



State Senator Rick Gudex

District 18

March 25, 2015

To: Members of the Senate Economic Development and Commerce Committee
From: Sen. Rick Gudex
Re: Senate Bill 50, Senate Bill 54, & Senate Bill 57

This past year I had the honor of Chairing the Legislative Council Study Committee on Tax Incremental Financing. The committee was directed to study and review the intent behind TIF laws and how the TIF laws are utilized by cities, villages, towns, and counties. The committee was also directed to evaluate current TIF laws and recommend legislation that could improve their effectiveness and study how they impact a local governmental unit's finances and property taxes; economic and community development; and job growth. As you may know, TIF is the only tool that Cities, Villages, and Townships have for economic development across the state on a local level.

The committee membership consisted of two Senators, four Representatives, and 12 public members from various regions throughout the state. Many of the members, I would consider to be experts in the field of Tax Incremental Financing. It was an extremely educational and productive committee. Better yet, we had over 40 people apply to be public members of the committee. We were able to have some of those not chosen, come before the committee to testify, which was extremely helpful in coming to resolution on the three bills before us today.

SB-50- This bill is comprised of a number of what the committee designated as "Non-Controversial" topics. Over time, the statutes relating to TIF have been amended to include numerous provisions that are significantly limited in their scope, often relating to a single municipality or a particular TID. The bill repeals certain provisions of the statutes relating to tax incremental financing that the Department of Revenue (DOR) identified as obsolete, in addition, DOR has identified another three obsolete sections of TIF statutes which I have had an amendment drafted to include.

The bill also includes some minor timing changes and notice requirements that assist municipalities with the process involved with Tax Incremental Financing. Additionally, the bill specifies that the requirement related to maintenance of industrial zoning applies only to districts that are declared to be industrial districts.

An important clarification was added by the committee that specifies how the levy limit calculation is formulated when a TID terminates. The bill specifies that the municipality's equalized value for the preceding year, as used in the calculation of the levy limit exception for the year that a TID terminates, **excludes the value of any TID value increments.**



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SB-54- Current law defines “vacant property” to include property where the fair market value or replacement cost value of structural improvements on the parcel is less than the fair market value of the land, and excludes property relating to the Park East and Park West freeway corridors in Milwaukee County, and also excludes property that is contaminated by environmental pollution.

The bill addresses vacant land and city owned property in TID’s. It removes the statutory restriction that vacant property may not comprise more than 25% of the area of a newly-created TID, and excludes all tax-exempt city owned property from the calculation of a TID’s initial tax incremental base.

SB-57- We all know how Tax Incremental Financing is supposed to work. A municipality creates a TID, then leverages infrastructure and other investments based on the increased revenues they expect to receive as property values within the TID grow. Sometimes municipalities know when creating a TID that the district will fall into a decrement situation. A “decrement situation” is defined as a decline in current value of TID property of at least 10 percent compared to the current base value of the TID.

An example of this could be that a municipality creates a TID with an old building on it that must be torn down in order to redevelop the property. Let’s say the existing value of the TID is assessed at \$5million. Once the building is torn down, let’s say that the assessed value of the property is now reduced and would likely be reduced more than 10% creating a decrement situation. In order to assist municipalities and developers to get properties back on the tax rolls and producing tax increments, it is necessary to readjust the base value once the building is torn down and the district is now in decrement.

The bill proposes an alternative process for re-determining the base value of a TID. The bill would authorize a local legislative body to request redetermination any time that a TID is in a decrement situation for a single year. Under the bill, a local legislative body’s ability to require redeterminations under the alternative process must first be included in the TID’s project plan, resulting in JRB approval of the possibility of redetermination but not each specific resolution for redetermination. The ability of a local legislative body to request multiple redeterminations also must be specifically stated in the project plan. Under the bill, the \$1,000 fee to DOR would apply to each redetermination.



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Again, the redeterminations under the alternative process must first be included in the TID's project plan. So this process is identified in a project plan on the front side of creating a TID and must be approved by the Joint Review Board and request for multiple redeterminations must also be specified on the project plan ahead of time.

The three bills before us today are products of the Legislative Council Study Committee and have bi-partisan support from legislators all across the state. They are designed to enhance and provide further transparency and accountability for the use of tax dollars when using Tax Increment Financing. The topic is a complex one and I invite you to please ask questions to gain more information on how the TIF Statues work in our state.

Thank you and I ask for your support of these bi-partisan economic development bills.



March 25, 2015

Wisconsin State Senate
Committee on Economic Development and Commerce
State Capitol
Madison, Wisconsin

RE: Testimony **in Support of SB 50, SB 54 and SB 57**, Legislative Council Study Bills relating to **tax incremental financing**.

Dear Committee Members,

I am here today to testify in support of these bills as a part of the overall recommendations of the Legislative Council Study Committee on TIF.

I had the privilege of serving on the Legislative Council TIF Study Committee and fully support the work and all of the recommendations of the Committee.

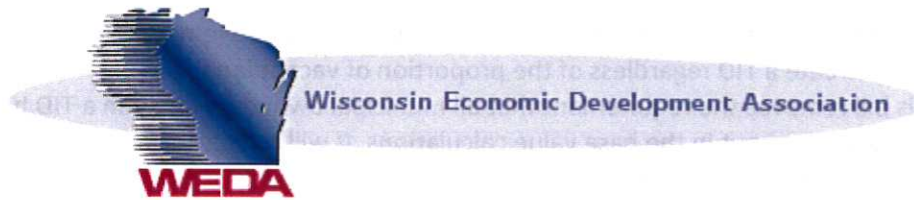
Ehlers is a firm that exclusively serves local governments across the State of Wisconsin. Currently we represent over 300 municipalities in Wisconsin as their Financial Advisor. We have assisted in the creation and ongoing financial management of Tax Increment Districts in Wisconsin since the law was initially created in 1976. Our company also provides financial advisory and tax increment assistance in Minnesota, Illinois, Kansas and Colorado and as such we are well aware of how this law has been used and applied in these competing States as well.

It is my view that all of the recommendations of the TIF Study Committee will significantly improve the accountability and transparency of the program and will advance the original intent of the law---to promote economic development, jobs and tax base growth that would not have otherwise occurred without the use of Tax Incremental Financing.

Specifically the Bills before you today will clean up obsolete or unwieldy provisions of the law through a technical correction Bill , SB 50. In addition SB- 54 eliminates an obstacle to redevelopment districts where the current "vacant land test" would preclude development of truly blighted or lands in need of rehabilitation. Finally SB 57 will improve a bill passed last year by the legislature which allows the Department of Revenue to "reset" the base value of a district when the actual value drops below the original base. The prior bill required that there be a 2 year period wherein the value had remained below the base by 10% or more. This precluded communities from being able to take advantage of development opportunities that were immediately available.

Very Truly Yours

Michael C. Harrigan, CIPMA
Chairman / Sr. Financial Advisor



TO: Members, Senate Committee on Economic Development and Commerce

FROM: Brian Doudna, Wisconsin Economic Development Association

DATE: March 25, 2015

RE: **Support for SB 50, SB 54, and SB 57 – Legislative Council study bills relating to tax incremental districts and financing**

The Wisconsin Economic Development Association is a statewide association consisting of over 400 economic development practitioners. WEDA supports state policies that strengthen our economy and create jobs. Since 1975, Tax Incremental Financing (TIF) has been one of Wisconsin's primary and most successful economic development tools. Statewide, TIF projects have revitalized urban corridors and bolstered growth among rural areas throughout Wisconsin.

Over the years, various TIF related changes have been implemented to reconcile or address shifting marketplace conditions. To address the challenges in today's marketplace, legislative members and economic industry professionals – including members from WEDA, participated in the 2014 Legislative Council Study Committee on the Review of Tax Incremental Financing. The purpose of the committee was to “study and review the intent behind TIF laws and how the TIF laws are utilized by cities, villages, towns, and counties.” After months of discussion, the TIF Study Committee has recommended a package of TIF bills to strengthen and refine TIF functionality in Wisconsin.

While WEDA supports the entire bill package to maximize economic growth in Wisconsin communities, today we are here to support Senate Bills 50, 54 and 57.

Senate Bill 50 is the “catch all” bill in this package because it makes several technical changes including:

- Modifies the industrial zoning requirements to only apply to industrial use tax increment districts (TID);
- Changes the maximum review period the JRB has to approve a resolution on a TID from 30 days to 45 days;
- Amends the notice requirement of the planning commission from a class 2 notice to a class 1 notice when it comes to announcing a notice of amendment;
- Deletes obsolete references in current statute.

These changes will enhance transparency and accountability in TIF projects.

Senate Bill 54 removes the restriction that property standing vacant may not comprise more than 25 percent of the area in a TID. Current law, with certain exceptions, specifies that property standing vacant for an entire seven-year period before a TID is created, may not comprise more than 25 percent of the area in the TID. Often times the physical land where a vacant, damaged or demolished building

resides is often more valuable than the property's actual physical improvements. This change removes any restrictions to create a TID regardless of the proportion of vacant land.

In addition, this bill removes the requirement that all municipal owned land within a TID be assessed for property tax purposes and put in the base value calculations. It will reflect the actual property tax value of the municipal property, which is zero.

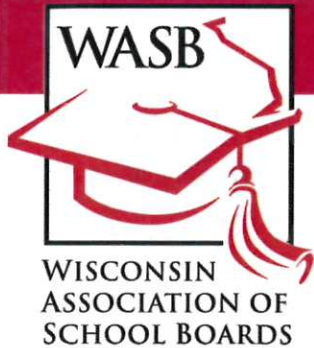
WEDA supports removing the 25 percent vacant land restriction to generate more flexibility for local governments to create a TID regardless of the percentage of vacant land in the TID.

Senate Bill 57 creates an alternative process for redetermining the base value of a TID. Under current law, a qualifying TID must be in a decrement situation for two consecutive years, in addition to meeting some other conditions, in order to reset the base value.

Under the bill, if a project plan indicates that as part of the project the TID will go into decrement (as defined in sec. 66.1105(2)(aj), Wis. Stats), the base value may be reset. For example, in the case of a newly created district that includes demolition, the value of the district will automatically decrease when the buildings are removed. This will put the TID immediately into decrement. Under this alternative process, the local legislative body could request a redetermination any time that the qualifying TID is in a decrement situation for a single year. Additionally, under the bill, the local legislative body would need to specifically state in the TID project plan that it plans to request multiple redeterminations.

WEDA supports this alternative process for redetermining the base value of a TID to allow for more flexibility for the local legislative body and reduce administrative burdens for Department of Revenue. Ultimately, by allowing the base value to be reduced, the timeframe associated with a TIF district's ability to generate *new* taxable value would be accelerated. Allowing for base value adjustments can generate positive TIF increment more quickly, increase public-private development partnerships and accelerate the stream of benefits for all of the impacted taxing jurisdictions (e.g. Local Unit of Government, County, Technical College and School District).

Thank you for your consideration of SB 50, 54 and 57. The association looks forward to your support.



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John H. Ashley, Executive Director

TO: Members, Senate Committee on Economic Development and Commerce
FROM: Dan Rossmiller, Government Relations Director
RE: Senate Bill 57, relating to redetermination of base value for tax incremental districts
DATE: March 25, 2015

Senate Bill 57 proposes an alternative process for re-determining the base value of a tax incremental district (TID). While the Wisconsin Association of School Boards (WASB) neither supports nor opposes Senate Bill 57, the WASB has some questions and concerns about the potential impact of this bill on school districts.

Wisconsin's tax incremental financing (TIF) law provides a mechanism for funding development and redevelopment projects that allows cities, villages (and in some cases towns and counties) to work with the private sector to stimulate economic growth and employment that arguably might not happen but for the use of the TIF mechanism.

Ordinarily, municipalities finance the cost of public improvements (such as sewers, streets, and light systems) from municipal revenues. These improvements typically contribute to expanding the local tax base and thus generate additional revenues for the municipality in future years.

However, some development and redevelopment projects need an extra boost to help them get off the ground. When it enacted our state's TIF law, the Legislature provided this boost--by requiring the overlying taxing jurisdictions—counties, school districts and technical colleges—to share in project costs.

Tax incremental financing has the effect of making these overlying local taxing jurisdictions that are expected to eventually benefit from TIF projects share in the costs of the public improvements needed to spur economic growth within a tax incremental district (TID).

When a TID is created the state calculates a base-level equalized valuation of the district. Over time, if the TID operates as intended and property values within the TID increase, a TIF increment results. This increment is the appreciation of equalized valuation of property within a TID above the base - level equalized valuation of the TID at the time it was created. Property taxes on the TIF increment, which

would normally go to school districts, counties, technical college districts, and others, instead go to the municipality which created the TIF district to help that municipality pay for the cost of development or redevelopment within the TIF district.

However, the TIF mechanism doesn't always work as intended. Sometimes no TIF increment is generated. In other words, there is no added value above the original base value of property within the TID to be shared. In other cases, the value of property within the TID actually goes down, sometimes substantially. The question in either situation becomes how to pay for TID project costs in the absence of any TIF increment.

We note that Senate Bill 57 bill doesn't distinguish between decrements (i.e., downturns in value) that are due to market swings (which were rather large in the wake of the 2008 market downturn) and the failure of economic development efforts to add value to the property within the tax incremental district (TID).

For a school district, if the base value of a TID is marked down, as would be allowed under this bill, the school district (as well as other underlying tax jurisdictions—e.g., counties and tech college districts, etc.) loses the ability to levy any tax on the decrement (the amount of the decrease in the value of property within the TID) until the TID is closed (which currently would not happen until 20 years after the TID was created).

If the decrement is due merely to a market swing, a school district could lose the ability under the bill to tax the "decrement" even if the market bounces or swings back and the value of the TID property rises above its original base value. In effect, by allowing redetermination of the base value of the TID the bill shifts a portion of the burden of funding the TID from the taxpayers of the municipality to the taxpayers of the school district and the other underlying taxing jurisdictions, at least until the TID is closed.

In analyzing this bill, the WASB staff asked whether Senate Bill 57 would make it more likely or less likely that a school district would eventually share in any tax increment from the TID.

In the event a TID generates no tax increment (i.e., no added assessed value above the original base) to be shared—the problem of how to pay for project costs is really a problem for the municipality, not the school district. However, if a TID is in a decrement situation as defined under the bill, the problem of how to pay for project costs is shared by the school district and the other overlying taxing jurisdictions.

Moreover, to the extent that the TID flounders, this could delay the time when the TID closes and the school district could eventually begin to collect taxes on any increment in property value within the TID. (This, of course, presumes that the TID will eventually be able to "recover" from the decrement situation and actually add increment (i.e., new assessed value above the base). If so, the school district

would be able to “share” in that value at the point the TID is closed and the full value of the property goes back onto the tax rolls.)

One of our concerns about Senate Bill 57 is that it might possibly encourage the creation of “risky” TIDs. In other words, because the bill creates an alternative way for TID costs to be repaid by property taxes rather than affecting the municipality’s budget, and allows this to happen multiple times during the life of the TID and is based on a TID being in a “decrement situation” for only one year (rather than two as required under existing law) we have questions about whether this bill, if enacted, could increase a municipality’s willingness to take on added risk with respect to a decision to create a TID.

We note that for many, but not all, school districts the impact of a TID is blunted somewhat because the measure of the tax base used in the state's equalizing aid formulas for school districts excludes the incremental value of TIF districts. Thus, most but not all school districts are compensated to some degree for their inability to tax the incremental value of a TID.

But what if the TID base value gets recalculated in a “decrement” situation? More of the school district’s total tax levy would have to be spread out among the other taxable properties in the district, and, therefore, there may be a small impact on state aid.

So long as a school district’s total available revenues—which are determined by the district’s revenue limit—are not affected, we imagine the effects on a given school district are likely to be relatively minor. However, if the mechanism provided for in Senate Bill 57 is utilized at the same time that a school district’s total available revenues are decreased—as happened, for example, in 2011, when both state aid and revenue limits were reduced—we anticipate this could produce a particularly bad financial outcome for the district.