers to the tool itself
  - Tax Incremental District (TID) – refers to the application of the tool in a specific area

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Why Create a TID

- Communities want to foster Economic Development and/or Redevelopment

- Communities want to add or enhance property values, create job opportunities and expand and enhance housing opportunities

- The "But For" Clause
  - Is there a Gap that needs to be filled to make the project happen/profitable?

TID Utilization

As of 12-31-17:

- 2,122 districts have been created since 1976.
- 869 districts have been dissolved.
- 1,261 active TIDs currently in existence.
- Over 420 communities in Wisconsin have used TIF (out of 593 Cities and Villages)

Statutory Procedures

- Plan Commission prepares Project Plan
- Convene Joint Review Board
  - Each taxing body represented
  - One member of the public appointed
- Public Hearing by Plan Commission or CDA
- City/Village Governing Body approval
- Joint Review Board approval
- State approval as to procedural matters

Flexibility

- Boundary Amendment
  - Limit of 4 allowed during life of district
  - May add and/or subtract property
  - Must be in compliance with 12% test to add territory to a district

- Project Plan Amendment
  - No limit to number allowed (except maximum expenditure period)
  - Used to amend list of TIF-eligible projects to be undertaken

Requirements for TID Creation

- Combination of increment value of existing TID(s) and proposed base value of new district(s) CANNOT exceed 12% of total Equalized Value

- At least 50% of land area in proposed TID is:
  - **Blighted**
  - In need of **Conservation/Rehabilitation**
  - In need of **Environmental Remediation**
  - Suitable and zoned for **Industrial** development
  - Suitable for **Mixed-Use** development as determined by any combination of:
    - Industrial
    - Commercial
    - "Qualifying" Residential (limited to 35% of total area newly platted)
  - Property must represent contiguous area and cannot extend beyond corporate limits

Mixed Use Districts – Density Test

- Expenditures can be made to newly platted residential development in a mixed use development if one of the following applies:
  - Density of residential housing is at least 3 units per acre
  - Residential housing located in conservation subdivision as defined in s.66.1027(1)(a)
  - Residential housing is located in a traditional neighborhood development as defined in s.66.1027(1)(c)

Eligible Project Costs

- Public works & improvements
- Financing costs
- Real property assembly costs (land write-down)
- Professional service costs
- Administrative costs
- Relocation costs
- Organizational costs
- Pro-rated costs of utility infrastructure
- Cash grants (requires developer agreement)
- Environmental remediation
- Projects with ½ mile of district

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Prohibited Project Costs

- Costs of constructing or expanding administrative, police, fire, community, recreational, library and school buildings
- Costs of constructing or expanding facilities if similar facilities are financed only with utility user fees
- General government expenses unrelated to the TIF district
- Costs associated with newly platted residential development (except in Mixed Use districts with “qualifying” residential)

When is the Communities Incentive Provided

- Beginning of project
  - Community becomes Equity Partner
- Throughout project
  - Pay As you Go (Project financed)
- Conclusion of project
  - Developer financed
- Question of who takes on the risk or how it is shared

City Funded TIF

- City issues debt or advances funding from other City funds to finance development incentives or pay for other tax increment eligible costs (example: infrastructure)

- City uses revenue generated by development in the tax increment district to repay City debt

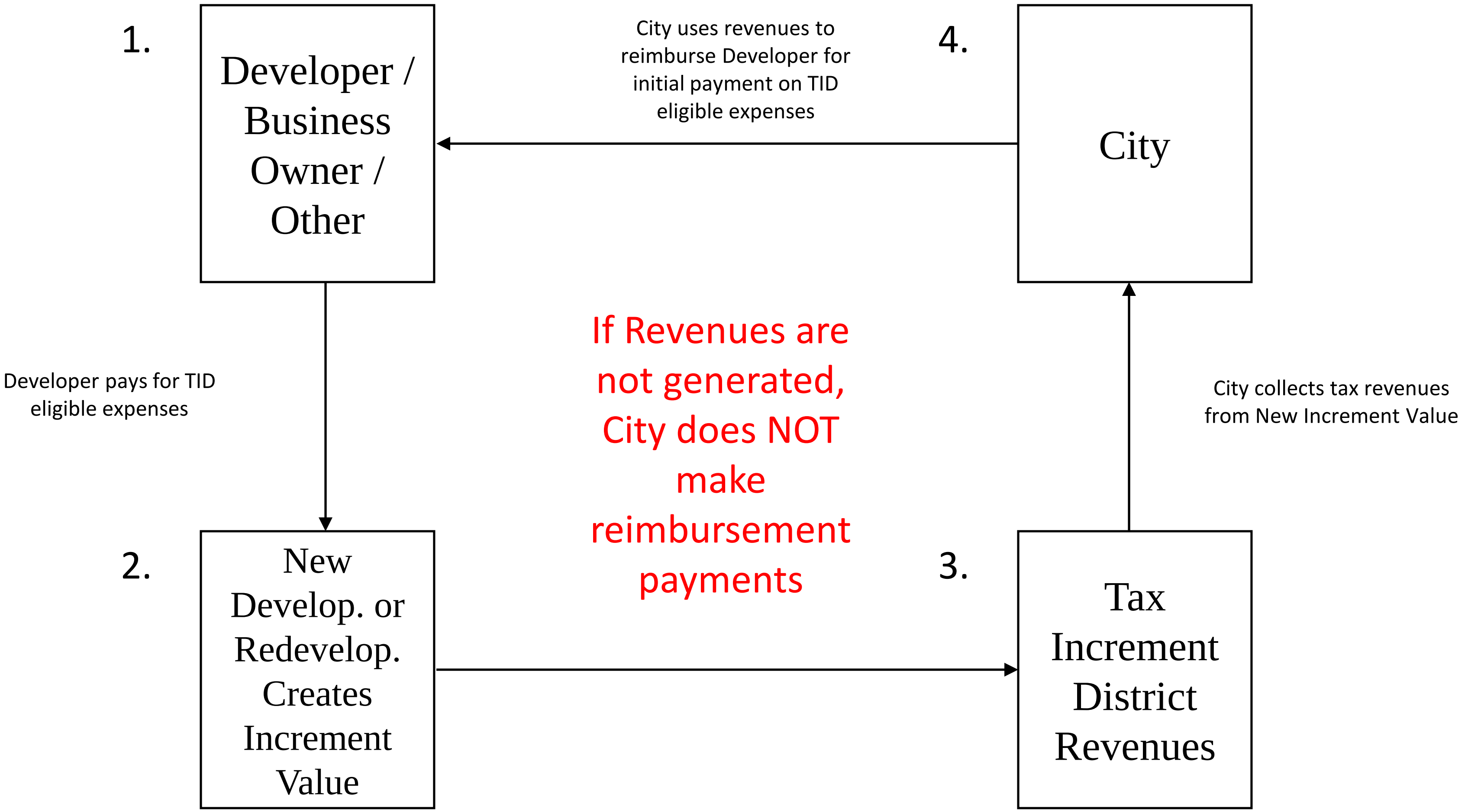
- Risk of insufficient revenues is the City's

- Development Agreement provisions can be used to mitigate some risk (Will discuss in more detail later)

Pay as You Go / Tax Increment Revenue Bonds

- Developer funds project costs up front
- City agrees to return tax increment revenue paid from new development
  - Amount
  - Term
  - Subject to annual appropriation
  - Payment dependent on revenue being available, no revenue – no payment
- Shifts risks of insufficient revenue to repay debt from City to Developer while still allowing for the use of TIF to incentivize a project
- Some projects require up front City contributions

"Pay as You Go Model"



Frequently Asked TIF Questions

- Is TIF a tax break?
  - Properties within a TIF District pay the same tax rate as properties outside the district. The difference is how the tax revenue is distributed.

- Is TIF only for blight elimination?
  - This was one of the primary historical intents of TIF, but the law has expanded the permitted uses for TIF.

- Does the TID change the zoning for property?
  - No. The TID does not change existing zoning already in place.

- Does the TID make it easier for the municipality to use eminent domain?
  - No. The process identified within State Statutes for eminent domain is the same whether a property is within a TID or outside a TID.

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