

# TAX INCREMENT FINANCING

# TIF

A POWERFUL TOOL FOR REVITALIZING OUR COMMUNITY

## What is TIF?

Tax Increment Financing (TIF) is a strategic financial tool used by local governments to encourage new development in areas that need it most. TIF funds help municipalities make needed improvements, like new roads and sewers, or provide incentives to attract private development and new businesses. TIF also helps existing businesses, that might otherwise find more attractive options elsewhere, expand or improve their properties in the city. The assistance provided by TIF helps to overcome the extraordinary costs that often prevent development and private investment from occurring, including the remediation of environmentally contaminated properties, demolition of obsolete buildings, investing in new infrastructure, and assembling small properties into a single larger parcel for redevelopment.

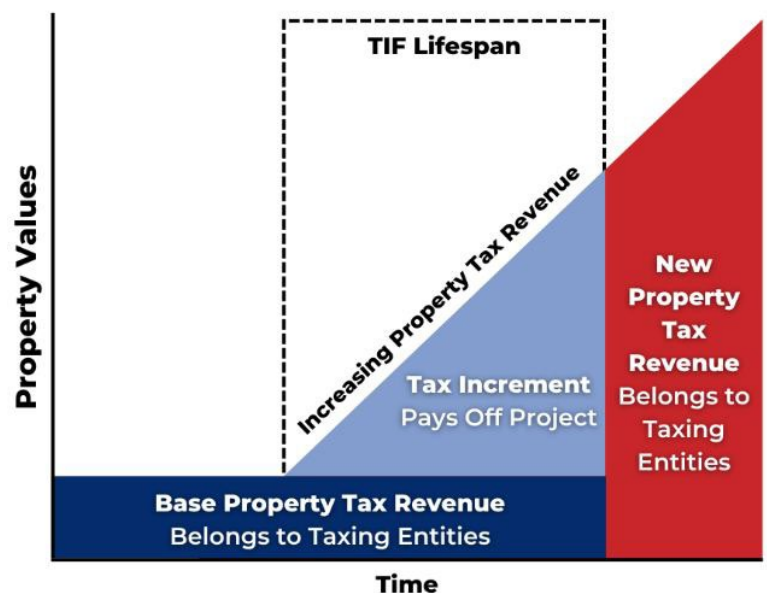
A TIF district (TID) is a defined area in which a portion of the growth in property tax revenue can be reinvested directly into a project in the area from which it was generated. Districts can be a single parcel or contain several parcels.

## What is a “Tax Increment”?

Normally, property is taxed by several different governmental jurisdictions: City of Waukesha, Waukesha School District, Waukesha County, and WCTC. The taxes levied are allocated to each district in accordance with its tax rate. Under TIF, the increase in property taxes that result from new development in the district are all allocated to the TIF fund related to the TID. These funds are used to pay for projects costs in the district.

Establishment of a TIF does not reduce property tax revenues available to the overlapping taxing bodies. These taxing bodies continue to collect the property taxes at the base value throughout the life of the TIF. Upon the expiration of the TIF, property taxes continue to be distributed to the school districts, county, community college, and all other affected taxing districts in the same manner as if the TIF did not exist.

The increased tax generation realized by the taxing entities at the close of a TID helps lessen the tax burden on all taxpayers as it helps distribute the costs across a larger tax base.



# TIF Myths

## *THE DEVELOPER DOES NOT NEED TIF ASSISTANCE TO COMPLETE THE PROJECT*

When considering a new development project, there is often considerable risk for the developer. As a reward for taking the risk, the developer must make a certain profit. Even if the developer expects a profit, it may not be large enough to compensate for the risk; therefore, the project may not be worthwhile.

TIF can alter the profit picture by offsetting some of the development costs by providing financial assistance. The type of development municipalities encourage is often not economically feasible for a developer to pursue without public participation. Assistance is only provided to the level needed to generate a fair return. Below are some reasons a project may not be financially feasible.

- a. Purchase prices or rents may not be aligned with costs to construct & deliver the desired development.
- b. 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.
- c. Developers and investors won't move forward unless the potential return makes sense for the amount of risk involved.

## *TIF IS ENRICHING WEALTHY DEVELOPERS USING TAXPAYER MONEY*

TIF is incentivizing the developer with their own money. The increase in real estate taxes paid by the developer, after the project is finished, is used to fund TIF expenses. No other taxpayer money is used to pay for the TIF expenses. Taxpayers of the municipality benefit from an increased tax base after the TID terminates.

## *TIF INCREASES PROPERTY TAXES*

All taxpayers pay the same rate regardless of whether the property is in a TID or not. Where the tax revenue goes and what it can be used for is what differs. The tax increment created in TID is used to pay for TID expenses. All other tax revenue is used to pay for city, county, school district, and technical college expenses. If successful, a TID's subsequent closure can result in reduction of the local tax rate, as a larger levy amount is spread across a tax base that increases by a greater percentage.

## *TIF DIVERTS NEEDED PROPERTY TAX REVENUE*

If development within a TIF district would not have occurred, those tax revenues would not have been realized. All taxing jurisdictions receive their full tax revenue on the value of the property at the creation of the TID until the closure of the district. After the closure of the district the taxing jurisdictions receive an increased tax revenue based on the new, higher value on the parcels that were within the district.

## *TIF TAKES MONEY AWAY FROM SCHOOLS*

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 state aid payments, less in property tax. When a TID closes, state aid payments decrease & revenue from property taxes increases, leaving the same amount of total revenue. Schools can also benefit from distribution of excess increment upon termination of a TID.