

Fiscal Estimate Narratives

DOR 1/29/2014

LRB Number	13-3759/1	Introduction Number	SB-456	Estimate Type	Original
Description Expanding the definition of project costs to include certain cash payments with regard to a tax incremental financing district					

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" 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 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 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.

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 prohibition does not apply if the owner, lessee, or developer has signed a development agreement with the municipality that is developing the TIF.

Under the bill, the exception to prohibited costs for cash grants would be expanded to allow grants made to a landlord in a "tech park" if (a) the landlord certifies to the municipality developing the TIF that he or she is charging tenants in the "tech park" below market rate rents, and (b) the landlord pledges, within 5 years if the receipt of any grant, to pass the grant on to his or her tenants in the form of reduced rents, capital equipment, of furniture. A "tech park" is defined under the bill a real estate development dedicated to the promotion of science and technology businesses, including agriculture, advance manufacturing, engineered products, information technology, and medical devices and imaging.

The Department of Revenue (DOR) is not aware of any current TIF district that might qualify for the new exception related to project costs created under the bill. However, to the extent that the bill could make it more attractive to create a "tech park" TIF district, 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