

City of Madison

Tax Incremental Finance (TIF) Objectives & Policies

Adopted by the Madison City Council
April 17, 2001

Presented by

The City of Madison
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INTRODUCTION

Tax Incremental Financing (TIF) is a governmental finance tool that the City of Madison uses to provide funds to construct public infrastructure, promote development opportunities and expand the future tax base. TIF assistance in Madison is only used when the proposed development would not occur “but for” City assistance. The proposed development should be consistent with and reinforce all City plans and lead to the consolidation and redevelopment of underutilized properties.

In order to use TIF financing effectively, the City of Madison has produced planning, project and developer review policies to direct public and private investment toward meeting the following community objectives:

TIF OBJECTIVES

Support the Downtown

The proposed development should support continued revitalization of the downtown and implement adopted policies and reports by one or more of the following:

- (a) Improving the public infrastructure.
- (b) Providing a variety of housing choices, through renovation and rehabilitation of existing buildings and higher-density new construction in selected areas to increase the number and diversity of downtown residents.
- (c) Attracting, retaining or expanding businesses.
- (d) Encouraging the development of higher concentrations and mixes of commercial, retail, business and professional office uses, with parking and Transportation Demand Management (TDM), within mixed-use projects.
- (e) Encouraging development projects that enhance the streetscape and pedestrian experience and improve the vitality of commercial districts by adding interest and activity on the first floor of mixed-use buildings and parking facilities.

Support Neighborhood Revitalization

The proposed development should support the recommendations of adopted neighborhood plans and other revitalization efforts by:

- (a) Improving the public infrastructure.
- (b) Stimulating the rehabilitation or removal of deteriorated or dilapidated buildings and the creation of mixed-use in-fill redevelopment.
- (c) Providing the full range of basic neighborhood goods and services and employment opportunities.
- (d) Providing transportation linkages and other urban amenities.
- (e) Increasing the supply and variety of high-quality, home ownership opportunities.
- (f) Increasing (or decreasing, when appropriate), residential densities at selected locations as identified in the

adopted neighborhood plans or the downtown master plan.

Support Economic Development

Support economic development activities intended to stabilize and diversify the City's economic base by:

- (a) Improving the public infrastructure.
- (b) Supporting development of industrial sites to attract new industries and provide suitable locations for expansion and relocation of existing industries.
- (c) Providing financial assistance to new and existing businesses.

TIF POLICIES

1. Eligible uses of TIF (not in priority order):

- (a) Owner-occupied housing development in the downtown or neighborhoods with a high concentration of rental housing.
- (b) Affordable housing – rental or owner-occupied.
- (c) Assisting revitalization of historic or architecturally significant or deteriorated buildings.
- (d) Supporting projects that are consistent with adopted neighborhood plans.
- (e) Public infrastructure project costs.
- (f) Attracting, retaining or expanding businesses.

2. Ineligible uses of TIF:

- (a) Speculative office development.
- (b) Office development that consists of moving a downtown office or business to another downtown location for purposes other than to retain or substantially expand the business.
- (c) Write-downs for land purchases that greatly exceed the assessed value of the current land use(s), as determined by the City. See 9h.

3. TIF Policies on Housing

- (a) The City wishes to encourage the creation of high-quality, owner-occupied housing in neighborhoods with high concentrations of rental housing.
- (b) For large-scale projects of 5 acres or more which are predominantly owner-occupied, the City will consider providing TIF funds for rental housing that preserves historic structures, rehabilitates existing housing or meets other City goals and objectives. Twenty percent of these rental units must be affordable to income-certified households at or below 80% of the Dane County median income, adjusted by family size. The affordable rental units shall remain affordable until the TIF debt is repaid or 20 years, whichever is longer. The term "affordable" is generally defined to mean a rent that does not exceed 30% of monthly gross income.

- (c) Increasing Affordable Housing Capacity. It is a goal of the City of Madison to increase the amount of affordable housing throughout the City. Accordingly, in each TIF district involving residential use created after October 1, 1999, at least 10% of the anticipated district-wide increment shall be reserved to assist in the development of affordable housing within the TIF District under program parameters and guidelines adopted by the Common Council. Projects funded with this affordable housing set-aside must be budgeted on a TIF district basis in the City's Capital Budget and may be borrowed or otherwise financed. The expenditure of the monies must be in accordance with the uses and timeline prescribed by TIF law. For purposes of expenditure from the set-aside, the term "affordable housing" shall be established for each district. The affordable housing units shall be made available to income certified households at or below 80% of the Dane County median income, adjusted for family size. By adopting this income standard, it is the intent of the Common Council to encourage the development of mixed-income affordable housing, which should include housing units at low and very low income levels.
- (d) The City encourages projects that include additional housing performance standards that incorporate materials, fixtures, designs and appliances which provide health-related benefits and energy conservation and enhance quality of life including accessibility; such standards may include: energy conservation equipment and appliances, designs and fixtures that provide for fully accessible dwelling units, and equipment that provides a high level of air quality.

4. Underwriting Policies for All Private Developers Projects

- (a) Each project must demonstrate sufficient need for the City's financial assistance, so that without that assistance, the proposed project would not occur.
- (b) Every other financial alternative is to be exhausted prior to the use of TIF, including equity participation, other federal and state funds, bonds, tax credits, loans, etc.
- (c) TIF assistance will be utilized as gap financing.
- (d) TIF assistance will be limited to the amount necessary to make a project competitive with other similar projects in the Madison metropolitan market area. The intent is not to provide below-market sales prices or rent subsidies to assisted projects, except as applied to assist affordable housing.
- (e) No more than 50% of the net present value of the tax increment generated by a private development project shall be made available to that project as gap financing.
- (f) Each for-profit project demonstrating a need for TIF assistance must generate sufficient tax increment to cover or repay both the TIF contribution to the project and a portion of the planned public infrastructure costs within the tax incremental district. Non-profit affordable housing projects must generate sufficient tax increment to cover or repay only the TIF contribution that is not provided by the Affordable Housing Set-Aside Fund.
- (g) No increment from other private development projects within a tax increment district may be used to supplement another project's inability to generate sufficient tax increment.
- (h) Each project must demonstrate probability of economic success.
- (i) The City will not provide mortgage guarantees.
- (j) TIF may not be used to pay for public infrastructure expenditures that are paid for by special assessments or other City charges. Non-assessable public infrastructure expenditures may be funded with TIF.

5. Additional Underwriting Policies for Profit Developers

- (a) The City will require a personal guarantee for TIF assistance.
- (b) The developer(s) shall provide a minimum of 10% of the total estimated project costs as equity.

6. Additional Underwriting Policies for Nonprofit Developers

- (a) All projects assisted with TIF shall pay real estate taxes.
- (b) In lieu of the City requiring a personal guarantee for TIF assistance, other forms of guarantee may be substituted in cases where:
 - A nonprofit developer is the recipient of the TIF assistance.
 - The TIF assistance is for the development of long-term affordable housing.
 - The recipient of the TIF assistance has provided additional security in a form satisfactory to the City.
- (c) In lieu of developer(s) providing a minimum of 10% of the total estimated project cost as equity, the strength of the proposal may be judged by substitute criteria in cases where:
 - A nonprofit developer is the recipient of the TIF assistance.
 - The TIF assistance is for the development of long-term affordable housing.
 - The recipient of the TIF assistance has provided additional security in a form satisfactory to the City.

7. Policies on Private Development Projects Used by Government Units

The City may provide TIF assistance to a private development project wherein a unit of County, State or U.S. Government leases space when the project addresses all of the following situations:

- (a) Satisfies all other underwriting policies for TIF assistance to private development projects.
- (b) Maintains or expands existing employment or reuses a blighted or vacant property.
- (c) Provides an anchor for an overall development plan that will include other commercial, office, housing or mixed uses.
- (d) Advances a development plan in an already established tax incremental district.
- (e) Private development projects assisted under this policy will be required to provide a full reimbursement of the City's financial assistance and expenses for the project in the event the project is removed from the tax roll.
- (f) Projects will be funded under this policy with sources other than general obligation debt to the maximum possible extent, in accordance with the general policy of the City's use of TIF.

8. General Guidelines for Creating TIF Districts

- (a) The City will conform to the requirements established in the State Statutes governing the elimination of blight and creation and use of TIF districts (Wis. Stats. 66.1105) as follows:

- 1) The proposed TIF district assists blight elimination, environmental remediation, development of industrial parks.
- 2) Projects developed within the proposed TIF district would counteract or eliminate blight or neighborhood conditions that demonstrate a negative effect upon the public health, safety, morals or welfare.
- 3) The City will evaluate a proposed TIF district to ensure that it does not compromise the City's ability to create future, high-priority TIF districts. This evaluation will be based upon the proposed TIF district's impact upon equalized value limits established in the TIF Law (Wis. Stats. 66.46 (4) as follows:

“Either the equalized value of taxable property of the district plus all existing districts does not exceed 7% of the total equalized value of taxable property within the city or the equalized value of taxable property within the district plus the value increment of all existing districts within the city does not exceed 5% of the total equalized value of taxable property within the city.”

(b) The City will consider creation of a TIF district according to the following guidelines:

- 1) The proposed TIF district has economic “generators”, i.e., at least one private development project that generates increment to finance TIF district costs, including a sufficient amount of public infrastructure improvements. The economic generators project must have a value at completion of at least \$3 million (in Year 2000 dollars) to cover the typical costs of establishing a TIF district.
- 2) The City may create a TIF district around an economic generator for the sole purpose of financing public infrastructure costs or financing long-term affordable housing serving income-certified households at or below 80% of the Dane County median income, adjusted for family size.
- 3) The proposed TIF district assists in-fill development or adaptive reuse or revitalization of older commercial corridors or underutilized or otherwise blighted parcels of land in older neighborhoods in the City.
- 4) The proposed TIF district is consistent with adopted City plans.

9. General Standards and Practices

- (a) The City may conduct its own independent analysis of market value or project cost.
- (b) The City may retain consultants such as underwriters, bond counsel and economic analysts.
- (c) Prior to or simultaneous with the initiation of the land use approval process, developers that seek TIF assistance must meet with Community & Economic Development staff and other city staff as appropriate.
- (d) All development projects seeking TIF assistance must receive project land use approvals independent of the review for TIF assistance. Project land use approval does not constitute TIF approval.
- (e) The Developer shall abide by City ordinances regarding living wage, prevailing wage and affirmative action on the TIF assisted project.
- (f) All projects shall be in compliance with all applicable ADA requirements.
- (g) Agreements for TIF assistance shall provide for remedies in the event the applicant violates the land use approvals or other contractual arrangements.

- (h) The City may consider the use of condemnation of private property by the Community Development Authority to keep the cost of site assembly to a minimum.
- (i) Encourage development projects to prepare comprehensive transportation demand management (TDM) plans, especially those projects that have large numbers of employees or dwelling units.
- (j) The City may consider TIF assistance for project costs that demonstrate gap, including but not limited to the following examples of typical project costs:
 - 1) Parking Construction Costs—where the cost exceeds the sales or rental income value of parking stalls.
 - 2) Land Costs—write-downs from the value of the current land use to the market value of the proposed use.
 - 3) Higher-Quality Design and Building Materials—where the cost of higher-quality design and building materials exceeds the reasonable cost of typical design and building materials used in new developments on the City's edge.
 - 4) Environmental Remediation—where the cost to remediate environmentally contaminated property exceeds the reasonable cost experienced on typical redevelopment projects.
- (k) The City staff team will provide the Board of Estimates with a report accompanying any resolution authorizing TIF for a private development. The report shall summarize the financial needs of the project and compare the project to the adopted TIF Objectives and Policies.

Staff and appropriate boards and commissions shall conduct an evaluation and review of the adopted TIF objectives and policies every five (5) years and recommend changes as necessary.

Footnote: Any language in these Objectives and Policies pertaining to TIF law, is subject to change as TIF law may be changed from time to time by the Wisconsin State Legislature.

City of Madison
Amendments to
Tax Incremental Finance (TIF) Objectives & Policies

Adopted by the Madison City Council
April 17, 2001

September 27, 2004 Version

Draft
Present

The City of Madison
TIF Policy Staff Team:

Dean Brasser
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Don Marx
Anne Zellhoefer
Jeanne Hoffman

BACKGROUND

Recent changes enacted by the Wisconsin Legislature in 2004 and the adoption of the City of Madison's Inclusionary Zoning ordinance have necessitated a comprehensive staff review of the City of Madison TIF Policy originally adopted by the Common Council on April 17, 2001. The following document is a result of that review.

INTRODUCTION

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parking stalls.

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- (a) Each project must demonstrate sufficient need for the City's financial assistance, so that without that assistance, the proposed project would not occur.
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- (c) TIF assistance will be utilized as gap financing.
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- (e) No more than 50% of the net present value of the tax increment generated by a private development project shall be made available to that project as gap financing.
- (f) The Common Council may make an exception to policy to provide more than 50% of the net present value of tax increment generated by the project, not to exceed 10% of the amount generated by the project, provided the following conditions are met:
 1. The project demonstrates to the City's satisfaction, that "but for" such additional assistance the project could not be constructed, and;
 2. Funds are available to provide such assistance, and
 3. At least 50% of the project's net finished area is downtown housing and/or preservation of a local, state or national registered historic structure as downtown housing, and
 4. As determined by the City, the additional 10% of TIF assistance would add Inclusionary Zoning (IZ) units that, but for TIF, would otherwise not be constructed as a result of an IZ unit reduction to make the project feasible.
- (g) Each for-profit project demonstrating a need for TIF assistance must generate sufficient tax increment to cover or repay both the TIF contribution to the project and a portion of the planned public infrastructure costs within the tax incremental district. Non-profit affordable housing projects must generate sufficient tax increment to cover or repay only the TIF contribution that is not provided by the Affordable Housing Set-Aside Fund.
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 - The recipient of the TIF assistance has provided additional security in a form satisfactory to the City.
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- (d) Advances a development plan in an already established tax incremental district.

- (e) Private development projects assisted under this policy will be required to provide a full reimbursement of the City's financial assistance and expenses for the project in the event the project is removed from the tax roll.
- (f) Projects will be funded under this policy with sources other than general obligation debt to the maximum possible extent, in accordance with the general policy of the City's use of TIF.

8. General Guidelines for Creating TIF Districts

(a) The City will conform to the requirements established in the State Statutes governing the elimination of blight and creation and use of TIF districts (Wis. Stats. 66.1105) as follows:

- 1) The proposed TIF district assists blight elimination, ~~creation of mixed use TIDs,~~ environmental remediation, development of industrial parks.
- 2) Projects developed within the proposed TIF district would counteract or eliminate blight or neighborhood conditions that demonstrate a negative effect upon the public health, safety, morals or welfare.

3) The City will evaluate a proposed TIF district to ensure that it does not compromise the City's ability to create future, high-priority TIF districts. This evaluation will be based upon the proposed TIF district's impact upon equalized value limits established in the TIF Law (Wis. Stats. ~~66.46 (4)~~ 66.1105 as follows:

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- (g) Agreements for TIF assistance shall provide for remedies in the event the applicant violates the land use approvals or other contractual arrangements.
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- (i) The City staff team will provide the Board of Estimates with a report accompanying any resolution authorizing TIF for a private development. The report shall summarize the

financial needs of the project and compare the project to the adopted TIF Objectives and Policies

(j) TIF Equity Participation Payments—Upon the earlier of the sale of the project or a date certain, projects receiving TIF assistance shall pay the City an equity participation payment by the following formulas:

i) Owner Occupied Housing = (Net Sales Proceeds - Total Audited Cost - Allowable Profit) x 50%

ii) Rental Housing (Three Policy Options)

(1) 7% of either the assessed value of the project upon a date certain or the gross sale proceeds at sale of the project.

(2) A percentage of the gross sale price at sale or assessed value upon a date certain, determined by the ratio of TIF assistance to the total project cost at the time a Council funding authorization resolution is adopted, not to exceed the total amount of TIF assistance provided.

(3) A deferred TIF loan fee, in the amount of the City's borrowing rate plus two points of the amount of TIF assistance provided, with interest accruing at the rate of the City's borrowing rate plus (insert number) basis points payable upon the full repayment of the TIF loan through tax increment or the sale of the project.

10. Small Capital TIF Projects

(a) Loans made to residential property owners at a minimum of \$50,000 but not to exceed \$250,000 per project may be made to projects that meet the following City criteria:

i) "But for" TIF assistance, the project could not occur

ii) The project eliminates blight, converts Downtown rental property to owner-occupied housing or preserves historic structures.

iii) The TID demonstrates that sufficient district-wide tax increment has been generated that would support the provision of TIF funds for these purposes.

iv) The value of the completed project should support at least 50% of the present value of tax increments required to provide it TIF assistance.

Staff and appropriate boards and commissions shall conduct an evaluation and review of the adopted TIF objectives and policies every five (5) years and recommend changes as necessary.

Footnote: Any language in these Objectives and Policies pertaining to TIF Law, is subject to change as TIF Law may be changed from time to time by the Wisconsin State Legislature.