

**City of Madison  
Tax Incremental District No. 42**

Financial Statements and  
Supplementary Information

December 31, 2020

# City of Madison Tax Incremental District No. 42

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Table of Contents  
December 31, 2020

	<u>Page</u>
<b>Independent Auditors' Report</b>	1
<b>Financial Statements</b>	
Tax Incremental District No. 42 – Balance Sheet	3
Tax Incremental District No. 42 – Historical Summary of Project Costs, Project Revenues and Net Cost Recovered Through Tax Increments	4
Tax Incremental District No. 42 – Historical Summary of Sources, Uses, and Status of Funds	5
Notes to Financial Statements	6
<b>Supplementary Information</b>	
Tax Incremental District No. 42 – Detailed Schedule of Sources, Uses, and Status of Funds	11
Tax Incremental District No. 42 – Detailed Schedule of Capital, Administration and Professional Services Expenditures, and Developer Payments	12
<b>Independent Auditors' Report on Compliance</b>	13

## **Independent Auditors' Report**

To the Common Council of  
City of Madison

### **Report on the Financial Statements**

We have audited the accompanying Balance Sheet, Historical Summary of Project Costs, Project Revenues and Net Cost Recovered Through Tax Increments and Historical Summary of Sources, Uses and Status of funds of the City of Madison's Tax Incremental District No. 42 (the District) as of December 31, 2020 and from the date of creation through December 31, 2020 and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of City of Madison's Tax Incremental District No. 42 and the net project costs recovered through tax increments as of December 31, 2020 and the sources, uses and status of funds from the date of creation through December 31, 2020, in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 1, the financial statements present only the transactions of City of Madison's Tax Incremental District No. 42 and do not purport to and do not, present fairly the financial position of the City of Madison, Wisconsin, as of December 31, 2020, and the changes in financial position or, where applicable, cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### *Required Supplementary Information*

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. Our opinion on the financial statements is not affected by this missing information.

#### *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Madison's Tax Incremental District No. 42's financial statements. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects, in relation to the financial statements as a whole.

### **Report on Other Legal and Regulatory Requirements**

We have also issued our report dated July 27, 2021 on our tests of its compliance with Wisconsin State Statutes Section 66.1105. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on compliance.

*Baker Tilly US, LLP*

Madison, Wisconsin  
July 27, 2021

## City of Madison Tax Incremental District No. 42

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Balance Sheet  
December 31, 2020

	<b>Capital Projects Fund</b>
<b>Assets</b>	
Cash and investments	\$ 1,652,195
Taxes receivable	1,300,131
Prepaid items	<u>140</u>
Total assets	<u>\$ 2,952,466</u>
<b>Liabilities, Deferred Inflows of Resources and Fund Balance</b>	
Liabilities	
Accounts payable	\$ 614
Accrued liabilities	<u>1,699</u>
Total liabilities	<u>2,313</u>
Deferred Inflows of Resources	
Unearned revenue	<u>1,300,131</u>
Total deferred inflows of resources	<u>1,300,131</u>
Fund Balance	
Restricted	<u>1,650,022</u>
Total fund balance	<u>1,650,022</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 2,952,466</u>

See notes to financial statements

## City of Madison Tax Incremental District No. 42

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Historical Summary of Project Costs, Project Revenues  
and Net Cost Recovered Through Tax Increments  
December 31, 2020

### Project Costs

Capital expenditures	\$ 2,996,401
Administration	246,733
Professional services	107,730
Developer payments	1,898,000
Debt issuance costs	23,756
Interest on advances	1,079
Interest on long-term debt	<u>566,170</u>

Total project costs 5,839,869

### Project Revenues

Tax increments	3,265,243
Exempt computer aid	239,535
Personal property aid	47,140
Miscellaneous	15,948
Developer guarantee	827,629
Contribution from TID No. 39	1,700,000
Investment income	<u>71,393</u>

Total project revenues 6,166,888

Net cost recovered through  
tax increments, December 31, 2020 \$ (327,019)

### Reconciliation of Recoverable Costs

G.O. debt	\$ 1,323,003
Less fund balance	<u>(1,650,022)</u>

Net cost recovered through  
tax increments, December 31, 2020 \$ (327,019)

## City of Madison Tax Incremental District No. 42

### Historical Summary of Sources, Uses and Status of Funds

December 31, 2020

#### Sources of Funds

Tax increments	\$ 3,265,243
Exempt computer aid	239,535
Personal property aid	47,140
Miscellaneous	15,948
Developer guarantee	827,629
Contribution from TID No. 39	1,700,000
Investment income	71,393
Long-term debt issued	<u>5,052,600</u>

Total sources of funds 11,219,488

#### Uses of Funds

Capital expenditures	2,996,401
Administration	246,733
Professional services	107,730
Developer payments	1,898,000
Debt issuance costs	23,756
Interest on advances	1,079
Principal on long-term debt	3,729,597
Interest on long-term debt	<u>566,170</u>

Total uses of funds 9,569,466

Fund balance, December 31, 2020 \$ 1,650,022

# City of Madison Tax Incremental District No. 42

Notes to Financial Statements

December 31, 2020

## 1. Summary of Significant Accounting Policies

The accounting policies of the City of Madison's (the City) Tax Incremental District No. 42 (the District) conform to accounting principles as applicable to governmental units and as defined by Wisconsin Statutes Section 66.1105.

The City has implemented accounting principles generally accepted in the United States of America to the extent they apply in determining the scope of the activity of the District. The accompanying financial statements reflect all the significant operations of the District. The accompanying financial statements do not include the full presentation of the City.

### Description of Fund Structure and Long-Term Debt

This report contains the financial information of the District. The summary statements were prepared from data recorded in the following City of Madison funds and the City's long-term debt:

General Fund  
Capital Projects Fund

Detailed descriptions of the purpose of these funds and long-term debt can be found in the City's basic financial statements.

The data was consolidated for purposes of this report. Therefore, the amounts shown in the accompanying statements will not directly correlate with amounts shown in the basic financial statements.

The District was created under the provisions of Wisconsin Statute Section 66.1105. The purpose of that section is to allow a municipality to recover development and improvement costs in a designated area from the property taxes generated on the increased value of the property after the creation date of the District. The tax on the increased value is called a tax increment.

The statutes allow the municipality to collect tax increments until the net project cost has been fully recovered, or until 27 years after the creation date, whichever occurs first. Project costs uncollected at the dissolution date are absorbed by the City. Project costs may be incurred up to five years before the unextended termination date of the District.

	<u>Creation Date</u>	<u>Last Date to Incur Project Costs</u>	<u>Last Year to Collect Increment</u>
TID No. 42	January 1, 2012	July 2, 2034	2040
	<u>Adoption Date</u>	<u>Last Date to Incur Project Costs</u>	
Plan Amendment	September 1, 2020	July 2, 2034	2040



## City of Madison Tax Incremental District No. 42

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Notes to Financial Statements

December 31, 2020

### **Basis of Accounting**

The modified accrual basis of accounting was followed in the preparation of these statements. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Project costs, other than interest on long-term debt, are recorded when the related fund liability is incurred.

District increments are recorded as revenues in the year due. Intergovernmental aids and grants are recognized as revenues in the period the related expenditures are incurred, if applicable, or when the District is entitled to the aids.

Other general revenues are recognized when received in cash or when measurable and available under the criteria described above.

### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **Measurement Focus**

The measurement focus of all governmental funds is the funds flow concept. Under the funds flow concept, sources and uses of financial resources, including capital outlays, debt proceeds and debt retirements are reflected in operations. Resources not available to finance expenditures and commitments of the current period are recognized as unavailable or unearned revenue or as unspendable fund equity. Liabilities for claims, judgments, compensated absences and pension contributions which will not be currently liquidated using expendable available financial resources are shown in the long-term debt footnote disclosure. The related expenditures are recognized when the liabilities are liquidated.

### **Project Plan Budget**

The estimated revenues and expenditures of the District are adopted in the project plan. Those estimates are for the entire life of the District, and may not be comparable to interim results presented in this report.

### **Long-Term Debt**

Short-term liabilities are recorded as fund liabilities. All other long-term liabilities are shown in the long-term debt footnote disclosure.

Proceeds of long-term debt issues not recorded as fund liabilities are reflected as "Sources of Funds" in the operating statement of the recipient fund. Retirement of these issues is reported as an expenditure in the year in which the debt matures or is repaid, whichever is earlier.

## City of Madison Tax Incremental District No. 42

Notes to Financial Statements

December 31, 2020

### Claims and Judgments

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. The liability and expenditure for claims and judgments is only reported in governmental funds if it has matured. Claims and judgments are disclosed in the long-term debt footnote when the related liabilities are incurred.

### 2. Cash and Temporary Investments

The District invests its funds in accordance with the provisions of the Wisconsin Statutes 66.0603(1m) and 67.11(2).

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income.

The District, as a fund of the City, maintains separate and common cash and investment accounts at the same financial institutions utilized by the City. Federal depository insurance and the State of Wisconsin Guarantee fund insurance apply to the City as an individual municipality and, accordingly, the amount of insured funds is not determinable for the District.

### 3. Long-Term Debt

#### General Obligation Debt

All general obligation notes payable are backed by the full faith and credit of the City. Notes and bonds borrowed to finance District expenditures will be retired by tax increments accumulated by the District's capital projects fund. If those revenues are not sufficient, payments will be made by future tax levies.

<u>Title of Issue</u>	<u>Date of Issue</u>	<u>Due Date</u>	<u>Interest Rate</u>	<u>Original Indebtedness</u>	<u>Repaid</u>	<u>Balance 12-31-20</u>
G.O. Promissory Notes	10/01/12	10/01/22	0.4-2.125%	\$ 3,702,600	\$ 2,964,500	\$ 738,100
G.O. Promissory Bonds	10/01/13	10/01/23	1.50-4.00	1,050,000	735,083	314,917
G.O. Promissory Notes	10/17/19	10/01/29	2.00-4.00	300,000	30,014	269,986
Total				<u>\$ 5,052,600</u>	<u>\$ 3,729,597</u>	<u>\$ 1,323,003</u>

## City of Madison Tax Incremental District No. 42

Notes to Financial Statements

December 31, 2020

Aggregate maturities of all long-term debt relating to the District are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<b>Calendar Year</b>			
2021	\$ 504,036	\$ 35,058	\$ 539,094
2022	504,036	22,577	526,613
2023	134,967	9,336	144,303
2024	29,994	5,287	35,281
2025	29,994	4,687	34,681
2026	29,994	3,487	33,481
2027	29,994	2,287	32,281
2028	29,994	1,387	31,381
2029	29,994	712	30,706
	<u>\$ 1,323,003</u>	<u>\$ 84,818</u>	<u>\$ 1,407,821</u>
Total			

### Crossover Refunding

On October 15, 2020, the City issued \$46,725,000 in general obligation refunding bonds. Of this amount, \$10,315,000 was related to a current refunding and \$36,410,000 was issued with an average coupon rate of 0.51 percent, to advance refund \$36,160,000 of outstanding bonds with an average coupon rate of 2.15 percent. The net proceeds along with existing funds of the City were used to purchase U.S. government securities. Those securities were deposited in an escrow account to provide for future debt service payments on the new bonds until the crossover date. The bonds are not considered to be defeased and the liability for those bonds as well as the escrow account are recorded in the financial statements. This type of advance refunding is commonly called a crossover refunding.

The District's portion of proceeds in the amount of \$210,296 to advance refund \$209,945 of outstanding bonds have been recorded in the City's debt service fund. They will be transferred to the District in 2021 and will be used to refund the 2013 general obligation debt in 2021. The District's portion of economic gain is \$12,048.

### 4. Advances from City General Fund

The general fund advances funds to the District when the District is in a negative cash position. The general fund charges the District interest on the advance based on the outstanding advance balance at the end of the year at a rate based on the cost of funds to the City of Madison. There was no advance outstanding as of December 31, 2020.

### 5. Guaranteed Revenue

The City has entered into a development agreement with 1102, South Park, LLC. The agreement guarantees that 1102, South Park, LLC shall pay the difference between the guaranteed tax increment and the tax increment actually levied. The guarantee obligation shall terminate when the City has collected from the tax increment generated from the District or been paid under this agreement the full amount of the project costs of not less than \$1,898,000. During 2019, the property was sold. The City has collected \$1,070,371 in tax increment. 1102, South Park, LLC paid remaining amount of the guaranteed increment in 2019.

## City of Madison Tax Incremental District No. 42

Notes to Financial Statements

December 31, 2020

### 6. Tax Abatements

Tax abatements are a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

The City, through its Tax Incremental Districts (TIDs), has entered into tax abatement agreements with developers in the form of tax incremental financing incentives to stimulate economic development. The abatements are authorized through the TID project plans. The City disburses loans to developers. The developer guarantees a certain amount of increment each year. The developers pay property taxes as they become due, and if they generate the guaranteed increment, an equal amount of loan balance is forgiven. There is no balance of this loan remaining at the end of 2020. Details of loans disbursed, forgiven and paid off are as follows:

<u>Developer Name</u>	<u>Loans Disbursed as of 12/31/2019</u>	<u>Loans Forgiven as of 12/31/2019</u>	<u>Loans Paid off as of 12/31/2019</u>	<u>Loans Forgiven During 2020</u>	<u>Balance Remaining as of 12/31/20</u>
1102 South Park LLC	<u>\$ 1,898,000</u>	<u>\$ 1,070,371</u>	<u>\$ 827,629</u>	<u>\$ -</u>	<u>\$ -</u>

### 7. Increment Sharing

As allowable under TIF statutes, the City may share positive TIF increments. In 2020, the common council and joint review board approved sharing increments from TIF District No. 39 (donor district) to TIF District No. 42 (donee district). Transfers will be reflected as recoverable costs in the donor district and as project revenues in the donee district. During 2020, a total of \$1,700,000 was contributed by District No. 39.

### 8. Subsequent Event

In May 2021, the City amended the District's project plan to increase the total allowable project costs by \$12,100,000. This \$12,100,000 of additional project costs includes \$9,100,000 of borrowing, and \$3,000,000 of donated incremental revenue from Tax Incremental District No. 39. The additional project costs will include construction of a parking structure at the Village on Park, aid for the Urban League of Greater Madison's (ULGM) effort to build a Black Business Hub and to commence design work to construct owner occupied affordable housing within south Madison.

**City of Madison Tax Incremental District No. 42**

Detailed Schedule of Sources, Uses and Status of Funds  
From the Date of Creation Through December 31, 2020

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Totals	Project Plan Estimate
<b>Sources of Funds</b>												
Tax increments	\$ -	\$ -	\$ -	\$ 292,643	\$ 248,701	\$ 430,057	\$ 413,922	\$ 721,162	\$ 511,808	\$ 646,950	\$ 3,265,243	\$ 18,469,000
Exempt computer aid	-	-	-	25,864	21,699	29,572	39,675	40,259	41,233	41,233	239,535	-
Personal property aid	-	-	-	-	-	-	-	-	8,421	38,719	47,140	-
Miscellaneous	13,948	-	-	-	-	-	-	-	2,000	-	15,948	-
Developer guarantee	-	-	-	-	-	-	-	-	827,629	-	827,629	-
Contribution from TID No. 39	-	-	-	-	-	-	-	-	-	1,700,000	1,700,000	1,700,000
Investment income	-	999	2,929	6,187	3,868	3,583	3,784	10,229	26,204	13,610	71,393	-
Long-term debt issued	-	3,702,600	1,050,000	-	-	-	-	-	300,000	-	5,052,600	13,658,000
<b>Total sources of funds</b>	<b>13,948</b>	<b>3,703,599</b>	<b>1,052,929</b>	<b>324,694</b>	<b>274,268</b>	<b>463,212</b>	<b>457,381</b>	<b>771,650</b>	<b>1,717,295</b>	<b>2,440,512</b>	<b>11,219,488</b>	<b>33,827,000</b>
<b>Uses of Funds</b>												
Capital expenditures	-	1,257,536	17,976	739	4,912	569	827	828	337,067	1,375,947	2,996,401	10,558,000
Administration	-	67,066	22,620	5,364	6,049	9,974	15,067	22,692	60,843	37,058	246,733	515,000
Professional services	36,017	38,385	3,419	2,025	1,600	1,600	1,800	4,863	6,883	11,138	107,730	-
Developer payments	-	1,898,000	-	-	-	-	-	-	-	-	1,898,000	5,000,000
Debt Issuance costs	-	23,756	-	-	-	-	-	-	-	-	23,756	-
Interest on advances	70	1,009	-	-	-	-	-	-	-	-	1,079	-
Principal on long-term debt	-	-	370,563	475,627	475,627	475,627	475,535	475,535	475,535	505,548	3,729,597	13,658,000
Interest on long-term debt	-	-	64,879	96,468	91,186	82,724	72,161	61,601	49,991	47,160	566,170	4,096,000
<b>Total uses of funds</b>	<b>36,087</b>	<b>3,285,752</b>	<b>479,457</b>	<b>580,223</b>	<b>579,374</b>	<b>570,494</b>	<b>565,390</b>	<b>565,519</b>	<b>930,319</b>	<b>1,976,851</b>	<b>9,569,466</b>	<b>33,827,000</b>
Fund balance, December 31, 2020											\$ 1,650,022	

## City of Madison Tax Incremental District No. 42

Detailed Schedule of Capital, Administration and Professional Services

Expenditures and Developer Payments

From the Date of Creation Through December 31, 2020

	<u>Actual</u>	<u>Project Plan Estimate</u>
Capital, Administration and Professional Services Expenditures, and Developer Payments		
Street improvements	\$ 679,280	\$ 6,070,000
Streetscape	1,113	469,000
Revitalization loans	1,898,000	5,000,000
Land acquisition	2,304,124	3,385,000
Administration and professional services	354,463	515,000
Home ownership program	-	200,000
Storm sewer	11,884	434,000
	<u>11,884</u>	<u>434,000</u>
 Total	 <u>\$ 5,248,864</u>	 <u>\$ 16,073,000</u>

## Independent Auditors' Report on Compliance

To the Common Council of  
City of Madison

We have audited the accompanying Balance Sheet, Historical Summary of Project Costs, Project Revenues and Net Cost Recovered Through Tax Increments and the related Historical Summary of Sources, Uses and Status of Funds of the City of Madison, Wisconsin Tax Incremental District No. 42 (the District) as of December 31, 2020 and from the date the District was created through December 31, 2020 and have issued our report thereon dated July 27, 2021. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

In connection with our audit, we noted that the District failed to comply with the following requirements of Wisconsin State Statutes Section 66.1105:

1. The City of Madison did not send a written notice of the first amendment to the Wisconsin Department of Revenue within 60 days of adoption of the amendment. State statutes require that the notice be sent within 60 days after adoption.

Our audit was not directed primarily toward obtaining knowledge as to whether the District failed to comply with Wisconsin State Statutes Section 66.1105, insofar as it relates to accounting matters. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding noncompliance with the above-referenced statute, insofar as it relates to accounting matters.

This report is intended solely for the information and use of the common council, management, and the overlapping taxing districts and is not intended to be, and should not be, used by anyone other than the specified parties.

*Baker Tilly US, LLP*

Madison, Wisconsin  
July 27, 2021