



Tax Increment Finance:

A Madison Approach

Presentation to Tenney – Lapham Neighborhood Association
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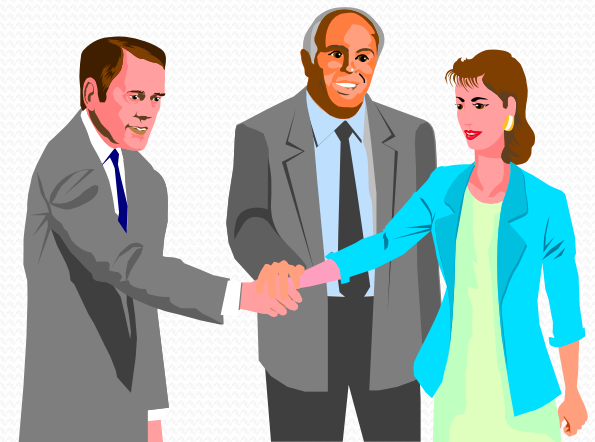
Why do we have Tax Increment Finance (TIF)?

In the past:

- Cities paid all the development costs and shared the tax benefits with other tax districts.

This was not equitable...

- In 1975, the Wisconsin Legislature responded by creating the TIF Law.
- Through TIF, cities and other districts now partner in costs and benefits of development.



How Does TIF Work?



TIF District
(TID) Created



Property Value \$1,000,000
Annual Tax \$30,000

Tax Distribution

City \$6,000
County \$10,000
Schools \$13,000
Voc/Tech School \$1,000

New Value \$15,000,000
New Tax \$450,000

Tax Distribution

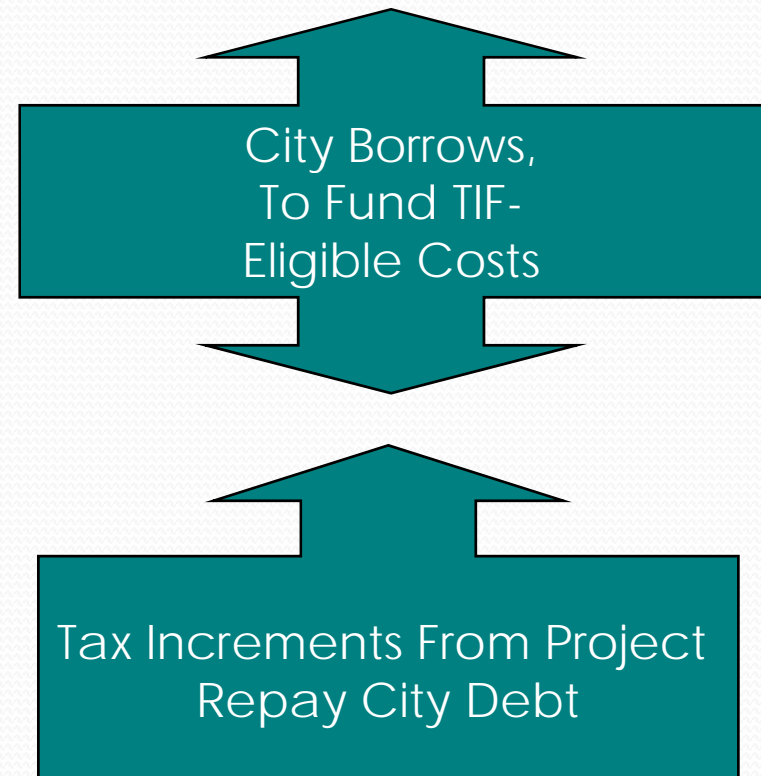
City \$6,000
County 10,000
Schools \$13,000
Voc/Tech \$1,000

Tax Increment \$420,000

Where do TIF funds come from?

TIF funds may be provided in two ways:

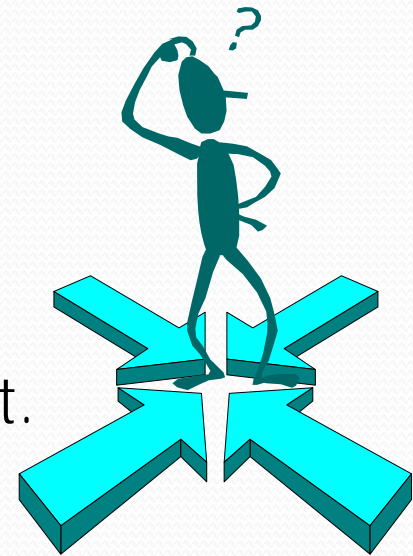
- 1) The City may spend the actual tax increment when collected, or
- 2) It may borrow against an anticipated stream of tax increments over time. Tax increments retire the City's indebtedness.



How will TIF affect my property?

Owning property in a TID does not:

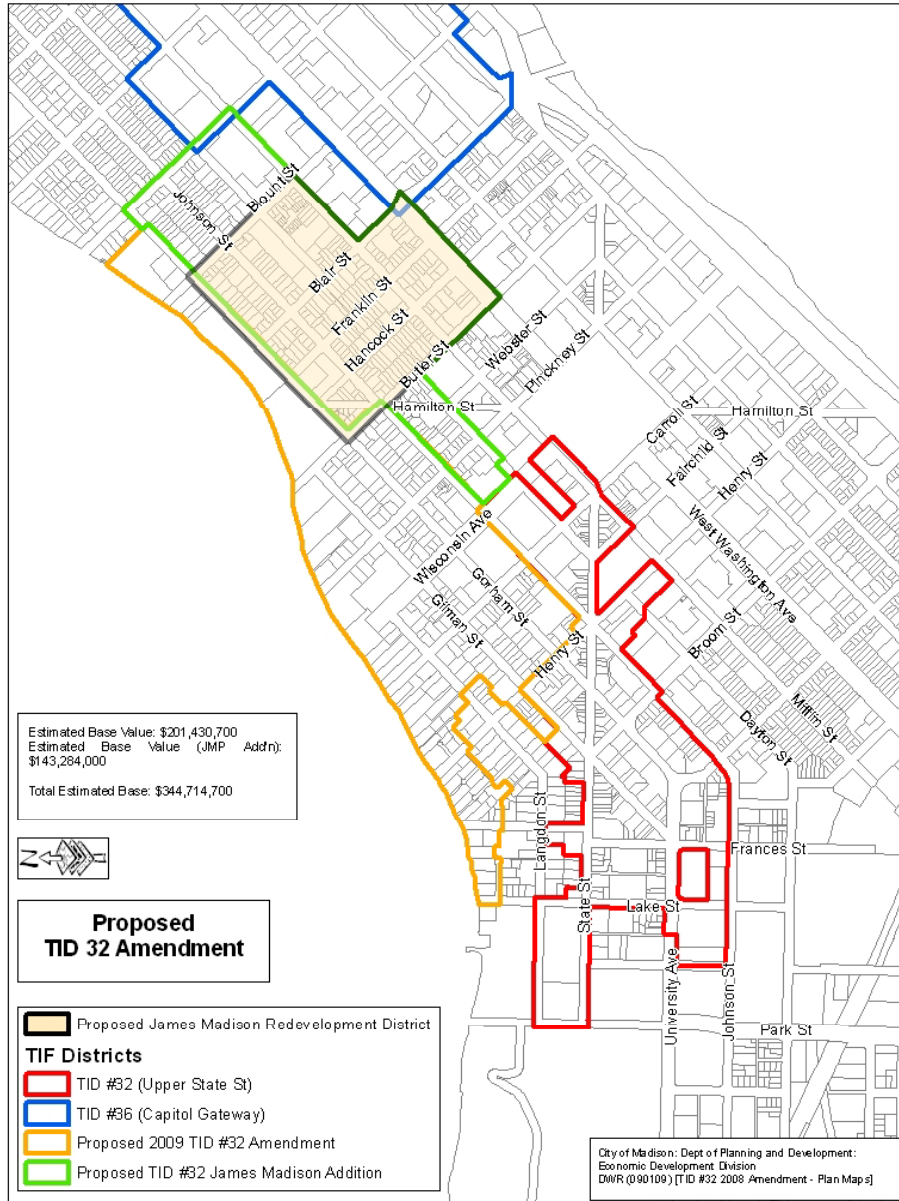
- Increase your taxes.
- Freeze or decrease your taxes.
- Signal condemnation is imminent.
- Increase your property value.





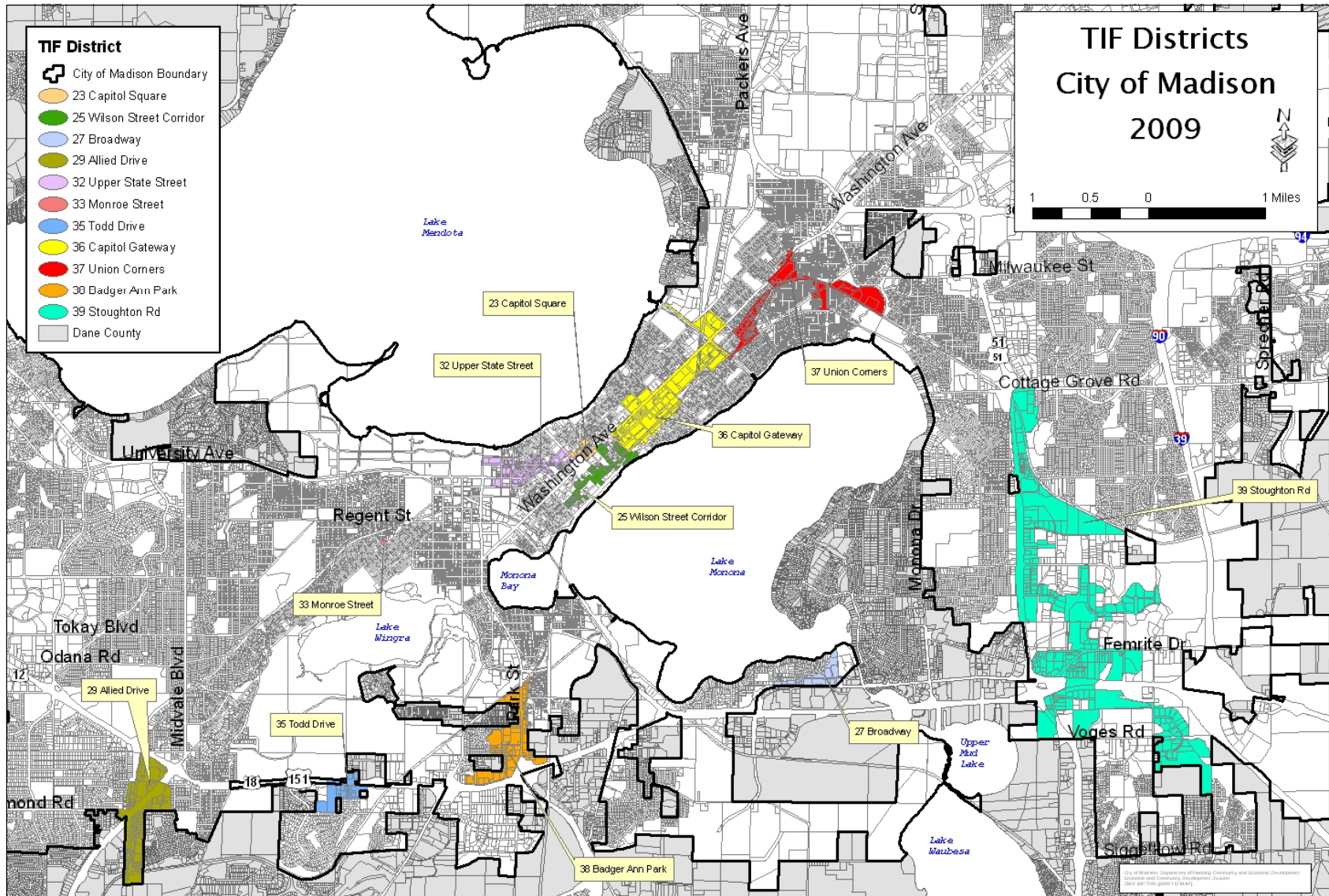
How is a Tax Incremental District (TID) Created or Amended?

- **Blight Determination:** A private consultant measures blighting conditions in the area.
- **TIF Project Plan:** Staff draws a boundary, forecasts growth and project costs.
- **Public Hearing:** The Plan Commission hears public comment.
- **Joint Review Board:** Overlying tax districts approve the TID.

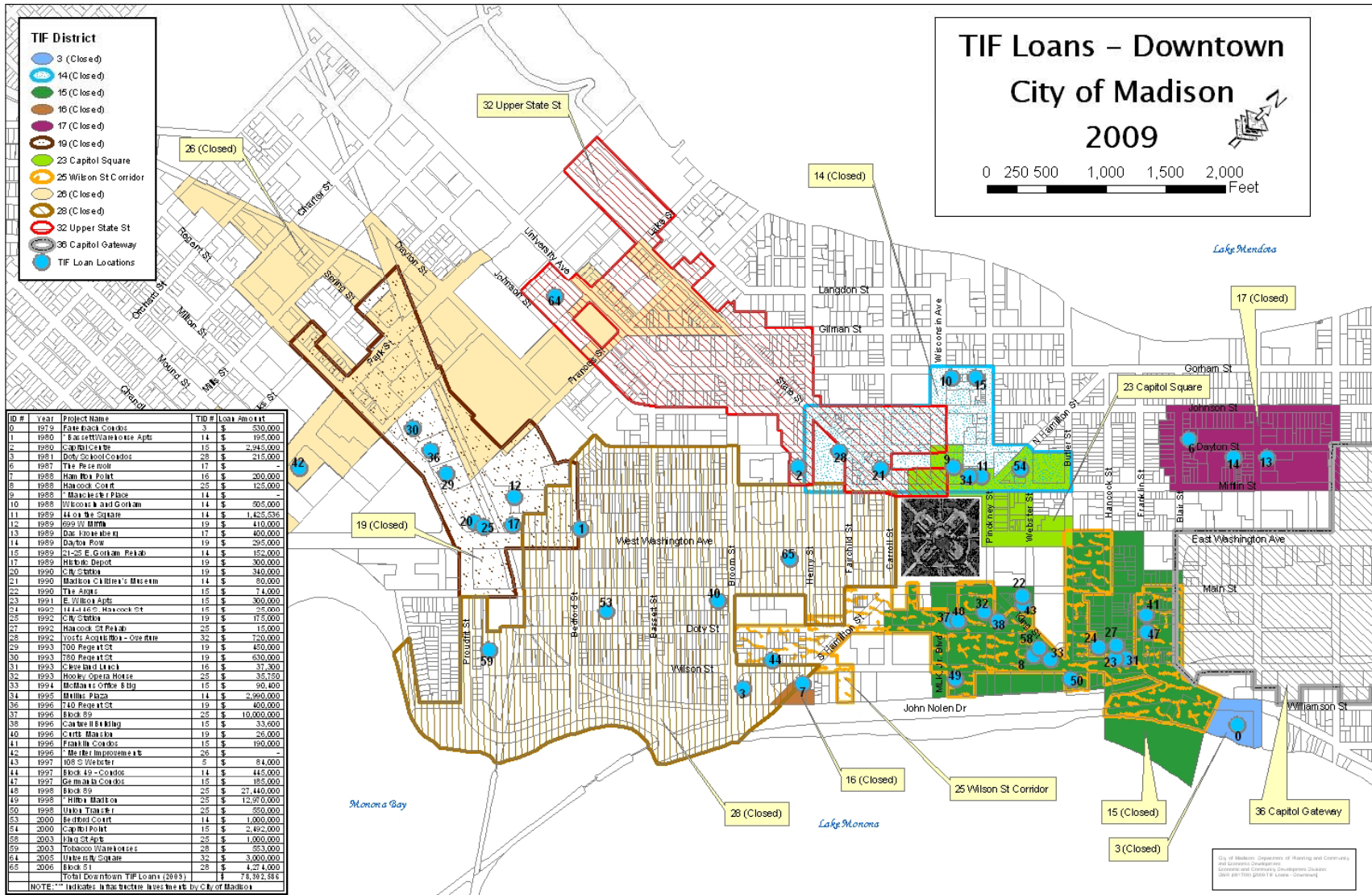


Example: TID #32
 Boundary with
 Proposed
 Amendments and
 Existing TID #36

City of Madison TIDs



Existing Downtown TIDs





What are some basic TIF statutory requirements?

- 50% of the TID blighted or industrial.
- Must meet a “but for” test.
- Expenditure Period:
 - Blighted: 22 years
 - Industrial: 15 years
- TID Life:
 - Blighted: 27 years
 - Industrial: 20 years



TIF Law: Eligible & Ineligible Costs

Eligible Costs

Land

Construction

Soft Cost

Developer Fee

Ineligible Costs

Operating Reserves

Park Dedication Fees

What is blight?

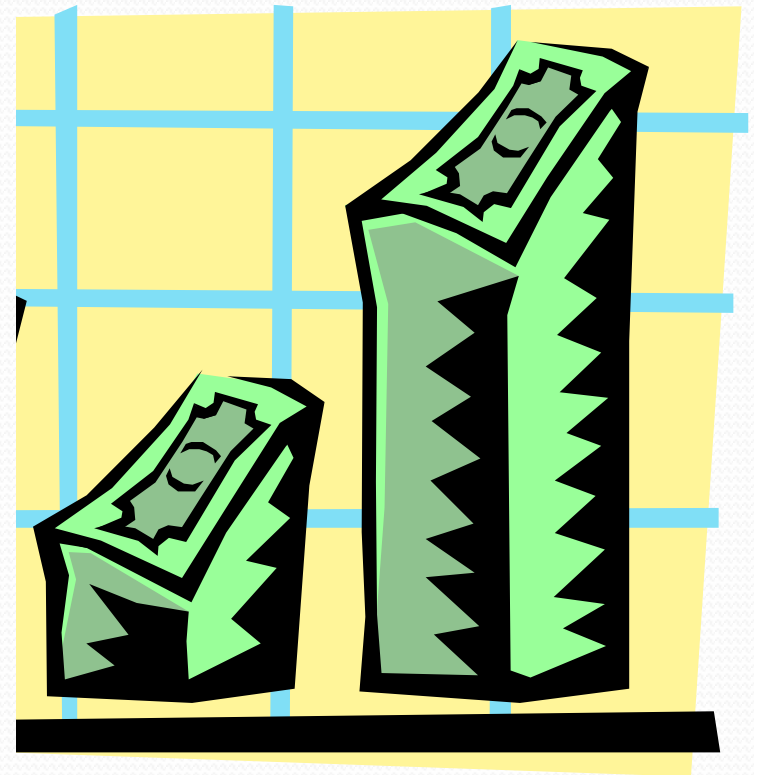
- Three Types of Blight:
 - 1) Physical (poor condition or poor land use).
 - 2) Economic (declining property value).
 - 3) Social (crime, unemployment, etc.).
- Different degrees of blight (correctable to severe).
- It simply means that the area is eligible for TIF.
- A blight determination does not trigger condemnation, building code enforcement or penalties.

What does it mean if my property is blighted?



What is the “but for” test?

- By law, the City must demonstrate that “but for” TIF, a project could not be developed.



Why is TIF needed for private development?

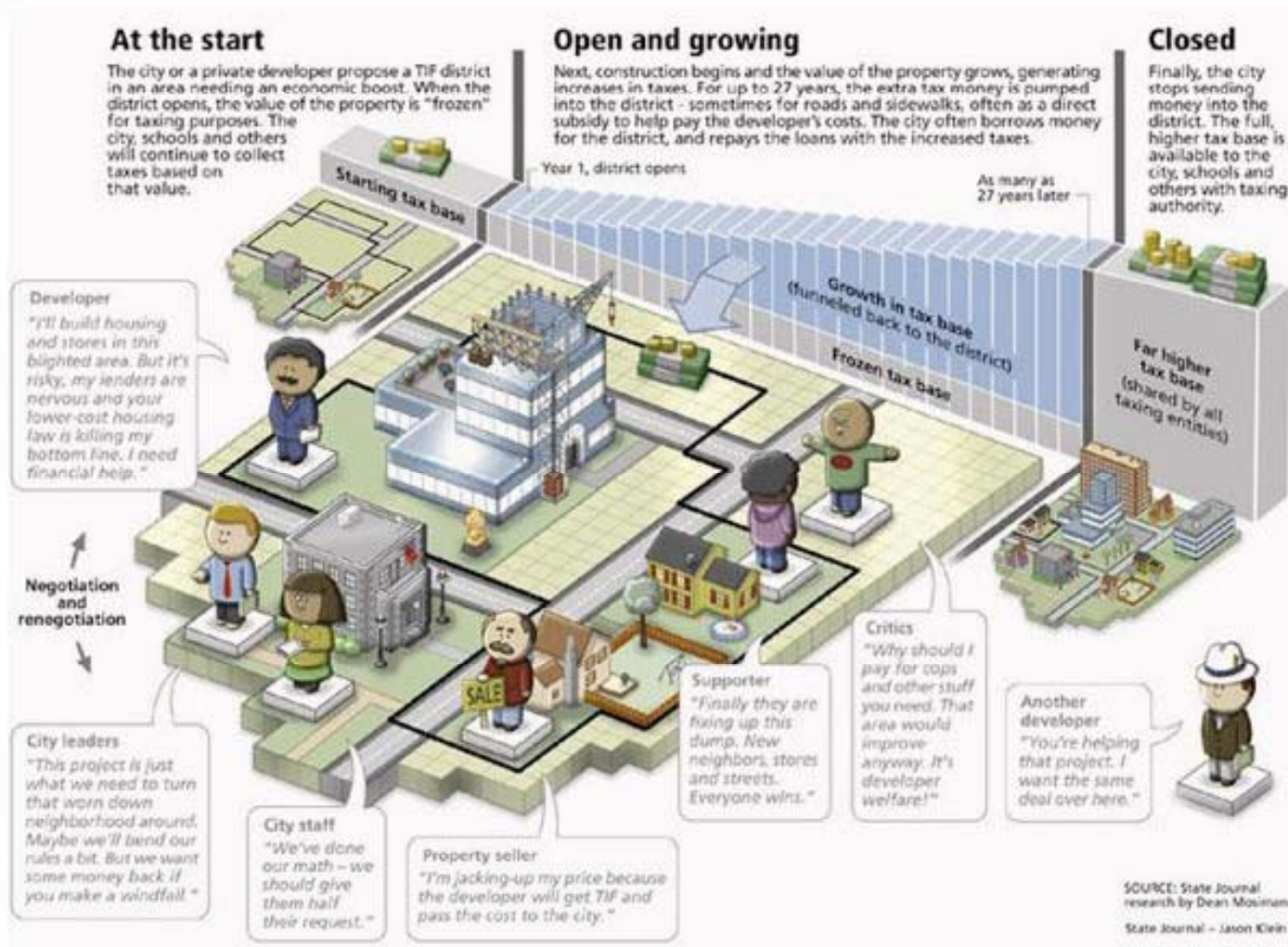


When a project that meets City objectives can't be built because costs are prohibitive, TIF may be provided to bridge a financing "gap" as demonstrated below in simple terms:

<u>Uses</u>	
Land	\$2,000,000
Construction	5,500,000
Parking	2,000,000
Soft Cost	<u>3,500,000</u>
TOTAL	\$13,000,000

<u>Sources</u>	
Equity	\$2,000,000
Loan	<u>\$8,000,000</u>
Total Sources	\$10,000,000
Less: Uses	<u>(13,000,000)</u>
GAP	(\$3,000,000)

TIF Policy: The Players

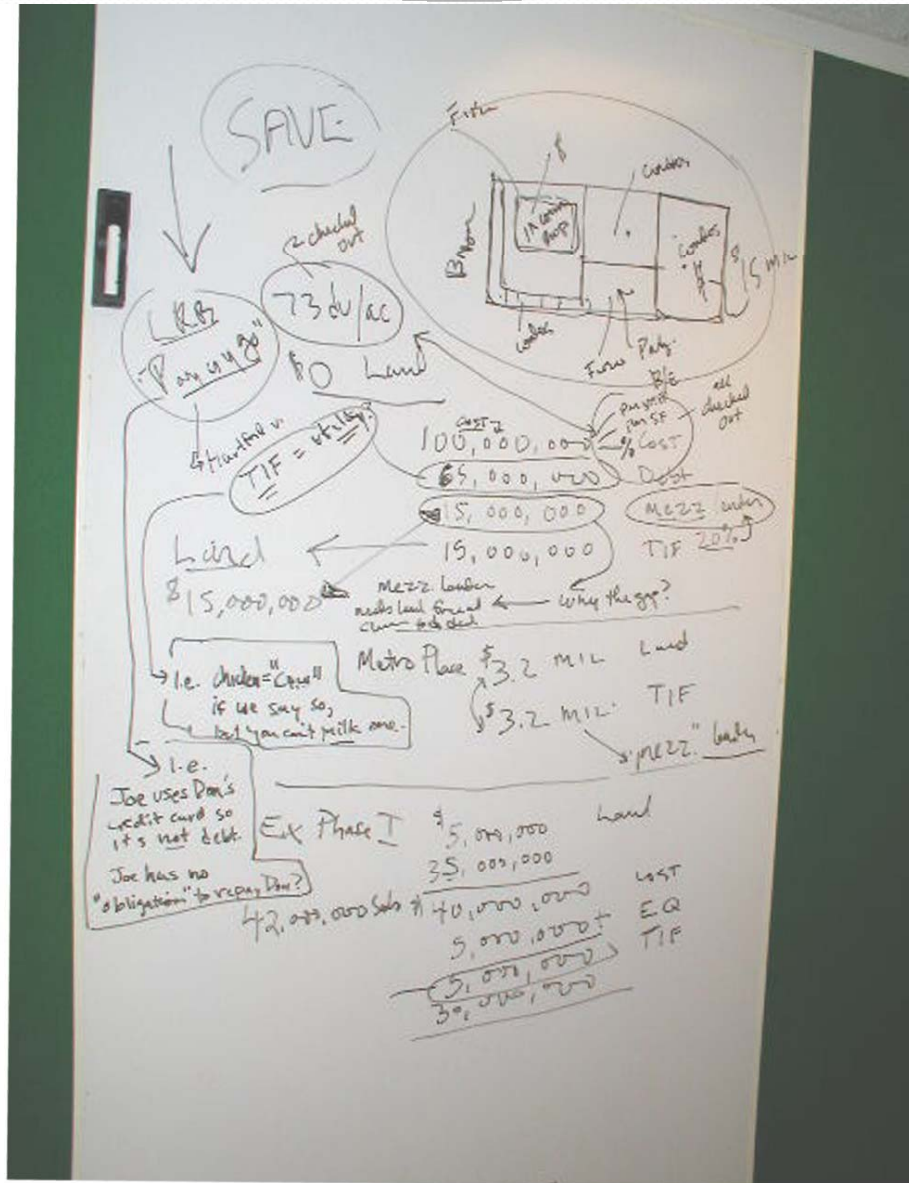




Some Important TIF Policies...

- No more than 50% of TIF provided to project
- Minimum \$3 MM incremental value required
- No TIF for land costs greatly in excess of assessed value.

A Simple Diagram of a Typical Financial Structure



What is Madison's TIF track record?

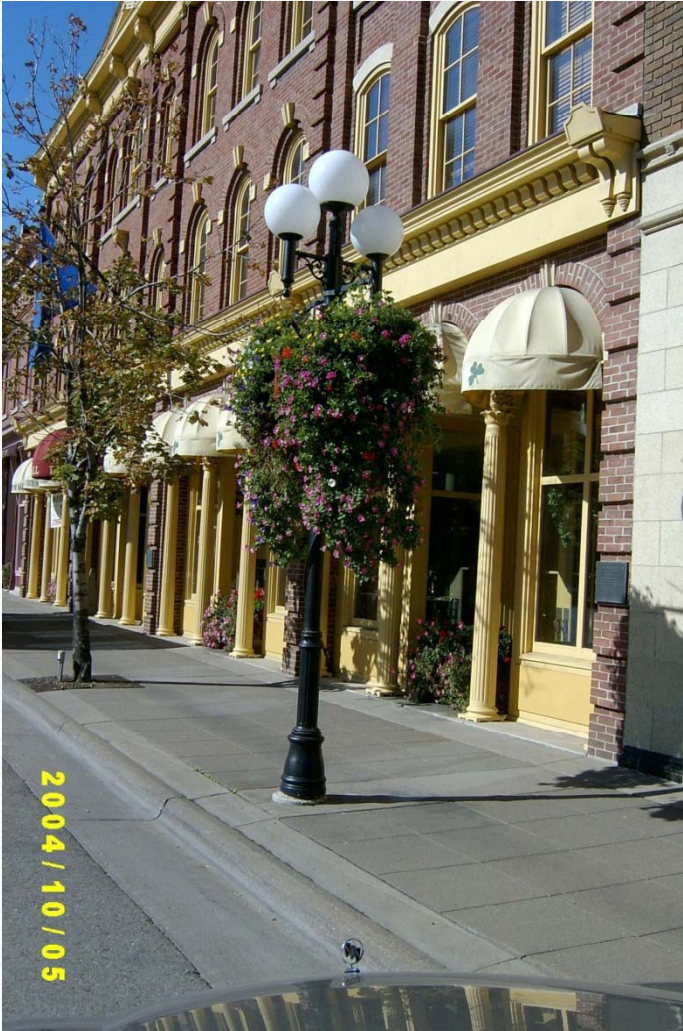


- 38 districts created since 1977.
- 11 districts are active.
- 68 projects have been funded.
- \$95 million of TIF invested.
- \$1.3 billion of new development.



Infrastructure Improvements





Owner-Occupied Housing



Bedford Court Condominiums (54 units)

Office Development



Block 89 (Office)



Questions & Answers