



TID 101 - Elm Grove

Dawn Gunderson Schiel - Ehlers

Jonathan Schatz - Ehlers



What is Tax Increment Financing (TIF)?

- Economic development tool used in Wisconsin + many other states (statutes exist in 49 states)
- Allows Village to capture incremental *property tax revenue* from *growth* in defined area & use it to *benefit* that area
- Key acronyms:
 - ✓ TIF = Tax Increment Financing (*the tool*)
 - ✓ TID = Tax Increment District (*where the tool is used - boundary*)



TIF in Wisconsin

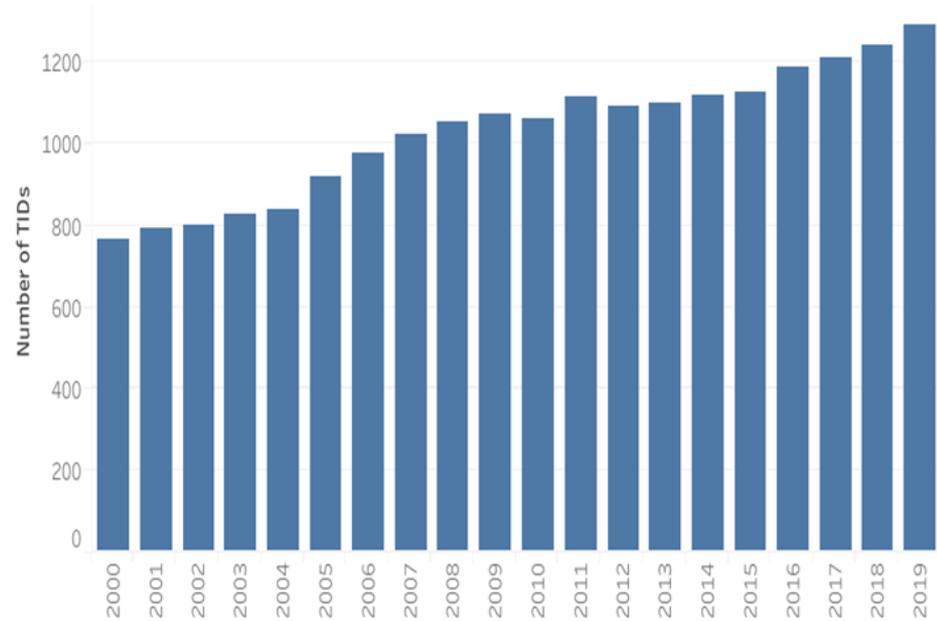
- Original program created by the State Legislature in 1975
- TIF has been the most powerful economic development tool available to local government





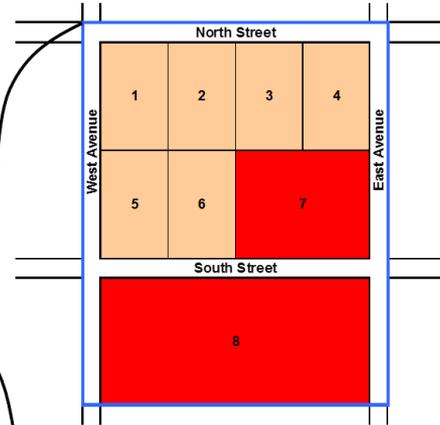
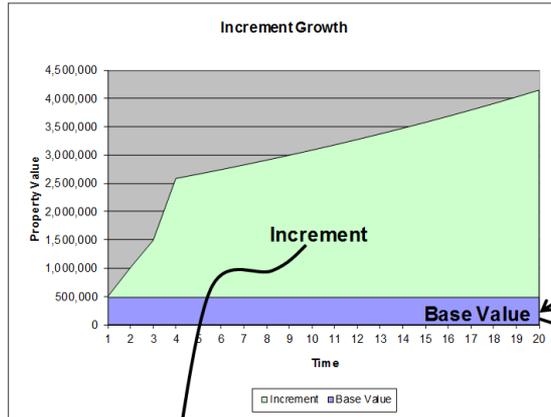
TID utilization

- \$22.97 billion in incremental property value located within TIDs as of January 1, 2019 (about 4% of all property value in state)
- 1,295 TIDs currently in existence





How does TIF work?



	Mill Rate
TID	20.00
Total	20.00

The TID receives taxes on the increment value at the combined rate of all taxing entities

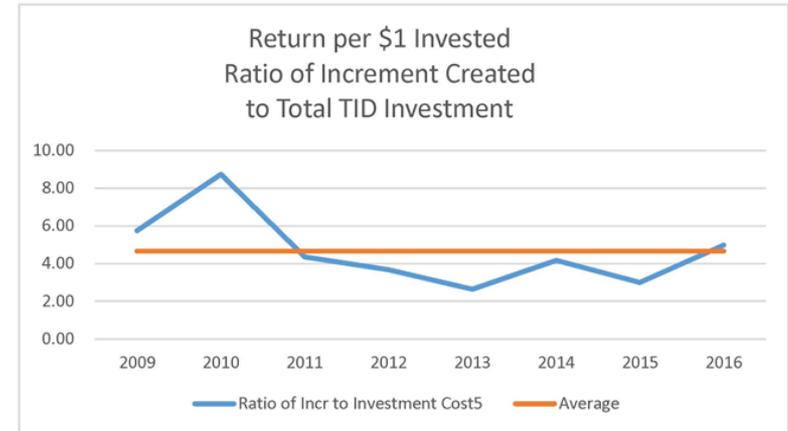
	Mill Rate
Local	6.50
County	4.00
School	7.50
VTAE	2.00
Total	20.00

All taxing jurisdictions continue to receive their share of the tax levy on the base value of the TID



Return on investment

- In 2017, Ehlers reviewed all TIDs closed between 2009 – 2016
- For every \$1 of public investment, an average \$4.66 in new property value created
- Does not consider value of jobs created, payroll taxes, sales tax, etc.





The “But For” test

- Standard applied by Village and Joint Review Board, key underpinning of TIF program
- “But for” the use of TIF, the proposed development would not occur:
 - ✓ as proposed
 - ✓ within same time frame
 - ✓ with same level of value



The “But For” test...cont.

- How do you prove it?
 - Best practice: independent third-party review of developer’s sources, uses and cashflows (with, without TIF assistance)
 - Challenged site
 - Extensive public infrastructure costs
 - Lack of economic development in community
 - Ultimately, a Village and JRB judgment call



Types of Districts & Life

TID Maximum Life	
TID Type	Max Life
Any type created before October 1, 1995	27 years
Blight/Rehabilitation after October 1, 1995	27 years*
Industrial after October 1, 1995; before October 1, 2004	23 years*
Industrial or Mixed-use on or after October 1, 2004	20 years*
Environmental Remediation before November 29, 2017	23 years
Environmental Remediation on or after November 29, 2017	27 years*
<i>*Maximum life may be extended. Review TID Extensions for details.</i>	



Statutory Definition of Blight

Blighted area – areas in a damaged condition. TIF Law provides two specific meanings for the designation of blight. Neither definition includes any open land developed only for agricultural purposes:

- **Definition 1:** An area in which the structures, buildings or improvements contribute to ill health, transmission of disease, infant mortality, juvenile delinquency, or crime and are detrimental to the public health, safety, morals or welfare, due to dilapidation, deterioration, age or obsolescence, inadequate provision for ventilation, light air, sanitation or open spaces, high density population and overcrowding, or the existence of conditions which endanger life or property by fire and other causes
- **Definition 2:** An area which is predominantly open and which consists primarily of an abandoned highway corridor as defined in sec. [66.1333\(2m\)\(a\)](#), Wis.Stats. or that consists of land on which buildings or structures have been demolished and because of obsolete platting, diversity of ownership, deterioration of structures or of site improvements, substantially impairs the sound growth of the community



Eligible project costs

- Public works & improvements
- Financing costs
- Real property assembly costs (land write-down)
- Professional service costs
- Admin/Organizational costs
- Contribution to Community Development Authority or Redevelopment Authority
- Relocation costs
- Pro-rated costs of utility infrastructure (municipality-wide)
- Cash grants (requires developer agreement)
- Environmental remediation
- Projects within ½ mile of district

All costs must directly relate to purpose of the TID, including ½ mile



Prohibited project costs

- Costs of constructing or expanding administrative, police, fire, community, recreational, library & school buildings
- Costs of constructing or expanding facilities if similar facilities are financed only with utility user fees
- General government expenses unrelated to TIF district
- Costs associated with newly platted residential development
 - ✓ (except in Mixed Use districts with “qualifying” residential, no more than 35% of district by acreage)

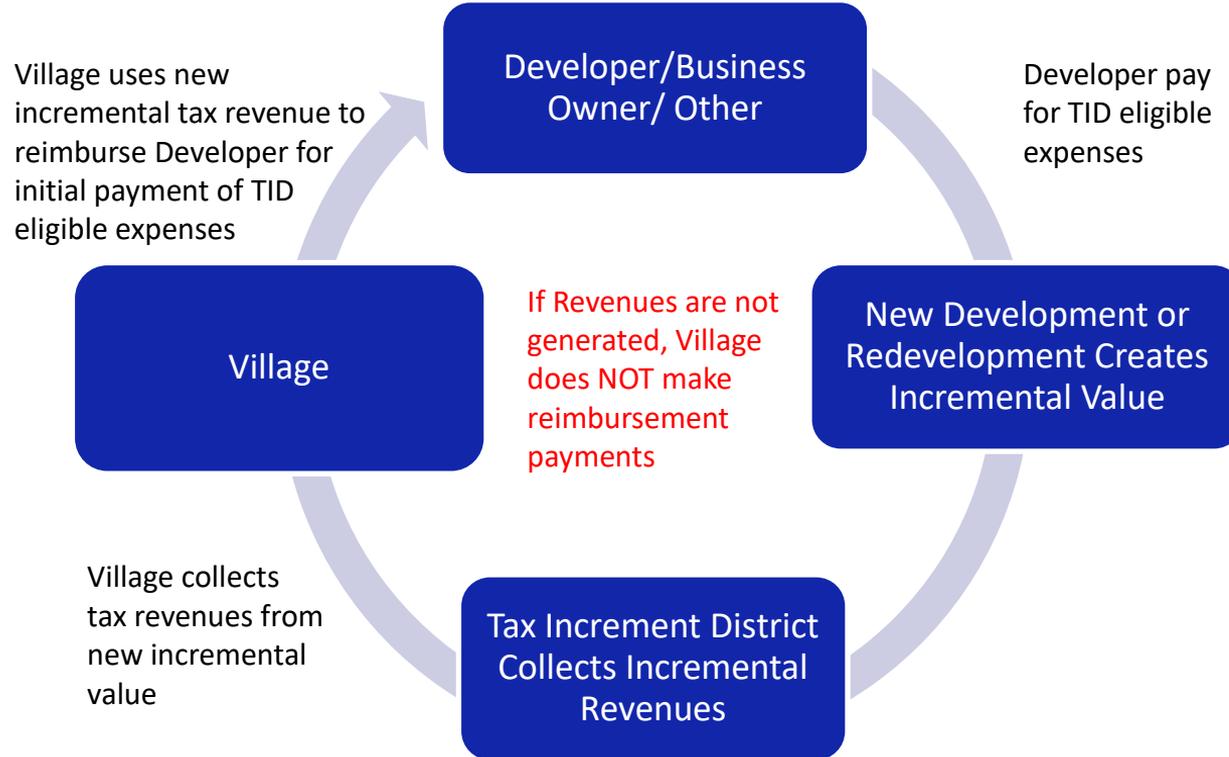


Options for Financing TID Project Costs

- Village issues General Obligation Debt
 - ✓ Pros/cons
 - ✓ Risks
- Utility Revenue Bonds
 - ✓ Pros/cons
 - ✓ Risks
- Developer Funded Pay-As-You-Go (PAYGO)



“Pay as You Go” model





Developer's Agreement

- Required if Cash Grant or Development incentive provided
- Pro forma review
- Look back provision
 - ✓ Review of actual costs
 - ✓ At time of sale or predetermined point in the future
- Claw back provision
 - ✓ Village reduces contribution to the project
 - ✓ Village Shares in upside above pre-determined rate of return



Developer agreements

- Enforcement options for developer agreements
 - ✓ Irrevocable letter of credit
 - ✓ Performance bonds
 - ✓ Mortgage lien (on project or other property)
 - ✓ Assignment of securities or other collateral
 - ✓ Restrictions on assignment of developer agreement
 - ✓ Withholding of permits or other approvals
 - ✓ Personal guarantee



Elm Grove, WI

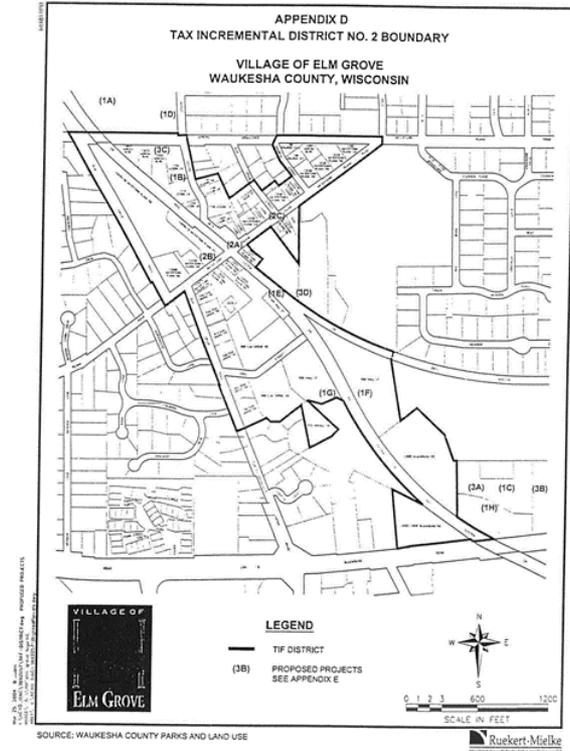
Tax Increment Financing District
#2

Created 2004

Base Value: \$33,435,800

Increment Created: \$36,985,500

District Total Value: \$70,421,300





Final thoughts...

- TIF is **STILL** the most important tool available to local governments to help stimulate growth.
- TIF has been around for 45 years, you **WILL** see continual program adjustments.
- Making your local government a partner in economic development is a win for everybody.