TAX INCREMENTAL FINANCING (TIF) DISTRICTS

1.1 What is TIF?

Basic Function of TIF

Tax Incremental Finance (TIF) is a financing tool that allows municipalities to invest in infrastructure and other improvements, and pay for these investments by capturing property tax revenue from the newly developed property. An area is identified as the tax incremental district (TID) as appropriate for a certain type of development, and projects are identified to encourage and facilitate the desired development. Then as property values rise, the property tax paid on that private development is used by the municipality to pay for the projects. The tax paid to the schools, county and technical college districts (the overlying taxing jurisdictions) is also used by the municipality to pay for the improvements. After the costs of the projects are paid off, the TID is closed and the value of all the new development gets shared by the municipality, schools, county and technical college as it does for other property.

The way TIF is used varies from project to project, and from place to place. In some cases, the municipal governing body will choose an area they would like to see developed, or that is unlikely to develop without assistance. They then design improvements, such as roads, sidewalks, sewer systems, etc., that will attract growth. In other cases, a developer or company will identify a site where they might like to locate, and as part of negotiations with the municipal body, TIF will be used to fund some improvements, such as demolition, soil clean up, roads, water, etc., that the developer would like. Either way, an area that faces development challenges gets help to grow, providing a larger tax base for the municipality and the overlying taxing jurisdictions. In Wisconsin, when the tax base grows and spending is stable, tax rates and tax bills are expected to go down, decreasing the property tax burden for everyone.

> **Please Note:** One of the key foundations for the use of TIF is the "but for" test. As part of <u>all</u> creation resolutions, a municipality must find that the desired development would not happen but for the use of TIF; they have to believe that without TIF the development would never happen on its own. This is very important to making sure that TIF assists development projects that need help, but that it isn't a give-away of tax dollars to private developers or property owners.

Background of TIF Law

Wisconsin adopted TIF legislation in 1975 in response to the challenges of eliminating blighted areas in depressed urban areas. At that time interest rates were high, making government borrowing relatively expensive, and that made investment in infrastructure and redevelopment unattractive. Also, the cost of redeveloping blighted areas is high compared to development in open areas. This is due to demolition, alteration, remodeling or repairing existing buildings, removing environmental contamination from soil or groundwater, or site assembly, to name a few. Furthermore, if a municipality wanted to expand their local tax base, the cost of doing so would be paid by them alone, while the overlying taxing jurisdictions would reap the benefits of the growth. The Legislature saw this situation as inequitable, and saw TIF as a way to remedy the problem because of the cooperation it requires among local units of government.

Since it was first adopted in 1975, several major changes have been made. These changes have tended to expand the ways that TIF can be used, and have increased the involvement of the overlying taxing jurisdictions and local residents. Changes in the last several years have had a very significant impact on how TIF can help municipalities grow. See Section 1.4 for recent Acts.

As of June 1, 2014 there were 1,143 active TIDs.

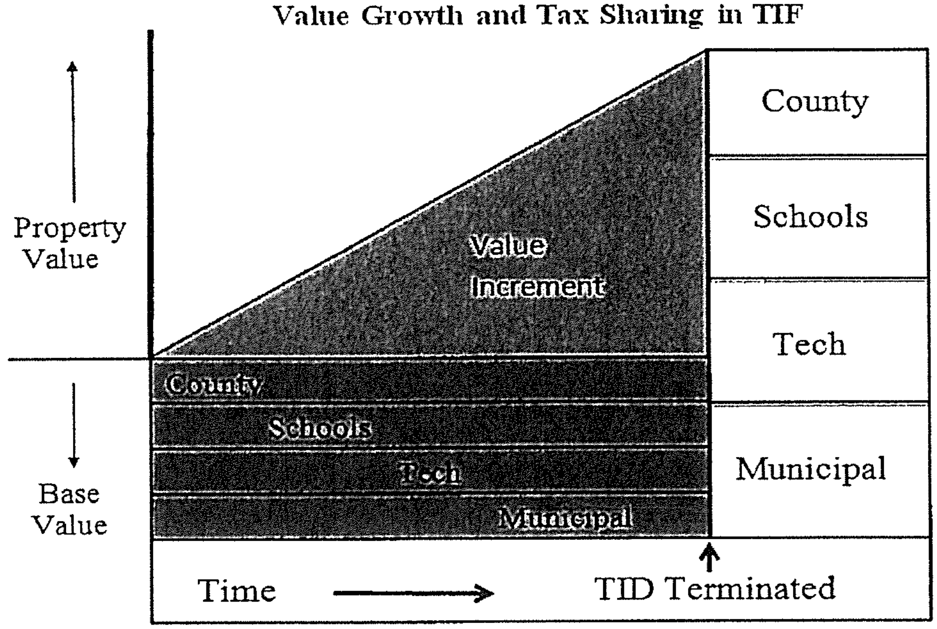
Section 1.3 provides a more in-depth, statistical look at these trends.

1.2 How does TIF work?

Tax Incremental Finance (TIF) generates tax revenue that can only be used to fund infrastructure investment and other eligible projects that will facilitate private development. Here's the explanation:

Sharing the Tax Base

Value Growth and Tax Sharing in TIF



When a Tax Incremental District (TID) is created, the current value of all the taxable property within the defined boundaries is established. This value is the "base value" of the TID (the base value in the graph is made up of the four blue stripes along the bottom). The taxes collected on this portion of the property value are shared by the overlying taxing jurisdictions, and once the TID is created this portion of the tax collections is allocated as it always has been. In this example the county, school, technical college and municipality split revenues on the base value. In areas with special taxing districts – like a sanitary district or lake rehabilitation district – this would appear in the graph as one more stripe along with the other four mentioned.

> **Please Note:** This discussion of how TIF works is dependent on the "but for" concept, explained fully in <u>section 5.1</u>.

Over the life of the TID, the county, school, technical college and municipality (and special district where applicable) all collect taxes from the property in the TID base. Meanwhile, new construction and investment increase the value of the property. All of the taxes collected on the growth in value of the property (or the "value increment") are turned over to the City as "tax increment" revenue. The City uses this revenue stream only to pay for the improvements that it made to the property in the TID that are in the approved project plan.

At the end of the maximum life period, or as soon as tax increments are collected in excess of total approved project costs, the TID must be terminated. The entire value of the property that was in the TID is returned to the tax rolls of the overlying taxing jurisdictions. In the graph this can be seen in the band along the right side – the wider segments represent that more property value is being subject to taxes.

Please Note: If the total tax increment revenue exceeds the total project costs, the surplus revenue must be returned to the overlying taxing jurisdictions in proportion to their respective tax levy without TIF.

While the TID exists, the tax collections for each overlying jurisdiction are limited to the base value of the TID parcels. After terminating the TID, all of the overlying taxing jurisdictions share in a much larger tax base. This means that rates can be lowered to generate the same amount of revenue for the jurisdiction. Had no development occurred, the base value would have been the only value for each of the jurisdictions to tax, so partnering to facilitate development helps all of the overlying districts get a larger tax base, and spreads the risks of development.

Calculating the Tax Increment

The Tax Increment Worksheet (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. The following is an example of this calculation.

For the purposes of this example, assume that the entire county is made of four municipalities: Alpha, Bravo, Copper and Downer. This means the equalized value of the county is the same as the combined value of the four municipalities. The county levy equals $1,500,000. Only Alpha has a TID. The values of the municipalities and the TID are as follows:

Municipality	TID IN Equalized Value
Alpha	*$400,000,000
Bravo	$70,000,000
Copper	$20,000,000
Downer	$10,000,000
Total (County)	*$500,000,000

Alpha TID #1

Base Value	$20,000,000
Current Value	$50,000,000
Increment Value	$30,000,000

*Includes Increment Value

The first step is to calculate what share of the county value each municipality comprises. This is done using "TID OUT" values of the municipalities and the county (these are the equalized values listed above minus any value increment they might include; for example Alpha's TID OUT value is $370,000,000). Dividing the municipal TID OUT value by the county TID OUT value equals the percent of the county's value that a municipality has (for Alpha, $370,000,000/$470,000,000 = 79%). This percentage is then multiplied by the total county levy to figure out how much of the total each municipality must collect. These are called the "Municipal Apportioned Tax or municipal apportioned levy from the county.

Next, the county apportionment rate on each municipality must be calculated. This is done by dividing the municipal apportioned tax by each municipality's TID OUT equalized value [for Alpha, (.79 * $1,500,000)/$370,000,000 = .0032, or 3.2 mills]. This mill rate is then multiplied by the TID IN equalized value of each municipality to get the total county taxes each municipality will collect (for Alpha, .0032 * $400,000,000 = 1,280,000). This value will include both the levy due to the county and the county's share of the tax increment that is due to Alpha. Alpha will collect the tax increment and retain that portion of the county levy in the TID #1 account.

NOTE: When a municipality has no TIDs, the TID OUT and TID IN values are the same for that municipality (as was the case for the other three municipalities), so 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, meaning that every taxpayer in the county pays a higher rate when there are TIDs in order to generate the increment that must be paid to the municipality that operates the TID. This cost is shared by all taxpayers in the county because they will all share in the expanded tax base once the TID is closed.

A more complete version of this example calculation is available at the end of the publication titled "Tax Incremental Finance: An Intergovernmental/Private Partnership".

Tax Incremental District (TID) Criteria Matrix

	Existing TID's	Blighted or Rehabilitation/ Conservation TIDs		Industrial or Mixed-Use TIDs		Town TIDs	Environmental Remediation (ER) TIDs
Creation Resolution date	Before Oct. 1, 1995	After Sept. 30, 1995 but before Oct. 1, 2004	After Oct.1, 2004	After Sept. 30, 1995 but before Oct. 1, 2004	After Oct. 1, 2004	After Oct. 1, 2004	After Oct. 14, 1997
Expenditure period (yrs. before maximum life)	22 yrs. (6)(am) 1.			18 yrs. (6)(am) 1.	15 yrs. (6)(am) 1.	5 yrs. (6)(b) 1.	15 yrs. (2)(b)
Maximum life before extensions	**27 yrs.** (6)(a)2.	**27 yrs.** (6)(a)4.	**27 yrs.** (6)(a)8.	**23 yrs.** (6)(a)4m.	**20 yrs.** (6)(a)7.	**16 yrs.** (6)(a) 2.	**23 yrs.** (1)(i)
Extensions allowed	No	+ 4 yrs. (7)(am)1.	+ 3 yrs. (7)(am) 3.	No	+ 3 yrs. (7)(am) 2.	No	No
Maximum Life, if extension granted	27 yrs.	31 yrs.	30 yrs.	23 yrs.	23 yrs.	n/a	n/a
$1,000 fee required for Creation or Territory Amendment	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Application due to DOR	n/a	October 31				December 31	December 31
Written notice of termination sent to DOR	Within 60 days of termination resolution (8)(a)					Within 10 days of termination resolution (10)(a)	Within 10 days of termination resolution (12)(a)
Final accounting to DOR after termination	DOR form PE-110 (TID Final Accounting Report) and Excel file <u>or Final Audit Report</u> by agreed date (8)(c)					Feb. 15 of yr. after term. (10)(c), **plus** an annual accounting due May 15	Not later than 180 days (10)(d)
Overlaps allowed	Yes (10)	Yes (10)	Yes (10)	Yes (10)	Yes (10)	Yes (12)	No
Annexation restrictions	Just prior to creation or amendment	Just prior to creation or amendment	Yes (4)(gm)1.	Just prior to creation or amendment	Yes (4)(gm)1	Yes (17)	Yes (13)
Base Value Redetermination allowed	Yes (4m)(a)	Yes (4m)(a)	Yes (4m)(a)	Yes (4m)(a)	Yes (4m)(a)	No	No
Limitation restrictions	12% - denial (4)(gm) 4.c.					5% & 7% - denial (3)(h) 5.d.	None
Number of territory amendments	Up to four (4) times by subtracting or adding territory (or both) (4)(h)2.					Once during first 5 yrs. - no more than 2 yrs. expenditure (3)(j)2.	None
Municipal owned Real Property included in base unless Municipal Used (5)(bm)(c),(d)	No	Yes (5)(bm),(c), (d)	Yes (5)(bm),(c),(d)	Yes (5)(bm),(c),(d)	Yes (5)(bm),(c),(d)	Yes (3)(L)	No
Tax Increment Allocations	See <u>Allocation Fact Sheet</u>						
Statute reference	Sec. 66.1105 and sec. 60.23					Sec. 60.85	Sec. 66.1106.

TIF Example

MUNICIPALITY ABC - Creates TIF #1 - January 1, 2020

		Property Value	Cumulative Property Value Increase	Property Taxes Levied ($25 per Thousand)	Property Taxes Go To
Base Value - January 1, 2020		**5,000,000**		**125,000**	**Schools, Municipality, FVTC, County**

MUNICIPALITY ABC - Takes out **$2,600,000** to Finance infrastructure improvements
Developer XYZ moves into the TIF and adds new construction/improvements

Added Value	2021	-	-	-	Municipality to repay Debt
Added Value	2022	1,000,000	1,000,000	25,000	Municipality to repay Debt
Added Value	2023	1,000,000	2,000,000	50,000	Municipality to repay Debt
Added Value	2024	5,000,000	7,000,000	175,000	Municipality to repay Debt
Added Value	2025	-	7,000,000	175,000	Municipality to repay Debt
Added Value	2026	-	7,000,000	175,000	Municipality to repay Debt
Added Value	2027	-	7,000,000	175,000	Municipality to repay Debt
Added Value	2028	1,000,000	8,000,000	200,000	Municipality to repay Debt
Added Value	2029	1,000,000	9,000,000	225,000	Municipality to repay Debt
Added Value	2030	5,000,000	14,000,000	350,000	Municipality to repay Debt
Added Value	2031	-	14,000,000	350,000	Municipality to repay Debt
Added Value	2032	-	14,000,000	350,000	Municipality to repay Debt
Added Value	2033	-	14,000,000	350,000	Municipality to repay Debt
Total Added Values/Taxes		14,000,000	14,000,000	**2,600,000**	Municipality to repay Debt
END of TIF, December 31, 2033		19,000,000		475,000	Schools, Municipality, FVTC, County Goes back on Full Tax Roll
Increase due to TIF		**14,000,000**		**350,000**	

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Outagamie County Board Rules

county department, board, committee, commission, division or agency which is within the budgetary/policy purview of such committee.

c. Annually determine within the resources provided by the County Board which county departments, programs, operations, activities or functions should be subjected to fiscal and performance evaluations or audits and ensuring any such audit be conducted in accordance with government auditing standards.

(13) Claims with an actual value of less than $10,000.00 may be denied by the County Finance Committee with no County Board approval required; claims with an actual value of $10,000.00 or more will require County Board denial after review by the Finance Committee.

(14) Approve all county imposed rates or fee changes proposed in the annual budget and recommend adoption of these rates/fees to the County Board as part of the budget process. Rates/fees not approved during the annual budget process shall be brought before the Finance Committee for approval and the Finance Committee shall draft a resolution for County Board approval.

Sec. 2-164. - Tax incremental district.

The Finance Committee shall recommend to the County Executive that the County Finance Director be appointed to any Tax Incremental District Review Board created in the county. Upon attendance at the initial review Board meeting, it is requested that the Finance Director present the tax incremental district plan for the Finance Committee review.

Sec. 2-165. - Committee to request vote regarding formation of district.

After review and prior to the second Tax Incremental District Review Board meeting, the Finance Committee shall develop an advisory resolution for presentation to the County Board which shall request that the county representative to the Tax Incremental District Review Board vote either in favor or against the formation of the tax incremental district.

Sec. 2-166. - Budgetary and policy jurisdiction.

The budgetary and policy jurisdictions of the Finance Committee shall be as follows:

(1) County Executive.
(2) County Clerk.
(3) Election.
(4) County Treasurer.
(5) Tax listing.
(6) Tax deed expense.
(7) Real estate tax on property.
(8) Financial services.
(9) Insurance property and liability.
(10) Special audit and accounting.
(11) Management information services.
(12) Reprographics and mail.
(13) Imaging and Records Center.
(14) Dental insurance fund.
(15) University of Wisconsin Fox Valley Center.
(16) Care of veteran's graves.
(17) Interest income.
(18) Tax revenues.
(19) Reserve for contingencies.
(20) General fund applied.
(21) General fund, capital projects fund.
(22) Debt service.
(23) Department maintenance and three-year plan items.
(24) Historical Society.
(25) Outagamie Waupaca Library System.

2019 BUDGET
OUTAGAMIE COUNTY
COMPARISON OF TID VALUE INCREMENTS
BY MUNICIPALITY

MUNICIPALITY	TID #	BASE TID YEAR	Possible Closure Date	BASE TID YEAR VALUE	2018 CURRENT VALUE	DOLLAR INCREASE
TID DISTRICT						
FREEDOM - T	1A	2016	2043	1,993,600	2,101,000	107,400
FREEDOM - T	2A	2017	2044	11,728,400	11,650,900	*
GRAND CHUTE - T	1A	2015	2042	7,700	16,949,900	16,942,200
GRAND CHUTE - T	2A	2016	2043	14,875,600	40,558,800	25,683,200
GRAND CHUTE - T	3A	2017	2044	14,733,400	15,212,100	478,700
GREENVILLE - T	1A	2017	2044	11,510,500	11,288,900	*
BLACK CREEK - V	2	1993	2020	2,112,700	17,673,300	15,560,600
COMBINED LOCKS - V	1	2005	2032	267,700	2,011,500	1,743,800
COMBINED LOCKS - V	2	2015	2042	15,736,800	13,471,300	*
HORTONVILLE - V	2	2000	2027	846,800	14,268,700	13,421,900
HORTONVILLE - V	3	2013	2040	487,700	6,079,900	5,592,200
HORTONVILLE - V	4	2017	2044	510,300	883,700	373,400
HORTONVILLE - V	5	2017	2044	522,700	491,900	*
KIMBERLY - V	4	2005	2032	778,200	10,128,400	9,350,200
KIMBERLY - V	5	2008	2035	11,345,100	44,038,000	32,692,900
KIMBERLY - V	6	2016	2043	13,918,500	13,759,100	*
LITTLE CHUTE - V	4	2007	2034	3,413,400	51,900,200	48,486,800
LITTLE CHUTE - V	5	2013	2040	11,735,700	30,198,200	18,462,500
LITTLE CHUTE - V	6	2016	2043	1,151,700	43,372,000	42,220,300
WRIGHTSTOWN - V	3	2015	2042	1,794,100	17,304,600	15,510,500
WRIGHTSTOWN - V	4	2016	2043	1,087,500	904,000	*
APPLETON - C	3	1993	2020	18,940,800	66,625,000	47,684,200
APPLETON - C	8	2009	2036	6,135,100	50,720,000	44,584,900
APPLETON - C	9	2013	2040	21,512,900	22,337,500	824,600
APPLETON - C	10	2013	2040	24,543,900	24,196,200	*
APPLETON - C	11	2017	2044	83,099,200	90,259,800	7,160,600
APPLETON - C	12	2017	2044	22,974,900	22,689,200	*
KAUKAUNA - C	4	2000	2027	16,049,300	18,565,000	2,515,700
KAUKAUNA - C	5	2003	2030	1,077,900	1,954,300	876,400
KAUKAUNA - C	6	2006	2033	3,151,700	43,656,000	40,504,300
KAUKAUNA - C	8	2013	2040	2,571,200	7,749,500	5,178,300
KAUKAUNA - C	9	2016	2043	1,306,600	1,938,700	632,100
SEYMOUR - C	3	2001	2028	4,829,900	22,821,300	17,991,400
SEYMOUR - C	4	2011	2038	5,657,100	10,502,900	4,845,800
KAUKAUNA - C	01E	2005	2032	32,800	4,063,100	4,030,300
NEW LONDON - C	01E	2001	2028	14,100	732,100	718,000
TOTAL				332,455,500	753,057,000	424,173,200

* - This district has a zero or negative value increment, no increment shown.

Finance Committee Review of TIFs

Noted below are some of the main items the Finance Committee reviews as they determine what recommendation to make to the full County Board.

- Percentage of new growth residential – should be secondary to support development and business creation
- Incentives – Developer incentives should be pay-as-you go. Generally in the form of tax credits. Only paid if development occurs.
- Expenditures do not include costs that the County feels are municipal responsibilities. Examples, parks, some infrastructure.
- Number of years to possible be able to close.
- "But for" wording – Would development occur "but for" the creation of the TIF?

TIF Impacts on County

Growth in TIF's are part of County's Net New Construction Calculation

		Valuation/Amounts	
For 2019 Budget			
Growth in TIF's Valuations - From Base Year			
2019		$ 424,173,200	
2018		302,451,900	
Increase - TIFs Valuation from 2018 to 2019		121,721,300	
Estimated Increase due to New Construction in TIFS	41% of Increase (2.016/4.83)	49,905,733	Estimated 16% of Total Net New Construction Attributable to growth in TIFS
(Remaining 59% is Economic Value Increase)			
Total County Net New Construction for 2019 Budget		304,145,400	
Increase in Levy Limit for Net New Construction		1,306,726	
Estimated Increase % Due to Net New Construction in TIF's		16%	
Estimated Increase Amount Due to Net New Construction in TIF's		$ 209,076	

ASSUMPTION - Net New Construction in TIF's would not have happened without the formation of the TIF

"County" Share of Taxes currently residing in TIFs		
2019 Total TIF Valuation Increase from Base Year	$	424,173,200
County Tax Rate - 2019 Budget		4.765
Total "County" Share of Taxes Collected in TIF that go to TIFS and not the County	$	2,021,185.30

Increase in Levy Limit **IF all TIFS would close this year**		
2019 Total TIF Valuation Increase from Base Year	$	424,173,200
Total 2019 Valuation		15,176,940,000
Percentage		0.027949
50%		0.013974
County Tax eligible in Calculation		63,798,781
Increase in Levy Limit in dollars	$	891,541

Equivalent of $891,541 in County 2019 Budget		
Estimate of STEP PROGRAM - Was not included in 2019 budget	$	600,000
Estimate of 1% Across the Board Pay Increase	$	650,000

Estimated Overall County Tax Rate Impact **IF all TIFs would close this year**	Current	IF TIFS CLOSED	Change
2019 County Valuation Without TIFs	$ 15,176,940,000	$ 15,601,113,200	$ 424,173,200
2019 County Levy With Above Increase of $891,541	72,319,022	73,210,564	-
Rate Per Thousand	4.765	4.693	-0.072
			-1.52%

Impact on Average Property Tax Owner			
Residential House Valuationn	$ 168,001	$ 168,001	$ 168,001
Tax Rate	4.765	4.693	0
County Share of Taxes	800.52	788.43	-12.10
			-1.52%

DARK STORES IMPACT

As Dark Stores Properties within TIF Districts are allowed to reduce their valuations, it requires the TIFS to stay open longer rathing than closing.

See Below for Impact on example TIF #123:

	Current TIF #123	Reducton Due to Dark Stores	Difference
Valuation	$ 10,000,000	$ 10,000,000	$ -
Dark Stores Reduction		(1,000,000)	(1,000,000)
Net Valuation	10,000,000	9,000,000	(1,000,000)
Tax Rate per Thousand	20.00	20.00	
Annual Taxes Collected	200,000	180,000	(20,000)
			-10.00%
TIF Expenditures	4,000,000	4,000,000	-
Years to Recover Costs	20	22	2

TIF may have to stay open an extra 2 years