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
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 $\frac{1}{2}$ mile of district
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”

1. Developer / Business Owner / Other

2. New Develop or Redevelop. Creates Increment Value

3. Tax Increment District Revenues

4. City

- City uses revenues to reimburse Developer for initial payment on TID eligible expenses

- Developer pays for TID eligible expenses

If Revenues are not generated, City does NOT make reimbursement payments

City collects tax revenues from New Increment Value
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.
Philip Cosson
Senior Municipal Advisor/Chairman

262-796-6161
pcosson@ehlers-inc.com