Legislative Fiscal Bureau
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January 30, 2008

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Senate Bill 223: Tax Incremental Financing (TIF) District Project Costs

Senate Bill 223 was introduced on July 2, 2007, and referred to the Senate Committee on Commerce, Utilities, and Rail. On September 27, 2007, that Committee adopted Senate Amendment 1 to SB 223, on a vote of seven to zero, and recommended the bill, as amended, for passage on a vote of seven to zero. SB 223 was referred to the Joint Committee on Finance on October 29, 2007.

BACKGROUND

Tax incremental financing is a mechanism used primarily by cities and villages to fund the infrastructure and other costs associated with local development or redevelopment projects using the property tax revenues generated on the growth in property value within the district. Once a TIF district has been created, a tax incremental base is established by the Department of Revenue (DOR) 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 DOR. Each year thereafter, DOR determines the value increment within the district, which equals the property value in the district that is in excess of its base value. The TIF district project costs are then repaid using tax increments, which equal the value increment multiplied by the tax rate for all taxing jurisdictions in which the district is located. Tax increments can only be generated to repay projects costs by an increase in the equalized value of the taxable property within the district. When all the project costs are repaid, or the TIF district terminates, the property taxes on the increased value of the district are then shared by the overlying taxing jurisdictions.

SUMMARY OF BILL

The eligible project costs that can be repaid using TIF district increments are generally outlined in statute. With one exception, a TIF district in the City of Kenosha, eligible project costs must be incurred within the TIF district boundaries. The bill would allow all other districts to incur projects costs to be repaid with tax increments in an area that is within a one-half mile radius of the district's boundaries. The bill would also require that any city or village that seeks to incur such project costs in an area that is outside the district boundaries would have to convene a joint review board made up of members from the overlying taxing jurisdictions. The city or village would have to provide administrative support to the board on the matter. Before a city or village could incur such expenditures outside the district's boundaries, the joint review board must approve the proposed expenditures.

Any project costs to be incurred outside the district under these provisions would have to be included in the TIF district project plan. Cities or villages that would like to use this authority to incur project costs outside an existing district's boundaries would have to include these costs in an amended project plan, which would have to be approved by the city or village planning commission and governing body, as well as the joint review board.

Senate Amendment 1 to SB 223 would specify that the costs incurred within a one-half mile radius of the district boundaries would have to be incurred within the city or village that created the district.

FISCAL EFFECT

TIF districts must be terminated when all projects costs are repaid or within a statutorily specified time period, which can be between 20 and 27 years depending on the type of district or when the district was created. Therefore, to the extent that allowing expenditures outside the district boundaries to be eligible expenditures would increase the overall expenditures of a district, the bill would likely extend the life of any TIF district that uses this authority. As a result, the overlying taxing jurisdictions would have to forgo the tax revenue on the value increment of the district for a longer period of time until these costs are repaid. However, information on the number of TIF districts that would use the authority provided under the bill to incur such newly-eligible costs is not known.

DOR submitted a fiscal estimate to the bill in which the Department indicated that information is not available to make a reasonable estimate on how local taxing jurisdictions would be impacted.   DOR also indicated that any additional costs to the Department associated with the bill could be absorbed within existing budget authority.

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