

**City of Madison
Tax Incremental District No. 44**

Financial Statements and
Supplementary Information

December 31, 2020

City of Madison Tax Incremental District No. 44

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December 31, 2020

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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. 44 (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. 44 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. 44 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 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. 44'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. 44

Balance Sheet
December 31, 2020

	Capital Projects Fund
Assets	
Taxes receivable	\$ 810,821
Prepaid items	<u>48</u>
Total assets	<u>\$ 810,869</u>
Liabilities, Deferred Inflows of Resources and Fund Balance (Deficit)	
Liabilities	
Advance from city capital projects fund	\$ 971,217
Accrued liabilities	<u>769</u>
Total liabilities	<u>971,986</u>
Deferred Inflows of Resources	
Unearned revenue	<u>810,821</u>
Fund Balance (Deficit)	
Unassigned (deficit)	<u>(971,938)</u>
Total liabilities, deferred inflows of resources and fund balance (deficit)	<u>\$ 810,869</u>

City of Madison Tax Incremental District No. 44

Historical Summary of Project Costs, Project Revenues and Net Cost to be Recovered Through
Tax Increments

From the Date of Creation Through December 31, 2020

Project Costs

Capital expenditures	\$ 3,181,068
Administration	158,533
Professional services	23,555
Developer payments	1,220,000
Debt issuance costs	6,644
Interest on long-term debt	<u>449,710</u>
Total project costs	<u>5,039,510</u>

Project Revenues

Tax increments	1,586,311
Exempt computer aid	32,406
Personal property aid	15,367
Miscellaneous	12,774
Investment income	35,854
Premium on debt	<u>3,320</u>
Total project revenues	<u>1,686,032</u>

Net cost to be recovered through tax increments, December 31, 2020	<u>\$ 3,353,478</u>
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Reconciliation of Recoverable Costs

G.O. debt	\$ 2,381,540
Add fund balance deficit	<u>971,938</u>

Net cost to be recovered through tax increments, December 31, 2020	<u>\$ 3,353,478</u>
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City of Madison Tax Incremental District No. 44

Historical Summary of Sources, Uses and Status of Funds
From the Date of Creation Through December 31, 2020

Sources of Funds

Tax increments	\$ 1,586,311
Exempt computer aid	32,406
Personal property aid	15,367
Miscellaneous	12,774
Investment income	35,854
Premium on debt	3,320
Long-term debt issued	<u>4,333,799</u>

Total sources of funds 6,019,831

Uses of Funds

Capital expenditures	3,181,068
Administration	158,533
Professional services	23,555
Developer payments	1,220,000
Debt issuance costs	6,644
Principal on long-term debt	1,952,259
Interest on long-term debt	<u>449,710</u>

Total uses of funds 6,991,769

Fund balance (deficit), December 31, 2020 \$ (971,938)

City of Madison Tax Incremental District No. 44

Notes to Financial Statements

December 31, 2020

1. Summary of Significant Accounting Policies

The accounting policies of the City of Madison's Tax Incremental District No. 44 (the District) conform to accounting principles as applicable to governmental units and as defined by Wisconsin Statutes Section 66.1105.

The City of Madison 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 Tax Incremental District No. 44. The accompanying financial statements reflect all the significant operations of the City of Madison's Tax Incremental District No. 44. The accompanying financial statements do not include the full presentation of the City of Madison.

Description of Fund Structure and Long-Term Debt

This report contains the financial information of the City of Madison's Tax Incremental District No. 44. The summary statements were prepared from data recorded in the following City of Madison fund and the City of Madison's long-term debt:

Capital Projects Fund

Detailed descriptions of the purpose of this fund and long-term debt can be found in the City of Madison'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 of Madison. 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. 44	January 1, 2013	September 17, 2035	2041

City of Madison Tax Incremental District No. 44

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.

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.

City of Madison Tax Incremental District No. 44

Notes to Financial Statements

December 31, 2020

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 of Madison, maintains separate and common cash and investment accounts at the same financial institutions utilized by the City of Madison. Federal depository insurance and the State of Wisconsin Guarantee fund insurance apply to the City of Madison 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 of Madison. Notes 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.

Title of Issue	Date of Issue	Due Date	Interest Rate	Original Indebtedness	Repaid	Balance 12-31-20
G.O. Promissory Notes	10-01-14	10-01-24	2.00-5.00 %	\$ 1,106,000	\$ 663,643	\$ 442,357
G.O. Promissory Notes	10-01-14	10-01-24	2.00-3.05	400,000	240,222	159,778
G.O. Promissory Notes	10-19-16	10-01-26	0.05-4.00	2,000,000	800,054	1,199,946
G.O. Promissory Notes	10-19-17	10-01-24	2.15-2.65	827,799	248,340	579,459
Total				\$ 4,333,799	\$ 1,952,259	\$ 2,381,540

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

Calendar Year	Principal	Interest	Total
2021	\$ 433,420	\$ 71,663	\$ 505,083
2022	433,420	59,372	492,792
2023	433,420	44,107	477,527
2024	433,049	28,762	461,812
2025	282,793	14,330	297,124
2026	282,658	8,302	290,960
2027	82,780	2,194	84,974
Total	\$ 2,381,540	\$ 228,731	\$ 2,610,271

City of Madison Tax Incremental District No. 44

Notes to Financial Statements

December 31, 2020

Crossover Refunding

On October 15, 2020, the City of Madison (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 \$452,565 to advance refund \$451,508 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 2014 general obligation debt in 2021. The District's portion of economic gain is \$25,927.

4. Advances from City Capital Project Fund

The City of Madison capital project fund advances funds to the District when the District is in a negative cash position. No repayment schedule has been established and no interest has been charged. The advance balance as of December 31, 2020 is \$971,217.

5. Guaranteed Revenue

The City of Madison has entered into a development agreement with SHD, Inc. The agreement guarantees that SHD, Inc. shall pay the difference between the guaranteed tax increment and the tax increment actually levied. The guarantee obligation shall terminate when the City of Madison 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 \$400,000. The City of Madison has entered into a similar agreement with Royster Corners, LLC, in the amount of \$820,000.

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.

City of Madison Tax Incremental District No. 44

Notes to Financial Statements
December 31, 2020

The City of Madison, 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 of Madison 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. It is anticipated that these loans will be forgiven and therefore an allowance of \$863,000 has been established for the entire amount of outstanding loans. Details of loans disbursed and loans forgiven 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 Disbursed During 2020</u>	<u>Loans Forgiven During 2020</u>	<u>Balance Remaining as of 12/31/20</u>
SHD Inc.	\$ 400,000	\$ 197,000	\$ -	\$ 79,000	\$ 124,000
Royster Corners LLC	820,000	1,000	-	80,000	739,000
Total	<u>\$ 1,220,000</u>	<u>\$ 198,000</u>	<u>\$ -</u>	<u>\$ 159,000</u>	<u>\$ 863,000</u>

City of Madison Tax Incremental District No. 44

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

	2013	2014	2015	2016	2017	2018	2019	2020	Totals	Project Plan Estimate
Sources of Funds										
Tax increments	\$ -	\$ -	\$ -	\$ 110,724	\$ 201,819	\$ 299,657	\$ 380,227	\$ 593,884	\$ 1,586,311	\$ 6,947,700
Exempt computer aid	-	-	5,173	5,248	5,371	5,450	5,582	5,582	32,406	-
Personal property aid	-	-	-	-	-	-	3,066	12,301	15,367	-
Miscellaneous	2,000	-	10,774	-	-	-	-	-	12,774	-
Investment income	-	-	5,510	7,934	21,517	893	-	-	35,854	-
Premium on debt	-	3,320	-	-	-	-	-	-	3,320	-
Long-term debt issued	-	1,506,000	-	2,000,000	827,799	-	-	-	4,333,799	6,264,700
Total sources of funds	2,000	1,509,320	21,457	2,123,906	1,056,506	306,000	388,875	611,767	6,019,831	13,212,400
Uses of Funds										
Capital expenditures	-	-	93	3,179,348	929	377	321	-	3,181,068	4,864,700
Administration	32,900	20,420	7,577	29,883	29,045	10,145	13,752	14,811	158,533	100,000
Professional services	10,600	3,200	1,600	1,600	1,800	1,625	1,130	2,000	23,555	-
Developer payments	-	-	400,000	-	-	820,000	-	-	1,220,000	1,300,000
Debt Issuance costs	-	2,745	-	-	3,899	-	-	-	6,644	-
Principal on long-term debt	-	-	150,733	150,626	350,640	433,420	433,420	433,420	1,952,259	6,264,700
Interest on long-term debt	-	-	45,794	42,779	84,987	98,218	93,165	84,767	449,710	683,000
Total uses of funds	43,500	26,365	605,797	3,404,236	471,300	1,363,785	541,788	534,998	6,991,769	13,212,400
Fund balance (deficit), December 31, 2020									\$ (971,938)	

City of Madison Tax Incremental District No. 44

Detailed Schedule of Capital, Administration and Professional Service Expenditures and Developer Payments
From the Date of Creation Through December 31, 2020

	<u>Actual</u>	<u>Project Plan Estimate</u>
Capital, Administration, Professional Service Expenditures and Developer Payments		
Street improvements	\$ 3,180,654	\$ 2,314,700
Public Improvements	414	2,550,000
Revitalization loans	1,220,000	1,300,000
Administration and professional services	<u>182,088</u>	<u>100,000</u>
Total	<u>\$ 4,583,156</u>	<u>\$ 6,264,700</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. 44 (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, nothing came to our attention that caused us to believe that the District failed to comply with Wisconsin State Statutes Section 66.1105, insofar as it relates to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's 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.



Madison, Wisconsin
July 27, 2021