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TIF 101

The Wisconsin Legislature created the Tax Incremental Finance Law (TIF) as a financial tool that municipalities can use to promote tax base expansion, economic development, job growth, tourism and urban renewal.

TIF allows the costs associated with the development, expansion or other improvements in a "district" to be paid for with the increased revenue from property taxes generated by increased values in the district. All entities that would normally collect property taxes from the district participate and do not receive the additional tax revenues while the district is in effect. This includes local schools, the county, the regional technical college, the state, and of course the municipality. All of these entities must participate in the creation of the TID (Tax Incremental District) from the onset.

When a TID is created, the municipality and other taxing entities agree to support their normal operations from the existing tax base within the district. The group must determine that, "but for" the creation of the TID and public investment in the project the new development or improvements would not occur.

Property tax rates for the school, county, technical college, and municipality are based on the taxable value of the TID at the time it is created and are continued to be collected and distributed as if no growth or new tax revenue occurred during the life of the TID. The new tax revenue or "increment" is then spent on the district or banked.

Eligible TID costs (the investment in the district) are paid from revenues generated through increased value and thus additional property tax revenue. So, in theory, the expenditures are not passed on to the community at large. TIF is not a tax freeze nor a tax increase, but a special allocation method for taxes collected on property value increases within the district.

The statutes regulate: How much of a community's value can be in TID's, the life of a TID, auditing and reporting requirements for TID's, the process for creating a TID, and what investments qualify as TID eligible.

If a TID's projected revenues are lower than projected and expenditures can not be met, a deficit occurs. If this deficit continues so that the TIF district cannot meet its obligations within its maximum life or it is clear the TID will fail the community can dissolve the district at which time the municipality shall become liable for all unpaid costs.

Of course if a TID is successful it can also be dissolved any loans are paid off, and the surplus funds are distributed back to the participating entities. Newer legislation also allows the surplus capitol in one TID to be transferred or "loaned" to another district in the same community.

Legislation on TIF has changed over the years and current statutes should be reviewed before assuming anything. At the time of this writing (July 2011) the life of a TIF can be 27 years and investments can be made for the first 22 years. Please see the following web sites for more details:

<http://www.revenue.wi.gov/pubs/slf/tif/cvmanual.html> - City/Village Tax Incremental Finance (TIF) Manual

<http://www.revenue.wi.gov/slf/tif.html> - Tax Incremental Financing (TIF) Information

<http://www.revenue.wi.gov/pubs/slf/tif/pe-207.pdf> - A GUIDE TO WISCONSIN'S TAX INCREMENT LAW



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Ken's Notes: These are observations and are not a part of the laws or code governing TIF.

1. Keep your initial TIF plans general in nature so that a multitude of new projects and investments may be considered without making major adjustments and/or reconvening a Joint Review Board. Use term like utilities installation, road improvements and storm water systems instead of listing specific projects or details that may change as the project matures or new projects are considered. Make sure your JRB is kept in the loop on all major decisions even if they are not required to amend the plan.
2. It is often a good idea to use a "Developers Agreement" or a legally binding document to guarantee the value of a new project regardless of its future assessed values. Start and completion dates can also be included in this agreement. This prevents a lower assessment or failure to complete a project from causing the TID to fail. The property owner agrees to pay taxes based on a minimum valuation. If the final value is greater the owner pays the full value.
3. If you can identify an anchor project that will generate a significant increment, it can often be a good idea to create a larger TID that includes other blighted or vacant properties that would benefit from infrastructure or other qualified investments. The city can use the known revenue to attract new development.
4. A community can close and recreate districts to remain under the "caps" established by the State statutes. This also can be used to provide surplus revenues to the other tax entities. Boundaries can also be revised or expanded during the life of the TID to accomplish some of the same objectives. Part of a successful project can be removed from the district for example.
5. The amount of total value of a community that can be placed in a TID is limited, so drawing large boundaries can cause a TID to be rejected, that said you can get very creative with how the boundaries are drawn and what properties are included and excluded.
6. If an investment is not TID eligible, look for an expense that is and reassign the dollars accordingly. I can't pay for your new sign, but I can help you with your parking lot.
7. Look for projects outside the actual district that still may benefit from TID participation. If the project benefits the district, like a new water tower or road, the TID can participate.
8. Pay as you go TIF. Rather than the community making large investments up front, consider creating the district and then guaranteeing investment based projects as they are approved. For example you could offer a new office project in a district help with storm-water, streets, lighting, sewer, parking and other amenities based on the projected future value of the building.
9. Ask the developer to make the actual investment and then agree repay the expenses from the increment back to the developer over time. You can even help by offering city secured Industrial Revenue Bonds to the project.
10. Never use the full life expectancy of the TIF to calculate the amount of investment in it. I like to use 10 years as a starting point and then only if I have a commitment as to the future value. **Developers often know the rules better than the city councils (and even staff) and will ask for maximum contributions which may not be a good thing.**
11. I believe in TIF and have found it to be a great tool for development, that said, maybe the best advice I can give:

From Guys and Dolls

One of these days in your travels, a guy is going to show you a brand-new deck of cards on which the seal is not yet broken. Then this guy is going to offer to bet you that he can make the jack of spades jump out of this brand-new deck of cards and squirt cider in your ear. But, son, do not accept this bet, because as sure as you stand there, you're going to wind up with an ear full of cider.