

## Tax Incremental Finance District #1 Analysis

For

## Village of Arena, Wisconsin

July 11, 2011

Prepared by:

Greg Johnson, CIPFA  
Financial Advisor

# Tax Incremental Finance

Since the 1970's, Wisconsin Municipalities have been afforded the opportunity to create tax increment districts (TIDs) as the most widely used economic development tool. As communities grow and/or are in need of redevelopment/rehabilitation, the tax incremental finance law is the single most important economic development tool available to assist in providing assistance to cause the development or redevelopment to occur.

Ehlers & Associates, Inc. has been building better communities by providing municipalities with assistance in studying, creating, amending and managing TIDs.

Currently, there are several different types of TIDs that municipalities can create:

- Industrial
- Mixed Use
- Blight Elimination
- Conservation/Rehabilitation
- Environmental Remediation

To create a TID, statute requires that at least 50% of the land within the boundary of a TID be suitable for one of the above general classifications of TIDs.

Dependent upon the type of district, the maximum life of a TID can vary. Currently districts have life cycles of between 20 and 27 years.

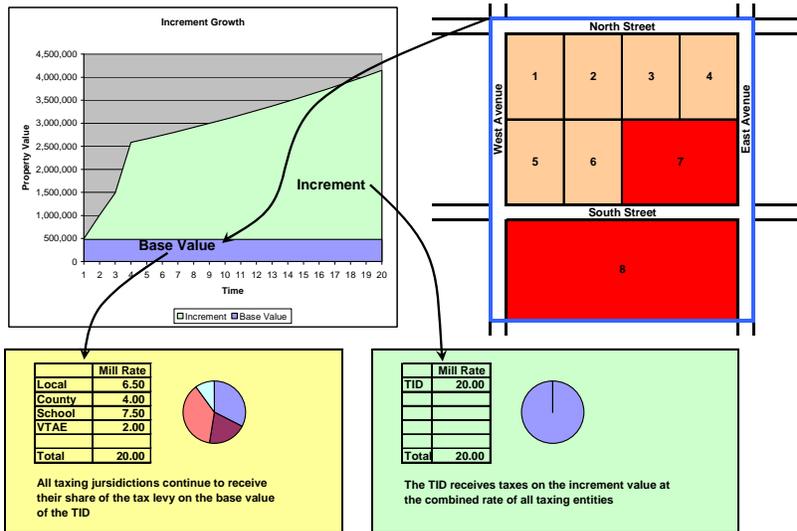
## TID Premise

The premise behind the use of TID is that "...but for the use of TID the development would not occur..." The above is known as the key underpinning test of TIDs. The test been applied in a variety of ways, some of which are as follows:

"But for the use of TID development:

- would not occur at all;
- would not occur in the same time frame;
- would not occur with the same value;
- would not occur with the same amenities; or
- would not occur with the same job creation."

With the positive application of the "but for" test, there is no loss in tax revenues by the various taxing jurisdictions due to the development not being there without the use of a TID.



## How TIF Works

When creating a TID the first step in the process is to define the boundary of the proposed district. Once the boundary is defined, a value of the real and personal property of the TID is established which is called the "base value".

The base value of the TID continues to be

taxed by all taxing jurisdictions (school district, vocational district, county and municipality); in other words, each taxing jurisdiction continues to receive their piece of the tax "pie."

With the authority of a TID, the municipality "causes" development to occur through the installation of infrastructure, development incentives, land acquisition, environmental remediation, etc. As development, and/or redevelopment occur the value that is created is called the *increment*. The increment is then taxed **at the same rate** as the base value; however, the tax revenues that the incremental value generates are received by the TID to pay for the improvements that "caused" the development.

## Types of TID Projects

Tax increment districts have been used for a variety of projects throughout its 30+ year history. Common projects that municipalities include within districts include any infrastructure to support the development. Infrastructure typically includes sewer & water mains, roadways, storm sewers, electrical and communication grids.

Municipalities have also used TID to purchase raw land for industrial development, purchase blighted and/or dilapidated properties for redevelopment, write down the cost of land for a third party (direct development incentive), etc.

When development within a TID causes the need to construct major infrastructure items, TID has been used to pay for all, or a portion of wastewater treatment plant expansion, interceptor sewers, water supply infrastructure, water storage, water treatment plants, electrical substations, etc.

There have been instances where TID has been used to develop industrial incubator buildings, clean-up environmental contamination, traffic controls and other street amenities, and purchase of specialized equipment to service the district, and provide direct development assistance to private entities.

Overall, projects can be broadly defined provided the “but for” question can be answered positively that development is assisted by the expenditure of public funds through a TID.

## TID Process

Although the process varies by type of district and whether you are creating a new district or amending an existing district; statute dictates several steps necessary in the process. The standard steps municipalities must undertake to create and/amend a TID are as follows:

- Form a joint review board (JRB) prior to holding a public hearing
- Hold a public hearing on the creation or amendment of a TID by Planning Commission (PC) or Community Development Authority (CDA)

- Approval of creation or amendment of TID by PC/CDA
- Council/Board approval of creation or amendment of TID
- JRB approval of creation or amendment

The process from start to finish will take between 45 and 90 days, dependent upon type of action and meeting schedule.

Once a district is created, the boundaries of the district may be amended (additions or subtractions) four times. The project plan (types projects and/or cost of projects) can be amended throughout the life of the district.

Expenditures within the district can be made up to five years prior to the standard statutory closure of the district.

## Ehlers TID Assistance

Limited staff time and resources make it difficult for a community to respond to these challenges. The financial advisors at Ehlers have thorough knowledge of and extensive experience in tax increment financing.

At Ehlers, we provide a full spectrum of services to help you through the complexities of tax increment financing. Our services afford you with the “one stop” TID assistance your community needs including:

- Project Planning
- Create scheduling time-line
- Coordinate documentation process
- Prepare TID project plan
- Conduct development *pro forma* analysis
- Assist in development agreement negotiation
- Develop analysis for proving the “but for” test
- Prepare state reporting forms
- Pre-audit compliance reports
- Maintain project finance reporting & case records
- Assist in public participation process required by statute

Whether you are looking at amending an existing district or creating a new district, the expertise of Ehlers can guide you smoothly through the process. From initial planning to project financing, Ehlers is your expert partner.

## Village of Arena TID #1 Overview

### TID #1 Basics

- TID created on 9/28/2006.
- Mixed Use TID allowing for commercial and industrial development. Residential development is limited to 35% of the TID area.
- Maximum life is 20 years (latest termination date is 9/28/2026).
- Expenditure period expires 9/28/2021.

### Projects Completed to Date

- Development Incentives
  - \$210,000 incentive provided up front for Arena Properties, LLC Phase 1. Financed with State Trust Fund Loans.
  - Pay-as-you-go incentive for Tower View, LLC. 80% of increment generated annually paid as an incentive up to \$50,000 for a period of 10 years.
- Infrastructure Projects
  - Oak Street Road Improvements (80% of project).
  - Oak Street Water and Storm Water Improvements (100% of projects).
  - Lift Station project (50% of project).

# Village of Arena, WI

## Tax Increment District No. 1 Tax Increment Projection Worksheet

|                                |              |
|--------------------------------|--------------|
| Type of District               | Mixed Use    |
| Actual Creation Date           | 9/28/2006    |
| Valuation Date                 | Jan. 1, 2006 |
| Maximum Life (In Years)        | 20           |
| Expenditure Period (In Years)  | 15           |
| Revenue Periods/Final Rev Year | 20   2027    |
| End of Expenditure Period      | 9/28/2021    |
| Latest Termination Date        | 9/28/2026    |

|                                   |           |
|-----------------------------------|-----------|
| Actual Base Value                 | 3,766,500 |
| Pre-Amendment Base Value (Actual) | NA        |
| Property Appreciation Factor      | 0.00%     |
| Tax Rate Adjustment Factor        | 0.00%     |

Apply Inflation  
X

|    | Construction Year | Value Added      | Valuation Year | Inflation Increment | Valuation Increment | Revenue Year | Tax Rate | Tax Increment |
|----|-------------------|------------------|----------------|---------------------|---------------------|--------------|----------|---------------|
| 1  | 2006              | 2,171,000        | 2007           | 0                   | 2,171,000           | 2008         | 23.56    | 51,153        |
| 2  | 2007              | 511,000          | 2008           | 0                   | 2,682,000           | 2009         | 24.56    | 65,859        |
| 3  | 2008              | 410,200          | 2009           | 0                   | 3,092,200           | 2010         | 25.61    | 79,186        |
| 4  | 2009              | 317,400          | 2010           | 0                   | 3,409,600           | 2011         | 26.52    | 90,431        |
| 5  | 2010              | 0                | 2011           | 0                   | 3,409,600           | 2012         | 26.52    | 90,431        |
| 6  | 2011              | 0                | 2012           | 0                   | 3,409,600           | 2013         | 26.52    | 90,431        |
| 7  | 2012              | 0                | 2013           | 0                   | 3,409,600           | 2014         | 26.52    | 90,431        |
| 8  | 2013              | 0                | 2014           | 0                   | 3,409,600           | 2015         | 26.52    | 90,431        |
| 9  | 2014              | 0                | 2015           | 0                   | 3,409,600           | 2016         | 26.52    | 90,431        |
| 10 | 2015              | 0                | 2016           | 0                   | 3,409,600           | 2017         | 26.52    | 90,431        |
| 11 | 2016              | 0                | 2017           | 0                   | 3,409,600           | 2018         | 26.52    | 90,431        |
| 12 | 2017              | 0                | 2018           | 0                   | 3,409,600           | 2019         | 26.52    | 90,431        |
| 13 | 2018              | 0                | 2019           | 0                   | 3,409,600           | 2020         | 26.52    | 90,431        |
| 14 | 2019              | 0                | 2020           | 0                   | 3,409,600           | 2021         | 26.52    | 90,431        |
| 15 | 2020              | 0                | 2021           | 0                   | 3,409,600           | 2022         | 26.52    | 90,431        |
| 16 | 2021              | 0                | 2022           | 0                   | 3,409,600           | 2023         | 26.52    | 90,431        |
| 17 | 2022              | 0                | 2023           | 0                   | 3,409,600           | 2024         | 26.52    | 90,431        |
| 18 | 2023              | 0                | 2024           | 0                   | 3,409,600           | 2025         | 26.52    | 90,431        |
| 19 | 2024              | 0                | 2025           | 0                   | 3,409,600           | 2026         | 26.52    | 90,431        |
| 20 | 2025              | 0                | 2026           | 0                   | 3,409,600           | 2027         | 26.52    | 90,431        |
|    |                   | <b>3,409,600</b> |                | <b>0</b>            |                     |              |          |               |

Future Value of Increment 1,733,521



Village of Arena, WI



Tax Increment District No. 1  
Cash Flow Pro Forma (No new projects or borrowing)

| Year         | Revenues         |                             |                  | Expenditures                                   |               |   |               |                                |               |   |               |   |               |  |               | Balances          |                              | Project Cost Principal Outstanding | Year           |                       |                    |         |                         |  |
|--------------|------------------|-----------------------------|------------------|--|---------------|---|---------------|--------------------------------|---------------|---|---------------|---|---------------|--|---------------|-------------------|------------------------------|------------------------------------|----------------|-----------------------|--------------------|---------|-------------------------|--|
|              | Tax Increments   | STF Loan Subsidy - Estimate | Total Revenues   | STF Loan - \$105,000 Forseth Phase 1 4/16/2008 |               | STF Loan - \$52,500 Forseth Phase 1 5/19/2008 |               | G.O. Notes \$269,750 5/22/2008 |               | STF Loan - \$52,500 Forseth - Phase 1 12/2/2008 |               | STF Loan \$209,519 Lift Station - 50% 1/27/2009 |               | STF Loan \$27,204.59 Lift Station - 50% 1/4/2010 |               | Planning & Admin. | Estimated Halverson PAYG 80% |                                    |                | Advance to Sewer Fund | Total Expenditures | Annual  | Cumulative <sup>1</sup> |  |
| 2010         |                  |                             |                  | Prin (3/15)                                    | Interest 5%   | Prin (3/15)                                   | Interest 5%   | Prin (5/1)                     | Interest      | Prin (3/15)                                     | Interest 5%   | Prin (3/15)                                     | Interest 5.5% | Prin (3/15)                                      | Interest 5.5% |                   |                              |                                    |                |                       | 14,013             | 575,838 | 2010                    |  |
| 2011         | 90,431           | 2,562                       | 92,993           | 5,344  | 4,731         | 2,661   | 2,355         | 23,457                         | 9,497         | 2,852   | 2,524         | 5,485   | 5,514         | 541  | 892           | 5,000             | 2,854                        | 19,000                             | 92,708         | 285                   | 14,298             | 535,498 | 2011                    |  |
| 2012         | 90,431           | 2,379                       | 92,810           | 5,599  | 4,476         | 2,788   | 2,228         | 26,389                         | 8,686         | 2,988   | 2,388         | 5,773   | 5,227         | 713  | 720           | 5,000             | 2,854                        | 16,900                             | 92,730         | 80                    | 14,378             | 491,249 | 2012                    |  |
| 2013         | 90,431           | 2,230                       | 92,661           | 5,891  | 4,184         | 2,933   | 2,083         | 29,321                         | 7,738         | 3,144   | 2,233         | 6,105   | 4,895         | 754  | 679           | 5,000             | 2,854                        | 14,800                             | 92,613         | 47                    | 14,425             | 443,102 | 2013                    |  |
| 2014         | 90,431           | 2,079                       | 92,510           | 6,186  | 3,889         | 3,080   | 1,936         | 32,253                         | 6,644         | 3,301   | 2,075         | 6,440   | 4,560         | 795  | 638           | 5,000             | 2,854                        | 5,124                              | 84,776         | 7,734                 | 22,159             | 391,047 | 2014                    |  |
| 2015         | 90,431           | 1,920                       | 92,350           | 6,495  | 3,580         | 3,234   | 1,782         | 35,185                         | 5,404         | 3,466   | 1,910         | 6,795   | 4,205         | 839  | 594           | 5,000             | 2,854                        |                                    | 81,343         | 11,007                | 33,166             | 335,034 | 2015                    |  |
| 2016         | 90,431           | 1,757                       | 92,187           | 6,811  | 3,264         | 3,391   | 1,625         | 38,117                         | 4,020         | 3,634   | 1,742         | 7,158   | 3,842         | 884  | 549           | 5,000             | 2,854                        |                                    | 82,892         | 9,296                 | 42,462             | 275,039 | 2016                    |  |
| 2017         | 90,431           | 1,575                       | 92,006           | 7,161  | 2,915         | 3,565   | 1,451         | 41,049                         | 2,505         | 3,821   | 1,555         | 7,562   | 3,438         | 934  | 499           | 5,000             | 2,854                        |                                    | 84,309         | 7,696                 | 50,159             | 210,948 | 2017                    |  |
| 2018         | 90,431           | 1,388                       | 91,819           | 7,519  | 2,557         | 3,743   | 1,273         | 43,981                         | 858           | 4,012   | 1,364         | 7,978   | 3,022         | 985  | 448           | 5,000             | 2,854                        |                                    | 85,593         | 6,225                 | 56,384             | 142,730 | 2018                    |  |
| 2019         | 90,431           | 1,191                       | 91,622           | 7,895  | 2,181         | 3,930   | 1,086         |                                |               | 4,212   | 1,164         | 8,417   | 2,583         | 1,039  | 394           | 5,000             | 2,854                        |                                    | 40,755         | 50,867                | 107,250            | 117,236 | 2019                    |  |
| 2020         | 90,431           | 985                         | 91,416           | 8,285  | 1,791         | 4,124   | 892           |                                |               | 4,420   | 956           | 8,874   | 2,126         | 1,096  | 337           | 5,000             |                              |                                    | 37,901         | 53,516                | 160,766            | 90,438  | 2020                    |  |
| 2021         | 90,431           | 763                         | 91,194           | 8,704  | 1,372         | 4,333   | 683           |                                |               | 4,644   | 732           | 9,368   | 1,632         | 1,157  | 276           | 5,000             |                              |                                    | 37,901         | 53,294                | 214,060            | 62,232  | 2021                    |  |
| 2022         | 90,431           | 532                         | 90,963           | 9,139  | 937           | 4,550   | 466           |                                |               | 4,876   | 500           | 9,883   | 1,117         | 1,220  | 213           |                   |                              |                                    | 32,901         | 58,062                | 272,122            | 32,564  | 2022                    |  |
| 2023         | 90,431           | 288                         | 90,718           | 9,596  | 480           | 4,777   | 239           |                                |               | 5,120   | 256           | 10,426  | 573           | 1,287  | 146           |                   |                              |                                    | 32,900         | 57,818                | 329,940            | 1,358   | 2023                    |  |
| 2024         | 90,431           | 30                          | 90,461           |  |               |   |               |                                |               |   |               |   |               | 1,358  | 75            |                   |                              |                                    | 1,433          | 89,028                | 418,968            | 0       | 2024                    |  |
| 2025         | 90,431           |                             | 90,431           |  |               |   |               |                                |               |   |               |   |               |  |               |                   |                              |                                    | 0              | 90,431                | 509,399            |         | 2025                    |  |
| 2026         | 90,431           |                             | 90,431           |  |               |   |               |                                |               |   |               |   |               |  |               |                   |                              |                                    | 0              | 90,431                | 599,830            |         | 2026                    |  |
| 2027         | 90,431           |                             | 90,431           |  |               |   |               |                                |               |   |               |   |               |  |               |                   |                              |                                    | 0              | 90,431                | 690,260            |         | 2027                    |  |
| <b>Total</b> | <b>1,537,323</b> | <b>19,678</b>               | <b>1,557,001</b> | <b>94,624</b>                                  | <b>36,357</b> | <b>47,108</b>                                 | <b>18,100</b> | <b>269,750</b>                 | <b>45,352</b> | <b>50,490</b>                                   | <b>19,400</b> | <b>100,263</b>                                  | <b>42,736</b> | <b>13,602</b>                                    | <b>6,459</b>  | <b>55,000</b>     | <b>25,688</b>                | <b>55,824</b>                      | <b>880,754</b> | <b>676,247</b>        |                    |         |                         |  |

- NOTES:  
 1. 2010 Cumulative Balance ties to cash assets in TID #1 fund per 2010 financial statements.  
 2. \$55,824 owed to the Sewer Fund by TID #1 as of 12/31/2010.

Projected TID Closure