BECKER Professional Services

Request for Council Guidance - Proposed Downtown TID

The City of Stoughton recently received a tax increment financing (TIF) request to assist with the conversion of 211 Water St. from a light industrial use on the first floor and vacant second floor to 18 apartment units in a structure that originally served as a two-story automobile showroom. The building currently has a light manufacturing use on the first floor – Virtual Foundry and a vacant 2nd floor.

The City Council authorized both a financial review of the TIF request and planning for a new tax increment district (TID). Another TIF request may be in the works just a block away for conversion of another historic structure - the former Hotel Kegonsa, into upper-level residential units. Additionally, another dozen potential rehab/conversion or new construction opportunities have been identified that could potentially be triggered by the availability of TIF.

The first step in considering a TIF district to support such conversion projects is determining the appropriate type of TID to create and which agency will lead the TID planning process. There are four types of TIDs that may be created under ss 66.1105 based upon the qualifying conditions required to create them –industrial development, blight elimination and redevelopment, rehabilitation and conservation work and mixed-use development. Given this is a downtown area and the topic is support for reuse of old structures for housing we can eliminate industrial development as a TID type for consideration. Whichever type of TID is created, at least 50% of the parcels within the TID must meet the conditions to qualify for that TID type.

TID types are also associated with a TID life. Industrial and mixed-use TIDs have a 15-year expenditure period and a 20-year life. Blight and rehabilitation/conservation TIDs have a 22-year expenditure period and a 27-year life.

The Wisconsin Department of Revenue provides criteria for establishing each type of TID. A summary of those criteria is at the end of this report.

The City Council, in 2007, created the Redevelopment Authority of the City of Stoughton (RDA). In creating the RDA, the City Council gave it the following authority: “The RA shall have the authority to create a redevelopment plan. The RA shall implement the retention and development activities as identified in any redevelopment plan(s) or other economic development plans created and approved by the City Council. The RA shall be responsible for regularly reviewing redevelopment or economic development plans and shall implement any changes or additions to the plans approved by the City Council.” Additionally, the Council granted the RDA all powers granted by the State of Wisconsin under 66.1333 (Blighted Area Law). No authority was granted to the RDA to plan a TID, which is normally done by the Plan Commission unless the City Council designates otherwise for blight elimination TIDs.

City Council direction is needed regarding the type of TID to plan. Staff recommends planning for a rehabilitation/conservation TID with the approximate boundary as shown on the attached map. We recommend the City designate the Plan Commission to plan the creation of the TID including the documentation of the condition of property relative to need for rehabilitation or conservation.

Proposed Downtown TID

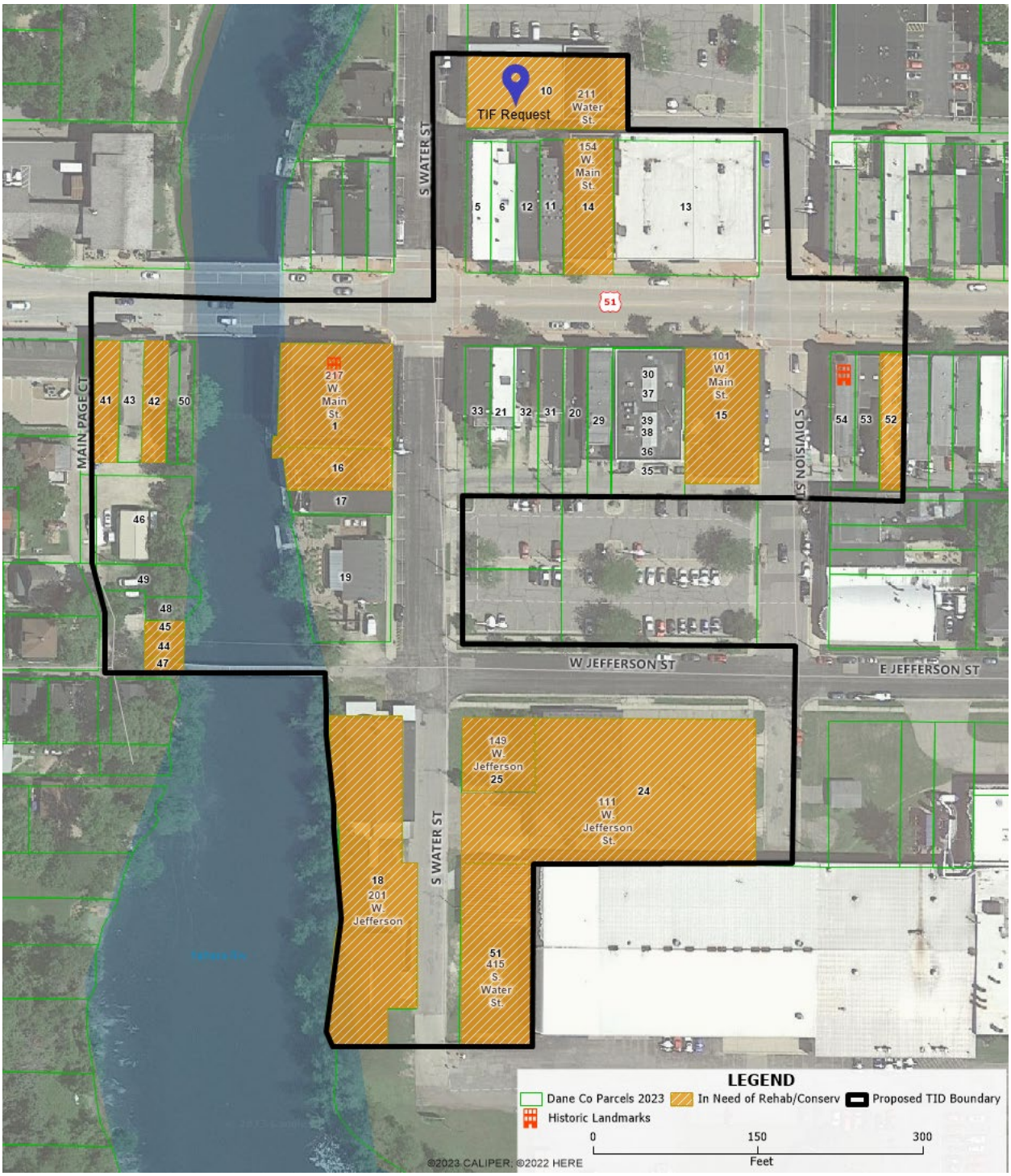

Figure 1: Map indicates proposed TID boundary, potential projects identified through property owner interviews or visual observation, as well as historic landmarks. 54% of the TID includes property in need of rehab or conservation as indicated by the green-shaded parcels.

Consideration for a Blight TID

A blight TID requires a formal finding of blight by the City Council and is based on a property evaluation survey. Given that the area containing the projects under consideration would generally not be considered a blighted area, individual properties may meet the definition for blighted property. For example, vacant second or third floor space is an example of obsolescence – the space can no longer be used for its intended purpose, which is a qualifying factor. Additional properties may qualify based on deterioration or building safety violations. Whether more than 50% of the properties in the area can qualify as blighted property is questionable.

The benefit of a blight TID is its 27-year life and the range of project costs that can be incurred to eliminate blighting conditions and promote redevelopment.

The downsides include the need to label individual property as blighted, having the City Council make a formal declaration of such, the extra notifications required to property owners, having a smaller TID because of the fewer parcels that are blighted, and the general stigma associated with labeling a property as blighted.

Considerations for a Rehabilitation/Conservation TID

A rehabilitation TID requires the identification of property in need of conservation or rehabilitation and is based on a property evaluation survey. This is generally a lower bar to achieve than meeting the standards in the definition for blighted property. Our example of vacant second or third floor space also qualifies us as in need of rehabilitation or conservation. Additional properties may qualify based on deterioration or building safety violations. We have found that at least 54% of the area of the proposed downtown TID qualifies as in need of rehabilitation or conservation and possibly as much as 75% pending conversations with property owners.

The benefit of a rehabilitation/conservation TID is its 27-year life and that it is focused on rehabilitation and conservation and not trying to address bigger underlying issues such as blight. Project costs associated with the rehabilitation of older structures are exactly what this type of TID envisioned.

The downsides include the need to label individual property as in need of rehabilitation or conservation, and the extra notifications required to property owners. The stigma associated with labeling a property as in need of rehabilitation is much less the label of blighted. A rehabilitation/conservation TID may be larger in area because the standard for “in need of rehab or conservation” is much lower than a finding that a property is blighted, thus more property could qualify. The TID boundary must contain at least 50% of real property by area to meet the qualifying requirements.

Considerations for a Mixed-use TID

A mixed-use TID simply requires the presence of a mix of uses and the intent to maintain or change the mix of uses as long as no more than 35% of the parcels in the TID are not newly platted residential. There would be no newly platted residential parcels within the area under consideration. No identification or labeling of individual property is needed. Our example of vacant second or third floor space also qualifies for a mixed-use TID because the intent is to create housing in a generally commercial district, thereby promoting a mix of uses. All the properties in the study area would qualify to be in a mixed-use TID.

The benefit of a mixed-use TID is its lack of significant qualifying requirements and the wide range of project costs that can be included to promote a mix of uses.

The most significant downside is the shorter life (20-years vs 27-years) which impacts the amount of investment that may be made.

Wisconsin Dept. of Revenue Guidance on TID Types

Blighted area – areas in a damaged condition. TIF Law provides two specific meanings for the designation of blight.

> Definition 1: An area in which the structures, buildings or improvements contribute to ill health, transmission of disease, infant mortality, juvenile delinquency, or crime and are detrimental to the public health, safety, morals or welfare, due to dilapidation, deterioration, age or obsolescence, inadequate provision for ventilation, light air, sanitation or open spaces, high density population and overcrowding, or the existence of conditions which endanger life or property by fire and other causes

> Definition 2: An area which is predominantly open and which consists primarily of an abandoned highway corridor as defined in sec . 66 .1333(2m)(a), Wis . Stats . or that consists of land on which buildings or structures have been demolished and because of obsolete platting, diversity of ownership, deterioration of structures or of site improvements, substantially impairs the sound growth of the community.

Blighted property means:
Any property within a city, whether residential or nonresidential, which by reason of:

- dilapidation, deterioration, age, or obsolescence,
- inadequate provisions for ventilation, light, air, or sanitation,
- high density of population and overcrowding, or
- the existence of conditions which endanger life or property by fire and other causes, or
- any combination of such factors,

is conducive to ill health, transmission of disease, infant mortality, juvenile delinquency, or crime, and is detrimental to the public health, safety, morals, or welfare, or

Any property which by reason of:

- faulty lot layout in relation to size, adequacy, accessibility, or usefulness,
- insanitary or unsafe conditions,
- deterioration of site or other improvements,
- diversity of ownership,
- tax or special assessment delinquency exceeding the fair market value of the land,
- defective or unusual conditions of title, or
- the existence of conditions which endanger life or property by fire and other causes, or
- any combination of such factors,

substantially impairs or arrests the sound growth of a city, retards the provisions of housing accommodations, or constitutes an economic or social liability and is a menace to the public health, safety, morals or welfare in its present condition and use, or

Any property which is predominantly open and which because of:

- obsolete platting,
- diversity of ownership,
- deterioration of structures or of site improvements, or
- otherwise, substantially impairs or arrests the sound growth of the community.

Rehabilitation or conservation work – to restore, preserve or repair. Defined for the purposes of TIF law in sec . 66 .1337, Wis . Stats ., rehabilitation and conservation includes any of the following

- Operating a program of voluntary or compulsory repair and rehabilitation of buildings or other improvements
- Acquisition of real property and demolition; removal or rehabilitation of buildings and improvements on the property to eliminate unhealthful, unsanitary, or unsafe conditions, lessen density, reduce traffic hazards, eliminate uses detrimental to the public welfare, remove, or prevent the spread of blight or deterioration, or provide land for needed public facilities.
- Installation, construction or reconstruction of streets, utilities, parks, playgrounds, and other improvements necessary for the objectives of an urban renewal project
- The disposition of any property acquired in the project area for uses meeting the objectives of the urban renewal project.

Mixed-use district – a TID with a combination of at least two of these uses - residential, commercial, and industrial uses. Mixed-use TIDs can only include lands proposed for newly platted residential use if they do not exceed 35%, by area, of the real property in the TID and the residential development meets other qualifications.