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Tax Increment Financing Basics

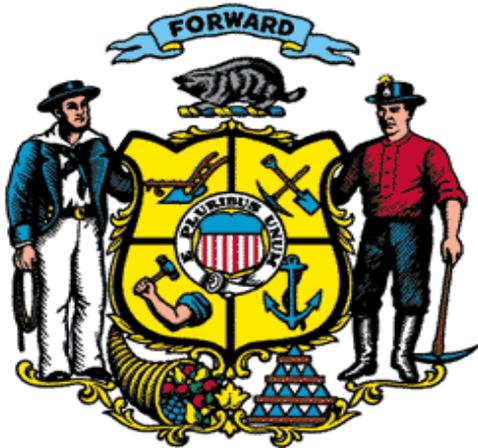


Overview

- TIF program history
- Basic TIF rules
- Approval process
- Sample cash flow



TIF Program History



- 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

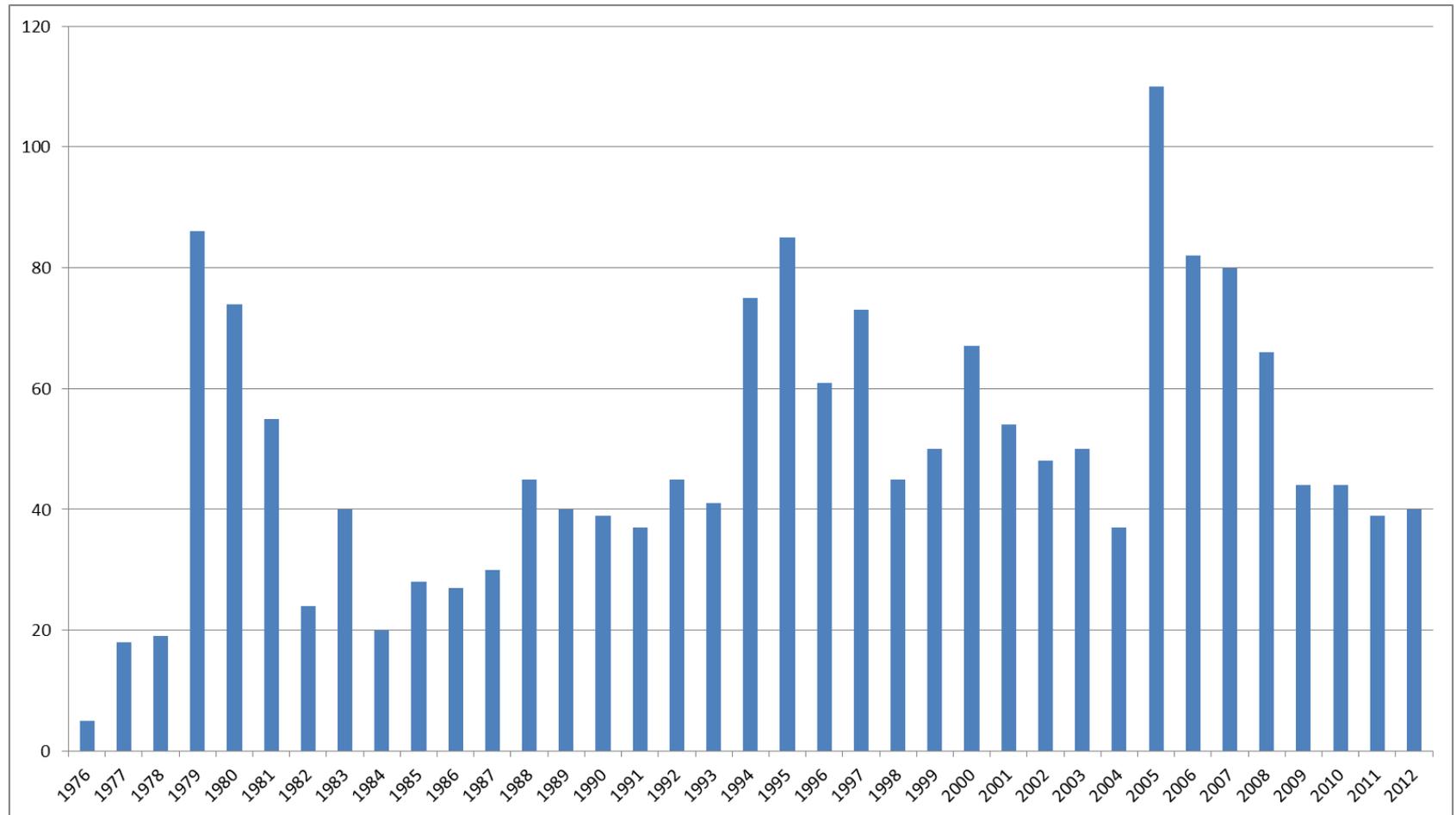


TIF Program History

- Utilization
 - 1,823 districts have been created since 1976
 - 702 districts have been dissolved
 - 1,126 active TIDs currently in existence
 - 414 communities in Wisconsin have used TIF



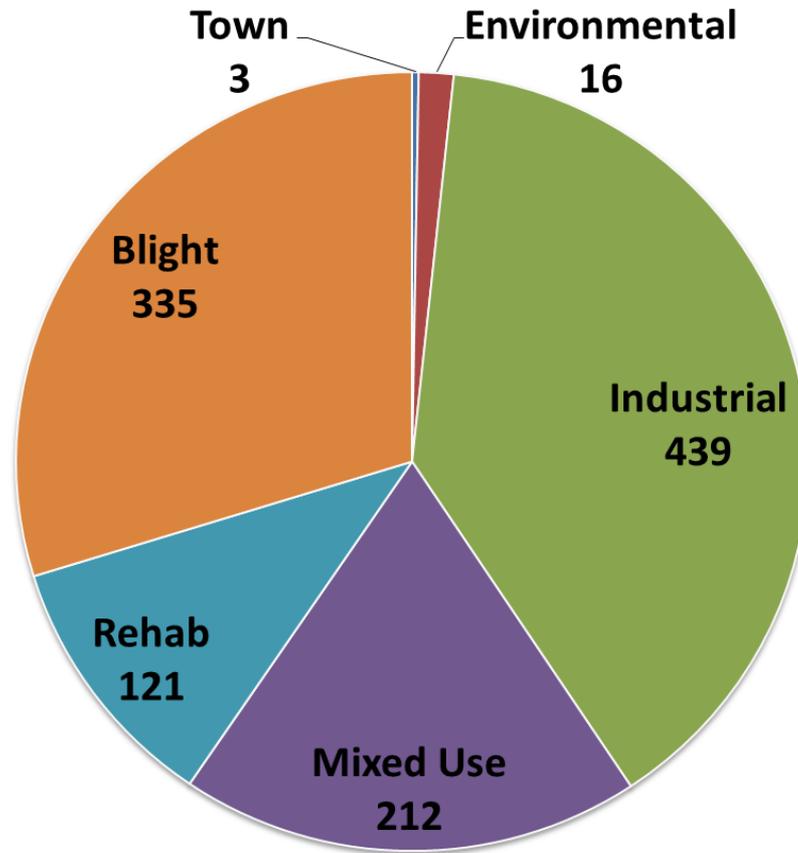
TIF Program History



TID Creations 1976 - 2012



TIF Program History



What is Tax Increment Financing?

- An economic development financing tool
- Community undertakes projects to attract and facilitate development and/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 District

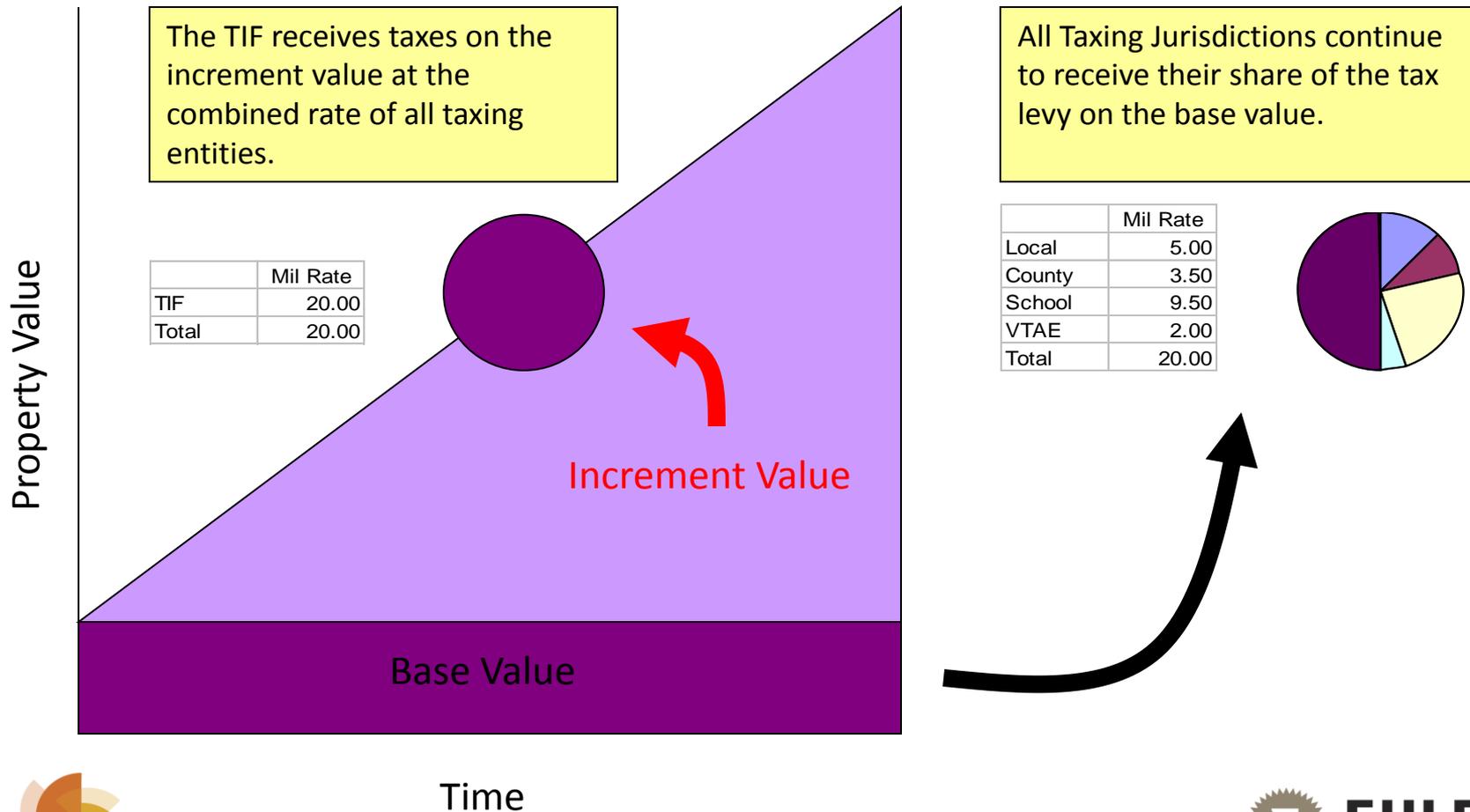


What is Tax Increment Financing?

- Key acronyms:
 - TIF = Tax Increment Financing (the tool)
 - TID = Tax Increment District (where the tool is used)
- **How it works....**



Tax Increment Financing – How it Works



Basic TIF Rules – The “But For” Test

- Key underpinning of the TIF program is referred to as the “but for” test
 - “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
- Joint Review Board must make a “but for” finding before the TID creation process can occur



Basic TIF Rules – Determining 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 exceed 12% 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%)



Basic TIF Rules – District Types

Type	Max Life	At Least 50% Of Proposed District Area Must Be	Newly Platted Residential	Vacant Land Allowable
Mixed Use	20 Years	suitable for a combination of industrial, commercial and residential uses	Max 35%	No Restriction
Industrial	20 Years	zoned and suitable for industrial development as defined in Wis. Stats. § 66.1101	Not Allowed	No Restriction
Blighted Area	27 Years	blighted as defined in Wis. Stats. § 66.1105(2)(a)1.	Not Allowed	Max 25%
Conservation or Rehabilitation	27 Years	In need of conservation or rehabilitation as defined in Wis. Stats. § 66.1337(2m)(a)	Not Allowed	Max 25%



Basic TIF Rules – More on Mixed-Use Districts

- Newly platted residential must also meet one of the following:
 - Density at least 3 units per acre
 - Conservation subdivision as defined in Wis. Stats. § 66.1027(1)(a) – compact lots and common open space, natural features of land are maintained
 - Traditional neighborhood development as defined in Wis. Stats. § 66.1027(1)(c) – compact, mixed-use neighborhood where residential, commercial and civic buildings are within close proximity to each other



Basic TIF Rules – Expenditure Period

- Maximum time period TID can incur expenses related to project plan
- Five years shorter than the maximum unextended life
 - 15 years for a TID with a 20 year maximum life
 - 22 years for a TID with a 27 year maximum life
- Certain payments can made beyond expenditure period
 - Project cost debt service
 - Repayment of advances or other liabilities



Basic TIF Rules – 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



Basic TIF Rules – 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 where the density test has been met)



Basic TIF Rules – Maximum Life

- A district may remain open until the earliest of the following occurrences:
 - The district's maximum life is reached, which varies by type of district (either 20 or 27 years)
 - When total tax increments collected are sufficient to pay all of the district's project obligations
 - When the city passes a resolution to close the district
- TIDs created after October 1, 2004 are eligible for a three year extension to their maximum life



Basic TIF Rules – Maximum Life

- At closure:
 - Remaining funds distributed proportionately to taxing jurisdictions, OR
 - Any unreimbursed project costs become general liability of the municipality



Basic TIF Rules – Project Plan

- A detailed document explaining the purpose of the TID, the projects to be undertaken and how they will be paid for
- Must be adopted by the Plan Commission and Common Council
 - A CDA or RDA may act in lieu of the Plan Commission



Basic TIF Rules – Project Plan

- List of kind, number and location of proposed public works or improvements
- Economic feasibility study
- Detailed list of estimated project costs
- Description of the methods of financing & time when incurred
- Map of existing uses and conditions within the district
- Map showing proposed improvements and uses
- Proposed changes of zoning ordinances, master plan, map, building codes and ordinances
- List of estimated non-project costs
- Proposed method of relocation of any persons to be displaced
- Explanation of how District creation promotes orderly development
- Opinion from city attorney that plan is complete



Basic TIF Rules – Amendments

- Territory amendment
 - May add and/or subtract property
 - Must be in compliance with 12% test to add territory
 - Limit of four allowed during life of district
- Plan amendment
 - Used to amend list of projects to be undertaken
 - No limit to number allowed (except maximum expenditure period)



Basic TIF Rules – Amendments

- Allocation amendment
 - Allows a successful TID to share excess increment with a struggling TID
 - Recipient TID must be a blighted area TID, a TID in need of conservation or rehabilitation, have been declared distressed or severely distressed, or have project costs related to creation or rehabilitation of low cost housing, or remediation of environmental contamination
- TID amendments must follow the same process used to create a TID



Approval Process – Required Steps

- Feasibility study
- Initial Joint Review Board meeting
- Plan Commission meeting (or CDA/RDA)
 - Public hearing
 - Approve project plan and boundaries
- Common Council approval
- Final Joint Review Board meeting
- Submittal to Dept. of Revenue/State review & certification



Approval Process – Creation vs. Valuation Date

- Creation date is the date that the resolution creating the TID is approved by the Common Council
- The valuation date of a TID is always January 1 as follows:
 - If creation date is prior to October 1st, valuation date is January 1st of that year
 - If creation date is on or after to October 1st, valuation date is January 1st of the following year



Approval Process – JRB and Role

- Joint Review Board (JRB)
 - School Board President or designee
 - County Executive, County Board Chair or designee
 - Mayor or designee
 - Tech College Director or designee
 - Public member (selected by other four)
- Can be a temporary or standing board
- Other taxing entities, such as lake districts, sewerage districts, etc. are not represented on the JRB, but must be furnished with copies of all notices and documents



Approval Process – JRB and Role

- JRB has power to make final determination as to whether or not to allow TIF district to be created
- Cannot alter project plan or boundaries – up or down vote (simple majority)
- Decision must be made in accordance with specific statutory criteria
- JRB has 30 days to act following receipt of the creation resolution



Sample Cash Flow

Tax Increment District #1 Development Assumptions							
Construction Year		Actual	Area A	Area B	Area C	Construction Year	
			Office	Retail	Residential		
1	2015		1,500,000		1,000,000	2015	1
2	2016		1,000,000	2,000,000	1,000,000	2016	2
3	2017				1,000,000	2017	3
4	2018		1,000,000	1,500,000	500,000	2018	4
5	2019				500,000	2019	5
6	2020				500,000	2020	6
7	2021				500,000	2021	7
8	2022					2022	8
9	2023					2023	9
10	2024					2024	10
11	2025					2025	11
12	2026					2026	12
13	2027					2027	13
14	2028					2028	14
15	2029					2029	15
16	2030					2030	16
17	2031					2031	17
18	2032					2032	18
19	2033					2033	19
20	2034					2034	20
Totals		0	3,500,000	3,500,000	5,000,000		



Sample Cash Flow

Tax Increment District #1									
Tax Increment Projection Worksheet									
Type of District	Mixed Use			Base Value	1,000,000		Apply to Base Value		
Creation Date	October 1, 2014			Appreciation Factor	0.50%				
Valuation Date	Jan 1,	2015		Base Tax Rate	\$20.00				
Max Life (Years)	20			Rate Adjustment Factor	1.00%				
Expenditure Periods/Termination	15	10/1/2029		Tax Exempt Discount Rate	4.00%				
Revenue Periods/Final Year	19	2035		Taxable Discount Rate	5.50%				
Extension Eligibility/Years	Yes	3							
Recipient District	No								

Construction Year	Value Added	Valuation Year	Inflation Increment	Total Increment	Revenue Year	Tax Rate	Tax Increment	Tax Exempt NPV Calculation	Taxable NPV Calculation	
1	2015	2,500,000	2016	5,000	2,505,000	2017	\$20.20	50,601	48,655	47,963
2	2016	4,000,000	2017	17,525	6,522,525	2018	\$20.40	133,073	171,688	167,522
3	2017	1,000,000	2018	37,613	7,560,138	2019	\$20.61	155,784	310,180	300,190
4	2018	3,000,000	2019	42,801	10,602,938	2020	\$20.81	220,669	498,809	478,318
5	2019	500,000	2020	58,015	11,160,953	2021	\$21.02	234,605	691,637	657,823
6	2020	500,000	2021	60,805	11,721,758	2022	\$21.23	248,858	888,313	838,306
7	2021	500,000	2022	63,609	12,285,367	2023	\$21.44	263,432	1,088,499	1,019,399
8	2022	0	2023	66,427	12,351,793	2024	\$21.66	267,504	1,283,962	1,193,704
9	2023	0	2024	66,759	12,418,552	2025	\$21.87	271,640	1,474,813	1,361,477
10	2024	0	2025	67,093	12,485,645	2026	\$22.09	275,838	1,661,159	1,522,961
11	2025	0	2026	67,428	12,553,073	2027	\$22.31	280,101	1,843,108	1,678,392
12	2026	0	2027	67,765	12,620,839	2028	\$22.54	284,430	2,020,761	1,827,997
13	2027	0	2028	68,104	12,688,943	2029	\$22.76	288,824	2,194,222	1,971,993
14	2028	0	2029	68,445	12,757,388	2030	\$22.99	293,286	2,363,587	2,110,591
15	2029	0	2030	68,787	12,826,175	2031	\$23.22	297,816	2,528,953	2,243,993
16	2030	0	2031	69,131	12,895,305	2032	\$23.45	302,415	2,690,415	2,372,392
17	2031	0	2032	69,477	12,964,782	2033	\$23.69	307,085	2,848,065	2,495,978
18	2032	0	2033	69,824	13,034,606	2034	\$23.92	311,826	3,001,991	2,614,929
19	2033	0	2034	70,173	13,104,779	2035	\$24.16	316,640	3,152,282	2,729,419
20	2034	0	2035	70,524	13,175,303	2036	\$24.40	321,527	3,299,023	2,839,616
Totals		12,000,000		1,175,303		Future Value of Increment	5,125,955			



Sample Cash Flow

Tax Increment District #1			
Estimated Financing Plan			
	G.O. Bond 2015	G.O. Bond 2018	Totals
Projects			
Phase I	2,000,000		2,000,000
Phase II		750,000	750,000
Total Project Funds	<u>2,000,000</u>	<u>750,000</u>	<u>2,750,000</u>
Estimated Finance Related Expenses ¹	262,325	27,925	
Total Financing Required	2,262,325	777,925	
Estimated Interest	0.25%	(2,500)	0.25%
Assumed spend down (months)	6	6	(938)
Rounding	175	3,013	
Net Issue Size	2,260,000	780,000	3,040,000
Notes:	1 Proposed 2015 Bond issue includes \$203,400 in capitalized interest.		



Sample Cash Flow

Tax Increment District #1

Cash Flow Projection

Year	Projected Revenues				Expenditures								Balances			Year		
	Tax Increments	Interest Earnings/ (Cost)	Debt Proceeds	Total Revenues	G.O. Bond 2,260,000 Dated Date: 06/01/15			G.O. Bond 780,000 Dated Date: 06/01/18			Total Expenditures	Annual	Cumulative	Principal Outstanding				
					Prin (3/1)	Est. Rate	Interest	Principal	Est. Rate	Interest					Project Costs		Finance Costs	Admin.
2015			2,260,000	2,260,000							2,000,000	58,925	25,000	2,083,925	176,075	176,075	2,260,000	2015
2016		1,761		1,761			113,000						5,000	118,000	(116,239)	59,836	2,260,000	2016
2017	50,601	598		51,199			90,400						5,000	95,400	(44,201)	15,635	2,260,000	2017
2018	133,073	156	780,000	913,229			90,400				750,000	27,925	5,000	873,325	39,904	55,539	3,040,000	2018
2019	155,784	555		156,340			90,400						5,000	134,400	21,940	77,479	3,040,000	2019
2020	220,669	775		221,444	105,000	4.00%	88,300						5,000	229,500	(8,056)	69,423	2,935,000	2020
2021	234,605	694		235,300	110,000	4.00%	84,000						5,000	230,200	5,100	74,522	2,825,000	2021
2022	248,858	745		249,603	110,000	4.00%	79,600	25,000	4.00%	30,700			5,000	250,300	(697)	73,825	2,690,000	2022
2023	263,432	738		264,170	115,000	4.00%	75,100	25,000	4.00%	29,700			5,000	249,800	14,370	88,195	2,550,000	2023
2024	267,504	882		268,386	120,000	4.00%	70,400	50,000	4.00%	28,200			5,000	273,600	(5,214)	82,981	2,380,000	2024
2025	271,640	830		272,470	125,000	4.00%	65,500	50,000	4.00%	26,200			5,000	271,700	770	83,751	2,205,000	2025
2026	275,838	838		276,676	130,000	4.00%	60,400	50,000	4.00%	24,200			5,000	269,600	7,076	90,827	2,025,000	2026
2027	280,101	908		281,010	135,000	4.00%	55,100	50,000	4.00%	22,200			5,000	267,300	13,710	104,537	1,840,000	2027
2028	284,430	1,045		285,475	140,000	4.00%	49,600	50,000	4.00%	20,200			5,000	264,800	20,675	125,211	1,650,000	2028
2029	288,824	1,252		290,076	150,000	4.00%	43,800	50,000	4.00%	18,200			5,000	267,000	23,076	148,288	1,450,000	2029
2030	293,286	1,483		294,769	155,000	4.00%	37,700	50,000	4.00%	16,200				258,900	35,869	184,156	1,245,000	2030
2031	297,816	1,842		299,657	160,000	4.00%	31,400	50,000	4.00%	14,200				255,600	44,057	228,214	1,035,000	2031
2032	302,415	2,282		304,697	165,000	4.00%	24,900	50,000	4.00%	12,200				252,100	52,597	280,811	820,000	2032
2033	307,085	2,808		309,893	170,000	4.00%	18,200	50,000	4.00%	10,200				248,400	61,493	342,304	600,000	2033
2034	311,826	3,423		315,249	180,000	4.00%	11,200	75,000	4.00%	7,700				273,900	41,349	383,653	345,000	2034
2035	316,640	3,837		320,477	190,000	4.00%	3,800	75,000	4.00%	4,700				273,500	46,977	430,630	80,000	2035
2036	321,527	4,306		325,834				80,000	4.00%	1,600				81,600	244,234	674,864	0	2036
Total	5,125,955	31,759	3,040,000	8,197,714	2,260,000		1,183,200	780,000		367,800			2,750,000	86,850	95,000	7,522,850		Total

Projected TID Closure

