City of Madison
Madison, WI 53703
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Legislation Text

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Fiscal Note

The resolution accepts the recommendations of the Economic Development Committee regarding revisions to the city's policies on use of tax incremental financing (TIF) for development projects.

Under state law, the city is authorized to establish tax increment districts (TID) based on blight conditions and an analysis that development in the district would not occur "but for" creation of the district. Property tax revenue generated by the growth in property values after the district is established are not available to the taxing jurisdictions for services, but are instead made available for grants and loans for development projects and infrastructure expenditures in support of additional development. Districts can be created for a maximum duration of 27 years, with project expenditures allowed within the first 22 years. Districts must be closed when all planned expenditures have occurred and any debt issued to finance those expenditures has been retired.

Approval of tax increment districts and a plan for expenditure of property tax revenues generated by the district is made by a joint review board consisting of representatives from the affected taxing jurisdictions (i.e., city, school district, county and technical college district). Actual expenditure of revenues generated within a tax increment district is subject to approval by the Common Council primarily through adoption of projects in capital budgets.

The recommendations call for added flexibility in defining eligible projects (the city's "but for" test -- the development would not occur "but for" the tax incremental financing) and determining the amount of tax increment generated by a development that can be allocated to project financing (set at 50 percent under the current policy - the "50 percent" rule). Changes include incorporating any competing offers for project development from other communities (both adjacent to Madison and in the broader regional and national context) into the "but for" analysis. The recommendations envision continuing current financial due diligence analyses, but adding the competitive considerations into the decision-making process.

Other significant changes include the elimination of required equity sharing of TIF-supported projects that generate profits through a sale of the development (e.g., in 2011 and 2012, the city received equity payments of $525,000 and $450,000, respectively). The committee recommends that this equity sharing element be removed from the policy as an incentive to more development.

The goal of these recommendations is to foster more economic development and related job creation in the city in response to much greater competition from surrounding communities, the region, and nationally. Such development should result in expansion of the city's property value, thereby reducing the share of property taxes paid by existing residences and businesses for services provided by the city, school district, county and technical college district. Additional economic development also provides the city with more flexibility under state-mandated levy limits to raise the revenues necessary to support essential services, including first responders and law enforcement.

Given the various factors involved in determining TIF projects and the difficulty in predicting overall economic growth, the financial impacts are indeterminate. Generally, the city's overall property tax rate ("mill rate") for all taxing jurisdictions is increased in the short-term due to allocation of the property value growth in a tax increment district to expenditures within that district rather than being available for service mission of the taxing jurisdictions. However, the property value growth would have been presumably much less without creation of the district and the development that is assumed to occur.

Expenditures within a TID are often “front-loaded” by issuing debt to support immediate development-related investments in the district. This debt is then retired using the tax revenues generated from the property value added through the new development and appreciation of existing property within the TID. This “front-loading” does present a risk to the city in the event that the expected growth in property value necessary to finance the expenditures does not materialize. For that reason, the rigorous financial due diligence must be exercised in both the creation of TIDs and in expending projected TID resources for developer assistance and infrastructure investments.

As an example of the potential risks, as of September 1, 2012, the city has two TIDs that have actually seen property values fall since inception of the district. While this decline in value is probably the result of the severity of the recent economic recession, the result is that no incremental tax revenues are being generated to pay for the $7.5 million of costs incurred in these districts. Both districts have between 21 and 22 years remaining to realize growth in property values to recover these costs.

Generally, TID supported development in the city has expanded the tax base and these proposed changes may allow for further expansion of the tax base. For example, if an additional $100 million of assessed property value were added due to closure of a tax increment district in 2013 (equal to approximately 0.5% of total assessed value) it would have reduced taxes on the average value home by $10. Assuming that $100 million of property value was added due to new construction in TIDs, allowable growth in 2013 under the levy limits would have increased from 0.74% to 1.2% (approximately $600,000).

Title

~~Accepting the revised TIF Policy approved by the Economic Development Committee on February 20, 2013 for Common Council consideration and adoption.~~ Adopting the revised TIF Policy.

Body

WHEREAS, on September 17, 2012, Mayor Paul Soglin charged Madison’s Economic Development Committee with the task of reviewing Madison’s Tax Increment Financing Policy and proposing modifications; and,

WHEREAS, the Economic Development Committee created a subcommittee to gather public input, study Madison’s competitive position, and create TIF policy recommendations; and,

WHEREAS, a subcommittee of the Economic Development Committee considered all input provided; and, either accepted, rejected, or combined suggestions into a single set of recommendations; and,

WHEREAS, the Economic Development Committee has worked to encourage flexibility in Madison’s TIF Policy while maintaining fiscal responsibility and accountability provisions, and,

WHEREAS, the Common Council created a TIF Policy Review Ad Hoc Committee to provide additional review and oversight of EDC’s recommendations; and,

NOW THEREFORE BE IT RESOLVED that the Common Council thanks the Economic Development Committee for their work; and,

BE IT FURTHER RESOLVED that the Common Council accepts the attached document as the official TIF Policy of the City of Madison; and,

BE IT FINALLY RESOLVED that the Common Council directs the Department of Planning, Economic and Community Development, the City Attorney, the Finance Department, and other responsible staff to begin immediate implementation of the approved policy.