

# Planning Implementation Tools

## Tax Increment Financing



Center for Land Use Education

www.uwsp.edu/cnr/landcenter

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### TOOL DESCRIPTION

Tax increment financing (TIF) is a tool used to spur the development or redevelopment of an area. When a tax incremental district (TID) is created, all taxing jurisdictions—including the county, municipality, school district, technical college, and special taxing districts—agree to limit the amount of taxes they receive from the district based on property values in place when the district was created. The municipality agrees to pay for public improvements in the district in hopes of spurring additional private investment. As property values rise, taxes resulting from the incremental rise in value are used to repay the municipality.

### COMMON USES

Since Wisconsin's TIF law was adopted in 1975, TIF use has expanded dramatically. Originally designed to redevelop blighted urban areas and to promote industrial development, TIF may now be used by cities and villages, and to a lesser extent, towns and counties for a variety of purposes. The tables below provide a list of eligible districts and costs by level of government.

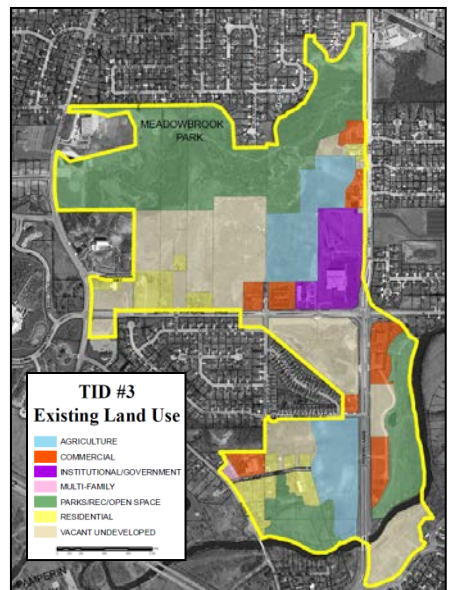
Table 1: TIF Use by Local Government

Level of government	Statute	District type
City or village	§66.1105	Blight, Rehabilitation/Conservation, Industrial, Mixed-use
Town	§66.1105	Any of the above as part of an annexation agreement
Town	§60.85	Agricultural, Forestry, Manufacturing, Tourism
City, village, town, county	§66.1106	Environmental Remediation

Table 2: TIF Project Costs

Eligible project costs	Ineligible project costs
<ul style="list-style-type: none"> <li>▪ Capital costs of buildings, public improvements and equipment to service the district</li> <li>▪ Planning, engineering, architecture, legal, and other professional services</li> <li>▪ Financing and property acquisition costs</li> <li>▪ Environmental investigation and remediation</li> <li>▪ Demolition, including removal of underground storage tanks, abandoned containers or asbestos</li> <li>▪ Redevelopment, including business relocation and other improvements</li> </ul>	<ul style="list-style-type: none"> <li>▪ Costs of constructing or expanding administrative buildings, police and fire buildings, libraries, community and recreational buildings, and schools</li> <li>▪ Costs generally financed by user fees</li> <li>▪ General government expenses unrelated to TIF</li> <li>▪ Cash grants made to owners, lessees or developers of land within a TIF district, unless a development agreement has been signed</li> </ul>
<p>∞ Eligible costs may vary by type of district. Please refer to the appropriate state statute for your project. ∞</p>	

Figure 1: TID #3 in the Village of Howard is being used to develop a new mixed-use village center.



## CREATION

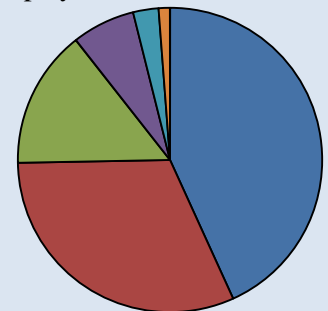
1. **Tax Incremental District.** The municipality identifies or a developer requests that an area be developed using TIF funds. Land must be contiguous, unlikely to develop “but for” the use of TIF, and qualify as one of the district types identified in Table 1.
2. **Project Plan and District Boundaries.** The plan commission prepares a project plan identifying district boundaries, public improvements, estimated project costs, financing and other details.
3. **Public Hearing and Notice.** The plan commission holds separate or joint public hearings to review the project plan and district boundaries. Advance notice is provided to affected property owners, taxing jurisdictions, and the general public.
4. **Local Government Approval.** Following public review and a recommendation from the plan commission, the governing body may approve, deny or modify the project plan and district boundaries. The governing body adopts a resolution creating the district.
5. **Joint Review Board Approval.** A joint review board, consisting of one representative from the county, municipality, school district, technical college and general public approves or denies the district.
6. **Determination of Base Value.** Once approved, the municipal clerk forwards an application to the Department of Revenue to determine the current or ‘base value’ of property located in the district. Until the district closes, property taxes allocated to each taxing jurisdiction are based on this value—all remaining taxes repay the municipality.

## ADMINISTRATION

1. **Project Costs.** The municipality finances public improvements and other eligible costs shown in Table 2 through its general fund, a special TIF fund, or through the sale of notes or bonds. Some municipalities are also working with developers to provide financing.
2. **Private Investment.** As the municipality and private investors make improvements in the district (i.e. upgrading roads, adding sewer service, rehabilitating old buildings, etc.), the district’s property values increase. In some cases, staff may need to solicit or negotiate with developers to provide specific public improvements or favorable financing terms to make private investment more feasible.
3. **Allocation of Tax Increment.** Taxes on increased property values above the base value—known as the ‘tax increment’—are captured by the municipality to pay off its initial investment in the district.
4. **Annual Report.** Municipal officials are required to report annually on the status of the district to the general public, local taxing jurisdictions, and the Department of Revenue. Periodic accounting audits are also required.
5. **Amendment or Extension.** Following the same process used to create a district, a municipality may amend the project plan, add or remove property from the district, or reallocate excess TIF funds to another district. The life of some districts may be extended.
6. **District Closure.** After all project costs have been recovered, or the maximum life of the district is reached, whichever occurs first, the governing body adopts a resolution dissolving the district. District life is specified in state statutes and ranges from 16-27 years depending on the district type and date of creation. Upon closure, unpaid project costs become the responsibility of the municipality.

## TIF by the numbers...

- In 2008, 389 Wisconsin municipalities (178 cities, 207 villages, and 4 towns) had 1,006 TIF districts, collecting \$334.4 million in property taxes.
- The state’s ten largest cities each had at least 5 districts.
- 104 municipalities (27%) had districts totaling at least 12% of municipal value, the current statutory limit for TIF spending.
- Twelve (3%) had districts totaling more than 30%.
- At 3.5% of gross property taxes, TIF levies are approaching the municipal portion of property taxes for towns and villages.
- Among 81 recently closed districts, 75% of TIF expenditures went to capital improvements and borrowing. Other expenditures are displayed below.



Capital Expenditures	43.2%
Borrowing Costs	31.5%
Subsidies to Other TIDs	14.7%
Miscellaneous	6.7%
Grants to Developers	2.7%
Administrative Costs	1.2%

- The average life of closed districts is 16.5 years.
- Since the state’s TIF law was adopted in 1975, Wisconsin property owners have paid a total of \$3.7 billion in property taxes towards TIF projects.

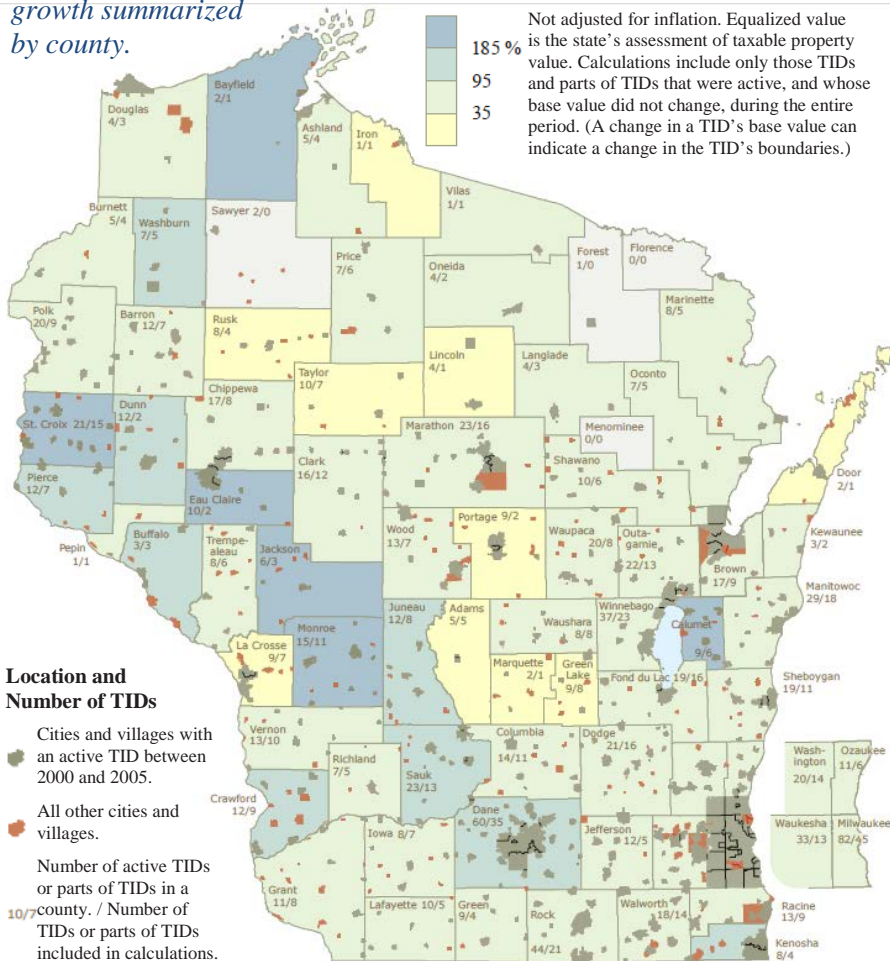
*Excerpted from The Wisconsin Taxpayer, May 2009, Vol 77, No 5*

# Report Card

Cost	Money or staff resources required to implement the tool.
Upfront costs, long-term gains	A TIF bond is riskier than a general obligation bond, resulting in higher interest rates and more total interest paid. There are also higher issuance costs including feasibility studies, outside financial audits, and extra legal fees. The return on investment is not immediate, and there is no guarantee that a municipality will recoup its entire investment. Between 2007 and 2008, 24% of Wisconsin TIF districts lost property value. Conservative fiscal estimates and an understanding of long-term market trends can protect against these situations.
Public Acceptance	The public's positive or negative perception of the tool.
Mixed support	The public hearing required by the TIF law is often the only opportunity for the public to voice their support or concern over a proposed district. While many members of the public are willing to support the greater goal of improving a designated area, others are leery of forgone taxes, the inability to recoup the municipality's investment, and concerns over "greenfield" development, "big box" development, displaced businesses, and other negative externalities.
Political Acceptance	Local officials' willingness to implement the tool.
Widely used	In 2008, nearly 400 Wisconsin municipalities administered TIF districts. Given budget constraints and public concern over new taxes, TIF is one tool that local officials can use to find revenue sources without significantly raising taxes. Though TIF is widely used, there are political risks. If a TIF project does not perform as expected, local officials may be blamed. Taxing jurisdictions that do not see immediate benefit such as schools may be hesitant to support TIF.
Equity	Fairness to stakeholders regarding who incurs costs and consequences.
Shared benefits and risks	TIF allows for sharing of costs among all beneficiaries of public improvements. In the absence of TIF, municipalities and developers are responsible for financing public improvements. With TIF, the investment made by a municipality or developer is repaid, and the community-at-large benefits from an expanded tax base. However, there are also opportunity costs for all parties involved. There is no guarantee that the initial investment in the district will be repaid. Taxing jurisdictions forego increased taxes during the life of district. As property values rise, district property owners pay an increasing tax bill. The general public may also pay increasing taxes if additional services are provided.
Administration	Level of complexity to manage, maintain, enforce, and monitor the tool.
Highly technical	Many Wisconsin municipalities lack professional economic development and planning staff necessary to properly administer TIF. A great deal of work is required upfront to prepare the required planning documents and financial analyses. During the life of the district, regular accounting audits, assessment data and certification paperwork must be submitted to the Department of Revenue. If a municipality does not have adequate staff to perform these tasks, it may need to contract with a professional planning or accounting firm.
Scale	The geographic scale at which the tool is best implemented.
Local government	TIF has been used successfully by municipalities of all sizes. Cities and villages have greatest latitude in using TIF. County and town use is limited.

## WISCONSIN EXAMPLES

Figure 2: TIF use by Wisconsin municipalities and value growth summarized by county.



## Developing a TIF Policy

The City of Madison's TIF policy provides a model for how a community can set standards for TIF-funded development that goes above and beyond state requirements. The city encourages TIF districts that create living wage jobs, provide affordable housing, promote historic revitalization, encourage adaptive reuse, and promote infill development, among other goals. The policy document is available online at:

[www.cityofmadison.com/planning/tidmaps/tifpolicy.pdf](http://www.cityofmadison.com/planning/tidmaps/tifpolicy.pdf)

The City of Muskego has also adopted TIF guidelines which are available online at:

<http://www.ci.muskego.wi.us/planning/CurrentPlanning/Documents/tabid/907/Default.aspx>

## FOR MORE INFORMATION

Wisconsin Department of Revenue. Tax Incremental Financing Information. [www.dor.state.wi.us/slf/tif.html](http://www.dor.state.wi.us/slf/tif.html) Contains links to state statutes, an updated TIF Manual, and related reports and forms.

Moskal, Joe. 2005. Tax Incremental Finance Law of Wisconsin for Cities and Villages. Center for Community and Economic Development. [www.uwex.edu/ces/CCED/economies/Tif\\_forWeb.pdf](http://www.uwex.edu/ces/CCED/economies/Tif_forWeb.pdf)

Mayrl, Matthew. 2006. Efficient and Strategic TIF Use: A Guide for Wisconsin Municipalities. Center on Wisconsin Strategy. [www.cows.org/pdf/rp\\_tif.pdf](http://www.cows.org/pdf/rp_tif.pdf)

## ACKNOWLEDGEMENTS

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Figure 1 map from the Village of Howard [www.villageofhoward.com/gis-maps.cfm](http://www.villageofhoward.com/gis-maps.cfm). Figure 2 modified from the Wisconsin Legislative Reference Bureau [www.legis.state.wi.us/LRB/pubs/waag/WAAG-06-2.pdf](http://www.legis.state.wi.us/LRB/pubs/waag/WAAG-06-2.pdf).