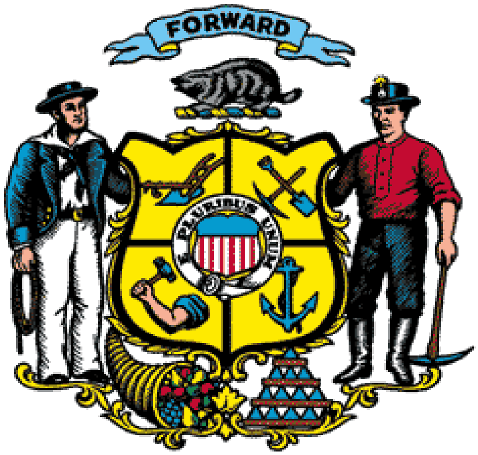
EHLERS

LEADERS IN PUBLIC FINANCE

Sun Prairie Opportunity Zone Forum

Tax Incremental Financing

Tax Incremental Financing



- Original program created by the State Legislature in 1975
  - Recognized the challenges associated with stimulating economic development
  - Means to require cost participation amongst all taxing jurisdictions that ultimately benefit from increased property values
  - **Most powerful economic development tool available to local government**

Tax Incremental Financing

- Terminology
  - Tax Incremental Financing (TIF) – refers to the tax capture financing mechanism used to fund projects
  - Tax Incremental District (TID) – refers to the specific geographical area where the tool is applied

Tax Incremental Financing

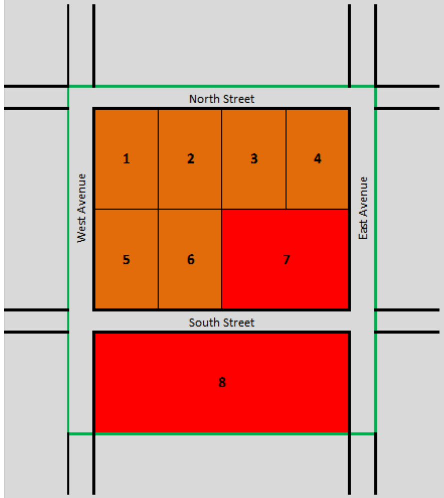
- Utilization
  - $21 billion in incremental property value located within TIDs as of January 1, 2018 (about 3.8% of all property value in state)
  - 1,261 TIDs currently in existence
  - 417 communities, or about 70% of all cities and villages currently have at least one active TID

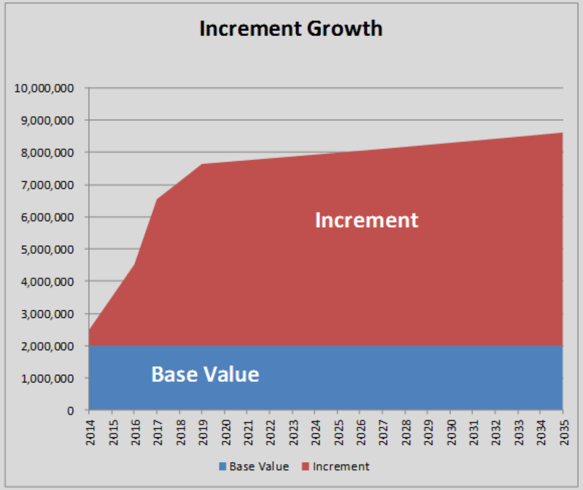
TIF Mechanism Overview

- Community undertakes projects to attract and facilitate development or redevelopment, such as:
  - Installation or rehabilitation of public infrastructure
  - Acquisition of land
  - Payment of development incentives
- Community investment is repaid over time by capturing the increased property tax revenue generated within the TID

TIF Mechanism Overview

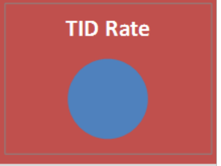
How a TID Functions and Generates Revenue





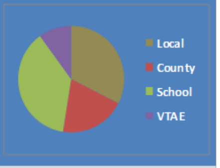
The TID receives taxes on the incremental equalized value (value that is greater than the base established by the DOR) at the combined rate of all taxing entities.

	Mill Rate
Local	6.50
County	4.00
School	7.50
VTAE	2.00
TID Rate	20.00



All taxing juridictions continue to receive their share of the tax levy on the equalized base value of the TID (certified by the DOR)

	Mill Rate
Local	6.50
County	4.00
School	7.50
VTAE	2.00
Total	20.00



Boundary of TID area established by Community
Base Value of area established and certified by DOR

Base value is "frozen." Appreciation is added to the Increment value.

The Joint Review Board (JRB)

- Since TIF diverts tax revenues from other jurisdictions, a JRB is formed and must grant final approval
- JRB Membership
  - School Board President or designee
  - County Executive, County Board Chair or designee
  - City Manager or designee
  - Tech College Director or designee
  - Public member (selected by other four)

The "But For" Test

- Standard applied by the JRB, and key underpinning of the TIF program
- **"But for"** the use of TIF, the proposed development would not occur:
  - as proposed
  - within the same time frame
  - with the same level of value

TID Approval Process

- Feasibility study
- Initial JRB meeting
- Plan Commission meeting
  - Public hearing
  - Approve project plan and boundaries
- Governing body approval
- Final JRB meeting
- Submittal to Dept. of Revenue/State review & certification

Determining TID Boundaries

- Properties must be contiguous (whole parcels only)
- Equalized valuation test
  - Equalized value of all real and personal property proposed to be included in the TID ("base value") may not exceed12% of the city's total equalized value
  - The incremental value of any existing TIDs is also considered (base value of proposed TID plus the incremental value of existing TIDs may not exceed 12%)

Determining TID Type

- At least 50% of land area in proposed TID is:
  - A **Blighted Area**
  - In need of **Conservation or 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 and residential land uses

Eligible Project Costs

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

Residential Development in TIDs

- TIF financing for residential development generally prohibited – two exceptions:
  - Redevelopment project in a **Blighted Area** TID, **Environmental Remediation** TID or a TID in need of **Conservation or Rehabilitation**
  - Residential development in **Mixed Use** TID
    - Limited to 35% of TID area if newly platted
    - Minimum density of 3 units/acre, or located in a conservation subdivision or traditional neighborhood development

Financing Project Costs

- Costs paid by municipality
  - Tax increments collected used to pay debt service or to repay advances from other funds
- Costs paid by developer
  - Tax increments collected used to reimburse developer over time (“pay as you go”)
- Question of who assumes the risk, or how risk is shared
- Process of negotiation

Recap

- TIF can be leveraged to pay public or private development costs
- Not an entitlement – must demonstrate “but for”
- How and when TIF assistance is provided is deal specific