

Executive Summary to the City of Madison Joint Review Board

Tax Incremental District (TID) No. 35 (Todd Drive) Donor / Recipient Project Plan Amendment City of Madison

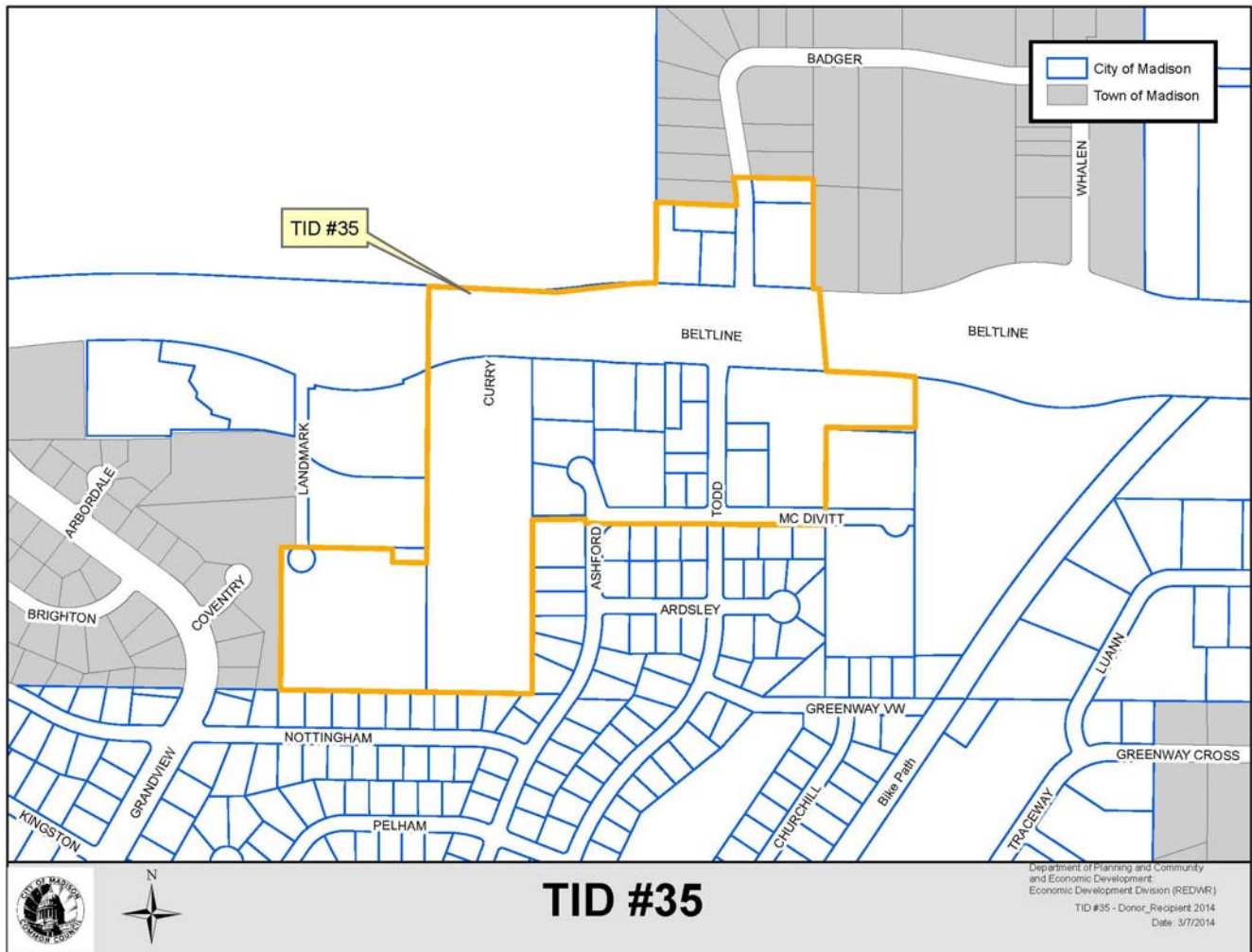
July 23, 2014

Background

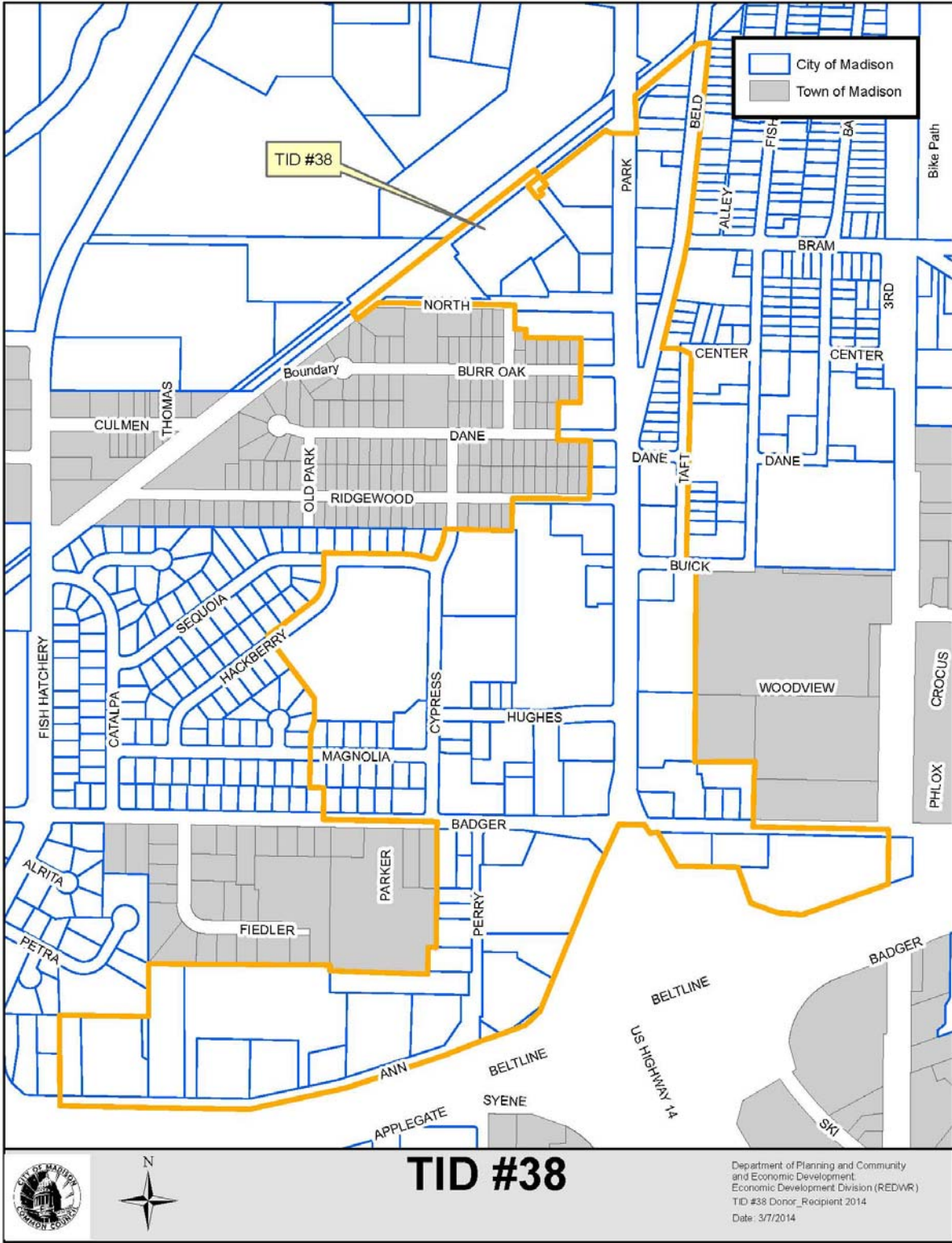
By statute, a TIF Joint Review Board, comprised of one representative each from the Madison Metropolitan School District (MMSD), the City of Madison, Dane County, Madison College (MATC) and one public member, meets to review, and if acceptable, approve any amendments to a Tax Incremental District (TID) boundary or project plan. The City of Madison proposes to amend the Project Plan of TID #35 (Todd Drive). The City of Madison is not proposing any boundary changes to TID #35.

Summary of the TID #35 Project Plan Amendment

The map below depicts the boundaries of TID #35 in the Todd Drive area of the City of Madison.



The map below depicts the boundaries of TID #38 in the Badger Road / Ann St / Park St area of the City of Madison.



TIF Law Required Information for TID Project Plan Amendment Approval

1) Estimates of project costs and tax increments, including:

a) Specific items that constitute project costs;

As of December 31, 2012 (the most recent audit date), the City has spent \$2,896,829 in capital expenditures in TID #35 (see breakdown below). TID #35 has \$816,519 of net project costs to be recovered. The City estimates it will receive in excess of \$734,000 in annual incremental revenue in TID #35 through 2017. The total capital costs identified in the Project Plan are \$7,403,000. The proposed project plan amendment does not increase this total estimate of project costs. The proposed Project Plan Amendment identifies TID #35 as a donor district to TID #38.

TID #35 Capital Expenditures	
Street / Sidewalk reconstruction	\$18,830
Loans (to development projects)	\$2,700,000
Organizational Costs	\$177,999

As of December 31, 2012 (the most recent audit date), TID #38 has \$5,177,799 in net costs to be recovered and has spent \$4,834,732 in capital expenditures (see breakdown below) and has a current negative value increment of (-\$941,600). To date, TID #38 has had a negative incremental value due to the impact of the Great Recession, and therefore, no incremental revenue. This has created a situation that impacts TID #38's ability to recover its costs.

TID #38 Capital Expenditures	
Street repair / rehabilitation	\$601,023
CDA land acquisition	\$3,996,317
Organizational Costs	\$237,442

The chart below shows the City's proposal to donate up \$500,000 per year for five (5) years from TID #35 to TID #38. TID #38 would receive up to \$2.5 million of positive tax increments from TID #35, as these increments are available in TID #35.

<u>Donor District</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Total</u>
TID #35	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	
TOTAL	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(\$2.5m)

<u>Recipient District</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Total</u>
TID #38	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	
TOTAL	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(\$2.5m)



b) The total dollar amount of these project costs to be paid with tax increments;

Per the above chart, donated tax increments from TID #35 will total **\$2,500,000** of project costs.

c) The amount of tax increments to be generated over the life of the tax incremental district.

An estimated **\$17,800,000** of tax increments is forecasted over TID #35's 27-year life.

2. The amount of value increment when the project costs are paid in full and the district is closed.

The anticipated incremental value of property at the end of TID #35's 27-year life has not changed from its original estimate and is estimated at **\$66,000,000**. This value will be returned to overlying tax jurisdictions for general tax levy purposes upon closure of the district at the end of its statutory life. Based upon conservative estimates, the district will generate sufficient incremental revenues to repay all anticipated project costs by 2019. The estimated incremental value in 2019 is \$45,000,000.

3. The reasons why the project costs may not or should not be paid by the owners of property that benefit by improvements within the district.

The proposed donation of positive increment from TID #35 to TID #38 will be of no direct benefit to the owners of real property within TID #35. None of the \$2.5 million of donated increment from TID #35 to TID #38 is assessable to property owners based upon City of Madison special assessment policy.

4. The share of the projected tax increments estimated to be paid by the owners of taxable property in each of the taxing jurisdictions overlying the district.

The base value of TID #35 is **\$25,800,600**. Overlying jurisdictions will continue to collect their portion of the levy upon the base value. The box below indicates the share of the estimated tax increment invested by overlying tax jurisdictions based upon the 2013 mill rate.

<u>Tax Jurisdiction</u>	<u>2013 Mill Rate</u>	<u>Share of Tax Levy</u>
City	9.52	38%
County	2.97	12%
MMSD	12.16	48%
MATC	1.89	7%
State of WI	<u>0.17</u>	<u>1%</u>
Totals*	26.69**	100%*

Source: City of Madison 2014 Adopted Operating Budget
 *NOTE: Total Mill Rate is the Gross Mill, prior to any State Tax Credits being applied.
 **NOTE: Total does account for State sales tax credit on final mill rate



5. The benefits that the owners of taxable property in the overlying taxing jurisdictions will receive to compensate them for their share of the projected tax increments.

The primary benefit of the proposed Project Plan Amendment to TID #35 to the owners of taxable property in the overlying jurisdictions is improving the fiscal health of TID #38.

TID #35 has a \$29.9 million dollar incremental value, receiving in excess of \$734,000 in incremental revenue per year. TID #35 has recovered nearly all of its outstanding project costs, with only \$816,519 remaining as of December 31, 2012.

By contrast, TID #38 has a (-\$941,000) incremental value, receiving \$0 incremental revenue per year. TID #38 has \$5,177,799 of net costs to be recovered as of December 31, 2012. Without the proposed allocation \$2.5 million of positive tax increments from TID #35, it is unlikely that TID #38 would be able to pay back the outstanding \$5.1 million by the end of its statutory lifespan in 2035. By allowing TID #35 to donate incremental revenue to TID #38, the City is reducing the necessity to extend the life of TID #38.

Criteria for TID Approval

Per TIF Law, the Joint Review Board will vote based upon the following three criteria:

1. Whether the development expected in the tax incremental district would occur without the use of tax incremental financing.

Without the proposed Project Plan Amendment to allow the donation of \$2.5 million of positive incremental revenue from TID #35 to TID #38, TID #38 would be unable to recover the current \$5.1 million in net costs. There are no other sources of funds that could be used for this obligation.

2. Whether the economic benefits of the tax incremental district, as measured by increased employment, business and personal income and property value, is insufficient to compensate for the cost of improvements.

If the Joint Review Board approves the Project Plan Amendment to TID #35, which donates \$2.5 million of positive incremental revenue to TID #38, it is more likely that TID #38 will be able to pay its remaining indebtedness by the end of its statutory lifespan in 2035. Ensuring that TID #38 can close in a timely fashion and thereby return all future incremental value to the overlying taxing jurisdictions is the primary benefit to overlying taxing jurisdictions.

3. Whether the benefits of the proposal outweigh the anticipated tax increments to be paid by owners of property in the overlying tax districts.

The most significant and quantifiable benefit to overlying taxing jurisdictions from the donation of positive tax increments from TID #35 to TID #38 is enhancing the financial health of TID #38. This will allow TID #38 to repay the outstanding \$5.1 million of net costs and close within its statutory lifetime.

Without this donation of \$2.5 million of positive tax increments from TID #35, it is likely that TID #38 would be unable to recover all of its net costs at the end of its statutory life in 2035.



In addition to the above criteria, per TIF Law, a project plan of a TID may be amended to allocate positive tax increments generated by that TID provided that the following conditions are met:

1. The donor tax incremental district, the positive tax increments of which are to be allocated, and the recipient tax incremental district have the same overlying taxing jurisdictions.

The donor TID (#35) and the recipient TID (#38) all lie within the same overlying taxing jurisdictions: Dane County, the Madison Metro School District, Madison Area Technical College, and the City of Madison.

2. The recipient district was created upon a finding that not less than 50 percent, by area, of the real property within the district is blighted or in need of rehabilitation.

The recipient TID (#38) was declared a blighted area TID.

3. The allocation of positive tax increments from a donor district to one or more recipient districts cannot be made unless the donor district has first satisfied all of its current-year debt service and project cost obligations.

The donor TID (#35) has satisfied all of its current year debt service and project cost obligations, as noted in the most recent TID #35 audit report.

