



## Fiscal Estimate Narratives

DOR 3/30/2015

LRB Number	15-2031/1	Introduction Number	AB-0137	Estimate Type	Original
<b>Description</b> Designation of tax incremental districts as distressed or severely distressed districts					

### Assumptions Used in Arriving at Fiscal Estimate

Under current law, a municipality may designate a tax incremental district (TID) as distressed, if the TID's project costs exceed the incremental tax revenues that the TID is expected to generate during the life of the TID. A municipality may designate a TID as severely distressed when the value increment generated in any year has declined at least 25 percent from the district's highest value increment over the course of the TID's life. If a district is designated as a distressed TID, it may extend the TID's life by no more than 10 years. A severely distressed TID may extend its life span to a maximum of 40 years. A municipality must act by October 1, 2015 to designate a TID as distressed or severely distressed. Current law does not allow a municipality to designate a TID as distressed or severely distressed, if the municipality approves a project amendment after October 1, 2009.

The bill replaces the October 1, 2015, deadline by which a municipality must declare a TID to be distressed or severely distressed with a new deadline of October 1, 2020.

### FISCAL EFFECT

The proposal extends the deadline for a policy that provides financially distressed TIDs with more time to pay off all of the project costs. Currently, municipalities are responsible for maintaining their TIDs' financial records, and the Department of Revenue (DOR) does not receive the information, including project costs, until a TID terminates. The primary criterion for a municipality to designate its TID as distressed is whether the project costs exceed the tax increments the municipality expects the TID to generate during the life of the TID. It is crucial that both project cost and incremental tax revenue data be available to estimate TIDs' financial vulnerability. Due to the lack of sufficient data on project costs, it is not feasible for DOR to estimate, based on the criterion, the number of currently active TIDs that will likely be designated as distressed or severely distressed.

However, when a TID shows a pattern of negative growth in its value increment, one could assume the TID may have become financially vulnerable. In Wisconsin, there are currently 1,115 active TIDs, of which 67 are designated as distressed and nine as severely distressed. The remaining years for those TIDs are as follows:

- 5-10 years: 22 TIDs (distressed), 5 (severely distressed)
- 11-15 Years: 18 (distressed), 1 (severely distressed)
- 16 or more years: 27 (distressed), 3 (severely distressed)

For those designated as distressed, excluding four TIDs that have amended their base value during the last five years, the median annual growth rates in value increments during the five-year (2009-2014) and three-year (2011-2014) periods are -1.49 percent and -0.67 percent, respectively, and -7.8 percent and -2.8 percent for those designated as severely distressed.

There are currently 717 TIDs that are not designated as distressed or severely distressed and that did not amend base value over the last five years. 253 of them have shown negative average annual percentage growth in value increment during both periods (2009-2014, 2011-2014). The total increment value for those 253 TIDs amounted to approximately \$3.144 billion in 2014. In 2014, 156 out of those 253 TIDs generated value increment that was no more than 75 percent of their highest value increment over the course of their lifespans, and the total increment value for those TIDs amounted to approximately \$1.368 billion in 2014. It is possible, however, that many of them have been and will be producing tax increment that is sufficient to cover all relevant project costs, and there may be TIDs that would be designated as distressed or severely distressed even though they have not shown negative average annual growth in the value increment in recent years.

Administrative costs relating to revising documents and instructions would be minimal.

**Long-Range Fiscal Implications**