

Fiscal Estimate Narratives

DOR 6/10/2003

LRB Number	03-2570/4	Introduction Number	AB-379	Estimate Type	Original
Subject					
Change in the tax incremental financing law, Kenosha					

Assumptions Used in Arriving at Fiscal Estimate

Under current law, a city or village may create a tax incremental district (TID) if the total value of the TIDs in the municipality does not exceed specified value limits. In particular, a TID may be created if either 1) the base value of the proposed TID plus the equalized value of all existing TIDs (base value plus value increments) do not exceed 7% or 2) the base value of the proposed TID plus the value increments of all existing TIDs do not exceed 5%. Current law allows a municipality to amend the project plan of a TID once during the first seven years of a TID to add territory; expenditures for projects incurred because of the amendment may be made for three years after the amendment. Current law does not impose the 7%/5% territory limits when a TID is amended.

Under current law, a tax incremental district (TID) that is created prior to October 1, 1995 has ten years to make project expenditures and may exist for 20 years after the last expenditure, but the total number of years may not exceed 27 years. TIDs created after October 1, 1995 have seven years to make project expenditures and may exist for 16 years after the last expenditure for a maximum TID life of 23 years.

A TID must terminate when all its project costs are paid off or at its maximum life, whichever comes first. Upon termination, the value increment of the TID, i.e. the increase in value resulting from the TID development, is returned to the tax base of the overlying jurisdictions. However, a municipality may amend the project plan of TIDs created before October 1, 1995 to allow for pooling of tax increments whereby the tax increments in excess of that needed to pay the donor's annual project cost can be allocated to another TID provided that the recipient TID was also created prior to October 1, 1995. A donor TID may allocate to another TID for no more than ten years and may not exist longer than its maximum 27 years.

Exceptions to many of these provisions have been granted over the years. One exception was created for the City of Kenosha. TIDs in the City of Kenosha may pool tax increments from a TID that has paid all its project costs to a TID that has been affected by environmental pollution, irrespective of when the TIDs were created. Donor TIDs could allocate to a contaminated TID for 16 years after its last expenditure. Originally, the City of Kenosha was granted pooling authority through 2001. Later, the exception for the City of Kenosha was expanded such that current law allows donor TIDs created prior to October 1, 1995 to allocate tax increments for 30 years after its last expenditure and to exist for a maximum 37 years. Recipient TIDs were also granted two additional years to make expenditures (from 10 years to 12 years). Currently, the City of Kenosha has pooling authority until August 1, 2016.

The bill expands the exception for the City of Kenosha such that the City is granted the authority to pool tax increments through 2031. The bill also allows Kenosha TIDs created prior to October 1, 1995 to allocate tax increments to a contaminated TID for 35 years after its last expenditure and to exist for 42 years. The bill increases the expenditure period for Kenosha TIDs created before October 1, 1995 to 17 years and allows the City of Kenosha to amend any of its TID as often as it considers necessary during the TIDs' expenditure period. Thus, Kenosha could make multiple amendments during the first seven years for TIDs created after October 1, 1995 and during the first 17 years for TIDs created before October 1, 1995. The bill also allows all Kenosha TIDs 17 years to make expenditures associated with an amendment to the TID.

Thus, the bill allows TIDs in the City of Kenosha the following: 1) 15 additional years for contaminated TIDs to receive tax increments from other TIDs; 2) five additional years for TIDs created prior to October 1, 1995 to allocate tax increments to a contaminated TID, 3) ten additional years for TIDs created prior to October 1, 1995 to amend their project plan to add territory, 4) multiple amendments to add territory for all TIDs created prior to January 1, 2004; 5) five additional years for a contaminated TID created prior to October 1, 1995 and seven additional years for other TIDs created before October 1, 1995 to make project expenditures; and 6) 14 additional years for all TIDs created prior to January 1, 2004 to make expenditures for project costs associated with a TID amendment. Attachment A summarizes the different provisions for different TIDs under current law

and under the bill.

Based on Department of Revenue data, there are six TIDs in the City of Kenosha. TIDs #1, #4, and #5 were created prior to October 1, 1995. The bill would allow these TIDs to exist for five additional years. TID #1 began allocating tax increments to TID # 4 in 1996. Thus, it can be presumed that TID # 1 had paid off its project costs in 1996. In 2002, TID #1 had \$50 million in value increments and allocated \$1.3 million to TID #4; TID #1 has allocated a total of \$7.6 million to TID #4 since 1996. Under current law, TID #1 must terminate in 2016 (37 years after its 1979 creation). If TID #1 continues to allocate its tax increments to TID #4 through 2016, it will have allocated approximately \$25.8 million to TID #4 over 20 years [(14 years x \$1.3 million per year) + \$7.6 million] when it terminates. Under the bill, TID #1 could exist for five additional years; as a result, the bill would allow TID #1 to allocate an additional \$6.5 million to TID #4 for a total of \$32.3 million.

TID #4 was created in 1989. Under current law, TID #4 could make project expenditures only through 2001 and may receive tax increments from other TIDs through 2016; currently, it must terminate in 2026. Under the bill, TID #4 could amend its project plan to add territory through 2006; it could receive tax increments for 15 more years (through 2031) and could exist through 2031. To the extent that project costs are incurred as a result of an amendment to TID #4, it could exist longer and receive more tax increments from other TIDs relative to current law. Thus, an extended life to TID #4 has the potential to extend the life of all other TIDs in the City of Kenosha to the extent that they would allocate positive increments to TID #4 rather than terminate. As a result, the overlying taxing jurisdictions would have to forego the tax base associated with the value increments of TID #1 for five additional years and the value increments from other TIDs for 15 additional years if these TIDs have paid off their project costs. As a result, the tax rates of the overlying taxing jurisdictions would be slightly higher than they would be under current law.

The bill will result in increased department administrative costs associated with monitoring the different requirements and time limits for Kenosha TIDs. It is estimated territorial amendments of Kenosha TIDs will require an additional 80 hours of staff time to administer. These costs can be absorbed.

Long-Range Fiscal Implications

Attachment to AB 379

Type of TIDs:	Expenditure Period		Maximum Life		Amendment Per. to Add Territory		Expenditure Period following Amendment		Pooling Authority	
	Current Law	AB 379	Current Law	AB 379	Current Law	AB 379	Current Law	AB 379	Current Law	AB 379
Created prior to Oct. 1, 1995:										
All TIDs	10 years	10 years	27 years	27 years	7 years	7 years	3 years*	3 years*	10 years total	10 years total
City of Kenosha										
Contaminated TIDs	12 years	17 years	37 years	42 years	7 years	17 years	3 years*	17 years	30 years through 2016**	35 years through 2031**
Donor TIDs	10 years	17 years	37 years	42 years	7 years	17 years	3 years*	17 years	30 years through 2016**	35 years through 2031**
Created after to Oct. 1, 1995:										
All TIDs	7 years	7 years	23 years	23 years	7 years	7 years	3 years*	3 years*	none	none
City of Kenosha										
Contaminated TIDs	7 years	7 years	23 years	23 years	7 years	7 years	3 years*	17 years	16 years through 2016**	16 years through 2031**
Donor TIDs	7 years	7 years	23 years	23 year	7 years	7 years	3 years*	17 years	16 years through 2016**	16 years through 2031**

All years are referenced from creation unless indicated.

*After amendment

**After donor's last expenditure

Fiscal Estimate Worksheet - 2003 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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Subject			
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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			
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			
		<u>State</u>	<u>Local</u>
NET CHANGE IN COSTS		\$See	\$See
NET CHANGE IN REVENUE		\$	\$
Agency/Prepared By		Authorized Signature	Date
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