

# Tax Incremental Financing

Basics of TIF Authority & Use

## Disclaimer

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- All TIF plans must be approved by the municipal attorney.
- This presentation is my interpretation of TIF law.
- Opinions among municipal attorneys may vary.

## What is TIF?

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- TIF is a mechanism for funding development and redevelopment projects.
- Allows all taxing jurisdictions benefiting from development to share in its cost.
- Cities and Villages may create a TIF if 50% or more of the proposed district area:
  - Is blighted;
  - Is in need of rehabilitation or conservation work;
  - Is suitable for industrial sites;
  - Is suitable for mixed-use development.

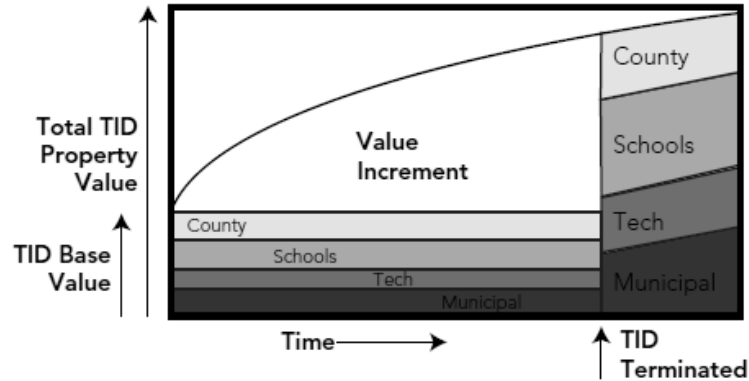
## How Does TIF Work?

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- Upon creation, the value of the TID is frozen for property tax distribution purposes.
  - County, School District, and Technical College continue to receive tax revenue off of the base value (the value when the TID is created)
- The full property tax collected from any new development is kept by the municipality.
  - Must be spent on projects specific to the district, in accordance with the TIF Project Plan.
- Once the TIF closes, all taxing entities start to realize the benefits of the new value.

## How Does TIF Work?

Value Growth and Tax Sharing in TIF



Source: Modified from Wisconsin Department of Revenue City/Village Tax Incremental Financing Manual, Chapter 1, Section 2, "How Does TIF Work".

## Can TIF Be Used for Housing?

- There are two ways that TIF can be used for housing projects:
  1. Mixed-Use TIF
  2. One Year Extension for Affordable Housing

## Mixed-Use Districts

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- Mixed-use developments may contain a combination of industrial, commercial, and residential uses.
- Newly-platted residential use may not exceed 35% of the area of the TID & must:
  - Have density of at least three units per acre, or
  - Be located in a conservation subdivision, or
  - Be located in a traditional neighborhood development

## Extension for Affordable Housing

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- In 2009, an amendment to TIF law allowed a municipality to extend the life of any district by one year for the purpose of improving housing stock.
  - At least 75% of these increments must be used for affordable housing (housing that costs the household no more than 30% of the household's gross monthly income).
  - The City must adopt a resolution specifying the number of months of extension and how it intends to use the funds to improve the housing stock.

## What Costs are TIF Eligible?

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- All project costs must directly relate to the purpose of the TIF.
  - Capital development costs
  - Environmental remediation
  - Financing
  - Property assembly
  - Professional services
  - Administrative costs
  - Cash grants to owners, lessees, or developers (with a signed developers agreement & notice)
  - Etc.

## How Can TIF Be Used for Neighborhood Revitalization?

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- Neighborhood Livability/Appeal:
  - Park improvements
  - Streetscaping
  - Alleyway paving
  - Community center development
- Developer/Owner Incentives:
  - Cash grants (w/development agreement)
  - Enhanced public infrastructure
- Staffing Issues:
  - Fund a TIF administrator position
  - Fund a TIF inspector position?
- Many Other Options

## How Are TIF Projects Funded?

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- Since incremental revenues are delayed, municipalities must decide how to fund the improvements that lead to the creation of increment:
  - **Bonding:** providing upfront funding for projects using municipal bonds.
  - **City-Lead Pay-As-You-Go:** harnessing new development and using that income to pay for future projects.
  - **Developer-Lead Pay-As-You-Go:** asking the developer to finance their own improvements, and agreeing to pay them all or a percentage of the tax increment received (through a development agreement).

## Questions?

There are also additional resources on the HTF website regarding TIF for those wanting more information:

Efficient & Strategic Use of TIF (COWS)  
Tax Incremental Financing (WI Legislative Fiscal Bureau)