



Legislative Fiscal Bureau

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November 12, 2003

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Senate Bill 306/Assembly Bill 653: Modifications to Tax Incremental Financing (TIF) Law and the Department of Revenue's Administrative Responsibilities Related to TIF Districts.

Senate Bill 306 (SB 306) was introduced on November 5, 2003, and referred to the Senate Committee on Economic Development, Job Creation, and Housing. SB 305 was recommended for passage by the Committee on a vote of 5 to 0 on November 6, 2003. The bill was referred to the Joint Committee on Finance on November 11, 2003.

Assembly Bill 653 (AB 653) was introduced on November 10, 2003, and referred to the Joint Committee on Finance on November 11, 2003.

CURRENT LAW

Tax incremental financing (TIF) is a mechanism for funding development and redevelopment projects. City and village governments may create a TIF district if 50% or more of the proposed district's area is "blighted," in need of rehabilitation or conservation work, or suitable for industrial sites. Property that was vacant for the seven years preceding creation of a TIF district cannot comprise more than 25% of the district's area, unless the district is created to promote industrial development. Land acquired through condemnation is excluded from this requirement. An area designated as suitable for industrial sites must be zoned for industrial use both at the time the TIF district is created and throughout the life of the project. Currently, cities and villages have created 791 TIF districts in the state.

Once a TIF district has been created, a "tax incremental base value" is established for property within the district at the time it was created. The base value includes the equalized value of

all taxable property and the value of municipally-owned property, as determined by the Department of Revenue (DOR). The "tax increment" equals the general property taxes levied on the value of the TIF district in excess of its base value (this is the "value increment"). The amount equals the value increment multiplied by the tax rate for all taxing jurisdictions--municipal, county, school district, technical college district, and special purpose districts. Therefore, tax increments can only be generated by an increase in the equalized value of taxable property within a TIF district.

A municipality that intends to create a TIF district or amend a project plan must convene a joint review board. The joint review board consists of one member representing each taxing jurisdiction that can levy taxes on property within the TIF district--school and technical college districts, county, and city or village--and one public member. All members to the board must be appointed and the board's first meeting must be held within 14 days after notice of the public hearing on the proposed TIF district or plan amendment. The public member and board chair are selected by a majority of the board members. No TIF district can be created and no plan can be amended unless approved by a majority vote of the board within 30 days after a resolution is adopted. Administrative support for the board is provided by the affected municipality

SUMMARY OF BILLS

SB 306/AB 653 would allow a majority of the joint review board members, before the board makes its decision on a proposed TIF district or an amendment to a TIF district, to request that DOR review the objective facts contained in any of the documents submitted by the city or village relating to a proposed TIF district or proposed district amendment. In making this request, the board would be asking DOR to determine whether the information submitted to the board complies with the statutory requirements for those documents or whether any of the information contains a factual inaccuracy. Under current law, the documents that the board is required to review include the public records, planning documents, and the resolution passed by the city or village that creates or amends a TIF district. The joint review board request to DOR would have to be in writing and would have to specify which particular objective fact or item the board members believe is incomplete or inaccurate.

The bill would require DOR to investigate the issues raised in the joint review board's request and send its written response to the board not later than 10 working days after receiving the request. If DOR determines that the information submitted by the city or village along with a TIF district proposal is not in compliance with what is required by statute or contains a factual inaccuracy, DOR would be required to return the proposal to the city. The joint review board would be required to request, but could not require, that the city or village that created the TIF district resolve the problems with its proposal and resubmit the proposal to the board. If the city or village resubmits its proposal, the board would be required to review the resubmitted proposal and vote to approve or deny the proposal.

If the board makes a request of DOR to review information related to a city or village TIF district proposal, the board would be required inform the city or village of its decision no later than 10 working days after receiving DOR's written response. If the city or village resubmits a proposal

that was reviewed by DOR within 10 working days after the board receives DOR's written response to its request, the board would have to inform the city or village of its decision no later than 10 working days after receiving the city's or village's resubmitted proposal.

SB 306/AB 653 would also require DOR to create and update a manual on the TIF program. The manual would be required to contain the rules relating to the program, common problems faced by cities and villages under the program, possible side effects associated with the use of tax incremental financing, and any other information the Department determines to be appropriate. DOR could consult with, and solicit the views of, any interested person while preparing or updating the manual.

The bill would provide DOR the authority to impose a fee of \$1,000 on cities and villages when the Department determines or redetermines the tax incremental base of a TIF district. The bill would create a program revenue, continuing appropriation of all moneys received from these fees to pay for costs of DOR in providing staff and administrative services associated with TIF districts. DOR would be provided 1.0 PR position to be funded from this appropriation for the purposes of performing services related to TIF districts.

The bill would first take effect on January 1, 2004, or on the day after publication, whichever is later.

FISCAL EFFECT

While TIF districts established under current law are created and managed at the local level, the Department of Revenue (DOR) carries out the state's limited administrative functions related to the districts. Central and regional office staff in DOR's Bureau of Property Tax and Bureau of Local Government Services carry out these administrative functions.

For each newly created or amended TIF district, the Department reviews the TIF project plan, the required local resolutions related to the creation of the district, the district boundary descriptions and parcel lists, the public notices of affected landowners, and public hearing actions. Subsequent to these reviews, the Department is required to determine the equalized value of each class of property within the TIF district in order to certify the value base of the TIF district and the value increment (the equalized value of property in the District less the base value of the District). Annually, the Department certifies the value increment for each existing TIF district and works with municipalities to determine the share of each taxing jurisdiction's levy that is to be allocated to the TIF district.

The bill would increase the level of review that DOR may have to provide related to the creation of TIF districts or the amendment of existing districts. Under the bill, if requested by the joint review board, DOR would be required to investigate a city's or a village's request for joint review board approval of the city or village decision to create a TIF district, or to amend an existing TIF district. DOR would have to make a determination as to whether the documents of the public record, planning documents, and the resolution by the city or village creating the proposed district

or amending a district. DOR could be required to review the description of the district's proposed boundaries and information on the various findings of the city or village related to the TIF district, such as: (a) whether the city or village is within the allowable limit on the amount of taxable property value allowed in TIF districts in one city or village; and (b) whether the city or village finding that not less than 50% of the area in the TIF district is blighted, in need of rehabilitation, or is suitable or zoned for industrial use is accurate. In addition, DOR could be required to review whether the project costs outlined in the district's planning documents are related to the proposed TIF district project.

DOR would likely also have additional workload related to creating and updating the TIF district manual required under the bill.

Based on current annual levels of newly-created TIF districts and TIF district amendments, DOR estimates that the \$1,000 fee on the determination or redetermination of the tax incremental base of TIF districts would generate \$84,000 annually. DOR indicates that this level of revenue would be sufficient to pay for the cost of the additional position authorized under the bill.

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