

1.1 What is TIF?

Basic Function of TIF

Tax Incremental Finance (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. A municipality identifies an area, the tax incremental district (TID) as appropriate for a certain type of development. The municipality identifies projects to encourage and facilitate the desired development. Then as property values rise, the municipality uses the property tax paid on that private development to pay for the projects. After the project costs are paid, the municipality closes the TID. The municipality, schools, county, and technical college are all able to levy taxes on the value of the new development.

TIF use varies depending on the project and the municipality. In some cases, the municipality chooses an area it would like to develop, or that is unlikely to develop without assistance. Then the municipality designs improvements (i.e., roads, sidewalks, sewer systems) that will attract growth. In other cases, a developer or company identifies a site where they might locate. Then and as part of negotiations with the municipal body, TIF may be used to fund some improvements (i.e., demolition, soil clean up, roads, water) that the developer needs. Either way, an area that faces development challenges receives help to grow. This creates 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.

Important note: One key basis for the use of TIF is the "but for" test. As part of all creation resolutions, a municipality must affirm that the desired development would not happen "but for" the use of TIF. The municipality must believe that without TIF the development would never happen on its own. This test is very important to ensure that TIF assists development projects needing help, but that it is not a gift of tax dollars to private developers or property owners.

TIF Law background

Wisconsin adopted TIF legislation in 1975 in response to the challenges of eliminating blighted areas in depressed urban areas. At that time, interest rates were high, making government borrowing expensive which 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 other site work. If a municipality wanted to expand its local tax base, the municipality alone would pay the cost of doing so, but the overlying taxing jurisdictions would benefit from the growth. The Legislature saw this situation as inequitable, and saw TIF as a way to remedy the problem and encourage cooperation among local units of government.

Since it was first adopted, major changes have been made to TIF legislation. These changes expanded the ways municipalities can use TIF, and have increased the

involvement of the overlying taxing jurisdictions and local residents. See [Section 1.4](#) for recent Acts.

[Section 1.3](#) provides a more in-depth, statistical look at the trends in numbers and types of TIDs.