

Fiscal Estimate Narratives

DOR 2/19/2014

LRB Number	13-4278/1	Introduction Number	SB-615	Estimate Type	Original
Description Definition of project costs under the tax incremental financing program					

Assumptions Used in Arriving at Fiscal Estimate

CURRENT LAW

The tax incremental finance (TIF) law permits villages, cities, and, to a limited extent, towns to finance certain public improvements needed to encourage economic development. In order to create a TIF district, a municipality must follow certain procedures, such as establishing a project plan, holding public hearings, obtaining approval by a review board composed of various local officials, and adopting a resolution approving the creation of the TIF district. No less than 50 percent of the area in the proposed TIF district should be blighted, in need of rehabilitation or conservation work, suitable for industrial sites, or suitable for mixed-use development.

When a TIF district is created, the equalized value of the taxable property in the district becomes the district's "base value." In subsequent years, as the TIF district develops and its equalized value increases, the difference between the current value and the base value is referred to as the "value increment." The property taxes levied by the municipality, county, school district, technical college district, and any special districts on the "value increment" are retained by the municipality and used to repay the "project costs" related to developing the TIF district.

A partial list of the "project costs" a TIF can incur under current law includes: 1) capital costs related to constructing new buildings; demolishing, remodeling, or repairing existing buildings; acquiring equipment to service the TIF; and the grading of land; 2) financing cost related to debt issued to pay for a district's project costs; 3) deficits incurred from the sale or lease of property in the TIF due to the sale or lease of property in the TIF that is done at less than the municipality's cost; 4) costs for professional services related to architectural, planning, engineering, and legal advice; 5) relocation costs for persons or entities displaced by the TIF project; 6) organizational costs, including the cost of environmental impact and other studies required under law, necessary for the creation of TIF districts and the implementation of project plans; and 7) that part of the costs for constructing or altering sewage treatment plants, water treatment plants, storm sewers, sanitary sewers, or streets made necessary because of the creation of the TIF district.

Current law also excludes certain costs from the definition of "project costs." A partial list of such costs includes the following: 1) constructing or expanding administrative buildings, police and fire buildings, libraries, community and recreational buildings, and school buildings; 2) constructing or expanding facilities that the city would otherwise be financed from utility user fees; and 3) operating costs unrelated to the planning or development of the TIF district.

PROPOSED LAW

Under the bill, the prohibition of costs for constructing or expanding facilities that a city would otherwise finance from utility user fees is modified to allow costs for parking structures that support redevelopment activities. The department is aware of the City of Madison's interest in using TIF in the construction and renovation of parking facilities. The City of Madison is currently developing a project called the "Judge Doyle Square" (JDS) redevelopment which entails a new hotel, commercial space and parking. The city is also planning to replace three aging parking facilities in the Capitol East District that are nearly at the end of their expected lives. According to the City of Madison, the latest estimated cost for the parking facility as part of the JDS project is within a range between \$15 million and \$24 million, depending on the structural design of the facility and contract negotiations. The total estimated replacement cost for the three parking facilities in the Capitol East District is within a range between \$42 million and up to \$80 million. Under the bill, those costs could be included in the TIF project costs, and the City of Madison could use the tax increment revenue from the TIF to pay for the project costs.

In general, to the extent that the bill would enable the creation of TIF districts that include facilities financed by utility user fees, the bill may lead to an increase in the number of TIF districts that may be created in

future years.

For DOR administrative procedures, the bill would require updates to procedures and publications that describe the tax increment financing laws for local officials and the public. Costs for these updates can be absorbed within current budgetary resources.

Long-Range Fiscal Implications