



## Fiscal Estimate Narratives

DOR 4/25/2011

LRB Number	11-1686/1	Introduction Number	AB-0087	Estimate Type	Original
<b>Description</b> Expanding the number of tax incremental financing districts that may be designated as distressed or severely distressed					

### 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 public improvements needed to encourage economic development. When a TIF district is created, the equalized value of the taxable property in the district is set as the "base value". Over time, as the TIF district develops, the equalized value of the district will change. To the extent that the current value is greater than the "base value", the positive difference is referred to as the "value increment". The property taxes levied by all local taxing jurisdictions (municipality, county, school district, technical college, and special districts) on the "value increment", are retained by the municipality. These funds are used to repay the costs of developing the TIF district. In general, once the TIF district development costs are repaid, the municipality terminates the TIF district, and the property taxes in the former TIF district are shared with the overlying taxing jurisdictions in full in the same manner as non-TIF property taxes are shared. However, there are circumstances under which a TIF district that has paid off all of its project costs but has not reached its mandatory termination date may become a "donor" TIF which continues to collect tax increments, but forwards the increments to another TIF district in the municipality.

Before October 1, 2011, a city or village board may designate a TIF district that has been in existence for at least 7 years, and was created before October 1, 2008, as a "distressed" TIF district or a "severely distressed" TIF district if certain steps are taken, such as (a) adopting a resolution finding that the TIF district's incurred project costs exceed the expected incremental tax revenues to be generated during the TIF district's lifetime, (b) the municipal clerk sends the Department of Revenue (DOR) and the TIF district's joint review board a copy of the resolution and the related financial information, (c) a public hearing on the designation is held, and (d) the joint review board approves the designation. If the joint review board approves the designation, DOR must certify the designation and notify all overlying taxing jurisdictions of the certification.

The lifespan of a "distressed" TIF district, and any donor TIF district to such a district, is extended to 10 years past its otherwise required termination date.

A "severely distressed" TIF district is a TIF district where the value increment in any year is at least 25% lower than the district's highest value increment. The maximum life of a "severely distressed" TIF district is extended to 40 years. The maximum life of a donor TIF district to a "severely distressed" TIF district is also extended to 40 years.

#### PROPOSED LAW

Under the bill, the requirement that a TIF district must have been in existence for at least 7 years before the village or city may adopt a resolution declaring the district to be "distressed" or "severely distressed" is repealed.

#### FISCAL EFFECT

As of January 1, 2010, there were about 1,050 TIF districts in existence (counting districts in two or more school districts and/or counties as a single district). During 2010, a total of 6 TIF districts in 6 municipalities were designated as "distressed" and 2 TIF districts in 2 municipalities were designated as "severely distressed". As of April 8, 2011, the DOR has received applications designating 7 TIF districts in 4 municipalities as "distressed". Thus, based on current experience, the number of TIF districts that are experiencing severe financial difficulties appears to be small.

Since financial records concerning individual TIF districts are maintained by the municipality that created the

TIF district, DOR does not know how many other TIF districts could potentially qualify to be designated as "distressed" or "severely distressed". However, since the ability to declare a TIF district as "distressed" or "severely distressed" must be done before October 1, 2011, the bill is not expected to significantly affect the number of TIF districts that will be designated as "distressed" or "severely distressed".

Any increase in DOR administrative costs engendered by the bill can be absorbed within current budgetary resource.

### **Long-Range Fiscal Implications**