An Intergovernmental/Private Partnership –Tax Incremental Finance (TIF)

What is Tax Incremental Finance?

The Wisconsin Legislature created TIF Law as a financial program a municipality can use to promote tax base expansion. The municipality identifies an area as the tax incremental district (TID) for future projects and development. Besides expanding a municipality's tax base, other benefits include: increased employment, improved business climate and elimination of unsafe or unsightly areas.

Before TIF, if a community installed public improvements promoting private development, only its property owners paid for these costs, even though all taxing entities that shared the tax base benefitted. The legislature recognized this was an inequitable situation that could discourage development and redevelopment efforts.

With TIF, all those benefitting directly or indirectly help pay development costs. All taxing entities become partners to promote expansion of their tax base.

Tax Increment District (TID) types:

- Eliminating blight
- Rehabilitation and conservation
- Promoting industrial development
- Mixed-use
- Environmental remediation
- Specific projects that promote agricultural, forestry, manufacturing and tourism in towns (classified in the North American Industry Classification System, 1997 edition)

Eligible Municipality	Wis. Statute/Created After	TID Type
City or Village	66.1105/1975	Blight, Rehabilitation or Conservation, Industrial
City or Village	66.1105/2004	Mixed-use
Town	66.1105/2005	Any of the above as part of an annexation/cooperation agreement
City, Town, Village or County	66.1106/1997	Environmental Remediation
Town	60.85/2004	Agricultural, Forestry, Manufacturing, or Tourism
Town	60.23/2014	Same as created under 66.1105

Note: *"Municipality" is a general term for city, village, or town.*

How does TIF work?

When a TID is created by the municipality, the municipality and other taxing entities agree to support their normal operations from the existing tax base within the TID. A finding must be made by the Joint Review Board (JRB) that no development would happen without this financing program. If this is true, tax rates will be the same with or without the TID. 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. The municipality then applies these rates to the TID value increment which results in additional revenues collected for the district's fund. Eligible TID costs are paid from these revenues before the added tax base is shared.

In theory, the tax increment added to each levy does not increase taxes for property owners in the various taxing entities. It comes from taxes paid by owners of property, within the TID, whose property values increased since the creation of the district. This is possible because levies are apportioned **without** the TID value increases.

TIF is not a tax freeze or a tax increase, but a special allocation method municipalities use to collect taxes on property value increases within the district.

What happens if TIF revenues fall short?

If a TID falls short of its goal, it results in a direct financial impact on the municipality. When projected revenues are lower than expected and expenditures are not met, a deficit occurs. If this deficit continues and the TIF district cannot meet its obligations within its maximum life, the municipality has two options.

The municipality can:

- **Continue with the TID –** hoping potential development will change the projected deficit into a positive cash flow
- **Dissolve the district –** municipality is then liable for all unpaid costs

This information is detailed under state law (sec. 66.1105(7)(b), 60.85(6)5.b. and 66.1106(11)(c), Wis. Stats.).

Any municipality creating a TID must be willing to accept the possibility that it may not produce the desired results. When this happens, the taxpayers in that municipality are responsible for assuming any unpaid project costs. For this reason, it is important to plan the district in a realistic way. Municipal officials and overlying taxing jurisdiction officials should look at all available financing options and be familiar with the tax incremental law and its ramifications.

How are other taxing entities affected?

Each tax district involved participates in the TIF partnership. They share a common hope that TIF expenditures will promote property tax base growth that **would not** otherwise have occurred. However, each tax district is affected to a different degree, depending on the value of TIDs within its boundaries compared to its total value. Joint Review Board (JRB) members should analyze how TIF affects each of them.

- **Municipal representative – if the TID is:**
  - **Effective and property values grow –** overlying tax districts do not receive the increase in property tax revenues until the municipality recovers its investment in the district or terminates the TID
  - **Not effective and the TID does not grow as planned –** municipal taxpayers will ultimately pay some of the costs

- **School District Representative –** school district(s) will not have the benefit, for local tax purposes, of any expanded property tax base in the TID until it is terminated. This can be justified if it is concluded by the JRB that the growth in property tax base **would not** have occurred during that period without the TID.

- **Technical College Representative –** technical college districts, like school districts, do not receive the benefits of any increased property tax base until the TID is terminated

- **County Representative –** counties, like schools and technical colleges, do not receive any property tax base increase until the TID is terminated

How are tax increments determined?

- **Base Value – w**hen a municipality creates a TID, it must apply with the Wisconsin Department of Revenue (DOR) for determination of property values within the district. This value is the Base Value.
- **Current Value –** as long as the TID exists, DOR determines its equalized value as of January 1 each year. This value is the Current Value.
- **Value Increment –** difference between the base value and the current value is the Value Increment. Annually, DOR establishes the value increment which is used to determine the amount of tax increment revenue that can be collected by the municipality for that particular year.

Each taxing entity apportions its tax levy to the municipalities within its boundaries based on each ones share of its total equalized value. Only the base value of TID's is included in the apportionment process.

Some observers of the TIF law argue that since the TID's base value may grow each year due to inflation, taxes on the “ordinary growth” in the base value should increase the base in the respective taxing jurisdictions rather than the TID’s tax increment. However, the TIF law provides that all value increases become part of the increment.

Tax incremental calculation example

This example shows how the county levy is apportioned and how the tax increment to be added is calculated. **The same process is used** to determine the tax increment added to each of the other levies, including that of the municipality that created the TID.

Assumptions:

1. The entire county is composed of four municipalities. "A" has a TIF district.
2. The 2014 equalized values of property in the four municipalities are:
   ***(includes $30,000,000 incremental value)**
3. Municipality A has a tax incremental district (TID #1) with values of:
   2000 Base Value........................$20,000,000
   2014 Current Value.................... 50,000,000
   Value Increment......................... 30,000,000
4. The county needs $1,500,000 from property taxes for its budget.

TID/IN	
A	$400,000,000*
B	70,000,000
C	20,000,000
D	10,000,000
Total	**$500,000,000***

Note: *Values of the taxing entity and any municipality with one or more TIDs, are reduced by the value increment in any of the TIF districts.*

Chart A Formula to determine each municipality's percent of the county's value:
Value of Municipality ÷ Value of County = % of the County's Value

Municipality	TID/OUT Municipality Value		TID/OUT County Value		Percentage County Value
A	$ 370,000,000	÷	$ 470,000,000	=	.787234
B	70,000,000	÷	470,000,000	=	.148936
C	20,000,000	÷	470,000,000	=	.042553
D	10,000,000	÷	470,000,000	=	.021277
Totals	**$ 470,000,000**		n/a		**1.000000**

Chart B Formula to determine the county tax apportioned to each municipality:
Percentage County Value x County Levy = Apportioned Tax

Municipality	Percentage County Value		County Levy		Apportioned Taxes
A	.787234	x	$ 1,500,000	=	$ 1,180,850
B	.148936	x	1,500,000	=	223,405
C	.042553	x	1,500,000	=	63,830
D	.021277	x	1,500,000	=	31,915
Totals	**1.000000**		n/a		**$ 1,500,000**

Chart C Formula to determine the county mill rate for each municipality: **County Apportioned Tax ÷ (Municipality Equalized Value – Increment) = County Mill Rate for Municipalities**

Municipality	Apportioned Municipality Taxes		Municipality TID/OUT Equalized Value		County Mill Rate For Municipality
A	$1,180,850	÷	$ 370,000,000	=	.0031915
B	223,405	÷	70,000,000	=	.0031915
C	63,830	÷	20,000,000	=	.0031915
D	31,915	÷	10,000,000	=	.0031915
Totals	**$1,500,000**		**$ 470,000,000**		n/a

Chart D	Formula to determine the county tax to be collected by each municipality (**TID/IN**): **Mill Rate x Total Equalized Value of All Municipal Property = County Tax Collected** (includes the incremental value of TID #1 in Municipality A)				
Municipality	**Mill Rate**		**Total Equalized Value Municipality (TID/IN)**		**County Taxes Collected**
A	.0031915	x	$ 400,000,000	=	$ 1,276,600
B	.0031915	x	70,000,000	=	223,405
C	.0031915	x	20,000,000	=	63,830
D	.0031915	x	10,000,000	=	31,915
Totals	n/a		**$ 500,000,000**		**$ 1,595,750**

Total county taxes collected	$ 1,595,750
Total county levy	1,500,000
Tax increment retained by Municipality A	**$ 95,750**

Example explanation

- County tax collected is apportioned to individual property owners in each municipality based on the assessed value of each parcel
- Amount of the tax apportioned by the county is $1,500,000. Chart B shows the amounts apportioned to each municipality
- Difference between the amount Municipality A collected (by the county) and the amount apportioned is $95,750. This is the **county portion** of “Tax Increment” kept by Municipality A and deposited into the TID #1 fund to be used for the district’s project costs.

Chart E	Effect on the county mill rate if the TIF district in Municipality A is terminated in 2014 and the county’s levy and each municipality's values remain the same	
County Levy	**County Equalized Value**	**Mill Rate**
$ 1,500,000	$ 500,000,000*	.0030000

Chart E explanation

- There is a difference in the tax rate of 19.15 cents per thousand dollars of equalized value **without** the TID in Municipality A, compared to the rate **with** the TID
- This would mean a $19.15 tax difference on a property with a $100,000 market value for the county portion of taxes

* Includes TID value increase in TID #1, Municipality A