

City of Madison
First Project Plan Amendment for
Tax Incremental District (TID)#41
(Donor-Recipient Allocation Plan)
July 25, 2016

Background

The TIF Law allows funds to be transferred between certain TIF districts if the allocation is approved by the Joint Review Board and if the TIDs have the same overlying taxing jurisdictions. TIF Law refers to this relationship as “donor-recipient.” According to TIF Law, positive increments may be transferred from a “donor” TID to a recipient TID.

TIF Law requires that the project plans be amended for donor TIF districts and recipient districts in the event that new project expenditures are incurred that were not outlined in the original project plan.

The Common Council is considering adoption of a resolution approving an amendment to the Project Plan for TID #41 (University / Whitney). The resolution would establish TID #41 as a donor TID. The resolution and one-year donor-recipient allocation plan anticipate a transfer of positive increments to TID #40 (Northside) so that the district can close in 2017. No plan or boundary amendments are required for the recipient TID.

Current Status

TID #41 (University / Whitney)

TID #41 was created on September 6, 2011. The City has provided loans to assist in several development projects. In 2012, a \$1,372,000 loan was provided to assist with the UW Digestive Health development, and in 2013 a \$3,106,000 loan was provided to assist with the University Crossing commercial and residential development. As of the most recent available audit of TID #41, as of December 31, 2014 TID #41 had spent \$4,585,605 of capital expenditures. The existing adopted project plan allows for \$7,973,000 of total expenditures to be from TID #41.

The value increment in 2015 was \$33,508,600. The City estimates that it will receive more than \$600,000 in annual incremental revenue through 2017. As of December 31, 2014, there is \$4,017,323 of net costs to be recovered in TID #41. The TID #41 expenditure deadline is September 6, 2033. Given the amount of annual incremental revenue currently flowing into TID #41 and the unrealized project costs that have been identified in the Project Plan, TID #41 has been recognized as a potential donor district.

TID #40 (Northside)

TID #40 was created on September 1, 2009. To date, the City has expended funds to assist with minor infrastructure projects. Based upon preliminary, unaudited statements, as of December 31, 2015, TID #40 had approximately \$316,000 of net costs to be recovered through tax increments.

As of January 1, 2015, the value increment in TID #40 was (-\$5,567,400). TID #40 was created as the Great Recession was beginning to take hold of the economy. Property values plummeted within this district, below its original base value, resulting in a negative incremental value. Some of the TIF generators that were anticipated were never realized due to this economic downturn. As a consequence, TID #40 has been unable to generate positive tax increment since its inception in 2009.

Additionally, TID #40 encompasses the Oscar Meyer facility. When TID #40 was created, the City anticipated that the Oscar Meyer facility would make improvements that would help to generate incremental value. However, in 2015, Kraft Heinz, the corporate owner of Oscar Meyer, indicated that it would close the Madison facility entirely by the first quarter of 2017. The Oscar Meyer facility is currently valued at approximate \$16.5 million. This plant closure and the associated loss of value will make it unlikely for TID #40 to ever achieve a positive incremental value.

A donation from another TID would allow the City to recover the outstanding debt of TID #40, and close the TID. This would position the City to be better able to respond to future development opportunities on the north side of Madison.

Recommendation

It is the City's general practice to retire TIF districts within 10-12 years rather than extend their life to the full 23- or 27-year period (depending on their creation date) so that overlying taxing jurisdictions may receive the tax benefits of new growth sooner, rather than later. This practice also secures the City's flexibility to create future TIDs while complying with the 12% equalized value test required in TIF Law.

TID #40 is not generating increment to pay for project costs in a timely manner. Given the pending closure of the Oscar Meyer facility and the loss of value that this will bring, a donor – recipient allocation will enable the City to pay off the nets costs to be recovered from TID #40. Upon paying off the net costs to be recovered, the City would close TID #40.

In accordance with this general practice, Staff recommends that the TID #41 Project Plan be amended to provide for a one-year donor allocation period. The total amount of increment to be allocated is estimated to be approximately \$400,000. The allocation is estimated in the schedule below.

(In Millions)

<u>Donor District</u>	<u>2017</u>	<u>Total</u>
TID #41	(0.4)	(0.4)
TOTAL	(0.4)	(\$0.4m)
<u>Recipient District</u>		
TID #40	(0.4)	
TOTAL	(0.4)	(\$0.4m)

This First Amendment to the Project Plan for TID #41 does not alter any of the terms of the original Project Plan or total project costs, other than by donating \$400,000 to TID #40, as described herein.