

**City of Madison
Tax Incremental District No. 46**

Financial Statements and
Supplementary Information

December 31, 2023

City of Madison Tax Incremental District No. 46

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Independent Auditors' Report

To the Common Council of
City of Madison

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying Balance Sheet, Historical Summary of Project Costs, Project Revenues and Net Cost Recovered Through Tax Increments and Historical Summary of Sources, Uses and Status of Funds of the City of Madison's Tax Incremental District No. 46 (the District) as of December 31, 2023 and from the date of creation through December 31, 2023, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District and the net project costs recovered through tax increments as of December 31, 2023 and the sources, uses and status of funds from the date of creation through December 31, 2023, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the transactions of City of Madison's Tax Incremental District No. 46 and do not purport to, and do not, present fairly the financial position of the City of Madison, Wisconsin, as of December 31, 2023, and the changes in financial position, or, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. Our opinion on the financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Madison's Tax Incremental District No. 46's financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects, in relation to the financial statements as a whole.

Report on Other Legal and Regulatory Requirements

We have also issued our report dated July 2, 2024 on our tests of its compliance with Wisconsin State Statutes Section 66.1105. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance.

Baker Tilly US, LLP

Madison, Wisconsin
July 2, 2024

City of Madison Tax Incremental District No. 46

Balance Sheet
December 31, 2023

	Capital Projects Fund
Assets	
Cash and investments	\$ 24,110,328
Taxes receivable	9,971,038
Prepaid items	<u>61</u>
Total assets	<u>\$ 34,081,427</u>
Liabilities, Deferred Inflows of Resources and Fund Balance	
Liabilities	
Accrued liabilities	<u>\$ 1,045</u>
Deferred Inflows of Resources	
Unearned revenue	<u>9,971,038</u>
Fund Balance	
Restricted	<u>24,109,344</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 34,081,427</u>

See notes to financial statements

City of Madison Tax Incremental District No. 46

Historical Summary of Project Costs, Project Revenues and

Net Cost Recovered Through Tax Increments

From the Date of Creation Through December 31, 2023

Project Costs

Capital expenditures	\$ 6,827,862
Administration	245,356
Professional services	20,081
Developer payments	11,632,000
Interest on advances	18
Debt issuance costs	39,622
Interest on long-term debt	<u>1,193,296</u>
Total project costs	<u>19,958,235</u>

Project Revenues

Tax increments	24,743,916
Exempt computer aid	1,895,064
Personal property aid	1,631,981
Miscellaneous	68,000
Investment income	<u>1,088,398</u>
Total project revenues	<u>29,427,359</u>

Net cost recovered through tax increments, December 31, 2023	<u>\$ (9,469,124)</u>
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Reconciliation of Recovered Costs

G.O. debt payable	\$ 14,640,220
Less fund balance	<u>(24,109,344)</u>

Net cost recovered through tax increments, December 31, 2023	<u>\$ (9,469,124)</u>
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City of Madison Tax Incremental District No. 46

Historical Summary of Sources, Uses and Status of Funds
From the Date of Creation Through December 31, 2023

Sources of Funds

Tax increments	\$ 24,743,916
Exempt computer aid	1,895,064
Personal property aid	1,631,981
Miscellaneous	68,000
Investment income	1,088,398
Long-term debt issued	<u>19,788,067</u>

Total sources of funds 49,215,426

Uses of Funds

Capital expenditures	6,827,862
Administration	245,356
Professional services	20,081
Developer payments	11,632,000
Interest on advances	18
Debt issuance costs	39,622
Principal on long-term debt	5,147,847
Interest on long-term debt	<u>1,193,296</u>

Total uses of funds 25,106,082

Fund balance, December 31, 2023 \$ 24,109,344

City of Madison Tax Incremental District No. 46

Notes to Financial Statements
December 31, 2023

1. Summary of Significant Accounting Policies

The accounting policies of the City of Madison's Tax Incremental District No. 46 (the District) conform to accounting principles as applicable to governmental units and as defined by Wisconsin Statutes Section 66.1105.

The City of Madison (the City) has implemented accounting principles generally accepted in the United States of America to the extent they apply in determining the scope of the activity of the District. The accompanying financial statements reflect all the significant operations of the District. The accompanying financial statements do not include the full presentation of the City.

Description of Fund Structure and Long-Term Debt

This report contains the financial information of the District. The summary statements were prepared from data recorded in the following City fund and the City's long-term debt:

Capital Projects Fund

Detailed descriptions of the purpose of this fund and long-term debt can be found in the City's basic financial statements.

The data was consolidated for purposes of this report. Therefore, the amounts shown in the accompanying statements will not directly correlate with amounts shown in the basic financial statements.

The District was created under the provisions of Wisconsin Statute Section 66.1105. The purpose of that section is to allow a municipality to recover development and improvement costs in a designated area from the property taxes generated on the increased value of the property after the creation date of the District. The tax on the increased value is called a tax increment.

The statutes allow the municipality to collect tax increments until the net project cost has been fully recovered, or until 20 years after the creation date, whichever occurs first. Project costs uncollected at the dissolution date are absorbed by the City. Project costs may be incurred up to five years before the unextended termination date of the District.

Original Project Plan

	<u>Creation Date</u>	<u>Last Date to Incur Project Costs</u>	<u>Last Year to Collect Increment</u>
TID No. 46	January 1, 2015	September 1, 2030	2036

Plan Amendment

	<u>Adoption Date</u>	<u>Last Date to Incur Project Costs</u>
TID No. 46	September 19, 2017	September 1, 2030
TID No. 46	October 30, 2018	September 1, 2030
TID No. 46	July 20, 2021	September 1, 2030

City of Madison Tax Incremental District No. 46

Notes to Financial Statements
December 31, 2023

Basis of Accounting

The modified accrual basis of accounting was followed in the preparation of these statements. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Project costs, other than interest on long-term debt, are recorded when the related fund liability is incurred.

District increments are recorded as revenues in the year due. Intergovernmental aids and grants are recognized as revenues in the period the related expenditures are incurred, if applicable, or when the District is entitled to the aids.

Other general revenues are recognized when received in cash or when measurable and available under the criteria described above.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Measurement Focus

The measurement focus of all governmental funds is the funds flow concept. Under the funds flow concept, sources and uses of financial resources, including capital outlays, debt proceeds and debt retirements are reflected in operations. Resources not available to finance expenditures and commitments of the current period are recognized as unavailable or unearned revenue or as unspendable fund equity. Liabilities for claims, judgments, compensated absences and pension contributions which will not be currently liquidated using expendable available financial resources are shown in the long-term debt footnote disclosure. The related expenditures are recognized when the liabilities are liquidated.

Project Plan Budget

The estimated revenues and expenditures of the District are adopted in the project plan. Those estimates are for the entire life of the District and may not be comparable to interim results presented in this report.

Long-Term Debt

Short-term liabilities are recorded as fund liabilities. All other long-term liabilities are shown in the long-term debt footnote disclosure.

Proceeds of long-term debt issues not recorded as fund liabilities are reflected as Sources of Funds in the operating statement of the recipient fund. Retirement of these issues is reported as an expenditure in the year in which the debt matures or is repaid, whichever is earlier.

Claims and Judgments

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. The liability and expenditure for claims and judgments is only reported in governmental funds if it has matured. Claims and judgments are disclosed in the long-term debt footnote when the related liabilities are incurred.

City of Madison Tax Incremental District No. 46

Notes to Financial Statements
December 31, 2023

2. Cash and Temporary Investments

The District invests its funds in accordance with the provisions of the Wisconsin Statutes 66.0603(1m) and 67.11(2).

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income.

The District, as a fund of the City, maintains separate and common cash and investment accounts at the same financial institutions utilized by the City. Federal depository insurance and the State of Wisconsin Guarantee fund insurance apply to the City as an individual municipality and, accordingly, the amount of insured funds is not determinable for the District.

3. Long-Term Debt

General Obligation Debt

All general obligation notes payable are backed by the full faith and credit of the City. Notes borrowed to finance District expenditures will be retired by tax increments accumulated by the District's capital projects fund. If those revenues are not sufficient, payments will be made by future tax levies.

<u>Title of Issue</u>	<u>Date of Issue</u>	<u>Due Date</u>	<u>Interest Rate</u>	<u>Original Indebtedness</u>	<u>Repaid</u>	<u>Balance 12-31-23</u>
G.O. Promissory Notes	10-19-17	10-01-27	2.00-4.00 %	\$ 2,523,776	\$ 1,514,266	\$ 1,009,510
G.O. Promissory Bonds	10-01-18	11-01-28	2.80-3.50	7,264,291	3,633,581	3,630,710
G.O. Promissory Notes	10-26-23	10-01-33	5.00	10,000,000	-	10,000,000
Total				<u>\$ 19,788,067</u>	<u>\$ 5,147,847</u>	<u>\$ 14,640,220</u>

Aggregate maturities of all long-term debt relating to the District are as follows:

<u>Calendar Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 1,979,590	\$ 613,107	\$ 2,592,697
2025	1,978,401	568,372	2,546,773
2026	1,978,401	488,232	2,466,633
2027	1,978,400	407,113	2,385,513
2028	1,726,023	325,379	2,051,402
2029	999,881	249,970	1,249,851
2030	999,881	199,976	1,199,857
2031	999,881	149,982	1,149,863
2032	999,881	99,988	1,099,869
2033	999,881	49,995	1,049,876
Total	<u>\$ 14,640,220</u>	<u>\$ 3,512,114</u>	<u>\$ 17,792,334</u>

City of Madison Tax Incremental District No. 46

Notes to Financial Statements

December 31, 2023

4. Advances From City Capital Project Fund

The capital projects fund advances funds to the District when the District is in a negative cash position. The fund charges the District interest on the advance based on the outstanding advance balance at the end of the year at a rate based on the cost of funds to the City. There was no advance outstanding as of December 31, 2023.

5. Guaranteed Revenue

The City has entered into a development agreement with Epicentre Technologies Inc, GenCap Financial 2017 Inc., and GCDR Research LLC. The agreement guarantees that the companies previously listed shall pay the difference between the guaranteed tax increment and the tax increment actually levied. The guarantee obligation shall terminate when the City has collected from the tax increment generated from the District or has been paid under this agreement the full amount of project costs of not less than \$1,890,000. The City has entered into a similar agreement with University Research Park Inc. and CG Growth LLC in the amount of \$2,600,000 and \$4,586,000, respectively. A new agreement was signed in 2021 with University Park Acquisitions LLC in the amount of \$2,556,000.

6. Tax Abatements

Tax abatements are a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

The City, through its Tax Incremental Districts (TIDs) has entered into tax abatement agreements with developers in the form of tax incremental financing incentives to stimulate economic development. The abatements are authorized through the TID project plans. The City disburses loans to developers. The developer guarantees a certain amount of increment each year. The developers pay property taxes as they become due, and if they generate the guaranteed increment, an equal amount of loan balance is forgiven. It is anticipated that these loans will be forgiven and therefore an allowance of \$3,923,530 has been established for the entire amount of outstanding loans. Details of loans disbursed and loans forgiven are as follows:

<u>Developer Name</u>	<u>Loans Disbursed as of 12-31-2022</u>	<u>Loans Forgiven as of 12-31-2022</u>	<u>Loans Disbursed During 2023</u>	<u>Loans Forgiven During 2023</u>	<u>Balance Remaining as of 12-31-23</u>
Epicentre Technologies, Inc., GenCap Financial 2017 Inc., and GCDR Research LLC	\$ 1,890,000	\$ 1,890,000	\$ -	\$ -	\$ -
University Research Park Inc.	2,600,000	481,000	-	700,000	1,419,000
CG Growth LLC	4,586,000	4,586,000	-	-	-
University Park Acquisitions LLC	2,556,000	1,470	-	50,000	2,504,530
Total	<u>\$ 11,632,000</u>	<u>\$ 6,958,470</u>	<u>\$ -</u>	<u>\$ 750,000</u>	<u>\$ 3,923,530</u>

SUPPLEMENTARY INFORMATION

City of Madison Tax Incremental District No. 46

Detailed Schedule of Sources, Uses and Status of Funds
From the Date of Creation Through December 31, 2023

	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total	Project Plan Estimate
Sources of Funds											
Tax increments	\$ -	\$ -	\$ 267,297	\$ 721,418	\$ 751,719	\$ 3,411,572	\$ 5,596,200	\$ 6,751,068	\$ 7,244,642	\$ 24,743,916	\$ 48,072,000
Exempt computer aid	-	-	262,803	266,666	273,119	273,119	273,119	273,119	273,119	1,895,064	-
Personal property aid	-	-	-	-	37,128	326,396	615,665	326,396	326,396	1,631,981	-
Miscellaneous	-	-	29,000	39,000	-	-	-	-	-	68,000	-
Investment income	-	-	4,109	35,319	68,959	27,103	19,775	174,407	758,726	1,088,398	-
Long-term debt issued	-	-	2,523,776	7,264,291	-	-	-	-	10,000,000	19,788,067	37,681,000
Total sources of funds	-	-	3,086,985	8,326,694	1,130,925	4,038,190	6,504,759	7,524,990	18,602,883	49,215,426	85,753,000
Uses of Funds											
Capital expenditures	-	-	-	-	-	-	-	-	6,827,862	6,827,862	20,605,000
Administration	7,447	11,723	53,436	60,842	16,016	16,282	37,798	22,480	19,332	245,356	1,000,000
Professional services	943	1,600	2,085	6,565	1,187	2,000	2,000	1,862	1,839	20,081	-
Developer payments	-	-	1,890,000	2,600,000	4,586,000	-	2,556,000	-	-	11,632,000	16,076,000
Interest on advances	18	-	-	-	-	-	-	-	-	18	-
Debt issuance costs	-	-	11,887	27,735	-	-	-	-	-	39,622	-
Principal on long-term debt	-	-	-	252,377	981,390	978,520	978,520	978,520	978,520	5,147,847	37,681,000
Interest on long-term debt	-	-	-	54,785	265,650	259,212	232,365	204,792	176,492	1,193,296	10,391,000
Total uses of funds	8,408	13,323	1,957,408	3,002,304	5,850,243	1,256,014	3,806,683	1,207,654	8,004,045	25,106,082	85,753,000
Fund balance, December 31, 2023										<u>\$ 24,109,344</u>	

City of Madison Tax Incremental District No. 46

Detailed Schedule of Capital, Administration and Professional
Service Expenditures and Developer Payments

From the Date of Creation Through December 31, 2023

	<u>Actual</u>	<u>Project Plan Estimate</u>
Capital, administration and professional service expenditures, and developer payments:		
Development loans	\$ 11,632,000	\$ 16,076,000
Public improvements	6,827,862	20,605,000
Administration and professional services	<u>265,437</u>	<u>1,000,000</u>
 Total	 <u>\$ 18,725,299</u>	 <u>\$ 37,681,000</u>

Independent Auditors' Report on Other Legal and Regulatory Requirements

To the Common Council of
City of Madison

We have audited the accompanying Balance Sheet, Historical Summary of Project Costs, Project Revenues and Net Cost Recovered Through Tax Increments and the related Historical Summary of Sources, Uses and Status of Funds of the City of Madison, Wisconsin Tax Incremental District No. 46 (the District) as of December 31, 2023 and from the date the District was created through December 31, 2023 and have issued our report thereon dated July 2, 2024. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

In connection with our audit, we noted that the District failed to comply with the following requirements of Wisconsin State Statutes Section 66.1105:

1. For first project plan amendment, the Joint Review Board meeting to select a public member and elect the chairperson was held after the public hearing.
2. The City of Madison did not send a written notice of the third amendment to the Wisconsin Department of Revenue within 60 days of adoption of the amendment.

Our audit was not directed primarily toward obtaining knowledge as to whether the District failed to comply with Wisconsin State Statutes Section 66.1105, insofar as it relates to accounting matters. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding noncompliance with the above-referenced statute, insofar as it relates to accounting matters.

This report is intended solely for the information and use of the common council, management, and the overlapping taxing districts and is not intended to be, and should not be, used by anyone other than the specified parties.

Baker Tilly US, LLP

Madison, Wisconsin
July 2, 2024