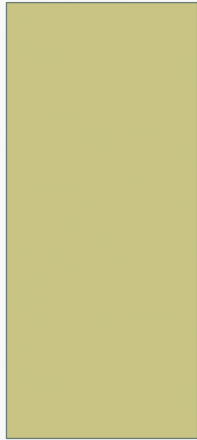




TAX INCREMENTAL FINANCING THE WEST BEND STORY

TESTIMONY PRESENTED BY
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DIRECTOR, DEPARTMENT OF DEVELOPMENT



WHO AM I?

- ❖ A native of Ohio, Mr. Justice managed Joint Economic Development Districts (JEDD's), Tax Increment Finance Districts, Revolving Loan Funds, and various economic development incentive programs at the federal, state, and local levels in Ohio and Indiana.
- ❖ His claim to fame was orchestrating Ohio's successful effort to land a \$1.2 billion American Centrifuge Technology plant creating more than 500 high paying, technology based jobs on a former U.S. government gaseous diffusion plant.
- ❖ The City of West Bend recruited him as part of a national search for an economic development professional with duties beginning in April 2012.

OBSERVATIONS

- ❖ Incredibly successful TIF districts as well as districts that quite possibly should never have been created.
- ❖ As I begin, I'll share an item I find awkward – the naming of districts by number.
 - ❖ Can legislation be changed that would allow a “TIF #10” in West Bend to become the River Shores TIF? The numbering system is confusing to investors and business.

WEST BEND TIDS

❖ Thirteen Tax Incremental Districts

- Two closed
- Eleven active
 - Four redevelopment (three distressed)
 - Seven industrial (two distressed)

REDEVELOPMENT TIDS – WEST BEND EXPERIENCE

- ❖ High upfront costs due to one or more of the following:
 - Need to assemble lands (TID 5 & 9)
 - Environmental remediation (TID 5, 9, & 12)
 - Significant infrastructure needed (TID 5, 9, 10 & 12)
- ❖ No guaranteed development on three of the TIDs (5, 9 & 12) and development delayed.
- ❖ TID 10 was a public/private joint venture, but private development guarantees proved inadequate.
- ❖ All of the TIDs were hurt by 2010 revaluation by state.

INDUSTRIAL TIDS – WEST BEND EXPERIENCE

- ❖ All active TIDs have substantial development.
- ❖ Distressed TIDs (TID 3 & 11) had delays in development activity and unexpectedly high infrastructure costs.

FOCUS TIF

TIF #10 – RIVER SHORES DEVELOPMENT

- ❖ Created on April 19, 2004, the city partnered with Hendricks Development, LLC of Beloit to redevelop the former West Bend Company that closed in 2003 and employed over 1,500 people at peak production levels.
- ❖ Initial plan called for the city to invest \$12 M in infrastructure (water, sewer, Milwaukee River bridge, etc.) and actually expended \$21.3 M with the company committing to \$80 M.
- ❖ In the summer of 2012, it was discovered that increments were not sufficient to cover the city's debt service and the city was using bond proceeds to cover debt payments.
- ❖ What went wrong? One of two developers died unexpectedly; another faded. The city had not been in contact with the investors for a long period of time.

FOCUS TIF

TIF #10 – RIVER SHORES DEVELOPMENT - CONTINUED

- ❖ Personal guarantees were ineffective.
- ❖ Further complicating the financial health of the district, the city was allocating internal operating costs to all TIF districts, even those in distress.
- ❖ At \$1.5 million in shortfall payment arrears, the city contacted the company and negotiated a new agreement that called for a distressed designation, relief of all city obligations for future infrastructure, a one time \$800,000 shortfall payment, annual shortfall payments not to exceed \$400,000 and \$8 million in new private sector investment.
- ❖ The pledged \$8 million investment is expected to exceed \$15 million next year and will result in 92 more condominiums/apartments and ground level commercial use.

TIF #10 THEN AND NOW



12% RULE

- ❖ West Bend has never reached the threshold.
 - The TID Districts are at approximately 6% of total equalized property value compared to the city's overall equalized value.
 - This rate hampers smaller communities. Wisconsin is largely a “home rule” state and this policy should be arrived at locally.

KEY DIFFERENCES IN TIF UTILIZATION AMONG OHIO, INDIANA, AND WISCONSIN

- ❖ Neither Ohio nor Indiana have the ability to put distressed TIF costs on the backs of property owners (property taxes can not be increased without a vote of the electorate in either state) – it has to extend the life of the district or find alternative ways to cover costs.
- ❖ Direct incentives with TIF proceeds are not provided to business or commerce – all incentives are provided through tax credits, property tax exemptions, training grants, financing and other tools – TIFs are only used for public infrastructure (external) costs.
- ❖ Internal TIF allocations to support municipal operating costs are strictly prohibited in Ohio and Indiana.
- ❖ In the case of West Bend, more than \$1 million annually in tax increments were being used to balance the city's budget. This was reduced to \$600,000 this year and the goal is to eliminate such practice next year.
 - ❖ This activity should be prohibited in Wisconsin – it provides no direct benefit to investors and businesses and is more so a conflict in fiscal management when the practice is used in under-performing districts.

KEY DIFFERENCES - CONTINUED

- ❖ There have been instances in West Bend, and I suspect elsewhere, in which direct incentives (grants) have been provided to investors and businesses whereas the city is using bond proceeds up front to cover the expense. This is poor practice, risky, and bad public policy, but also a local decision that I believe should be restricted.
- ❖ I was asked to speak to whether or not each of West Bend's 13 districts were "stress tested." I can not answer that, because the creation of each district preceded me. However, it may be wise to require municipalities to have its finance departments or a newly created "budget commission" analyze the proformas of new districts.
- ❖ TIFs are an effective economic development tool when used effectively and appropriately. Unless otherwise created locally, it is the only true tool available to local government for development purposes.
- ❖ I welcome any opportunities to work with the Governor's administration and the General Assembly to improve TIF legislation effectively and improve the state's position for growth.
- ❖ I thank you for this opportunity to testify and will now field any questions.