

## ***1.1 What is TIF?***

### **Basic Function of TIF**

Tax Incremental Finance (TIF) is a financing option that allows a municipality (city, village or town) to fund infrastructure and other improvements, through property tax revenue of 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 development to pay for the projects. After the project costs are paid, the municipality closes the TID. The municipality, school(s), county, and technical college are 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 (ex: roads, sidewalks, sewer systems) to attract growth. In other cases, a developer or company identifies a site where they might locate. A developer may also negotiate with the municipality to use TIF to fund some improvements (ex: demolition, soil clean up, roads, water) the developer needs. Either way, an area facing development challenges receives help to grow. This creates a larger tax base for the municipality and the overlying taxing jurisdictions. Generally, when the tax base grows and spending is stable, tax rates go down, decreasing the property taxes for everyone.

**Important:** 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 development would not happen "but for" the use of TIF. The municipality must believe that without TIF the development would never happen. This test is important to ensure 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 to eliminate blighted areas in urban neighborhoods. Interest rates were high, making government borrowing expensive and municipal investment in infrastructure and redevelopment unattractive. In addition, the cost was high for redeveloping blighted areas compared to developing open areas. This was due to demolition, alteration, remodeling or repairing existing buildings, removing environmental contamination from soil or groundwater or other site work. Before TIF law was enacted, if a municipality wanted to expand its local tax base, the municipality alone would pay the cost but the overlying taxing jurisdictions would also benefit from the growth. The Legislature saw this situation as unfair and TIF as a way to remedy the problem and encourage cooperation between local government.

Since TIF law was first adopted, changes have been made to expand the ways municipalities can use TIF and increase the involvement of the overlying taxing jurisdictions and local residents.

The chart below shows the law reference and creation year. Review [Section 1.4](#) for recent TIF law changes.

Eligible Municipality	Wis. Statute/Year Created	TID Type
City or Village	66.1105/1975	Blight, Rehabilitation or Conservation, Industrial
City or Village	66.1105/2004	Mixed-use
City or Village	66.1105/2017	Environmental Remediation
Town	66.1105/2005	Any of the above as part of an annexation/cooperation agreement
City, Town, Village or County	66.1106/1997 (ended 2017)	Environmental Remediation (now in 66.1105)
Town	60.85/2004	Agricultural, Forestry, Manufacturing, or Tourism
Town	60.23/2014	Same as created under 66.1105

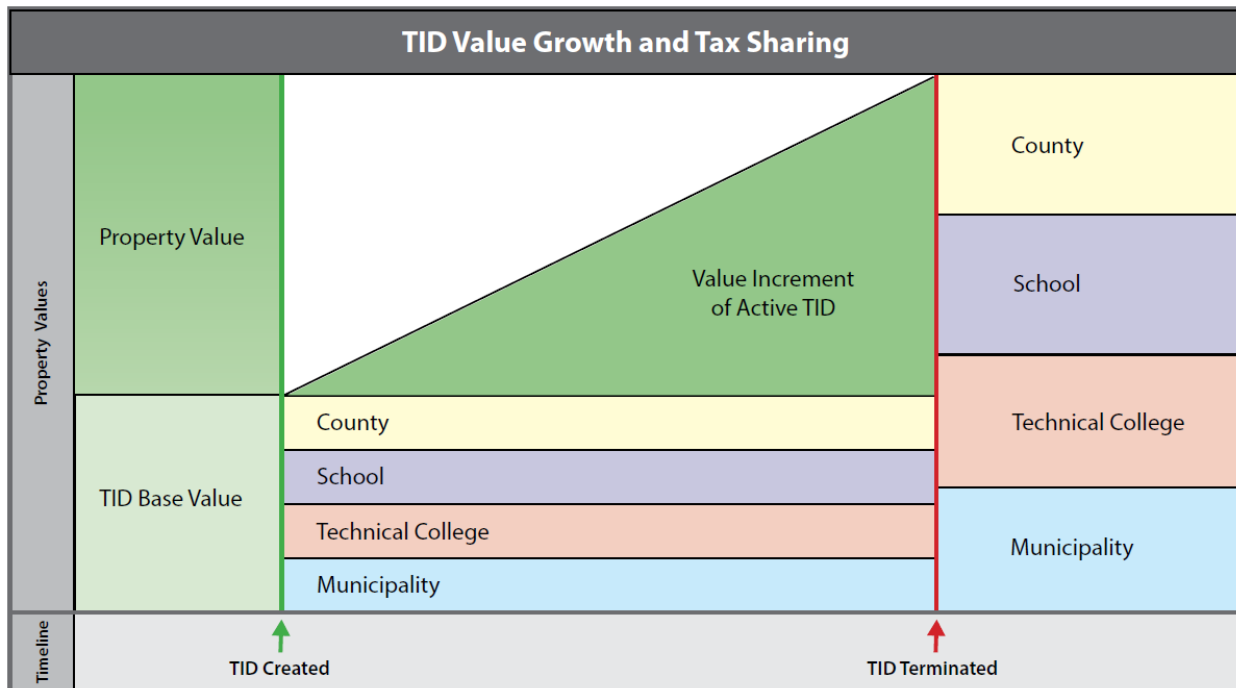
[Section 1.3](#) provides more details on the trends in numbers and types of TIDs.

## 1.2 How Does TIF Work?

Tax Incremental Financing (TIF) allows municipalities to promote tax base expansion. The municipality identifies an area for development; this is the Tax Incremental District (TID). The municipality funds the necessary infrastructure and other projects to attract private development. Then as the property value increases, the municipality uses the taxes from that increase to pay the project costs. The municipality can only use TIF to fund infrastructure investment and other eligible projects that facilitate development.

When a municipality creates a TID, the municipality and other taxing entities agree to support their operation from the existing tax base within the TID. They agree the municipality will use the taxes on the value increase in the TID to pay for the investment.

### Sharing the Tax Base



When the municipality creates a TID, it establishes the base value of all the taxable property within the defined boundaries. The county, school, technical college and municipality in the chart above, make up the overlying taxing jurisdictions for the parcels in the base value. The overlying taxing jurisdictions share the tax revenue collected on this portion of the property value. After the TID is created, this tax revenue is allocated the same way as before the TID was created. In the chart, the county, school, technical college and municipality collect taxes on the property in the TID base. In areas with special taxing districts (ex: sanitary district or lake rehabilitation district), this district would appear in a row below the municipality.

Any new construction or investment in the TID property increases the value. The municipality collects the taxes on the

Any agreement to use TIF depends on the "but for" concept, explained in [Sec. 5.1](#)

growth in value of the property (the "value increment") as "tax increment" revenue. The municipality can only use this revenue to pay for the improvements it made to the property in the TID according to the approved project plan.

The municipality must terminate the TID at the end of the maximum life, or when the tax increments collected exceed the approved project costs. At termination, the entire value of the property in the TID returns to the tax rolls of the overlying taxing jurisdictions. In the chart on page 1, the column on the right represents the increased property value subject to taxes.

At termination, if the tax increment revenue exceeds the project costs, the municipality must return the surplus revenue to the overlying taxing jurisdictions in proportion to overlying taxing jurisdictions respective tax levy without TIF

While the TID exists, tax revenue for each overlying jurisdiction is limited to the base value of the TID parcels. After terminating the TID, all the overlying taxing jurisdictions share the tax base; tax rates can be lowered to generate the same amount of revenue for the jurisdiction. Without the development encouraged by TIF, the base value would be the only value available for the jurisdictions to tax. Partnering to facilitate development helps all the overlying districts increase their tax base.

If the TID property value does not increase as expected, the municipality may not receive enough tax increment to pay its expenditures. In this case, when the TID terminates, the municipality is responsible for the unpaid debts.

**Tax Increment Calculation**

The Tax Increment Worksheet (Form PC-202) calculates the amount of taxes for the TIF fund. The worksheet uses the apportionment of each overlying taxing jurisdiction to determine the share of each district's tax revenues that will be part of the municipality's tax increment.

**Example**

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

**Assumptions**

1. Entire county consists of four municipalities. Only municipality A has a TIF district.
2. 2017 equalized property value in the four municipalities, including the TID increment are:

Municipal Values							Total	
A	\$400,000,000*	B	70,000,000	C	20,000,000	D	10,000,000	\$500,000,000
<i>* Includes \$30,000,000 increment value</i>								

3. Municipality A has a tax incremental district (TID #1) with values of:
  - 2000 Base Value .....\$20,000,000
  - 2017 Current Value..... 50,000,000
  - Value Increment..... 30,000,000
4. The county needs \$1,500,000 from property taxes for its budget

**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. This is referred to as **TID/OUT** in the charts below.

<b>Step 1</b> 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
<b>Totals</b>	<b>\$ 470,000,000</b>		n/a	<b>1.000000</b>

<b>Step 2</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
<b>Totals</b>	<b>1.000000</b>		n/a	<b>\$ 1,500,000</b>

<b>Step 3</b> 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 each 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
<b>Totals</b>	<b>\$1,500,000</b>		<b>\$ 470,000,000</b>	n/a

<b>Step 4</b> Formula to determine the county tax each municipality will collect, including the TID increment. (Referred to as TID/IN on the chart below): Mill Rate x Total Equalized Value of All Municipal Property = County Tax Collected (includes the tax increment for 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
<b>Totals</b>	n/a		<b>\$ 500,000,000</b>	<b>\$ 1,595,750</b>
Total county taxes collected from Municipality A				\$ 1,276,600
Total county apportioned taxes for Municipality A				\$ 1,180,850
<b>Tax increment retained by Municipality A</b>				<b>\$ 95,750</b>

**Step 1- 4 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. Step 2 shows the amounts apportioned to each municipality.
- Tax increment of \$95,750 is the difference between the amount Municipality A collected by the county (\$1,276,600 shown in Step 4) and the amount apportioned for Municipality A (\$1,118,850 shown in Step 2)
- \$95,750 is the **county portion** of Tax Increment kept by Municipality A and deposited into the TID #1 fund for the TID's project costs

Step 5 Effect on the county mill rate if the TID in Municipality A terminates in 2017 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
* Includes TID value increment in TID #1, Municipality A		

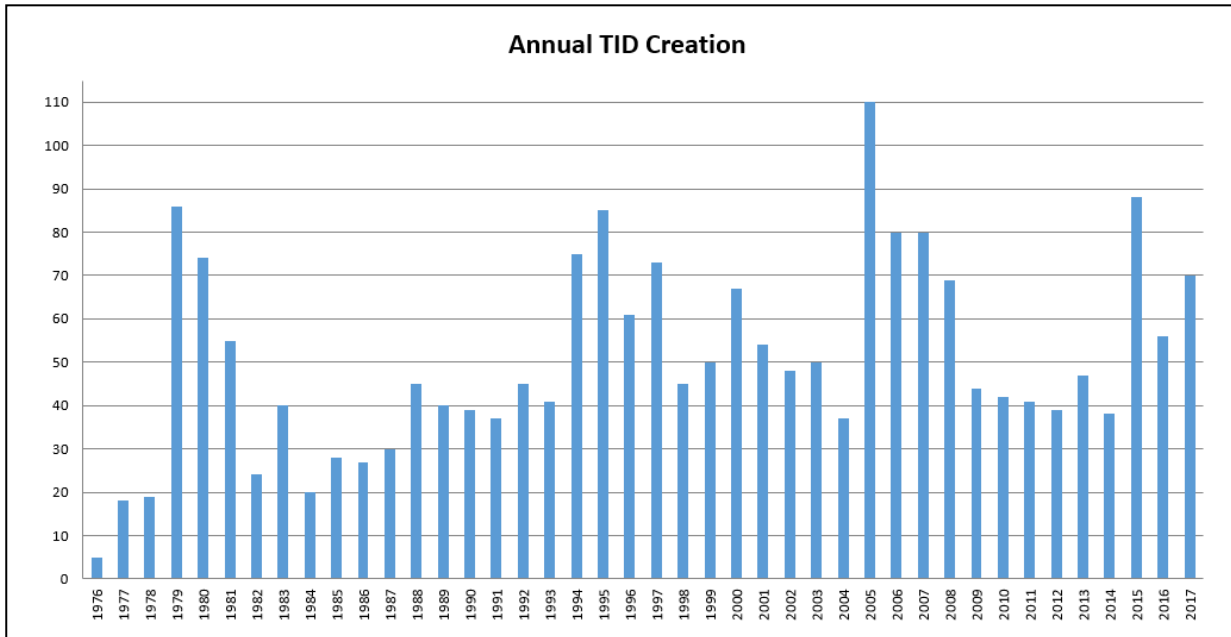
**Step 5 Explanation**

- There is a difference in the tax rate of 19.15 cents per thousand dollars of equalized value **without** the TID in Municipality A (.0031915 shown in Step 3), compared to the rate **with** the TID (.0030000 shown in Step 5)
- This would result in a \$19.15 tax difference for the county portion of taxes on a property valued at \$100,000

When a municipality has no TIDs, the municipal apportioned levy is the same as the county taxes collected. If there are no TIDs in a county, the county mill rate is lower for everyone; however, if there are TIDs, every taxpayer in the county pays a higher rate to generate the increment paid to the municipality operating the TID. All taxpayers in the county share this cost because they will all share the expanded tax base once the TID terminates.

### 1.3 Summary Statistics

The number of Tax Incremental Districts (TID) continues to grow. The chart below shows TID creation by year. Overall, there has been steady growth since Tax Incremental Financing (TIF) was added to state law. There are a few noticeable spikes in creation activity due to law changes or economic trends.



#### Creation by TID Type

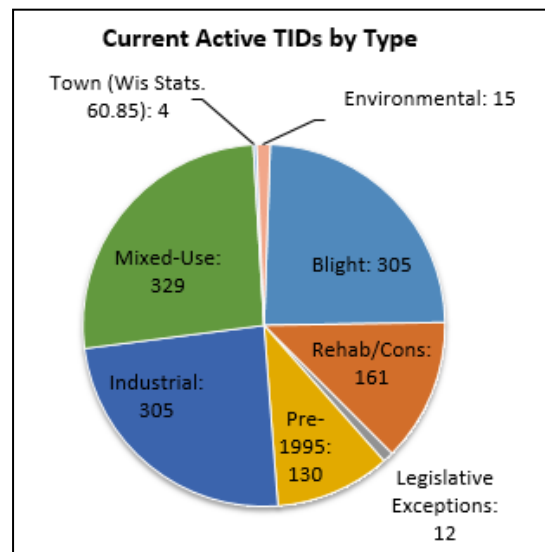
TIF law contains different rules based on TID type. The [TID Criteria Matrix](#) summarizes the rules governing the various TID types. Because the rules are based on TID type, it is useful to know the breakdown by type.

In 2017, there were 70 new TIDs certified:

- 18 Blight Elimination
- 15 Rehabilitation/Conservation
- 12 Industrial
- 25 Mixed Use

#### Active TIDs by Type

Currently there are 1,261 active TIDs. The chart to the right shows a breakdown of the active TIDs by type.

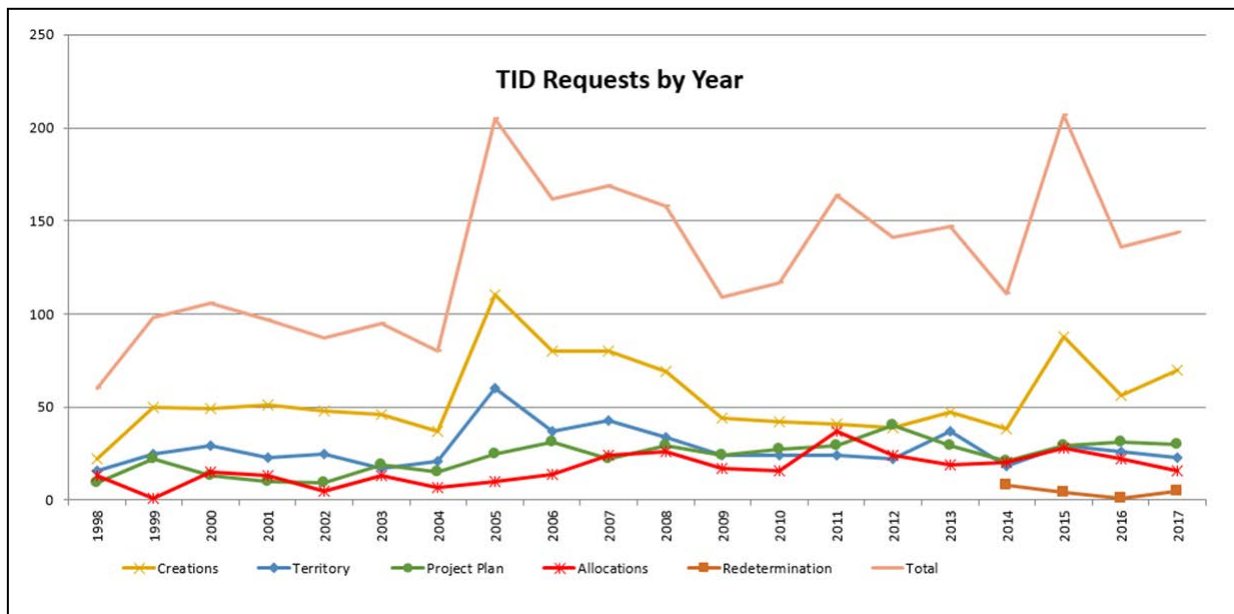


### TID Requests by Year

TIF law allows municipalities to create TIDs and amend existing TIDs in different ways. In 2017, the Wisconsin Department of Revenue (DOR) approved these TID requests:

- 70 creations
- 23 territory amendments
- 30 project plan amendments
- 16 allocation amendments
- 5 base value redeterminations

The chart below shows the number of creations and amendment types requested by year.



Each municipality can add or subtract territory to an active TID up to four times during the life of the TID. Adding or subtracting parcels to an existing TID increases or decreases its base value.

Project plan amendments revise the planned development in the TID. An allocation amendment allows a municipality to transfer excess increment from one TID to another TID. There is no limit to the number of allocation or project plan amendments.

Base redetermination amendments allow a municipality to reduce the base value of a TID in a decrement situation. One redetermination amendment is allowed during a TID's life.

See [Chapter 2.2](#) of the TIF manual for more information on amendment types.

### TIF and Property Taxes in Wisconsin

The Legislative Fiscal Bureau publishes [Informational Paper 17](#) on TIF every two years. It contains background, municipal authority information and statistics on TIF use.



## ***1.4 Recent Changes***

### **Summary of Tax Incremental Finance Law Changes 2017, 2015 and 2013 Acts**

### **2017 Acts 15, 58, 70**

#### **Act 70**

#### **Environmental Remediation (ER) Tax Incremental Districts (TID)**

- Effective date: November 29, 2017
- ER TIDs created by a municipal resolution:
  - Before November 29, 2017 – must follow [sec. 66.1106 Wis. Stats.](#), and are not affected by 2017 Act 70
  - On or after November 29, 2017 – must follow [sec. 66.1105 Wis. Stats.](#)
- Currently – all ER TIDs must now be created under section 66.1105, Wis. Stats.

#### **Requirements/Limits**

- Maximum life is 27 years with the possibility of a 3-year standard extension
- Before creating an ER TID under sec. 66.1105 Wis. Stats., the municipality must obtain a certified Wisconsin Department of Natural Resources (DNR) site investigation report and email it to DOR  
To obtain this certified report, a municipality must provide DNR:
  - Description of the environmental pollution in the proposed district
  - Proposed remedial action plan
  - Cost estimates for expected project costs
  - Schedule for remediation (design, implementation, construction)
- At least 50 percent of the TID area has significant environmental pollution
- Project plan must specify either:
  - All project costs will be paid within 90 percent of the TIDs remaining life
  - Expenditures will only be made in the first half of the TID life; **exception** – expenditures for significant environmental pollution not identified in the certified site investigation report may continue for 22 years (5 years before the max life)
- May only allocate excess funds to other ER TIDs (created under 66.1105 or 66.1106, Wis. Stats.)
- A municipality may designate only one ER TID created under sec. 66.1105 Wis. Stats., as excluded from the 12 percent value limit. Once the excluded TID is designated, it cannot be changed.

#### **TID Base Value**

- When an ER TID is created under sec 66.1105 Wis. Stats., the Wisconsin Department of Revenue (DOR) sets the base value to \$1
- If the ER TID is amended to add territory, the full value of the additional parcels as of January 1 of the amendment year is added to the existing \$1 base value

## Act 15

### **Termination and Administrative Fee Deadline Change**

- Effective: January 1, 2018
- Changes the deadline for TID terminations from May 15 to April 15
  - Example 1: If a termination resolution is adopted from May 16, 2017 to April 15, 2018, the termination year is 2018 and TID number is removed from the 2018 tax roll
  - Example 2: If a termination resolution is adopted from April 16, 2018 to April 15, 2019, the termination year is 2019 and TID number is removed from 2019 tax roll
- Changes deadline for administrative fee (\$150 per active TID) from May 15 to April 15

### **TID Annual Report Changes**

- Effective: January 1, 2018 (for 2017 reporting year)
- Sets maximum penalty of \$6,000 for reports not filed timely – penalty for late filing remains \$100 per TID per day (applied beginning 60 days after report is past due)
- DOR reduces shared revenue payments for any unpaid penalty
- Removes the extra 30-day extension when an estimated report is filed

### **Base Value for Town TIDs Created Under 60.85**

- Effective date retroactive to October 1, 2015
- Excludes town-owned property from the TID base value calculation
- Town TIDs are now consistent with municipal TIDs as changed in [2015 Act 255](#)

### **Notification to DOR of Adopted Amendments**

- Effective: January 1, 2018
- Removes municipality's requirement to notify DOR of TID amendments during May 1 to May 21 each year
- Keeps requirement to notify DOR within 60 days after the amendment is adopted

## Act 58 (effective September 20, 2017)

### **TIDs Created in an Electronics and Information Technology Manufacturing (EITM) Zone**

- Authorizes the creation of an electronics and information technology manufacturing zone and, in connection with that zone, creates special provisions for tax incremental districts:
  - Exception to 12 percent limit (no limit for these TIDs and not in the calculation for other municipal TIDs)
  - 30-year life with expenditures allowed throughout life
  - Mixed-use or industrial types
  - Allows TID project costs throughout the county
  - Allows police/fire costs (with some limitations)
- There are separate due dates/timeframes for these TIDs:
  - Municipal resolution adopted January 1 to December 1 – if resolution states effective same year, then forms due to DOR December 31
  - Municipal resolution adopted January 1 to December 1 – if resolution states effective the following year, then forms due to DOR November 30 of the following year
  - Municipal resolution adopted December 2 to 31 – effective date is the following year with the forms due to DOR November 30 of the following year

## 2015 Acts 254, 255, 256, and 257

[Act 254](#) (effective March 3, 2016)

### **Three-Year Extension Request**

Allows municipality to amend the TID or request a three-year extension to a TID's life through a Joint Review Board (JRB) resolution if tax increments are impacted by 2013 Act 145 that increased state aid to technical colleges.

### **DOR Determination**

Requires DOR to indicate in a fiscal estimate if a bill will increase or decrease the increment collection for TIDs or if the effect is indeterminate.

[Act 255](#) (effective for TIDs created or project plans amended on or after October 1, 2015)

### **Removes Vacant Property Restriction**

Removes restriction that vacant property may not comprise more than 25 percent of TID for creations after effective date.

### **Excludes City-Owned Property**

Revises TID base value calculation to exclude exempt city-owned property.

[Act 256](#) (effective March 3, 2016)

### **Increases JRB Review Time**

Changes JRB review period from 30 to 45 days to approve municipality's TID resolution.

### **Changes Levy Limit Calculation**

Changes calculation of levy limit exception – a municipality's Equalized Value for preceding year excludes the value of any TID increments for the year a TID terminates.

### **Restricts Industrial Zoning**

TID industrial zoning requirements only apply to industrial TIDs.

### **Changes Public Notice Requirement on Amendments**

Changes planning Commission Hearing Notice from Class 2 to Class 1 for TID amendments.

### **Adds One More Year to TIDs Created Between September 30 and May 15**

Adds one-year life and allocation extension for new TIDs when the municipality adopts the resolution between September 30 and May 15.

[Act 257](#) (Effective October 1, 2015 for 60.85 town TIDs and October 1, 2016 for all TIDs)

### **Requires Standing JRB**

- Must meet July 1 annually or as soon as the annual report is available to review
- Remains in existence the entire time TID exists with same taxing jurisdictions
- May disband following termination of all existing TIDs
- Applies to all TID types, including industry-specific town TID and environmental remediation TID

### **Repeals DOR's Review of Industry-Specific Town TIDs**

Repeals DOR's review and determination whether the money expended, or debt incurred, by an industry-specific town TID complied with state law.

### **Requires Municipality to Electronically Submit Annual TID Report**

Municipality must submit an electronic annual report for each existing TID to each overlying taxing jurisdiction. Annual reports are due to DOR starting July 1, 2016 for Town TIDs and July 1, 2017 for all other TIDs. The annual report must contain:

- Name assigned to the TID
- Developer named in agreement with municipality or receiving financial assistance
- Date municipality expects TID to terminate
- Tax increment amounts to be deposited into a special fund for the TID
- Contact person designated by municipality to respond to annual report
- Analysis of TID special fund:
  - Balance at beginning of the fiscal year
  - Amounts deposited by source, including amounts received from another TID
  - Special fund's expenditures by category of permissible project costs
  - Balance at end of fiscal year, including breakdown by source identifying portion of balance required for payment of anticipated project costs
  - Portion of ending balance not identified for payment of anticipated project costs designated as surplus

### **Requires DOR to Develop Annual Report Process**

- Create format of annual reports in 2016
- Post reports no later than 45 days after receipt
- Determine whether to grant an extension if municipality provides evidence report is being completed
- Post on DOR website a list of extensions, period of extension and whether municipality timely filed annual report within extension
- Notify municipality annual report is past due if municipality does not timely file
- Charge municipality \$100 each day annual report is past due. Fees will be deposited in common school fund.

## **2013 Acts 183 and 193**

[Act 183](#) (effective April 4, 2014)

### **TIDs with a Decrement Situation**

- Municipalities can request DOR redetermine the base value of a TID in a decrement situation
- [TID's current year value](#) (see TID Statement of Changes Report) must be at least 10 percent below the base value of the TID for two consecutive years (decrement)
- Municipality's resolution date stating a decrement exists determines the two consecutive years (ex: May 21, 2014 resolution date requires **both** the 2012 and 2013 TIDs to be 10 percent below the TID's current base value)
- TID must be created under state law ([sec. 66.1105, Wis. Stats.](#))
- One base value redetermination is allowed during the life of a TID

**Act 193** (effective April 6, 2014)

**Creation of Town TIDs under Sec. 66.1105, Wis. Stats.**

- Expands the authority for certain towns to create TIDs
- When the town adopts a resolution, the following two criteria must be met:
  - Prior year Equalized Value must be at least \$500 Million
  - Prior year population must be at least 3,500 – use the Annual Population Estimates Summary
- Sewer service is or will be provided before use or operation of any improvements

**Allocation Changes**

- Allows a regular TID to allocate increments to an Environmental Remediation (ER) TID
- Allows an ER TID to allocate increments to a regular TID under state law (sec. 66.1106(7)(e) and sec. 66.1105(6)(f), Wis. Stats.)

**TIDs Can be Created From Town Annexed Land**

- State law (sec. 60.1105(19), Wis. Stats.)
- Seven year maximum life
- 12 percent limitation requirement does not apply until 2016
- Increments cannot be donated to other TIDs
- Expenditures can only be made until October 1, 2016