

**City of Madison
Tax Incremental District No. 45**

Financial Statements and
Supplementary Information

December 31, 2023

City of Madison Tax Incremental District No. 45

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Independent Auditors' Report

To the Common Council of
City of Madison

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying Balance Sheet, Historical Summary of Project Costs, Project Revenues and Net Cost to be 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, 2023 and from the date of creation through December 31, 2023, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District and the net project costs to be recovered through tax increments as of December 31, 2023 and the sources, uses and status of funds from the date of creation through December 31, 2023, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2023, 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

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. 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 2, 2024 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 2, 2024

City of Madison Tax Incremental District No. 45

Balance Sheet
December 31, 2023

	Capital Projects Fund
Assets	
Taxes receivable	\$ 2,331,385
Prepaid items	61
Other receivable	<u>1,162,401</u>
Total assets	<u>\$ 3,493,847</u>
Liabilities, Deferred Inflows of Resources and Fund Balance	
Liabilities	
Accrued liabilities	\$ 693
Advance from City capital project fund	<u>2,700,161</u>
Total liabilities	<u>2,700,854</u>
Deferred Inflows of Resources	
Unearned revenue	2,331,385
Unavailable revenue	<u>1,162,401</u>
Total deferred inflows of resources	<u>3,493,786</u>
Fund Balance (Deficit)	
Unassigned (deficit)	<u>(2,700,793)</u>
Total liabilities, deferred inflows of resources and fund balance (deficit)	<u>\$ 3,493,847</u>

See notes to financial statements

City of Madison Tax Incremental District No. 45

Historical Summary of Project Costs, Project Revenues and Net Cost to be Recovered Through
Tax Increments
From the Date of Creation Through December 31, 2023

Project Costs

Capital expenditures	\$ 4,450,873
Administration	133,384
Professional services	33,109
Developer payments	15,367,000
Debt issuance costs	95,262
Interest on long-term debt	<u>2,165,163</u>
Total project costs	<u>22,244,791</u>

Project Revenues

Tax increments	10,404,277
Exempt computer aid	315,741
Personal property aid	34,545
Developer guarantee payments	2,961,423
Miscellaneous	78,582
Investment income	18,417
Premium on debt	<u>171,334</u>
Total project revenues	<u>13,984,319</u>

Net cost to be recovered through tax increments, December 31, 2023	<u>\$ 8,260,472</u>
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Reconciliation of Recoverable Costs

G.O. debt	\$ 5,559,679
Add fund balance deficit	<u>2,700,793</u>

Net cost to be recovered through tax increments, December 31, 2023	<u>\$ 8,260,472</u>
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City of Madison Tax Incremental District No. 45

Historical Summary of Sources, Uses and Status of Funds
From the Date of Creation Through December 31, 2023

Sources of Funds

Tax increments	\$ 10,404,277
Exempt computer aid	315,741
Personal property aid	34,545
Developer guarantee payments	2,961,423
Miscellaneous	78,582
Investment income	18,417
Premium on debt	171,334
Long-term debt issued	<u>19,587,966</u>

Total sources of funds 33,572,285

Uses of Funds

Capital expenditures	4,450,873
Administration	133,384
Professional services	33,109
Developer payments	15,367,000
Debt issuance costs	95,262
Principal on long-term debt	14,028,287
Interest on long-term debt	<u>2,165,163</u>

Total uses of funds 36,273,078

Fund balance (deficit), December 31, 2023 \$ (2,700,793)

City of Madison Tax Incremental District No. 45

Notes to Financial Statements
December 31, 2023

1. Summary of Significant Accounting Policies

The accounting policies of the City of Madison's Tax Incremental District No. 45 (the District) conform to accounting principles as applicable to governmental units and as defined by Wisconsin Statutes Section 66.1105.

The City of Madison (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 fund and the City'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'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.

Original Project Plan

	<u>Creation Date</u>	<u>Last Date to Incur Project Costs</u>	<u>Last Year to Collect Increment</u>
Tax Incremental District No. 45	January 1, 2015	June 16, 2037	2043

Plan Amendment

	<u>Adoption Date</u>	<u>Last Date to Incur Project Costs</u>
Amendment 1	July 12, 2022	June 16, 2037

City of Madison Tax Incremental District No. 45

Notes to Financial Statements
December 31, 2023

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. 45

Notes to Financial Statements
December 31, 2023

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 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 12-31-23
G.O. Promissory Notes	10-01-15	10-01-25	1.75-2.75 %	\$ 13,345,000	\$ 10,680,000	\$ 2,665,000
G.O. Promissory Notes	10-19-16	10-01-26	0.05-4.00	1,251,250	875,933	375,317
G.O. Promissory Notes	10-19-16	10-01-26	2.00	2,074,716	1,455,354	619,362
G.O. Promissory Bonds	10-19-17	10-01-27	2.00-4.00	1,695,000	1,017,000	678,000
G.O. Promissory Notes	10-26-23	10-01-33	5.00	1,222,000	-	1,222,000
Total				<u>\$ 19,587,966</u>	<u>\$ 14,028,287</u>	<u>\$ 5,559,679</u>

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

Calendar Year	Principal	Interest	Total
2024	\$ 1,958,353	\$ 167,244	\$ 2,125,597
2025	1,953,353	115,417	2,068,770
2026	623,188	62,707	685,895
2027	291,684	46,409	338,093
2028	122,184	36,655	158,839
2029	122,184	30,546	152,730
2030	122,184	24,437	146,621
2031	122,183	18,328	140,511
2032	122,183	12,218	134,401
2033	122,183	6,109	128,292
Total	<u>\$ 5,559,679</u>	<u>\$ 520,070</u>	<u>\$ 6,079,749</u>

City of Madison Tax Incremental District No. 45

Notes to Financial Statements
December 31, 2023

4. Advances From City Capital Project Fund

The City 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, 2023 is \$2,700,161.

5. Guaranteed Revenue

The City has entered into a development agreement with 25 West Main Parking, LLC. The agreement guarantees that 25 West Main Parking, 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 has been paid under this agreement the full amount of the project costs of not less than \$13,317,000. The City has entered into a similar agreement with 316 WWA, LLC (the Developer), in the amount of \$2,050,000. There was a shortfall of \$1,162,401 which was recorded as a receivable and unavailable revenue as of December 31, 2023. As of December 31, 2023, 25 West Main Parking, LLC has paid a revenue shortfall in the amount of \$2,618,802 and 316 WWA, LLC has paid a revenue shortfall in the amount of \$342,621.

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 TIF 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. It is anticipated that these loans will be forgiven and therefore an allowance of \$4,102,000 has been established for the entire amount of outstanding loans. Details of loans disbursed and forgiven are as follows:

<u>Developer Name</u>	<u>Loans Disbursed as of 2022</u>	<u>Loans Forgiven As of 2022</u>	<u>Loans Disbursed During 2023</u>	<u>Loans Forgiven During 2023</u>	<u>Balance Remaining as of 12-31-23</u>
25 West Main Parking, LLC	\$ 13,317,000	\$ 7,205,000	\$ -	\$ 2,010,000	\$ 4,102,000
316 WWA, LLC	2,050,000	1,600,000	-	450,000	-
Total	<u>\$ 15,367,000</u>	<u>\$ 8,805,000</u>	<u>\$ -</u>	<u>\$ 2,460,000</u>	<u>\$ 4,102,000</u>

SUPPLEMENTARY INFORMATION

City of Madison Tax Incremental District No. 45

Detailed Schedule of Sources, Uses and Status of Funds
 From the Date of Creation Through December 31, 2023

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total	Project Plan Estimate
Sources of Funds												
Tax increments	\$ -	\$ -	\$ -	\$ -	\$ 1,787,444	\$ 543,199	\$ 1,644,117	\$ 2,330,872	\$ 2,197,694	\$ 1,900,951	\$ 10,404,277	\$ 45,915,000
Exempt computer aid	-	-	-	43,786	44,430	45,505	45,505	45,505	45,505	45,505	315,741	-
Personal property aid	-	-	-	-	-	10,683	6,909	3,135	6,909	6,909	34,545	-
Developer guarantee payments	-	-	-	-	-	-	-	545,283	1,178,946	1,237,194	2,961,423	-
Miscellaneous	78,582	-	-	-	-	-	-	-	-	-	78,582	-
Investment income	-	14,968	3,449	-	-	-	-	-	-	-	18,417	-
Premium on debt	-	135,436	35,898	-	-	-	-	-	-	-	171,334	-
Long-term debt issued	-	13,345,000	3,325,966	1,695,000	-	-	-	-	-	1,222,000	19,587,966	36,000,000
Total sources of funds	78,582	13,495,404	3,365,313	1,738,786	1,831,874	599,387	1,696,531	2,924,795	3,429,054	4,412,559	33,572,285	81,915,000
Uses of Funds												
Capital expenditures	-	-	1,167,944	1,689,489	-	4,817	28,623	-	-	1,560,000	4,450,873	10,375,000
Administration	337	24,907	8,785	8,269	10,369	13,752	13,282	13,298	23,446	16,939	133,384	500,000
Professional services	-	15,829	1,600	1,894	1,625	1,130	2,000	2,000	4,950	2,081	33,109	-
Developer payments	-	13,317,000	2,050,000	-	-	-	-	-	-	-	15,367,000	25,125,000
Debt issuance costs	-	82,709	12,553	-	-	-	-	-	-	-	95,262	-
Principal on long-term debt	-	-	1,335,000	1,668,041	1,837,541	1,837,541	1,837,541	1,837,541	1,837,541	1,837,541	14,028,287	36,000,000
Interest on long-term debt	-	-	270,781	331,903	354,662	321,390	283,883	242,491	202,349	157,704	2,165,163	9,915,000
Total uses of funds	337	13,440,445	4,846,663	3,699,596	2,204,197	2,178,630	2,165,329	2,095,330	2,068,286	3,574,265	36,273,078	81,915,000
Fund balance (deficit), December 31, 2023											\$ (2,700,793)	

City of Madison Tax Incremental District No. 45

Detailed Schedule of Capital, Administration and Professional
Services Expenditures and Developer Payments
From the Date of Creation Through December 31, 2023

	<u>Actual</u>	<u>Project Plan Estimate</u>
Capital, administration and professional services expenditures and developer payments:		
Capital Square Reconstruction	\$ 2,977,365	\$ 3,375,000
Development loans	15,367,000	25,125,000
Wilson St Undergrounding	1,473,508	1,222,000
Hamilton / Broom Stormwater	-	5,778,000
Administration and professional services	<u>166,493</u>	<u>500,000</u>
 Total	 <u>\$ 19,984,366</u>	 <u>\$ 36,000,000</u>

Independent Auditors' Report on Other Legal and Regulatory Requirements

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 to be 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. 45 (the District) as of December 31, 2023 and from the date the District was created through December 31, 2023 and have issued our report thereon dated July 2, 2024. 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.

Baker Tilly US, LLP

Madison, Wisconsin
July 2, 2024