

# City of Madison TIF 101: Mechanics, Policy & Process

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Economic Development Committee  
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# Facts About TIF

- Governed by state law (Wis. Stats. 66.1105)
- Only program solely administered by municipalities
- Recovers cost through taxes generated by new growth (i.e. “tax increment”) within a Tax Incremental District (“TID”)
- Through TIF, municipalities use the entire tax levy on growth, thereby sharing both the cost and benefit of development with overlying tax districts
- The municipality becomes the custodian of TIF on behalf of the overlying tax jurisdictions, with their approval as “TIF Joint Review Board”

# Basic Elements of TIF

## Tax Incremental District (TID)

- TID boundary comprised of contiguous whole parcels of property
- Follows a Project Plan, which is an adopted financial strategy
- Project Plan is approved by the overlying tax districts, i.e. “TIF Joint Review Board”

## Base Value

- The value that existed prior to TID creation
- Overlying tax districts still receive tax levy on the base value

## Incremental Value

- Property value growth (development and appreciation) after TID creation

## Tax Increment

- The taxes levied on incremental value
- Overlying tax districts agree to forego this until TID cost recovered

# TIF Statutory Requirements

- 50% of the TID area blighted, industrial or mixed-use
- All costs must meet a “but for” test, i.e. but for TIF the project would not otherwise be constructed.
- The aggregate of all value growth in TIDs cannot exceed 12% of a city’s EAV (Note: Madison is at 3.10%)

# An Example of Tax Increment



**Base Value (Pre-TID)**  
Annual Tax Levy

\$1,000,000  
\$30,000

**New Development**  
New Tax Levy

**\$15,000,000**  
**\$450,000**

Tax Distribution

City	\$6,000
County	\$10,000
Schools	\$13,000
Voc/Tech School	<u>\$1,000</u>
<b>Total Levy</b>	<b>\$30,000</b>

Tax Distribution

City	\$6,000
County	\$10,000
Schools	\$13,000
Voc/Tech	<u>\$1,000</u>
<b>Total Levy on Base Value</b>	<b>\$30,000</b>

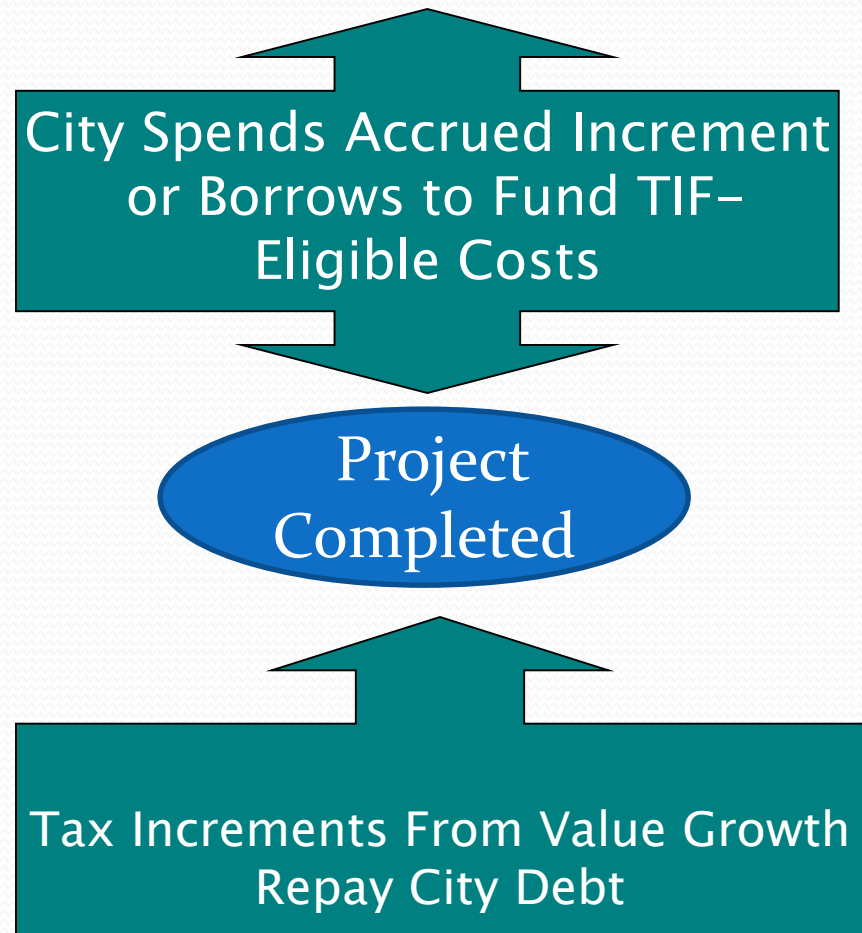
New Tax Levy	\$450,000
Less: Levy on Base Value	<u>-30,000</u>
<b>Tax Increment</b>	<b>\$420,000</b>

Overlying tax districts still receive their base levy over the life of the TID

## Where do TIF funds come from?

**TIF funds may be provided in two ways:**

- 1) Spend the collected tax increment or
- 2) Borrow against an estimated stream of tax increments



# Sample TIF Run

## TIF Increment Projection TID# 45 Proposed

YEAR	TAX RATE PROJECTION			INCREMENT CALCULATION				AVAILABLE FOR ASSISTANCE	
	CITYWIDE TAX BASE AS OF JAN 1 PRIOR YEAR	NET TAX LEVY	TAX RATE	DISTRICT VALUE AS OF JAN 1	PROJECT VALUE ADDED	INCREMENTAL VALUE AS OF JAN 1	INCREMENT REVENUE	INCREMENT AFTER COVERAGE	PRESENT VALUE
2015	21,362,962,100	517,050,810	0.02420	74,759,300	0				
2016	22,644,739,826	537,732,842	0.02375	76,254,486	8,470,000	1,495,186	0		
2017	24,003,424,216	559,242,156	0.02330	86,249,576	40,214,700	11,490,276	35,505	19,528	17,056
2018	25,443,629,668	581,611,842	0.02286	128,189,267	45,864,250	53,429,967	267,705	147,238	120,190
2019	26,970,247,449	604,876,316	0.02243	176,617,303	20,698,650	101,858,003	1,221,347	671,741	512,468
2020	28,588,462,296	629,071,369	0.02200	200,848,299	15,449,400	126,088,999	2,284,424	1,256,433	895,820
2021	30,303,770,033	654,234,223	0.02159	220,314,665	0	145,555,365	2,774,510	1,525,981	1,016,825
2022	32,121,996,235	680,403,592	0.02118	224,720,958	0	149,961,658	3,142,424	1,728,333	1,076,319
2023	34,049,316,009	707,619,736	0.02078	229,215,377	0	154,456,077	3,176,467	1,747,057	1,016,803
2024	36,092,274,970	735,924,525	0.02039	233,799,685	0	159,040,385	3,209,937	1,765,465	960,296
2025	38,257,811,468	765,361,507	0.02001	238,475,678	0	163,716,378	3,242,847	1,783,566	906,674
2026	40,553,280,156	795,975,967	0.01963	243,245,192	0	168,485,892	3,275,206	1,801,363	855,815
2027	42,986,476,966	827,815,005	0.01926	248,110,096	0	173,350,796	3,307,025	1,818,864	807,597
2028	45,565,665,584	860,927,606	0.01889	253,072,298	0	178,312,998	3,338,315	1,836,073	761,905
2029	48,299,605,519	895,364,710	0.01854	258,133,744	0	183,374,444	3,369,085	1,852,997	718,624
2030	51,197,581,850	931,179,298	0.01819	263,296,418	0	188,537,118	3,399,345	1,869,640	677,643
2031	54,269,436,761	968,426,470	0.01784	268,562,347	0	193,803,047	3,429,105	1,886,008	638,856
2032	57,525,602,966	1,007,163,529	0.01751	273,933,594	0	199,174,294	3,458,374	1,902,106	602,158
2033	60,977,139,144	1,047,450,070	0.01718	279,412,266	0	204,652,966	3,487,162	1,917,939	567,449
2034	64,635,767,493	1,089,348,073	0.01685	285,000,511	0	210,241,211	3,515,478	1,933,513	534,632
2035	68,513,913,542	1,132,921,996	0.01654	290,700,521	0	215,941,221	3,543,330	1,948,832	503,615
2036	72,624,748,355	1,178,238,876	0.01622	296,514,532	0	221,755,232	3,570,728	1,963,900	474,308
2037	76,982,233,256	1,225,368,431	0.01592	302,444,822	0	227,685,522	3,597,680	1,978,724	446,624
2038	81,601,167,252	1,274,383,168	0.01562	308,493,719	0	233,734,419	3,624,195	1,993,307	420,482
2039	86,497,237,287	1,325,358,495	0.01532	314,663,593	0	239,904,293	3,650,281	2,007,655	395,802
2040	91,687,071,524	1,378,372,835	0.01503	320,966,865	0	246,197,565	3,675,946	2,021,770	372,510
2041	97,188,295,815	1,433,507,748	0.01475	327,376,002	0	252,616,702	3,701,198	2,035,659	350,531
2042	103,019,593,564	1,490,848,058	0.01447	333,923,522	0	259,164,222	3,726,045	2,049,325	329,799
					130,697,000	4,664,024,233	79,023,666	43,463,016	15,980,803

NPV= 29,056,005 15,980,803 55% of TIF

### ASSUMPTIONS:

Annual Increase in Citywide Tax Base	6.00%
Annual Increase in Tax Levy	4.00%
Annual Increase in Assessment after construction	2.00%
Percent of Estimated Increment Available	55.00%
Assumed Interest Rate (Discount Rate)	7.00%
NPV Assumes Discounting to	2015
Est. Project Value	130,697,000

TIF Request \$ - 0% of TIF

YEAR	TAX RATE PROJECTION			INCREMENT CALCULATION				AVAILABLE FOR ASSISTANCE	
	CITYWIDE TAX BASE AS OF JAN 1 PRIOR YEAR	NET TAX LEVY	TAX RATE	DISTRICT VALUE AS OF JAN 1	PROJECT VALUE ADDED	INCREMENTAL VALUE AS OF JAN 1	INCREMENT REVENUE	INCREMENT AFTER COVERAGE	PRESENT VALUE
2012	21,000,000,000	488,000,000	0.02324	0					
2013	22,260,000,000	507,520,000	0.02280	0	1,300,000	0	0	0	0
2014	23,595,600,000	527,820,800	0.02237	1,300,000	5,850,000	A 1,300,000	0	0	0
2015	25,011,336,000	548,933,632	0.02195	7,176,000	5,850,000	7,176,000	29,080	14,540	11,869
2016	26,512,016,160	570,890,977	0.02153	13,169,520	0	13,169,520	157,494	78,747	60,076
2017	28,102,737,130	593,726,616	0.02113	13,432,910	0	13,432,910	283,583	141,792	101,095
2018	29,788,901,357	617,475,681	0.02073	13,701,569	0	13,701,569	283,797	141,899	94,553
2019	31,576,235,439	642,174,708	0.02034	13,975,600	0	13,975,600	284,011	142,006	88,434
2020	33,470,809,565	667,861,697	0.01995	14,255,112	0	14,255,112	284,226	142,113	82,711
2021	35,479,058,139	694,576,164	0.01958	14,540,214	0	14,540,214	284,440	142,220	77,358
2022	37,607,801,627	722,359,211	0.01921	14,831,019	0	14,831,019	284,655	142,327	72,352
					13,000,000		1,891,287	945,644	588,449

NPV= 1,176,897 588,449 TIF Available

**ASSUMPTIONS:**

Annual Increase in Citywide Tax Base	6.00%	
Annual Increase in Tax Levy	4.00%	
Annual Increase in Assessment after construction	2.00%	C ←
Percent of Estimated Increment Available Coverage	50.00%	Coverage Ratio
Assumed Interest Rate (Discount Rate)	7.00%	D ←
NPV Assumes Discounting to	2012	

F ↑

G ↑

**Key:**

- A- Timing of Value Growth
- B- Tax rate (declining or flat)
- C- Estimated Annual Appreciation
- D- Discount or "risk" rate
- E- Tax Increments
- F- NPV of tax increments (@ 100%)
- G- Amount of TIF Available @ 50% Coverage



# How is a Tax Incremental District (TID) Created?

- **TID Feasibility Determined:** Suitability for blighted area (50%) TID (determined by blight study), industrial or mixed-use TID (determined by zoning)
- **TIF Project Plan Drafted:** Establishes a boundary, forecasts growth and project costs, financial feasibility, conforms to Comp Plan, neighborhood or area plan
- **Public Process Begins:** The Plan Commission holds public hearing, Council adopts Project Plan and Boundary. By state law Council must adopt TID Project Plan and Boundary before September 30.
- **Joint Review Board:** Overlying tax districts approve the TID--final TID approval/veto authority!

# Eligible & Ineligible Costs per TIF Law

## **Eligible Costs**

Public Improvements  
Parking Ramps  
Streetscape  
Land Acquisition  
Demolition  
Remediation  
Construction  
TIF Administration Cost  
Finance Cost

## **Ineligible Costs**

Public Buildings  
Regional Parks  
City Operating Costs  
Assessable Costs

# TID Lifespan and Expenditure Period

## Lifespan

Blighted Area TID	27 yrs
Industrial	20 yrs
Mixed Use	20 yrs

## Expenditure Period

22 yrs
15 yrs
15 yrs

This is the maximum period that a TID may collect tax increments.

This is the maximum period that a TID may make expenditures to be paid with tax increments.

The average TID lifespan in Madison is about 12 years.

# TID Closure

## **A TID must close:**

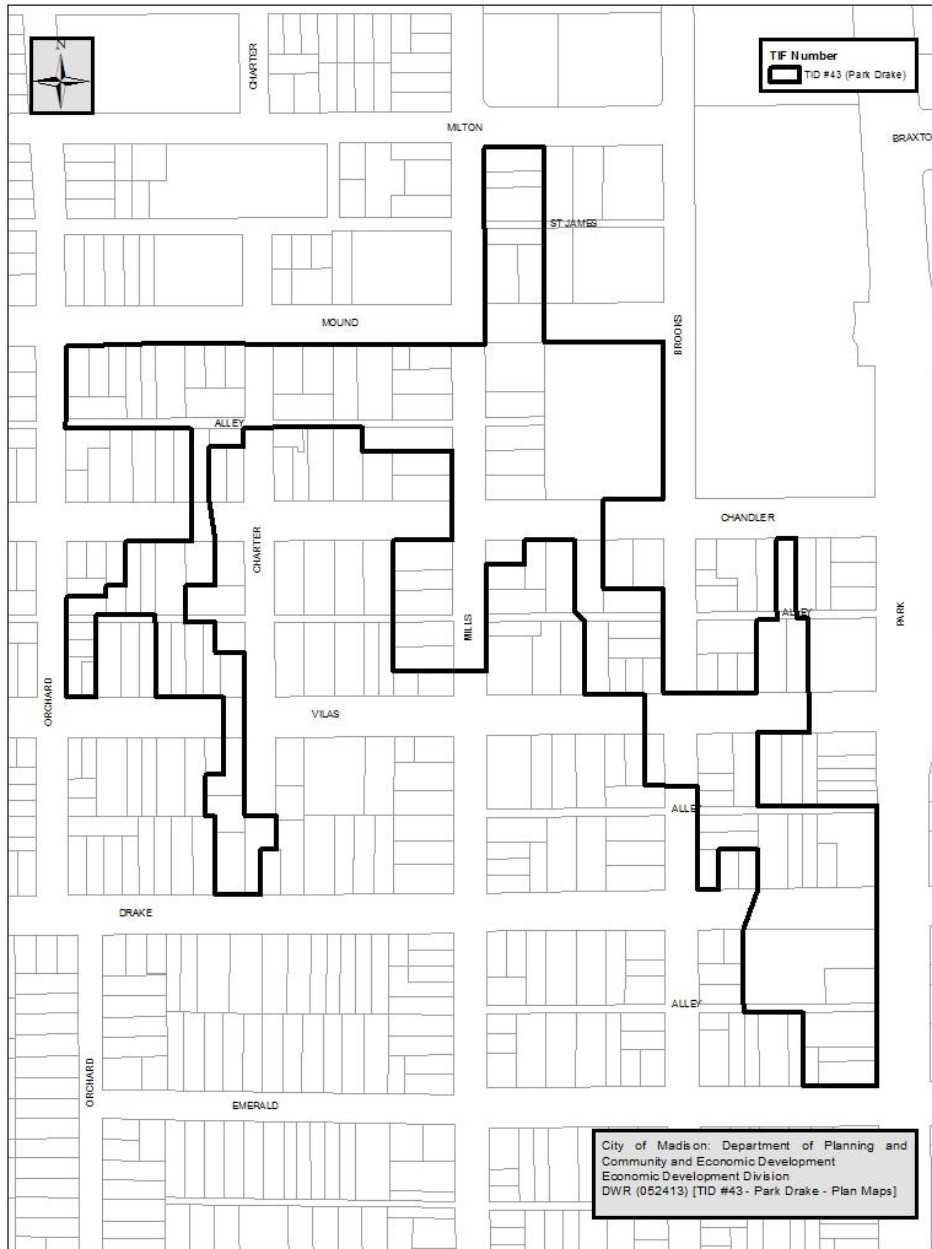
- When the TID recovers its cost through tax increments or,
- At the end of its statutory life (20 or 27 years maximum)

## **When a TID closes:**

- A final audit is provided to the overlying tax districts and DOR.
- Excess tax increments are distributed among the overlying tax districts.

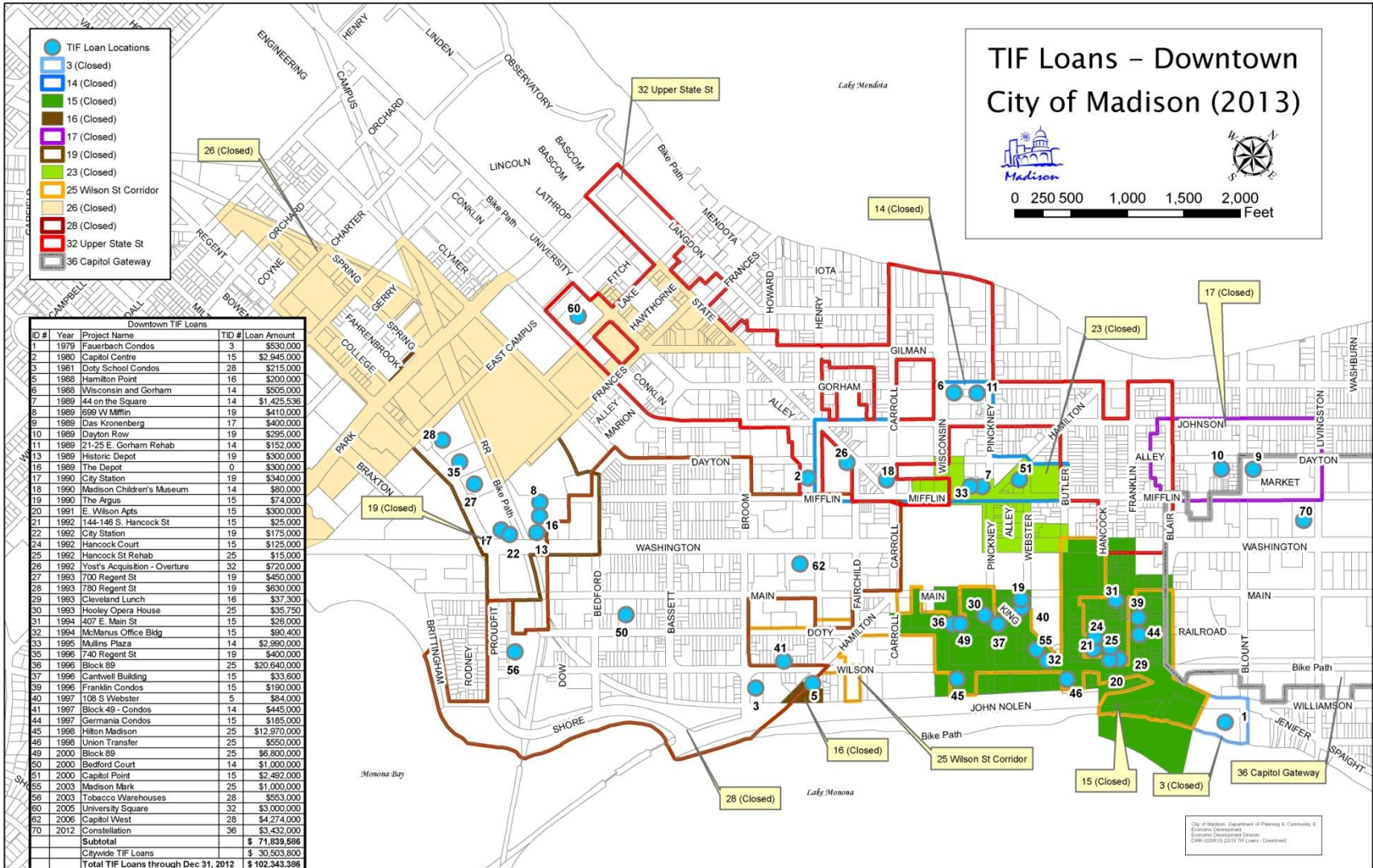
## **Exceptions:**

- Affordable Housing Extension—By Council action, a TID may remain open for one more year, collecting increment to assist affordable housing and improvement of housing stock.
- Distressed or Severely Distressed TID--With Joint Review Board approval, an under-performing, i.e. “distressed” or “severely distressed” TID may extend its life by as much as ten to thirteen years.

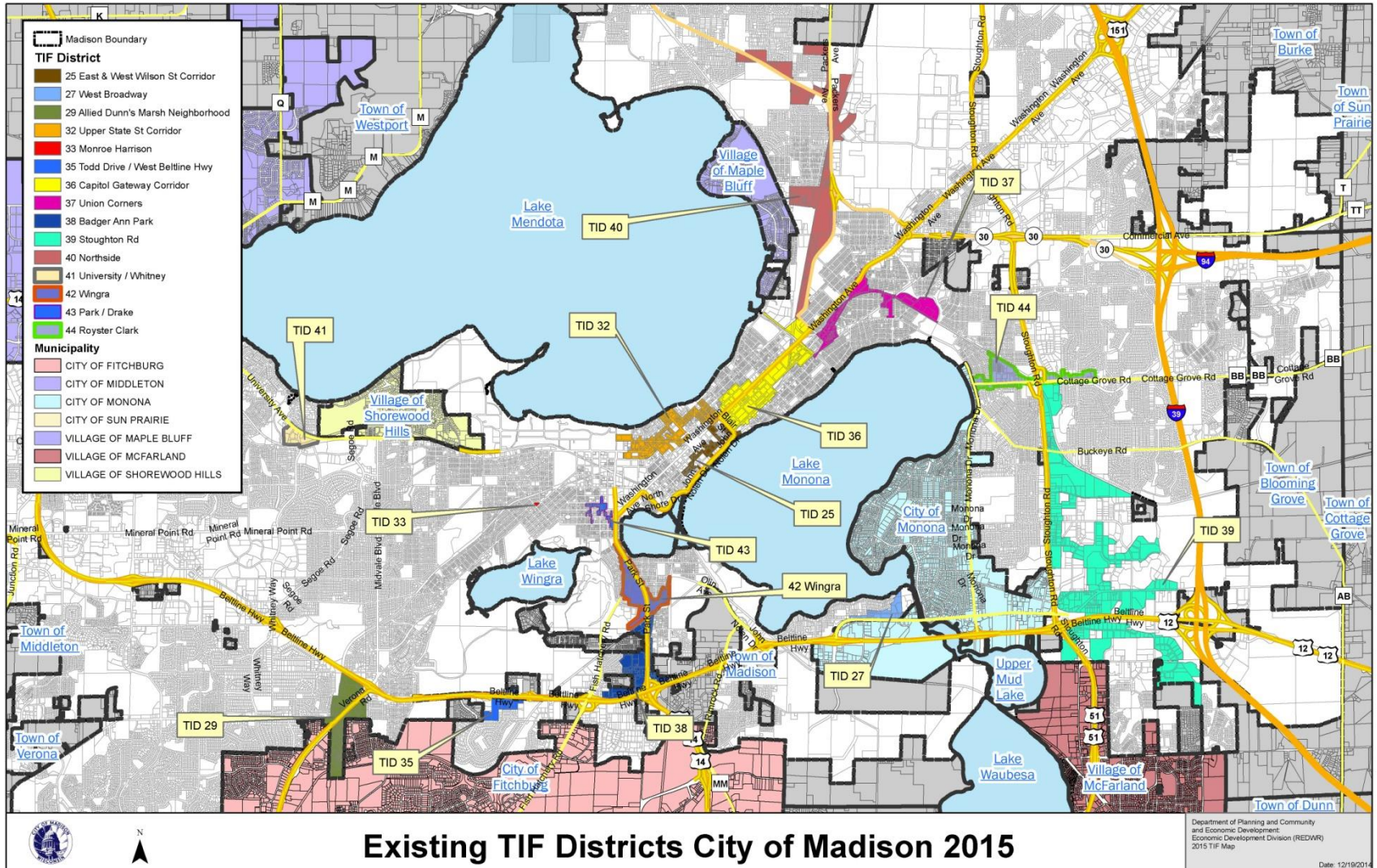


## Example: TID #43 Boundary

# Existing Downtown TIDs



# All Active TIDs



# TIF Policy - Background

TIF Policy deliberations began in 1999

Policymakers sought a consistency to the use of TIF, while Developers sought predictability

First TIF Policy adopted in 2001, amended in 2005, 2009 and 2014

Overall time of deliberation: 12 years (about 2.5 years per committee)



# TIF Policy – Main Elements

TIF Policy is comprised of two documents:

1. Goals, Objectives & Process—Basically this document determines:

- Desirable TIF outcomes (eligible and ineligible project types)
- How City will create, amend and administer TIDs

2. TIF Loan Underwriting Policies:

- “But for” = Gap Analysis (except for Jobs Project Waivers)\*
- Self-Sustaining Projects—Project supports its own TIF request
- Developer equity greater than or equal to TIF Loan
- “55% Gateway”—Project eligible for 50% of TIF it generates but may not exceed 55% without policy exception
- Rules on TIF Policy exceptions
- Personal and Increment Guaranty Required

# TIF Policy Goals

## **TIF Goals:**

- Grow property tax base
- Foster creation/retention of family-supporting jobs
- Encourage adaptive re-use of obsolete or deteriorating property
- Encourage urban infill
- Revitalize historic, architecturally significant buildings, historic districts
- Create a range of housing types
- Fund public improvements
- Promote superior design, building materials, sustainability
- Reserve TIF for public infrastructure and TIF loans

## **Ineligible Development:**

- Luxury Housing
- Student Housing
- Speculative Office Development
- Tenant-Shifting Office Development

# TIF Policy: TID Creation or Amendment Feasibility

## **TIF Generator(s)**

**Definition:** “..at least one private development project that generates tax increment to finance TID costs, including a sufficient amount of public infrastructure improvements.”

In general, TIDs in the City of Madison must have a TIF generator with an incremental value of at least \$3 million in order to be created.

## **Speculative TIDs**

- Do not require a generator.
- Focus on commercial and industrial development
- Operate on a phased project expenditure schedule, tied to value growth
- No more than two spec TIDs may be open at one time
- No Half Mile Rule amendments that allow spending outside the TID
- If no value growth occurs in 10 years, TID closes

# Types of TIF Assistance

- Redevelopment TIF
- Jobs Project TIF

# Redevelopment TIF Process

## TIF Loan Process

1. Developer submits TIF Application, including:
  - ❑ Project assumptions, value, cost and cash flow documents
  - ❑ Developer's goals statement – how project meets TIF Goals
  - ❑ Application Fee—.005 of TIF request, non-refundable by ordinance
  - ❑ Alder notified
2. TIF Staff determines TIF feasibility and gap
3. TIF Staff meets with Developer to share findings
4. Developer meets with Affirmative Action
5. Term Sheet drafted and signed
6. Resolution introduced, referred and adopted
7. Closing documents drafted

# Jobs Project TIF - Background

In 2014, Common Council adopted an amended policy that created “Jobs Project” TIF loans for the creation and retention of jobs. The basics of the Jobs Project loan program are as follows:

- Loans are real estate-based, secured by a note and mortgage
- Loans determined by Gap Analysis unless BOE grants Employer a Gap Analysis Waiver
- Employers eligible for 60% or 40% of TIF (with or without Gap Analysis)
- TIF assistance is an end loan—disbursed to Employer when job retention or creation goals are met

# Jobs Project TIF - Eligibility

**Eligibility Requirements**—An eligible Employer must:

- Belong to an eligible industry sector (**see next slide**)
- Create and/or retain living-wage jobs defined in MGO 4.20
- Either own and occupy or lease as at least 30% or more of space in a building
- Demonstrate “but for” through gap analysis or qualify for Gap Analysis Waiver
- Demonstrate how the project meets TIF Policy Goals
- Guaranty that jobs remain created or retained for the life of the loan
- Guaranty that tax increments from the project repay the loan (in some cases this is Landlord)



# Jobs Project – Eligible Industry Sectors

Manufacturing

Medical/Biotechnology

Agriculture/Biotechnology

Digital Technology

Finance and Insurance

Alternative Energy, Water and Sustainability

Other Sectors Consistent with the Economic Development Plan



# Jobs Project TIF - Process

1. Employer submits a TIF Application, including:
  - ❑ Project assumptions--value, cost and cash flow documents
  - ❑ Developer's goals statement – how project meets TIF Goals
  - ❑ Application Fee—.005 of TIF request, non-refundable by ordinance
  - ❑ Current, historical and projected financials or evidence of waiver conditions
  - ❑ Alder notified
  
2. TIF staff:
  - ❑ Conducts Gap Analysis; or
  - ❑ Reviews Gap Analysis Waiver Request with BOE
  
3. TIF Staff meets with Employer to share findings
  
4. Employer meets with Affirmative Action
  
5. TIF staff drafts Term Sheet
  
6. Resolution introduced, referred and adopted
  
7. Closing documents drafted

# Jobs Project – Waiver Criteria

**Waiver Qualifications**—To qualify for a Gap Analysis Waiver, the Employer:

1. Meets all eligibility Requirements
2. Meets applicable TIF Goals and Objectives
3. Retains and/or creates at least 100 full-time living-wage jobs
4. Guarantees that increment from the project is sufficient to repay the loan
5. Guarantees that living wage jobs be created for a period not to exceed five years

**Conditions of Waiver**—BOE may grant a waiver under one or more of the following conditions:

1. The Employer is a subsidiary of a large parent corporation and does not measure financial performance independent of the parent.
2. Documented proof that the Employer is soliciting or has received financial incentive bids from communities that do not conduct gap analysis

# The TIF Universe - Illustrated

## At the start

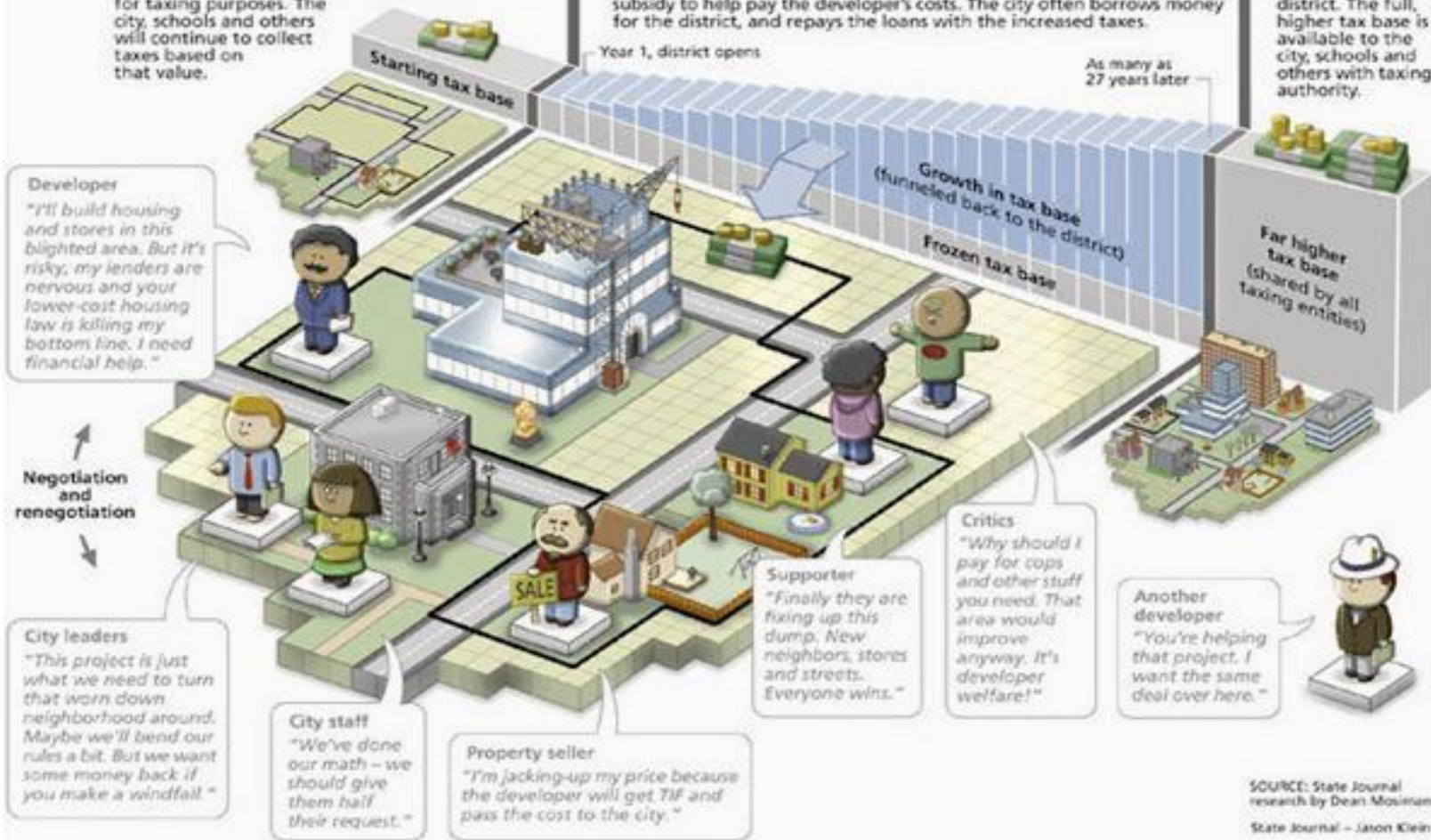
The city or a private developer propose a TIF district in an area needing an economic boost. When the district opens, the value of the property is "frozen" for taxing purposes. The city, schools and others will continue to collect taxes based on that value.

## Open and growing

Next, construction begins and the value of the property grows, generating increases in taxes. For up to 27 years, the extra tax money is pumped into the district - sometimes for roads and sidewalks, often as a direct subsidy to help pay the developer's costs. The city often borrows money for the district, and repays the loans with the increased taxes.

## Closed

Finally, the city stops sending money into the district. The full, higher tax base is available to the city, schools and others with taxing authority.



# City of Madison TIF Track Record

42 districts created since 1977

16 active districts

\$117 million of TIF invested in 75 projects

\$1.76 billion of growth in all active districts

More info on City of Madison TIF available at:

<http://www.cityofmadison.com/dpced/economicdevelopment/tax-incremental-financing/415/>



# Recent Projects

# Anchor Bank – 25 W. Main



# AT&T Building – 316 W. Wash



# Ovation – 309 W. Johnson





# Wingra Clinic – S. Park Street



# Constellation – E. Washington



# University Crossing-UW GI Clinic



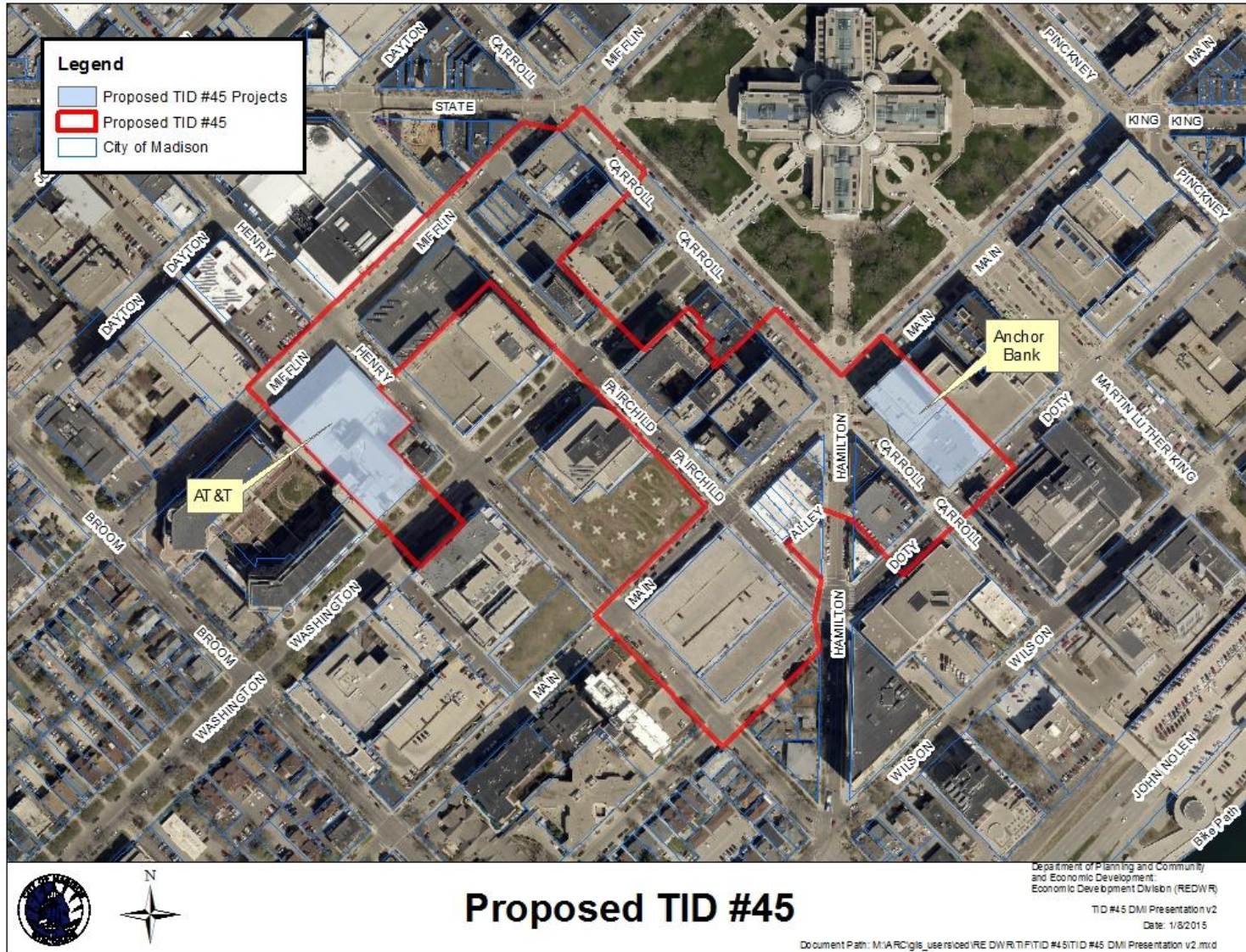
# University Crossing – University Row Apartments



# Facility Gateway - Beltline



# Proposed Downtown TID #45



# Questions

More questions contact:

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