

## Mayor's Column for the February 29, 2012 Review

Ehlers, an independent public sector financial advisory company, has been the city financial advisor for many years. Two weeks ago I attended the 2012 Ehlers Public Finance Seminar. It is the third Ehlers conference I have attended in the six years I have been mayor. Each meeting provided much valuable information. Dependent on the specific content of the annual two-day event, the City Financial Director has attended three of the last six years and the City Clerk attended one year. This year, because of its focus on economic development financing, Alderman Jim Brooks, Chair of the Economic Development Committee and member of the Finance & Labor Committee, also attended.

Seminar topics and sessions are selected for relevance to current municipal issues and conditions. This year's topic of economic development financing in the current economic and political environment was of great interest; the conference was very well-attended by elected officials, municipal staff, and representatives from professional services.

The first session was a presentation of the Dodd-Frank Wall Street Reform and Consumer Protection Act and specifically its new rules regulating the professional qualifications and conduct of municipal advisors and bond underwriters (broker/dealers). Municipal advisors will now be required to register with the Securities and Exchange Commission and the Municipal Securities Rulemaking Board. The Act broadly defines "municipal advisor" and may include attorneys, grant experts, and rate analysts. In fact, the current language could apply to local governing boards dealing with financial matters, such as library boards and housing authority boards. Administrative definitions are still being tweaked and it is expected that local governing boards will ultimately not be subject to regulation.

Municipal advisors are subject to fiduciary duty consisting of duty of loyalty and a duty of care. Underwriters (broker/dealers) have no fiduciary duty to issuers of bonds. In the past, a financial advisor could switch roles to become underwriter on a bond issue. Dodd-Frank prohibits switching roles from financial advisor to underwriter for a single bond issue because of the inherent conflict of interest in the two roles. Municipalities issuing debt are looking for the lowest interest rates, while the underwriter of the debt is interested in obtaining the highest interest rate.

Implementation of Dodd-Frank means that in the future there will be engagement letters for each funding project and additional written disclosures and other paperwork. Ehlers will continue their service to communities as municipal advisors.

## TIF BASICS

The role of municipalities in economic development financing has been front and center as the recent economic recession has negatively impacted project funding. For decades, the main and most important economic development tool of local governments has been

tax incremental financing (TIF). Current economic conditions have presented significant challenges for many communities utilizing TIF.

As a first step in using TIF, a tax incremental district (TID) must be created by the municipality. There are currently 1,115 active TIDs in Wisconsin. Of 593 Wisconsin cities and villages, around 400 municipalities have used TIF.

There are several types of tax incremental districts: conservation/rehabilitation; mixed use; industrial; blight elimination; and environmental remediation. To establish a district, a project plan for the TID, which may anticipate one large project or a number of smaller projects within the district, is developed. A joint review board consisting of the taxing authorities impacted by formation of the district must approve the creation of the district. In Evansville, the City of Evansville, Evansville Community School District, Blackhawk Technical College, and Rock County compose the Joint Review Board, along with one citizen member.

Here is how TIF works. When a district is formed, the property values in the district are calculated. It is called the base value. The taxing entities, city, county, school district, and tech school, continue to receive yearly tax levy on the base value. As projects are completed, the increased value of the district, called increment, along with any inflation or deflation, is taxed, but this tax revenue is retained by the district to pay for the improvements that caused the development. When the district is closed, annual tax revenue from both the base and incremental value are distributed to the taxing entities.

Specific development projects must meet the “but for” test to be eligible for TIF. “But for” TIF the project would not occur: at all; in the same time frame; with the same value; with the same incentives; or with the same job creation. The “but for” test helps insure that the city, county, school district, and tech school are benefitted by TIF. If the project would occur without TIF, these governmental units would forego tax revenue needlessly.

Eligible costs in TIDs may include infrastructure such as sewer and water main, storm sewers, electrical and communication grids, roads, as well as building construction, site preparation, professional fees, and administrative costs. Public buildings and general operating expenditures are ineligible. Cash grant incentives may or may not be eligible depending on the approved project plan and developer agreement.

Specific TIF projects are evaluated and projections made to determine the likely increment that would be generated in the TID. Often Ehlers is consulted to make project projections. Incentives are based on these projections and specifics of the overall TID project plan.

Developer agreements are utilized to specify phasing, improvements, timing, funding contributions, developer guarantees, and security/collateralization for guarantees. Municipalities are interested in mitigating risks to taxpayers—clarifying developer responsibilities and consequences of nonperformance reduce risk.

It is important to understand that all TIF includes debt. There is no pot of state or local TIF money. TIF is an accounting mechanism that enables municipal assistance in project development. When a project is undertaken, financing must be obtained through a bank loan, bond issue, or other funding source. If development in the TID does not occur according to the district project plan, municipal taxpayers are responsible for assuming any shortfall unless “pay as you go” financing is used. Through the years, the city has relied on Ehlers to provide advice on TID formation, specific project projections, and funding sources that reduce municipal financial risk.

Until recently it was most common for the municipality to obtain the financing for the incentive for a TIF project, given as a lump-sum to the developer as a cash grant or a loan. Loans are more common in today’s environment.

Municipalities today prefer “pay as you go” financing. The developer obtains project financing. The municipality forwards payments over time for the increment produced. The benefits to the municipality are that it does not use any of its debt capacity and the risk of insufficient increment for the project is transferred to the developer. “Pay as you go” financing is more difficult for developers in the current lending environment.

#### CURRENT TID ENVIRONMENT

Wisconsin communities are experiencing a variety of challenges with TIF. There have been developer bankruptcies, new bank regulations that are making lending difficult for local banks, building foreclosures, projects stalled, and the Wisconsin Department of Revenue recent change in methodology for TID valuations, often causing drops in value for districts. Many communities are responding to these circumstances with a number of actions, including amending the district boundaries, debt restructuring, extending the life of the district, use of municipal fund balance, enforcing security provisions in developer agreements, and declaration of distressed TID.

Our community has four current TIDs, numbered 5, 6, 7, and 8. TID #5 is a rehabilitation/conservation district formed in 2004 for redevelopment and improvements to the downtown area. TID #6 is a mixed use district that includes the Brown School Road area and land south of Highway 14 and east of County M that is currently cropped, but is planned for industrial and commercial development. TID #7 is an industrial district that includes the Landmark rail loop east of County M. TID #8 is a rehabilitation/conservation district that includes the Heights at Evansville Manor.

Last fall Ehlers reviewed the finances of our TIDs. It was recommended that we tweak TID #5 and suggested that we look at possible refinancing of debt in view of the lower interest rates. Ehlers is currently reviewing possibilities for TID #5.

With the difficult economic environment, TIF is needed more than ever to stimulate economic growth. Mitigating risk for municipalities is also more important than ever. Communities desiring growth must carefully weigh many factors to obtain the best outcome. Municipalities need to consider each TIF project within the overall financial

plans and needs of the community. Consideration of the size of the community, existing tax base, debt capacity and utilization, fund balance, location related desired market, and economic realities will impact decision-making.

State law places a general obligation debt limit of 5% of the equalized market value of the municipality. This includes borrowing for TIF. Evansville has utilized an unwritten policy of keeping borrowing under 50% of debt capacity. There was reinforcing discussion of this guideline during deliberations on financing the dredging of Lake Leota. Unused debt capacity allows the municipality flexibility to address natural catastrophes, sudden infrastructure failure, and other unforeseen budgetary shocks. We are currently at about 48% of debt capacity.

As an additional financial protection, Evansville has also adopted a fund balance policy of reserving 30-40% of the general fund budget. We currently have a healthy fund balance.

Evansville's equalized value is residentially-skewed. The Evansville Smart Growth Comprehensive Plan identifies commercial and industrial development as desirable. A better balanced and growing tax base will enhance long-term financial stability and community vitality. The city will use the assistance of Ehlers to evaluate future economic development initiatives and appropriately balance the many factors to be considered to make the best decisions for Evansville.

### Community Announcements

The National Park Service is taking public comment until March 15 about four preliminary alternative corridors for the Ice Age Trail through Rock County. Two of the options, Corridor C and Corridor D, include the Evansville area (segment 3). Citizens are encouraged to support the trail by commenting at <http://parkplanning.nps.gov/>. Go to Ice Age National Scenic Trail and find the list of documents open for comment.

You can also mail comments to:

National Park Service  
Ice Age National Scenic Trail  
700 Rayovac Drive, Suite 100  
Madison, WI 53711.

The Evansville FFA 21<sup>st</sup> Annual Farm Toy Show will be held Sunday, March 4, 2012, from 9:00 a.m. to 2:00 p.m. at the Evansville Field House, 401 South Third Street. A Pancake Breakfast will be sponsored by the Lions Club and Boy Scouts from 7:00 a.m. to noon.

The Evansville Community Partnership Chili Cook-Off will be held on Saturday, March 10, 2012, from 6:30 to 9:00 p.m. at Creekside Place, 102 Maple Street.

The Evansville Jays, our Home Talent Baseball Team, will hold their Strike Out for Baseball 9-Pin Tap Bowling Tournament and Fundraiser on March 10 and March 17 at 4:30 p.m. and 8:00 p.m. at the Evansville Bowl. For additional information visit their website at [www.evansville.hometalent.org](http://www.evansville.hometalent.org).

### Community Thanks

Evansville thanks the many participants in the Evansville Youth Center Quacking fundraiser. More than \$1,000 has been raised to support the programs and activities of the Center.

Our community thanks E-Arts for the sponsoring the wonderful evening of music at the Evansville Fiddlers Summit.