



TID 101

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What we are covering

- Background
- Implementation & Rules
- Financing Options
- Best Practices
- Challenges & Possible Solutions
- Success Stories



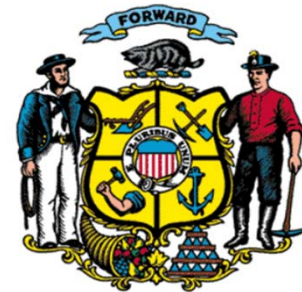
What is Tax Increment Financing (TIF)?

- Economic development tool used in Wisconsin + many other states
- Allows cities to capture incremental *property tax revenue* from *growth* in defined area & use it to *benefit* that area
- Key acronyms:
 - ✓ TIF = Tax Increment Financing (*the tool*)
 - ✓ TID = Tax Increment District (*where the tool is used - boundary*)



TIF in Wisconsin

- Original program created by the State
- Legislature in 1975
- TIF has been the most powerful economic development tool available to local government





Why TIF?

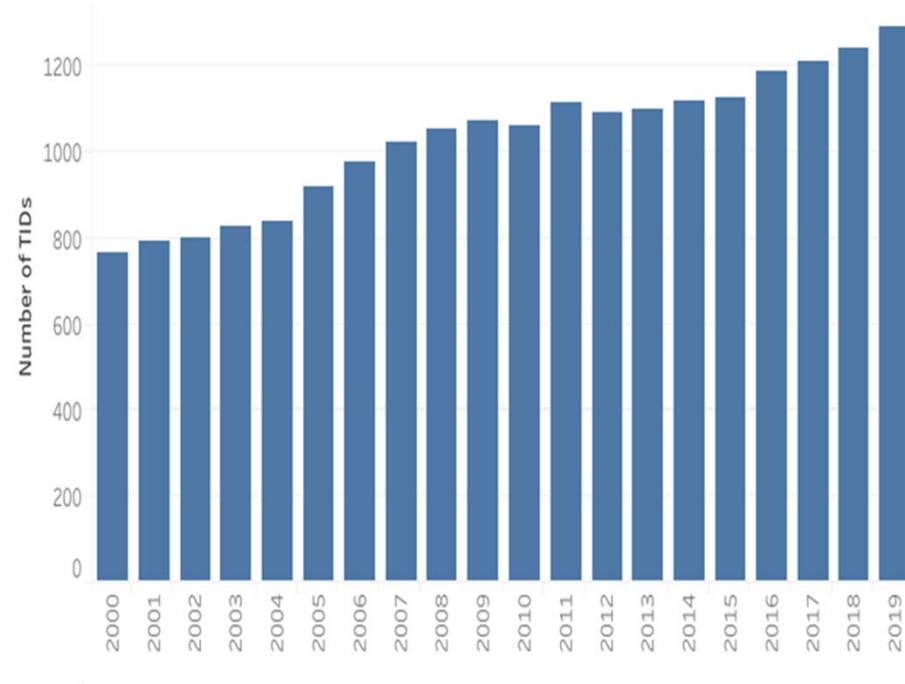
THE INTENT

- | | |
|----------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------|
| ➤ Require cost participation amongst all taxing jurisdictions that ultimately benefit from increased property values | ➤ 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) | |



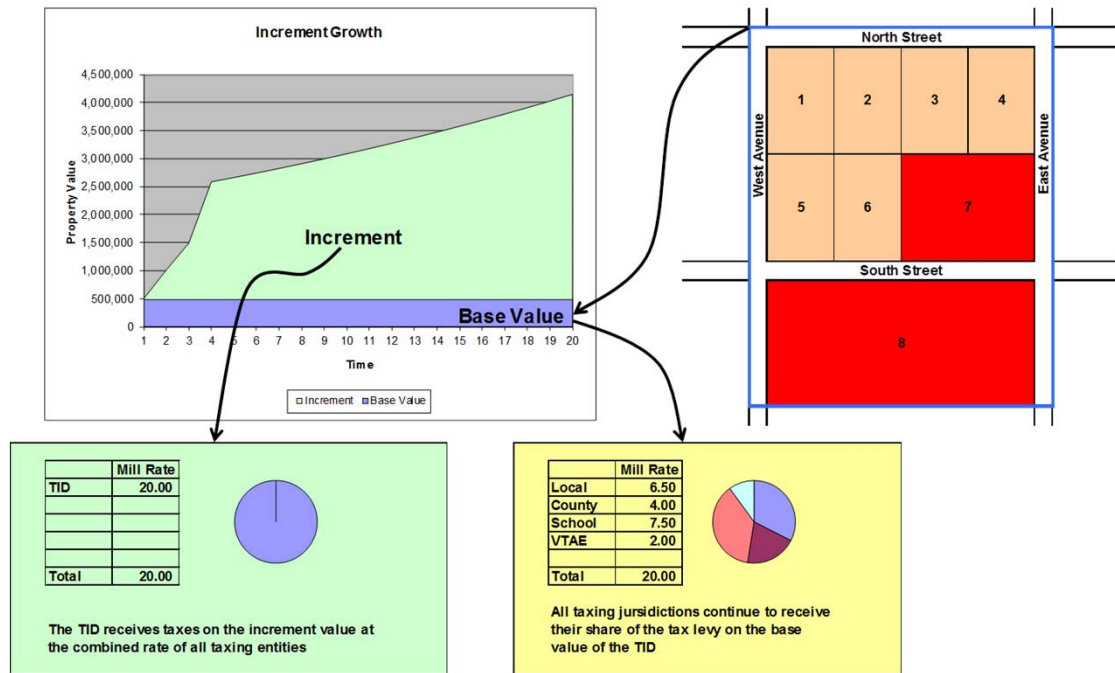
TID utilization

- \$22.97 billion in incremental property value located within TIDs as of January 1, 2019 (about 4% of all property value in state)
- 1,295 TIDs currently in existence





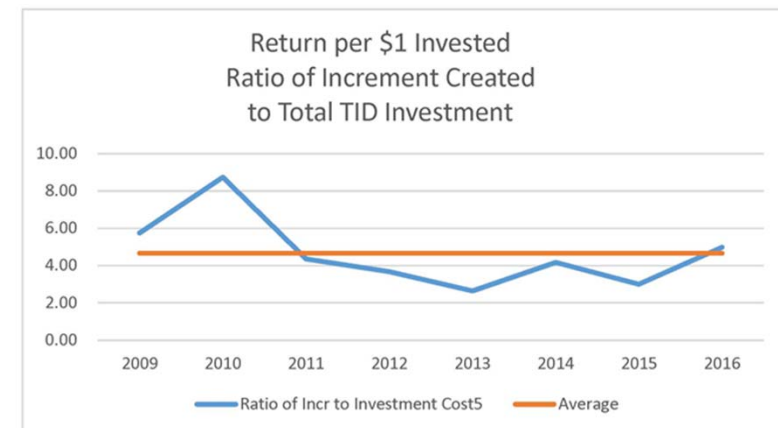
How does TIF work?





Return on investment

- In 2017, Ehlers reviewed all TIDs closed between 2009 – 2016
- For every \$1 of public investment, an average \$4.66 in new property value created
- Does not consider value of jobs created, payroll taxes, sales tax, etc.





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IMPLEMENTATION & RULES



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
 - In need of Environmental Remediation
 - Suitable for **Mixed-Use** development as determined by any combination of industrial, commercial or 'qualifying residential (limited to 35% of total area newly platted)
 - Contiguous area and cannot extend beyond corporate limits



Project plan elements

A Plan describing details of TID & Future Projects

| Project Costs | Financing Plan |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none">• Projects can be phased, costs laid out to plan for an adequate revenue stream• Description of costs• Development/Redevelopment Description | <ul style="list-style-type: none">• Cash Flow Forecast• Financing Tools• Estimated life of proposed district |



The “But For” test

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



The “But For” test...cont.

- How do you prove it?
 - Best practice: independent third party review of developer’s sources, uses and cashflows (with, without TIF assistance)
 - Challenged site
 - Extensive public infrastructure costs
 - Lack of economic development in community
 - Ultimately, a JRB judgment call



Procedure to create a TID

1. Feasibility study (Project Plan)
2. Initial Joint Review Board (JRB) meeting
3. Public hearing of Plan Commission
4. Governing body approval (official “Creation Date”)
5. Final JRB approval
6. State approval (procedural & legal review)





Cast for creating a TIF District

- Municipal Attorney letter of review needed for TID creation
- Joint Review Board members
- Municipal member *(often Village Board President, or similar)*
- Public member, chosen by the Municipality, voted by other 4
- School District member *(often Business Officer, or delegate)*
- Technical College member *(often Business Officer, or delegate)*
- County member *(often County Administrator, or delegate)*
- Municipal Advisor can help plan, coordinate required components



Eligible project costs

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

All costs must directly relate to purpose of the TID, including ½ mile



Prohibited project costs

- Costs of constructing or expanding administrative, police, fire, community, recreational, library & school buildings
- Costs of constructing or expanding facilities if similar facilities are financed only with utility user fees
- General government expenses unrelated to TIF district
- Costs associated with newly platted residential development
 - ✓ (except in Mixed Use districts with “qualifying” residential, no more than 35% of district by acreage)



Amendments

Boundary amendment:

- ✓ May add and/or subtract property
 - Must remain contiguous, however district can encircle a non-district parcel
 - Must be in compliance with 12% test to add territory (unless subtraction)
 - Limit of 4 allowed during life of district

Plan amendment:

- ✓ Used to amend list of projects to be undertaken
 - Types of projects or dollar amount(s)
- ✓ Revenue Sharing
- ✓ No limit to number allowed (except maximum expenditure period)

Same procedure as establishing TID



Expenditure period

- Maximum time period TID can incur expenses or obligate revenues related to project plan
- Expenditure period ends 5 years prior to end of maximum life for all district types (*extensions do not change the expenditure period*)
- After expenditure period ends, TID may continue to pay:
 - ✓ Debt service on existing obligations
 - ✓ Contractually-obligated expenses
 - ✓ Ongoing administrative expenses
 - ✓ If designated donor TID, district may continue to donate increment



Maximum life

- A district may remain open until the earliest of the following:
 - ✓ The district's maximum life is reached, which varies by type of district and when created
 - ✓ When total tax increments (revenues) collected are sufficient to pay all of the district's project obligations (expenses)
 - ✓ When the City/Village/Town passes a resolution to close the district, but no later than the anniversary date in the year of max life
- At closure:
 - ✓ Remaining funds (*surplus*) distributed proportionately to taxing jurisdictions (*shared benefit*); OR,
 - ✓ Any unreimbursed project costs become general liability of the municipality (*this risk not shared*)



Closure process

- Written notice within 60 days of termination resolution complete Form PE-223 send, with the resolution to:

➤ DOR

➤ Municipal Assessor

➤ County Property lister

➤ Overlying taxing jurisdictions

- On or before submission date, municipality must e-file:

➤ E-file PE-110 (TID Final Accounting Report)

➤ E-mail TID final accounting spreadsheet or final audit report/financial statements to DOR



District types

| Type | Max Life | At Least 50% Of Proposed District Area Must Be | Newly Platted Residential |
|--------------------------------|----------|------------------------------------------------------------------------------------------|---------------------------------------|
| Mixed Use | 20 Years | Suitable for a combination of industrial, commercial and residential uses | Max 35% (Plus Density Requirement) |
| Industrial | 20 Years | Zoned and suitable for industrial development | Not Allowed |
| Blighted Area | 27 Years | Blighted | Not Allowed |
| Conservation or Rehabilitation | 27 Years | In need of conservation or rehabilitation | Not Allowed |
| Environmental Remediation | 27 Years | Most of the territory consists of areas that contain significant environmental pollution | Not Allowed |



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FINANCING



Financing projects

- Several options for financing projects with TIF:
 - ✓ Community “Fronts” Costs (Traditional)
 - Issue general obligation or revenue debt
 - Advances from other funds
 - ✓ Pay-as-you-go
 - Use TIF revenue stream and accumulated balances to pay expenses
 - Developer agrees to up-front costs, repaid from TIF revenues



Municipality funded TIF

- Municipality issues debt or advances funding from other funds to finance development incentives or pay for other tax increment eligible costs (example: infrastructure, land acquisition)
- Municipality uses revenue generated by development in tax increment district to repay debt/advance
- Risk of insufficient revenues is entirely on municipality
- Development Agreement provisions can be used to mitigate risk



Pay as You Go (tax increment revenue bonds)

- Developer funds project costs up front
- Municipality agrees to return tax increment revenue paid from new development
 - ✓ Subject to annual appropriation
 - ✓ Payment dependent on revenue being available, no revenue - no payment
- Shifts risks of insufficient revenue to repay debt from City/Village to Developer while allowing for use of TIF to incentivize project
- Developer may choose to monetize TIF, request private financing secured by the PAYGO agreement



“Pay as You Go” model





Developer agreements

- Enforcement options for developer agreements
 - ✓ Irrevocable letter of credit
 - ✓ Performance bonds
 - ✓ Mortgage lien (on project or other property)
 - ✓ Assignment of securities or other collateral
 - ✓ Restrictions on assignment of developer agreement
 - ✓ Withholding of permits or other approvals
 - ✓ Personal guarantee



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BEST PRACTICES



Planning & monitoring

- Effective ways to mitigate risk
 - ✓ Sensitivity analysis
 - ✓ Worst case scenario, back-up plan
- Use together, proactively to:
 - ✓ Better match expenses, debt service to revenues
 - ✓ Ensure TID doesn't undertake projects it's unlikely to recover
- Can't fully eliminate risks
 - ✓ (economic cycles, change in law, private party performance)



Considering TIF? Consider this:

- Under what circumstances TID will be used
- Process to request assistance
- Term (maximum or flexibility)
- Proforma analysis
- Pay as You Go vs. Traditional
- Community goals



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CHALLENGES



Tools: Managing underperforming TIF districts

- Several options
 - ✓ Fund balance utilization
 - ✓ Tax levy & user fee (utility) support
 - ✓ Debt restructuring
 - ✓ Maximum life extensions
 - ✓ Increment sharing (“donation”)
 - ✓ Territory amendment
 - ✓ Enforcing security provisions in developer agreements



Fund balance utilization

- Sufficient dollars available in another fund to transfer or advance?
- Understand probability of advance being repaid & impact on the advancing fund (*including another TID*)
 - ✓ For municipalities with credit rating or considering getting one: Be careful about making large General Fund advances!
 - ✓ Receivable only as good as quality of anticipated repayment
 - ✓ Generally avoid advancing funds from another TID
- Consider having another fund “repay” TID for originally TID-funded project the district can no longer afford



Tax levy & user fee support for TIF debt

- G.O. Debt – community obligated to levy sufficient funds to make entire payment each year, regardless of anticipated revenue source
- Utility Revenue Bonds – must increase user rates or apply other available funds to make payment and/or demonstrate coverage requirement
- CDA/RDA Lease Revenue Bonds – must apply or consider applying other available funds to make payment



Debt restructuring

- Reallocation of TID debt to other funds
 - ✓ **Example:** water utility may need to assume repayment for TID debt incurred to finance TID-eligible water system improvements
- Refinancing
 - ✓ Goal is restructure debt in a way that best matches anticipated TID revenue stream
 - ✓ *However*, if current obligation is revenue-backed, may require conversion to G.O. if coverage (revenues vs. debt service) is not adequate



Maximum life extensions

- Four year extension
 - ✓ Available for blighted area and in need of rehabilitation or conservation
 - ✓ TIDs created on or after October 1, 1995 but before October 1, 2004
- Three year extension
 - ✓ Available for all TIDs created on or after October 1, 2004
 - ✓ Available for any TID eligible to collect increment as part of 2014 levy (Wisconsin Act 258 - Tech College Adverse Impact)



Maximum life extensions....cont.

Maximum life extensions:

- Require project plan amendment, but JRB must approve if:
 - ✓ an independent audit demonstrates requirement for additional years to recover project costs
- Not mutually exclusive
 - ✓ Tech College extension can be combined with 3 or 4 year extension for total extensions of 6 or 7 years



Increment sharing (“donor status”)

- Wis. Stats. 66.1105(6)(f)
- A TID that is generating excess increment (surplus) may allocate it to:
 - ✓ A blighted area TID
 - ✓ A rehabilitation/conservation TID
 - ✓ A distressed or severely distressed TID
- Requires a project plan amendment and JRB approval for donor TID
- Life of “sharing” relationship can last until earlier of end of either TID (see specifics relating to sharing with Distressed TID)



Enforce Security Provisions: Developer Agreements

- Development agreements should (*whenever possible*) contain provisions to protect community if TID increments are not generated
 - ✓ Letters of credit
 - ✓ Value guarantees/shortfall payments
 - ✓ Special assessments
- Ability to collect may be a factor



Success stories

Mequon TID #3



2008 Value: \$38 million
2019 Value: \$140 million

Cottage Grove TID #5



2003 Value: \$3 million
2019 Value: \$68 million

Town of Brookfield #1A



2014 Value: \$66 million
2019 Value: \$290 million



Final thoughts...

- TIF is *STILL* the most important tool available to local governments to help stimulate growth.
- TIF requires active management.
- Plan ahead to position yourself for opportunities.
- TIF has been around for 45 years, you *WILL* see continual program adjustments.



Your presenter



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