

Fiscal Estimate Narratives

DOR 10/1/2015

LRB Number	15-3058/1	Introduction Number	AB-0349	Estimate Type	Original
Description Applying financial accountability provisions that currently apply to certain tax incremental districts to all tax incremental districts created by a city or village					

Assumptions Used in Arriving at Fiscal Estimate

Under the bill, all tax incremental districts (TIDs) that a city or village creates on or after October 1, 2015, must contain at least one of the following three accountability practices that currently apply to certain town TIDs and TIDs that are in a decrement situation:

1. A private developer/entity will finance at least 51 percent of the value of the infrastructure improvements, and the developer/entity must enter into a development agreement with the city/village in order to receive cash grants.

The Department of Revenue (DOR) does not compile data related to financing for infrastructure improvements as part of tax incremental financing (TIF) projects. The arrangement requires a developer/entity to finance the project initially and the municipality pays back to the developer through cash grants with interest payments and fees embedded in the grants. The option may be less challenging to meet for certain TIDs, particularly when a single developer/entity leads the TIF development projects. However for some TIDs, the option may not be feasible or financially optimal to choose, depending on the nature of the TIF projects and the availability of other financing options that may be less costly to the municipalities.

2. A TID must pay all project costs within 90 percent of the TID's remaining life.

DOR does not compile data related to the length of time a TID takes to pay all project costs. Under current law, a TID must terminate once the district pays off all the debt. A newly created TID's life would effectively be limited to 90 percent of the time allowed under current law, unless the municipality extends the life of the TID.

According to DOR's data, among those that were active as of 2010 or terminated in 2010, 147 TIDs terminated during the period between 2010 and 2015. Approximately 81 percent of them (119 TIDs) had terminated before they reached their maximum, unextended life. However, municipalities may prefer to secure full life before the TIDs are officially created in case the TIDs' increments fall less than projected.

3. A TID may incur expenditures only within the first half of the TID's remaining life, unless certain conditions are met.

Under current law, a city or village may make expenditures for project costs until five years before the termination date (20, 23 or 27 years depending of the type of the TID). This restriction would shorten the expenditure period by five to eight and a half years if a TID were to choose this option. DOR does not possess data on TIDs' expenditure periods, and as such, it is not possible for DOR to ascertain the impact of the restriction for newly created TIDs.

The requirement under the bill for all newly created TIDs may incur additional costs for villages/cities. DOR does not have sufficient information to estimate the costs for municipalities to produce the required information.

The state fiscal impact of the bill will be minimal. The administrative costs can be absorbed within the current budgetary resources.

Long-Range Fiscal Implications