Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate - 2013 Session

[x] Original [ ] Updated [ ] Corrected [ ] Supplemental

LRB Number **13-3755/1**	Introduction Number **SB-454**

Description
Short-term tax incremental districts and expenditure of tax increments for relocation of commercial or industrial enterprises

Fiscal Effect

State:
- [ ] No State Fiscal Effect
- [ ] Indeterminate
  - [ ] Increase Existing Appropriations
  - [ ] Decrease Existing Appropriations
  - [ ] Create New Appropriations
  - [ ] Increase Existing Revenues
  - [ ] Decrease Existing Revenues
  - [x] Increase Costs - May be possible to absorb within agency's budget [ ] Yes [x] No
  - [ ] Decrease Costs

Local:
- [ ] No Local Government Costs
- [x] Indeterminate
  1. [ ] Increase Costs — [ ] Permissive [ ] Mandatory
  2. [ ] Decrease Costs — [ ] Permissive [ ] Mandatory
  3. [ ] Increase Revenue — [ ] Permissive [ ] Mandatory
  4. [ ] Decrease Revenue — [ ] Permissive [ ] Mandatory
  5. Types of Local Government Units Affected
     - [x] Towns [x] Village [x] Cities
     - [x] Counties [x] Others sanitary, lake, metro sewer
     - [x] School Districts [x] WTCS Districts

Fund Sources Affected
[ ] GPR [ ] FED [ ] PRO [ ] PRS [ ] SEG [ ] SEGS

Affected Ch. 20 Appropriations

Agency/Prepared By	Authorized Signature	Date
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Fiscal Estimate Narratives
DOR 1/29/2014

LRB Number **13-3755/1**	Introduction Number **SB-454**	Estimate Type **Original**
Description Short-term tax incremental districts and expenditure of tax increments for relocation of commercial or industrial enterprises		

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 local officials from those governmental entities whose taxes will be used to finance the TIF (the county, school district, technical college district, municipality, and any special district), and adopting a resolution approving the creation of the TIF district. The Department of Revenue (DOR) must be notified of the creation of the TIF district by October 1 of the year the TIF district is formed. The notice to the DOR must contain findings that not less than 50% of the area in the proposed TIF district is 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 changes, if the current value is greater than the "base value" the difference between the two 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 costs of developing the TIF district.

A partial list of the costs(known as "project costs") eligible for recovery using TIF increments includes the following: (a) capital costs related to constructing new buildings; demolishing, remodeling, or repairing existing buildings; acquiring equipment to service the TIF; and the grading of land; (b) financing cost related to debt issued to pay for a district's project costs; (c) 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; (d) costs for professional services related to architectural, planning, engineering, and legal advice; (e) relocation costs for persons or entities displaced by the TIF project; (f) 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 (g) 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.

Depending on the type of TIF district and the date of creation, incremental levies for a TIF district may be collected for no more than 20, 23, or 27 years. In general, once the TIF district's costs are repaid, the district is terminated, and the property taxes in the former TIF district are shared with the overlying taxing jurisdictions in the same manner as non-TIF property taxes are shared.

A municipality may not create a new TIF district if the equalized value of property in the proposed TIF district plus the incremental value of existing TIF districts exceeds 12% of the equalized value of the municipality proposing to form the TIF district.

The above description also generally applies to an environmental remediation TIF district (ER-TIF), except that the project costs are generally limited to those related to remediating pollution under a plan approved by the Department of Natural Resources, and that an ER-TIF must, in general, may not collect incremental levies for more than 23 years.

PROPOSED LAW

The bill creates a new category of TIF district referred to as a "short-term TIF" (ST-TIF). The formation of a ST-TIF and the operation of a ST-TIF district would be similar to that for other TIF districts with the following exceptions: (1) the joint review board for a ST-TIF would not include a representative of the school district; (2) when the incremental levy for a ST-TIF is calculated, the school levy is not included in the calculation; (3) tax increments for a ST-TIF may be collected for no more than 14 years (or 27 years if approved by the joint review board), and (4) eligible project costs may not include expenditures for an "enterprise transfer".

The bill defines "enterprise transfer" as the initiation of operations at a given location by the same enterprise or an affiliated enterprise that closed or substantially reduced operations in the same county or in an adjacent county in Wisconsin. This limitation does not apply if, within one year, the enterprise increases the total number of individuals it employs at both its new and old locations, and maintains this increase for not less than one year.

Under the bill, if the municipality from which the enterprise moved believes that an "enterprise transfer" occurred and that the standards related to the exception noted above have not been met, that municipality may request the municipality to which the entity moved pay the estimated amount of property taxes that the enterprise would have paid over the subsequent five years. If the request is denied, either municipality may petition the Department of Revenue (DOR) for review. If the DOR finds for the municipality from which the enterprise transferred, DOR may order the municipality to which the enterprise moved to (a) terminate the TIF district or (b) to pay the estimated amount of property taxes that the enterprise would have paid over the subsequent ten years.

A municipality would be permitted to create a ST-TIF, even if the equalized value of the property in the proposed ST-TIF district plus the incremental value of existing TIF districts exceeds 12 percent of the total equalized value of the municipality.

The bill also creates a new type of ER-TIF referred to as a short-term ER-TIF (ST-ER-TIF). The formation of a ST-ER-TIF and the operation of a ST-ER-TIF district would be similar to that for a other ER-TIF districts with the following exceptions: (1) the joint review board for a ST-ER-TIF would not include a representative of the school district; (2) when the incremental levy for a ST-ER-TIF is calculated, the school levy is not included in the calculation; and (3) tax increments for a ST-TIF may be collected for no more than 14 years (or 27 years if approved by the joint review board).

LOCAL FISCAL EFFECTS

Excluding school districts from the governmental entities whose levy generates incremental levies will increase the time span over which a SR-TIF will need to remain open to collect sufficient incremental levies to pay for its costs. Based on data for the 2012/13 property tax year in villages and cities, school levies totaled to about 41% of all property tax levies. Thus, incremental levies for an SR-TIF and SR-ER-TIF will, on average, be raised from 59% of tax levies. For a TIF district that would otherwise be paid off over a 10 year period, a SR-TIF or SR-ER-TIF will need 17 years (10 / 0.59) to pay off its costs.

The DOR does not have information which would permit it to reasonably estimate the number of ST-TIF or ST-ER-TIF districts that might be create as a result of this bill.

DOR ADMINISTRATIVE COSTS

Under current law, for allocating property taxes and calculating property tax rates, two equalized values are needed, as follows: (1) the total of all taxable property (the "tif in" value), and (2) the total value excluding all positive tax incremental values (the "tif out" value). Under the bill, a third equalized value – the total value excluding all positive incremental values not in a short-term TIF district – would be needed.

The creation of two new types of TIF district (SR-TIFs and SR-ER-TIFs), and the need for 3 equalized values to be calculated for each municipality with one or more TIF districts, would require the DOR to reprogram those portions of its Integrated Property Assessment System (IPAS) under which equalized values are determined and property taxes allocations are calculated. It is estimated that the one-time costs to DOR for these IPAS modifications would be $950,200.

To the extent that challenges related to disputes over whether an "enterprise transfer" has occurred are filed with the DOR, additional costs would be incurred. The DOR is unable to reasonably project the number of such disputes that could be referred to the department for resolution.

Local governmental units would incur costs to reprogram their property tax systems to handle the additional equalized value required under the bill. The DOR does not have data to estimate these one-time costs, but it is expected that they could be significant.

Long-Range Fiscal Implications

Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate Worksheet - 2013 Session

Detailed Estimate of Annual Fiscal Effect

☒ Original ☐ Updated ☐ Corrected ☐ Supplemental

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Description
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I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):

One-time costs to reprogram the systems for determining equalized values and to allocate property tax levies of $950,200

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, ets.)		
	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	$	$see text of fiscal note
NET CHANGE IN REVENUE	$	$

Agency/Prepared By	**Authorized Signature**	**Date**
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