



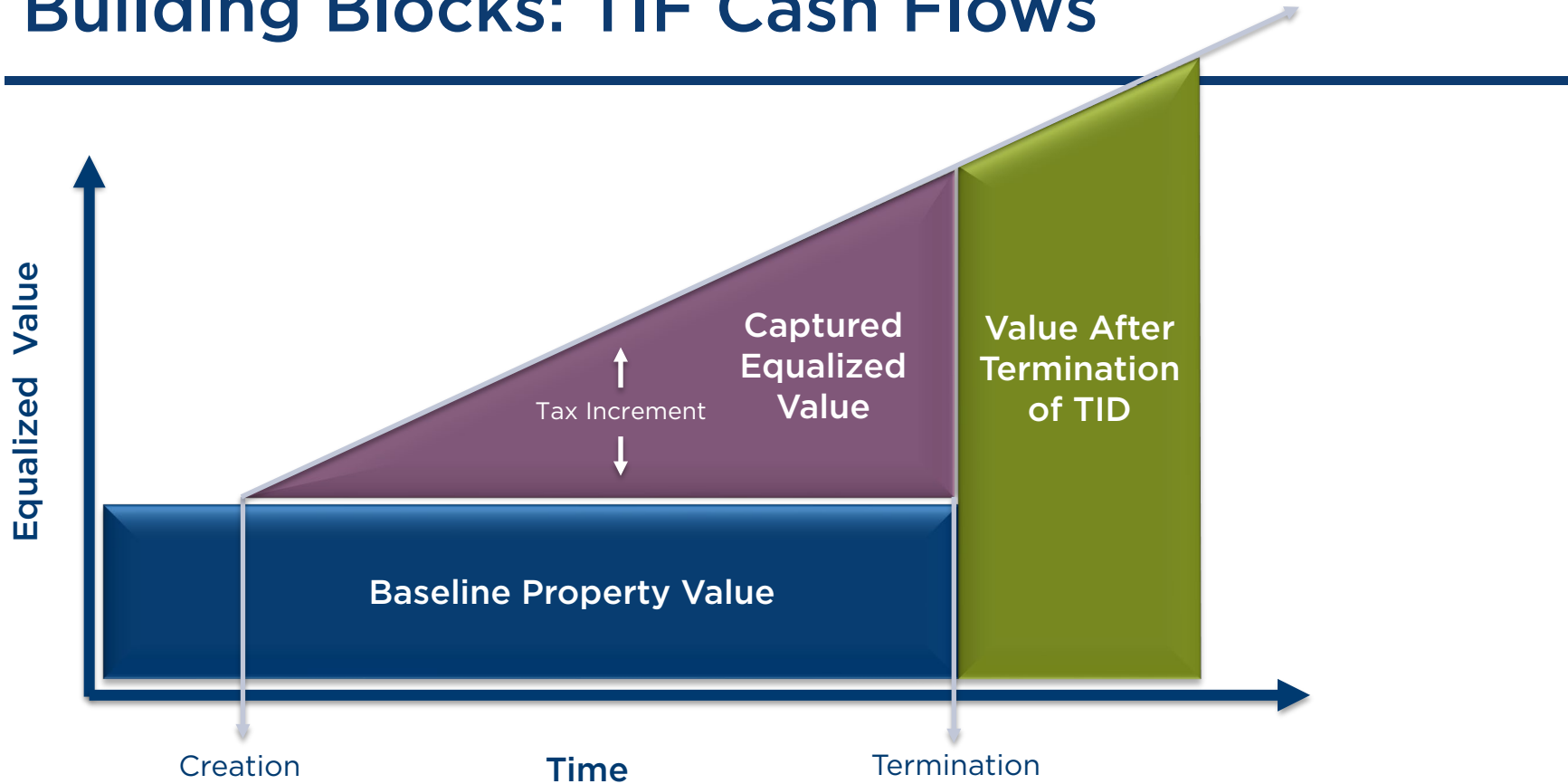
Myth Busters!

Tax Increment Financing Demystified

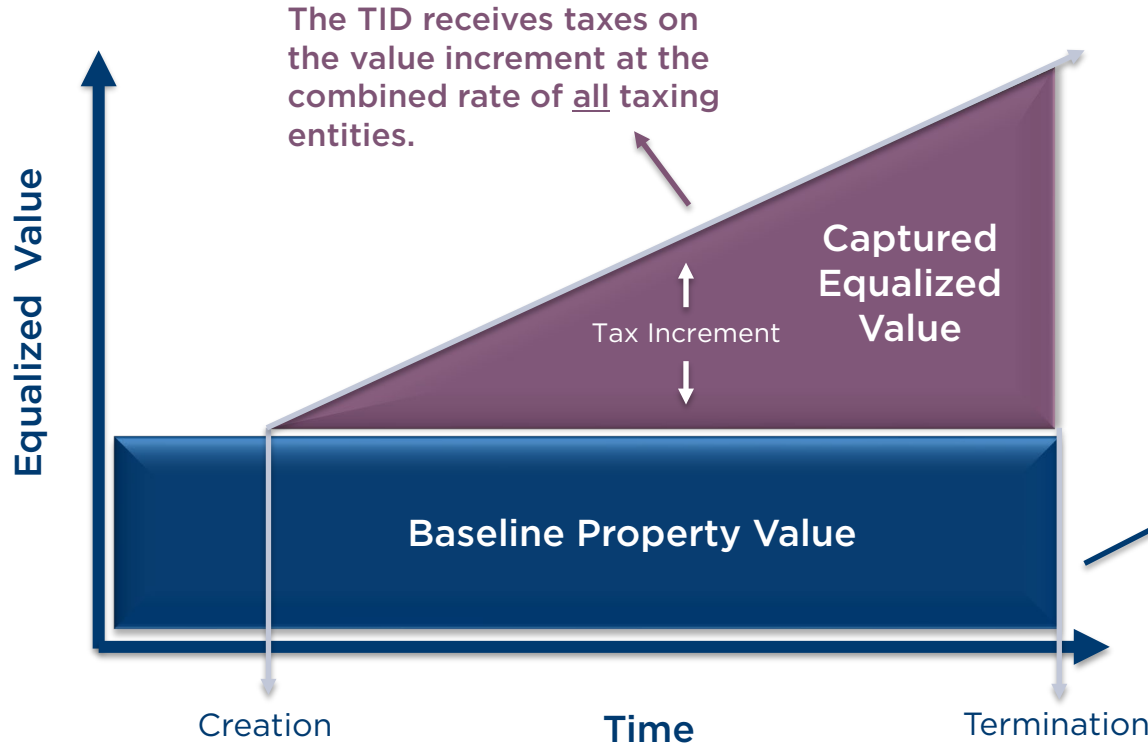
What is Tax Increment Financing?

- Key acronyms:
 - ✓ TIF = Tax Increment Financing (*the tool*)
 - ✓ TID = Tax Increment District (*where the tool is used - boundary*)
- Powerful economic development tool
- Allows municipalities to capture **incremental property tax revenue** from tax base ***growth*** in defined area & use it to **benefit** that area

Building Blocks: TIF Cash Flows



Building Blocks: TID & Tax Levies



Jurisdiction	Mill Rate
Local	\$6.50
County	\$4.00
School	\$7.50
VTAE	\$2.00
TOTAL	\$20.00

All taxing jurisdictions overlying TID boundary continue to receive their share of the tax levy on the base value of the TID.

The “But-For” Test

What is it? Why is it important?

What is proposed would not occur “but for” creation of TIF district & use of tax increment financing

TIF district is economically feasible: district projected to produce sufficient revenue to recover all costs

Economic benefits justify investment: housing, employment, needed infrastructure, other benefits in addition to increased tax base

The “But-For” Test, Continued...



Joint Review Board

- Includes member from each primary taxing entity along with a public member
- Makes “a positive assertion, in its judgement” that required statutory findings have been met



Important for municipalities to use TIF judiciously & ensure compliance with statute

- Some misperceptions we will discuss may be true where tax increment financing is abused or misapplied

Myth...

The but-for test requires municipalities to prove nothing would ever develop in the proposed TIF area.

Reality...

- Wis. Stat. 66.1105(4m)(c)1.a.: Whether ***the development expected*** in the tax incremental district would occur without the use of tax incremental financing
- The local jurisdiction & the JRB do not need to find that no development will occur absent TIF, only that ***the development expected*** will not occur (*i.e., what is specifically being proposed at the time of TID creation & amendment*)
- TIF can be used to incentivize development the community desires to see, even if a lesser quality development might occur on a site without TIF

Myth...

The but for test is a required statutory finding for every TIF-eligible project.

Reality...

- The but-for test is only applied at the time of TID creation & amendment
- Need not be applied to individual projects
- Is reasonable & appropriate to consider as a policy matter when reviewing requests for public assistance

Myth...

TIF is only intended for blighted areas.

Reality...

There are
five
permitted
TID types
under
state
statute

- Blighted area
- In need of rehabilitation or conservation
- Industrial development
- Mixed use
- Environmental remediation

The background of the slide is a dense, overlapping field of US one-dollar bills, viewed from a slightly elevated angle. The bills are scattered across the entire frame, creating a textured, monochromatic green and white background. The text is overlaid on this background.

Myth...

TIF is just a windfall for developers.

Reality...

Municipalities
may need to
invest in
public
infrastructure
to provide
services
required for
supporting
development

- If not paid from TIF, taxpayers/ratepayers bear the burden of this cost to make site ready for development

Reality...

The type of development municipalities encourage is often not economically feasible for a developer to pursue without public participation

- Purchase prices or rents the market can support not aligned with costs to construct & deliver desired product
- Land costs, site conditions, demolition, fill, structured parking, desired amenities & other costs of development can create a gap that can't be filled via private lending
- Developers & investors cannot be expected to proceed unless they receive a fair risk adjusted return on their investment

Reality...

Important
that
assistance be
provided only
to the level
needed to
generate a
fair return

- Review of project sources and uses, construction costs, projected rents, vacancy assumptions, terms of financing, developer fees, cash flow projections, etc.
- Municipality should seek external assistance where needed to undertake appropriate due diligence when considering public financial participation via TIF

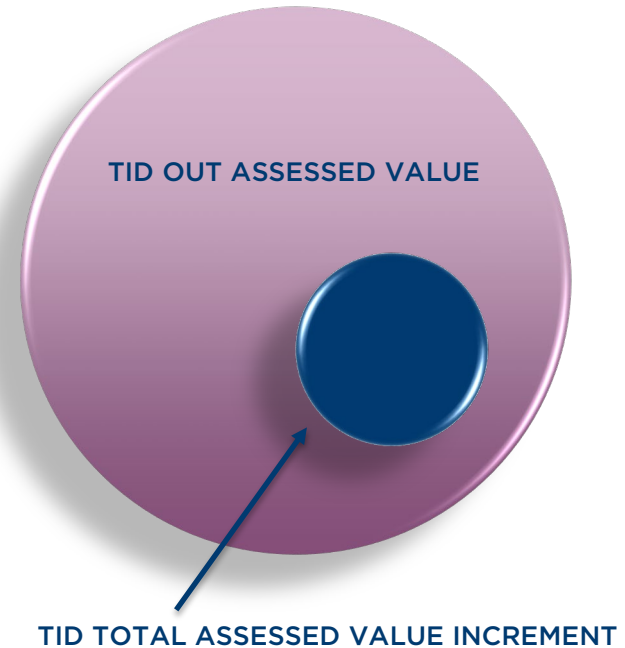
Development agreements can be structured to protect public investment.

Myth...

TIF increases property taxes.

Reality

- Municipality & all other taxing jurisdictions levy generally applicable property tax
- Total levy amount divided by total TID out assessed value generations a real property tax rate expressed in \$/\$1,000 of value (mill rate)
- Tax rate is applied to value captured in TIDs & total amount of tax increment is collected by the municipality
- Total tax increment apportioned to individual TIDs pro-rated by respective value increment



Reality

- All taxpayers pay the same rate regardless whether the property is in or out of a TID
- It's where the tax revenue goes & what it can be used for...



Supports GF Expenditures
Municipal Levy Only



TIF-Eligible Expenditures
All Jurisdiction's Levies

More Reality...

- It is **TRUE** that new construction within TIDs provides for a permanent increase in a municipality's unadjusted, allowable levy
 - ✓ Assuming a municipality is levying to its permitted maximum amount, it is true properties outside of TIDs bear cost of operating budget
 - ✓ Principal argument of the MacIver Institute in their 2019 piece "Analysis: Tax Incremental Financing in Wisconsin"
- If successful, TIDs subsequent closure can result in reduction of local tax rate, as larger levy amount is spread across a tax base that increases by a greater percentage

Real(ity)-Life Example

City of Verona, Wisconsin: TID No. 7 (Epic)

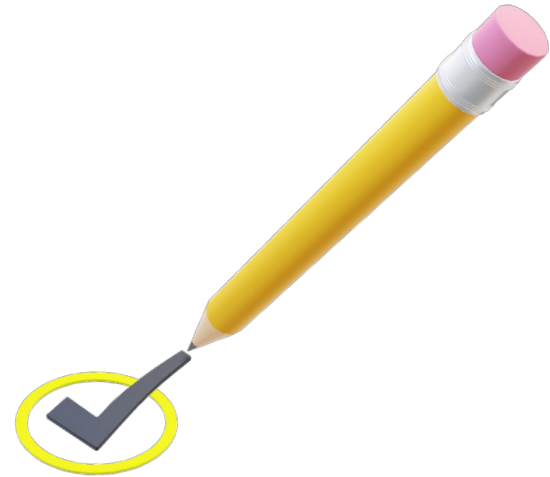
	2016 Budget (Actual)	2017 Budget (12.05% Increase)	Percentage Change
City Tax Levy	\$10,713,828	\$12,0047,844	12.05%
TID Out Equalized Value	\$1,630,844,600	\$2,023,979,500	24.11%
Equalized Tax Rate/\$1,000	\$6.57	\$5.93	-9.71%

Myth...

TIF diverts needed property tax revenue.

Reality...

- If development within TIF district would not have occurred, those tax revenues would not have been realized
- All taxing jurisdictions receive their full operating levy amount
 - ✓ if the property value within TIDs was available to spread the levy across, it would lower the tax rate as opposed to generating additional revenue



Myth...

TIF takes money away from schools.

Reality...

- TIF detractors often cite reduced revenues for schools as reason to oppose
- Based on school funding formulas, TIF is generally revenue neutral for most districts



More Reality...

School districts operate under revenue limits, with revenue coming from a combination of property taxes & state aid

- Whether or not there are TIDs within a school district does not impact total revenue, just the origin
- Where TIDs are present, Districts receive more in aid payments, less in property tax
- When a TID closes, state aid payments decrease & revenue from property taxes increases, leaving same amount of total revenue
- Schools can also benefit from distribution of excess increment upon termination of a TID

Final Thoughts

- Follow best practices when creating a TID can help debunk TIF myths
 - ✓ Use TIF judiciously to achieve community development goals
 - ✓ TIF is not an entitlement, even if need is demonstrated
- Ensure character of TID meets the statutory framework & be sure to document
- Substantiate reasons why expected development will not occur without TIF
 - ✓ Taking developer's word is not good enough!
 - ✓ Undertake due diligence to determine the appropriate form & amount of TIF assistance



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