

## *1.1 What is TIF?*

### **Basic Function of TIF**

Tax Incremental Finance, or TIF, is a financing tool that allows municipalities to invest in infrastructure and other improvements, and pay for these investments by capturing property tax revenue from the newly developed property. An area is identified (the tax incremental district, or TID) as appropriate for a certain type of development, and projects are identified to encourage and facilitate the desired development. Then as property values rise, the property tax paid on that private development is used by the municipality to pay for the projects. The tax paid to the schools, county and technical college district (the overlying taxing jurisdictions) is also sent to the municipality to pay for the improvements. After the costs of the projects are paid off, the TID is closed and the value of all the new development gets shared by the municipality, schools, county and technical college as it does for other property.

The way TIF is used varies from project to project, and from place to place. In some cases, the municipal governing body will choose an area they would like to see developed, or that is unlikely to develop without assistance. They then design improvements, such as roads, sidewalks, sewer systems, etc., that will attract growth. In other cases, a developer or company will identify a site where they might like to locate, and as part of negotiations with the municipal body, TIF will be used to fund some improvements, such as demolition, soil clean up, roads, water, etc., that the developer would like. Either way, an area that faces development challenges gets help to grow, providing a larger tax base for the municipality and the overlying taxing jurisdictions. In Wisconsin, when the tax base grows and spending is stable, tax rates and tax bills are expected to go down, decreasing the property tax burden for everyone.

**Please Note:** One of the key foundations for the use of TIF is the "but for" test. As part of all creation resolutions, a municipality must find that the desired development would not happen but for the use of TIF; they have to believe that without TIF the development would never happen on its own. This is very important to making sure that TIF assists development projects that need help, but that it isn't a give-away of tax dollars to private developers or property owners.

### **Background of TIF Law**

Wisconsin adopted TIF legislation in 1975 in response to the challenges of eliminating blighted areas in depressed urban areas. At this time interest rates were high, making government borrowing relatively expensive, and that made investment in infrastructure and redevelopment unattractive. Also, the cost of redeveloping blighted areas is high compared to development in open areas. This is due to demolition, alteration, remodeling or repairing existing buildings, removing environmental contamination from soil or groundwater, or site assembly, to name a few. Furthermore, if a municipality wanted to invest to expand their local tax base, the cost of doing so would be paid by them alone, while the overlying taxing jurisdictions would reap the benefits of the growth. The Legislature saw this situation is inequitable, and saw TIF as a way to remedy the problem because of the cooperation it requires among local units of government.

Since it was first adopted in 1975, several major changes have been made. These changes have tended to expand the ways that TIF can be used, and have increased the involvement of the overlying taxing jurisdictions and local residents. The most recent changes, in 2004 and 2005, have had a very significant impact on how TIF can help municipalities grow. A new type of TID was added – the mixed-use district – and the life of a TID was extended so more tax increments could be captured. More extensive reporting requirements and audits for TIDs are also required. The Department of Revenue has been given powers to enforce some of the limitations on TIF use, such as the 12% equalized value limit. New TIF powers were also given to Town governments that allow them to use a special Town TIF, for specific project types, and City/Village TIF when a boundary agreement has been signed with the neighboring city or village. As new and more flexible features are added, the usefulness of TIF will continue to grow.

### **Recent Trends in TIF Use**

As the TIF Law has been getting more flexible, the use of TIF has been accelerating. In recent years, more TIDs are being created in more places, and the TIDs that exist are more frequently being amended to add territory and more projects. The number of creations and amendments has been fairly erratic, due to anticipating changes in the law, macro-business cycle forces, and other local financial considerations. However, steadily growing shares of Wisconsin's tax base and local tax revenues have been tied up in TIDs. Statewide; about 4% of tax revenues are tax increments that can only be used to pay for TIF project costs.

Section 1.3 provides a more in-depth, statistical look at these trends.