



## Fiscal Estimate Narratives

DOR 1/29/2014

LRB Number	<b>13-3758/1</b>	Introduction Number	<b>SB-455</b>	Estimate Type	<b>Original</b>
<b>Description</b>					
Disseminating information about a tax incremental district's annual budget and value increment, requiring a political subdivision to evaluate a tax incremental district's performance, increasing the amount that a political subdivision may add to its levy limit upon the dissolution of a tax incremental financing district, and extending the life and expenditure period for certain tax incremental financing districts					

### Assumptions Used in Arriving at Fiscal Estimate

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. 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" (the total of which is referred to as the "incremental levy") are retained by the municipality and used to repay the "project costs" related to developing 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.

Equalized values for 2013 were determined for 1,105 TIF districts in 405 municipalities .

The bill makes several changes to the laws concerning how TIF districts are operated and how they affect property tax levies.

### LEVY LIMIT FOR MUNICIPALITIES AND COUNTIES

In general, a municipality or county may not increase its property tax levy over the prior year's levy by more than its "valuation factor", which is defined as the greater of zero or the percentage increase in its equalized value due to net new construction. Several exceptions to the limit are permitted. One of these exceptions permits the "valuation factor" to be adjusted when a TIF district is terminated. The adjustment equals 50% of the final incremental value of the TIF district divided by the total equalized value of the municipality or county in the prior year.

Under the bill, the adjustment equals 80% of the final incremental value of the TIF district divided by the total equalized value of the municipality or county in the prior year, beginning in the 2013/14 property tax year. The bill increases the 2013/14 levy limit of 24 municipalities by a total of approximately \$1,181,000, for an increase of 0.22% in the levy limit of these municipalities. The bill increases the 2013/14 levy limit of 15 counties by a total of approximately \$713,000, for an increase of 0.09% in the levy limit of these counties.

### PROJECT COSTS

A partial list of the "project costs" a TIF can incur under current law are: (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 costs 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.

Current law also prohibits certain costs from the definition of "project costs". A partial list of such prohibited costs includes the following: (a) constructing or expanding administrative buildings, police and fire buildings, libraries, community and recreational buildings, school buildings, and facilities that would otherwise be financed from utility user fees; (b) operating costs unrelated to the planning or development of the TIF district; and (c) cash grants made to owners, lessees, or developers of land that is located within the tax incremental district. However, this last exception does not apply if the owner, lessee, or developer has signed a development agreement with the municipality that is developing the TIF.

The bill expands the permissible list of "project costs" to include costs incurred to recruit a business to locate in a TIF district, expenses to remodel the interior space of an existing building in a TIF district to make the space useable for a business, and the cost of a parking structure that supports redevelopment activities.

The DOR does not receive reports containing detailed information of TIF districts' "project costs", and is therefore unable to estimate the increase in the amount of such costs the bill could engender. However, to the extent that "project costs" do increase under the bill, the amount over time that will be collected as "tax increments" will increase, and the affected TIF districts could remain open for a longer period of time, when compared to current law.

## ANNUAL REPORT

Under current law, a municipality that has a TIF district must, by May 1 every year, prepare and make available to the public a report describing the status of each TIF district in the municipality, which is to include information on each district's revenues and expenditures.

Under the bill, beginning in 2014, a municipality that has a TIF district must, by July 1 every year, prepare and make available to the public a detailed report on each TIF district in the municipality. The report must describe each district's financial status, including an itemized list of prior expenditures made for the district and revenues received by the district, and information on anticipated future TIF expenditures and revenues. A public hearing on the report would also be required.

Since the annual report under the bill will contain more information than required under current law, local administrative costs related to preparing the report will increase. The requirement that a public hearing be held on the report will add further local administrative costs. The annual financial report filed by municipalities with the DOR does not separately show administrative costs related to TIF districts. The DOR is therefore unable to estimate the amount by which local administrative costs could increase as a result of this part of the bill.

## TIF DISTRICT REPORT CARD

Beginning in 2014, as part of the process of preparing the expanded annual report on each TIF district, the chief financial officer of the municipality will be required to determine whether the expenditures of each TIF district and the incremental levies earned by each TIF district are balanced.

Based on the information used to prepare the annual report for each TIF district, the chief financial officer would also be required to annually prepare and publically distribute a report card for each TIF district that evaluates the degree to which the TIF district's expenditures and tax increments are balanced. If the TIF district's expenditures and tax increments are balanced, the TIF earns a grade of "A". If the expenditures and tax increments are within 5% of being balanced, the TIF earns a grade of "B". If the expenditures and tax increments are within 10%, the TIF earns a grade of "C". If the expenditures and tax increments are within 15%, the TIF earns a grade of "D". If the expenditures and tax increments are more than 15% out of balance, the TIF district earns a grade of "F". For the first 8 years of a TIF district's life, the TIF district is to be assigned a grade of "B" if the district's expenditures and tax increments are in balance with the projections for those amounts contained in the district's project plan; if, however, the district would otherwise earn a lower grade, the lower grade is to be awarded.

The basic concept for having a TIF district is that certain costs for economic development will be repaid over a time period of many years. Thus, the DOR expects that, after the initial 8 year time span is finished, it is possible that many TIF districts may earn a grade of "F" under the proposed grading system since a large

percentage of their project costs will not yet be repaid from the incremental levies that have accumulated at the time the grade is assigned to the TIF district. However, the DOR does not currently receive detailed information on the financial status of individual TIF districts, and is therefore unable to project the grades that could be assigned to individual TIF districts.

The assignment of grades to each TIF district will increase the workload on the chief financial officer of every municipality with a TIF district. As noted earlier, the financial report forms filed by municipalities with the DOR do not separately show administrative costs related to TIF districts. The DOR is therefore unable to estimate the increase in local administrative costs that this part of the bill could engender.

#### EXTENDED TIF LIFE

Under this bill, if a TIF district receives a grade of "A" or "B" in the year it would otherwise be required to terminate, the district's allowable life may be extended for 10 years and may incur project costs incurred for an additional 5 years. Such an extension would be allowed only if the planning commission amends the district's project plan to change the district's boundaries, subject to approval by the municipal governing board and the TIF district's joint review board. The current law limit on the number of times a TIF district's boundaries may be amended (4 times for most TIF districts) would not apply to the new boundary adjustment permitted under the bill.

The DOR does not have data to reasonably estimate the number of municipalities that could have the potential to extend the life of their TIF districts under the bill. To the extent that TIF district lives are extended, the amount eventually collected as "tax increments" will increase when compared to current law.

#### TWELVE PERCENT LIMIT

Under current law, in general, a new TIF district may not be created if the value of the property in a proposed TIF district plus the incremental value of the municipality's existing TIF districts is more than 12% of the total equalized value of the municipality. This is referred to as the "12% test".

Under this bill, if the average grade of all existing TIF districts in a municipality is at least "B" in any given year, the "12% test" becomes a "15% test", meaning that a municipality may not create a new TIF district if the value of the property in a proposed TIF district plus the incremental value of the municipality's existing TIF exceeds 15% of the total equalized value of the municipality. This change is not permanent. Thus, if the grades for a municipality's TIF districts decline so that the average is less than "B", the "15% test" will revert to a "12% test".

Since the DOR does not currently receive information which would permit it to project the grades that could be assigned to individual TIF districts, the DOR is unable to project the number of municipalities which would be able to use the "15% test" permitted under the bill. However, based on 2013 equalized values, of the 405 municipalities with TIF districts, 106 had a total incremental value that exceeded 12% of the total value of the municipality, and 76 had a total incremental value that exceeded 15% of the total value of the municipality.

#### DOR ADMINISTRATIVE COSTS

The DOR would incur one-time costs of \$111,900 to change its computer programs which assist it in administering the TIF program. Other costs are expected to be absorbed within current budgetary resources.

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

## Fiscal Estimate Worksheet - 2013 Session

Detailed Estimate of Annual Fiscal Effect

Original
  Updated
  Corrected
  Supplemental

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<b>I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):</b>  One-time costs of \$111,900 for the additional tasks related to TIF districts		
<b>II. Annualized Costs:</b>	<b>Annualized Fiscal Impact on funds from:</b>	
	Increased Costs      Decreased Costs	
<b>A. State Costs by Category</b>		
State Operations - Salaries and Fringes	\$	\$
(FTE Position Changes)		
State Operations - Other Costs		
Local Assistance		
Aids to Individuals or Organizations		
<b>TOTAL State Costs by Category</b>	<b>\$</b>	<b>\$</b>
<b>B. State Costs by Source of Funds</b>		
GPR		
FED		
PRO/PRS		
SEG/SEG-S		
<b>III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)</b>		
	Increased Rev	Decreased Rev
GPR Taxes	\$	\$
GPR Earned		
FED		
PRO/PRS		
SEG/SEG-S		
<b>TOTAL State Revenues</b>	<b>\$</b>	<b>\$</b>
<b>NET ANNUALIZED FISCAL IMPACT</b>		
	<u>State</u>	<u>Local</u>
NET CHANGE IN COSTS	\$	\$
NET CHANGE IN REVENUE	\$	\$
<b>Agency/Prepared By</b>		
<b>Authorized Signature</b>		<b>Date</b>
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		1/29/2014