

# Tax Incremental Financing Districts The Fiscal Impact on School Districts

WASBO Spring Conference

Thursday, May 22, 2014

9:40am – 10:40am



## Presenters

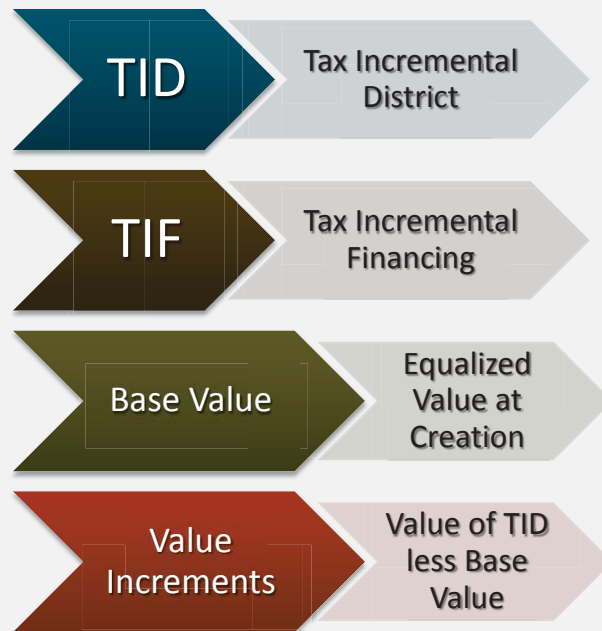
**Lisa M. Voisin, Director**  
Robert W. Baird

- 414-765-3801 (office)
- 414-828-8794 (cell)
- lvoisin@rwbaird.com

**Diane Pertzborn, Director of Business/Auxiliary Services**  
Deforest Area School District

- 608-842-6504 (office)
- dpertzborn@deforestschoools.org

# What is a TID?



3

BAIRD

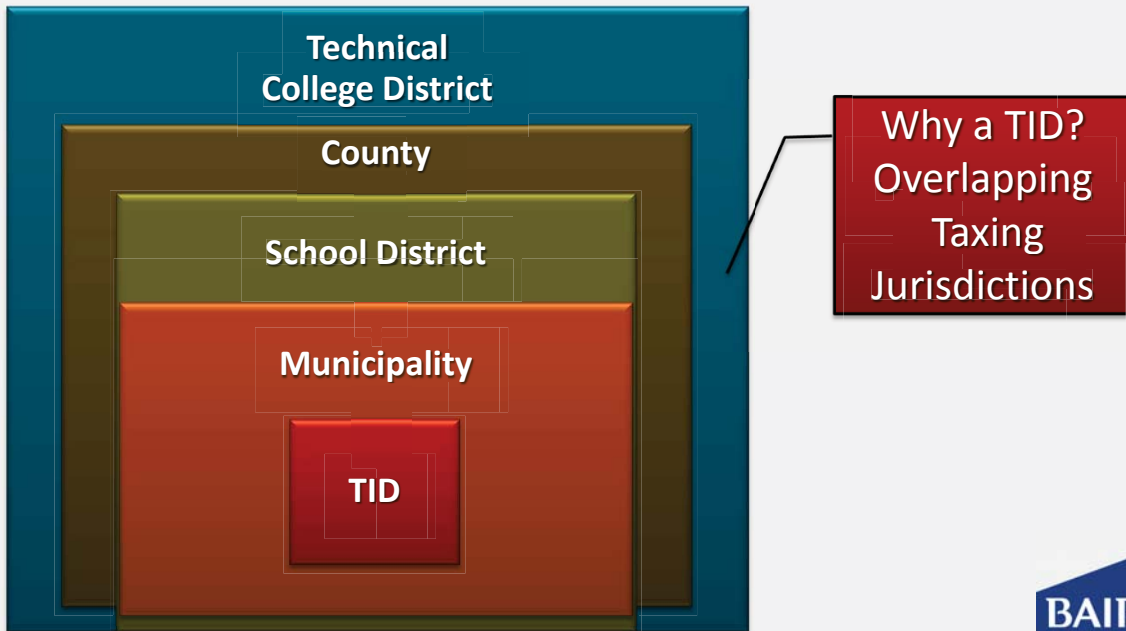
# What is a TID?

- Contiguous geographic area within a municipality
- Administered by the municipality while benefiting all overlapping taxing entities
- Used to attract and facilitate economic development
  - Installation of infrastructure
  - Acquisition of land
  - Payment of development incentives
- Municipal investment is repaid over time by capturing increased property tax revenue generated within the district

4

BAIRD

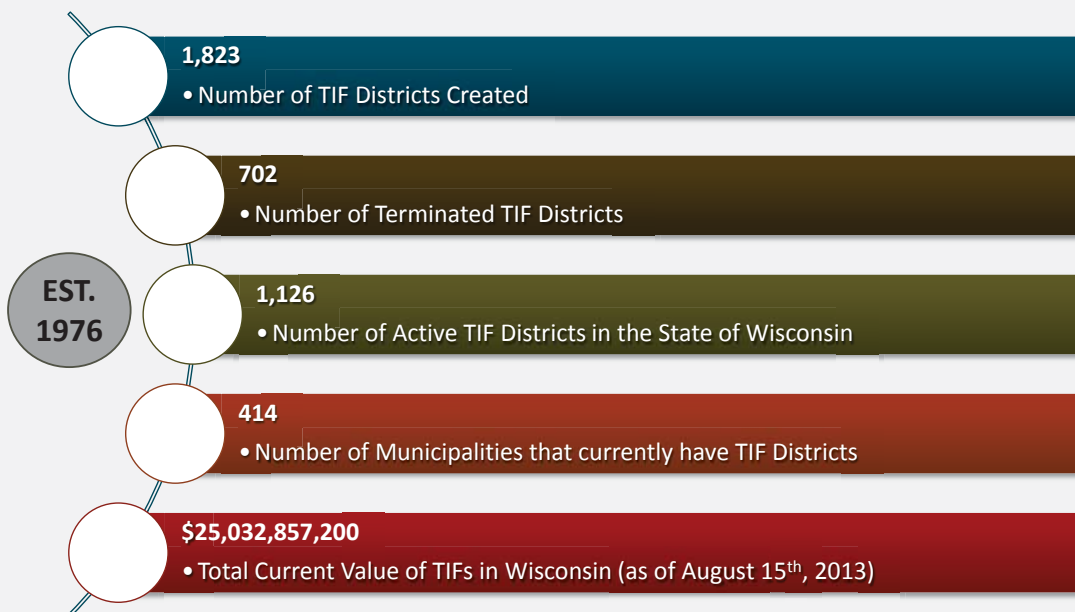
# What is a TID?



5

BAIRD

# Wisconsin TID Quick Facts



Source: Department of Revenue

6

BAIRD

# Why Create a TID?

- Attract new private development that would otherwise not occur “but for” the TID to expand tax base
  - This test asserted through a municipal resolution
- Share costs with:
  - Municipality
  - School district
  - Technical college district
  - County
- Tax increment revenues based on full tax rate to offset TID project costs
- Once TID is closed, all taxing districts benefit from expanded tax base and fund balance

The logo for BAIRD, consisting of the word "BAIRD" in white, uppercase letters on a dark blue, parallelogram-shaped background.

7

# Risks of a TID

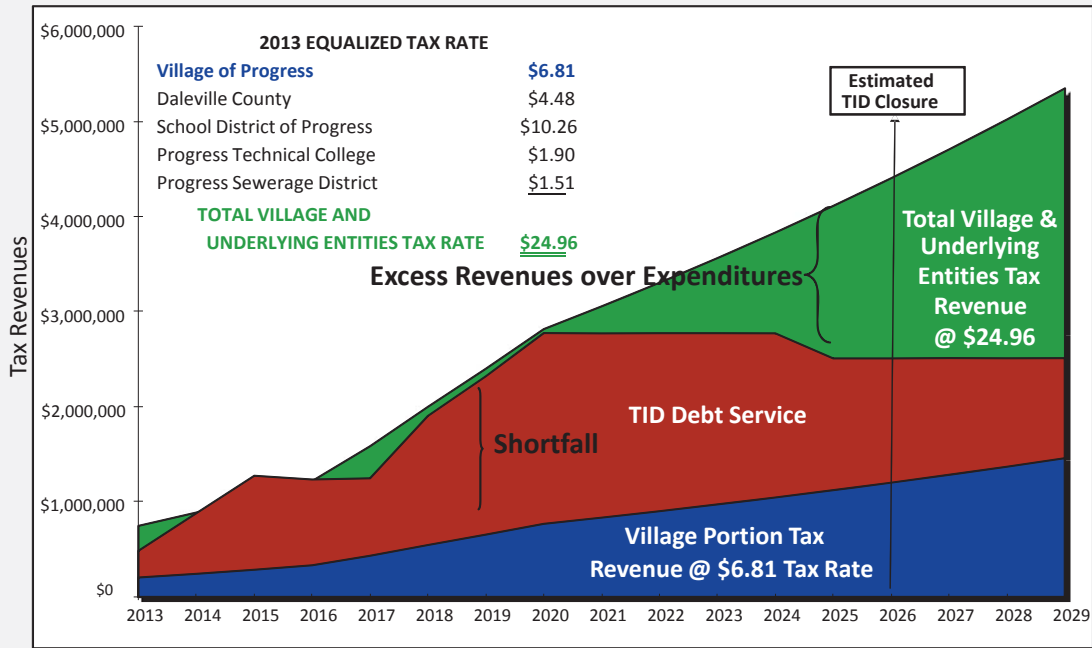
- Anticipated development does not occur or is delayed
- Over-investing in infrastructure
- Reduced revenues if tax rate goes down
- What if TID revenues fall short?
  - Amend project plan to allow support from donor TID (with several statutory limitations)
- **OR**
  - The taxpayers in the municipality must support project costs
    - municipal-wide tax levy or application of cash from general fund (or some other source)
- **OR**
  - Designate as a distressed TID
    - Extends maximum life
- Municipalities creating a TID must be willing to accept the possibility that it may not produce the desired results

The logo for BAIRD, consisting of the word "BAIRD" in white, uppercase letters on a dark blue, parallelogram-shaped background.

8

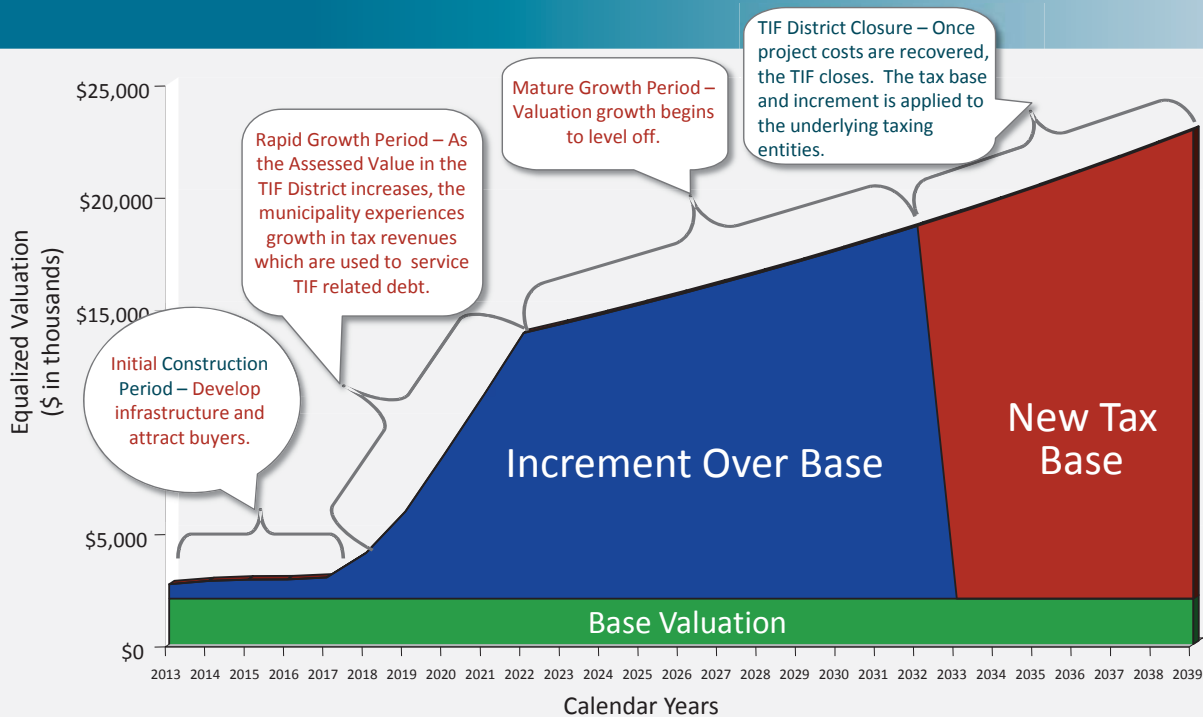
# Tax Allocation

## Hypothetical Tax Incremental Revenues



The hypothetical example is for illustrative purposes only.

# Example TID Lifecycle



The hypothetical example is for illustrative purposes only.

# Types of TIDs

## City or Village

- Blight (most common)
- Rehabilitation/Conservation
- Industrial
- Mixed-use

## Town

- Tourism, agriculture and Forestry (TAF) district
- Cooperative TID

## All Municipalities

- Environmental TID

The logo for BAIRD, consisting of the word "BAIRD" in white, uppercase, sans-serif font, set against a blue parallelogram background.

11

# City or Village Blighted TID

- Blight, Rehabilitation or Conservation Districts
  - At least fifty percent of the TID area is considered to be a:
    - “Blighted area”
    - In need of “rehabilitation or conservation” work
  - No more than 25% of land within the district can be vacant for the preceding seven years
  - Maximum Life: 27 Years
  - Maximum Life Extension: 30 Years with Joint Review Board Approval
  - Expenditure Period: 22 Years

The logo for BAIRD, consisting of the word "BAIRD" in white, uppercase, sans-serif font, set against a blue parallelogram background.

12

# Act 193 TID Law Changes

Effective April 6, 2014

- **Summary**

- Expands the authority for certain towns to create Tax Incremental Districts (TIDs)
- Regular TIDs can now allocate increments to Environmental Remediation TIDs
- Allows Towns to create TID for annexed town land
- Energy systems are now taxable when in a TID on January 1, 2014

The logo for BAIRD, consisting of the word "BAIRD" in white, uppercase letters on a dark blue, parallelogram-shaped background.

13

# Act 183 TID Law Changes

Effective April 4, 2014

- **Summary**

- Municipalities can request the Wisconsin Department of Revenue (DOR) to re-determine a Tax Incremental District (TID) **base value** that is in a decrement situation
- New valuation has gone below the base value.
- Has to be two consecutive years of 10% or more decrease, the most recent years.

The logo for BAIRD, consisting of the word "BAIRD" in white, uppercase letters on a dark blue, parallelogram-shaped background.

14

# Act 145 TID Law Changes

Effective March 24, 2014

- **Summary**

- Technical College Revenue going down due to shift from taxes to state aid - \$0.89 on Mill rate.
- Will affect Incremental Revenues collected 2015 and after.

The logo for BAIRD, consisting of the word "BAIRD" in white, uppercase, sans-serif font, set against a dark blue parallelogram background.

15

## TID Creation Requirements

- The “But For” test
  - Would the expected development occur without the use of tax increment financing?
- Equalized value limitation
- Whole parcels
- Contiguous geographic area
- Project Plan
- Public Hearing
- Plan Commission approval
- Council/Board approval
- Joint Review Board approval
- DOR Certification

The logo for BAIRD, consisting of the word "BAIRD" in white, uppercase, sans-serif font, set against a dark blue parallelogram background.

16



# The Joint Review Board

- The “JRB” approves a TID by a majority vote based on the following criteria:
  - The development expected in the TID would **not** occur without the use of tax incremental financing (“but for test”);
  - The economic benefits of the tax incremental district are sufficient to compensate for the cost of the improvements; and
  - The benefits of the proposal outweigh the anticipated tax increments to be paid by the owners of property in the overlying taxing districts.



17

# Equalized Value Test

## City or Village TID:

- Equalized value of the proposed TID plus the value increment of all existing TIDs may not exceed 12% of the municipality’s total equalized valuation (TID-In)

12% Statutory Test Limit		
2013 Total Equalized Valuation (TID-In)	\$100,000,000	100.00%
12% of Total Equalized Valuation (TID-In)	\$12,000,000	12.00%
Total 2012 TID Increment	<u>\$4,000,000</u>	<u>4.00%</u>
Remaining Capacity	<u>\$8,000,000</u>	<u>8.00%</u>



# TID Termination

- A municipality must terminate a TID:
  - When the municipality has received aggregate tax increments that equal all project costs delineated under the project plan (and its associated amendments)
  - The maximum life of the TID
  - The local legislative body dissolves the District via resolution



19

# TID Termination

<b>TID Balance Summary</b>	
<b>TID Revenues</b>	
2013 Estimated Cumulative Balance in TID Fund	\$573,218
2014 Estimated TID Revenue	\$792,018
Estimated Investment Earnings	\$12,000
<b>Total Revenue</b>	<u>\$1,377,236</u>
<b>Debt Service Expenses</b>	
Final Debt Payment	(\$10,087)
Payoff Remaining Debt	(\$676,564)
<b>Total Expenses</b>	<u>(\$686,651)</u>
<b>Total Residual Funds</b>	<u><u>\$690,586</u></u>



# TID Termination

## Breakout of Residual Funds to Overlying Tax Districts

TAX DISTRICT	ALLOCATION	RESIDUAL FUNDS
City	43.29%	\$298,936
School District	41.85%	\$288,976
Technical College	5.68%	\$39,209
County	9.19%	\$63,464
<b>TOTAL</b>	<b>100.00%</b>	<b>\$690,586</b>

The hypothetical example is for illustrative purposes only.

21



# TID Fiscal Impact on School Districts

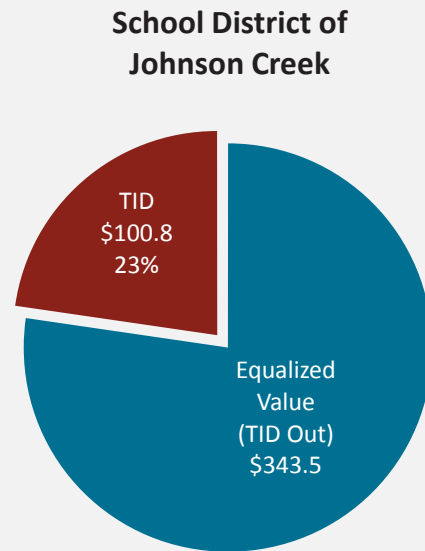
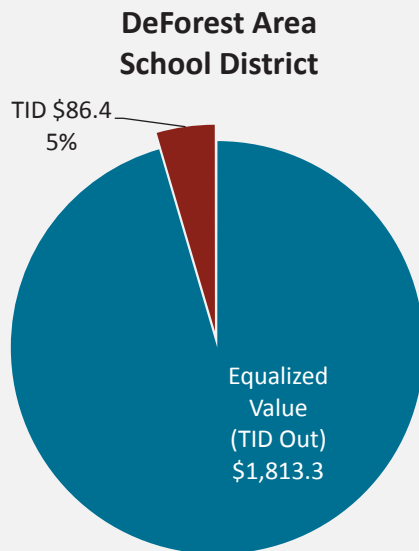
- Throughout the life of the TID District
  - No direct impact on taxes
  - Increases economic growth, employment, population, enrollment
  - Other development near TID may occur
  - Retention of tax base that might have been abandoned or decreased in value without new development
- At closure of the TID District
  - Additional property tax base
  - Reduction in Mill Rate (first year)
  - Reduction in State Aid (one-year lag)
    - Hold Harmless?
  - Disbursement of TIF residual funds

22



# Case Studies

## 2013 Equalized Valuation



\$ in millions.  
Source: Wisconsin Department of Revenue

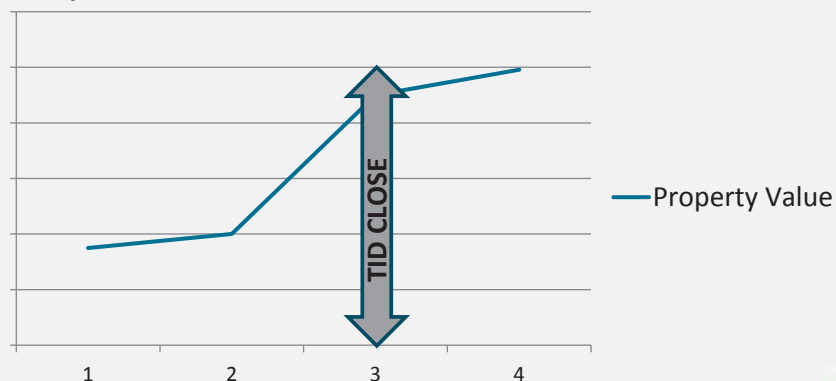
23

BAIRD

# Case Study

## DeForest Area School District

- TID Closure in Year 3 increased valuation significantly
- Strategies to address
- Planning is Key



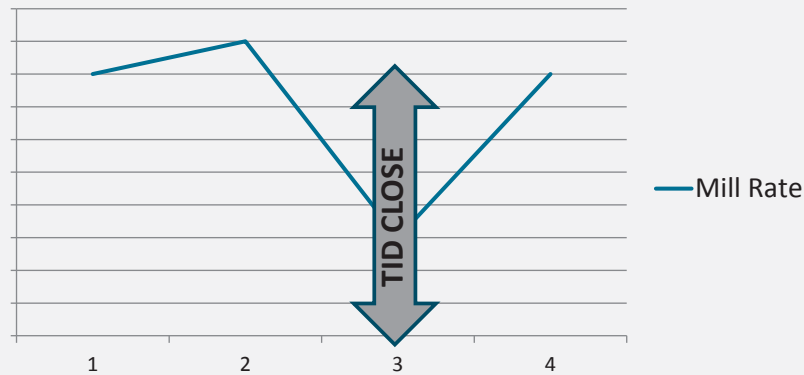
The hypothetical example is for illustrative purposes only.

24

BAIRD

# Case Study DeForest Area School District

- TID Closure in Year 3 reduced mill rate significantly
- Strategies to address – Keep Levy/Mill “flat”
- Planning is Key



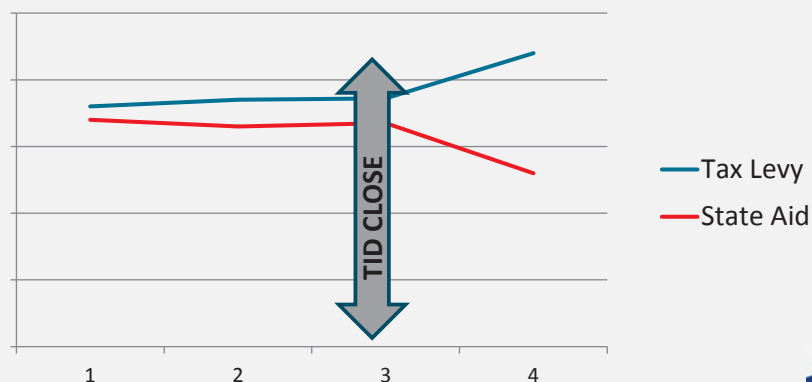
The hypothetical example is for illustrative purposes only.

25

BAIRD

# Case Study DeForest Area School District

- One year lag in aid loss causes levy to increase **in year 4**
- Strategies to address – Payoff Debt in year 4 with Residual?
- Planning is Key



The hypothetical example is for illustrative purposes only.

26

BAIRD

## Case Study DeForest Area School District

- Stay in contact with your local municipalities
  - Review annual financial information (due to district by May 01)
  - Be aware of important dates
    - Last date to incur project costs, final dissolution date
    - Note difference in fiscal years, timing of closeout, transfer of cash, property addition
- Planning is the key
  - Understand the aid impact
  - Think in terms of multiple years: residents may not remember a drop in mill rate, but they will notice an increase!
  - Use the terms Mill Rate and Levy to communicate your message
  - Consider sharing information as part of annual meeting
- Can be political, be prepared

The logo for BAIRD, consisting of the word "BAIRD" in white, uppercase, sans-serif font, set against a dark blue parallelogram background.

27

## Case Study Johnson Creek School District

- Two TIDs
- Originally scheduled to close in 2022 and 2023
- Current 2013 valuation of \$100 million or 23% of the total TID-in valuation of \$444 million
- Due to recent economic conditions the decision was made to designate one TID as a “Distressed TID” and the other as a “Donor TID”
  - These actions extend the life of the TIDs up to 10 years
- Eventually the past success in the TIDs will add over 35% to TID-out valuation
- Successful School District 2014 Referenda

The logo for BAIRD, consisting of the word "BAIRD" in white, uppercase, sans-serif font, set against a dark blue parallelogram background.

# PLANNING IS KEY



# Questions?



# Disclosures

Robert W. Baird & Co. Incorporated is providing this information to you for discussion purposes only. The information does not contemplate or relate to a future issuance of municipal securities. Baird is not recommending that you take any action, and this information is not intended to be regarded as “advice” within the meaning of Section 15B of the Securities Exchange Act of 1934 or the rules thereunder. In providing this information, Baird is not acting as an advisor to you and does not owe you a fiduciary duty pursuant to Section 15B of the Securities Exchange Act of 1934. You should discuss the information contained herein with any and all internal or external advisors and experts you deem appropriate before acting on the information.