

Fiscal Estimate Narratives

DOR 10/9/2009

LRB Number 09-3342/1	Introduction Number AB-0426	Estimate Type Original
Description Authorizing the designation of a tax incremental district as distressed and expanding the use of donor tax incremental districts		

Assumptions Used in Arriving at Fiscal Estimate

CURRENT LAW

The tax incremental finance (TIF) law permits cities, villages, and, to a limited extent, towns, to finance certain types of public improvements for encouraging development within a specified area of the municipality by creating a TIF district. The equalized value of the taxable property in a TIF district in the year of creation is the district's "base value". In subsequent years, any positive difference between the current equalized value and the "base value" is the TIF district's "value increment". The property taxes that would have been levied on the "value increment" by the municipality, county, school district, technical college district, and special district (the "incremental levy") are retained by the municipality to repay the costs of developing the TIF district.

Depending on the type of district and the date of creation, a TIF district may usually remain open for no more than 20, 23, or 27 years. In most cases, a TIF district must be closed either when its project costs are repaid or when it has reached its maximum allowable lifespan. After the TIF district is closed, the property taxes in the former district are shared with the overlying taxing jurisdictions as non-TIF property taxes are shared.

The incremental levies of a TIF district (a donor district) may be shifted to another TIF district (a recipient district) if both districts have the same overlying taxing jurisdictions and the donor TIF district's projected revenues are sufficient to pay both its current year costs and the donation to the recipient TIF district. A TIF district may be designated as a recipient district if, on creation, there was a finding that not less than 50% (by area) of the real property within the district was blighted or in need of rehabilitation, or if the district's costs were incurred for the creation, provision, or rehabilitation of low-cost housing or the remediation of environmental contamination. If a TIF district becomes a donor TIF, it need not be closed when its project costs are fully repaid, but its mandatory termination date of generally 20, 23, or 27 years after creation may not be extended.

PROPOSED LAW

If the municipal board of a village or city finds that the projected lifetime revenues of a TIF district created before October 1, 2008, are insufficient to repay the district's project costs, the TIF district may be designated as a "distressed" TIF district if certain procedures must be followed. Among these procedures are holding a public hearing on the designation, adopting a resolution that the TIF district's lifetime revenues are insufficient to repay its project costs, forwarding copies of the resolution and supporting material to the TIF district joint review board and the Department of Revenue (DOR), and approval of the designation by the TIF district joint review board. The DOR may impose a fee of \$500 on the village or city for the department's administrative costs related to the declaration that a TIF district is "distressed".

Once a TIF district is declared "distressed", it may not amend its project plan, incur additional project costs after its initial expenditure period ends, add territory, become a donor TIF district, or expend funds outside the TIF district's borders. A "distressed" TIF district must be closed when its project costs are fully repaid or 40 years after it was created, whichever occurs first. Contributions to a "distressed" TIF district from a "donor" TIF district may also be made. The life of any such "donor" TIF district is extended to the "distressed" TIF district's termination or 40 years after the donor TIF district was created, whichever occurs first.

Since current law restricts the types of districts that can receive funds from a donor TIF, the bill also specifically permits a mixed-used or industrial TIF district that has been designated as "distressed" to receive funds from a donor TIF.

FISCAL EFFECT

Financial records concerning individual TIF districts are maintained by the municipality that created the TIF district. This information is not shared with the DOR until a TIF district is closed. Since the DOR does not have current data on the financial status of individual TIF districts, a reasonable estimate of the number of TIF districts that might qualify to be declared as "distressed" under the bill is not available.

Some data are available that may suggest how many TIF districts could, potentially, qualify to be designated as "distressed". For example, one could assume that the longer a TIF district has been in existence, the more likely it is to be generating insufficient funds to pay off its project costs, and therefore the more likely it is to be "distressed". On that basis, of the 1,033 TIF districts currently in existence, there are 202 TIF districts that have been in existence for 15 or more years (with a base year of 1994 or earlier) with a total incremental levy (based on 2008/09 gross tax rates) of \$113 million. One could refine this assumption and assume that the slower the value increment in a TIF district has grown, the more likely it is to be generating insufficient funds to pay off its project costs. On that basis, of the 202 TIF districts that have been in existence for 15 or more years, there are 35 TIF districts whose value increment has not kept pace with the rate of inflation (as measured by the consumer price index for all urban consumers beginning in the year the TIF district was created), with an estimated total incremental levy (based on 2008/09 tax rates) of \$8 million. It must be noted that it is not possible to identify which, if any, of these 202 or 35 TIF districts are, in fact, "distressed" as defined under the bill. It is, indeed, possible that none of these districts are "distressed". It must also be noted that there could be TIF districts or more recent vintage that, despite large value increments, could be deemed "distressed" due to their high levels of project costs, for which incremental levies are proving inadequate.

By extending the maximum life of both "distressed" TIF districts and "donor" TIF districts, the bill is expected to extend the time period when the value increments for both of these types of districts are devoted to paying off TIF project costs, and consequently, unavailable to the tax base of overlying jurisdictions.

The administrative costs can be absorbed within existing budgetary authority, and would, to some extent, be offset by the \$500 fee allowed for under the bill.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2009 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):			
II. Annualized Costs:		Annualized Fiscal Impact on funds from:	
		Increased Costs	Decreased Costs
A. State Costs by Category			
	State Operations - Salaries and Fringes	\$	\$
	(FTE Position Changes)		
	State Operations - Other Costs		
	Local Assistance		
	Aids to Individuals or Organizations		
	TOTAL State Costs by Category	\$	\$
B. State Costs by Source of Funds			
	GPR		
	FED		
	PRO/PRS (Admin. TIF Program)		
	SEG/SEG-S		
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)			
		Increased Rev	Decreased Rev
	GPR Taxes	\$	\$
	GPR Earned		
	FED		
	PRO/PRS		
	SEG/SEG-S		
	TOTAL State Revenues	\$	\$
NET ANNUALIZED FISCAL IMPACT			
		State	Local
	NET CHANGE IN COSTS	\$	\$
	NET CHANGE IN REVENUE	\$See text	\$
Agency/Prepared By		Authorized Signature	
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		Date	
		10/9/2009	