



Economic Development Commission

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MEMO

DATE: August 8, 2005
TO: Members of the Board of Estimates and Common Council
FROM: Madison Economic Development Commission
SUBJECT: Recommendations on the City's TIF Policy

How the City uses TIF and to what end has come up at EDC meetings over the past few years as we have reviewed new initiatives such as inclusionary zoning and discussed reports on the City's efforts to retain and attract business development. Prior to the release of the final BOE subcommittee report on TIF policy, the Commission began its own review of the current policy because we know that TIF is a powerful tool of economic development for cities. If the City hopes to be responsive to opportunities affecting the City's future economic health, it is critical that the City's TIF policy align with its economic priorities. We felt that this important fact was missing from the TIF policy discussions that tended to focus on process, vetting and underwriting projects.

In evaluating TIF as part of the bigger picture of economic development, it's important to remember these basic concepts:

- Most decisions affecting local economic development are made by private individuals, organizations and institutions. These actions are typically made after weighing the costs and benefits a decision and choosing an action that is in the best interest of the private entity. Public economic development tries to influence certain private economic decisions by affecting real or perceived costs and benefits.
- Wisconsin's Tax Increment Finance tool is an investment program, not a give away or subsidy program. It enables cities to take advantage of private investment to fund public infrastructure and other activities in order to remove blight, redevelop older areas of the city and provide areas for business expansion and location. Through the use of TIF, the City can signal the private sector of its development intentions in an area and influence the private investment decision that might not have otherwise happened where the city would like it to happen.
- Although inter-related and sometimes overlapping, economic development and community development are not the same. In the simplest of terms, economic development can be understood as activity that results in new wealth being generated or brought into an area; community development is activity and actions that make a city or a neighborhood a better place to live. Certainly one affects

the other – community development can help make economic development occur – but without basic wealth creation there are no resources to fund community development.

While acknowledging that the City has used TIF appropriately and successfully to spur development, the Commission has these concerns about current TIF policy and its uses:

- The use of TIF predominantly to fund real estate deals that include housing, as well as the reliance on a specific project, the “generator”, to create a TIF district. This has sometimes resulted in projects and districts being more developer driven rather than City driven.
- The lack of clear priorities among the many objectives for which the City says it will use TIF, and the lack of alignment between the City’s stated business and economic development goals and the use of TIF.
- The somewhat informal and unclear process by which staff evaluate and review ideas / projects seeking TIF financing prior to a project seeking formal City approval.

Economic Development Commission Recommendations

As the commission charged with advising on city actions to improve the city’s economy, we would like to share our perspective on how to address some of the concerns we have about the use of TIF and enhance its value for economic development purposes. Our comments and recommendations are based on our review of background materials on TIF including the BOE subcommittee report as well as others’ comments and recommendations regarding specific changes to the current TIF policy.

1. TIF should be used primarily as an economic development and job creation tool.

The EDC feels strongly that TIF must first and foremost be used as a tool for business and economic development and job creation. Additionally, the use of TIF for urban development should be a priority as Madison bumps up against its edges and increasingly looks to “in fill” development in the city’s urban core.

With an unemployment rate of 3.5% and a significant population growth, it might not appear that Madison needs to focus attention on economic growth and development. But as the Commission has stated elsewhere, these indicators belie shifts and inequities in our local economy – e.g., a loss of state government jobs as a stabilizing economic force, a growth in lower income populations with less education and training, and a mismatch between available jobs and available workers.

Other communities throughout the State and in Dane County use TIF primarily to retain employers (and their jobs) that are expanding or considering locations elsewhere, to create new employment centers, and to undertake redevelopment that involves significant employment and business development.

The Commission understands that business development and job retention / creation can be accomplished through the use of both the “blighted TID” and the “industrial” TID. To illustrate our point, however, that there has not been as much use of TIF for economic development / business development, we cite the history of the City’s use of industrial TIFs provided as an appendix in the BOE Subcommittee report.

Since the State TIF law was first enacted in 1977, the City has created 31 TIDs, six of which are true industrial TIDs created to provide location for employers in the city's basic and growing industries. TID #24 or Southeast Industrial TID is still open and has created over \$93 million in increment and at a minimum retained or created over 400 jobs. The increment in this district was used primarily to pay for infrastructure improvements. Direct assistance to a business or property owner / developer has been less than \$2.5 million.

Although successful on a number of measures – businesses retained, employment growth, payback to the City – the City has not chosen to continue the TID 24 model and use TIF to create a stable, long term supply of competitively priced, ready to go land for the retention, expansion and attraction of businesses in production and light manufacturing industries. Most recently the City purchased land on both the far west and east sides of the city specifically for the production / manufacturing / distribution needs of Madison's growing businesses. In both cases the City sold the land to private developers, restricting through zoning how it would be developed but providing no financing or incentives to assure that the desired outcome would be achieved.

Specific ways we recommend to ensure that TIF is used primarily for business / economic development and job creation include:

- a. Develop a current economic development plan and use it to set priorities and inform the allocation of financing resources through the City's and capital budget process (draft Madison Comprehensive Plan Economic Development Chapter Objective 1, Policy 2).
- b. Use TIF and the acquisition of land to maintain a supply of competitively priced vacant or redevelopment sites for businesses seeking location or expansion (draft Madison Comprehensive Plan Economic Development chapter (Objective 7 Policy 7).
- c. Restrict the amount, or percentage, of TIF that can be in use at a given time for non-long-term job creating projects.
- d. Require a balanced ratio between blighted vs. industrially designated TIDs to ensure more industrial designation and job focus.
- e. Consider the use of pay-as-you-go financing approaches for non-long-term job creating projects where the developer finances the TIF rather than the City, saving the City's TIF resources for job creation projects.

The proposed Capitol Gateway Corridor TID includes some policies such as the above; for example: TIF-assisted projects within the TID must include a minimum of 50% industrial / non-retail commercial space; and TIF assistance to market rate residential projects will be limited to the use of the 10% set-aside under the City's current TIF policy. The EDC encourages these creative ways to ensure more industrial, job creation uses of TIF.

2. A clear and succinct policy is needed.

The City's current policy on the use of TIF is multiple pages and is mix of development objectives, financing objectives and underwriting requirements. We recommend a 1-2 page policy statement that:

- a. States the City's commitment to using TIF as allowed by State legislation and identifies eligible uses, if any, that City will not consider.
- b. Establishes the expectation that proposals for TIF must be consistent with adopted goals and objectives, neighborhood and redevelopment plans. This eliminates the need to try and summarize or select all the relevant objectives.
- c. Establishes key priorities and preferences for the use of TIF. The Economic Development Commission's priorities would include:
 - Projects / activities that foster business development, employer retention, job creation and attraction
 - Projects / activities that are in an existing TID and are consistent with the district's project plan
 - Projects / activities that offer a unique opportunity to grow the local economy or meet a need in specific sector
- d. Establishes important city financing preferences

3. The TIF application process needs to be reviewed and improved.

The EDC believes that a more clearly defined and adhered to policy will help with the application process. The BOE Subcommittee recommendations appear to be focused on trying to control what must be an out of control process. New deadlines are being proposed that we believe tie TIF too closely to the City's budget timeline and do not recognize the realities of business planning. In addition, the draft recommendations seem to add more pre-applications, fees, appeals processes, etc.

The EDC urges the BOE and Common Council to look at simplifying the basic policy and application process rather than creating a myriad of bureaucratic administrative measures to try to manage an unwieldy policy.

As the Department of Planning and Development identifies options for improving and streamlining the City's development services, we recommend that it also identify how it could better integrate the intake and review of projects that may be eligible for development financing, such as TIF. A possible approach would be a simple two-step process: a preliminary review and assessment by key Department managers and Mayor's office of each proposal; confidential staff report to BOE and Plan Commission on the staff's recommendation; then formal application and negotiation.

4. The city should revisit two important financing issues.

Two financial issues that the EDC would also like to comment on are: a) the concern about the City's TIF borrowing capacity; and b) the equity kicker provision.

- a. Concern about the City's TIF borrowing capacity – The City has the capacity under State law to create more TIDs. The City currently has 5% of its total valuation in TIDs and State law allows 12%. But there clearly is concern on a year-to-year basis on how the City funds its TID expenditures. To address this issue, the EDC recommends that the City consider a mixed financing approach that would include both pay-as-you-go or developer bond, common in smaller municipalities, along with the current approach where the City funds the TIF.

Other creative financing strategies should also be explored by seeing what other cities have developed. *The EDC offers to sponsor with the BOE a presentation at which one or two TIF financing consultants such as Elhers and Associates would be invited to discuss the pros and cons of various financing options.*

- b. The equity kicker provision – The equity kicker provision appears to be closely tied primarily to the increases in housing values beyond application forecasts. This issue might be lessened with a focus shifted to industrial TIFs where it is assumed values will rise more slowly.

We believe, however, that the City should follow a basic principle of investing – the greater risk, the greater the return on investment. Under current policy the City invests in a project after all other sources have been exhausted and requires that the developer guarantee the increment on an annual basis at present value. Thus it would appear that the City's risk is very little compared to other investors and that an "equity kicker" is unwarranted.

Moreover, the fundamental principle of TIF is using the increment from individual private investments i.e., project / land value and taxes, to pay for public improvements that benefit a larger public and spur additional private investment. This return on investment should serve as the "equity kicker"; the benefit to the City is clearly achieved when a TID succeeds.

If an equity kicker is used it should be made fixed to recognize the importance of job creation and the equity kicker should be substantially reduced for these kinds of developments. *Lastly but an important recommendation, is that if the City continues with an equity kicker, the proceeds from the equity kicker should be deposited in a revolving fund that would be used to fund future projects. The City should pursue all opportunities to use TIF revenues / equity kickers for closed TIDs to promote further economic development (not just job creation).*

5. More emphasis should be placed on measuring outcomes from TIF and reporting these outcomes on a regular basis to the public and policy makers.

Given the analysis and amount of community discussion that already goes into a creation of a TIF district and the approval of a specific TIF project, the Commission does not endorse ideas such as establishing quantitative ranking criteria, community impact statements, and additional oversight committees.

We do recognize the legitimate concern of policy makers that public investments yield significant public benefits. We feel that this can be addressed by city staff preparing an annual TIF report that provides the following information for each existing TID and for the TID program in aggregate:

- Activities undertaken and the amount of private and public investment
- Increase in value and amount of tax increment generated
- Other important outcomes relevant to the districts and projects such as businesses assisted, jobs retained, housing units produced
- A certified accounting of each project

We appreciate the opportunity to share our perspective on the use of TIF to further the city's goals for healthy economic development. We would be happy to meet with you on our recommendations.

ATTACHMENT

Madison Industrial Tax Increment Financing Districts

DISTRICT	YEAR CREATED	YEAR CLOSED	INCREMENTAL VALUE GROWTH	
#1 Broadway Industrial	1977	1984	\$11,095,895	
#12 Broadway Industrial II ¹	1984	1996	20,029,800	
#13 Rayovac ²	1984	1999	19,808,400	
#22 Madison Corporate Center	1992	2001	19,008,000	
#24 Southeast Industrial ³	1995	Still open	93,157,700	
#34 Covance ⁴	2005		25,000,000	(Projected)

¹ Businesses assisted include Four Lakes Label and WT Rogers at cost of \$989,400

² \$3.2M of assistance enabled major employer to purchase and develop current headquarters site and retain 1200 jobs

³ The City has invested \$2, 175, 000 in direct assistance to projects: \$1.4M to World Dairy Center and \$775, 000 to retain or attract 6 companies that retained 319 jobs and created 89 jobs.

⁴ Creation of this TID is underway. There is no direct assistance to the company for its \$57M expansion project. Increment will pay for approx \$6.7M in public improvements.