

### *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.