

# TIF OVERVIEW

## Board of Estimates

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# TIF Terms

## **Tax Increment District (TID)**

The contiguous geographical area within a municipality of whole units of property where base property tax value is fixed and the levy on subsequent increases in property values are used to finance projects intended to facilitate desired development.

## **Tax Increment**

The increase in the tax levy of a district over and above the levy collected on the fixed base value.

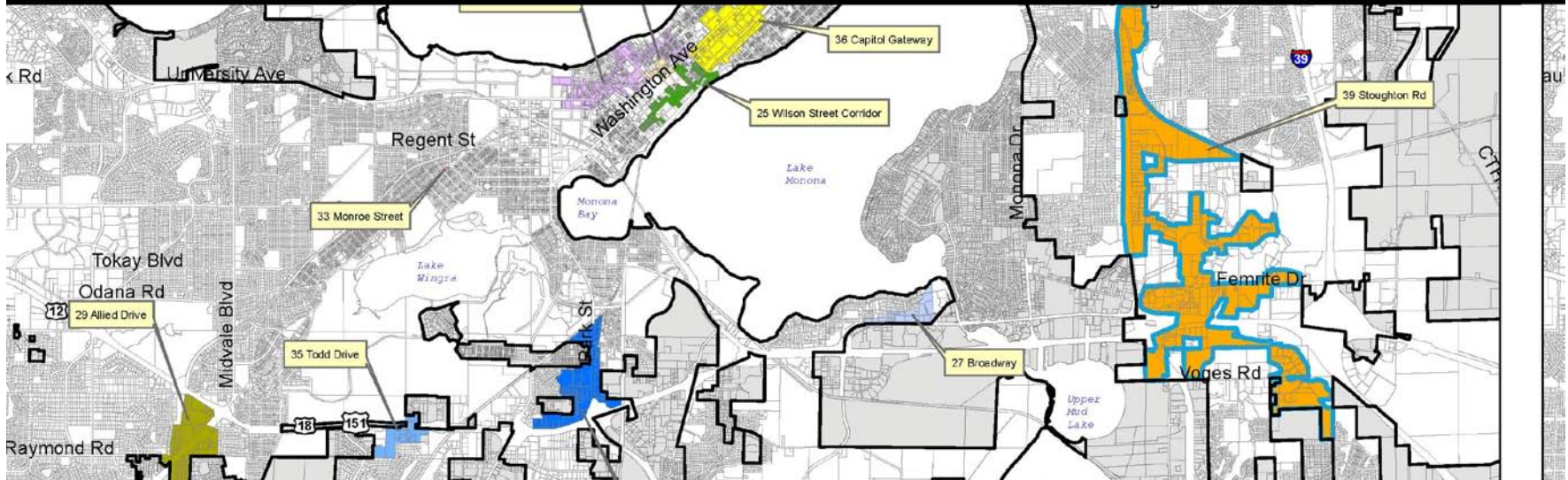
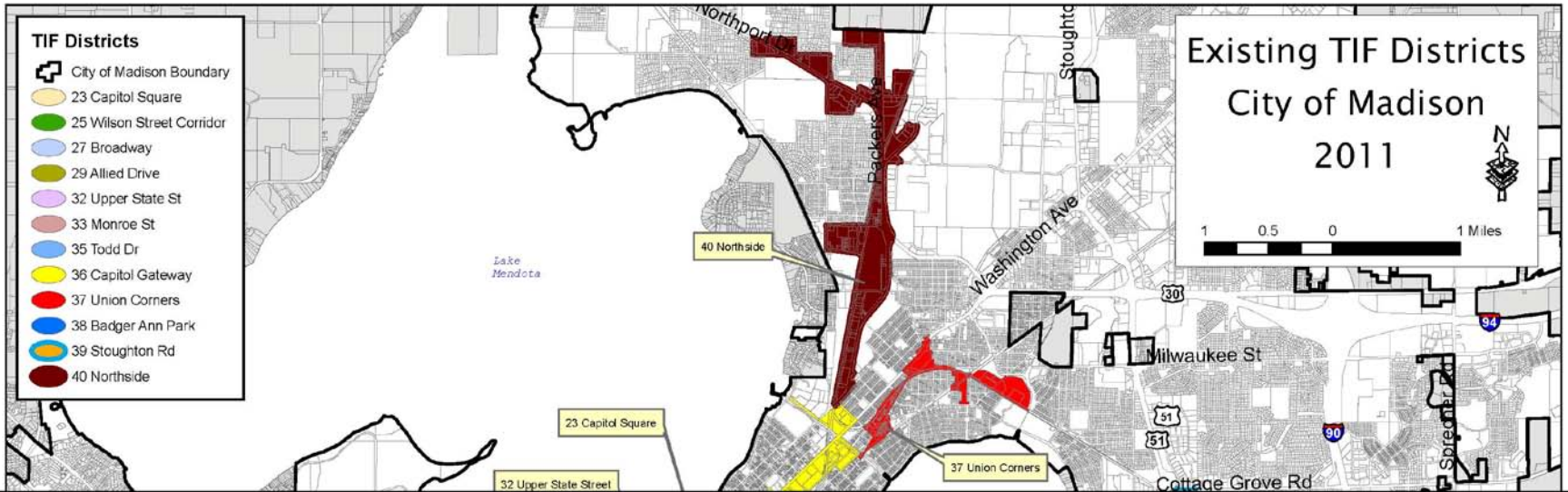
## **Tax Increment Financing (TIF)**

A financial tool available within TIDs to encourage development that would not otherwise occur, typically by borrowing against future increases in a TID's property values.

## **TIF Generator**

A project that generates additional tax increment.



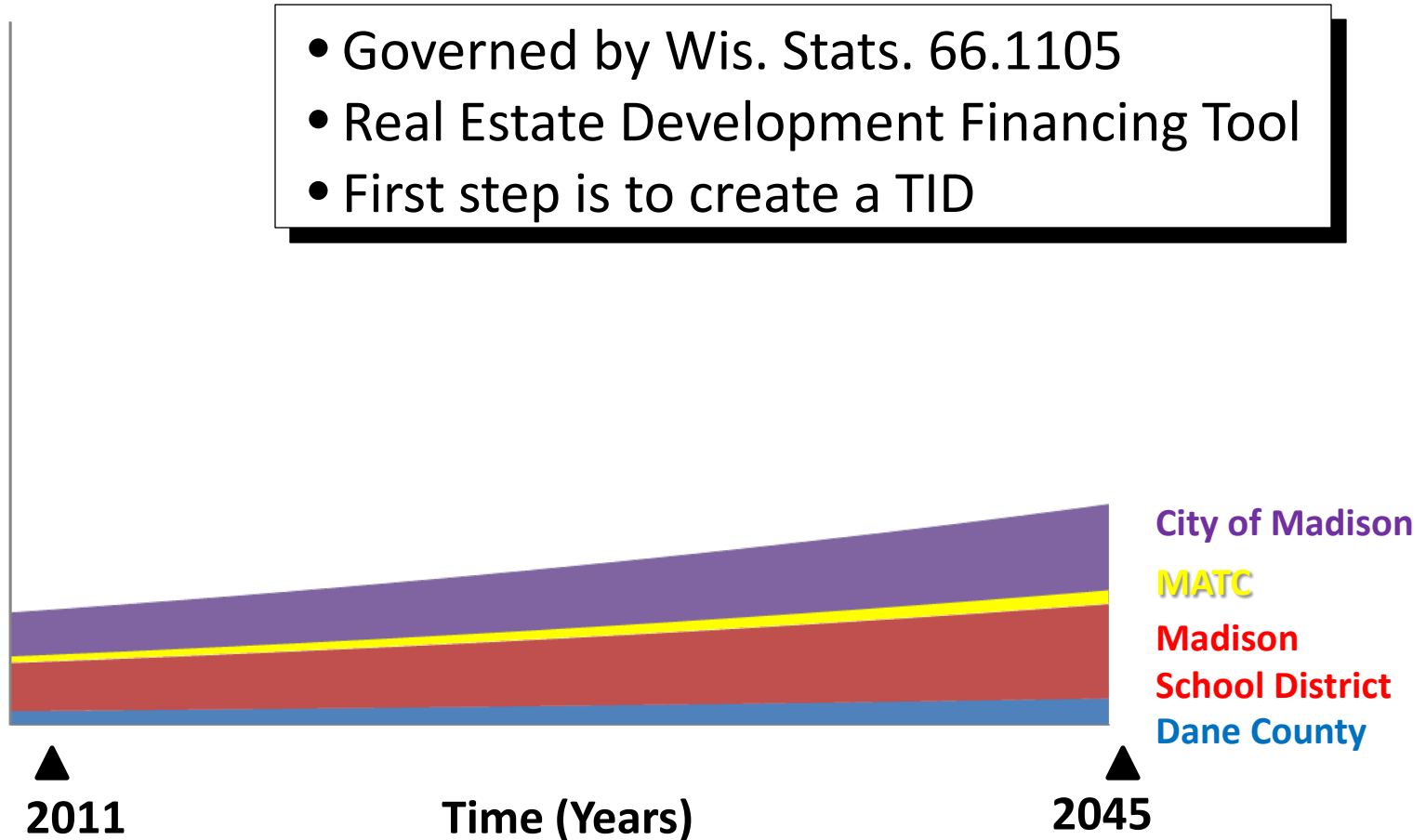




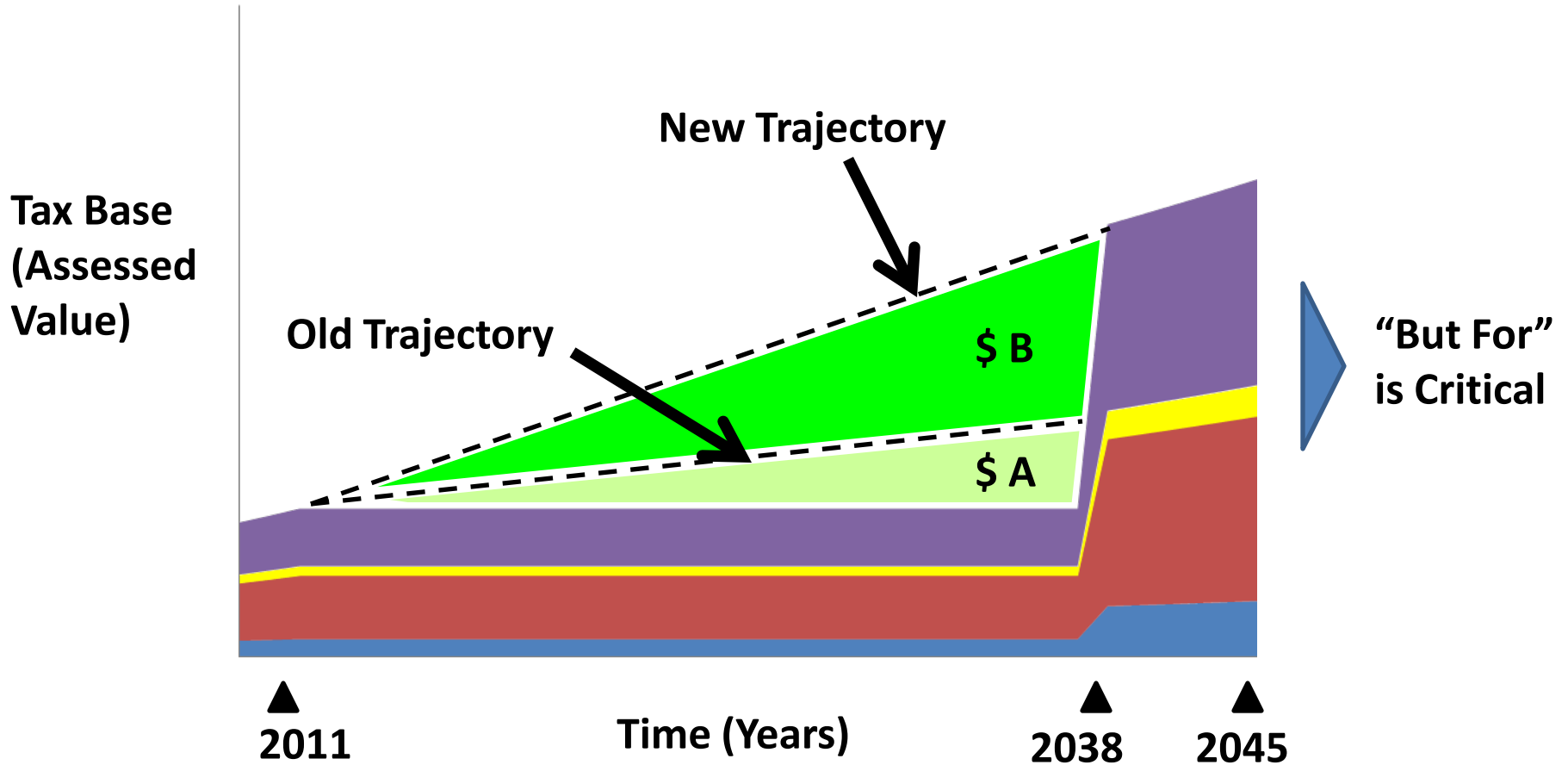
# How TIF Works: Growth Without TIF

- Governed by Wis. Stats. 66.1105
- Real Estate Development Financing Tool
- First step is to create a TID

Tax Base  
(Assessed  
Value)

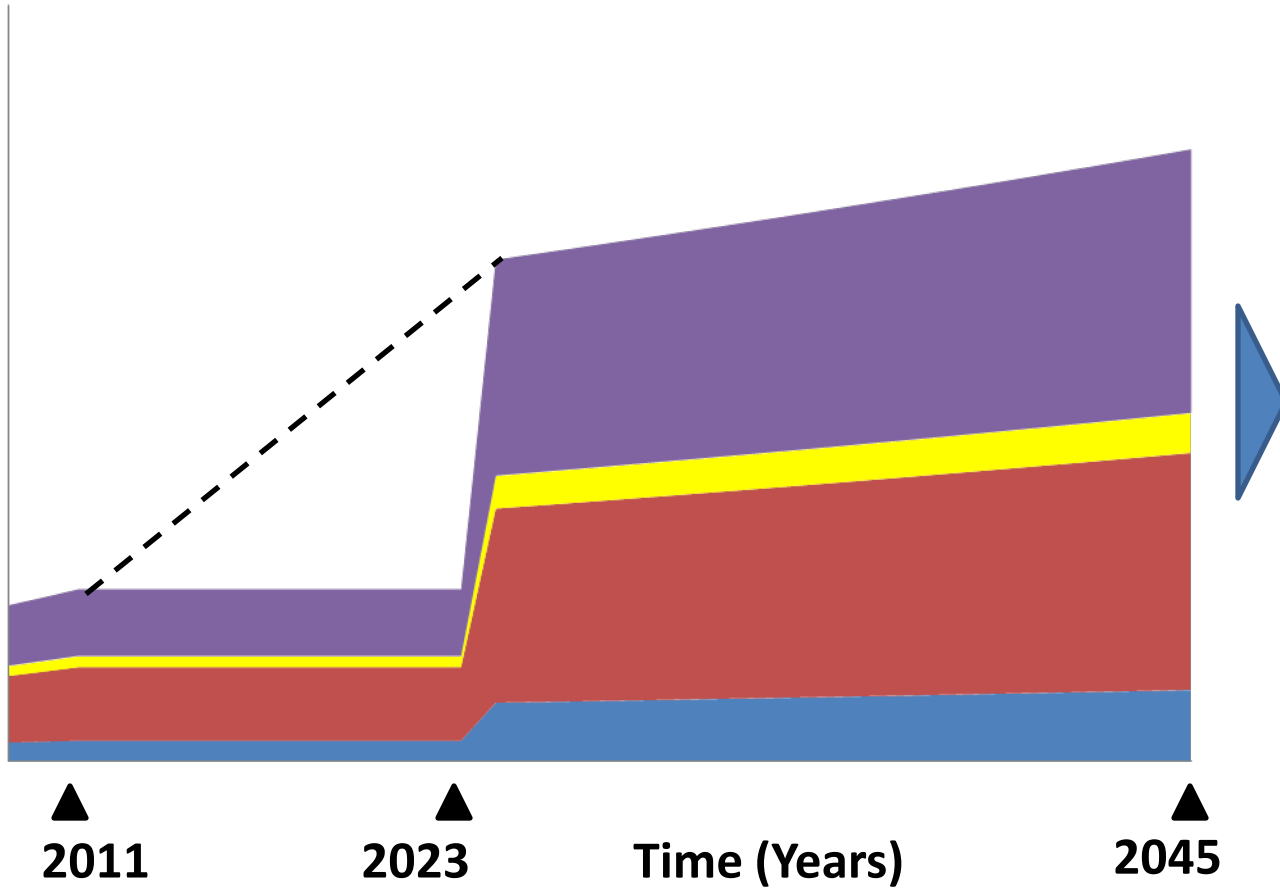


# The Value for Overlying Jurisdictions



# Typical Madison Lifespan is 12 Years

Tax Base  
(Assessed  
Value)



Statue  
generally  
allows  
districts  
to remain  
open 27  
years

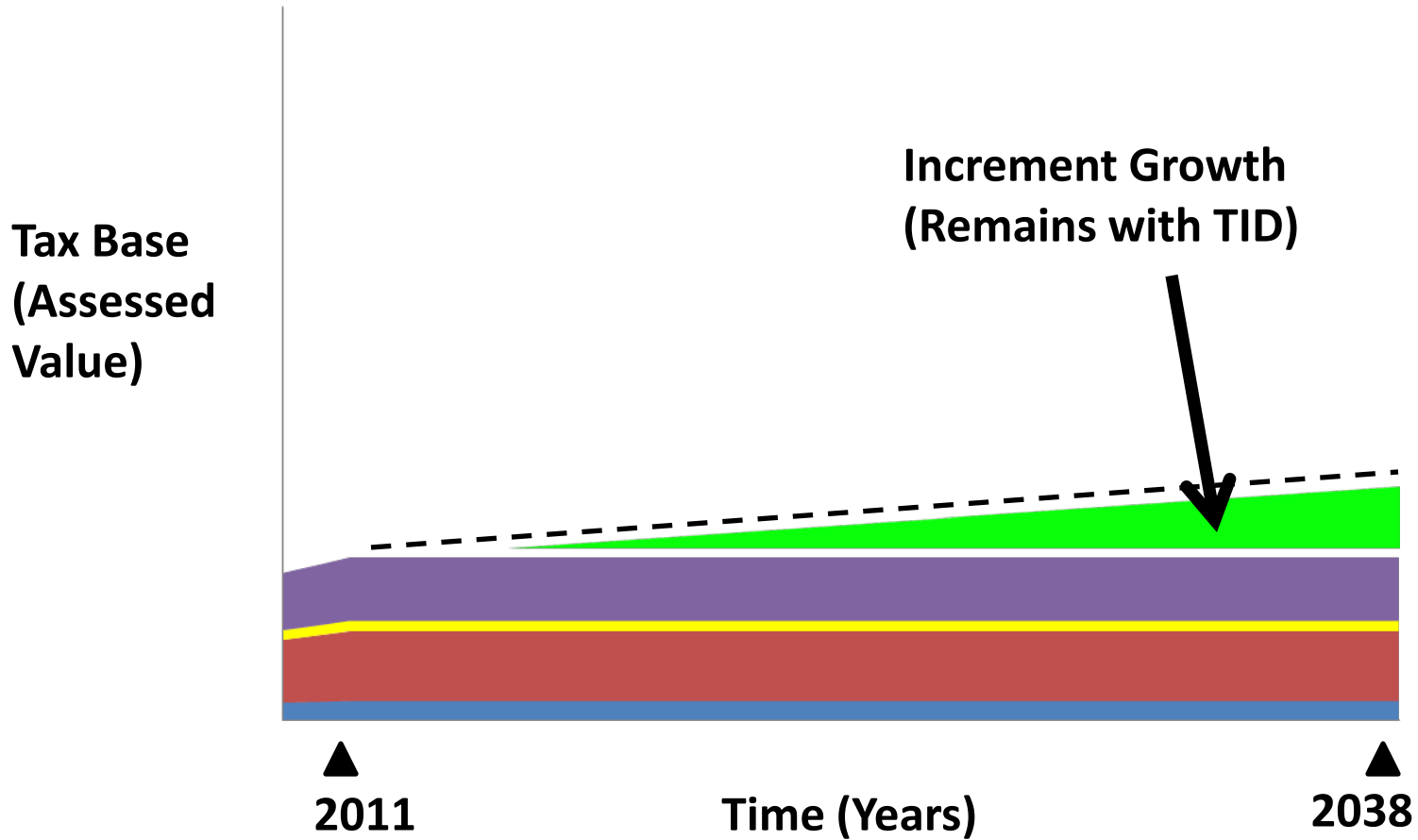


# Creating a Tax Increment District

1. City proposes creation of a new TID with specified boundaries
2. Most TIDs drawn based on a blight study
3. The proposed TID establishes a base-value, allowing overlying tax jurisdictions (OTJs) to continue to collect their portion of the levy
4. City drafts a project plan with anticipated project costs
5. Common Council approves the creation of a proposed TID
6. Joint Review Board comprised of OTJs (City, County, MATC, School District, Public Member) approves creation of the TID

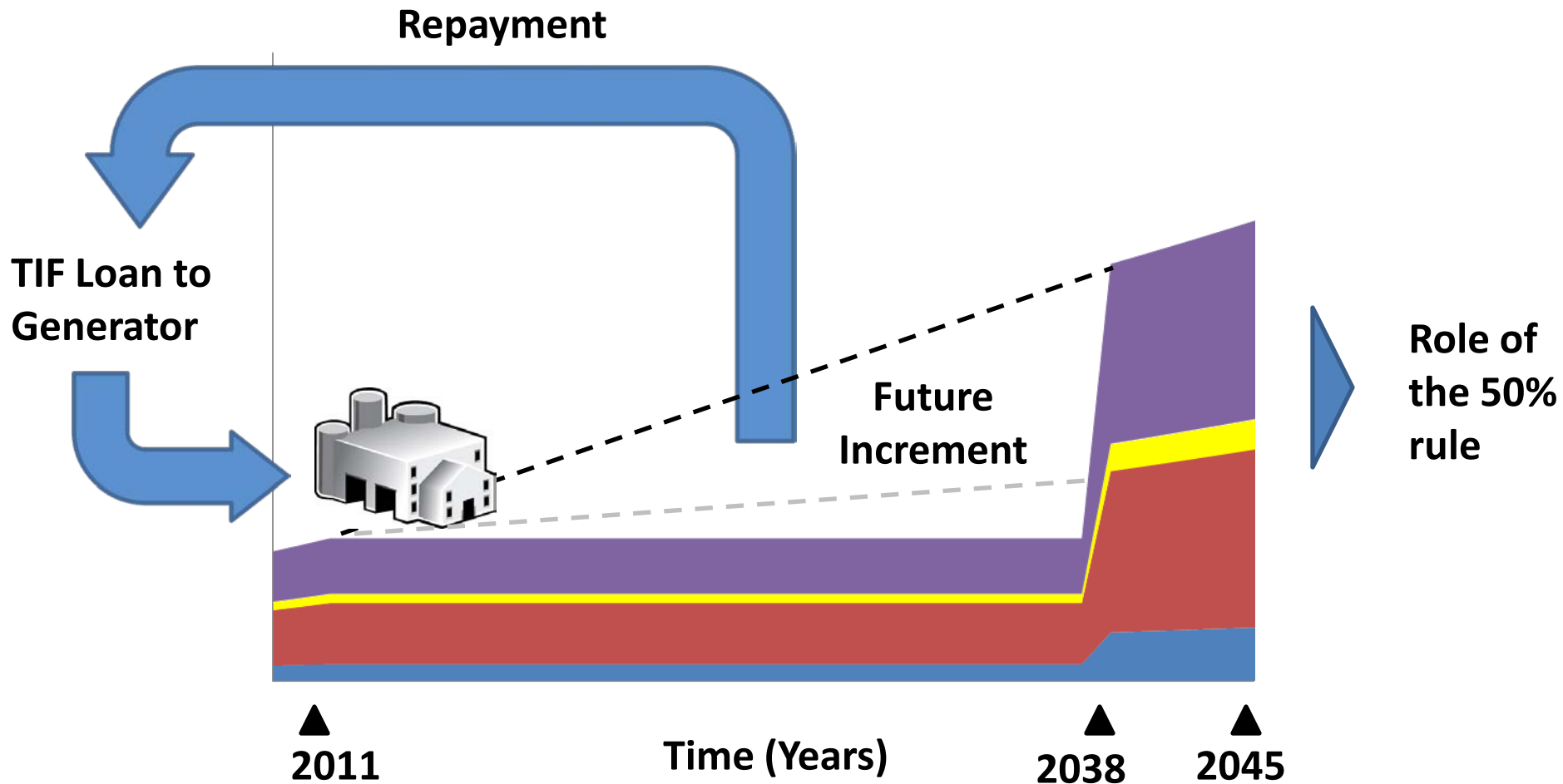


# How TIF Works: Growth Through Appreciation





# How TIF Works: Growth Through Generators



# How Does the City Determine the Loan Amount?

- **How much does the project need?**
  - Analysis of the project's "gap"
- **How much can the city afford?**
  - Analysis of the Net Present Value of the Future Increment
    - Typically apply the 50% Rule
    - Use 7% discount rate
- **Negotiated amount based on above analyses and strategic factors**



# TIF Undewriting Considerations

	<u>Increment Threshold</u>	<u>Policy Considerations</u>
Lower	50% or less	Conservative Leaves room for other project costs Conforms to policy
Risk	50% to 100%	Less margin for error Leaves less room for other project costs May be required for strategic projects
Higher	Greater than 100%	No margin for error Requires increment from other projects Requires extraordinary public purpose or catalytic effect



# Case Study: TID #28 – Bassett Neighborhood

	<u>Before - 2000</u>	<u>After - 2007</u>
Assessed Value	\$ 206 million	\$ 485 million
Annual Taxes	\$ 5.4 million	\$ 9.6 million
TIF Expenditures*		\$12.7 million
Annual Value Growth		13.0 %
Annual Tax Growth		8.6 %
Excess Increment		\$ 4 million

\* Development Loans, Street Improvements, Storm Water Improvements, Streetscape, Pedestrian Circulation, Bus Shelters, Shoreline Repair, Administration





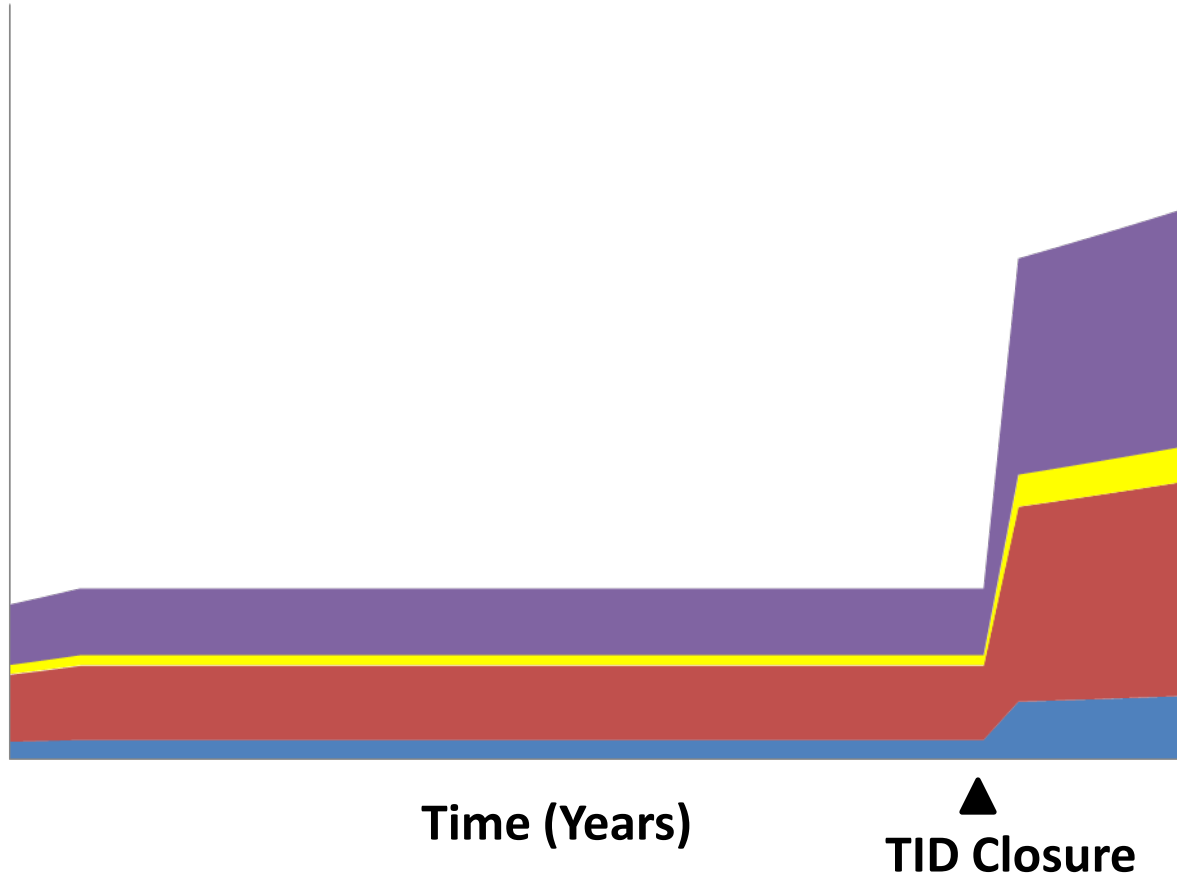
# Case Study: TID #28 – Bassett Neighborhood

	<u>Expenditures</u>
Development Loans	\$ 6,627,000
Street Improvements	\$ 4,120,000
Streetscape, Pedestrian Circulation, Bus Shelters	\$ 621,000
Shoreline Repairs	\$ 298,000
Administrative	\$ 562,000
<hr/>	<hr/>
<b>TOTAL</b>	<b>\$ 12,728,000</b>



# Implications of Closing a TID

Tax Base



- TIDs must close when expenditures are paid off
- Tax base adjusts to new level raising revenues
- Possibility of excess increment payment



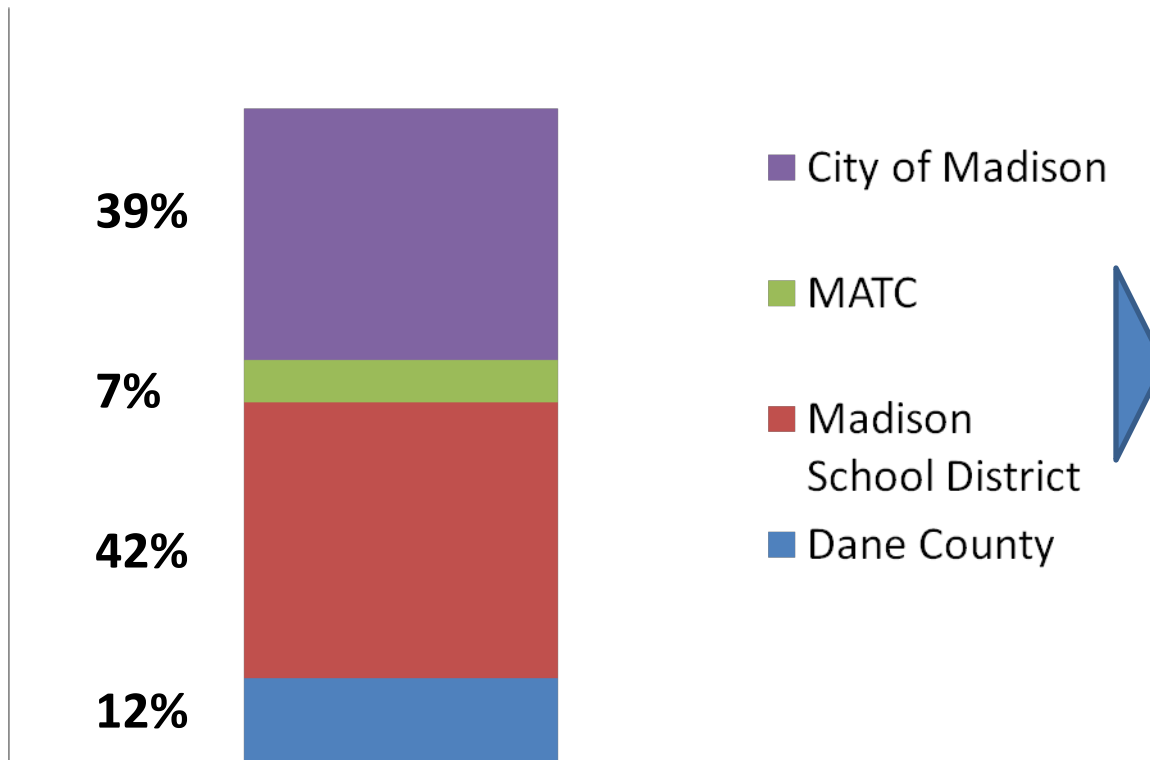
# TIF & School Districts

- **Creating TIDs generally does not affect their operating revenue, but...**
- **School Districts may have additional concerns:**
  - **Concern about mill rate & tax burden**
  - **Concern about realizing full value of projected increment (leading to delayed closing)**
  - **May not support TID investment in public infrastructure (leading to delayed closing)**



# TIF From the City's Perspective

Relative  
Share of  
TID  
Spending



## TIF Impact on City

1. TIF spending attractive relative to General Fund Spending
2. Levy limit allowed to increase for Net New Construction





# TIF & The Property Owner

Being in a TID does **not**:

- Increase, decrease, or freeze taxes
- Affect property values\*
- Signal condemnation is imminent (Wis. Stats. 32 vs. 66)
- Trigger building code enforcement or penalties

\* A TID may make a parcel more attractive to some buyers



# Madison's TIF Track Record

- **37 Districts Created since 1977**
- **No failed TIDs**
- **\$95.5 million provided to 65 projects**
- **\$1.36 billion of growth in active districts**
- **Worth ~\$11 million of revenue per year**

